

# ASEAN Macro View

## Chartbook: Still Constructive on 2H Despite Market Pressures

- **Modest 2H13 recovery following negative surprises in 1Q GDP (ex PH)** — Except for PH, growth in ASEAN slowed more sharply than expected in 1Q13 (4Q12: 8.8%), reflecting manufactured export and commodity-related weakness, and temporary factors (e.g. post election uncertainties holding back investments in MY). Consistent with leading indicators and Apr data, a slight pick-up in ASEAN-5 growth to 5.7%YoY in 2H13 (1Q: 5.2%) is likely. Improving demand from US and JP should offset lackluster demand from China and EU. While tight labour markets will support consumers, lower commodity prices could hurt rural incomes in MY and IDR. Public spending and robust property investments should further push up the investment share of GDP in 2013, with regional laggards of MY and PH likely to play catch-up. Japan's ODI to ASEAN is steadily converging with China, but wage costs are becoming a rising concern in TH and ID, which could portend some ODI diversification into MY and PH. Overall, the sharpest 2H13 GDP pick-ups may be seen in SG, MY, with ID and TH possibly lagging.
- **(Dis)inflation remains, but watch subsidy cuts and wage pressures** — Disinflationary trends have persisted on easing capacity constraints, lower import prices, while margin pressures remain minimal. But disinflation may not persist into H2, (except TH on base effects), reflecting [1] likely subsidy cuts in ID, and possibly MY, [2] lingering wage pressures amid structurally tight labour markets, which could be passed on as output gaps close in 2H13. But inflation should remain within Central Bank comfort thresholds, except in ID, where it could rise to 8.2% post fuel price hikes.
- **Household leverage constrains policy rates, but macroprudential preferred** — While MY's HH debt issues have been well studied, broader measures of leverage in TH could yield a figure closer to 70% of GDP (vs official estimates of 22%). While rate cuts could spur a further increase in the *flow* of new borrowers, the large *stock* of existing borrowers limits on rate hikes. Macroprudential tools will likely remain the preferred policy instrument though, as Singapore's seven rounds of property measures illustrate, significant tightening is required before "satisfactory" results are seen.
- **Limited room for policy to be easier, more near term pressure for IDR, MYR** — While IDR triggered an early BI hike (with two more 25bps FASBI hikes expected), FX weakness is less of a concern – and may even be welcomed – by other net creditor ASEAN countries (see [Asia Macro Flash](#)). That said, an improving cyclical backdrop, HH debt concerns, concerns over narrowing CA surplus may limit room for others to ease policy further. Ranking countries according to (1) scale of NEER weakness in May vs earlier appreciation, (2) foreign positioning in bonds and (3) (mis)alignments of macro policy stance, we see IDR as most vulnerable to further depreciation pressure, though BI also has greatest incentive to intervene. Pressure on MYR could arise from heavy foreign positioning, narrowing CA surplus and fiscal reforms. With policy arguably too loose, scale of recent inflows at unfavourable levels, and relatively modest sell-off so far, THB could also see pressure. Cyclical recovery, upward NEER band slope and safe haven flows, could benefit SGD.

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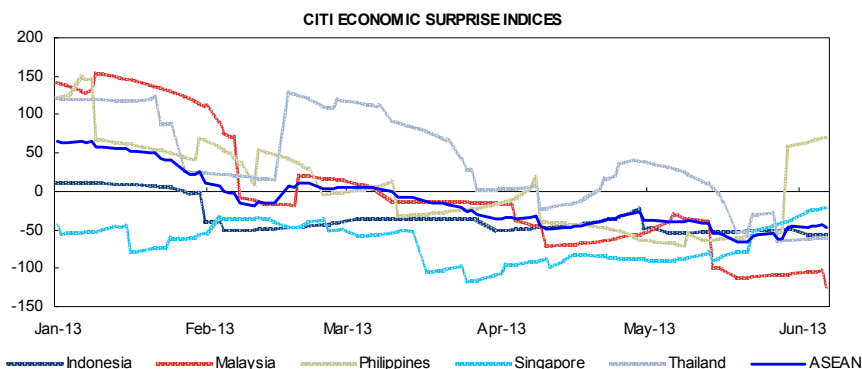
## Chartbook: Still Constructive on 2H Despite Market Pressures

Except for PH, recent economic data surprised uniformly on the downside in ASEAN – though negative surprises in SG are narrowing...

...reflecting the uniform slowdown in 1Q GDP on weaker net exports, while domestic demand has also moderated in most except for PH. A diminishing net export drag in 2H13F on expected US recovery should provide a stronger lift to MY and SG, while domestic demand remains firm in most (except TH on base effects)

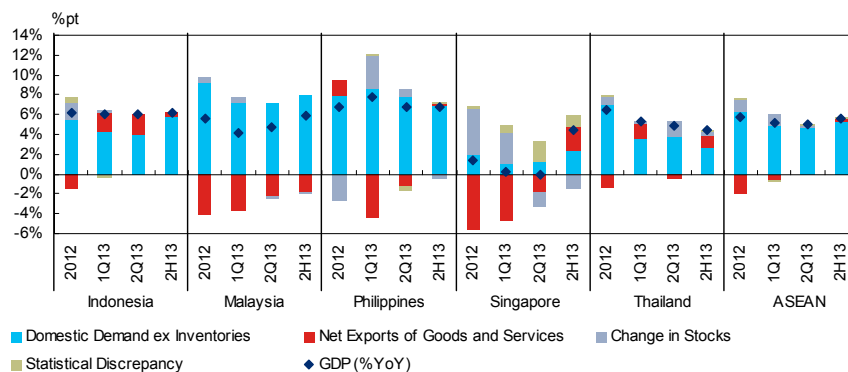
In sequential terms, MY and TH GDP growth fell into contractions in 1Q13, with PH outperforming. However, sequential growth rates should pick up for most from 2Q13...

Figure 1. Citi Economic Surprise Indices



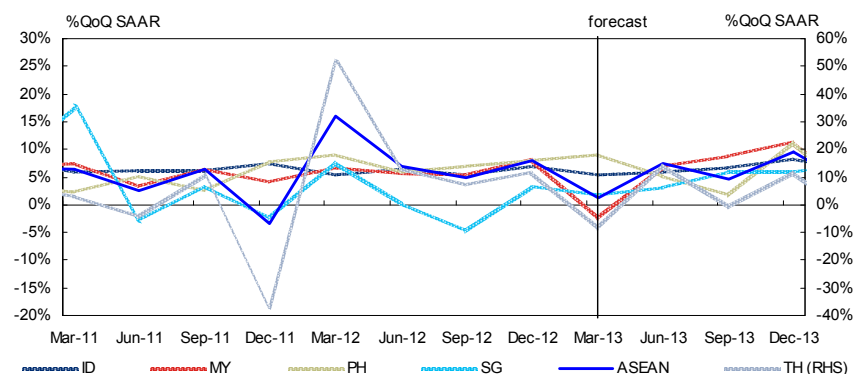
Source: Bloomberg, Citi Research

Figure 2. Contributions to GDP growth



Source: CEIC, Haver, Citi Research Estimates

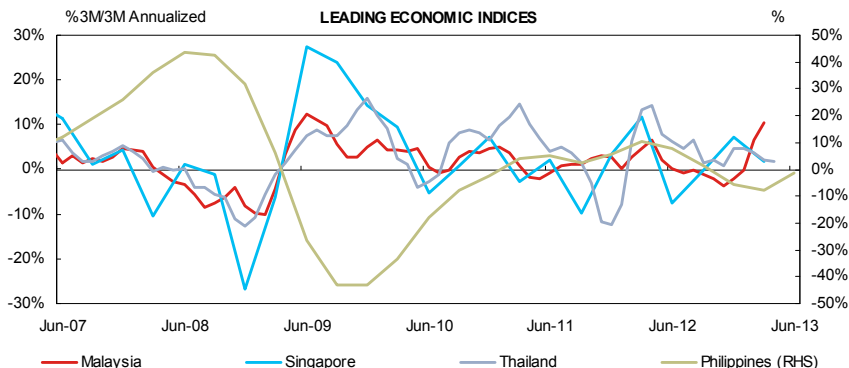
Figure 3. Sequential GDP growth %QoQ SAAR



Source: CEIC, Haver, Citi Research Estimates

...as validated by available national leading indicators, which suggest stronger pick-ups in MY and PH,

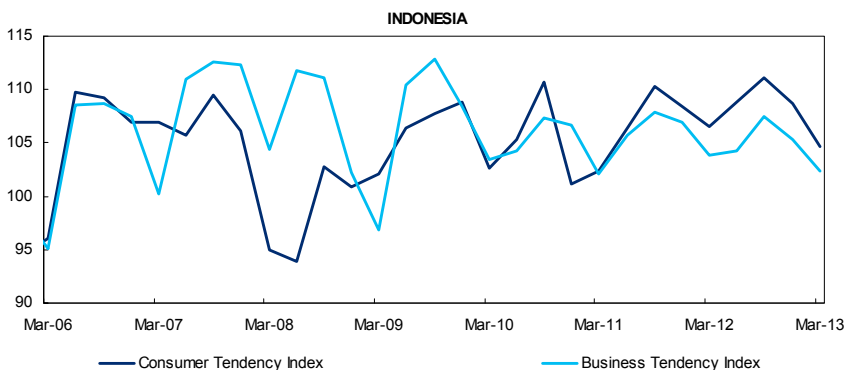
Figure 4. Leading Economic Indices and Indicators



Source: CEIC, Citi Research

The exception is ID, where consumer and business confidence have weakened, possibly in anticipation of the upcoming fuel price hike

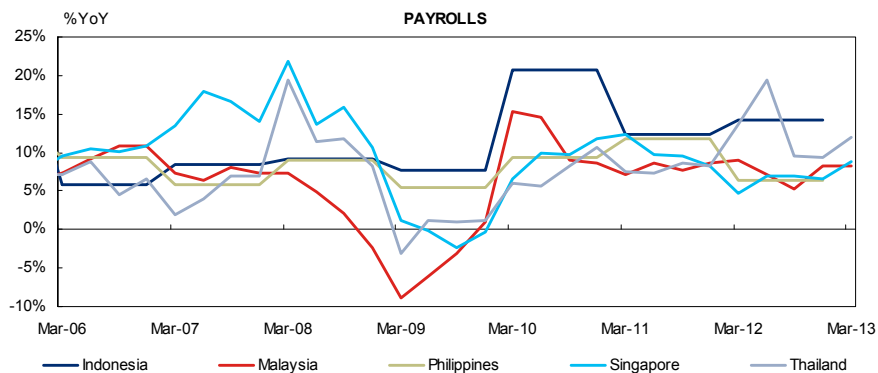
Figure 5. Indonesia Consumer and Business Tendency Indices



Source: CEIC, Citi Research

Firm labour market, with strong employment and wages still underpinning robust growth in overall labour incomes, should support consumer spending...

Figure 6. Labour Incomes

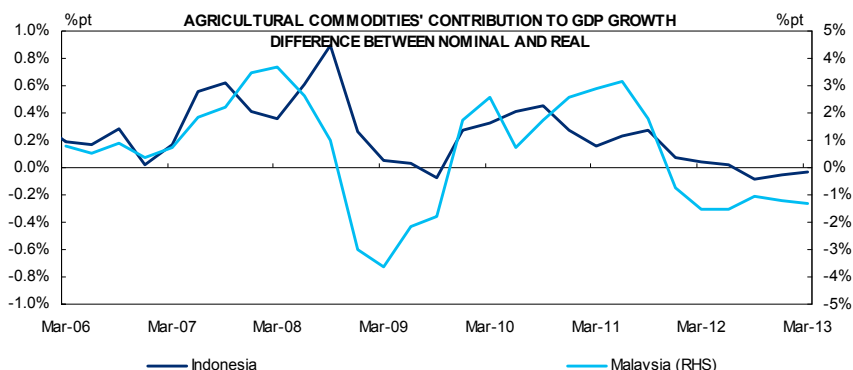


Note: Indonesia and Philippines on annual basis. We estimate payrolls as the product of average wages and employment.

Source: CEIC, Haver, Citi Research

...but softening agricultural commodity prices have hurt rural incomes and nominal GDP growth in MY and ID. In MY for example, nominal GDP growth – a proxy for overall income growth in the economy – would have been 1.3%-pts stronger in 1Q13 were it not for the fall in palm oil and rubber prices

Figure 7. Agricultural Commodities' Contribution to GDP Growth – Difference between Nominal and Real

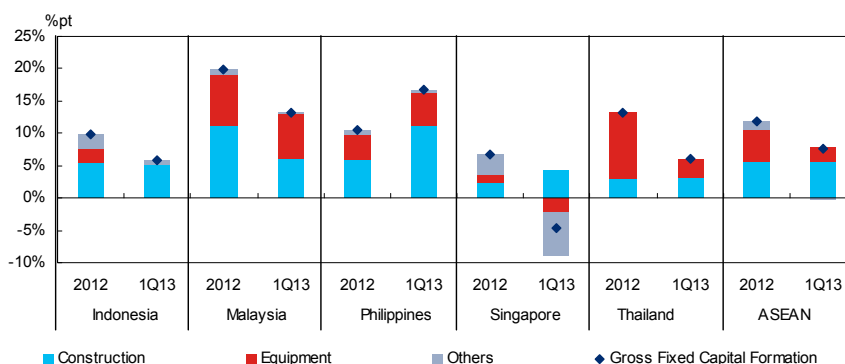


Note: We use non-food crops for Indonesia and rubber and oil palm for Malaysia. We first calculate the contribution to YoY headline GDP growth in both nominal and real terms and then take the difference between the two. A more negative gap indicates that GDP growth would have been higher were it not for lower prices.

Source: CEIC, Citi Research

Except for PH, fixed investment growth has softened noticeably in 1Q through ASEAN, largely reflecting a slowdown in equipment investments in most. In TH, this reflects (normalization following post-flood investment surge, while in SG, we see this more as function of weak external demand dampening manufacturing FDI. Lower commodity prices have also dampened mining related equipment investments in ID. However, construction investments have stayed robust on public infrastructure and housing projects. Only MY saw a noticeable slowdown in construction investments, reflecting pre-election uncertainties on politically connected projects, while equipment investments held up well – likely reflecting improving manufacturing FDI and oil and gas investments.

Figure 8. ASEAN Gross Fixed Capital Formation

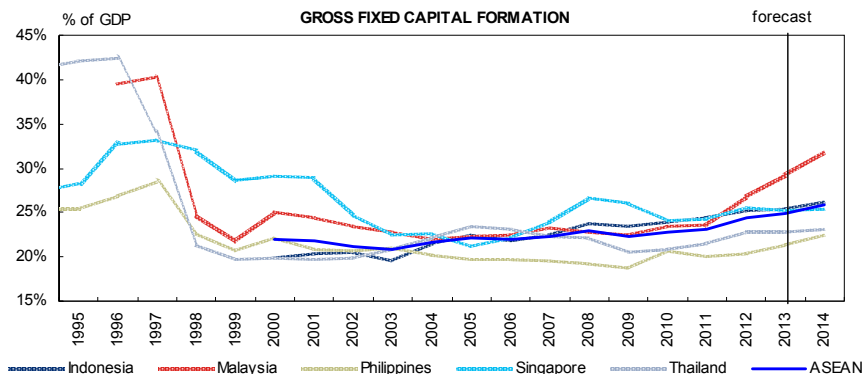


Note: As far as possible we try to exclude Transport Equipment from the Equipment category. Included in the Equipment category are Machine and Equipment (excludes Transport) for Indonesia; Machinery and Equipment (includes Transport) for Malaysia; Durable Equipment (includes Transport) for Philippines; Machinery, Equipment and Software (excludes Transport) for Singapore; and Equipment (includes Transport) for Thailand.

Source: CEIC, Citi Research

We still expect investment share of GDP in ASEAN to rise through 2014, especially in MY. But even PH, which has been the regional investment laggard thus far, could see a “catch-up”.

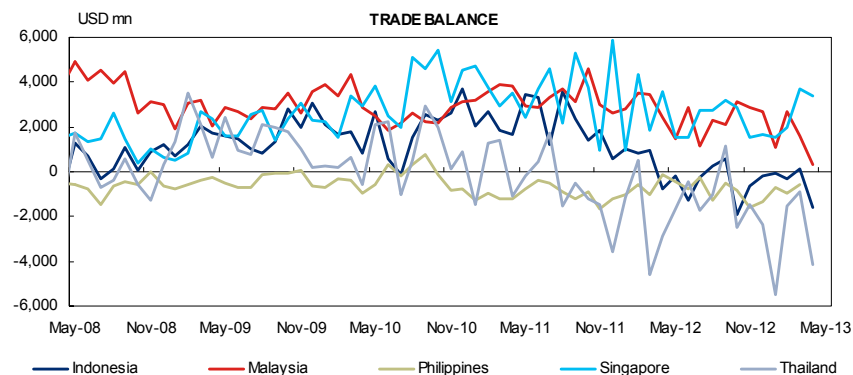
Figure 9. Gross Fixed Capital Formation as % of GDP



Source: CEIC, Haver, Citi Research Estimates

Trade balances in TH, ID and MY have seen particularly sharp deterioration in recent months. but improved in SG

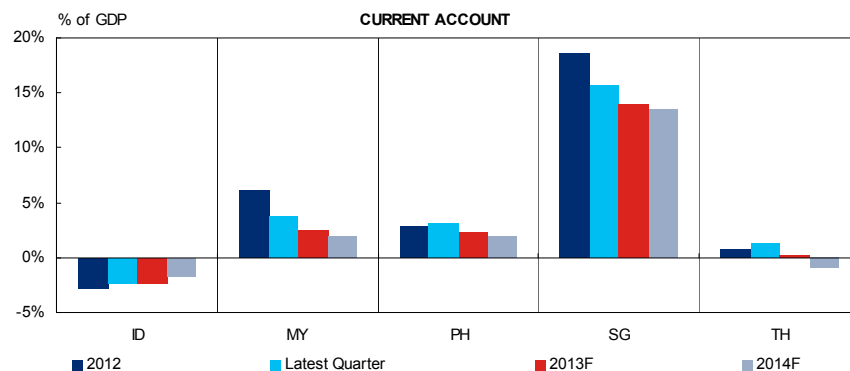
Figure 10. Merchandise Trade Balance



Source: CEIC, Citi Research

These should underpin continued narrowing of current account/basic positions for most in 2013F. In Indonesia we anticipate the CA deficit to stabilize following as an expected fuel price hike should stabilize oil and gas imports.

Figure 11. Current Account

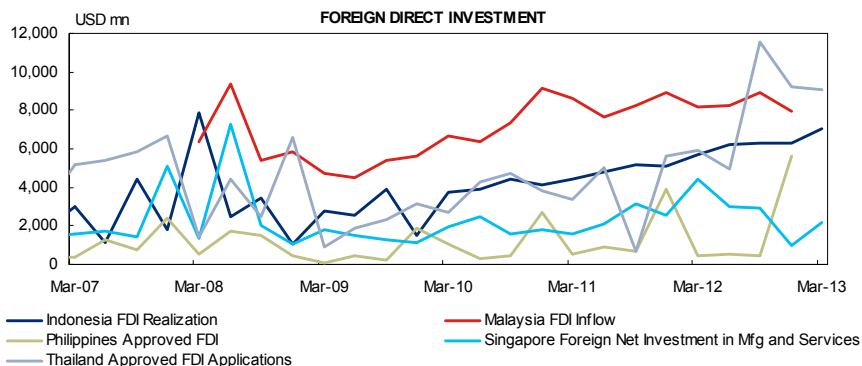


Note: The latest quarter is 1Q13, except for the Philippines where it is 4Q12

Source: CEIC, Haver, Citi Research

FDI approvals and realization remain robust particularly in TH and ID, and are picking up from low levels in PH, but have slowed in Singapore as cost competitiveness has been eroded

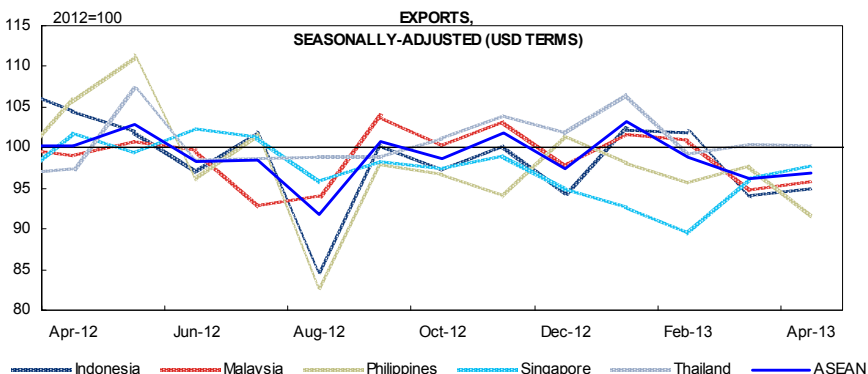
Figure 12. Foreign Direct Investments



Source: CEIC, Haver, Citi Research

Except for PH, export levels in the rest of ASEAN have stabilized into Apr in sequential terms, after softening though in 1Q13

Figure 13. Export Levels, Seasonally-Adjusted



Source: CEIC, Citi Research

Tech leading indicators showing improvement, with 3 out of 4 indicators available for May rising sequentially

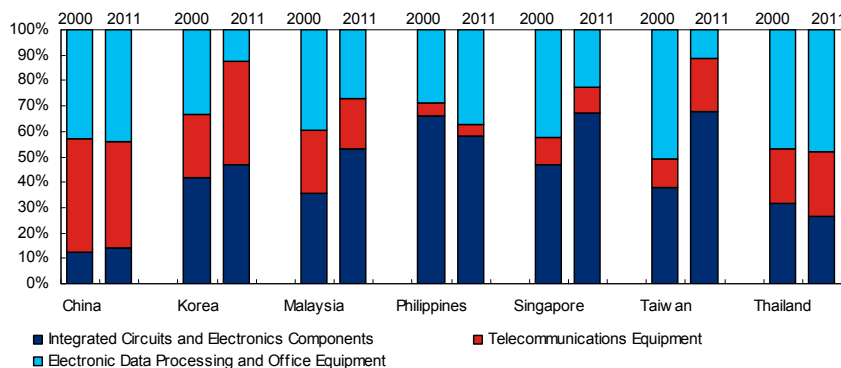
Figure 14. Indicators of Electronics Demand

	US New Orders for Computers and Electronic Products	PPI for Semicon & Related Device Mfg	US Shipment to Inventories Ratio for Computers and Electronic Products	US ISM Mfg PMI	US NASDAQ	US Semicon Book-to-Bill Ratio	China Communication, Computer and Other Electronic Equipment PMI	Taiwan Electronics Products Export Orders	Taiwan Information and Communication Products Export Orders	Singapore Electronics New Export Orders PMI	Number of Categories Rising Sequentially
	USD mn, SA	Dec-98=100			2/5/71=100			2006=100, SA	2006=100, SA		
Jan-13	20,910	39.5	0.604	53.1	3,142.13	1.11	47.8	106.9	109.4	50.4	5
Feb-13	20,716	39.7	0.598	54.2	3,160.19	1.10	47.4	100.3	102.8	53.2	4
Mar-13	20,595	39.4	0.620	51.3	3,267.52	1.11	55.8	100.4	96.1	52.5	5
Apr-13	21,220	40.2	0.600	50.7	3,328.79	1.08	53.7	102.2	102.4	53.1	6
May-13				49.0	3,455.91		55.7			53.3	3

Source: Haver, CEIC, CFLP, NBS, Citi Research

Heavy exposure to PC-related final demand in ASEAN tech exports...

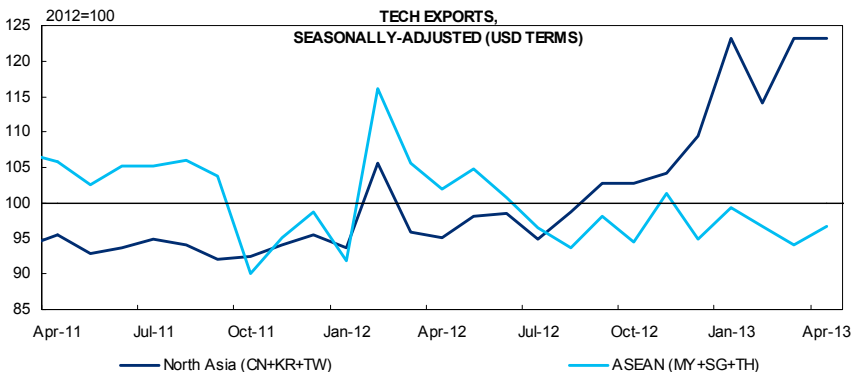
Figure 15. Composition of Tech Exports



Source: WTO, Citi Research

...has led to underperformance of tech exports vs North Asia in recent years...

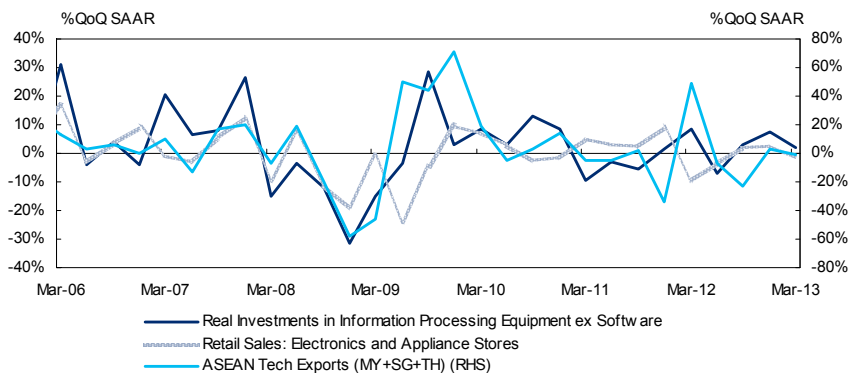
Figure 16. Tech Export Levels, Seasonally-Adjusted



Source: CEIC, Citi Research

...but may potentially position ASEAN better for a pick up in US corporate tech spending

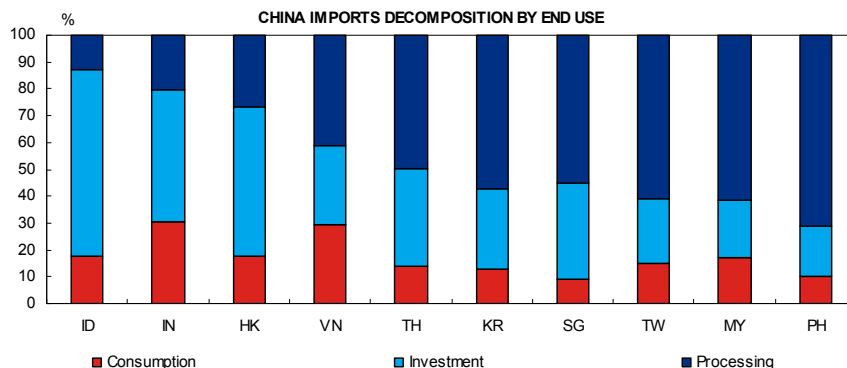
Figure 17. ASEAN Tech Exports and US Tech Investment and Consumption – higher contemporaneous QoQ SAAR growth rate correlation with investment (0.40) than consumption (0.09)



Source: CEIC, Citi Research

China slowdown should have relatively limited impact on ASEAN exports, as only 40% of ASEAN exports to China are for its domestic demand. The exception is Indonesia, whose commodity exports are heavily exposed to Chinese domestic demand

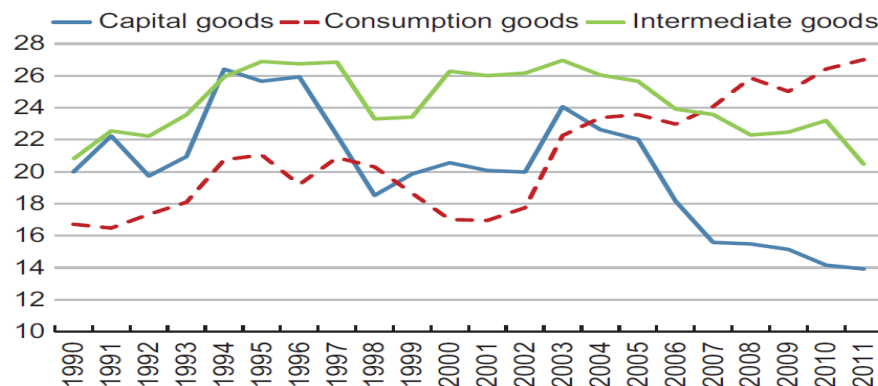
Figure 18. China Imports Decomposition by End Use



Source: Citi Research

Resilient ASEAN consumer demand should lift intra-ASEAN trade contribution to growth

Figure 19. ASEAN Intraregional Exports by Category as % of Total Exports



Source: IMF Asia and Pacific Regional Economic Outlook April 2013



Improving final demand from US and JP should more than offset lackluster final demand from China and EU, especially since the exposure to the former is 40-50% larger than the latter for MY and TH. SG's large headline exposure to EU final demand as % of GDP masks the fact that around half of NODX to EU is in pharmaceuticals not closely tied to the economic cycle. Stripping out pharma, final demand exposure to US and JP would be still 36% larger than that of the EU and CN combined

Japan's ODI to China and ASEAN (ex Singapore) have been steadily converging since early 2012, reflecting ODI diversification away from China in the wake of bilateral tensions and ASEAN's improving cost competitiveness

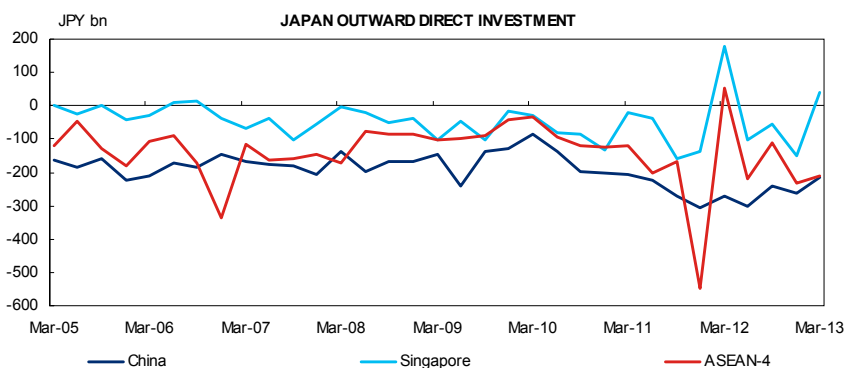
Figure 20. Direct and indirect exports to G3 via China (2012)

% of GDP	ID	MY	PH	SG	TH	ASEAN
Direct Exports to US	1.7	6.5	3.0	7.9	6.2	4.2
Direct Exports to EU	1.7	6.6	2.4	13.2	5.3	4.7
Direct Exports to Japan	3.4	8.8	3.9	6.5	6.4	5.2
<b>Direct Exports to other ASEAN-5</b>	<b>4.4</b>	<b>18.2</b>	<b>3.7</b>	<b>15.7</b>	<b>10.7</b>	<b>8.9</b>
Direct Exports to China	2.5	9.4	2.5	15.9	7.3	6.1
Exports to China used for Processing (% of exports to China)	13.2	61.4	71.0	57.1	49.4	39.1
Exports to China used for Domestic Demand (% of exports to China)	86.8	38.6	29.0	42.9	50.6	60.9
<b>Exports to China used for Domestic Demand</b>	<b>2.1</b>	<b>3.6</b>	<b>0.7</b>	<b>6.8</b>	<b>3.7</b>	<b>3.7</b>
China's Exports to US (% of China's exports)	17.2	17.2	17.2	17.2	17.2	17.2
Indirect Exports to US via China	0.1	1.0	0.3	1.6	0.6	0.4
<b>Total Direct and Indirect Exports to US</b>	<b>1.7</b>	<b>7.5</b>	<b>3.3</b>	<b>9.5</b>	<b>6.8</b>	<b>4.6</b>
China's Exports to EU (% of China's exports)	16.3	16.3	16.3	16.3	16.3	16.3
Indirect Exports to EU via China	0.1	0.9	0.3	1.5	0.6	0.4
<b>Total Direct and Indirect Exports to EU</b>	<b>1.8</b>	<b>7.6</b>	<b>2.7</b>	<b>14.7</b>	<b>5.9</b>	<b>5.1</b>
China's Exports to Japan (% of China's exports)	7.4	7.4	7.4	7.4	7.4	7.4
Indirect Exports to Japan via China	0.0	0.4	0.1	0.7	0.3	0.2
<b>Total Direct and Indirect Exports to Japan</b>	<b>3.5</b>	<b>9.2</b>	<b>4.1</b>	<b>7.2</b>	<b>6.6</b>	<b>5.4</b>
<b>Total Direct and Indirect Exports to G3</b>	<b>7.0</b>	<b>24.2</b>	<b>10.0</b>	<b>31.4</b>	<b>19.4</b>	<b>15.0</b>
<b>Total Direct and Indirect Exports to EU and Exports to China used for Domestic Demand</b>	<b>3.9</b>	<b>11.2</b>	<b>3.4</b>	<b>21.5</b>	<b>9.6</b>	<b>8.8</b>
<b>Total Direct and Indirect Exports to US and Japan</b>	<b>5.2</b>	<b>16.7</b>	<b>7.3</b>	<b>16.7</b>	<b>13.5</b>	<b>10.0</b>
<b>Total Direct and Indirect Exports to US, Japan and other ASEAN-5</b>	<b>9.6</b>	<b>34.9</b>	<b>11.0</b>	<b>32.4</b>	<b>24.1</b>	<b>18.9</b>

Note: All figures are % of GDP unless indicated otherwise. Indirect exports via China are calculated as the product of direct exports to China, the share of exports to China used for processing, and the share of China's exports to the destination country.

Source: CEIC, Citi Research

Figure 21. Japan Outward Direct Investment by Destination



Note: A larger negative figure indicates a larger flow of direct investments out of Japan

Source: CEIC, Citi Research

JETRO surveys also show that after CN, TH, ID are the next most-favoured export destinations for Japanese firms. However Thailand and Indonesia were placed ahead of China in General machinery and car parts

Figure 22. Target countries/regions to which firms plan to increase their exports or to begin exporting (% of firms)

Total			Food and Beverages			Iron and Steel/Non-ferrous Metals/Metal Products		
Ranking	Country/Region	Share	Ranking	Country/Region	Share	Ranking	Country/Region	Share
1	China	49.1	1	US	47.9	1	China	48.4
2	Thailand	40.6	2	Hong Kong	42.5	2	Indonesia	44.0
3	Indonesia	38.2	3	Taiwan	41.1	3	Vietnam	44.0
4	Vietnam	34.1	4	Singapore	41.1	4	Thailand	38.5
5	US	34.1	5	China	40.4	5	US	34.1
6	India	29.7	6	Thailand	37.7	6	India	30.8
7	Taiwan	24.8	7	Western Europe	33.6	7	Taiwan	22.0
8	Western Europe	23.2	8	Vietnam	30.1	8	Russia and CIS	22.0
9	Korea	22.2	9	Korea	27.4	9	Malaysia	20.9
10	Malaysia	21.7	10	Indonesia	26.7	10	Brazil	20.9
General Machinery			Electrical Equipment			Cars/Car Pats/Other Transportation Machinery		
Ranking	Country/Region	Share	Ranking	Country/Region	Share	Ranking	Country/Region	Share
1	Thailand	55.1	1	China	54.5	1	Indonesia	56.5
2	Indonesia	51.4	2	Thailand	50.9	2	China	50.0
3	China	50.5	3	Vietnam	47.3	3	Thailand	43.5
4	Vietnam	43.9	4	India	41.8	4	India	41.3
5	India	43.0	5	Indonesia	40.0	5	Vietnam	30.4
6	US	37.4	6	US	40.0	6	US	30.4
7	Korea	24.3	7	Korea	29.1	7	Mexico	23.9
8	Malaysia	23.4	8	Malaysia	29.1	8	Russia and CIS	23.9
9	Western Europe	23.4	9	Brazil	27.3	9	Malaysia	21.7
10	Brazil	21.5	10	Western Europe	27.3	10	Brazil	21.7

Source: JETRO

Significantly, after CN, TH and ID were also seen as having the biggest risks in labour costs, which could portend some ODI diversification into MY and PH

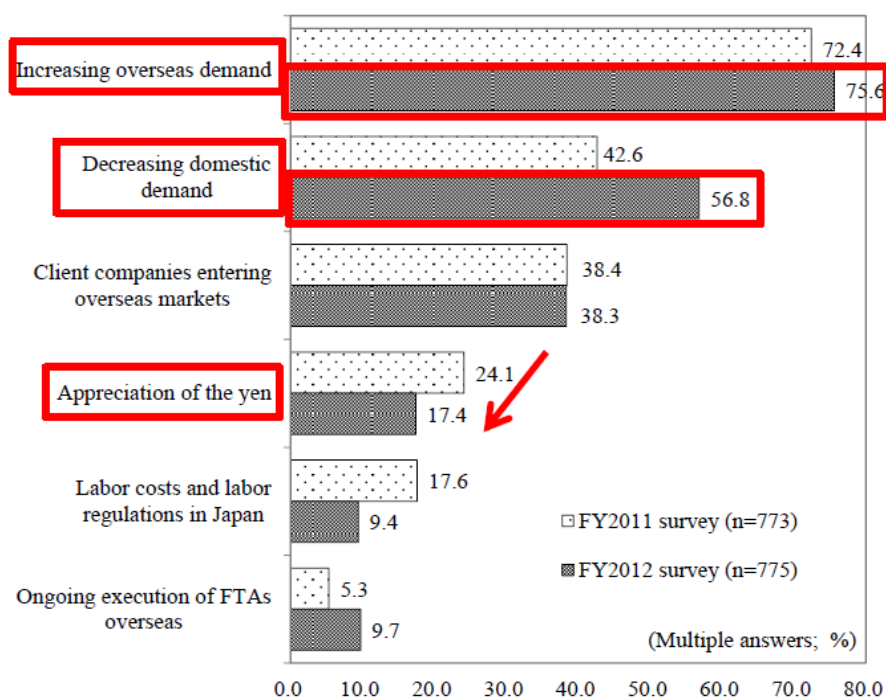
Figure 23. Risks and problems that concern Japanese companies – high or rising labour costs (% of firms currently doing business or considering starting business in country)

	FY2012	FY2010	FY2008
China	49.5	46.2	42
Thailand	30.1	19.8	19
Indonesia	21	4.5	9
Vietnam	18.1	10.5	17
Malaysia	15.9	11.9	14
India	7.9	6.7	11
Philippines	7.3	3.3	4

Source: JETRO

As expected, a smaller proportion of Japanese firms (especially SMEs) cited strong yen and labour costs (push factors) as a key reason for overseas expansion, with overseas demand (pull factors) a more important reason

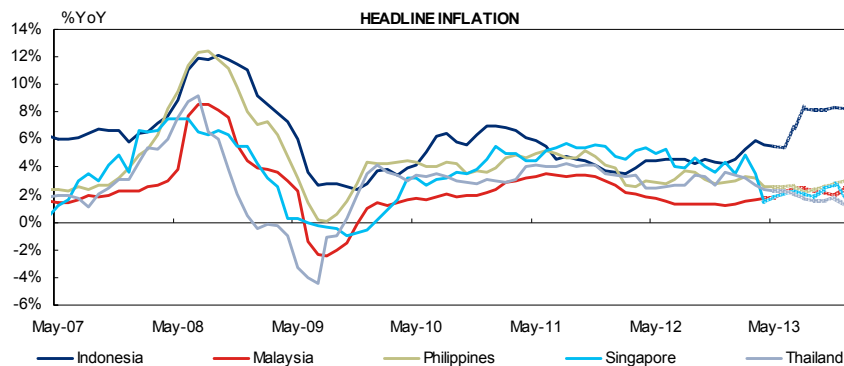
Figure 24. Reasons for overseas business expansion



Source: JETRO

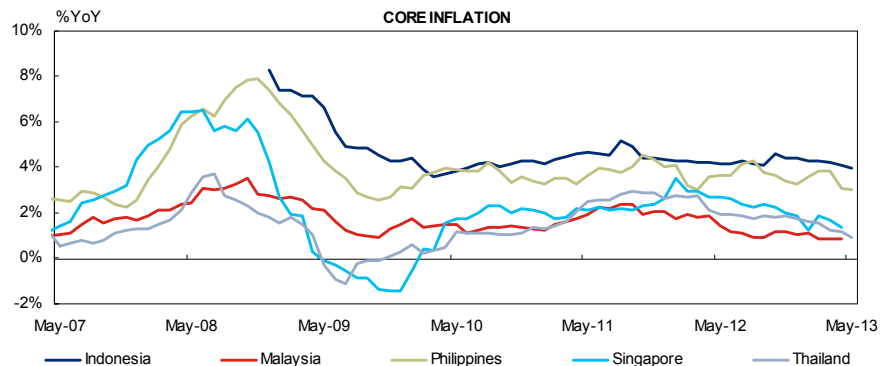
Except for ID, both headline and core inflation have been on a downward trajectory. Inflation should generally stabilize or edge up in 2H13, except in TH, where base effects will continue to dominate. But disinflation may not persist into H2, (except TH on base effects), reflecting [1] likely subsidy cuts in ID (where we expect a 33% average increase in fuel prices by mid June, and possibly MY (where official inflation forecasts still incorporate 5-10% in subsidized fuel prices), [2] Lingering wage pressures amid structurally tight labour markets, which could be passed on to consumers as stronger growth/closing output gaps in 2H13 raise pricing power

Figure 25. Headline Inflation and Citi Forecasts



Source: CEIC, Haver, Citi Research estimates

Figure 26. Core Inflation

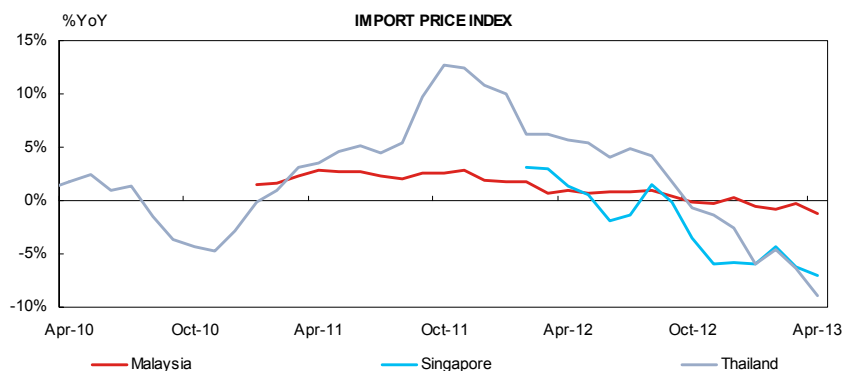


Note: We use CPI ex food and transport for Malaysia

Source: CEIC, Haver, Citi Research

Benign headline inflation so far largely reflects imported deflation on falling commodity prices – though recent FX weakness could limit further disinflationary impact

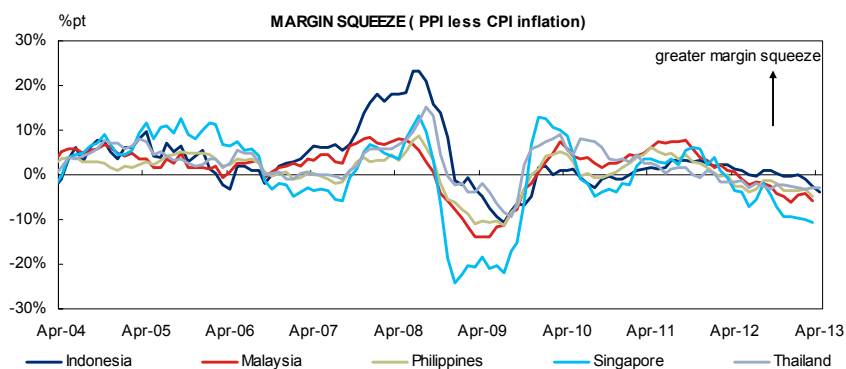
Figure 27. Import Price Inflation



Source: CEIC, Citi Research

...which has significantly reduced pressures on corporate margins, evident by the widening negative spread between PPI and CPI inflation

Figure 28. Margin Squeeze

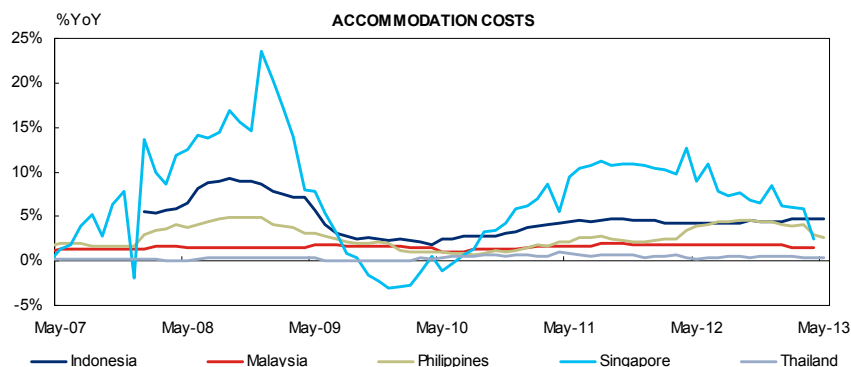


Note: We estimate margin squeeze by taking the differential between producer and consumer price inflation (YoY terms). We use the wholesale price indices for Indonesia and Philippines and the domestic supply price index for Singapore in lieu of producer price indices.

Source: Haver, Citi Research

Accommodation cost inflation is easing, especially in SG and PH

Figure 29. Accommodation Cost Inflation

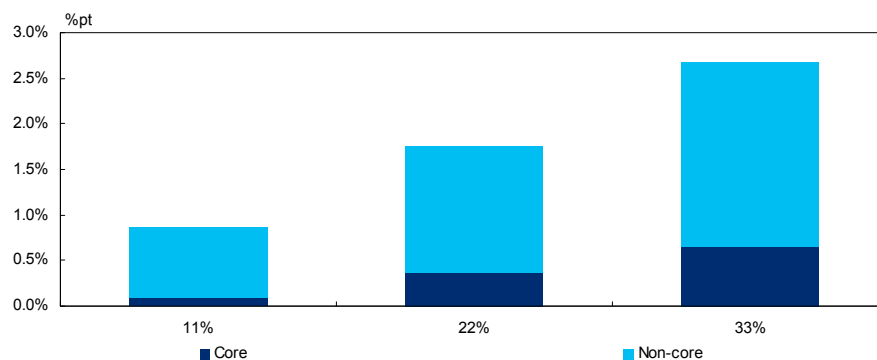


Note: We use CPI Cost for Housing for Indonesia, CPI Actual Rental for Housing for Malaysia and Philippines, CPI Accommodation for Singapore, and CPI House Rent for Thailand

Source: CEIC, Citi Research

But disinflation may not persist into H2, (except TH on base effects), reflecting [1] likely subsidy cuts in ID (where we expect a 33% average increase in fuel prices by mid June, and possibly MY (where official inflation forecasts still incorporate 5-10% in subsidized fuel prices)

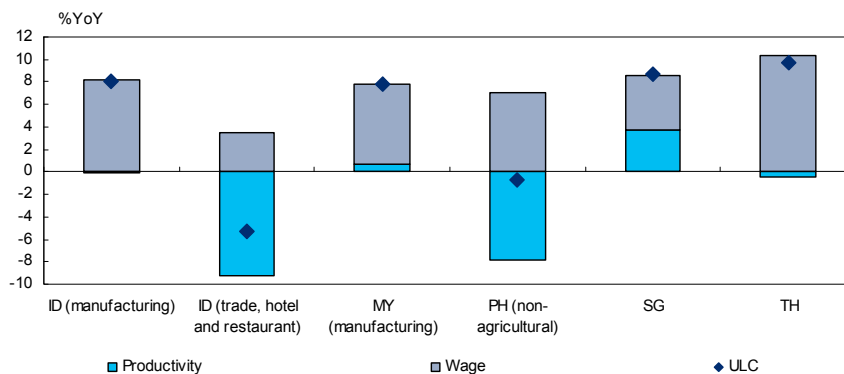
Figure 30. Citi Estimates of Potential Indonesia Inflation Impact of Fuel Price Hike



Source: Citi Research

[2] Lingering wage pressures amid structurally tight labour markets, which has raised unit labour costs amid muted productivity growth in 1Q, except in PH

Figure 31. Unit Labour Costs

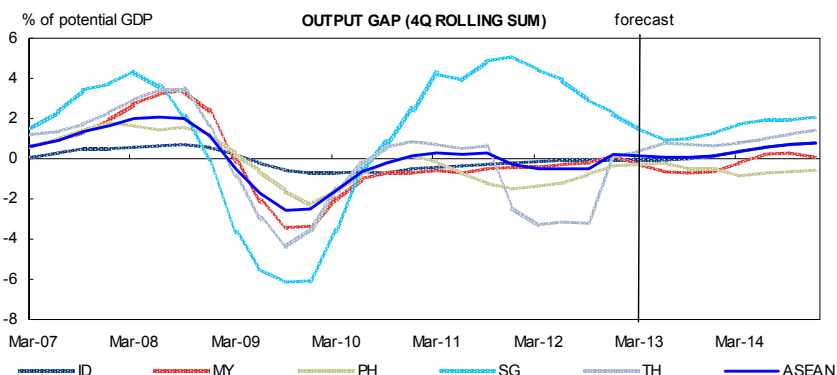


Note: Indonesia and Philippines estimates are for 2012; Malaysia, Singapore overall, and Thailand estimates are for 1Q13.

Source: CEIC, Haver, Citi Research

Cost pressures could be passed on to consumers as stronger growth/closing output gaps in 2H13 raise pricing power of producers

Figure 32. Output Gap

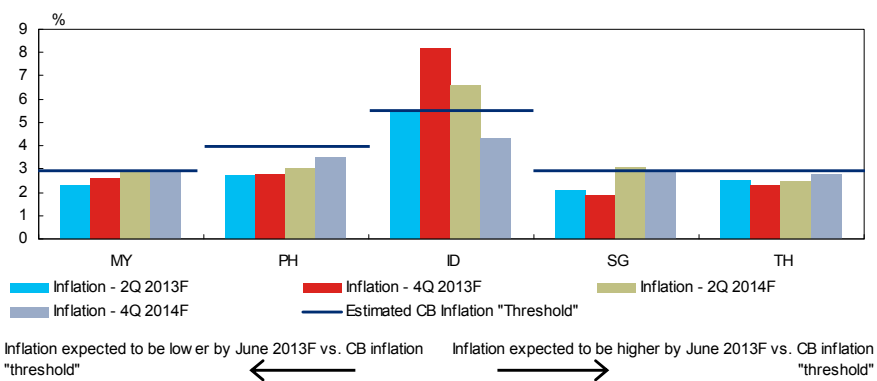


Note: We assume potential growth of 5.5% for Malaysia and 6.5% for Philippines starting 2013 and 3.5% for Singapore starting 2011.

Source: CEIC, Citi Research

But while rising, inflation rates should by and large still stay within Central Bank tolerance thresholds in 2H13 and 2014, allowing more flexibility to keep rates low.

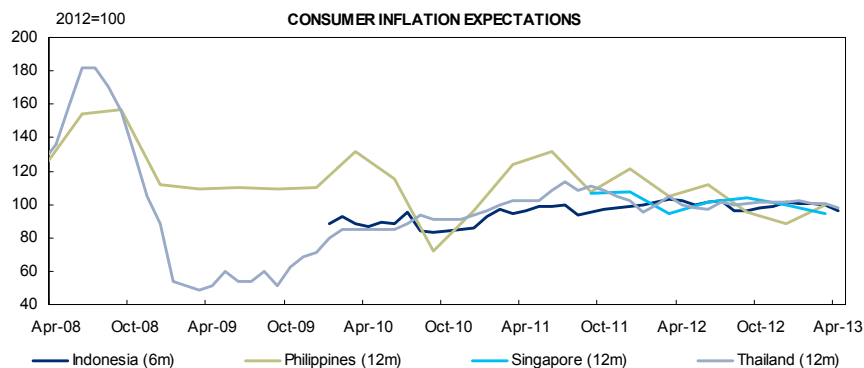
Figure 33. Inflation Forecasts vs Central Bank Thresholds



Source: Citi Research

...while inflation expectations have been relatively well behaved

Figure 34. Consumer Price Inflation Expectations



Source: CEIC, BSP, SMU-Mastercard, Citi Research

Within ASEAN, bank credit to GDP ratio has risen particularly strongly in MY, SG and TH, with a more notable acceleration in the last two quarters seen in MY and SG.

Figure 35. Annualized Change in Bank Credit to GDP Ratio (updated to March 2013 where available)

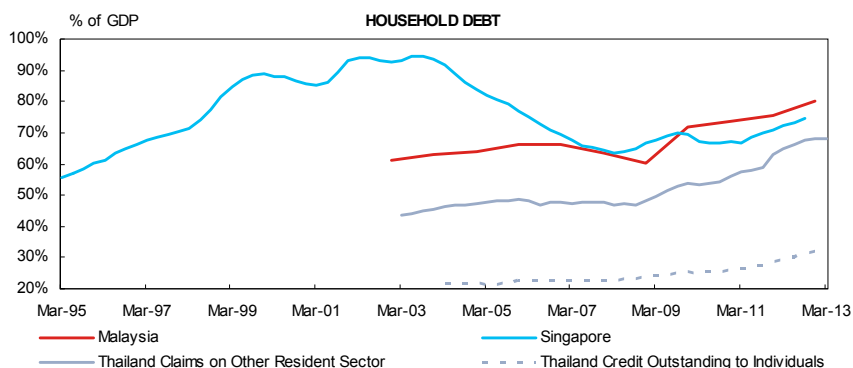
	CN	HK (for domestic use)	IN	ID	KR	MY	PH	SG	TW	TH	VN
Mar-09	8.6	2.9	0.5	-0.1	8.5	0.8	0.6	10.7	6.5	2.9	-9.0
Jun-09	18.7	2.8	0.7	-1.5	5.6	6.7	0.9	8.5	8.2	3.7	3.3
Sep-09	23.1	3.0	0.4	-1.9	3.2	13.1	0.2	5.4	5.7	4.1	17.1
Dec-09	23.5	1.1	0.4	-1.4	-1.2	14.8	0.1	0.2	2.7	2.8	22.1
Mar-10	14.1	6.0	0.6	-1.2	-4.7	10.2	0.6	-3.3	0.1	0.0	20.7
Jun-10	6.4	10.8	0.9	0.4	-5.7	5.2	-0.5	-4.9	-2.6	-1.7	14.9
Sep-10	3.2	18.5	-0.2	0.7	-6.2	-0.9	0.3	-4.1	-4.7	-2.9	11.3
Dec-10	2.7	19.2	2.6	1.0	-5.9	-1.2	0.4	-1.4	-2.5	0.5	12.3
Mar-11	-0.8	23.2	1.0	1.7	-5.3	0.7	1.2	2.4	2.7	5.1	12.3
Jun-11	-2.2	17.1	0.7	1.8	-4.3	1.6	2.3	8.4	4.9	7.2	3.9
Sep-11	-3.6	6.0	2.4	2.2	-1.8	1.8	1.9	10.1	8.5	8.7	-5.1
Dec-11	-3.0	5.4	-0.3	2.4	-0.3	1.4	2.2	11.9	6.8	11.8	-13.4
Mar-12	-0.3	-1.9	1.0	2.8	-0.4	1.7	2.2	13.7	6.3	12.3	-19.5
Jun-12	2.2	-3.5	2.1	3.1	0.7	3.0	1.5	10.0	3.4	13.1	-15.5
Sep-12	5.4	-4.4	1.5	3.0	-1.2	5.1	1.0	9.9	1.4	14.1	-11.6
Dec-12*	6.7	2.4	2.7	2.8	-1.1	6.0	1.6	10.5	1.0	6.7	-9.5
Mar-13**	7.5	3.3	n/a	2.0	n/a	8.6	n/a	11.2	-0.4	6.3	-8.4

Note: \*The data for India and Vietnam for Dec 2012 is not yet available so we use our own estimates: \*\*Data for all countries except HK and TW are based on estimates

Source: Haver, IMF, CEIC, Citi Research

...reflecting partly a rise in household debt to GDP ratios in these countries. Broader estimates of HH leverage in TH that include debt from non-bank lenders could yield a figure as high as 68% of GDP

Figure 36. Household Debt



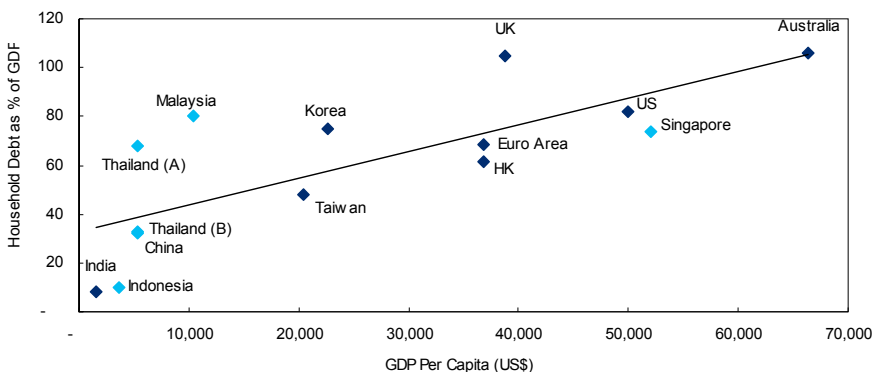
Source: Citi Research

HH debt issue is more acute in MY and TH, where the stock of HH debt is large relative to per capita incomes, in turn suggesting higher debt service burdens relative to household incomes, especially if interest rates rise. Debt service ratios in MY for example are as high as 43% of gross income. In contrast, given higher per capita incomes and structurally lower interest rates, debt service ratios in SG are likely more comfortable. We see two way constraints on policy rate action from HH debt – while rate cuts could spur a further increase in the flow of new borrowers, the large stock of existing borrowers places limits on rate hikes, which will significantly raise debt servicing costs and slow growth excessively

Particularly high foreign ownership in MY and ID govt debt is a source of vulnerability. Including short-term BNM bills, foreign positioning in MYR has now reached 51% of outstanding as at Apr, with a notable increase in Mar and Apr, before the post-election inflows in early May. In 2011, most of the unwinding came from short-term Central Bank and government bills, and for bonds, only ID saw a large decline from around Jul/Aug 2011 till mid 2012, while Malaysia never actually saw a decline in foreign ownership of MGS.

In 2011, total unwinding of foreign ownership of bonds and bills in the ASEAN 3 countries amounted to US\$19.8bn between Sep-2011 and Dec-2011, of which around US\$10.9bn came from ID, and the balance largely from MY. Looking at bonds alone, foreign ownership in ASEAN-3 fell by \$7.7bn between Sep 11 and Dec 11, of which two thirds came from ID. The bulk of the unwinding in ASEAN-3 therefore came from bills, which actually peaked earlier in May 2011 at \$34.4bn, and more than halved to \$15.5bn by Nov 2011 – \$18.9bn of unwinds in total in six months.

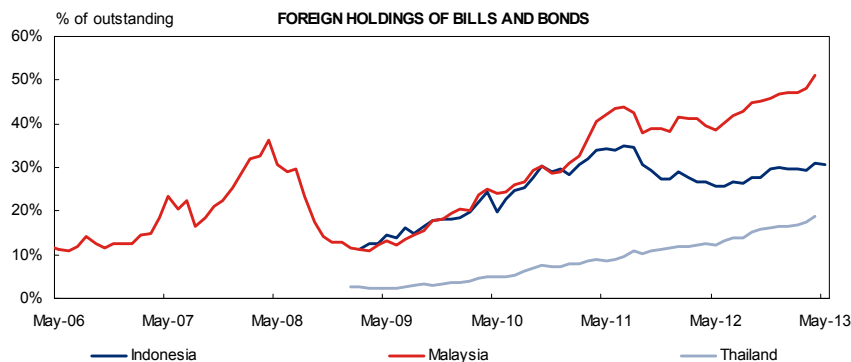
Figure 37. Citi Household Debt Estimates vs GDP per Capita



Note: Thailand (A) is Claims on Other Residential Sector, Thailand (B) is Commercial Bank Credit Outstanding to Individuals. We proxy household debt with Financial Institutions' Loans to Households for China, Loans to Professional and Private Individuals for HK, Scheduled Commercial Banks' Personal Loans for India, Credit to Households for Korea, and Consumer Loans for Taiwan.

Source: CEIC, Haver, MAS, Citi Research

Figure 38. Foreign Holdings of Bills and Bonds



Source: CEIC, Citi Research

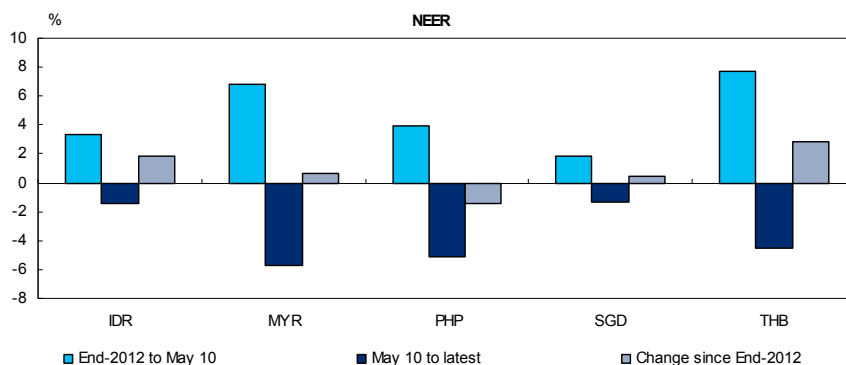


ASEAN-5 currencies have depreciated by between 1.3-5.7% on a NEER basis since 10 May. Currencies which sold off more were also those which appreciated the most in the preceding four months (THB, MYR followed by PHP being the notable example). Indeed, PHP has more than given up all of its earlier gains, so looks most attractive on a relative basis. However IDR is the standout here as the recent sell-off has been mild relative to earlier NEER gains, so that may imply further depreciation pressure on a relative basis. A similar argument can be made for THB.

There appears to have been a surge in both bond and equity portfolio outflows to the ASEAN-5 post BOJ Bazooka in late Mar/Apr.

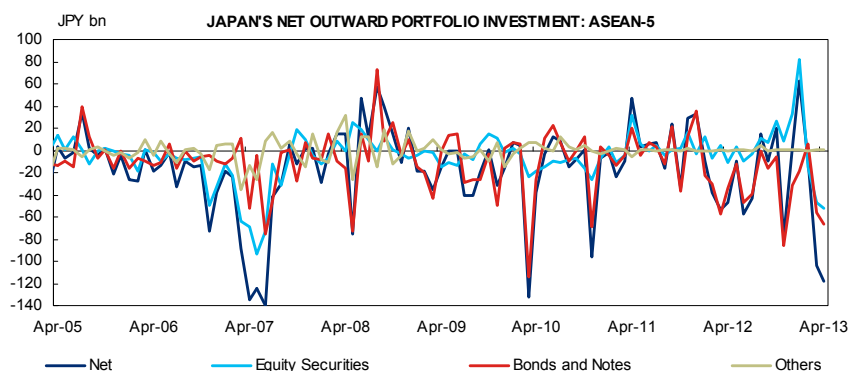
On the equity front, TH and MY were the largest recipients of Japanese portfolio flows in Mar and Apr...

Figure 39. NEER Performance



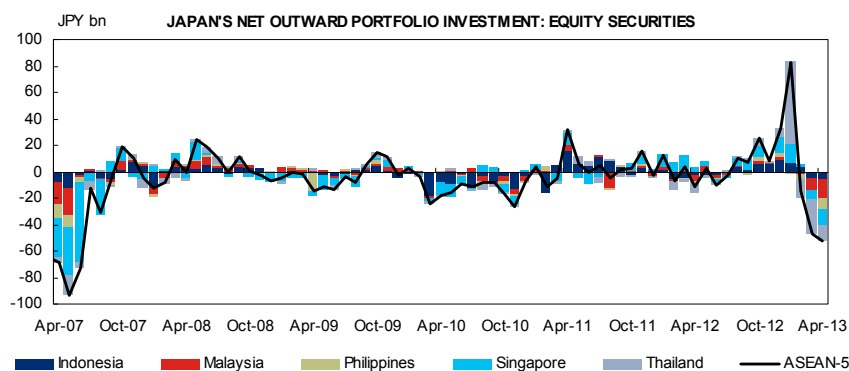
Source: Haver, Citi Research

Figure 40. Japan's Net Outward Portfolio Investment: ASEAN-5



Source: CEIC, Citi Research

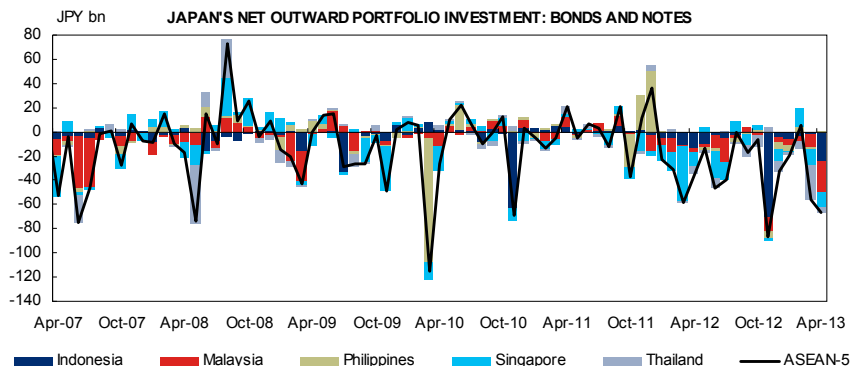
Figure 41. Japan's Net Outward Portfolio Investment: Equity Securities



Source: CEIC, Citi Research

...while on the bond side, TH was initially the largest in Mar, before being overtaken by ID and MY in Apr

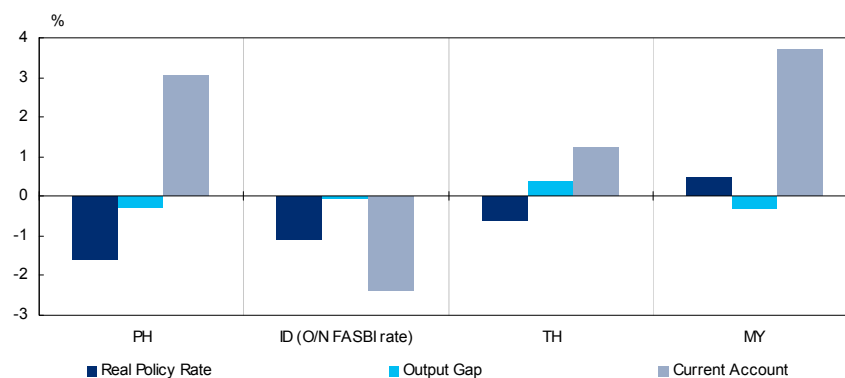
Figure 42. Japan's Net Outward Portfolio Investment: Bonds and Notes



Source: CEIC, Citi Research

Monetary policy stance is probably too loose in TH and ID relative to the cyclical position of the economy and external balances

Figure 43. Real Short-Term Rates Discounted by 12M Forward Average Consensus Inflation Forecasts

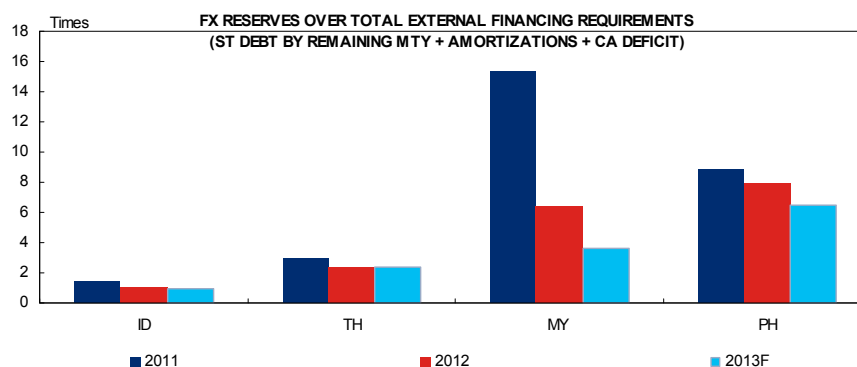


Note: \*In the Philippines' case, we look at SDA yields in recent months after BSP has caused a divergence in spread as it moves to an interest rate corridor.

Source: Bloomberg, CEIC, Haver, Consensus Economics, Citi Research

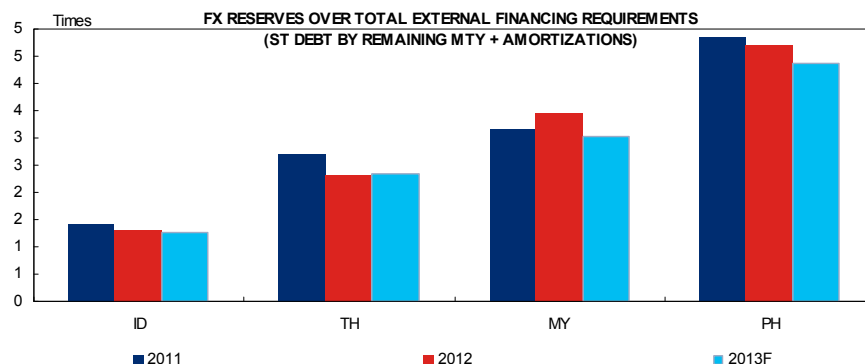
FX reserve adequacy ratios look weakest for ID, followed by TH, MY, and PH

Figure 44. FX Reserves over Total Financing Requirements (ST Debt by Remaining Maturity + Amortizations + CA Deficit)



Source: Citi Research

**Figure 45. FX Reserves over Total Financing Requirements (ST Debt by Remaining Maturity + Amortizations)**



Source: Citi Research

Ranking countries according to these criteria, IDR is most vulnerable to depreciation pressure, given limited depreciation so far, heavy foreign positioning and mis-aligned policy, although BI has larger incentive to prevent excessive weakness given that Indonesia is a net external debtor. MYR and THB are tied in second place: with MYR hampered by lingering uncertainty over fiscal reforms, weak commodity prices contributing to surprisingly sharp deterioration in MY's trade surplus, and much heavier foreign positioning, and THB because of overly loose monetary policy setting, and somewhat lower FX reserve coverage. SGD should also benefit a little more from safe haven flows.

**Figure 46. FX Vulnerability Ranking**

Vulnerability Ranking (higher = more vulnerable)	IDR	MYR	PHP	SGD	THB
Relative gains/losses	5	3	1	2	4
Foreign positioning	4	5	2	1	3
Policy (mis)alignment	5	3	2	1	4
FX reserve adequacy	5	3	2	1	4
Total	19	14	7	5	15

Note: We rank the ASEAN currencies by our estimates of vulnerability – the higher the ranking, the more vulnerable the currency on that dimension.

Source: Citi Research

## Appendix A-1

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