

ASEAN Morning Bytes

Investors likely to stay defensive, digesting US labor market data and Covid-19 developments



EM Space: US-China tensions and Covid-19 developments to keep sentiment subdued

- **General Asia:** Asian markets will likely remain defensive on Friday with investors reacting to US labor market data which showed weekly jobless claims rising for the first time in 16 weeks. Meanwhile, US lawmakers struggle to make progress on additional stimulus measures even as Covid-19 new daily cases remain elevated. US-China tensions remain high with US Secretary of state Pompeo labelling China as “a new tyranny” which should also keep market players wary. Investors will likely tread cautiously on Friday while monitoring developments on the Covid-19 front while keeping an eye on US-China tensions.
- **Thailand:** June trade figures are due today. The consensus median puts export and import growth rates at -15% YoY and -17% respectively. And the estimate for the trade surplus for the month is \$2.9 billion, which would bring the surplus in the first half to \$12 billion or \$7.5 billion wider than a year ago. The persistently wide trade surplus supports currency appreciation. The authorities have been turning up the volume of their rhetoric on the strong THB hurting the economic recovery. They should be relieved to see the THB has shifted to be Asia's weakest currency in July with 2.5% month-to-date depreciation after

strong gains in May-June.

- **Singapore:** Today's industrial production release will tell us which way the initial -12.6% YoY 2Q GDP growth figure is likely to be revised. The consensus is looking for a -2.6% IP growth, an improvement from -7.4 in May. The strong June NODX growth of +16% YoY means there is probably some upside risk to the consensus view on IP. However, this strong headline NODX growth masks underlying weakness reflected by month-on-month declines in the key drivers - pharmaceuticals and electronics.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) governor Diokno revised his FX assumption for the peso to a range of 50-52, showing an appreciation bias over his previous assumption for a 50-54 exchange rate by year-end. Diokno also revised his projection for gross international reserves (GIR) to \$95-97 bn by year-end, also an improvement for his previous forecast of \$90 bn. ING has recently revised its year-end forecast for the peso, now at 50.35 as dollar demand fades on weaker import demand given the slowdown in economic momentum.
- **Indonesia:** President Jokowi expects 2Q GDP to drop between -4.3 to -5.0% as economic activity slowed considerably due to the partial lockdown measures enforced in most major regions from April to June. Jokowi indicated that growth will likely rebound sharply in the second half of the year with exports showing a surprise expansion in June while government spending accelerates to offset the slowdown. We are not as optimistic for a quick recovery as Indonesia struggles to contain Covid-19 and we expect GDP to remain in contraction for 3Q as well.

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

- Singapore industrial production (24 July)
- Thailand GIR (24 July)

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