

Asia Economic Weekly

AU and NZ: Weak China means steady rates

Hitting the brakes

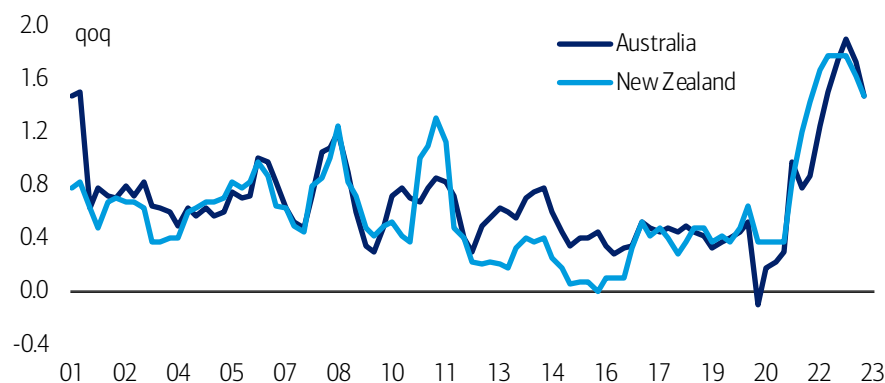
The Reserve Bank of Australia (RBA) Board meeting and the Reserve Bank of New Zealand (RBNZ) Board meeting will be held on 3 Oct and 4 Oct, respectively. Prices have been moderating in Australia and New Zealand (Exhibit 1) and could allow both the central banks to take a comfortable pause. We expect the RBA to keep the cash rate unchanged at 4.10% (see [Australia Economic Watch: RBA preview: Wake me up when Nov ends 28 September 2023](#)). This will be the first meeting with Michele Bullock as the governor, and we expect the guidance to reflect the change in leadership. We believe the RBA will retain its hawkish bias while acknowledging the weakness in consumption. Increased petrol price volatility adds to the possibility of a hike later in Nov which, however, is not our base case considering inflation has “passed its peak”.

RBNZ is expected to stay on hold

Meanwhile, the RBNZ is also expected to stay on hold at 5.50%. Incoming data in New Zealand have been reflecting weakness, particularly in the consumer sector. The 2Q GDP data were robust on the back of some temporary factors, however, the underlying data hint at a slowing economy.

Exhibit 1: Inflation Down Under

Both Australia's and New Zealand's inflation have peaked



Source: ABS, StatsNZ, Macrobond

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Slowing China looming large

Ongoing concerns around the outlook for China has been a key focus area for both the RBA and the RBNZ. Weaker global growth adds to the case for an extended pause, in our view. Despite the soft economic conditions in China, the external sector of late has made positive contributions to growth in both the countries.

- D. Shivadekar and M. Fuchila

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GEM Fixed Income Strategy & Economics
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Helen Qiao

China & Asia Economist
Merrill Lynch (Hong Kong)
helen.qiao@bofa.com

Izumi Devalier

Japan and Asia Economist
BofA Japan

Mohamed Faiz Nagutha

Asia & ASEAN Economist
Merrill Lynch (Singapore)

Takayasu Kudo

Japan and Asia Economist
BofA Japan

Miao Ouyang

China & Asia Economist
Merrill Lynch (Hong Kong)

Benson Wu

China & Korea Economist
Merrill Lynch (Hong Kong)

Aastha Gudwani

India Economist
BofA India

Xiaoqing Pi

China Economist
Merrill Lynch (Hong Kong)

Micaela Fuchila

Economist
Merrill Lynch (Australia)
micaela.fuchila@bofa.com

Kai Wei Ang

Asia & ASEAN Economist
Merrill Lynch (Singapore)

Ting Him Ho, CFA

Asia Economist
Merrill Lynch (Hong Kong)

Devika Shivadekar

Economist
Merrill Lynch (Australia)
devika.shivadekar@bofa.com

Jojo Gonzales

Research Analyst
Philippine Equity Partners

Pipat Luengnaruemitchai

Emerging Asia Economist
Kiatnakin Phatra Securities

See Team Page for List of Analysts

Australia and New Zealand in Focus

Devika Shivadekar

Merrill Lynch (Australia)

devika.shivadekar@bofa.com

Micaela Fuchila

Merrill Lynch (Australia)

micaela.fuchila@bofa.com

Economic momentum slows

We expect the two neighbouring central banks to stay on hold next week. The last few months haven't seen significant surprises in economic data that would warrant any policy action. While volatility in oil prices suggests a hawkish bias will likely be retained for longer, we believe the primary focus will be on the weakness in the consumer sector (see: [Australia Economic Watch: GDP review: Constrained households 06 September 2023](#)) and the risks emanating from a retreating momentum in China's economy.

In Australia, data-wise, monthly inflation for Aug ticked up to 5.2% yoy from 4.9% yoy in July; however, digging under the hood, it reflects more narrow-based inflation pressures. This should provide the RBA with some comfort around policy traction. In fact, underlying measures of inflation eased to 5.5% in Aug from 5.8% in July.

Meanwhile, retail spending data continue to show that household budgets remain squeezed amid cost-of-living pressures. This is also the case in New Zealand, with credit card spending showing ongoing declines despite strong population growth. See: [New Zealand Economic Watch: GDP review: Too good to be true 21 September 2023](#).

New Zealand posted a surprisingly strong GDP print in 2Q along with upward revisions to 1Q growth print. The economy expanded 0.9% sequentially, well above the RBNZ's assumptions. The support mainly came on the back of temporary factors such as increased public expenditure, as well as an anticipated boost to exports. Notably, spending held up relatively well despite leading indicators pointing to a decline. However, even an increased inward migration hasn't been enough to stall the clear deceleration in household consumption relative to 1Q. As such, we believe the RBNZ is likely to look through this upside surprise to growth and remain comfortably on hold.

China factor

Global goods demand has been slowing, and Australia and New Zealand are no different. Particularly for New Zealand, export credits continue to moderate, reflecting declines in prices of commodities such as dairy and meat. The RBNZ expects restraint in overall export demand and prices over the coming three years.

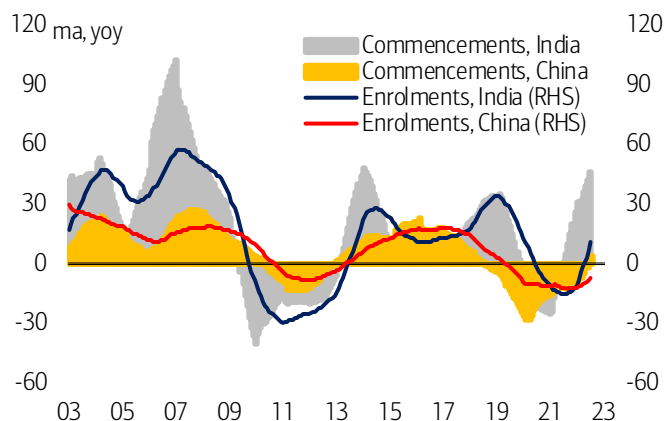
While goods exports have been falling, services exports seem to be largely getting back on track. Education-related travel services are the most important Australian and Kiwi exports to China. Education and tourism sectors are only just returning to pre-pandemic levels. Peak Covid saw extended border closures in all three countries, which significantly impacted the flow of inward migration of Chinese nationals to Aussie and Kiwi shores. Since the borders have reopened, Indian international students are the largest group studying in Australia (Exhibit 2), while Indian migrants are making up the largest share of the workforce in New Zealand followed by Chinese and Filipinos.

Although the trajectory of growth has been closely linked to external demand from China, for both Australia and New Zealand, there has been some divergence of late. Both the Aussie and the Kiwi economies have expanded a lot slower in 1H23 versus China. As much as the external sector factors into their growth profiles, the muted expansion has largely been a result of policy tightening by the RBA and the RBNZ gaining traction. The interest rate hikes not only dampened consumption but also led to a material decline in profit margins for businesses. The external sector has in fact continued to be supportive of growth, offsetting the weakness in the domestic market.

Concerns of easing demand in China impacting commodity prices and by extension AUD and NZD seem reasonable but are unlikely to materialise as increased services credit from other trade partners is likely to outweigh the slowing in goods exports.

Exhibit 2: Flow of international students to Australia

Higher commencement, as well as enrolment from India

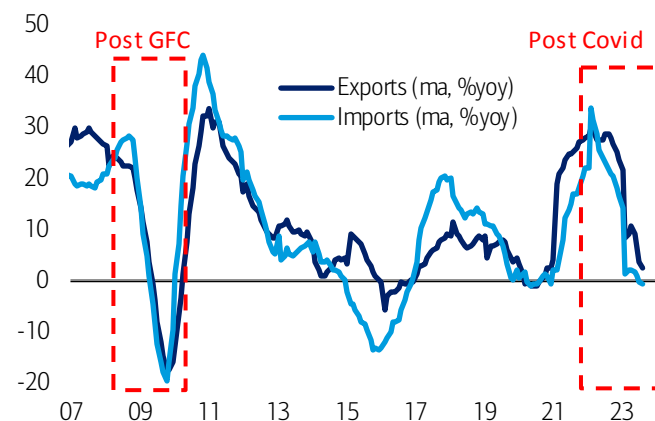


Source: Dept of Education

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Exhibit 3: China trade metrics

Significant slumps seen in trade following crises



Source: China NBS

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Property sector holds key

China's imports of commodity resources, particularly Australia-sourced, have largely been driven by the necessity to fuel infrastructure growth. China-bound trade has been dwindling as demand for goods and services has been falling sharply in line with a receding momentum in the post-pandemic recovery. As such, this downturn is not new to China, which has experienced similar moves in the external sector following global crises (Exhibit 3). The concerns today are coming off the back of a weak China property sector, a slower-than-expected fiscal response to bail it out, and deteriorating market confidence.

The recent temporary surge in house prices and sales in China was largely driven by the government's push to deliver pending projects. However, private fixed-asset investment continues to be muted and the broader construction sector remains weak. New-home starts have been on a steady decline driving the overall weakness in infrastructure and by extension demand for Australian resources. We believe the contraction in the property market is likely to persist for the rest of the year.

While the China government has delivered and pledged more stimulus to spur growth in China, we believe it is unlikely to materially shift confidence in Australia and New Zealand unless the fiscal injection is substantial and swift.

Data Preview

Exhibit 4: Week of 1 to 7 October

Data calendar for next week with BofA estimates and Bloomberg consensus

Local time	Country	Data/Event	BofAe	Cons.†	Previous	Comments
Sunday, October 1, 2023						
** 9:00	South Korea	Exports (Sep, yoy)	-7.9%	-9.3%	-8.3%	We expect Korea's export growth to marginally narrow to -7.9% yoy in Sep (from -8.3% yoy in Aug) given the slightly more favorable base offset but less working day
Monday, October 2, 2023						
*** 8:50	Japan	Tankan Large Mfg Index (3Q)	7	6	5	In the September BOJ Tankan, we expect business sentiment and FY23 capex plan to remain largely unchanged from previous June survey. While firms will likely remain constructive about current economic conditions, they will continue to have cautious outlook with the potential slowdown of both external and domestic demand. The focused FY2023 capex plan will also likely remain largely same as the previous survey given firms tend to keep their existing plan at the September survey.
*** 8:50	Japan	Tankan Large Non-Mfg Index (3Q)	25	24	23	
*** 8:50	Japan	Tankan Large Mfg Outlook (3Q)	5	6	9	
*** 8:50	Japan	Tankan Large Non-Mfg Outlook (3Q)	21	23	20	
*** 8:50	Japan	Tankan Large All Industry Capex (3Q)	13.6%	13.3%	13.4%	
*** 8:50	Japan	Tankan Small Mfg Index (3Q)		-4	-5	
*** 8:50	Japan	Tankan Small Non-Mfg Index (3Q)		12	11	
*** 8:50	Japan	Tankan Small Mfg Outlook (3Q)		-5	-1	
*** 8:50	Japan	Tankan Small Non-Mfg Outlook (3Q)		10	7	
** 11:00	Australia	Melbourne Institute Inflation (Sep, mom)		--	0.2%	
** 11:00	Indonesia	CPI (Sep, yoy)	2.2%	2.2%	3.3%	We expect headline inflation to ease to 2.2% yoy in Sep vs. 3.3% in Aug, partly reflecting base effects from last year (when petrol prices were hiked).
Tuesday, October 3, 2023						
** 11:30	Australia	Building Approvals (Aug, mom)	1.0%	--	-8.1%	We expect a sequential increase of 1% on the back of a modest rise in approvals for private dwelling projects.
*** 14:30	Australia	RBA Cash Rate Target	4.10%	--	4.10%	We expect the RBA to stay on hold in its October meeting. Guidance should reflect the change in leadership and a hawkish bias while acknowledging the weakness in the consumer sector.
Wednesday, October 4, 2023						
** 8:00	South Korea	Industrial Production (Aug, yoy)		-5.5%	-8.0%	--
*** 14:00	New Zealand	RBNZ Official Cash Rate	5.50%	--	5.50%	Incoming data has been reflecting weakness, particularly in the consumer sector. Temporary factors have kept growth strong in 1H 2023 however the economy is slowing fast. We thus think the RBNZ would stay on hold in its October meeting.
Thursday, October 5, 2023						
** 8:00	South Korea	CPI (Sep, yoy)	3.4%	3.4%	3.4%	We expect Korea's CPI inflation to stay at 3.4% yoy in September (same as Aug), largely on higher oil prices.
*** 9:00	Philippines	CPI (Sep, yoy)	5.2%	5.3%	5.3%	--
** 10:30	Thailand	CPI (Sep, yoy)		--	0.9%	--
** 11:30	Australia	Trade Balance (Aug)	A\$8749m	--	A\$8039m	We expect modest improvement in trade balance on the back of slightly higher commodity prices on average.
** 13:00	Singapore	Retail Sales Ex Auto (Aug, yoy)		--	0.4%	--
** 13:00	Singapore	Retail Sales (Aug, yoy)		--	1.1%	--
** 16:00	Taiwan	CPI (Sep, yoy)	2.4%	--	2.5%	CPI inflation likely edged down to 2.4% yoy in September from 2.52% in August, helped by a higher year-ago base and lower vegetable price inflation. That said, fuel prices saw a larger gain during the month due to rising global oil prices and core CPI inflation could remain sticky on strong services demand
Friday, October 6, 2023						
*** 10:00	India	RBI Cash Reserve Ratio	4.50%	4.50%	4.50%	Expect CRR to be unchanged
*** 10:00	India	RBI Repurchase Rate	6.50%	6.50%	6.50%	Expect policy repo rate to be unchanged and stance retained with room open for one more hike

Notes: †Bloomberg consensus; * = level of importance; A = advanced; F = final; P = preliminary; sa = seasonally adjusted; saar = seasonally adjusted annualized rate; nsa = not seasonally adjusted; wda = working-day adjusted; n.a. = not available; mom = month-on-month; qoq = quarter-on-quarter; yoy = year-on-year, Central banks * denotes previous month

Source: BofA Global Research, Bloomberg

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Exhibit 5: Government bond auction calendar

Auction calendar for the week of 01 Oct to 07 Oct

Country Event		Comments
Tuesday, 03 Oct		
Indonesia	Indonesia to sell 5, 10, 15, 20 and 30 year govt bonds	Moderate demand as positive fiscal trends, improving liquidity balances risks of higher global yields and flat yield curve.
Wednesday, 05 Oct		
Korea	Korea to sell KRW 30y KTB worth 2.3 tn	

Source: BofA Global Research, Bloomberg, DMO Indonesia, Korea MoEF

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Macro Forecasts

Exhibit 6: Key Macroeconomic Indicators

BofA estimates for important indicators

28 September, 2023

BofA Global Research Forecasts

GDP Growth (yoy)	2022 Actual	2023 F'cst	2024 F'cst
Asia	3.8	4.5	4.3
China	3.0	5.1	4.8
Hong Kong	(3.5)	4.7	3.0
India	6.8	6.3	5.5
Indonesia	5.3	5.0	5.3
Korea	2.6	1.4	2.2
Malaysia	8.7	4.0	4.4
Philippines	7.6	4.8	5.0
Singapore	3.6	1.0	2.1
Taiwan	2.5	0.9	3.2
Thailand	2.7	2.8	3.3
Vietnam	8.0	5.4	6.5
Australia	3.6	1.5	1.3
Japan	1.0	2.1	1.2

Note: FY22/23, FY23/24, FY24/25 for India

CPI inflation (yoy, avg)	2022 Actual	2023 F'cst	2024 F'cst
Asia	4.3	3.4	2.7
China	2.0	0.4	1.8
Hong Kong	1.9	2.3	2.0
India	6.7	5.4	4.5
Indonesia	4.2	3.7	2.9
Korea	5.1	3.4	2.4
Malaysia	3.4	2.8	2.8
Philippines	5.8	5.5	2.8
Singapore	6.1	5.0	3.4
Taiwan	2.9	2.2	1.5
Thailand	6.1	1.6	1.7
Vietnam	3.2	3.2	2.9
Australia	6.6	5.7	3.2
Japan	2.5	3.1	2.7

Note: FY22/23, FY23/24, FY24/25 for India

Policy rate (% eop)	Current	2023 F'cst	2024 F'cst
Asia	-	-	-
China	3.45	3.40	3.40
Hong Kong	5.28	5.25	4.60
India	6.50	6.50	5.50
Indonesia	5.75	5.75	4.75
Korea	3.50	3.50	2.50
Malaysia	3.00	3.00	3.00
Philippines	6.25	6.50	5.25
Singapore	4.06	4.27	3.42
Taiwan	1.88	1.88	1.88
Thailand	2.50	2.25	2.00
Vietnam	4.50	5.00	4.00
Australia	4.10	4.10	4.10
Japan	-0.10	-0.10	0.05

Note: FY22/23, FY23/24, FY24/25 for India. 3M interbank rate forecast for Singapore

Source: BofA Global Research, Bloomberg

BofA Global Research Forecasts

Exchange rate (vs USD, eop)	Current	Dec-23 F'cst	Dec-24 F'cst
Asia	-	-	-
China	7.31	7.20	6.70
Hong Kong	7.82	7.83	7.78
India	83.23	82.00	80.00
Indonesia	15520	15400	15000
Korea	1349	1330	1190
Malaysia	4.71	4.66	4.54
Philippines	56.94	56.50	55.50
Singapore	1.37	1.35	1.30
Taiwan	32.25	31.70	30.10
Thailand	36.53	35.00	33.00
Vietnam	24400	24000	23600
Australia	0.64	0.64	0.71
Japan	149.17	150.00	135.00

Fiscal balance (% of GDP)	2022 Actual	2023 F'cst	2024 F'cst
Asia	-	-	-
China	-2.8	-3.0	-3.0
Hong Kong	-4.9	-1.8	0.3
India	-6.4	-5.8	-5.2
Indonesia	-2.4	-1.8	-2.3
Korea	-3.0	-0.6	-1.9
Malaysia	-5.6	-5.0	-4.3
Philippines	-7.3	-6.1	-5.3
Singapore	-0.3	-0.1	0.0
Taiwan	-1.0	-2.1	-1.7
Thailand	-5.4	-3.3	-3.7
Vietnam	-4.4	-4.4	-4.0
Australia	-	-	-
Japan	-	-	-

Note: FY22/23, FY23/24, FY24/25 for India

CA balance (% of GDP)	2022 Actual	2023 F'cst	2024 F'cst
Asia	-	-	-
China	2.2	1.6	1.3
Hong Kong	10.5	6.2	6.1
India	-2.4	-2.4	-
Indonesia	1.0	-0.3	-0.7
Korea	1.8	1.7	1.8
Malaysia	2.6	1.9	1.9
Philippines	-4.8	-3.4	-3.4
Singapore	19.3	16.3	16.7
Taiwan	13.3	12.2	12.8
Thailand	-3.3	0.9	2.7
Vietnam	-0.3	0.7	2.1
Australia	3.4	2.1	1.2
Japan	2.9	0.2	0.2

Note: FY22/23, FY23/24, FY24/25 for India

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Research Analysts

Asia Economics

China, Hong Kong, Taiwan

Helen Qiao

China & Asia Economist
Merrill Lynch (Hong Kong)
+852 3508 3961
helen.qiao@bofa.com

Miao Ouyang

China & Asia Economist
Merrill Lynch (Hong Kong)
miao.ouyang@bofa.com

Benson Wu

China & Korea Economist
Merrill Lynch (Hong Kong)
benson.wu@bofa.com

Xiaoqing Pi

China Economist
Merrill Lynch (Hong Kong)
xiaoqing.pi@bofa.com

North Asia

Ting Him Ho, CFA

Asia Economist
Merrill Lynch (Hong Kong)
+852 3508 8744
tinghim.ho@bofa.com

India

Aastha Gudwani

India Economist
BofAS India
aastha.gudwani@bofa.com

The Philippines

Jojo Gonzales

Research Analyst
Philippine Equity Partners
jojo.gonzales@pep.com.ph

Thailand

Pipat Luengnaruemitchai

Emerging Asia Economist
Kiatnakin Phatra Securities
pipat.luen@kkpfg.com

Australia

Micaela Fuchila

Economist
Merrill Lynch (Australia)
micaela.fuchila@bofa.com

Devika Shivadekar

Economist
Merrill Lynch (Australia)
devika.shivadekar@bofa.com

Indonesia, Malaysia, Singapore

Mohamed Faiz Nagutha

Asia & ASEAN Economist
Merrill Lynch (Singapore)
mohamed_faiz.nagutha@bofa.com

Kai Wei Ang

Asia & ASEAN Economist
Merrill Lynch (Singapore)
kaiwei.ang@bofa.com

Japan

Izumi Devalier

Japan and Asia Economist
BofAS Japan
izumi.devalier@bofa.com

Takayasu Kudo

Japan and Asia Economist
BofAS Japan
takayasu.kudo@bofa.com

Global FX and Rates Strategy

Claudio Piron

Emerging Asia FI/FX Strategist
Merrill Lynch (Singapore)
claudio.piron@bofa.com

Adarsh Sinha

FX Strategist
Merrill Lynch (Hong Kong)
adarsh.sinha@bofa.com

Abhay Gupta

Emerging Asia FI/FX Strategist
Merrill Lynch (Singapore)
abhay.gupta2@bofa.com

Chun Him Cheung, CFA

Emerging Asia FI/FX Strategist
Merrill Lynch (Hong Kong)
chunhim.cheung@bofa.com

Janice Xue

Emerging Asia FI/FX Strategist
Merrill Lynch (Hong Kong)
janice.xue@bofa.com

Equity and Credit Strategy

Nigel Tupper

>>
Quant Strategist
Merrill Lynch (Australia)
nigel.tupper@bofa.com

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