Asia Economics Comment

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Inflation ain't coming down fast enough

Asia

◆ It was an enticing prospect for markets – at least across Asia. Last year's price surge looked set to fade in 2023, allowing central bankers to go on hold, while growth was expected to chug along at a decent clip, spurred on by China's re-opening. Trouble is, inflation is proving stickier than thought. And that's putting many central banks potentially in play for further hikes. This week will deliver a round of key data – in both the US and Asia. Worth staying nimble for the time being, as inflation prints may deliver further surprises.

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It's not that inflation isn't coming down – it is. The issue is that it is slowing in many places more gradually than expected. Of the 9 markets in Asia that have released CPI readings for January so far, 6 have registered an 'upside surprise' (only in Thailand and Indonesia did the print come in below expectations).

Nothing too alarming, you might argue: as long as inflation is decelerating we are on the right track, and central bankers can go easy after delivering a furious series of rate hikes over the past year.

Perhaps. But there are growing signs that the disinflation process will prove more protracted, in Asia and possibly elsewhere, than expected. Although it is worth emphasizing: there is likely to be more and more a differentiation between markets this year in terms of the direction of inflation and monetary policy.

Last week already delivered powerful reminders. In the **Philippines**, the BSP delivered a 50bp hike (more than the Fed did at its last meeting) and signalled more to come. As Aris Dacanay argues, there are also good reasons to expect the BSP needing to keep monetary policy tighter for longer in order to ensure external balance.

India, meanwhile, also delivered last week a punchy upside surprise on inflation. As Pranjul Bhandari argues, inflation in India is especially noteworthy because it is partly driven by a continued climb in goods prices – contrary to elsewhere in the world. As a result, HSBC expects now an additional hike by the RBI, though cuts could still follow by early 2024.

The news was a little more reassuring in **Indonesia**: the central bank held its policy rate last week as expected. Here, a robust balance of payments has mitigated risks over the current cycle, a process that should endure even if the Fed pushes a little further than expected. Still, Pranjul Bhandari and Aayushi Chaudhary highlight that risks of further tightening remain.

What's causing inflation in many economies to be stickier than thought? A few reasons come to mind. One is that domestic demand has stayed surprisingly resilient so far, even as export growth has tumbled. In **ASEAN**, for example, the tightening of labour markets has given consumers a bit more staying power. And with growth in **China** expected to pick up strongly, the rest of the region should see a decent lift over the coming quarters. In fact, Jing Liu upgraded the forecast for GDP growth in 2023 from 5% to 5.6% last week in light of the earlier-than-expected stabilization in demand.

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The latter poses also upside risks to **global commodity prices**. Much of this may be priced in already, one could argue, but as Paul Bloxham and Jamie Culling have pointed out repeatedly: for most raw materials global supply remains surprisingly tight, raising the risk of further price spikes – or at least the absence of a sufficiently large disinflationary impact that ordinarily occurs via the commodity channel when global growth buckles.

Why, then, is the coming week so pivotal? A number of data releases warrant especial attention. CPI releases for January are due in **Japan**, **Malaysia**, **Hong Kong**, and **Singapore**. HSBC expects upside surprise in all of these, with the exception of the latter. Meanwhile, in the **US**, the focus will be on core PCE inflation, where HSBC US economist, Ryan Wang, also expects an upside surprise.

Central banks are also on deck this week. No major surprises are likely, although there will be intense focus on various statements by officials (including by Fed speakers). Here, though, is where the theme of policy divergence for the remainder of 2023 may start to become apparent: the **PBoC** (with regards to Loan Prime Rates) and the **BoK** are expected to stay on hold, but both may still ease this year, the former sooner, the latter later. The **RBNZ** may still push rates higher this week, but it may soon need to reverse course as the rapid, previous tightening is starting to bite.

Not all central bankers in Asia, then, face the same set of challenges. All of them, however, are surely taking notice that inflation ain't coming down as quickly as hoped.

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