

Market Monitor – Asia

Improving Outlook but Downside Risks Remain



Asian economies recorded solid growth in Q3 2022 despite elevated inflation

In Q3 2022, developing Asian economies generally recorded solid year-on-year (YoY) growth, but some advanced Asian economies posted quarter-on-quarter (QoQ) slowdowns or even QoQ contractions. Among them, Japan and South Korea were affected by currency depreciation, which negatively impacted net exports performance. The QoQ growth of Japan's GDP slowed from 1.1% expansion in Q2 2022 to a contraction of 0.2% Q3, while South Korea's GDP decelerated to 0.3% growth in Q3 2022 from 0.7% growth in previous quarter. Developing economies recorded another quarter of strong growth. Indonesia and Malaysia recorded 5.7% and 14.2% YoY growth, respectively, in Q3 2022. Vietnam's GDP also accelerated from 7.7% in the Q2 2022 to 13.7% in Q3, before easing to 5.9% in Q4. For the full year of 2022, Vietnam reported GDP growth of 8.0%, the fastest pace since 1997.

Although the inflationary pressure in Asia is lower than that of Europe and the US, major Asian economies still saw inflation pick up in 2022. This is mainly due to supply chain bottlenecks, higher international energy and food prices caused by geopolitical tension and the pandemic, and the depreciation of their currencies. Among them, Japan's consumer price index (CPI) accelerated to a new high since December 1990, reaching 3.8% YoY in November 2022, up 0.1 percentage points from the previous month. Indonesia's CPI eased somewhat from its 7-year high of 6.0% in September 2022, but remained higher than its central bank's target range of 2% to 4% for seven consecutive months, rising 5.5% in December 2022.

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Most Asian central banks followed advanced economies by tightening monetary policy in 2022.

Looking forward, the expected recovery of Mainland China economy will likely support trade and investment activities in the Asian region.

Most Asian central banks tightened their policy stance in 2022

Amid high inflation and a strong US dollar, most central banks in Asia also followed the advanced economies' path in tightening their monetary policy stance in 2022. Among them, the Bank of Korea was one of the first to raise its policy rate back in August 2021, and has cumulatively raised their rate by 275 basis points (bps) as of the end of 2022. The State Bank of Vietnam raised benchmark interest rate by a total of 200 bps in 2022. Malaysia, the Philippines and Thailand, etc. also raised rate in 2022. Although the Bank of Japan (BoJ) maintained its policy rate unchanged at -0.1%, it widened the band of 10-year Japanese Government Bond yield target to 50 bps from 25 bps at its December meeting. Even though the BoJ cited the decline in market functionality as the reason for the policy change, some market participants still reckon that this might be a signal of the first step toward policy normalization.

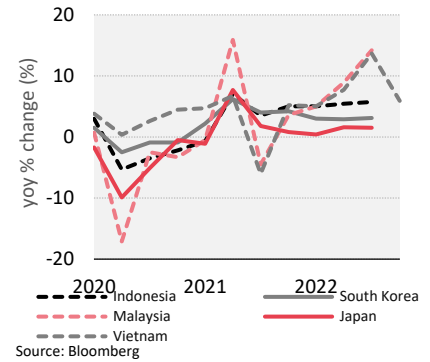
Asia sets to see better growth momentum relative to global economy in 2023, though downside risks remain

Looking forward to 2023, the optimization of pandemic prevention and control measures in Mainland China are expected to facilitate a notable rebound in trade, investment and economic activities in both Mainland China and the Asian economy as a whole. The sooner-than-expected relaxation of pandemic control rule in Mainland China is expected to lead to a meaningful recovery of its economy after the passing of the current pandemic wave. The quarantine and restriction-free travel between Mainland China and the rest of the world will largely benefit the tourism sector in Asia.

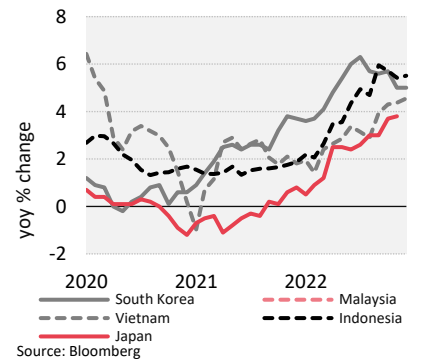
In addition, the "Regional Comprehensive Economic Partnership Agreement" (RCEP) has come into effect in January 2022. The export and investment performance of economies, like Vietnam, will benefit from the reduction of tariff and non-tariff barriers, as well as reshuffling of regional supply chains in the long run. In October 2022, the International Monetary Fund's (IMF) "World Economic Outlook" forecasted that the emerging and developing Asia will grow by 4.9% in 2023, up from 4.4% in 2022. Among them, Vietnam and Indonesia will grow by 6.2% and 5.0% in 2023, respectively. This showed that the Asian economy will remain a bright spot, and will continue to lead that of the global economy, particularly now that advanced economies face the threat of stagflation. Nevertheless, global economic slowdown, lingering impact of geopolitical tension and pandemic, potential supply chain and energy supply disruption, etc., will continue to bring uncertainties to Asia's exports and economic prospects.

Benefiting from the base effect, easing supply chain bottleneck and energy prices, inflationary pressures in the Asian region will gradually ease in 2023. The inflation rate of emerging and developing Asia in 2023 is estimated to be around 3.6%, down from 4.1% in 2022, while Vietnam and Indonesia in 2023 will be 3.9% and 5.5%, respectively. With the inflation rates of most Asian economies having likely peaked in 2022, its deceleration will likely providing room for their central banks to slow the pace of interest rate hikes. This in turn could gradually promote the recovery of consumption and investment sentiment in the region.

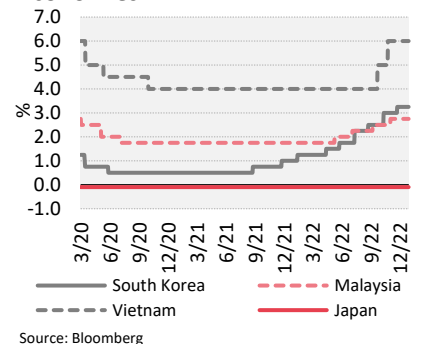
GDP of Selected Asian Economies



CPI of Selected Asian Economies



Policy Rates in Selected Asian Economies



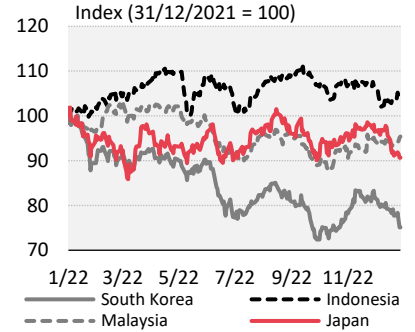
Highly volatile financial market performance amid rapid global monetary tightening

In 2022, amidst lingering impacts from the pandemic and geopolitical tensions, elevated inflation and aggressive monetary tightening led to a highly volatile financial market performance in Asia. Volatility is compounded by the rising risk of a global economic recession and strength of the US dollar.

Asian equity markets posted divergent performances in 2022, with Korea Composite Stock Price Index (KOSPI) and Japan’s Nikkei 225 Index falling by 24.9% and 21.6%, respectively since the end of 2021. FTSE Bursa Malaysia Kuala Lumpur Composite Index also declined by 4.6% in 2022, while Indonesia’s Jakarta Composite Index and India’s NIFTY 50 registered a 4.1% and 4.7% gain, respectively, when compared to 2021.

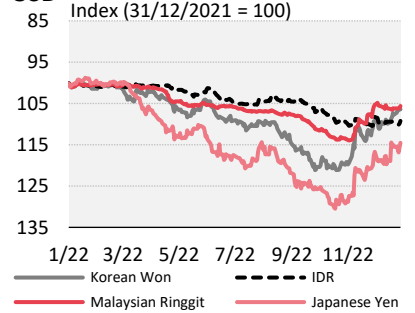
Most Asian currencies depreciated against the US dollar in 2022, driven by flights to safe haven currencies and the expectations of aggressive monetary tightening across the globe. Selected Asian currencies, including Malaysian ringgit, Korean won and Japanese yen depreciated by a range of between 5.3% and 12.7% against the US dollar. In 2023, the performance of Asian currencies still hinge on the pace of global monetary tightening, the strength of US dollar exchange rate, and global economic outlook, etc. As major advanced economies are expected to pause their rate hikes in 2023, the downward pressure of major Asia currencies could probably somewhat ease, with some economies posting a relatively better economic outlook and even a mild recovery.

Selected Asian Equity Indices



Source: Bloomberg, data as of 30/12/2022

Selected Asian Currencies against USD



Source: Bloomberg, data as of 30/12/2022

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