

Asia FI & FX Strategy Viewpoint

The Asia view from Corporate Europe – so far, so good, but far from over

European corporates navigating the tariff storm.

Over the past-two weeks we met with over 35 European corporate treasury clients in 11 cities. The general mood is constructive, with the negative fallout from tariffs less than feared. The relative depreciation of Asia FX against EUR (see Exhibit 1) is helping to contain production costs, where paid in local currency, and offset some of the tariff headwinds. Reconfiguring supply chains into ASEAN is helping, but many European corporates still see China as indispensable. This said, tariffs costs are being partially passed onto US consumers and this is expected to continue in 2026.

The tail winds – FX de-regulation, lower funding, India

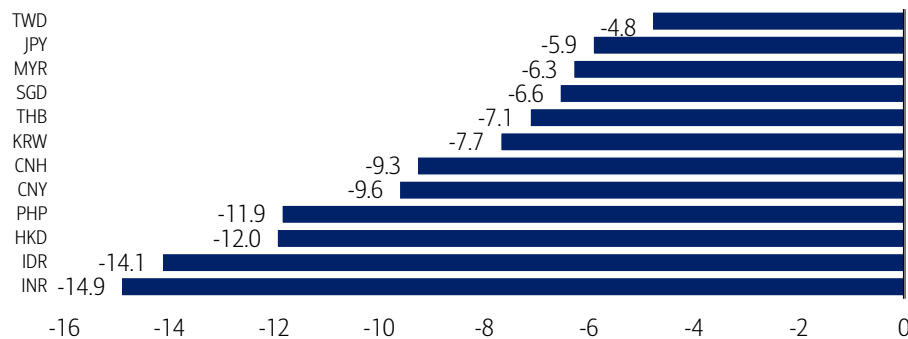
One positive for corporates, is the potential easing of FX regulations among Asia’s restricted currencies: INR, KRW and THB (see our note, [Asia FX Strategy: India FX – Incremental steps on INR globalization](#) and page 5. This deregulation could be structural as USD weakness takes hold and Asian central banks become less defensive and lean towards attracting corporate investment and portfolio flows. Asia’s falling interest rates below Europe presents a funding opportunity for European corporates, especially in Thailand. Finally, most European clients see India as an attractive growth opportunity and are examining raising local funding as demand for working capital rises.

The head winds – China growth, commodities, geopolitics

The most common European corporate concern is over China growth, especially for firms sensitive to discretionary consumer demand. The second key concern is rising steel, aluminum, and more selectively gold commodity prices. Lastly, geopolitics and the closer bilateral relationship between China and Russia is also an area of concern.

Exhibit 1: Asia FX performance against EUR year-to-date in %

Asian currencies underperform the EUR rally against USD this year, especially high yielders IDR & INR



Source: BofA Global Research, Bloomberg

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GEM FI & FX Strategy
Asia

Claudio Piron
Emerging Asia FI/FX Strategist
Merrill Lynch (Singapore)
+65 6678 0401
claudio.piron@bofa.com

Glossary of terms

- ASEAN – The Association of Southeast Asian Nations
- FDI – Foreign Direct Investment
- FI – Financial Institution
- NR – Non-Resident
- PBOC – People’s Bank of China
- SAFE – State Administration of Foreign Exchange

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So far, so good, but far from over

This note provides a summary of our meetings with well 35 European corporate Treasuries across 11 European cities over the past two weeks. The overall view among the clients we met is constructive on Asia, despite the heightened uncertainty over tariffs. Thus far, the negative tariff impact is not as bad as had been initially feared.

This better-than-expected outcome is due to a combination of factors: First, a diversified production base, especially in ASEAN, allowed supply chain reconfiguration. Second, Asian currencies depreciated more than the EUR, helping to reduce or contain costs, when production costs were in local currency and not entirely hedged – see Exhibit 2. Third, some of the tariff costs are being partially absorbed by US consumers, and this is expected to continue into 2026.

Nonetheless, some European corporates are feeling more pain, especially where their production was more heavily reliant on China, their margins were thinner, and they were exposed to rising steel and aluminum input prices.

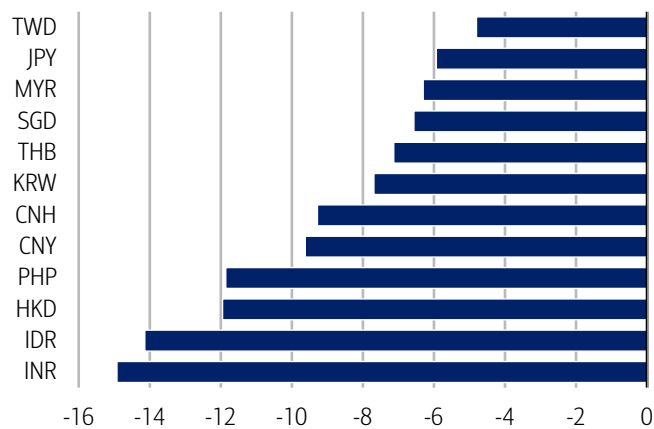
On a more positive note, limited FX de-regulations in restricted FX markets (INR, KRW, and THB), coupled with lower funding costs in some Asian markets, is making the operational landscape better for European corporates.

Several corporates noted that hedging behavior is becoming more market driven, with some looking to improve hedging flexibility.

There are also some European corporates looking to take advantage and source cheaper funding. Additionally, corporates view onshore borrowing as an opportunity to reduce exposure to geopolitical risk. Exhibit 3 shows Asian 2yr bond yields relative to 2yr German bond yields as a measure of relative benchmark government short-term borrowing costs. 2-year funding in Japan, Thailand, Taiwan, China, and Singapore is cheaper than in Germany.

In practice, onshore restrictions make it difficult to source funding in China and Taiwan. However, in Thailand’s case, this appears to be changing with the relaxation of THB Speculative Prevention Measure for Non-Resident Non-Financial Institutions effective from December 1st.

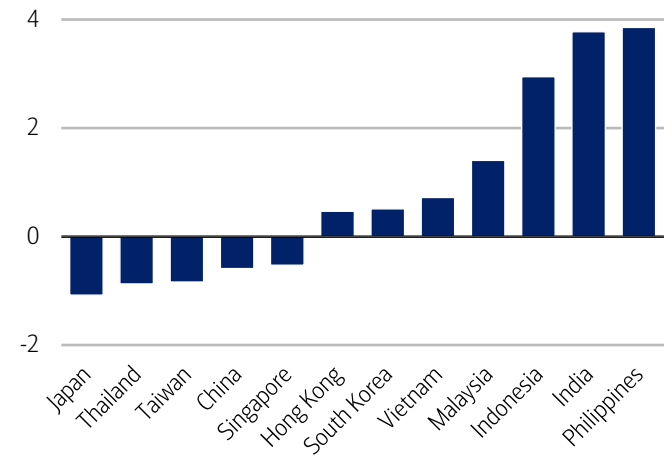
Exhibit 2: Asia FX performance against EUR year-to-date in %
Asia FX underperforms EUR this year, especially high yielders IDR & INR



Source: BofA Global Research, Bloomberg

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Exhibit 3: 2yr Asian bond yield spreads versus 2yr German bunds
Asia represents some attractive funding relative to Europe



Source: BofA Global Research estimates, Bloomberg

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Beyond Asia, European corporates felt that Europe could be bottoming out, while the US is showing signs of plateauing with some signs of weakness. Interestingly, the growth of data centers, also in Asia, appears to be a structural feature. Additionally, it is having a positive impact beyond IT corporates and into business and ancillary services supporting data centers.

China FAQ's and themes – Growth and competitiveness

A common question among European corporates was how well China demand was recovering, especially in the luxury goods sector. The base case among the clients appears to be a slow recovery.

European firms largely believe China remains a competitive production hub (one client called China indispensable) even with tariffs, with some viewing tariffs as a “tax” to doing business in China. That said, they are watching CNY FX risks closely given margin pressures and deflation pressures within China.

The high-end European manufacturers we did meet with still feel that they are able to compete with China, though they admit competition is becoming more intense and in some cases market share is shrinking.

India – bullish sentiment, though considered.

Generally, the European corporate treasuries see increasing business and investment opportunities in India and expect their demand for INR to increase, together with domestic financing for working capital needs.

More specifically, logistics and services businesses are benefitting from India's strong growth, even though some cautiousness was evident. A key issue is the need to understand the domestic market and getting money out cost efficiently is a priority.

One private equity client took the view that long-term INR hedging was not necessary as they continue to view India as a strong growth story.

ASEAN favorites: Thailand, Malaysia vs concern: Indonesia

Thailand is viewed favorably by several corporates that we met as a manufacturing production hub with more upside potential. THB appreciation did not appear to be a significant issue and domestic political uncertainty does not appear to be affecting investment plans. Malaysia is also a favorite investment destination, especially for those in the electronics sector that have a reliance on the country's excellence in assembly, packaging, and testing.

Most European corporates are familiar with Malaysia's Appointed Overseas Office under the Qualified Resident Investor program. This encourages two-way flows in the onshore market and allows foreign corporates access to better pricing and liquidity in the onshore market. Nonetheless, there are still some European corporates unfamiliar with this opportunity and the recent June measure that allows for a one-off registration and semi-annual sampling to reduce the documentary burden.

The overall corporate tone is that they want to transact more in onshore markets and are positive on the recent Thai and Korean regulations that may open this opportunity further. Moreover, onshore FX swap funding are priced more favorably in China, Thailand, and India relative to their respective offshore curves.

Finally, one consistent concern that features among some corporate investors is Indonesia's country risk and whether this represents a challenge for Foreign Direct Investment. European corporates with investments in Indonesia are watching the



following developments closely: social stability, predictability of investment regulations, as well as debt sustainability.

Geopolitical concerns: China-Russia relations

The broader issue of geopolitics is key concern for European firms. A particular area of interest was China's closer relationship with Russia and whether this would deepen further.

FX is coming home – structural easing in onshore markets

FX regulatory easing is attracting more attention from corporates as it potentially allows greater ease in repatriating earnings and accessing onshore markets. Naturally corporates are asking whether this easing in regulations is temporary or more structural.

We believe that this easing in FX regulations (which we list in the next section below) is more structural for three reasons:

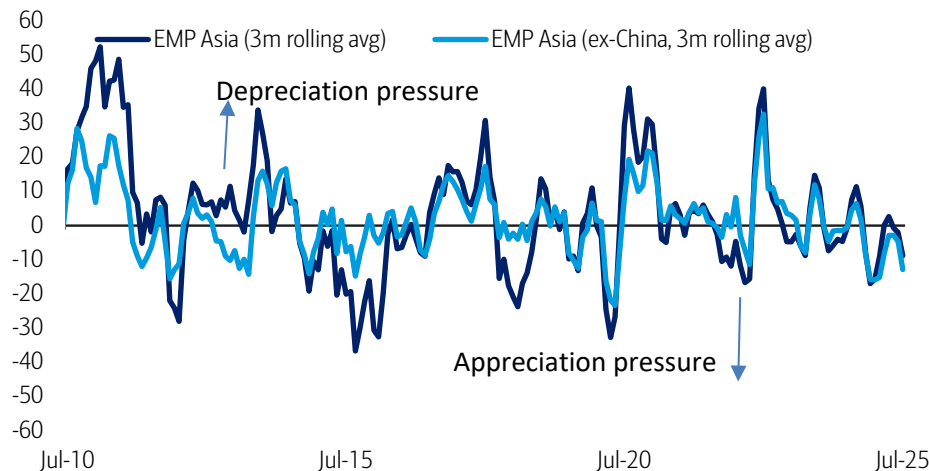
First, we believe that the USD will be weaker in the coming years and Asian currencies will be under appreciation pressure due to their undervaluation. This means policy makers are less defensive in their posture; easing regulations to improve domestic liquidity, allow greater two-way flows, lower transaction costs and attract more corporate FDI and portfolio inflows. Allowing more two-way flows could also help to alleviate some of the appreciation pressure.

Exhibit 4 shows an exchange market pressure index of Asian currencies. This gauges appreciation/depreciation pressure on currencies by weighting three components: (1) the move in spot FX, (2) the change in relative short term interest rates against USD (3) changes in FX reserves. The idea is that FX pressure will express itself by either moving spot, affecting changes in interest rates or being deflected by central bank intervention.

The chart shows that in recent years Asia FX has seen an increased frequency of appreciation pressure. This contrasts with the intense depreciation pressure of the Global Financial Crisis that sustained into 2010 and the 2013 taper tantrum. Both events resulted in a large increase in capital flow measures that are starting to be unwound.

Exhibit 4: Exchange Market Pressure index gauges Asia FX depreciation/appreciation pressure

Over the past year, Asia FX has come under sustained appreciation pressure



Source: BofA Global Research estimates

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Secondly, the growth and size of some offshore non-deliverable FX markets has become problematic for Asian policy makers, in our view. The unintended consequence of creating a two-tier onshore vs. offshore FX market has in some ways become self-defeating. The size of the offshore NDF market sometimes means that it affects the



onshore Asian FX markets. Additionally, some Asian central banks need to intervene in the NDF markets to stabilize FX expectations and volatility in the onshore market.

Finally, there is a sense that FX revenue and business is being lost to the offshore FX centers, which could be earned onshore. For these three reasons, it seems that the desire to ease FX restrictions is part of a broader theme in Asia and more structural, rather than one-off.

Recent changes in Asia FX regulations

The following gives a summary of recent relaxation of FX regulations in Asia. Some are incremental in nature, but over the years these incremental measures are becoming more substantive. They represent a partial normalization of regulations, which surged after the global financial crisis with macro prudential measures in bank flows, direct investments and other transactions rising significantly in ASEAN especially.

China – is allowing a netting solution without documentation for forwards that are net settled. There is a trend to merge and simplify existing PBOC and SAFE cross-border pooling schemes into an integrated “standard” and “advanced” scheme. This would allow for more multi-currency flexibility for onshore/offshore currency sweeping. Additionally, the quota control on net lending and borrowing would be increased.

Indonesia – is relaxing the timing requirement on underlying document submissions to the central bank by value date or T+14, whichever is earlier.

India – Onshore clients can book an aggregate outstanding INR exposure up to USD 100 million equivalent without submitting documents. In addition, there are some amendments in regulations including overseas INR accounts for Non-Residents as well as liberalization of Non-Resident INR accounts in India to settle FDI. See also - [Asia FI & FX Strategy Watch: India FX – Incremental steps on INR globalization 02 October 2025](#)

Korea – Regulations now allow for non-residents to operate a single onshore Non-Resident Free Won Account compared with an account per bank previously, enabling diversification of FX across bank counterparties.

Malaysia – is allowing for semi-annual sampling of documents to reduce the documentary burden of FX hedging as part of its Appointed Overseas Office scheme for onshore FX and cross currency swap transactions.

Philippines – Electronic document submissions are now being allowed for FX transactions and documents. Inward investments by non-resident corporations must register investments online within one year.

Thailand – will relax its THB speculative prevention measure for non-resident (NR) non-Financial Institutions (FI) from December 1st 2025. This will allow NR non-FI to execute FX transactions without need to present underlying documents subject to Know Your Business process. Forecasted cashflows or balance sheet hedging would be included for underlying purposes. There would also be a waiver on end-of-day balance limits set at THB200mn for Non-Resident Baht Accounts and Non-Resident Baht for Securities.

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