

Market Monitor – Asia

Inflation Trends Diverge



- Japan reported a mild economic recovery in Q1 2023 with improvements in consumer spending and business investment, while major ASEAN economies saw moderate to solid growth.
- The inflationary trend of major Asian economies varied in April and May, while exports remained sluggish.
- South Korea and Indonesia kept their policy rates steady in the last several meetings while Thailand raised the policy rate by another 25 basis points (bps) in May.

Japan reported a mild recovery in Q1 2023, while major ASEAN economies saw moderate to solid growth

Japan saw a mild recovery in Q1 2023 with a real GDP growth of 0.4% quarter-on-quarter (QoQ), up from 0.0% in Q4 2022, as consumer spending rose and improvement in business investments after the lifting of Covid restrictions. In Q1 2023, private consumption registered a QoQ growth of 0.6%, accelerating from a 0.2% QoQ growth in Q4 2022, while business investment reported a 0.9% QoQ growth in Q1 2023, recovering from a 0.7% QoQ drop in previous quarter. Resilient domestic demand helped to offset the sluggish exports performance. In Q1 2023, total exports dropped 4.2% QoQ, compared to a 2.0% QoQ growth in previous quarter. On a year-on-year (YoY) basis, Japan's GDP increased by 1.3%, accelerating from 0.4% YoY in Q4 2022.

Major ASEAN economies recorded moderate to solid growth in Q1 2023. Thailand's GDP growth accelerated to 2.7% YoY in Q1 2023, up from the 1.4% YoY in previous quarter, while Indonesia maintained a stable YoY growth of 5.0% in Q1 2023. However, Malaysia and Philippines saw their GDP growth slow to 5.6% YoY and 6.4% YoY, respectively, from 7.1% YoY for both countries in Q4 2022.

The better-than-expected performance of Thailand and Indonesia was mainly underpinned by a stable private consumption growth and better exports performance. In Q1 2023, Thailand and Indonesia saw 5.4% and 4.5% YoY growth in private consumption, respectively, with the former only growing slower from the 5.6% YoY in Q4 2022 and the latter staying flat from the previous quarter. In addition, Thailand reported a 3.0% YoY growth in total exports in Q1 2023, reversing a 0.7% YoY drop in Q4 2022, while Indonesia registered a 11.7% YoY growth in total exports for Q1 2023, after a 14.9% YoY growth in Q4 2022.

The slowing down of the Malaysian and the Philippine economy in Q1 2023 was chiefly dragged down by external trade despite a resilient domestic consumption. In Q1 2023, Malaysia and the Philippines reported a YoY growth of 5.9% and 6.3% in private consumption, respectively, moderating from the YoY growth of 7.3% and 7.0% in Q4 2022. Meanwhile, the total exports of Malaysia dropped 3.3% YoY in Q1 2023, compared to an 8.6% YoY growth in the previous quarter. Philippines also saw the YoY growth in exports in Q1 2023 slow significantly to 0.4% YoY from 14.6% YoY in Q4 2022.

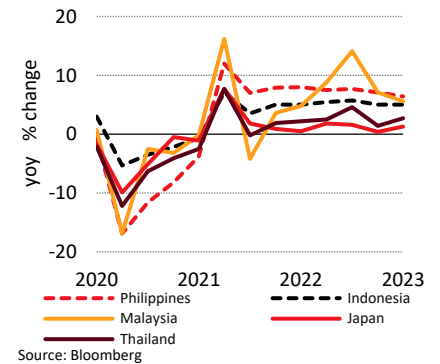
The inflationary trend varied, while external trade remained sluggish

Headline inflation in major Asian economies saw a divergent trend. Regarding advanced Asian economies, Japan's headline consumer price index (CPI) rebounded to 3.5% YoY in April from 3.2% YoY in March, mainly driven by a faster YoY increase in food and furniture, while South Korea's CPI decelerated to 3.3% YoY in May from 3.7% in April. Meanwhile, the ASEAN economies also saw a mixed trend in inflation. In April, Singapore's CPI edged up by 0.2 ppts from the previous month to 5.7% YoY, mainly driven by firmer inflation for services and private transportation. Malaysia's CPI edged down by 0.1 ppts to 3.3% YoY in April, while Indonesia's CPI further decelerated to 4% YoY in May from 4.3% in April, returning to the central bank target of 2% to 4%.

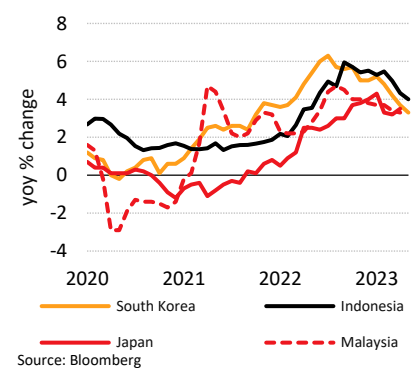
On the exports front, advanced Asian economies stayed in the negative territory. Among them, the decline of South Korea's exports continued to contract by 15.2% in May, after a 14.3% YoY drop in April, while Japan's exports growth further decelerated to 2.6% YoY in April from 4.3% YoY in March. Taiwan's exports recorded YoY contractions for eight consecutive months in April, with a 13.3% YoY contraction after falling 19.1% in March.

Major ASEAN economies also saw a contraction in exports. Chiefly dragged by electrical and electronic product exports, Malaysia's exports recorded the second straight month of contraction in April with a 17.4% YoY drop, the biggest YoY decrease since May 2020. Amid softening global demand and the normalization of commodities prices, Indonesia saw the biggest drop in exports since early 2009, with a 29.4% YoY drop in April. Singapore also saw the seventh straight month of shrinking domestic non-oil exports, with a 9.8% YoY drop in April.

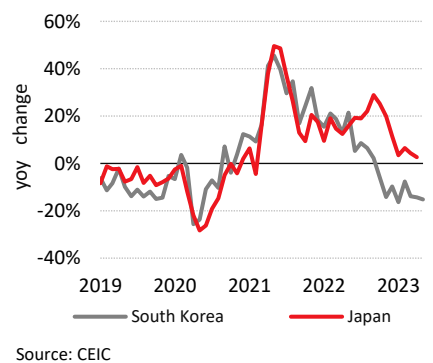
GDP of Selected Asian Economies



CPI of Selected Asian Economies



Japan and South Korea Exports



Major Asian central banks took different policy moves according to their domestic economic conditions

Quite a number of major Asian central banks continued to hold rates steady at the latest policy meetings, with some exceptions, amid diverging inflationary trend. The Bank of Korea (BoK) kept benchmark interest rate unchanged at 3.50% at May’s meeting, opting for a third consecutive freeze as inflation pressures continued to wane. The BoK also lowered its forecast for 2023 economic growth to 1.4% from the 1.6% back in February. The move has prompted some market participants to expect the central bank to cut the policy rate soon. However, the Governor of BoK said that it is too early to talk about the rate cut before there are clear indications of consumer prices stabilizing at the 2% level. Bank Indonesia kept the policy rate unchanged at 5.75% for the fourth straight meeting. The governor of Bank Indonesia said that the central bank will focus on policies to strengthen the rupiah exchange rate stabilization to curb imported inflation under control and to mitigate the spillover effects caused by uncertainties in the global financial market. However, Bank of Thailand (BoT) raised the benchmark policy rate by 25 bps to 2.00% in May, as the central bank needed to control the upside risks to inflation from demand pressures amid the economic recovery, particularly in the tourism sector.

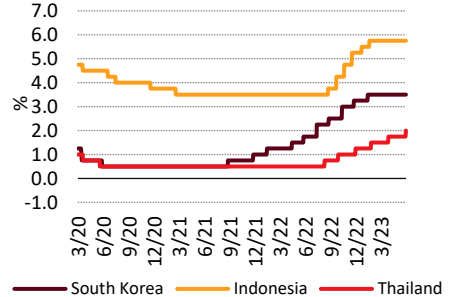
Looking ahead, softening global demand and the potential of spill overs from the global financial volatility market, mainly stemming from the rapid tightening of monetary policy in advanced economies, will bring downside risks to the Asian economic outlook. If the Federal Reserve and the other central banks of advanced economies continue to raise rates and maintain them at an elevated level for longer amid stickier inflationary pressures, Asian economies may also face headwinds caused by currency depreciation and capital outflows. Nonetheless, the solid recovery and reopening of Mainland China’s economy will lend support to the tourism recovery of Asian economies and regional trade, partly offsetting the abovementioned downside risks caused by advanced economies.

Asian currencies weakened amid a risk adverse sentiment

Major Asian currencies weakened against the US dollar in May as investors remained risk averse before the US debt ceiling deal. As of the end of May, Asian currencies such as the Thai Baht, Japanese yen and Malaysian ringgit, weakened against the US dollar by 1.9% to 3.3%, compared to the end of April. Nonetheless, the South Korean Won strengthened against the US dollar by 0.9% over the same horizon, partly attributed to the hawkish remarks by the BoK after their policy meeting in May.

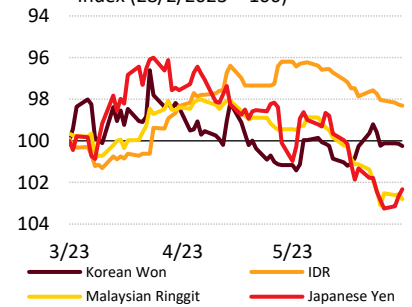
Asian equity markets saw a diverse performance in May. Korea Composite Stock Price Index, Taiwan Stock Exchange Weighted Index and Nikkei 225 Index registered month-on-month (MoM) gains in a range of 3.0%-7.0% in May, as funds flowed to the semiconductor sectors amid the recent optimism in artificial intelligence (AI) development. However, the benchmark equity indices of Malaysia, Philippines and Indonesia reported MoM losses ranging from 2.0% to 4.1% in May.

Policy Rates in Selected Asian Economies



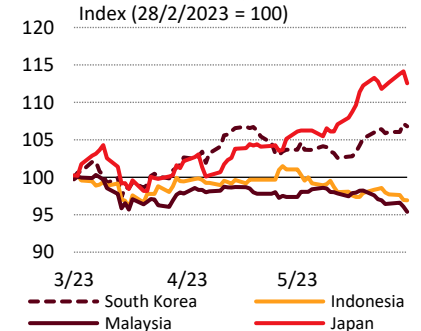
Source: Bloomberg

Selected Asian Currencies against USD
Index (28/2/2023 = 100)



Source: Bloomberg, data as of 31/5/2023

Selected Asian Equity Indices
Index (28/2/2023 = 100)



Source: Bloomberg, data as of 31/5/2023

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