

Global Markets Research

Research Alert

Asia Reflections: Opportunities and Challenges

Asia exports to benefit unevenly from majors' recovery; Covid-zero strategies may hinder other parts
Singapore's reopening strategy stands out, while China's large domestic economy insulates risks
Thailand, Indonesia, and Vietnam are appearing to look most vulnerable at this stage

Summary & Implications

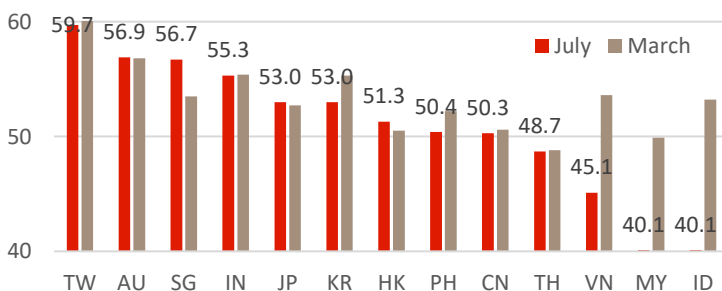
The recovery trajectory in Asia is likely uneven in the quarters ahead. July's Markit PMIs reflect that some economies' recoveries are underway, while others are faltering. Divergences in Covid-19 strategies and varying economic characteristics are likely to differentiate the outperformers from the underperformers. We see three factors that will likely be instrumental:

- (1) Government direction/strategy (generally and on Covid-19)
- (2) Ability to restore economic activities towards pre-pandemic levels on a sustainable basis
- (3) Ability to adapt the domestic economy to global trends (like eventual tighter US monetary policy)

In Asia, Singapore, New Zealand and China stands out in these 3 aspects. Vaccination rates are relatively high (Figure 1) in Singapore and China. In addition, Singapore and New Zealand stand out with their reopening strategies, compared to Japan, Australia and China's Covid-zero strategy. China has a relatively large domestic economy which can insulate itself better than the rest. It is able to have higher flight capacities compared to pre-pandemic days due to domestic travel (Figure 2).

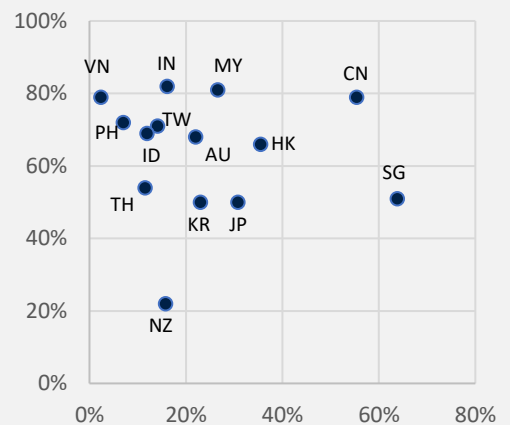
Thailand, Indonesia and Vietnam currently appear more vulnerable in contrast. They have relatively low vaccination rates, triggering higher lockdown severities. Traditionally, their economies have also relied more on foreign receipts (tourism and remittances).

Markit/Caixin Manufacturing PMIs in July, compared to March



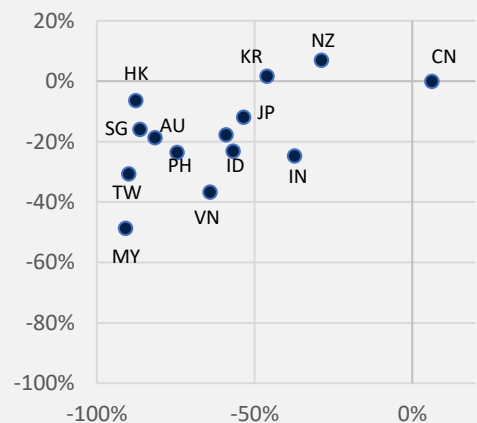
Note: Singapore whole economy PMI. Source: Bloomberg, HL Bank

Figure 1: Vaccination rate (x-axis) compared to lockdown severity (y-axis)



Source: Bloomberg Covid Resilience Ranking (July)

Figure 2: Flight capacity (x-axis) versus community mobility (y-axis)



Source: Bloomberg Covid Resilience Ranking (July). Note: China does not have data for mobility.

Domestic Outlook

Renewed Covid-19 outbreaks in many parts of Asia present risks for the economic recovery ahead. At this stage, most government authorities (except Singapore) still appear to prefer a Covid-zero strategy. This may limit the domestic recovery.

For instance, South Korea's GDP has already exceeded pre-pandemic levels. However, the recent Covid-19 resurgence and containment efforts may limit further expansion scope in domestic consumption and investment, which performed relatively positively in 1H (Figure 3).

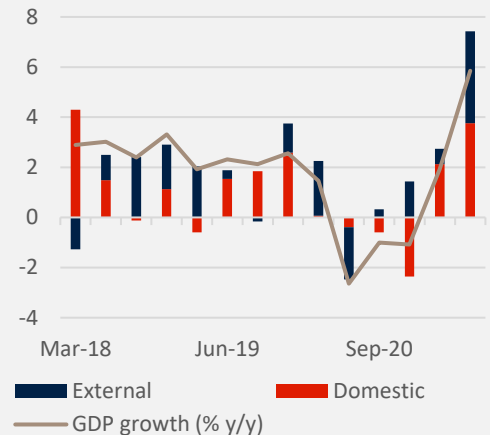
In China, leading indicators are showing that growth is stabilising. Authorities appear content with quality growth, as long as it reaches the "6% and above" target set earlier this year.

For others, private-led consumer spending and investment growth will likely be an important factor for the recovery. In the Philippines, 2Q private consumption are still around 9% below 2019 levels. This is despite remittances' rebound that boosted domestic spending.

In our view, employment growth and labour market recovery remains key. Data is patchy but we see unemployment levels coming off in some parts of Asia (Figure 4). Besides, we also note some y/y rebound in employment growth, partly supported by base effects. Still, underemployment may be a lingering issue. Some economies (like Singapore and Malaysia) are also partly reliant on foreign labour for sectors like construction and manufacturing. Labour shortages may cap domestic growth.

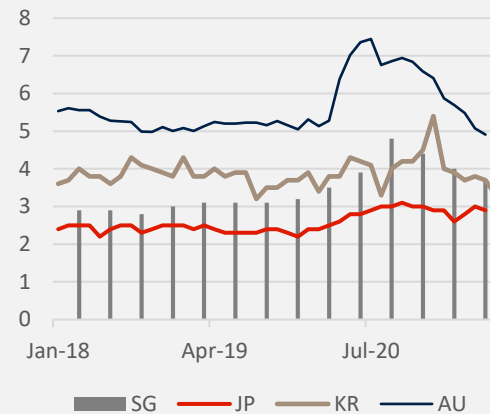
A consolation is that most economies are benefiting from accommodative monetary conditions (see Heatmap, except China). This will provide some stability as Asia grapples with Covid-19 containment. Runaway inflation is mostly energy related, and underlying inflation has not broadly picked up (although we see some pikes in South Korea and Taiwan). The challenge for Asia by 2022 is coping with tighter monetary policies in the US and other major economies.

Figure 3: South Korea GDP growth (contribution to y/y growth)



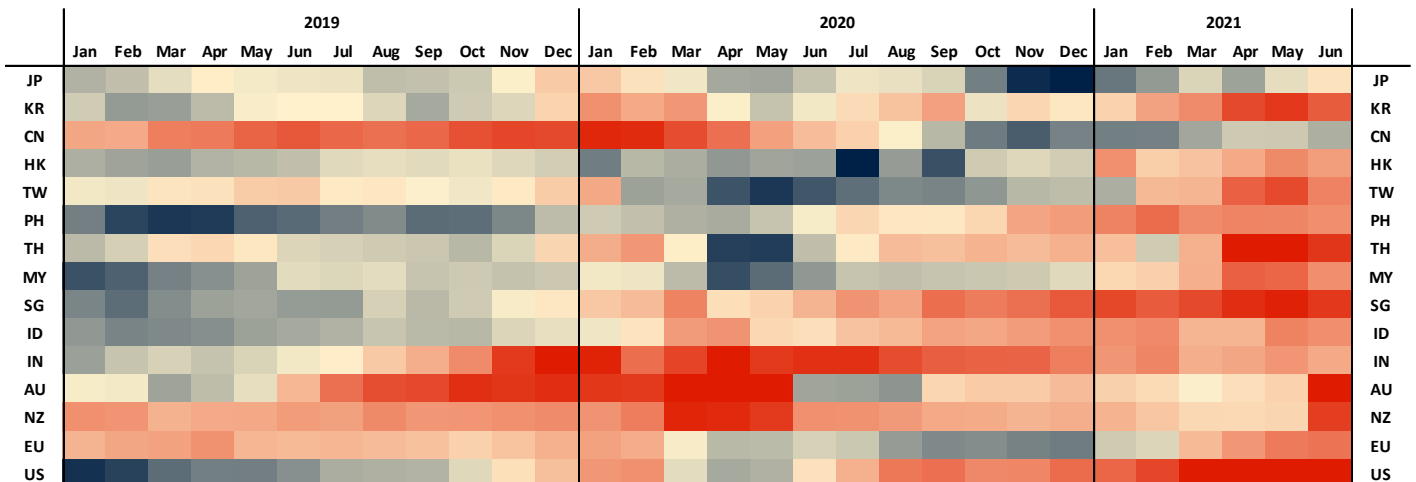
Source: CEIC, HL Bank

Figure 4: Unemployment levels (%)



Source: CEIC, HL Bank

Monetary Conditions Heatmap (Red for accommodative and Blue for restrictive)



Note: Using real interest rates and REERs. Measured in standard deviations from mean over the past three years. Source: Bloomberg, HL Bank

External Outlook

External current account balances are likely an important indicator of Asia economies' vulnerabilities towards continued Covid-19 restrictions, reduced travel and tourism and eventual tighter global monetary policy.

In this regard, Thailand, India, Philippines, and Indonesia display more vulnerabilities compared to South Korea, Singapore, Japan and Australia, from recent current account deficits (refer to Heatmap).

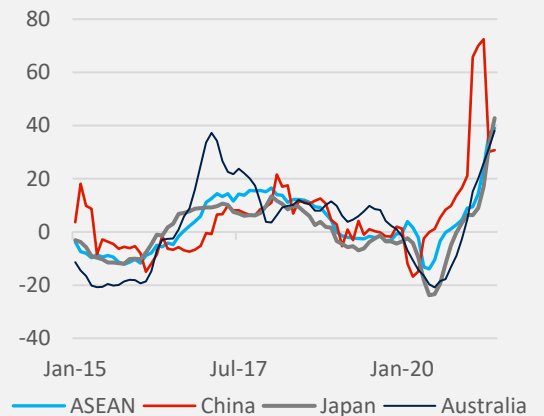
In particular, Thailand needs tourism receipts for improvements in current account fundamentals, while the Philippines has been affected by reduced global incomes and resulting inward remittances (although now rebounding).

Meanwhile, most economies will generally benefit from majors' (US, Eurozone, etc.) economic recoveries, boosting export demand. At this stage, Asia export growth is boosted partly by base effects from last year's slump (Figure 5). Going forward, economies that most benefit from strong goods' exports include Singapore, South Korea, Taiwan, Japan, and Australia.

A mitigating factor is that most Asian economies have built up FX reserves over the past decade, since the last global financial crisis. India's is almost 100% higher than a decade ago, while the Philippines' grew by more than 50%. Import cover is broadly strong, given the previous slump in import levels.

A further swing factor for external headwinds or tailwinds lie in commodity prices. Peaking prices may limit the upsides for large commodity exporters like Australia, Indonesia and Malaysia.

Figure 5: Asia exports (% y/y, 3mma)



Source: CEIC, HL Bank

Current Account Heatmap (Red for lower surplus/higher deficit; Green for higher surplus/lower deficit)

| | 2017 | | | | 2018 | | | | 2019 | | | | 2020 | | | | 2021 | | |
|----|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----|
| | Mar | Jun | Sep | Dec | Mar | Jun | Sep | Dec | Mar | Jun | Sep | Dec | Mar | Jun | Sep | Dec | Mar | Jun | |
| JP | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | JP |
| KR | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | KR |
| CN | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | CN |
| HK | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | HK |
| TW | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | TW |
| PH | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | PH |
| TH | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | TH |
| MY | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | MY |
| SG | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | SG |
| ID | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | ID |
| IN | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | IN |
| AU | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | AU |
| NZ | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | NZ |
| EU | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | Red | EU |
| US | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | Green | US |

Note: Measured in standard deviations from mean over the past three years. Positive (negative) numbers indicate higher (lower) than mean.
Source: Bloomberg, HL Bank

Implications

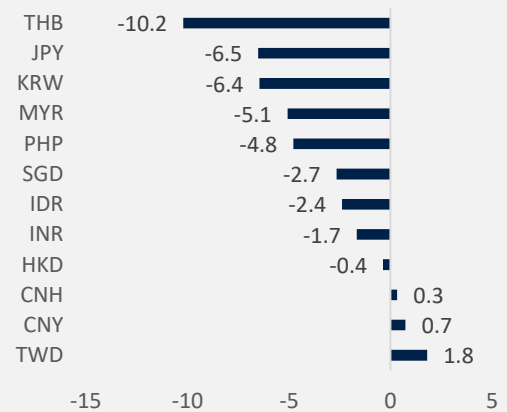
For FX markets, the TWD, CNY and INR has outperformed compared to the THB, JPY and KRW (Figure 7). Going forward, markets with current account surpluses (such as South Korea, Malaysia, Japan, Australia) may see their respective currencies perform better than others, providing fundamentals do not deteriorate.

Besides, we expect more resilience from the SGD and KRW, compared to the THB, INR, IDR and PHP, during periods of USD strength caused by market expectations of tighter Fed policy.

FX Forecasts

| | 3Q-21 | 4Q-21 | 1Q-22 | 2Q-22 | 4Q-22 |
|----------------|-------|-------|-------|-------|-------|
| DXY | 92.00 | 91.50 | 90.00 | 89.00 | 90.00 |
| EUR/USD | 1.18 | 1.19 | 1.21 | 1.22 | 1.21 |
| GBP/USD | 1.40 | 1.41 | 1.43 | 1.45 | 1.44 |
| AUD/USD | 0.74 | 0.74 | 0.76 | 0.77 | 0.75 |
| USD/JPY | 109 | 108 | 107 | 105 | 106 |
| USD/MYR | 4.23 | 4.20 | 4.20 | 4.15 | 4.10 |
| USD/SGD | 1.35 | 1.35 | 1.34 | 1.33 | 1.34 |
| USD/CNY | 6.45 | 6.45 | 6.40 | 6.35 | 6.40 |

Figure 7: FX performances vs. USD (% YTD)



Source: Bloomberg, HL Bank

Appendix: Bloomberg's Covid Resilience Ranking for July 2021 (Asia)

| RANK | CHANGE | ECONOMY | BLOOMBERG RESILIENCE SCORE | PEOPLE COVERED BY VACCINES | LOCKDOWN SEVERITY | FLIGHT CAPACITY | VACCINATED TRAVEL ROUTES | 1-MONTH CASES PER 100,000 | 3-MONTH CASE FATALITY RATE | TOTAL DEATHS PER 1 MILLION | POSITIVE TEST RATE | COMMUNITY MOBILITY | 2021 GDP GROWTH FORECAST | UNIVERSAL HEALTHCARE COVERAGE | HUMAN DEVELOPMENT INDEX |
|------|--------|----------------|----------------------------|----------------------------|-------------------|-----------------|--------------------------|---------------------------|----------------------------|----------------------------|--------------------|--------------------|--------------------------|-------------------------------|-------------------------|
| 3 | ▼1 | New Zealand | 75.2 | 15.80% | 22 | -28.80% | 150 | 3 | 0% | 5 | 0.10% | 7% | 5.50% | 83 | 0.93 |
| 9 | ▼1 | Mainland China | 71.7 | 55.40% | 79 | 6.20% | 132.5 | 0 | 0% | 3 | 0.10% | — | 8.50% | 70 | 0.76 |
| 11 | ▲2 | Singapore | 71.1 | 63.80% | 51 | -81.60% | 147 | 30 | 0.20% | 6 | 0.10% | -18.70% | 6.50% | 92 | 0.94 |
| 23 | ▼13 | South Korea | 67.5 | 23% | 50 | -46% | 145.5 | 67 | 0.40% | 41 | 4.90% | 1.70% | 4.10% | 89 | 0.92 |
| 26 | ▼3 | Japan | 65.2 | 30.80% | 50 | -53.40% | 187 | 63 | 1.70% | 119 | 6.90% | -11.90% | 2.60% | 96 | 0.92 |
| 28 | ▼21 | Australia | 64.5 | 22% | 68 | -59% | 144.5 | 11 | 0.30% | 36 | 0.10% | -17.70% | 5% | 89 | 0.94 |
| 30 | — | Hong Kong | 63.8 | 35.50% | 66 | -87.60% | 142.5 | 1 | 1.30% | 28 | 0% | -6.40% | 6.50% | — | 0.95 |
| 40 | ▲4 | Taiwan | 52.9 | 14.10% | 71 | -89.90% | 140 | 4 | 5.30% | 33 | 0.10% | -30.70% | 5.50% | 79 | 0.91 |
| 41 | ▼2 | Thailand | 52.6 | 11.50% | 54 | -86.30% | 196.5 | 384 | 0.90% | 59 | 3.60% | -15.90% | 2.10% | 72 | 0.78 |
| 44 | ▲6 | India | 51 | 16.10% | 82 | -37.30% | 91.5 | 85 | 1.60% | 305 | 2.10% | -24.70% | 9% | 47 | 0.65 |
| 46 | ▼6 | Vietnam | 48.7 | 2.40% | 79 | -64.10% | 126 | 93 | 0.50% | 5 | 4.70% | -36.70% | 6.60% | 60 | 0.7 |
| 49 | ▲3 | Philippines | 45.5 | 7% | 72 | -74.60% | 123 | 144 | 1.90% | 249 | 11.90% | -23.60% | 5.30% | 55 | 0.72 |
| 52 | ▼1 | Malaysia | 42.5 | 26.60% | 81 | -90.90% | 125.5 | 908 | 1.10% | 253 | 9.90% | -48.70% | 5.10% | 67 | 0.81 |
| 53 | ▼4 | Indonesia | 40.2 | 11.90% | 69 | -56.80% | 121 | 395 | 2.60% | 310 | 28% | -23.10% | 4.10% | 49 | 0.72 |

Source: Bloomberg

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