

Three calls for Asia: India poised to hold on to the top growth spot

India is expected to remain the region's growth engine while emerging Asian countries, such as Indonesia and the Philippines are expected to see larger-than-expected rate cuts



India's prime minister, Narendra Modi, celebrates his party's gains in local elections last month

1 Call 1: India is likely to remain the region's fastest growing country

India is likely to remain the fastest-growing country in the region in 2025, although that growth will be weaker than in 2024. Inflation should remain well within the central bank's target, and the local currency should outperform.

While we expect India's GDP growth to slow slightly to 6.8% next year versus 6.9% in 2024, largely driven by fiscal consolidation and slower government spending, a confluence of factors including meaningful structural reforms, such as the de-clogging of bank and corporate bank balance sheets, and improved ease of doing business should support growth.

We expect private investment recovery, notably in the real estate sector, to drive growth. It will be aided by trade that remains relatively insulated from global developments. Urban consumption

growth is likely to come off recent peaks but remains strong, supported by higher incomes and rate cuts expected in the first quarter of next year. A relatively smaller exposure to trade tariffs, lower oil prices, contained current account deficit, and large FX reserve holdings should allow INR to outperform the region.

2 Call 2: Weaker growth for Korea and larger rate cuts leading to a weaker won

Korea's growth is expected to decelerate to 1.6% YoY next year (vs 2.2% in 2024) due to slowing exports and weak domestic demand. Strong global demand for AI chips and the front-loading effects ahead of Trump's tariff hike may still boost exports in the first half of next year, but momentum will fade.

As growth conditions deteriorate and inflation falls below 2%, the Bank of Korea is set to deliver a total of 100bp cuts, reaching the terminal rate of 2.0%. Large rate cuts will probably add depreciation pressure on the KRW. Widening growth, inflation, and yield differentials between the US and Korea may work against the won. We expect a weaker KRW in the first half of 2025 with increased volatility, then moderate a bit in the second half of the year.

Global dollar movements will dominate overall flows but KRW is likely to be hit harder than other Asian currencies due to its high sensitivity to external shocks given its large trade surplus with the US, high export dependence, and geopolitical sensitivity.

3 Our bold call: Rate cuts in EM Asia to exceed market expectations

Rate cuts in emerging market Asia will exceed market expectations resulting in longer-end bonds outperforming countries such as Indonesia, the Philippines and India.

The market consensus for Asia has moved towards fewer rate cuts, largely motivated by the Fed's actions, resulting in lower interest rate differentials for Asia versus the US. However, we think a combination of strong disinflation and slower growth will open up room for larger rate cuts than what the market is pricing in, especially for the Philippines, Singapore, India and perhaps Indonesia.

Our view on disinflation is supported by lower food and fuel prices as well as core inflation well into the pre-Covid range. There's further downside risk to Asia inflation from China's dumping of goods if tariffs were to strike in full. Moreover, for countries like Indonesia, the Philippines and India, very high positive real rates should support larger rate cuts, and a continued focus on fiscal consolidation should be positive for long-end bonds.

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