

Market Monitor – Asia ex-Japan

Regional Economies Are Generally Stable



Steady economic growth further driven by gradual reopening of international borders

Most Asian economies recorded steady growth in Q1 2022 after taking a significant hit from Covid-19 last year. Economic growth in Malaysia accelerated from 3.6% year on year in Q4 2021 to 5.0% in Q1 2022, while in the Philippines it rose from 7.8% to 8.3%. Meanwhile, South Korea’s economic growth eased moderately to 3.0% year on year, slowing from 4.4% in Q4 2021.

With the fading threat of the Covid-19 pandemic, Asia’s major economies have begun gradually relaxing their pandemic control restrictions and reopening their international borders. Since 1st April, the Malaysian government has allowed vaccinated travellers with a negative test result to enter without any quarantine requirements. The test requirement for vaccinated travellers was further relaxed starting from 1st May. Meanwhile, the government also relaxed the rules on mask-wearing and social distancing for outdoor activities. South Korea, Singapore, and Thailand all relaxed regulations in similar ways, allowing travellers from abroad to enter if they meet certain vaccination and testing requirements.

Reopening of international borders is expected to boost business activity and travel in the region, particularly supporting the hardest hit sectors of services and tourism, thereby accelerating the pace of normalisation.

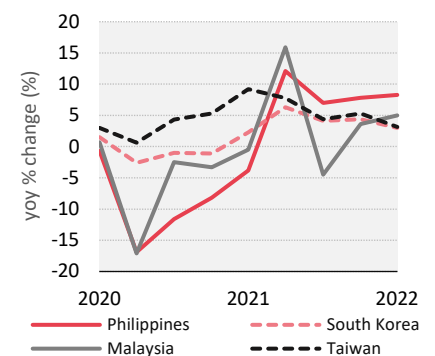
Inflationary pressure is building up relatively fast in most Asian economies in the shadow of the Russia-Ukraine conflict, potential disruption to international energy, commodities, and food supplies, as well as supply chain bottlenecks. South Korea’s inflation rose from 3.6% year on year in January to 5.4% in May, while in Singapore it increased from 4.0% in January to 5.6% in May. India’s inflationary pressure is relatively strong, rising to 7% in May.

Major Asian economies record steady growth, further driven by the reopening of international borders.

Rising external uncertainties could cloud Asian economic outlook.

Financial markets decline alongside growing expectation of faster pace of tightening.

GDP of Selected Asian Economies



Source: Bloomberg, data as of 30/6/2022

Rising external uncertainties weaken prospect for economic growth

Looking ahead, numerous uncertainties will continue to weigh on the Asian economic outlook, including the Russia-Ukraine conflict, elevated inflation, the accelerated pace of monetary tightening by global major central banks, as well as global financial market volatility. The ongoing geopolitical risk will not only dampen export demand from advanced economies such as the eurozone and the US, but also raise the risk of supply chain disruption, and problems in supply of energy, commodities, and food, which could negatively affect both the economic and inflationary outlook for Asia’s economies.

In addition, major central banks around the world have changed their monetary policy stance to a more rapid tightening. US dollar strength might lead to capital flowing out of the Asian economies at an increasing rate. This factor as well as inflation and exchange-rate concerns could cause Asia’s central banks to raise interest rates, resulting in higher borrowing costs. Against this background, Asia’s economic growth is expected to ease moderately in 2022, though this could be partly offset the by a pent-up demand released by the reopening of international borders and resurgent economic activity.

Asian central banks are expected to speed up monetary normalisation

Unlike in the previous quarter, Q2 saw several Asian central banks raise policy interest rates. In particular, the Bank of Korea raised its policy rate again, up a total of 50 basis points to 1.75% in April and May, extending its rate hike cycle which began in August 2021. The central banks of Malaysia, the Philippines, and India also raised rates in Q2. Bank Negara Malaysia raised its policy rate from 1.75% to 2% in May, followed by a further rate hike to 2.25% in July. The central banks of the Philippines and India even increased rates consecutively in May and June. The Philippines’ central bank raised its rate to 2.5%, up from 2% at end-March, while India’s central bank increased the rate from 4% to 4.9%.

Apart from rate hikes, Indonesia’s central bank also increased the reserve requirement ratio (RRR) for commercial banks to 6% from 1st June onwards, in line with its planned schedule. In the first half of 2022, Indonesia’s central bank has raised RRR by a total of 250 basis points. The bank also announced that it will quicken its pace of RRR increases to 7.5% in July and to 9% in September, higher than its original target of 6.5%.

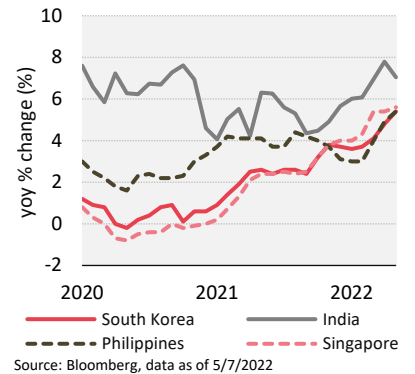
Against the background of elevated inflation and the faster pace of tightening around the world, Asia’s central banks will also speed up their pace of rate hikes and RRR increases.

As such, Asia could shift into a more neutral liquidity environment or even see conditions tighten. With rising input costs and slowing demand, Asia’s economic outlook is looking less positive despite the easing of pandemic-related restrictions.

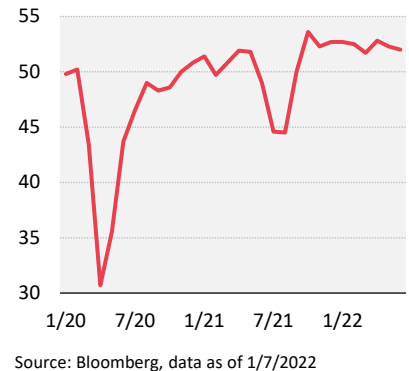
Financial markets see significant decline amid faster global monetary tightening

The accelerating pace of monetary tightening around the globe, together with a stronger US dollar, have resulted in a rising level of capital outflows out of emerging markets. Moreover, there are increasing worries over a global economic slowdown or recession

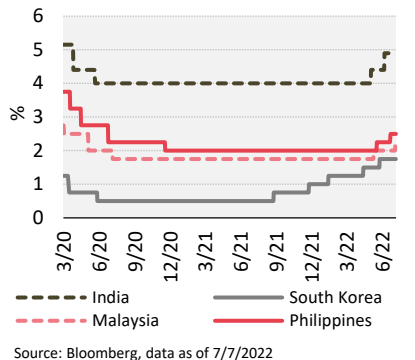
CPI of Selected Asian Economies



Markit ASEAN Manufacturing PMI



Policy Rates in Selected Asian Economies



MSCI AC Asia ex Japan Index

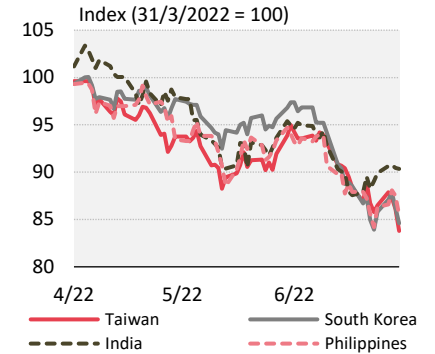


arising from aggressive monetary tightening, leading to a stronger risk-off sentiment in the global financial markets.

The Asian equity market declined further in Q2 2022 as investors sold risky assets against a backdrop of rising uncertainty. As of 30th June, the MSCI Asia ex-Japan index had dropped by 9.8% compared to the end of March, when it saw an 8.2% decline from the previous quarter. The larger declines among the Asian equity markets were seen in South Korea, Taiwan and the Philippines.

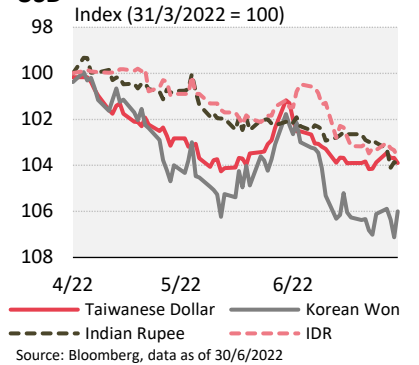
Most Asian currencies weakened significantly against the US dollar, amid a stronger US dollar and growing risk-averse sentiment. From the end of March to end-June, selected Asian currencies declined against the US dollar by a range of between 3.6% and 5.7%. Looking forward, selected Asian currencies are expected to face further pressure from rising external uncertainties.

Selected Asian Equity Indices



Source: Bloomberg, data as of 30/6/2022

Selected Asian Currencies against USD



Source: Bloomberg, data as of 30/6/2022

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