

## Asia Economic Weekly

## Australia – RBA set to hold, dovish pivot seems unlikely

## Softer CPI increases expectations for earlier cuts

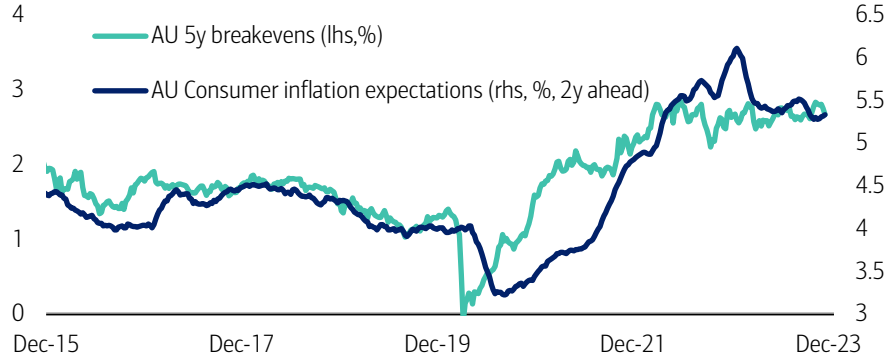
The new RBA board meets on 5-6 Feb, and we expect rates to be on hold at 4.35%. Inflation ended 2023 at 4.1%. This is lower than the RBA's assumption of 4.5% and the labor market remains in good shape. While a dovish pivot is unlikely at this meeting, we expect changes in tone to address further traction from high rates, progress towards the CPI target and confirmation that rates have peaked.

A Statement on Monetary Policy, new forecasts and a post-meeting speech will be delivered right after the decision for the first time. Changes to the RBA Board and length of the meetings should be reflected in the usual post-meeting statement.

Despite the downside surprise to CPI, non-tradable inflation rose 1.3% qoq and services inflation rose 1.0%. Indeed, inflation expectations have moved sideways. This means a dovish pivot is unlikely, in our view. Nonetheless, mark-to-market changes to the RBA forecasts suggest the mid-point of the inflation target could be reached earlier than anticipated. We currently expect the first cut in February 2025 but faster progress towards the CPI targets increases the probability of earlier cuts.

## Exhibit 1: Inflation expectations move sideways...

... despite slower growth in CPI



Source: ABS, Bloomberg, Macrobond

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## New Board, more uncertainty

While economic data suggest the RBA will be comfortably on hold as domestic inflation remains high and sticky, there is increased uncertainty about the changes in communication that emerge from the new RBA structure and press conference.

M. Fuchila

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Timestamp: 01 February 2024 03:30PM EST

02 February 2024

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## Helen Qiao

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

## Izumi Devalier

Japan and Asia Economist  
BofAS Japan

## Takayasu Kudo

Japan and Asia Economist  
BofAS Japan

## Miao Ouyang

China & Asia Economist  
Merrill Lynch (Hong Kong)

## Benson Wu

China & Korea Economist  
Merrill Lynch (Hong Kong)

## Aastha Gudwani

India Economist  
BofAS 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)

## Anna Zhou

China & Asia Economist  
Merrill Lynch (Hong Kong)

## Jojo Gonzales ^^

Research Analyst  
Philippine Equity Partners

## Pipat Luengnaruemitchai

Emerging Asia Economist  
Kiattakin Phatra Securities

## Asia FI Strategy &amp; Economics

Merrill Lynch (Hong Kong)

See Team Page for List of Analysts

# Australia in Focus

**Micaela Fuchila**

Merrill Lynch (Australia)

[micaela.fuchila@bofa.com](mailto:micaela.fuchila@bofa.com)

## Changes to forecasts: almost perfect

The RBA will release the Statement on Monetary Policy immediately after the policy decision. This document used to be released a few days after the meeting, with the main forecasts highlighted in the post-meeting Statement. Since the November update, GDP growth has printed largely in line with expectations for slower demand (see: [Australia Economic Watch: GDP review: Soft and pricey 06 December 2023](#)), unemployment rose to 3.9% (vs the RBA's 3.8% assumption) and headline CPI surprised to the downside (see: [Australia Economic Watch: CPI review: Faster progress towards target 31 January 2024](#)).

In our view, the RBA will focus on sticky domestic inflation pressures and will aim to avoid premature easing of financial conditions due to increased expectations for earlier cuts. Hence, it will mark-to-market its inflation forecasts to reflect lower-than-expected CPI in 4Q but it is unlikely to make major changes to the 2025 and the newly added 2026 forecasts. Exhibit 2 shows our forecasts.

### Exhibit 2: RBA SoMP Forecasts

BofA forecasts

Year-Ended %	Dec 2023	June 2024	Dec 2024	Jun 2025	Dec 2025	Jun 2026
<b>GDP</b>	<b>1.50</b>	<b>1.75</b>	<b>2.00</b>	<b>2.20</b>	<b>2.40</b>	<b>2.50</b>
Nov-23	1.60	1.80	2.00	2.20	2.40	
<b>Unemployment</b>	<b>3.90</b>	<b>4.00</b>	<b>4.20</b>	<b>4.30</b>	<b>4.50</b>	<b>4.50</b>
Nov-23	3.80	4.00	4.20	4.30	4.3	
<b>CPI</b>	<b>4.10</b>	<b>3.60</b>	<b>3.30</b>	<b>3.10</b>	<b>2.80</b>	<b>2.50</b>
Nov-23	4.50	3.90	3.30	3.00	2.9	
<b>Underlying CPI (Trimmed Mean)</b>	<b>4.20</b>	<b>3.75</b>	<b>3.30</b>	<b>3.00</b>	<b>2.90</b>	<b>2.75</b>
Nov-23	4.50	3.90	3.30	3.00	2.9	
<b>Wages</b>	<b>4.00</b>	<b>3.75</b>	<b>3.50</b>	<b>3.25</b>	<b>3.00</b>	
Nov-23	4.0	4	3.7	3.7	3.5	

Source: RBA, BofA

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We believe progress towards the inflation target along with signs that the labour market is less tight mean the RBA will remain on hold and watch data. We expect the next move to be a cut, but only in 2025. However, faster progress towards inflation and ongoing rises in unemployment could trigger easing in 4Q 2024. Fiscal policy has taken the front seat ahead of the May Budget and the Federal Election due early next year. See: BofA Australia Household Consumption Tracker: Tax cuts to the rescue 25 January 2024.

## Where could we be wrong

- 1. New RBA Board could behave differently than expected:** While not our base case, there is uncertainty about the new structure of the RBA Board. Communication could change in a more significant way than we expect, and the interpretation of the data could materially shift from the hawkish stance we saw from November.
- 2. Focus could shift to broader policy tools:** As we near the second tranche of Term Funding Facility (TFF) expiry, communication could suggest the Bank continues to assess its position in relation to balance sheet management. The minutes from the December meeting confirmed the Bank continues to review its approach to reducing its holdings of government bonds. While latest communication confirmed the current approach (to hold these bonds until maturity) remains appropriate, the Board "agreed to keep this under active consideration, including because of the Bank's exposure to interest rate risk and given the relatively gradual

decline in the Bank's portfolio of bonds compared with some other advanced economy central banks".

3. **Greater focus on low productivity and high domestic inflation:** Despite softer inflation and slowing economic demand, along with higher expectations for global easing, the Bank could keep its hawkish stance for longer until there is more conviction that domestic inflation is under control and productivity growth is returning to pre-pandemic levels. The latter could risk the view that rates have peaked.

## Economic data slowly turning

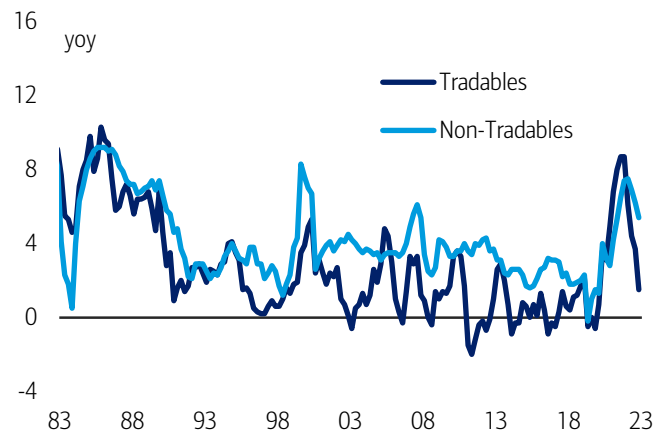
Headline inflation rose a soft 0.6% qoq while underlying CPI was up 0.8% qoq in 4Q. This means that annual inflation has eased to 4.1% and 4.2%, respectively. Despite the downside surprise to CPI, non-tradable inflation rose 1.3% qoq and services inflation rose 1.0%. This means a dovish RBA pivot is unlikely.

While driven by goods and tradables, this is the smallest quarterly rise since March 2021. Most components recorded increases that were offset by declines in furnishing, transport, and education components. The most significant price rises this quarter were (seasonal) tobacco, new dwellings, domestic holiday travel and accommodation, and medical and hospital services.

These outcomes are below consensus, the RBA's 4.5% yoy assumption and our 4.4% yoy. Core inflation (trimmed-mean) was up 0.8% and 4.2% yoy while the weighted median measure was up 0.9% in the quarter, 4.4% yoy, as we had expected. Notably, domestic inflation was sticky with non-tradables up 1.3% qoq and services up 1%. The RBA is likely to focus on the latter.

### Exhibit 3: Non-tradables remain sticky

At 5.4% yoy

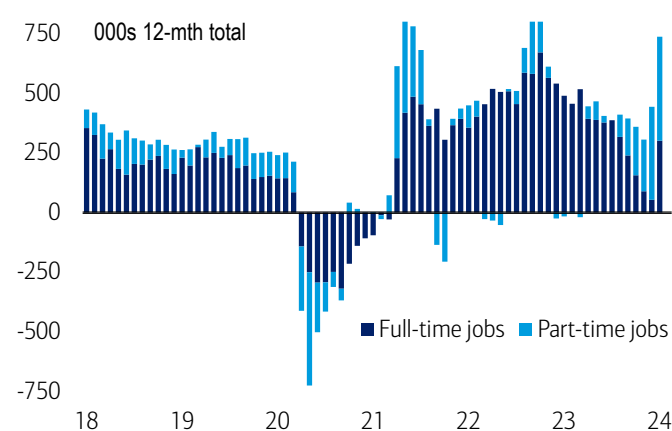


Source: ABS, Macrobond

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### Exhibit 4: Employment growth is slowing

Particularly full-time work



Source: ABS

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Nonetheless, this is the fifth consecutive quarter of lower annual inflation for goods, down from the peak of 9.6% in the September 2022 quarter. Annual services inflation eased for the second consecutive quarter, down from the peak of 6.3% in the June 2023 quarter.

While the unemployment rate ended 2023 at a multi-decade low of 3.9% in December, employment growth has slowed, particularly for full-time jobs (Exhibit 4). Looking over

the past 12 months, seasonally adjusted employment increased by an average of 32,000 people per month, showing reasonably strong underlying growth during 2023.

The RBA aims to preserve job gains while addressing inflation pressures, so these outcomes are good news, considering the strong rise in population growth that has boosted labour participation to a record high.

The RBA Governor Michele Bullock will deliver parliamentary testimony on 9 February, just after the Board Meeting.

## Data Preview

### Exhibit 5: Week of 4 to 10 February

Data calendar for next week with BofA estimates and Bloomberg consensus

Local time	Country	Data/Event	BofAe	Cons.†	Previous	Comments
Monday, February 5, 2024						
** 11:00	Australia	Melbourne Institute Inflation (Jan, mom)		--	1.0%	--
** 11:30	Australia	Trade Balance (Dec)		--	A\$11437m	--
** 10:30	Thailand	CPI (Jan, yoy)		-0.8%	-0.8%	--
*** 11:00	Indonesia	GDP (4Q, yoy)		5.0%	4.9%	--
** 13:00	Singapore	Retail Sales Ex Auto (Dec, yoy)		--	1.4%	--
** 13:00	Singapore	Retail Sales (Dec, yoy)		--	2.5%	--
Tuesday, February 6, 2024						
** 11:30	Australia	Retail Sales Ex Inflation (4Q, qoq)		0.2%	0.2%	--
*** 9:00	Philippines	CPI (Jan, yoy)		3.4%	3.9%	--
*** 14:30	Australia	RBA Cash Rate Target		4.4%	4.35%	--
** 16:00	Taiwan	CPI (Jan, yoy)	4.3%	--	2.7%	CPI inflation likely moderated to 2.3% yoy in Jan from 2.7% in Dec, helped by a high base due to the different timing of the Lunar New Year holiday (Feb 2024, vs. Jan 2023), as well as a sequential decline in vegetable & fuel prices.
Wednesday, February 7, 2024						
*** 10:45	New Zealand	Participation Rate (4Q)	72.0%	72.0%	72.0%	Participation will likely remain unchanged but elevated given strong population growth.
*** 10:45	New Zealand	Unemployment Rate (4Q)	4.3%	4.4%	3.9%	Unemployment rate 4.3% We expect softer employment growth and higher unemployment to end 2024 as aggregate demand slows.
*** 10:45	New Zealand	Employment Change (4Q, qoq)	0.1%	0.2%	-0.2%	--
** 12:00	Malaysia	Industrial Production (Dec, yoy)		--	0.6%	--
*** 14:05	Thailand	BoT Benchmark Interest Rate		2.5%	2.50%	--
** 16:00	Taiwan	Exports (Jan, yoy)	16.0%	--	11.8%	We expect export growth to climb higher to 16.0% yoy in Jan from 11.8% in Dec, helped by a low year ago base due to the different timing of the Lunar New Year holiday (Feb 2024, vs. Jan 2023) and continued support from AI-related demand.
Thursday, February 8, 2024						
** 9:30	China	CPI (Jan, yoy)		-0.6%	-0.3%	--
*** 10:00	India	RBI Cash Reserve Ratio		4.50%	4.50%	--
*** 10:00	India	RBI Repurchase Rate		6.50%	6.50%	--
Friday, February 9 to Thursday, February 15, 2024						
**	China	New Yuan Loans CNY (Jan)		--	1170.0b	--
**	China	Aggregate Financing CNY (Jan)		--	1940.0b	--

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 6: Government bond auction calendar**  
Auction calendar for the week of 4 to 10 February

	Country	Event	Comments
Tuesday, 06 Feb			
	Philippines	Philippines to sell PHP 30bn of 5y govt bond	
Friday, 08 Feb			
	India	India to sell INR 330bn worth of 5y, 10y and 50y govt bonds	

**Source:** BofA Global Research, RBI, Bureau of Treasury Philippines

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# Macro Forecasts

## Exhibit 7: Key Macroeconomic Indicators

BofA estimates for important indicators

1 February, 2024

### BofA Global Research Forecasts

	2023	2024	2025
GDP Growth (yoy)	F'cst	F'cst	F'cst
<b>Asia</b>	<b>4.6</b>	<b>4.3</b>	<b>4.3</b>
China	5.2	4.8	4.6
Hong Kong	3.2	2.1	2.4
India	6.3	5.8	6.0
Indonesia	5.0	5.1	5.2
Korea	1.4	2.3	2.5
Malaysia	4.0	4.6	4.8
Philippines	5.6	5.4	5.5
Singapore	0.7	2.3	2.6
Taiwan	1.4	3.2	2.3
Thailand	2.8	3.7	2.7
Vietnam	5.0	6.2	6.8
Australia	1.8	1.4	2.0
Japan	1.7	0.8	1.0

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

	2023	2024	2025
CPI inflation (yoy, avg)	F'cst	F'cst	F'cst
<b>Asia</b>	<b>3.6</b>	<b>2.6</b>	<b>2.5</b>
China	0.4	0.8	1.7
Hong Kong	1.8	1.0	1.7
India	5.4	4.6	4.5
Indonesia	3.6	3.0	3.0
Korea	3.6	2.3	2.0
Malaysia	2.6	2.3	2.5
Philippines	6.0	3.3	3.1
Singapore	4.8	2.6	2.3
Taiwan	2.5	2.0	1.5
Thailand	1.6	1.7	1.0
Vietnam	3.4	3.8	4.1
Australia	5.7	3.4	2.9
Japan	3.3	2.5	1.9

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

	2023	2024	2025
Policy rate (% eop)	Actual	F'cst	F'cst
<b>Asia</b>	<b>-</b>	<b>-</b>	<b>-</b>
China	3.45	3.00	2.90
Hong Kong	5.40	4.60	3.85
India	6.50	6.25	5.50
Indonesia	6.00	5.00	4.00
Korea	3.50	2.75	2.50
Malaysia	3.00	3.00	3.00
Philippines	6.50	5.50	4.50
Singapore	4.06	-	-
Taiwan	1.88	1.88	1.88
Thailand	2.50	2.50	2.00
Vietnam	4.50	4.50	5.00
Australia	4.35	4.35	3.50
Japan	-0.10	0.25	0.50

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

Source: BofA Global Research, Bloomberg

### BofA Global Research Forecasts

	Current	Dec-24	Dec-25
Exchange rate (vs USD, eop)		F'cst	F'cst
<b>Asia</b>	<b>-</b>	<b>-</b>	<b>-</b>
China	7.18	6.90	6.70
Hong Kong	7.82	7.78	7.75
India	83.00	82.00	81.00
Indonesia	15774	15200	15000
Korea	1332	1230	1150
Malaysia	4.73	4.50	4.10
Philippines	56.16	55.00	53.00
Singapore	1.34	1.26	1.22
Taiwan	31.36	30.45	29.50
Thailand	35.55	34.00	32.00
Vietnam	24402	24800	24500
Australia	0.65	0.71	0.71
Japan	146.87	142.00	136.00

	2023	2024	2025
Fiscal balance (% of GDP)	F'cst	F'cst	F'cst
<b>Asia</b>	<b>-</b>	<b>-</b>	<b>-</b>
China	-3.8	-3.5	-3.3
Hong Kong	-3.5	-1.5	1.2
India	-5.9	-5.9	-5.3
Indonesia	-1.7	-2.3	-2.6
Korea	-0.6	-1.9	-0.9
Malaysia	-5.0	-4.3	-3.5
Philippines	-6.1	-5.3	-4.8
Singapore	0.4	-0.5	-0.5
Taiwan	-2.1	-2.0	-2.1
Thailand	-3.7	-5.7	-4.3
Vietnam	-4.0	-3.6	-3.5
Australia	-	-	-
Japan	-	-	-

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

	2023	2024	2025
CA balance (% of GDP)	F'cst	F'cst	F'cst
<b>Asia</b>	<b>-</b>	<b>-</b>	<b>-</b>
China	1.6	1.3	1.5
Hong Kong	5.2	4.0	4.4
India	-	-	-
Indonesia	0.0	-0.4	-0.5
Korea	1.7	2.1	1.9
Malaysia	1.6	1.9	2.1
Philippines	-3.4	-3.4	-3.6
Singapore	17.6	16.5	16.0
Taiwan	12.6	13.5	13.4
Thailand	1.5	2.1	3.8
Vietnam	3.6	3.8	3.9
Australia	2.1	1.5	1.1
Japan	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](mailto:helen.qiao@bofa.com)

#### Miao Ouyang

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

#### Benson Wu

China & Korea Economist  
Merrill Lynch (Hong Kong)  
[benenson.wu@bofa.com](mailto:benenson.wu@bofa.com)

#### Xiaoqing Pi

China Economist  
Merrill Lynch (Hong Kong)  
[xiaoqing.pi@bofa.com](mailto:xiaoqing.pi@bofa.com)

#### Anna Zhou

China & Asia Economist  
Merrill Lynch (Hong Kong)  
[anna.zhou@bofa.com](mailto:anna.zhou@bofa.com)

## North Asia

### Ting Him Ho, CFA

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

## India

### Aastha Gudwani

India Economist  
BofAS India  
[aastha.gudwani@bofa.com](mailto:aastha.gudwani@bofa.com)

## The Philippines

### Jojo Gonzales ^^

Research Analyst  
Philippine Equity Partners  
[jojo.gonzales@pep.com.ph](mailto:jojo.gonzales@pep.com.ph)

## Thailand

### Pipat Luengnaruemitchai

Emerging Asia Economist  
Kiatnakin Phatra Securities  
[pipat.luen@kkpfg.com](mailto:pipat.luen@kkpfg.com)

## Australia

### Micaela Fuchila

Economist  
Merrill Lynch (Australia)  
[micaela.fuchila@bofa.com](mailto:micaela.fuchila@bofa.com)

## Indonesia, Malaysia, Singapore

### Kai Wei Ang

Asia & ASEAN Economist  
Merrill Lynch (Singapore)  
[kaiwei.ang@bofa.com](mailto:kaiwei.ang@bofa.com)

## Japan

### Izumi Devalier

Japan and Asia Economist  
BofAS Japan  
[izumi.devalier@bofa.com](mailto:izumi.devalier@bofa.com)

### Takayasu Kudo

Japan and Asia Economist  
BofAS Japan  
[takayasu.kudo@bofa.com](mailto:takayasu.kudo@bofa.com)

## Global FX and Rates Strategy

### Claudio Piron

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

### Adarsh Sinha

FX Strategist  
Merrill Lynch (Hong Kong)  
[adarsh.sinha@bofa.com](mailto:adarsh.sinha@bofa.com)

### Abhay Gupta

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

### Chun Him Cheung, CFA

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

### Janice Xue

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

## Equity and Credit Strategy

### Nigel Tupper >>

Quant Strategist  
Merrill Lynch (Australia)  
[nigel.tupper@bofa.com](mailto:nigel.tupper@bofa.com)

### Ruben Segura-Cayuela

Europe Economist  
BofA Europe (Madrid)  
[ruben.segura-cayuela@bofa.com](mailto:ruben.segura-cayuela@bofa.com)

### Aditya Bhawe

US Economist  
BofAS  
[aditya.bhave@bofa.com](mailto:aditya.bhave@bofa.com)

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