

March 28, 2024

Reassessing Disinflation Trends In APAC

The Central Bank of the Republic of China (CBC) unexpectedly lifted its benchmark discount rate 12.5bp to 2.0% a week ago. Among the reasons given for the move was "to contain domestic inflation expectations" ahead of a proposed electricity rate hike, as well as a "relatively higher level" of inflation since 2021 ([full statement](#), see Section III).

Headline inflation in Taiwan has been in a 1.75-3.59% y/y range (average 2.70% y/y) since 2022, compared with a range of -0.93 to 2.41% y/y (average 0.73% y/y) between 2015 and 2019 – the five-year stretch preceding COVID. Taiwan is slated to [raise electricity prices](#) by an average of 11% from April 1, including a 25% jump for large industrial users.

The CBC's emphasis on a tariff-related impact on inflation is most interesting to us, as such things are usually viewed as one-offs. Acceleration in domestic housing prices and the strong recovery in technology exports might have contributed to the hawkish action, as well. House prices in the Taipei area hit a cyclically flat growth in July 2023, recovered to 3.8% y/y at the end of last year, and then accelerated to 9.2% this February.

While macro conditions across APAC are asynchronous, the CBC action is a reminder not to be complacent on upside or prolonged elevated inflation risks, and to be cautious about expecting a reversal in monetary policy simply because a tightening cycle has ended.

Indeed, both headline and core inflation have ticked up across the APAC region after having been on lower trajectories in 2023. China offers a case in point: after four consecutive months of negative headline readings starting last October, inflation rebounded into positive territory, at 0.7% y/y, in February. The drivers of the rebound were higher food prices and utility costs, along with a decreasing drag from transportation costs.

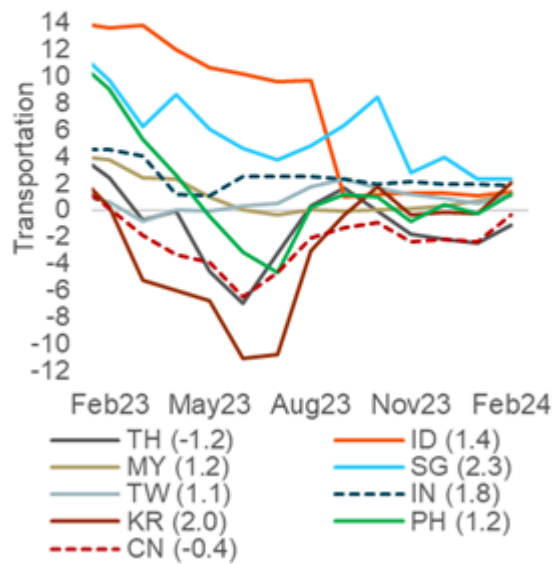
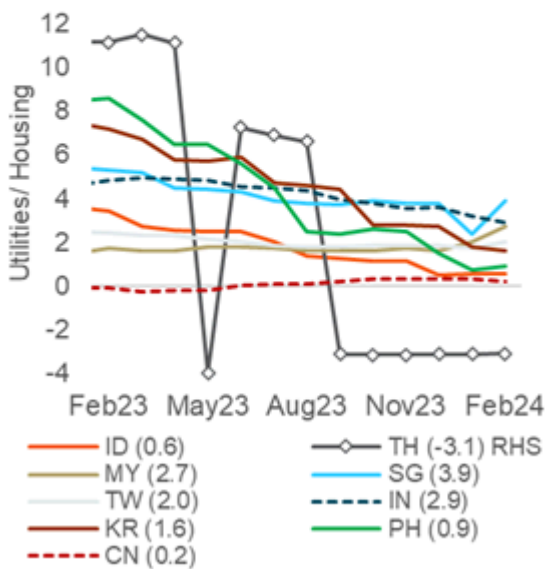
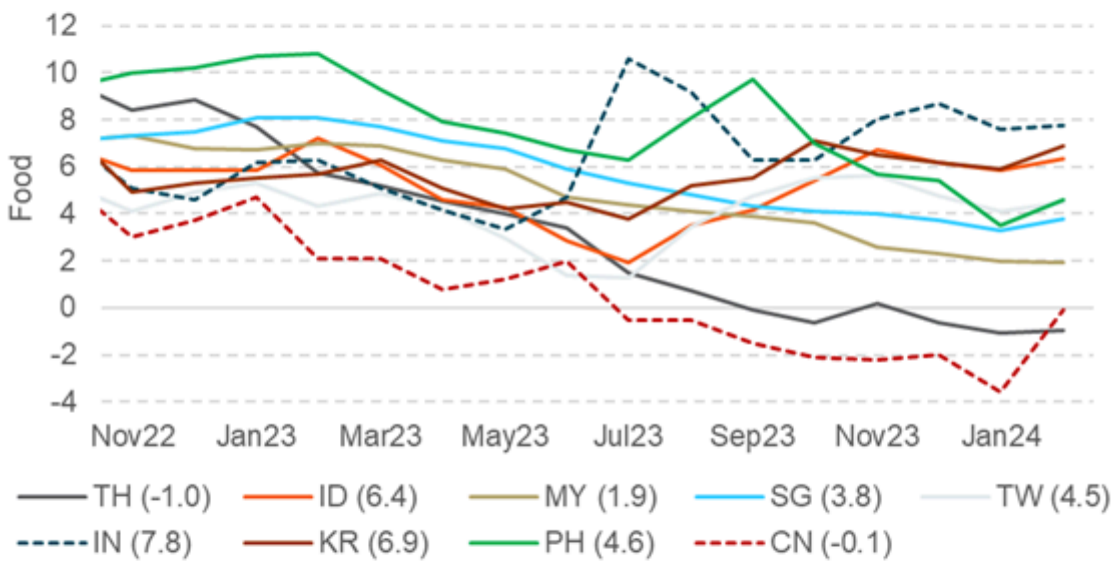
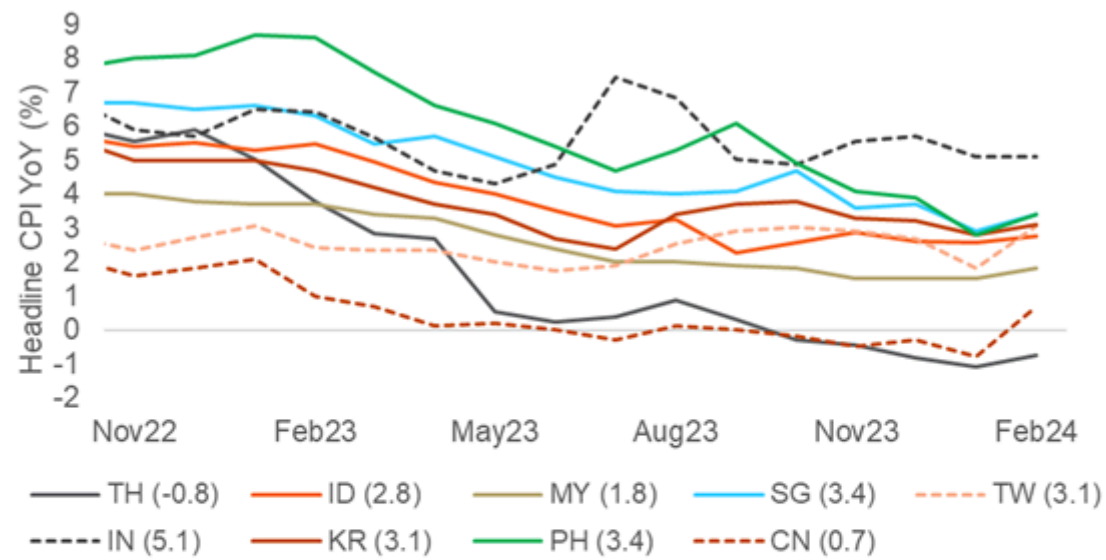
With WTI crude oil prices having recovered from around \$69 last December to above \$80 now (they're up roughly 14% year-to-date), a positive base effect is likely to feed through to

headline inflation – a reversal from the negative base effect-related disinflation pressure throughout 2023. Assuming crude prices stay around current levels in the coming months, the base effect is expected to peak in May/June before flattening out in Q3.

Also worth monitoring for potential upside impacts on inflation in the near term are idiosyncratic tariffs and subsidies. For example, [Thailand](#) is considering raising the cap on retail diesel prices and increasing the excise tax-cut on diesel fuel. There's also the implementation of a tax on low- and high-value goods, and reduced subsidies, in [Malaysia](#); Singapore raised [electricity and gas tariffs](#) in Q1; and [India](#) telcos are reportedly planning tariff hikes. Elevated food prices, for rice in particular, has been an issue for many countries in the region, notably Thailand, India, the [Philippines](#) and [Indonesia](#).

Disinflation in APAC might be largely over. What could this mean for monetary policies?

Exhibit #1: APAC Inflation And Key Subcomponents



Source: BNY Mellon Markets, Bloomberg L.P.

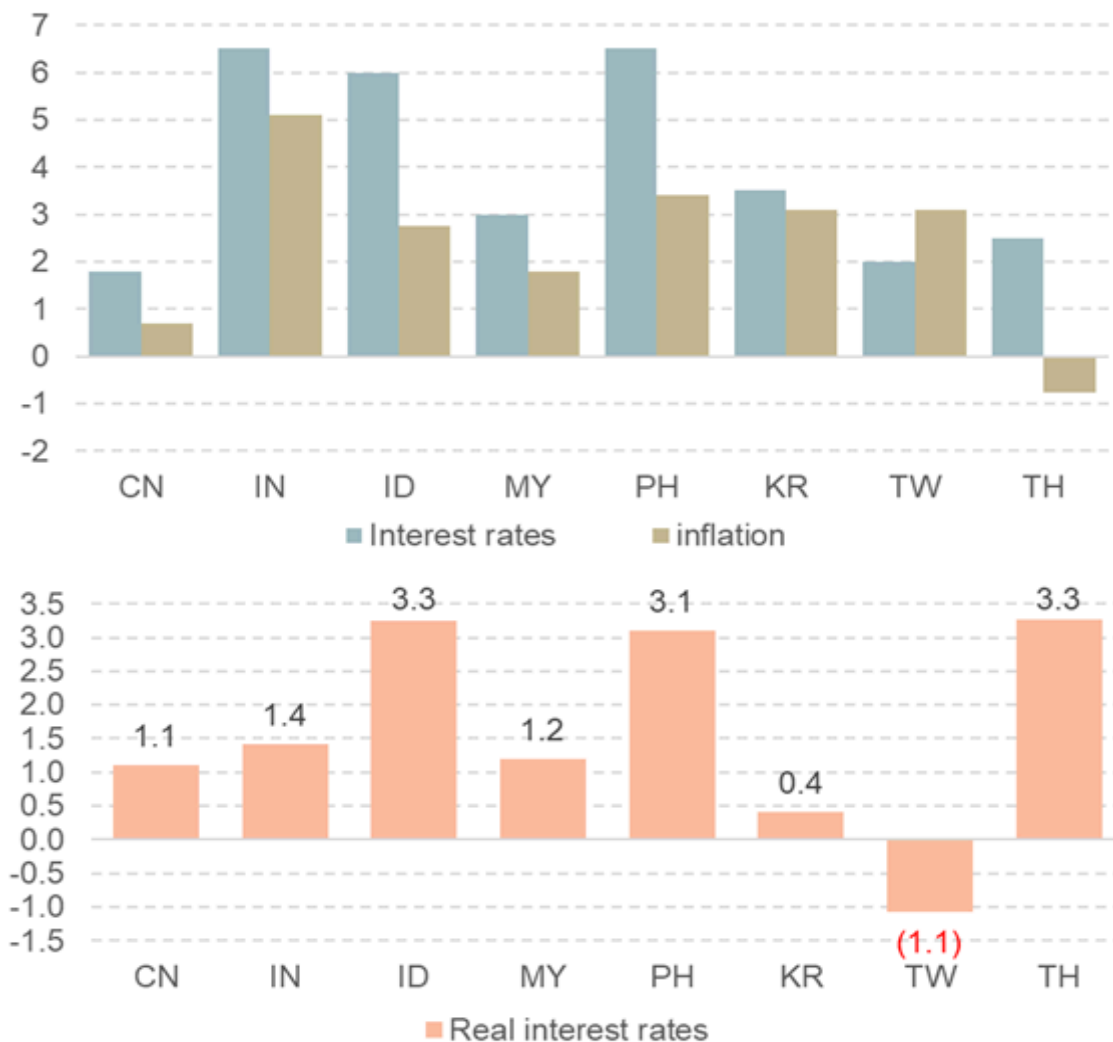
Real interest rates give us an idea of potential room for policy adjustments (exhibit #2, lower half). Even after the CBC's surprise rate hike, real interest rates in Taiwan remain negative – the only APAC country that is the case. As of this month, Indonesia, the Philippines and

Thailand have the highest positive real interest rates, at over 3%. China, India and Malaysia have real interest rates just above 1%. South Korea has the lowest positive real rates, 0.4%.

Coincidentally, officials in the Philippines and Indonesia have been most vocal about a policy reversal: the Philippines finance minister sees two rate cuts this year and Bank Indonesia see room for a cut in H2 2024. In addition, the Bank of Thailand has hinted at a potential need to recalibrate its neutral stance on monetary policy.

While a policy reversal might give a needed boost to domestic economic growth and/or consumer spending, we are more concerned about the potential impact on currency stability. A rate reduction or rising expectations of rate cuts in an environment in which a currency is weakening might lead to heightened capital outflows and be disruptive to financial stability.

Exhibit #2: APAC Interest Rates And Inflation



Source: BNY Mellon Markets, Bloomberg L.P.

Among regional currency aggregates, iFlow shows the most outflows from APAC over the past week. PHP, HKD and INR posted average weekly scored flows of -2.9, -1.4 and -1.2, respectively (to March 25). CNY flows flattened to near neutral. TWD had the most inflows.

Interesting in APAC equities was a surge in demand for Taiwan and South Korea. We think the AI-related recovery and growth in tech exports are likely to provide ongoing support for TWD and KRW. Malaysia and Philippines equities had lesser inflows. Singapore flows were around flat. The rest had moderate outflows. Sentiment towards China assets remains weak. Inflows and demand proved fleeting, giving way to renewed selling in both equities and sovereign bonds, which posted average weekly scored flows of -0.4 and -0.9, respectively.

Exhibit #3: APAC FX & Equity Flows



Source: BNY Mellon Markets, Bloomberg L.P.

Disclaimer & Disclosures

Please direct questions or comments to: iFlow@BNYMellon.com



Wee Khoon Chong
APAC MARKET STRATEGIST

CONTACT BOB



bnymellon.com

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may be used as a generic term to reference the corporation as a whole and/or its various subsidiaries generally. This material and any products and services may be issued or provided under various brand names in various countries by duly authorized and regulated subsidiaries, affiliates, and joint ventures of BNY Mellon, which may include any of the following. The Bank of New York Mellon, at 225 Liberty St, NY, NY USA, 10286, a banking corporation organized pursuant to the laws of the State of New York, and operating in England through its branch at One Canada Square, London E14 5AL, UK, registered in England and Wales with numbers FC005522 and BR000818. The Bank of New York Mellon is supervised and regulated by the New York State Department of Financial Services and the US Federal Reserve and authorized by the Prudential Regulation Authority. The Bank of New York Mellon, London Branch is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV, a Belgian public limited liability company, with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, authorized and regulated as a significant credit institution by the European Central Bank (ECB), under the prudential supervision of the National Bank of Belgium (NBB) and under the supervision of the Belgian Financial Services and Markets Authority (FSMA) for conduct of business rules, and a subsidiary of The Bank of New York Mellon. The Bank of New York Mellon SA/NV operates in England through its branch at 160 Queen Victoria Street, London EC4V 4LA, UK, registered in England and Wales with numbers FC029379 and BR014361. The Bank of New York Mellon SA/NV (London Branch) is authorized by the ECB and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV operating in Ireland through its branch at 4th Floor Hanover Building, Windmill Lane, Dublin 2, Ireland trading as The Bank of New York Mellon SA/NV, Dublin Branch, is authorised by the ECB and is registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E. The Bank of New York Mellon, Singapore Branch, subject to regulation by the Monetary Authority of Singapore. The Bank of New York Mellon, Hong Kong Branch, subject to regulation by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong. If this material is distributed in Japan, it is distributed by The Bank of New York Mellon Securities Company Japan Ltd, as intermediary for The Bank of New York Mellon. If this material is distributed in, or from, the Dubai International Financial Centre ("DIFC"), it is communicated by The Bank of New York Mellon, DIFC Branch, regulated by the DFSA and located at DIFC, The Exchange Building 5 North, Level 6, Room 601, P.O. Box 506723, Dubai, UAE, on behalf of The Bank of New York Mellon, which is a wholly-owned subsidiary of The Bank of New York Mellon Corporation. This material is intended for Professional Clients only and no other person should act upon it. Not all products and services are offered in all countries.

The information contained in this material is intended for use by wholesale/professional clients or the equivalent only and is not intended for use by retail clients. If distributed in the UK, this material is a financial promotion.

This material, which may be considered advertising, is for general information purposes only and is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter. This material does not constitute a recommendation by BNY Mellon of any kind. Use of our products and services is subject to various regulations and regulatory oversight. You should discuss this material with appropriate advisors in the context of your circumstances before acting in any manner on this material or agreeing to use any of the referenced products or services and make your own independent assessment (based on such advice) as to whether the referenced products or services are appropriate or suitable for you. This material may not be comprehensive or up to date and there is no undertaking as to the accuracy, timeliness, completeness or fitness for a particular purpose of information given. BNY Mellon will not be responsible for updating any information contained within this material and opinions and information contained herein are subject to change without notice. BNY Mellon assumes no direct or consequential liability for any errors in or reliance upon this material.

This material may not be distributed or used for the purpose of providing any referenced products or services or making any offers or solicitations in any jurisdiction or in any circumstances in which such products, services, offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements.

The terms of any products or services provided by BNY Mellon to a client, including without limitation any administrative, valuation, trade execution or other services shall be solely determined by the definitive agreement relating to such products or services. Any products or services provided by BNY Mellon shall not be deemed to have been provided as fiduciary or adviser except as expressly provided in such definitive agreement. BNY Mellon may enter into a foreign exchange transaction, derivative transaction or collateral arrangement as a counterparty to a client, and its rights as counterparty or secured party under the applicable transactional agreement or collateral arrangement shall take precedence over any obligation it may have as fiduciary or adviser or as service provider under any other agreement.

Pursuant to Title VII of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the applicable rules thereunder, The Bank of New York Mellon is provisionally registered as a swap dealer with the Commodity Futures Trading Commission ("CFTC") and is a swap dealer member of the National Futures Association (NFA ID 0420990).

BNY Mellon (including its broker-dealer affiliates) may have long or short positions in any currency, derivative or instrument discussed herein. BNY Mellon has included data in this material from information generally available to the public from sources believed to be reliable. Any price or other data used for illustrative purposes may not reflect actual current conditions. No representations or warranties are made, and BNY Mellon assumes no liability, as to the suitability of any products and services described herein for any particular purpose or the accuracy or completeness of any information or data contained in this material. Price and other data are subject to change at any time without notice.

Rates: neither BNY Mellon nor any other third party provider shall be liable for any errors in or delays in providing or making available the data (including rates, WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates) contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence. The WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates are provided by The World Markets Company plc ("WM") in conjunction with Reuters. WM shall not be liable for any errors in or delays in providing or making available the data contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence.

The products and services described herein may contain or include certain "forecast" statements that may reflect possible future events based on current expectations. Forecast statements are neither historical facts nor assurances of future performance. Forecast statements typically include, and are not limited to, words such as "anticipate", "believe", "estimate", "expect", "future", "intend", "likely", "may", "plan", "project", "should", "will", or other similar terminology and should NOT be relied upon as accurate indications of future performance or events. Because forecast statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. iFlow® is a registered trademark of The Bank of New York Mellon Corporation under the laws of the United States of America and other countries.

This document is intended for private circulation. Persons accessing, or reading, this material are required to inform themselves about and to observe any restrictions that apply to the distribution of this information in their jurisdiction.

Currency Administration is provided under and subject to the terms of a definitive agreement between BNY Mellon and the client. BNY Mellon exercises no investment discretion thereunder, but acts solely pursuant to the instructions in such agreement or otherwise provided by the client. Unless provided by definitive agreement, BNY Mellon is not an agent or fiduciary thereunder, and acts solely as principal in connection with related foreign exchange transactions.

All references to dollars are in US dollars unless specified otherwise.

This material may not be reproduced or disseminated in any form without the prior written permission of BNY Mellon. Trademarks, logos and other intellectual property marks belong to their respective owners.

The Bank of New York Mellon, member FDIC.

© 2020 The Bank of New York Mellon Corporation. All rights reserved.