Good MornING Asia - 9 November 2020

What does a Biden Presidency mean for Asia? To be honest, in the short term, nothing substantial, besides some possible USD weakness, with most of the focus on the US domestic economy

In this bundle

Opinion | 8 November 2020

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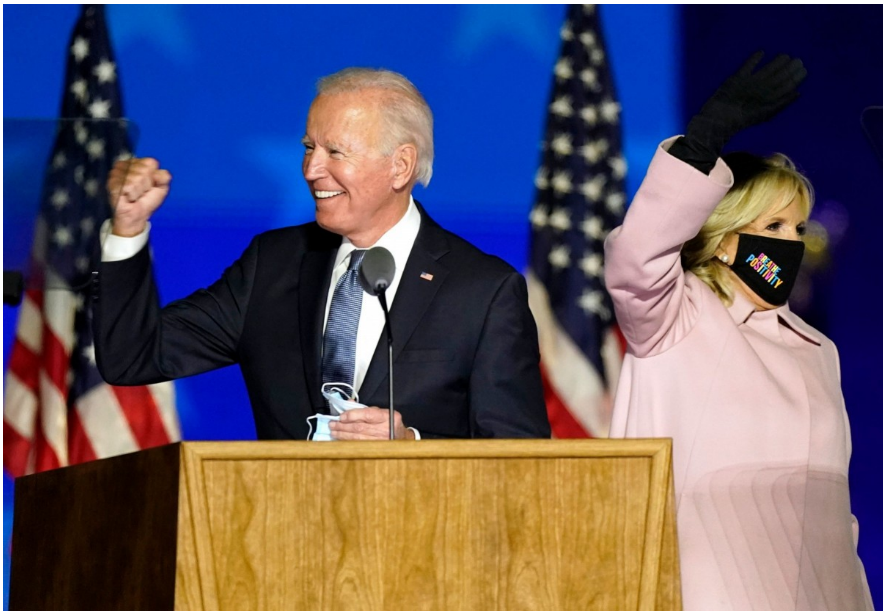

Source: Shutterstock
Joe Biden arrives with his wife Jill Biden

Get some sleep JK

Our US economist, James Knightley (JK) must be looking forward to some regular sleep again after the last few weeks of late-night / early morning conference calls, and then the drawn-out election itself. He tell us what he thinks this all means in the linked video. But note, he focuses predominantly on what this means for the US economy, and that is because President-Elect Biden's first priorities are likely to be domestic.

So he will focus on the pandemic, and then reversing some of the executive orders put in place by his predecessor on things like environmental control, bans on immigration from certain countries, rejoining the WHO and so on.

There is some good news in terms of growth as JK notes the likelihood of a fiscal stimulus package, perhaps of the order of $1tr in 2021 - equivalent to about 5% of US GDP. And that will be encouraging for Asia's exporters. But this optimism is tempered by realism about the pandemic, with case numbers above 125,000 for the past three days and the daily death rate in excess of 1000, the possibility of a reversion back to European-style lockdowns and double-dip recession can't be ruled out.

So while we may be keen to hear how Biden will approach relations with China (probably different in style rather than substance), trade (he is a free-trader, but he is also getting lots of revenue from tariffs that will be hard to give up), and technology (we don't see too many differences), it may be a while before Asia becomes a pressing issue for the new President-elect.

In the meantime, the USD is looking soft, and Asian currencies are being supported by default, though we suspect that near term, the USD may be capped by its 1.2011 1 September peak.

Asian data

As well as a prospective new US President, the weekend also gave us Chinese trade figures. And as the linked note by Iris Pang notes, the strong export figures mask some underlying weakness, in particular for intermediate products that could point to export weakness ahead. This comes at a critical time of the year, ahead of the holiday season in the West.

Today also provides us with Malaysian production figures for September, which will tee us up for the 3Q GDP release later in the week. Malaysia is bucking the Asian trend for a gradual easing of restrictions, as its daily case numbers remain high by local standards (7-day moving average of daily cases now exceeds 1000, though to put it into context, that is less than the US' daily death toll from Covid, where daily case numbers are more than 100 times higher). These GDP figures will not only remain negative year-on-year in all likelihood, but the outlook for 4Q GDP is also dimming as a result, in spite of fiscal support.

Prakash Sakpal adds this detail on today's Malaysia report and implications: "Firmer exports in the reporting month support our forecast of stronger growth in today's industrial production release (ING forecast 2.7% YoY vs. 0.3% in August), helping us to fine-tune our 3Q GDP growth estimate, currently -11.8%, ahead of the release this Friday. As expected, Finance Minister Zafrul Abdul Aziz announced an expansionary Budget for 2021 last Friday with increased social and infrastructure spending to help the recovery after a record slump this year. The deficit as a proportion of GDP is targeted to narrow to 5.4% in 2021 from 6.0% this year. However, this hinges on projected 6.5-7.5% GDP bounce next year, up from about -4.5% contraction this year, materialising. These assumptions appear to be optimistic, given the continued local and global spread of pandemic".

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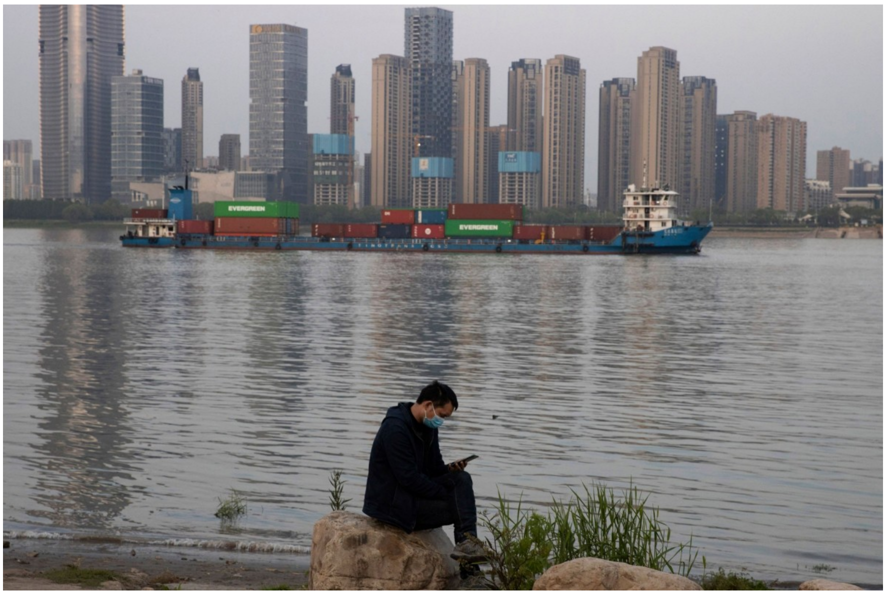
Snap | 7 November 2020 China

China’s imports provide a gloomy outlook for exports

China's exports rose at the fastest pace of the year in October, and this could be the best month in 2020. But slow import growth indicates that...



Source: Shutterstock

China's exports have jumped but imports slowed

China's exports increased 11.4% year-on-year in October, but this is already a historical figure. The slow (4.7%YoY) growth of imports in October after 13.2% YoY growth in September implies that in the coming months exports could suffer from slow growth or even contract on a month-on-month basis.

Handset exports jumped

Exports of handsets grew 56% on a monthly basis in October, which was the main contributor to export growth. The supply chain of smartphone production has gradually moved out of China, but some production lines have stayed and resulted in this strong growth during a month of flagship smartphone releases.

Imports affected by export demand from Covid-19 outside China

Imports grew 4.7% YoY though contracted by US$24 billion from September to October, which is equivalent to an 11.8% MoM fall. Almost every import item experienced a contraction on a monthly basis. Integrated circuits, the single biggest reported import item, contracted by 15% MoM, which also reflects that the strong growth of smartphone exports may not be sustained in the coming months.

This change could be the start of a new trend, rather than just a single data point, as export demand has been strongly affected by the return to Covid-19 lockdowns in some major contries outside China. It is possible that this will weaken Chinese export orders for Christmas.

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