Good MornING Asia - 29 May 2020

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Mass protests in Hong Kong are having an economic impact

HKD Q&A

It feels an anticlimactic end to the week here in Asia after all the noise about China and Hong Kong earlier, though this is a show that will likely run and run, and President Trump is apparently due to make a statement later today about this. Following the comments by Mike Pompeo earlier this week, it is possible that President Trump will use the occasion to announce some sanctions, which as we noted previously, will likely not include tariffs at this time, but could target individuals and impose visa requirements for travel to the US.

There is, as there often is at these times, renewed speculation about the HKD, and 12M forward points have risen substantially over the week, though they are down to about +600 from a high of about +800 a few days ago.

I'm taking the opportunity to re-run some comments from Iris Pang who was asked about this earlier this week (but then I lost her email), so to give them the light they should have already had, here are some HKD Q&As from Iris:

Q: Could the HKD peg be reset to other currencies apart from the USD (CNY for example)?

A: Yes, but setting the HKD peg to other currencies or at other levels is not wise when economic and financial risks are rising, as they are now. So it is possible, but the timing is bad. Moreover, even if the HKMA wanted to change the peg, pegging it to a not-fully convertible currency (in practice CNY is not widely used internationally) would dampen HK's financial market severely. Changing to a basket of currencies, similar to that used for the CNY might be an option, though again, the timing is wrong.

Q: Instead of re-pegging, could the HKMA re-set the upper part of the band to a higher level?

A: Resetting the band would only be a viable option when financial markets were calm, otherwise it would be something similar to Russia in the past.

Q: If the US adopted negative interest rates, could this be another reason for the HKMA to reconsider the USD peg?

A: The risk premium on HK assets should be high enough to avoid negative interest rates even if the Fed adopted such an approach, which we think unlikely. So it shouldn't undermine the HKD.

So perhaps not quite the outright rejection of any possibility of a change to the HKD currency regime that may historically have been the usual response. But plenty of reasons for thinking that it will not happen, at least not imminently, but perhaps only if markets calm down, and even then, probably a much more nuanced approach than simply pegging to the CNY. Tense times though.

Rest of Asia

We've already had plenty of data out from South Korea, following yesterday's slightly uneventful BoK rate meeting (yes, they did cut rates another 25bp, but this appears to be it for rate policy and there isn't much evidence that QE is in the pipeline either - see here for more). Today's releases of April industrial production -6.0%MoM (-4.5%YoY), weaken the trend but don't overturn the verdict that there is still a weak production recovery going on.

Japanese data were fairly bad, with retail sales for April registering a 13.7%YoY decline, and industrial production down 14.4%YoY. Both figures were bad and worse than expected, but it's all various shades of dreadful these days, so nothing to get too anxious about. And the Tokyo inflation numbers suggest that national inflation will pick up by 0.3pp when May data is released, so some signs of supply disruption causing some relative price shocks. This isn't inflation, but a price level shock. Don't start saying deflation is coming, or you will get a long lecture from me, or I will force you to read this note.

We've also got Indian GDP later today. Prakash Sakpal writes: "India: The 1Q20 GDP report card arrives today. The consensus is for 1.6% YoY growth, down from 4.7% in 4Q19. We are a bit more bearish at 1.1%. The downside risk to the consensus is based on the sharp fall in activity in March (-35% YoY in exports and -17% in manufacturing). The nationwide Covid-19 lockdown that started, in late March, and is still in place in some of the worst affected states, spells disaster for the current quarter, and will probably deliver a much steeper GDP fall than our -5% forecast. It looks as if India's central bank (the RBI) might be having similar thoughts, given the second emergency rate cut by 40bp just a week ago. India is Asia's epicentre of the pandemic currently and the 9th worst-affected by it in the world based on official data. We expect significant demand destruction keeping GDP growth well into negative territory over the rest of the year".

And also on Thailand: "Balance of payments data for April are expected to show a sharp swing taking the current account to a deficit of about $750 million from a $697 million surplus in March. This swing stems from net outflows on the services side, while the trade balance continued to post a strong surplus in April ($2.5 billion on customs basis). Despite all this, the THB has been performing strongly since April and is already back to being Asia's top currency this month. Covid-19 is under control currently in Thailand, but the hit to the current account from weak exports and tourism remains a headwind for THB appreciation ahead".

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ASEAN Morning Bytes

Trump set to announce "new policies on China" later on Friday

EM Space: US-China tension escalating after Hong Kong legislation

- **General Asia:** Donald Trump is set to announce possible sanctions against China later on Friday which could translate to a revival of the trade war. Trump was also busy announcing possible modifications to legislation that protects social media platforms such as Twitter and Facebook. Fed Chairman Powell is set to speak later on Friday but trading direction will likely be driven more by the announcement by Trump or possible retaliation from China.
- **Thailand:** Balance of payments data for April are expected to show a sharp swing taking the current account to a deficit of about $750 million from a $697 million surplus in March. This swing stems from net outflows on the services side, while the trade balance continued to post a strong surplus in April ($2.5 billion on customs basis). Despite all this, the THB has been performing strongly since April and is already back to being Asia's top currency this month. Covid-19 is under control currently in Thailand, but the hit to the current account from weak exports and tourism remains a headwind for THB appreciation ahead.
- **Indonesia:** President Jokowi continues to ready the economy for reopening as he instructed government officials to draft guidelines to operate the tourism sector under the new normal. The tourism industry will be one of the hardest hit by the pandemic with foreign travel restricted with Jokowi indicating that tourism should focus on local consumers in the meantime.
- **Philippines:** President Duterte will relax lockdown restrictions on 1 June in a bid to jumpstart

the economy after an almost three-month lockdown. The announcement to remove restrictions comes a day after the country recorded its highest new daily infection count to date (539 new cases) with health officials citing cluster infections among migrant workers as the main reason for the recent spike. The move will help restore some economic activity but leaves the door open for a possible second wave of the virus and a potential second lockdown as well.

What to look out for: Covid-19 developments

- Thailand trade (29 May)
- US core PCE, consumer sentiment and whole sale inventories (29 May)
- Philippines bank lending (29 May)
- Fed Powell speech (29 May)

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Asia week ahead: New month, new week, new risks

There will be plenty of economic data next week to mull over and scrutinise as to which Asian economy responded best to the Covid-19 crisis. But US-China tensions will continue to rule market sentiment as the new trading month kicks off

Source: Shutterstock

From policy to reality

Economic policies have been dominating headlines since the start of China's 'two sessions' last week bringing in some fresh stimulus for the economy. This was followed by a spike in US-China tensions over Hong Kong's autonomy and potential sanctions against the territory. Singapore also stepped up its Covid-19 stimulus with the fourth package to preserve jobs, and the Bank of Korea went on with another policy rate cut.

Setting the tone for markets next week will be China's purchasing managers index for May arriving over the weekend

The US-China row will continue to rule market sentiment next week, but there is plenty of data in the pipeline for investors to mull over and analyse how regional economies have been coping with Covid-19 restrictions.

Setting the tone for markets next week will be China's purchasing managers index for May arriving over the weekend (31 May) and the consensus expects a slight rise in manufacturing and non-manufacturing PMIs, which should be positive for markets. Likewise, PMIs from the rest of the region should show some recovery from their record lows in April. After all, PMIs are soft data, subject to respondents' sentiment at the time of the survey, and surprises on either side are likely.

Hard data like exports, retail sales and inflation should help to assess the real impact, and, there are lots of those on the calendar next week. Korea's trade figures for May are out on 1 June - the first trade numbers for the month from the region and probably the world should serve as a leading indicator of global demand. We expect a continued steep fall in exports in excess of 20% YoY. We aren't alone; that's also the consensus view.

Korea's trade figures for May are out on 1 June - the first trade numbers for the month from the region and probably the world should serve as a leading indicator of global demand

April retail sales from Hong Kong and Singapore will be interesting for what they say about domestic consumption in the month when the Covid-19 restrictions were at their tightest ever. We anticipate the worse, as much as a 37% plunge in sales from a year ago, led largely by non-essential buying. A surge in online sales may have picked up some slack but it's unlikely to come as any meaningful support in an environment of depressed economic confidence. Online sales in Singapore gained some traction in recent months, though at 8.5% of total sales in March, they are far too small.

Weak demand should be further reflected by falling inflation. We are seeing steeper fall in CPI inflation in most countries reporting May data next week (Korea, Taiwan, Indonesia, Philippines, and Thailand). Thailand has been leading the way down with a further fall from -3.0% YoY in April to -4.2% in May.

Anything on the policy side?

The next policy event in the pipeline is the Reserve Bank of Australia's policy decision, but it will likely pass as a non-event. With the worst of Australia's Covid-19 spread behind us, the economy should be on a recovery path. We see the RBA keeping its policy rate unchanged at 0.25%, which is already the lowest it has ever been.

With a record stimulus already released, we think fiscal and monetary policies around the region and globally have nearly reached their limits. All that seems to be left now is the wait for the disease to die its own death and confidence to return before the unprecedented policy loosening starts to bear fruits.

This means increasing attention on economic activity data in the weeks and months ahead for signs of bottoming of the downturn.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Sunday 31 May			
China	0200	May Manufacturing PMI	49.8	51	50.8
	0200	May Non-manufacturing PMI	53.5	53.5	53.2
		Monday 1 June			
China	0245	May Caixin Manufacturing PMI	49.0	49.8	49.4
India	0600	May Nikkei Manufacturing PMI	-	-	27.4
Hong Kong	0930	Apr Retail sales value (YoY%)	-37.0	-	-42
	0930	Apr Retail sales volume (YoY%)	-40.0	-	-43.8
Philippines	0130	May Nikkei Manufacturing PMI	21.2	-	31.6
Taiwan	0130	May Nikkei Manufacturing PMI	42.0	-	42.2
South Korea	0100	May Imports (YoY%)	-15.0	-20.5	-15.8
	0100	May Exports (YoY%)	-22.0	-25.5	-25.1
	0100	May Trade balance (US$mn)	-	-699	-1393
	0130	May Nikkei Manufacturing PMI	42.6	-	41.6
		Tuesday 2 June			
Indonesia	0500	May CPI core (YoY%)	-	-	2.85
	0500	May CPI (YoY%)	2.2	-	2.67
South Korea	0000	1Q F GDP (QoQ/YoY%)	-1.4/1.3	1.3/-	1.3/-1.4
	0000	May CPI (YoY%)	0.0	-	0.1
		Wednesday 3 June			
India	0600	May Nikkei Services PMI	-	-	5.4
Hong Kong	0130	May Nikkei PMI	-	-	36.9
Singapore	1400	May Purchasing Managers Index	-	-	44.7
		Thursday 4 June			
Malaysia	0500	Apr Exports (YoY%)	-19.0	-	-4.7
	0500	Apr Imports (YoY%)	-22.0	-	-2.7
	0500	Apr Trade balance (RM bn)	11.0	-	12.3
South Korea	0000	Apr Current account (US$bn)	5.0	-	6.2
		Friday 5 June			
India	-	1Q Current account balance (Q) (US$bn)	-	-	-1.4
Hong Kong	-	May Forex Reserves (US$bn)	-	-	441.2
Malaysia	0800	Forex reserves- Month end (US$bn)	-	-	102.6
Philippines	0200	May CPI (YoY%)	2.4	-	2.2
	-	Apr Unemployment rate (%)	10.0	-	5.3
	0800	Forex reserves- Month end (US$bn)	90.2	-	89.0
Singapore	0600	Apr Retail sales value (MoM/YoY%)	-27.0/-36.5	-/-	-1.3/-13.3
Taiwan	0900	May WPI (YoY%)	-11.3	-	-10.8
	0900	May CPI (YoY%)	-1.1	-	-1.0
	0800	Forex reserves- Month end (US$bn)	481.5	-	481.8
Thailand	0430	May CPI (YoY%)	-4.2	-	-3.0
	0430	May Core-CPI (YoY%)	0.2	-	0.4

Source: ING, Bloomberg, *GMT

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Snap | 28 May 2020 South Korea

Bank of Korea cuts rates 25bp

BoK cuts 7-day repo rate 25bp to 0.5%, but no strong indication that Quantitative Easing is imminent

Source: Shutterstock

0.5% 7-day repo rate

follows 25bp cut

As expected

Growth outlook slashed due to Covid-19 uncertainties

After cutting rates 25bp as expected today, the BoK also revealed a reduction of their 2020 growth forecast from 2.1% to -0.2% (not far off our +0.3% forecast, which we recently revised higher from -0.3%) and the outlook for 2021 was noted as being subject to considerable uncertainties (we are only expecting 1.8% growth in 2021 in our base case forecast, but indeed it would be nice to just say, too hard to call...).

Rates now at effective lower bound...

In the subsequent press conference, BoK Governor Lee noted that at 0.5%, the 7-day repo rate (policy rate) was now very close to its effective lower bound. The statement omitted previous text that the BoK would "*judge whether to adjust the degree of monetary policy accommodation*", which many have interpreted as indicating that rate reductions have reached their conclusion.

...but no clear hint that QE is imminent

Even though conventional monetary policy may have reached its limits, it was not clear that the BoK was gearing up for a substantial move towards Quantitative Easing.

It appears that the BoK has already bought some Korean Treasury bonds in the secondary market, though it is less clear if this was through an expansion of the balance sheet and printed money which would put it into QE territory, or not. In either case, it looks more like a market-smoothing operation than a concerted attempt to drive yields lower.

Governor Lee said the BoK remained ready to buy bonds. But rather than pushing a QE interpretation, it again sounds as if this would be a conditional move in response to market volatility, and there were various remarks about herd market behaviour and one-sided market moves to support this view.

So although the BoK is still saying that it remains “ready to buy bonds”, we don’t think this is under the context of an imminent QE programme, more of an ad hoc adjustment in case of market volatility.

A more reasonable interpretation is that the BoK is now taking a back seat to the government and anticipating a more forceful fiscal response to provide the bulk of ongoing support for the economy

Today’s decision was unanimous, aside from one new member who did not take part as he was still making changes to his financial exposures to be compliant with regulations.

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