Asia Economics Comment

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What pressure from the Fed?

Asia

- US rates are climbing. Fast. This week will deliver another big round of data that will keep Fed-watchers at attention. With the US zipping along on the tightening express, central bankers in Asia will feel pressure to pick up steam as well. At the same time, this week may also bring the first signs that growth is softening. How urgent are rate hikes in the region, and how much tightening will be required? Few Asian central banks will match the Fed in speed and vigour. The divergence in monetary policy between both sides of the Pacific will thus remain in place. A bit more pressure from a more aggressive Fed perhaps, but the region will take it all in stride, remaining more concerned about growth than inflation.

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Busy week ahead.

The **Fed**'s on the move – or, rather, investor's expectations about what the US central bank will need to deliver in the coming months is. And until those expectations settle, ripples will spread far and wide.

And there's plenty to digest this week. HSBC's Ryan Wang expects February core PCE, out on Thursday, to show inflation at 6.5%, more than triple the Fed's target. Non-farm payrolls a day later will also be key, especially average hourly earnings.

And then there are six Fed officials who'll step to the lectern – the NY Fed's John Williams certainly got attention last week when he suggested he would be open to a 50bp hike if the situation warrants.

All this is going to keep Asia central bank watchers on their toes this week.

It'll be important, however, to keep a close eye on the region's activity numbers as well. While the Fed may be in an increasing hurry, amid acute price pressures, most monetary officials in Asia will be at least equally concerned about growth.

Three data points to watch, here – all for their wider, regional significance.

First, **China**'s PMIs on Thursday, especially the one covering non-manufacturing, will give a first read on the impact of rising COVID-19 cases, and attendant local restrictions, on activity.

Second, **Korea**'s exports and imports for March, out on Friday, will give an early hint of any dent on shipments from rising global uncertainty. Keep an eye not just on exports, but also on imports: the latter may rise briskly as a result of soaring commodity prices. In fact, the trade balance in Korea has come under pressure in recent months.

Third, **Japan**'s Tankan survey. This will partly reflect the economy's domestic challenges surrounding the latest infection wave. But the manufacturing survey, especially of large companies, remains a good indicator of the wider business cycle and export prospects. A weak reading may also further raise pressure on Japan's Prime Minister Fumio Kishida to unveil extra fiscal support.

Those are the hard numbers worth tracking.

On the policy front, there are also three key developments investors should keep an eye on.

First, **Australia** will unveil its budget on Tuesday. This is the last one before elections must be held before 21 May. As Paul Bloxham and Jamie Culling note, after a hugely generous budget the last time, this one may tilt towards consolidation. This sets a broader theme for the region: while Australia has deeper pockets than most, fiscal policy will become far less supportive over the coming year in many economies, adding the headwinds for growth (a notable exception being mainland China).

Second, the Bank of **Thailand** will meet on Wednesday, and their messaging will be key: inflation jumped to 5.3% y-o-y in February, well above the BoT's target. At the same time, growth, while picking up, isn't anywhere near strong enough to warrant aggressive monetary tightening, although HSBC's Yun Liu still expects higher policy rates ahead.

Third, **Indonesia** inflation. Out on Friday, HSBC expects a pick-up to 2.5% in March y-o-y (from 2.1%). That's still well within the 2-4% target band. But risks are tilted to the upside, and a bigger reading could certainly put pressure on BI to accelerate tightening. In fact, HSBC expects headline inflation to exceed the BI's target over the second half of the year, and Indonesia's central bank to deliver tightening.

That might sound like a lot of rate hikes – but even BI won't match what the Fed's likely to deliver in the coming quarters.

In case you missed it, for more details on the inflation risks facing Asia, and reasons to expect most central banks in the region still to tighten gradually, have a look at our latest *Asia Economics Quarterly* – hot off the press.

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