

## Good MornING Asia - 6 August 2021

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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)".

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# 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

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# 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

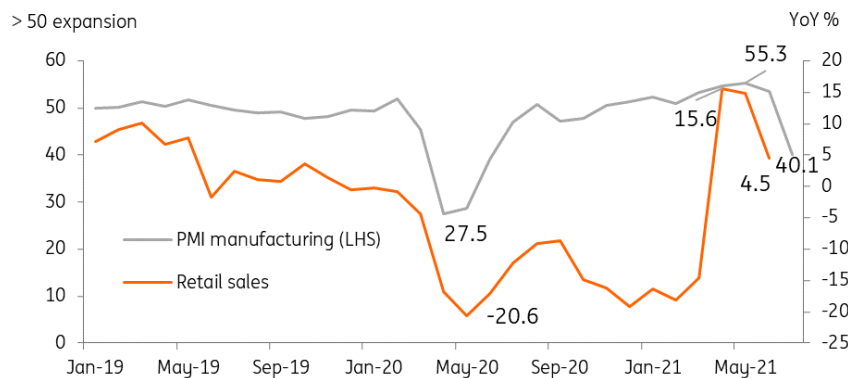
**7.1%** 2Q YoY GDP growth

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.

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