

ASEAN Morning Bytes

General market tone: Risk-on.

Risk-on sentiment returns with sputtering US economic data putting the Fed policy easing back in focus



2.2% Consensus on Malaysia's export growth in May

EM Space: Slowing growth, rising odds of Fed rate cuts

- **General Asia:** Disappointing services data and still widening trade deficit in the US has stoked expectations that the Fed is on track to cut policy rates as early as July. Hopes of Fed easing are likely to boost risk-on sentiment ahead of Friday's NFP data.
- **Malaysia:** May trade data is due today. The accelerated export weakness in the rest of Asia subjects the consensus of 2.2% growth in Malaysian exports to downside risk (ING -4.5%). Electronics exports are holding up relatively well in face of large declines elsewhere. A stark contrast with Singapore, which is leading global tech slump with a negative electronics export trend since end-2017, probably reflects supply chain relocation from Singapore to Malaysia. Even so, it's hard to see Malaysia's electronics exports continuing to defy the

global downturn.

- **Thailand:** The Bank of Thailand is reportedly worried about accelerated currency strength recently and is considering measures to stem the appreciation pressure. Speaking to media yesterday, the central bank's senior director Don Nakornthab said there was room for an interest rate cut. Despite persistent trade and current account surpluses, the strong currency appreciation appears to be at odds with a weak real economy and accelerating GDP slowdown. We anticipate two 25bp BoT policy rate cuts in 3Q and 4Q.
- **Philippines:** The Bangko Sentral ng Pilipinas (BSP) Governor Diokono took on a dovish tone again, hinting at probable rate cuts in the near term supported by the likelihood of inflation to be "at or below 2% in the 3Q". He also hinted at further reductions to the reserve requirement ratio. This supports our view of more BSP easing as early as in August via both channels of policy rate and RRR cuts.

What to look out for: US data

- Malaysia trade (4 July)
- Thailand consumer confidence (4 July)
- Philippines inflation (5 July)
- Taiwan inflation (5 July)
- US non-farm payroll (5 July)