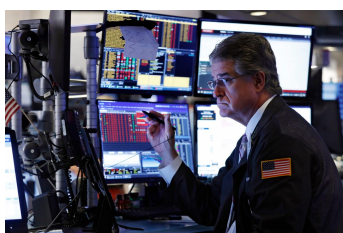


Good MornING Asia - 29 January 2021

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The Philippine economy contracted by 8.3% in 4Q 2020. Partial lockdowns and elevated unemployment continue to weigh on the recovery

By Nicholas Mapa

A positive end to the week

A rebound in US stocks overnight should at least offer an upbeat start to Friday's trading



Source: Shutterstock

Positive start, but where will it end?

After a couple of days of risk aversion, it's good to see some green re-enter the screens, and that at least should provide Asia with a more positive start to trading than it has seen in recent days.

As far as individual markets go, yesterday's stock recovery also brought with it some increase in US Treasury yields, which were up almost 3bp to 1.045%, but despite this, the USD slid against the EUR slightly, and it is looking as if back at these lower yield levels, the USD has returned to behaving more as a risk-on / risk-off currency. If that is the case, then Asian FX should recover some ground today and with the KRW having been easily the most battered of all the Asian currencies this week, I would look for that to bounce the most today. The KRW might also take some comfort from strong industrial production figures out already this morning - more on that later.

The Day ahead

Before we turn to the events of the day, it's worth a quick backward look to see what also may have influenced sentiment yesterday.

One further spot of bright news regarding the Covid-19 pandemic was the third phase results from Novavax, which should probably get regulatory approval shortly (I say that, though the process seems very slow in some regions...EU). But that puts another source of the vaccine on the table, or

at least it will shortly. That could get a further boost if the Johnson and Johnson vaccine also gets approval, especially as that only requires one jab I am led to believe, so could double the speed of vaccination.

We got 4Q20 GDP out of the US yesterday. [Here's a link to James Knightley's commentary on that.](#) But it was only slightly below consensus expectations, with consumer spending not growing too well. But as JK notes, this will pass. There are good reasons to be positive about growth in 2021. That release makes tonight's personal income and spending figures less interesting, but we do get University of Michigan sentiment data, and within that, the inflation expectations figures that have been creeping up recently. They will be worth a look. Jobless claims last night were also a bit better than expected, dropping slightly from last week.

As mentioned, we've already had some positive industrial production figures from Korea this morning for the December period. but the 3.7%MoM gain for industrial production owes mainly to a negatively autocorrelated series (it is whip-sawing), and the underlying rate of growth (while still decent and appearing to pick up pace) is not as strong as that one monthly figure suggests. Production strength is also not widely spread across the economy, with services, construction, and public administration all weakening from last month and the all-industry index only managing a 0.5% gain from last month. None of this is going to change anyone's expectations for BoK policy, which we see as being on hold for most of the year.

Malaysian Trade data and Thai production figures are also out today - for more on them - [please check out our sister publication, ASEAN Morning Bytes.](#)

Fingers crossed the good start persists for the whole of the day. Happy Friday and have a pleasant weekend.

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ASEAN Morning Bytes

Asian markets may track upbeat sentiment from US gains on Friday



EM Space: Bargain hunting could dominate Friday's session but little else to drive direction

- **General Asia:** Asian markets are likely to track the gains on Wall Street overnight with bargain hunting dominating trading on Friday. US GDP came in slightly below expectations while initial jobless claims remained elevated but beat market estimates. Data later in the session focuses on GDP and trade figures from regional economies while the US is scheduled to release data on personal spending. Investors will also likely focus on Covid-19 developments with the new strains of the virus surfacing across the globe giving rise to concerns about the prospects for a recovery even as vaccine distribution is underway.
- **Thailand:** December current account data is due today. We estimate that the full-year 2020 current surplus was \$17 billion, a sharp narrowing from \$38 billion in 2019 as Covid-induced net service outflows outweighed the merchandise trade surplus. This was the main headwind to THB appreciation last year. The Bank of Thailand remains poised to curb currency appreciation.
- **Malaysia:** The December trade report arrives today. Year-on-year export growth in the majority of Asian economies surprised on the upside in December. We imagine a similar risk to our 4% YoY growth forecast for Malaysia's exports (4.3% in November). Electronics should remain as a key export driver, thanks to the positive global semiconductor cycle. But fuel exports have yet to catch up with rising global oil prices.

What to look out for: Covid-19 developments

- Malaysia trade (29 January)
- Thailand trade (29 January)
- Taiwan GDP (29 January)
- US personal spending and core PCE, consumer sentiment (29 January)

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Asia week ahead: Big policy week in India

India takes the spotlight next week with its FY21-22 budget and the central bank meeting shaping expectations of the economy's recovery. Sustained...



Source: Shutterstock

➔ India: Not the right time for policy reversal just yet

Next week, India unveils its FY21- FY22 budget on 1 February.

With close to 10% GDP contraction sharply denting revenue and record stimulus spending, the fiscal deficit is going to be through the roof in the current fiscal year (new fiscal year starts on 1 April). Our forecast for the deficit is 7.1% of GDP, which is twice the initial target of the government at 3.5% for the year (and up from 4.6% in the previous year). The risk to this forecast is tilted to the upside.

The government may strive for some fiscal consolidation without losing sight on the policy objective of supporting recovery.

This may call for some fiscal consolidation in FY21-22, of course without losing sight of the main policy objective of supporting recovery and, at the same time, boosting investor confidence and thus keeping sovereign downgrade risk at bay. It's a balancing act.

There has been news of possible hike on import duties, which aside from raising more revenue also serves the government's 'Make in India' drive. There may be some spending curbs in the pipeline too. We anticipate the deficit being programmed to fall below 6% of GDP. Yet, we don't think it's time for fiscal consolidation given that the headwind to the economy from Covid-19 pandemic is likely to remain strong.

The key question for the RBI meeting is whether the central bank see through the recent dip in inflation and leave policy on hold?

The Reserve Bank of India also meets on 5 February. The return of inflation to the RBI's 2-6% policy target zone in December, after a year of remaining above-target, could tip the central bank to resume its easing cycle. However, any such move could prove to be premature, especially as the inflation risk isn't yet fully eliminated.

The banking system remains flushed with liquidity, which is potentially inflationary. Nor do we think it's the right time to unwind policy accommodation just yet.

Rest of Asia: Data-packed calendar

China's official purchasing manager indices due over the weekend and the Caixin counterpart due out on early Monday will set the tone for Asian markets.

The January data may reflect some front-loading activity ahead of the Lunar New Year holiday in mid-February. Likewise, Korea's trade figures for January, which will be the first to provide a glimpse of regional exports coming into the new year. We see electronics remaining to be the main exports driver as the global semiconductor cycle is in the full swing.

The January data may bear out some front-loading of activity ahead of the Lunar New Year holiday in mid-February.

Among January CPI inflation data next week, Indonesia and the Philippines should stand out, given that inflation in both countries has started to tick up in recent months and likely remained on the upward path in January, closing the door on more rate cuts. Other countries to release CPI figures are Korea, Taiwan and Thailand and all are extremely low or close to negative inflation. Hong Kong

and Singapore also sit in this group as their retail sales data should show.

The Australian and Thai central bank are also due to meet next week and both are expected to stay on hold. The ultra-low policy rates at 0.10% and 0.5% respectively are here to stay throughout 2021.

Asia Economic Calendar

Country	Time	Data/event	ING Survey	Prev.
Sunday 31 January				
China	0100	Jan NBS Non-Manufacturing PMI	53.0	55.7
	0100	Jan NBS Manufacturing PMI	51.5	51.9
	0100	Jan Composite PMI	-	55.1
Monday 1 February				
China	0145	Jan Caixin Mfg PMI Final	52.5	53.0
India	0500	Jan IHS Markit Mfg PMI	-	56.4
		- FY2021-22 Budget	-	-
Indonesia	0030	Jan IHS Markit PMI	-	51.3
		- Jan Inflation (YoY%)	1.8	1.7
Philippines	0030	Jan Manufacturing PMI SA	49.8	49.2
Taiwan	0030	Jan IHS Markit Mfg PMI	59.4	59.4
Thailand	0030	Jan Manufacturing PMI SA	-	50.8
South Korea	0000	Jan Export Growth Prelim	-	12.6
	0000	Jan Import Growth Prelim	-	2.2
	0000	Jan Trade Balance Prelim	-	6.77
	0030	Jan IHS Markit Manufacturing PMI	-	52.9
	2300	Jan CPI Growth (MoM/YoY%)	-	0.2/0.5
Tuesday 2 February				
Hong Kong	0830	Dec Retail Sales (YoY%)	-8.1	-4.0
	0830	Dec Retail Sale Volume (YoY%)	-9.0	-4.7
Singapore	1300	Jan Manufacturing PMI	-	50.5
Wednesday 3 February				
China	0145	Jan Caixin Services PMI	-	56.3
India	0500	Jan IHS Markit Services PMI	-	52.3
Thailand	0705	1-Day Repo Rate	-	0.5
Thursday 4 February				
Thailand	0300	Jan Consumer Confidence Idx	-	50.1
South Korea	2300	Dec Current Account Balance NSA	-	8.97
Friday 5 February				
India	0615	Cash Reserve Ratio	3.00	3.00
	0615	Repo Rate	4.00	4.00
	0615	Reverse Repo Rate	3.35	3.35
Indonesia	0400	Q4 GDP (QoQ/YoY%)	-	5.05/-3.49
Philippines	0100	Jan CPI (YoY%)	3.8	0.9/3.5
		- Jan Forex Reserves USD	110.2	109.8
Singapore	0500	Dec Retail Sales (MoM/YoY%)	-1.9/-3.8	7.3/-1.9
Taiwan	0800	Jan CPI (YoY%)	0.0	0.1
	0800	Jan WPI (YoY%)	-5.0	-5.1
	0820	Jan Foreign Exchange Reserve	535	529.9
Thailand	0330	Jan CPI (YoY%)	-0.4	-0.27
	0330	Jan CPI Core (YoY%)	0.2	0.19

Source: ING, Refinitiv, *GMT

Article | 28 January 2021

Asia: Covid catches up

Towards the end of last year, the relatively good performance of most Asian economies in terms of the Covid pandemic started to crack. The deterioration...



Source: Shutterstock
Vaccine

Asia is not immune to Covid

In early December 2020, the very low prevailing daily case numbers in South Korea started to creep up, and at one stage topped 1,200 per day. Japan, which had inexplicably managed to be only mildly affected during earlier waves of the pandemic, started to see its numbers move higher even earlier, though the rise was slower and didn't really pick up aggressively until late December. Both Korea and Japan's daily Covid figures are beginning to ease down again now, but at their peak, Japan was registering close to 8000 cases per day.

Malaysia is now recording around 4,000 cases per day, Indonesia more than 10,000. China too has been seeing case numbers rise (see China section), though so far the numbers remain low relative to the millions who have been confined to their homes in response.

There are exceptions to this trend. In India, daily case numbers continue to fall but they still remain relatively high at around 14,000 a day if we accept the recorded figures at face value.

Rising Covid means rising restrictions

Even in Singapore, where the average number of community cases has risen from less than one to the occasional small cluster, the planned easing ahead of the Chinese New Year has been scaled back. Japan has been rolling out its regional states of emergency as caseloads have picked up in

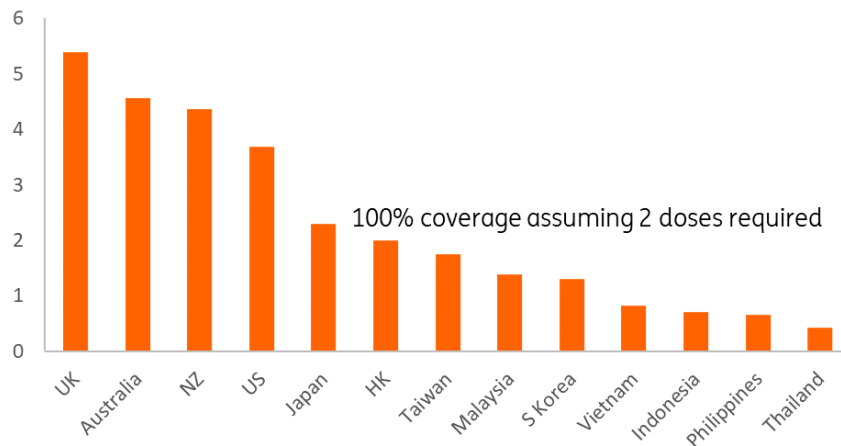
different parts of the country. Malaysia too has rolled out its movement restrictions. And in Indonesia, restrictions have been extended in Jakarta and Bali. The following table summarises what we believe to be the current situation in terms of restrictions around the region, against the recent seven-day moving average for daily cases.

Current Asian travel restrictions

Economy	Current Restrictions in place	7-day MAV *
Australia	➤ Some local hotspot related restrictions, some restrictions on interstate travel	8
New Zealand	➤ Limited to mask wearing on public transport	4
Japan	➤ States of Emergency until 7 Feb in Tokyo, Kanagawa, Chiba, Saitama, Osaka, Kyoto and Hyogo prefectures – limits on bar and restaurant opening hours and capacity, encouragement to work from home / stay home	5,217
South Korea	➤ Ban on gatherings of more than 4 persons ➤ Early closing for Cafes / restaurants. ➤ Clubs / Karaoke closed	398
Singapore	➤ Phase-3 reopening started on 28 Dec with up to 8 persons for social gathering and with higher operating capacity at retail outlets. ➤ Guidelines for restricted celebrations during the Chinese New Year festivities kicked in from 26 January.	32
Malaysia	➤ The government re-imposed Covid-19 Movement Control Orders (MCOs) in 5 Malaysian states and 3 Federal territories for two weeks on 13 Jan . ➤ It also declared a nationwide state of emergency lasting until 1 August. By 21 January most of the country under MCO 2.0 banning all social gatherings and dining out, limiting only two persons to do essential shopping locally , and restricting interstate travel.	3,587
Thailand	➤ On 3 January, the Thai Government declared 28 provinces, including Bangkok as high-risk zones , asking people to stay at home, avoid gathering, or travel across provinces. ➤ It is now considering easing some of the restrictions , including reopening schools in 20 out of 28 provinces from 1 February.	181
India	➤ Covid-19 restrictions have been relaxed as the country starts its vaccination drive . ➤ Strict controls on non-essential activity, including nightly curfews and a ban on public and private transport, will continue in hot-spots until at least end-January . ➤ Essential businesses are allowed to operate with minimum employees and bars and restaurants at 50% capacity .	13,580
Philippines	➤ Full (Enhanced Community quarantine) lockdown in Tuguegarao and Kalinga . ➤ General community quarantine (partial lockdown) for Capital region and surrounds . ➤ Restricted mall hours, restaurant capacity, movements for seniors and children. ➤ Firms, public transport at 50% capacity . ➤ Schools closed for in-person attendance.	1,753
Indonesia	➤ Java and Bali have enhanced lockdown – office capacity restricted to 75%, malls close at 7pm, restaurants dine-in limited to 25%. ➤ Worship services at 50% ➤ Schools closed for in-person attendance. ➤ Rest of country requirements on mask wearing and social distancing .	11,749
Taiwan	➤ Tightened international travel restrictions to SA requiring quarantine on arrival and additional testing.	4
Hong Kong	➤ Flight crew now need to quarantine for stays of over 2 hours. ➤ Restaurant hours and capacity limited. ➤ Selective lockdowns to conduct testing (part of Kowloon 22-24 Jan). ➤ Public mask wearing mandatory. ➤ Karaoke, facial, massage etc. banned.	71
7-Day MAV is the 7-day moving average as of 25 January. International Travel restrictions not detailed – but generally bans for non-residents or quarantine plus testing if allowed. *Includes quarantined arrivals from overseas.		

Confirmed vaccines secured* relative to population

multiples of population



Source: Duke University, ING

Vaccines secured by population

Case numbers low, but vaccine rollout is very slow

Covid case numbers in Asia may still look favourable relative to Europe or the US, even if their tolerance for very low case numbers is low. But the vaccination rollout speed has been very slow. China is probably in the lead here, but China has billions of vaccinations to disseminate, and vaccinations per 100 of the population (which is the appropriate metric for vaccinations) remain exceptionally low.

Many Asian countries will not even begin to roll out vaccines until February, and few countries have secured sufficient doses of reliable and efficient vaccines to be able to cover their entire population, at least not yet. Either that or local regulatory bodies have been slow to authorise the use of any of the new vaccines coming to the market. For many countries in the region, there are no physical stocks of vaccines, even if stocks have been "secured" on paper. This clearly prevents the rollout from proceeding at speed.

And until that happens, even though there are some good things happening in some sectors, for example, technology exports, which are important for the region, the broader recovery which will involve opening up the service sector, and international travel and hospitality can hardly be said to be gaining pace on a regional basis. With the exception of China, pre-Covid levels of activity remain a distant goal. A double-dip recession may be avoided, but we switched Asia (ex-China) to our second, less favourable scenario last month, and we are not going to change it back again this month and probably not next either.

With vaccine rollout likely to remain slow until 2Q 2021, Asia's recovery to pre-Covid levels is likely to remain subdued until later this year.

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China: Impact of muted spring travel

The Chinese New Year is coming and this year is different, as new partial lockdowns reduce domestic travel. We discuss the impact of the change to this...



Source: Shutterstock

Chinese visit a normally bustling, international luxury shopping plaza in Beijing.

Lockdowns despite low numbers of Covid cases

For the first time since early 2020, there are once again partial lockdowns in Beijing city and Jilin province. Each lockdown has its own restrictions. This comes against a background of only around 100 cases per day nationally (though asymptomatic cases are often not reported in these numbers). The lockdown in Beijing suggests that a lockdown is possible anywhere in the country, even when the number of cases is very low.

We think partial lockdowns in specific locations will not adversely affect economic activity during the holidays.

Workers are now reluctant to buy train and domestic flight tickets to return to their hometowns for the Chinese New Year as they are concerned that they may not be able to return to work in time if

they are caught in lockdowns away from their workplaces. This reluctance to travel suggests that the disruptions to factory operations which took place in 2020 are unlikely to be repeated in 2021, which is positive for manufacturing and export-import activities.

Without travel to and from hometowns and work locations, money that would have been spent on transport may instead be spent celebrating the holiday in a different way. We expect shopping malls to remain open and online shopping as well as delivery to continue during the Chinese New Year, which is different from the past when many shops closed and delivery services stopped due to a lack of labour.

In short, we believe that partial lockdowns in specific locations will not adversely affect economic activity during the holidays.

A different Chinese New Year

A different Chinese New Year



40% reduction in cross city movements in January 2021, implying fewer workers going back to home town for Chinese New Year



300 cities would enjoy delivery service in the Chinese New Year holiday, a contrast with almost no delivery service in the past



37.2% will work during the Chinese New Year, according to a private HR survey. This number is usually much smaller.

Source: ING

Vaccination progress

China has 10 million people vaccinated with the first dose of vaccines developed by the country, which is still a small number compared to the whole population of 1.4 billion. Vaccination will continue after some pause over the Chinese New Year.

Deleveraging focuses on the property market

Over recent months, it has become obvious that deleveraging reform has resumed in China, and this time round, the focus of the reform is real estate property.

The government would like to lower the debt levels of these companies, most of which are private companies. Limits were set on debt-to-cash, debt-to-assets and debt-to-equity ratios in August 2020, and on bank lending ratios for property developers towards the end of 2020. More recently, additional constraints have been placed on property transactions and mortgages in some cities.

But the central government does not seem to be squeezing too hard on price and quantity restrictions for selling properties. It is giving some breathing space to the developers to sell existing properties (though not at higher prices) to get cash to repay debts. The whole process is finely managed.

This reduces our concern about a financial crunch caused by the property sector.

Philippines: Economy contracts 9.5% in 2020, with the slump set to extend into early 2021

The Philippine economy contracted by 8.3% in 4Q 2020. Partial lockdowns and elevated unemployment continue to weigh on the recovery



Source: Shutterstock

-8.3% 4Q GDP

Worse than expected

4Q GDP slump worse than expected

Despite relaxing some mobility restrictions, 4Q2020 dropped by an unexpected 8.3% with mainstay household consumption weaker by 7.1%, stifled by still elevated unemployment.

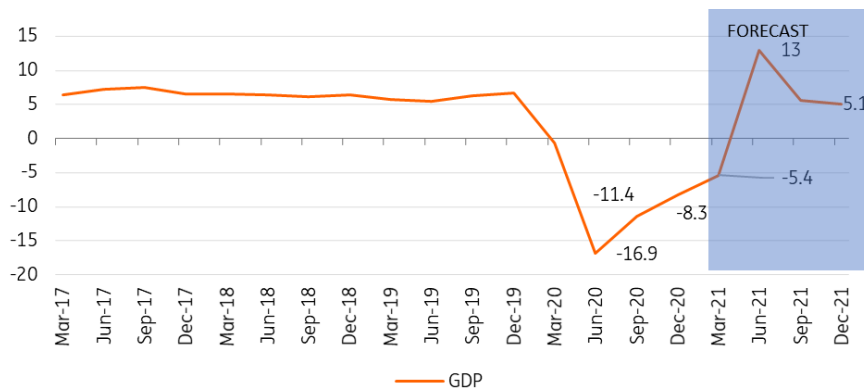
Meanwhile, capital formation struggled on dimming economic growth prospects, highlighted by a 34% dip in construction activity while investment in durable equipment slid by 24.7%. The lone

bright spot for the economy in 4Q2020 was government spending which rose by 4.4%, with the authorities deploying the remainder of its modest fiscal stimulus spending package. On the income side, all three major sectors recorded declines with agriculture falling by 2.5%, industry sliding by 9.9% and the services sector contracting by 8.4%. The 4Q reading translated to a 9.5% contraction in GDP for the whole of 2020 with officials touting a “strong comeback” in 2021. GDP is forecast to rise sharply, by 6.5-7.5%, with the economy returning to pre-pandemic levels by mid-2022.

Don't expect the cavalry

Despite the 9.5% contraction in the economy, we are not counting on the authorities to offer any form of stimulus to offset the downturn, both on the monetary or fiscal front. Bangko Sentral ng Pilipinas (BSP) Governor Diokno has front-loaded a flurry of rate cuts in 2020 and is likely out of ammunition with the policy rate at 2.0% while inflation trends closer to the top-end of their 2-4% inflation target. Meanwhile, the fiscal authorities appear confident in a strong recovery in 2021 and beyond with acting planning secretary Chua suggesting that growth would hit 8% by 2022. The 2021 budget was bumped up by 10% in 2021 and will not likely be enough to move the needle to jumpstart the ailing economy.

The Big Dip: Philippine GDP growth and forecasts



Source: PSA and ING estimates

The “Big Dip” to extend into 1Q 2021

ING expects GDP to remain in contraction in 1Q 2021 before posting a substantial 13.0% rise by 2Q, mainly on base effects. Household spending, the main growth engine of the economy will likely stay in low gear with the unemployment rate at 8.7% with prospects for a quick turnaround in consumption confounded further by the return of inflation, which is expected to breach BSP's inflation target as early as April. Capital formation is another sector that is not expected to make a significant comeback with commercial bank loan growth grinding to a mere 0.3% expansion in November of last year. With only a modest pickup in government outlays expected in 2021 and with the trade balance forecast to remain in deficit, we do not see a stark pickup in economic activity with GDP growth powered mainly by base effects with the economy still lacking substantial momentum to drive growth back to the 6% level.

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