

ASEAN Morning Bytes

Asian markets to trend higher as inflation concerns fade somewhat



EM Space: Fed officials continue to suggest inflation will be transitory

- **General Asia:** Asian markets will likely edge higher on Tuesday with risk sentiment improving as concerns about inflation fade. Fed officials reiterated their stance that the recent pickup in inflation would be transitory, suggesting that a taper would happen but not in the near term. Market participants will also be monitoring Covid-19 developments while also waiting on US economic data set for release later in the week.
- **Singapore:** Just released, the final estimate of 1Q21 GDP brings growth to 1.3% YoY/3.1% QoQ. As expected, manufacturing was the main source of upward GDP growth revision from the 0.2%YoY/2.0% QoQ initial reading -- manufacturing growth was revised to 10.7% YoY from the 7.5% initial print. We don't think the markets will pay much attention to this GDP release. Instead, they will focus on the industrial production release for April due later today as a guide to where GDP growth is headed in the current quarter. We already know that 2Q is off to a weak start judging from the slowdown in non-oil domestic export growth in April (6.0% YoY vs. 12% in March). Hence our forecast of a slowdown in IP growth to 2.1% YoY from 7.6% in March. Indeed, moderating export strength and a significant reduction in domestic economic activity during new month-long Covid-19 restrictions will weigh on GDP growth in 2Q.

- **Thailand:** April trade data are due today. April typically is the weakest trade growth month in the year due to the Songkran (Thai New Year) holiday. Yet, the low base effects will outweigh seasonal weaknesses to support year-on-year trade growth. We forecast 5% YoY export growth and 20% YoY import growth in April, leaving a narrower trade surplus of \$253 million than March's \$711 million. This implies the cumulative surplus in the first four months would be \$6.4 billion below the level a year ago. The narrowing trade surplus and a lack of tourism receipts mean a persistent current account deficit ahead (-\$2.6 billion in the first three months). This is why we expect the THB to remain as one of Asia's underperforming currencies this year. The THB's 4.5% year-to-date depreciation against the USD is the second-most in Asia after the JPY's 5.1%.
- **Indonesia:** Bank Indonesia (BI) meets today to discuss monetary policy with the central bank widely expected to keep policy rates unchanged. Inflation remains below the central bank target due to sluggish domestic economic activity but BI will likely pause today to support the currency which has come under renewed pressure on concerns of rising global bond yields and an early Fed taper. BI Governor Warjiyo will likely support other measures to encourage a pickup in bank lending which has so far been in contraction for 7 months.

What to look out for: Covid-19 developments

- Singapore industrial production (25 May)
- Thailand trade balance (25 May)
- Bank Indonesia policy meeting (25 May)
- US new home sales (25 May)
- US conference board consumer confidence (25 May)
- US mortgage applications (26 May)
- Hong Kong trade balance (27 May)
- US durable goods orders, initial jobless claims, 1Q GDP (27 May)
- Malaysia trade balance (28 May)
- US personal spending and University of Michigan sentiment (28 May)