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Asia week ahead: Will the BoJ follow the Fed's footsteps?

Alongside the Fed and the Bank of England are policy decisions by three Asian central banks next week. The key question is will the Bank of Japan follow the Fed in cutting rates

Source: Shutterstock

The decision week for the Bank of Japan

The central bank of Japan, Taiwan, and Indonesia all meet next week on Thursday, 19 September, immediately after the US Fed's decision the same day.

Monetary easing is gaining traction in developed markets with the ECB lowering rates and restarting quantitative easing this week and the Fed cutting rates again next week. We don't think the BoJ wants to fall behind and risk further economic weakness as the continued safe-haven appreciation of the currency (JPY) dampen exports and GDP growth ahead. Japan's growth has been anaemic and inflation is nowhere close to the BoJ's 2% target, nor is likely to get there in the distant future. Making matters worse will be the consumption tax hike looming next month. The hike may add a few points to inflation but history is a guide to how disruptive these tax hikes have been for the economy.

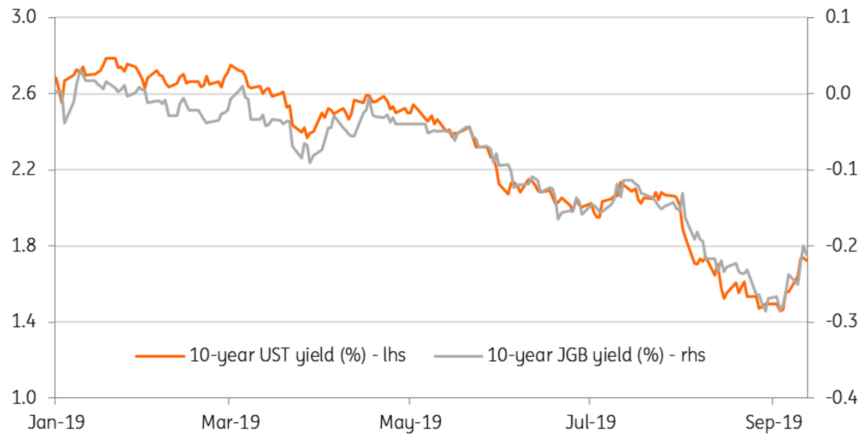
The evidence for a front-loaded boost to consumption and investment is looking very hard to locate, though that doesn't necessarily rule out a post-tax slump - ING Asia Chief Economist.

Taking rates deeper into the negative territory remains an option, as Governor Kuroda pointed out earlier this month, though the adverse impact on consumer sentiment through more negative returns on saving remains a policy dilemma. The recent sell-off in JGBs (less negative yields with the 10-year up from -0.28% in late August to -0.21% currently) and weaker JPY should be a relief for the BoJ but again that's a reflection of what's happened to the US Treasury yield, while the thawing US-China trade relations sapped the safe-haven demand for the JPY.

Even so, a rate cut shouldn't come as a complete surprise for the markets. What good that does to the economy will remain a question absent any effective policy tools to address the perennial problem of sub-target inflation (or is it the target that's rather unrealistic?).

Japan: Toxic trade trouble

Recent rise in JGB yields reflects rise in UST yields



Source: Bloomberg, ING

Mixed expectations about BI and CBC

The other two Asian central banks meet next week may pass as non-events given our forecasts of no policy changes by them. However, the acceleration of global easing cycle tips the balance in favour of more central bank rate cuts in the region.

There is a solid consensus on Taiwan's central bank (Central Bank of China) leaving the policy on hold. Indeed, the economy has gained some traction lately as new smartphone launches are aiding in export recovery. But, just as our Greater China expert, Iris Pang, pointed out, the uncertainty continues ahead of the 5G launch next year.

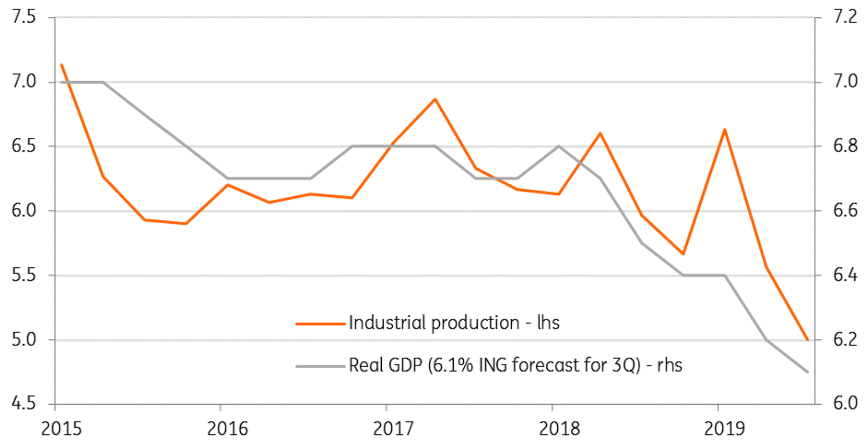
Bank Indonesia (BI) cut rates in the last two meetings in July and August. With the focus continued on the currency stability in setting the monetary policy, an opportunistic move of yet another cut at the forthcoming meeting cannot be ruled out despite latest data showing a slight uptick in inflation. The consensus appears to be split though on a 25bp rate cut and an on-hold decision.

Taiwan's industrial production surprises us all

China's remaining activity data for August

The remaining August data on industrial production, fixed-asset investment, retail sales, and new home prices will make into headlines. In fact, the average July-August industrial production growth will provide a good sense about GDP growth in the current quarter. A surprising drop in exports imparts downside risk to the consensus view of a pick-up in IP growth in the last month to 5.2% year-on-year from over a decade-low of 4.8% in July (Iris forecasts 4.5%). Our 6.1% GDP growth forecast for the current quarter is on track.

China's industrial production growth points to further GDP slowdown



Source: Bloomberg, ING

Finally, has electronics downturn troughed?

The calendar is also packed with trade data releases for August from Indonesia, Singapore, and Thailand – all likely showing persistent export weakness.

Singapore's non-oil domestic exports figure will be an interesting watch for trends in the country's electronics sector, which has been underperforming its Asian counterparts. Underlying our -14.0% YoY NODX growth forecast is continued electronics weakness despite some green shoots of the sector's recovery evident elsewhere in the region (Taiwan and Malaysia). Taiwan's export orders data may provide further insight into this.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Monday 16 September			
China	0300	Aug Industrial Production (YoY%)	4.5	5.2	4.8
	0300	Aug Fixed asset investment (YTD YoY%)	5.7		5.7
	0300	Aug Retail Sales (YoY%)	7.2	8.0	7.6
India	0730	Aug WPI (YoY%)	1.2	1.0	1.1
Indonesia	0500	Aug Exports (YoY%)	-6	-	-5.1
	0500	Aug Imports (YoY%)	-8.2	-	-15.2
	0500	Aug Trade balance (US$mn)	-527.8	-	-60.0
Philippines	-	Jul OCW remittances (YoY%)	2.6	-	-2.9
		Tuesday 17 September			
China	0300	Aug New home prices (MoM/YoY%)	0.3/10.4	-	0.6/10.1
Hong Kong	0900	Aug Unemployment rate (%)	3.1	-	2.9
Singapore	0130	Aug NODX (MoM/YoY%)	0.5/-14.0	-	3.7/-11.2
South Korea	2200	PPI (MoM/YoY%)	-	-	0.0/-0.3
		Wednesday 18 September			
Japan	1250	Exports (YoY%)	-	-	-1.6
	1250	Imports (YoY%)	-	-	-1.2
		Thursday 19 September			
Indonesia	-	BI policy decision (7-day reverse repo, %)	5.5	-	5.5
Philippines	-	Aug Balance of payments ($m)	-580	-	248.0
Taiwan	0900	Interest Rate Decision	-	-	1.375
		Friday 20 September			
Thailand	0400	Exports (YoY%)	-4.5	-	4.3
	0400	Imports (YoY%)	-10	-	1.7
	0400	Trade balance ($m)	862	-	110.0
Hong Kong	0900	Aug CPI (YoY%)	3.8	-	3.3

Source: ING, Bloomberg, *GMT

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