

Slowing Global Environment Poses Downside Risks

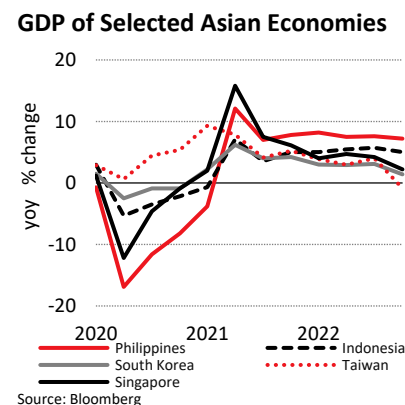


- Advanced Asian economies like South Korea and Taiwan fell into a contraction in Q4 2022, while the ASEAN economies like Singapore, Indonesia and Philippines remained relatively resilient amid a weakening global environment.
- Inflation in major Asian economies remained elevated, despite some divergence in their recent trends.
- Major Asian currencies strengthened against the US dollar on the expectation that US interest rates would peak soon, however their domestic equity markets showed mixed performance.

Advanced Asian economies fell into contraction in Q4 2022, while ASEAN economies continued to post growth

South Korea posted a quarter-on-quarter (QoQ) drop in real GDP in Q4 2022, the first decline since the pandemic. South Korea's economy contracted by 0.4% QoQ in Q4 2022, compared to the 0.3% QoQ growth in Q3 2022. On a year-on-year (YoY) basis, South Korea's GDP growth also slowed to 1.4% in Q4 2022 from 3.1% in Q3 2022. At the same time, Taiwan's real GDP declined by 0.9% YoY in Q4 2022, compared to a 4.0% YoY growth in the previous quarter.

South Korea and Taiwan's economic performance in Q4 2022 was hampered by a weakness in exports and consumption amid a global slowdown. In Q4 2022, South Korea's exports registered a 4.4% YoY contraction during the quarter, worsening notably from a 4.8% YoY growth in Q3 2022. Growth of household consumption expenditure in South Korea also decelerated to 3.6% YoY from 5.7% YoY in Q3 2022. Similar to South Korea, Taiwan's exports reversed to a 5.1% YoY decline in Q4 2022 from the 1.4% YoY growth in the previous quarter, while the growth of domestic private consumption in Taiwan slowed to 2.9% YoY in Q4 2022 from the 7.5% YoY in Q3 2022. At the same time, the sentiment of Japan's large manufacturers worsened somewhat in Q4 2022, with the headline index for large manufacturing enterprises edging down by 1 point from



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February 2023

September's reading to +7 in the Tankan Survey, implying a subdued outlook of the Japanese economy. The Q4 2022 Japan's GDP will be released in mid-February.

Meanwhile, major ASEAN economies continued to grow. The Philippines reported a robust GDP growth of 7.2% YoY in Q4 2022, following a 7.6% YoY growth in Q3 2022. Indonesia also reported a solid 5.0% YoY growth in Q4 2022, after a 5.7% YoY growth in Q3 2022. Singapore's YoY GDP growth slowed by 2 percentage points (ppts) but remained expansionary at 2.2% YoY in Q4 2022. The robust economic growth in Philippines was mainly underpinned by strong household consumption and exports, which grew by 7.0% and 14.6% in Q4 2022 respectively. In Singapore, growth in the services sector (4.1% YoY) and construction sector (10.4% YoY) in Q4 2022 remained solid. But overall growth was partly offset by the 3.0% YoY decline in the manufacturing sector.

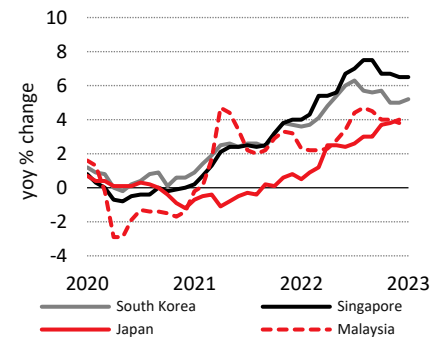
As for inflation, price pressures in major advanced and ASEAN economies remain elevated, despite some divergence in their recent trends. Japan and Taiwan saw their headline consumer price indices (CPI) accelerate to 4% YoY and 2.7% YoY in December 2022 respectively, up from 3.8% YoY and 2.4% YoY in November. Separately, South Korea's CPI inflation increased to 5.2% YoY in January 2023, after staying at 5% in November and December 2022. Inflation in major ASEAN economies showed some moderation but remained elevated. The headline inflation of Malaysia and Singapore trended downward in recent months and decelerated from their recent peaks of 4.7% and 7.5% to 3.8% YoY and 6.5% YoY in December 2022 respectively.

Looking ahead, with growth in the advanced economies like the US and Eurozone likely to slow after a rapid monetary tightening cycle, their demand for Asia's exports is likely to stay subdued in the upcoming months, posing downside risks to Asia's economic outlook in 2023. In January 2023, South Korea's exports dropped by 16.6% YoY, after rising 6.1% YoY in 2022. In particular, semiconductor exports plunged by 44.5% YoY in January 2023. Nonetheless, the reopening of Mainland China economy will provide support for the regional trade and tourism recovery in the coming months, partly offsetting the adverse impact on Asia's exports outlook stemming from a slowdown in the advanced economies.

Malaysia's central bank surprised the market by holding interest rates unchanged at January's meeting

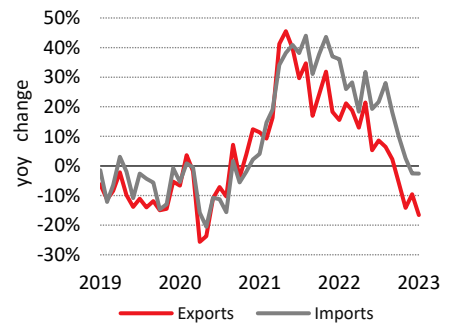
In January 2023, major central banks of Asian economies except the Bank of Japan (BOJ) and Bank Negara Malaysia (BNM) continued to raise rates as inflation remained elevated. In January, the Bank of Korea and Bank Indonesia raised their policy rates by 25 basis points to 3.5% and 5.75% respectively. On the contrary, the BNM held its policy rate unchanged at 2.75% in January, as the central bank revealed that a pause in rate hikes would allow them to assess the impact of the cumulative 100-bp hikes in 2022. At the same time, the BOJ decided to hold benchmark interest rates unchanged at -0.1% and maintained the target band for the 10-year government bond yield at 0.5% at its January meeting. The BOJ cut its forecast for real GDP growth for the fiscal year ending March 2024 by 0.2 ppts from the October forecast to 1.7%, while keeping the core inflation forecast at 1.6%.

CPI of Selected Asian Economies



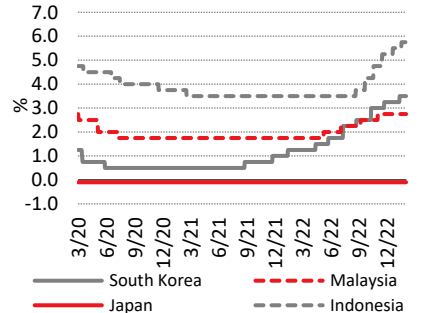
Source: Bloomberg

South Korea Exports and Imports



Source: CEIC

Policy Rates in Selected Asian Economies



Source: Bloomberg

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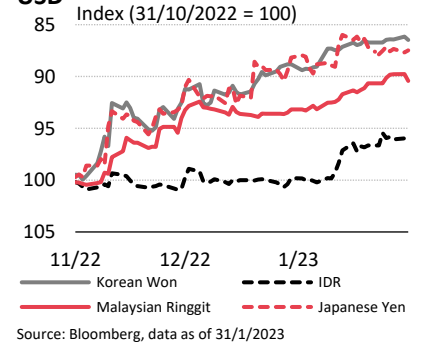
February 2023

Major Asian currencies strengthened on the expectation that US interest rates would peak soon

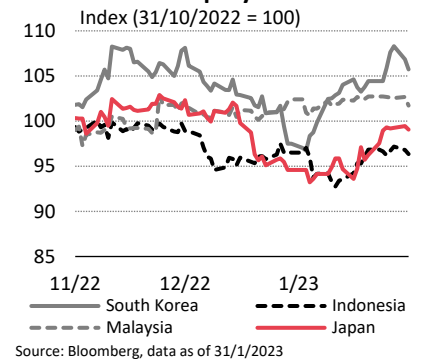
As investors expect US interest rates to peak soon, most Asian currencies strengthened against the US dollar. Selected Asian currencies, including the Japanese yen, Malaysian ringgit, Korean won and Indonesian rupiah strengthened against US dollar by 0.8% to 3.9% in January 2023. Looking forward, the performance of Asian currencies will continue to hinge on the US monetary policy outlook, the policy outlook of Asian central banks, the strength of US dollar exchange rate, and the economic fundamentals Asian economies, etc.

Risk-on sentiment drove major advanced Asian equity markets to rally in tandem with their global peers in January 2023. Singapore’s Straits Time Index, Taiwan’s Taiwan Capitalization Weighted Stock Index, South Korea’s Korea Composite Stock Price Index and Japan’s Nikkei 225 Index recorded gains in a range of 3.5% to 8.4% in January 2023. Nonetheless, Indonesia’s benchmark stock market index, Malaysia’s FTSE Bursa Malaysia Kuala Lumpur Composite Index and India’s NIFTY 50 registered declines of 0.2% to 2.4% over the same horizon, probably due to the earlier run-up of these markets.

Selected Asian Currencies against USD



Selected Asian Equity Indices



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