

ASEAN Morning Bytes

Sentiment likely to be affected by Covid-19 developments and escalation in US-China tension



EM Space: Investors may react to early positive developments on the vaccine front

- **General Asia:** Hopeful early signs taken from small sample vaccine trials may drive sentiment on Wednesday even as US-China tensions continue to escalate. President Trump removed the special status for Hong Kong as he stepped up pressure against Beijing for its recent security legislation and claims in the South China Sea. Fed governor Brainard painted a bleak economic outlook with hints that monetary authorities would possibly consider new tools although Bullard appeared more optimistic about the recovery. Investors will likely react to economic data later in the session (BoJ decision and US industrial production) while also monitoring developments on the Covid-19 front with US sunbelt states struggling to contain the virus.
- **Thailand:** The Bank of Thailand's Assistant Governor, Titanun Mallikamas, said the central bank would preserve available policy space for a worst-case scenario. And, Deputy Governor, Mathee Supapongse, said they were studying yield curve control as an option, though he ruled out the key policy rate falling to zero from 0.5% currently. We no longer expect a further policy rate cut, nor a shift to quantitative easing in this cycle.
- **Indonesia:** Indonesia reports June trade data on Wednesday with analysts expecting

another month of steep declines for both exports and imports. Outbound shipments will likely drop on depressed global demand while import compression due to depressed domestic demand will likely lead to a trade surplus. Although a trade surplus is a positive for the external position and the currency, the sharp slowdown in imports points to weaker potential output with steep contractions posted for raw materials and capital machinery. We expect GDP to fall sharply for both 2Q and 3Q which could force a reversal in sentiment with the IDR coming under renewed pressure in 3Q.

- **Philippines:** Bangko Sentral ng Pilipinas (BSP) governor Diokno indicated that he would keep his accommodative stance for “at least two years” while also vowing to keep policy rates untouched for at least two quarters. BSP has been very aggressive in terms of rate cuts, slashing by 175 bps year-to-date with Diokno pointing to possibly reducing reserve requirements should the financial system need more liquidity. The announcement helped buoy sentiment for the peso and we expect PHP to remain supported in the near term as import demand remains tepid.

What to look out for: Covid-19 developments

- Indonesia trade (15 July)
- US industrial production (15 July)
- China GDP and retail sales (16 July)
- Bank Indonesia policy meeting (16 July)
- US initial jobless claims and retail sales (16 July)
- Fed's Bailey speaks (16 July)
- Singapore non-oil domestic exports (17 July)
- US housing starts and consumer sentiment (17 July)
- Fed's Williams and Evans speak (17 July)