

Good MornING Asia - 8 May 2020

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Go figure

I've long given up thinking that in some way, equity markets provide an insight into the economic future. Liquidity is the ultimate drug for equities, and the outlook for earnings seems to be of little real merit as a predictor.

But less than 24 hours ahead of what will probably rank as the "worst economic report in the history of the world" I find it puzzling that equity futures are hovering in slightly positive ground.

[Check out this from James Knightley for more on the US jobs market.](#)

The usual excuse for this sort of thing is that all the bad news is already priced in. But if so, when did that happen? Recent equity market performance has been steady to slightly higher. And I don't believe that this point occurred the minute the S&P500 hit its 23 March bottom. Investors were still talking about V-shaped recoveries back then (economists have been pretty clear - for once - that this was not on the cards from the word go - despite what you read in some sections of the

media).

Could it in some way be a positive reaction to the fact that December Fed funds futures are now pointing to negative US policy rates? If so, they haven't been paying attention, because if this happens, the liquidity role played by US money markets would likely make financial conditions far tighter, rather than looser. And even in Europe, where liquidity is more of a bank function, negative rates have clearly not provided much help, and there is a good argument to suggest that they've done active harm.

Jerome Powell and his colleagues are smart and I don't think official Fed policy will ever go negative for these reasons. I don't rule this out for market rates further along the curve, however. But in short, the Fed has done practically everything of substance that you could have asked of them, so you can't reasonably put equity optimism down to stimulus expectations.

We'll see. For such a well-flagged car crash, the market reaction to this in either direction will be very interesting.

More trade worries next week

I read on the newswires that US and China trade negotiators will meet next week to see how China has been living up to the commitments that it made to secure last year's trade truce.

Very obviously, on a month by month basis, they will have fallen far short, thanks to the pandemic. But will the US make allowances for this? Reasonableness would argue, "yes". But the politics of this is not so clear. While there is little to be gained economically or in terms of market action from ripping the scab off this old wound, with the economic data flying off the charts in the wrong direction, it could make a useful diversion for the spin-doctors. Next week could also be quite "interesting" as a result.

Let inflation rise to 4%? What do you mean, let?

I skimmed over an article today that suggested that letting US inflation rise to 4% for a decade could help to wipe off the debt accumulated during the pandemic.

I'm sorry. "Let inflation rise to 4%?" Despite what were some of the tightest labour markets on record, and some of the correspondingly most accommodative monetary and fiscal policies on record, including trillions of dollars of quantitative easing, the US was barely able to hit its more modest 2% PCE inflation target for more than a few months in 2011, 2017 and 2018.

It's one thing to play with spreadsheets and "what if" scenarios. But this idea belongs in the trash can, along with the growing number of articles on stagflation I'm reading.

I'll be writing a longer, and most probably quite a ranty piece on why this is nonsense as soon as time allows. But the short version of the note would simply say - there is no mechanism for supply shortages to generate a cost-push inflation spiral any more. Growing alternatives to wage-labour (AI, automation), much larger service sector, decreased unionisation and collective bargaining, all mean that at worst, supply constraints lift the relative prices of a number of goods and services for a time. But it fails to generate the subsequent rounds that would cause this to stick, or to grow, irrespective of central bank accommodation.

No mechanism = no stagflation. Which is a pity, as in my view, as a bit of "flation" of any sort really

would be quite useful. It's wishful thinking though. Debt write-downs are much more likely in my view.

Today in Asia

It is a quiet one today in Asia. Prakash Sakpal writes this on Malaysian industrial production and what it means for next week's GDP release: " March industrial production (IP) data today is the last element in our 1Q20 GDP estimate. We expect a 4.9% YoY IP fall, a negative swing from 5.8% growth in February as the Covid-19 lockdown starting in mid-March dented activity. This result would still deliver slightly positive quarterly IP growth. Both exports and manufacturing held their ground in 1Q, but were outweighed by a sharp slump in services due to stalled tourism and movement restrictions. We expect a 4.2% YoY GDP fall in 1Q20 (data is due next week, 13 May)".

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EM Space: US payroll report expected to show another round of substantial job losses

- **General Asia:** The US and China may meet next week via teleconference to revisit the “phase one deal” with Trump threatening to cancel the deal should China miss their target for US imports. Investor sentiment should remain fragile after poor industrial output data out from major European markets although China managed to post growth for its export sector on Thursday. Friday’s highlight will be the US jobs report which should show another round of substantial job destruction as lockdowns in the US continue to disrupt economic activity.
- **Malaysia:** March industrial production (IP) data today is the last element in our 1Q20 GDP estimate. We expect a 4.9% YoY IP fall, a negative swing from 5.8% growth in February as the Covid-19 lockdown starting in mid-March dented activity. This result would still deliver slightly positive quarterly IP growth. Both exports and manufacturing held their ground in 1Q, but were outweighed by a sharp slump in services due to stalled tourism and movement restrictions. We expect a 4.2% YoY GDP fall in 1Q20 (data is due next week, 13 May).
- **Philippines:** Philippine 1Q GDP dropped into contraction, catching almost all analysts by surprise as the growth numbers showcased the early onset of the Covid-19 virus and the detrimental impact of lockdowns on output. 1Q GDP fell to -0.2% with all signs pointing to a

recession by 2Q as most of the country has been under quarantine for roughly 2 months. The dismal outlook was enough to prod Fitch to revise its outlook for the Philippines to stable from positive. We expect PHP to come under some pressure on Friday as corporates move to secure dollars ahead of the possible gradual reopening of the economy scheduled for 15 May.

What to look out for: US jobs report and Covid-19 developments

- Philippines remittances (8 May)
- Malaysia industrial production (8 May)
- Taiwan trade (8 May)
- US non-farm payrolls (8 May)

Asia week ahead: A big data pipeline

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Source: Shutterstock

➔ China: Has the slowdown troughed?

China's monthly data for April will continue to dominate the headlines. We got PMI data last week, followed by trade figures this week. Next week will see inflation (CPI and PPI), monetary (aggregate finance, new loans, and M2), and real economic monetary indicators - industrial production, fixed assets investment, and retail sales.

The forthcoming data may shed light on the post-Covid-19 economic recovery coming into the second quarter. However, before we even think of recovery, we don't know if we are at the trough. Maybe not yet, with global demand destruction weighing on exports and caution exercised on domestic spending throughout most of this year. That said, our Greater China Economist, Iris Pang,

is hopeful of industrial production returning to growth and investment and retail sales posting moderate declines in April compared to March.

More than data though, noise about the origin of the Covid-19 virus and a potential resumption of the tariff war may remain the dominating theme for markets.

➔ India headed for worst economic slump

China may have passed the worst of its Covid-19 outbreak but India is still suffering and the economy is already feeling the pain if the single-digit composite PMI in April are anything to go by, which according to the data compiler (IHS Markit) corresponds to an annual 15% GDP contraction. All seems to be coming crashing down except inflation, as the data should show next week.

No points for guessing that a 35% YoY plunge in exports in March coupled with weak domestic demand was associated with the sharp fall in output. We forecast over 10% YoY fall in industrial production in March. But it's going to be much worse in April based on our forecast of over 40% export fall that month.

And, consumer prices are likely to show persistently high inflation, close to the top end of the Reserve Bank of India's 2-6% policy target. As I gather from my conversation with friends and relatives in India, all are feeling the pinch of supply shortages and food items are becoming acutely expensive.

The bottom line is that India is headed for its worst economic slump ahead.

➔ Malaysia's GDP to contract by more than 4%

Malaysia's 1Q20 GDP report arrives next Wednesday on 13 May. It won't be pretty as can be gauged from Bank Negara Malaysia's double-barrel, 50 basis point rate cut this week. We estimate over 4% YoY GDP contraction - a sharp swing from 3.6% growth in the previous quarter and the worst since the global financial crisis.

Malaysia's had a turbulent few months. First, the political turmoil overthrowing the Mahathir Muhammad government in late February depressed economic confidence. Just as the Muhyiddin administration assumed power, Covid-19 movement restrictions in mid-March came into play stalling economic activity for the remainder of the quarter. Even so, exports and manufacturing held ground with almost flat growth over a year ago. But, services including retail, transport, tourism, etc. took a strong beating. On the spending side, it's an across-the-board weakness in all GDP components including consumption, investment, and net trade.

Of course, the 1Q data doesn't capture the full impact of the pandemic. That's for the current quarter when the additional hit from a slump in the global oil prices to the net oil exporter economy will cause a much steeper GDP fall. This is why we have added another 50bp rate cut to our forecast in this cycle.

Key events

Country	Time	Data/event	ING	Survey	Prev.
Tuesday 12 May					
China	0230	Apr PPI (YoY%)	-2.6	-2.6	-1.5
	0230	Apr CPI (YoY%)	4.0	3.7	4.3
India	1300	Apr CPI (YoY%)	5.8	5.7	5.91
	1300	Mar Industrial production (YoY%)	-10.5	-8	4.5
Wednesday 13 May					
Malaysia	0500	1Q GDP (YoY%)	-4.2	-	3.6
	0500	1Q Current account (Q) (MYR bn)	2.8	-	7.6
	0500	1Q GDP (Q) (QoQ% SA)	-6.6	-	0.6
S Korea	0000	Apr Unemployment rate (% SA)	4.1	-	3.8
Thursday 14 May					
India	0730	Apr WPI (YoY%)	0.6	-	1
Friday 15 May					
China	0300	Apr Industrial Production (YoY%)	2.2	1.5	-1.1
	0300	Apr Retail Sales (YoY%)	-11.9	-5.2	-15.8
	0300	Apr Fixed asset investment (YTD, YoY%)	-13.0	-8.5	-16.1
India	-	Apr Trade deficit (US\$bn)	-8.7	-	-9760
	-	Apr Exports (YoY%)	-42.0	-	-34.57
	-	Apr Imports (YoY%)	-44.0	-	-28.72
Hong Kong	0930	1Q F GDP (Q) (YoY%)	-	-	-8.9
	0930	1Q F GDP (Q) (QoQ% SA)	-	-	-5.3
Indonesia	0500	Apr Trade balance (US\$m)	-	-	743.4
	0500	Apr Exports (YoY%)	-	-	-0.2
	0500	Apr Imports (YoY%)	-	-	-0.75

Source: Bloomberg, ING

Podcast | 7 May 2020

Listen: Lockdown lessons from Asia

As the US, UK and other countries in Europe move to ease lockdown measures, we look to countries that have already started to emerge from the crisis for...



First in, first out?

China was the first country to enter lockdown and it's been the first to exit. But the first in, first out logic doesn't always stack up. [In this podcast](#), ING's Head of Asia Pacific Research Rob Carnell tells Senior Editor Rebecca Byrne what the West can learn from China's experience, how the country is positioning itself on the world stage in the midst of the pandemic and whether the global recovery could be hampered by another trade war.

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Source: Shutterstock

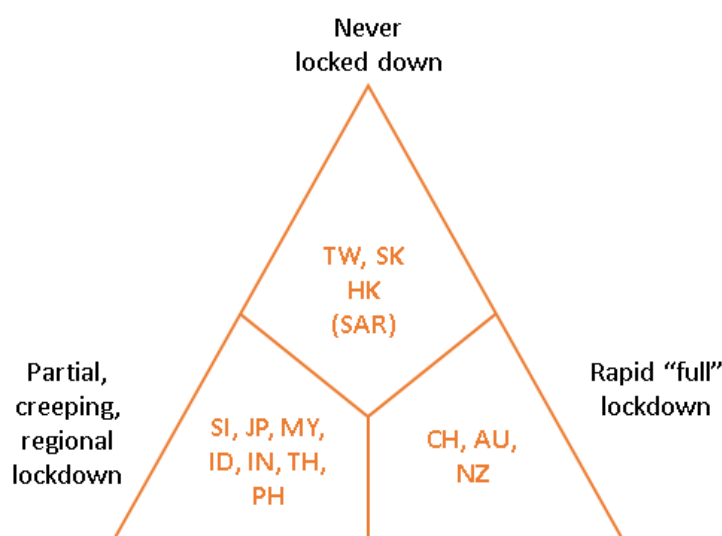
Workers produce protective masks at a factory.

Asia can be split into three groups

In terms of the pandemic, the response, and the state of the economy, you can split Asia into three main groups. :

1. Didn't go into complete lockdown – South Korea, and Taiwan
2. Locked down quickly, and with vigour – (China), Australia, New Zealand
3. Gradually locked down, partial lockdowns, or late lockdowns – everyone else

Asia Pacific and the pandemic



Source: ING
Asia and the Pandemic

No lockdown sees the smallest GDP loss

Both Taiwan and Korea are not far from a domestic “business as usual” setting, except for the fact that they are “islands” in a world where almost everyone else is locked down.

But both are seeing some mixed signs in manufacturing, though the true magnitude is only likely to be evident with the release of April data. Trade figures have been extremely weak. But domestic demand, though depressed, is beginning to come back.

Economic recovery will only come with an end to lockdowns and a moderation in the local aspects of the pandemic

In the vigorous lockdown group, these countries are already largely out of the most severe forms of lockdown, and phasing to less restrictive forms, with greater freedom of movement and more retail opportunities. Both Australia and New Zealand, like China, show very low daily new Covid-19 case. Further opening of the economy will likely be phased, and quickly reversible. Policy measures have largely been taken and whilst reversal is not on even the medium term calendar, it is hard to see further substantive monetary or fiscal easing. Nonetheless, recovery is likely to be slow. Forget V-shaped.

The final group includes the late/partial/incremental lock-downers, into which you can put most of the ASEAN, including Singapore, as well as Japan (though not technically a lockdown in either).

In some cases, progress with the outbreak is being made, with daily new cases numbers trending

lower. In others (Japan) the trends are upwards. But a lack of reliable testing makes it impossible to generalise about this group or make coherent comparisons. Many lockdowns are being extended into May. Singapore and Japan will probably be in lockdown until early June. Indonesia may have to adopt tougher measures after the end of Ramadan. Also in this group is India, where easing restrictions seems premature given the Covid-19 backdrop.

Lockdowns work, they also hurt

While lockdowns remain in place, the economies of these countries will continue to suffer extreme stress in terms of business failure, household spending and employment shocks. Fiscal measures have already been implemented on a large scale where possible, and monetary policy likewise (though with less direct impact).

Some modest further easing is likely on an ongoing basis where available, but in a few cases will this be substantial or definitive. Economic recovery will only come with an end to lockdowns and a moderation in the local aspects of the pandemic.

In time, global pick up also lends a hand.

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China: Challenges shift from supply chain to global demand

China's economy is recovering from the damage caused by Covid-19. The broken supply chain is not the top issue anymore. Weak global demand is. As a...



Source: Shutterstock

A lady help a child to put on face mask as a precautionary measure against the COVID-19 coronavirus, along Tsim Sha Tsui Promenade

Broken supply chain no longer an issue if there is little demand

Back in February, city lockdowns kept Chinese workers away from factories. This created a sharp disruption in the global supply chain.

By mid-March however, many of these workers were finally able to leave their home towns and go back to work. But at the same time, buyers in the US and Europe were withdrawing orders. With no clear indication as to when global demand would recover, many Chinese factories were forced to lay off the workers they had just hired.

This has yet to be fully reflected in the GDP contraction of 6.8% year-on-year in the first quarter. More of this will be seen in the coming quarters as unemployment rates are high in buyers' markets.

Manufacturers turn to the Chinese market

Factories are now turning to the domestic market. The moderate recovery of inbound tourism during the May Golden Week holiday, even with strict social distancing measures imposed, has given some hope to retailers and manufacturers.

Together with the new infrastructure plan, which is worth CNY8 trillion in 2020, China may be a more promising market for retailers and digital services.



Source: ING

The “New Infra” plan to support the economy

The Chinese government has created a theme of stimulus for the recovery, dubbed “New Infra”. It's ‘new’ because it has a lot of digitalisation elements compared to the ‘old’ infrastructure, which is largely bricks and mortar.

5G, a big-data centre, AI & Industrial Internet of Things (IIoT), ultra-high voltage connections, high-speed rails and metro networks, and electric-car chargers, are the major elements in the scheme. The plan consists of 22,000 projects, which is worth a total of CNY49.6 trillion over several years, of which 8 trillion yuan will be invested in 2020. Most of this is private investment, combined with government strategic planning.

Frankly, elements in the “New Infra” scheme are not brand new, with the exception of the big-data centre project. The big-data centre idea seems to have emerged from the Covid-19 crisis, with many office workers forced to work from home, while factories have tried to control operation lines remotely without enough workers. These activities have increased the flow of data quite suddenly. The project could allow China to become the champion of remote working in the next decade and also more prepared for an aging population.

Recovery depends on trade and technology wars

Even with a well-planned stimulus scheme, a trade and technology war with the US would make China's road to recovery more difficult.

Our GDP forecast of -1.5% for the whole of 2020 is based on the assumption that trade and

technology wars won't intensify. We may downgrade our GDP forecast if this assumption is wrong.

China: Surprise! Exports rebound

Exports expanded in April after contracting in March. But this should not be perceived as an upward trend, and the threat of a trade war could change...



Source: Shutterstock

A surprise of export rebound

Exports rose 3.5% year-on-year in April after contracting by 6.6% in March.

This is due to exports of medical supplies to the rest of the world. Medical equipment exports rose by 11% year-on-year, year to date in April from -3.4% in March. Another growth item was 5G infrastructure parts and processors, which is driven by government policy rather than by market demand.

Other than these two special items, we find that exports of consumer goods, including clothing and footwear, continued to contract, which signals weak global demand.

The fall in imports deepened a lot to -14.2% YoY in April from -0.9% a month ago. Importers expect weak global demand for goods, as imports of parts for final manufacturing are shrinking.

Exports are likely to contract again

As some major cities begin to relax social distancing measures, China's exports of medical supplies are likely to slow down abruptly.

Without exports of medical supplies, overall exports are likely to contract again on a year-on-year

basis. This is because demand in major economies is weak and will continue to be so due to high levels of unemployment. Matching jobs could take more time than normal longer given the large numbers of unemployed workers.

There could be two exceptional items to support imports in the coming months even if imports of parts for the manufacturing of final products continues to shrink. The first one is imports of oil for national strategic stocks. The second is imports of agricultural products to fulfill the phase one trade deal with US.

Threat of trade war is increasing

The threat of a trade war with the US is increasing. We believe that the exchange of words could go on for another three to six months.

Given the dire situation of the US economy and the fact that a trade war would hurt both economies, the possibility of the US imposing tariffs on Chinese goods, for now, is still low but we would not rule out this risk completely. If the US imposes renewed tariffs on China, China will retaliate.

Yuan moving with the trade war news may need a revision

If these risks increase, the yuan is likely to depreciate against the dollar. This has not been reflected in our point forecast of USD/CNY at 7.15 by end of 2Q20. We will revise the yuan forecast accordingly as the situation develops.

Philippines: 1Q GDP contracts - steep drop ahead

The streak of 84 consecutive quarters of positive growth has ended, at the hands of Covid-19



Source: Shutterstock

-0.2% 1Q 2020 GDP
first contraction in 84 quarters
Worse than expected

The prelude: 1Q GDP shows early signs of Covid-19 impact

GDP contracted in 1Q due to a volcanic eruption and the early onset of the Covid-19 virus. Disruptions to the supply chain and anxiety about the then looming virus may have hurt investment momentum (-18.3%). Exports and imports fell sharply as the global supply chain was in disarray - with major trading partners China, Japan and Korea all battling the virus from as early as January. Household consumption posted a mere 0.2% expansion as the 15 March implementation of the lockdown forced Filipinos into home quarantine, while shuttering business and manufacturing activity for roughly 75% of the economy. Government spending was the lone bright spot, posting 7.1% growth.

Steep drop ahead

Philippine 1Q GDP dipped unexpectedly into negative territory and we continue to price in a probable deep contraction as early as 2Q, due to stringent lockdown measures and the overall impact of Covid-19. The manufacturing PMI fell into contraction as early as March, remaining so in April (31.6). Manufacturing has remained sidelined, with supply chains disrupted by government restrictions on mobility. Inflation reported last Thursday also hinted at tightening supply conditions, especially for food items which registered an acceleration in inflation to 3.4%, suggesting a possible rebound in price pressures in the near term. The current lockdown which spans almost a full two months of 2Q will undoubtedly drag GDP deep into contraction as we see how destructive an enhanced community quarantine can be for a consumption-driven economy. The 1Q GDP report leads us to downgrade our current -2.2% full year growth forecast to -2.9%.

Help needed

It's all but official. The Philippines will likely post a technical recession in 2020 after 1Q slipped into contraction. 1Q GDP showcases how detrimental lockdown can be for the economy. Bangko Sentral ng Pilipinas (BSP) has rolled out several support measures - with 125 bps worth of rate cuts and 200 bps worth of rate reductions while also partnering with the Treasury to conduct a Php300 bn repurchase agreement. On the fiscal front, the government has rolled out several relief efforts including social amelioration and income replacement. Given the Covid-19 impact on the economy, we expect the government to redouble efforts to plug the gaps through increased spending. The private sector appears to have lost all any punch from its consumption arm.

We expect at least another 25 bps rate cut by the BSP, as early as Thursday. We also look for a possible upsizing of the government's social amelioration package and income replacement programmes, coupled with an aggressive spending plan on construction once the lockdown is lifted.

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