

Good MornING Asia - 28 September 2020

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EM Space: Asian markets to move sideways as investors grapple for direction

- **General Asia:** Asian market sentiment will remain mixed with investors looking to data reports towards the end of the week for more direction given the lack of fresh leads. Covid-19 new infections remain elevated in select European countries and in the US as we enter the fall season. Meanwhile, the US election campaign season heats up with Joe Biden and incumbent Donald Trump squaring off at their first presidential debate on Tuesday. Economic data is quite light to start the week but reports pick up starting Thursday with regional PMI and US jobs numbers slated for release. Investors will likely remain sidelined on Monday, monitoring Covid-19 new daily infections, US political developments and the data reports later in the week for more direction.
- **Malaysia:** August trade data is due today. A third consecutive month of upside export surprise is more likely than not as the upturn in the semiconductor cycle leads the recovery. We expect 6.5% YoY export growth, faster than the 1.8% consensus estimate and July's 3.1%. This, together with weak domestic demand weighing down imports means another big trade surplus this month; MYR 25.2 billion surplus in July was the highest ever. This is positive for the MYR. The currency was battered last week by a spike in the political risk in the run-up to the state elections in Sabha over the weekend. A clear win for state coalition

- (Gabungan Rakyat Sabha) backed by Prime Minister Muhyiddin Yassin should be a relief for markets as this further strengthens an otherwise shaky ruling coalition at the national level.
- **Singapore:** Released last Friday, August industrial production with a 13.7% YoY and 13.9% MoM surge was an upside surprise for the markets (consensus 2.2% YoY and 1.7% MoM). Leading the surge was electronics with a 44% YoY jump and within that, semiconductors with a 57% jump. 2.2% YoY average IP growth in July-August bodes well for GDP growth in 3Q, though services will continue to be a key drag on GDP. That said, we consider our -8.4% YoY GDP forecast for this quarter subject to more upside than downside risk (data due mid-October).
 - **Indonesia:** Jakarta will extend mobility restrictions for 14 more days in a bid to slow the number of new daily infections in the capital and surrounding areas. Indonesia has experienced a recent surge in infections prompting authorities to reinstate stricter guidelines to curb the spread of the disease. IDR has been on the back foot recently due to concerns about the virus and its broader impact on the economy, with government officials scaling down expectations for 2020 GDP, which is now expected to contract between 0.6 to 1.7% per cent. IDR will likely be pressured again this week with hopes for a quick recovery fading fast.

What to look out for: Covid-19 developments

- Malaysia trade (28 September)
- US consumer confidence (29 September)
- China manufacturing and non-manufacturing PMI (30 September)
- Thailand trade (30 September)
- Hong Kong retail sales (30 September)
- US ADP employment and 2Q GDP revisions (30 September)
- Regional PMI manufacturing (1 October)
- Indonesia CPI inflation (1 October)
- Bangko Sentral ng Pilipinas policy meeting (1 October)
- US initial jobless claims, core PCE inflation and ISM PMI manufacturing (1 October)
- Singapore PMI (2 October)
- US non-farm payrolls, factory orders, durable goods orders, consumer sentiment (2 October)

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Source: Shutterstock

➔ Manufacturing data dominates

The usual end- and start-of-the-month activity releases dominate the calendar at the crossover from September to October and a typical focus around this time is on purchasing manager indices.

As we see from advance September PMI releases in developed countries, manufacturing has likely gained some more traction while services continued to suffer.

China's PMIs are usually more market-moving than those in the rest of Asia. We expect a slightly

higher manufacturing index but a lower services PMI than August readings, though both indices should stay comfortably in growth territory. Meanwhile, China's industrial profits data for August due over the weekend will be another clue to manufacturing recovery.

Judging from upbeat August exports and industrial production (up 9.5% YoY and 5.6% YoY, respectively), profits growth remain strong. If so, firms should continue to expand production, in our view. But, as they gear up for the long National Day holiday (1-8 October), the local markets might overlook this data flow.

Korea's export data for September - the first from the region, will be a leading indicator for the rest of Asia's export recovery. The upturn of the semiconductor cycle bodes well for Asia's electronics heavyweights, such as Korea, and the same goes for Malaysia, which reports August trade data next week.

Hong Kong's retail sales and Indonesia's CPI inflation will tell us more about the consumption recovery, as high unemployment continues to weigh on consumer spending.

Central bank policy non-events

The central banks of India and the Philippines will meet next week and announce their decisions on Thursday, 1 October.

We believe the Reserve Bank of India's easing cycle has ended. With inflation running well above the 6% policy limit, the central bank has no scope to ease policy any further. The RBI paused after 115bp in rate cuts from March to May. This, together with rampant liquidity measures, has pushed the real interest rate to negative and flooded the system with liquidity. Yet, bank lending growth remains on a steady downward grind. As such, additional stimulus isn't going to be of much use for the economy. Confidence has to return first.

Likewise for the Bangko Sentral ng Pilipinas, whose chief Benjamin Diokno sees the monetary accommodation provided so far, including a total of 175bp of policy rate cuts this year, as sufficient for the next two years.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Sunday 27 September					
China	0230	Aug Industrial profits (YTD, YoY%)	13.9	-	19.6
Monday 28 September					
Malaysia	0500	Aug Exports (YoY%)	6.5	-	3.1
	0500	Aug Imports (YoY%)	-6	-	-8.7
	0500	Aug Trade balance (RM bn)	20.6	-	25.2
South Korea	2200	Oct BOK Business Survey Index, mfg	-	-	68.0
	2200	Oct BOK Business Survey Index, non-mfg	-	-	69.0
Tuesday 29 September					
South Korea	0000	Aug Industrial production (MoM/YoY%)	-/-	-/-	1.6/-2.5
Wednesday 30 September					
China	0200	Sep Manufacturing PMI	51.4	51.5	51.0
	0200	Sep Non-manufacturing PMI	54.8	-	55.2
	0245	Sep Caixin Manufacturing PMI	53.3	53.0	53.1
India	-	Aug Fiscal deficit (INR crore)	-	-	158986
Hong Kong	0930	Aug Retail sales value (YoY%)	-20.1	-22.8	-23.1
	0930	Aug Retail sales volume (YoY%)	-21	-	-23.9
Thailand	0430	Aug Manufacturing index (YoY%)	-10.6	-	-14.7
Thursday 1 October					
India	0600	Sep Nikkei Manufacturing PMI	-	-	52
	0715	RBI policy decision (repo rate, %)	4	4	4
Indonesia	0500	Sep CPI core (YoY%)	-	-	2.03
	0500	Sep CPI (YoY%)	1.4	-	1.32
Philippines	0130	Sep Nikkei Manufacturing PMI	48.9	-	47.3
	0900	Overnight Borrowing Rate	2.25	-	2.25
South Korea	0100	Sep Imports (YoY%)	-	-	-15.8
	0100	Sep Exports (YoY%)	-	-	-10.1
	0100	Sep Trade balance (US\$m)	-	-	3838
Friday 2 October					
Singapore	1400	Sep Purchasing Managers Index	-	-	50.1

Source: ING, Bloomberg, *GMT

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