

Good MornING Asia - 4 August 2020

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Source: Shutterstock
Reserve Bank of Australia Governor Philip Lowe

What do you do when you have a regional issue, but only a national solution?

The RBA is the main event in Asia-Pacific macro space today, and that might be something of a non-event, with virtually no one looking for any change in policy. One of the arguments for the RBA doing more easing today would be the Covid-19 pandemic's resurgence in the state of Victoria, resulting in a strict lockdown in Melbourne. One could argue that this requires some offsetting policy stimulus. It does. But a local/regional problem does not require a national monetary solution, but a local fiscal response, with the Federal Government picking up some of the price tag to help out. And that is more than likely what will happen.

The official cash rate is already down at 25bp, as is the yield curve control target for 3Y government bonds, so any further action would seem to necessitate a move further into unorthodox territory. And about all that is now left is negative interest rates.

Governor Lowe has been reassuringly unenthusiastic about negative rates (I say that as I think they are a really bad idea), unlike his New Zealand counterpart. But while I tend to agree with the

implied reluctance to embark on a policy that may, in fact, do more harm than good to domestic demand, it is possible he is missing a trick by not at least keeping the door slightly open to such a policy.

The AUD over the last month has outperformed Asia's best currency over the same time period, the KRW, and also the CNY, another bellwether of generalised risk conditions in the region. And so there is a legitimate argument for trying to take some of the wind out of the AUD's sails. This is not just a reflection of USD weakness.

But the RBA doesn't have much left apart from rhetoric. So although I am not a big fan of forward-guidance, this may be one of those rare instances where the central bank does need to massage the market in a direction that is more likely to enable sustainable growth.

Hindering him in this task may be today's Australian trade figures for June, out at 0930 SGT which are likely to show some bounce back in both exports and imports.

Day ahead in Macro space

Yesterday's G-7 PMI data were broadly positive, but perhaps a bit more of a mixed bag than some of the newswires are alluding to this morning, given their need to pin equity gains overnight on something (seriously, asset prices sometimes just rise - there doesn't always have to be an event!). Europe's manufacturing PMI increase to 51.8 was only a small rise from the previous 51.1, and the US figure actually fell, though was ignored in favour of the more widely watched ISM numbers, where strong orders dominated a still anaemic picture for employment (that's a story that may come back to haunt us - if not this month, then next).

Today, the US durable goods release is the pick of the G-7 space. US business investment has been surprisingly resilient to the pandemic, so this may be reflected in today's figures.

We have already had inflation data for Japan's Tokyo region, and that came in stronger than expected at 0.6%YoY, which implies a similar figure for the national numbers which are always released with a 1-month lag to the Tokyo figures.

We also have the Bank of Japan's monetary base figures out today. These have spiked recently, though with no big fanfare from the Bank of Japan, we can only assume that this is mopping up of issuance to finance Japan's sizeable fiscal stimulus plan. The BoJ has probably missed a trick here though, as they could have made more of this and maybe gained a bit more of a market boost from it.

South Korean July CPI inflation figures are already out, and inflation remained at 0.3%, in line with expectations - nothing interesting to say about these.

Otherwise, it's a fairly quiet day. Good luck.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Indonesian Inflation slips further

Inflation in Indonesia dipped to 1.5% in July with price pressures dissipating as domestic demand remains subdued



Source: t-bet

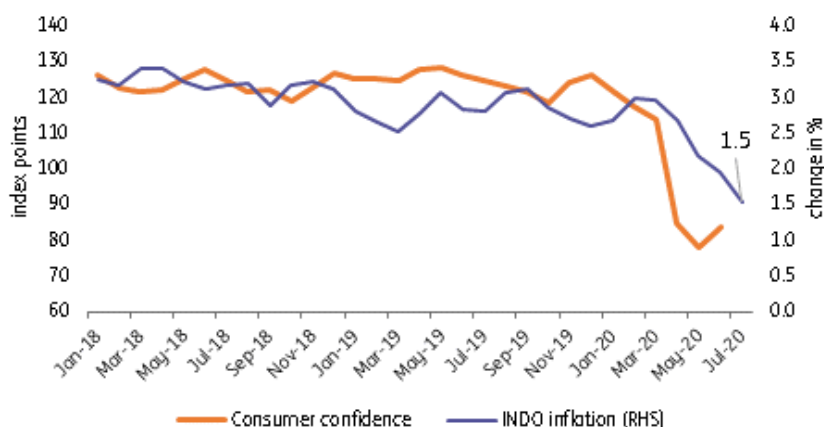
1.5% Indonesian headline inflation
July

Lower than expected

July inflation slips further to 1.5%

Inflation in Indonesia slid further to 1.5% in July (1.9% in June) as demand-pull inflation faded quickly with the economy likely in contraction. Partial lockdown measures have remained in effect in some areas of the country as new daily infections of Covid-19 remain elevated. Depressed crude oil prices also helped keep price pressures in check with the July reading falling below the central bank's inflation target of 2-4%. Hobbled domestic demand was mirrored in poor consumer confidence and we can expect inflation to remain subdued for as long as consumers remain wary to head out of their homes and return to pre-pandemic spending patterns.

Indonesia inflation and consumer confidence



Source: BPS and Bank Indonesia

Benign inflation leaves door open for BI to cut but IDR stability still key

Below-target inflation will likely remain for the most part of 2020 with economic activity slowly sharply with Covid-19 continuing to spread across Indonesia. Stalling economic momentum will likely pressure Bank Indonesia (BI) to trim rates further however governor Warjiyo will likely refrain from more easing given the recent depreciation faced by the Indonesian rupiah. IDR took a hit after the bank cut policy rates at its last meeting and we expect Wariyo to only pull the trigger on additional easing should IDR return to its appreciation trend.

Thai central bank has reasons but no room to ease policy

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Veerathai Santiprabhob, the outgoing Governor of the Bank of Thailand,

0.50%

BoT policy rate forecast

No change this week

The BoT to stay on hold

The Bank of Thailand's Monetary Policy Committee is meeting on Wednesday, 5 August, to review the current policy setting. Three policy rate cuts so far this year, adding up to 75 basis points, have pushed the repurchase rate, the policy rate, to an all-time low of 0.50%.

We believe the MPC will vote to leave the policy rate unchanged this week. We aren't alone here and there's solid consensus supporting it.

Why should the BoT ease?

Thailand may be a success story in containing the Covid-19 outbreak, but not so much in preventing the economic slump brought on by this pandemic which is one of the steepest in Asia. Even if economic activity bottomed in the last quarter, the recovery is not going to take hold as long as two key drivers of exports and tourism remain missing in action.

Just released today, the Markit manufacturing PMI for July improved to 45.9 from 43.5 in June, implying a slightly smaller contraction of activity in the sector. But it's still a contraction that signals persistent negative GDP growth coming into the third quarter. Similarly, the central bank's Business Sentiment Index (BSI) rose to 42.9 from 38.5 over the same months but is still well below the pre-Covid-19 level of 48.5 at the start of the year. The BSI closely tracks year-on-year real GDP growth and is consistent with negative GDP growth in 3Q.

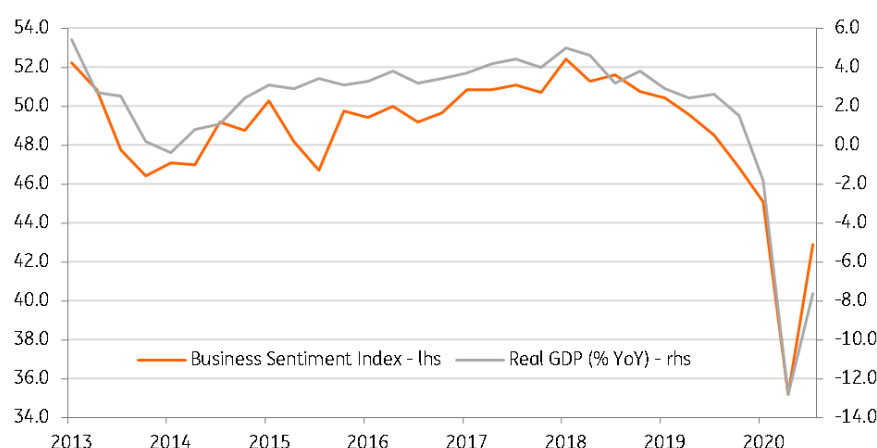
This would be the steepest GDP fall on record

Meanwhile, large export and manufacturing declines persisted through June and prompted a further downgrade of our GDP view for the last quarter and the year as a whole. We now see a 12.8% year-on-year GDP fall for 2Q, steeper than 8.3% earlier forecast. This would be the steepest GDP fall on record. We have also cut our full-year 2020 growth view to -6.6% from -5.4%, though not as bad as the BoT's own forecast of -8.1% GDP fall this year though.

And, coming just ahead of the BoT policy decision on Wednesday, consumer price data for July should reinforce the negative inflation streak extended to 3Q. Our forecast is -1.5% YoY, slightly better than -1.6% in June. This is way below the BoT's 1-3% policy target for CPI inflation.

Hence, the BoT has all the more reasons to ease policy further.

Business Sentiment Index vs. Real GDP Growth



Source: CEIC, ING

Note: ING's GDP forecast for 2Q20 and 3Q20.

What if there are no more rate cuts?

Just recently Assistant Governor, Titanun Mallikamas, indicated that they were preserving easing space for a worst-case scenario. That said, we consider the BoT's rate cut cycle has bottomed. An on-hold policy rate at the current level for a foreseeable future remains our baseline through 2021, at the least.

However, the speculation about the quantitative easing (QE) route may gain traction amid a change of leadership at the central bank. Last week, the Cabinet announced the selection of Sethaput Suthiwart-Narueput as the new governor, taking over from Veerathai Santiprabhob whose term ends in September. As an existing BoT-MPC member, an economic adviser to Prime Minister Prayuth Chan-Ocha, and former World Bank economist, the new governor should have a good grip on policymaking.

We think the markets will all the more be anxious to know if he would steer the policy towards quantitative easing. We remain sceptical about QE being on the table just yet, not in the near term.

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