Trump 2.0 – New World Order

Overdue or Overblown?

"Known must be your fear before banish it you can."

- Master Yoda, Star Wars

Photo Credit: FT

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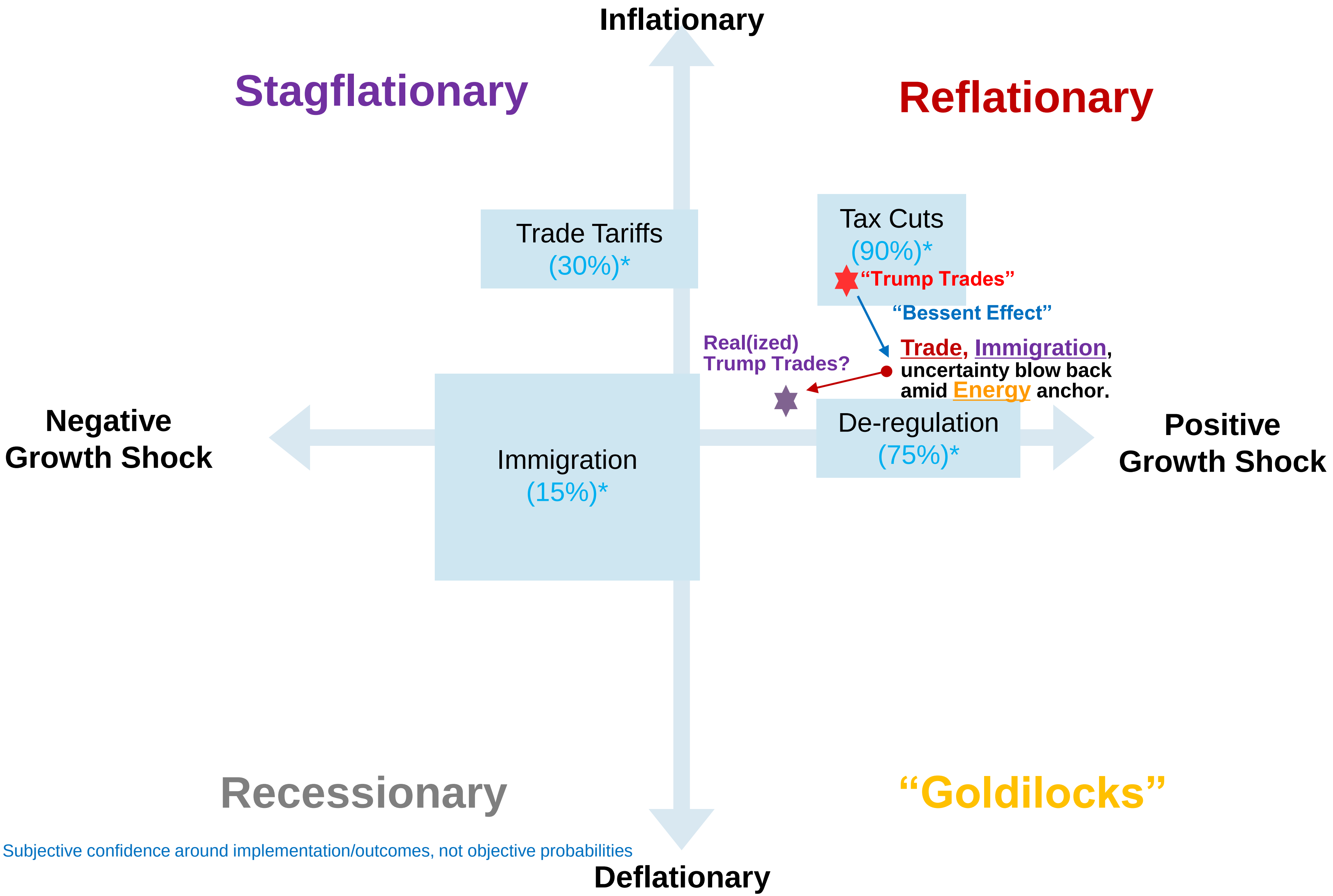
February 2025

“Known Unknowns” of Trump 2.0

1. **Trump 2.0 & Trumpflation**: Are Reflationary Expectations Exaggerated?
2. **Fed Flip**: Will the Fed (Easing Cycle) be Trumped?
3. **The Fiscal “Curveball”?** The Bessent-DOGE Effect May Wrong-Foot Bond Vigilantes Later
4. **Lower Interest Rates**: The One Ring to Rule them All?
5. **USD: Not Unfettered Surge**: Tempering on Fed & (Partial) Relief. Plaza-Lite “Tail” (risk)!
6. **Trade Risks:** Firing from the Hip, Zero Sum Game (ZSG) & Exceptionalism Delusion
7. **China Risks:** China May Have Trump Cards, But Not (CNH) Immunity
8. **AXJ:** Compromised by Collateral Damage

1. Trumpflation May Not be as Reflationary as Currently Assumed



* Subjective confidence around implementation/outcomes, not objective probabilities

1a-i. Energy/Oil: US Energy Dynamics & Posturing to Dis-inflate?

i. Global Demand-Supply to Buffer: For one, the **bigger picture is for aggregate global supply dynamic** to at least **keep apace, if not comfortably outstrip, demand shifts**.

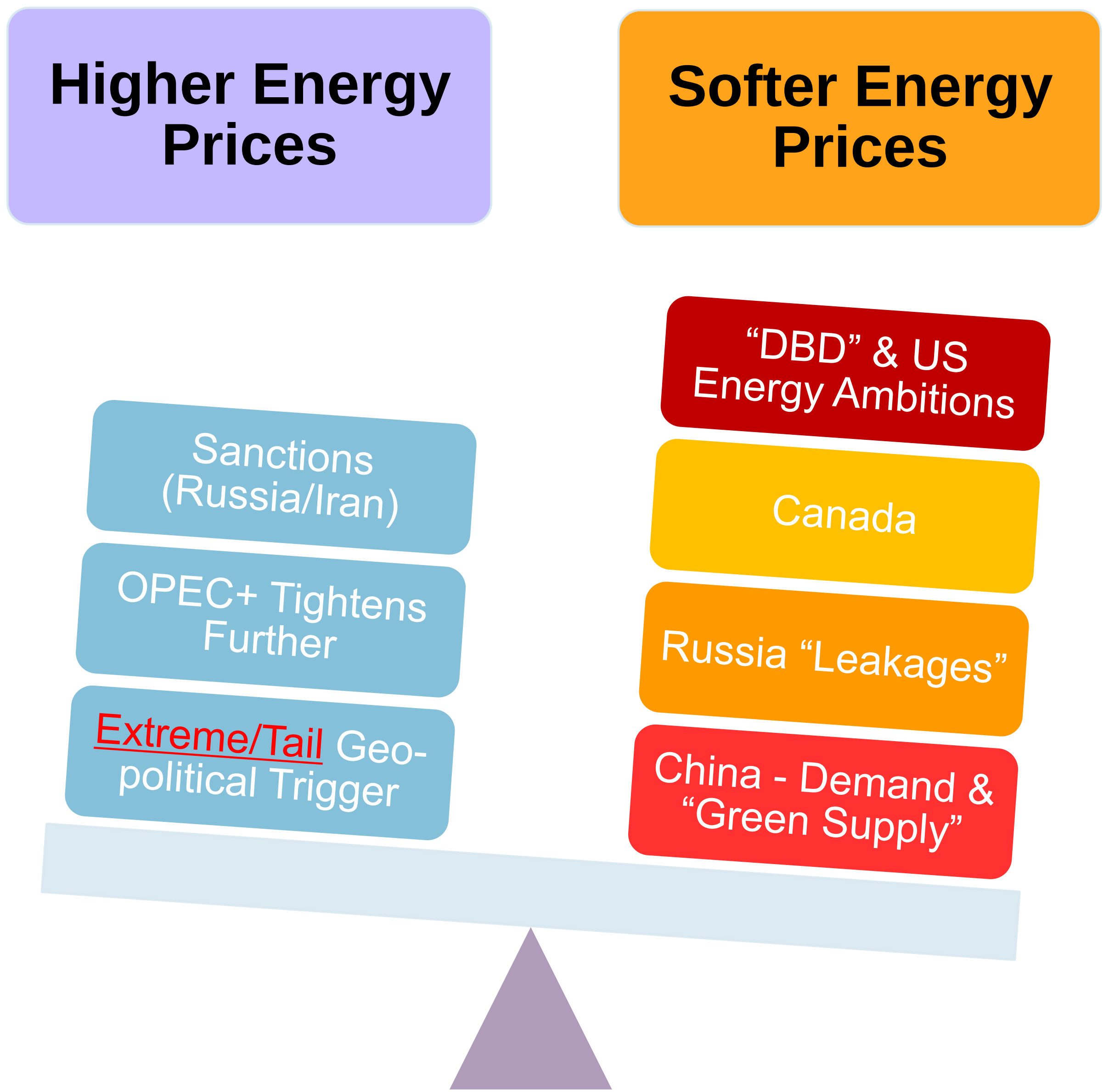
ii. Non-OPEC led Supply Offset: Second, the **of Russia's crude disruption** is likely to be offset elsewhere. OPEC has compelling spare capacity poised for (delayed) output bump-up. Crucially, non-OPEC production outside of Russia has grown significantly, and is set to be flush.

iii. "Leaky" Russian Oil Sanctions: Notably, the **sanctions could still prove "leaky"**. **Russia's oil leaching into global supplies** is **highly likely outcome** (and the lived experience). And with Russian oil **at an even deeper discount**, perversely ***blunting price upside*** from sanctions.

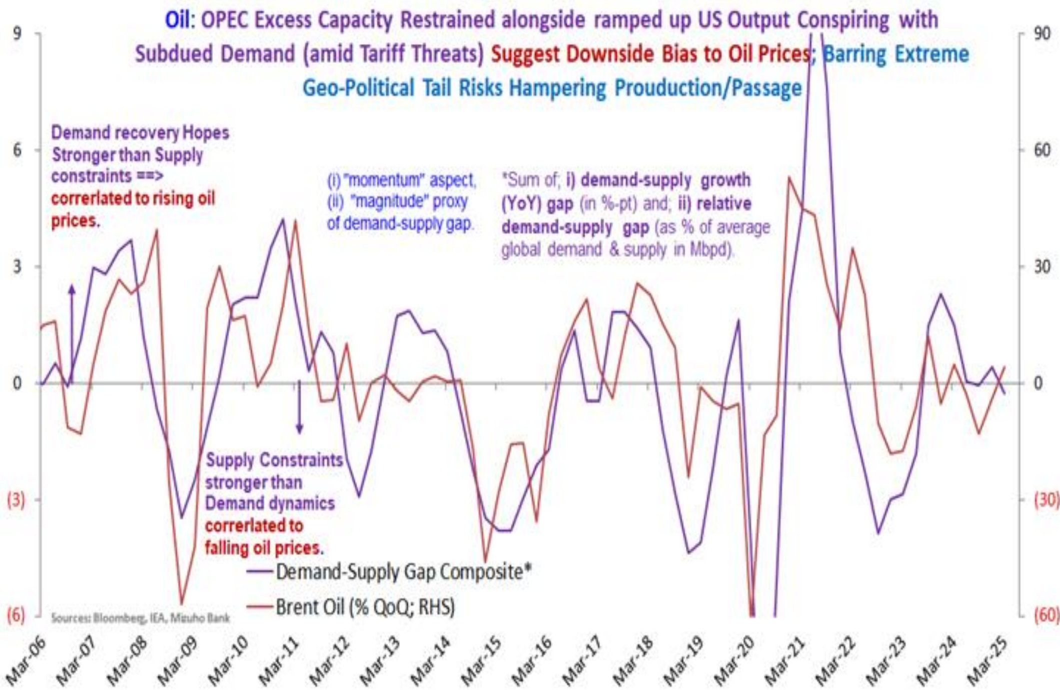
iv. US Energy Ascendancy: What' more, **US ambitions to materially lift energy output**, inevitably deepening and solidifying its position as a **net energy exporter** is yet another **critical dynamic to check unmitigated upside* in prices**.

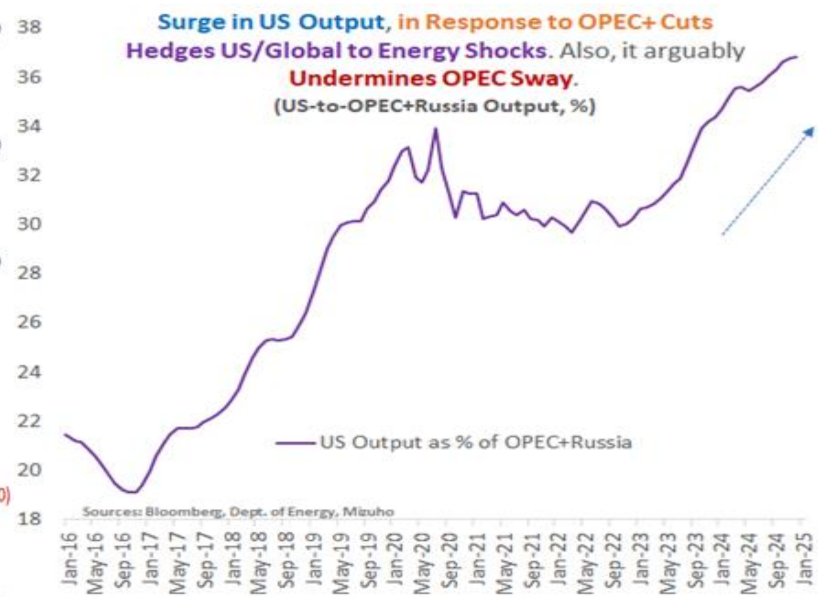
v. Beijing Buffer: On the demand-end, **China's inclination to stockpile during periods of softer prices**, provides the **strategic inventory buffer** to **dampen bullish oil impulses**. Especially as onshore demand recovery remains subpar.

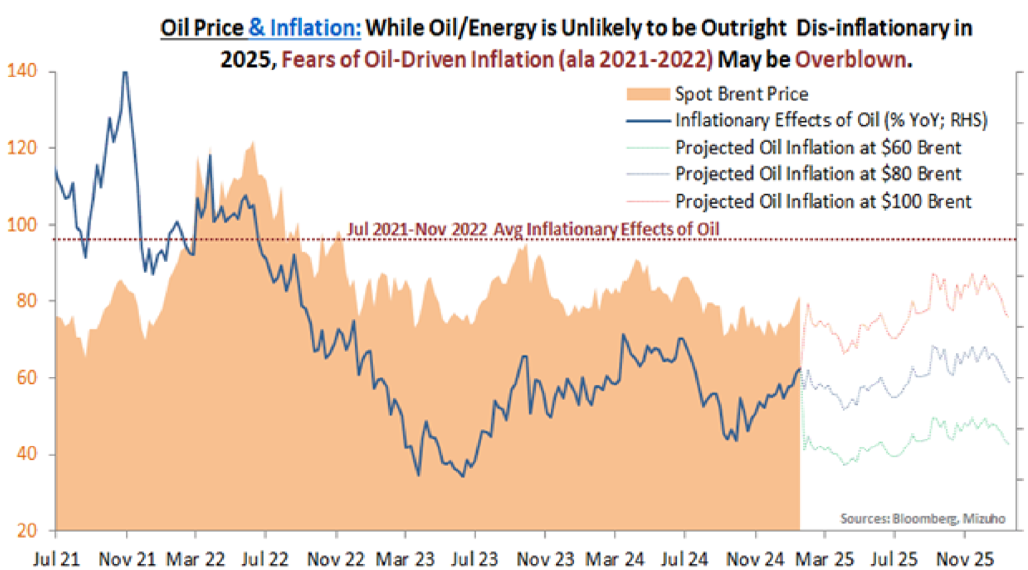
* Admittedly, US producers welcome price buoyancy, but the supply will subdue the extent of upside in prices, all else equal.



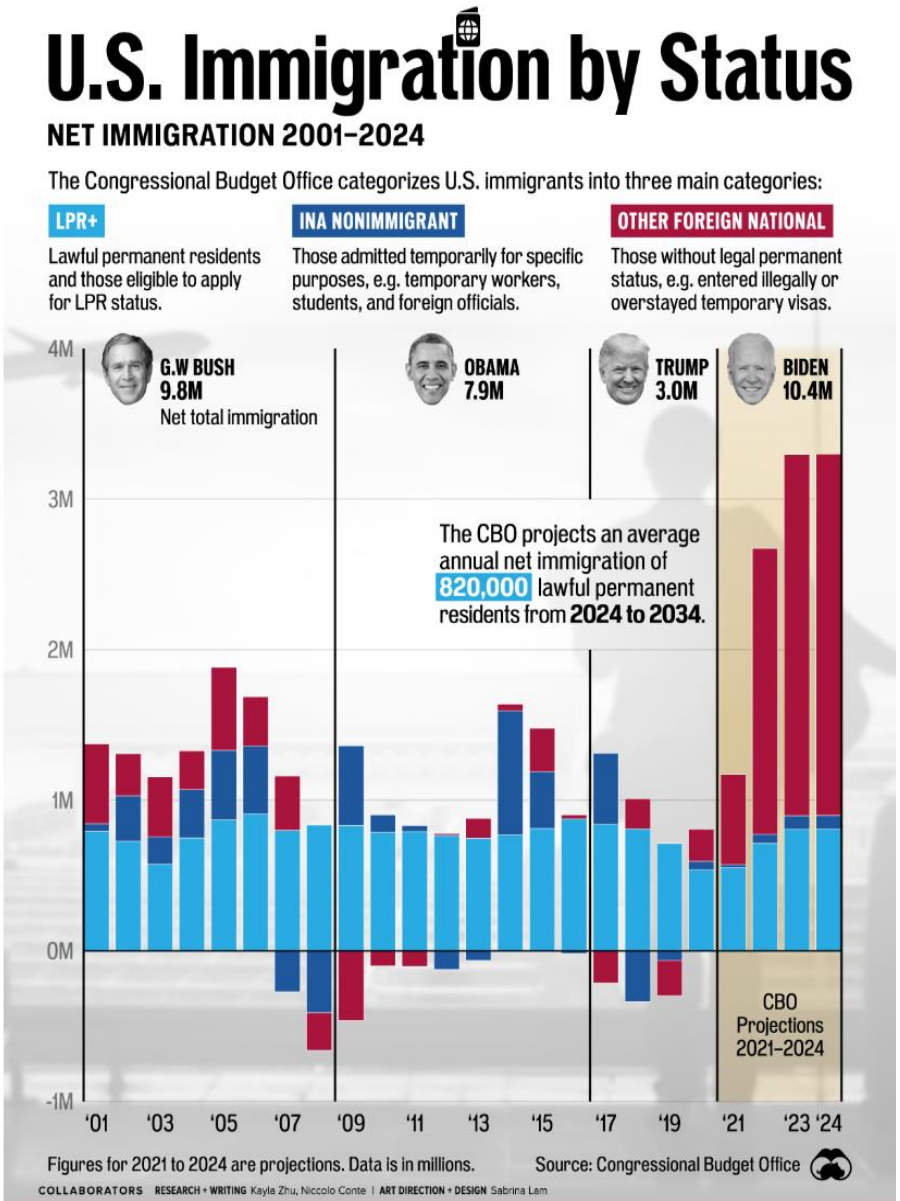
1a-ii. Oil: Despite Geopolitics, US Energy Ascendancy Ambitions may Overwhelm



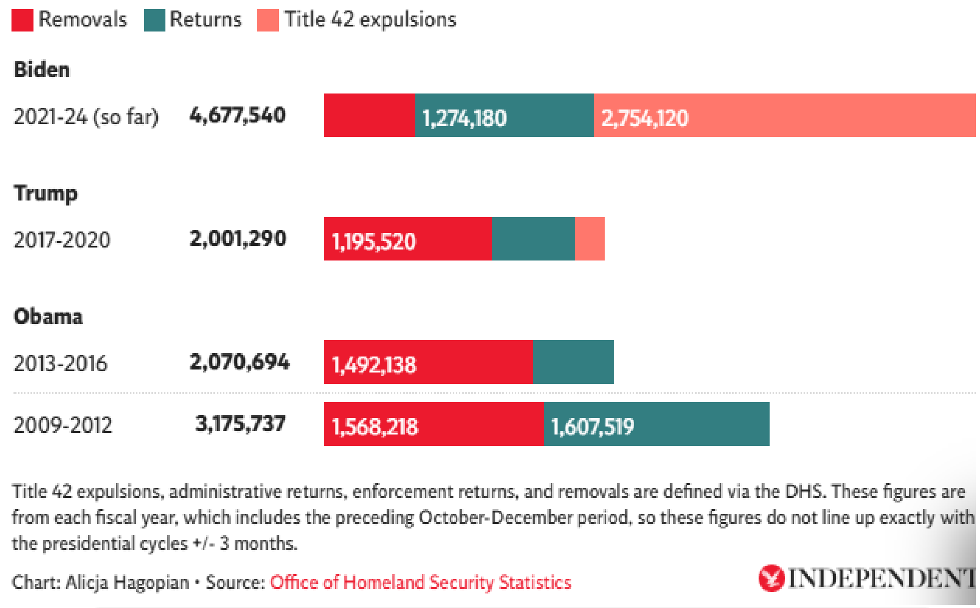




1b. Immigration ➔ Execution Matters. Ultimate Risks are Deflationary.



source: visualcapitalist.com



Box 1. Definition of Key Terms

Deportation: A non-legal term to describe immigration authorities' removal or the enforcement return of a noncitizen from the United States.

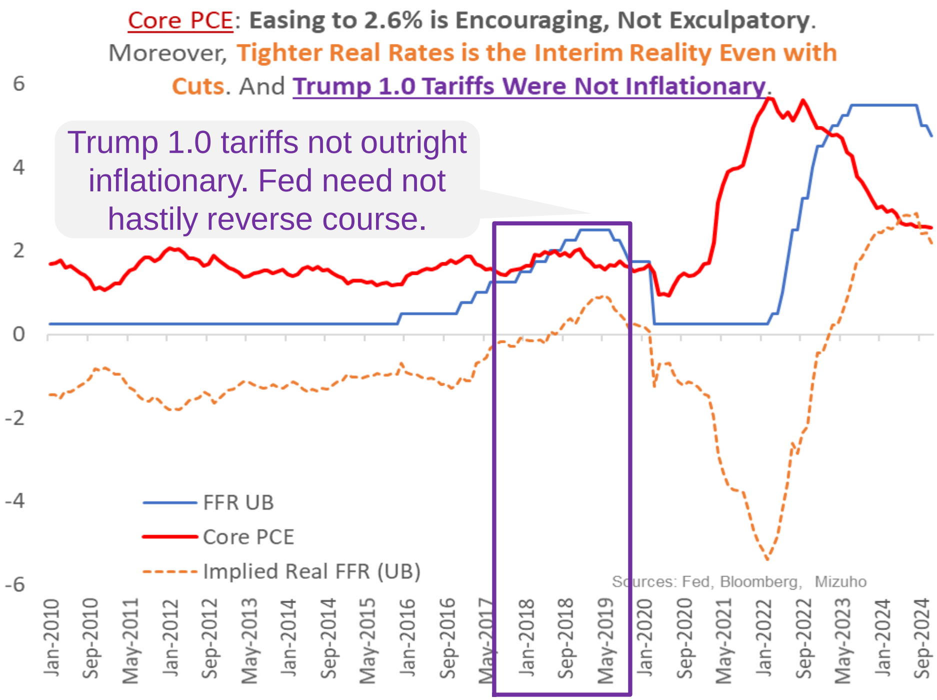
Expulsion: The mandatory automatic departure out of the United States of a noncitizen arriving without authorization, carried out while the COVID-19-era Title 42 order was in place from March 2020 to May 2023. Unlike returns, expulsions did not allow migrants to request asylum or other humanitarian protection.

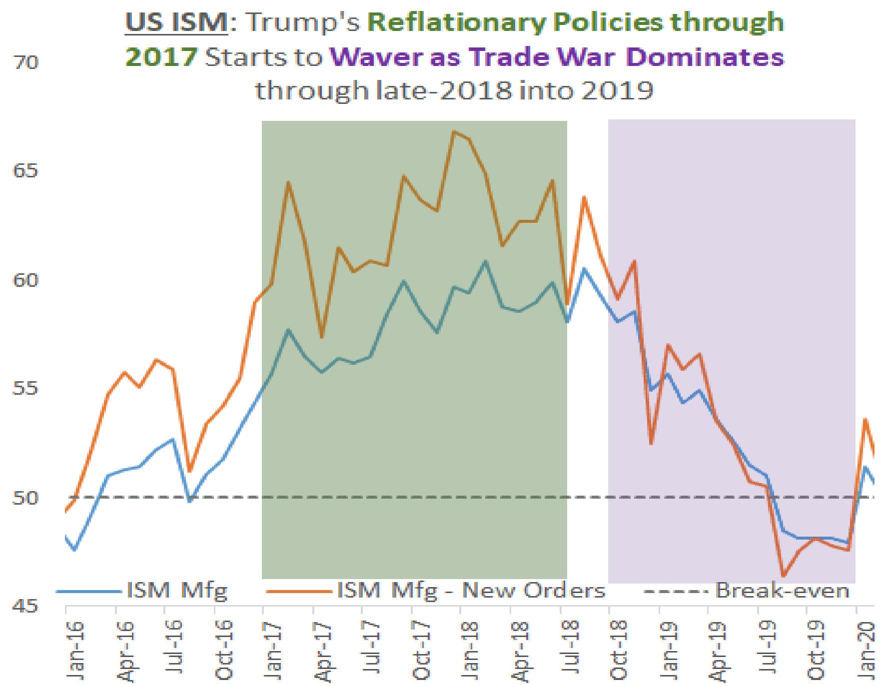
Removal: The mandatory departure of a noncitizen out of the United States based on a formal order of removal. Removals can happen from within the U.S. interior or at the border.

Repatriation: A term encompassing all departures by noncitizens from the United States, including removals, administrative and enforcement returns, and expulsions.

Return: The departure out of the United States of a noncitizen who has been granted voluntary departure or allowed to withdraw their application for admission at the border or at a lawful port of entry, such as an airport. Returns typically occur at a U.S. border. Returns can be either **enforcement returns**, such as of migrants crossing the border irregularly, or **administrative returns**, such as of migrants who withdraw their applications or foreign crewmembers lacking entry visas who are ordered to stay aboard their ships.

1c. In fact, Trump 1.0 Reveals Inflation Contained & Subsequent Demand Dent





Tariff Passthrough at the Border and at the Store: Evidence from US Trade Policy*

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University of Chicago

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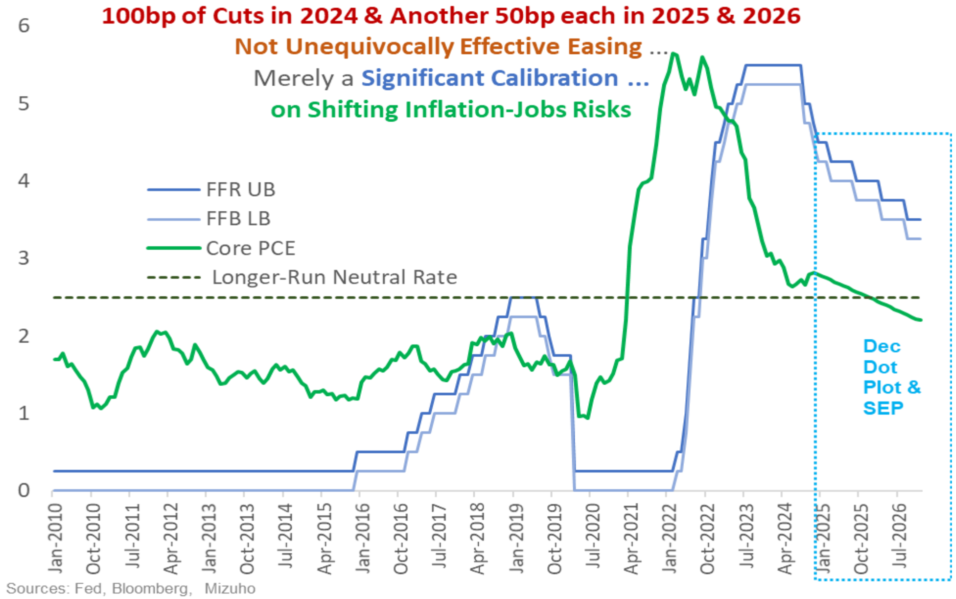
Federal Reserve Bank of Boston

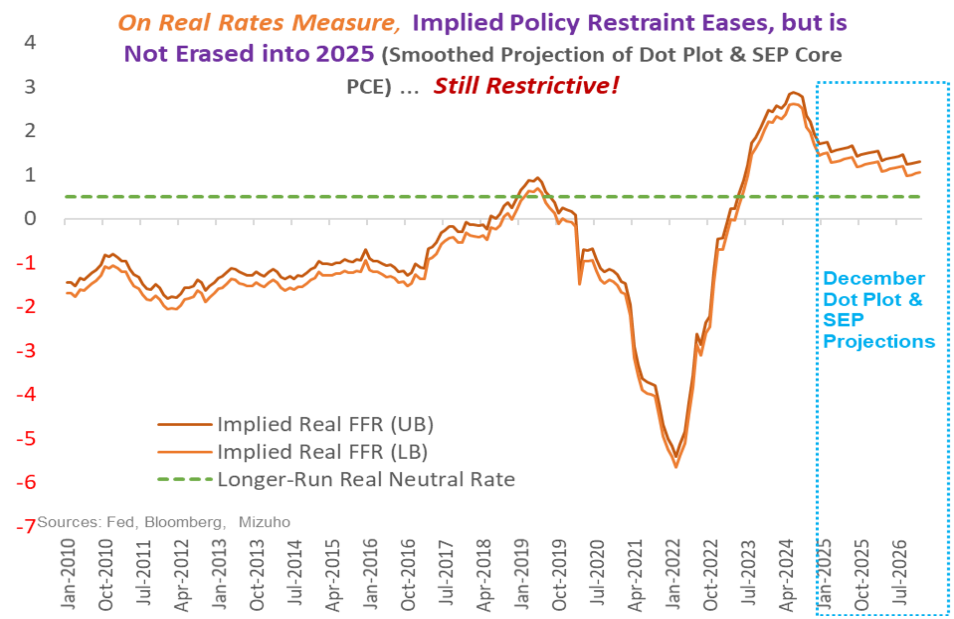
October 2019

Abstract

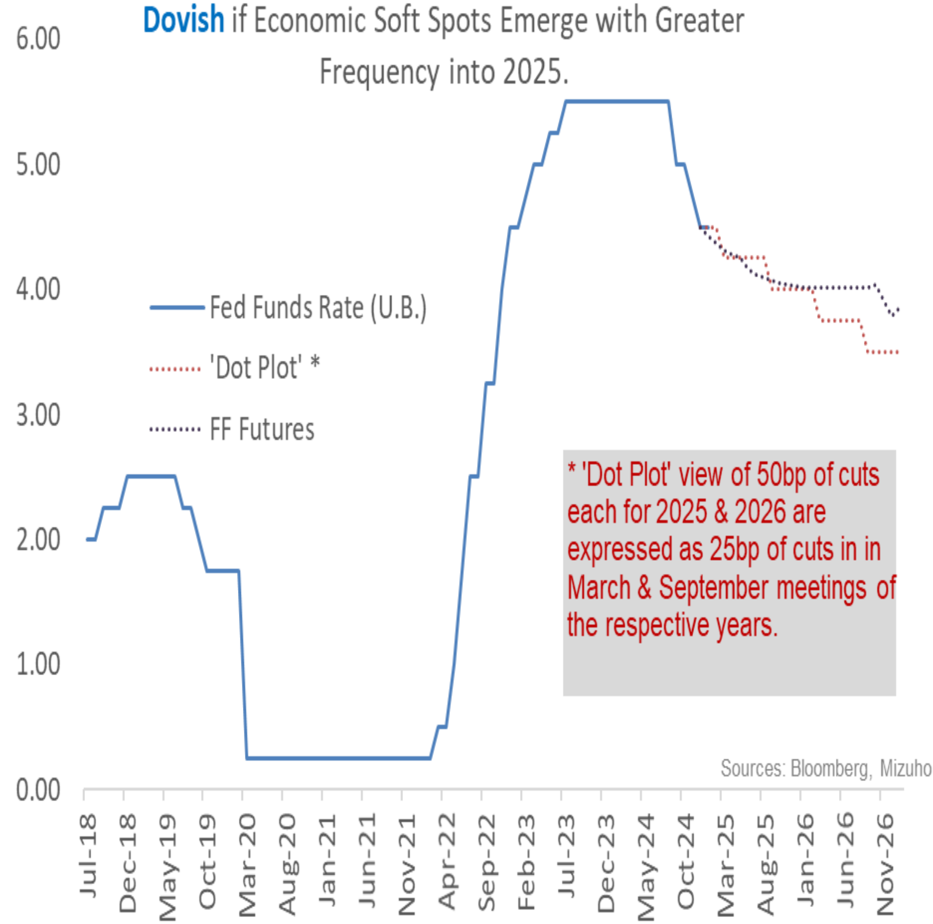
We use micro data collected at the border and at retailers to characterize the effects brought by recent changes in US trade policy – particularly the tariffs placed on imports from China – on importers, consumers, and exporters. We start by documenting that the tariffs were almost fully passed through to total prices paid by importers, suggesting the tariffs' incidence has fallen largely on the United States. Since we estimate the response of prices to exchange rates to be far more muted, the recent depreciation of the Chinese renminbi is unlikely to alter this conclusion. Next, using product-level data from several large multi-national retailers, we demonstrate that the impact of the tariffs on retail prices is more mixed. Some affected product categories have seen sharp price increases, but the difference between affected and unaffected products is generally quite modest, suggesting that retail margins have fallen. These retailers' imports increased after the initial announcement of possible tariffs, but before their full implementation, so the intermediate passthrough of tariffs to their prices may not persist. Finally, in contrast to the case of foreign exporters facing US tariffs, we show that US exporters lowered their prices on goods subjected to foreign retaliatory tariffs compared to exports of non-targeted goods.

2a. Fed's Restrictive Stance Leaves Scope for More Easing than the "Dot Plot" Suggests

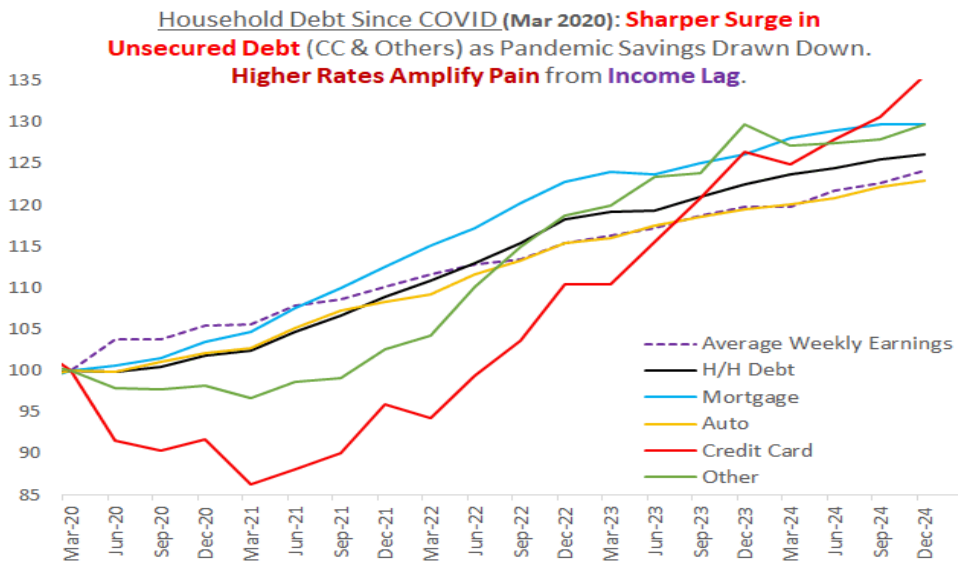




Markets Assume a More Hawkish Restraint than is Suggested by the 'Dot Plot'. Whereas the Surprise may be Dovish if Economic Soft Spots Emerge with Greater Frequency into 2025.



2b. Whereas US Household Cash-flow Constraints Threaten Demand Resilience



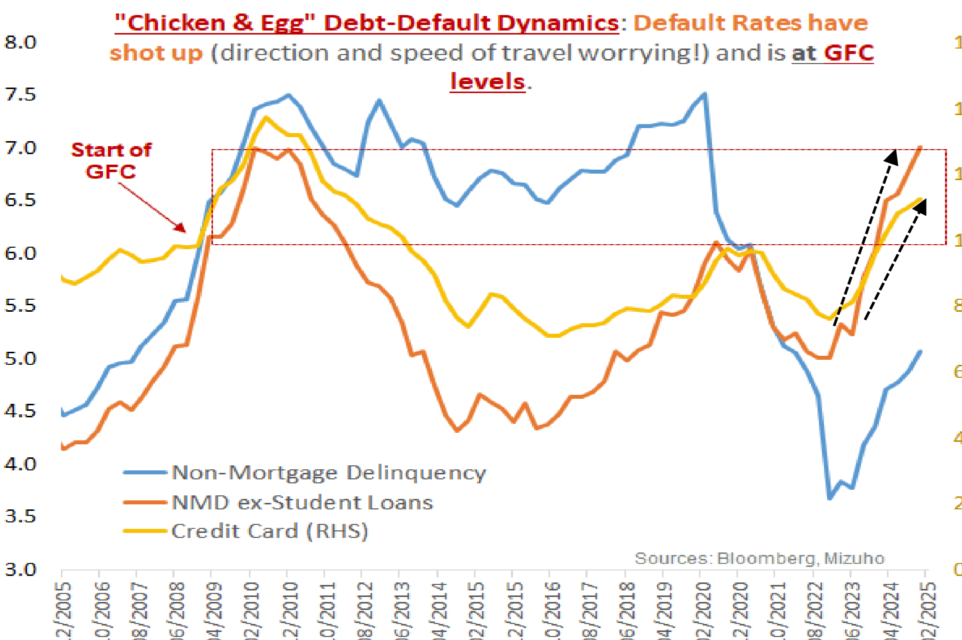
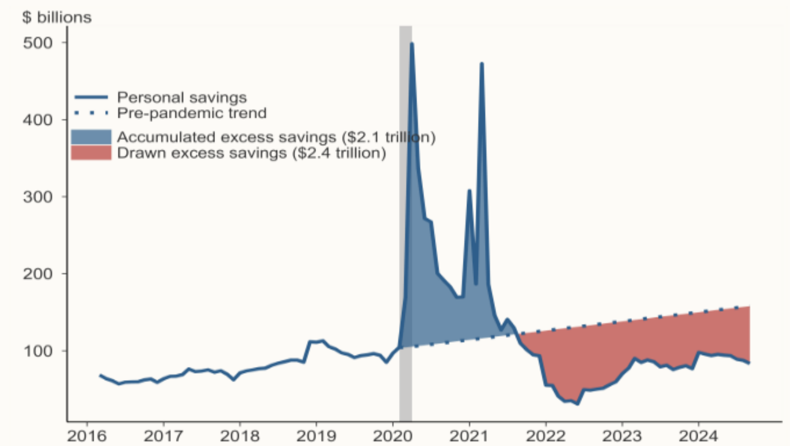
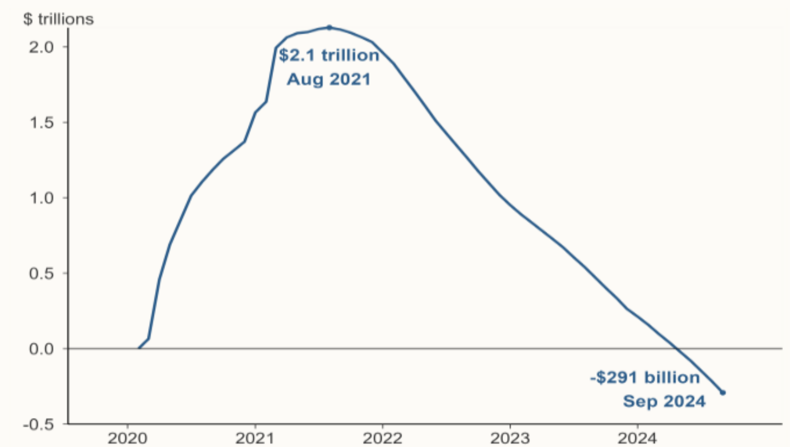


Chart 1: Aggregate personal savings compared with the pre-pandemic trend



Note: Gray shaded area represents NBER recession dates. Source: Bureau of Economic Analysis and authors' calculations.

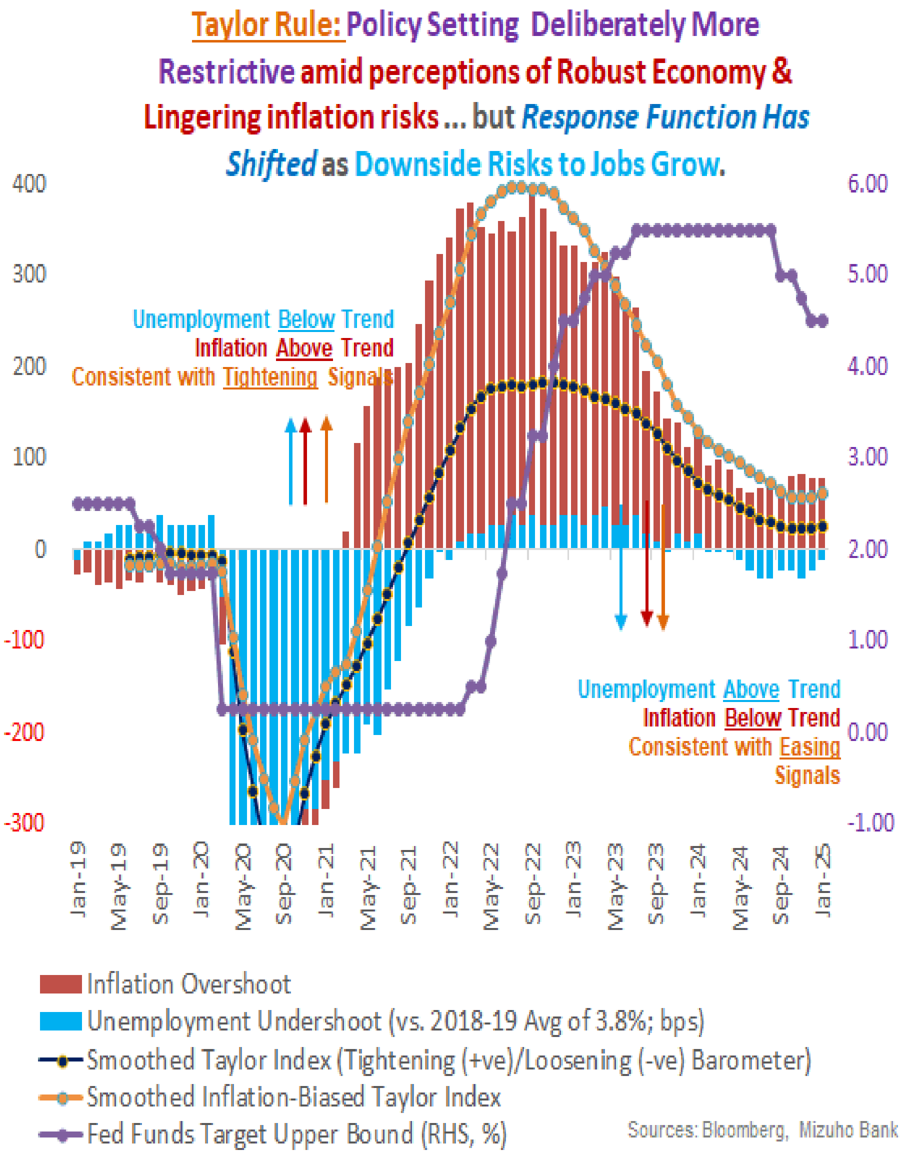
Chart 2: Cumulative aggregate pandemic-era excess savings

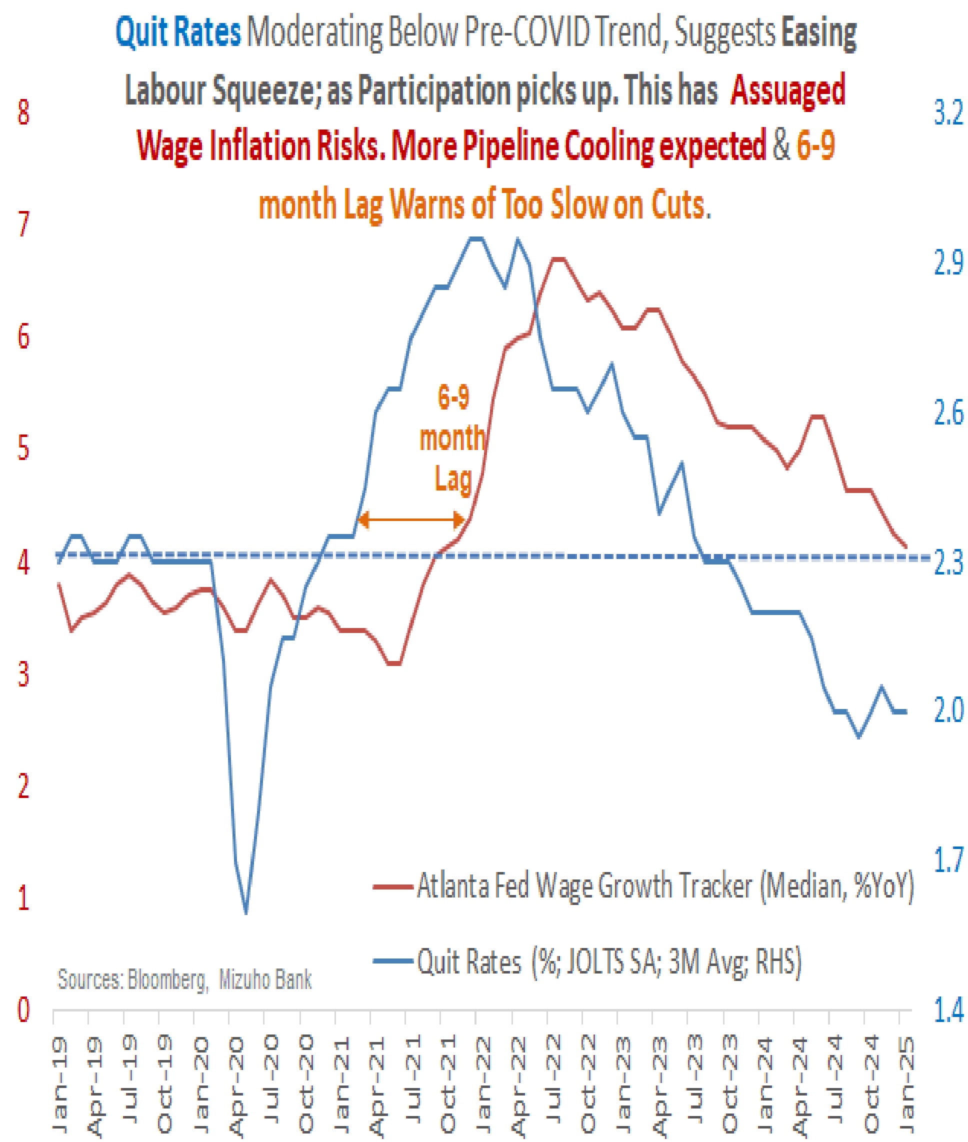


Source: Bureau of Economic Analysis and authors' calculations.

Chart from Bloomberg, San Francisco Fed,

2c. Especially as Tight Conditions Preside Over Softer Jobs-Wage Confidence





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2d. Front-Loading Not Necessarily Forestalling *"Too High for too Long"*

	End-2021	End-2022	2024				2025				2026	
			Q1 24	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25	H1 26	H2 26
Fed Funds Target Rate Ceiling	**0.25**	**4.50**	**5.50**	**5.50**	**5.00**	**4.50**	**4.50**	**4.00**	**3.50**	**3.25**	**3.25**	**3.25**
Fed Funds Target Rate floor	**0.00**	**4.25**	**5.25**	**5.25**	**4.75**	**4.25**	**4.25**	**3.75**	**3.25**	**3.00**	**3.00**	**3.00**
UST 2Y Yields	**0.73**	**4.43**	**4.62**	**4.75**	**3.64**	**4.24**	**4.05**	**3.62**	**3.26**	**2.93**	**2.77**	**2.83**
UST 10Y Yields	**1.51**	**3.87**	**4.25**	**4.40**	**3.78**	**4.57**	**4.36**	**4.11**	**3.88**	**3.68**	**3.60**	**3.65**
UST 10Y-2Y Spread (bp)	77.8	-55.1	-36.8	-35.7	14.0	32.9	31.0	48.6	62.0	75.0	82.8	82.0

Conditional

Pronounced Steepening

Sources: Bloomberg, Mizuho Forecasts

Front-Loaded 100bp in 2024 May Not Cut It
- The Fed's 100bp of cuts in 2024, initiated with 50bp Sep cut, **signals front-loaded easing**.
- But **real rates remain (too) elevated**. So early-2025 policy is more "skip" not "pause".

An Overly Hawkish (Dot) Plot for 2025-26
- Barring significant inflationary shocks, **50bp each for 2025 and 2026** is **too little *to insure "Goldilocks".***
- "Sticky" inflation merely tempers but doesn't derail path back lower "neutral".

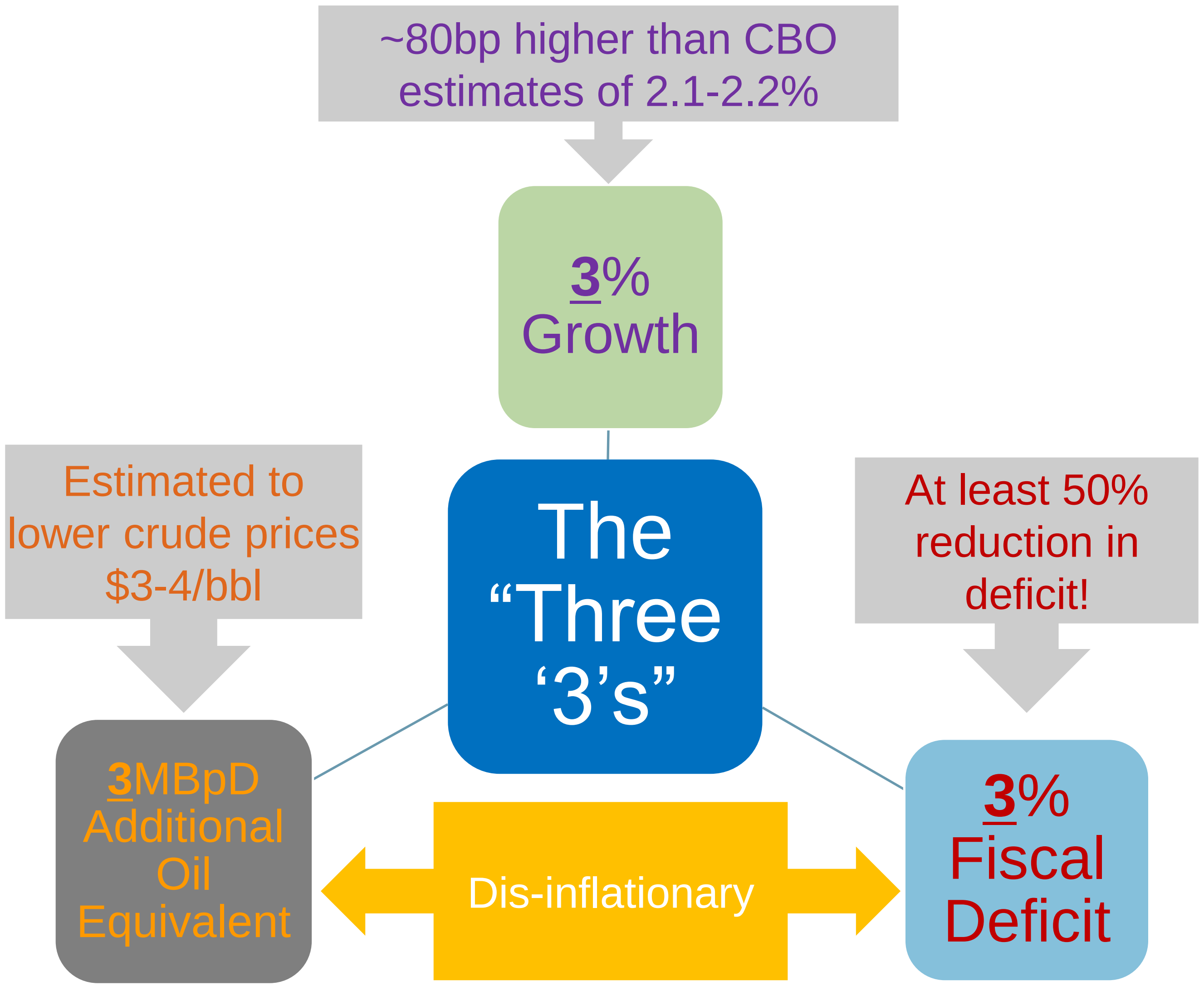
Rate Cuts to Cluster Around Mid-2025
- **Expect faster cuts into late-2025**, with some 75-100bp on the cards, to lower rates to ~3%.
- And then, some more by ~50bp later in 2025 if as *risks to soft-landing re-emerge* amid elevated real rates.

More Distinctly Dovish Leg Not Ruled Out
- **Scope for distinctly dovish 2025 back-end** *if jobs/demand deteriorate too sharp for a "controlled landing"*.

Premise: Consumer Slowdown, Not Crisis
- Deeper cuts are premised on **sharper consumption slowdown** as cash-flows tighten ➔ a ***not-so-soft landing***.
- And **not a crisis** from a *balance sheet shock* – for which far deeper and larger rate slashing will be required.

Outcomes: Lower Yields + Distinctly **Steeper Curve** + Long-end Fiscal Volatility

3a. The "Bessent Effect": A Dis-inflationary, Lower Yield Path to Higher Growth?



3b. Enough for Direction of Travel to Surprise … But Interest Rates Must Be Part of the Answer!

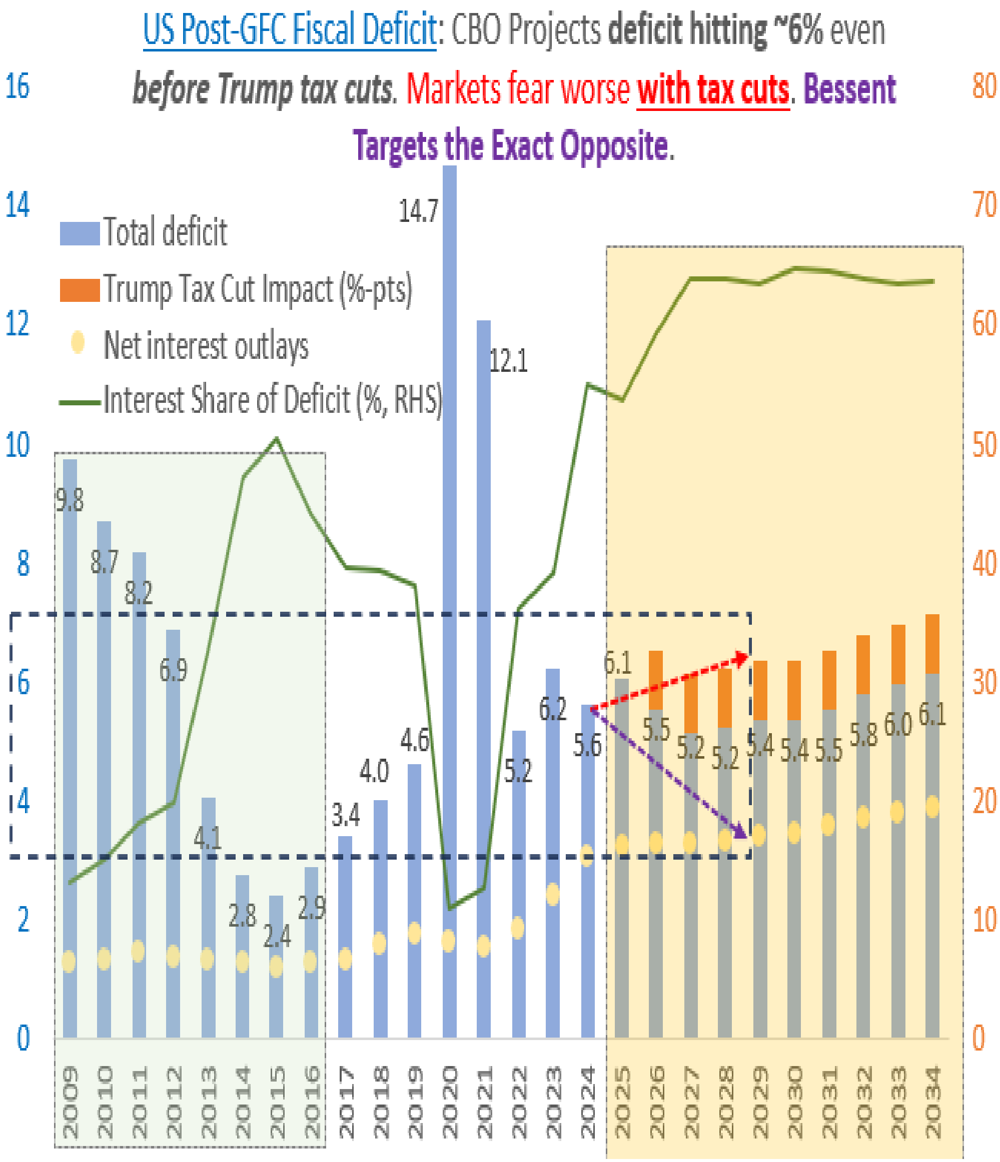
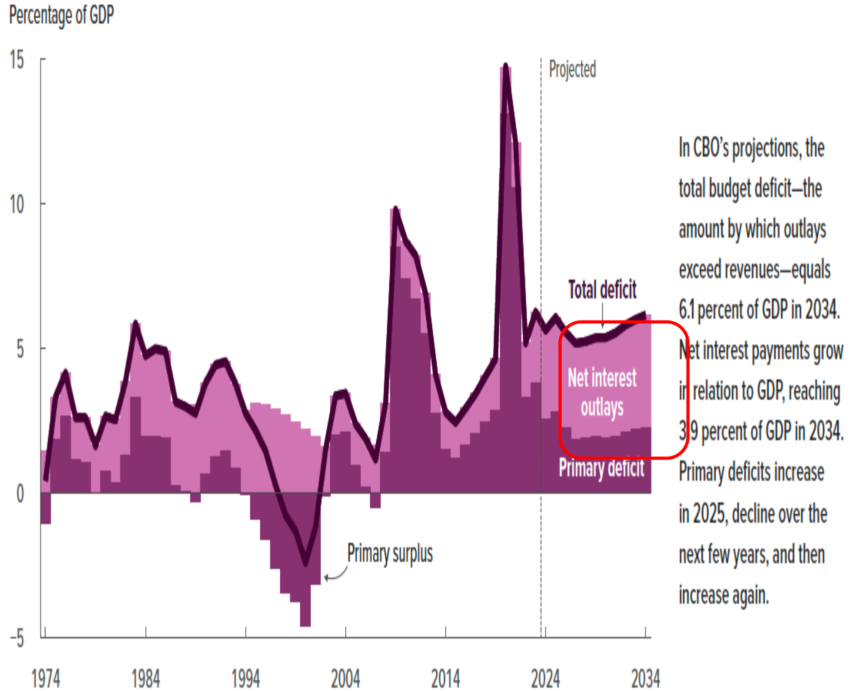


Figure 1-1.

Total Deficit, Net Interest Outlays, and Primary Deficit



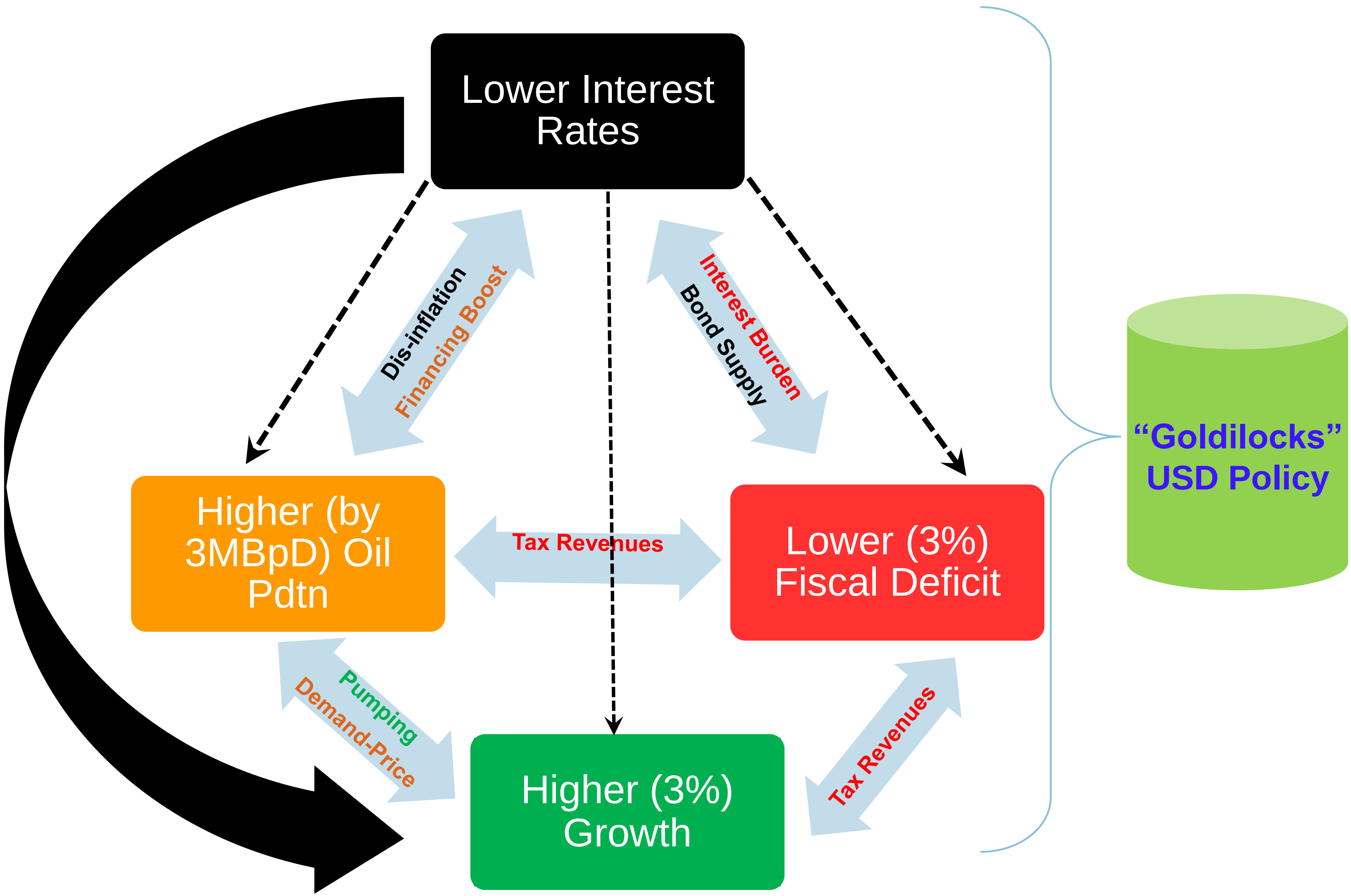
Data source: Congressional Budget Office. See www.cbo.gov/publication/59710#data.

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. All projections presented here have been adjusted to exclude the effects of those timing shifts. Historical amounts have been adjusted as far back as the available data will allow.

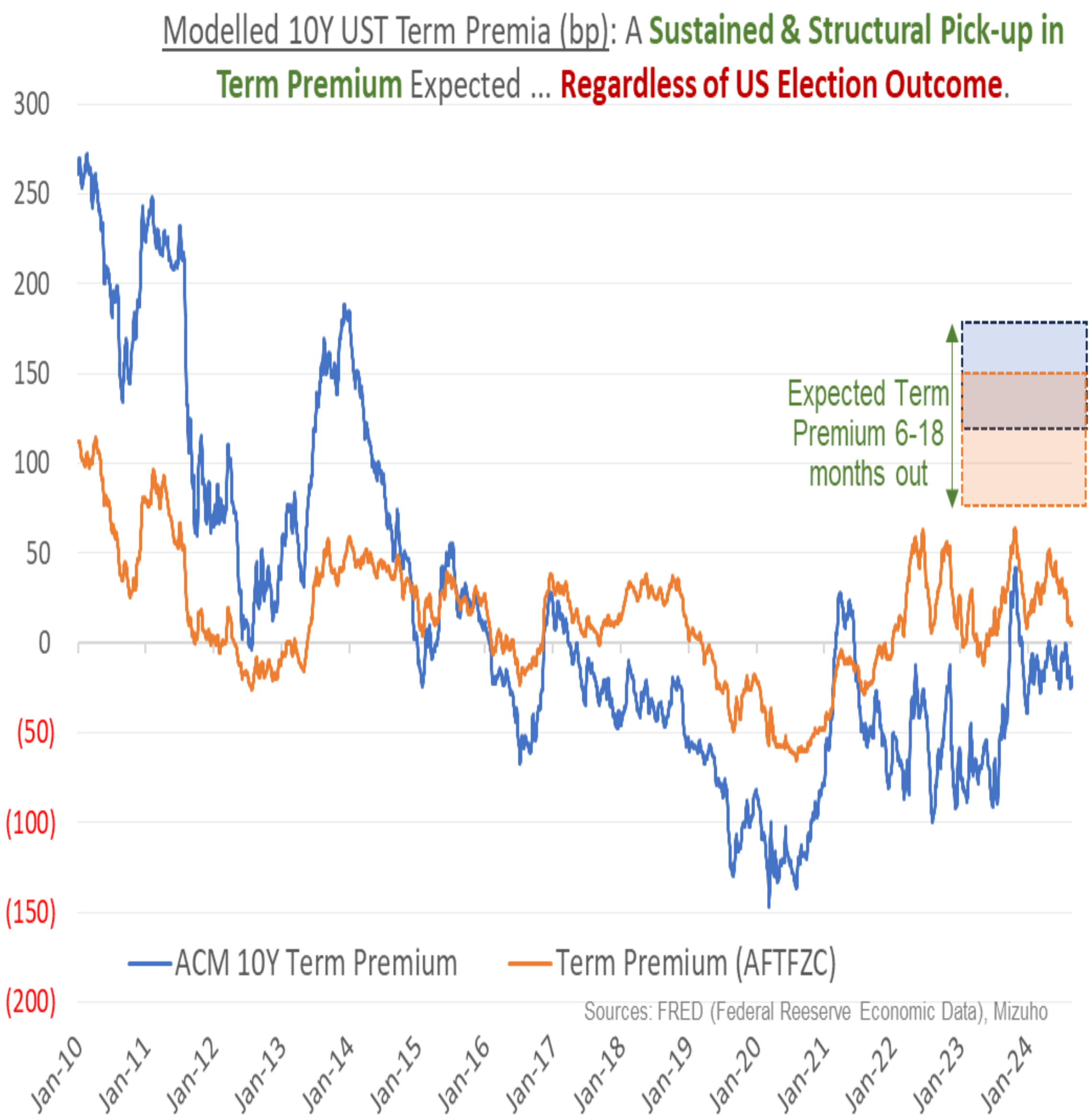
Primary deficits or surpluses exclude net outlays for interest. When outlays exceed revenues, the result is a deficit. In this figure, deficits and surpluses were calculated by subtracting revenues from outlays; thus, positive values indicate deficits, and negative values indicate surpluses. When outlays are subtracted from revenues, as recorded in the federal budget and in the tables in this chapter, negative values indicate deficits, and positive values indicate surpluses.

GDP = gross domestic product.

4a. Lower Rates as the "Bridge" to (& From) Three-3s ➔ The One Ring!



4b. Caveat is that the Structural View is for Higher Term Premium Beyond Cyclical Forces



Significant & Structural lift in term premium, accentuating the policy cycle buoyancy expected in longer-end yields (in re-steepening), a key macro risk

i) Inflation Expectations: Up & Uncertain?

- First, **structurally higher inflation**, associated with *de-globalization threats that feature antagonistic US-China geo-politics**** colliding with *"green-flation"*.

ii) Geo-Political/Social Costs Termed Out

- Moreover, ***conflict/geo-political tensions raising longer-end bond supply globally***, *exacerbated by a more isolationist and less predictable US,* **feature in the term structure via higher volatility expectations**.

iii) Debt, Debasement & Dollar

- ***Crucially***, **dramatically increased, but harder-to-time, USD debasement risks** *from burgeoning debt,* may emerge as **pronounced UST term premium.**

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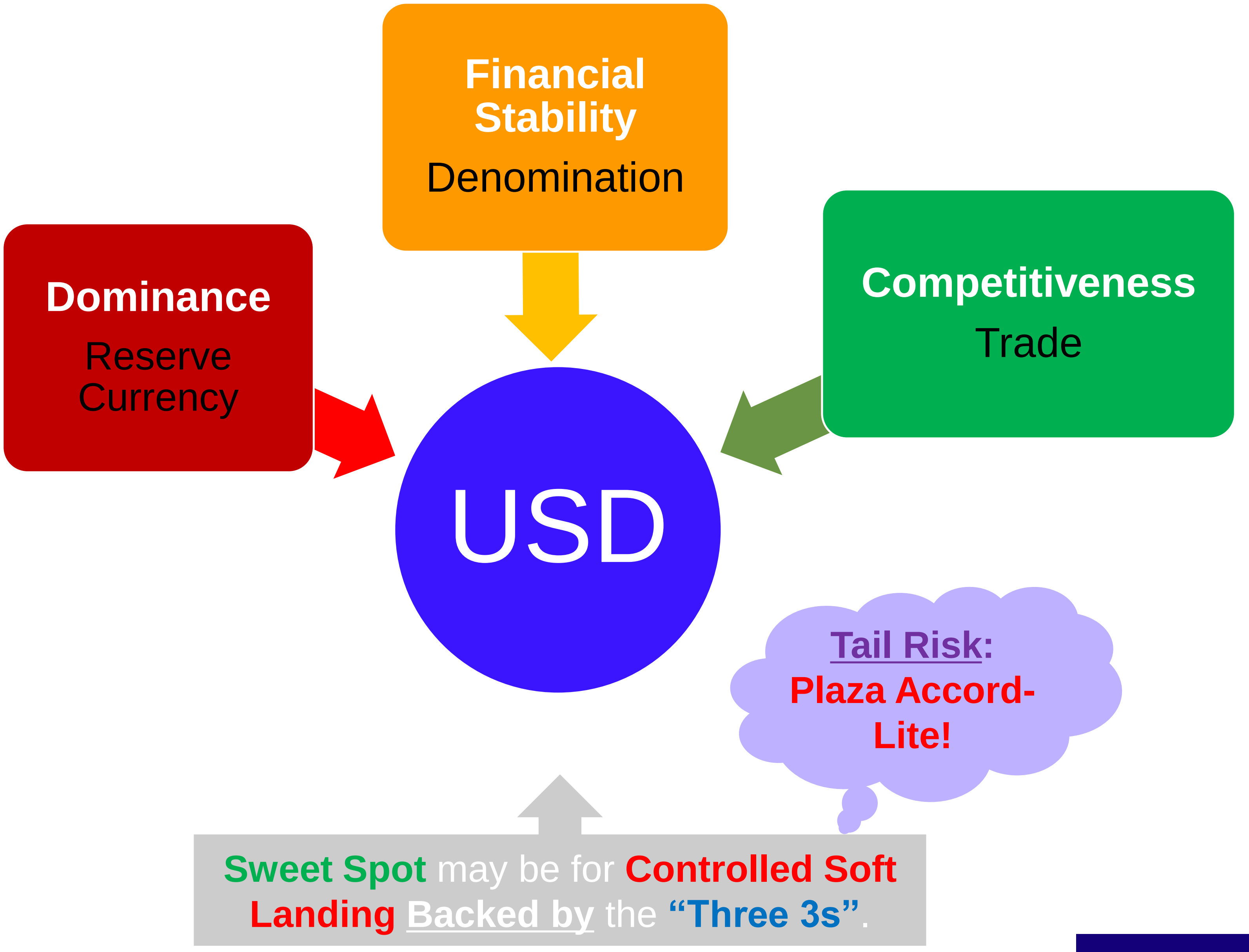
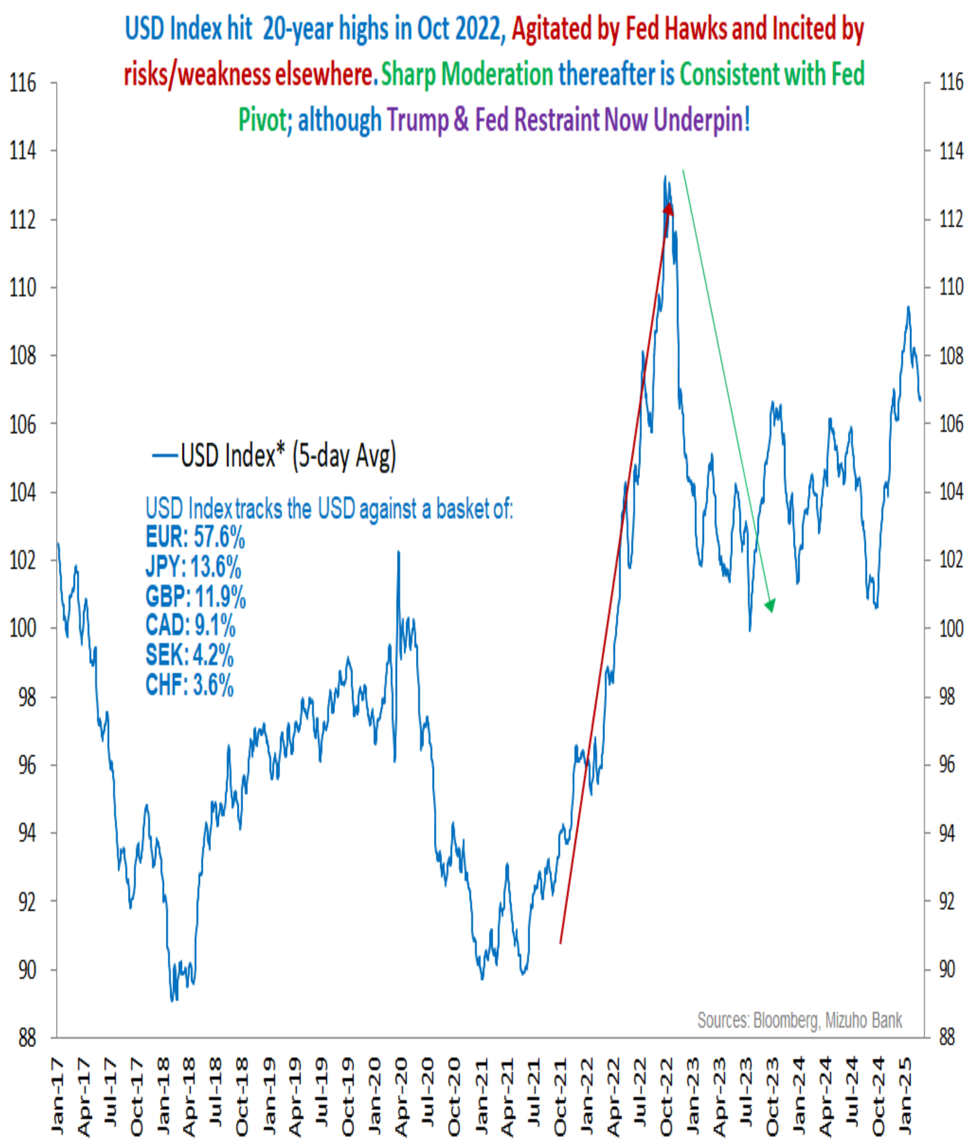
USD Policy Tensions → Soft-Landing for USD → Cool, Not Crash



5a. USD to Mellow: As a Conspiracy of Fears Subside & Fed Relents



a. Condition 1 – Fed Cuts Significantly (More than Expected): Despite the downgrade to the number of cuts (to 2 from 4) into 2025, the **Fed could deliver more cuts**. Especially as *US economic exceptionalism may turn out to be overstated*. Moreover, the *US may not be entirely unscathed by the trade conflict* that is intended as a core part of Trump 2.0 policies. Finally, the *Trump 2.0 reflationary expectations* (so-called Trump-flation) prove to be a *lesser risk in terms of constraining Fed easing*.

b. Condition 2 – Trade War Bark is Worse than the Bite: Furthermore, the **most extreme demand destruction risks associated with Trump 2.0 trade tariffs prove to be overblown** as the Trump administration dials back trade antagonism (and tariff rates) as negotiations progress. This *unwinds some of the more acute currency damage* to trading partners (e.g. MXN, CNY, CAD, EUR, etc.). And as a corollary, **exaggerated** (and perverse) **USD bullishness** *deriving from adverse trade risks* **subside**.

c. Condition 3 – China Stimulus/Support Sufficient to Avert CNH Sell-Off: Finally, sharp CNY pressures are alleviated by more encouraging China stimulus put in place to backstop the economy and insure against more destabilizing CNY outflows. In turn, this lends some support, if not scope for (partial) recovery for AXJ more widely. This is a precondition for AXJ to be better positioned to exploit measured (albeit not a full) USD pullback. Although non-reversion to pre-Fed hike levels will likely still apply, as USD retains some of the structural/geo-political advantages.

Global FX Assumptions: USD Bulls – Trade & Trading Volatility

	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026
DXY	108.5	106.2	104.3	102.8	99.5	100.6
	100.7-108.5	102.5-110.8	99.0-108.8	98.8-105.8	97.5-104.3	96.0-103.8
Brent Crude (US$/brrl)	72.0	68.5	64.5	61.5	65.5	63.8
	68.5-82.5	63.5-78.8	60.5-72.5	57.5-69.6	58.5-72.5	58.5-70.5

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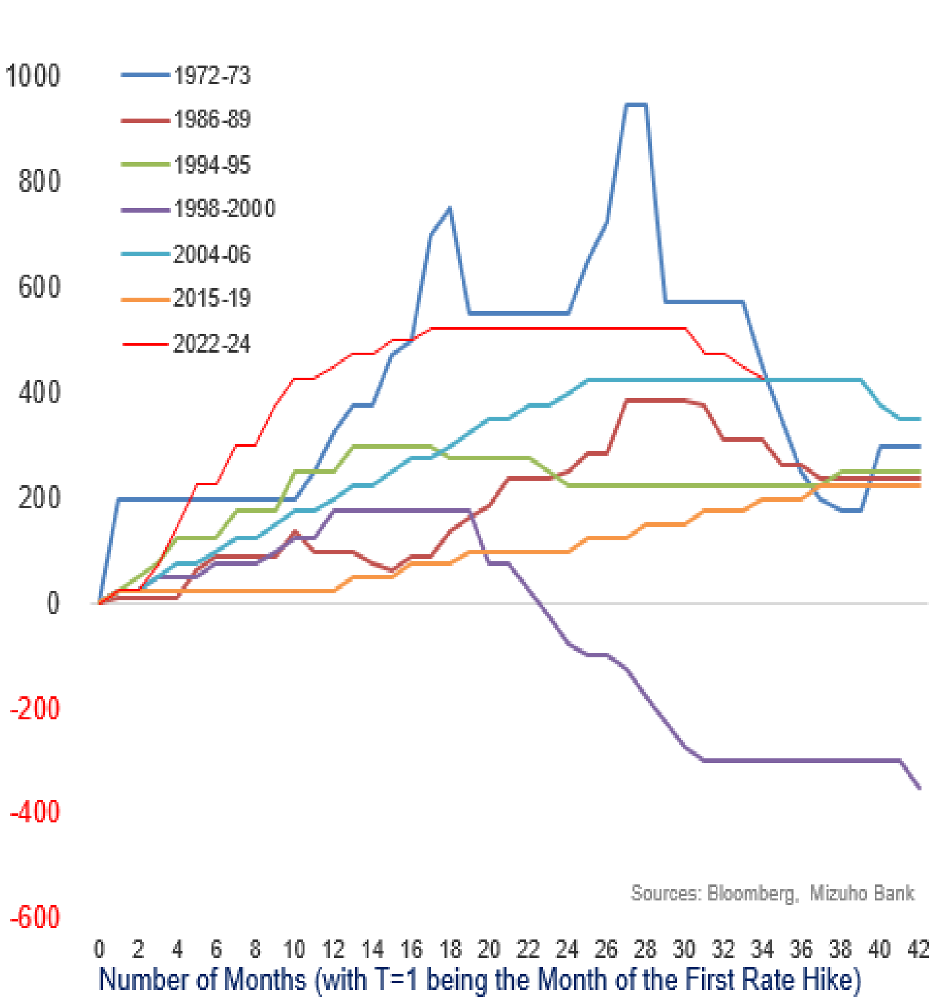
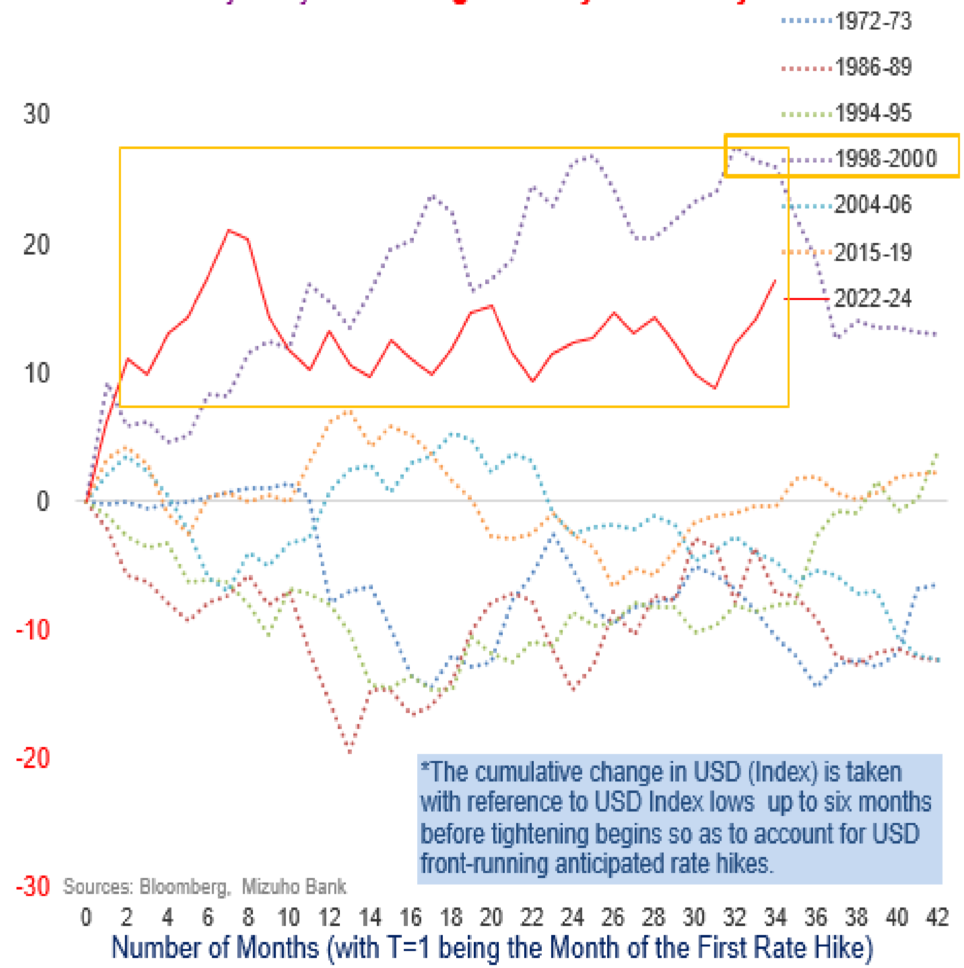
5b. USD: Atypical Late-Stage USD Strength

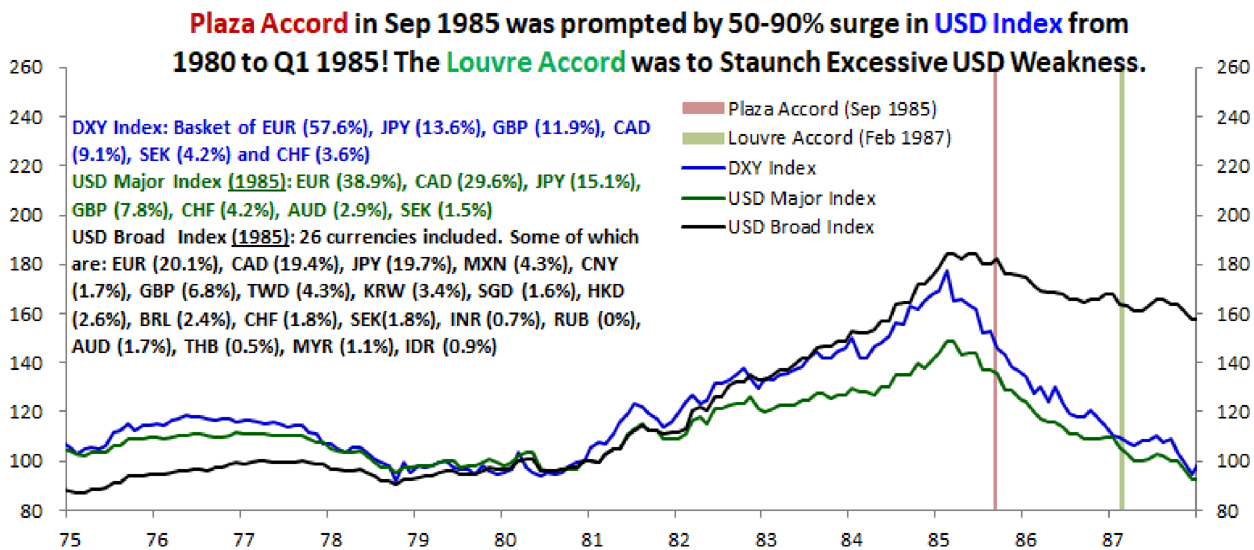
Fed Hiking Cycle (Cumulative Rate Hikes; bp): **Although not the Greatest Amplitude of Rate Hikes** (1970s More Brutal, with >700bp of Hikes), **this Cycle Marks the Fastest Pace of Hikes; 525bps Over 17 Months.**

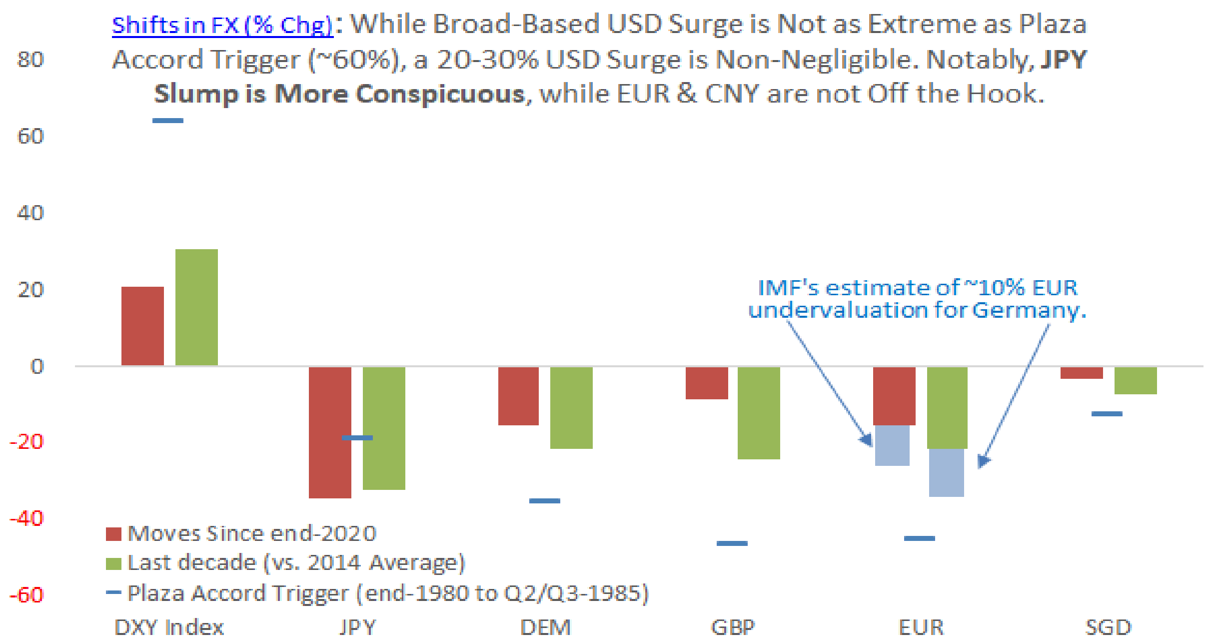


Corresponding USD Performance (Cumulative % Chg*): **Notably, the Current Rate Hike Cycle Has Resulted in the Sharpest Phase of USD Strength in the First 8-9 months**; moderating below corresponding 1998-2000 Trajectory but **still significantly more buoyed**.



Tail Risk – "Trump Plaza" (Accord)





- A **Plaza Accord-type reflex** from the Trump Administration is *admittedly* **a "tail risk"** (*of extreme consequence but very low probability*).

- Especially given **broad-based currency valuations** (vis-à-vis the USD) ***have not diverged as violently as compared to the 1980-1985 Plaza Accord run-up***.

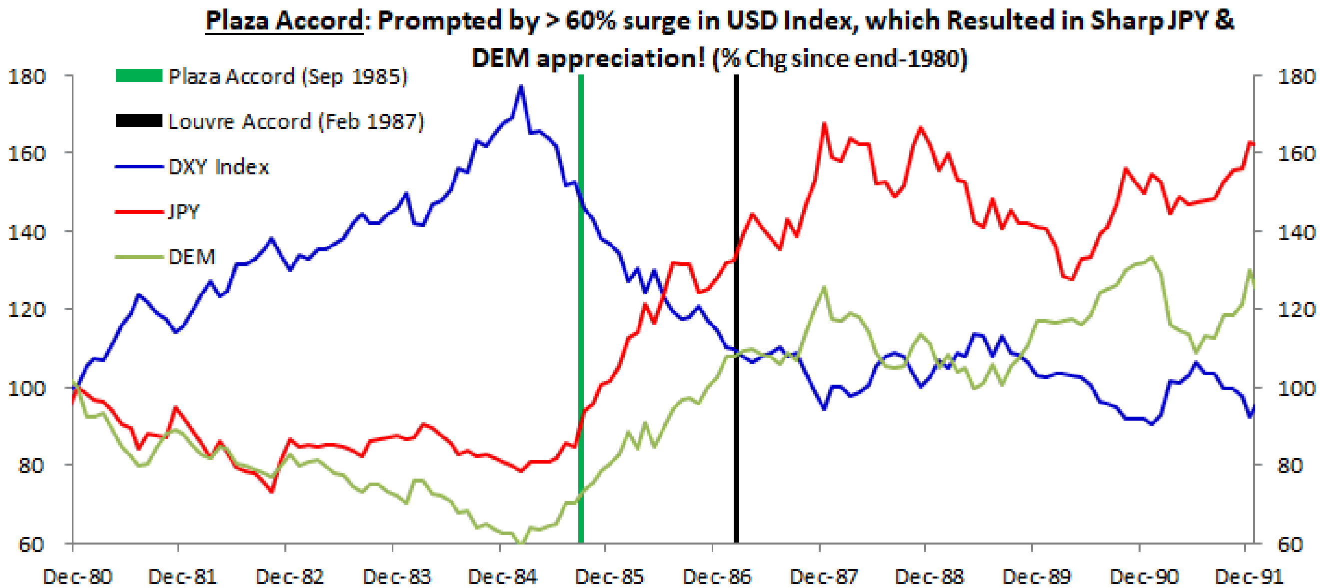
- **Nonetheless**, coordinated policy action to revalue major currencies (JPY, EUR) higher (and soften the USD) **cannot be dismissed summarily**.

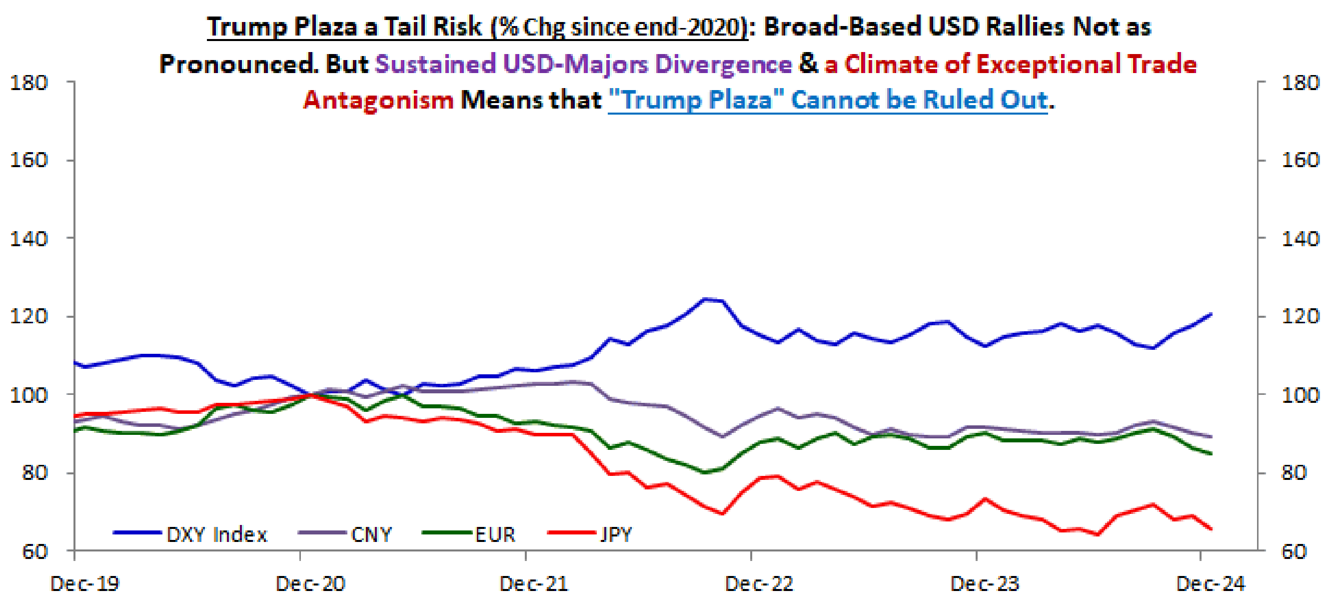
- Not *when global trade antagonism is exceptionally elevated* amid US tariff threats.

- **Perversely**, *currency pressures* on US partners *from* **tariffs threats** may **increase the odds of a "Trump Plaza" outcome**.

- Upshot: With **JPY exceptionally undervalued**, *USD significantly stronger* (on broader measures) and the *US intent on forcefully correcting trade imbalances*, **nothing is off limits**.

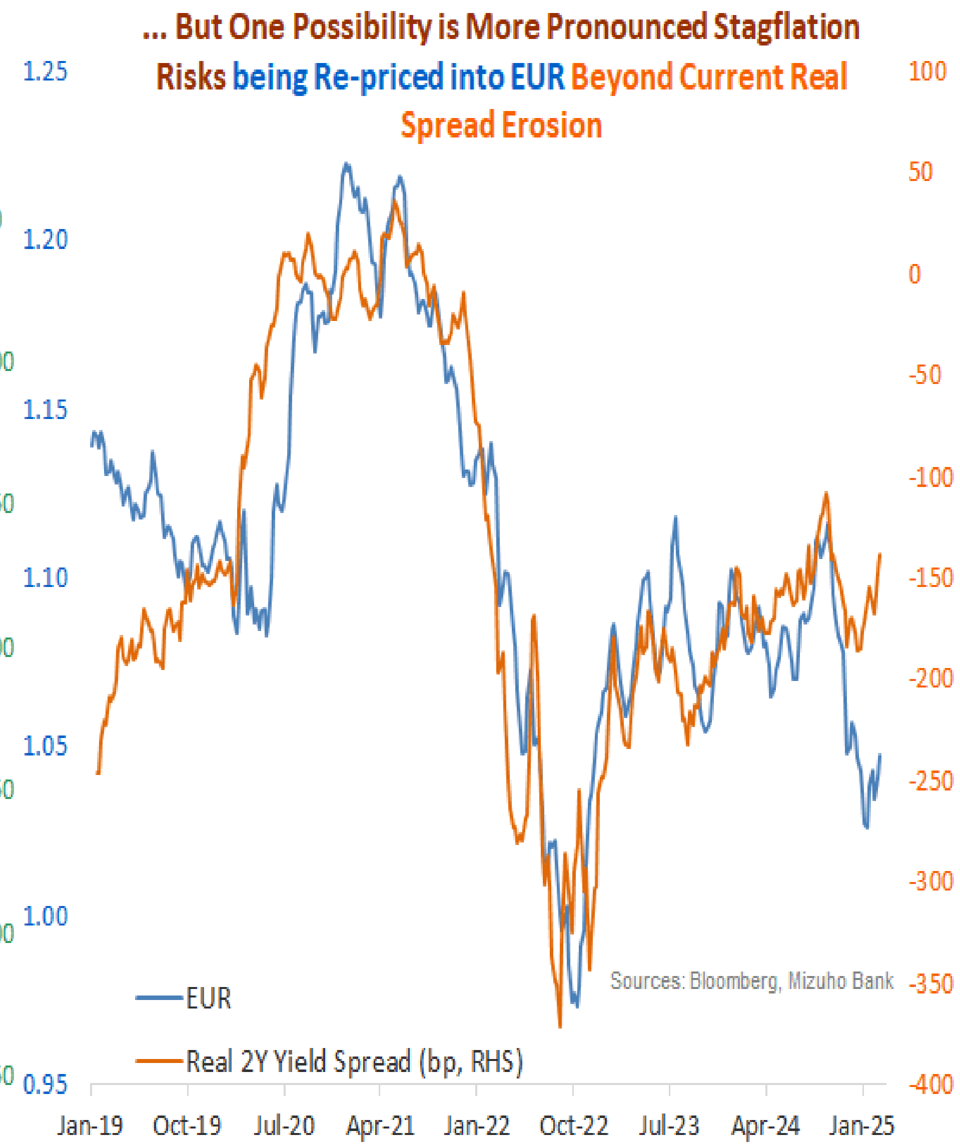
Tail Risk: Perversely Increases with Trade Antagonism (which typically Pressures AXJ)





- Especially **insofar as a carefully managed calibration of currencies** (vs. USD) **helps to achieve the USD's dual objective** of an *uncontested reserve currency* yet *sufficiently competitive*.
- ***While certainly not the first resort***, there is **an identifiable path to Trump Plaza** (Plaza Accord 2) **amid heightened geo-economic tensions**.
- If this comes to bear, the ***sharpest appreciation shocks may come through the JPY*** with **significant collateral damage** *to Nikkei and risk sentiments amid "carry unwind"*.
- ***AXJ assets could inevitably be swept up in volatility*** *and* ***pressured****. Although opposing FX (appreciation) forces via JPY and CNY cues will obfuscate the "end game".*

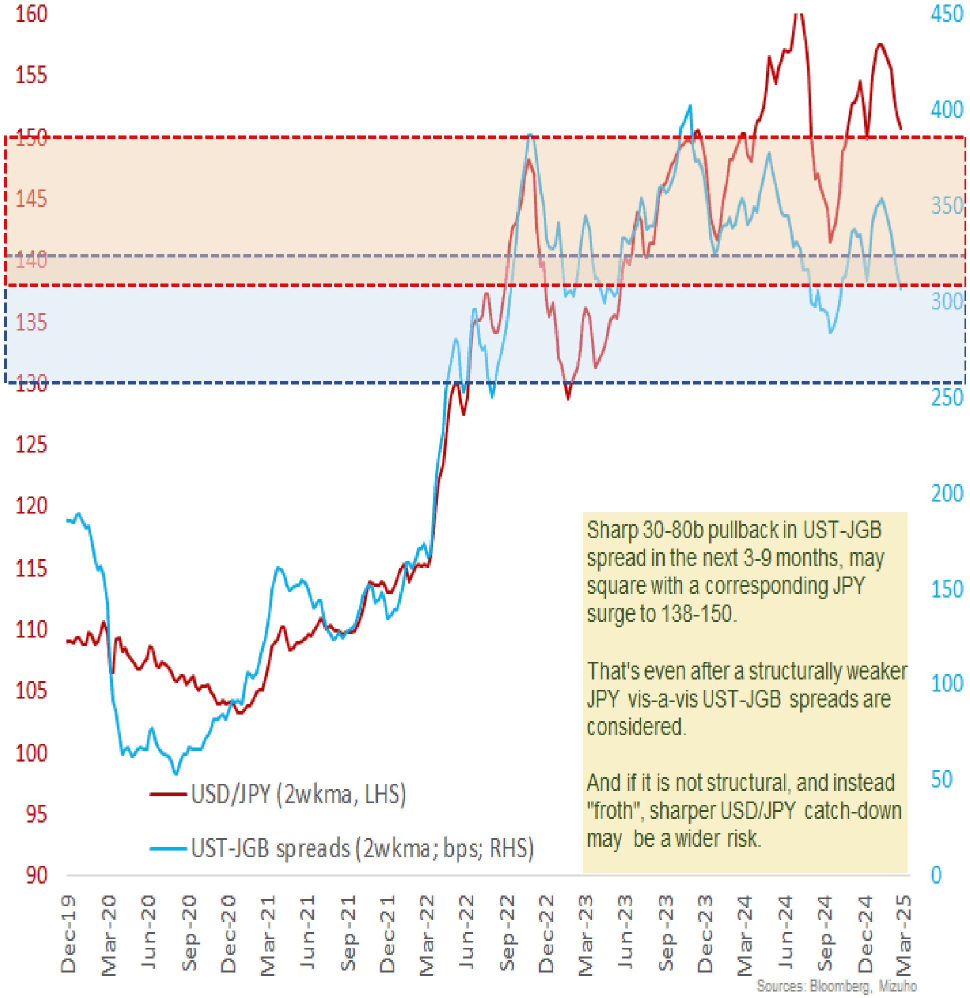
5c. Whereas, EUR is Compromised. So, USD May be Tempered



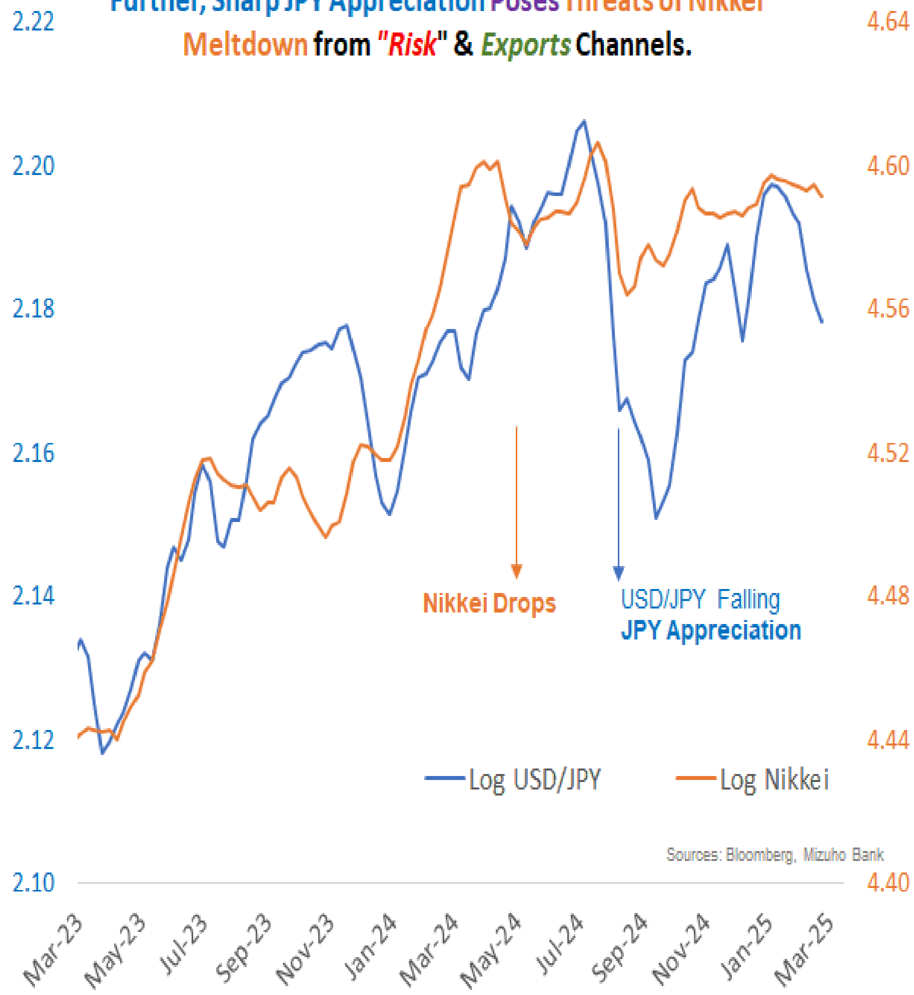
5d. FX - JPY-BoJ Risks: Trump 2.0 Heightens Inherent Volatility & Emboldens "Carry" for Now

1. "JPY Problem with a Fed Solution" Distorted by Trump 2.0 Disruptions
2. Fed Doubt & Trade pain may inflict bouts of JPY sell-off initially

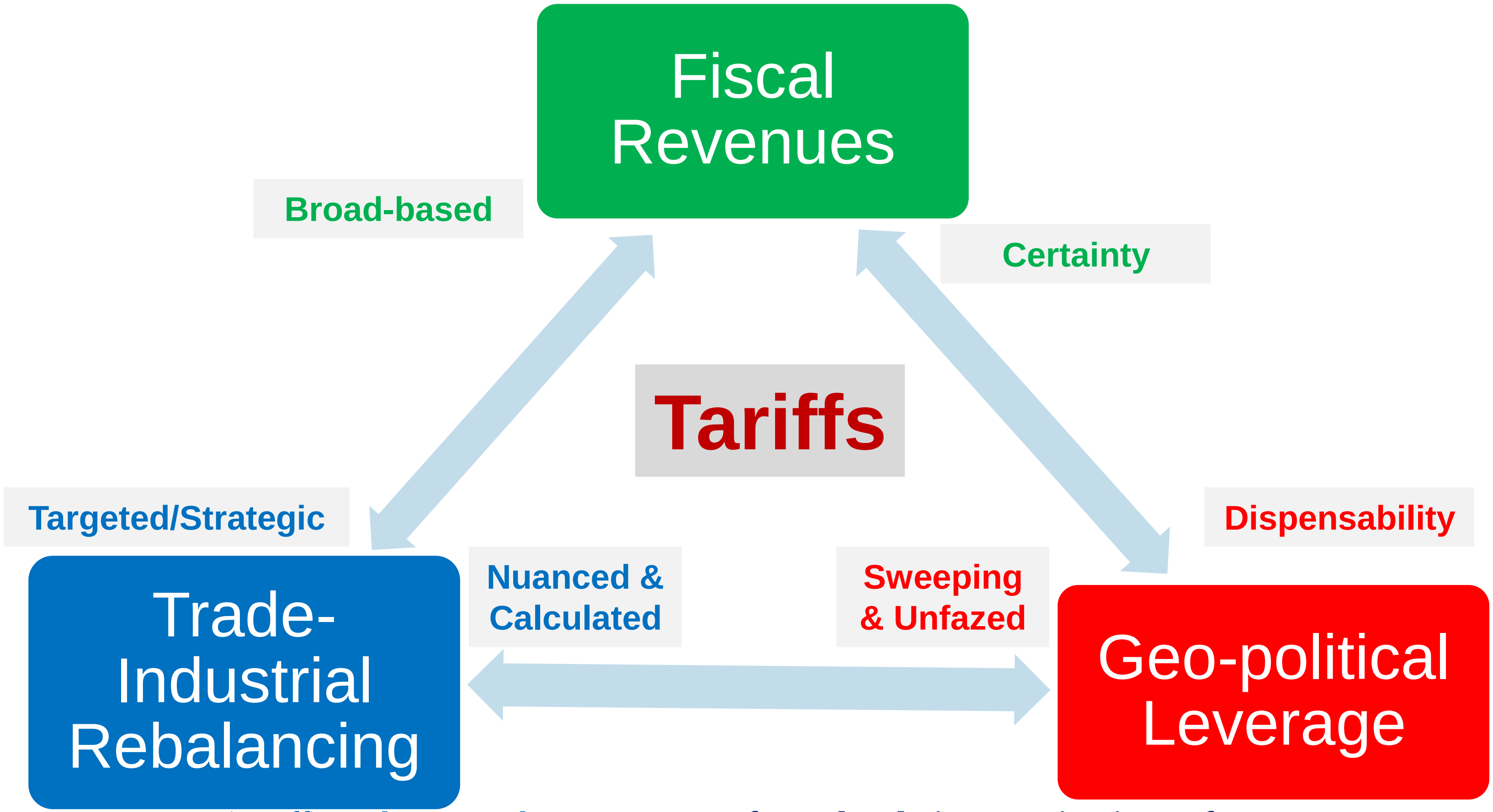
Fed Pivot Could Trigger JPY Rebound (USD/JPY Pullback) amid BoJ Tightening. Notably, the Optics of Fed-BoJ Divergence May Also Exaggerate Upside JPY Volatility.



Co-Movement between Changes in Nikkei & Changes in USD/JPY Underline Negative JPY-Nikkei Correlations. Further, Sharp JPY Appreciation Poses Threats of Nikkei Meltdown from "*Risk*" & *Exports* Channels.

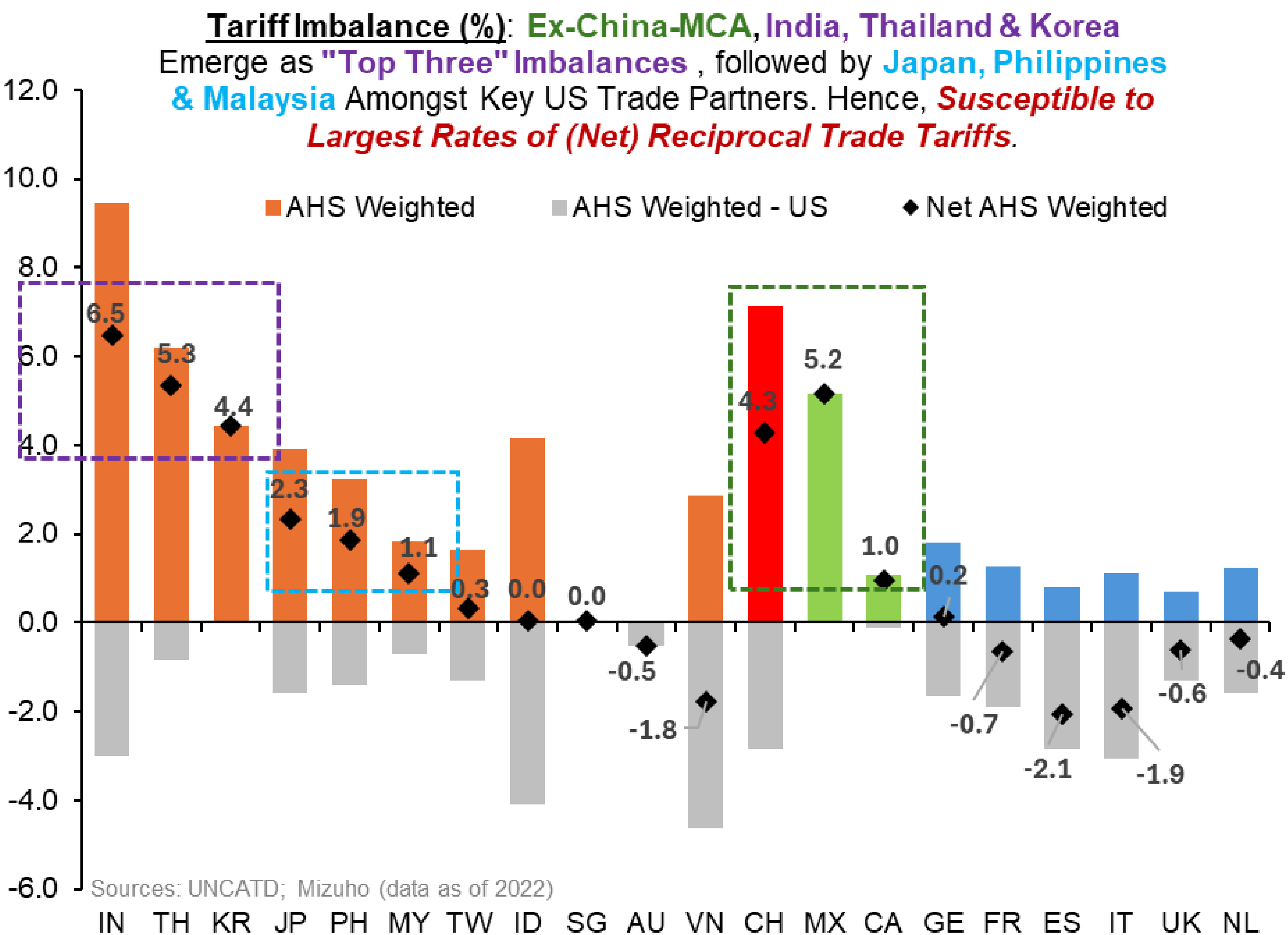


6a. The Impossible Trinity of Trump Tariffs



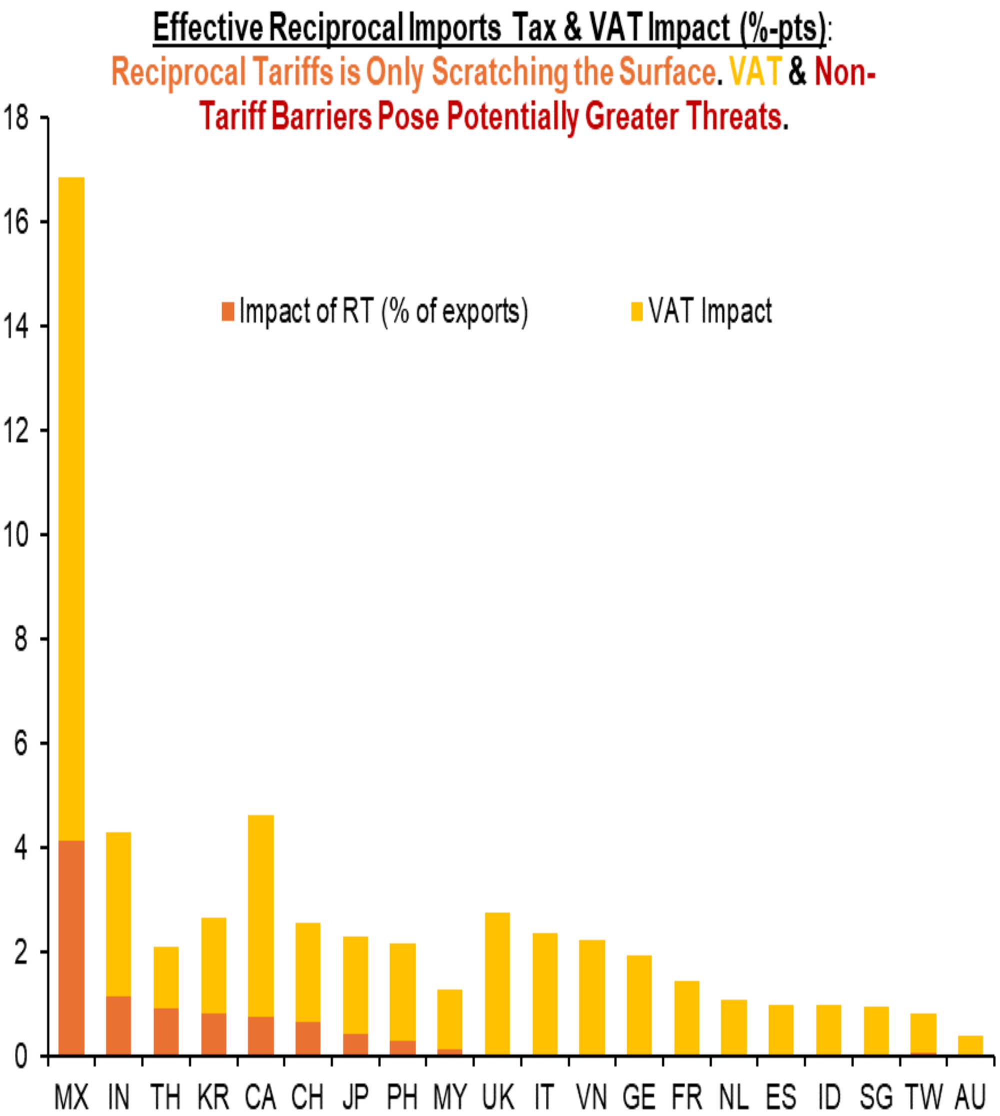
- One (Tariff) Tool, Many Objectives **Apart from the obvious motivation to force trade/industrial re-balancing** and ***attendant supply-chain relocation*** (to the US), **tariffs also pursue geopolitical leverage** and to raise **fiscal revenues**.
- Conflicting Objectives: Trouble is, the obvious **conflict in objectives**. **Fiscal revenues** argue for *steady, wide and steep tariffs*. **Leverage** *prioritizes non-trade deal-making* (*that entails rescinding on tariffs*) and **trade rebalancing** requires *strategic nuance*.
- Conflicting Objectives: **Acute tariff uncertainty** results from the one **tariff tool is being exploited for multiple objectives**. , **undermines a path to quick resolution**.

6b-i. Reciprocal Tariffs: Silver Linings (to Dial-Back) ...

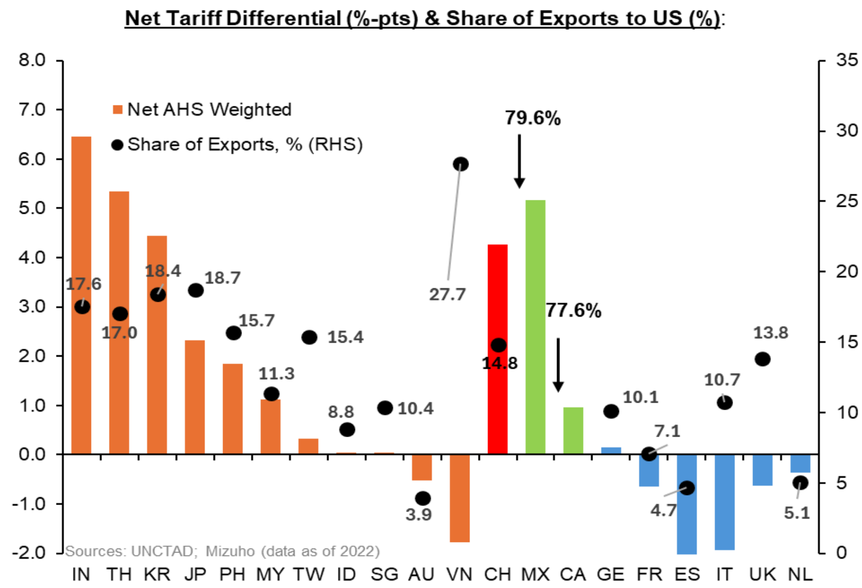


Sources: UNCATD; Mizuho (data as of 2022)

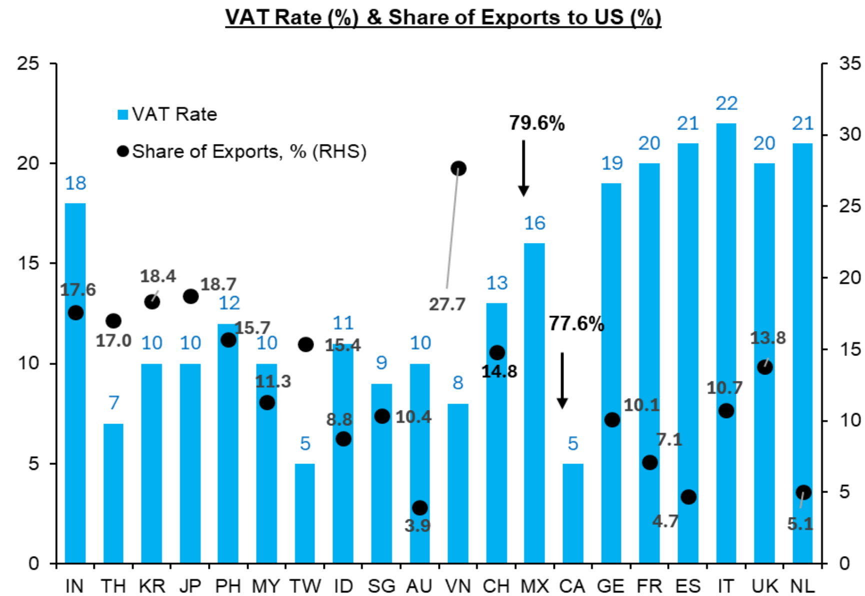
6b – ii. Reciprocal Tariffs: … or Spiral Risks From Escalation & Additivity



Sources: UNCTAD; Mizuho



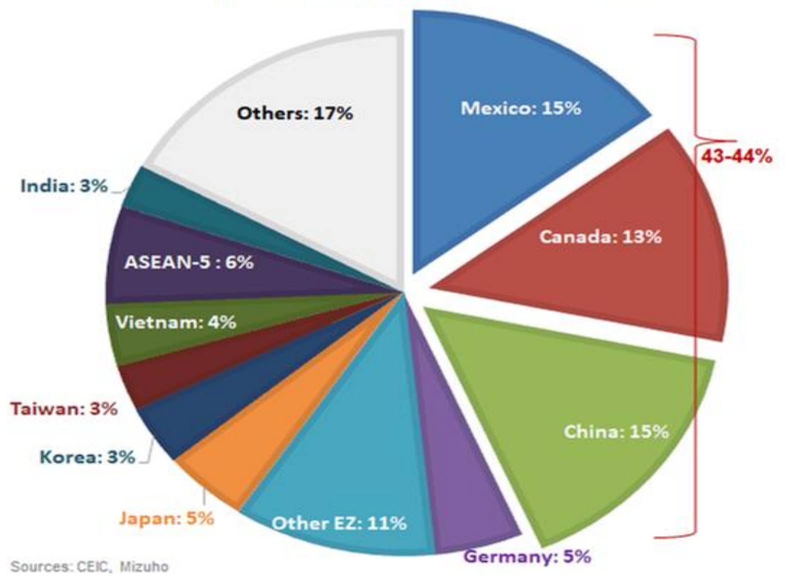
Sources: UNCTAD; Mizuho (data as of 2022)



Sources: UNCTAD; Mizuho (data as of 2022)

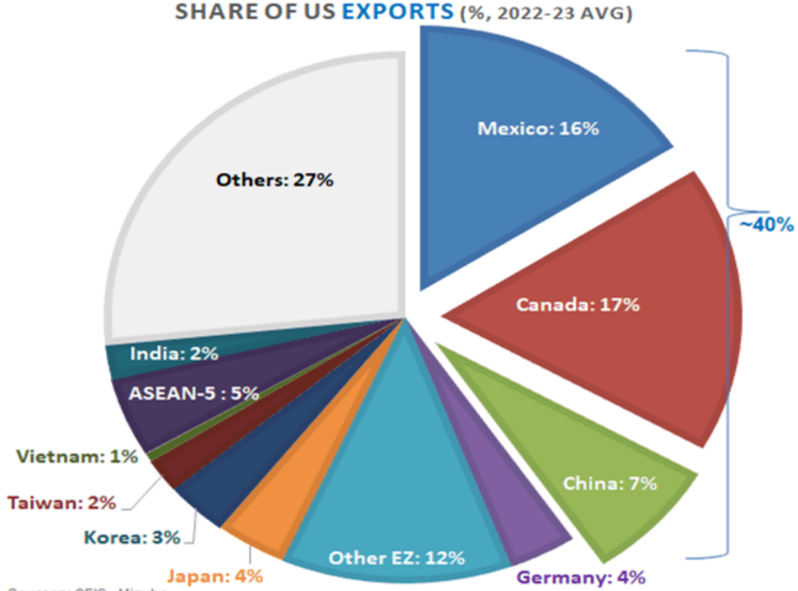
6c. Trade Risks: Risks Go Well Beyond China

SHARE OF US IMPORTS (%, 2022-23 AVG)



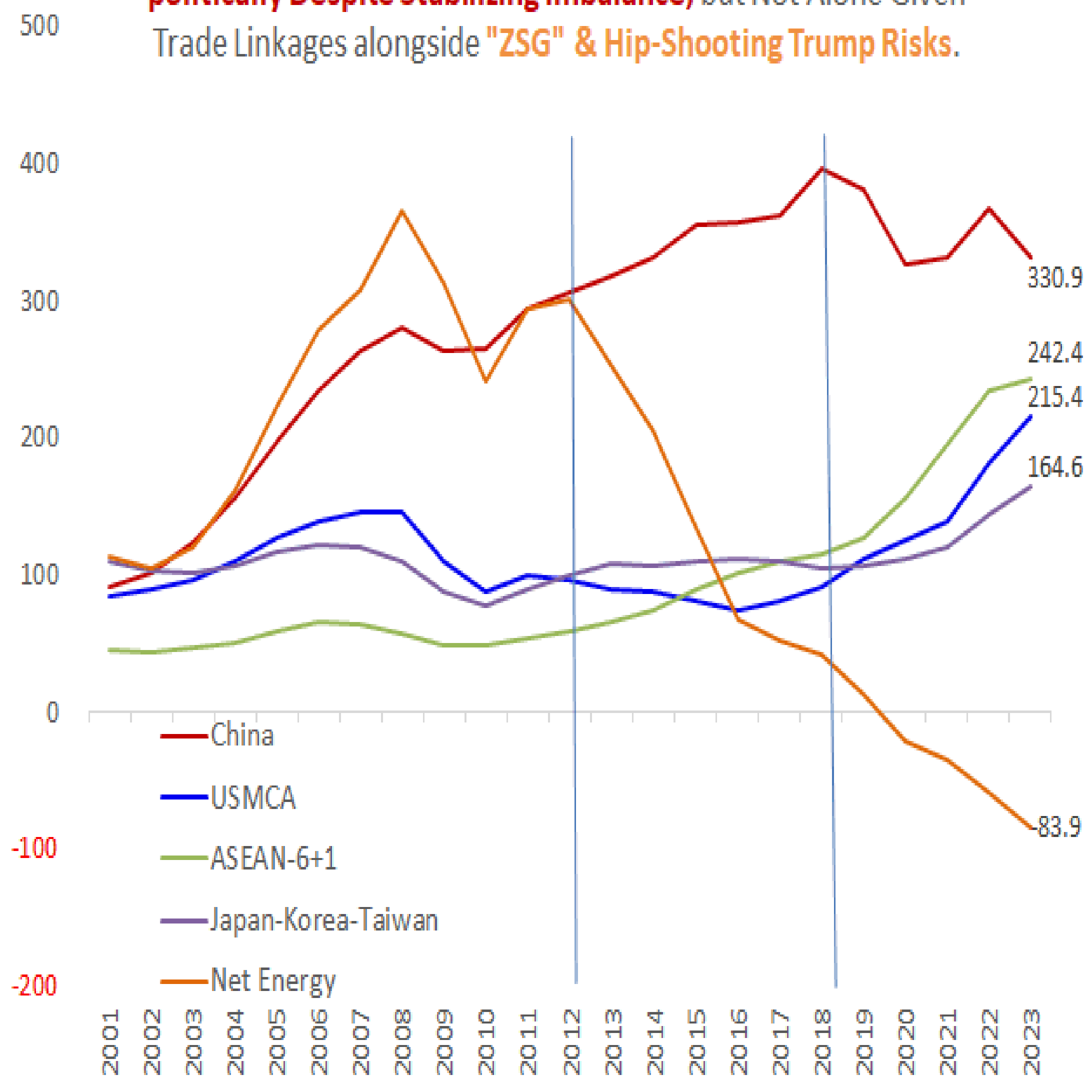
Sources: CEIC, Mizuho

SHARE OF US EXPORTS (%, 2022-23 AVG)



Sources: CEIC, Mizuho

US Trade Deficit (2Y Avg, US$ bn): China is in the Cross-Hairs Geo-politically Despite Stabilizing Imbalance, but Not Alone Given Trade Linkages alongside "ZSG" & Hip-Shooting Trump Risks.



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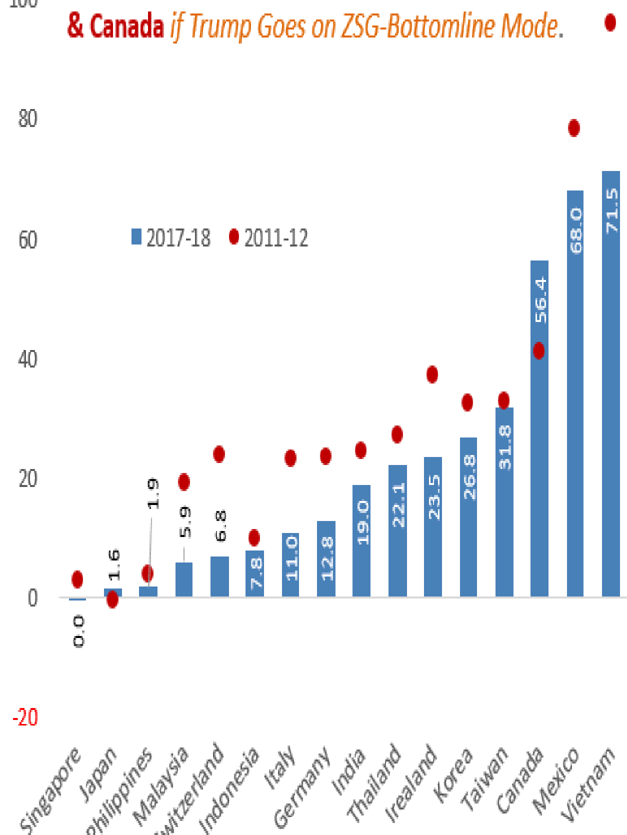
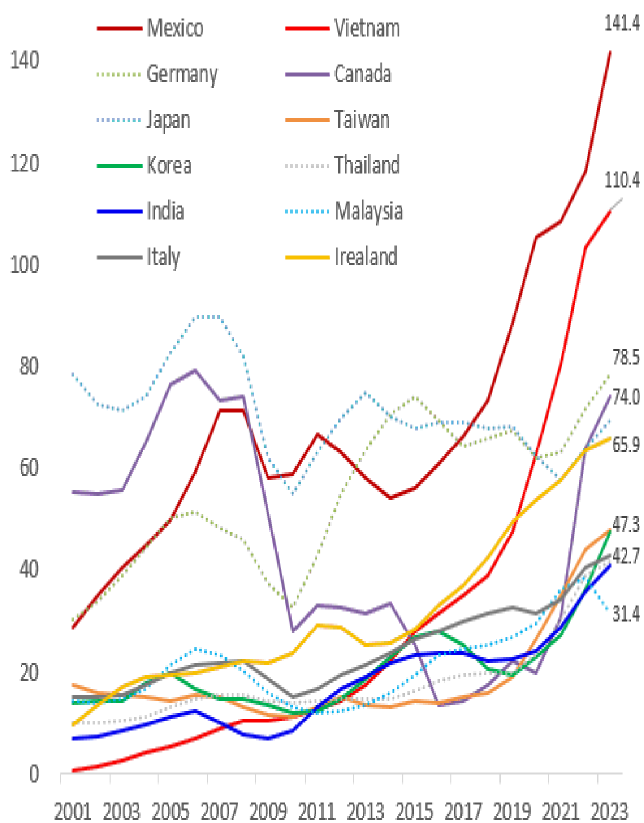
6d. Bilateral Bottom-Line Risks: Ex- China-MCA, Vietnam, Taiwan, Japan, Korea & Ireland Stick Out

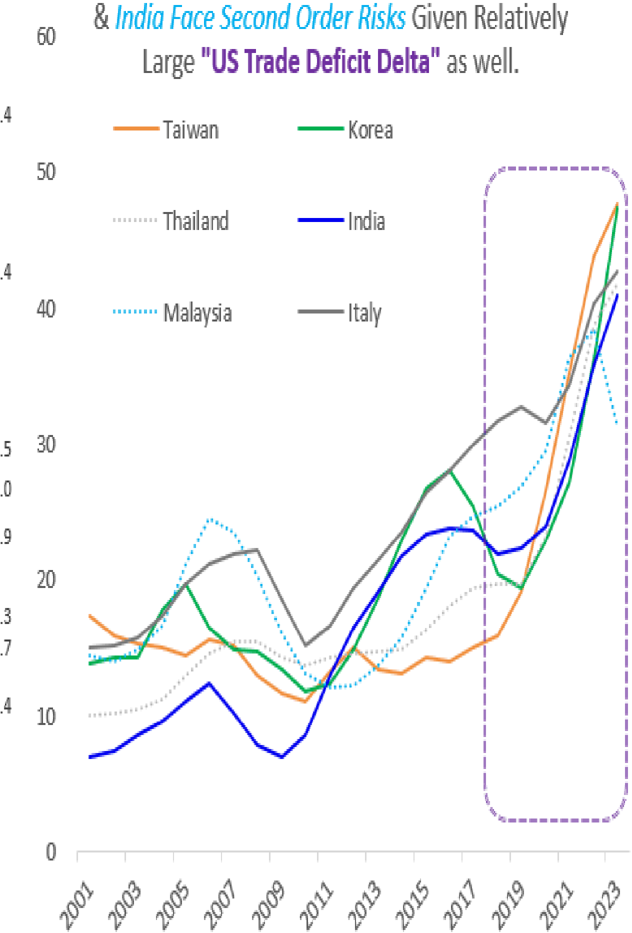
Chg in Bilateral US Trade Deficit Over Time (US$bn): **Particular Risks for Vietnam.** And **USMCA** is **No Guarantee of Insulation for Mexico & Canada** *if Trump Goes on ZSG-Bottomline Mode*.



US Bilateral Trade Deficit (US$bn): **Mexico, Vietnam & Canada** Feature in terms of the **Jump in US Bilateral Trade Deficit since 2017-18.**



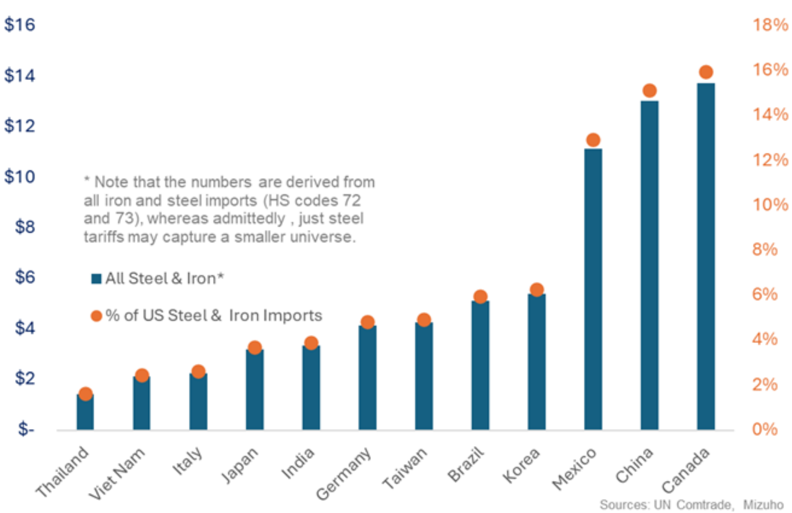
US Bilateral Trade Deficit (US$ bn): Taiwan, Korea & *India Face Second Order Risks* Given Relatively Large **"US Trade Deficit Delta"** as well.



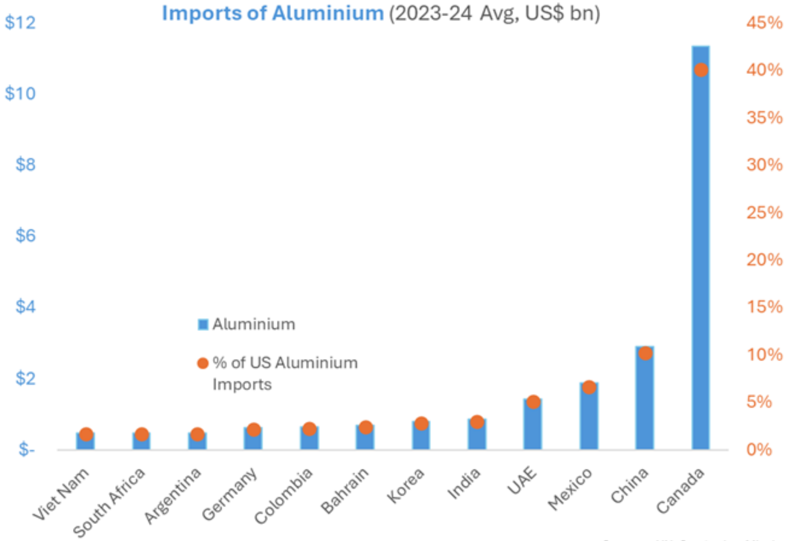
US Bi-lateral Trade Deficit

US$ bn	China	Mexico	Vietnam	Germany	Canada	Japan	Ireland	Taiwan*	Korea	Thailand	India*	Malaysia	Switzerland	Indonesia	Philippines	Singapore	Net Energy
2015-17 Avg	362.6	63.5	33.7	67.5	14.5	68.8	34.8	14.9	26.4	18.8	23.5	23.6	12.6	13.0	2.4	-9.9	61.3
2022-23 Avg	330.9	141.4	110.4	78.5	74.0	69.5	65.9	47.7	47.3	41.8	41.0	31.4	23.7	20.8	5.4	-8.3	-83.9

6e-i. Steel & Aluminum Tariffs Exposure

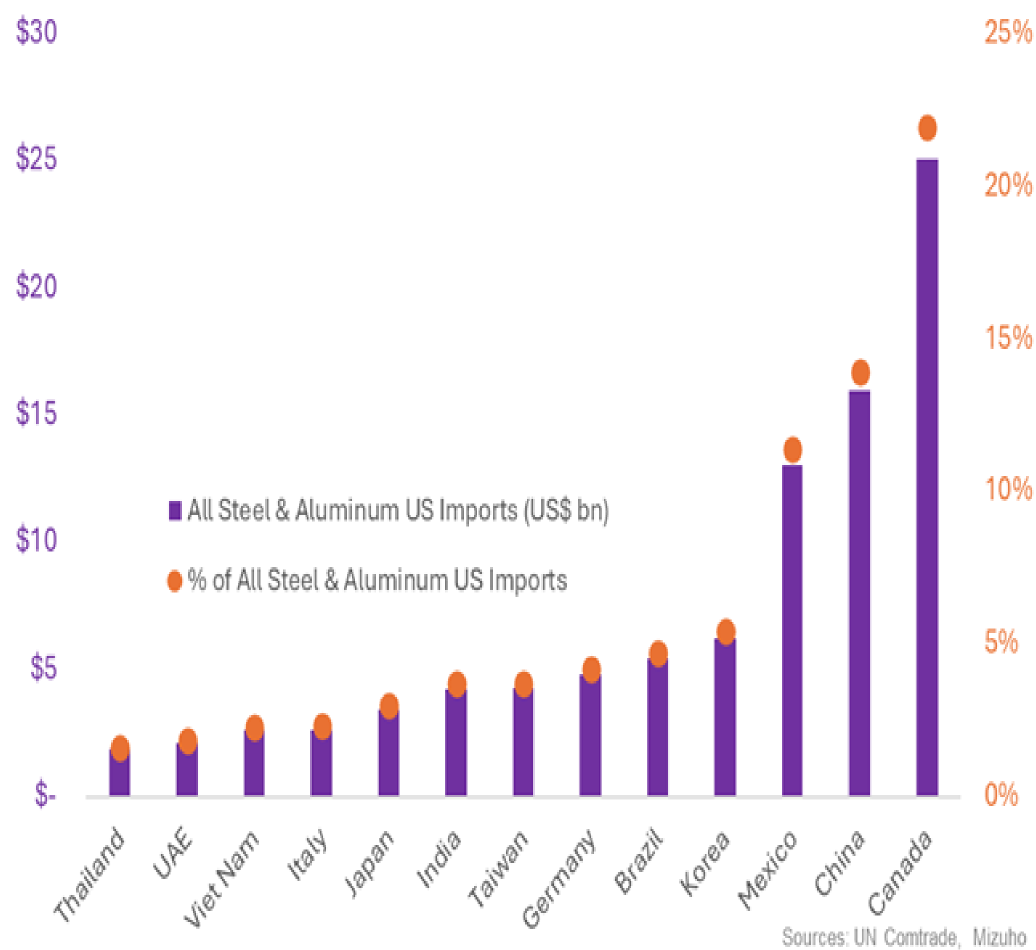


Top 12 Exporters (to the US), **accounting for ~80% of US Imports of All Steel & Iron** (2023-24 Avg, US$ bn)

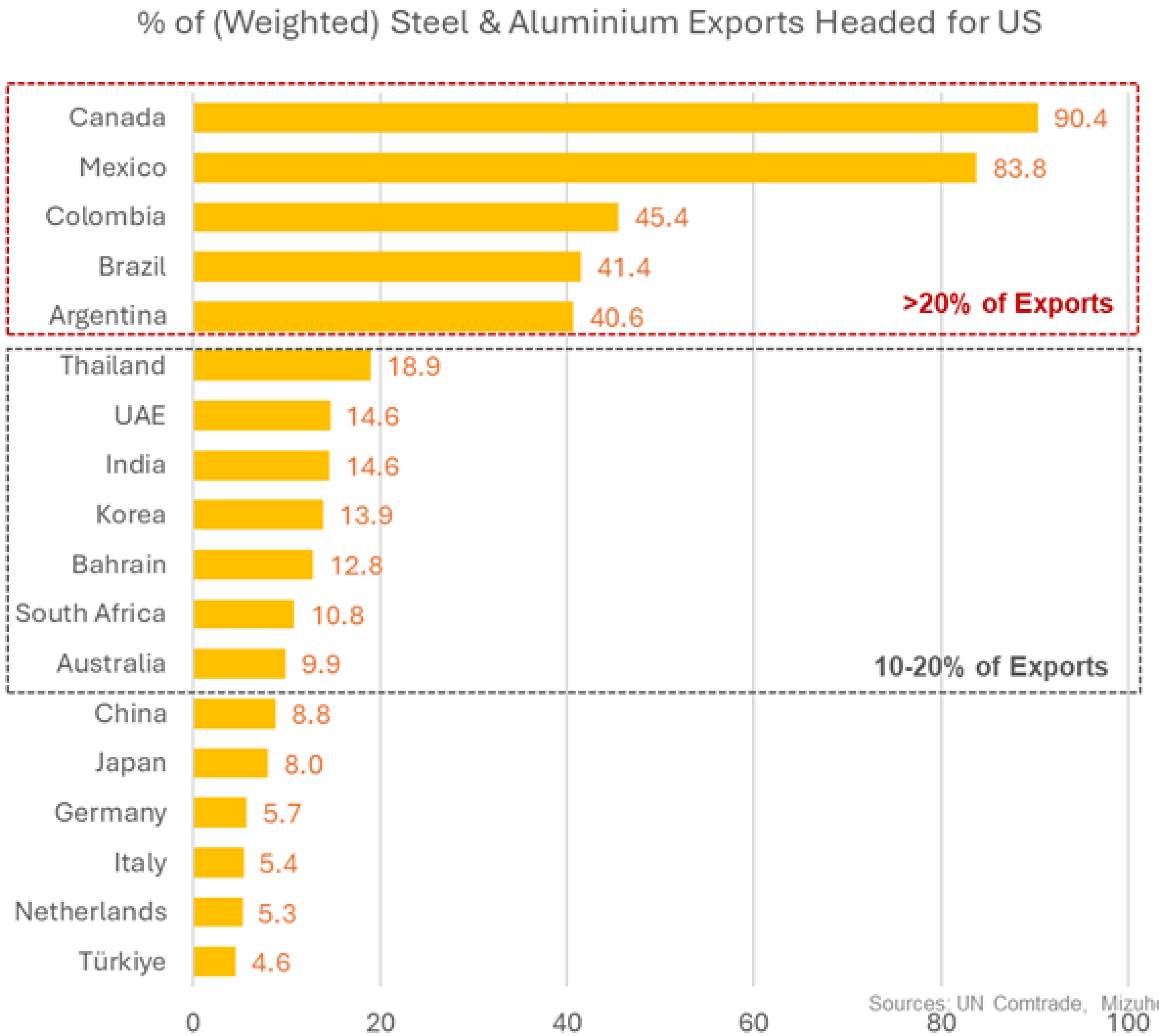


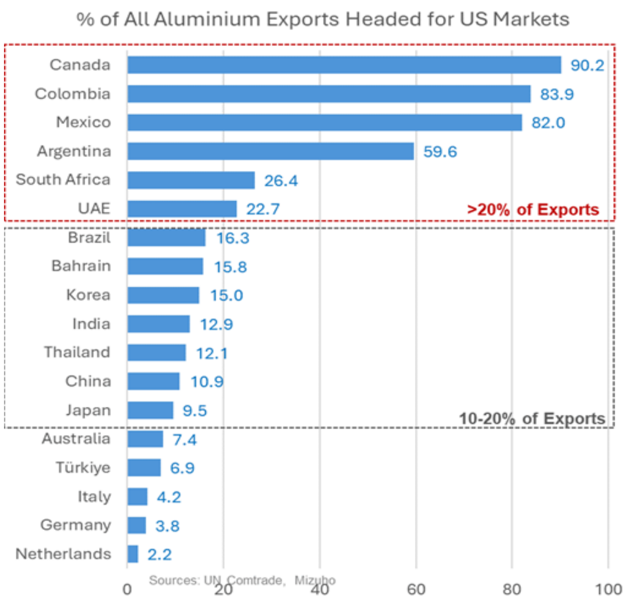
Top 12 Exporters (to the US), **accounting for ~80% of US Imports of Aluminium** (2023-24 Avg, US$ bn)

Top 13 Exporters (to the US), **accounting for ~80% of US Imports of All Steel, Iron & Aluminium** (2023-24 Avg, US$ bn)

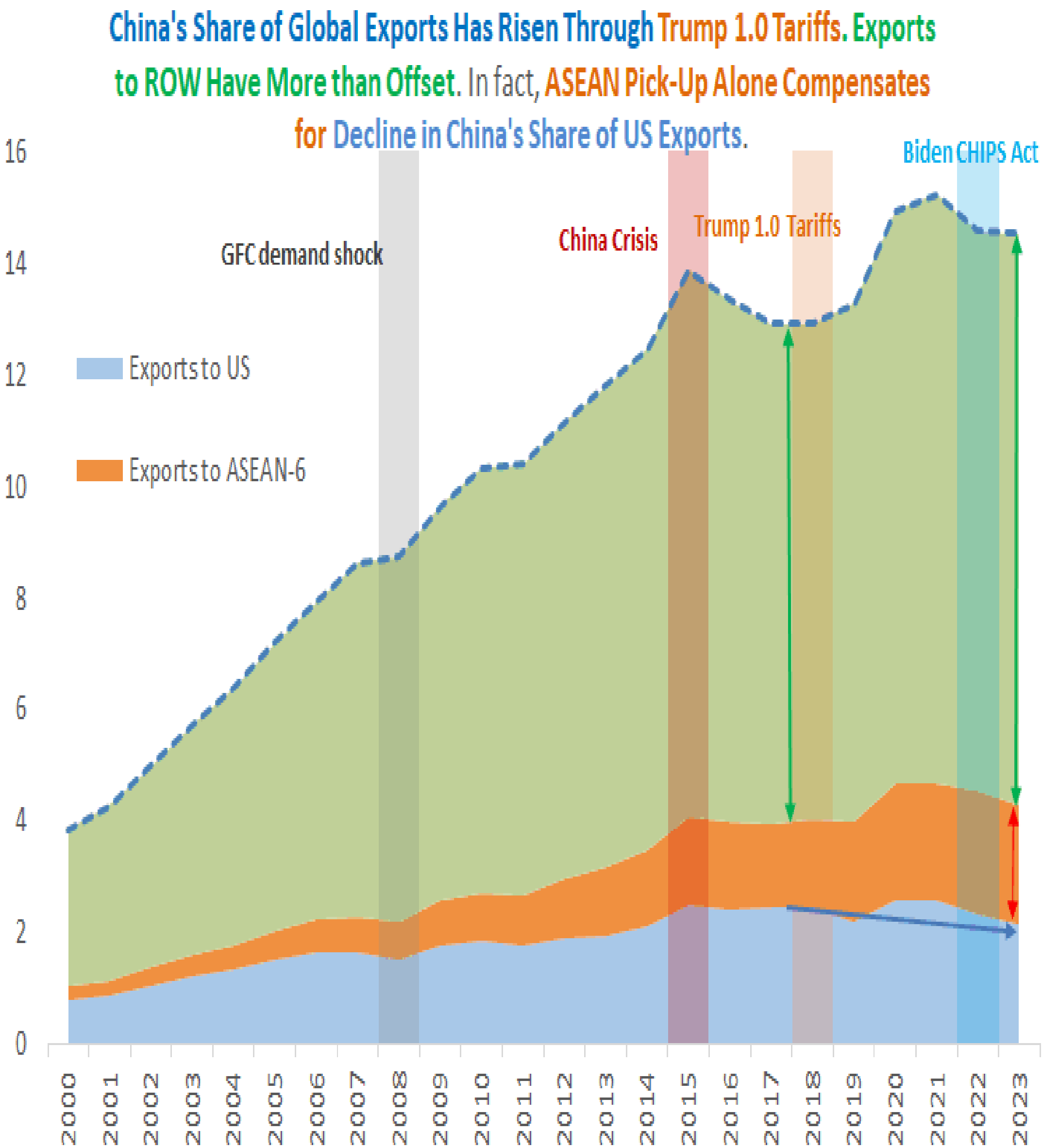


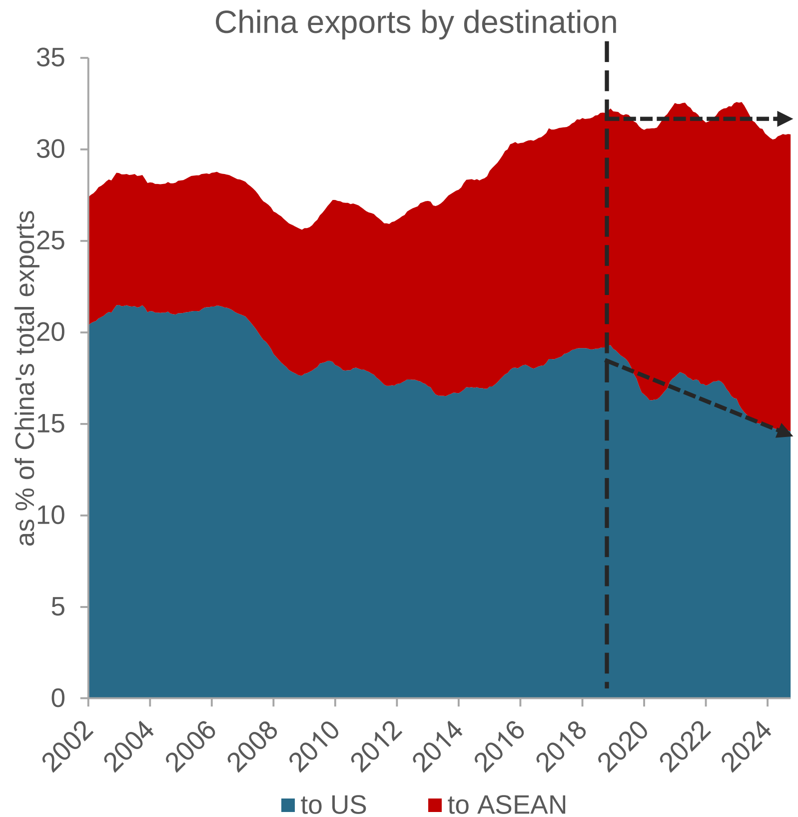
6e-ii. Steel & Aluminum Tariffs Exposure – Adjusted Exposure





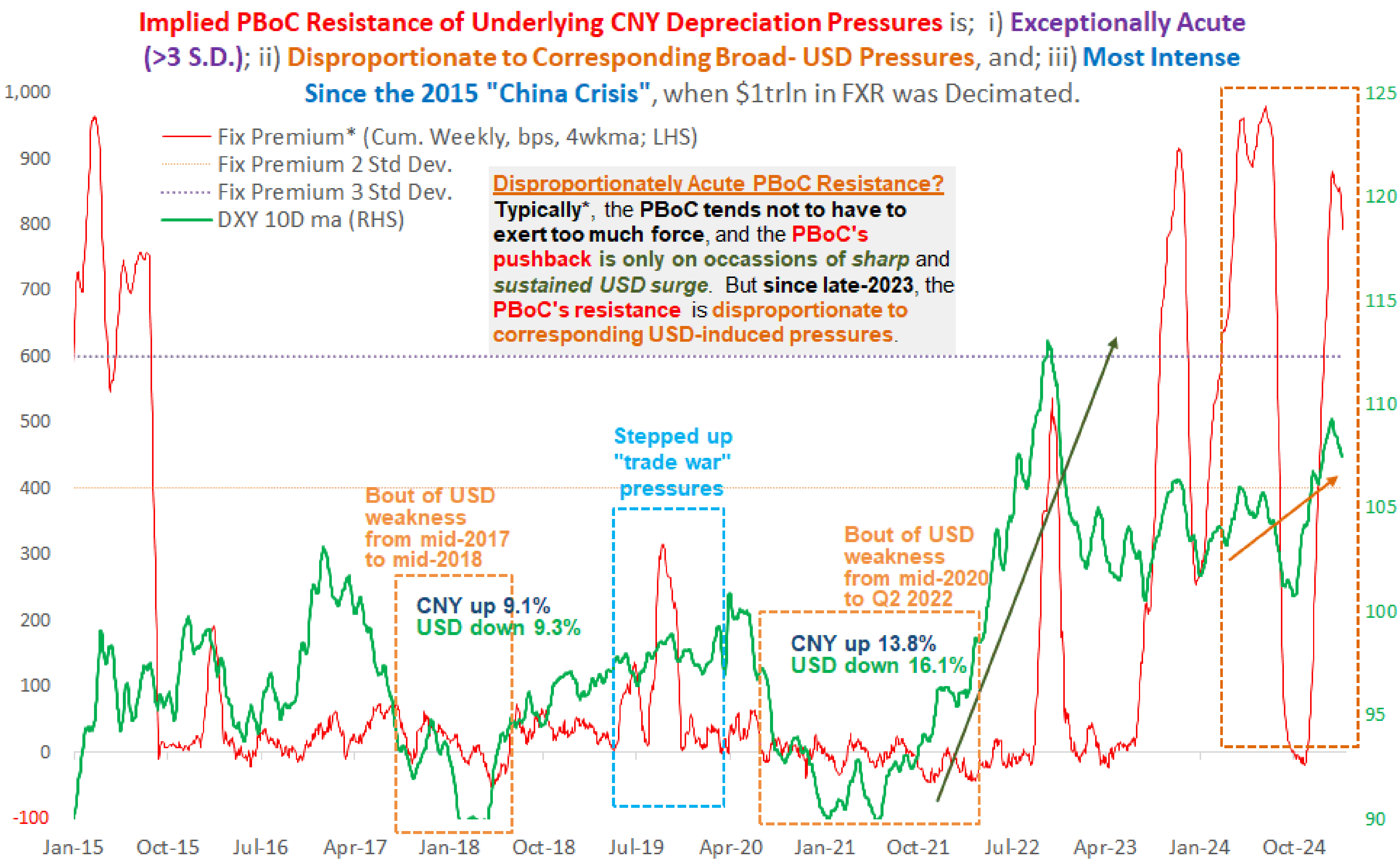
7a. Does China Have a Trump Card? ➔ Unfettered Global Exports Share





- China's trade sector has demonstrated greater resilience than many had expected:
  - Despite a decline in China's share of exports to the US, its share to ASEAN has steadily increased during the same period.
  - Current export levels to the US remain higher than those recorded in 2019, when most additional tariffs were implemented.

7b. Beijing Cannot Afford Cheap RMB, But Nor Can it Side-Step Turbulence



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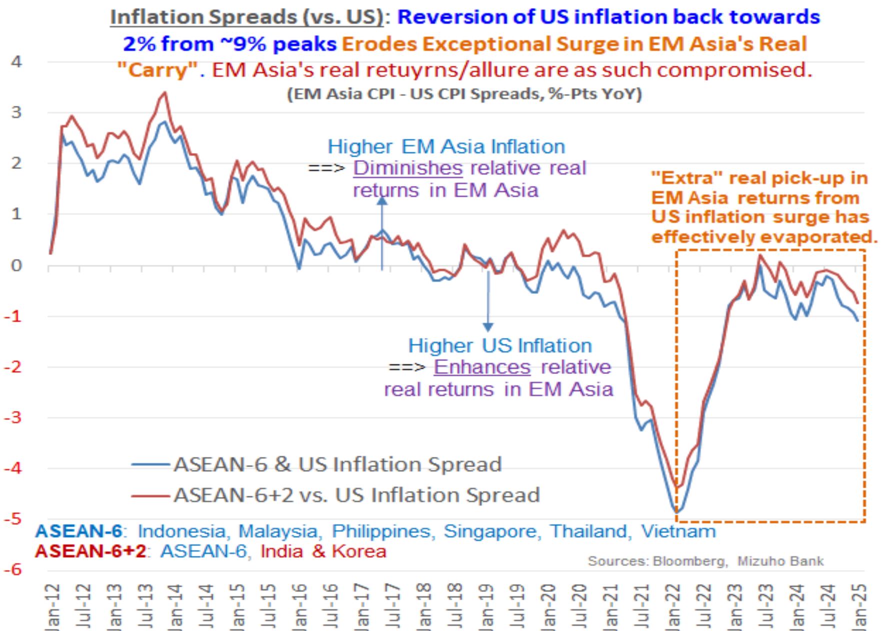
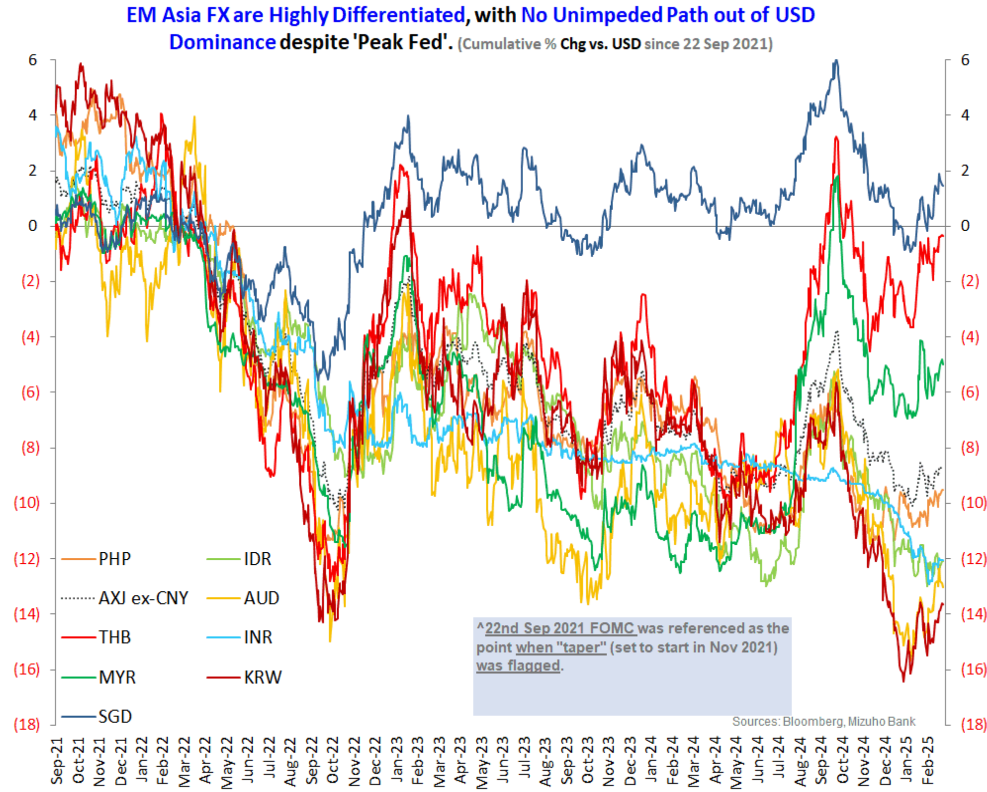
8a. AXJ: Full Reversion of AXJ may be Challenged





- Tariff Head(line) & Tail Risks: **AXJ continue to be prone to wild swings from tariff headline risks.** Especially as **"heads or tail" type of binary outcomes are repeatedly played out**. From *acute sell-off on* instances of Trump's callous *tariff threats to relief rallies when* the tariff *threats are rescinded or suspended.* With "only the first salvo" in Chinese tariffs, Europe in the line of fire, **headline tariff triggers**, and *attendant volatility* abound. And the ***tail risk of bilateral trade antagonism*** in the rest of Asia and/or ***escalatory tit-for-tat trade wars***.

- Trumped Up (Tariff) Threats & De-sensitization: Admittedly, markets may **increasingly be inclined to assume that tariff threats are trumped up**. Specifically, only **to be exploited as leverage for future negotiations**. *Consequently,* it is **tempting to suggest** markets may be emboldened to **start downgrading tariff-induced threats**. Which ***incrementally de-sensitize AXJ to tariffs headlines***.

- Bluster Not Always a Bluff: But the **luxury of linear de-sensitization to tariff risks is a tall order**. After all, **unpredictability is a feature**, not a bug, **of Trump 2.0,** tariffs **and all**. And more likely than not, President *Trump will be inclined to keep his audience on their toes*. He does know a thing or two about getting (TV) ratings up and truly believes in zero-sum games. So **not every bluster will turn out to be a bluff**.

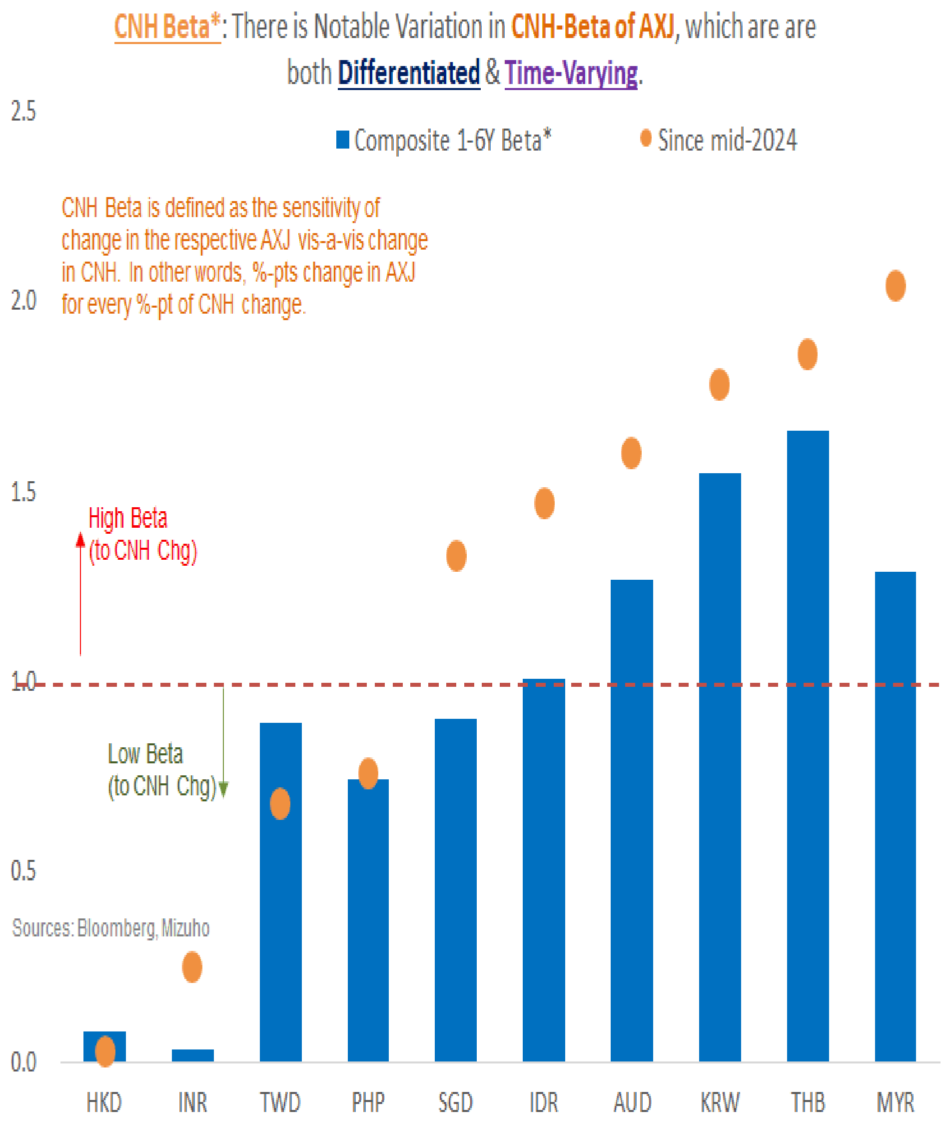
- Proliferation of AXJ Pain: Instead, what's likely is a **proliferation of AXJ pain** from **tariff threats**. **Direct impact from bilateral US confrontation** is **a notable, understated** (given current US-China focus) **threat**. But *Vietnam*, *Taiwan* and *Korea* are imaginably at risk of direct trade pressures (and attendant FX wobbles) *if Trump's bilateral, bottom-line, zero-sum game instincts are not tamed*. And **JPY could cut both ways, dragging AXJ** *on the way down* given trade links and *equally via "carry squeeze" on the way up*.

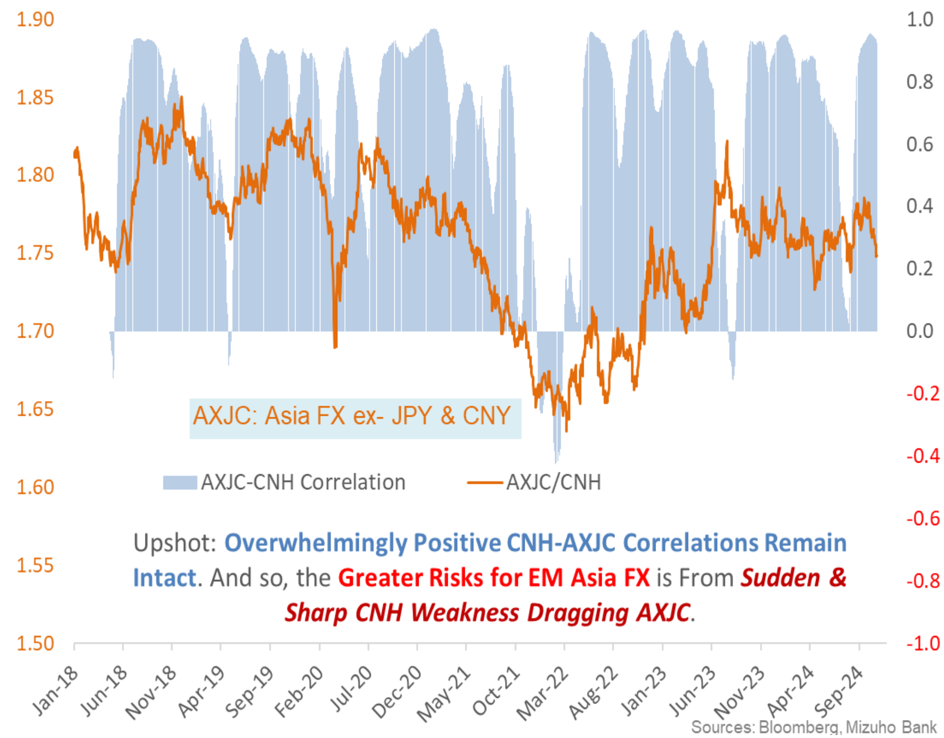
- (Initial?) Fed Exceptionalism: Moreover, **a tariff-enhanced version of Fed exceptionalism** on **perceptions of accentuated (hawkish) Fed divergence,** is **primed to accentuate AXJ pain**. Specifically, as the *Fed's inclinations to guard against inflationary tariffs effects contrasts with Asian central banks (ACBs) instinct to (pre-emptively) insure against gathering trade headwinds*. So, until the Fed resumes easing ***sharper*** **policy trade-offs** (rate cuts vs. FX backstop) **for ACBs amplify downside AXJ sensitivities from tariff risks**.

- But Two Halves with Back-End Relief: ***But*** *that said,* **AXJ pain from Trump 2.0 tariff turbulence** coupled with Fed-ACBs divergence **may not be unremitting.** Instead, **partial *relief*, *albeit fragile, may be set to* emerge** in **H2 2025/late-2025** (into 2026). Especially if the trade conflict settled into negotiated compromises rather than an escalatory spiral. For all his **unpredictability Trump** is likely to angle for a deal. Caveat being, non-**linearity** and **bumpiness will feature for now**.

- Bark Worse than Bite Relief: Sustained AXJ relief though will be **highly contingent** on the ***trade tariff bark being worse than the actual trade disruption bite***. In other words, the worst of **tariff-driven uncertainty risk premium needs to abate for AXJ to find durable traction.**

8b. FX - CNH Beta: Expect AXJ Volatilities to be Heightened & Fluid





- Triggers & Transmission: But **averting direct confrontation is no real comfort**, given various transmission channels of shocks from global trade upheaval. Most conspicuous are **CNY ripples** owed to *sweeping and inextricable linkages with China*. **Spill-over EUR drag**, should Trump make good EZ tariff threats, is another channel. And transmissions from **indirect commodity shocks** could also show up.

- With "Beta" Discrimination: And this so-called **"beta"** (sensitivity to) **will vary across AXJ**. **Commodity beta** *variations even more stark across producers and importers* Notably **"CNY beta"**, will be *differentiated for trade/investment/ geo-political exposure*. In fact, some **AXJ may exceed corresponding CNY losses**.

- Devil in the Dynamic Details: Notably, **commodity FX** (AUD, IDR.) may **far more sensitive to onshore China stimulus triggers**. And the **trade sensitivities in other supply-chain reliant AXJ** may be further differentiated. ***Upstream trade assaults***, which restrict China's technology access are likely to adversely impact KRW, TWD and JPY most. Whereas downstream impact flows more to ASEAN FX (e.g. THB, MYR).

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8c. FX - AXJ: Steeper UST Curve an Additional Interim Risk (Especially for HY AXJ)

At the Cost of Risk Re-pricing in EM Asia …

- But **path to a steeper UST yield curve** may be **bumpy for EM Asia** assets and FX too.
- Possibly even **entailing risk re-pricing** that involves spot of capital outflows.
- This is particularly in the context with a steeper UST yield curve typically diminishing the attractiveness of EM Asia yields.
- Especially given starting point of substantially eroded EM Asia spread over USTs.

… Harsher on High-Yield AXJ

- Specifically, the **ability to swap credit risk (in EM Asia) for more pronounced comparative term premium pick-up in USTs**. ➔ *going out the "risk -free" curve rather than going down the credit curve.*
- Attendant pressure on EM Asia currencies is par for the course.
- And **given the credit risk-to-term premium swap** involved, **higher-yielding EM Asia currencies are left at a relatively greater disadvantage** (vis-à-vis lower-yielding EM Asia FX).

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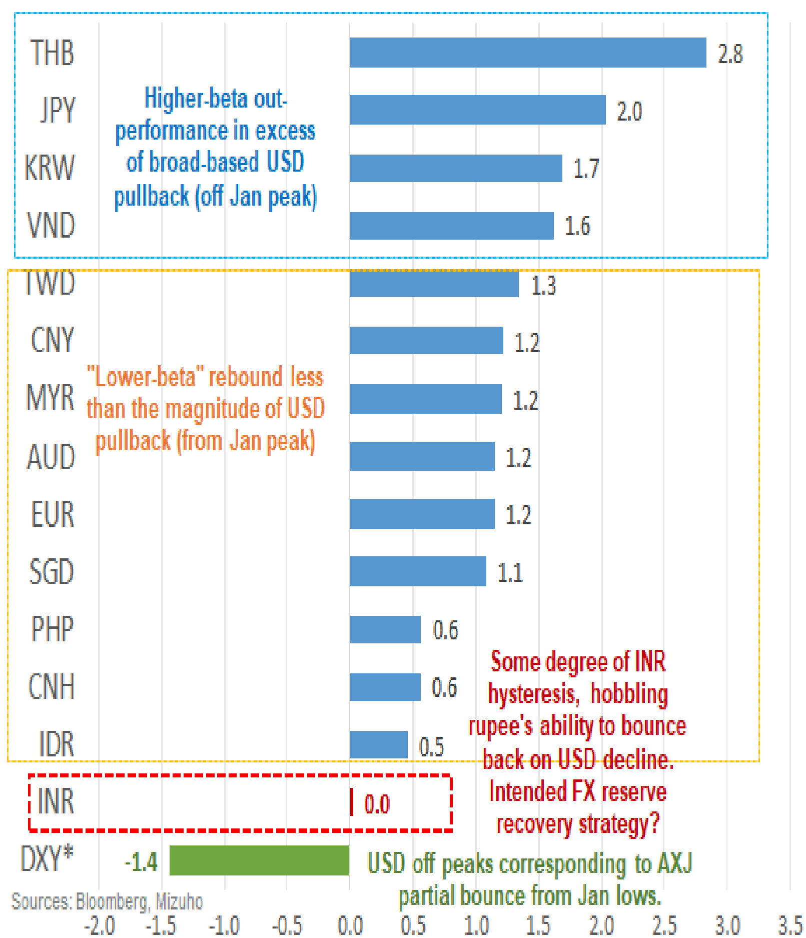
FX Outlook

Currency Forecast

FX Forecasts	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25	Q1 26
USD/CNY	7.04-7.38	7.10-7.55	7.15-7.60	7.05-7.45	6.98-7.37	6.97-7.26
	7.28	7.32	7.38	7.23	7.12	7.12
USD/HKD	7.76-7.80	7.75-7.79	7.75-7.79	7.75-7.79	7.76-7.80	7.76-7.80
	7.77	7.76	7.76	7.75	7.76	7.77
USD/INR	84.1-85.8	85.4-88.5	86.2-88.9	85.5-88.9	85.2-88.2	84.8-87.8
	85.6	87.1	87.8	86.5	86.0	86.0
USD/KRW	1360-1500	1370-1540	1330-1480	1290-1400	1280-1380	1360-1500
	1438	1442	1385	1345	1340	1438
USD/SGD	1.283-1.368	1.327-1.376	1.330-1.388	1.315-1.375	1.292-1.344	1.292-1.337
	1.367	1.363	1.371	1.335	1.318	1.321
USD/TWD	31.6-32.8	32.2-34.5	32.1-34.5	31.5-33.9	31.2-33.5	31.0-33.5
	32.8	33.3	33.5	32.5	32.2	32.2
USD/IDR	15170-16305	15850-16560	15900-16620	15300-16490	15000-16100	15100-15750
	16102	16350	16450	15800	15400	15230
USD/MYR	4.12 – 4.51	4.29 – 4.58	4.27 – 4.67	4.13 – 4.55	3.99 – 4.36	3.99 – 4.24
	4.47	4.47	4.53	4.30	4.12	4.14
USD/PHP	56.0 - 59.0	57.2 - 60.2	57.1 – 60.5	55.9 - 59.8	54.7 – 58.2	54.8 – 57.5
	57.8	58.8	59.6	57.2	56.5	56.3
USD/THB	32.3-35.2	32.9 - 35.9	33.8 - 36.2	33.4 - 35.7	32.7 - 34.9	32.6-34.6
	34.1	34.8	35.2	34.3	33.6	33.3
USD/VND	24560-25512	24900-26100	25200-26200	24600-25800	24500-25600	24500-25600
	25485	25550	25750	25100	24700	24680
AUD/USD	0.617-0.694	0.610-0.653	0.608-0.668	0.610-0.673	0.645-0.700	0.655-0.700
	0.618	0.615	0.613	0.655	0.680	0.678

AXJ (%) Rebound from Jan-2025 Lows



Sources: Bloomberg, Mizuho

Note: For FX forecasts, level in parentheses pertains to period end forecasts; and the period's range precedes this.

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Policy Outlook

Central Bank Policy Outlook

Country	Central Bank	2023		2024				2025			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
US	**Fed**	**5.25-5.50%**	**5.25-5.50%**	**5.25-5.50%**	**5.25-5.50%**	**4.75-5.00%**	**4.25-4.50%**	**4.25-4.50%**	**374-4.00%**	**3.25-3.50%**	**3.00-3.25%**
Australia	**RBA**	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.10%	3.85%	3.60%	3.60%
China	**PBoC**	1.80%	1.80%	1.80%	1.80%	1.50%	1.50%	1.30%	1.10%	0.90%	0.90%
India	**RBI**	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.00%	5.75%	5.50%	5.25%
Indonesia	**BI^**	5.75%	6.00%	6.00%	6.25%	6.00%	6.00%	5.75%	5.50%	5.25%	5.00%
Malaysia	**BNM**	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Philippines	**BSP**	6.25%	6.50%	6.50%	6.50%	6.25%	5.75%	5.50%	4.75%	4.50%	4.25%
Singapore	**MAS***	Status Quo		S: 2.0%	S: 2.0%	S: 2.0%	S: 2.0%	S: 1.5%	S: 1.5%	S: 1.5%	S: 1.5%
				M: Hold	M: Hold	M: Hold	M: Hold	M: Hold	M: Hold	M: Hold	M: Hold
				W: Hold	W: Hold	W: Hold	W: Hold	W: Hold	W: Hold	W: Hold	W: Hold
Korea	**BoK**	3.50%	3.50%	3.50%	3.50%	3.50%	3.00%	2.75%	2.50%	2.25%	2.00%
Taiwan	**CBC**	1.875%	1.875%	2.000%	2.000%	2.000%	2.000%	2.000%	1.875%	1.750%	1.750%
Thailand	**BoT**	2.50%	2.50%	2.50%	2.50%	2.50%	2.25%	2.00%	1.75%	1.50%	1.50%
Vietnam	**SBV**	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

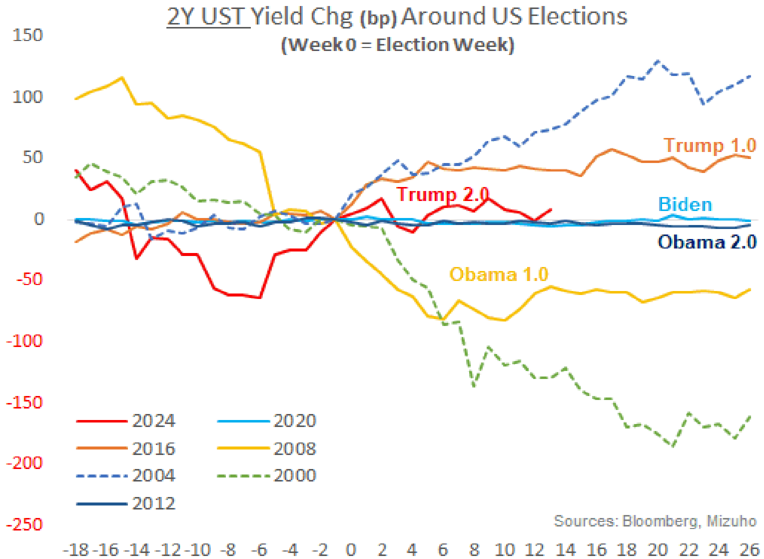
,* The MAS conducts monetary policy via FX. Specifically it adopts a trade-weighted SGD appreciation at "modest and gradual" (estimated to be 2% per annum) pace as default.

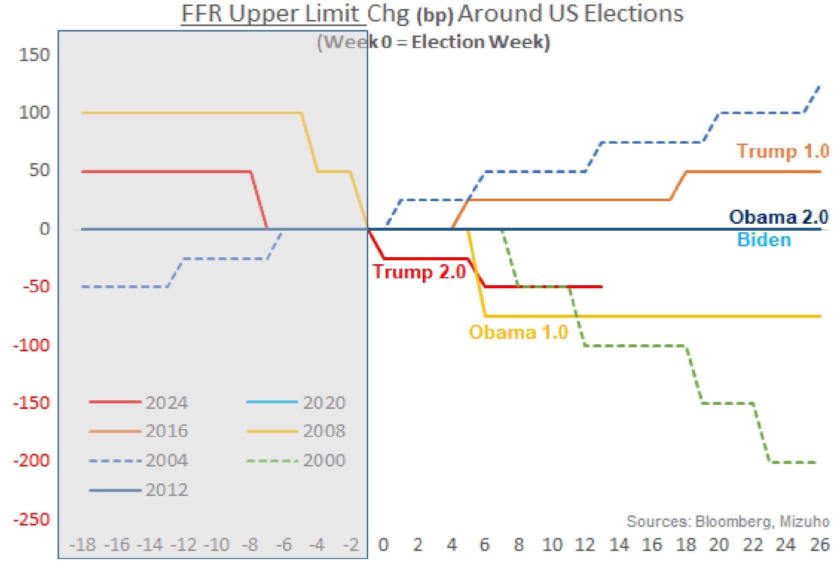
Starting 2024, the MAS will conduct quaterly meetings (Jan, Apr, Jul, Oct) from bi-annual meetings.

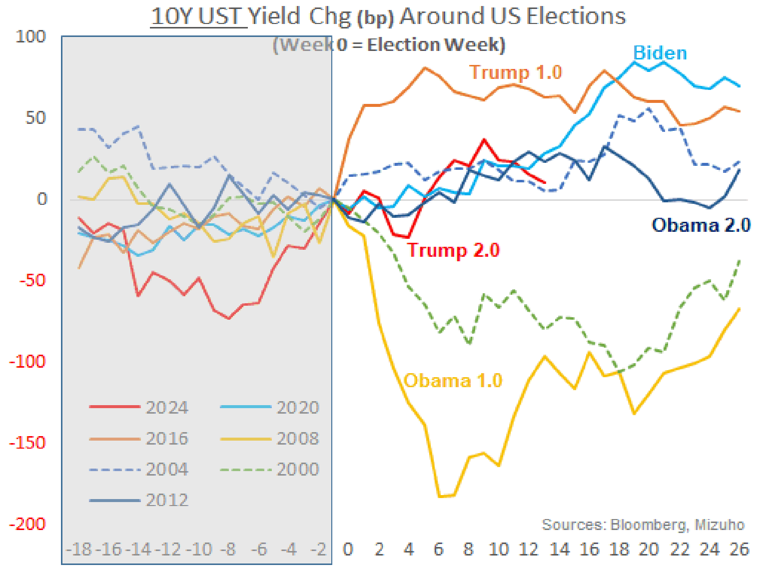
^ BI shifted to the 7 Day repurchase rate as the benchmark rate in August 2016. This by default constituted 125 bps reduction from the last policy rate

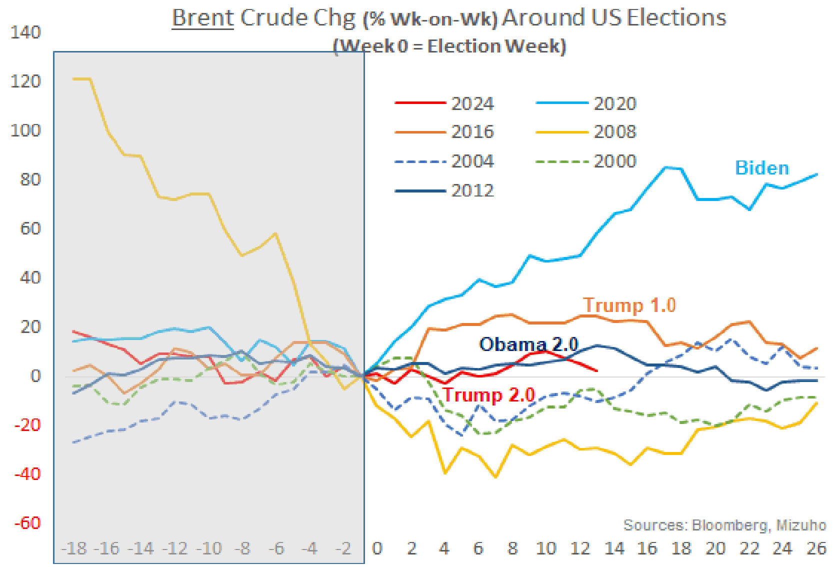
Fed & Rates: Fed Cycle, Inflation Expectations & Trump

1. **Front-end** (2Y) **Yields are Tightly Tied to the Fed Cycle,** Not the Elections ➔ **Trump-Effect Overstated?**
2. **Long-end** (10Y) **Yields** admittedly more **affected by inflation expectations and fiscal path.**



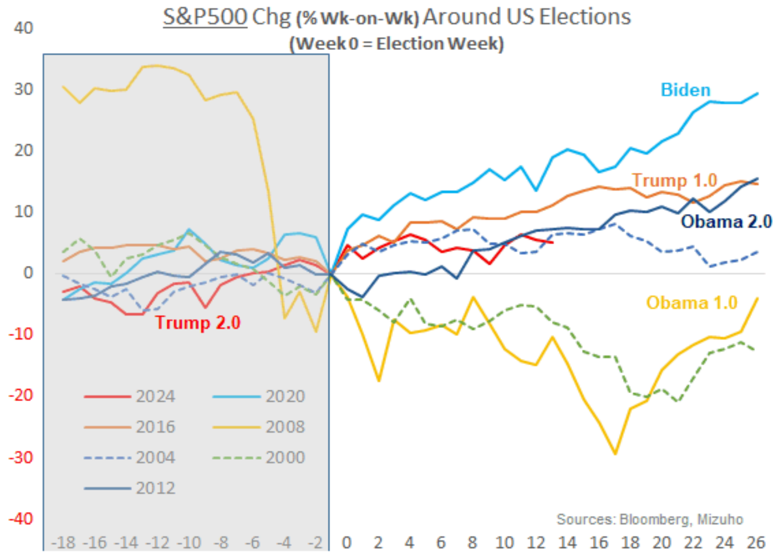


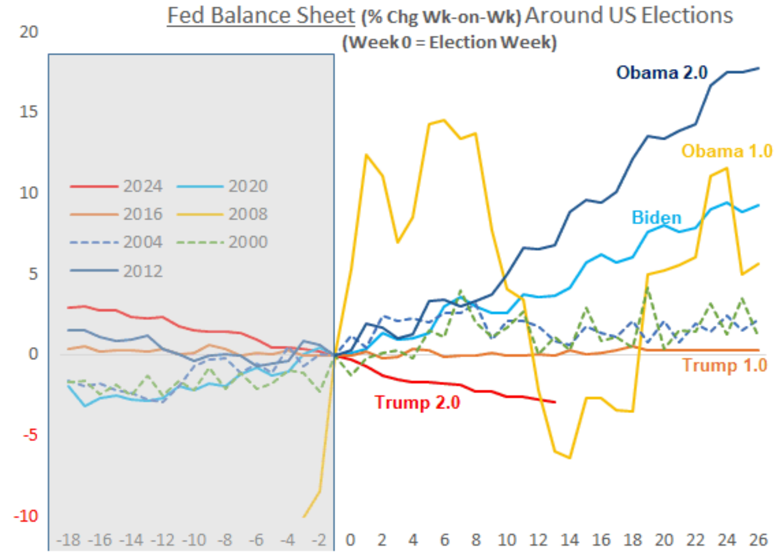


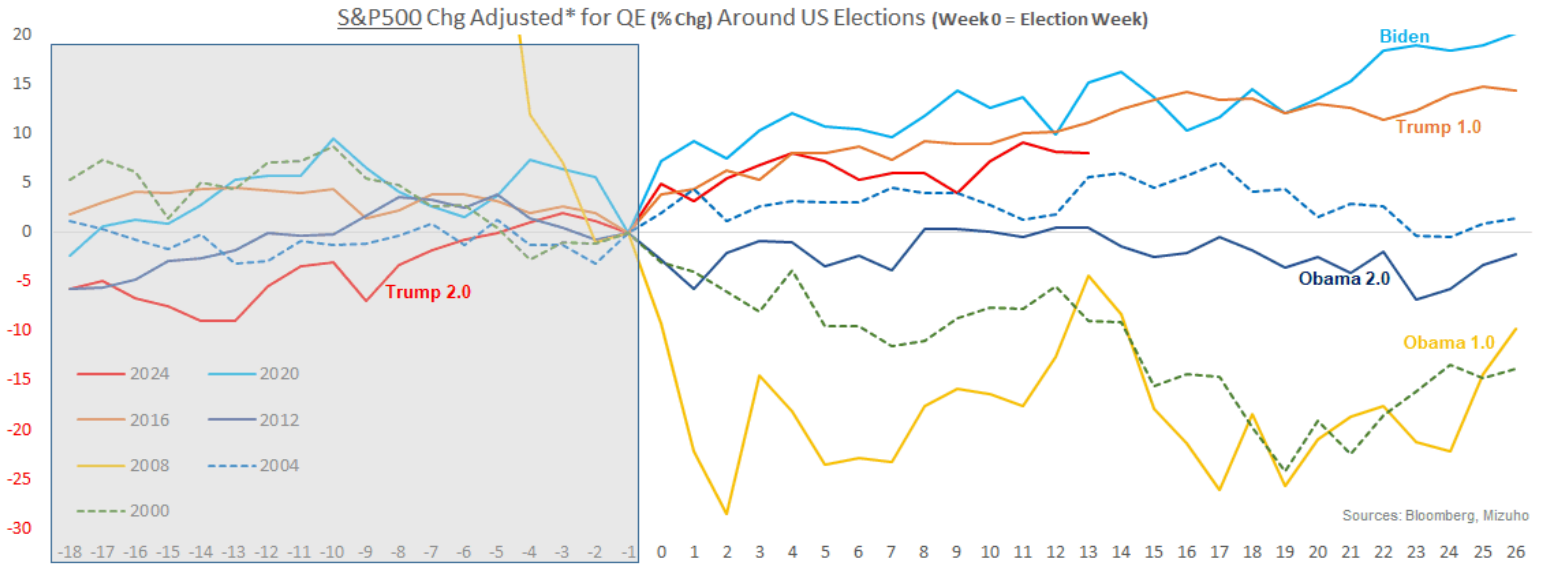


Fed & Equities: Trump Effect Validated, but Equities Highly Sensitive to Fed Policy

1. **Fed QE** (Balance Sheet) has **Significant Sway on Equities** (via cheap Liquidity)
2. **Adjusting for Fed QE Effects, Trump Premium is Validated, (albeit Not Nuanced?)**



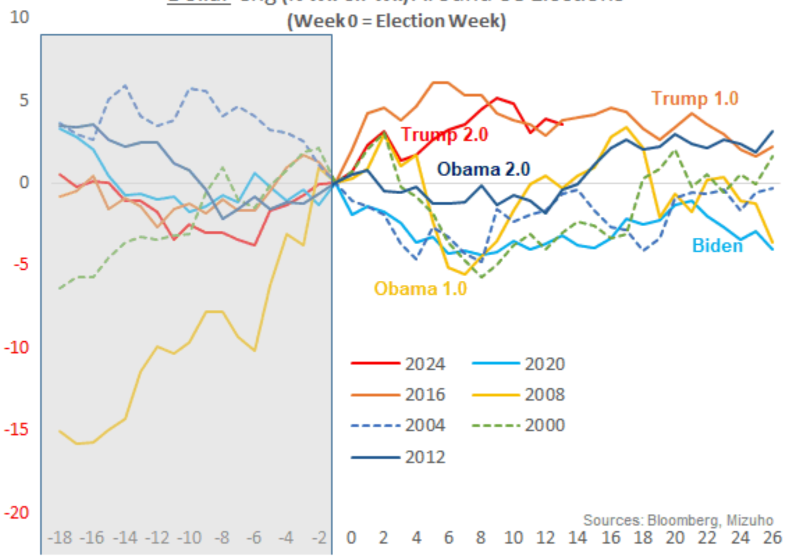




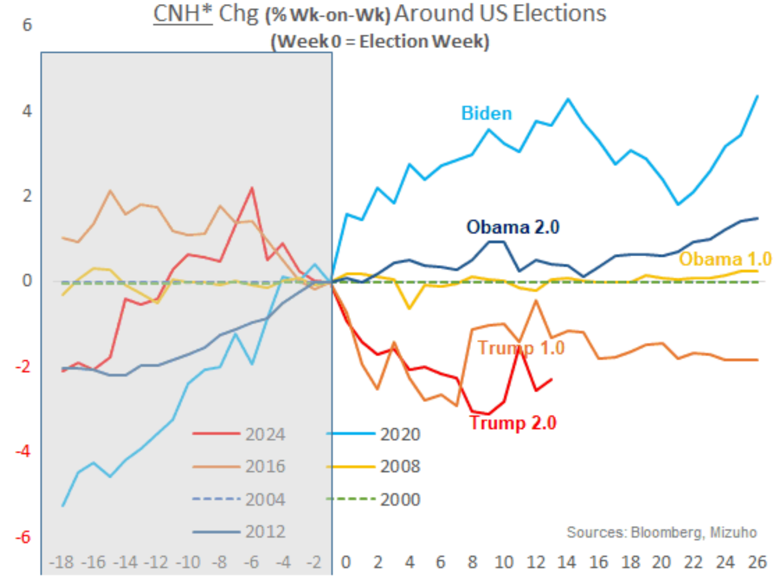
Fed & USD: Trump's Incongruence (Effects vs. Intent) & the Fed's Influence

1. **USD Strength is Not Typical Post-Elections, but Some Currency to Inadvertent Trump Boost for Greenback.**
2. But again, the **Fed's Cycle** is Not Only **Highly Relevant** but *Could Even Override.*

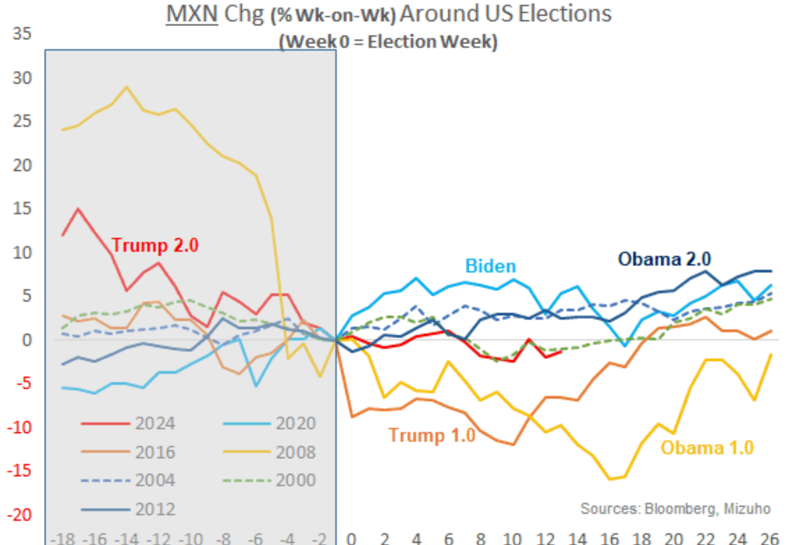
Dollar Chg (% Wk-on-Wk) Around US Elections
(Week 0 = Election Week)



CNH* Chg (% Wk-on-Wk) Around US Elections
(Week 0 = Election Week)



MXN Chg (% Wk-on-Wk) Around US Elections
(Week 0 = Election Week)



EUR Chg (% Wk-on-Wk) Around US Elections
(Week 0 = Election Week)