

Market Monitor – Asia

Vietnam struck a trade deal with the US



- Vietnam reached a trade deal with the US, while the US's negotiations with other Asian economies were mixed.
- Most Asian economies sustained export growth, but PMIs reflected ongoing external pressure on the manufacturing sector in the region.
- The Bank of Japan kept rates unchanged in June, while the Bangko Sentral ng Pilipinas (BSP) cut rates by 25 basis points.

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Vietnam is the first Asian economy to reach a trade deal with the US. Under the new agreement, the US will impose a 20% tariff on Vietnam's imports, compared to a 46% reciprocal tariff announced in April. In addition, a 40% tariff will be applied on goods transshipped from third-party countries to the US through Vietnam. In response, Vietnam is said to remove tariffs on US products. While it remains uncertain how multinational companies will react to the revised tariff rates, the deal brings clarity to Vietnam's industry and eases concerns over a rapid increase in import costs for consumer products in the US.

The US's negotiations with other Asian economies were mixed. Japan's trade negotiations with the US have reportedly stalled. At one point, US President Trump threatened to impose tariffs of up to 35% on Japanese imports, while Japan insisted on a reduction in tariffs on autos. Meanwhile, South Korea's trade officials were said to request an extension of the tariff pause, allowing more time for further trade talks. Besides, Thailand revealed that a proposal was submitted, aiming to reduce its USD 46 billion trade surplus with the US by 70% within five years, marking a last-ditch effort to avert a 36% reciprocal tariff from the US.

The US announced an extension of the reciprocal tariff pause and new tariff rates. On 7th July, US President Trump signed an executive order to extend the reciprocal tariff truce until 1st August, which was initially set for 9th July.

Economic Research

July 2025

Meanwhile, the US revised the reciprocal tariff rates on 14 economies. Specifically, most Asian economies would face lower tariffs compared to the rates announced on 2nd April, including South Korea (25%), Indonesia (32%), Thailand (36%), Myanmar (40%), Cambodia (36%) and Laos (40%), except for slightly higher rates for Japan (25%) and Malaysia (25%). Looking ahead, more Asian economies are racing to secure trade agreements or lobby for extra time for further negotiations.

Most Asian economies sustained export growth, but challenges persisted. Due to the front-loading activities on fears of potential tariff escalation, Asian export performance is yet to show meaningful impacts. Some of them even posted double-digit year-on-year (YoY) export growth, namely: Taiwan (38.6% in May), Thailand (18.4% in May), and Vietnam (16.4% in June). However, the outlook for the Asian manufacturing sector remained bleak. Notably, the manufacturing purchasing managers' indices (PMIs) in South Korea, Taiwan and ASEAN stayed in contractionary territory at 48.7, 47.2 and 48.6 in June, respectively. While Japan's manufacturing PMI returned to expansionary territory at 50.1 in June, a significant fall in the new export orders sub-index put the sustainability of its recovery into doubt.

Vietnam's economic growth accelerated in Q2

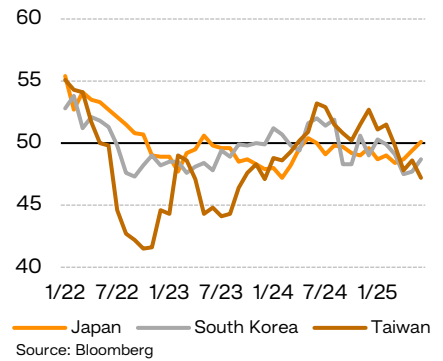
Vietnam's economy staged solid growth in 1H 2025. Vietnam's economic growth accelerated to 8.0% YoY in Q2 2025 from 7.1% YoY in Q1, the fastest pace since Q3 2022. Thus, overall growth for 1H was 7.5% YoY, driven by strong growth in external and domestic demand. In 1H 2025, exports surged by 14.2% YoY, whereas final consumption and capital accumulation both grew by 8.0% YoY. The National Statistics Office of Vietnam highlighted that the solid 1H performance positioned the economy favourably to achieve the 2025 growth target of 8.0%, despite ongoing global and regional economic uncertainties.

Japan's underlying inflation ticked up further in May. Japan's headline inflation stood at elevated levels, up by 3.5% YoY in May, driven by surging food prices. Furthermore, Japan's core-core inflation (excluding fresh food and energy) advanced from 3.0% YoY in April to 3.3% in May, as previous increases in labour costs continued to pass through to final prices. Meanwhile, South Korea's and Taiwan's inflation remained in check, with their latest headline readings at 2.2% YoY in June and 1.6% in May, respectively. Inflation in most ASEAN economies was below 2.0%. Thailand has been a notable exception in recent months, with its headline inflation rate in negative territory for three straight months at -0.3% YoY in June. The decline was probably linked to lower energy prices and greater agricultural production.

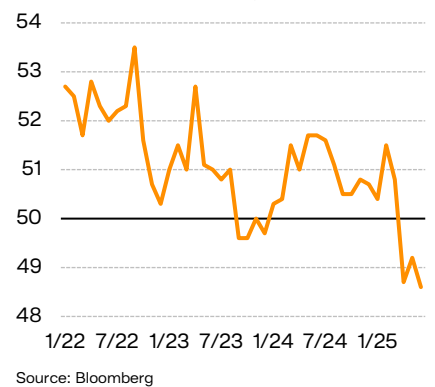
Most Asian central banks stayed put while the BSP cut rates

In June, the Bank of Japan (BoJ) held policy rates unchanged and the BSP cut rates. The BoJ maintained its policy rate at 0.5% but announced a plan to slow its pace of Japanese government bond (JGB) purchases. Specifically, total JGB purchases each month will be reduced from about JPY 4.1 trillion in Q2 2025 to around JPY 2.1 trillion in Q1 2027. The BoJ expected the growth outlook to moderate due to trade policy uncertainty. In the meantime, the futures market

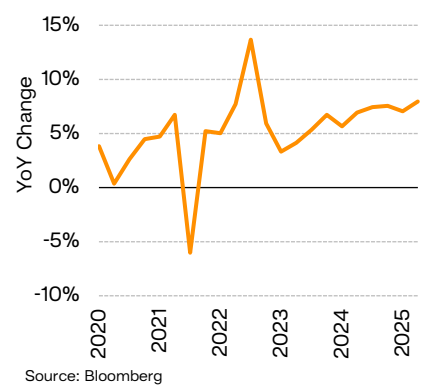
Manufacturing PMI of Advanced Asian Economies



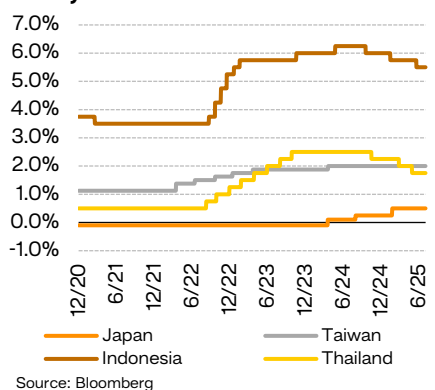
ASEAN Manufacturing PMI



Vietnam's Economic Growth



Policy Rates in Asian Economies



priced in that there was around a 50% chance for the BoJ to hike rates in 2H 2025. Meanwhile, the BSP cut rates by 25 basis points in June. The BSP cited downside risks to the growth outlook, stemming from uncertainty over US trade policy and conflicts in the Middle East, as key drivers for the decision to ease monetary policies. Other central banks in the region, including Bank Indonesia, Bank of Thailand and Taiwan's central bank, left their policy rate unchanged in June.

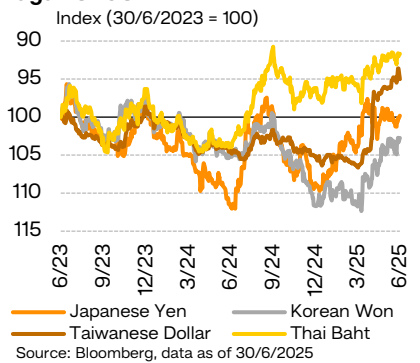
Asian financial markets sustained positive momentum

Asian currencies generally extended their rally against the US dollar in June.

Rising expectations for further rate cuts by the US Federal Reserve, along with heightened worries over the US's fiscal health, led to the further weakening of the US dollar. In the month of June, the Korean won, Taiwanese dollar, Singapore dollar and Thai baht appreciated by 2.1%, 1.1%, 1.5% and 1.0% against the US dollar, respectively.

Most Asian stock markets recorded gains in June. Market sentiment remained positive after China-US trade talks in early June, as risks of further escalation of US protectionist measures abated. Japan's, Taiwan's and Singapore's equity markets increased by 6.6%, 4.3% and 1.8% in June, respectively. Notably, South Korea's equity market surged by 13.9% in June, which was likely linked to a stabilising domestic political environment after Lee Jae-myung became the new president.

Exchange Rate of Asian Currencies against USD



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