

ASEAN Morning Bytes

Caution continues as investors assess the economic damage of Covid-19



4.2% ING forecast of Malaysia 4Q19 GDP growth

EM space: Caution continues

General Asia: As investors continue to assess the economic damage of Covid-19 (now the official name of the new coronavirus), the hopes of greater policy support by central banks are on the rise. Asian central banks are likely to get ahead of the curve as Fed Chairman Powell stopped short of hinting at further easing in his semi-annual testimony.

Malaysia: 4Q19 GDP report today will show a further slowdown in growth due to a sustained slide in both exports and manufacturing in the last quarter, bringing in full-year growth of 4.5% in 2019 (4.7% in 2018). The rapid spread of Covid-19 is going to take a toll on tourism, while a sharp fall in oil prices bodes ill for Malaysia's commodity-driven trade growth. We would expect a couple more quarters of GDP slowdown ahead, though proactive policies should hold it above 4% in 2020. The central bank (BNM) cut rates by 25bp in January and we expect one more rate cut in 2Q19. The

local banks have already started offering relief for borrowers suffering from the economic impact of the epidemic. The government is also mulling a fiscal stimulus package for tourism.

Singapore: There isn't going to be much excitement about the December retail sales data today which pre-dates most of the epidemic issues. One of the key drivers of retail sales is tourist spending and the authorities are now anticipating about a 25-30% fall in visitor arrivals this year due to the virus. This will be a significant hit to the economy this year. We have just revised our 2020 growth forecast down to 1% from 1.6% earlier, though this still hinges on significant fiscal support in the FY2020 Budget next week (18 February).

Philippines: In a surprise rebound, exports surged by 21% YoY in December, which, with continued slack in imports dented the trade deficit to a six-month low of \$2.5 billion. Given China's prominence in the global supply chain and that economy reeling under the adverse impact of the virus, we can expect external trade to hit a snag with global growth expected to decelerate in the coming months. We expect Philippines export growth to possibly slip back into contraction while import demand will likely rebound as the government jump-starts infrastructure programmes, and as private investment momentum regains its footing.

Thailand: Bloomberg reported that the Thai cabinet approved an extension of tax relief for businesses in the special economic zone until the end of this year. The relief aimed at boosting investment in these industrial zones provides for a corporate income tax cut to 10% from 20% for 10 years. It's a move in a positive direction, though all depends on the implementation while the ongoing budget stalemate continues to weigh on investor sentiment.

What to look out for: Lots of GDP data

- EU industrial production (12 Feb)
- India manufacturing and CPI (12 Feb)
- Malaysia GDP and current account (12 Feb)
- New Zealand central bank meeting (12 Feb)
- Singapore retail sales (12 Feb)
- Taiwan GDP (12 Feb)
- US CPI (13 Feb)
- EU GDP (14 Feb)
- India trade (14 Feb)
- US retail sales and industrial production (14 Feb)