

ASEAN Morning Bytes

Asian markets expected to edge lower on hawkish tone from Fed



EM Space: Hawkish Fed speak keeps markets muted

- **General Asia:** Asian markets are expected to pull back on Thursday as investors react to relatively more hawkish commentary from Fed officials overnight. Economic data out from the US was mixed. The ADP jobs report fell well-short of expectations while the ISM services index beat market consensus. On the Covid-19 front, cases accelerated across most regions, due to the spread of the delta variant, with a sustained pickup in infections expected to weigh on the momentum for growth. Investors will likely be sifting through regional inflation data in the morning session, the upcoming US jobs report on Friday as well as the Covid-19 situation for more direction.
- **Thailand:** July consumer price data today should show inflation drifting below the Bank of Thailand's 1% to 3% policy target after a brief rise above it earlier this year (ING forecast 0.8% YoY vs. 1.3% in June). Significant demand slack in the economy suggests that inflation isn't going to be a problem in Thailand for the foreseeable future. In a drastic downgrade yesterday, the BoT cut its growth outlook for this year from 1.8% to 0.7% whilst leaving monetary policy on hold. The accompanying [Policy Statement](#) cited "significant downside risks" to the economy due to the Covid-19 outbreak and concluded that the Policy Committee would be prepared to "use additional appropriate monetary policy tools if necessary". We remain of the view that BoT policy has nowhere to go until after 2022. The

USD/THB rate remains on track towards our 35.00 forecast for end-2021.

- **Malaysia:** The power struggle continues. Prime Minister Muhyiddin Yassin persists with his defiance of calls by opposition parties to step down. After his audience with the King yesterday, he claimed to have a sufficient number of MPs on his side to prove the legitimacy of his coalition government in parliament next month. The USD/MYR has been steady around 4.22 over the last few trading sessions, though we believe there is worse to come for this currency. Our end-2021 USD/MYR forecast remains at 4.40.
- **Philippines:** July inflation will be reported on Thursday with market participants expecting headline inflation to dip to 4.0% from 4.1% in the previous month. This will mark the first time that inflation will fall within the central bank's target range although we are expecting price pressures to remain in the months ahead despite soft domestic demand. Energy costs have kept upward pressure on headline inflation due to relatively expensive crude oil prices feeding through to gasoline and utility costs. Despite a possible uptick in inflation, we believe Bangko Sentral ng Pilipinas (BSP) will keep rates unchanged for the balance of 2021 given repeated comments by Governor Diokno on the need to provide monetary policy support.
- **Indonesia:** Indonesia will report 2Q GDP today with forecasts pointing to a 6.7% YoY expansion driven largely by base effects after the economy contracted by 5.3% in 2Q 2020. Aside from the favourable base, the Indonesian economy was showing some modest improvements in activity with PMI manufacturing posting solid expansion while both consumer sentiment and retail sales were trending higher for the period April to June. But we expect much of this momentum to quickly fade in 3Q with the authorities implementing strict mobility curbs to combat a surge in Covid-19 cases. With growth momentum fading, we expect Bank Indonesia (BI) to reiterate its "pro-growth" stance and keep rates unchanged throughout the year.

What to look out for: US NFP and Covid-19 developments

- Philippines CPI inflation (5 August)
- Thailand CPI inflation (5 August)
- Indonesia 2Q GDP (5 August)
- Taiwan CPI inflation (5 August)
- US trade balance and initial jobless claims (5 August)
- Philippines trade balance (6 August)
- US non-farm payrolls (6 August)