ASEAN Morning Bytes

Dimming economic outlook will likely force investors to turn defensive on Thursday.

EM Space: Disappointing economic reports point to more pain down the road

- **General Asia:** Regional PMI reports coupled with rising infection and fatality rates painted a dire economic picture which will likely force investors to dump risk assets again on Thursday. Even Donald Trump, who had previously remained hopeful for a quick turnaround to the situation appears resigned to the fact that the fatality count will likely continue to rise until June while the economy will likely take a substantial hit. Meanwhile, the Fed continues to roll out stimulus measure after stimulus measure, relaxing leverage ratios for banks in a bid to help cushion the negative impact from Covid-19. Despite all the fiscal and monetary measures, sentiment will likely remain fragile as projections head south with infections and fatality counts rising.
- **Singapore:** We noted yesterday that the relaxation of existing property cooling measures would go some way to supporting sentiment as Covid-19 tightens its grip on the economy (infections touched the 1000 mark yesterday). Support for the policy shift comes from the advance property price data for 1Q20 showing a 1.2% QoQ fall in home prices. Not so much during SARS, but property was the worst-hit part of the economy during the global financial crisis in 2008, with up to 25% price falls.

- **Thailand:** It's going to be the worst year since the 1998 Asian crisis. Following on the heels of its record low manufacturing PMI, the Business Sentiment Index for March pointed to as much as a 2% GDP contraction in 1Q20. We anticipate over a 7 percentage point fall in activity in the current quarter as a result of the partial shutdown. Our full-year growth forecast is now revised to -4.3% from -0.8%, which would be the steepest GDP fall since the 1998 Asian economic crisis (Thailand was the epicenter of this with over a 7.8% plunge in the country's GDP that year). We also add 50 basis points of rate cuts to our central bank policy forecast and see the THB weakening to 35 against the USD by end-2Q20.
- **Malaysia:** We are also cutting Malaysia's 2020 growth forecast to -2.9% from +1.8% earlier as the extended lockdown of the country to stem the Covid-19 spread is poised to dent growth deeper into the negative territory in the first two quarters. Hopes are pinned on monetary and fiscal stimulus helping the economy back to slightly positive growth in the final quarter. We maintain our view of a further 50bp Bank Negara policy rate cuts in the current quarter, with a bias towards more cuts than that. We forecast USD/MYR at 4.55 by end-2Q20.
- **Indonesia:** Indonesia revised its growth projections to reflect a possible contraction in growth of 0.4% as it continued to assess the probable impact of the recent measures to curtail movement in the country. IDR may plunge to a historical level of 20,0000 in the worst-case scenario, which would push inflation to as high as 5.1%. Meanwhile, Bank Indonesia was granted authority to purchase bonds in the primary market to help fund a rescue package for small and medium-sized businesses.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) Governor Diokno indicated that the economy was likely headed for a technical recession with growth stalling to negative territory for 2 straight quarters. Diokno also indicated a possible partial lifting of the ongoing enhanced community quarantine to help jumpstart the mothballed economy which will see its streak of 84 positive quarters of economic growth come to an end. We have adjusted our growth forecast to show a possible contraction of 0.1% in 2020 with the enhanced community quarantine expected to last until the end of May.

What to look out for: Covid-19 developments

- Philippines bank lending (2 April)
- US trade and factory orders (2 April)
- Hong Kong PMI (3 April)
- China Caixin PMI services (3 April)
- Singapore retail sales (3 April)
- US non-farm payrolls (3 April)

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com