

Market Monitor – Asia
Asia's trade outlook remains complicated

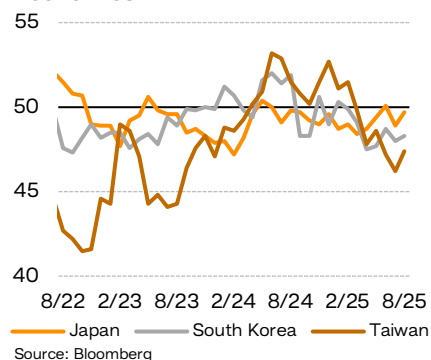

- Asian economies advanced trade talks with the US, while manufacturing conditions remained challenging.
- GDP growth in Japan, Indonesia and the Philippines edged up in Q2, but moderated in Thailand.
- Bank of Korea stayed put in August, while central banks in Indonesia, Thailand and the Philippines cut rates to support growth.

Trade tensions largely eased but uncertainty persists

Asian economies continued with trade talks to reshape US ties. In early September, US President Trump signed an executive order removing the overlapping tariffs and confirmed a 15% tariff on Japanese imports. The order also clarified that Japanese automobiles will be subject to a 15% tariff, down from the previous rate of 27.5%. Following the summit between US President Donald Trump and South Korea's President Lee Jae Myung in early August, South Korean companies pledged USD 150 billion in investment into the US, on top of a USD 350bn investment funds outlined in July. Malaysia revealed that its firms will procure USD 150 billion of US equipment over five years in areas from aerospace, semiconductor to data centre, as part of tariff discussions.

Asia's manufacturing conditions remains challenging. Asia's export performance was varied. South Korea's exports held up, increasing by 5.8% year-on-year (YoY) in July and 1.3% in August, with the slowdown in August mainly due to fewer working days. Meanwhile, rapid export growth was recorded in Taiwan (+42% YoY), Vietnam (+16.0%), Indonesia (+11.3%) and Thailand (+11.0%) in July. However, some other economies registered weaker export growth such as Japan (-2.6%) and Singapore (-4.6%) in July. In addition, August survey data showed some signs of stabilisation but has yet to indicate a notable expansion. ASEAN manufacturing PMI increased from 50.1 in July to 51.0 in August, but the readings for Japan, South Korea and Taiwan were still in contraction at 49.7, 48.3 and 47.4,

Manufacturing PMI of Select Asian Economies



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respectively. Overall, these readings underscore ongoing uncertainty and question the durability of Asian export strength.

Most Asian economies reported steady growth in Q2

Japan's economy gathered pace in Q2. Japan's GDP growth picked up to 0.5% quarter-on-quarter (QoQ) in Q2, better than expectations and higher than 0.1% in Q1. The uptick was driven by net exports, as growth in goods exports accelerated to 1.9% QoQ in Q2 from 0.7% QoQ in Q1, and exports of services rebounded to 2.1% QoQ growth in Q2 after a 3.2% drop in Q1. Domestic demand remained steady, with both private consumption and gross capital formation growing by 0.4% QoQ in Q2. Overall, Japan's economy is expected to recover gradually, from a low base last year.

Indonesia and the Philippines posted faster GDP growth in Q2, while Thailand's economy moderated. Indonesia's GDP growth rose from 4.9% YoY in Q1 to 5.1% in Q2, bolstered by capital investment and exports. The Philippine economy grew by 5.5% YoY in Q2, up from 5.4% in Q1, underpinned by solid household consumption growth and a solid labour market. Nonetheless, Thailand's GDP growth moderated to 2.8% YoY in Q2 from 3.2% in Q1, due to slower growth in consumption and government spending.

Political risks have risen in Japan, Indonesia and Thailand. In early September, Japanese Prime Minister Shigeru Ishiba resigned after taking office in less than a year. The ruling Liberal Democratic Party is expected to hold a leadership election in early October. In late August, nationwide protests were reported in Indonesia, following controversy over lawmakers' housing allowances, heightening concerns about policy continuity and consumer confidence. In Thailand, Prime Minister Paetongtarn Shinawatra was dismissed by the Constitutional Court for ethical misconduct. Anutin Charnvirakul was subsequently appointed as the new Prime Minister. Political uncertainty in Thailand would weaken private investment, putting pressure on growth momentum. Increased political instability coincided with selloffs in Indonesia's and Thailand's currencies and equities toward the end of August, reflecting a surge in risk premium and potential capital flows. Similarly, the Japanese yen weakened following news of Ishiba's resignation. Looking ahead, elevated political uncertainty may weigh on consumer sentiment and delay private investment decisions in these economies.

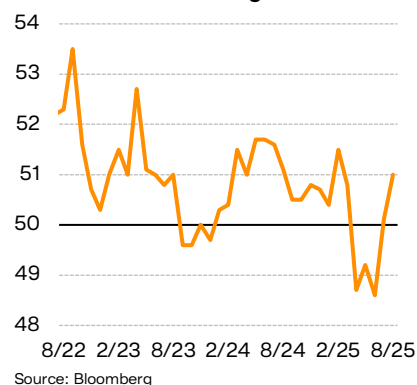
BoJ's hike odds rose, while other Asian central banks kept easing

Rising inflation in Japan fuelled rate hike expectations. Japan's headline inflation slowed to 3.1% YoY in July from 3.3% in June, but its core-core inflation (excluding fresh food and energy) stayed elevated at 3.4% in July. This showcased sticky underlying inflation pressure, which would support additional policy normalization by the Bank of Japan (BoJ) in the coming months.

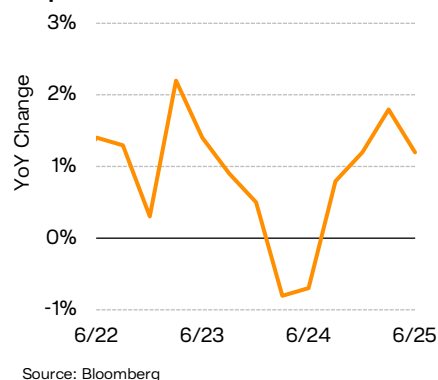
Other Asian central banks maintained an easing bias. In August, the Bank of Korea (BoK) maintained its policy rate unchanged at 2.5%, citing concerns over financial stability due to rising housing prices and high household debt levels. In spite of the decision to hold, the BoK reiterated that further rate cuts would be

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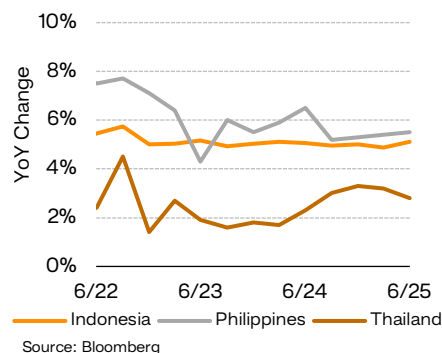
ASEAN Manufacturing PMI



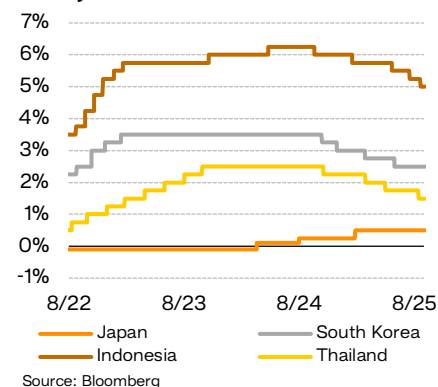
Japan's Economic Growth



Economic Growth of Asian Emerging Economies



Policy Rates in Asian Economies



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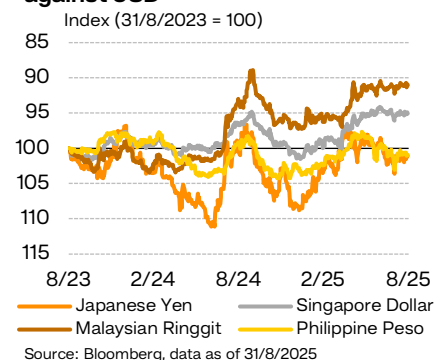
conducted if the growth outlook deteriorates. In the meantime, the Bank Indonesia, Bank of Thailand and Bangko Sentral ng Pilipinas each cut their policy rates by 25 basis points to 5.0%, 1.5% and 5.0%, respectively. These rate cut decisions were aimed at supporting growth in their economies.

Asian currencies rebounded in August

Asian currencies broadly appreciated against the US dollar in August. Weaker-than-expected US economic data strengthened expectations of a rate cut by the US Federal Reserve, dragging down the US dollar. In August, the Japanese yen, Singapore dollar, Malaysian ringgit and the Philippine peso appreciated by 2.5%, 1.1%, 1.0% and 2.1% against the US dollar, respectively.

Asian stock markets were mixed in August. Easing trade tensions and expectations of upcoming monetary easing boosted investor sentiment in some Asian stock markets. Japan's, Taiwan's, Singapore's and Malaysia's equity indices recorded monthly gains by a range of 2.3% to 4.1% in August. However, a tax reform proposal in South Korea led its stock markets to close lower by 1.8% in August, while the Philippine stock index declined by 1.6% in August, possibly due to foreign investors selling.

Exchange Rate of Asian Currencies against USD



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