

## Good MornING Asia - 5 April 2021

Asian markets to tiptoe higher on light volume with a number of markets out on holiday

### In this bundle



Asia Morning Bites

#### ASEAN Morning Bytes

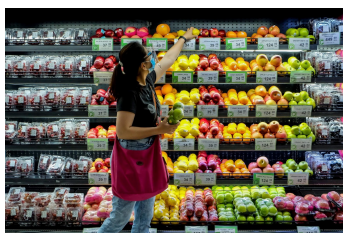
Asian markets to tiptoe higher on light volume with a number of markets out on holiday.



Asia week ahead

#### Asia week ahead: Australia and India's central banks to meet

Inflation data will dominate central banks thinking in Asia as two regional central banks meet next week and both are expected to stick to their current...



Australia | India...

#### Asia and the reflation trade

A lot has been written about the possible impact of rising US Treasury yields on equities and other risk assets, but what about bond markets in Asia? How...



FX | China

#### China: Revising our USD/CNY forecast

Exchange rate reform has shown that USD/CNY can be quite volatile, which is why we are revising our USD/CNY forecasts. In this note, we discuss the...



## ASEAN Morning Bytes

Asian markets to tiptoe higher on light volume with a number of markets out on holiday.



### EM Space: Investor sentiment could remain positive after strong US jobs report

- **General Asia:** Asian markets may edge higher on Monday following the strong US jobs report last Friday although thin volume due to holidays may cap gains. Investors will continue to monitor developments related to Biden's proposed infrastructure plan while also keeping an eye on vaccination developments across the globe. Although vaccination rollout efforts have been efficient in some areas, some parts of Europe have experienced challenges, leading to renewed lockdowns in France and Italy. For the week, investors look forward to the minutes of the recent FOMC meeting as well as China's inflation report for further direction.
- **Singapore:** March PMI and February retail sales data are due today. Higher manufacturing PMIs elsewhere in the region leads us to expect the same for Singapore (50.5 in February), with the Electronics sector PMI continuing to drive the strength. Over 18% YoY plunge in new vehicles registrations in February bodes ill for retail sales growth, though the low base effects are likely to swing the year-on-year sales growth to positive territory for the first time since early 2019. The USD/SGD has moved to a new higher trading range of 1.34-1.35 in March compared to 1.32-1.33 previously. However, the S\$-NEER remains close to the mid-point of the MAS policy band, signalling no policy change in the April statement expected

- sometime early next week.
- **Thailand:** March CPI inflation data is due. The market expectation that inflation swung back to positive in the last month after a year-long negative streak appears to be a bit optimistic (ING forecast -0.5% YoY vs. -1.2% in February). We believe persistently weak domestic demand, absence of tourism and plenty of excess capacity continued to dampen the price pressure. Without much policy leeway to support growth, the continued weak THB remains the Bank of Thailand's best hope in support for export and tourism recovery. The hope is finally coming true ([read more here](#)).
  - **Philippines:** Covid-19 new infections hit a new record over the weekend, forcing authorities to extend hard lockdown measures in the capital and surrounding regions in a bid to slow the spread of the virus. Metro Manila and its neighbouring provinces will be on the highest level of mobility restriction for at least 7 days, which will continue to weigh on growth prospects for the economy in recession. Other areas experiencing spikes in new cases will also be on hard lockdown, most notable of which would be the Cagayan region, the source of important food items, and the region's shutdown could have implications on inflation in the near term.

## What to look out for: FOMC minutes, China inflation and Covid-19 developments

- Thailand CPI inflation (5 April)
- Singapore retail sales and PMI (5 April)
- US ISM services index, factory orders and durable goods orders (5 April)
- Philippines CPI inflation (6 April)
- China Caixin PMI services (6 April)
- US JOLTS job openings (6 April)
- Malaysia GIR (7 April)
- Taiwan GIR (7 April)
- US trade balance (7 April)
- FOMC minutes (8 April)
- Philippines trade balance (8 April)
- Taiwan CPI inflation (8 April)
- US initial jobless claims (8 April)
- China CPI inflation (9 April)
- Malaysia industrial production (9 April)
- Thailand GIR (9 April)
- Taiwan trade balance (9 April)
- US PPI inflation and wholesale inventories (9 April)

### Author

#### Nicholas Mapa

Senior Economist, Philippines

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

# Asia week ahead: Australia and India's central banks to meet

Inflation data will dominate central banks thinking in Asia as two regional central banks meet next week and both are expected to stick to their current policy course



Source: Shutterstock

## Inflation data to dominate

In next week's Asian calendar, inflation data stands out as four countries – China, Taiwan, the Philippines and Thailand release figures for March.

The Philippines will take the spotlight for its runaway inflation that has surged past the central bank's 2-4% target (ING forecast 4.9%, up from 4.7% in February) and is becoming the main contender against India's 5.1% inflation in February to be the highest in Asia. Like India, supply shocks to food and transport prices are pushing inflation higher, while demand-side price pressures

remain muted amidst rising Covid-19 cases and renewed lockdowns.

---

*The Philippines will take the spotlight for its runaway inflation that has surged past the central bank's 2-4% target*

---

The central banks can unfortunately not do much but raise inflation forecasts. The Bangko Sentral ng Pilipinas raised its forecast for 2021 to 4.2% from 4.0% but left policy rates unchanged. We expect the Reserve Bank of India to take the same course at the upcoming meeting next week on 7 April.

There isn't much inflation in China or Thailand, which will also release their inflation numbers next week. Taiwan's March trade figures are likely to take prominence over inflation as the latter remains under control. Released earlier this week, the Korean trade figures show sustained strong growth and we expect the same for Taiwan's exports – both powered by the global semiconductor cycle that's going full steam ahead amidst the ongoing chip shortage.

Downunder, the [Reserve Bank of Australia will hold its policy meeting on 6 April](#). Like the Fed, the Australian central bank is likely to stick to the dovish rhetoric and maintain its current stance until 2024, when it expects inflation to recover to the 2-3% policy target. Although such inflation expectations appear to be misplaced against the rapid rise in jobs recently. We share the consensus view that governor Phillip Lowe is going to keep the policy interest rate and yield curve targets at 0.1% next week.

## Asia Economic Calendar

Country	Time	Data/event	ING Survey	Prev.
<b>Monday 5 April</b>				
India	0600	Mar IHS Markit Manufacturing PMI	-	57.5
Indonesia	-	Feb Retail Sales Index (YoY%)	-	-16.4
Philippines	0130	Mar Manufacturing PMI SA	51.4	52.5
	-	Mar Forex Reserves USD	109.0	109.1
Singapore	0600	Feb Retail Sales (MoM/YoY%)	-3.4/1.5	-1.8/-6.1
	1400	Mar Manufacturing PMI	-	50.5
Thailand	-	Mar CPI Headline (YoY%)	-0.5	-1.2
	-	Mar CPI Core (YoY%)	0.0	0.0
<b>Tuesday 6 April</b>				
China	0245	Mar Caixin Services PMI	-	51.5
Philippines	0200	Mar CPI (YoY%)	4.9	4.7
South Korea	0000	Feb Current Account Bal NSA	-	7.1
<b>Wednesday 7 April</b>				
China	-	Mar FX Reserves (Monthly)	3215.0	3.2
India	0530	Cash Reserve Ratio	3.00	3.00
	0530	Repo Rate	4.00	4.00
	0530	Reverse Repo Rate	3.35	3.35
	0600	Mar IHS Markit Services PMI	-	55.3
Indonesia	-	Mar Forex Reserves	138.2	138.8
Singapore	1000	Mar Foreign Reserves USD	-	382.6
Taiwan	0920	Mar Foreign Exchange Reserve	540.0	543.3
<b>Thursday 8 April</b>				
Hong Kong	0130	Mar IHS Markit PMI	-	50.2
Philippines	0200	Feb Exports (YoY%)	3.9	-5.2
	0200	Feb Imports (YoY%)	11.6	-14.9
	0200	Feb Trade Balance	-2266.3	-2421.0
Taiwan	0900	Mar CPI (YoY%)	1.4	1.4
Taiwan	0900	Mar WPI (YoY%)	0.0	-0.4
Thailand	0400	Mar Consumer Confidence Idx	-	49.4
<b>Friday 9 April</b>				
China	0230	Mar CPI (YoY%)	0.0	-0.2
	0230	Mar PPI (YoY%)	4.7	1.7
Indonesia	-	Mar BI consumer confidence index	87.1	85.8
Malaysia	0500	Feb Industrial Output (YoY%)	4.8	1.2
Taiwan	0900	Mar Imports	11.0	5.7
	0900	Mar Exports	26.0	9.7
	0900	Mar Trade Balance	7.5	4.5

Source: ING, Refinitiv, \*GMT

## Author

### Olivia Grace

Editor

[olivia.grace@ing.com](mailto:olivia.grace@ing.com)

### Julian Geib

Junior Economist, Global Trade

[julian.geib@ing.de](mailto:julian.geib@ing.de)

**Zoltán Homolya**

Economic research trainee

[zoltan.homolya@ing.com](mailto:zoltan.homolya@ing.com)

**Amrita Naik Nimbalkar**

Junior Economist, Global Macro

[amrita.naik.nimbalkar@ing.com](mailto:amrita.naik.nimbalkar@ing.com)

**Mateusz Sutowicz**

Senior Economist, Poland

[mateusz.sutowicz@ing.pl](mailto:mateusz.sutowicz@ing.pl)

**Alissa Lefebre**

Economist

[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

**Deepali Bhargava**

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

**Ruben Dewitte**

Economist

+32495364780

[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

**Kinga Havasi**

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

**Marten van Garderen**

Consumer Economist, Netherlands

[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

**David Havrlant**

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

**Sander Burgers**

Senior Economist, Dutch Housing

[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

**Lynn Song**

Chief Economist, Greater China

[lynn.song@ing.com](mailto:lynn.song@ing.com)

**Michiel Tukker**

Senior UK & Eurozone Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

**Michal Rubaszek**

Senior Economist, Poland

[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

**Stefan Posea**

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**

Senior Sector Strategist, Real Estate

[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**

Research Assistant, Energy Transition

[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**

Senior Economist, Healthcare & Technology

[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**

Sector Economist

[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**

Commodities Strategist

[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

**ING Analysts**

**James Wilson**

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**

Digital Editor

[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@ing.com](mailto:min.joo.kang@ing.com)

**Coco Zhang**

ESG Research

[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**

Senior Sector Strategist, TMT

[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**

Senior Economist, Services and Leisure

[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**

Sector Strategist, Financials

[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**

Junior Economist

[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**

Senior Economist, Germany

[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**

Deputy Global Head of Editorial and Supervisory Analyst

[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**

Credit Strategist

[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**

Senior Economist, Poland

[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Antoine Bouvet**

Head of European Rates Strategy

[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**

Global Head of Sector Research

[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**

Senior Sector Economist, Industry and Healthcare

[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**

Senior Sector Economist, Transport and Logistics

[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**

Sector Economist

[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**

Senior Economist, Philippines

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

**Egor Fedorov**

Senior Credit Analyst

[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**

Consumer Economist

[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**

Senior Sector Economist, Energy

[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**

Head of Corporate Sector Strategy

[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**

Behavioural Scientist

+31(0)611172684

[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**

Senior Sector Strategist, Financials

[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**

Senior Sector Economist, Food & Agri

[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**

Senior Economist Construction & Team Lead Sectors

[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klokk**

Senior Economist, Netherlands

[marcel.klokk@ing.com](mailto:marcel.klokk@ing.com)

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**

Chief Economist and Global Head of Research

[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**

Senior Macro Economist

[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**

Head of Global IFRS9 ME Scenarios

[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**

Head of Financials Sector Strategy

[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**

Head of Commodities Strategy

[Warren.Patterson@ing.com](mailto:Warren.Patterson@ing.com)

**Rafal Benecki**

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**

Senior Economist, Belgium, Luxembourg

[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**

Senior Economist, Global Trade

[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**

Senior Data Analyst, Netherlands

[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**

Chief Economist, Romania

+40 31 406 8990

[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**

Writer, Group Research

+44 20 7767 6209

[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto: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](mailto:martin.van.vliet@ing.com)

**Karol Pogorzelski**

Senior Economist, Poland

[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**

Foreign Exchange Strategist

+44 20 7767 6405

[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**

Global Head of Editorial Content

+44 (0) 207 767 5331

[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**

Chief Economist, LATAM

+1 646 424 6464

[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**

Economist, Digital Finance

+44 20 7767 5306

[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)

## Asia and the reflation trade

A lot has been written about the possible impact of rising US Treasury yields on equities and other risk assets, but what about bond markets in Asia? How have they fared?



Source: Shutterstock

A woman buys fruits at a supermarket in Manila, the Philippines

### ASEAN bond markets hardest hit, but with one exception, not excessive

The first point to note is that so far, outside Asia-Pacific, the US Treasury yields move has been received in a fairly orderly fashion. This has not been a one-way move and has still left most risk assets close to all-time highs. There is no sense, for example, that central banks anywhere need to step in to protect investors, many of whom are still up massively over the last 15 months or so. Analysts' forecasts continue to suggest that regional monetary authorities (with the odd exception) will ride out the current bond rout and keep policy rates unchanged.

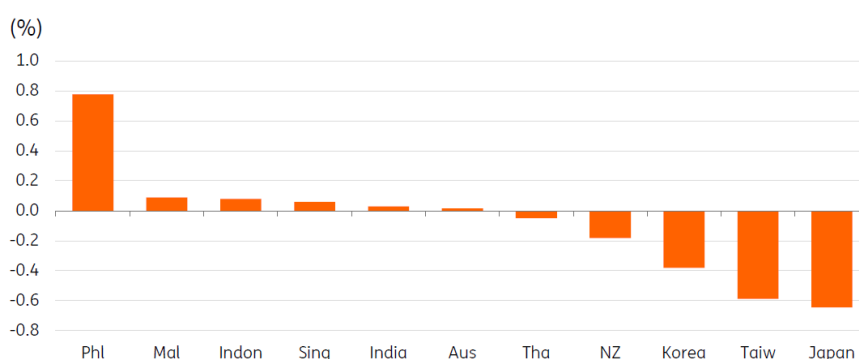
That said, there has been a significant impact on local currency bond yields in the APAC region which will inevitably exert some downward pressure on recovery prospects as it feeds through into higher borrowing rates. This has been most notable in ASEAN markets, where 10-year yields have broadly tracked those of US Treasuries, with a slight tendency for local currency government bond yields to rise more than respective USTs. This is the case for Malaysia, Indonesia, and Singapore.

But even in developed markets, such as Australia, the same tendency is shown. This does not

appear to be an emerging market vs developed market story. At least not yet. New Zealand has seen a smaller increase in its benchmark 10-year government bond yields. But that mainly stems from new government measures to dampen their booming housing market, reflected in a failed quantitative easing operation recently which suggests that local bond investors already believe the sell-off has gone far enough. In contrast, there has been a proportionately much smaller rise in bond yields in North Asian economies - Korea, Taiwan, and Japan.

Standing out from all the others, Philippine bonds have been extremely hard-hit, with the 10-year bond yield charging higher by 147 basis points since the beginning of the year. Both Bangko Sentral ng Pilipinas (BSP) and Bank Indonesia (BI) have active bond purchase mechanisms that have been deployed to limit the increase in yields. But in the case of the Philippines, this does not seem to have made much difference.

## 10Y APAC bond yields since 1 Jan (relative to UST10s)



Source: CEIC, APAC central banks, High charts, ING  
APAC bond yields relative to USTs

## Wrong place / wrong time for Philippine inflation?

The Philippines continues to suffer one of the longest lockdowns anywhere globally, and was recently extended as new variants have pushed up daily case numbers, blotting the prospects for an imminent economic reopening. But Indonesia and Malaysia have also experienced difficulties with the pandemic in recent months. This is probably not what is causing the Philippine bond market's problems.

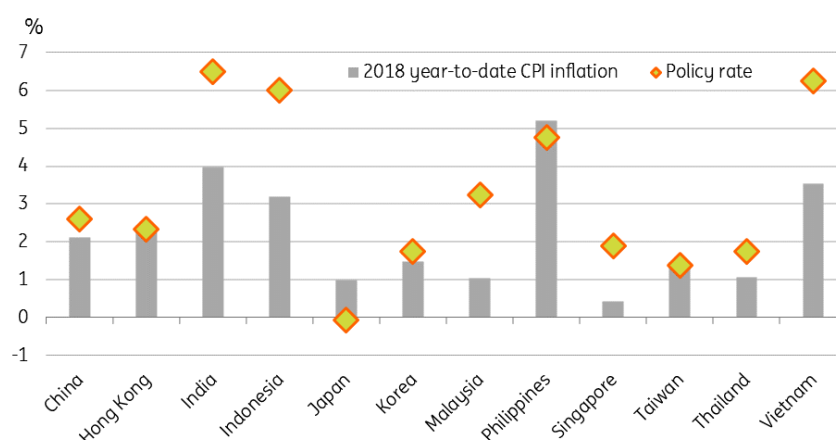
The one indicator that sticks out above all others among ASEAN markets is the Philippines' above-target inflation rate. Within the ASEAN group, the Philippines is the only economy facing surging inflation while also suffering from the worst recession (-9.5% year-on-year in 2020). Outside the ASEAN, India too has seen inflation push up again to 5% in February, towards the upper end of its 2-6% target range. But the RBI was the first central bank in the region to tighten policy with its 50bps cash reserve ratio increase in February. Bond markets may be rewarding the RBI for its proactive approach.

Supply-side factors together with some slightly higher energy (oil-related) prices are almost entirely to blame for the inflation surge in the Philippines (an African swine fever outbreak has pushed up pork and other meat prices). And the most recent reading for Philippine headline inflation of 4.7%, has resulted in a negative real policy rate of 2.7%.

In contrast, both Thailand and Malaysia are experiencing disinflation due to weak domestic

demand while Indonesia's inflation has slipped below the 2-4% target of Bank Indonesia (BI).

## APAC inflation and policy rates



## How the future looks

But while the Philippines has bucked the trend in terms of bond markets so far, the outlook might not be so bleak. Many countries in the region saw inflation dip sharply in 2Q 2020 as the pandemic struck home. And as a result, will be facing spiking inflation rates in the coming months. Not only did the Philippines not echo this experience, it saw supply chain interruptions push inflation up at that time and will benefit from the unwinding of that during 2Q/3Q21. Moreover, the supply shock from African swine fever will also eventually cease to be a factor and falling pork prices will also help moderate headline inflation even as other countries see their inflation rates pick up.

None of which alters the fact that higher bond yields will hit Philippine and more broadly ASEAN growth prospects harder than those of North Asian economies in 2021. But the Philippines' status as a bond market outlier may cease to be as stark as we move into the second and third quarters.

## Author

### Nicholas Mapa

Senior Economist, Philippines

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

## China: Revising our USD/CNY forecast

Exchange rate reform has shown that USD/CNY can be quite volatile, which is why we are revising our USD/CNY forecasts. In this note, we discuss the progress in liberalisation efforts and the prospects for interest rate reform in 2021



Source: Shutterstock

China Fujian Xi Jinping Inspection - 24 Mar 2021

### Exchange rate liberalisation is in charge

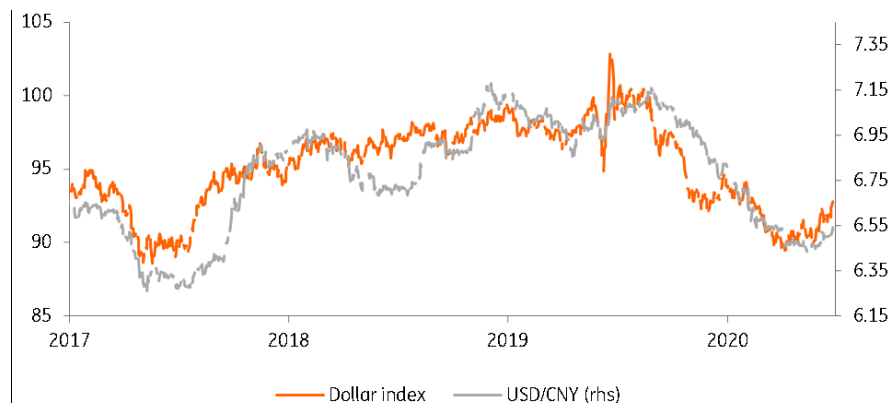
Since October 2020, China's central bank, PBoC, has liberalised the exchange rate by fading out the counter-cyclical factor in the daily fixing mechanism. Though the daily fixing exchange rate is still announced in the morning of every trading day in Mainland China, the transparency of the fixing has increased. The market has since become used to the USD/CNY fixing following the direction and momentum of the dollar index, which reflects changes in market information.

In making this change, the PBoC and the market face higher yuan volatility. This risk is not only taken by the market but by the central bank as well. When there is unexpected news or data that hints at either much bigger capital inflows or outflows, moves in USD/CNY will be particularly unpredictable.

If the central bank has a contingent plan for this lack of predictability and/or believes that cross border capital flows are fairly stable in China, it is unlikely to be too concerned about this risk.

For now, the latter is true. The capital account in China is still not fully open although it has opened a lot within the past few years. One example is to allow foreigners to invest in China's bond market, which indeed attracts capital outflows, and these are fairly stable investments.

## USD/CNY is increasingly correlated with the dollar index



Source: CEIC, ING

## Interest rate reform is coming

What we are looking for in 2021 is interest rate reform. Though banks have now adopted the Loan Prime Rate as the benchmark interest rate for longer-term loans, the market is not yet sensitive enough to reflect all of the risk, including credit, interest and liquidity, in the interest rates that link to the benchmark interest rate. Short-term loans face a similar situation.

We, therefore, expect the PBoC to guide banks further in quoting interest rates to clients. These clients not only include big corporate clients but also small retail borrowers. In fact, regulators are clamping down on online platforms similar to "peer-helping" lending platforms that target small retail borrowers. We believe that regulators will put more emphasis on both the legality of lending and the sensitivity of interest rates to the risks incurred in such lending.

## The main domestic factor which could affect the yuan

The government has deepened deleveraging reform in the real estate sector. This is, in fact, good news because those 'too big to fail' real estate developers are now being closely monitored by the central government for how they use their borrowings under the category of "working capital". Real estate developers should no longer be able to use the loophole of "working capital" to bid for land. This will speed up the deleveraging process.

To be sure, there is a risk of deleveraging too fast, which could squeeze some weak developers into bond and loan defaults. But the number of such cases should be small, and they shouldn't be the biggest developers.

This domestic factor could affect USD/CNY if there is bad news from the sector.

### Revising USD/CNY forecast

As USD/CNY is now increasingly reactive to the dollar index, and Covid is yet to be under control in the US and Europe, we are revising our forecast of USD/CNY to 6.30 from 6.20 by

the end of 2021. We may further revise the forecast if the dollar strengthens.

## Author

### Iris Pang

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto: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](http://www.ing.com).