Good MornING Asia - 5 February 2020

Bargain hunting seems to be the order of the day again on Wednesday despite more confirmed cases of 2019-nCoV

In this bundle

ASEAN Morning Bytes

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EM Space: Bargain hunting even as virus cases increase

- **General Asia:** Looks like bargain hunting is going to be the order of the day again on Wednesday despite more confirmed cases of 2019-nCoV. Investors could take some direction from China services data and regional central bank meetings for the week, though gains will likely be capped with analysts still gauging the economic impact of the virus.
- **Thailand:** It's decision day for the Bank of Thailand. The consensus is split between a '25bp rate cut' and an 'on hold' policy. Just a week or so ago it was tilted towards 'on hold' decision. No guessing that a spike in the risk of the coronavirus outbreak denting tourism and the overall economic growth has caused this shift in the consensus, while the prospect of any fiscal stimulus to the economy continues to be dim. The monetary easing seems to be all that the economy could rely on for stimulus as inflation continues to be subdued. We expect a 25bp rate cut today.
- **Malaysia:** Trade ended 2019 on a firmer note with a 2.7% YoY growth beating the consensus of 2.5% fall. But 2020 is off to a weaker start. If uncontained, the spread of the coronavirus poses a significant threat to trade, tourism, and the overall growth outlook in 2020. We don't rule out more BNM rate cuts this year if the global economic situation gets worse.
- **Indonesia:** 4Q GDP report today is expected to show steady growth of about 5%. keeping the full-year growth to 5.0%, down from 2018 rate and the official target of 5.2%. Slower

domestic growth and looming global headwinds will be enough to prod Bank Indonesia (BI) into easing. Meanwhile, BI Governor Warjiyo kept up is dovish rhetoric, indicating that the central bank remained open to easing monetary policy further in light of the recent 2019-nCoV episode. We expect BI to resume its easing cycle once IDR gains some stability.

- **Philippines:** January CPI data is due with inflation likely to accelerate to 2.9% YoY from 2.5% in the previous month (consensus 2.7%) on higher food prices. Crop damage due to typhoons and a volcanic eruption likely caused supply disruptions although lower utility and transport costs could offset the food price gain. Despite the faster inflation reading, we expect the central bank to follow through with another round of easing at the meeting this Thursday.

What to look out for: Developments on the virus and central bank meetings

- Philippines CPI (5 February)
- China Caixin PMI services (5 February)
- Indonesia 4Q GDP (5 February)
- Bank of Thailand (5 February)
- US trade (5 February)
- US PMI services (5 February)
- Thailand CPI (6 February)
- India RBI meeting (6 February)
- Philippines BSP meeting (6 February)
- Taiwan CPI (6 February)
- US initial jobless claims (6 February)
- Malaysia industrial production (7 February)
- Taiwan trade (7 February)
- US nonfarm payrolls (7 February)

Article | 4 February 2020

Malaysia’s trade ends 2019 on firmer note

If uncontained, the spread of the coronavirus poses a significant threat to trade, tourism, and the overall growth outlook in 2020

Source: shutterstock

2.7%

December export growth

Year-on-year

Better than expected

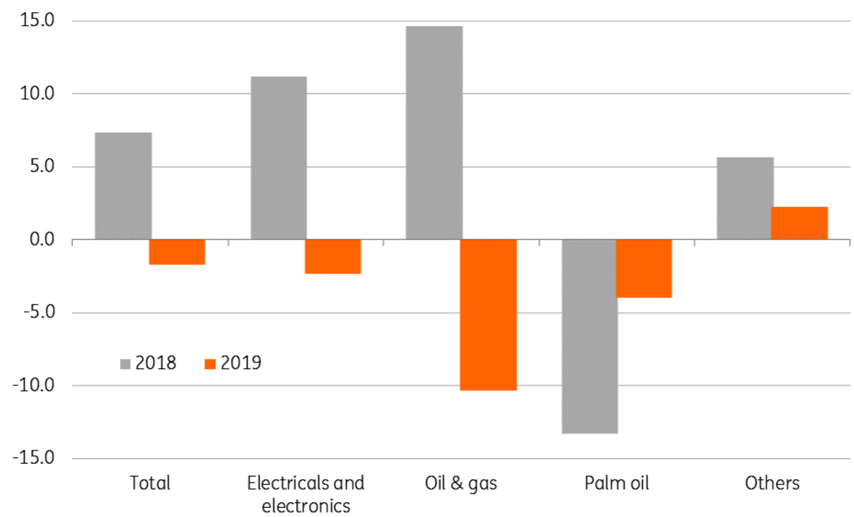
Trade ends 2019 on a firmer note

Malaysia’s trade data for December revealed surprisingly strong export growth of 2.7% year-on-year. This was the first positive growth reading in five months, confounding the consensus for a 2.5% fall.

The improvement in the main export categories was pretty much across the board. Electricals and electronics remained the main driver, given the 38% weight in total exports. However, the outperformance of this sector earlier in the year, in the face of an electronics slump everywhere else, continued to erode towards the end of the year. In the end, the 2.3% annual contraction in exports from this sector was a partial reversal of the 11% surge in 2018. Reflecting firmer global crude prices, oil and gas exports improved towards the end of the year, though a full-year fall of 10% was a sharp swing from the 15% surge in 2018.

December import growth of 0.9% was slightly weaker than the 1.5% consensus but an acceleration over -3.6% in November. The trade surplus almost doubled to MYR 12.6 billion from MYR 6.6 billion in November, taking the annual surplus to MYR 137 billion, or 11% higher than the year before.

Annual export growth



Source: Bloomberg, CEIC, ING

But 2020 is off to a weaker start

The almost 20% fall in crude oil prices so far this year bodes ill for Malaysia's commodity-driven trade growth coming into 2020. The outbreak of the coronavirus in China and its global spread means continued weak export growth ahead. And, just as in Thailand, the virus also poses a threat to Malaysia's tourism sector. All this, in turn, means continued weak GDP growth this year.

The Bank Negara Malaysia's surprising policy rate cut at the last meeting on 22 January, just around the time the coronavirus started to dominate headlines, tells us that the central bank is ahead of the curve in recognising the risk. We don't rule out more BNM rate cuts this year if the global economic situation gets worse. Even so, proactive policy should sustain investor confidence in the Malaysian ringgit (MYR), which was Asia's most resilient currency in 2019 and should remain so this year.

Snap | 4 February 2020 Philippines

Philippines: Inflation could hit 2.9% in January

Crop damage from the twin storms in December 2019 and a volcanic eruption in January are set to push food costs higher

Rice for sale at a market in the Philippines

2.9%

January 2020 inflation forecast

Bloomberg median at 2.7%

Food costs on the rise

The Philippines was hit by twin storms in late December 2019, pushing up the cost of agricultural produce and causing headline inflation for December to go above consensus to 2.5%. The food component of the CPI basket accounts for roughly 38% of the total and its direction will likely dictate where headline inflation will settle in the coming months. January saw sustained disruption to the supply chain as run-off effects from the twin storms and damage from a January volcanic eruption, which will undoubtedly push food inflation higher with the headline number likely to settle above consensus again and hit 2.9%. Meanwhile, transport prices will see a slight uptick in prices on the third tranche of the fuel excise tax that was implemented, although lower global crude oil prices muted most of the impact. Lastly, "reverse" base effects from the low inflation reading in 2019 will also nudge the 2020 inflation path to bounce then settle at around 3% on average for 2020.

BSP confident despite inflation uptick, maps out easing plan

Despite the projected uptick in prices, Bangko Sentral ng Pilipinas (BSP) Governor Diokno appears unfazed as he pointed to the central bank's inflation forecast of 2.9% for 2020 (reported last December 2019). Indicating that he has "a lot of space" to unwind the previous 175bp tightening since 2018, Diokno hinted at 25 bp of easing in the 1Q of the year with up to 50 bp of rate cuts for the balance of the year. Diokno did, however, note that risks to the inflation outlook were tilted to the upside, citing the possibility of higher oil prices and supply side disruptions caused by the African swine fever (ASF). However, in light of the recent developments related to the 2019-nCoV, we do expect global growth to dissipate as China, one of the biggest cogs in the global market, is poised to show a marked slowdown. Projections for weaker global output has resulted in lower crude oil prices, which should ease inflation concerns for the Philippines. Meanwhile, a possible downward revision to China's growth outlook in 2020 will undoubtedly dampen its demand for Philippine exports with China, one of the top three trading partners for the Philippines.

Given the bleak outlook for global growth and dissipating threats to the inflation outlook, BSP will likely keep its foot on the easing pedal to help bolster sagging growth momentum. We expect the benign inflation dynamics to afford BSP scope to cut its policy rate at the 6 February meeting to give the economy a boost to help navigate the more challenging global growth scenario. Meanwhile, we do not expect the BSP to tinker with the reserve requirement (RR) ratio for now, given ample liquidity in the system and to only resume cutting RR when bank lending shows signs of improvement.