



# Asia's UK exposure: more financial than trade-related

## Trade exposure has eroded over the years, but portfolio and direct investment channels are deep

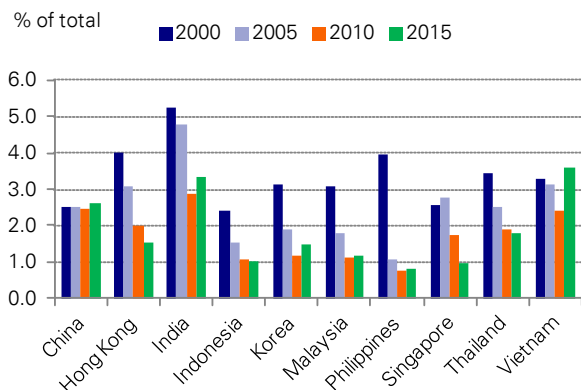
Beyond the immediate market volatility associated with the UK referendum, do developments in the UK matter much for Asia? The answer is a qualified yes. If one focuses on trade linkages, then the UK is a small trading partner of Asia. Less than 4% of EM-Asia's trade is with the UK, and that share has been steadily falling in recent decades.

Financial linkages are more significant. As of mid-2015, UK investments to EM-Asia ranged between 5-13% of respective countries' total portfolio investment liabilities, although shares have also fallen over the past 10 years. Hong Kong, Taiwan, and Thailand have the greatest exposure to the UK. As long as London's prominence as a financial center that deploys capital globally is maintained, inflows from the UK should remain substantial in the period ahead. The UK is also a large source of foreign direct investment in the region. India, for instance, receives close to 15% of its total foreign direct investment from the UK. The Philippines has seen investment from the UK rise in recent years.

Asian investment in the UK has been rising steadily. South Korea has the greatest exposure to the UK, in terms of respective total outward portfolio investments. Malaysia and the Philippines have increased the share of their direct investments to the UK. All in all, while Asia may be less trade-dependent vis-à-vis the UK, the channels of financial dependence are rather strong.

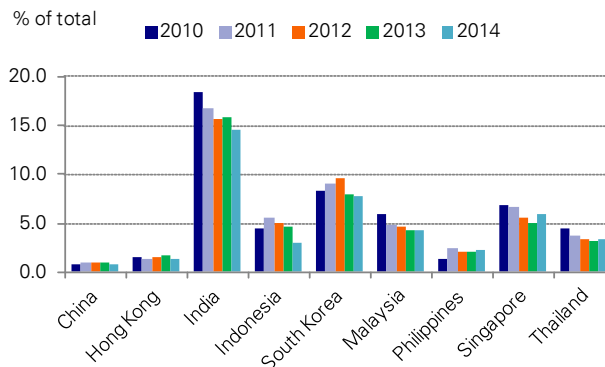
To the extent that developments in the UK will affect the EU, the impact on Asia would be substantial. Both trade and financial linkages with EU is considerable, and any slowdown or uncertainty out of EU would readily impact growth and investment in Asia.

### Exports to UK



Source: CEIC Deutsche Bank

### Inward direct investment



Source: CEIC, Deutsche Bank



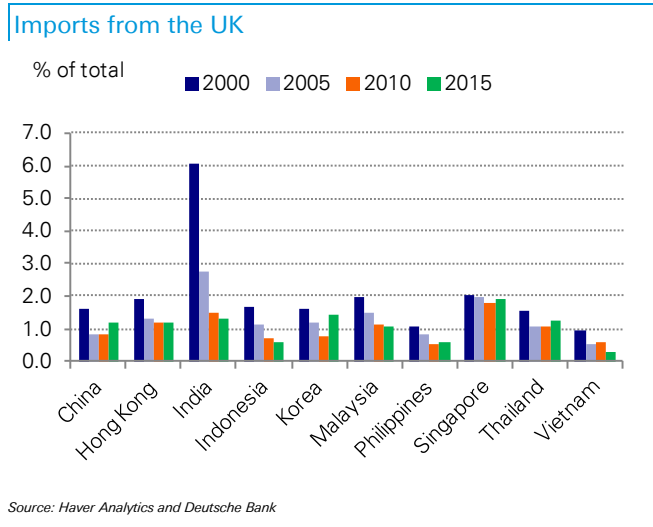
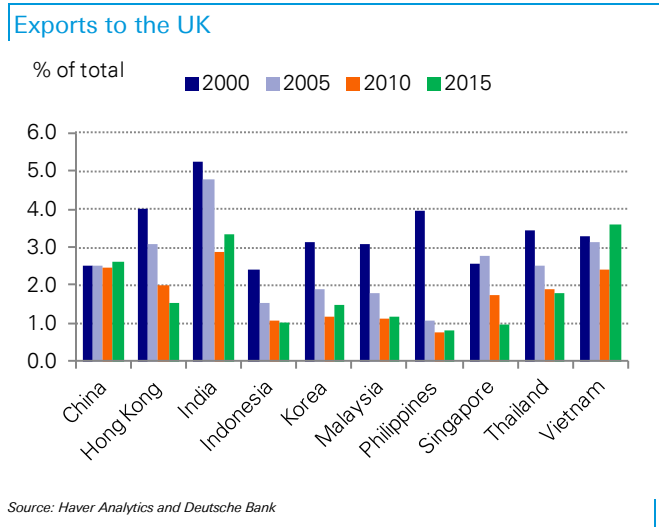
# Asia's UK exposure

## Trade exposure has eroded over the years, but portfolio and direct investment channels are deep

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### Trade

The charts below show Asia's export and import share to and from the UK. With the exception of Vietnam, all Asian countries have seen their export share to the UK weaken over the past decade and a half. With respect to imports, India has seen a dramatic decline in imports from the UK, with declining trend just about everywhere else. The only exception is Singapore, which has maintained a fairly steady import share vis-à-vis the UK.



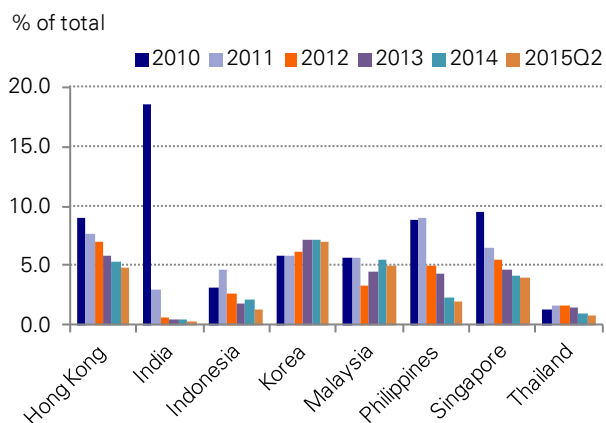
### Portfolio challenge

Financial linkages are more significant. The following charts show portfolio investment in (liabilities) and out of Asia (assets) vis-à-vis the UK. As of mid-2015, UK investments to EM-Asia ranged between 5-13% of respective countries' total portfolio investment liabilities, although shares have also fallen over the past 10 years. Hong Kong, Taiwan, and Thailand have the greatest exposure to the UK. As long as London's prominence as a financial center that deploys capital globally is maintained, inflows from the UK should remain substantial in the period ahead.

The outbound flows from Asia have been substantial as well. Individuals and institutions from Hong Kong, Malaysia, and South Korea have placed sizable portfolio flows in the UK.

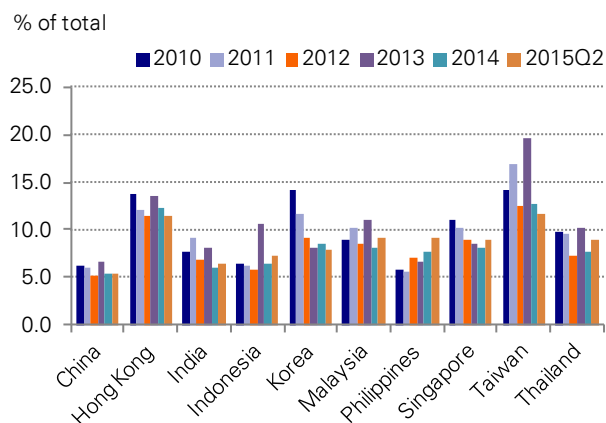


Portfolio investment (assets)



Source: Haver Analytics and Deutsche Bank

Portfolio investment (liabilities)



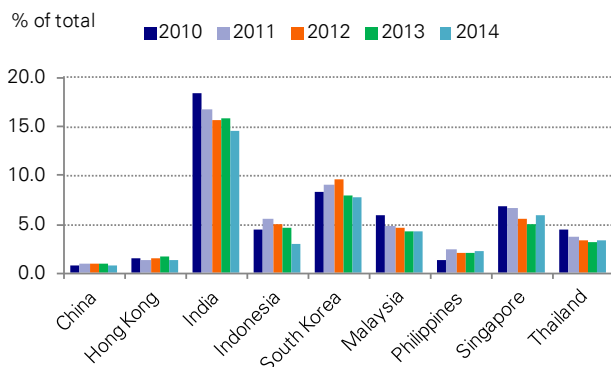
Source: Haver Analytics and Deutsche Bank

FDI

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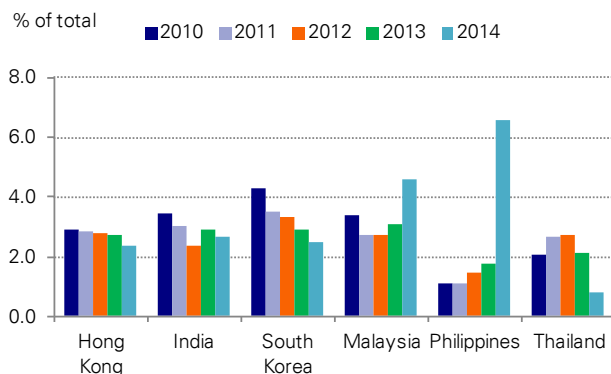
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Inward direct investment



Source: Haver Analytics and Deutsche Bank

Outright direct investment



Source: Haver Analytics and Deutsche Bank

The EU questions

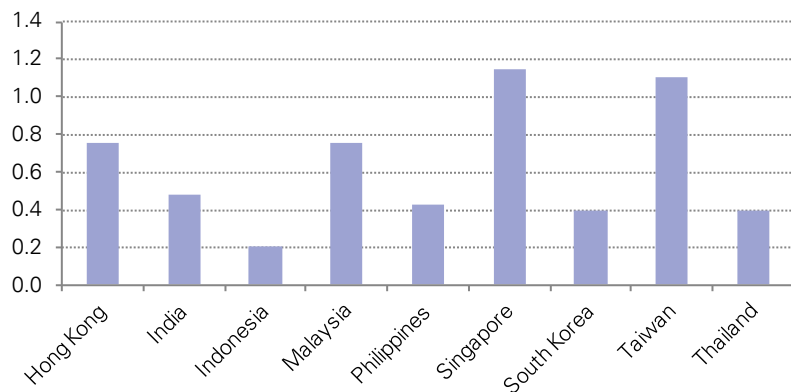
To the extent that developments in the UK will affect the EU, the impact on Asia would be substantial. Both trade and financial linkages with the EU is considerable, and any slowdown or uncertainty out of EU would readily impact growth and investment in Asia.

Results from our spillover exercise using the VAR framework support this view. A 1%-pt change in EU growth, after controlling for the impact of US, China, and oil prices, would have at least a 0.2%-pt change in the growth rates of EM-Asian economies. The more open economies of Singapore, Taiwan, Hong Kong and Malaysia are understandably more susceptible to EU growth shocks,



but even the domestically-oriented economies of Indonesia and the Philippines have modest exposures.

### Impact of a 1% change in EU growth



The betas refer to the first four-quarter average of the instantaneous impulse response of the said economy's growth to a 1%-pt change in EU growth. Results are derived from a VAR model where Growth of Country  $i$  is expressed as a function of US+EU growth, China growth, and commodity price growth. Quarterly data span from 2001 through 2015. We divide the growth response to US+EU growth by half to derive beta to EU, by virtue of US and EU PPP weights.  
Source: Deutsche Bank

### The week ahead

The Central Bank of Taiwan (CBC) meets on Thursday next week and we expect it to deliver a 12.5bps rate cut to focus on weak growth momentum amid easing inflationary pressure (CPI inflation fell to 1.2% in May from 1.9% in April). With limited improvement in growth momentum in Q2 as reflected by high frequency indicators like coincident and leading composite index, commercial sales and exports, we maintain our forecast of a monetary easing next week as Taiwan struggles to achieve an annual growth of above 1% in 2016.

Four Asian economies -- Sri Lanka (5.3% vs. 4.8%), Indonesia (3.9% vs. 3.3%) and South Korea (0.9% vs. 0.8%) likely saw a rise in CPI inflation in June while Thailand's remained stable at 0.5%, in our view.

South Korea's trade surplus likely rose to USD9.7bn in June from USD7.0bn in May with both exports (-5.9% vs. -6.0%) and imports (-6.7% vs. -9.0%) contracting at a slower pace. Malaysia's trade balance probably registered a lower surplus of MYR7.9bn in May from MYR9.1bn in April as exports (0.8% vs. 1.6%) rise at a slower pace while Hong Kong's trade deficit likely rose to HKD33.1bn from HKD31.0bn in the same period amid contraction in exports (-1.0% vs. -2.3%) and imports (-3.0% vs. -4.5%).

Hong Kong retail sales, South Korea's IP and Thailand's current account balance are other key releases next week.



## The Week Ahead

Country	Release	Period	DB Expected	Consensus	Previous
<b>Monday, Jun 27</b>					
Hong Kong	Exports	May-YoY	-1.0%	NA	-2.3%
	Imports	May-YoY	-3.0%	NA	-4.5%
	Trade Balance	May	-HKD33.1bn	NA	-HKD31.0bn
Thailand	Value Added Production Index	May-YoY	1.0%	1.9%	1.5%
<b>Thursday, Jun 30</b>					
Hong Kong	Retail Sales (value)	May-YoY	-8.7%	NA	-7.5%
	Retail Sales (volume)	May-YoY	-10.5%	NA	-7.6%
Singapore	Bank Credit	May-YoY	4.2%	NA	4.0%
South Korea	Industrial Production	May-YoY	-1.0%	NA	-2.8%
	Service Industry Output	May-YoY	3.5%	NA	2.1%
Sri Lanka	CPI	Jun-YoY	5.3%	NA	4.8%
Thailand	Current Account Balance	May	USD2.5bn	USD3.2bn	USD3.2bn
<i>Events and Meeting: Taiwan: CBC Meeting (12.5bps rate cut expected)</i>					
<b>Friday, July 01</b>					
Indonesia	CPI	Jun-YoY	3.9%	NA	3.3%
	FX Reserves	Jun	USD104bn	NA	USD103.6bn
Malaysia	Exports	May-YoY	0.8%	NA	1.6%
	Imports	May-YoY	-3.5%	NA	-2.3%
	Trade Balance	May	MYR7.9bn	NA	MYR9.1bn
South Korea	CPI	Jun-YoY	0.9%	NA	0.8%
	Core CPI	Jun-YoY	1.6%	NA	1.6%
	Current Account Balance	May	NA	NA	USD3.4bn
	Exports	Jun-YoY	-5.9%	NA	-6.0%
	Imports	Jun-YoY	-6.7%	NA	-9.0%
Thailand	Trade Balance	Jun-YoY	USD9.7bn	NA	USD7.0bn
	CPI	Jun-YoY	0.5%	0.5%	0.5%
	Core CPI	Jun-YoY	0.8%	0.8%	0.8%

Source: Deutsche Bank, Bloomberg Finance LP



# Appendix 1

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