Good MornING Asia - 23 July 2021

Asian markets are likely to move mixed on Friday with investors digesting dovish comments from the ECB and mixed data releases from the US

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- **General Asia:** Asian markets are likely to move mixed on Friday with investors digesting dovish comments from the ECB and mixed data releases from the US. Stocks in the US edged higher with select technology names moving north, which could help feed through to the Asian trading session. Regional data on Friday features inflation reports from Malaysia and Singapore on top of Taiwan's industrial production with market participants also likely tracking developments on the Covid front with the Delta variant causing surges in cases around the globe.
- **Singapore:** June CPI inflation data is due today. Low base effects and higher utility and transport costs pushed inflation to a 7-year high of 2.4% YoY in May, which is where we expect it to hold in June. As for the core measure, we expect a slight rise to 0.9% YoY from 0.8% YoY. Fading base effects and intensifying demand weakness due to the worsening local Covid-19 situation should begin to push inflation lower starting from July, though the latest spike delivers an upside risk to our full-year 2021 headline inflation forecast of 1.4%. That said, the increasing threat to growth from the pandemic suggests the current accommodative macro policy settings should continue well beyond this year.
- **Malaysia:** June CPI inflation data today should show that Malaysia's inflation peak in this cycle has passed. April's 4.7% YoY inflation rate was the highest in four years. It slowed to 4.4% in May. We forecast a further dip to 3.2% in June as the nationwide movement control

order (MCO 3.0) in force since early May continues to depress spending. As base effects fade, the inflation rate should settle down to between 2-3% in the second half of the year, putting full-year average inflation near the low end of Bank Negara Malaysia's 2.5-4.0% forecast range for the year. But for now, the downward inflation trajectory should provide the central bank with some comfort in its push for growth.

- **Thailand:** High export growth figures have failed to improve sentiment for the THB, Asia's weakest currency this year with about a 9% YTD depreciation against the USD. Thailand's trade and current account balances continue to deteriorate. We don't expect anything in today's trade figures for June to bring any relief from this trend, while the relentless Covid-19 spread (new infections hit a record 13,655 yesterday) is going to keep tourists at bay for the foreseeable future. Like most Asian FX, our end-year USD/THB view of 33.00 is under review for further upward revision (spot 32.88).
- **Indonesia:** Bank Indonesia (BI) kept policy rates untouched as expected yesterday after it lowered its GDP forecast to 3.9% from 4.6% previously. Governor Warjiyo vowed to support the economy that will likely feel the negative impact of a three-week hard lockdown as the country deals with a surge in Covid-19 infections. BI's Governor also indicated he would like to pursue a "pro-growth" strategy, suggesting that the central bank will likely extend its pause deep into 2022 and we will likely have to push back our expectations for the timing of the BI hike next year (currently at 1Q 2022). With BI not likely to hike rates to help shore up the IDR, we expect the currency to remain under pressure in the medium-term as Governor Warjiyo stays dovish.

What to look out for: Covid-19 developments

- Malaysia CPI inflation (23 July)
- Singapore CPI inflation (23 July)
- Taiwan industrial production (23 July)

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Snap | 22 July 2021

Indonesia: Central bank maintains policy stance as growth outlook dims

Bank Indonesia retains its accommodative stance after trimming its GDP forecast

3.5%

7-day reverse repurchase rate

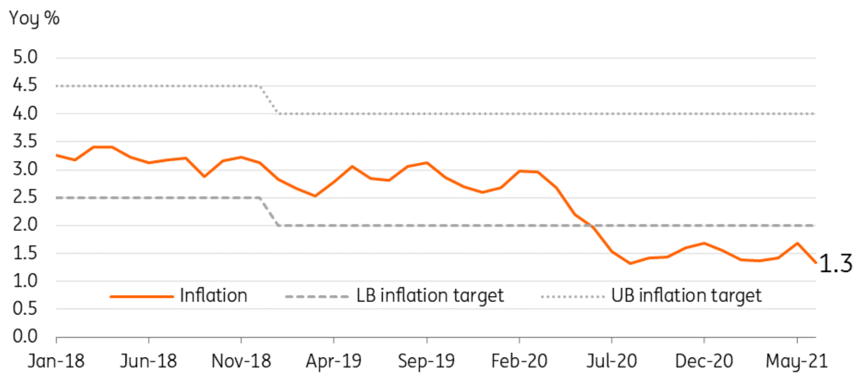
5th straight pause from BI

As expected

5 in a row

Bank Indonesia (BI) kept policy rates unchanged at 3.5% for a fifth straight meeting to help provide support for the economy. Indonesia's growth outlook has dimmed somewhat as the country deals with a surge in Covid-19 infections, with BI trimming its growth outlook to 3.5-4.3% (previously 4.1-5.1%). BI predicts global growth prospects will improve but also admitted that domestic economic trends appear headed for a slowdown amidst the 3-week lockdown period implemented to prevent the spread of infection. BI may have wanted to trim policy rates given below-target inflation and slowing growth - monetary authorities may have been constrained from doing so by the recent depreciation spell for the IDR. Governor Warjiyo has highlighted the importance of currency stability and he expects the currency to be broadly stable and in-line with the economy's fundamentals.

Indonesia sees inflation below target but BI constrained from cutting rates further



Source: Badan Pusat Statistik

On hold for longer?

BI was expected to be on hold for most of, if not all of, 2021 given previous comments from Governor Warjiyo suggesting an extended pause. However, with the recent Covid-19 spike and the accompanying downgrade to the growth outlook, we now expect BI to be on hold for an extended period of time. The authorities are confident of a quick rebound by 4Q, with hopes for a turnaround pinned on ongoing vaccination efforts, additional fiscal stimulus and a pickup in global demand for the country's exports. Going forward, Warjiyo indicated he would like to calibrate monetary policy to be "pro-growth", with the central bank monitoring the pace of economic recovery and price pressures in 2022. This suggests that BI will likely extend its current pause deep into 2022, with IDR likely under pressure during bouts of risk-off.

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

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