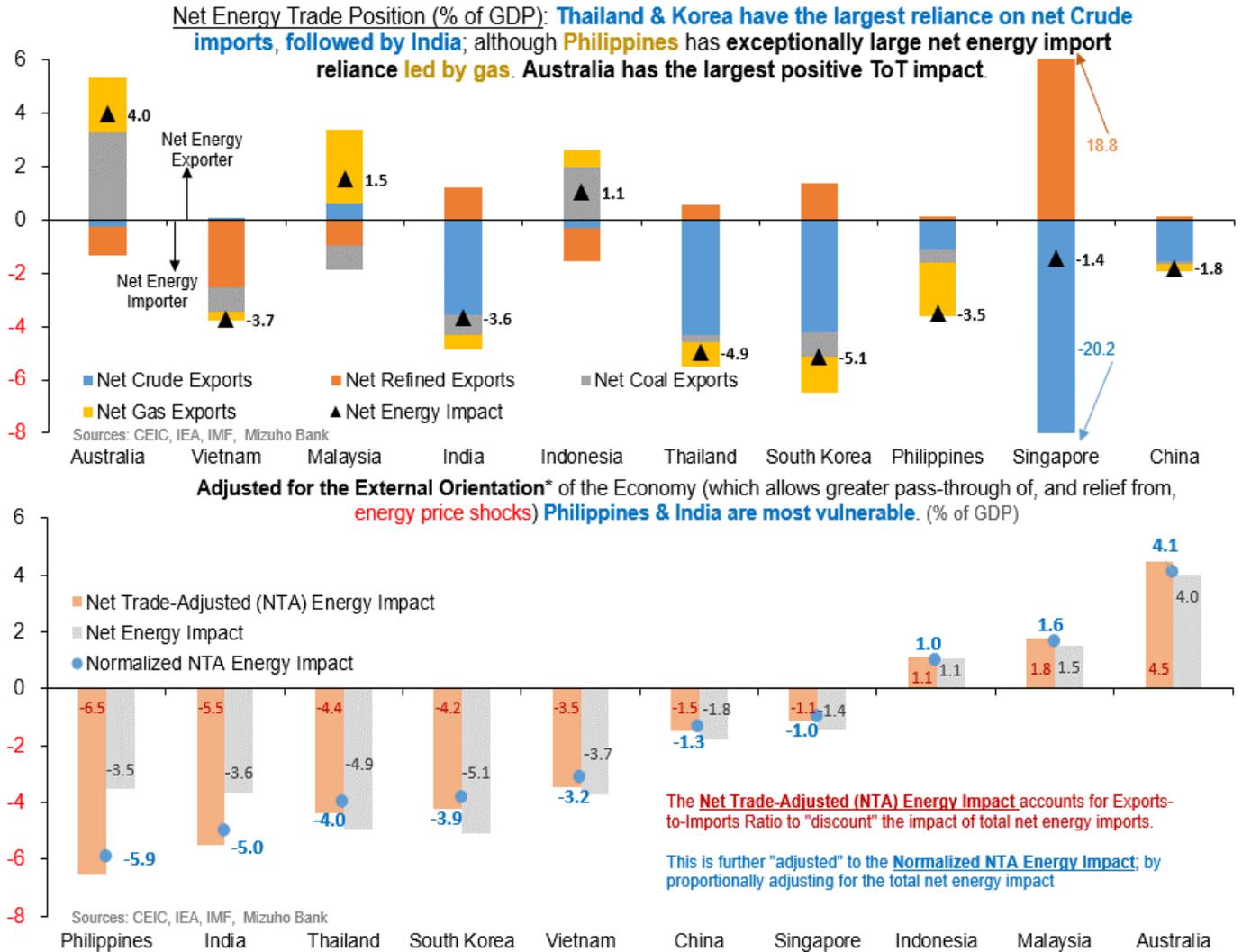


# Mizuho Chart Speak: Oil & FX

## 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 runaway 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**

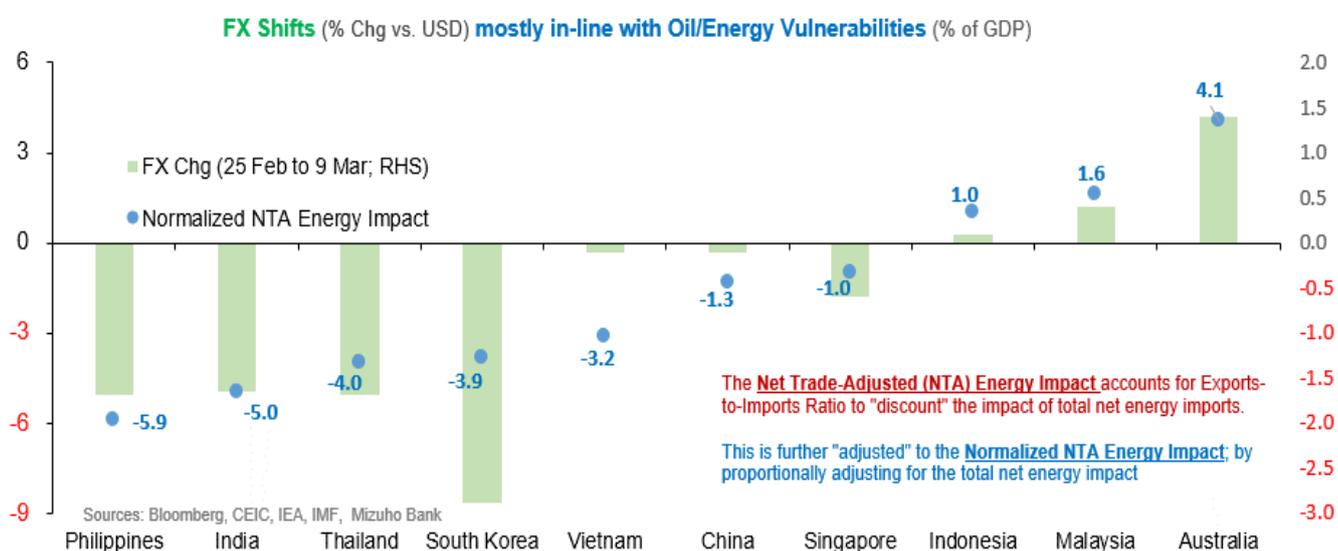
**Refining** (no pun intended) **this differentiation into fractional FX distillation** proper, **PHP and INR appear most exposed to energy market shocks followed by THB, KRW and VND, once the export-orientation of their economies are accounted for. On the flip side, AUD, MYR and IDR have potential to 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*.

External-Orientation Buffer (KRW, THB, SGD, VND): 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 from 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 &amp; 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 <sup>^</sup>	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 <sup>*</sup>	Flatten SSNEER & Re-Centre to Prevailing SSNEER (~40-70bps lower)				Status Quo				Restore a "Slight" SSNEER Slope (0.5% per annum)		Re-center Mid-Pt Higher & "Slightly" Increase SSNEER Slope (1.0% p.a.)		"Slightly" Increase to SSNEER Slope (1.5% per annum)		Maintain SSNEER 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%		

<sup>\*</sup> 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.

<sup>^</sup> 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

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

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