Economic Research

July 2023

Market Monitor – Asia

Most Asian Central Banks Held Rates Steady

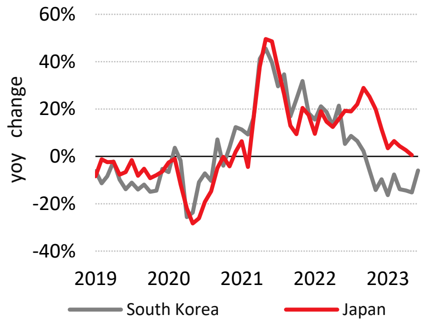
- Asia's export performance remained mixed but some ASEAN economies began to saw moderate to solid improvements.
- The inflationary trend of major Asian economies broadly edged down in May and June with central banks maintaining their monetary policy stance.
- While slowing global growth and high interest rates in advanced economies remain a drag to Asian economies; solid economic fundamentals and positive boosts from Mainland China's recovery can support stable growth in the region.

Asia's export performance remained mixed but some ASEAN economies began to saw moderate to solid improvements

Among advanced Asian economies, exports remained sluggish in May and June. Japan's exports increased by 0.6% year-on-year (YoY) in May beating the market forecasts of a 0.8% YoY fall but slower than the 2.6% YoY growth in April. Despite 27 straight months of YoY increases, the pace of increase was the softest since February 2021. Exports of transport equipment led the growth while exports of machinery and manufactured goods dropped to the contractionary territory. In contrast to Japan's growing trend, South Korea's exports continued to shrink with a 6.0% YoY decline in June, but narrowing from the 15.2% YoY fall in May. The smaller YoY drop of South Korea's exports in June was mainly due to a 58% YoY increase in automobile exports offsetting a 28% YoY plunge in semiconductor exports during the month. Taiwan's exports also declined by 14.1% YoY in May, following a 13.3% YoY fall in April. The decreases were mainly seen in the shipments of electronic products and machinery.

Except for Singapore, other ASEAN economies generally showed improvements in exports. Singapore's non-oil domestic exports slumped by 14.7% YoY in May, worse than the forecasts of an 7.7% decline, and further deepening from the 9.8% decline in April. This was the 8th consecutive month of contraction and the steepest fall in three months. In contrast, Malaysia's exports improved with its YoY decline significantly narrowing from 17.6% in April to 0.7% in May as the exports of electrical & electronic and chemical products reversed from a YoY drop to a YoY increase in May. Meanwhile, Indonesia's exports reversed to a YoY growth of 1.0% in May after seeing double-digit YoY drops in March and April. The improvement in Indonesia's May exports was mainly attributable to stronger manufacturing exports with non-oil and gas exports reporting a YoY growth of 1.9% in May, offsetting the 12.1% YoY decrease in oil and gas exports. Thailand also saw a narrower YoY drop in exports at 4.6% in May, from a 7.6% YoY decline in April as exports of industrial goods registered a 1.5% YoY increase in May after seven consecutive months of YoY declines.

Japan and South Korea Exports

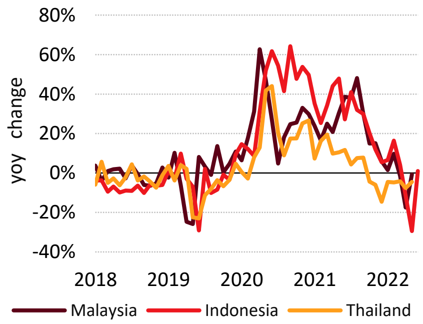


Source: CEIC

The inflationary trend edged down as central banks held rates steady

Headline inflation in major Asian economies moderated. Japan's headline consumer price index (CPI) unexpectedly declined to 3.2% YoY in May, down from 3.5% YoY in April, mainly driven by a faster YoY decrease of 17.1% in electricity. However, Japan's inflation risk remains as prices for transport, clothes, medical care, and miscellaneous quickened. South Korea's CPI decelerated to 2.7% YoY in June from 3.3% in May, below the forecasts of 2.85%. This was the lowest rise since October 2021, supporting market expectations that the central bank's policy tightening cycle is likely over after pausing rate hikes for three consecutive meetings. Taiwan's CPI eased to 2.02% YoY in May after steadying at 2.35% YoY in March and April. This was lower than market expectations of 2.29% and the lowest reading since July 2021. Slower price gains were seen in food, housing and education & entertainment items.

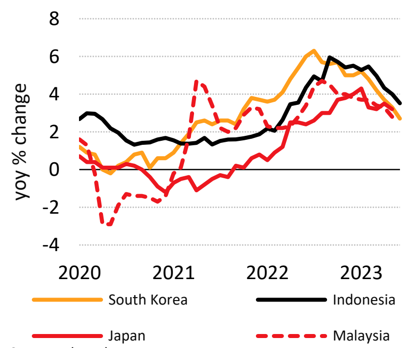
Selected ASEAN Economy Exports



Source: CEIC

Meanwhile, inflation in the ASEAN economies further eased. In May, Singapore's CPI decreased by 0.6 percentage points (ppts) to 5.1% YoY, mainly driven by a lower inflation for private transportation, services and food. Malaysia's CPI edged down by 0.5 ppts to 2.8% YoY in May given slowing price rises in food, transport costs and furnishings and household equipment. Due to lower energy & food prices and a higher base of comparison, Thailand's headline inflation decelerated significantly from a 2.67% YoY growth in April to 0.53% YoY in May, the lowest in 21 months. The Ministry of Commerce of Thailand expects that inflation can be lower than 0.5% YoY in upcoming months or even drop to 0% YoY. Meanwhile, Indonesia saw both headline and core inflation further easing to 3.52% and 2.58% YoY, respectively, in June.

CPI of Selected Asian Economies



Source: Bloomberg

Most Asian central banks held rates steady. The Bank of Japan (BoJ) maintained its benchmark interest rate at -0.1% and 10-year Japanese Government bond yields at around 0% during its June meeting. While mentioning that Japan's inflation would slow later this year, the BOJ added that they would patiently continue with monetary easing and respond to economic development, the dynamics of price gains, as well as financial conditions. The central bank of Taiwan held its key discount rate at 1.875% at its June meeting after five consecutive hikes in the previous policy meetings. The decision reflected the considerations of a recent downtrend in inflation and a weaker-than-expected economic activity this year.

Several ASEAN central banks held their policy rates steady amid an easing inflationary trend. Bank Indonesia (BI) has kept the key interest rate unchanged at 5.75% in June. This was the fifth consecutive meeting where they paused rates amid easing inflation. BI also reiterated its focus towards strengthening rupiah stability to manage imported inflation and to mitigate the contagion effects of global financial market uncertainty. Meanwhile, the central bank of Philippines kept its benchmark interest rate steady at 6.25% for the second straight meeting and the governor also hinted that they could afford to extend the pause for a third consecutive meeting. At July's meeting, Bank Negara Malaysia (BNM) also held the benchmark interest rate at 3.00% amid an easing inflation trend and weakening external demand. The BNM reiterated that its monetary stance remained slightly accommodative and supportive to growth.

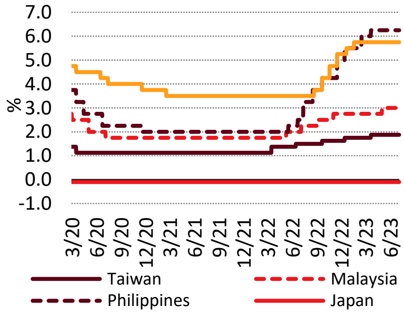
While slowing global growth and high interest rates in advanced economies remain a drag to Asian economies, solid economic fundamentals and positive boost from Mainland China's recovery can support stable growth in the region. With the Federal Reserve (Fed) and other major central banks keeping high interest rates for longer, coupled with the downside risks from geopolitical tensions and financial market volatility, external demand is unlikely to be a driving force for Asian economies in the short term. That said, resilient private consumption in Asia will provide solid support in the region. Moreover, a steady economic recovery in Mainland China can stimulate supply chain activities, trade, tourism and other economic activities in Asia. It is expected that Asian economies will attain stable growth in 2023, given the domestic demand in the region.

Asian currencies weakened as the Fed signalled to continue tightening

Major Asian currencies weakened against the US dollar in June as the Fed signalled continued tightening at its June meeting. As of the end of June, Asian currencies such as the Malaysian ringgit, Thai Baht and Japanese yen weakened against the US dollar by 1.1% to 3.4% compared to the end of May. Nonetheless, the South Korean Won strengthened against the US dollar by 0.7% over the same horizon partly because of renewed interest in South Korean stocks and bonds by foreign investors.

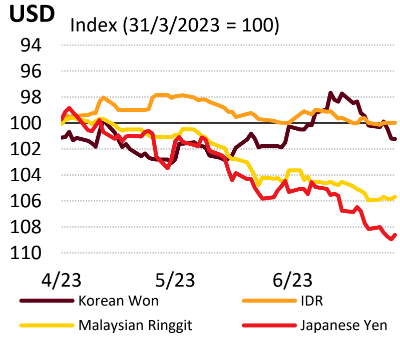
Asian equity markets showed divergent performance in June. Taiwan Stock Exchange Weighted Index and Nikkei 225 Index registered month-on-month (MoM) gains of 2.0% and 7.5%, respectively, in June, as funds continued to flow into the semiconductor industry and the BoJ maintained an accommodative policy stance. However, the benchmark equity indices of Malaysia and Thailand dropped 0.8% and 2.0% MoM, respectively. The relatively weaker performance of Thailand's equity market was mainly due to continued political uncertainties stemming from the election results in May and the accounting scandal related to an electrical wire manufacturer, Stark Corporation, which undermined investor confidence.

Policy Rates in Selected Asian Economies



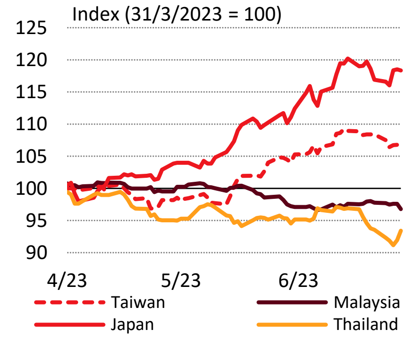
Source: Bloomberg

Selected Asian Currencies against USD



Source: Bloomberg, data as of 30/6/2023

Selected Asian Equity Indices



Source: Bloomberg, data as of 30/6/2023

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