

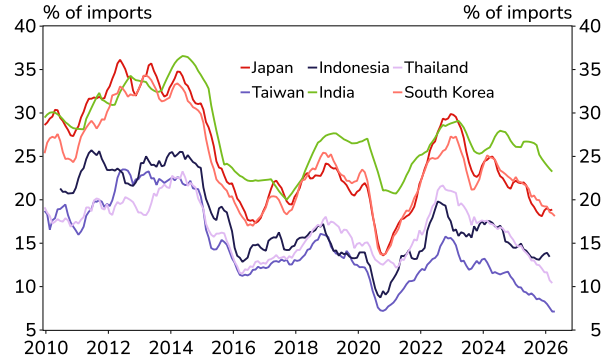
Mapping out Asia ...



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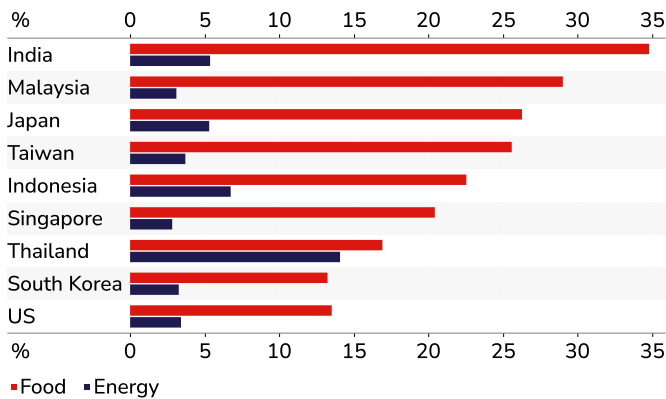
- The recent conflict in the Middle East represents a sizeable supply shock, particularly for energy and agriculture. Asia is disproportionately exposed given its reliance on Middle Eastern oil and LNG imports, alongside the importance of agriculture in the economy.
- Exposure varies across the region — India is the most reliant, with energy accounting for around a quarter of total imports, while economies like Taiwan are less affected.
- While energy's share of imports declined from its 2022 peak, this largely reflects the rising share of tech-related imports and not a meaningful reduction in foreign energy dependence.
- India's exposure has remained comparatively stable, consistent with its lower integration into the East Asian tech supply chain.

Energy as a share of imports



Source: MOTIR, KCS, MoC&I, MOF, BI, MOC, Macrobond, Westpac Economics

Asia's CPI basket carries a high share of food

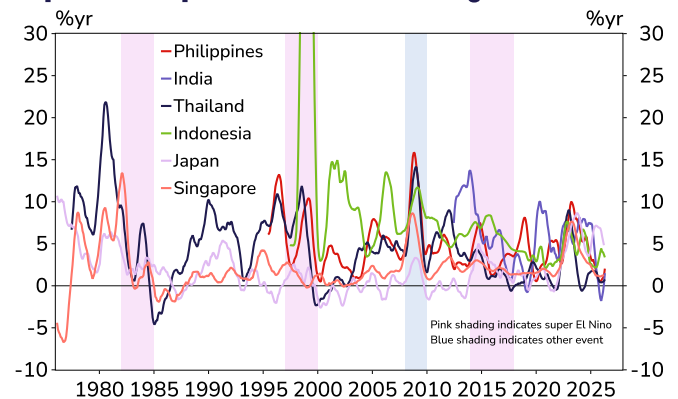


Source: MODS, SBI, MoS&PI, BPS, DOSM, SingStat, DGBAS, BLS, BTEI, Macrobond, Westpac Economics

- Food and energy account for a materially larger share of the CPI across Asia relative to most developed economies.
- India is particularly exposed, with around 40% of the CPI basket comprised of food and energy, and an even higher share in rural areas.
- This raises the sensitivity of inflation to supply shocks and complicates the policy outlook.
- Rising food and energy prices will act as a real income shock, weighing on domestic demand.
- At the same time, central banks will find it difficult to ease policy — with some already tightening (Indonesia, Singapore) and others signalling hikes are likely (Thailand).
- As a result, financial conditions are expected to remain tight even as growth slows.

- Asia's agricultural sector faces a dual shock from higher input costs and adverse weather conditions.
- Rising oil prices are already feeding into higher fertiliser and diesel costs, lifting food production costs.
- The expected El Niño event will also likely bring drier conditions across Southeast Asia, reducing crop yields.
- Historically, similar events have led to sharp increases in food prices across both producing and importing economies.
- This creates a risk of sustained food inflation, reinforcing the broader real income squeeze.
- It also impacts a sector of the economy that employs a large share of the labour force and occupies a large share of spending.

Super El Nino poses another risk to agri



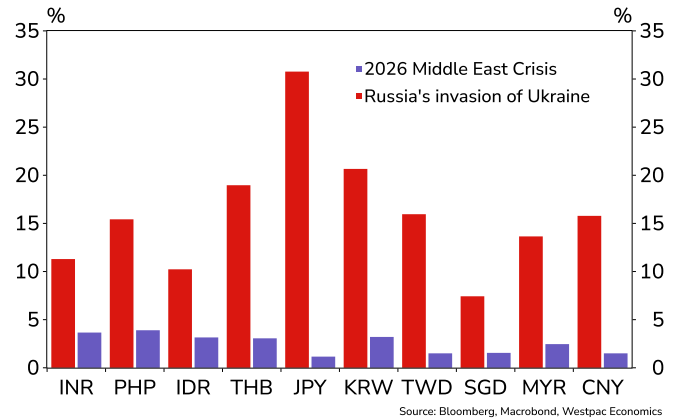
Source: MoS&PI, BTEI, Philippine Statistics Authority, BPS, SBI, SingStat, MODS, Macrobond, Westpac Economics

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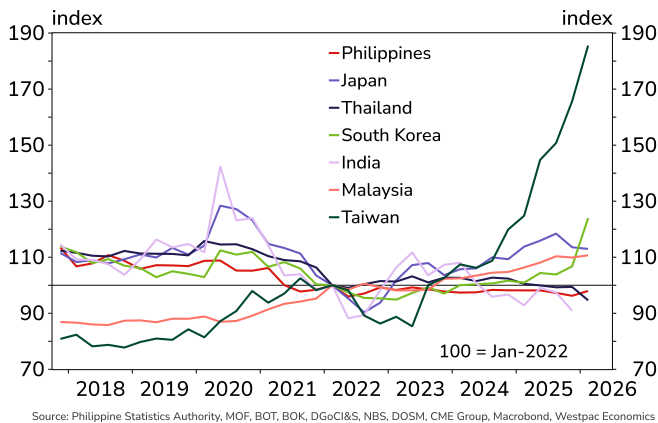
... in charts

- Despite these uncertainties, Asian currencies have held up better than during Russia's invasion of Ukraine.
- This partly reflects the US dollar's retreat.
- Within the region, it reflects stability in the renminbi, supported by China's strong trade surplus and ongoing demand linked to green investment.
- Reports suggest Chinese authorities have actively managed the USD/CNY fixing to limit depreciation.
- By anchoring the renminbi, China has helped stabilise FX performance across the region and supported broader market confidence.

Trough to peak depreciation of Asian currencies



Terms of Trade Divide

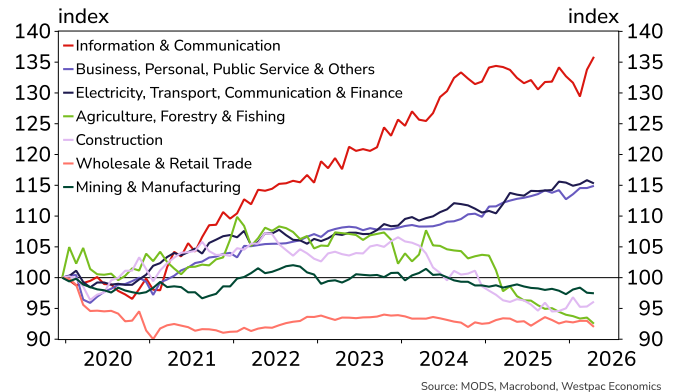


- Economic performance is already diverging across Asia.
- Economies with favourable terms of trade — particularly energy exporters such as Malaysia or those leveraged to the tech cycle like Taiwan — are holding up relatively well.
- In contrast, energy-importing, services-oriented economies like India and the Philippines are more vulnerable to the shock.
- Strength in the tech cycle has helped offset the drag from higher energy costs in several economies, which is already evident in relative currency performance.
- Over time, this divergence is likely to become more apparent in growth outcomes and fiscal capacity.

- South Korea provides a clear example of how tech strength has masked broader weakness.
- Even prior to the current shock, growth was heavily concentrated in the tech sector.
- Labour market outcomes highlight this imbalance — employment growth has been concentrated in tech, while other sectors have seen limited gains or outright declines.
- This K-shaped dynamic, both in South Korea and across the region, increases concentration risk.
- Industry-specific shocks (e.g. disruptions to major tech firms) can increasingly translate into economy-wide impacts.
- Recent developments are therefore amplifying an existing structural vulnerability.

South Korea's two-speed labour market

Employment by Industry indexed to Dec-2019



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