

## Good MornING Asia - 4 May 2020

Comments from the US' Mike Pompeo about the origin of the coronavirus together with a suggestion from President Trump that he will impose tariffs on China because of the outbreak are not helping risk sentiment and are pushing USDCNY higher

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### USD/CNY rising

Our Economist for Greater China, Iris Pang, like most of us, is obliged to produce spot forecasts on a range of market indicators, as well as the usual macro numbers. It is one of those parts of the job that carries little upside. And the standing USD/CNY 7.25 forecast for end 2Q20 has not been criticism-free.

But the recent rhetoric from the US is beginning to make it look quite a promising call.

For a few weeks now, mutterings and criticism from the US administration about the origins of the Covid-19 outbreak have been growing. These reached a crescendo at the end of last week, with President Trump reported in Bloomberg to have threatened to impose tariffs on China in retaliation for the Covid-19 outbreak and US Secretary of State, Mike Pompeo, talking of the "enormous evidence" linking the outbreak to the Wuhan virus laboratory.

We haven't seen or heard any of the evidence referred to, so we can't comment on that. But it does look as if one of the underpinnings of the 7.25 call - namely a return to trade tension - is turning into reality. If this continues, then a 7.25 end 2Q20 USD/CNY result will suit our forecasts very well.

For those of you who can still remember the trade war, one of the key results of enhanced trade tension was - stronger USD (so weaker everything else, but especially CNY), and a drop in risk appetite. It is possible that the US administration feels emboldened to restart the trade rhetoric given the rally stocks have undergone in recent weeks. If so, Friday's S&P 500 sell-off comes as a reminder that the underlying drivers for markets have not changed. And given the incredibly weak backdrop, a return to trade war really has the potential to be even more damaging (to both sides) than it was under version 1.0. This needs close watching.

## Shape of things to come

South Korea posted April CPI data showing a hefty 0.6% month-on-month drop (0.1% year-on-year). The full release shows, as one might expect, most of the damage coming through the transport component, which fell 3.5% MoM reflecting the collapse in global crude oil prices. Clothing and footwear fell 1.5% on dampened demand, and education costs also fell sharply.

The release tells us two things:

1. It provides a benchmark for other upcoming CPI releases in the region (they could be substantial) and
2. It suggests that the Bank of Korea will cut rates a further 25bp from their current 0.75% at the 28 May meeting.

## Asia today

Just to reinforce my earlier comments on China and the Trade War, Iris Pang also writes today, "USD/CNH jumped to 7.13 during the May holiday from 7.06 on Friday, which should be a market reaction to the possible restart of the trade war and technology war as US President Trump has warned of a possible increase in tariffs on Chinese goods. The market will continue to react to any news on the trade and technology war as this will put pressure on both Chinese and US economies".

Iris also adds, "On data, today we will have the Taiwan Market manufacturing PMI which should come in at only 42.2 due to the deferred release of a new model of smartphone. We will also have Hong Kong GDP growth for 1Q20, where we expect a -10%YoY reading, while the government expects a range of -4% to -7%YoY for the whole of 2020".

And ASEAN news from Prakash Sakpal:

**Malaysia:** March trade figures are due today. Firmer exports from most Asian economies in March impart some upside risk to the -8.3% YoY consensus on Malaysia's exports. However, underlying the weak consensus is the dent to activity due to the Covid-19 lockdown started in mid-March. Trade is the last piece of economic data for the central bank (BNM) beginning its two-day policy meeting today. We expect a 50bp cut in the overnight policy rate to 2.00%.

**Singapore:** The April manufacturing PMI is due today, with expectations centred on a drop in the index to an all-time low of 40.0 from 45.4 in March. The extended circuit-breaker measures mean the surprising manufacturing strength shown in the first quarter is poised to be reversed in the current quarter, leaving GDP on a path to a record contraction.

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## ASEAN Morning Bytes

Economic data should take centre stage this week with reports likely to remind investors of the negative impact from Covid-19.



### EM Space: Data calendar is loaded this week and should give direction for trading

- **General Asia:** After market players reacted to hopeful trends on the virus front last week, economic data should remind investors of the bleak economic situation ahead even as governments from previous hotspots ready the gradual reopening of their economies. Regional PMI manufacturing data kicked off the data dump on Monday, with economies registering deep contractions with most countries employing some form of lockdown by April. The economic calendar is packed in the coming days with growth, trade and inflation data all set for release with downbeat reports likely the backdrop for trading this week.
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2.00%.

- **Indonesia:** Indonesia reports data on inflation for April, with market consensus at 2.8% as depressed crude oil prices help keep price pressures at bay for the time being. Bank Indonesia (BI) Governor Warjiyo indicated that inflation will likely be within target this year, likely due to lower oil prices and subdued demand due to slowing economic growth momentum. We expect inflation to remain well-behaved in the coming months, leaving the door open for further easing from the central bank should the recent IDR rally be sustained as foreign investors return to snatch up both equities and bonds.

## What to look out for: Regional data and Covid-19 developments

- Malaysia trade (4 May)
- Indonesia inflation (4 May)
- Hong Kong GDP (4 May)
- US factory orders (4 May)
- Philippines remittances (4 May)
- Thailand inflation (5 May)
- Philippines inflation (5 May)
- Indonesia GDP (5 May)
- Singapore retail sales (5 May)
- Malaysia BNM policy (5 May)
- Hong Kong retail sales (5 May)
- US trade (5 May)
- Hong Kong and Singapore PMI (6 May)
- Philippines trade (6 May)
- Taiwan inflation (6 May)
- US ADP employment (6 May)
- China Caixin PMI services (7 May)
- Philippines GDP (7 May)
- China trade (7 May)
- US initial jobless claims (7 May)
- Malaysia industrial production (8 May)
- Taiwan trade (8 May)
- US non-farm payrolls (8 May)

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# Asia week ahead: Central banks in the spotlight, again

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Source: Shutterstock

## ➔ Better for some, bad for other

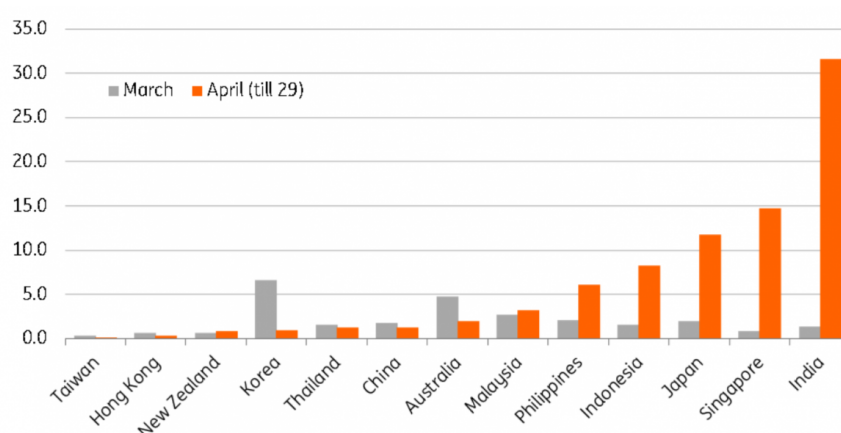
Next week kicks off with the April Purchasing Manufacturing Index (PMIs), providing some clues about the state of Asian economies coming into the second quarter. [China PMIs have provided temporary relief](#) for the market in that both manufacturing and services activity expanded for a second straight month in April. We may see similar PMI results for some more, but not all, economies as the accelerated spread of Covid-19 and tighter movement restrictions dented activity further this month. India and some Southeast Asian countries seem to be a lot worse (see

graph).

Trade figures from China, Korea, Taiwan, Malaysia, and the Philippines will underscore a significant hit to global demand in the ongoing pandemic. And, retail sales data in Australia, Hong Kong, and Singapore will inform about the dent to consumer spending as will Japan's household spending data, though this might go unnoticed in the golden week holiday. Price pressures continue to abate with weakening demand. Inflation in some countries has already drifted into negative territory. Look out for consumer price data in Korea, Indonesia, the Philippines, and Thailand.

The GDP release season is also in full swing, with first-quarter data due in Hong Kong, Indonesia, and the Philippines. As with everywhere else, these will probably be the worst figures in nearly a decade, with a fall of as much as 10% in Hong Kong compared to a year ago.

## Monthly rise in number of Covid-19 infections in Asia



Source: Worldometers in ascending order of April data

## ➔ Still, worrisome for central banks

Central bank policy meetings in Australia and Malaysia are the highlights of the week. It could be a mixed bag of events though, more likely a non-event in Australia and accelerated policy easing in Malaysia.

In an off-cycle easing move in March, the Reserve Bank of Australia nudged its policy rate to an all-time low of 0.25%, leaving no room for it to fall further. At the same time, the RBA also launched a quantitative easing (QE) programme to inject more cash into the economy. These moves suggest there's not much scope for action next week given that the country has also managed to bring the Covid-19 spread under control. Moreover, the pause in the RBA's bond purchases this week even raise the question of whether it will stay the course ahead, while Governor Philip Lowe has ruled out a move to negative interest rates.

This shifts the spotlight onto Bank Negara Malaysia's policy meeting. We have long been calling for a 50 basis point cut in the BNM's overnight policy rate to 2.00% at the May meeting, bringing it to the previous low seen during the 2009 global financial crisis. Given a far bigger scale of the current crisis than the GFC though, we would anticipate a much bigger response. The 50bp rate cut since January 2020 compares with a 150bp cut in the span of less than three months at the height of the GFC. We don't think the central bank can afford to wait much longer, as GDP is heading for the steepest fall this quarter since the 1998 Asian crisis and inflation has already moved into negative



territory. We don't think the BNM will stop at a 50bp cut next week, especially with protracted deflation ahead keeping real interest rates high.

## Key events

| Country                | Time Data/event                         | ING     | Survey   | Prev.   |
|------------------------|---|---------|----------|---------|
| <b>Monday 4 May</b>    |   |         |          |         |
| India                  | 0600 Apr Nikkei Manufacturing PMI       | -       | -        | 51.8    |
| Hong Kong              | 0930 1Q A GDP (Q) (YoY%)                | -10.0   | -        | -2.9    |
|                        | 0930 1Q A GDP (Q) (QoQ% SA)             | -       | -        | -0.3    |
| Malaysia               | 0500 Mar Exports (YoY%)                 | -10.0   | -3.0     | 11.8    |
|                        | 0500 Mar Imports (YoY%)                 | -8.0    | -1.4     | 11.3    |
|                        | 0500 Mar Trade balance (RM bn)          | 11.6    | -        | 12.6    |
| Indonesia              | 0500 Apr CPI core (YoY%)                | -       | 2.9      | 2.9     |
|                        | 0500 Apr CPI (YoY%)                     | 2.8     | 2.9      | 3.0     |
| Philippines            | 0130 Apr Nikkei Manufacturing PMI       | -       | -        | 39.7    |
| Singapore              | 1400 Apr Purchasing Managers Index      | -       | -        | 45.4    |
| Taiwan                 | 0130 Apr Nikkei Manufacturing PMI       | 49.8    | -        | 50.4    |
| South Korea            | 0000 Apr CPI (MoM%/YoY%)                | -/-     | -0.2/0.4 | -0.2/1  |
|                        | 0130 Apr Nikkei Manufacturing PMI       | -       | -        | 44.2    |
| <b>Tuesday 5 May</b>   |   |         |          |         |
| Hong Kong              | 0930 Mar Retail sales value (YoY%)      | -80.0   | -        | -44.0   |
|                        | 0930 Mar Retail sales volume (YoY%)     | -83.0   | -        | -46.7   |
| Malaysia               | 0800 Overnight Policy Rate              | 2.0     | -        | 2.5     |
| Indonesia              | 0500 1Q GDP (YoY%)                      | 4.0     | 4.5      | 5.0     |
|                        | 0500 1Q GDP (QoQ%)                      | -       | -        | -1.7    |
| Philippines            | 0200 Apr CPI (YoY%)                     | 2.0     | -        | 2.5     |
| Singapore              | 0600 Mar Retail sales value (YoY%)      | -16.0   | -        | -8.6    |
|                        | 0600 Mar Retail sales value (MoM% SA)   | -4.4    | -        | -8.9    |
| Taiwan                 | - Apr Forex Reserves (US\$bn)           | 481.5   | -        | 480.4   |
| Thailand               | 0430 Apr CPI (YoY%)                     | -2.0    | -        | -0.5    |
|                        | 0430 Apr Core-CPI (YoY%)                | 0.3     | -        | 0.5     |
| <b>Wednesday 6 May</b> |   |         |          |         |
| India                  | 0600 Apr Nikkei Services PMI            | -       | -        | 49.3    |
| Hong Kong              | 0130 Apr Nikkei PMI                     | -       | -        | 34.9    |
| Philippines            | 0200 Mar Trade balance (US\$mn)         | -1817.0 | -        | -1656.0 |
|                        | 0200 Mar Exports (YoY%)                 | -18.3   | -        | 2.8     |
|                        | 0200 Mar Imports (YoY%)                 | -6.1    | -        | -11.6   |
| Taiwan                 | 0900 Apr WPI (YoY%)                     | -9.1    | -        | -7.3    |
|                        | 0900 Apr CPI (YoY%)                     | -1.5    | -        | 0.0     |
| <b>Thursday 7 May</b>  |   |         |          |         |
| China                  | - Apr Exports (YoY%)                    | -9.5    | -10.0    | -6.6    |
|                        | - Apr Imports (YoY%)                    | 11.0    | -11.4    | -1.0    |
|                        | - Apr Trade Balance (US\$bn)            | -10.1   | 9.1      | 19.9    |
|                        | - Apr Forex Reserves (US\$bn)           | 3090.0  | -        | 3060.6  |
| Hong Kong              | - Apr Forex Reserves (US\$bn)           | -       | -        | 437.5   |
| Philippines            | 0300 1Q GDP (YoY%)                      | 3.9     | -        | 6.4     |
|                        | 0300 1Q GDP (Q) (QoQ% SA)               | -       | -        | 2.2     |
| <b>Friday 8 May</b>    |   |         |          |         |
| China                  | - 1Q20 Current account balance (US\$bn) | 40.5    | -        | 40.5    |
| Indonesia              | - Apr Forex reserves (US\$bn)           | 121.3   | -        | 121.0   |
| Malaysia               | 0500 Mar Industrial production (YoY%)   | -5.0    | -        | 5.8     |
|                        | 0800 Apr 30 Forex reserves (US\$bn)     | -       | -        | 102.0   |
| Taiwan                 | 0900 Apr Exports (YoY%)                 | 1.7     | -        | -0.6    |
|                        | 0900 Apr Imports (YoY%)                 | 10.1    | -        | 0.5     |
|                        | 0900 Apr Trade balance (US\$bn)         | 1.8     | -        | 2.8     |

Source: Bloomberg ING

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