# Good MornING Asia - 26 June 2019

Asian markets are likely to pullback after Powell throws a curveball by talking down rate cut

### In this bundle

Asia Morning Bites

**ASEAN Morning Bytes**

General market tone: Risk-off. Asian markets are likely to pullback after Powell throws a curveball by talking down rate cut

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Philippines

**Philippines posts budget surplus in May with spending held back**

The surplus helped cut the year-to-date deficit to -Php809 million, narrower than the Php138.7 billion deficit in the first five months of 2018

# ASEAN Morning Bytes

General market tone: Risk-off. Asian markets are likely to pullback after Powell throws a curveball by talking down rate cut


1.50%

ING forecast of Bank of Thailand policy rate

On a view of 25bp cut today

## EM Space: With rate cut hopes diminished by Powell's statement, traders will turn defensive

- **General Asia:** Fed Chairman Powell threw a curveball the market was not expecting, talking down the chances for a rate hike in July as he indicated he was still gauging the impact of the ongoing trade war on the US economy. Powell's comments come after President Bullard downplaying a likelihood of a 50bp rate cut at their next meeting. Meanwhile, investors are closely watching developments on the trade front ahead of G20, which should add even more reason to be cautious on Wednesday.
- **Malaysia:** May CPI is due with consensus median of 0.3% year-on-year inflation is only a slight increase from 0.2% in April. This was probably the last month of very low inflation trend started since June last year when the government eliminated goods and services tax (GST). As the GST impact moves out of the base inflation is likely to be pushed into a

1.5-2.0% range in the rest of the year. However, the underlying inflation pressure is currently non-existent in our view and BNM policy will remain supportive of growth.

- **Philippines:** The Philippines posted a budget surplus in the month of May, hitting PHP 2.6bn. Robust revenue collection (23% YoY growth) was met by sluggish expenditure growth (pegged at 7.8%) due largely to the final tranche of the government pay bump coming on stream. For the first five months of the year, the budget posted a deficit of PHP 809m, a stark pullback from the PHP138.7bn deficit in the same period of 2018. Government spending has been the missing link to the Philippines' growth story so far in 2019. And weak spending may lead to slower borrowings in the second half of the year.
- **Singapore:** May industrial production data is due. Exports drive manufacturing. A 16% YoY fall in non-oil exports in the last month would have been a lot worse without a bounce in pharmaceutical offsetting a plunge in electronics exports. Yet, this subjects consensus estimate of 1.8% YoY IP fall to more downside than upside risk. The continued activity weakness adds to the arguments for the MAS easing in October.
- **Thailand:** We aren't worried of being wrong on our call of a 25bp Bank of Thailand policy rate cut today in face of the consensus, which is solidly predicting no change to the 1.75% policy rate. Adding to our conviction that the economy needs policy support was yesterday's manufacturing data for May showing a much steeper contraction of 4% YoY than the consensus of 1.25% fall. This, in turn, suggests that GDP growth likely to be stuck in the current quarter near the 4-year low of 2.8% in 1Q19.
- **Indonesia:** Indonesia's finance minister Sri Mulyani Indrawati indicates she is expecting weaker growth in the near term as the economy feels the pinch from the protracted trade spat between the US and China. These ill effects have manifested this year with export data mostly in contraction while the government moved swiftly to curb imports to limit the trade and current account deficits. The minister also indicated that she would be happy if the Bank Indonesia would cut rates to help spur growth, something Governor Warjiyo has hinted at during his last meeting.

## What to look out for: G20 meeting

- US durable goods (26 June)
- Bank of Thailand meeting (26 June)
- Singapore industrial production (26 June)
- Malaysia inflation (26 June)
- US 1Q GDP 3rd estimate (27 June)
- Bank of Korea (27 June)
- US Michigan sentiment (28 June)

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**Philippines**

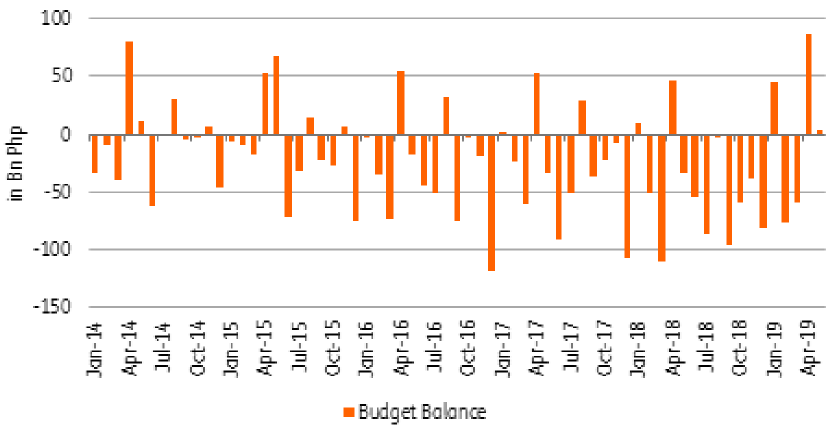
# Philippines posts budget surplus in May with spending held back

The surplus helped cut the year-to-date deficit to -Php809 million, narrower than the Php138.7 billion deficit in the first five months of 2018

## YTD Budget balance at -Php809mn

After holding back 1Q GDP growth, the ill effects of the budget delay appear to have seeped into 2Q, with the May budget surplus hitting Php2.6 billion. Revenue collection continued to rise, up 23% year-on-year while spending grew 7.8% largely due to the final tranche of the government pay bump. For the year so far, the Philippines has posted a deficit of Php809 million, much narrower than the Php138.7 billion deficit posted in the first five months of 2018, as government spending has been reined in.

## Philippine budget balance in billion PHP




Source: Bloomberg

## Government spending on hold could mean lacklustre 2Q GDP

With government spending curtailed for most of the current quarter, the government is scrambling to implement "catch up" spending for the second half of the year. The month of May has been a deficit month for the last three years, with the economy getting a nice boost from the government to complement mainstay household consumption growth. With capital formation still likely to post lacklustre numbers- as evidenced by anaemic car sales and weaker imports of capital goods and raw materials, 2Q GDP will likely need to lean heavily on household consumption yet again.

## Data dependent BSP watching

Bangko Sentral ng Pilipinas (BSP) has vowed to remain data dependent and will likely be monitoring variables related to inflation and maybe even growth. Minutes of the May policy meeting show that members took the startlingly low 1Q GDP print into consideration when they cut policy rates by 25 basis points to reverse BSP's ultra-aggressive rate hike in 2018. The next Monetary Board meeting coincides with the release of 2Q GDP and given the prospects for within-target inflation, and growth hampered by both relatively high borrowing costs and delayed spending, we could see the monetary authorities trimming borrowing costs further in 3Q.

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