

22 February 2018
Opinion

Inflation day in Asia

Inflation dominates the Asian release calendar at a time when markets are particularly prone to upside shocks

Japanese inflation pushes further above 1.0%

Japan's inflation in January was up, flat or unchanged, depending on how you want to look at the numbers - Isn't data a wonderful thing? Headline numbers usually get the most press and inflation here was 1.4%YoY, up from 1.0% in December and a tenth of a percent (insignificantly) higher than expectations. But whilst this was broadly on track, perhaps a little higher, the consensus expectation was that this headline story would be dampened by softer core inflation figures. There are a couple to choose from. The traditional "Ex-fresh food" index showed inflation staying steady at 0.9%YoY, not dipping as expected. And the Ex-fresh food and energy index actually rose from 0.3% to 0.4% - OK - this is still extremely low. And none of this screams of an inflation problem. But it will incrementally add weight to the notion that the BoJ is running out of justifications for continuing to print money.

It seems that markets are coming round to thinking in this way too. The JPY is one of the best major currencies this year (up 5.26% ytd) beaten only by the Mexican Peso and South African Rand. As we have seen with the Euro this year, it is the anticipation of monetary policy swings, not their implementation, that drives markets, and the BoJ has further to swing to achieve normalisation than either the USD or the EUR. We have been forecasting USDJPY at 100 by year-end. This looked punchy when we did it a month or so ago, it no longer does.

Singapore inflation - still absent without leave

Singapore presents a somewhat different picture of inflation. Headline inflation for the island state fell further in January, dropping to zero from a year ago. There was a little bit of comfort from the core inflation figures, which firmed up to 1.4% from 1.3%. But the trend in headline inflation has been fairly steadily down for over 12 months now, and the core rate seems to be acting as a poor longer-term magnet for the headline figures.

So what does the Monetary Authority of Singapore (MAS) do with this when they meet in April to decide what to do with their policy stance? We have been wrestling with this almost since their last meeting back in October 2017. But what has clinched it for us was the recent budget, which in net terms, will deliver a swing towards a deficit of about 2.0% this year. We aren't impressed with the strength of domestic demand, and the external data has been OK, but not amazing. Inflation is neither worrying nor comforting, with a core rate that is close to what seems sensible but a headline rate that seems stubbornly resistant to moving towards where core indicates its long-run trend should be.

In the end, about the only thing that is keeping us forecasting a MAS tightening in April, is the recent budget. Alone, it merits a small offsetting tightening in policy. Though this is still a tough call.

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