

ASEAN Morning Bytes

Optimism over Fed's stimulus could fade as Powell points to drawn out economic recovery



EM Space: Concerns about virus resurgence likely to weigh on sentiment

- **General Asia:** Economic data out from the US surprised on the upside but Jerome Powell indicated that economic activity will likely fall well short of pre-pandemic levels even after a bounce from the lows in April. Meanwhile, investors continue to worry about the rising number of new daily cases in China and in the US with Beijing shutting down schools. In the US, states that moved quickly to reopen their economies have noted a recent spike in cases but governors have pointed to expanded testing to explain the increase in new daily infections. Caution should be the theme for Wednesday's trading as investors monitor Covid-19 developments and the prospects for a drawn-out economic recovery.
- **Singapore:** Non-oil domestic exports have started to give in to weak global demand, finally. Just released, data for May showed a 4.5% YoY NODX fall, worse than the consensus of 1% growth. This followed a strong surge in the preceding two months (17.6% and 9.7% in March and April, respectively). Two consecutive months of month-on-month NODX falls confirms that the strength seen earlier in the year is wearing off. Indeed, it was lop-sided vigour, unsurprisingly led by a surge in pharmaceutical exports, while key exports electronics were missing in action. This state of affairs reversed in May with pharma posting a 7% fall and

electronics surging by 12.5%. By destination, shipments to China remained a weak link (-7% YoY) but those to the US and Japan continued to be strong with over 50% growth. Weak NODX supports our view of a sharp GDP fall in the current quarter (INGf -9.2%), although most of this weakness stems the service sector, disproportionately affected by the Covid-19 circuit-breaker.

- **Thailand:** The Cabinet approved a THB 22.4 billion (0.1% of GDP) stimulus to boost domestic tourism as the global pandemic is likely to keep international tourists at bay for a long time to come. The package includes support for travel companies, subsidised hotel stays and discounted flights (up to 40% on both), and travel incentives for health workers and volunteers. Weak tourism and related dollar inflows will weigh on the THB. Even so, the THB has regained its status as a top performing EM currency that will receive a further boost from renewed global risk-on sentiment this week.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) governor Diokno indicated that he “is not bothered where the peso is” indicating that the BSP will step into the spot market only to smooth out fluctuations. Diokno also downplayed the possible threat of slowing remittances from overseas Filipinos as he believes receipts from business process outsourcing activities will help make up the shortfall. Spot trading volume has returned to pre-pandemic levels and we expect the peso to face mild depreciation in the coming week with BSP likely to cut policy rates at the 25 June meeting to help facilitate the recovery.
- **Indonesia:** Government officials scaled down growth expectations for 2020 with full-year GDP now forecast to be between 0% to 1%, lowered from the previous expectation for GDP to settle between 0% to 2.3%. Finance minister Indrawati also shared that 2Q GDP could drop to -3.1% as the virus forced partial lockdowns which forced retail sales to fall 16.9% in April and car sales to plunge 96% in May. With growth prospects dimming and IDR remaining relatively stable in the past few weeks, we expect central bank Governor Warjiyo to finally pull the trigger on a rate cut at the 18 June meeting.

What to look out for: Covid-19 developments

- Singapore non-oil domestic exports (17 June)
- US housing starts and building permits (17 June)
- Bank Indonesia policy meeting (18 June)
- Taiwan central bank meeting (18 June)
- US initial jobless claims (18 June)
- Thailand GIR (19 June)
- Philippines BoP (19 June)

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