BEA 東亞銀行

Economic Research

August 2024

Market Monitor – Asia

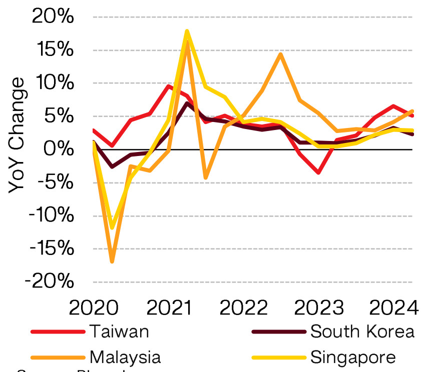
Early reporting Asian economies showed further growth in Q2

- Early reporting Asian economies, including South Korea, Taiwan, Singapore, and Malaysia, maintained steady growth paces in Q2.
- The Bank of Japan raised its policy rates again in July after a hike in March and announced plans to scale back bond purchases.
- Asian currencies rebounded sharply amid rising expectations for rate cuts by the US Federal Reserve.

Early reporting Asian economies sustained the growth trend in Q2

South Korea's and Taiwan's economies expanded further in Q2. South Korea's economic growth eased from 3.3% year-on-year (YoY) in Q1 to 2.3% in Q2, lower than market expectations. Gross fixed capital formation was the major drag, with its growth reversing from +0.9% YoY in Q1 to -0.7% in Q2, given a higher base of comparison last year and elevated borrowing costs. Meanwhile, exports remained the primary driver, with a growth of 8.7% YoY in Q2 (9.1% in Q1), driven by external demand for technology products. Private consumption edged down to 0.9% YoY in Q2 from 1.0% in Q1. Overall, South Korea's economy remains on track to reach its central bank's growth forecast of 2.5% for 2024.

GDP of Asian Economies

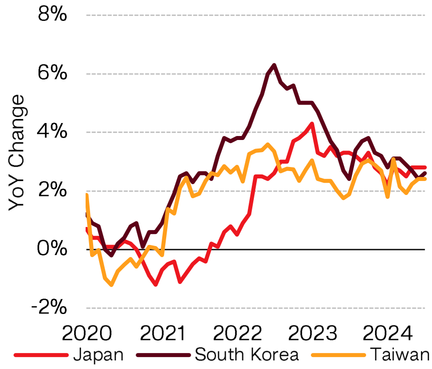


Source: Bloomberg

Taiwan's economy beat market consensus and expanded by 5.1% YoY in Q2, after a strong growth of 6.6% in Q1. Gross capital formation became the major growth driver, with a sharp rebound from -4.9% YoY in Q1 to +15.3% in Q2, thanks to supportive base effects. It contributed 3.87 percentage points (ppts) to headline YoY GDP growth in Q2. Net external demand became a slight drag (-0.39 ppts to headline growth) in Q2 as import growth outpaced that of exports. Private consumption slowed from 4.5% YoY in Q1 to 2.7% in Q2, while government spending picked up from 1.2% YoY in Q1 to 2.0% in Q2. While the impacts of a favourable base effect are set to dissipate in 2H, Taiwan's central bank continues to see a solid growth pace for the whole year, with an upgrade of 2024 GDP growth forecast to 3.77% in June from an earlier estimate of 3.22% made in March.

Growth momentum in Singapore and Malaysia held up. Singapore's economy extended steady growth at 2.9% YoY in Q2, after 3.0% growth in Q1. Both quarters in 2024 marked the strongest YoY growth since Q3 2022. Among industries, both the construction and manufacturing sectors recorded faster growth, from 4.1% YoY and -1.7% in Q1 to 4.3% and 0.5% in Q2, respectively. Meanwhile, the services sector cooled to 3.3% YoY in Q2 from 4.3% in Q1. Malaysia's economy accelerated from 4.2% YoY in Q1 to 5.8% in Q2. The construction sector continued to outperform, with its growth accelerating from 11.9% YoY in Q1 to 17.2% in Q2. It appears increasingly likely for Malaysia to reach its government's projection of 4-5% growth in 2024.

CPI of Asian Advanced Economies



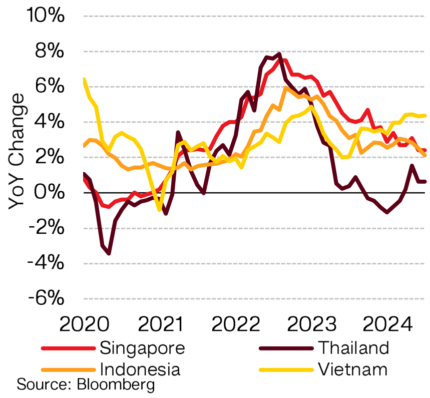
Source: Bloomberg

Surveys generally indicated mixed growth momentum for manufacturing sectors across Asia. Japan's manufacturing purchasing managers index (PMI) fell to contractionary territory at 49.1 in July, down from 50.0 in June. The report pointed to a weaker demand environment, reflected by declining new export orders and backlogs. However, the manufacturing PMI of South Korea, Taiwan and ASEAN stayed steadily in expansionary territory at 51.6, 51.4 and 52.9 in July, respectively. Overall, the manufacturing recovery in Asia will likely continue, but the slowdown in Japanese manufacturers could be the initial signs of softening demand for global machinery and automobiles.

Asian inflation pressure remained modest

Inflation in the advanced Asian economies picked up slightly. Japan's CPI inflation figures in June were slightly below market expectations, with its headline CPI inflation remaining unchanged at 2.8% YoY and its core CPI inflation (excluding food components) ticking up from 2.5% to 2.6% in June, due to the end of electricity and gas subsidies. The core-core CPI inflation (excluding food & energy) also rose faster, from 2.1% YoY to 2.2% in June. Upside risks for inflation in Japan remain a concern, given rising wage growth and higher import costs. South Korea's headline CPI inflation picked up to 2.6% YoY in July after a gradual slowdown from April to June. Faster price gains in July were driven by transport prices, which increased by 5.2% YoY in July from 3.9% in June. However, its core inflation stayed unchanged at 2.2% in July. Taiwan's headline CPI inflation edged higher from 2.2% YoY in May to 2.4% in June, due to higher food prices amid adverse weather and a lower base of comparison. That said, Taiwan's underlying inflationary pressure is still modest, with its core inflation staying flat at 1.8% YoY in June for three months in a row.

CPI of ASEAN Economies



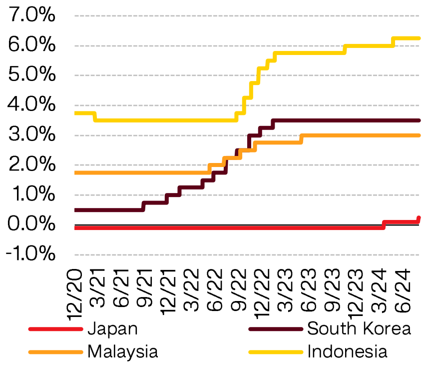
Source: Bloomberg

Inflation in ASEAN economies broadly eased further. Indonesia's headline inflation eased from 2.5% YoY in June to 2.1% in July, with a slight uptick in core inflation from 1.9% YoY to 2.0%. Thailand's headline CPI inflation retreated from 1.5% YoY in May to 0.6% in June, due to the faded impact of a lower base for electricity prices and lower fresh food prices from favourable weather conditions. Its core inflation stayed at a mild 0.4% YoY in June. Singapore's headline and core inflation slowed from 3.1% YoY in May to 2.4% in June (the lowest since August 2021) and from 3.1% to 2.9%, respectively. Compared to other ASEAN economies, Vietnam's inflation pressure was relatively sticky. Its headline inflation reached 4.4% YoY in July, having stayed above 4.0% since March 2024, while its core inflation remained unchanged at 2.6% in July.

The Bank of Japan pushed forward its policy normalisation

The Bank of Japan (BoJ) raised rates in July, while other Asian central banks stayed put. The BoJ raised its benchmark interest rate by 15 basis points (bps) to 0.25% in the July monetary policy meeting, following its rate hike action in March. Also, the BoJ unveiled a plan to gradually scale back its monthly purchases of Japanese government bonds (JGBs) to 2.9 trillion yen by Q1 2026, from about 5.7 trillion yen in July 2024. The BoJ's moves reflected its push to continue policy normalisation by withdrawing monetary accommodation. Going forward, depending on the developments in Japan's economic activity and financial system, further rate hikes by the BoJ remain on the table. In the meantime, other central banks, including Bank Indonesia, Bank Negara Malaysia and Bank of Korea, held their policy rates unchanged in July.

Policy Rates in Asian Economies

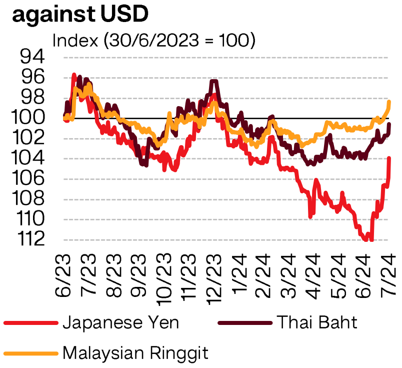


Source: Bloomberg

Mixed performance in Asian stock markets

Asian currencies gained amid easing expectations from the Fed. Recent economic dynamics of a softening labour market and easing inflation have led to stronger market expectations of rate cuts by the US Federal Reserve (Fed), driving the US dollar to retreat. The Thai baht, Singaporean dollar and Malaysian ringgit appreciated against the US dollar in a range of 1.5-3.0%. Meanwhile, market repricing of monetary policy divergence between the Fed and the BoJ as well as the anticipation of currency intervention by the Japanese government triggered a rapid surge of JPY against the USD, which appreciated 7.3% in July.

Exchange Rate of Asian Currencies against USD



Source: Bloomberg, data as of 31/7/2024

Asian stock markets showed mixed performance in July. Stock markets in Malaysia, the Philippines and Singapore rebounded by a range of 2.2% - 3.7% in July. Other equity markets like Taiwan, Japan and South Korea declined by around 1.0% to 3.6%, which was likely linked to the global correction of technology shares.

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