

Good MornING Asia - 5 June 2020

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It's not all bad

I'm conscious that most of these notes of mine are an angry rant about how bad everything is and why markets are "wrong" (in the sense that any time they don't move the direction I think appropriate, they must be wrong, right?).

Today, my reading of the economic tea-leaves leaves me less concerned about the state of the world. Europe at least does not seem to be wasting this crisis and is using the time to make some fundamental changes. Small steps towards fiscal federalism in the form of the rescue package the EU is trying to put together is an important step towards ensuring the success of the euro-project, and a big dollop (EUR130bn) of fiscal stimulus from Germany earlier this week helps to address a perennial criticism of Europe's biggest economy for not doing enough to help its poorer European neighbours. The ECB joined the party yesterday ([here's a note from Carsten Brzeski](#)) with a EUR600bn addition to their bond purchase scheme, a little in excess of expectations. In short, It all seems to be coming together for Europe in a very positive way, and markets are beginning to notice.

The EUR has been benefitting from a combination of USD weakness as overall market sentiment

has strengthened, and an improvement in the Eurozone's prospects. But a number of analysts ([including our own Petr Krpata](#)), are suggesting that this rally may be running out of steam. This view may spread further if market sentiment generally started to sour, spurring a return to USD assets, and maybe the latest move in US stock markets is a taste of that, as there doesn't seem to be much other justification for it?.

US payrolls data, later today, will give us a better sense of how market sentiment is poised. Yesterday's second-tier weekly jobless claims were a very feeble excuse for a sell-off if indeed, that is what prompted the selling - I have my doubts. Given that the consensus view is for a 7.5M increase in joblessness and a rise in the unemployment rate to 19.1%, any improvement on these numbers ought to be positive for sentiment, though that doesn't; always follow if market bullishness is simply a function of expectations of future stimulus. The earlier ADP numbers this week raise the possibility that the payrolls numbers may not be as negative as the consensus - so this could be an interesting test.

Today in Asia

Rounding off today's note, Prakash Sakpal takes a look at some of today's key events in the region.

"Singapore: April retail sales data today will reveal the impact of the Covid-19 circuit-breaker (started on 7 April) on consumer spending. We are looking for a 36.6% YoY fall, steeper than the 13.3% fall in March. Supermarket sales should continue to outperform non-essential consumer spending of all sorts. Motor vehicles sales remained the weakest spot judging from the 84% plunge in new registrations in April.

Malaysia: Prime Minister Muhyiddin Yassin is going to announce today a post-Covid-19 Economic Recovery Plan (ERP) aimed at empowering the people, propelling businesses and stimulating the economy. Yesterday's April trade report was much weaker than expected; 23.8% YoY slump in exports sent the trade balance to the highest-ever deficit of MYR 3.5 billion ([read more here](#)). This bodes ill for the MYR, supporting our view that the USD/MYR will trade above 4.40 over the next three months.

Thailand: As expected, the streak of negative inflation in Thailand gained further traction in May, while confidence indicators continued to signal a record GDP contraction in this quarter ([read more here](#)). But the Bank of Thailand's rate policy has almost reached its limits, which together with the divide among BoT policymakers over the last 25 basis point rate cut in May, signals the end of the easing cycle. We don't think unconventional easing is on the table, not in the near-term".

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

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

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

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

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

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

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com

ASEAN Morning Bytes

Investors await US non-farm payroll data for additional direction



EM Space: US non-farm payroll in focus

- **General Asia:** Asian markets will likely be in a holding pattern on Friday with investors looking to US jobs data later in the session for further direction. Market participants will also take stock of the additional stimulus efforts by the ECB and monitor developments on the energy front as OPEC leaders failed to convene as scheduled. In terms of data on Friday, regional players will report inflation for the month of May (Philippines, Thailand and Taiwan) and retail sales in Singapore although most investors will be trained on the US jobs figures against the backdrop of escalating US-China trade tension.
- **Singapore:** April retail sales data today will reveal the impact of the Covid-19 circuit-breaker (started on 7 April) on consumer spending. We are looking for a 36.6% YoY fall, steeper than the 13.3% fall in March. Supermarket sales should continue to outperform non-essential consumer spending of all sorts. Motor vehicles sales remained the weakest spot judging from the 84% plunge in new registrations in April.
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Economic Recovery Plan (ERP) aimed at empowering the people, propelling businesses and stimulating the economy. Yesterday's April trade report was much weaker than expected; 23.8% YoY slump in exports sent the trade balance to the highest-ever deficit of MYR 3.5 billion ([read more here](#)). This bodes ill for the MYR, supporting our view that the USD/MYR will trade above 4.40 over the next three months.

- **Indonesia:** Large scale social restrictions in Jakarta and surrounding regions will be gradually relaxed beginning 8 June as government officials move to reopen and salvage some economic activity to limit the impact of partial lockdowns on GDP. Mass transport and retail shopping outlets will be allowed to operate at 50% capacity with authorities indicating that the removal of restrictions will be in phases so as to prevent a possible spike in infections. A potential second wave of the virus could force government officials to reinstate lockdown measures which would likely push back the economic recovery into 2021.
- **Philippines:** The Philippines reports inflation for May with ING expecting headline inflation to rise slightly to 2.4% as utility prices were adjusted. Headline inflation will likely stay well-behaved and at the lower end of the Bangko Sentral ng Pilipinas' (BSP) inflation target of 2-4% for 2020, providing the central bank scope to ease further should GDP continue to edge lower. We expect the still benign inflation to leave the door open for BSP governor Diokno to cut policy rates at the June policy meeting but this will likely be his last policy move for the year.

What to look out for: US jobs data and Covid-19 developments

- Philippines inflation (5 June)
- Thailand inflation (5 June)
- Singapore retail sales (5 June)
- Taiwan inflation (5 June)
- US non-farm payrolls (5 June)
- Regional GIR (5 June)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Malaysia's export resilience comes to an end

A sharp fall in exports and the widest ever trade deficit suggests the recent relief for the Malaysian ringgit from improving oil prices may not last



Source: shutterstock

23.8%

Export fall in April

Year-on-year

Worse than expected

Electronics and oil dent exports

The resiliency of Malaysian exports seen earlier this year has ended.

23.8% year-on-year export plunge in April was steeper than our -19.0% estimate and consensus of -12.8%. This follows -4.7% YoY growth in March. Just like some of its Southeast neighbours' Malaysian exports held their ground in the first quarter with 1.1% growth but not anymore.

Electrical and electronics - the dominant of all product groups with 38% weight in total exports,

remained the main drag with the accelerated decline (-22% YoY vs. -14% in March). And, as we expected, oil and petroleum products exports followed in (-23% vs. +14%), led by a double whammy of global demand slump and low prices.

In terms of destinations, the US and Japan were the weak spots with 31% and 28% fall in shipments, respectively. Bucking the trend, was China with a 4% rise in exports, as a hopeful sign of post-Covid recovery of demand in the biggest export market.

Record trade deficit

Imports also contracted by 8% YoY, though not as bad as consensus expectations of -15.6%. Most product categories posted steeper import falls than in the preceding month, though, oddly enough, transport equipment outshined with 233% jump.

Narrowing trade surplus and weak tourism revenues due to Covid-19 are likely to cause a dent to the current account surplus this year

This produced a trade deficit of MYR 3.5 billion - the highest deficit ever following a surplus of over MYR 12 billion in March. The year-to-date trade balance is still in surplus at MYR 33.4 billion, though that's a sharp narrowing from MYR 48 billion surplus in the same period last year.

Narrowing trade surplus and weak tourism revenues due to Covid-19 are likely to cause a dent to the current account surplus this year.

We anticipate it to be equivalent to 1.5% of GDP as against 3.4% in 2019.

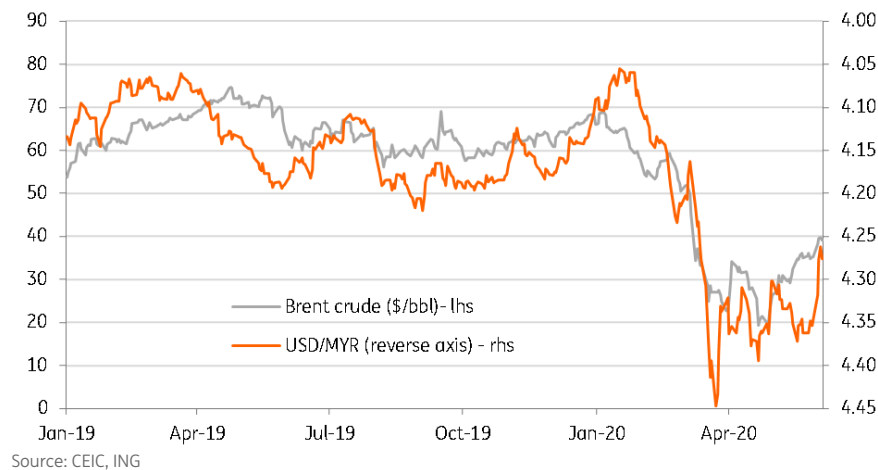
Not good for the currency

The recent pick up in oil prices has been a relief for the ringgit, helping the recovery from a sharp depreciation to 4.45 in March to 4.28 currently.

However, the trade figures suggest that the relief may not last for long. Besides ongoing weak economic fundamentals, continued political risk remains a key headwind for future MYR appreciation.

We continue to see the USD/MYR trading above 4.40 over the next three months.

Oil drives MYR



Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro
amrita.naik.nimbalkar@ing.com

Alissa Lefebvre

Economist
alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte

Economist
 +32495364780
ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee
kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic
 420 770 321 486
david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

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

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
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

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

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

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com

Thailand: Negative inflation gains traction

But the Bank of Thailand's rate policy has almost reached its limits, which together with the divide among BoT policymakers over the last 25 basis point rate cut in May, points to the end of the easing cycle



Source: Shutterstock

-3.4% CPI inflation in May
Year-on-year

Steeper inflation fall

The streak of negative inflation in Thailand gained further traction in May. CPI inflation fell to -3.4% year-on-year last month, steeper than the consensus of -3.2% though not as bad as our -4.2% forecast. This follows a -3.0% reading in April. Core CPI inflation slowed to 0% from 0.4% in April.

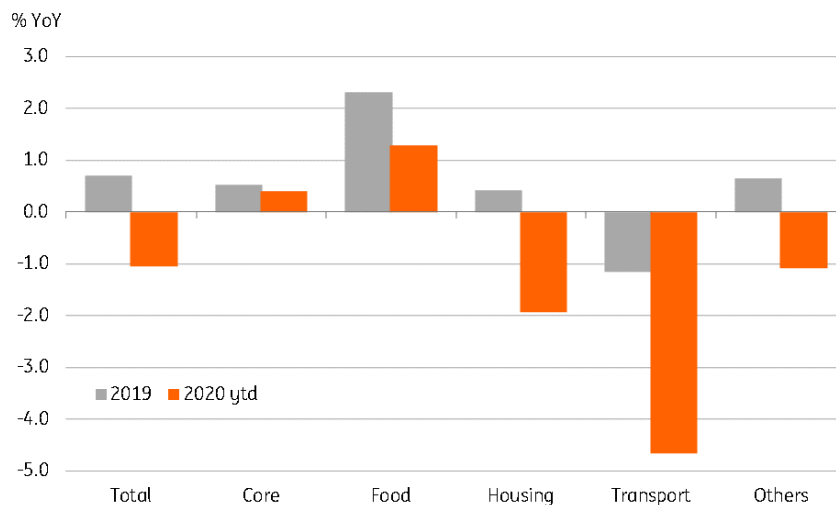
Housing and transport prices remained the main sources of falling inflation, though at -5.4% YoY and -9.2%, respectively, inflation in these components was little changed from readings in April. As we expected, food prices were an added source, with a fall to 0% from 1% on the back of the high base effect.

Technical deflation

This marks the third consecutive month of negative inflation in Thailand, which the director-general of the Commerce Ministry's trade policy and strategy office, Pimchanok Vonkorporon, noted as "technical deflation". He expects full-year average inflation in 2020 of between -0.2% to -1.0% (year-to-date -1.0%), which implies there would be much smaller declines in the rest of the year than the -3% currently. We are sceptical of such a prospect.

We expect inflation in the rest of the year to stay around -3% and the full-year average to come in at -2.3%, the worst annual rate in decades.

CPI Inflation (% year-on-year)



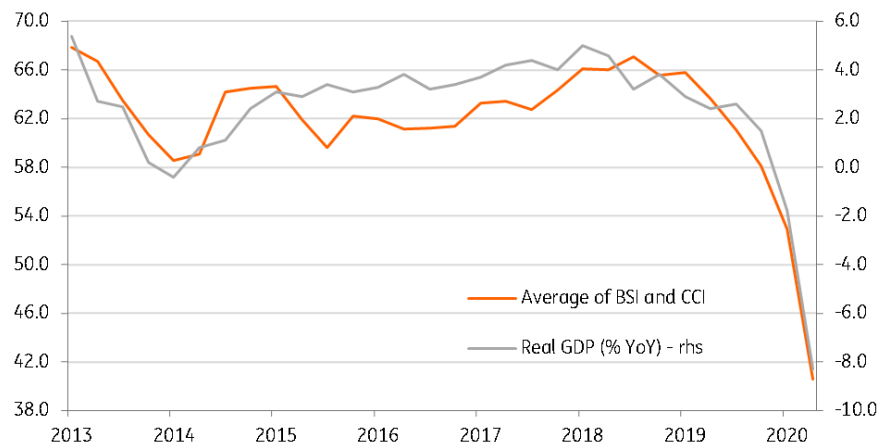
Source: CEIC, ING

Improved confidence

Also released today, the Consumer Confidence Index (CCI) rose to 48.2 in May from a record low of 47.2 in April. Coming on the heels of a pick-up in the Business Sentiment Index (BSI) in the month (to 34.4 from 32.6), the data reflects a stabilising Covid-19 situation and gradual relaxation of movement restrictions.

However, these indexes still correspond to our forecast of a record GDP contraction in the current quarter, by 8.3% YoY (see chart).

Weak confidence, weak GDP growth



Source: CEIC, ING

ING 2Q GDP forecast against average confidence in April-May.

What all this means for policy?

Falling inflation supports the argument for more Bank of Thailand (central bank) monetary easing. However, a total 75 basis point BoT rate cut so far this year has taken the policy rate to an all-time low of 0.50%, from where there isn't much space for it to fall further. Moreover, the divide among policymakers over the latest 25bp cut on 20 May, with some favouring no change, points to the end of the easing cycle.

With rate policy reaching its limits and the government going on a borrowing spree to fund huge fiscal stimulus, the idea of unconventional or quantitative easing (QE) has been floating around. We don't see the BoT moving to that path in the near-term.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

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

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

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

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

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

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com

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