Fed provides benchmark for Asia's Central Banks

In going "all in", the Fed has shown the way for many of Asia's central banks, including some of the more "reluctant easers". Expect some substantial easing across the region in the coming days and weeks. BI and BoJ up first, though the RBNZ may be leading the way with its non-scheduled 75bp cut

Fed Chairman, Jerome Powell

Fed throws down the gauntlet

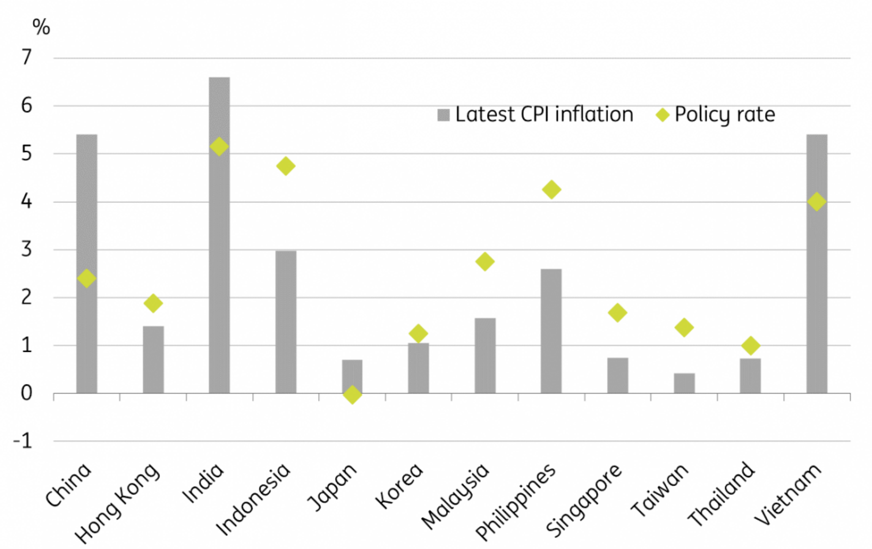
The Fed's easing to 0-0.25bp and adoption of $700bn of QE is not so much surprising in its scope - James Knightley's latest forecast update was in line - but it has come more quickly than expected, giving his update a shelf-life of about 3 hours. His (even more) latest thoughts are to be found here.

For us in Asia, the Fed's move is interesting not so much in terms of what it will do (it isn't harmful and will help a bit, but rates aren't really the issue right now, earnings are) but the powerful message it sends.

Central Banks around the region can take note, the Fed's actions make it much easier for them to follow suit, without needing to worry about currency weakness. Indeed, for those economies where rates had already fallen a lot or were perennially low, the recent collapse in oil prices provides even more room for cuts.

The chart below shows this easing "window" as the gap between current inflation and policy rates.

Easing room for Asia's Central Banks



Source: ING, Bloomberg

Real rate room for Asia's Central Banks

In order of easing, the CB's with the most room are...

From the chart above, we can readily see the CB's which have the most room to move. We would also add that the zero real-rate bound is not so much a "floor" as an "impediment", given that even the zero nominal bound doesn't seem to be a floor any more. Not shown on the chart are the RBNZ and RBA. The RBNZ has surprised overnight with the speed at which it has chopped rates to 25bp. We look for the RBA to get there shortly, and to investigate the scope for unorthodox policy measures too.

Of the remainder, BI (Bank Indonesia) and the Philippine Central Bank (BSP) have the most room to move. BI has a meeting scheduled this week and BSP may bring forward some of their easing. If we take the chart literally, this suggests up to 150-175bp of easing could be forthcoming. If that seems a lot, then just refresh your understanding of the Global Covid Pandemic with a quick look at the Worldometer website. It is quite sobering.

After BI and BSP, Malaysia's BNM still has room to act and may need to given that the current political mess there may delay fiscal support. Singapore too though will do so through adopting changes to its NEER currency band, perhaps dropping the midpoint to something close to where it currently sits and also flattening the slope.They are due to examine their policy setting next month, but I would be surprised if they wait that long.

Taiwan is often referred to as having no scope to ease, with its policy rate having sat at 1.375 for longer than I care to remember. These are not normal times. Cutting is easy. And Thailand's BoT, which has already proved that even for a reticent and hawkish central bank, cutting is possible, should be able to provide at least a further 25bp and possibly 50bp of easing. The same applies to the Bank of Korea.

The BoJ has apparently shifted forward the meeting scheduled for later this week to today. This is the time for Governor Kuroda to stop just saying that they won't hesitate to act and to actually act. It's a hard job when you essentially have no ammunition, but surely he can think of something beyond forward-guidance, which is simply worthless words.

Even where there is no more real interest rate room to move, there is still scope for easing from the likes of India's RBI, which could drop rates another 50bp easily, and before its next scheduled meeting on 3 April, though the INR would certainly be hit as a result. Collateral damage some might say.

Watch out for today

There isn't a lot on the calendar today, besides the possibility of some complementary action from the BoJ, and maybe some other central banks may decide to move early as well.

In China, there could be tweaks to recent policy easing measures. Iris Pang writes "CBIRC, the banking regulator suggests including “first-time" borrowers” as one of the indicators to examine banks. This should help SMEs to get loans from banks after the targeted RRR cut on last Friday.

And activity data to be announced today should be dismal. The market will likely focus more on March and April figures, though these could be also weak as global demand and supply chains will be hit".

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