

ASEAN Morning Bytes 20 August 2020

Risk sentiment to pullback as Fed outlook dims and US-China tensions escalate



EM Space: Dimming economic outlook to weigh on sentiment on Thursday

- **General Asia:** Minutes from the most recent Fed meeting showed lower growth projections in 2H, which would likely dampen risk sentiment on Thursday especially with talks on planned fiscal stimulus still in limbo. Meanwhile, the US continued its pressure on China, withdrawing extradition and special tax treatment with Hong Kong, which may draw a retaliatory move from Beijing as tensions escalate further. Investors will likely react to the Fed outlook while monitoring US-China tensions and Covid-19 developments for further direction ahead of US labour market data out later on Thursday.
- **Indonesia:** Bank Indonesia (BI) left policy rates unchanged as expected with Governor Warjiyo indicating that monetary policy would remain accommodative. A depreciating currency may have forced the central bank to hold off on further rate cuts to support a slowing economy. Governor Warjiyo believes that the economy would rebound as early as 3Q and that the currency remained “undervalued” with the current account deficit expected to slip below 1.5% of GDP. We expect BI to remain side-lined until IDR stabilizes before cutting rates again to complement fiscal spending.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) decides on policy later today with the central

bank expected to keep rates unchanged after unloading a substantial 175 bps worth of rate cuts year to date. Governor Diokno had recently indicated that he would like to keep rates steady for “at least 2 quarters” despite well-behaved inflation and the -16.5% 2Q GDP reading. Analysts will likely be waiting for comments from Governor Diokno for any hints on future action but we expect BSP to refrain from further rate cuts and reductions to reserve requirements for the balance of the year.

What to look out for: Covid-19 developments

- Bangko Sentral ng Pilipinas policy meeting (20 August)
- Taiwan export orders (20 August)
- US initial jobless claims (20 August)
- US PMI manufacturing and existing home sales (21 August)