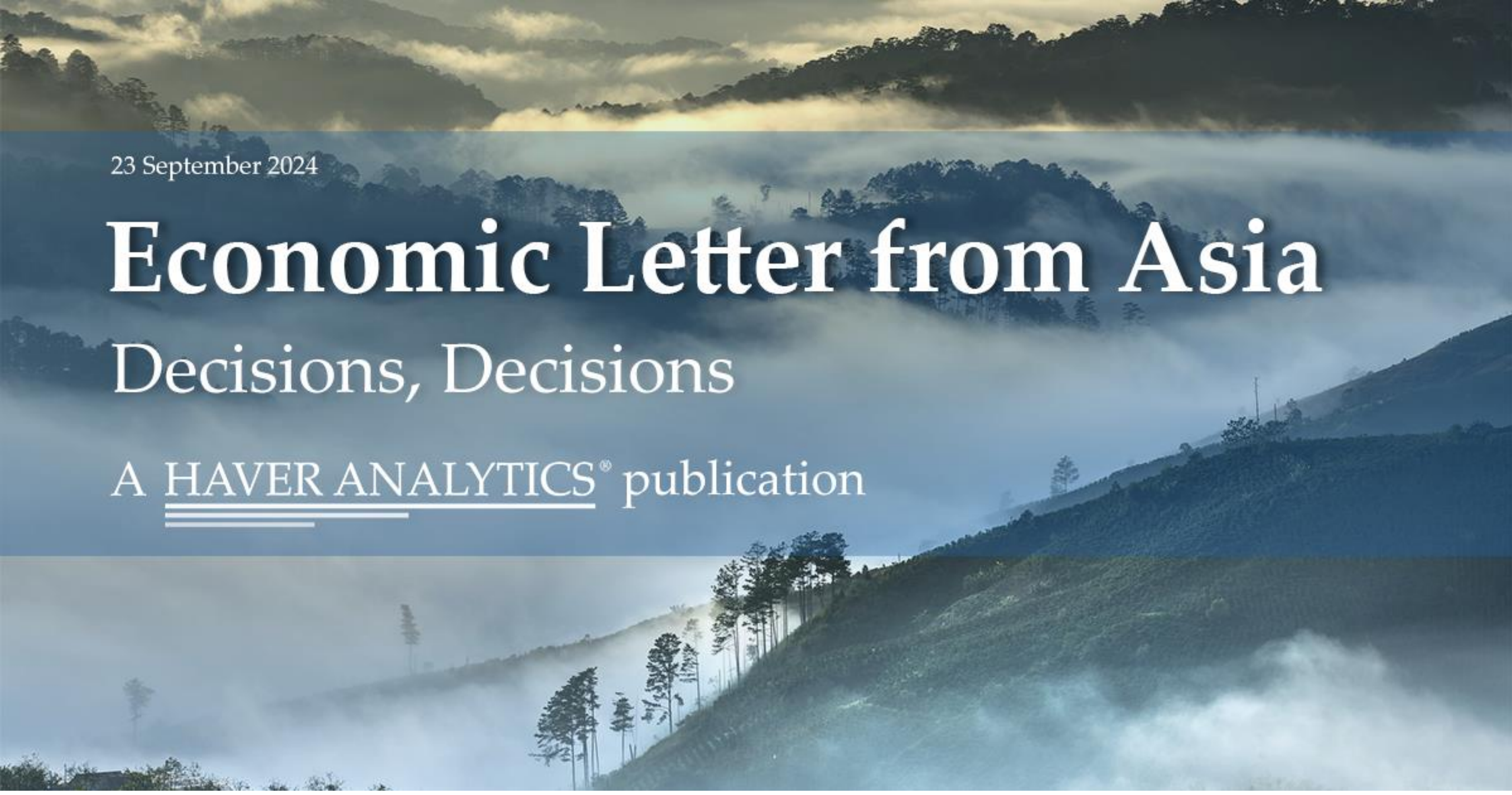


Link to online article: https://haverproducts.com/economic-letter-from-asia/
Written by Tian Yong Woon

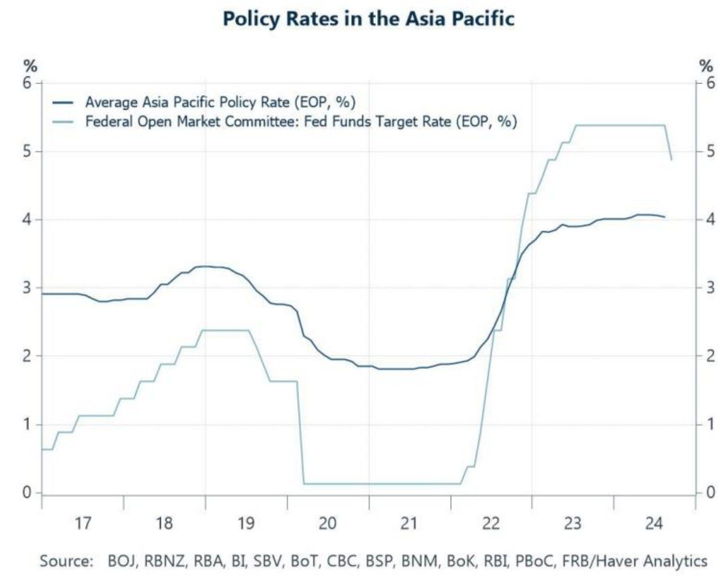
Decisions, Decisions

In this week's newsletter, we explore the recent series of central bank decisions in Asia, framed by the Fed’s 50 bps rate cut last week. The Fed's move to begin its easing cycle has opened the door for regional central banks to follow suit, particularly in light of yield differentials (Chart 1). However, unique economic conditions may lead individual central banks to pursue independent paths. For instance, we examine the Bank of Japan’s decision to maintain its policy stance last week, discussing the implications of financial market volatility and the potential for future tightening moves this year (Chart 2). In Taiwan, the central bank kept its policy rate high due to persistent inflation, while also raising reserve requirements to address property market –related concerns (Chart 3). Conversely, some central banks, such as Indonesia’s, have preemptively cut rates, benefiting from more favorable yield differentials for the rupiah (Chart 4). Looking ahead, we will also cover the Reserve Bank of Australia’s upcoming decision, where observers largely expect no changes to the policy rate, also due to inflation concerns, despite significant financial strains on households (Chart 5). Finally, we will touch on the monetary policies of other central banks in Asia, specifically those of Thailand and Malaysia (Chart 6).

The Fed’s easing cycle

The US Fed officially began its easing cycle last week with a 50 basis point rate cut, meeting the expectations of some economists while surprising others who anticipated a more conservative 25 basis point cut. This decision reinforces the broader trend of easing among G10 central banks and creates opportunities for central banks in the Asia-Pacific region to consider similar actions, depending on their domestic conditions. The Fed's move also alleviates concerns about the potential impact of yield differentials stemming from their easing policies. Notably, some central banks in the region had already initiated interest rate cuts ahead of the Fed, a topic we will explore in more detail below.

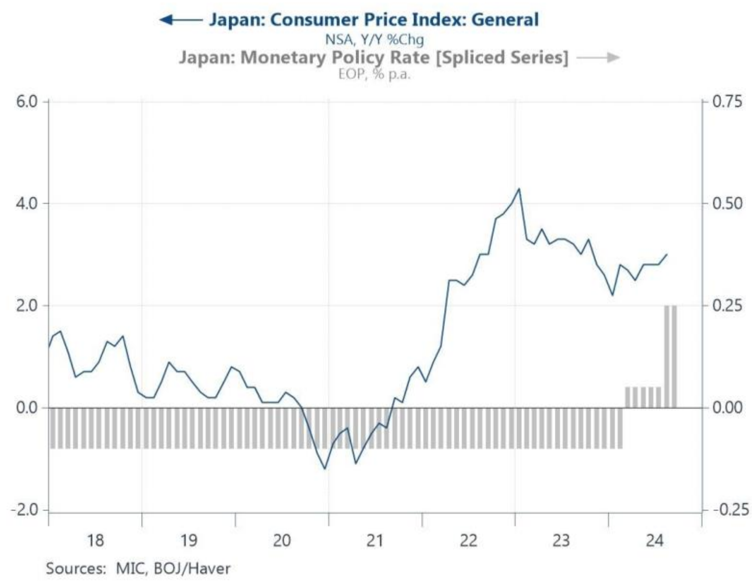
Chart 1: Policy rates in the Asia Pacific



The week in rate decisions

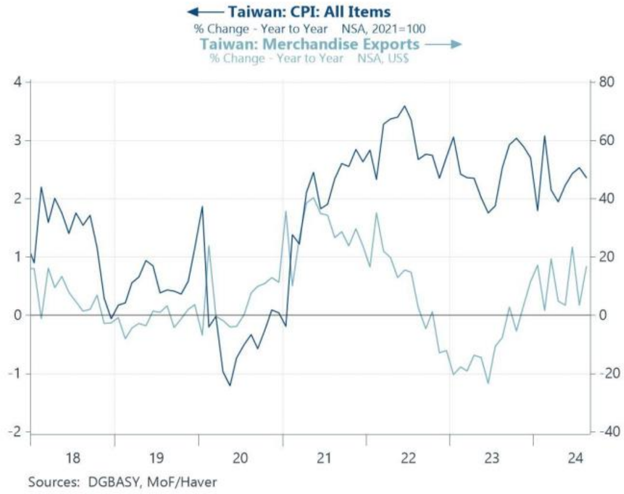
First, we examine monetary policy developments in Japan as part of this week's interest rate decisions. The Bank of Japan (BoJ) kept its policy steady, as widely anticipated (Chart 2). This decision likely takes into account the market volatility that followed its July meeting, which was perceived as a hawkish tightening move. In addition to maintaining its current stance, the BoJ upgraded its assessment of Japan's private consumption, now describing it as being "on a moderate increasing trend," rather than simply "resilient," as it did in July. Looking ahead, observers are focused on potential tightening moves in October or December. However, expectations for another BoJ rate hike by year's end have diminished following what many viewed as dovish remarks during the bank's post-meeting press conference. Beyond monetary policy, there is also uncertainty in Japan's political landscape as the race to select the next Prime Minister heats up.

Chart 2: Bank of Japan policy rate and CPI inflation



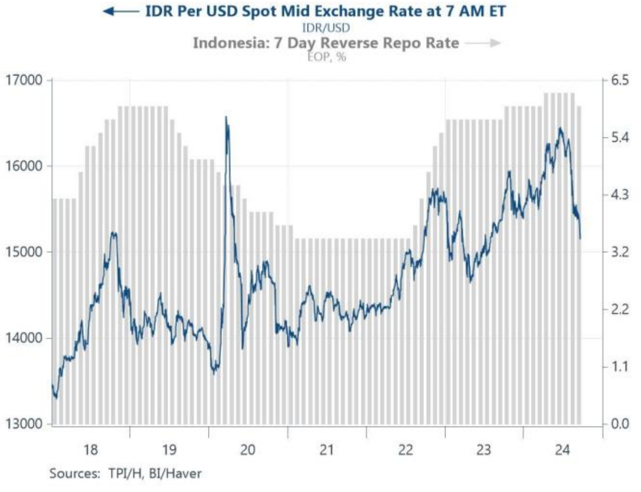
Next, we turn to Taiwan, where the central bank (CBC) kept its policy rates unchanged at 2%, as widely expected. The CBC continues to grapple with persistent inflation concerns, as headline CPI inflation remains above the bank's 2% "warning line," despite its cycle of interest rate hikes (Chart 3). In a separate action, the CBC raised reserve requirement ratios by 25 basis points, a move aimed at cooling Taiwan's property market, which has become a growing concern for the central bank. Looking ahead, observers anticipate that the CBC may not cut rates until late 2025. Meanwhile, the Taiwanese economy continues to benefit from significant revenues generated by its electronic exports, particularly semiconductors, indicating that external growth drivers are still at play.

Chart 3: Taiwan CPI inflation and exports growth



Turning to Indonesia, the central bank (BI) surprised observers last week by cutting its policy rate for the first time in over three years, just ahead of the Fed's September decision (Chart 4). BI Governor Warjiyo stated that the 25 bps cut is based on expectations that inflation will remain low this year and next, as well as the stability of the rupiah. This move contrasts with Warjiyo's earlier indications that BI would wait until Q4 to cut rates. Overall, both BI's and the Fed's decisions have tilted the balance more favourably toward the Indonesian rupiah from a yield perspective. The policy rate differentials are now slightly more in favour of the currency, as BI's cut is less pronounced than the Fed's. This dynamic may further bolster the rupiah's impressive rally this year, providing additional momentum, notwithstanding other factors. Other important considerations include the fiscal outlook for Indonesia following the inauguration of the country's new President Prabowo in October.

Chart 4: Bank Indonesia policy rate and the rupiah



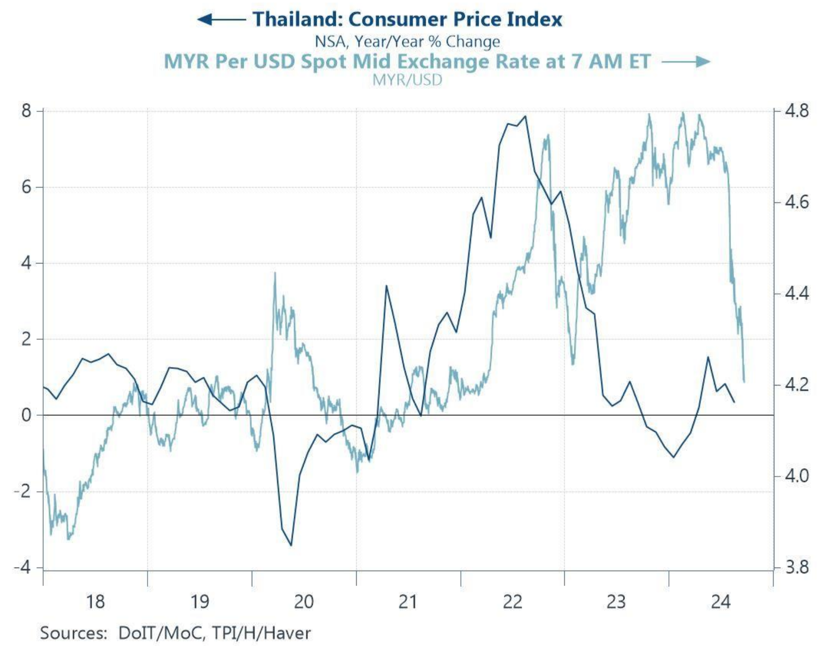
The RBA’s imminent decision, other topical issues

Next, we turn our attention to the Reserve Bank of Australia's (RBA) upcoming rate decision on September 24. Unlike many other G10 central banks, the RBA has signalled that it is likely to maintain its policy rate in September, given persistently high inflation (see Chart 5) and a still-robust labour market. This stance persists despite the ongoing high financing costs for mortgage holders, also depicted in Chart 5. RBA Governor Bullock has even remarked in a recent speech that some individuals may ultimately face the difficult decision of selling their homes. Nonetheless, investors are now speculating that the RBA might start easing its policy towards the end of 2024 or early 2025. Regarding inflation, Australia's August CPI data will be released on Wednesday, just a day after the RBA's decision. Currently, CPI inflation in Australia, whether assessed by the standard or trimmed mean approach, remains significantly above the 3% threshold, with disinflation showing little progress since the start of the year.

Chart 5: Australia CPI inflation and mortgage charges

Lastly, we examine other regions in the Asia Pacific that may not begin their easing cycles anytime soon. In Thailand, the central bank (BoT) is largely expected to hold off on rate cuts until early 2025, despite persistently weak domestic inflation (Chart 6). The country is grappling with significant uncertainties, particularly surrounding the rollout and economic impact of the government's digital wallet scheme. This initiative aims to distribute 10,000 baht to 45 million Thais for spending; however, online registrations have only reached 36 million people. Contrary to initial concerns, Thailand’s new Prime Minister Paetongtarn has confirmed that her cabinet will proceed with the 450 billion baht ($12.6 billion) digital wallet initiative, originally proposed by recently ousted Prime Minister Srettha. The digital wallet scheme, now being implemented in two phases, is expected to provide some near-term growth. However, many economists have raised concerns that it does little to address the structural issues facing the Thai economy. In Malaysia, the central bank (BNM) is expected to keep its policy rate unchanged for some time, with several economists predicting stability through 2025. Factors contributing to this outlook include signs that CPI inflation is stabilizing around the target of 2% and the continued strong performance of the Malaysian ringgit, which has become the best-performing Asian currency this year (also see Chart 6).

Chart 6: Thailand CPI inflation and the Malaysian ringgit



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: Bank of Japan policy rate and CPI inflation
Series 1: JYCIJ@JAPAN
JYCIJ@JAPAN [Japan: Consumer Price Index: General (NSA, Y/Y %Chg)]
Series 2: JPNRTARE@JAPAN
JPNRTARE@JAPAN [Japan: Monetary Policy Rate [Spliced Series] (EOP, % p.a.)]

Chart 3: Taiwan CPI inflation and exports growth
Series 1: yryr%(N528PC@EMERGEPR)
N528PC@EMERGEPR [Taiwan: CPI: All Items (NSA, 2021=100)]
Series 2: yryr%(N528IXD@EMERGEPR)
N528IXD@EMERGEPR [Taiwan: Merchandise Exports (NSA, Mil.US$)]

Chart 4: Bank Indonesia policy rate and the rupiah
Series 1: XUSIDSB@INTDAILY
XUSIDSB@INTDAILY [IDR Per USD Spot Mid Exchange Rate at 7 AM ET (IDR/USD)]
Series 2: N536RTAR@EMERGEPR
N536RTAR@EMERGEPR [Indonesia: 7 Day Reverse Repo Rate (EOP, %)]

Chart 5: Australia CPI inflation and mortgage charges
Series 1: AUMPCY@ANZ
AUMPCY@ANZ [Australia: Consumer Price Index (NSA, Yr/Yr % Chg)]
Series 2: AUNPLEM@ANZ
AUNPLEM@ANZ [Australia: LCI: Employee HH: Mortgage Interest Charges (NSA, Q3.11-Q2.12=100)]

Chart 6: Thailand CPI inflation and the Malaysian ringgit
Series 1: N578CY@EMERGEPR
N578CY@EMERGEPR [Thailand: Consumer Price Index (NSA, Year/Year % Change)]
Series 2: XUSMYSB@INTDAILY
XUSMYSB@INTDAILY [MYR Per USD Spot Mid Exchange Rate at 7 AM ET (MYR/USD)]

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