

ASEAN Morning Bytes

Asian markets to edge lower on inflation concerns



EM Space: Inflation fears boosted by pipeline shutdown

- **General Asia:** Asian markets may track the downbeat tone on Wall Street overnight with technology shares retreating ahead of the US inflation release. Market players keenly await US inflation data on Wednesday with anxiety compounded by the oil pipeline shutdown over the weekend. For Tuesday, economic data features GDP reports from the region (Malaysia and the Philippines) as well as China's inflation report while several Fed officials are also slated to give separate speeches.
- **Malaysia:** Just as a month-long ban on inter-state and inter-district travel kicked off yesterday, the government further stepped up containment efforts for the third wave of the Covid-19 outbreak with an announcement of a nationwide movement control order (MCO-3). This follows a more than four-fold jump in daily new infections from about 1,000 a month ago to over 4,500 last weekend. Effective from 12 May until 7 June, the MCO-3 prohibits social gatherings of all sorts, closes schools, and also imposes a significant curb on Muslim prayers as the holy month of Ramadan draws to a close this week. All economic sectors are allowed to operate with an emphasis on work-from-home policy and significantly trimmed down workplace capacity. Even so, the tighter restrictions will cause a significant dent to the economy in the current quarter, imparting a downside risk to our 16.7% YoY 2Q GDP growth view which mainly stems from a huge 17% YoY plunge a year ago rather than any underlying recovery.

- **Malaysia:** Today's 1Q21 GDP and balance of payments reports will reveal the economic impact of the second wave of the Covid-19 outbreak. While the year-on-year GDP growth will remain in negative territory, favourable base effects likely eased the contraction to -2.5% YoY (ING forecast) from -3.4% in 4Q20. Exports have been the only bright spot in the economy. The 18% YoY export surge in 1Q21 has revived the manufacturing sector, though services continue to reel under the impact of the pandemic. Strong exports but weak domestic demand have kept net trade as the main expenditure-side source of GDP growth for the third straight quarter, as will be borne out by a steady current account surplus (ING forecast MYR 16.6 billion vs. MYR 19 billion in 4Q20). We anticipate little market impact from this historical data, while the MYR should continue to take a cue from local Covid-19 developments as well as global oil price movements. The MYR has been Asia's worst-performing currency so far in May.
- **Philippines:** 1Q GDP data will be reported on Tuesday with market participants expecting a YoY contraction for a 5th straight month. Partial lockdown restrictions and elevated unemployment figures likely weighed on overall economic conditions at the start of the year. Agricultural activity fell 3.3% YoY for 1Q with the sector impacted by a steep drop in livestock production with African Swine Fever decimating the hog industry. We expect GDP to have contracted by 3.5% and we are not very optimistic for improved economic conditions in 2Q as authorities were forced to tighten up mobility curbs even further after a spike in cases recorded in April.
- **Indonesia:** Indonesians are turning more optimistic on economic prospects, shown by the latest Bank Indonesia (BI) consumer confidence index. This index climbed to 101.5 in April, the highest level recorded during the pandemic. Respondents expect job availability and higher incomes in the coming 6 months with the 6-month ahead index rising to 122.6 in April from 114.1 in March. Vaccination efforts to help protect citizens against the virus will likely help bolster consumer confidence in the coming months and help lift economic activity as early as 2Q with almost 22 million Covid-19 vaccine doses administered.

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

- China CPI and PPI inflation (11 May)
- Philippines GDP (11 May)
- Malaysia GDP (11 May)
- US JOLTS jobs openings (11 May)
- US CPI inflation (12 May)
- BSP policy meeting (12 May)
- US PPI inflation and initial jobless claims (13 May)
- Hong Kong GDP (14 May)
- US retail sales, industrial production, University of Michigan sentiment (14 May)