

## Good Morning Asia - 3 April 2020

Reports of a possible oil deal may help sentiment somewhat to close out the week

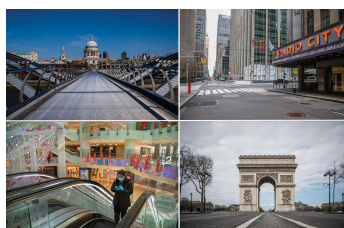
### In this bundle



Asia Morning Bites

#### ASEAN Morning Bytes

Reports of a possible oil deal may help sentiment somewhat to close out the week.



#### 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

Reports of a possible oil deal may help sentiment somewhat to close out the week.



### 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)

### Author

#### Nicholas Mapa

Senior Economist, Philippines

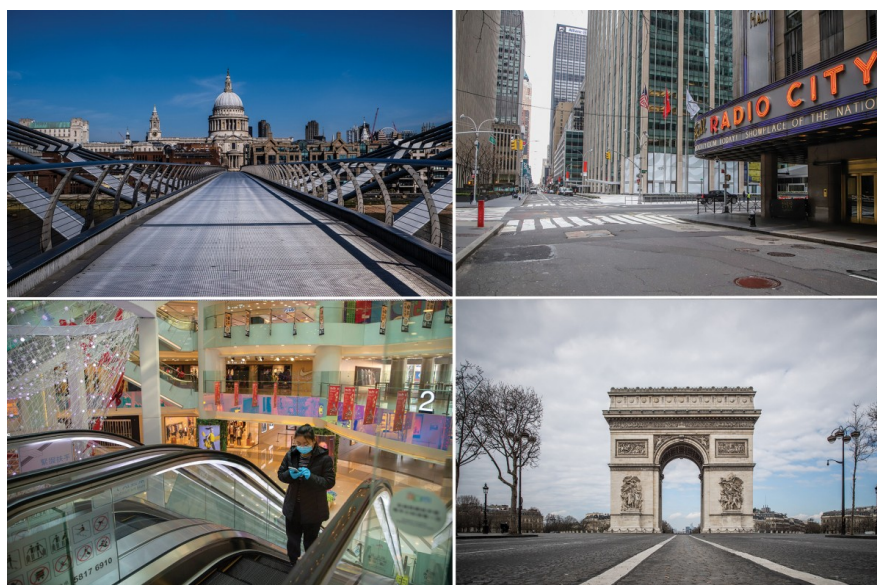
[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

---

Report | 2 April 2020

# 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 the script of a Hollywood movie



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  |
| <b>United States</b>                 |       |       |       |       |      |       |       |       |       |     |
| 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  |     |
| <b>Eurozone</b>                      |       |       |       |       |      |       |       |       |       |     |
| 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 |     |
| <b>Japan</b>                         |       |       |       |       |      |       |       |       |       |     |
| 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  |     |
| <b>China</b>                         |       |       |       |       |      |       |       |       |       |     |
| 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  |     |
| <b>UK</b>                            |       |       |       |       |      |       |       |       |       |     |
| 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

### Author

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).