

Regional Macroeconomic and Financial Developments

ASEAN Senior Level Committee (SLC) Meeting on Financial Integration

October 18, 2022

Disclaimer: The findings, interpretations, and conclusions expressed in this material represent the views of the author(s) and are not necessarily those of the ASEAN+3 Macroeconomic Research Office (AMRO) or its member authorities. Neither AMRO nor its member authorities shall be held responsible for any consequence of the use of the information contained therein.



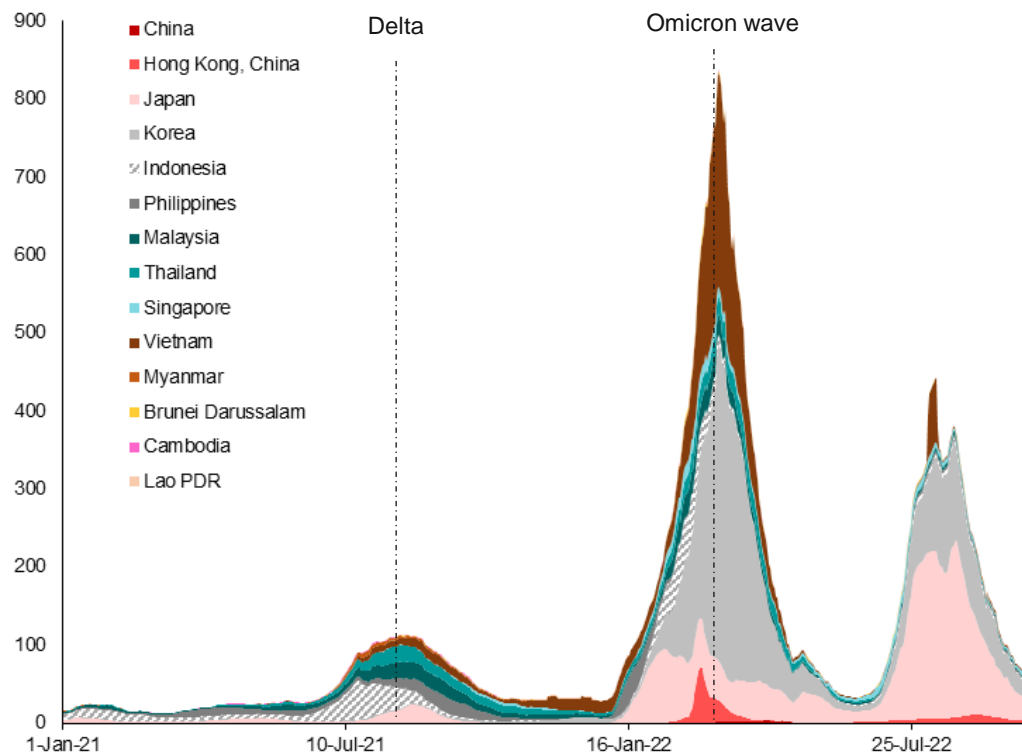
- 1. Key Macroeconomic & Financial Developments in the Region**
- 2. Risks, Challenges and Outlook for the Region**

1

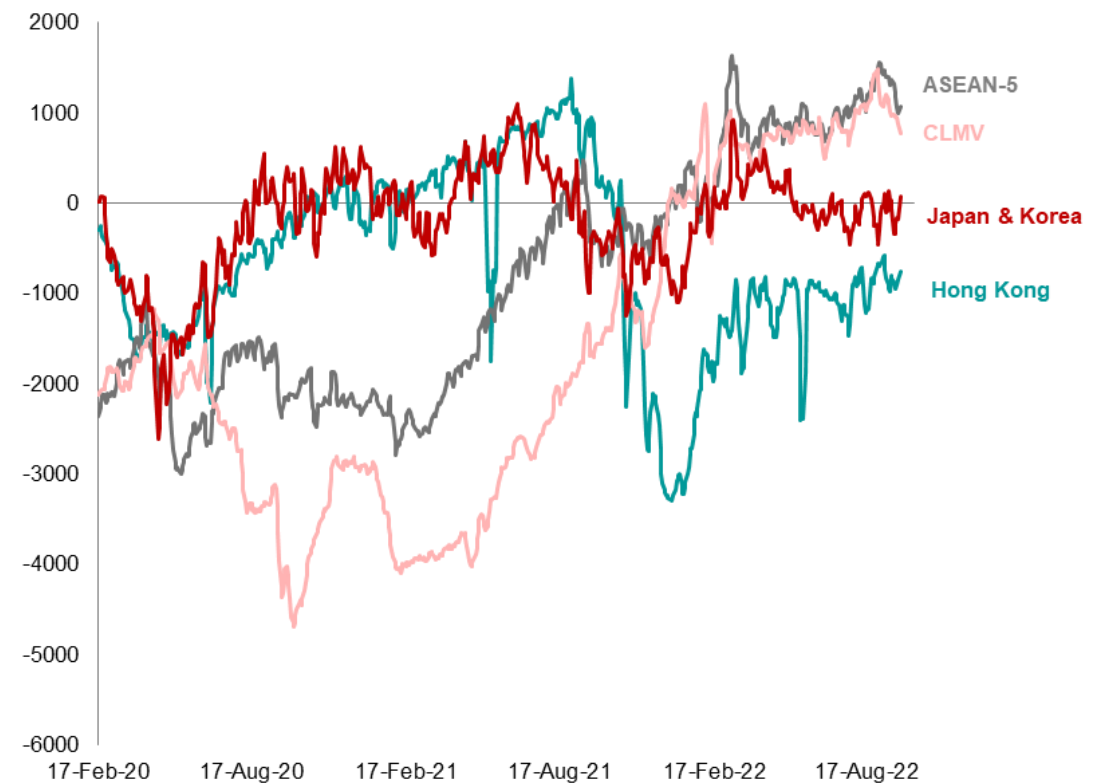
Key Macroeconomic & Financial Developments in the Region

Daily new COVID cases have declined since the temporary surge in July; Mobility in ASEAN is back to normal levels

ASEAN+3: Daily COVID-19 Cases
(5-day average, thousand persons)



Selected ASEAN+3: Aggregate Non-Residential Mobility
(Percentage change from baseline; 5-day moving average)



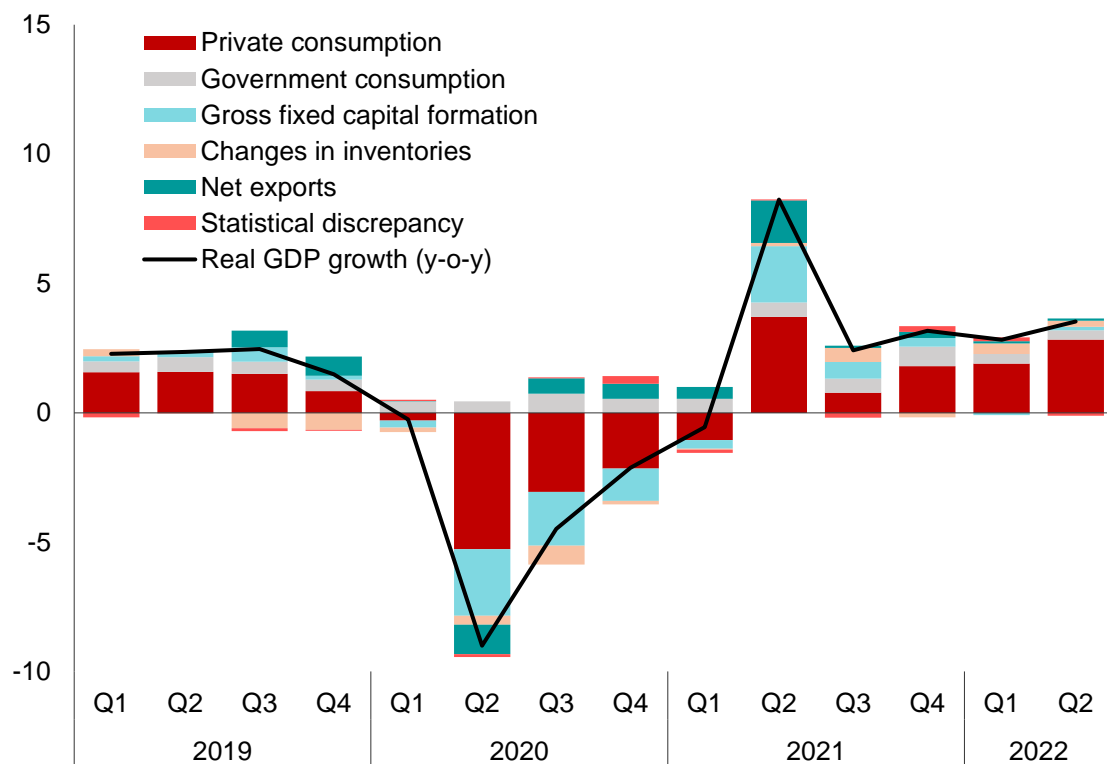
Sources: Our World in Data via Haver Analytics; and AMRO staff calculations. Data are up to 12 Oct 2022.

Sources: Google COVID-19 Community Mobility reports via Haver Analytics; and AMRO staff calculations. Notes: Baseline refers to the median value of the corresponding day in the period Jan 3–Feb 6, 2020. Non-residential mobility refers to aggregated mobility data for places such as groceries and pharmacies, retail and recreation facilities, transit stations, and workplaces. ASEAN-5 = Indonesia, Malaysia, Philippines, Thailand, and Singapore. CLMV = Cambodia, Lao PDR, Myanmar, and Vietnam. Data are up to 12 Oct 2022.

Growth was generally strong in H1 2022, but economic activity is likely to moderate in H2

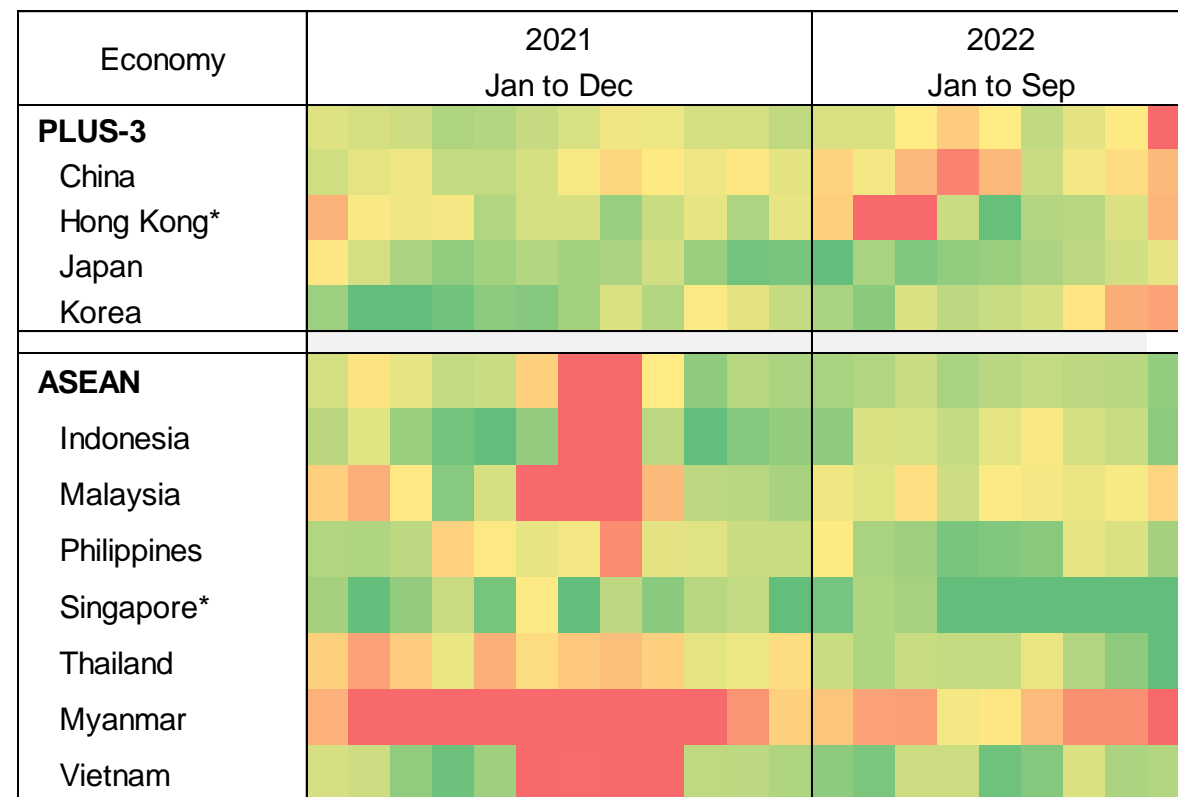
Further lifting of containment measures has buoyed the recovery in domestic demand in ASEAN

Selected ASEAN+3: Contribution to Real GDP Growth
(Percent, year-on-year)



Source: National authorities via Haver Analytics; AMRO calculations.
Note: Excludes Cambodia, China, Lao PDR, Myanmar, and Vietnam due to data unavailability.

Selected ASEAN+3: Manufacturing PMI
(Index, seasonally adjusted)

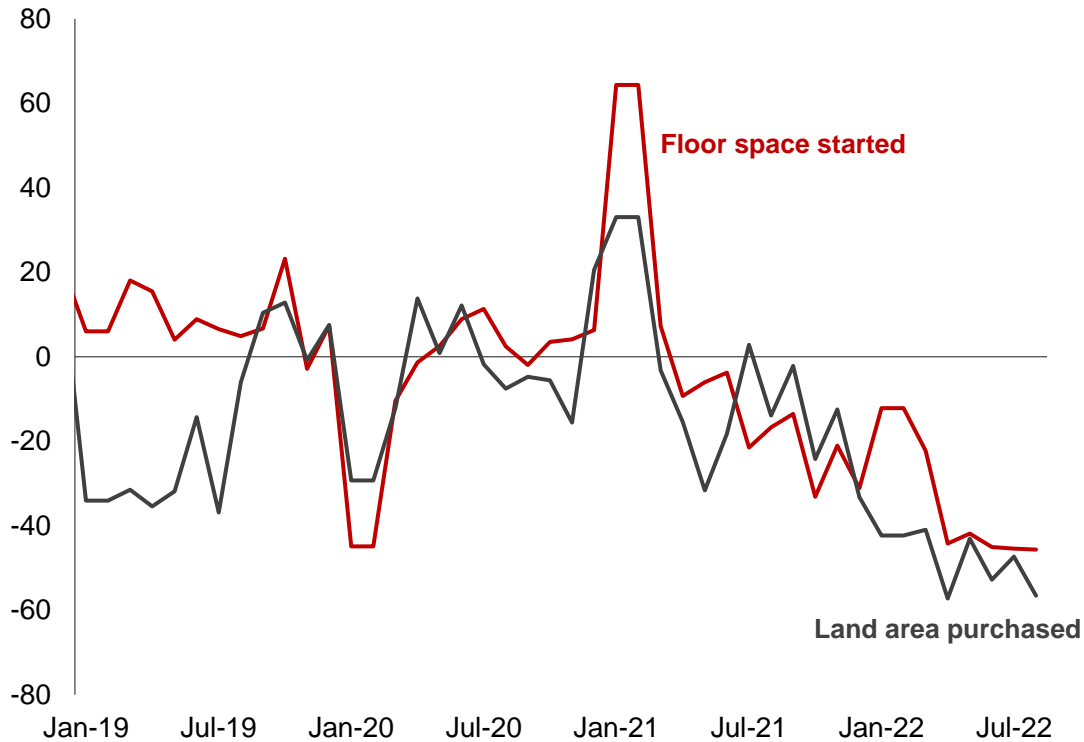


Source: IHS Markit; and JPMorgan.
Notes: * Denotes both manufacturing and services combined. PMI readings are coded by colors: darker shades of red denote readings further below the diffusion level of 50 (darkest red denotes: 45); conversely, greener shades denote readings further above the diffusion level of 50 (darkest green denotes 55). Data as of 6 October 2022.

China: Slowing real estate sector is weighing on the wider economy

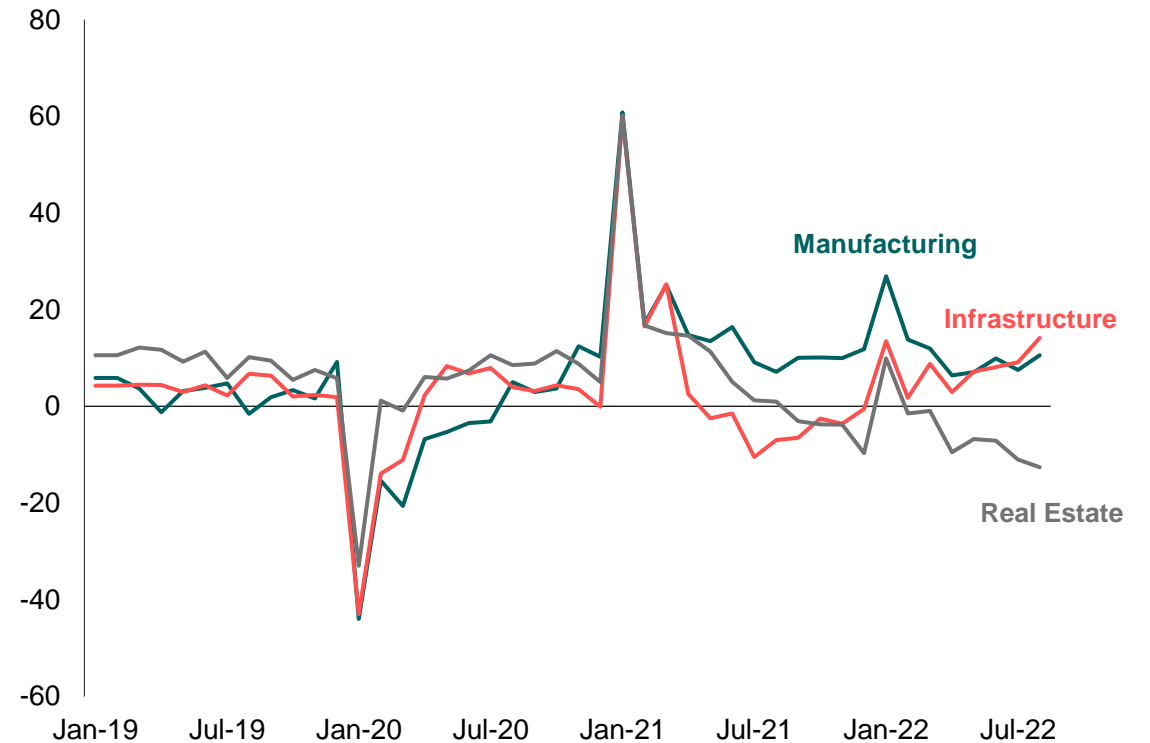
Despite the authorities' recent measures to prop up the market, new construction, land sales contracted further

China: Key Indicators of Real Estate Activities
(Percent, year-on-year)



Source: National authorities via Haver Analytics.

China: Investment by Key Sectors
(Percent, year-on-year)

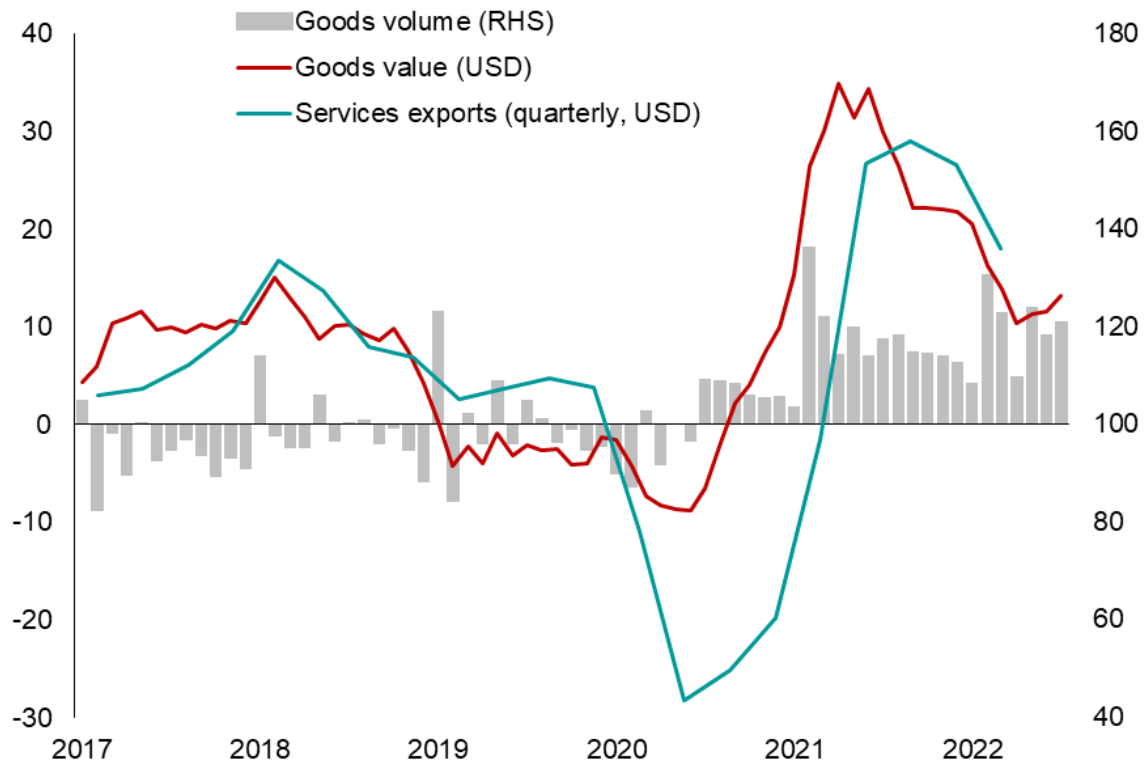


Source: National authorities via Haver Analytics.

So far, ASEAN+3 exports have held up well, but face strong headwinds

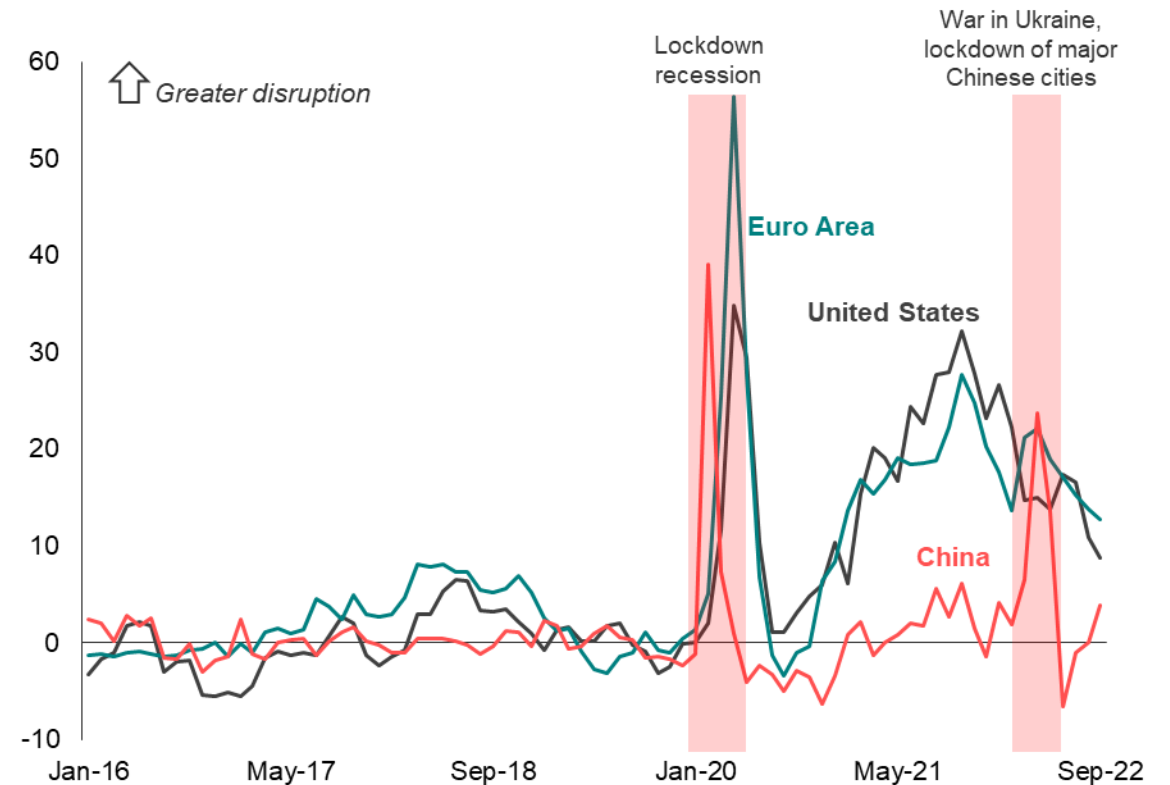
The easing of global supply chain disruptions has helped support regional exports

ASEAN+3 Goods and Services Export Growth (Percent, year-on-year; Index)



Source: National authorities; AMRO staff calculations.
Note: Services exports data for Q1 2022 exclude Brunei and Myanmar.

Supply Chain Disruption (Index)

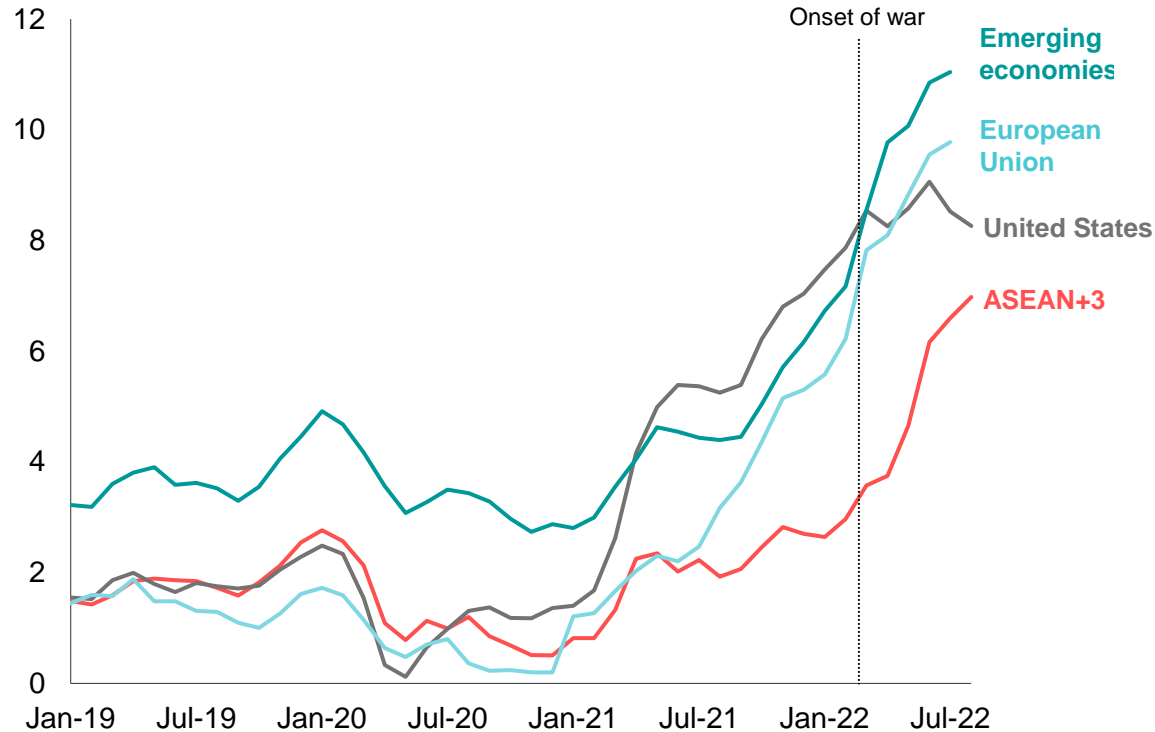


Sources: Haver Analytics; and AMRO staff estimates
Notes: Supply chain disruptions are calculated as the difference between the supply delivery times sub-index in the Purchasing Managers' Index (PMI) and a counterfactual, cyclical measure of supply delivery times based on the manufacturing output sub-index in the PMI. The magnitude of the disruption is measured from its deviations from zero.

Price pressures are not just rising, but broadening across the region

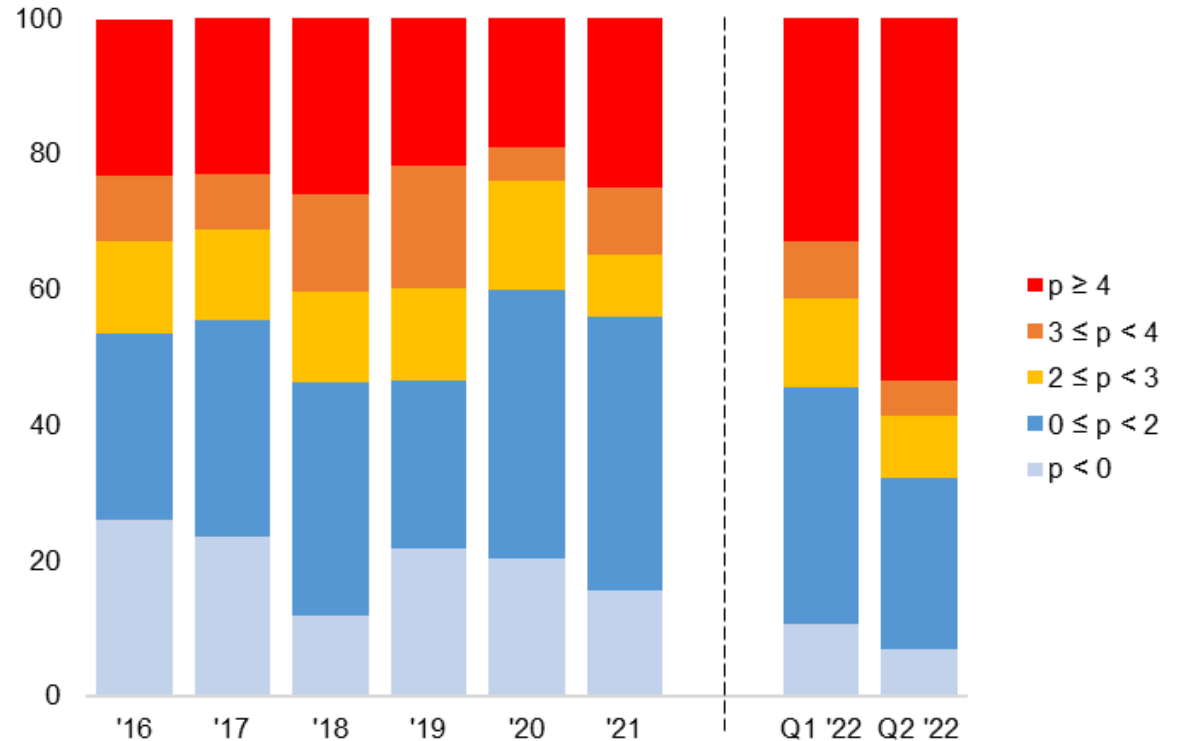
Fuller pass-through from still elevated global food and fuel prices, subsidy cuts in some economies, and weaker currencies have pushed overall costs higher

Headline Consumer Price Inflation
(Percent, year-on-year)



Source: National authorities via Haver Analytics; and AMRO staff calculations.
Note: Data for ASEAN+3 up to August 2022, with the exception of Brunei and Cambodia (up to June 2022), and Myanmar (up to March 2022).

ASEAN+3: Share of Items in the CPI Basket
by Inflation Thresholds
(Percent)

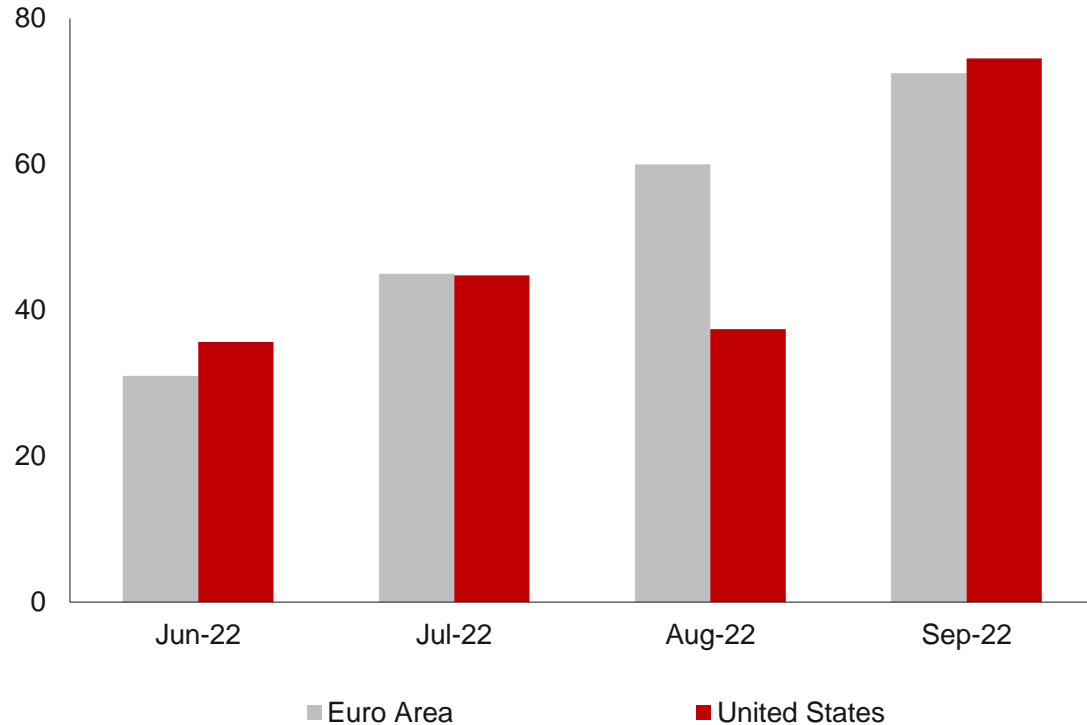


Sources: National authorities via Haver Analytics; and AMRO staff calculations.
Notes: Data for Myanmar up to Q1 2022.

US, euro area: Intensifying fears of recession

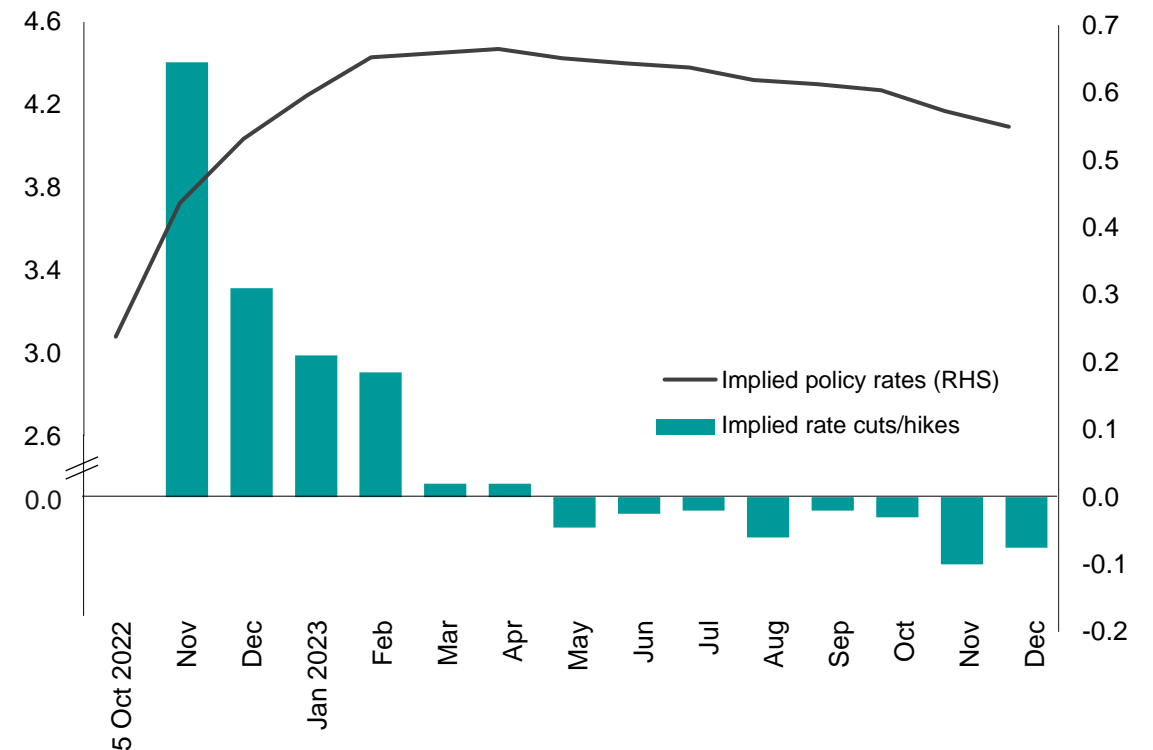
Europe's energy crisis is pushing it closer to recession, while the Fed's aggressive monetary tightening is increasing the risk of a hard landing

US and Euro Area: Probability of Recession in the Next 12–18 Months (Percent)



Source: Bloomberg.
 Notes: Probabilities for the United States (US) are taken from Bloomberg Economics' US recession model, which uses a range of financial-market, real-economy, and economic-imbalance indicators to gauge the risk of recession in the next 18 months. Probabilities for the euro area are based on Bloomberg surveys to assess the chance of a downturn in the next 12 months.

US: Market Implied Path of (Effective) Fed Funds Rate (Percent)

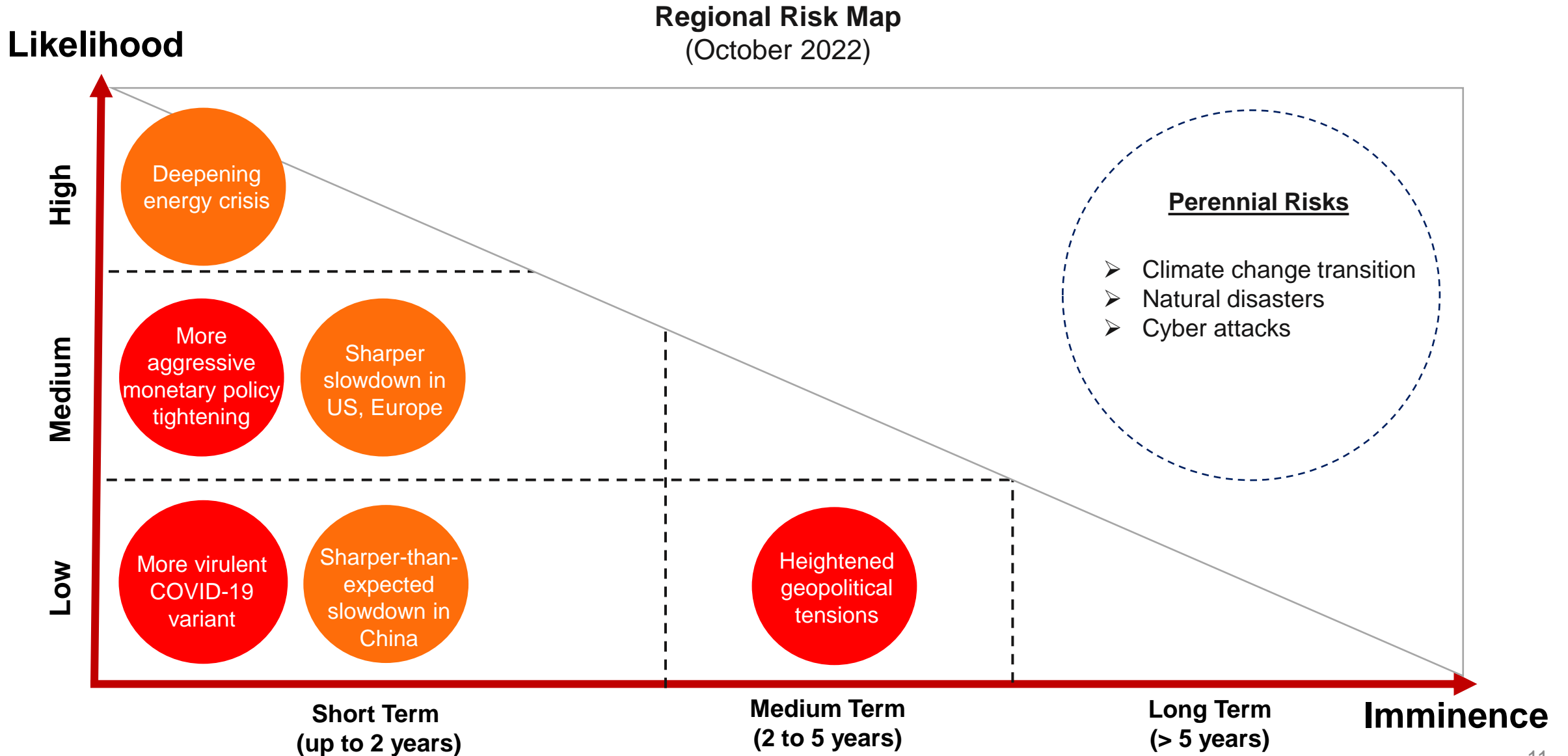


Source: Bloomberg.
 Note: Current pricing as of 5 October 2022.

2

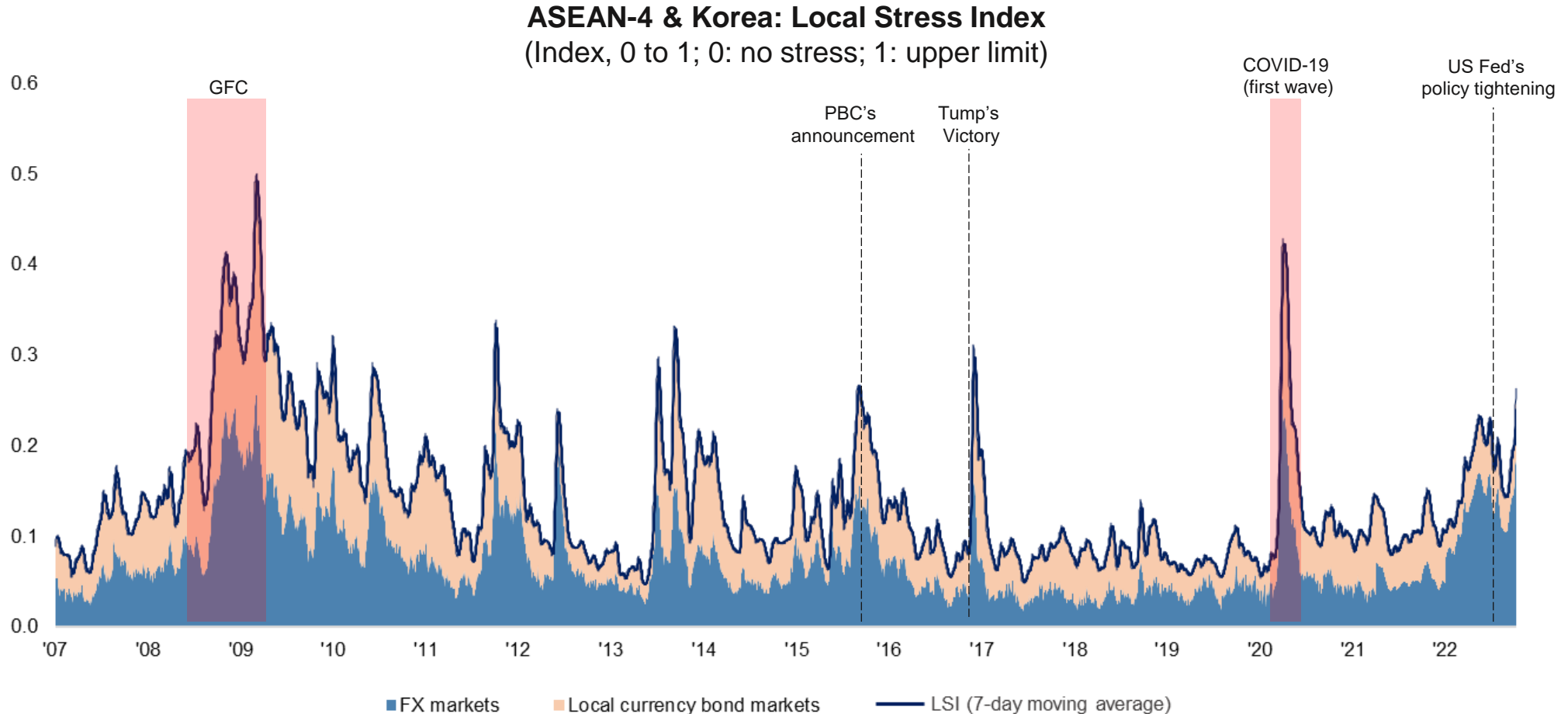
Risks, Challenges and Outlook for the Region

ASEAN+3 faces mounting headwinds to growth



Strains have emerged in local markets on more aggressive Fed policy

ASEAN-4 and Korea's FX and local currency bond markets have experienced increased financial strain



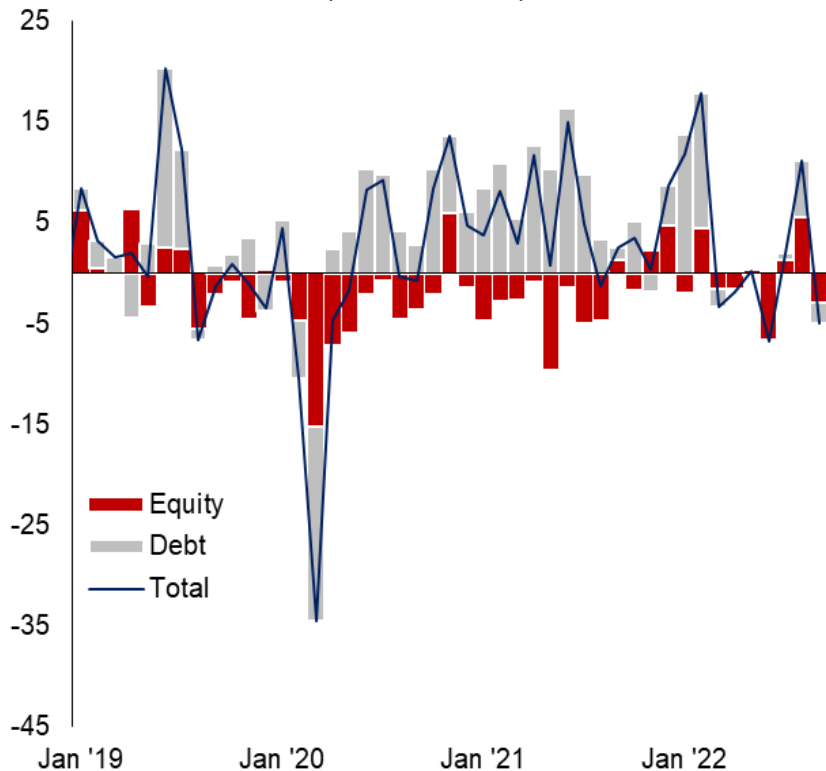
Sources: Haver Analytics, Bloomberg, JP Morgan, author's estimates

Note: The Local Stress Index (LSI) focuses on several key indicators, chosen on an ex-ante basis, given their information content in portending major stress events. The indicators reflect local market liquidity and stress conditions, unlike those indicators used to derive broader financial condition indices, which are a reflection of funding costs. The index is unit-free by construction and is measured on an ordinal scale with range [0, 1], with 1 being the upper limit. PBC = People's Bank of China. Data are up to 12 October 2022.

Growing threat of recession has boost the demand for safe-haven US dollar

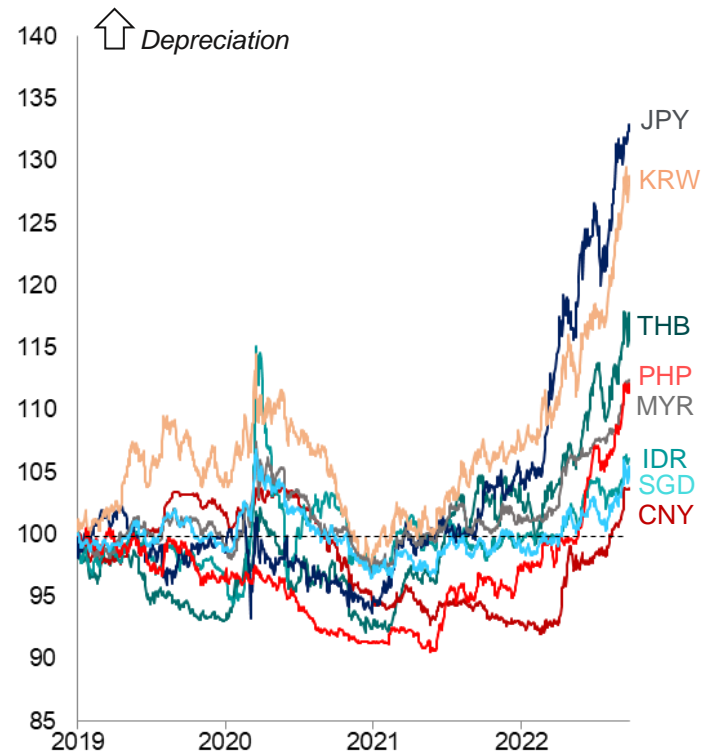
Foreign portfolio capital flows reversed to an outflow from Apr to Sep 2022, amid weakening of regional currencies; borrowing costs have also edged higher

**Regional EMs (ex-China):
Non-Resident Portfolio Flows
(USD billion)**



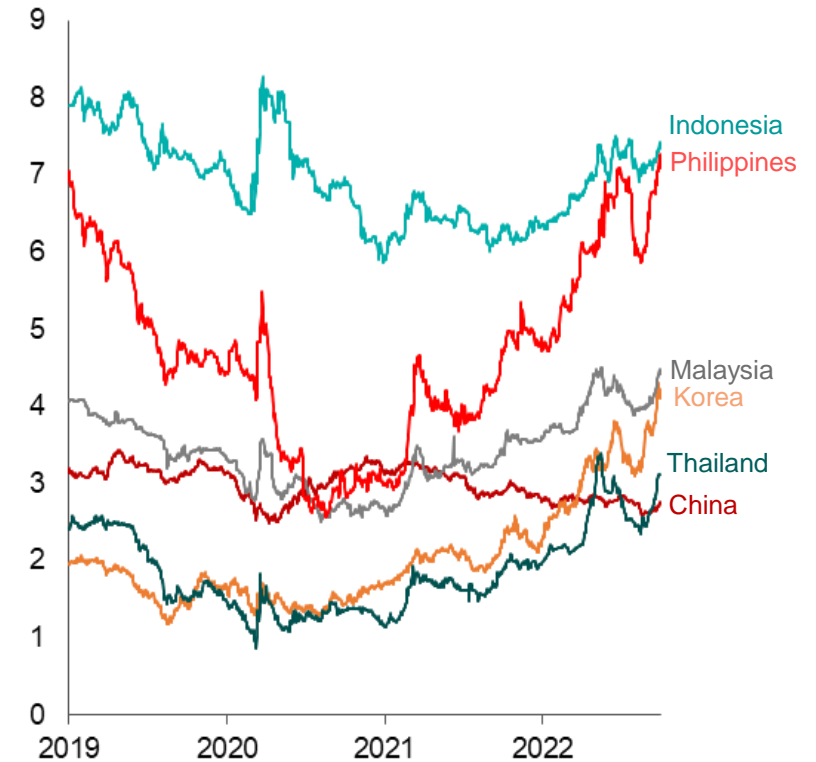
Source: IIF
Notes: Refers to the liabilities side of the BOP entry. Data up to August 2022. Equities data for the Philippines are up to June 2022.

**Selected ASEAN+3: Exchange Rate
against USD
(Index, 2 Jan 2019 = 100)**



Source: Haver Analytics.
Note: Data up to 12 October 2022.

**Selected Regional EMs:
10Y LCY Sovereign Bond Yields
(Percent)**

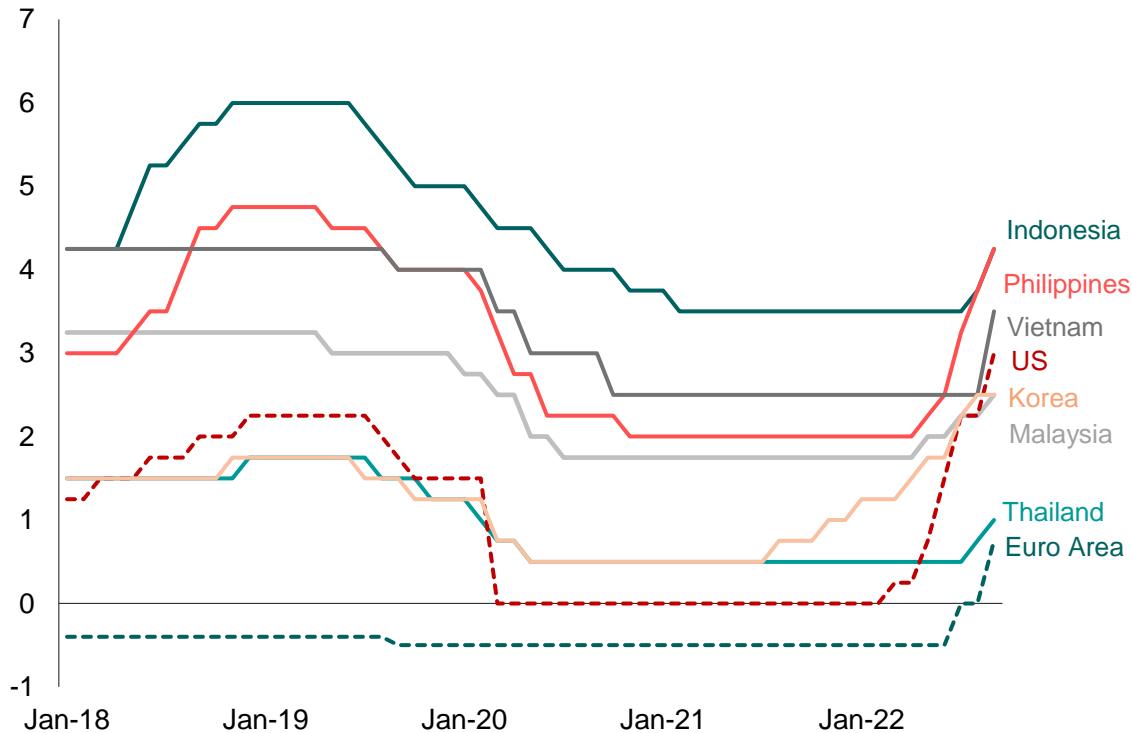


Source: Haver Analytics.
Note: Data up to 12 October 2022.

Central banks in the region are tightening monetary policy to curb inflation and support their currencies

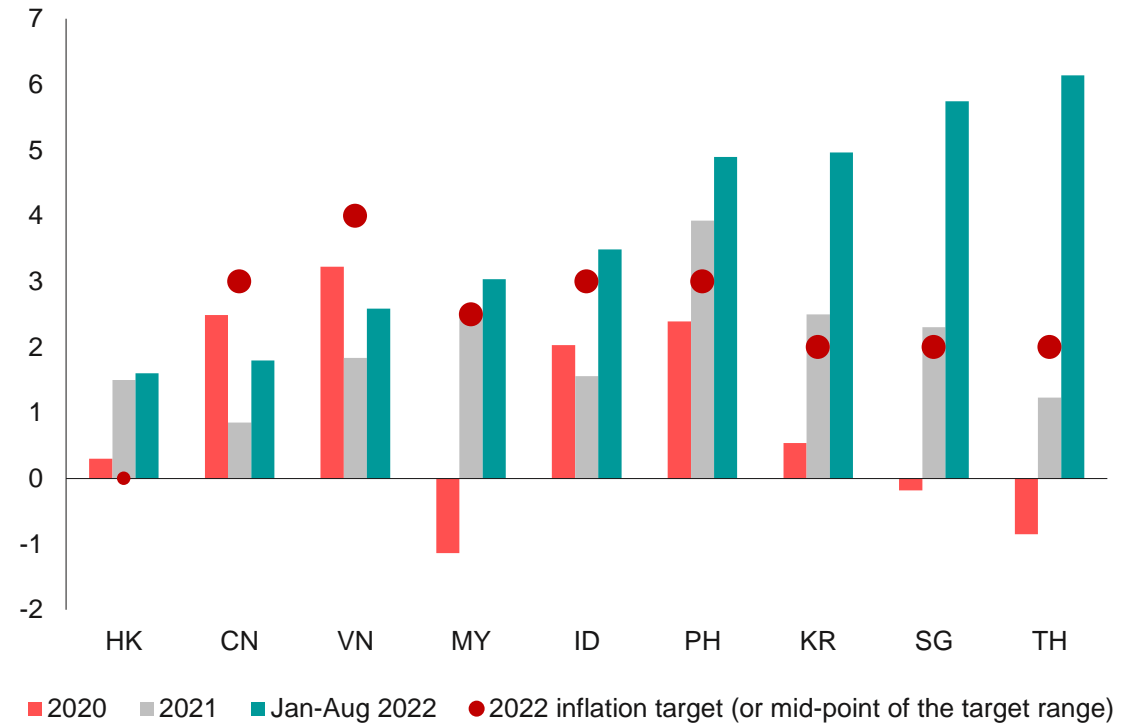
The pace of monetary tightening in the region has generally been more measured and gradual than in the US and euro area

Selected ASEAN+3, US, and Euro Area: Policy Interest Rates (Percent)



Source: National authorities via Haver Analytics.
Notes: Data up to September 2022. For the US, data refers to the upper range of the Fed funds rate. For the Euro Area, data refers to the deposit facility rate.

Selected ASEAN+3: Headline Consumer Price Inflation (Percent, year-on-year)



Source: National authorities via Haver Analytics.
Notes: Malaysia is not an inflation-targeting country, the data point refers to an implicit target range of 2.5 percent. For Hong Kong, there is no explicit or implicit inflation target.

2022 growth projection revised downwards...

AMRO Staff Baseline Growth Estimates and Forecasts, 2022–23

Economy	Gross Domestic Product (Percent year-on-year)				
	2021 (Actual)	AREO 2022 Quarterly Update (July 2022)		AREO 2022 Quarterly Update (October 2022)	
		2022 ^p	2023 ^f	2022 ^p	2023 ^f
ASEAN+3	6.0	4.3	4.9	3.7	4.6
Plus-3	6.8	4.1	4.9	3.3	4.5
China	8.1	4.8	5.7	3.8	5.3
Hong Kong, China	6.4	1.1	3.7	0.3	3.9
Japan	1.7	1.8	2.0	1.6	1.6
Korea	4.1	2.5	2.6	2.4	2.3
ASEAN	3.1	5.1	5.2	5.3	4.9
Brunei Darussalam	-1.6	3.0	3.9	0.7	3.0
Cambodia	3.0	4.9	5.8	5.0	5.4
Indonesia	3.7	5.1	5.4	5.2	5.1
Lao PDR	2.6	3.5	4.9	4.0	3.9
Malaysia	3.1	6.0	5.0	7.3	4.2
Myanmar	-18.7	1.5	-	1.2	-
The Philippines	5.7	6.9	6.5	6.9	6.3
Singapore	7.6	3.9	2.4	3.1	2.0
Thailand	1.6	3.2	4.9	3.2	4.8
Vietnam	2.6	6.3	6.5	7.0	6.5

Source: AMRO staff estimates.

Notes: AREO = ASEAN+3 Regional Economic Outlook report. p = projection, f = forecast. Regional aggregates for growth are estimated using the weighted average of 2021 GDP on purchasing power parity basis. Myanmar's numbers are based on its fiscal year which runs from October 1 of the previous year to September 30 of the current year.

...with inflation revised upwards

AMRO Staff Baseline Inflation Estimates and Forecasts, 2022–23

Economy	Consumer Price Index (Percent year-on-year)				
	2021 (Actual)	AREO 2022 Quarterly Update (July 2022)		AREO 2022 Quarterly Update (October 2022)	
		2022 ^p	2023 ^f	2022 ^p	2023 ^f
ASEAN+3	2.1	5.2	2.8	6.2	3.4
Plus-3	1.2	2.7	2.0	2.8	2.1
China	0.9	2.2	2.0	2.2	2.0
Hong Kong, China	1.6	2.0	2.3	2.0	2.3
Japan	-0.3	1.8	1.0	2.1	1.1
Korea	2.5	4.6	2.6	5.0	3.0
ASEAN	2.5	6.2	3.2	7.6	4.0
Brunei Darussalam	1.7	3.2	1.8	3.5	2.0
Cambodia	2.9	6.4	4.4	5.3	3.0
Indonesia	1.6	3.4	3.6	4.4	5.0
Lao PDR	3.8	14.3	4.6	20.2	9.7
Malaysia	2.5	3.0	2.2	3.5	2.5
Myanmar	3.6	12.0	–	18.0	–
The Philippines	3.9	4.4	3.8	5.1	4.0
Singapore	2.3	5.2	3.7	5.9	4.1
Thailand	1.2	6.3	1.2	6.3	2.5
Vietnam	1.8	3.5	3.3	3.5	3.3

Source: AMRO staff estimates.

Notes: AREO = ASEAN+3 Regional Economic Outlook report. p = projection, f = forecast. Regional aggregates for inflation are computed using simple averaging. Myanmar's numbers are based on its fiscal year which runs from October 1 of the previous year to September 30 of the current year.

Recap of Key Messages

1. External headwinds have intensified since AMRO's July 2022 update. Inflationary pressures are high, global financial conditions have tightened considerably, the risk of a recession in the US and Europe has risen, and geopolitical tension has heightened.
2. The aggressive monetary policy tightening by the Fed is putting downward pressure on regional currencies, upward pressure on interest rates, and a sell-off in equity markets.
3. China's economy is weighed down by the strict containment measures in response to the sporadic Covid-19 outbreaks and the weakness of the real estate sector.
4. ASEAN+3 is expected to grow by 3.7% in 2022, reflecting the softer outlook for the Plus-3 economies (3.3%). However, ASEAN remains resilient, and growth has been raised to 5.3%. Inflation forecast for the year is revised up to 6.2%.
5. For 2023, the region's growth is expected to increase to 4.6% as China recovers (Plus-3: 4.5%; ASEAN: 4.9%), with inflation moderating to about 3.4%.

Thank you



Contact Us

Add: 10 Shenton Way, #15-08/9, Singapore 079117

Tel: +65 6323 9844

Email: Regional.Team@amro-asia.org

Website: www.amro-asia.org