

WHAT DOES THE US–CHINA THAW IMPLY?

- After a period of deteriorating ties, Washington and Beijing are making tentative moves to patch up relations and to form guardrails against inadvertent escalation.
- Domestic politics is spurring Washington to pursue this cooldown, while Beijing finds itself surrounded by neighbours increasingly sceptical of its behaviour, if not outright hostile.
- Barring a freak accident, we expect the imminent resumption of high–level ministerial dialogues, followed by modest agreements where common ground can be found.
- The rest of Asia stands to benefit from the efforts by both Washington and Beijing to rally support for their respective camps. Expect action in the economic and security arenas.

NO CRISIS IN CHINA LOCAL GOVERNMENT FINANCES (YET)

- Credit risks in local government finance vehicles have caused jitters among markets and the government. Recent financial turmoil in Guizhou may be a harbinger of more to come.
- Given their size and interconnectedness, even a modest deterioration of asset quality linked with local government finance may lead to outsized macro–financial effects.
- While the central government is maintaining a hawkish stance against providing backstops, but is unlikely to stand aside if there is a material risk of a major meltdown.
- However, even if a full–blown crisis is averted, risk aversion among market participants will drag on overall growth, further adding to the headwinds to China’s rebound.

REGIONAL UPDATES

- Indonesia’s central bank keeps its policy rate constant while signalling a shift in emphasis towards supporting the currency. Rates are likely to remain constant for the year.
- South Korea also kept monetary policy unchanged but maintained a hawkish stance in policy communications. A weaker growth outlook makes for a tough balancing act.
- Malaysia’s inflation reaches a one–year low with no clear catalysts for a resurgence.
- Taiwan’s export orders worsen, with relief from China’s reopening not forthcoming.
- Singapore’s headline inflation ticked upwards, while core inflation remains persistent. The underlying cost pressures may not dissipate easily given structural shortcomings.

Centennial Asia Advisors is an independent research and advisory firm focused on emerging economies in the Asia Pacific. We specialize in the intersection of economics, politics, and international affairs.

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