

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

In this bundle



Singapore

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...



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

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

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.

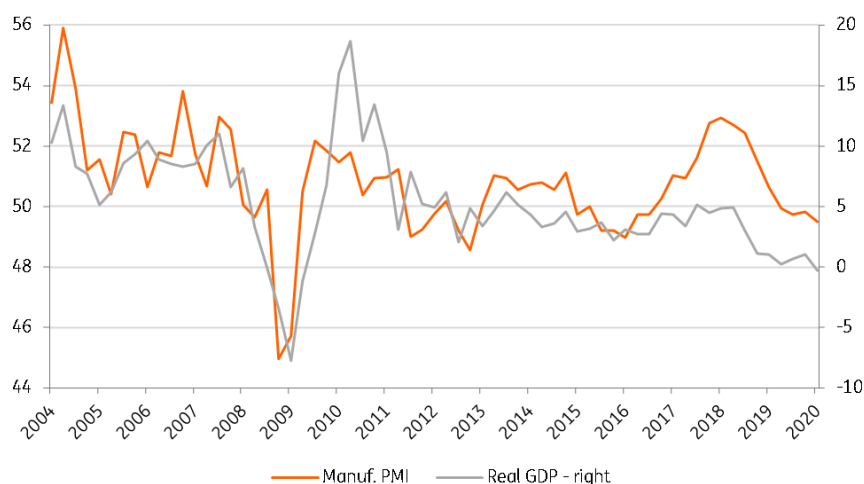
PMI points to negative GDP growth

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.

Our full-year growth forecast for 2020 now stands at 0.3%, a sharp downgrade from 1.0% earlier

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.

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

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

Robert Carnell
Regional Head of Research, Asia-Pacific

robert.carnell@asia.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

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

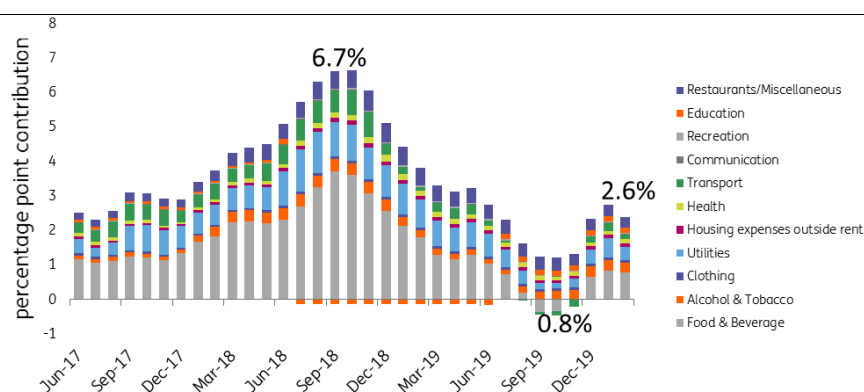
2.6% February CPI inflation

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.

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.