Good MornING Asia - 6 March 2020

The market sell-off continues as Covid-19 threatens global economic recession. We see nothing in the US payroll data today to buoy sentiment

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Singapore: Recession looms

A recession in Singapore seems inevitable. That's why we've cut our forecast for annual growth to 0.3% from 1.0%. Hopes are pinned on stimulatory policies, including central bank easing in April to hopefully revive some demand in the second half of the year

0.3%

2020 GDP growth

Revised down from 1%

Weakening demand

Singapore's recent activity indicators continue to reinforce a weak backdrop for the economy that's bracing for a beating as Covid-19 goes global. Trade and tourism are the sectors most affected, as they are largely dependent on strong demand from China.

Retail sales for January contracted by 5.3% year-on-year - the steepest fall in almost a year following December's 3.4% fall. As expected, weak automobile sales were the main drag, posting a 34% YoY plunge on top of the 24% fall in December. Sales ex-autos just about scraped 0.6% growth.

The yearly fall may have been inflated by the Lunar New Year holiday, which last year was in

February. As a result, we anticipate a much bigger plunge in sales as the epidemic spreads, which will not only dent tourist spending but also weigh down domestic consumer shopping.

Among other things, rising unemployment is also depressing consumption.

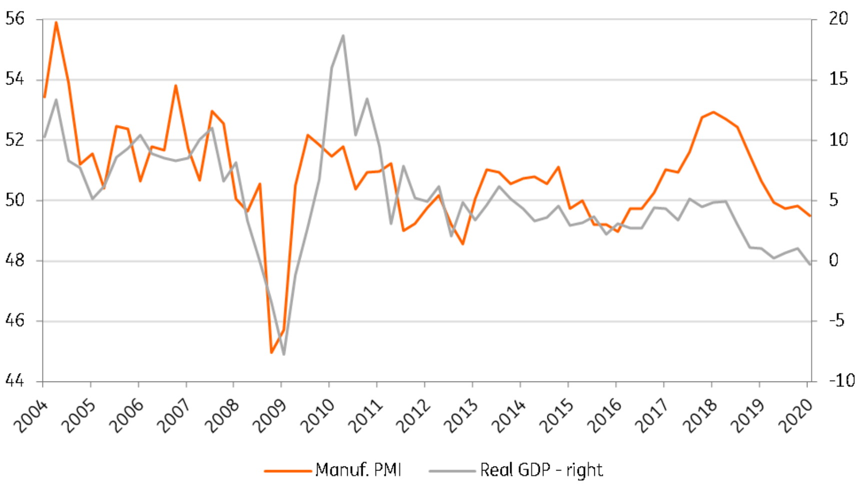
PMI points to negative GDP growth

January non-oil domestic exports and industrial production were a mixed bag as the former continued to fall and yet the latter rose. But, like retail sales, these were distorted by the new year holiday and are likely to dip further in February and the months ahead.

Manufacturing purchasing managers index is foreshadowing a clear oncoming trend, as it dipped to 48.7 in February from 50.3 in the previous month - a big single-month fall in over five years while the electronics sector PMI fell to 47.6 from 50.1.

The headline index is correlated with year-on-year GDP growth, not a perfect fit though fairly close as the chart below shows. And, it's pointing to steady downward grind in GDP growth, more likely into the negative territory.

GDP growth headed into negative territory



Source: Bloomberg, CEIC, ING

ING's GDP growth forecast for 1Q20.

Recession seems inevitable

In light of the evolving Covid-19 situation, especially the rapid spread of the epidemic beyond Asia, Singapore's small open economy is among the most vulnerable. Having grown by only 0.7% in 2019, negative GDP growth doesn't look too far-fetched.

Consistent with initial indications from the PMI data, we think a couple of quarters of GDP contraction, both on a yearly and quarterly basis, now look inevitable. Accordingly, we see -0.3% YoY and -0.5% GDP fall in the first and second quarters respectively, both also implying a quarterly contraction tantamount to a technical recession.

2020 growth forecast downgrade

Hopes remain pinned on the record fiscal stimulus and possible policy easing by the central bank to help revive demand, though that's probably something for the second half of the year. We do anticipate a return to positive GDP growth in the third and fourth quarters at 0.8% and 1.2% respectively.

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Our full-year growth forecast for 2020 now stands at 0.3%, a sharp downgrade from 1.0% earlier. This is even lower than the official baseline of 0.5% growth this year, or the mid-point of -0.5% to 1.5% forecast range announced by the trade and industry ministry last month. We also revise our inflation view for this year to 0.2% from 0.8% as weak demand will continue to dampen price pressures.

With the risk of a recession looming large, we believe the central bank is on course to join the global easing bandwagon at the next meeting in April.

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Snap | 5 March 2020

Philippines: Inflation decelerates to 2.6%, BSP to carry on with easing cycle

With price pressures fading quickly, BSP gains scope for further action

Source: Shutterstock

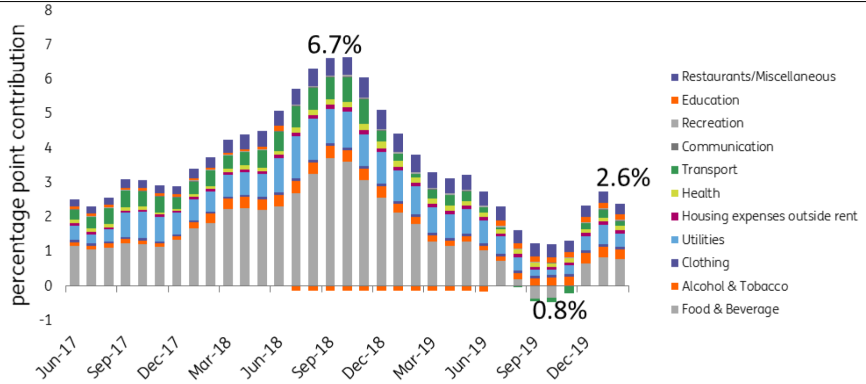
2.6% February CPI inflation

Lower than expected

February inflation slows to 2.6% from 2.9%

Price pressures abated in February as global crude oil prices plunged, dragging on transport costs and utilities. Global crude oil prices tanked to as low as $44/barrel in late February as the Covid-19 virus shut down China, prompting a possible production cut from OPEC members. Lower crude oil prices forced transport costs and utilities to post deflation of 1.0% and 0.1% on a month-on-month basis and helped the headline print settle lower. Food inflation was also subdued despite increases in fish, other meat and vegetable prices as rice inflation proved favorable despite the increase in imported grains.

Philippine inflation, percentage point contribution per component



Source: PSA and ING estimates

Benign inflation outlook affords BSP scope to ease policy rates

BSP forecasts inflation to settle at 3.0% for 2020 and 2.9% in 2021 and the February inflation print points to inflation settling close to that number. With the price objective still within reach and with the global economy projected to hit a severe downturn in the face of Covid-19, we expect Bangko Sentral ng Pilipinas (BSP) to continue its easing cycle in the near term. Governor Diokno had previously pledged a 25 bps policy cut in 1H. The BSP Governor ruled out resorting to an emergency policy meeting to cut rates immediately.

We think that Diokno will hold off on rate cuts until the May meeting as he awaits 1Q GDP data, pointing to his “pre-emptive” rate cut in February as sufficient action for the time being. Moreover, as he has also indicated, "fiscal policy would be more effective at this point". With inflation likely held in check until mid-year and with 1Q GDP likely to disappoint, we expect him to deliver his 25 bps policy cut at the May meeting.

Diokno may then assess if further rate action is needed while reducing reserve requirement (RR) ratios in 2H should bank-lending pick up substantially in the coming months. With expectations for further rate cuts by the BSP in the near term, we expect bond yields to be pressured lower and the Peso to weaken with investors looking to comments from BSP Diokno for further guidance.

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