

FX Flash

Shut Down Weigh Down on DXY Maybe Limited

- The risk of a US government shutdown has emerged if Congress fails to pass legislation to renew funding by the 30 September, which is tomorrow. There is currently a split congress with Democrats controlling the senate whilst Republican are in control of the house. Whilst the senate looks to possibly pass a stopgap budget that could keep the government funded until 17 November, Republican conservatives in the house are against any such bill. Instead, the focus of the latter remains on achieving more spending cuts of about \$120bn out of the \$1.59tn in discretionary spending for fiscal 2024 as agreed between Biden and Speaker Kevin McCarthy in May.
- From FX perspective, the DXY move during the shutdown periods in most of the major shutdowns in the last 50 years have not been substantial. The exception being in 1978 but that could have been due to Carter's anti-inflation programme and concerns about the health of the economy than due to the shutdown itself. If we examine the DXY movement between 5 days before and after the shutdown period, we see that the moves become more pronounced. However, as a whole, given the length of the time period, it is also not substantial. Gold performed well in three out of five of those major shutdowns. ASEAN FX also tended to perform decently well during the last two major shutdowns of Obama and Trump. Both the major Obama 2013 and Trump 2019 Shutdowns occurred when there were actually split congresses as is the case now. As a note, the Trump 2019 shutdown was the longest in the last 50 years and the DXY did drop over 1.00% but it also occurred during a time when the Fed signalled an ending to the cycle.
- It is challenging to discern the economic effects of US government shutdowns given that we cannot observe clearly if there was any impact on GDP. Consequently, this could have led to the DXY not decisively moving in any direction in most shutdowns.
- In light of the current DXY strengthening momentum amid a firmly hawkish Fed and US economic performance, we expect the index to generally still hold up well with the government shutdown not significantly weighing data too heavily on it.

Analysts

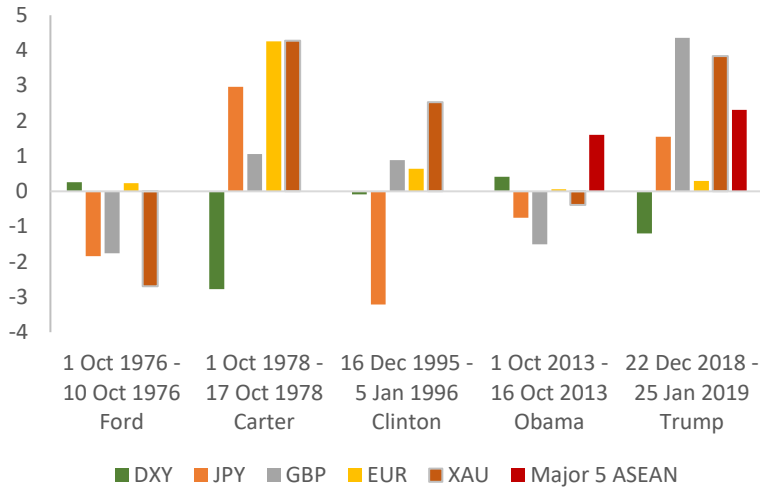
Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com

Alan Lau
(65) 6320 1378
alanlau@maybank.com

Fiona Lim
(65) 6320 1374
fionalim@maybank.com

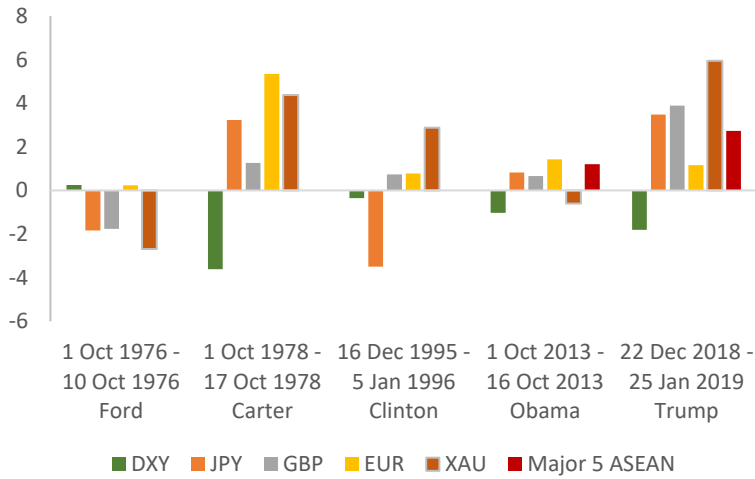
Shaun Lim
(65) 6320 1371
shaunlim@maybank.com

Chart 1: FX Performance During Major Shutdowns Period



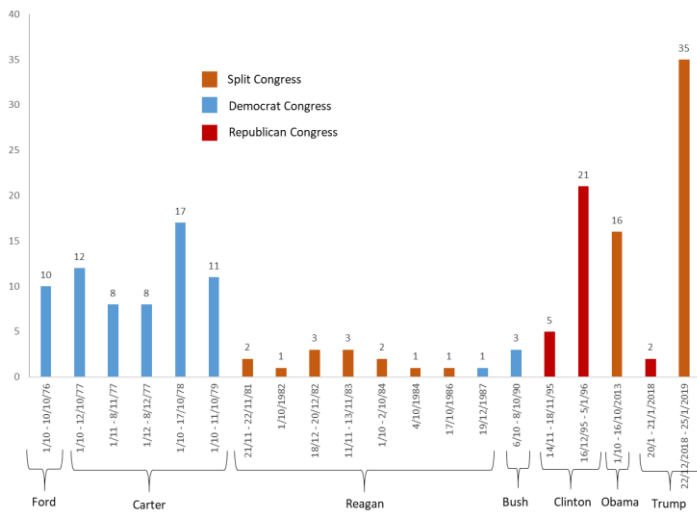
Source: Bloomberg, Maybank GM FX Research & Strategy

Chart 2: FX Performance 5 Days Before and After Major Shutdowns



Source: Bloomberg, Maybank GM FX Research & Strategy

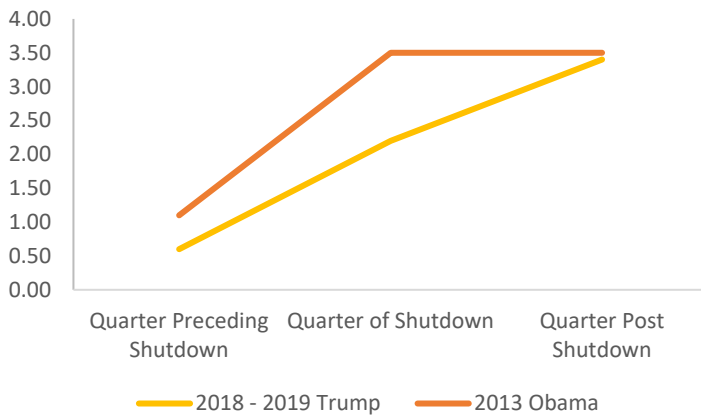
Chart 3: Length of Shutdown and Congressional Control



Source: US House of Representatives, Congressional Research Service, CNN, Maybank GM FX Research & Strategy

Note: Guidelines from the attorney general in 1980 and 1981 instructed the federal government to stop normal operations during a funding gap, so gaps before those dates did not result in a full government shutdown. *The shutdown from Dec. 22, 2018 to Jan. 25, 2019 was a partial government shutdown, as five of the 12 appropriations bills had already been enacted.

Chart 4: GDP Performance During Prior Shutdowns



Source: Bloomberg, Maybank GM FX Research & Strategy

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Malayan Banking Berhad
(Incorporated In Malaysia)

Foreign Exchange

Singapore

Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com.sg
(+65) 6320 1379

Fiona Lim
Senior FX Strategist
Fionalim@maybank.com.sg
(+65) 6320 1374

Alan Lau
FX Strategist
alanlau@maybank.com
(+65) 6320 1378

Shaun Lim
FX Strategist
shaunlim@maybank.com
(+65) 6320 1371

Indonesia

Juniman

Chief Economist, Indonesia
juniman@maybank.co.id
(+62) 21 2922 8888 ext 29682

Myrdal Gunarto
Industry Analyst
MGunarto@maybank.co.id
(+62) 21 2922 8888 ext 29695

Fixed Income

Malaysia

Winson Phoon
Head, Fixed Income
winsonphoon@maybank.com
(+65) 6340 1079

Se Tho Mun Yi
Fixed Income Analyst
munyi.st@maybank-ib.com
(+60) 3 2074 7606

Sales

Malaysia

Zarina Zainal Abidin
Head, Sales-Malaysia, Global Markets
zarina.za@maybank.com
(+60) 03- 2786 9188

Singapore

Janice Loh Ai Lin
Head of Sales, Singapore
jloh@maybank.com.sg
(+65) 6536 1336

Indonesia

Endang Yulianti Rahayu
Head of Sales, Indonesia
EYRahayu@maybank.co.id
(+62) 21 29936318 or
(+62) 2922 8888 ext 29611

Shanghai

Joyce Ha

Treasury Sales Manager
Joyce.ha@maybank.com
(+86) 21 28932588

Hong Kong

Joanne Lam Sum Sum
Head of Corporate Sales Hong Kong
Joanne.lam@maybank.com
(852) 3518 8790

Philippines

Angela R. Ofrecio
Head, Global Markets Sales
Arofrecio@maybank.com
(+632 7739 1739)