

Asia week ahead: How will Malaysian markets react to a political shift?

Politics may overshadow economics and markets in Malaysia and India, while hopes rise of a breakthrough in the second round of Sino-US trade talks



➔ Malaysia – Are markets caught off guard?

Sentiment in Malaysian markets next week will be driven by the surprise outcome of the general election held on Wednesday, 9 May ([see “Malaysia: Mahathir returns, uncertainty lingers” for more](#)). Due to a public holiday on the remaining days of this week, investors had no chance to react and have been forced to wait until markets re-open on Monday, May 14. We anticipate the knee-jerk reaction to be more negative than positive, as investors had been pricing in continuity of previous government policy, and the unexpected voter verdict has caught them off guard.

The Malaysian currency (MYR) has lost 2.2% against the US dollar since early April. We expect weakness to continue until the political dust settles. Meanwhile, Malaysia's GDP and balance of payments data for the first quarter (due Thursday, 17 May) is expected to reveal that the economy

continued to perform well coming into 2018. We forecast steady, strong GDP growth of 5.6% year-on-year in 1Q18. But for now, nothing matters more than politics.

5.6% ING forecast for Malaysia GDP growth in 1Q18
Year-on-year

➔ China – Will second round trade talks with US see breakthrough?

A Chinese delegation led by Vice Premier Liu He will visit the US for another round of trade talks, after a stalemate in the previous round a week ago. With both sides remaining firm on their stance, any breakthrough may appear to be a less probable proposition. What's good for the markets, for now, is that at least they are coming to the table to talk it through. However, the Xi-Trump phone conversation this week on a possible consensus to resolve the issue is keeping hopes high for the upcoming talks.

Chinese data on the calendar in the coming week are industrial production, fixed asset investment, retail sales and housing market data for April. We forecast a modest pick-up in economic activity growth. Absent a significant trade shock, the Chinese economy will continue to grow steadily this year.

➔ India – What's in store for Modi's BJP in Karnataka?

Assembly elections in the southern state of Karnataka are held on Saturday, 12 May. Prime Minister Modi's Bhartiya Janata Party (BJP) will take on ruling Indian National Congress (INC) for the 224 assembly seats. The outcome of this and other state elections later in the year will be an important guide to whether the BJP retains power at the national level in the general elections to be held in mid-2019.

Although politics is capable of nudging the focus away from economics, the key economic data on inflation and trade is unlikely to go unnoticed in an ongoing selloff in local financial markets. Our forecasts look for an acceleration in consumer price inflation and the wider trade deficit in April, suggesting there will be no respite from the weak market sentiment.

➔ Indonesia – Will central bank move to tightening?

Indonesia's central bank (Bank Indonesia) announces its monetary policy decision on Thursday, 17 May. We aren't forecasting a hike at this meeting but will not be surprised if BI delivers one, which is required to stem a selloff in the Indonesian rupiah (IDR) and the sovereign debt. Inflation has been anchored within BI's 2.5-4.5% policy target but a weak currency and rising global oil prices have increased the chances of it accelerating above target. We do not think one rate hike will be enough and have pencilled in one more towards the end of the year.

4.25% BI policy rate

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Friday 11 May					
India	1300	Mar Industrial production (YoY%)	5.6	5.7	7.1
Singapore	0600	Mar Retail sales value (MoM/YoY%)	-0.9/1.5	0.8/1.5	-1.7/8.6
Monday 14 May					
India	0730	Apr WPI (YoY%)	3.5	2.83	2.47
	1300	Apr CPI (YoY%)	4.9	4.4	4.28
Tuesday 15 May					
China	0300	Apr Retail Sales (YoY%)	10	10	10.1
	0300	Apr Industrial Production (YoY%)	6.3	6.4	6
	0300	Apr Fixed asset investment (YTD, YoY%)	7.7	7.4	7.5
India	-	Apr Trade deficit (US\$bn)	-14500	-15200	-13692
	-	Apr Exports (YoY%)	5.5	-	-0.66
	-	Apr Imports (YoY%)	7	-	7.15
Indonesia	0500	Apr Imports (YoY%)	11.2	-	9.07
	0500	Apr Exports (YoY%)	7.8	-	6.14
	0500	Apr Trade balance (US\$mn)	1025	-	1091.7
Philippines	-	Mar OCW remittances (YoY%)	4	-	4.5
Wednesday 16 May					
Thailand	0805	Benchmark Interest Rate	1.5	-	1.5
South Korea	0000	Apr Unemployment rate (% SA)	-	-	4
Thursday 17 May					
Malaysia	0500	1Q GDP (SA QoQ/YoY%)	1.6/5.6	-/-	0.9/5.9
	0500	1Q Current account (Q) (MYR bn)	9800	-	12900
Indonesia	-	May 17 BI policy decision (7-day rev. repo %)	4.25	-	4.25
Singapore	0130	Apr Non-oil domestic exports (MoM/YoY%)	-/-	-/-	-1.8/-2.7
Friday 18 May					
Singapore	-	1Q F GDP (Q) (YoY%)	-	-	4.3
	-	1Q F GDP (QoQ Annualised%)	-	-	1.4

Source: ING, Bloomberg

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