

## Asia Outlook 2023: Darkest before the dawn

2023 is not going to be a great year for growth – the region's main external trade partners are all already in, or going into recession, and the region's largest economy, China, is struggling right now. But China's Covid-19 waves will pass, inflation is already coming down in many economies, and rate policy, currency and other market strains should ease



Sunrise on New Year's Day at an observation deck of a high-rise building in Tokyo

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### What does the Year of the Rabbit hold?

As we move out of the Year of the Tiger towards the Year of the (Water) Rabbit, it's a good time to look ahead and consider what the New Year will hold for the macro economy and markets of the Asia Pacific region. Given the limitations of the economist professions' own forecasting abilities, it seems churlish to ignore the horoscope's message, which for this sign of the Chinese Zodiac, appears to be one of longevity, peace and prosperity.

Is there any hope for this? It seems an overly optimistic leap of faith. Still, if there were a breakout of peace in Ukraine, this would undoubtedly be welcomed in Asia (as well as the rest of the world),

taking pressure off commodity energy and agricultural import prices. Arguably, the idea of longevity may also be tied in with some improvement in China's Covid situation, although this is currently extremely tricky. One can imagine markets rallying hard and delivering prosperity if either of these events transpires.

## Macro outlook starts badly, but should improve

But despite the zodiac's suggestions for a brighter future, the facts on the ground remain that 2023 is shaping up to be a poor one for Asia's macroeconomy. Major external markets are either already in recession (Europe) and going deeper, or slowing and probably headed for recession (US). Regional demand is also being rocked by China's Covid transition, from "zero-Covid" to "living with Covid". Official data on this cannot be taken remotely seriously, but it doesn't sound like it is going well at the moment, and it may be some months before the situation calms. When it does, though, it could deliver a more optimistic trade environment than exists currently. Double-digit declines in export growth across the region, which reflect external (and China's) weakness, may get slightly worse first, but it should begin stabilising later in 2023.

The downturn in the semiconductor cycle, which is important for much of the region, may also benefit from improving local and regional demand as China re-emerges. But as new chip fabrication plants come online in 2023 and 2024, we may see these depressing unit prices and profits. And the trend of restrictions on US trade with China in technology is unlikely to reverse or be circumvented any time soon, though high-level talks between the US and China in the New Year may lessen tensions.

## Markets may do better than macro

Even with some pickup later on in 2023, our expectations for 2023 economic activity are cautious. But there is room for some market confidence. Not only will the global rate cycle likely hit its peak in early 2023, but it is also entirely conceivable that we see some decline in global rates before the end of 2023, taking pressure off local Asian policy rates, bond yields and currencies. All of which should also be a catalyst for some pick up in equity prices, helped also by declining inflation rates, which have peaked in most of the region (there are a few exceptions).

In summary, we are perhaps a bit less optimistic than our zodiacal competitors in the forecasting world, but we can at least see some light at the end of the tunnel. 2024 should be better...

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