

FX Asia Fortnightly

ASEANs Weakness Could Continue

No End Yet For Weakness In The ASEANs

ASEAN currencies have been under-pressure for most of the past two weeks amid the rise in UST yields to above the 3.0% levels. Continued rise in UST yields in the two weeks ahead could pose challenges to the ASEANs, particularly those with higher exposure to foreign ownership of their domestic assets. Meanwhile, rising oil prices should weigh on those in ASEAN who are net oil importers and/or suffer from twin deficits (fiscal and current account). The ASEAN currencies most at risks to the twin challenges of rising UST yields and oil prices are IDR and PHP, and these currencies could face further selling pressures in the two weeks should oil prices and UST yields remain elevated. Portfolio flow data also suggests that the IDR and THB are likely to remain under downside pressure as the unwinding of foreign holdings of Indonesian and Thai assets is still underway. Also note that May is generally a seasonally weak month for ASEAN currencies vs. the USD. Given the challenges ahead, we are bias to short the IDR and PHP. Our in-house model implies that SGD NEER is trading 0.44% above the implied midpoint of 1.3499, suggesting it is slightly on the stronger side of the SGD vs. other trading partner currencies.

Are Dollar-Denominated Liabilities A Worry For ASEAN?

The era of cheap money appears to be at its twilight with global rates on the gradual rise as well as with the unwinding of massive global quantitative easing. In particular, the rise in US interest rates puts the USD on an appreciation path. This means that governments and corporates not only have a heavier financial burden re-paying their USD-denominated liabilities (either bonds, loans or both) but could also face higher re-financing costs as the USD has risen in value. These together with higher yields in the US could lead to a portfolio adjustment away from economies that have large USD liabilities, increasing the vulnerability of their currencies to downside pressures. Some of the economies in ASEAN that could be vulnerable given their increasing recent exposure to USD liabilities include the Philippines, Malaysia and Thailand.

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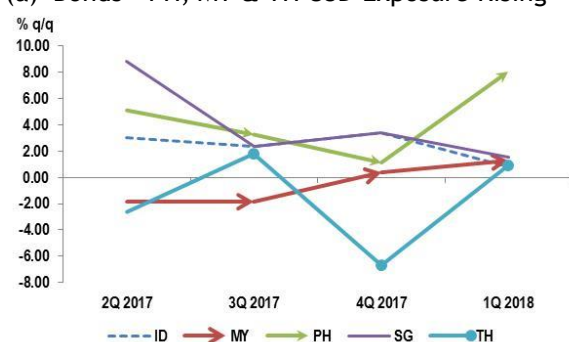
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Flavour of the Week: Are Dollar-Denominated Liabilities A Worry For ASEAN?

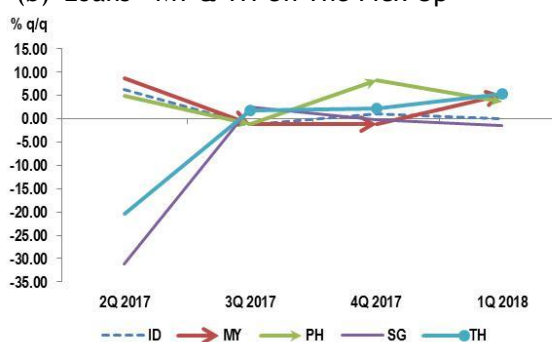
- The era of cheap money appears to be at its twilight with global rates on the gradual rise as well as with the unwinding of massive global quantitative easing. In particular, the rise in US interest rates puts the USD on an appreciation path. This means that governments and corporates not only have a heavier financial burden re-paying their USD-denominated liabilities (either bonds, loans or both) but could also face higher re-financing costs as the USD has risen in value. These together with higher yields in the US could lead to a portfolio adjustment away from economies that have large USD liabilities, increasing the vulnerability of their currencies to downside pressures. Some of the economies in ASEAN that could be vulnerable given their increasing recent exposure to USD liabilities include the Philippines, Malaysia and Thailand (Chart 1).

Chart 1: ASEAN's USD Liabilities

(a) Bonds - PH, MY & TH USD Exposure Rising



(b) Loans - MY & TH On The Pick-Up

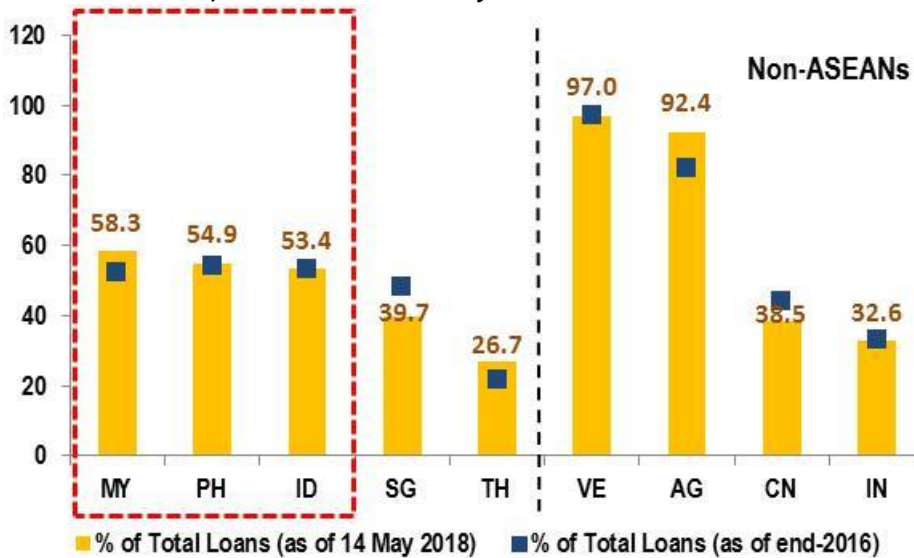


Source: Bloomberg, Maybank FX Research & Strategy

- Our investigation of USD-denominated liabilities in ASEAN showed that Indonesia and the Philippines are most exposed to the USD (Chart 2 (a) & (b)). Indonesia's USD-denominated loans and bonds account for 53% and 35% of its total outstanding loans/bonds as of 14 May 2018. In the Philippines, they are nearly 55% and 42% respectively. Malaysia also has a large exposure to USD-denominated loans at nearly 58%, but only a relatively small exposure to USD-denominated bonds (12%).
- While these USD exposures for loans appear small when compared to Venezuela or Argentina (at 97% and 92% respectively), they are still relatively large (>50%) when compared to its ASEAN peers, China and India (all below 40%).
- It must also be noted that Malaysia and Thailand are the only two economies in ASEAN that saw their exposure to USD-denominated loans increased when compared to 2016. This suggests that the two economies were taking advantage of the lower US funding cost to finance their projects.
- As for USD-denominated bonds, the Philippines' exposure is not insignificant vs. those of Venezuela and Argentina (at 51% and 49% respectively). Indonesia has the next largest exposure to USD-denominated bonds at nearly 35%, but appears to have weaned itself from issuing more USD-denominated bonds when compared to 2016.
- Philippines' USD exposure though has increased compared to 2016 while those of its regional peers (with the exception of Singapore - a financial hub) have either fallen or remained relatively steady. It seems that corporates and government in the Philippines have taken advantage of

the lower USD rates to finance activities, such as infrastructure building.

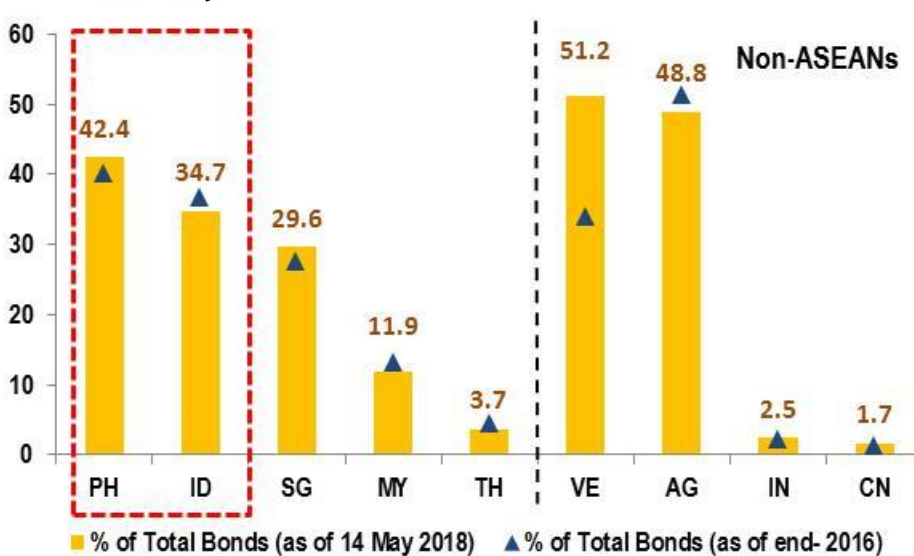
Chart 2(a): USD-Denominated Loans Constitute More Than Half Of Total Loans In MY, PH & ID As Of 14 May 2018



Note – ASEAN refers to Indonesia (ID), Malaysia (MY), Philippines (PH), Singapore (SG) and Thailand (TH), while the non-ASEAN refers to Venezuela (VE), Argentina (AR), China (CN) and India (IN)

Source: Bloomberg, Maybank FX Research & Strategy

Chart 2(b): PH & ID Have The Biggest Exposures To USD-Denominated Debt As Of 14 May 2018



Note – ASEAN refers to Indonesia (ID), Malaysia (MY), Philippines (PH), Singapore (SG) and Thailand (TH), while the non-ASEAN refers to Venezuela (VE), Argentina (AR), China (CN) and India (IN)

Source: Bloomberg, Maybank FX Research & Strategy

- In sum, rising US interest rates increases the risks for Malaysia, Philippines and Indonesia that are most exposed to the USD. Aside from higher debt burden from an appreciating USD and higher re-financing cost, higher yields in the US could lead to a portfolio adjustment away from these economies and potentially put downside pressure on the MYR, PHP and IDR.

Key Data and Events Ahead

	21-27 May	28 May-3 Jun
Japan	• Mon: Trade (Apr)	• Mon: - Nil -
	• Tue: - Nil -	• Tue: Jobless Rate (Apr)
	• Wed: Nikkei PMI Mfg, Machine Tool Orders (Apr), All Industry Activity Index (Mar)	• Wed: Retail Sales (Apr)
	• Thu: BOJ Policy Board Member Sakurai Speaks (Maebashi)	• Thu: Industrial Production (May), Housing Starts (Apr)
	• Fri: - Nil -	• Fri: Capital Spending (1Q), Nikkei PMI Mfg (May F)
China	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: Mfg, Non-Mfg & Composite PMI (May)
	• Fri: - Nil -	• Fri: Caixin PMI Mfg (May)
	• Sat: Industrial Profits (Apr)	• Sat: - Nil -
South Korea	• Mon: PPI (Apr)	• Mon: - Nil -
	• Tue: Public Holiday	• Tue: Consumer Confidence (May)
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: BoK 7-Day Repo Rate	• Thu: Business Survey Mfg & Non-Mfg (Jun), Industrial Production (Apr)
Singapore	• Fri: - Nil -	• Fri: GDP (1Q F), CPI, Trade, Nikkei PMI Mfg (May)
	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: Public Holiday
	• Wed: CPI (Apr)	• Wed: - Nil -
	• Thu: GDP (1Q F)	• Thu: - Nil -
Malaysia	• Fri: Industrial Production(Apr)	• Fri: - Nil -
	• Mon: - Nil -	• Mon: - Nil -
	• Tue: Foreign Reserves (15 May)	• Tue: Public Holiday
	• Wed: CPI (Apr)	• Wed: - Nil -
Indonesia	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: Public Holiday
Philippines	• Wed: Budget Balance (Apr)	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
	• Mon: GDP (1Q), Customs Trade (Apr - due 21-24 Apr)	• Mon: - Nil -
Thailand	• Tue: - Nil -	• Tue: Public Holiday
	• Wed: - Nil -	• Wed: Mfg Production Index, Capacity Utilisation (Apr - 30-31 May)
	• Thu: - Nil -	• Thu: Trade, Current Account (Apr)
	• Fri: Foreign Reserves (18 May)	• Fri: CPI, Nikkei PMI Mfg (May), Foreign Reserves (25 May)
India	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: Public Holiday
	• Thu: - Nil -	• Thu: GDP (1Q), Fiscal Deficit (Mar)
	• Fri: - Nil -	• Fri: Nikkei PMI Mfg (May)
Vietnam	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: CPI, Trade, Industrial Production, Retail Sales (May - due 25-31 May)	• Fri: Nikkei PMI Mfg (May)

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