Asia: Rate hikes and cuts, a game of two halves

The first half for Asia hasn't been bad. Our Japan rate hike call has worked well, and we have recently beefed it up. We have also had to crystallise an upside risk for our Australian rates, forecasts which we flagged earlier this year. On the downside, we were too pessimistic about the Philippine inflation outlook

Japan v Syria at the 2026 FIFA World Cup Asian Qualifiers

The half-time review

As we suggested in our annual outlook, the Japanese economy is experiencing a slower recovery while inflation is staying above the Bank of Japan's (BoJ) target range. Our forecast for GDP growth changed little from an initial 1.2% year-on-year to 1.0%. The safety scandal in the auto sector unexpectedly hampered first-quarter 2024 growth, but stronger growth in tech exports and tourism is likely to partially offset the decline.

Another forecast was that the Reserve Bank of India (RBI) would be one of the first major APAC central banks to cut rates in 2024. At their recent rates meeting, two of the six MPC members voted to cut rates, and the majority of the committee favoured a broad goal of a reduction of accommodation. The Governor's statement also hinted that the RBI would not have to wait for the Fed to cut before reducing rates.

One forecast that has worked less well was that the Philippines' central bank (BSP) would continue hiking into 2024 and that Philippine inflation would remain above target. Philippine inflation numbers moderated more than expected back to their target range in the first half of this year. And in recent weeks, Governor Remolona has hinted that BSP could cut ahead of the Fed, perhaps by August as rice tariff reductions should bring down inflation sharply in the second half of the year.

1 Second-half prediction: Reserve Bank of Australia to hike in August

We now think that Australia's inflation performance has been sufficiently disappointing to warrant a further 25bp of hikes from the Reserve Bank of Australia (RBA) and a delay in the first rate easing until much later in 2025.

There is a risk to this forecast, and that could come as soon as 31 July, when we get the next set of inflation figures. As well as the June data, we also get the more widely watched second-quarter inflation numbers. The following week, the Reserve Bank meets to decide the fate of the cash rate target. We think the odds are stacked for a hike at that meeting. Inflation hasn't fallen now for five months, and indeed has risen in the last two. So, having inflation from just stopping to rising won't be enough to keep the RBA on hold; we actually need to see inflation resume its downward path. Base effects are more helpful in June, but until we see that next CPI data, we are looking for a (hopefully) final 25bp rate hike to 4.6%.

2 Second-half prediction: Bank of Japan to hike twice more this year

With the outcome of the spring wage negotiations (5.3%) well above expectations and the yen weakening, contrary to the appreciation outlook at the start of the year, inflationary pressures are building strongly. Consequently, we think that the pace of policy normalisation by the BoJ will be faster than originally anticipated. We now look for rate hikes in July and October, along with gradual quantitative tightening. As a result, we expect the BoJ's policy rate to rise to 0.5% (vs 0.1% in the annual outlook) by the end of the year.

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