

ASEAN Morning Bytes

General market tone: Risk-off.

Asian markets are likely to pullback after Powell throws a curveball by talking down rate cut



1.50%

ING forecast of Bank of Thailand policy rate

On a view of 25bp cut today

EM Space: With rate cut hopes diminished by Powell's statement, traders will turn defensive

- **General Asia:** Fed Chairman Powell threw a curveball the market was not expecting, talking down the chances for a rate hike in July as he indicated he was still gauging the impact of the ongoing trade war on the US economy. Powell's comments come after President Bullard downplaying a likelihood of a 50bp rate cut at their next meeting. Meanwhile, investors are closely watching developments on the trade front ahead of G20, which should add even more reason to be cautious on Wednesday.
- **Malaysia:** May CPI is due with consensus median of 0.3% year-on-year inflation is only a slight increase from 0.2% in April. This was probably the last month of very low inflation

trend started since June last year when the government eliminated goods and services tax (GST). As the GST impact moves out of the base inflation is likely to be pushed into a 1.5-2.0% range in the rest of the year. However, the underlying inflation pressure is currently non-existent in our view and BNM policy will remain supportive of growth.

- **Philippines:** The Philippines posted a budget surplus in the month of May, hitting PHP 2.6bn. Robust revenue collection (23% YoY growth) was met by sluggish expenditure growth (pegged at 7.8%) due largely to the final tranche of the government pay bump coming on stream. For the first five months of the year, the budget posted a deficit of PHP 809m, a stark pullback from the PHP138.7bn deficit in the same period of 2018. Government spending has been the missing link to the Philippines' growth story so far in 2019. And weak spending may lead to slower borrowings in the second half of the year.
- **Singapore:** May industrial production data is due. Exports drive manufacturing. A 16% YoY fall in non-oil exports in the last month would have been a lot worse without a bounce in pharmaceutical offsetting a plunge in electronics exports. Yet, this subjects consensus estimate of 1.8% YoY IP fall to more downside than upside risk. The continued activity weakness adds to the arguments for the MAS easing in October.
- **Thailand:** We aren't worried of being wrong on our call of a 25bp Bank of Thailand policy rate cut today in face of the consensus, which is solidly predicting no change to the 1.75% policy rate. Adding to our conviction that the economy needs policy support was yesterday's manufacturing data for May showing a much steeper contraction of 4% YoY than the consensus of 1.25% fall. This, in turn, suggests that GDP growth likely to be stuck in the current quarter near the 4-year low of 2.8% in 1Q19.
- **Indonesia:** Indonesia's finance minister Sri Mulyani Indrawati indicates she is expecting weaker growth in the near term as the economy feels the pinch from the protracted trade spat between the US and China. These ill effects have manifested this year with export data mostly in contraction while the government moved swiftly to curb imports to limit the trade and current account deficits. The minister also indicated that she would be happy if the Bank Indonesia would cut rates to help spur growth, something Governor Warjiyo has hinted at during his last meeting.

What to look out for: G20 meeting

- US durable goods (26 June)
- Bank of Thailand meeting (26 June)
- Singapore industrial production (26 June)
- Malaysia inflation (26 June)
- US 1Q GDP 3rd estimate (27 June)
- Bank of Korea (27 June)
- US Michigan sentiment (28 June)