ASEAN Morning Bytes

Market players continue to focus on economic recovery even as US-China tensions remain elevated

EM Space: Optimism over reopening outweighing risks

- **General Asia:** Sentiment will likely be driven by optimism over economies reopening across the globe after respective lockdowns. Risks remain elevated, however, with US-China tensions brewing and with the civil unrest in the United States which could tip the balance of sentiment back to risk aversion. Meanwhile, widespread protests in the US (and around the world) could spark a second wave of Covid-19 infection with social distancing largely being ignored during the demonstrations. Economic data scheduled on Wednesday focuses on PMI services, which is the sector of the economy most affected by lockdowns and Covid-19, and US jobs data out later in the evening.
- **Singapore:** The manufacturing PMI for May is due today. Unlike some big PMI bounces elsewhere in the region from their all-time lows reached in April, we don't see Singapore's PMI moving much in either direction from its 44.7 reading in April. The index has been below 50 since February, signifying contraction. But there has been a dichotomy between the PMI data and the hard data on output, given the lopsided recovery dominated by pharmaceuticals. Everything else is weak and an accelerated GDP contraction in 2Q is still inevitable (ING forecast -6.8% YoY).
- **Thailand:** Titanun Mallikamas, an assistant governor of the Bank of Thailand, sees the

current account as being close to balance over the rest of the year, as weak tourism receipts offset a persistent surplus from goods trade. The cumulative current surplus of $8.9 billion in the first four months of the year is $5 billion narrower than a year ago, thanks to increasing outflows on the services side. The narrowing current surplus remains a headwind for THB appreciation ahead, though the currency has been on a steady appreciation path since April and has recovered almost half of the 10% loss incurred in the first quarter.

- **Indonesia:** Indonesia reported that inflation slipped to 2.2% in May, right on the market consensus and much slower than the April reading as crude oil prices tanked and domestic demand faded during the partial lockdown. Inflation slowed despite a holiday with Jokowi implementing a regional travel ban to prevent the spread of the virus. The benign inflation environment leaves the door open for Bank Indonesia to cut policy rates at the June meeting as IDR finds its footing with foreign investors returning to the bond market.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) reported that the balance of payments (BoP) for March remained in surplus of $448 mn, bringing the year-to-date BoP to a slight deficit of $68 mn. Financial account flows driven by foreign borrowings had helped offset a current account deficit and we expect this trend to continue for the rest of the year. The Department of Finance has announced up to $7 bn worth of foreign loans for the year to help fund the Covid-19 response which will likely shore up the BoP with the current account slipping further into deficit as remittance flows fade.

What to look out for: PMI services and Covid-19 developments

- Hong Kong PMI manufacturing (3 June)
- China Caixin PMI services (3 June)
- Singapore PMI (3 June)
- US factory orders, ISM non-manufacturing PMI and ADP employment (3 June)
- Malaysia trade (4 June)
- US trade (4 June)
- Philippines inflation (5 June)
- Thailand inflation (5 June)
- Singapore retail sales (5 June)
- Taiwan inflation (5 June)
- US non-farm payrolls (5 June)
- Regional GIR (5 June)