

Asia Week Ahead: Korean central bank to extend pause; inflation likely subdued in China

The Bank of Korea meets to discuss policy next week while India and China report inflation figures. Meanwhile, Singapore will release its latest GDP data



Inflation in India

June CPI data for India will likely show that inflation remained in the low 4% area, close to the mid-point of the Reserve Bank of India's target range of 2-6%. This leaves real policy rates at one of the highest levels in the region (nominal policy rate is 6.5%) and may help to explain the rupee's recent resilience.

We also get India's industrial production data for June. June's Manufacturing PMI dropped to 57.8 from 58.7, so we may well see the rate of growth moderate from the 4.2% year-on-year rate recorded in May.

China loan and inflation reports

China's aggregate financing data for June is set to be released. New CNY loans will likely come in lower than the CNY2806bn level recorded in June last year, reflecting weak investment. CPI data will also be published, likely showing inflation remains close to zero. Weak domestic demand is the main culprit, though there are also some helpful base effects and we should see inflation return to around a 2% rate over the coming months. PPI inflation will remain strongly negative, reflecting weak factory gate prices as well as subdued commodity prices.

BoK likely to extend pause but stay hawkish

The Bank of Korea will hold a policy meeting next Thursday. As inflation is slowing to the 2% range, the BoK is expected to keep its policy rate at the current 3.50% level. We think the central bank will continue to remain hawkish so as not to give market participants an easing signal too early.

Singapore GDP growth to see slight bounce

Singapore is set to release second-quarter GDP figures next week. First quarter GDP showed that the economy contracted from the previous quarter but still managed to eke out a 0.4% YoY gain. Singapore faces the twin challenge of contracting exports and industrial production as global trade slows. One bright spot is retail sales, which have provided some support amid the resurgence of visitor arrivals. This has helped to offset softer demand caused by still-high inflation.

We expect second-quarter GDP to bounce back, with a shallow expansion of 1.4% YoY. Growth will likely be stuck in this range until global trade prospects improve.

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