

ASEAN Morning Bytes

Asian markets still look modestly upbeat despite hawkish commentary from a number of US Fed speakers



EM Space: Focus shifts to US inflation after hawkish Fed speak

- **General Asia:** Asian markets still maintain a modestly positive tone despite recent hawkish commentary from a number of Fed speakers. The Fed's Bostic has suggested that an earlier-than-expected taper was possible as the economy has already made substantial progress towards its goals. His comments were echoed by Barkin and Rosengren. Loretta Mester is scheduled to speak later today on "inflation risks" ahead of tomorrow's July CPI inflation print. As well as the CPI figures, which may well show a slight decline in year-on-year inflation, investors will keep their attention tuned to Covid-19 developments as accelerating infections in several parts of the world could offset some of the economic gains made so far.
- **Singapore:** Last Friday the authorities announced a relaxation of their Phase-2 Covid-19 restrictions for fully vaccinated people. The two-stage relaxation starting today (the next stage begins on 19 August) comes as the country now has almost 70% of its population fully vaccinated and the local spread of the virus has subsided. While this easing of restrictions will allow some more life to flow into the economy, it remains to be seen whether a technical recession (defined as two successive quarters of QoQ GDP declines) will be averted. We are hopeful of Singapore bypassing a recession given its robust export

recovery and as policies to support business have kept the unemployment from rising (2.7% in 2Q21 was down from 2.9% in 1Q). Meanwhile, data due tomorrow (11 August) should confirm the 2Q GDP contraction of -2.0% QoQ.

- **Malaysia:** Following in its neighbour's footsteps, Malaysia also announced a relaxation of its nationwide movement control order (MCO 3.0) for fully vaccinated people starting today. However, the share of the fully vaccinated population here is much lower at 27%, while the daily caseload remains high at around 20,000 currently. That said, relaxation should be some relief for an economy bogged down by nearly three months of tight Covid-19 curbs and increased political uncertainty recently. Due later this week (13 August), we expect Malaysia's 2Q21 GDP to post a -6.5% QoQ fall. The much bigger crash of activity a year ago (-16% QoQ) will flatter year-on-year GDP growth to about 11%. With escalated political risk hindering further fiscal stimulus and high inflation preventing monetary easing ahead, a recession may be inevitable.
- **Thailand:** Anti-government protests are back as people took to the streets last weekend to demand the resignation of Prime Minister Prayut Chan-o-cha over his government's handling of the current Covid-19 outbreak. Daily new cases surged past the 20,000 level and daily death rates over 200 recently. As this further delays the tourism recovery, Thailand is going to be Asia's worst-performing economy in 2021 with only 0.7% GDP growth according to the Bank of Thailand's latest forecast after the central bank cut it last week from 1.8%. We consider our 1.4% growth view for this year at risk of a further downgrade.
- **Philippines:** 2Q GDP will be reported later on Tuesday with the market consensus pointing to a 10.9% YoY gain although the economy is expected to have slowed from the previous quarter by 1.1%. Authorities tightened mobility restrictions in April as the country dealt with a wave of infections caused by the Alpha variant, slowing manufacturing activity and weighing on both consumer and business sentiment. We expect overall economic activity to stay subdued in 3Q as mobility curbs have since been reinstated in August as the country now deals with a new wave of infections caused this time by the Delta variant. These costly lockdowns are expected to slow the pace of economic recovery and we may need to downgrade our current 4.7% GDP forecast further should the current mobility restrictions remain in place longer than the planned 2 weeks. The central bank has vowed to keep monetary policy unchanged in the near term given the ongoing struggles faced by the economy.

What to look out for: US inflation and Covid-19 developments

- Philippines 2Q GDP (10 August)
- US unit labor costs (10 August)
- Fed Mester speech (10 August)
- Singapore GDP (11 August)
- US inflation and mortgage applications (11 August)
- Philippines BSP policy meeting (12 August)
- US PPI and initial jobless claims (12 August)
- Fed George speech (12 August)
- Malaysia 2Q GDP (13 August)
- Hong Kong 2Q GDP (13 August)
- Taiwan 2Q GDP (13 August)
- US import prices and consumer sentiment (13 August)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

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