

Good Morning Asia - 3 March 2020

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By Robert Carnell



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Talking the virus down

The chorus of central banks saying that they “are monitoring the situation closely and stand ready to...” blah, blah, blah...is growing. After Jerome Powell came out last Friday and then was joined by the BoJ's Kuroda on Monday, the ECB's Christine Lagarde has now joined the fray.

Markets seem to be enjoying the rhetoric, with equity markets in the US rallying, and Asian equity futures up this morning.

It is worth pointing out that none of the central banks has done anything more than just say some words yet. And in the background, the number of new Covid-19 cases is rising faster each day. Cases in the US are also growing, with some doctors saying they don't have the kits for testing, which if true indicates that the true count there may be much higher, or be on the cusp of rising further.

I remain sceptical that cuts, even 50bp from the Fed at their March 18 meeting, will do much to alleviate the macroeconomic consequences of a broader outbreak. As I wrote yesterday, the impact for firms is largely a cash flow crisis, not a debt service problem, and rate cuts won't make much difference if your firm can't produce due to supply chain problems, or staffing levels, or

logistical breakdowns associated with virus disruption, lockdown or quarantines.

RBA - a tough call

The RBA is up on the blocks for possible rate action today. We didn't forecast any change when we put our week-ahead forecasts out, though the situation is fast-moving, and we certainly don't rule it out. Plenty of other economists are now changing their minds.

If they don't cut, we anticipate a strong hint of imminent possible future action. But Australia, although hit hard by the China slowdown, has only 33 Covid-19 cases itself, and the China situation itself seems to be resolving.

Also, the RBA also doesn't have an infinite arsenal of ammunition, so might want to wait to use rate cuts for more than just a two-day equity rally. This isn't about "keeping your powder dry", which is a ridiculous concept, it is about making sure you don't waste your last remaining bullets, which might be the case.

It also seems as if the government might be more disposed to finding some money to throw at this crisis, which, in our view, is likely to do more good than any rate cuts. Still, we won't have to wait long to find out, and this decision is becoming far more finely balanced.

SE Asian central banks act where they can

Elsewhere in the region, Bank Negara Malaysia meets to decide rate policy today, and we are expecting a cut from them, more likely now given the political disruptions which means that fiscal stimulus packages that were stitched up and ready to go may now be delayed. [Here is a link to the recent note by Prakash Sakpal on Malaysia's political upheaval.](#)

Yesterday, Indonesia's central bank Governor, Perry Warjiyo, cut the foreign exchange reserve rate requirement for banks from 8% to 4%, which should release about \$3.2bn to the economy. He also promised to intensify intervention to stabilise the bond and foreign exchange markets following recent volatility. While the IDR remains weak, the RRR route remains Warjiyo's most likely source of stimulus rather than rate cuts.

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EM Space: Markets could rally on stimulus hopes

- **General Asia:** Emerging markets may rally on Tuesday with central banks pledging to enact targeted stimulus measures to help respective economies weather the economic impact from Covid-19. Manufacturing data reported on Monday showed the initial ill effects from the virus with most Asian PMI's on a downtrend. On Tuesday, markets will be monitoring the central bank meeting in Malaysia and PMI manufacturing data out from Singapore for additional trading direction.
- **Malaysia:** It's decision day for Bank Negara Malaysia. A sharp slowdown in growth to a decade-low 3.6% in 4Q19 coupled with increased downside risk from the Covid-19 outbreak and, most recently, political uncertainty has strengthened our long-held view of a 25bp rate cut at this meeting, the second cut this year. Governor Shamsiah Yunus has signalled "ample room" to adjust rates given subdued inflation. If so, the earlier the central bank acts, the better it would be to for the economy as political uncertainty clouds prospects for fiscal support any time soon. We don't think this will be the last cut in this cycle. We have pencilled in one more in 2Q20.
- **Thailand:** The Business Sentiment Index plunged to an eight-year low of 44.1 in February from 48.5 in the previous month. The index loosely tracks real GDP growth, signalling a continued slowdown in the economy in the current quarter and beyond. We believe the Bank of Thailand is on track for one more rate cut this month. The THB continued to gain

ground below 31.50 against the USD even as the BoT's new measures to weaken the currency took effect yesterday. Our end-1Q20 USD/THB view remains at 32.80.

- **Indonesia:** Indonesia announced that it had detected two cases of infection in the country while Bank Indonesia Governor Warjiyo indicated that growth in Indonesia can still attain its growth target of 5.4%. The central bank, however, rolled out fresh stimulus to help alleviate tightening liquidity conditions by lowering its foreign exchange reserve requirement ratio to 4% from 8% while also reducing reserves for Rupiah deposits by 50 bps to 4.0%. BI vowed to step up intervention to help stabilize the IDR which has been battered by the recent emerging market rout and we expect BI to remain on hold with regard to policy rates until IDR stabilizes.
- **Philippines:** Economic planning secretary Pernia indicated that growth can be pared by up to a full percentage point should the ongoing coronavirus persist for the rest of the year. Pernia also shared that given the expectations for weaker revenue collection and increased stimulus spending, the government may breach its 3.5% deficit to GDP ratio target for the year. Meanwhile, Bangko Sentral ng Pilipinas (BSP) Governor Diokno shared that he remained open to cutting policy rates by another 25 bps as promised, but that any additional rate cuts on top of that may not be as effective as fiscal spending. Thus, we expect BSP to carry out its 2nd rate cut in May with a 25 bps reduction to the policy rate and refrain from adjusting its stance for the rest of the year.

What to look out for: BNM meeting Covid-19

- Malaysia BNM policy rate meeting (3 March)
- Singapore PMI manufacturing (3 March)
- China Caixin PMI services (4 March)
- Malaysia trade (4 March)
- Philippines inflation (5 March)
- Thailand inflation (5 March)
- US initial jobless claims (5 March)
- Taiwan inflation (6 March)
- US trade balance and jobs report (6 March)

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