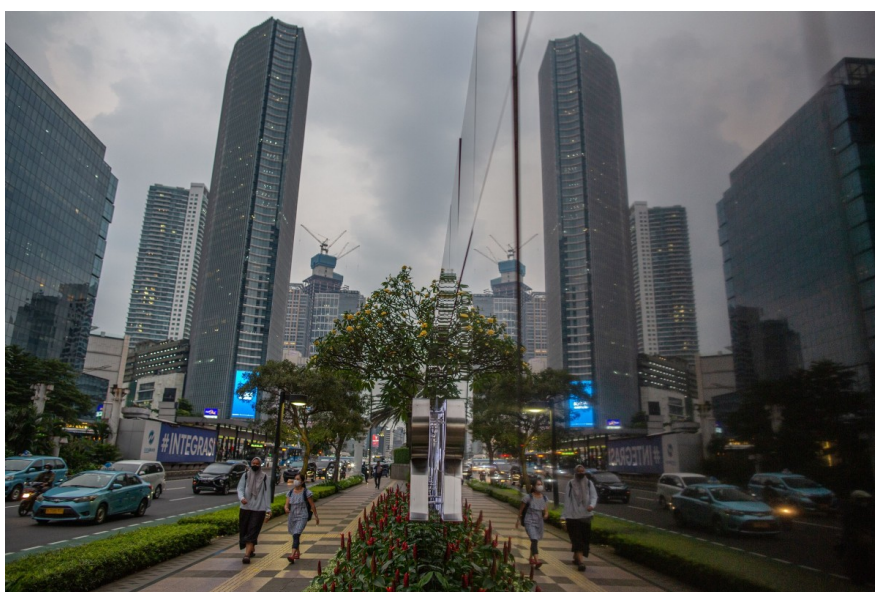


Our 3 calls for Asia

Inflation in Asia will peak at the end of 2022, and while we're unlikely to see any significant recovery in the region's economies next year, currencies and risk assets should return to growth



Inflation has started to ease in Indonesia (Jakarta is pictured) as it has in other Asian countries

1 Inflation will peak at the end of 2022 or early 2023

Inflation will peak at the end of 2022 or early 2023 for most economies of the region and begin to come down fairly rapidly for many. The main reason for this is that while we are not looking for prices to drop back for energy and food commodities, which make up a large proportion of the CPI basket for many Asian economies, we aren't forecasting a large sequential increase in these prices either. That, and the fact that wages across the region have typically lagged inflation rates, mean the spending power of consumers has been reduced.

There are one or two exceptions to this, where some governments have given pay rises to public sector workers to offset the cost of living increase. But this may end up prolonging the inflation spike, and require the central bank to tighten more forcefully. For the majority, however, we are looking at real spending power reductions, which will snuff out the 2022 inflation peak.

2 Growth in 2023 will be slower than in 2022

The cumulative drag from tighter monetary policy and weaker spending power will be mostly borne in 2023, as consumers offset the initial tightening with decreased savings, and the lagged

effects of earlier monetary policy tightening take time to play out across the economy. But the seeds of recovery could be planted in 2023, as inflation drops and reduces the drag this has on real spending power, and as central banks react to policy rates being left higher than inflation as the inflation tide recedes, and gradually start the unwinding process. We also anticipate some improvement in local demand from China, albeit fairly marginal, and certainly don't expect it to be even weaker by the end of 2023 than it is right now.

3 The region's currencies and risk assets should return to growth

Yes, earnings will be under pressure from the reduced sales volumes and tighter margins that are likely to still characterise the real economy. But prospects of some monetary easing over the latter part of the year should provide markets with a boost to sentiment. As sentiment improves and currencies strengthen again, this should also help to squeeze out residual inflation pressures, in a virtuous circle of improvement. There is a limit to this though – we don't expect interest rates to drop back to pandemic lows, but instead to settle at a level a little above inflation, to return to small positive “real” policy interest rates, representing a return to “policy as normal” rather than the extremes of the last few years.

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