

## ASEAN Morning Bytes

General market tone: Risk-on.

Global markets may rally as investors took the results of the US mid-term election to be positive after Trump's apparent openness to deal with the Democrats to get legislation passed



### International theme: Risk sentiment restored for now with focus turning to the Fed

- A split in Congress with Democrats taking the House and Republicans retaining the Senate was what the market had ordered, sparking a rebound in equities. US Treasury yields slipped as expectations for a slowdown in stimulus is seen to benefit the bond market, although focus now turns to the Fed meeting later in the session.

### EM Space: Asian markets are seen to rally but China trade data pose the risk

- **General Asia:** Risk-on sentiment may resume after the relatively positive election US midterm results. The focus now shifts to the Fed with Powell and company still being seen to be hawkish. The Fed chair will conduct a press conference after the two-day meeting as he looks to improve communication of the FOMC's guidance.
- **Indonesia:** In the first monthly gain this year, international reserves improved to \$115.2bn

in October from \$114.8bn in September. With the IDR appreciating in recent weeks, we can expect the central bank to look to replenish its reserves, which are down from \$131.9 bn at the start of the year. Given the relative stability in financial markets and the risk rally, this lowers the likelihood that the BI tightening the monetary policy at its next meeting on 15 November as Governor Warjiyo looks to keep the powder dry for further rate hikes.

- **Malaysia:** Bank Negara Malaysia announces its policy decision. There is a unanimous consensus forecast of no change to the BNM policy today. Slowing growth and negligible inflation are behind our view of a stable BNM policy through 2019.
- **Malaysia:** Foreign exchange reserves fell by 1.3% to \$101.7bn in October from the previous month. Most of the fall occurred in the second half of October when the MYR depreciation pressure intensified, probably, due to increased budget anxiety. While Malaysia's external payments situation remains healthy, weak public finances will be the key headwind to MYR appreciation. We consider our 4.20 end-2018 USD/MYR forecast subject to upside risk.
- **Thailand:** The Commerce Ministry is formulating policies to boost economic cooperation with China, aiming to double bilateral trade to \$140bn by 2021. Besides promoting investment in key sectors including autos, electronics, robotics, tourism, food, logistics and aviation, and science and technology, two countries also agreed to promote the use of their respective currencies (THB and CNY) in bilateral transactions for trade and investment. Closer economic ties with China bode well for Thailand's long-term economic prospects.
- **Philippines:** 3Q GDP will be reported later in the session with the consensus looking at a 6.2% expansion, faster than revised 6.2% growth in 2Q after upgrading estimates to mining and real estate income. Our above-consensus 6.3% forecast rests on firmer household spending, albeit at a slower clip, with government spending and investments bringing up the rear. A strong print could prod the BSP to hike rates at its 15 November meeting to anchor inflation expectations while a disappointing number may cause the BSP to postpone the adjustment to December.
- **Philippines:** Philippine imports for September grew by a whopping 26.1% while exports remained in the doldrums, falling by 2.6%. The trade deficit in September of \$3.93 bn indicates that the current account will likely remain in the red as capital goods and raw material imports are unlikely to slow down in the near-term given the burgeoning economy. This will put added pressure on the Peso as structural inflows are unable to cover the trade deficit.
- **Philippines:** Gross international reserves slipped to \$74.8 bn, just slightly lower than the previous month as the BSP was able to recoup some of recent reserves loss via its foreign exchange operations. For the month of October, the Philippine peso appreciated by 0.9% as risk sentiment improved on promising US-China trade negotiations and capital flows related to an equity offering.

## What to look out for: China trade data, FOMC meeting

- PH 3Q GDP (8 November)
- CH trade (8 November)
- US FOMC (9 November)
- US consumer sentiment (9 November)