

## Good Morning Asia - 8 June 2020

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By Robert Carnell



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Inflation dipped to 2.1% during the lockdown, enabling BSP scope to cut policy rates in the near future

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## Recovery - but what sort?

Promising signs from the US provide cause for optimism, but let's not get carried away



### Stronger US data

Here are some must-read notes from James Knightley on [the state of the US recovery](#), and also last Friday's [eye-popping payrolls figures](#).

So, OK, you can take issue with the latest US labour numbers, but then you always can. What I think we can now say is that at the moment the US economy began to re-open, the economy began to improve.

This is the flip side of my lockdown mantra, which is that "lockdown's work, but they also hurt". Further easing will likely see further improvements across a broad range of indicators.

But before you get too carried away, this is hardly an endorsement of V-shaped recovery, though as JK also notes, this is the experience for the new homes markets, and auto sales are also looking fairly buoyant too. Elsewhere, the continued existence of social distancing rules, plus the "permanent" job losses associated with the lockdowns mean that it will likely be some time before that lost output is made up. If it took 14 quarters to recoup the losses of the global financial crisis (as Knightley also points out), will we really see a much quicker recovery from Covid-19? And what even constitutes a "V" in this context? A two quarter recovery? Three?

Honestly, I think the whole discussion of what letter shape the recovery will be is so flawed and

prone to misinterpretation and abuse, that this is literally going to be the last time I mention it in these notes (this feels like a promise I know I am not going to be able to keep, but I'll try).

To finish this section, I saw a nice tweet over the weekend on this, noting that the early gains once the recovery takes hold (as it now appears to have done) could be strong. This is because some of the jobs and output lost were only loosely dislocated. The middle section could be more difficult, and the final part is likely to be very hard indeed. Intuitively, this seems a sensible summary of what we are likely to face. If so, we may still have a month or two of decent recovery to come before the gains start to slow.

## China trade - not so buoyant

If the latest US labour data were unbelievably good, the latest Chinese trade data were credibly weak. [Iris Pang expands on this here](#). And not only are they weak, but the forward indicators for Chinese trade remain very soft. Even with a recovery in China underway, and Covid-19 largely under control, this is a decent reminder to those piling into risk assets that there is a long hard slog ahead, which rising China-US tensions over technology are likely to make worse. In other words, enjoy these US numbers, because the global picture remains extremely tough.

## Today in Asia - Lite

There's not much on the calendar today in Asia, Prakash Sakpal notes this from Malaysia from the end of last week though, "On Friday, Prime Minister Muhyiddin Yassin announced a fourth stimulus package worth MYR 35 billion, including MYR 10 billion of direct fiscal thrust via wage subsidies and skills development programmes, and the rest in the form of tax exemptions. While this brings the total stimulus so far up to 20% of GDP, we estimate a real thrust (excluding easy credit, loan moratoriums, bank guarantees, etc. form the total package) of only 5.6%. This is poised to boost the fiscal deficit to a record high level, though the official view of the deficit doubling to 6% of GDP this year appears to be optimistic. Our deficit forecast before the latest package was 6.3% of GDP (3.4% in 2019). Local markets are on holiday today for the King's birthday".

Revised 1Q20 GDP data in Japan this morning were a bit below consensus, though improved on the previous iteration of the release, coming in at -0.6%QoQ, or -2.2% on an annualised basis. The changes are driven by some weaker consumer spending, which was more than offset by stronger business investment. It is very unlikely that we will revise our current -4.9% forecast for 2020 on the back of these numbers after such a small revision. These forecasts just aren't that mechanical, nor do we literally intend you to take seriously anything after the decimal point (but people fixate on this stuff and wouldn't be happy if we just said "very negative).

## Author

### Robert Carnell

Regional Head of Research, Asia-Pacific  
[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

## ASEAN Morning Bytes

Optimism over the potential economic recovery may return on Monday as investors react to last Friday's US jobs report.



### EM Space: Surprise US NFP report may rekindle risk rally on Monday

- **General Asia:** Better-than-expected jobs figures out from the US last Friday may rekindle the risk rally on Monday with investor sentiment fueled by hopes for the economic recovery. Trade data out from China could help set the tone trading on Monday while the data calendar for the week features regional trade data (Taiwan and Philippines) inflation reports out from major markets and the FOMC meeting. For Monday, sentiment will continue to be driven by hope for a quick recovery with risks such as a potential US-China trade war, still lingering in the background.
- **Malaysia:** On Friday, Prime Minister Muhyiddin Yassin announced a fourth stimulus package worth MYR 35 billion, including MYR 10 billion of direct fiscal thrust via wage subsidies and skills development programmes, and the rest in the form of tax exemptions. While this brings the total stimulus so far up to 20% of GDP, we estimate a real thrust (excluding easy credit, loan moratoriums, bank guarantees, etc. form the total package) of only 5.6%. This is poised to boost the fiscal deficit to a record high level, though the official view of the deficit doubling to 6% of GDP this year appears to be optimistic. Our deficit forecast before the latest package was 6.3% of GDP (3.4% in 2019). Local markets are on holiday today for the King's birthday.



- **Indonesia:** Bank Indonesia (BI) Governor Warjiyo believes that IDR is undervalued as he expects the currency to strengthen further on stalling CPI inflation and a tightening of the country's current account deficit. IDR has staged a comeback after touching the 16,500 level in March, appreciating sharply as foreign investors returned after sentiment improved considerably. IDR will have limited room to appreciate as we expect BI to cut policy rates at the near term to help support sagging economic growth now that IDR has found its footing.

## What to look out for: Trade data and Covid-19 developments

- Taiwan trade (8 June)
- US wholesale inventories (9 June)
- Philippines trade (10 June)
- China inflation (10 June)
- US inflation (10 June)
- FOMC meeting (11 June)
- US PPI and initial jobless claims (11 June)
- Hong Kong industrial production (12 June)
- US consumer sentiment (12 June)

### Author

#### Nicholas Mapa

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

# Asia week ahead: At the mercy of weak exports

Big data week in China and Japan next week. The numerous trade releases will be gleaned for Asia's export resilience, which seems to have ended



Source: Shutterstock

## ➔ Export-led slowdown

China's May data flow begins on 7 June, with trade figures, and inflation and monetary indicators over the course of next week.

The May Day holidays are expected to instil some slack in economic activity, but otherwise, data should indicate that Asia's biggest economy is on the recovery path, thanks to stimulus policies. However, the recovery remains at the mercy of global demand that's currently getting a pretty strong beating from the Covid-19 pandemic.

This imparts a downside risk to our house forecast of only a modest dip in Chinese exports in May, by -1.7% year-on-year. The monetary data will be gleaned for signs the substantial stimulus is trickling down to support domestic demand.

It's also a big data week in Japan, crowded by April economic indicators, which should shed some light on GDP growth in the current quarter. No point guessing that it's going to be any better than -0.9% QoQ (seasonally adjusted) in 1Q20, for which the second estimate is also due next week.

Like China, Taiwan and the Philippines trade figures are also likely to show accelerating export weakness. The same goes for Malaysia and India's manufacturing releases after these countries saw the worst fall in exports by -24% YoY and 60% respectively in April.

For a change, there are no significant policy events scheduled from regional economies next week, though don't be surprised if something suddenly springs up in these uncertain times.

## Asia Economic Calendar

Country	Time Data/event	ING	Survey	Prev.
<b>Sun 7 June</b>				
China	0300 May Forex Reserves (US\$bn)	3090	-	3091.4
	0400 May Exports (%YoY)	-1.7	-	3.5
	0400 May Imports (%YoY)	-5.7	-	-14.2
	0400 May Trade balance (US\$bn)	47.3	-	45.3
<b>Monday 8 June</b>				
Taiwan	0900 May Exports (YoY%)	-4.8	-	-1.3
	0900 May Imports (YoY%)	3.0	-	0.5
	0900 May Trade balance (US\$bn)	2.5	-	2.3
India	- Current account balance (US\$bn)	-8.1	-	-1.4
<b>Wednesday 10 June</b>				
China	0230 May PPI (YoY%)	-3.6	-3.2	-3.1
	0230 May CPI (YoY%)	3.0	2.6	3.3
	- May Aggregate finance (Yuan bn)	2500	-	1697.8
	- May Financial institution loans (Yuan bn)	1400	-	3094.1
	- May Money supply (M2) (YoY%)	11.1	11.2	11.1
Philippines	0200 Apr Exports (YoY%)	-	-	-24.9
	0200 Apr Imports (YoY%)	-	-	-26.2
	0200 Apr Trade balance (US\$mn)	-	-	-2380
South Korea	0000 May Unemployment rate (% SA)	4.2	-	3.8
<b>Thursday 11 June</b>				
Malaysia	0500 Apr Industrial production (YoY%)	-25.0	-	-4.9
<b>Friday 12 June</b>				
India	1300 May CPI (YoY%)	5.8	-	5.8
	1300 Apr Industrial production (YoY%)	-33.5	-	-16.7

Source: ING, Bloomberg, \*GMT

## Author

### Alissa Lefebre

Economist

[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

### Deepali Bhargava

Regional Head of Research, Asia-Pacific



[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

**Ruben Dewitte**

Economist

+32495364780

[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

**Kinga Havasi**

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

**Marten van Garderen**

Consumer Economist, Netherlands

[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

**David Havrlant**

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

**Sander Burgers**

Senior Economist, Dutch Housing

[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

**Lynn Song**

Chief Economist, Greater China

[lynn.song@asia.ing.com](mailto:lynn.song@asia.ing.com)

**Michiel Tukker**

Senior European Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

**Michal Rubaszek**

Senior Economist, Poland

[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

**Stefan Posea**

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**

Senior Sector Strategist, Real Estate  
[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**  
Research Assistant, Energy Transition  
[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**  
Sector Economist, TMT & Healthcare  
[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**  
Sector Economist  
[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**  
Sector Strategist, Financials  
[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**  
Commodities Strategist  
[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

#### ING Analysts

**James Wilson**  
EM Sovereign Strategist  
[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**  
Digital Editor  
[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**  
EMEA FX & FI Strategist  
[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**  
Senior Economist, Poland  
[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**  
Senior Economist, South Korea and Japan  
[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

**Coco Zhang**  
ESG Research

[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**

Senior Sector Strategist, TMT

[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**

Senior Economist, Services and Leisure

[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**

Sector Strategist, Financials

[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**

Junior Economist

[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**

Economist, Germany

[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**

Senior Editor and Supervisory Analyst

[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**

Credit Strategist

[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**

Senior Economist, Poland

[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Oleksiy Soroka, CFA**

Senior High Yield Credit Strategist

[oleksiy.soroka@ing.com](mailto:oleksiy.soroka@ing.com)

**Antoine Bouvet**

Head of European Rates Strategy

[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**

Global Head of Sector Research

[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**

Senior Sector Economist, Industry and Healthcare

[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**

Senior Sector Economist, Transport and Logistics

[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**

Sector Economist

[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

**Egor Fedorov**

Senior Credit Analyst

[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**

Consumer Economist

[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**

Senior Sector Economist, Energy

[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**

Head of Corporates Sector Strategy

[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**

Behavioural Scientist

+31(0)611172684

[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**

Senior Sector Strategist, Financials

[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**

Senior Sector Economist, Food & Agri

[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**

Senior Economist Construction & Team Lead Sectors

[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klok**

Senior Economist, Netherlands

[marcel.klok@ing.com](mailto:marcel.klok@ing.com)

**Piotr Poplawski**

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**

Chief Economist and Global Head of Research

[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**

Senior Macro Economist

[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**

Head of Global IFRS9 ME Scenarios

[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**

Head of Financials Sector Strategy  
[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**  
Head of Commodities Strategy  
[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

**Rafal Benecki**  
Chief Economist, Poland  
[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**  
Senior Economist, Belgium, Luxembourg  
[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**  
Senior Economist, Hungary  
[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**  
Senior Economist, Germany, Global Trade  
[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**  
Senior Data Analyst, Netherlands  
[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**  
Chief Economist, Romania  
+40 31 406 8990  
[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**  
Chief Economist, Turkey  
[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**  
Chief Economist, Greater China  
[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**  
Writer, Group Research  
+44 20 7767 6209  
[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**  
Regional Head of Research, Americas  
[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)



**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto: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](mailto:martin.van.vliet@ing.com)

**Robert Carnell**

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

**Karol Pogorzelski**

Senior Economist, Poland

[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**

Foreign Exchange Strategist

+44 20 7767 6405

[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**

Global Head of Editorial Content

+44 (0) 207 767 5331

[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**

Chief Economist, LATAM

+1 646 424 6464

[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**

Economist, Digital Finance

+44 20 7767 5306

[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)

## China: Trade data hints at weak exports ahead

China's imports for May were very weak. As China's imports are mostly export-order driven, this means that exports in the coming months will be weak as well. The People's Bank of China will not depreciate the yuan to help exports because that won't help



Source: Shutterstock

### China imports shrank the fastest since 2016

Imports shrank by 16.7% year-on-year in May, which is the deepest contraction since January 2016 when imports shrank 19.5% YoY.

Though exports shrank only slightly in May (-3.3% YoY), the deep dive of imports means that exports in the coming months will be weak. This is because some imports are used as parts for export products. This also implies foreign buyers did not expect a rebound of demand for their products.

Another reason that exports were less dismal than imports is because of some Covid-19 related shipments, e.g. garments and textiles, which rose 41% month-on-month in May after +64% MoM in April, and medical supplies, which increased 38% MoM in May after +41% MoM in April. Demand for these Covid-19 related goods and supplies should slow down when Covid-19 subsides. This is also one of the reasons we believe that this less dismal export growth may not be sustainable.

## Electronics could be hit hard

In this note, we would like to focus on the trade of electronics as they contribute around half of the total trade of China. Mechanical and electrical products contributed 58% of total exports and 47% of total imports.

Imports in this category fell 7% YoY in May, and this is even after a low base effect from last year, which was -11% YoY in May 2019. In other words, without the base effect, imports of mechanical and electronic parts would have fallen even more in May 2020.

In dollar terms, imports of mechanical and electrical products fell to a very low level of US\$68.11 billion in May. The last time we saw a lower amount was in February 2018 and 2019, which was reasonable as the Chinese New Year fell in those months. Then it was back in May 2017, which recorded US\$66.91 billion for imports in this category, when it was below the current level.

The most important trade item, mechanical and electronic products, has been in bad shape as global demand for upgrades of gadgets has been shrinking.

Remote work arrangements have induced some demand for laptops, pads, and accessories like cameras and microphones, but these are not the major products that have driven strong growth in electronics over the past years. This could change if remote work is the new norm, and could provide a bit of support for electronics for a few years.

But the main growth engine for electronics has come from smartphone upgrades. Before the outbreak of Covid-19 we had expected 2020 to be a boom year for handsets and other gadgets due to 5G. Now, this demand has obviously been deferred by high unemployment in most major economies. As such, demand for electronic parts and equipment for producing advanced technological products should be dismal. Because of the large contribution of mechanical and electronic parts' to global trade, overall exports and imports will be under pressure until global consumption picks up.

## Technology war will dampen trade growth

The technology war is once again one of the frictions between the US and China. China claims that it will retaliate against the US action of including 33 Chinese entities to its "entity list" of export controls, which should hurt the transfer of technology.

China's spokesman from the Ministry of Commerce said that China ["will take all necessary measures to safeguard Chinese companies' legitimate rights and interests"](#). If China retaliates with its own unreliable entity list of US companies, likely to include some US technology companies, there will be even less trade of technological parts and products between the US and China.

Hopefully, other economies will fill the gap because otherwise, the technology war will hurt trade in technology parts and products even more, and could last longer.

## USD/CNY is not a tool for retaliation

We don't think the People's Bank of China, China's central bank, will use the exchange rate to help exports, or as a tool for retaliation.

Yuan depreciation cannot change the landscape of weak global demand and cannot slow down friction between the US and China. These two are the key problems now faced by Chinese exporters.

The PBoC is expected to allow USD/CNY to move with the dollar index in tandem. This will give some transparency to the market. More importantly, the PBoC is unlikely to shock the market like it did in 2015, which created market chaos, when there are so many uncertainties from Covid-19 and friction between the US and China.

We keep our forecast of USD/CNY for the end of 2020 at 7.05.

## Author

### Iris Pang

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

# Singapore: Covid-19 lockdown hits spending

As things adjust to the post-Covid-19 new normal, more jobs are likely to be lost along the way, keeping consumption weak for some time to come



Source: Shutterstock

# -40.5%

April retail sales growth

Year-on-year

Worse than expected

## Worst-ever retail sales

Singapore's retail sales crashed by 40.5% in April from a year ago and 31.7% from the previous month (seasonally adjusted). This is the worst sales growth ever recorded since the series started back in the mid-1980s. And it was pretty much expected as the Covid-19 lockdown, starting on 7 April, dented spending.

As expected, supermarket sales continued to outperform with a 30% year-on-year surge, while non-essential consumer spending of all sorts was hit hard. Motor vehicle sales remained the



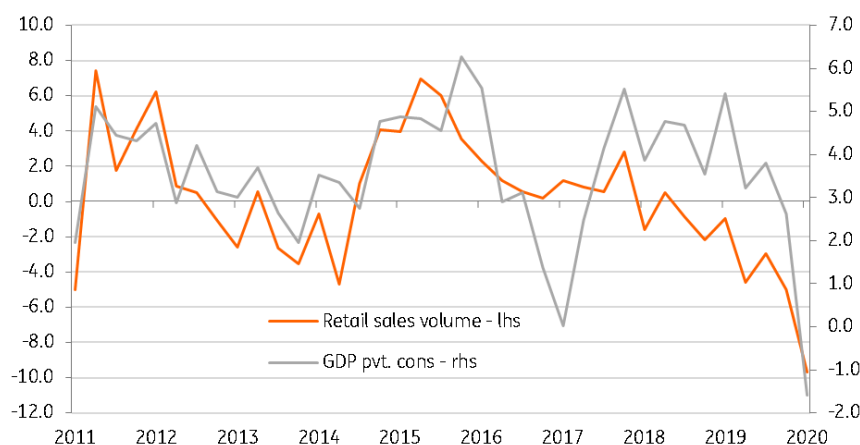
weakest area with a 68% YoY plunge, which is not a surprise as we saw new registrations plunge in April. Among other big drags were watches and jewellery (-81%), clothing (-75%), department stores (-75%), and recreational goods (-55%).

## More weakness ahead

Private consumption explains almost a third of the negative swing in GDP growth in the 1Q20 (to -0.7% YoY from +1.0% in 4Q19). April data leaves no doubt that it's going to be a far bigger drag in the current quarter, supporting our view of a 6.8% YoY GDP fall.

Continued weak consumer spending remains a baseline scenario for the rest of this year. The lockdown measures continued for all of May, followed by some relaxation starting this month. Yet, it will be a long time before the economy is fully back on its feet; a gradual three-phase reboot won't be completed until an effective vaccine for Covid-19 is found. And, as things adjust to the new normal more jobs are likely to be lost along the way, keeping consumption weak on the expenditure-side of GDP growth for some time to come.

## Retail sales vs. GDP private consumption (% year-on-year)



Source: CEIC, ING

## Author

### Alissa Lefebre

Economist

[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

### Deepali Bhargava

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

### Ruben Dewitte

Economist

+32495364780

[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

### Kinga Havasi

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

**Marten van Garderen**

Consumer Economist, Netherlands

[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

**David Havrlant**

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

**Sander Burgers**

Senior Economist, Dutch Housing

[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

**Lynn Song**

Chief Economist, Greater China

[lynn.song@asia.ing.com](mailto:lynn.song@asia.ing.com)

**Michiel Tukker**

Senior European Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

**Michal Rubaszek**

Senior Economist, Poland

[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

**Stefan Posea**

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**

Senior Sector Strategist, Real Estate

[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**

Research Assistant, Energy Transition

[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**

Sector Economist, TMT & Healthcare  
[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**  
Sector Economist  
[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**  
Sector Strategist, Financials  
[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**  
Commodities Strategist  
[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

### ING Analysts

**James Wilson**  
EM Sovereign Strategist  
[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**  
Digital Editor  
[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**  
EMEA FX & FI Strategist  
[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**  
Senior Economist, Poland  
[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**  
Senior Economist, South Korea and Japan  
[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

**Coco Zhang**  
ESG Research  
[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**  
Senior Sector Strategist, TMT  
[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**  
Senior Economist, Services and Leisure

[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**

Sector Strategist, Financials

[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**

Junior Economist

[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**

Economist, Germany

[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**

Senior Editor and Supervisory Analyst

[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**

Credit Strategist

[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**

Senior Economist, Poland

[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Oleksiy Soroka, CFA**

Senior High Yield Credit Strategist

[oleksiy.soroka@ing.com](mailto:oleksiy.soroka@ing.com)

**Antoine Bouvet**

Head of European Rates Strategy

[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**

Global Head of Sector Research

[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**

Senior Sector Economist, Industry and Healthcare

[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**

Senior Sector Economist, Transport and Logistics

[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**

Sector Economist

[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

**Egor Fedorov**

Senior Credit Analyst

[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**

Consumer Economist

[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**

Senior Sector Economist, Energy

[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**

Head of Corporates Sector Strategy

[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**

Behavioural Scientist

+31(0)611172684

[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**

Developed Markets Economist, UK  
[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**  
Senior Sector Strategist, Financials  
[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**  
Senior Sector Economist, Food & Agri  
[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**  
Senior Economist Construction & Team Lead Sectors  
[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klok**  
Senior Economist, Netherlands  
[marcel.klok@ing.com](mailto:marcel.klok@ing.com)

**Piotr Poplawski**  
Senior Economist, Poland  
[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

**Paolo Pizzoli**  
Senior Economist, Italy, Greece  
[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**  
Chief Economist and Global Head of Research  
[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**  
Senior Macro Economist  
[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**  
Head of Global IFRS9 ME Scenarios  
[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**  
Head of Financials Sector Strategy  
[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**  
Head of Commodities Strategy  
[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

**Rafal Benecki**



Chief Economist, Poland  
[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**  
Senior Economist, Belgium, Luxembourg  
[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**  
Senior Economist, Hungary  
[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**  
Senior Economist, Germany, Global Trade  
[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**  
Senior Data Analyst, Netherlands  
[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**  
Chief Economist, Romania  
+40 31 406 8990  
[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**  
Chief Economist, Turkey  
[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**  
Chief Economist, Greater China  
[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**  
Writer, Group Research  
+44 20 7767 6209  
[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**  
Regional Head of Research, Americas  
[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**  
Chief International Economist, US  
[james.knightley@ing.com](mailto: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](mailto:martin.van.vliet@ing.com)

**Robert Carnell**

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

**Karol Pogorzelski**

Senior Economist, Poland

[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**

Foreign Exchange Strategist

+44 20 7767 6405

[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**

Global Head of Editorial Content

+44 (0) 207 767 5331

[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**

Chief Economist, LATAM

+1 646 424 6464

[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**

Economist, Digital Finance

+44 20 7767 5306

[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)

## Philippines: Inflation dips to 2.1% giving BSP elbow room to ease further

Inflation dipped to 2.1% during the lockdown, enabling BSP scope to cut policy rates in the near future



Rice for sale at a market in the Philippines

**2.1%** May inflation

Higher than expected

### Headline inflation settles at 2.1%, could go lower

Prices rose 2.1% in May as slightly faster food inflation and utilities offset annual price declines in transport costs. Subdued demand due to the lockdowns has helped keep price gains in check for other items in the CPI basket. The May inflation reading brings the year-to-date average for inflation to 2.5% - at the lower end of the Bangko Sentral ng Pilipinas' (BSP) inflation target of 2.-4%. BSP's latest inflation forecast points to 2.2% average inflation for the year with Governor Diokno hinting that headline inflation may dip below 2% in the coming months on subdued demand and lower energy prices.

## Low inflation sets up possible BSP rate cut in June

Decelerating inflation and the need to provide additional stimulus to an economy headed for a recession sets up a possible BSP rate cut at the 25 June meeting. BSP Governor Diokno continues to remind investors that he has “elbow room” to cut policy rates due to the benign inflation environment, although we believe that the central bank will carry out at most a 25 bps rate cut before pausing for the rest of the year to keep real policy rates positive.

### Author

#### Nicholas Mapa

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

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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.

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