

Market Monitor – Asia ex-Japan

Exports Become the Major Growth Driver amid the Pandemic



Recovery in major Asian economies continues

Most Asian economies saw faster-than-expected growth in the first quarter. For instance, Taiwan recorded an 8.9% growth, the largest expansion since Q3 2010, due to the favourable base effect. The region as a whole has benefitted from ongoing monetary and fiscal support coupled with a revival in global demand.

The Philippines and Indonesia are the exceptions with lower-than-expected economic growth, having undergone lockdown measures amid growing local epidemics.

Ongoing recovery depends on the course of the pandemic and vaccination rates

Looking ahead, the trajectory of economic recovery for the Asian economies depends on the region’s pandemic development and rate of vaccination. Entering the second quarter, a number of countries saw a surge of new coronavirus cases. India recorded over 270 daily new cases per million people as a 7-day rolling average in early May. Malaysia also witnessed another peak of 200 new cases per million people in late May and early June. Nations that were previously regarded as having controlled the pandemic relatively well saw alarming outbreaks, including Taiwan, Singapore, and Vietnam.

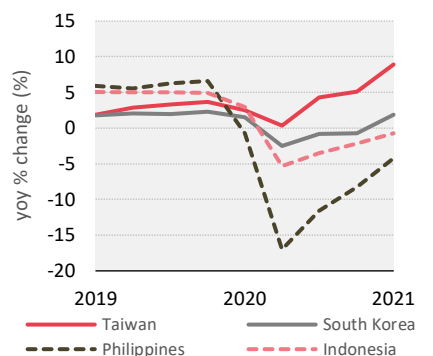
The new variant has caused governments to tighten movement restrictions. However, the economic impact is expected to be smaller than that of previous lockdowns, as these measures are less stringent. Individuals and firms’ are also better adjusted at this stage, lessening the impact.

Most Asian economies’ economic recovery trajectories depend on the pandemic and vaccination progress.

Central banks are expected to maintain their policy rates throughout the year to cushion the drag from the pandemic despite surging prices.

Financial markets weighed down by the pandemic, but government responses provide some support.

GDP of selected Asian economies



Still, to counter the economic hit from the new wave of confirmed cases, a number of governments have launched further fiscal and monetary stimulus packages. The Reserve Bank of India has announced a few rounds of measures, with a term-liquidity facility INR 500 billion (USD 6.8 billion) for improving pandemic-related healthcare infrastructure and services, and a special liquidity facility of INR 160 billion (USD 2.2 billion) – which will be extended to the Small Industries Development Bank of India (SIDBI) to meet the funding requirements of smaller firms. The Indian government also announced financial support to the tourism industry with a new loan guarantee scheme, while extending concessional credit for pandemic-hit sectors. Taiwan has further raised the ceiling of its fiscal support to TWD 840 billion in early June, after already raising it to TWD 630 billion in mid-May.

Alongside stimulus measures, governments are also pushing for faster inoculation. As of 1st July, the vaccinated proportion of Asian populations is relatively low, except Singapore (55.9% vaccinated with at least one dose) and South Korea (29.9% vaccinated). Excluding these two countries and China, the rest of the major Asian economies have inoculated less than 20% of their populations.

Thailand has ramped up its vaccination scheme by sourcing more vaccines from manufacturers, including Pfizer and Sinovac, instead of relying primarily on AstraZeneca. It is aiming to get 70% of its population vaccinated with at least one dose by September. Meanwhile, Indonesia aims to be administering 1,000,000 injections per day by July.

Exports are main economic growth driver, but manufacturing sector is constrained by rising prices

The export sector is becoming the main driver of economic growth as the external environment improves. For a number of economies in the region, including Taiwan, South Korea, and Philippines, the manufacturing purchasing manager index (PMI) continue to stay in the expansionary zone. Economies that are oriented toward tech product exports are more likely to outperform their peers, while those that rely heavily on tourism are expected to lag behind.

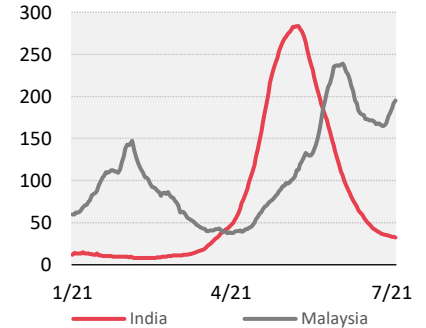
However, risks are looming in the manufacturing sector, as supply chain constraints may limit performance. Delivery times are reported to be lengthening, while raw material costs are rising.

Rising inflation will not alter central banks' stance

The recent spikes in inflation seen in various Asian economies, e.g. South Korea and Malaysia, are considered transitory, resulting from a low base in 2020 and temporary supply shortfalls. In view of the ongoing pandemic, the central banks are unlikely to alter their monetary policy stances at the moment and are expected to hold interest rates unchanged throughout the year.

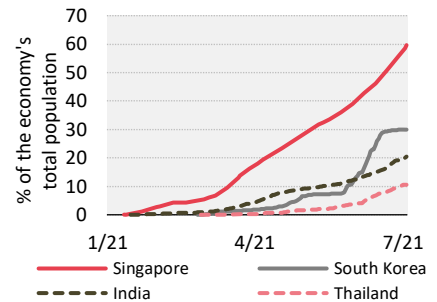
In the longer term, the pickup in global inflation may translate into interest rate hikes by the US Fed from mid-2023. This may trigger capital outflow from Asia and increase debt

7-day average of daily new Covid-19 infections per million people



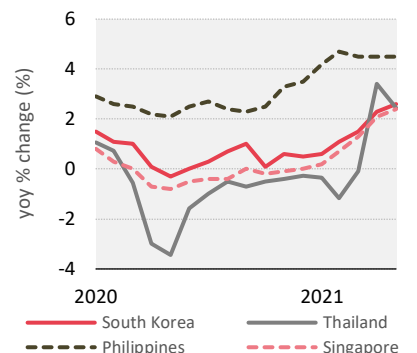
Source: Our World in data, data as of 5/7/2021

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



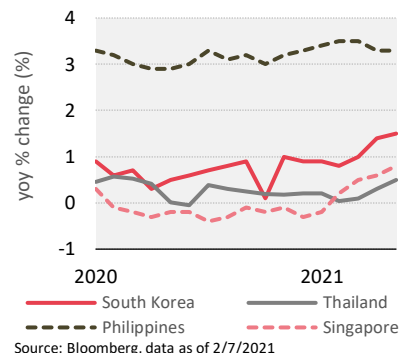
Source: Our World in Data, as of 5/7/2021

CPI of selected Asian economies



Source: Bloomberg, data as of 2/7/2021

Core CPI of selected Asian economies



Source: Bloomberg, data as of 2/7/2021

servicing payments, weighing on the foreign exchange reserves of the Asian economies. But after the lessons of past financial crises and the US taper tantrum, major Asian economies have built up their foreign exchange reserves, and are in a better position to withstand potential shocks from monetary normalisation by the Fed.

In sum, major Asian economies are expected to pick up after this wave of the pandemic. Fiscal and monetary policies will remain accommodative, while consumption and investment are expected to recover when the outbreak subsides. However, the degree of the rebound depends greatly on epidemic control and the speed of inoculation.

Financial markets' performance is dictated by the pandemic and related stimulus measures

Although weighed down by the renewed pandemic, various policies launched in the major Asian economies to deal with the pandemic supported some of their financial markets. The MSCI Asia ex-Japan index rose 3.0% in the second quarter, compared to a 2.5% increase in the first quarter. Meanwhile, thanks to the weak US dollar in the quarter (as shown by a 0.9% drop in the US dollar index), a number of Asian currencies appreciated against the US dollar. However, except the Taiwanese dollar, their appreciation has been smaller than the drop in the US dollar index, with changes ranging from a 2.6% depreciation to a 0.3% appreciation over the period.

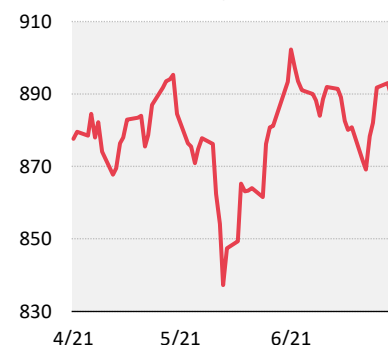
Despite the pandemic, Taiwan's financial market has been relatively buoyant. Its equity market index, the Taiwan Capitalization Weighted Stock Index, rose 8.1%, while the Taiwanese dollar appreciated 2.2% against the US dollar. The market sentiment was boosted by strong export data, coupled with the S&P's long-term foreign and local currency issuer credit rating being upgraded from 'AA-' to 'AA' in April. The swift response of the government to the pandemic, including stimulus measures and vaccine purchases, also helped boost the market.

South Korea also saw a relatively resilient stock market, whose index rose 7.7%. The solid labour market and economic growth figures fuelled market sentiment. In the meantime, the strong economic performance made the central bank more hawkish, causing it to revise up its economic forecast for this year. Rate-setting members signalled to support withdrawing the anti-pandemic stimulus that were launched previously. Market concern about a possible end to the country's loose monetary policy stance then dragged down its financial market performance. The dispute with North Korea in early May also weighed on the financial markets. The Korean won was unchanged against the US dollar as a result.

India saw a contradictory performance in its financial markets. Its stock market marked a relatively good performance among the major Asian economies, with a 7.0% increase, but the Indian rupee performed relatively worse, depreciating 1.6% against the US dollar. Rounds of monetary support from the central bank, alongside upbeat quarterly reports for banking and technology shares, supported the country's stock market. But the market has downgraded India's outlook due to the pandemic, weighing on the Indian rupee.

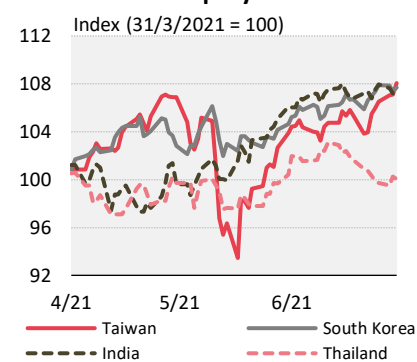
In the coming months, the outlook will remain dictated by the course of the pandemic and government responses. The trend of the US dollar will also affect the performance of the Asian currencies.

MSCI AC Asia ex Japan Index



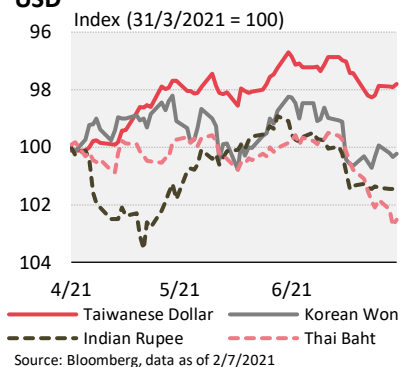
Source: Bloomberg, data as of 2/7/2021

Selected Asian equity indices



Source: Bloomberg, data as of 2/7/2021

Selected Asian currencies against USD



Source: Bloomberg, data as of 2/7/2021

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