ASEAN Morning Bytes

Asian markets may pullback after setback in vaccine development.

EM Space: Recent rally fizzles out after vaccine development setback

- **General Asia:** Asian markets may retreat on Wednesday after a setback in vaccine optimism with investors refocusing on the downbeat economic outlook induced by Covid-19. Fed Chair Powell reiterated his pledge to roll out the full extent of his toolkit while stressing that the Fed's actions formed part of the broader response to the virus. Meanwhile, US states continue to gradually reopen with investors monitoring new infections for possible signs of a spike in cases. For Wednesday we will hear from several Fed speakers while the data calendar features the inflation report from Malaysia and a central bank meeting in Thailand.
- **Singapore:** The Covid-19 circuit breaker is set to end as planned on 1 June but it will still be a long wait for the economy to be fully back on its feet. A gradual three-phase reboot won't be completed for several more months at least. The government is also planning a fourth stimulus package to be announced next Monday, 26 May. GDP growth may bottom in the current quarter (ING forecast -6.8% YoY), but we don't see it returning to positive territory during the rest of the year.
- **Malaysia:** April CPI is due today. Mildly negative inflation in March (-0.2% YoY) is expected to get worse, with a consensus looking for -1.6% (ING forecast -1.8%). Transport prices have

been the main drag on headline inflation, but food prices may add to downward pressure with unusually weak demand during the Ramadan month. Accelerated CPI declines should pave way for more central bank (BNM) rate cuts ahead. We have an additional 50bp rate cut in our forecast for the next meeting in early July.

- **Thailand:** It's decision day for the Bank of Thailand. A 25bp cut in the policy rate to a record low of 0.50% looks to be a done deal. However, with growth already in negative territory, at -1.8% YoY in 1Q20, and inflation even more negative at -3% in April, don't be surprised if we see a bigger, 50bp rate cut today.
- **Philippines:** April tax collections fell 63% due to ongoing lockdown measures with government officials planning a fresh round of tariffs on all imports in a bid to raise additional revenues after Finance Secretary Dominguez announced a possible blow up in the deficit-to-GDP ratio to -8.1%. This development follows the 10% excise tax put on oil products this month as the government attempts to shore up revenue collection amidst the backdrop of slowing economic activity. We expect the Treasury to increase its borrowing plan in 2H which will likely pressure yields higher.
- **Indonesia:** Bank Indonesia (BI) surprised market players by keeping policy rates steady yesterday even as 18 out of 25 analysts polled by Bloomberg expected a rate cut. Governor Warjiyo cited the need to further support IDR but he retained his accommodative stance, indicating his willingness to cut policy rates in the near term. This is the third straight pause from BI but we expect Governor Warjiyo to cut policy rates should IDR remain stable in the coming weeks.

What to look out for: Covid-19 developments

- Malaysia inflation (20 May)
- Bank of Thailand meeting (20 May)
- Taiwan export orders (20 May)
- Fed's Bostic, Williams and Bullard speak (21 May)
- Fed minutes (21 May)
- US initial jobless claims and existing home sales (21 May)
- Thailand trade (21 May)
- Malaysia, Thailand, Philippines GIR (22 May)
- Fed's Clarida and Powell speak (22 May)

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