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Singapore

Light at the end of the tunnel

European countries begin to mull easing of restrictions, though worries about second waves persist

Source: Shutterstock
light at the end of the tunnel

Good news or just to prop up morale?

If the people of Europe are feeling anything like the cabin fever I'm struggling with, then the prospect of some gradual easing of restrictions will help to keep spirits buoyed and movement restrictions adhered to. If it seems a bit early to be considering deconfinement, it probably is. But the thinking might be that you can't keep extending lockdowns and expecting there not to be some sort of pushback or some crumbling of adherence.

In any case, the FT is suggesting that France, Spain, Belgium, and Finland may be actively looking at formulating a plan for deconfinement. In addition, Denmark, Germany, Italy, and the UK are apparently looking into this, though perhaps not wanting to distract attention from the current message, which remans to comply with lockdowns.

The relevance of this is that it could indicate the end in sight for the deep economic trough being ploughed by some economies. Though the very cagey steps being discussed re-emphasize that any improvement may be very gradual, and there remains a high risk that even these easing restrictions could result in second waves of the disease, which would doubtless result in countries returning quickly to lockdown.

If that turns out to be the case, this would be more like the third (and second-worst scenario in our latest monthly - if you haven't yet had a chance to read it, please give it a look) .

US cases still on upward path

Though the numbers of new cases in Europe does indeed seem to be on a downward path, this is far from a straight line, and the occasional huge spike, as recorded in France over the weekend is going to keep policy setters from proceeding too rapidly. But even this jerky improvement is better than the current picture in the US, where the numbers of new cases is steadily and relentlessly climbing. At the regional level, there are some positive developments, and New York, the epicentre of the US epidemic, might be in the early stages of peaking. Nationally though, a peak in new cases still looks weeks away, with the death count lagging one to two weeks behind that.

That means the economic shock to the US caused by widening and deepening restrictions on movement is running behind that in Europe, so the economy will continue to deteriorate while Europe's numbers find a floor.

That provides scope for further, even worse figures than those we saw last Friday with the release of the March jobs report. I've linked to James Knightley's note here. But note Knightley's comment that things are likely to get much, much worse, with the jobless rate next month potentially already exceeding that reached during the height of the global financial crisis. If that doesn't put all this into perspective, I don't know what does.

Singapore tightens social distancing measures

Singapore's new case count isn't running away, but neither is it falling, and the weekend saw a record number of new cases. It is probably no coincidence that the new social distancing circuit breaker measures introduced by the government will fall as thousands of returning Singaporeans and ex-pats from overseas see their stay-at-home (SHN) notices come to an end. This includes my eldest son, so the condo pool will be out of bounds for him the moment he is allowed to leave the apartment to use it. A second X-box will hopefully ease some of his pain.

On the new Singapore measures and additional stimulus plans, Prakash Sakpal writes "Finance Minister Heng Swee Keat is due to announce the third stimulus package today. Coming less than two weeks after the second package of S$48 billion, the new package will enhance the existing job support program. Despite increasing policy support, the month-long social distancing and movement restricting "circuit-breaker" means a significant dent to GDP growth in the current quarter, probably more than our -4.5% YoY forecast.

Thailand: Deputy Prime Minister Somkid Jatusripitak has signalled additional stimulus worth THB 1.68 trillion (10% of GDP) to be tabled for Cabinet approval on Tuesday (7 April). The package will be funded with fresh borrowing and reallocation of the existing budget. It also includes executive decrees for the Bank of Thailand to implement the stimulus, empowering the central bank to directly extend soft loans to SMEs and purchase corporate debt that's being rolled over. We continue to expect an additional 50bp of rate cuts from the BoT in the current quarter.

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ASEAN Morning Bytes

Economic data continues to point to a probable recession with inflation the highlight for the week.

EM Space: Job markets pummeled while inflation is on deck to show signs of recession.

- **General Asia:** The Covid-19 outbreak obliterated jobs in the United States as Trump warned of a likely increase in the number of fatalities in the next two weeks. Elsewhere, the rate of infection in some hard-hit European countries appears to be slowing although symptoms of economic recession continue to surface with inflation reports slated for the coming week. Oil prices remained weaker despite the much-anticipated deal between Russia and Saudi Arabia although a meeting is scheduled later in the week. Poor economic data coupled with the sustained rise in infections will likely ensure risk sentiment remains depressed again in the coming week.
- **Singapore:** Covid-19 is tightening its grip on the country with the highest daily increase in infections on Sunday. On Friday, the government announced a further tightening of restrictions on movement, starting Tuesday (7 April). Finance Minister Heng Swee Keat is due to announce the third stimulus package today. Coming less than two weeks after the second package of S$48 billion, the new package will enhance the existing job support program. Despite increasing policy support, the month-long social distancing and movement restricting "circuit-breaker" means a significant dent to GDP growth in the current quarter, probably more than our -4.5% YoY forecast.

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- **Philippines:** Bangko Sentral ng Pilipinas (BSP) Governor Diokno continued to flag scope to ease monetary policy further pointing to possible policy rate cuts and reductions to reserve requirement (RR) ratios. BSP had previously slashed policy rates, reduced RR, entered into a Php300 bn repurchase agreement and tuned in dividends to the national government. Given the proactive stance of the central bank in lieu of fiscal spending, the Peso remains stable and we expect it to remain one of the better-performing currencies as import demand fades in the coming months given the lack of construction activity.

What to look out for: Regional inflation Covid-19 developments

- Philippines budget balance and bank lending (6 April)
- Indonesia consumer confidence (6 April)
- Thailand inflation (7 April)
- Philippines inflation (7 April)
- Malaysia GIR (7 April)
- US JOLTS job openings (7 April)
- Philippines trade (8 April)
- Taiwan trade and inflation (8 April)
- Fed minutes (8 April)
- Korea BoK meeting (9 April)
- US consumer sentiment (9 April)
- China inflation (10 April)
- US inflation (10 April)

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Asia week ahead: China gets back on its feet

The data-packed calendar and ongoing coronavirus crisis should keep the market on its toes in a holiday-shortened week. China's economic data for March and the Korean central bank policy meeting are some of the highlights

Source: Shutterstock

Covid-19 – what's ahead

Extended lockdowns are becoming the norm, as global infections of the Covid-19 disease surpass the one million mark, suggesting an even graver economic impact around the world than what we're already seeing. Frequent downgrades of economic growth have become the norm too. This week, we made sharp cuts to our growth forecasts of some Asian countries (Malaysia and Thailand) and further moves are likely in the coming weeks.

Meanwhile, what we think about the outlook for Asia and the rest of the world over the coming weeks and months could make for good weekend reading.

Covid-19: The scenarios, the lockdown, the reaction, the recovery

China – getting back on its feet

The economic calendar is crowded with inflation, retail sales, manufacturing and trade figures from around the region, which will offer some insight into the impact of the virus. Within these, March indicators are likely to grab more attention as these complete the picture for the first quarter when infections began to spread rapidly.

Above all, China's data will remain key for markets given that the spread of the virus subsided in March and businesses began to operate again. A return to positive territory for the Purchasing Managers Indexes heralds a similar outcome for real economic activity, while stimulus continues to trickle down, as likely to be revealed by monetary indicators for March.

Korea – BoK on hold

The Bank of Korea announces its policy decision next week (9 April). An outsized emergency rate cut by 50 basis point to 0.75% on 16 March has reduced the scope of another cut just yet. The country has managed to rein in the spread of the disease and economic activity growth has been surprisingly firm (11% surge in industrial production in February).

However, Asia's heavily export-dependent economy still remains at risk from the so far unrestrained global spread of the disease, which is denting exports. We don't think the BoK is done with easing yet. The house view is 50bp of rate cuts in the current quarter.

Markets – thin liquidity

The outcome of the US jobs report will set the tone for Asian markets next week while Covid-19 and the policy responses globally continue to rule investor sentiment.

However, a slew of public holidays around the region might result in somewhat reduced market liquidity. China, India, and Thailand are going to be out on Monday, and most regional markets will be closed for Good Friday.

Country	Time	Data/event	ING	Survey	Prev.
		Monday 6 April			
India	0600	Mar Nikkei Services PMI	-	-	57.5
		Tuesday 7 April			
China	-	Mar Forex Reserves (US$bn)	3097.5	-	3106.72
Hong Kong	-	Mar Forex Reserves (US$bn)	-	-	446.1
South Korea	0000	Feb Current account (US$bn)	4.5	-	1.0
Malaysia	0800	Mar 31 Forex reserves- Month end (US$bn)	-	-	103
Philippines	0200	Mar CPI (YoY%)	2.3	2.4	2.6
	-	Mar Forex reserves (US$bn)	87.7	-	87606.6
Thailand	0430	Mar CPI (YoY%)	0.0	-	0.74
	0430	Mar Core-CPI (YoY%)	0.5	-	0.58
		Wednesday 8 April			
Philippines	0200	Feb Exports (YoY%)	-2.2	-	9.7
	0200	Feb Imports (YoY%)	-4.6	-	1
	0200	Feb Trade balance (US$mn)	-2488	-	-3499
Taiwan	0900	Mar Exports (YoY%)	-11.2	-	24.9
	0900	Mar Imports (YoY%)	-12.1	-	44.7
	0900	Mar WPI (YoY%)	-5.7	-	-4.47
	0900	Mar CPI (YoY%)	0.9	-	-0.21
		Thursday 9 April			
India	1300	Feb Industrial production (YoY%)	2.3	-	2
South Korea	-	7-Day Repo Rate	0.75	-	0.75
		Friday 10 April			
China	0230	Mar PPI (YoY%)	-1.5	-1.1	-0.4
	0230	Mar CPI (YoY%)	4.4	4.9	5.2
	-	Mar Money supply (M2) (YoY%)	8.8	8.5	8.8
	-	Mar Aggregate financing (CNY bn)	1800	2600	855.4
	-	Mar New Yuan loans (CNY bn)	2074.6	1775	905.7

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Snap | 3 April 2020

FX | China

China’s central bank to cut the targeted RRR again and again

China's central bank plans to cut the targeted Required Reserve Ratio again, but this time only for smaller banks. We look at how effective this policy will be, and what the People's Bank of China could do next

Source: istock

Targeted RRR cut but on a smaller scale

China's central bank, the PBoC, announced it will cut the targeted RRR by 0.5 percentage points on 15 April and again on 15 May, amounting to a full 1 percentage point cut. This time, the RRR cut is only targeting smaller banks, so it will release a smaller amount of liquidity than the previous cut of CNY 500 billion. The PBoC estimated that each targeted RRR cut could release CNY 400 billion.

The PBoC also announced that it will lower the interest rate paid for excess reserves from 0.72% to 0.35%.

Effectiveness at helping SMEs is in question

The cut suggests that damages from the coronavirus outbreak globally could linger at least until May. So the effectiveness of policy is highly important to gauge the speed of the economic recovery.

Just how effective this targeted RRR cut will be, however, is questionable.

After this move, some of the small banks face a reserve ratio of only 6%. This is indeed very low. But even without these two targeted RRR cuts, the reserve ratio for these banks is just 7%, which is already low.

The cuts are aimed at smaller banks to encourage them to lend to SMEs. But banks have been reluctant to lend to SMEs that are facing difficulty in this pandemic. This could be especially true for exporters who are facing order withdrawals from the west. The Easter holiday is an important export season for China. With the lockdown and increased social distancing in Europe and the US, sales in western markets are expected to be dismal.

Are banks willing to take high credit risk to lend to SMEs that are facing a cash flow problem? This may be unlikely.

Effectiveness at pushing down interest rates is high

Frequent targeted RRR cuts that release long term liquidity to the market mean that longer-term interest rates should fall, if global risks do not increase suddenly.

Though this would not benefit SMEs, which are the most in need, it will ease the interest costs of other corporates that could contribute to the recovery of the economy, even if liquidity is already ample.

This lower interest rate effect should have a short-term impact on the yuan. We expect the USD/CNY to go from 7.10 to 7.20 by early May and to 7.25 by the end of June, as the recovery should be slow and the market is looking at the chance of the second wave of coronavirus infections.

Further easing is certain but how?

The central bank may find it difficult to encourage banks to lend to those most in need without government loan guarantees.

Even though we expect there to be more targeted RRR cuts for smaller banks, and rate cuts on the 7D, 1Y Medium Lending Facility (MLF) and 1Y Loan Prime Rate (LPR), these policies would be more beneficial to solid companies, as their credit profiles are much better than small manufacturers, service providers and exporters. These weak credit profile borrowers could be supported by fiscal stimulus including tax and fee cuts.

A combination of monetary policy and fiscal policy is necessary at this time.

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