Matthews Asia Perspective

Are Asian Countries Crying Out for Stimulus?

Robert Horrocks
Chief Investment Officer
Matthews Asia

The weighted average inflation rate of countries that make up the MSCI All Country Asia ex Japan Index is 1.7%. That rate is right in line with the United States and is below the Federal Reserve's own target rate for its domestic economy. In Thailand, the headline inflation rate is barely distinguishable from zero. Despite the central bank revising up its target range for inflation to 1% to 4% (from 0.5 to 3%) in 2015, Thailand's core inflation rate since then has fallen from just under 2% to its current 0.5%.

In one sense, this is an achievement. Squeezing out inflationary pressures has been recognized by the market and by the currency, which has risen by over 7.5% against the U.S. dollar year to date. On the other hand, it's a problem. If central banks have targets, are they not supposed to hit them? The Federal Reserve has consistently undershot its target over the past few years—as have many other countries.

I agree with the target set by the Thais. A U.S.-style 2% target seems too low for Asian economies. There is no good reason in my mind why their inflation rates should be equal to or below the United States. The currency markets seem to agree, too, if the rise of the Thai baht (7.61%), the South Korean won (7.92%) and the Taiwan dollar (6.75%) against the U.S. currency (year to date through 31 July 2017) is anything to go by. It seems that many countries across Asia are crying out for some kind of stimulus—South Korea, Taiwan, Singapore, Thailand. Perhaps even India, too.

Central banks seem either unwilling or unable to push higher inflation rates, and thereby raise nominal GDP growth. And yet, where they have been willing, and where they have succeeded—such as in Japan over the past few years and more recently in China—corporate margins have widened, profits have accelerated, sentiment has improved and the economies and stock markets have benefited.

Perhaps it is important right now to back up any monetary policy with fiscal policy. Governments need to cut taxes or, even better, increase spending, so that any monetary loosening is supported with actual spending. I suspect this can be done in the current climate while keeping exchange rates stable. Indeed, failing to stimulate economies remains one of the biggest risks to my otherwise quite optimistic view of Asian growth, profits and markets.

Indonesia just cut its interest rate in a move that surprised markets. Indonesia arguably has less room to stimulate than other countries in Asia. Yet, its decision barely affected the currency. The conclusion is clear—stimulus for Asia, please!

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