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Global Outlook

Where are we?

… in a hospital

… the pain starts when the money stops

The COVID-19 recession is unparalleled in many ways. One of them is the speed and scale with which governments and central banks have flooded economies with money to cushion the downturn and curb financial risks. One surprise outcome is buoyant asset markets (notably stocks and real estate) during the worst global recession in 90 years. We are, in a sense, the victim of a very bad traffic accident and we've woken up in a hospital pumped full of drugs and feeling OK. But the drugs will stop soon, and then we'll face pain and a difficult adjustment. Politicians won't talk about this, but a rise in unemployment and major economic restructuring lie head when the subsides end.

Worse than the 2009 GFC

… as forecasts are cut

The IMF has updated its forecast three times this year (January, April, June). With each update, the 2020 hole gets deeper and the 2021 recovery gets smaller. The latest update points to a global recession of -4.9% this year with a 5.4% lift in 2021. That produces a compound annual growth rate of 0.1% for the two years and puts 2021 just 0.2% above 2019. This is worse than the 2009 global financial crisis, which saw a 0.1% fall followed by a 5.4% lift, for a much stronger 2.6%cagr and a 5.3% rise by 2010 on 2008.

Big variations in growth

… reflect government competence

COVID-19 has tested governments worldwide. Markets led by incompetent politicians are suffering, with needless deaths, delayed recoveries, and strains that will reduce long-term growth. Asia is fortunate, as most governments have quickly suppressed COVID-19, with Taiwan, Vietnam, South Korea, and NZ standing out. As this Asia Brief notes, competence in virus suppression changes political outcomes (this year's elections in Korea and NZ). The economic impact is just as big. China's global market share will jump in 2020, particularly for manufacturing, due to good COVID-19 management. By contrast, companies may question the attention they give to markets like India and Indonesia, where governments have stumbled in managing COVID-19.

Growth in the EU and the US

… a currency realignment is underway

Likewise, COVID-19 has been a defining moment for the EU, forcing greater unity via an unprecedented acceptance of mutual debt to fund a recovery in southern EU markets. It was a messy process full of second-best options, and like the best political deals it was done just before dawn. In June, the IMF forecast a 10.2% fall for the EU this year followed by a 6% lift in 2021 (-2.4%cagr, with 2021 left 4.8% lower than 2019). The mutual debt deal should open the way to better growth than that. By contrast, the US is failing in COVID-19 management and in delivering a coherent fiscal response. This has contributed to financial markets deciding that the era of US out-performance is over, and that some funds should move to other markets. The Euro area looks good by contrast and so do some Asian markets, which is reflected in our currency forecasts.

A new world for governments

After COVID-19 there will be much higher levels of public debt. That will force changes in the objectives and operations of government, another topic that politicians want to avoid. Governments in advanced countries may be able to manage a 20%+ jump in debt. Governments in emerging markets, many with weak revenues and low sovereign bond ratings, will need a bigger change in goals and strategies. How countries like India, Indonesia, and the Philippines handle the debt challenge will be a defining issue.

IMA Asia's forecasts	2017	2018	2019	2020	2021
World – Real GDP growth (IMA Asia), %	3.9	3.6	2.9	-4.9	5.4
- US (IMA Asia)	2.4	2.9	2.3	-2.9	1.8
- Euro area	2.5	1.9	1.3	-10.2	6.0
- Asia/Pacific (14) by IMA Asia	5.0	4.5	4.2	-0.7	4.9
- NICs (4)	3.4	2.8	1.6	-1.8	3.1
- Developing or "EM" Asia (7)	6.5	6.4	5.7	0.8	5.8
- ASEAN (6)	5.3	5.0	4.2	-3.3	5.4
World goods & services trade volume, % growth	5.7	3.8	0.9	-11.9	8.0
US Fed policy rate, top of band, year-end, %	1.50	2.50	1.75	0.25	0.25
Inflation, CPI, US, year average, %	2.2	2.4	1.8	1.3	1.0
Inflation, CPI, Euro area, year average, %	1.5	1.8	1.2	0.2	1.0
Crude oil, average of 3 spot crudes, US$	53	68	61	36	38
EUR/USD, year average rate	1.13	1.18	1.12	1.14	1.16
USD/JPY, year average rate	112	110	109	108	104

The Asia/Pacific 14 = the countries on the forecast summary page. NICs are the newly industrialised countries = Korea, Taiwan, HK, Singapore. The ASEAN 6 = Indonesia, Thailand, Malaysia, Philippines, Vietnam, + Singapore. Dev Asia = ASEAN 5 + China and India. IMA Asia forecasts.

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Regional outlook

Summary of forecasts in this month's Asia Brief

GDP (Expenditure), real growth, %	2017	2018	2019	2020	2021
Japan	2.2	0.3	0.7	-5.1	2.0
China	6.8	6.6	6.1	2.4	6.3
Hong Kong	3.8	2.8	-1.2	-6.1	2.5
Taiwan	3.3	2.7	2.7	1.4	2.9
South Korea	3.2	2.7	2.0	-1.5	2.5
Indonesia	5.1	5.2	5.0	-2.5	4.9
Malaysia	5.8	4.8	4.3	-3.4	6.0
Philippines	6.9	6.3	6.0	-4.0	6.1
Singapore	4.3	3.4	0.7	-4.9	6.5
Thailand	4.0	4.1	2.2	-6.3	4.2
Vietnam	6.8	7.1	7.0	2.5	6.3
India (CY)	6.6	6.8	4.9	-3.7	3.6
Australia	2.5	2.8	1.8	-3.7	4.0
New Zealand	3.8	3.1	2.3	-6.2	6.5

Inflation, CPI year average, %	2017	2018	2019	2020	2021
Japan	0.5	1.0	0.7	-2.0	-0.5
China	1.6	2.1	2.9	2.8	1.5
Hong Kong (composite CPI)	1.5	2.4	2.9	1.9	0.8
Taiwan	1.0	1.0	1.0	-0.5	0.9
South Korea	1.9	1.6	0.4	-0.1	-0.8
Indonesia	3.8	3.2	2.8	2.1	1.5
Malaysia	3.8	1.0	0.7	-1.2	0.5
Philippines	2.9	5.2	2.5	2.2	1.2
Singapore	0.6	0.4	0.6	-0.9	-0.5
Thailand	0.7	1.1	0.7	-2.1	-1.0
Vietnam	3.5	3.5	2.8	2.6	3.3
India (CY CPI urban non-manual workers)	3.3	4.0	3.7	5.6	4.5
Australia	1.9	1.9	1.6	1.3	1.0
New Zealand	1.9	1.6	1.6	1.6	1.0

Exchange rate to US$1, year avg.	2017	2018	2019	2020	2021
Japan	112	110	109	108	104
China	6.76	6.61	6.91	7.00	6.89
Hong Kong	7.79	7.84	7.84	7.76	7.78
Taiwan	30.4	30.1	30.9	29.6	29.0
South Korea	1,129	1,100	1,165	1,189	1,154
Indonesia	13,381	14,238	14,148	14,931	15,553
Malaysia	4.30	4.03	4.14	4.24	4.19
Philippines	50.4	52.7	51.8	50.0	49.3
Singapore	1.38	1.35	1.36	1.38	1.34
Thailand	33.9	32.3	31.0	32.2	32.6
Vietnam	22,370	22,602	23,051	23,248	23,483
India (FY)	65.1	68.4	70.4	75.7	77.6
Australia	1.30	1.34	1.44	1.42	1.38
New Zealand	1.41	1.44	1.52	1.56	1.50

Sources: CEIC, central banks, and national statistics offices. Forecasts are by IMA Asia.

Regional outlook

Political & policy issues to watch

The political impact of COVID-19 in Asia

Good virus management helped President Moon's party triumph in South Korea's legislative elections in April, which will make the final half of his single 5-year term easier. PM Jacinta Ardern is set to get a major boost in New Zealand's September elections thanks to competent COVID-19 management. That may allow her to realign politics by nudging the populist NZ First out of her coalition. By contrast, Chief Executive Carrie Lam has struggled with COVID-19 management in Hong Kong, and that may contribute to poor support for her administration in September's Legislative Council elections. Poor handling of COVID-19 in migrant dormitories likely contributed to weaker support for the PAP in Singapore's July election, and that may lead to a shift in policy on migrant workers with an impact on the manufacturing and construction sectors.

Is it time to reconsider plans for Indonesia, the Philippines, and India?

India, Indonesia, and the Philippines have long been strong candidates for new investment, with India racking up some impressive new commitments in H1'20. Yet all three face an unchecked escalation in new daily cases of COVID-19 as July ends. Their governments have stumbled in managing the virus through a mix of poor leadership, confused policies, and weak implementation. That is forcing them into deeper and longer recessions than might otherwise have been the case. Quick deployment of an effective vaccine may help them recover in 2021, yet that scenario is by no means certain. Even if that does happen, the financial parameters for growth have taken a beating this year and national strategies will need to be realigned. That may, for example, undermine prior infrastructure plans.

Working around Asia's geopolitical fault lines

Some of the world's most dangerous geopolitical fault lines run through Asia. The US-China dispute gains the most press attention, while our recent forum debates in Singapore have focused on the damage done to supply chains by a rising India-China contest. Such contests are set to rise, and they'll need to be considered in structuring operations.

Outlook for the market

COVID-19 leads to a divergence in growth across Asia

Since our Q2 forecast meetings in mid-June we've nudged up the growth for five countries: Taiwan, South Korea, Malaysia, Singapore, and Vietnam. Good virus management has helped them. We've cut forecasts for Japan, HK, Indonesia, India, Australia, and NZ due to a mix of poor virus management or too much optimism at Q2. We've also cut China's forecast in 2020 from 2.8% to 2.4%, although the earlier forecast may prove to be nearer the mark. Forecasts for the Philippines and Thailand are unchanged.

The implications of China's strong recovery

Good COVID-19 management will help growth in parts of Asia this year. China stands out with a recovery to 3.2%yoy growth in Q2'20, with other metrics like electricity consumption and export growth underscoring a strong recovery. That will boost China to 50% of the Asia/Pacific economy this year from 45% in 2016. It will also have a beneficial spill over to some neighbours, particularly in SE Asia (as suppliers, alternative production sites, and tourist destinations when the virus fades) and to commodity exporters in ANZ. A strong China recovery also reduces the risk of China dumping excess goods onto export markets this year. Based on its performance, China may need an upgrade in corporate strategy.

Taiwan & Vietnam do well

… as supply chains move

Taiwan is benefiting from its strength in high-tech electronics (especially leading-edge chips) and a little reshoring of production from China. Vietnam is the main winner for production moving from China and has combined this with rapid evolution of its domestic market. Both have become case studies in good COVID-19 management. That has boosted popular support for President Tsai in Taiwan and should help smooth a critical leadership transition in Vietnam in early 2021.

Asia's currency moves

… are mostly up on a weaker USD

In our mid-June Tracker note (Should We Sell Our US Dollars?) we set out the case for a weaker USD, which would support appreciation on the greenback for the currencies of Japan, China, Taiwan, Korea, Malaysia, the Philippines, Singapore, and Thailand. We also expected the trend falls for the currencies of Indonesia and Vietnam to ease. Not much has changed, although the Thai baht has been weakened by political risk in the last month. We had expected India's rupee to be weak but we've been wrong so far as capital inflows and a swing to a trade surplus in June supported the rupee. That may not last. Meanwhile, the AUD and NZD have climbed quickly, as they have benefited from China's recovery and mostly good COVID-19 management

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Japan

Political & policy issues to watch

COVID-19's first wave is fading

… restrictions to end in July

COVID-19's first wave has ebbed in Japan, allowing April's state of emergency to be lifted on May 25. From June 19, travel across provincial borders has been allowed and events with up to 1,000 people can be held (limited to 50% of capacity). Bars and restaurants can also reopen within limits. Restrictions were further eased on July 10 with the aim of lifting all of them by August. International business travel is still blocked but limited travel to a few countries may start by August.

A big fiscal stimulus

… backed by a big BOJ cushion

Two fiscal stimulus packages by June equal some 20% of GDP. A one-time payment of Y100,000 ($930) to every citizen occurred in May. Many households will also benefit from government financial support to firms to retain staff on furlough. Companies have been offered deferred tax and social welfare payments. Gross public debt is expected to rise from 225% of GDP in 2019 to 244% in 2020. The Bank of Japan (BOJ) will buy all the extra debt to ensure the 10-year bond yield stays at 0%, while also providing banks with Yen110tr (US$1tn) in zero interest loans to lend to companies.

But PM Abe's political strategy comes apart

Abe's poor handling of COVID-19, a corruption scandal, and a recession have seen his popular support slump. His control over the Diet may also slip as he nears the end of his last 3-year term as LDP head (and thereby PM) in September 2021. An election must be held by October 2021 but rather than waiting for a last-minute boost from the Olympics, Abe may call a snap poll in 2020 to reassert his authority. While the opposition remains in chaos, would-be successors are manoeuvring in the LDP.

Outlook for the market

A recession from 2019 to 2021

COVID-19 has accentuated a recession that started in late 2019 after a lift in the sales tax to 10% from 8% on October 1. By Q1'20, GDP had fallen for two quarters (-0.7%yoy then -1.8%yoy) with Q2'20 is likely to see a fall of 7-10%yoy and floods in early July disrupting business at the start of Q3'20. A return to growth may not occur until Q3'21. In June, the OECD and the World Bank both forecast a GDP fall of around 6% this year followed by 2-3% growth in 2021. We've cut our forecast to -5.1% this year and 2% in 2021 from an April forecast of -3.1% and 1.8%.

Cushioning the downturn

…furloughed workers & cash stockpiles

Two factors may cushion the downturn. First, unemployment was limited to 2.9% in May as government financial support helped firms place 6m workers on furlough (9% of the workforce). Provided there's no second virus wave, the unemployment rate may not reach 4%. Second, Japanese companies were sitting on a record cash stockpile equalling 130% of GDP in Q4'19 (triple the ratio for US listed firms to US GDP). Such conservative balance sheets will help them ride out COVID-19.

A plunge in growth from Q2'20

… from consumers to manufacturing

Consumer spending is expected to fall around 4% this year with a weak lift of 1.5% in 2021 after 0.6%pa growth for the decade to 2019. Fixed investment is expected to fall 8-10% this year followed by a 2-4% rise in 2021 after a decade average to 2019 of 0.7%pa. Exports (US$ basis) were down 11.5%ytd at May with falls of 26%ytd to the EU and 22%ytd to the US cushioned by a much milder 2%ytd fall to China where demand is recovering. Manufacturing output plunged 24.1%yoy in May taking the first five months down by 10.6%ytd. On the IPI measure, we expect manufacturing to fall 12-15% this year followed by a mild 6-8% lift in 2021. As Japan moves production to faster growing overseas markets a return to the output level of 2019 is unlikely in the foreseeable future.

A firm yen

Japan's yen should remain firm as local investors bring money home for security and because of a collapse in the yield differential on high-rated global bonds.

	2017	2018	2019	2020	2021
GDP, real growth (2005p), %	2.2	0.3	0.7	-3.1	1.8
CPI, year average, %	0.5	1.0	0.7	-2.0	-0.5
Overnight call rate, year-end, %	-0.06	-0.06	-0.07	-0.06	-0.06
USD/JPY, year average	112	110	109	112	108

Sources: 2017-2018 data from the BOJ and government sources; 2019-2021 forecast by IMA Asia

The above forecast is by IMA Asia. Companies seeking local advice should contact:

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China

Political & policy issues to watch

Quick control of COVID-19 from February

While China botched its early COVID-19 management, it has done well since February by combining lockdowns (national and local), mandatory use of masks and social distancing when needed, large scale testing and quarantine, and rapid production of PPE. Total cases in late July reached 86,2020 (about 2% of the US). That helped manufacturing returned to 90% of capacity in April and 100% by July, although the service sector lags by 2-3 quarters. New outbreaks or a second wave in 2021 are likely to be quickly suppressed.

A modest but effective stimulus

The headline fiscal stimulus has been limited to Rmb4.2tr (US$600bn or 4.1% of GDP), although support by state owned enterprises (SOEs) will add to that. Meanwhile, the PBOC (central bank) has trimmed its various policy rates, pumped up liquidity (by cutting the bank reserve requirement ratio among other steps), and instructed banks to accelerate lending to small and medium businesses (SMEs). As a result, aggregate financing growth (ex-equity) lifted to 12.9%yoy for June from an average 10.9% for 2019.

President Xi gets a boost

… and hints at support for the private sector

As China's leaders meet informally at Beidaihe, President Xi Jinping will likely get more praise then criticism. COVID-19 has been quickly suppressed with a better recovery achieved by July than most expected. Social stability, a paramount goal, has been maintained. The troubles in Hong Kong, seen from Beijing, were a bridge that had to be crossed. The US trade war, also as seen from Beijing, was an inevitable outcome of the Trump presidency and did little damage, although many companies were forced to realign their businesses. Beijing has also stayed on course for opening up its economy and in a July meeting with business leaders (including some China CEOs for foreign firms), Xi canvased a renewed emphasis on the private sector as an engine of growth.

Outlook for the market

A strong recovery from Q2'20

China's rebound to 3.2%yoy growth in Q2'20 after a 6.8%yoy fall in Q1 was driven by construction (up 8.8%yoy) and manufacturing (up 4.4%). The services sector lagged at 1.9%yoy as restaurants, entertainment, and other services faced continued mild restrictions or reticent consumers. The IMF's June update, which came out prior to the strong Q2 result, forecasted growth of 1% this year and 8.2% in 2021 (a 2-year 4.5%cagr). Our forecast of 2.4% and 6.3% respectively is pretty much the same (a 2-year 4.3%cagr), as next year's rebound is muted by stronger 2020 growth.

Manufacturing & construction lead

The quick recovery in China's manufacturing PMI is unlikely to be matched by any other country. China switched off most of its factories in February (40.3), turned them back on in March (50.1), and then delivered three more scores near or above 50. Year-to-date growth on China's value-added industrial index recovered from -13.5%yoy in February to -1.3% in June, with output likely to exceed the 2019 level by August. Local demand drove the recovery (steel for construction and vehicle production boosted by commercial buying). Export growth was also better than expected, with a 13.3% fall in Q1'20 reversing to 0.1%yoy growth in Q2'20. In 2020, China will increase its global market share in manufacturing overall and in the export of manufactured goods.

A slower recovery for consumers

The year-to-date measure for retail sales was still down 11.4%yoy at June, although the fall had narrowed from -19%yoy for March. The household survey shows a slump in income growth to 2.4%ytd by Q2'20 from 8.9% in full 2019 while spending fell 5.9%ytd at Q2'20 after growth of 8.6% for 2019. We expect consumer growth (switching to real as opposed to nominal growth for retail sales and the household survey) to slow to 3% this year from an estimated 6.5% last year, followed by a lift to 5.5% in 2021.

Inflation cools & the yuan rises

Inflation was steady at 2.5%yoy in June with less inflation ahead as food prices drop following a gradual end to pork shortages. On July 10, the yuan edged above 7 to US$1 for the first time since mid-March. We expect it to continue rising against a USD that is weakening through 2021, although it isn't rising as fast as the Euro (see Global Outlook).

	2017	2018	2019	2020	2021
GDP, real growth, %	6.8	6.6	6.1	2.4	6.3
CPI, year average, %	1.6	2.1	2.9	2.8	1.5
PBOC 1-year loan, at Dec., %	4.35	4.35	4.25	3.50	3.00
USD/CNY, year average	6.76	6.61	6.91	7.00	6.89

Sources: 2017-18 data from CEIC and government agencies; 2019-21 forecasts by IMA Asia

Hong Kong

Political & policy issues to watch

A new COVID-19 outbreak in July

HK is battling a new outbreak of COVID-19 with an escalation in new daily cases through July to a new peak of 133 on July 25. New restrictions have been imposed, including a ban on gatherings of more than two people and a ban on restaurant dining.

A big fiscal stimulus breaks with tradition

… from an unpopular CE

In a break with tradition, HK has put in place a major stimulus worth HK$288bn (US$37bn or 10% of GDP). That includes HK$130bn to help businesses (funding of 50% of wages for six months) following an initial stimulus of HK$30bn under an Anti-Epidemic Fund and an extra HK$120bn in the 2020-21 budget. As a result, companies have retained staff with unemployment for May at 5.9% (from 5.2% a year ago) and unlikely to reach the 8% peak set during the 2003 SARS outbreak. In July, all HK residents will also get a HK$10,000 (US$1,282) payment. Whether the administration of Chief Executive Carrie Lam gets credit for this in the September LegCo elections is uncertain. Beijing's new security law for HK and poor early handling of COVID-19 have hurt support for her.

China's new HK security law

… plus, new US restrictions

… lead to the need for more caution

HK's new security law ends the "1 country, 2 systems" formula that was to apply to the city's administration for 50-years from the 1997 handover. As a result, MNCs may want to review operations in two areas. First, all files, communications, physical property, and IP in HK can now be seized by Beijing. Second, staff (even those transiting HK airport) could be held by Beijing over a wide and poorly defined range of issues. As a result, operating in HK will be more like operating in China. Some expats and local staff may find this uncomfortable. US firms will also need to consider a new Hong Kong Autonomy Act passed by Congress and a presidential order to end HK's special economic status. A lot will depend on interpretation and implementation, but neither is a plus for HK's outlook.

Outlook for the market

HK faces a long recession

HK's finance secretary thinks the economy could shrink by 4-7% this year while the IMF has cut its own forecast to -4.8% (from 1.5% last October) followed by 3.9% in 2021. We've cut our forecast to -6.1% for 2020 while holding 2021 at our April forecast of 2.5%. As GDP fell in 2019, that will leave the economy 4% smaller in 2021 than it was in 2018, a deeper and longer contraction than at any time since the war.

… as tourism faces a slow recovery

The recession partly reflects a collapse in tourism, which started in 2019 as street protests deterred travellers. Tourist shopping is equivalent to 35% of retail sales with China shoppers dominating (78% of total arrivals in 2019). Visitor arrivals halted from April with a limited reopening unlikely until 2021. Retail sales were down 35%ytd at May and that fall could hold for full 2020, dwarfing the 17% fall during the 1998 Asia financial crisis.

… while housing faces a slump & an uncertain outlook

Housing construction is a big engine in HK's economy and a plunge to 900 starts in Q1'20 from a normal 5,000 a quarter put the construction sector on track for a 9-10% fall in 2020 following a 5.8% fall in 2019. Government land sales fell 63%yoy in H1'20 while residential property sales were down 34%ytd at May. While mortgage rates have dipped around the world they are edging up in HK as lenders are worried about the ability of borrowers to service their loans. Some 11,000 apartments will be delivered in H2'20 and some buyers may not be able to complete their purchases. This needs watching.

But IPOs drive a stock market surge

A big plus for HK this year is a surge in stock offerings, particularly IPOs by mainland firms, including those moving from the US. Equity raising on the stock market jumped 53%yoy in H1'20 and a string of large IPOs loom in H2'20 (including Ant Financial), ensuring HK remains the world's largest IPO market for a third straight year.

… which lifts the HK$

Despite political ructions and a plunging economy, the HK$ has been forced to the strong end of its US$ trading band (7.75) as money is drawn in by IPOs.

	2017	2018	2019	2020	2021
GDP, real growth, %	3.8	2.8	-1.2	-6.1	2.5
Composite CPI (14/15), year average, %	1.5	2.4	2.9	1.9	0.8
Discount window base rate, % year end	1.75	2.75	2.49	0.50	0.50
USD/HKD, year average	7.79	7.84	7.84	7.76	7.78

Sources: 2017-2018 from Censtat, HKMA, and CEIC; 2019-2021 forecasts by IMA Asia.

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Taiwan

Political & policy issues to watch

Fast suppression of COVID-19

… strengthens President Tsai's administration

Taiwan was the first outside of China to act on COVID-19, requiring inspection of flights from Wuhan from Dec 31. Contact tracing and individual quarantine were quickly introduced and allowed most of the economy to stay open. By July 14, 451 cases and just seven deaths had been logged, with only eight new cases since June 1. That has lifted support for President Tsai Ing-wen. In January, she trounced her opponents in winning a second (and last) 4-year term while her party, the DPP, kept its majority in the legislature. The 2020 elections point to a geopolitical swing away from China, although economic integration remains very high. Support for the KMT, which ruled Taiwan from 1945, continues to fall as younger voters dislike its authoritarianism and pro-China stance.

A large & effective stimulus

A stimulus package of NT$1.05 trillion (US$35bn or 5.8% of GDP) was announced in April with more available as net public debt in 2019 was just 32% of GDP. The package focuses on funding for SMEs (loans, cuts to utility bills, and salary support) and stimulating consumer demand via shopping vouchers from mid-July (preferred to cash handouts, which might have been saved rather than spent). The package is well designed, should be fully implemented, and will cushion the downturn. Meanwhile, the central bank has cut its policy rate to a new record low of 1.125% and provided banks with financing support.

Geopolitical risk leads to some reshoring

A clash with China - which might initially take the form of trade, investment, or travel restrictions imposed by Beijing - remains a risk, although China is distracted by many other geopolitical issues for the moment. US-China decoupling heightens this risk but has also led to reshoring of some factory production from China, which is boosting growth.

Outlook for the market

Taiwan may do better than the IMF's forecast of -4% in 2020

In early April, the IMF cut its 2020 GDP forecast to -4.0% (from 1.9% forecast in October 2019) followed by 3.5% in 2021. The forecast 4% drop this year is hotly debated in Taiwan, with local analysts and officials considering 0.5-1.7% growth more likely. We've kept our April forecast of 0.5%, while noting upside potential thanks to an effective COVID-19 strategy, a strong stimulus, and good demand for high-tech electronics. Taiwan's has just unveiled a plan for 2021-24 with growth put at 2.6-3.4%pa and GDP/capita set to reach US$30,000 from $25,380 in 2019.

Global electronics demand should help exports

Exports grew 0.5%yoy in H1'20 after a 1.4% drop in 2019. That lifted manufacturing output by 7.0%ytd at May. Despite a major global recession, we expect exports to drop just 1.5% this year thanks to strong electronics demand and reshoring. We expect manufacturing on the IPI measure to grow 4-5% this year and in 2021.

A mild downturn for consumers

… & a lift in housing

The unemployment rate jumped to 4.2% in May from an average 3.8% over the prior 12 months. We expect a peak this year in the 5-6% range thanks to stimulus measures and export strength. Retail sales plunged 8.7%yoy in April before the fall eased to 3.5% in May. Provided COVID-19 remains contained, sales growth of 1-2% is likely in 2020. With the mortgage rate hitting a record low of 1.38%, the real estate market lifted in May and June while housing starts were up 11.6%ytd at May.

Little inflation, record low interest rates & a rising NT$

Consumer prices dipped 0.1%yoy in H1'20 while wholesale prices fell 8.2%yoy. Even if the 18%yoy plunge in fuel prices on the CPI eases in H2'20, falling prices for manufactured goods (a global issue) will likely mean a 0.5% fall for the CPI in 2020. In March, the central bank cut its policy rate by 25 basis points, its first cut since Q3'16. Given moderate growth in H2'20 no further cuts are likely. Relatively strong growth, a healthy trade surplus, and portfolio capital inflows will keep the NT$ under steady appreciation pressure on a US$ that is expected to weaken from late 2020.

	2017	2018	2019	2020	2021
GDP, real growth, %	3.3	2.7	2.7	0.5	3.8
CPI, year average, %	1.0	1.0	1.0	-0.5	0.9
Official discount rate, year-end, %	1.375	1.375	1.375	1.125	1.125
USD/TWD, year average	30.4	30.1	30.9	29.6	29.0

Sources: 2017-2018 government data and CEIC; 2019-2021 forecasts by IMA Asia.

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South Korea

Political & policy issues to watch

Good COVID-19 management

South Korea did well in suppressing COVID-19 thanks to rapid and extensive testing and social distancing requirements rather than lockdowns. However, outbreaks lifted during May and June, leading to periods of stricter social distancing. By late July, new local transmissions were below 10/day, suggesting scope for a demand recovery in late 2020.

April elections boost Pres. Moon

… but can he switch policies?

Good early virus management by President Moon's administration helped his Democratic party win a landslide victory in the April 15 legislative election. With Democrat MPs now chairing all 18 parliamentary committees, Moon is in a strong position for the final half of his single 5-year term. His challenge will be recasting a series of poor policies. Plans to improve ties with North Korea have flopped. So too have policies aimed at containing soaring home prices via higher taxes rather than increasing supply (Seoul apartment prices have surged to record highs). Finally, his distrust of Korea's big companies leaves him poorly placed to deliver policies that will help them through a period of restructuring.

Plenty of room for fiscal support

Three fiscal packages worth 270 trillion won (US$230bn or 15% of GDP) have been announced with room for more as net public debt was 14% of GDP in 2019. The stimulus includes support for five industries - automobile, aviation, shipping, oil refining, and shipbuilding - plus a "new deal" for digital transformation and reduced carbon emissions.

Outlook for the market

A strong Q1 trims the expected 2020 contraction

In June, the IMF cut its forecast for Korea in 2020 to -2.1% (from 2.2% last October) with a recovery to 3.0% expected in 2021. Following a better than expected Q1'20 (up 1.3%yoy), and signs that the fiscal and monetary stimulus were helping demand from June, we've lifted our forecast to -1.5% for 2020 followed by growth of 2.7% in 2021.

But exports have plunged

… as global demand falls

… and China's exports lift

Exports plunged 20.3%yoy in Q2'20 taking H1'20 exports down 11.3%yoy, which included a 26.1%yoy collapse in vehicle exports. The fall was across the board except for information and communication products, which grew 13%yoy on strong global demand. We expect exports to fall 10-11% this year with a mild 8% lift in 2021. Manufacturing output fell 9.8%yoy in May slowing the first five months to 0.1% growth. We expect manufacturing output to fall 3% this year before a 3% rise in 2021. The longer-term outlook is weak as most of Korea's big industries (electronics, chips, steel, cars, chemicals) are facing rising competition from China and a weak global market.

Consumers pull back

… while cars get a brief boost

… and housing continues to lift

Consumers pulled back in H1'20 although sentiment improved in June and the rise in unemployment to 4.5% in May reversed in June, with the rate dropping to 4.3% as the government's stimulus measures kicked in. Retail sales (ex-vehicles) fell 2.7%ytd by May. While vehicle sales surged 49%yoy in June, that was due to a temporary cut in the consumption tax on cars, which was meant to end on June 30 (it has since been extended to year-end). We expect consumer spending to fall 3.5% in real terms this year with a 3% recovery in 2021 if COVID-19 is over. House prices and housing starts need watching. At present, house prices continue to soar as government policies to curb speculation have failed. Yet, housing starts have lifted from mid-2019, and by May the 3-month moving average was up 20%yoy to 42,683 units as mortgage rates hit record lows.

Mild deflation

… while the won edges up on a weaker US$

Consumer prices were flat YoY in June after a brief fall in May (-0.3%). We expect 3-6 quarters of flat or falling prices due to weak demand. The Bank of Korea has cut its policy rate four times from last July to a current 0.50% with one more cut possible in the next 12 months. The won slid from January to May but started edging up on a weaker US$ from June. The year average fall for 2020 will likely be 2% followed by a 2-3% rise in 2021.

	2017	2018	2019	2020	2021
GDP growth, %	3.2	2.7	2.0	-1.5	2.7
CPI, year average, %	1.9	1.6	0.4	-0.1	-0.8
BOK Base rate, year-end, %	1.50	1.75	1.25	0.25	0.25
USD/KRW, year average	1,129	1,100	1,165	1,189	1,154

Sources: 2017-2018 government data (NSO, BOK) and CEIC; 2019-2021 forecasts by IMA Asia.

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Indonesia

Political & policy issues to watch

No success in suppressing COVID-19

Indonesia's management of COVID-19 has been slow and confused. Daily new cases are accelerating and may soon reach 2,000 with underreporting likely. Instead of a national lockdown, the government chose large-scale social restrictions that varied by regency and city. Those restrictions have been eased during July despite an acceleration in cases.

A limited stimulus

… distribution is slow

… while BI buys the bonds

By July, fiscal support to counter COVID-19 totalled Rupiah 710tr (US$53bn or 4.4% of GDP), covering cash transfers, an electricity subsidy, expanded unemployment benefits, tax relief measures, and a cut in the corporate income tax rate from 25% to 22% in 2020-21 and to 20% starting in 2022. Distributing the stimulus has been held up by bureaucratic red tape. As debt sales to fund the extra spending will find few buyers, Bank Indonesia (BI) has been allowed to buy the bonds in the primary market. That appears to be limited to 2020, but some fear this opens the way for populist pressure to allow unchecked deficit spending. Meanwhile, BI has eased liquidity conditions and cut its policy rate by 100 basis points from February to 4% in July. Import and export restrictions have also been lifted.

The problem of poor government

… infrastructure will suffer

President Joko Widodo (Jokowi) is nine months into his second and last five-year term. His goal had been to lift Indonesia's growth with a major infrastructure program that included founding a new capital. COVID-19 puts funding such a plan into question and he'll need to recast a national growth strategy over the next year. While Jokowi remains popular, the virus has exposed the inadequacies of Indonesia's political class, the muddle that has long characterised policy, and a limited capacity for policy implementation.

Outlook for the market

The economy shrinks 2-3% in 2020

… downside risk if COVID-19 is uncontrolled

GDP growth slowed to 3%yoy in Q1'20 led by a slide in growth for fixed investment to 1.7%yoy from 4.4% for full 2019 and consumer demand to 2.8%yoy from 5% in 2019. A guide to Q2'20 is apparent in the external trade data. Import growth plunged 23.5%yoy in Q2'20 after a 3.7% fall in Q1'20 while exports fell 12.7%yoy after Q1 growth of 2.8%. In June, the IMF updated its Indonesian forecast to a fall of 0.3% this year followed by growth of 6.1% in 2021. We are less optimistic and closer to the OECD's June forecast of -2.8% in 2020 and 5.2% growth in 2021, which assumes a single COVID-19 wave. If there is a second virus wave, the OECD expects a 3.9% fall this year with 2.6% growth in 2021.

Manufacturing & construction fall 5-7% in 2020

The PMI for manufacturing dropped into contraction territory in March at 45.3 and then plunged to 27.5 in April with May at 28.6 and June at 39.1, which is by far the weakest performance across the A/P 14. We expect the manufacturing sector to fall by 5.5% this year followed by a 6% lift in 2021, which leaves the sector level with 2019 in 2021. Construction has fared worse according to cement sales, which fell 20.4%yoy in Q2'20 after a 4.7% fall in Q1'20 and growth of 1.2% in 2019. In Q1'20, the GDP measure for construction slowed to 2.9%yoy growth from 5.8% in 2019. We estimate a fall of -15%yoy in Q2'20 with a full year fall of 6.5% followed by 4% growth in 2021.

Consumer demand falls 1.8%

Retail sales fell 1.9%yoy in Q1'20 before plunging 17.4% in Q2. We expect 2020 to see an 8% fall after 3.8% growth in 2019. Vehicle sales plunged 89%yoy in Q2'20 after a 6.9% fall in Q1 and a 10.5% fall in full 2019. We expect consumer demand to drop 1.8% this year with a 4.5% lift in 2021 after growth of 5% in 2019.

Low inflation and a 4-5%pa fall for the rupiah

Inflation slowed to 2%yoy in June and with demand collapsing, it will head to 1.5% next year. Despite that, there is little scope for BI to cut its policy rate from a current 4% without undermining the rupiah. BI buying pushed the rupiah above 14,000 to US$1 in early June but it has since eased to 14,500 and we expect a 4-5%pa fall in 2020 and 2021.

	2017	2018	2019	2020	2021
GDP, real growth, %	5.1	5.2	5.0	-2.5	4.9
CPI, year average, (2012=100), %	3.8	3.2	2.8	2.1	1.5
Central bank rate (7-day RR) at Dec %	4.25	6.00	5.00	4.00	4.00
USD/IDR, year average	13,381	14,238	14,148	14,931	15,553

Sources: 2017-2018 government data (BPS, BI) and CEIC; 2019-2021 forecasts by IMA Asia

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Malaysia

Political & policy issues to watch

Strict suppression of COVID-19

A strict lockdown from mid-March kept COVID-19 cases at 8,800 and deaths at 123 (to July 21) but triggered a plunge in demand in Q2'20. Restrictions have been eased from May and international travel may restart in August with Singapore via the causeway.

Plenty of fiscal and monetary stimulus

Four fiscal stimulus packages worth M$62bn (US$7.3bn, 4.2% of GDP) were announced by June. They include tax relief, cash transfers to low income families, wage subsidies, and infrastructure spending. A M$50bn (US$5.9bn) fund will provide working capital loan guarantees for COVID-19 affected businesses. Meanwhile, Bank Negara has cut its policy rate to 1.75% from 3.00% last December and reduced the Statutory Reserve Requirement ratio for banks from 3% to 2% to free up more funds for lending.

Fluid politics with risk of a snap election

Malaysia's political landscape remains fluid as the newly installed government led by PM Muhyiddin has a slim two-seat majority. The collapse of the prior Pakatan Harapan (PH) government in May reflects a fear among ethnic Malays (69% of the population) that they'll lose privileges they have gained at the expense of the Chinese (23%) and Indian (7%) communities. With a large Chinese contingent in the PH government and liberal Malay leader Anwar Ibrahim expected to soon become PM, Muhyiddin grabbed the opportunity to topple ex-PM Mahathir and launch his own government supported by the Malay-based UMNO and PAS parties. Whether PAS, a conservative Islamic party, and UMNO, with a long tradition of corruption, can deliver a coherent policy agenda is unclear.

Outlook for the market

Growth plunges in Q2'20

… a recovery emerged in June and should lead to 6% growth in 2021

Malaysia's decade-long growth surge at 5.3%pa to 2019 has ended, with GDP expected to fall 3.4% this year, deeper than the 1.5% drop in the 2009 recession. Growth slowed to 0.7%yoy in Q1'20 with a big fall expected to appear in the Q2'20 GDP data following imposition of a strict lockdown. Export and imports for the first two months of Q2'20 both fell by 28%yoy (US$ basis), manufacturing output fell 30%, housing approvals plunged 77%, and passenger car sales fell 82%. A recovery emerged in June, with the manufacturing PMI reaching 51 from a record low 31.3 in April thanks to higher production, rising business confidence, and new orders (mostly local). A gradual recovery through H2'20 should lead into a 6% lift in GDP growth in 2021.

Consumer spending dives as sentiment falls

Malaysia's economy was led by surging consumer spending from 2010, with average growth of 7.1% a year. Strong population growth (1.6%pa) and lavish government spending on Malay voters underpinned the surge. The collapse of the UMNO government in 2018 followed by instability in the new PH government brought the gravy train to a halt. Consumer sentiment fell to 51.1 in Q1'20 n MIER's index from an average 95 over the prior decade. By May, retail sales had fallen 9.6%ytd after growth of 8.2% in 2019. We expect real consumer growth to ease to 1.5% this year ahead of a 5.5% lift in 2021.

A 3-year fall in capex to 2020

Fixed investment fell 4.6%yoy in Q1'20 after falls of 2.1% in 2019 and 1.4% in 2018. The long decline in capex reflects a real estate glut and political uncertainty, which has delayed investment decisions and public projects. Investment approvals (both local & foreign) fell 30.6%yoy by value in Q1'20 after 1.7% growth in 2019. We expect fixed investment to fall 14.5% this year followed by 5.5% growth next year.

Deflation and a mild M$ recovery by 2021

With deflation reaching -2.9%yoy in May, Bank Negara has room to cut its policy rate to 1.25% from the current 1.75%. Political uncertainty and a weak oil price have turned the ringgit into one of Asia's worst performing currencies this year. However, by 2021 a broad-based US$ retreat should see the ringgit gain 1.2% on the greenback following declines of 2.3% in 2020 and 2.6% in 2019.

	2017	2018	2019	2020	2021
GDP, real growth, %	5.8	4.8	4.3	-3.4	6.0
CPI, year average (2010=100), %	3.8	1.0	0.7	-1.2	0.5
Central bank overnight policy rate, Dec, %	3.00	3.25	3.00	1.75	1.25
USD/MYR, year average	4.30	4.03	4.14	4.24	4.19

Sources: 2017-2018 data from the government, Bank Negara, & CEIC; 2019-2021 forecasts by IMA Asia.

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Philippines

Political & policy issues to watch

COVID-19 remains a challenge

Despite one of the strictest lockdowns in the world, COVID-19 remains a problem with daily new cases reaching a record 2,486 on July 8. Luzon, the largest island, was locked down from March 16 to May 15 (and May 31 for Metro Manilla and other high-risk areas). Less severe local lockdowns remain in place but a return to a stricter lockdown is possible.

Little room for stimulus due to

… financing challenges

… & political considerations

Prospects for a fiscal stimulus are hemmed in by fragile public finances and political considerations. Revenue for the five months to May fell 16% while spending jumped 27% as various schemes funnelled support to poor households. Even without a fiscal stimulus package, the budget deficit is set to reach 9% of GDP. Any additional stimulus would put at risk President Duterte's signature "Build, Build, Build" infrastructure drive in his final two years. Bills for extra spending are stuck in congress and Finance Secretary Dominguez wants to limit extra spending to 140bn pesos (US$2.8bn, 0.7% of GDP) funded by new taxes (a 10% import duty on crude oil and refined petroleum was imposed in May and taxes on digital platforms, online gambling, and vehicles are being considered).

Duterte's 2-year exit strategy

President Duterte's political strategy for his last two years comes down to three points. First, lift growth by accelerating the infrastructure program. Second, quash dissent, which has recently included closing the country's largest broadcaster and news network and passing a wide-ranging anti-terror law. Finally, hand over to a political ally who could well be his daughter, Sara. Sustained popular support for Duterte, a hallmark of his first four years, will be needed to keep this strategy on track.

Outlook for the market

Growth plunges in Q2 with a milder fall in H2'20

… before a 6% lift in 2021

GDP growth dipped 0.2%yoy in Q1'20 and likely plunged by 7-8%yoy in Q2'20 in the face of a strict national lockdown. While imports and exports fell 13.6%yoy and 5.1% respectively in Q1'20, they plunged by 53% and 42% respectively in the first two months of Q2'20. Industrial production, which fell 2%yoy in Q1'20 plunged 42% in the first two months of Q2 while vehicle sales, down 31% in Q1'20, fell 92% for April-May. The GDP fall should ease to 4-6% in Q3'20 and 2-4% in Q4'20, leaving full year GDP down 4% followed by a 6% lift in 2021 if there is no second COVID-19 wave. That puts 2021 GDP some 2% above the 2019 level in real terms. In June, the finance secretary suggested a 3.5% fall this year, which is in line with the IMF's forecast of -3.6%.

Construction is hit hard

… scope for a capex recovery in 2021

The construction sector has been hit hard by the lockdown according to cement sales. After growth of 5.2% in 2018 and 2.4% in 2019, cement sales fell 4.1%yoy in Q1'20 and then plunged 40%yoy in the first two months of Q2'20. Fixed investment for construction grew by 11%pa growth for the decade to 2019, helping lift GDP growth to 6.4%pa. Future growth will depend on the damage done to public finances by COVID-19 and market support for private financing options. We are optimistic on both counts and expect construction capex to grow by 12-14% in 2021 after a 12-14% drop in 2020.

OFW remittances fall, so consumer spending drops

Consumer demand is expected to fall by 1-2% this year due to the lockdown and a fall in remittances from offshore Filipino workers (OFWs). After growth of 4.4% for the year to February, remittances fell 4.7% in March and 16.2% in April. Meanwhile, unemployment has soared to 17.7% in Q1'20, with Q2 likely worse due to lockdown measures. The 2021 recovery in consumer demand growth will be muted at 3-4%.

The peso edges up on a weak US$

In June, the central bank cut its policy rate to a record low 2.25%. June inflation was 2.5%yoy but is likely to be 2% by December. Despite COVID-19 and rate cuts, the peso is rising on a weaker US$, with a 3.5% lift expected this year and a 1-2% rise in 2021.

	2017	2018	2019	2020	2021
GDP growth, %	6.9	6.3	6.0	-4.0	6.1
CPI, annual average, %	2.9	5.2	2.5	2.2	1.2
Central bank reverse rep. rate, year end	3.00	4.75	4.00	2.25	2.25
USD/PHP, annual average	50.4	52.7	51.8	50.0	49.3

Sources: 2017-2018 data from BSP and CEIC; 2019-2021 forecasts by IMA Asia.

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Singapore

Political & policy issues to watch

Good COVID-19 management, **… except for migrant workers**	Singapore did well in suppressing COVID-19 in most of the community but failed to halt a surge in migrant worker dormitories, which accounted for most of the 49,888 cases by July 25. A national lockdown was imposed from April 7 to June 1 followed by a 3-phase easing of restrictions. Singapore is currently in phase 2 with schools and most of the economy open but non-essential office attendance limited. No timeline has been set for phase 3.
A big stimulus **… but Changi 5 is paused for two years**	Five fiscal packages worth S$92.9bn (US$67bn or 19.7% of GDP) have provided copious support to households and firms, including wage subsidies and rental cost cover. MAS, the central bank, eased its monetary stance in March by lowering the rate of S$ appreciation. However, in June the government also announced a 2-year pause in building terminal 5 at Changi Airport (originally intended to handle 50m passengers a year, more than terminals 1,2, and 3 combined).
The July election may shift policy on migrant workers	The July 10 election saw support for the PAP drop to 61% from 70% in 2015, with the opposition taking a record high 10 seats in the 93-seat parliament. Voters were mostly unhappy about the high level of migrant labour (1.4m, including some 300,000 in dormitories, out of 3.8m total employed in 2019). The PAP may well rethink policies that have led to a high reliance on migrant labour, while also delaying a planned GST hike from 7% to 9% and postponing change in leadership from PM Lee.

Outlook for the market

No way to stop a big fall in GDP as global demand plunges **… but firms and households will be cushioned**	As a global hub for trade, manufacturing, and tourism, Singapore faces a big fall in growth about which it can do little. Instead, the focus is on cushioning households and firms, with the help of national reserves. Preliminary data suggests a 12.6%yoy fall in GDP in Q2'20 led by a 54.7%yoy fall in construction and a 13.6%yoy fall in services, while manufacturing managed to grow 2.5%yoy (driven by pharmaceuticals). Exports and imports fell 23.9%yoy and 19.6%yoy respectively in Q2'20 (US$ basis), while retail sales (excluding cars) plunged 39.5%yoy in April-May as tourism stopped. The manufacturing PMI has been below the 50 line that separates contraction from expansion from February to June. We expect a gradual improvement in economic activity in H2'20 with a delayed start to tourism holding the economy back while manufacturing and construction gradually recover. GDP is expected to grow 6.5% in 2021 after an estimated 4.9% fall this year.
Tourism faces a long recovery **… while local consumers trim spending**	While the big fall in retail sales is mainly due to a halt to tourism, local consumers are also pulling back. Consumer loans for May fell 3.5%yoy, including a 17.6%yoy drop in credit card financing. Meanwhile, savings deposits in banks jumped 12.2%yoy in May after average growth of 5.8%pa over the last decade. As in other countries, this is both a cautious deleveraging and unintentional savings as entertainment and travel are halted. Rather than a post-virus surge in spending sometime in the next 18 months, we expect a muted consumer recovery. We expect private consumption to fall 1.9% in real terms this year followed by a 2.7% lift in 2021. That follows 3.7% growth in 2019 and a decade average of 3.4%pa to 2018.
Civil works can't come to the rescue	We estimate that fixed investment plunged 25-35%yoy in Q2'20 during the lockdown, leading to a 12% fall in full 2020 followed by a weak 4.5% recovery next year. During the 2008-09 recession, the authorities cushioned construction with a big counter-cyclical civil works program. The opposite is likely this time as Changi terminal 5 is paused.
Deflation ahead **… while the SGD rise on a weak USD**	The MAS is likely to continue easing monetary policy as consumer prices fell 0.7%yoy in Q2'20 with deflation expected to persist into 2021. While that generally means a weaker currency, the MAS guidance for the SGD is against an undisclosed basket. As a result, the SGD has joined a general rise for harder currencies, led by the Euro, against a weakening USD. After a big fall on the USD in Q1'20, the SGD has been rising on the USD and we expect it to narrow the 2020 full year drop to 1.4% before a 3-4% lift in 2021.

	2017	2018	2019	2020	2021
GDP, real growth, %	4.3	3.4	0.7	-4.9	6.5
CPI, year average, %	0.6	0.4	0.6	-0.9	-0.5
3-month interbank interest rate, Dec, %	1.50	1.89	1.77	0.56	0.56
USD/SGD, year average	1.38	1.35	1.36	1.38	1.34

Sources: 2017-2018 data from government, MAS and CEIC; forecasts for 2019-2021 by IMA Asia

Thailand

Political & policy issues to watch

COVID-19 quickly suppressed

… despite poor leadership

Thailand has done well in suppressing COVID-19 so far, despite a massive tourism industry with many visitors from China. By July 22, only 3,261 cases were reported with 58 deaths in a country of 67m people. That reflects a good healthcare system and possibly long exposure to such viruses, which are common in parts of SE Asia. PM Prayut declared a state of emergency from March 26, which has just been extended to the end of August (mostly to quell street protests rather than COVID-19), and a curfew from April 3 to June 15, with various degrees of lockdown across the country. However, his administration's early response has been criticised as slow, inconsistent, and marred by corruption.

A lift in monetary stimulus

… but delayed fiscal stimulus

By July, fiscal support worth Baht 1.5tr (US$47bn or 9.6% of GDP) had been announced. Meanwhile, the central bank has cut its policy rate from 1.25% to 0.50%, launched a soft-loan program, directed banks to relax loan repayment conditions for SMEs, supported the bond market, and bought government bonds. As the government has been slow to disburse funds, the fiscal stimulus impact has been limited.

Cabinet turmoil, as usual

… watch for a new cabinet in August

The mass resignation of Thai cabinet ministers in July and a decision by the central bank governor not to seek another term appears high risk during an economic crisis but is typical of the turmoil in Thai leadership. A new cabinet should be appointed within weeks. Four key economic ministers led by Deputy PM Somkid Jatusripitak, the architect of economic policy, have resigned along with several other ministers. They left not because of questions over policy or probity but because of a fight within the ruling Palang Pracharath Party over the control of lucrative ministries. PM Prayuth's own position is secure provided he can balance rival factions in appointing new ministers.

Outlook for the market

ASEAN's biggest recession

… with a weak 2021 recovery

COVID-19 has amplified a downturn in the Thai economy with little prospect of a strong recovery in 2021. GDP growth slowed to 2.2% in 2019 from a decade average to 2018 of 3.3%. In Q1'20, GDP fell 1.8%yoy and Q2 will likely see a fall of 8-10% reported. In June, the IMF forecast a 7.7% fall this year with a 5% lift in 2021, which would leave the economy 3% smaller in 2021 than in 2019. That Thailand is the worst performer in ASEAN reflects three problems: a high dependence on foreign tourists; a failure to revive export manufacturing; and weak investment due to political turmoil.

Consumer growth halts

… while tourism collapses

Thailand has generally been considered a good consumer market, with GDP/capita double that of Indonesia, the Philippines or Vietnam and steady income growth. COVID-19 has ended that. Retail sales fell 5.4%yoy in Q1'20 before a 28%yoy plunge in April, which reflects both a halt to tourism and a pullback by local consumers. After a 0.3% drop in 2019, passenger vehicle sales fell 24%yoy in Q1'20 and then 70%yoy in the first two months of Q2'20. We expect a full year fall in tourism of around 80% with a weak 50-60% lift in 2021 (still down 65% on 2019). Consumer demand will likely fall 2-3% this year followed by a 3-4% lift in 2021 after growth of 4.5% in 2019.

Capex, exports & manufacturing all fall

Fixed investment fell 6.5% in Q1 and will likely drop 18% this year with a 5% lift in 2021 after growth of 2.1% in 2019. Exports did well to April (up 1.2%ytd) before a 22%yoy fall in May. Manufacturing GDP fell 2.7%yoy in Q1'20 and will likely drop 9-10% this year with a 4% recovery in 2021 after a fall of 0.7% in 2019.

Deflation and a weaker baht

Consumer prices fell 1.1%yoy in H1'20. While deflation will likely continue into 2021 the central bank has little room for more rate cuts. Meanwhile, political risk concerns are likely to weaken the baht to 33 to US$1 by year-end, which Thai businesses will welcome as a rising baht had hurt exports over the last few years.

	2017	2018	2019	2020	2021
GDP, real growth, %	4.0	4.1	2.2	-6.3	4.2
CPI (2015 index), year average, %	0.7	1.1	0.7	-3.7	-2.0
Central bank, policy rate, year-end, %	1.50	1.75	1.25	0.50	0.50
USD/THB, year average	33.9	32.3	31.0	32.8	32.5

Source: 2017-2018 data from BOT and CEIC; 2019-2021 forecasts by IMA Asia.

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Vietnam

Political & policy issues to watch

Textbook handling of COVID-19

Vietnam's quick handling of COVID-19 limited the number of cases to 382 with no reported fatalities in a population of 100m. In place of a rigid lockdown, which damaged growth in other countries, it opted for extensive contact tracing, isolation, and quarantining. In June, the IMF recommended it as a paradigm for other emerging markets and forecast 2.7% GDP growth this year (here and worth reading).

Plenty of fiscal & monetary stimulus

The government has announced a fiscal stimulus to counter COVID-19 worth 279tr dong (US$12bn or 3.7% of GDP) that includes tax and rent fees deferrals and exemptions and cash transfers to vulnerable households (10% of the population). Meanwhile, the central bank cut its policy rate from 6.00% in February to 4.50% in May while directing commercial banks to reschedule loans, reduce or exempt interest, and provide loan forbearance.

A leadership change in January

The Communist Party retains a firm grip on power and has gained popular support from its COVID-19 strategy. A smooth leadership change is expected at the 13th Party Congress in January 2021 with Nguyen Phu Trong (76), who is both party leader and state president, stepping down. It is unclear who will take over but PM Nguyen Xuan Phuc (65) is a contender based on his good management of the economy.

Policies favour rapid growth in manufacturing

Vietnam has been the main winner in Asia of production moving from China. The trend emerged over the last decade as China's labour costs rose and has been boosted by US-China decoupling, although the production that moves remains highly reliant on parts from China. The trend led to Vietnam replacing Thailand as ASEAN's biggest export manufacturer in 2019 after shipping just one quarter the value of Thailand's exports in 2005. Export market access have been critical in Vietnam's rise and that will be boosted by new free trade and investment protection agreements with the EU from mid-2020.

Outlook for the market

Growth should recover in H2'20

… except for tourism

COVID-19 and the global recession slashed Vietnam's GDP growth to 0.4%yoy in Q2'20 from 3.7% in Q1'20 and 7% in 2019. The slowdown was led by a 0.6%yoy slump in services growth in H1'20 from 7.3% in full 2019 while manufacturing growth eased to 5% from 11.3% in 2019. The services decline partly reflects the rapid growth of tourism, which halted in Q2'20 after surging by 23%pa growth over 2016-19. Export growth slowed to 0.2%yoy for H1'20 from 8.4% for full 2019. We expect 2020 to be Vietnam's slowest growth year since 1991, with GDP expanding 2.5% before growth lifts to 6.3% in 2021.

Workers take a hit and spend less

The government estimates that 31m workers (55% of the labour force) saw hours and pay cut due to COVID-19, although the lift in urban unemployment was limited to 4.5% at Q2'20 from 3.1% over 2019. Retail sales fell 5.5%yoy in Q2'20 after posting growth of 3.5%yoy in Q1'20 and 12.2% in 2019. The pace of real consumer spending is set to slow to 3.3% this year from 7.4% in 2019 and 7.7%pa over 2015-19 before edging up to 5.6% in 2021.

Activity and capex slump in H1'20

… with a mild upturn from H2'20

With the manufacturing PMI lifting to 51.1 in June from 42.7 in May and 32.7 in April, factory activity is set to recover in 2H'20 Rapid growth in construction and export manufacturing led to real growth in fixed investment of 9.2%pa in the six years to 2019. However, weak foreign direct investment (FDI) inflows H1'20 and a soft real estate market suggest that fixed investment growth will be limited to round 2.5% this year from 8% in 2019. The pace should lift to 6% in 2021 as the global economy recovers.

Lower interest rates and a stable dong

With COVID-19 undermining demand, inflation will slip to 2.6% this year, allowing the central bank to support growth by cutting its policy rate to 3.75% from the current 4.50%. This is unlikely to undermine the dong, which saw its pace of depreciation against a weakening US$ ease to 1.1%yoy in H1'20 from 1.9% in 2019.

	2017	2018	2019	2020	2021
GDP, real growth, %	6.8	7.1	7.0	2.5	6.3
CPI, year-average, % (2014=100)	3.5	3.5	2.8	2.6	3.3
Central bank refinancing rate, year-end, %	6.25	6.25	6.00	3.75	3.75
USD/VND, year average	22,370	22,602	23,051	23,248	23,483

Source: 2017-2018 data from the IMF and CEIC; 2019-2021 forecasts by IMA Asia

India

Political & policy issues to watch

A growing COVID-19 challenge

… lockdowns are easing but WFH stays

COVID-19 is spreading, with a record 49,000 new daily cases reported on July 24. A national lockdown from March 24 to May 31 briefly slowed the spread but also stalled the economy. Partial reopening started in late May with trains and some local flights resuming. National restrictions should end by July 31, although no date has been set for reopening educational institutions. Maharashtra state (with Mumbai, India's financial capital) is the epicentre, with 40% of the 30,601 reported deaths. The state's lockdown will continue to July 31. Karnataka (with Bengaluru, India's high-tech hub) ended its lockdown on July 22 although it faces a recent surge in cases. Most big companies are continuing with WFH.

A financial crisis gets worse

… bad loans may surge in Q1'21

India's headline stimulus of 10% of GDP (Rs20tr or US$265bn) has 1% of GDP in extra spending, which will be focused on the poor. Guarantees to financial institutions to encourage lending make up most of the package. Financial institutions are also required to provide a six-month deferment of loan and interest payments, and half of India's borrowers have taken this up according to a report by the Financial Stability and Development Council. That may simply delay a rise in non-performing assets (NPAs). By next March, the council thinks NPAs could jump to 12.5-14.7% from 8.5% in March 2020.

Waiting to see if India will reform

A key issue for India's long-term outlook is whether PM Modi uses the COVID-19 crisis and his dominant political position to revive reform. Recently, Modi has seized on a few big foreign investments to champion a "Made in India" campaign, which includes blocking imports from China and reflects poor understanding of global supply chains. A cabinet reshuffle expected in August might lead to renewed reform or greater nationalism.

Outlook for the market

A deep 2020 recession

… with a weak 2021 recovery

GDP growth in Q1'20 (March quarter) slowed to 3.1%yoy with fixed investment falling 6.5%yoy after a 4.6%yoy fall in H2'19. In short, India was entering a recession due to a financial crisis well before COVID-19 hit. The national lockdown likely saw GDP fall some 8-10%yoy in Q2'20. The fall should moderate in H2'20 leaving an annual fall of 3.7%. As it takes time to defuse a financial crisis, the 2021 recovery is likely to be a weak 3.6%. In its June update, the IMF forecast a 4.5% fall this year and a 6% lift in 2021.

A good monsoon means a bumper crop

… but demand from consumers will drop

The bright point in India's outlook is agriculture after a good monsoon lifted summer crop planting by 21% on the 2019 crop. Agricultural GDP (16% of the economy but with a wider impact as 65% of the population is rural) will likely grow at 5%yoy over the next 3-4 quarters. Alongside rural employment schemes, which account for much of the lift in public spending this year, that will help India's poorest households. But as higher income groups drive total demand, we expect consumer spending to fall around 2% this year followed by a 3-4% lift in 2021 after a decade average of 7.4%pa to 2019.

Big falls for capex

… and for manufacturing

As there's no quick fix for India's financial crisis we expect fixed investment to fall 12-15% this year with a weak 3% lift in 2021 after zero growth in 2019 and a decade average of 6.1%pa to 2018. Credit growth edged up to 6.8%yoy in May from 5.4% in March (a record low for the period from 2000). The 2019 financial crisis cut manufacturing growth on the IPI measure to 0.6%, followed by a 6.1% fall in Q1'20 and a 53%yoy fall in the first two months of Q2'20. We expect a fall of 15% in 2010 followed by a 12-14% lift in 2021.

Inflation should ease while a brief trade surplus helps the rupee

Inflation was 6.1%yoy in June but with a big harvest, it should drop to 4.5% in 2021. The RBI policy rate was cut to 4.00% in May from a recent peak of 6.50% in August 2018. Despite the latest 40bp rate cut in May, the rupee has been steady around 74=US$1 since March as the USD weakened and India's trade balance surged into surplus (due to a local demand collapse), which helped lift forex reserves to a record $494bn in May.

Calendar year starting January	2017	2018	2019	2020	2021
GDP (MP, 2011-12), real growth, %	6.6	6.8	4.9	-3.7	3.6
Inflation – CPI, %	3.3	4.0	3.7	5.6	4.5
RBI repo rate, December, %	6.00	6.50	5.15	4.00	4.75
USD/INR, year average	65.1	68.4	70.4	75.7	77.6

Sources: 2017-2018 data from the government (NCI, RBI) and CEIC. 2019-2021 forecasts by IMA Asia.

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Australia

Political & policy issues to watch

Early COVID-19 success

… a return to local lockdowns in July

In July, Australia's two biggest states - NSW (32% of GDP) and Victoria (25% of GDP) – were struggling with renewed outbreaks of COVID-19 after early success led to an easing in restrictions and an abandonment of cautious behaviour. An initial national lockdown from March 21 was mild, with construction and cross-state logistics continuing, although some states halted other cross border travel. A phased national re-opening started in May but from late June Victoria reimposed some restrictions and on July 6 Melbourne returned to lockdown for six weeks. NSW might also close its borders and place Sydney under lockdown again soon. As a result, Australia's recovery may be delayed until Q4'20.

A big stimulus cushions the downturn

… watch for an extension beyond Sept

Australia's early success with COVID-19 owes much to the formation of a national cabinet on March 13 to bring together the federal, state, and territory leaders. That helped coordination and limited disputes (five of the local governments are held by Labor while the Liberals hold the federal government and three states). A fiscal stimulus worth A$259bn (US$181bn or 13% of GDP) was rapidly deployed cushioning the downturn for households and businesses from March 31 to September 27. An extension may well be announced soon. Australia has one of the lowest public net debt levels in the OECD (21% of GDP in 2019) and with a AAA credit rating and interest rates plunging, the cost of the extra spending has dropped.

The PM puts China offside

PM Scott Morrison led a brave early charge in demanding China allow an international investigation of COVID-19's origins. A desire for close alignment with Donald Trump (both are prominently supported by evangelicals) might explain his decision, which caught businesses by surprise and triggered a wave of retaliatory threats by China. So far, the damage has been limited to grain exports with Morrison rapidly backpedalling.

Outlook for the market

A 4-5% fall in GDP in 2020

… with a mild upturn in 2021

COVID-19 has brought Australia's 27-year expansion, an OECD record, to an end with GDP estimated to have fallen by 5-8%yoy in Q2'20 and 3-4 more quarters of contraction ahead. In June, the OECD forecast that if COVID-19 is kept to a single wave, then GDP will fall 5% this year before a 4.1% lift in 2021 (leaving the economy 1.1% smaller than in 2019). If a second virus wave hits, then growth could fall 6.3% this year with a 1% rise in 2021 (leaving 2021 5.4% below 2019). We believe a 3.7% fall is more likely this year due to three factors: stronger iron ore exports to China (up 6.1%ytd at May); a lift in housing as RBA easing delivered record low mortgage rates; and a shallower fall in consumer spending thanks to massive government funding for the JobKeeper scheme and unemployment benefits (retail sales up 2.1%ytd at May from 2.7% growth in 2019). In May, the government forecast -5% in 2020 and 4% in 2021. It will update its forecast in late July.

The big east coast states lead the fall

NSW and Victoria (57% of GDP) will lead the downturn due to their higher dependence on tourists, migrants, and foreign students. By contrast, WA and NT (13% of GDP combined) will be cushioned by strong resources exports (iron ore and LNG respectively).

Capex falls 7.6% while consumer demand drops 6%

Consumer spending is expected to fall about 6% this year with a 2.8% lift in 2021 following 1.4% growth in 2019 and a decade average to 2018 of 2.6%. Fixed investment is expected to fall 7.6% this year with a 3.6% lift in 2021 following -2.2% in 2019 and a decade average to 2018 of 1.4%. An 11% fall in private capex this year will be partly offset up a 4% rise in government capex.

Record low interest rates

… while the A$ rises on a weak US$

The RBA, Australia's central bank, cut its policy rate to 0.25% in March and has signalled it is unlikely to lift it for several years. Along with a quantitative easing program and a surge in bank deposits by households and super funds, commercial interest rates and bond yields have fallen to record lows. Despite that, the A$ has joined other currencies in rising against a weaker US$. From a low of 57 US cents in mid-March it has risen to 70 cents by mid-July with a year average rise of 1% expected this year and 2-3% likely in 2021.

Year ending December 31	2017	2018	2019	2020	2021
GDP, real growth, %	2.5	2.8	1.8	-3.7	4.0
CPI, year average, %	1.9	1.9	1.6	1.3	1.0
RBA cash rate, year-end, %	1.50	1.50	0.75	0.25	0.25
USD/AUD, year average	1.30	1.34	1.44	1.42	1.38
AUD/USD, year average	0.77	0.75	0.70	0.70	0.72

Source: 2017-2018 data from the ABS, RBA and CEIC; 2019-2021 forecasts by IMA Asia

New Zealand

Political & policy issues to watch

Quick & effective suppression of COVID-19

NZ entered a strict lockdown on March 25 that ran for four weeks before easing. On June 8, the country was declared virus free and all domestic restrictions ended. A cautious reopening of international travel is being considered. The lockdown led to a low number of virus cases and deaths, and a surge in popularity for PM Jacinta Ardern.

PM Ardern should win a 2nd term on Sept 19

PM Ardern looks set to win a second 3-year term in the September 19 elections. Support for the opposition National Party has fallen, with Judith Collins taking over the leadership on July 14 when her predecessor resigned after just weeks in the role. A bigger issue may be what happens to NZ First, which has nine of the 120 seats in the single chamber parliament but has suffered a collapse in support. Labour and prior Nationals governments have been forced into coalitions with the populist NZ First to secure a majority. Labour (currently 46 seats) could win enough seats alongside its traditional support agreement with the Greens (8 seats) to end its coalition with NZ First, leading to faster policy decisions.

Plenty of fiscal and monetary stimulus

To counter COVID-19, the government rolled out a NZ$12bn (US$7.9bn or 4% of GDP) fiscal package in March that included wage subsidies, tax cuts for businesses, income support for individuals, and financial support for the airline industry. The central bank delivered a 75bp rate cut to a record low 0.25% and started quantitative easing (its balance sheet grew 79% to NZ$56bn by end-June). Labour and Nationals are promising more infrastructure spending if either win the September election. Net public debt is a low 20% of GDP, leaving room for more spending if it is needed.

Outlook for the market

Growth plunges in Q2'20

… a rebound is possible in 2021

After eight years of growth averaging 3.2%pa, GDP growth slumped to 0.2%yoy in Q1'20. We expect declines of 13% in Q2'20 and 5.8% in 2H'20 following a collapse in domestic and export demand. A lift in government spending and a big fall in imports will cushion the GDP fall. The scale of the fall is apparent in a 100%yoy drop in tourist arrivals, double-digit falls in exports and imports (-14.3%yoy and -28%yoy respectively, US$ based) and a 30%yoy fall in credit card spending in April-May. Provided the COVID-19 constraints on global growth diminish from early 2021, NZ's GDP is likely to grow 6.5% in 2021 after a 6.2% decline this year.

A 2019 consumer downturn

… accelerates with COVID-19

Falling passenger car sales (-11.7%yoy in Q1'20 from -4.3% in full 2019) and weaker growth in retail sales (2.3%yoy in Q1'20 from 3.7% in 2019) point to slower consumer demand growth well before COVID-19. On the GDP measure, consumer growth peaked at 5.6% in 2016 before easing to 2.7% in 2019 and 1.2%yoy in Q1'20 on the back of slowing tourist and migrant arrivals, and weaker growth in exports and employment. We expect consumer demand to fall 6.6% in real terms this year before a 4.8% recovery in 2021.

Capex plunges in 2020 with a mild 2021 recovery

After posting a brisk 5.9%pa over 2011-18, fixed investment growth eased to 2.8% in 2019 ahead of a 3.5%yoy drop in Q1'20 on the back of falling housing and non-residential construction (-4.6%yoy and -11.1%yoy respectively). We expect a 15% fall in capex activity this year, led by a 17% fall in construction spending. A mild 6% capex recovery should follow in 2021 supported by government spending.

The NZ$ lifts on the US$ despite a bit rate cut

With inflation easing to 1.5%yoy in Q2'20 from 2.5% in Q1'20, the RBNZ will not hesitate to expand its loose monetary stance if needed. However, with most central banks doing much the same, the NZ$ is following a broad rising trend on a weaker US$. It has rebounded to 65 US cents from 56 cents in March 2020 and will likely edge up to 68 US cents by 2021 as global economic prospects improve.

Calendar years	**2017**	**2018**	**2019**	**2020**	**2021**
GDP(Expenditure), real growth, %	3.8	3.1	2.3	-6.2	6.5
GDP(Production), real growth, %	3.1	3.2	2.3	-6.2	6.4
CPI, year average, %	1.9	1.6	1.6	1.6	1.0
Official cash rate, year-end, %	1.75	1.75	1.00	0.25	0.25
NZD/USD, year average	0.71	0.69	0.66	0.64	0.67
USD/NZD, year average	1.41	1.44	1.52	1.56	1.50
AUD/NZD, year average	1.08	1.08	1.05	1.08	1.07

Source: 2017-2018 data from Statistics NZ and NZRB; 2019-2021 forecasts by IMA Asia

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The Asia Pacific Executive Brief is produced by a unique network of in-country experts who run briefing and advisory programs that are designed to help senior executives monitor and anticipate critical business developments through timely insights and analysis. Further information on the markets and the peer group briefing programs is available from the Country Directors listed below.

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