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# Good MornING Asia - 19 June 2018

A key question for the markets this week is whether the central banks of Thailand and the Philippines will tweak monetary policies to support their currencies

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# Malaysia: Food, transport to boost inflation in May

Inflation will stay low throughout 2018 due to a cut in the Goods and Services tax (GST). This, along with strong growth and a resilient currency, rules...

1.8%

ING inflation forecast for May

Lower than consensus of 1.9%

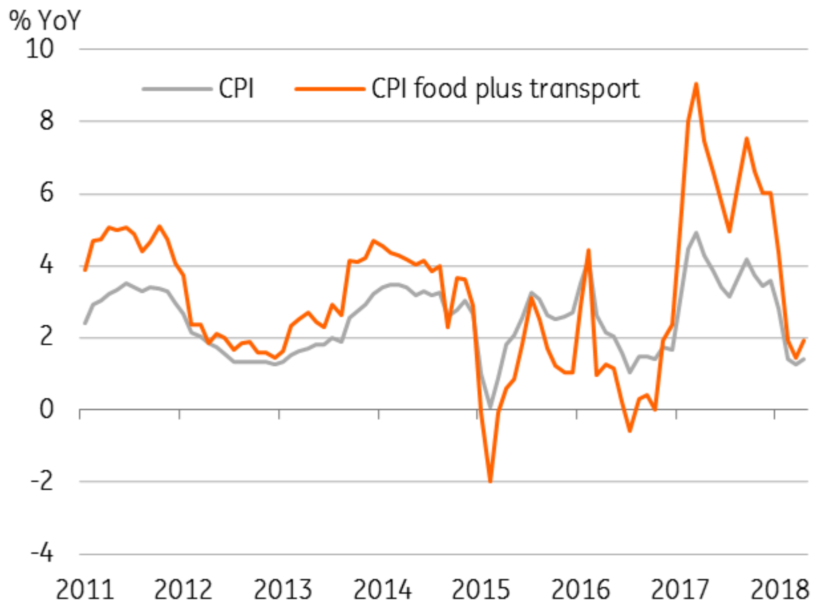
## Inflation for May is due

Malaysia's consumer price data for the month of May is due on Wednesday 20 June. Inflation has surprised on the downside in the first four months of 2018 and another such surprise is likely. The consensus forecast is for a rise to 1.9% year-on-year in May from 1.4% in the previous month. But we are below consensus with our 1.8% forecast.

Most of the acceleration in inflation will be from the transport CPI component, which is due to a double whammy of the low base effect and the pass-through of higher global oil prices. Food, the other key CPI component, will also see some upward pressure from a surge in demand during the

Muslim holy month of Ramadan, which started on 17 May. Among other seasonal factors in May is the quarterly adjustment in housing rentals, which have been mostly upward.

## Food and transport prices drive CPI inflation




Source: Bloomberg, ING

## GST reduction has yet to kick in

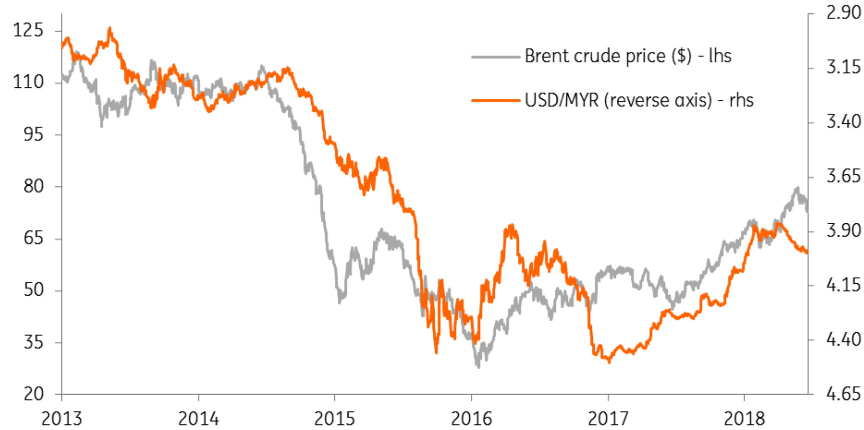
The move by the new government to cut the GST to zero from 6%- effective in June- suggests to us that any inflation spike will be transitory. Following the April CPI data, we cut our full-year 2018 inflation forecast to 1.8% from 2.4%. Benign inflation, steady strong growth, and a resilient Malaysian ringgit (MYR) prevent the need for Malaysia's central bank (BNM) to follow the Fed's policy tightening. Hence our forecast of no change to policy this year, which we recently revised from a previous forecast of one more 25 basis point rate hike in the third quarter.

## We retain our USD/MYR forecast

Consistent with our forecast in response to the surprise result of the general election a month ago, the MYR exchange rate per USD has risen to the 4.00 level in one month. The MYR has been among Asia's best-performing currencies since last year and has remained so during the recent weak spell in emerging markets. It has been a beneficiary of the strengthening global oil price (see figure)- a trend likely to continue in the period ahead. Despite this appreciation, the currency is still undervalued on a real effective exchange rate basis.

We retain our forecast of a gradual move in USD/MYR higher to 4.05 by the end of the year, implying an almost zero percent annual move from end-2017.

## MYR is the beneficiary of rising crude oil price




Source: Bloomberg, ING

# Thailand: Expect no monetary policy support for baht

The lack of interest rate policy support and deteriorating external trade balance suggest that the Thai baht will remain under weakening pressure. We...

Source: Shutterstock

A big question for the markets this week is whether the Bank of Thailand tweaks monetary policy at the forthcoming meeting on Wednesday (20 June) to support the Thai baht (THB). In its biggest single-day depreciation in more than a decade, the THB weakened by 1.4% to 32.7 against the USD last Friday. This takes the pair through our 32.30 forecast for the end of this year, which we now revise higher to 33.8 on our view that a continued deterioration in the external trade balance will be the key negative for the currency.

## THB performance isn't weak enough to justify policy action

A counter question is whether the latest USD/THB spike has been strong enough to provoke a response from the central bank, which has been vocal about the need for continued accommodative monetary policy to support growth and less worried about a weak currency. We don’t think so. An accelerated THB depreciation in recent months has reversed the appreciation early in the year and maybe a bit more. But it's still an Asian outperformer; the 0.2% year-to-date depreciation compares with big losers such as the Philippines, Indonesia and India- countries whose central banks moved to tighten recently. We don't think THB performance is weak enough to justify central bank action yet.

## USD/THB moving higher


Source: Bloomberg, ING

## Growth-inflation dynamic warrants a policy status quo

Among other monetary policy drivers, Thailand's GDP growth has been firm – 4.8% year-on-year in the first quarter of this year was the fastest in five years. And inflation has been benign despite a spike to 1.5% year on year in May from 1.1% in the previous month. This growth-inflation mix provides no compelling reason for a change to policy while central bankers have recently intensified rhetoric for a prolonged period of monetary accommodation. Hence the unanimous consensus behind an on-hold BoT policy decision this week.

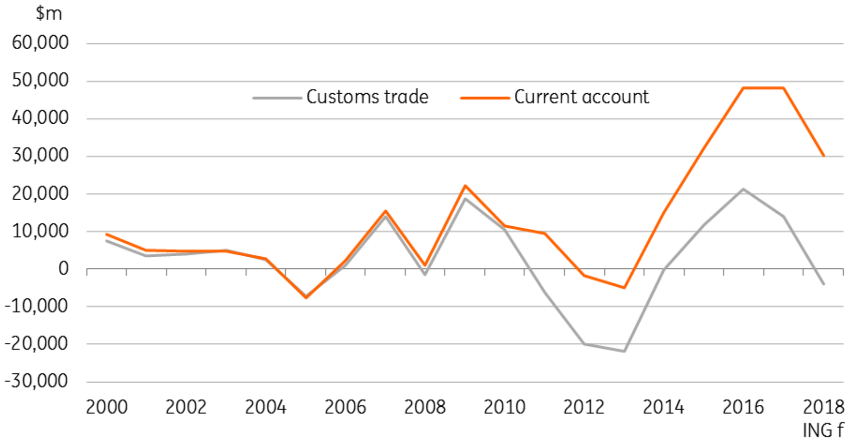
## Deteriorating external trade surplus is the main negative for the currency

The THB derived its strength last year and early this year from large external trade and current account surpluses. But that support is now fading. The customs-basis foreign trade data for the month of May due later this week (21 June) is expected to reinforce this view. The consensus forecast of an $88 million trade deficit in May will be a big improvement from a $1.3 billion deficit in April. However, this also implies a roughly $4.5 billion negative swing in the cumulative five-month trade balance from a year ago.

With global trade wars weighing on exports and rising oil prices boosting imports, the narrowing trade surplus trend is here to stay. As we see it, 2018 is shaping up to be the first year with an annual trade deficit – to the tune of $4-5 billion – after three years of surpluses ($13.9 billion surplus in 2017). We expect this to be associated with a near-halving of the current account surplus in relation to GDP to about 5.5% this year from 10.6% in the last, which is a key negative for the THB.

We retain our forecast for the BoT to remain on hold this year. The lack of interest rate policy support and a deteriorating external trade balance suggest that the Thai baht will remain under weakening pressure for the rest of the year. We revise our USD/THB forecast for end-2018 to 33.8 from 32.3.

## Narrowing external surpluses




Source: CEIC, ING

# Philippines: Worker remittances bounce back

Overseas Filipino Worker cash remittances jumped by 12.7% in April but the amount is still short of $1.3 billion to cover the April trade deficit. This is...

Source: Jun Acullador

12.7%

Higher than expected

April overseas worker cash remittance growth

Rebound from -9.8% in March

## Despite the strong rebound of remittances, PHP will likely remain on the defensive

Overseas Filipino Worker (OFW) remittances bounced back from the 9.8% year on year drop in March. Remittances amounted to $2.3 billion, which is 12.7% higher from a year ago. Base effects partly explain the strong rebound.

- Remittances from the US were 12% higher YoY from a drop of 4.7% in March and 1.1% in April 2017.

- Remittances from Asia also recovered with a 21% YoY increase, as remittances from Japan and Singapore bounced back from YoY drops in March (Singapore saw a 26% drop in April 2017).
- Remittances from Europe rose 14% following a 9% drop in March and a 6% drop in April 2017.

These three major hosts account for 69% of total remittances for April and posted growth of 15%, bouncing back from a 3% drop in April 2017 and a 5% drop in March.

- Remittances from the Middle East were 6.6% higher from a year ago, bouncing back from a 13% drop in April 2017 and a 23% drop in March.

The 4M cash remittances amount to $9.4 billion, 3.5% higher YoY. These cash remittances fall short in financing the April trade deficit of $3.6 billion and the 4M trade deficit of $12.2 billion. We expect this shortfall to continue to be the norm, which is the underlying weak fundamental for the Philippine peso. We expect this shortfall to reach $16 billion this year from last year's shortfall of $13 billion. Outsourcing revenues have to grow faster, and together with capital flows will moderate PHP's weakening tendency. Without monetary policy support, PHP could fall to a fresh 12-year low.