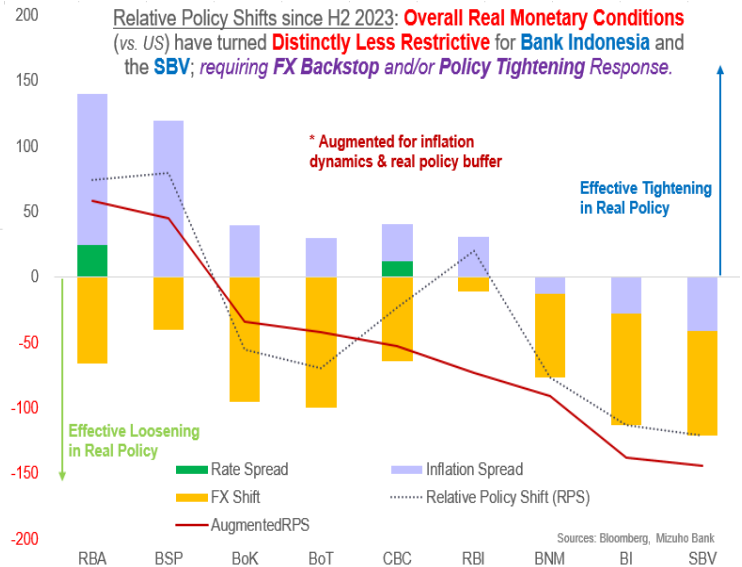
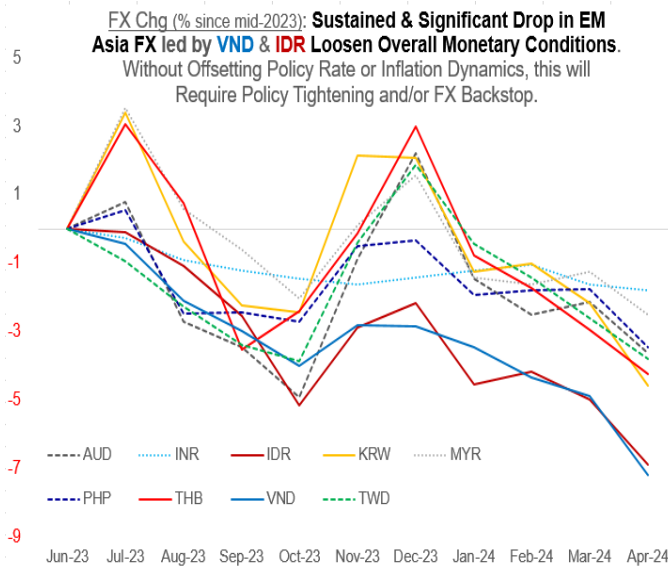


Currency Risks for EM Asia Central Banks



Fed Hold is Not a Static Risk

- A “patient” Fed is **not a “static” policy risk** for other EM Asia central banks.
- For one, **because** even if nominal policy rate spreads (vs. Fed) are unchanged, **real policy spreads**, which *are determined in tandem with evolving inflation differential* drive monetary policy risks.
- Crucially, **ensuring sufficient restraint in overall monetary conditions, entailing FX shifts over and above relative interest rate inflation shifts**, is necessary to for broader macro (not just inflation) stability.

FX: Depreciation Pressures Up the Ante

- To this end, **sharp depreciation pressures in the currency up the ante for policy-makers** to ensure sufficient monetary policy restraint. Especially *as adverse feedback loop between high inflation and a depreciation pressures* require **timely policy backstop to avert an adverse policy spiral**.
- To that end, **sustained and sharp depreciation pressures** in the VND, IDR, KRW, THB and TWD arguably **bring the adequacy of EM Asia policy tightening** thus far into **sharp relief**.
- This **validates the CBC’s unexpected (but not unwarranted) rate hike in Q1**. Which then squarely puts the *SBV, Bank Indonesia (BI), BoK and BoT in the hot seat*. Although *some are hotter than others*.
- Considered holistically, *relative inflation dynamics provide room for the BoK and BoT to hold off*. In fact, *economic risks may tip BoT to a cut*. But **SBV and BI face acute pressures for policy response**.
- Which is **why we now call for BI to hike** (next week) as a measured 25bp will deliver greater benefits from backstop than stress. Further stress on the IDR though remains a distinct risk regardless.
- *In contrast, Vietnam face sharper trade-offs given real estate/banking stress amid fragile recovery*. And so, **FX intervention and wider FX controls** will be the first port of call. And to be sure, pressures for, and risks of, regulatory tightening on FX will remain.

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