Thursday, April 04, 2019

Race to the bottom: How dovish are Asian central banks?

Summary

With a dovish Fed and a gloomy global economic outlook on the horizon, Asian central banks are facing varying degrees of pressure to ease their monetary conditions. Among the Asian space, we expect the **Philippines, Indonesia, Malaysia and India** as highly likely candidates for a rate cut this year, while **Australia** and **South Korea** are under increasing pressure. **Thailand and Singapore** are likely to stand pat on their monetary policies in 2019 at this moment.

Dovish US Federal Reserve

In the March FOMC meeting, the Fed proved more dovish than expected. Median plots showed a majority of FOMC members (11 out of 17) in favour of keeping the Fed Funds rate static through this year. This is a remarkable turnaround from December 2018, when the Fed publicly committed to continue its rate normalization cycle in a consistent and predictable manner. The pressure is on global central banks to follow suit.

Likely Candidates for Rate Cut

We view the **Philippines** as the most dovish of the lot, with three rate cuts expected by end 2019. **India** is likely to cut once in April before adopting a wait-and-see approach, while **Malaysia** may look to cut possibly as early as July. **Indonesia** may reduce rates by 50bp but will likely maintain a cautious stance, making its move only in late 2H. **Australia** is widely expected to perform one rate cut in 2H, but their seemingly robust labour market is throwing the RBA a lifeline amid declining property prices.

Key Macroeconomic Metrics, Asia

Benchmark Interest Rates	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019	Central Bank Stance
Indonesia	4.25%	5.25%	5.75%	6.00%	6.00%	Neutral
Malaysia	3.25%	3.25%	3.25%	3.25%	3.25%	Neutral
Philippines	3.00%	3.50%	4.50%	4.75%	4.75%	Dovish
Thailand	1.50%	1.50%	1.50%	1.75%	1.75%	Neutral
Australia	1.50%	1.50%	1.50%	1.50%	1.50%	Neutral
India	6.00%	6.25%	6.50%	6.50%	6.25%	Neutral
South Korea	1.50%	1.50%	1.50%	1.75%	1.75%	Neutral
Singapore						Neutral

GDP Growth	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019	2019 Forecast
Indonesia	5.1%	5.3%	5.2%	5.2%	5.1%	5.3%
Malaysia	5.4%	4.5%	4.4%	4.7%	4.3%	4.4%
Philippines	6.6%	6.2%	6.0%	6.1%	6.1%	6.1%
Thailand	4.9%	4.7%	3.2%	3.7%	3.3%	3.8%
Australia	3.1%	3.1%	2.7%	2.3%	2.5%	2.5%
India	7.7%	8.0%	7.0%	6.6%	6.8%	7.6%
South Korea	2.8%	2.8%	2.0%	3.1%	2.6%	2.5%
Singapore	4.7%	4.2%	2.4%	1.9%	2.5%	2.3%

Inflation	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019	Central Bank Target
Indonesia	3.3%	3.3%	3.1%	3.2%	2.9%	2.5-4.5%
Malaysia	1.8%	1.3%	0.5%	0.3%	0.1%	
Philippines	3.8%	4.8%	6.3%	5.9%	4.1%	2-4%
Thailand	0.6%	1.3%	1.5%	0.8%	0.7%	1-3%
Australia	1.9%	2.1%	1.9%	1.8%	1.7%	2-3%
India	4.6%	4.9%	3.9%	2.6%	2.6%	2-6%
South Korea	1.1%	1.5%	1.5%	1.8%	0.7%	2.0%
Singapore	1.5%	1.5%	1.9%	1.8%	1.7%	2.0%

Economist:
Howie Lee
+65 6530-1778
HowieLee@ocbc.com

OCBC Treasury Advisory

Corporate FX & Structured Products
Tel: 6349-1888 / 1881

Interest Rate Derivatives
Tel: 6349-1899

Investments & Structured Products
Tel: 6349-1886

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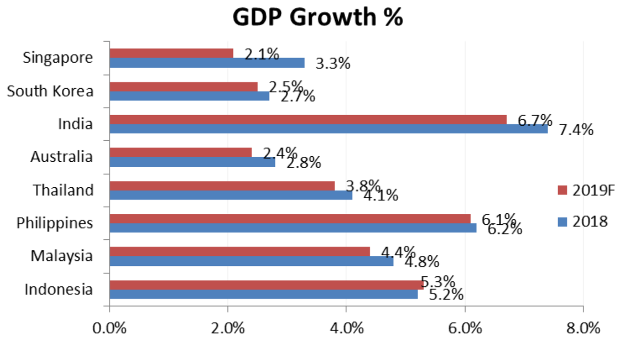
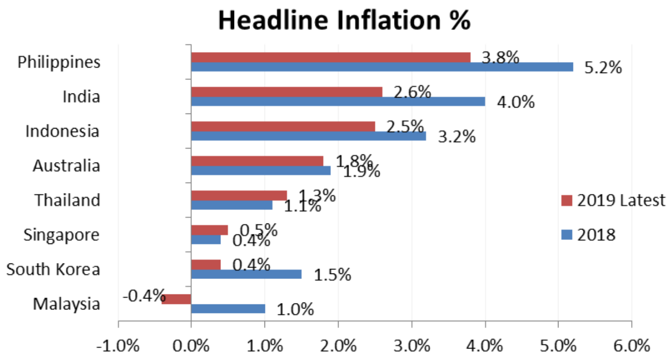
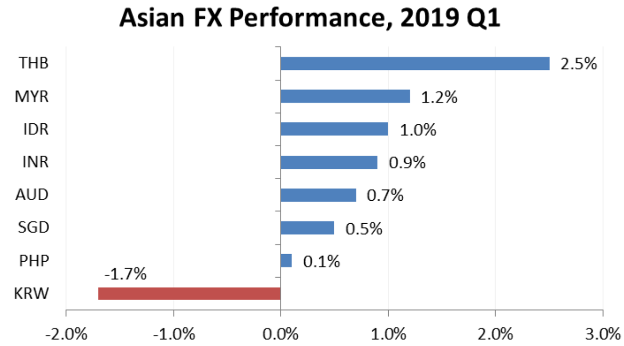
Country	Benchmark Rate Forecast 2019				Total rate cuts expected in 2019	Timing of rate cuts expected	Remarks
	Q1	Q2	Q3	Q4			
Philippines	4.75%	4.50%	4.25%	4.00%	75 bp	Once per quarter starting Q2	Inflation needs to stay below 4% for BSP to act.
Indonesia	6.00%	6.00%	6.00%	5.50%	50 bp	Late 2H 2019	Likely to be cautious and act later than other CBs.
Malaysia	3.25%	3.25%	3.00%	3.00%	25 bp	Possibly as early as July	Will likely take its cue after another ASEAN CB acts.
India	6.25%	6.00%	6.00%	6.00%	25-50 bp	April	Modi (if re-elected) may push for further rate cuts.
Australia	1.50%	1.50%	1.25%	1.25%	0-25 bp	2H 2019	Highly dependent on degree of property decline.
South Korea	1.75%	1.75%	1.75%	1.75%	0 bp	NA	BoK has resisted calls for monetary adjustments.
Singapore	Maintain slope of S$NEER through 2019				-	NA	Likely to keep status quo after steepening slope in 2018.
Thailand	1.75%	1.75%	1.75%	1.75%	0 bp	NA	Highly unlikely to cut, may even look to hike.



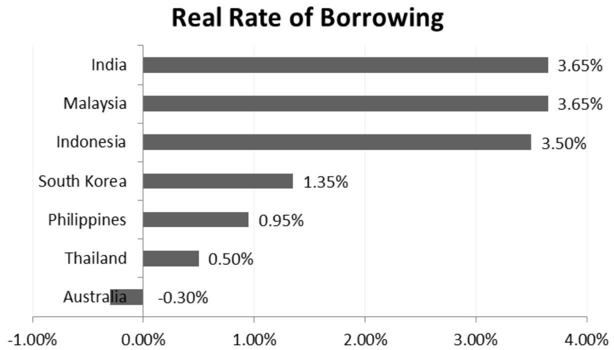
Source: Bloomberg, OCBC Bank



Source: Bloomberg, OCBC Bank



Source: Bloomberg, OCBC Bank



Philippines: Inflation remains key for rate movements

Highlights

- In 2018, Philippines inflation soared to as high as 6.7% in October, prompting BSP to raise interest rates by 175bp.
- Oil prices have since abated, easing inflationary pressures. Headline CPI in February printed 3.8%, below the BSP upper bound target of 4%.
- The second phase of the Duterte's tax reform programme is unlikely to stoke inflationary pressures.
- New BSP governor Benjamin Diokno has hinted that the central bank may look to undo some of the 175bp rate hike from last year before the end of 2019.

Runaway inflation last year unlikely to resurface

In 2018, a multitude of factors – excise taxes on selected goods, high global crude prices and a typhoon just before crop harvest – combined to drive consumer inflation to as high as 6.7% in October. This prompted BSP to raise the benchmark rate from 3% to 4.75% – a 175bp increase across 8 months between March to November 2018.

Since then, inflation in the Philippines has dipped to 3.8% in February 2019 – the first time it is within BSP's inflation target range of 2-4% – as global crude prices collapsed by more than -50% in 4Q 2018 and Duterte lifted import limits on rice. The second phase of the Duterte's programme (the TRABAHO programme) is more focused on the reduction of corporate taxes and unlikely to spark the high level of inflationary pressures witnessed last year.

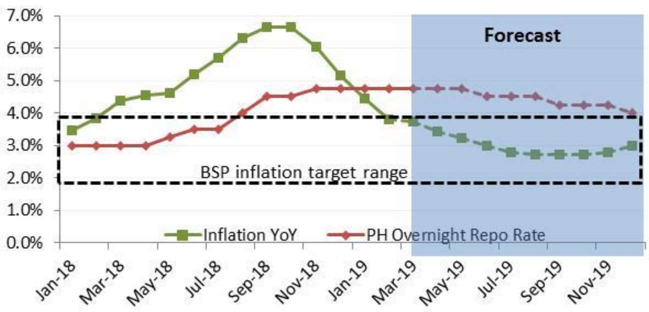
While global oil prices are also expected to gradually recover this year, they are unlikely to match the heights of last year given the bleak economic outlook. This is expected to give respite to the transportation basket in the price index and gradually lead inflation back to BSP's 2-4% target range.

More stable inflation gives BSP breathing room

February's CPI print for the Philippines came in at 3.8%. For the rest of 2019, we forecast the headline inflation rate to fall to 2.7% in August, and then pick up to 3.0% by December. If our forecasts prove accurate, this will provide much breathing space for the BSP to perform its rate cut in 2Q2019, if not later.

We think BSP may do three rate cuts this year – possibly once at the end of every quarter beginning Q2. This is dependent on inflation remaining within the 2-4% target range and BSP focusing its efforts on the overnight benchmark rate over the RRR.

PH Inflation and Benchmark Interest Rate



Source: CEIC, OCBC Bank

BSP Governor is dovish

Perhaps the largest indication that rate cuts are on the table for Philippines stems from the fact that the new BSP governor, Benjamin Diokno, appears highly dovish. Diokno in early March already said that **"there is room to loosen monetary policy"** and **"there is an opportunity for us to do some cuts"**. He also highlighted the possibility of a "1 percentage point every quarter for the next 4 quarters" cut in the RRR – "if there's a need". Finally, he added that he is **"convinced there's room for monetary easing… if there's a need for monetary easing, we'll consider. Everybody should be pro-growth, we need growth in this economy."** All the above statements are strong indications that a rate cut is near – the main questions are when they could occur, and how deep the cuts will be.

BSP may cut thrice this year

If inflation unfolds as we have forecasted, we expect three rate cuts to occur this year – once at the end of every quarter. This means the BSP may likely announce a 25bp rate cut on each of the following Monetary Board meetings in June, September and December. The key risk to this assumption is inflation remaining stubborn – possibly due to higher oil prices and rising food prices on a strong El Nino in 2H2019. Other forms of monetary easing may come in the form of more aggressive RRR cuts than the 100bp/quarter expected – in that scenario, the BSP may choose to do only 2 rate cuts this year instead of 3.

Indonesia: 50bp rate cut likely in 2H2019

Highlights

- Similar to the Philippines, BI may want to undo some of the 175bp rate hike performed last year.
- The IDR has stabilized and foreign inflows for bonds are expected to continue in the short-term.
- Despite the current neutral stance, we expect BU to gradually hint at a more dovish tilt in 2H2019.
- We expect a 50bp rate in 2H, although that is highly dependent on external circumstances.

BI's liquidity easing measures

BI's tone continues to remain neutral but in their March meeting, the central bank announced several measures to ease liquidity. These include strengthening the macroprudential intermediation ratio (MIR) from 82%-92% to 84%-94% and holding regular and scheduled term-repo transactions in additions to FX swaps.

External pressures appear to have abated

Massive capital outflows in 2018 prompted BI to hike interest rates by 175bp. The IDR was one of the worst performing currencies in the ASEAN bloc last year, depreciating by almost 20% against the USD at one stage. High global crude prices also deepened the country's current account deficit, a sticking point which IDR bears were quick to jump on.

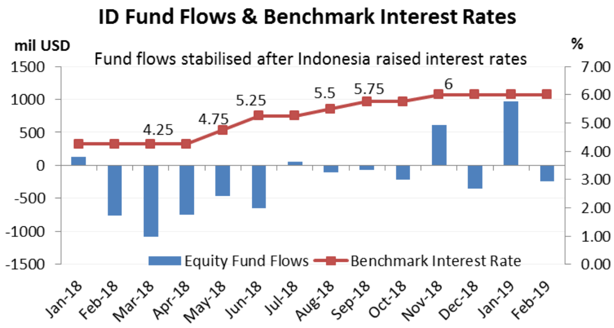
The 175bp hike in the benchmark interest rates, receding oil prices and higher import tariffs on selected goods have helped to stem the funds outflow from Indonesia. External pressures on the country have also gradually abated as global central banks around the world have turned more dovish, prompting yield-seeking investors to turn to Indonesian assets.

Source: Bloomberg, OCBC Bank

Indonesia is likely to reduce the benchmark rates by 50bp in late 2H2019 on the back of cooling inflation and stable fund flows. Like the BSP, they are likely looking to unwind some of the 175bp rate hike done last year, and may gradually hint at a dovish tilt in 2H2019.

BI to cut only in late 2H 2019

Foreign inflow for bonds is expected to continue in the short-term and the IDR has been stable throughout most of 2019. Going forward, we expect interest in Indonesia to be strong and the IDR to remain in the 14,000 – 14,300 range for the next few months, while inflation is expected to stabilize at 3.2% YoY.



Source: Bloomberg, EPFR, OCBC Bank

On the back of cooling inflation and stable fund flows, BI may probably want to unwind some of the 175bp hike that was performed last year. Despite their seemingly neutral stance at present, we believe that BI will gradually begin to hint at a more dovish tilt. The cuts are only expected to materialize in late 2H 2019.

Malaysia: Faltering growth may prompt BNM to cut in early Q3

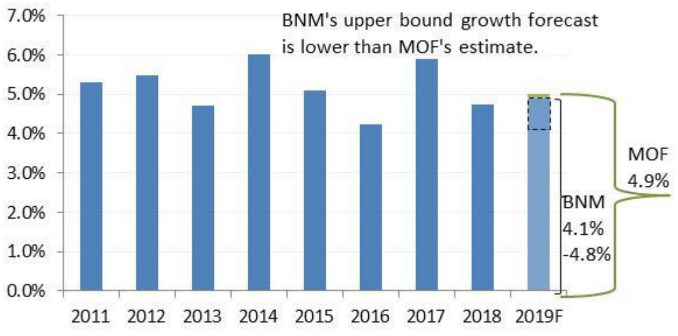
Highlights

- BNM lowered its growth forecast of 4.3% - 4.8%, lower than MOF's forecast of 4.9%.
- It highlighted higher downside risks and forecasted a marginal negative output gap in 2019.
- We expect BNM to cut rates by 25bp in 2H2019, but they are more likely to make its move after another central bank cuts rates first.
- With BSP expected to cut in June, we think BNM may possibly cut 25bp as early as July.

Lowered growth prospects

In its March meeting, BNM announced a growth forecast range of 4.3% - 4.8% YoY. This is lower than MoF's forecast of 4.9% YoY that was put out during the 2019 budget. Our internal forecast of 4.4% YoY for Malaysia's 2019 growth therefore stands at the lower range of BNM's forecast spectrum.

BNM highlighted "higher" downside risks and only "some" upside risks in their March presentation, noting that downside risks mainly stemmed from external uncertainties. Escalation in trade tensions, sharper moderation in global demand, weaker than expected commodity prices and disruption in financial markets were among the key downside risks identified. BNM also forecasted a marginal negative output gap on subdued capital expenditure from both the public and private sectors.



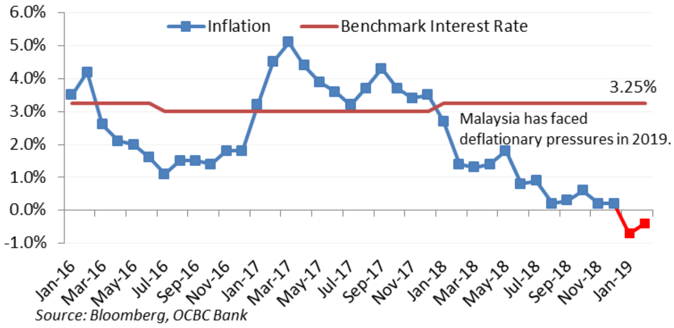
Source: CEIC, BNM, OCBC Bank

BNM may initiate a 25bp rate hike possibly as early as July, but they may likely only make its move after an ASEAN central bank acts first. The central bank's markedly lower growth forecast vs MOF's estimate hints at a dovish tilt.

Inflation to remain subdued

The central bank also assess that headline inflation will be in the range of 0.7% to 1.7Y YoY in 2019. We forecast the headline CPI at 1.3% YoY, building on the caveat that the government may adjust higher the cap of RM 2.08 on RON95 prices. This could eventually end below 1% if the government chooses to stand pat on the RON 95 ceiling.

In addition, the MYR continues to hover in the 4.00 – 4.20 range and there are also concerns that 10 year real rates are inching higher. 300%.



Source: Bloomberg, OCBC Bank

Expect BNM to cut rates as in 2H 2019

Given the BNM's more cautious view, we now expect the central bank to cut the benchmark rate by 25bps from 3.25% to 3.00%. The central bank, however, is likely to wait for at least another Asian central bank to act first. With the Philippines expected to make its move in June, we expect BNM to only initiate its first rate cut of 25bp possibly as early as July.

South Korea: Holding firm under pressure

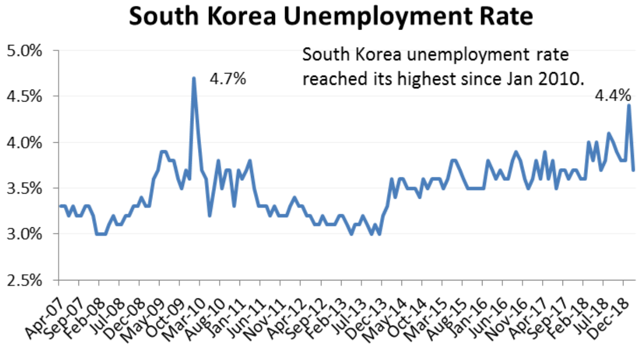
Highlights

- The South Korea economy has been fragile, underlined by higher unemployment and downturns in the manufacturing sector. Externally, the economy is pressured by the US-China trade tension, with exports to China falling since October.
- The BoK has repeatedly said that it is premature to consider a rate cut now but does not rule out adjusting its monetary stance if economic conditions remain soft.
- If expansionary fiscal plans fall short of adequate economic stimulation, we think the BoK may act.
- Right now, we expect the BoK to keep rates constant through 2019.

South Korea is likely to keep rates constant through this year as the BoK repeatedly stressed that it is premature to consider a rate cut. The central bank said they are open to adjusting their stance if economic conditions head further south, but with rates already languishing at 1.75% they would likely want to keep its cards close and save the arsenal for a more severe downturn.

Soft economic underbelly all around

A combination of higher minimum wages, cyclical downturns in the semiconductor and auto-maker industries, as well as the ongoing trade tensions between the US and China have hurt South Korea's economic advances. The minimum wages in South Korea are now 8,350 won from last year's 7,530 won. The effects of minimum wages not only have caused the unemployment rate to surge to a 6-year high of 4.3% in January, it has also inadvertently discouraged business investments due to higher business operational expenses.



Source: Bloomberg, OCBC Bank

The ongoing trade war between the US and China have also hurt the export fortunes of South Korea, which has traditionally act as a weather vane for the health of global trade flows. Exports have posted YoY consecutive contractions since November as trade uncertainty stalls business decisions in China, of which is one of South Korea's biggest trade partner. Based on the contractionary PMIs observed in South Korea's manufacturing sector, the downtrend in exports is expected to continue in the short-term.

Source: CEIC, OCBC Bank

Given the slew of pessimistic economic prints, the Bank of Korea has been facing increasing pressure to ease monetary conditions as early as the start of 2019. In early Q1, the BoK had, on more than one occasion, come out to publicly state that it was premature to think of cutting interest rates at that point of time – which pointed to evidence that they had been facing some kind of pressure to alleviate the country'

In its most recent statement in March, however, the BoK said that it may consider adjusting its monetary stance if economic conditions further head south, It did, also mention that it would prefer expansionary fiscal policies to pick up the slack at this moment via a larger government budget than the 440 tn won package announced at the start of 2019.

BoK unlikely to reduce rates at this point

We think the BoK is unlikely to slash rates at this point and the hurdle appears high for them to consider reducing their benchmark rate. At 1.75%, rates are already close to 0% and the BoK may want to keep some arsenal for a more severe downturn.

Thailand: Fluctuating stance within MPC

Highlights

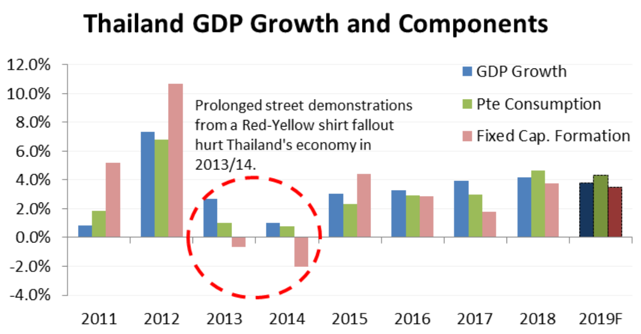
- BoT is highly unlikely to cut rates this year.
- 2 of 6 MPC members voted to raise rates in the Feb meeting, although a month later the central bank was unanimous in keeping rates constant at 1.75%.
- While we think that the BoT is likely to stand pat on rates this year, any rate movement from the BoT is more likely to be up than down in 2019.
- The brewing political uncertainty may change the fundamental outlook by late 2H2019.

Election results still unclear

The largest watershed event that Thailand is expected to undergo this year is its first general elections since 2011, which should herald a return to democratic rule since the military staged a coup in 2014. As things stand, the official results of the election are likely to be known only on 9 May. The coronation of King Vajiralongkorn is also due to occur from 4-6 May. We therefore do not expect any movements from the Bank of Thailand in the coming quarter.

Economic conditions increasingly fragile

The economic landscape in Thailand appears to require looser monetary conditions more than a rate hike at present. With the ongoing US-China trade tensions and possible negative externalities spillovers from what looks like increasing political risks, the Thai economy may well miss the target of 3.8% GDP growth. Headline inflation also remains low and is not expected to pick up meaningfully, as global crude prices are unlikely to match last year's levels.



Source: CEIC, OCBC Bank

Thailand appears highly unlikely to reduce their rates this year – at this juncture there seems a higher probability that rates may move higher than lower. We think that BoT is likely to keep rates constant at 1.75% through 2019. Escalating political tensions and its resulting negative economic externalities, however, may prompt them to re-think their stance.

BoT members appear neutral-hawkish

What the BoT's next move is, however, remains a question of floundering confusion. In February, 2 of 6 MPC members voted for a rate hike – this came in a period when the US Federal Reserve was already deemed to have dovetailed on their rate normalization policies. In the March MPC meeting, however, all 7 members unanimously voted to maintain rates at the current level of 1.75%.

BoT prioritizing financial stability

The BoT appears to be prioritizing financial stability ahead of growth at this stage, especially with the persistently high household debt-to-income ratio and may look to sacrifice growth for reduced financial risks. Talks are in the pipeline to curb loan on autos.

Any rate move likely to be up than down

As such, the BoT appears to be leaning more towards the hawkish side of the spectrum, as mentioned earlier. It is difficult to envisage the Thai central bank suddenly turning tail and preaching a dovish rhetoric. The need for looser monetary environment stemming from a fragile economy appears to be offset by the BoT's hawkish insistence. These two opposing forces appear to suggest that the BoT is likely to stand pat throughout the rest of the year. Any rate movement, however unlikely, may occur only in 2H – after the King's coronation and finalization of the Thai elections in May.

Singapore: A wait-and-see approach

Highlights

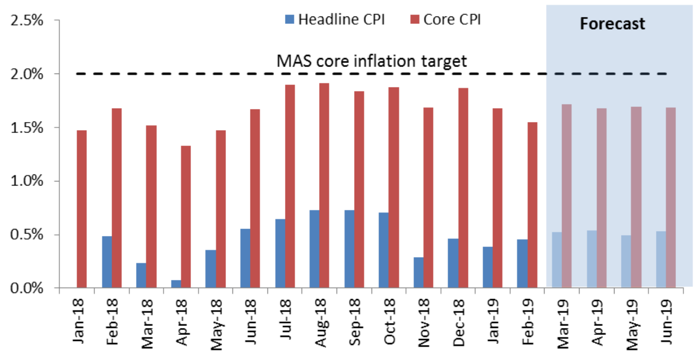
- Inflationary pressures are expected to remain soft from lower oil prices YoY and softer utility prices from the OEM.
- Growth is posed to be the lowest since 2009 as external demand and trade flows take a hit from the ongoing US-China trade tension.
- MAS is likely to maintain its pace of S$NEER appreciation through 2019 on soft inflationary prospects.

S$NEER steepening last year unlikely in 2019

In October last year, the Monetary Authority of Singapore (MAS) steepened the curve of its S$NEER slope as headline inflation crept near to the 2% level.

Since then, benign inflationary pressures are likely to lead MAS into maintaining its current slope on its currency band. Core inflation has dipped to as low as 1.6% in February 2019 from 1.9% in September 2018, while global central banks have mostly turned dovish on increasing fears of a global economic slowdown and a dovish Fed. As a global trade hub, Singapore is likely to feel the primary and secondary effects of a prolonged trade spat between the US and China, while any Brexit fallout is likely to trickle down to the Singapore economy.

SG Headline & Core CPI



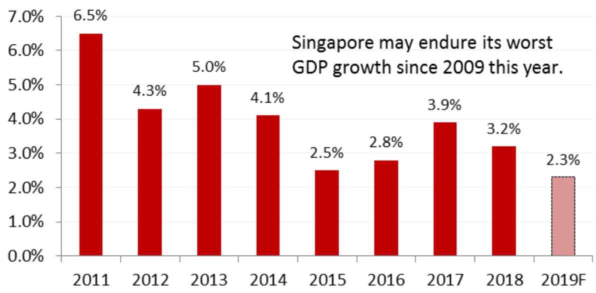
Source: CEIC, OCBC Bank

Worst growth likely in a decade

In addition, the Singapore economy is poised to endure its worse GDP growth since the 2008 Great Financial Crisis. The Ministry of Trade and Industry forecasts 2019 growth at 1.5%-3.5%. We forecast 2019 Singapore GDP growth at 2.3%. In the past ten years, only 2009 have posted similar or worse growth than 2019 at -0.9%, during the GFC.

Benign inflationary pressures and possibly its worst GDP growth in a decade is likely to lead MAS into maintaining its slope of the S$NEER band throughout 2019.

Singapore Real GDP Growth



Source: CEIC, OCBC Bank

MAS to maintain pace of S$NEER appreciation

Singapore's manufacturing sector is expected to sideline as demand for goods globally takes a hit from the growth slowdown, particularly in China. Against this backdrop, we think that MAS may choose to maintain its pace of SGD appreciation rather than further increase the slope of the S$NEER band.

Further into the year, we expect the impact of the Open Electricity Market and the commitment of several supermarkets to freeze prices on certain food staples to keep core inflation stable. Core inflation is unlikely to break above the 2% handle and that may possibly give the MAS some space in maintaining its S$NEER slope during both the April and October announcements.

Australia: Weak macroeconomic data to spur RBA rate decision

Highlights

- In its April meeting, the RBA kept its rate constant at 1.50%, as expected.
- Australia's macroeconomic print has been fragile, with stagnant wage growth weighing on sentiments.
- Declining house prices in Sydney, Melbourne may spur RBA to cut rates in a bid to alleviate mortgage pressure.
- We think RBA may do one rate cut in 2H 2019, but the strong labour market may deter RBA from acting too early.
- If property prices show signs of bottoming out and the labour market remains resilient, RBA may choose to keep rates constant.

Trade tensions hurt Australia's economic fortunes

The RBA last cut interest rates in 2016; rates have remained at their historic low of 1.5% since then. Australia's macroeconomic print this year is expected to be soft and that may spur the RBA to cut rates once – even possibly twice – before the year is out.

In November, the RBA forecasted 2019 GDP growth at a robust 3.25% - three months later in February, it slashed that forecast by 0.5% to 2.75%. Business uncertainty in China over the ongoing trade spat has hurt Australia's commodity exports. In addition, Australia is struggling with stagnant wage growth.

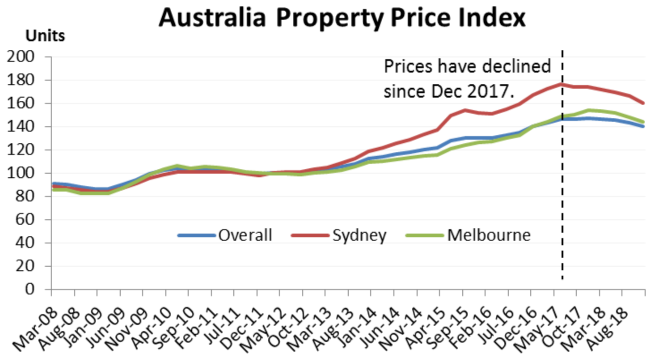
Source: Bloomberg, OCBC Bank

Falling property prices to hit mortgage market

Falling property prices in Australia right now, however, takes up the spotlight. Since reaching its peak in December 2017, prices have dipped every consecutive quarter. The overall price index is now at its lowest since September 2016 at 140.00, and has fallen -5.1% since its December 2017 high. Prices in Melbourne and Sydney have been the worst hit, having declined -6.4% and -9.1% respectively.

We expect Australia to perform at least one rate cut in 2H 2019 to alleviate the stress on the mortgage market, but the labour market remains strong and we think the RBA may choose to hold off the rate cut till late 2H – if at all.

Mortgage owners find themselves trapped in a double whammy of stagnant real wage growth and underwater property prices, while also struggling with high household debt levels.



Source: Bloomberg, OCBC Bank

RBA expected to do one rate cut this year

Given the domestic economic struggles and the apparent slowdown in economic activity worldwide, we think that the RBA may execute one rate cut in 2H 2019 in an effort to alleviate stress on the mortgage market. As a commodity dollar, the AUD is also facing relative value pressure given the dovishness most other central banks are displaying, most notably China – Australia's biggest trade partner. The strong labour market remains a strong obstacle to the RBA easing its monetary policies, which leads us to suspect that any rate cut may materialize only very late in 2019. The key will be to watch for signs of weaknesses in domestic employment.

India: Rate cut in April to bolster growth prospects

Highlights

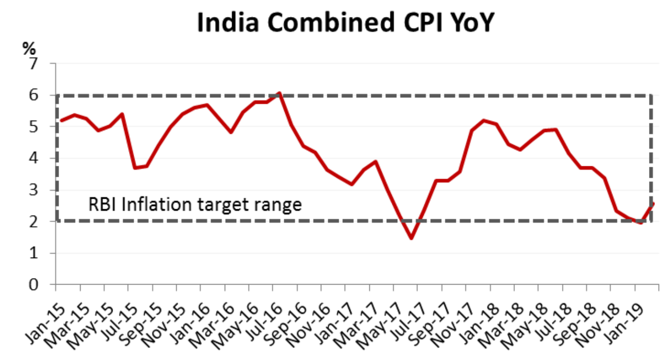
- New RBI chief Shaktikanta Das is seen as supportive of Modi's pro-growth ambitions and is highly regarded as a dovish governor.
- India's inflation at 2.6% remains at the lower end of RBI's target range of 2-6%.
- We expect India to perform a 25bp rate cut on their 4 April meeting in addition to the rate cut already done in February, undoing the 50bp rate hike done last year.
- While we do not rule out a 50bp rate cut in April, we think that is unlikely, as RBI may want to keep some arsenal for future economic contingencies.
- RBI likely to revert to its data-dependent stance after election pressures have abated.

RBI latest governor seen as pro-growth

A slowdown in growth prospects is expected to lead RBI in slashing interest rates in its 4 April meeting. RBI governor Shaktikanta Das was appointed in December 2018 as the new chief of RBI after former governor Urjit Patel abruptly resigned on reports off disagreements with the Indian government over RBI's autonomy.

Das is seen as a dovish governor, having relaxed restrictions on lending by weak state-run banks and allowing restructured loans to SMEs that are high on the probability of default. Under his charge, RBI has already performed one rate cut; the two rate cuts that his predecessor performed last year is expected to be fully reversed by the next meeting on 4 April.

Das is seen as a pro-growth governor who is highly aligned with the Modi administration in bolstering economic growth by keeping monetary policy loose. The Asian Development Bank has recently slashed India's 2019-20 growth estimate from 7.6% to 7.2%.

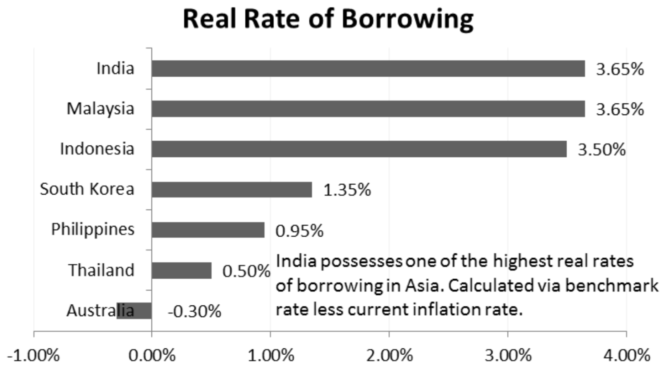


Source: Bloomberg, OCBC Bank

RBI is likely to perform a rate cut of 25bp in its April meeting as new chief Shaktikanta Das is seen as highly supportive of Modi's pro-growth policies. Thereafter, RBI is likely to adopt a wait-and-see approach and be more data dependent, especially after the pressures of general elections have abated.

India inflation at lower end of target range

In addition, India's inflation rate remains benign at 2.6%, hovering near to the lower end of RBI's large inflation target range of 2-6%. The country faces one of the highest real rate of interests in Asia, and Das is expected to correct that issuing a rate cut.



Source: Bloomberg, OCBC Bank

RBI to cut rates in April

We expect India to perform a 25bp rate cut on 4 April, a move that is widely expected, to undo the 50bp rate hike done by ex-governor Urjit in 2018. We do not rule out the possibility of a 50bp rate hike on 4 April, although we think that as unlikely as RBI may choose to be cautious and leave some gunpowder in the event of a sharper downturn. After 4 April, we expect RBI to be more data-dependent, especially after the pressures of the general election have receded. If Narendra Modi is re-elected as India PM and inflation remains soft in the country, we expect another rate cut of 25bp to be forthcoming before the end of the year.