

Video transcript

Frederic Neumann, Co-Head of Asian Economics Research, assesses the region's prospects for 2018

Welcome. My name is Fred Neumann, I'm the Co-Head of Asian Economics Research at HSBC in Hong Kong. So, this was the Year of the Rooster and what a year it was. People had worries about China slipping up and trade decelerating, but in the end growth held up much better than expected across Asia. Even going into the end of the year, shipments continued to rise at a brisk pace, and China hasn't cooled off as much as some people had feared at the beginning of the year.

The big question now, though, is what happens in the Year of the Dog 2018? And you know what? Asia's going to go into next year with a lot more fuel in the tank. Growth remains fairly robust, exports still expanding, and even China looks like it's holding up.

So what are the two big risks that we're watching for next year? First of all, it is construction in China. There is a regulatory storm brewing across the country; that likely will mean that financial conditions will tighten. You already see bond rates rising, bond yields rising in China and that will hurt construction activity, which is very debt intensive. And so as construction cools in China, the big question is, how much does China overall slow down and how much will that drag down the rest of the region with it?

Now we think that, actually, other growth drivers in China will take over, such as technology investment. The Chinese government is pursuing an aggressive China 2025 agenda, investing in new areas such as electric vehicle assembly and semiconductors. And all of that means that more capex will be rolled out, and that should benefit exports from other advanced markets like Japan, Korea, Germany and others beyond.

Now the other big question for Asia in 2018 is what's going to happen with the Fed? Is the Fed going to slam the brakes and raise interest rates? Now fortunately, our US colleagues believe only two rate hikes lie in store. And if that is correct, then Asia should sleep easily next year. We're not going to expect many rate hikes locally because inflation will remain bottled up. Yes, there are some worries around headline inflation with energy prices pushing headline readings higher in the coming months, but underlying core inflation remains fairly low. There are no signs of wage pressures, for example, across the region that central bankers should take note of.

So we think central bankers in Asia can afford to take it slow, not raise interest rates too quickly, and that includes the Bank of Japan (BOJ). Yes, there are rumours about the BOJ possibly exiting next year. You know what? We don't believe that because inflation is still far below its 2 per cent target. And so, the BOJ will keep the foot on the gas well into next year, and that is going to buy us some breathing space as well, even as the Fed hikes interest rates.

So, [for] the Year of the Dog relatively [there is] stable growth. Don't worry about interest rates, inflation is going to remain bottled up. And those markets, they may just push a little bit higher if we are lucky. Good luck to you in the Year of the Dog.