

Asean Morning Bytes 14 September 2018

General market tone: Risk On. Market players will likely react positively to reports indicating that the US and China will indeed hold high-level discussions on trade. On the central bank front, the ECB and BoE kept rates unchanged while US inflation slowed in August.



International theme: US inflation slips while China and the US look set to talk anew

- US inflation slowed, helping boost some risk-taking activity even if the market continues to price-in a September rate hike. The ECB and the BoE both kept policy rates unchanged with the former recognizing the increased risk of financial market volatility and the effects of the possible trade war.
- China and the US appear headed for another round of trade discussions, albeit with higher level officials expected to come to the table. Meanwhile, Canadian PM Justin Trudeau reiterated his desire to only sign a deal that was “good for Canada”.

EM Space: Asian markets seen to benefit from renewed US-China trade talks

- **General Asia:** Asian markets are set to benefit from a round of risk on tone after US inflation slipped and in reaction to positive developments on the trade front.
- **Malaysia:** Minister Lim Guan Eng sees the US-China trade war as short-term positive for Malaysia's electronics and steel industries and the economy holding on to 5% growth rate, while trade and current account surplus shield it from contagion effects from emerging markets. Our end-year USD/MYR forecast is 4.25 (spot 4.15).
- **Indonesia:** Deputy Governor Mirza Adityaswara echoed the previous rhetoric of the Bank of Indonesia Governor Warjiyo, indicating the Rupiah would remain fairly stable in 2019. The national government approved the 2019 assumptions that approved an assumption of 14,400 while we forecast a weaker IDR of 14,800 in 2019 on the average. But with the central bank remaining hawkish into 2019, the chances for stability remains high.
- **Thailand:** DPM Somkid attributed yesterday's stock market rally (SET index up 2.3%, the most in two years) to reduced political uncertainty as King Maha Vajiralongkorn approved law required for parliamentary election. PM Prayuth said February 24 to be the earliest date the elections would be held.
- **Philippines:** Inflation concerns continue to build given possible crop damage with additional pressures stemming from utility adjustment in August from water companies. The Peso remains on the backfoot with market seen to react as BSP continues to weigh the inflation outlook, which could delay or diminish the chances for an off-cycle policy rate hike.

What to look out for: Retail sales from China and the US

- China Retail sales and industrial production 9/14/2018
- US Retail sales and consumer confidence 9/14/2018
- PHL Remittances 9/17/2018
- Indonesian Trade Balance 9/17/2018
- US-China trade negotiations (deadline: end of September)
- Argentina-IMF credit line request (on-going)