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Economic Letter from Asia

State of Play

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Written by [Tian Yong Woon](#)

State of Play

In this week's newsletter, we examine monetary policy in the Asia-Pacific region. Fed Chair Powell's recent Jackson Hole remarks have further solidified expectations of an imminent easing cycle. And this has removed a big barrier to many central banks in Asia in their pursuit of a domestic easing cycle as well. Nonetheless, some central banks in the region have already begun implementing interest rate cuts ahead of any Fed moves. We also take a closer look at Japan, which stands out among major economies due to its distinct approach to monetary policy calibration. While Japan is also pursuing monetary normalization, its path remains unique. Additionally, we address key themes in the Asian region, focusing on semiconductor stocks and the electric vehicle (EV) sector. In the semiconductor space, there may be overly optimistic investor expectations, given that extraordinary growth rates are unlikely to be sustainable indefinitely. As for the EV sector, trade measures against Chinese imports are both intensifying and expanding across more economies, reflecting deeper geopolitical entanglements.

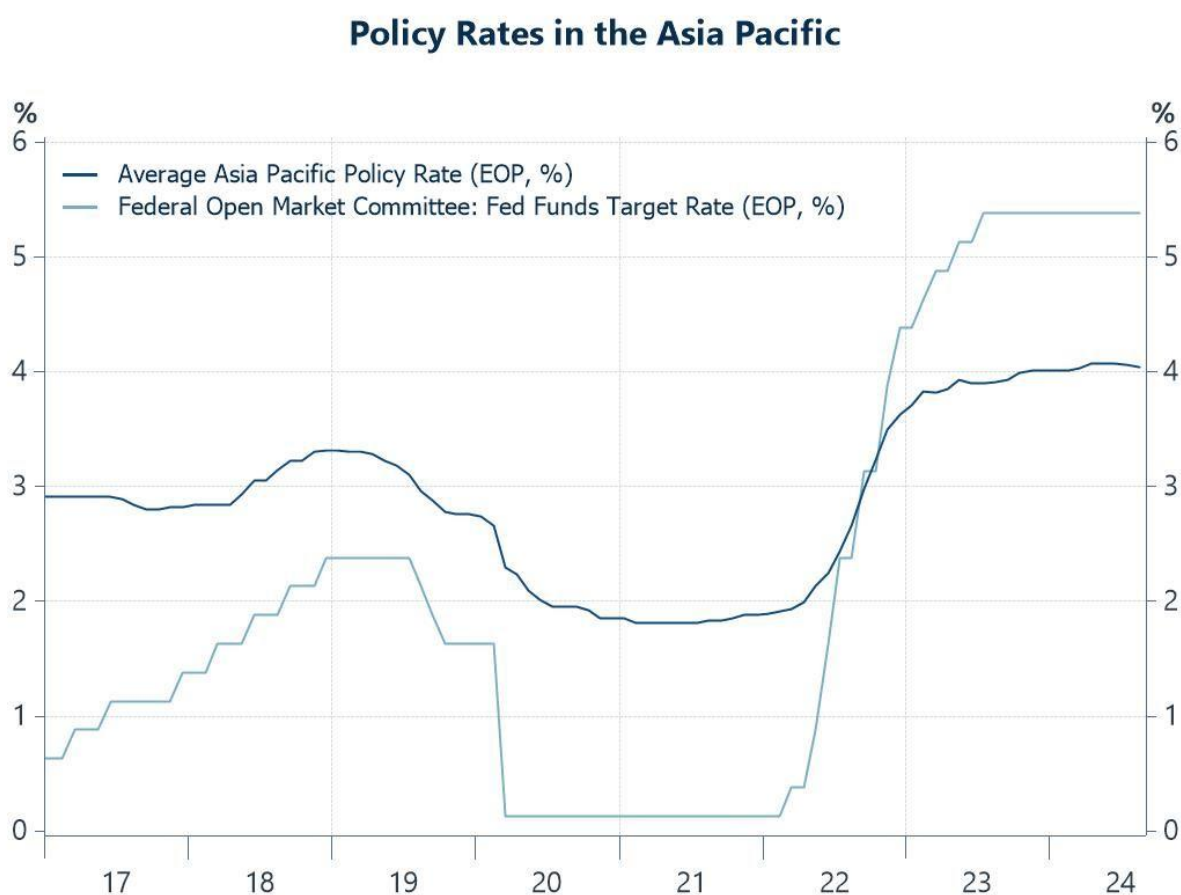
Overall, monetary policy in most of the region is shifting towards easing, with domestic inflation under control and major central banks already implementing rate cuts. Japan, however, continues to follow its own course with policy tightening. Meanwhile, uncertainty persists in the semiconductor and EV markets due to evolving investor expectations and escalating geopolitical tensions.

Monetary policy

Central banks in the Asia-Pacific region are increasingly transitioning towards easing monetary policy,

though policy rates have largely remained stable in recent months (Chart 1). Nonetheless, some economies have already begun reducing interest rates. For example, China cut its rates further in July to boost demand and support struggling sectors like the property market and household sector. In August, New Zealand's central bank implemented its first rate cut in four years and signalled the possibility of further easing. Additionally, the central bank of the Philippines also lowered its policy rate in August, becoming the first Asian central bank to do so in this cycle, aside from China. Recent comments from Federal Reserve Chair Jerome Powell, who stated in his Jackson Hole speech that “the time has come” for the Fed to begin lowering rates, have bolstered expectations for increased monetary easing in the Asia-Pacific region. Powell’s remarks align with the broader trend of most major central banks shifting from tightening policies to easing measures.

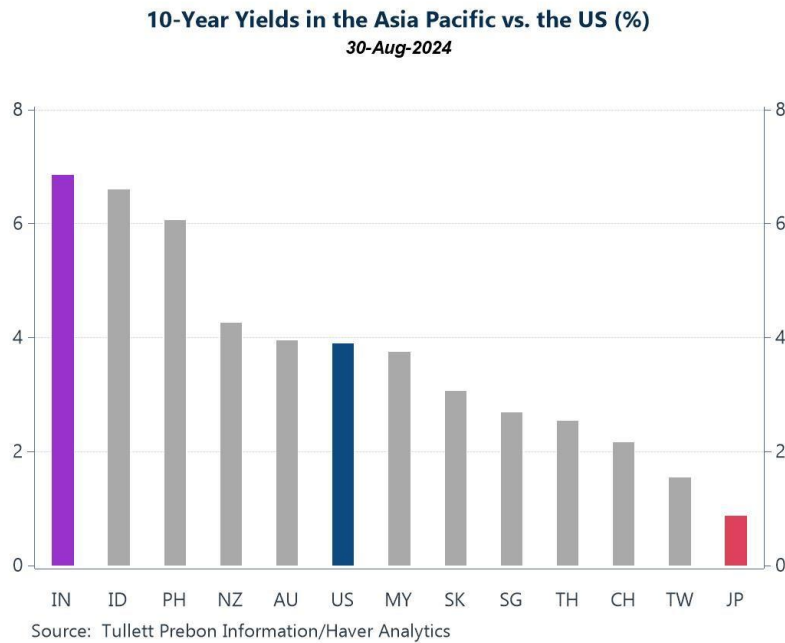
Chart 1: Policy rates in the Asia Pacific



Source: BOJ, RBNZ, RBA, BI, SBV, BoT, CBC, BSP, BNM, BoK, RBI, PBoC, FRB/Haver Analytics

The easing bias of major central banks provides more room for central banks in the Asia-Pacific region to start their own easing cycles. This shift reduces concerns about yield differentials, which, if too unfavourable, could impact financial stability. For example, significant and unfavourable yield differentials might lead to portfolio outflows and instigate depreciation pressure on currencies in some emerging Asian economies. Weaker currencies could then cause issues with imported inflation, a key concern for many central banks in recent years. Currently, emerging Asian economies such as India, Indonesia, and the Philippines still enjoy a positive yield spread over major economies like the US, as indicated in Chart 2. In contrast, economies like China and Japan have lower yields compared to the US. The situation in Japan, in particular, remains noteworthy and will be explored further below.

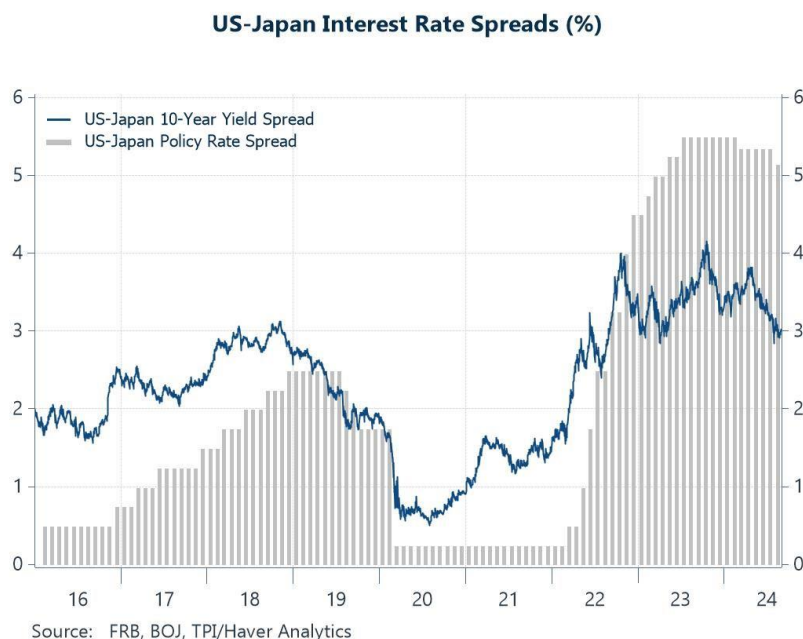
Chart 2: 10-year yields in the Asia Pacific vs. the US



Japan

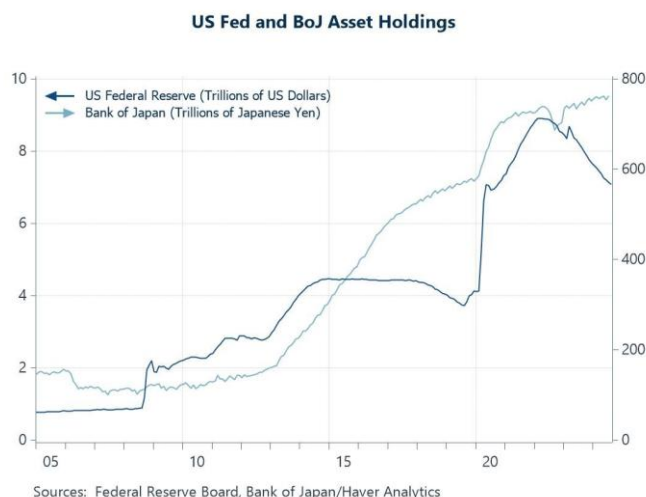
Japan remains a unique case among major central banks due to its divergent monetary policy. While other major central banks tightened their policies in recent years, the Bank of Japan (BoJ) opted to maintain a loose stance. Now, the situation is reversing: the BoJ is beginning to tighten, while other central banks are easing. Despite this divergence, both the BoJ and its peers are moving towards more neutral policy settings. As monetary policy normalizes, investors can reasonably expect the yield differentials between Japan and other major economies to narrow. Thus, the incentives for carry trades, a hot topic of late, are likely to diminish over time. This could support the yen, which has struggled in recent years. However, it's important to note that actual movements in the yen may still be influenced by traditional drivers, such as safe-haven flows.

Chart 3: US-Japan interest rate spreads



Beyond yield differentials and interest rate moves, another similarity between the BoJ and other major central banks is their ongoing efforts to unwind massive balance sheet assets accumulated during their Quantitative Easing (QE) phases. However, the BoJ's balance sheet normalization is still in its early stages, with asset levels remaining relatively high, as illustrated in Chart 4. In contrast, other central banks, such as the Federal Reserve, have made significant progress in normalizing their balance sheets, though they are not yet fully normalized. The BoJ's approach to balance sheet normalization has been notably gradual. Instead of abruptly halting purchases or selling off holdings, the BoJ has chosen to gradually reduce its purchases of Japanese Government Bonds (JGBs).

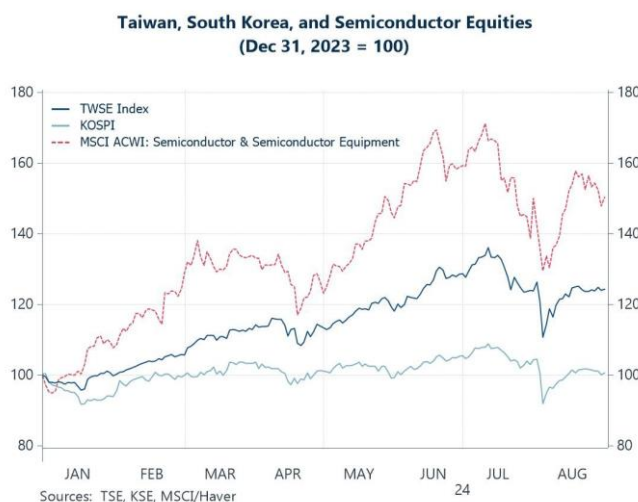
Chart 4: US Fed and Bank of Japan asset holdings



Revisiting tech

Next, we revisit key themes related to advanced Asia economies, particularly in the semiconductor sector. While growth prospects for the sector remain strong due to robust demand and global AI adoption, there seems to be a broader interim trend of re-evaluating tech optimism. This is evident as semiconductor stocks and semiconductor-heavy regional equity indices have declined significantly in recent days, as shown in Chart 5. However, this decline might not reflect poor sector performance, as many major players continue to report double- to triple-digit y/y earnings growth, despite some slowing. Additionally, the sector's outlook is far from dismal. Instead, the sell-offs could be attributed to investor expectations, which have been characterized by many as overly optimistic in recent months.

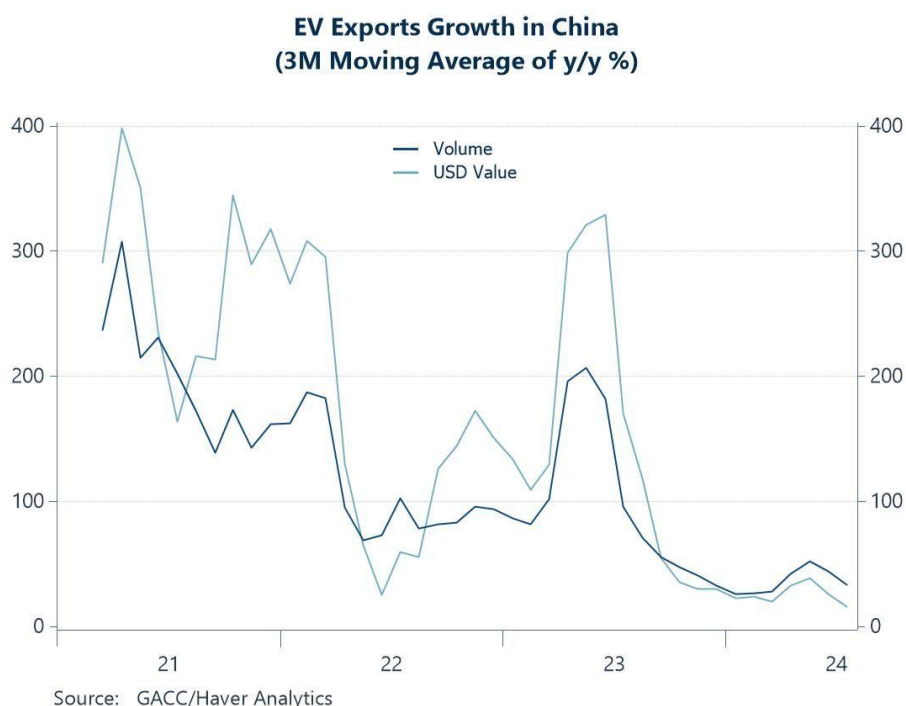
Chart 5: Taiwan, South Korea, and semiconductor equities



Revisiting EVs

Finally, we examine the electric vehicle (EV) sector, which has become increasingly entangled with geopolitics and trade tensions in recent months. China remains a dominant player in the global EV market but is now facing growing trade actions from several major economies. These countries are considering tariffs on EV imports from China to counteract China's state subsidies for its EV sector. Recently, the EU has planned a 9% tariff on Tesla vehicles imported from China, a reduction from the 20.8% it suggested in July. More broadly, tariffs on Chinese manufacturers could reach up to 36.3% for producers like SAIC, depending on the findings of the EU's investigations. Additionally, Canada plans to impose a 100% tariff on Chinese EVs starting October 1, aligning with similar measures taken by the US.

Chart 6: EV exports growth in China



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: Policy rates in the Asia Pacific

Series 1: (((((((((((JPNRTARE@JAPAN + NZNROCR@ANZ) + AUEROCR@ANZ) + N536RTAR@EMERGEPR) +

JPNRTARE@JAPAN [Japan: Monetary Policy Rate [Spliced Series] (EOP, % p.a.)]

NZNROCR@ANZ [New Zealand: Official Cash Rate (EOP, %)]

AUEROCR@ANZ [Australia: Official Cash Rate (EOP, %)]

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

N582RD@EMERGEPR [Vietnam: Discount Rate (% , EOP)]

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

N528RD@EMERGEPR [Taiwan: Central Bank of China Rediscount Rate (EOP, % per annum)]

N566RV@EMERGEPR [Philippines: Reverse Repo Rate: Ov

Series 2: FFEDTARE@USECON

FFEDTARE@USECON [Federal Open Market Committee: Fed Funds Target Rate (EOP, %)]

Chart 2: 10-year yields in the Asia Pacific vs. the US

Series 1: R534MA@INTDAILY

R534MA@INTDAILY [India: 10 Year Treasury Bond Mid Yield (% p.a.)]

Series 2: R536MA@INTDAILY

R536MA@INTDAILY [Indonesia: 10 Year Treasury Bond Mid Yield (% p.a.)]

Series 3: R566MA@INTDAILY

R566MA@INTDAILY [Philippines: 10 Year Treasury Bond Mid Yield (% p.a.)]

Series 4: R196MA@INTDAILY

R196MA@INTDAILY [New Zealand: 10 Year Treasury Bond Mid Yield (% p.a.)]

Series 5: R193MA@INTDAILY

R193MA@INTDAILY [Australia: 10 Year Treasury Bond Mid Yield (% p.a.)]

Series 6: R111MA@INTDAILY

R111MA@INTDAILY [United States: 10 Year Treasury Bond Mid Yield (% p.a.)]

Series 7: R548MA@INTDAILY

R548MA@INTDAILY [Malaysia: 10 Year Treasury Bond Mid Yield (% p.a.)]

Series 8: R542MA@INTDAILY

R542MA@INTDAILY [South Korea: 10 Year Treasury Bond Mid Yield (% p.a.)]

Series 9: R576MA@INTDAILY

R576MA@INTDAILY [Singapore: 10 Year Treasury Bond Mid Yield (% p.a.)]

Series 10: R578MA@INTDAILY

R578MA@INTDAILY [Thailand: 10 Year Treasury Bond Mid Yield (% p.a.)]

Series 11: R924MA@INTDAILY

R924MA@INTDAILY [China: 10 Year Treasury Bond Mid Yield (% p.a.)]

Series 12: R528MA@INTDAILY

R528MA@INTDAILY [Taiwan: 10 Year Treasury Bond Mid Yield (% p.a.)]

Series 13: R158MA@INTDAILY

R158MA@INTDAILY [Japan: 10 Year Treasury Bond Mid Yield (% p.a.)]

Chart 3: US-Japan interest rate spreads

Series 1: (R111MA@INTDAILY - R158MA@INTDAILY)

R111MA@INTDAILY [United States: 10 Year Treasury Bond Mid Yield (% p.a.)][I]

R158MA@INTDAILY [Japan: 10 Year Treasury Bond Mid Yield (% p.a.)][I]

Series 2: (N111RTAR@G10 - N158RTAR@G10)

N111RTAR@G10 [U.S.: Federal Open Market Committee: Fed Funds Target Rate (EOP, %)]

N158RTAR@G10 [Japan: Bank of Japan Policy Rate (EOP, %)]

Chart 4: US Fed and Bank of Japan asset holdings

Series 1: FRSBW@USECON

FRSBW@USECON [Reserve Bank Credit Outstanding (EOP, Mil.\$)]

Series 2: ACTT@JAPAN

ACTT@JAPAN [Japan: BoJ Accts: Total, Assets or Liabilities/Capital Accts (EOP,Bil.Yen)]

Chart 5: Taiwan, South Korea, and semiconductor equities

Series 1: index(S528TWN@INTDAILY,20231231=100)

S528TWN@INTDAILY [Taiwan Stock Exchange Capitalization Weighted Index (1966=100)]

Series 2: index(S542CEX@INTDAILY,20231231=100)

S542CEX@INTDAILY [Korea: Stock Price Index: KOSPI (Jan-4-80=100)]

Series 3: index(AWSEMD@MSCID,20231231=100)

AWSEMD@MSCID [ACWI/Semiconductors & Semicond Eqpt: Share Price Index, (US\$, Apr-30-03=100)]

Chart 6: EV exports growth in China

Series 1: movv(yyyyr%(N924IJ8F@EMERGEPR),3)

N924IJ8F@EMERGEPR [China: Exports: Electric Cars (NSA, Thous.Metric Tons)]

Series 2: movv(yyyyr%(N924IE8F@EMERGEPR),3)

N924IE8F@EMERGEPR [China: Exports: Electric Cars (NSA, Mil.USD)]

For more info on our databases, please email sales@haver.com.

