

Economic Letter From Asia: Of Dollars, Cars, and Chips

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Of Dollars, Cars, and Chips

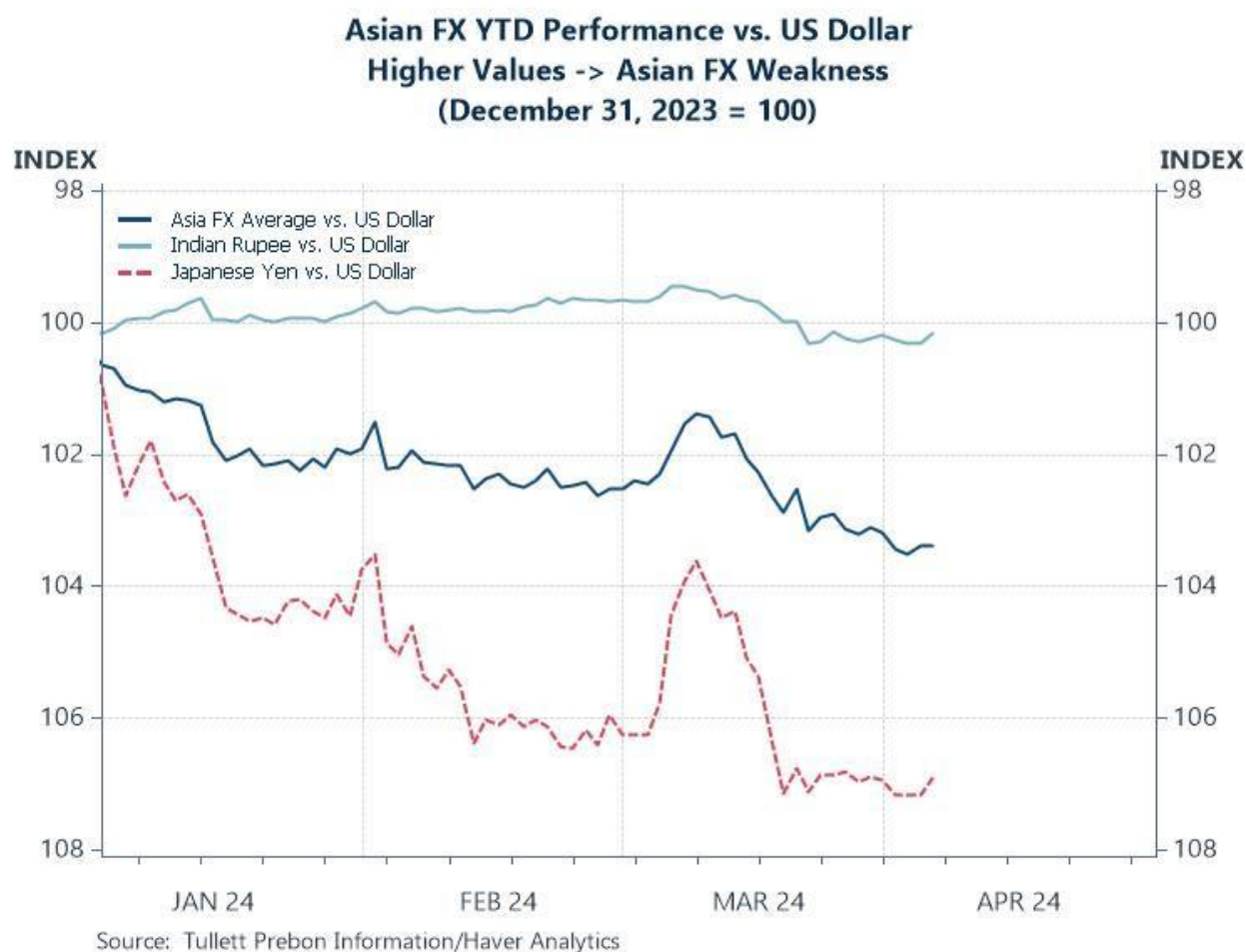
In this week's letter, we look at a few more macroeconomic themes relating to Asia. We first analyse recent Asian currency performance, noting the Japanese yen's weakness and the Indian rupee's relative resilience in the face of a strengthening US dollar. We then examine the explanatory power of yield differentials for the respective performance of these currencies. We find that while yield differentials explain about half of the currencies' returns variability, much remained unaccounted for, particularly in the case of the yen.

We move next to study more localized issues within specific Asian economies. Starting with Japan, we discuss the recent slowdown in the growth of its monetary base and in its central bank's government bond holdings in light of monetary policy moves. We also examine Japan's latest Tankan survey results, which indicate diminished large manufacturer optimism, but elevated sentiment amongst large non-manufacturers. Moving to China, we take stock of developments in its electric vehicle market and investigate possible drivers of its recent sales slump, including seasonality and increased competition. Lastly, we explore South Korea's latest exports numbers in the context of its broader relevance for global trade. We find that while headline export growth remains positive, underlying weakness exists when semiconductors – a major export component – is removed.

Asian FX performance

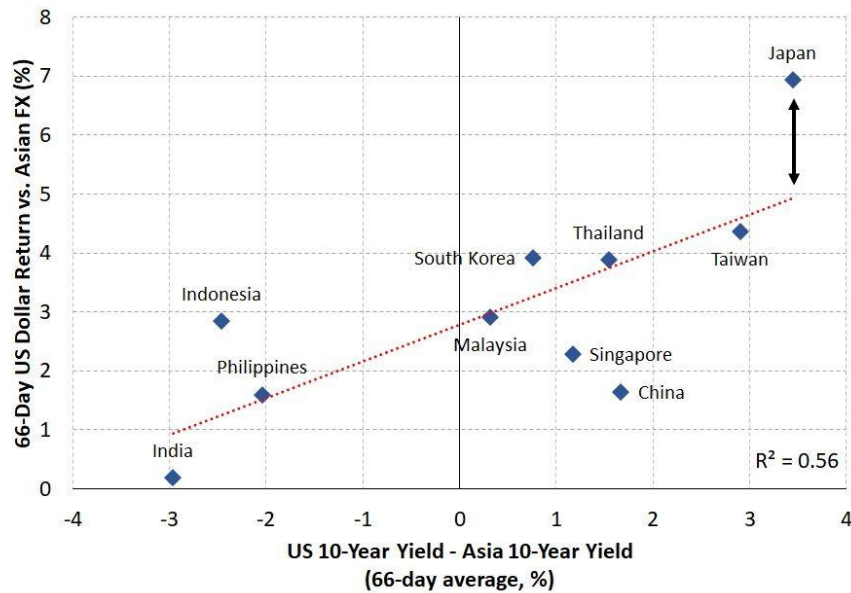
The US dollar has been on the front foot lately, with its strength spurred in part by some unwinding of Fed rate cut expectations. The strengthening has come to the detriment of Asian currencies, which have weakened on average by 3.5% against the dollar so far this year (Chart 1). The extent of Asian currency depreciation against the dollar has been varied, however, with the Japanese yen having weakened the most, while the Indian rupee has displayed relative resilience.

Chart 1: Asian FX YTD performance vs. US dollar



Possibly driving the dollar's relative returns against Asian currencies are yield differentials, with US yields still maintaining a positive spread over those of many Asian economies. The indicative relationship between recent Asian currency performance and yield differentials is illustrated in Chart 2. Based on a simple linear regression model, we see that yield differentials – when are used as an explanatory variable – explain about half of variations in Asian currency performance. Touching on edge cases, India is notable in the bottom-left hand corner of the chart with its positive yield spread and currency resilience relative to the US. Moving to the top-right corner, we next see Japan, its negative yield spread relative to the US, and the underperformance of the yen. With all that said, there remains much left unexplained by the model, as denoted by the double arrow in the chart for Japan. This suggests possible drivers of recent yen weakness beyond just yield differentials.

Chart 2: Asia currency performance vs. yield differentials relative to the US

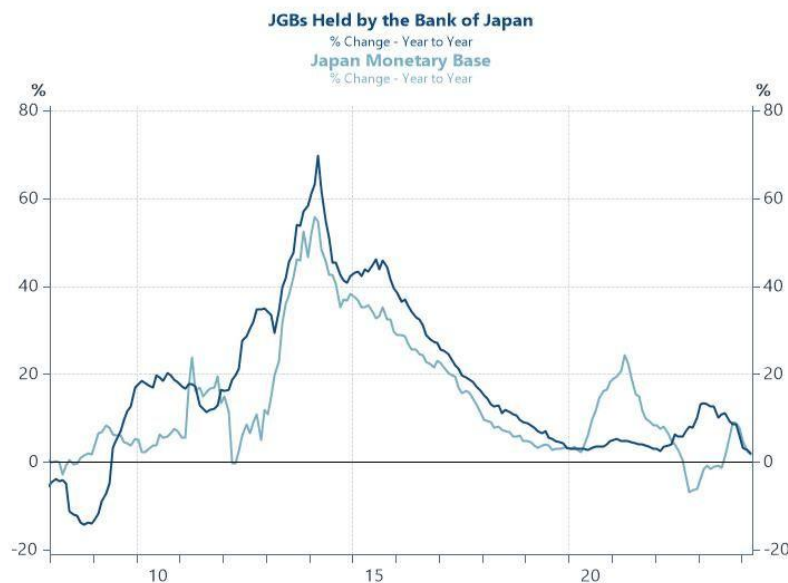


Source: Tullet Prebon, Haver Analytics

Monetary developments in Japan

Delving into monetary developments in Japan, we are starting to see the Bank of Japan's (BoJ) latest policy shifts show up in the data. For one, growth in Japan's monetary base has started to slow, cooling to 1.6% y/y in March, from a peak of 55.7% seen in February 2014 (Chart 3). The slowdown had already commenced prior to the central bank's March announcement that it achieved its "inflation-overshooting commitment" regarding the monetary base. Previously, the BoJ had committed to expanding the monetary base to spur inflation above its 2% target "in a stable manner". Apart from the monetary base, we are also starting to see growth in the BoJ's holdings of Japanese Government Bonds (JGBs) decelerate, with that slowdown possibly extending. An inference can be drawn from the BoJ's latest quarterly schedule of outright JGB purchases, where upper limits for Q2 have been significantly reduced. With that said, the BoJ described in March that its future JGB purchase amounts will be "broadly the same as before".

Chart 3: Japan's monetary base and the Bank of Japan's JGB holdings

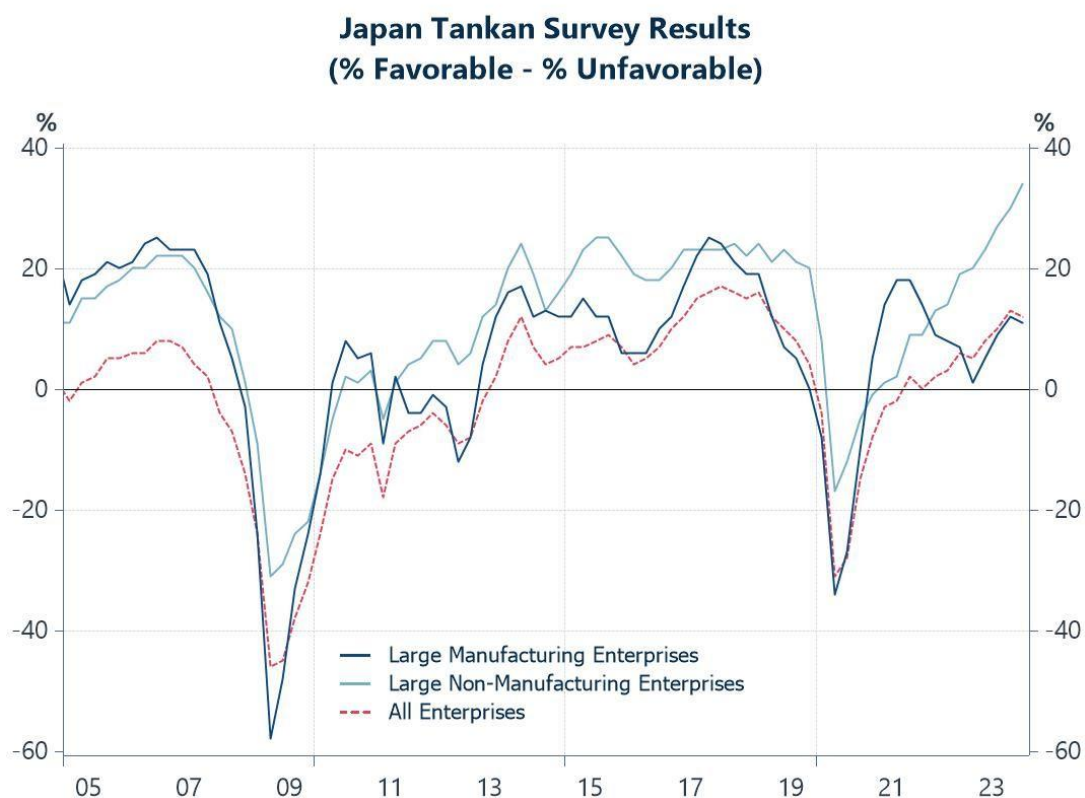


Source: Bank of Japan/Haver Analytics

Japan's Tankan survey

Moving on to corporate sentiment in Japan, we saw a mixed bag of results from the BoJ's latest Tankan survey. On the one hand, business confidence of large manufacturers worsened for the first time in a year, as shown in Chart 4. On the other, optimism of large non-manufacturers improved for the eighth straight quarter to reach multi-decade highs. The dip in large manufacturer confidence can be partly attributed to large motor vehicle manufacturers, who saw their reading more than halved in the quarter. Possibly explaining the confidence slump are the production halts and safety-related concerns affecting certain carmakers in the past months. On the flipside, the soaring optimism in large non-manufacturers was likely induced by record numbers of tourist arrivals seen recently, possibly encouraged by a weakened yen.

Chart 4: Japan's Tankan survey results

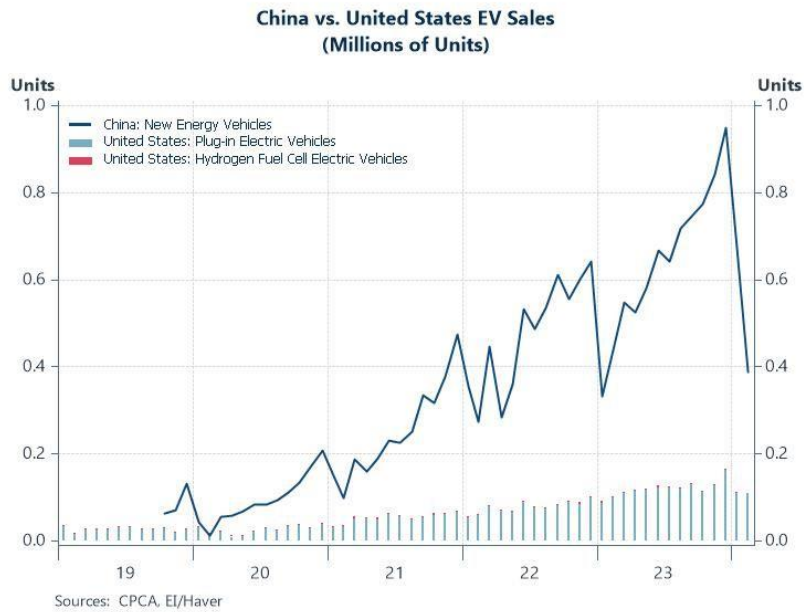


Source: Bank of Japan/Haver Analytics

Electric vehicles

We touch next on recent developments in the electric vehicle (EV) space. China's new energy vehicle sales slumped in February to about 388,000 units, levels lower than those seen a year ago (Chart 5). While Chinese New Year holiday effects may have helped explain the slump, the extent of these declines in January and February still far outstrip those of recent years. Possibly also driving the recent sales drop is intensifying competition within China's retail EV market, where producers are engaging in price-cutting to get ahead of their rivals. Nonetheless, China remains dominant in the EV market, at least by volume, relative to economies like the United States, which logged about 110,000 units of EV sales in February. Zooming out, China's EV market seems to have matured, given the significantly increased competition and deepened product penetration over the last few years. And with market maturity often comes cooling growth.

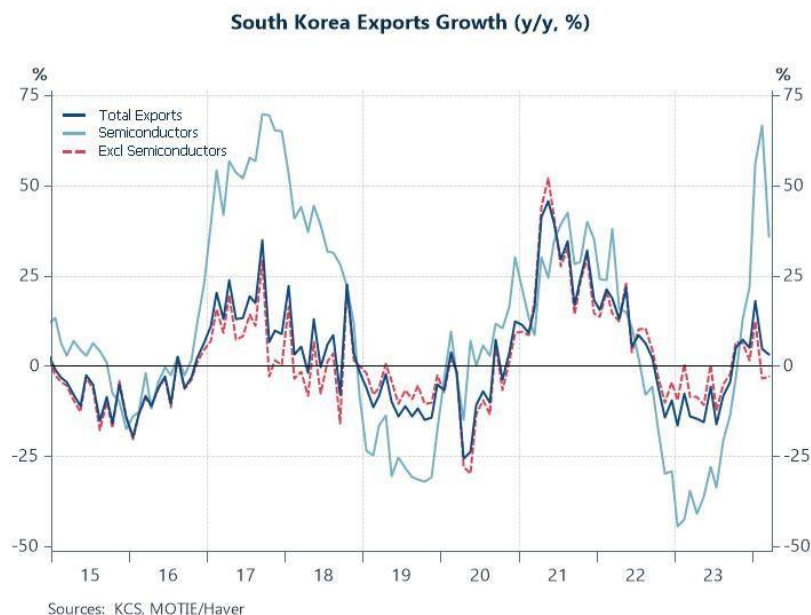
Chart 5: China vs. United States Electric Vehicle sales



South Korea exports

Lastly, we look at South Korea's latest export numbers, which are seen by many as a bellwether for global trade. The economy's exports numbers are often closely watched as they are the first among major exporters' to be released every month. South Korea's exports growth cooled to 3.1% y/y in March, with most of the month's expansion once again attributable to semiconductors (Chart 6). The strength in South Korea's semiconductor exports has however, masked underlying weakness in the economy's shipments of other goods. Excluding semiconductors, South Korea's exports actually fell, dragged down by slumps in EVs (-28.4%), secondary cells (-23%), and petrochemicals (-2.2%), among others. Thus, a point of risk lies in the concentration of South Korea's exports growth in semiconductors. We will see more export-related numbers coming out this week, specifically from other major Asian economies such as Mainland China and Taiwan.

Chart 6: South Korea's exports



About the author



Haver Analytics is pleased to bring [Tian Yong Woon's](#) commentaries on the state of the global economy to its clients.

Tian Yong joined Haver Analytics as an Economist in 2023. Previously, Tian Yong worked as an Economist with Deutsche Bank, covering Emerging Asian economies while also writing on thematic issues within the broader Asia region. Prior to his work with Deutsche Bank, he worked as an Economic Analyst with the International Monetary Fund, where he contributed to Article IV consultations with Singapore and Malaysia, and to the regular surveillance of financial stability issues in the Asia Pacific region. Tian Yong holds a Master of Science in Quantitative Finance from the Singapore Management University, and a Bachelor of Science in Banking and Finance from the University of London.

Data featured in this commentary:

Chart 1: Asian FX YTD performance vs. US dollar

Please email sales@haver.com for more details about this chart.

Chart 2: Asia currency performance vs. yield differentials relative to the US

Please see Excel file in downloadable VG3 folder on [publication page](#).

Chart 3: Japan's monetary base and the Bank of Japan's JGB holdings

Series 1: yryr%(JPNFDBTE@JAPAN) [Japan: JGBs Held by the Bank of Japan (NSA, EOP, 100 Mil.Yen)]

Series 2: yryr%(REA@JAPAN) [Japan: Monetary Base, Adj for Chg in Reserve Requirement (NSA,100 Mil Yen)]

Chart 4: Japan's Tankan survey results

Series 1: SLJBCM@JAPAN [Japan: Tankan: Business Conditions: Large Enterprises: Manufacturing: Actual (%)]

Series 2: SLJBCN@JAPAN [Japan: Tankan: Business Conditions: Large Enterps: Nonmanufacturing: Actual (%)]

Series 3: SAJBCA@JAPAN [Japan: Tankan: Business Conditions: All Enterprises: All Industries: Actual (%)]

Chart 5: China vs. United States Electric Vehicle sales

Series 1: N924CVER@EMERGEPR [China: New Energy Vehicles: Sales: Retail (NSA, 10,000 Units)]

Series 2: USBPAM@NED [United States: Plug-in Electric Vehicles: Sales (Units)]

Series 3: USBTAM@NED [United States: Hydrogen Fuel Cell Electric Vehicles: Sales (Units)]

Chart 6: South Korea's exports

Series 1: yryr%(N542IXD@EMERGEPR) [South Korea: Merchandise Trade: Exports (NSA, Mil.US\$)]

Series 2: yryr%(N542IXSC@EMERGEPR) [South Korea: Exports: Semiconductors (NSA, Thous.US\$)]

Series 3: yryr%((N542IXD@EMERGEPR - N542IXSC@EMERGEPR)) [South Korea: Merchandise Trade: Exports (NSA, Mil.US\$)] [South Korea: Exports: Semiconductors (NSA, Thous.US\$)]

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