

ASEAN Morning Bytes

General market tone: Risk off. The Fed hiked rates as expected while the dots pointed to a widely expected hike in December and up to three more hikes in 2019. The Fed was busy hiking its growth projections as well although Powell downplayed the recent Trump tariff's effect on inflation for the time being.



International theme: The end of accommodation

- Powell and co. were busy hiking on Wednesday, raising both policy rates and economic projections while removing the term “accommodative” from its stance. The dots point to 4 rate hikes until the end of 2019 while the market reaction is mixed on whether this means the Fed is getting closer to its preferred neutral rate.
- Trump bristled at the Fed decision to hike rates but then quickly took credit for the improved economic projections for the economy. On the trade front, Trump and Trudeau appear miles apart on an agreement with Trump indicating he refused to meet with his counterpart while Trudeau denies even asking for a meeting.

EM Space: Markets set to open lower

- **General Asia:** The dot plots will continue to weigh on investor sentiment with 4 rate hikes

projected until the end of 2019 while Powell closes the accommodative chapter for the time being. Central banks in the region will likely need at the very least follow through on rate hikes of their own later in the session. However, Powell did hold off on calculating on the impact of Trump's trade war on inflation, giving the bond market some relief.

- **ASEAN:** Asian Development Bank cut its 2018 GDP growth forecast for ASEAN group to 5.1% from 5.2%, but maintained forecast for 2019 at 5.2%. Region's inflation is projected at 2.9% for this and next year, a downgrade from 3.0% earlier forecast.
- **Malaysia:** Household debt slowed to 83.8% of GDP in 1H18 from 84.2% last year despite continued imbalances in the property market. Bank Negara Malaysia said in a statement that it was vigilant of domestic and external developments affecting domestic financial stability, and that country's financial system remained resilient and supported by well-capitalized financial institutions and liquidity. We expect BNM to keep the monetary policy on hold through 2019.
- **Singapore:** The third consecutive month of a slowdown in manufacturing output in August is likely to drag GDP growth under 3% in 3Q18 from 3.9% in 2Q. This underpins our view that MAS will maintain the current policy of a 'gradual and modest' S\$-NEER appreciation in the October meeting, instead of tightening it further. We expect spot USD/SGD rate to trade around its current level, 1.37, through the end of the year.
- **Indonesia:** The Bank of Indonesia is expected to hike rates on Thursday with the market expecting a 25 bp rate hike as Governor Warjiyo pledged measures to steady its currency. On top of the rate action, the BI is also readying programs to encourage exporters to convert Dollar holdings to the local currency to help stabilize IDR.
- **Philippines:** The Philippines is widely expected to hike rates on Thursday with Deputy Governor Guinigundo showing a more decisive stance for the Bangko Sentral ng Pilipinas, signaling a hawkish BSP even after 27 September 2018.

What to look out for: Calendar loaded with CB meetings

- Taiwan central bank meeting September 27
- Bangko Sentral ng Pilipinas meeting September 27
- Bank of Indonesia meeting September 27
- US-Canada trade negotiations (deadline: end of September)
- Argentina-IMF credit line request (awaiting board approval)