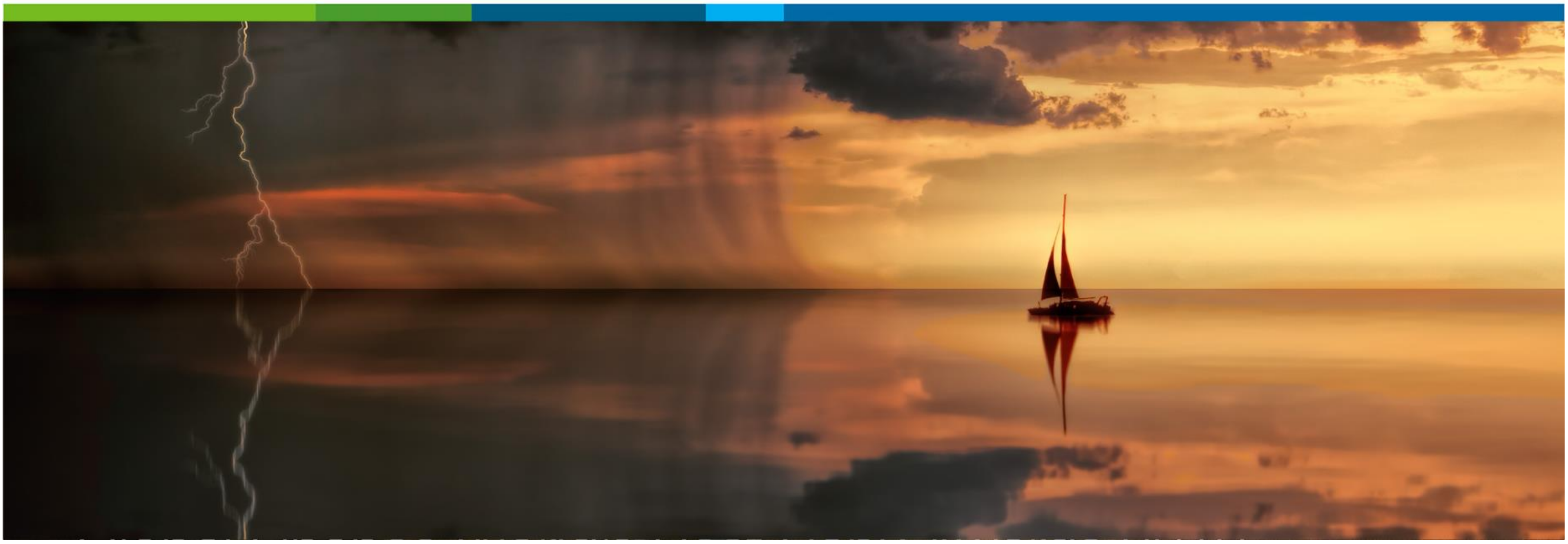

ASEAN: Hitting a multi-decade low

The ASEAN-6 bloc (Malaysia, Thailand, Singapore, the Philippines, Vietnam and Indonesia) is headed for the slowest growth since 1998. Our new 2020 GDP growth forecast is 0.2 per cent, down from the 4.8 per cent we forecast in December 2019 before COVID-19 gripped the world. Fiscal and monetary policy support in the region should offset some downside risks to growth but is unlikely to reverse the weak outlook.

In fact, we currently expect recessions in Malaysia, Thailand and Singapore this year.

In Malaysia, the ongoing coronavirus lockdown is estimated to subtract 3.4 percentage points from full-year GDP growth, especially as domestic spending has accounted for 85 per cent of GDP growth over the last three years.

While we expect growth to recover post-lockdown, the pick-up may be subdued due to depressed global demand, the collapse in global oil prices and the impact of COVID-19 on tourism, which accounts for c.6 per cent of Malaysia's GDP.

To reflect Thailand's stringent lockdown until the end of April, we have lowered our 2020 growth forecast further to -5.0 per cent. This reflects COVID-19's significant hit to tourism (which accounts for 12 per cent of GDP), exacerbating the economic impact of a drought and poor onshore investment sentiment.

For the Philippines, we have downgraded our 2020 GDP growth forecast to 1.2 per cent due to the lockdown and a potential contraction in remittances.

Indonesia has so far refrained from imposing lockdowns, but limited operations for business premises will dent domestic spending. Given the experience of other countries, our downgraded 2020 growth forecast of 2.5 per cent for Indonesia incorporates the risk of a stricter lockdown.

We highlight the impact of the COVID-19 outbreak on some of the key markets in the region:

Our new 2020 GDP growth forecast is 0.2 per cent, down from the 4.8 per cent forecast in December 2019 before COVID-19 gripped the world.

Singapore - Dragged into a recession

Containment measures and global travel restrictions have impacted Singapore's domestic spending. Singapore is also affected by Malaysia's lockdown, which is affecting the cross-border flow of workers and merchandise trade.

More importantly, the drop in global demand may result in a slower recovery in the second half of the year for Singapore given its high dependence on external demand (62 per cent of GDP); we expect this to result in a GDP contraction of 3.1 per cent this year.

However, we now expect growth to recover more strongly to 7.8 per cent in 2021 (previously 2.8 per cent) due to a more favourable base effect and significant fiscal and monetary stimulus, both globally and domestically.

"Whatever is necessary" policy approach

Singapore's strong fiscal position allows the government to deliver aggressive stimulus measures in times of need.

We see the following tailwinds:

1. Monetary policy is very accommodative. The Monetary Authority of Singapore has just sanctioned a dual easing by lowering the slope of the SGD NEER slope to flat and re-centreing the centre of the SGD NEER band lower. The March policy statement noted that fiscal tools are the primary means of mitigating the economic impact of COVID-19, complemented by monetary policy. That said, we expect highly accommodative monetary conditions to stay in place for some time.
2. The government has announced a second stimulus package worth SGD48.4 billion, topping up the SGD6.4 billion of stimulus announced in the 2020 budget in mid-February.
3. Containment measures so far have been relatively successful; this should support local sentiment and consumption.
4. Supply chains in China are normalising, which should help Singapore's manufacturing sector.

Currency outlook

We have raised our USD-SGD forecast for mid-2020 to 1.42 (from 1.39) to account for the dual easing by the MAS, but we do not expect the SGD to underperform other regional currencies, as we do not expect an inter-meeting decision before the next regular policy meeting in October.

Vietnam - A multi-year low

Vietnam is now more integrated with the global economy via its booming manufacturing sector: its trade-to-GDP ratio has risen to 300 per cent, among the highest in Asia, signifying its high dependence on global demand.

Lower global demand amid likely recessions in the US, the euro area and other G10 economies will weigh on 2020 growth; we lower our GDP growth forecast further to 3.3 per cent (from 5.3 per cent).

Vietnam's manufacturing sector is likely to be hard hit by weak global demand: we expect growth in the manufacturing sector to slow to c.3 per cent in 2020 from around 11 per cent in 2019.

We expect sharp declines in both domestic and international tourism in 2020, with an expected 60 per cent decrease in tourist arrivals.

Foreign direct investment (FDI) is likely to drop significantly this year, falling below USD 10 billion, putting more pressure on the economy.

Policy response – Accommodative monetary, accelerated fiscal

Following the route taken by most central banks in response to COVID-19, the State Bank of Vietnam (SBV) has cut the policy refinancing rate by 100bps to a new low of 5 per cent and is likely to maintain an accommodative monetary policy stance.

Increased government spending via accelerated public infrastructure investment should support growth: Prime Minster Phuc has called for accelerated investment disbursement for transport infrastructure projects.

We expect further growth-supportive fiscal measures from the government, including tax incentives aimed at facilitating FDI inflows.

Currency outlook

We expect further Vietnamese dong (VND) weakness in the near term given the sharp decline in external demand, slowing tourism receipts, weakness in other regional currencies, and lower net FDI inflows. In the medium term, however, Vietnam's external balances are likely to remain strong and we expect robust VND performance.