

Asia week ahead: Central banks up for more rate cuts

Three Asian central banks will decide policies next week - Japan, Taiwan, and Indonesia. Two are expected to cut policy rates further and one will stay on hold. No point in guessing that the Bank of Japan meeting will pass as a non-event



Source: Shutterstock

4.25%

Bank Indonesia policy rate

After 25bp cut next week

Central bank policy

Central banks in Japan, Taiwan, and Indonesia hold their monetary policy meetings.

Having pledged an unlimited purchase of government bonds since March, yields close to zero, and the main policy rate negative, Japan's central bank monetary easing has run out of steam. Nobody expects them to do anything next week. Yet, keeping with his usual dovish rhetoric, Governor Haruhiko Kuroda today committed all necessary steps to support cash-strapped business and protect jobs. But, he also regarded easing so far as "sufficient and appropriate". Does this still leave any interest in the BoJ meeting?

The most important thing now is to provide necessary financing to firms through the banking system, and to make financial markets stable.- BoJ Governor Kuroda

The Central Bank of China, Taiwan's central bank, is expected to continue with its piecemeal policy easing and cut the interest rates by another 12.5 basis points to 1.0%, an all-time low. This is just a second rate cut in this easing cycle as the economy is almost unscathed by the Covid-19 pandemic and we see this as the end of the easing cycle.

And one of Asia's aggressive easer since mid-2019, Bank Indonesia, will be back in action next week, delivering another 25bp policy rate cut to 4.25%. Indonesia's GDP growth has slowed sharply and inflation has been subdued, warranting more policy accommodation. Moreover, the usual headwind for BI easing, the weak currency, has been absent; the Indonesian rupiah has been an emerging market outperformer since April. If continued, these trends will open doors for more BI rate cuts ahead.

Busy data calendar

The next batch of China's activity data for May arrives next week. This includes key indicators such as industrial production, retail sales, and fixed-asset investment. The consensus estimates point to an improvement in these indicators, albeit smaller declines in retail sales and investment.

The key question of the week is whether Singapore's non-oil domestic exports continue to buck the weak exports trend.

The calendar is also heavy on the external trade figures for May coming from India, Indonesia,

Japan and Singapore. The export weakness is seen accelerating in most Asian economies. But, Singapore's non-oil domestic exports (NODX) have been in the limelight recently for bucking the weak trend on the back of surging pharmaceutical demand in this global pandemic. Whether that continued in May needs to be seen. The consensus suggests another month of positive NODX growth. But we are sceptical and look for a 6% YoY fall.

And the May jobs report in Australia and New Zealand's first-quarter GDP report will make into the headlines.

Asia Economic Calendar

Country	Time Data/event	ING	Survey	Prev.
Monday 15 June				
China	0230 May New home prices (YoY%)	5.4	-	5.2
	0300 May Industrial Production (YoY%)	4.2	5	3.9
	0300 May Retail Sales (YoY%)	-6	-2	-7.5
	0300 May Fixed asset investment (YTD, YoY%)	-9.5	-6	-10.3
India	0730 May WPI (YoY%)	-1	-1.1	1
	- May Trade deficit (US\$bn)	-6.4	-7.048	-6.76
	- May Exports (YoY%)	-73	-	-60.28
	- May Imports (YoY%)	-69	-	-58.65
Indonesia	0500 May Trade balance (US\$m)	-419	-	-344.7
	0500 May Exports (YoY%)	-19.3	-	-7.02
	0500 May Imports (YoY%)	-26.9	-	-18.58
Wednesday 17 June				
Singapore	0130 May Non-oil domestic exports	-9.0/-6.1	-/-	-5.8/9.7
Thursday 18 June				
Indonesia	0820 BI policy decision (7-day reverse repo, %)	4.25	-	4.5
Taiwan	- Benchmark Interest Rate	1.000	-	1.125

Source: ING, Bloomberg, *GMT