# Good MornING Asia - 7 July 2020

Sentiment to remain mixed on Tuesday

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By Chris Turner

# ASEAN Morning Bytes

## Sentiment to remain mixed on Tuesday


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- **General Asia:** Sentiment could remain supported as technology shares remain upbeat with confidence buoyed by government stimulus efforts and hopes for an eventual economic turnaround. Investors continue to look past the sustained pickup in new infections in the southern part of the US as well as other parts of the world like Israel, but a sustained influx of downbeat reports could change sentiment. Several data reports are due for release later on Tuesday (Malaysia policy meeting and Taiwan trade) which should provide added direction but focus should remain on Covid-19 developments.
- **Malaysia:** It's BNM decision day with the policy announcement expected at 3.00 pm local time. BNM's last move two months ago was a 50bp rate cut, bringing the policy rate down to the low of 2.00% reached during the 2009 Global Financial Crisis. A deeper recession than in decades and a prolonged slump ahead are strong reasons why the central bank should cut by another 50bp today, especially when falling CPI inflation (-2.9% in recent months) has left the real rate as one of the highest in Asia (read more here). As such, the consensus of BNM retracting to conventional 25bp cut today may be in for a surprise.
- **Indonesia:** Bank of Indonesia (BI) and the Finance Ministry have finalized details on the so-called "burden sharing agreement" with the central bank set to purchase up to IDR520 trillion at below market rates to help fund the Covid-19 recovery efforts. The central bank received provisional authority to purchase bonds directly from the primary market at the start of the pandemic. However, investors had grown anxious over the impact of such a

scheme on overall inflation and the stability of the currency. BI governor Warjiyo indicated inflation should remain between 2-4% despite the new scheme and we expect any depreciation pressure for IDR to be capped by BI intervention in the near term.

- **Philippines:** The Philippines will report June inflation, with market analysts expecting it to settle at 2.2%, a slight pickup from the previous month as transport costs normalize. Headline inflation remains well-behaved and at the lower end of the Bangko Sentral ng Pilipinas' (BSP) 2-4% inflation target and we expect the low price environment to allow BSP to keep policy rates at accommodative levels. With bond yields pressured lower, the Bureau of the Treasury announced it would float a retail treasury bond on 15 July to secure financing for the year with revenue collection impaired by slowing economic activity. This should nudge bond yields higher in the short-term with the yield-curve steepening as bond supply increases.

## What to look out for: Covid-19 developments

- Philippines inflation (7 July)
- Indonesia GIR (7 July)
- Malaysia BNM policy meeting (7 July)
- Taiwan trade and inflation (7 July)
- US mortgage application (8 July)
- China inflation (9 July)
- US initial jobless claims (9 July)
- Philippines trade (10 July)
- Malaysia industrial production (10 July)
- Thailand GIR (10 July)
- US PPI inflation (10 July)

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# Asia FX Talking: Balance of risks

The near-term direction for Asian currencies will be dominated by whether Covid-19 angst or recovery optimism prevail. These sentiments are currently fairly evenly matched


Source: shutterstock

The outlook for most Asian currencies in the near-term will be mainly determined by global sentiment swings, rather than by domestic developments.

In particular, the surge in new US Covid-19 cases and economic re-closure has the potential to seriously dent market sentiment, but so far, is being held at bay by a combination of better (though of course lagged) economic data, and continued hopes that progress towards a vaccine is being made.

This is a precarious balance, and given the market strength that has dominated the period since March, our view is that the near-term risks are more skewed towards a correction in local currencies to weaker rates, before returning to a stronger footing.

The commodity currencies - the Australian and New Zealand dollars - may be at most risk of such a correction, though joined by the high beta currencies of the Korean won and Indonesian rupiah. Geopolitical noise can provide a further source of volatility for the Chinese yuan, as trade and tech war tensions are ratcheted up further by potential sanctions on Chinese officials over the Hong Kong National Security law.

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