

ASEAN Morning Bytes

General market tone: slight risk-off

Risk assets took a tumble on Wednesday with tech shares leading the sell-off amid intensified worries about rising bond yields and slower economic growth



International theme: Techs are falling and rates are rising

- Risk-off sentiment remained the general theme with most US markets down significantly, although Asia managed to bounce on hopes that the Chinese yuan would steady.
- Fed president Charles Evans indicated that he believes the neutral rate is closer to 3%, suggesting that he supports up to 3 more rate hikes by the Fed before pausing. This points to a more dovish side for the President from Chicago. Meanwhile, the US President appears unhappy at the pace of rate hikes by the Fed but this is not the first time the President has thrown criticism the way of the Fed. Both developments may help yields from rising much further from here.

EM Space: EM Asia managed to steady somewhat

- **General Asia:** Asian markets still looking to rebound significantly with the USD pulling back slightly as President Trump appears unhappy with the Fed's recent spate of rate hikes. Oil prices were also down more than 2%, which should help limit concerns about crude trending towards the dreaded \$100/barrel level.

- **Singapore:** All eyes are on the MAS policy announcement and advance estimate of 3Q18 GDP, both due at 8 am local time tomorrow. It's not all bad for the economy, though, as our Asia chief economist, Rob Carnell thinks ([read here](#)), there are many good reasons why the MAS will likely deliver no additional steepening of the SGD-NEER path or change to exchange rate bandwidth or central point.
- **Malaysia:** Industrial production for August is due. Dismal August export performance underpins our forecast of IP growth slowdown to 1.6% YoY from 2.6% in July. The MYR's gain yesterday after a week-long selloff isn't out of sync with gains in other ASEAN currencies, while local stocks slumped the most in four months. The clawback of the recent MYR underperformance relative to the oil price hinges on the trajectory Malaysia's exports and GDP growth take going forward. However, the activity data doesn't bode well here.
- **Indonesia:** Bank Indonesia's Governor Warjiyo defended the central bank's actions to hike rates aggressively in 2018 in order to stabilize financial markets from EM contagion. Tighter monetary policy in the US and the anxiety over the fallout from the trade war between the US and China have soured sentiment towards EM Asia. Warjiyo indicated that the current IDR rate is not in line with fundamentals, which suggests the Governor would like to see the currency appreciate in the medium term. Look for the BI to remain vigilant on rate hikes in the near term to cushion the currency's slide.
- **Philippines:** Imports for August grew by 11.0% YoY while exports growth was a tepid 3.1% despite strong growth in the mainstay electronics shipments. The year-to-date trade gap widened to \$26 billion, which should keep the current account in the red and put added pressure on the BSP to hike rates to curb Peso's weakness. Countering the news about the swelling deficit for goods was the sustained inflow of foreign direct investments, up 52.1% for the year to total \$6.67 billion with the Philippines likely needing to rely more on the financial account as a source of its foreign exchange.

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

- 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)