

The Possible Impacts of Ending Quantitative Easing on Asian Economies

Lawrence J. Lau 刘遵义

Ralph and Claire Landau Professor of Economics, The Chinese Univ. of Hong Kong
and

Kwoh-Ting Li Professor in Economic Development, Emeritus, Stanford University

Chazen Institute, Columbia Business School
Columbia University
New York, 10th October 2014

Tel: +852 3943 1611; Fax: +852 2603 5230

Email: lawrence@lawrencejlau.hk; WebPages: www.igef.cuhk.edu.hk/ljl

*All opinions expressed herein are the author's own and do not necessarily reflect the views of any of the organisations with which the author is affiliated.

The Exchange Rate Revaluation/Devaluation of Selected Economies (2008/11/25-2010/11/03)

The Exchange Rate Revaluation/Devaluation during QE1			
11/25/2008-11/3/2010			
Currency	11/25/2008	11/3/2010	Revaluation/ Devaluation against US\$
RMB	6.8245	6.6746	2.20%
Euro	0.76748	0.71357	7.02%
Japanese Yen	95.532	81.387	14.81%
Australian Dollar	1.54135	1.00368	34.88%
Korean Won	1501.72	1110.23	26.07%
New Taiwan Dollar	33.349	30.425	8.77%
Indonesian Rupiah	12209	8931	26.85%
Malaysian Ringgit	3.6207	3.0853	14.79%
Philippines Peso	49.409	42.475	14.03%
Singapore Dollar	1.5108	1.2889	14.69%
Thai Baht	35.205	29.787	15.39%
Vietnamese Dong	16957	19408	-14.45%
Indian Rupee	49.894	44.38	11.05%

The Exchange Rate Revaluation/Devaluation of Selected Economies (2010/11/03-2012/09/13)

The Exchange Rate Revaluation/Devaluation during QE2			
11/3/2010-9/13/2012			
Currency	11/3/2010	9/13/2012	Revaluation/ Devaluation against US\$
RMB	6.6746	6.329	5.18%
Euro	0.71357	0.77454	-8.54%
Japanese Yen	81.387	77.404	4.89%
Australian Dollar	1.00368	0.95702	4.65%
Korean Won	1110.23	1128.8	-1.67%
New Taiwan Dollar	30.425	29.599	2.71%
Indonesian Rupiah	8931	9561.7	-7.06%
Malaysian Ringgit	3.0853	3.0805	0.16%
Philippines Peso	42.475	41.679	1.87%
Singapore Dollar	1.2889	1.2302	4.55%
Thai Baht	29.787	31.001	-4.08%
Vietnamese Dong	19408	20751	-6.92%
Indian Rupee	44.38	55.352	-24.72%

The Exchange Rate Revaluation/Devaluation of Selected Economies (2012/09/13-2013/05/22)

The Exchange Rate Revaluation/Devaluation			
9/13/2012-5/22/2013			
Currency	9/13/2012	5/22/2013	Revaluation/ Devaluation against US\$
RMB	6.329	6.1323	3.11%
Euro	0.77454	0.77733	-0.36%
Japanese Yen	77.404	103.537	-33.76%
Australian Dollar	0.95702	1.03268	-7.91%
Korean Won	1128.8	1113.5	1.36%
New Taiwan Dollar	29.599	29.925	-1.10%
Indonesian Rupiah	9561.7	9748.1	-1.95%
Malaysian Ringgit	3.0805	3.0213	1.92%
Philippines Peso	41.679	41.283	0.95%
Singapore Dollar	1.2302	1.2665	-2.95%
Thai Baht	31.001	29.838	3.75%
Vietnamese Dong	20751	20666	0.41%
Indian Rupee	55.352	55.614	-0.47%

The Exchange Rate Revaluation/Devaluation of Selected Economies (2008/11/25-2013/05/22)

The Exchange Rate Revaluation/Devaluation 11/25/2008-5/22/2013			
Currency	11/25/2008	5/22/2013	Revaluation/ Devaluation against US\$
RMB	6.8245	6.1323	10.14%
Euro	0.76748	0.77733	-1.28%
Japanese Yen	95.532	103.537	-8.38%
Australian Dollar	1.54135	1.03268	33.00%
Korean Won	1501.72	1113.5	25.85%
New Taiwan Dollar	33.349	29.925	10.27%
Indonesian Rupiah	12209	9748.1	20.16%
Malaysian Ringgit	3.6207	3.0213	16.55%
Philippines Peso	49.409	41.283	16.45%
Singapore Dollar	1.5108	1.2665	16.17%
Thai Baht	35.205	29.838	15.24%
Vietnamese Dong	16957	20666	-21.87%
Indian Rupee	49.894	55.614	-11.46%

The Exchange Rate Revaluation/Devaluation of Selected Economies (2013/05/22-2014/02/03)

The Exchange Rate Revaluation/Devaluation			
5/22/2013-2/3/2014			
Currency	5/22/2013	2/3/2014	Revaluation/ Devaluation against US\$
RMB	6.1323	6.0624	1.14%
Euro	0.77733	0.73948	4.87%
Japanese Yen	103.537	101.15	2.31%
Australian Dollar	1.03268	1.1395	-10.34%
Korean Won	1113.5	1084.8	2.58%
New Taiwan Dollar	29.925	30.337	-1.38%
Indonesian Rupiah	9748.1	12307	-26.25%
Malaysian Ringgit	3.0213	3.3462	-10.75%
Philippines Peso	41.283	45.412	-10.00%
Singapore Dollar	1.2665	1.2756	-0.72%
Thai Baht	29.838	32.915	-10.31%
Vietnamese Dong	20666	20898	-1.12%
Indian Rupee	55.614	62.576	-12.52%

The Exchange Rate Revaluation/Devaluation of Selected Economies (2013/05/22-2014/10/06)

The Exchange Rate Revaluation/Devaluation			
5/22/2013-10/06/2014			
Currency	5/22/2013	10/06/2014	Revaluation/ Devaluation against US\$
RMB	6.1323	6.1401	-0.13%
Euro	0.77733	0.79413	-2.16%
Japanese Yen	103.537	109.13	-5.40%
Australian Dollar	1.03268	1.1433	-10.71%
Korean Won	1113.5	1069.4	3.96%
New Taiwan Dollar	29.925	30.425	-1.67%
Indonesian Rupiah	9748.1	12147	-24.61%
Malaysian Ringgit	3.0213	3.2571	-7.80%
Philippines Peso	41.283	44.772	-8.45%
Singapore Dollar	1.2665	1.2773	-0.85%
Thai Baht	29.838	32.618	-9.32%
Vietnamese Dong	20666	21085	-2.03%
Indian Rupee	55.614	61.536	-10.65%

The Exchange Rate Revaluation/Devaluation of Selected Economies (2014/02/03-2014/10/06)

The Exchange Rate Revaluation/Devaluation			
02/03/2014-10/06/2014			
Currency	02/03/2014	10/06/2014	Revaluation/ Devaluation against US\$
RMB	6.0624	6.1401	-1.28%
Euro	0.73948	0.79413	-7.39%
Japanese Yen	101.15	109.13	-7.89%
Australian Dollar	1.1395	1.1433	-0.33%
Korean Won	1084.8	1069.4	1.42%
New Taiwan Dollar	30.337	30.425	-0.29%
Indonesian Rupiah	12307	12147	1.30%
Malaysian Ringgit	3.3462	3.2571	2.66%
Philippines Peso	45.412	44.772	1.41%
Singapore Dollar	1.2756	1.2773	-0.13%
Thai Baht	32.915	32.618	0.90%
Vietnamese Dong	20898	21085	-0.89%
Indian Rupee	62.576	61.536	1.66%

The Exchange Rate Revaluation/Devaluation of Selected Economies (2008/11/25-2014/10/06)

The Exchange Rate Revaluation/Devaluation			
11/25/2008-10/06/2014			
Currency	11/25/2008	10/06/2014	Revaluation/ Devaluation against US\$
RMB	6.8245	6.1401	10.03%
Euro	0.76748	0.79413	-3.47%
Japanese Yen	95.532	109.13	-14.23%
Australian Dollar	1.54135	1.1433	25.82%
Korean Won	1501.72	1069.4	28.79%
New Taiwan Dollar	33.349	30.425	8.77%
Indonesian Rupiah	12209	12147	0.51%
Malaysian Ringgit	3.6207	3.2571	10.04%
Philippines Peso	49.409	44.772	9.38%
Singapore Dollar	1.5108	1.2773	15.46%
Thai Baht	35.205	32.618	7.35%
Vietnamese Dong	16957	21085	-24.34%
Indian Rupee	49.894	61.536	-23.33%

The Past Impacts of Quantitative Easing on Asian Economies: Exchange Rates

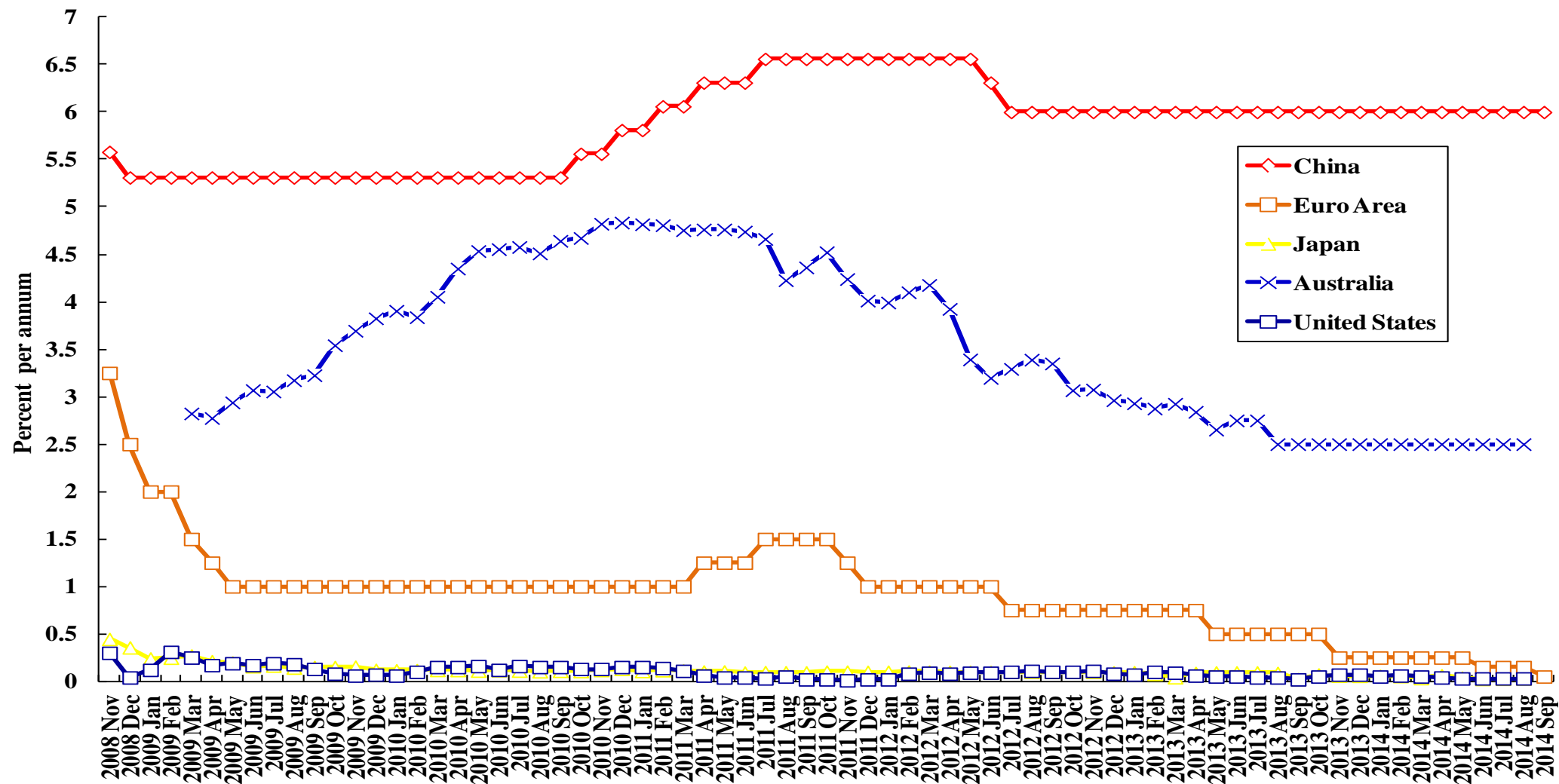
- ◆ The QEs can be viewed as a form of currency manipulation as given the already low domestic rates of interest in the U.S., the excess liquidity created by the QEs was bound to leave the U.S. en masse to seek higher yields elsewhere in the absence of U.S. capital control, thus driving up the exchange rates of the other currencies relative to the US\$.
- ◆ As the U.S. is ideologically incapable of intervening directly in foreign exchange markets, the QEs are one of the very few feasible options for engineering a devaluation. “Jawboning” is another feasible, but probably less effective, option.

The Past Impacts of Quantitative Easing on Asian Economies: Interest Rates

- ◆ In the following chart, we examine the interest rates of Australia, China, the Euro Zone, Japan and the United States during this same period.
- ◆ It is clear that upon the launch of QE2, the interest rates of these economies have all been trending down, with the possible exception of China which had and still has capital controls.

The Effects of Quantitative Easing: Interest Rates of Selected Economies

Interest Rates of Selected Economies

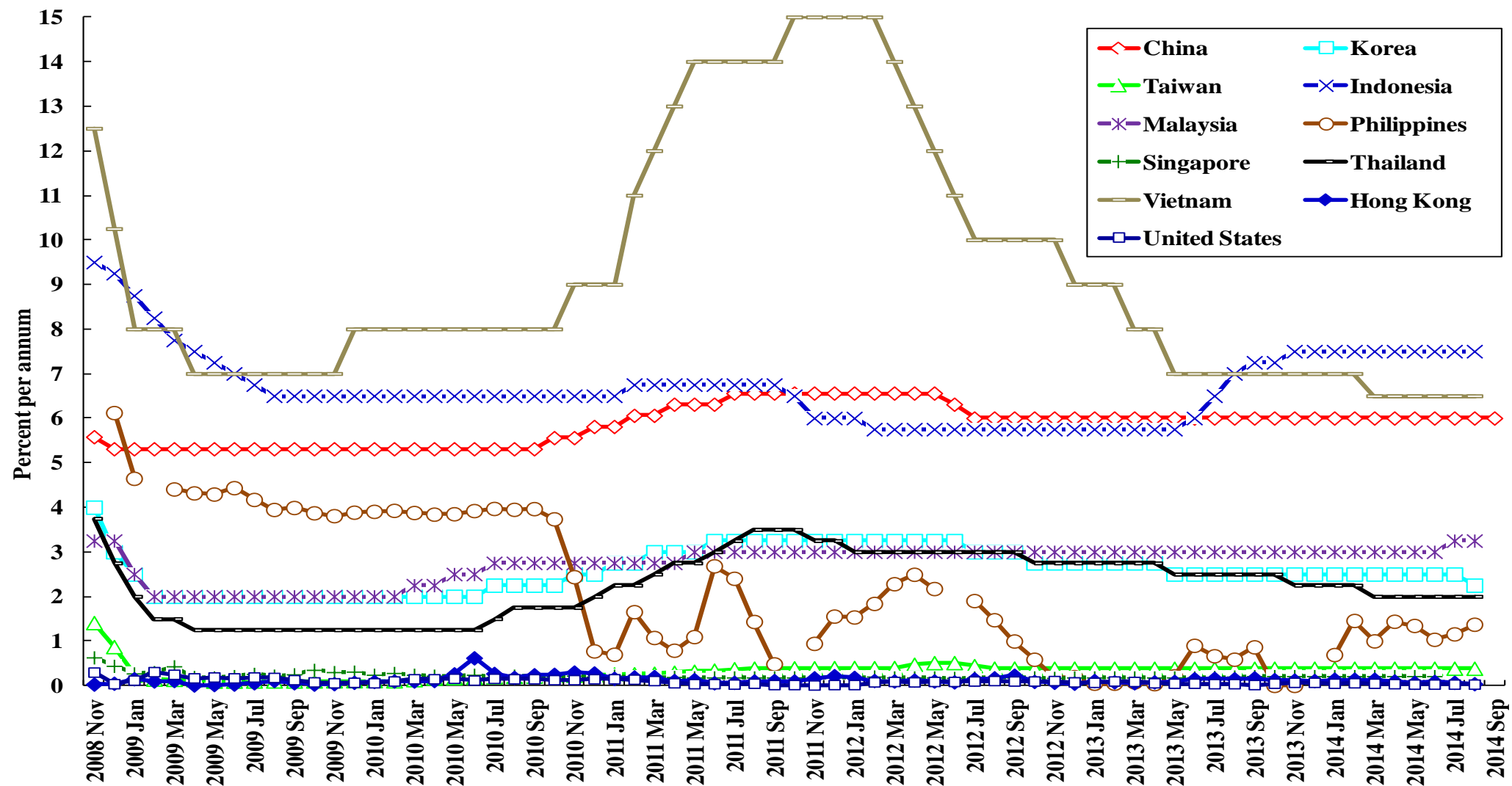


The Past Impacts of Quantitative Easing on Asian Economies: Interest Rates

- ◆ The movements of the interest rates of East Asian economies during this period are presented in the following chart.
- ◆ Again, the impacts of the QEs on East Asian interest rates are quite evident. There is a generally declining trend to the interest rates, with the exception of Vietnam.
- ◆ After 22nd May 2013, some of the interest rates, for example, those in Indonesia and the Philippines, have begun to move back up.

The Effects of Quantitative Easing: Interest Rates of Selected Economies

Interest Rates of Selected Economies

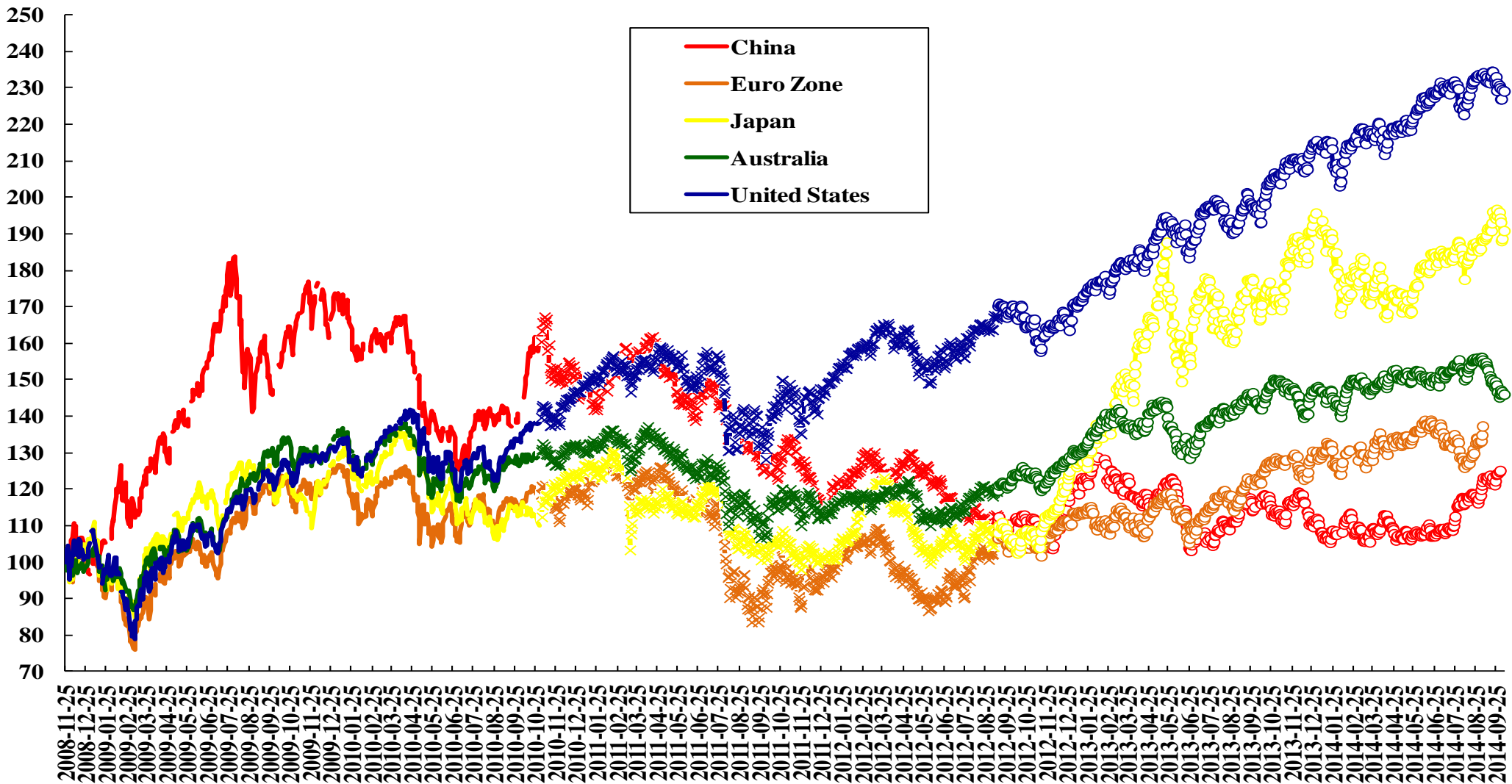


The Past Impacts of Quantitative Easing on Asian Economies: Asset Prices

- ◆ In the following chart, we examine the stock price indexes of Australia, China, the Euro Zone, Japan and the United States during this period.
- ◆ The QEs have large positive impacts on the stock price indexes of Australia, Japan and the United States. The impact of the Japanese “Counter-QE” on the Japanese stock price index, is especially pronounced.
- ◆ While QE1 did have positive impacts on the stock price indexes of China and the Euro Zone, QE2 and QE3 did not have much impact, because of the existence of capital control on the part of China and internal economic problems in the Euro Zone.

Stock Price Indexes of Selected Economies (11/25/2008=100)

Stock Price Indexes of Selected Economies (11/25/2008=100)

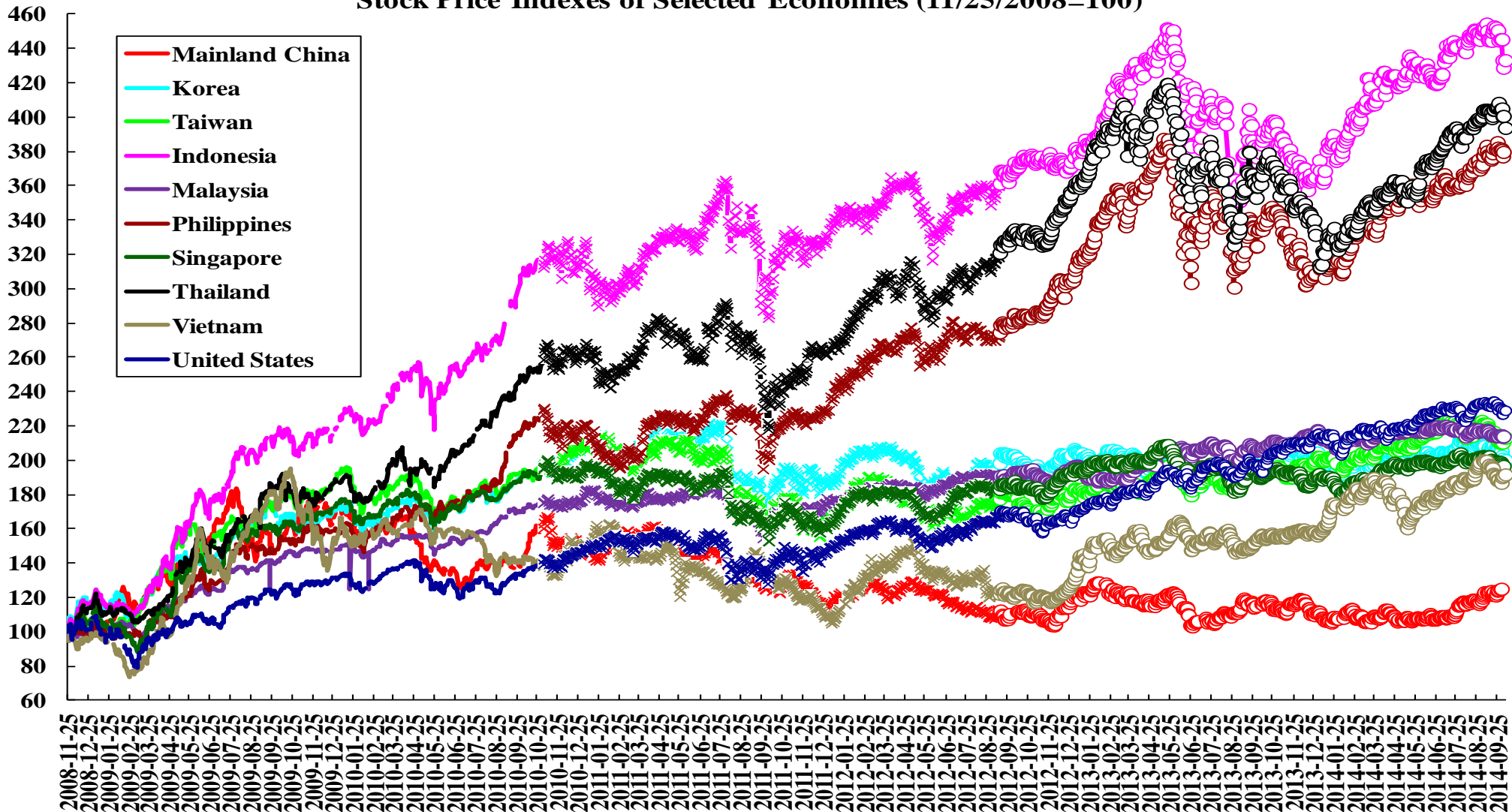


The Past Impacts of Quantitative Easing on Asian Economies: Asset Prices

- ◆ The movements of the stock price indexes of East Asian economies during this period are presented in the following chart. The overall impacts of the QEs on the East Asian stock price indexes have been positive with the exception of those of China and Vietnam.
- ◆ The impacts of the QEs on stock price indexes are the most pronounced for Indonesia, the Philippines and Thailand.
- ◆ However, after 22nd May 2012, the stock price indexes of Indonesia, the Philippines and Thailand also experienced significant downward adjustments. But with the repeated assurance of the Fed that the U.S. interest rate would remain low for a considerable period of time, these stock price indexes have resumed their climb, in the same way as the U.S. stock price index.

Stock Price Indexes of Selected Economies (11/25/2008=100)

Stock Price Indexes of Selected Economies (11/25/2008=100)



The Possible Impacts of Ending Quantitative Easing

- ◆ The QEs collectively, through the excess liquidity released to the rest of the World, have enabled the U.S. Dollar to devalue relative to most other currencies in the World, helping U.S. exports. They have also led to temporarily lower interest rates and higher asset prices elsewhere in the World. With the tapering and ending of QE3, there is a likelihood that these developments may be reversed.
- ◆ Thus, if the medium- and long-term interest rates were to rise again after the ending of QE3, the asset prices in the East Asian economies may fall significantly, especially for those stock markets that have gained the most from the QEs.

The Possible Impacts of Ending Quantitative Easing

- ◆ However, the ending of QE will not have much impact on the Chinese economy, because of its capital control, nor on the Japanese economy, because of the continuation of its own “Counter-QE” policy.
- ◆ Overall, there will be increased uncertainty and volatility in the World financial markets. This should favour the U.S., in its role as a safe haven for capital. Thus, the rate of interest may rise faster and higher in the East Asian economies and the devaluation of the East Asian currencies vis-a-vis the US\$ may be greater than otherwise.