

FX Asia Fortnightly

Risks Events Ahead Could Keep ASEAN FX Rangy

Eyes On Brexit And Trade Talks

After the Fed signaling that it was done with rate hikes this year, focus will turn to the third meaningful Parliamentary vote on Theresa May's Brexit deal with the EU and the outcome of the trade talks between China and US later this week. Positive outcomes from both will be supportive of the AXJs, while a failure on both counts could weigh on risk sentiments and lift demand for safe-haven assets and see positioning of higher beta Asian FX trimmed. Until then, look for the USD/ASEANs to trade range-bound ahead. The USDIDR is likely to face downside pressure as the campaign for the presidency enters its last legs. As we have cautioned previously, the IDR tends to appreciate into the elections on campaign spending and pre-election promises that could buoy sentiments. Recent polls point to a Jokowi victory in both the presidential and parliamentary elections. We are bias to long the IDR in the lead-up to the elections.

RBI is the only central bank to meet in the next two weeks on 4 Apr and another rate cut by Governor Das cannot be ruled out amid slowing domestic industrial activity. The governor himself had hinted of more rates cuts when he said that the current policy stance "will provide flexibility and the room to address challenges to sustain growth of the Indian economy over the coming months, so long as the inflation outlook remains benign". Further rate adjustment could lift economic growth and provide the impetus for further INR strength ahead.

Our in-house model implies that SGD NEER is trading 1.29% above the implied midpoint of 1.3664, suggesting it remains on the stronger side of the SGD vs. other trading partner currencies.

Fallout To Asia From Brexit Likely To Be Via Sentiment Channel

Market continues to price a favourable outcome even as PM Theresa May has until 12 Apr to convince Parliament to pass her Brexit deal or risk a no-deal Brexit on 22 May. In a no-deal or hard Brexit scenario, the economic impact will likely prompt a recession in the UK, cause a plunge in the GBP and possibly force the BoE to hike rates in defense. The EU economy should likewise be impacted negatively by this messy divorce. But the impact on Asia, particularly ASEAN, may not be as significant if viewed from the trade and financial channels. Asian exports to the UK are small (less than 3% of total trade). Thus, any disruption to trade caused by a dis-orderly Brexit is unlikely to impact Asian trade substantially. Financial links between Asia and UK though are more substantive than their trade exposure. This is not surprising given the UK status as a global financial hub. A no-deal Brexit could see UK banks withdraw from Asia and a tightening of liquidity conditions that could impact some Asian economies more than others. However, the more substantive impact to Asian FX from a disorderly exit from the EU is likely to come via the sentiment channel. A no-deal Brexit could impact global confidence and weigh on sentiments, triggering a global sell-off in riskier assets, exacerbating the withdrawal of UK funds from Asia, putting downward pressure on AXJs.

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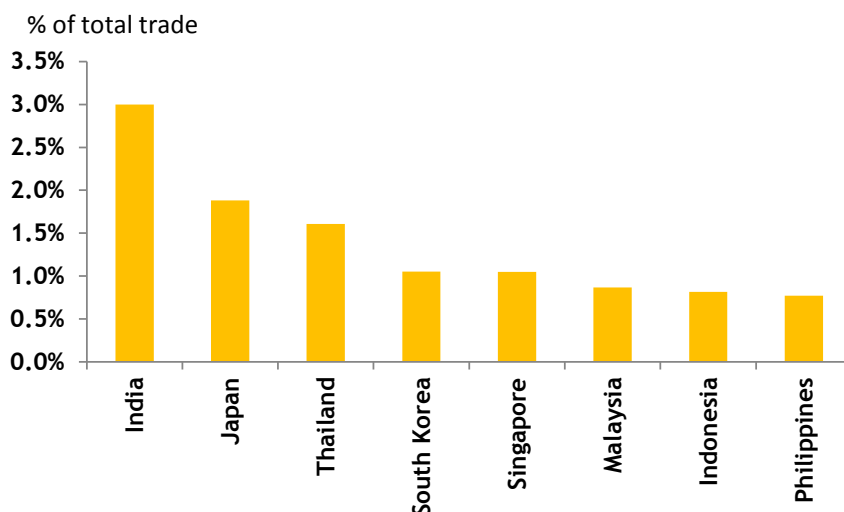
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Flavour of the Week: Fallout To Asia From Brexit Likely To Be Via Sentiment Channel

- Despite recent events in the UK that have increased the risks of a hard or no-deal Brexit, market does not appear to be overly-worried by that prospect. Instead, market seems to have priced a favourable outcome even as PM Theresa May has until 12 Apr to convince Parliament to pass her Brexit deal or risk a no-deal Brexit on 22 May. Eyes will then be on the expected meaningful vote on her Brexit deal this week. Failure to pass the deal before 12 Apr will start the process rolling for a Brexit without a deal or for a longer delay. A longer delay though would require the UK's participation the next European Parliament, which is not PM May's or ardent Brexiteers' preference.
- In a no-deal or hard Brexit scenario, the economic impact will likely prompt a recession in the UK, cause a plunge in the GBP and possibly force the BoE to hike rates in defense. The EU economy should likewise be impacted negatively by this messy divorce. But the impact on Asia, particularly ASEAN, may not be as significant if viewed from the trade and financial channels.
- As can be seen in Chart 1, Asian exports to the UK are small as a percentage of their total trade (less than 3%). Among Asian economies, India exports around 3% (of its total trade) to the UK, while the largest exporter in ASEAN - Thailand - slightly more than 1.5% of its total trade. In fact, the UK only shows up as among the top 10 trading partner of India and nowhere else. Thus, any disruption to trade caused by a disorderly Brexit is unlikely to impact Asian trade substantially.

Chart 1: Asian Exports To UK Are Not Significant

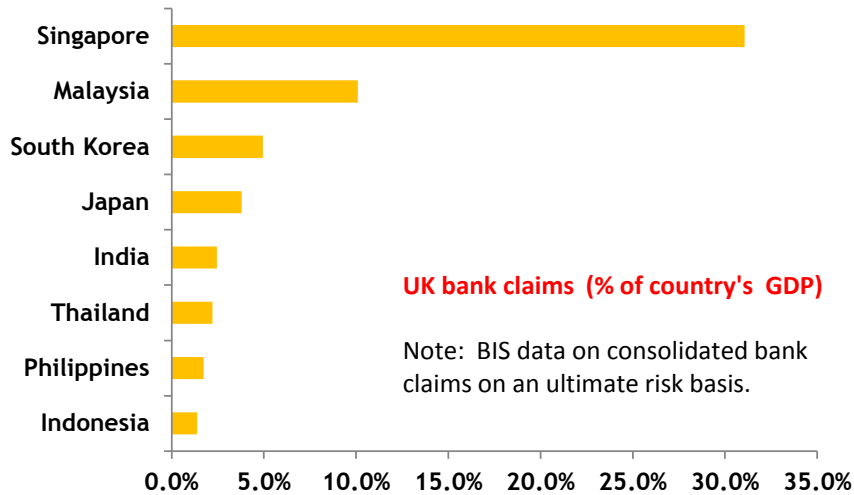


Source: Bloomberg, CEIC, Maybank FX Research & Strategy Estimates

- Financial links between Asia and UK though are more substantive than their trade exposure (Chart 2). This is not surprising given the UK status as a global financial hub. UK banks have the largest claim of approximately 30% of GDP on Singapore unsurprisingly given its own status as a financial hub. This is followed by Malaysia where UK banks have claims of about 10%. A no-deal Brexit could see UK banks withdraw from Asia and a tightening of liquidity conditions that is likely to impact Singapore, and to a lesser extent Malaysia though this is unlikely to be too disruptive. As for the rest of Asia, UK banks have claims of less than

5.0% of GDP and the impact on these economies is unlikely to be significant.

Chart 2: UK Banks' Claim On Asia Relatively Small Except For Singapore



Source: BIS, Maybank FX Research & Strategy Estimates

- However, the more substantive impact to Asian FX from a disorderly exit from the EU is likely to come via the sentiment channel as we had cautioned previously. A no-deal or disorderly Brexit could impact global confidence and weigh on sentiments. This in turn could trigger a global sell-off in riskier assets, exacerbating the withdrawal of UK funds from Asia, putting downward pressure on AXJs. Aside from the SGD and MYR, market angsts due to a disorderly Brexit could also weigh on currencies suffering from twin-deficit (i.e. current account and fiscal account deficits), namely the IDR, INR and PHP.
- In sum, the contagion to Asia will be severe only in the event of a no-deal or disorderly Brexit. The impact on Asia is unlikely to come via the trade or financial channels. Instead, a no-deal or disorderly Brexit is likely to unnerve sentiments and the AXJs are likely to be impacted negatively via the sentiment channel.

Key Data and Events Ahead

25-31 Mar		1-7 Apr	
Japan	- Mon: All Industry Activity Index (Jan), BOJ Harada Speaks - Tue: BOJ Summary of Opinions (14, 15 Mar meeting) - Wed: - Nil - - Thu: - Nil - - Fri: Jobless Rate, Industrial Production, Retail Sales, Housing Start (Feb)		- Mon: Tankan Survey (1Q), Nikkei PMI Mfg (Mar F) - Tue: - Nil - - Wed: Nikkei PMI Composite & Services (Mar) - Thu: - Nil - - Fri: Household Spending, Labour Cash Earnings (Feb)
	- Mon: - Nil - - Tue: - Nil - - Wed: Industrial Profit (Feb) - Thu: Current Account (4Q F) - Fri: - Nil - - Sun: Composite, Mfg & Non-Mfg PMI (Mar)		- Mon: Caixin PMI Mfg (Mar) - Tue: Caixin PMI Composite & Services (Mar) - Wed: - Nil - - Thu: - Nil - - Fri: Public Holiday - Sun: Foreign Reserves (Mar)
South Korea	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: Business Survey Mfg & Non-Mfg (Feb) - Fri: Industrial Production (Feb)		- Mon: Trade, Nikkei PMI Mfg (Mar) - Tue: CPI (Mar) - Wed: Foreign Reserves (Mar) - Thu: Current Account (Feb) - Fri: - Nil -
	- Mon: CPI (Feb) - Tue: Industrial Production (Feb) - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -		- Mon: - Nil - - Tue: - Nil - - Wed: PMI, Nikkei PMI (Mar) - Thu: - Nil - - Fri: GDP (1Q A - due 5-12 Apr), Foreign Reserves (Mar - due 5-8 Apr)
	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -		- Mon: Nikkei PMI (Mar) - Tue: - Nil - - Wed: - Nil - - Thu: Trade (Feb) - Fri: Foreign Reserves (29 Mar)
	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -		- Mon: CPI, Nikkei PMI Mfg (Mar) - Tue: - Nil - - Wed: Public Holiday - Thu: - Nil - - Fri: - Nil -
Malaysia	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -		- Mon: Nikkei PMI Mfg (Mar) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Budget Balance (Feb)
Indonesia	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -		- Mon: CPI, Nikkei PMI Mfg (Mar) - Tue: - Nil - - Wed: Public Holiday - Thu: - Nil - - Fri: - Nil -
	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Budget Balance (Feb)		- Mon: Nikkei PMI Mfg (Mar) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: CPI, Foreign Reserves (Mar)
	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Trade, Currrent Account (Feb), Foreign Reserves (22 Mar)		- Mon: CPI, Nikkei PMI Mfg (Mar) - Tue: - Nil - - Wed: BoT MPC Minutes - Thu: - Nil - - Fri: Foreign Reserves (29 Mar)
	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Fiscal Deficit (Feb)		- Mon: - Nil - - Tue: Nikkei PMI Mfg (Mar) - Wed: - Nil - - Thu: RBI Reverse Repo Rate, Nikkei PMI Services & Composite (Mar) - Fri: - Nil -
	- Mon: GDP (1Q), Industrial Production, Retail Sales, CPI, Trade (Mar) (due sometime 25-31 Mar) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -		- Mon: Nikkei PMI Mfg (Mar) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
Philippines	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Budget Balance (Feb)		- Mon: Nikkei PMI Mfg (Mar) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: CPI, Foreign Reserves (Mar)
Thailand	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Trade, Currrent Account (Feb), Foreign Reserves (22 Mar)		- Mon: CPI, Nikkei PMI Mfg (Mar) - Tue: - Nil - - Wed: BoT MPC Minutes - Thu: - Nil - - Fri: Foreign Reserves (29 Mar)
	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Fiscal Deficit (Feb)		- Mon: - Nil - - Tue: Nikkei PMI Mfg (Mar) - Wed: - Nil - - Thu: RBI Reverse Repo Rate, Nikkei PMI Services & Composite (Mar) - Fri: - Nil -
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India	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Fiscal Deficit (Feb)		- Mon: - Nil - - Tue: Nikkei PMI Mfg (Mar) - Wed: - Nil - - Thu: RBI Reverse Repo Rate, Nikkei PMI Services & Composite (Mar) - Fri: - Nil -
Vietnam	- Mon: GDP (1Q), Industrial Production, Retail Sales, CPI, Trade (Mar) (due sometime 25-31 Mar) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -		- Mon: Nikkei PMI Mfg (Mar) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Fiscal Deficit (Feb)		- Mon: - Nil - - Tue: Nikkei PMI Mfg (Mar) - Wed: - Nil - - Thu: RBI Reverse Repo Rate, Nikkei PMI Services & Composite (Mar) - Fri: - Nil -
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