Good MornING Asia - 5 March 2021

With Treasury yields an important consideration for ALL markets, not surprisingly we are seeing increased US Treasury volatility (after Powell's comments yesterday) unsettle Asian markets too. Our US economist and rates strategists think this has further to run (we agree)

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Asia-Pacific Markets reel amidst Treasury selloff

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Source: Shutterstock

Great piece from our US colleagues

Before you do anything else today, set aside 3 minutes to read this from our US economist and rates strategists.

Though if you are really pressed for time, the message is very neatly summarised in its title "Does a “patient” Fed risk becoming a “complacent” Fed?". The answer to which is an emphatic "Yes!".

I've written about this at times in this note myself, and I find myself coming back to the question, "when headline US inflation is in excess of 3% later in 2Q21 (which I fully expect, and which James Knightley, our US economist, is forecasting), isn't Jerome Powell's "patience" going to come across as the Fed asleep at the wheel?"

We are seeing the overnight US Treasury moves translating into Treasury proxy bonds in the region, HKD obviously, but also AUD and SGD. In EM space, the moves are less marked, but

Indonesian Rupiah bonds also showed some steep yield increases.

With the USD rallying strongly against the EUR and falling almost a big figure to 1.1960, Asian currencies were all softer against the USD. This was particularly pronounced by the JPY, which touched 108 briefly, but SGD and KRW were also soft. Equity futures in the region are all almost universally showing red today, following yesterday's US sell-off, which once again, was concentrated on tech stocks. I read a comment this morning that markets will only pay up for what they lack, and now they have growth, why would they pay up for tech stocks? It's a fair point and one which I have at times subscribed to, though it doesn't always hold. But as a generalization, you could widen this view to "...If the market can now obtain yield from risk-free Treasuries, why would they hold riskier credit instruments unless their yields go much higher...? You can play this game with a lot of markets now.

But whatever you do, remember, tonight it is non-farm payrolls. The earlier ADP survey this week was disappointing. it's not a good monthly predictor of non-farm payrolls changes, though having said that, it is probably the single best advance indicator we have. A softer payrolls release could see some reversal in recent market moves, though this remains close to a coin toss.

OPEC + hang on to price rather than go for volume

Something else that isn't helping to quell fears of rising inflation, is what OPEC+ is doing. Warren Patterson will be writing about this later today, so if you want to see his note, then go to the subscribe page on "Think" and set your preferences accordingly. Here is a link to that - you can do the rest yourselves.

But if you can't wait that long, then the paraphrased version of what I picked up from Warren in this morning's call was that against market expectations for about a 1.5M bbl/d easing in OPEC+ output from April, we are in fact only going to see about a 150,000 bbl/d increase, mainly from Russia and Kazakhstan. We were already looking for Brent crude prices to average $65/bbl over 2021, and I wonder if Warren will be nudging these figures a little higher now..? Let's see what his note says.

Philippine inflation, also going up

Sticking with the inflation theme, here is what Nicky Mapa is thinking about Philippine inflation "February inflation will be released today with market participants expecting CPI inflation to rise to 4.7%, due largely to accelerating food and transport prices. Bangko Sentral ng Pilipinas (BSP) Governor indicated that monetary policy was appropriate for the time being despite the current surge in prices, pointing to the need for monetary support during the economic recession. BSP also reiterated that it was confident inflation would eventually taper off in the second half of the year once food supply chain bottlenecks were addressed".

Today in China

And with the two sessions kicking off yesterday, here is what Iris Pang is looking for from today's meetings "Two things to watch for from the China government report. One is whether there will be a GDP growth target. We think probably not, as the government mainly focuses now on "high-quality" growth rather than on the amount. Another is the fiscal budget as a percentage of GDP. The consensus is for this to be 3% down from last year’s 3.6%. My focus will be on how the fiscal budget is to be distributed. There won’t be much on Covid relief measures anymore. But instead, there should be more spending on technology R&D due to the ongoing technology war with the US".

Thanks a lot for reading us today, and have a great weekend.

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Article | 4 March 2021

Australia | India...

Asia Pacific - Held back by the lack of vaccines

Asia may have had a better pandemic compared to the rest of the world, but it is lagging well behind in the push to roll out vaccines. With the political tolerance of Covid-19 very low, this means the removal of restrictions is likely to be slow, and this will weigh on growth this year

Source: Shutterstock

An army doctor prepares to inject the Sinovac vaccine from China during a vaccination at Fort Bonifacio, Metro Manila, Philippines

A different appetite for Covid-19 and a lack of vaccines is a bad mix

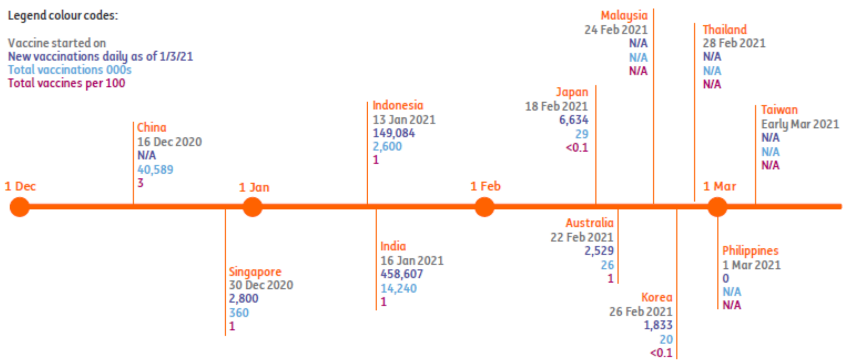
With many times the daily confirmed cases of the Philippines', the UK is mulling a slow reopening plan for its economy. In contrast, in metro-Manila, the unwinding of the lockdown has been pushed out once again, meaning that it will have lasted a full year by the middle of this month.

The Philippines may be an extreme example of Asian governments' reactions to Covid-19, but it is not totally out of line with the rest of the region. Singapore, for example, which has averaged less than one community case a day in recent weeks, has said that it is not about to move out of phase three restrictions any time soon, at least until more widespread vaccinations have been rolled out across the population, their effectiveness has been proved, and the rest of the world has Covid-19 under control.

With much of the region taking a similarly cautious approach and resting the case for any reopening on the vaccine rollout, this has highlighted a glaring problem. That is that Asia has, for the most part, been extremely slow to roll out its vaccination programme.

Even compared to the dithering and mismanagement evident in Continental Europe, Asia is lagging globally. Japan, for example, had, as of 1 March, vaccinated fewer than 30,000 of its population. For comparison, the latest United Kingdom figures showed a daily vaccination total of 530,000 the day before.

Vaccine rollout



China	Beijing city set a target to complete vaccinations for Beijing city residents by May 2021. We expect other major cities to follow suit to set a timelines target for vaccination completion.
Singapore	The vaccination drive started with the front-line workers. It's extended to elderly population from 22 February. There are 14 vaccination centres in operation currently. The number is planned to be increased to 40 by end-April. The planned completion of vaccination drive by late 2021.
Indonesia	The authorities have decided to vaccinate the population between 18-59 years first as it needs to cover two-thirds of total population to reach the herd immunity.
India	One of the biggest vaccination drive in the world started in mid-January. The authorities aim to inoculate 22% of total 1.4 billion population by July.
Japan	Japan has been very slow to authorise vaccines due to low public trust in vaccines and is being very cautious with its rollout.
Australia	The vaccination started with priority population and will be rolled out in stages, depending on age and other risks, to the rest of the population. The authorities plan to inoculate the entire population by October 2021.
Malaysia	Vaccination started on 24 February with PM Muhyiddin. The government aims to vaccinate at least 80% of the 32 million population by February 2022.
Korea	The vaccination programme has been delayed due to late arrival of vaccines from Covax, and concern over the Astra Zenecca vaccine. Korea now plans to vaccinate 750,00 people by end 1Q21, down from the initial target of 1.5 million.
Thailand	Thailand started its vaccination on Sunday 28 Feb with ministers, health officials and medical professionals. The mass vaccination campaign is expected to be in full swing by mid-2021 when the authorities plan to administer 10 million doses a month.
Philippines	The first vaccines were given to Ministers on 1 March — Sinovac vaccines donated by China. Legislators are still debating a bill that would grant vaccine producers protection from lawsuits. The government aims to vaccinate 70% of the 110 million population but timelines have varied.

Source: ING

Why the delay?

There are several reasons why Asia is lagging behind the rest of the world in vaccinating its populations. Here are our top four:

- **Queue jumping by others**

There has, without much doubt, been a degree of queue jumping by some countries. Those at the very front of the queues argue to have taken a risk in paying up for vaccines before they were even proven. This gamble seems to have paid off, with countries like the UK, UAE and Israel getting access to the vaccines they paid up for in advance, especially as many of them achieved successful phase three trials and received accelerated regulatory approval by local medical bodies.

- **Lack of locally produced vaccines**

The US and UK also benefited from having substantial vaccine production facilities within their countries which surely helps. But so do India and China, yet they are still falling behind (though India is having a fairly decent go at rolling out vaccines to their population). With billion-plus populations, their goal is admittedly a more challenging one than for most European countries. Europe too has extensive vaccine production facilities on-site, so there is a limit to how much weight we can put on this excuse. We have to look elsewhere for the causes of failure.

- **Widespread vaccine mistrust/anxiety**

Population mistrust of vaccines is arguably a bigger problem in Asia than in some other parts of the world. Japan has endured a fraught history of alleged and real adverse reactions to various vaccines over the years, including the combined MMR vaccine. And the government has variously supported the vaccines' safety before withdrawing them and then re-introducing them. Not surprisingly, faith in government advice on vaccines is very low, with people more prepared to get their advice from friends and the internet. In the Philippines, Sanofi's Denvaxia vaccine for Dengue fever, a mosquito-borne killer in the tropics, was approved and then subsequently linked to the deaths of children and subsequently withdrawn. That vaccine had been in the works for 20 years. Understandably, there may be anxiety about vaccines that have been cooked up in less than a year combined with a lack of trust in government advice.

- **Legal framework for litigation of side-effects**

The vulnerability of vaccine makers to class action lawsuits in the event of real or alleged serious side-effects means that not only have the medical regulatory bodies been languid to provide their approval for vaccines, but the developers have also been in no rush to deliver physical vaccines to a region with relatively low Covid-prevalence, matched with an equally low appetite for vaccine risk. In some countries, the rollout has been delayed while legislation is passed to protect the vaccine companies from litigation in problems.

Central banks to sit on their hands all year

With Asia's economies likely to remain at least partially restricted for much of the year, the outlook for monetary policy in the region remains mostly one of inaction.

At one end of the spectrum, the normally hawkish Bank of Korea (BoK) may be one of the first central banks in the region to start unwinding emergency accommodation, with background concerns over house price growth and household debt accumulation the main reasons for normalisation. But the BoK will be very unlikely to make any move towards tightening policy until next year at the earliest. Despite potentially viewing a repricing of Korean Treasury Bond yields as a reasonable market response that could help rebalance the economy, they did intervene recently to try to stem the rise in local government bond yields, suggesting that on balance, they would prefer any such adjustment to be very gradual indeed.

> *Unsurprisingly, given recent market gyrations, no central bank in Asia looks like wanting to be either the first in the region to normalise or to steal a march on the US Fed*

The same economic imbalance criticisms could also be levelled at a central bank at the opposite end of the hawk-dove spectrum, the Reserve Bank of Australia (RBA). Yet they have committed to no tightening until 2024 at the earliest - which looks like a fairly obvious attempt to sound no more hawkish and probably a little bit more dovish than the US Federal Reserve. The RBA has been hard at work fighting the recent bond sell-off by upping their pace of general bond purchases under their QE scheme and driving their target 3-year bond yield back below its 0.1% target.

Bank Indonesia recently cut rates, so they are in no sense likely to reverse their policy stance any time soon. That said, Governor Perry Warjiyo has been hinting lately that despite ongoing problems tackling Covid-19 in Indonesia and extended movement restrictions, this is it as far as rate cuts go. Bank Negara Malaysia is also probably done with easing now that inflation has troughed and will likely return to positive territory in the coming months. But they won't be in a hurry to hike rates while Malaysia struggles more than most in the region with the pandemic. The tepid macroeconomy of Thailand and insipid Philippine recovery should also keep both the Bank of Thailand (BoT) and Bangko Sentral ng Pilipinas (BSP) inactive this year too.

Singapore's neutral nominal effective exchange rate index target will also almost certainly be left alone at the MAS April meeting. And the Bank of Japan (BoJ) will most likely resort to its usual playbook of talking about the potential for actions to stem unwelcome market moves but actually doing almost nothing of any substance. BoJ Governor Haruhiko Kuroda, as recently as January, seemed to suggest allowing benchmark Japanese Government Bond (JGB) yields to fluctuate in a wider band. However, there doesn't seem much appetite for that right now.

Unsurprisingly, given recent market gyrations, no central bank in Asia looks like wanting to be either the first in the region to normalise or to steal a march on the US Fed.

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Article | 4 March 2021 **China**

China: Two Sessions – what to expect on reforms

We recently wrote a note on what to expect from this year's Two Session meetings. That note focused on the economic aspects of the Two Sessions. This note focuses more on the three main reform targets

Source: Shutterstock
Great Hall of the People in Beijing, capital of China where Two Sessions will be held.

1 Social reform

The Two Sessions will likely focus on how to reform the household registration system at a faster pace. The current system separates urban and rural social systems so that rural workers cannot enjoy social benefits if they move to work and live in a city. There are already some experimental policies to include rural residents in the urban social security system. But the speed of adjustment is slow, and the number of people that can be "removed" from the household registration system is small compared to the whole population. More pilot projects have been started recently but this does not cover the biggest cities in China, which means many workers cannot enjoy social benefits. The ultimate solution is to replace the current household registration system with a unified national social security system. The main difficulty with this is fiscal redistribution between the central and local governments. Consequently, we only expect experimental steps until there is further progress in the fiscal structure.

Anti-corruption

There has been one story after another about corrupt officials being arrested in China over the past month. This has not been unusual in the period prior to the Two Sessions whilst Chairman Xi has been in office. Anti-corruption reforms were put on hold during 2020. But now that the government has more room to look at agendas other than Covid, one of the top priorities will be to clean up government. Some of these top officials are C-suites of SOEs (state-owned enterprises). If the same happens to POEs (Privately-owned enterprises), investors may lose confidence in the company, but this is not relevant for SOEs. Investors understand that the C-suites of SOEs rotate every few years, and the decision maker behind those decisions is the central government.

3 Exchange rate and interest rate reform

The People's Bank of China, China's central bank, has already started reforming the exchange rate system by fading out the counter-cyclical factors used in the daily exchange rate fixing mechanism. The goal of this is to increase transparency in yuan movements. We also expect interest rate reform to speed up this year to match these exchange rate reforms. Short-term interest rates should better reflect daily open market operations and be linked to financial products. This will help the PBoC in the future (maybe not for a decade) to shift gradually from the current myriad policy rates ranging from 7D to 5Y to a single policy rate.

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Asia week ahead: Export recovery in full swing

The strong momentum for Asian exports continues and hopefully will be reflected in trade releases from China and Taiwan next week. It's not just favourable base effects at work here, the post-Covid-19 recovery of global demand is also supporting Asian exports, and electronics and automobiles are leading the way

Source: Shutterstock

Trade data dominates

China and Taiwan are due to report trade figures for February, while the Philippines does the same for January.

In general, regional exports have been enjoying a strong run since the fourth quarter of 2020. The

January figures revealed strong momentum continued in 2021. The sharp plunge in trading activity with the onset of the Covid-19 pandemic in early 2020 explains some of the outsized year-on-year growth and our house forecasts of close to 40% YoY jump in China's exports and a 26% surge in Taiwan's in the first two months of this year underscores this.

It's not just favourable base year effect that's are at work here. The post-Covid-19 recovery of global demand is also supporting Asian exports

However, it's not just a favourable base year effect that's at work here. The post-Covid recovery of global demand is also supporting Asian exports. By product type, electronics and automobile are leading the strong growth trend, more so amid the ongoing shortage of semiconductor chips for the automobile sector, which is pressuring these exports higher. Asia's electronics heavyweights - China, Taiwan, Korea, Singapore and Malaysia are the clear beneficiaries.

Meanwhile, manufacturing should follow exports growth upward, though industrial production data from Malaysia nor India is expected to do that. Tighter Covid-19 moment restrictions in Malaysia is the reason while in India, close to flat year-on-year infrastructure industry output in January pointed to the same for total IP growth.

India's inflation for February will be rather interesting next week, as it has come down in recent months to the central bank's policy target of 2-6%, but reports of rising food and fuel prices hint at higher inflation. India's central bank is the first Asian central bank to tighten via a 50 basis points CRR hike in February.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Sunday 7 March			
China	-	Feb Exports	39.0		18.1
	-	Feb Imports	16.0		6.5
	-	Feb Trade Balance	52.1		78.17
	-	Feb FX Reserves (USD bn)	3211		3210.6
		Monday 8 March			
Indonesia	-	Feb Forex Reserves	-		138
Singapore	0900	Feb Foreign Reserves USD	-		370.1
South Korea	2300	Jan Current Account Bal NSA	-		11.51
		Tuesday 9 March			
China	-	Feb Aggregate finance (Yuan bn)	900		5174
	-	Feb Financial institution loans (Yuan bn)	750		3580
	-	Feb Money supply (M2) (%YoY)	9.4		9.4
Taiwan	0800	Feb Exports (YoY%)	15.3		36.8
Taiwan	0800	Feb Imports (YoY%)	18.1		29.9
Taiwan	0800	Feb Trade Balance (USD bn)	3.2		6.2
Taiwan	0800	Feb CPI (YoY%)	1.1		-0.2
		Feb WPI (YoY%)	-2.0		-2.9
		Wednesday 10 March			
China	0130	Feb CPI (YoY%)	0.0		-0.3
	-	Feb PPI (YoY%)	0.3		0.3
Thailand	0300	Feb Consumer Confidence Idx	-		47.8
Malaysia	0400	Jan Industrial Output (YoY%)	-		1.7
		Friday 12 March			
Philippines	0100	Jan Exports (YoY%)	-3.7		-0.2
	0100	Jan Imports (YoY%)	-12.6		-9.1
	0100	Jan Trade Balance	-2543		-2180
India	1200	Feb CPI Inflation (YoY%)	5.4		4.06
	1200	Jan Industrial Output (YoY%)	0.0		1.0
Malaysia	0400	Jan Industrial Output (YoY%)	-9.5		1.7

Source: ING, Refinitiv, *GMT

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