

ASEAN Morning Bytes

Investors may turn defensive on Wednesday as health experts express caution over reopening economies too quickly



EM Space: Sentiment likely to sour as US health experts testify and Fed officials offer sobering outlook

- **General Asia:** Investors will likely turn defensive on Wednesday with top US health officials expressing caution over reopening too quickly while previous hotspots like Korea and China record spikes in cases after relaxing restrictions. Meanwhile, Fed officials painted a gloomy outlook for the economy in the coming months but officials ruled out the Fed resorting to negative interest rates to combat the Covid-19 impact. Fed Chair Powell is scheduled to speak later on Wednesday but investors will likely be monitoring new infections around the globe after several countries and US states have begun to relax restrictions over the past few days.
- **Malaysia:** 1Q20 GDP is due today. The consensus forecast is centred on a -1% YoY result. We are more bearish with a -4.2% forecast, which would be the worst quarterly outcome in over a decade. The political turmoil embroiling the Mahathir government in late February, the Covid-19 lockdown since mid-March, and the plunge in global oil prices – have all come crashing down on the economy. Surprisingly exports and manufacturing eked out small yearly gains in 1Q20. But services including retail, transport, tourism, etc. likely took a strong beating. On the spending side, it should be an across-the-board dip in consumption,

investment, and net trade. First-quarter GDP doesn't capture the full impact of Covid-19, which will mainly impact the current quarter due to movement restrictions (now extended until 9 June). We doubt aggressive fiscal and monetary stimulus will be effective in arresting a steeper GDP fall in 2Q (ING forecast -6.6%).

- **Singapore:** The authorities announced the suspension of operations of one more airport terminal, Changi Terminal 4, from 16 May. This follows the suspension of operations of Terminal 2 started on 1 May for 18 months. These moves provide a glimpse into the prolonged economic gloom ahead. With policy stimulus maxed out, hopes are pinned on the pandemic ending for the stimulus to kick-start the economy.
- **Philippines:** President Duterte extended lockdown measures in the capital region and surrounding provinces while relaxing restrictive measures in regions with a low density of cases of Covid-19. Manufacturing activity will be restarted but capped to 50% capacity to ensure social distancing is practised. After 1Q GDP fell into contraction, government officials opted to lift some restrictions to get the economy back on track while the secretary of finance pledged that a fresh round of fiscal stimulus was in the works. The extension of the lockdown in the capital will lend support to the Peso for another 2 weeks as import demand is projected to remain muted, but we expect an eventual depreciation for PHP once the lockdown is lifted.

What to look out for: Covid-19 developments

- Malaysia GDP (13 May)
- US producer prices (13 May)
- Fed's Powell speaks (13 May)
- US initial jobless claims (14 May)
- China industrial production and retail sales (15 May)
- Indonesia trade (15 May)
- Hong Kong GDP (15 May)
- US retail sales and industrial production (15 May)
- US consumer sentiment (15 May)