

Asia ex-Japan – The week ahead

Three G-7 central bank policy meetings next week could complicate decision making for their Asian counterparts



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There is almost no doubt that the US Federal Reserve will deliver another rate hike next week, the European Central Bank will push ahead with its hawkish stance on QE unwinding and the Bank of England, having hiked in November, will do nothing amid elevated Brexit uncertainty.

It's more of normalisation than tightening and, we believe, Asian central banks are in no rush to follow their G-7 counterparts. Central banks in Australia, and India left their policies on hold this week. Bank Indonesia and Bangko Sentral ng Pilipinas, both meet next week and are expected to follow suit.

Benign November inflation data from Indonesia and Philippines has already set the tone for policy inactions. Though BI appears to have reached the end of its easing cycle, the bias remains towards easing if even the latest 50bp of rate cuts fails to revive growth (just like the 150bp of cuts in 2016). But it will also need a further dip in inflation, which we view sceptically given recent moves in global oil prices.

In the Philippines, inflation has been firmly anchored in the BSP's 2-4% medium-term policy target. The risk of it breaching this target in 2018 stems from higher oil prices and implementation of tax

reforms in early 2018. However, the BSP views tax-related inflationary pressure as transitory and forecasts 2018 average inflation at 3.4%, well within the target zone (ING f: 3.8%). If so, the consensus timing of the first BSP rate hike in the second quarter will be at risk of being pushed further out.

China will be in headlines for its November activity data. The upside surprise from November purchasing managers' indices for manufacturing and the service sector bodes well for the hard data. Stabilization of Chinese equities and the rates markets after a sell-off in November and gradual CNY appreciation go to show investors' comfort about the economy still producing strong growth. In rest of Asia, the trade data from India, Indonesia and Philippines are expected to show that the export recovery is still intact in the final quarter of 2017.