

*Market Monitor – Asia*
**Solid domestic activities supported growth in Asia**

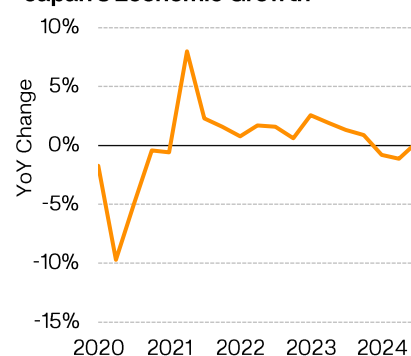

- Japan posted modest growth in Q3, led by improved private consumption, while some ASEAN economies sustained robust growth.
- The next rate hike by the Bank of Japan is on the horizon, while the Bank of Korea announced another rate cut of 25 basis points in November.
- Most Asian currencies remained under pressure, with increased expectations for a slower pace of US rate cuts and sustained USD strength.

**Solid domestic activities supported growth in Q3**
**Japan's economy posted modest growth led by improved private consumption.**

GDP expanded by 0.2% quarter-on-quarter (QoQ) in Q3, following a 0.5% rebound in Q2. Private consumption accelerated from growth of 0.7% QoQ in Q2 to 0.9% in Q3, supported by rising real wages and tax cuts. However, both investment and net exports weighed on economic growth in Q3. The unexpected rate hike in July by the Bank of Japan (BoJ) impacted business investment appetite, leading to a contraction in gross fixed capital formation by 0.3% QoQ in Q3 after solid growth of 1.6% in Q2. Softening external demand resulted in slower export growth relative to imports. On a year-on-year (YoY) basis, Japan's economy returned to a growth of 0.3% in Q3 after contracting in 1H 2024 due to fading high base effects. Going forward, Japan's economy is likely to sustain its recovery, underpinned by an intensifying virtuous cycle from income to spending.

**Solid domestic activities supported robust growth in Asian emerging economies.**

Indonesia's economy maintained solid growth at 5.0% YoY in Q3. Private consumption grew steadily by 4.9% YoY for the second consecutive quarter. A lower base effect boosted government expenditure growth from 1.4% YoY in Q2 to 4.6% in Q3, while investment in the new capital city and related infrastructure projects bolstered gross capital formation, accelerating from growth of 4.4% YoY in Q2 to 5.2% in Q3. In the Philippines, economic growth moderated from 6.4% YoY in Q2 to 5.2% in Q3 due to a higher base of comparison

**Japan's Economic Growth**


Source: Bloomberg

## Economic Research

December 2024

and storm disruptions, though it remained one of the fastest-growing ASEAN economies. Household consumption and investment stayed resilient in Q3, rising from 4.7% YoY in Q2 to 5.1% in Q3 and from 11.6% to 13.1%, respectively. They offset slower government spending (from 11.9% YoY in Q2 to 5.0% in Q3) and weaker export performance (from +4.2% to -1.0%). Thailand's GDP growth accelerated from 2.2% YoY in Q2 to 3.0% in Q3, driven by stronger government spending (up from 0.3% YoY in Q2 to 6.3% in Q3) and a sharp rebound in investment (from -6.1% YoY to 5.2%). Thailand's economy is expected to gather momentum, potentially reaching around 2.6% growth for the whole year of 2024. Looking ahead, consumption and investment in emerging Asian economies are likely to benefit from a more accommodative monetary environment despite rising external uncertainties.

### Except for Japan, Asian manufacturing sectors generally regained momentum.

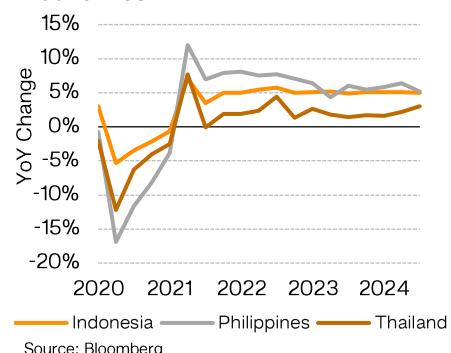
In November, Japan's manufacturing purchasing managers' index (PMI) remained in contraction territory, slipping to 49.0 from 49.2 in October, due to weak demand for automobiles and semiconductors. Conversely, manufacturing PMIs in other Asian economies picked up in November after moderating between July and October. South Korea's manufacturing PMI returned to expansion territory, rising to 50.6 in November from 48.3 in October, as demand for newly launched products boosted new orders. Stronger external demand fueled Taiwan's manufacturing sector, with its PMI rising from 50.2 in October to 51.5 in November. Meanwhile, the ASEAN manufacturing PMI edged up from 50.5 in October to 50.8 in November. These figures suggest that Asian growth is likely to be sustained, given the boost from recovering manufacturing activity.

### A benign inflation environment in Asia largely persisted

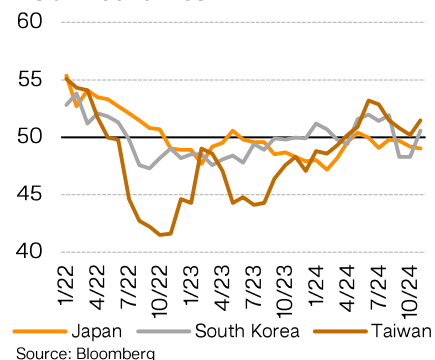
**Japan's inflation held above the BoJ target, while Taiwan's and South Korea's inflation remained moderate.** Japan's headline and core inflation (excluding fresh food) both slowed from 2.5% YoY and 2.4% in September to 2.3% in October. However, its core-core CPI inflation (excluding fresh food & energy) continued its uptrend since July, reaching 2.3% YoY in October, reflecting the pass-through of rising labour costs and stable domestic demand. South Korea's headline and core CPI inflation edged up from 1.3% YoY and 1.8% in October to 1.5% and 1.9% in November, remaining below the 2% policy target. The decline in transport prices narrowed from 4.0% YoY to 1.1%, due to a smaller decrease in petroleum prices. In Taiwan, headline and core CPI inflation eased further from 1.8% YoY for both in September to 1.7% and 1.6% in October, respectively.

**Inflation in ASEAN economies remained modest.** Indonesia's headline inflation declined from 1.7% YoY in October to 1.6% in November, while core inflation inched up from 2.2% to 2.3%. Thailand's headline inflation picked up from 0.6% YoY in September to 0.8% in October, with core inflation held steady at 0.8%. Singapore's inflation moderated. Slower housing inflation and a steeper decline in private transport costs led to a notable deceleration of headline inflation from 2.0% YoY in September to 1.4% in October. Moderating inflation in services and electricity & gas items contributed to slower core inflation, down from 2.8% to 2.1%. The Philippines saw headline inflation ticking up from 1.9% YoY in September to 2.3% in October due to faster price gains in food and non-alcoholic beverages, while its core inflation remained steady at 2.4%. Meanwhile, Vietnam's headline and core inflation edged up to 2.9% YoY and 2.7% in October, driven by a slow

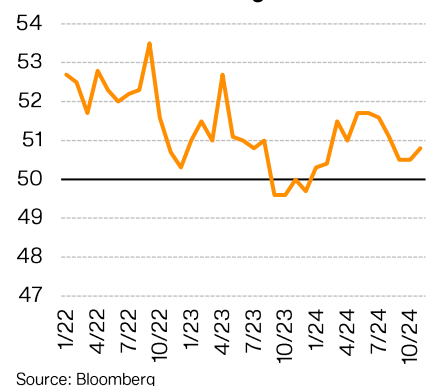
### Economic Growth of Asian Emerging Economies



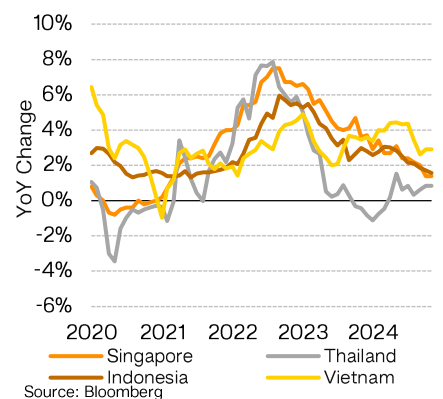
### Manufacturing PMI of Advanced Asian Economies



### ASEAN Manufacturing PMI



### CPI of ASEAN Economies



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production recovery after storm and flood disruptions.

### The BoJ is set to hike rates again soon while other Asian central banks maintained an easing stance

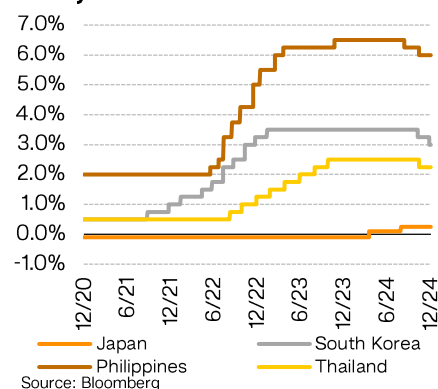
**A rate hike by the BoJ appears imminent.** The BoJ Governor signalled in late November that a further rate hike is approaching, as the economy is growing in line with the BoJ's expected path. At present, futures markets widely anticipated that the BoJ would make another 25 basis point (bps) rate hike, possibly as early as December 2024. Meanwhile, the Bank of Korea (BoK) announced a back-to-back rate cut of 25 bps to 3.0% in November. Expecting inflation to stabilise, the BoK cited rising trade uncertainties leading to lower growth forecasts of 2.2% for 2024 and 1.9% for 2025, down from previous estimates of 2.4% and 2.1%, respectively. This supports a gradual easing outlook to address downward pressures on the economy. Both Bank Indonesia and Bank Negara Malaysia kept their policy rates unchanged in November. Going forward, most Asian central banks will continue to adopt a more accommodative monetary stance unless their currencies face sustained depreciation pressure amid rising external uncertainties.

### Broad-based US dollar strength pressured Asian currencies

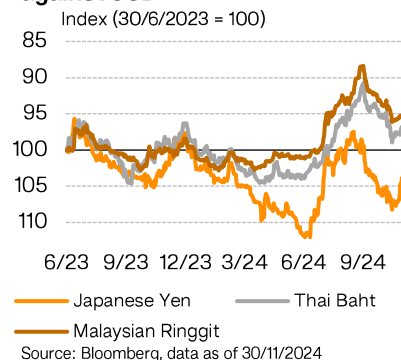
**Most Asian currencies continued to depreciate against the US dollar.** After the US election results became clear, rising expectations of higher inflation linked to potential US fiscal and trade policies have increased the likelihood of a slower pace of rate cuts by the Federal Reserve and sustained the US dollar's strength, exerting pressure on Asian currencies. The Korean won, Thai baht and Malaysian ringgit each depreciated against the US dollar by around 1.4% to 1.6% in November. In contrast, a growing possibility of a BoJ rate hike supported the Japanese yen, which appreciated against the US dollar by 1.5% in November. In early December, South Korea's political uncertainty escalated rapidly after South Korea's President Yoon Suk Yeol unexpectedly declared martial law, which was lifted by the parliament just 6 hours later. This induced significant volatility in its equity market and currency. The turmoil could lead to persistent political instability ahead.

**Stock markets in Asia showed mixed performance in November.** Equity markets in Japan, South Korea and Taiwan declined by 2.2%, 3.9% and 2.4%, respectively, in November, as expectations for a slower pace of rate cutting and uncertainties on global trade intensified the risk-off mood. However, Singapore's equity market took the lead among its peers, rising by 5.1% in November, mostly driven by the gains of its financial stocks following the release of their earnings results.

Policy Rates in Asian Economies



Exchange Rate of Asian Currencies against USD



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