

ASEAN Morning Bytes

Asian markets are likely to pullback with Covid-19 concerns weighing on sentiment



EM Space: Covid-19 new daily infections continue to accelerate, clouding the economic outlook

- **General Asia:** Investors continue to worry about the economic outlook with Covid-19 new daily cases spiking in select states in the US. The surge in cases in the US has forced authorities to implement stricter social distancing guidelines but investors fear that a continued acceleration may force the reinstatement of lockdowns. The IMF downgraded its outlook for global growth with GDP expected to drop to -4.9% in 2020 (previous -3.0%) and bouncing to 5.4% in 2021 (previous 5.8%). Amidst the pandemic, the US is planning to slap fresh tariffs on select European goods as the global trade outlook remains downbeat as well. For Thursday, the US reports several data points later in the session, but sentiment will likely remain downbeat as investors focus on the Covid-19 infection counts and the dimming economic outlook.
- **Thailand:** [The Bank of Thailand kept rates on hold but slashed its economic forecasts.](#) It sees GDP tumbling 8.1% this year, steeper than the previous view of a 5.3% fall. The downgrade came as the May trade data yesterday showed exports and imports crashed by 22.5% YoY and 34.5% respectively. The central bank also lowered its inflation outlook for the year to -1.7% from -1.0%. But its optimism about both growth and inflation rebounding in

2021 (to 5% and 0.9%) might be misplaced given the uncertain global Covid-19 situation. Meanwhile, a unanimous vote for stable policy yesterday backs our view that the BoT easing cycle has ended.

- **Indonesia:** Indonesia will place up to \$2bn in state-owned banks in a bid to increase lending and loan restructuring to help support the real economy. The government hopes to support tourism, trade and other labour-intensive sectors through this lending program and is willing to expand the scope to commercial banks in the future to help offset the fallout from the virus. New daily cases for Covid-19 remain elevated and we expect the economic recovery to be prolonged as partial lockdown measures may need to be reinstated in regions that report a spike in infection.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) meets to decide on policy today with market analysts split on whether the BSP will cut policy rates. We expect governor Diokno to deliver a 25 bps rate cut with the peso maintaining its resilience and inflation at the lower-end of their 2-4% inflation target. Today's rate cut, however, will likely be the last for the year with the policy rate edging closer to the BSP's inflation forecast of 2.2% for the year. PHP will likely edge lower after the decision and the recent rise in local bond yields will be arrested in the near term as the BSP delivers more stimulus measures with the fiscal recovery bill delayed in Congress.

What to look out for: Covid-19 developments

- 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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