Good MornING Asia - 24 April 2019

Asia's subdued inflation outlook is at risk from surging oil prices on the expected loss of Iranian oil from the global supply. But for now, we believe growth worries are more pressing to move regional central banks to ease while there is room to do so.

In this bundle

ASEAN Morning Bytes

General market tone: Risk-on. Risk sentiment return with investors taking their cue from the overnight rally on Wall Street.

EM Space: Record highs in US equities is positive but higher oil price is negative for Asian markets

- **General Asia:** Strong corporate earnings reports pushed the US stock index to record highs, which bodes well for sentiments in Asia. However, surging oil prices on the expected loss of Iranian oil from the global supply will be an overhang on markets as high energy prices adversely affect growth and inflation.
- **Malaysia:** March CPI is due today. The seasonal retracement of the food CPI component from its spike during the Lunar New Year month imparts downside risk to the consensus of headline inflation swinging back to the positive territory after two consecutive months of negative. The subdued inflation has brought the central bank (BNM) monetary easing on the table for the next policy meeting in May. We expect a 25bp cut to the BNM's overnight policy rate to 3.00% next month. We continue to believe that recent sell-off in the government bonds and the currency (MYR) is overdone.
- **Thailand:** Motor vehicle sales growth eased to 8.5% YoY in March from 9.1% in the previous month. 1Q19 sales growth of 11% YoY was a slowdown from 18% in 4Q18. We think political uncertainty weighed on consumer spending in the last quarter. Not just consumer spending, but the overall domestic demand also has been on a weakening path as can be inferred from falling imports. This supports our forecast of a slowdown in GDP growth to 3.1% in

1Q19 from 3.7% in 4Q18 (data due in mid-May). The USD/THB rate re-tested 32 yesterday and remains on course to reach our end-2Q19 forecast of 32.80.

- **Singapore:** The slight rise in the March headline inflation rate to 0.6%YoY from 0.5% still missed consensus estimates (0.7%) and the MAS core measure of inflation, which excludes private transport and accommodation declined further to 1.4%YoY from 1.5%, and down from its recent peak of 1.9% in December last year. The softening of both activity and price data vindicates the recent April MAS decision to leave the SGD nominal effective exchange rate path unchanged - a policy "on hold" decision. The next policy decision is not scheduled until October this year, and it would take quite a turnaround in the fortunes of the economy to put the MAS back onto a tightening stance.
- **Indonesia:** Bank Indonesia (BI) Governor Warjiyo maintains his view that the central bank's main focus would be on stabilizing the economy, adding that the central bank was looking to infuse additional liquidity to support growth but at the same time ensure the attractiveness of local financial assets to global players. The government is also looking to boost investments and strengthen the export base to limit reliance on foreign funding.
- **Philippines:** The Philippines experienced a second powerful quake on Tuesday, this time in the second major island group, causing a shutdown of financial markets and government offices yesterday. The government agencies are assessing the damage to infrastructure and power plants. The markets will reopen today.

What to look out for: US GDP

- Malaysia inflation (24 April)
- South Korea GDP (25 April)
- US durable goods (25 April)
- Bank Indonesia meeting (25 April)
- Singapore industrial production (26 April)
- US GDP and core PCE (26 April)

Snap | 23 April 2019

Singapore inflation misses estimates

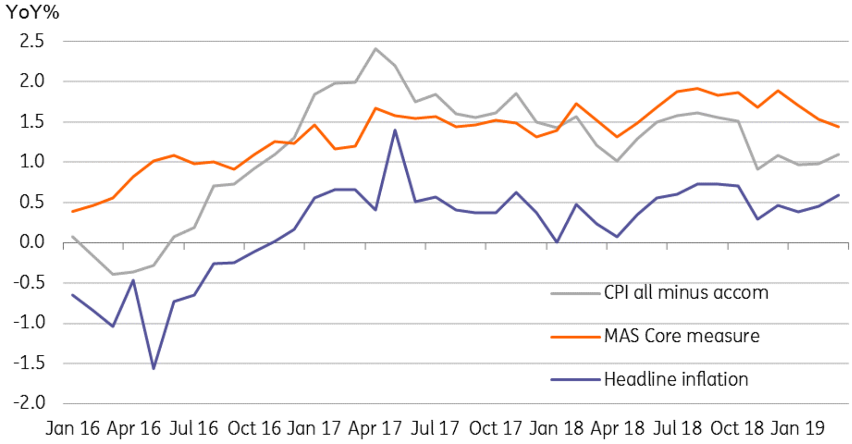
After a slew of weak activity data, inflation not surprisingly also disappoints in March

Source: Shutterstock

A consistent picture

You have to scroll a long way back on Singapore's recent data releases to find something that isn't rather disappointing. February industrial production declines gave way to a weak 1Q19 GDP result. Retail sales data and non-oil domestic export softness add consistency to the picture. With all this activity weakness, it is not entirely surprising that this is also now showing up in the inflation figures.

Singapore inflation



Source: CEIC

Singapore inflation

Headline rises, core falls

The slight rise in the March headline inflation rate to 0.6%YoY from 0.5% still missed consensus estimates (0.7%) and the MAS core measure of inflation, which excludes private transport and accommodation declined further to 1.4%YoY from 1.5%, and down from its recent peak of 1.9% in December last year.

Weakness was widespread

This wasn't some flukey single item outcome. Inflation components across the board either registered negative monthly price movements or grew more slowly than the previous month. Some rebound from the February Lunar New year bounce is a probable explanation. And the data should hopefully settle down in April allowing for a more considered evaluation.

Monetary Authority of Singapore (MAS) on hold

The softening of both activity and price data vindicates the recent April MAS decision to leave the SGD nominal effective exchange rate path unchanged - a policy "on hold" decision. The next policy decision is not scheduled until October this year, and it would take quite a turnaround in the fortunes of the economy to put the MAS back onto a tightening stance.

That said, we don't believe things have deteriorated sufficiently for the MAS to consider reversing their earlier tightening, nor do we expect things to get that bad. The recent government budget provides some offset to the headwinds of the trade war and global tech slump and should soften the impact of both for the time being.

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