

ASEAN Morning Bytes

Asian markets are expected to edge lower as Fed signals a long path to recovery



EM Space: Fed paints gloomy economic outlook for next couple of years

- **General Asia:** The Fed pledged to keep rates unchanged all the way through to the end of 2022 to help heal the battered jobs market, with economic activity expected to be downbeat for some time. Inflation data out from the US and China supports this view with price pressures fading quickly as demand remains subdued due to the pandemic. The gloomy economic outlook and lack of additional stimulus from the Fed may convince investors to pull back from the recent rally for the time being with the data calendar thinning out towards the end of the week.
- **Malaysia:** April industrial production (IP) data today will shed light on GDP growth coming into the second quarter. We are looking for a 25% YoY fall, following a 24% plunge in exports in the month. We recently cut our 2Q20 GDP growth forecast to -8.3% YoY from -6.6%, and the full-year 2020 forecast to -3.9% from -2.9%. The case for an additional 100bp of central bank (BNM) policy rate cuts in this easing cycle remains strong, which is likely by end-3Q20 and would take the rate to an all-time low of 1%.
- **Thailand:** The Cabinet approved a draft bill imposing a 7% value-added tax on foreign tech companies operating in Thailand. The bill awaits parliamentary approval for it to become a

law. This may be an added source of revenue for the government, but given the fact that the digital tax will be eventually borne by consumers, it will be an added drag on already weak demand.

- **Philippines:** Bangko Sentral ng Pilipinas (BSP) governor Diokno will be working back some of his liquidity enhancement measures as the economy grinds back to life. With lockdown measures eased, businesses have been allowed to operate up to 50% capacity and BSP will be monitoring excess liquidity to decide when to restore its term deposit window in the near term. BSP flooded the financial system with liquidity equal to 5% of GDP to help prevent panic, but with sentiment improving, they will likely wind down liquidity support as well as their bond purchasing program.
- **Indonesia:** Bank Indonesia (BI) governor Warjiyo reiterated that the IDR was “undervalued” but at the same time pledged to ensure that IDR would be kept at levels that helped improve the competitiveness of its export sector. The conflicting remarks sent the IDR sliding on Wednesday after its recent surge to the 13,000 level and we expect IDR to remain steady as we head into the central bank decision next week. Should IDR remain stable in the coming week, we expect BI to finally pull the trigger on policy easing to bolster sagging growth momentum.

What to look out for: Covid-19 developments

- US PPI and initial jobless claims (11 June)
- Hong Kong industrial production (12 June)
- US consumer sentiment (12 June)