

By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Akash Deb
akash510@unionbankofindia.bank

Shreyas Bidarkar
shreyas.bidarkar@unionbankofindia.bank

The FED's recent 50bps interest rate cut is leading to the question that other central banks will follow the suit. Central banks from G10 as well as emerging economies in the coming weeks are expected to decide on the future monetary policy stance. Generally, central banks around the world are close to adjusting their interest rate; however, divergences in the direction and pace of interest rate adjustment were also on display. The BoE and BoJ kept their policy rates unchanged and didn't provide any future guidance on their rate path. Refer our last report ([Uni-FX-August](#))

In emerging markets, the Bank of Indonesia (BI) surprised market by lowering its rate by 25bps ahead of the FOMC on moderating inflation. South African central bank also lowered rates by 25bps citing similar reasons. Closer to home, People's Bank of China cut rates and the government also announced a host of stimulus measures though we see this more of a signal with a substantial economic effect not likely. The divergence in emerging markets was seen as Brazilian central Bank (BCB) lifted the Selic rate by 25bps on inflationary concerns. The strong Swiss franc is also causing a headache for SNB which is expected to cut rates this week. Overall, the FED's decision is making central banks around the world to consider the possibility to recalibrate rates.

Going forward, any development around US Presidential elections will be key event to watch for in November as after the second debate between Kamala Harris and Donald Trump we saw the former coming out victorious yet Trump is leading in swing states.

The key FX themes for Uni-Fx are outlined below.

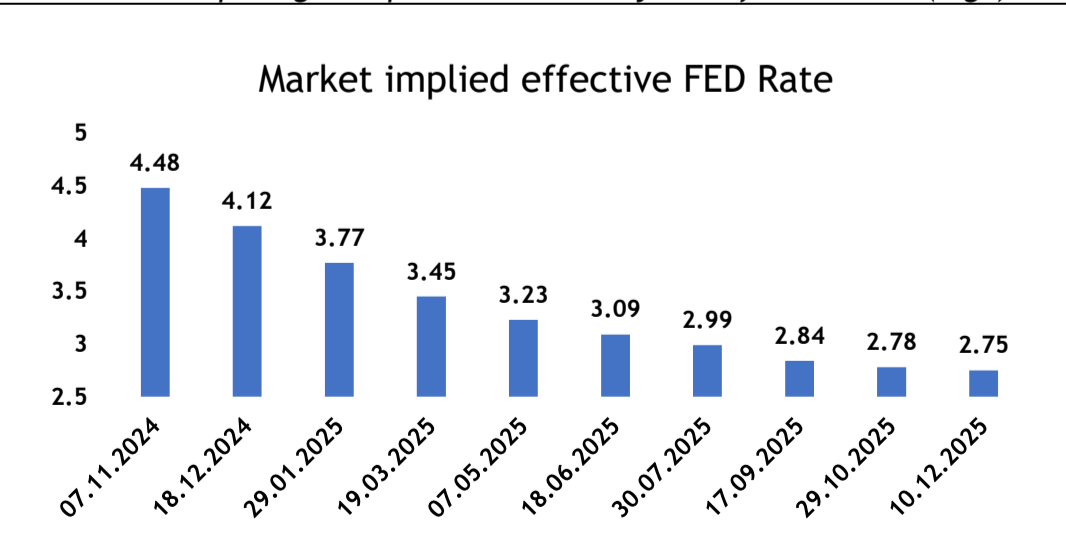
- ♣ FOMC recap; FED frontloads the easing cycle
- ♣ BoJ on hold; signals more rate hikes to come
- ♣ BoE adopts different approach towards monetary policy compared to US FED
- ♣ ECB cuts key interest rate; remains cautious along the path
- ♣ Rupee runs strong amid robust FPI inflows, lower crude oil supports
- ♣ Asian Central banks; To "pivot from pause"

FOMC recap; FED front loads the easing cycle

The FED this month delivered 50bps rate cut that the markets were anticipating despite economic indicators signalling relatively strong growth momentum. *The leadership within the FED appears to have pushed through a large cut in spite of many participants preference for small cut.* Nine out of nineteen participants projected that 75bps cut would be appropriate this year. Expectation of a larger move (25 to 50bps cut) was building over the past weeks despite economic data remaining robust. Interestingly there was no data release to move the needle between the start of blackout period and the final decision which shifted the rate cut probability from 25 to 50bps. The trigger was apparently a media article titled ([The FED's rate cut Dilemma: Start Big or Small](#)) in the Wall street Journal and Financial Time ([Federal Reserve wrestles with how aggressively to cut interest rate](#))

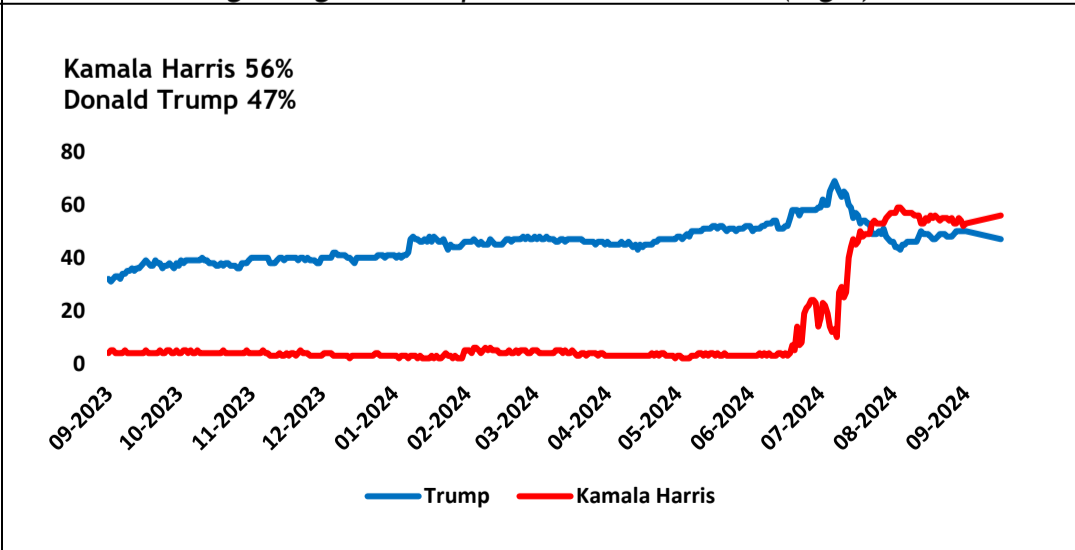
FED front load rate cut while market sentiment stays supported

Markets anticipating 225bps FED rate cut by end of 2025 (Fig1)



Source: Bloomberg, PredictIT, UBI Research

Kamala Harris gaining on Trump in Presidential race (Fig 2)



FED expects the long run neutral rate to be around 2.9%

FED puts more attention on jobs data and less on inflation

High debt levels will probably not lead to US dollar depreciation

The spread between US 10Y & 2Y has turned positive by 18bps

First Cut (date)	Last Cut (date)	Move in US10Y yield (bps)	Move in US 10Y-2Y spread (bps)
02.10.1984	10.08.1986	-550	29
19.10.1987	10.02.1988	-155	-14
05.06.1989	04.09.1992	-197	256
06.07.1995	21.01.1996	-45	15
29.08.1998	17.11.1998	31	19
03.01.2001	25.01.2003	-175	189
18.09.2007	16.12.2008	-222	111
31.07.2019	16.03.2020	-130	22
	Average	-180	78

50bps rate cut by FED; as it looks to guide monetary policy towards neutral rate

The FOMC members voted 11-1 in favour for 50bps rate reduction, with the only dissent for 25bps cut, coming from Governor Michelle Bowman, the first Governor to do so since 2005. FOMC members expect the long run neutral rate to be around 2.9% from previously 2.8% a level which has drifted upward making the FED's projection implying 100bps cut in 2025 and 50 bps in 2026. Powell also asserted that the neutral rate is way above pre-pandemic level.

We now expect FED to follow a long string of rate cuts from November'24 through mid of 2025, when the terminal rate will reach at 3.25-3.50%. The bond market is currently pricing 32-35 bps of rate cut for each of next four meetings. Although the deciding factor will likely be next two employment reports, the second of which will come in blackout period. Another key factor to watch out for is the outcome of US Presidential election.

US debt ceiling needs attention irrespective of electoral outcome

The federal government's debt to GDP ratio is projected to reach 99% in 2024 as per the latest projection from (Congress budget office) CBO the ratio is likely to increase towards 166% over the next 30 year. **Overall as the debt level and interest expenses grow, the US government will see net interest costs consume larger part of GDP is likely to weigh on economic growth.** If the US remains on its current spending path, at some point financial markets could begin to press the treasury for a higher premium that is high rates to hold US debt and may lead to long term yield increase to higher levels. The U.S. government's wide deficit and elevated debt levels restrict its ability to respond effectively to future economic downturns. Historically, during recessions, governments boost spending to stimulate growth. **However, the fiscal space for additional stimulus might be constrained by an already wide budget deficit. Which could lead to slowdown in economic recovery.**

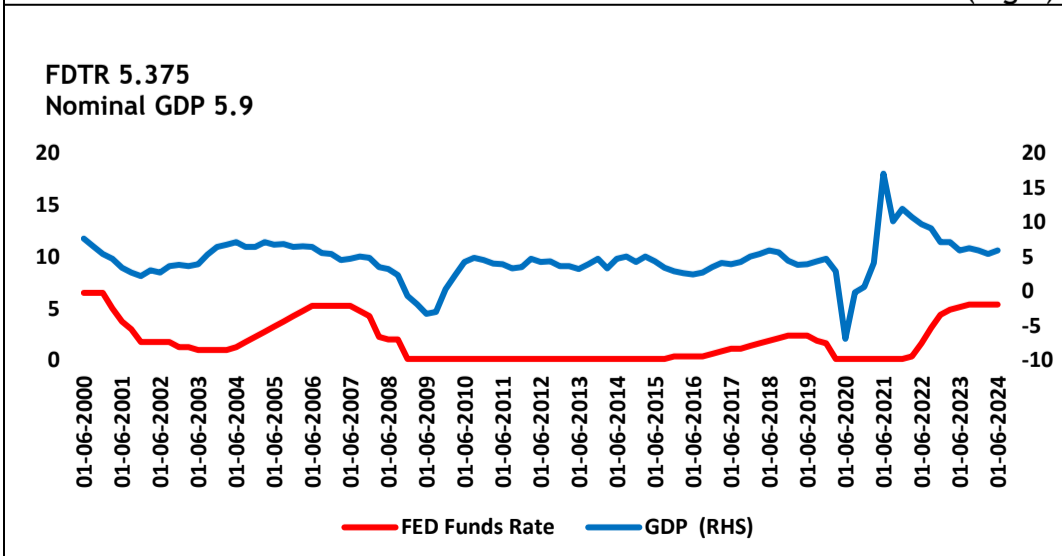
Reducing the FED's balance sheet

During the 2008 financial crises, the Fed has routinely purchased bonds to bolster market liquidity. However, starting in March 2022, the FED began reducing its bond holding. The process, "quantitative tightening," has brought the Fed's balance sheet down to \$7.2 trillion, a reduction of about \$1.7 trillion from its peak. The Fed is allowing up to \$50 billion a month in maturing Treasury's and mortgage-backed securities to roll off each month, down from the initial \$95 billion when QT started.

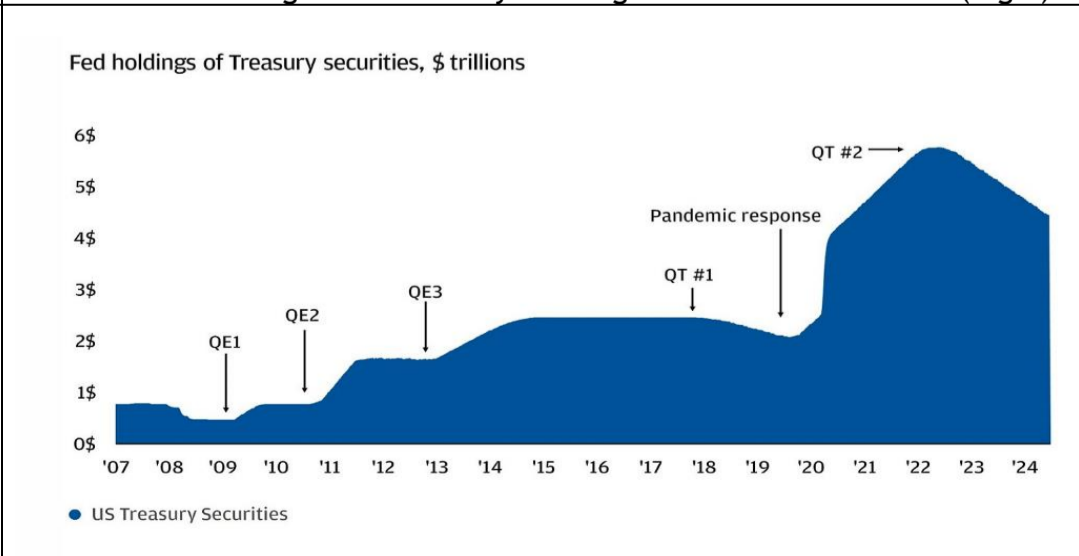
Kamala Harris gaining versus Trump in Presidential race but lags in swing states

The recent poll suggest winning probability of Kamal Harris over Trump stands at 56-47%. Although Donald Trump leads Kamala Harris in three crucial swing states, according to latest poll by Bew York Times. Trump is leading Harris in Arizona by five points in a 50%-45% spread, and he holds a similar 49%-45% lead in Georgia. Harris is closer to Trump in North Carolina however; the race sits at 49%-47% according to polls. Arizona and Georgia would be major victories for Trump after both states were won by President Biden in 2020. Arizona in particular represent major swing towards Trump.

FDTR Vs Nominal GDP (Fig 3)



The FED is reducing their Treasury Holdings (Fig 4)



Source: Bloomberg, UBI Research, JP Morgan

US dollar is likely to appreciate if Trump becomes president while Harris perceived as Dollar negative

US Dollar likely to remain volatile till outcome of US Presidential election becomes clear

With the US general election on the horizon along with FED starting its rate cut cycle investors are trying to assess the impact on dollar depending on win the Presidential race. Republican nominee Donald Trump has supported weaker US dollar in order to boost exports. On the other hand, Trump has stated that he would raise tariff on Chinese import to 60%, on EU 10% and 100% from the countries that stop using US dollar in international trade if elected. Of course, campaign rhetoric may not exactly match policy. This prospect of tariff hikes could weigh on growth prospect of economies outside the US. In response to this, other economies might depreciate their currencies to offset this effect. **Also, if implemented in true spirit, Trumps trade tariff policies may be growth impeding in short term, which are expected to be inflationary in medium term thereby providing a floor on US rates.**

Looking at the past data the US dollar saw a strong boost in the months following Trump's victory in 2016. During 2018 and 2019, when Trump administration levied tariffs on numerous goods, the US dollar strengthened due to political and economic uncertainty.

The second Trump administration may result in significant fiscal expansion through more spending which is likely to boost the US dollar. On the contrary Harris victory is expected to bring policy continuity under which the current administration has been imposing tariff hikes only on certain Chinese goods along with uncertainty on fiscal and tax policy will appear to ease and might led to mild weakness in US dollar.

JAPANESE YEN (¥ - JPY)

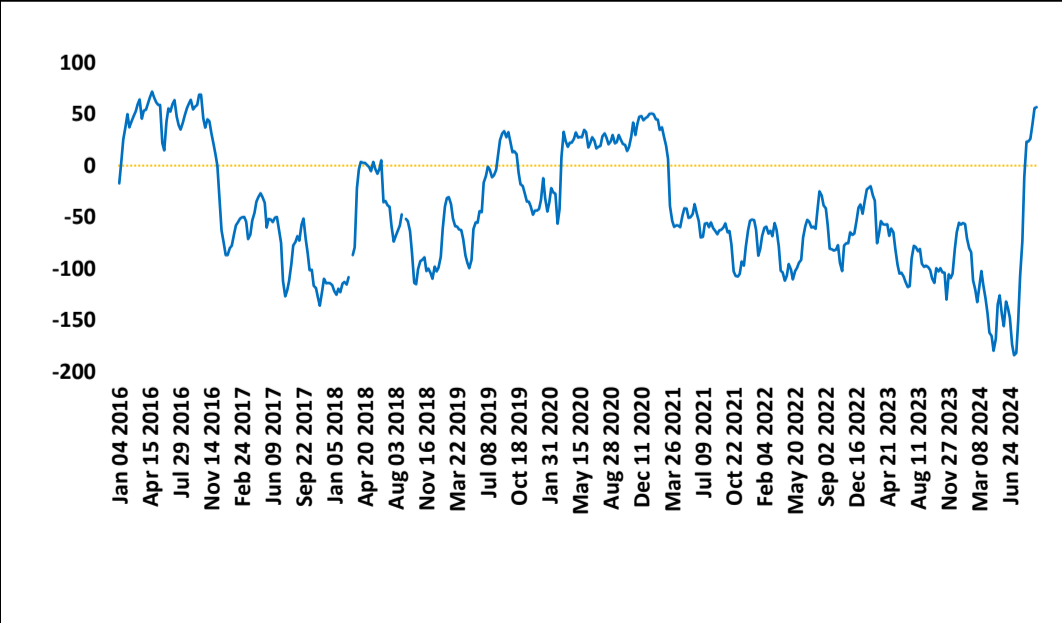
BoJ on hold; signals more rate hike to come

The BoJ kept its interest rate steady at 0.25% after it ended its negative interest rates in March 2024 and hiked rate to 0.25%. The decision was on expected lines especially now that the Japanese Yen is not facing significant depreciation pressures. The BoJ still believes that the economy will continue to grow at a rate above potential as "virtuous cycle from income to spending gradually intensifies against a backdrop of factors such as accommodative financial conditions". Governor Ueda has stated that the level of real rate in Japan is "very low" and if the economy unfolds in line with central bank's forecast then BoJ will raise rates further. He acknowledged that the upside risk to inflation has receded. **Although BoJ was non-committal on future rate cuts.**

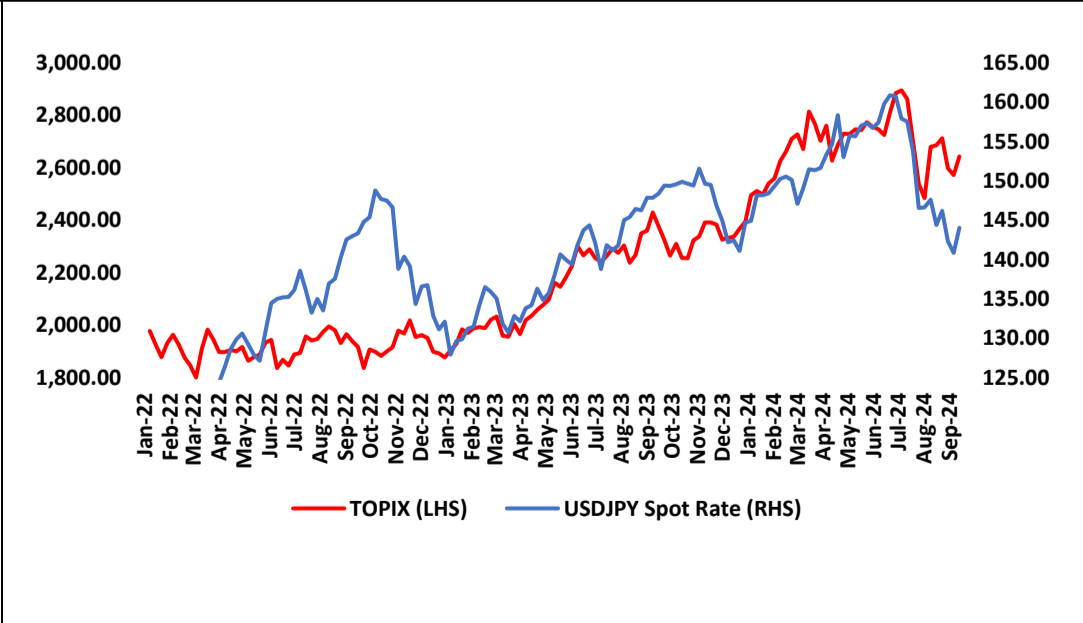
Post the turmoil in the markets after the rate hike by BoJ when Japanese equities plunged on 5th August (Black Monday), their reference to "accommodative financial conditions" is a strong indicator of continued confidence in the economic condition being consistent with future rates hike. With FED having started rate cut cycle interest rate differential between US and Japan is likely to shrink with BoJ initiated a rate hike cycle for the first time since June 2006 and this factor is likely to boost JPY. Also, the risk of unwinding of carry trade which began in August after BoJ hiked its interest rates remains on radar.

BoJ's hawkish outlook supports Yen

Shift in JPY speculative position towards net long currently at JPY56.8k (Fig 5)



JPY gains have helped ease upside inflation risk while equity markets have recovered since black Monday (Fig 6)



Source: Bloomberg, UBI Research, BoJ.org

Inflation continues to rise on back of higher service prices

JPY speculative position points towards yen appreciation in near term

BoE leaves policy rate unchanged, caution and gradualism remain prominent

August headline inflation is on uptrend

Headline inflation rose 3% on YoY basis vis-à-vis 2.8% in July and core inflation rose 2.8% on YoY basis vis-à-vis 2.7% in July which is above the central bank’s target of 2%. The pickup in August inflation was already signalled in Tokyo inflation data partly driven by utility subsidy program. The service prices continue to rise for third month in a row which supports a sustainable inflation trend along with the recent hike in wages which is expected to put upward pressure in inflation.

JAPANESE YEN (¥ - JPY): View

We expect USDJPY to trade sideways in short term but the trend is of appreciation due to diverging monetary policy of FED and BoJ. The USDJPY on 16th September made year low of 139.58 but later recovered towards 144.0 levels. The recovery was led by comments from FED Chair J Powell indicating that he is in no rush to repeat cut of 50bps as he did in September, the modest uptick in US yield has also helped US dollar recover. We think the medium trend in USDJPY is down. The recent released data by CFTC on 13th September shows speculators have increased bullish bets on JPY. While global interest rates are converging on the lower interest rate in Japan with FED started cutting rates and BoJ to hike further we think Yen offers investors some protection should US hard landing fears materializes and hit equity market. Short USD/JPY trades remains on the table as stated in our [August Uni-FX](#) the pair is likely to trade in the range of 136.50-145.50.

One of the main upside risks for USD/JPY would be if Sanae Takaichi was chosen to be the next LDP leader and Prime Minister of Japan. She believes that raising interest rates in Japan is premature and monetary easing should continue. It would become more challenging for the BoJ to continue hiking rates, and as such would encourage market participants to rebuild short JPY positions.

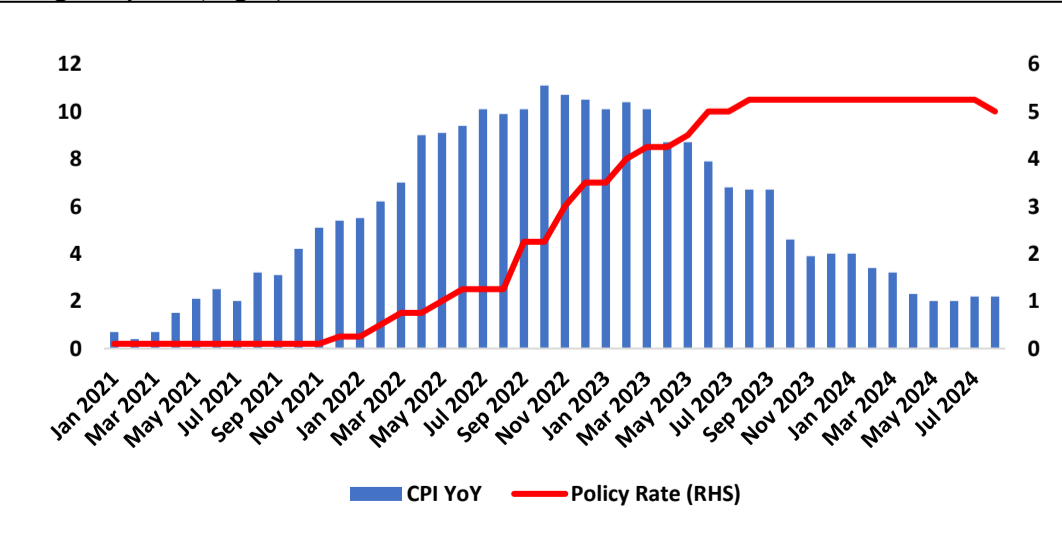
POUND (£ - GBP)

BoE adopts different approach towards monetary policy compared to US FED

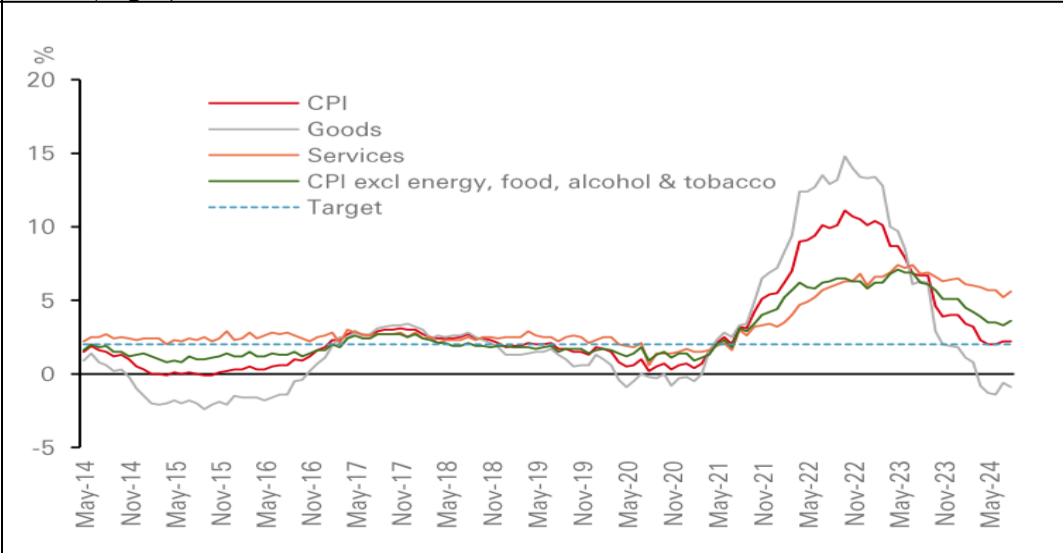
BoE started its rate cutting cycle in August ahead of FED. Meanwhile, in September the BoE did not follow the FED, and kept its policy rate unchanged at 5% and signalled any policy rate adjustment would be gradual in nature. The policymakers voted 8-1 to keep the rates unchanged with Swati Dhingra lone dissenter voting for 25bps cut. Deputy Governor Ramsden again voted for unchanged rates and remained on hawkish side. Even from statement it was clear that BoE unlike FED is in no hurry to cut the rates and will follow meeting by meeting approach. The key guidance in the policy statement stated **“Monetary policy will need to continue to remain restrictive for sufficient long until the risk to inflation returning sustainable to the 2% target in the medium term have dissipated further”**.

After this the market pricing for rate cut into year-end have been reduce somewhat by c.6 bps and now indicates 43bps cut by year end. Going forward we expect that the BoE is likely to deliver rate cut before the year end with gradualist approach. Till then we will also have the first budget from new Labor government and as per recent comments from Chancellor Reeves, the current fiscal policy is tightening and will require to hike taxes in upcoming budget. This could provide the pace for MPC to speed up the pace of rate cut cycle which may prompt a move lower in front end yields.

August Headline inflation remains steady at 2.2% above central bank target of 2% (Fig 7)



August Core CPI rose 3.6% , while CPI goods fell from negative 0.6% to 0.9% (Fig 8)



Source: Bloomberg, Mufg ,UBI Research

QT paced maintained

Interest rate remain unchanged & cautious forward guidance

Inflation is expected to fluctuate around current level

MPC member worried about inflation risk

The BoE announced that it expects the inflation to rise to 2.5% by end of 2024, a bit lower versus 2.8% in the previous estimate and also lowered its Q3 2024 GDP forecast from 0.4% to 0.3%. The current data on inflation shows headline inflation remaining steady at 2.2% slightly above BoE target of 2%. While consensual uplift was recorded in service inflation which rose to 5.6% in August vis-à-vis 5.2% in July.

QT pace remains unchanged

MPC also revealed its plan for quantitative tightening over the coming years, maintaining an overall reduction of £100 billion, with pace of active bond sales decreasing to just £13 billion.

POUND (£ - GBP): View

A relatively hawkish BoE vis-a-vis the FED is expected to continue to buoy GBPUSD gains in the near term meanwhile later in the year Labor government is expected to hike taxes in its first budget, which may prompt the BoE to cut rates at faster pace to support its economy that may weaken the GBP performance against the US dollar. While carry trades are also turning less favourable that will weigh on GBP. For GBPUSD pair 1.3400 remains strong selling zone while 1.3225 may provide some support.

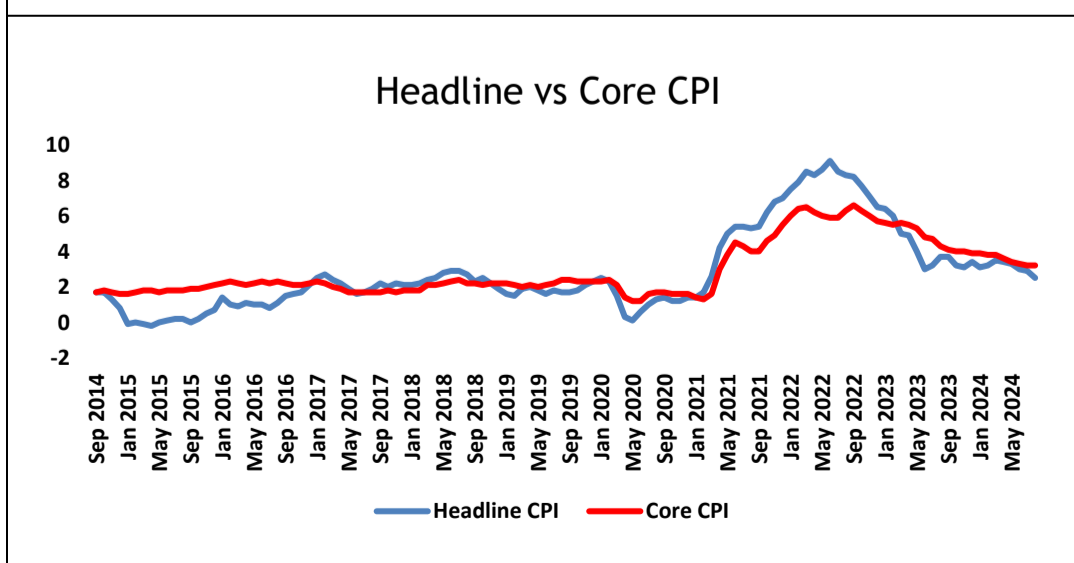
ECB cuts key interest rate; remains cautious along the path

On expected lines, the ECB governing council lowered the deposit rate from 3.75% to 3.5% and cut the main refinancing rate by 60bps in order to reduce the spread between the two rates. The ECB, reiterated that the monetary policy will remain restrictive for as long as necessary to achieve the inflation target of 2%. The ECB followed the data-dependent and meeting by meeting approach. The ECB stated:

- Domestic inflation and wages are elevated, but the cost pressures are moderating, profits are partially buffering the impact of higher wage on inflation.
- The outlook for core inflation was revised slightly higher, as service inflation remains a worry.
- Financial conditions remain restrictive, and economic activity is still subdued, reflecting weak private consumption and investment.

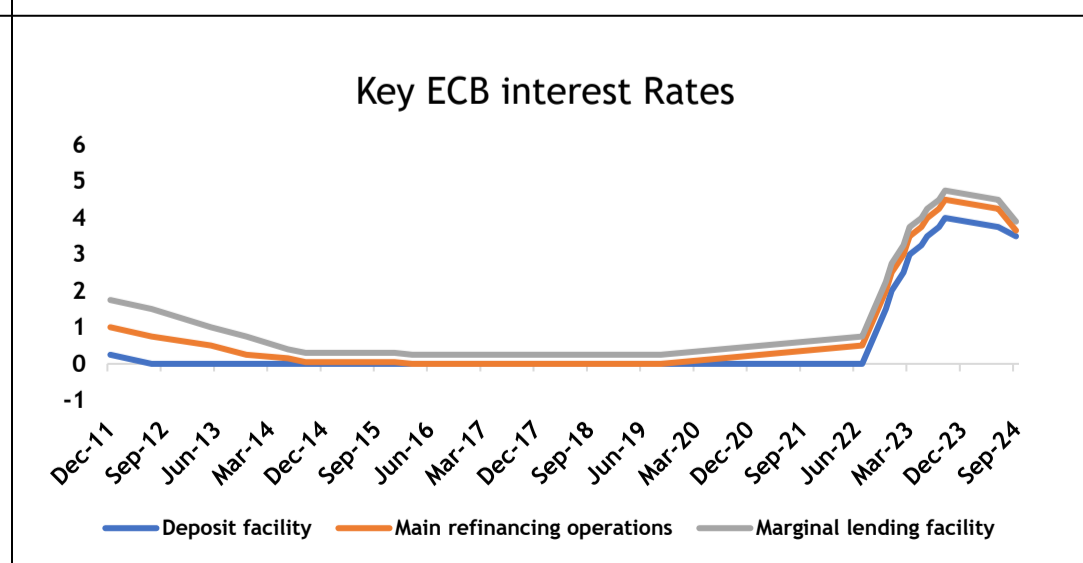
Still elevated core inflation: Headline inflation has softened to 2.2% in August vis-à-vis 2.6% a month ago and is gradually easing towards the central bank's 2% target. While the Core inflation (excluding energy and food prices) slowed only marginally to 2.8% in August from 2.9% a month ago. The ECB kept its projections for headline inflation unchanged but revised up its core inflation projections for 2024 and 2025, as services inflation has been higher than expected. ECB projected its core CPI at 2.9% for 2024 and 2.3% for 2025 a bit higher than June's staff projection. On inflation, ECB President Christine Lagarde's commented, "Our confidence in the path ahead has been increasing over the last months. Inflation is expected to fluctuate around current level for the rest of the year due to energy including due to energy-related base effects, and then expected to decline towards our target over the second half of next year."

Headline CPI lowest since FEB 2020, continues disinflation path (Fig 9)



Source: Bloomberg, UBI Research

ECB reduced its refinance rate by 60 bps (Fig 10)



The risks to economic growth are balanced

Euro economy to continue to recover

Rupee breaks the shackle and finally appreciated

Flat Growth: The GDP expanded 0.60% in Q2'24 vis-à-vis 0.50% over the previous quarter on a YoY basis. However, Real GDP grew by only 0.2% in the Q2'24, following a 0.3% expansion in Q1'24. With the German economy already in contraction, the Q3'24 is likely to be weak as well. The ECB lowered its GDP growth forecast for each year, which now see Eurozone growth at 0.8% in 2024, 1.3% in 2025 and 1.5% in 2026.

On growth, ECB President Christine Lagarde's commented, *"The risks to economic growth are balanced in the near term but remain tilted to the downside over the medium term. A weaker world economy or an escalation in trade tensions between major economies would weigh on euro area growth."*

ECB the way forward

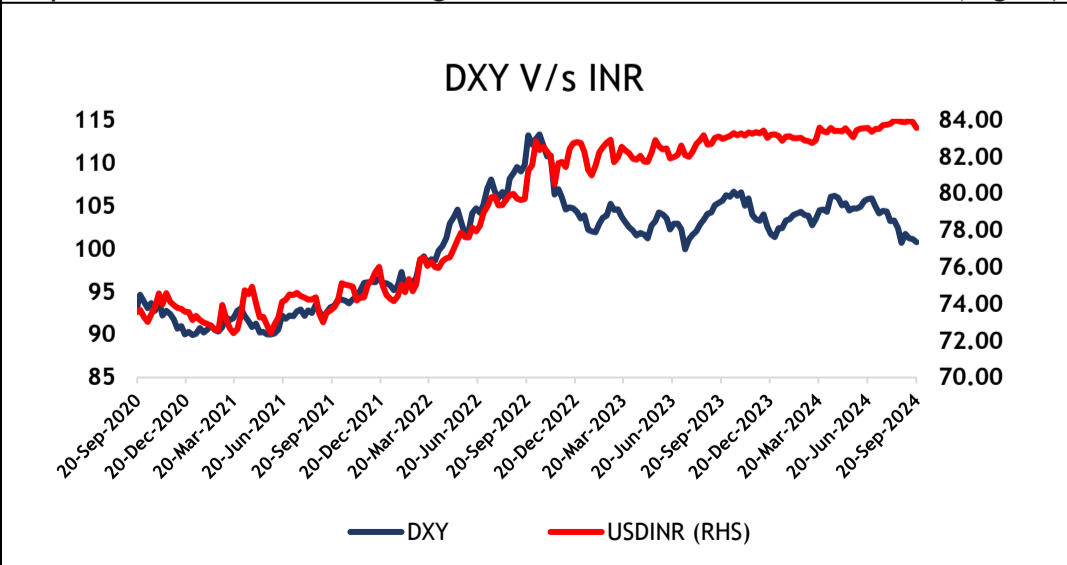
ECB in its meeting remained non-committal regarding the future outlook for the policy rates, by stating that it will continue to follow a data dependent and meeting by meeting approach to determining the appropriate level and duration of restriction on its monetary policy stance. The ECB also said that it is non-pre-committing to a particular rate path. Looking at the comments from ECB's Lagarde where she stated that there is very little time until Oct'24 policy meet. She stated, *"Forward-looking indicators signal that wage growth will moderate over the course of the year. (Recent data is) confirming the picture of gradually diminishing price pressures."* On the road to recovery she mentioned *"Stronger exports should also support growth over the coming quarters. We expect the economy to continue to recover as higher wages and improved terms of trade push up real incomes."*

We expect the ECB approach towards rate cut will remain different from that of FED, where FED is likely to cut rate consistently in its each policy meet whereas ECB may follow a more data dependent approach. Started with a 25bps cut in June, a pause in July and another 25bps cut in September, sentiments state that the bank will pause again in October policy and then cut its key policy rates by another 25bps in December. Last month till now, Euro had been quite volatile but with a positive outlook and traded from 1.0776 to highs of 1.1202 (levels last seen in Mar'22). Based on broad Dollar weakness, we feel that technically Euro should take support of 1.1035 levels and will find resistance around 1.1234 levels, breach of which will test 1.1365 levels.

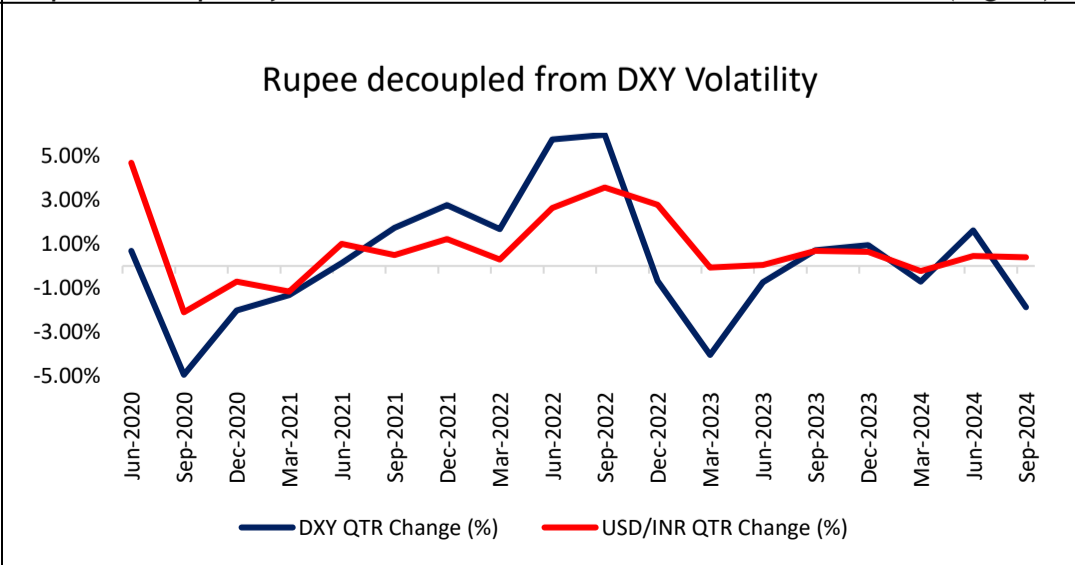
Rupee runs strong amid robust FPI inflows, lower crude oil prices support

Finally, Rupee has joined the major global currencies; broke the range bound shackle and appreciated (USD/INR:83.7050) against the dollar after hitting all-time lows (On 12th Sep'24 @ 83.99). Although the domestic currency was broadly stable in the first fortnight of Sep'24, but strengthened sharply on a gush of Dollar flows by FPIs in the equity & debt markets. Broad Dollar weakness along with fall in global crude oil prices aided the rupee. Since last few weeks, we maintained our technical stance that INR is likely to appreciate and should take support of 83.56 and will find a strong resistance around 83.99 levels, breach of which will test 84.16 levels (NDF highs). (Refer our weekly report: [FX weekly: Positive US macro data over last month help fade market worries of US recession](#))

Rupee stable and not tracking DXY movement (Fig 11)



Rupee decoupled from the recent Dollar weakness (Fig 12)



Source: Reuter, UBI research, Bloomberg

Rupee remained one of the least volatile currencies in the recent years

Robust FPI inflows supported INR

C/A deficit may be closer to 0.5% of GDP in FY25 if oil price averages at \$75/bbl in FY25 (H1: c.\$83/bbl) versus our forecast of 0.9% at \$85/bbl

The major market mover was the FOMC decision followed by BoE and BoJ policy stance. US economic data provided a hazy scenario, where the inflation prints gradually followed the target path while the labour market signalled slowing in the hiring process. Now, with inflation and labour market sustainably down, US FOMC did not want to left behind and delivered an outsized (50bps) interest rate cut to front load the rate cutting cycle. This weakened the Dollar further (DXY: 100.21) to the levels last seen in Jul'23 and all major global currencies extended winning run (INR: 83.4825, last seen in Jul'24).

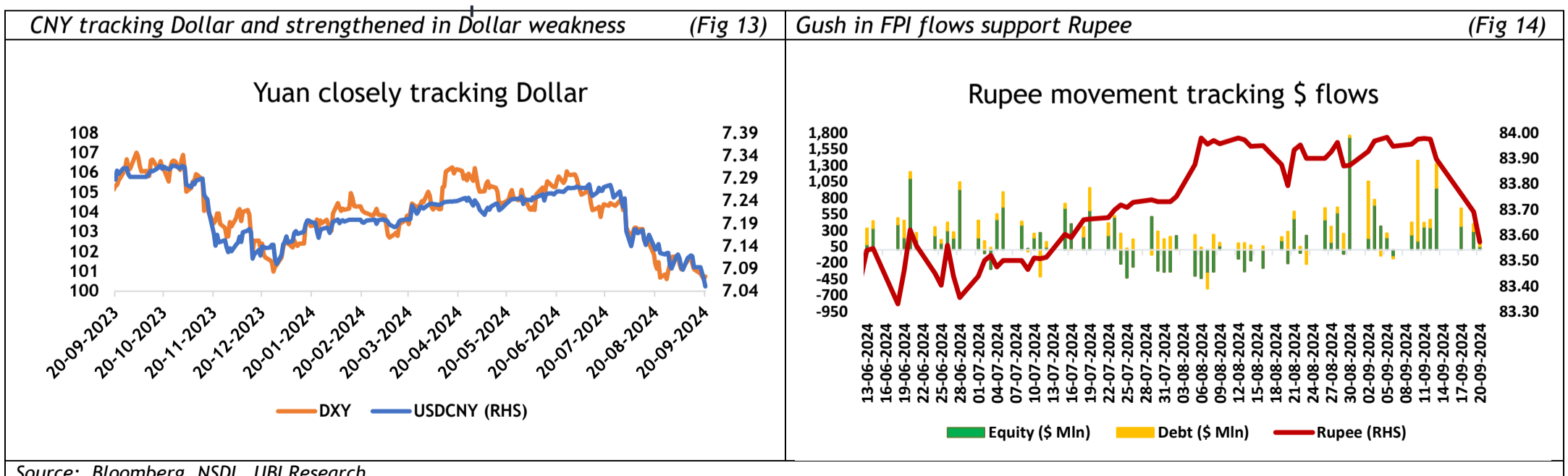
Last couple of years, Rupee was best performing as RBI was trying to limit FX losses now worst performing and despite recent appreciation remains the same

Since June'24, unlike Asian peers, Rupee was the worst performing and was hovering close to its all-time lows again but the downside (Psychological barrier of 84.00) was largely protected by continuous Dollar sales by FPIs in the domestic equity & debt market. However, it is key to note that even while emerging-market currencies came under pressure in recent weeks amid global volatility, the rupee remained one of the least volatile currencies. Supporting to the above, *RBI Governor Shaktikanta Das said that the Indian rupee's resilience is reflecting the nation's strong economic fundamentals and the central bank isn't artificially bolstering the currency.*

The domestic currency was majorly supported by the outpour in FPI flows in the equity segment (notable amount in IPOs) \$3962mln was seen in September vis-a-vis inflows of \$873mln a month ago (highest in FY25), even the debt market has seen gush of inflows (majorly in the FAR segment) of \$3050mln vis-à-vis \$2150mln from the previous month. In a recent interview to CNBC, *RBI Governor Das said that the South Asian nation is attracting a lot of foreign-exchange inflows, especially after bond index inclusion, and that's supporting the rupee.*

However, the appreciation in the local currency was likely capped amid Dollar bids from oil buying and Gold buying. The recent **Trade Data** for Aug'24 showed a sharp widening in the Trade Deficit which showed Gold deficit expanded steeply to an all-time high of \$10.69bln ahead of the festive season and import duty cut in the budget in end-July. Although we believe that this extraordinary buying is one-time in nature, will cool down slowly which had put pressure on the Rupee in the recent days. Merchandise exports contracted 9.3% to \$34.7 billion in August on a YoY basis.

Additionally, India being a major oil importing country will be simulated to any change in global crude oil prices as it will impact directly the country's trade dynamics. Despite middle east tensions and Libya output cut, rising concerns over weak demand growth in China has led oil prices to plunge lows since Dec'23 (Highs of \$77.63/bbl to Lows of \$68.68/bbl, Current level: \$74.72/bbl), domestic oil companies rushed to purchase crude at lower levels had put pressure on the Rupee.



Source: Bloomberg, NSDL, UBI Research

Rupee regime: Stabilized Arrangement

Record high FX reserves to solidify economy

Interest Rate Differential to attract inflows in the near future

Sensitivity of C/A deficit to oil prices stays high with every \$10/b move in oil price affecting annual C/A balance by close to \$15 bn. Hence if average oil prices settle lower at c.\$75/b, C/A deficit may be closer to 0.5% of GDP in FY25.

In a recent report, the International Monetary Fund has reclassified India's "de facto" exchange rate regime to "stabilized arrangement" from "floating" for December 2022 to October 2023, with the central bank pushing back against the move. However, The RBI "strongly disagreed" with that assessment and the Governor commented: "We want to prevent excessive volatility within a short period. We want a kind of orderly depreciation or an orderly appreciation. We do intervene in the market with this approach."

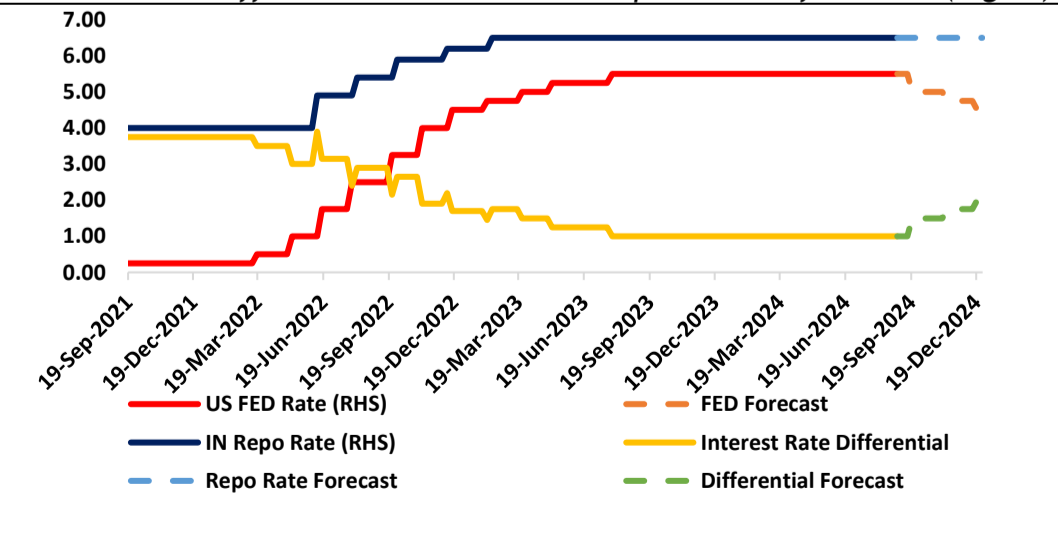
Our analysis shows that in this month, the record high forex reserves kitty has continued to inch further up by \$5.47bln to \$689.46bln (\$1.87bln rise was adjusted after valuation effects), signalling that the Central Bank has continued to beef up its accumulation strategy to buffer its reserves to avoid any unforeseen future volatility in the domestic currency. RBI Governor commented that India is the 5th largest economy with aspirations to become the 3rd largest, don't have any specific targets about the FX reserves but every opportunity of building such will be utilized because that gives lot of solidity to the economy.

Our analysis shows a close correlation between FX reserves (adjusted for valuation effects) and BoP. FYTD25 BoP is tracking at c.USD 22bln (Q1: 6.37bln & Q2: 16.41bln) looking at reserves data.

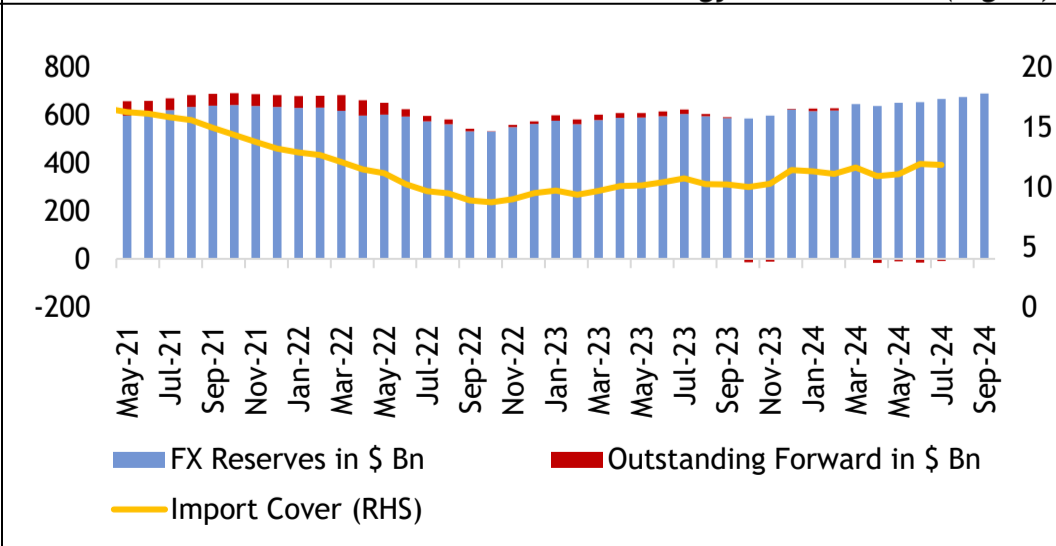
In the coming months, the interest rate differential between US & India is likely to rise as the FED front loaded its rate cutting with a jumbo cut(50bps) from this September FOMC. While RBI will continue to stay on its "Withdrawal of accommodation" policy stance due to higher food inflation. This in turn will open doors for more FPI flows leading support to the domestic currency; which is already reflected in the RBI data on ECB flows, where Indian firms (including NBFCs) have filed proposals in July'24 with the RBI to raise \$3.58bln through External Capital Borrowings (ECB) via automatic route. Even this figure shows only a marginal rise YoY basis, but going forward we expect this to rise this year.

Last month till date, INR traded range bound with an appreciating bias from 83.72 to 83.99 (All time low). We expect the domestic currency hovering at current levels (83.5725/\$) with a positive bias, supported by FPI dollar inflows and broad Dollar weakness. Based on the current global scenario, we shift our technical stance that INR should take support of 83.27 and will find resistance around 83.77 followed by the crucial level of 83.99 (All-time highs), breach of which will test 84.16 levels (NDF highs).

Interest Rate Differential to widen and help attract inflows (Fig 15)



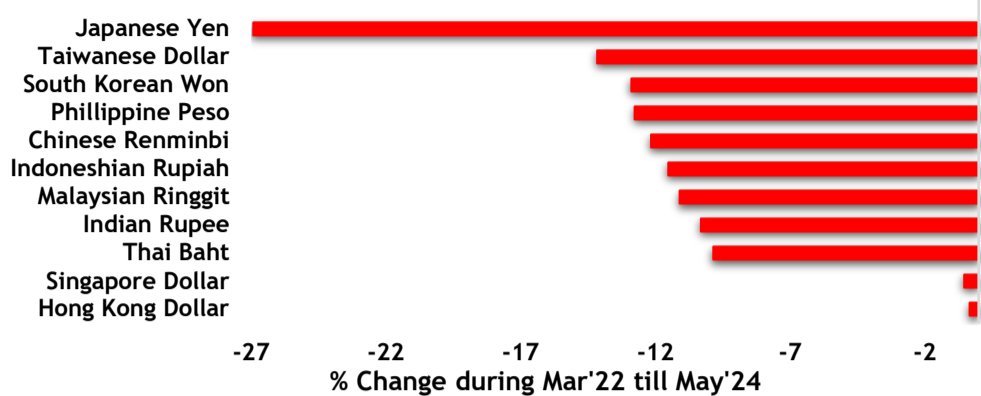
RBI continues with reserve accumulation strategy (Fig 16)



Source: Bloomberg, UBI Research

Rupee was one of the strongest currency pair amongst Asian peers during Mar'22 - May'24 (Fig 17)

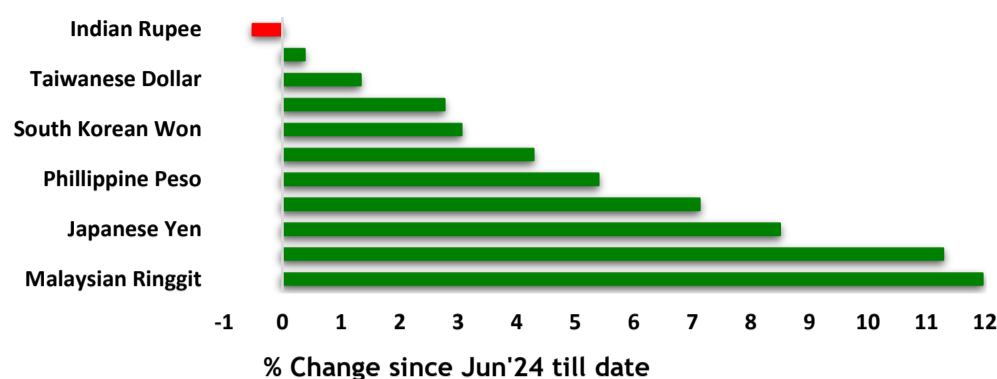
INR performing best among Asian peers



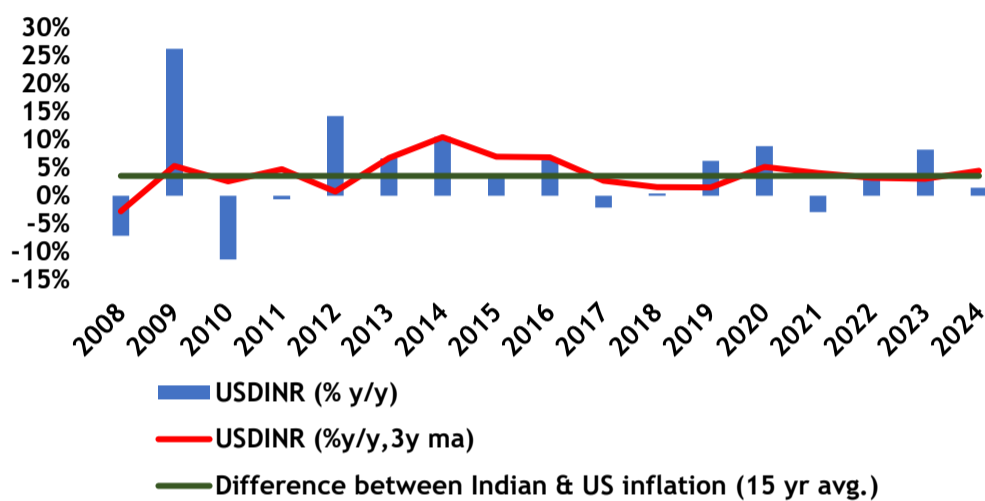
Source: Bloomberg, UBI Research

Since Jun'24, Rupee has become one of the weakest currency pairs amongst Asian peers (Fig 18)

INR performing worst among Asian peers

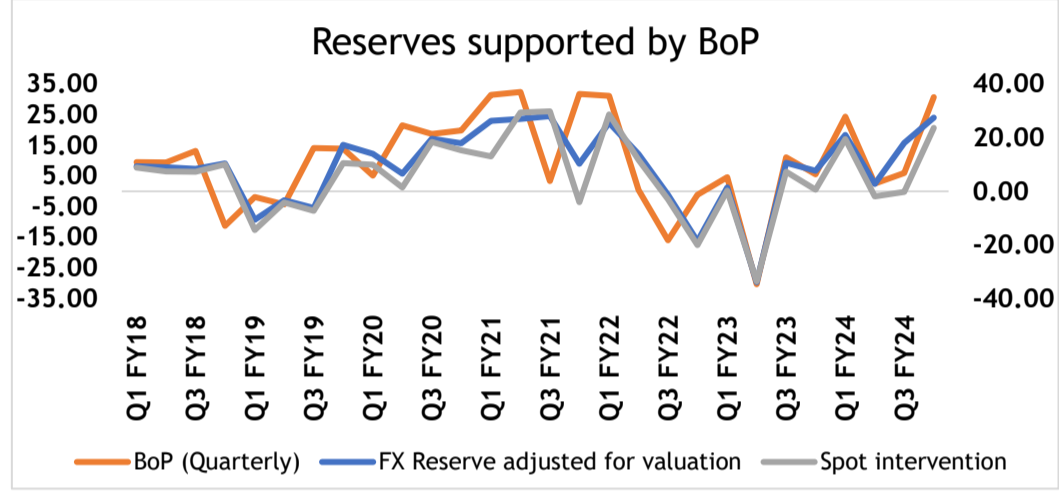


Depreciating pressure still persists on Rupee (Fig 19)



Source: Bloomberg, UBI Research

Reserves shows the positive flows in BoP (Fig 20)



Asian Central banks; To Pivot from pause

While the FED started its rate cut cycle in September, lower interest rate along with dollar depreciation is likely to create policy space for Asian central banks to ease policy more aggressively or initiating easing cycle of their own. Policymakers at the Asian central banks have largely been absent from the easing trend that has taken place in other G10 nation. Communication from policymaker often cited upside risks to inflation outlook due to potential commodity price shock and pass through to consumer prices via currency depreciation. Bank of Indonesia have started its rate cut cycle we expect other central banks to follow the same (exception of BoJ which is expected to hike its policy rates)

Bank of Indonesia in a surprise move cuts its policy rate by 25bps to 6% this month. Conditions have been in place for BI to lower its policy rates as CPI was at 2.1% YoY in August with BI's 1.5%-3% target. The IDR has also appreciated from mid-2024 low of 16,470 per US dollar, erasing year to date losses and keeping imported inflation in check.

Bank of Thailand policy makers have opted for extreme caution when considering easing monetary policy up till now. With inflation still subdued at 0.35% in August below the central bank's target range of 1% to 3% and baht showing strength against the US dollar since June 2024, the policy maker are ready to shift towards more accommodative policy stance while its stayed neutral in August leaving its policy rate unchanged to 2.50%.

Central Bank of Philippines (BSP) have already started cutting rates by 25bps in August to and its policy rate stands at 6.25% and is expected to deliver another 50bps cut by the end of 2024.

China's economic malaise and deflationary pressure are likely to be driving force for PBOC easing along with recent strength in renminbi. The PBOC has already surprised markets by cutting its major short term and long-term rates in July'24 even after not implementing a rate hike cycle like global peers. Going forward PBOC will likely lower its key rates, implying need for more monetary stimulus.

In an attempt to boost slowing economy, People's Bank of China has taken the following measures:

- Cut RRR for banks by 50 basis points.
- Reduced 7-day reverse repurchase rate from 1.7% to 1.5%.
- Potential cut in loan prime rate by 0.2-0.25 percentage points.
- Lowered minimum down payments for second homes from 25% to 15%.
- Injection of 1 trillion yuan (\$141.78 billion) in long-term funds.
- The existing mortgage rates are likely to be reduced by 50bps.
- Cut its one-year medium-term lending facility (MLF) loan rate from 2.3% to 2%.
- Cut the rate on 300 billion yuan (\$42.66 billion) of one-year MLF loans by 30 basis points.

Post announcement of easing in rates, USDCNH (offshore) traded below the 7.0 mark for the first time since May 2023.

Post 50bps FED rate cut markets are speculating easier policy by Asian Central Banks

(Fig 20)

Country	Hike in 2022/2023	Cut during 2024	Asia Inflation, % YoY											
			CPI, % YoY											
			Country	CB Target	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
US	550	50	China	3%	-0.2	-0.5	-0.3	-0.8	0.7	0.1	0.3	0.3	0.2	0.5
ECB	450	90	Taiwan	N.A	3	2.9	2.7	1.8	3.1	2.2	1.9	2.2	2.4	2.5
BoE	500	25	South Korea	2%	3.8	3.3	3.2	2.8	3.1	3.1	2.9	2.7	2.4	2.6
SNB	250	50	India	4.0±2.0%	4.9	5.6	5.7	5.1	5.1	4.9	4.8	4.8	5.1	3.6
RBA	425	-	Indonesia	3.0±1.0%	2.6	2.9	2.8	2.6	2.8	3.1	3	2.8	2.5	2.1
RBI	250	-	Malaysia	N.A	1.8	1.5	1.5	1.5	1.8	1.8	1.8	2	2	2
BI	275	25	Philippines	3.0±1.0%	4.9	4.1	3.9	2.8	3.4	3.7	3.8	3.9	3.7	4.4
Brazil	450	300	Singapore	N.A	4.7	3.6	3.7	2.9	3.4	2.7	2.7	3.1	2.4	2.4
Philippines	450	25	Thailand	2.0±1.0%	-0.3	-0.4	-0.8	-1.1	-0.8	-0.5	0.2	1.5	0.6	0.8
Thailand	200	-	Vietnam	4.50%	3.6	3.5	3.6	3.4	4	4	4.4	4.4	4.3	4.4
South Korea	225	-												

Banking Research Team

Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
R Gunaseelan	gunaseelan@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank

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