

ASEAN: Sustaining through a year of market turmoil in 10 charts

Summary

Key members in ASEAN have managed to ride through a year of volatile swings in the financial markets, brought on by the lingering effects of the COVID-19 pandemic, the Russia-Ukraine military conflict, spikes in commodities prices, rising inflation pressures globally and aggressive rate hikes by the US Federal Reserve. On a relative basis, Asian currencies as a whole has withstood the onslaught of the USD strength quite well, while capital flows were orderly and nowhere near the scale experienced during the severe drawdowns in Mar 2020 when the COVID-19 became a global pandemic.

In the 10 charts that follow, we argue that these key factors behind ASEAN's resilience are likely to help these economies withstand potential volatility ahead as economic recessions in developed markets loom while tightening financial conditions and geopolitical risks linger on.

While improved fundamentals have allowed ASEAN markets to withstand the financial market volatility in 2022, the year ahead is expected to remain uncertain and challenging. Overall, GDP growth rates around the world will be lower in 2023 with developed markets such as the US, Europe and UK experiencing full year declines, while the main economies in ASEAN are expected to see growth rate slowing to sub-5% pace in 2023, from above 6% in 2022.

Holding up well against bouts of market volatility in 2022

As 2022 draws to a close and a new year beckons, it should be no surprise that key members in ASEAN (namely, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam) have managed to ride through a year of volatile market swings.

The year 2022 started off with the lingering effects from the contagious COVID-19 variant of Omicron wave globally, and then the Russia-Ukraine military conflict erupted which sparked off a round of sharp price spikes and supply disruptions in the energy and commodity complex, at a time when global supply chains were attempting to recover from two years of COVID-19 pandemic.

This was followed by a surge in inflation globally and the US Federal Reserve began one of its most aggressive rate hike campaigns in history to quell inflation pressures. Other central banks followed the Fed's footsteps to combat multi-decade high inflation and to guard against disruptive capital outflows as the US interest rates surged and the USD strengthened.

The ensuing market turmoil resulted in G7 and Emerging Market (EM) FX volatility spiking to the highest levels since Mar 2020 during the early days of the global pandemic, and it remains elevated and has yet to show sustained signs of returning to normal.

FX: volatility surged through 2022

Source: Macrobond, UOB Global Economics & Markets Research

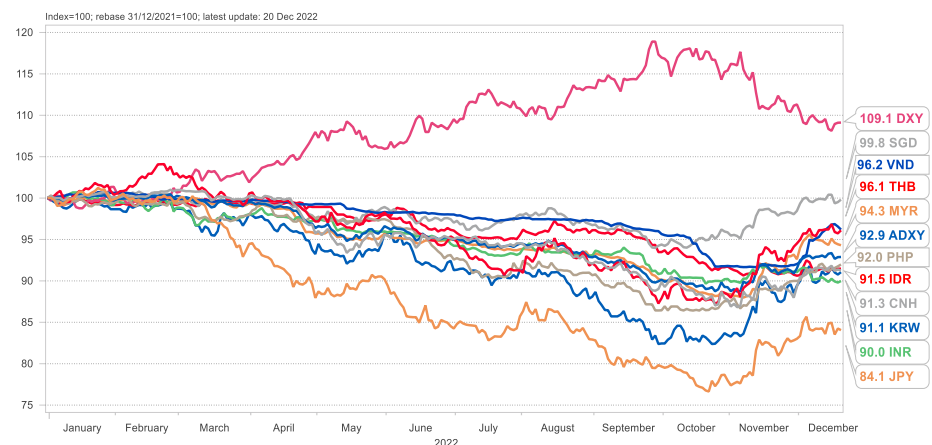


For the key members of ASEAN, pressures from these global market developments were most visible from their respective central banks' actions (stepped up pace of rate hikes and for Singapore, tightening of SGD NEER policy), decline in foreign reserves and selling pressures on currencies, equity and bond markets.

Except for the SGD which has held up quite well against the USD so far in 2022, partly due to the quick, pre-emptive actions from MAS to strengthen the SGD NEER policy early and forcefully, most of the rest of Asian currencies are down by 5-10% in 2022 after a bout of weakness in 2Q and 3Q.

Asia: FX Performance Against USD

Source: Macrobond, UOB Global Economics & Markets Research



However, on a relative basis, Asian currencies (except for JPY) as a whole has withstood the onslaught of the USD strength quite well, given that the US dollar index (DXY) strengthened as much as 19% at one point. The DXY has since pared about half of its yearly gains.

Similarly for capital flows, key markets in Asia, including those in ASEAN, experienced a year of volatility with episodes of significant outflows. However, in aggregate, ASEAN still saw net inflows of more than USD7 bn for the year to Nov, with inflows in the equity markets offsetting outflows from bond markets. Overall, the capital flows movements were orderly and nowhere near the scale experienced during the severe drawdowns in Mar 2020 when the COVID-19 became a global pandemic.

Asia: YTD changes* in foreign holdings in equity and bonds flows

Source: Macrobond, UOB Global Economics & Markets Research

USD, millions (YTD flows)	11/2022 (YTD)	1m ago 10/2022	2m ago 9/2022	3m ago 8/2022	2021 Full yr	2020 Full yr	2020-03 Pandemic
ASEAN total flows	7,555.1	71.6	1,731.3	5,934.7	9,392.3	-14,533.5	-25,471.4
Net equity flows	11,940.1	10,407.0	9,670.5	10,798.7	-2,439.5	-20,679.9	-7,164.1
Net bond flows	-4,385.0	-10,335.4	-7,939.2	-4,864.1	11,831.8	6,146.4	-18,307.4
India net flows	-18,634.6	-23,403.8	-24,061.7	-22,638.1	2,236.1	9,519.7	-16,362.5
South Korea net flows	43,438.0	37,272.7	32,202.2	29,200.0	83,246.9	42,200.7	603.9
Taiwan net flows	-41,469.1	-47,945.1	-44,567.4	-38,819.4	-15,336.7	-15,256.9	-17,878.4

* Estimates based on publicly available data on bonds and equity flows by foreign holders
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Is ASEAN able to withstand further market volatility?

While key members in ASEAN (namely, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam) managed to sustain through a year of market volatility without touching off a financial market crisis, what are the key factors behind such resilience and will it be able to take on further market volatility?

In the following 10 charts, we argue that fundamental factors are supportive of these ASEAN economies to defend against the uncertain environment ahead in 2023, as risks loom for economic recessions in the US, UK and Europe, tightening financial conditions, further straining of US-China relations and Russia-Ukraine conflict, among others.

1. Strong recovery momentum post-pandemic: GDP growth for most economies has rebounded strongly in 2Q-3Q22 on the back of exports demand and increasingly domestic demand as COVID-19 restrictions have mostly been lifted across ASEAN. Malaysia topped the list in 3Q22 with the fastest growth rate in ASEAN.

ASEAN: Real GDP Growth (quarterly)

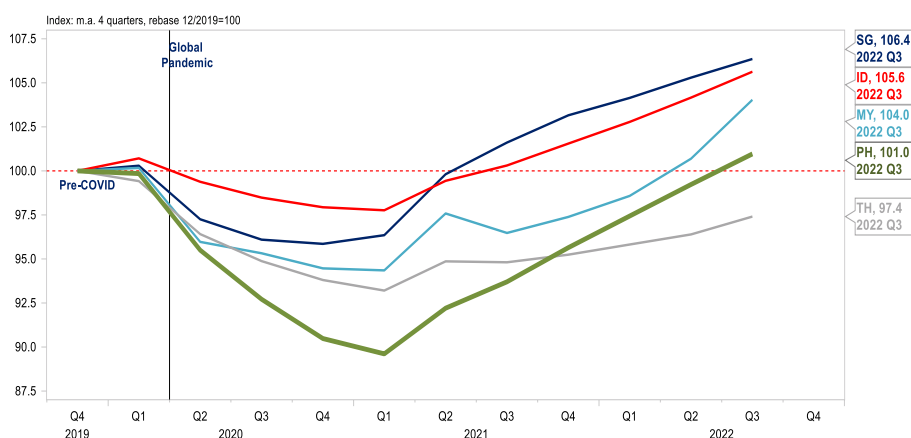
Source: Macrobond, UOB Global Economics & Markets Research



2. Back above pre-pandemic output levels: Except for Thailand, national output is now back to pre-COVID levels as ASEAN benefitted from exports demand and reopening of the economies boosted domestic demand. The consistent recovery helps to support income growth and stabilize government finances and financial market confidence, among others.

ASEAN: real economic output largely above pre-COVID level

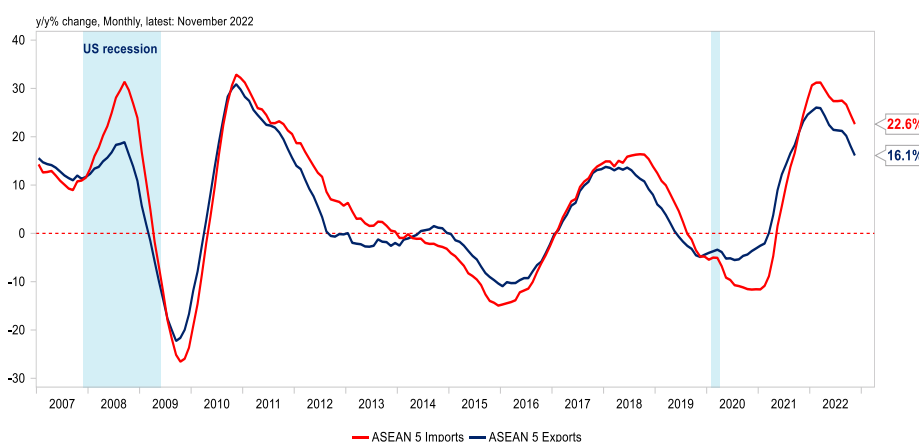
Source: Macrobond, UOB Global Economics & Markets Research



- Robust trade performances: Exporters and manufacturing sectors in ASEAN were the main beneficiaries especially during the pandemic period, though global demand is expected to soften in the coming months as rising interest rates globally dampen spending and business activities.

ASEAN5: trade performance (12-month ma)



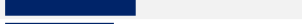
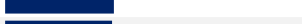
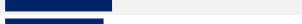
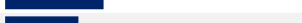
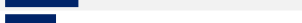
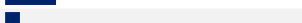
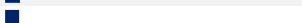

Source: Macrobond, UOB Global Economics & Markets Research



- Tourism recovery: Lifting of COVID-19 restrictions and reopening of domestic economies across ASEAN since mid-2022 added further to recovery momentum as visitor flows surged and services sectors rebounded. These factors are expected to be the main pillar for various ASEAN economies in 2023. As and when China further relaxes its zero-COVID policy and reopens its borders, it will be a further boost to the tourism-related sectors across ASEAN.

Asia: inbound visitor arrivals, YTD

Source: Macrobond, UOB Global Economics & Markets Research

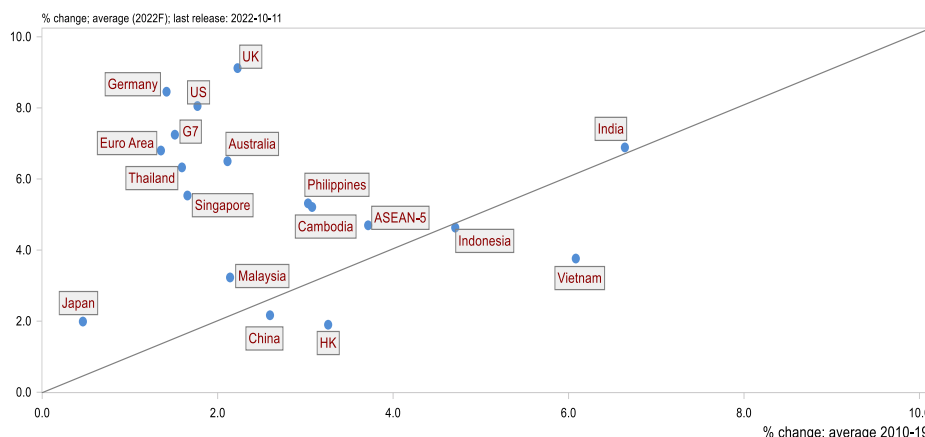
	No. of Persons, million	Latest YTD	% y/y	1Y ago YTD	2021	2020	2019
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Thailand		7.16	8244.7	0.20	0.43	6.70	39.9
Singapore		5.37	2640.6	0.24	0.33	2.74	19.1
Indonesia		3.92	257.1	1.39	1.56	4.05	16.1
India		3.26	535.2	1.15	1.45	2.70	10.9
Malaysia		3.21	6239.0	0.10	0.13	4.33	26.1
Vietnam		2.95	2261.9	0.14	0.16	3.84	18.0
South Korea		2.20	218.6	0.88	0.97	2.53	17.5
Japan		1.53	699.7	0.23	0.25	4.12	31.9
Hong Kong		0.44	512.7	0.08	0.09	3.57	55.9
Taiwan		0.42	308.8	0.13	0.14	1.38	11.9

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- Benign inflation: Inflation rates in Asia and ASEAN have generally been at lower levels relative to the developed markets in 2022, as consumer prices are partially cushioned by administrative measures as well as access to energy, mineral and agriculture commodities for some ASEAN countries. This means that regional central banks' policy tightening is less aggressive than the Fed's, allowing more flexibility for economic expansion.

Selected economies' inflation (historic and forecasts from IMF), forecasts for 2022

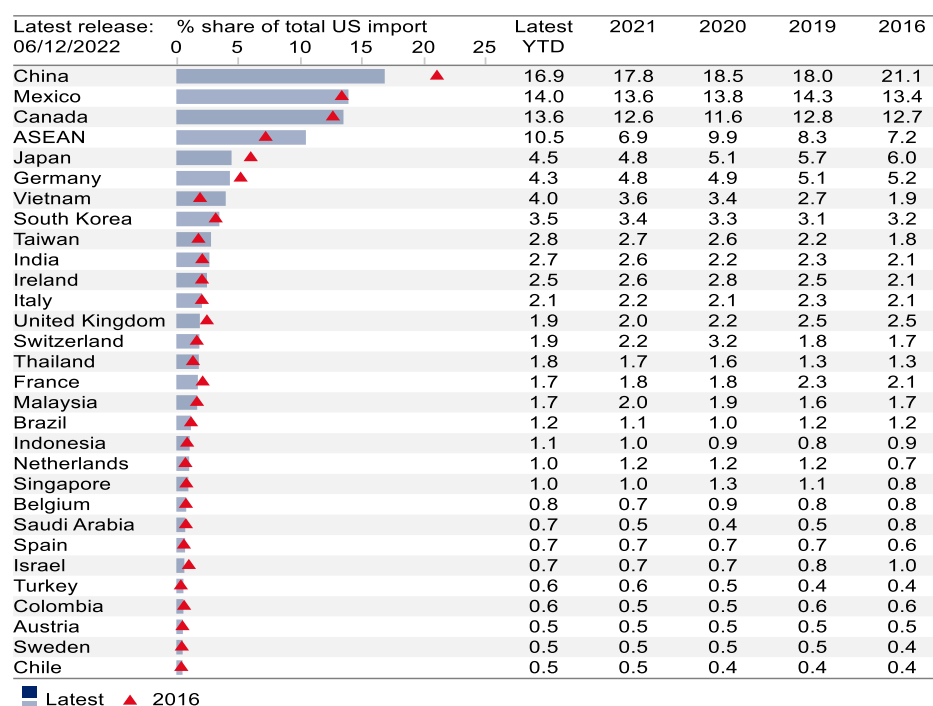
Source: Macrobond, UOB Global Economics & Markets Research



- Supply chain shifts: This is reflected in the share of US' imports from ASEAN, particularly Vietnam, while US' imports from China fell after 2016 when Trump became US president and US-China tensions flared up. The shifts are likely to be structural with US pursuing various measures to counter China's rise, including onshoring, offshoring and "friendshoring", and deglobalization/regionalization of supply chains, all of which will benefit ASEAN as a manufacturing and exports hub.

United States: top import sources, YTD (% share)

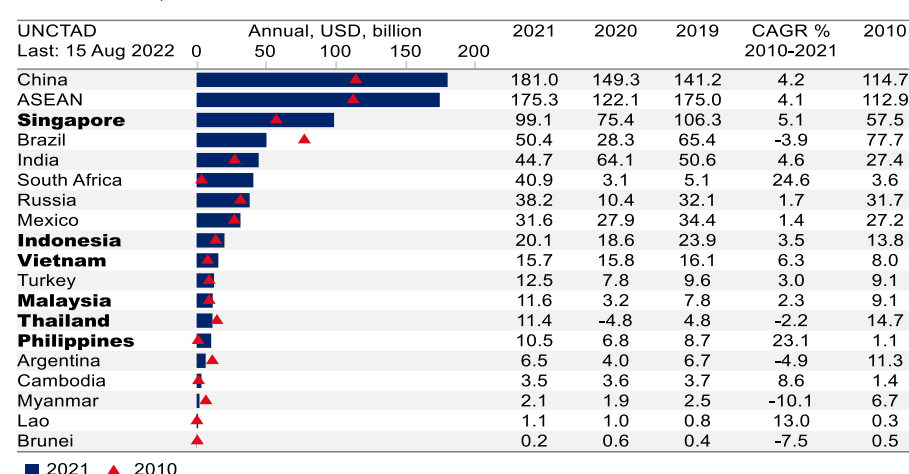
Source: Macrobond, UOB Global Economics & Markets Research



7. Healthy investment inflows: Supply chain shifts are also accompanied by investment inflows, leading to a surge of foreign direct investments (FDI) inflows to the region as businesses set up manufacturing plants, warehouse facilities, distribution networks, and others. Despite the pandemic conditions, FDI inflows to ASEAN jumped by 44% in 2021 to a new record high of USD175.3bn, above the previous record set in 2019. ASEAN is also the world's third largest destination of FDI inflows, after the US and China.

Foreign Direct Investment (FDI), inward flows

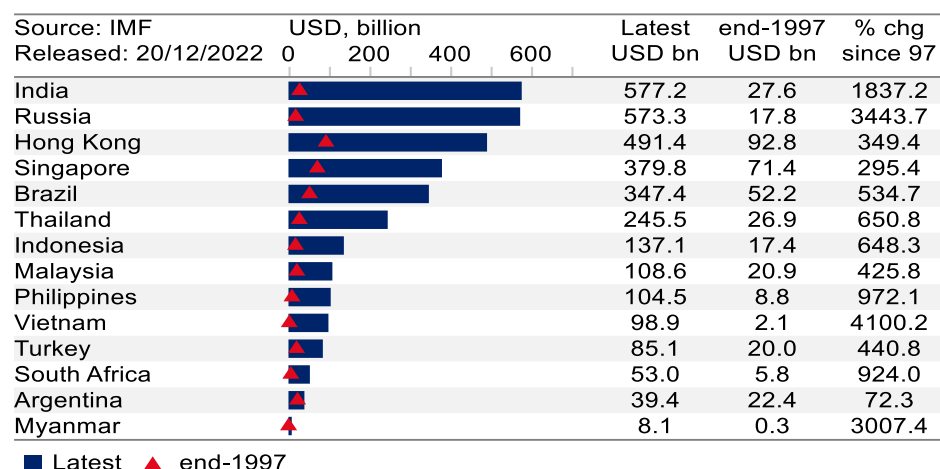
Source: Macrobond, UOB Global Economics & Markets Research



8. Ample foreign reserves: The build up in foreign reserves since the Asian financial crisis has allowed for greater buffer against financial market volatility. Despite the depletion over the past 12 months in view of the strong US dollar, the quantum of reserves on hands remains substantial compared to the levels seen in 1997. These will continue to serve as a buffer against sharp capital outflows from domestic markets.

IMF IFS, official reserve assets, USD

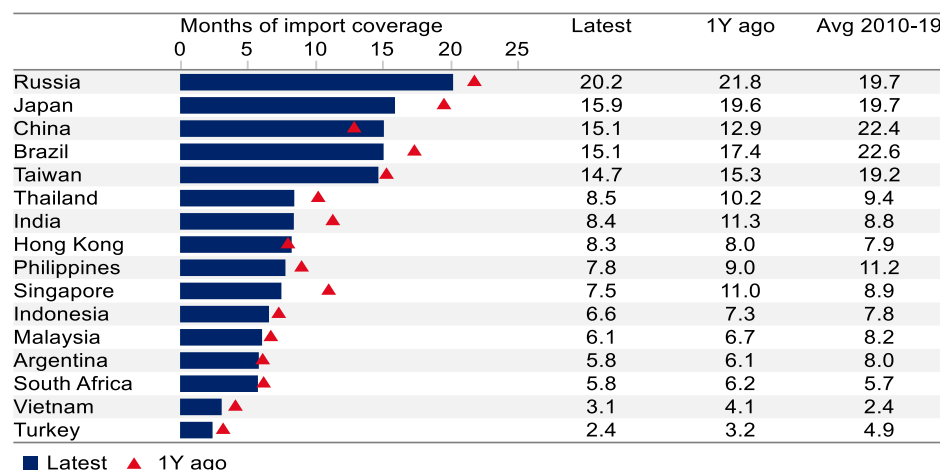
Source: Macrobond, UOB Global Economics & Markets Research



9. Ability to pay imports: The ability to pay for imports is another test of confidence and most of the ASEAN countries have more than sufficient reserves available to pay for 3 months of imports (which is seen as an international "rule of thumb").

International reserves: imports coverage (months)

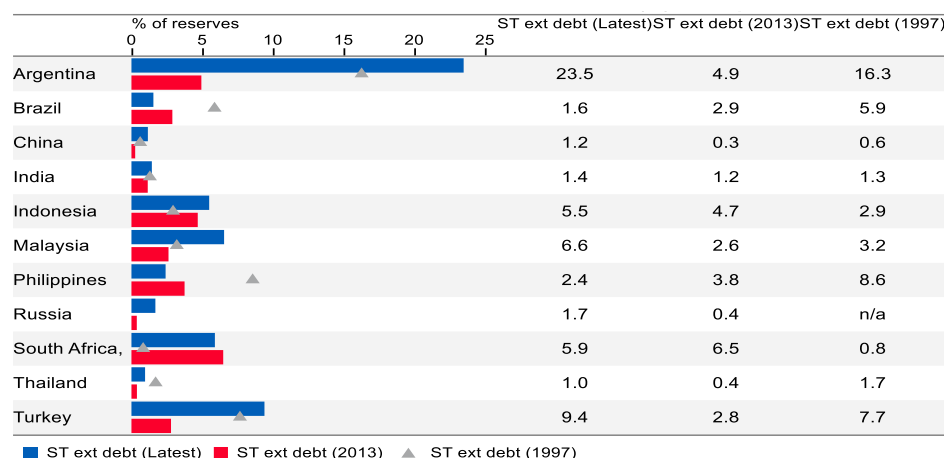
Source: Macrobond, UOB Global Economics & Markets Research



10. Short-term external debt: Most of the ASEAN countries have relatively small amount of short-term external debt relative to their reserves, except for Indonesia and Malaysia, which are still below 10% of their foreign reserves. This keeps ASEAN countries in a good position to withstand the pressures of a strengthening USD and rising global interest rates.

Ratio of short term external debt to FX reserves (%) - comparisons

Source: Macrobond, UOB Global Economics & Markets Research



Outlook - slower growth pace in 2023

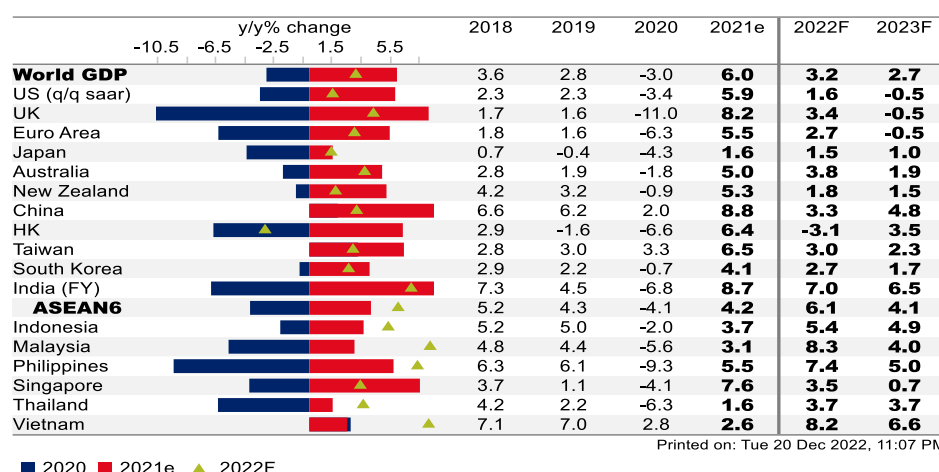
While improved fundamentals have allowed ASEAN markets to withstand the financial market volatility in 2022, the year ahead is expected to remain uncertain and challenging amid looming risks of economic recessions in the US and Europe, tightening financial conditions, further straining of US-China relations and Russia-Ukraine conflict, among others. Given the export-oriented nature of ASEAN economies and the world's third largest destination of FDI inflows, the possibility of spillovers from these risk factors cannot be ignored.

However, these are offset somewhat by the ongoing recovery in domestic activities with the relaxation of COVID-19 pandemic restrictions and reopening of cross border movements, which will benefit domestic oriented sectors such as retail, food & beverage, transport, accommodation, among others. One potential uplift will be when China reopens its borders, which will revitalize the tourism sector especially for Thailand, Malaysia, Singapore and Vietnam.

Overall, GDP growth rates around the world will be lower in 2023 with developed markets such as the US, Europe and UK experiencing full year declines, while the main economies in ASEAN are expected to see growth rate slowing to sub-5% pace in 2023 from above 6% in 2022. China will likely see meaningful recovery in 2023 as we anticipate further gradual easing of its COVID-19 measures next year (which may quicken as the government plans to accelerate elderly vaccination) as well as flow-through of the stimulus measures.

Real GDP growth rate (annual)

Source: Macrobond, UOB Global Economics & Markets Research



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