

ASEAN Morning Bytes

The ECB and BoE join the fray of central banks offering monetary support in the face of the Covid-19 economic slowdown.



EM Space: Markets could rally on stimulus hopes

- **General Asia:** Emerging markets may rally on Tuesday with central banks pledging to enact targeted stimulus measures to help respective economies weather the economic impact from Covid-19. Manufacturing data reported on Monday showed the initial ill effects from the virus with most Asian PMI's on a downtrend. On Tuesday, markets will be monitoring the central bank meeting in Malaysia and PMI manufacturing data out from Singapore for additional trading direction.
- **Malaysia:** It's decision day for Bank Negara Malaysia. A sharp slowdown in growth to a decade-low 3.6% in 4Q19 coupled with increased downside risk from the Covid-19 outbreak and, most recently, political uncertainty has strengthened our long-held view of a 25bp rate cut at this meeting, the second cut this year. Governor Shamsiah Yunos has signalled "ample room" to adjust rates given subdued inflation. If so, the earlier the central bank acts, the better it would be to for the economy as political uncertainty clouds prospects for fiscal support any time soon. We don't think this will be the last cut in this cycle. We have pencilled in one more in 2Q20.
- **Thailand:** The Business Sentiment Index plunged to an eight-year low of 44.1 in February from 48.5 in the previous month. The index loosely tracks real GDP growth, signalling a

continued slowdown in the economy in the current quarter and beyond. We believe the Bank of Thailand is on track for one more rate cut this month. The THB continued to gain ground below 31.50 against the USD even as the BoT's new measures to weaken the currency took effect yesterday. Our end-1Q20 USD/THB view remains at 32.80.

- **Indonesia:** Indonesia announced that it had detected two cases of infection in the country while Bank Indonesia Governor Warjiyo indicated that growth in Indonesia can still attain its growth target of 5.4%. The central bank, however, rolled out fresh stimulus to help alleviate tightening liquidity conditions by lowering its foreign exchange reserve requirement ratio to 4% from 8% while also reducing reserves for Rupiah deposits by 50 bps to 4.0%. BI vowed to step up intervention to help stabilize the IDR which has been battered by the recent emerging market rout and we expect BI to remain on hold with regard to policy rates until IDR stabilizes.
- **Philippines:** Economic planning secretary Pernia indicated that growth can be pared by up to a full percentage point should the ongoing coronavirus persist for the rest of the year. Pernia also shared that given the expectations for weaker revenue collection and increased stimulus spending, the government may breach its 3.5% deficit to GDP ratio target for the year. Meanwhile, Bangko Sentral ng Pilipinas (BSP) Governor Diokno shared that he remained open to cutting policy rates by another 25 bps as promised, but that any additional rate cuts on top of that may not be as effective as fiscal spending. Thus, we expect BSP to carry out its 2nd rate cut in May with a 25 bps reduction to the policy rate and refrain from adjusting its stance for the rest of the year.

What to look out for: BNM meeting Covid-19

- Malaysia BNM policy rate meeting (3 March)
- Singapore PMI manufacturing (3 March)
- China Caixin PMI services (4 March)
- Malaysia trade (4 March)
- Philippines inflation (5 March)
- Thailand inflation (5 March)
- US initial jobless claims (5 March)
- Taiwan inflation (6 March)
- US trade balance and jobs report (6 March)