

ASEAN Morning Bytes

Asian markets to take their cue from US retail sales data and Powell's speech



EM Space: Focus shifts to growth as delta variant threatens outlook

- **General Asia:** Asian markets are likely to remain focused on the global growth outlook as the recent wave of Covid-19 infections threatens to slow growth momentum. The collapse of Afghanistan and the Taliban takeover of the country has dominated headlines with the potential fallout possibly more on the political front likely to make it harder for US President Biden to pass further spending packages. Monetary policy will also be in focus this week with Fed Chair Powell speaking later in the day (early Wednesday in Asia) while the minutes of the latest FOMC meeting are set for release on Wednesday. US retail sales data and industrial production are also scheduled for release on Tuesday with investors gauging whether the recent dip in consumer sentiment has translated to softening demand.
- **Singapore:** Just released this morning, July non-oil domestic exports growth of 12.7% YoY and -0.9% MoM was a slight upside surprise for the markets (consensus +12% YoY and -1.7% MoM). Electronics remained a key driver here although a -5.5% MoM fall pulled year-on-year growth down to 15.0% YoY from 25.5% in June. Semiconductors continue to lead the charge with a 4.6% MoM rise (up 11.1% YoY) as the global semiconductor cycle remained in full swing amidst persistent supply shortages. In non-electronics clusters, a 7%

MoM and 48% YoY surge in pharmaceuticals was a standout. Firmer exports together with the reopening of the domestic economy support expectations of an accelerating economic recovery over the rest of the year. We revise our 2021 GDP growth view from 4.9% to 6.2%, putting it within the official forecast range of 6% to 7% for the year. However, the increasing spread of delta variants in key trading partners (US, Eurozone, Japan and China) might play against optimism about an export-led recovery.

- **Malaysia:** Prime Minister Muhyiddin Yassin's resignation yesterday had a muted reaction on local markets, a sign that market players have already taken an escalation of political risk into account. The USD/MYR was steady at around 4.24, while the main stock index followed global weakness with a 0.15% drop. Muhyiddin stays on as caretaker prime minister. With general elections not an option during the pandemic, and no single party having a clear majority of 111 out of 220 parliamentary seats, the leadership crisis may drag on for days or even months. Our end-2021 USD/MYR exchange rate forecast remains at 4.40 (spot 4.24).
- **Thailand:** The Thai economy avoided a recession as GDP eked out 0.4% QoQ growth in 2Q21, leading to a 7.5% YoY increase. This brings cumulative GDP growth in the first half of the year to 2%. However, as an acknowledgement of greater downside growth risk over the rest of the year, the National Economic and Social Development Council cut its 2021 GDP growth expectations to a 0.7% to 1.2% range from 1.5% to 2.5% previously. We are keeping our 1.4% forecast for full-year growth for now but will look to scale it back on any evidence of greater economic weakness. Our end-2021 USD/THB exchange rate forecast is 35.00 (spot 33.40).
- **Indonesia:** President Jokowi indicated that his government was committed to bringing down the deficit-to-GDP ratio to 3% by 2023, suggesting that government outlays may slow next year to help contain the hit on the deficit. Next year's budget deficit ratio is expected to dip to 4.85%, down from the projected 5.7% this year. Finance Minister, Indrawati, cited continued support from the central bank through its "burden-sharing arrangement". Central bank support via direct bond purchases of government debt has been tolerated by markets so far but an extended dependence on Bank Indonesia support for the budget may increasingly be viewed as a risk, especially as Jokowi plans to return to pre-Covid-19 fiscal metrics by 2023. We expect the IDR to average 14,350 next year.

What to look out for: US retail sales and Covid-19 developments

- Singapore non-oil domestic exports (17 August)
- US retail sales and industrial production (17 August)
- Fed Chair Powell speech (18 August)
- Indonesia trade balance (18 August)
- US housing starts and building permits (18 August)
- FOMC minutes (19 August)
- Hong Kong CPI inflation (19 August)
- Bank Indonesia policy meeting (19 August)
- US initial jobless claims (19 August)
- Regional GIR data (20 August)
- Fed Kaplan speech (20 August)