

Good MornING Asia - 8 April 2020

Risk rally may fade on Wednesday as focus shifts back to the Covid-19 spread and rising fatality count

In this bundle



Asia Morning Bites

ASEAN Morning Bytes

Risk rally may fade on Wednesday as focus shifts back to the Covid-19 spread and rising fatality count.



FX | China

What's behind the fall in China's foreign reserves this month?

China's foreign exchange reserves fell significantly in March 2020, making it the biggest fall since November 2016. The size of the fall was much...

ASEAN Morning Bytes

Risk rally may fade on Wednesday as focus shifts back to the Covid-19 spread and rising fatality count.



EM Space: Sentiment to sour on Wednesday as Covid-19 continues to spread

- **General Asia:** The recent risk rally faded quickly despite recent stimulus efforts from both monetary and fiscal authorities, with market players coming to terms with the unabated rise in fatalities as the virus continues to spread. Minutes from the most recent Federal Reserve meeting are due for release later on Wednesday but will likely be overshadowed by Covid-19 developments with trading sentiment to be subdued despite reports suggesting that the US government is considering partially reopening the economy but only after mass testing.
- **Singapore:** The Monetary Authority of Singapore (MAS) announced the relaxation of capital requirements for banks in a bid to free-up their cash to lend more. The central bank also announced relief from the total debt servicing ratio (TDSR) limitation for mortgages and consumer loans to help borrowers during the current crisis.
- **Thailand:** The Cabinet approved the third stimulus package of THB 1.9 trillion (11.3% of GDP), comprising THB 600 billion of cash handouts, THB 400 billion for social rehabilitation, THB 500 billion of soft loans for SMEs, and remaining THB 400 billion to set up a market stabilization fund. This brings the total stimulus so far to 14.3% of GDP. A little over half of this, 7.6% of GDP, amounts to real spending thrust and the rest goes towards monetary

support such as soft loans, etc. Despite the unprecedented stimulus, the economy remains at the mercy of tourism, which is in for a prolonged slump beyond the end of Covid-19 pandemic.

- **Philippines:** The Philippines will be reporting February trade data later on Wednesday with analysts expecting the trade gap to narrow as import demand remains lacklustre with capital intensive infrastructure projects on hold. On Tuesday, the government announced a 2-week extension for the enhanced community quarantine as infections in the country continue to rise although business groups have been clamouring for a partial lifting of the lockdown measures. Growth will likely grind lower as 73% of the economy remains in quarantine mode and we expect GDP of only 3.2% for the year.
- **Indonesia:** Indonesia has reported it has secured a \$60 bn repurchase agreement with the US Federal Reserve which should provide additional Dollar liquidity to shore up the battered IDR. Bank Indonesia indicated that they have yet to tap the facility but the lifeline should ease some pressure on IDR for now. BI also has bilateral swap arrangements with other central banks like the Bank of Korea and Bank of Japan. Tuesday's announcement should provide some relief to the IDR in the near term but expect the IDR to face bouts of weakness as the number of infections continues to rise with authorities reluctant to issue more stringent containment measures.

What to look out for: Covid-19 developments

- Philippines trade (8 April)
- Taiwan trade and inflation (8 April)
- Fed minutes (8 April)
- Korea BoK meeting (9 April)
- US consumer sentiment (9 April)
- China inflation (10 April)
- US inflation (10 April)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

What's behind the fall in China's foreign reserves this month?

China's foreign exchange reserves fell significantly in March 2020, making it the biggest fall since November 2016. The size of the fall was much bigger than our expectations. Is this about outflows? Things should stabilise in April as investors consider China to be a 'first in and first out' case



Source: Shutterstock

Biggest fall in FX reserves since November 2016

China's foreign exchange reserves fell by \$46.1bn in March 2020 to \$3.061 trillion, amid the coronavirus pandemic, making it the biggest fall since November 2016.

The last time we saw such a fall was during the yuan liberalisation experiment in 2015 - 2016 by the People's Bank of China. This created large volatilities which saw the yuan depreciating by 12% from around 6.20 to around 6.70.

But the fall in reserves was a result of massive capital outflows from China. However, that is not the case this time.

FX volatility is the main factor

On this occasion, the fall in FX reserves is because investors have been selling global risky assets in exchange for US treasuries, which has resulted in a strong US dollar that has suppressed the value of non-USD assets.

China's foreign reserves are held in EUR, JPY, GBP and other non-USD assets, and these asset prices have fallen in value when calculated in terms of USD - the currency foreign reserves are usually denominated in. DXY fluctuated by more than 12% in March and even the monthly change was a mere increase of 2.8%.

This partly explains the loss of foreign exchange assets but the fall could also be partly attributed to foreign investors selling off Chinese onshore assets.

Do foreign investors hold fewer Chinese assets?

Official records from Chinabond.com show, foreign investors in China held onshore bonds worth CNY1951.6 bn in February which increased to CNY1957.8 bn in March. So there wasn't a net capital outflow from the Chinese bond market.

Even though there weren't capital outflows from China's onshore bond market, there should be some outflows from the stock market as the A-share index fell by more than 6% in March. Some investors could have redeemed their assets in foreign funds, e.g. MSCI-A shares, which could have possibly induces some outflows.

Things should stabilise in April

We think a small group of risk-loving investors willing to take more risk look at China as a "first-in-first-out" case from the damages of the coronavirus outbreak. This is why it's possible that there will be some inflows into the Chinese bond market in April as well as the A-share market when other major asset markets are still suffering from the aftermath of the pandemic.

The yuan is likely to play an investor-friendly role as the central bank is trying to keep the currency stable via the daily fixing rate. We expect USD/CNY to reach 7.25 by the end of 2Q20. But having said that, we don't expect massive capital inflows into China given that the number of new cases is still quite high and fatalities are still rising.

It will be a while before risky asset markets resume a prolonged risk-on sentiment.

Author

Iris Pang

Chief Economist, Greater China

iris.pang@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.