Good MornING Asia - 28 July 2020

Investors will likely remain cautious awaiting the fate of proposed fiscal stimulus from the US while also waiting on comments from the Fed later in the week

In this bundle

ASEAN Morning Bytes

Investors likely to remain cautious ahead of the FOMC meeting later in the week.

EM Space: Investors to remain cautious with no clear direction

- **General Asia:** Investors will likely remain cautious awaiting the fate of proposed fiscal stimulus from the US while also waiting on comments from the Fed later in the week. The FOMC meets this week to discuss policy and is not expected to change policy rates although investors will likely be looking out for comments from Chair, Powell. Newly confirmed Covid-19 cases in the US remain elevated although slightly lower than their recent peak, though today's figures will add more insight as figures relating to the weekend always tend to dip lower. Meanwhile, Covid-19 hotspots have emerged across the globe in Vietnam, China, Spain and Germany, highlighting the difficulty in containing the virus. Expect caution to dominate on Tuesday with investors looking to possible stimulus measures and Covid-19 developments for further direction.
- **Malaysia:** All eyes today are on the court verdict on former prime minister Najib Razak's corruption trial, which may overshadow the trade data release for June. On trade, we share the consensus of a sharp improvement in growth; exports to -10.0% YoY and imports to -13.1% from -25.5% and -30.4% respectively in May. The improvement stems from two things. First, a favourable base year effect. Second, a clawback from the slump during the Covid-19 movement control order (MCO), which was further relaxed in June. An estimated MYR 11 billion trade surplus in June, brings the surplus in the first half to MYR 55 billion or MYR 13 billion narrower than a year ago. A falling trade surplus, the absence of tourism-

related inflows, and political uncertainty are behind the MYR's 3.8% year-to-date depreciation. We expect it to remain an Asian underperformer over the remainder of the year.

- **Philippines:** President Duterte delivered his State of the Nation speech yesterday, emphasizing that he will not reopen the economy to pre-pandemic levels any time soon given the sustained rise in new daily infections. Duterte prompted Congress to pass select Covid-19 stimulus bills although he refrained from supporting aggressive stimulus plans and opted to push a modest bill aimed at extending credit through government banks. The Philippine economy is slowing considerably and the lack of government spending may hamper recovery efforts. ING now forecasts growth to remain in contraction for the balance of the year with growth only returning in 2021.
- **Indonesia:** Indonesian President, Jokowi, pushed his cabinet to expedite government outlays as only about IDR136 trillion of the IDR695 trillion Covid-19 stimulus plan had been disbursed since the outbreak. Jokowi earlier pledged to accelerate spending with 2Q GDP expected to fall into contraction although government officials vowed to salvage growth in the second half of the year with a surge in government outlays. We continue to price in a long drawn out slump with new Covid-19 cases remaining elevated after partial lockdown measures were relaxed in June.

What to look out for: Covid-19 developments

- Malaysia trade (28 July)
- US consumer sentiment (28 July)
- Hong Kong GDP (29 July)
- US wholesale inventories (29 July)
- Singapore unemployment (29 July)
- Fed policy meeting (30 July)
- Hong Kong retail sales (30 July)
- US GDP, initial jobless claims (30 July)
- China PMI manufacturing (31 July)
- Thailand trade (31 July)
- Taiwan GDP (31 July)
- US core PCE and consumer sentiment (31 July)

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Snap | 27 July 2020 **China**

China: Industrial profits jump again

Industrial profits jumped 11.5%YoY on larger revenue growth in June compared to last year. Can this profit growth be sustainable?

Source: Shutterstock

Passengers cheer up for Wuhan while waiting to take train K81 at Wuchang Railway Station in Wuhan, central China's Hubei Province, late April 7, 2020.

Low number of Covid-19 cases helped industrial profits in June

Industrial profits grew 11.5%YoY in June after the 5.5%YoY rise in May. This looks quite incredible, but it's not that amazing. Covid-19 has subsided a lot in China, and therefore social distancing measures have also reduced substantially. This is positive for domestic demand and for related manufacturing activity in China. Some recovery from Covid-19 in parts of the rest of the world will also have helped China's manufacturing output and profitability in June.

Not every industry is experiencing growth

Stimulus-driven industries have experienced profit growth, e.g. in steel and non-ferrous metals. We expect that as infrastructure projects began to pick up speed in June (after the Two Sessions meeting in May), infrastructure projects should be able to bring some profit growth to building material sectors in the coming months.

The biggest profit growth was seen in technology-related sectors. This is most likely due to domestic 5G infrastructure developments, though there has been negative news on exports of 5G services.

However, there were still a lot of industries recording a yearly shrinkage in profits in 1H20. The recovery of some of these industries could be slow as they are not growth engines of Chinese manufacturing, or they do not benefit from the growth of infrastructure projects. e.g. textile and garment, and machinery repair. The recovery of profits in these industries will likely be slower.

The flood's impact on future profit growth

The recent flooding is not over yet, even if it is not actually getting worse. Reconstruction following the flood will increase industrial activity, and hopefully, bring some profit to industries that have not been beneficiaries of infrastructure projects.

But this may not be enough to cover the economic loss from the flood, which has damaged a lot of buildings, dams, and agricultural land.

We will continue to follow this closely to estimate the economic impact on the Chinese economy, including GDP growth forecasts.