US Presidential Election 2016
What If the US Gets Trump?

- The upcoming US Presidential Election could have potential impact on Asia and Asian financial markets, particularly in the areas of trade, currency, and geopolitics.

- With two candidates in the race, each has an equal chance of winning. In a Clinton White House, the impact on Asia and Asian markets should be minimal given the strong likelihood of policy continuation from the Obama administration. Based on his manifesto, a Trump presidency could be negative for US-Asia trade, and Asian currencies could face upside pressure. As a consequence, Asian central banks would have to stay "lower for longer".

- If there is any lesson from UK’s Brexit vote, market complacency could be very costly. This means that uncertainty to the outcome and consequence of the US Presidential Election could create market volatility in the run up to 8 Nov 2016, and the need to take precaution cannot be overemphasized.

As we enter into the second half of 2016, there is increasing attention on the US Presidential election which will take place on Tuesday, 8 Nov 2016. The reason the world is paying extra attention to this year’s election is clearly Donald Trump. From being the outlier early in the Republican primaries, Trump has stunned the establishment by brushing aside 15 other contenders in emphatic style, to win the 2016 Republican presidential nomination ticket on 19 July at the Republican National Convention. What is more important to Asia is his stance on trade, currency, and geopolitics.

What Are The Scenarios For Asia?

Much has been said that Trump remains an outsider to Capitol Hill but the fact that he now has the Republican ticket, he has (in our view) at least 50% chance of becoming the next US president (with Hillary Clinton being the Democrat Party nominee and assuming there is no surprise independent candidate). Drawing on the experience of Brexit, while we hesitate to place a Trump presidency as the base case scenario, we should also highlight this outcome should NOT be treated as an unlikely event.

At the end of the day, it is all about perceptions. Trump has never held any position in US politics so there is really no historical background to fall back on to gauge how he would perform as the most powerful leader in the US (and perhaps in the world). The broad perception currently is that Trump will be "bad" for most of the world and that perception is due to his campaign pledges to "Make America Great Again" seemingly at the expense of others. However, the flip side is that as he has been a businessman all his life, deal making and negotiations are probably in his DNA.

Below are the key pledges Trump has made (which can be found on his campaign website https://www.donaldjtrump.com/positions):

1. Build The Wall and make Mexico pay for it
2. Healthcare reform: basically repeal Affordable Care Act (Obamacare)
3. Tax reform: cut taxes across the board & introduce a discount tax rate to entice US companies to repatriate their overseas profit back to the US
4. Trade reform: Renegotiate trade deal with Mexico, China and withdraw from NAFTA and TPP (to declare China a currency manipulator)
5. No change to US guns law ("Second Amendment to our Constitution is clear. The right of the people to keep and bear Arms shall not be infringed upon, Period.")
6. Veterans Administration reform
7. Immigration reform
8. US Military deployment (Trump wants to "strengthen the US military and deploying it appropriately in the East and South China Seas" but he has also committed to force America's allies - including, specifically, Japan and South Korea - to meet the full cost of the security guarantees provided by the US or else)

Clinton White House: “Business As Usual” For Asia?

As said earlier, with 2 candidates in the US Presidential election race, simplistically speaking, each has a 50% chance of winning. If Clinton wins, it will be a historic moment as she will be the first US female president. From the market’s perspective it will also be seen as continuation of the previous administration and therefore, a "business as usual" outcome. Other than the possible repeal of The Trans-Pacific Partnership Agreement (TPPA) by a Clinton White House, the impact on Asia and Asian markets should be minimal given the strong likelihood of policy continuation from the Obama administration.

“Trump House”: Not So Great For Asia?

However, if Trump wins the presidency, then his campaign pledges in the next 4 years become distinct possibility. Or is he just playing to the gallery and to get votes? Will Trump become a president of action or contradiction? It is more likely to be a bit of both. Trump may not be able to deliver all his election promises due to the “Checks and Balances” in the US system, but he could deliver on, among others, trade reform specifically on China (with the use of Executive Orders) and on US military deployment (being the Commander-in-Chief).

Building the Wall at the border with Mexico may actually be good for the US in the short-term (infrastructure spending + employment gains) – the whole 1,000 miles (the US/Mexico border is about 2,000 miles but Trump thinks that 1,000 mile wall will suffice given natural barriers and it is still small compared to the Great Wall of China which measures >13,100 miles).

Most of Trump's pledges are domestic-oriented (and regional-oriented with Mexico in the case of the proposed Wall and immigration) with the clear exception of 4) trade reform (which could impact trade with China and globally) and 8) on US military deployment (which would
And it is these two factors that we could see most impact on a trade-dependent Asia and the channel which the impact will be delivered via Trump’s policy action on China.

"Making America Great Again": Potential Areas Of Friction With Asia

A close reading of Trump’s manifesto shows that his main “problem” with Asia is the high trade deficits the US is running (Developing Asia accounted for close to 44% of US trade in goods deficits in 2015). Trump blames this on “unfair” trade deals that caused US factories to close and workers to lose their jobs. This is reflected in the section specifically targeting at trade with China. To “Make America Great Again”, trade frictions with other countries are now possible, and TPPA would certainly be at risk.

1) External Trade In Asia: No More Smooth Sailing

Based on Trump’s pledges, two main areas that concern Asia would be 1) Trade and 2) Currency. To bring “fairness” to US trade and China to the bargaining table, the US would declare as a “currency manipulator”. The fact that US is running large trade deficits with China is deemed “unfair”, which means that other trade partners with similar “unfair” advantage would also be at risk. As shown in Chart 1, these include Mexico, Canada, Japan, and in this part of the world, Vietnam, South Korea, Malaysia, and Thailand will be particularly vulnerable especially if TPPA is off the table. Singapore and HK would likely escape on this front given that the US has trade surpluses with these two economies.

In the event of increasing trade frictions with the US, either through stronger domestic currencies and/or tariff/non-tariff barriers, Vietnam, Malaysia, Taiwan, South Korea, and Thailand would be particularly vulnerable given these countries’ trade exposure to the US and their high degree of trade dependence as a percent of the economy, as shown in the chart.

US is South Korea’s largest export market after China, accounting for around 13% of Korea’s exports which are primarily made up of machinery and transport equipment and telecommunication products. The Korea-US FTA, could also be thrown into
uncertainty, as Trump pointed to the near-doubling in US trade deficits with South Korea since the FTA came into force in 2012 to reach US$27.6 bn in 2015. As with other trade agreements, Trump’s election could open up the possibility of a renegotiation of the deal.

Despite being the top trading nation in the world, China is not highly dependent on trade though its large share of exports to the US would be subject to downside risks, which would have knock on effect on the already weak manufacturing sector. As mentioned above, HK and Singapore are likely to be able to “fly under the radar” as these economies do not run trade surpluses against the US.

Trump cited the figures that the Chinese currency is undervalued by 15-40%. In the event of US declaring China a “currency manipulator”, it would depend on how China responds to such an act. The last time “currency manipulator” was used on China was in 1992-1994. Prior to that, Treasury also designated Japan in 1988, both S. Korea and Taiwan in 1988 and again in 1992. With the RMB having appreciated close to 40% against the USD from 2005 to 2013 and ongoing reforms in the Chinese capital account and financial market, it is difficult to see how the label would stick on China and whether there is any way to enforce it other than initiating negotiations with China.

The next US Treasury’s Semiannual Report on International Economic and Exchange Rate Policies to the US Congress should be released in October 2016, before the 8 November US elections. So even if Trump wins, the earliest he can order the naming of China as a currency manipulator is in the next semiannual report which will be due in April 2017.

2) Asian Currencies: More Volatility Or Just Tempest In A Teapot?

Nevertheless, if market becomes alarmed by a “currency manipulation” declaration, volatile moves in currency market are likely to ensue, especially now that the RMB is also traded offshore. There may be a kneejerk reaction for stronger Asian currencies/weaker USD, in a perverse currency appreciation situation to avoid being branded a currency manipulator. As RMB strengthens, chances are other Asian currencies would move in the same direction. Even if China resists such an act, uncertainty of the eventual outcome would still cause volatility in other Asian currencies. So far, there are no official comments from China on Trump’s statements, with China’s usual policy of staying out of others’ domestic affairs.

Given the lack of recent precedents of “currency manipulator” label, we could draw on experience earlier in 2016 how Asian currencies reacted to the RMB which was under severe depreciation pressure against the USD. In the episode in Jan 2016 where concerns over China resurfaced, the effects were fairly muted compared to the RMB devaluation in August 2015. With RMB declined by 1.3% for the full month in Jan, the worst performer was MYR which dropped 2.7% by mid-month before rallying to finish Jan 3.9% higher. SGD dropped as much as 1.7% while THB and IDR dropped only as much as 1%.

If China accommodates the US demand of “currency manipulation”, then there could be some APPRECIATION pressure on the RMB. Given that the currency has experienced monthly appreciation/depreciation rates against USD ranging from 0.1% to 1.6% since the 11 Aug 2015 reform, we could assume similar extent of move on the RMB and the other Asian currencies responding in the same direction.

Asian Central Banks: Lower For Longer?

To counter the impact of stronger domestic currencies as a result of increased trade friction with the US, it is highly likely that Asian central banks would adopt an easy policy posture, especially for those with much head room. In such an event, aggressive interest rate cuts are likely to come from Vietnam, Indonesia, and China given their relatively high real interest rates. South Korea would have the least flexibility, though it is conceivable that central banks by then would not hesitate to push real interest rates into negative territory. Additionally, Asian central banks are likely to flood liquidity in the domestic financial system using available policy tools such as reserve requirement and repo operations in such a scenario.

Geopolitics: Choppiier Waters In South China Sea?

Another potential flashpoint would be the territorial disputes in South China Sea, with Trump pledging to “bolster the US military presence” in the East and South China Seas “to discourage Chinese adventurism”. Rather than raising the temperature in Asia, this should be seen in the context of trade negotiations with China. However, such action would certainly raise geopolitical tension among the Asian neighbours, which would be negative for Asian financial markets.

TPPA – Can It Survive The Next US Presidency?

The Trans-Pacific Partnership Agreement (TPPA) talks were concluded in October 2015 and currently await ratification by the respective national legislatures. The most difficult part will be obtaining US Congressional approval with both Presidential candidates openly opposing the TPPA, and want to renegotiate parts of it or completely withdraw from the trade deal. The TPPA is positioned as one of the largest trade deals that covers 12 countries and 36% of global economy. Without the United States in the TPPA, it is unlikely that the other 11 members will push ahead with the deal. Instead the members are likely to focus on the Regional Comprehensive Economic Partnership (RCEP) which is a more Asia-centric trade deal that is being negotiated between 16 countries including ASEAN, Japan, China, India, South Korea, Australia and New Zealand. Market size of RCEP is US$23tr or 30% of global GDP.

The biggest beneficiaries of the TPPA in Asia would have been Vietnam, Malaysia and Singapore. This is because these countries export products with high tariffs levied by the US. Vietnam would have gained from higher exports of agriculture goods, textiles and garments, footwear and automotive parts. Malaysia would have benefited from exports of palm oil and rubber, plywood, electronics, textiles, automotive parts and components. Singapore’s standing as a regional hub would have been further enhanced. As such without the TPPA, these sectors will lose out most in terms of potential revenue foregone. However if the RCEP is realized, it would open up opportunities particularly for Vietnam, Malaysia, South Korea, India, China and Hong Kong, given some similarities in the trade deals.

The Presidential candidates have opposed the TPPA largely to appease trade opponents. However the bigger picture may change the rhetoric and actions down the road. US Trade Representative Michael Froman said that a failure to realize TPPA would give China the opportunity to boost its exports and set labor and environmental standards in Asia through RCEP, which in essence would
This has not taken into account of the though the trade deficits with the US is may impact export opportunities in future, restrictions and protectionist agendas (after China and Malaysia). As such, trade exports, and ranking the US as the third largest exporting destination for Singapore (after China and Malaysia). As such, trade restrictions and protectionist agendas may impact export opportunities in future, though the trade deficits with the US is likely to see Singapore at the backburner. This has not taken into account of the intermediate goods exported to China for final assembly and destined for the American market. If so, the potential export losses would certainly be larger.

Should the assumption of an inward-looking American economic policy come true, it is likely to be detrimental for Singapore’s economic prospects. The US was Singapore’s largest contributor of foreign direct investments (FDI) in 2014 (latest data available but presumably a similar picture for 2016 too). In 2014, FDI from the US amounted to S$153 billion, at an annual pace of 14% since 2004.

Implications For Selected Asian Economies
Singapore
While we do not think that there will be material impact to existing economic and political ties between Singapore and the United States within a year, the inclination towards trade protectionism and heightened nationalism in the Trump-led America scenario will probably mean more headwinds facing bilateral trade and investment flows during his reign.

In terms of trade, Singapore exported S$25.8 billion worth of goods directly to the US in 2015, representing 7.7% of total exports, and ranking the US as the third largest exporting destination for Singapore (after China and Malaysia). As such, trade restrictions and protectionist agendas may impact export opportunities in future, though the trade deficits with the US is likely to see Singapore at the backburner. This has not taken into account of the

Nevertheless, trade restrictions and protectionist agendas will diminish international trade flows and imperil the fragile global economic recovery. Currently, merchandise exports are a key drag to economic growth mainly due to a slowdown in China and Asian economies and structural constraints on significant export sectors. Export-oriented firms would postpone their investment owing to low capacity utilization. Consequently, it will be difficult to unleash new investment cycle in Thailand and the economy would grow below its potential in the medium term.

In terms of monetary policy, easing monetary policy is required in the Trump-led America scenario. To support the economic recovery, the Bank of Thailand would maintain the policy rate at a low level. In this scenario, the volatility in financial markets would be heightened and it would contribute to fluctuations in the baht and rupiah in the short run. For Indonesia, our base scenario is for Bank Indonesia to stand pat at 5.00% after 125bps cut since the start of the year. However, an increase in growth risks will most certainly push BI to resume cutting rates.

Malaysia
If outcome of US elections in November tilts USD/CNY lower by way of forcing China to revalue its currency, USD/MYR could drift in a similar direction due to the positive relationship between the Ringgit and Renminbi as a regional anchor currency. In a period of heightened uncertainty and preference of defensive markets in the region, Malaysia with large pool of domestic liquidity and attractive yields for an A-rated sovereign has its appeal. However potential negatives for the Ringgit include oil price movements and trade concerns. Given US policy uncertainty particularly in a Trump victory scenario, we expect further downside risk for oil prices that would weigh on the Ringgit. Malaysia’s export share to US is over 10% of total exports, with the bulk in machinery and transport equipment (62% of total exports to US).

Thailand And Indonesia
Thailand’s economy will likely face a limited direct impact from a Trump presidency thanks to Thailand’s market diversification strategy. Not only the US, but the EU, Japan, China, and ASEAN countries are also among Thailand’s largest trading partners and foreign investors.

With relatively less dependence on exports compared to its regional peers, any trade impact will likely be contained for the Indonesian economy as well, even though US is amongst the top export markets for the country. We see infrastructure and consumer demand playing a greater role in driving Indonesia’s growth in the next few years and regional cooperation as well as funding from multilateral organizations and the AIIB will be key to propel Indonesia’s development. In addition, both Thailand and Indonesia are not TPP members and likely to stay that way for at least two years — until all TPP members approve the deal.

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fiscal room for stimulus measures, it has to closely monitor its spending and ensure minimal slippage to the fiscal deficit to avert a negative outcome on sovereign ratings and outlook. We foresee renewed headwinds for USD/MYR should twin deficit concerns arise under such circumstances.

**Conclusion**

With the UK Brexit referendum in Jun fading into history, the US Presidential Election is the next major event to watch. One main lesson from the Brexit vote is that if it is a choice made in a democratic manner, then any outcome is possible and market complacency would be costly.

In the US case, both contenders have an equal shot at the White House. If Hilary Clinton wins the race, the most likely outcome would be “Business As Usual” for Asia, given the high likelihood of policy continuity from Obama administration, and less uncertainty for the financial markets, especially in currencies. However, a “Trump House” could be potentially negative for Asia given his rhetoric on trade and currency. In such an outcome, Asian economies that run trade surpluses against the US would likely be vulnerable, including China, Vietnam, Malaysia, among others. The route the US uses would be through the “currency manipulator” label, which would put upward pressure on Asian currencies/broad downward pressure on US dollar, at least temporarily. Such uncertainty would be negative for market sentiment and volatility. Given that China is being singled out right off the bat by Trump campaign, any strengthening of RMB would be tracked by other Asian currencies as well, based on episode earlier this year.

Asian central banks in turn would prefer to offset currency strengthening with a bias towards easing, especially those with sufficient policy room such as Vietnam, Indonesia, and China. TPPA and South China Sea would be in focus as well in a Trump House.

Similar to the Brexit vote, these are risks that one should watch out for at the upcoming US Presidential Election. For now however, we are keeping our FX and interest rate forecasts, pending further developments.