Good MornING Asia - 3 April 2020

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Covid-19: The scenarios, the lockdown, the reaction, the recovery

Our April Economic Update brings you economic truths of the Covid-19 crisis, our scenarios for the future and the reality of living in what sounds like...

By Carsten Brzeski

ASEAN Morning Bytes

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EM Space: Trump tweet sparks possible end to Saudi-Russo price war

- **General Asia:** The week comes to a close with US President Trump indicating that Russia and Saudi Arabia would come to terms in the next few days and cut oil production to end the price war. Economic data showed even more Americans out of work with initial jobless claims doubling up on expectations ahead of the official non-farm payrolls number. For now, investors will latch on to the possible oil deal but economic data, like China Caixin services later in the session, may continue to remind market players from time to time that any sort of recovery is at least months away.
- **Singapore:** Purchasing Manager Index for March and retail sales data for February will inform on the Covid-19 impact on the economy. The consensus for the PMI is 47.0 and for retail sales growth, it is -8.4% YoY, both weaker than the previous month. The risk is clearly on the downside for both data points.
- **Thailand:** The Prime Minister has called a special Cabinet meeting today to discuss ways to combat the Covid-19 outbreak as the central bank earlier this week warned against the steepest GDP contraction in the current quarter on the back of a slump in tourism. We see over a 7% GDP fall in 2Q20 and over a 4% fall over the entire year. The government is considering a third stimulus package worth THB 500 billion, which might get the nod at

today's Cabinet meeting.
- **Indonesia:** Bank Indonesia (BI) remains confident that economic growth will remain in expansion as they hold on to the upper end of the government's official forecast of 2.3%. BI officials indicate that they believe the IDR will return to 15,000 by year-end despite government officials assuming the IDR reaches up to 20,000 in a worst-case scenario and we believe the central bank will continue to sustain triple intervention to support the currency in the near term. Gross international reserves dropped from $130 bn in February to $121 bn in March, showing the size of intervention carried out by authorities and we expect pressure on the IDR to continue in the near term as BI is unable to resort to hiking rates to support the currency for now.

What to look out for: China Caixin services, US NFP and Covid-19 developments

- Philippines bank lending (3 April)
- Hong Kong PMI (3 April)
- China Caixin PMI services (3 April)
- Singapore retail sales (3 April)
- US non-farm payrolls (3 April)

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Covid-19: The scenarios, the lockdown, the reaction, the recovery

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Source: ING

It's often said that economists live in ivory towers, taking a macro, holistic or sometimes nerdy view on things without really knowing what it is all about.

I will not even try to debunk these myths but the truth is that right now we're all in the same boat. The outbreak of Covid-19 affects everyone. A virus doesn't stop at borders, a virus does not distinguish between jobs, lockdowns, social distancing, empty shelves in supermarkets, death tolls, reinventing the work-life balance in times of home office and many more. What sounded like the script from a Hollywood movie (I can recommend the 2011 movie "Contagion") at the start of the year has become a reality.

A reality with unprecedented economic consequences.

> *It is an abrupt stop of economic activity... a virus-driven ice age*

It started as a supply-side shock, on the back of supply chain disruptions in China, which then turned into a demand-side shock, with first China going into lockdown and then other countries following and has now transformed into a standstill of many sectors of the economy. Recession is not the correct description of what we are currently witnessing. It is an abrupt stop of economic activity, from 100 to zero in just a few days or weeks. A virus-driven ice age.

Governments across the world have to balance health care issues with economic interests. The lockdowns could be compared to a medically induced coma to 'flatten the curve'. The enormous rescue packages from both governments and central banks are the vital lifelines to make sure the patient is still in good health once brought back to life.

In these times, it's more difficult than ever to come up with adequate economic forecasts. The best we can do is to describe several possible outcomes, based on different scenarios regarding the length of the lockdown and the spread of the virus. As a result, we would like to present four scenarios in this Monthly Update.

Our base case scenario assumes a U-shaped recovery with a wide bottom, as social distancing and travel restrictions are likely to stick, even beyond the lockdowns. After a severe contraction of most economies in the first half of 2020, a subdued recovery would follow, with most economies returning to their pre-crisis levels in 2022. In more adverse scenarios, the return to pre-crisis levels could take until 2023 or even later.

While the different scenarios give some guidance on the economic impact of Covid-19, there are currently many other important issues. Do central banks still have any ammunition left? What is the endgame for fiscal policies? Which eurozone countries are the most vulnerable? Is this the time for a Eurobond? And what could an exit from the lockdown measures look like? Also, at some point in time, the crisis will be over. How will the world look then?

Our Research Team provides some food for thought in this edition of our Economic Monthly Update.

In the meantime, stay healthy.

ING's new base case forecasts

	2020F					2021F				
	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY
United States										
GDP (QoQ%, ann)	-6.0	-40.0	22.0	10.0	-7.0	5.0	4.0	3.5	3.0	3.4
CPI headline (YoY%)	1.9	-0.9	-1.3	-1.3	-0.4	-0.9	1.5	1.8	1.8	1.0
Federal funds (%, eop)1	0.25	0.25	0.25	0.25		0.25	0.25	0.50	0.75	
3-month interest rate (%, eop)	1.45	0.85	0.75	0.60		0.55	0.50	0.75	0.95	
10-year interest rate (%, eop)	0.65	0.50	0.75	0.75		1.00	1.00	1.25	1.50	
Eurozone										
GDP (QoQ%, ann)	-15.2	-16.0	13.0	7.5	-5.0	2.5	2.0	2.0	2.0	3.2
CPI headline (YoY%)	1.1	0.6	0.8	1.0	0.9	1.3	1.4	1.4	1.4	1.4
Refi minimum bid rate (%, eop)	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	
3-month interest rate (%, eop)	-0.34	-0.35	-0.35	-0.40		-0.40	-0.40	-0.40	-0.40	
10-year interest rate (%, eop)	-0.47	-0.50	-0.40	-0.35		-0.25	-0.20	-0.20	-0.15	
Japan										
GDP (QoQ%, ann)	-1.0	-27	18	1.8	-5.0	0.5	0.9	0.9	0.9	0.9
CPI headline (YoY%)	0.5	-0.1	0.5	0.3	0.3	0.7	1.2	0.9	0.7	0.9
Excess reserve rate (%)	-0.1	-0.1	-0.1	-0.1		-0.1	-0.1	-0.1	-0.1	
3-month interest rate (%, eop)	0.00	0.05	-0.05	-0.10		-0.05	-0.05	-0.05	-0.05	
10-year interest rate (%, eop)	0.00	-0.20	-0.10	0.00		0.00	0.00	0.00	0.00	
China										
GDP (YoY%)	3.6	3.9	4.0	4.5	4.0	5.8	5.9	5.6	5.7	5.8
CPI headline (YoY%)	5.0	4.5	3.5	2.4	3.9	2.0	2.2	2.5	2.5	2.3
PBOC 7-day reverse repo rate (% eop)	2.2	2.0	2.0	2.0		2.0	2.0	2.0	2.0	
10-year T-bond yield (%, eop)	2.60	2.45	2.50	2.60		2.70	2.80	2.90	3.00	
UK										
GDP (QoQ%, ann)	-5.5	-35.0	20.0	8.0	-6.1	3.5	2.4	1.5	0.5	2.6
CPI headline (YoY%)	1.7	0.8	0.8	1.2	1.1	1.4	1.9	1.9	1.8	1.8
BoE official bank rate (%, eop)	0.10	0.10	0.10	0.10		0.10	0.10	0.25	0.25	
3-month interest rate (%, eop)	0.6	0.3	0.3	0.3		0.3	0.4	0.4	0.4	
10-year interest rate (%, eop)	0.35	0.2	0.4	0.5		0.8	0.9	1.1	1.3	
EUR/USD (eop)	1.10	1.12	1.15	1.20		1.18	1.15	1.12	1.10	
USD/JPY (eop)	108	105	100	100		102	105	108	110	
USD/CNY (eop)	7.20	7.25	7.00	6.90		6.80	6.70	6.60	6.50	
EUR/GBP (eop)	0.89	0.89	0.88	0.85		0.85	0.85	0.85	0.85	
Brent Crude (US$/bbl, avg)	53	20	35	45	38	50	60	60	63	58

Source: ING, Bloomberg

GDP forecasts are rounded to the nearest whole/half number, given the large magnitude and uncertainty surrounding our estimates

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