

*Market Monitor – Asia*

## Japan's economy softened in the last quarter of 2023



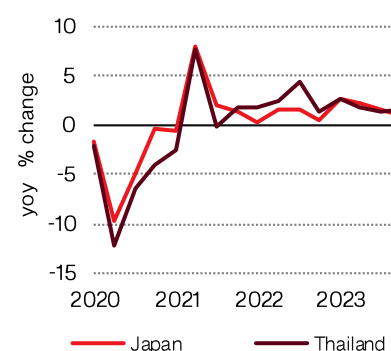
- Japan's growth softened in Q4 2023, while Thailand's missed expectations.
- Inflation broadly eased across most Asian economies, and most central banks held rates steady.
- Asian equity markets grew solidly in February.

### Japan's economy softened in Q4 2023, while Thailand's also missed expectations

**Japan's economy shrank for two consecutive quarters.** Preliminary estimates indicated that Japan's economy softened, with a 0.1% quarter-on-quarter (QoQ) contraction in Q4 2023, after a 0.8% drop in Q3, which is typically considered to be entering a technical recession. On a year-on-year (YoY) basis, Japan's economy grew by 1.0% in Q4 2023, down from 1.7% in Q3. Weakened momentum was seen in underwhelming private consumption (-0.2% QoQ and -0.5% YoY in Q4) and disappointing gross fixed capital formation (-0.3% QoQ and +0.1% YoY in Q4). Despite this, exports improved in Q4 2023, growing by 2.6% QoQ and 3.6% YoY, which reduced the drag from sluggish domestic demand. For the year 2023 as a whole, Japan's economy grew by 1.9%, an uptick from 1.0% in 2022. Meanwhile, due to the JPY depreciation and the EUR appreciation in 2023, Japan's nominal GDP during 2023 would be USD 4.2 trillion, lower than Germany's USD 4.5 trillion, meaning a slip of global ranking from 3<sup>rd</sup> to 4<sup>th</sup> place for Japan's economy.

**Thailand's economic growth in Q4 2023 was below expectations.** In Q4 2023, Thailand's economy expanded by 1.7% YoY, up slightly from 1.4% in Q3. The market consensus was expecting a growth of 2.6% YoY for Q4 2023. On a QoQ basis, the economy fell by 0.6%, larger than the expected drop of 0.1%. During Q4 2023, private consumption and exports took the lead with growth rates at 7.4% YoY and 4.9%, respectively, but the headline growth was weighed down by faster imports and the declines in government consumption (-3.0%) and investment (-0.4%). In 2023, Thailand's economy grew by 1.9%, down from 2.5% in 2022.

**GDP of Selected Asian Economies**



Source: Bloomberg

## Economic Research

March 2024

### External demand continued to recover at the start of 2024

**Exports from advanced Asian economies surged.** Japan's exports rose by 11.9% YoY in January 2024, after rising by 9.7% the month before. The surge was led by exports to the Chinese Mainland and the US, especially in automobiles, electrical machinery and chemicals. South Korea's exports grew by 4.8% YoY in February, following an 18.0% rise in January. This was supported by a 66.7% YoY increase in semiconductor exports. Taiwan's exports accelerated from YoY growth of 11.7% in December 2023 to 18.1% in January 2024, driven by electronic components.

**ASEAN economies' exports generally picked up.** Singapore's non-oil domestic exports reversed a 1.5% YoY decline in December 2023 to a 16.8% expansion in January 2024, largely due to a low base in 2023. Exports from Malaysia bounced back significantly, with 8.7% YoY growth in January 2024 from a 10.1% drop in December 2023. The rebound was propelled by demand for petroleum, electrical and electronic products. Thailand's exports expanded by 10.0% YoY in January, up from 4.7% in December, thanks to a low base. Meanwhile, Indonesia's exports shrank by 8.1% YoY in January, after dropping by 5.8% the month before.

It should be noted that the different timing of the Chinese New Year holidays in 2023 and 2024 would have a visible distortion on trade performance in the region, making it difficult to conduct a complete assessment based on the January data. With more data available ahead, we would have a clearer picture in regard to whether the external demand is set to gradually recover in 2024.

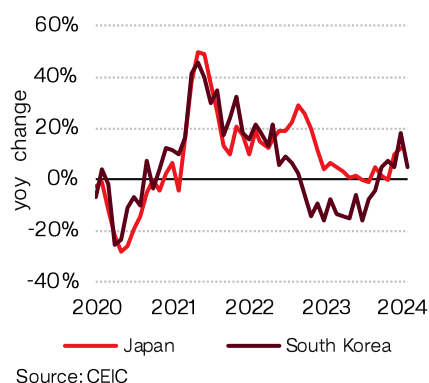
### Most Asian central banks kept rates steady as inflation eased

#### Inflation in Japan and Taiwan slowed further, while South Korea's picked up.

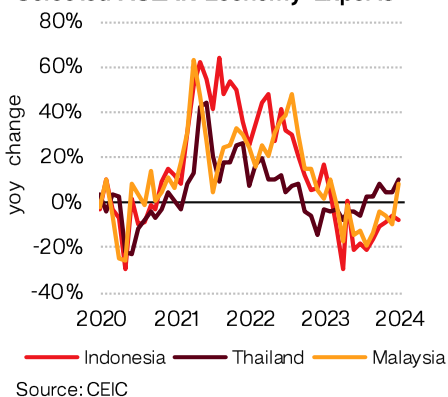
Japan's headline CPI inflation slowed from 2.6% YoY in December 2023 to 2.2% in January 2024. Likewise, Japan's core CPI inflation (which excludes fresh food) dropped from 2.3% YoY to 2.0%. The readings were in line with market consensus. With the impacts of government relief measures set to fade from February, inflation is anticipated to rebound in the coming months. In this connection, expectations for the Bank of Japan to end its negative interest rate policy continue to run high. On the contrary, South Korea's headline CPI inflation accelerated from 2.8% YoY in January to 3.1% in February, mainly driven by higher prices for agricultural products, while core CPI inflation remained steady at 2.5%. Taiwan's headline CPI and core CPI inflation decelerated from 2.7% in December to 1.8% YoY in January, and from 2.4% YoY to 1.6%, respectively.

**Among ASEAN economies, inflation broadly eased.** Singapore's headline and core CPI inflation moderated to 2.9% YoY and 3.1%, respectively, in January. Malaysia's CPI inflation was unchanged at 1.5% YoY in January. Indonesia's CPI inflation picked up 0.4 percentage points to 2.8% YoY in February, propelled by an increase in food prices, in particular rice. But Indonesia's core CPI inflation remained steady at 1.7%. Thailand's headline CPI inflation stayed negative at -0.8% in February, up from -1.1% in January. Thailand's core CPI inflation remained muted at 0.4% YoY in February. Vietnam's headline and core CPI inflation accelerated to 4.0% YoY and 3.0% in February from 3.4% and 2.7% in January, respectively.

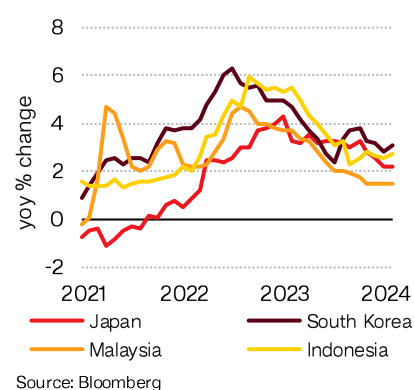
Japan and South Korea Exports



Selected ASEAN Economy Exports



CPI of Selected Asian Economies



## Economic Research

**Asian central banks kept their interest rates unchanged.** The Bank of Korea (BoK) left its base rate unchanged at 3.50% during its latest meeting in March. The BoK pointed to uncertainties surrounding inflation. In forming monetary decisions, they would also consider factors such as global geopolitical risks, exchange rate volatility, and other central banks' decisions. Bank Indonesia (BI) decided to hold its benchmark interest rate steady at 6.00%. BI stressed that they focus on strengthening the stability of the Indonesian rupiah and containing inflation within their target range. The Bank of Thailand held its policy rate at 2.50%. The central bank of the Philippines also kept its key benchmark interest rate stable at 6.50%.

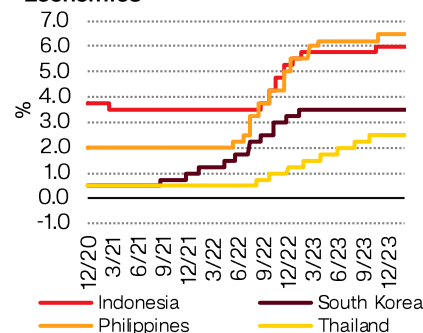
**Asian equity markets gained in February, while the currencies in the region generally remained relatively stable against the USD**

**Asian currencies were largely stable in February against the USD.** In February, the Philippine Peso, Indonesian Rupiah, and Korean Won appreciated modestly by a range of 0.2% to 0.4% month-on-month (MoM). Meanwhile, the Malaysian Ringgit, Singaporean Dollar, Taiwanese Dollar, and Thai Baht, depreciated modestly by a range of 0.2% to 1.1% MoM, while the Japanese Yen depreciated a bit more, down by 2.0% MoM.

**Asian equity markets generally posted gains in February.** Apart from Singapore, most major equity markets in Asia grew in February. Equity markets in Thailand, Indonesia, and Malaysia went up by a range of 0.5% to 2.5% MoM in February. Equity markets in Japan, South Korea, Taiwan, and the Philippines gained markedly by a range of 4.5% to 7.9% MoM, while Singapore's equity market was down by 0.4%.

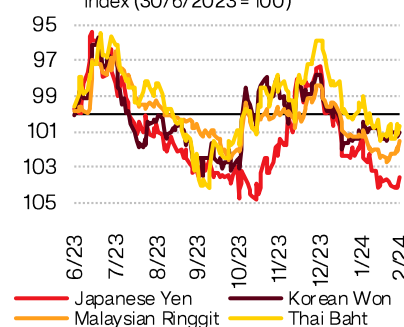
## March 2024

### Policy Rates in Selected Asian Economies



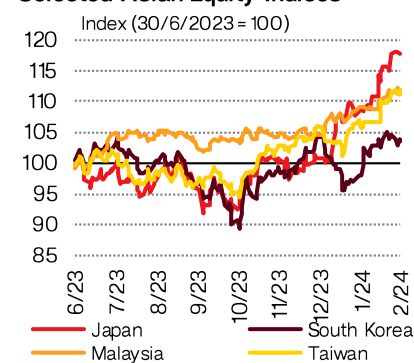
Source: Bloomberg

### Selected Asian Currencies against USD



Source: Bloomberg, data as of 29/2/2024

### Selected Asian Equity Indices



Source: Bloomberg, data as of 29/2/2024

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