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# Asia week ahead: Will Singapore's central bank tighten policy again?

Chinese markets will be back in action after a week-long holiday and September economic data also starts to come through. But the highlight of the week will be Singapore's GDP numbers, where a significant slowdown will undoubtedly take the air out of central bank policy hawks



Source: Shutterstock

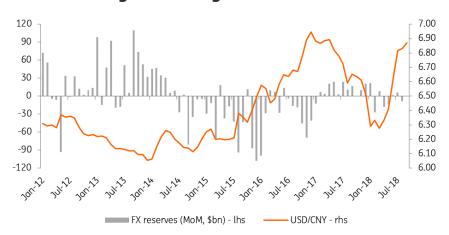
#### China back in action

After a soft September, the US dollar seems to be regaining its strength against most G10 and emerging Asian currencies. While there is nothing on the calendar to unsettle this, but all eyes will

be on the People's Bank of China's yuan fixing after the holiday. The USD/CNY fixing ground was higher in the week before the holidays, and the market spot almost followed suit. The US dollar's comeback and heavy stock market sell-off in Hong Kong this week, possibly spilling over to Mainland China suggests CNY will resume trading on a weaker note.

China's September data also influences the markets, starting with the foreign reserves data to be released over the weekend followed by trade and monetary data over the course of the week. Unlike the CNY devaluation in 2015, when reserves experienced significant outflows, they have been pretty stable around \$3.1 trillion despite the steep yuan depreciation this year. We believe this state of affair prevailed in September, as the trade war impact has yet to show up in the real activity and exports continue to grow by the high single-digit pace.

#### China's foreign exchange reserves have been stable



Source: Bloomberg, ING

#### Likely inaction by Singapore central bank

Singapore's advance GDP estimate for 3Q18 is due most likely towards the end of next week, and the central bank will also unveil the outcome of its semi-annual policy review around the same time as the GDP release. A sharp slowdown in manufacturing in the July and August release looks likely to extend to September based on a two-year low (Nikkei) manufacturing PMI. This is likely to dent the GDP growth, which is why we have cut our estimate of 3Q growth to 2.6% year on year from 3.3%, a slowdown from 3.9%.

The central bank shifted the policy from neutral to tightening at the last meeting in April – a move from zero percent Singapore dollar trade-weighted exchange rate (S\$-NEER) policy band appreciation to a 'modest and gradual' appreciation path. The Singapore dollar's outperformance in the global currency sell-off since the last central bank policy review has pushed the S\$-NEER towards the strong end of the policy band, fuelling expectations of more policy tightening in October. However, we don't see any compelling reasons for that, as consumer price inflation in Singapore continues to be among the lowest in Asia and GDP growth is also poised to slow. A significant GDP slowdown will certainly take the air out of policy hawks.

#### ING estimate of the MAS's S\$-NEER policy band

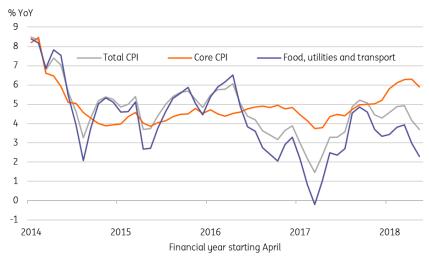


## Inflation risks resurfacing in India, slowly but surely

As the Reserve Bank of India looks set to tighten monetary policy again at the meeting on Friday, 5 October, the central bank will have no reasons to relax ahead of the September consumer price inflation release. The August inflation fall below 4% (the mid-point of the RBI's 2-6% medium-term target) appears to be a one-off. Our estimate for September is that it will rise back above 4%. Even as food price inflation continues to be low, the pass-through from increasing global oil prices will intensify due to a weak rupee and core inflation, which strips out food and fuel prices, remains high.

Without vigorous policy tightening or additional support measures, we find it hard to forecast the rupee regaining any ground in the near-term. We have just raised our end-2018 USD/INR forecast to 75 from 73.5.

## Recent dip in India's CPI inflation will be transitory



Source: Bloomberg, CEIC, ING

# Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Sunday 7 October			
China	-	Sep Forex Reserves (US\$bn)	3105	3105	3109.72
		Monday 8 October			
Singapore	-	3Q A GDP (QoQ /YoY%)	-/-	-/-	0.6/3.9
	-	MAS Semiannual Policy Statement			
Taiwan	0900	Sep Exports (YoY%)	2.9	-	1.9
	0900	Sep Imports (YoY%)	6.0	-	7.9
		Wednesday 10 October			
China	-	Sep Money supply (M2) (YoY%)	8.2	-	8.2
	-	Sep Financial Institution Loans (Yuan bn)	1300	-	1280
Korea	2300	Aug Current A/c Balance (US\$m)	8950	-	8757.8
Philippines	0200	Aug Exports (YoY%)	2.7	-	0.3
	0200	Aug Imports (YoY%)	13.6	-	31.6
	0200	Aug Trade balance (US\$mn)	-3750	-	-3546
Taiwan	-	National Day holiday			
		Thursday 11 October			
Malaysia	0500	Aug Industrial Production (YoY%)	1.6	-	2.6
		Friday 12 October			
China	-	Sep Trade Balance (US\$bn)	38	-	27.9
	-	Sep Imports (YoY%)	12.4	-	19.9
	-	Sep Exports (YoY%)	8.8	-	9.8
India	1300	Sep CPI (YoY%)	4.1	-	3.7
	1300	Aug Industrial Production (YoY%)	3.9	-	6.6
Singapore	0600	Aug Retail Sales Value (MoM/YoY%)	-5.6	-/-	-2.9/-2.6
South Kored	0000	Sep Unemployment Rate (% SA)	4.1	-	4.2
Source: ING, Bl	loomberg				