

## Good Morning Asia - 3 June 2020

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##### **Some more irrelevant data**

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##### **ASEAN Morning Bytes**

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



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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

## Some more irrelevant data

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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.

### Author

#### **Alissa Lefebre**

Economist

[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

#### **Deepali Bhargava**

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

#### **Ruben Dewitte**

Economist

+32495364780

[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

#### **Kinga Havasi**

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

#### **Marten van Garderen**

Consumer Economist, Netherlands  
[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

**David Havrlant**  
Chief Economist, Czech Republic  
420 770 321 486  
[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

**Sander Burgers**  
Senior Economist, Dutch Housing  
[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

**Lynn Song**  
Chief Economist, Greater China  
[lynn.song@asia.ing.com](mailto:lynn.song@asia.ing.com)

**Michiel Tukker**  
Senior European Rates Strategist  
[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

**Michal Rubaszek**  
Senior Economist, Poland  
[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

**Stefan Posea**  
Economist, Romania  
[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**  
Sector Strategist, Financials  
[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**  
Senior Sector Strategist, Real Estate  
[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**  
Research Assistant, Energy Transition  
[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**  
Sector Economist, TMT & Healthcare  
[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**

Sector Economist

[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**

Commodities Strategist

[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

## ING Analysts

**James Wilson**

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**

Digital Editor

[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

**Coco Zhang**

ESG Research

[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**

Senior Sector Strategist, TMT

[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**

Senior Economist, Services and Leisure

[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**

Sector Strategist, Financials

[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**

Junior Economist

[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**

Senior Economist, Germany

[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**

Senior Editor and Supervisory Analyst

[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**

Credit Strategist

[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**

Senior Economist, Poland

[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Oleksiy Soroka, CFA**

Senior High Yield Credit Strategist

[oleksiy.soroka@ing.com](mailto:oleksiy.soroka@ing.com)

**Antoine Bouvet**

Head of European Rates Strategy

[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**

Global Head of Sector Research

[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**

Senior Sector Economist, Industry and Healthcare

[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**

Senior Sector Economist, Transport and Logistics

[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**

Sector Economist

[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**

Senior Economist, Philippines

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

**Egor Fedorov**

Senior Credit Analyst

[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**

Consumer Economist

[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**

Senior Sector Economist, Energy

[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**

Head of Corporates Sector Strategy

[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**

Behavioural Scientist

+31(0)611172684

[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**

Senior Sector Strategist, Financials  
[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**  
Senior Sector Economist, Food & Agri  
[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**  
Senior Economist Construction & Team Lead Sectors  
[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klok**  
Senior Economist, Netherlands  
[marcel.klok@ing.com](mailto:marcel.klok@ing.com)

**Piotr Poplawski**  
Senior Economist, Poland  
[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

**Paolo Pizzoli**  
Senior Economist, Italy, Greece  
[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**  
Chief Economist and Global Head of Research  
[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**  
Senior Macro Economist  
[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**  
Head of Global IFRS9 ME Scenarios  
[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**  
Head of Financials Sector Strategy  
[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**  
Head of Commodities Strategy  
[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

**Rafal Benecki**  
Chief Economist, Poland  
[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**



Senior Economist, Belgium, Luxembourg  
[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**

Senior Economist, Hungary  
[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**

Senior Economist, Germany, Global Trade  
[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**

Senior Data Analyst, Netherlands  
[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**

Chief Economist, Romania  
+40 31 406 8990  
[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**

Chief Economist, Turkey  
[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**

Chief Economist, Greater China  
[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**

Writer, Group Research  
+44 20 7767 6209  
[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**

Regional Head of Research, Americas  
[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**

Chief International Economist, US  
[james.knightley@ing.com](mailto: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](mailto:martin.van.vliet@ing.com)

**Karol Pogorzelski**

Senior Economist, Poland

[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro

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

**Viraj Patel**

Foreign Exchange Strategist

+44 20 7767 6405

[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**

Global Head of Editorial Content

+44 (0) 207 767 5331

[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**

Chief Economist, LATAM

+1 646 424 6464

[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**

Economist, Digital Finance

+44 20 7767 5306

[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)

## 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)

### Author

#### Nicholas Mapa

Senior Economist, Philippines

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

# 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.

### Author

#### Nicholas Mapa

Senior Economist, Philippines

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

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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.

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