

## Asia week ahead: Softer Indian inflation

But not soft enough for the Reserve Bank of India to let down its guard, while a return of GDP growth to the potential range now provides room for pre-emptive policy tightening



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### Winds shift for Asian central bank policies

As central banks in the developed world gear up for an accelerated unwinding of monetary accommodation, Asian central bank policies are largely lagging. However, we do anticipate some regional central banks breaking out of this drift, sooner rather than later. Central banks in India and the Philippines, the countries with rapid growth as well high inflation, are the obvious candidates.

### Change of ING view on Reserve Bank of India policy

The Reserve Bank of India's monetary policy returns to the spotlight as we get all-important consumer price inflation data for February in the coming week. High food, housing and utilities

prices lifted inflation above 5% year-on-year pace in December and January. We expect some softening below 5% in February owing to the base effect and seasonally lower food component. However, we do not consider it soft enough for the RBI to take its eyes off the potential inflation risks which, according to the central bank, could stem from a wider fiscal deficit, rising oil prices, an increase in minimum support prices for farm products and higher housing allowances for civil servants. We see inflation hitting the top end of the RBI's 2-6% target by June this year.

**4.9%** ING forecast for India's inflation in February

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*India's GDP growth is accelerating too*

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At 7.2% YoY in the third quarter of FY2017-18, (fiscal year runs from April to March) growth exceeded expectations. We believe the economy's return to the 7-8% potential growth range, and the broad consensus of growth staying in this range over the forecast horizon of the next two years, opens the door for a pre-emptive RBI policy tightening to curb inflation. The bank also needs higher rates to stem weakening pressure on the currency. We have revised our view of the RBI rate policy from no change to two rate hikes of 25bp each in the second and the fourth quarters of FY2018-19. We expect the RBI to allude to possible policy tightening at the next meeting in early April.

## Upside risk to China's activity growth

China's January-February data on industrial production, retail sales and fixed asset investment will shed light on GDP growth in the current quarter. We consider the consensus forecasts of moderate activity growth at risk to an upside surprise. At least that's what a 24% YoY surge in exports in the first two months tells us. We are above consensus in forecasting a steady 6.8% GDP growth in 1Q18 (consensus 6.6%, data due in mid-April). The fiscal tightening implied in a narrower budget deficit, continued capacity reductions in manufacturing and financial deleveraging reduce the likelihood of growth exceeding the "about 6.5%" official target again in 2018.

**24%** China's export growth in January-February

Higher than expected

## Still sceptical about Singapore MAS tightening in April

Singapore's non-oil domestic exports data for February is an important release before the MAS (central bank) policy statement in April. Electronics, in particular semi-conductors, drive NODX

growth. A 10% YoY fall in chip exports in January was a bad start to the year, while the Lunar New Year holiday slack in activity provides little hope of a bounce back in February. The narrowness of production and export strength will weigh on GDP growth despite a favourable base effect supporting it for now. This and the latest print of zero CPI inflation in January make the MAS returning to a 'modest and gradual' SGD-NEER appreciation policy in April a difficult call even if an expansionary fiscal policy provides some leeway for such a move.

## Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
<b>Friday 9 March</b>					
China	0130	Feb PPI (YoY%)	4.1	3.8	4.3
	0130	Feb CPI (YoY%)	2	2.5	1.5
Philippines	0100	Jan Trade balance (US\$mn)	-3000	-3500	-4017
	0100	Jan Imports (YoY%)	14.7	14.8	17.6
	0100	Jan Exports (YoY%)	11.5	-3.1	-4.9
<b>Saturday 10 March</b>					
China	-	Feb Money supply (M2) (YoY%)	9	8.7	8.6
India	-	4Q Current account balance (Q) (US\$bn)	-	-	-7.213
<b>Monday 12 March</b>					
India	1200	Feb CPI (YoY%)	4.9	-	5.07
	1200	Jan Industrial production (YoY%)	4.1	-	7.1
Singapore	0500	Jan Retail sales value (MoM/YoY%)	0.5/5.2	-/-	-0.2/4.6
China	0200	Feb Financial institution loans (Yuan bn)	1000	-	2900
<b>Tuesday 13 March</b>					
Malaysia	0400	Jan Industrial production (YoY%)	5.6	-	2.9
South Korea	2300	Feb Unemployment rate (% SA)	3.6	-	3.6
<b>Wednesday 14 March</b>					
China	0200	Feb Fixed asset investment (YTD, YoY%)	7.5	7	7.2
	0200	Feb Industrial production (YoY%)	7	-	6.6
	0200	Feb Retail sales (YTD, YoY%)	10	-	10.2
India	0630	Feb WPI (YoY%)	2.4	-	2.84
<b>Thursday 15 March</b>					
India	-	Feb Trade deficit (US\$bn)	-14300	-	-16298
	-	Feb Exports (YoY%)	2.5	-	9.07
	-	Feb Imports (YoY%)	18	-	26.1
Indonesia	0400	Feb Imports (YoY%)	14.7	-	26.44
	0400	Feb Exports (YoY%)	3.5	-	7.86
Philippines	0400	Feb Trade balance (US\$mn)	40	-	-676.9
	-	Jan OCW remittances (YoY%)	4.9	-	7.1
<b>Friday 16 March</b>					
Singapore	0030	Feb Non-oil domestic exports (MoM/YoY%)	-0.3/8.3	-/-	-0.3/13

Source: Bloomberg, ING