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MEDIA STATEMENT
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Kuala Lumpur, 20 June 2019 – 2019 has, thus far, been an eventful year from the macroeconomic perspective. Within the G10 space, we have started to see US growth outlook converge lower towards the rest-of-world averages. Nevertheless, growth downgrades in 1Q 2019 in Europe and Asia has allowed the US to still appear as the brightest of the lot. Early signs of stabilisation in China noted in April were quickly snuffed out in May by the re-emergence of the Sino-US trade conflict. At this juncture, we still think that the trade war is in an escalation phase, with the scope of conflict widening out beyond tariffs into specific industries. The increased involvement of the Chinese state and social media in commenting on the conflict also adds a layer of complexity that was not seen last year. We remain hopeful that the G-20 Summit may be a turning point, but recent progress suggest otherwise.

We note that global central banks pivoted sharply at the turn of the year, halting the rate hikes and policy tightening that characterised 2018. As it stands, the global central banks look poised to move further towards the dovish spectrum, with the US Federal Reserve also open to considering policy easing. Our house view pencils in a 25 bps rate cut by the end of the year, and another 25 bps cut in 2020 by the Federal Reserve. Market expectations point towards even more rate cuts over the next 12 months. However, even

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though the US economy is in a slowdown, we do not think it is on the verge of a deep recession. Thus, the macro-fundamentals, for now, do not appear to justify a deep rate cut cycle.

What is perhaps more important is the relative posturing between the US Federal Reserve and the other major central banks. Tellingly, the RBA has cut in its June meeting, and signalled for further policy easing in the upcoming months. The ECB, meanwhile, has pushed out their rate hike trajectory to after 1H 2020, and has commenced TLTRO III, providing cheap loans to the European banking system. Thus, coordinated easing across major central banks may be a feature for the rest of 2Q 2019 and 3Q 2019. In this context, we think the USD may remain supported, as investors shift attention from the Fed rate cuts to rate cuts by the other central banks, and the relatively weaker macro outlook outside of the US. We think the EUR and GBP may be most disadvantaged against the USD on growth and political uncertainties, while the AUD may be beholden to trade related headlines.

In Asia, the macro outlook continues to look uninspiring. Sino-US trade tensions remain a potential flashpoint and may impinge on macroeconomic readings further. In the upcoming months, there may be limited scope for a recovery in growth outlook, especially if the trade tensions continue to swirl. In the longer term, there may be a case for some optimism that sustained policy accommodation in China may eventually lead to the domestic economy stabilising and bottoming out by 2020. The hope is for recovering China to act as an anchor of stability, and for growth to pick up sufficient momentum to filter down towards the rest of Asian economies. This scenario, however, is predicated on the trade tensions blowing over.

In the interim, we note that Asian central banks are now more open towards rate cuts to support the growth impetus. Apart from the macro considerations, Asian central banks may also be encouraged by the shift in posturing by the Fed and other major central banks. Nevertheless, we

expect the easing bias to be carefully calibrated, so as to avoid undue concerns over the macro picture, and prompt risks of capital outflows.

Given the spectre of the trade war and soft economic outlook, there may be few positives for Asian currencies as a whole. For the RMB front, we expect the USD-CNY to stay within range ahead of the G-20 Summit. Though there are no stated lines in the sand for the USD-CNY, the pace towards the 7.0 barrier and any potential breakthrough will be carefully managed and dependent on new catalysts. Note also, that the RMB has been depreciating on the CFETS RMB Index basis even as the USD-CNY was static within a range. Overall, USD-Asia may stay supported in the coming months. Between the Asian currencies, we look for the South Asian currencies, the THB and INR in particular, to outperform over the North Asian currencies. At this juncture, the likes of THB and INR may be less exposed to trade-related risks, and enjoy background support from foreign inflows into Thai and Indian assets.

In relation to the MYR, we do not see excessive depreciation pressures that are out of line from its Asian counterparts. Although the USD-MYR may still edge higher in the coming months alongside the rest of Asia, we expect the pair to end the year lower than current levels. Our latest year-end forecast for USD-MYR, is 4.1641.

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