Good MornING Asia - 3 June 2020

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In this bundle

Some more irrelevent data

At the risk of wasting everyone's time, many non-manufacturing indices are released today, as well as Australian GDP and US labour market data, but probably none of it will make much difference to markets

My colleague in the US, whose notes I regularly link here, was scuttling for safety last night in NY as gangs of hammer-wielding youths roamed his neighbourhood looking for juicy retail looting opportunities in the flat-iron district of Manhattan. Judging by the FT article I read on waking this morning, they found plenty. Riots, curfews and some fairly mediocre coronavirus case numbers don't seem to be making any difference to the market mood, and I am beginning to wonder what will.

Today, the US, as elsewhere including some of the economies in our own Asia region, will release service-sector purchasing manager indices. These are liable to be dreadful.

We've already had the data for Australia, and it would be accurate only in a directional sense to say that these showed an improvement, with the final May index coming in at 26.9. although admittedly up from April's 19.5, it equates to a still frightening speed of contraction in this sector, which clearly remains a long way from stability. That would be indicated by a reading closer to 50. First-quarter Australian GDP data at this point in time can probably be relegated to a historical curiosity. They are going to show a contraction, just how big is the only question, and not one that markets will likely worry themselves about too much.

Maybe this will also be the reaction to Friday's US jobs figures? Today, the US releases ADP labour market data. This data is about the only vaguely helpful predictor for Friday's non-farm payrolls series. The consensus view is for a further eight million non-farm job losses and the unemployment rate to rise to within a whisker of 20%. But I would not at this stage put any money on opening my screens next Monday morning to see equities in the red. That just doesn't seem to happen any more.

In fact, it appears we have entered a world where, whatever horrors are thrown at the economy, the expectation is that sufficient fiscal and monetary firepower can and will be thrown at the problem to make it go away. I think that is a fantastically naive position to take. The next few months should show whether or not I am right.

Asian data releases today

(From Prakash Sakpal)

Singapore: The manufacturing PMI for May is due today. Unlike big PMI bounces elsewhere in the region from their all-time lows reached in April, we don't see Singapore's PMI moving much in either direction from its 44.7 reading in April. The index has been below 50 since February, signifying contraction. But there has been a dichotomy between the PMI data and the hard data on output, given the lopsided recovery dominated by pharmaceuticals. Everything else is weak and an accelerated GDP contraction in 2Q is still inevitable (ING forecast -6.8% YoY).

Thailand: Titanun Mallikamas, an assistant governor of the Bank of Thailand sees the current account to be close to balance in the rest of the year, as weak tourism receipts offset persistent surplus from goods trade. The cumulative current surplus of $8.9 billion in the first four months of the year is $5 billion narrower than a year ago, thanks to increasing outflows on the services side. Narrowing current surplus remains a headwind for THB appreciation ahead, though the currency has been on a steady appreciation path since April and has recovered almost half of the 10% loss incurred in the first quarter.

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ASEAN Morning Bytes

Market players continue to focus on economic recovery even as US-China tensions remain elevated

EM Space: Optimism over reopening outweighing risks

- **General Asia:** Sentiment will likely be driven by optimism over economies reopening across the globe after respective lockdowns. Risks remain elevated, however, with US-China tensions brewing and with the civil unrest in the United States which could tip the balance of sentiment back to risk aversion. Meanwhile, widespread protests in the US (and around the world) could spark a second wave of Covid-19 infection with social distancing largely being ignored during the demonstrations. Economic data scheduled on Wednesday focuses on PMI services, which is the sector of the economy most affected by lockdowns and Covid-19, and US jobs data out later in the evening.
- **Singapore:** The manufacturing PMI for May is due today. Unlike some big PMI bounces elsewhere in the region from their all-time lows reached in April, we don't see Singapore's PMI moving much in either direction from its 44.7 reading in April. The index has been below 50 since February, signifying contraction. But there has been a dichotomy between the PMI data and the hard data on output, given the lopsided recovery dominated by pharmaceuticals. Everything else is weak and an accelerated GDP contraction in 2Q is still inevitable (ING forecast -6.8% YoY).
- **Thailand:** Titanun Mallikamas, an assistant governor of the Bank of Thailand, sees the current account as being close to balance over the rest of the year, as weak tourism receipts offset a persistent surplus from goods trade. The cumulative current surplus of $8.9 billion in

the first four months of the year is $5 billion narrower than a year ago, thanks to increasing outflows on the services side. The narrowing current surplus remains a headwind for THB appreciation ahead, though the currency has been on a steady appreciation path since April and has recovered almost half of the 10% loss incurred in the first quarter.

- **Indonesia:** Indonesia reported that inflation slipped to 2.2% in May, right on the market consensus and much slower than the April reading as crude oil prices tanked and domestic demand faded during the partial lockdown. Inflation slowed despite a holiday with Jokowi implementing a regional travel ban to prevent the spread of the virus. The benign inflation environment leaves the door open for Bank Indonesia to cut policy rates at the June meeting as IDR finds its footing with foreign investors returning to the bond market.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) reported that the balance of payments (BoP) for March remained in surplus of $448 mn, bringing the year-to-date BoP to a slight deficit of $68 mn. Financial account flows driven by foreign borrowings had helped offset a current account deficit and we expect this trend to continue for the rest of the year. The Department of Finance has announced up to $7 bn worth of foreign loans for the year to help fund the Covid-19 response which will likely shore up the BoP with the current account slipping further into deficit as remittance flows fade.

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

- Hong Kong PMI manufacturing (3 June)
- China Caixin PMI services (3 June)
- Singapore PMI (3 June)
- US factory orders, ISM non-manufacturing PMI and ADP employment (3 June)
- Malaysia trade (4 June)
- US trade (4 June)
- Philippines inflation (5 June)
- Thailand inflation (5 June)
- Singapore retail sales (5 June)
- Taiwan inflation (5 June)
- US non-farm payrolls (5 June)
- Regional GIR (5 June)

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Indonesia: Inflation dips in May, leaves door open for rate cut in June

Price gains slowed in May to 2.2%, as demand was likely depressed during the partial lockdown

Source: t-bet

2.2% May CPI inflation

As expected

May inflation slips to 2.2% as expected

Prices rose 2.2%, in line with expectations and ING's forecast, as cheaper crude oil and weaker domestic demand kept a tab on price pressures. Indonesia implemented "large scale social restrictions" and a travel ban to help mitigate the spread of Covid-19 and these measures may have contributed to limiting demand for commodities as most Indonesians were asked to shelter in place. The month of May is traditionally a month of faster inflation due to a holiday but the restrictions on movement kept price gains at 2.2%.

IDR stability key to BI decision

The benign inflation environment coupled with a likely contraction in 2Q GDP will likely convince Bank Indonesia (BI) to finally pull the trigger on a rate cut at the 18 June meeting. BI Governor Perry Warjiyo has kept his accommodative stance, hinting at probable monetary easing, with the stability of the rupiah as a key variable for such action. We continue to expect a policy rate cut from BI in the near term, especially as IDR has managed to appreciate by 2.9% since May, with foreign investors returning to the bond and equity markets.

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