

ASEAN Morning Bytes

Markets begin to price in recession scenarios as central bank rate cuts misfire



EM Space: Risk-off sentiment continues to rule the markets

- **General Asia:** Markets are beginning to price in recession scenarios as aggressive fiscal and monetary stimulus misfire. The futures are pointing to start of yet another week of market sell-off. This week's economic calendar brings some sentiment and real activity indicators, though data are yet to fully capture the virus impact. The flash Purchasing Manager Indexes for March in the developed countries and China's industrial profits growth for the first two months of the year are worth a watch.
- **Singapore:** February CPI is due. We expect a further dip in headline inflation to 0.3% YoY from 0.8% in January but unchanged core inflation at 0.3%. All eyes are following the Monetary Authority of Singapore, which is yet to join the global central bank easing wave. However, based on accelerated depreciation of S\$-NEER the MAS seems to be accommodating the easing pressure within the existing S\$-NEER policy band, while near-halving of interbank rates this month also points to an ongoing easing.
- **Thailand:** The Bank of Thailand cut the policy rate by 25 basis point to 0.75% in an emergency easing late Friday. Coming just days ahead of the scheduled policy meeting this week (Wednesday, 25 March), which will still go ahead, the move reinforces BoT as a reluctant easer among its Asian peers. Even if they deliver one more 25bp cut this week, a

50bp in one go would have been more effective sentiment-booster than two 25bp cuts just days apart. Not that these will make much difference to the economy. We have just cut our growth forecast for 2020 to -0.5% from 1.0%.

- **Philippines:** Bangko Sentral ng Pilipinas (BSP) reported a balance of payments (BoP) surplus of \$7.8bn in 2019, a significant positive swing from the deficit of \$2.3bn in 2018. The main reason for the swing was the stark compression of the current account deficit from -\$8.7bn to -\$0.48bn as the trade deficit narrowed significantly. The narrowing of the current account deficit was one of the main factors for Peso's recent resilience. We can expect this support for the currency to continue in 2020 as weak demand amid Covid-19 spread compresses imports.
- **Indonesia:** Finance minister Indrawati sees GDP growth this year slumping to 0% to 2.5% in the event the virus outbreak stretch out to 6 months. Indonesia has had Covid-19 confirmed cases rise in the past week although Jokowi has rejected calls for a total lockdown of Indonesia. The government has rolled out three stimulus packages worth roughly 0.9% of GDP to combat the economic fallout from the virus but foreign selling continues to hound the Indonesia equity and bond markets, dragging IDR toward its 1998 Asian crisis low. We expect sustained pressure on the IDR for as long as risk-off tone persists and for as long as Covid-19 remains unchecked. With policy rate cut hurting the IDR further, Bank Indonesia (BI) appears to have run out of ammunition to support growth.

What to look out for: Manufacturing data and Covid-19 developments

- Singapore inflation (23 March)
- Thailand trade (23 March)
- Taiwan industrial production (23 March)
- Hong Kong inflation (23 March)
- Hong Kong industrial production (24 March)
- US manufacturing PMI and new homes sales (24 March)
- Malaysia inflation (25 March)
- Bank of Thailand meeting (25 March)
- US durable goods orders (25 March)
- Singapore industrial production (26 March)
- Hong Kong trade (26 March)
- US GDP, core PCE, trade balance (26 March)
- Philippines budget balance (27 March)
- Thailand GIR (27 March)
- US consumer sentiment (27 March)