Good MornING Asia - 2 September 2020

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ASEAN Morning Bytes

Relatively positive PMI manufacturing reports from the US and China boost risk sentiment

EM Space: Investors remain hopeful for a pickup in economic activity

- **General Asia:** PMI manufacturing data out from China and the US beat market consensus helping boost hopes for a pickup in economic activity towards the end of the year. Meanwhile, US officials have reported that talks on the proposed round of fiscal stimulus would be restarted soon, also lifting sentiment overnight. Economic data thins out in the region with investors likely looking to the data from the US later on Wednesday which features factory orders and the ADP jobs report for further direction.
- **Singapore:** The August manufacturing PMI is due today. A 5-month long falling manufacturing streak reflected by sub-50 PMI readings ended in July, putting the index at 50.2. The consensus is looking for a tick down to 50.1 in August. We don't see it drifting far from the 50 threshold level for expansion. Both NODX and manufacturing have had a good run so far this year despite the slump in global demand. The economy might have seen its Covid-19 low in 2Q with a 13% YoY GDP fall. But we see nothing on the horizon to turn the negative GDP trend around just yet. The SGD started trading in September on a weak note but still remains close to a 7-month high against the USD at 1.36.
- **Thailand:** Less than a month in the job and new Finance Minister, Predee Daochai, has decided to quit, throwing the economy into further chaos amidst the growing political risk.

In mid-July, the entire economic team of the Prayuth administration, led by former Deputy Prime Minister Somkid Jatusripitak and Finance Minister Uttama Savanayana, stepped down to make way for a cabinet reshuffle. The administration is now facing anti-government protests by students demanding political reforms and challenging the role of the monarchy in politics. Both stocks and the THB were under pressure yesterday from the minister's resignation news. The THB has been an Asian underperformer so far this year and should remain so over the remainder of the year.

- **Indonesia:** Indonesia reported that inflation fell below target in August to 1.3% although we do not expect any policy action from Bank Indonesia (BI) in the near term. Investor focus has shifted to proposals to amend the composition of BI's monetary board to have the Finance Minister play a more active role in monetary policy. Such a move would undermine BI's independence and could open the door to successive rounds of debt monetization, something that would rattle investor confidence and exert additional depreciation pressure on the IDR.

What to look out for: US ADP report and Covid-19 developments

- US Factory orders, ADP employment and durable goods orders (2 September)
- Singapore PMI manufacturing (3 September)
- Regional PMI services (3 September)
- US initial jobless claims, ISM services and trade balance (3 September)
- Philippines inflation (4 September)
- Singapore retail sales (4 September)
- Malaysia and Thailand GIR (4 September)
- US non-farm payrolls (4 September)

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Indonesia

Indonesian inflation cools further but focus shifts to central bank charter changes

Indonesia inflation dips to 1.3%, lower-than-expected, but not likely to push rate action from the central bank

Source: IMF/Flickr
Perry Warjiyo, Governor of Bank Indonesia

1.3% August inflation

Lower than expected

August inflation comes in below target again

Price pressures remained subdued in Indonesia as economic activity remains hampered by Covid-19, as was seen by growth contraction in 2Q.

Manufacturing activity has picked up somewhat with the latest PMI manufacturing report showing an expansion but household consumption is expected to remain tepid with new daily infections increasing and partial lockdowns curtailing movement.

Despite inflation below target and growth in need of a push, Indonesia's central bank will likely remain on the sidelines as long as the currency remains under pressure due to debt monetisation concerns.

Focus on proposed changes to central bank charter

Investor focus has shifted largely away from falling inflation and towards possible central bank action to amend the central bank charter.

Proposed changes to the Bank's mandate focus on an increased emphasis on economic growth on top of price and foreign currency stability with the national government taking a lead role in the monetary board.

Such sweeping changes would leave the central bank open to future rounds of debt monetisation which could lead to rupiah weakness and inflationary pressures down the road.