

Regional summary

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Japan

- Core inflation solid around 2%
- But domestic prices still well below global prices in JPY terms
- Upside inflation risks. BOJ to hike more quickly

China

- Cycle soft, and global tariffs would be a problem
- But China isn't EM – depreciation doesn't force domestic tightening
- And it isn't 1990s Japan. Structural strengths, and rates low enough already

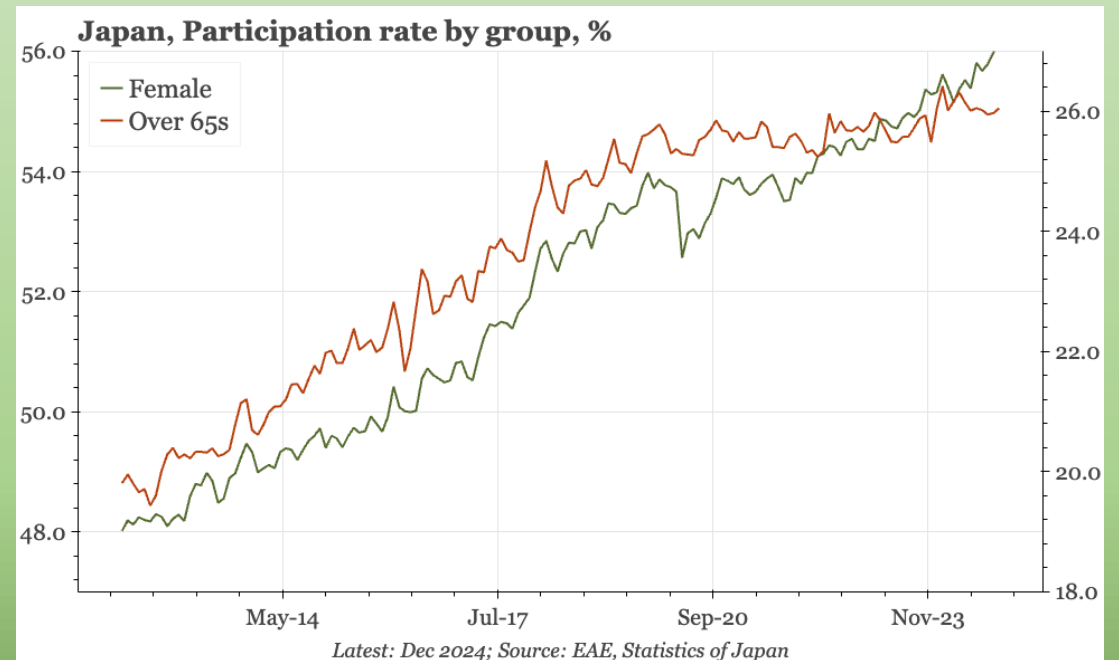
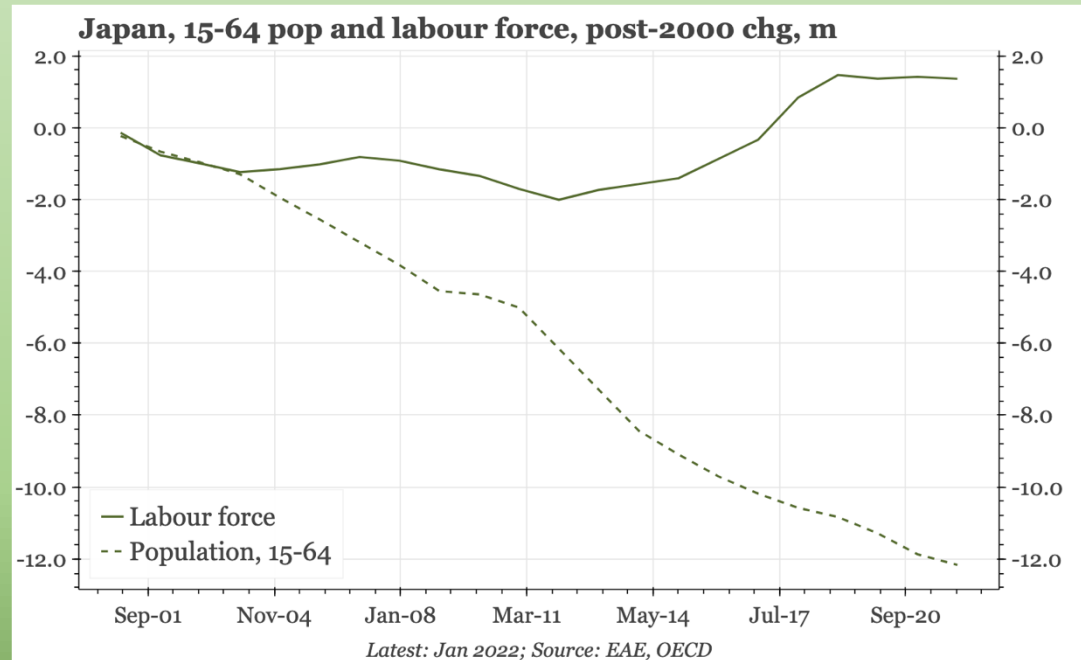
Taiwan/Korea

- Korea has weakest cycle. Taiwan the strongest
- BOK to cut more. CBC won't cut, still might hike
- Both will find it very tricky to handle Trump

Japan

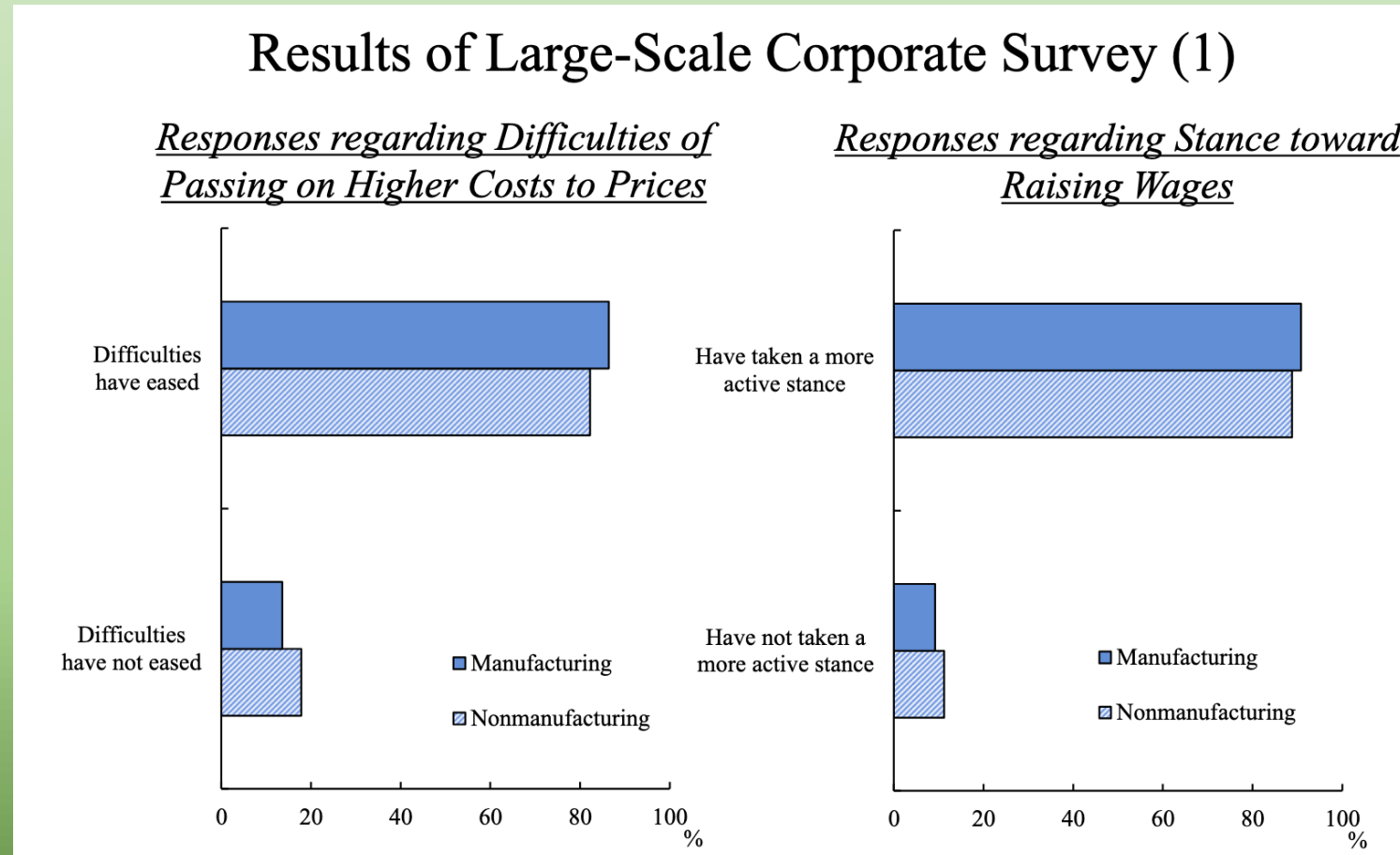
Pillars of BOJ view

From labour surplus to structural labour shortage



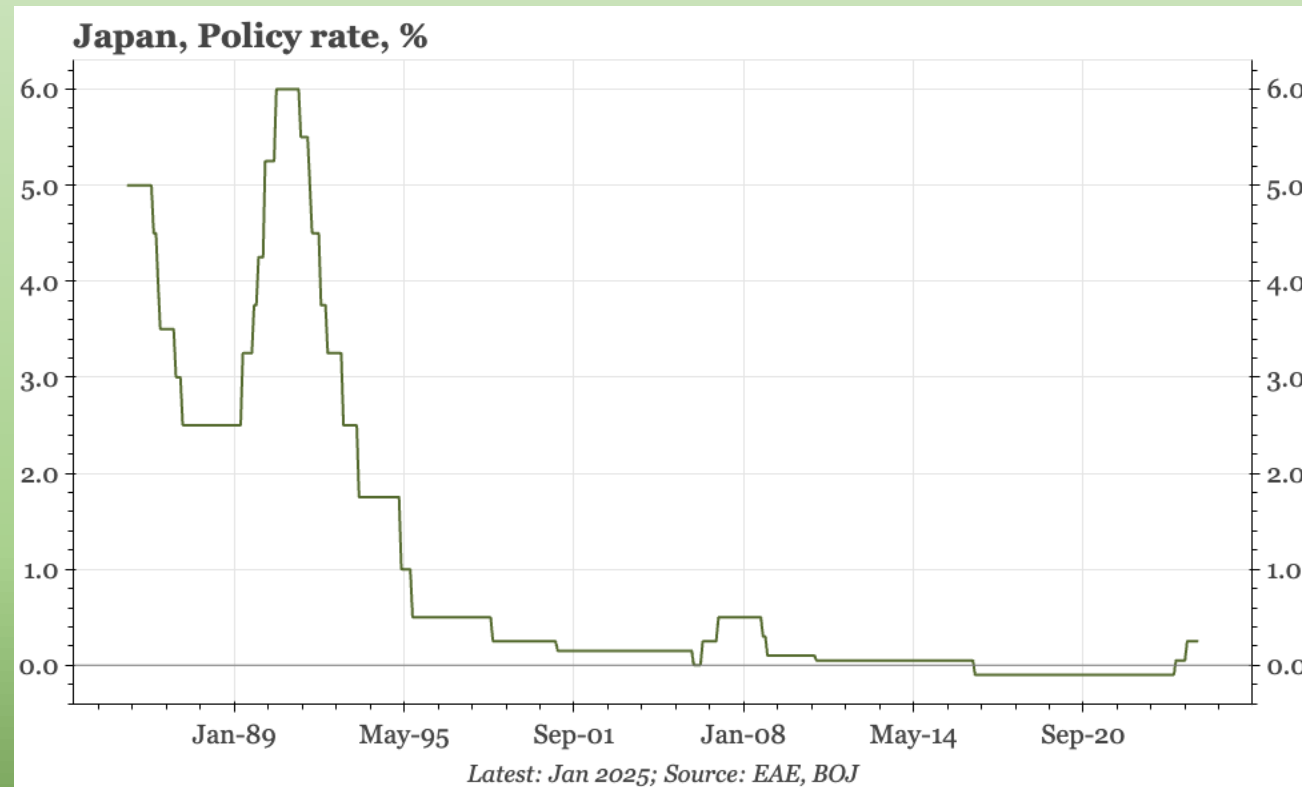
Pillars of BOJ view

Deflationary mindset is breaking down

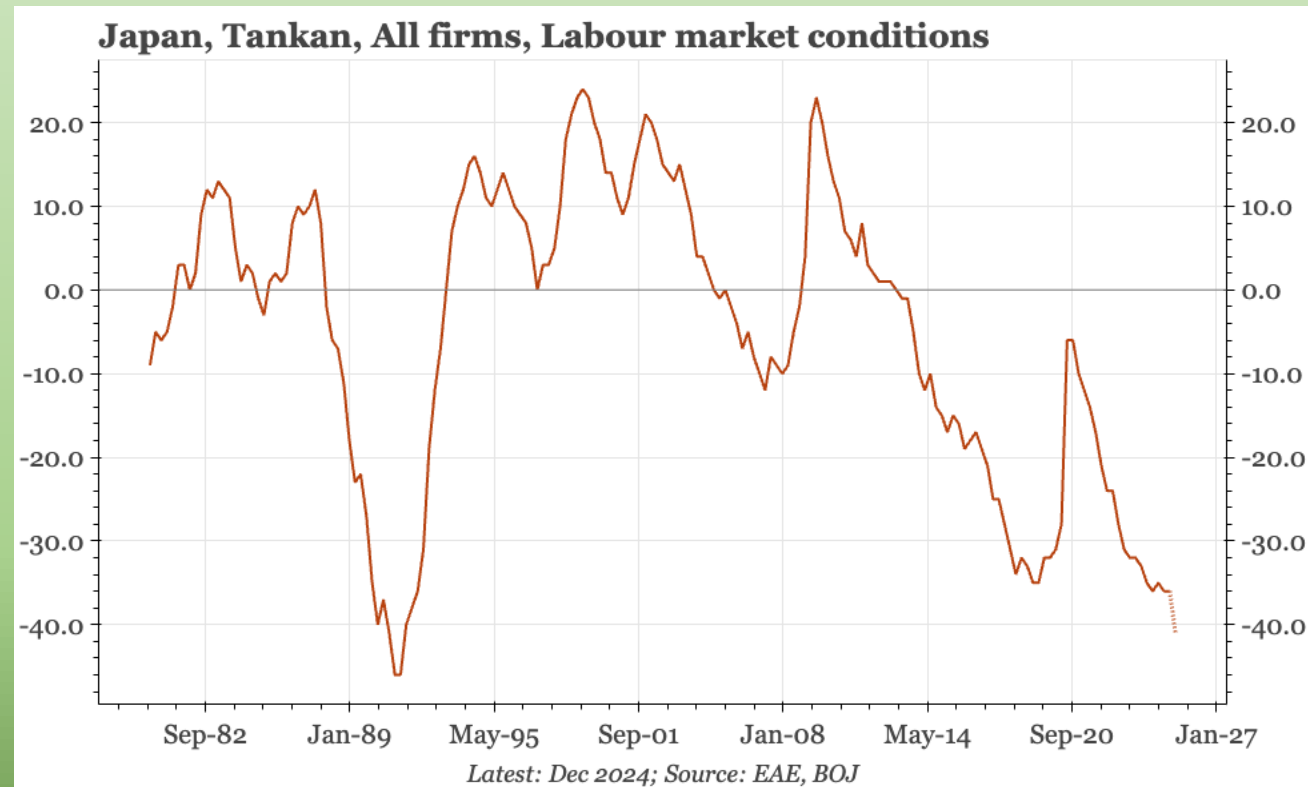


Pillars of BOJ view

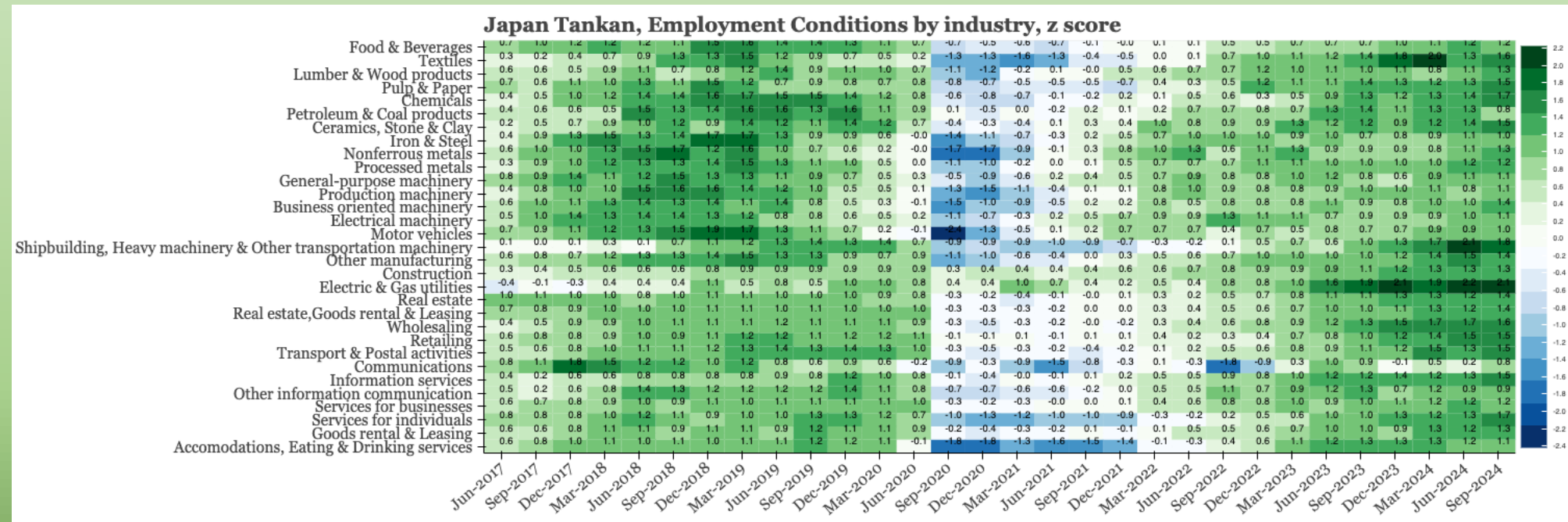
Rates more effective than QE



Labour market Still very tight...

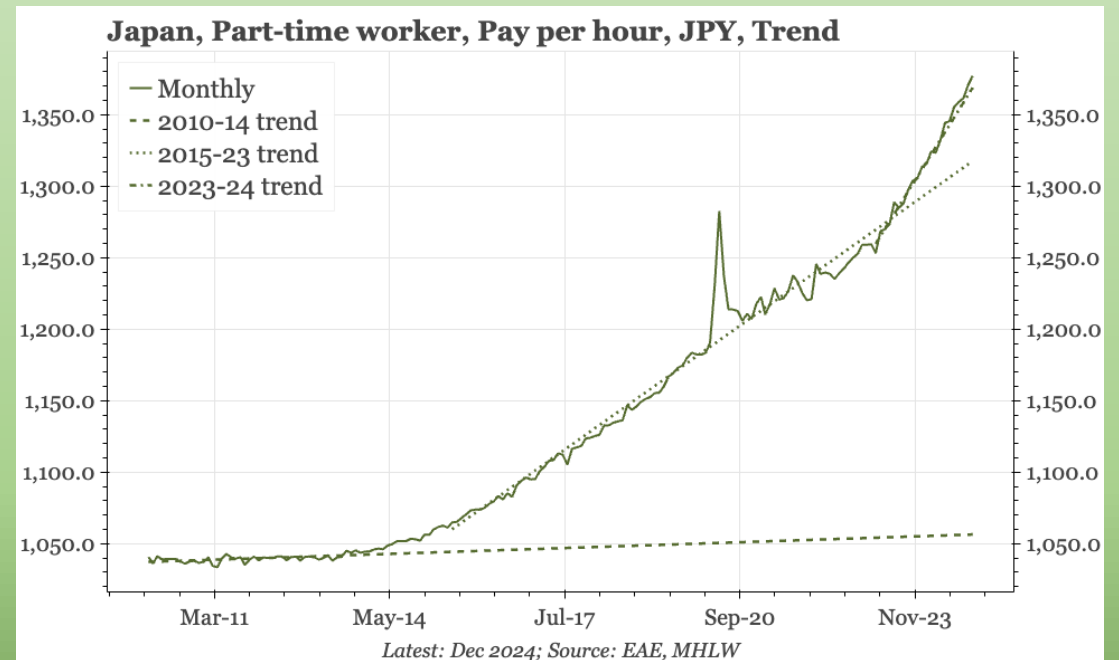
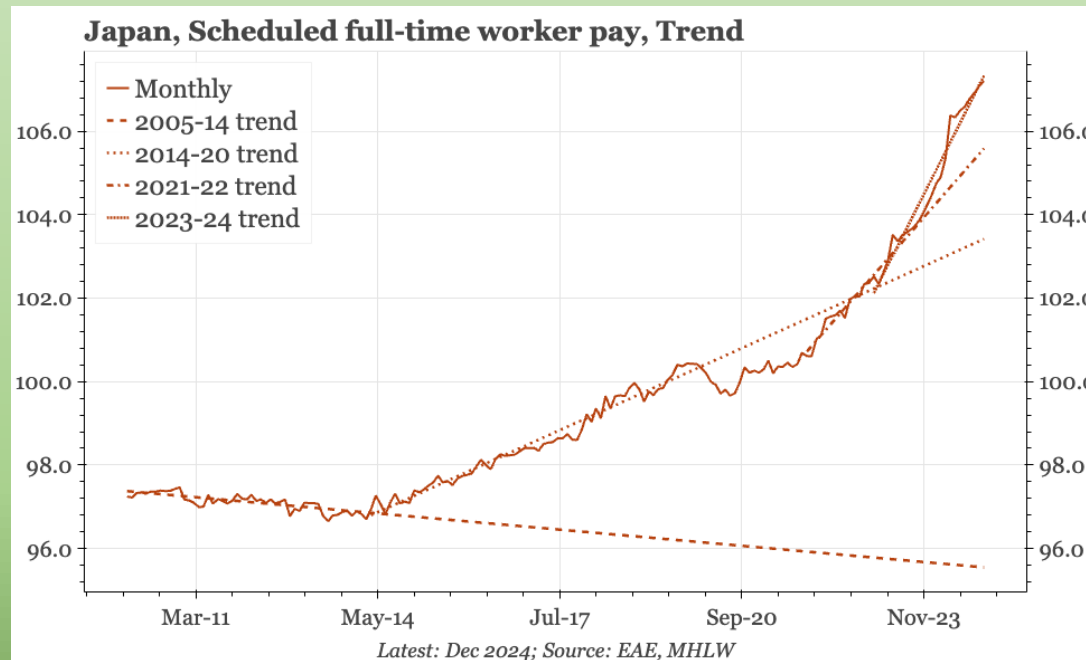


Labour market ...across all industries



Labour market

Wage growth on a higher trend...



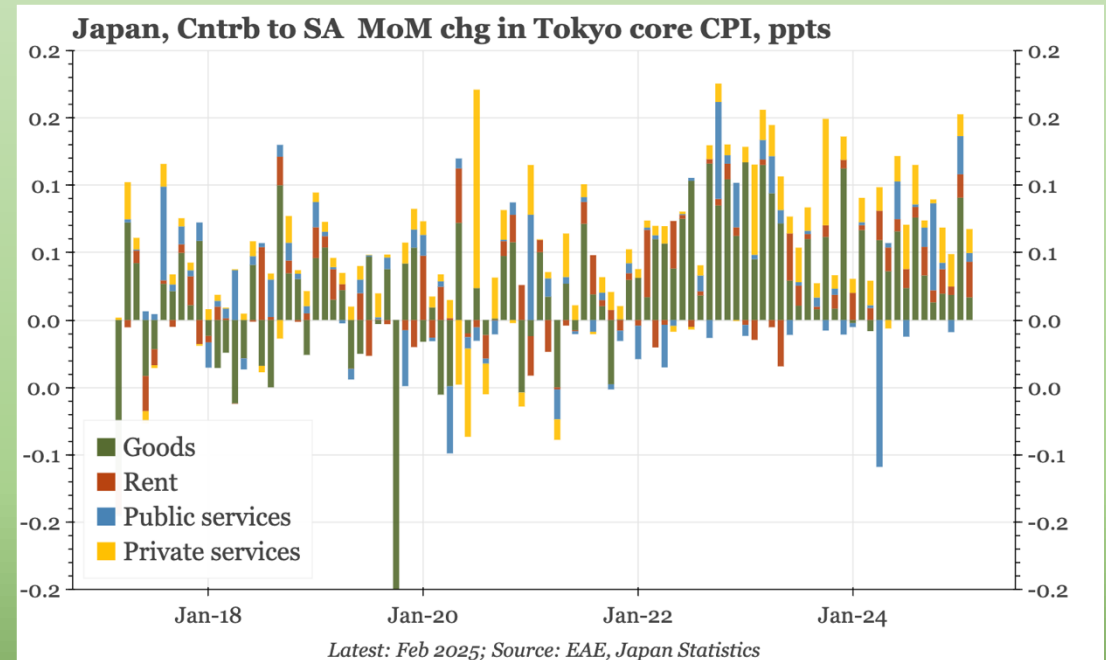
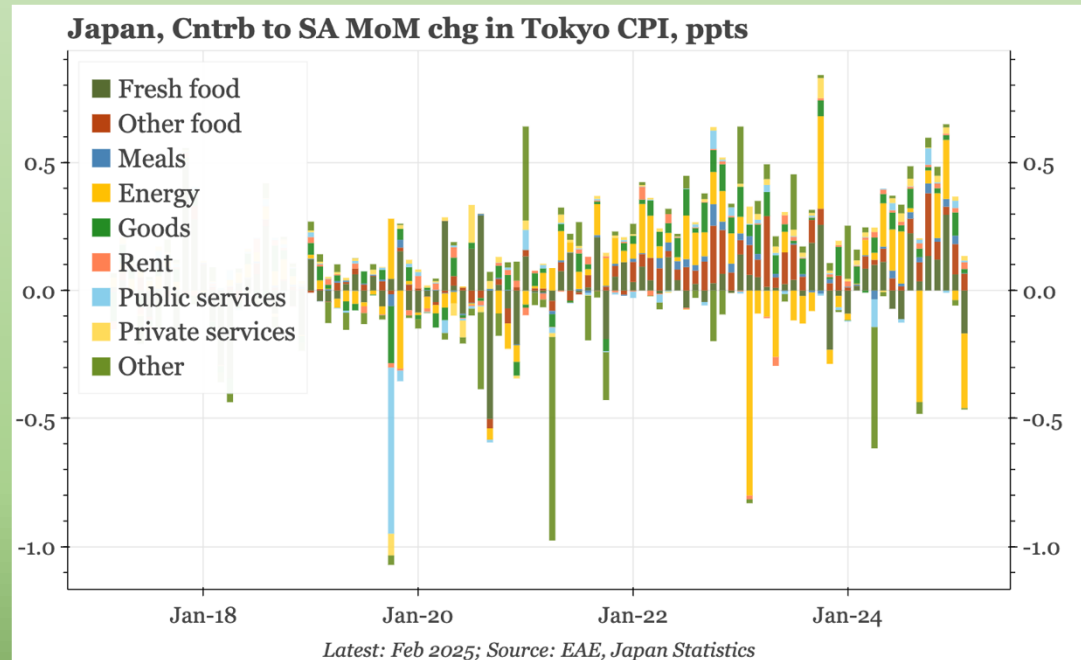
Labour market

...helped by policy

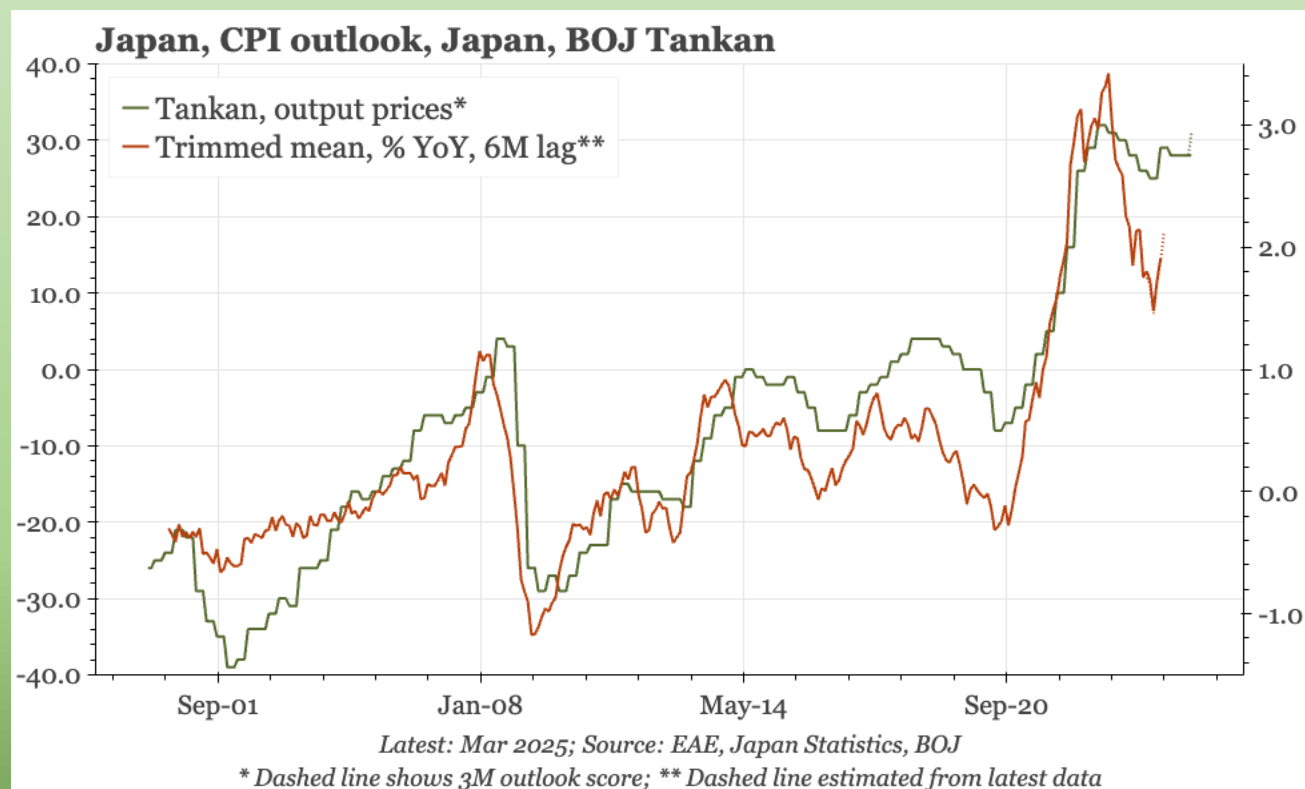


Underlying inflation

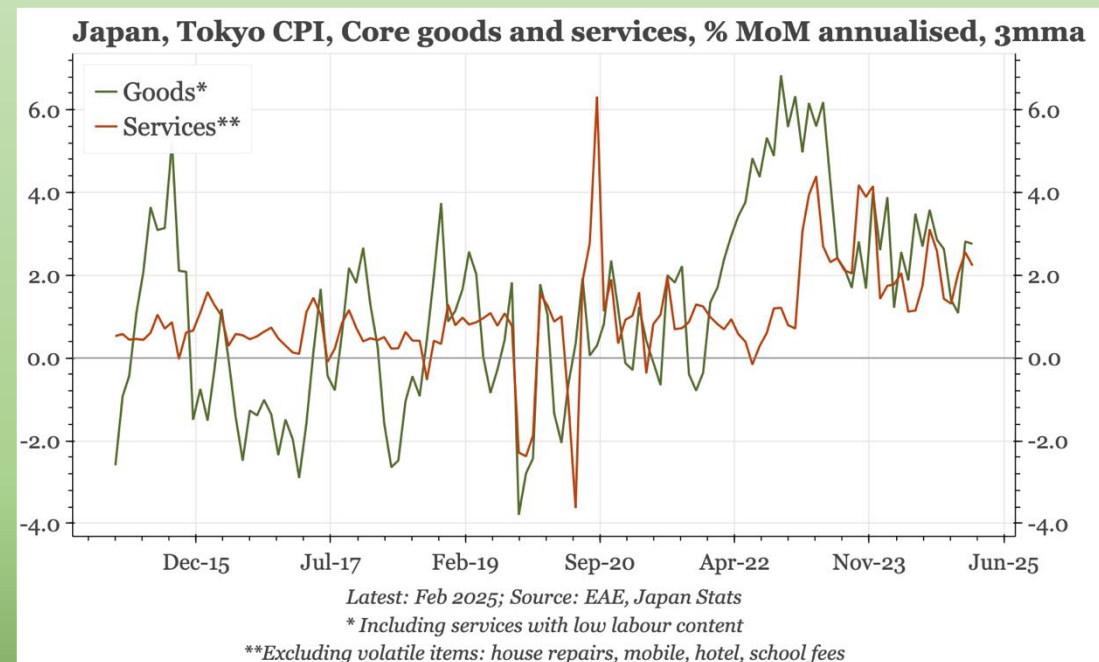
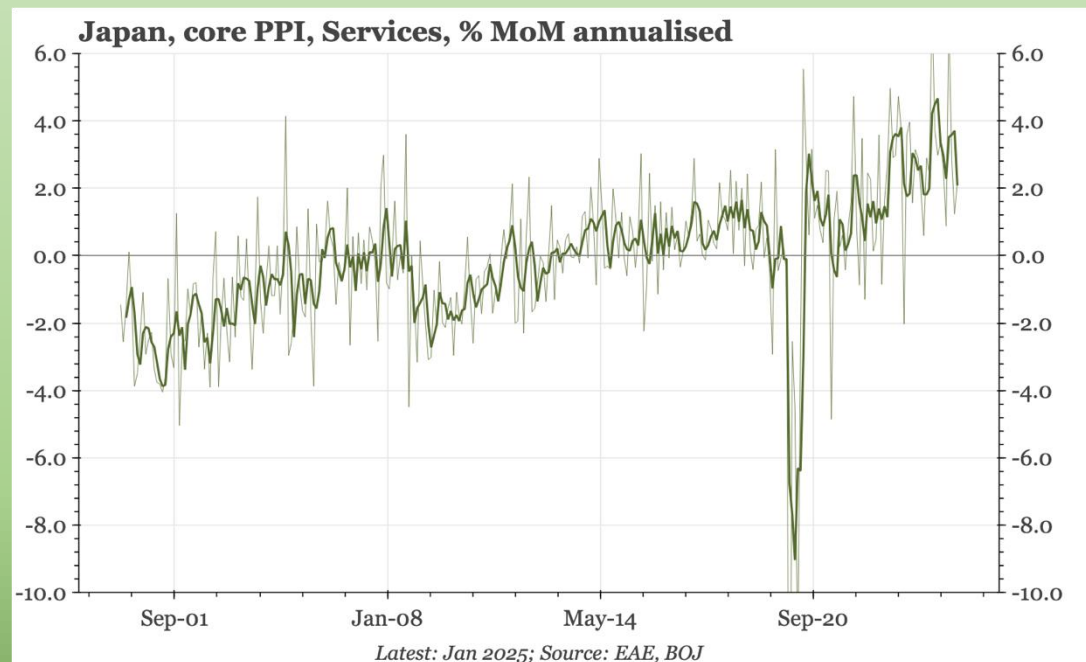
While the data are always messy...



Underlying inflation ...inflation is firm...



Underlying inflation ...though not moving higher



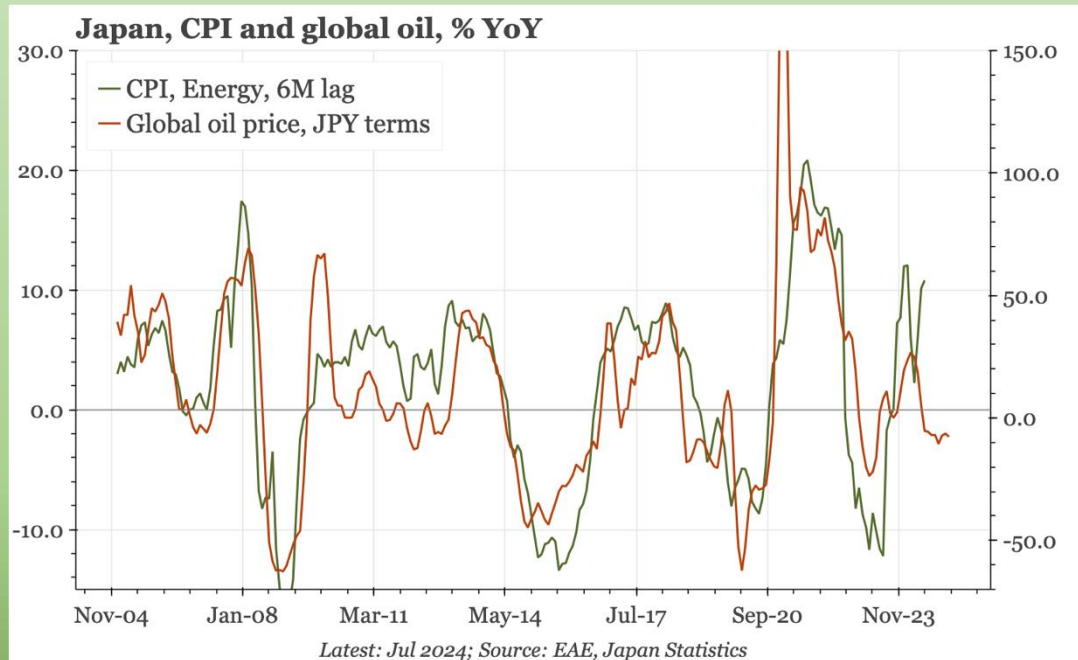
Upside risks

Wages are pointing higher



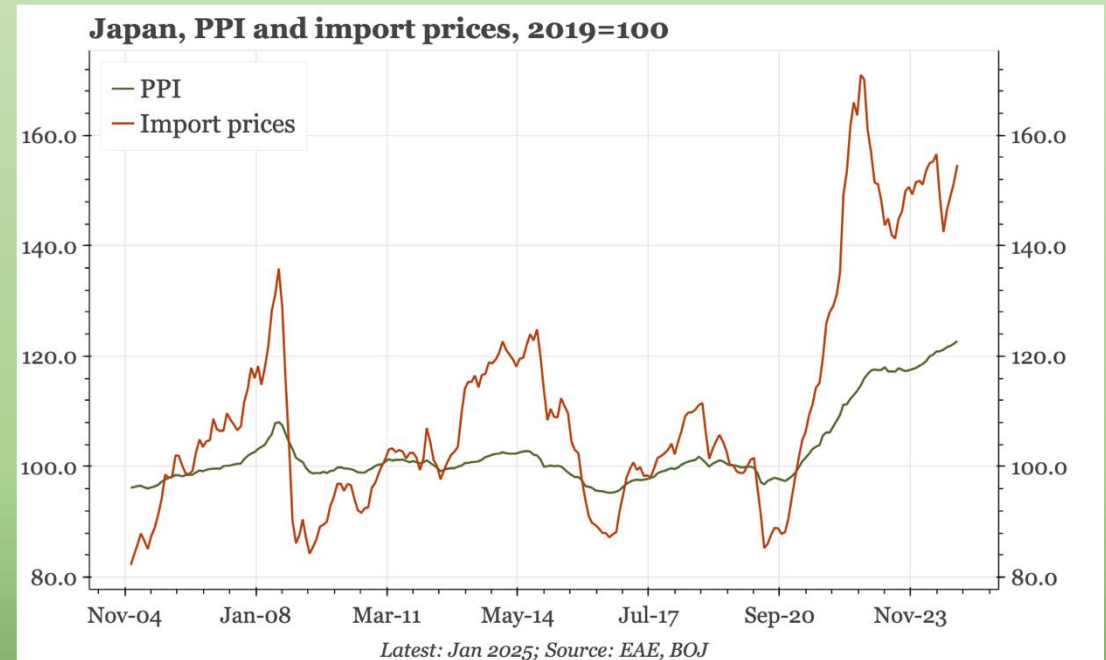
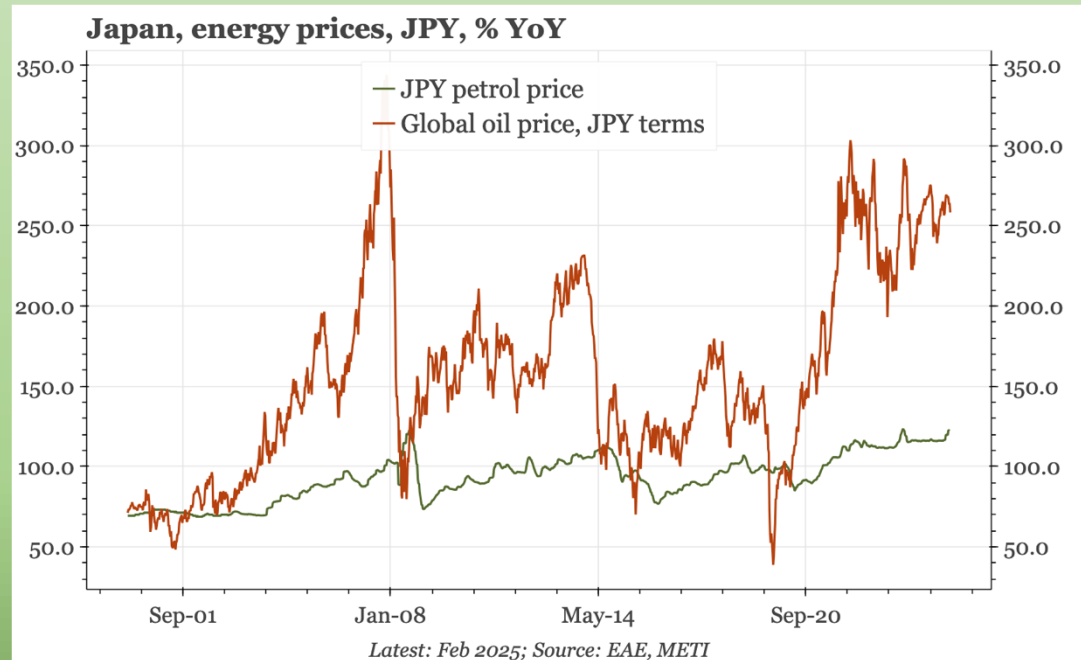
Upside risks

...and while import inflation has lessened



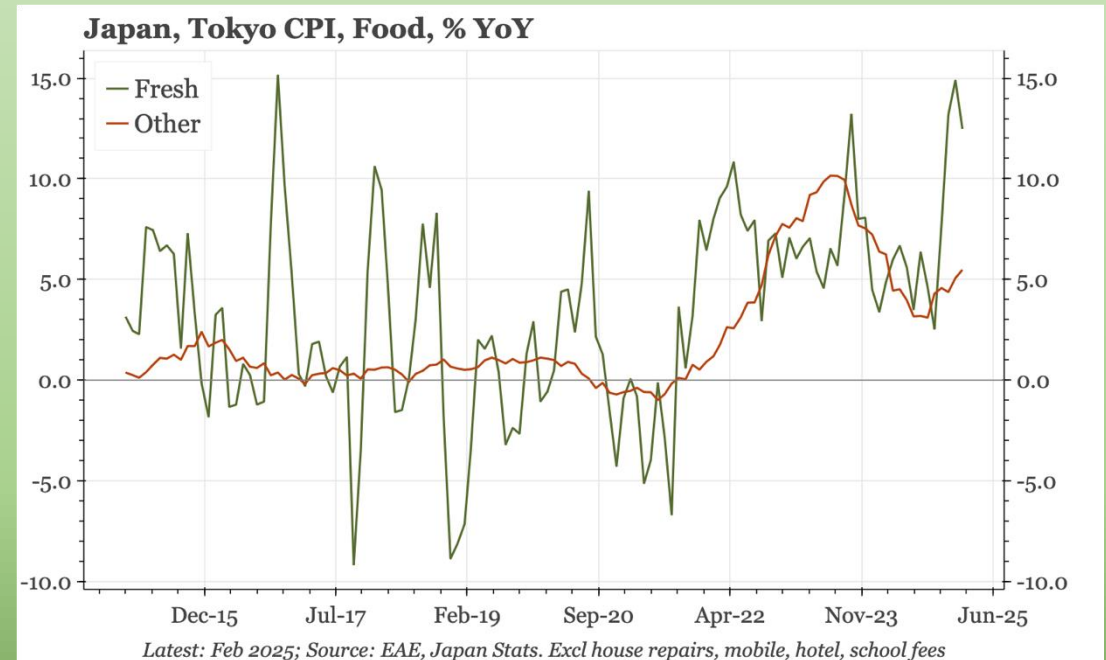
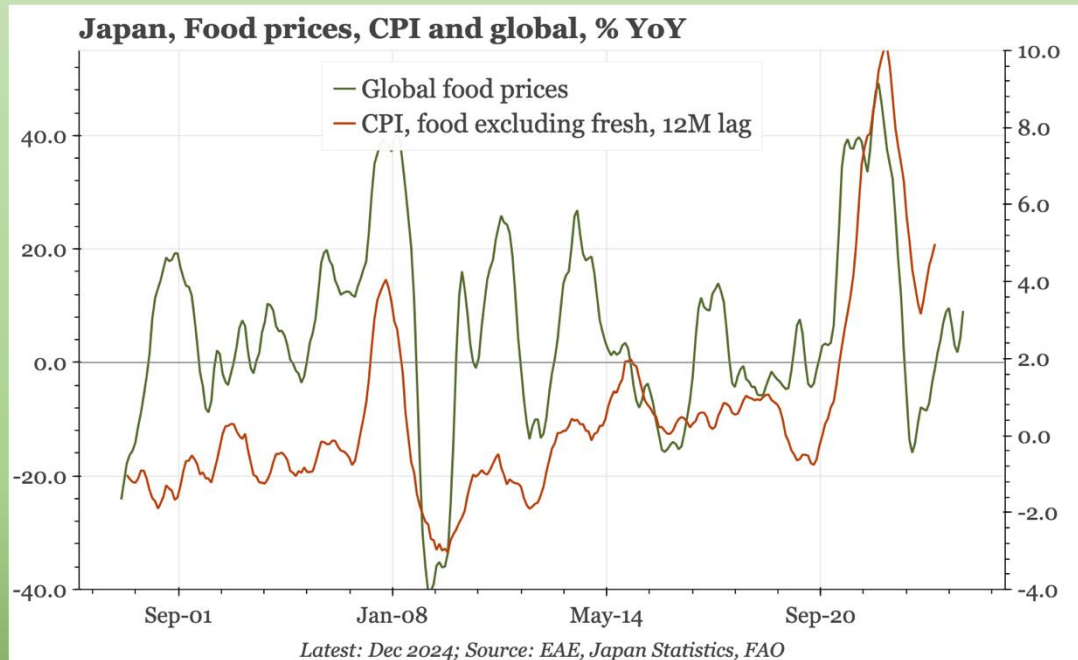
Upside risks

...there's still a lot of catch-up



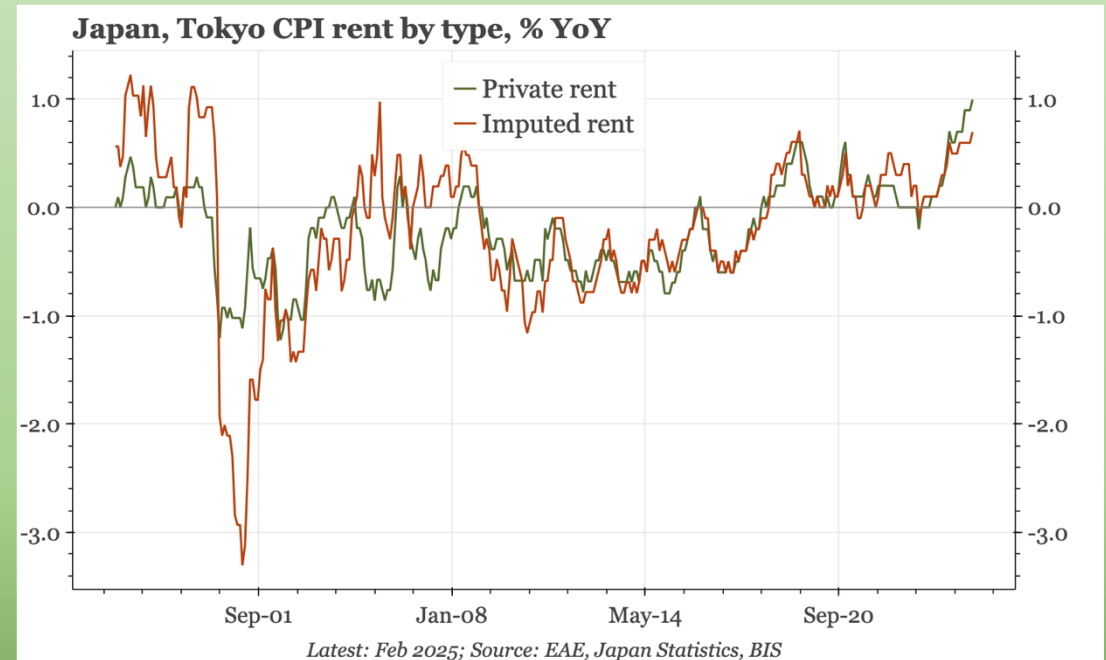
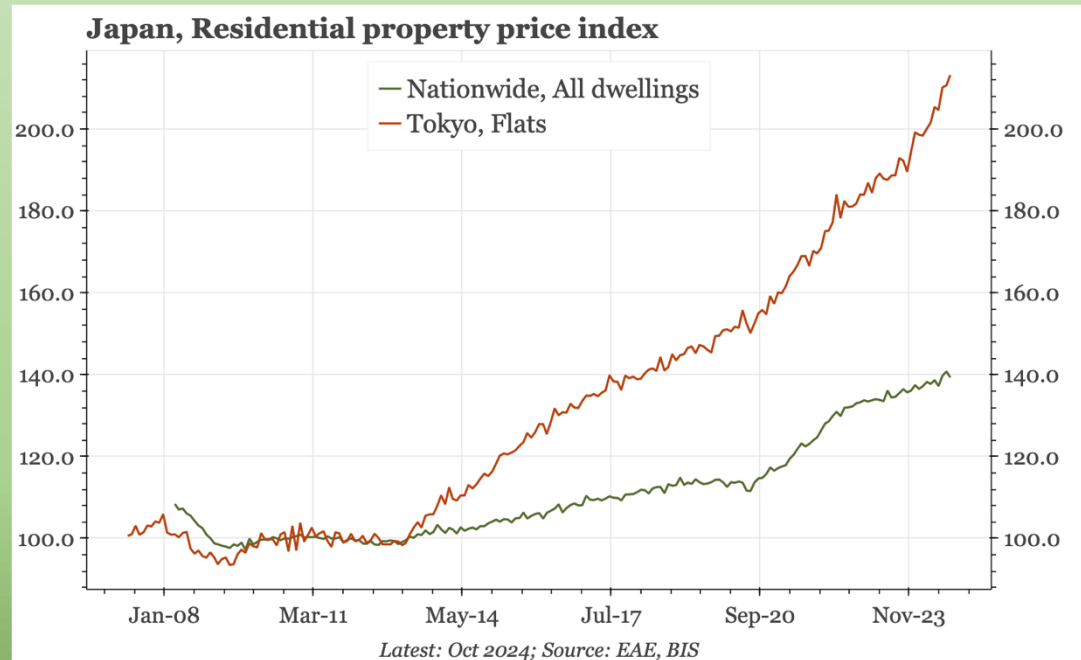
Upside risks

Higher food prices aren't just the JPY...



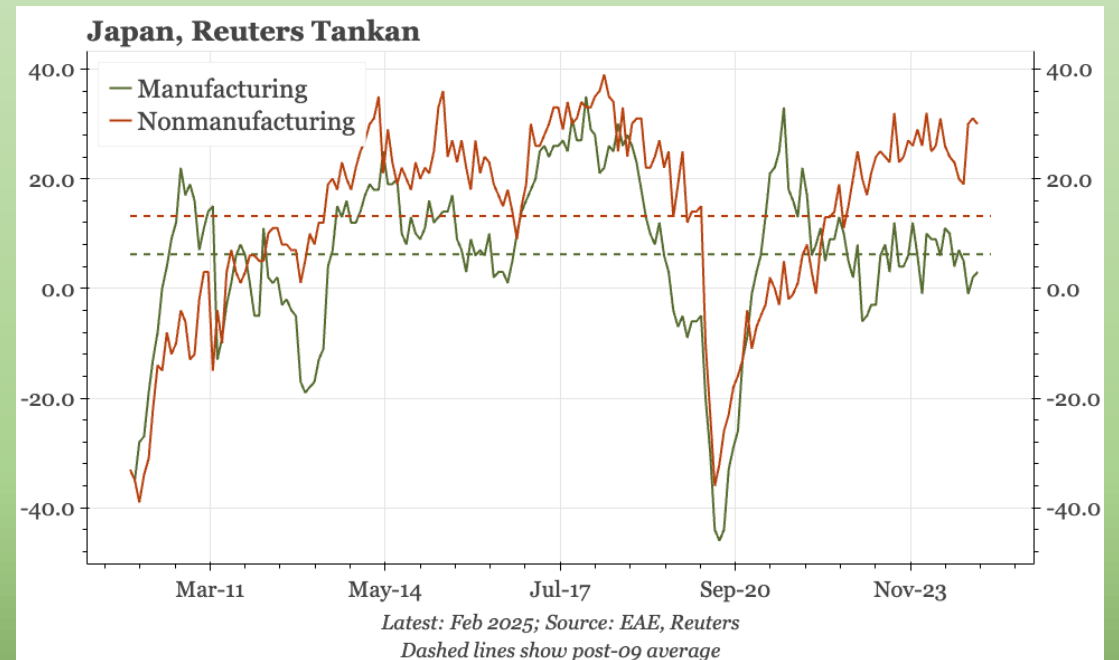
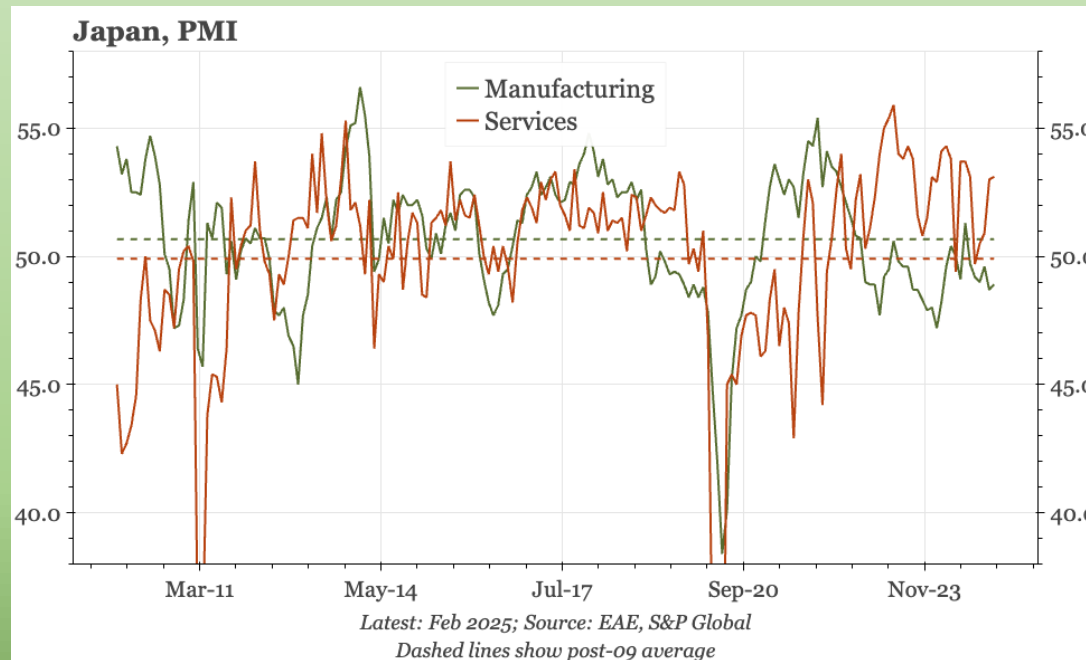
Upside risks

...and rents, too, are starting to move



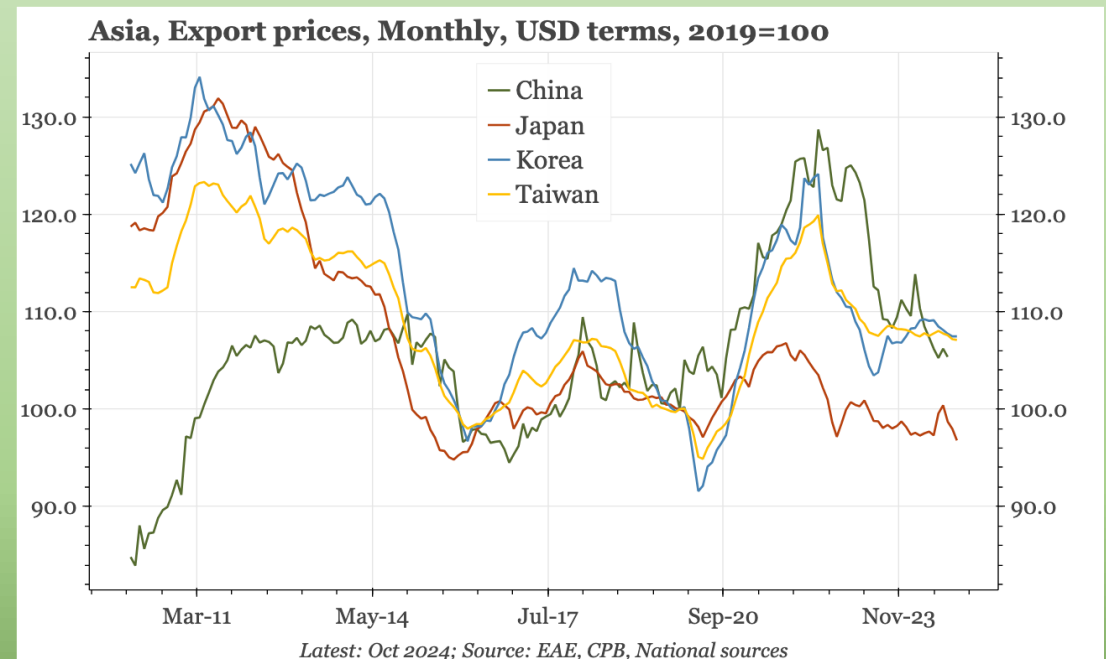
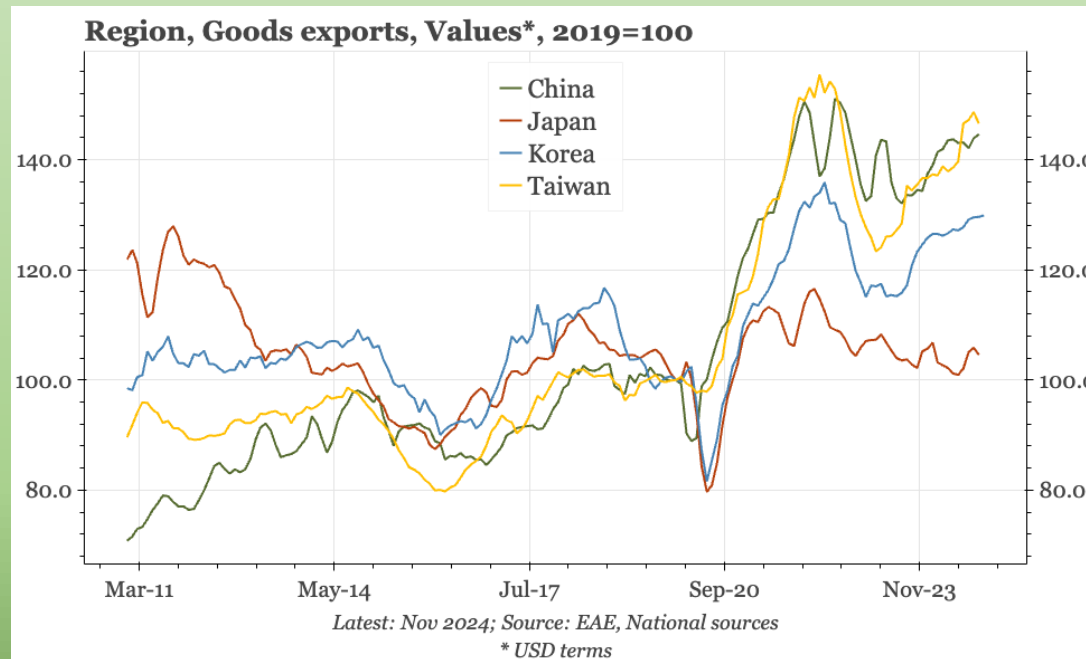
Other factors

Service-sector growth is still strong...



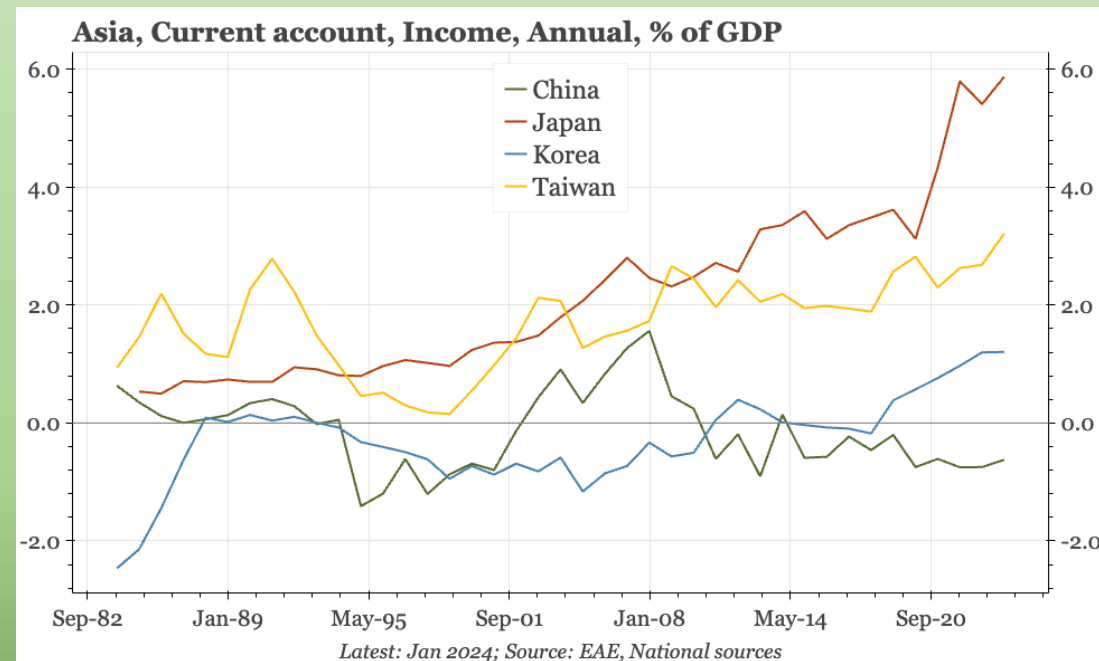
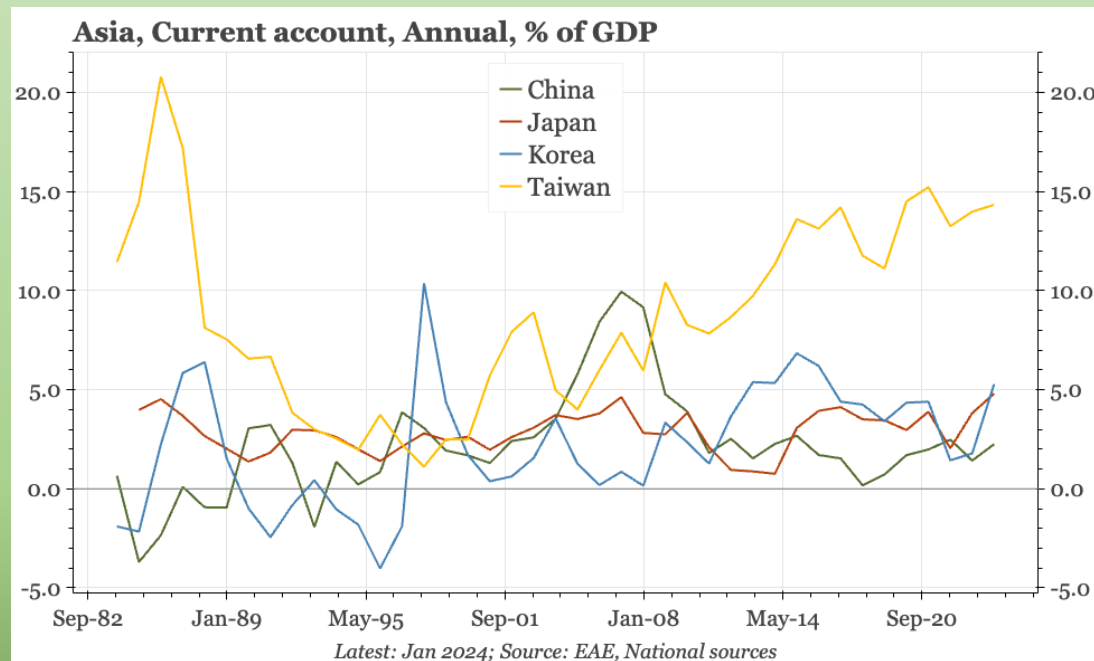
Other factors

...and while goods exports don't suggest lower \$JPY...



Other factors

...the CA surplus is at record highs



China

Japanification scorecard

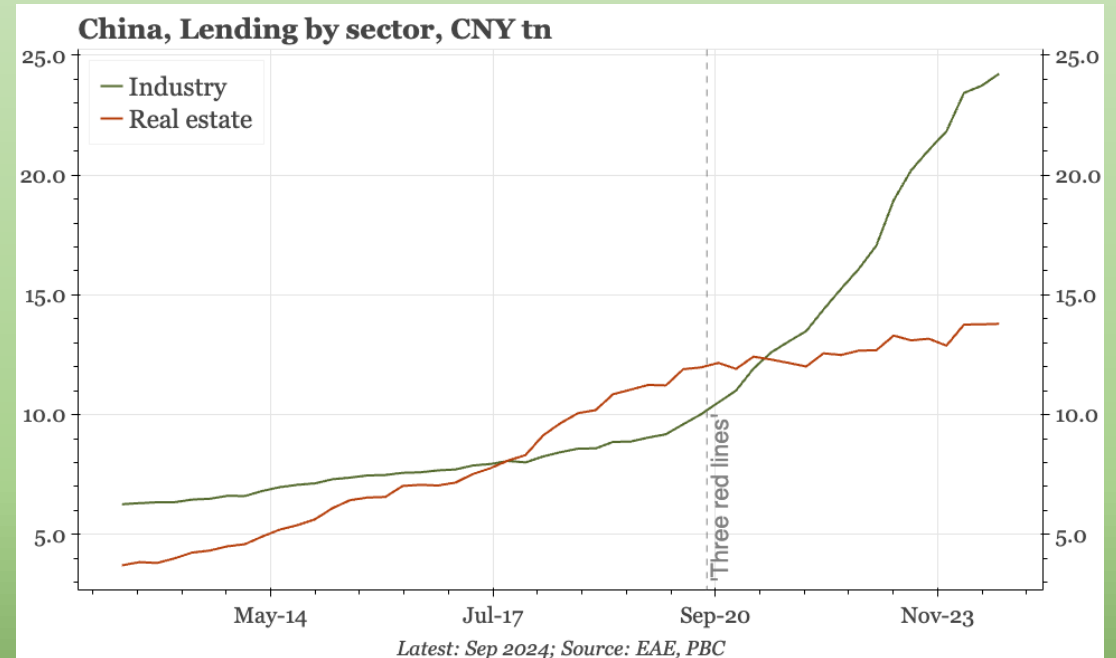
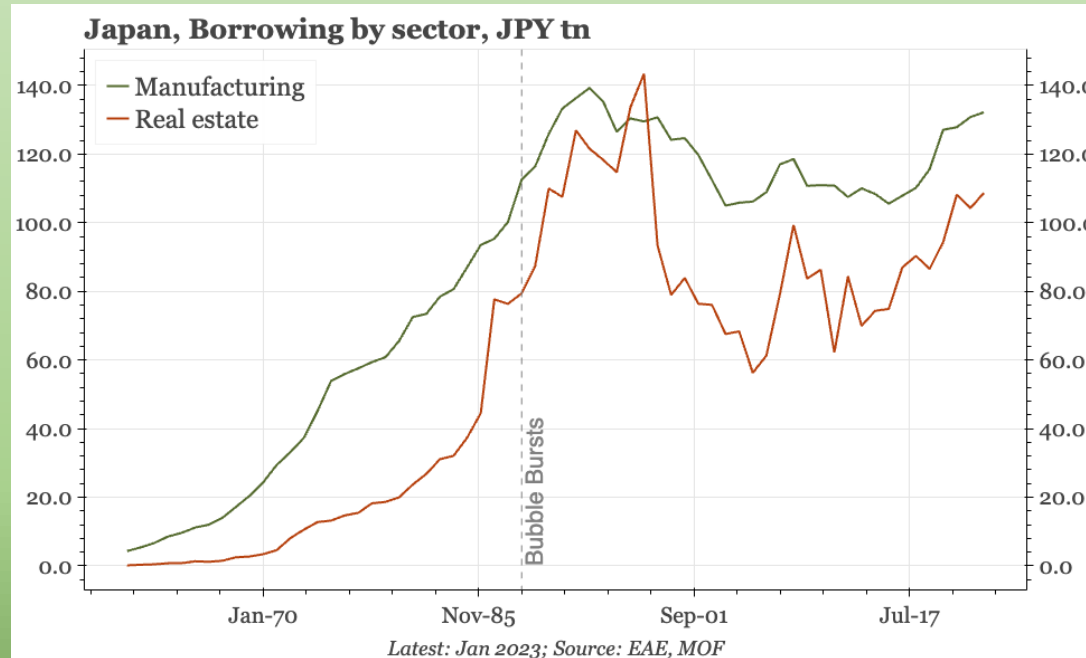
China isn't high

Category	Symptom	China score
Demand	Asset bubbles burst	2
Demand	Financial system instability	1
Demand	Tighter lending standards	1
Demand	Firms become net savers	0
Demand	Lower investment and productivity	0
Demand	Sidelined by globalisation and IT	0
Demand	Terrible demographics	2
Supply	Currency appreciation	0
Supply	Offshoring	0
Supply	Cheaper imports	0
Supply	Falling goods prices	2
Other	Inflated domestic costs	0
Other	Labour market deregulation	0
Other	Preference for sustaining employment	0
Other	Falling wages	1
OVERALL	Falling natural rate, ineffective policy	9/30

Note: Each category scored from 0 to 2

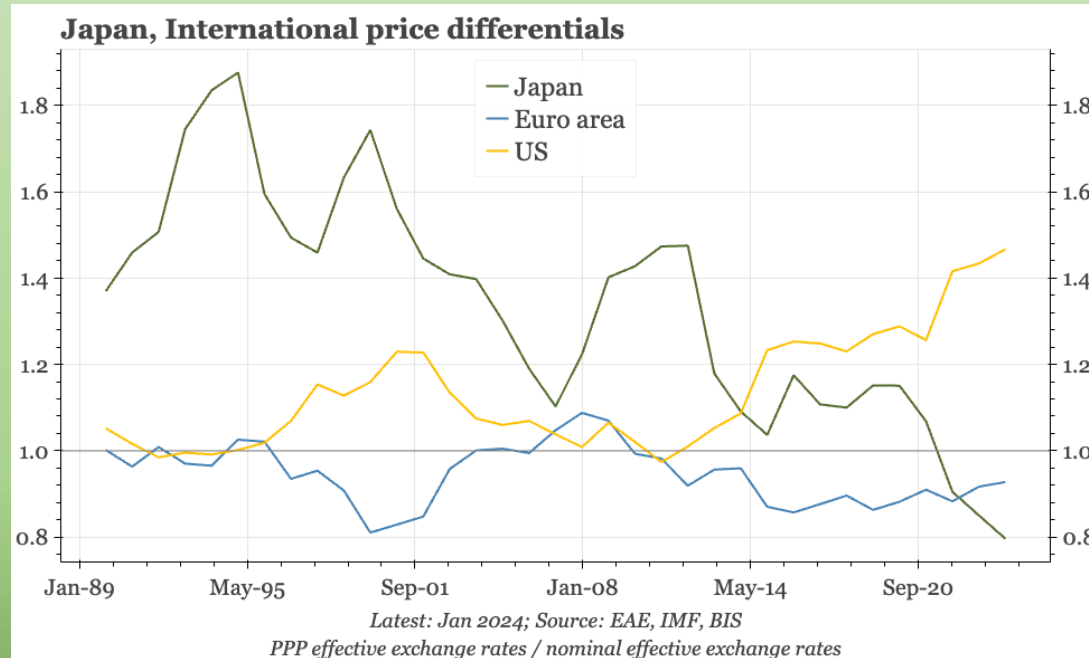
Japanification scorecard

Corporates aren't becoming savers



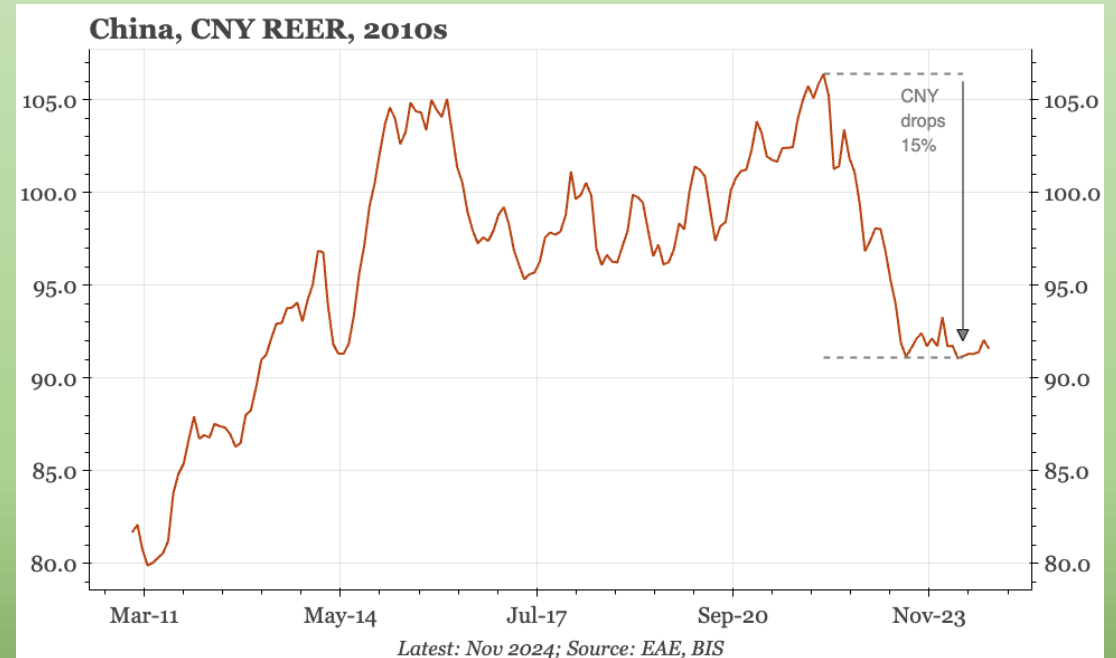
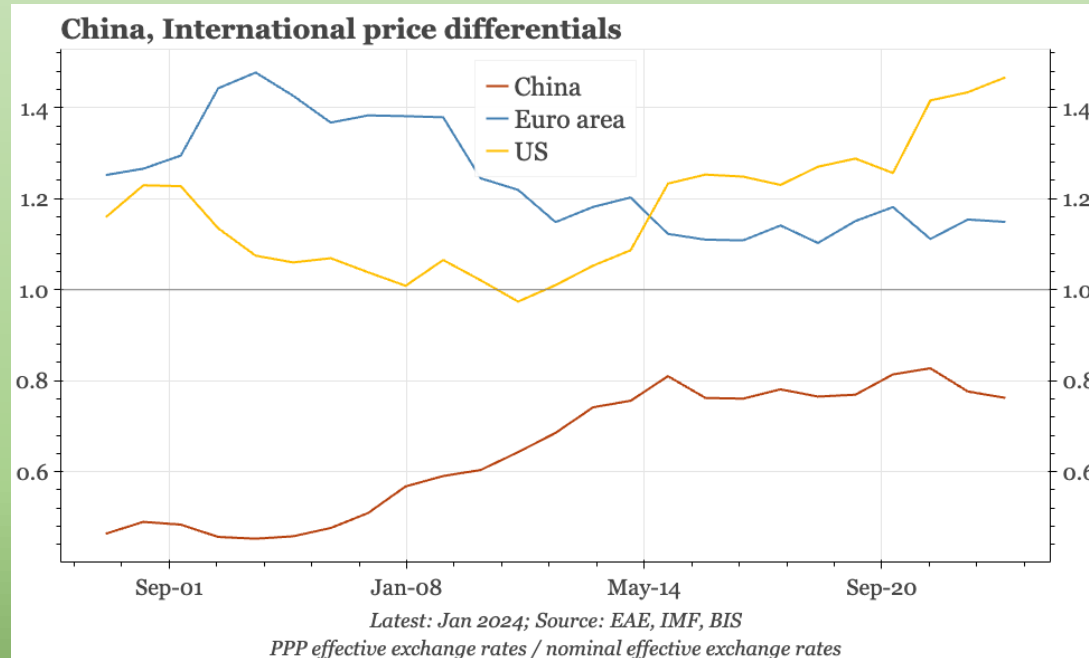
Japanification scorecard

Japan was costly...and got costlier still



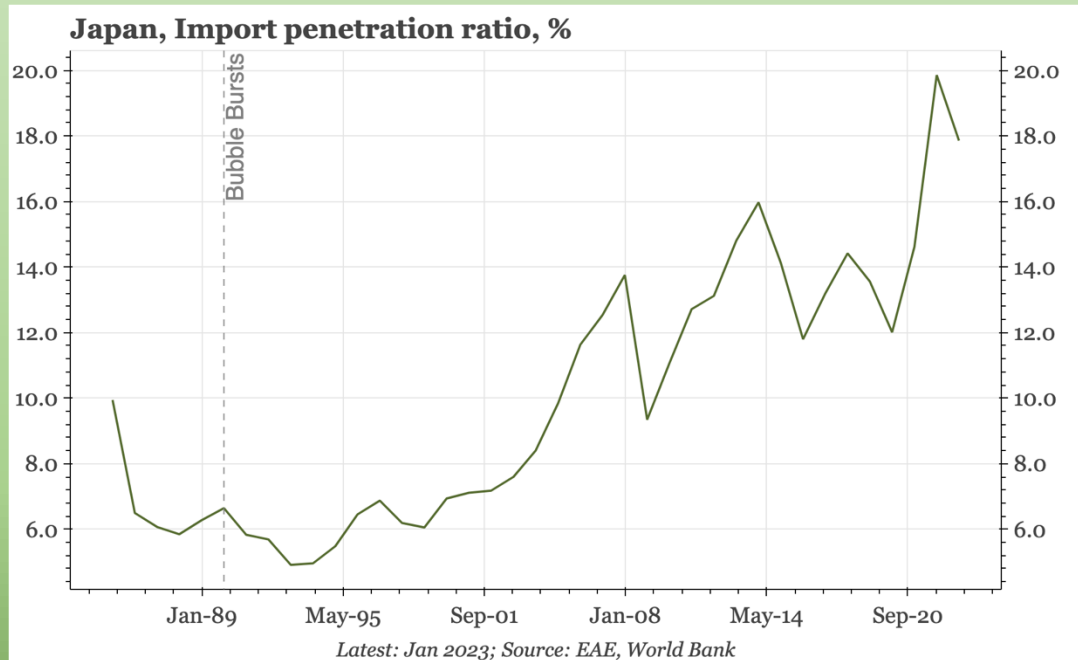
Japanification scorecard

China is cheap...and getting cheaper



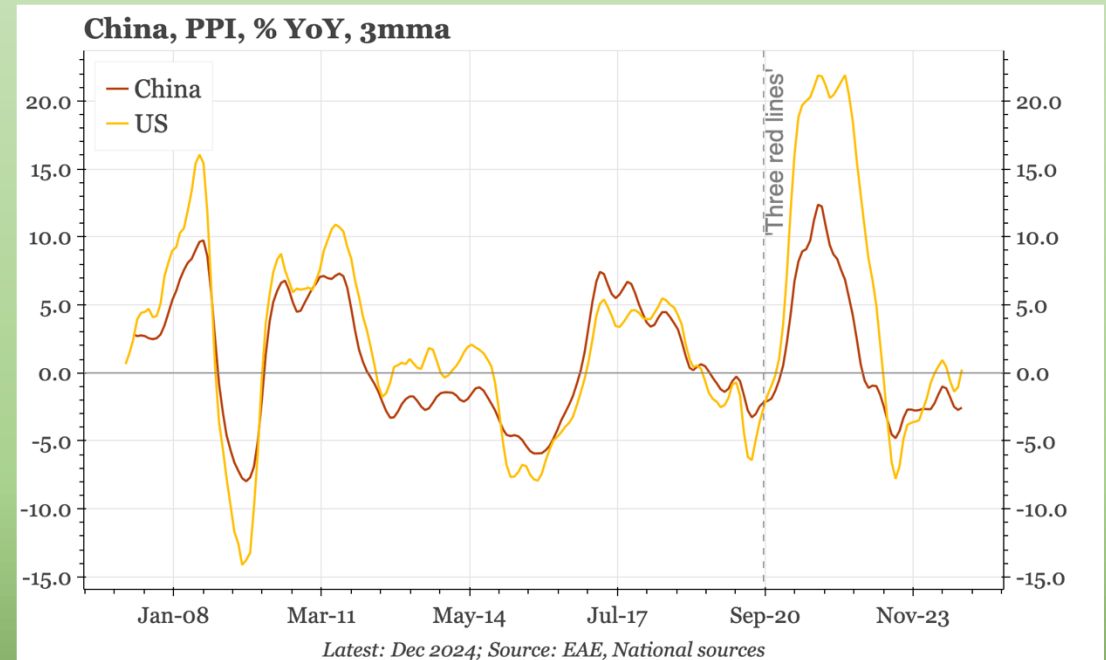
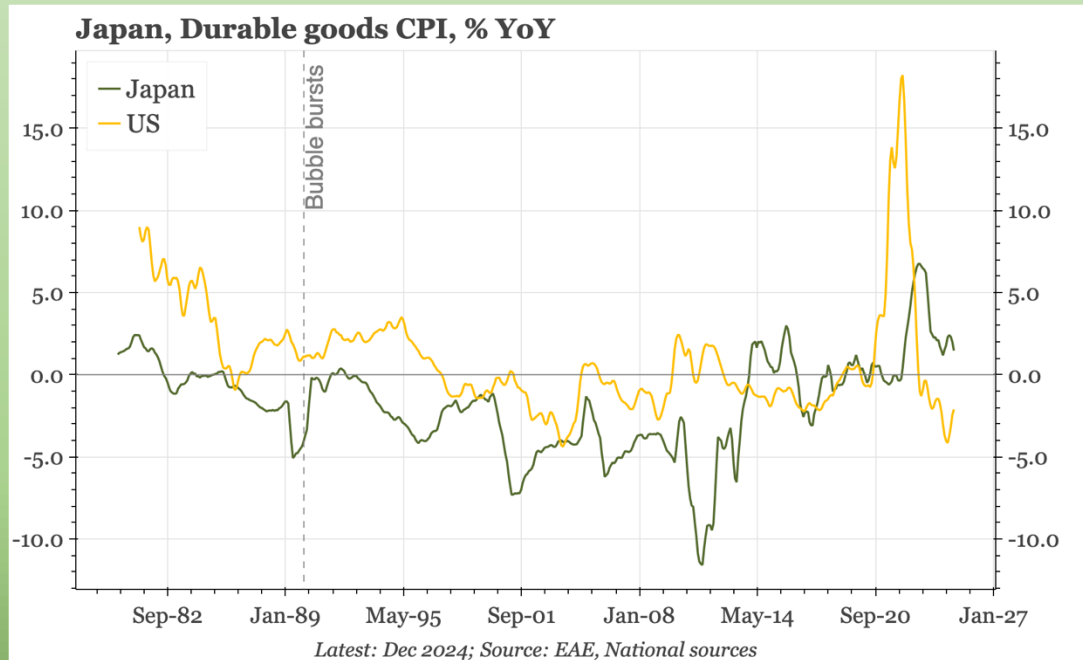
Japanification scorecard

No low-cost external competition...



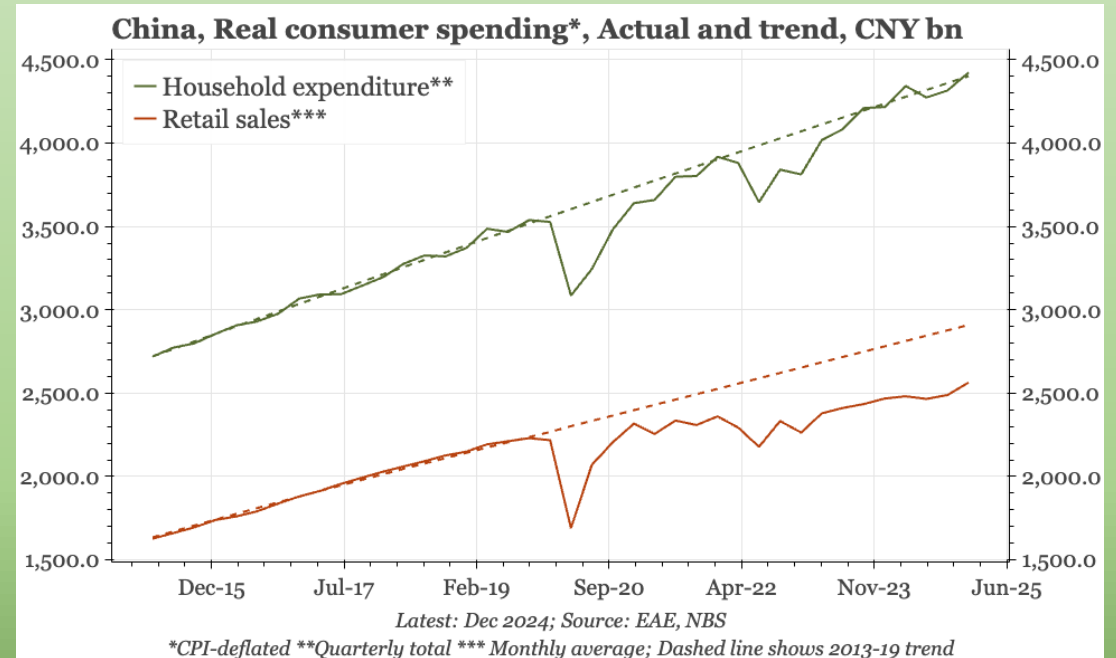
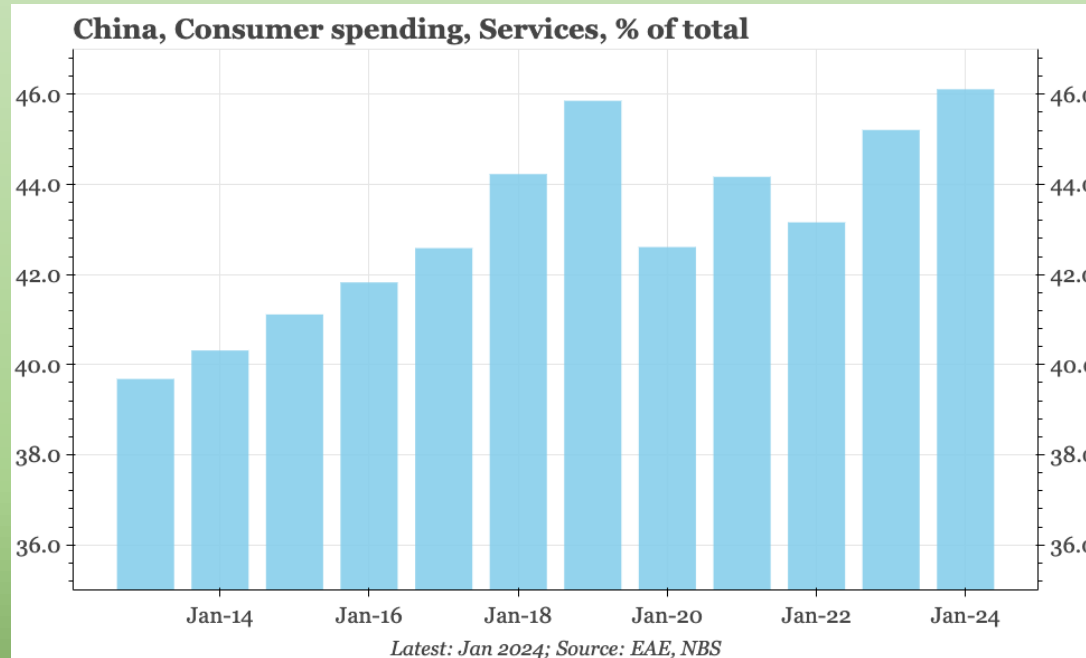
Japanification scorecard

...and some of China's deflation is global



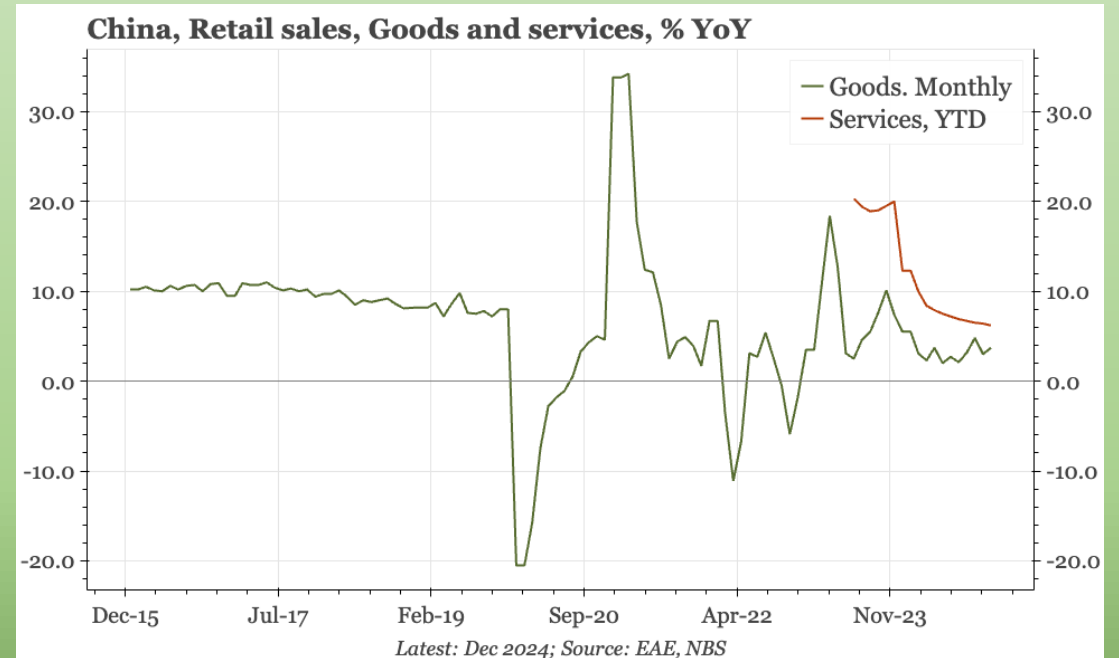
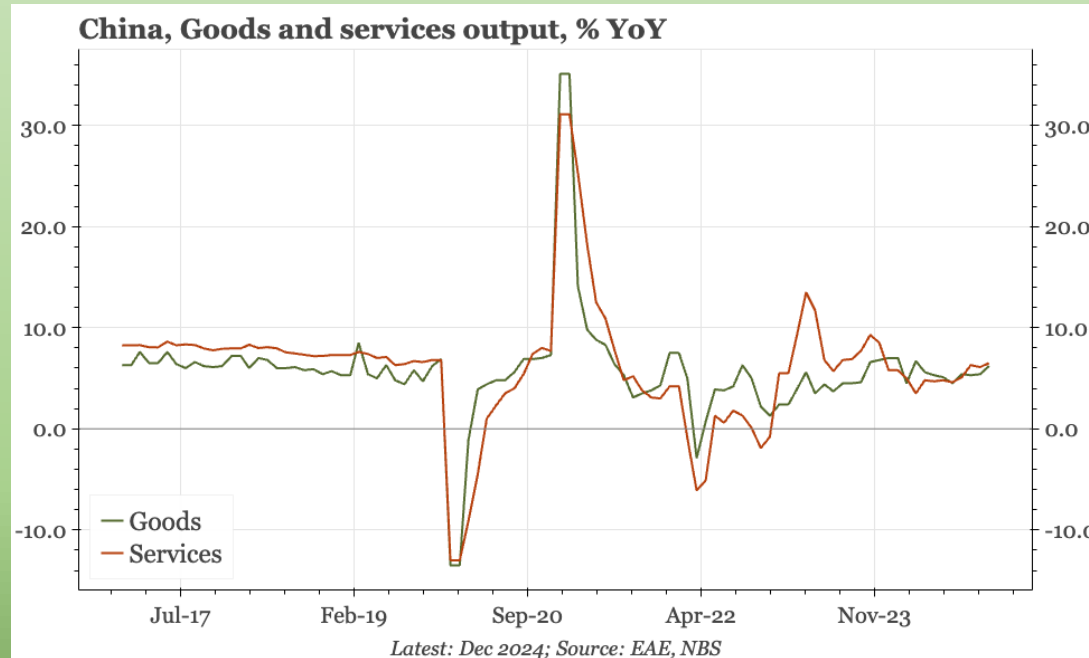
Domestic drivers

Consumption of services more than goods...



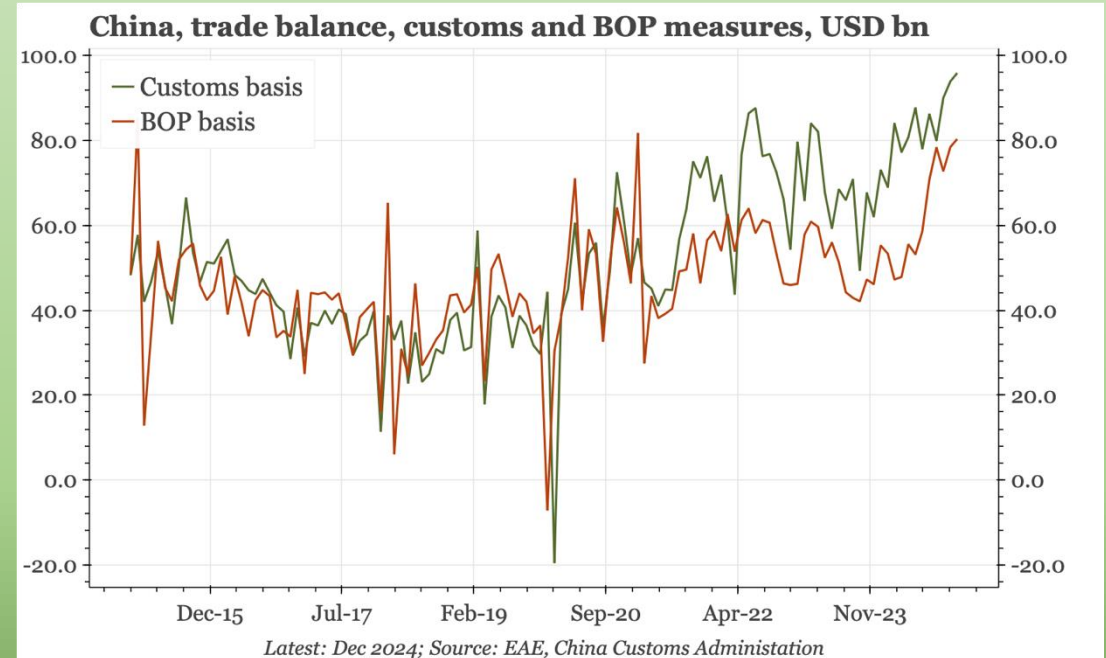
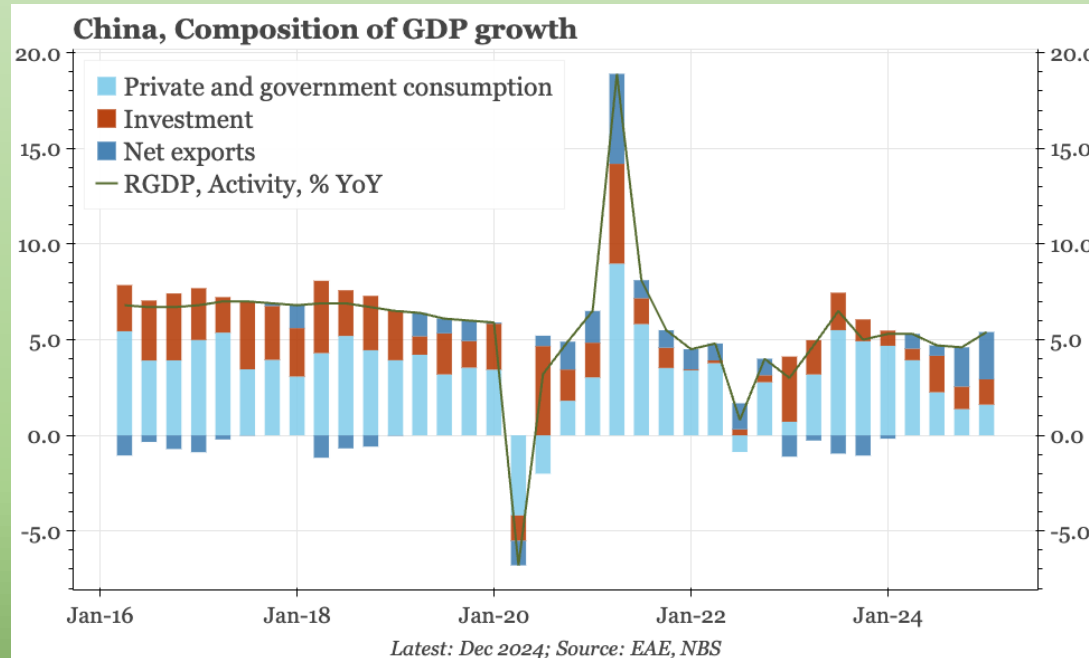
Domestic drivers

....and growth from services more than goods



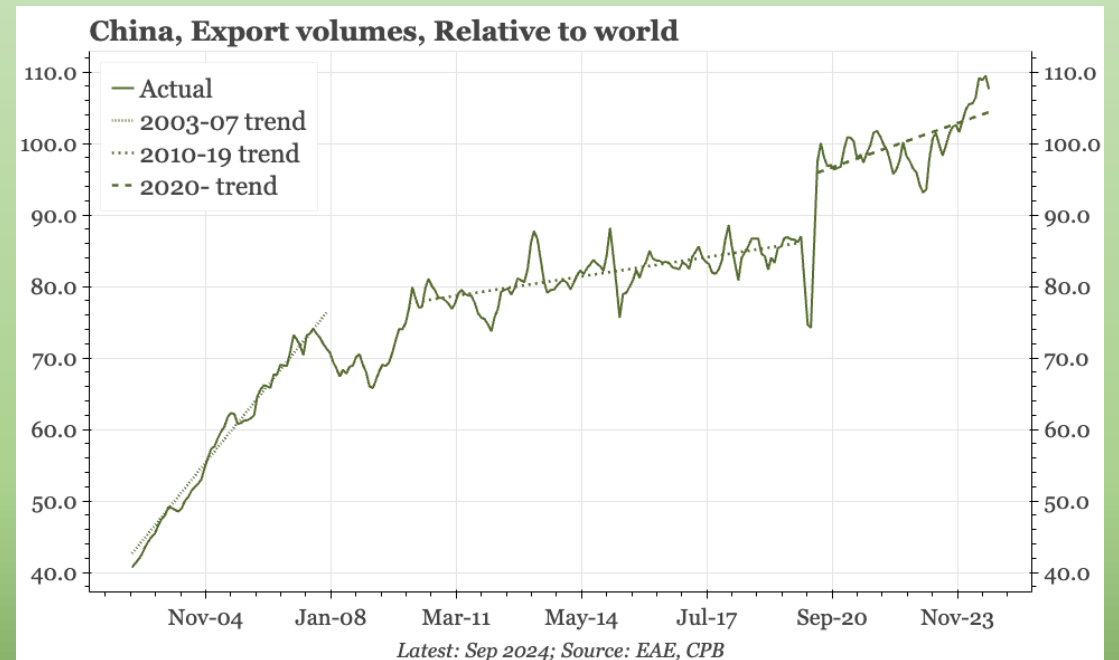
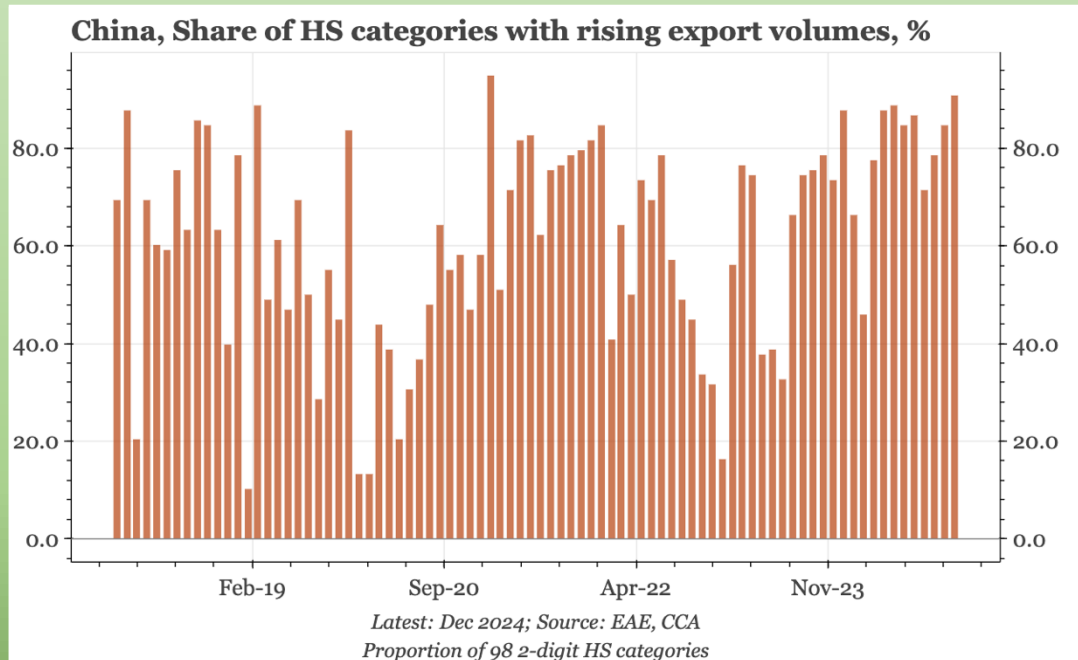
Domestic drivers

Exports clearly matter...



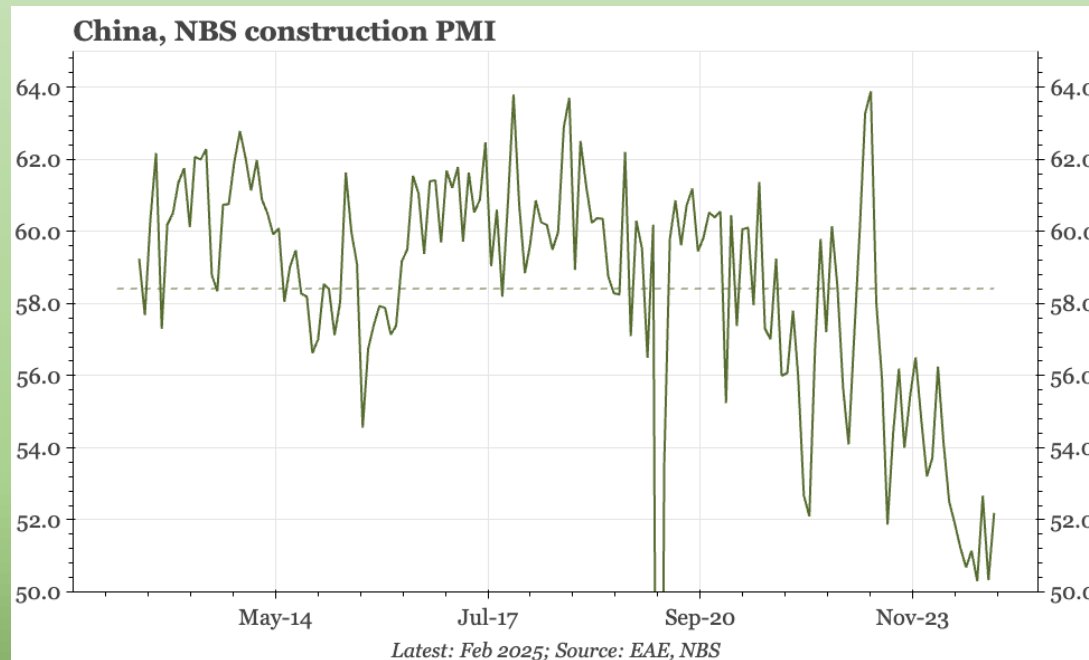
Domestic drivers

...and export competitiveness is clearly strong



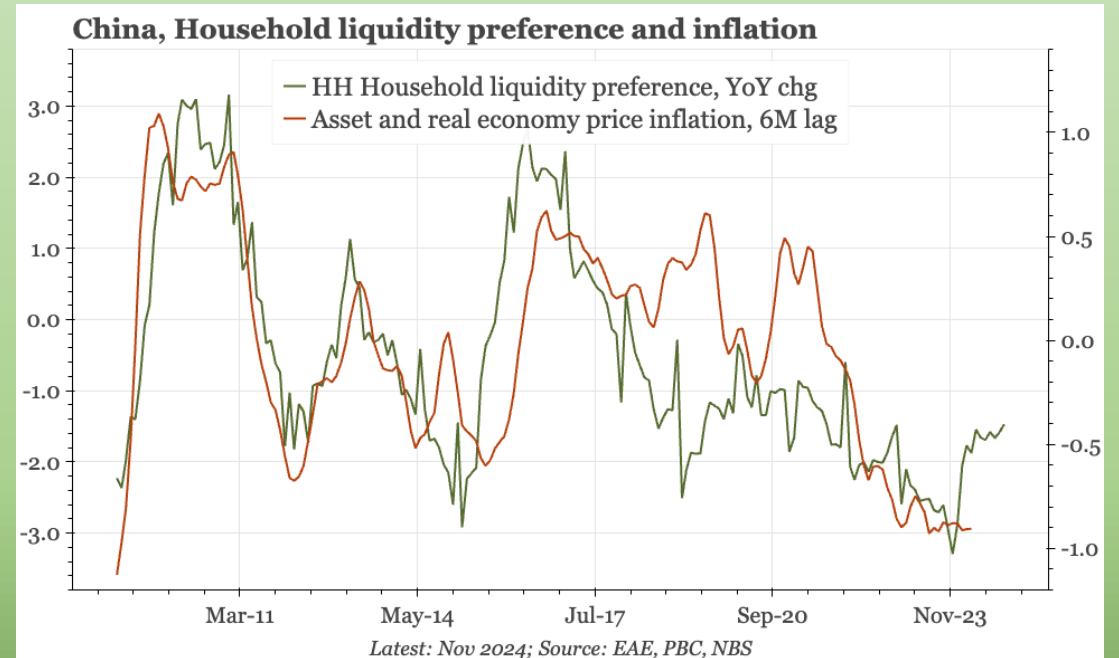
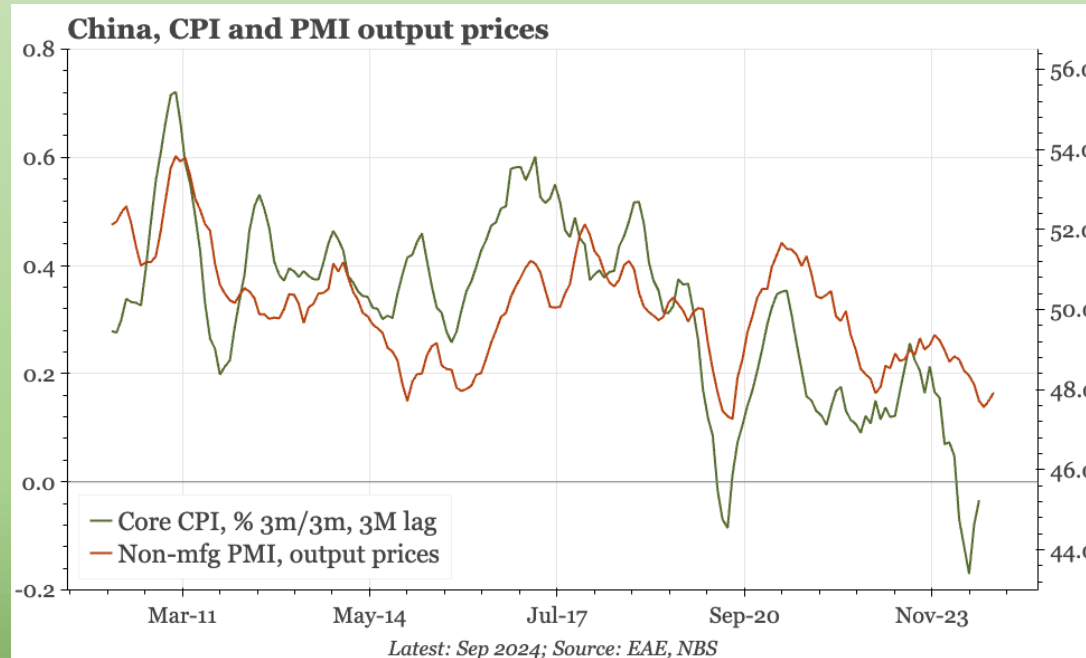
Cycle

Bottoming out, not much improvement...



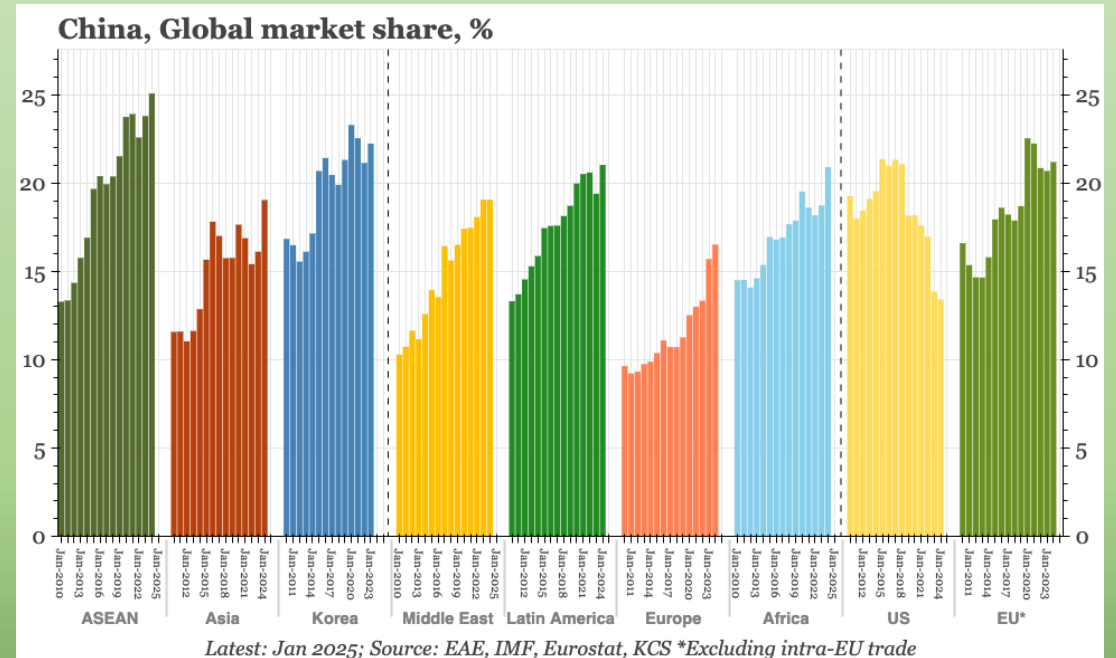
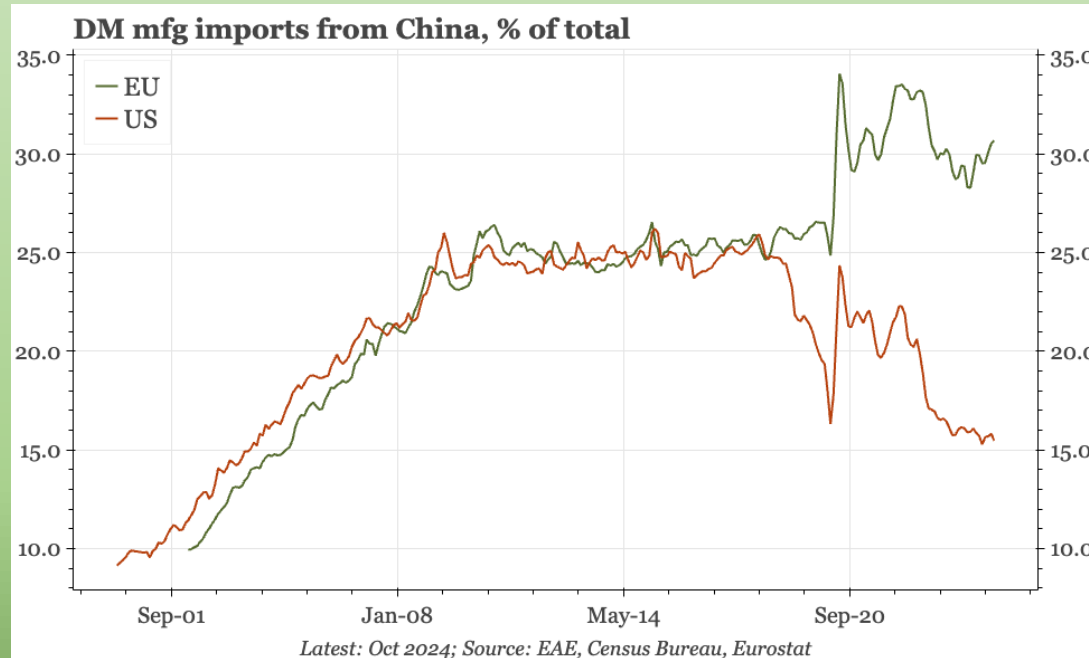
Cycle

...and the same for inflation



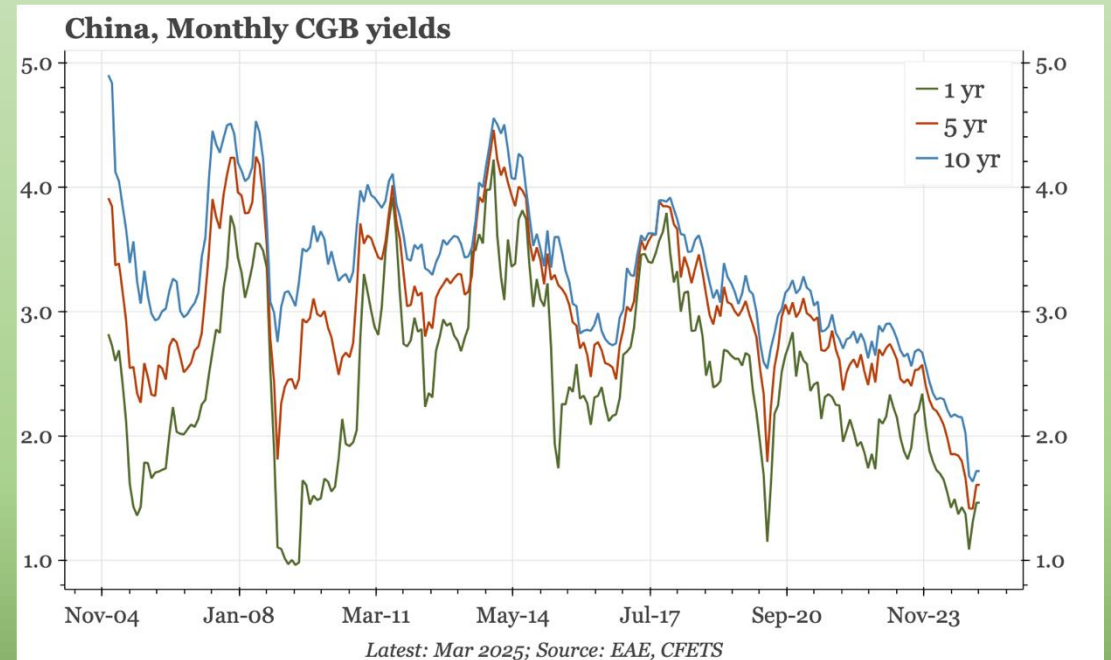
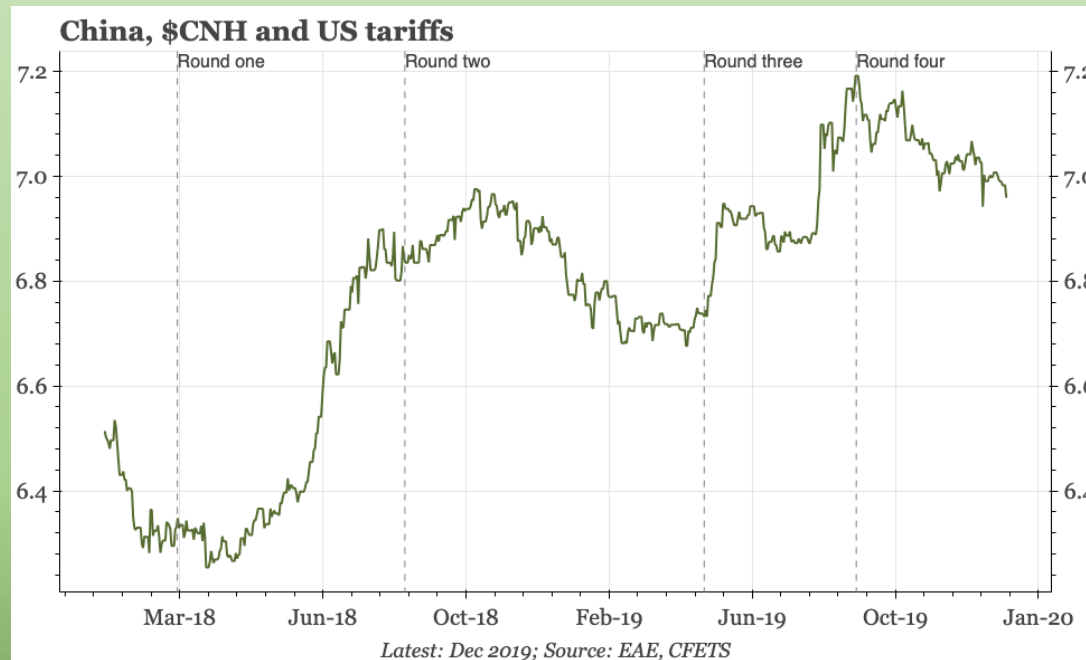
Cycle

US tariffs will need to be broad...



Cycle

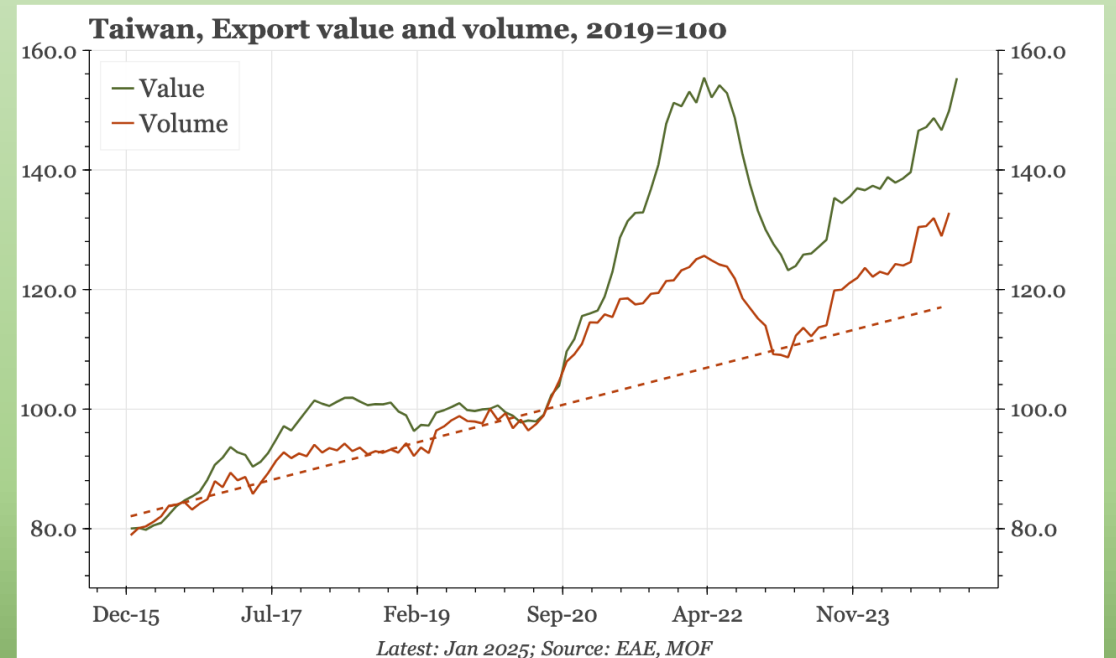
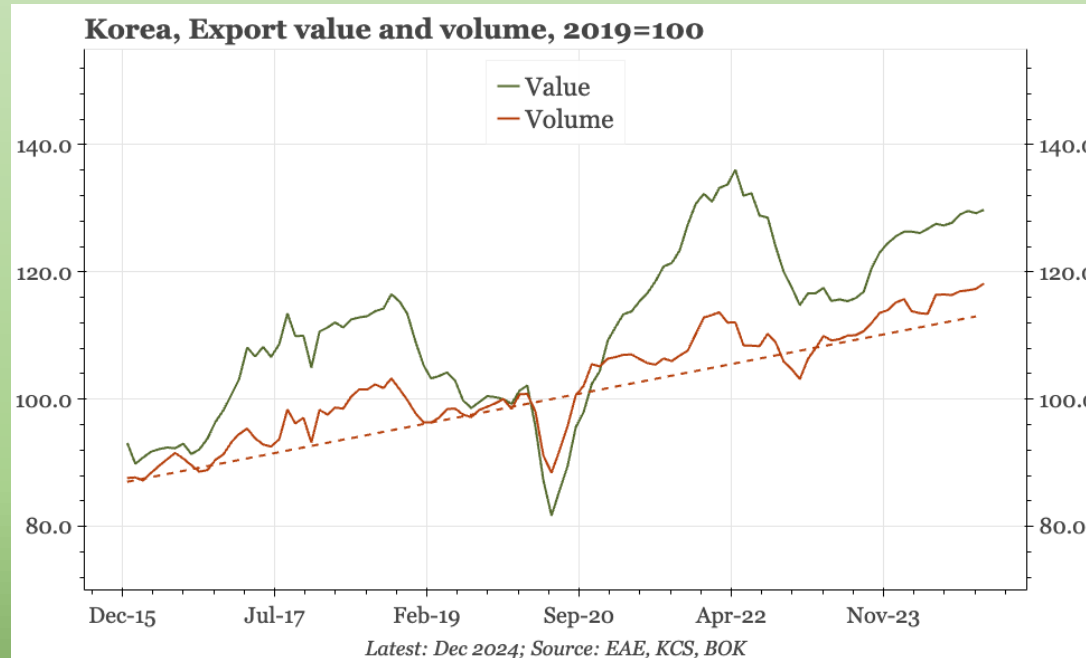
...but cyclically, not much to fear from weaker CNY



Korea and Taiwan

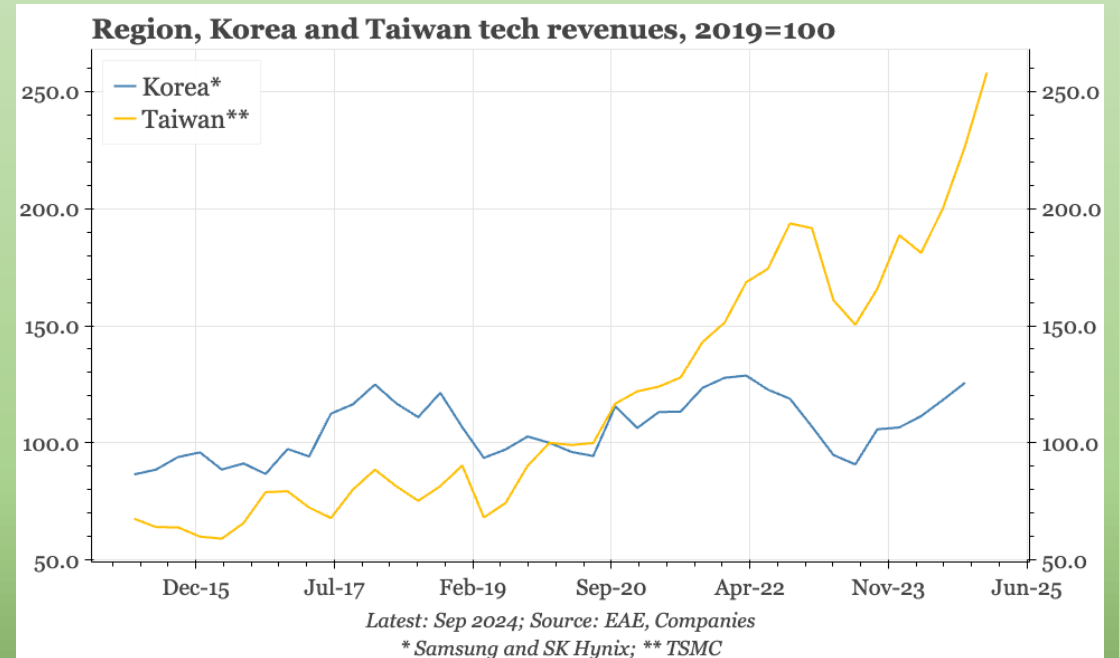
Two different stories

Taiwan takes off



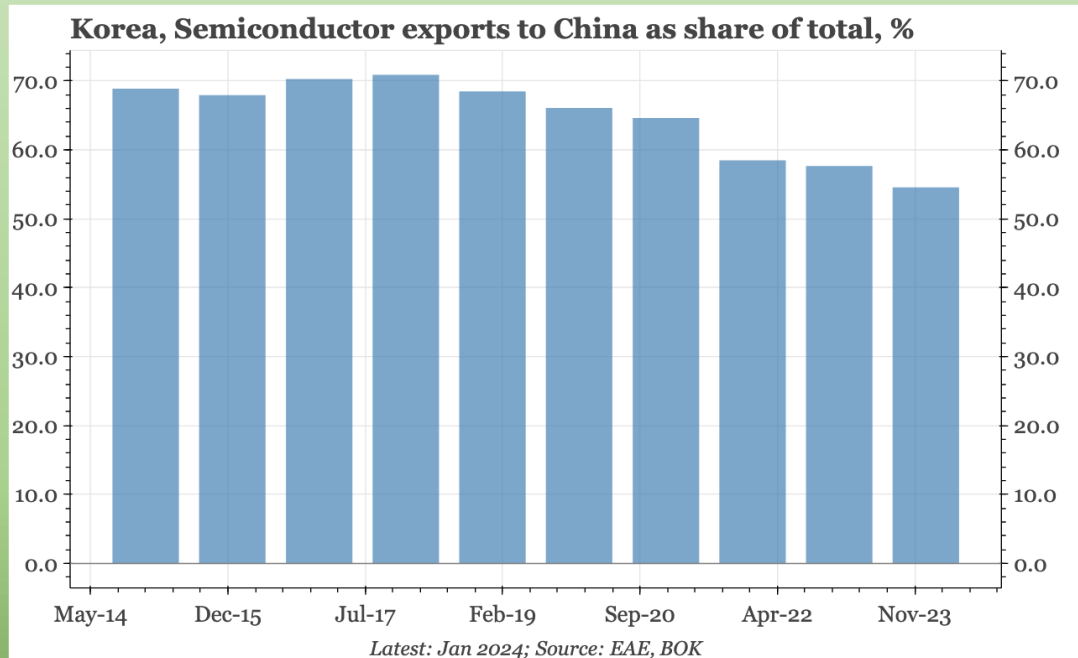
Korea's first headwind: semi struggles

TSMC surges, Samsung slumps



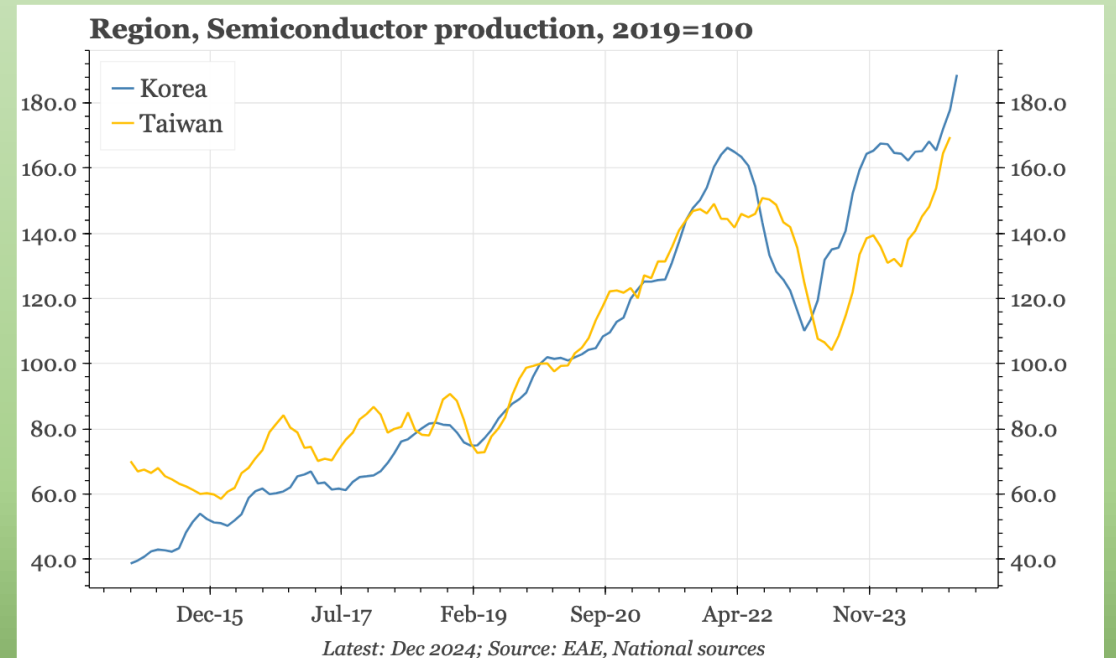
Korea's first headwind: semi struggles

Losing China share, becoming supplier to Taiwan



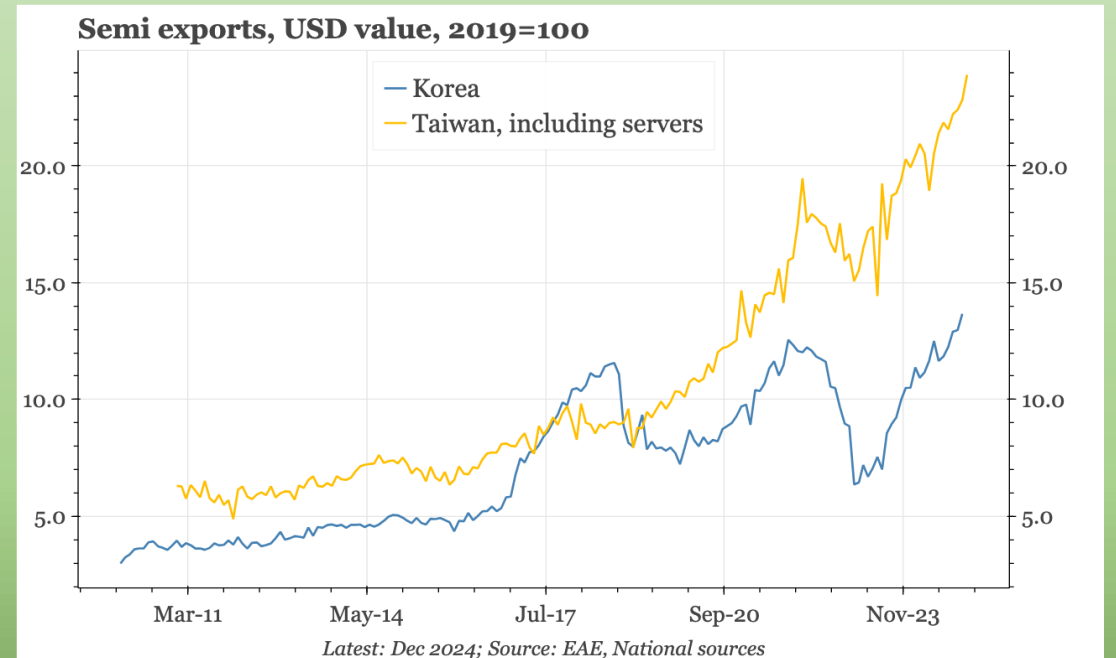
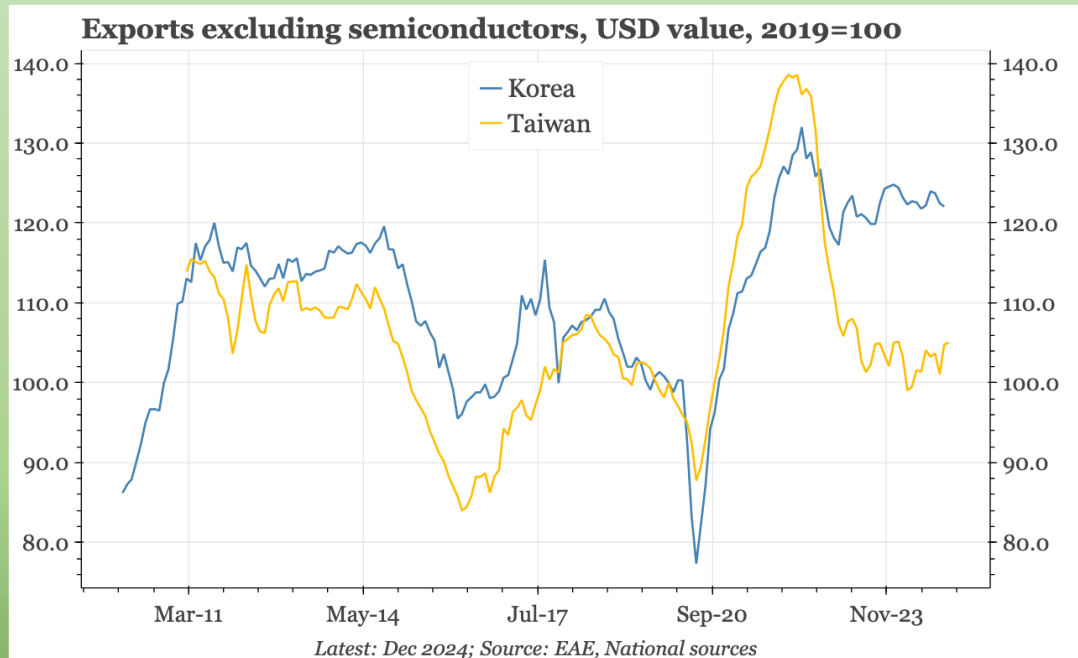
Korea's first headwind: semi struggles

Output fine, prices weak



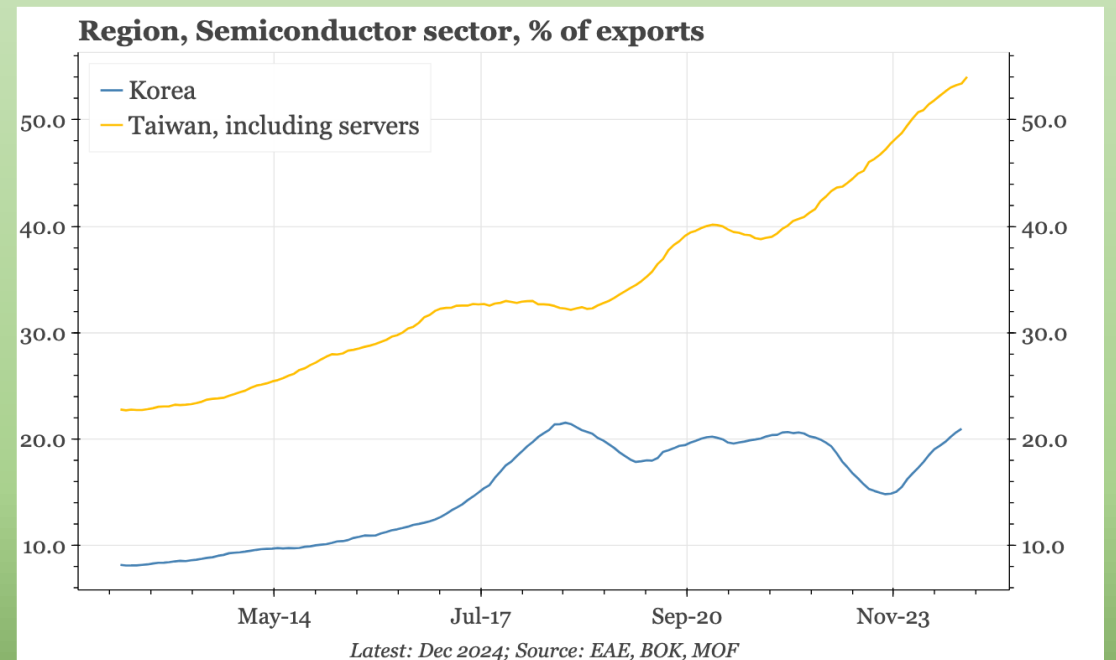
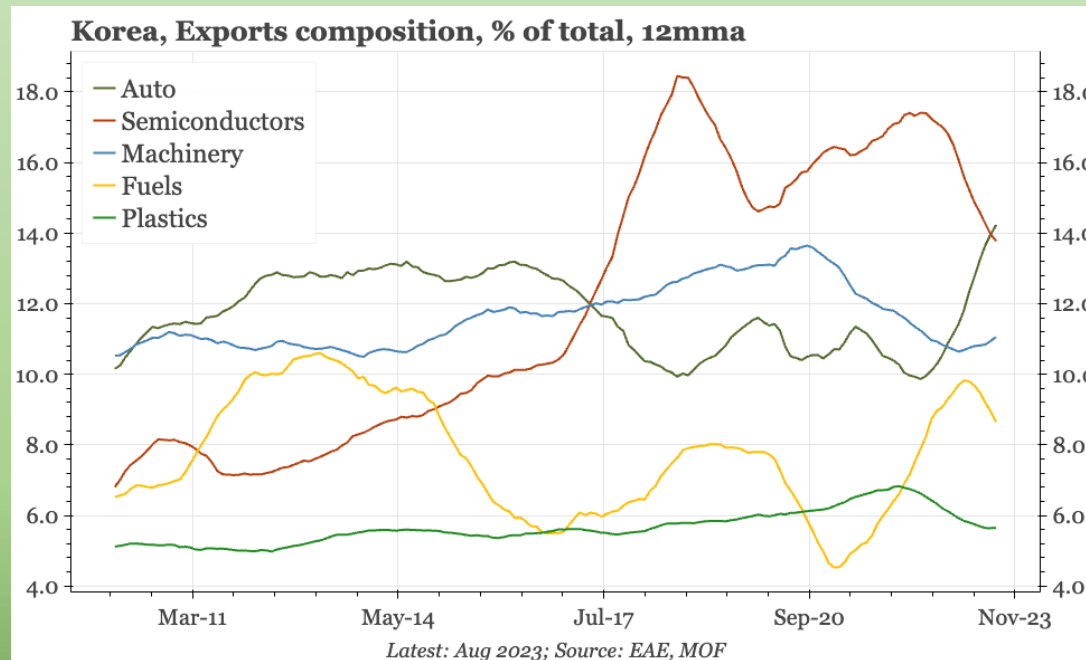
Korea's second headwind: non-tech weakness

Since 2023, only semi exports grow

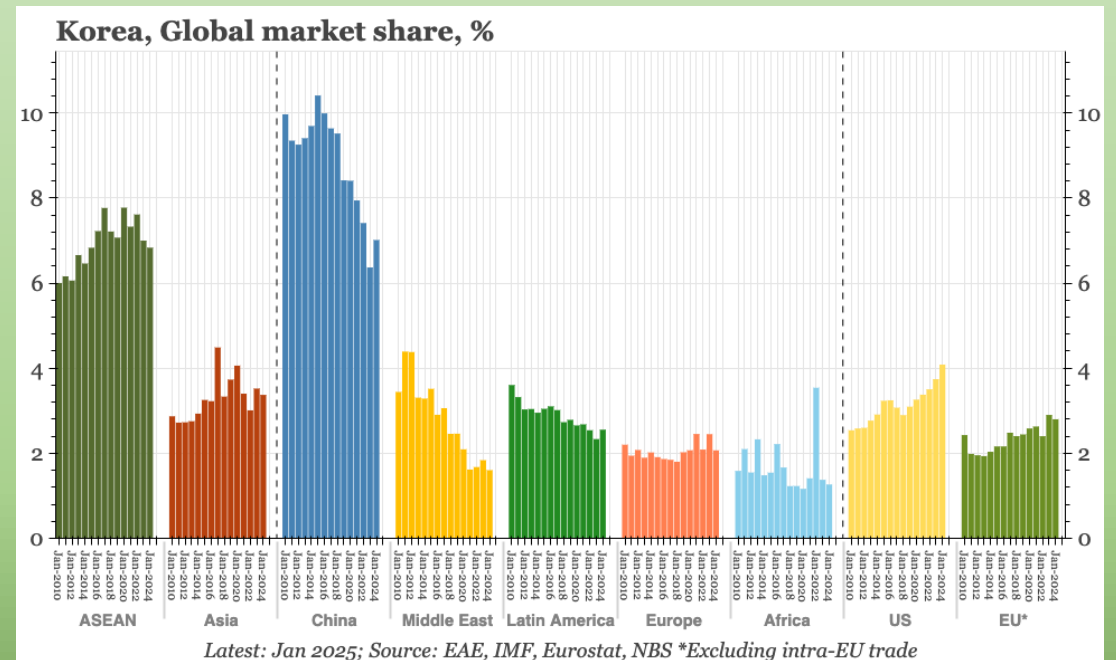
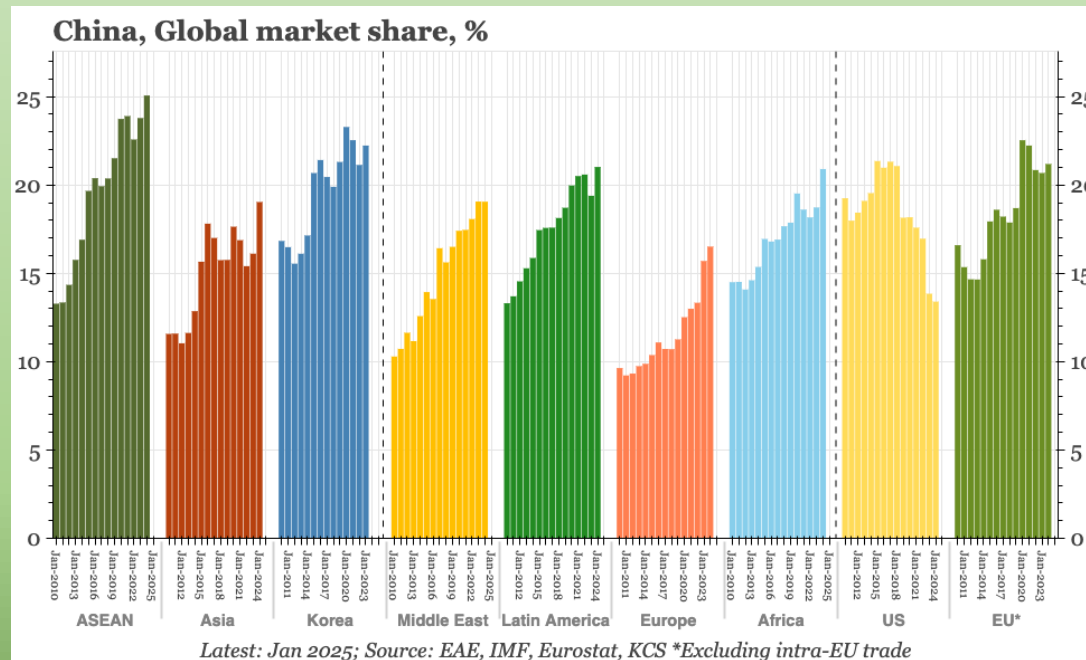


Korea's second headwind: non-tech weakness

Non-tech matters more in Korea...

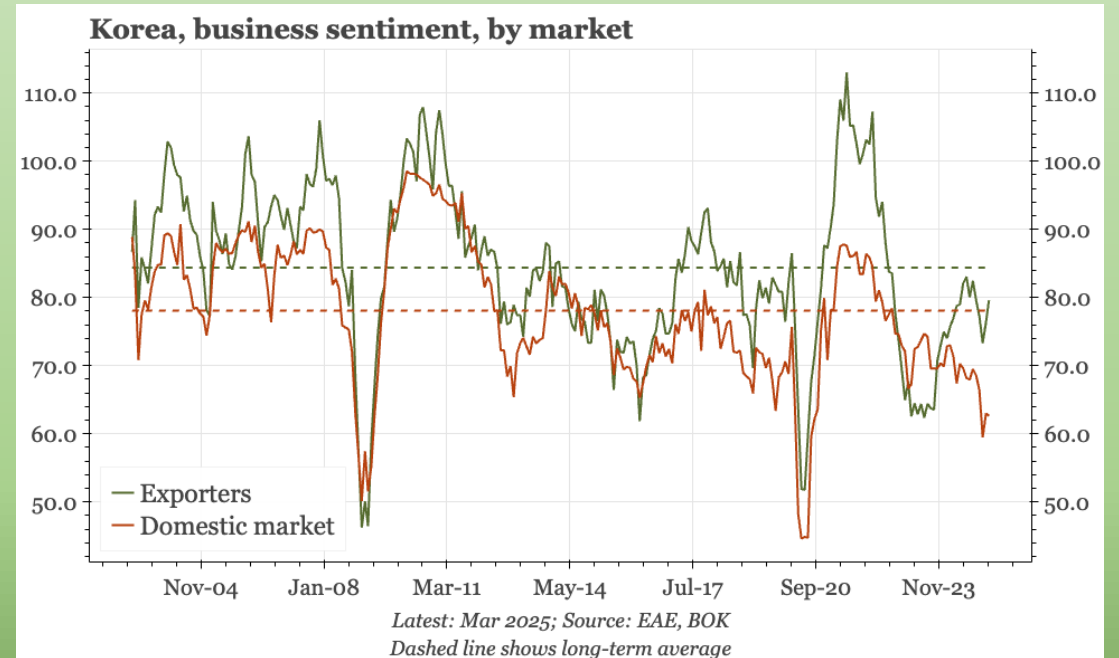
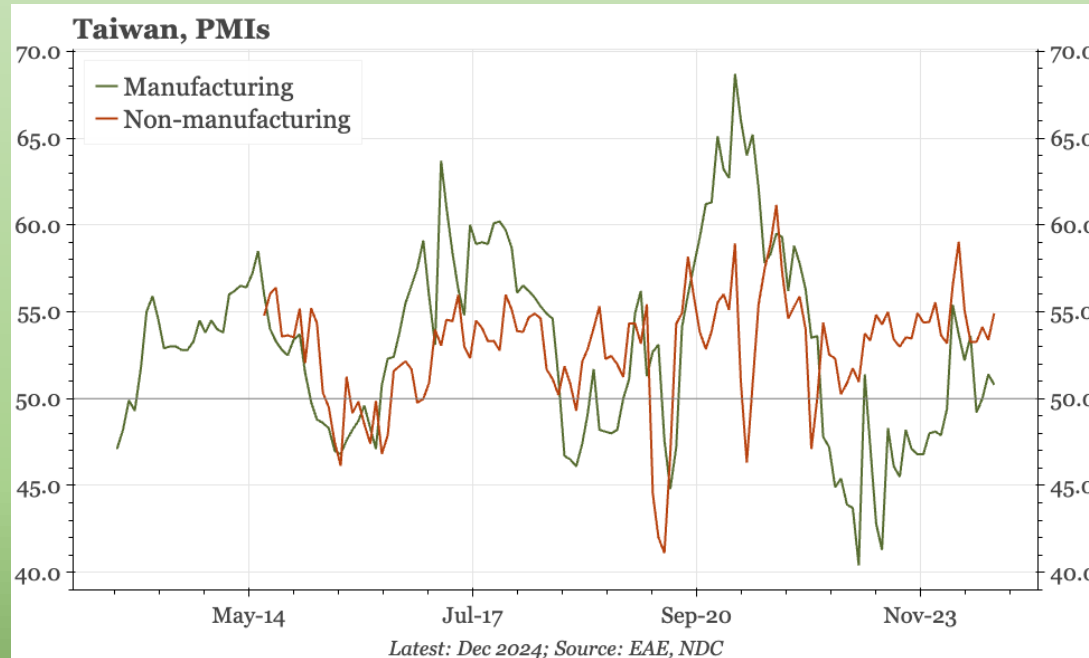


Korea's second headwind: non-tech weakness and Korea is losing market share in China



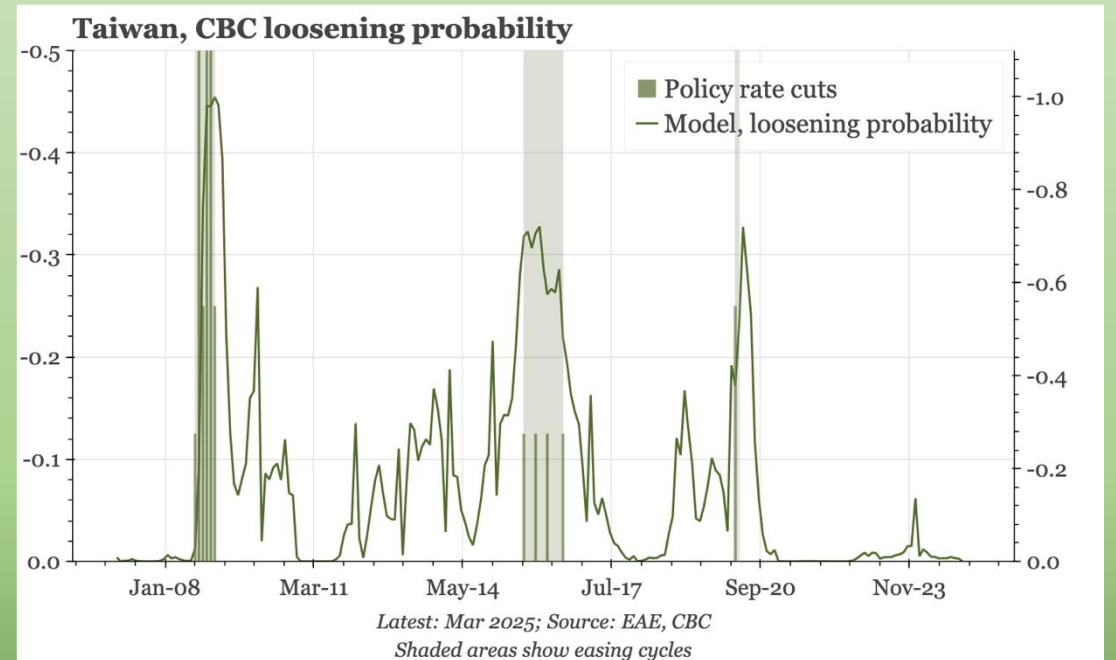
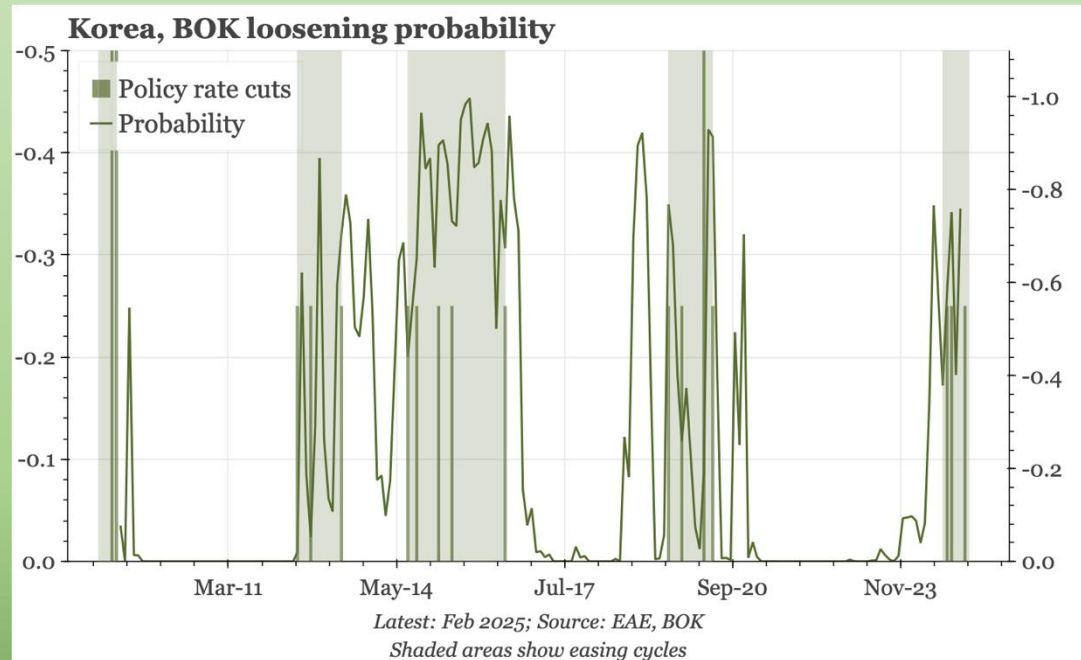
Domestic economy

Korea: led by neither mfg or services

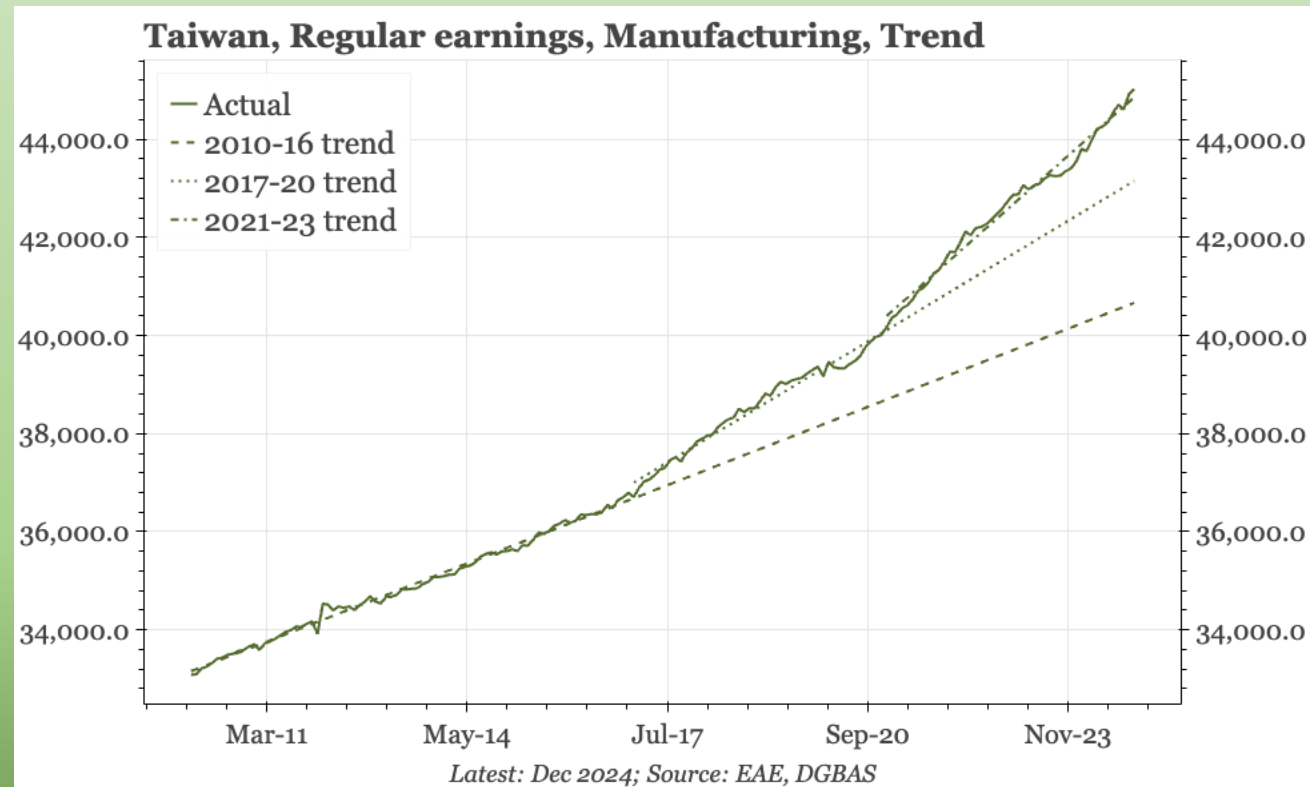


Central banks

BOK to cut. CBC on hold...

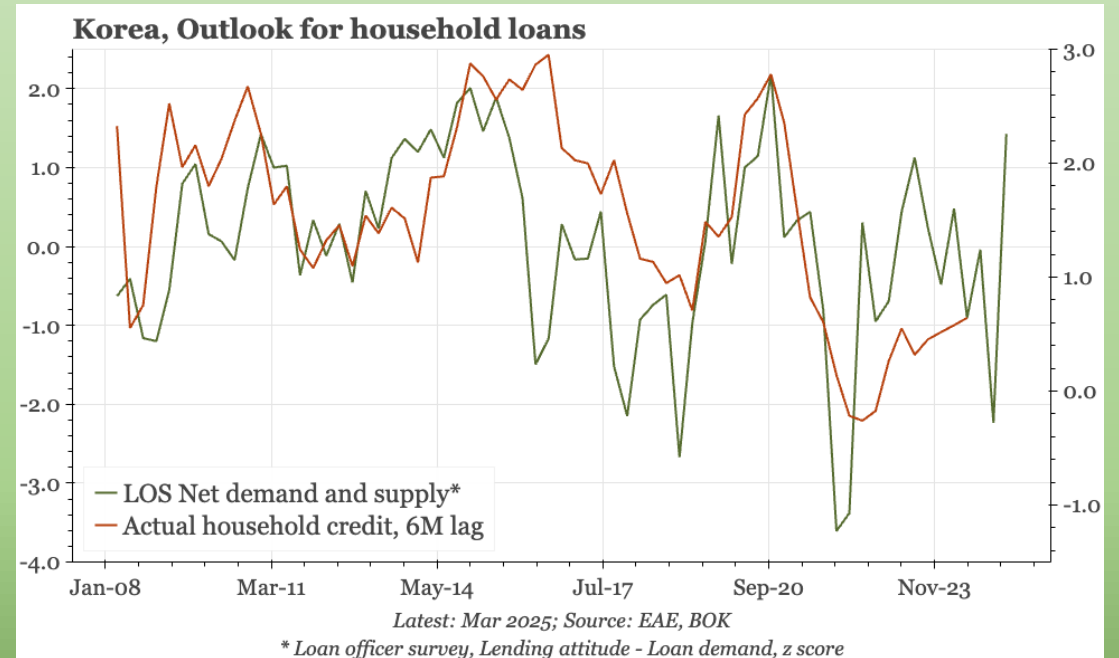
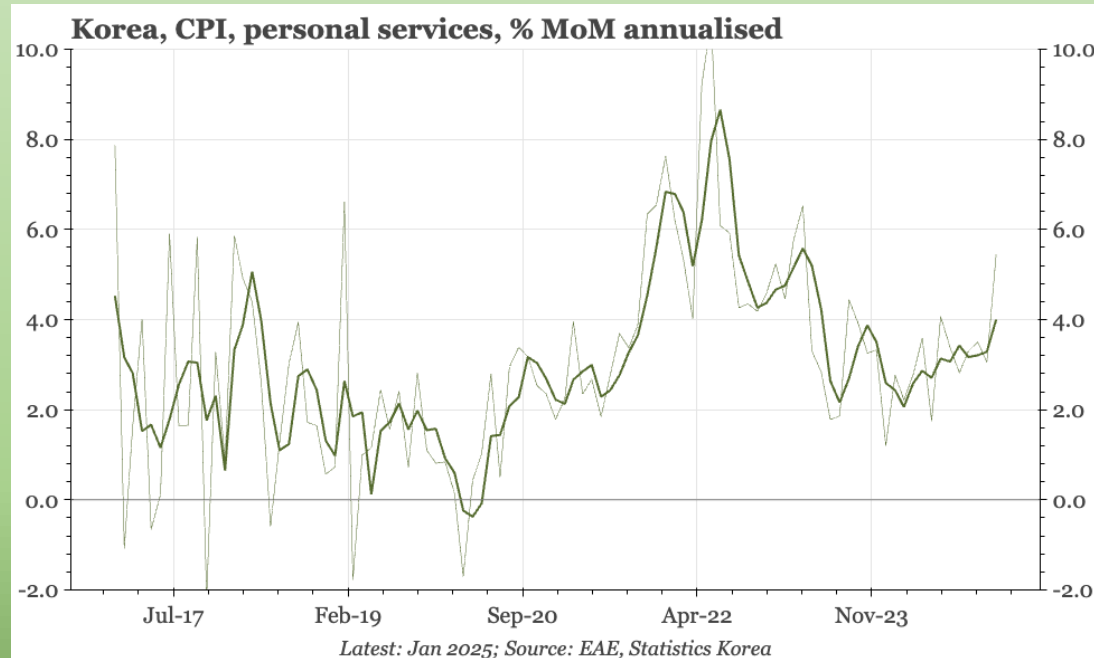


Central banks ...but CBC could hike



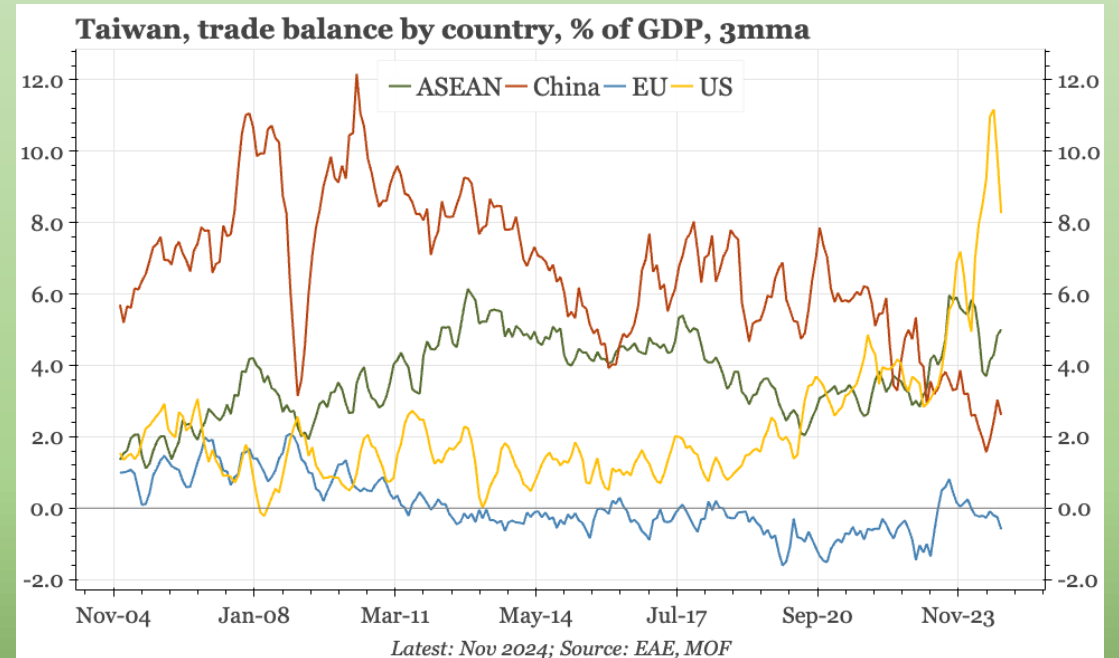
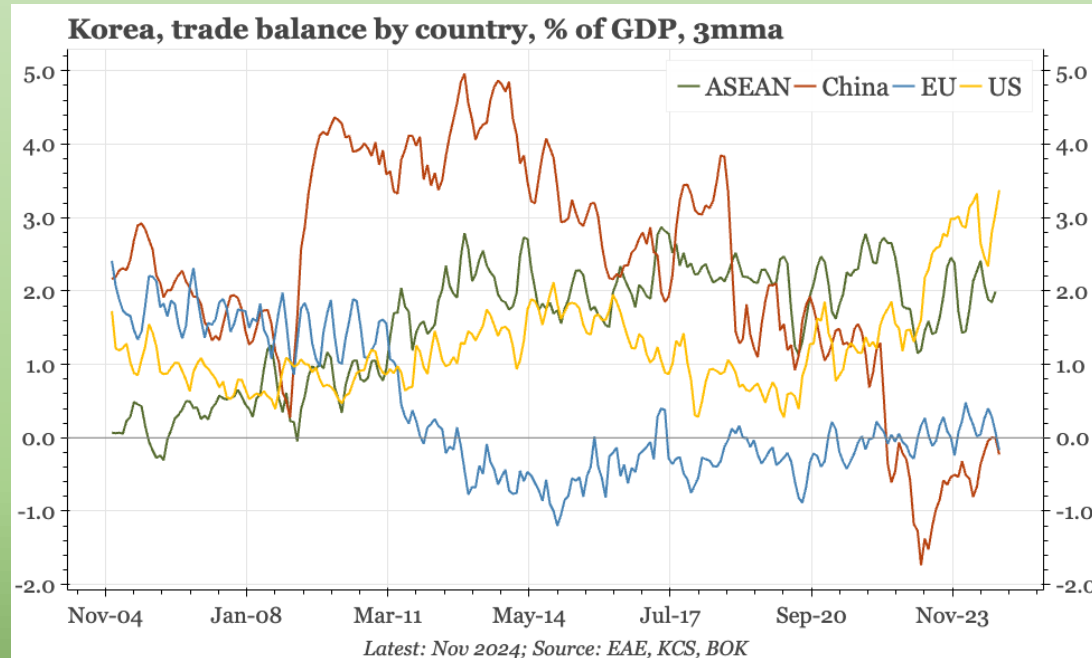
Central banks

Risks to monitor for BOK



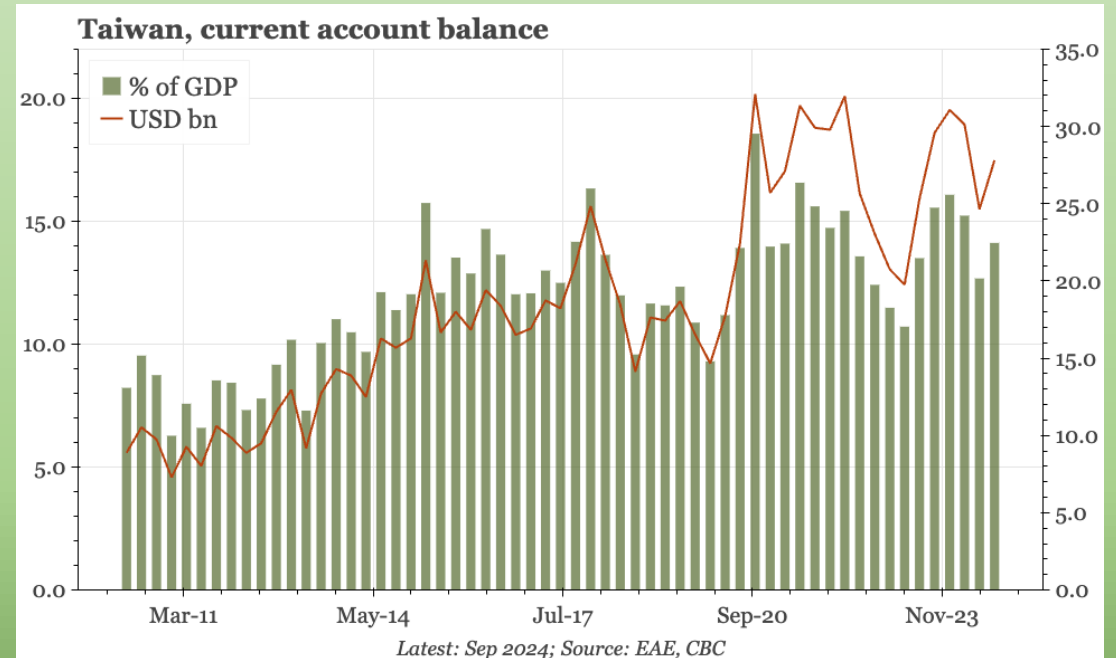
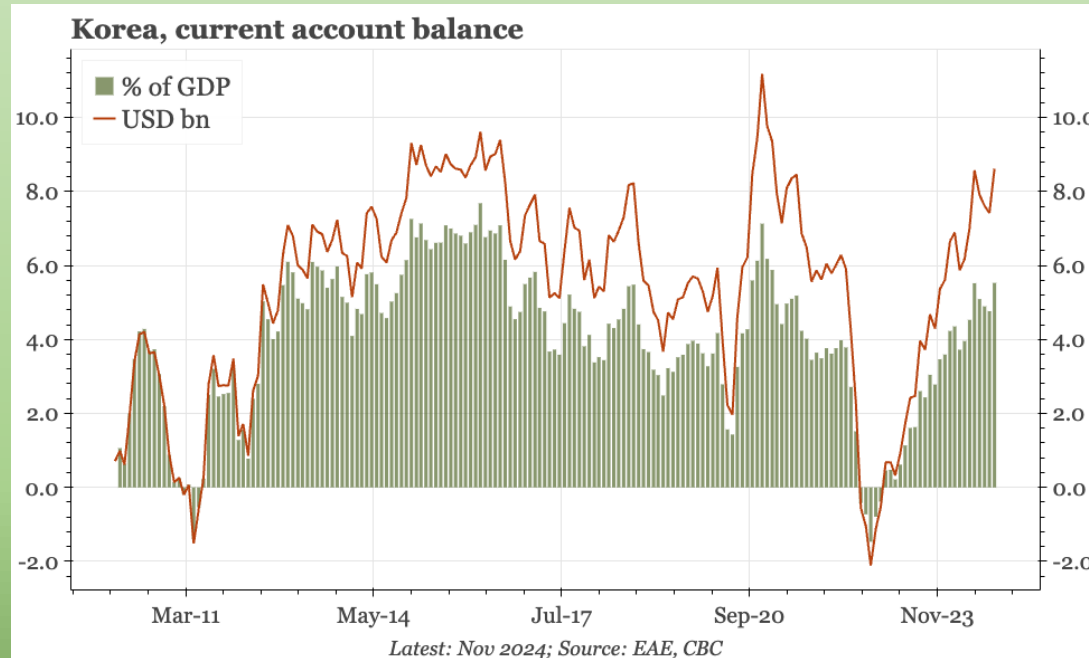
Trump

Both are targets for Plaza II...



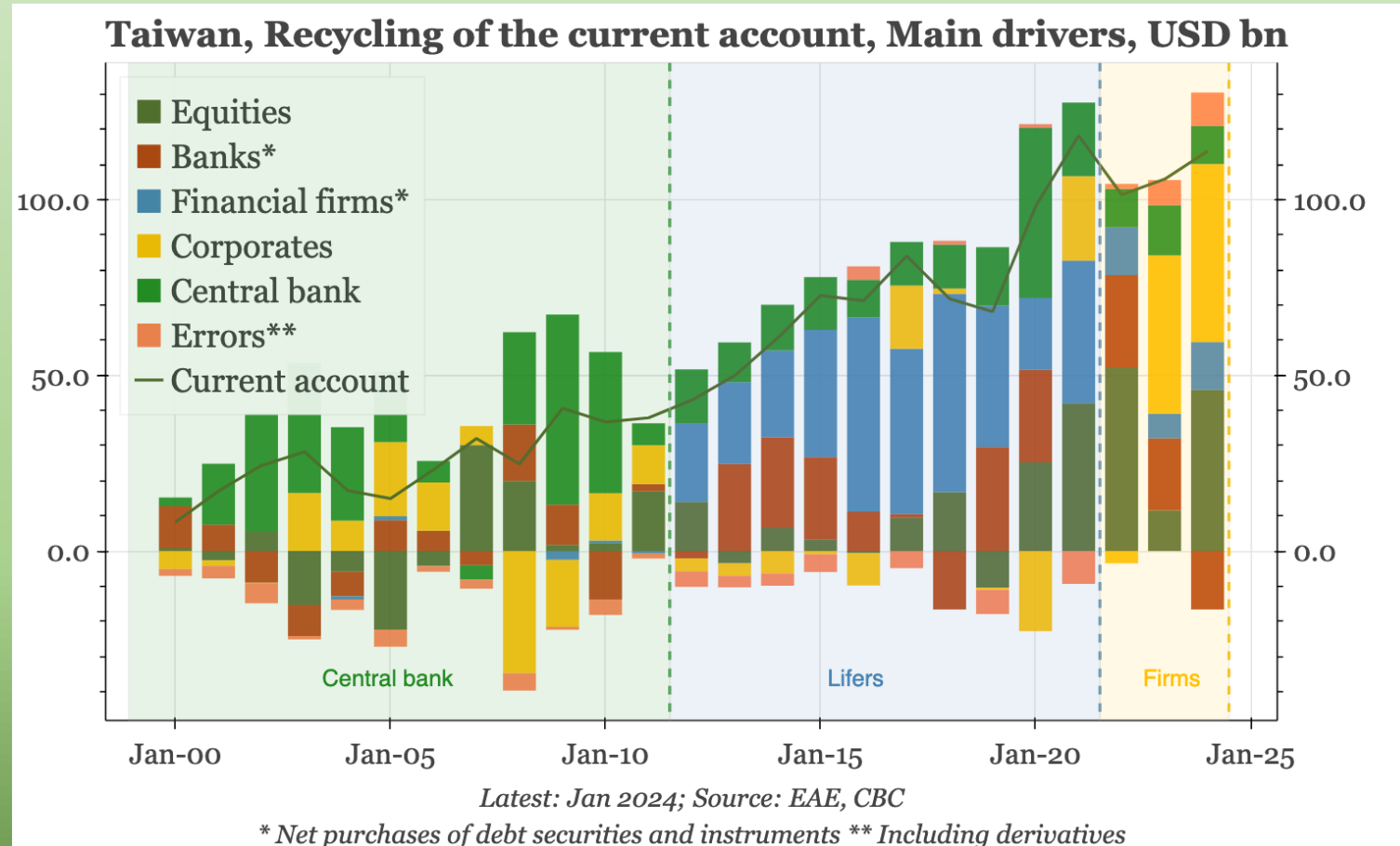
Trump

...though Taiwan is more obvious



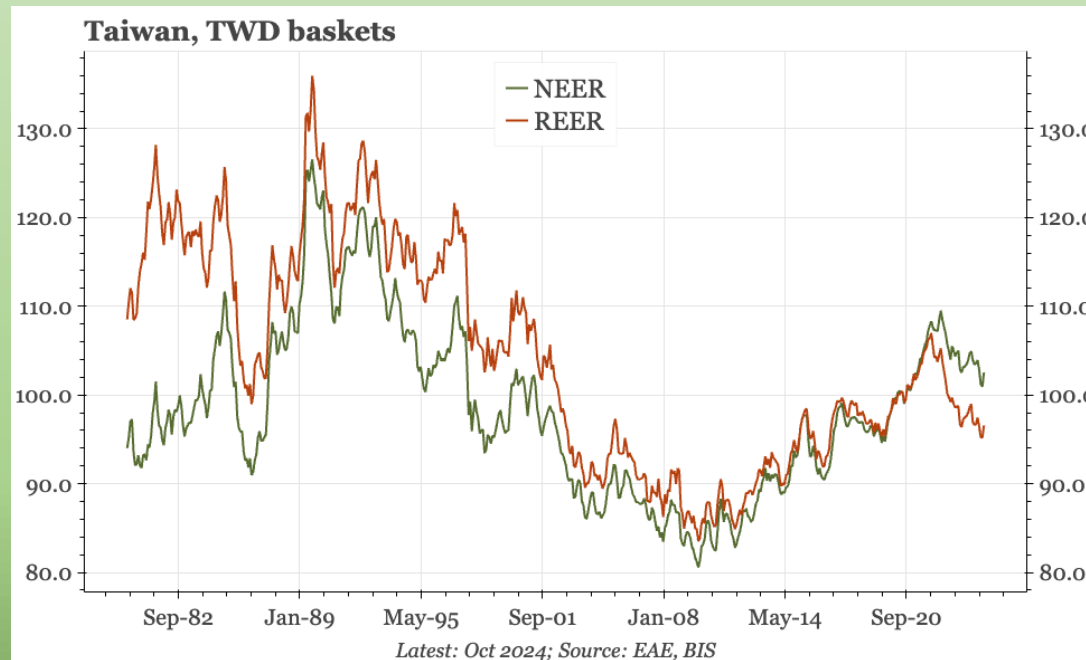
Taiwan

Maybe recycling happens some other way...



Taiwan

...but otherwise this can't continue





East Asia Econ

**Macro and market analysis of the world's largest
economic region**