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ASEAN Morning Bytes

General market tone: Risk-off

Risk aversion remained the theme with Treasury yields remained elevated and global oil prices tiptoed higher on reports of falling Iranian oil exports

International theme: Hawkish Fed, China slowdown drive weak market sentiment

- Risk-off scenario continued to pervade with concerns of a hawkish Fed coupled with a projected slowdown in China weighing on sentiment. Yields did manage to trip lower and US stocks bounced ever so slightly on bargain hunting but the sentiment remains frayed.

EM Space: Asian markets remain on the backfoot

- **General Asia:** Asian markets remained on the backfoot on Tuesday on still elevated Treasury bond yields and rising global oil prices. Asia looks to open mixed, wary of developments on Trade and the movement in oil prices. Fed Kaplan's support for further rate hikes will likely keep the pressure on yields to remain higher as the hawks grow in number at the FOMC.
- **ASEAN:** The IMF retained its 5.3% GDP forecast for 2018 but lowered its 2019 expectation to 5.2%, down 0.1 percentage point on expectations that economic activity may take a hit

from the on-going US-China trade debacle.

- **Malaysia:** Bank Negara Malaysia's Governor Nor Shamsiah Yunus expressed confidence about robust private sector activity continuing to support the economy into 2019 even as global trade tension weigh on exports. Separately, Prime Minister Mahathir said the government was considering new taxes and asset sales to make up for the revenue loss from scraping of the Goods and Services Tax and to repay its debt. The tighter fiscal policy stance will be a potential headwind for GDP growth. We see the BNM leaving the monetary policy on hold through 2019.
- **Thailand:** Deputy Prime Minister Somkid Jatusripitak sees the need of boosting local economic growth amid rising US-China trade spat, which he sees lasting for the next two-to-three years. He urged exporters and businesses to be prepared to offset the impact from the trade war. The THB seems to be coming in shadows of Asian underperformers INR and IDR. In a sudden reversal of fortune, the THB's 2.1% month-to-date depreciation appears to be excessive given a still large current surplus, which we estimate at about 7% of GDP this year.
- **Philippines:** President Duterte has allowed open access for imports of the all-important staple rice in a bid to tame stubborn inflation by allowing private traders to secure and import the grains granted that they settle the tariffs. Rice accounts for 9% of the CPI basket and controlling inflation of this important food item could help lower overall inflation and anchor inflation expectations in the coming months.
- **Philippines:** Trade numbers will be reported in the morning session which will likely point to a protracted widening of the deficit with imports expected to grow by double digits while exports continue to languish. The sustained widening of the trade gap, which in turn drives the current account deficit, will continue to put pressure on the local currency with the BSP seen digging into its reserves to limit excessive volatility in the spot market.

What to look out for: Fed speakers, IMF-WB meetings

- Fed Williams speaks (9 October)
- Fed Harker and Williams (10 October)
- PH trade balance (10 October)
- US Producer prices (10 October)
- Fed Evans and Bostic speak (11 October)
- US inflation (11 October)
- China trade balance (12 October)
- IMF-WB annual meeting in Bali (12-14 October)

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