# Asia Economics Comment

**Free to View - Economics**

## Inflation ain't coming down fast enough

Asia

**Frederic Neumann**
**Chief Asia Economist, Co-head Global Research Asia**
The Hongkong and Shanghai Banking Corporation Limited

- 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.

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.

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.

Frederic Neumann
*Chief Asia Economist*

# Disclosure appendix

The following analyst(s), who is(are) primarily responsible for this document, certifies(y) that the opinion(s), views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Frederic Neumann

This document has been issued by the Research Department of HSBC.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at *www.hsbcnet.com/research*.

**Additional disclosures**

1 This report is dated as at 20 February 2023.

2 All market data included in this report are dated as at close 19 February 2023, unless a different date and/or a specific time of day is indicated in the report.

3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

# Disclaimer

**Issuer of report**
**The Hongkong and Shanghai Banking Corporation Limited**

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited, which has based this document on information obtained from sources it believes to be reliable but which it has not independently verified. Neither The Hongkong and Shanghai Banking Corporation Limited nor any member of its group companies ("HSBC") make any guarantee, representation or warranty nor accept any responsibility or liability as to the accuracy or completeness of this document and is not responsible for errors of transmission of factual or analytical data, nor is HSBC liable for damages arising out of any person's reliance on this information. The information and opinions contained within the report are based upon publicly available information at the time of publication, represent the present judgment of HSBC and are subject to change without notice.

This document is not and should not be construed as an offer to sell or solicitation of an offer to purchase or subscribe for any investment or other investment products mentioned in it and/or to participate in any trading strategy. It does not constitute a prospectus or other offering document. Information in this document is general and should not be construed as personal advice, given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on it, consider the appropriateness of the information, having regard to their objectives, financial situation and needs. If necessary, seek professional investment and tax advice.

The decision and responsibility on whether or not to purchase, subscribe or sell (as applicable) must be taken by the investor. In no event will any member of the HSBC group be liable to the recipient for any direct or indirect or any other damages of any kind arising from or in connection with reliance on any information and materials herein.

Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors.

This document is for information purposes only and may not be redistributed or passed on, directly or indirectly, to any other person, in whole or in part, for any purpose. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. By accepting this report, you agree to be bound by the foregoing instructions. If this report is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. The document is intended to be distributed in its entirety. Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document.

Certain investment products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. Investors should consult with their HSBC representative regarding the suitability of the investment products mentioned in this document.

HSBC and/or its officers, directors and employees may have positions in any securities in companies mentioned in this document. HSBC may act as market maker or may have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell or buy securities and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented on the supervisory board or any other committee of those companies.

From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits.

The Hongkong and Shanghai Banking Corporation Limited is regulated by the Hong Kong Monetary Authority.