

## ASEAN Morning Bytes

General market tone: Wait and see

Risk sentiment steadied on Tuesday with market players digesting positive earnings reports, while tensions between the West and Saudi Arabia remain a concern.



### International theme: Strong earnings soothe frayed nerves, for now

- Risk-on tone helped markets rebound with earnings reports showing strong gains. Traders look to FOMC minutes for further direction.

### EM Space: ASEAN central banks talk capital controls

- **General Asia:** Asian markets may rebound after the Dow's strong showing, though with a cautious treading ahead of the FOMC minutes and still unresolved issues in the Middle East.
- **ASEAN:** A Financial Times report cited heads of central banks of Malaysia and Thailand as advocating management (control) of capital flows to stabilize financial markets during times increased volatility. Both Malaysia and Thailand are well-known for their capital controls. We consider markets in Malaysia at greater risk of potential controls than those in Thailand.

- **Malaysia:** As per the FT report, BNM Governor Nor Shamsiah Mohd Yunus viewed capital controls as a “legitimate policy tool that can be deployed in a pre-emptive manner to deal with potential risk to financial market stability”. Upon his return to power in May this year, PM Mahathir downplayed the need of capital controls unless people start “fiddling” with the currency.
- **Thailand:** Thailand's strong external position and its best-performing currency in Asia eliminate the risk of capital controls for now. Tourist arrivals rose 2.1% YoY in September, a modest slowdown from 3% growth in the previous month led by continued declines in Chinese tourist. Arrivals from China were down 15% YoY. Lower tourism inflows and falling trade surplus will be associated with narrower current account surplus this year.
- **Indonesia:** Indonesian government officials expect growth in 2019 to stabilize at 5.12% and the local currency to average at 15,000 as increased energy subsidy contributing to the weakness of the IDR going forward. Indonesia is said to be one of the ASEAN central banks in favor of Malaysia's push for capital controls to pre-empt financial market stress.
- **Philippines:** Government officials revised growth targets lower for 2018 to 6.5-6.9% (from 7-8%) after the disappointing 1H performance and with inflation sapping growth momentum. Meanwhile, a BSP policymaker signalled a dovish bias, indicating that the central bank may pause from hiking rates if month-on-month inflation shows a decelerating trend.

## What to look out for: FOMC minutes and inflation from Europe

- FOMC minutes (18 October)
- Fed Bullard (18 October)
- Fed Kaplan (19 October)

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