Good MornING Asia - 8 July 2021

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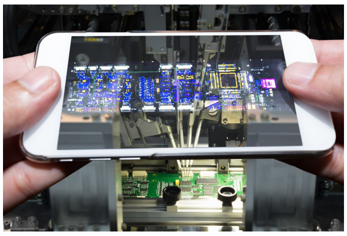

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ASEAN Morning Bytes

Asian markets to move sideways on Thursday digesting Fed minutes

EM Space: Investors digest FOMC minutes

- **General Asia:** Asian markets will likely move sideways on Thursday as investors digest the minutes of the most recent FOMC meeting. Fed officials remained unclear as to the timing of the pullback in asset purchases given the economic uncertainty although some officials felt the need to prepare for the eventual exit should economic data support such a move. Investors will focus on initial jobless claims from the US and the ECB strategy review later tonight as well as developments on the energy front with OPEC leaders still at an impasse with regard to production levels.
- **Malaysia:** Bank Negara Malaysia concludes its two-day policy meeting today. The central bank's last policy move was a 25bp cut to the overnight policy rate (OPR) in July last year. We aren't looking for any change today, which is also the market consensus. The ongoing Covid-19 third wave has been hitting the economy hard. As this demands greater monetary policy accommodation, current high inflation running over 4%, although mainly transitory due to low base effects, has reduced the scope for any easing. We have cut our GDP growth forecast for 2021 from 5.3% to 4.4% and expect average inflation this year at close to the low end of the BNM's 2.5% to 4.0% forecast range. With fiscal policy providing most of the support for the economy, BNM's policy status quo should continue through the rest of this year, leaving the MYR at the mercy of global oil prices. We have revised our end-2021 USD/MYR view from 4.12 to 4.22 (spot 4.17).
- **Singapore:** The authorities announced a further relaxation of Covid-19 restrictions as the

number of community infections continues to fall. Effective from 12 July the number of people allowed for social gatherings will rise from two to five and other activities such as high-intensity mask-off indoor fitness, large sports classes as well as wedding receptions, etc. will also be permitted. The move should instil some more life into the domestic economy, while the key economic drivers of exports and manufacturing have seen their vigour sapped in recent months. We anticipate no significant impact for the USD/SGD, however. The pair should continue to track the DXY higher to our 1.37 view for end-2021, revised up from 1.35 following the June sell-off (spot 1.35).
- **Philippines:** PHP is now on a two-week downturn, with outflows linked to anxiety over the country's inclusion in the FATF grey list, triggering the sell-off. PHP slid to new 2021 weakness on Wednesday as foreign investors exited from the local equity market, adding to the currency's woes. Import demand however remains soft with the economy still handicapped by ongoing partial lockdowns but the depreciation trend may have forced dealers out from their positions with stop losses triggered. We do expect a near term correction with the Bureau of the Treasury possibly offloading proceeds from a recent Dollar bond issuance.

What to look out for: Covid-19 developments

- Malaysia BNM policy rate (8 July)
- US initial jobless claims (8 July)
- Philippines trade balance (9 July)
- China CPI inflation (9 July)
- US wholesale inventories (9 July)

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China signals targeted RRR cut

This could be a surprise for markets at a time when other major central banks are talking about rate hikes and the taper timetable. The Chinese government announcement on a possible RRR cut will likely only be targeted at SMEs.

Source: Shutterstock

Chinese government's decision on monetary policy

The government held a regular meeting and decided to cut the targeted reserve requirement ratio (RRR) for small and medium enterprises (SMEs) when necessary, it also didn't rule out other monetary policy tools to help SMEs.

We believe that such a cut will come soon.

The cost pressures of SMEs mostly comes from high commodity prices, although the Chinese government has already acted to reduce commodity prices using both market-based and administrative measures.

Possible impact

There are a number of impacts from a possible targeted RRR cut:

1. Weaker CNY against USD as the targeted RRR cut is in contrast to Fed talk of taper and rate hike timing. This could be reflected in today's market moves.

2. This policy could be temporary when announced and possibly reported together with a timeframe or conditions.
3. SMEs in China should be able to get more loans from banks at lower interest rates after the targeted RRR cut is announced. But banks' credit policy for SMEs is not expected to be relaxed.
4. Some SMEs might be less willing to go for micro-loans offered by fintech platforms, which were the usual channel SMEs got financing from due to their more relaxed credit policy compared to banks for SMEs even though they charge higher interest rates.
5. A cut of targeted RRR for SMEs only lowers the cost to banks if they lend to SMEs. That means not all SMEs can get loans from banks even if there is a targeted RRR cut. Some SMEs would continue to operate in difficult conditions.
6. Overall, SMEs survival rate could increase moderately, and this could help stabilise jobs and economic growth/

We may revise our GDP forecast after the announcement of the policy.

On USDCNY, we have revised our forecast to 6.55 for the end of 3Q21 and to 6.45 for the end of 4Q21.

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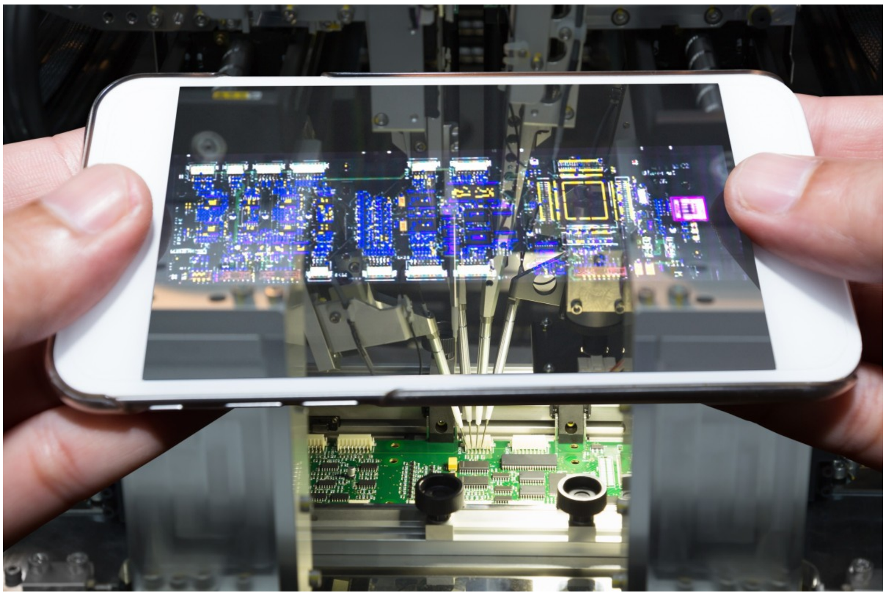
Taiwan’s electronic exports power ahead

Export growth slowed on a yearly basis, and fell from a month ago. But electronics exports continued to buck the trend



Source: Shutterstock

Covid can't stop Taiwan's sole engine

Taiwan's importance as a global semiconductor provider is confirmed by the export data for June. Most export items experienced a contraction in June from the previous month amid rising Covid-19 infections both in Taiwan and abroad. But electronics exports still increased.

Headline exports slowed to 35.1% year-on-year in June from 38.6% in May and fell 2% month-on-month. Electronic exports bucked the trend, however, gaining 9% MoM.

This shows us:

1. Taiwan is important to the world in terms of semiconductor supply;
2. Taiwan has only one pillar for economic growth: semiconductors.

GDP growth goes hand in hand with exports

With exports continuing to enjoy strong growth (even at slightly slower rate), GDP growth should follow suit.

We expect 2Q GDP to grow by 6.1% YoY. While this is slower than the 8.92% YoY rate seen in 1Q, it is still strong compared to some other economies in Asia.

We would like to highlight that this strong growth should fade in the second half of the year. This is because of the high base effect from last year, and with factories already running at full capacity, a further increase in semiconductor output and exports should be limited. Since June, we have revised downward GDP growth for 2H21 to 0.8% YoY from 2.8% YoY.

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