

Good Morning Asia - 3 July 2020

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By Robert Carnell



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Data on the turn?

This will be a short note - and the main reason I am writing anything at all today is to direct you towards [James Knightley's write up of yesterday's US labour report](#), which has given markets another boost.

In particular, scroll down to have a look at the chart of the Homebase jobs figures, a seemingly new set of figures in the arsenal of US labour market watchers (since my day anyway), and which cover many of the smaller firms that are not covered by the payrolls survey or ADP. Here, the news is not very good, with recent re-opening rollback actually leading to some further joblessness, not just a slowdown in the gains. A similar story is being told by the continuing unemployment claims figures, which drifted higher over the latest week.

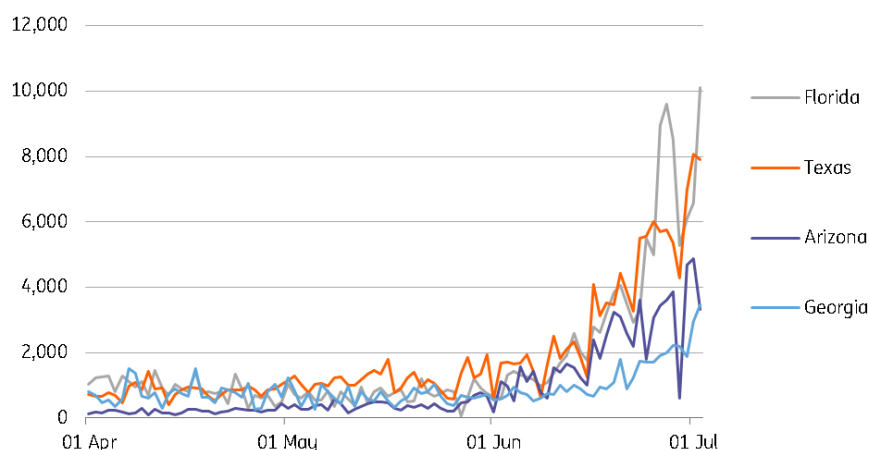
The main point of this is to say that the positive economic momentum seen in the data and caused by the re-opening of the economy, could be running out of steam. And in some areas, it

may actually be turning back on itself. If the re-opening is what has been powering the market recovery, we might well consider its implications for the weeks ahead if data now starts to soften.

Infection upsurge

In the background of all of this is the Covid-19 new daily case figures, which topped 50,000 for a second consecutive day. While the new daily death trend remains on a downward slope, I expect markets to turn a blind eye to this. But it will become much harder to do this if new daily cases transform after a suitable lag into new daily deaths, as has been typical during this pandemic. Better ways of treating Covid-19 may be helping flatten the death trajectory, and the coming week will most likely show us if we have grounds for concern or not. The 4 July Independence Day celebrations may provide a new source of rising infections though, if social distancing measures are not adhered to, including mask-wearing.

US Covid-19 cases - new daily cases (selected states)



Source: CEIC
Covid-19 Florida etc

Asia day ahead

Most of the world will be releasing service sector PMI data today if it has not already done so.

Australia has already released its CBA services PMI, which at 53.1 indicates that despite the Covid-19 problems in Victoria, the reopening in the rest of the country continues to allow recovery, even if at a fractionally slower pace than last month (previous PMI was 53.2).

Prakash Sakpal picks up some of the releases from the ASEAN region:

Singapore: June's manufacturing PMI and May retail sales are today's data line-up. The reopening of the economy from the Covid-19 circuit-breaker should nudge the PMI higher. However, as in most Asian economies, we don't see it crossing the 50 threshold for expansion just yet. The PMI loosely tracks year-on-year GDP growth, which we forecast slumping to a record -9.2% YoY in 2Q.

Private consumption will be the main expenditure-side drag on GDP, as the retail sales data should stress. We are looking for a 52% YoY fall in sales, steeper than the 40.5% fall in April. Supermarket sales should continue to outperform non-essential consumer spending of all sorts, while big-ticket items like cars should remain a dominant pull on the downside, as also evident from the more than 90% YoY plunge in new registrations in May.

Thailand: June CPI inflation is due today. Relaxation of Covid-19 restrictions and return of pent-up demand underpins the consensus of slightly less negative inflation (-3.1% YoY vs. -3.4% in May). The risk is tilted on the downside though, with high base effects likely pushing food inflation into negative territory. Housing and transport prices have been the other sources of falling inflation recently and they remained in play in June. We expect inflation in the rest of the year to stay around -3%. There isn't any easing space left for the Bank of Thailand though.

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ASEAN Morning Bytes

US jobs numbers to lift sentiment on Friday with investors looking to China Caixin PMI reports for further direction



EM Space: Positive US jobs report to boost sentiment for now

- **General Asia:** Market sentiment may improve on Friday with investors reacting to the US jobs report although the sustained acceleration in new infections in US states could reverse this trend with select lockdown measures reinstated in hotspots. On the geopolitical front, the US Senate passed along the bill that supports sanctions on Chinese officials for human rights violations to Trump for his signature as US-China tensions simmer. Investors will get additional direction from China's Caixin PMI figures for release in the morning session with Singapore retail sales and Thailand inflation also slated for release to close out the week.
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- **Indonesia:** Indonesia's parliament will hold a hearing on Monday to discuss the planned "burden-sharing" arrangement between the fiscal sector and the central bank. Finance Minister Indrawati reported that Bank Indonesia (BI) will be asked to purchase a portion of the planned bond issuances to help finance the Covid-19 relief effort at zero interest rates, a move that has raised investors' concerns. IDR was under depreciation pressure over the past few sessions with BI activating its triple intervention to stabilize the currency. We expect concerns over the planned burden-sharing arrangement to hurt market sentiment in the near term with IDR likely facing marginal depreciation with BI capping any sharp weakening trend.

What to look out for: China Caixin PMI and Covid-19 developments

- China Caixin PMI (3 July)
- Thailand inflation (3 July)
- Malaysia trade (3 July)
- Singapore retail sales (3 July)

Asia week ahead: All eyes on Malaysia's central bank meeting

Inflation, manufacturing and trade releases crowd the economic calendar next week in Asia but Malaysia' central bank meeting, where we expect a 50...



Source: Shutterstock

➔ Mixed bag of central policy

With the risk of a second wave of Covid-19 looming, the continued policy accommodation remains the order of the day. While some regional central banks still have room to ease further, others have already reached the limits. We look for this divide in the central bank decisions due next week in Australia and Malaysia.

We forecast the Reserve Bank of Australia leaving rates on hold, and we're not alone in this view. There is a unanimous consensus behind this view, especially as the policy rate is currently

sitting at an all-time low of 0.25% from where it has no room to fall further. The RBA's Governor Philip Lowe has recently ruled out negative rates and we think he will stick to that. And his deputy, Guy Debelle suggests they are ready to do more quantitative easing if circumstances warrant.

We think Malaysia's central bank will cut rates by 50bp next week

So, all the action is likely to take place at Malaysia's central bank meeting. The Bank has cut the overnight rate by a total 100 basis point so far this year to 2.00% - also an all-time low. The consensus for next week is split between 'more cuts' and 'on-hold' outcomes, and there is a further split within the rate-cut camp on a 25bp or a 50bp cut. We believe a 50bp cut is on the table next week.

The Covid-19 lockdown has thrown the Malaysian economy into the worst recession in decades. The negative CPI inflation (-2.9% YoY in the last two months), has left the real rate as one of the highest in Asia, offering scope for another rate cut in the nominal rate. A timely dose of easing, while there is room for it, will go some way in shoring up domestic demand, though the overall recovery will still hinge on the external factors, given the economy greater reliance on exports and tourism.

Therefore, we see no reasons why the central bank should take a pause next week. On the contrary, we believe the easing cycle has more room to run with our forecast of a total 100bp of rate cuts this quarter.

Slow growth, low inflation

Inflation, manufacturing, and trade release dominate the data pipeline next week.

China, Taiwan and the Philippines report CPI inflation for June. The release of the pent-up demand and continued supply chain disruption might cause pick-up in inflation in some countries, though we don't anticipate a significant drift away from the subdued inflation trend in place so far this year.

Taiwan and the Philippines report trade data for June and May respectively. The obvious focus here will be on export performance. So far this year, Taiwan's exports have been the best performers in Asia (up 1.5% YoY year-to-date) and the Philippines's the worst (down 16.5%). We should see this north-south performance gulf prevail.

Lastly, industrial production releases in India and Malaysia for May will help to gauge the GDP performance of these countries in 2Q20. Besides weak domestic demand due to Covid-19 restrictions, a sharp plunge in exports in May (by 36.5% YoY in India and 25.5% in Malaysia) should have dented manufacturing, supporting our view of a double-barrel rate cut next week and more monetary easing from India's central bank this quarter.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Monday 6 July					
Hong Kong	0130	Jun Nikkei PMI	-	-	43.9
Indonesia	-	Jun BI consumer confidence index	74.2	-	77.8
Tuesday 7 July					
China	-	Jun Forex Reserves (US\$bn)	3200.0	-	3101.7
Hong Kong	-	Jun Forex Reserves (US\$bn)	-	-	442.3
Indonesia	-	Jun Forex Reserves (US\$bn)	130.9	-	130.5
Kora	-	May Current A/c Balance (US\$bn)	-100.0	-	-3124.3
Malaysia	0800	Overnight Policy Rate	1.5	2.0	2.0
	0800	Jun 30 Forex reserves- Month end (US\$bn)	-	-	102.8
Philippines	0200	Jun CPI (YoY%)	2.3	1.9	2.1
	-	Jun Forex reserves (US\$bn)	93.9	-	93287.5
Singapore	-	2Q A GDP (Q) (YoY%)	-9.2	-	-0.7
	-	2Q A GDP (QoQ Annualised %)	-30.6	-	-4.7
Taiwan	0900	Jun Exports (YoY%)	-3.0	-	-2.0
	0900	Jun Imports (YoY%)	-8.7	-	-3.5
	0900	Jun WPI (YoY%)	-9.4	-	-11.6
	0900	Jun CPI (YoY%)	-1.0	-	-1.19
Thursday 9 July					
China	0230	Jun PPI (YoY%)	-3.6	-	-3.7
	0230	Jun CPI (YoY%)	2.4	-	2.4
Friday 10 July					
China	-	Jun Aggregate finance (Yuan bn)	3200.0	-	3190.7
	-	Jun Financial institution loans (Yuan bn)	1600.0	-	1482.1
	-	Jun Money supply (M2) (%YoY)	11.1	-	11.1
India	1300	May Industrial production (YoY%)	-38.0	-	-55.5
Malaysia	0500	May Industrial production (YoY%)	-30.0	-	-32.0
Philippines	0200	May Trade balance (US\$mn)	-2670.0	-	-499.0
	0200	May Exports (YoY%)	-43.1	-	-50.8
	0200	May Imports (YoY%)	-58.7	-	-65.3

Source: ING, Bloomberg, *GMT

China: Covid-19 adds pressure to exports

Domestically-driven growth has been faster than foreign-driven exports and manufacturing. It seems that occasional Covid-19 clusters have not disrupted...



Source: Shutterstock

Covid-19 creates hot and cold of the Chinese economy

The Chinese economy shows domestically-driven growth, but an external demand drag.

Domestically, the government has continued to promote more research and development on advanced technology so that it can achieve self-reliance in the most advanced semiconductor chips in the coming years. Most of the growth we see is around this sector.

Some stimulus money has flowed into the real estate market as shown by the increase in land sales fees. Though this is not ideal, it shows that there are still people in good financial shape. They are willing to invest and spend, which at least provides some short-term support for the economy. In the longer-run, this means that Covid-19 has widened the wealth gap in China. As not all the stimulus money has found its way into infrastructure projects, we see little support from infrastructure to economic growth.

The pain point of the Chinese economy are small manufacturers, and they usually produce for small exporters

Although there are still some occasional Covid-19 clusters in China, they have quickly been brought under control by semi-lockdown practices. As such, those cluster cases have not disrupted the economy. We see that recovery in consumption continues albeit slowly.

But when it comes to foreign demand-related industries, the economic picture is different. Covid-19 cases have increased overseas, and export orders continued to shrink on a monthly basis in June as shown by the PMI index. This means that China's exports and export-related manufacturing and service activities (e.g port-services) will continue to be under pressure.

The pain point of the economy are small manufacturers, and they usually produce for small exporters. These two groups are expected to face an increased chance of a shutdown. Even though the People's Bank of China set up an innovative re-lending programme for SMEs, they might not be willing to borrow if they can't see orders coming.

What we expect from fiscal and monetary policy in 2H20

The central government will continue to put a lot of focus on stimulating the technology industry in the second half of the year. This is good for long-term growth.

But technology advancement takes time, so this is not a strategy for short-term growth. We expect that infrastructure projects will be increasingly important in supporting the economy in the second half.

We are sceptical on further broad-based monetary easing. There is a chance that the central bank believes that liquidity is ample as the front-end of the interest rate curve is already low.

We are sceptical on further broad-based monetary easing. The government has stated that a cut in the required reserve ratio (RRR) could help the economic recovery. But there has been no action from the central bank since the government made that statement. There is a chance that the central bank believes that liquidity is ample, as the front-end of the interest rate curve is already low. The PBoC has cut re-lending rates by 25bp for small firms and the agricultural sector, and made a similar cut in the rediscount rate. These actions are not expected to move the overall interest curve. And therefore further cuts should only be for a targeted purpose.

3M SHIBOR has fallen to around 2% at the end of June (even though liquidity is usually tight at half-year end, the interest rate has not jumped a lot) from 3% at the end of 2019. And it is well known that the PBoC does not like ultra-low interest rates.

As such, we have revised our PBoC policy forecast to no more rate cuts for the rest of 2020. This may change if there is a large outbreak of Covid-19 in China or a sustained outbreak in the rest of the world that hurts the economy - similar to the situation back in February/March this year.

Our GDP growth forecast remains unchanged at -1.5% for 2020.

Asia: India and Indonesia riding up the Covid-19 curve

First China, now India and Indonesia – two more of Asia's largest economies face their worst recession in decades. But the divide in the...



Source: Shutterstock

Factory workers in India queue at Kapashera border after local police stopped them from crossing amid the lockdown on May 18, 2020 in Gurugram, India.

567k Covid-19 cases in India

As of 29 June

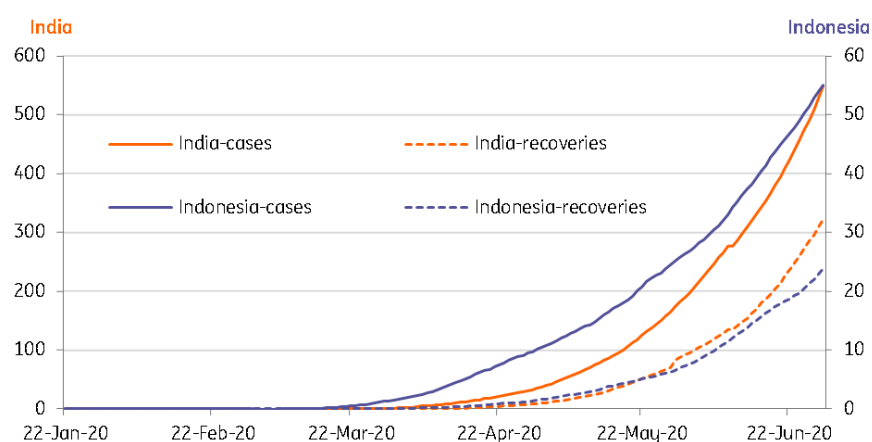
Riding the Covid-19 curve

More than three months since they reported their first confirmed cases, India and Indonesia, the world's second and fourth most-populous countries, show no signs that their respective Covid-19 outbreaks are subsiding.

India is now the [fourth worst-affected](#) country in the world with 567k infections. Indonesia, with 55k officially recorded cases, sits well behind in 29th position but is among the worst affected in Asia. It took less than a month for cases in both countries to double to their present count. Large population size, poor healthcare infrastructure, weak testing and isolation efforts, and ineffective

policies have all helped the spread of the virus in both countries.

Covid-19: Rapid infections, tepid recovery ('000)



Source: Worldometers

Note: Data as on 29 June.

Wasted lockdowns

India was among the first countries in Asia to begin a nationwide lockdown on 25 March when officially recorded cases touched 500. But lockdown implementation was chaotic; announced just hours before it started, and dragging on with four extensions from the initial three-week phase until end-June.

Despite reportedly being one of the strictest in the world, India's lockdown has failed to break the Covid-19 chain. Undermining it was the migrant crisis – workers from largely unorganised sectors in big cities moving back to their native states, many of whom reportedly died during the journey, whilst survivors carried the disease back to their home towns and villages. Large slum dwellings in cities like Mumbai turned out to be fresh breeding grounds for the virus. This, combined with the country's strained healthcare system, leaves the true number of infections, recoveries, and deaths in India in question.

A weak economy will be the authorities' argument against renewed lockdowns in both India and Indonesia

Indonesia may not appear as bad as India, but the true extent of the outbreak is also debatable, and even the official spread of the virus remains fast (see figure).

Indonesia started its movement restrictions late. The government pushed back on strict lockdown measures, and instead opted for partial restrictions on mobility which were relaxed by June for most regions given the urgency of mitigating the negative economic impact.

With Indonesia's recovery rate a little over 40%, there is no end in sight for the first wave of their outbreak. And in India, with the seven-day average of daily new infections running at 17k, it is probably only a matter of time before they move up into third place globally for total officially

recorded cases, ahead of Russia. That said, we think a weak economy will be the authorities' argument against renewed lockdowns in these countries.

2020 – a write off year

Nearly a whole quarter of economic inactivity in 2Q20 is paving the way for the steepest GDP falls in decades. We expect close to -8% year-on-year falls in India and -5% for Indonesia.

It's looking so bad, that the Indian statistics authority recently had to suspend releases of some economic indicators like the CPI and industrial production on the grounds of distortion from the lockdowns. However, a record low in the manufacturing PMI (30.8 in May) and crashing exports (-37% year-on-year in May after -60% in April) hint at the damage. So too does an estimate by a local think tank which put the unemployment rate at more than 20%.

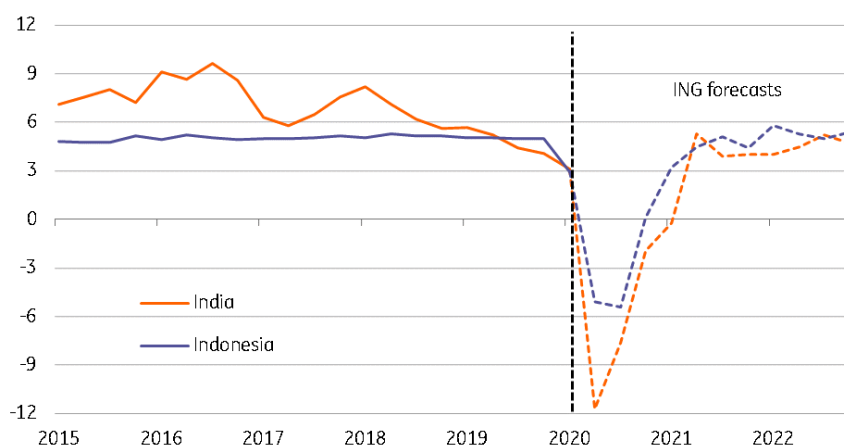
We have cut our forecast of India's GDP growth in the current fiscal year to -5.2% from -2.1%.

The five most affected Indian states (Maharashtra, Delhi, Tamil Nadu, Gujarat and Uttar Pradesh) make up 43% of India's GDP. Recovery here will hinge on the return of a large number of migrant workers, though not all of them are likely to be reabsorbed back into disrupted supply chains, while weak demand continues to hinder activity.

Meanwhile, resurgent food inflation resulting from supply disruptions and panic buying, and high fuel prices due to recent hikes in excise duty are pressuring CPI inflation. We have cut our forecast for India's GDP growth in the current fiscal year to -5.2% from -2.1%, but maintain our inflation forecast at 4.3%.

In Indonesia, data also points to a broad-based economic slowdown, with retail sales falling sharply, by 11.8% in April, and the manufacturing PMI down to 28.6 in May, prompting further cuts to the government's still probably optimistic expectation for GDP this year to between -0.4% and 1.0%. We forecast a contraction of -1.9%.

Crashing GDP (% year-on-year, quarterly data)



Source: CEIC, ING

Note: Dotted parts are ING forecasts.

Policy constraints

Tight public finances limit the availability of fiscal support. India's big-bang 10% (GDP equivalent) stimulus was heavy on structural reforms. That's helpful over the longer-term but doesn't provide much immediate help for the economy. The real fiscal thrust comes to just 2.6% of GDP. It's a little better in Indonesia, with a roughly 3.5% real GDP thrust in a 4.2% total package.

Central banks in both countries have been responding to the urgency of accommodation though. In addition to liquidity boosting measures, the Reserve Bank of India has cut the policy rate by a total of 115 basis points so far this year while Bank Indonesia has cut its rates by 75bp. The doors are open for further easing.

The divide in the markets' perception of post-Covid-19 prospects for the two economies is probably best reflected by the performance of their respective currencies -- the Indonesian rupiah is one of the best performers in the emerging markets space, while the Indian rupee has been one of the currencies appreciating the least since the emerging market rally started in April.

Trade data don't ruffle AUD

May trade figures from Australia beat the consensus but had little impact on the AUD as the trade surplus remained roughly unchanged



-4% MoM

Better than expected

May Exports

-11% in April

Export decline slows, as do imports

If the May export figures continued to decline, they were matched by a similar fall in imports, leaving the overall trade balance roughly unchanged, and at a very healthy AUD8025m. While this was a little lower than the consensus AUD9bn forecast, this can't be portrayed as a bad result, with the ongoing decline in exports and imports less severe than the market view. Moreover, it is worth reminding ourselves that Australia has not always run trade surpluses, and it is only really since the end of 2016 that this has been the case (one of the arguments for a structurally stronger AUD). So to continue to do so during this period of extreme global and domestic stress is not a bad achievement.

Overall, exports were still weaker than in April, coming in at just AUD35,742m (down from AUD47,346m). But the big drop seems to have been in April, and June figures may see some

increases in absolute terms, helping the year-on-year growth rate to crawl back up towards zero.

By country, there were only two destination standouts showing increased month-on-month exports, reflecting those economies that have been quick to get on top of their Covid-19 outbreaks, China, and New Zealand.

By commodity, iron ore bucked the trend with gains, helping to offset month-on-month declines in all the other major commodity export groups. China's slow but continuing recovery could help to lift some of the other commodity groups in June.

AUD shrugs off data

Following this release, the AUD staged a brief rally towards 0.6930, before giving up its gains, dropping, and then recovering back to be almost unchanged at just under 0.6920. With the RBA coming close to maxing out on stimulus, the principal driver for the AUD in the coming days and weeks will likely be big swings in global sentiment, rather than marginally changing domestic data like this.

Currently, the bleak newsflow out of the US on Covid-19 surges and re-closures is being netted out by some better domestic economic data, and hopes for vaccine progress. Until this changes, big moves in the AUD are difficult to foresee.

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