

## ASEAN Morning Bytes

Sentiment could sour as US-China tensions flare up overnight



### EM Space: US-China tensions rise after the US closed China's consulate in Texas

- **General Asia:** Investors may turn defensive on Thursday with market players awaiting possible retaliation from China after the US abruptly closed a Chinese consulate in Texas. Potential additional stimulus efforts from the US will also be in focus although sentiment will likely still be driven mainly by Covid-19 developments and rising US-China tension on Thursday.
- **Malaysia:** Higher food, fuel and transport prices helped to deliver the full percentage point improvement in CPI inflation in June (-1.9% YoY vs -2.9% in May). This brings average inflation in 2Q20 to -2.6%, slightly weaker than our -2.5% forecast and a sharply negative turn from +0.9% in 1Q. Besides continued weak demand, base effects are at work to cause more negative inflation in 3Q. That said, we are revising our full-year forecast for 2020 to -1.8% from -2.5%. We are keeping our view of at least one more 25bp BNM policy rate cut in this cycle, at the September meeting.
- **Singapore:** June CPI inflation data is due today. The consensus is looking for a less negative headline inflation rate of -0.5% YoY (vs. -0.8% in May). The improvement mainly results from base effects rather than any underlying demand recovery even if the phasing out of the Covid-19 circuit-breaker in June should have released some pent-up demand. The core

inflation rate is likely to be unchanged at -0.2% YoY. As in most Asian economies with negative inflation, we see Singapore's negative trend lasting through the end of the year, or maybe beyond.

- **Philippines:** The Philippines recorded a surprise budget surplus of Php1.8 bn in June, with revenue collections surging as the government relaxed some of its strict lockdown measures. Revenue collection expanded 117.1% as delayed income tax returns were recorded in June with the rise in collections outpacing government expenditures, which increased 26.7%. For the year, the budget deficit settled at Php560 bn or 2.7% of GDP and we can expect the deficit to widen in the second half of the year as government spending will likely accelerate to offset the slowing economy.

## What to look out for: US-China tension and Covid-19 developments

- Singapore inflation (23 July)
- Taiwan industrial production (23 July)
- US initial jobless claims (23 July)
- Singapore industrial production (24 July)