

Market Monitor – Asia

Recovery amid Mounting Uncertainties



Economic growth of Asia accelerates amid high inflationary pressure

As the pandemic gradually subsides and restrictions ease, business sentiment in Asia has improved, driving further economic recovery. Among the Asian economies, India's recovery has been particularly strong, with GDP growth accelerating from 4.1% year on year (YoY) in Q1 to 13.5% in Q2 2022. According to the International Monetary Fund (IMF), India has surpassed the United Kingdom to become the world's fifth largest economy. At the same time, Japan has also benefited from the easing of Covid-19-related restrictions, leading to a rebound in consumer spending and investment. Japan's YoY GDP growth accelerated from 0.6% in Q1 to 1.6% in Q2 2022. Meanwhile, Malaysia's YoY GDP growth accelerated from 5.0% in Q1 to 8.9% in Q2. Its solid growth was driven not only by robust energy-related exports, but also domestic consumption by the recovery of tourism after the reopening of international borders in April. Meanwhile, South Korea saw a moderate growth of 2.9% YoY in Q2, down from 3.0% in Q1, due to slowing commodity exports and rising interest rates.

Since Q2 2022, most Asian economies have gradually eased border restrictions for inbound travel, while Japan reopened its borders in Q3. In September, the Japanese government announced that the daily arrivals limit would be increased from 20,000 to 50,000 and that it would scrap most border restrictions starting from 11th October. Nonetheless, it will still take time for a full recovery and complete normalisation of cross-border business and travel despite the border reopening. In general, the Asian economic outlook will continue to be impacted by escalating geopolitical tensions, elevated inflationary pressure, rapid tightening of global monetary policy, the sharp appreciation of the US dollar, volatility in the global financial markets, and other factors.

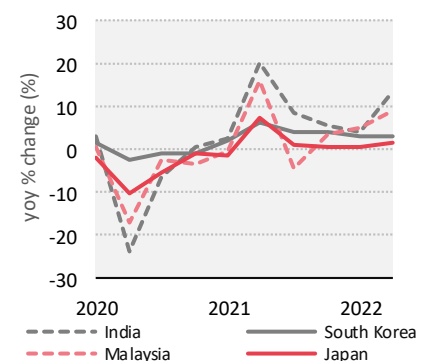
With international energy and food prices staying elevated and most Asian currencies having depreciated against the strong US dollar, inflationary pressure in Asia continues to

Asian economies generally see faster growth despite intensifying inflationary pressure.

With the exception of Japan, most Asian central banks raised interest rates in line with the US and Europe.

Financial markets recorded increased volatility amid expectations of aggressive monetary tightening.

GDP of Selected Asian Economies



Source: Bloomberg, data as of 30/9/2022

Economic Research

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intensify, squeezing household purchasing power and likely weakening business confidence. India's headline consumer price index (CPI) accelerated from 6.7% YoY in July to 7.0% in August, while Malaysia's also accelerated rapidly from around 2.0% in 1H to 4.7% YoY in August, driven by high food prices. Japan's headline CPI also rose by 3% YoY in August, up 0.4 percentage points from July and reaching its highest level since September 2014. The core CPI, which excludes fresh food, also rose by 2.8% YoY, reaching an eight-year high. Meanwhile, the headline inflation rate in South Korea fell from 6.3% YoY in July to a still elevated 5.7% in August. Its core inflation rate edged up from 3.9% YoY in July to 4% in August, indicating that the underlying inflationary pressure remains significant.

Most Asian central banks continue to tighten their policy stances, while the BOJ remains accommodative

In the face of persistently high inflation, mounting pressure on capital outflows and a strong US dollar, most Asian central banks raised their policy interest rates in Q3, some aggressively so. For instance, the Bank of Korea (BOK) raised its rate by 50 basis points (bps) in July, more than the 25 bps hikes seen in its previous moves. In August, the BOK raised the rate by another 25 bps to 2.5%, and signalled further tightening ahead. In August and September, the Reserve Bank of India raised the policy rate consecutively by 100 basis points in total to 5.9%, making for a cumulative rise of 190 bps between May and September. In September, the Bank Negara Malaysia announced a 25 bps rate increase to 2.25%, and is expected to accelerate the pace of monetary policy tightening as domestic inflation gradually picks up pace.

In contrast, the Bank of Japan (BOJ) kept its benchmark policy rate unchanged at its September meeting. It pledged to purchase 10-year government bonds at 0.25% every business day through fixed-rate purchase operations. Meanwhile, the US Federal Reserve (Fed) has raised the fed funds rate by 300 bps since the start of the current tightening cycle. The divergence in policy stance between the BOJ and other major central banks has resulted in a substantial weakening of the yen's performance against the US dollar. On 22nd September, the Japanese government intervened in the foreign exchange market after the yen fell to JPY 145.8 per US dollar, the first intervention in 24 years.

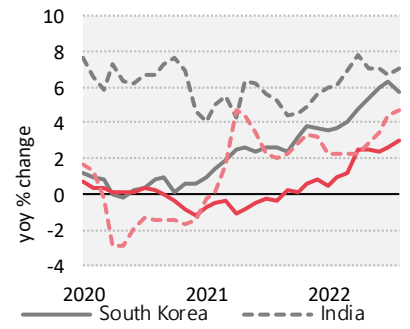
Asian economic growth set to moderate going forward

Looking forward, the reopening of international borders will help Asian economies recover from the pandemic, though this will likely be offset by various uncertainties impacting the economic outlook including: the rapid tightening of global monetary policy, elevated energy and food prices, softening demand in advanced economies, lingering geopolitical tensions, a strong US dollar, etc. As such, overall economic growth in the Asian region, including manufacturing and external sectors, is expected to moderate gradually in the quarters ahead.

Financial markets record increased volatility amid rapid global monetary tightening

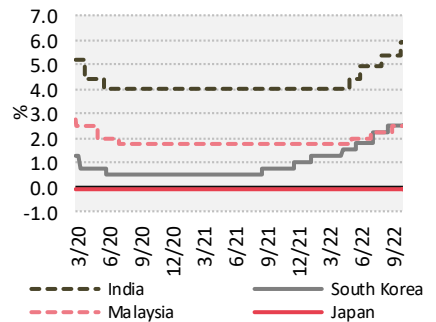
Over the past months, the financial markets have been increasingly worried about

CPI of Selected Asian Economies



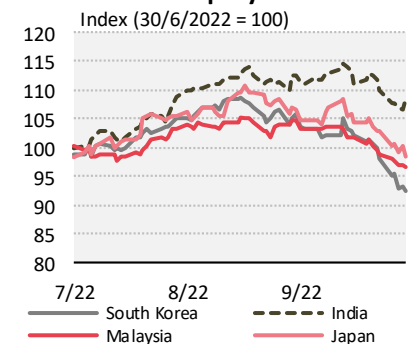
Source: Bloomberg, data as of 30/9/2022

Policy Rates in Selected Asian Economies



Source: Bloomberg, data as of 30/9/2022

Selected Asian Equity Indices



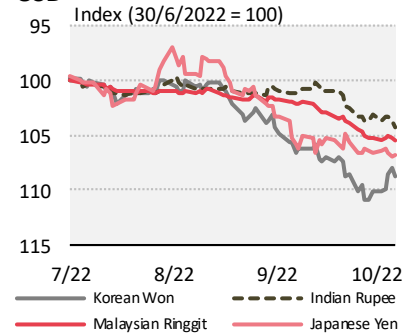
Source: Bloomberg, data as of 30/9/2022

aggressive monetary tightening against a backdrop of elevated inflation, a strong US dollar, and increasing capital flows out of emerging markets. The sharp increase in interest rates also raises the risk of a global economic recession, which in turn causes increased volatility in the global financial markets.

Equity markets in Asian economies saw divergent performances in Q3 2022, with South Korea’s Korea Composite Stock Price Index falling 7.6%, and Malaysia’s FTSE Bursa Malaysia Kuala Lumpur Composite Index also declining by 3.4%. Japan’s Nikkei 225 Index registered a 1.7% loss over the same period, but India’s NIFTY 50 registered a gain of 8.3%.

Most Asian currencies weakened against the US dollar, amid a more risk-averse market sentiment and the expectations of aggressive monetary tightening in Q3 2022. Selected Asian currencies, including the Japanese yen, Malaysian ringgit, and Korean won declined against the US dollar by a range of between 2.9% and 9.2% in Q3. Looking forward, the performance of Asian currencies will continue to hinge on the pace of global monetary policy tightening, the strength of the US dollar exchange rate, and the global economic outlook. In the longer term, if the markets believe major central banks are likely to slow the pace of monetary tightening as time goes on, the downward pressure on Asian currencies could start to ease.

Selected Asian Currencies against USD



Source: Bloomberg, data as of 30/9/2022

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