

FRIDAY, 27 SEPTEMBER 2024

# The Week Ahead

## How will Asia respond to US rate cut?

The Federal Reserve (Fed) commenced its policy rate cutting cycle at the 17-18 September meeting, lowering the Fed Funds Target Rate by 50bp to 4.75 – 5%. **Lower US interest rates are positive for Asia** as narrower US-Asia interest rate differentials help support Asian currencies and provide room for Asian central banks to ease domestic monetary conditions.

As US rates fall, the reaction functions of Asian central banks vary on the following four key conditions: (1) **neutral rate level;** (2) **currency stability risk;** (3) **domestic demand condition;** (4) **financial stability concern.**

We think **China** needs to ease the most in Asia. Domestic demand condition is poor and policy rates remain above neutral due to slowing trend growth and muted price pressure. Currency stability is enhanced by a closed capital



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account, while financial stability concerns in the real estate and government debt sectors can be alleviated by lower interest rates. The PBoC has just made a round of policy rate cuts this week and in July before the Fed cuts and we expect more to follow.

The **Philippines** and **Indonesia** are the next in-line. Policy rates were raised above neutral to maintain currency stability, but recent US dollar (USD) weakness and moderate inflations open the door for easing. Domestic demands are being pressured by high real rates while household debt levels remain low. Both central banks cut ahead of the Fed and are expected to ease over 100 basis points by end-2025.

Next, we have economies that are constrained from swift easing due to financial stability concerns, resilient domestic demand and/or upward price pressures. They include **Korea, Thailand, India, Taiwan, and Australia**. We think Korea, Thailand and India would ease to lower their real policy rate levels, but Taiwan and Australia would stay on hold to contain demand-pull price pressures.

We expect **Malaysia** and **Vietnam** to stay on hold as policy rates are around/below neutral while domestic demands still holding up. For **Japan**, the Fed's easing has greatly alleviated the selling pressure on the Japanese Yen, allowing the Bank of Japan to normalize policy rate at its own pace.

## Publications

### → **Populism: would markets vote for it?**

Populists may excite many voters, but markets often aren't fans of the higher spending, inflation, and lower growth their policies tend to bring.

### → **Energy transition: time to clear the air**

Significantly increasing investment in clean energy is essential. But the energy transition is more complex than simply replacing fossil fuels with renewables.

### → **Engaging to shape a strong workforce**

It is increasingly recognised that the "S" in ESG – including employee-related social concerns such as mental health and human rights – can represent material risks.

We think Asian markets, especially those likely to see lower interest rates, shall do well in the near-term, driven by expectation of easier monetary condition and better domestic demand in the region.

## The Week Ahead

Next week will mainly feature **Japan's** Tankan economic survey, **Eurozone's** purchasing manager indices (PMIs) and the **US's** employment figures.

On **Monday, Japan** will release its August retail sales growth and housing starts data. **China** will release its September National Bureau of Statistics (NBS) and Caixin PMIs for the manufacturing and non-manufacturing sectors.

On **Tuesday, Japan** will release the third quarter result of its Tankan economic survey. Market expects the business condition of Japan's large manufacturing enterprises to remain stable. We will also see Japan's August unemployment rate and jobs-application ratio. The **US** will release the September Market News International (MNI) Chicago PMI, Institute of Supply Management (ISM) Manufacturing Index and August construction spending growth. The **Eurozone** will release the September manufacturing PMI figure.

On **Wednesday**, the **Eurozone** will release its August unemployment rate data while the **US** will release the August Job Openings and Labor Turnover Survey (JOLTS) result.

On **Thursday**, the **Eurozone** will release its August producer prices and September Services PMI and Composite PMI figures. The **US** will release the September Automatic Data Processing (ADP) Employment data as well as the Services PMI and Composite PMI figures.

On **Friday**, the **US** will release its September non-farm payroll figure and unemployment rate, from which the market will gauge the resilience of the US's labor market. We will also see the US's September ISM non-manufacturing PMI, average hourly earnings growth, and August factory order growth.

Wish you all good luck, great returns.

Christiaan Tuntono

## Asia's nominal policy rate forecasts

|    | Current | 3Q24F | 4Q24F | 4Q25F |
|----|---------|-------|-------|-------|
| US | 5.00    | 5.00  | 4.50  | 3.50  |
| CN | 1.50    | 1.50  | 1.50  | 1.20  |
| PH | 6.25    | 6.25  | 5.75  | 5.00  |
| ID | 6.00    | 6.00  | 5.75  | 5.00  |
| KR | 3.50    | 3.50  | 3.25  | 2.75  |
| TH | 2.50    | 2.50  | 2.25  | 2.00  |
| IN | 6.50    | 6.50  | 6.00  | 5.75  |
| TW | 2.00    | 2.00  | 2.00  | 2.00  |
| AU | 4.35    | 4.35  | 4.35  | 4.35  |
| MY | 3.00    | 3.00  | 3.00  | 3.00  |
| VN | 4.50    | 4.50  | 4.50  | 4.50  |
| JP | 0.25    | 0.25  | 0.50  | 0.75  |

Note: US=Fed Funds Target Rate, CN=7D Reverse Repo Rate, PH=O/N Borrowing Rate, ID=7D Reverse Repo Rate, KR=Policy Base Rate, TH=Policy Rate, IN=Policy Repo Rate, TW=Discount Rate, AU=Policy Cash Rate, MY=O/N Policy Rate, VN=Refinancing Rate, JP=Uncollateralized O/N Call Rate

Sources: Bloomberg, AllianzGI Global Economics & Strategy estimates, as of September 2024

Past performance, or any prediction, projection or forecast, is not indicative of future performance.

## UPCOMING POLITICAL EVENTS 2024

|             |     |                                    |
|-------------|-----|------------------------------------|
| 17 Oct      | EZ  | ECB Governing Council meeting      |
| 21 – 27 Oct | IMF | IMF annual meetings                |
| 23 Oct      | CA  | Bank of Canada Meeting             |
| 25 27       | IMF | IMF and World Bank annual meetings |
| 31 Oct      | JN  | Bank of Japan meeting              |

→ [Overview political events 2024 \(click here\)](#)

## Calendar Week 40

| Monday           |  |     | Consensus | Previous |
|------------------|--|-----|-----------|----------|
| JN               | Industrial O/P Prelim MM SA            | Aug | --        | 3.1%     |
| JN               | Retail Sales YY                        | Aug | --        | 2.6%     |
| JN               | Large Scale Retail Sales YY            | Aug | --        | 1%       |
| CN               | NBS Manufacturing PMI                  | Sep | --        | 49.1     |
| CN               | Caixin Mfg PMI Final                   | Sep | --        | 50.4     |
| CN               | Caixin Services PMI                    | Sep | --        | 51.6     |
| JN               | Housing Starts YY                      | Aug | --        | -0.2%    |
| GE               | Import Prices MM                       | Aug | -0.3%     | -0.4%    |
| GE               | Import Prices YY                       | Aug | --        | 0.9%     |
| GE               | Retail Sales MM Real                   | May | 0.1%      | -1.2%    |
| GE               | Retail Sales YY Real                   | Jul | --        | -1.1%    |
| UK               | Business Invest QQ                     | Q2  | --        | -0.1%    |
| UK               | Business invest YY                     | Q2  | --        | -1.1%    |
| UK               | GDP QQ                                 | Q2  | --        | 0.6%     |
| UK               | BOE Consumer Credit                    | Aug | --        | 1.215B   |
| UK               | Mortgage Lending                       | Aug | --        | 2.786B   |
| GE               | CPI Prelim MM                          | Sep | --        | -0.1%    |
| GE               | CPI Prelim YY                          | Sep | --        | 1.9%     |
| GE               | HICP Prelim MM                         | Sep | --        | -0.2%    |
| <b>Tuesday</b>   |  |     |           |          |
| GE               | HICP Prelim YY                         | Sep | --        | 2.0%     |
| US               | Chicago PMI                            | Sep | --        | 46.1     |
| JN               | Unemployment Rate                      | Aug | --        | 2.7%     |
| JN               | Tankan Big Mf Idx                      | Q3  | 13        | 13       |
| JN               | JibunBK Mfg PMI Final SA               | Sep | --        | --       |
| GE               | HCOB Mfg PMI                           | Sep | --        | --       |
| EC               | HCOB Mfg Final PMI                     | Sep | --        | --       |
| UK               | S&P GLOBAL MANUFACTURING PMI           | Sep | --        | --       |
| EC               | HICP Flash YY                          | Sep | --        | 2.2%     |
| EC               | HICP-X F,E,A&T Flash YY                | Sep | --        | 2.8%     |
| EC               | HICP-X F, E, A, T Flash MM             | Sep | --        | 0.30%    |
| US               | S&P Global Mfg PMI Final               | Sep | --        | --       |
| US               | Construction Spending MM               | Aug | --        | -0.3%    |
| US               | ISM Manufacturing PMI                  | Sep | --        | 47.2     |
| <b>Wednesday</b> |  |     |           |          |
| US               | ISM Mfg Prices Paid                    | Sep | --        | 54.0     |
| US               | JOLTS Job Openings                     | Aug | --        | 7.673M   |
| JN               | Monetary Base YY                       | Sep | --        | 0.64%    |
| EC               | Unemployment Rate                      | Aug | --        | 6.4%     |
| <b>Thursday</b>  |  |     |           |          |
| US               | ADP National Employment                | Sep | --        | 99k      |
| US               | Overall Comprehensive Risk             | Q4  | --        | 7.97     |
| JN               | JibunBK Comp Op Final SA               | Sep | --        | --       |
| JN               | JibunBK SVC PMI Final SA               | Sep | --        | --       |
| GE               | HCOB Services PMI                      | Sep | --        | --       |
| GE               | HCOB Composite Final PMI               | Sep | --        | --       |
| EC               | HCOB Services Final PMI                | Sep | --        | --       |
| EC               | HCOB - Composite Final PMI             | Sep | --        | --       |
| UK               | S&P GLOBAL SERVICE PMI                 | Sep | --        | --       |
| UK               | S&P GLOBAL PMI: COMPOSITE - OUTPUT     | Sep | --        | --       |
| EC               | Producer Prices MM                     | Aug | --        | 0.8%     |
| EC               | Producer Prices YY                     | Aug | --        | -2.1%    |
| GE               | Overall Comprehensive Risk             | Q4  | --        | 9.38     |
| UK               | Overall Comprehensive Risk             | Q4  | --        | 8.97     |
| US               | S&P Global Comp Final PMI              | Sep | --        | --       |
| US               | S&P Global Svcs PMI Final              | Sep | --        | --       |
| <b>Friday</b>    |  |     |           |          |
| US               | Factory Orders MM                      | Aug | --        | 5.0%     |
| US               | ISM N-Mfg PMI                          | Sep | --        | 51.5     |
| EC               | HCOB Construction PMI                  | Sep | --        | 41.4     |
| GE               | HCOB Construction PMI                  | Sep | --        | 38.9     |
| UK               | S&P GLOBAL PMI: MSC COMPOSITE - OUTPUT | Sep | --        | 53.8     |
| UK               | S&P Global CONSTRUCTION PMI            | Sep | --        | 53.6     |
| US               | Non-Farm Payrolls                      | Sep | --        | 142k     |
| US               | Private Payrolls                       | Sep | --        | 118k     |
| US               | Unemployment Rate                      | Sep | --        | 4.2%     |
| US               | Average Earnings MM                    | Sep | --        | 0.4%     |
| US               | Average Earnings YY                    | Sep | --        | 3.8%     |
| US               | Average Workweek Hrs                   | Sep | --        | 34.3     |

The calendar data for the current week comes directly from Bloomberg. They are published in the week in which "The Week Ahead" appears. These are economic data that come from official sources. Where available, the previous figure is collected together with the consensus estimate. The consensus estimate is collected by Bloomberg through a survey of analysts and economists. It is the average of all estimates submitted.

If not mentioned otherwise data and information sources are from LSEG Datastream.

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