Asian central banks: what policy options?

In another uneventful week for Asian monetary policies we expect central banks in Japan, Taiwan and Thailand to keep their policies on hold next week

Source: shutterstock

Three Asian central banks meet next week

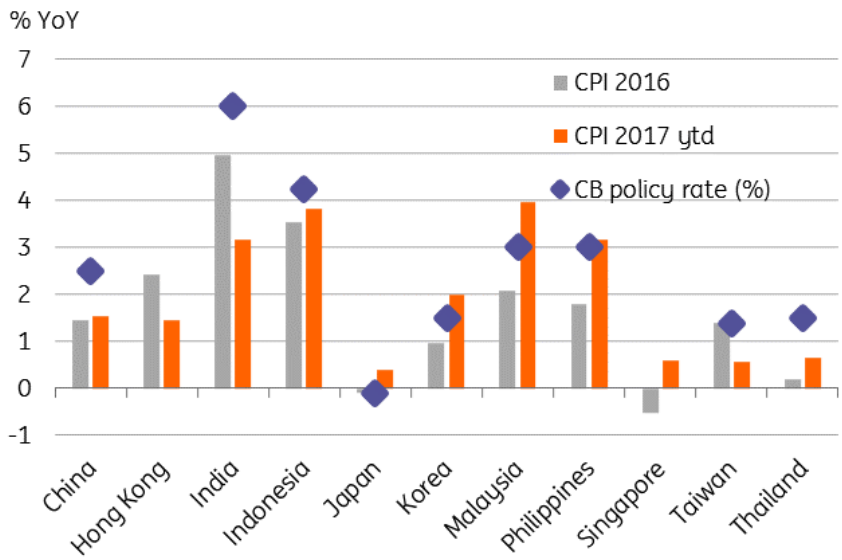
After a stormy policymaking week for G-7 central banks, calm returns in the global monetary policy space. CBs in Asia are largely in inaction mode, including those of Japan, Taiwan and Thailand holding their policy meetings next week, and most of them are expected to remain in that state in 2018.

Strong currency-low inflation dynamics

One constraint on monetary tightening in Asia is persistent low consumer price inflation. Strong currencies is another.

Significant exchange rate appreciation this year has dampened inflationary pressure, while seasonal supply shocks to food prices, the main inflation driver in regional economies, have been muted. Taiwan and Thailand are at the forefront of strong currency-low inflation dynamics, more so because of weak domestic demand in these economies sustaining low inflation and large current account surpluses. We see nothing on the horizon to alter this state of affairs, and our view is for stable monetary policies in these countries for a prolonged period.

Inflation and central bank policy rates



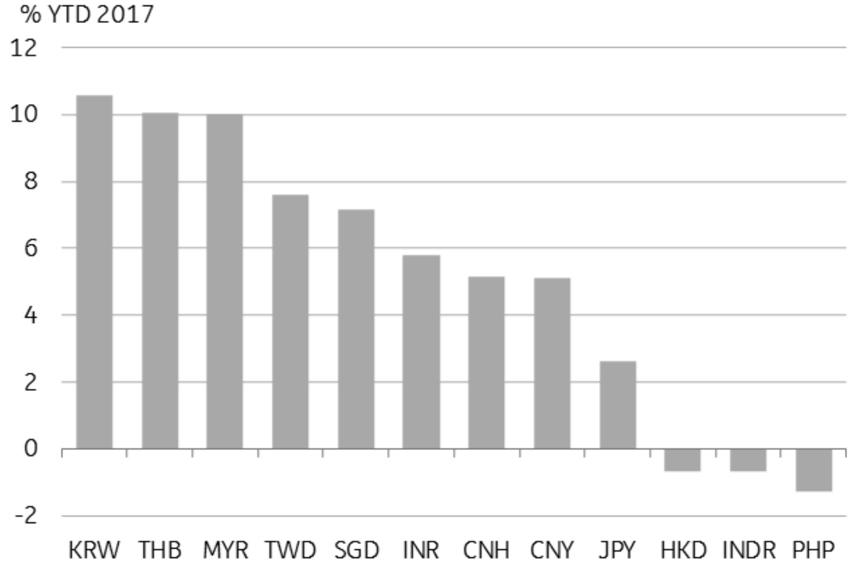
Source: Bloomberg, CEIC, ING

Some exceptions

Malaysia is an exception in that CPI inflation has almost doubled this year, notwithstanding outstanding Malaysian ringgit (MYR) performance. High inflation resulted from administered fuel price hikes in response to rising global crude prices since late 2016. The high base effect has kicked in, pushing inflation lower as the November CPI data next week is likely to show. But with strong domestic demand we see limited inflation downside. We expect Bank Negara Malaysia to start tightening in the first quarter of 2018, the second Asian central bank to do so after the Bank of Korea.

10% Year-to-date MYR appreciation against USD

Asian currency performance in 2017



Source: Bloomberg, ING

Singapore activity data points to 4Q17 GDP slowdown

Singapore export data for November has significance for GDP growth in the fourth quarter of 2017. We think an outsized surge in non-oil domestic exports (NODX) in October, at 21% year-over-year and 12.5% month-over-month seasonally adjusted, has been retraced. NODX and manufacturing growth appears to have been running strong, but there are some considerable base effects at play – month-over-month production has barely grown in recent months, supporting our view of moderation in GDP growth from a four-year high of 5.2% in 3Q17 to 3.9% in 4Q17.

5.2% YoY

Singapore GDP growth in 3Q17

Fastest in four years