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

Easing Measures

In this week's newsletter, we delve into key developments in Asia, focusing on China. Last week, China’s central bank (PBoC) announced a series of easing measures, including cuts to reserve requirements and interest rates (Chart 1). It also implemented targeted assistance for the struggling property sector, lowering mortgage rates and down payment requirements (Chart 2). Also, China’s Politburo pledged new support to bolster the economy, particularly for real estate, amidst disappointing economic data that have amplified concerns about meeting the 5% growth target for the year. Notably, these measures were announced just before China’s Golden Week holidays, starting this Tuesday. While initial market reactions have been positive (Chart 3), scepticism lingers due to the limited time remaining for these measures to impact growth.

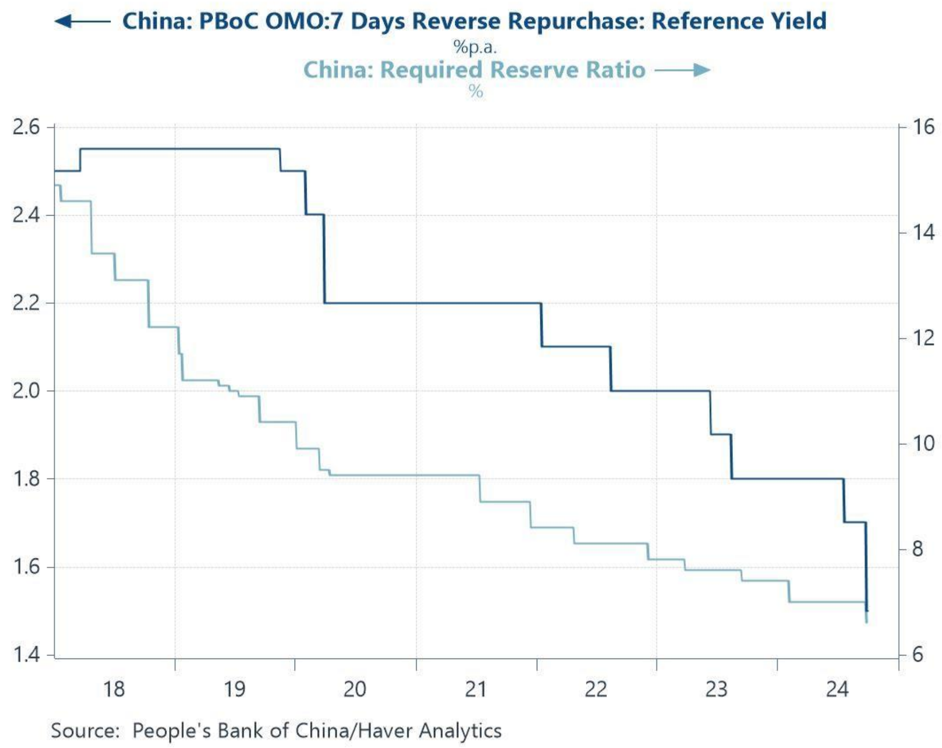
Shifting to Australia, the central bank (RBA) maintained its policy settings in September, diverging from the easing trends seen in many G10 economies. This decision reflects ongoing inflation concerns (Chart 4), particularly from high services inflation (Chart 5). However, justifications for future easing remain, given weak domestic growth and increased mortgage burdens on households.

Finally, in Japan, the Bank of Japan (BoJ) maintained a dovish stance following July's financial market volatility, signalling continued patience regarding further tightening as inflation measures remain subdued for now (Chart 6). Additionally, in the political arena, the leadership change in Japan’s ruling Liberal Democratic Party (LDP) is worth monitoring, having prompted negative market reactions so far and with observers now focused on the upcoming general elections on October 27th.

China's fresh easing measures

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 1: China's RRR and 7-day reverse repo rate



Shifting to sector-specific policy developments, Pan also announced on Tuesday a series of measures to support China's struggling property market. The PBoC will guide commercial banks to lower interest rates on existing mortgages by 50 bps. Additionally, the minimum down payment for second-home buyers will be reduced from 25% to 15%. The central bank will also allow commercial banks to use the full 300 bn yuan relending facility to finance loans for state-owned firms acquiring unsold flats for affordable housing. Previously, only 60% of the facility could be utilised for that purpose. On the government side, China's Politburo announced fresh commitments to bolster the economy last Thursday, including targeted support for the property sector. Specifically, the committee pledged to stabilize the property market and prevent prices from declining, as well as to strictly regulate increases in the housing stock, among other measures. While undoubtedly significant, some observers remain sceptical about whether the recent easing measures can meaningfully turn around China's property market, given its current plight (Chart 2). Although reducing down payment requirements for second-home buyers and lowering mortgage rates for existing homes may stimulate demand, other factors could deter potential buyers. For instance, sentiment plays a crucial role, especially if buyers believe that prices have yet to hit a bottom.

Chart 2: China's Property Market

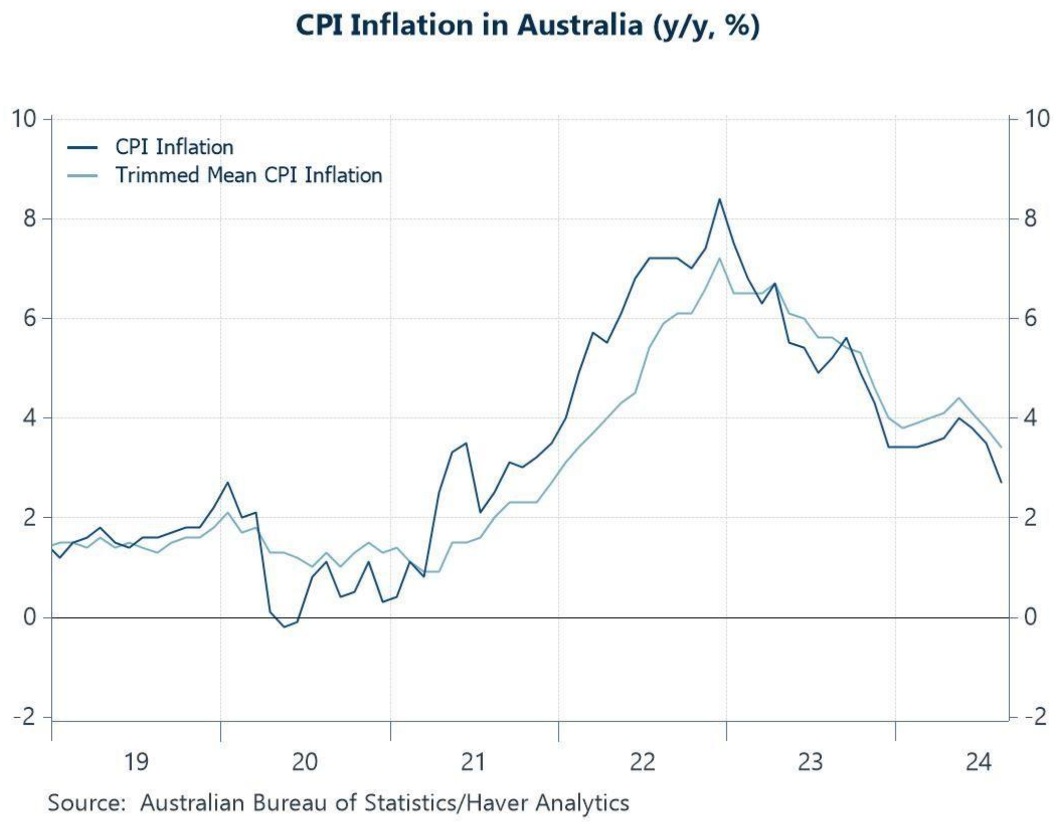
The announcements come amidst a recent string of disappointing economic data that has raised concerns about the country's ability to meet its 5% growth target for the year. The timing of these measures is noteworthy too, as they were announced just ahead of China's Golden Week holidays, which begin this Tuesday. Initial market reactions have been very positive, with Chinese equities (CSI 300) having experienced their strongest weekly rally in nearly a decade and reversing the year's losses, while government bond yields remained near record lows (Chart 3).

Chart 3: China equities and 10-year yields

The RBA's September decision

Last week also brought monetary policy developments in the Asia-Pacific region, particularly in Australia. Unlike many other G10 central banks that have initiated easing cycles, the Reserve Bank of Australia (RBA) chose to keep its policy rate unchanged in September, as widely expected. Inflation remains a primary concern for the central bank, which noted that it is "still some way above" the midpoint of its 2-3% target. Furthermore, the RBA does not expect inflation to return "sustainably to target" until 2026. This situation is illustrated in Chart 3, which shows that CPI inflation in Australia—whether measured by the standard or trimmed mean approach—remains above 2.5%. Disinflation appears to have stalled earlier in the year, although August readings indicate some cooling of price pressures. That said, the RBA has indicated that interim declines in headline inflation are likely to be driven by government relief measures and are expected to be temporary.

Chart 4: Inflation in Australia



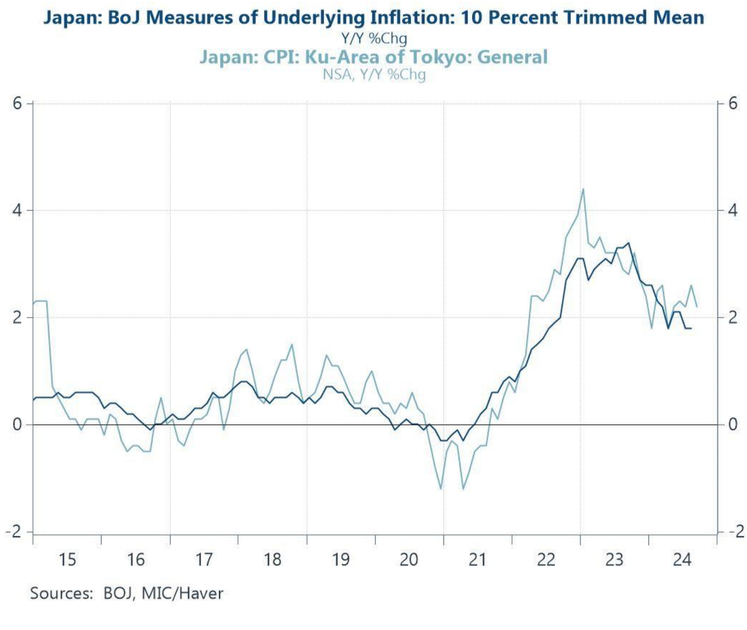
Nonetheless, inflation in the services sector remains persistent, largely due to its close connection to wage pressures in a still-tight labour market (Chart 5). Although there are some initial signs of stabilization, wage growth in Australia remains high, running at 4.1% y/y in Q2 and continuing its broader upward trend. Looking ahead, investors expect that the RBA may begin its easing cycle toward the end of 2024 or early 2025. A key factor that could prompt the RBA to adopt an easing stance—especially if it persists or worsens—is the pace of growth, which is described as weak, with tight financial conditions dampening consumption. Additionally, households continue to face a heavy financing burden due to elevated mortgage costs resulting from persistently high interest rates.

Chart 5: Australia services inflation and wage growth

Following up on Japan

Lastly, we turn to recent developments in Japan, following the central bank's (BoJ) largely anticipated decision to maintain its policy rates in September. BoJ Governor Ueda reassured markets last week that the central bank is not in a hurry to tighten policy further, stating that the BoJ has “enough time” to assess market developments before making decisions. This tone contrasts with market perceptions from July, when many observers believed the central bank might pursue a more aggressive tightening strategy. Ueda also indicated that the BoJ would need to raise its policy rate if underlying inflation aligns with its projections. However, current indicators suggest that underlying inflation has not likely surged lately, as illustrated in Chart 3. Moreover, proxies for national CPI inflation, such as Tokyo CPI inflation, indicate that price pressures may have eased somewhat in September. Also, an increasingly significant development is the selection of Shigeru Ishiba as the next leader of Japan's ruling Liberal Democratic Party (LDP), positioning him to be the next Prime Minister. Markets have reacted pessimistically so far to the news, with equity futures tumbling on Friday and cash markets following suit on Monday. What lies ahead is political uncertainty, as Ishiba has just announced general elections for October 27th.

Chart 6: BoJ core inflation and Tokyo inflation



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: China's RRR and 7-day reverse repo rate
Series 1: R9247DL@INTDAILY
R9247DL@INTDAILY [China: PBoC OMO:7 Days Reverse Repurchase: Reference Yield (%p.a.)]
Series 2: R924RR@INTDAILY
R924RR@INTDAILY [China: Required Reserve Ratio (%)]

Chart 2: China's Property Market
Series 1: yryr%(N924HK@EMERGEPR)
N924HK@EMERGEPR [China: 70 Cities: Price Index of Existing Residential Buildings (NSA, 2020=100)]
Series 2: yryr%(N924HWM@EMERGEPR)
N924HWM@EMERGEPR [China: 70 Cities: Price of New Commercial Residential Buildings (NSA, 2020=100)]
Series 3: N924HIRC@EMERGEPR
N924HIRC@EMERGEPR [China: Real Estate Climate Index (SA, 2012=100)]

Chart 3: China equities and 10-year yields
Series 1: S924SH3@INTDAILY
S924SH3@INTDAILY [China: China Security Index: Shanghai-Shenzhen-300 (Dec-31-04=1000)]
Series 2: R924MA@INTDAILY
R924MA@INTDAILY [China: 10 Year Treasury Bond Mid Yield (% p.a.)]

Chart 4: Inflation in Australia
Series 1: AUMPCY@ANZ
AUMPCY@ANZ [Australia: Consumer Price Index (NSA, Yr/Yr % Chg)]
Series 2: AUMPCMRY@ANZ
AUMPCMRY@ANZ [Australia: CPI: Annual Trimmed Mean (NSA, Yr/Yr % Chg)]

Chart 5: Australia services inflation and wage growth
Series 1: yryr%(AUNEHIT@ANZ)
AUNEHIT@ANZ [Australia: Wage Price Index: OTHRP: All Industries (NSA, Q3.08-Q2.09=100)]
Series 2: AUMPCMSY@ANZ
AUMPCMSY@ANZ [Australia: CPI: All Groups, Services Component (NSA, Yr/Yr % Chg)]

Chart 6: BoJ core inflation and Tokyo inflation
Series 1: JPNPCT@JAPAN
JPNPCT@JAPAN [Japan: BoJ Measures of Underlying Inflation: 10 Percent Trimmed Mean (Y/Y %Chg)]
Series 2: JYCIT@JAPAN
JYCIT@JAPAN [Japan: CPI: Ku-Area of Tokyo: General (NSA, Y/Y %Chg)]

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