

Market Monitor – Asia ex-Japan

New Challenges Ahead Despite Easing Covid Restrictions



Major Asian economies show positive signs of recovery in Q4 2021

Most Asian economies continued to recover in Q4 2021. For instance, the annual growth of South Korea’s gross domestic product (GDP) increased by 4.2% in Q4, slightly up from the 4% recorded in Q3. Indonesia’s GDP annual growth increased from 3.5% in Q3 to 5% in Q4. Malaysia’s economy even saw a rebound from a yearly decline of 4.5% in Q3 to an annual growth of 3.6% in Q4.

In Q4 2021, the spread of Covid-19 eased in some major Asian countries. The 7-day average of confirmed Covid-19 cases in Malaysia decelerated from around 10,000 in early October 2021 to about 3,200 as of the end of December 2021. During the same period, the 7-day average of cases in Indonesia also decreased from around 22,000 to 8,200. The improved Covid-19 situation encouraged the relaxation of virus-containment curbs, bolstering consumer sentiment in these economies.

Some major Asian economies are on track to ease domestic social distancing measures and reopen international borders, despite elevated infections arising from the highly infectious Omicron coronavirus variant. In particular, the government of South Korea pushed back a curfew on restaurants to 11 p.m. Meanwhile, Malaysia expanded its vaccinated travel lane, originally only with Singapore, to include Thailand and Cambodia from mid-March onwards. Vaccinated travellers from these 3 countries can enter Malaysia without undergoing a lengthy quarantine. The gradual relaxation of social distancing measures and reopening of international borders is expected to improve domestic consumption and kickstart the recovery of the tourism sector.

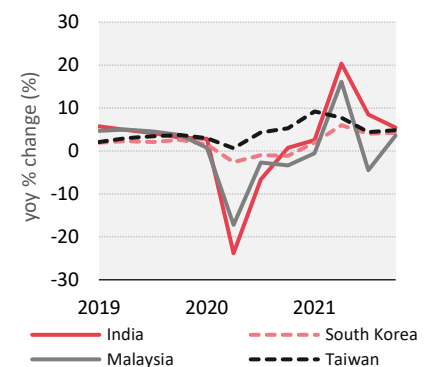
Inflation in most Asian economies has remained steady in recent months compared to the last quarter of 2021. South Korea’s inflation rate remained at 3.7% in February 2022 unchanged from December 2021. Consumer prices in Singapore increased by 4.3% year

Gradual relaxation of Covid-related measures is expected to help normalise economic activity.

Lower demand due to accelerating monetary tightening and geopolitical crises will impact the pace of economic recovery.

Investor fears grow sharply amid an escalated geopolitical crisis.

GDP of Selected Asian Economies



Source: Bloomberg, data as of 31/3/2022

on year in February 2022, moderately up from the 4% rise seen in December 2021. However, India's inflation rate revealed sharper acceleration in recent months, rising from 4.9% in November 2021 to 6.1% in February 2022.

Escalated geopolitical crisis weighs on recovery momentum

The geopolitical crisis between Russia and Ukraine has escalated into military conflict since late-February, leading to sanctions on Russia imposed by the Western countries and increasingly risk-averse sentiment. Furthermore, the crisis and associated sanctions also caused oil prices to soar, as Russia is a major exporter of crude oil. Grain products also saw an increasing price momentum as Ukraine is a major exporter of wheat.

Depending on the duration of the conflict and sanctions, some major Asian economies, particularly energy net-importers such as Vietnam, India, and Thailand, will face mounting pressures from increasing energy prices and accelerating capital outflows to safer economies. Meanwhile, some Asian economies, such as Indonesia, which are energy net-exporters will enjoy greater increases in energy prices.

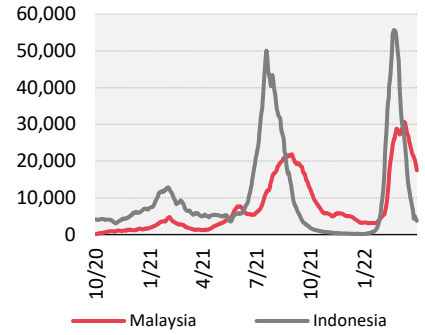
The escalation of the geopolitical crisis will dampen consumption and manufacturing in energy net-importers through price effects. The food and energy component accounts for a significant portion of the consumer price basket in some Asian economies, including Thailand, Vietnam, and the Philippines. The rise in energy and food prices will add notable financial strain for households, limiting room for spending on consumer goods and thus detracting from economic recovery. In addition, accelerating energy prices will increase the cost of production in the energy-intensive manufacturing sector, weakening the competitive advantage of cheap labour.

Some of Asia's central banks appear to be normalising monetary policy

In the face of increasing inflation, some of Asia's central banks have started to gradually withdraw monetary stimulus. The Bank of Korea (BOK) announced on 14th January, 2022 that it was further raising the benchmark rate by 25 basis points to 1.25%, the third consecutive rate hike since August 2021. Moreover, the Bank of Taiwan (BOT) announced on 17th March, 2022 that it raised the benchmark discount rate by 25 basis points from 1.125% to 1.375%. In addition to rate hikes, Indonesia's central bank announced on 20th January, 2022 that it would increase the reserve requirement ratio (RRR) for banks by 300 basis points over the next eight months, a sign of monetary tightening. Meanwhile, the central banks of Thailand and Malaysia held their key interest rates unchanged.

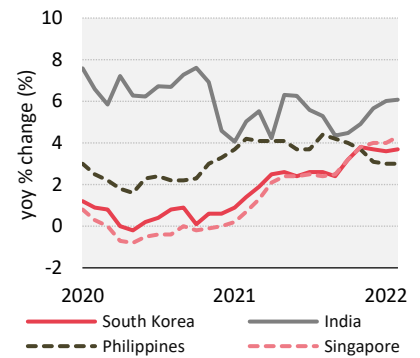
The uplift of key interest rates and RRR are expected to increase borrowing costs and constrain liquidity conditions for enterprises, leading to a decline in demand and greater financial burdens. Against this backdrop, it is expected that Asia's central banks will assess their domestic markets to balance the inflation risk and easing demand triggered by the escalated geopolitical crisis.

7-day average of daily new infections in selected economies



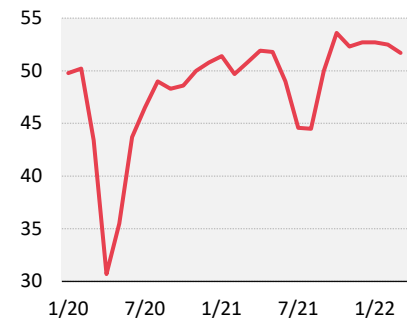
Source: Bloomberg, data as of 31/3/2022

CPI of Selected Asian Economies



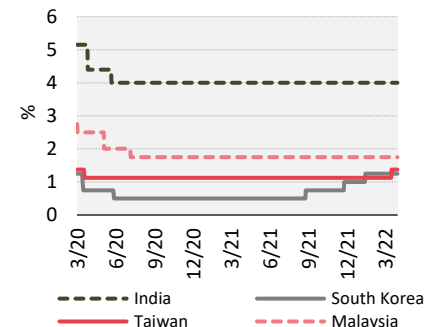
Source: Bloomberg, data as of 31/3/2022

Market ASEAN Manufacturing PMI



Source: Bloomberg, data as of 31/3/2022

Policy Rates in Selected Asian Economies



Source: Bloomberg, data as of 31/3/2022

Financial markets decelerate with rising fears

Risk-averse sentiment in the Asian equity market had risen significantly over the course of Q1 2022 amid outbreaks of the Omicron coronavirus variant as well as the escalation of the Russia-Ukraine crisis into a military conflict in late-February. As of 31st March, the MSCI Asia ex-Japan index had dropped by 8.2% compared to the end of December 2021, when it saw a modest 1.5% decline from the previous quarter. Most major Asian currencies weakened sharply against the US dollar, with the rates of decline between 0.4% and 3.3% by 31st March compared to the end of December 2021. The increasing expectation of consecutive rate hikes in major advanced economies such as the US and the UK caused increased capital outflows from emerging markets. Moreover, the Russia-Ukraine war also heightened market fears, inducing capital to shift to safe-haven currencies like the US dollar.

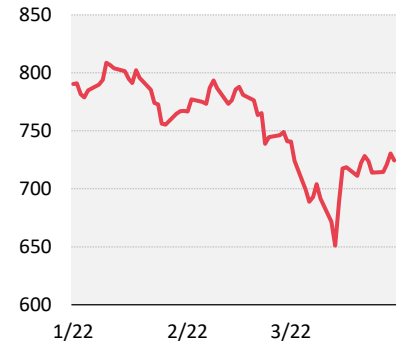
As of 31st March, South Korea’s benchmark equity index had decelerated by 7.4% compared to the end of Q4 2021. In late-January, there were rising market fears of a faster pace of US monetary tightening to tame elevated inflation in the US. Meanwhile the BOK has also raised key interest rates consistently since August last year. The global environment of increasing interest rates, coupled with surging Covid-19 cases domestically, has heightened the financial burden on enterprises already facing an uncertain economic outlook, weakening investors’ confidence in future earnings.

Taiwan’s equity market had declined by 2.9% as of 31st March, 2022 compared to the end of Q4 2021. Although confirmed Covid-19 cases in Taiwan remained at a lower level in comparison with other Asian economies, the external shocks due to a rising expectation of consecutive rate hikes in 2022 as well as military conflicts rattled the equity market, causing significant sell-offs. Appetite for technology and semiconductor-related shares (one of the key sectors in Taiwan’s equity market), where valuations are more sensitive to changes in interest rates, was dampened by the expectation of more rate hikes from some major central banks. Subsequently, the Russia-Ukraine conflict also triggered panic selling by institutional investors to lower their risk exposure.

However, Indonesia’s equity market fared better than its peers during the same period. Indonesia’s equity market accelerated by a substantial 7.4% in the period from the end of Q4 2021 through 31st March, 2022. The Russia-Ukraine military conflict is expected to exacerbate supply constraints in raw materials, leading to a further rise in commodity prices. Indonesia, as one of the net exporters of commodities, will benefit from surging energy inflation, attracting capital flows into its equity market.

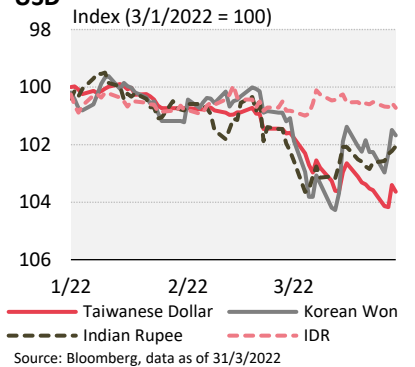
Looking forward, the Covid-19 situation, the pace of monetary tightening in major economies, and the Russia-Ukraine crisis will continue to rattle investor sentiment in the equity markets.

MSCI AC Asia ex Japan Index



Source: Bloomberg, data as of 31/3/2022

Selected Asian Currencies against USD



Source: Bloomberg, data as of 31/3/2022

Selected Asian Equity Indices



Source: Bloomberg, data as of 31/3/2022

Disclaimer

This document is prepared by The Bank of East Asia, Limited (“BEA”) for customer reference only. Other than disclosures relating to BEA, the content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are as of the date hereof, are expressed solely as general market commentary, and do not constitute an offer of securities, nor a solicitation, suggestion, investment advice, or guaranteed return. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This document has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed and as required by the law. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this document, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down. Past performance is not indicative of future performance. The investments mentioned in this document may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this document. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

The views and opinions in this document do not constitute the official views of BEA.

This document is the property of BEA and is protected by relevant intellectual property laws. Without the prior written consent of BEA, the information herein is not allowed to be copied, transferred, sold, distributed, published, broadcast, circulated, modified, or developed commercially, in either electronic or printed forms, nor through any media platforms that exist now or are developed later.

For more information, please visit our webpage at <https://www.hkbea.com/html/en/bea-about-bea-economic-research.html>. For any enquiries, please contact the Economic Research Department (email: lerd@hkbea.com, tel: (852) 3609-1504, post: GPO Box 31, Hong Kong).

