

*Market Monitor – Asia*

## Growth momentum likely extends into 2H



- Japan's economy rebounded in Q2 with a revival in domestic consumption and investment, while Indonesia's, Thailand's and the Philippines' economies maintained a steady recovery trend.
- The Bank of Japan is set to continue its monetary policy normalisation; the Bank of Korea is likely to cut rates as inflation cools.
- Asian currencies rebounded sharply amid rising expectations of rate cuts by the US Federal Reserve.

### Asian economic momentum generally took hold in Q2

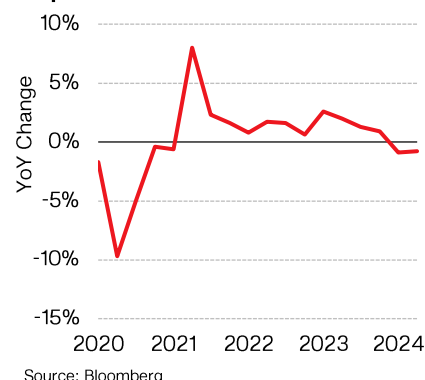
#### Japan's economy rebounded in Q2, driven by a turnaround in domestic demand.

Japan's gross domestic product (GDP) grew by 0.8% quarter-on-quarter (QoQ) in Q2, recovering from a contraction of 0.6% in Q1. Rising real wages supported a 1.0% QoQ increase in private consumption in Q2, ending a declining trend since Q2 2023. Gross fixed capital formation also rebounded by 1.7% QoQ in Q2, up from -0.9% in Q1. However, net exports remained a drag on the economy, with export growth (+1.4% QoQ) offset by faster import growth (+1.7% QoQ). On a year-on-year (YoY) basis, Japan's economy remained in contraction of 0.8% in Q2, after a 0.9% decline in Q1. Looking ahead, improved income prospects and a tax rebate for households are expected to reinforce domestic demand in Japan. In mid-August, the Prime Minister Kishida announced that he would not seek re-election in the party leadership race in September, raising the possibility of policy shifts under a new prime minister.

#### Indonesia's, Thailand's and the Philippines' economies held up in Q2.

Indonesia's economy grew by 5.1% YoY in Q2, maintaining a similar pace to Q1. Household consumption stayed steady with growth of 4.9% YoY in Q2 (same as Q1), reflecting resilient consumer demand despite rising borrowing costs. Gross fixed capital formation and exports accelerated from 3.8% YoY in Q1 to 4.4% in Q2 and from 1.4% to 8.3%, respectively, helping to offset a sharp deceleration in

**Japan's Economic Growth**



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government spending (from 19.9% to 1.4%) as post-election normalisation took hold. Thailand's economic growth climbed from 1.6% YoY in Q1 to 2.3% in Q2, bolstered by a rebound in government consumption (from -2.1% YoY in Q1 to 0.3% in Q2) and faster export growth (from 2.5% to 4.8%). However, domestic markets showed signs of softening. Private consumption slowed to 4.0% YoY in Q2 from 6.9% in Q1. Gross fixed capital formation also deteriorated further from -4.2% YoY to -6.2% in Q2, given weaker investment in construction, machinery & equipment. Elevated political uncertainty in Thailand, along with the recent change of prime minister, will remain a factor contributing to cautious spending and investment decisions among households and businesses. In the Philippines, domestic demand drove the economy to accelerate from 5.8% YoY in Q1 to 6.3% in Q2. Household consumption maintained a growth rate of 4.6% YoY in Q2, while government spending and gross fixed capital formation accelerated from 1.7% to 10.7% and from 2.1% to 9.5%, respectively, due to a lower base of comparison.

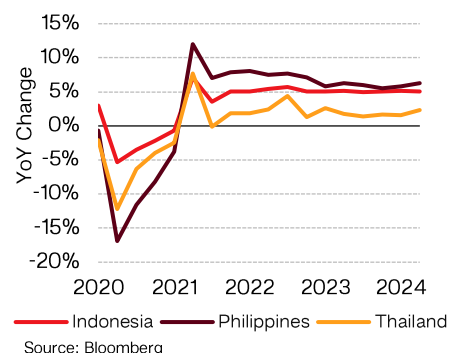
**Surveys indicated a positive outlook for Asia's manufacturing sector.** Japan's manufacturing sector recorded a mild contraction in August, with its manufacturing purchasing managers index (PMI) improving from 49.1 in July to 49.8 in August. Among its sub-indices, production resumed growth with a softer fall in new orders, indicating modest signs of stabilisation. South Korea's manufacturing PMI advanced to a 40-month high of 51.9 in August, up from 51.4 in July, driven by stronger rises in new orders and production. Taiwan's and ASEAN manufacturing PMI stayed at expansionary territory of 51.5 and 51.1 in August. Overall, the above PMI readings indicated a continued expansion of manufacturing activities in Asia.

## Underlying inflationary pressure remained in check

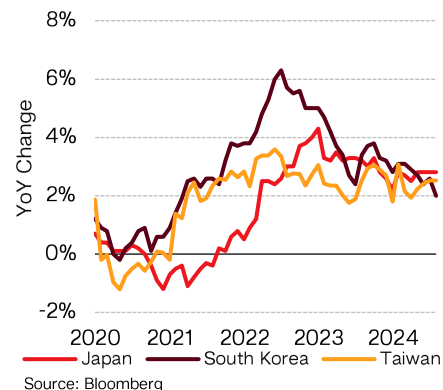
**Inflation in advanced Asian economies remained stable.** In July, Japan's headline CPI inflation stayed at 2.8% YoY for the third consecutive month, while its core CPI inflation (excluding food components) ticked up slightly from 2.6% in June to 2.7% in July as the government's utility subsidies were phased out. Meanwhile, the core-core CPI inflation (excluding food & energy) eased from 2.2% YoY in June to 1.9% in July. South Korea's CPI headline and core inflation slowed from 2.6% YoY in July to 2.0% in August and from 2.2% to 2.1%, respectively. The Ministry of Economy & Finance of South Korea expected the inflation rate to remain in the low 2% range, barring any additional shocks such as extreme weather events or global oil price volatility. Taiwan's headline CPI inflation gained pace from 2.4% YoY in June to 2.5% in July, due to typhoon-induced food price increases and higher entertainment and transportation costs during the summer travel peak season. In spite of that, Taiwan's core inflation was steady at 1.8% YoY in July, staying flat for the fourth straight month.

**ASEAN economies broadly remained on a disinflation trend.** Indonesia's headline and core inflation stayed flat at 2.1% YoY and 2.0% in August, respectively. In Thailand, headline inflation remained soft, edging up from 0.6% YoY in June to 0.8% in July due to rising global oil prices and increased food prices, with core inflation also rising from 0.4% to 0.5%. Singapore's headline inflation remained at 2.4% YoY in July, while core inflation softened further from 2.9% to 2.5%, largely due to a slowdown in services inflation, which slowed from 3.4% to 2.9%. Compared to other ASEAN economies, Vietnam and the Philippines experienced higher price pressures but remained on track to slow. Vietnam's headline and

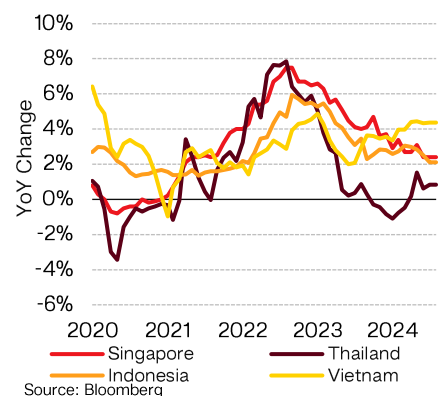
**Economic Growth of Asian Emerging Economies**



**CPI of Asian Advanced Economies**



**CPI of ASEAN Economies**



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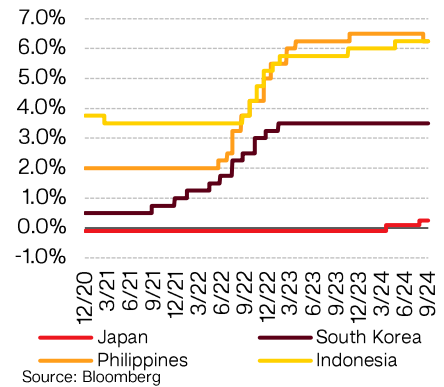
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core inflation rates were 4.4% YoY and 2.6% in July, while the Philippines' inflation and core inflation rates were 4.4% and 2.9%.

### Apart from the BOJ, other Asian central banks are set to cut rates

**The Bank of Korea signalled openness to cutting rates, while the Bank of Japan reaffirmed its path for further policy normalisation.** The Bank of Korea (BoK) held its policy interest rate at 3.5% in August and lowered its growth and inflation forecasts for 2024 to 2.4% and 2.5%, respectively. In the post-meeting statement, the BoK expressed greater confidence that inflation will converge to its policy target and signalled its intention to consider the timing of rate cuts. This boosted market expectations for an imminent rate cut. Despite market volatility in early August, Bank of Japan (BoJ) Governor Ueda reiterated the possibility of further rate hikes if economic growth and inflation align with the BoJ's forecasts. In the meantime, the Philippine central bank cut its policy rates by 25 basis points in August, while other central banks like Bank Indonesia and Bank of Thailand held their policy rates unchanged.

Policy Rates in Asian Economies



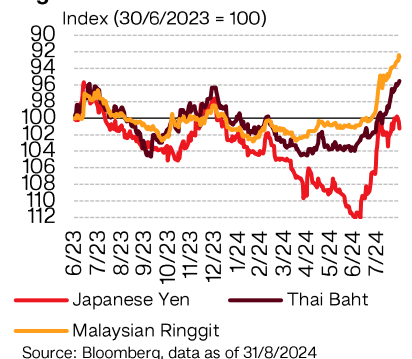
### Financial markets in Asian emerging economies outperformed

**Asian currencies appreciated notably.** A weaker-than-expected labour market report for July increased market expectations of rate cuts by the US Federal Reserve, leading to a softening US dollar. As a result, currencies in some Asian emerging economies like the Thai baht, Indonesian rupiah and Malaysian ringgit appreciated strongly against the US dollar by around 5.2% - 6.2%. Meanwhile, the JPY appreciated the US dollar by 2.6% in August.

### Stock markets in Asian emerging markets also performed strongly in August.

Equity markets in Indonesia, Malaysia and the Philippines recorded monthly gains ranging from 3.3% to 5.7% in August. However, equity markets in South Korea and Japan declined for the second consecutive month, down by 3.5% and 1.2% in August, respectively.

Exchange Rate of Asian Currencies against USD



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