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EM Space: Sentiment to remain mixed ahead of key data

- **General Asia:** Market players await US labor market data later on Friday for trading cues while also monitoring development on the fate of the planned extension of the US paycheck protection bill. Also in focus on Friday are simmering US-China tension with Trump looking to crack down on Chinese listed companies. Investors will continue to monitor Covid-19 developments and wait on economic data like China's trade figures and the US jobs data for additional direction on Friday.
- **Malaysia:** June industrial production data is due today. The consensus of a 10.4% YoY IP fall is at odds with a surprising rebound in exports in June by 8.8% YoY. The easing of the Covid-19 lockdown lifted economic activity in June. But, the base-year effect imparted more volatility to year-on-year growth rates. The base effect was favourable for exports but not so for IP. This is the last piece of data in the estimation of GDP in 2Q20, which we see plunging by 8.3% YoY. 2Q GDP data is due next Friday, 14 August.
- **Philippines:** Philippine 2Q GDP dropped 16.5%YoY, the steepest contraction to date as lockdown measures scuttled economic activity across almost all sectors. The stark drop in economic activity may prod the central bank to cut rates further although Bangko Sentral ng Pilipinas (BSP) Governor Diokno may be running out of ammunition as real policy rates go deeper into negative territory. Government officials have revised official forecasts for GDP to -5.5% in 2020 and 6.5-7.5 for 2021-2022. Meanwhile, the budget deficit is set to widen to 9.6% in 2020, 8.5% in 2021 and 7.2% in 2022 as revenue streams remain challenged.

What to look out for: China trade data and US non-farm payrolls plus Covid-19 developments

- China and Taiwan trade data (7 August)
- Malaysia industrial production (7 August)
- US non-farm payrolls (7 August)

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Asia week ahead: Lots of Chinese and Indian data

Data out from China next week should show the third-quarter is off on a firmer start, but unlike China, the economic slump in India seems to be far from over and the data will only confirm that



Source: Shutterstock

➔ China: More momentum

China's July data pipeline started this week and will continue throughout next week with figures on industrial production, fixed investment, retail sales, consumer and home price inflation, and monetary and lending indicators.

We think most indicators will post better readings than they did in June, suggesting that the third quarter is off on a firmer start.

➔ India: Not looking any better

Unlike China, the economic slump in India seems to be far from over, while resurgent inflation has closed the door on central bank monetary easing this week. We don't think forthcoming data will alter this either.

We see July CPI inflation to be steady above the Reserve Bank of India's 6% policy limit. Food remained a dominant inflation driver but high utility and transport costs also contributed. Real economic activity may have seen some pick up in recent months following the relaxation of the Covid-19 lockdowns, though it still remains way below the level that was seen just a year ago, as will be reflected by persistently big declines in exports and manufacturing.

➔ Malaysia: The worst may be over

Malaysia's 2Q20 GDP is out next week too. We forecast an 8.3% year-on-year contraction - the steepest since the 1998 Asian crisis. We think markets have almost become indifferent to downside GDP growth surprises from around the region and they are unlikely to be perturbed if Malaysia's growth numbers follow a similar path.

With key drivers of exports and tourism missing, the negative GDP trend will remain over the second half of the year. And, with inflation continuing to be negative, the doors remain open for some more monetary easing from the central bank.

➔ Rest of Asia: Looks pretty slow

Other things on the calendar include July labour report in Australia, a central bank meeting in New Zealand, a couple of activity releases in Japan, and revised 2Q GDP in Singapore.

We share the consensus view of a sharp slowdown in Australia's jobs growth (ING forecast 62.5k vs. 210.8k in June). There is unlikely to be much happening at New Zealand's central bank meeting with rates remaining on hold.

Singapore's 2Q GDP might as well go unnoticed despite a likely downward revision from the -12.6% YoY first print on the back of weak June manufacturing.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Monday 10 August					
China	0230	Jul PPI (YoY%)	-3.6	-2.5	-3.0
	0230	Jul CPI (YoY%)	2.7	2.6	2.5
	-	Jul Money supply (M2) (YoY%)	11.1	11.2	11.1
	-	Jul Aggregate finance (Yuan bn)	2799		3430
	-	Jul Financial institution loans (Yuan bn)	1317		1810
Tuesday 11 August					
India	1300	Jun Industrial production (YoY%)	-18.0	-17.5	-34.7
Singapore	0100	2Q F GDP (Q) (YoY%)	-13.2	-	-12.6
	0100	2Q F GDP (QoQ Annualised %)	-42.9	-	-41.2
Wednesday 12 August					
India	-	Jul Trade deficit (US\$bn)	-465.0	-	790.0
	-	Jul Exports (YoY%)	-17.0	-	-12.4
	-	Jul Imports (YoY%)	-45.0	-	-47.6
South Korea	0000	Jul Unemployment rate (% SA)	-	-	4.3
Thursday 13 August					
India	1300	Jul CPI (YoY%)	6.1	-	6.1
Friday 14 August					
China	0230	Jul New home prices (YoY%)	5.0	-	4.9
	0300	Jul Industrial Production (YoY%)	5.1	5.1	4.8
	0300	Jul Retail Sales (YoY%)	-2.0	0.2	-1.8
	0300	Jul Fixed asset investment (YTD, YoY%)	-0.1	-1.6	-3.1
India	0730	Jul WPI (YoY%)	-1.3	-	-1.8
Hong Kong	0930	2Q F GDP (Q) (YoY%)	-9.0	-	-9.0
	0930	2Q F GDP (Q) (QoQ% SA)	-	-	-0.1
Malaysia	0500	2Q GDP (YoY%)	-8.3	-	0.7
	0500	2Q Current account (Q) (MYR bn)	2800.0	-	9500.0
	0500	2Q GDP (Q) (QoQ% SA)	-7.7	-	-2.0

Source: ING, Bloomberg, *GMT

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Asia FX Talking: All aboard the reflation train

We don't feel entirely comfortable with the markets' apparent sense of invincibility, but caution hasn't worked for us in recent months, so we are revising some of our FX forecasts stronger



Source: Shutterstock

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China's tech war with the US has made us revise our yuan forecast

The persistence of the technology war is hurting long term Chinese growth and the yuan's strength. Although we're revising our yuan forecast, it isn't much stronger from the current spot



Source: Shutterstock

In this photo illustration, a TikTok logo is seen displayed on a smartphone with the Chinese and American flag in the background

New challenges to economic growth

The Chinese economy is recovering. GDP grew by 3.2% year-on-year in 2Q20 but there are new challenges ahead.

- The first-in-first-out from Covid-19 has been China's advantage compared to other economies. There have been some small clusters recently, but the government has acted swiftly to impose very tight social distancing measures, limiting the impact on the economy.
- There has been widespread flooding affecting agriculture as well as infrastructure construction. The typhoon season has also arrived, bringing more uncertainty to the flood damage.

These two challenges hurt short-term economic growth, and the government has offered help to offset some of the damage, so we are not too worried that these will hit GDP growth significantly in

2H20.

The longer-term challenge to the economy is the US becoming increasingly aggressive towards Chinese tech companies. US companies are banned from doing business with more Chinese companies and there were renewed threats on Huawei in May. Recently, the US administration has forced TikTok, whose parent company is a Chinese corporate, to be sold to US companies or stop operating in the US.

This hurts China's long term growth in technology exports.

The yuan strengthens but only slightly

This technology war has put yuan strength at risk.

Even though China has fought against Covid-19 quite successfully, the yuan depreciated against the dollar to 7.1680 per dollar in May, which was the peak in 2020, as a result of the renewed threats to Chinese telecommunications group Huawei.

But in June, economic indicators improved and since then the Chinese economy has started to recover. From its peak, USD/CNY at 7.1680 to 6.9809 on 3 August, the yuan has appreciated by 2.61%.

If we measure the yuan's performance from the beginning of 2020, then it is still 0.25% weaker against the USD. This is in contrast with the dollar index's 2.95% depreciation over the same period. Some of the yuan appreciation that should have reflected in the USD/CNY exchange rate has been offset by the technology war.

We expect the technology war to persist for the rest of the year, which will continue to affect the yuan's performance.

We have revised our USD/CNY forecast to 6.97 from the previous 7.05 by the end of 2020.

We expect a stronger yuan from the previous forecast but the strength of the yuan from now to the end of 2020 is likely to be hit by negative news from the tech war.

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Philippines: Economy crashes into recession, down 16.5%

Enhanced quarantine community lockdown measures knocked out household consumption with the economy shrinking 16.5% in the second quarter, the steepest drop on record



Socially-distanced shoppers in Manila

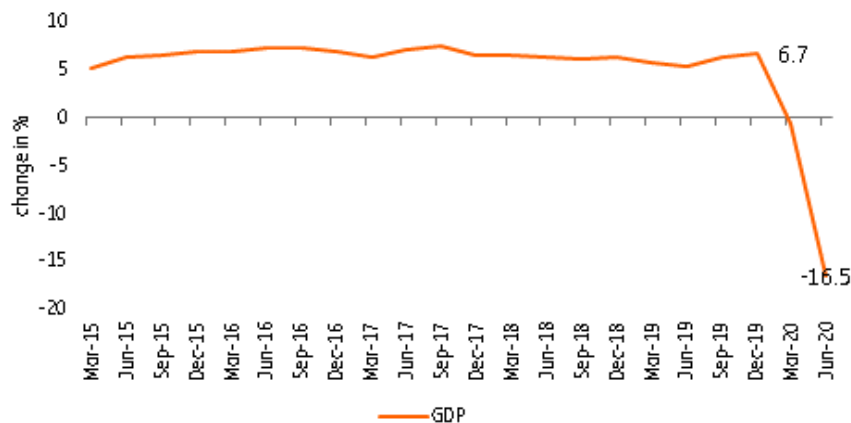
-16.5% 2Q GDP
steepest contraction on record

Worse than expected

Lockdown knockdown

2Q GDP cratered by 16.5% with strict lockdown measures shackling once-promising growth momentum. With mobility curbed, household consumption shrunk 15.5% as Filipinos were forced to shelter in place to limit the spread of the virus. Capital formation also went into freefall with construction down 32.9% and investment in durable equipment plunging 62.1% as investor sentiment evaporated amidst the pandemic and 17.7% unemployment. Offsetting the contraction somewhat was growth posted for net trade and government spending (+22.1%).

Philippines GDP



Source: PSA

Crash landed, dirty-L recovery now more likely

The Philippine economy crash-landed into recession with the 2Q GDP meltdown showcasing the destructive impact of lockdowns on the consumption-dependent economy. With record-high unemployment expected to climb in the coming months, we do not expect a quick turnaround in consumption behaviour, all the more with Covid-19 cases still on the rise. With consumption dropping by 15.5%, investor sentiment will likely go into freefall with the recent investment boom snuffed out by the pandemic.

The BSP may be running out of ammunition

Government spending rose 22.1% and will be counted on to offset the steep decline in economic activity over the next few quarters. Finance Secretary Dominguez has placed his bet on infrastructure via the flagship Build-Build-Build programme, which could help revive construction activity to some extent. However, given that household spending is expected to be sidelined for the foreseeable future due to a fractured labour market and a downturn in remittances, the Philippine economy is likely headed for a base effect-induced bounce in 2021 and a return to the lower 3.5-4.5% growth trajectory of yesteryear by 2022.

Bangko Sentral ng Pilipinas (BSP) Governor Diokno may be pressured to cut policy rates again to help shore up growth momentum but given that real policy rates are now negative (-0.45%), the BSP may be running out of ammunition with fiscal stimulus likely called upon to help slow the downturn.

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