

## Good MornING Asia - 4 February 2020

Market sentiment is slightly stronger. Yesterday's China stimulus probably helps, but there is some better data on infections outside China too

### In this bundle



Australia | Malaysia...

#### Non-China nCov cases slow

Market sentiment is slightly stronger. Yesterday's China stimulus probably helps, but there is some better data on infections outside China too

By Robert Carnell



Asia Morning Bites

#### ASEAN Morning Bytes

Market sentiment remains fragile as investors assess the economic impact of the coronavirus

By Nicholas Mapa



China

#### PBoC's focused policy to limit market chaos

The PBoC, China's central bank, cut the 7D reverse repo rate, injected liquidity, and provided additional liquidity and interest rate cut support...

## Non-China nCov cases slow

Market sentiment is slightly stronger. Yesterday's China stimulus probably helps, but there is some better data on infections outside China too



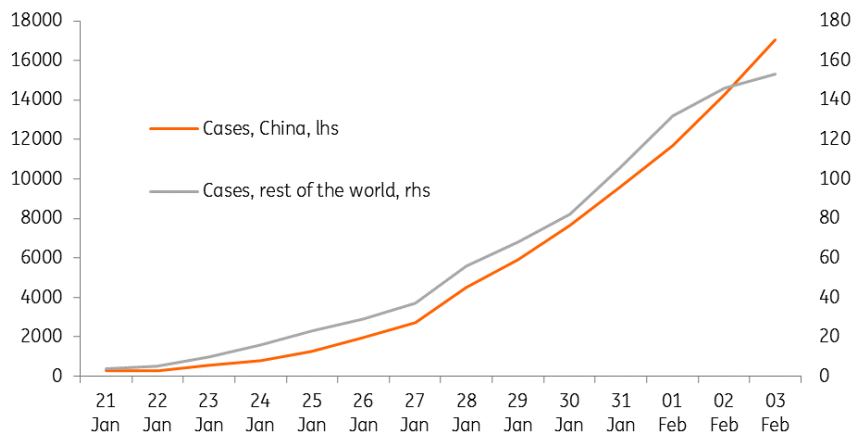
Source: Shutterstock  
thermometer

### It's the top story so I'll keep writing about it

I've updated my spreadsheets for the nCov virus, and the thing that stands out is that outside China, the rate of new cases seems to be slowing. China began to go into lockdown on 23 January, so we are 12 days on from this, with a disease that is supposed to have an incubation period of 2-14 days. Most of those early non-China cases were from Wuhan residents falling sick whilst travelling, so what we are increasingly going to be seeing is any evidence of "community transmission", so transmission between locally infected people.

The fact that the number of non-China cases is falling is perhaps not surprising. It also does not mean that the disease has been contained within China. We will have to keep examining this series closely to see whether the smaller numbers of community infections can generate their own expanding wave of infection growth, or whether local measures, face masks, hand sanitizer use quarantine and so on, are keeping the infection in check. We will watch this day by day, but it is unlikely to be totally clear what is going on for some weeks. But some for sure will see this as a positive sign.

## nCov cases by location



Source: WHO

## RBA today

The big event today, apart from following the tickers on nCov, will be the Reserve Bank of Australia (RBA) rate meeting. We are one of a very small minority of forecasters looking for a rate cut from them, but realistically, the chances for this are quite low.

But while we accept that you can't cure infected people with rate cuts, you can at least alleviate cash flow pressures for firms ailing in the weak demand environment emanating from the impacts of the disease, and from the impact of the recent bushfires. The Australian domestic data has not been nearly as strong as is being suggested by some - the latest labour market data was interpreted as a solid result, when in fact it confirmed the slowdown in full-time job creation across the country. That is unlikely to give wages the boost they need.

Inflation in 3Q19 was a bit better, but unless you rely on recent annualised measures, remains well short of the RBA mandate. Rather than the economy, a better excuse for inaction today would simply be a concern that further easing will push Australia towards unorthodox policies, which it is not well placed to deliver given its relatively light stock of government debt. Talk of "keeping ammunition dry" should be treated with the contempt it deserves.

## Korean inflation rises to 1.5% in January

Korean headline inflation beat the consensus forecast for a rise from 0.7%YoY in December, to 1.0%, with a 1.5% reading for January. While the Bank of Korea (BoK) was not a contender for rate cuts this year, this outcome makes that even more unlikely now.

Even so, most of this increase stems from food and energy. Core measures of inflation rose far less. Food price inflation rose from 0.1%YoY to 1.8%YoY. Transport also rose, from 2.2% to 6.2%YoY. That probably reflects higher crude oil prices around the turn-of-the-year feeding into retail gasoline prices. Given what's happened recently to oil (it has plunged) this will quickly unwind, as too will the food price spikes.

## SE Asia news

**(From Prakash Sakpal) Malaysia:** December trade data is due today. We share the consensus view

of a continuation of moderation in the export decline (-2.5% YoY vs. -5.5% in November) helped by favourable base effects. The recovery has yet to begin and it may be pushed further out the coronavirus outbreak dampens global demand. Meanwhile, Bank Negara Malaysia and the Bank of Korea renewed a bilateral KRW/MYR swap arrangement to promote trade between two countries. We don't rule out more BNM rate cuts this year if the global economic situation gets worse.

**Singapore:** The SGD-NEER is reportedly drifting toward the mid-point the MAS's policy band. A Bloomberg report notes it is about 0.4% above the mid-point, down from 1.3% at the end of the last year and it cites the drift to the expectation of a MAS easing in April to minimize the impact of the virus on the economy. The numbers of infections in Singapore haven't risen in the last two days. We aren't rushing to change our view of stable MAS policy this year just yet.

## Author

**Robert Carnell**

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

# ASEAN Morning Bytes

Market sentiment remains fragile as investors assess the economic impact of the coronavirus



## EM Space: Potential economic fallout from virus assessed

- **General Asia:** With Chinese factories shuttered and economic activity ground to a halt, investors are gauging the potential economic hit from the 2019-nCoV to China's GDP growth. Manufacturing reports showed mixed trends but the trading sentiment was still likely affected by virus concerns as reported cases continue to increase.
- **Singapore:** The SGD-NEER is reportedly drifting toward the mid-point the MAS's policy band. A Bloomberg report notes it is about 0.4% above the mid-point, down from 1.3% at the end of the last year and it cites the drift to the expectation of a MAS easing in April to minimize the impact of the virus on the economy. The numbers of infections in Singapore haven't risen in the last two days. We aren't rushing to change our view of stable MAS policy this year just yet.
- **Malaysia:** December trade data is due today. We share the consensus view of a continuation of moderation in the export decline (-2.5% YoY vs. -5.5% in November) helped by favourable base effects. The recovery has yet to begin and it may be pushed further out the coronavirus outbreak dampens global demand. Meanwhile, Bank Negara Malaysia and the Bank of Korea renewed a bilateral KRW/MYR swap arrangement to promote trade between two countries. We don't rule out more BNM rate cuts this year if the global economic situation gets worse.
- **Indonesia:** CPI inflation in January was little changed from 2.7% in December as lower

transport and education costs offset higher food prices, keeping inflation at the lower end of the government's 2.5-4.5% target. Meanwhile, Bank Indonesia pledged “bold” steps to curb volatility in the IDR market with the central bank participating in the bond, currency and non-deliverable forwards markets to keep the currency stable.

## What to look out for: Developments on the virus

- Malaysia trade (4 February)
- Hong Kong retail sales (4 February)
- US factory orders (4 February)
- Philippines CPI (5 February)
- China Caixin PMI services (5 February)
- Indonesia 4Q GDP (5 February)
- Bank of Thailand (5 February)
- US trade (5 February)
- US PMI services (5 February)
- Thailand CPI (6 February)
- India RBI meeting (6 February)
- Philippines BSP meeting (6 February)
- Taiwan CPI (6 February)
- US initial jobless claims (6 February)
- Malaysia industrial production (7 February)
- Taiwan trade (7 February)
- US nonfarm payrolls (7 February)

### Author

#### Nicholas Mapa

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)



## PBoC's focused policy to limit market chaos

The PBoC, China's central bank, cut the 7D reverse repo rate, injected liquidity, and provided additional liquidity and interest rate cut support...



### PBoC is easing, but is it broad-based or targeted?

China's central bank, the PBoC cut the 7-Day reverse repo from 2.5% to 2.4%, a move that is 5bps bigger than usual (usually only a 5bp move each time). At the same time, their liquidity injection looks large at 1.2 trillion yuan on 3rd February, though there was also around 1.05 trillion yuan maturing on the same day.

The PBoC also cut interest rates for corporations in Wuhan.

But so far, there is no RRR cut.

### This time is different - focused measures are the key

Monetary policy stimulus on this occasion is a combination of broad-based easing and targeted, very focused easing policy. This is quite different from the previously only broad-based stimulus measures.

We believe that the central bank would like to calm the market with enough liquidity injections so

that short-term interest rates will not shoot up, which could create market chaos. But we also believe that the central bank does not want to over-react by easing monetary policy too much.

We also view today's actions as indicating that the central bank is concerned about market interest rates rising if the economy is not operating normally under the coronavirus, which would explain them pre-emptively cutting interest rates by a bigger than usual step.

The indication from no RRR cuts is also important. It reveals that the central bank does not want to send the message to the market that it is going to flood it with liquidity taking interest rates down to a very low level.

## More support from fiscal side

The PBoC has done its part to limit market chaos, the Chinese government is expected to do its part to limit the spread of the coronavirus.

We expect that more fiscal stimulus will also be very focused. The government will spend money on rapidly [building more hospitals](#). They will not just stop at building a couple, they will build many more hospitals and beds.

At the same time imports of medical equipment from around the world can be exempted from import duties and consumption tax.

## There are a lot of uncertainties

How long the virus will last is the key threshold for gauging the situation. From the experience of SARS, when there are no more new confirmed cases, the market can u-turn quickly. Indeed, a slowdown in the numbers of new cases could be enough.

But until then, we expect retail, catering, mass transport, and inbound and outbound tourism to be affected. The manufacturing sector could also be hard hit if some workers choose not to return from their home towns back to their factories (as once they leave they can't go back when there is coronavirus). Global supply chains could also be affected.

There are many uncertainties. But one that is clear is that China's GDP in 1Q20 will slow. Our forecast is that GDP in 1Q will go down from 6%YoY to 5.6%YoY.



## 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 <http://www.ing.com>.