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Article

## Asia week ahead: Growth hit by Covid-19 again

The market should have a clearer picture of how Asian economies have performed as several countries report GDP figures for the second quarter, but the data needs to be read in the context of recent Covid-19 developments



### Content

- Outflows from China, downbeat news from India
- GDP releases to reflect Covid-19 measures

### Outflows from China, downbeat news from India

China's foreign exchange reserves, due on Saturday, should show net capital outflows in July. This is due to the government's tightening of regulations on tech companies, education centres, and other industries. Several restrictive policy measures unveiled over a short time frame have led to uncertainty in the market.

Elsewhere in Asia, the Philippines central bank will likely keep rates at 2.0% to help support the economic recovery. However, a possible reduction in the reserve requirement is now likely to help shore up liquidity support.

In India, with the central bank meeting out of the way on Friday (6 Aug), the focus will shift to inflation, trade and manufacturing figures and what these imply for monetary policy. There are not going to be any upbeat releases. Inflation will likely stay near the top of the central bank's 2-6% policy target while growth should soften as favourable base effects wane and the Delta variant hits the economy. That said, the RBI could still be among the first few Asian central banks to withdraw policy accommodation by early next year (on inflation grounds). We have brought forward our forecast for the first 25bp rate hike from 3Q22 to 1Q22.

## GDP releases to reflect Covid-19 measures

In Malaysia, 2Q21 GDP should also capture the impact of the latest Covid-19 wave.

The nationwide movement restrictions will prove to be a significant hit to GDP growth in that quarter. We expect growth to contract by 6.5% quarter-on-quarter, though this will still deliver an 11% year-on-year expansion due to low base effects. The finance ministry recently flagged a possible cut to its 2021 growth outlook, currently 6% to 7.5%, as the economy is taking a significant beating from the third wave of Covid-19. Second-quarter GDP data could be a trigger for this downgrade. Our full-year 2021 forecast is 4.4% after the recent downgrade from 5.3%. We think macro policy has almost hit a wall, and GDP figures are unlikely to have any meaningful impact on future policy direction.

In the Philippines, we look for 2Q21 GDP to expand by 10.9% YoY, but like elsewhere, this is mainly due to large base effects after 2Q20 GDP contracted by 16.9%. Tighter mobility curbs imposed in 3Q will further translate to growth momentum stalling, with our full-year growth forecast likely to be revised lower, depending on the duration of restrictions.

China July trade data will also be released on Saturday (7 Aug). This data should show a bigger surplus from stronger exports of electronic parts and products, which should also support GDP in 3Q to some extent, offsetting damage caused by stricter social distancing measures now that Covid-19 is hitting China again.

## Asia Economic Calendar

Country	Time	Data/event	ING Survey	Prev.
<b>Saturday 7 August</b>				
China		- Jul Exports	25.2	32.2
		- Jul Imports	35.4	36.7
		- Jul Trade Balance	57.4	51.5
		- Jul FX Reserves (Monthly) (\$tn)	3.185	3.214
<b>Monday 9 August</b>				
Japan	0050	Jun Current Account	2450.0	1979.7
China	0230	Jul CPI (YoY%)	1.3	1.1
Malaysia	0500	Jun Industrial Output (YoY%)	4.7	26
Indonesia		- Jul Forex Reserves	-	137.1
		- Q2 Balance of Payments	-	4.1
		- Q2 Current Account/GDP	-	-0.4
Taiwan	0900	Jul Imports	33.5	42.3
	0900	Jul Exports	42.2	35.1
	0900	Jul Trade Balance	5.35	5.15
<b>Tuesday 10 August</b>				
Japan	0050	Jul M2 Money Supply (YoY%)	5.7	5.9
China		- Jul M2 Money Supply (YoY)	8.7	8.6
		- Jul Aggregate Finance (CNY bn)	2100.0	3668.9
		- Jul New Yuan Loan (CNY bn)	1575	2120
Philippines	0300	Q2 GDP (QoQ%/YoY%)	-	0.3/-4.2
Singapore	1000	Jul Foreign Reserves USD	-	398.4
Taiwan	0900	Q2 GDP Final (YoY%)	7.47	7.47
South Korea	0000	Jul Unemployment Rate	3.8	3.7
<b>Wednesday 11 August</b>				
Indonesia	0500	Jun Retail Sales Index (YoY)	-	14.7
<b>Thursday 12 August</b>				
India	1300	Jul CPI Inflation (YoY%)	6.1	6.3
	1300	Jun Industrial Output (YoY%)	16.0	29.3
Philippines	0900	Policy Interest Rate	-	2
<b>Friday 13 August</b>				
Malaysia	0500	Q2 Current Account Balance	12.0	12.3
	1300	Q2 GDP (YoY%)	11.0	-0.5
China		- MLF interest rate (%)	2.95	2.95

Source: Refinitiv, ING, \*GMT

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