

ASEAN Morning Bytes

General market tone: Wait and see.

Investors will likely refrain from making substantial bets ahead of key central bank meetings in the week.



EM Space: Hopes for a trade deal and rebounding energy sector will clash with caution ahead of ECB

- **General Asia:** Reports of the US and China resuming trade negotiations next week are positive for risk sentiment, but escalating tension in the Middle East pushing oil higher are negative. We anticipate wait and watch sentiment taking hold of the markets ahead of the ECB meeting this week and the Fed meeting next week.
- **Thailand:** Yesterday's June trade data showing an unexpectedly large trade surplus comes as a further boost to the THB. \$3.2 billion trade surplus in the last month was the fourth-highest monthly surplus on record as exports improved for a smaller drop of 2.2% YoY while imports crashed by 9.4%. Weak domestic demand and lower oil price seem to be depressing imports and this is sustaining large external surpluses. We believe the economy needs lower interest rates to revive domestic spending, which will also help in curbing the THB strength. We forecast two 25 basis point cuts by year-end.
- **Malaysia:** Finance Minister Lim Guan Eng is worried about public finances staying on track to meet the 3% of GDP deficit target in 2020. He pointed to weak growth amid the US-China

trade war and need to reduce public debt, estimated at over MYR 1 trillion, as main 'challenges', though minister also sees opportunities from trade diversion from the trade war. In the ongoing global slowdown, Malaysia's economy is performing relatively well. The central bank (BNM) eased the policy with a 25bp rate cut in May and has enough policy space to stimulate the economy further if needed.

- **Singapore:** June CPI is due with consensus looking for a slowdown in headline inflation to 0.8% YoY and in the core to 1.2% from 0.9% and 1.3% respectively in the previous month. We see lower transport costs from falling COE prices and fuel prices to more than offset the holiday season surge in recreational costs. With subdued inflation and deteriorating growth prospects, the central bank (MAS) is expected to ease the policy before the next scheduled semi-annual policy review in October.
- **Indonesia:** Bank Indonesia (BI) Governor Warjiyo stepped up the dovish rhetoric in testimony before lawmakers yesterday, signaling further monetary policy easing ahead via cuts in both policy interest rates and banks' reserve requirement ratio. He sees this helping the growth momentum in 2H19.
- **Philippines:** The government budget posted a deficit of PHP 41.8 billion in June. This puts the deficit for the first half of 2019 at PHP 42.6 billion. Delayed passage of the budget for 2019 kept government spending lackluster while revenue collection picked up. Weak government spending was a drag on GDP growth in 1Q19. We believe it persisted in 2Q19, leaving GDP growth below 6%.

What to look out for: Regional inflation data and geopolitical tension

- Singapore inflation (23 July)
- Taiwan industrial production (23 July)
- Malaysia inflation (24 July)
- US durable goods (25 July)
- South Korea GDP (25 July)
- Hong Kong trade (25 July)
- ECB meeting (25 July)
- Japan inflation (26 July)
- US GDP (26 July)