

ASEAN Morning Bytes

Investors will take their cue from manufacturing data while keeping an eye on Covid-19 developments.



China's PMI data could give additional direction on Tuesday

- **General Asia:** Concerns continue to mount over the acceleration in Covid-19 new daily infections in the US while Fed Chair Powell highlights the importance of containing the virus as the economy attempts to bounce back. Meanwhile, geopolitical tensions continue to simmer with the US removing certain trade benefits extended to Hong Kong given China's recent imposition of security measures. Manufacturing data from China will be the highlight for Tuesday's economic data calendar although Covid-19 developments should continue to dominate sentiment with new lockdowns reported in China's Hebei province.
- **Malaysia:** S&P downgrade the outlook for Malaysia's 'A-' sovereign rating from Stable to Negative. The agency pointed to weakening public finances with a risk of net government debt topping 60% of GDP. Weak growth and rising government spending to support the economy are set to widen the budget deficit to more than 6% of GDP in 2020 from 3.4% in 2019. The S&P action follows a similar move by Fitch Ratings back in April. Moody's might soon follow suit. Unfortunately, it's hard to justify such negative actions when economies require aggressive policy support. The MYR should continue under weakening pressure from such news.
- **Thailand:** Balance of payments data for May is due. We expect a second consecutive month

of current account deficit (-\$1.4 billion vs. -\$654 million in April), as net outflows on the services side continue to offset surpluses from merchandise trade (\$2.7 billion on customs basis). Meanwhile, weak exports dragged manufacturing output down by 23% YoY in May, consistent with our forecast of a greater than 8% YoY GDP fall in 2Q20. Despite all the underlying negatives, the THB remains the investors' darling with 3% appreciation against the USD so far in June.

- **Philippines:** Bangko Sentral ng Pilipinas' (BSP) governor indicated that he would likely pause on cutting policy rates for "at least a couple of quarters" although he reiterated that the central bank continued to have ammunition to provide further stimulus to offset the fallout from Covid-19. We expect BSP to refrain from cutting policy rates further which would be supportive of PHP in the near term although a resurgence in import demand coupled with the slowdown in remittances could spark a reversal of the peso's trend.
- **Indonesia:** Finance Minister Indrawati informed parliament that the national government and Bank Indonesia (BI) are finalizing plans for the central bank to purchase government bonds at a discount to help ease the financing burden of Covid-19 efforts. The agreement moves in-line with the previously announced "burden-sharing" agreement with BI expected to purchase up to IDR398 trillion worth of bonds at zero interest to help fund loans to micro, small and medium enterprises. Such a move would help cap any rise in bond yields in the short term although the authorities must outline details for an eventual exit strategy for the bond purchase scheme.

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

- China manufacturing and non-manufacturing PMI (30 June)
- Thailand BoP (30 June)
- US consumer confidence (30 June)
- Fed's Powell testimony before congress (30 June)
- regional manufacturing PMI (1 July)
- Indonesia inflation (1 July)
- US ADP employment, ISM manufacturing PMI (1 July)
- US trade, non-farm payrolls, factory orders, durable goods orders (2 July)
- China Caixin PMI (3 July)
- Thailand inflation (3 July)
- Malaysia trade (3 July)
- Singapore retail sales (3 July)