

Market Monitor – Asia

Asian manufacturing sectors showed early signs of softening



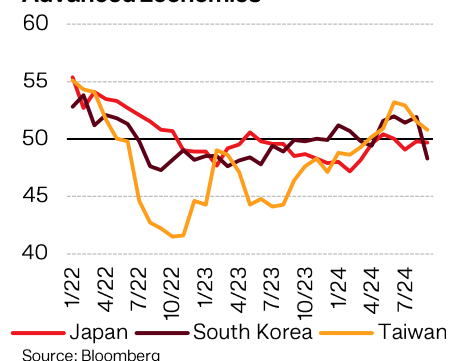
- Manufacturing sectors in advanced Asian economies generally weakened, while ASEAN manufacturing sectors were mixed.
- The Bank of Japan remained cautious regarding future rate hike decisions; the Bank Indonesia reduced its policy rate in September, with further rate cuts on the horizon.
- The appreciation momentum for Asian currencies persisted following the start of the US rate cut cycle.

Asian manufacturing sectors showed early signs of softening

Manufacturing sectors in advanced Asian economies generally weakened in September. Japan's manufacturing purchasing managers' index (PMI) remained in contractionary territory during July – September (49.1, 49.8 & 49.7), reflecting continuous weakness. Both production levels and new orders deteriorated further in September. South Korea's manufacturing sector also lost steam, with its PMI declining from 51.9 in August to 48.3 in September. The survey found that a stagnating domestic economy and weak confidence weighed on new orders. Export orders also fell into contractionary territory, signaling a softening export outlook. Meanwhile, Taiwan's manufacturing sector expanded at a slower pace, with its PMI decreasing from 51.5 in August to 50.8 in September amid rising geopolitical and macroeconomic uncertainties.

The ASEAN manufacturing sector showed mixed performance. Overall, the ASEAN manufacturing PMI slowed from 51.1 in August to 50.5 in September, dragged down by a renewed contraction in output levels. Specifically, Vietnam's manufacturing PMI declined sharply from 52.4 to 47.3 in September, entering contractionary territory. A typhoon with heavy rains and floods led to temporary disruptions in production lines and supply chains. Both Indonesia's and Malaysia's manufacturing PMIs remained in contractionary territory at 49.2 and 49.5 in September, respectively. Thailand's manufacturing PMI stayed in expansionary

Manufacturing PMI of Asian Advanced Economies



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territory at 50.4 in September but declined from 52.0 in August, indicating a slower growth pace. Conversely, Singapore's and the Philippines' manufacturing sectors demonstrated resilient growth momentum, with their PMIs increasing from 50.9 in August to 51.0 in September and from 51.2 to 53.7, respectively.

Inflation pressure remained benign

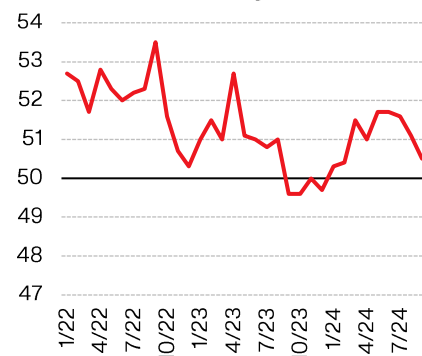
Japan's inflation ticked up, while inflation in South Korea and Taiwan eased. In August, Japan's headline CPI inflation increased to 3.0% year-on-year (YoY) after holding at 2.8% for 3 consecutive months, driven by a faster rise in food prices amid stockpiling due to earthquake warnings. Its core CPI inflation (excluding fresh food) edged up slightly from 2.7% YoY in July to 2.8% in August, while core-core CPI inflation (excluding food & energy) increased from 1.9% to 2.0%. Looking ahead, electricity price gains are expected to slow as subsidies for utilities are temporarily reintroduced from August to October. South Korea's headline CPI inflation cooled further from 2.0% YoY in August to 1.6% in September, falling below the central bank's policy target for the first time since March 2021. This slowdown was due to a decline in transport prices, which dropped by 1.2% YoY in September after a 1.8% increase in August. Its core inflation also eased from 2.1% YoY to 2.0%. Taiwan's inflation remained moderate, with headline and core CPI inflation slowing from 2.5% YoY in July to 2.4% in August and from 1.9% to 1.8%, respectively.

ASEAN economies sustained the disinflation trend. Indonesia's headline inflation edged lower from 2.1% YoY in August to 1.8% in September, while core inflation ticked up from 2.0% to 2.1%. Thailand's headline inflation remained subdued, down from 0.8% YoY in July to 0.4% in August, but its core inflation picked up for the second consecutive month from 0.5% to 0.6%. Singapore's headline inflation slowed further from 2.4% YoY in July to 2.2% in August, but its core inflation slightly rebounded from 2.5% to 2.7%, as services inflation advanced from 2.9% to 3.3% due to rising holiday expenses and smaller declines in airfares. Vietnam's inflation retreated to 3.5% YoY in August after staying at around 4.4% since April. Its core inflation also eased from 2.6% YoY in July to 2.5% in August.

Most Asian central banks began rate cuts except the BoJ

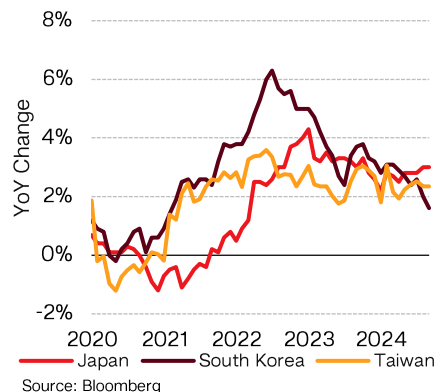
The Bank of Japan (BoJ) remained cautious regarding further rate hike decisions, while the Bank Indonesia (BI) began its rate cut cycle. The BoJ held its policy rate at 0.25% at the September meeting. The BoJ expressed confidence that Japan's economy would continue growing above its potential rate, supported by an intensifying virtuous cycle from income to spending. However, it warned of high uncertainties surrounding economic activity. And upside risks to prices have eased due to the yen's appreciation and declining oil prices. On balance, the BoJ maintained a cautious stance, closely monitoring the developments of overseas economies (particularly the US) and global financial markets. Meanwhile, the Bank Indonesia unexpectedly lowered its policy rate by 25 basis points (bps) to 6.0% in September 2024, marking the first rate cut since February 2021. Going forward, the Bank Indonesia will look for opportunities to cut rates further while ensuring that its monetary objectives, such as inflation, currency stability and economic growth, are achieved. Additionally, the Bank Negara Malaysia and the central bank of Taiwan held their policy rates unchanged in September.

ASEAN Manufacturing PMI



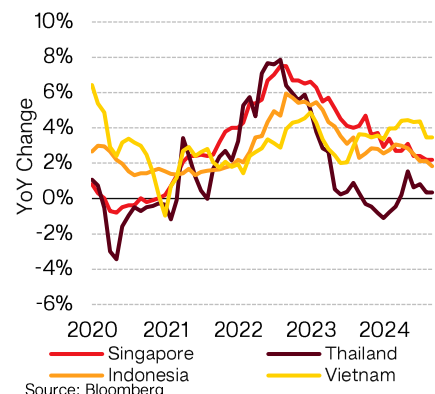
Source: Bloomberg

CPI of Asian Advanced Economies



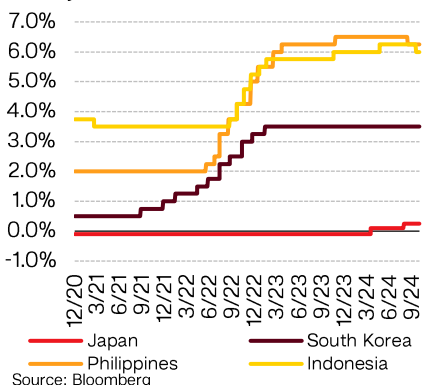
Source: Bloomberg

CPI of ASEAN Economies



Source: Bloomberg

Policy Rates in Asian Economies



Source: Bloomberg

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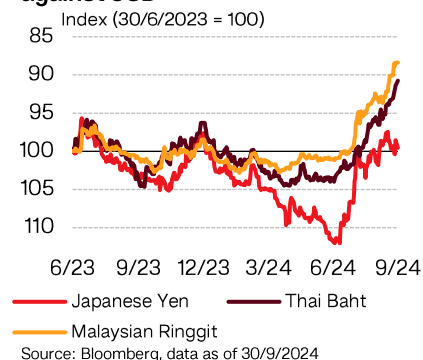
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Asian currencies continued to appreciate

Asian currencies extended their appreciation trends. In mid-September, the US Federal Reserve initiated its rate cut cycle with a jumbo rate cut of 50 bps. This fuelled market expectations for a faster pace of rate reduction, leading to a softer US dollar. As a result, Asian currencies like the Japanese yen, Korean won, Thai baht and Malaysian ringgit appreciated against the US dollar by around 1.8% to 5.2% in September.

Stock markets in Asian emerging economies continued to outperform in September. Equity markets in Thailand, Singapore and the Philippines recorded solid monthly gains ranging from 4.1% to 6.6% in September. Meanwhile, equity markets in South Korea and Japan experienced corrections for the third consecutive month, declining by 3.0% and 1.9% in September, respectively.

Exchange Rate of Asian Currencies against USD



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