Good MornING Asia - 6 May 2020

Investor sentiment will remain fragile with investors weighing plans to accelerate the pace of the US reopening with concerns about a possible second wave of the virus in the fall

In this bundle

ASEAN Morning Bytes

Trump continues to urge US states to reopen while investors remain cautious as Fed points to likely steep economic downturn.

EM Space: Asian markets are expected move cautiously again on Wednesday

- **General Asia:** Investor sentiment will remain fragile with investors weighing plans to accelerate the pace of the US reopening with concerns about a possible second wave of the virus in the fall. US President Trump urged US governors to reopen the economy with reports that the White House would soon wind down the Covid-19 task force. Meanwhile, Fed officials continued to signal the probable contraction in economic output starting in 2Q. Investors may also gain direction from US ADP jobs data later on Wednesday and China's Caixin services data out on Thursday.
- **Thailand:** The steepest April CPI fall (by -3% YoY) in more than a decade and potentially entrenched negative price trends drove us to cut our 2020 inflation view even further to -2.3% from -0.8%. Soft activity indicators, the manufacturing PMI and the Business Sentiment Index, dropped to new record lows in April and were consistent with our view of more than an 8% GDP fall in 2Q20. All this makes us more confident than ever of our call for a 50 basis point BoT rate cut at the next meeting on 20 May (read more here).
- **Malaysia:** BNM cut the policy rate by 50bp, as expected and also announced MYR 16 billion (about 1% of GDP) of additional liquidity-boosting measures. The policy statement concluded, "The Bank will utilize its policy levers as appropriate to create enabling conditions

for a sustained economic recovery", which we read as suggesting that policy is going to be data-dependent. Data is going to be much worse in the months and quarters to come before it gets any better. Negative inflation strengthens the argument for additional policy measures, though earlier the BNM uses them the better it will be for the economy. We expect another 50bp rate cut at the next meeting in early July.

- **Indonesia**: Indonesia's 1Q GDP dipped to 3.0% well-below market expectations for a 4.0% expansion on subdued export performance and slowing manufacturing activity. We expect the 2Q GDP to weaken further with PMI manufacturing for the month of April dropping to 27.5 and inflation slowing to 2.7% on depressed domestic demand. Indonesia continues to push back on stringent lockdown measures but with Covid-19 cases rapidly rising (12,071), we foresee President Jokowi being forced to finally impose stricter guidelines. Despite the slowdown, we don't expect Bank Indonesia to cut policy rates just yet with Governor Warjiyo looking for more stability from IDR before cutting rates further.
- **Philippines:** Philippine trade data is out today with market analysts expecting the early onset of Covid-19 surfacing for both exports and imports. Median estimates point to exports falling 5.0% and imports contracting 10% as global trade fades on Covid-19 disruption. The Philippines implemented a hard lockdown on 15 March which shuttered manufacturing and disrupted supply chains which would undoubtedly manifest in the March trade numbers. Weaker import demand has helped prop PHP throughout the lockdown phase with trading volumes averaging a third of the average and we expect renewed pressure on PHP once the lockdown is lifted and corporate demand resumes.

What to look out for: Covid-19 developments

- Philippines remittances (6 May)
- Hong Kong and Singapore PMI (6 May)
- Philippines trade (6 May)
- Taiwan inflation (6 May)
- US ADP employment (6 May)
- China Caixin PMI services (7 May)
- Philippines GDP (7 May)
- China trade (7 May)
- US initial jobless claims (7 May)
- Malaysia industrial production (8 May)
- Taiwan trade (8 May)
- US non-farm payrolls (8 May)

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Snap | 5 May 2020

Indonesia: 1Q GDP misses estimates and there's worse to come

Indonesia posted a 3.0% expansion in the first quarter with a more severe downturn expected in the months to come

Source: Stenly Lam

3.0% 1Q GDP

Lower than expected

1Q GDP misses estimates, 2Q could be worse

Growth for the first three months of the year dipped to 3.0%, falling below market expectations (Bloomberg median forecast at 4.0%) with the economy slowing across the board. Consumption, government spending and capital formation all managed to post gains from the same period a year ago but each sector contracted substantially from 4Q 2019 with Covid-19 cases quickly escalating from just two at the start of March to 1,677 by April. Subdued exports and slowing manufacturing activity were noted early in 1Q and we expect the economy to see a more pronounced drop in 2Q with PMI manufacturing for the month of April stalling to 27.5 (from 45.3 in March). Meanwhile, President Jokowi implemented stricter social distancing guidelines, restricted intra-regional movement and banned travel ahead of a holiday beginning in early April, with such measures expected to curb growth momentum even more.

Bank Indonesia still likely on hold

Despite the imminent economic downturn, Bank Indonesia (BI) has refrained from carrying out aggressive policy easing, cutting policy rates by only 50 basis points in 2020 as the Indonesian rupiah weakened to the 16500 level at the height of the Covid-19 induced selloff in mid-March. IDR has since found its footing after BI secured a $60bn repurchase facility with the US Federal Reserve, but we believe that BI Governor Perry Warjiyo will opt to keep policy rates unchanged until IDR stabilises further. With monetary policy sidelined for the time being, fiscal policy will likely be counted on to support the economy, with 2Q likely to fall into contraction as Covid-19 cases continue to rise, despite Jokowi's partial lockdown measures.

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Snap | 5 May 2020

Philippines: April inflation settles at 2.2%

Philippine inflation slows further on lower oil prices. Accelerating food inflation points to tightening supply conditions.

Source: Shutterstock

2.2% April CPI inflation

Higher than expected

April inflation settles at 2.2%

Price pressures eased further in April as expected, down from the 2.5% reading in March but slightly faster than market expectation for a 2.1% increase. Deflation in transport costs (-6.1%) and subdued utility expenses (0.3%) likely weighed on the overall headline number while upside pressure was driven by food items (3.4%) despite government price caps on select items during the lockdown.

BSP not expected to react aggressively to slowing inflation

Despite the slower inflation trajectory, we do not expect the central bank to resort to additional aggressive policy rate cuts in the near term. BSP has offloaded 125bp worth of rate cuts for 2020 and Governor Diokno did hint at pausing to gauge the impact of previous rate cuts before acting further. We expect only a 25bp policy cut if ever BSP opts to ease further as the policy rate edges closer to its own inflation forecast of 2.2% for the year.

Inflation tug of war

Price pressures appear to be on a downtrend, with demand side pressure and the oil factor weighing on overall headline inflation. We expect inflation to be subdued for up to a month after the end of the lockdown. We also foresee a steady acceleration in price pressures in the second half of the year as supply side pressures outweigh the demand side pull. Accelerating inflation in 3Q, the period of least favorable base effect in 2020, is another reason for BSP to manage further policy rate cuts and reductions in reserves. We expect only marginal easing from here, with fiscal stimulus kicking in to support the economy.

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Article | 5 May 2020 Thailand

Thailand: Steepest price fall since the financial crisis reflects huge drop in demand

We have slashed our full-year 2020 inflation forecast, to -2.3% from -0.8%, as the negative inflation trend in Thailand is likely to be entrenched. We are more confident than ever of our call for a 50 basis point Bank of Thailand rate cut at the next meeting on 20 May

Source: Shutterstock

-3.0% April CPI inflation

Worse than expected

Steepest price fall since GFC

Thailand's consumer price index (CPI) fell more than expected, by 3% year-on-year in April, much weaker than our -2% forecast and the -1.2% consensus median. This is the steepest CPI fall since the global financial crisis more than a decade ago. The negative inflation streak started in March with a 0.5% YoY fall. We believe it has further to run through the end of this year.

Core inflation remained in positive territory in April, although it dipped modestly to 0.4% from 0.5% in March, suggesting that a sharp slowdown in headline inflation largely came from food and fuel prices. Inflation in the food component slowed to 1% from 1.6%, led by a more than 4% plunge in fruit and vegetable prices. The housing component, where utility prices are also included, swung to -4.6% from +0.1%. And, transport worsened to -9.8% from -4.9%.

A sharp fall in inflation reflects significant demand destruction due to the Covid-19 pandemic. The disease has been under control and businesses are gradually reopening this week. Even though this should lessen the downside price pressure somewhat, we believe we are in for a long stretch of deflation ahead.

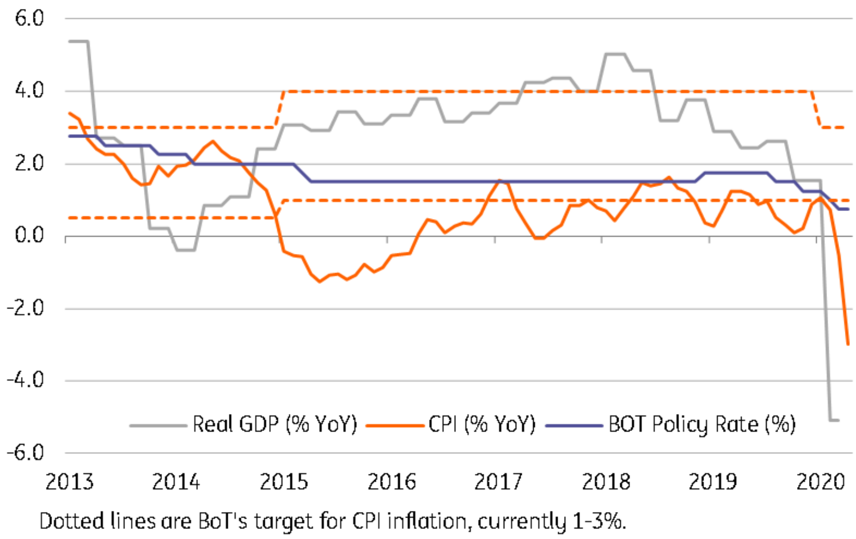
We now see a 3-4% CPI fall in the rest of the year, leading to a sharp downgrade to our annual inflation outlook for 2020 to -2.3% from -0.8%.

And, deepening output fall

Also released today, Thailand's Markit manufacturing PMI plunged to 36.8 in April from 46.7 in March. This was the worst reading since the series began in 2016, led by a record decline in output, new orders, and employment components. The downward pressure on input prices continued to intensify, supporting our view of a sustained negative trend in consumer prices for the rest of the year. The business sentiment PMI component projecting 12 months ahead also pointed to continued deterioration.

All this points to a deepening manufacturing contraction and through that, GDP contraction in the current quarter. Released on 18 May, we estimate as much as a 5.1% YoY GDP fall in the first quarter of 2020. Our forecast for 2Q GDP growth is -8.3%.

Growth, inflation, and BoT policy



Source: Bloomberg, CEIC, ING

ING's -5.1% YoY GDP forecast for 1Q20.

Call for a 50bp BoT rate cut in May

The latest activity data strengthens our confidence in our view that the Bank of Thailand should slash its policy rate further. The BoT cut the policy twice, by 25 basis points each, at meetings in February and March. Inflation has drifted well below the BoT's medium-term policy target of 1-3%. With the policy rate at 0.75% currently this means a big spike in real interest rates – not a good thing for the economy suffering from its worst slump in more than two decades.

> *Latest activity data strengthens our confidence in our view that the Bank of Thailand should slash its policy rate further.*

We believe another 50bp rate cut won't hurt. And the earlier it's implemented, the better it is for the post-Covid-19 economic recovery that's still going to be long and drawn out due mainly to weak tourism and exports for a long time to come. This puts the focus on the upcoming BoT meeting on 20 May, by which time policymakers should have the first quarter GDP report to assess the policy. Undoubtedly, it's going to be bad enough to validate a bigger, 50bp additional rate cut.

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