Article | 2 December 2021

Our three calls for Asia

2022 will see Asia continuing to move forward, but not at a rapid pace amidst rising inflation, rate increases, a return to fiscal conservatism and rating pressure.

A man looks at screens in an electronics store in Malaysia

Progress on vaccination at last, but too late?

The biggest improvement to the outlook for non-China Asia is in the progress that's being made with vaccinations. Only the Philippines and Indonesia still lag with less than 50% of the population at least partially vaccinated. 2022 should see all economies of the region rising to internationally comparable levels of vaccination.

However, as Singapore has shown, even very high levels of vaccination do not offer complete protection. And that may be lessened further if the new Omicron variant proves vaccine-resistant. With overseas rates of Covid infection often lower than those in Asia, some further progress in re-opening international travel is possible, though this view could be heavily challenged by the characteristics of the latest variant and borders are being slammed shut once more. Any recovery in tourism we do see later in the year would go a long way to reviving South-East Asia's economies. A slower China remains a concern for North-East Asia's industrial economies.

Domestic recovery could also bring complications. Current accounts are likely to worsen as imports rise faster than tourism receipts rebound. Increased demand for credit may also clash with rising inflationary pressures and less supportive central banks. A return of rating pressure may also mean that a return to normality if that is what we get in 2022, is not trouble-free for Asia.

Our three calls for 2022:

1 Ratings downgrades possible

In 2020, rating agencies in Asia mostly stood on the sidelines, understanding that economic survival meant abandoning fiscal prudence. In 2021, they began to comment that the emergency policies introduced in 2020 should not be made permanent fixtures and that lasting damage to the economy could damage the longer-term growth potential of those in the region. In 2022, we believe the warnings will result in actual downgrades. The Philippines is top of the risk list, but we also have some concerns about Indonesia and India, which is on the cusp of dropping to high yield status.

2 Rate rises will become more common

Rising global inflation is not confined to the G-7, and though Asian inflation rates have not risen as sharply as elsewhere, current inflation is no longer compatible with emergency levels of rates achieved in 2020 and 2021. The Bank of Korea was the first central bank in the region to start hiking, and we expect more from them in 2022. The Monetary Authority of Singapore also shifted its Singapore dollar Nominal Effective Exchange Rate (SGD NEER) path to an appreciating one and could well step up the pace in May 2022. We also expect rates to start slowly rising in the Philippines and India.

3 We do not expect a repeat of 2018/19

At the end of 2018, going into 2019, investors began to worry that rising US rates and a stronger dollar would undermine Emerging Market assets. Prompted by some catalysts outside the region, this resulted in a short, but worrying sell-off. This time around, although we may well see the Fed tighten more rapidly than they are indicating, the peak in US rates is anticipated to be much lower, and the extent of USD strength more limited. So some retrenchment in risk assets and currencies, yes. But full-scale panic selling, probably not.

Author

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com