

20181011

ASIA CHART OF THE WEEK

Coming to terms with policy divergence

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- While the Reserve Bank of India kept rates steady over the weekend, reserve rate requirements for Chinese Banks were guided downwards. Official statements from the People's Bank of China (PBOC) indicated that the reduction was to aid reasonable credit growth and support economic development.
- The rest of Asia however, is mixed. US dollar strength, currency contagion and rising inflation have forced the hand of several Emerging Asia countries to raise interest rates to protect the value of the currency and assets. Indonesia and Philippines saw the most pronounced changes year to date. However, economies of Thailand and Malaysia seem to be comfortable with the current environment due to its relative strength in currency and domestic financial conditions.
- Keeping in mind that the Fed is on a tightening path, how Asia deals with differing policy paths of the worlds largest importer (US) and the largest exporter (China) remains to be seen as both economies command significant sway.

The bottom line

- As the world emerges from a decade of low interest rates, it will take time to adjust to a new economic environment. Expect volatility as investors grapple with unsynchronized global growth and policies on the path to the new normal.

As the US tightens, China is adopting a moderate stance. The rest of Asia are caught in the middle

Economy	Policy Instrument	Policy Rate as at 31-Dec-17	Policy Rate as at 8-Oct-18	Basis Points	Central Bank Bias
China*	Reserve Rate Requirement	17.000%	14.500%	-250	Moderate
Taiwan	Key Discount Rate**	1.375%	1.375%	0	Tight
South Korea	Base Rate	1.50%	1.500%	0	Tight
Thailand	Policy Rate	1.50%	1.500%	0	Neutral
Malaysia	Overnight Policy Rate	3.000%	3.250%	25	Neutral
India	RBI Repurchase Rate	6.000%	6.500%	50	Tight
Singapore**	3 Month Singapore Interbank Offered Rate (SIBOR) (From 1 Feb 2018)	1.125%	1.632%	51	Tight
Indonesia	BI Repurchase Rate	4.250%	5.750%	150	Tight
Philippines	Overnight Reverse Repurchase Rate	3.000%	4.500%	150	Tight
US	Fed Funds Rate	1.500%	2.250%	75	Tight

* The PBOC uses several market mechanisms to implement its policies. These include the seven day repurchase rate, the medium term lending facility, reserve rate requirement and open market operations.

** Central Bank of the Republic of China (Taiwan) as at 27 September 2018.

*** SIBOR is a reference rate based on the interest rates at which banks offer to lend unsecured funds to each other. Monetary policy decisions are taken by Monetary Authority of Singapore which manages the Singapore dollar exchange rate against a trade weighted basket of currencies of Singapore's major trading partners and competitors.

Source: Legg Mason, Bloomberg, as of 11 October 2018. Data in USD, 31 December 2017 to 8 October 2018. **Past performance is no guarantee of future results.**

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