

Good MornING Asia - 6 August 2020

Stocks up, Asian FX up, gold up, oil up - how long can this last? Some of us are getting nervous

In this bundle



Buy everything

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By Robert Carnell



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It isn't as rosy as it might look at first blush

With US stocks rising strongly, you might think that this will be reflected in Asian markets when they open, but futures markets are suggesting a more mixed picture. It's not clear why.

The enthusiasm for US stocks rests on optimism for some further "stimulus" including the extension of the supplemental unemployment benefits that have been supporting millions of US households until recently. There does appear to be some progress in the talks, and the Senate will not be going on recess next week as scheduled but will hang around for another week to allow for a deal to be thrashed out. A deal, any deal, will be better than no deal, but let's be clear, what we are really talking about here is how much these benefits will be **cut** from the current \$600 rate. So it's really a relative call on how contractionary the policy will be - all this talk about "stimulus" is very misleading.

President Trump has been wading into this dispute, saying that if no deal is struck, he will make an executive order to extend the benefits and to delay the eviction of non-paying tenants. At least on the former, it seems very unlikely that any executive order, even if issued, could have any effect, as these essentially only instruct government departments how to act, and don't have any fiduciary power whatsoever. He may have more luck on the evictions postponement.

The macroeconomy (i.e my day-job), which I admit is largely ignored by markets these days (though I live in hope that there will one day be some point to my job again), isn't looking very good, with the US' ADP survey yesterday showing only 167K increase in jobs in August, not the 1.2

million that had been predicted. Our James Knightley in NY has been waving a warning finger about the US labour market for some time, and he covers the jobs angle nicely [in this linked note](#), as well as some other bits and pieces which explain why he is getting nervous. And remember its payrolls tomorrow in the US, an economic release in which literally *anything* can happen.

The Bank of England today could be interesting if there is any hint that a negative rates policy may be entertained more seriously. I sincerely hope that this very unconstructive policy idea is not followed, but as I have a mortgage renewal coming up, there may be a silver lining in it for me.

In the meantime, markets look as if there is no need for any worry. Stocks are rising, gold increases, oil increases (our Head of Commodities Strategy, Warren Patterson, would note the lack of demand from refiners as a caution on following this rising oil path unquestioningly) and Asian FX has been on a tear (except for the IDR). It all feels a little too good to be true, and like Knightley, I too am feeling nervous.

Asia today

Taiwan inflation for July will most likely remain in negative territory when released later today, though the July figure may come in slightly stronger than the -0.76%YoY figure for June. This won't have any implication for Central bank policy, so shouldn't be particularly market moving.

On **India**, Prakash Sakpal notes: It's decision day for the Reserve Bank of India. The consensus is almost evenly split between a 25bp rate cut and on-hold policy outcomes. We are in the rate cut camp. The deepening economic slump remains the most pressing policy issue currently, although it's been countered by resurgent CPI inflation above the RBI's 6% policy limit in recent months. We believe the RBI will overlook inflation and cut rates again today, though this would probably mark the end of the current easing cycle ([read more here](#)).

For our ASEAN views, including **Thai inflation**, and **GDP** from the **Philippines**, please check out **ASEAN Bytes** on the Asia-Pacific page of our Website, [Think.](#)

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ASEAN Morning Bytes

Sentiment remains mixed as investors weigh US deal on paycheck protection and Covid-19 developments



EM Space: Market players look to data and Covid-19 for additional cues

- **General Asia:** Market players will continue to grapple for direction with investors weighing progress on US paycheck protection debates while also monitoring developments on the virus front. US lawmakers remain at an impasse ahead of the deadline with investors also looking to Friday's non-farm payroll data for direction. New Covid-19 daily infections have levelled off from the peak in the US, while outbreaks in Japan and Australia appear to be intensifying. Investors will cautiously monitor developments on the vaccine front and look to economic data for fresh cues on Thursday.
- **Thailand:** July CPI inflation is due today. It will likely show that the negative headline inflation streak extended to the fifth month (ING forecast -1.5% YoY vs. -1.6% in June) and that core inflation remained at zero. As it maintained policy rates at 0.5% in the meeting yesterday, the Bank of Thailand hoped for inflation to return to the 1-3% policy target in 2021 on the back of gradually rising crude prices and economic recovery. In our view, Inflation may rise to the low end of the target at best, though we don't think that will have any implications for policy.
- **Indonesia:** Indonesia 2Q GDP contracted by 5.3%, more severe than expected as partial lockdown restrictions side-lined household spending, the economy's main growth engine.

Government officials have vowed to jump-start economic activity with an IDR695 trillion fiscal package with President Jokowi pushing authorities to accelerate spending. Meanwhile, partial lockdown measures have been extended to 13 August as Covid-19 new infections remain elevated and we expect economic growth to remain subdued with 3Q GDP also likely posting a contraction.

- **Philippines:** 2Q GDP will be reported on Thursday with market consensus pointing to a contraction of 9.4% as stringent lockdown measures implemented in late March knocked out economic activity. 1Q GDP data was revised to reflect a more severe contraction of -0.7% (previously estimated at -0.2%) with the economy in recession. We expect GDP to remain in contraction for the balance of the year as the authorities were forced to reinstate lockdown procedures after the Philippines became the worst-hit country in the ASEAN region in terms of total Covid-19 cases. A severe contraction and fading growth momentum will put pressure on fiscal authorities to roll out a more aggressive stimulus plan with the central bank likely running out of space to cut policy rates further after real policy rates turned negative (-0.45%).

What to look out for: Philippine GDP and Thailand inflation plus Covid-19 developments

- Philippines GDP (6 August)
- Thailand inflation (6 August)
- US initial jobless claims (6 August)
- Malaysia industrial production (7 August)
- US non-farm payrolls (7 August)

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Indonesia's second-quarter contraction more severe than expected

Indonesia's economy contracts for the first time since the Asian financial crisis in the second-quarter as partial lockdown measures knocked out consumption



Source: Stenly Lam

-5.3% 2Q GDP change

Worse than expected

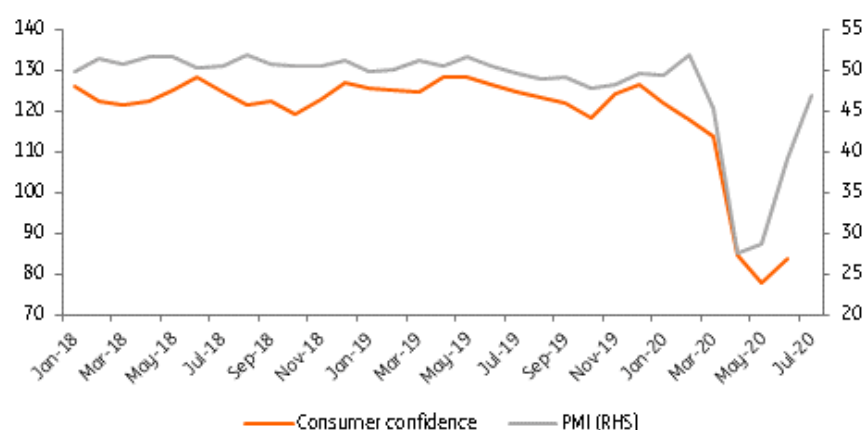
First contraction since the Asian financial crisis

Indonesia's economy contracted by 5.3% in the second quarter as the pandemic slowed global trade and knocked out household consumption - the economy's main driver of growth.

The -5.3% reading was worse than the -3.1% forecasted by the finance minister and the market consensus of a 4.7% contraction.

Despite rolling out a substantial fiscal package worth IDR695 trillion, roughly only 20% of the budget was disbursed during the quarter forcing the President to urge authorities to fast track disbursement in 3Q to support the economy.

Indonesia PMI manufacturing and consumer confidence



Source: BPS and Bank Indonesia

3Q outlook doesn't look too rosy either

The partial lockdown measures implemented in April remain in place until 13 August as Covid-19 new daily infections remain high with the 7-day moving average now at 1,858 and total Covid-19 infections at roughly 115,000.

Given that the partial lockdown measures and anxiety over Covid-19 were the main reasons for the drop off in household consumption, we expect economic activity to remain in a lower gear in 3Q. Overall manufacturing activity remains in contraction too with the latest PMI manufacturing reading at 46.9 and consumer confidence at 83.8 in June.

We forecast the economy to contract in the third-quarter too by 5.1% with pressure on Indonesian fiscal and monetary authorities to provide more stimulus to bolster sagging growth momentum.

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Philippines: Inflation ticks higher to 2.7% on transport costs

Price pressures in the Philippines remain relatively benign reflecting stalling domestic demand



Shoppers in a Philippines' supermarket

2.7% Philippines CPI inflation
July
Higher than expected

Inflation ticks higher to 2.7% in July

Headline inflation inched up to 2.7% in July from 2.5% in the previous month as transport prices and slightly higher utility costs nudged the index higher. Quarantine protocols implemented by the government pushed transport costs higher as riders are no longer allowed to share rides with fellow passengers while utility bills were also slightly more costly due to elevated costs for water services. Food inflation slowed somewhat to 2.4% but higher costs for certain meat items kept the overall hefty index from falling rapidly. Year-to-date inflation as of July settled at 2.5% and we expect a further pickup in headline inflation throughout the 3Q followed by a decline to close out the year.

Goldilocks inflation report, should keep BSP on hold for now

The slight uptick in inflation for July may be enough to keep the central bank, Bankgo Sentral ng Pilipinas (BSP), to remain on hold at their next policy meeting but the still well-behaved dynamic of inflation will likely translate to a long pause from Governor Diokno. The BSP governor previously indicated he would keep his stance unchanged “for at least two quarters” and we believe he will refrain from cutting policy rates further to prevent real policy rates from falling too deep into negative territory. Currently, the BSP’s inflation-adjusted policy rate is at -0.45%. BSP, however, has also shared that it will take the 2Q GDP report into account for future policy decisions but we only expect BSP to alter its stance should growth fall well past the most pessimistic GDP forecast for 2Q.

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Philippine falling imports help keep peso on an appreciation trend

Exports and imports continued to contract sharply in June on weak global demand and a weaker domestic economy



Source: Shutterstock

-US\$1.3bn Philippine trade balance
June

Trade data points to weaker global and domestic growth

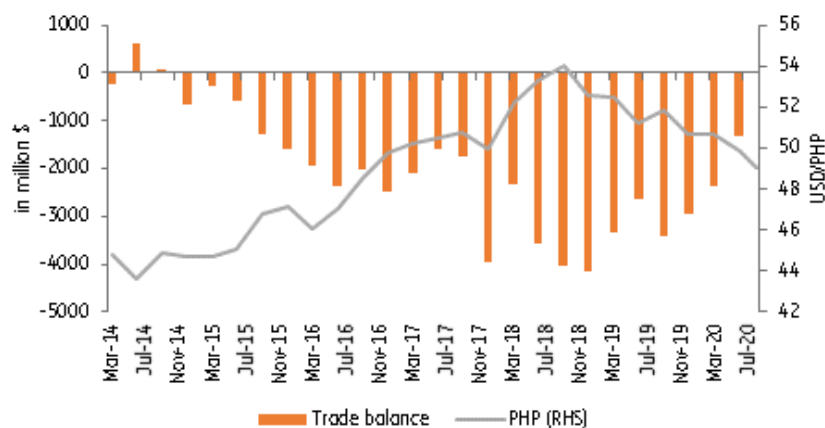
Trade figures for The Philippines continued to contract in June with exports down 13.3% and imports declining by 24.5% reflecting weak global demand and a stalling domestic economy.

Exports contracted across subsectors with the mainstay electronics outbound shipments falling by 10.4% while agro-based products and garments posted even steeper declines of 23.5% and 20.5%, respectively. Inbound shipments also showed a declining trend with a broad-based contraction led by fuel (-56.9%), capital goods (-28.4%) and raw materials (-10.7%), which should translate to weaker potential output for the Philippine economy in the coming months.

Meanwhile, consumer imports fell by 23% indicating that domestic demand conditions remain

weak and we expect this trend to continue over the next couple of quarters with consumer sentiment hampered by the recent surge in the virus and a return to more stringent lockdown measures.

Philippine trade balance and PHP



Source: PSA and Bangko Sentral ng Pilipinas

Trade balance narrows, stalling imports to support peso appreciation

The June trade balance narrowed to -US\$1.3bn from -US\$1.8 bn in May as imports fell faster than the drop in exports. We expect this trend to continue for the remainder of the year.

Weaker imports translate to lower demand for foreign currency onshore, which has helped support the recent PHP appreciation trend. Since we expect imports to continue contracting, we forecast the peso to remain supported in the near term as steady inflows related to overseas remittances and foreign borrowings outpace onshore dollar demand.

Meanwhile, we also expect GDP momentum to slow even further as the flow of capital goods, raw materials and consumer goods remain weak with positive GDP growth only expected to return in a base-effect induced rebound in 2021.

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