

Five major worries facing Asia once Trump takes office

By Terri-Ann Williams 06 Jan, 2017 at 09:00

Reyl's Daryl Liew highlights the key concerns the Asian market will have to contend with once the new US President comes to power.

1. Anti-globalisation

Reyl Singapore's Daryl Liew, who is head of portfolio management at the Geneva group's Asia arm, said the biggest macro event for Asia will be what Donald Trump does when he takes office. Liew said Asia's first concern is Trump's stance on anti-globalisation.

'The first concern is that Trump follows through with his anti-globalisation rhetoric and slaps higher tariffs on exports from countries like China. Growth in Asia has been driven by international trade and a move inwards to close off US borders will adversely impact regional growth.'

'With the threat of trade wars brewing, one should be cautious on export and trade-related investments. The death of the TPP (Trans-Pacific Partnership) is indicative of the current anti-trade sentiments in the West.'

Liew said these sentiments are not shared in Asia, where leaders are focusing their efforts on the RCEP (Regional Comprehensive Economic Partnership), which includes ten Southeast Asia countries plus, China, India, Japan, Korea, Australia and New Zealand.

'While the US is a significant loss, the RCEP nations have a collective population of over 3 billion and a GDP comprising approximately 30% of the world's total. Stronger intra-regional trade, driven by the growing Asian middle class, hopefully will make up for that which is potentially lost from the US.'

2. US military withdrawal

Liew said Asia would also face concerns over whether the US will remain a military presence in the region, and believes the withdrawal of troops could lead to political risks.

'On the campaign trail, Trump was vocal about having other nations pay their share to fund US overseas bases. A withdrawal of US troops from the region could be destabilising, creating a security vacuum that could lead to rising geo-political risks, especially when you consider the existing tensions in the South China Sea.'

'It is worrisome that many Asia Pacific nations are expanding their defense budgets, increasing the risk of a military conflict. In fact, a US military withdrawal could be playing right into China's hands, as China is more than willing to fill the vacuum of 'big brother'.'

Liew said recent initiatives in China, such as the establishment of the Asian Infrastructure Bank, has resulted in major commitments to various infrastructure projects across Asia.

'This is part of China's strategy to increase its political and economic influence in the region. As a case in point, both the Philippines and Malaysian leaders recently visited Beijing and left clutching multimillion investment packages.'

3. US dollar strength

Liew said the US dollar rally since Trump's victory has put pressure on the Fed to hike rates faster than expected. 'Weaker balance sheet currencies like the Malaysian ringgit and the Indonesian rupiah, which enjoyed strong gains in the first three quarters of the year, have suffered significant selloffs.'



Liew also said the Chinese RMB has come under pressure due to US dollar strength, as the currency has remained stable against the CFET's (China Foreign Exchange Trade System) diversified baskets of currencies.

'The good news for Asia is that there could be a limit as to how much further the US dollar can appreciate, as a strong US dollar is not really in America's best interests. A weaker US dollar is arguably preferred if Trump really wants to create manufacturing jobs for his supporters in the rust-belt states.'

4. India and Vietnam preferred in 2017

Despite volatile market conditions, Liew said Southeast Asian markets had led the way in 2016, but said North Asia would continue to face headwinds, as large parts of the region are 'plugged into' the global manufacturing supply chain.

'The less developed Southeast Asian economies could still outperform in 2017 as they continue to be the recipients of foreign direct investments. Vietnam, despite the death of TPP, still looks attractive, especially as the government moves to privatise state owned enterprises.'

'The Indian stock market was recently impacted by Prime Minister Modi's unexpected demonetisation policy to take existing 500 and 1,000 rupee notes out of circulation.'

Liew said one of India's advantages is that it tends to be uncorrelated to other Asian markets, being mainly dependent on domestic growth rather than exports. 'There are also signs that Modi's reforms are starting to get traction – the implementation of GST (Good and Services Tax) in April 2017 is significant and will improve business efficiency.'

5. Upside potential for Japan

Liew said one clear winner from the election of Trump is the Japanese stock markets, with the Japanese yen slightly weakening. Liew added that this trend could continue into 2017 if interest rate differentials continue to widen.

'Japan doesn't appear to be targeted by Trump on potential protectionist measures.

Valuations for Japan are still looking reasonable, with further potential earnings upside as benefits from the weaker Japanese yen start coming through next year.'

'January 28th marks the start of the Year of the Rooster and hopefully the domesticated animal will be crowing about better days ahead in 2017. At least that could be the case for some parts of Asia.'