

ASEAN Morning Bytes

Asian markets likely to track pullback overnight



EM Space: Growth concerns return as Delta variant spreads

- **General Asia:** Asian markets will likely edge lower on Friday as the focus has shifted back to growth concerns with the Delta variant threatening the global recovery. Cases have been on the rise in most areas of the globe with some authorities mulling booster shots to improve efficacy against this particularly virulent strain of Covid. Data reports on Friday centre around China's inflation report while the Philippines releases data on May trade. Initial jobless claims were flat while the ECB release overnight gave scant new insights on ECB policy with investors likely to focus on Covid-19 developments in the near term.
- **Malaysia:** Local markets sold off yesterday as the dominant political ally in Prime Minister Muhyiddin Yassin's coalition withdrew its support for the government. However, the 1.4% fall of the KLSE Stock Index wasn't that bad a reaction in a broader emerging market risk-off environment yesterday, while the MYR's 0.5% depreciation also was muted. This may not signal the start of significant market re-pricing of political risk ahead, nor are political analysts predicting any snap polls imminently. However, it's fair to expect continued uncertainty in the months ahead weighing down the economy and markets. Without enough legislative support, the government will face greater difficulty in getting its key economic support policies underway, while the domestic Covid-19 situation continues to worsen (8,868 new cases yesterday were the second-highest and 135 deaths were the highest ever daily counts since the start of the pandemic). The BNM warned about

continued downside growth risks ahead as it left monetary policy on hold yesterday. We don't rule out a further upward revision to our end-2021 USD/MYR view of 4.22 even though we have just raised it from 4.12 (spot 4.18).

- **Philippines:** May trade data will be reported later on Friday with market participants expecting double-digit expansion for both imports and exports as base effects bloat growth rates. Exports are likely to pick up as shipments to both the US and China have been brisk due to improving economic conditions in those countries while inbound shipments are also expected to rise sharply as economic activity has picked up considerably from the pace in 2020 when most of the country was in hard lockdown. The trade balance is expected to slide deeper into deficit to roughly \$2.7 bn, which may exert additional pressure on the PHP in the near term.
- **Indonesia:** Indonesia's consumer confidence hit 107.4 in June according to a central bank survey, the highest level since the pandemic. We however expect this recent improvement to reverse in the coming months as new Covid-19 infections continue to surge with Indonesia recording yet another new daily record for both infections and mortalities. The authorities have extended partial lockdown restrictions to the rest of the country while tightening restrictions further in areas of high infection. Surging cases and tighter lockdowns will likely weigh on consumer sentiment, overall economic activity and IDR in the near term.

What to look out for: China inflation and Covid-19 developments

- Philippines trade balance (9 July)
- China CPI inflation (9 July)
- US wholesale inventories (9 July)