

Good MornING Asia - 3 May 2021

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"Sell in May and go away..."

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By Rebecca Byrne

“Sell in May and go away...”

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Source: shutterstock

April ended weak for stocks

Last Friday marked another soft day for equities, though I concede that just because stocks only rose on 1 day out of five last week, isn't exactly newsworthy this close to all-time highs, especially when the declines are pretty marginal.

Still, we are always looking for tentative signals, and there is little sense in pointing them out after they have already done their work. The market was broadly risk-off on Friday, with 10Y US Treasury benchmark yields also down, though only slightly, and falling less than 1bp remain at 1.63%, with higher yields looking more likely than lower to us at this point.

The EURUSD also balked at further EUR gains. there is a slew of stories this morning of analysts pointing to a much stronger EUR later this year, but the market action suggests that investors are having trouble swallowing this story on Europe's accelerating vaccinations and fiscal spending, when the Fed's "patience" story is already being dismissed by many and undermined by comments from some of its own, including Robert Kaplan. Kaplan again suggested that owing to "excesses and imbalances in financial markets" the time had come to start talking about adjusting

the Fed's asset purchases. Much of the market has been talking about this for weeks so for weeks. Our own James Knightley in NY reckons that a taper could start in 4Q21.

Asia FX was split on Friday, with SE Asia mainly in the lead, except for the SGD, which joined the KRW, and JPY in softening.

Data today

The G-7 highlight today is the Manufacturing ISM survey, which is a useful reminder that it is US non-farm payrolls week this week, so we will have a bunch of labour market data to look at between now and Friday ahead of the actual labour market release.

In addition to a ton of Asian manufacturing PMI data today, which could be quite mixed as semiconductor shortages weigh on production, we also have Hong Kong GDP for 1Q21, and Indonesian CPI.

Nicky Mapa has this to say on the Indonesian data: "April inflation will be released today with the market consensus expecting annual inflation for April of 1.5%YoY (was 1.4% in March). With the economy likely still registering negative year-on-year GDP in 1Q21, demand pressures have stayed soft with several regions still under partial lockdown restrictions to limit the spread of Covid-19. March will mark the 10th straight month inflation will be below the 2-4% inflation target of Bank Indonesia (BI) but the central bank will be constrained from trimming policy rates in the near term given the pressure on the IDR.

India election upsets for Modi's BJP

Prakash Sakpal writes this on the latest political news from India: "Against the backdrop of a worsening Covid-19 situation, with "confirmed" daily new infections over the weekend topping 400,000 and confirmed deaths from Covid-19 of about 3,700, results came in from elections in four states and a union territory held in late March. Prime Minister Modi's Bhartiya Janata Party (BJP) lost elections to regional parties in three states (West Bengal, Tamil Nadu, and Kerala), retained its hold in one (Assam), and made some inroads in the union territory Puducherry.

We expect an insignificant market impact from these election results. The release of Markit manufacturing PMI for April looks to be rather more meaningful for investors given that this data provides a glimpse into the economic fallout of the resurgent Covid-19 pandemic over the last month. We see nothing positive here for the INR. In yet more negative news for this currency, the preliminary trade figures for April out yesterday showed the monthly trade deficit widening to \$15.2 billion from \$13.9 billion in March. This comes off a huge 197% YoY export and 166% YoY import surges though these are flattered by a low base from the nationwide lockdowns a year ago. The INR gained some ground last week after a sell-off the previous week but still ended April as Asia's worst performer with a 1.3% loss against the USD -- the only Asian currency to depreciate on a month-end basis. We see no respite from weakness until the Covid-19 situation gets under control, which could take months".

Author

Alissa Lefebre

Economist

alissa.lefebre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havlant

Chief Economist, Czech Republic

420 770 321 486

david.havlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

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

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klokk

Senior Economist, Netherlands

marcel.klokk@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

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

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

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

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com

Asia week ahead: New week, new month – what's changing?

Low base effects, which flatter year-on-year activity growth, should continue to be a key theme as April data sheds light on GDP growth for 2Q21. Regional central banks will try to make sense of all this, though three policy meetings next week in Australia, Malaysia and Thailand should pass as non-events



Source: Shutterstock

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Saturday 1 May					
South Korea	0100	Apr Export Growth (YoY%)	40.0	44.0	16.5
	0100	Apr Import Growth (YoY%)	30.0	31.2	18.8
	0100	Apr Trade Balance (U\$bn)	5.954		4.13
Monday 3 May					
India	0600	Apr IHS Markit Mfg PMI	-		55.4
		- Apr Trade Deficit Govt -USD Prelim	-		13.93
		- Apr Imports - USD Prelim	-		48.38
		- Apr Exports - USD Prelim	-		34.45
Hong Kong	0830	Q1 GDP Advance (YoY%)	5.00		-3.00
Malaysia	0130	Apr IHS Markit Mfg PMI	-		49.9
Indonesia	0130	Apr IHS Markit PMI	-		53.2
		- Apr Inflation (YoY%)	1.5		1.4
		- Q1 GDP (QoQ/YoY%)	-1.0		-2.2
Philippines	0130	Apr Manufacturing PMI SA	50.8		52.2
Singapore	1400	Apr Manufacturing PMI	-		50.8
Taiwan	0130	Apr IHS Markit Mfg PMI	60.5		60.8
South Korea	0130	Apr IHS Markit Mfg PMI	56.6		55.3
	0000	Apr CPI (%YoY)	2.3		1.5
	0000	Apr CPI core (%YoY)	1.2		1
Tuesday 4 May					
China	0245	Apr Caixin Mfg PMI Final	50.8	50.8	50.6
Hong Kong	0930	Mar Retail Sales (YoY%)	46.2		30.0
	0930	Mar Retail Sale Vol (YoY%)	47.0		31.5
Wednesday 5 May					
India	0600	Apr IHS Markit Services PMI	-		54.6
Hong Kong	0130	Apr IHS Markit PMI	-		50.5
Indonesia		- Mar Retail Sales Index (YoY)	-		-18.1
Philippines	0200	Apr CPI (YoY%)	4.7		4.5
Singapore	0600	Mar Retail Sales (MoM/YoY%)	5.6/9.8		-1.6/5.2
Taiwan	0920	Apr Foreign Exchange Reserve	-		539.0
Thailand	0130	Apr Manufacturing PMI SA	-		48.8
	0805	1-Day Repo Rate	0.5		0.5
		- Apr CPI Headline Inflation	2.3		-0.08
		- Apr CPI Core Inflation (YoY%)	0.2		0.09
Thursday 6 May					
China	0245	Apr Caixin Services PMI	-		54.3
Malaysia	0500	Mar Industrial Output (YoY%)	10.5		1.5
	0800	O/N Policy Rate	1.75		1.75
Taiwan	0900	Apr CPI (YoY%)	1.5		1.3
	0900	Apr WPI (YoY%)	8.0		4.4
Thailand	0400	Apr Consumer Confidence Index	-		48.5
South Korea	0000	Mar Current Account Balance (U\$bn)SA	6.8		8.03
Friday 7 May					
China		- Apr Exports (YoY%)	30.9		30.6
		- Apr Imports (YoY%)	43.8		38.1
		- Apr Trade Balance (U\$bn)	38.9		13.8
		- Apr FX Reserves (U\$bn)	3100		3170
		- 1Q21 Current account balance (US\$ bn)	68.9		123.8
Indonesia		- Apr Forex Reserves	-		137.1
		- Q1 Balance of Payments	-		-0.2
		- Q1 Current Account/GDP	-		0.3
Philippines	0200	Mar Exports (YoY%)	14.9		-2.3
	0200	Mar Imports (YoY%)	14.3		2.7
	0200	Mar Trade Balance (U\$m)	-2678.9		-2293
Taiwan	0900	Mar Exports (YoY%)	30.3		27.1
	0900	Mar Imports (YoY%)	18.7		27
	0900	Mar Trade Balance (U\$m)	2.6		3.7

Source: ING, Refinitiv, *GMT

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

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

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klokk
Senior Economist, Netherlands
marcel.klokk@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

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

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

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

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com

China: PMI shows recovery at a slower speed

Recovery in both manufacturing and service sectors continued in China in April. We expect that an export demand recovery will help factory orders and that the May holiday will help the services sector. Both point to a rosy picture. But there are still risks from the technology war and too rapid reform



Manufacturing PMI points to slightly slower growth

China's manufacturing PMI was 51.1 in April, down from 51.9 in the prior month, but still indicates that the sector is growing.

Some production activity will have been affected by chip shortages, e.g. production of home appliances, automobiles, laptops and smartphones. As the chips shortage is expected to last for a few more quarters, there could be continuous rises in the price of semiconductors, which could push up the prices of electronic goods.

New export orders fell to 50.4 in April from 51.2 a month ago, this may reflect a delayed response to the Covid recovery in the US and in Europe. We should see some improvements in export orders as Covid continues to subside in these major export markets.

Services PMI still at high level albeit growing slower, and should go up in May

The service-sector PMI slowed to 54.9 due to a slowdown in real estate activity following tighter controls on home buying in some locations in China. But this could reverse in May as the long holiday is expected to result in more inbound tourism, and boost catering and retail sales.

On real estate activity, the central government would like to shrink the debt level of real estate developers. Big developers have consequently divested assets and repaid some debts. This approach may not apply to smaller developers. The government will allow more homes sales, but with the objective that this does not fuel home price gains. This will mean that property developers with weak cash flow will still be able to raise cash from home sales to repay past debts. So there is a lot of micro-management of housing policies at the city level.

The risk is that if deleveraging is pursued too rapidly, it could trigger a series of defaults. But as I mentioned, these policies are micromanaged, and they can be loosened if there are growing signs of default.

Risk and opportunity

Our GDP 2021 forecast is 8.6%, which looks like very strong growth. But don't forget that the base was low at 2.3% in 2020.

The main risk remains the technology war, which will make it difficult for China to pursue its ambition to expand the economy with the help of advanced technology. This risk is also an opportunity for China to develop its own technology and rely less on other economies. Technology investment will boom in China from now on. This will support future manufacturing and service PMIs.

Author

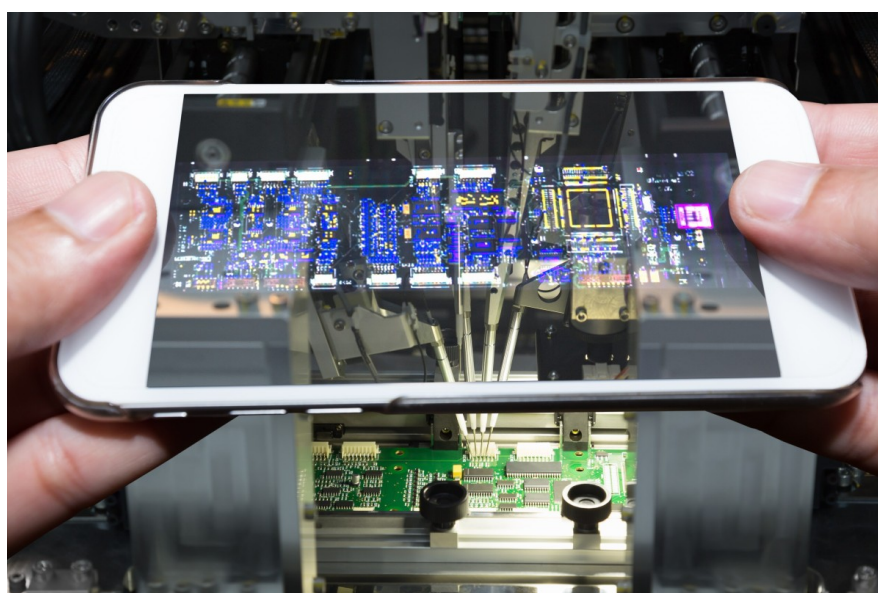
Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Taiwan: Super strong GDP growth in 1Q but chip shortage risk is imminent

GDP in 1Q21 was strong, but that's history. Water shortages have slowed semiconductor production in Taiwan just as global chip shortages are rising. Given that this is such a vital industry for Taiwan, we look at what this means for the economy in the coming quarters



Source: Shutterstock

Strong growth in 1Q21 but that's in the past

8.16% year-on-year GDP growth for the first quarter of 2021 is very encouraging.

This was thanks to strong net export growth, which contributed 4.53 percentage points to GDP growth. Exports alone increased 24.58% YoY, of which electronic parts grew 28.37% YoY.

Consumption only contributed 1.02 percentage points to GDP growth. This shows that consumption demand was mild, partly because employment in the service sector was still affected by Covid, which has limited tourism activities in Taiwan.

Capital formation, including both government and private investment, contributed 2.03 percentage points to economic growth, mostly through investment in 5G infrastructure and equipment.

Overall, the economy still depends very much on exports and mainly on electronic exports. This poses an imminent risk to the economy.

Significant consequences of Taiwan's water shortage

Taiwan's economic growth depends on exports and exports have mainly come from the semiconductor sector. We think that Taiwan's strong economic growth may not last. Water shortages, which are a climate issue that the government can't control, have affected Taiwan's semiconductor chip production. For now, the temporary solution is to dig underground for water used in factories, and at the same time limit water usage by households around those factories.

The possible consequences are:

1. slower production activity growth from the first quarter;
2. slow down in export growth from the first quarter as the output of chips can't increase any more, the best scenario is that output levels stay the same from the first quarter, which is also very difficult to achieve;
3. some production could be moved away from Taiwan to factories owned by Taiwanese companies in the rest of Asia, and Mainland China should benefit from this;
4. without an increase in chip production, global chip shortages will continue, which will push up chip prices and therefore goods that use a lot of chips, e.g. automobiles, smartphones, home appliances, and even lighting (LED uses chips as well).

All of these are negative for GDP growth in the coming quarters for Taiwan.

Forecasts

We have revised our Taiwan GDP forecast for 2021 to 4.9% from 4.3% solely due to the unexpectedly strong growth in the first quarter. We will monitor the chip production and export problem, and the possibility of a downgrade to our forecast is higher than the possibility of an upgrade, which is climate dependent.

Author

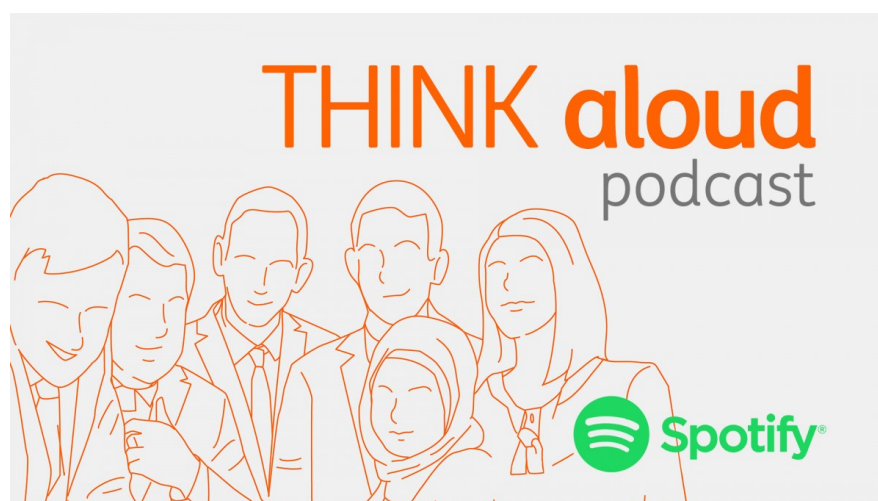
Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Listen: India's devastating second wave

India is in the grip of a particularly cruel second wave that is overwhelming hospitals and testing the endurance of a nation. In this podcast, ING's Prakash Sakpal looks at the latest developments in the pandemic and whether India's economy and markets can weather the storm



With more than 350,000 people now testing positive for Covid-19 every day in India, the country accounts for almost half of all new cases globally. As supplies run out, hospitals have been struggling to meet demand, forcing the government to call in the armed forces for help, while the US and UK have been leading a global effort to stem the crisis. [In this podcast](#), ING's Senior Economist Prakash Sakpal tells Senior Editor Rebecca Byrne why the second wave has been so much more devastating than the first, and what it means for the [economy and markets](#).

Author

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

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