

Good MornING Asia - 30 July 2020

Korean business sentiment data from the Bank of Korea show it is not just the domestic economy that is beginning to fire again, exporters are also increasingly benefitting

In this bundle



South Korea

Korean economy strengthens

Korean business sentiment data from the Bank of Korea show it is not just the domestic economy that is beginning to fire again, exporters are also...



FX | China

Hong Kong: Revising GDP down further

Due to more social distancing measures from Covid-19, we are revising downward Hong Kong's GDP for the second half of the year as well as our...

Korean economy strengthens

Korean business sentiment data from the Bank of Korea show it is not just the domestic economy that is beginning to fire again, exporters are also increasingly benefitting



Source: Shutterstock

57 Manufacturing index
BoK survey (August)

BoK's business survey rises strongly

Korea's strong handling of the Covid-19 pandemic and avoidance of widescale lockdowns has given it an advantage in the recovery race, allowing domestic demand to bounce back more strongly than its restricted regional peers. But the latest ("August") [business survey from the Bank of Korea](#) suggests that the good news is now more broadly spread, with exporters also seeing an improvement.

The headline index for manufacturing firms (non-seasonally adjusted) rose to 57 from 51 the previous month, and sub-indices for exporters show the index at a punchy 68, up from 60. We don't have a sector breakdown of this, and my guess is that this is dominated by semiconductor firms. But still, a rise is better than a fall.

Strength in the survey was evident across most indices, with sales, production and new orders all rising, and inventories marginally declining (suggests production gains are sustainable). There was even some suggestion of a return of pricing power, as the sales price index rose fractionally more than the purchase price index. Cash flow indices also improved. The only fly in the ointment was a small decline in the employment index.

Non-manufacturing firms also registered gains, but having been ahead of the manufacturing sector in this recovery, the gains were more muted, even though the level of the index is higher (60, up 1 from 59 the previous month - non seasonally adjusted).

We had already concluded that the BoK was done with easing this cycle. It is still far too soon to start thinking about any reversal of monetary easing, but the improved data could set up the KRW for a renewed push through 1190 for a run at 1180, which is a level it last saw back in early March.

The economy is ruined - buy stocks!

[James Knightley has written up the latest FOMC meeting here](#), and all I want to add is my own irreverent take on the proceedings.

Chair Powell gave a pretty downbeat assessment of the economy and noted the mounting risks to growth. The implication from all of this is that policy will remain very accommodative for a long time. But we knew that, and the warning from Powell that markets are still expecting too smooth a recovery, rather than injecting a note of caution into their behaviour, seems simply to have provided another excuse for them to rally on the notion that the gravy-train of free money will be around for years.

Let's be clear, there is no hint of *more* easing unless you are focussing on the circus of new fiscal stimulus spending. But as I noted yesterday, if you are currently in receipt of supplemental unemployment benefits in the US, what you are really facing is a pay cut, not a pay rise, the only questions remaining to be answered are, when, and how big? That doesn't sound particularly "risk-on" to me.

We also got no change in the Fed's overall strategy - so all the talk of price-level targeting and running inflation "a little hot", can wait for another day. The received wisdom is that we will hear more about this in September. This remains, in my view, an irrelevant discussion about an unattainable target. If we can't hit 2% inflation with the current stance, then we certainly won't be able to exceed it. And I suppose if they are seriously going to try (I don't think they should), then that does suggest we ought to consider the possibility of even more extreme policy measures including negative rates in due course. Remind me to buy some more physical gold this weekend...

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 Klok

Senior Economist, Netherlands

marcel.klok@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

Hong Kong: Revising GDP down further

Due to more social distancing measures from Covid-19, we are revising downward Hong Kong's GDP for the second half of the year as well as our full-year forecasts



Source: Shutterstock

Economy was still bad in 2Q20

GDP contracted 9.0% year-on-year in 2Q20 after a revised fall of 9.1% YoY in 1Q20. The contraction was mainly due to weak consumption from Covid-19 and social distancing measures, and that triggered a drop in investment due to a worsening economic outlook.

- Due to Covid-19, consumption contracted 14.5% YoY in 2Q20 after -10.6% YoY in 1Q20.
- Investment shrank 20.6% YoY in 2Q20 after a 15.8% contraction in 1Q20.
- Exports of goods shrank 2.1% YoY in 2Q20 less than the contraction of 9.7% to 1Q20.
- But exports and imports of services, which are mostly tourism-related services, fell 46.6% YoY and 43.5% YoY, respectively. Both were worse than the contraction of 37.4% YoY and 24.5% YoY in 1Q20, respectively.
- Government spending increased 9.8% YoY 2Q20 after an 8.8% rise in 1Q20.

Expect another bad quarter in 3Q20

Covid-19 cases have increased in Hong Kong, and there could be many sources that are hard to trace. The government has tightened further social distancing measures again since the outbreak, which the health department claimed could be due to the previous relaxation of social distancing

measures.

Focusing first on the most recent social distancing measures, the number of people that can gather together is two, and all restaurants can only serve takeaways, i.e. there is no dining-in allowed and all people have to wear a mask in public areas, both outdoors and indoors.

The direct impact is a big hit to catering businesses, especially the small ones that have little flexibility when it comes to takeaways. Even if restaurants are able to arrange food deliveries, they still have to pay high rents. Construction work could also slow down until October as wearing masks outside in Hong Kong's hot summer temperatures means that workers will likely need to rotate shifts more to allow for periods of rest.

The indirect impact is that, with more cautious sentiment, consumers in general are now more reluctant to go shopping in streets and malls, and more have chosen to stay at home. This will hit most consumer-based services, e.g. hairdressing, and many physical stores though shopping online and using online food delivery services will be more common. Investment by businesses will also be very weak due to the lack of demand locally. As mentioned above, construction activities will be slow and therefore real estate investment will continue to be very weak.

With the number of Covid-19 cases continuing to rise or stay at high levels, it is very difficult to see the restart of outbound tourism activities to and from Hong Kong. Airlines, travel agencies, hotel accommodation will continue to remain in bad shape.

Re-exports and imports will continue to grow with external demand in 3Q20. But the uncertainty lies in the number of Covid-19 cases in the rest of the world.

The economy could be even worse if there is no further help from the government, as the unemployment rate is expected to rise.

Revising forecasts downward

We expect Hong Kong GDP growth to be -10% in 3Q20, -5% in 4Q20 and -8.3% for the full-year, assuming that the tight social distancing measures continue to stay in place. This assumption is based on the lesson learned from the previous relaxation of social distancing measures, which suggests that Covid-19 could spread rapidly.

The unemployment rate is expected to rise to 8% in 3Q20 from the latest 6.2% for April-June 2020 period.

The Hong Kong dollar has continued to be strong due to more capital inflows to the Mainland stock market via stock-connect and also to the Hong Kong stock market. The spot of HKD is 7.7501, on the stronger side of the HKMA's set level of 7.7500.

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Disclaimer

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.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.