



# And it's only half-time...

Asia's economic prospects for the Year of the Ox and beyond



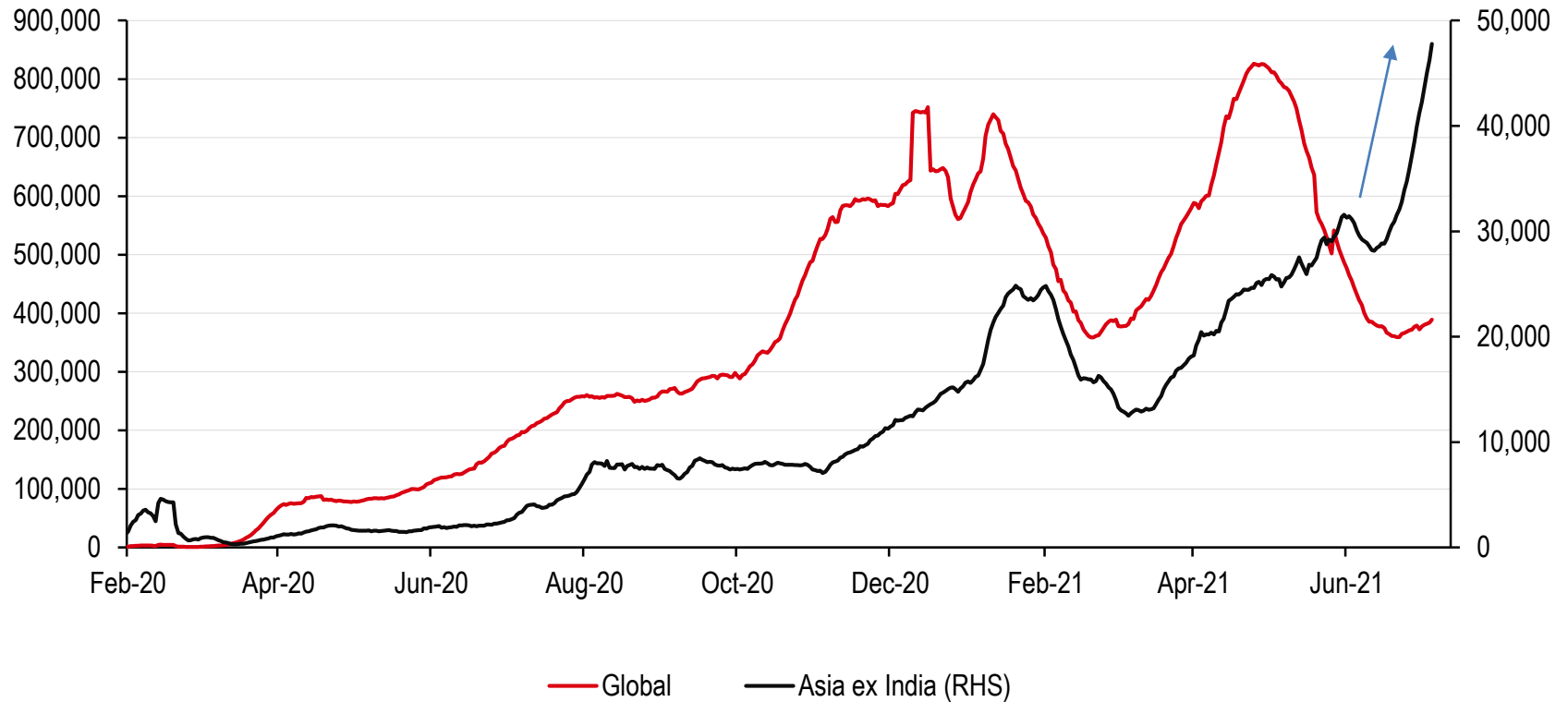
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Economics

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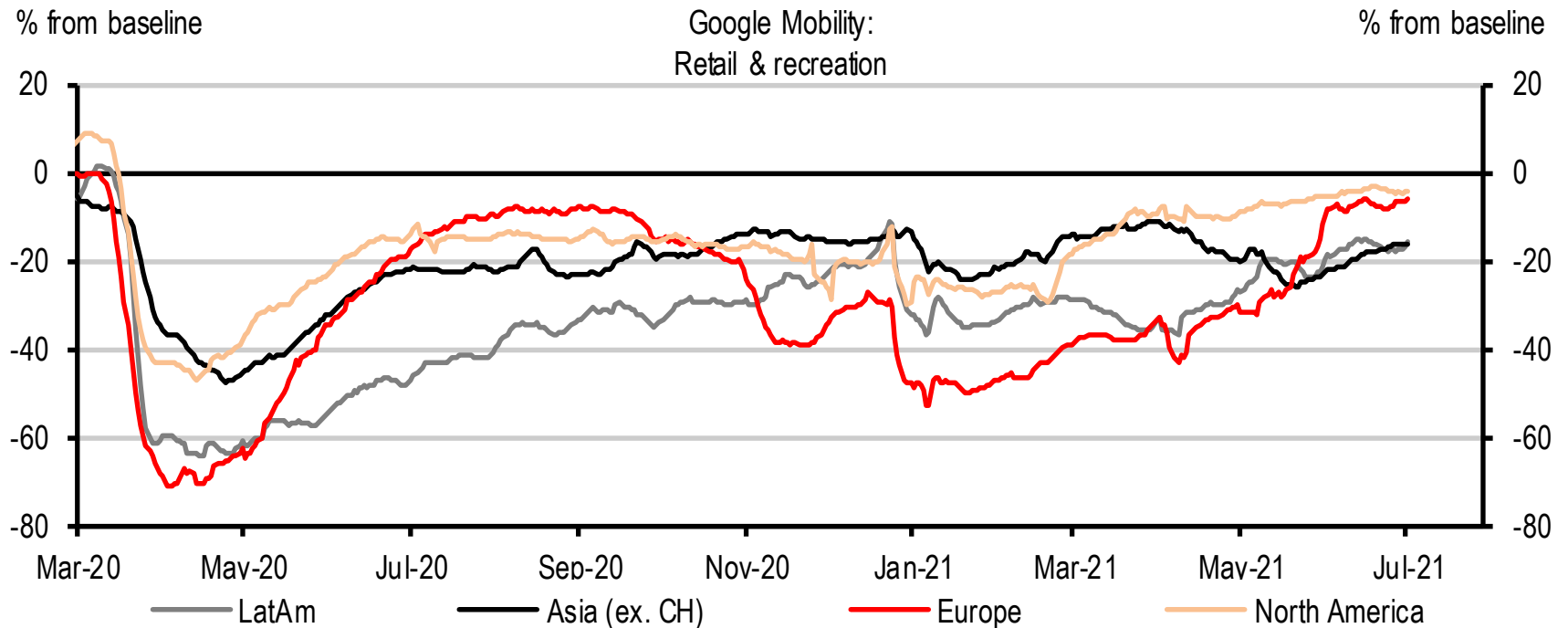
# The pandemic in full swing in Asia

Global daily new COVID-19 infections (7d ma)



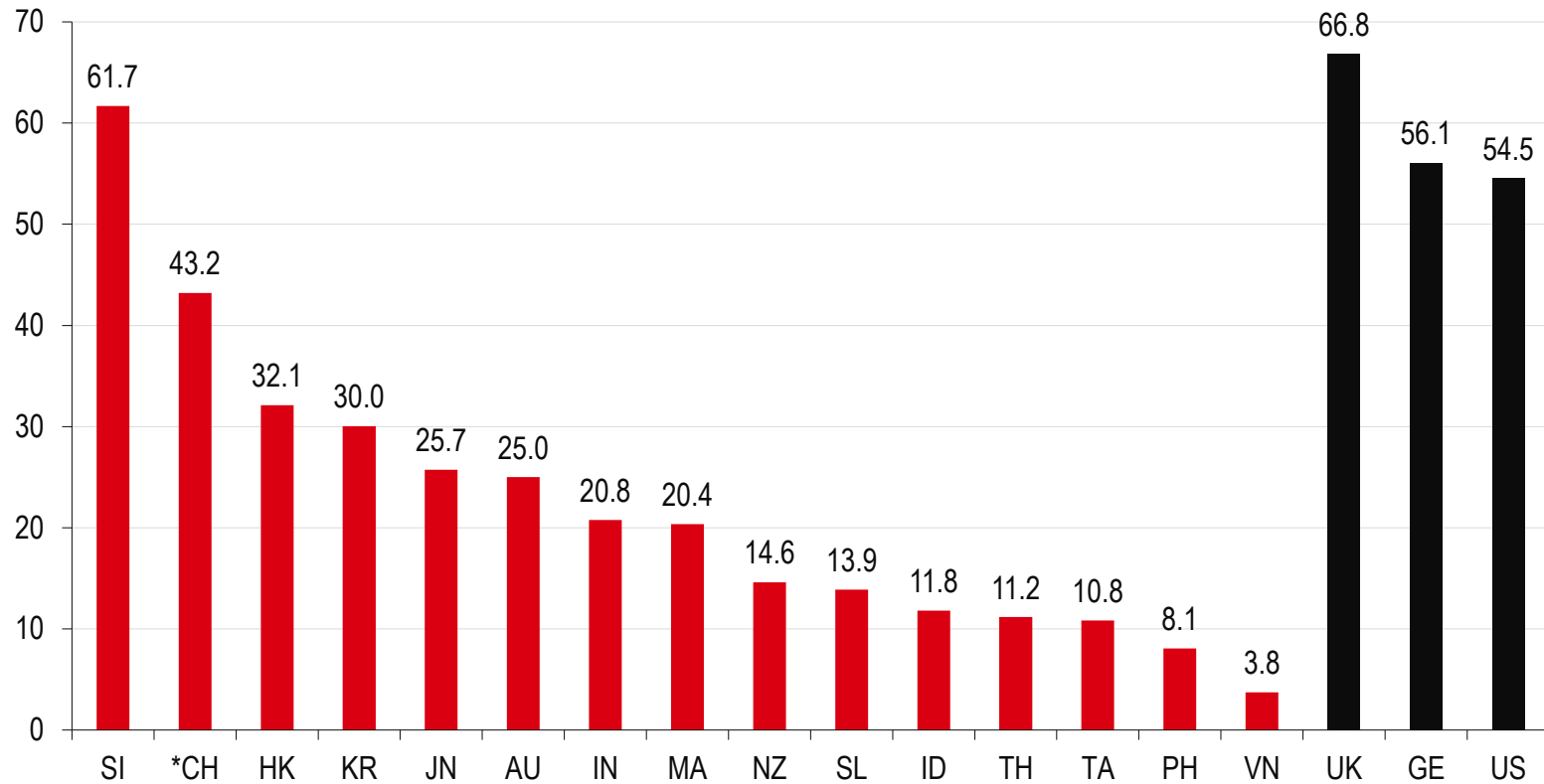
Source: CEIC, HSBC

# Mobility data shows Asia lagging behind the West



Source: Google Mobility Reports. Note: Nominal GDP weighted

# Share of population with at least one vaccine shot (%)



Source: Our World in Data, HSBC; NB: \*CH refers to mainland China

# When might herd immunity be achieved?

USA



early 3Q

UK



early 3Q

Eurozone



late 3Q

China



1Q 2022

EM Asia

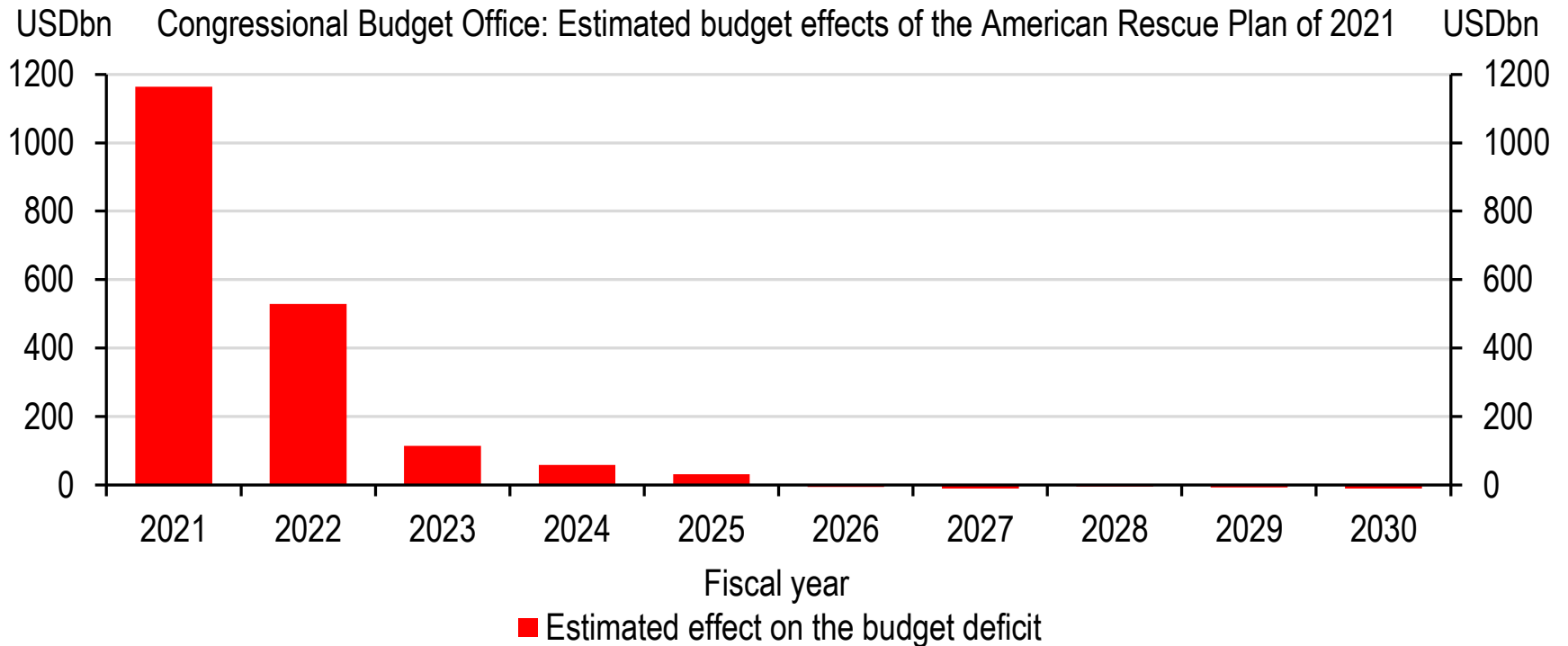


2Q 2022

Source: HSBC

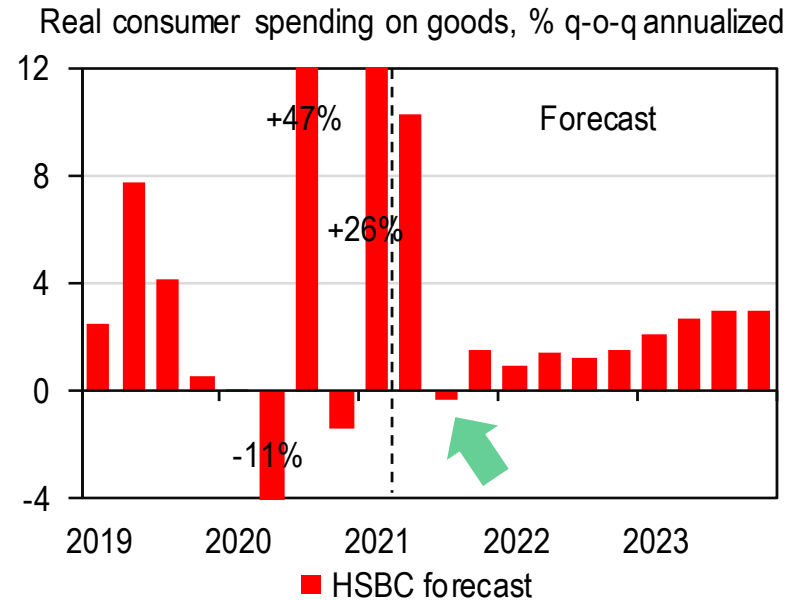
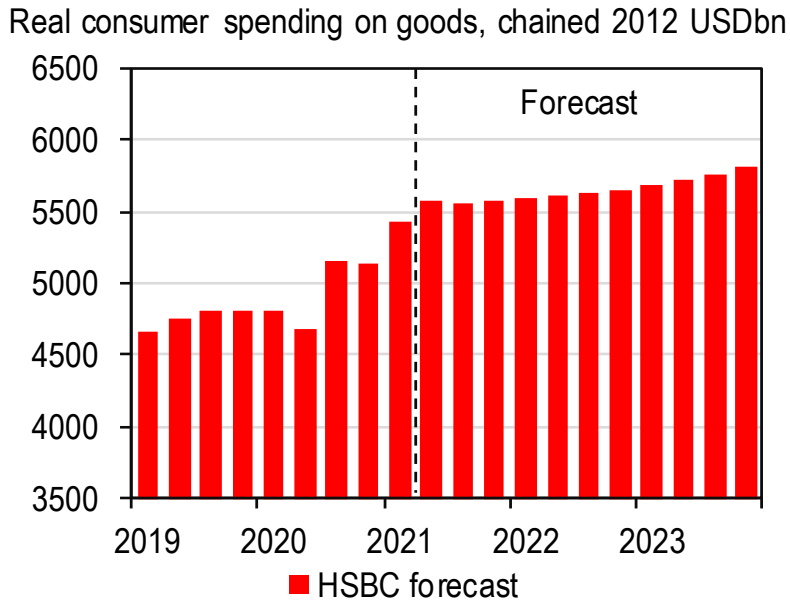
# US – taper your expectations

# Front-loaded fiscal impact from the American Rescue Plan



Source: Congressional Budget Office

# Growth in spending on goods may cool in H2

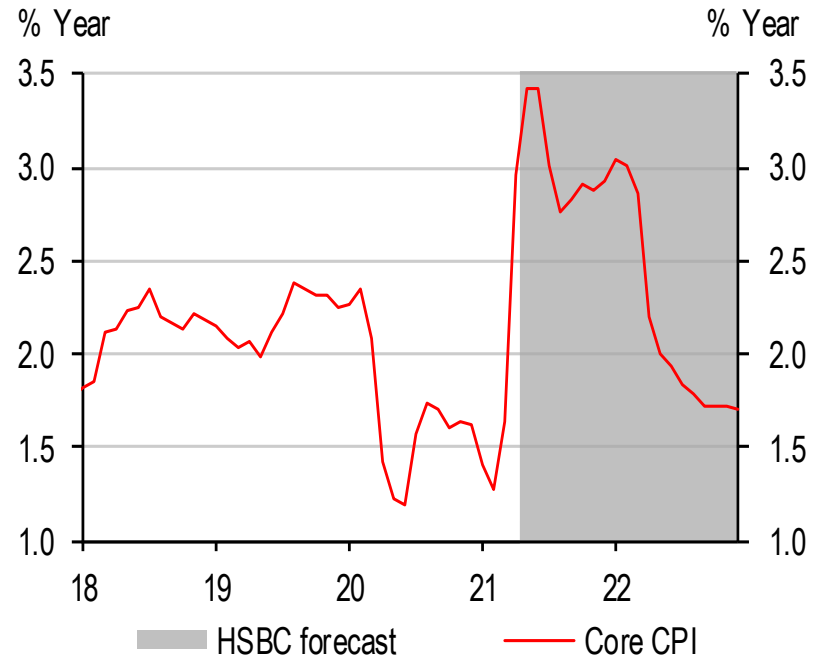
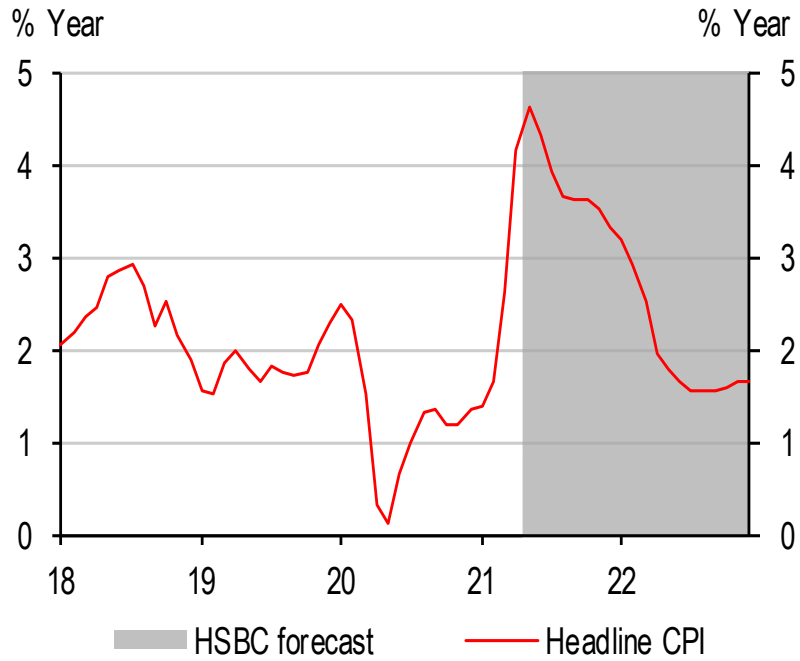


Note: Left hand chart shows seasonally adjusted annual rates

Source: Bureau of Economic Analysis, HSBC



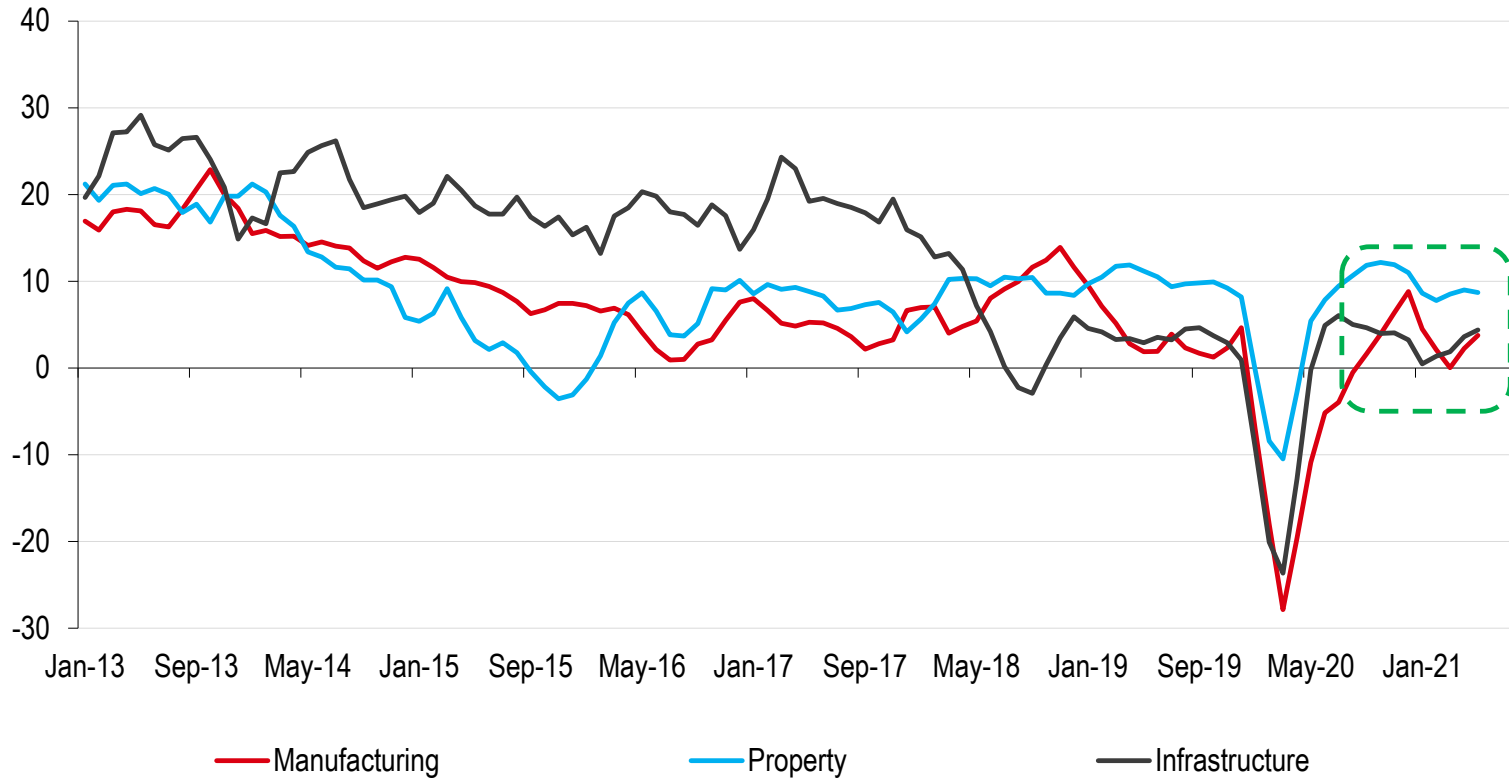
# Inflation surge in 2021, slowdown in 2022



Source: Bureau of Labor Statistics, HSBC

# China's growth engine

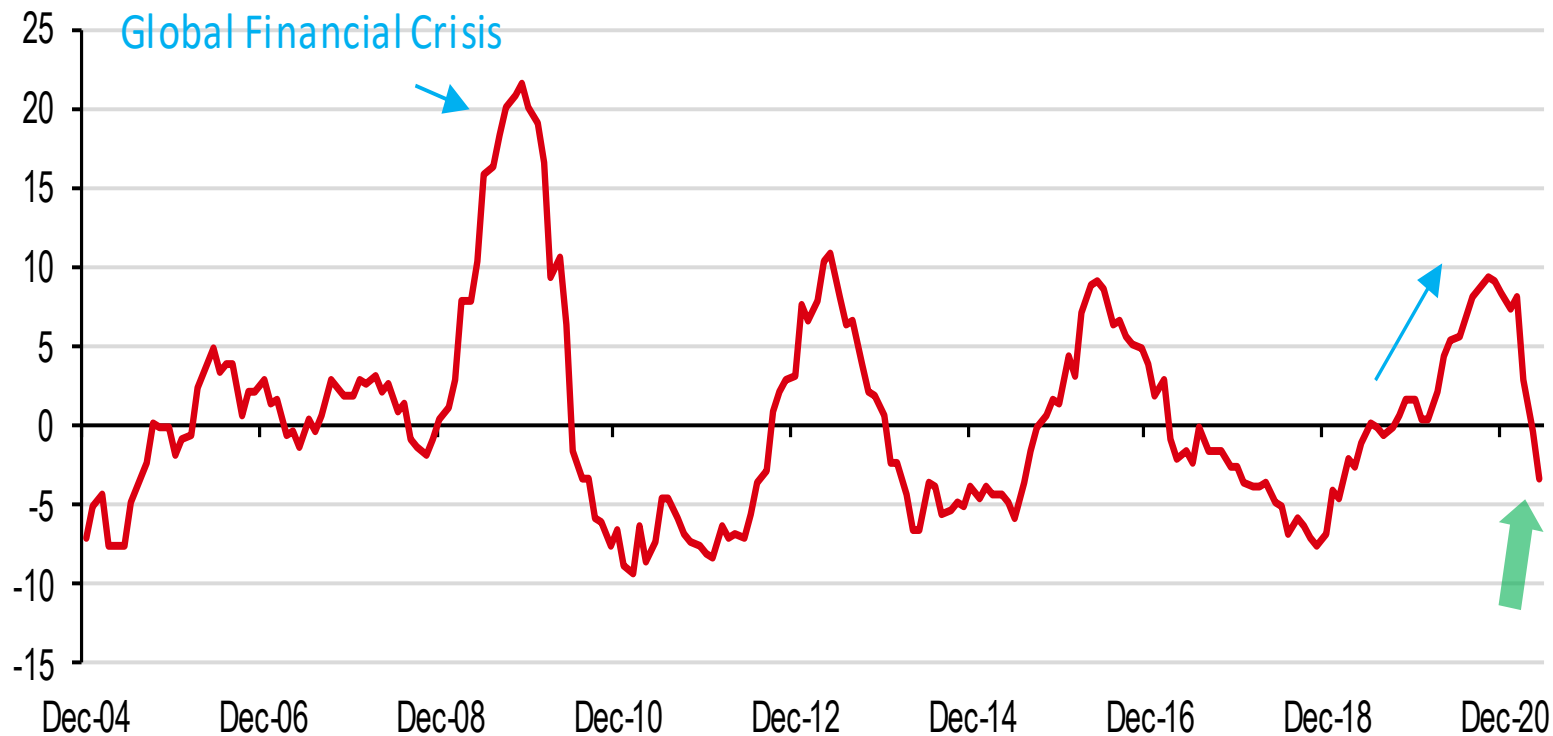
# Investment, likely to cool further (% y-o-y, 3mma)



Source: CEIC, HSBC

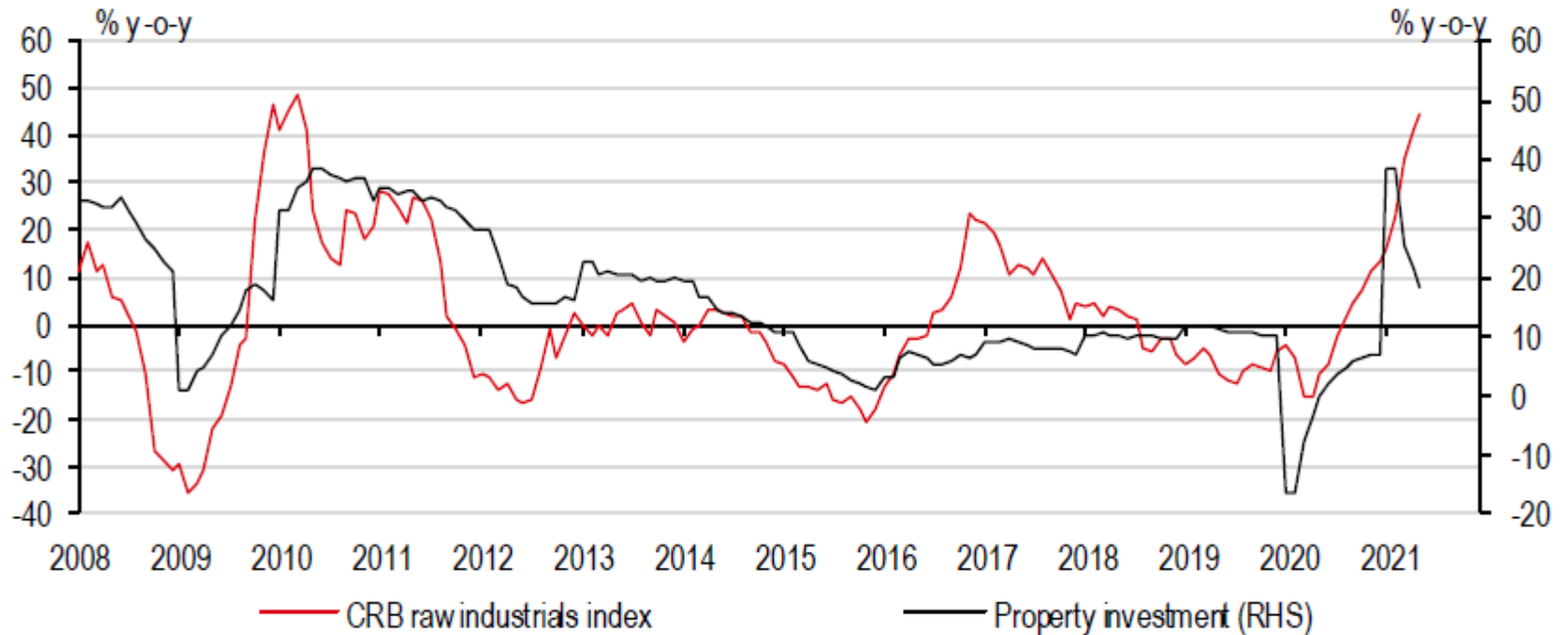
# China's strong credit impulse...now fading

Credit as a share of GDP (12 month change)



Source: Bloomberg, HSBC

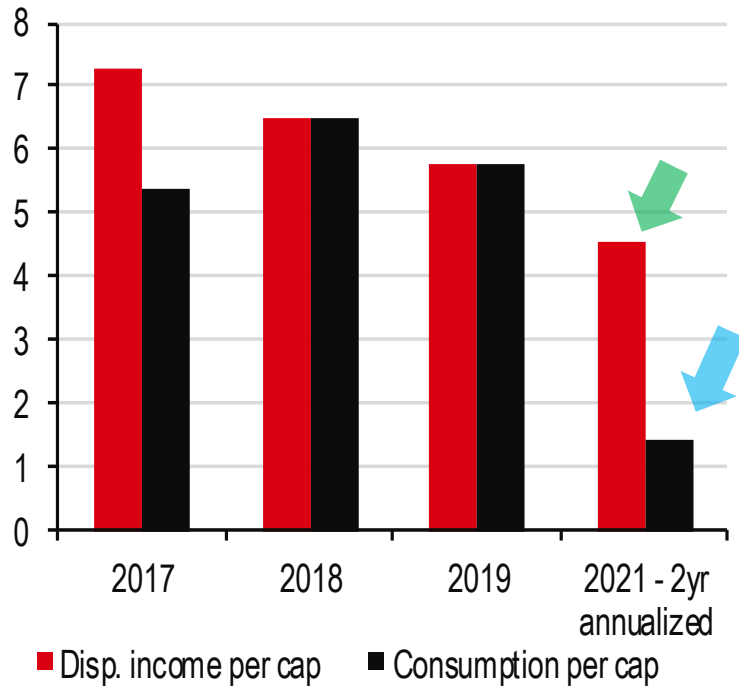
# Global commodity prices closely linked to property in China



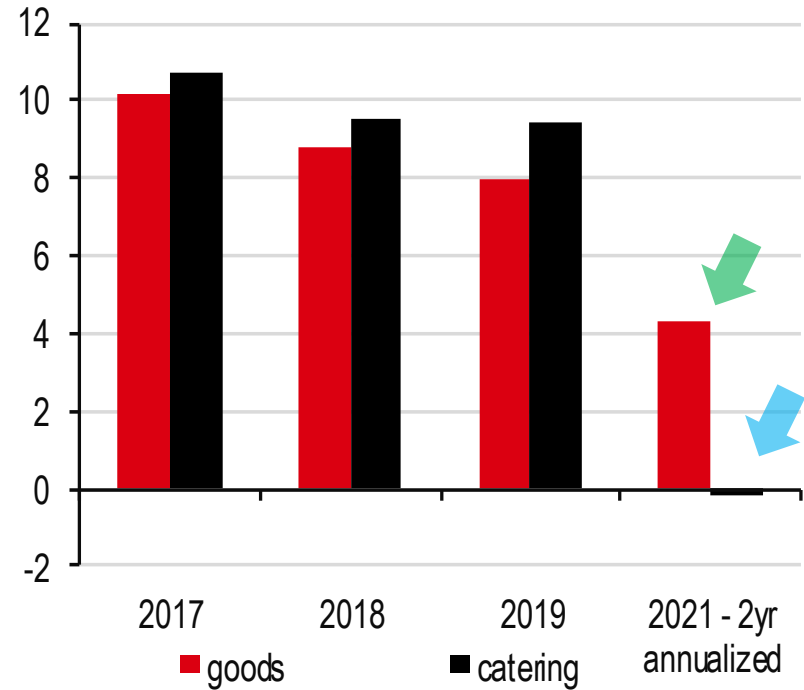
Source: Bloomberg, HSBC

# The sluggish consumption recovery in China (% y-o-y)

## Household income and spending



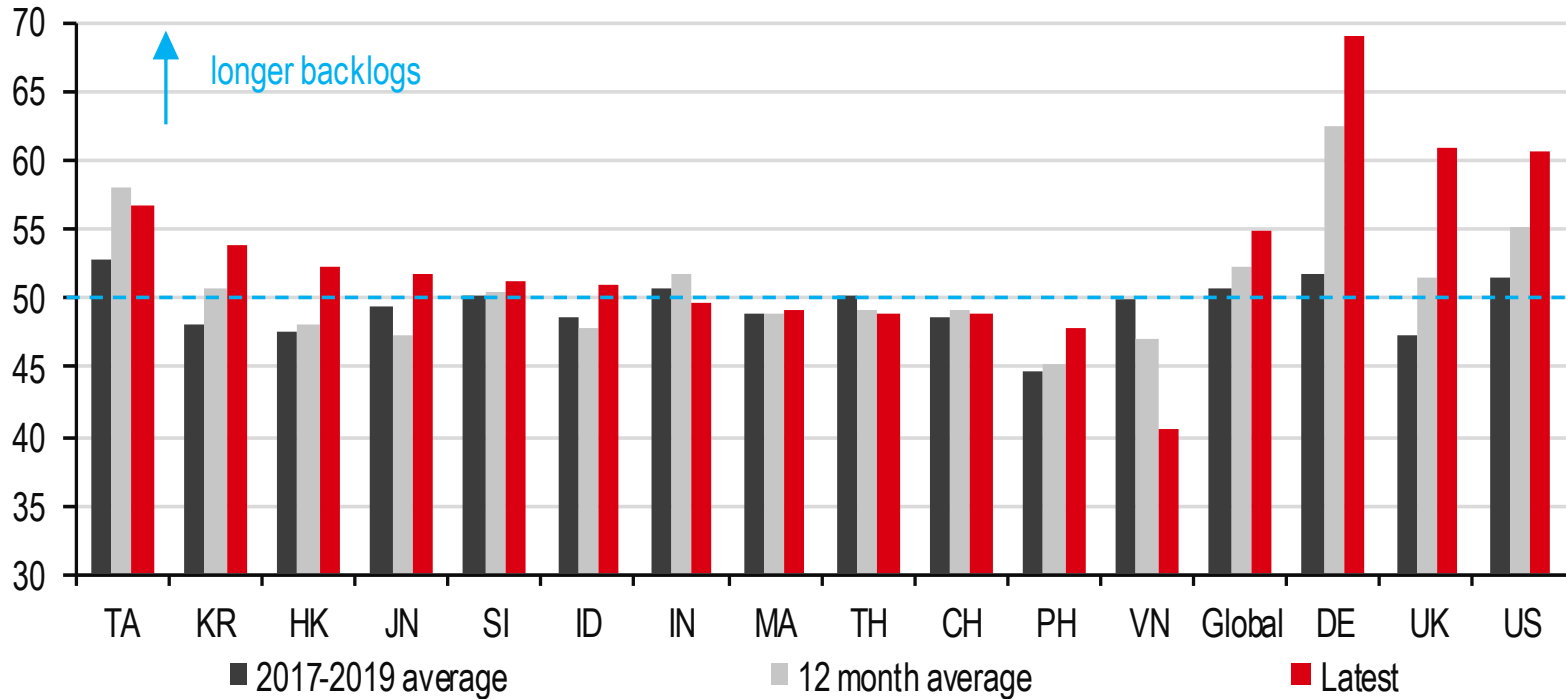
## Retail spending



Source for both charts: CEIC, HSBC

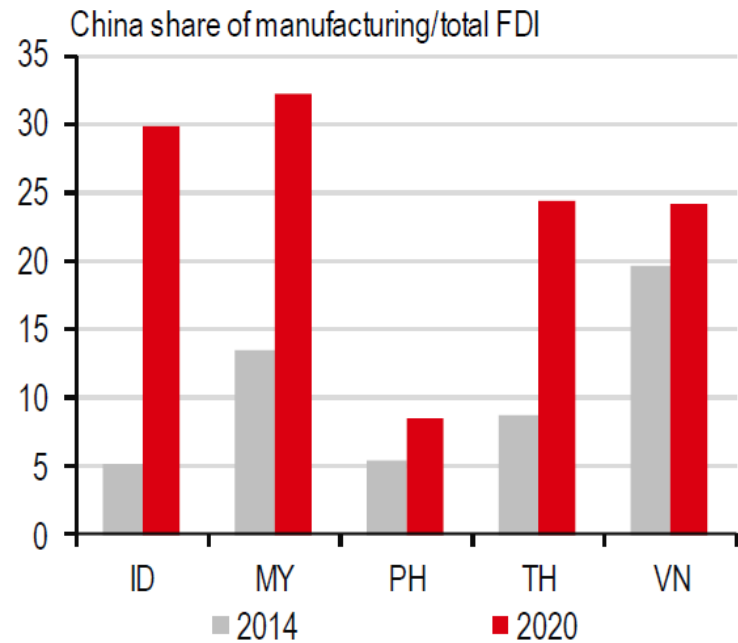
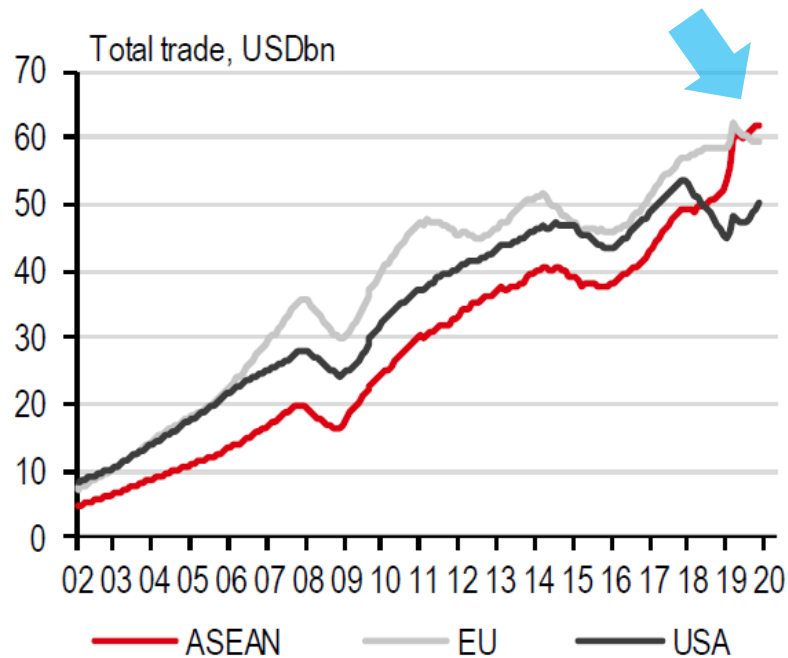
# Supply chain bottlenecks manageable in Asia

Manufacturing PMIs backlogs of orders (index)



Source: Markit, HSBC

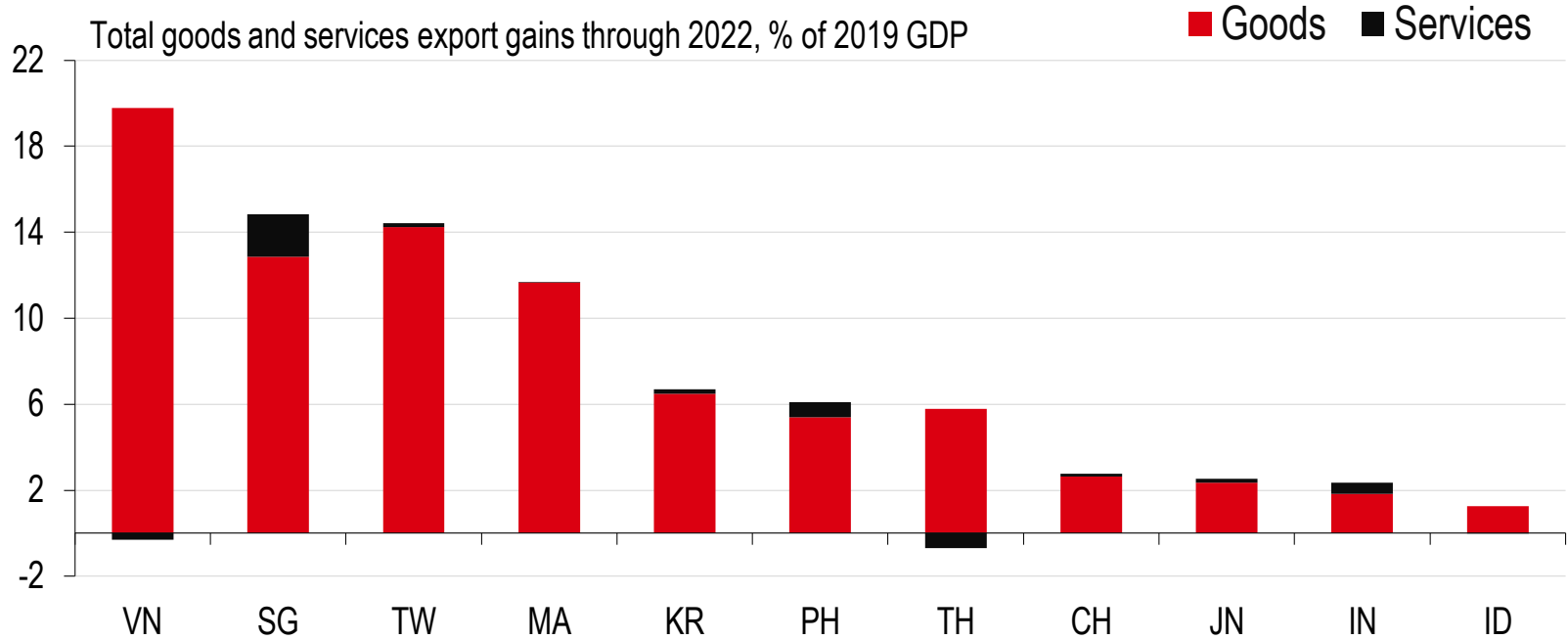
# China-ASEAN economic connectivity soaring



Source for both charts: CEIC, HSBC



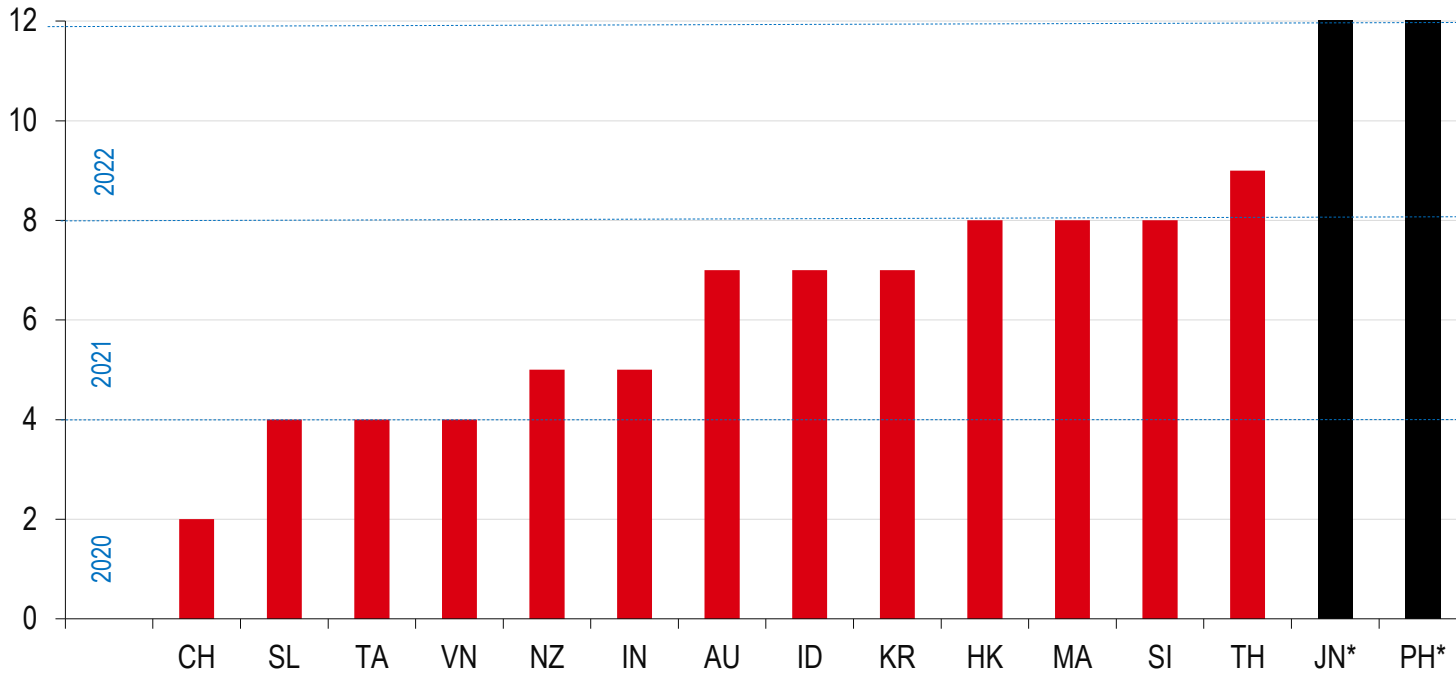
# Vietnam, Singapore, Taiwan, and Malaysia likely to gain export market share through 2022



Note: CH=mainland China.  
Source: CEIC, HSBC

# # of quarters until pre-pandemic GDP level achieved (updated)

Quarters to pre-pandemic level activity

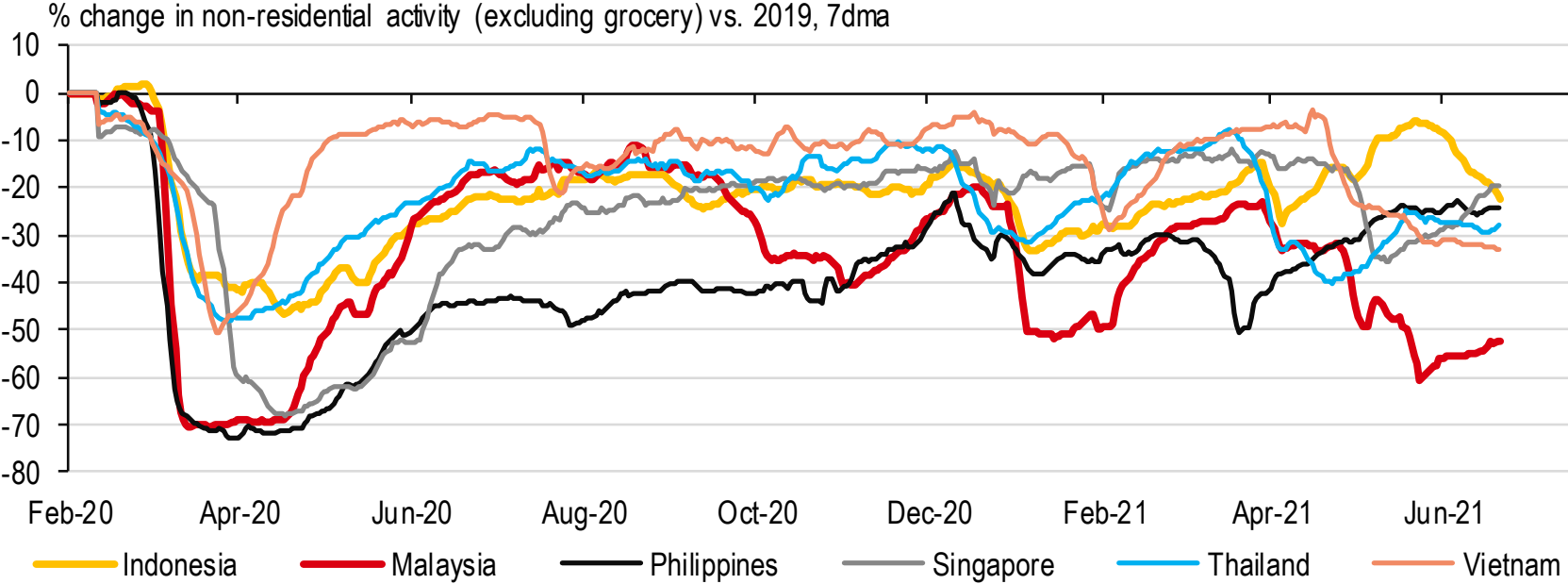


Note: CH refers to mainland China; \*beyond HSBC forecast horizon.

Source: CEIC, HSBC

# Malaysia's recovery

# Malaysia has seen the sharpest deterioration in growth prospects in ASEAN: mobility has collapsed



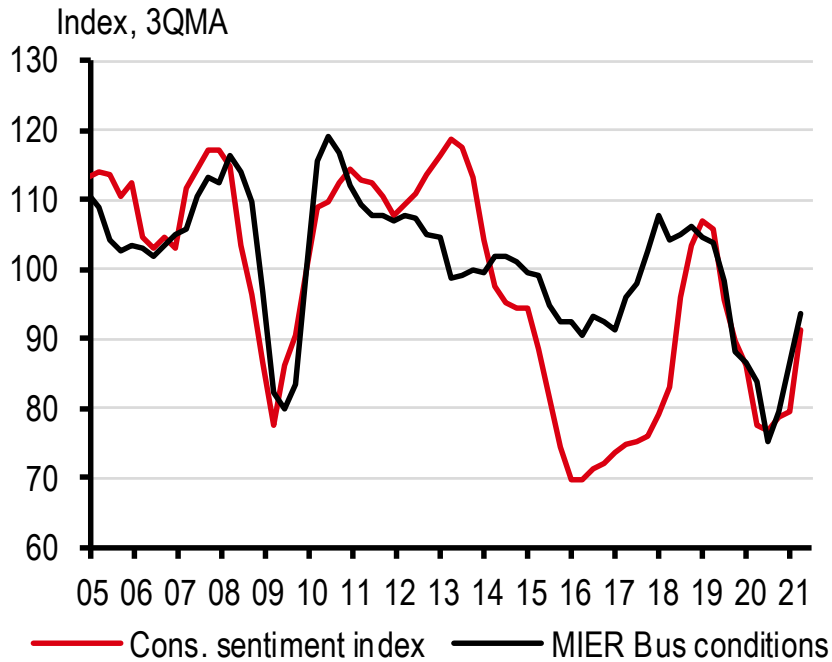
Source: CEIC, HSBC



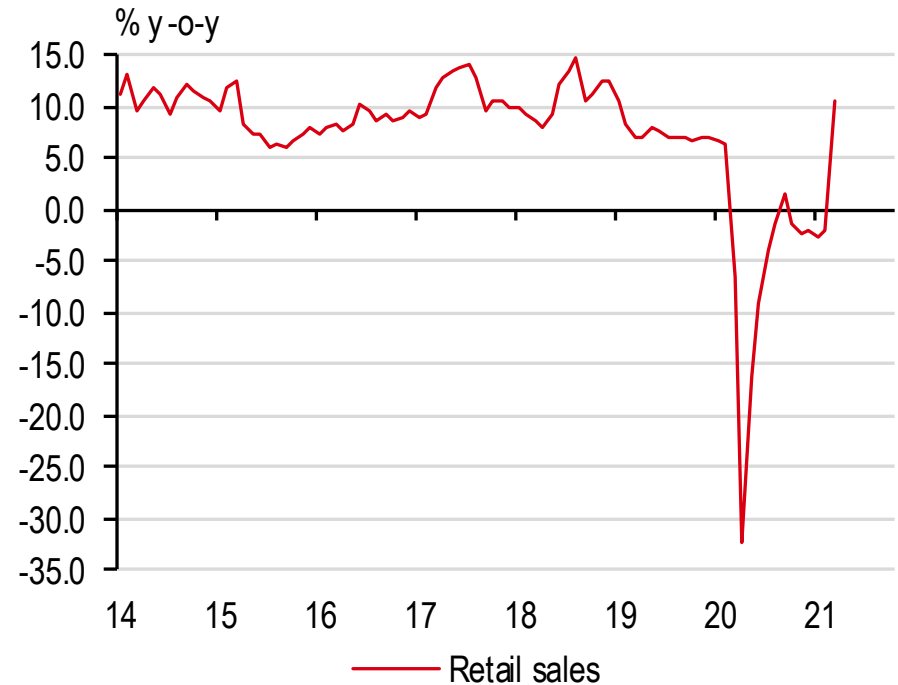
# Consumer spending to slow, albeit remain more resilient than MCO1.0.

## We forecast 2021 GDP to rise 4.1%, compared to 5.7% previously

Sentiment had started to rebound sharply before the latest MCO...



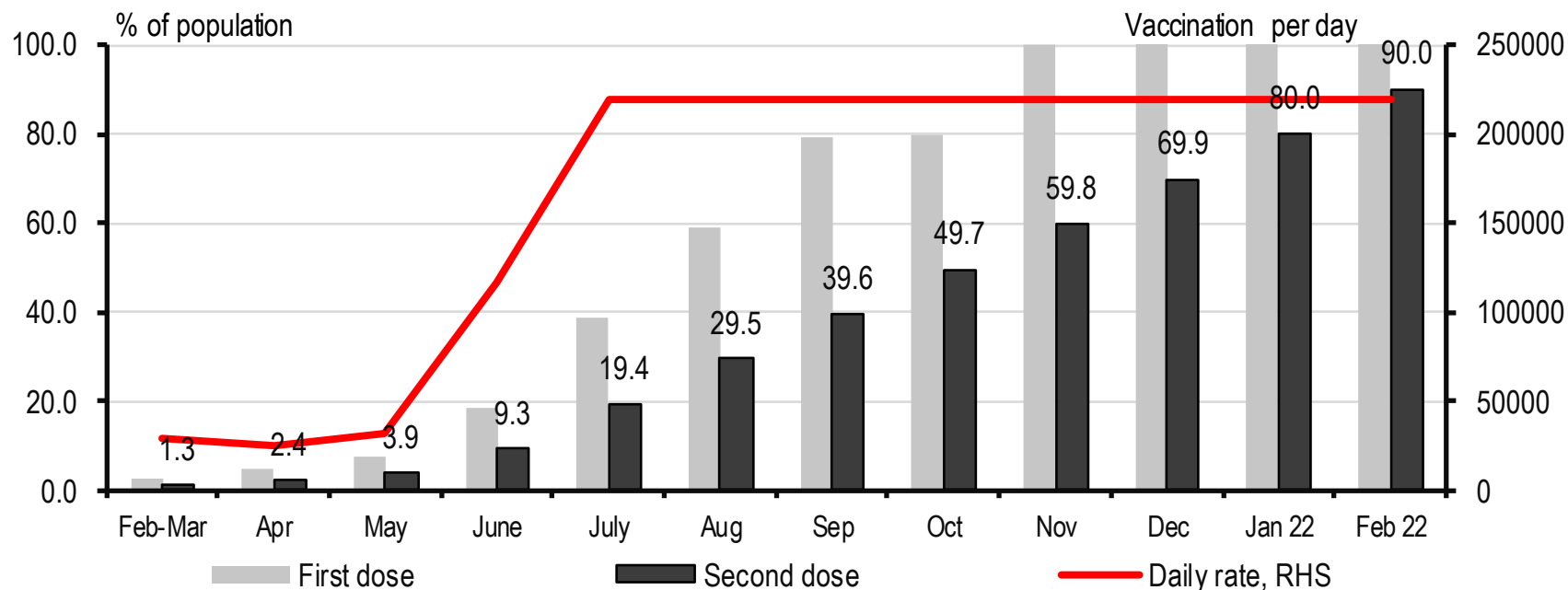
Retail sales growth exceeded the pre-COVID-19 trend in March



Source for both charts: ITC, HSBC

# Despite a slow start, the vaccination drive is accelerating sharply. A 70% rate by year-end is possible.

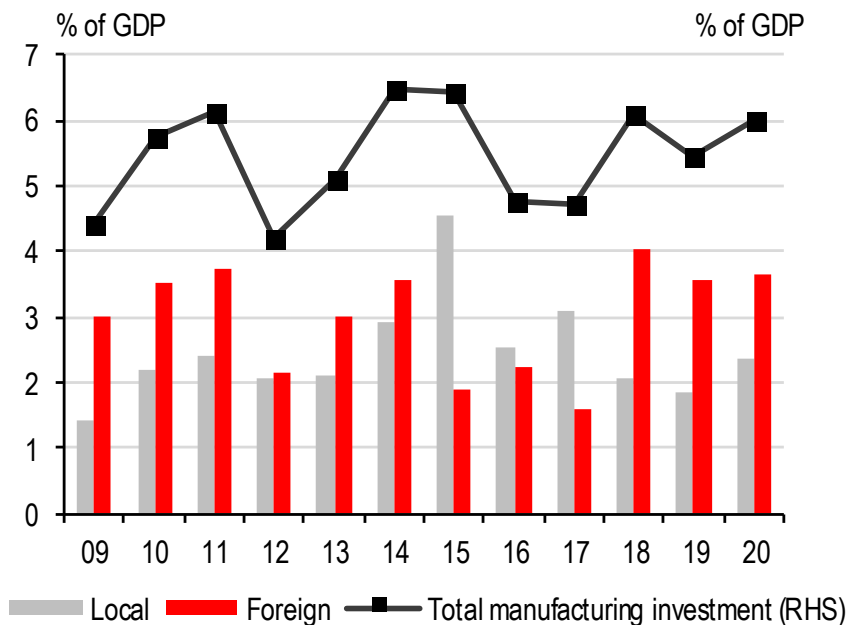
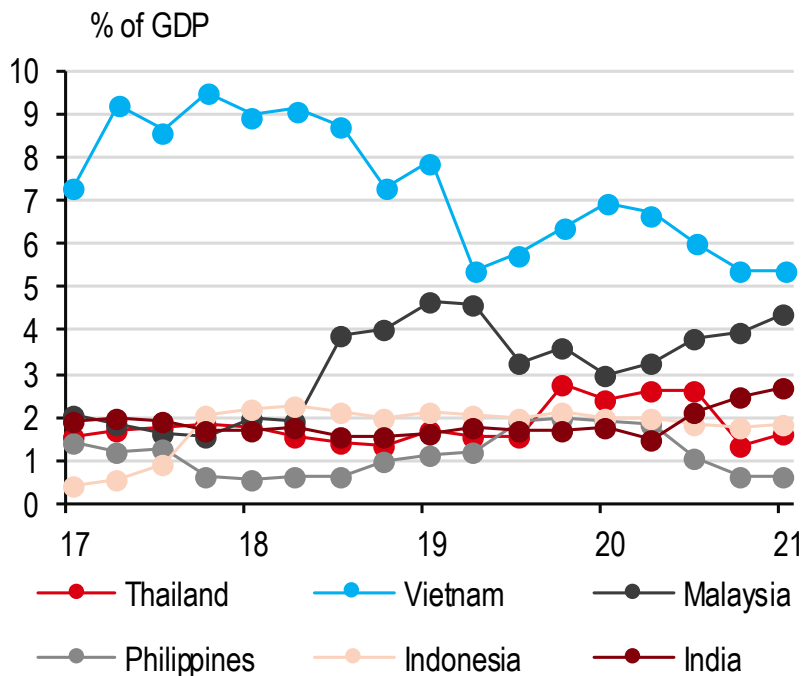
Despite a slow start to vaccinations, supply should ramp up in the coming months. Malaysia is set to receive 2.5 million vaccines per week starting in July, of which 2 million from Pfizer-Biontech



Source: CEIC, HSBC

# FDI outlook remains bright; manufacturing sector to continue strong growth: latest MCO will slow, not derail activity

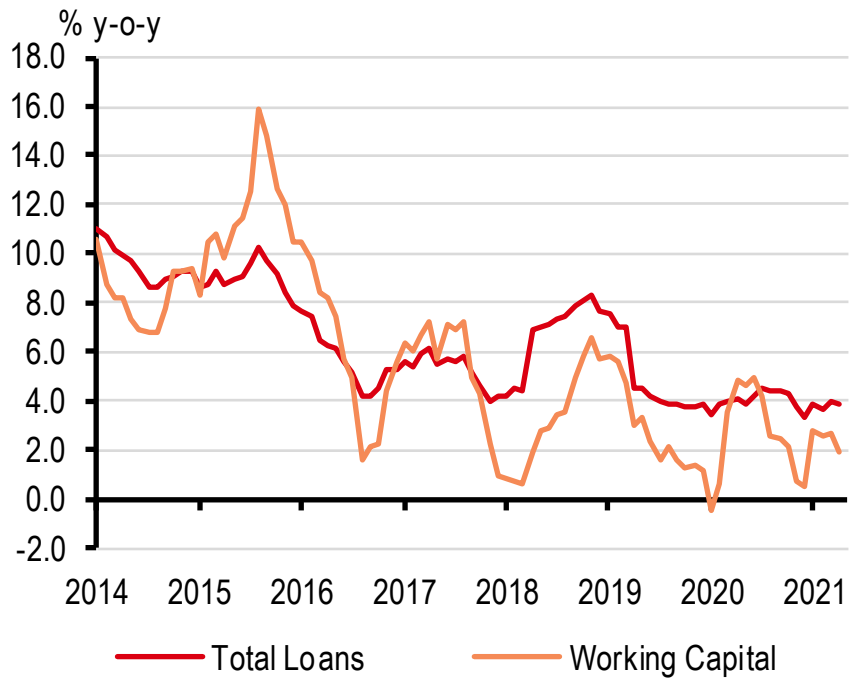
Foreign investment approvals in manufacturing rose in 2020



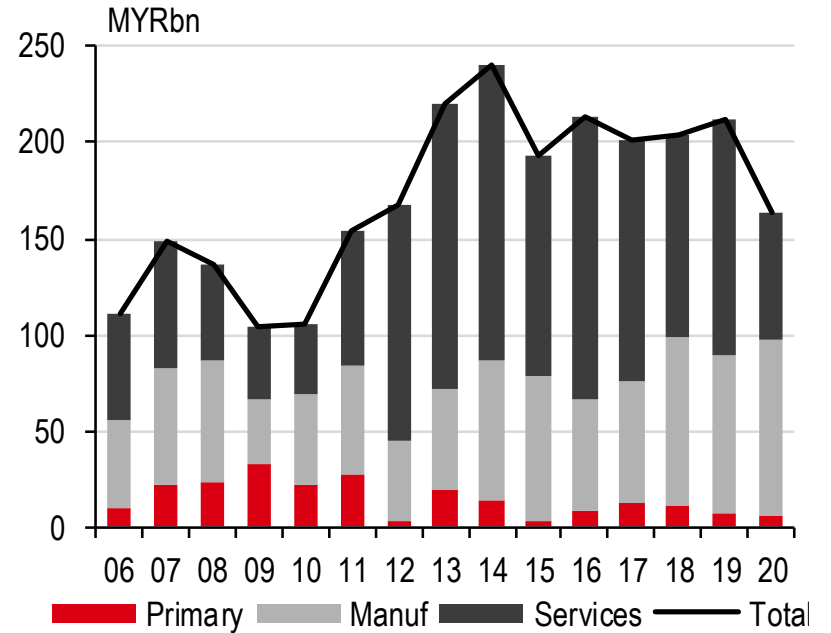
Source for both charts: CEIC, HSBC

# But broader business sentiment in Malaysia, especially among domestic firms, is subdued

Loan growth has been slowing



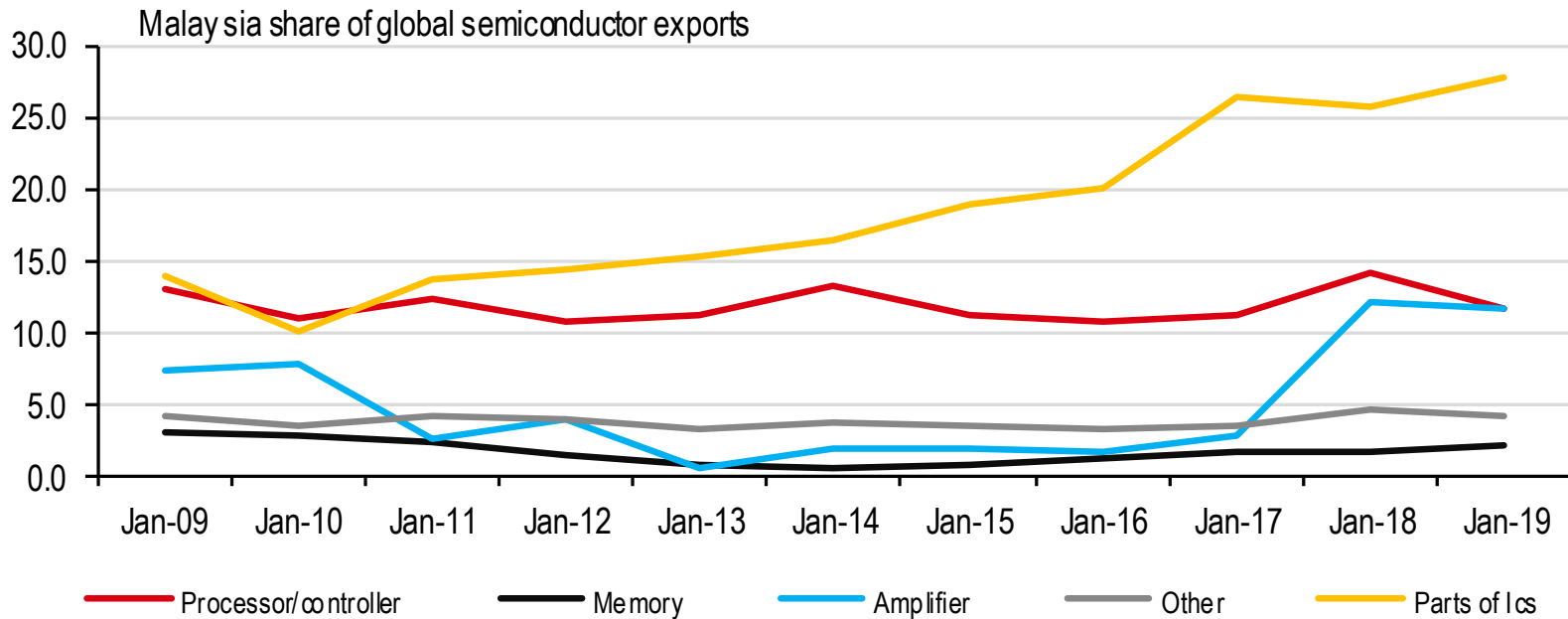
Along with total business investment



Source for both charts: CEIC, HSBC

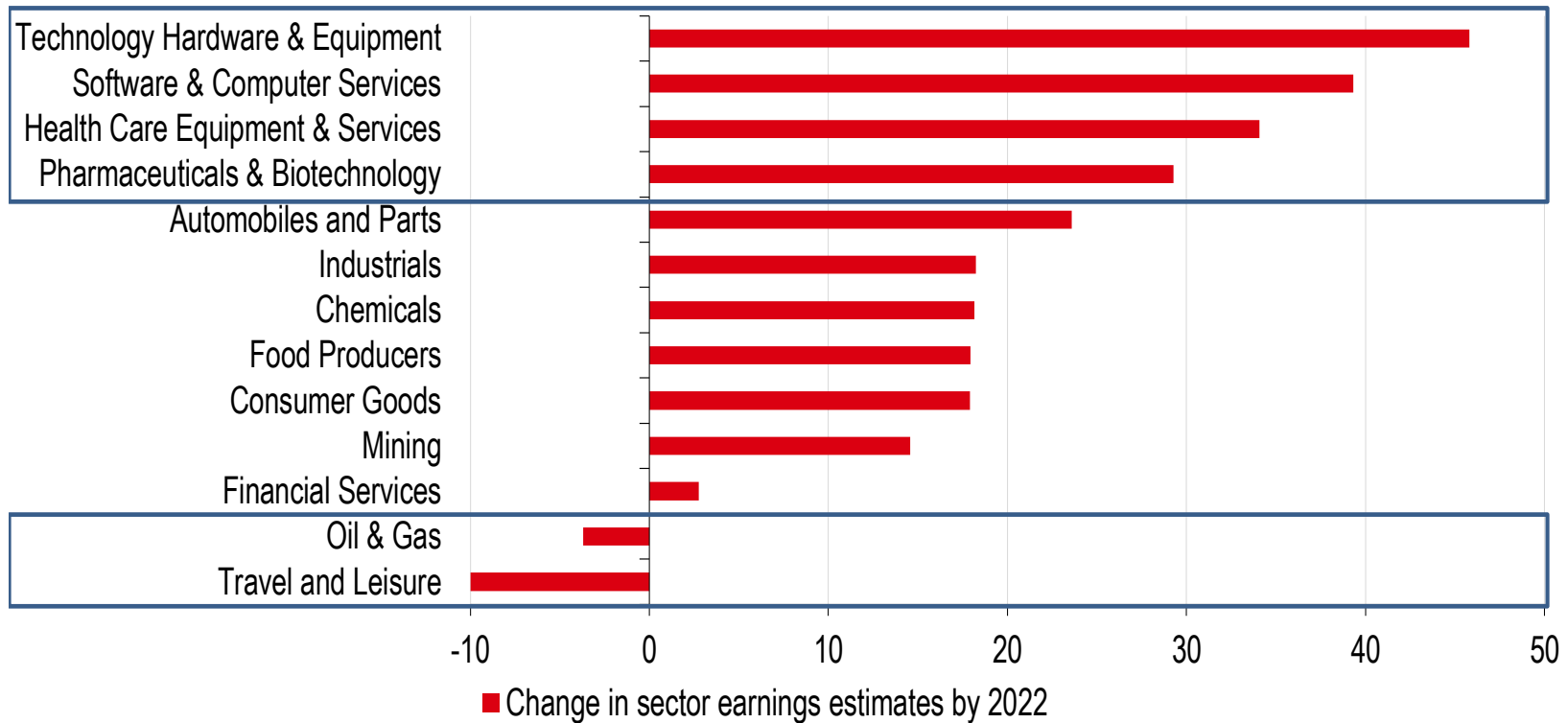


# The ASEAN connection for semiconductors: Malaysia plays a crucial role, and benefits from the current chip shortage



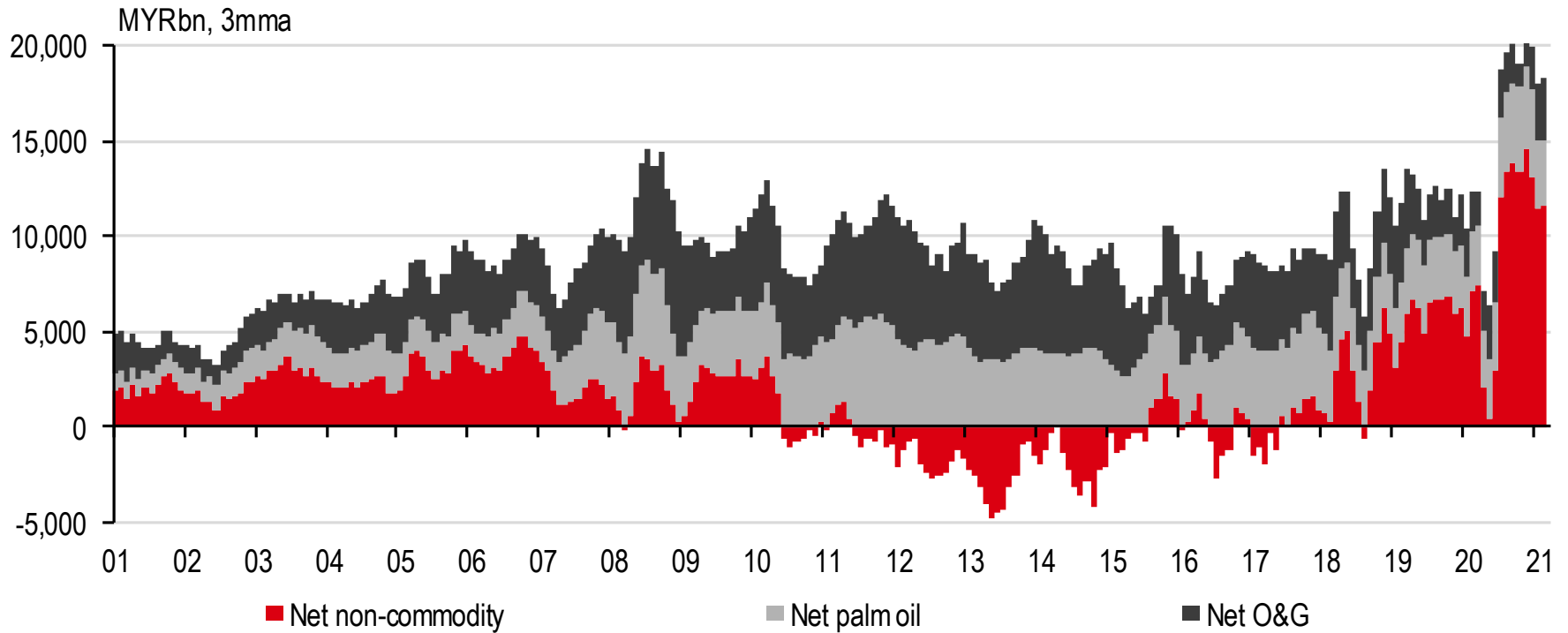
Source for both charts: ITC, HSBC

# Electronics and biomedical to continue outperforming



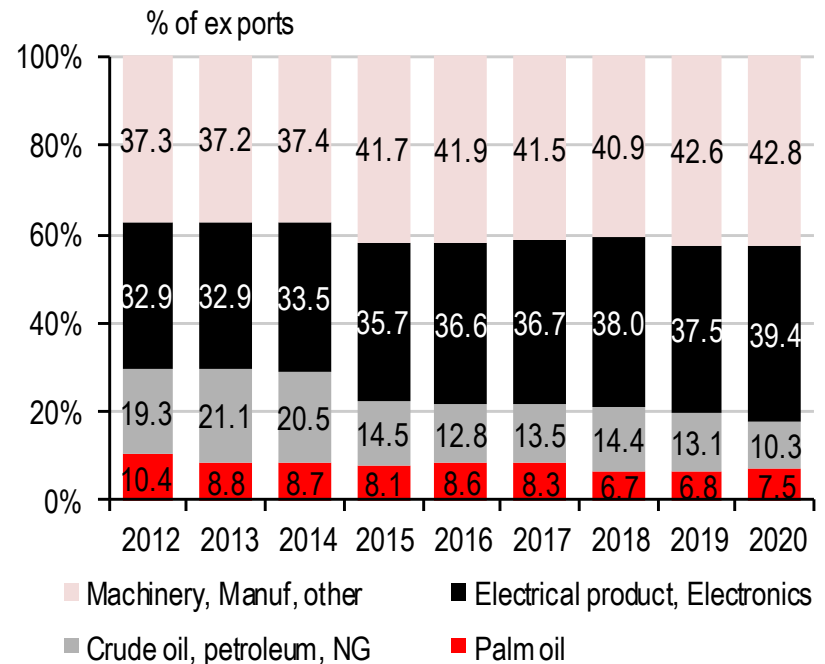
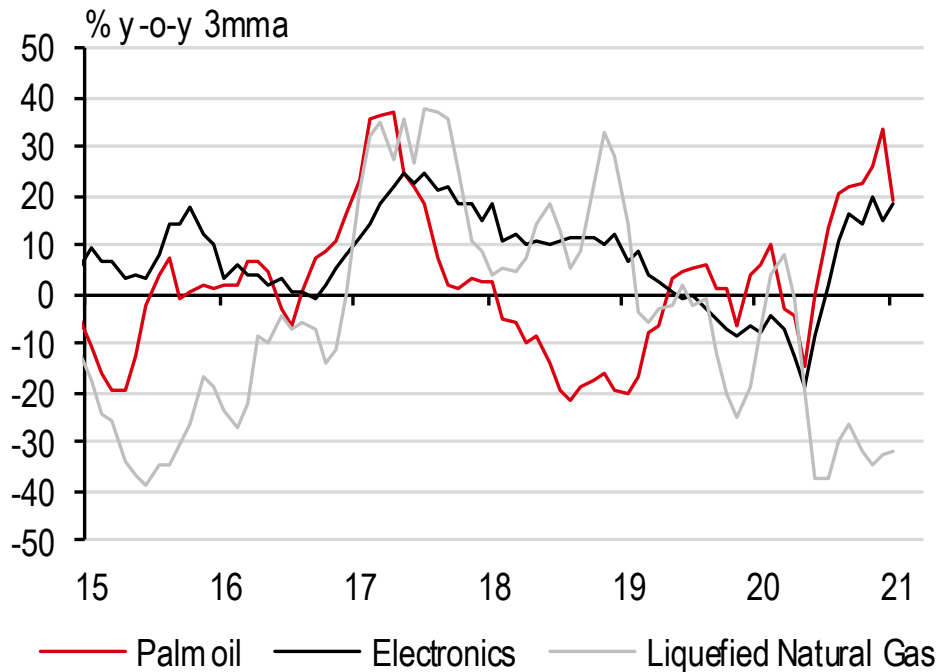
Source: CEIC, HSBC

# Malaysia's non-commodity trade balance has surged



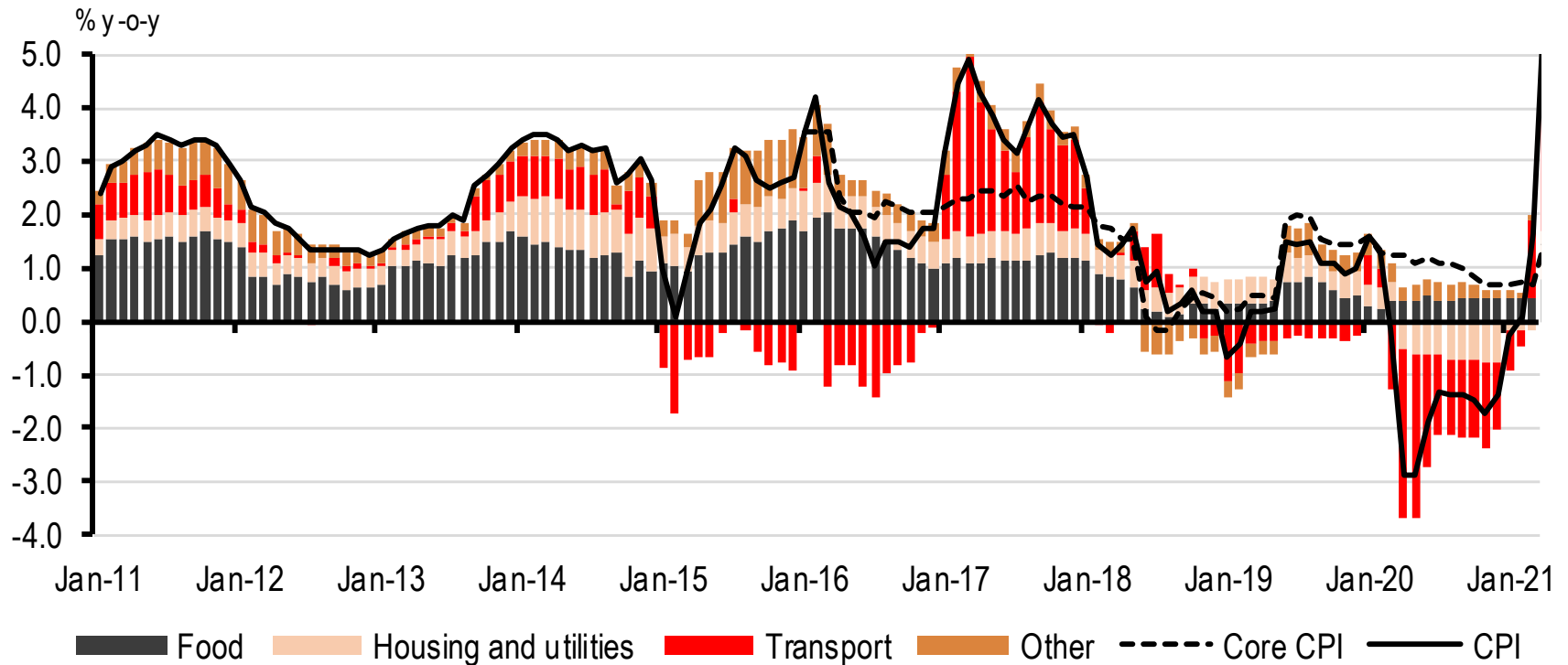
Source for both charts: CEIC, HSBC

# Thanks in large part to a well diversified export base: LNG and palm oil export volumes likely to rise in 2021



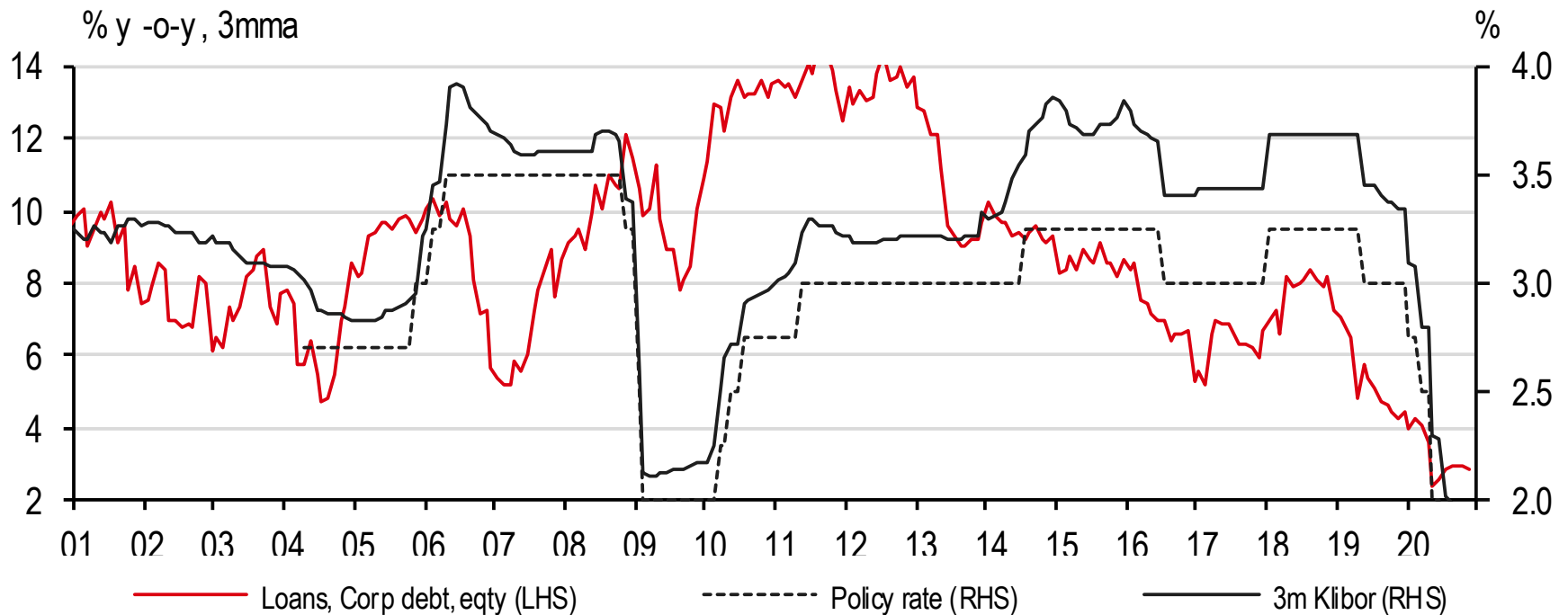
Source for both charts: CEIC, HSBC

## Malaysia is highly sensitive to energy inflation; but it is mostly transitory; continued subsidies will dent further oil price rise



Source: CEIC, HSBC

# Despite subdued loan growth, BNM unlikely to cut further: we expect an extended pause, tightening only likely in early 2023



Source: ITC, HSBC

# Fiscal stimulus has been substantial, although only a small portion is on-budget

2021 Stimulus Measures	MYR bn	USD bn	% of GDP
<b>PERMAI</b>	<b>15.0</b>	<b>3.7</b>	<b>1.0</b>
<b>PEMERKASA PLUS</b>	<b>20.0</b>	<b>4.8</b>	<b>1.3</b>
Vaccination Programme	3.0	0.7	0.2
Digital vouchers	0.5	0.1	0.0
Working capital for SMEs	2.0	0.5	0.1
Loans	0.2	0.0	0.0
<b>PEMERKASA PLUS</b>	<b>40.0</b>	<b>8.2</b>	<b>2.6</b>
Grants to small business, loan moratoriums, wage subsidies	2.1	0.5	0.1
Wage subsidy	1.5	0.4	0.1
targeted Relief and Recovery Facility programs	2.0	0.5	0.1
Increased bed capacity	0.5	0.1	0.0
Lower income households	2.1	0.5	0.1
<b>Pemulihan (Eco Aid Plan)</b>	<b>150.0</b>	<b>36.2</b>	<b>9.8</b>
Direct cash	10.0	2.4	0.7
Payments to lost income individuals	0.5	0.1	0.0
Train new graduates	0.1	0.0	0.0
Subsidies for fuel	6.0	1.4	0.4
Subsidies for cooking oil	1.0	0.2	0.1
Creative industry	0.1	0.0	0.0
Digitalization grant	0.1	0.0	0.0
Wage subsidy	3.8	0.9	0.2
<b>Total (2021)</b>	<b>225.0</b>	<b>52.9</b>	<b>14.6</b>
<b>Total (2020 and 2021)</b>	<b>530.0</b>	<b>124.5</b>	<b>35.8</b>

Source: HSBC

## Still, there is a risk Malaysia will breach the 60% debt limit this year, suggesting another extension is likely

Moody's (MD)	Ba3	Ba2	Ba1	Baa3	Baa2	Baa1	A3	A2	A1	Aa3	Aa2	Aa1	Aaa
S&P (SP) / FITCH (FI)	BB-	BB	BB+	BBB-	BBB	BBB+	A-	A	A+	AA-	AA	AA+	AAA
Indonesia						MD/SP(-)/FI							
Malaysia						FI	MD/SP(-)						
Philippines						MD/FI	SP						
Singapore													MD/SP/FI
Thailand							MD/SP/FI						
Vietnam	MD (-)	SP/FI											

	Previous fiscal rule	Adjustment	Future fiscal reform
Indonesia	3% deficit limit	3% rule suspended through 2022	Government hopes to increase tax-to-GDP ratio
Malaysia	55% federal debt-to-GDP limit	55% federal debt limit increased to 60% through 2022	Broaden consumer tax base.
Philippines	No set limit, but the government plans to keep debt below 50%	Public debt may breach 50%, but this should eventually edge lower	Streamlining of tax incentives in order to finance a sharp reduction in corporate tax rates
Singapore	Balanced budget over term of any government	<b>Little risk of change</b> , but spending will increase	2ppt increase in the Goods and Services Tax from 7% to 9% by 2025 to broaden revenue base
Thailand	60% debt-to-GDP limit	We believe the limit may have to be adjusted in the next 5 years.	
Vietnam	65% debt-to-GDP limit	<b>Little risk of change</b> , gov't likely to continue fiscal consolidation	Passage of PPP Law should allow for greater private investment in infrastructure

Source: HSBC

Source: HSBC





# Disclosure appendix

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