

Asia week ahead: Thinner liquidity, busier central banks

Thinner market liquidity and busier central banks will define trading in Asia next week. The Lunar New Year holiday in most countries will reduce liquidity. Four regional central banks hold policy meetings, with the key question being whether those of India and the Philippines will ease policy or stand pat. Gong Xi Fa Cai!



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➔ Thin market liquidity

It's going to be a dull week with Chinese markets on holiday all of next week for the New Lunar Year, the first of two Golden Weeks holidays in China in a year, while most other Asian markets are

also out for a day or two to usher in the Year of the Pig. The week is also scant on economic data from the region.

However, any trading that does take place in regional markets next week will be driven by US-China trade tensions. Scepticism about progress from the ongoing high-level talks abounds but any positive news could put to rest expectations of prolonged trade tensions weighing on global growth.

➔ Busy central banks

Central banks in Australia, India, the Philippines and Thailand hold policy meetings. We expect all of them to leave policy on hold, though we do not rule out any surprises by central banks in India and the Philippines.

The Philippines' central bank (BSP) meeting is on Friday, 7 February. Coming ahead of the BSP meeting is the all-important consumer price data for January (due 5 February), that's expected to show a sharp deceleration in inflation to our 4.3% year-on-year forecast from 5.1% in December.

As Governor Nestor Espenilla recently signalled, policy will be data-dependent and the bank will observe prudence and caution in deciding any moves. He has also signalled a reduction in the bank's reserve requirement ratio (RRR), currently 18%, as inflation firmly returns to the central bank's 2-4% target. It may not come next week, but our house view is for an RRR cut or two within the current quarter and a 25 basis point policy rate cut in the second quarter of the year.

4.75% BSP policy rate
No change expected next week

➔ Indian central bank - will it or won't it ease?

In India, the FY2020 budget to be out on Friday, 1 February, will likely bear out the fact that politics has displaced economics in guiding macro policies in order to meet the government's agenda of lifting GDP growth before elections in May. Undoubtedly, recent low inflation figures allow the central bank (RBI) to follow suit on the easing path. More so with the central bank now opening reserve coffers for the government to plug a wider fiscal deficit.

(We) can't have a real rate of interest that is higher than anywhere else in the world – Finance Minister Arun Jaitley

However, while close to 7% GDP growth puts India among the ranks of the world's fastest-growing economies, the inflationary implication of strong growth and loose fiscal policy, which will likely be compounded further by rising global oil prices and a weak local currency, cannot just be ignored. Indeed, India's core inflation has been high, running close to 6% in the current year. Although our baseline is that the RBI leaves policy on hold throughout 2019, we wouldn't be taken aback by a

rate cut next week. Be prepared for intensified depreciation of the Indian rupee in such an event.

6.50% RBI repurchase rate
No change is expected

Asia Economic Calendar

Country	Time*	Data/event	ING	Survey	Prev.
Monday 4 February					
Singapore	1300	Jan Purchasing Managers Index	51.0	-	51.1
Tuesday 5 February					
India	0500	Jan Nikkei Services PMI	-	-	53.2
Philippines	0100	Jan CPI (YoY%)	4.3	-	5.1
Wednesday 6 February					
Indonesia	-	4Q GDP (QoQ/YoY%)	-/5.3	-/-	3.1/5.2
Thailand	0705	Benchmark Interest Rate	1.75	-	1.75
Thursday 7 February					
India	0900	RBI Policy Decision (Repo Rate, %)	6.5	-	6.5
Philippines	0800	Overnight Borrowing Rate	4.75	-	4.75
	-	Jan Forex Reserves (US\$bn)	80.5	-	79.2
Friday 8 February					
Hong Kong	0030	Jan Nikkei PMI	-	-	48.0
Indonesia	-	4Q Current Account Balance (US\$bn)	-7.7	-/-	-8.8

Source: ING, Bloomberg, *GMT