

Asian Economic Outlook Clouded by Global Financial Volatility



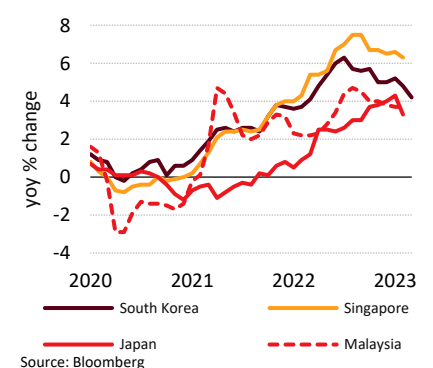
- Inflationary pressures of major Asian economies remain elevated, with some economies recording a gradual easing.
- Exports of advanced Asian economies that are dependent on semiconductors and consumer electronics remain sluggish, with the decline of South Korean exports widening from 7.5% YoY in February to 13.6% in March.
- The global economic outlook becomes increasingly uncertain with the recent liquidity and confidence crisis of US and European banks likely putting further pressure on currencies and capital outflows.

Elevated headline inflation and mounting global uncertainty could hamper the region's trade prospects

Headline inflation in major Asian economies remains elevated, with some economies recording a gradual easing trend. As for advanced Asian economies, Japan's headline consumer price index (CPI) eased to 3.3% year-on-year (YoY) in February from 4.3% in January, chiefly due to energy subsidies partly offsetting the price increases in other categories. South Korea's CPI also decelerated to 4.2% YoY in March from 4.8% in February. Meanwhile, the inflation trend of ASEAN economies remained largely stable, with some posting signs of easing. In February, Singapore's CPI edged down by 0.3 percentage points (ppts) from the previous month to 6.3% YoY, while Malaysia's CPI stayed at 3.7% YoY over the same horizon. Indonesia's CPI also decelerated to 5.0% YoY in March from 5.5% in February.

On the export front, advanced Asian economies that are dependent on semiconductors and consumer electronics, stayed sluggish. Among them, the decline of South Korea's exports widened from 7.5% YoY in February to 13.6% in March. Although Japan's exports accelerated to 6.5% YoY in February from 3.5% in January, its first two months' growth was only 5.1% YoY, significantly lower than the 18.2% growth for 2022. Moreover, Taiwan's exports also recorded YoY contractions for 6 consecutive months. After falling

CPI of Selected Asian Economies



21.2% YoY in January, Taiwan's exports fell by 17.1% in February.

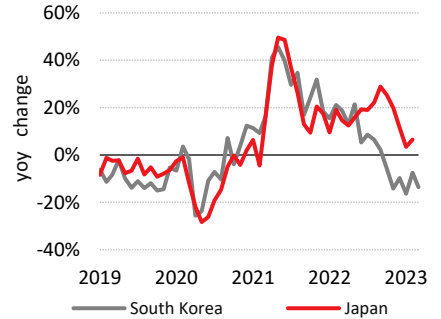
Export performance of ASEAN economies was mixed. Benefitting from strong exports of electrical and electronic, petroleum and liquefied natural gas (LPG) products, Malaysia's exports accelerated from 1.4% YoY in January to 9.8% in February. However, Indonesia's exports slowed to 4.5% YoY in February from 16.4% in January. Meanwhile, Singapore's non-oil domestic exports saw YoY drop for 5 consecutive months, dragged by the decline in electronics, petrochemicals and pharmaceuticals products. After a dropping 25.0% YoY in January, Singapore's non-oil domestic exports declined by 15.6% in February.

Certain Asian central banks gradually adjust their pace of rate hikes

After most Asian central banks raised rates aggressively in 2022, certain central banks in the region are gradually adjusting their pace of rate hikes. As inflationary pressures are expected to gradually ease in the region and the cumulative impact of interest rate hikes on the economy, trade and financial markets begins to surface, certain Asian central banks are adjusting their pace of rate hikes. For instance, Bank Negara Malaysia kept their policy rate unchanged in March after maintaining at 2.75% at January's meeting. Bank Indonesia also kept the policy rate unchanged at 5.75% in two consecutive meetings in February and March. Following a 50-basis point (bp) hike in February, the Central Bank of the Philippines also slowed its rate hike pace to 25 bps at the March's meeting. Meanwhile, the Bank of Japan (BoJ) maintained its target band of the 10-year government bond yield and the policy rate of -0.1% at March's meeting. It is expected that the new governor of BoJ does not have the need to quickly normalize monetary policy amid current global financial volatility.

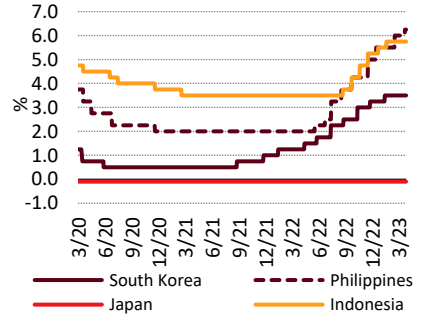
With the post-pandemic reopening of Mainland China, the Mainland authorities will actively promote domestic consumption and investment, which will support the steady growth of Asian economies, particularly the tourism and trade sectors. Currently, the global economic uncertainties have intensified. Central banks and regulatory bodies among various economies are actively preventing the outbreak of systemic crises. The recent liquidity and confidence crisis in the US and European banks may trigger another round of financial turmoil, resulting in flight for quality by buying into US dollars, etc. As a result, Asian economies may face increasing currency depreciation and capital outflow pressures. In addition, the rate hike cycle in the advanced economies is yet to be completed, which will exert further pressure on the global economy, financial and asset markets, clouding the Asian trade outlook and partly offsetting the boosts from the Mainland's reopening.

Japan and South Korea Exports



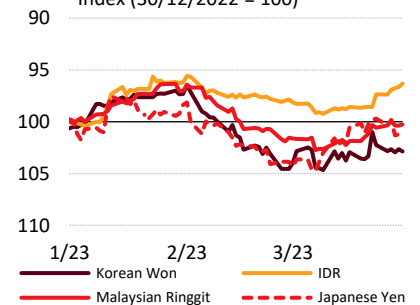
Source: CEIC

Policy Rates in Selected Asian Economies



Source: Bloomberg

Selected Asian Currencies against USD



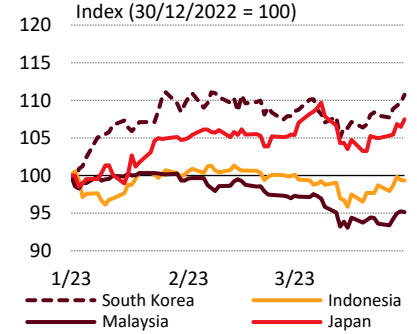
Source: Bloomberg, data as of 31/3/2023

Asian currencies strengthen amid expectations of the US rate hike cycle possibly ending soon

In March, several financial institutions in the US were shut down due to liquidity issues, adversely impacting investors' confidence in the financial system. However, investor confidence stabilized somewhat after the US regulatory bodies intervened to mitigate the impact. The latest dot plot of the US Federal Reserve indicated that the median forecast of federal funds rate is only 25 bps higher than the current level, the market expects the rate hike cycle will come to an end soon thereby supporting the exchange rate of major Asian currencies. As of the end of March 2023, Asian currencies such as Malaysian ringgit, Indonesian rupiah, South Korean won and Japanese yen strengthened against US dollar by 1.6% to 2.5%.

Asian equity markets were mixed. As of the end of March, the benchmark equity indices of Japan, Taiwan and South Korea equity markets registered gains of 2.2%, 2.3% and 2.7%, respectively, compared to the previous month. However, the benchmark equity indices of Singapore, Indonesia, Philippines and Malaysia recorded a decline of 0.1% to 2.2%, respectively, over the same horizon.

Selected Asian Equity Indices



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