

Good MornING Asia - 20 May 2020

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Isn't Tuesday supposed to be the most depressing day of the week?

With the warm fuzzy flow of the weekend keeping spirits lifted during Monday, but dawning realization on Tuesday that most of the working week still lies ahead, Tuesday is supposed to be the most depressing day of the week, at least, according to something I may have read on the internet years ago. Google it...

But maybe weekends are so drab now that this isn't working how it used to. Yesterday (Tuesday) was boosted by talk of positive developments from a US pharma company which was developing a vaccine for Covid-19. It was also in the process of listing, so not perhaps too surprising that it sprinkled a little magic fairy-dust over this by talking up its vaccine prospects. By this morning, doubts appear to be growing, though it is worth bearing in mind that this US firm is just one of many developing a vaccine worldwide, and there are some promising signs elsewhere.

In Europe, promising talk of baby steps towards some fiscal federalism ([see also Bert Colijn and Carsten Brzeski's more optimistic take on this from yesterday](#)) with a EUR500bn recovery fund built into the EU budget - the brainchild of Macron and Merkel - is already running into trouble. Austria,

Sweden, Denmark and the Netherlands are sounding negative about the prospects of potentially underwriting some of the debt of others. I won't use this note to explore the alternatives to this idea, others with fewer political constraints on what they write can do that. Let me just say, break-up?

And the Brexit talks also appear to be going nowhere, raising the prospect that the UK walks out of talks at the end of next month. Unusually, I find myself sympathising with the UK negotiators' complaint that the EU is essentially offering them something which looks worse than similar deals with others, such as Canada, by overlaying demands on competition, state aid and market access on top of any free trade deal. I believe our house view is still that an extension to the transition period will be sought, but I'll need to check with James Smith on this, so don't hold me to that.

These areas of competition and state aid are exactly what the UK left the EU to escape, so there seems little point in continuing to talk unless there is a change in heart from the EU. From the EU side, the principle motivation appears to be that the UK should not end up with a deal that in some way doesn't result in the UK suffering for exiting. But comments along the lines of "You can't expect to have the benefits of club membership without belonging to the club", don't make sense now that the UK is already out. That was a position to take when there was still a chance of "remain". So in my view (and this may differ from the house view) it looks as if this is heading towards an "Australian deal", in other words, "no deal" and WTO rules by the year-end. Well, the economy is already in tatters so maybe no one will notice?

And in the US, there was nothing very interesting out of Powell and Mnuchin in their testimony to the Senate yesterday, despite some generally positive words about the need for more fiscal stimulus by Powell, and suggestions from Mnuchin that the US Treasury was prepared to write off all of the support it had extended to small businesses.

Roll on Thursday!

Asia today

There's plenty of action in SE Asia today which Prakash Sakpal writes about:

Singapore: The Covid-19 circuit breaker is set to end as planned on 1 June but it will still be a long wait for the economy to be fully back on its feet. A gradual three-phase reboot won't be completed for several more months at least. The government is also planning a fourth stimulus package to be announced next Monday, 26 May. GDP growth may bottom in the current quarter (ING forecast -6.8% YoY), but we don't see it returning to positive territory during the rest of the year.

Malaysia: April CPI is due today. Mildly negative inflation in March (-0.2% YoY) is expected to get worse, with a consensus looking for -1.6% (ING forecast -1.8%). Transport prices have been the main drag on headline inflation, but food prices may add to downward pressure with unusually weak demand during the Ramadan month. Accelerated CPI declines should pave way for more central bank (BNM) rate cuts ahead. We have an additional 50bp rate cut in our forecast for the next meeting in early July.

Thailand: It's decision day for the Bank of Thailand. A 25bp cut in the policy rate to a record low of 0.50% looks to be a done deal. However, with growth already in negative territory, at -1.8% YoY in 1Q20, and inflation even more negative at -3% in April, don't be surprised if we see a bigger, 50bp rate cut today".

And there is also some potential PBoC interest in **China**. Iris Pang Writes:

The PBoC will announce its decision on the Loan Prime Rate (LPR) today. Market expects a pause. But we believe that there should be a cut because of the imminent business risks for SMEs and layoffs of factory workers. We could be wrong though, because the "Two Sessions" start this week, and the PBoC may need to wait for the announcement of the monetary stance in the National People's Congress (NPC) meeting. There could be innovative policies from the PBoC to help SMEs and therefore employment. Even if there is no rate cut this month, it does not mean that rate cuts have stopped completely. Further rate cuts are highly likely, together with RRR cuts as the economy is only at the beginning of the recovery stage. We forecast a full year -1.5% GDP growth".

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ASEAN Morning Bytes

Asian markets may pullback after setback in vaccine development.



EM Space: Recent rally fizzles out after vaccine development setback

- **General Asia:** Asian markets may retreat on Wednesday after a setback in vaccine optimism with investors refocusing on the downbeat economic outlook induced by Covid-19. Fed Chair Powell reiterated his pledge to roll out the full extent of his toolkit while stressing that the Fed's actions formed part of the broader response to the virus. Meanwhile, US states continue to gradually reopen with investors monitoring new infections for possible signs of a spike in cases. For Wednesday we will hear from several Fed speakers while the data calendar features the inflation report from Malaysia and a central bank meeting in Thailand.
- **Singapore:** The Covid-19 circuit breaker is set to end as planned on 1 June but it will still be a long wait for the economy to be fully back on its feet. A gradual three-phase reboot won't be completed for several more months at least. The government is also planning a fourth stimulus package to be announced next Monday, 26 May. GDP growth may bottom in the current quarter (ING forecast -6.8% YoY), but we don't see it returning to positive territory during the rest of the year.
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pave way for more central bank (BNM) rate cuts ahead. We have an additional 50bp rate cut in our forecast for the next meeting in early July.

- **Thailand:** It's decision day for the Bank of Thailand. A 25bp cut in the policy rate to a record low of 0.50% looks to be a done deal. However, with growth already in negative territory, at -1.8% YoY in 1Q20, and inflation even more negative at -3% in April, don't be surprised if we see a bigger, 50bp rate cut today.
- **Philippines:** April tax collections fell 63% due to ongoing lockdown measures with government officials planning a fresh round of tariffs on all imports in a bid to raise additional revenues after Finance Secretary Dominguez announced a possible blow up in the deficit-to-GDP ratio to -8.1%. This development follows the 10% excise tax put on oil products this month as the government attempts to shore up revenue collection amidst the backdrop of slowing economic activity. We expect the Treasury to increase its borrowing plan in 2H which will likely pressure yields higher.
- **Indonesia:** Bank Indonesia (BI) surprised market players by keeping policy rates steady yesterday even as 18 out of 25 analysts polled by Bloomberg expected a rate cut. Governor Warjiyo cited the need to further support IDR but he retained his accommodative stance, indicating his willingness to cut policy rates in the near term. This is the third straight pause from BI but we expect Governor Warjiyo to cut policy rates should IDR remain stable in the coming weeks.

What to look out for: Covid-19 developments

- Malaysia inflation (20 May)
- Bank of Thailand meeting (20 May)
- Taiwan export orders (20 May)
- Fed's Bostic, Williams and Bullard speak (21 May)
- Fed minutes (21 May)
- US initial jobless claims and existing home sales (21 May)
- Thailand trade (21 May)
- Malaysia, Thailand, Philippines GIR (22 May)
- Fed's Clarida and Powell speak (22 May)

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Snap | 19 May 2020

Indonesia holds fire as it looks to support currency

Bank Indonesia holds off on cutting rates to keep the rupiah stable



Source: IMF/Flickr

Perry Warjiyo, Governor of Bank Indonesia

4.5% policy rate

Higher than expected

Central bank surprises market with a pause

In an unexpected move, Indonesia's central bank kept policy rates unchanged to support the IDR amidst the uncertainty brought about by the Covid-19 pandemic.

Most analysts had expected Governor Warjiyo to slash rates again after taking a break at the last two meetings and with the currency stabilising somewhat from the March swoon when the currency touched the 16500 level. Economic indicators have shown signs of a slowing economy with consumer confidence and manufacturing PMI both stalling.

Recently, Governor Warjiyo has admitted that GDP is likely to fall below previous forecasts.

Dovish pause

Despite holding off on slashing policy rates, Indonesia's central bank Governor Warjiyo has kept the door open for further rate cuts in the near term as he highlighted benign inflation.

The central bank also noted that the current account deficit is likely to improve to below 2% for 2020, likely due to a narrowing trade gap induced by import compression.

With BI retaining its accommodative stance we continue to expect more rate cuts in the coming months given expectations for a contraction in GDP as early as the 2Q.

IDR should receive a boost after the surprising pause from the central bank and stability of the IDR will remain the key determinant for another policy rate cut.

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