

ASEAN Morning Bytes

Asian markets to move sideways on Thursday digesting Fed minutes



EM Space: Investors digest FOMC minutes

- **General Asia:** Asian markets will likely move sideways on Thursday as investors digest the minutes of the most recent FOMC meeting. Fed officials remained unclear as to the timing of the pullback in asset purchases given the economic uncertainty although some officials felt the need to prepare for the eventual exit should economic data support such a move. Investors will focus on initial jobless claims from the US and the ECB strategy review later tonight as well as developments on the energy front with OPEC leaders still at an impasse with regard to production levels.
- **Malaysia:** Bank Negara Malaysia concludes its two-day policy meeting today. The central bank's last policy move was a 25bp cut to the overnight policy rate (OPR) in July last year. We aren't looking for any change today, which is also the market consensus. The ongoing Covid-19 third wave has been hitting the economy hard. As this demands greater monetary policy accommodation, current high inflation running over 4%, although mainly transitory due to low base effects, has reduced the scope for any easing. We have cut our GDP growth forecast for 2021 from 5.3% to 4.4% and expect average inflation this year at close to the low end of the BNM's 2.5% to 4.0% forecast range. With fiscal policy providing most of the support for the economy, BNM's policy status quo should continue through the rest of this year, leaving the MYR at the mercy of global oil prices. We have revised our end-2021 USD/MYR view from 4.12 to 4.22 (spot 4.17).

- **Singapore:** The authorities announced a further relaxation of Covid-19 restrictions as the number of community infections continues to fall. Effective from 12 July the number of people allowed for social gatherings will rise from two to five and other activities such as high-intensity mask-off indoor fitness, large sports classes as well as wedding receptions, etc. will also be permitted. The move should instil some more life into the domestic economy, while the key economic drivers of exports and manufacturing have seen their vigour sapped in recent months. We anticipate no significant impact for the USD/SGD, however. The pair should continue to track the DXY higher to our 1.37 view for end-2021, revised up from 1.35 following the June sell-off (spot 1.35).
- **Philippines:** PHP is now on a two-week downturn, with outflows linked to anxiety over the country's inclusion in the FATF grey list, triggering the sell-off. PHP slid to new 2021 weakness on Wednesday as foreign investors exited from the local equity market, adding to the currency's woes. Import demand however remains soft with the economy still handicapped by ongoing partial lockdowns but the depreciation trend may have forced dealers out from their positions with stop losses triggered. We do expect a near term correction with the Bureau of the Treasury possibly offloading proceeds from a recent Dollar bond issuance.

What to look out for: Covid-19 developments

- Malaysia BNM policy rate (8 July)
- US initial jobless claims (8 July)
- Philippines trade balance (9 July)
- China CPI inflation (9 July)
- US wholesale inventories (9 July)