

Asia week ahead – More upside growth surprises

GDP reports from Korea and the Philippines will shape expectations of central bank policies in 2018



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More upside growth surprises

China and Singapore were the first Asian countries to report their fourth quarter 2017 GDP, both posting above-expected growth. Korea and the Philippines could potentially do the same. The downside risk stems from a slowdown in export growth towards the end of the year. In Korea, semiconductors remained a dominant export sector, but headline export growth slowed. And on the production side, growth in both industrial production and services activity decelerated. The consensus is for a slowdown to 3.4%.

The Philippines' has had a good track record of upside GDP surprises in the recent past; in five out of last eight quarters, growth exceeded expectations and in two, it was in line with estimates. In early January, the country's Economic Planning Chief said that fourth-quarter growth probably exceeded the 6.9% year-over-year pace of the third quarter and the Budget Secretary followed

with a similar tone, suggesting upside risk to the consensus of 6.7%.

What this means for central bank policies?

But 2017 is over. Growth optimism this year rests on last year's strong exports recovery eventually broadening to domestic demand despite some slowdown in export growth towards the end of the year. The Bank of Korea (BoK) has just raised its growth forecast for 2018 to 3.0% from 2.9%, citing upside potential from continued strength in exports and investment due to stronger global growth and accommodative domestic economic policies. The Philippines government projects growth this year between 7-8%.

The BoK's recent chatter against the Korean won (KRW) appreciation reduces the likelihood of aggressive monetary policy tightening. We await more such rhetoric to reconsider our 2Q18 BoK rate hike forecast. On the other hand, policy concerns in the Philippines surround the second-round inflation effects of tax reforms, which could move the Bangko Sentral ng Pilipinas (BSP), Philippines' central bank, at the next policy meeting in February ([click here for more on the BSP policy](#)).

Bank Negara Malaysia (BNM), the central bank, will start raising interest rates at the next policy meeting on January 25. The consensus is for a 25bp hike in rates to 3.25%. Strong growth, negative real interest rates, and an undervalued currency are the arguments for BNM (Bank Negara Malaysia) tightening this year, even as inflation slows ([click here for more on BNM policy](#)).

[Philippines: BSP tightening could be sooner](#)

[Malaysian central bank to join tightening binge](#)