

14 October 2024

Economic Letter from Asia

Reality Check

A HAVER ANALYTICS® publication

Link to online article: <https://haverproducts.com/economic-letter-from-asia/>

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Reality Check

In this week's letter, we examine the reactions of China's equity markets following the Golden Week holidays, highlighting investors' disappointment over the latest stimulus announcements (see Chart 1). Despite this, forecasters have slightly raised their growth expectations for China (Chart 2), although pessimism lingers regarding the economy's ability to meet its 5% growth target for the year. Turning to monetary policy developments across Asia, several easing cycles have now been initiated across the region. For instance, New Zealand has begun its easing cycle with a 50 bps rate cut, driven by cooling inflation and weak domestic growth (Chart 3). In India, while the central bank kept policy rates unchanged, it made a significant move by officially shifting its stance to neutral, indicating a closer alignment with an easing approach. This comes amid a robust growth outlook, although inflation risks remain (Chart 4). In South Korea, the central bank has also commenced easing with a 25 bps cut, acknowledging cooling inflation and slower household debt growth (Chart 5), while signalling potential for further reductions ahead. Looking to the week ahead, we anticipate more rate decisions across the region, with additional easing moves seen likely (Chart 6).

Post-Golden Week China

Chinese equity markets resumed trading last week after the Golden Week holidays, showing a marked repricing of market expectations (Chart 1). Initial optimism over central bank easing measures faced a reality check following government announcements. Specifically, China's National Development and Reform Commission outlined initiatives for October, including 200 billion yuan (\$28.3 billion) in advance budget spending. However, despite the significance of these measures, a larger-scale stimulus package that

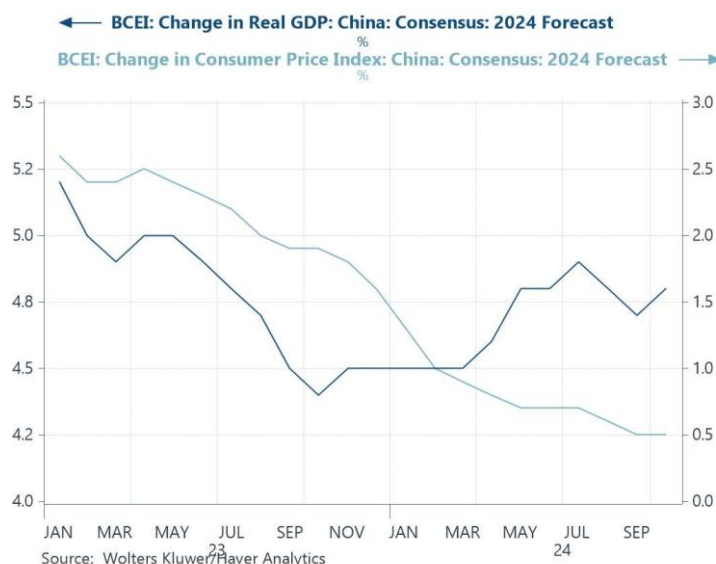
many had anticipated was not announced. After initial market disappointment, Financial Minister Lan held a press conference last Saturday, pledging to bolster China's economy. However, some observers were still underwhelmed by the lack of specific numerical commitments. Looking ahead, China will release its Q3 GDP figures on Friday, which are keenly awaited as indicators of the economy's health. This will be accompanied by a range of monthly data, including industrial production, retail sales, fixed asset investment, house prices, and unemployment figures. However, insights from these figures on the impact of the recent easing measures are expected to be limited.

Chart 1: Chinese equity performance



Against the backdrop of recently unveiled easing measures, Blue Chip panellists have slightly raised their growth projections for 2024 to 4.8%, up from 4.7% in September (Chart 2). Expectations for growth in 2025 have also improved, now at 4.4%, compared to the previous forecast of 4.3%. Meanwhile, inflation expectations remain stable at 0.5% for 2024 and 1.4% for 2025. However, the economic situation in China remains uncertain, with recent data indicating an uneven recovery and the impact of newly announced policy easing initiatives yet to materialize. Amidst a concerning trend of disappointing economic data, doubts persist about the country's ability to achieve its 5% growth target for the year.

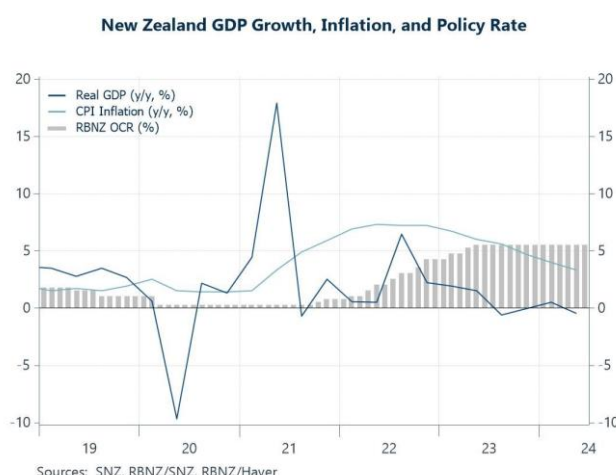
Chart 2: 2024 Blue Chip Economic Indicators forecasts for China



The week in rate decisions

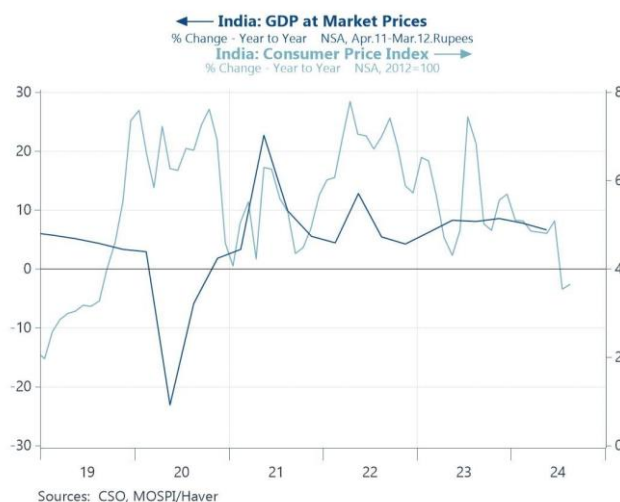
The past week revealed some noteworthy rate decisions across the region. In New Zealand, the Reserve Bank (RBNZ) cut its policy rate by 50 bps as widely expected (Chart 3), following the Fed's lead in September. This substantial easing decision comes as the RBNZ assessed inflation to be within its 1-3% target range and “converging” on the 2% midpoint. The backdrop of soft economic growth in New Zealand also justified the RBNZ's action, as the economy struggles to avoid a technical recession following a contraction in real GDP in Q2. Furthermore, the RBNZ noted that the New Zealand economy “is now in a state of excess capacity,” which is expected to dampen inflation on the supply side. While consumer sentiment remains weak compared to historical levels, some recent upticks have been observed.

Chart 3: New Zealand GDP growth, inflation, and policy rate



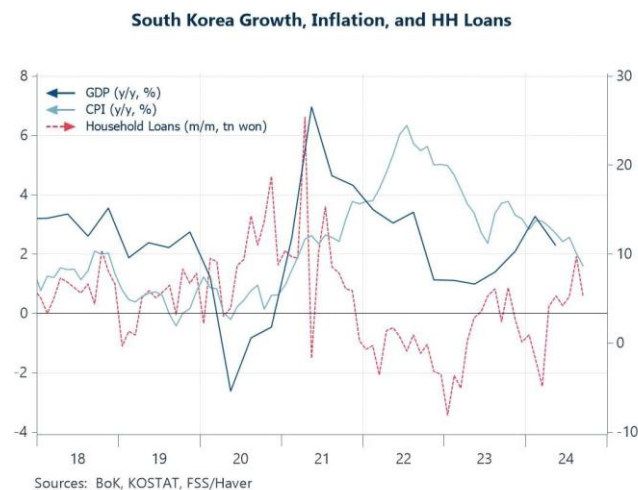
Monetary policy developments in India were also notable, as the Reserve Bank of India (RBI) opted to maintain its policy rates last week, as expected. However, the central bank shifted its policy stance from one focusing on a withdrawal of accommodation to “neutral.” This change has led observers to speculate that it could signal potential interest rate cuts in the near term. However, there are currently few strong justifications for the RBI to begin a rate cut cycle soon. For one, India's economic growth remains robust (Chart 4) and is expected to remain robust in the coming quarters. Additionally, while inflation has eased in recent months, the RBI cautions that it may rise significantly in the near future due to base effects and other factors.

Chart 4: India growth and inflation



Last Friday, South Korea's central bank (BoK) initiated its easing cycle by cutting the Base Rate by 25 bps to 3.25%, as widely anticipated. The bank justified this decision by citing recent easing inflation trends (Chart 5), as well as slowing growth in household debt and reduced foreign exchange risks. Looking ahead, the BoK appears open to further easing, with Governor Rhee indicating that there is room for additional rate cuts since the policy rate remains above the neutral interest rate. Observers will likely continue to monitor three key factors—inflation, household debt, and financial market stability—as they assess South Korea's future monetary policy trajectory.

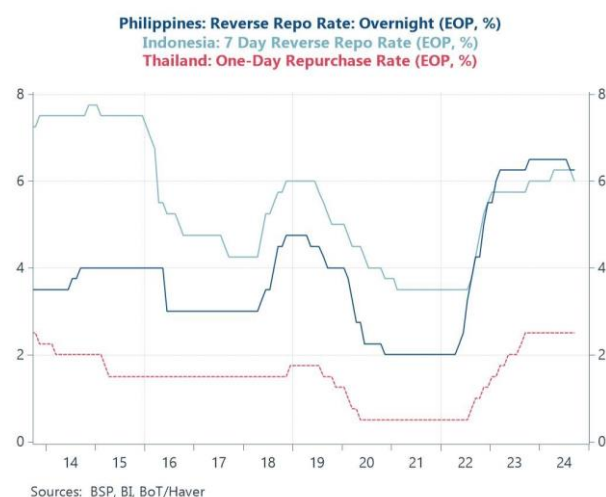
Chart 5: South Korea growth, inflation, and household loans



The week ahead in rate decisions

The week ahead will see several important rate decisions in Southeast Asia. Central banks in Indonesia, Thailand, and the Philippines are scheduled to announce their policy rate decisions on Wednesday. In Indonesia, while multi-year lows for CPI inflation could support further rate cuts, recent currency fluctuations—particularly the weakness of the rupiah—may prompt the central bank to hesitate, as maintaining currency stability is part of its mandate. In Thailand, the central bank has not signaled an intention to cut rates following its October meeting, but it continues to face pressure from the government and business groups. Meanwhile, in the Philippines, the possibility of additional rate cuts remains open, aligning with the Fed's adjustments.

Chart 6: Policy rates in the Philippines, Indonesia, and Thailand



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: Chinese equity performance

Series 1: [index\(S924SH3@INTDAILY,20231231=100\)](#)

S924SH3@INTDAILY [China: China Security Index: Shanghai-Shenzhen-300 (Dec-31-04=1000)]

Series 2: [index\(S532HME@INTDAILY,20231231=100\)](#)

S532HME@INTDAILY [HK: Hang Seng: China Enterprises Index (Index)]

Series 3: [index\(S532HNG@INTDAILY,20231231=100\)](#)

S532HNG@INTDAILY [Hong Kong: Stock Price Index: Hang Seng (Jul-31-64=100)]

Chart 2: 2024 Blue Chip Economic Indicators forecasts for China

Series 1: [ACND24@BLUECHIP](#)

ACND24@BLUECHIP [BCEI: Change in Real GDP: China: Consensus: 2024 Forecast (%)]

Series 2: [DCND24@BLUECHIP](#)

DCND24@BLUECHIP [BCEI: Change in Consumer Price Index: China: Consensus: 2024 Forecast (%)]

Chart 3: New Zealand GDP growth, inflation, and policy rate

Series 1: [yryr%\(NZNGC@ANZ\)](#)

NZNGC@ANZ [New Zealand: Total GDP: Production Approach (NSA, Mil.Chn.Q2:09-Q1:10.NZ\$)]

Series 2: [NZNPCII@ANZ](#)

NZNPCII@ANZ [New Zealand: Consumer Price Index, excluding Interest Rates (Year/Year % Change)]

Series 3: [NZNROCR@ANZ](#)

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

Chart 4: India growth and inflation

Series 1: [yryr%\(N534NGPC@EMERGEPR\)](#)

N534NGPC@EMERGEPR [India: GDP at Market Prices (NSA, Bil.Apr.11-Mar.12.Rupees)]

Series 2: [yryr%\(N534PC@EMERGEPR\)](#)

N534PC@EMERGEPR [India: Consumer Price Index (NSA, 2012=100)]

Chart 5: South Korea growth, inflation, and household loans

Series 1: [yryr%\(N542NGPC@EMERGEPR\)](#)

N542NGPC@EMERGEPR [South Korea: Gross Domestic Product (NSA, Bil.Ch.2020.Won)]

Series 2: [yryr%\(N542PC@EMERGEPR\)](#)

N542PC@EMERGEPR [South Korea: CPI: All Items (NSA, 2020=100)]

Series 3: [N542FCHH@EMERGEPR](#)

N542FCHH@EMERGEPR [South Korea: Change in Household Loans (NSA, Tril.Won)]

Chart 6: Policy rates in the Philippines, Indonesia, and Thailand

Series 1: [N566RV@EMERGEPR](#)

N566RV@EMERGEPR [Philippines: Reverse Repo Rate: Overnight [Borrowing] (EOP, % per annum)]

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)]

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