

Good MornING Asia - 20 August 2020

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EM Space: Dimming economic outlook to weigh on sentiment on Thursday

- **General Asia:** Minutes from the most recent Fed meeting showed lower growth projections in 2H, which would likely dampen risk sentiment on Thursday especially with talks on planned fiscal stimulus still in limbo. Meanwhile, the US continued its pressure on China, withdrawing extradition and special tax treatment with Hong Kong, which may draw a retaliatory move from Beijing as tensions escalate further. Investors will likely react to the Fed outlook while monitoring US-China tensions and Covid-19 developments for further direction ahead of US labour market data out later on Thursday.
- **Indonesia:** Bank Indonesia (BI) left policy rates unchanged as expected with Governor Warjiyo indicating that monetary policy would remain accommodative. A depreciating currency may have forced the central bank to hold off on further rate cuts to support a slowing economy. Governor Warjiyo believes that the economy would rebound as early as 3Q and that the currency remained “undervalued” with the current account deficit expected to slip below 1.5% of GDP. We expect BI to remain side-lined until IDR stabilizes before cutting rates again to complement fiscal spending.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) decides on policy later today with the central bank expected to keep rates unchanged after unloading a substantial 175 bps worth of rate

cuts year to date. Governor Diokno had recently indicated that he would like to keep rates steady for “at least 2 quarters” despite well-behaved inflation and the -16.5% 2Q GDP reading. Analysts will likely be waiting for comments from Governor Diokno for any hints on future action but we expect BSP to refrain from further rate cuts and reductions to reserve requirements for the balance of the year.

What to look out for: Covid-19 developments

- Bangko Sentral ng Pilipinas policy meeting (20 August)
- Taiwan export orders (20 August)
- US initial jobless claims (20 August)
- US PMI manufacturing and existing home sales (21 August)

China: PBoC stayed put and will stay that way for a while

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Leading members of the People's Bank of China, including Governor, Yi Gang (waving)

PBoC did not cut Loan Prime Rates

The PBoC did not cut the 1Y and 5Y Loan Prime Rates today, which stay at 3.85% and 4.65%, respectively.

This is consistent with the earlier comment by the central bank that monetary policy will be more flexible and more specific to give liquidity to corporates that are really in need of funding to survive the damage stemming from Covid-19.

Monetary policy will stay flat for the rest of 2020

We expect monetary policy on interest rates, including the 7D reverse repo, 1Y Medium Lending Facility, and the 1Y and 5Y Loan Prime Rate, to remain the same for the rest of 2020 as China's Covid-19 infection cases have been stabilised. We also expect there will be no broad-based RRR cut, but there could be targeted RRR cut or targeted re-lending for SMEs and the agricultural sector.

In the meantime, if liquidity tightens, the central bank will fine-tune it via daily open market operations.

No impact on USDCNY

We don't think this will have any impact on the USDCNY exchange rate as the market largely expects the PBoC to hold fire on rates unless Covid-19 cases in China become widespread again, which is unlikely given its strict social distancing measures.

Our forecast for the USDCNY by the end of the year is 6.97, though this could be revised lower given the dollar's recent weakness.

Snap | 19 August 2020

Bank Indonesia pauses on rate cuts to support currency

The weaker Indonesian rupiah has forced the central bank to hold back from cutting interest rates despite pressure to provide monetary support to the...



Source: IMF/Flickr

Perry Warjiyo, Governor of Bank Indonesia

4.0% 7-day reverse repurchase rate

As expected

Central bank stands pat as expected

Bank Indonesia (BI) kept its 7-day reverse repurchase rate at 4.0%, a move expected by the majority of analysts and the first pause after two straight meetings of rate cuts. BI did have some space to cut policy rates given below-target inflation and stalling growth momentum (2Q GDP at -5.3%) but Governor Perry Warjiyo ultimately opted to provide support to the IDR which pulled back roughly 1% in August. The IDR has been the worst performing currency in the region for the month, largely due to concerns about the 2021 budget and the prospect for another round of debt

monetisation next year.

BI likely still looking to cut policy rates in 2H

With the economy contracting in the second quarter, BI Governor Warjiyo will likely be open to providing additional monetary stimulus to complement the fiscal push in the second half. President Jokowi has called on officials to speed up government spending in the second half of the year to salvage GDP and Governor Warjiyo expects an improvement in GDP as early as the third quarter. The key decision factor for further easing will likely remain currency stability with Warjiyo indicating he believes the IDR remains “undervalued”. We expect BI to refrain from cutting policy until the IDR achieves more stability but look for BI to quickly provide an additional boost to offset sagging economic momentum.

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