Good MornING Asia - 19 February 2018

A surprise central bank easing in the Philippine and deteriorating external payments situation in Indonesia are likely to sustain weakening pressure on respective country currencies

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19% Bank Reserve Requirement by March

Surprise monetary easing

BSP dovish bias through a cut in RRR would likely weaken Philippine peso

The cut in the reserve requirement ratio (RRR) is consistent with our perception of a dovish BSP bias following last week's statement on policy rates and upwardly-revised inflation forecast. The cut supports the view of greater tolerance towards a weaker currency. The 1ppt cut infuses P90bn of liquidity into the system. But higher offerings at the week's BSP Term Deposit Facility (TDF) auction would syphon out P50bn. BSP increased the weekly TDF offerings by P50bn to P110bn starting next week from P60bn last week. The net liquidity infusion is P40bn. The cut would still be seen as the BSP providing further stimulus to the system by encouraging banks to maintain lending and also to support the government's financing needs. We expect the currency to weaken.

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Source: Shutterstock

-$677M Trade deficit in January

Reversal of a $1.4bn surplus year ago

Worse than expected

Strong domestic demand could lead to a worse than expected current account

Imports sustained the high growth rate seen since October with a 26% YoY gain in January. Non-oil imports for the month accelerated by 28% and brought the four-month average growth since October to 20%. We attribute this to strong domestic demand which would likely nudge GDP growth to the government's target of 5.4%. Export growth has moderated to 7.9% from January 2017's surge of 28%. The strong export growth evident for most of last year was not only due to the recovery of the global market and high commodity prices but also due to favourable base effects. Without favourable base effects this year, overall export growth would be at a more sedate pace. Strong imports and slower exports resulted in a reversal of the trade balance to a deficit from a large surplus in January 2017. The deterioration of the trade balance so early in the year could signal a more challenging current account deficit than our forecast of -$18.2bn, or -1.6% of GDP. Such a development would also likely exert pressure on the Indonesian rupiah.