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ASEAN FX OUTLOOK AMID DOWNSIDE RISKS

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ASEAN FX outlook amid downside risks

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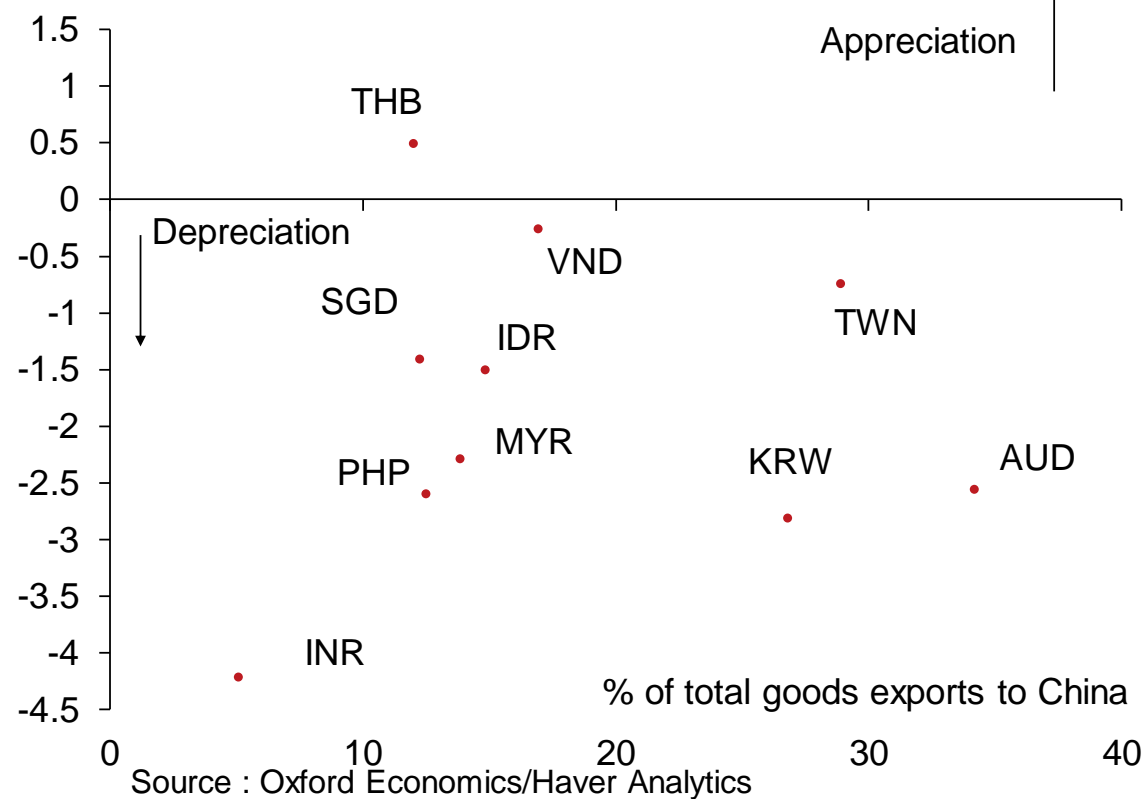
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Lead Asia Economist

Asian currencies depreciated alongside CNY

APAC: FX and exports to China

% change in FX against the USD (August)

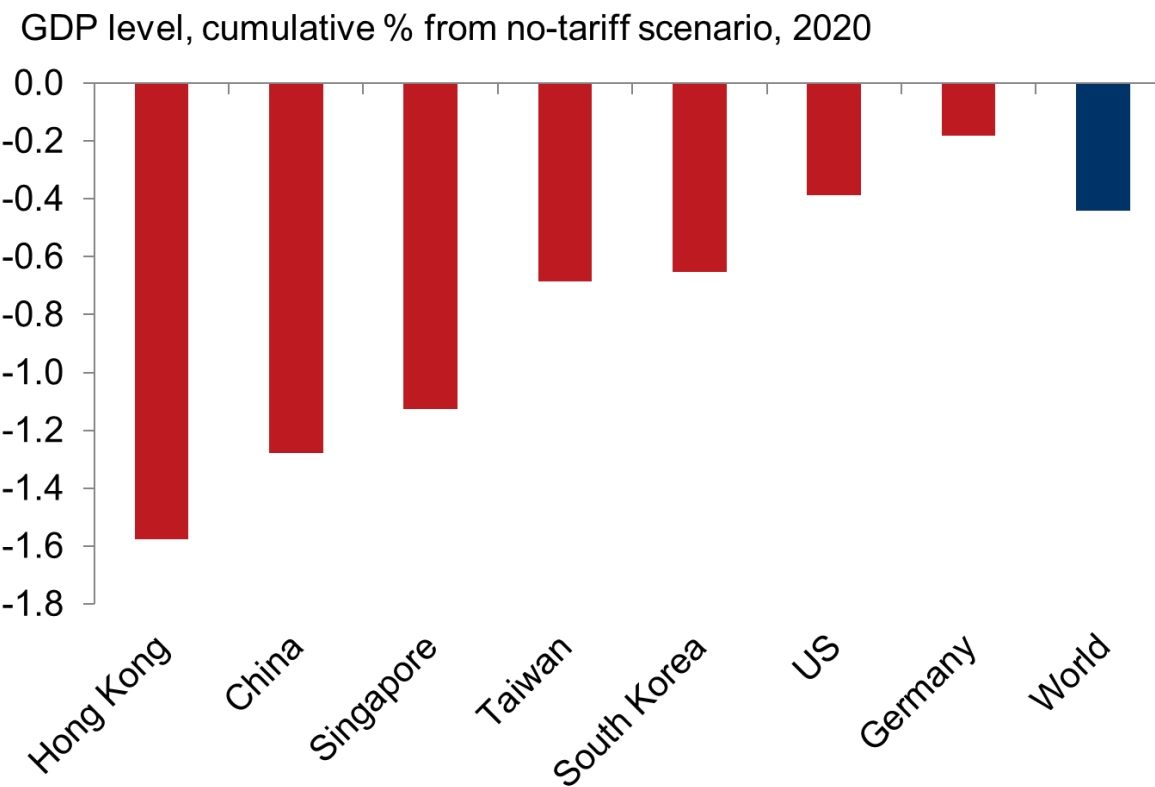


US-China tension likely to remain

- Recently, some positive news round the conclusion of a now likely “phase” one deal.
- But it is unlikely that the bulk of existing tariffs will be removed anytime soon and other types of restrictions are also coming, indication decoupling.
- Also, there is a gulf in perceptions on what both sides have “given” and obtained. That implies a major risk of re-escalation of tensions in 2020.
- Moreover, US objectives/demand are broad and go beyond economies. We expect China to continue with gradual opening up and reform, but to hold back on its state-led economic model.
- China increasingly focused on preparing itself for long-term economic tensions with the US.

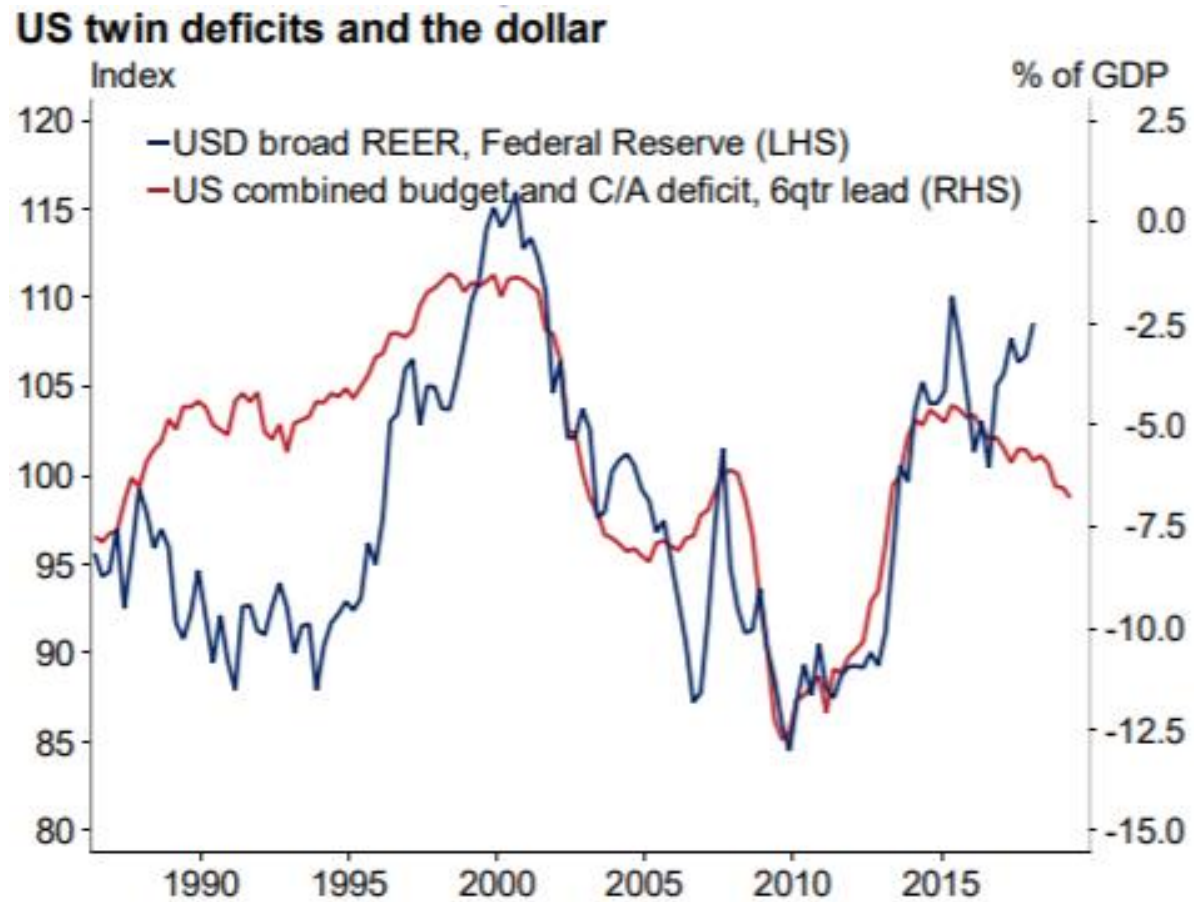
Collateral damage large for small open economies

Economic impact of rising tariffs



Source : Oxford Economics

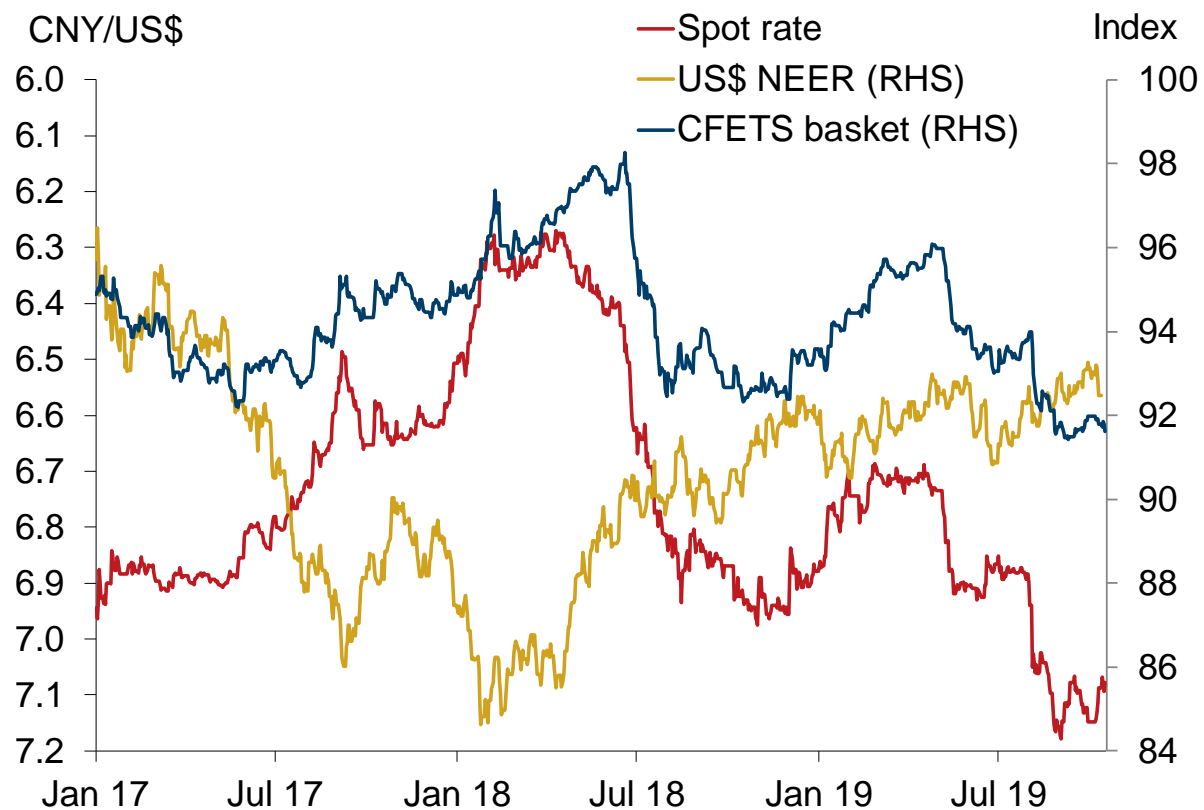
Another Fed rate cut and widening twin deficits to support softer US\$



Source: Oxford Economics/Macrobond

CNY to be broadly stable and a sharp depreciation unlikely

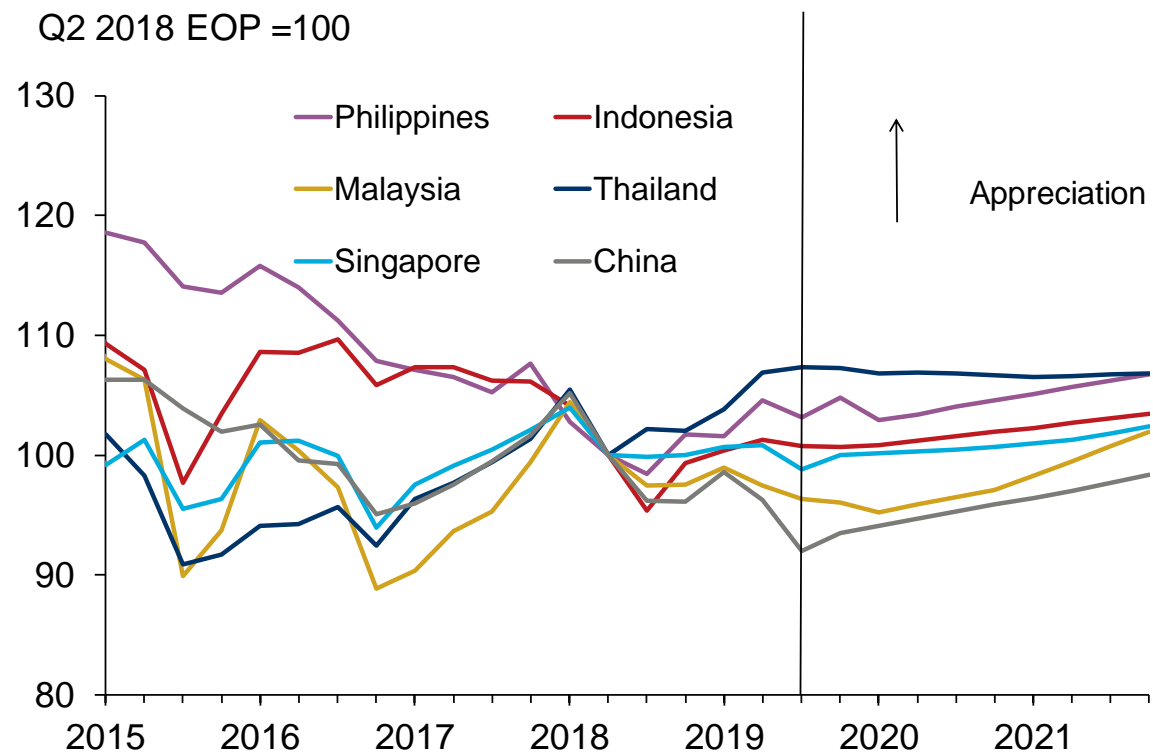
China: CNY exchange rate



Source: Oxford Economics, CEIC Data

Modest appreciation over 2020

Asia: Exchange Rate Forecasts

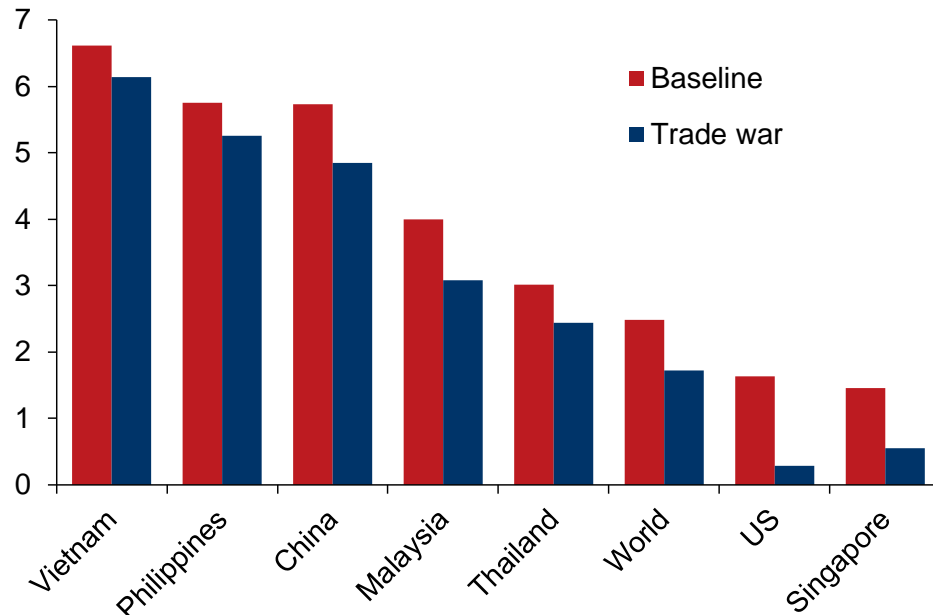


Source : Oxford Economics/Haver Analytics

Risk scenario: Trade war escalates (20%)

Asia: GDP growth- trade war, 2020

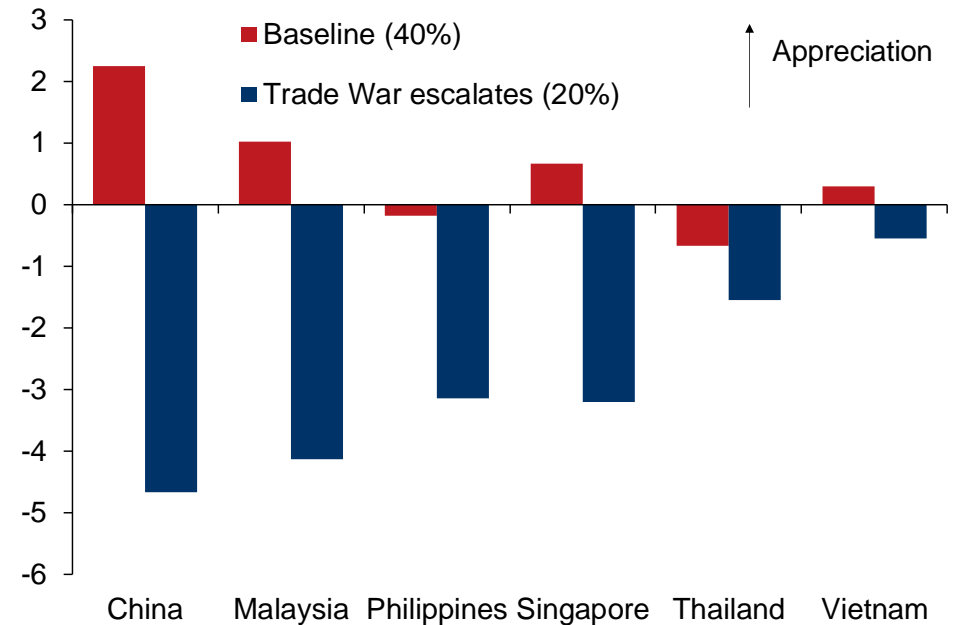
%, year



Source : Oxford Economics/Haver Analytics

Asia: Trade war escalates (20%)

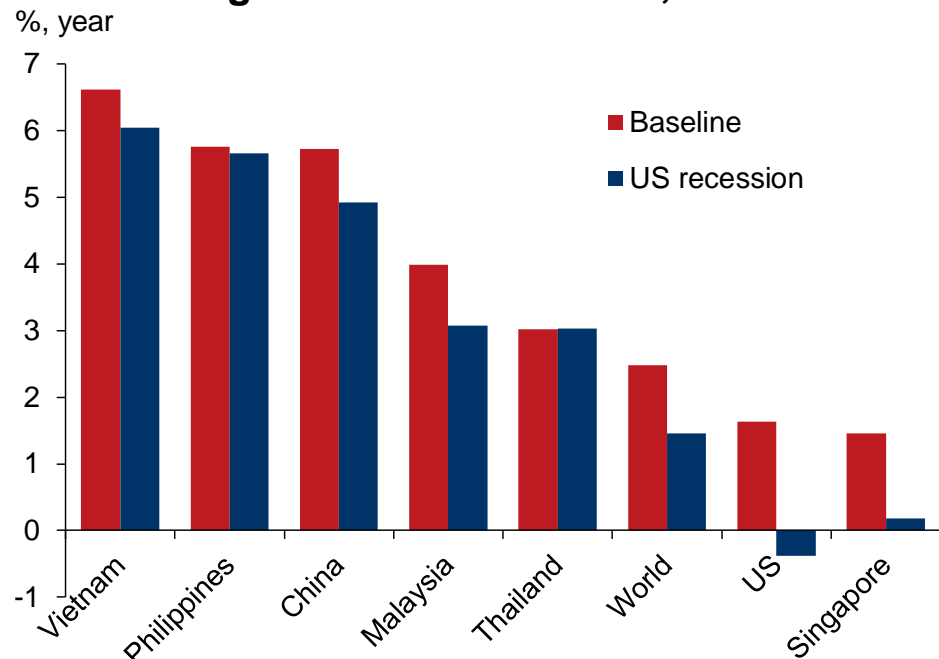
%, year



Source : Oxford Economics/Haver Analytics

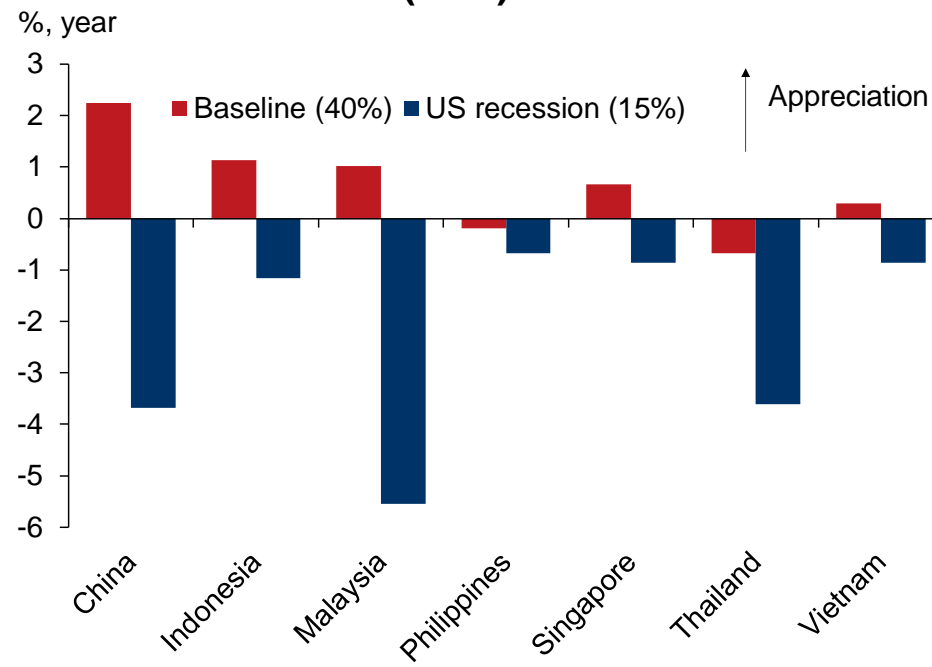
Risk scenario: US recession (15%)

Asia: GDP growth - US recession, 2020



Source : Oxford Economics/Haver Analytics

Asia: US recession (15%)

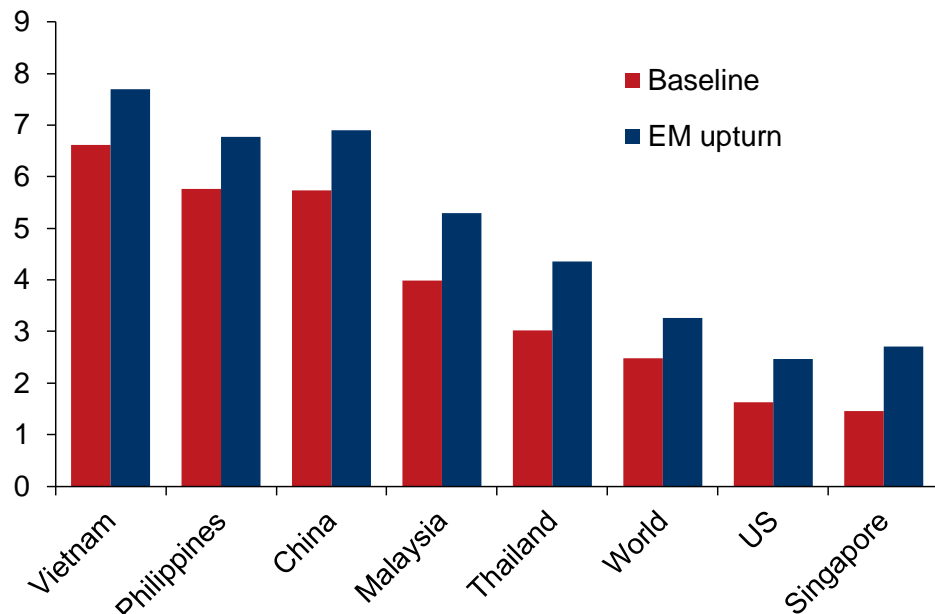


Source : Oxford Economics/Haver Analytics

Risk scenario: EM upturn as trade risks fade (15%)

Asia: GDP growth - EM upturn, 2020

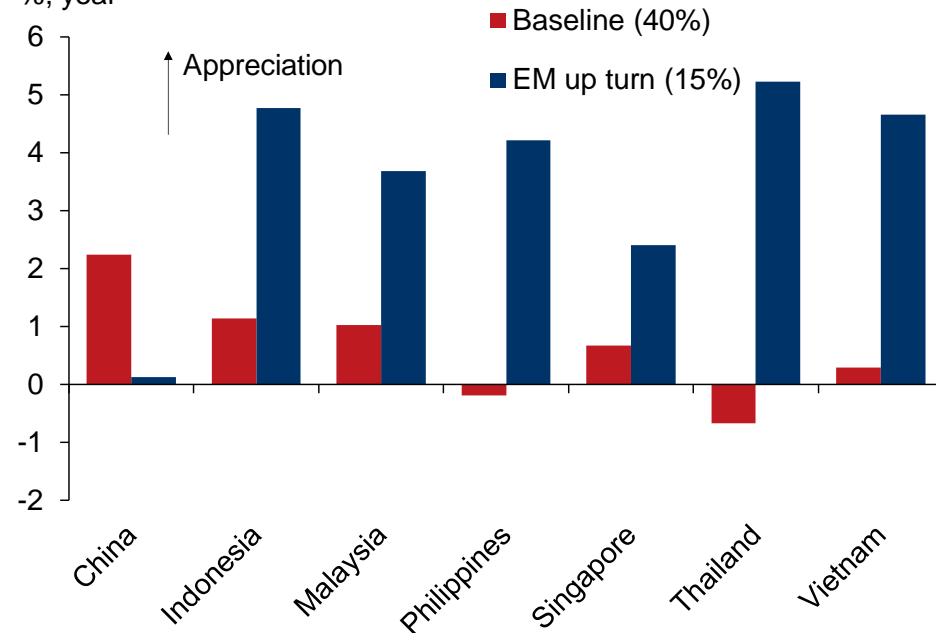
%, year



Source : Oxford Economics/Haver Analytics

Asia: Upside risks to exchange rates

%, year



Source : Oxford Economics/Haver Analytics

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