

2 July 2020  
Article

## Asia week ahead: All eyes on Malaysia's central bank meeting

Inflation, manufacturing and trade releases crowd the economic calendar next week in Asia but Malaysia's central bank meeting, where we expect a 50 basis point rate cut will be the highlight



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### Mixed bag of central policy

With the risk of a second wave of Covid-19 looming, the continued policy accommodation remains the order of the day. While some regional central banks still have room to ease further, others have already reached the limits. We look for this divide in the central bank decisions due next week in Australia and Malaysia. We forecast the Reserve Bank of Australia leaving rates on hold, and we're not alone in this view. There is a unanimous consensus behind this view, especially as the policy rate is currently sitting at an all-time low of 0.25% from where it has no room to fall further. The RBA's Governor Philip Lowe has recently ruled out negative rates and we think he will stick to that. And

his deputy, Guy Debelle suggests they are ready to do more quantitative easing if circumstances warrant.

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## We think Malaysia's central bank will cut rates by 50bp next week

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So, all the action is likely to take place at Malaysia's central bank meeting. The Bank has cut the overnight rate by a total 100 basis point so far this year to 2.00% - also an all-time low. The consensus for next week is split between 'more cuts' and 'on-hold' outcomes, and there is a further split within the rate-cut camp on a 25bp or a 50bp cut. We believe a 50bp cut is on the table next week. The Covid-19 lockdown has thrown the Malaysian economy into the worst recession in decades. The negative CPI inflation (-2.9% YoY in the last two months), has left the real rate as one of the highest in Asia, offering scope for another rate cut in the nominal rate. A timely dose of easing, while there is room for it, will go some way in shoring up domestic demand, though the overall recovery will still hinge on the external factors, given the economy greater reliance on exports and tourism. Therefore, we see no reasons why the central bank should take a pause next week. On the contrary, we believe the easing cycle has more room to run with our forecast of a total 100bp of rate cuts this quarter.



### Slow growth, low inflation

Inflation, manufacturing, and trade release dominate the data pipeline next week. China, Taiwan and the Philippines report CPI inflation for June. The release of the pent-up demand and continued supply chain disruption might cause pick-up in inflation in some countries, though we don't anticipate a significant drift away from the subdued inflation trend in place so far this year. Taiwan and the Philippines report trade data for June and May respectively. The obvious focus here will be on export performance. So far this year, Taiwan's exports have been the best performers in Asia (up 1.5% YoY year-to-date) and the Philippines's the worst (down 16.5%). We should see this north-south performance gulf prevail. Lastly, industrial production releases in India and Malaysia for May will help to gauge the GDP performance of these countries in 2Q20. Besides weak domestic demand due to Covid-19 restrictions, a sharp plunge in exports in May (by 36.5% YoY in India and 25.5% in Malaysia) should have dented manufacturing, supporting our view of a double-barrel rate cut next week and more monetary easing from India's central bank this quarter.

# Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
<b>Monday 6 July</b>					
Hong Kong	0130	Jun Nikkei PMI	-	-	43.9
Indonesia	-	Jun BI consumer confidence index	74.2	-	77.8
<b>Tuesday 7 July</b>					
China	-	Jun Forex Reserves (US\$bn)	3200.0	-	3101.7
Hong Kong	-	Jun Forex Reserves (US\$bn)	-	-	442.3
Indonesia	-	Jun Forex Reserves (US\$bn)	130.9	-	130.5
Korea	-	May Current A/c Balance (US\$bn)	-100.0	-	-3124.3
Malaysia	0800	Overnight Policy Rate	1.5	2.0	2.0
	0800	Jun 30 Forex reserves- Month end (US\$bn)	-	-	102.8
Philippines	0200	Jun CPI (YoY%)	2.3	1.9	2.1
	-	Jun Forex reserves (US\$bn)	93.9	-	93287.5
Singapore	-	2Q A GDP (Q) (YoY%)	-9.2	-	-0.7
	-	2Q A GDP (QoQ Annualised %)	-30.6	-	-4.7
Taiwan	0900	Jun Exports (YoY%)	-3.0	-	-2.0
	0900	Jun Imports (YoY%)	-8.7	-	-3.5
	0900	Jun WPI (YoY%)	-9.4	-	-11.6
	0900	Jun CPI (YoY%)	-1.0	-	-1.19
<b>Thursday 9 July</b>					
China	0230	Jun PPI (YoY%)	-3.6	-	-3.7
	0230	Jun CPI (YoY%)	2.4	-	2.4
<b>Friday 10 July</b>					
China	-	Jun Aggregate finance (Yuan bn)	3200.0	-	3190.7
	-	Jun Financial institution loans (Yuan bn)	1600.0	-	1482.1
	-	Jun Money supply (M2) (%YoY)	11.1	-	11.1
India	1300	May Industrial production (YoY%)	-38.0	-	-55.5
Malaysia	0500	May Industrial production (YoY%)	-30.0	-	-32.0
Philippines	0200	May Trade balance (US\$mn)	-2670.0	-	-499.0
	0200	May Exports (YoY%)	-43.1	-	-50.8
	0200	May Imports (YoY%)	-58.7	-	-65.3

Source: ING, Bloomberg, \*GMT

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