

ASEAN Morning Bytes

The intensification of the trade war between the US and China sustain the negative spell on markets with Asian risk assets poised for another bad day today. Adding to the emerging market woes are political jitters in Turkey, South Africa, and Thailand



1.75%

The Bank of Thailand's policy rate

No change expected today

EM Space: The trade war and political risks weigh on investor sentiment

- **General Asia:** The escalation of US-China trade tensions with China considering retaliatory tariffs on US products dampens hopes of a trade deal even as Vice Premier Liu He continues negotiations this week. Asian central banks remain in the headlines. Australia's central bank left the policy on hold yesterday and those of New Zealand and Thailand are expected to follow suit today.
- **Indonesia:** Keeping up its verbal intervention amid ongoing market rout, a senior Bank

Indonesia official warned about the central bank's intervention in both bonds and foreign exchange markets to ensure currency stability. BI also unveiled new regulations governing money and foreign exchange markets towards greater efficiency and transparency.

- **Malaysia:** As expected, the Bank Negara Malaysia cut the overnight policy rate by 25bp to 3.00%, citing increased external headwinds to growth. The cut still leaves BNM with a sufficient interest rate buffer if economic conditions deteriorate further. That may not be required though, as growth is likely to stay firmly within BNM's baseline of 4.3 - 4.8% for the year. That said, we revise our year-end USD/MYR forecast from 4.05 to 4.12.
- **Philippines:** April CPI inflation came in below consensus at 3.0% YoY. The slowdown from 3.3% in March was pretty much across the board but for the transport component. The trade data for March is due today and it's expected to show continued electronics-led export weakness. As for most Asian counterparts, we believe the central bank (BSP) will judge the current economic conditions warranting greater policy accommodation. Hence our forecast of a 25bp BSP policy rate cut tomorrow.
- **Thailand:** The Bank of Thailand is widely expected to stay pat today. The political uncertainty about the formation of the new government will continue to overshadow the economy. The Thaksin-linked Pheu Thai Party and military-backed Palang Pracharat Party emerged as main parties in the election held on 24 March, though both lacked a single-party majority to form the government. And the controversial electoral system is adding to the difficulty of coalition formation by either party. Yet, the balance of power remains tilted toward the PM Prayuth's Palang Pracharat party.

What to look out for: Developments on US-China trade deal and central bank policies

- China exports (8 May)
- Philippines trade (8 May)
- The Bank of Thailand meeting (8 May)
- China CPI (9 May)
- Philippines 1Q19 GDP and BSP policy meeting (9 May)
- US trade balance and PPI (9 May)
- UK 1Q19 GDP (10 May)
- US CPI (10 May)