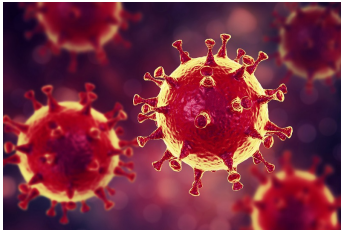


## Good MornING Asia - 3 February 2020

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...

By Nicholas Mapa



#### Thailand

##### Thailand: Baht's reversal of fortune

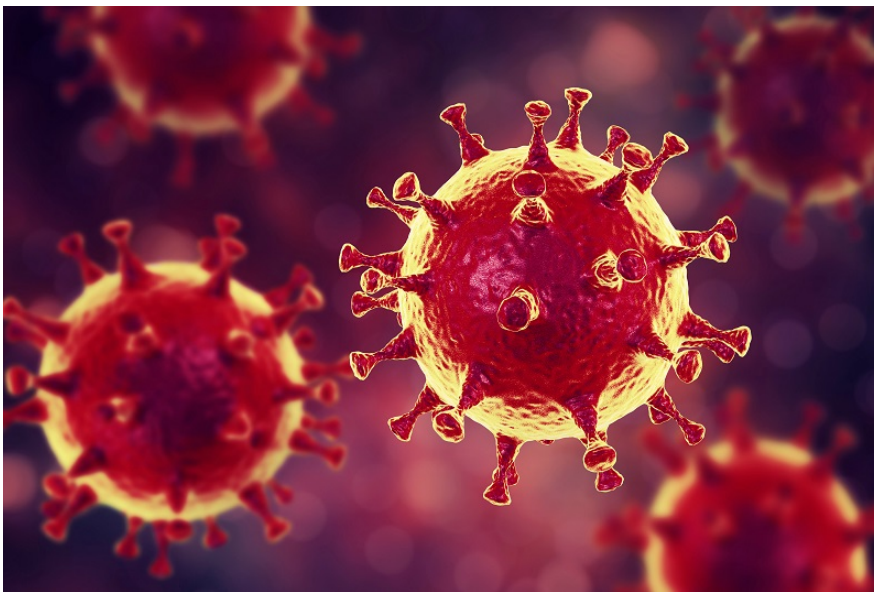
We view 31-33 as a new higher trading range for the USD/THB rate in 2020 and we see it trading close to the top end of this range over the next three...

---

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...



Corona virus

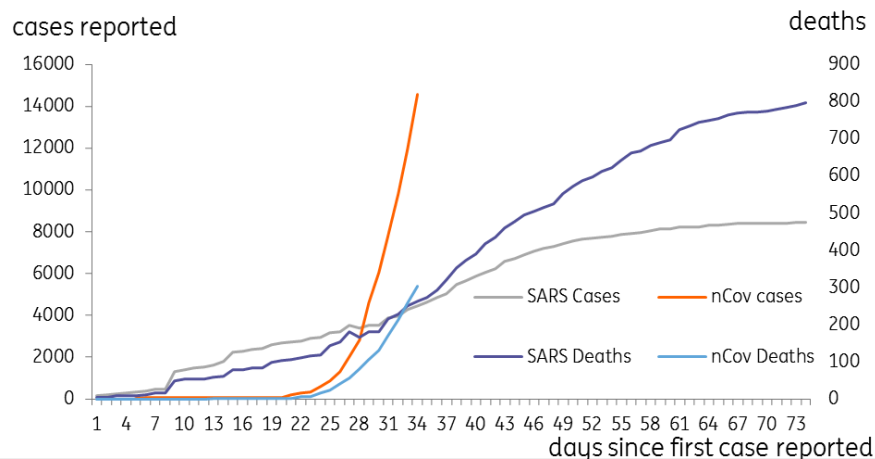
### Some charts using World Health Organization numbers

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

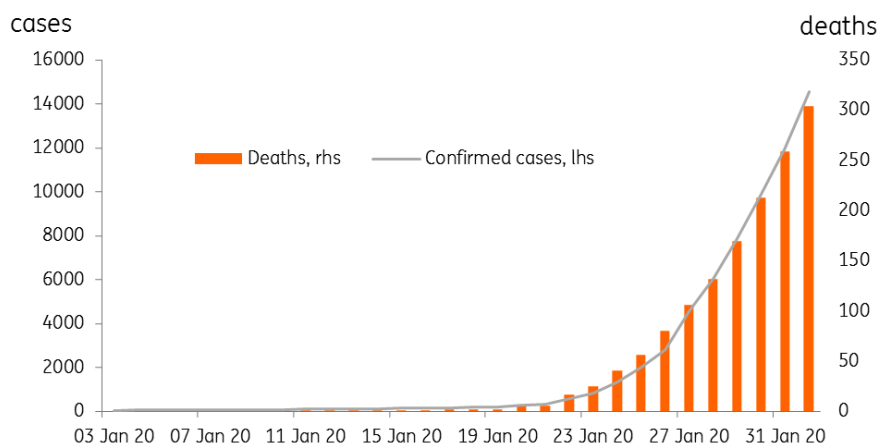
## nCov cases and deaths

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



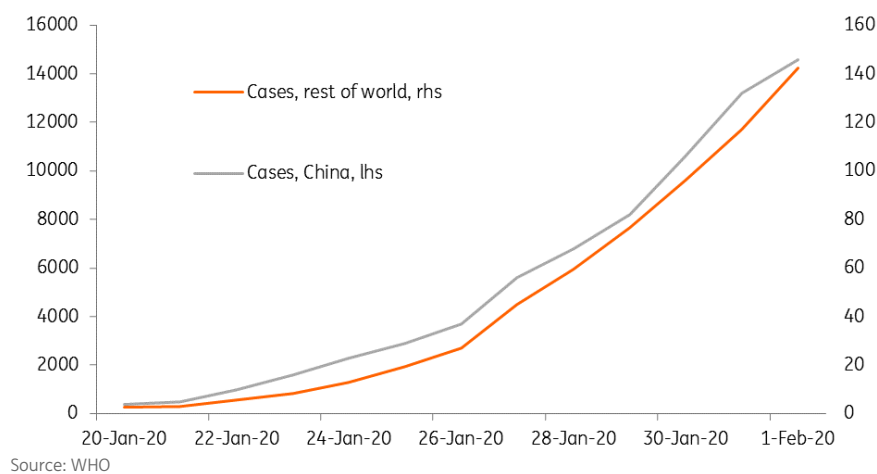
Source: WHO

## 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

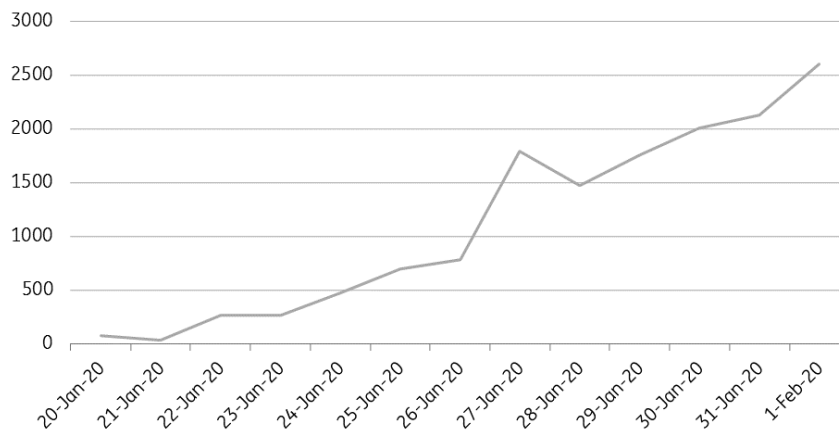


## New cases

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](mailto: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...



### 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](mailto: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...



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.

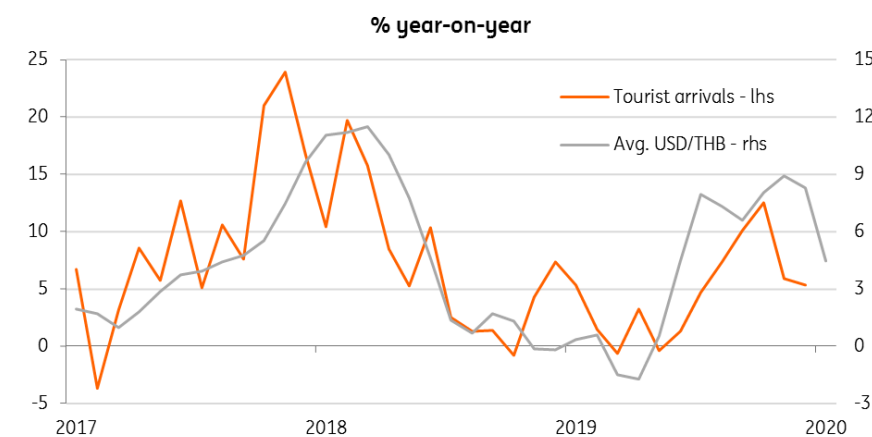
## What's changed?

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

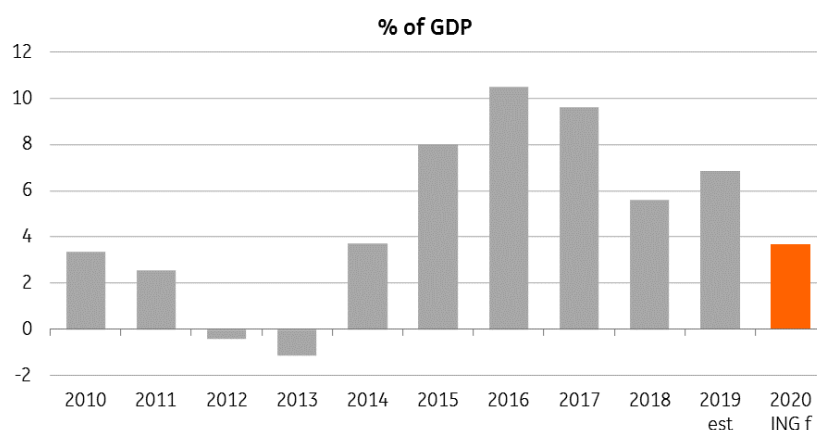
The knock-on effect of the ban on Chinese tourists alone could reduce the current surplus this year to half the level of last year; receipts from Chinese tourists in 2019 are estimated at \$18 billion, out of total tourism receipts of \$64 billion. Moreover, the impact isn't going to be limited to Chinese 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

### 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 <http://www.ing.com>.