ASEAN Morning Bytes

Sentiment recovers with investors looking to PMI manufacturing for further direction

EM Space: Sentiment improves as investors bet on economic recovery

- **General Asia:** Market sentiment improved overnight with investors looking at manufacturing data to help bolster optimism over the economic recovery. Capping the optimism will be lingering concerns about the recent pick up in new daily infections in the US with select southern states reporting a sustained acceleration in new cases from last week. Trading on Tuesday will likely take its cue from PMI manufacturing data out from major markets while regional data releases feature Singapore inflation and Taiwan industrial production.
- **Singapore:** May CPI inflation data is due today. We expect a further fall in headline inflation to -1.0% YoY from -0.7% in April as a result of steeper declines in housing and transport prices besides broader demand weakness during the Covid-19 circuit-breaker. Core inflation should be unchanged at -0.3%. There will be no break from the negative inflation trend until low base effects come into play in the second quarter of 2021.
- **Malaysia:** After a near-total collapse in April, vehicle sales bounced back to 22,960 units in May, though these were still 62% lower than a year ago. Year-to-date sales are down 49% on the year. The data reflect the extent of the hit to consumer spending due to the Covid-19

lockdown. The strain has subsided now that the lockdown is over. Yet, rising job losses and lingering political risk will continue to depress spending.

- **Malaysia:** Political tensions are brewing in the background as the Pakatan Harapan coalition of Mahathir-Anwar is trying to regain its electoral mandate through a confidence vote against the ruling government of Muhyiddin Yassin. But the duo is yet to agree on who would become the next prime minister if they succeed.
- **Indonesia:** Bank Indonesia (BI) indicated that the rupiah remained undervalued even as concerns about the rising number of Covid-19 cases caused sentiment to sour. BI governor Warjiyo, however, retained his accommodative stance, leaving the door open for further rate cuts as he shared that the central bank remained committed to supporting the economic recovery. Expectations for further rate cuts and concerns about the sustained high number of daily infections should limit space for IDR appreciation in the near term.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) governor Diokno believes that "there's too much liquidity in the system" right now, downplaying the need to reduce the level of reserve requirements in the near term. Diokno also shared that benign inflation trends give the BSP scope to cut policy rates further but stopped short of telegraphing a possible policy rate cut at Thursday's meeting. We believe BSP will trim policy rates by 25 bps at the 25 June meeting, which will cap the recent strength of the peso and give the economy an added boost to growth.

What to look out for: PMI data and Covid-19 developments

- Singapore inflation (23 June)
- Taiwan industrial production (23 June)
- US Markit PMI manufacturing and new home sales (23 June)
- Thailand trade (24 June)
- Bank of Thailand meeting (24 June)
- Bangko Sentral ng Pilipinas meeting (25 June)
- US durable goods orders, initial jobless claims, 1Q GDP (25 June)
- Singapore industrial production (26 June)
- US personal spending and consumer sentiment (26 June)

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