

ASEAN Morning Bytes

Sentiment continues to sour on Wednesday on concerns over global growth prospects



EM Space: Anxiety over rising Covid-19 cases and delays in US stimulus weigh on sentiment

- **General Asia:** Investors will likely be defensive again on Wednesday with Covid-19 cases spiking across most of the globe, with many countries resorting to restrictions last seen in 2Q. Concerns that global growth is headed for another downturn has weighed on sentiment with the much-awaited US fiscal stimulus plan likely shelved until after the election, with US Senators now in recess ahead of the elections. On Thursday, the ECB and BoJ meet to discuss policy, while the US is set to report a solid rebound in 3Q GDP data, however investors will still likely take their cue from Covid-19 developments and the upcoming US elections.
- **Malaysia:** September trade data is due today. The electronics-led recovery in Asian exports has gained momentum in recent months, and we don't think Malaysia was left out of the bandwagon. We are looking for 7% YoY export growth in September, up from -2.9% in August. Some of this positive swing is also helped by the low base effect. Meanwhile, the continued negative import growth sustains a high trade surplus, the key life support for the MYR amidst ongoing political uncertainty. All eyes are on the 2021 Federal Budget next week (6 November), which comes as a key test of confidence in Prime Minister Muhyiddin

Yassin's coalition government. We see politics continuing to exert weakening pressure on the MYR. We are reviewing our end-year 4.18 USD/MYR forecast for a possible upward revision.

- **Thailand:** September manufacturing data due today will help us to fine-tune our GDP growth forecast for the third quarter, currently -8.2% YoY (-12.2% in 2Q). A negative manufacturing growth trend in place since early 2019 persisted in the last month, albeit to a lesser extent than August (ING forecast -8.0% YoY vs. -9.3% in August). While Thai exports are yet to catch up with the recovery seen in their Asian counterparts, weak domestic demand continues to depress production. Here too, politics has been a drag on economic confidence. Surprisingly, the THB isn't doing as bad as you would have thought, though we aren't confident about the currency's lasting resilience to political jitters. Our end-year USD/THB forecast is 32.30.
- **Philippines:** President Duterte retained the current quarantine status for the capital region for the month of November to slow the spread of Covid-19, with national testing capacity impaired by bureaucratic delays. Authorities have moved to relax lockdown measures in recent months to bolster growth momentum, but the still-elevated number of cases will likely hobble consumer spending and weigh on business sentiment in the near term. We expect lockdown measures and Covid-19 to weigh on the overall growth outlook with 2020 GDP likely falling by 9.9%.
- **Indonesia:** Bank Indonesia (BI) Governor Warjiyo indicated that the central bank would help provide support for the economy and shared that more policy easing could be on the way in 2021 should conditions and data warrant such a move. BI has opted to pause at its last few meetings to support an ailing currency, but Warjiyo believes that IDR remains undervalued and is poised for a rebound that would be in-line with the country's fundamentals. We expect BI to remain on hold for the balance of the year, with a window for further easing opening up in early 2021, should IDR stabilise and inflation remain within the 2-4% inflation target band.

What to look out for: Covid-19 developments

- Malaysia trade (28 October)
- US mortgage applications and wholesale inventories (28 October)
- Bank of Japan policy meeting (29 October)
- US initial jobless claims, 3Q GDP (29 October)
- ECB policy meeting (29 October)
- Thailand trade (30 October)
- Taiwan GDP (30 October)
- US personal spending, consumer sentiment (30 October)