

## Macro Brief – Trump 2.0 Tariffs: Collateral & Bi-lateral Pain

### In a Nutshell

- Expectations of **Trump 2.0 tariffs trained on China don't adequately appreciate far more profound and pervasive global trade risks elsewhere** from *bi-lateral shocks* and *collateral damage*.
- *In fact, trade anguish could be relatively greater elsewhere as the incremental trade shocks are disproportionately larger for other trade partners than it is for given Beijing's advantages of, and consequent buffer from, China's sheer economic-manufacturing heft.*
- Accordingly, while it is **intuitive to express first-order Trump 2.0 tariff blows as CNH sell-off, harsher currency depreciation pressures in MXN, MYR, THB, AUD, KRW and TWD** may better capture the **confluence of trade shocks** from *collateral damage* and *bi-lateral trade risks*.
- A **risk-differentiated, intra-AXJ view** (that is agnostic to broader USD dynamics) favours being *long SGD and INR* against a *short basket of VND-AUD-KRW-TWD*.

### 1. Trump 2.0 Tariff & China Pain

- Understandably, **Trump's "tougher on China" posturing**, (*replete with the threat of 60% tariff across all Chinese goods*), **invoke fears of heightened trade antagonism with, and resultant economic pain for, China.**
- More so, if strident trade hawks dominating the White House dramatically dial- **US-China trade antagonism** and increased propensity for a volley of retaliatory responses aggravate **attendant economic pain.**
- FX Implication 1: And so, assumptions of **US-China trade antagonism resulting in USD strength at the expense of CNH** mis certainly legitimate.

### 2. But China Antagonism, Anguish Elsewhere

- *But* expectations of **Trump 2.0 tariffs trained on China don't adequately appreciate far more profound and pervasive global trade risks elsewhere** from *bi-lateral shocks* and *collateral damage*.
- *Acutely so for exporters in Asia (and Mexico) that are both dependent on US and inextricably intertwined with the Chinese supply-chain.*
- *In fact, trade anguish could be relatively greater elsewhere* China's *sheer economic-manufacturing dominance* that inadvertently render *incremental trade shocks disproportionately larger for other trade partners.*
- FX Implication 2: And so, **CNH sell-off** might be the lower-beta version *compared to the broader depreciation jolts elsewhere in the AXJ space* (as well as compared to MXN and possibly even CAD).

### 3. Collateral & Bilateral Shock Transmissions ...

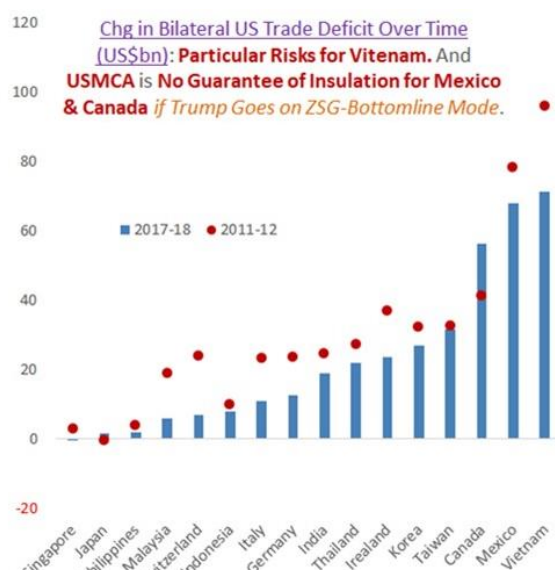
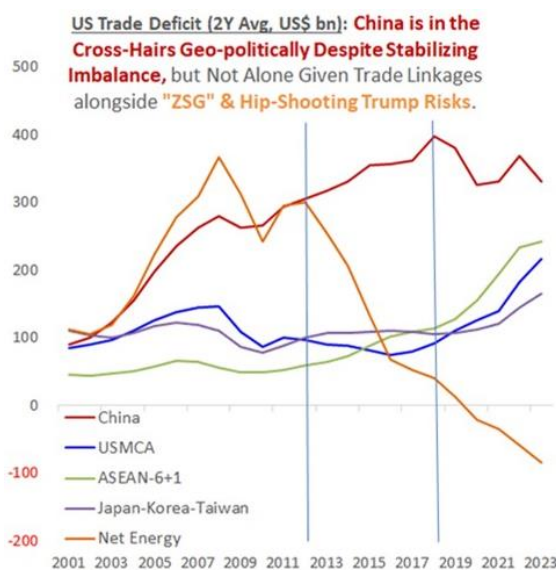
- Point being, **China's unmatched manufacturing advantages** of *scale, capabilities, supply chain dominance* and other *production synergies*, **which cannot be easily or quickly replicated**, translates to **relative**

**superior resilience** (once adjusted for global demand cycle) **to global trade shocks**.

- Whereas **collateral damage elsewhere along the supply-chains** from, adverse US-China trade conflict fallout is bound to be significant, possibly worse (than the direct impact on China) for many other exporters.
- Especially once, *supply-chain reliance*, underlying *resource demand*, *second-order economic spillovers* and *financial channels* are accounted for.
- What’s more, **trading partners other than China** are also at **high risk of direct, bilateral Trump 2.0 trade blows** from more *mercurial, bottom-line focused US trade policy* that is *rooted in zero-sum game view of globalization*.
- **FX Implication 3**: Notably, the alignment of risks warn of **sharper sell-off in MYR, AUD, THB, KRW and TWD** given *heightened sensitivities from trade dependence* (via supply-chain, and upstream commodities impact) *accentuated by wider investment and financial flows*.

#### 4. ... Differentiated Across AXJ

- To be sure, **wider AXJ risks derived from Trump 2.0 tariff threats** are *differentiated* and *dynamic*, contingent **on the details and execution** of tariffs, **retaliatory responses** and **propensity to walk back after negotiations**.
- But **at first blush**, pre-existing vulnerabilities to collateral damage from supply-chain/investment linkages and bilateral trade antagonism suggest greater sensitivities for *MXN, MYR, THB, AUD, KRW and TWD*.
- **Collateral damage from supply-chain risks impact most of Asia**, with *upstream tech exports from Taiwan, Korea and Japan* at conspicuous risk. And *Australia is vulnerable to outsized ripples via commodity channels*. **India is notably least exposed to trade/financial linkages with China**.
- **Bilateral trade pain** may arguably be *most acute for Vietnam* (outside of Mexico), with Taiwan and Korea also not off the hook. Remarkably, **Singapore’s trade deficit with US limit risks if bilateral US trade antagonism**.
- **FX Implication 4**: Accordingly, a **risk-differentiated, intra-AXJ view** (that is agnostic to broader USD dynamics) favours being *long SGD and INR* against a *short basket of VND-AUD-KRW-TWD*.



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