

## 3 calls for Asia as inflation begins to fall

We believe that inflation will dip in the second half of this year across Asia, helped by declining food prices. There will be a catch-up period for those central banks which have tried to 'buy' growth with low interest rates



The last month has seen palm oil prices tumble from recent highs

### 1 Bank of Japan will stick to its yield curve control policy

There has been a lot of speculation that the Bank of Japan (BoJ) might amend its yield curve control policy in the coming months. Most of this speculation stems from outside of Japan. Within Japan, fewer forecasters seem to think any change is likely. Yield curve control sees the BoJ in the market daily to buy unlimited 10Y Japanese government bonds (JGBs) at 0.25% as required. And yet there have still been some days when the yield has topped the 0.25% upper target (the central target range is zero).

Combined with some extreme weakness of the Japanese yen, which has helped import global inflation into Japan, this has encouraged thoughts that the BoJ might widen the band to 0.5%. However, the bank expanded its open market operation purchases from 10Y JGBs to 7Y JGBs, which signals that the BoJ will keep the current target though to the year-end, though there may be some change to this next year when BoJ governor Haruhiko Kuroda is due to step down.

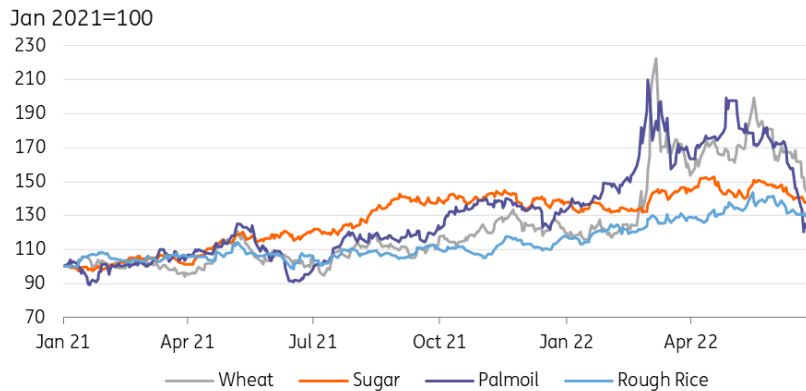
### 2 Inflation rates across Asia could already be coming down

The last month has seen agricultural prices from wheat, sugar, rice and palm oil, among others, tumbling from recent highs. Food prices play an extremely important role in overall inflation in

Asia. Those central banks that have already hiked rates aggressively to reduce the gap between inflation and policy rates may even be in a position to reduce them slightly, or at least the market will be able to anticipate some loosening earlier in 2023 than anticipated.

## Agricultural prices

Jan 2021 = 100

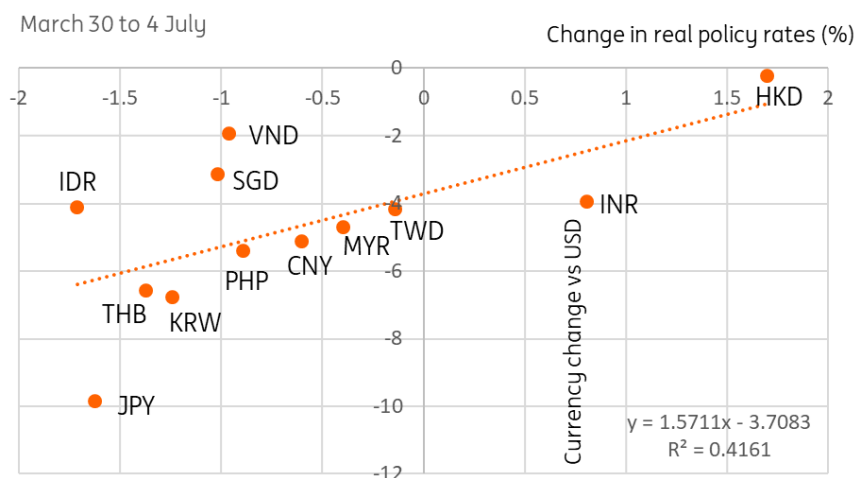


Source: CEIC, ING

### 3 The central bank laggards will have to play catch up

One thing that's become apparent in recent months is that no economy in Asia ex-China is immune to global inflationary pressures. And even where inflation remains relatively muted, in absolute terms, it is testing central bank tolerances. A couple of central banks in Asia have made no, or only token, responses to higher inflation, and as a result their real policy interest rates have fallen, and their currencies have depreciated. This will drag in more inflation, which is ultimately a false economy. They will end up having to do more over the second half of the year than those that have been bolder.

## Asian FX and change in real rates



Source: ING

## Author

### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

### Min Joo Kang

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).