

ASEAN Morning Bytes

Asian markets likely to react to the adjustment to the Fed hike timeline



EM Space: EM markets likely to react to acceleration of Fed rate hike timeline

- **General Asia:** Asian markets will likely react to upgraded economic projections and the change in the Fed's rate hike timeline. With the Fed bringing forward rate hikes into 2023, bond yields in the EM space will likely track the move in US treasuries overnight with currencies also likely coming under pressure on Thursday. Several central banks are scheduled to meet in the coming days with monetary authorities in Indonesia, Taiwan and Japan to discuss policy.
- **Singapore:** Non-oil domestic export growth of +8.8% YoY (-0.1% MoM) was a disappointment for the markets looking for nearly double that pace (ING forecast 19.9%), though it was still a slight pick from 6% YoY rise in April. The low base effect held year-on-year growth in positive territory. But, the second consecutive month-on-month fall (following -8.8% MoM in April) reflects a possible pause in the export-led recovery as the Covid-19 second wave struck the economy via tighter restrictions on activity. On a more positive note, the key NODX driver of electronics held on to its strength (up 11% YoY and 6.4% MoM). Pharmaceuticals clawed back part of their 24% MoM April fall with a 15% MoM bounce in May, though that was still not enough to pull year-on-year growth into positive

territory (-18% YoY). We remain hopeful that the post-pandemic recovery in global demand will support Singapore's NODX recovery during the rest of this year. Nothing as yet warrants any change to the Monetary Authority of Singapore's zero S\$-NEER appreciation policy in the next policy review in October 2021.

- **Indonesia:** Bank Indonesia will likely keep policy rates untouched at its policy meeting today as Governor Warjiyo continues to focus emphasis on currency stability even as inflation stays below the central bank's target range. The IDR has come under pressure over the past couple of trading sessions ahead of the Fed policy meeting and will undoubtedly come under pressure again after the Fed signalled an earlier than expected tightening cycle. Thus we expect BI to keep policy rates unchanged in the near term to balance out the need to support the currency and to provide monetary support for the economic recovery. Meanwhile, we do not rule out BI bringing forward its own tightening cycle should IDR come under extreme pressure in the coming months with Warjiyo intent on maintaining FX stability.

What to look out for: US initial jobless claims and Covid-19 developments

- Bank Indonesia policy meeting (17 June)
- Taiwan CBC policy meeting (17 June)
- US initial jobless claims (17 June)
- Bank of Japan policy meeting (18 June)