

Good MornING Asia - 31 March 2020

Lockdown is working. New cases: Italy down, Spain down (3 days), Germany down, France down, UK down (2 days)

In this bundle



South Korea

Lockdown is working

New cases: Italy down, Spain down (3 days), Germany down, France down, UK down (2 days)



Asia Morning Bites

ASEAN Morning Bytes

Asian markets may bounce back on Tuesday as sentiment improved slightly overnight on signs the virus may be peaking in Europe



FX | China

China: PBoC surprise rate cut to avoid financial crisis

China's central bank (PBoC) cut the 7D interest rate to avoid a financial crisis

Lockdown is working

New cases: Italy down, Spain down (3 days), Germany down, France down, UK down (2 days)



Better news for Europe, US, not so much

I've been on the gloomy side of this pandemic since, well, not day one, but since mid-January when I first started to write about it (and was politely told to shut up by some back then).

But it does feel as if there is a ray of light appearing. Europe's lockdown procedures are beginning to deliver positive (in other words, negative) effects, and the numbers of new cases are in almost all cases down. That includes the UK whose lockdown is relatively recent.

It does not include the US, where lockdown is regional, not national, and while the rate of increase of new cases there is slowing, rather than the numbers themselves, the risk of another region becoming a new hotspot makes it harder to be so optimistic.

So is it time to become more optimistic in terms of markets?

If asked if it is now safe to dip your toes back in the water of risk assets, I think it might be. I still believe we have a long haul ahead, but if the numbers are right, and that remains a big if when testing has been so patchy, then we might be able to foresee an end to the lockdowns at the end of this month/beginning of May in Europe, later for the US on the assumption that they are lucky or that their lockdown is extended geographically.

An end to lockdown takes the pressure off businesses struggling to make earnings, on disrupted household incomes and on the financial architecture that has borne the strain of keeping all of this ticking along. So, if the pandemic news remains good, this might not be a bad time to explore risk again.

Scope for error remains large

And it's worth throwing in the possibility that some countries looking to beat their neighbours back onto the economic growth escalator may relax restrictions too early, or that some seasonality may be lulling us into thinking that things are getting better when in fact it is just getting warmer (scientists simply don't seem to be able to agree on this). So there is still a chance that the news reverses and restrictions on movement have to be re-imposed. But right now, it's looking more hopeful than it has for some time.

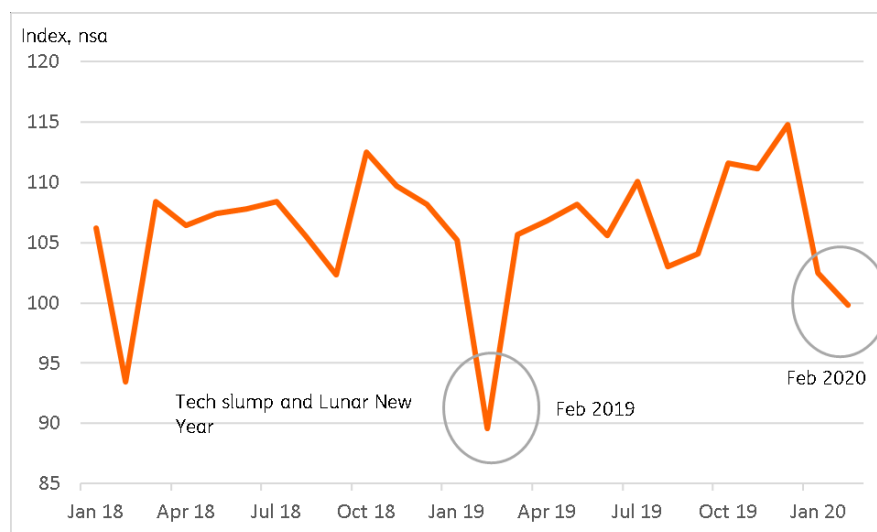
Surprisingly good Korean production data

South Korea released February Industrial production data this morning, and it actually looks quite good. Production was up 11.4% year on year, despite a 3.8% month on month decline. What you need to know about these numbers is that February 2019 coincided with the absolute bottom of the tech slump, and of course is also bang in the middle of the Lunar New Year, which in 2019, landed in early Feb. So you couldn't have a weaker base for comparison. March data will be a lot more telling. But it could have been worse, so there is some cause for optimism in Korea too.

Prakash Sakpal adds on Thailand: "Following a three-week partial lockdown in Bangkok (started last week), Phuket island is now shut for the entire month of April. The government is planning a third stimulus package worth THB 500 billion in April to soften the impact of the Covid-19 virus on the economy. This will be in addition to two packages totalling THB 517 billion announced earlier this month, bringing total stimulus to worth about 6% of GDP. However, with the virus likely to keep tourists at bay for much of the year, the economic contraction this year seems inevitable".

Watch out also for the Chinese Purchasing Manager Index (PMI) data today. The consensus is widely split, which is not surprising. It also means we will have to interpret the result with care. A big increase may simply mean things are better, not that they are good. That is the difficulty with diffusion indices like PMIs.

South Korean Industrial production. non-seasonally adjusted, index



Source: CEIC

Korean Production, index, nsa

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

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

ASEAN Morning Bytes

Asian markets may bounce back on Tuesday as sentiment improved slightly overnight on signs the virus may be peaking in Europe



EM Space: Asia to take its cue from rebound in US as experts rush to produce vaccine

- **General Asia:** Tuesdays' highlight will be China's PMI report with analysts' expectations varying substantially with a low of 38.0 versus a high of 59.1. Sentiment on Tuesday, however, may take its cue from abroad with investors gaining some confidence from reports of improved case numbers from Europe. Other economic reports for today are Thailand's trade and Hong Kong retail sales which could continue to show signs of how badly the Covid-19 outbreak is hurting respective economies.
- **Indonesia:** President Jokowi has called for even stricter measures to curb the movement of citizens as the number of infections continues to rise in Indonesia. Jokowi has continued to resist placing Indonesia under full lockdown with the central bank admitting that growth will likely take a substantial hit. Growth projections for Indonesia have been scaled down given likely weaker export performance and depressed household spending due to the strict regulations to restrict movement and a full lockdown will push the economy closer to the zero growth projection by Finance Minister Indrawati. Until sentiment improves, we expect IDR to remain pressured with the central bank busy supporting both the bond and spot market.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) Governor Diokno shared that he is open to

upsizing the budget for the planned repurchase arrangement to Php500 bn with the Bureau of the Treasury (BTr). Previously the BSP had announced a Php300 bn bond purchase scheme to help the national government fund a recovery bill while keeping a lid on rising bond yields. Diokno has reiterated his commitment to wielding the full might of the BSP with a likely increase in the repurchase plan to be carried out in the near term as the BTr struggles to secure funding with the T-bill failing for a 3rd straight week as investors demand higher yields.

- **Thailand:** Following a three-week partial lockdown in Bangkok (started last week), Phuket island is now shut for the entire month of April. The government is planning a third stimulus package worth THB 500 billion in April to soften the impact of the Covid-19 virus on the economy. This will be in addition to two packages totalling THB 517 billion announced earlier this month, bringing total stimulus to worth about 6% of GDP. However, with the virus likely to keep tourists at bay for much of the year, the economic contraction this year seems inevitable.

What to look out for: China PMI and Covid-19 developments

- China manufacturing and non-manufacturing PMI (31 March)
- Thailand trade (31 March)
- Hong Kong retail sales (31 March)
- Philippines bank lending (31 March)
- US consumer confidence (31 March)
- Japan Tankan survey (1 April)
- Regional PMI (1 April)
- US ADP employment and ISM PMI manufacturing (1 April)
- US trade and factory orders (2 April)
- Hong Kong PMI (3 April)
- China Caixin PMI services (3 April)
- Singapore retail sales (3 April)
- US non-farm payrolls (3 April)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

China: PBoC surprise rate cut to avoid financial crisis

China's central bank (PBoC) cut the 7D interest rate to avoid a financial crisis



Leading members of the People's Bank of China, including Governor, Yi Gang (waving)

PBoC unexpectedly cut 7D rate

China's central bank (People's Bank of China) cut the 7D reverse repo from 2.4% to 2.2% when it injected CNY50 billion into the interbank market this morning. The cut is deeper than the 5bp reductions usually seen in the past and also the previous cut of 10bp.

This rate cut was unexpected. But the liquidity injection was even more of a surprise. The PBoC has not only stopped injecting any liquidity into the system since the 16 March but even withdrew CNY 33 billion of liquidity on 28 March, just one working day before this injection.

Pre-emptive move to avoid a financial crisis

We see this rate cut as a move to avoid a financial crisis because liquidity has been ample in the Chinese interbank market. The concern falls along the following two lines:

1. Though China's financial system is quite isolated from the global financial system due to its

- semi-closed capital account, it is impossible to completely insulate it from global financial market volatility.
2. Domestically, part of the jobs market is affected by the lockdown of many cities within China as the Covid-19 spread from January to March. It is reported that there is an increase in "past-due" payments in consumer finance.

Even though we think the chances are extremely small, these global and domestic sources of volatility could potentially turn into a financial crisis in China. We believe that the central bank is trying to keep this probability as low as possible by cutting the 7D rate pre-emptively.

More cuts are coming

With the cut in 7D reverse repo rates, we expect that there could be a cut in the 1Y Medium Lending Facility on or before 20 April and the 1Y Loan Prime Rate on 20 April so that the whole lending curve shifts downwards.

We do not expect any cut in the benchmark deposit interest rate, which is a retail interest rate, as this would be a backward move in interest rate liberalisation. This is not the time to protect bank profitability.

Instead, regulators could be thinking about protecting financial institutions by increasing bank's capital buffers.

USD/CNY forecast at 7.25 by end of 2Q20

Directly, the rate cut should have little impact on the USD/CNY exchange rate. But the underlying concerns driving the cut (i.e. financial crisis), could move the dollar higher due to flight to safety, and therefore the yuan weaker.

We forecast the USD/CNY at 7.25 by the end of 2Q20.

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.