

## Good Morning Asia - 9 July 2021

Asian markets will likely edge lower on Friday as the focus has shifted back to growth concerns with the Delta variant threatening the global recovery

### In this bundle



#### Asia Morning Bites

##### ASEAN Morning Bytes

Asian markets likely to track pullback overnight

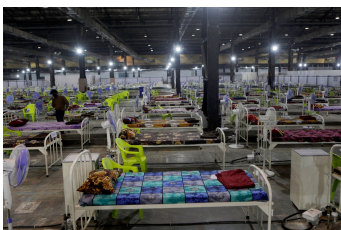
By Nicholas Mapa



#### Asia week ahead

##### Asia week ahead: 2Q21 report cards arrive

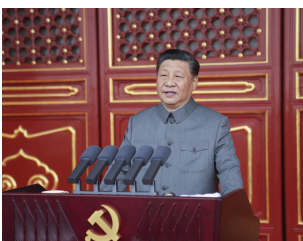
It's going to be an eventful week with the Asian economic calendar packed with 2Q GDP reports, lots of June activity data and central bank policy...



#### Asia: The race to vaccinate

Asia has recently made better progress on vaccinations as vaccines become more widely available. But there is still a long way to go

By Robert Carnell



#### China

##### China's centenary speech spells a long tech war ahead

The message from Xi Jinping's speech marking the 100th anniversary of the Chinese Communist Party is clear - he wants China to be a force to be...



# ASEAN Morning Bytes

Asian markets likely to track pullback overnight



## EM Space: Growth concerns return as Delta variant spreads

- **General Asia:** Asian markets will likely edge lower on Friday as the focus has shifted back to growth concerns with the Delta variant threatening the global recovery. Cases have been on the rise in most areas of the globe with some authorities mulling booster shots to improve efficacy against this particularly virulent strain of Covid. Data reports on Friday centre around China's inflation report while the Philippines releases data on May trade. Initial jobless claims were flat while the ECB release overnight gave scant new insights on ECB policy with investors likely to focus on Covid-19 developments in the near term.
- **Malaysia:** Local markets sold off yesterday as the dominant political ally in Prime Minister Muhyiddin Yassin's coalition withdrew its support for the government. However, the 1.4% fall of the KLSE Stock Index wasn't that bad a reaction in a broader emerging market risk-off environment yesterday, while the MYR's 0.5% depreciation also was muted. This may not signal the start of significant market re-pricing of political risk ahead, nor are political analysts predicting any snap polls imminently. However, it's fair to expect continued uncertainty in the months ahead weighing down the economy and markets. Without enough legislative support, the government will face greater difficulty in getting its key economic support policies underway, while the domestic Covid-19 situation continues to worsen (8,868 new cases yesterday were the second-highest and 135 deaths were the highest ever daily counts since the start of the pandemic). The BNM warned about continued downside growth risks ahead as it left monetary policy on hold yesterday. We

don't rule out a further upward revision to our end-2021 USD/MYR view of 4.22 even though we have just raised it from 4.12 (spot 4.18).

- **Philippines:** May trade data will be reported later on Friday with market participants expecting double-digit expansion for both imports and exports as base effects bloat growth rates. Exports are likely to pick up as shipments to both the US and China have been brisk due to improving economic conditions in those countries while inbound shipments are also expected to rise sharply as economic activity has picked up considerably from the pace in 2020 when most of the country was in hard lockdown. The trade balance is expected to slide deeper into deficit to roughly \$2.7 bn, which may exert additional pressure on the PHP in the near term.
- **Indonesia:** Indonesia's consumer confidence hit 107.4 in June according to a central bank survey, the highest level since the pandemic. We however expect this recent improvement to reverse in the coming months as new Covid-19 infections continue to surge with Indonesia recording yet another new daily record for both infections and mortalities. The authorities have extended partial lockdown restrictions to the rest of the country while tightening restrictions further in areas of high infection. Surging cases and tighter lockdowns will likely weigh on consumer sentiment, overall economic activity and IDR in the near term.

## What to look out for: China inflation and Covid-19 developments

- Philippines trade balance (9 July)
- China CPI inflation (9 July)
- US wholesale inventories (9 July)

### Author

#### Nicholas Mapa

Senior Economist, Philippines

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

# Asia week ahead: 2Q21 report cards arrive

It's going to be an eventful week with the Asian economic calendar packed with 2Q GDP reports, lots of June activity data and central bank policy...



Source: Shutterstock

## ➔ 2Q GDP reporting begins

China and Singapore are among the first Asian countries to release their 2Q21 GDP reports next week (Vietnam was the very first to do so in late June). But remember, the year-on-year GDP growth rates will be distorted by what happened a year ago.

The post-Covid-19 recovery saw China's GDP growth accelerate to over 18% year-on-year in 1Q21 from a trough of -6.8% YoY in the same quarter a year ago. As such, ING's house view of a slowdown to 6.0% YoY in 2Q stems from the high base effect. In Singapore, the nadir came three

months later than China and hence the peak in growth should come in 2Q this year (ING forecast 12.2% YoY vs. 1.3% in 1Q). However, these figures mask the Covid-19 spread recently.

Although both China and Singapore remain Asian success stories in keeping the pandemic under control, the latest bouts of infection and tightening of restrictions likely held back the recovery of both these economies. As an added blow for Singapore, the key GDP drivers of exports and manufacturing both lost some vigour in recent months, suggesting that a quarter-on-quarter GDP contraction is more likely than not.

## ➔ June data rampage

The calendar is also packed with a raft of June activity data from around the region, which will help to fine-tune the 2Q GDP estimates for reporting countries.

China's June releases on industrial production, retail sales, investment and home prices may be overshadowed by the GDP report given that all these figures arrive concurrently on 15 June. India's June data dump is also scheduled next week with the inflation report likely taking centre stage after it jumped above the central bank's 6% policy limit in May and continued to accelerate in June. Also look out for India's trade report, which should show high global oil prices driving fuel imports and the overall trade deficit higher – not good news for the beleaguered Indian rupee.

The data pipeline elsewhere including jobs reports in Australia and Korea, New Zealand's 2Q inflation, and Malaysia's industrial production will shed light on the state of these economies during the ongoing pandemic.

## ➔ Central bank policy meetings

Three of the Asian central banks – the Bank of Japan, the Bank of Korea and the Reserve Bank of New Zealand -- are set to review their monetary policy settings next week. We expect all of them to leave policies on hold.

The latest production figures from Japan and Korea revealed that, aside from electronics and info comms, most production sectors in these economies are suffering from both supply disruptions as well as weak demand (see Rob Carnell's note on this, "[North Asian production softens in May](#)"). And as we noted in this space last week, the brief period of inflation is behind us. Against such a backdrop, the regional central banks are nowhere near mulling a withdrawal of policy accommodation, in our view.

## Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
<b>Monday 12 July</b>					
		- Jun M2 Money Supply (YoY)	8.2	8.2	8.3
India	1400	Jun CPI Inflation (YoY%)	6.6		6.3
	1400	May Industrial Output (YoY%)	35.0		134.4
Malaysia	0600	May Industrial Output (YoY%)	21.0		50.1
<b>Tuesday 13 July</b>					
China		- Jun Exports	26.1		27.9
		- Jun Imports	35.9		51.1
		- Jun Trade Balance	40.0		45.5
South Korea	0100	Jun Unemployment Rate	3.8		3.8
<b>Wednesday 14 July</b>					
New Zealand	0400	1 Cash Rate	0.25		0.25
India	0830	Jun WPI Inflation (YoY%)	12.0		12.9
Singapore	0200	Q2 GDP Flash (QoQ/YoY%)	-3.8/12.2		3.1/1.3
<b>Thursday 15 July</b>					
Australia	0330	Jun Unemployment Rate	4.9		5.1
	0330	Jun Reserve Assets Total	-		65138.0
New Zealand	0030	Jun Manufacturing PMI	60.1		58.6
	0045	Q2 CPI (QoQ/YoY%)	0.7/2.7		0.8/1.5
China	0400	Jun Industrial Output (YoY%)	8.6		8.8
	0400	Jun Retail Sales (YoY%)	10.8		12.4
	0400	Q2 GDP (YoY%)	6.0		18.3
India	1330	Jun Trade Deficit Government - USD	9.4		9.4
	1330	Jun Imports - USD	96.0		41.9
	1330	Jun Exports - USD	47.0		32.5
Indonesia	0600	Jun Consumer Confidence Index	103.2		104.4
	0600	Jun Trade Balance (Bln of \$)	2.7		2.4
	0600	Jun Exports Growth (YoY%)	46.9		58.8
	0600	Jun Imports Growth (YoY%)	38.6		68.7
South Korea	0300	Jul Bank of Korea Base Rate	0.5		0.5
<b>Friday 16 July</b>					
Japan	-	1 JP BOJ Rate Decision	-0.1		-0.1
Singapore	0230	Jun Non-oil domestic exports (MoM/YoY%)	3.2/11.6		-0.1/8.8

Source: Refinitiv, ING, \*GMT

Article | 8 July 2021

# Asia: The race to vaccinate

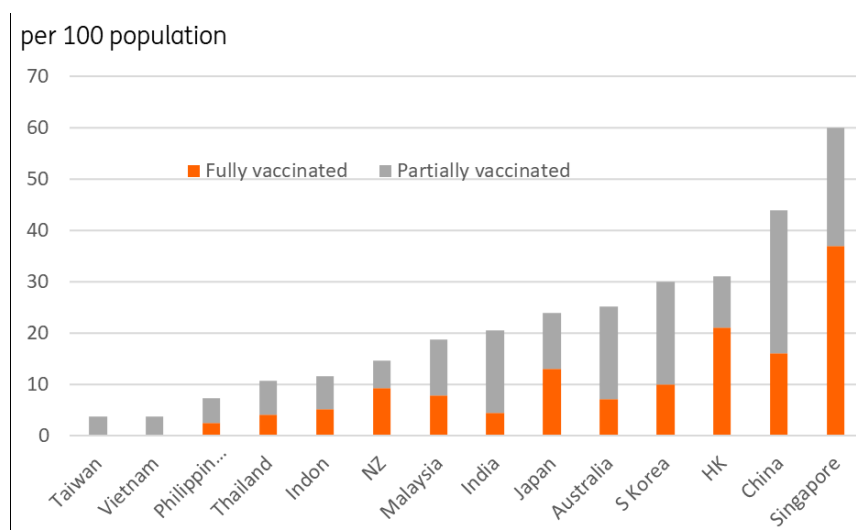
Asia has recently made better progress on vaccinations as vaccines become more widely available. But there is still a long way to go



Source: Shutterstock

Newly arranged beds lie inside a Covid-19 treatment centre set up for emergencies in the wake of spike in the numbers of positive coronavirus cases in Mumbai, India

## Asia vaccinations by dose (as of 4 July, 2021)



Source: Our World in Data



## A month is a long time in epidemiology

Asia's slow vaccine rollout has been a constant refrain in these notes since the beginning of the year, but in the last month, there has been some improvement. Whether this is the result of a change in heart of governments, some of which were initially very particular about which vaccines they were willing to administer to their populations, or to greater physical access to scarce vaccines, or more likely, a bit of both, the numbers are beginning to look more encouraging.

One of the biggest improvements has been in China, which is relevant for the rest of the region since it is the largest market for exports locally. A more widely vaccinated China equates to a less risky Asian export outlook, which should be good news across the whole region.

But we have also seen some pick-up in the pace of some of the early laggards on vaccination. South Korea has now fully or partially vaccinated about 30% of its population, though that is still a weak outcome compared to 60% for Singapore and 44% for China (figures accurate as of 4 July). It looks weaker still compared to equivalent figures for the US (54.5%) or the UK (66.5%) or Germany (55.2%).

And though we have seen the pace of vaccination picking up, the numbers are still fairly unimpressive. Australia comes in the top half of the APAC league table, with only 25% of its population "jabbed" - and most of these only once. As we now know, one jab of most of the widely administered vaccines provides much less protection to some of these new variants, so there is a very long way to go, and herd immunity remains a distant goal. Australia, for example, is still prone to regional movement restrictions as cases sporadically flare up.

There is also still a large and unimpressive tail in this distribution with quite a few economies in the region still showing only about 10% or lower vaccination rates. Even India has only partially or fully vaccinated about 20% of its population, in spite of (or perhaps because of) its recent problems. And it is in this long tail, including Indonesia, Malaysia, the Philippines and Thailand that, unsurprisingly, we see most of the problems with Covid in Asia, which will weigh on the prospects for growth in the region.

As the sharp pick up in the relatively well-vaccinated UK demonstrates, no economy in Asia will be able to safely reopen, and growth will remain at risk until vaccination rates rise a lot higher.

### Author

#### Robert Carnell

Regional Head of Research, Asia-Pacific

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

# China's centenary speech spells a long tech war ahead

The message from Xi Jinping's speech marking the 100th anniversary of the Chinese Communist Party is clear - he wants China to be a force to be...



Source: Shutterstock

China Beijing Cpc Centenary Grand Gathering Xi Jinping Speech

## Xi's message to the world

China's President Xi Jinping's hour-long speech marking the centenary of the ruling Communist Party last week was remarkable in many ways.

His comments against foreign rivals and the fact that Beijing would not allow "sanctimonious preaching" suggest China's stance is unlikely to soften when pressured by the US and its allies. Xi's comments seem to be directed both at Chinese nationals and foreign economies.

## The tech war just became a lot more serious

Although the speech contained little information on new initiatives and policy objectives, it is worth noting that just before the speech, Liu He, Xi's economic czar was appointed to lead the

development of chip technology. Liu was also the lead in the China-US trade negotiations in 2018 and has developed a reputation as a man for dealing with difficult tasks.

Alongside that, in early June, China also passed the Anti-Foreign Sanctions Law which allows the country to impose reciprocal sanctions on countries, companies or individuals in foreign countries. But so far, these sanctions have been limited to technology and its military use.

Putting all of this together, it would be rational to conclude that China is determined to wage a serious technology war against the US and its allies.

## IT as a percentage of GDP in China



Source: CEIC, ING

## Policy implications

Cleaning up industry is only the start. The most eye-catching policies so far include spinning off fintechs from technology giants' basic apps (be it a shopping app or a messaging app) and focusing on data privacy.

The first policy is to prevent a financial crisis while the second has policy implications for foreign companies operating in China. By compelling local companies to comply with data privacy rules, foreign companies in China will have to do the same.

Going forward, we expect to see more policies to support the development of advanced technology in all areas, including semiconductor chips, big data centres, ESG and artificial intelligence. All of this needs money and Liu's appointment means there should be plenty of it. Some projects may attract foreign investment, which means capital inflows and technical support for Chinese companies. In turn, China will offer its gargantuan market.

The final question is speed. With other countries advancing their own technology, it's not clear when or even if China will win the tech race. What we do know is that this investment will count towards GDP, providing the economy with the much needed extra support.

## 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 <http://www.ing.com>.