

## ASEAN Morning Bytes

The escalated US-China trade tension remains a dominant theme for markets



# 3.00%

Consensus forecast of BNM policy rate

A 25bp cut

### EM Space: No lasting relief from trade tensions in sight

- **General Asia:** The reports of China staying on course for further trade negotiations with the US and the Peoples' Bank of China softening the impact of trade hostility on growth with RRR cuts should be a relief for markets. However, there is no lasting relief with the US set to hike tariffs on Friday, 10 May. The elevated growth risk will move some Asian central banks to ease policies this week. The Reserve Bank of Australia (RBA) and Bank Negara Malaysia (BNM) are expected to cut rates today.
- **Indonesia:** 1Q19 GDP growth of 5.1% YoY was barely a slowdown from 5.2% in 4Q18. Surprisingly weak government spending and gross capital formation were the weak spots more than offsetting improved contribution to GDP growth from net trade. The central bank (Bank Indonesia) expects growth gaining some traction in 2Q19. BI also signaled its

continued presence in the currency market to ensure stability as the risk of emerging currency sell-off is escalated now. There is no change in our view of an on-hold BI policy this year.

- **Malaysia:** The consensus on the BNM policy decision today is biased towards a 25bp rate cut; 14 out of 23 analysts in the Bloomberg survey anticipate a cut. today. Subdued inflation, high real interest rates, and intensifying downside growth risks are some of the factors supporting a rate cut, which is also priced in by the market as evident from about 30bp year-to-date fall in the 10-year government bond yield.
- **Philippines:** April CPI is due today. The expectations are centered on inflation coming in close to the low end of the BSP's 2.7-3.5% forecast range for the month (consensus 3.1%, ING forecast 2.9%), which will strengthen the BSP for a rate cut at the meeting later this week. Lower rates should also ease some debt servicing burden of the government. The government reported a 13.4% YoY rise in its outstanding debt to PHP 7.8tr in March.