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Source: Shutterstock

I want to say "told you so", but that would be wrong on so many different levels

If I have any regular readers (I sometimes wonder if I'm the only one), you will know that I have not mentally participated in this stock rally, even if I did increase my skin in the game with a minor pension fund top up a few weeks ago. Much angst that caused me.

But I can't take any satisfaction from the overnight sell-off, because it doesn't look like much other than profit-taking. Pretty massive profits I grant you. Anyway, the correlation between different asset classes is very informative. This was not rotation out of stocks into bonds. 10Y US Treasury yields fell 2 bps, which is no more than background noise. Also, this is not "Risk off" returning. Gold was soft, as was Bitcoin. The dollar also did not rally into this equity sell-off as you might expect in a big risk-off reversion. Indeed, though it was a little softer on the day, it was gaining ground when stocks were selling.

Asian FX is currently treating this more cautiously. Most currencies yesterday were on the softer side vs the USD, though the real price action in response to the overnight equity developments has probably yet to be seen. The JPY has made some small gains, in keeping with a safe-haven story - but pretty small-beer so far. The stand-outs were actually the AUD and NZD, which many, including ourselves, had also thought overbought and in need of a correction, so they may simply be evidence of more cross-asset correlation, in this case, with stocks. We may see a bit more form

these currency pairs today, though as we approach tonight's US non-farm payrolls release, all bets are likely to be pared right back.

Other than the cross-currency correlations, the price-action of the equity market yesterday was also telling. Both the S&P500 and Nasdaq opened slightly down yesterday, and both then sold steadily for most of the session. This was orderly, not panicked. And there was a small intraday rally towards the close. Equity futures are still pointing to further declines, but I'd wager these will be modest compared to yesterday, with the payrolls numbers playing a more important role. Yesterday, there really was no particularly significant macro information, unless you count the non-manufacturing ISM (wasn't too bad, even if it did come off a little bit), and some downplaying of new guidance notions from a couple of fed speakers. As usual, my day-job played almost no role in market proceedings.

Day ahead

With little to speak of on the release calendar today in Asia ([see also our sister note "ASEAN Bytes"](#) for commentary on Singapore retail sales, PMIs and Philippines inflation), the big question is, what will payrolls look like today? With the follow-up, "And how will markets respond?"

I'm tempted to suggest that with the Fed out of ammunition (whatever they tell you to the contrary), with patience waiting for a vaccine becoming strained (markets want it yesterday), and no sign still of a fiscal patch from US Congress to keep things ticking over ahead of the Presidential Election, if I knew for sure that we were headed for a weak payrolls figure (in line with the ADP numbers earlier in the week), I would probably be a renewed seller of equities. But then I'd have been a seller throughout most of this rally, so I'm not sure you should read anything into this.

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ASEAN Morning Bytes

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EM Space: Tech rally fizzles out, could drag on trading sentiment on Friday

- **General Asia:** The tech rally finally ran out of steam mainly on profit-taking with the sell-off overnight likely to weigh on trading sentiment on Friday. Meanwhile, investors remain concerned about the simmering US-China tension with a pickup in military exercises in the South China Sea and a strongly worded speech from China's Xi. Covid-19 developments will also remain a concern with market players monitoring vaccine developments with several candidates now in phase 3 trials. Regional economic data reports feature Philippine inflation and Singapore's retail sales while investors look to the US jobs report out later tonight for further direction.
- **Thailand:** Yesterday's news of the first local Covid-19 case after more than three months of no local transmission isn't good for the government rushing to reopen the doors for foreign tourists. Thailand has been one of Asia's Covid-19 success stories; with the total number of infections of 3,427 so far much lower than its ASEAN neighbours. The news should keep the THB under a weakening bias today.
- **Singapore:** Released yesterday, the August PMIs painted a mixed picture of manufacturing activity. The official PMI signalled continued growth, although at a slightly slower pace (50.1 vs. 50.2 in July). But the Markit index showed a steeper fall (43.6 vs. 45.6 in July). This is

- sentiment-driven after all. Actual manufacturing output remains on a mildly upward trend.
- **Singapore:** The July retail sales data today will inform about how the service sector is doing. Sales continued to clawback large declines caused by the Covid-19 circuit-breaker measures in April-May but are still below their year-ago level (ING forecast -11 for July, consensus -16%). We see weak services and construction activity outweighing firmer manufacturing to keep year-on-year GDP growth in negative territory for the rest of the year.
 - **Indonesia:** Authorities have distanced themselves from a proposal to increase national government influence over Bank Indonesia (BI) with Economic Minister Hartarto declaring he was opposed to the idea of turning over control of the central bank to the Finance Ministry. Hartarto, however, said that the so-called “burden-sharing” arrangement between BI and the national government would continue in 2021 despite BI Governor Warjiyo insisting that 2020’s debt monetization was a one-off event. Concern and confusion over proposed plans to dilute central bank independence should continue to push IDR weakness in the near term as investors remain concerned about additional rounds of debt monetization.
 - **Philippines:** Philippine inflation will be released today with analysts expecting a 2.7% increase in prices for August. Price pressures remain modest given the economic recession with upward pressure on headline inflation driven mainly by slightly higher transport fares due to social distancing measures that disallow ride-sharing. Year-to-date inflation will likely settle at 2.6%, at the lower end of the central bank target and we do not expect any changes to monetary policy for the balance of the year.

What to look out for: US NFP report Covid-19 developments

- Philippines inflation (4 September)
- Singapore retail sales (4 September)
- Malaysia and Thailand GIR (4 September)
- US non-farm payrolls (4 September)

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Asia week ahead: Malaysian central bank decides policy

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Source: Shutterstock

➔ China and Japan data dump

August activity data from China including trade, foreign reserves, inflation and monetary indicators will be under the spotlight for the economic recovery in the current quarter.

Exports are back in play to be the key driver for Asia's biggest economy. At \$237.6 billion in July, China's monthly exports were just shy of the \$238.3 billion record level achieved in December 2019. If materialised, our forecast of a 16% year-on-year rise in August will lead to a new record of \$249 billion. The persistently large trade surplus and hot money inflows in the global risk-on rally in

August should shore up foreign reserves. Inflation should remain subdued and monetary data should underscore continued accommodative policy.

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The Japanese economy has been reeling under the Covid-19 impact on consumer and business spending. Labour cash earnings and household spending growth is likely to remain in negative territory in July, although to a lesser extent than in June. Businesses continued to observe caution on their capital spending given low confidence currently, as the July core machine orders and 3Q BSI Confidence Index releases will likely confirm.

1.50% ING forecast of BNM policy rate
After a 25bp cut next week

➔ Malaysia central bank meeting

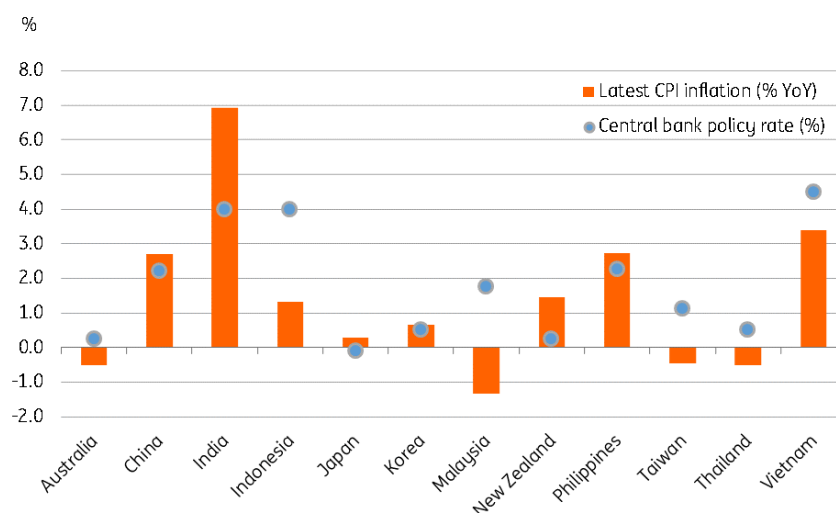
The Malaysian central bank will meet next week in a two-day meeting to be concluded on Thursday, 10 September. We have long been calling a 25 basis point rate cut at this meeting, taking the overnight policy rate down to a fresh low of 1.50%.

Even as Malaysia remains largely immune to the Covid-19 outbreak, its economy was one of the hardest hit in Asia with a 17% YoY GDP plunge in 2Q. Things are looking better as we move into 3Q with a second straight monthly export bounce in July boosting the trade surplus to the highest ever, 25 billion Malaysian ringgit (MYR). While this bodes well for GDP growth, a couple more quarters of negative GDP growth still looks inevitable.

Substantiating the rate cut argument further is the negative CPI inflation streak that's likely to prevail through the rest of the year as a result of anaemic domestic demand. With -1.3% YoY inflation in July, the real policy interest rate is one of the highest in Asia (see figure) -- not a good backdrop for economic recovery.

And, the relative outperformance of the MYR in the emerging market rally since June should provide more comfort to the central bank in cutting rates to stimulate growth.

Real interest rate* in Malaysia is one of the highest in Asia



Source: CEIC, ING

* Defined as nominal policy rate minus latest inflation rate.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Friday 4 September					
India	-	2Q Current account balance (Q) (US\$bn)	11.0	18.0	0.58
Monday 7 September					
China	-	Aug Exports (YoY%)	16.2	6.0	7.2
	-	Aug Imports (YoY%)	-1.0	1.0	-1.4
	-	Aug Trade Balance (US\$bn)	71.3	45.8	62.3
	-	Aug Forex Reserves (US\$bn)	3179.0	3168.5	3154.4
Hong Kong	-	Aug Forex Reserves (US\$bn)	-	-	450.0
Philippines	-	Aug Forex reserves (US\$bn)	-	-	98000
Taiwan	0900	Aug Exports (YoY%)	0.0	-	0.4
	0900	Aug Imports (YoY%)	-3.0	-	-6.8
	0900	Aug Trade balance (US\$bn)	6.7	-	5.4
Tuesday 8 September					
Taiwan	0900	Aug WPI (YoY%)	-8.0	-	-9.15
	0900	Aug CPI (YoY%)	-0.6	-	-0.52
Wednesday 9 September					
China	0230	Aug PPI (YoY%)	-1.6	-2.0	-2.4
	0230	Aug CPI (YoY%)	2.9	2.3	2.7
South Korea	0000	Aug Unemployment rate (% SA)	4.2	-	4.2
Thursday 10 September					
China	-	Aug Money supply (M2) (YoY%)	10.7	10.7	10.7
	-	Aug Aggregate finance (Yuan bn)	1792	-	1694
	-	Aug New yuan loans (Yuan bn)	1050	-	992.7
Malaysia	0800	Overnight Policy Rate	1.5	-	1.75
Philippines	0200	Jul Exports (YoY%)	-	-	-13.3
	0200	Jul Imports (YoY%)	-	-	-24.5
	0200	Jul Trade balance (US\$mn)	-	-	-1303
Friday 11 September					
India	1300	Jul Industrial production (YoY%)	-12.0	-	-16.6
Malaysia	0500	Jul Industrial production (YoY%)	2.8	-	-0.4

Source: ING, Bloomberg, *GMT

Asian FX Talking: Asian exceptions to the rule

Asian FX has been benefiting from the weaker USD, but there is a growing number of currencies in the APAC space for which appreciation is no longer a given



Source: Shutterstock

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Asia-Ex China: Slow recovery

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Source: Shutterstock

Japanese prime minister Shinzo Abe bows to the national flag as he announces his resignation due to health concerns.

Abe's resignation has not hurt the yen

The news of the month in Asia excluding China is the resignation of Japan's PM Shinzo Abe on health grounds.

Abe has been Japan's leader since 2012 and was the country's longest-serving Prime Minister. This latest stint was his second as PM – he also took the role briefly between 2006 and 2007. The coming days will see potential candidates jockeying for position.

Markets are already registering they don't necessarily see a new round of stimulus plans coming from the Bank of Japan

And while this might ordinarily have you wondering about a new round of stimulus plans to provide a smooth initiation period for any incoming PM, markets are already registering that they

don't necessarily see this as coming from the Bank of Japan, given several candidates have been open critics of Japan's central bank in the past. This is one reason why the Japanese yen rallied on the Abe news when normally, you would have expected it to depreciate.

Furthermore, with Japan claiming a 40% (GDP equivalent) fiscal stimulus in response to Covid-19 (probably the world's highest on "claimed" figures), this will also be hard to top.

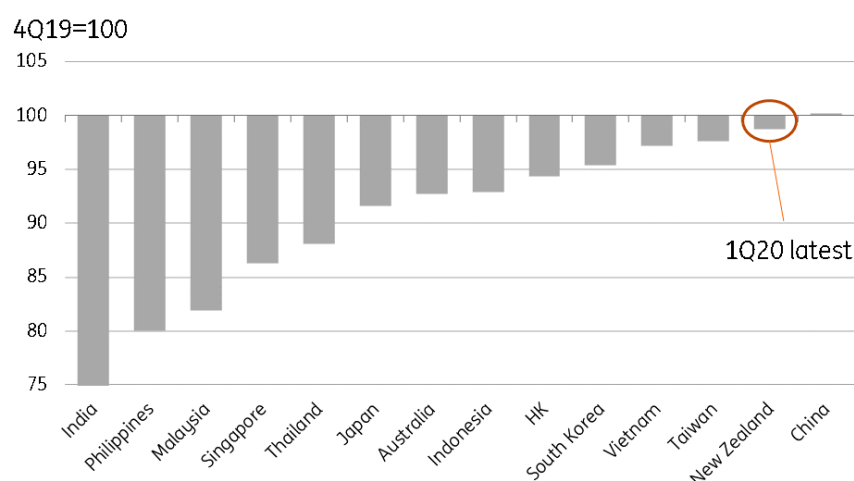
North Asia leads the pack

Elsewhere in the region, GDP figures have been drifting out, with more just out from Australia (-7.0%QoQ).

These show the extent of the Covid-19 damage, with India along with ASEAN countries, Philippines, Malaysia, Singapore and Thailand, at the bottom of the pack (measured in the chart below as an index where pre-Covid 4Q 2019 = 100), and North Asian economies, such as Japan, South Korea, and Taiwan (which probably benefit more from economic and geographic proximity to fast-growing China) registering smaller declines.

The relative outperformance of semiconductor demand is also disproportionately helping these economies. New Zealand is still to register 2Q20 GDP.

Asian GDP (4Q 2019 = 100)



Source: CEIC, ING
Asian GDP

Second wave back under control

Monthly data on industrial production, either the figures themselves or the manufacturing PMI series (where no hard data has yet been released), are painting a patchy picture for output in 3Q20. On balance, it looks as if the recovery continues, but it isn't robust across the entire region and is more consistent with the sort of slow recovery through 2020 and 2021 that reflects our baseline case, than any sort of V-shaped notion.

Helpfully, recent Covid-19 spikes, registered in countries such as South Korea, Australia, and New Zealand, now seem to be coming back under control again, thanks to swift actions by the respective authorities, though the second waves are likely to keep re-opening at a very cautious

pace, weighing on the pace of recovery in 3Q and 4Q20.

Recent experience also shows how easily and rapidly Covid-19 can get out of control and is a lesson against complacency in other countries.

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China: Revising GDP and yuan forecasts

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Source: Shutterstock

Woman wearing a face mask to help curb the spread of Covid-19 as her friends prepare to set up a picnic cloth on a scenic mountain in Yanqing, outskirts of Beijing, China

Domestic driven demand

Recent data shows that domestic demand in China has risen, creating more jobs. Joblessness, by our estimate, is still high at around 7%, but it has fallen from a peak of 10% when Covid-19 cases were still high.

Due to low Covid-19 cases in China, the government is now allowing cross-provincial travel and the policy has helped support retail sales. New orders in PMIs from manufacturing to non-manufacturing have also increased.

Net exports should no longer be the sole engine of GDP growth in 3Q20

Industrial profits grew 19.6% year-on-year in July. Though we anticipated that some profit growth would follow on from low energy costs, this data also implies that the speed of GDP growth could also increase.

We don't think GDP growth in the third quarter will rely on big net export growth of 8.8% YoY as in 2Q20. The surge in 2Q20 was mainly a result of very weak import growth. As domestic demand picks up, we expect import growth will also pick up. Net exports should no longer be the sole engine of GDP growth in 3Q20.

Revising GDP forecasts

We have revised our GDP growth forecast for 3Q20 to 2.5% YoY from 0.5% YoY, due to better than expected data. But growth in 4Q20 is revised down a bit from 5% YoY to 4% YoY due to potential escalation in the technology war.

The full-year forecast for GDP is 0.7% up from the previous 0.5%.

Lockdown scenario

China has had frequent lockdowns due to its vast geographical area and a policy which prefers to lock down early rather than adopt a wait-and-see approach.

During these lockdowns, the strictest social distancing measures have been applied. This means that China falls into our scenario B as a base case rather than A, which is less strict when handling Covid-19 cases.

In Hong Kong, scientists reported the case of a man who became reinfected with Covid-19 after travelling to Europe - the first documented case of reinfection in the world. This means a single vaccine may not be able to stop people from getting Covid-19 again, especially when travel restrictions are relaxed. With China now allowing cross-provincial travel, this could mean the country needs to see the development of several vaccines to keep Covid-19 at bay.

USD/CNY forecast at 6.7

As a result of the quick softening in the US dollar, our previous USD/CNY forecast is out of scope.

We believe the weakness of the dollar will continue irrespective of who wins the US presidential election, which means a further strengthening of the CNY against the dollar is more likely than a flat trend from now to the end of the year.

We are revising USD/CNY to 6.70 from the previous 6.97 at the end of 2020.

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