

*Market Monitor – Asia ex-Japan***Recovery Varies across the Region Depending on Vaccinations**

Asian economies were hit by the pandemic in various degrees in 2020. For instance, the economy of the Philippines plunged 9.5%, its worst decline on record. The Thai economy also contracted 6.1%, reaching its lowest point since 1998.

Despite the pandemic having severely obstructed production in Asia and dampened consumer and business confidence, a change in consumer behaviour has stimulated demand for electronic appliances, including laptops and mobiles. This cushioned the pandemic shock for countries that mainly export electronic products, including Taiwan and South Korea. As such, these few economies managed to escape economic contraction. Meanwhile, to prevent the pandemic from further damaging their economies, Asian governments have been launching round after round of stimulus support, while central banks have cut interest rates to historical lows.

**Gradual economic recovery in 2021**

Looking ahead, after the plunge in 2020, major Asian economies are expected to see some rebound in 2021 due to the low base of comparison. Following vaccination progress in countries such as the US and UK, the pandemic is expected to gradually subside in those areas, boosting global demand. The rise in commodity prices will also benefit commodity exporters, including Malaysia and Indonesia. Although large-scale international travel remains unlikely in 2021, regional travel may provide limited relief to tourism-oriented countries, such as Thailand, after the dire performance in 2020.

- ❖ **Asian economies are expected to rebound in 2021, though the degree depends on pandemic development and vaccination progress.**
- ❖ **Vaccinations in the region is likely to be sluggish due to issues including variants, transportation and scepticism towards vaccines.**
- ❖ **High US treasury yield dampened investors' interest in Asian financial assets, weighing on the Asian financial market performance.**

## Economic Research

April 2021

### Pace of rebound still depends on the pandemic and vaccinations

The actual pace of recovery in each country depends very much on the course of the pandemic and the progress of vaccination. Economies that have proved more capable in controlling the spread of the virus are expected to remain robust. For example, Taiwan has been doing well in keeping its domestic epidemic under control, with 43.0 cases per million people as of 29<sup>th</sup> March, while Vietnam had 26.7 cases per million people. These economies can afford more lenient restrictions on movement and greater normalisation of their economic activity. Taiwan will launch a travel bubble with Palau starting from April, while discussing the possibility with Vietnam and Singapore.

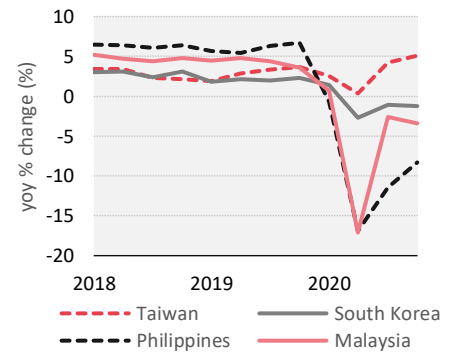
In other countries, economic performance is expected to be dragged down in the short term by a recent resurgence of new infections. Malaysia re-imposed its Movement Control Order (MCO) in January, while the Philippines has put its capital Manila, which accounts for 40% of the nation's economic output, under lockdown until the end of March. In mid-March it further tightened the restrictions, including night-time curfews. The Markit ASEAN Manufacturing purchasing managers index (PMI) marked a contraction of 49.7 in February, down from 51.4 in January. Economic performance for these countries is expected to be muted in the first quarter, especially in the Philippines and Indonesia.

Many Asian economies are thus placing their hope in vaccines, with most having started vaccination programmes. However, challenges are posed by the production and transportation of vaccines as well as by their effectiveness. While Singapore is an exception, with 13.7% of its citizens received at least one dose of vaccines as of 28<sup>th</sup> March, other major economies in the region had inoculated less than 4% of their population.

More worryingly, scepticism towards vaccines has led to a relatively low vaccination rate across the region. Filipinos in particular are still haunted by a 2017 incident in which a number of children died after receiving a Dengue fever vaccine. According to a survey, only 19% of Filipinos are willing to receive vaccines. Indonesian independent surveyor Indikator Politik found that 41% of Indonesians are unwilling to be vaccinated. At the same time, the Philippines has banned frontline health workers from using the Sinovac vaccine over concerns about its variable efficacy, while Indonesia has put AstraZeneca vaccines on hold due to concern about blood clots.

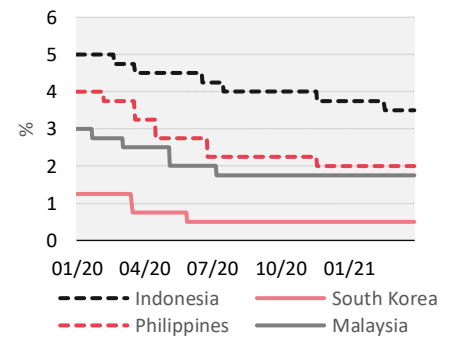
On top of the pandemic, political issues in economies such as Thailand and Malaysia will weigh on their economic growth. Ongoing protests in Thailand are affecting private consumption and investment. In Malaysia, party-hopping behaviour in the parliament is dampening investor confidence. Further clouding the economic outlook, the government's thin majority in the parliament will limit its ability to issue stimulus or launch other policies.

### GDP of selected Asian economies



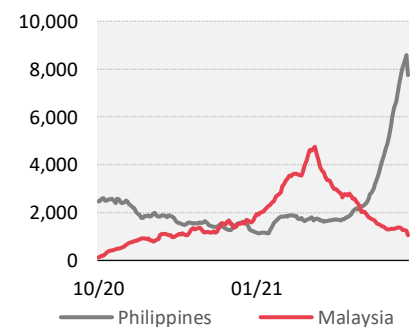
Source: Bloomberg, data as of 30/3/2021

### Policy rates in selected Asian economies



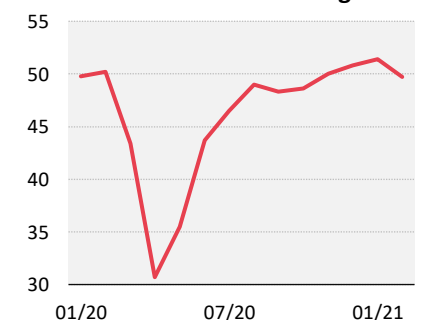
Source: Bloomberg, data as of 30/3/2021

### 7-day average of daily new infections in selected economies



Source: Bloomberg, data as of 30/3/2021

### Markit ASEAN Manufacturing PMI



Source: Bloomberg, data as of 30/3/2021

## Economic Research

April 2021

### Financial markets are dictated by US treasury yields and the local epidemic situation

Stimulus measures around the world – such as the USD 1.9 trillion fiscal stimulus package and the UK's GBP 65 billion budget – have supported the global stock market, including Asian equities. The strong Chinese economic data, including a 60.6% yearly growth in exports in the first two months of 2021, also boosted market sentiment in the region. But investor appetite for Asian equities and currencies has also been dampened by the recent surge in US treasury yields. The MSCI ex-Japan index rose 2.4% between end-2020 and 29<sup>th</sup> March.

Among the major Asian stock markets, Taiwan outpaced its peers with an 11.8% growth during end-2020 to 29<sup>th</sup> March, thanks to its stable domestic pandemic situation and robust economic performance. The solid export growth also serves to support investor confidence. Singapore followed with an 11.7% increase, having benefitted from its vaccination progress ahead of its regional counterparts.

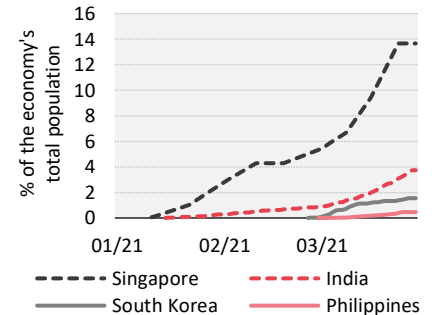
Contrastingly, the Philippines and Malaysia were the only two major Asian stock markets that saw a drop over the same horizon. The Philippines experienced a 7.5% drop in stock indices, dragged down by its severe domestic epidemic outbreak and prolonged stringent lockdown measures. Its vaccination progress is also being hampered by limited vaccine supplies. Malaysia's equity index has dropped 1.0% due to a surge in new infections.

In the foreign exchange market, the Asian currencies have generally weakened due to the stronger US dollar amid higher US treasury yields. Most major Asian currencies depreciated by between 0.9% and 4.2% against the US dollar between end-2020 and 29<sup>th</sup> March, except the Indian rupee. The economies with a more promising economic outlook or vaccination progress saw greater currency strength. On the other hand, the Indian rupee appreciated 0.4% against the US dollar after intervention by India's central bank. Moody's significantly revised its forecast for India's economic growth, up to -7.0% for the fiscal year of 2021 and 13.7% for 2022. This has led foreign institutional investors to invest a net INR 494.2 billion (USD 6.8 billion) into the Indian equity market in the first two months of 2021, which has supported the Indian rupee.

In contrast, South Korea witnessed an outflow of foreign funds. The Korean won was the second worst performer among the major Asian currencies, depreciating 3.9% against the US dollar. Foreign investors sold off KRW 5.84 trillion (USD 5.2 billion) in the first two months of 2021. The Indonesian rupiah also depreciated 3.9% against the US dollar. In February, Indonesia's central bank trimmed its policy rate by 25 basis points to 3.50%. Thai Baht was the worst performing major Asian currency with a 4.2% drop against the US dollar. The infection resurgence in the European countries clouds Thailand's tourism outlook, and the Bank of Thailand's downward revision of the economic forecast weighed on the currency.

Looking ahead, the rise in Asian financial markets will be limited by the high US treasury yields. Coupled with uncertainty about a renewed surge in infections and a potential delay in vaccination progress, financial market performance in general is likely to remain subdued.

### Number of people received at least one dose of vaccine in the selected Asian economies



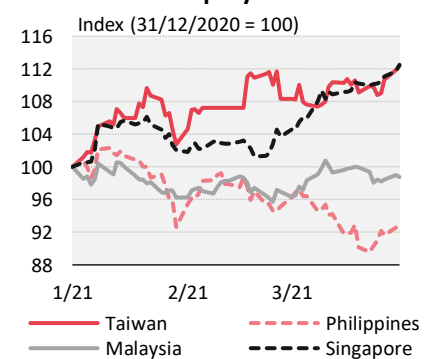
Source: Our World in Data, as of 30/3/2021

### MSCI AC Asia ex Japan Index



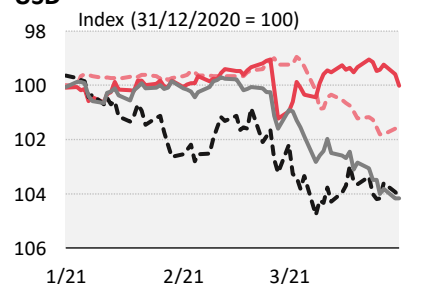
Source: Bloomberg, data as of 30/3/2021

### Selected Asian equity indices



Source: Bloomberg, data as of 30/3/2021

### Selected Asian currencies against USD



Source: Bloomberg, data as of 30/3/2021

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