

FX Asia Fortnightly

Room For AXJs To Climb Higher

Bias to Long-IDR vs. Short-PHP

It has been a choppy two weeks for the ASEAN currencies. ASEAN FX was roiled by geopolitical concerns (over Trump-Kim summit); trade tensions (over NAFTA, Sino-US trade negotiations); and emerging market risks triggered by Turkey and Venezuela. With global risk aversion easing somewhat, there could be room for the AXJs to climb higher. At the same time, our expectations of a USD pullback should be supportive of the AXJs. The BI's commitment to "calibrate developments, domestic and global, to make use of available space for higher rates in a measured way" leaves the door open to more hikes if necessary, helping the IDR mitigate some of the risks from its twin deficits. There could be further downside bias to the USDIDR in the two weeks ahead. We need to see strong support at the 13870 levels cleared for further downside towards the 13700-levels. Otherwise, the USDIDR could stay in consolidative mode. In contrast, concerns over the lack of follow-through from the Philippines central bank amid rising inflation and market tantrums are weighing on the PHP. This reinforces the perception that the BSP is "behind the curve" in anchoring inflationary expectations and is likely to weigh the PHP. We are bias to long-IDR and short-PHP. Our in-house model implies that SGD NEER is trading 0.72% above the implied midpoint of 1.3471, suggesting it is on the stronger side of the SGD vs. other trading partner currencies.

SGD, PHP & VND Are More Vulnerable To China Trade Disruption

There are increasing concerns that trade tension could escalate into a trade war. Eyes will be on the Sino-US trade negotiations this weekend. A deal between the world's two largest economies will improve sentiments and be positive for the AXJs. However, should negotiations break down with no deal in sight and Trump tariffs beckons, trade tensions could escalate on fears of a trade war. Should this happen, the impact on ASEAN FX will not be homogenous. This is because of the different level of exposure that ASEAN economies have to China. SGD, PHP and VND are likely to be more vulnerable to China trade disruption due to their increase exposure of their export to the Chinese markets from 2012 to 2017 compared to the IDR, INR, MYR and THB.

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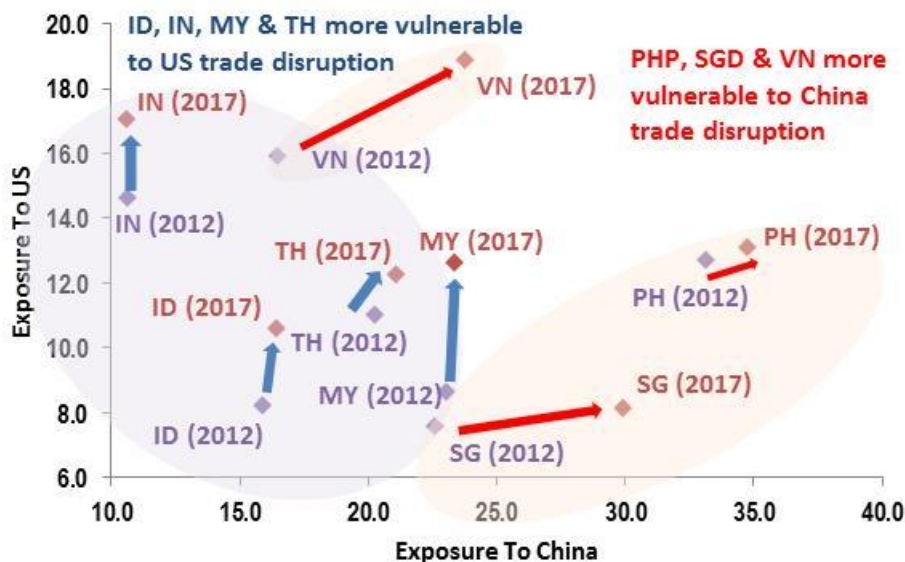
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Flavour of the Week: Impact Of China Trade Disruption From Trump Tariffs On ASEAN FX Not Homogenous

- The Trump tariff on steel and aluminium from Canada, EU and Mexico and the reciprocal tariffs imposed by China have heightened concerns that a trade war could be in the making. Markets in Asia have not reacted excessively to the news. It appears that investors are watching the Sino-US trade negotiations this weekend before deciding their next moves. A deal between the world's two largest economies will improve sentiments and be positive for the AXJs.
- However, should negotiations break down with no deal in sight and Trump tariffs beckons, trade tensions could escalate on fears of a trade war. Should this happen, the impact on ASEAN FX will not be homogenous. This is because of the different level of exposure that ASEAN economies have to China.

Chart 1: Singapore, Philippines & Vietnam Have Become More Exposed To China



Note: (1) Exposure to US or China (+HK) is defined as the proportion of a country's exports to US or China (+HK) to the individual country's total exports. (2) We combine exports to China and HK to represent total exports to China as the exports to HK tend to be transhipped to China for further processing. (3) Caveat here is that the analysis does not take into account shipments from ASEAN to China for re-exports to the US due to limited data.

Source: Bloomberg, Maybank FX Research & Strategy

- From our analysis using ASEAN, Vietnam and India export to China (+HK) and US (as a proportion of total exports of each individual economy), Singapore, Vietnam and the Philippines have seen the share of exports to China rise since 2012 (chart 1). This suggests that should there be a trade disruption due to Trump tariffs on China, the FXs of these economies are likely to face the most pressure compared to the rest of their peers.
- Indonesia, India, Malaysia and Thailand are not as exposed to China. Instead, during the 2012-2017 period, their share of exports to the US has increased while that to China has remained relatively stable. The analysis appears to indicate that the currencies of these economies are likely to be less impacted by any trade disruption in the China trade due to Trump tariffs.

- In short, the SGD, PHP and VND are likely to be more vulnerable to China trade disruption due to their increase exposure of their exports to the Chinese markets compared to the IDR, INR, MYR and THB.

Key Data and Events Ahead

	4-10 Jun	11-17 Jun
	Mon: - Nil -	Mon: Core Machine Orders (Apr), Machine Tool Orders (May P)
Japan	- Tue: Household Spending (Apr), Nikkei PMI Services & Composite (May) - Wed: Labor Cash Earnings (Apr) - Thu: -Nil - - Fri: GDP (1Q F), Current Account (Apr)	- Tue: PPI (May), Tertiary Industry Index (Apr) - Wed: - Nil - - Thu: Industrial Production, Capacity Utilization (Apr) - Fri: BOJ Policy Balance Rate
China	- Mon: - Nil - - Tue: Caixin PMI Composite & Services (May) - Wed: - Nil - - Thu: Foreign Reserves (May) - Fri: Trade (May), FDI (May - due 8-18 Jun) - Sat: CPI, PPI (May)	- Mon: FDI (May - due 11-18 Jun) - Tue: Money Supply, Aggregate Financing, New Yuan Loans (May - due 11-15 Jun) - Wed: - Nil - - Thu: Retail Sales, Industrial Production, FAI Urban (May) - Fri: - Nil - - Sat: - Nil -
South Korea	- Mon: - Nil - - Tue: Foreign Reserves (May), Current Account (Apr) - Wed: Public Holiday - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: Public Holiday - Thu: - Nil - - Fri: Unemployment Rate (May)
Singapore	- Mon: PMI (May) - Tue: Nikkei PMI (May) - Wed: - Nil - - Thu: Foreign Reserves (May) - Fri: - Nil -	- Mon: - Nil - - Tue: Retail Sales (Apr) - Wed: - Nil - - Thu: - Nil - - Fri: Public Holiday
Malaysia	- Mon: Nikkei PMI (May) - Tue: Trade (Apr) - Wed: - Nil - - Thu: Foreign Reserves (31 May) - Fri: - Nil -	- Mon: Industrial Production (Apr) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Public Holiday
Indonesia	- Mon: CPI, Nikkei PMI (May) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (May)	- Mon: Public Holiday - Tue: Public Holiday - Wed: Public Holiday - Thu: Public Holiday - Fri: Public Holiday
Philippines	- Mon: Unemployment Rate (Apr) - Tue: CPI (May) - Wed: - Nil - - Thu: Foreign Reserves (May) - Fri: Trade (Apr)	- Mon: - Nil - - Tue: Public Holiday - Wed: - Nil - - Thu: - Nil - - Fri: Overseas Remittances (Apr)
Thailand	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (1 Jun)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (8 Jun)
India	- Mon: - Nil - - Tue: Nikkei PMI Services & Composite (May) - Wed: RBI Repurchase Rate - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: CPI (May), Industrial Production (Apr) - Wed: - Nil - - Thu: Wholesale Prices (May) - Fri: Trade (May)
Vietnam	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -

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