

## Initial Signs of Easing Inflationary Pressure



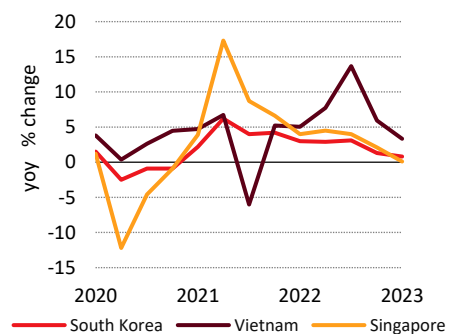
- South Korea averted a technical recession in Q1 2023, while Taiwan saw their GDP YoY decline widen during the quarter.
- Both advanced Asian economies and ASEAN economies saw an easing trend in headline inflation during March and April.
- Major Asian central banks have diverged in their latest monetary policy decisions despite easing inflationary pressures and slowing growth.

### Advanced Asian and ASEAN economies saw diverged performance in Q1 2023

South Korea averted a technical recession in Q1 2023, with GDP registering a 0.3% quarter-on-quarter (QoQ) growth during the quarter, compared to a 0.4% QoQ contraction in Q4 2022. On a year-on-year (YoY) basis, South Korea’s economy expanded by 0.8% in Q1 2023, down by 0.5 percentage points (ppts) from the previous quarter. Meanwhile, Taiwan fell into technical recession, with GDP declining 1.6% QoQ in Q1 2023, after a 0.4% QoQ drop in Q4 2022. The YoY decline of Taiwan’s GDP widened to 3.0% from the 0.4% decline in Q4 2022 .

**Both South Korea and Taiwan’s performance in Q1 was mainly supported by domestic drivers, offsetting drag from the trade slowdown.** In Q1 2023, South Korea’s private household consumption and gross fixed capital formation accelerated from 3.4% and 1.3% YoY in Q4 2022 to 4.5% and 3.2% respectively, offsetting the continuous contraction in exports. Its services and construction sectors also continued to lead that of agriculture and manufacturing. Similarly, the YoY growth of Taiwan’s private consumption expenditure accelerated by 3.4 ppts to 6.6% in Q1 2023 from previous quarter, while the YoY decline in exports widened by 5.7 ppts from Q4 2022 to 10.9% in Q1 2023. Separately, the business condition index of Japan’s large manufacturers recorded notably decline of 6 points from December’s Tankan Survey to +1 in Q1 2023, in line with the subdued trade outlook in the region, while the similar index for large non-manufacturers and services

**GDP of Selected Asian Economies**



Source: Bloomberg

PMI hovered at an elevated level, implying robust consumption and service sector activities. Q1 2022 of Japan's GDP will be released in mid-May.

**ASEAN economies saw slower growth in Q1 2023.** Singapore's GDP growth slowed notably from 2.1% YoY in Q4 2022 to 0.1% in Q1 2023, mainly due to a 6.0% YoY drop in manufacturing output coupled with services output growth decelerating to 1.8%. Vietnam also saw its GDP growth slow to 3.3% YoY in Q1 2023 from 5.9% in Q4 2022, mainly due to manufacturing output reversing to a 0.4% YoY contraction in Q1 2023 after a 3.0% expansion in Q4 2022 and services output slowing from 8.1% in Q4 2022 to 6.8% YoY in Q1 2023.

**Inflationary pressures generally eased, while the external outlook remain challenging**

**Headline inflation in major Asian economies has seen an easing trend.** Regarding advanced Asian economies, Japan's headline consumer price index (CPI) edged further down to 3.2% YoY in March from 3.3% in February, with the prices of food, furniture and household items remaining strong, while South Korea's CPI decelerated to 3.7% YoY in April from 4.2% in March. Meanwhile, the inflationary trend of ASEAN economies has eased. In March, Singapore's CPI declined by 0.8 ppts from the previous month to 5.5% YoY, mainly driven by the high base of comparison for energy and private transport costs. Malaysia's CPI edged down by 0.3 ppts to 3.4% YoY in March, while Indonesia's CPI decelerated to 4.3% YoY in April from 5.0% in March.

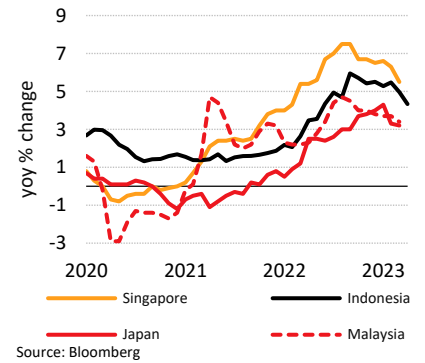
**On the export front, advanced Asian economies that are more technology and electronic dependent remain sluggish.** Among them, the decline of South Korea's exports continued to contract by 14.2% in April, after a 12.6% YoY drop in Q1 2023, while Japan's exports growth decelerated to 4.3% YoY in March from 6.5% YoY in February. Taiwan's exports also recorded YoY contractions for seven consecutive months. After falling 17.1% in February, Taiwan's exports fell by 19.1% in March.

**Major ASEAN economies also saw weak export performance.** Chiefly dragged by electronic exports, Malaysia recorded the first contraction in exports since August 2020, with exports declining 1.4% YoY in March 2023. Amid softening global demand and weak commodities prices, Indonesia saw the worst exports performance since May 2020, with a 11.3% YoY drop in March 2023. Singapore also saw the sixth-straight month of shrinking domestic non-oil exports, with a 8.3% YoY drop in March.

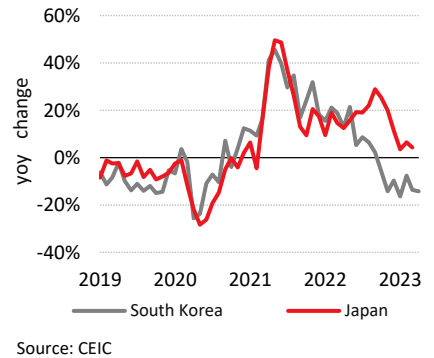
**Several Asian central banks held rates steady at their latest meetings, but Malaysia raised rate after two consecutive pauses**

**Most major Asian central banks held rates steady at latest policy meetings, with some exceptions, as inflationary pressure showed initial signs of easing, together with market expectations of a soon-to-end Fed's rate hike cycle.** For instance, the Bank of Korea (BoK) kept benchmark interest rate unchanged at 3.50% in April's meeting, the first two consecutive pauses since it started raising the policy rate in August 2021. Bank Indonesia kept the policy rate unchanged at 5.75% for three consecutive meetings in February to

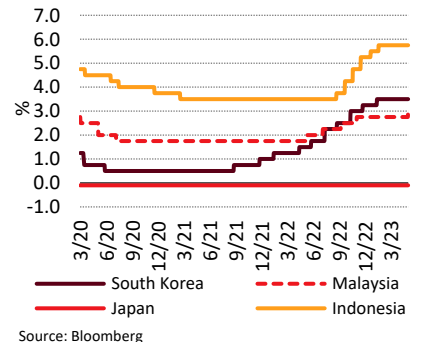
CPI of Selected Asian Economies



Japan and South Korea Exports



Policy Rates in Selected Asian Economies



April. The Monetary Authority of Singapore also surprised the market by maintaining its monetary policy unchanged with no change to the slope and width of the Singapore dollar's nominal effective exchange rate policy band. The Bank of Japan (BoJ) also maintained its target band for the 10-year government bond yield and the policy rate at -0.1% at April's meeting. A pledge from its guidance for interest rates to stay at "current or lower levels" was removed and the BoJ is expected to spend 1 to 1.5 years to review its long established accommodative monetary policy. At the post-meeting press conference, the new governor, Kazuo Ueda, said the broad-based review will not be tied to near-term policy shifts and stressed the need to see more evidence to conclude that inflation would sustainably achieve the BoJ's 2% inflation target. On the other hand, Bank Negara Malaysia (BNM) raised the policy rate by 25 basis points to 3.00% at its May meeting after holding the rate steady for two consecutive meetings. The BNM said it is timely to further normalise the degree of monetary accommodation in light of the continued strength of the Malaysian economy. It believed that the policy stance remains slightly accommodative and supportive of the economy.

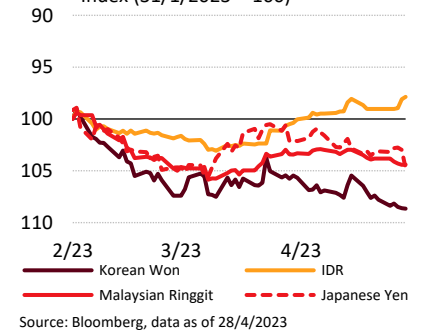
**Looking ahead, although Mainland China's reopening will provide support for regional trade and investment, the demand for Asian exports from advanced economies will remain soft amid the global economic slowdown.** Heightened downside risks in external trade may partly offset the boost from Mainland China's economic recovery and the resilient domestic demand. Besides, the persistent worries over the stability of US and European banking system may trigger another round of risk aversion and result in funds flowing into safe haven assets such as the US dollar and treasuries. This may impose pressures on Asian currencies and capital flows, potentially dampening the growth momentum of the region's recovery.

### Major Asian currencies weaken against the US dollar

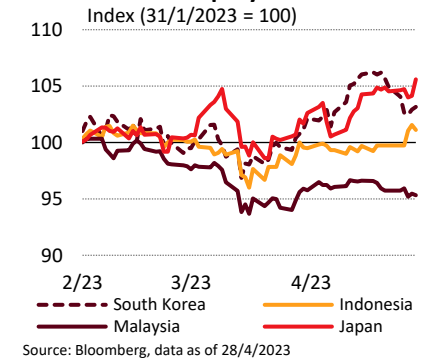
**Major Asian currencies weakened against the US dollar in April as major Asian central banks held policy rates steady amid easing inflationary pressures and market expectations of the near end to the US rate hike cycle.** As of the end of April, Asian currencies such as the Malaysian ringgit, Japanese yen and South Korean won weakened against the US dollar by 1.1% to 2.7%, compared to the end of March. Nonetheless, the Indian rupee and Indonesian rupiah strengthened against US dollar by 0.4% and 2.2%, respectively, over the same horizon, largely because investors were expecting improvements in the economic fundamentals like the current account balance for the two countries.

**Asian equity markets saw mixed performance in April,** with the benchmark equity indices of South Korea, Indonesia, Japan and India equity markets registering gains of 1.0% to 4.1%, compared to the previous month. However, the equity indices of Malaysia, Taiwan and Thailand recorded a decline of 0.5% to 5.0%, respectively, over the same time horizon.

### Selected Asian Currencies against USD



### Selected Asian Equity Indices



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