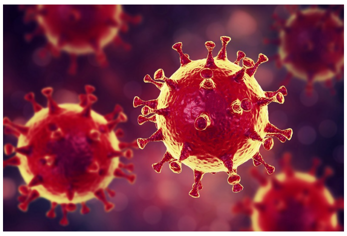
Good MornING Asia - 3 February 2020

Markets will open weaker on coronavirus anxiety as China comes back from extended vacations - the PBoC will add liquidity but it unlikely to be able to turn the situation around. Actions are about damage limitation, not reversal

In this bundle



Coronavirus - an update
Markets will open weaker on coronavirus anxiety as China comes back from extended vacations - the PBoC will add liquidity but is unlikely to be able to...
By Robert Carnell

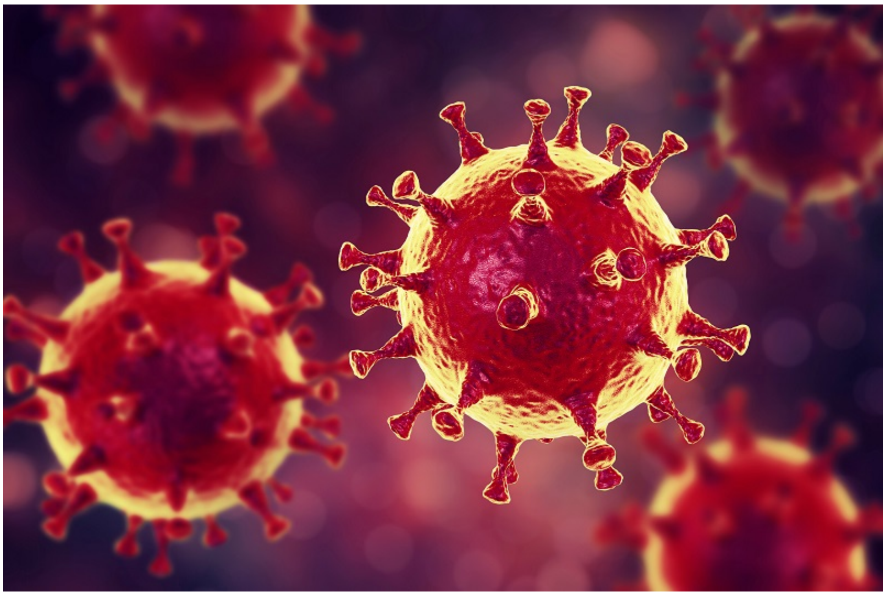
Asia Morning Bites
ASEAN Morning Bytes
Anxiety over the 2019-nCov virus continues to spread with the number of reported cases on the rise and the Philippines reporting the first death outside...

Thailand
Thailand: Baht's reversal of fortune
We view 31-33 as a new higher trading range for the USD/THB rate in 2020 and we see it trading close to the top end of this range over the next three...

Opinion | 2 February 2020

Coronavirus - an update

Markets will open weaker on coronavirus anxiety as China comes back from extended vacations - the PBoC will add liquidity but is unlikely to be able to turn the situation around. Actions are about damage limitation, not reversal



Corona virus

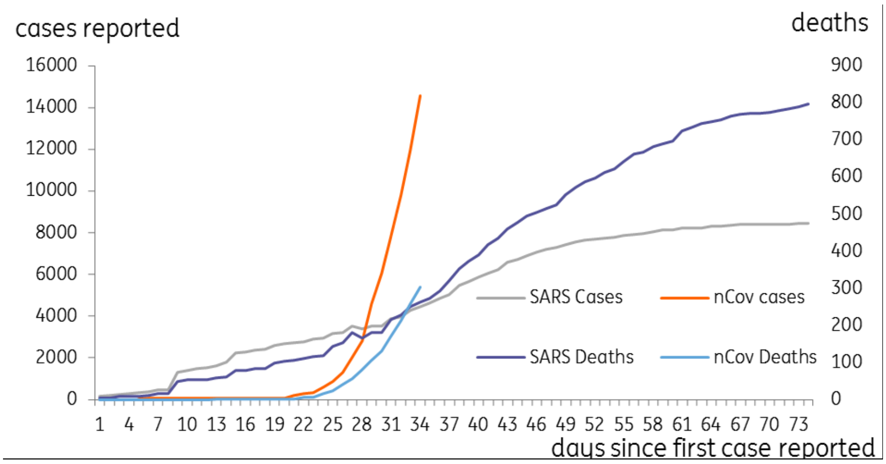
Some charts using World Health Organization numbers

At the end of last week, I thought I would put some charts together on the new coronavirus infections (nCov), and make some comparisons with SARS in 2003. These charts follow with a little description. I am, as you know, a "dismal scientist", not a medical person, so in what follows, I have tried to be as descriptive as possible, and allow you to draw your own inferences.

I have updated these charts with the latest World Health Organization numbers over the weekend (since I tweeted them last Friday).

What the first chart shows is just how much more rapid the rate of infection of nCov is compared to SARS. And that even though the mortality rate from such infections is much lower, currently running at around 2%, it has already claimed more lives at the same stage following the outbreak, with the latest tally at 304 (more up to date and larger figures have been mentioned in the media, but I am waiting for the WHO to officialise them, so these figures could be a bit conservative).

nCov and SARS, a comparison



Source: WHO, John Hoppkins, Virustracker

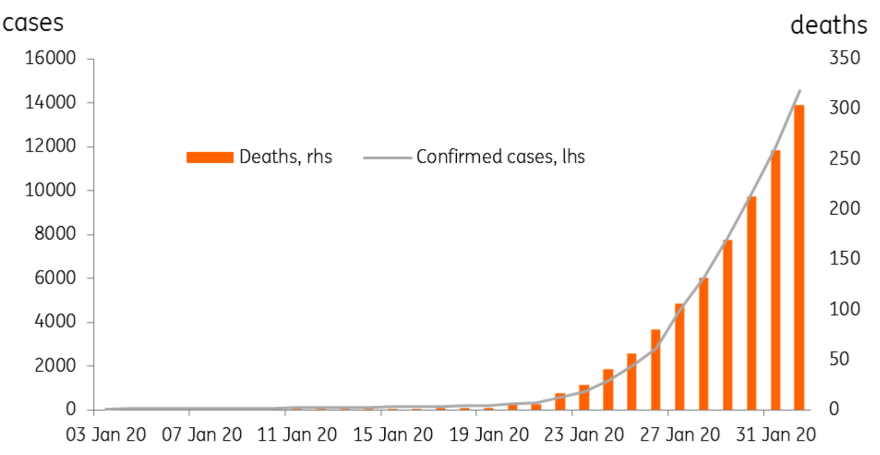
nCov cases and deaths

The next chart simply shows the numbers of confirmed nCov cases and deaths. The death rate is tracked on the right-hand axis and is a fairly steady function of the number of cases, lagging it slightly as you would expect.

Bear in mind that this disease was first noted by Chinese authorities on 30 December 2019. It is not until about 20 January, around two weeks ago that we start to see "meaningful" numbers of infections and deaths, about the same time markets and analysts like me, began to take a closer look at what this might mean. It is also around now that countries began to close their borders to passengers from Wuhan, following China's own quarantine of the worst affected cities.

Indeed, if you go back to about 17 January, when there were 174 cases, almost all of which were in China, we get to a similar position to where the rest of the world is today. To me, this begs the question, will the rest of the world be recording infections close to China's current rate in two weeks or so from now?

nCov cases and deaths



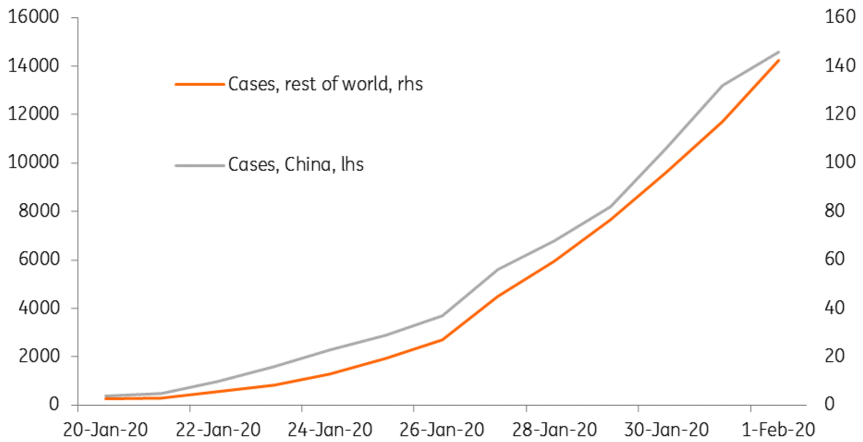
Source: WHO

Where are the infections?

Chart number 3 shows where the infections are located, split by China, and the rest of the world. At this stage, that is detailed enough. There are 23 other countries affected, but although there are some instances of community transmission (i.e. person to person other than from Wuhan visitors), most of these have been from tourists from the Hubei region.

As the earlier chart showed though, you can move from very low case numbers up to much higher numbers in only a few weeks, so we are not drawing too many inferences from this just yet. I would say that it may be a bit too early to conclude that this epidemic has been contained within China. Though there may be some grounds for optimism.

nCov cases by location



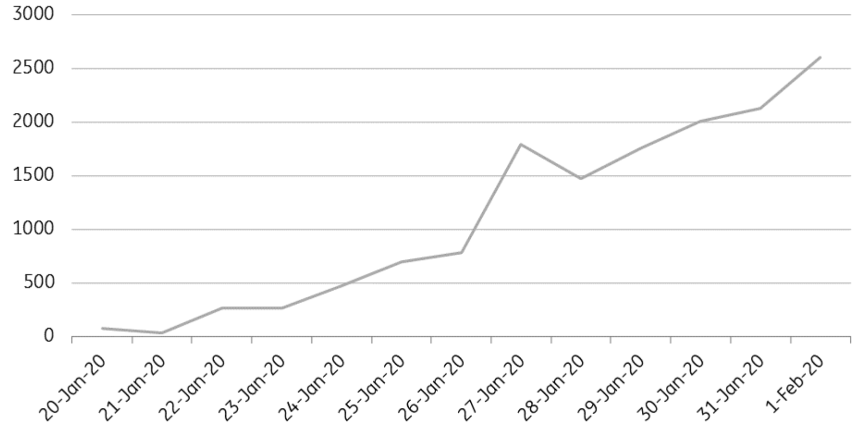
Source: WHO

New cases

One of the things markets are watching for with this epidemic is the rate of growth of new cases. With the SARS outbreak, the slowdown in the number of new cases was seen as a reliable indication that the disease was peaking out.

There were 2604 new cases noted in the WHO's latest situation report, up from 2127 the day before. That said, the growth rate seems pretty steady, not exponential, so possibly some of the containment effects are bearing fruit. For now, there is not much else for markets to take comfort from.

nCov, new cases, change from previous day



Source: WHO

nCov new cases

Asia week ahead - RBA, RBI, BoT, BSP

Besides nCov news, it is a busy week for the region, with plenty of central bank action. The Reserve Bank of Australia (RBA) is first up, and though most forecasters don't expect them to cut rates, I think there is a chance that we get a further cut from them. A combination of the impact of the bushfires and the coronavirus, plus a less-than-inspiring set of data make Governor Lowe's thesis of gentle upturn look questionable. A cut now, might not do much good, however, as low-interest rates lose their pep after a while. The more probing question would be, would it actually do any harm? If not, then about the only other argument for doing nothing is that the RBA is running out of ammunition and coming close to having to adopt unorthodox policy measures. For more on this, check out our latest Australia update.

The Reserve Bank of India (RBI) also meets this week. Following a very disappointing budget release over the weekend, many will be hoping for some additional easing from the RBI., They are likely to be disappointed, as Governor Das has already highlighted his concern over inflation risks. We have no rate cuts forecast for the RBI all year. They have already cut very aggressively (though ineffectively) last year, and the inflation backdrop is not conducive for any further action from them.

It's a different picture for the Bank of Thailand (BoT), where the Thai government still hasn't passed its budget yet after some voting irregularities last time, so the BoT is about all that the foundering domestic economy has to rely on. With Thailand's tourism industry reeling from the coronavirus, we can expect the usually reticent BoT to come to its aid with 25bp of easing this week.

And in the Philippines, we expect their central bank will provide some easing this week, with Governor Diokno continuing to sound a dovish note and suggesting 50bp of easing in total this year. That assessment may seem to conservative if nCov becomes entrenched outside China. Read this for more.

We also get a bunch of China data - Caixin PMIs and industrial profits today. I think it is safe to say that most of these will be ignored as not being up to speed with events on the ground. The PBoC's return to markets after the extended Lunar New Year holiday amounts to CNY1.2tr through its reverse repo operations. The net amount is not as large, as maturing reverse repos will mop up most of that, but it still marks a divergence from historical norms, when the PBoC normally soaked up funds released before the holidays. More could well follow in the coming days.

Author

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

ASEAN Morning Bytes

Anxiety over the 2019-nCov virus continues to spread with the number of reported cases on the rise and the Philippines reporting the first death outside China

EM Space: Market sentiment to remain jittery with China market reopening after the extended hiatus

- **General Asia:** China markets reopen but the 2019-nCov continues to weigh on investor sentiment with more cases reported over the weekend across the globe (see also here for more detail). Meanwhile, the data calendar is relatively loaded with regional GDP data and central bank meetings, while the US reports jobs data on Friday.
- **Thailand:** The Markit manufacturing PMI slipped to 49.9 in January from 50.1 in December, indicating a contraction in manufacturing. Supporting our non-consensus call for the Bank of Thailand to cut its policy rates 25 basis points this week (5 February), the central bank's senior director for economics and policy, Don Nakornthab, warned that weaker tourism due to the coronavirus outbreak and the delayed fiscal 2020 budget would depress growth in the current quarter. We believe growth dipped below 2% in 4Q19 (data due mid-February) and will stay there through the first half of 2020 (read more here).
- **Malaysia:** The Markit manufacturing PMI fell to 48.8 in January from 50.0 in December, indicating a contraction of activity. Bank Negara Malaysia's 25 basis point rate cut in January was a timely policy boost for the economy as overall economic growth is poised to take a hit from the coronavirus outbreak. We now don't rule out more BNM rate cuts this

year.

- **Philippines:** Bangko Sentral ng Pilipinas (BSP) Governor Diokno reiterated that he could cut policy rates as much as 50 basis points in 2020 although he pledged to simultaneously be data-dependent in any of his decisions. His comments come ahead of the BSP policy meeting this week (6 February) where market consensus is for the central bank to trim its policy rate to 3.75% from 4.0%. The Peso could come under renewed weakening pressure on rate cut expectations, while there is now the first 2019-nCov death outside China in the Philippines.
- **Indonesia:** Japan Credit Rating Agency (JCR) upgraded Indonesia's credit rating, citing steady growth and disciplined fiscal management. JCR also tagged a stable outlook on Indonesia, highlighting the economy's resilience to external shocks and credible monetary policy. The IDR was recently hit by the market selloff related to virus contagion but the outlook could help reverse some of the flows. January inflation data is due today with analysts expecting a rise to 2.9% from 2.7% in December.

What to look out for: Manufacturing data from the region, developments on the virus

- Indonesia PMI manufacturing and inflation (3 February)
- Malaysia PMI manufacturing (3 February)
- China Caixin PMI manufacturing (3 February)
- Hong Kong GDP (3 February)
- US ISM PMI manufacturing (3 February)
- Malaysia trade (4 February)
- Hong Kong retail sales (4 February)
- US factory orders (4 February)
- Philippines CPI (5 February)
- China Caixin PMI services (5 February)
- Indonesia 4Q GDP (5 February)
- Bank of Thailand (5 February)
- US trade (5 February)
- US PMI services (5 February)
- Thailand CPI (6 February)
- India RBI meeting (6 February)
- Philippines BSP meeting (6 February)
- Taiwan CPI (6 February)
- US initial jobless claims (6 February)
- Malaysia industrial production (7 February)
- Taiwan trade (7 February)
- US nonfarm payrolls (7 February)

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Thailand: Baht's reversal of fortune

We view 31-33 as a new higher trading range for the USD/THB rate in 2020 and we see it trading close to the top end of this range over the next three months. We are also downgrading our current account and GDP growth forecasts for 2020

Source: Shutterstock

From Asia's best to worst

The Thai baht's (THB) 3.7% depreciation against the US dollar in January represents a reversal of fortune for a currency which had been one of the top performers in the emerging markets in recent years. The 8.6% appreciation in 2019 was the highest among Asian currencies and the second-largest in the emerging market universe (after the Russian rouble). The performance so far this year puts it at the bottom of the pack.

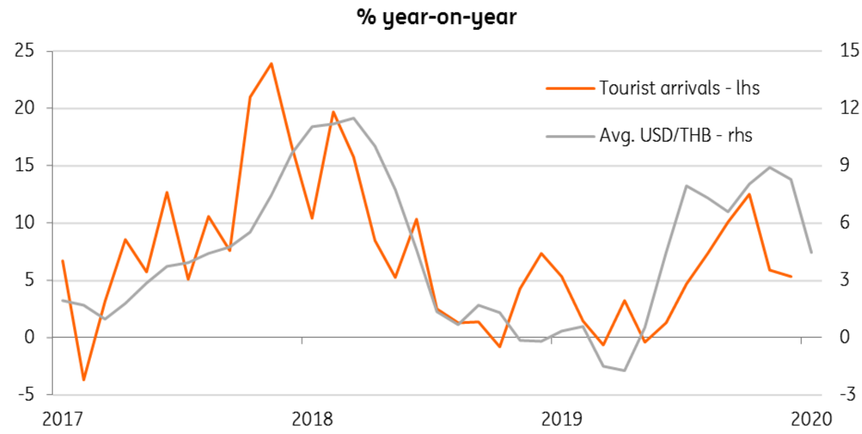
The USD/THB rate appears to have moved to a new higher trading range of 31-33, up from the 30-31 range held in the second half of 2019. We see the pair trading close to the top end of the new range within the next three months. We should see some retracement once the threat from the coronavirus diminishes, something that may not happen until later this year. We have revised our end-2020 view for the pair to 32.50 from 30.5 earlier.

What's changed?

The year started with both the Finance Ministry and the Bank of Thailand (BoT) intensifying their efforts to curb the currency's appreciation. A strong currency is bad for the country's export recovery and also weighs on the tourism sector, which now faces an added threat from the coronavirus. Up until now, tourism was the only really good sector in an otherwise sluggish economy.

Tourism makes up a fifth of the economy and visitors from China alone account for about a quarter of total tourism receipts. A sharp fall in tourism spending will undoubtedly put a big dent in the current account surplus, which has been the main reason behind the Thai baht's appreciation in recent years. Data released today on the balance of payments in December showed the annual current account surplus at $37 billion in 2019 (about 7% of GDP), up from around $28 billion (5.6% of GDP) the year before.

Tourist arrivals drive THB



Source: Bloomberg, CEIC, ING

Depressed growth outlook

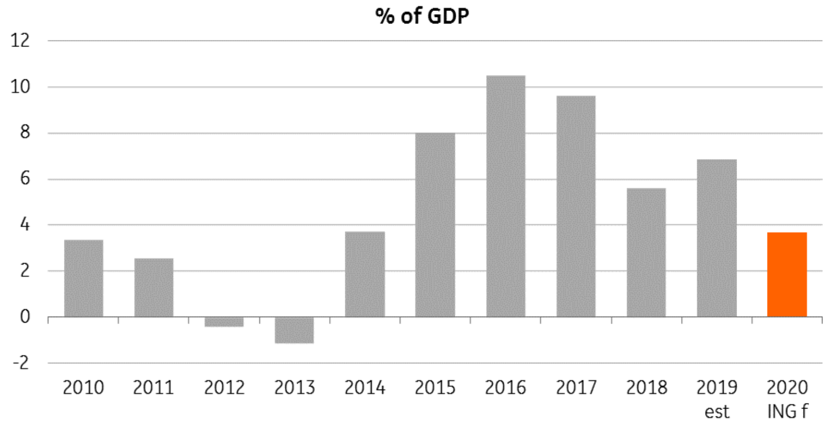
The knock-on effect of the ban on Chinese tourists alone could reduce the current surplus this year to half the level of last year; receipts from Chinese tourists in 2019 are estimated at $18 billion, out of total tourism receipts of $64 billion. Moreover, the impact isn't going to be limited to Chinese tourists, nor is it going to be short-lived. This could mean even more damage to the current account, which will put sustained pressure on the Thai baht throughout this year.

We are cutting our current account forecast for 2020 to 3.5% of GDP from 5.6% earlier. This, together with broader demand weakness, is expected to hold back any recovery in GDP growth this year from the five-year low of about 2.3% estimated for 2019. Hence, we are also cutting our 2020 growth forecast to 2.3% from 3.0%.

The possibility of an extended central bank easing cycle is another factor that could weigh on the currency this year. We expect a 25 basis point BoT policy rate cut to 1.00% at the meeting next week (5 February).

[Thailand: Conditions are ripe for more easing]

Narrower current account surplus in 2020



Source: Bloomberg, CEIC, ING

Author

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com

Disclaimer