

TAKING STOCK OF MONETARY POLICY IN ASIA

- Central banks in Asia have mostly called a pause to monetary tightening due to easing headline inflation, but sticky core inflation is a risk even as growth headwinds mount.
- Some central banks will continue to keep rates “higher for longer” to provide support for their respective currencies, or to minimize volatility in capital flows.
- We discuss the trajectories for monetary policy in selected Asian economies, including how they may differ from theoretical Taylor–Rule prescriptions for policy rates.

ASIAN CURRENCIES REMAIN STABLE BUT CHINA–LED UPSIDES ARE LIMITED

- Most Asian currencies have managed to make modest gains against the US dollar, although occasional spikes of haven demand have punctuated this progress.
- The imminent pause by the US Fed and Asian central banks means that monetary policy and the resultant rate differentials will play less of a factor in currency performance.
- Hoped–for upsides from China, however, are not forthcoming given the faltering recovery. This also manifests in softer commodity markets that compound a broader trade slump.
- Asian markets have nonetheless been able to improve their currency fundamentals, notably via a replenishment of reserves and more substantial progress in disinflation.

REGIONAL UPDATES

- China’s policymakers continue to roll out small–scale stimulus to prop up the economy, but these are unlikely to compensate for the damage inflicted during the pandemic years.
- Malaysia’s industrial production weakened due to sluggish manufacturing.
- UMNO’s leadership continues to be enthusiastic advocates for Anwar Ibrahim’s coalition government, in stark contrast with still–lukewarm attitudes among the party grassroots.
- Taiwan’s central bank hit pause on monetary tightening; the worsened growth outlook means that policy rates are likely to remain unchanged for the rest of the year.
- Indonesia’s constitutional court upheld the existing voting system, but charges against an opposition–aligned minister raise concerns of institutional degradation.
- India’s disinflationary progress maintains its convincing momentum.

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