

AI-driven trade boosts growth in Asia, while Singapore and Australia near policy shifts

Asia ended 2025 with strong momentum and continued to benefit from AI related trade, though growth diverged notably between North and South Asia. With inflation largely contained across the region, the standout has been Australia, where a resilient labour market suggests the RBA is moving closer to a monetary policy inflection point



Australia has emerged as Asia's standout, with a strong December jobs report pushing expectations towards two rate hikes in 2026

Asia ends 2025 on a firm footing

The latest growth indicators suggest that Asia ended 2025 on a strong footing, particularly on the manufacturing and trade fronts, indicating that the region continues to benefit from the AI related trade cycle. However, there was notable divergence: South Asian economies such as Vietnam, India, and Thailand recorded stronger PMI manufacturing readings compared with North Asian economies, including China and Taiwan.

Asia FX performance so far this year has also reflected this growth gap, with currencies like the Singapore dollar and Malaysian ringgit showing relative resilience, supported by stronger domestic

demand prospects.

Singapore and Australia approach key policy turning points

With inflation pressures broadly contained across the region – Australia being the main exception – we continue to expect further rate cuts from the Reserve Bank of India and Bangko Sentral ng Pilipinas, both of which still operate at historically high real rates.

Singapore and Australia are the only two economies where policy bias has tilted toward potential tightening, though our base case for Singapore is no change. In Singapore, while CPI inflation has picked up, it remains within the Monetary Authority of Singapore's (MAS's) target band. Given heightened geopolitical uncertainty, we think MAS is unlikely to tighten pre emptively. We discuss Australia's developments in more detail below.

Volatility spreads from JPY rates into EM Asia, though bright spots remain

The volatility in JPY rates has spilt over into emerging markets, with Korea and Thailand experiencing the most significant pressures within Asia. We also expect bond markets in India and the Philippines to outperform, especially in an environment where rising fiscal and geopolitical risks since the start of the year are driving greater volatility and differentiation across Asia.

Importantly, both India and the Philippines have bond markets that are largely domestically driven, with scope for policy rates to move lower and with fiscal consolidation efforts offering an additional layer of support.

Australia: labour strength raises odds of policy tightening

Across Asia, the standout story has been Australia, where an exceptionally strong labour report for December and higher-than-expected CPI inflation for 4Q has meaningfully shifted market expectations, with markets now pricing in two rate hikes in 2026.

In December 2025, total employment growth rose to an eight month high, with more than 80% of the increase coming from full time employment. The unemployment rate declined by 20bp to 4.1% in December, bringing the fourth-quarter average to 4.25%, below the Reserve Bank of Australia's (RBA's) forecast of 4.4%. More importantly, the latest inflation reading suggested persistent price pressures through 3Q and 4Q. Services inflation has remained elevated and increasingly structural, rather than transitory, keeping inflation well above the RBA's 2–3% target range.

Taken together, these developments strengthen the case for further tightening. We now expect the RBA to raise the cash rate by 25bps in February. At the same time, GDP growth of 2.1% in 3Q is far from overheating, and recent high frequency indicators have been mixed. This suggests that if the RBA does proceed with a February hike, it is likely to be a cautious one, reflecting the delicate balance between supporting growth and containing stubbornly high inflation.

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