

Asia Morning Bites

Fed opts for "dovish hike" and keeps dot plot. With the Fed out of the way, Taiwan and the Philippines decide on monetary policy later on Thursday, as does the Bank of England.



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Global Macro and Markets

- **Global Markets:** With hindsight, last night's FOMC meeting could have gone worse. Given what was at stake, a 1.65% decline in the S&P 500 and a 1.6% decline in the NASDAQ, led once more by financials, might well be regarded as an acceptable price to pay for the Fed sticking to its guns on the inflation fight. Though there was, without doubt, room for improvement. Despite seeming to rule out rate cuts this year, which was, in any case, a very unlikely steer when rates were still going up, much of the damage seems to have come from Treasury Secretary Yellen's parallel remarks to Congress that a blanket deposit insurance had not been discussed and was not being considered, right when Jerome Powell was insisting that the banking sector was sound. This won't be the final word on either rates or deposit insurance in all likelihood, and a little further homework and collaboration between Fed and Treasury Dept seems probable after yesterday. Treasury yields were well down, though by recent standards, a 23bp decline in 2Y yields is a mid-sized drop, while 10Y Treasury yields fell 17.5bp to 3.434%. Confirming that yesterday's market moves were more considered than panicky, EURUSD took advantage of lower US yields to rise to 1.0866. The AUD has made more modest gains to just under 67 cents currently, though briefly spiked up

to 0.676 yesterday. Cable has also pushed on up to 1.2274 ahead of today's Bank of England meeting, while the JPY has rallied in early Asian trading to 131.26. Other Asian FX is following the JPY stronger, and there is likely to be some more catch-up today.

- **G-7 Macro:** For a full view of the Fed decision, [please use this link](#) to the note by our US team and FX strategists. Short story, more dovish from the Fed, only one more rate hike – maybe... And in time, that may be the good news story that lifts market sentiment again, though for now, things remain a bit sketchy. Our US Economist is still sticking to his 2H23 rate cut call, as he believes the recent market turmoil will have added to what were already looking like much tighter credit availability conditions that will weigh on business investment. Today, we have the Bank of England, where we are tentatively looking for a 25bp hike, [thanks to some less helpful inflation figures recently](#).
- **Taiwan:** Taiwan's central bank is expected to leave rates unchanged today at 1.75%, having last raised rates at its December 2022 meeting. CPI inflation fell back to 2.43% YoY in February from a peak of 3.59% in June 2022, so there is no imminent threat from inflation in Taiwan. In addition, the economy is in a downward cycle due to declining demand for semiconductors from the US and Europe, while demand from Mainland China has yet to fill the gap. Given the macro and financial market conditions, even though the Fed raised rates by 25bps overnight, it will be surprising if the central bank raises rates today. Taiwan also releases industrial production data today, which should fall around 10%YoY in February after a 19% drop in January. If we exclude the impact of the Chinese New Year holiday, industrial production is likely to remain in a monthly decline. If iPhone 15 production is larger than the previous model, demand for semiconductors produced by Taiwanese companies could be greater and could be a factor that will support the economy. But this is uncertain given the weakness of demand in the US and Europe.
- **Singapore:** February inflation will be reported today. Headline inflation is expected to slow from 6.6%YoY to 6.4%. However, the more closely watched core measure is forecast to accelerate further to 5.8%YoY (5.5% previous). Accelerating core inflation could put pressure on the Monetary Authority of Singapore (MAS) to tighten further at their April meeting. Softer activity data however could temper any potential moves by the MAS as the growth outlook remains uncertain.
- **Philippines:** The Bangko Sentral ng Pilipinas (BSP) meets today to discuss policy and we expect Governor Medalla to downsize the pace of tightening from 50bps to 25bps. Inflation remains elevated, prompting action by BSP today. But we believe the BSP will resort to a smaller increase after Medalla signalled the need for more supply-side remedies to address shortages in basic food items.

What to look out for: Regional central bank meetings

- Singapore CPI inflation (23 March)
- Taiwan industrial production (23 March)
- Philippines BSP policy meeting (23 March)
- Taiwan CBC policy meeting (23 March)

- Hong Kong CPI inflation (23 March)
- US initial jobless claims and new home sales (23 March)
- Bank of England rate meeting
- Japan CPI inflation and Jibun PMI (24 March)
- Malaysia CPI inflation (24 March)
- Singapore industrial production (24 March)
- US durable goods orders (24 March)

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