

CHART OF THE WEEK

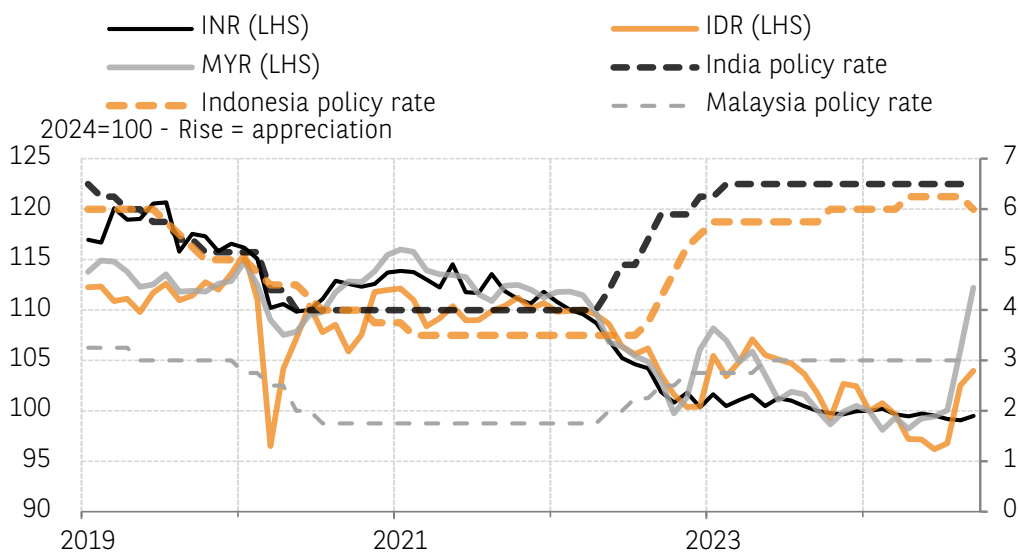


25 September 2024

ON THE PATH TO WIDESPREAD MONETARY EASING IN ASIA

Johanna Melka

Asia: monetary policy and exchange rates against the USD



Source: CEIC

Bank Indonesia unexpectedly cut its monetary policy rates on 18 September (-25 bps). This easing was largely due to the rupiah strengthening against the USD since August (+6.4%).

As a result, Bank Indonesia is the first central bank from the emerging countries in South Asia (excluding the Philippines) to cut its interest rates. This movement, which is expected to be followed by a further interest rates cut before the end of the year, is not expected to be a one-off.

The FED rate cut (-50 bps) and the subsequent appreciation of currencies against the USD will provide greater flexibility for monetary authorities, which will remain cautious nevertheless. Asian currencies are structurally volatile and highly exposed to changes in US monetary policy, whereas one of the key objectives of the central banks is keeping them stable.

An initial interest rate cut by the Reserve Bank of India is expected in December (-25 bps). However, it could be pushed back to Q1 2025, due to highly volatile food prices, which make up 46% of the household consumption basket, in particular. In addition, even though the rupee has recovered slightly against the USD since mid-September (+0.4%), it has not enjoyed quite as large a movement as other Asian currencies.

The Bank Negara Malaysia suggested that it would keep its policy rates unchanged until the end of the year, despite moderate inflation (+1.9% y/y in August). Economic growth is robust and the prospect of lower subsidies on energy prices could fuel inflation again. Nevertheless, monetary authorities could ease their monetary policy before Q1 2025 if the strong appreciation of the ringgit (+7.2% against the USD since August) continued.

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