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# Economic Letter from Asia: China, Rate Decisions, and the Carry Trade

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## China, Rate Decisions, and the Carry Trade

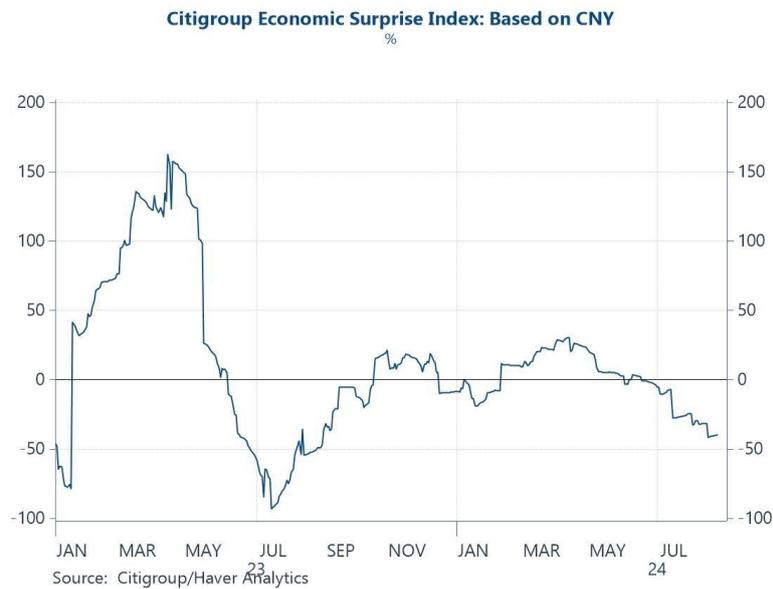
In this week's newsletter, we explore several key and current issues in Asia. China's recent data has continued to disappoint, following its weak performance in Q2, with monthly readings still reflecting an uneven recovery. Additionally, the property sector remains troubled, with no end in sight for its struggles and house prices continuing to fall. Given these developments and with only a few months left in the year, China's prospects of achieving its 5% growth target appear increasingly uncertain. We also examine the state of Japan's carry trade. Recent weeks have shown signs of stabilization after the volatility that followed the Bank of Japan's (BoJ) meeting. Finally, we review last week's interest rate decisions in South Korea, Indonesia, and Thailand, where policy rates were kept unchanged across the board. The decision to maintain the status quo reflects various domestic considerations. However, central banks are also influenced by external factors, such as the anticipated path of US interest rates. In this context, Fed Chair Powell indicated in his recent Jackson Hole speech that the Fed plans to begin its rate cut cycle in September. This development may prompt central banks in Asia to consider similar actions soon.

### China

China's recent economic data have been increasingly disappointing, as depicted in Chart 1. For instance, Q2 GDP growth of 4.7% y/y fell short of expectations. Latest monthly data have been more mixed: industrial production and fixed asset investment slowed further in July, while the unemployment rate increased and retail sales growth strengthened. This highlights the uneven nature of China's economic recovery, with weak consumer sentiment and persistent challenges in the property sector. In response, Chinese authorities have implemented a range of measures to boost demand. These include interest rate

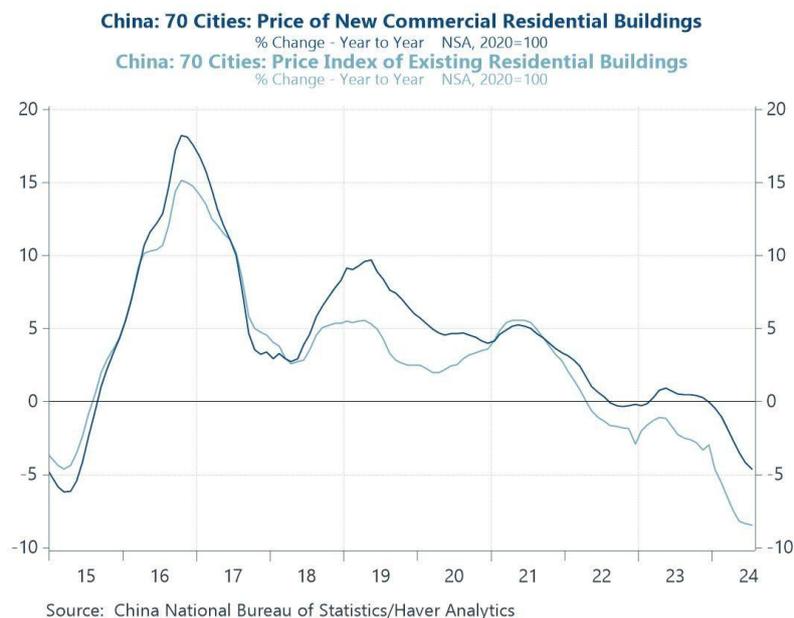
cuts in July, and targeted initiatives to stimulate demand and address excess supply in the property market. While these actions may provide some immediate relief, more comprehensive reform initiatives could offer a better path to long-term economic stability. Given the ongoing challenges, China's prospects of achieving its 5% growth target appear increasingly uncertain.

Chart 1: Economic surprise in China



Revisiting China's property market, it is evident that the decline in house prices continues unabated. In June, prices fell even further (Chart 2), with our nominal GDP-weighted index revealing a 4.7% y/y drop in new property prices in July, and an 8.5% decrease in existing property prices. This ongoing decline persists despite efforts by authorities to boost demand and address a supply glut. Specific measures to stimulate demand have included easing mortgage regulations in certain provinces, such as lowering down payment requirements. Concurrently, efforts to alleviate the supply glut involve assisting local governments in purchasing properties for conversion into affordable housing or rental units. Nonetheless, the sharp downturn in house prices appears likely to continue, as several cities have removed price guidance, allowing developers to aggressively cut prices in order to attract buyers and secure liquidity.

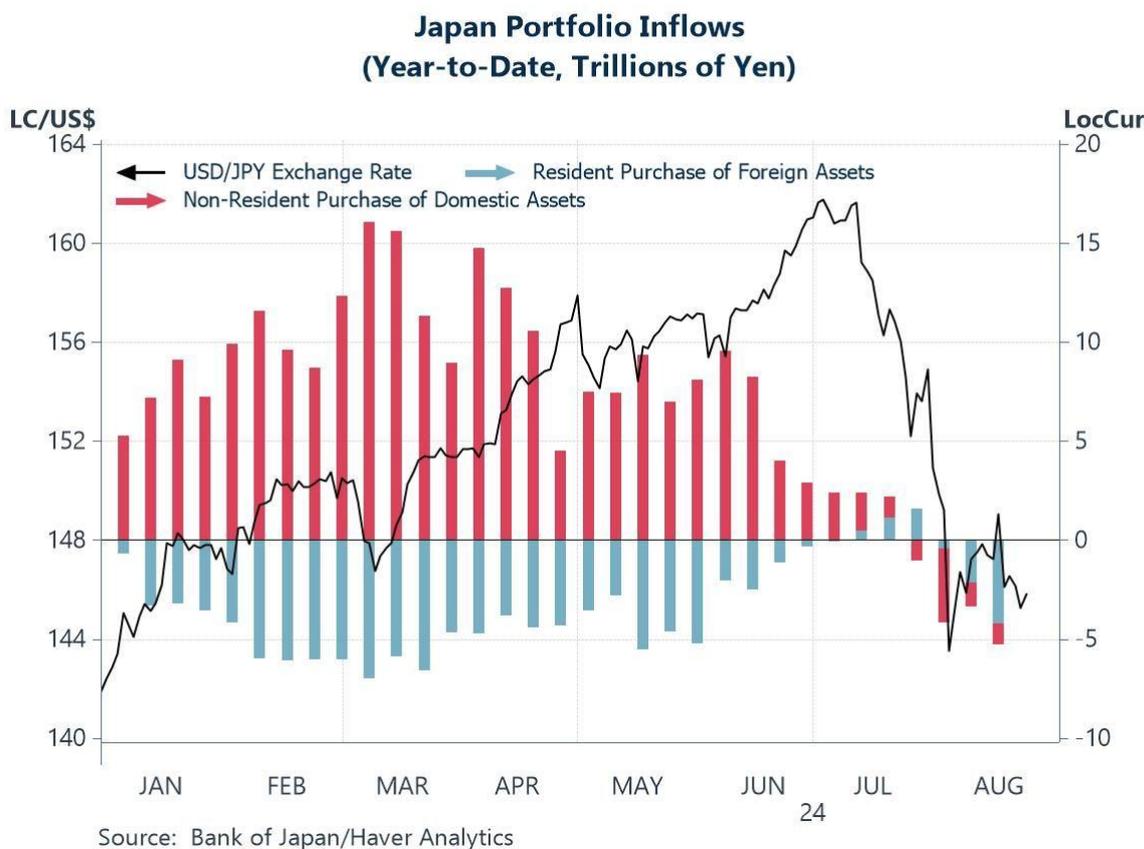
Chart 2: China 70-city home prices



## Japan

Regarding the carry trade and the Japanese yen, recent data indicate that market conditions have stabilized. This stabilization follows the abrupt unwinding of short yen positions that followed the BoJ's July decision to tighten policy further. Specifically, early August data show some signs of recovery: Japanese residents' net purchases of foreign assets have picked up, while non-residents' net sales of Japanese assets have slightly decreased (Chart 6). Although these flows are not directly tied to carry trade activity, they provide insights into investor sentiment regarding the underlying funding costs of the yen and the impact of changes in relative yields.

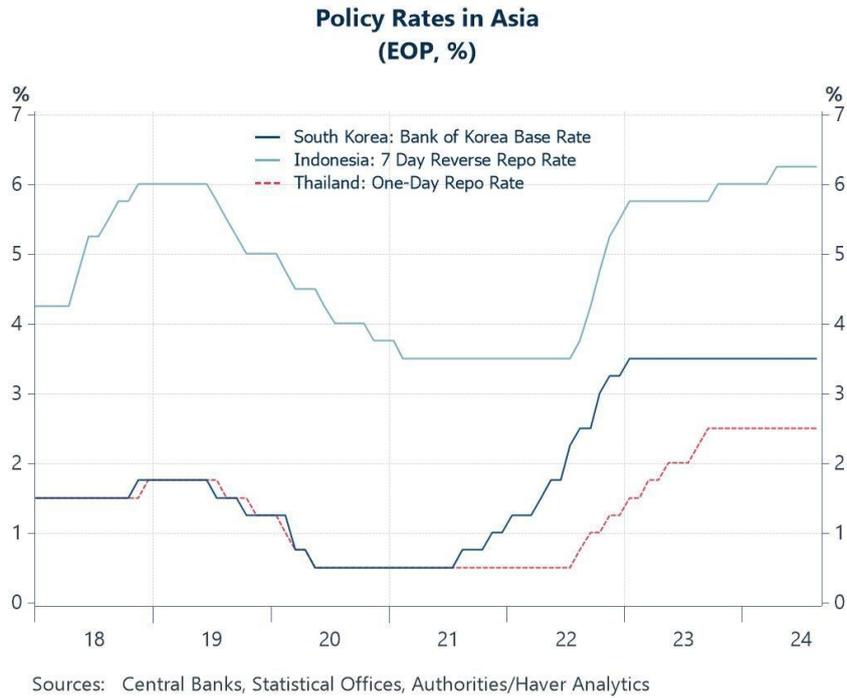
Chart 3: Japan portfolio flows vs. USD/JPY exchange rate



## Interest rate decisions

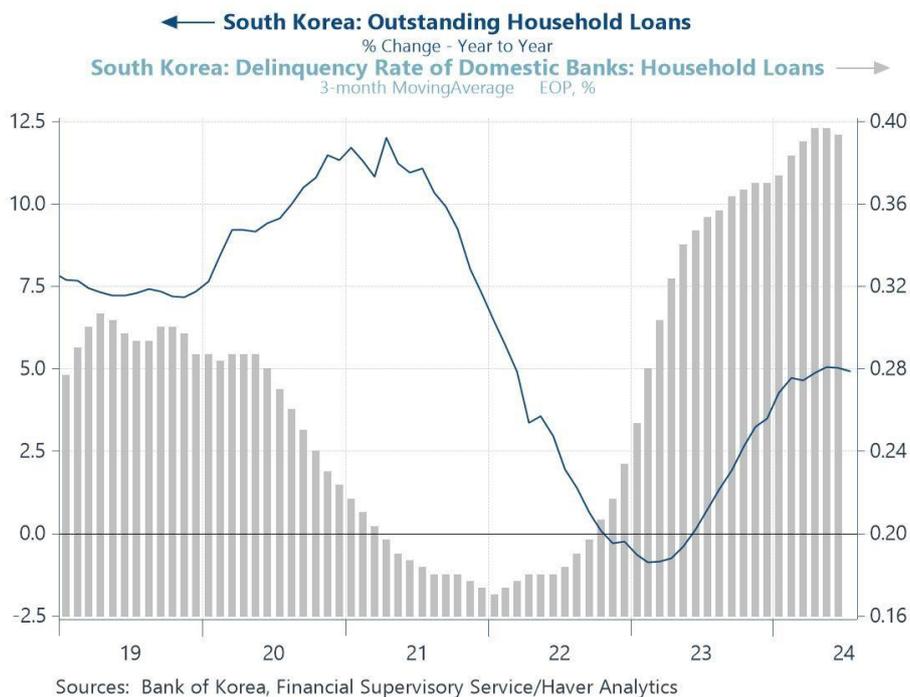
Last week brought several notable interest rate decisions across Asia. As shown in Chart 4, the Bank of Korea (BoK), Bank Indonesia (BI), and Bank of Thailand (BoT) all decided to keep their policy rates unchanged, as expected. However, their motivations and considerations differed. Each central bank is navigating a range of domestic issues, including inflation, growth prospects, and potential fiscal measures. We will delve into these specific factors in more detail in subsequent sections. In addition to these domestic issues, regional central banks are likely factoring in the expected path of Federal Reserve monetary policy. This involves assessing yield differentials with major economies, the effects on currency movements, and the implications for portfolio flows, all from a financial stability perspective. Among possible considerations, lowering rates too early could risk reigniting inflation or weakening the domestic currency, while delaying cuts might place excessive constraints on economic growth.

Chart 4: Policy rates in South Korea, Indonesia, and Thailand



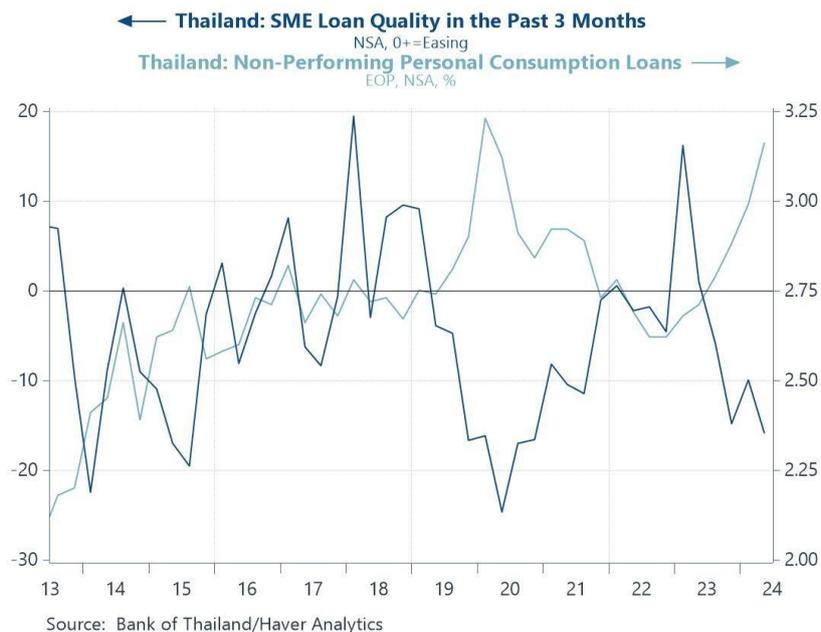
In South Korea, the central bank emphasized the need to keep monitoring the domestic housing market. This need is driven by the current house price situation, especially in Seoul, and elevated household debt, driven by mortgage loans (see Chart 5). Additionally, the BoK highlighted a persistent divergence between strong export growth and subdued domestic demand. On the one hand, South Korea is benefiting from robust export growth, driven primarily by the ongoing tech upcycle, with electronics and semiconductor goods contributing significantly to recent gains. On the other hand, domestic conditions remain subdued, with only modest growth in household consumption seen recently. Overall, the central bank now projects slightly lower GDP growth and inflation for the year compared to its May forecasts.

Chart 5: South Korea household loans



Turning to Thailand, the central bank acknowledged ongoing economic challenges, particularly in the household sector and among small and medium-sized enterprises (SMEs). In the household sector, issues include the deleveraging process and declining credit quality. SMEs are also experiencing similar credit deterioration, as shown in Chart 6. Additionally, certain export categories, such as textiles and apparel, are struggling with competitiveness issues. Interestingly, and partly the result of supply-side drivers, Thailand’s inflationary environment differs from that of many of its Asian peers. Specifically, inflation in Thailand remains relatively subdued and only entered positive territory earlier this year after a prolonged period of falling prices.

Chart 6: Thailand SME loan quality and personal consumption NPLs



# About the author



Haver Analytics is pleased to bring [Tian Yong Woon's](#) commentaries on the state of the global economy to its clients.

Tian Yong joined Haver Analytics as an Economist in 2023. Previously, Tian Yong worked as an Economist with Deutsche Bank, covering Emerging Asian economies while also writing on thematic issues within the broader Asia region. Prior to his work with Deutsche Bank, he worked as an Economic Analyst with the International Monetary Fund, where he contributed to Article IV consultations with Singapore and Malaysia, and to the regular surveillance of financial stability issues in the Asia Pacific region. Tian Yong holds a Master of Science in Quantitative Finance from the Singapore Management University, and a Bachelor of Science in Banking and Finance from the University of London.

## Data featured in this commentary:

Chart 1: Economic surprise in China

Series 1: [V924CSI@INTDAILY](#)

V924CSI@INTDAILY [Citigroup Economic Surprise Index: Based on CNY (%)]

Chart 2: China 70-city home prices

Series 1: [ryr%\(N924HWM@EMERGEPR\)](#)

N924HWM@EMERGEPR [China: 70 Cities: Price of New Commercial Residential Buildings (NSA, 2020=100)]

Series 2: [ryr%\(N924HK@EMERGEPR\)](#)

N924HK@EMERGEPR [China: 70 Cities: Price Index of Existing Residential Buildings (NSA, 2020=100)]

Chart 3: Japan portfolio flows vs. USD/JPY exchange rate

Series 1: [X158JBB@INTDAILY](#)

X158JBB@INTDAILY [Japan: Spot Yen/USD Exchange Rate: 17:00 in JST (Yen/USD)]

Series 2:  $ytd((-1 * ((F158OSBN@INTWKLY + F158OBN@INTWKLY) + F158OSN@INTWKLY)))$

-1

F158OSBN@INTWKLY [Japan: Residents' Net Purch/Sales of For ST Debt Securities(100 Mil.Yen)]

F158OBN@INTWKLY [Japan: Residents' Net Purch/Sales of For LT Debt Securities(100 Mil.Yen)]

F158OSN@INTWKLY [Japan: Residents' Net Purch/Sales of For Eq & Inv Fund Shares(100 Mil.Yen)]

Series 3:  $ytd(((F158ISBN@INTWKLY + F158IBN@INTWKLY) + F158ISN@INTWKLY))$

F158ISBN@INTWKLY [Japan: Foreigners' Net Purch/Sales of Domestic ST Debt Sec (100 Mil.Yen)]

F158IBN@INTWKLY [Japan: Foreigners' Net Purch/Sales of Domestic LT Debt Sec (100 Mil.Yen)]

F158ISN@INTWKLY [Japan: Foreigners' Net Purch/Sales of Dom Eq & Inv Fund Shares(100 Mil.Yen)]

Chart 4: Policy rates in South Korea, Indonesia, and Thailand

Series 1: [N542RCT@EMERGEPR](#)

N542RCT@EMERGEPR [South Korea: Bank of Korea Base Rate (EOP, % p.a.)]

Series 2: [N536RTAR@EMERGEPR](#)

N536RTAR@EMERGEPR [Indonesia: 7 Day Reverse Repo Rate (EOP, %)]

Series 3: [N578RTAR@EMERGEPR](#)

N578RTAR@EMERGEPR [Thailand: One-Day Repurchase Rate (% , EOP)]

Chart 5: South Korea household loans

Series 1: [ryr%\(N542FCHX@EMERGEPR\)](#)

N542FCHX@EMERGEPR [South Korea: Outstanding Household Loans (EOP, NSA, Bil.Won)]

Series 2: [movv\(N542ZRTH@EMERGEPR,3\)](#)

N542ZRTH@EMERGEPR [South Korea: Delinquency Rate of Domestic Banks: Household Loans (EOP, %)]

Chart 6: Thailand SME loan quality and personal consumption NPLs

Series 1: [N578V7M@EMERGEPR](#)

N578V7M@EMERGEPR [Thailand: CCS: Corporate Loans: Last 3 M: Loan Quality: SME (NSA, 0+=Easing)]

Series 2: [Q578FNZP@EMERGEPR](#)

Q578FNZP@EMERGEPR [Thailand: NPLs as a % of Total Loans: Personal Consumptions (EOP, NSA, %)]

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