

GDW Asia

What EMAX proposes, China disposes

Asian Activity: What EMAX proposes, China disposes

Three months into the Middle Eastern conflict, Asian activity is presenting an interesting dichotomy. While China's resilience to the shock is being tested – with weak April data pointing to downside risks to 2Q growth – upside risks have emerged in EMAX as tech tailwinds combine with policy supports to offset energy headwinds.

Bucking the signals imparted by stronger-than-expected PMIs and exports, April domestic activity data disappointed across the board. Industrial production fell 1.0% m/m sa – the sharpest monthly contraction in three years – despite an acceleration in high-tech manufacturing IP. That said, this comes on the back of five successive monthly gains, pushing up the quarterly annualized momentum of IP towards 11% (q/q, saar) before the April print. On its part, the April weakness appears to be related to energy-supply disruptions tied to the Strait of Hormuz closure: crude oil throughput fell and chemicals output – including sulfuric acid, chemical fiber and ethylene – also contracted. Small and private refiners and petrochemical firms rely more on the Strait of Hormuz oil and ostensibly had less flexibility to switch suppliers. Policy settings likely compounded the hit, as the export ban on refined oil exports and the cap on domestic refined oil prices reduced SOE refiners' incentives to run at high-capacity utilization. Higher energy costs and uncertainty over the duration of the Middle East conflict may also have encouraged near-term inventory drawdowns to support the export rebound rather than a production ramp-up.

That said, domestic demand also surprised to the downside. Retail sales softened further amidst a fading policy impulse. Meanwhile, Fixed Asset Investment (FAI) fell 8.0% oya in April underpinned by a broad-based pullback across manufacturing (-4.3% oya), infrastructure (-4.5% oya) and real estate FAI (-20.1% oya). Outside of high-tech manufacturing, investment generally cooled or contracted, amid supply disruptions and margin squeeze from higher raw material costs. Infrastructure FAI weakness was also broad-based across major segments, reflecting slower fiscal outlays and fewer eligible projects. While special CGB issuance picked up in April and May, special LGB issuance slowed materially, leaving year-to-date government bond issuance less front-loaded than we initially expected. Despite the energy shock, policy has remained notably patient versus peers in the region such as Japan and Korea, with no incremental offset and a slowdown after the front-loaded delivery in 1Q.

The pullback in IP and domestic demand creates downside risks to 2Q GDP risks (4.0% q/q saar; 4.9% oya). Meeting our 2Q GDP forecast will now require more than 1% m/m sa IP rebounds in both May and June. If April weakness persists, fiscal delivery could accelerate in coming months. In particular, if 2Q growth materially undershoots the full-year target of 4.5-5%, the case for additional fiscal support in 2H would strengthen, although conviction is lower than in the past given that the target range offers policymakers more flexibility than in prior years.

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Contents

Asian remittances: It's (still) coming home	7
Australian housing: Counting the cost	11
China: Trade blows out, but composition matters	13
India: This time is different	17
Data Watches	
Japan	22
Australia and New Zealand	27
Greater China	29
Korea	32
ASEAN	34
India	37
Regional Data Calendars	39

2Q GDP upside for EMAX on tech and policy support

Meanwhile, the April trade reports from Singapore and Malaysia show that tech export momentum in the two economies accelerated further at the start of the quarter despite the Middle East conflict entering its second month. Moreover, in Singapore where tech export momentum tore past 200%^{ar} last month, tech strength is broadening from semiconductors to disk media (e.g. HDDs) and server-related products, underscoring the breadth of AI-related demand for the region's tech producers. While our forecasts for resilient 2Q growth in the two economies are premised on continuing export strength, the current pace of exports suggests that risks around our forecast are tilted to the upside.

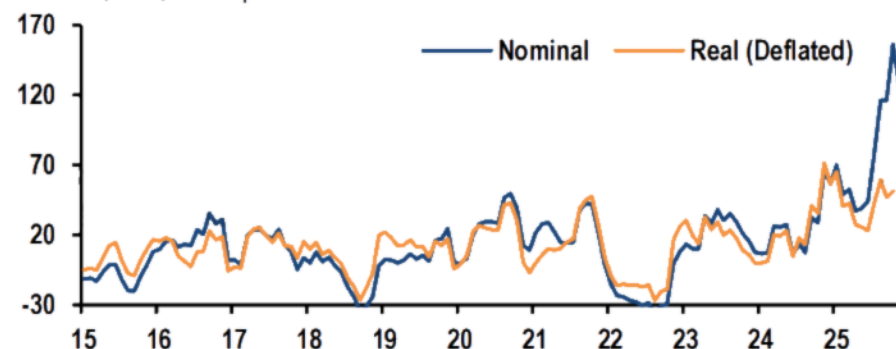
In Korea, 2Q GDP growth is expected to slow sharply, reflecting both payback from surging 1Q growth (~7% q/q, ^{saar}) and anticipated disruptions to industrial production from the Middle East conflict. So far, supply-side bottlenecks have been evident in price indices and PMI details, but there has been no clear signal regarding the actual extent of production disruptions. Next week's April IP data will provide important clues, and we expect IP to contract 2.0% m/m, consistent with our anticipated growth deceleration. That said, with crude oil imports said to be recovering, May exports likely to show continued growth, and fiscal support kicking in, there are upside risks to the sharp slowing that we pencil in for 2Q GDP.

Tech exuberance spills over into prices

With tech demand continuing to remain strong and putting pressure on existing supply – and new supply taking time to come on stream – strong volume growth is spilling over into prices. To be sure, volumes remain strong, with tech IP growing at an annualized pace of 45% (q/q, ^{saar}) in the three months through March. But tech prices have surged in recent months (Figure 1 below) such that a large gulf has opened up between nominal tech exports and “real” exports. To be sure, while most of the nominal export growth buoyancy reflects rising tech inflation, some of it may also be reflecting changes in the composition of the export basket towards higher-value goods in a dynamic sector. That said, tech inflation is running at a 70% annualized rate – explaining more than half the recent growth in nominal tech exports – in the three months through March.

Figure 1: Asia* Nominal and Real Tech Exports

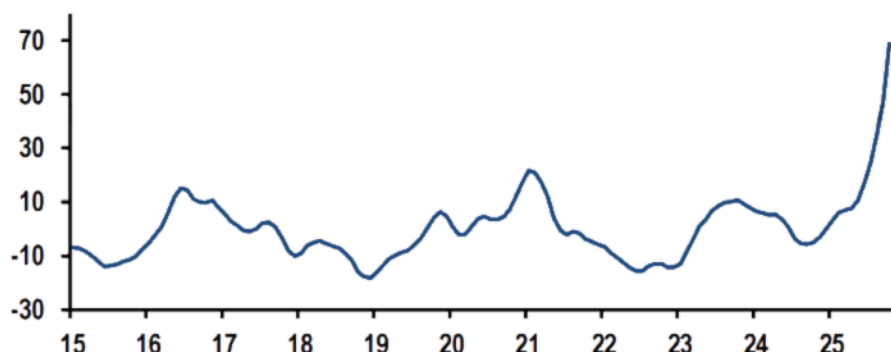
%3m/3m, ^{saar}, real exports thru March



Source: National sources, J.P. Morgan. * Defined as Korea, Taiwan and Singapore

Figure 2: Asia* Tech Export Prices

%3m/3m, saar, thru March



Source: National sources, J.P. Morgan. * Defined as Korea, Taiwan and Singapore

The hawkish tilt in EMAX central banks continues

As the hit from the Middle East conflict is less visible than feared and price pressures continue to build, central banks in the region are tilting hawkish. We have recently added hikes to the Philippines, Korea and Indonesia and signaled the possibility of hikes in Thailand later this year.

While we only expect the Bank of Korea to move later this year, next week's BoK meeting will be particularly significant, marking both the first meeting under the new governor and the first economic outlook update since the Middle East conflict began. In response to the upside surprise to 1Q GDP growth and rising inflationary pressures, we anticipate the BoK will revise up its growth and inflation forecasts and adopt a more hawkish tone in its communication. Although there is likely to be broad agreement on the direction of inflation risks, the magnitude and duration remain uncertain, prompting the BoK to balance preemption with caution. That said, there is a risk that a modest hike cycle could begin earlier than we currently forecast (4Q) and we await any dissenting votes and the conditional dot plot at next week's meeting.

Separately, BI hiked 50bps this week – more than the 25bps hike we had penciled in – but primarily to support the currency which has been coming under pressure. Given the government's pro-growth stance, the decisive 50bp hike signals BI's pivot toward FX stability, which it now identified as the top policy priority. The move complements BI's all-out FX stabilization approach, including the multi-pronged measures rolled out earlier. However, we remain cautious on the IDR outlook, reflecting risks from seasonal dividend repatriation and declining FX reserves. Given the still-elevated risks, we now pencil in two back-to-back 25bp hikes in June and July.

Table 1: EM Asia data release

Date	Market	Data	Period	Unit	JPM	Consensus	Previous
Mon, 25-May	SG	CPI	Apr	%oya	1.8	2	1.8
	SG	GDP final	1Q	%oya	4.6	5.2	4.6
	TH	Trade balance	Apr	US\$bn	-5.4	-5.4	-3.3
	TH	Exports	Apr	%oya	18.5	18.5	18.7
	TH	Imports	Apr	%oya	24.7	27.2	35.7
Tue, 26-May	SG	IP	Apr	%oya	12.7	11.8	10.1
	TW	IP	Apr	%oya	17.1	18.7	26.7
Wed, 27-May							
Thu, 28-May	HK	Trade balance	Apr	US\$bn	-67.9	-	-89.1
	HK	Exports	Apr	%oya	30.5	-	35.8
	HK	Imports	Apr	%oya	40.9	-	41.2
	KR	Policy rate	May	%p.a.	2.50	2.50	2.50
	TH	Mfg. production	Apr	%oya	-2.9	0.5	0.8
Fri, 29-May	KR	IP	Apr	%oya	0.0	2.5	3.6
	PH	Trade balance	Apr	US\$bn	-4.5	-4.3	-4.5
	PH	Exports	Apr	%oya	19.4	16.7	20.4
	PH	Imports	Apr	%oya	17.1	12.5	12.3
	TW	GDP prelim	1Q	%oya	13.7	13.7	13.7

Source: Bloomberg Finance L.P. and J.P. Morgan forecasts

25 May 2026

Regional Economic Outlook in Summary

	2021 Nominal GDP, US\$			Real GDP			Consumer prices		
	Total billion	% of region	per capita	% year-on-year			% year-on-year		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
Japan	4,935	n.a.	40,114	-0.2	1.1	0.7	2.7	3.2	2.1
Australia	1,634	n.a.	64,327	1.0	2.0	2.0	3.2	2.8	4.3
New Zealand	247	n.a.	48,861	-0.3	0.2	1.9	2.9	2.8	3.7
Emerging Asia	26,963	100.0	8,048	4.9	5.1	4.8	1.2	0.6	1.8
ex China and India	6,175	22.9	10,794	3.9	3.9	4.4	2.1	1.6	2.9
China	17,706	65.7	12,572	4.9	5.0	4.7	0.2	0.0	1.0
Hong Kong SAR, China	368	1.4	49,849	2.6	3.6	3.4	1.7	1.4	1.6
Taiwan, China	777	2.9	33,071	5.3	8.7	9.8	2.2	1.7	2.0
Korea	1,809	6.7	35,126	2.0	1.0	3.0	2.3	2.1	2.7
India	3,082	11.4	2,250	6.5	7.5	6.0	4.9	2.1	4.6
Indonesia	1,187	4.4	4,358	5.0	5.1	4.7	2.3	1.9	3.5
Malaysia	373	1.4	11,476	5.1	5.2	4.6	1.8	1.4	1.9
Philippines	393	1.5	3,576	5.7	4.4	4.0	3.2	1.6	6.8
Singapore	397	1.5	79,601	5.3	5.0	3.1	2.4	0.9	2.1
Thailand	506	1.9	7,237	2.9	2.4	2.1	0.4	-0.1	2.7
Vietnam	365	1.4	3,757	7.1	7.9	7.3	3.6	3.3	5.3

	Current account balance			Current account			Foreign reserves		
	US\$ billion			% of GDP			US\$ billion		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
Japan	n.a.	n.a.	n.a.	4.6	4.8	3.9	n.a.	n.a.	n.a.
Australia	n.a.	n.a.	n.a.	-2.2	-2.6	-2.0	n.a.	n.a.	n.a.
New Zealand	n.a.	n.a.	n.a.	-4.8	-3.7	-4.2	n.a.	n.a.	n.a.
Emerging Asia	786.9	1162.7	1178.9	2.6	3.8	3.7	n.a.	n.a.	n.a.
ex China and India	385.9	454.5	504.0	5.4	6.1	6.8	n.a.	n.a.	n.a.
China	423.9	747.9	754.1	2.3	3.8	3.6	n.a.	n.a.	n.a.
Hong Kong SAR, China	52.5	54.7	47.3	12.9	12.8	10.5	421	426	428
Taiwan, China	112.7	139.3	135.2	14.1	15.1	13.6	578	585	592
Korea	99.0	122.7	195.9	5.3	6.6	10.2	409	427	445
India	-23.0	-39.7	-79.3	-0.6	-1.0	-2.0	n.a.	n.a.	n.a.
Indonesia	-8.7	-10.2	-15.7	-0.6	-0.8	-1.1	149	145	140
Malaysia	7.2	9.7	14.9	1.7	2.1	2.8	124	127	130
Philippines	-17.5	-16.3	-21.9	-3.8	-3.3	-4.4	95	91	74
Singapore	98.5	100.9	128.0	17.2	16.7	20.1	n.a.	n.a.	n.a.
Thailand	11.6	20.5	10.7	2.2	3.5	1.7	217	249	270
Vietnam	30.5	33.1	9.7	6.8	6.6	1.8	83	87	82

	External debt			Short-term foreign debt			Government balance		
	% of GDP, end of period			US\$ billion, end of period			% of GDP, end of period		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
Japan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-6.1	-6.7	-6.9
Australia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0	-0.4	-0.6
New Zealand	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-2.6	-2.4	-2.7
China	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-3.0	-4.0	-4.0
Hong Kong SAR, China	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-1.8	0.1	0.6
Taiwan, China	26.2	23.6	22.5	207	213	221	-0.6	-1.0	-1.6
Korea	35.6	37.9	40.3	146	178	178	-1.7	-1.8	-0.5
India	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-8.4	-8.0	-8.3
Indonesia	27.4	25.3	23.6	43	43	43	-2.7	-2.9	-3.0
Malaysia	50.6	47.3	44.0	119	129	139	-4.3	-3.8	-3.5
Philippines	28.5	30.6	33.6	21	22	27	-5.7	-4.8	-6.0
Singapore	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.4	0.4	0.2
Thailand	37.0	34.1	32.1	86	75	75	-4.0	-4.7	-4.5
Vietnam	46.1	47.1	48.1	n.a.	n.a.	n.a.	-3.6	-3.8	-4.0

Source: National statistics authorities and J.P. Morgan

Key economic statistics

	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	
Real GDP, %-ch over 1 quarter, saar									
Japan	1.8	1.4	-2.5	0.8	2.1	0.2	1.0	0.8	
Australia	1.7	3.4	1.9	3.2	1.3	1.6	1.5	1.9	
New Zealand	4.5	-3.4	3.5	1.0	3.3	1.2	3.4	1.2	
Emerging Asia	4.7	4.9	4.4	5.6	6.7	3.7	3.4	3.4	
ex China and India	2.9	5.3	5.0	6.0	6.2	2.4	3.2	3.3	
China	4.9	4.2	3.7	5.2	6.7	4.0	3.2	3.2	
Hong Kong SAR, China	4.6	3.3	3.8	4.3	12.2	3.0	2.8	2.8	
Taiwan, China	6.4	13.2	7.4	23.6	11.9	2.2	3.6	3.6	
Korea	-0.9	2.7	5.4	-0.6	6.9	1.0	2.0	2.0	
India	7.2	8.5	7.5	7.5	7.4	4.3	5.5	5.5	
Indonesia	4.9	5.5	5.3	5.7	5.7	3.7	3.3	3.0	
Malaysia	5.3	6.1	7.6	6.2	1.4	5.0	4.5	4.0	
Philippines	4.9	3.7	1.4	2.4	3.8	4.9	5.7	8.2	
Singapore	2.5	7.3	7.8	5.2	-1.3	2.5	3.5	3.0	
Thailand	1.9	2.2	-1.1	7.6	2.7	0.8	4.1	4.1	
Vietnam	7.8	12.0	8.0	5.0	5.0	4.5	6.0	6.0	
Consumer prices, %oya, average									
Emerging Asia	1.8	0.7	0.4	0.9	1.4	1.9	2.1	1.9	
ex China and India	1.6	1.5	1.5	1.8	2.1	2.9	3.2	3.3	
China	-0.1	0.0	-0.2	0.6	0.8	1.2	1.3	0.9	
Hong Kong SAR, China	1.6	1.8	1.1	1.3	1.6	1.6	1.5	1.7	
Taiwan, China	2.2	1.6	1.5	1.3	1.2	2.3	2.3	2.2	
Korea	2.1	2.1	2.0	2.4	2.1	2.8	3.1	2.8	
India	3.9	3.1	1.9	0.8	3.0	4.2	4.4	5.0	
Indonesia	0.6	1.8	2.4	2.8	3.9	2.7	3.2	3.6	
Malaysia	1.5	1.3	1.3	1.4	1.6	2.0	2.0	2.1	
Philippines	2.2	1.4	1.4	1.7	2.8	7.6	8.2	8.7	
Singapore	1.0	0.8	0.6	1.2	1.5	1.9	2.6	2.4	
Thailand	1.1	-0.3	-0.7	-0.5	-0.5	3.2	3.9	4.3	
Vietnam	3.1	3.6	3.4	3.5	4.7	5.9	5.8	5.6	
	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	
Official interest rates, % p.a., end-period									
Japan	Pol rate IOER ¹	0.48	0.48	0.48	0.73	0.73	1.00	1.00	1.25
Australia	Cash rate	4.10	3.85	3.60	3.60	4.10	4.35	4.35	4.35
New Zealand	Cash rate	3.75	3.25	3.00	2.25	2.25	2.25	2.50	2.75
China	7-day Reverse repo rate	1.50	1.40	1.40	1.40	1.40	1.40	1.30	1.30
Taiwan, China	Official discount rate	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Korea	Base rate	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.75
India	Repo rate	6.25	5.50	5.50	5.25	5.25	5.25	5.25	5.25
Indonesia	BI RR rate	5.75	5.50	4.75	4.75	4.75	5.00	5.00	5.00
Malaysia	Overnight policy rate	3.00	3.00	2.75	2.75	2.75	2.75	2.75	2.75
Philippines	Reverse repo rate	5.75	5.25	5.00	4.50	4.25	5.00	5.50	6.00
Thailand	1-day repo rate	2.00	1.75	1.50	1.25	1.00	1.00	1.00	1.00
Vietnam	Refinancing rate	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50

1. BoJ sets the policy rate on IOER (ON) and targets 10-year JGB yields as policy guidance.

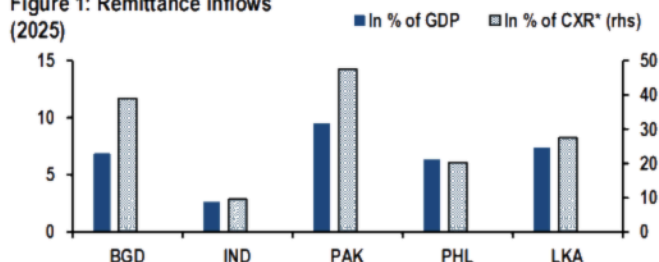
Source: National statistics authorities and J.P. Morgan.

Asian remittances: It's (still) coming home

- Remittances from the GCC are a key source of FX inflows for several Asian economies.
- Worker transfers have remained resilient so far amid the conflict in the Middle East.
- Average remittances to Asia might contract by 5% in 2026 due to the Middle East conflict, with risks tilted to the downside.
- Pakistan is the most exposed. Bangladesh and Sri Lanka are also vulnerable.
- India and the Philippines could prove more resilient.

Remittances are a critical source of foreign-currency (FX) inflows into several countries in South Asia. Bangladesh, India, Pakistan, the Philippines, and Sri Lanka are among the region's largest recipients of overseas transfers. Remittance inflows to these countries averaged around 6.6% of GDP in 2025, ranging from 2.7% of GDP in India — the largest global recipient in nominal terms — to 9.5% of GDP in Pakistan (Figure 1). In several cases, remittances account for a sizeable share of current account receipts. In Pakistan, for instance, remittances have consistently exceeded the level of goods exports since 2Q 2024.

Figure 1: Remittance inflows (2025)

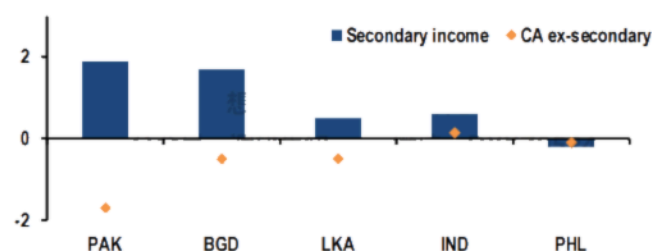


Note: CXR= current account receipts
Source: National authorities, J.P. Morgan

Remittances have also become an important driver of current account (CA) dynamics in the region (Figure 2). In both Pakistan and Sri Lanka, a surge in remittances drove the CA into a rare surplus in 2025, largely offsetting the deterioration in trade balances. Rising remittance inflows explain a meaningful share of the improvement in India's CA since 2023 and account for the entirety of the narrowing in Bangladesh's CA deficit. Only in the Philippines did remittances as a share of GDP decline, which we think reflects a more unfavorable overseas worker profile (e.g., aging, lower share of skilled workers) over the years (see [note](#)).

Figure 2: Current account dynamics in Asia

% of GDP, 2023-25 chg



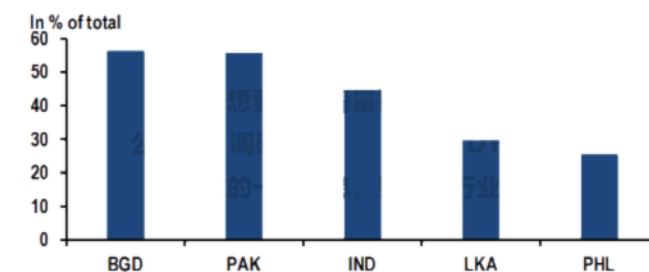
Source: CEIC, J.P. Morgan

Beyond the balance of payments, remittances are also an important driver of growth by supporting household income and domestic demand. Cross-country evidence suggests that remittances tend to act as a countercyclical buffer during periods of economic stress. Our estimates indicate that a 10 percentage point (pp) increase in remittance growth in 2023–2025 relative to pre-pandemic trends is associated with a 0.2 pp acceleration in GDP growth among major recipient economies worldwide.

The Gulf connection

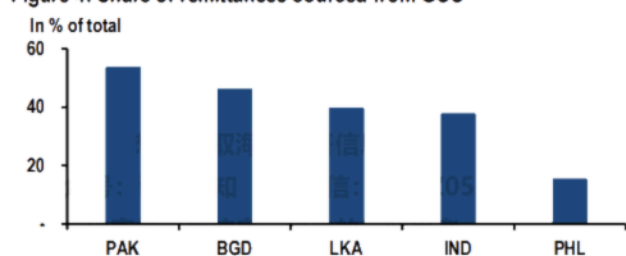
The Gulf is central to the remittance outlook for Asia. Deep labor-market linkages leave several Asian countries exposed to the impact of the current conflict in the Middle East (Figure 3). Bangladesh and Pakistan appear particularly vulnerable, with more than half of their expatriate populations residing in the GCC, while India, Sri Lanka, and the Philippines also maintain sizeable exposure. In value terms, the GCC accounts for more than half of remittance inflows to Pakistan and roughly 40% for Bangladesh, India, and Sri Lanka (Figure 4). The Philippines are comparatively less exposed.

Figure 3: Share of expatriates residing in GCC (2024)



Source: UNEDSA, J.P. Morgan

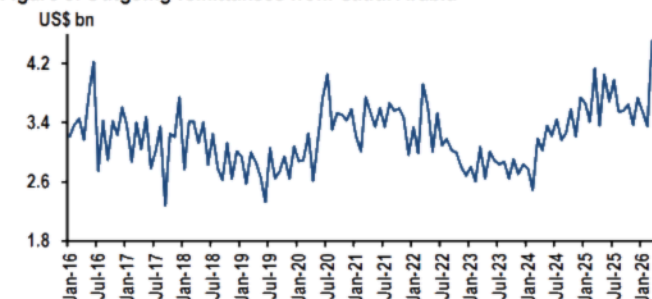
Figure 4: Share of remittances sourced from GCC*



* Year to March 2026 or latest available
Source: National authorities, J.P. Morgan

For now, incoming data remains relatively resilient, despite the hit to GCC economic activity from the ongoing conflict. Transfers from Saudi Arabia rose 9.2%oia in March to a record high of \$4.5 billion (Figure 5). The sharp rise likely reflects increased remittances through formal channels as expatriate travel was disrupted by the conflict, and rising fuel prices weighed on household income at home, incentivizing further support. Transfers from the GCC to Bangladesh and Pakistan continued to grow on an annual basis through April, with no evident signs of weakening so far (Figure 6). There are also few signs of a reversal of migration flows out of GCC, and repatriations out of safety concerns have been very small ([link](#)).

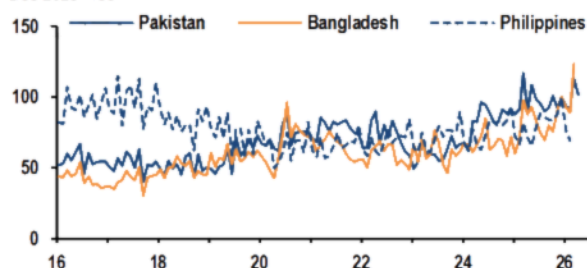
Figure 5: Outgoing remittances from Saudi Arabia



Source: SAMA, Haver Analytics, J.P. Morgan

Figure 6: Remittances from GCC

Dec 2025=100

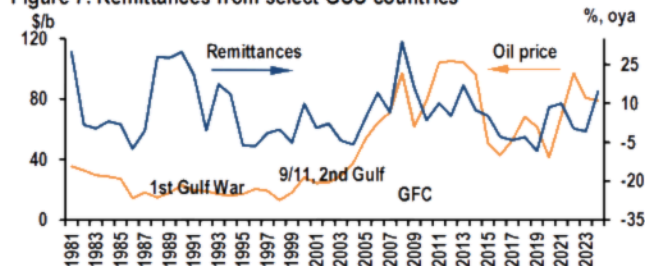


Source: BB, BSP, SBP, Haver Analytics, J.P. Morgan

However, history suggests that remittance flows adjust only gradually to external shocks, and tend to comove with oil prices rather than with geopolitical events (Figure 7). During

the first Gulf War, remittance outflows from Saudi Arabia remained relatively resilient and weakened only with a lag. Similarly, during the Great Financial Crisis, remittances only sagged once oil prices plummeted. That said, the current episode differs from previous shocks in several important respects. GCC economies are now more integrated into global trade and financial cycles, and expatriate employment has materially increased, raising the potential scale of any eventual adjustment. The disruptions from the current shock are also arguably unprecedented for GCC economies and much more severe than past episodes of regional shocks.

Figure 7: Remittances from select GCC countries*



* Bahrain, Oman and Saudi Arabia
Source: IMF, Haver Analytics, J.P. Morgan

What the data say

To investigate the likely transmission channels, we estimate a fixed-effects panel model linking the growth in remittance inflows into a sample of Asian and non-Asian economies to home-country macroeconomic conditions, GCC non-oil growth weighted by the share of national expatriates, and oil prices. Our sample spans the period between 2000 and 2025. Our key findings are as follows (Figure 8):

- **GCC growth.** A one 1 percentage point (pp) increase in the non-hydrocarbon growth rate of GCC countries is associated with a 1.5pp increase in the growth of remittance inflows into the home country. This finding is broadly consistent with our earlier [analysis](#) of the drivers of remittance outflows from GCC countries. It confirms the income channel: when GCC economies grow faster, migrant workers earn and remit more.
- **Oil prices.** A 1% increase in oil prices is associated with a 0.13pp increase in remittance inflows growth. Oil price booms lift Gulf fiscal revenues, boost liquidity, improve confidence and support labor demand, which feeds through to migrant incomes.
- **Home currency stress.** In the one to two years preceding a currency crisis, remittance growth is on average 1.3pp lower than in normal periods. This likely reflects a combination of factors: migrants anticipating depreciation and delaying transfers to benefit from a more favorable post-adjustment exchange rate, tightening FX management

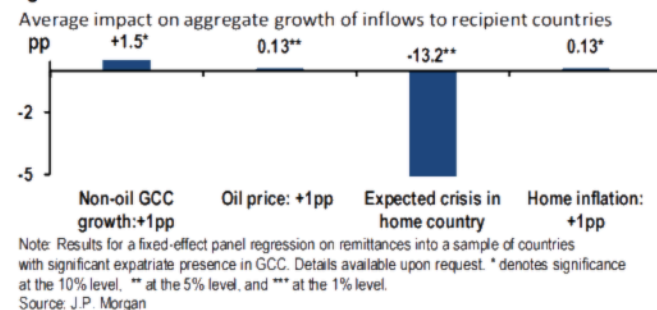
21 May 2026

measures that discourage formal remittances and push flows into informal channels, and a broader loss of confidence in the home economy. Importantly, once the exchange rate adjusts, remittances often rebound as transfers return to formal channels as home assets become more attractive.

- **Inflation.** A 1pp rise in origin-country inflation is associated with a 0.13pp increase in remittance growth. This is consistent with the purchasing power motive: higher inflation erodes household real income in the home country, prompting migrants to send more to compensate.

To assess the potential impact of current disruptions to oil exports stemming from the Gulf conflict, we also tested various measures of oil and gas production and export volumes from multiple sources in our specification. None proved statistically significant. On the one hand, this confirms our prior that activity in the hydrocarbon sector—which is notoriously capital-intensive—does not directly affect remittances; rather, the impact of oil revenue is transmitted through other channels (confidence, liquidity, public spending, etc.). On the other hand, in analyzing the current shock, our model may overstate the potential support from high oil prices, as GCC hydrocarbon exports have slowed to a trickle due to the closure of the Strait of Hormuz. That said, we still project aggregate GCC hydrocarbon exports to grow in 2026, assuming a near-term reopening of the Strait.

Figure 8: Estimated drivers of remittances



Outlook: contained but differentiated

Our analysis points to a set of conflicting forces shaping remittance flows at the current juncture. On the upside, oil prices remain elevated and should remain so for a while, even if a peace deal is reached between the US and Iran (Figure 9). There is no evidence so far of substantial currency misalignment in any of the major Asian recipient countries that would trigger the pre-crisis remittance slowdown identified in our model. The combination of weaker home-country growth and higher inflation in Asia — one of the regions most exposed to the current global shock — should, if anything, attract remittances by strengthening the altruistic motive.

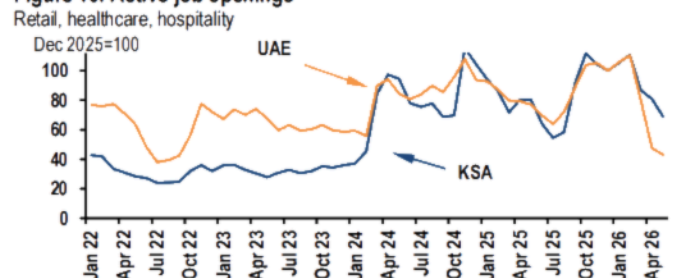
Figure 9: Brent crude oil forecast (quarterly average)



Source: Bloomberg Finance L.P., J.P. Morgan

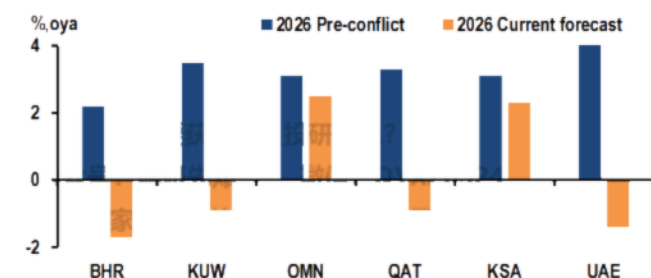
On the downside, however, the GCC's non-oil growth outlook has deteriorated markedly since the start of the conflict in Iran, and hiring has slowed down significantly in migrant-intensive sectors (Figure 10). Before the conflict onset, we had expected non-oil growth of about 3.5% for the aggregate GCC region, while we now see only a 0.9% expansion (Figure 11). Large and critical sectors such as hospitality, air transport, logistics, and manufacturing have been most acutely affected. We expect only two countries—Saudi Arabia and Oman—to continue recording positive non-oil growth in 2026, as they are more geographically insulated from the conflict and supply-chain shock, while we expect the other four GCC economies to contract. We expect a stronger recovery in activity in the second half of 2026 and into 2027, but this remains contingent on conflict stabilization and the region's ability to sustain its diversification agenda by attracting investment and talent.

Figure 10: Active job openings



Source: CEIC, J.P. Morgan

Figure 11: Forecast GCC 2026 non-oil growth



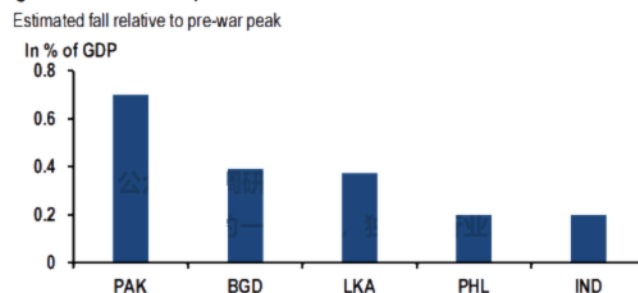
Source: J.P. Morgan

The impact of the slump in Gulf activity on Asian remittances will likely be differentiated by the sectoral concentration of Asian workers in the Gulf. Workers from Bangladesh, Pakistan, and Sri Lanka are disproportionately represented in sectors most exposed to a cyclical downturn from the current shock—construction, hospitality, transport, and logistics—making their remittance flows more sensitive to a slowdown in GCC activity (OECD 2021). Household and domestic employment should prove more stable. Filipino workers are also present in cyclically sensitive sectors but display greater occupational diversification, with meaningful representation in healthcare, clerical services, and retail, providing some buffer. Indian workers display the broadest occupational distribution and are also well-represented in professional and technical roles—including finance, engineering, management, and information technology—making Indian aggregate remittances potentially less sensitive to a GCC downturn.

Our model estimates indicate that under our baseline assumptions for GCC growth, total remittances could contract by 5% for the average Asian country in our sample (Figure 12). This is large by historical standards. Given the differentiated exposure to the GCC, we estimate that the impact on the current account balance would be around 0.2% of GDP in each of India and the Philippines, 0.4% of GDP in each of Bangladesh and Sri Lanka, and 0.6% of GDP in Pakistan.

However, our estimates come with one important limitation: as discussed above, unprecedented disruptions to hydrocarbon exports through the Strait of Hormuz mean that high oil prices may not provide the same level of support to remittances as suggested by the model. This tilts the risks around our projections to the downside. The speed and breadth of the global trade disruption, the tighter global integration of GCC economies, and the elevated scale of expatriate employment all raise the tail risk of a sharper and more persistent adjustment than historical patterns would suggest.

Figure 12: Potential impact of Gulf conflict on remittances



Source: J.P. Morgan

Pakistan, Bangladesh, and Sri Lanka face the greatest near-term vulnerability, in our view. This is due to their large reliance on remittances, high exposure to GCC, and concentration of their workers in sectors affected by the disruptions. Weaker external buffers exacerbate vulnerability. Geopolitical shifts and changes in host country immigration policies could compound the risks for some countries. We believe India and the Philippines are better positioned to weather a deterioration in GCC labor-market conditions due to their lower exposure and stronger fundamentals. It is important for the most exposed countries to use exchange rate flexibility and avoid FX restrictions measures that fuel the expectations of a currency crisis and further discourage inflows, as shown by our model, exacerbating the shock.

Once the conflict abates, the recovery phase could generate a positive impulse for remittances to several Asian economies. Transfers should gradually return close to their pre-war levels in 2027, once the recovery takes hold. The scale of the current downturn and hence the recovery momentum are difficult to quantify at this stage as we wait for further official data. Bangladesh and Pakistan, despite their near-term vulnerability, could be among the primary beneficiaries. India, with its broader occupational footprint, including engineering and project management, could benefit across a wider range of reconstruction-related activities. The Philippines and Sri Lanka, with smaller construction-sector exposure, will likely see more modest, indirect gains.

20 May 2026

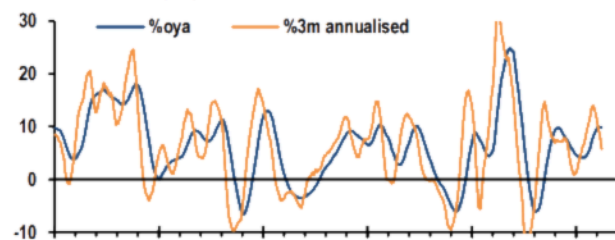
Australian housing: Counting the cost

- House price growth is slowing, while auction clearance rates are at multi-year lows
- FY27 Budget reforms to capital gains tax and negative gearing add further demand headwinds
- The Iran conflict will lift building costs, but a repeat of 2021/22's imbalance is unlikely
- We lower our residential investment forecast to reach 0.6%o_{ya} by end-2027

The outlook for Australian house prices has softened materially over the past few months. Higher interest rates and tighter financial conditions are weighing on demand, a dynamic [evident in auction clearance rates](#) which have declined to multi-year lows. The [FY27 Budget](#) added further headwinds via structural reforms to capital gains taxation and negative gearing which lower the after-tax return on investment property. [Treasury modeling](#) suggests these changes will temporarily lower house prices by around 2% per annum relative to no policy change. Annual price growth has been strong but has seemingly peaked, with higher frequency price metrics slowing sharply (Figure 1).

Figure 1: Australian house price growth

%, hedonic seasonally adjusted prices

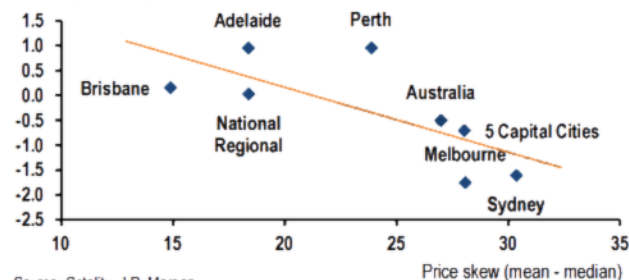


Source: Cotality, J.P. Morgan

Australia's largest cities have been hit hardest, with Melbourne and Sydney experiencing the most pronounced deceleration in prices (Figure 2). The difference between mean and median price baskets for each city provides an estimate of skew in the house price distribution; a more positive skew implies a fatter right-hand tail of high-value properties driving transactions. Transactions in Melbourne and Sydney skew firmly toward higher-value properties, while cities with a more even price distribution have fared better.

Figure 2: House prices and price skew

3m change in HVI growth, %3m annualised

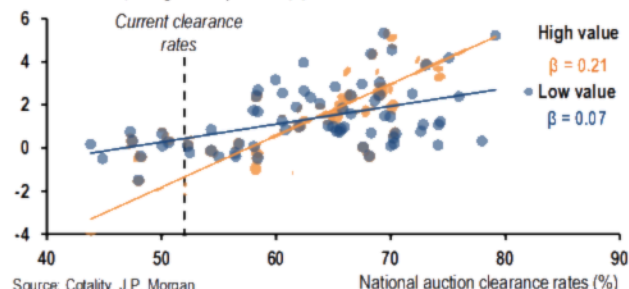


Source: Cotality, J.P. Morgan

Historically, this divergence is not uncommon. Higher-value home prices tend to be more volatile than the aggregate, exhibiting a higher beta to national auction clearance rates (Figure 3). This hints at a higher interest rate sensitivity at the upper end with the recent underperformance of Sydney and Melbourne suggesting the housing cycle has turned in these markets. The most recent auction clearance rate data, adjusted for the corresponding week of the year, are the weakest since 2011–12 and imply an outright decline in high-value quarterly house prices (Figure 3 again). This is an ominous signal: the 2011–12 period saw one of the longest consecutive stretches of negative house price growth (Figure 1 again), similarly preceded an RBA hiking cycle through 2009–10.

Figure 3: House price growth and auction clearance rates

Hedonic house price growth by tier, %q/q



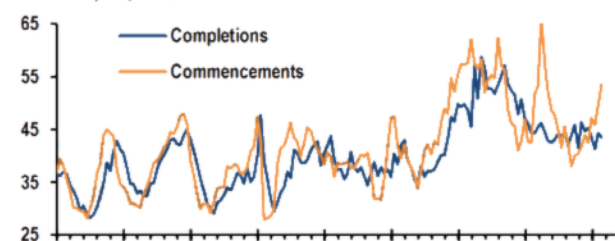
Source: Cotality, J.P. Morgan

This time is (somewhat) different

Leading indicators of housing supply point to a pick-up in new dwelling construction in late 2025. Dwelling commencements have opened a material gap to dwelling completions, which are so far yet to show a corresponding lift (Figure 4). Unsurprisingly, new dwelling commencements have historically been a reliable leading indicator of future completions with one clear exception in 2021–22. That dislocation between commencements and completions is a theme we have tracked in previous research (see [here](#) and [here](#)).

Figure 4: New dwelling construction

Thousands per quarter, sa



Source: ABS, J.P. Morgan

We argued that the disconnect between commencements and completions through 2021-22 owed to a combination of rising project abandonment rates and continuous delays as the construction sector pushed up against capacity constraints (Figure 5). This occurred during a period of unprecedented stress for the industry as global supply chain disruptions drove input costs higher, while record-low interest rates stoked borrowing capacity and demand. Many construction projects on fixed-price contracts became uneconomic, driving up abandonment rates, particularly in the higher-density segment.

Figure 5: Construction sector utilization and abandonment rates

% construction sector, quarterly average



Source: ABS, NAB, J.P. Morgan

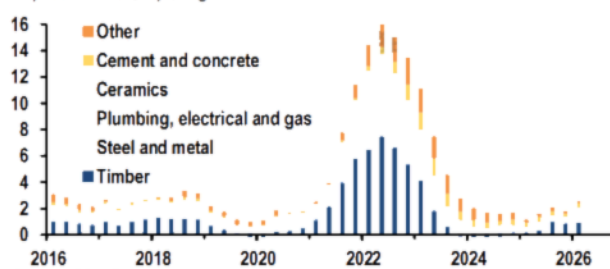
We think the current episode is different for several reasons. First, capacity still looks less binding than in the prior shock. While construction-sector utilization has drifted higher since 2024 (Figure 5 again), it remains below the 2022 episode—suggesting that firms are not yet reaching meaningful capacity constraints.

Second, cost pressures are picking up, but from a lower starting point and still within historical norms. Input costs have started to edge higher, with the latest PPI showing increases across electricity (+5%q/q) and gas (+2.8%q/q) prices, alongside firm gains in metal prices (Figure 6). In aggregate, 1Q construction materials costs are up 2.5%oya—the strongest run rate since 2023—yet still broadly in line with the average pre-COVID growth rate. Labour costs peaked in 2022, as measured in the construction industry wage price index, but have normalized since then to the upper end of the pre-COVID range. We expect materials costs to climb further in

2Q as the Strait of Hormuz closure feeds through to energy-linked supply chains, though the level of cost pressures should remain comfortably below the 2022 episode and is unlikely to put current construction project economics at risk.

Figure 6: House construction materials cost breakdown

%-pt contribution, 4q rolling



Source: ABS, J.P. Morgan

Finally, the pass-through to output prices should also be more moderate given a materially weaker demand backdrop. Interest and mortgage rates are already at multi-year highs and unemployment is higher than 2022 levels, while the consumer has slowed. All of these factors constrain builders' ability to pass on higher costs.

Residential revisions

Relative to the prior baseline, [Treasury expects](#) the announced housing tax reforms will lower new housing supply by 35K over the next decade, albeit with some offset from funding boosts to the Homes for Australia program. Mapping this through to GDP is difficult given uncertainty around the composition of builds (detached versus high density), timing, and other policy offsets, but we estimate a 35K reduction in new dwellings supply is worth around 0.7% of GDP. This is fairly small over the course of a decade, though the impulse is likely partly front-loaded as potential investors adjust investment plans from 2H26.

With respect to our GDP forecast, the increase in building approvals from early 2025 will continue to support residential investment in coming quarters. However, the skew in approvals toward high density—which typically has longer completion times—should see some of this strength carry over into early next year. We expect building approvals growth to slow from here, with the drag becoming increasingly pronounced from 2Q27 as the residential investment pipeline thins out. As a result, we are lowering our 2027 residential investment forecast to 0.6%oya by December (prior: 2%y/y). Residential investment is only a small share of GDP (5%), so this doesn't materially move the needle on aggregate GDP growth (2027: 1.8%y/y), though further—and more meaningful—downward adjustments are possible should the weak housing market spill over into the consumption outlook.

China: Trade blows out, but composition matters

- Recent trade strength warrants outlook recalibration
- Export strength is concentrated in memory ICs, EVs, solar, and batteries, driving 58% of total export gains
- Imports are lifted more by AI supply-chain needs and commodity stockpiling, not domestic demand
- Export prices for semis have surged, picked up modestly for EVs, solar, and batteries, but continue to deflate for the rest
- Much depends on whether the trade truce with the US is extended and the impending new Section 301 tariffs

At the start of the year, we held a cautious view on China trade, expecting headwinds from rising trade barriers and stricter enforcement against transshipment. Setting aside the usual year-start seasonal distortions, the trade data for the first four months of the year has been much stronger than anticipated. It is strong enough to warrant a recalibration of our full-year export and import outlook.

The key questions are where that strength is concentrated, and how much of it reflects rising prices vs. volume. Export value growth has been disproportionately driven by AI-linked memory modules, legacy memory ICs, large batteries, EVs, and solar panels. But the spike in export values is distorted by a surge in semiconductor prices. On the import side, the rebound is tied more to a combination of AI-related demand and renewed commodity stockpiling and far less to domestic demand.

Together, these dynamics suggest that this year's trade strength is more sector- and price-sensitive than the broad, volume-driven story that supported net trade and GDP growth last year. i.e., the contribution to GDP growth and employment will be less.

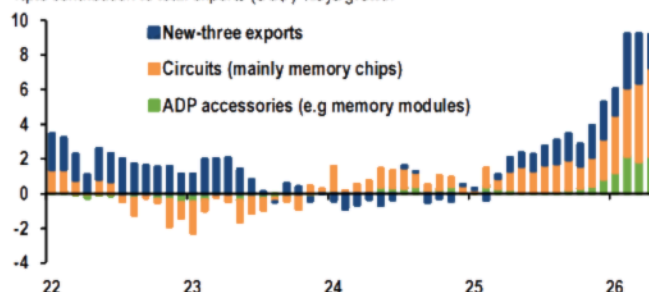
New drivers of export strength

Last year, the dominant narrative was China's [cost advantage](#) and export deflation improving competitiveness even as U.S. tariff uncertainties intensified and China lost U.S. market share. But this year's export outperformance reflects different forces, despite shipment disruptions to the Middle East. The decisive contributors are auto data processing (ADP) accessories and storage units (e.g. memory modules), integrated circuits (e.g. legacy memory chips), and the "new three" products (EVs, solar panels and lithium batteries).

Between January–April, exports in U.S. \$ terms rose 14.5%oya, and these three segments contributed 8.4% pts (or

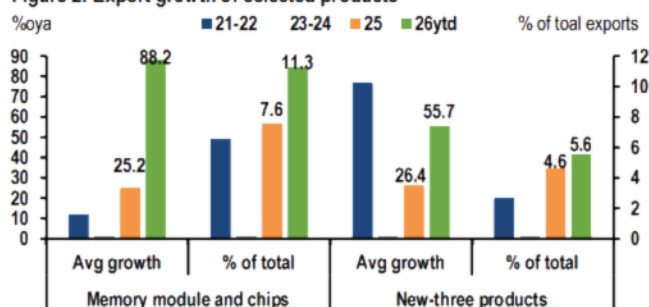
58%) of the headline gain (Figure 1). AI-related memory modules and chips alone accounted for 12.4% of total exports in April (Figure 2).

Figure 1: New drivers of China exports
%pts contribution to total exports (US\$) %oya growth



Source: China Customs, J.P. Morgan

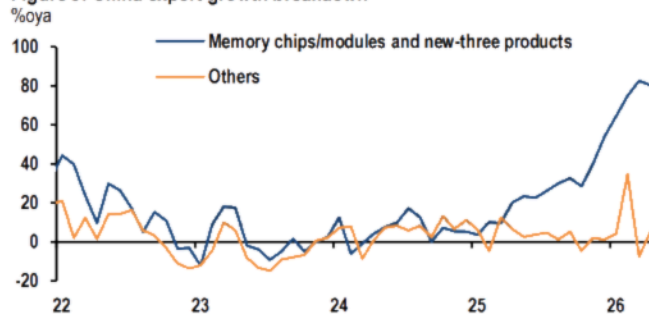
Figure 2: Export growth of selected products



Source: China Customs, J.P. Morgan. Right y-axis for % of total exports.

Outside these three segments, export growth was relatively steady through 2025, then spiked in February on LNY-related front-loading, before easing in March and settling into mild growth in April (Figure 3).

Figure 3: China export growth breakdown



Source: China Customs, J.P. Morgan

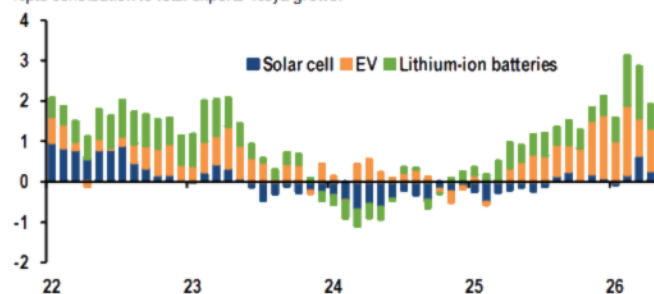
Middle East conflict: pains and gains

China's policymakers have often highlighted the post-pandemic shift in export composition from the traditional "old three" (clothing, home appliances, furniture) toward the "new three" (electric vehicles, lithium-ion batteries, solar products).

However, these new-energy exports have also encountered mounting pushback in key destination markets, ranging from allegations of state subsidies and unfair competition to concerns over overcapacity and dumping. Against a high base, growth in these categories cooled in 2H 2023 and 2024, turning into a net drag on overall export growth.

Geopolitical uncertainties and the energy shock crisis appear to have created an opportunity for Chinese new energy product manufacturers. Higher and more volatile oil prices improve the relative economics of electrification and accelerate energy-security-driven demand for alternatives, lifting overseas interest in EVs, solar panels, and lithium batteries. At the same time, China's scale and supply-chain depth in these products allow firms to respond quickly with competitive supply, turning solar panels, lithium batteries, and EVs into a more important source of export strength even as domestic auto sales have weakened. Exports of the "new three" products contributed 2.3% pts to the 14.5%oya ytd headline exports growth (Figure 4).

Figure 4: Exports of new-three products
%pts contribution to total exports %oya growth



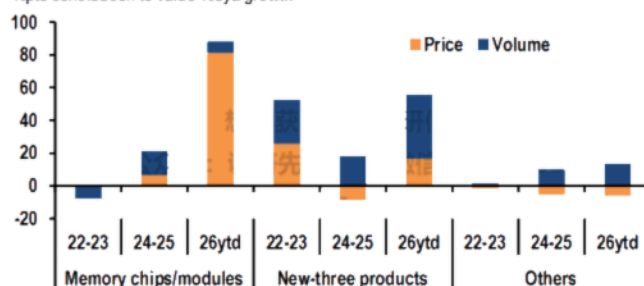
Source: China Customs, J.P. Morgan

Price changes vary widely

Complicating the interpretation of recent export strength is the growing role of price effects in some of the new export drivers. Memory chips/modules stand out: ADP module unit prices in US\$ terms surged close to 200%oya (vs. 4.9%/y in 2025), while IC prices rose 92.4%oya in April (vs. 6.9%/y in 2025). Taken together, the primary driver of memory chip and module export growth has rotated from volume in 2025 to price in recent months (Figure 5). Their average price contribution to export value %oya growth rose to 85.2%pts in April (vs. 5.9%pts on average in 2025). Export prices for the three new products have also picked up this year, reversing the broad deflation seen over the prior two years, but in contrast to semiconductors, volumes appear to have done more of the heavy lifting.

Figure 5: Export decomposition

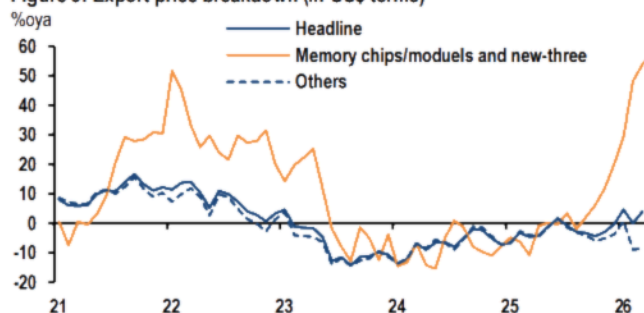
%pts contribution to value %oya growth



Source: China Customs, J.P. Morgan

AI/memory-linked exporters have benefited from surging memory chip prices, while new energy sectors have been supported by renewed demand amid energy-shock resilience considerations. Beyond the new export drivers, however, export prices (in US\$ terms) for other products remained in deflation as of March (Figure 6), even as PPI and headline export price annual rates turned positive. With CNY strengthening, especially in basket terms, and PPI rising more than expected in April, questions are emerging over whether China's export price competitiveness could begin to erode.

Figure 6: Export price breakdown (in US\$ terms)



Source: China Customs, J.P. Morgan

The external energy-shock-driven rise in producer prices raises input costs and increases pressure to pass these costs through to export prices. While China's [export prices tend to co-move with PPI](#), the recent spike in PPI inflation appears to be more concentrated in upstream, labor-light raw materials, with limited transmission into mid-to-downstream sectors so far. Consumer goods PPI remained in deflation. The extent of pass-through also hinges on how persistent the energy shock proves to be.

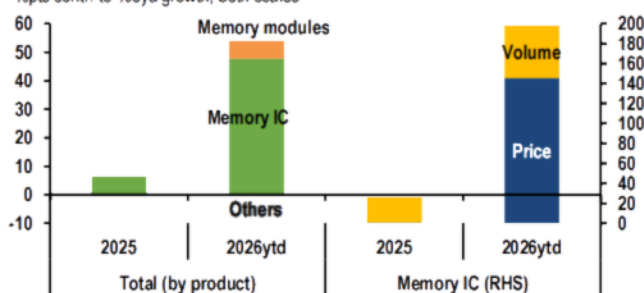
That said, China's export competitiveness should remain underpinned by its structural [cost advantages](#), namely supply-chain depth, scale efficiencies as a manufacturing hub, and an ecosystem supported by efficient logistics. The energy shock is also hitting economies unevenly: China's [energy consumption mix and reserves](#) have made energy-cost pass-through less complete than some of its peers. As a result, even if head-

line export price growth turns positive, we expect consumer goods, which account for nearly 20% of China's exports, to continue to experience mild deflation, which could help underpin overall export competitiveness.

Linking to the regional AI supply chain

As China's apparent demand for ADP memory chips and modules has risen, imports of related products have also jumped, primarily driven by prices. Memory module import prices surged 359%ooya in April, while import volumes, after expanding solidly through much of the past two years, have recently turned into a net drag. By source market, Korea stands out. Its shipments to China began to gain momentum late last year and have accelerated further recently, lifting the trend pace to 158%3m/3m saar. A more granular breakdown suggests the strength was concentrated in memory ICs. Import values have been increasingly lifted by the price effect, although underlying volume momentum has also firmed (Figure 7).

Figure 7: China imports from Korea breakdown
%pts contr. to %ooya growth, both scales

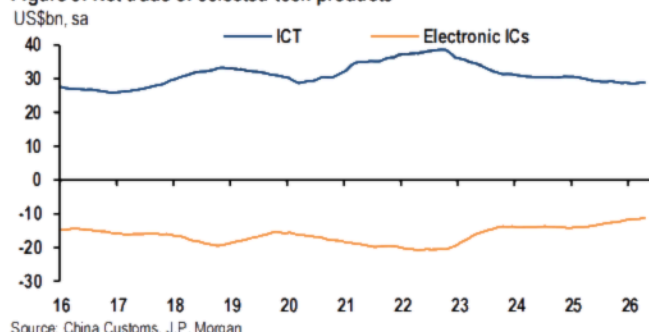


This highlights how current import/export momentum is tied to global semiconductor supply tightness and the [memory price cycle](#). Debate has intensified over whether China is also benefiting from the AI upcycle as Korea and Taiwan. We see some evidence: parts of China's AI tech ecosystem have gained from the global AI upcycle, supporting capex expansion. China's legacy chip producers have capacity and cost advantages in mature nodes and have benefited from chip inflation amid strong demand and tight supply. Global demand has broadened as hyperscaler capex extends beyond data-center buildouts to upstream enablers and smaller-cap players, while [cybersecurity](#) and infrastructure upgrades are also underpinning chip demand.

That said, China's position in the AI hardware supply chain remains structurally different from Korea and Taiwan, key producers of high-end chips and advanced memory for AI data-center demand that is closely tied to US hyperscalers' capex. China remains a net importer of memory chips and modules, albeit with a narrowing deficit especially for ICs

(Figure 8), and is largely a price taker in that segment. This is more than offset by China's surplus in ICT trade. The AI tech sector's share of the overall economy is also relatively small.

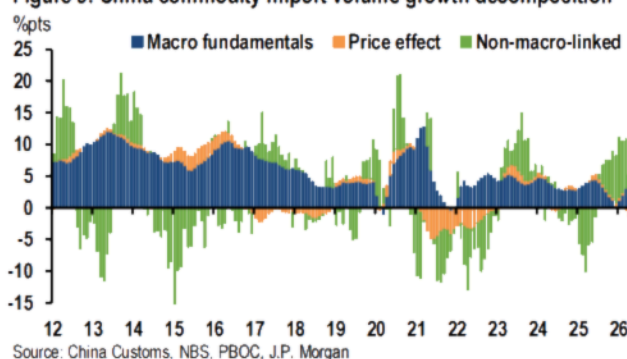
Figure 8: Net trade of selected tech products



Renewed commodity stockpiling

While the AI upcycle and chip inflation explain part of the import strength since late 2025, questions persist over whether this primarily signals a broader domestic-demand recovery. An additional, and underappreciated, driver is renewed commodity stockpiling. China's [stockpiling](#) accelerated in 2023 following the Russia-Ukraine conflict, with commodity import volumes reaching record highs that are difficult to explain by macro fundamentals or price effects (Figure 9).

Figure 9: China commodity import volume growth decomposition

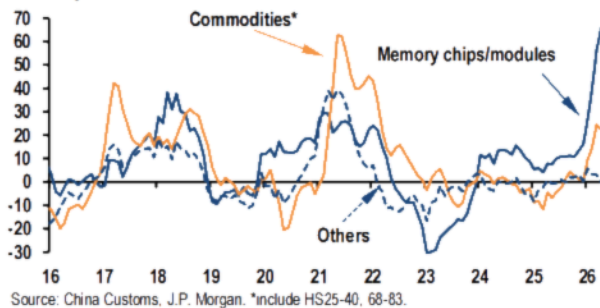


More recently, heightened geopolitical uncertainty, particularly the Middle East conflict and the associated energy shock, has reinforced energy-security concerns, a theme highlighted by top policymakers at the [April Politburo meeting](#). Stockpiling signals have been visible since 2H last year, even as FAI was collapsing, and appear to have intensified in recent months despite higher commodity prices.

That said, the import picture offers muted evidence of a broad-based domestic demand recovery. Outside of memory chips and modules, and a range of "stockpiling-prone" commodities (energy, minerals, chemicals, and metals), imports of other product categories have seen muted growth (Figure 10).

This composition points to demand that is still relatively narrow and policy-tilted: strength appears concentrated in high-end manufacturing supply chains, while more cyclical, consumption- and private-sector-driven import categories show limited momentum.

Figure 10: China imports breakdown
US\$, %oya, 3mma



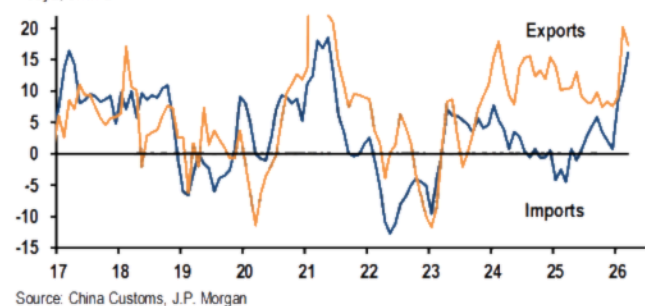
“AI/energy winners”

Taken together, the recent trade impulse looks asymmetric: strength is concentrated in a narrow set of AI- and energy-transition-linked “winners”, while the broader economy remains exposed to higher oil and gas costs that could weigh on margins and activity (seen in [April activity data](#)) even as select export categories stay resilient. This backdrop is further complicated by lingering policy uncertainty, though the feared headwinds from rising trade barriers and stricter enforcement against transshipment have not yet materialized to derail broad export strength. US–China tariff risks remain, and there was no major breakthrough from the [recent Trump–Xi summit](#) or the extension of the 1-year truce. In addition, [the U.S. could reimpose or extend new Section 301 tariffs soon](#). Global growth has also been more resilient than expected despite the energy shock, but pressures could still build if energy supply disruptions remain, keeping the external environment a swing factor for trade into 2H.

Implications for growth and employment

The GDP implications are less clear-cut. Barring a sharp pull-back, this year’s nominal export growth could reach the high single digits (around 8% in our latest forecast), roughly double our expectation at the start of the year (3.5%/y/y). Meanwhile, with imports strengthening, driven in part by renewed stockpiling and AI supply-chain inputs, full-year nominal import growth (around 13%) could outpace exports for the first time since 2021. Import volume growth has also been catching up with exports lately (Figure 11).

Figure 11: Trade volume growth
%oya, 3mma



Taken together, this could leave the net export contribution to economic growth smaller, more volatile, and more sensitive to relative price moves (chip prices, commodity prices, FX) and to shifts in the demand composition. Moreover, the current tailwinds are skewed toward labor-light, upstream, and tech-adjacent sectors (semiconductors, metals/chemicals, energy and related equipment), where price-led gains can lift trade values without generating large, immediate multipliers for employment and household income, implying limited spillover to consumption and private-sector activity even if the headline trade impulse remains firm.

The growth implication contrasts with Taiwan and Korea, where exposure to the AI upcycle is more direct, anchored in high-end logic and advanced memory that are closely tied to US hyperscaler capex, and where the tech sector carries a larger weight and higher value-added share in overall production and exports. By comparison, the tech share in China’s industrial production is below 15% (vs. 60% for Taiwan), which mechanically limits how much an AI-driven upswing can translate into broad-based acceleration, even when specific export categories are booming in nominal terms.

Still, there is a credible path for today’s AI-linked outperformance to broaden over the next few years, even if the transmission is likely to be gradual. The [policy-backed push into high-end manufacturing](#), alongside upgrades in cybersecurity, data center infrastructure, and selective capex, can help nurture new export and growth engines over time, starting with mature-node chips and adjacent hardware ecosystems where China already has scale and cost advantages, and potentially extending up the semiconductor value chain. Further out, priorities such as “mother machine” equipment and humanoid robotics could deepen the pipeline of high-end exports by strengthening capabilities in precision engineering, automation, and embodied AI. The key to sustained growth: near-term gains remain evidence of a broader domestic-demand renaissance embedded in the import mix.



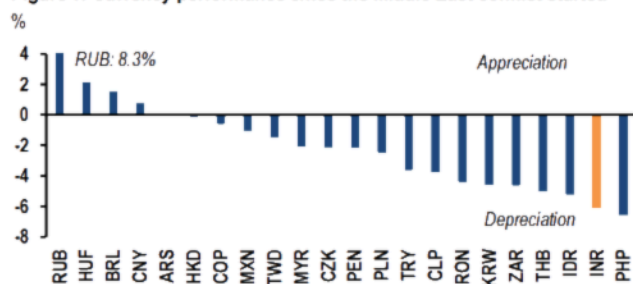
22 May 2026

India: This time is different

- **Managing BoP and Rupee pressures will be India's key macroeconomic challenge this year**
- **Unlike previous episodes, pressures are emanating from the capital account, not the current account**
- **At the heart of this is a drying up of India's net FDI flows**
- **FDI flows typically move in lock-step with US10Y yields; recent FDI falls coincide with rising US yields**
- **Growing BoP pressures will have to be absorbed across multiple instruments, not just the Rupee**

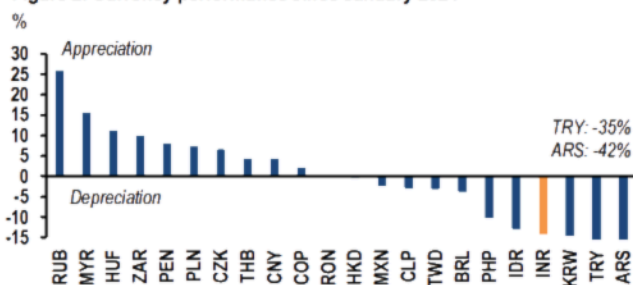
Three months into the Middle East conflict, India has managed to avoid widespread energy shortages. The burden sharing of higher energy prices between the public and private sector has finally begun, with retail prices being raised. Meanwhile, the key pressure point remains the Balance of Payments and the Rupee, with the latter under sustained depreciation pressure (Figure 1). Those pressures pre-dated the conflict, such that India's currency has depreciated almost 13% over the last year. While some of this may be payback for prior currency stability, the Rupee has cumulatively seen one of the largest depreciations in the emerging market universe since the start of 2024 (Figure 2).

Figure 1: Currency performance since the Middle East conflict started



Source: Bloomberg Finance L.P., J.P. Morgan

Figure 2: Currency performance since January 2024

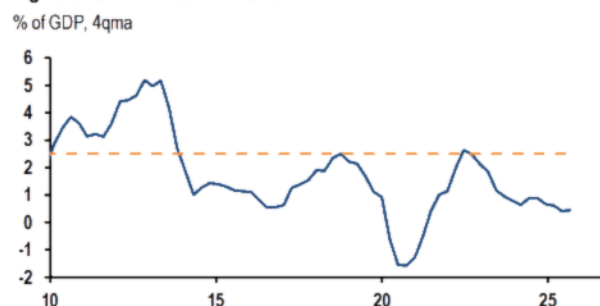


Source: Bloomberg Finance L.P., J.P. Morgan

The Rupee, however, is just a symptom: sustained depreciation reflects growing pressures in the balance of payments.

Throughout this period, the current account deficit has remained remarkably benign, averaging less than 1% of GDP over the last 3 years (Figure 3). Even after the conflict commenced, the current account has not yet flared up. While energy prices have increased sharply, quantities of imports are much lower such that the trade deficit has not yet spiked to feared levels.

Figure 3: Current account deficit



Source: RBI, J.P. Morgan

It's the capital account, silly...

Instead, the pressure on the Rupee and the Balance of Payments is coming squarely from the capital account. India's capital flows have averaged 2.6% of GDP from 2015 to 2019 – which is where the concept of a sustainable CAD of around the 2.5% level emanates from (Figure 4).

Figure 4: Capital account balance

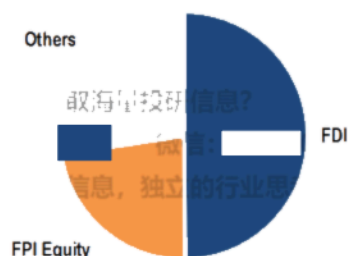


Source: RBI, J.P. Morgan

Capital inflows have tailed off sharply in recent years. They slowed to 1.4% of GDP in 2024 and completely dried up in 2025 (both calendar years). The bulk of the slowdown is on account of net FDI flows, which have shrunk from 1.5% of GDP pre-pandemic to just 0.1% of GDP. The other big swing has been FPI equity flows. Together these account for almost 75% of the slowdown (Figure 5).

Figure 5: Capital account slowdown decomposed

Share of change in capital account flows (% of GDP), 2025 vs 2015–19 avg



Source: RBI, J.P. Morgan.

Understanding why FDI flows have slowed so sharply is therefore key to understanding the emerging vulnerability of the balance of payments. The rest of the capital account is much more volatile and fickle and cannot be relied upon to consistently finance the current account deficit.

India's FDI Puzzle: Hiding in plain sight

FDI flows averaged consistently close to 1.5% in the years leading up to the pandemic. They increased further in the pandemic year, but suddenly began to slow from 2023 onwards, averaging just 0.4% of GDP that calendar year (when we first flagged this concern, see [“The curious case of India's falling FDI”](#)), and then slumped further to just 0.1% of GDP in both 2024 and 2025 (calendar years).

Importantly, and contrary to common perception, all three sub-components of FDI – as a share of GDP – have contributed to the pressure, albeit to different degrees. Gross inflows have slowed, while both repatriation of profits and outbound FDI (Indian residents investing abroad) have increased sharply (Figure 6 and Figure 7).

Figure 6: FDI gross inflows

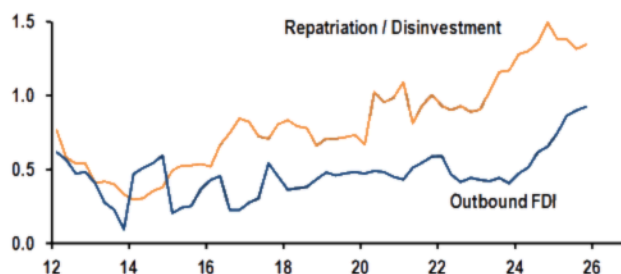
% of GDP, 4qma



Source: RBI, J.P. Morgan

Figure 7: FDI outflows by component

% of GDP, 4qma



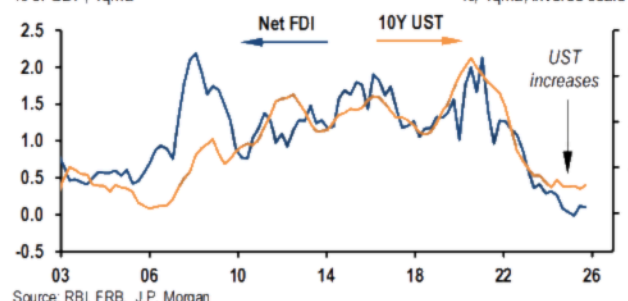
Source: RBI, J.P. Morgan

A cottage industry has developed trying to explain the FDI slowdown. Most explanations rest on how it has been underpinned by a sharp increase in repatriation of profits out of India because, unlike some other economies, India permits exit. But repatriation of profits is only partly responsible for the slowdown. Other explanations revolve around domestic tax irritants and FDI sectoral caps.

As Figure 8 reveals, India's net FDI has been very strongly correlated with the US 10-year treasury yields over the last 15 years. From 2010 to 2025 changes in India's net FDI can be explained almost entirely by movements in global financial conditions – as proxied by US treasury yields. The sharp rise in FDI in the pandemic years coincided with an easing of global financial conditions as central banks slashed rates and pumped in liquidity. In contrast, the progressive and rapid drop-off in India's FDI since 2023 has coincided with central banks hiking rates from 2022 and global financial conditions tightening sharply, as reflected in the fact that US 10-year treasury yields have, over the last three years, been at their highest levels since 2007.

Figure 8: Net FDI flows and US treasury yields

% of GDP, 4qma



Source: RBI, FRB, J.P. Morgan

The correlation with global financial conditions is true, to different degrees, for each of the three sub-components of FDI: gross inflows, repatriation, and outbound FDI (Figure 9-11). Repatriation outflows and outbound FDI seem particularly correlated to higher yields (Figure 9 and 10). In sum, higher US yields are acting as a magnet to suck back capital.

22 May 2026

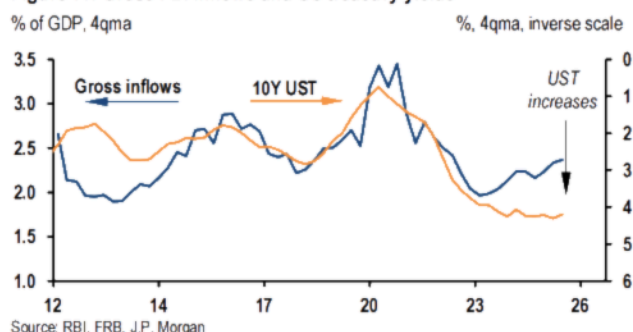
Figure 9: Repatriation / disinvestment flows and US treasury yields



Figure 10: Resident FDI outflows and US treasury yields



Figure 11: Gross FDI inflows and US treasury yields



FDI: Push versus Pull factors

Interestingly, the only time where there has been a meaningful divergence between India's net FDI inflows and US bond yields is between 2005 and 2010 (Figure 12). This should not be a surprise because these were the years when India saw a large private capex cycle which was pulling in strong FDI flows. What all this points to is that FDI is, unsurprisingly, governed both by "pull" and "push" factors.

When countries have a compelling case to attract FDI (capex cycle; surging exports; "China+1"; tech investments), inflows are dominated by "pull factors". Absent that, "push factors" – global financial conditions – tend to drive flows, making flows more volatile. During times of easy money and lower US Dollar rates, FDI flows to emerging markets increase in

search of higher returns. But during periods of tighter money and higher US rates, the opportunity costs rise and FDI flows retrench, absent domestic "pull factors."

In India's case, pull factors dominated between 2005 and 2010. Since then, however, India has become hostage to push factors and, therefore, to global financial conditions. The economy witnesses higher FDI during benign times but progressive retrenchment once global financial conditions tighten.

Figure 12: Net FDI flows and US treasury yields



These push versus pull factors are visible in other emerging markets as well. Vietnam has seen sustained and elevated FDI flows over the last two decades, averaging three times India's quantum (Figure 13). More importantly, its FDI flows have been very stable and invariant to global financial conditions, suggesting they are being dominated by pull factors. This is unsurprising because Vietnam is seen as the biggest beneficiary of "China+1" within Asia and has witnessed very strong export growth in recent years.

Figure 13: Vietnam net FDI flows



In contrast, India's FDI appears to be governed more by "push factors" which have become more hostile in recent years. Unsurprisingly, therefore, India's share of FDI going to emerging markets (ex China and Russia) has fallen discernibly since 2023 (Figure 14).

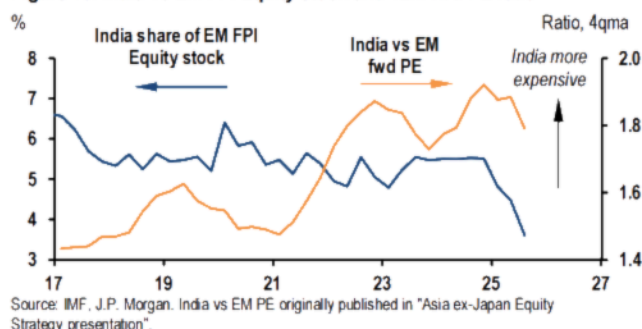
Figure 14: India's net FDI as a share of EMX



Different flow; same story

A similar phenomenon seems to be afflicting equity portfolio flows. Equity flows seem to be increasingly directed to where there is a “pull factor” (AI in North Asia and commodities in Latin American). Absent that pull factor, India’s rich valuations – manifested in a consistently rising PE ratio relative to its EM peers – have been harder to justify, and have eventually triggered FII outflows, such that India’s share of the stock of EM FPI equity investments has dropped off in recent years (Figure 15).

Figure 15: India vs EM FPI Equity stock and 12m fwd PE ratio



Where to from here?

What all this suggests is that the genesis of the current external pressures has, in fact, been building for a long time. The lack of a corporate capex cycle since 2011 (and/or other pull factors) has meant India’s capital flows and FDI in particular, have progressively become hostage to global financial conditions (“push factors”) making them volatile and pro-cyclical. When financial conditions were benign around the time of the pandemic, inflows poured in. But when the cycle turned – and we most need them on the back of the energy shock – they have dried up. The implication is clear: India will need to work systematically and assiduously to re-create these pull factors. Without this, capital flows will be fickle and the external sector vulnerable.

But these are medium-term asks. India first needs to firefight through the current challenges. The drying up of capital flows, and the associated pressures on the Rupee, have occurred at a time when India’s CAD has been very benign (less than 1% of GDP over the last three years). This is about to change quickly. Even if the Strait of Hormuz opens next month, we expect crude prices to average over \$100/barrel till the end of 2026 (see [note](#)). If so, that would push India’s CAD to about 2.5% of GDP, or about \$100 billion this year – putting more pressure on the BoP. Meanwhile, with inflation in the US expected to remain sticky and the US fiscal situation on precarious footing, US 10-year treasury yields can be expected to remain elevated for the foreseeable future. This does not bode well for FDI flows into India.

Diffusing pressure across instruments

We have [long argued](#) that the Rupee should be the first line of defense and act as the primary shock absorber, especially since an adverse terms of trade shock (from higher crude prices) and a drying up of capital flows would both suggest the equilibrium REER is much lower (Figure 16). But the Rupee cannot be the only adjustment mechanism. The currency has depreciated 13% over the last year and unabated depreciation can sometimes turn into a self-fulfilling prophecy. Rapid depreciation can sometimes induce investors to start hedging the existing stock of FDI and ECBs in the economy, which simply accentuates Rupee pressures, prompting an even greater desire to hedge, thereby turning into a vicious cycle. So, the pressure will need to be distributed across Rupee depreciation, FX reserve intervention, trying to attract some capital flows, and compressing the current account. No one instrument should be burdened with facilitating the entire adjustment.

Figure 16: India Real effective exchange rate (40 currency)



Expenditure switching versus compression

Rupee depreciation should result in some narrowing of the current account, by disincentivizing imports and boosting exports (“expenditure switching”). But if the BoP gap is too large, and expenditure switching is not enough, some “expenditure compression” may eventually be necessary.

The benefit of using “expenditure switching” is that it has an expansionary impact on domestic activity even as it seeks to narrow external imbalances. In contrast, “expenditure compression” is contractionary and relies on demand management involving tighter fiscal and monetary policy. But the trade-offs involving the latter are more delicate now than in 2013. Back then it was clear that the economy was overheating: inflation was in double digits and real rates were negative, the combined fiscal deficit was elevated and the CAD was almost 5% of GDP in the run-up to the Taper tantrum. The obvious response was to tighten fiscal and monetary policy, narrow the CAD and take the pressure off the BoP.

The current context is very different: core inflation has averaged just 2-3% over the last 2 years suggesting the economy has slack and is far from overheating. Similarly, the economy is still awaiting a private capex cycle, and risk aversion is only likely to increase amidst heightened geopolitical uncertainty. In this environment, fiscal compression that necessitates fuel and fertilizer subsidies cannibalizing public capex risks making policy pro-cyclical. But the absence of demand management measures may keep the CAD uncomfortably elevated at a time when capital flows have dried up. There are, therefore, no easy answers.

In the meantime, some near-term steps are more obvious: raising retail domestic gasoline and diesel prices further to generate some demand compression and tightening exporter credit terms to bring back export proceeds faster. If these measures, along with (i) potential efforts to raise capital inflows; and (ii) the salutary effects of Rupee depreciation on compressing the current account are enough to take some pressure off the BoP, demand compression may not be needed. But if not, some fiscal and monetary compression may be necessary as a last resort. When the firefighting is over, however, it will be important for policy to remember that the genesis of the current pressures is the lack of domestic pull factors that attract strong and sustained FDI inflows to insulate the economy in troubled times.

Japan

- **Incoming data suggest activity is holding up...**
- **...but price pressures are building rapidly**
- **We revise up 2H inflation forecasts as input prices surge**
- **Next week: May Tokyo CPI, April IP**

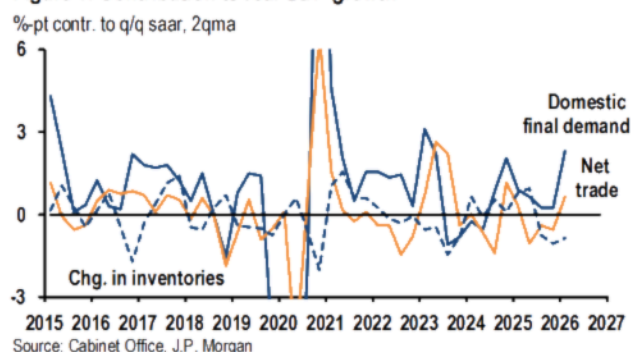
Amid fiscal concerns that are putting sharp upward pressure on JGB yields, PM Takaichi—who had previously ruled out compiling a supplementary budget—reversed course this week and stated her intention to begin preparing a supplementary budget with a view to extending and expanding energy subsidies. The size of the package is likely to be around 0.5% of GDP and therefore not particularly large. However, with a pipeline of other policies that entail substantial fiscal outlays—such as growth investment, a consumption tax cut, and higher defense spending—continued reliance on subsidies to absorb inflationary pressures remains a persistent headwind for the JGB market. Indeed, this week's data indicated that, alongside signs of softer economic activity, inflation pressures were even more pronounced, driven by broader and larger increases in petroleum product prices. We revisited our inflation outlook this week and revised it upward, particularly for core goods and food. We now expect core (ex. fresh food) CPI to rise above 3%o/a in 4Q26.

We believe these developments will affect the BoJ's risk balance as it faces both downside risks to growth and upside risks to inflation. With markets already pricing in roughly 80% of the additional rate hike we expect in June, the BoJ held a meeting with market participants this week regarding its asset purchase program, which is scheduled to be discussed at the June meeting. The focus is on the plan after April 2027, though market views remain divided. From the perspective of an appropriate balance sheet and avoiding perceptions of fiscal financing, the BoJ may prefer to maintain the current pace of reductions. That said, as upward pressure on long-term yields intensifies, the BoJ may need to show some degree of consideration for market conditions. Weighing these factors, we expect the BoJ to ultimately halve the current pace of reductions—from JPY200 billion per quarter to around JPY100 billion. Even so, the BoJ's balance sheet would continue to shrink at a meaningful pace. Together with fiscal expansion and building inflation pressures, these dynamics should continue to put upward pressure on Japanese interest rates.

This week's data flow confirmed that the economy remained on a solid footing through 1Q. The initial estimate of GDP was firmer than expected as domestic demand continued to strengthen, supported by ongoing corporate capex and further

rises in real household spending, supported by a trend increase in income growth. The monthly activity data into 2Q is also holding up despite intensifying supply constraints. This week's April PMI and Tankan surveys suggested resilience, with manufacturing indices still tracking close to cycle highs.

Figure 1: Contribution to real GDP growth



1Q GDP solid on domestic demand

The Cabinet Office's first estimate of 1Q26 GDP rose 2.1%q/q saar, stronger than expected (JPM: 1.0%, consensus: 1.7%). The details point to sustained resilience in domestic demand (Figure 1), with domestic final sales contributing a solid 1.2%-pts to headline growth. Private consumption was notably stronger than anticipated in 1Q, extending its run to five consecutive quarterly increases. Net exports added 0.9%-pts to headline GDP, driven by a sharp increase in goods exports. Offsetting these positives, inventories declined for the second consecutive quarter, subtracting 0.1%-pts from headline growth.

- **Private consumption** rose 1.1%q/q saar, well above our tracking estimate of only a small increase. Momentum appears supported by favorable income conditions: sustained wage growth and government subsidies that have helped contain headline inflation have lifted real employee compensation (1.3%o/a and 0.8%q/q saar).
- **Business investment** rose 1.1%q/q saar. This was below our 2.0% expectation, but it follows a strong 5.6% gain in 4Q25. With profits still growing and demand—especially for AI-related sectors—remaining firm, corporate appetite for capex looks broadly solid. Business sentiment also continued to recover during the quarter, though the Middle East conflict has since dimmed the outlook.
- **Public investment** was stronger than expected, rising 5.7%q/q saar.
- **Net trade** added a larger-than-expected 0.9%-pts to headline growth. We had anticipated some slowing in services exports amid weaker tourist arrivals from China as Japan—

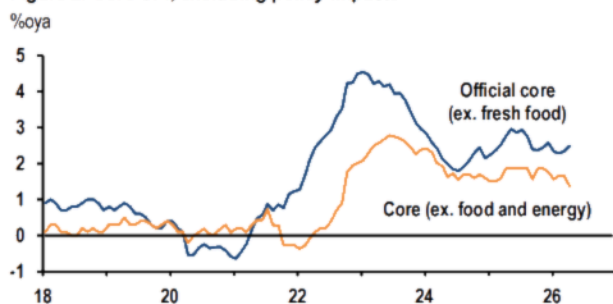
China tensions rose. Services exports increased in the previous quarter, and goods exports were solid in line with monthly data—together lifting total exports by 7.1%q/q saar. Imports rose 1.9%q/q saar, below our expectation of 5.0%.

Overall, the 1Q GDP report indicates that underlying private-sector demand remained resilient. However, we expect supply constraints related to the Middle East conflict to weigh on activity this quarter. Household consumption has some cushion from energy subsidies and positive income dynamics, but business sentiment points to a deterioration in the outlook alongside higher input and output prices. Moreover, low inventory levels suggest firms may face supply constraints with limited buffers.

Policy pushes down April CPI further

April nationwide CPI inflation fell sharply, reflecting the government's stepped-up anti-inflation measures (Figure 2). The core CPI (ex. fresh food) was flat on the month, while the %oya rate slowed from 1.8% in March to 1.4% in April. Abolition of the provisional gasoline tax rate from the beginning of the year and introduction of subsidies in March lowered core (ex. fresh food) inflation by about 1%-pt. The policy-driven downward pressure on prices was not limited to the gasoline subsidy introduced in late March; it also extended to measures such as making high school tuition and school lunch fees free of charge. These effects are reflected in the BoJ core CPI (ex. fresh food and energy), which declined 0.2% m/m sa to 1.9% oya, and in the global core CPI (ex. food and energy), which fell 0.1% m/m sa to 1.1% oya. The government is further expanding the scope of its free high school education program. From this fiscal year onward, it is subsidizing an amount roughly equivalent to tuition fees for both public and private high schools, with no income restrictions. This continued to push down the core CPI (ex. fresh food) by around 0.2%-pts. In addition, school lunch fees at public elementary schools have been made free of charge from April onwards.

Figure 2: Core CPI, excluding policy impacts



Source: Statistics Bureau, J.P. Morgan

Excluding these factors, the underlying inflation trend remains persistent. The downtrend in food inflation that had continued since peaking last summer has stalled: in April, it stood at 4%oya, essentially flat since January. In addition, general service inflation—such as communication and accommodation—continued to run above 2%. While core goods price inflation has been below 2% since the start of the year, [recent movements in the PPI](#) suggest a high likelihood they will turn upwards.

We expect inflation to turn back upwards heading into the summer. While energy inflation is likely to remain contained for the time being due to government subsidies, supply constraints in petroleum products have already begun to lead producers to raise prices. This, in turn, is likely to push up prices across a broad range of goods and services—particularly for food and core goods—and further lift inflation expectations. We believe these developments will continue to support the BoJ's policy response.

Activity holds up amid supply constraints

Japan's May all-industry PMI fell 1.1 points to 51.1, reflecting declines in both manufacturing and services. That said, the manufacturing PMI decline was more moderate than we expected, easing only 0.6 points to 54.5. The level remains well above the range seen over the past three years, consistent with still-solid activity in the middle of the quarter. This likely reflects resilient demand, with some support from front-loading ahead of potential disruptions. By contrast, the services PMI was weaker than expected, declining 1.0pt to 50.0, its lowest level since March 2025. We do not think this slowdown is primarily due to softer domestic demand; rather, it appears more closely linked to weaker overseas demand.

Within manufacturing, the details point to solid demand alongside clearer signs of supply constraints. The output index fell 1.0 point to 54.1, but remains far higher than it was over the past three years. Order indicators also slipped—new orders fell 0.8 points to 53.0 and new export orders edged down 0.1 point to 52.3—yet both remain elevated (Figure 3). We think this pattern is consistent with front-loaded demand ahead of potential supply disruptions. Manufacturers also appear to be building their input inventories, with the stocks of purchases index up 0.2pts. At the same time, several indicators suggest supply constraints: suppliers' delivery times rose just 1.0pt to 37.3 after a double-digit decline in April. Finished-goods inventories stayed below the 50 threshold for a 21st consecutive month, recovering only 0.3pt in May. Against this backdrop, backlogs of work remain elevated, slipping just 0.4pts to 53.3 after a 2.8pt rise in April. Ongoing supply concerns are also weighing on sentiment, with the future output index down 0.2pt to 55.0.

22 May 2026

Figure 3: Manufacturing PMI - New orders



Turning to services, the sharp deterioration in external demand is notable: new export orders plunged 3.8 points to 44.3, suggesting the softer activity reading is partly driven by slowing demand from abroad. The decline in export orders may also reflect supply constraints, potentially tied to slower overseas shipping activity. By comparison, domestic demand appears to be holding up, albeit with some moderation: the new business index fell only 0.3pts to 50.8, while backlogs of work increased 1.2pts to 51.7.

The most prominent near-term risk is inflation. In manufacturing, the input prices index rose 1.7 points to 73.9, a cumulative 14.4pt increase since February (Figure 4). This likely reflects higher energy costs; additionally, supply constraints and low inventories could intensify cost pressures. The risk is increasing that firms pass more of these higher costs on to customers. The output prices index rose 2.6pts to 62.2, its highest since June 2022. However, the gap between input and output prices remains large in this cycle, implying that pass-through may still be incomplete. In services, input and output prices also rose (0.5pt and 0.3pt, respectively), reinforcing the view that inflation pressures could be stronger than assumed in our forecasts.

Figure 4: PMI - Manufacturing output and input prices index



Data releases and forecasts

Week of May 25 - 29

Fri	Tokyo consumer prices				
May 29	2020-based				
8:30am		Feb	Mar	Apr	May
	%oya				
	Overall	1.5	1.4	1.5	<u>1.5</u>
	Core (ex. fresh food)	1.8	1.7	1.5	<u>1.5</u>
	Ex fresh food and energy	2.5	2.3	1.9	<u>2.0</u>
	Core (ex. food and energy)	1.5	1.4	0.9	<u>1.0</u>
	%m/m, sa				
	Overall	-0.1	0.1	0.5	<u>0.2</u>
	Core (ex. fresh food)	-0.1	0.3	0.1	<u>0.2</u>
	Ex fresh food and energy	0.3	0.2	-0.1	<u>0.3</u>
	Core (ex. food and energy)	0.1	0.2	0.0	<u>0.2</u>

For the May Tokyo CPI, we expect that government subsidies will continue to push down prices for energy and certain services, thereby masking the underlying inflation trend.

Fri	Labor force survey				
May 29	Sa				
8:30am		Jan	Feb	Mar	Apr
	Unemployment rate (%)	2.7	2.6	2.7	<u>2.7</u>
	Job offers ratio	1.18	1.19	1.18	<u>1.19</u>

We look for the unemployment rate to remain steady in April. Labor market conditions remain firm in our view, reflecting continued demand for workers in the services sector.

Fri	Industrial production				
May 29	%m/m sa, base year 2020				
8:50am		Jan	Feb	Mar	Apr
	Production	4.3	-2.0	-0.4	<u>0.5</u>
	Shipments	3.8	-1.5	-0.9	
	Inventories	-0.8	0.3	-1.8	
	Inventory/shipments ratio	-4.6	2.0	-0.7	

We expect April production to increase on the month, in line with manufacturers' projections for the month.

Fri	Commercial sales				
May 29	%m/m, sa				
8:50am		Jan	Feb	Mar	Apr
	Total retail sales	3.0	-2.0	1.0	<u>0.4</u>
	%oya	1.8	-0.1	1.4	<u>1.2</u>

We expect a slight increase in April retail sales, supported by strong home appliance sales and higher nominal fuel sales, which should offset some weakness in food sales.

Fri	Housing starts				
May 29					
2:00pm		Jan	Feb	Mar	Apr
	Housing units %oya	-0.4	-4.9	-29.3	<u>13.8</u>
	%m/m, sa	-0.1	-0.6	-1.9	<u>-1.0</u>
	Mn units saar	0.76	0.75	0.74	
	Floor space, 6mma* (%m/m, sa)	1.0	0.8	0.8	

We expect April's housing starts to decline, due to higher costs and constraints of inputs.

Fri	Consumer sentiment				
May 29	DI, sa				
2:00pm		Feb	Mar	Apr	May
	Consumer sentiment	39.7	33.3	32.2	32.6
	Standard of living	39.5	29.7	28.2	—
	Income growth	42.3	39.8	39.8	—
	Labor market conditions	43.3	37.6	37.4	—
	Durable goods purchases	33.7	26.0	23.2	—

1. The DI asks whether a respondent thinks that now is a good time to purchase durables

We expect the consumer sentiment index to have recovered slightly in May, as government's gasoline subsidies likely helped alleviate households' concern about inflation. Even so, it should remain depressed, reflecting heightened uncertainty about the outlook.

Review of the past week's data

GDP - 2nd estimate (May 19)

%q/q, saar

	3Q25		4Q25		1Q26	
Real GDP	-2.6	-2.5	1.3	0.8	<u>1.0</u>	2.1
Private consumption	1.9	2.1	1.1	0.2	<u>0.2</u>	1.1
Residential investment	-29.7	-28.7	21.0	21.3	<u>0.5</u>	2.1
Bus. capital investment	0.0	-0.4	5.4	5.6	<u>2.0</u>	1.1
Government consumption	0.3	0.2	1.5		<u>4.0</u>	0.4
Public investment	-5.2	-4.2	-2.0	-0.8	<u>1.0</u>	5.7
Exports	-5.5	-6.2	-1.4	0.7	<u>6.0</u>	7.1
Imports	-0.5	-0.7	-1.3	0.0	<u>5.0</u>	1.9
%pt contrib. to q/q saar GDP growth						
Domestic final sales	-0.5	-0.4	2.5	2.1	<u>1.4</u>	1.2
Net exports	-0.9	-1.0	0.0	0.1	<u>0.2</u>	0.9
Inventories	-1.2	-1.0	-1.1	-1.4	<u>-0.6</u>	-0.1
GDP deflator (%oya)	3.5	3.4	3.4		<u>2.7</u>	3.4

See main essay.

Reuters Tankan survey (May 20)

Diffusion index

	Mar	Apr	May	
Manufacturing	18	7	<u>3</u>	8
Nonmanufacturing	25	31	<u>23</u>	29

The May Reuters Tankan survey suggests business conditions remain resilient, despite early signs of an energy-price shock. Survey responses were collected between May 1-15; the results may partially reflect optimism around ceasefire talks. That said, higher energy costs and elevated uncertainty continue to weigh on the outlook. The three-month outlook index improved versus April—manufacturing rose 3pts to 5 and non-manufacturing rose 4pts to 18—but both remain at subdued levels.

Machinery orders (May 21)

%m/m sa

	Jan	Feb	Mar	
Total	-2.0	-5.0	—	4.3
Core private domestic orders ¹	-5.5	13.6	<u>-16.0</u>	-9.4
Manufacturing	-12.5	30.7	—	-14.2
Core nonmanufacturing	6.8	0.9	—	-6.0
Public	-13.1	-19.0	—	-14.5
Foreign	0.2	-5.1	—	31.0

1. Domestic private sector, ex for ships and from utilities

We had anticipated some payback after February's strength, which was boosted by temporary spikes in several manufacturing categories. That said, the pullback in manufacturers' orders was smaller than expected. With total core orders running at 28.3% q/q saar in 1Q26, machinery orders are tracking firmer than implied by GDP business capex, consistent with our view that business investment demand remains resilient.

Within manufacturing, some categories retraced February's spike—most notably chemicals (-27.9% m/m sa) and metals (-88.0%)—but these declines were still less severe than the prior month's surge. The underlying momentum in these areas may reflect AI-related demand, supporting further capacity expansion. Auto-related orders also rose 7.1%. By contrast, electronics orders fell 21.3%, in part reflecting a technical payback after strong January–February prints. For non-manufacturers, core orders fell 6.0% m/m sa. While non-manufacturing capex has been firm since last October, momentum could cool as higher input costs—especially wages and energy—continue to weigh. Business surveys also point to some softening in sentiment.

22 May 2026

Customs-cleared international trade (May 21)

%m/m, sa

	Feb	Mar	Apr		
Balance (JPY bn sa)	-368	-357	94	95	-268 236
Exports	-5.5	-5.4	1.5	1.4	-5.0 1.4
Imports	3.2	3.3	-2.9	-3.0	-1.5 0.0
Balance (JPY bn nsa)	37	643	21	302	
Exports (%oya)	4.0	11.5	7.0	14.8	
Imports (%oya)	10.3	10.9	5.1	9.7	
BoJ real exports	-4.1	-3.0	-0.5	0.9	-6.0 -2.8
BoJ real imports	6.8	5.5	-5.5	-4.7	-2.5 -3.9

Japan's April trade data indicate that softer shipping activity—amid heightened Middle East conflict risk—dragged down both export and import volumes. Despite weaker volumes, higher prices lifted nominal trade. Export and import prices have surged since last autumn, pushing both export and import values. With real exports down 5.5%3m/3m saar, higher energy costs and supply constraints should weigh on real export growth this quarter, even as the PMI readings point to relatively resilient export orders, likely due to front-loaded demand.

In the breakdown, export volumes to the U.S. and China fell 3.6%m/m sa and 5.7%, respectively. By product, tech exports were flat on the month. The report suggests that softer shipments to China were offset by gains to other Asian economies. Outside tech, the tone was weaker. Auto and parts export volumes fell for a second consecutive month, down 3.1% in April. Tighter supply conditions for oil-derived inputs, such as petrochemical products, also appear to be feeding through to intermediate goods exports, which declined 5.2%m/m sa, likely driven by weaker shipments to China.

Markit manufacturing/ services PMI, flash (May 21)

Diffusion index

	Mar	Apr	May	
Manufacturing (headline)	51.6	55.1	51.6	54.5
Services (business activity)	53.4	51.0	51.3	50.0

See main essay.

Consumer prices (May 22)

%oya, 2020-based

	Feb	Mar	Apr	
Overall	1.3	1.5	1.9	1.4
Core (ex. fresh food)	1.6	1.8	1.7	1.4
Core (ex. fresh food and energy)	2.5	2.4	2.0	1.9
Core (ex. food and energy)	1.4	1.4	1.5	1.1
%m/m, sa				
Overall	-0.2	0.4	0.4	0.1
Core (ex. fresh food)	-0.3	0.5	0.3	0.0
Core (ex. fresh food and energy)	0.1	0.2	0.1	-0.2
Core (ex. food and energy)	0.1	0.2	0.2	-0.1

See main essay.

Sources for all data tables: ADA, BoJ, CAO, JCSA, JDSA, JFA, JLM, VMA, Markit, METI, MHLW, MILT, MoF, Reuters, Statistics Bureau, J.P. Morgan forecasts.

Australia and New Zealand

- Australia's unemployment rate rises to 4.5%
- AU inflation to moderate; capex and construction work expected to pick up in 1Q
- RBNZ to remain on hold with hikes from 3Q

Australia's April labor force survey was weak across the board. The unemployment rate printed at 4.5% sa, two tenths above JPM/consensus expectations, up four tenths from January and the highest level since 2021 (Figure 1). The number of employed declined 18.6K sa, while the participation rate ticked one tenth lower to 66.7% sa.

Figure 1: Australian unemployment and employment

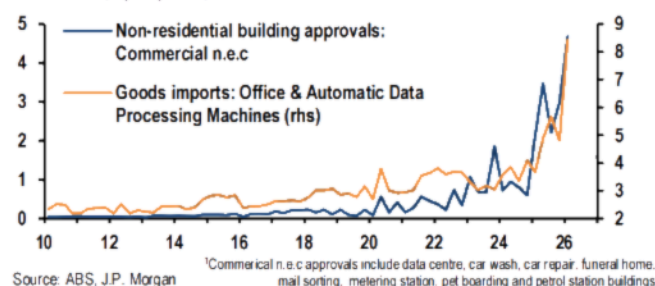


The data reinforces our view that the cash rate has now peaked and for the RBA to remain on the sidelines for the rest of 2026. The RBA's [May meeting minutes](#) suggested a more data-dependent approach to the policy outlook, with recent decisions providing the Board with space to see how the conflict in the Middle East develops and how Australian households and businesses respond. While inflation remains uncomfortably high, we still expect core inflation will peak in 2Q, which alongside rising unemployment and a [softening housing market](#) argues for a period of cash rate stability.

AI to boost capex and construction

Next week's data schedule includes GDP tracking releases on private capital expenditure and construction work done. We expect firm gains in both, with a common tailwind from the ongoing data centre construction surge (Figure 2). The build-out reflects a global lift in AI-related capital expenditure, which we expect will continue to support non-residential investment even as the domestic demand outlook softens. Our forecast implies a resilient gain in 1Q private fixed capital formation, though the reliance on capital imports for data centre fit-out (Figure 2 again) will moderate the pass-through to headline GDP.

Figure 2: Data centre construction approvals¹ and capital imports
both axes: A\$bn per quarter, sa

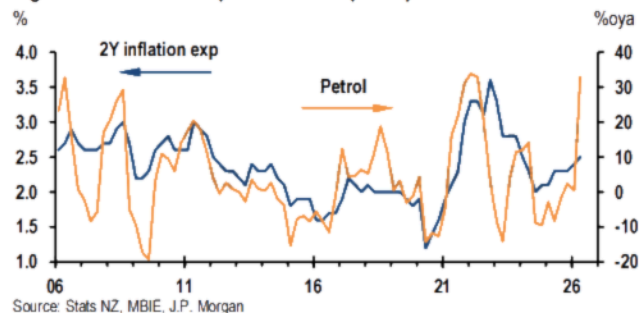


Within the details, we expect private capex to post a solid +2.0%q/q sa gain in 1Q, as the 2H25 technology plant and equipment spending surge extends into the March quarter. Construction work done should also rise +2.0%q/q sa, with strength in residential and non-residential building offsetting ongoing softness in public sector engineering work.

RBNZ on hold

The RBNZ committee is likely to keep the OCR steady at 2.25% at next week's meeting. Pre-Iran, the leadership had flagged likely normalization from accommodative levels, towards neutral (around 3%) over time. New Governor Breman advocated for gradualism on that path, and has broadly stuck to this message since oil prices spiked. The reaction function has been quite clearly articulated so far: look through the direct effect of the Middle East shock on input prices and any resulting surcharging/cost pass-through to the price level, but be watchful for changes in broader pricing behaviour. The committee should then have been heartened by the results of the Bank's own inflation expectations survey for 2Q last week, which showed a lower than normal response to domestic petrol prices (Figure 3).

Figure 3: NZ inflation expectations and petrol prices



News on the labor market has not been too disruptive: unemployment fell in 1Q, but not greatly, and the level implies excess capacity. This reduces the risk that above-target inflation becomes quickly entrenched. The government's message of belt-tightening heading into next week's Budget similarly gives the RBNZ some flexibility on timing.

22 May 2026

We still expect a first RBNZ hike in September, and 100bp of tightening by mid-27. The market is pricing hikes slightly sooner, with a full tightening priced by July. We expect next week's MPS message should push back on the need for urgency while maintaining a message of vigilance on inflation. The message is likely to be somewhat more hawkish than the staff's forecasts for the OCR track imply. We expect the OCR path to be relatively similar to February, already well below market pricing, despite a sharply higher jumping off point for the inflation forecasts. 1Q came in 0.3%-pt above staff forecasts. Governor Breman gave a preview of the post-Iran forecasts at the April MPR, which at that time assumed inflation would peak at 4.2%oya in 2Q26, a 1.5%-pt increase from the prior round. The relatively unchanged path for the OCR could be explained by a softer growth profile, as business surveys have moderated on the sentiment shock. Still, the implied level of real rates will be materially lower, which we suspect will require some offsetting sabre-rattling.

Australia

Data releases and forecasts

Week of May 25 - 29

Wed	Headline CPI				
May 27		Jan	Feb	Mar	Apr
11:30am	%oya	3.8	3.7	4.6	<u>4.5</u>
	%m/m	0.4	0.0	1.1	<u>0.6</u>

We expect April CPI to show moderation in monthly and annual terms. The government's intervention to halve the fuel excise and heavy vehicle road user charges from April 1 puts a dampener on inflation relative to March's surge, though the outright drag on the price level is relatively moderate in monthly average terms, with fuel off only around 5%m/m. The more material headwind to the %oya rate comes from airfares/travel, which industry data suggest were flat to down across categories—materially softer than last April. We have added top-ups to the April–June monthly profile in areas with most leverage to goods/energy prices and transportation costs, including food (+1.4%m/m), housing (+1.4%m/m) and clothing/footwear (+6.9%m/m). Measures of inflation breadth have been softer and momentum in monthly trimmed mean less worrisome than the excess demand narrative suggests. Given that trajectory and accounting for April–June, we see downside risk to the RBA's SoMP forecast for 2Q of 1.5%/q/q on headline and 1.0%oya on trimmed mean.

Wed	Trimmed mean CPI				
May 27		Jan	Feb	Mar	Apr
11:30am	%oya, sa	3.3	3.3	3.3	
	%m/m, sa	0.3	0.2	0.3	

Wed	Construction work done				
May 27		2Q25	3Q25	4Q25	1Q26
11:30am	%q/q, sa	3.1	0.1	-0.1	2.0
Thu	Household spending				
May 28		Jan	Feb	Mar	Apr
11:30am	%oya, sa	4.5	4.7	6.3	<u>5.7</u>
	%m/m, sa	0.2	0.3	1.6	<u>-0.5</u>

Nominal household spending posted a volatile gain in March, reflecting the ~30%m/m rise in retail fuel prices. Fuel prices have since declined, which we expect to impart a drag on the transport segment in April. Spending on clothing, food, and furnishings also caught the fuel updraft in March, though the pass-through from energy prices is more indirect for these segments, and we expect further upside to prices in April. Stepping back from the monthly volatility, the underlying pulse of consumer spending is slowing amid higher interest rate hikes and a cooling housing market. We expect household spending growth to ease over the next six months, and look for a modest level decline in April.

Thu	Private capital expenditure				
May 28		2Q25	3Q25	4Q25	1Q26
11:30am	%q/q, sa	0.1	6.4	0.4	<u>2.0</u>
Fri	Private sector credit				
May 29		Jan	Feb	Mar	Apr
11:30am	%q/q, sa	0.5	0.6	0.7	<u>0.5</u>

Review of past week's data

Labour force survey	Feb	Mar	Apr	
Unemployment rate (% , sa)	4.3	4.3	<u>4.3</u>	4.5
Employment change ('000, sa)	49.6	17.9	<u>20</u>	-18.6
Participation rate (% , sa)	66.9	66.8	<u>66.8</u>	66.7

New Zealand

Data releases and forecasts

Week of May 25 - 29

Wed	RBNZ Official cash rate				
May 27		Nov	Feb	Apr	May
12:00pm	%	2.25	2.25	2.25	<u>2.25</u>

Review of past week's data

BusinessNZ services index	Feb	Mar	Apr	
Index, sa	47.6	46.2		48.9
Retail sales (volumes)	3Q25	4Q25	1Q26	
%q/q	1.9	0.9	<u>0.3</u>	0.9

Sources: ABS, RBA, Stats NZ, RBNZ, BNZ, J.P. Morgan

Greater China

- **China: IP pulled back, domestic demand faltered**
- **Durability of housing recovery remains unproven**
- **Taiwan: Export orders contracted, led by tech**
- **Hong Kong: April CPI held steady**
- **Next week: China industrial profits; Hong Kong trade; Taiwan IP**

Despite firmer PMIs and a stronger export rebound, domestic activity disappointed. Industrial production fell 1.0%/m sa, the steepest drop in three years. Strait of Hormuz-related energy disruptions hit crude throughput and chemicals output, with smaller refiners less able to switch supply and the refined-product export ban and domestic price cap weighing on capacity utilization. Domestic demand also softened, with weaker retail sales and a broad FAI slump, reflecting slower fiscal outlays and less front-loaded bond issuance. Together, this tilts 2Q GDP risks to the downside versus the 4.0%/q saar or 4.9%oya baseline, as export support is concentrated in labor-light, upstream and tech-adjacent sectors with limited spillovers.

April activity undershoot expectations

April domestic hard activity data delivered broad-based disappointment, with softening in both the production and demand components. Industrial production fell 1.0%/m sa, the sharpest monthly contraction in three years, dragging the annual rate to 4.1%oya. High-tech manufacturing (+12.8%oya, Figure 1) continued to outperform on policy support, and auto manufacturing picked up to 9.2%oya, likely helped by stronger external demand for new energy products (EVs). Growth cooled elsewhere, led by chemicals amid energy-supply disruptions tied to Strait of Hormuz trade-flows.

Figure 1: China high-tech manufacturing IP



On the domestic demand side, FAI failed to maintain the brief return to mild growth in 1Q, falling 8.0%oya in April and dragging YTD FAI into contraction at -1.6%oya ytd. By sector, real estate FAI (-20.1%oya) drove the decline, nearly doubling the 1Q contraction. Manufacturing (-4.3%oya) and infrastructure (-4.5%) growth also turned negative. Retail sales softened further to 0.2%oya on a 0.2%/m sa decline, led by a plunge in auto retail sales (-15.4%oya). Weaknesses were also seen in other trade-in subsidy-eligible items, including communication appliances and household electronics. However, services spending accelerated to 5.6%oya ytd in April, reinforcing our long-held view that services consumption in China has more runway than goods.

April data prints show the Chinese economy is growing at two speeds, with exports stronger than domestic demand, and an uneven sector impact of the energy shock. The two-speed recovery makes it harder to gauge underlying momentum. The potential inventory drawdown story aside, without a decent rebound in industrial production over the next two months, and faster fiscal deployment to shore up investment and retail sales, 2Q GDP growth faces downside risk. Policy-tailwind sectors may partly offset the drag, but tech still accounts for less than 15% of China's industrial production (vs 60% for Taiwan) and is largely labor-light, with weak multipliers for jobs and household income. This caps spillovers to consumption and broader private-sector activity.

Housing activity index edged down

JPM's housing activity index edged lower in April, following four consecutive gains after sliding to its weakest level around year-end 2025 (Figure 2). The downtick was driven by a steeper decline in real estate investment and new starts, while partly offset by a milder decline in home sales and completions. NBS 70-city new-home and secondary home prices recorded only a marginally narrower sequential fall at 0.19%/m nsa and 0.23%, respectively. Housing price improvement in April was still led by tier-1 cities, while lower-tier cities remained in decline.

Figure 2: Housing policy and housing market activity



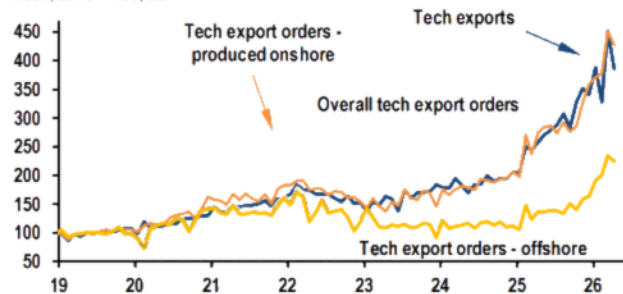
Despite tier-1 green shoots, it's too early to call a durable recovery with still high inventory and no policy pivot. Our baseline view remains for major housing indicators to keep contracting, albeit at a slower pace, and weak April credit – especially lower medium-/long-term household loans – supports that caution. Recent Politburo messaging frames real estate mainly as a risk-containment priority, favoring targeted support (i.e. urban renewal) rather than broad stimulus, though execution is constrained by financing and cash-flow limits. Cities are expanding demand-support measures, including HPF, subsidies, and rule easing, which may deliver short-term volume lifts, and the next few months will be key to test for any outlook recalibration.

Taiwan: export orders retreat led by tech

Taiwan's export orders fell 4.1%/m sa, slowing the trend pace to a still elevated 99.5%/3m saar, while the annual rate remained strong at 48.1%/oya. The sequential decline was mainly driven by tech products (-7.3%/m sa) on contraction in both telecoms and electronics, ending five consecutive monthly increases and echoing the tech-driven contraction in April merchandise exports (Figure 3). We believe the pull-back is likely temporary, given the sustained AI capex cycle in the US. Non-tech orders extended the gains in March and rose 4.0%/m sa, supported by standard and electrical machinery, while chemicals pulled back. The overseas production ratio was relatively stable between Jan-April, suggesting a similar pace of domestic and overseas production.

Figure 3: Taiwan exports vs. export orders

Index, 2019 = 100, sa



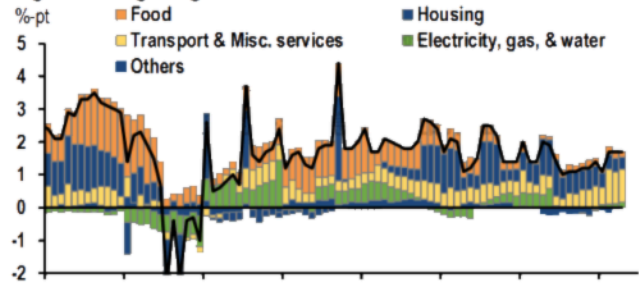
Source: MOEA, J.P. Morgan

Hong Kong: CPI inflation held steady

Hong Kong SAR headline CPI held at 1.7%/oya in April, while still posting a sequential gain of 0.3%/m sa. Energy pass-through stayed visible: utilities rose 1.2%/m sa on a 2.5% town gas increase, and transport gained 1.4%/m sa. Utilities and transport together contributed 0.5%pt to headline inflation, up 0.1%pt from March (Figure 4). Softer food prices pulled inflation down, with food inflation slowing to 0.6%/oya. Services momentum remained firm as miscellaneous services rose for an 11th month (+0.4%/m sa), and

contributed 0.68%pt to headline inflation, overtaking housing as the largest inflation contributor.

Figure 4: Hong Kong: Contributions to headline CPI inflation



Source: HKC&SD, J.P. Morgan

Looking ahead, inflation should remain contained: energy's 3-4% basket weight and limited Middle East exposure should cap upside, while HK\$500 rate concessions should dampen housing CPI in 3Q. Meanwhile, higher oil prices may continue to lift fuel-related CPI, with lagged effects on durable goods and clothing & footwear.

China

Data releases and forecasts

Week of May 25-29

Wed	Industrial profits				
May 27	% change				
9:30am			Jan	Feb	Mar
	%oya		15.2	15.2	15.8
	%oya, ytd		15.2	15.2	15.5

Review of past week's data

Housing prices (18 May)

% change	Feb	Mar	Apr
New home, %/m/m	-0.3	-0.2	-0.2
%oya	-3.5	-3.6	-3.7
Secondary home, %/m/m	-0.4	-0.2	-0.2
%oya	-6.3	-6.3	-6.2

Fixed investment (18 May)

% change	Jan-Feb	Mar	Apr
%oya	1.8	1.6	<u>1.9</u> -8.0
%oya, ytd	1.8	1.7	<u>1.8</u> -1.6

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Global Economic Research
Greater China
22 May 2026

J.P.Morgan

Industrial production (18 May)

%	Jan-Feb	Mar	Apr	
%oya	6.3	5.7	6.3	4.1
%m/m sa	1.2	0.3	0.5	-1.0

Retail sales (18 May)

% change	Jan-Feb	Mar	Apr	
%oya	2.8	1.7	1.6	0.2
%m/m sa	0.5	-0.1	0.1	-0.2

Loan prime rate (20 May)

%	Mar	Apr	May
1-year LPR	3.0	3.0	<u>3.0</u>
5-year LPR	3.5	3.5	<u>3.5</u>

Hong Kong SAR

Data releases and forecasts

Week of May 25-29

Thu	Merchandise trade				
May 28	US\$bn	Jan	Feb	Mar	Apr
4:30pm					
	Balance	-14.1	-64.2	-89.1	<u>-67.9</u>
	Exports	520.6	408.8	618.4	<u>567.0</u>
	%oya	33.8	24.7	35.8	<u>30.5</u>
	Imports	534.7	472.9	707.5	<u>634.9</u>
	%oya	38.1	29.9	41.2	<u>40.9</u>

Review of past week's data

Labor market survey (19 May)

Sa, 3mma	Feb	Mar	Apr
Unemployment rate	3.8	3.7	<u>3.7</u>

Hong Kong SAR's unemployment rate held steady in April, in line with our expectations. Both employment and the labor force shrank marginally. Under-employment improved, ticking down to 1.5%. Performance by sector was mixed. The construction unemployment rate ticked down by 0.4%pt, marking the third consecutive decline after reaching a recent peak of 7.3% in January. Finance, insurance & real estate unemployment declined by 0.2%pt. The manufacturing sector increased by 0.3%pt, and the trade & wholesale sector rose by 0.2%pt. Within the participation data, the youth group (15-24) rose by 0.3%pt to 27.3%, while the middle-aged group edged down 0.1%pt to 82.1%.

Consumer prices (21 May)

% change	Feb	Mar	Apr	
%oya	1.7	1.7	1.8	1.7
%m/m sa	0.3	0.1	0.4	0.3

Taiwan

Data releases and forecasts

Week of May 25-29

Tue	Industrial production				
May 26	% change	Jan	Feb	Mar	Apr
4:00pm					
	%oya	27.9	16.6	28.7	<u>17.1</u>
	%m/m sa	0.4	0.9	4.5	<u>0.6</u>
Fri	Real GDP (Final)				
May 29	% change	25Q2	25Q3	25Q4	26Q1
4:00pm					
	%oya	7.7	8.4	12.7	<u>13.7</u>
	%q/q saar	13.2	7.4	23.6	<u>11.9</u>

Review of past week's data

Export orders (20 May)

% change	Feb	Mar	Apr	
%oya	23.8	65.9	45.0	48.1
%m/m, sa	4.4	14.8	6.0	-4.1

Labor market survey (22 May)

%	Feb	Mar	Apr	
Unemployment rate, sa	3.33	3.35	<u>3.34</u>	
Unemployment rate, nsa	3.32	3.34	3.33	3.30

Source: NBS, China Customs, Hong Kong Census and Statistics Department, Taiwan Ministry of Economic Affairs, DGBAS, MoF, J.P. Morgan forecasts. The long-form nomenclature for references to China, Hong Kong, and Taiwan within this research material is Mainland China; Hong Kong SAR (China); and Taiwan (China).

22 May 2026

Korea

- **Next week: We expect the BoK to hold rates with hawkish communication**
- **Early May trade data suggest continued nominal export growth, but volume growth is likely to slow**
- **May CSI recovery accompanied by a downtick in inflation expectations**

As we head into the second quarter, a slowdown in growth appears to be unfolding as expected, with sequential (real) export gains moderating from the high base set earlier in the year. Importantly, despite ongoing disruptions from the Middle East conflict, the impact on Korea's industrial sector has so far been contained, with constraints from energy supply bottlenecks showing signs of easing. While April's industrial production is expected to decline, this is unlikely to derail overall manufacturing growth, which continues to be led by the tech sector. Against this backdrop, next week's MPC meeting will be closely watched for signals on how the Bank of Korea will balance heightened inflation risks and growth uncertainties in its policy outlook.

MPC preview: Hawkish risk

Next week's MPC rate decision meeting will be significant, as it is the first under the new governor and the first economic outlook update since the outbreak of the Middle East conflict. While the BoK will likely emphasize the high uncertainty surrounding the war's trajectory and its impact on oil prices, the more pressing question is how alert the BoK is to upside risks to inflation. Thus, a key focus will be not only the assessment of potential second-round spillover effects from elevated crude oil prices, but also how much the recent stock market rally and tech sector boom might translate into inflationary pressures.

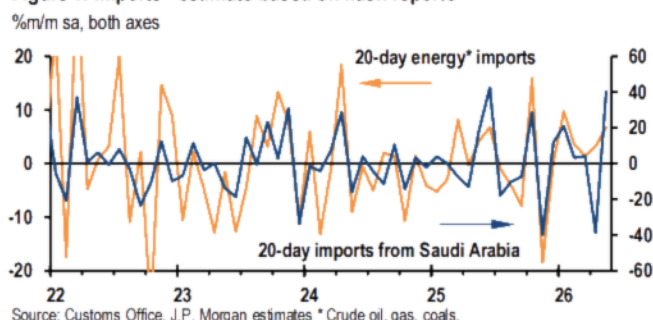
Against this backdrop, we expect the BoK to revise up its growth and inflation forecasts to reflect the upside surprise in 1Q GDP growth and increasing inflationary pressures, and for its communication to turn more hawkish. While there is likely to be consensus on the direction of inflation risks, it remains difficult to judge the magnitude and duration, so the BoK will seek to balance the need for preemptive action with the need to wait for more data and proceed cautiously. Therefore, while hawkish communication is expected, there is considerable uncertainty regarding its extent, and depending on the presence of dissenting votes for a hike or the distribution of conditional dot plot, the risk of an earlier start than our forecast for a modest hike cycle could materialize.

Divergence in nominal vs. real exports

Customs export data for the first 20 days of May show continued month-on-month growth in nominal terms, with the three-month trend growth rate still posting triple-digit figures. However, much of this strength is likely attributable to price effects rather than underlying volume gains. In April, the export volume index declined by 3.1% m/m, sa marking the first decrease after five consecutive months of increases. If the modest monthly growth seen in the early May data persists, further declines in export volumes are possible, and the export volume index for 2Q is expected to turn negative after recording an annualized 51% surge at the end of 1Q.

Seasonally adjusted, customs imports in the first 20 days of May rose 3% m/m, sa. Notably, the rebound in imports from Saudi Arabia suggests that energy import volumes may have recovered somewhat, indicating an improvement in supply bottlenecks (Figure 1). Overall, the customs trade balance is likely to have remained elevated in May, near the levels seen in March and April. While sequential export growth will slow mechanically in 2Q due to the high base set earlier in the year, it is expected to stay above 4Q25 levels, supported by resilient nominal gains and a partial recovery in energy imports.

Figure 1: Imports - estimate based on flash reports



Rebound in May consumer sentiment

CSI rebounded to 106.1 in May, recovering about half of the cumulative decline seen in March- April. The improvement was supported by a domestic equity rally and the ongoing consumption support program for select households, which helped offset the impact of consumer-facing price pressures amid unresolved geopolitical risks. We interpret this as consumers viewing the current headwinds as temporary in 2Q, rather than a sign of a more persistent drag. The current economic assessment and the six-month outlook were the main drivers of the rebound, with the household living conditions outlook also contributing.

One-year ahead consumer inflation expectations edged down to 2.8% in May, amid muted changes in retail pump prices

related to the extension of the wholesale price cap. Oil product prices remained the most frequently cited driver of inflation expectations, followed by public charges and industrial product prices. Meanwhile, the prospective housing price index increased further, in line with high-frequency real estate data, and is likely to be closely monitored by the BoK, especially in the context of recent household credit trends.

Data releases and forecasts

Week of May 25-29

Tue FKI business survey
May 26 100=neutral reading, sa

	Feb	Mar	Apr	May
One-month outlook	100.0	85.1	89.4	<u>95.0</u>
Current conditions	98.8	90.4	85.4	90.0

Thu BoK monetary policy meeting
May 28 %pa

	Jan	Feb	Apr	May
Base rate	2.50	2.50	2.50	<u>2.50</u>

See main text.

Fri Industrial production
May 29 % change
8am
%oya
%m/m, sa

	Jan	Feb	Mar	Apr
%oya	6.8	-2.3	3.6	<u>0.0</u>
%m/m, sa	-2.4	5.4	0.3	<u>-2.0</u>

We expect April's IP dynamics to drop after 1Q-end tech production and front-loaded behavior ahead of raw material import shortages.

Fri Shipments and inventories
May 29 %oya

	Jan	Feb	Mar	Apr
Shipments	8.4	-4.4	3.0	<u>1.4</u>
Inventories	-4.1	1.6	-1.3	<u>-1.2</u>

Fri Composite leading indicator
May 29 2020=100

	Jan	Feb	Mar	Apr
Index	124.2	125.2	126.4	<u>127.4</u>

Fri Service activity
May 29 % change

	Jan	Feb	Mar	Apr
%oya	4.7	2.1	5.1	<u>4.5</u>

Fri Consumption goods sales

May 29 % change

	Jan	Feb	Mar	Apr
%oya	0.5	4.3	5.0	<u>4.2</u>
%m/m, sa	2.8	-0.3	1.8	<u>-1.3</u>

We expect retail sales to have declined in April but rebound in May, supported by the anticipated stimulus effect from consumption vouchers and a recovery in consumer sentiment.

Review of past week's data

Household credit (May 19)

% change	3Q25	4Q25	1Q26	
%oya	2.8	2.9	<u>3.0</u>	3.5

Seasonally adjusted, household credit growth climbed to 5.2% q/q saar, up from 1.5% ar in 3Q25. The quarterly increase was mainly driven by housing-related loans from non-bank depository corporations and by merchandise credit.

Producer prices (May 21)

% change	Feb	Mar	Apr	
%oya	2.5	4.1	<u>5.5</u>	6.9

Seasonally adjusted, headline PPI posted 2.4% m/m – the steepest monthly gain since the 2000s – driven by both energy and non-energy components. The trend in wholesale inflation reached 10.9% 3m/3m saar in April. The print showed broad-based gains, with a time lag from the energy price shock, suggesting a mounting inflation risk through April.

Stage of processing price index

% change	Feb	Mar	Apr	
%oya	1.4	<u>3.7</u>	3.8	<u>5.8</u> 9.9

Consumer survey (May 22)

100=long-term average, nsa

	Mar	Apr	May	
Index	107.0	99.2	<u>102.0</u>	106.1

See main text.

Sources: BoK, NSO, FKI, and J.P. Morgan forecasts.

ASEAN

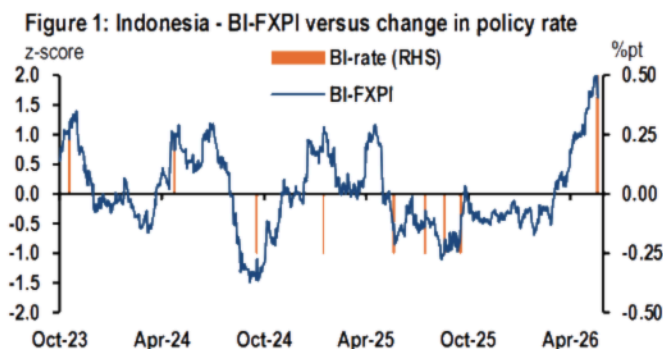
- **BI hiked by a larger-than-expected 50bp amid rising FX pressures and signaled a pivot to FX stability**
- **With our BI-FXPI still elevated, we forecast two additional 25bp hikes by the BI in June and July**
- **BSP still leads on the hiking cycle, with a hike of 150bp likely underway**
- **BOT, BNM and MAS are likely to stay on hold over the rest of 2026 but we see a risk of BOT hikes**
- **Strong 1Q26 GDP growth in Thailand also lowers the growth hurdles for hikes**

BI joined the hike camp with [a 50bp move](#) this week to 5.25% with its pivot to FX stability suggesting it has also left the door open for more hikes. We add to our forecast two further 25bp hikes to 5.75%. We continue to see the BSP leading the hiking cycle in ASEAN, with a total hike of an additional 150bp after the 25bp hike in April. The negative impact on growth could be somewhat offset by the fiscal support we expect later this year.

We maintain our forecast for no change for the BOT, BNM and MAS over the remainder of 2026, despite their respective resilient growth outlook. However, we have flagged a risk of BOT hikes in 4Q26, based on inflation risks. Stronger-than-expected 1Q26 GDP growth in Thailand this week also lowers the growth hurdle for potential hikes.

Indonesia: A pivot to FX stability

The decisive 50bp hike by the BI this week likely reflected rising FX concerns, with our [BI-FX Pressure Index](#) (BI-FX-PI) having risen further to a stress threshold of 2.0 ahead of the meeting (Figure 1), despite [all-out FX stabilization measures](#). Furthermore, the [IDR depreciation](#) was tracking closer to the average path ahead of previous 50bp hike episodes than to that of 25bp hikes.

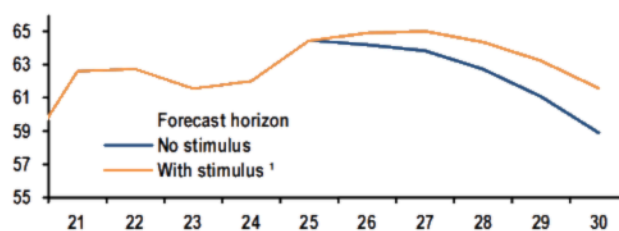


We have added to the forecast two additional 25bp hikes by the BI to 5.75%, taking into account the still-elevated BI-FX-PI readings. The BI also guided that stability and external resilience have now become its top policy priorities. In terms of timing, we expect BI to deliver back-to-back hikes in June and July, reflecting our FX strategist's [cautious view](#) on the IDR amid seasonal dividend pressures and declining FX reserves.

Philippines: Fiscal can step up to the plate

In our view, [a supplemental budget](#) worth PHP200 billion (0.7% of GDP) is in the pipeline in late-3Q/early-4Q. With the BSP poised to tighten rates further to anchor inflation expectations, the onus is on fiscal policy to address the growth fallout from the Middle East conflict. Despite historically elevated deficits, recent negative credit rating actions, and tepid investor appetite for peso bonds, our analysis shows that there is room to temporarily push up the 2026 primary deficit without putting long-term debt sustainability at risk (Figure 2).

Figure 2: Philippines outstanding public debt
 % of GDP



Source: CEIC, J.P. Morgan forecast in shaded region
 1. Assume 2026 deficit rise to 6% of GDP, 2027-30 deficit target push out by a year

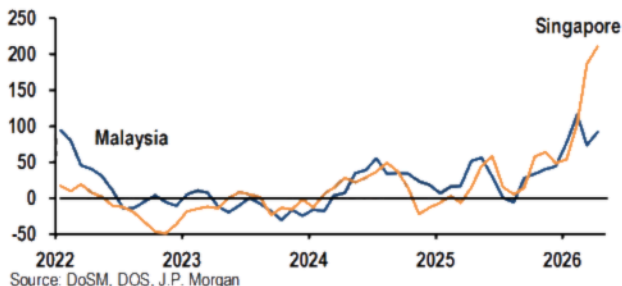
We expect this spending package to provide a fiscal impulse of 0.2-0.3%pt., which could go some way to alleviating the drag from the energy price shock and facilitate GDP recovery to a trend-like pace by 4Q26.

It's always sunny in tech economies

The trade data reports show that tech export momentum in Singapore and Malaysia accelerated in April, despite the Middle East conflict entering its second month (Figure 3). In Singapore, tech export strength has broadened from semiconductors to disk media and server-related products, underscoring the breadth of AI-related demand. Outside of tech, non-tech exports also picked up, propelled in part by equipment exports amid the ongoing global capex boom, including in tech facilities.

Figure 3: Tech exports - Malaysia and Singapore

%3m/3m, saar, US\$ terms



Since the start of the Mideast conflict, we have also been paying close attention to regional energy trade, especially for Singapore given its status as a major refiner and Asia's largest oil trading hub (see [note](#)). In this regard, this week's trade reports show that not only did Singapore's oil trade volumes (both imports and exports) rebound from March lows, but Malaysia also experienced a surge in re-exports of petroleum-based products. Beyond price effects, this surge likely reflects trading partners' (and Malaysia's own) rush to secure energy-related supplies amid an unprecedentedly long blockade of the Strait of Hormuz. In sum, the April trade data not only gives us greater confidence that Singapore and Malaysia growth is likely to remain resilient in 2Q, but we also see upside risks to our 2Q growth forecasts if tech momentum continues at its current pace.

We continue to see the MAS and BNM remaining on a patient hold, but persistently solid GDP growth—if also accompanied by stronger inflation than we currently expect—would raise the odds of BNM policy normalization (i.e. 25bp rate hike) later this year. In particular, headline inflation in Malaysia remained low at 1.9%oya in April due to prevailing fuel subsidies which are absorbing a roughly 4%-pts hit to the CPI. But persistently high oil prices are putting increasing pressure on the government to rein in other spending and review its fuel subsidies.

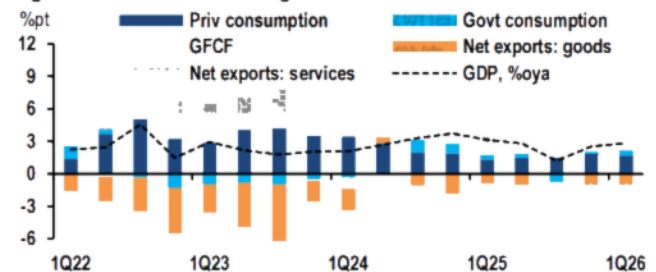
1Q26 GDP beat in Thailand

[1Q26 GDP](#) surprised to the upside, led by gross fixed capital formation (GFCF; Figure 4), which also grew at the strongest pace in 13 years at 9.9%oya. Private consumption remained resilient, but energy headwinds are rising in 2Q26. The 1Q26 outturn supports our above-consensus GDP growth forecasts of 2.1% for 2026 and 2.5% for 2027, which are premised on our [constructive post-election view](#) on investment-led growth. We also see upside risks from [the planned fiscal stimulus](#).

In terms of monetary policy, we still expect the BOT to stay on hold at 1.0% over the remainder of 2026. However, the brighter growth outlook could lower the growth hurdle for

4Q26 hikes. We continue to see [a risk of hikes](#) in 4Q26, by up to a total of 50bp, taking into account the medium-term inflation outlook.

Figure 4: Thailand - Real GDP growth and its sources



Indonesia

Review of past week's data

BI monetary policy meeting

% pa	Mar	Apr	May	
BI rate	4.75	4.75	5.00	5.25

Data releases and forecasts

No data releases.

Malaysia

Review of past week's data

Merchandise trade

US\$ bn nsa	Feb	Mar	Apr	
Trade balance	4.3	6.2	6.5	6.2
Exports, %oya	25.8	21.6	25.2	51.9
Imports, %oya	22.8	24.0	44.2	33.1

Consumer prices

% change	Feb	Mar	Apr	
%oya	1.5	1.7	1.8	1.9
%m/m, sa	0.1	0.4	0.4	0.5

Data releases and forecasts

No data releases.

22 May 2026

Philippines

Review of past week's data

No data released.

Data releases and forecasts

No data releases.

Singapore

Review of past week's data

Merchandise trade
US\$ bn, nsa

	Feb	Mar	Apr	
Trade balance	4.6	7.7	6.0	10.8
Exports	47.3	64.3	55.0	70.3
Non-oil domestic exports (NODX)	11.5	13.2	13.5	15.2
...%m/m, sa, US\$ terms	5.0	1.9	4.5	11.3
...%oya, US\$ terms	10.6	20.3	44.6	29.1

Data releases and forecasts

Mon Real GDP

25-May % change

8:00am	2Q25	3Q25	4Q25	1Q26
%oya	5.4	4.5	5.7	<u>4.6</u>
%q/q, saar	7.3	7.8	5.2	<u>-1.3</u>

Mon Consumer prices

25-May % change

1:00pm	Jan	Feb	Mar	Apr
Total, %oya	1.4	1.2	1.8	<u>1.8</u>
%m/m, sa	0.1	-0.1	0.6	<u>0.4</u>

Tue Industrial production

26-May % change

1:00pm	Jan	Feb	Mar	Apr
%oya	9.7	3.3	10.1	<u>12.7</u>
%m/m, sa	-0.9	-1.2	4.7	<u>2.0</u>

Thailand

Review of past week's data

Real GDP

% change

	3Q25	4Q25	1Q26	
%oya	1.2	2.5	2.4	2.8
%q/q, saar	-1.1	7.6	4.2	2.7

Data releases and forecasts

Mon Merchandise trade

25-May US\$ bn, nsa

11:30am	Jan	Feb	Mar	Apr
Trade balance	-3.3	-2.8	-3.3	<u>-5.4</u>
Exports, %oya	24.4	9.9	18.7	18.5
Imports, %oya	29.4	31.8	35.7	<u>24.7</u>

Thu Manufacturing production

28-May % change

12:00pm	Jan	Feb	Mar	Apr
%oya	1.6	0.1	0.8	<u>-2.9</u>
%m/m, sa	0.1	1.9	-1.8	<u>-0.9</u>

India

- **BoP pressures driven by capital account rather than current account**
- **PMI's suggest margin compression in manufacturing**
- **Core IP softens in April, though unlikely to be driven by shortages**

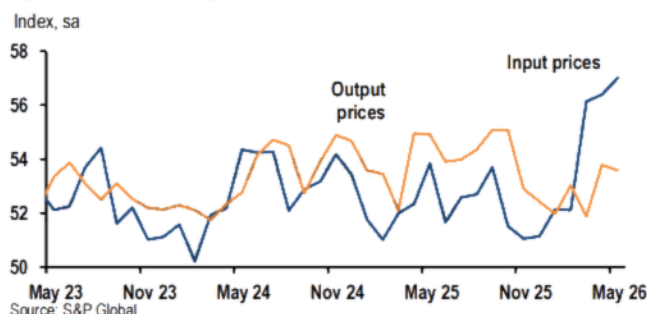
As we highlighted earlier, the weakness in the balance of payments (BoP) so far has been driven by subdued capital flows, despite the comfortable current account deficit (CAD). Looking ahead to FY27 (year ending March 2027), higher oil prices are expected to widen CAD sharply. These less supportive BoP dynamics are resulting in depreciation pressure on the INR.

This week's flash PMI continues to suggest that, amid limited pricing power, firms are struggling to pass through the sharp rise in input costs. While manufacturing activity appears to be moderating after strong growth in 1Q, the weakness looks cyclical rather than driven by supply shortages related to the Middle East crisis.

PMI suggests limited price pass-through

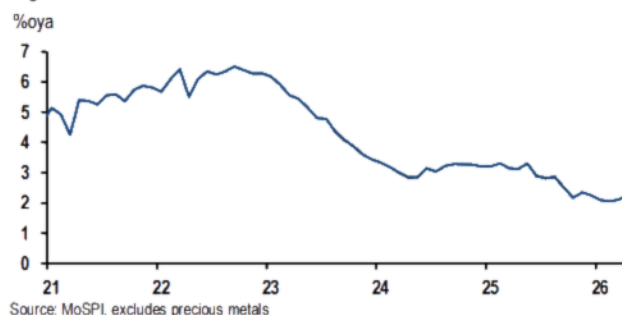
Manufacturing input prices rose for a third consecutive month in the May flash PMI report, reflecting an elevated cost environment linked to the Middle East crisis. However, output prices edged down in May. More broadly, manufacturing output prices have risen more modestly than input prices in recent months, pointing to weak pricing power among corporates (Figure 1).

Figure 1: Manufacturing PMI: Input and Output Prices



The April CPI report also showed core-core inflation remaining contained, rising by just 0.3% m/m (sa), underscoring the weak pass-through of cost pressures (Figure 2).

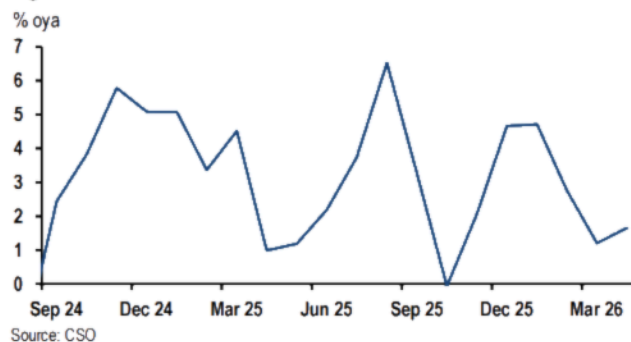
Figure 2: Core-core CPI



Core IP eased in April

The flash manufacturing output PMI dipped marginally in May (to 56.6 from 56.9 in April). This follows a sharp drop in the output index in March at the onset of the Middle East crisis (60.7 in February to 55.7 in March). Other activity indicators, while softer, have not shown a decline of the same magnitude, suggesting the fall in PMI activity indices is largely sentiment-driven. Core industrial production (40% weight in IP) fell 1.1% m/m (sa) in April which translated into 1.7% oya (Figure 3).

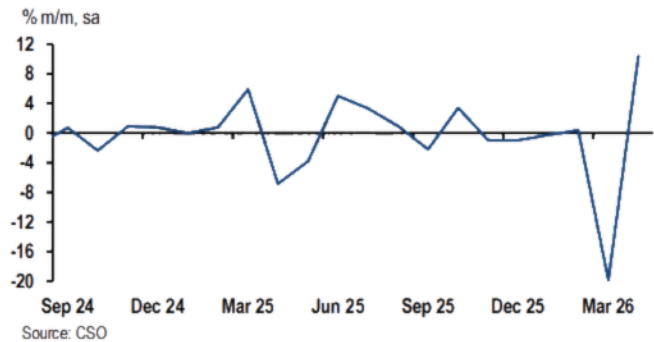
Figure 3: Core IP



Given the size of the decline and the sectors involved, the weakness appears more cyclical than related to shortages. One exception was the fertilizer industry, which contracted sharply (-20% m/m, sa) in March due to gas shortages, before partially recovering (+10.4% m/m, sa) in April (Figure 4).

Separately, coal production fell sharply again (-4.4% m/m, sa in April) following a 4.7% contraction in March. This is occurring at a time when power demand has surged due to a heatwave. Recall that around 70% of India's power generation is coal-based.

Figure 4: Fertilizer Production



Data releases and forecasts

Week of May 25-29

No data releases.

Review of past week's data

Manufacturing PMI (May 21)

Index				
	Feb	Mar	Apr	May
Index	56.9	53.9	54.7	54.3

See main text.

Industrial Production for eight core industries (May 21)

	Jan	Feb	Mar	Apr
% oya	4.7	2.8	1.2	1.7

See main text.

Sources: MoSPI, RBI, J.P. Morgan

Japan economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
25 May Nationwide department store sales (2:30pm) Apr Auction 5-year note	26 May Coincident CI final (2:00pm) Mar	27 May Corporate service prices (8:50am) Apr Auction 40-year note	28 May	29 May Tokyo core CPI (8:30am) May Ex. fresh food <u>1.5 %oya</u> Ex. fresh food and energy <u>2.0 %oya</u> Job offers to applicants ratio (8:30am) Apr <u>1.19</u> Unemployment rate (8:30am) Apr <u>2.7 %</u> IP prelim (8:50am) Apr <u>0.5 %m/m, sa</u> Total retail sales (8:50am) Apr <u>-1.0 %m/m, sa</u> Housing starts (2:00pm) Apr <u>-23.6 %oya</u> Consumer sentiment (2:00pm) May <u>32.6</u> Auction 3-month bill Auction 2-year note
1 Jun MoF corporate survey (8:50am) 1Q PMI manufacturing final (9:30am) May	2 Jun Auction 10-year note	3 Jun PMI services final (9:30am) May Speech by Governor Ueda at the Kisaragi-kai Meeting (5:30pm)	4 Jun	5 Jun Employers' survey (8:30am) Apr All household spending (8:30am) Apr Coincident CI prelim (2:00pm) Apr Consumption activity index (2:00pm) Apr Auction 3-month bill
8 Jun GDP 2nd (8:50am) 1Q Bank lending (8:50am) May Current account (8:50am) Apr Economy watchers survey (2:00pm) May	9 Jun M2 (8:50am) May Auction 6-month bill	10 Jun Corporate goods prices (8:50am) May Auction 30-year note	11 Jun Business outlook survey (8:50am) 2Q	12 Jun IP final (1:30pm) Apr Auction 3-month bill
15 Jun Tertiary sector activity index (1:30pm) Apr BoJ Monetary Policy Meeting	16 Jun BoJ Monetary Policy Meeting BoJ Governor Ueda's press conference (3:30pm)	17 Jun Trade balance (8:50am) May Private machinery orders (8:50am) Apr	18 Jun Real exports and imports (2:00pm) May Auction 1-year note	19 Jun Nationwide core CPI (8:30am) May Auction 3-month bill
During the week: Nationwide department store sales (16-22 Jun)				

Note: Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

22 May 2026

Non-Japan Asia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
25 May Singapore GDP final (8:00am) 1Q <u>4.6%oya</u> CPI (1:00pm) Apr <u>1.8%oya</u> Thailand Trade balance Apr <u>US\$-5.4bn</u> <i>Holiday: Hong Kong, South Korea</i>	26 May Singapore IP (1:00pm) Apr <u>12.7%oya</u> Taiwan IP (4:00pm) Apr <u>17.1%oya</u>	27 May New Zealand RBNZ official rate announcement no change Australia CPI Apr <u>4.5%oya</u> <i>Holiday: Indonesia, Malaysia, Singapore</i>	28 May Hong Kong Trade balance (4:30pm) Apr <u>US\$-67.9bn</u> South Korea BOK monetary policy meeting no change Thailand Mfg. production Apr <u>-2.9%oya</u> <i>Holiday: India, Indonesia</i>	29 May South Korea IP (8:00am) Apr <u>0.0%oya</u> Philippines Trade balance (9:00am) Apr <u>US\$-4.5bn</u> New Zealand NBZ business confidence (1:00pm) May Australia Pvt. sector credit (11:30am) Apr <u>0.5%q/q, sa</u> Taiwan GDP prelim (4:00pm) 1Q <u>13.7%oya</u>
During the week: China PMI mfg. (NBS) May (31 May)				
1 Jun South Korea Trade balance (9:00am) May PMI mfg. (9:30am) May Taiwan PMI mfg. (8:30am) May Australia ANZ job advertisements (11:30am) May China PMI Mfg. (9:45am) May India PMI mfg. (10:30am) IP (4:00pm) Apr <i>Holiday: Indonesia, Malaysia, Thailand</i>	2 Jun South Korea CPI (8:00am) May Australia Building approvals (11:30am) Apr Current account balance 1Q Company operating profit 1Q Inventories (11:30am) 1Q Indonesia Trade balance (11:00am) Apr CPI (11:00am) May Hong Kong Retail sales (4:30pm) Apr Singapore PMI (9:00pm) May <i>Holiday: Malaysia</i>	3 Jun New Zealand Terms of trade (10:45am) 1Q Building permits (10:45am) May Australia GDP (11:30am) 1Q Vietnam Exports (9:05am) May Industrial output (9:05am) May CPI (9:05am) May <i>Holiday: Thailand</i>	4 Jun New Zealand ANZ commodity price (1:00pm) May Australia Trade balance (11:30am) Apr	5 Jun South Korea Current account balance (8:00am) May Philippines CPI (9:00am) May Thailand CPI (10:30am) May India RBI monetary policy meeting GDP (4:00pm) 1Q Taiwan CPI (4:00pm) May
During the week: India BoP 1Q (1-9 Jun) China Foreign Exchange Reserves May (7 Jun)				
8 Jun	9 Jun New Zealand Manufacturing output 1Q South Korea GDP prelim (8:00am) 1Q Taiwan Trade balance (4:00pm) May China Trade balance May	10 Jun China PPI (9:30am) May CPI (9:30am) May	11 Jun South Korea Unemployment rate (8:00am) May	12 Jun New Zealand Business NZ PMI (10:30am) May India CPI (4:00pm) May <i>Holiday: Philippines</i>
During the week: China Money supply/TSF May (9-15 Jun)				
15 Jun India WPI (12:00pm) May Trade balance May	16 Jun South Korea Export price index (6:00am) May Import price index (6:00am) May Money supply (12:00pm) Apr China IP (10:00am) May FAI (10:00am) May Retail sales (10:00am) May Australia RBA official rate announcement Hong Kong Unemployment rate (4:30pm) May <i>Holiday: Indonesia</i>	17 Jun New Zealand Current account balance (10:45am) 1Q Singapore NODX (8:30am) May <i>Holiday: Malaysia</i>	18 Jun New Zealand GDP (10:45am) 1Q Philippines BSP monetary policy meeting Indonesia BI monetary policy meeting Taiwan CBC monetary policy meeting	19 Jun South Korea PPI (6:00am) May New Zealand Trade balance (10:45am) May Malaysia CPI (12:00pm) May Trade balance (12:00pm) <i>Holiday: China, Hong Kong, Taiwan</i>

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.