

Good MornING Asia - 3 May 2021

Equity markets ended April on a down note, so the next few days will be instructive as to whether the old "Sell in May and go away, and come back on St Ledgers Day..." adage will hold this year. For the record, this year, St Ledgers Day, 11 September will fall on a Saturday

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“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".

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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

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...



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.

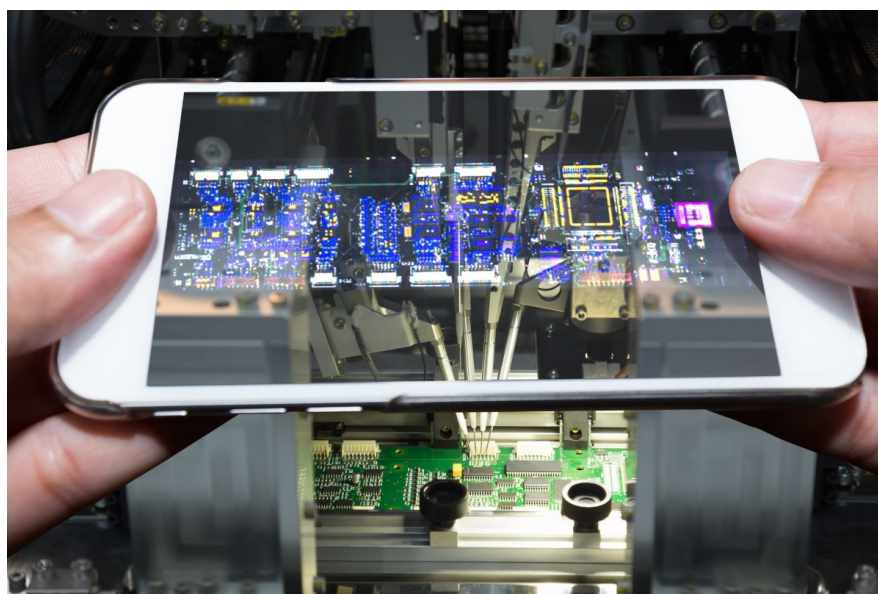
Risk and opportunity

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.

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....



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.

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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](#).

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