

Market Monitor – Asia

Outlook of Asian Exports Clouded by Global Slowdown



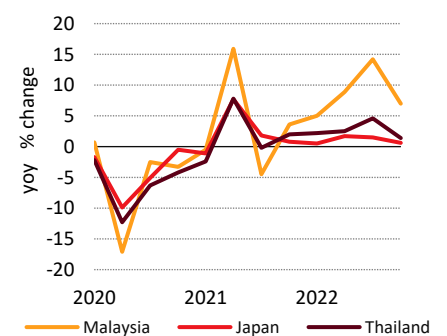
- Advanced Asian economies like Japan reported a meagre rebound in GDP in Q4 2022. Malaysia showed brisk GDP growth in Q4 2022 while Thailand underperformed.
- Inflation in major Asian economies remained high in the first two months of 2023 despite some divergence in their recent trends.
- Major Asian currencies weakened against the US dollar as US inflation remained sticky with US interest rates likely to rise further ahead.

In Q4 2022, Japan reported a meagre economic rebound; Malaysia showed brisk GDP growth while Thailand underperformed

Japan reported a meagre economic rebound in Q4 2022, with real GDP growing 0.2% quarter-on-quarter (QoQ) and 0.6% year-on-year (YoY), lower than market expectations. The mild growth in Q4 2022 was mainly supported by services consumption and resilient exports, which offset the declines in private investment spending. In Q4 2022, household consumption rose by 0.5% QoQ after staying flat the previous quarter, and exports rose by 1.4% QoQ after a 2.5% growth in Q3. For the full year of 2022, the Japanese economy expanded 1.1% after a 2.1% growth in 2021.

Meanwhile, major emerging ASEAN economies saw divergent performance in Q4 2022, with Thailand and Malaysia registering growth of 1.4% YoY and 7.0% YoY, respectively. The relatively slower economic growth in Thailand was mainly attributable to a 0.7% YoY contraction in exports in Q4 2022 amid strong rebound of the Thai Baht relative to other major ASEAN currencies. Private consumption in Thailand remained solid with a 5.7% YoY growth in Q4 2022. On the other hand, Malaysia’s economy was boosted by strong private consumption and exports in Q4 2022, which grew 7.4% and 9.6% YoY, respectively. For the full year of 2022, the economies of Thailand and Malaysia expanded by 2.6% and 8.7%, respectively.

GDP of Selected Asian Economies



Source: Bloomberg

As for inflation, price pressures stayed high but with divergent trends. In advanced Asian economies, Japan and Taiwan saw their headline consumer price indices (CPI) accelerate to 4.3% and 3.0% YoY in January 2023 respectively, up from 4.0% and 2.7% YoY in December 2022, while South Korea saw CPI decelerating to 4.8% YoY in February from 5.2% in January. Similarly, inflation trends in ASEAN economies also diverged. The YoY increases of CPI in Singapore edged up by 0.1 percentage point (ppt) from December 2022 to 6.6% in January, while Malaysia's CPI edged down by 0.1 ppt to 3.7% over the same horizon. Indonesia's CPI also accelerated to 5.5% YoY growth in February from 5.3% in the previous month. The Philippines and Thailand saw the YoY increases in their CPIs edging down by 0.1 ppt and 1.2 ppts from previous month to 8.6% and 3.8%, respectively, in February.

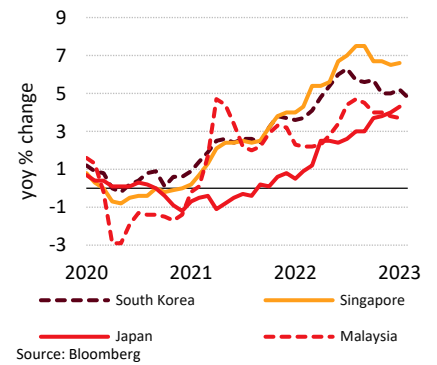
Going forward, China's reopening will boost the regional trade and tourism recovery in Asia, but slower growth in advanced economies like US and Europe is set to dampen the demand for Asia's exports. The YoY growth of Japan's exports slowed to 3.5% in January 2023 from 11.5% in December 2022. South Korea's exports also fell for the fifth straight month with a 7.5% YoY drop in February. The gloomy external trade outlook is expected to partly offset the boost from tourism recovery and resilient domestic consumption. This restrains the growth momentum of major advanced Asian economies and ASEAN economies which are highly dependent on the exports of consumer electronics, semiconductors and related products, etc.

BoK kept the policy rate unchanged in February; Japan nominated a new BoJ governor

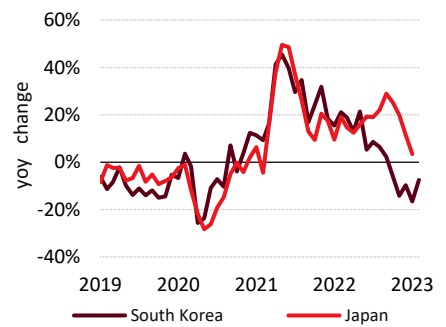
In February 2023, several central banks tightened monetary policies amid elevated inflation while the Bank of Korea (BoK) kept interest rates unchanged. In February, the BoK kept the policy rate unchanged at 3.5% amid heightened uncertainties and a subdued economic outlook. The BoK governor said that a pause in interest rate hikes was appropriate for them to monitor inflation, growth and other external developments. Meanwhile, the central banks of Philippines and India raised their policy rates by 50 and 25 basis points to 6% and 6.5%, respectively in their February's meetings.

The Japanese government officially nominated Kazuo Ueda as the next governor of the Bank of Japan (BoJ) in February. Some market participants believed that the nomination of a new BoJ governor might imply the beginning of monetary policy normalization. Nonetheless, during the parliament testimony, Ueda commented that the recent rise of Japan's high inflation was driven mostly by rising import prices but not strong demand. It will still take time for Japan's inflation trend to sustainably achieve the BoJ's 2% policy target amid a highly uncertain Japanese economy. He believed that it is appropriate to maintain an ultra-loose monetary policy. Looking ahead, the market participants are likely to focus on whether the new BoJ governor will hint of any significant changes in the BoJ's policy stance.

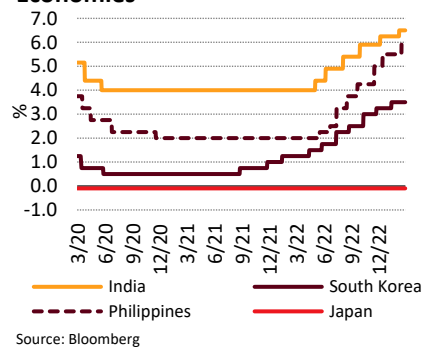
CPI of Selected Asian Economies



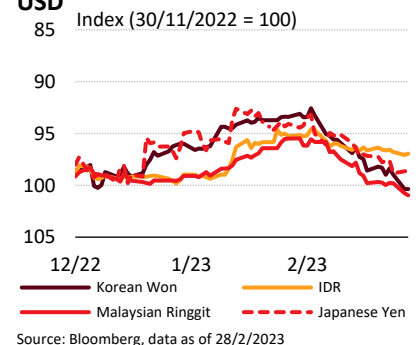
Japan and South Korea Exports



Policy Rates in Selected Asian Economies



Selected Asian Currencies against USD

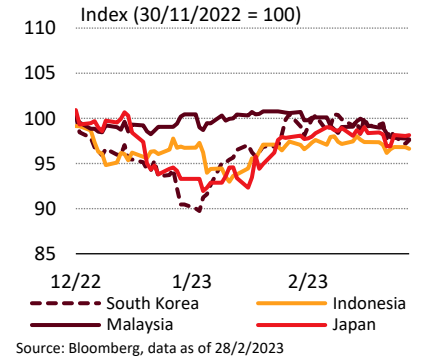


Major Asian currencies weakened as expectations of the US rate hike becomes higher for longer

The latest figures indicated that US inflation may ease at a slower pace than previously expected, reinvigorating market expectations that US interest rates will go higher for longer. Selected Asian currencies, including the Japanese yen, Malaysian ringgit, Thai baht, Korean won and Indonesian rupiah weakened against US dollar by 1.7% to 6.9% in February 2023.

Expectations of a higher US interest rate also intensified risk aversion in the global equity market, driving major Asian equity markets to close lower in February. South Korea’s Korea Composite Stock Price Index, Singapore’s Straits Time Index and Japan’s Nikkei 225 Index recorded losses in the range of 0.5% to 6.9% in February. Nonetheless, Indonesia’s benchmark stock market index stayed relatively stable with a modest gain of 0.1% over the same horizon, probably due to a slower recovery over the past few months. Meanwhile, Taiwan’s Capitalization Weighted Stock Index also recorded 1.6% gain in February, driven by improved domestic investor confidence.

Selected Asian Equity Indices



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