

## Three calls for Other Asia

Asia's trade-oriented economies are feeling the stress from high inflation and high domestic rates, a slowing global (including China) economy, and soft electronics demand. But a weaker US dollar and lower domestic rates could provide the seeds for a stronger recovery in 2024



We believe Japan's investment in new technology will continue

### 1 Japan: Slower growth but elevated inflation to continue

Japan's growth in 2023 was surprisingly resilient with a revival of tourism and positive net contribution from exports. With post-Covid reopening boosts fading and inflation running above 2%, we think economic growth will slow to 1.2% year-on-year in 2024, but it will still record greater than "potential" growth for the second year in a row. We believe investment in new technology will continue, helped by policy support, and consumption is also likely to remain positive as tight labour conditions continue. Based on the strong earnings of Japanese companies, we expect solid wage growth to support the Bank of Japan's sustainable 2% inflation target, enabling the central bank to move away from its ultra-easy policy stance. However, the BoJ's moves will be very gradual, and we only foresee its short-term policy rate reaching 0.00% by the end of 2024.

2

## India: The Reserve Bank of India will be the first of the major APAC central banks to ease rates in 2024

At 6.5%, the RBI's repo rate is one of the highest in the APAC region and also has one of the largest policy rate spreads over the US federal funds rate of any other central bank in the region, with only the Philippines' BSP equaling it. What puts the RBI in a favourable position is that India is doing a more convincing job of squeezing out inflation from the economy, while also managing to support the currency, which has been managed in a very tight range since October last year. In the end, we don't believe the RBI will front-run the US Federal Reserve when it comes to cutting rates. But once the Fed start to move, the RBI will be the first to follow, in our view.

### 3 Philippines: Inflation to remain above target

Supply-side shocks have kept inflation above target for all of 2023, prompting an off-cycle hike by the Bangko Sentral ng Pilipinas last October. BSP Governor Eli Remolona cited an elevated 2024 inflation forecast (4.7%) for his "urgent action" while also expressing concern about inflation expectations. Inflation will remain susceptible to spikes in 2024 due to an extended El Nino episode and an ongoing dispute with China regarding fishing rights in the West Philippine Sea. Shortages of important food items such as rice and fish could translate to inflation remaining above the BSP's 2-4% target again next year. Thus, we could see the BSP pulling the trigger on additional tightening if inflation remains above target and inflation expectations remain unanchored next year. Governor Remolona reiterated his commitment to bringing inflation "convincingly" back within target, even at the expense of growth, and we believe the BSP will continue hiking even if the Fed begins its easing cycle by mid-2024.

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