

Good MornING Asia - 6 August 2021

It's almost impossible to predict, it's almost impossible to map an outcome onto markets. Happy Payrolls Day!

In this bundle



India | Japan...

Pre-payrolls pause

It's almost impossible to predict, it's almost impossible to map an outcome onto markets. Happy Payrolls Day!



Asia week ahead | China | India...

Asia week ahead: Growth hit by Covid-19 again

The market should have a clearer picture of how Asian economies have performed as several countries report GDP figures for the second quarter, but the...



Indonesia

Indonesia: 2Q GDP surprises on the upside but momentum not likely to last

2Q GDP unexpectedly rose by 7.1% YoY, but mobility curbs implemented in July could sap momentum considerably

Pre-payrolls pause

It's almost impossible to predict, it's almost impossible to map an outcome onto markets. Happy Payrolls Day!



Source: Shutterstock

We don't know what it will do, we don't know what it means - take that to the bank!

When I used to cover the US economy and markets before my focus switched to Asia, I had the very dubious privilege of having to forecast non-farm payrolls each month. Added to previous jobs where I have also covered US macro data, I have about 20 years of experience forecasting this data and that time has taught me...**absolutely nothing**.

Nothing very useful anyway. I know that on a month-by-month basis, there is literally no explanatory power in the employment indices of either of the ISM surveys. I know that initial and continued claims numbers are useful only over a three month period if at all and that the "jobs hard to get/jobs plentiful" diffusion indices in the Conference Board consumer confidence index is only helpful at extremes, and often not even then.

In the end, the only vaguely helpful indicator is the ADP survey, and it is very, very unreliable. A story I read this morning was extolling its virtues saying that it was rarely off by more than half a million jobs. But when that is more than the average monthly payrolls change, that's almost like saying it can give a steer to the sign on the number, but not much more. And that, I'm afraid, is about right.

So if we don't know what the number will do, can we at least say how markets might react in the event of a high/low number?

Well, normally, I'd have a stab at this, but right now markets seem torn between concern that stronger/weaker data will push the Fed to do more/less, earlier/later, and that this will curtail/prolong the period of peak growth.

What this means is that you have a tug of war between the inflation expectations component of the nominal bond yield and the real yield component. These would normally push in the same direction. But these days, that is not the case. So if we can't tell which way bonds will go, then we don't really have much insight into the direction of FX. And as for equity markets - they are a law unto themselves and will probably rise whatever happens - right up to the point where they realize that this is wrong, and then will then plunge for no obvious reason.

So my advice? Have a lazy Friday. Don't bet the farm on non-farm payrolls. Instead, read about it in tomorrow's FT, or your favourite business newspaper. There will be sure to be some surprises in it. And we can work out what it means for global and Asian markets in time for Monday (Tuesday for those in Singapore who have a long weekend).

Here's another central bank that thinks its "not all transitory"

[I'm providing a link to a note on the Bank of England](#) by my excellent colleague, James Smith - not because I think it has any direct relevance to Asian markets, but because it may provide a mirror for some broader central bank behaviour (including possibly the US Fed), which in turn might affect market conditions here.

The BoE met yesterday, and did not change policy, but did give some pretty detailed guidance as to rates and balance sheet management that were very helpful, and have EURGBP knocking on the downside of 0.85.

In our region, we have a couple of hawkish central banks, RBNZ for one, and BoK for another, who will likely beat the BoE to hiking rates, and we think this will provide a little near term FX support, even if the medium term is dominated by taper thoughts on the USD. If nothing else, it adds a little variety and means it's a bit more than just trying to call EURUSD.

Asia today

We've already had some data this morning from Japan. And it was bad. Labour cash earnings are an important input into household spending, and for June, the numbers for both were poor. Cash earnings fell 0.1%YoY, down -0.4%YoY in real terms. And household spending fell by 5.1%YoY. Remember, for most of the data we talk about currently, we have to then punctuate by noting the favourable base effects which bias the figures upwards. In the case of these figures, we are now dealing with the bounce after the fall as the base, which biases the figures downwards.

But either way, if you chuck some moving average lines through the index figure (not the percentage changes) these latest figures undershoot. It looks like a soft consumer spending outcome for 2Q21 beckons when 2Q21 GDP figures are released on 16 August. The consensus QoQ% estimate is currently 0.2%. We are already on the low side of this with a 0.0% QoQ forecast. I think we will stick with that. It already incorporates a fairly hefty negative consumer spending forecast.

The Reserve Bank of India (RBI) also has its policy-setting meeting today, and Prakash Sakpal writes "We agree with the consensus, which thinks that the RBI will leave the main policy rates and the cash reserve ratio for banks unchanged -- repo and reverse repo rates of 4.00% and 3.35%, respectively, and CRR of 4.00% currently. The RBI will also maintain its bond-buying programme (G-Sec Acquisition Program or GSAP) aimed at anchoring bond yields lower. We think a key question for today's meeting is whether the RBI should restrain its liquidity-boosting policies. Such policies are partly stoking inflation rather than supporting economic recovery as evident from the steadily slowing bank lending growth towards low single-digits. And high inflation has been pressuring bond yields higher, defeating the purpose of GSAP operations. Inflation exceeded the central bank's 6% policy limit in recent months and is expected to remain elevated throughout the rest of this year. We consider the RBI among the first few Asian central banks to withdraw policy accommodation by early next year on inflation grounds. We have brought forward our forecast for the first 25bp rate hike from 3Q22 to 1Q22. Our end-2021 forecast for the 10-year bond yield is 6.50% and for USD/INR is 75.80 (spot rates 6.21% and 74.20)".

Author

Alissa Lefebre

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

Asia week ahead: Growth hit by Covid-19 again

The market should have a clearer picture of how Asian economies have performed as several countries report GDP figures for the second quarter, but the data needs to be read in the context of recent Covid-19 developments



Outflows from China, downbeat news from India

China's foreign exchange reserves, due on Saturday, should show net capital outflows in July. This is due to the government's tightening of regulations on tech companies, education centres, and other industries. Several restrictive policy measures unveiled over a short time frame have led to uncertainty in the market.

Elsewhere in Asia, the Philippines central bank will likely keep rates at 2.0% to help support the economic recovery. However, a possible reduction in the reserve requirement is now likely to help shore up liquidity support.

In India, with the central bank meeting out of the way on Friday (6 Aug), the focus will shift to inflation, trade and manufacturing figures and what these imply for monetary policy. There are

not going to be any upbeat releases. Inflation will likely stay near the top of the central bank's 2-6% policy target while growth should soften as favourable base effects wane and the Delta variant hits the economy. That said, the RBI could still be among the first few Asian central banks to withdraw policy accommodation by early next year (on inflation grounds). We have brought forward our forecast for the first 25bp rate hike from 3Q22 to 1Q22.

GDP releases to reflect Covid-19 measures

In Malaysia, 2Q21 GDP should also capture the impact of the latest Covid-19 wave.

The nationwide movement restrictions will prove to be a significant hit to GDP growth in that quarter. We expect growth to contract by 6.5% quarter-on-quarter, though this will still deliver an 11% year-on-year expansion due to low base effects. The finance ministry recently flagged a possible cut to its 2021 growth outlook, currently 6% to 7.5%, as the economy is taking a significant beating from the third wave of Covid-19. Second-quarter GDP data could be a trigger for this downgrade. Our full-year 2021 forecast is 4.4% after the recent downgrade from 5.3%. We think macro policy has almost hit a wall, and GDP figures are unlikely to have any meaningful impact on future policy direction.

In the Philippines, we look for 2Q21 GDP to expand by 10.9% YoY, but like elsewhere, this is mainly due to large base effects after 2Q20 GDP contracted by 16.9%. Tighter mobility curbs imposed in 3Q will further translate to growth momentum stalling, with our full-year growth forecast likely to be revised lower, depending on the duration of restrictions.

China July trade data will also be released on Saturday (7 Aug). This data should show a bigger surplus from stronger exports of electronic parts and products, which should also support GDP in 3Q to some extent, offsetting damage caused by stricter social distancing measures now that Covid-19 is hitting China again.

Asia Economic Calendar

Country	Time	Data/event	ING Survey	Prev.
Saturday 7 August				
China		- Jul Exports	25.2	32.2
		- Jul Imports	35.4	36.7
		- Jul Trade Balance	57.4	51.5
		- Jul FX Reserves (Monthly) (\$tn)	3.185	3.214
Monday 9 August				
Japan	0050	Jun Current Account	2450.0	1979.7
China	0230	Jul CPI (YoY%)	1.3	1.1
Malaysia	0500	Jun Industrial Output (YoY%)	4.7	26
Indonesia		- Jul Forex Reserves	-	137.1
		- Q2 Balance of Payments	-	4.1
		- Q2 Current Account/GDP	-	-0.4
Taiwan	0900	Jul Imports	33.5	42.3
	0900	Jul Exports	42.2	35.1
	0900	Jul Trade Balance	5.35	5.15
Tuesday 10 August				
Japan	0050	Jul M2 Money Supply (YoY%)	5.7	5.9
China		- Jul M2 Money Supply (YoY)	8.7	8.6
		- Jul Aggregate Finance (CNY bn)	2100.0	3668.9
		- Jul New Yuan Loan (CNY bn)	1575	2120
Philippines	0300	Q2 GDP (QoQ%/YoY%)	-	0.3/-4.2
Singapore	1000	Jul Foreign Reserves USD	-	398.4
Taiwan	0900	Q2 GDP Final (YoY%)	7.47	7.47
South Korea	0000	Jul Unemployment Rate	3.8	3.7
Wednesday 11 August				
Indonesia	0500	Jun Retail Sales Index (YoY)	-	14.7
Thursday 12 August				
India	1300	Jul CPI Inflation (YoY%)	6.1	6.3
	1300	Jun Industrial Output (YoY%)	16.0	29.3
Philippines	0900	Policy Interest Rate	-	2
Friday 13 August				
Malaysia	0500	Q2 Current Account Balance	12.0	12.3
	1300	Q2 GDP (YoY%)	11.0	-0.5
China		- MLF interest rate (%)	2.95	2.95
				-

Source: Refinitiv, ING, *GMT

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Indonesia: 2Q GDP surprises on the upside but momentum not likely to last

2Q GDP unexpectedly rose by 7.1% YoY, but mobility curbs implemented in July could sap momentum considerably



Source: Stenly Lam

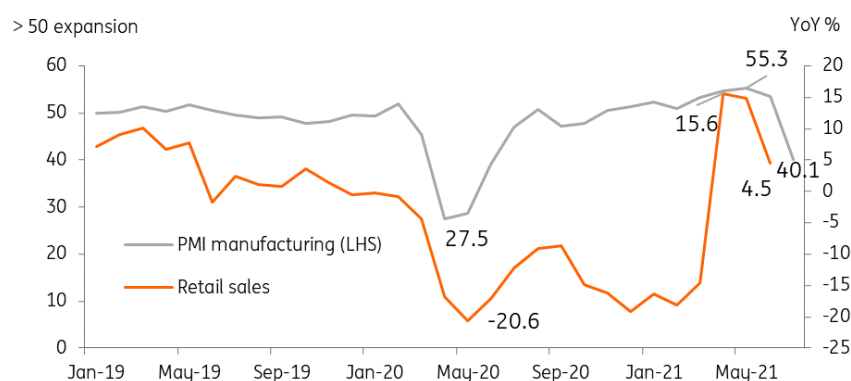
7.1% 2Q YoY GDP growth

Better than expected

7.1% growth moves past expectations

Indonesia's economy grew by 7.1% in 2Q21 bolstered in large part by base effects after the economy plunged 4.2% from the previous quarter in the same period last year. Growth was supported by positive trends in consumer confidence and retail sales coinciding with the start of its vaccination drive in January this year. A decent pickup in export demand drove a rebound in manufacturing activity with the manufacturing PMI index hitting a record high of 55.3 in May. Year-to-date growth will likely settle at roughly 3.1% for the first half of the year with Indonesia posting its first YoY expansion after 4 periods of contraction.

Speed bump ahead: both retail sales and PMI manufacturing slip as mobility curbs sap momentum



Source: IHS Markit and Bank Indonesia

Warning speedbump ahead

Looking ahead, we expect growth momentum in 2H21 to be sapped by the ongoing mobility restrictions (PPKM) implemented to slow the spread of Covid-19. Indonesia had previously shied away from tight mobility curbs in a bid to help support economic activity. But a surge in Covid-19 cases has forced the authorities to tighten restrictions and expand coverage to the entire country by July. The negative impact from these heightened measures is reflected in the recent manufacturing PMI index. This slid to a reading consistent with contraction in July while retail sales growth also decelerated as consumer confidence fades.

Bank Indonesia (BI) has recently adopted a “pro-growth” stance, citing the likely impact of mobility curbs on growth and we expect the central bank to retain policy rates at current low levels for the balance of the year. The 2Q GDP “surprise” will likely lead to near-term support for the IDR. But more timely data suggesting a slowdown in 3Q21 may offset any optimism. BI has vowed to provide support to both the economy and the currency with the central bank deploying the full weight of its “triple intervention” to steady the IDR during bouts of market risk aversion.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@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.