

ASEAN Morning Bytes

Asian markets are expected to pullback on Thursday ahead of the ECB policy decision



EM Space: China inflation report will set tone ahead of ECB policy meeting on Thursday

- **General Asia:** Asian markets may open on the backfoot on Thursday, tracking the downbeat sentiment on Wall Street overnight. Comments from New York Fed President, Williams, suggesting the taper may happen in the coming months could have weighed on sentiment. Meanwhile, investors also digested the less-optimistic Fed Beige book reflecting concerns about growth, inflation and rising wages. China's inflation report in the morning session could help drive trading direction on Thursday while the ECB decides on monetary policy later in the day.
- **Malaysia:** We don't think local markets are fixated on Bank Negara Malaysia's policy meeting today. This is because the central bank is going to leave policy on hold, just as it has done over the past year and a half. The policy statement should reinforce persistent downside growth risk; last month the BNM sharply cut its 2021 growth outlook to a 3%-4% range from 6%-7.5% previously. The latest proposal by Finance Minister Zafrul Aziz to raise the statutory debt ceiling from 60% of GDP to 65% is a prelude to more fiscal stimulus to soften the economic impact of the latest COVID-19 wave. Consequently, monetary policy

can continue to take a backstage given that the record low policy rate of 1.75% and an inflation rate of 2.2% leave the real rate in negative territory. Against this backdrop, the MYR's outperformance relative to its Asian peers since July seems unsustainable. Our end-year USD/MYR forecast is 4.23 (spot 4.15).

- **Philippines:** July trade figures are set for release on Thursday. Both exports and imports are expected to expand by double digits as base effects from last year's decline in activity bloat YoY growth numbers. The trade deficit will likely widen and market participants forecast the shortfall to reach \$2.95 bn. The widening trade deficit may push the overall current account balance into deficit territory and exert additional depreciation on the peso in the near term.

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

- Philippines trade balance (9 September)
- China CPI inflation (9 September)
- ECB policy meeting (9 September)
- US PPI inflation (10 September)

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