

*Market Monitor – Asia***Asia negotiates as US tariff deadline nears**

- No deals have been reached with Asian economies. The US is reportedly pushing for the best offers as the tariff deadline approaches.
- Some front-loading demand may have supported Asian economies, while domestic conditions largely held up.
- The Bank of Korea and Bank Indonesia lowered rates again in May amidst rising uncertainties and contained inflationary pressure.

Asia is still in negotiation mode

The US is reportedly pushing for the best offers as the tariff deadline approaches. Most Asian economies adopted a negotiation rather than a retaliatory approach in resolving trade disputes with the US. Due to this, Japan, South Korea, Taiwan, Indonesia, Thailand, Singapore, Malaysia, the Philippines and Vietnam have met with their US counterparts over the past few months, though no deal has yet been concluded. Specifically, Japan reportedly proposed greater collaborations in rare earths, semiconductors and shipbuilding. South Korea and Taiwan discussed stronger cooperation in advanced manufacturing. Indonesia vowed to offer preferential tariffs to US products and to increase US energy imports. In early June, the US reportedly stepped up its demands across several key areas, including reductions in tariffs, commitments to purchase more American goods, and plans to lower non-tariff barriers. Given the US's stronger bargaining leverage over most Asian economies, it is believed that these countries will actively address US concerns on economic and trade-related issues in hopes of securing the removal of tariffs.

While the situation remains fluid and contingent on the willingness of the US to finalise agreements, the possibility of a last-minute deal or even an extension of the tariff suspension cannot be ruled out and warrants close monitoring. Additionally, it is crucial to observe whether any trade agreements with Asian economies include measures to limit reliance on Chinese products or set tariff

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levels significantly lower than those imposed on China. Any such developments could have far-reaching repercussions for the Asian supply chain in the future.

Asian economies responded positively to the 90-day tariff suspension. Double-digit year-on-year (YoY) export increases were seen across several economies in April 2025, primarily driven by the front-loading of shipments. Taiwan's exports jumped from 18.5% to 29.9%, Singapore's from 5.4% to 12.4%, Vietnam's from 14.5% to 19.7%, and Malaysia's from 6.8% to 16.4%. Meanwhile, manufacturing Purchasing Managers' Indices (PMIs) showed signs of stabilisation in May. Advanced economies like Japan, South Korea, and Taiwan saw a slower pace of contraction, with their PMIs improving from 48.7, 47.5, and 47.8 in April to 49.4, 47.7, and 48.6, respectively, in May. The ASEAN manufacturing PMI also rose from 48.7 to 49.2. Despite this near-term stabilisation, PMI surveys continue to highlight softer demand conditions, which indicate potential vulnerabilities for Asian manufacturing sectors.

Mixed growth signals across Asia in Q1

Japan's economy experienced a slight contraction in Q1 2025, primarily due to a sharp drop in services exports. Japan's GDP shrank by 0.2% quarter-on-quarter (QoQ), following a 0.6% expansion in Q4 2024. The primary drag was a 0.6% QoQ contraction in exports of goods and services. The contraction reflected a large 3.4% QoQ drop in volatile services exports, while goods exports were up 0.4%. The domestic details were upbeat. Gross fixed capital formation saw a robust 1.0% QoQ growth, and private consumption grew 0.0%. It is believed that the domestic resilience will continue to support the Bank of Japan's policy normalisation, though its pace might hinge on the extent of trade uncertainties.

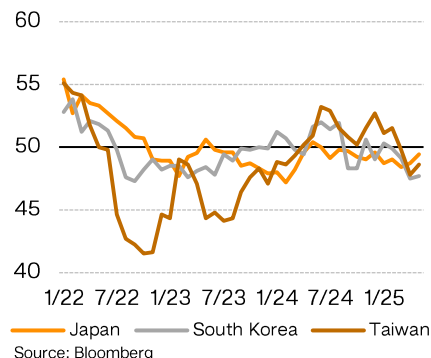
Indonesia's and Thailand's growth moderated in Q1, while the Philippine economy remained resilient. Indonesia's economy grew by 4.9% YoY in Q1 2025, a slight decrease from 5.0% in Q4 2024. This moderation can be attributed to a slowdown in capital investment growth and a decline in government expenditure, distorted by a higher base of comparison due to last year's general election. Similarly, Thailand's economic growth slowed from 3.3% YoY to 3.1% in Q1. While domestic consumption and investment growth moderated, front-loaded demand boosted exports. In contrast, the Philippines saw its economic growth edge up from 5.3% YoY in Q4 2024 to 5.4% in Q1 2025, driven primarily by accelerating growth in household and government consumption.

Some Asian central banks responded to trade headwinds

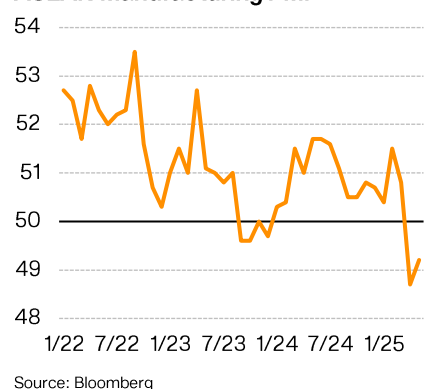
Japan's inflation pressure remained elevated in April. The nation's headline inflation held steady at 3.6% YoY. Its core-core inflation (excluding fresh food and energy) edged up from 2.9% YoY in March to 3.0% in April. This persistent inflationary trend was largely due to rising labour costs, as shown by the acceleration in price gains for cultural and recreation services, which rose from 1.8% YoY to 2.5% in April. In contrast, other Asian economies reported more modest inflation figures. The latest data showed South Korea's and Taiwan's inflation rates remaining around 2.0%, while inflation in most ASEAN economies slowed to the range of 1.0%-1.5%.

June 2025

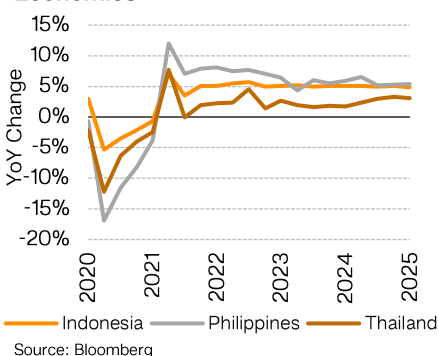
Manufacturing PMI of Advanced Asian Economies



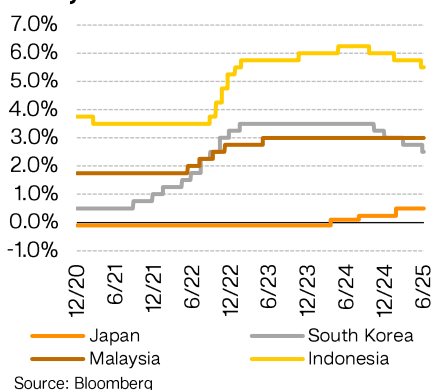
ASEAN Manufacturing PMI



Economic Growth of Asian Emerging Economies



Policy Rates in Asian Economies



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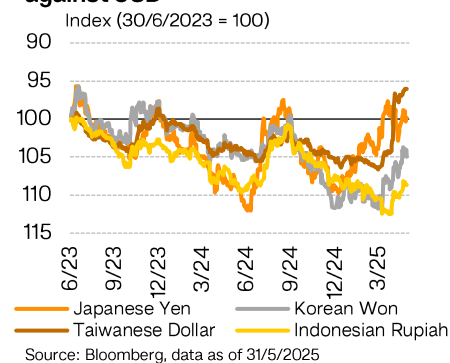
The Bank of Korea (BoK) and Bank Indonesia (BI) lowered their policy rates by 25 basis points in May. The BoK cut its rate to 2.5% and significantly downgraded its 2025 GDP growth forecast to 0.8%, citing the negative impact of US tariffs and trade uncertainties. Similarly, BI reduced its rate to 5.5% to support economic growth against tariff-related challenges. Meanwhile, Bank Negara Malaysia maintained its policy rate.

Asian markets rose, with most currencies strengthening in May

Most Asian currencies strengthened against the US dollar in May. Market concerns over the expanding US deficit and ongoing trade policy uncertainties weighed on confidence in US assets. This encouraged portfolio diversification into Asian currencies, leading to currency appreciation across the region. Notable gains were seen in the Taiwanese dollar (7.0%), Korean won (3.0%), and Indonesian rupiah (1.9%) against the US dollar. In contrast, the Japanese yen experienced a slight depreciation of 0.7% in May. In late May, Japan's Ministry of Finance was reportedly considering reducing the issuance of ultra-long bonds, which led to falling yields for Japanese government bonds.

Asian stock markets continued their upward trend. Equity markets in Japan, South Korea, Taiwan, and Indonesia all recorded strong rises of 5.3%, 5.5%, 5.5%, and 6.0%, respectively, in May. This positive market sentiment was primarily bolstered by the China-US trade truce observed in early May and ongoing trade negotiations between the US and various Asian economies.

Exchange Rate of Asian Currencies against USD



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