

Modest Improvements in Q2 2023



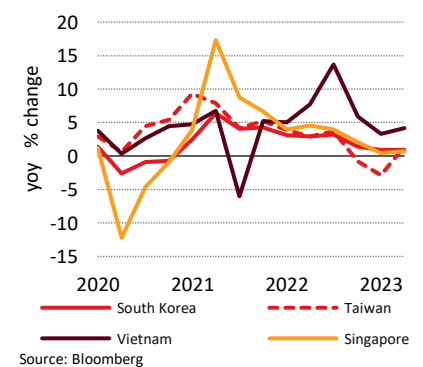
- Most major Asian economies like South Korea, Taiwan, Singapore and Vietnam saw modest improvements in economic performance during Q2 2023.
- Inflation in major Asian economies broadly eased. The Bank of Japan adjusted its yield curve control policy while most other Asian central banks kept rates steady.
- While high interest rates and a slowdown in growth for the advanced economies would continue to weigh on Asian exporters. Solid economic fundamentals and Chinese Mainland’s economic recovery can support stable growth in the region.

Major Asian economies saw a modest pick-up in Q2 2023 despite sluggish export performance

South Korea’s economy grew slightly faster. In Q2 2023, South Korea’s GDP growth accelerated from 0.3% quarter-on-quarter (QoQ) in Q1 2023 to 0.6%. On a year-on-year (YoY) basis, South Korea’s economy expanded by 0.9% in Q2 2023, the same as Q1 2023. The pick-up in South Korea’s GDP growth was mainly driven by the improvement in net exports with a larger drop in imports than exports. Meanwhile, Taiwan recovered from a technical recession with GDP registering a 1.7% QoQ growth in Q2 2023. On a YoY basis, Taiwan’s GDP expanded by 1.5% in Q2 2023. The recovery of Taiwan’s economy in Q2 2023 was supported by resilient domestic demand with consumption rising 12.1% YoY, up from the 6.6% YoY in Q1 2023.

ASEAN economies also reported a slight acceleration in growth. In Q2 2023, Singapore’s economy recovered from a 0.4% QoQ contraction in Q1 2023 to a 0.3% QoQ growth. On a YoY basis, Singapore’s economy grew by 0.7% in Q2 2023, up from 0.4% in Q1 2023. The pick-up in growth was mainly led by a resilient services sector which accelerated from a 1.8% YoY growth in Q1 2023 to 3.0% YoY in Q2 2023. Nonetheless, Singapore’s

GDP of Selected Asian Economies



Economic Research

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manufacturing sector contracted by 7.5% YoY in Q2 2023, the third consecutive quarter of YoY contraction. Vietnam's GDP growth moderately accelerated from a 3.3% YoY in Q1 2023 to a 4.1% YoY in Q2 2023. The improvements reflected a turnaround in the manufacturing industry which reversed from a 0.5% YoY decline in Q1 2023 to a 1.2% YoY growth in Q2 2023. At the same time, Vietnam's services sector expanded solidly by 6.1% YoY in Q2 2023 compared with a 6.6% YoY growth in Q1 2023.

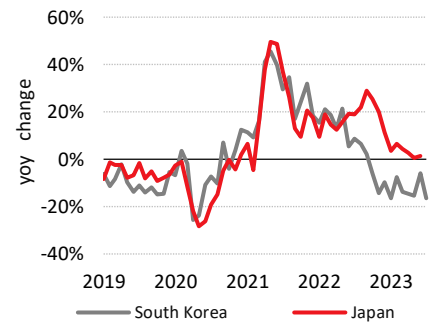
Exports of major Asian economies remained sluggish amid high inflation and interest rates, subdued growth momentum and changing global consumption patterns. South Korea's exports recorded a wider YoY contraction of 16.5% in July following a 6.0% decline in June. Taiwan's exports also fell sharply by 23.4% YoY in June, down from a 14.1% drop in May. Japan's exports increased slightly by 1.5% YoY in June, up from 0.6% in May. Among major ASEAN economies, exports also broadly deteriorated in June. Singapore's non-oil domestic exports slumped by 15.5% YoY in June, deepening from a 14.8% decline in May; this was also the ninth consecutive month of contraction and the steepest fall in four months. At the same time, Malaysia's exports dropped by 14.1% YoY in June, down from a 0.9% decline in May. Meanwhile, Indonesia's exports reversed to a YoY drop of 21.2% in June from a 0.9% YoY growth in May. Thailand also reported a wider YoY drop in exports at 6.4%, down from a 4.6% YoY decline in May.

Bank of Japan adjusted its yield curve control policy, while most other Asian central banks kept rates steady

Inflation in major Asian economies broadly eased. Among advanced Asian economies, Japan's headline consumer price index (CPI) edged up from 3.2% YoY growth in May to 3.3% in June. The rise was mainly driven by a faster YoY increase in goods inflation. On the contrary, South Korea's CPI inflation slowed to 2.3% YoY in July, down from 2.7% in June. Inflation of major ASEAN economies also cooled. Singapore's CPI inflation decreased by 0.6 percentage points (ppts) to 4.5% YoY in June, driven by a lower private transportation cost and core inflation. Malaysia's CPI moderated by 0.4 ppts to 2.4% YoY in June given a smaller price gain in restaurants & hotels, food, furnishings and household equipment. Thailand's headline inflation decelerated again from 0.5% YoY in May to 0.2% in June, the lowest price growth in 22 months. The Ministry of Commerce of Thailand expects that full-year inflation for 2023 will be around 1% to 2%, down from the previous projection of 1.7% to 2.7%. Finally, Indonesia's headline inflation further eased from 3.5% YoY in June to 3.1% in July.

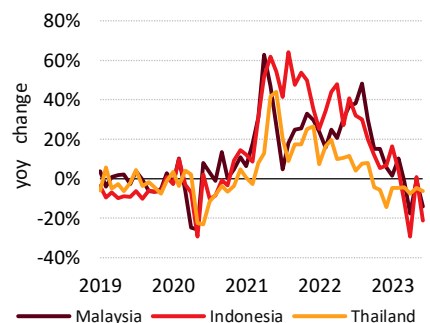
Bank of Japan took another step towards monetary policy normalization while most other Asian central banks kept rates steady. In the July monetary meeting, the Bank of Japan (BoJ) decided to conduct yield curve control with greater flexibility and effectively raised the cap of 10-year Japanese government bond yields to 1.0%. While the BOJ's short-term interest rate target was kept unchanged at -0.1%, the move signalled the BOJ's intention to further normalize its decades-long highly accommodative monetary easing. The Bank of Korea kept its benchmark interest rate unchanged at 3.50% at its July meeting, the fourth consecutive pause as South Korea's inflation trends towards its policy target.

Japan and South Korea Exports



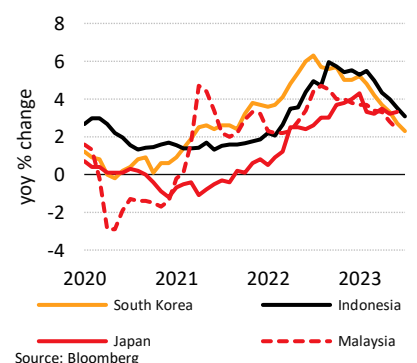
Source: CEIC

Selected ASEAN Economy Exports



Source: CEIC

CPI of Selected Asian Economies



Source: Bloomberg

Major ASEAN central banks diverged in policy decisions at the latest meeting. Bank Indonesia (BI) kept its 7-day Reverse Repo rate unchanged at 5.75% in July, representing the sixth consecutive meeting of holding rates steady. BI reiterated that its monetary policy would remain focused on ensuring inflation to stay within target and keeping the rupiah currency stable. On the contrary, the Bank of Thailand raised its key interest rate by 25 bps to 2.25% at its policy meeting in early August, as the central bank reckoned that a higher policy rate would help preserve the policy space amid highly uncertain outlook and upside risk on inflation.

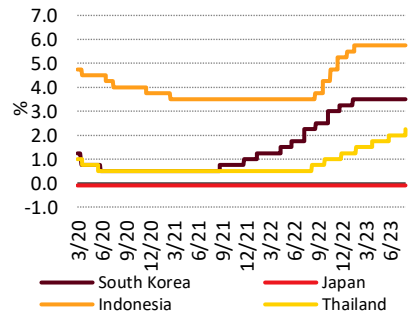
While high inflation and interest rates as well as subdued growth momentum in the advanced economies would continue to weigh on Asian exporters, Asia's solid economic fundamentals and the Chinese Mainland's recovery can support stable growth. With the Federal Reserve (Fed) and the other major central banks keeping interest rates higher for longer, coupled with the uncertainties arising from geopolitical tensions and financial market volatility, demand for Asian exports is expected to remain subdued in the short term. That said, resilient private consumption in Asia will remain a support in the region. Moreover, Chinese Mainland's supportive measures to strengthen its ongoing economic recovery can also stimulate Asian trade, tourism and other economic activities. Overall, Asian economies are expected to attain stable growth in 2023.

Most major Asian currencies strengthened amid rising expectations that the US interest rates are peaking soon

Most major Asian currencies appreciated against the US dollar in July as the market expected US interest rates to peak soon. As of the end of July, Asian currencies such as the Japanese yen, Korean won, Thai Baht and Malaysian ringgit appreciated against the US dollar in a range from 1.4% to 3.6% compared to the end of June. Nonetheless, the Indonesian rupiah slightly depreciated against the US dollar by about 0.6% during the same period, likely because of the narrower yield spreads between Indonesian government bonds and US treasuries.

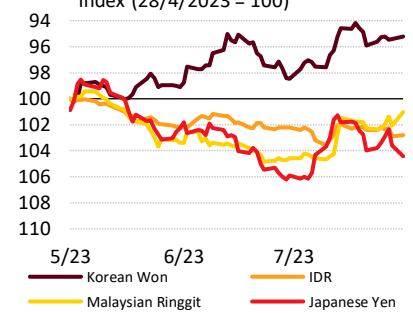
Major Asian equity markets gained in July, except Japan. The benchmark equity indices of Indonesia, Singapore and Malaysia registered MoM gains ranging from 4.0% to 6.0% in July. However, the Nikkei 225 Index edged down by 0.1% MoM in July, possibly due to the Japanese yen strength and its potential impacts on the overseas earnings of Japanese corporations.

Policy Rates in Selected Asian Economies



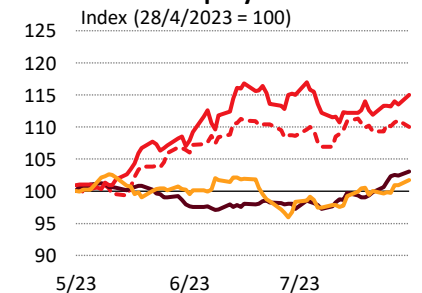
Source: Bloomberg

Selected Asian Currencies against USD



Source: Bloomberg, data as of 31/7/2023

Selected Asian Equity Indices



Source: Bloomberg, data as of 31/7/2023

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