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ECONOMICS

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ASEAN Economics

2H 2023: A Post-Pandemic Reality Check

Fragmented World & China's Elusive Reopening Boost

We have downgraded our ASEAN-6 GDP growth forecast to +4.2% in 2023 from +4.5% at the start of the year. ASEAN GDP growth is moderating as reopening tailwinds fade and manufacturing slows amid weakening global growth. The boost from China's reopening has been modest and insufficient to offset slowing demand from the US, EU and most other export markets. The slowdown is more pronounced for export-dependent economies Singapore and Vietnam. Singapore may slip into a technical recession. Growth has been more resilient for domestic-oriented Indonesia and the Philippines. Thailand is benefiting from the tourism recovery.

Shallow Growth Downturn, Brighter 2024

We see a shallow growth downturn in ASEAN, with the medium-term outlook brightened by the prospects of [1] falling inflation; [2] turn in the monetary tightening cycle, with rate cuts likely in 2024; [3] resilient services growth, particularly in hospitality and travel; [4] rising FDI as manufacturing supply chains gravitate to ASEAN; and [5] tight labor markets, with wages rising. We forecast ASEAN-6 GDP growth recovering to +4.7% in 2024, closer to its 5-year pre-pandemic average of +4.9%, from +4.2% in 2023.

10 Post-Pandemic Realities

We highlight 10 macro post-pandemic realities: [1] ASEAN manufacturing and exports are contracting, but services are resilient; [2] US may not be in recession yet, but ASEAN exports to US are; [3] China's reopening has not boosted ASEAN exports; [4] China's tourists are returning to ASEAN, more quickly than expected; [5] ASEAN services exports are rebounding; [6] ASEAN's reopening boost is fading, with only weak tailwinds left in hospitality, food and construction; [7] ASEAN *real* commodity exports are resilient, despite falling commodity prices; [8] manufacturing supply chains are gravitating towards ASEAN; [9] ASEAN headline inflation is falling sharply, but core inflation is sticky; [10] ASEAN central banks are done with tightening.

Post-Pandemic Scars and Risks

The pandemic has left structural scars that will weigh on potential growth: [1] higher public debt on back of costly fiscal support packages; [2] depleted household pension savings (in Malaysia); [3] foreign worker shortages in construction and some services sectors, including Singapore, Malaysia and Thailand.

Multiple risks cloud the outlook: [1] elections and policy shifts under the new leadership, including in Thailand, Indonesia and Malaysia. In Thailand, Move Forward leader Pita's bid for PM still hangs in the balance. Indonesia's Feb 2024 Presidential Election remains a tight race. Malaysia's state elections will test the support of the current government; [2] excessive Fed tightening could pressure ASEAN currencies and FX reserves; [3] intensifying US-China rivalry and fragmenting global supply chains.

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2H 2023: A Post-Pandemic Reality Check

ASEAN GDP growth is moderating as reopening tailwinds fade and manufacturing slow amid weakening global growth. The boost from China's reopening has been modest and insufficient to offset slowing demand from the US, EU and most other export markets. The slowdown is more pronounced for export-dependent economies Vietnam and Singapore. Singapore may slip into a technical recession. Growth has been more resilient for domestic-oriented Indonesia and the Philippines. Thailand is benefiting from the tourism recovery.

We have downgraded our ASEAN-6 GDP growth forecast to +4.2% in 2023 from +4.5% at the start of the year. Growth is lower than the 2022 reopening year (+5.7%) but still higher than the 2021 (+4.1%) and 2020 (+-3.7%) pandemic years. We lowered our GDP growth forecast for Vietnam (+4% vs. +6.3% previously) and Singapore (+0.8% vs. +1.7% previously) due to mounting export headwinds. Malaysia's GDP growth forecast was upgraded to +4.5% (vs. +4% previously) after the robust 1Q GDP +5.6% print. Our Indonesia, Philippines and Thailand GDP forecasts remain unchanged.

Table 1: GDP Growth Forecasts

Real GDP, %YoY	2020	2021	2022	2023F	1Q23	2024F
Global	-3.0	6.2	3.4	2.7	2.4	2.7
US	-2.8	5.9	2.1	1.3	1.9	0.5
Eurozone	-6.1	5.3	3.5	0.5	0.3	1.0
China	2.2	8.4	3.0	5.0	4.5	5.2
ASEAN-6	**-3.7**	**4.1**	**5.7**	**4.2**	**4.1**	**4.7**
Singapore	-3.9	8.9	3.6	0.8	0.4	2.2
ASEAN-5 (ex-SG)	**-3.7**	**3.4**	**6.0**	**4.7**	**4.7**	**5.1**
Indonesia	-2.1	3.7	5.3	5.0	5.0	5.2
Malaysia	-5.5	3.1	8.7	4.5	5.6	4.3
Philippines	-9.5	5.7	7.6	5.5	6.4	6.2
Thailand	-6.2	1.6	2.6	4.0	2.7	3.6
Vietnam*	2.9	2.6	8.0	4.0	3.7	6.0

*Note: * Vietnam data is 1H23.*
Source: Bloomberg & CEIC; Maybank IBG Research (World quarterly & 2023-2024 ASEAN-6, China, US & EU); Average of latest Consensus & IMF World Economic Outlook (2022-2023 World & others)

Deciphering the structural and cyclical impact from the pandemic and reopening; shifting manufacturing supply chains from the intensifying US-China rivalry; and tightening global and ASEAN monetary policy remains a challenge. The positive is that the disruptions to supply chains and shock to commodity prices from the Ukraine-Russia war largely turned out to be transitory and have largely dissipated.

We see a shallow growth downturn in ASEAN, with the medium-term outlook in 2024 brightened by the prospects of [1] falling inflation; [2] turn in the monetary tightening cycle, with rate cuts likely in 2024; [3] resilient services growth, particularly in hospitality and travel; [4] rising FDI as manufacturing supply chains gravitate towards ASEAN; and [5] a tight labor market, with wages rising. We forecast ASEAN-6 GDP growth recovering to +4.7% in 2024 from +4.2% in 2023, closer to its 5-year pre-pandemic average of +4.9%.

We highlight 10 ASEAN macro post-pandemic realities.

[1] Manufacturing Slump, Services Resilient

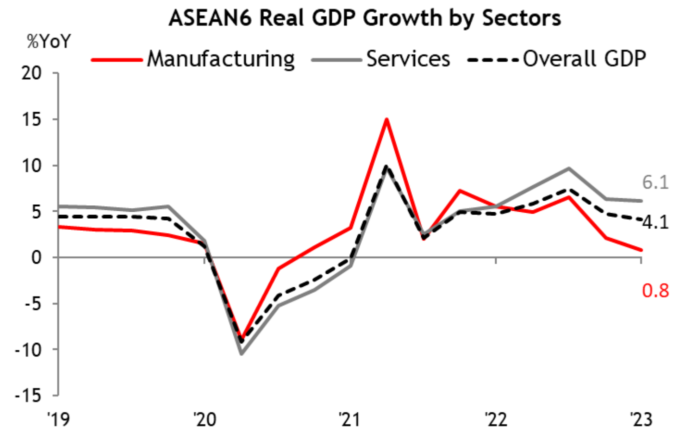
ASEAN manufacturing and exports are slowing due to weak global demand, but services remain resilient.

ASEAN-6's GDP growth in the first quarter (+4.1%) was propped up by resilient services growth, which cushioned the manufacturing slowdown (see Fig 1). Services growth came in at +6.1% in 1Q (vs. +6.3% in 4Q). Manufacturing decelerated to +0.8% (vs. +2.1% in 4Q), the slowest since 3Q 2020.

Robust services growth of more than +5% was seen across most ASEAN economies in 1Q 2023 (see Fig 2), particularly in hospitality and travel. Singapore's services sector (+2% vs. +4% in 4Q) cooled more discernibly, due to a decline in external-oriented services sectors with the global trade slowdown.

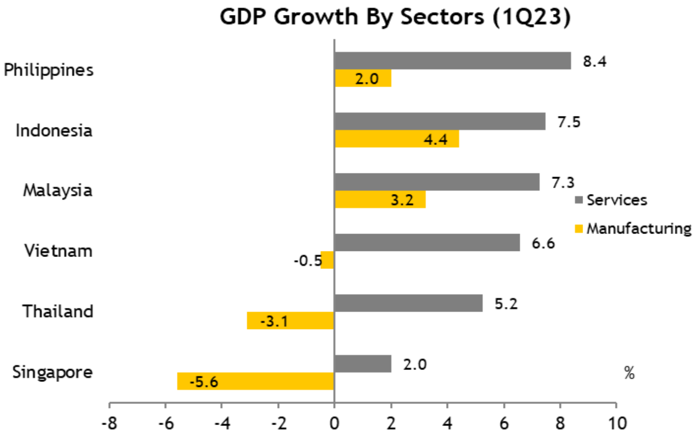
Manufacturing is contracting in Singapore (-5.6% in 1Q), Thailand (-3.1%) and Vietnam (-0.5%) due to weak external demand. Manufacturing growth moderated but remained positive for Indonesia, Malaysia and Philippines. Singapore is at risk of sliding into a technical recession in 2Q because of the deep manufacturing contraction.

Fig 1: Services Propping Up ASEAN GDP Growth in 1Q23, Cushioning Manufacturing Slowdown



Source: CEIC

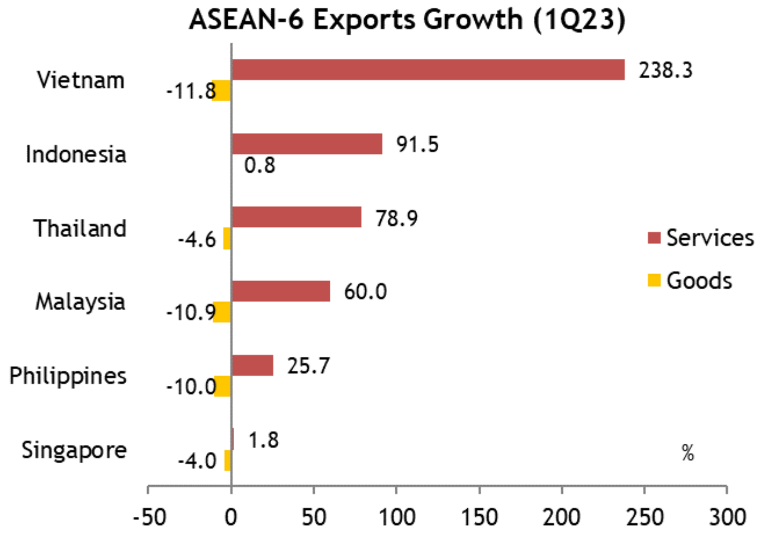
Fig 2: Manufacturing Weaker Than Services in All ASEAN Economies, with Contractions in Singapore, Thailand and Viet



Source: CEIC

ASEAN services exports are diverging from goods shipments as the tourism recovery is boosting services receipts. Services exports recorded double digit growth in 1Q, compared to falling manufacturing exports for most countries (see Fig 3).

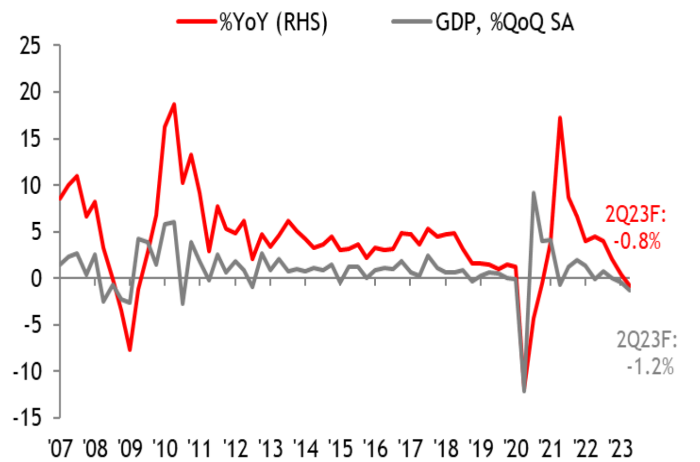
Fig 3: ASEAN Services Exports Growing Strongly in Contrast to Falling Goods Exports



Note: in USD value terms.
Source: CEIC

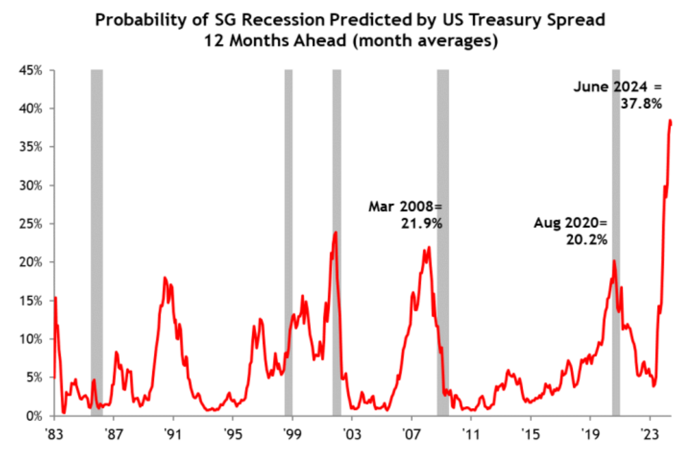
In ASEAN, only Singapore is at risk of a technical recession, on the back of a steep manufacturing downturn. Our forecast is for a quarter-on-quarter seasonally adjusted GDP contraction of -1.2% in 2Q (-0.8% YoY), which would mark a second consecutive quarter of decline (see Fig 4). The probability of recession over the next 12-months surged to 38% in June, the highest on record (see Fig 5).

Fig 4: Singapore – Projected Technical Recession in 1H23



Source: CEIC, Maybank IBG Research forecasts

Fig 5: Singapore – Probability of Recession (12 Months Ahead) Rose to 38% in June



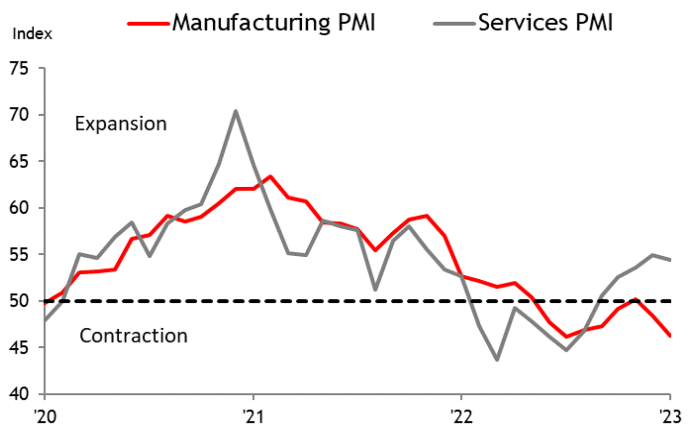
Source: Maybank IBG Research

The manufacturing-services dichotomy extends to the rest of the world.

In the US, services activity continues to grow while manufacturing has slumped. The US Services PMI eased slightly to 54.4 in June but expanded for a fifth straight month, with May's figure (54.9) coming in at the highest since April 2022. Manufacturing PMI is in contraction and was much weaker at 46.3 in June (vs. 48.4 in May), a six-month low (see Fig 6).

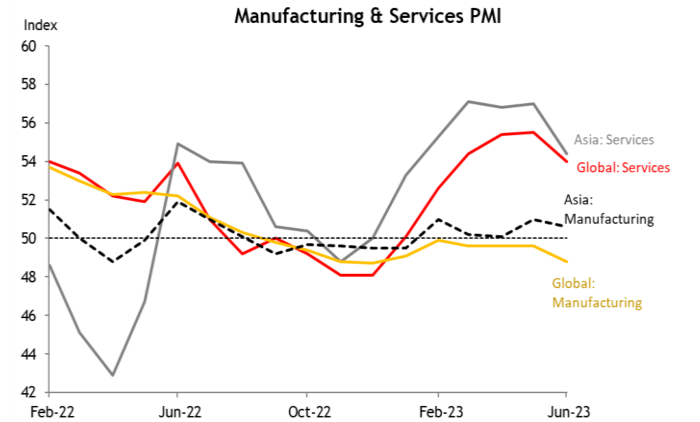
Widening manufacturing and services outturns have become more evident in both Global and Asia PMI since end-2022 (see Fig 7). Global services PMI came in at 54.0 in June (vs. 55.5 in May), its 6th consecutive month in expansionary territory, even as global manufacturing PMI (48.8) has been in continuous contraction since September 2022. Asia services PMI eased to 54.4 in June (vs. 57 in May), but remained firmer than manufacturing (50.6).

Fig 6: US – Services PMI (54.4 in Jun) Diverging from Manufacturing PMI (46.3)



Source: CEIC

Fig 7: Diverging Global and Asia PMIs Between Services and Manufacturing Since End-2022

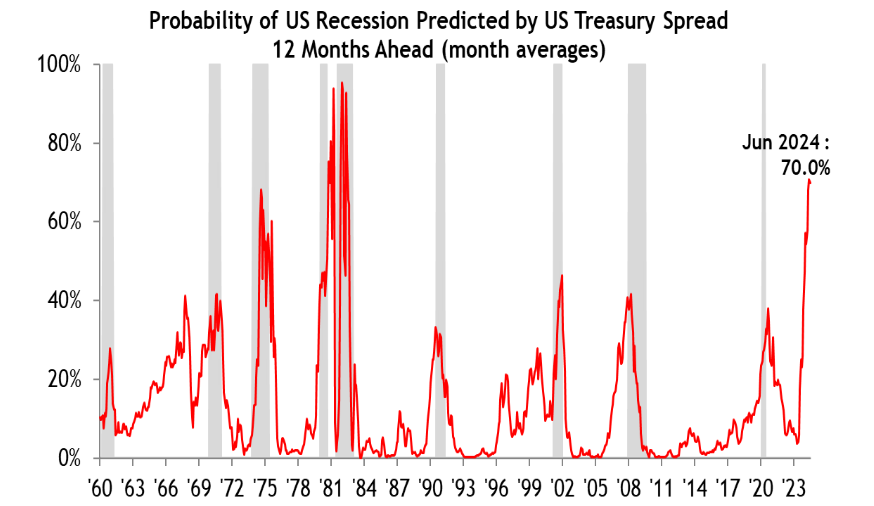


Source: CEIC

[2] No US Recession, But ASEAN Exports to US Behaving Like in a Recession

The US economy has been remarkably resilient despite the high probability of recession predicted by the deeply inverted yield curve. The Fed's aggressive interest rate hikes has led to the 10 yr-3 month treasury spread widening in June to -1.4% (on an end-month basis). Probability of a US recession within the next 12 months has surged to 70% as of June (see Fig 8), according to our estimates based on the New York Fed's yield curve model. We think a US recession remains probable by year-end or early 2024, but the recession will likely be shallow.

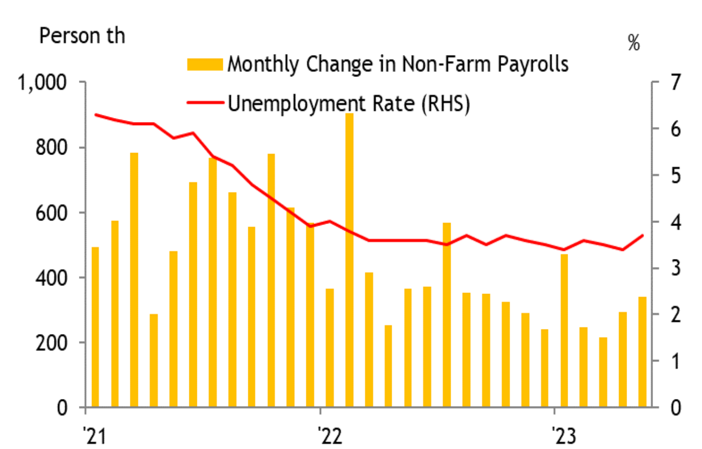
Fig 8: Probability of US Recession Has Risen to 70%



Note: Last datapoint as of end June 2023.
Source: New York Fed, Maybank IBG Research

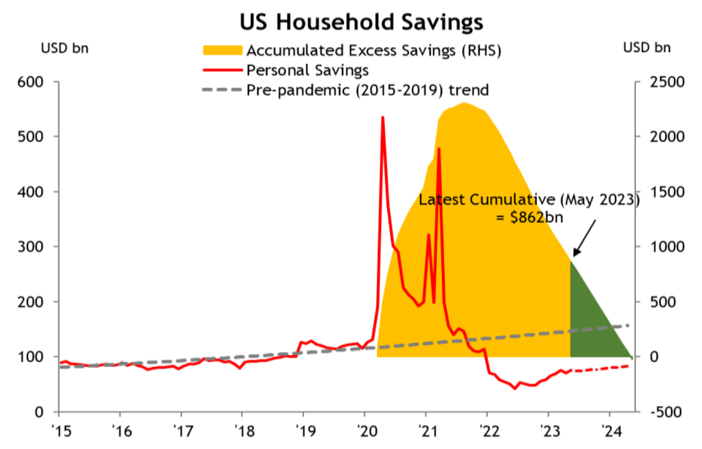
The US resilience has in part been due to the excess savings cushion and an upbeat labor market fueled by strong services consumption. Unemployment rate (3.7%) remained near a historic low in May, with the labor market adding 339k jobs (vs. 294k in April) (see Fig 9). US households still have US$862bn of pandemic-era excess savings in May (vs. estimated initial stock of US$2.3tn), although excess savings are projected to run out by May 2024 (see Fig 10).

Fig 9: US - Labor Market Added More Jobs in May (339k), Unemployment Rate Near Historic Low



Source: US Bureau of Labor Statistics, CEIC

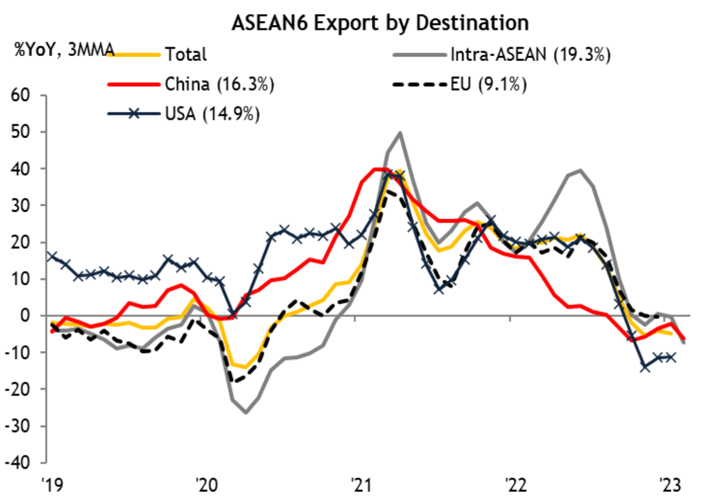
Fig 10: US - Excess Savings at US$862bn and Projected to Run Out by May 2024



Note: Last historical datapoint is May 2023, months thereafter denote Maybank forecasts. Forecasts assume that savings decline at the average 2023 YTD pace.
Source: US Bureau of Economic Analysis, Maybank IBG Research calculations

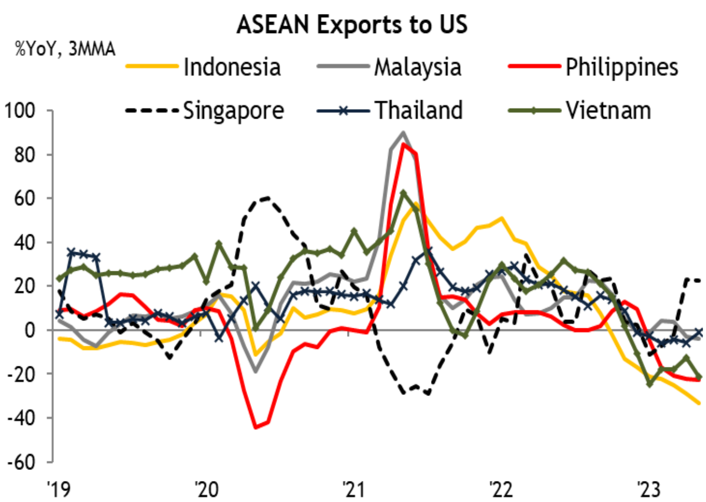
ASEAN-6 exports to the US have been contracting since 4Q 2022 (see Fig 11), plunging -9.3% from a year ago in April in 3-month moving average terms. By destination, the soft US market has been the largest drag on ASEAN goods exports since early 2023.

Fig 11: Exports to the US Have Been Largest Drag on ASEAN Goods Exports Since Early 2023



Source: CEIC

Fig 12: Slump in ASEAN Exports to US Led by Indonesia, Philippines and Vietnam



Source: CEIC

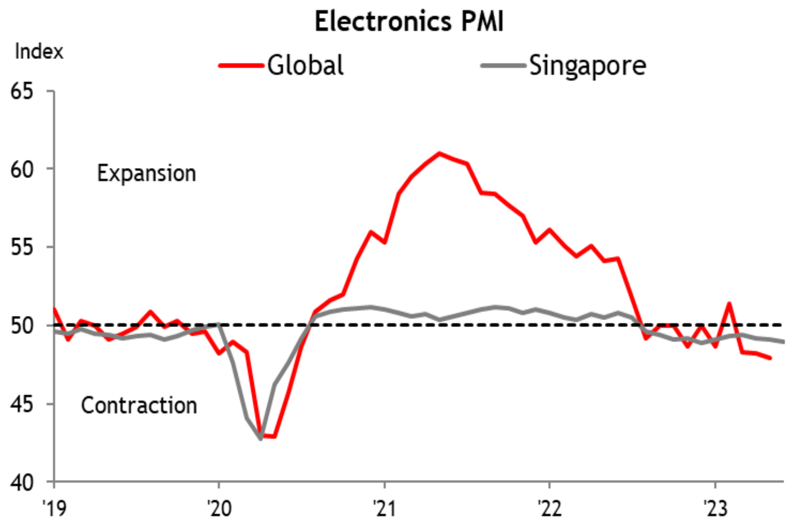
Exports to the US are contracting across nearly all ASEAN countries (see Fig 12), led by Indonesia (3MMA: -28.9% in Apr), Philippines (3MMA: -22.2% in Apr) and Vietnam (3MMA: -21.3% in May). Singapore (3MMA: +22.4% in May) was the only bright spot with growing non-oil domestic exports (NODX) to the US, but shipments decelerated to a four month low of +8.2% in May (vs. +44.3% in Apr).

A downturn in the global electronics cycle is underway, hitting highly-exposed economies like Singapore and Vietnam. Electronics accounts for about 40% of Singapore's manufacturing output, and 30% of Vietnam's goods exports.

Global electronics PMI (47.9 vs. 48.2 in Apr) contracted for the third consecutive month in May (see Fig 13), its weakest outturn since June 2020. Lower production was signaled across the wider Asia-Pacific region, Europe and the US, according to S&P Global.

Singapore's electronics PMI fell below 50 since August 2022, the same time as the global PMI. In June, Singapore's PMI inched down to 49 (vs. 49.1 in May), marking 11 straight months in contraction.

Fig 13: Global Electronics PMI (47.9) Contracted for Third Month in May, Singapore's PMI at 49.0



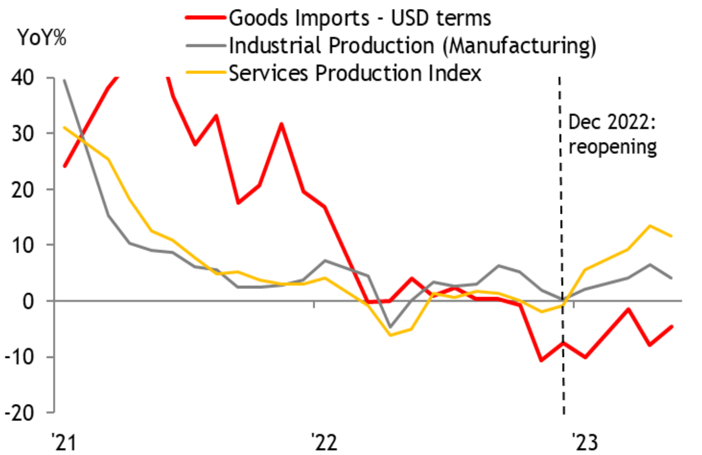
Source: S&P Global, SIPMM, CEIC

[3] China's Elusive Reopening Boost

China's reopening has boosted demand for domestic services, but not import demand and manufacturing. Services production index came in at +11.7% year-on-year in May (vs. -1.9% in Nov), while manufacturing output grew by +4.1%, compared to +2% in November prior to the easing of zero-Covid (see Fig 14). Manufacturing has been weighed down by soft global demand and modest domestic goods demand, as consumers remain cautious due to job market uncertainty and the property slump.

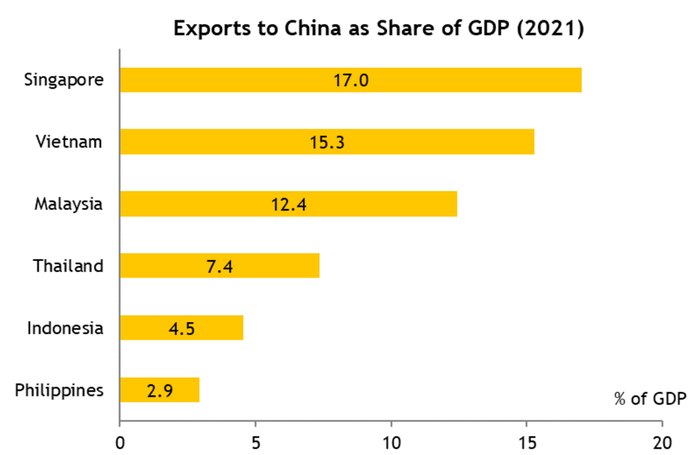
Goods imports have continued to contract after the reopening, falling by -4.5% from a year ago in May. ASEAN's exports to China plunged -13.5% from a year ago in April, against -18% fall for overall exports (see Fig 16). Exports to China account for a substantial share of GDP, especially in Singapore (17% of GDP), Vietnam (15.3%) and Malaysia (12.4%) (see Fig 15).

Fig 14: China - Reopening Has Boosted Services, But Not Import Demand and Manufacturing



Note: Last datapoint as of May 2023.
Source: National Bureau of Statistics, CEIC

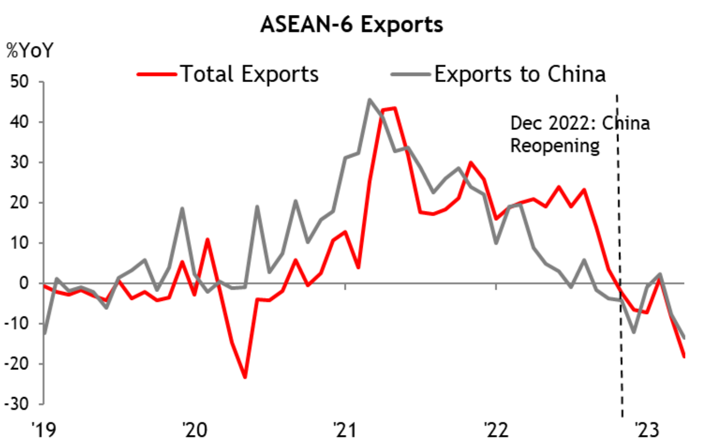
Fig 15: Exports to China Account for Substantial Share of GDP in Singapore, Vietnam and Malaysia



Source: CEIC

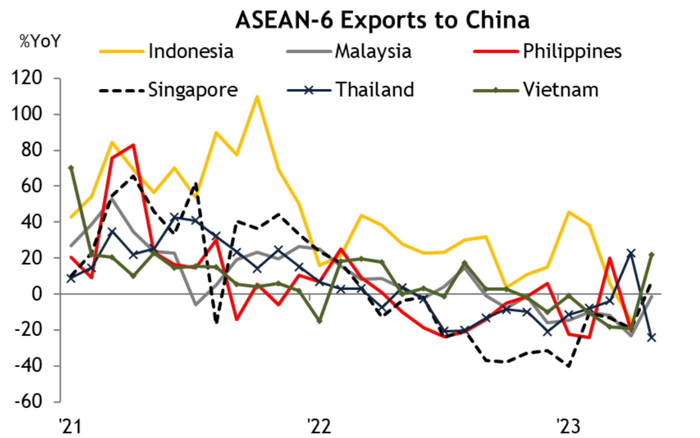
Vietnam's shipments to China grew +21.8% in May (see Fig 17), snapping six months of contractions due to the low base from China's lockdowns last year. Singapore's NODX to China grew +7.1% from a year ago (in USD terms) for the first time since Mar 2022, but the increase was mainly driven by miscellaneous transactions or gold which offset continued declines in other categories.

Fig 16: ASEAN-6 Exports to China Plunged -13.5% YoY in April 2023 Despite China's Reopening



Source: CEIC

Fig 17: Vietnam and Singapore Exports to China Grew in May, While Malaysia and Thailand Still Seeing Declines



Source: CEIC

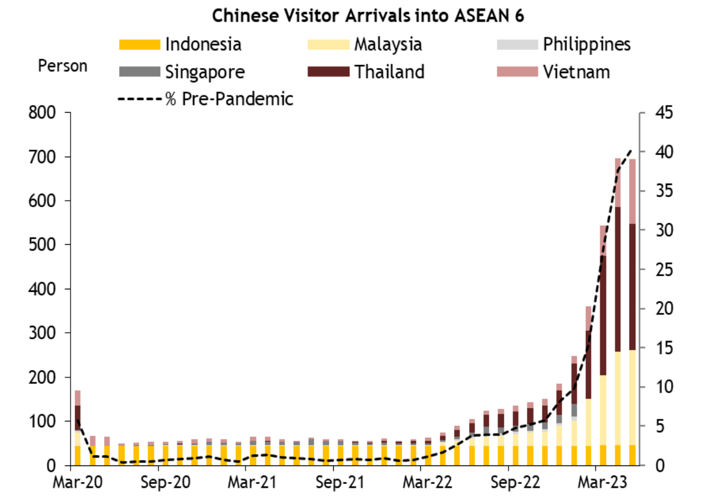
China-bound shipments of Malaysia, Philippines and Thailand continue to see declines. Indonesia's shipments to China fell -14.9% in April after a multi-year streak of continuous growth during the commodity boom, partly due to the slump in commodity prices from last year's high base.

It remains far from clear whether any sustainable boost to ASEAN's exports to China is in the horizon. A measured recovery due to low base effects in the second half may not be sufficient to offset softening global demand. In addition, China's economic recovery may be losing momentum, as industrial output and retail sales slowed in May.

[4] China Tourists Flocking to ASEAN

China's reopening has led to a sharp recovery in tourist flows to ASEAN. China tourists to ASEAN-6 climbed to 40.4% of pre-pandemic levels in May (vs. 5.6% in Nov 2022) (see Fig 18 and 19), with Thailand and Vietnam leading the recovery.

Fig 18: China Tourists to ASEAN Rose to 40.4% of Pre-Pandemic (2019) Levels in May 2023



Note: Tourist arrivals for Malaysia up to Dec 2022 and includes arrivals from Hong Kong & Macau; figures for 5M23 refer to Maybank estimates.

Source: CEIC

Fig 19: China Tourist Arrivals by Country (Latest Month)

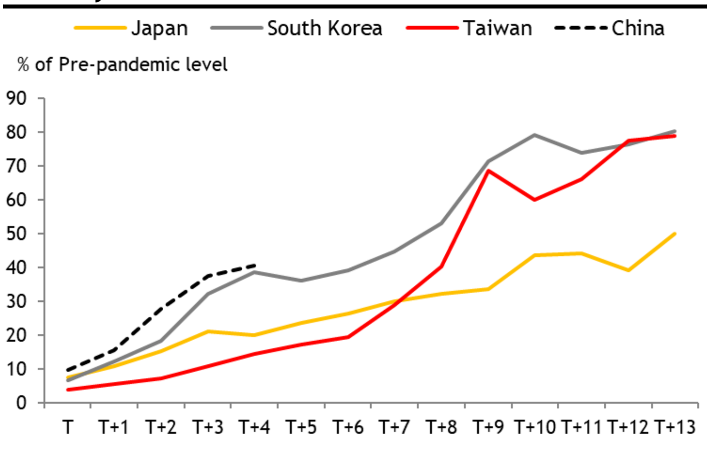
	Person th	As of	% of pre-pandemic levels
Thailand	285.5	May	35.9%
Malaysia	44.1	Dec	24.3%
Indonesia	64.1	May	38.8%
Vietnam	158.3	Jun	45.5%
Singapore	95.6	May	33.7%
Philippines	13.8	May	13.8%
ASEAN-6*	**826.8**	**May**	**40.4%**

** Tourist arrivals for Malaysia up to Dec 2022; figures for 5M23 refer to Maybank estimates.*

Source: CEIC, Maybank IBG Research

Return of China's visitors to ASEAN is as strong as Korea and stronger than Taiwan and Japan when they reopened their borders to travel (see Fig 20). More relaxed visa and entry requirements; faster return of flight capacity; and preference to travel to more "friendly" countries may be funneling a faster return of China tourists to ASEAN.

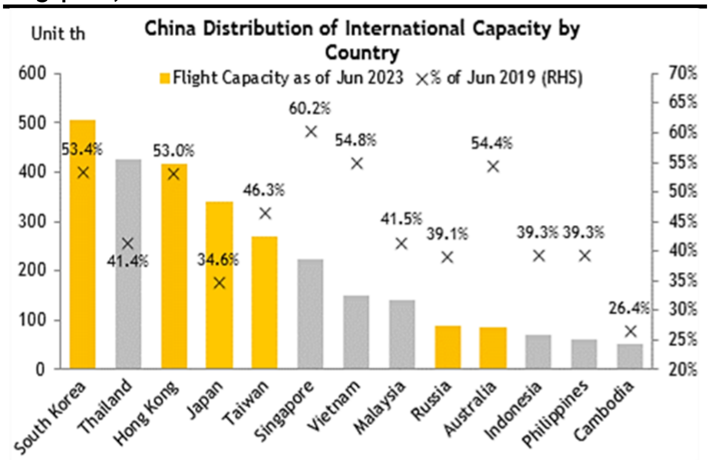
Fig 20: ASEAN-5 (excl. Malaysia) Visitor Arrivals: China Tourist Recovery Path Similar to Korea



Note: T refers to April 2022 (start of border easing) for Japan, South Korea, Taiwan, and January 2023 for China. Excluding Malaysia as the data is only till Dec 2022.

Source: CEIC, Maybank IBG Research

Fig 21: China's International Capacity Rebounded Fastest to Singapore, Vietnam in June 2023



Source: OAG

Early approval for China tour groups has given ASEAN a headstart in attracting China tourists. All ASEAN countries except Vietnam were among the first batch of 20 countries to receive Chinese group tours on 6 February 2023. Group tours to Vietnam were resumed on 6 March. South Korea, Japan, Australia and the US, which had been ranked among the top overseas destinations for China visitors pre-pandemic, have not been approved for group tours.

Thailand offers visa-on-arrival for Chinese nationals allowing them to stay for 30 days, making it more convenient for Chinese travelers. Other ASEAN countries require Chinese visitors to apply for visas beforehand.

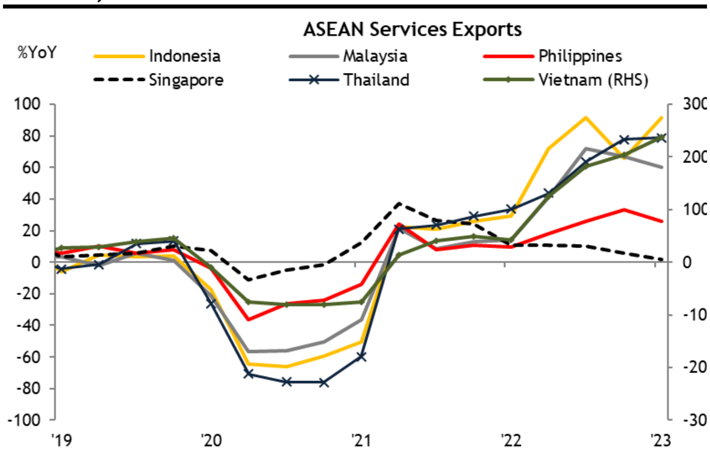
Return of China tourists has also been facilitated by a steady ramp-up in flight capacity. Flights in between China-Singapore and China-Vietnam have rebounded to between 50-60% of pre-pandemic levels as of June (see Fig 21). Thailand, Indonesia and Philippines are around the 40% mark. The increase in available flights is helping to keep ticket fares to ASEAN relatively affordable. In contrast, ticket prices to longer haul destinations like Europe remain significantly higher than pre-pandemic, partly due to the closure of Russian airspace which necessitates a longer travel distance.

[5] ASEAN Services Exports Rebounding

ASEAN's services exports have been rebounding strongly with tourism. Vietnam's services exports have seen the strongest rebound at +238.3% from a year ago in 1Q 2023, followed by Indonesia (+92%), Thailand (+79%), Malaysia (+60%) and Philippines (+26%) (see Fig 22). Singapore's services exports have been less upbeat as trade-related and financial services are hit by the trade slowdown, but nonetheless remain higher than a year ago (+1.8% in 1Q23).

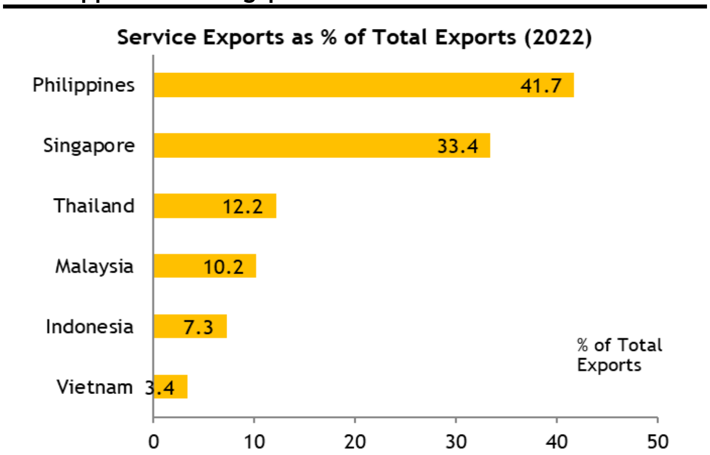
Services exports account for a large share of total exports in Philippines (41.7%) and Singapore (33.4%) last year (see Fig 23). Thailand's services exports accounted for 12.2% of total exports last year, but the share had been significantly larger (25% in 2019) with higher tourist flows prior to the pandemic.

Fig 22: Service Exports Improved Across ASEAN-6, Led by Vietnam, Indonesia & Thailand



Source: CEIC

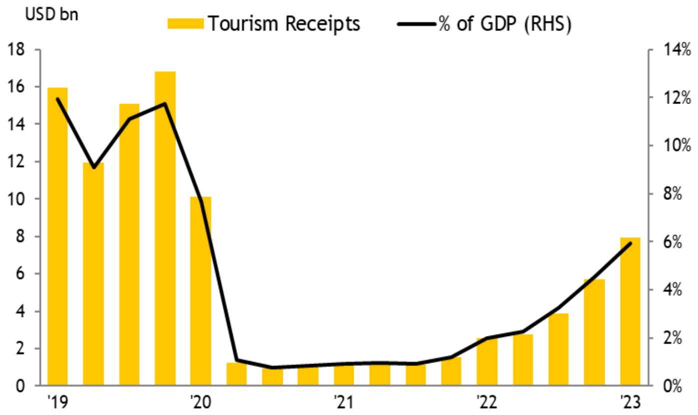
Fig 23: Services Exports Made Up Large Share of Total Exports in Philippines and Singapore Last Year



Source: CEIC

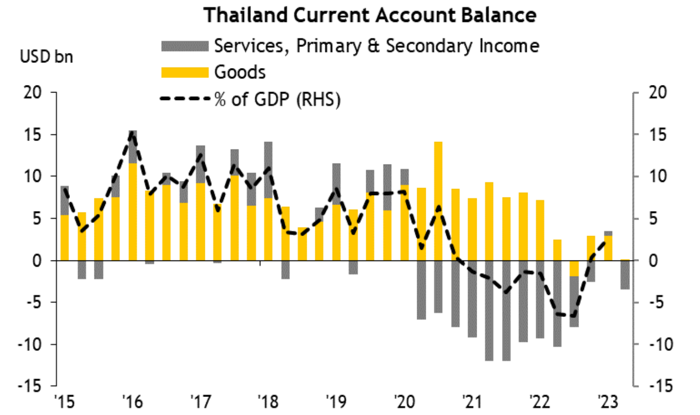
The tourism recovery has boosted Thailand's tourism receipts and improved its current account balance. Thailand's tourism receipts rose to US$7.9bn (or 5.9% of GDP) in 1Q23, recovering to nearly half of pre-pandemic levels (see Fig 24). The current account balance swung back to a surplus since 4Q22 and widened to US$3.5bn in 1Q (2.6% of GDP) as the deficit in the services balance narrowed. However, the current account is back to a deficit in 2Q (US$3.3bn for April & May combined) (see Fig 25), mainly due to the remittance outflow of profits & dividends by foreign businesses, together with intellectual property payments.

Fig 24: Thailand - Tourism Receipts Recovered to Half of Pre-Pandemic Levels in 1Q23



Source: CEIC

Fig 25: Thailand - Current Account Balance in Surplus Since 4Q22, But Returned to Deficit in April & May 2023

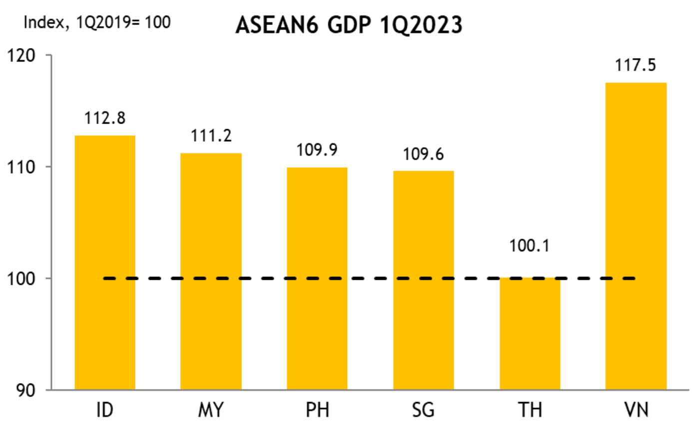


Note: Last datapoint refers to sum of April & May 2023.
Source: CEIC

[6] Fading Reopening Tailwinds

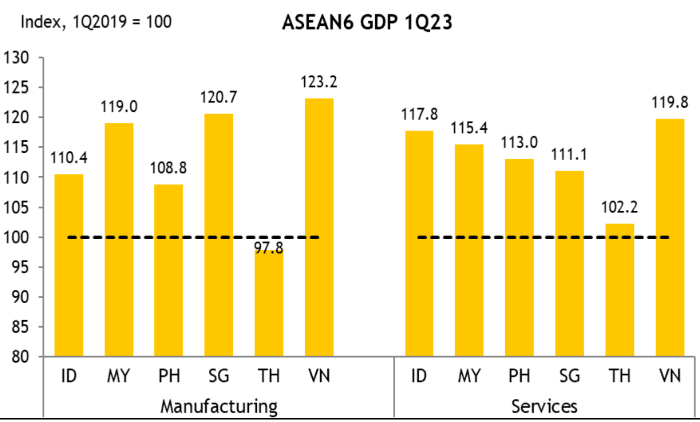
All ASEAN-6 economies have recovered to pre-pandemic levels in 1Q 2023 (see Fig 26), suggesting that reopening tailwinds may fade in the coming quarters. Thailand was a laggard due to its tourism dependence, with 1Q23 real GDP at just +0.1% above the 2019 pre-pandemic period.

Fig 26: ASEAN Economies Have Climbed to Above Pre-Pandemic Levels in 1Q23, With Thailand A Relative Laggard



Source: CEIC

Fig 27: Both Manufacturing and Services Above Pre-Pandemic Levels for Most ASEAN Countries

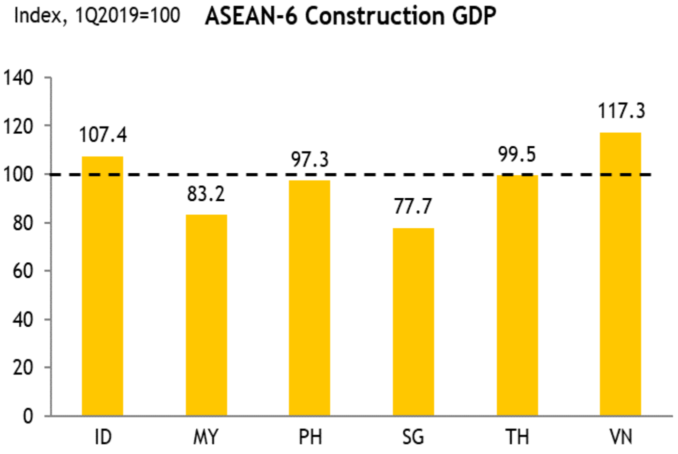


Source: CEIC

Manufacturing has risen well above pre-pandemic levels in most ASEAN economies (see Fig 27), driven by the commodity boom and rebound in external demand over 2021 and 1H 2022.

Construction has yet to normalize in Singapore (77.7% of 1Q19 levels) and Malaysia (83.2%), in part due to lingering foreign worker shortages (see Fig 28).

Fig 28: Construction Below Pre-Pandemic Levels in Singapore, Malaysia and Philippines

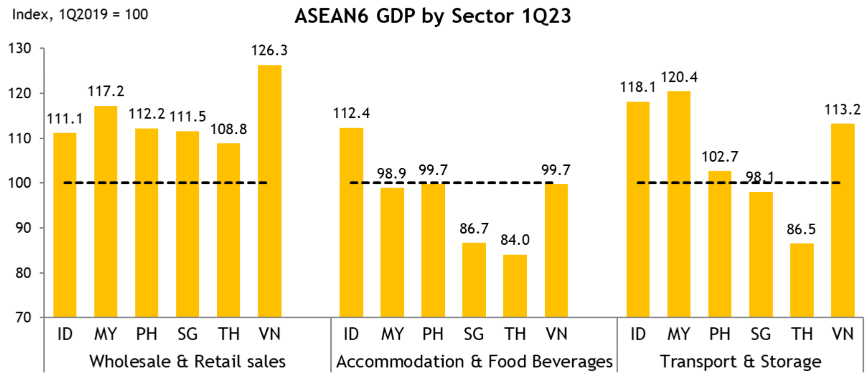


Source: CEIC

Although the services sector as a whole has recovered, certain consumer-facing services remain below pre-pandemic levels and will continue to benefit from the tourism recovery.

Accommodation & food services have not yet normalized in Thailand (84%) and Singapore (86.7%) while they are just below pre-pandemic levels in Vietnam (99.7%), Philippines (99.7%) and Malaysia (98.9%). Transport & storage have yet to catch up in Thailand (86.5%) and Singapore (98.1%) (see Fig 29).

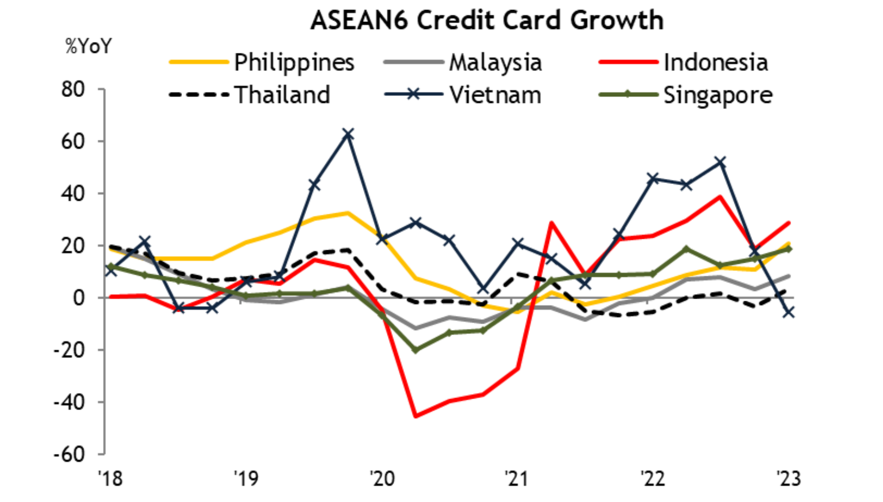
Fig 29: Accommodation & Food Services and Transport & Storage Yet to Normalize in Several ASEAN Countries



Source: CEIC

Consumers' revenge spending continued in 1Q 2023, as suggested by robust card spending (see Fig 30). Outstanding credit card loans grew +18.6% from a year ago in Singapore (vs. +15.2% in 4Q) and surged to +20.6% in Philippines (vs. +10.8% in 4Q). Credit card transaction value jumped +28.8% from a year ago in Indonesia. Growth has been more modest in Thailand (+3.4% vs. -3.3% in 4Q). Credit card transactions fell -5.7% in Vietnam for the first time since 2018, as households tighten their belts with rising layoffs in the export manufacturing sectors.

Fig 30: Credit Card Spending Still Resilient for Most ASEAN Countries



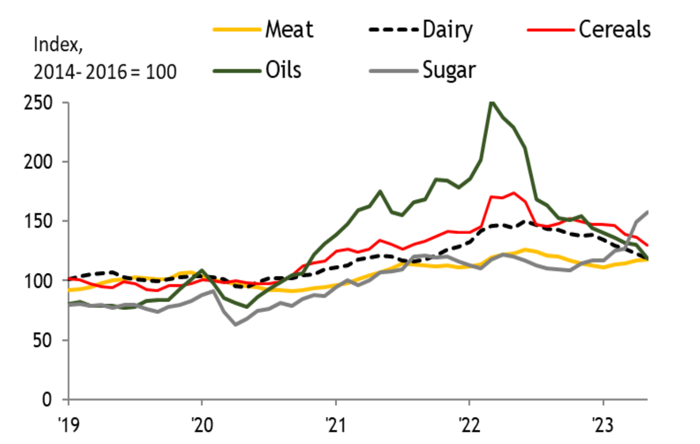
Note: Credit card loans outstanding data used for Philippines, Malaysia, Thailand and Singapore. Credit card transaction value used for Indonesia and Vietnam.
Source: CEIC

[7] Real Commodity Export Volumes Resilient Despite Falling Prices

Global commodity prices have moderated from last year's highs due to global growth worries and China's disappointing recovery. But demand for Indonesia and Malaysia's commodity exports remains relatively resilient. Export volumes have held up, while softening nominal export values have been due to price effects. The Russia-Ukraine war and sanctions on Russia have diverted commodity demand towards other countries, including Indonesia and Malaysia.

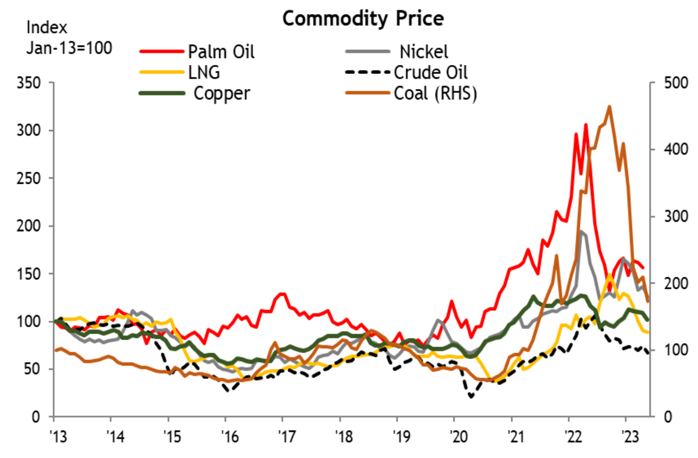
The commodity price shock from the Russia-Ukraine war appears to have largely dissipated. Energy prices including coal, crude oil and liquefied natural gas have cooled significantly from their peaks in 2022 (see Fig 31). The UN FAO's world food price index fell -21.3% from a year ago in May to hit its lowest in two years, on easing dairy, cereals and oils prices (see Fig 32). Base metal prices such as nickel and copper have also eased.

Fig 31: UN FAO Food Price Index Dipped -21.3% YoY in May on Easing Dairy, Cereals & Oils Prices



Source: CEIC

Fig 32: Commodity Prices Have Dipped from Last Year's Highs

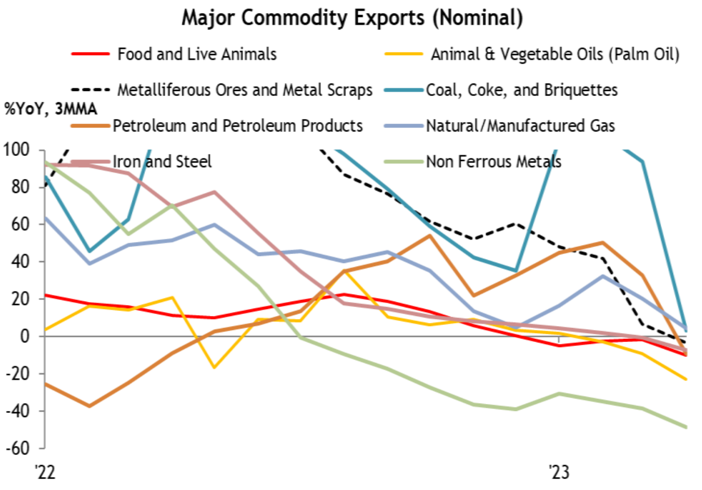


Source: CEIC

For Indonesia, several commodity exports were in the red in nominal terms as of April while real exports were still growing on a 3-month moving average basis (see Fig 33 and 34).

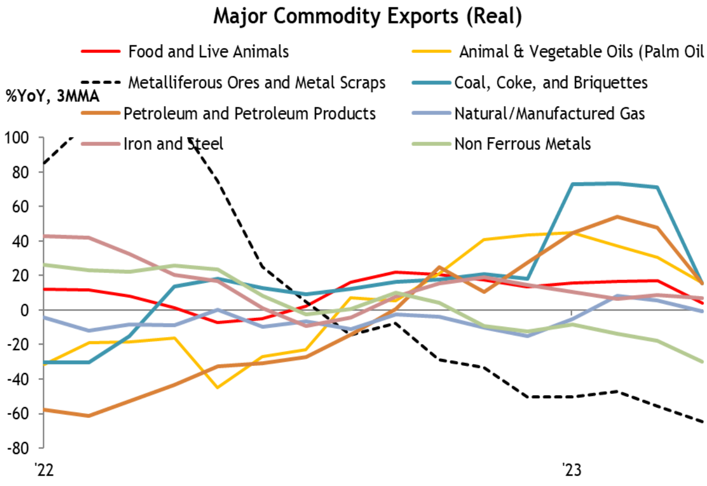
Nominal exports of food (-9.7%) and animal & vegetable oils (i.e. palm oil) (-22.8%) saw year-on-year declines in April, but grew in volume terms at +4% and +15.7% respectively. Petroleum products exports fell -9.3% from a year ago after 9 months of double digit growth, but continued to rise +15.6% in volume terms (vs. +47.7% in Mar). Iron & steel (-7%) declined for the second straight month but increased +7% in real terms. Metalliferous ores (-64.9% real vs. -3.2% nominal), natural/manufactured gas (-0.8% real vs. +4.7% nominal) and non-ferrous metals (-29.9% real vs. -48.6% nominal) declined year-on-year in volume terms.

Fig 33: Indonesia – Several Nominal Commodity Exports in the Red as of April 2023



Source: Statistics Indonesia, CEIC

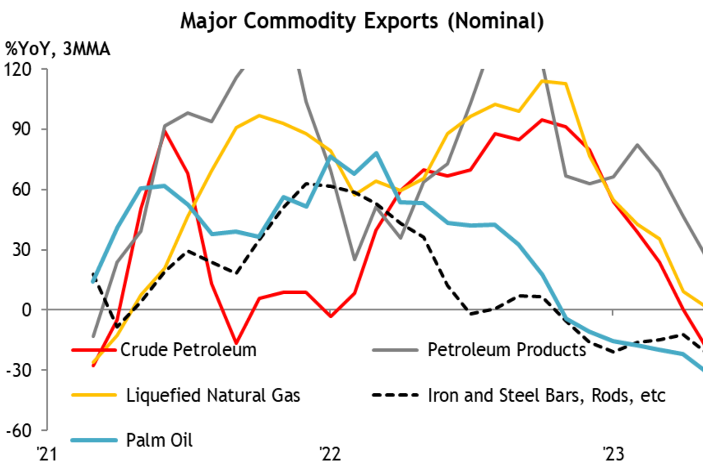
Fig 34: Indonesia – Real Commodity Exports Still Growing, Except Metalliferous Ores, Non-Ferrous Metal and Gas



Source: Statistics Indonesia, CEIC

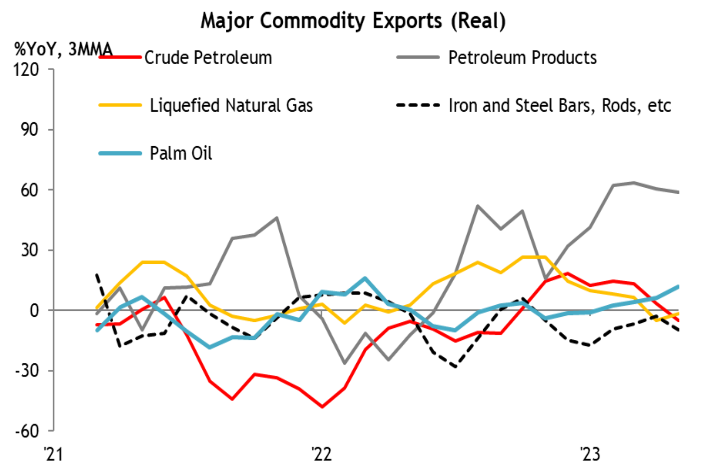
Malaysia's palm oil exports (real: +11.8% vs. nominal: -30.8%) and petroleum products exports (real: +58.9% vs. nominal: +26.6%) have similarly been holding up better in volume than value terms in May, on a 3-month moving average basis (see Fig 35 and 36). Crude petroleum (real: -5% vs. nominal: -18.7%), iron & steel (real: -9.7% vs. nominal: -21.2%) and liquefied natural gas (real: -1.6% vs. nominal: +1.5%) were in the red in volume terms.

Fig 35: Malaysia – Commodity Exports Softening in Nominal Terms



Source: Statistics Indonesia, CEIC

Fig 36: Malaysia – Commodity Exports More Resilient in Real Terms, Except for Food



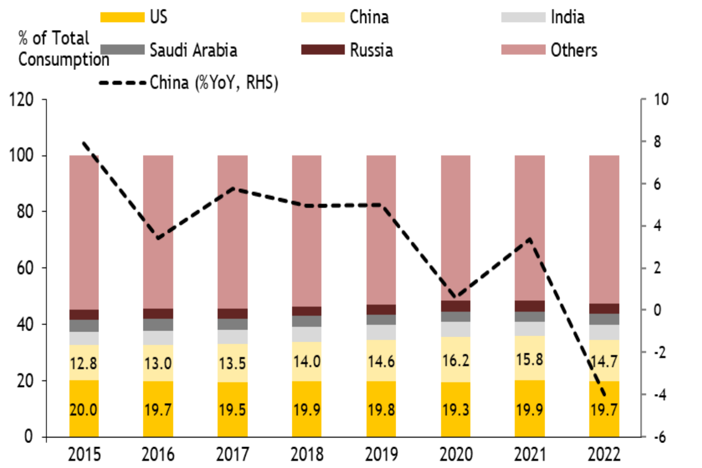
Source: Statistics Indonesia, CEIC

Indonesia and Malaysia's current account balances may level off if commodity prices bottom out and stabilize in coming months. There remain factors that could place upward pressure on commodity prices and stem further falls, such as developments associated with the Russia-Ukraine war, climate change and green transition.

Russia has been threatening to exit the Black Sea grain initiative, which has been facilitating the export of grain and fertilizers from Ukraine's Black Sea ports during wartime, and may quit when the deal comes up for renewal on 18 July. Abnormally hot weather this year and the early arrival of El Nino in June (potentially lasting for eight to ten months[1]) could impact agricultural yields globally.

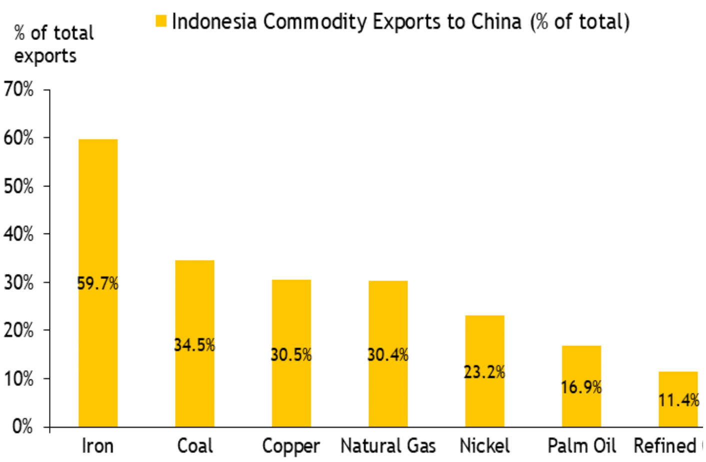
In addition, a ramp up in China's recovery may put upward pressure on oil prices, and lift demand for commodities. China remained the world's second largest oil consumer last year, even though its share of global consumption moderated to 14.7% with its lockdowns (vs. 15.8% in 2021) (see Fig 37). China accounts for a significant share of Indonesia's major commodity exports such as iron (59.7% of total iron exports in 2021), coal (34.5%), copper (30.5%), and natural gas (30.4%) (see Fig 38).

Fig 37: China is the Second Largest Crude Oil Consumer Accounting for 14.7% of Total in 2022



Note: Global consumption measured in thousands of barrels daily.
Source: Statistical Review of World Energy 2023 report

Fig 38: China is Major Destination for Indonesia's Commodity Exports



Source: CEIC

[8] Manufacturing Supply Chains Shifting to ASEAN

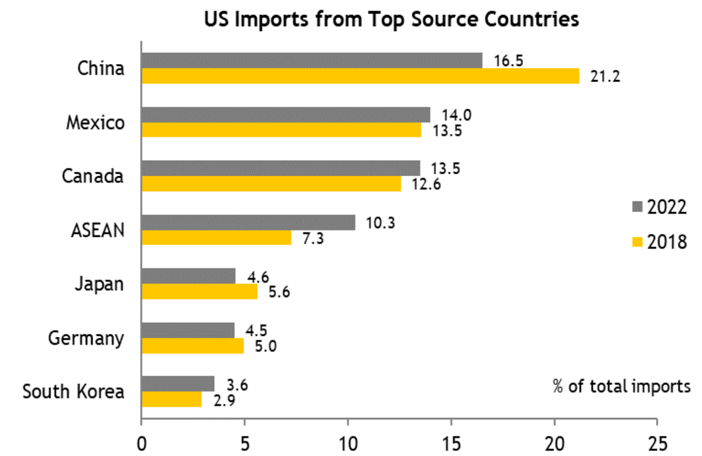
Global manufacturing supply chains are reconfiguring towards ASEAN as US-China rivalry intensifies, deepening ASEAN's position as a global manufacturing hub. ASEAN has seen large increases in exports to *both* the US and China (see *ASEAN Economics - Deepening Supply Chains in a Fragmented World*, 12 May 2023).

US' dependence on China imports has fallen since the start of the US-China trade war, with US share of imports from China declining to 16.5% in 2022 from 21.2% in 2018 (see Fig 39). On the other hand, US' share of imports from ASEAN has grown visibly from 7.3% in 2018 (USUS$18.4bn) to 10.3% in 2022 (US$33.6bn).

Within ASEAN-6, Vietnam and Thailand are large beneficiaries from US' trade diversion. The US accounted for 29.5% of Vietnam's total exports in 2022 (up from 19.5% in 2018) and 16.6% of Thailand's total exports in 2022 (up from 11.1% in 2018) (see Fig 40).

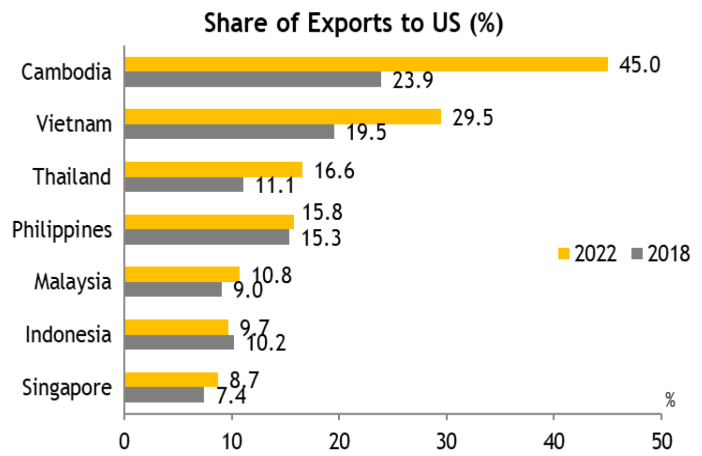
[1] South China Morning Post, "How El Nino is threatening China's food-security drive", 17 June 2023.

Fig 39: US - Share of Imports from China Has Fallen Since the Trade War; Visible Gain in Share of Imports from ASEAN



Source: CEIC

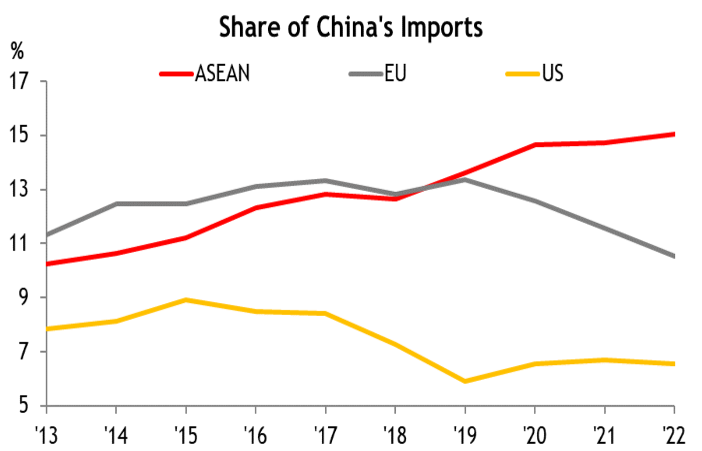
Fig 40: US Share of Exports Rising Strongly for Vietnam and Thailand



Source: CEIC

Share of China imports from ASEAN has risen to 15% in 2022 from 12.6% in 2018, overtaking EU to become China's largest import source (see Fig 41). Meanwhile, EU (15.6% in 2022 vs. 16.5% in 2018) and US market share (16.1% in 2022 vs. 19.2% in 2018) have declined over the past five years. The increase in ASEAN's share of China's imports has been led by Indonesia (2.9% in 2022 vs. 1.6% in 2018) and Malaysia (4% in 2022 vs. 3% in 2018) (see Fig 42).

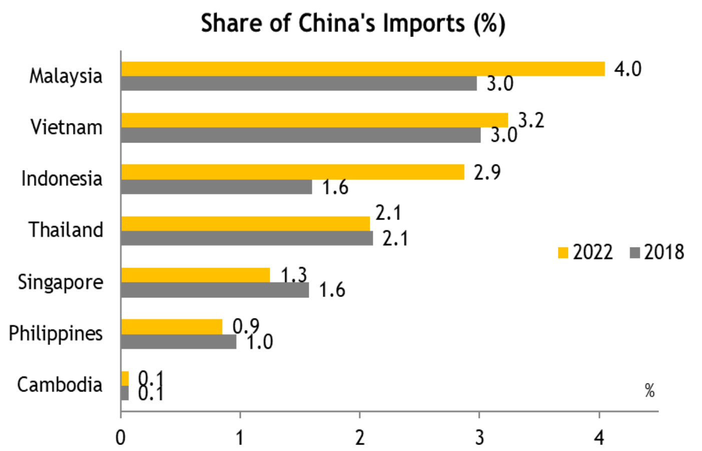
Fig 41: China's Imports from ASEAN Outpacing EU, US and Overall Imports



Note: in USD terms.

Source: China General Administration of Customs

Fig 42: Indonesia and Malaysia Saw Largest Gains in Market Share of China Imports



Note: in USD terms.

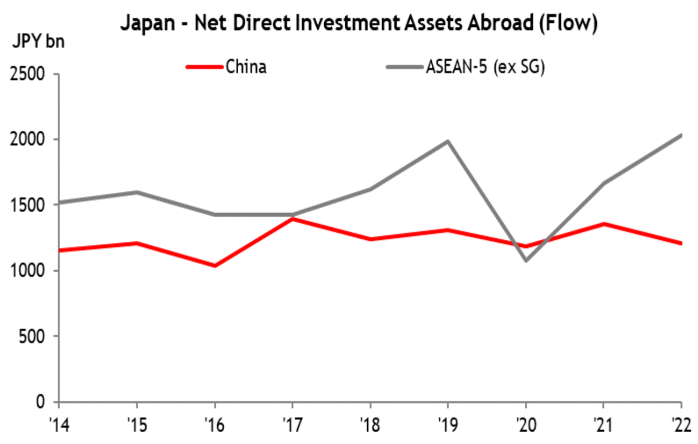
Source: China General Administration of Customs

Both Japan and South Korea are pivoting towards ASEAN to reduce their reliance on China, as they are caught between US as their key ally and security guarantor, but China as their largest trading partner.

Japanese net direct investment in ASEAN is rising, whilst investment in China has stagnated over the past five years (see Fig 43) with Thailand, Vietnam, and Indonesia receiving larger investments. The Japanese government announced subsidies for onshoring and moving production to ASEAN, setting aside JPY243.5bn (USUS$2.2bn), or around 4.5% of GDP in its Covid-19 economic stimulus package in 2020.

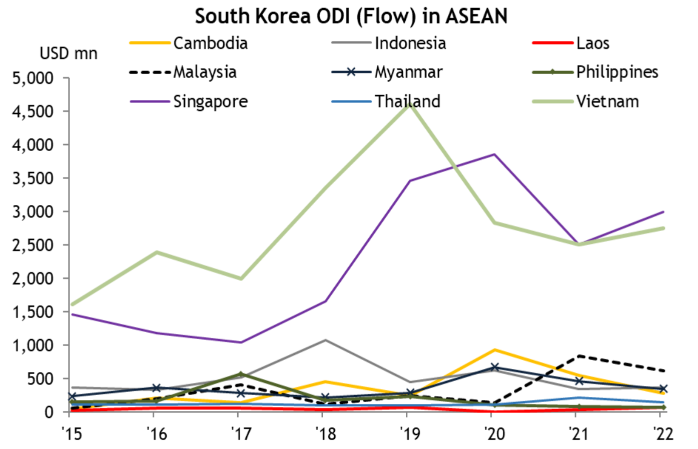
Since the launch of Korea's New Southern Policy Framework to advance ties, ASEAN's share of Korean exports has risen to 18.3% in 2022 from 16.6% in 2017, driven by Vietnam and Singapore. Korean outward direct investment to ASEAN has climbed +50% over the period, with Singapore (+188%) and Vietnam (+38%) the largest beneficiaries (see Fig 44).

Fig 43: Japan's Investment to ASEAN Rising, China Stagnating



Source: CEIC, Bank of Japan

Fig 44: Singapore and Vietnam Largest Beneficiaries of Korean Investment



Source: CEIC, Korea EximBank

[9] ASEAN Headline Inflation Falling, But Core Inflation Sticky

Headline inflation in ASEAN has peaked and is falling sharply. Inflation has fallen more quickly in ASEAN than the advanced economies, and is within the inflation target of several central banks. Cooling food and energy prices are reflected more discernibly in ASEAN's headline inflation, due to the heavier CPI basket weights in food and energy compared to advanced countries like US, UK, Hong Kong and Korea (see Table 2). Singapore has a lower CPI weight on food and fuel, and larger weight on services, which is a key reason for its higher core inflation.

Table 2: Food and Energy (Fuel and Utilities) Weights in CPI Basket

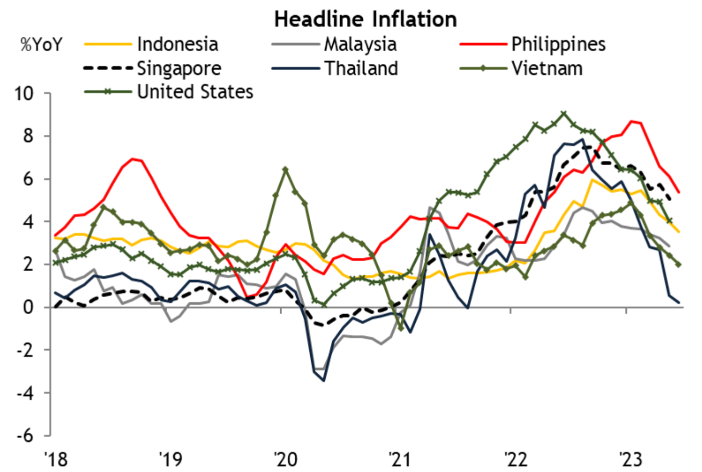
	Food			Transport		
	Total	Uncooked Food	Prepared food/ Food services	Total (incl. vehicle purchase)	Fuel and transport services	Utilities
Thailand	38.1	22.7	15.4	16.6	-	5.5
Philippines	34.8	-	-	9	6.9	7.9
Vietnam	33.6	25	8.6	9.7	-	...
Indonesia	28.7	20.1	8.7	12.4	9.5	8.1
Malaysia	28.4	16.9	11.5	14.6	9.3	4.4
Singapore	21.1	6.8	14.3	17.1	6.8	2.9
US	13.5	8.7	4.8	16.7	4.1	4.7
UK	19.6	10.5	9.1	13.9	3.1	3.6
Hong Kong	27.4	10.4	17.1	6.2	3.8	2.8
Korea	27.1	14.4	12.7	10.6	5.7	6.3

Source: Bloomberg, CEIC, compiled by Maybank IBG Research

Thailand's headline inflation dropped to +0.2% in June (vs. +0.5% in May), the slowest pace since Aug 2021 (see Fig 45), marking second straight month within the BOT's 1%-3% target range as energy costs continued to fall from last year's high base.

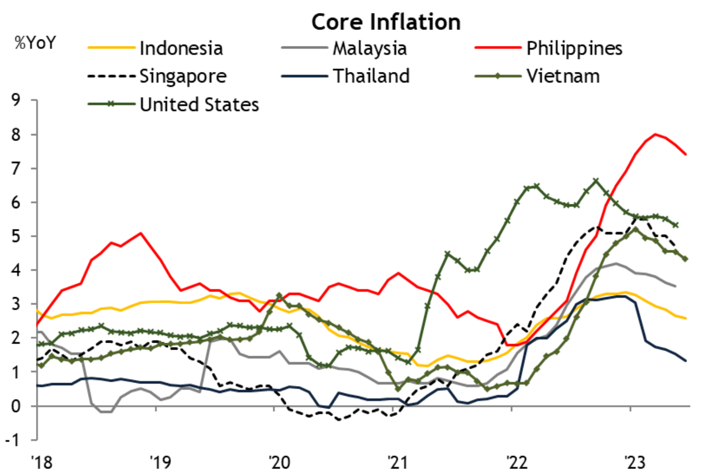
Indonesia's inflation (+3.5%) hit a 14-month low in June, settling into BI's 2%-4% target range for the second consecutive month on the back of decelerating food and energy costs. Vietnam's inflation (+2%) eased for the fifth straight month in June, the lowest since Feb 2022 and well below the SBV's 4.5% annual target. Philippines' inflation slowed for the fifth month in a row to +5.4% in June (vs. +6.1% in May).

Fig 45: Headline Inflation Easing Across ASEAN; Dipped Below BoT's Target in Thailand and Returned to BI Target in Indo



Source: CEIC

Fig 46: Core Inflation Stickier But Edging Lower



Source: CEIC

Core inflation has been stickier, but has nonetheless been edging down in recent months (see Fig 46).

Singapore's core inflation (+4.7% in May vs. +5% in Apr) has been driven by services, due to wage cost pressures that stem from a tight labor market and the expansion of the Progressive Wage Model to more sectors. In Vietnam, core inflation (+4.3% in Jun vs. +4.5% in May) has been driven by resilient services spending and elevated rental prices & building material costs due to tight supply. Core inflation remains especially elevated in the Philippines (+7.4% in Jun vs. +7.7% in May) as price pressures broaden on firm domestic demand (particularly in services).

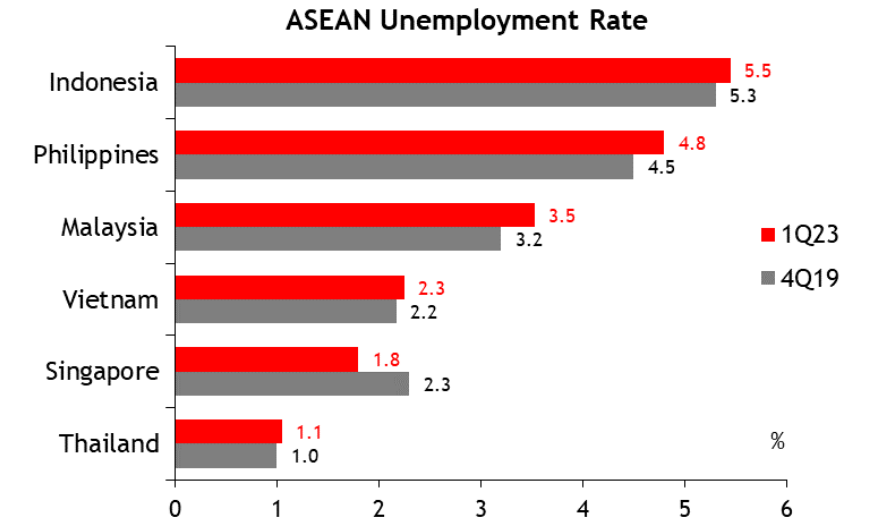
Core inflation has fallen the most quickly in Thailand, where it hit a 17-month low of +1.3% in June.

Tight labor markets are keeping core inflation sticky. Unemployment rates have fallen significantly from their pandemic peaks across ASEAN, although they remain slightly higher than pre-pandemic (4Q19) levels in all ASEAN countries other than Singapore (see Fig 47). Singapore's labor market has been exceptionally tight with unemployment rate at an 8-year low of 1.8% in 1Q 2023, -0.5% point lower than 4Q 2019.

There remain upside risks to inflation. A proposed PHP150 minimum daily wage hike for private sector workers nationwide is pending Senate approval in the Philippines, which could put upside risk to the core inflation outlook. In Thailand, a minimum daily wage hike to THB450 (+27.5% from the current THB353) and cash handouts are a key policy agenda of the Move Forward Party, which won the most seats in the General Election.

El Nino could bring dry spells, droughts and stronger typhoons that could disrupt agricultural production and increase the pressure on food prices.

Fig 47: Unemployment Close to Pre-Pandemic Rates across ASEAN, and Lower than Pre-Pandemic Rate in Singapore



Source: CEIC

We forecast average ASEAN-6 inflation falling to +3.6% in 2023 from +4.6% last year (see Table 3).

Table 3: ASEAN Inflation Forecasts

	2021	2022	5M23	2023E	2024E
Indonesia	1.6	4.2	4.8	3.7	3
Malaysia	2.5	3.4	3.4	3	2.5
Philippines	3.9	5.8	7.5	5.5	3
Singapore	2.3	6.1	5.9	5.6	2.8
Thailand	1.2	6.1	3.0	1.7	2
Vietnam	1.8	3.2	3.6	2.8	3.5
ASEAN-5 (excl. SG)	**2.1**	**4.6**	**4.6**	**3.5**	**2.8**
ASEAN-6	**4.7**	**4.6**	**4.7**	**3.6**	**2.8**

Source: CEIC, Maybank IBG Research forecasts

[10] ASEAN Monetary Tightening Cycle is Over

We are not expecting any more rate hikes from any of the ASEAN central banks for the rest of the year (see Table 4). The monetary policy divergence in ASEAN versus advanced countries will be stark in the second half of 2023.

Falling inflation has given ASEAN central banks more leeway to pause on their monetary policy tightening or even cut policy rates. In contrast, central banks in many advanced economies including US, UK and Eurozone are struggling to bring down inflation to acceptable levels, and have been forced to continue tightening policy.

Table 4: Central Bank Policy Rate Developments

Major Economies & ASEAN-6	Benchmark Interest Rates, % p.a.					
	2021	2022	Current	2023F	2024F	Latest developments
US	0.00-0.25	4.25-4.50	5.00-5.25	5.25-5.50	3.25-3.50	Fed paused for June
China	2.95	2.75	2.65	2.55	2.55	PBoC cut -10bps in June
Eurozone	(0.50)	2.00	3.50	3.75-4.00	2.75-3.00	ECB hiked another +25bps in June
Japan	(0.10)	(0.10)	(0.10)	(0.10)	0.00	BoJ keeps the ultra low rate in June
UK	0.25	3.50	5.00	5.50-6.00	4.00-4.50	BoE hiked +50bps in June
Malaysia	1.75	2.75	3.00	3.00	3.00	OPR hiked in May after pause in Jan/Mar, but maintained in June
Singapore	0.19	3.10	3.67	3.80	3.00	MAS maintained policy in April
Indonesia	3.50	5.50	5.75	5.75	5.00	BI on pause since Feb 2023
Thailand	0.50	1.25	2.00	2.00	2.00	BoT raised +25bps in May
Philippines	2.00	5.50	6.25	6.25	4.25	BSP paused in June
Vietnam	4.00	6.00	4.50	4.50	4.50	SBV delivered fourth round of rate cuts in June

Note: Interest rate for China refers to 1-year MLF rate. Singapore's interest rate refers to 3M SORA.
Source: CEIC (for 2019-2021 & Current), Maybank IBG Research

The State Bank of Vietnam has been the first ASEAN central bank to cut rates, with four rounds of policy rate cuts (-150bps for refinancing/discount rate and -125bps for short-term deposit rate caps; see Table 5 for summary) delivered over March to June in the hope of shoring up flagging growth. At least 25bps of further deposit rate cuts may be in store for 3Q, as growth remains lacklustre while inflation stays benign.

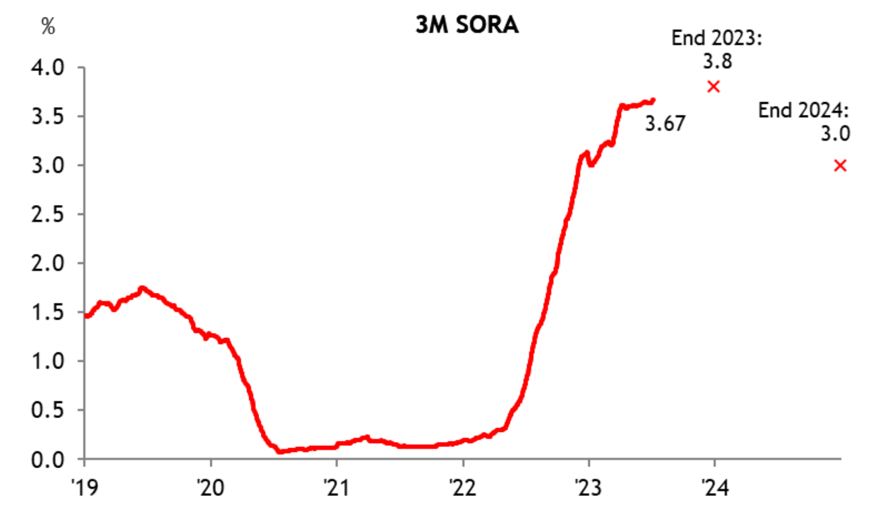
Table 5: Summary of SBV's Policy Rate Cuts in 2023

Instrument	Peak (Prior to 15 Mar)	From 15 March	From 3 April	From 25 May	From 19 June
< 1 month deposit rate cap	1.00%	1.00% (...)	0.50%(-50bps)	0.50% (...)	0.50% (...)
1 month - 6 month deposit rate cap	6.00%	6.00% (...)	5.50% (-50bps)	5.00% (-50bps)	4.75% (-25bps)
Lending rate cap for loans made to priority sectors	5.50%	5.00% (-50bps)	4.50% (-50bps)	4.50% (...)	4.00%(-50bps)
Refinancing rate	6.00%	6.00% (...)	5.50% (-50bps)	5.00% (-50bps)	4.50% (-50bps)
Discount rate	4.50%	3.50% (-100bps)	3.50% (...)	3.50% (...)	3% (-50bps)

Note: brackets refer to the change from previous column.
Source: SBV, Compiled by Maybank IBG Research

Short-term interest rates may be close to their peak in Singapore as the Fed slows down rate hikes, bringing some relief to households and businesses. The 3M SORA is expected to reach 3.8% in 2023 (vs. 3.67% on 7 July) but decline to 3% by end-2024 (see Fig 48).

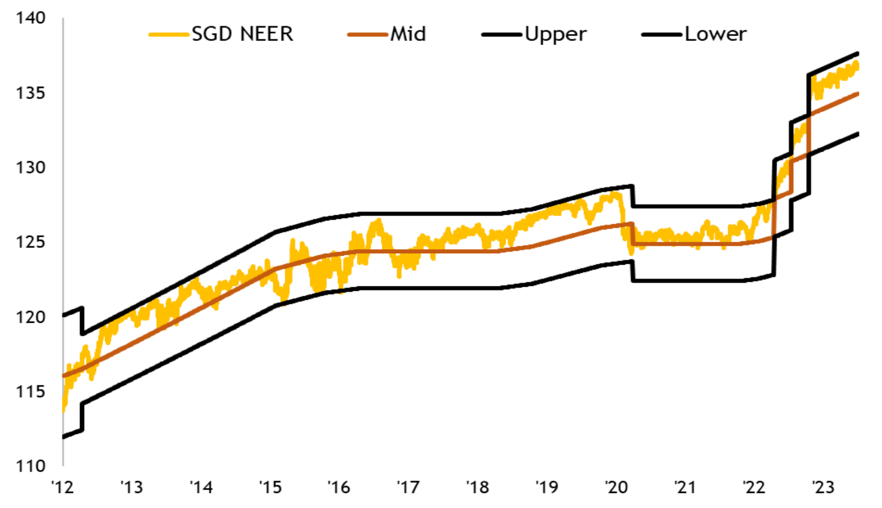
Fig 48: Singapore - Expect 3M SORA to Reach 3.8% in 2023



Note: Last data point as of 7 July 2023.
Source: Bloomberg, Maybank IBG Research

The Monetary Authority of Singapore (MAS) left policy settings unchanged in April 2023 after five successive rounds of tightening since October 2021 (see Fig 49). For its next policy meeting in October, there is a small probability that the MAS may loosen policy via easing the slope of its appreciation stance if core inflation drops more quickly with a probable technical recession.

Fig 49: Singapore – MAS Tightened Policy Aggressively in 2022 via SUS$NEER Appreciation



Source: Maybank GM FX Research

Post-Pandemic Scars

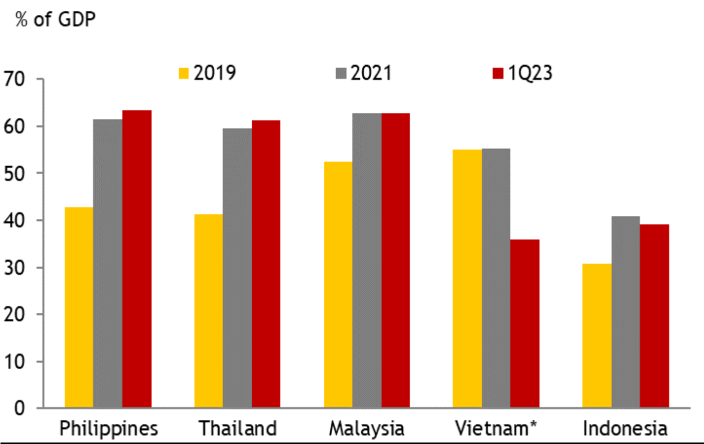
[1] Higher Public Debt Ratios

Increased borrowings by ASEAN governments to finance the Covid-19 fiscal support packages have raised public debt and debt servicing ratios.

Public debt has climbed the most in the Philippines (63.4% of GDP in 1Q23 from 42.9% in 2019), Malaysia (62.7% in 1Q23 from 52.4% in 2019) and Thailand (61.3% in 1Q23 from 41.2% in 2019) (see Fig 50 and Table 6).

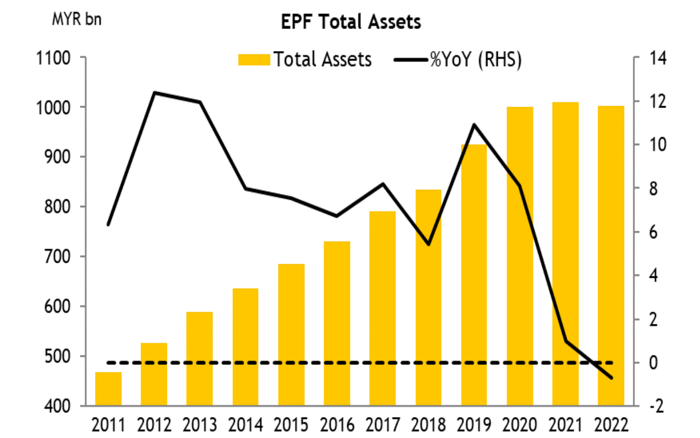
Leverage in ASEAN is nevertheless relatively low compared to other emerging markets or advanced economies. Refocus on fiscal consolidation after the pandemic and strong government revenues stemming from the reopening and growth rebound in 2022 have helped to stabilize public finances. For example, Indonesia recorded a fiscal deficit of 2.35% of GDP in 2022, much smaller than its projected 4.85% deficit, due to higher commodity prices and the economic reopening.

Fig 50: Ballooning Public Debt in Philippines, Malaysia and Thailand



**Latest Vietnam data as of 2Q22.*
Source: CEIC

Fig 51: Malaysia - EPF Assets Stagnant on Pandemic Drawdown



Source: EPF

[2] Drained Household Pension Funds

In Malaysia, fund withdrawals during the pandemic has depleted pension savings. A total of RM145bn (US$32mn) was withdrawn from the Employee Provident Fund (EPF) by 8.1mn people over the pandemic, after four rounds of withdrawals were allowed by the last two government administrations between 2020 and 2022. Median savings of all EPF accounts halved to RM8.1k in 2022 from RM16.6k in 2019.

Concerns have been raised on retirement adequacy, with about 6.7mn out of 13.1mn EPF members having savings of less than RM10k, up from 4.7mn people in 2020. Various proposals have been made for the government to raise voluntary contributions to the EPF (currently set at RM60k) to boost savings[2].

EPF's assets under management have been stagnant since the pandemic, in contrast to high growth in previous years (see Fig 51). Total assets came in at

[2] ChannelNewsAsia, "Malaysia says no more pension fund withdrawals; median savings for account holders down by half since 2009", 16 Feb 2023.

RM1tn as at end-2022, dipping -0.7% for the first time in history from RM1.01tn in 2021 due to member withdrawals and challenging market conditions.

Table 6: Balance Sheet & Leverage Ratios in ASEAN (Asian Crisis, Global Financial Crisis, Pre-Pandemic & Current)

As % of GDP	Indonesia				Malaysia				Philippines				Thailand				Vietnam			
	2Q97	4Q07	4Q19	Latest	2Q97	4Q07	4Q19	Latest	2Q97	4Q07	4Q19	Latest	2Q97	4Q07	4Q19	Latest	2Q97	4Q07	4Q19	Latest
Public Debt	72.5*	34.1	30.7	**39.1**	31.4	38.0	52.4	**62.7**	52.4	66.9	42.9	**63.4**	40.5^	37.4	41.2	**61.3**	-	-	55.0	**36.0**
Govt debt - Foreign	24.2**	16.6	11.0	**10.3**	3.1	2.9	1.9	**1.6**	23.3	30.8	14.8	**20.1**	8.8	3.0	0.8	**0.9**	-	-	18.3	**11.0**
External Debt	48.2	32.7	36.1	**30.1**	43.6	28.8	62.3	**65.4**	44.2	36.9	22.2	**29.0**	-	26.4	31.6	**40.6**	81.1	29.8	47.1	**37.0**
Household Debt	-	10.9	16.4	**15.5**	-	63.6	82.7	**81.0**	-	2.0	9.7	**10.2**	-	51.7	79.8	**86.3**	-	-	59	**45**
Domestic Credit	-	39.4	42.9	**37.8**	156	113	137	**142**	-	51.0	69.6	**75.4**	-	104.5	155	**151**	-	-	110.9	**126**
Foreign Bank Claims	26.2	15.5	16.3	**13.0**	35.3	56.9	48.3	**44.3**	21	20.7	12.9	**11.7**	42.9	19.5	33.6	**36.5**	-	21.6	20	**22.0**
*Corporate Debt	-	14.7	26.0	**23.8**	-	58.2	68.5	**59.0**	-	20.4	45.3	**43.7**	150.1	74	74.4	**86.5**	-	-	-	**-**
Current Account	-1.8	3.1	-2.7	**1.2**	-6.5	15.5	3.5	**2.9**	-3.5	5.7	-0.8	**-4.4**	-7.0	9.4	7.0	**-2.3**	-	-16.4	5.2	**1.6**

**Indonesia public/govt debt as at end 1997. **Indonesia foreign govt debt as at end 1996. ^ Thailand public debt as of 3Q97.*

For Vietnam, latest figures computed using newly-reevaluated GDP series that was released in 2021. Public debt, govt debt and external debt are as of 2Q23.. 2Q97, 4Q07 and 4Q19 computed using old GDP series, as new GDP series only available from 2021.

Note: Malaysia household debt figures as at end of respective year. Indonesia and Philippines household debt estimated using outstanding consumer loans. Thailand household debt includes loans from commercial and state banks, credit card companies, saving corporations and other non-bank institutions.

Corporate debt (refers to total credit to non-financial corporations, or core debt) as of 4Q22 and foreign bank claims as of 2Q22.

Current account on 4Q trailing sum basis, latest data as of 1Q23.

Source: BIS, CEIC, World Bank, Maybank IBG Research

[3] Foreign Worker Shortages

Some ASEAN countries are still experiencing foreign worker shortages, after the pandemic sparked an exodus of foreign workers.

In Singapore, non-resident employment remained below pre-pandemic levels in 2022 (see Fig 52), whereas resident employment had recovered to pre-pandemic levels by end 2020. Aggregate foreign workforce finally rebounded to 1.7% above pre-pandemic levels in 1Q 2023.

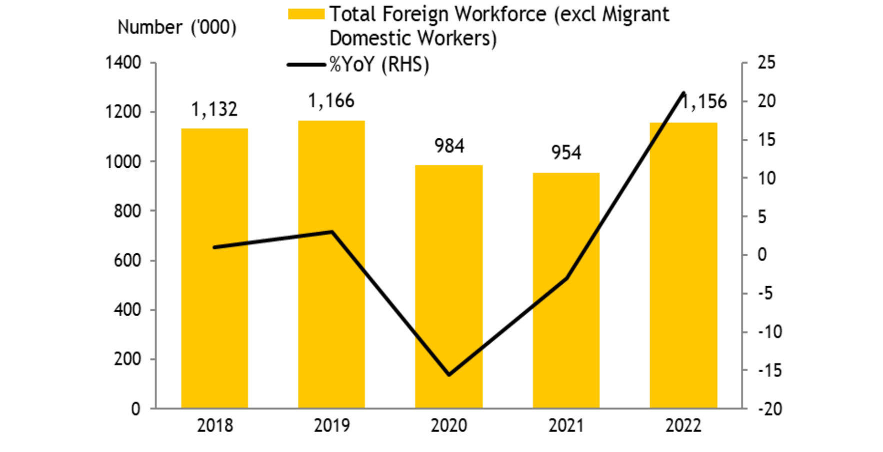
There have been productivity losses in construction and manufacturing due to the loss of skilled workers that went back to their home countries, and new workers will need time to be trained for their roles. The backlog of construction projects means that even more foreign labor is needed, above and beyond pre-pandemic levels.

Singapore non-resident employment has not fully recovered to its pre-pandemic level for retail trade, accommodation and F&B services sectors, contributing to labor market tightness and climbing wage costs. In 1Q 2023, job vacancy rates were among the highest for accommodation (8.4 vs. 10.7 in 1Q22), F&B (4.9 vs. 6.3 in 1Q22), retail trade (4.8 vs. 6.4 in 1Q22) and arts, entertainment & recreation (5.4 vs. 6.7 in 1Q22).

Malaysia waived industry quotas for a year from January 2023 to speed up hiring of foreign workers from 15 source countries including Thailand, Vietnam, Indonesia, Cambodia, Laos and Myanmar. The country has been facing a labor and skills shortages across key industries like palm oil and semiconductors, due to slow government approvals and extended negotiations with Indonesia and Bangladesh over worker protections. Only 676k applications out of the 1.6mn received in 2022 were approved[3].

[3] The Straits Times, "Malaysia speeds up hiring foreign workers amid labour crunch", 10 Jan 2023.

Fig 52: Singapore - Foreign Workforce Below 2019 Levels in 2022, Exceeded Pre-Pandemic in 1Q23



Source: Singapore Ministry of Manpower, CEIC

Risks to Recovery

[1] Elections

Elections and policy shifts under the new leadership, including in Thailand, Indonesia and Malaysia, may increase political risks. In Thailand, Move Forward leader Pita's bid for PM still hangs in the balance. Indonesia's Feb 2024 Presidential Election remains a tight race. Malaysia's state elections will test the support of the current government and capacity to push through much needed reforms.

Thailand's political outlook remains unclear even after the elections in May, as the parliament's joint session to vote for the new Prime Minister (PM) will only convene on 13 July. Move Forward Party (MFP) leader Pita Limjaroenrat's bid for PM still hangs in the balance as he would need at least 64 votes from senators or other MPs (outside the 8 coalition parties) to reach the required minimum support of 376 votes. Pita also still faces complaints questioning his eligibility over a shareholding in media company iTV Plc.

Indonesia's Presidential Election is scheduled for February 2024, set for a three-way contest between leading candidates Ganjar Pranowo, Prabowo Subianto and Anies Baswedan. The candidates have yet to announce their economic and social agendas. There remains uncertainty about policy continuity, with Ganjar seen as most likely to continue President Jokowi's policies including downstreaming industries, developing domestic manufacturing and relocation of the national capital to Nusantara. There are concerns that Anies may pursue a different policy agenda from Jokowi – for instance, Anies had previously voiced opposition towards the Nusantara project (see *Indonesia Economics - From Jakarta to Nusantara: A Bumpy Ride to the New Capital*, 13 Feb 2023). Ganjar and Prabowo are running neck to neck in opinion polls with Anis trailing behind.

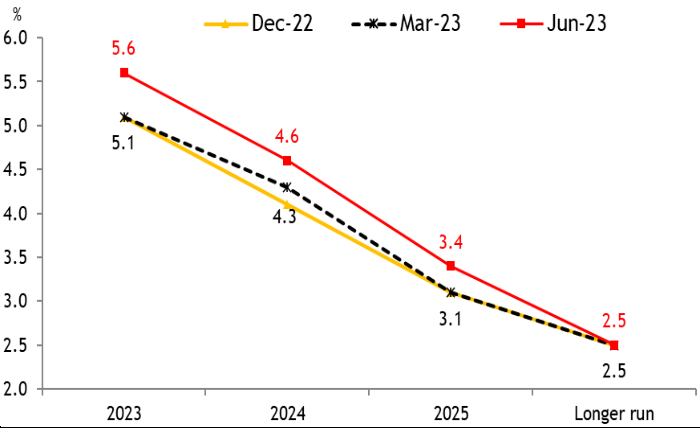
Malaysia will hold elections in six states on 12 August, with a total of 245 assembly seats contested in Kedah, Kelantan, Terengganu, Penang, Selangor and Negeri Sembilan. More than 9.7mn people (out of a population of 32mn) will be eligible to vote in the polls. The elections will not have a direct bearing on the federal government, but are seen as a barometer of support for Prime Minister Anwar and his unity coalition, especially among the dominant Malay population. A poor result could jeopardize political stability and the federal government's policy direction[4].

[4] South China Morning Post, "Malaysia gears up for state polls in first real test for Anwar Ibrahim's unity government", 23 June 2023.

[2] Excessive Fed Tightening

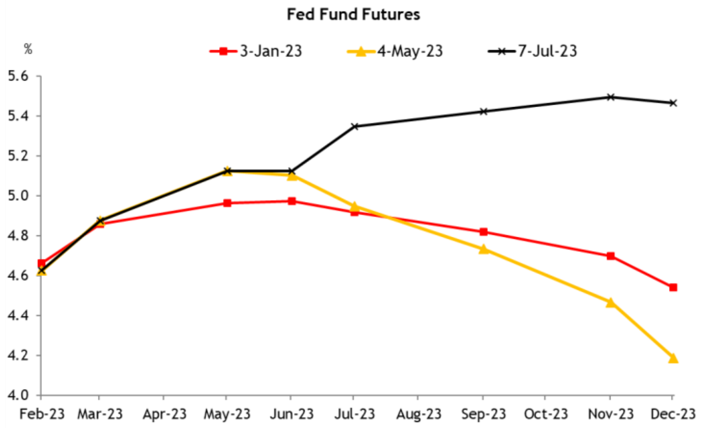
The latest US Fed dot plot signaled two more +25bps interest rate hikes this year (Maybank forecast: one +25bps hike) to tackle sticky core inflation (see Fig 53). Fed fund futures are pricing in one to two +25bps hikes before year-end (see Fig 54).

Fig 53: US - Fed Dot Plot Signals +50bps Hike, Expect Interest Rate to Peak at 5.6%



Source: FOMC June Meeting

Fig 54: US – Markets Pricing in One to Two +25bps Hikes Before End-2023

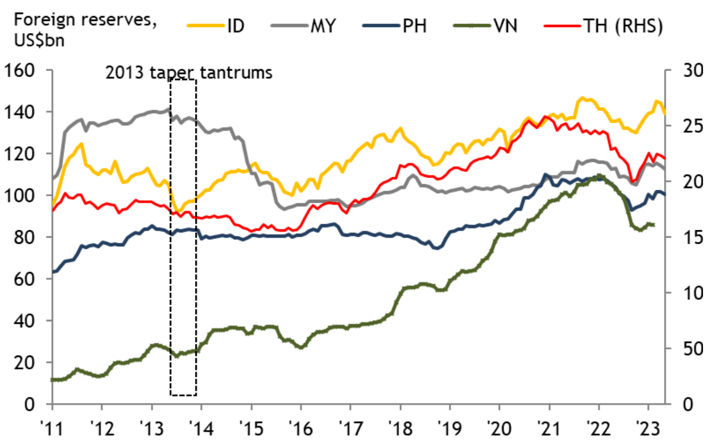


Source: CME, Maybank IBG Research

There remains a risk that a resilient US economy and sticky inflation may force the Fed to hike interest rates more aggressively to bring core inflation down to its 2% target. A more aggressive Fed may reduce the space for ASEAN central banks to ease, and may even pressure ASEAN central banks to resume rate hikes, which will weigh on domestic demand and growth.

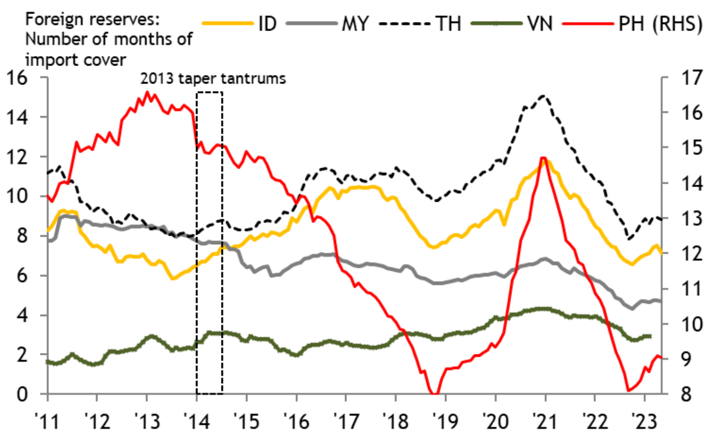
Rising US interest rates may pressure ASEAN currencies and foreign reserves. Foreign reserves fell significantly across ASEAN in 2022 as central banks intervened to support their currencies amid an accelerating dollar, but central banks have managed to partly rebuild their reserve buffers this year (see Fig 55). FX reserves remain robust, led by Philippines, Thailand and Indonesia (see Fig 56).

Fig 55: Foreign Reserves Fell in 2022 But Rising Again This Year, Significantly Higher Than 2013 Taper Tantrums



Note: Data till May 2023, except for Vietnam (Feb)
Source: Bloomberg, Maybank IBG Research

Fig 56: FX Reserves Import Cover Remains Robust



Note: Based on trailing 12-mths goods imports. Data till May 2023, except for Vietnam (Feb)
Source: Bloomberg, Maybank IBG Research

[3] US-China Rivalry & Fragmenting Global Supply Chains

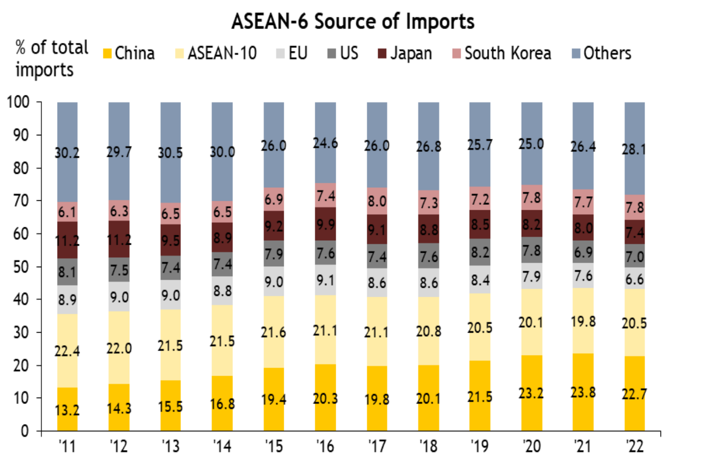
The US-China rivalry and fragmenting global supply chains has not been a major negative for ASEAN so far, but remains a vulnerability if the rivalry and fragmentation worsens. The tariffs, sanctions and export controls may hit and extend to some ASEAN exporters (for example semiconductors). ASEAN has become a conduit and intermediary of the diversion and circumvention of trade and investment flows.

Growing reliance on intermediate imports from China is becoming a key source of vulnerability for ASEAN's manufacturing sectors. Rising import dependence makes MNCs' production in ASEAN ultimately highly reliant on China, which may be impacted if US trade restrictions and sanctions on China broaden.

Demand for Chinese inputs has risen as production has diverted from China to ASEAN on the back of global MNCs' "China + 1" strategy. This reflects China's large and sophisticated web of competitive suppliers, which cannot be easily replicated in another country. Components and capital goods are shipped from China and heavily used for assembly of products for export out of several ASEAN countries.

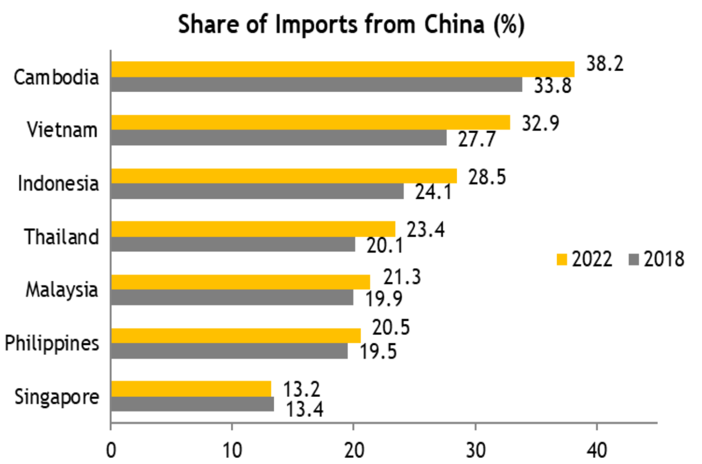
ASEAN sourced 23% of its imports from China in 2022, with China's import share rising steadily over the past decade (see Fig 57). Share of ASEAN-6's capital and intermediate goods imports sourced from China increased to 24% in 2020 from 21% in 2018.

Fig 57: ASEAN Becoming More Dependent on Imports from China



Source: CEIC

Fig 58: Cambodia and Vietnam Most Reliant on Imports from China



Source: CEIC

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