

ASEAN Morning Bytes

General market tone: Risk-on.

Hopes for headway on the trade deal is likely to lift risk sentiment somewhat, yet caution prevails ahead of the ECB this week and the Fed next week.



EM Space: Risk taking to return as US and China expected to resume talks next week

- **General Asia:** The US will send Larry Kudlow to Shanghai next week to resume trade talks with China, boosting sentiment on Wednesday but traders remain anxious ahead of the ECB meeting and the Fed meeting next week. The balance of economic risks remains tipped towards growth as reflected by another downgrade by the IMF of its global growth outlook.
- **Thailand:** In its just-concluded review of Thailand's economy the IMF urged the authorities for an expansionary mix of fiscal and monetary policies as well as fiscal and structural reforms to reduce macroeconomic imbalances and promote inclusive, long-run growth (see [press release](#)). While with the weak coalition government of Prime Minister Prayuth is likely to face a headwind in his push for fiscal stimulus through infrastructure spending, the monetary policy will have to do all the heavy lifting for now to arrest the ongoing economic slowdown.
- **Malaysia:** June CPI is due today. Underlying the consensus of a sharp inflation spike to 1.5% year-on-year in June from 0.2% in the previous is the normalization of a base from the

elimination of GST in June 2018. However, inflation has surprised on the downside in 10 out of the last 12 months, while falling fuel prices subject today's data to the same risk. ING forecast is 1.1%. We see average annual inflation this year staying close to the low end of the central bank's (BNM) 0.7-1.7% forecast range (-0.1% in first five months), allowing enough policy space for the BNM if it needs to cut rates further.

- **Indonesia:** Re-elected President Jokowi has been on the charming offensive, drawing in big business investment to help push economic growth. And his efforts are bearing fruits. Having secured a gas field investment from Japan, Jokowi is now targeting investors from Saudi Arabia. He is also pushing for lower corporate taxes and easing the labor as well as foreign ownership laws. The potential sizeable foreign investments inflows into Indonesia should help to stabilize the IDR and thus allow the central bank to pursue the more growth-boosting monetary policy.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) Governor Diokno sees inflation slipping below 2% in the third quarter on normalized supply conditions and the high base year effect. The inflation spike in 2018 was caused largely by supply bottlenecks and surprise reductions in reserves in 1Q 2018, though price pressures abated quickly. Stalling inflation should give the BSP more policy scope to cut rates further with likely 25 bps reduction at the August meeting.

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

- 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)

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