



Will Emerging Asia remain resilient in 2021?

Much more than other EM but with more risk in India and Indonesia

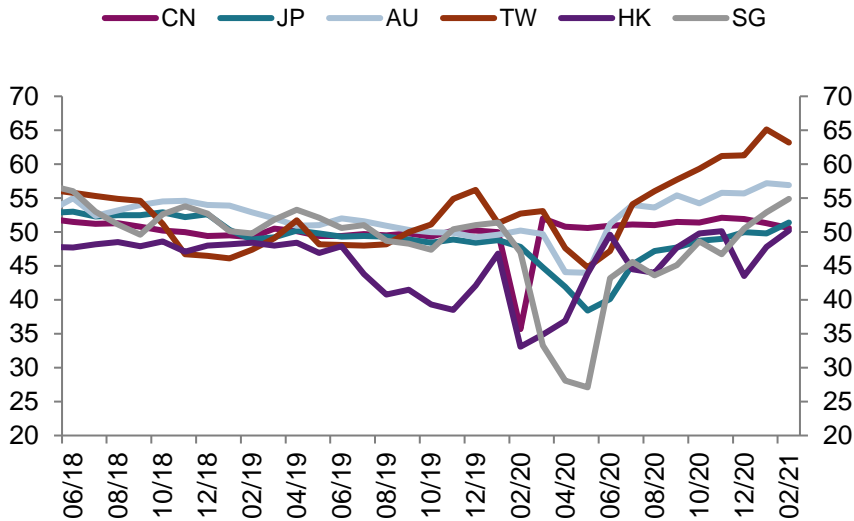
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[Not all Asian economies are sheltered from higher US treasury yields: Watch for current account deficits](#)

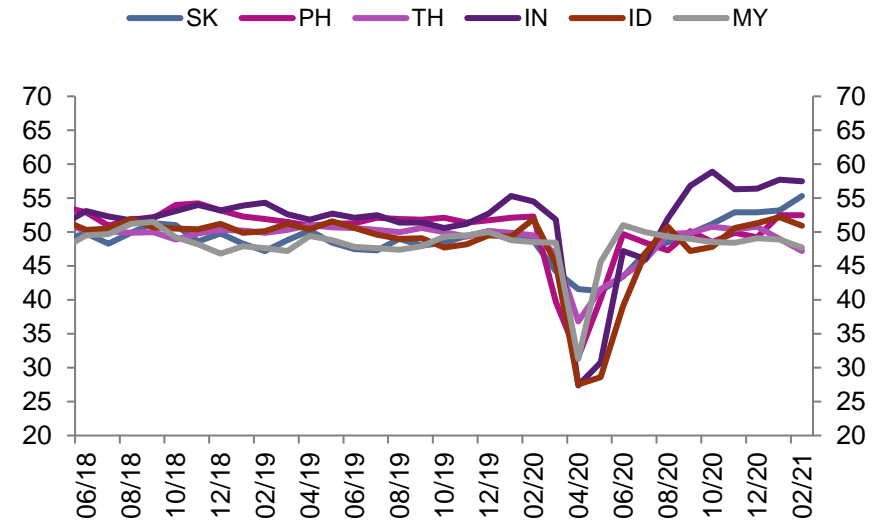
Asian economies have bounced back but PMIs are stabilizing except for South Korea and Singapore where they are still moving up. China's March PMI has also been better than January and February given renewed mobility

Asia economies: PMI



Source: Natixis, Bloomberg

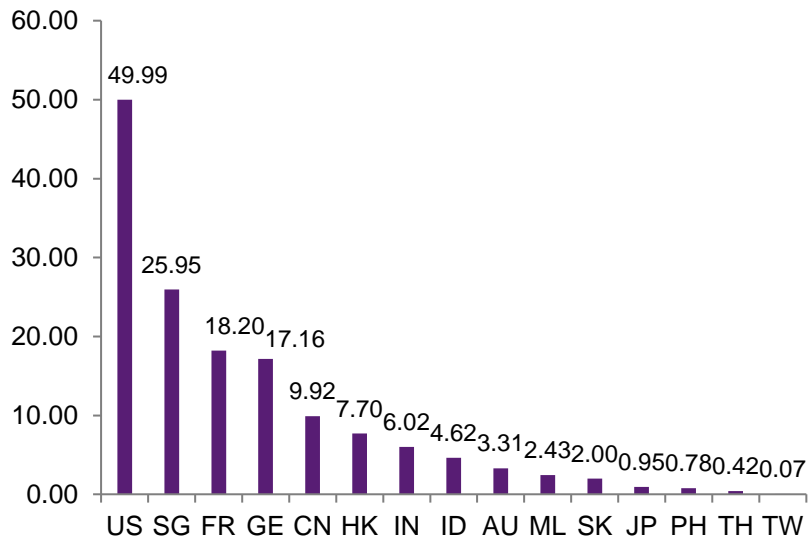
Asia economies: PMI



Source: Natixis, Bloomberg

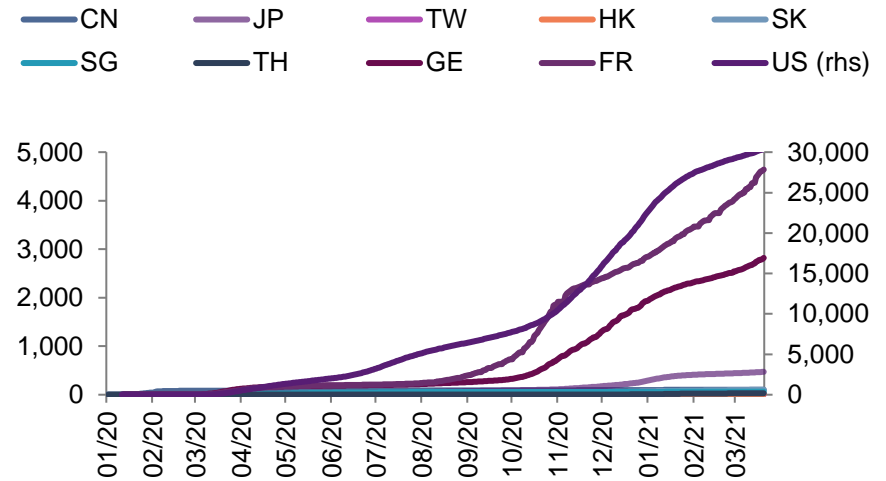
Vaccination in Asia is clearly delayed, even more than Europe. The very low number of cases may justify it but external mobility is at risk for longer than in the US or Europe

The progress of vaccinations (per 100)



N/B. Data as of April 5, 2021
Sources: Natixis, Official websites, OurWorld in Data

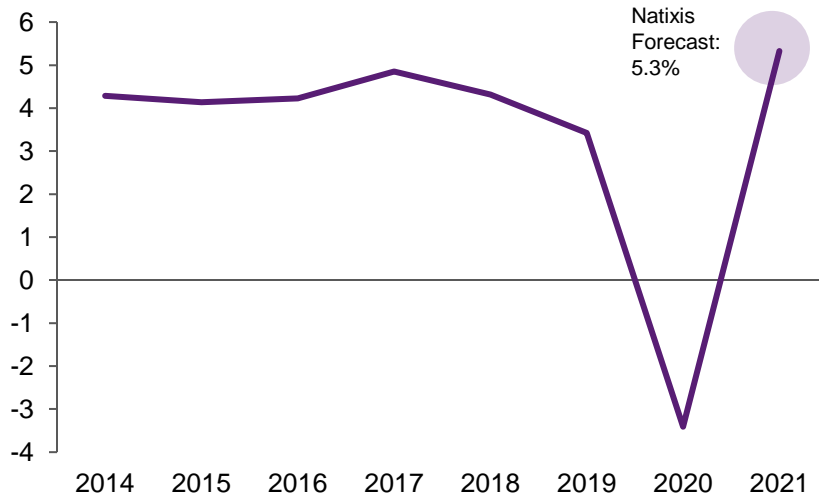
Confirmed Covid-19 cases in key economies (in thousands)



Source: Natixis, Bloomberg

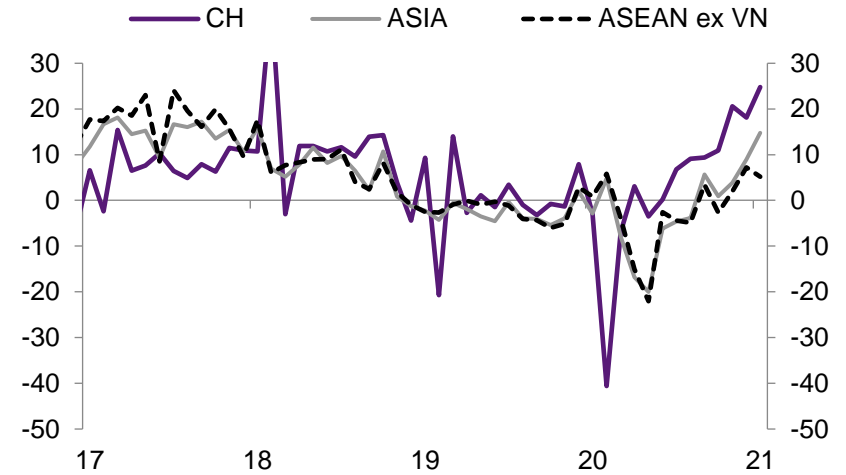
Asia is on track with a V-shaped recovery, led by robust exports as demand from key developed economies recovers

Asia GDP growth (% YoY)



Source: Natixis, Bloomberg

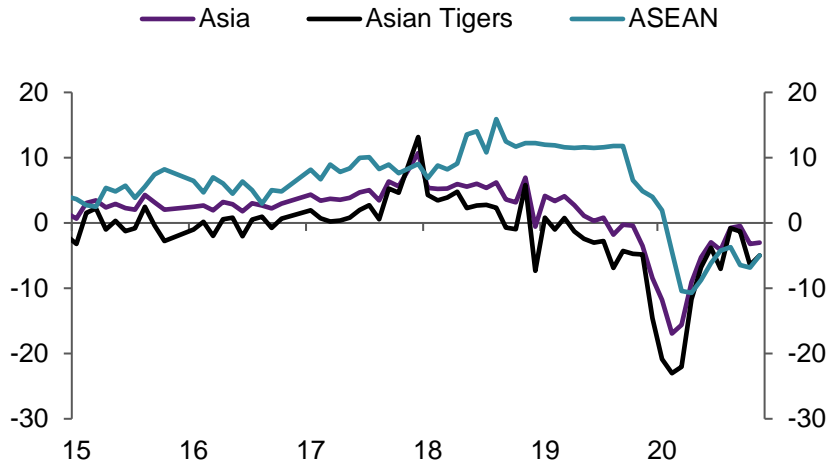
Asia export (% YoY)



Source: Natixis, Bloomberg

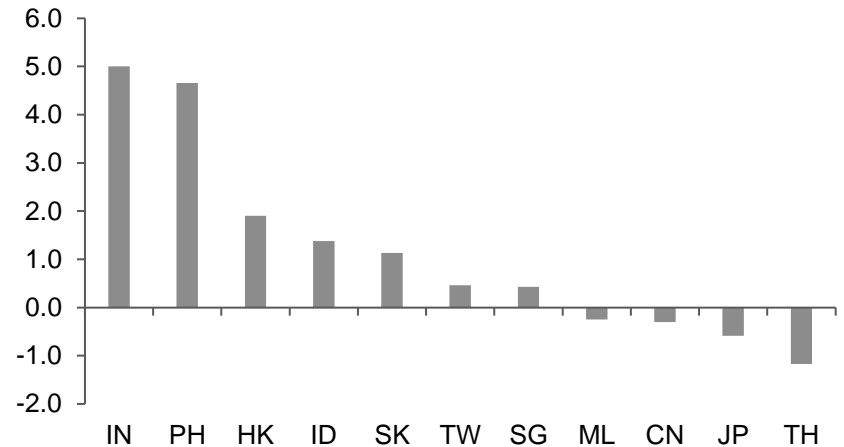
However, it has been much easier to improve external conditions than domestic demand. In that regard, inflation is not really a relevant risk, except for countries with supply bottlenecks like India or the Philippines

Asia retail sales (% YoY)



N.B. Asian Tigers refers to Singapore, South Korea, Japan, Taiwan and Hong Kong
Source: Natixis, Bloomberg

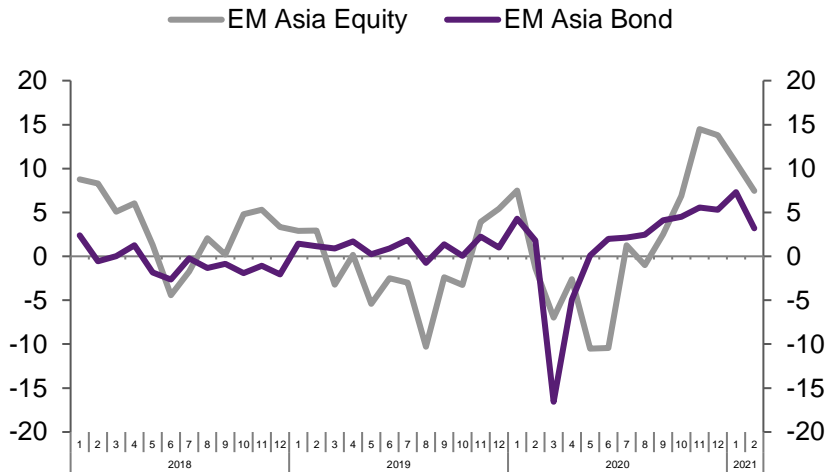
CPI (% YoY)



N.B. As of latest
Source: Natixis, Bloomberg

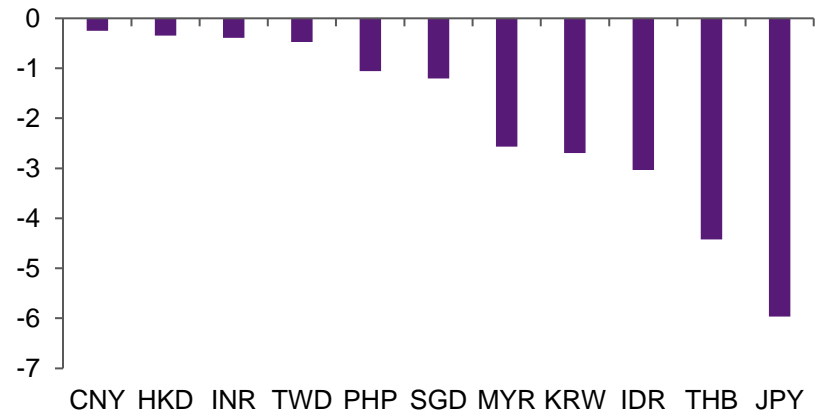
The risk of capital outflow, especially for the bond market, is elevated as long-term yields continue to shoot up in the US. And Asian FX have been weakening against the USD across the board

EM Asia capital flows (USD bn)



Source: Natixis, EPFR

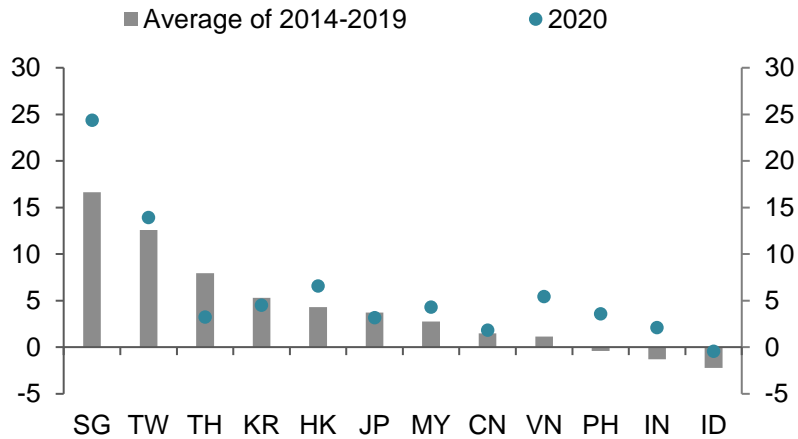
FX performance against USD (% YTD)



Source: Natixis, Bloomberg

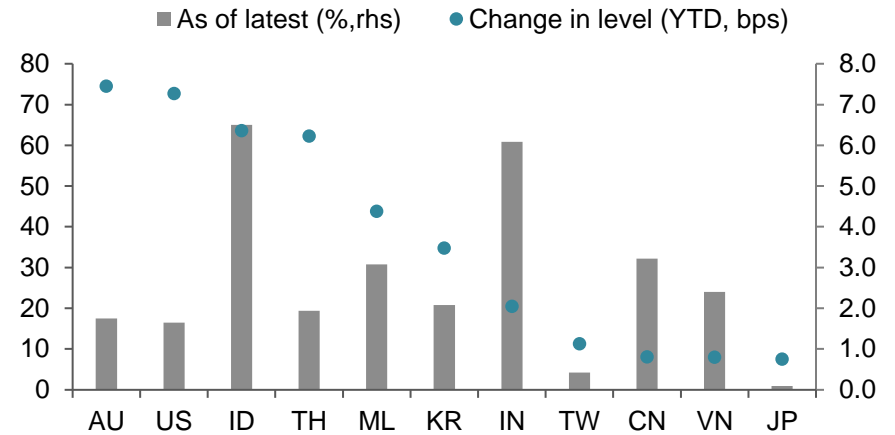
The current account deficit economies are the old suspects to a rise in US yields as they more reliant on foreign capital for financing needs

Current account (% to GDP)



Source: Natixis, Bloomberg

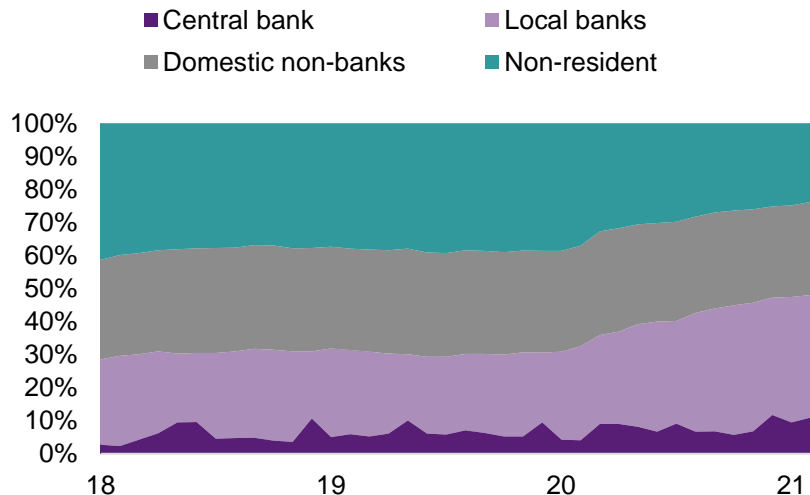
10yr Government Bond Yield



N.B. As of Apr-7,2021
Source: Natixis, Bloomberg

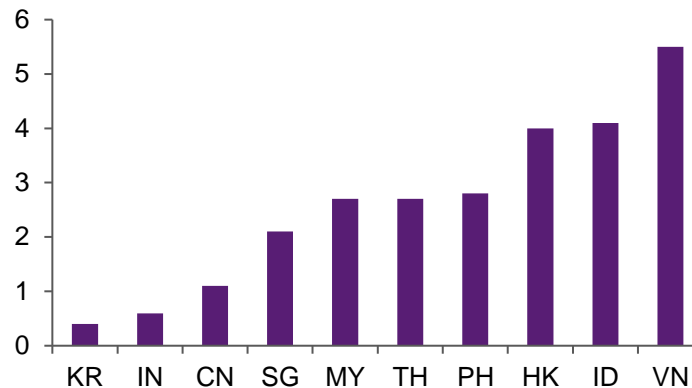
This is particularly evident for Indonesia with a sharp uptick in long-term yields, even though inflation remains benign. Structurally, it is even more vulnerable due to a still high ownership of foreign investors, although down from pre-pandemic level, as well as poor liquidities

Ownership of IDR government bonds (%)



Source: CEIC, Natixis

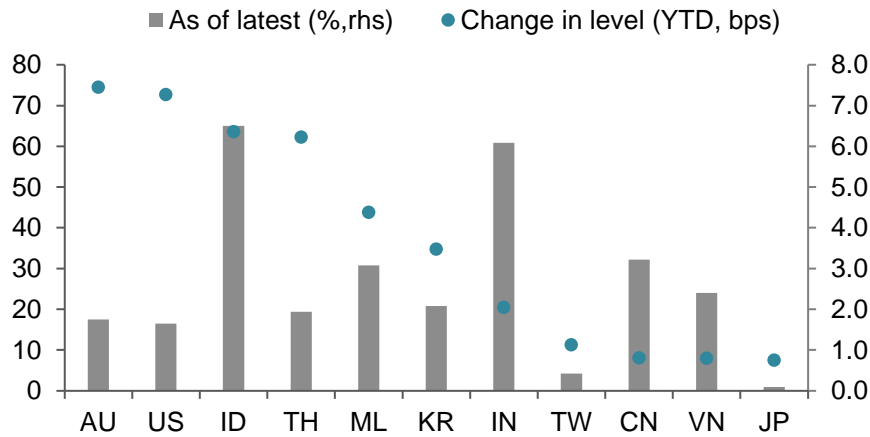
Average Government Bond Bid-Ask Spread (bps)



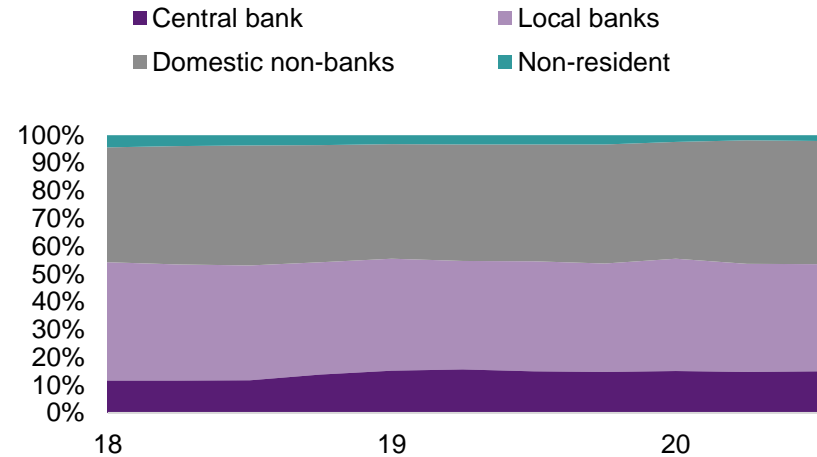
N.B. As of 2019. Liquid securities as defined by CCIL, while the rest are from AsianBondsOnline Local Currency Bond Market Liquidity Survey
Source: Asia Bond Online, CCIL India, Natixis

For India, long-term yields remain relatively anchored, which is clearly suppressed by central bank intervention

10yr Government Bond Yield



Ownership of INR government bonds (%)

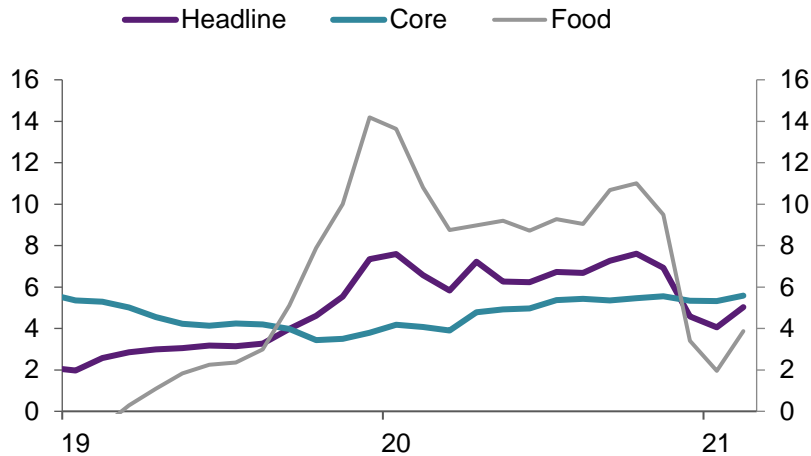


N.B. As of Apr-7,2021
Source: Natixis, Bloomberg

Source: RBI, Natixis

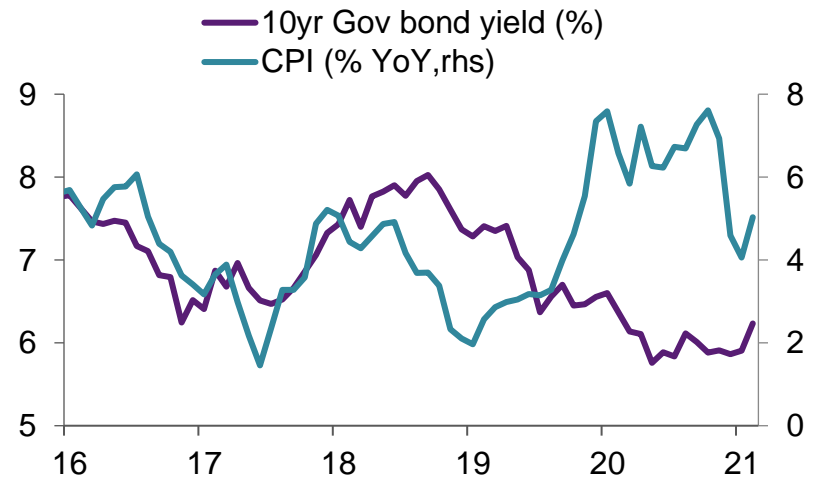
But the room for additional intervention could still be limited by the higher inflation prospect given a fast recovery in demand as well as higher inputs costs

India CPI (% YoY)



Source: Bloomberg, Natixis

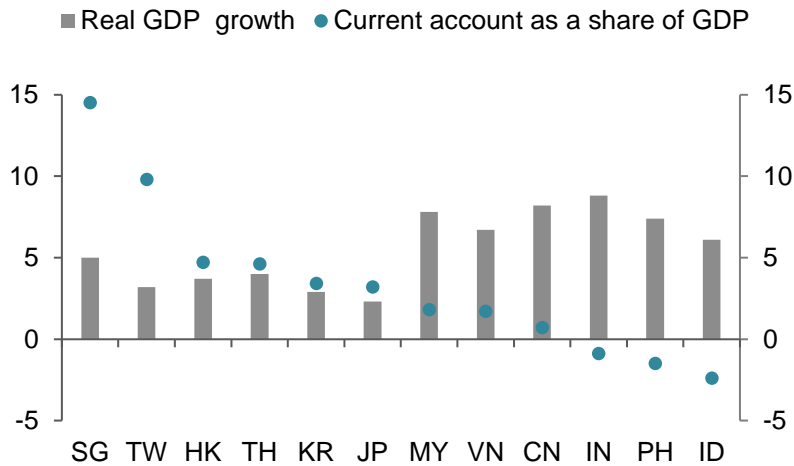
India 10yr Government Bond Yield and CPI



Source: Natixis, Bloomberg

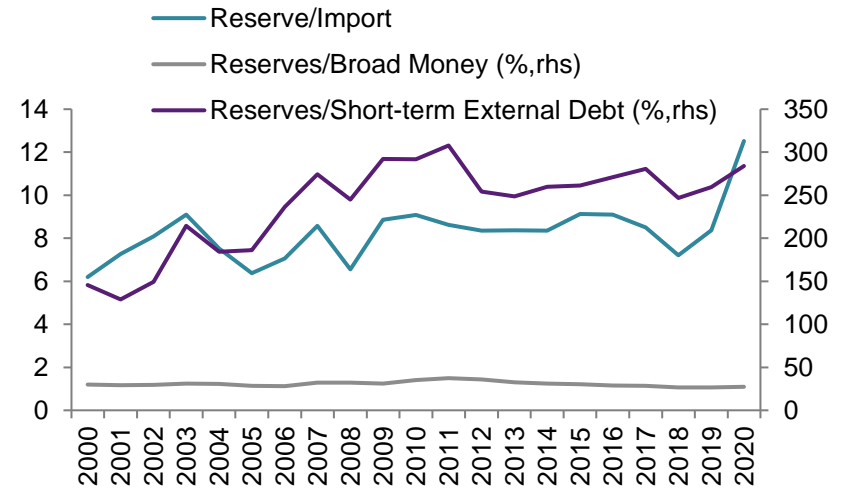
Still, the narrowing of trade deficit due to a slump of imports during the pandemic could provide some respite. But such improvements in external positions are expected to normalize when economic activities improve, while the build-up of forex reserve can surely help structurally

WEO projection for 2021



Source: Natixis, IMF World Economic Outlook

Reserve adequacy for the CAD economies*



Source: Natixis, IMF

N.B. The average of India, Indonesia and the Philippines

All in all, Asian economies are more shielded but not all fully out of the woods

- Asia, and particularly China, is clearly “first in first, first out” in this crisis.
- Growth prospects are positive and inflation is well under control but some countries are more vulnerable than others.
- Barring frontier markets (especially Pakistan, Mongolia and Sri Lanka), the most vulnerable are India and Indonesia especially in the event of the sharp increase in UST yields. If the dollar appreciates at the same time and commodities continue with their ride, the situation can be even trickier.
- Still, compared with the rest of EM, especially Latin America, Asia is still shielded by large forex reserves and relatively moderate external debt.
- It goes without saying that China’s ability to keep high growth beyond 2021 is also key for the rest of Asia.

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