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J.P.Morgan

Asia focus: Watching dollar liquidity

Given the potential dollar drain as regional dollar deposits get repatriated to the US in response to the TCJA (Tax Cuts and Jobs Act of 2017), we turn our attention to LDR (Loans-to-Deposits Ratio) and on-shore 3-month US\$ deposit spreads as proxies for changes in onshore US\$ liquidity (see: [“Asia focus: Foreign bank claims on the rise—again”](#) Jun 22, 2018 and [“EM Asia and HIA 2.0: A potential dollar drain”](#) Feb 3, 2017).

EM Asia LDRs broadly remained stable for the past 5 years. Ratios in China, Korea and Thailand declined due to increases in US\$ deposits (See Table 1, Figure 1). Looking at spreads between 3-mo US\$ deposit rates and 3-mo US\$ LIBOR, domestic US\$ deposit rates have declined relative to US\$ LIBOR rates, with China as the exception (see Figures 3 and 4). Given recent developments, we continue to monitor changes in US\$ deposits spreads as a proxy for liquidity tightness. In the event of a tightening, we could see deposit spreads turning positive to minimize short-term dollar drain.

Table 1: EM Asia Foreign currency loans and deposits

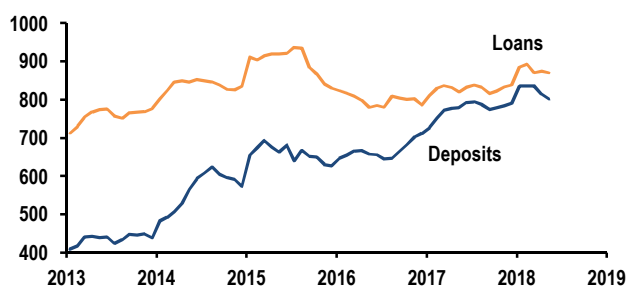
US\$ billion, eop. Shaded rows show loan to deposit ratio

	2013	2014	2015	2016	2017	Latest	Chg. ¹
China	1.8	1.5	1.3	1.1	1.1	1.1	-0.7
Loans	777	835	830	786	838	875	97.7
Deposits	439	573	627	712	791	815	376.0
Hong Kong	0.6	0.6	0.6	0.6	0.6	0.6	0.1
Loans	368	423	436	457	506	518	150.1
Deposits	618	680	702	763	802	802	184.5
Indonesia	0.5	0.4	0.5	0.5	0.6	0.6	0.1
Loans	13	14	15	15	17	17	3.8
Deposits	26	34	33	31	31	30	3.8
Korea	1.7	1.9	1.8	1.6	1.2	1.2	-0.5
Loans	90	103	110	107	109	109	18.7
Deposits	53	53	62	67	87	87	34.5
Malaysia	0.6	0.7	0.7	0.6	0.5	0.5	-0.1
Loans	11	12	10	9	12	12	1.1
Deposits	18	18	16	17	22	22	3.8
Philippines	0.5	0.5	0.5	0.5	0.5	0.5	0.0
Loans	13	16	16	18	20	19	6.1
Deposits	25	31	31	35	38	38	12.8
Singapore	1.1	1.1	1.0	1.0	1.0	1.1	0.0
Loans	401	434	408	389	465	486	85.0
Deposits	365	393	395	393	444	450	85.2
Taiwan	0.3	0.2	0.2	0.2	0.2	0.2	-0.1
Loans	31	31	26	26	33	33	1.3
Deposits	116	132	143	154	191	196	79.7
Thailand	2.9	2.1	2.1	1.8	1.7	1.6	-1.3
Loans	22	23	26	24	26	25	3.0
Deposits	8	11	12	13	15	16	7.9

1. Change, latest since 2013. Source: National sources, J.P. Morgan. Singapore data for Asian Currency Unit; Latest data to April 2018 except Korea; Dec 2017.

Figure 1: China Loans and Deposits

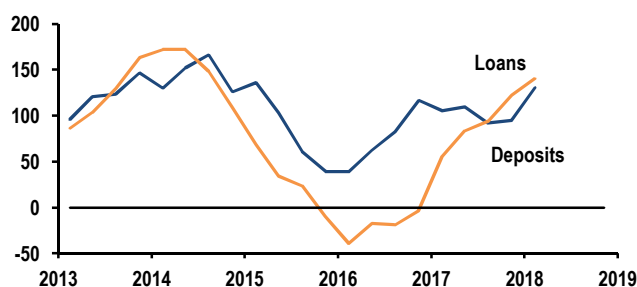
US\$ billion



Source: PBOC, J.P. Morgan

Figure 2: EM Asia ex China Loans and Deposits

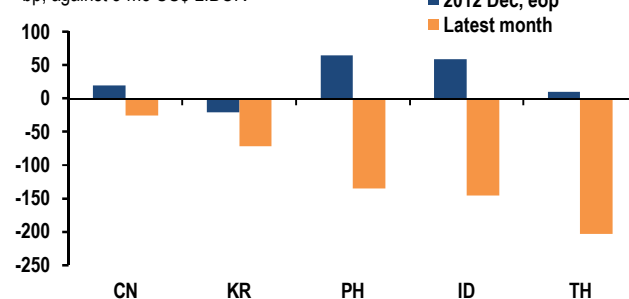
US\$ billion change, oya



Source: National sources, J.P. Morgan

Figure 3: EM Asia-5 3-mo US\$ deposit spreads

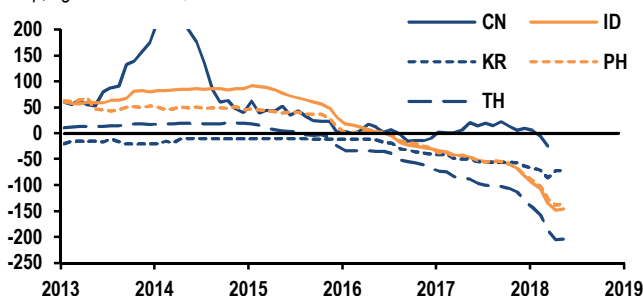
bp, against 3-mo US\$ LIBOR



Source: National sources, J.P. Morgan.

Figure 4: EM Asia-5 3-mo US\$ deposit spreads

bp, against 3-mo US\$ LIBOR



Source: National sources, J.P. Morgan.

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