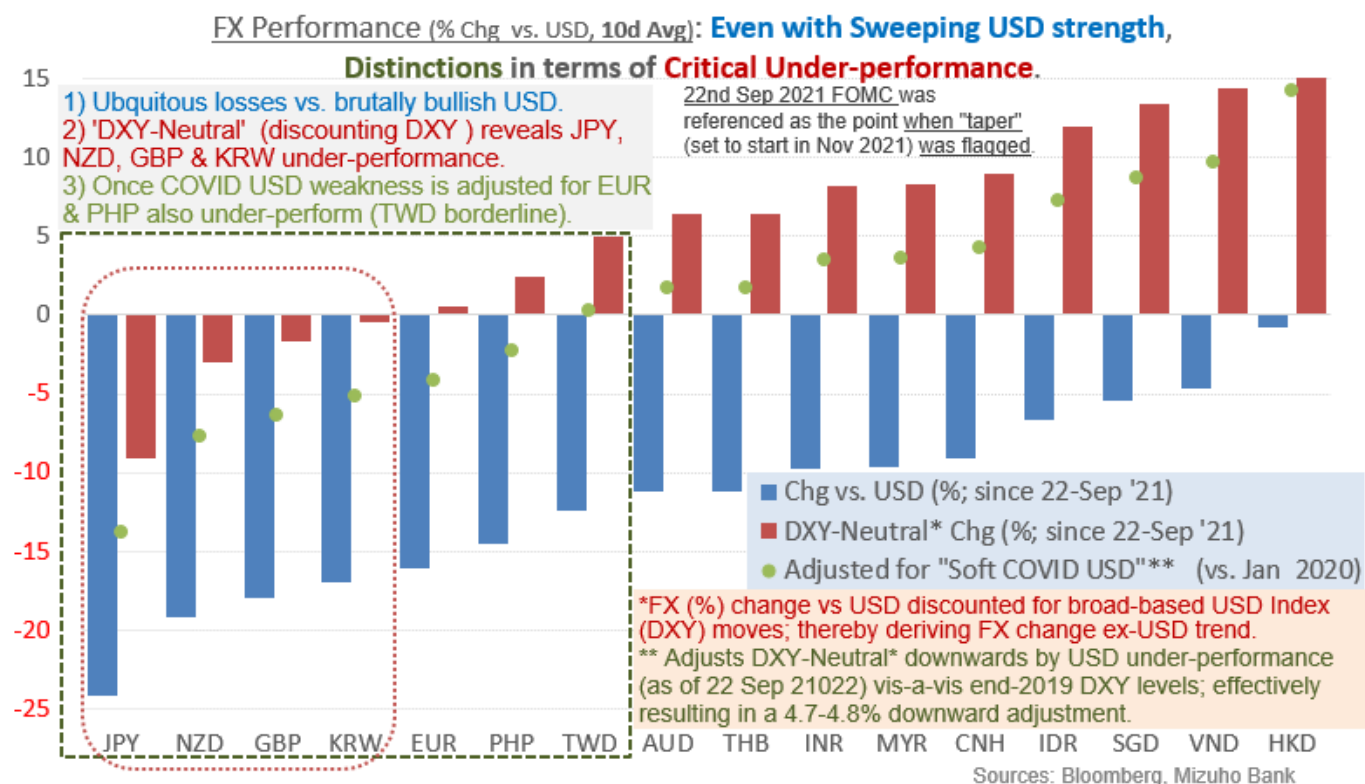


FX: Differentiating, Not Defining, Stress



“All animals are equal, but some are more equal than others.” - George Orwell, *Animal Farm*

It is **one thing to recognize pervasive risks from sweeping USD strength**, but *quite another to assume identical stress*. The latter is simply not accurate. **USD strength may be universal, but corresponding FX (under-)performance and attendant stress are far from uniform**. Indeed, the words of George Orwell, as immortalized in ‘Animal Farm’, ring true to FX discrimination: “... *some are more equal than others*”.

At first blush, the **most acute FX under-performance turns up in JPY, NZD, GBP and KRW on a DXY-neutral basis**; that is, once the impact of brutal DXY (USD Index) gains are stripped out. **But** while, **most other EM Asia currencies have relatively out-performed** on DXY-adjusted basis, this approach of ignoring all FX losses derived from a bullish USD is **too simplistic, exaggerating “out-performance”**.

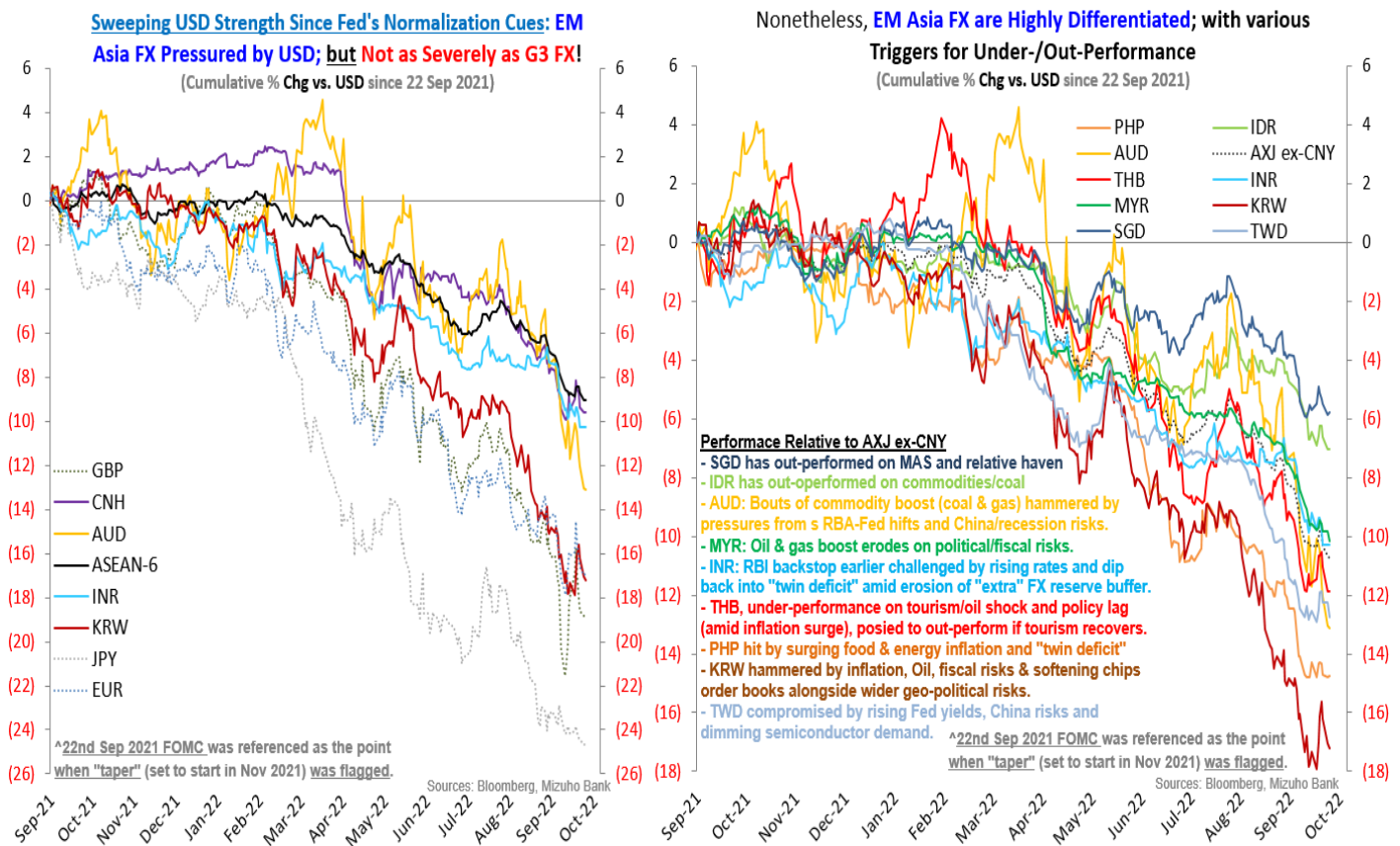
Instead, even a fairly low bar measure that **adjusts for** (not discounting impact from) “COVID catch up” DXY gains (to derive under-performance from pre-COVID DXY levels) **nudges PHP and TWD (borderline) into under-performance**; with relative *AUD* and *THB* performance **rendered a tad more compromised**.

To be sure, *DXY-neutral and COVID-USD adjusted measures*, while *convenient base-line references*, are **not definitive gauges for distinguishing between under- and out-performance**; specifically given the bias to is flatter out-performance when broad-based USD strength is discounted. **But** that does not distract from the **big picture of growing stress, but with keen appreciation for divergent performance**.

Fact is, such a **wide dispersion of FX performance** cast against a backdrop of a broadly (and brutally) bullish USD reveals the *intricacies of varying vulnerabilities* to;

- i. Gathering economic headwinds (e.g. Fed rate hike sensitivities, China exposures)
- ii. geo-political threats;
- iii. energy/food/commodity price shocks;
- iv. broader inflation risks;
- v. attendant monetary response;
- vi. (perceived fears of) unsustainable fiscal dynamics, and;
- vii. Cash-flow (potential USD) shocks from external account pressures

The upshot is that evolving Fed-USD risks point to **amplified currency risks for “twin deficit”, high inflation currencies exposed to high reliance on energy/food imports**; (amid elevated geo-political risks). On this account, *PHP* and *INR* remain *conspicuously vulnerable*; while *KRW* and *IDR* face risks of *Current Account flip into a deficit*. *China policy/recession risks sensitivities* have *AUD*, *KRW* and *TWD* on the hook while *Beijing’s Zero COVID border restrictions* may benefit *THB* most followed by *PHP* and *KRW*. But **“stress” drivers** are neither comprehensive nor static; so **FX differentiation will be active and dynamic**.



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