# Mizuho Chart Speak: Oil & FX

**Economics & Strategy | Asia ex-Japan**

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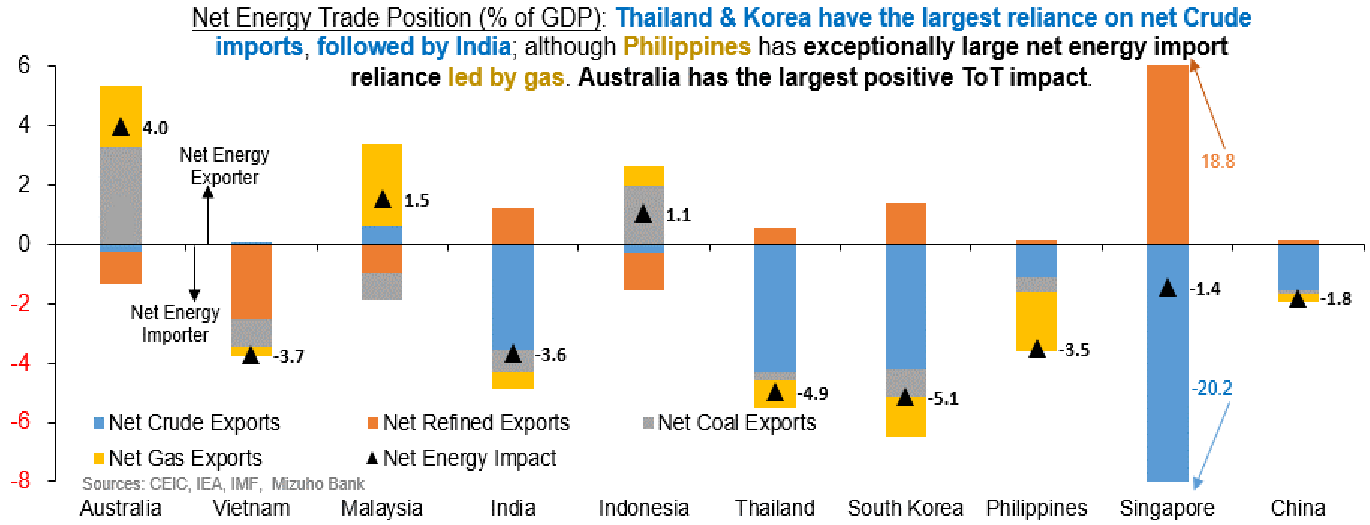
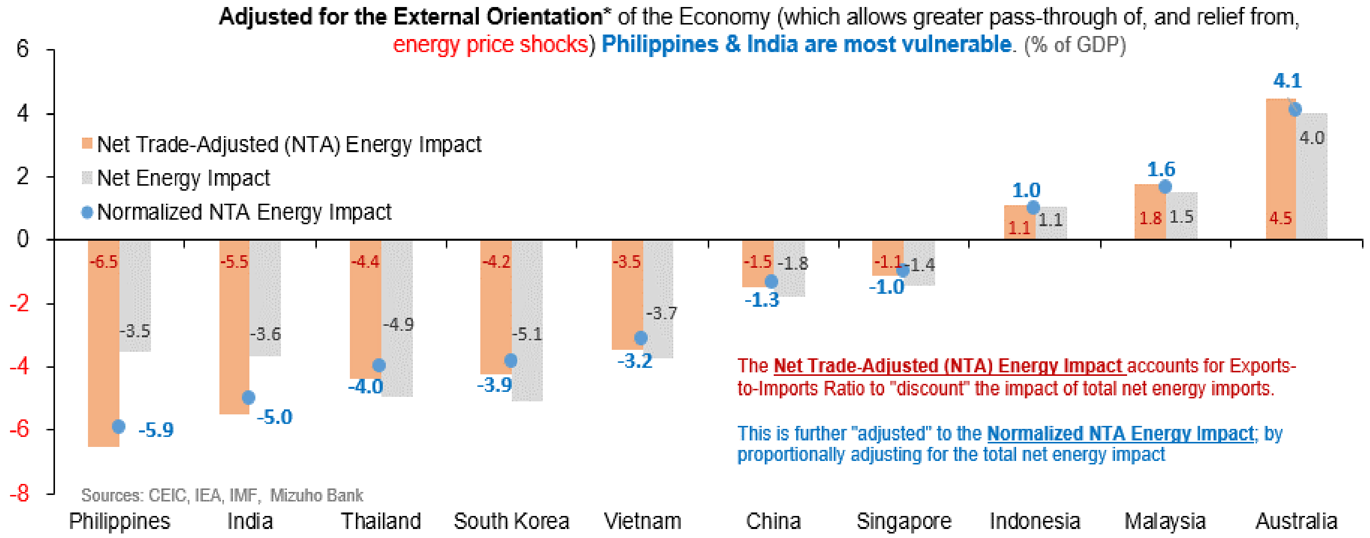
## EM Asia FX: Oil's Domination & (Fractional) Distillation




*"One Ring to rule them all,*
*One Ring to Find them,*
*One Ring to bring them all,*
*and in the darkness bind them."*
***– J.R.R. Tolkien, Lord of the Rings***

In a Nutshell: **Not unlike Tolkien's "One Ring"**, **Oil's** dominant economic impact **rules** the roost as the most emphatic and pervasive expression of geo-political risks. This is a function of **how upstream oil/energy is in economic supply chains** and costs associated with compensating for **Russia's significant** (~12%) **global supply**. **Associated stagflation risks** (from the tyranny of driving up inflation whilst simultaneously depressing demand), and **"twin deficit" pressures** mean **accentuated policy dilemmas**, and **aggravated vulnerabilities to capital outflows**. **Consequent FX ripples** are undeniable.

*PHP and INR are arguably most vulnerable to further and sustained oil shocks,* with *KRW and THB marginally less so;* (thanks to partial relative external-orientation buffer). But, until wider *industrial supply disruption risks* abate and *tourism* resumes, this *external-orientation buffer for KRW and THB* is *compromised;* in comparison to *better refining exports offset for SGD.* On the flip side, *AUD is the run-away beneficiary from positive terms of trade (ToT)* **accentuated by** shocks to European **gas** and **coal**. *MYR, to a lesser extent gains from crude and coal.* Notably, *IDR* has far *greater ToT* (coal and nickel in particular) *resilience* to geo-political risks, *but is far from immune.*

## Domination

**With threats of $130 crude oil**, *amid enduring geo-political risks,* it is **increasingly difficult to ignore Oil's overwhelming economic impact** on, and **consequent FX ripples** from, *inflation*, *aggregate demand, external balance* and *fiscal position*. *Oil's position so far upstream in global economic value chains* and *lack of substitutes* renders its impact **exceptionally profound and pervasive**. This is precisely **why Oil dominates** not just wider commodity and supply-chain/shipping disruptions, but also **the geo-political threat narrative**; barring a spill-over pan-European conflict, that is.

## Dilemma

Particularly devastating is the fact that **Oil's diametrically opposed forces on inflation and aggregate demand** impose upon central banks the ***tyranny of stagflation risks***. As a consequence of which, policy **dilemmas are painfully amplified by sharper trade-offs**. What's worrying is that *miscalculations on policy* amid these strains could *potentially trigger destabilizing capital outflows* **to the detriment of FX stability**.

## Deterioration

Moreover, surging Oil prices are often accompanied by *menacing of Current Account deterioration* **oil/energy-importing economies**. And *where fiscal subsidies are resorted to* (as in the case of many EM Asia economies), a *simultaneous deterioration of the fiscal deficit* will **fuel "twin deficit" risks**.

## Differentiation

Given Oil's all-consuming effects, **gauging the relative external economic dependence on Oil**/energy, offers a quick and dirty way to *determine vulnerabilities* (in some cases, gains), and crucially, **differentiate outcomes**. A glance across reveals that:

- i) ***EM Asia is by and large hobbled by significant reliance on net crude imports***.
- ii) Whereas ***Malaysia is the lone net crude exporter***.
- iii) But including gas and coal, ***Australia*** and ***Indonesia*** join the ranks of ***net energy exporters.***
- iv) And on this basis, ***Australia** is **by far the most prominent net exporter of energy***.

## (Fractional FX) Distillation

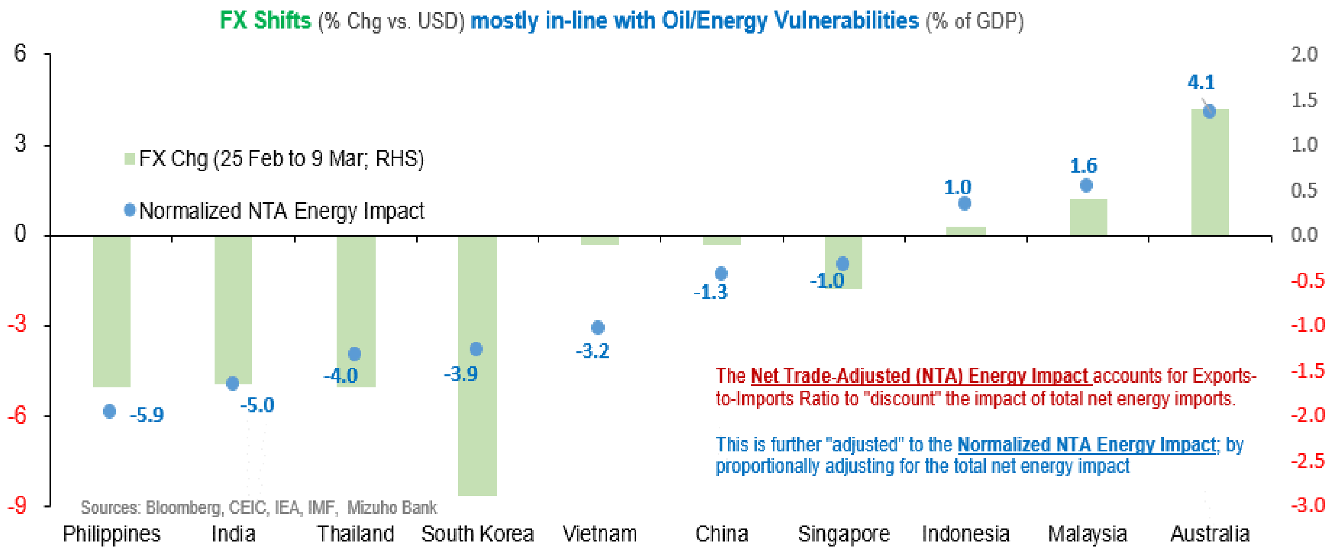
**Refining** (no pun intended) **this differentiation into fractional FX distillation** proper, **PHP and INR appear most exposed to energy market shocks** *followed by THB, KRW and VND,* **once the export-orientation of their economies are accounted for**. **On the flip side**, *AUD, MYR* and *IDR* have **potential to gain as net energy exporters**, with *AUD as the standout commodity bet* whereas *IDR* is *unable to convincingly shed risks* associated with *"twin deficits"* and *perverse domestic energy shortage.*

<u>External-Orientation Buffer (KRW, THB. SGD, VND)</u>: Interestingly, and importantly, the **higher, raw relative energy imports of Korea, Thailand and Vietnam** (vis-à-vis India and Philippines) are **mitigated by significantly higher export-orientation** (relatively higher net exports share of GDP). This *recognizes that energy imports meant for exports production* are *not completely unhedged vulnerabilities.* Which is

**even more emphatically evident in Singapore's large oil refining sector** (providing a greater degree of buffer from price shock to imported crude), *translating to relatively greater SGD resilience.*

Wider Industrial Impact (KRW): Admittedly, despite the aforementioned external orientation buffer, **KRW's fall is sharpest** (Chart below). But this is ***aggravated by wider industrial shocks***. *Not just Russian energy ripples but industrial metals critical in electronics/batteries as well as downstream petrochemicals.* And so **exports buffer** is **not a guarantee of appreciable mitigation of wider disruptions**.

But Particular Oil Shock Vulnerabilities (PHP, INR & THB): Whereas, **India's and Philippines' structural "twin deficits" accentuate INR's and PHP's vulnerabilities to persistent oil shocks**. And to be clear, this is why risks to PHP and INR are the most accentuated, all else being equal. But in a world still struggling to emerge form COVID, "ceteris paribus" does not apply. And **as long as Thailand's tourism drought persists**, the **THB's ability to mitigate Oil shocks may also be compromised**; by the inability to "export" these price shocks via tourists.




Term of Trade Windfall (AUD, MYR & IDR): At the other end of the spectrum, **AUD is the run-away out-performer**, thanks to its ability to leverage on European gas crunch as *one of the largest global gas exporters and Australian Newcastle coal's comparability to Russian coal (in terms of higher calorific value).* Similar in direction, but some distance *behind AUD, in terms positive ToT effects are MYR* and *IDR*.

But **ToT "windfall" does not offer absolution from wider headwinds**. This applies to the most intense "risk off" not sparing neither AUD nor MYR. Crucially, even without such extreme risk iterations, IDR's **coal export offset provides uncharacteristic backstop** against "risk off", it *exposes a single-point of failure should coal exports ban be imposed due to domestic shortages.* Not unlike Indonesia's self-imposed restrictions on palm oil exports (due to ironic domestic shortages).

Low-Yielder Commodity Boost (AUD): **Apart from the specifics of ToT** particularly favouring *AUD,* the Antipodean **enjoys further backstop** from its **abrupt and distinct COVID turn to become a low-yielder**; as this almost negates "carry" unwind trades on "risk off" from geo-politics and/or oil supply shocks.

(Oil) "In the Darkness Bind(s)": As **Oil dominates the global geo-political risk narrative**, it "*brings*" with it the associated cost-side, demand-end and overall stability risks. And invariably "*in the darkness*" of Ukraine invasion risks "*bind them*" (EM Asia FX) to supply shocks and wider stagflation impulses.

## Table 1: FX Forecasts

| FX Forecasts | Mar 22 | Jun 22 | Sep 22 | Dec 22 | Mar 23 | Jun 23 |
|---|---|---|---|---|---|---|
| USD/CNY | 6.07 - 6.38 (6.32) | 6.32 - 6.62 (6.43) | 6.19 - 6.67 (6.34) | 6.13 - 6.58 (6.33) | 6.18 - 6.64 (6.38) | 6.14 - 6.50 (6.34) |
| USD/INR | 73.2 - 77.3 (76.5) | 74.0 - 78.5 (76.0) | 72.0 - 77.0 (74.8) | 70.4 - 76.6 (74.2) | 69.2 - 75.4 (73.0) | 69.7 - 76.0 (73.5) |
| USD/KRW | 1160 - 1230 (1220) | 1150 - 1270 (1200) | 1140 - 1240 (1180) | 1100 - 1200 (1150) | 1080 - 1180 (1120) | 1070 - 1160 (1114) |
| USD/SGD | 1.32 - 1.37 (1.36) | 1.31 - 1.38 (1.35) | 1.30 - 1.40 (1.34) | 1.29 - 1.37 (1.32) | 1.29 - 1.37 (1.33) | 1.30 - 1.37 (1.33) |
| USD/IDR | 14210 - 14900 (14600) | 14400 - 15150 (14750) | 13970 - 15250 (14400) | 13790 - 14980 (14250) | 13650 - 14830 (14100) | 13600 - 14900 (14050) |
| USD/MYR | 3.98 - 4.25 (4.23) | 4.16 - 4.43 (4.21) | 3.93 - 4.32 (4.18) | 3.97 - 4.30 (4.16) | 4.00 - 4.32 (4.17) | 3.97 - 4.30 (4.14) |
| USD/PHP | 50.4 - 53.0 (52.2) | 51.2 - 53.5 (51.8) | 48.8 - 52.4 (50.9) | 47.8 - 51.5 (50.0) | 48.0 - 51.6 (50.1) | 47.1 - 51.1 (49.2) |
| USD/THB | 31.9 - 33.7 (33.3) | 32.8 - 35.3 (33.4) | 31.2 - 34.2 (33.0) | 30.2 - 33.1 (32.0) | 30.7 - 32.9 (31.6) | 30.1 - 32.2 (31.0) |
| USD/VND | 22400 - 23100 (23000) | 22700 - 23300 (23000) | 22500 - 23200 (22800) | 22500 - 23100 (22600) | 22500 - 23000 (22650) | 22300 - 22900 (22550) |
| AUD/USD | 0.688 - 0.758 (0.726) | 0.682 - 0.773 (0.715) | 0.681 - 0.768 (0.735) | 0.726 - 0.808 (0.765) | 0.749 - 0.825 (0.788) | 0.749 - 0.819 (0.780) |

## Table 2: Central Bank Policy Rates & Forecasts

**Central Bank Policy Outlook**

| Country | Central Bank | 2020 | | | | 2021 | | | | 2022 | | | | 2023 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| US | Fed | 0.00-0.25% | 0.00-0.25% | 0.00-0.25% | 0.00-0.25% | 0.00-0.25% | 0.00-0.25% | 0.00-0.25% | 0.00-0.25% | 0.25-0.50% | 0.75-1.00% | 1.00-1.25% | 1.25-1.50% | 1.50-1.75% | 1.50-1.75% |
| Australia | RBA | 0.25% | 0.25% | 0.25% | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% | 0.25% | 0.50% | 0.50% |
| China | PBoC | 4.35% | | | | | | | | | | | | | |
| | | 4.05% | 3.85% | 3.85% | 3.85% | 3.85% | 3.85% | 3.85% | 3.80% | 3.70% | 3.60% | 3.50% | 3.50% | 3.50% | 3.50% |
| India | RBI | 4.40% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.25% | 4.75% | 5.00% | 5.00% | 5.00% |
| Indonesia | BI^ | 4.50% | 4.00% | 4.00% | 3.75% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.75% | 4.00% | 4.25% | 4.50% |
| Malaysia | BNM | 2.50% | 2.00% | 1.75% | 1.75% | 1.75% | 1.75% | 1.75% | 1.75% | 1.75% | 2.00% | 2.25% | 2.50% | 2.50% | 2.50% |
| Philippines | BSP | 3.25% | 2.50% | 2.25% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.25% | 2.50% | 2.75% | 3.00% | 3.00% |
| Singapore | MAS* | Flatten S$NEER & Re-Centre to Prevailing S$NEER (~40-70bps lower) | | Status Quo | | Status Quo | | Restore a "Slight" S$NEER Slope (0.5% per annum) | | Re-center Mid-Pt Higher & "Slightly" Increase S$NEER Slope (1.0% p.a.) | | "Slightly" Increase to S$NEER Slope (1.5% per annum) | | Maintain S$NEER Slope (1.5% per annum) | |
| Korea | BoK | 0.75% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 1.00% | 1.25% | 1.50% | 1.50% | 1.50% | 1.50% | 1.50% |
| Thailand | BoT | 0.75% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 1.00% | 1.00% | 1.00% |
| Vietnam | SBV | 5.00% | 4.50% | 4.50% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.25% | 4.50% | 4.50% | 4.50% |

* The MAS conducts monetary policy via FX. Specifically it adopts a trade-weighted SGD appreciation at "modest and gradual" (estimated to be 2% per annum) pace as default.

^ BI shifted to the 7 Day repurchase rate as the benchmark rate in August 2016. This by default constituted 125 bps reduction from the last policy rate

^^ PBoC instituted the loan prime rate (LPR), which sets a floor on commercial interest rates. This replaces the 1-yr Lending rate