

Market Monitor – Asia

Asian Central Banks Held Rates Steady



- Japan and Indonesia registered a solid economic growth in Q2 2023, while Taiwan, Malaysia, Thailand and Philippines saw sluggish performance over the period.
- Inflation remained on a downward trend in most major Asian economies, allowing major central Asian central banks to hold their interest rates steady.
- While weak external demand is expected to stay, Asia's solid economic fundamentals, strengthening Chinese Mainland's policy supports and its steady recovery could help the region's recovery.

Japan reported faster growth in Q2 2023, while other Asian economies largely moderated

The Japanese economy grew slightly faster. In Q2 2023, Japan's GDP growth accelerated from 0.9% quarter-on-quarter (QoQ) in Q1 2023 to 1.5%. On a year-on-year (YoY) basis, Japan's economy expanded by 2.0% in Q2 2023, the same pace in Q1 2023. The pickup in Japan's QoQ GDP growth was mainly driven by a 3.2% QoQ growth in exports, which was boosted by motor vehicle sales and inbound tourism.

However, private consumption contracted during the quarter, probably due to high inflation. Japan's composite purchasing managers' index edged up to 52.6 in August, indicating a continued expansion in economic activity, However, the unemployment rate rose by 0.2 percentage points (ppt) to 2.7% in July 2023, which was still rather and not expected to pose a serious risk to the recovery. On balance, Japan's outperformance in Q2 2023 is not likely to continue in 2H 2023.

ASEAN economies mostly reported moderating growth. In Q2 2023, Thailand, Malaysia and the Philippines reported slower GDP YoY growth at 1.8%, 2.9% and 4.3%, respectively, down from 2.6%, 5.6% and 6.4% in Q1 2023. On the contrary, Indonesia's GDP growth

slightly accelerated from 5.0% YoY in Q1 2023 to 5.2% in Q2 2023.

Underlying fundamentals of ASEAN economies remained solid. Private consumption kept expanding at a robust pace across ASEAN economies. Indonesia, Thailand, Malaysia, and the Philippines reported private consumption growth at 5.2%, 7.8%, 4.3%, and 5.5% YoY in Q2 2023, respectively. The slower headline growth of Malaysia and Thailand mainly reflected the drag from weakening exports as global demand eased further. However, the Philippines reported better export growth in Q2 2023, but the economy was dragged by a sizable 7.1% YoY drop in government spending due to higher presidential election spending last year.

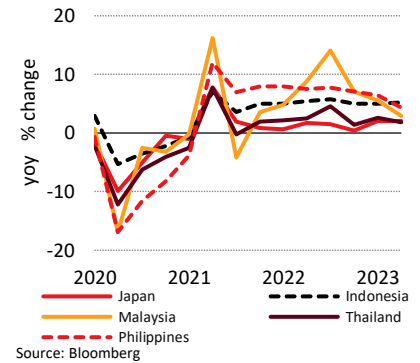
External demand has yet to regain ground amid subdued advanced economies' demand due to rapid monetary tightening and sluggish tech-cycle. South Korea's exports recorded a YoY contraction of 8.4% YoY in August, following a 16.4% decline in July. Taiwan's exports fell by 10.4% YoY in July, marking the 11th consecutive month of decline. Japan's exports resumed from a 1.5% YoY growth in June to a 0.3 drop in July. Among major ASEAN economies, exports mostly stayed in contraction. Singapore's non-oil domestic exports slumped by 20.2% YoY in July, worsening from a 15.6% decline in June, the 10th consecutive month of contraction and the steepest fall in six months; Malaysia's exports dropped by 13.1% YoY in July, following a 14.1% decline in June; Thailand's exports dropped by 6.2% YoY in July, after a 6.4% decline in June; and Indonesia's exports dropped by 18.0% in July, after a 21.2% decline in June.

Most Asian central banks kept rates steady

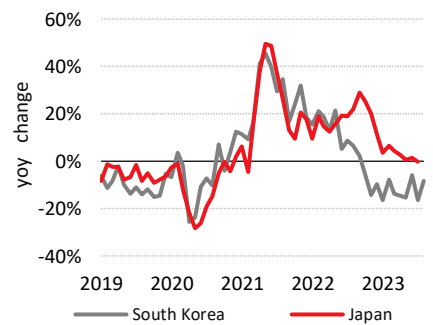
Inflation in major Asian economies broadly eased, despite some minor divergence. Among advanced Asian economies, Japan's headline consumer price index (CPI) inflation remained unchanged at 3.3% YoY growth in July, while the core CPI inflation which excludes fresh food cooled slightly from 3.3% YoY in June to 3.1%; South Korea's CPI inflation accelerated to 3.4% YoY in August, up from 2.3% in July. Among ASEAN economies, inflationary pressure moderated further. Singapore's CPI inflation decreased by 0.4 pts to 4.1% YoY in July, mainly driven by lower price gains for private transport and food, as well as a decline in electricity and gas prices; Malaysia's CPI inflation further moderated by 0.4 pts to 2.0% YoY in July; Thailand's CPI inflation stayed muted at 0.4% YoY in July, mainly due to pandemic-related administrative price control measures; while Indonesia's inflation slightly accelerated to 3.3% YoY in August from 3.1% in July.

With moderating inflation, Asian central banks kept rates largely on hold in August. The Bank of Korea (BoK) maintained its benchmark interest rate unchanged at 3.50%, the 5th consecutive pause as South Korea's inflation eased towards the policy target. The BoK also cited concerns about surging household debts and signs of moderation in economic recovery. Among ASEAN economies, Bank Indonesia (BI) kept its 7-day Reverse Repo Rate unchanged at 5.75% in August, the 7th consecutive pause. BI said the current level of benchmark interest rates is sufficient to keep inflation on track. The Bangko Sentral ng Pilipinas (BSP), the Philippine central bank, also kept its benchmark interest rate unchanged at 6.25% at the August meeting, the 3rd consecutive pause. The BSP expected that the economic growth for 2023 will hit the low end of the government's 6-7% target.

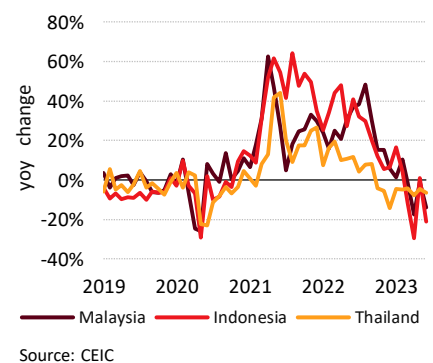
GDP of Selected Asian Economies



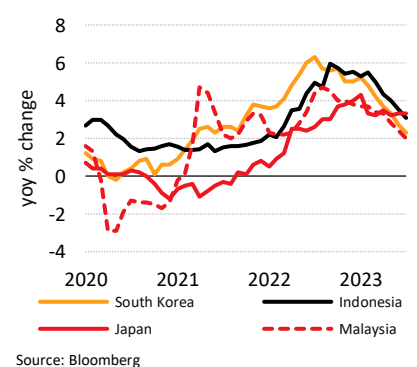
Japan and South Korea Exports



Selected ASEAN Economy Exports



CPI of Selected Asian Economies



Economic Research

September 2023

The BSP Governor also revealed that further reduction in the reserve requirement ratio could be possible later in the year.

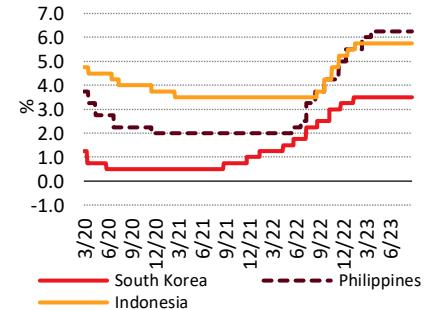
Overall, the Asian economic outlook remained steady in the near term. While weak external demand will remain a drag to Asian exporters, Asian economies continued to be underpinned by various favourable tailwinds, including solid domestic fundamentals, increasing investment and trade flows due to regional supply chain reshuffling and the Chinese Mainland’s recent policy measures to strengthen its recovery. Looking ahead, the Asian economies are expected to post a steady growth for the remaining of 2023.

Asian currencies weakened amid expectation of higher-for-longer tightening in the US

Most major Asian currencies depreciated against the US dollar in August. During the month, forward guidance by the Fed continued its hawkish tone. Recent US economic data also surprised to the upside. These events triggered rising market expectation for a prolonged period of monetary tightening, leading to rising US treasury yields and a stronger US dollar exchange rate. In contrast, easing inflationary pressure in most Asian economies points to a widening divergence of monetary policy stance between the Fed and Asian central banks. As of the end of August, Asian currencies such as the Japanese yen, Thai baht, Korean won and Malaysian ringgit depreciated against the US dollar in a range from 2.2% to 3.6% compared to the end of July.

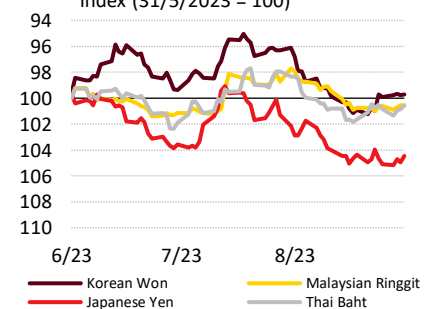
Against the background of higher-for-longer tightening in the US, most major Asian equity markets declined in August except Thailand and Indonesia. The benchmark equity indices of Japan, South Korea, Taiwan and Singapore registered MoM drop ranging from 1.7% to 4.2% in August. However, the benchmark index of Thailand recorded mild gains of 0.6% over the same horizon, mainly reflecting the anticipation of an end to the political impasse after the election of a new prime minister. Meanwhile, Indonesia’s benchmark equity index also recorded 0.3% MoM gain in August, mainly reflecting fund inflow amid solid economic fundamentals.

Policy Rates in Selected Asian Economies



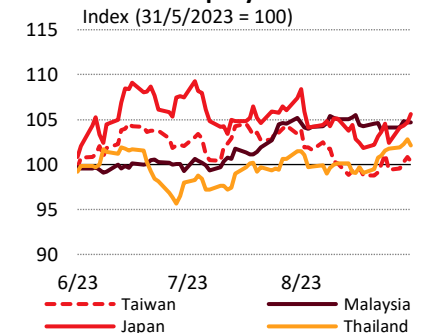
Source: Bloomberg

Selected Asian Currencies against USD



Source: Bloomberg, data as of 31/8/2023

Selected Asian Equity Indices



Source: Bloomberg, data as of 31/8/2023

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