Good MornING Asia - 29 October 2020

Dovish ECB, US GDP rebound, and global anxiety over the pandemic rising as Europe re-starts lockdowns - all of which temporarily eclipses any election concerns

In this bundle

Opinion | 29 October 2020

Everything pointing the same way today

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For once it all looks clear...it won't last

Despite our house call for a generally stronger EUR vs the USD over the coming 12 months, that view doesn't have to play out on a daily basis, and today, it looks fairly likely to go the other way.

The main driver of markets today is rising anxiety over the rise in Covid-19 cases in Europe, which has reached such a point that Germany and France have both announced a month-long "circuit breaker", which tightens existing restrictions - though to my mind, still tries to achieve a trade-off between keeping the economy open, and squeezing the virus out, which has been tested in many places, and shown not to work. So good luck with that. If it doesn't work, the restrictions will only get tighter. The key policy indicator of failure here will likely be when schools are eventually closed.

So stocks have been selling hard, and the resulting market anxiety has been resulting in a flow back to the USD, which provides a temporary reprieve from the "sell USD on expected Biden win" view that had been prevailing.

Today's data may give the dollar's momentum some further push as we also have what is likely to be a fairly dovish ECB meeting ahead of what will look like some horribly negative Eurozone CPI data tomorrow. That said, our Eurozone team believe ECB President Lagarde lacks the communication clout of some of her predecessors, so hints of say a December "big bazooka" on policy may be wrapped in velvet in their delivery. We will see. Anyway, it is hardly going to provide much support for the Euro.

Then we have US advance 3Q GDP, (see this from our US team) which captures all the reopening that happened after the lockdown, and could also look pretty good. Of course, we know the economy has slowed down since, and may even have gone backwards in a few areas, but that's a story for another day. And these figures should also be USD supportive.

This line of thinking may get us as far as the weekend, or at least, Friday lunchtime before thoughts return to the US election.

Asia Pacific picture not so black and white

In the APAC region, the dollar's resurgence is most evident against the $-bloc currencies, especially the AUD, which at about 0.7060 is looking very soggy as we head towards next week's RBA meeting, and a decent chance of some further easing, though more likely QE than any further rate cuts (the market seems to think otherwise).

Korea's KRW also doesn't look too bad, though it has opened above 1135 this morning, but has probably had the blow softened by some decent business activity survey data out this morning from both the manufacturing and non-manufacturing sectors. Likewise, while the CNH has risen a bit over the last 24 hours, it isn't clear that it will continue to do so any more today. And as gravitational waves of the heavy Chinese currency tends to dominate the regions lighter currencies, this may dampen any broader Asian FX sell-off today.

Bond yields a bit torn

Bond markets are finding it also a two-sided story, so though the risk-off theme is dominating currently, with polls showing further Biden gains in some swing states in the US, thoughts are going to remain at least partly towards an early 2021 fiscal stimulus, with all that this entails in terms of increased bond supply. So bond yield declines may also remain muted before heading higher, as the election story comes to dominate again as we head towards the weekend and the final sprint to the finish for the candidates (that's a metaphor that doesn't really work for two septuagenarian, but time is short today...)

Bank of Japan today

Aside from the Korean data already out, Asia's calendar is relatively light, though there is a Bank of Japan (BoJ) meeting. The JPY is one currency in the region that has been gaining amidst all of the risk-off kerfuffle, which is entirely in keeping with its usual role as a safe haven currency. Again, I'm not sure this will last too long, and I'm also doubtful the BoJ will deliver any meaningful changes to their super-accommodative monetary stance at today's meeting. They usually don't.

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Snap | 28 October 2020 Malaysia

Malaysia's exports stage strong rebound in September

The persistently large trade surplus serves as life support for the Malaysian ringgit at a time when escalated political uncertainty is dampening investor...

Source: shutterstock

33%

Electronics export growth

year-on-year

Better than expected

Electronics-led bounce

Malaysia's exports surged by 12.4% month-on-month in September and 13.6% year-on-year.

The result was far better than our 7.0% YoY growth forecast, whereas the consensus was only 2% growth. As it reversed much of August's 14.5% MoM fall, the September bounce boosted monthly exports, MYR 89 billion, well above their pre-Covid-level - MYR 84 billion in January.

The electronics-led recovery in Asian exports has gained momentum in recent months, and Malaysia is on this bandwagon too. Indeed, leading the surge in September was electronics with a 21.7% MoM and 33.0% YoY jump. Commodities - the other dominant export category, was a mixed bag. Palm oil and rubber exports posted strong growth but the fuel cluster (crude petroleum, petroleum products and liquefied natural gas) continued to reel under weak global demand and prices.

In terms of destinations, China and the US stood out with 42% YoY and 22% YoY growth respectively.

Large trade surplus

A 3.6% YoY import fall was in line with consensus and an improvement over -6.5% in August.

Pick-up in capital and consumer goods import is a promising sign of the post-Covid recovery. But a slowdown in intermediate goods imports wasn't good news given high import content of exports.

The Malaysian ringgit 22 billion trade surplus in the last month represents a significant widening over MYR 13.2 billion in August. This is the second-highest monthly surplus ever after MYR 25.2 billion in July this year. The cumulative surplus of MYR 125 billion in the first nine months of the year was MYR 16 billion higher than the year-ago period.

But politics weighs on the currency

The persistently large trade surplus acts like life support for the currency at a time when escalated political uncertainty is dampening investor confidence. The MYR is an Asian underperforming currency in October, although it's been firm around the 4.15 level against the USD.

All eyes are now on the 2021 federal budget next week - 6 November, which will be a key test of confidence in prime minister Muhyiddin Yassin's coalition government.

We think politics will continue to exert weakening pressure on the MYR. Therefore, we maintain our end-year USD/MYR forecast at 4.18.

Snap | 28 October 2020 Thailand

Thailand manufacturing is recovering slowly

The fifth straight monthly rise in production in September underscores recovery. But growing political uncertainty clouds prospects

Source: Shutterstock

-2.8%

September manufacturing growth

year-on-year

Better than expected

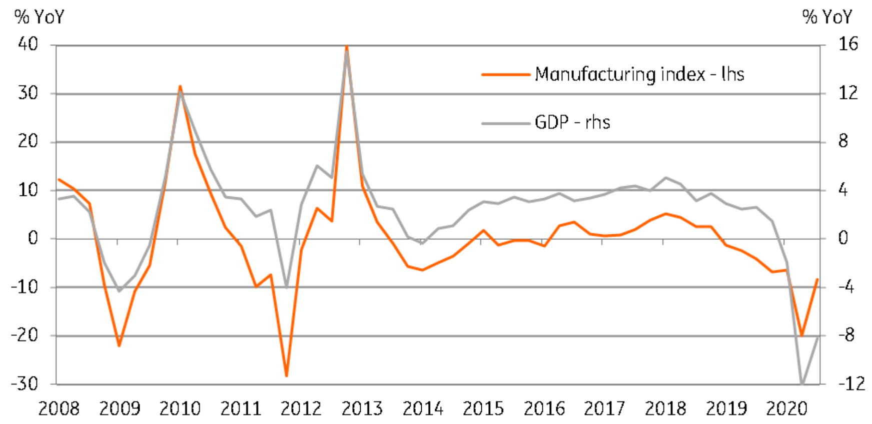
A slow grind upward

Thailand's manufacturing activity continued to improve in September. A 3.3% month-on-month rise in output after the 5.1% MoM rise in August - making it the fifth consecutive monthly increase reflecting a gradual recovery.

So far the sector has clawed back 90% of the plunge it suffered in April at the height of the Covid-19 outbreak. But the index is still 2.8% below its level seen a year ago, though it's a marked improvement over -9.1% YoY in August and a small annual decline since the onset of the negative trend in early 2019.

The good news is that things are improving, but the bad news is that the path is going to be rough given growing downside risk to the economy from ongoing political turmoil.

Where manufacturing goes GDP follows



Source: CEIC, ING

Politics dampens recovery

3Q20 manufacturing growth of -8.3% YoY was a sharp improvement from -20.0% in 2Q, which supports our forecast of a smaller 3Q GDP decline, -8.2% YoY instead of -12.2% in the previous quarter. The persistently weak service sector and seasonal agriculture weakness, however, impart downside risk to our 3Q GDP view (data due in mid-November).

Without the return of tourists and a vigorous export recovery, there is no imminent end to the negative growth trend. Adding to the weak trend is an escalation of political tensions recently, which not only undermines economic confidence but also holds back implementation of macro policy stimulus.

Surprisingly, the Thai baht isn't doing as bad as one would have expected it to in this environment. The currency has been steady around 31.20 against the USD for most of the month and, with 1.8% month-to-date appreciation, it's the second-best performing Asian currency in October.

That said, we aren't confident of the currency's lasting resiliency to the political jitters. We maintain our forecast of weakness to 32.30 by year-end.

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