

ASEAN Morning Bytes

Sentiment remains mixed as investors await the US jobs report on Thursday



EM Space: US data dump later on Thursday to give additional direction

- **General Asia:** Market sentiment improved marginally with investors reacting to better than expected manufacturing data out from the US while the Fed mulled revisiting forward guidance to help maintain stability in financial markets. Investors were also reacting to developments on the vaccine front although optimism was capped with several US governors struggling to contain the outbreak in their respective states. On the geopolitical front, the US House of Representatives passed a bill that would sanction Chinese officials on human rights violations as China flexed the reach of its recent security bill to crack down on dissent in Hong Kong. Investors will be looking to key economic data (trade, payrolls and factory orders) out from the US later on Thursday while also keeping an eye on developments related to Covid-19.
- **Thailand:** The manufacturing PMI rose to 43.5 in June from 41.6 in May but remained in contractionary territory. The Business Sentiment Index followed on with a rise to 38.5 from 34.4 over the same months. The Consumer Confidence Index due today is unlikely to be left behind either (48.2 in May). Despite improvements, these indices remain consistent with our forecast of a greater than 8% YoY GDP fall in 2Q20.

- **Malaysia:** The manufacturing PMI rose to 51.0 in June from 45.6 in May as easing of Covid-19 movement controls released some pent-up demand and factories moved back into action. This is the second Asian economy with a PMI back above the 50 threshold for expansion (the other is Vietnam). However, it only underscores some recovery over dramatic manufacturing declines in the preceding months. A 32% YoY plunge in manufacturing output in April was the worst ever. May wasn't any better given the accelerated export fall by over 25%. Indeed, overseas orders remained a weak spot in the PMI in June.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) will soon be issuing short-term bonds after getting the go signal from legislation earlier in the year as the central bank looks to deepen its policy tool kit. Governor Diokno indicated that the maiden issue will take place within the quarter with relatively short tenors that would not compete with issuances by the Treasury. Given that the directive of the BSP is to flood the market with liquidity, we expect BSP to delay the issuance of their own bonds or to keep the volume of such issuances at token levels during the economic recovery phase. This development will have a limited impact on the bond market for now as the BSP conducts its daily purchase window to help support the local bond market.
- **Indonesia:** Indonesia's inflation settled at 1.9% for June, the slowest pace of price gains since 2000 as consumer demand faded amidst the ongoing pandemic. Inflation is expected to remain subdued in the coming months given the bleak economic outlook but Bank Indonesia will be hard-pressed to cut policy rates in the near term given renewed depreciation pressure on IDR. The currency has faced some weakness in recent days given the risk-off tone as Covid-19 cases spike in Indonesia and others parts of the globe with investors also growing uneasy over plans for the central bank to monetize debt. We expect the IDR to face depreciation pressure in the coming days with the central bank stepping up its triple intervention while sentiment remains fragile.

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

- US trade, non-farm payrolls, factory orders, durable goods orders (2 July)
- China Caixin PMI (3 July)
- Thailand inflation (3 July)
- Malaysia trade (3 July)
- Singapore retail sales (3 July)