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Article

Asia week ahead: Monetary easing cycle near trough

The collapse in economic activity during Covid-19 lockdowns is well known, and massive stimulus is in place to help shore up the recovery. This leads us to think that the Asian central bank easing cycle is coming to an end



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Content

- A mixed bag of policy decisions
- Growth and inflation moving lower



A mixed bag of policy decisions

Following policy verdicts from central banks in Japan, Taiwan, and Indonesia this week, the markets will be awaiting decisions from those in China, Thailand, the Philippines, and New Zealand next week. A record decline in activity during the lockdown months may call for more policy easing. But as the lockdowns are being lifted and economies are slowly getting back on their feet, we now need to observe whether the aggressive fiscal and monetary easing already in place will facilitate a recovery before any more easing is introduced. This is a strong argument for inaction by central banks, especially those with barely any easing space left. The clear candidates here are the Reserve Bank of New Zealand and the Bank of Thailand. Both have hit their limits on rate policy easing, their Covid-19 lockdowns have ended and their economies are back in action. We could also add Taiwan's central bank to this camp after its decision to leave policy on hold this week. The People's Bank of China will carry out its monthly exercise of adjusting the prime lending rates next week. Boosting economic growth remains a top priority for the central bank amid a second wave of the disease. This supports our house view for a 10-20 basis point cut to the 1-year and 5-year lending rates. In the Philippines, we think the Bangko Sentral ng Pilipinas (BSP) will take advantage of a strong currency and falling inflation to cut the policy rate by another 25bp.



Growth and inflation moving lower

Inflation and manufacturing releases for May dominate the data flow next week. Both are moving lower and into deeper negative territory for some regional economies. Broad weakness in demand has depressed CPI inflation. Among the key inflation drivers, transport prices have been disproportionately affected by lockdowns and lower fuel prices, more than offsetting steady food price inflation. This has pushed inflation in Malaysia and Singapore into negative territory in recent months. It could have been even more negative in May. While still positive, Hong Kong's inflation is also expected to have nudged lower in the last month. Exports have been a key drag on manufacturing along with weak domestic demand. Singapore's exports and manufacturing disproportionately benefited from a surge in pharmaceutical demand in the global pandemic. But the export surge ended in May and so did the boost to manufacturing, in our view. Taiwan's exports and manufacturing are holding up relatively well, allowing the central bank there to leave policy on hold this week. The combined April-May manufacturing growth will provide a sense of the GDP contraction in 2Q20, which is going to be the worst in at least a decade.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Saturday 20 June					
Taiwan	0900	May Export orders (YoY%)	3.5	2.3	2.3
Sunday 21 June					
Taiwan	-	May Money supply (M2) (YoY%)	4.2	-	4.2
Monday 22 June					
China	-	5-year Loan Prime Rate (%)	4.55	-	4.65
	-	1-year Loan Prime Rate (%)	3.65	-	3.85
Hong Kong	-	May Composite CPI (YoY%)	1.6	-	1.9
Taiwan	0900	Unemployment rate (%)	4.3	-	4.1
Malaysia	0800	Forex reserves- Month end (US\$bn)	-	-	102.9
Philippines	-	Apr OCW remittances (YoY%)	-	-	-4.7
	-	May Forex reserves (US\$bn)	-	-	90943
Thailand	0430	May Exports (Cust est, YoY%)	-23.0	-	2.12
	0430	May Imports (Cust est, YoY%)	-35.0	-	-17.1
	0430	May Trade balance (Cust est, US\$m)	2736	-	2462
South Korea	2200	May PPI (YoY%)	-1.9	-	-1.5
Tuesday 23 June					
Philippines	-	May Budget balance (PHP bn)	-706.5	-	-273.9
Singapore	0600	May CPI (YoY%)	-1.0	-	-0.7
	0600	May CPI core (YoY%)	-0.3	-	-0.3
Taiwan	0900	May Industrial production (YoY%)	5.8	-	3.5
Wednesday 24 June					
Malaysia	0500	May CPI (YoY%)	-2.9	-	-2.9
Thailand	0805	Benchmark Interest Rate	0.50	-	0.50
Thursday 25 June					
Philippines	0900	Overnight Borrowing Rate	2.50	-	2.75
Thailand	-	May Manufacturing index (YoY%)	-	-	-17.2
South Korea	2200	Jun BOK Consumer Sentiment Index	81.8	-	77.6
Friday 26 June					
Singapore	0600	May Industrial production (MoM/YoY%)	-18.0/-6.3	-/-	3.6/13

Source: ING, Bloomberg, *GMT

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