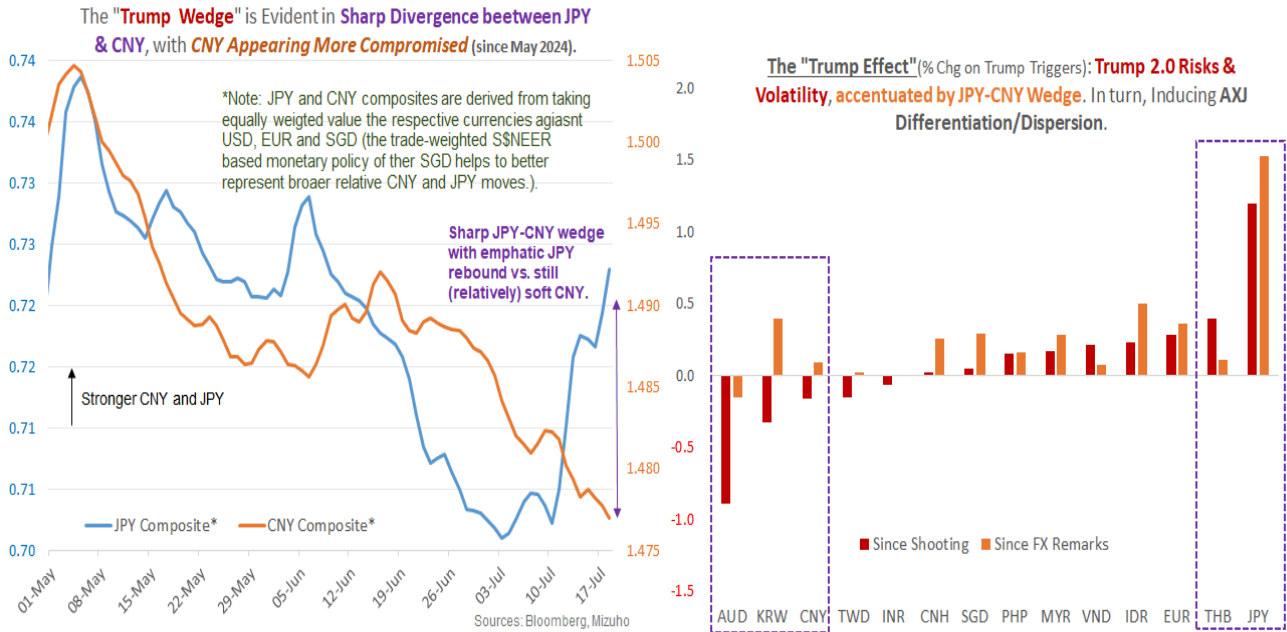


## The Trump (JPY-CNY) Wedge



The Trump Effect	DXY	CNH	CNY	KRW	TWD	SGD	THB	MYR	IDR	INR	VND	AUD	PHP	EUR	JPY
Since Debate	-2.1	0.4	0.1	0.5	-0.1	1.3	2.6	1.1	1.9	-0.1	0.4	1.1	0.9	2.3	3.1
Since Shooting	-0.3	0.0	-0.2	-0.3	-0.2	0.0	0.4	0.2	0.2	-0.1	0.2	-0.9	0.2	0.3	1.2
Since FX Remarks Published	-1.2	0.3	0.1	0.4	0.0	0.3	0.1	0.3	0.5	0.0	0.1	-0.2	0.2	0.4	1.5

## The Trump (JPY-CNY) Wedge

- **Trump's allegations** of, and warnings against, **competitive JPY and CNY devaluation**, dominated FX markets, triggering sharp **JPY rallies** (of 1.5-1.6% surge to sub-156 from mid-158).
- But in contrast to the sharp JPY squeeze, **CNY (CNH) reaction** has been **far more subdued**, with only around 0.3% gains.
- For the record, **Trump was equally scathing on both**, charging "*unbelievable*" **JPY and CNY exchange rate "discrepancy"**, with accompanying threat of "*tariffs*".
- A **moderation in JPY and CNY weakness** was probably the intent of Trump's **misguided\* allegations of competitive JPY and CNY devaluation**.
- But what's more interesting is the **inadvertent JPY-CNY wedge** (involving greater propensity for JPY pick-up vis-à-vis CNY) that has been **accentuated, albeit not entirely driven, by Trump**.

\* Trump's mercantilist FX charges trained on JPY and CNY are misguided given both the Japanese and Chinese authorities have been leaning against excessive and speculative depreciation pressures. Which is the exact opposite

of alleged desire of Japanese and Chinese authorities to “keep their currency low”.

### Not About “Teflon” CNY

- Relative CNY insensitivity is not to be mistaken for nonchalance to Trump’s agitations about “a big currency problem” with alleged competitive CNY devaluation.
- Nor is it merely (temporary) stability induced by the Chinese authorities for the “Third Plenum”, typical for important political events in China.
- Point being, it is not about an impervious, “Teflon” CNY reflecting resilience, but rather economic and geo-political vulnerabilities.

### Entrenching CNY Disadvantages

- Accordingly, fundamental economic, policy and geo-political forces are behind what may be a more durable wedge reflecting more entrenched CNY disadvantages.
- First and notably, the chances for coordinated intervention to prop up the JPY are far higher. And crucially, with precedent.
- So, symbiotic JPY rebound response to Trump’s competitive devaluation are more likely and moreover accentuated by a far lower starting point for JPY.
- In contrast, a more adversarial trade relations with China diminish the chances of collaborative Washington-Beijing intervention to appreciate the CNY.
- What’s more, bi-lateral trade antagonism, with tightening restrictions aimed China, are more likely be comparatively more CNY negative.
- Especially as tariffs and trade barriers dent headline exports revenue, erode profits and induce investment outflows as Chinese exporters also implement “China +1”.

### Accentuating Relative, Latent JPY boost from Policy & “Carry Unwind”

- Third, with the BoJ set to tighten monetary policy, the direction of travel in terms of policy divergence ought to be incrementally supportive of the JPY the margin.
- Finally, JPY-funded carry unwind will accentuate JPY rebound amid heightened “Trump volatility” in FX markets.
- Specifically, as Trump invokes opposing shocks with trade antagonism (pressuring CNY and JPY) on one hand and currency mercantilism allegations (demanding appreciation) on the other.

### Inadvertent, But Inevitable

- The upshot is that with no intent on his part, Trump has inadvertently accentuated pre-existing inclination for JPY-CNY wedge.
- But this will inevitably have a wider knock-on impact on FX markets.
- Perversely, there could be an element of “risk off” if “carry unwind” gathers self-reinforcing momentum.

### JPY-CNY Wedge Differentiation

- In turn, “risk off” may reinforce AXJ ripples from the **JPY-CNY wedge**, *sharply differentiating AXJ recovery prospects* (from a strong “Fed USD”).
- **AXJ with higher sympathetic JPY correlations**, such as the THB, could fare better compared to currencies higher CNY correlations (e.g, AUD)

### Amid USD & JPY Deferment?

- All said, we remain **circumspect about scope for unfettered AXJ reversion (higher to pre-Fed rate hike levels)**.
- Not the least because, **Trump 2.0 risks are in aggregate likely to bolster USD**.
- This is despite Trump’s articulated displeasure at the perceived trade disadvantage and through Fed cuts.
- And on a relative basis **AXJ may weaken more against JPY** as “*carry unwind*” conspires with *BoJ tightening* and *episodic “risk off”*.

Trump’s remarks as cited by Bloomberg:

“So, we have a big currency problem because the depth of the currency now in terms of strong dollar/weak yen, weak yuan, is massive.

“And I used to fight them, you know, they wanted it weak all the time.”

“They would fight it and I said, if you weaken it anymore, I’m going to have to put tariffs on you.”

“They went as far as they could with me, but I was very tough with it. [...]”

“And I remember it’s one of the things I worked almost hardest on, to keep their currency up.”

“But it is really the discrepancy as an example between the dollar and the yen and the dollar and the yuan is unbelievable.”

“With the dollar being high and with them being very low. I would always notice they fought very hard to keep their currency low.”

“It doesn’t sound good, but from a standpoint of what they do and making products, that’s how Japan was built. That’s how China was built. I think we’re in a very bad position.”

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