

Good MornING Asia - 7 February 2020

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EM Space: After directional trading for most of the week, investors likely to stay sidelined on Friday

- **General Asia:** After a week of highs and lows, traders will likely sit out Friday's trading session as hopes for a quick fix to the virus clashes with the rising count of fatalities and confirmed cases. The US reports labor market data on Friday which could show more signs of steady growth for the US economy.
- **Malaysia:** December industrial production is due with the consensus of steady growth at November's 2% YoY rate at risk of an upside miss from a surprising export rebound in the month. Coming ahead of 4Q19 GDP report next week (12 February), IP data will reveal risk to our view of a further modest dip in GDP growth to 4.2% from 4.4% in 3Q. With the outbreak of the coronavirus weighing down tourism and overall demand, we would expect a couple more quarters of a slowdown ahead. If so, the Bank Negara Malaysia easing cycle will have further to run, while the government is also drafting a stimulus package.
- **Thailand:** After a surprising rate cut earlier this week, the Bank of Thailand Governor Veerathai Santiprabhob said: "We're ready for additional appropriate measures against speculation on the baht that would significantly affect our economic stability". This comes as the USD/THB rate drifted below 31 in the run-up to the policy meeting. We anticipate one more BoT rate cut in March as the impact of the coronavirus on the economy becomes

pronounced. No change to our view of the USD/THB settling in the new, higher trading range of 31-33 this year.

- **Philippines:** Bangko Sentral ng Pilipinas (BSP) cut policy rates by 25 bps as expected to 3.75% with Governor Diokno carrying out what he termed as a “preemptive” strike given expectations for slower global growth. Meanwhile, Diokno disclosed that only about 30% of liquidity released via reserve requirement (RR) reductions have translated to lending, hinting that RR reductions may be on the shelf for now. We expect a follow through rate cut at the May policy meeting by 25 bps as Deputy Governor Dakila shared that BSP has “lots of space” to cut further.

What to look out for: Developments on the virus and US NFP

- China trade (7 February)
- Malaysia industrial production (7 February)
- Taiwan trade (7 February)
- US nonfarm payrolls (7 February)

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3.75% policy rate

As expected

BSP cuts by 25 basis points with an eye on the global outlook

The Bangko Sentral ng Pilipinas (BSP) cut policy rates as expected, trimming the overnight reverse

repurchase rate to 3.75%. Despite the upside surprise on inflation for January (2.9% vs 2.7% median forecast), Governor Benjamin Diokno opted to carry out a pre-emptive rate cut, citing the impending slowdown linked to the coronavirus. Diokno previously indicated that the virus outbreak could shave up to 0.3 percentage points off growth and that monetary easing would be carried out with an eye to bolstering growth momentum, given the government's higher growth aspiration of 6.5-7.5% GDP.

Inflation expected to remain within target, easing to continue

With the recent uptick in inflation and expected bounce due to reverse base effects, the BSP adjusted its inflation forecast for 2020 to 3.0% (from 2.9%) but retained its 2021 forecast at 2.9%. The still-benign inflation outlook affords the central bank scope to continue easing monetary policy, with Diokno primed to carry out a second rate cut sometime within the first half of the year. Diokno had previously telegraphed up to 50 basis points worth of policy easing in 2020, and we expect him to cut policy rates again, as early as the May meeting.

Meanwhile, the BSP will likely shelve plans to adjust the reserve requirement (RR) given that recent cuts to the RR have not translated directly into bank lending activity. Diokno noted that a mere 30% of liquidity released through RR has been channelled to the productive sector, with the bulk of the Php400 billion infusion simply returning to the BSP via its overnight facilities. Thus we expect RR reductions to be pushed back, likely to the second half of the year.

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