Good MornING Asia - 29 July 2020

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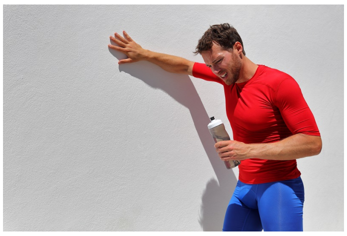
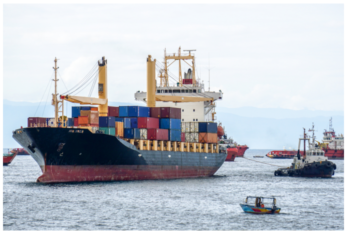
In this bundle





Opinion | 29 July 2020

Australia | Malaysia...

A pause, but maybe no more

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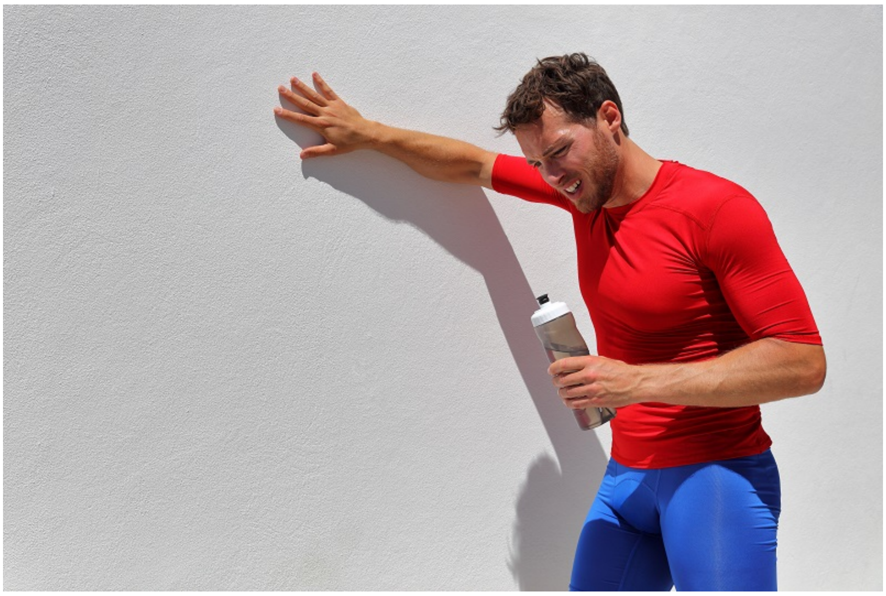

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out of breath

Still messy

I didn't write a note yesterday - it was too messy to drag a coherent theme out of the various strands of noise peppering markets, and it isn't much better today. The one clear remark I made to my colleagues yesterday though, was to note that the strong gains/losses in equities/dollar, could require a pause or correction, and yesterday we got a pause. Will this morph further into a correction? Honestly, I don't know. In the past, this would have seemed a reasonably good shout.

On the USD index, the relative strength indices haven't been this stretched since March, but then these were backed up by much clearer overbought signals from equities than exist today, and of course, the Covid-19 pandemic was a fairly useful catalyst for the market swing we saw then (!). Now, it all looks a lot fuzzier. A short term correction might still happen in the coming days, but this may be no more than a short respite before the previous trends resume. Clarity, which is always a rarity in markets, is particularly hard to come by at present, and I wouldn't want to claim an unwarranted degree of insight as, at the moment, I don't have one. I would be wary of anyone who claimed they did.

The earnings season didn't seem to throw up too much good news yesterday, which tends to throw a little cold water on the notion that expectations had been dialled so far back that the only way for markets to respond was positively. We'll see if that continues today.

And the background noise of the negotiations over the next US fiscal stimulus plan also went nowhere yesterday. But to be clear, it is probably a mistake to keep calling this "stimulus". Yes, more money will be handed out, but at a slower pace than has been the case. If you want to put this into a more accurate setting, those furloughed workers who were relying on Federal money to pay their rent, car insurance and grocery bills are facing a pay-cut. The only question is, how much of a cut? And if that still sounds like stimulus to you, then we are not speaking the same language.

And as for the Fed, which I shall speak about on CNBC later (hopefully, it's about all I've prepared for), the notion that there is any merit in them tweaking their forward guidance is frankly laughable. But then its also irrelevant. Covid-19 is not a monetary problem and doesn't require a monetary solution. I've written extensively on why forward guidance is a waste of time in these notes. Let me just add:

1. With no increase in rates priced into markets as far out as they stretch (out into 2022), there is no benefit in trying to push that time horizon out even further
2. Tying any change in Fed policy to meeting a 2% inflation target needs to be put in the context of the experience of the last decade, where core PCE only hit 2% eleven times in ten years. If the Fed couldn't hit 2% consistently when it was pumping money harder than at any time before or since, I think it is a safe assumption that they never will, which if true, means Fed policy is never going to tighten again, ever. Now there's an interesting thought. Is this a good thing, or a bad thing? I'm leaning strongly to bad. Let me know what you think?

Asia-Pacific today

With the 2Q20 Australian CPI inflation figures likely to come in some way below zero when released shortly, it is probably a fair bet to assume that the RBA won't be in any hurry to reverse its recent easing either. I don't think that is in anyone's thoughts now, though it might take a little wind out of the sails of the AUD, which has been finding it hard to push through the 0.72 level on the way up.

And we have HK 2Q20 GDP data today. The consensus ranges from -11.9%YoY to -6.0%YoY. That looks quite bad even if the top of that range is reached, and with social distancing being tightened once more in HK, the prospect for a big improvement in 3Q20 is dimming.

Prakash Sakpal picks up the economic story for the ASEAN region.

"**Singapore:** The 2Q labour report today comes as a key test of the huge Covid-19 stimulus directed at protecting jobs. We expect the jobless rate to rise to 3.0% from 2.4% in 1Q (consensus 2.9%), led by increased job losses in the services sector. Despite the pandemic-induced slump in economic activity, that would still be better than the worst unemployment on record. That was 4.8%, reached during the SARS pandemic in 2003, followed by 3.3% during the global financial crisis in 2009. The stimulus measures should keep it from re-testing the SARS level, though we do see it breaching the financial crisis high over the remainder of this year.

Malaysia: Exports staged a strong rebound in June with an 8.8% YoY surge, beating the consensus of a 13% fall. Imports contracted by 5.6% YoY in June and the trade surplus jumped to an all-time high of MYR 20.9 billion. We view trade strength in June as transitory, which together with weak tourism-related inflows and political uncertainty, suggest the Malaysian ringgit will remain an Asian underperformer for the rest of the year.

Thailand: June manufacturing data is due today. The analysts' growth estimates in the Bloomberg poll range from -3.3% YoY to -21.5%, with the top probably resting on the expectation of easing Covid-19 restrictions boosting manufacturing activity, and the bottom on the persistently steep export decline in June by -23% YoY. Our -13.6% YoY forecast was made before the June export data. June data will help us to fine-tune our GDP growth forecast for the second quarter, currently -8.3% YoY. We remain of the view that the Bank of Thailand's easing cycle has run its course".

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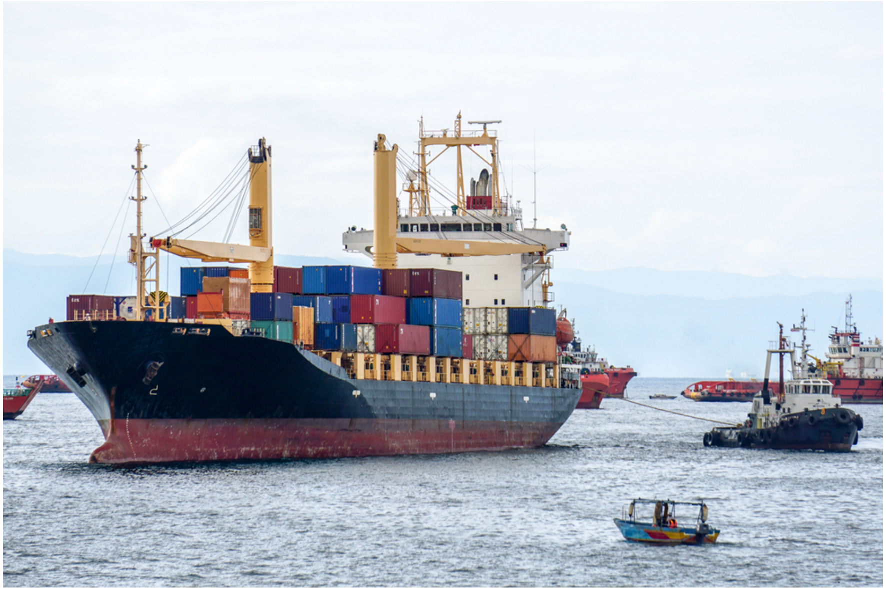
Article | 28 July 2020 Malaysia

Malaysia's exports stage strong rebound in June

We view trade strength in June as transitory, which together with weak tourism-related inflows and political uncertainty suggest the Malaysian ringgit will remain an Asian underperformer for the rest of the year



Source: shutterstock

8.8% June export growth

Year-on-year

Higher than expected

Low base, easing of MCO boosts trade

Released today, Malaysia's trade figures for June showed the country's exports staging a surprisingly strong bounce, by 8.8% year-on-year. This compares with the consensus of a 10% YoY contraction, which in itself was a marked improvement from a 25.5% YoY crash in May.

There were two things at work in driving such a strong trade performance. First, a favourable base year effect boosted the year-on-year growth rate. Second, a clawback from the slump during the Covid-19 movement control order (MCO), which was further relaxed in June. As such, there was also a strong month-on-month surge in exports, by 32%.

By main export sectors, electrical and electronic exports outperformed with 16% YoY and 38% MoM growth rates. These account for about one-third of total exports. Another big one, machinery and appliances also posted strong gains, at 29% YoY and 56% MoM. On the downside, the oil cluster (liquefied natural gas and petroleum products) fell 21% YoY, reflecting lower crude price inflation, even as exports were up 11% on the month. By destination, shipments to key markets of the US, China and Japan had a strong run on both a year-on-year and month-on-month basis.

As with exports, the base effect and easing of the MCO assisted the sharp improvement in import performance in June, to -5.6% YoY from -30.4% in the previous month (consensus -13.1%). They were up 19% MoM.

Trade strength looks transitory

We view trade strength in June as transitory and likely to be reversed in July. While the second wave of Covid-19 cases will continue to weigh on exports, the base effect is poised to become unfavourable. This is likely to cause a sharply negative turn in export growth. The same can be expected for imports, as these largely feed into processing for imports, while domestic demand continues to take a beating from the virus.

The trade surplus doubled to MYR 20.9 billion in June from MYR 10.4 billion in May. This is the largest-ever monthly trade surplus. However, the cumulative surplus in the first half of the year, MYR 64.6 billion was still MYR 2.7 billion lower than a year ago, supporting the narrowing trend in play for the year. As noted earlier, the resumption of export weakness in July should reinforce this trend further.

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.

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