

Good MornING Asia - 6 February 2020

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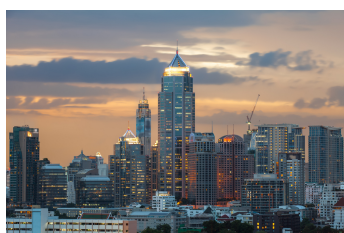
By Robert Carnell



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Source: Shutterstock
Vaccine

Hype getting the better of us?

Talk of an existent nCov vaccine entered the ING Singapore research office this morning. Needless to say, it got pretty short shrift from me, even if the "perpetrator" was simply trying to start a reasoned debate (I may have been listening to too much Professor Brian Cox on the radio and getting a bit dogmatic in my old age).

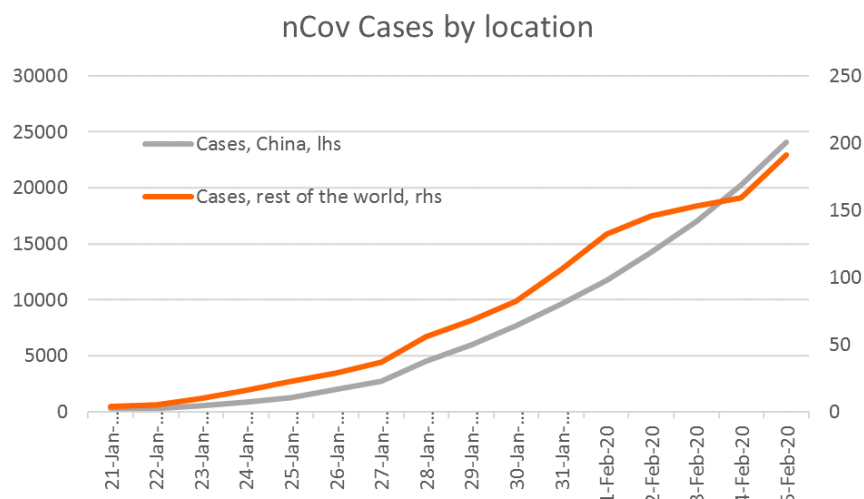
But don't take my word for it, [here is a fairly recent article talking about the limits to vaccine development and testing](#), with the key limitation being the latter, part - testing. No company or government is going to release a vaccine for use on their population without being pretty sure it will not give rise other issues - birth defects for example. So realistically, we are talking many months for something new to come onto the market. In the meantime, using existing drugs like the Remsidivir, where testing is underway in China may offer a quicker route to treatment, though it would be a push to describe this as a "cure".

Then normally sensible commentators, including some of my daily "Go-to's" are talking about "containment". I guess this shows that you can be perfectly sensible when you are talking about things you know, but once you step outside that safety cordon, you become a babbling idiot.

Below are my latest updates of the WHO figures - these lag other sources by 12 hours or so (where the figures are already considerably higher), but they are confirmed cases and do come with a reliable history so we can compare the change over time.

Without being more outspoken, I think you would be hard put to back up the claim that either nCov is peaking, or that it is contained from the chart below. The key to that last remark is the non-China cases, where new cases are no longer dominated by Chinese tourists. Containment might still turn out to be the case. I certainly hope so. But on the back of these figures, I can see little justification for the extent of the market's rally if it is entirely a relief move over the nCov outbreak.

nCov 2019 cases by location



Source: WHO
nCov cases by location

Impeachment trial over - President Trump remains in office

The results of the impeachment trial of President Trump were rarely in any doubt, and I think it is very unlikely that the market's rally has anything to do with the outcome. At least we can put this behind us, and maybe concentrate on some economic figures? That is probably wishful thinking. The Democrat race is looking quite a heated contest, especially given the debacle of the Iowa result reporting. President Trump's approval ratings are on the up - and that might have very little to do with what he is doing or saying, but what is happening in his opposition's camp. Meanwhile, the US economy might not be booming, but it appears to be reasonably solid. Tomorrow's labour report will add weight to that debate.

Asia update - more rate cuts on the way?

(Back to Economics again, this from Prakash Sakpal)

Thailand: The Bank of Thailand (BoT) followed up counterparts in China and Malaysia in cutting policy rates to curb the economic risks stemming from the coronavirus outbreak and its impact on tourism. We believe the central bank will want to remain ahead of the curve in its policy response to the evolving situation. If so, another cut at the next meeting in March makes sense as a timely, and probably more effective, boost to the economy ([read more here](#)).

Singapore: The Monetary Authority of Singapore in a statement yesterday downplayed any policy easing. The statement noted there was sufficient room within the policy band to accommodate easing of S\$NEER in line with weakening economic conditions due to the outbreak of 2019-nCov. The number of infections in Singapore rose to 28 yesterday, overtaking Thailand (25) to take third

place after China and Japan. The MAS' view of a modest recovery in growth this year (compared to 0.7% in 2019) remains at risk. We don't rule out an easing if things continue to deteriorate. We will certainly know how things stand before the next meeting in April.

India: Will the Reserve Bank of India go with the flow and cut policy rates again at their meeting today? There is unanimous consensus behind an 'on-hold' policy as inflation recently spiked above the RBI's 2-6% target. Governor Shaktikanta Das also has warned against persistent inflation risks ahead. The rapid easing last year through both monetary and fiscal channels has yet to bear fruit, while India isn't at grave risk from the coronavirus just yet. However, if there is anything that could tip the RBI towards further easing, it is the recent sharp fall in global oil prices. If this persists, this could knock a few points from inflation.

(...and from Nicky Mapa in Manila)

Indonesia: Indonesia posted a 5.0% expansion in 4Q19, translating to a similar growth reading for the full year, missing forecasts and the official government target. The disappointing growth print will likely prod Bank Indonesia (BI) to cut policy rates at their next policy meeting with the easing more likely given the ongoing hit to sentiment from the global virus episode.

Philippines: Bangko Sentral ng Pilipinas (BSP) holds its first policy meeting for the year today, with investors pricing in a likely rate cut by the central bank. Dovish comments from Governor Diokno point to a 25 bps rate cut today despite inflation jumping to 2.9% in January. Expect the Peso to come under pressure temporarily after the rate cut.

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EM Space: Asian central banks are moving to support growth

- **General Asia:** Reports of “breakthroughs” in unlocking a possible vaccine for the virus sprouted on Wednesday, fueling hopes for a quick cure and only a marginal impact on global growth. While this may have supported risk-taking, we don't see much substance in these reports just yet and we are sceptical the risk rally will continue. The Asian central banks are easing to cushion the impact of the virus with the Philippines BSP likely to join the flow today.
- **Thailand:** The Bank of Thailand (BoT) followed up counterparts in China and Malaysia in cutting policy rates to curb the economic risks stemming from the coronavirus outbreak and its impact on tourism. We believe the central bank will want to remain ahead of the curve in its policy response to the evolving situation. If so, another cut at the next meeting in March makes sense as a timely, and probably more effective, boost to the economy ([read more here](#)).
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What to look out for: Developments on the virus, US jobs report

- Thailand CPI (6 February)
- India RBI meeting (6 February)
- Philippines BSP meeting (6 February)
- Taiwan CPI (6 February)
- US initial jobless claims (6 February)
- Malaysia industrial production (7 February)
- Taiwan trade (7 February)
- US nonfarm payrolls (7 February)

Bank of Thailand cuts rates as risks from coronavirus rise

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Source: Shutterstock

1.00% BoT policy rate
After 25bp cut today

Surprise for markets – not for us

The Bank of Thailand's decision to cut rates by 25 basis point to 1.00% today was in line with our forecast. The move, which brings the policy rate to an all-time low, was a surprise for the market given the consensus tilted on a stable policy decision. But it was a unanimous vote by all committee members.

Given that things might get worse before they get better, means

we can expect a couple of quarters of substantially weak growth

The rate cut comes as the central bank acknowledges rising economic risk from the rapid global spread of the coronavirus that's poised to hit the tourism industry and the overall GDP growth for a substantial part of the year. Although nowhere near as China, with more than 24,000 people infected at the time of writing this article, Thailand has detected 25 coronavirus cases making it the third most infected country in Asia. And given that things might get worse before they get better, means we can expect a couple of quarters of substantially weak growth.

The [BoT statement](#) noted that "the Thai economy would expand at a slower rate in 2020 than previously forecasted and much further below its potential due to the outbreak of coronavirus, the delayed enactment of the Annual Budget Expenditure Act, and the drought that would affect a large number of related businesses and employment".

More easing ahead

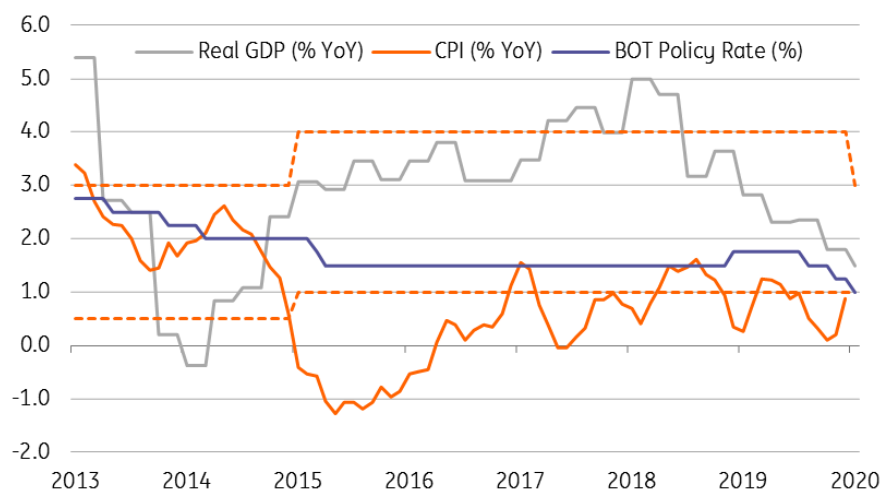
We don't think one rate cut will be enough in preventing the growth slowdown, let alone boosting growth. Two rate cuts from the central bank in 2019 didn't help much either and growth continued to decelerate through the fourth quarter of the year (data due 17 February). Indeed, the economy will need more monetary easing, more so when the fiscal lifeline continues to be absent as the budget for 2020 still has to be cleared in parliament.

We are adding one more 25bp rate cut to our BoT policy forecast

We believe persistently low inflation will keep the door open for further BoT easing this year. Lower crude oil price will remain the main headwind to inflation, while demand-side price pressures remain absent. We see inflation staying under the BoT's medium-term policy target, which the central bank narrowed this year to 1-3% from 1-4% and was barely met in recent years. We cut our average inflation forecast for 2020 to 0.6% from 1.0%.

We are adding one more 25bp rate cut to our BoT policy forecast. We believe the BoT would want to remain ahead of the curve in its policy response to the evolving situation. If so, another cut at the next meeting in March makes more sense as a timely, and probably more effective, boost to the economy.

Growth, inflation and Bank of Thailand policy



Dotted lines are BoT's target for CPI inflation, currently 1-3%.

Source: Bloomberg, CEIC, ING

What it means for the markets?

The rate cuts also serve the official drive to stem the currency appreciation - the objective that's finally seeing some light at the end of the tunnel this year after a slew of measures taken last year failed. This is because a possible sharp dent in tourist inflows would narrow the current account surplus, the only driver for the THB strength all these years.

The Thai baht weakened above 31.20 (from around 31.15) against the US dollar in a knee-jerk reaction to the central bank announcement. But, oddly enough, it gained some ground subsequently and traded below 31.00.

This doesn't deter us from our view of the pair settling in the new, higher trading range of 31-33 this year and trading close to the top end of the range over the next three months.

Indonesia: Stalling GDP may prompt further easing

Indonesia posted disappointing GDP growth of 5.0% for the fourth quarter, with full year growth missing the government's official target of a 5.3% gain



Source: Shutterstock

5.0% 4Q GDP
2019 GDP at 5.0%

Lower than expected

Growth momentum slowing

Indonesia posted 5.0% GDP growth in the fourth quarter, bringing full year growth to 5.0%, which was slower than 2018 and below the government's revised target for a 5.3% gain. Growth momentum has been hampered by the ongoing US-China trade war, with exports contracting in all but one month last year. The manufacturing sector tied to exports was likely the main drag on the economy, with PMI manufacturing in contraction for all of the second half of last year and for the first month in 2020. With growth momentum slowing, President Jokowi has ordered a radical shift to investments to chase the higher growth aspiration of 5.3%.

Benign inflation and slowing growth momentum likely to prompt BI action

With price pressures benign and growth momentum fading, we expect Bank Indonesia (BI) to be called into action once more to jump-start the economy with additional policy easing. In 2019, BI had slashed policy rates four times (-100 basis points total) to help revitalise bank lending, which remains subdued at 7.0%. Additional rate cuts by the central bank will move in line with the President's directive to bolster investment activity, and we expect Governor Perry Warjiyo to pull the trigger in the near term. With the growth outlook turning even more precarious in light of the coronavirus, we expect BI to resume cutting policy rates but only when the Indonesian rupiah regains some stability.

Philippines: Inflation climbs to 2.9% as food costs rise

January inflation inched higher to 2.9% as crop damage from twin storms and a volcanic eruption caused supply disruptions.



Source: Shutterstock

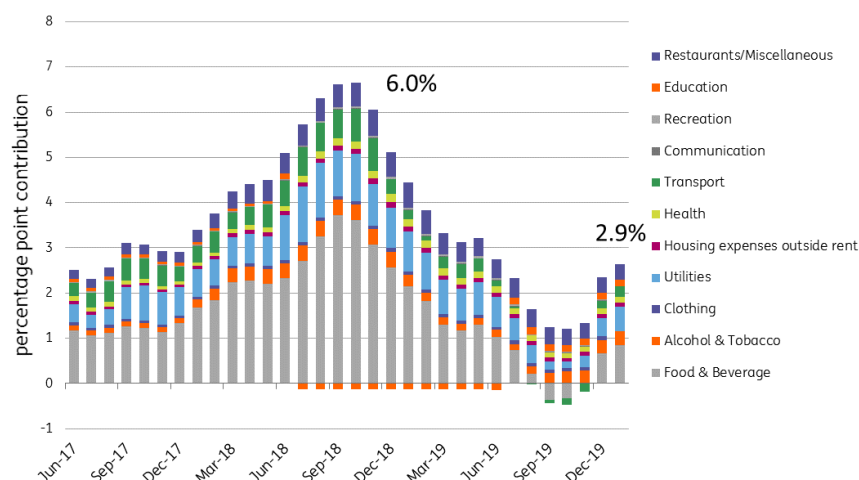
2.9% January inflation
fastest in 8 months

Higher than expected

Food inflation continues to be the main driver for headline inflation

January inflation climbed to 2.9%YoY, moving past market expectations (2.7%) with higher food prices pulling up the overall headline number. Almost all subcomponents of the consumer price index (CPI) posted faster inflation, but the main driver for the recent uptick in inflation remains food, given its heft in the CPI basket. Food inflation hit 2.9%, up from 2.5% on runoff effects from crop damage induced by twin typhoons in late 2019 and the 2020 volcanic eruption. Meanwhile, excise taxes levied on alcoholic beverages and fuel items pushed up prices for transport (3.0% from 2.2%) and alcoholic beverages and tobacco (19.2% from 18.4%).

Philippines inflation (percentage point contribution per component)



Source: PSA and ING estimates
2012=100

BSP expected the “uptick”, as reverse base effects kick in

Bangko Sentral ng Pilipinas (BSP) Governor Diokno indicated that they are fully expecting an “uptick” to inflation and that risks to the inflation outlook are tilted to the “upside”. We also expect inflation to inch higher and “bounce then settle” as reverse base effects from the 2019 inflation lows nudge prices higher in 2020. Meanwhile, risks noted by the BSP are trade war disruptions to the supply chains. For the full year, ING still expects inflation to remain within target and average 3.2% but peaking in 3Q.

BSP to cut policy rates on Thursday

Despite the uptick in inflation, we expect the BSP to cut policy rates by 25 bps at the 6 February meeting with the BSP 2020 inflation forecast pegged at 2.9%. Given the backdrop for slowing global growth, upside risks to the inflation outlook are dampened considerably with crude oil prices tanking on expectations for weaker global growth and depressed oil demand from China. With inflation still expected to remain within target and as global growth is likely to be hampered by the spillover effects from the recent 2019-nCoV episode, we expect the central bank to resume unwinding its previous policy tightening to bolster growth momentum and chase the 6.5-7.5% growth target.

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