

Jan 31, 2025

Three Take-Aways

1) President Trump's jarring reminder of 25% tariffs on Mexico and Canada starting 1st Feb sinks MXN, CAD; props up USD.

3) ECB's widely expected 25bp E cut to 2.75%, still sees policy as restrictive. Markets more than fully pricing a March cut.

3) US investigating whether DeepSeek circumvented restrictions to attain advanced chips amplifies US trade antagonism risks for China.

MACRO THEME: Of Threats & Exceptionalism

- USD strength is underpinned by US trade tariff threats and US economic exceptionalism that is accentuated by consequent policy divergence.

- On tariff threats, *President Trump reiterating 25% tariffs on Canada and Mexico going live on 1st February* sent **MXN tumbling 1.2% and CAD 0.6%**; and this was off the lows.

- While it may well be that the 25% tariffs are meant to be leverage on re-negotiating the USMCA, the mercurial approach to bi-lateral trade relations by the US has trade partners on the back foot.

- To that end, the **pullback in EUR to sub-1.04** is at least *partly a reflection of Euro-zone's trade vulnerabilities to US tariffs* given the ~\$200bn trade deficit US has with EU.

- *But equally, US exceptionalism also features*, drawing a stark contrast to Europe's dire economic straits – with industries pressured by China and weak consumer confidence.

- Whereas the **rude health of US consumers**, reflected in a mind-boggling 4.2% annualized growth of consumption in Q4 GDP, **underscores US economic growth at** (2.8% for 2024) **four times the pace of Europe's anemic** (~0.7%) projection) **growth conditions**. This in turn drives a **significant wedge in monetary policy stance**, with a *far more dovish* (in action) **ECB** compared to a more restrained Fed.

ECB: One Additional Cut But Worlds Apart

- **On paper, the ECB's** widely expected, fifth (consecutive) **cut is only one** (a mere 25bp) **more than the Fed** has undertaken.

- **But** once starting points, the existing stance and the overriding risks are accounted for, the **differences are remarkable**.

- Notably, starting points matter. And the **ECB's much lower peak rate** means that even if it has only cut **an additional 25bp cut** (to 2.75%) the **Fed-ECB rate gap is a staggering 1.50-1.75%-pts**.

- What's more, and crucially, the **ECB continues to describe policy rate as still being restrictive**.

- And if that portends another cut (as is still widely expected) at the next meeting in March, then it may **only be at 2.50% that the ECB may drop reference to "restrictive"**.

- This is **at odds with a Fed that suggests its close to neutral**, which may be in the **3.00-3.50% vicinity**. And so, a more **chronic rate spread** could be **persistent feature of underlying policy structure, rather than a temporary blip of asynchronous cycles**.

DATA/EVENTS

Yesterday/ Over the Holidays	Actual	Exp.	Prior
(US) Durable Gds Orders (Dec P)	-2.2%	0.6%	-2.0%
(AU) CPI YoY (Dec/4Q)	2.5%/2.4%	2.5%/2.5%	2.3%/2.8%
(US) FOMC (Lower/Upper Bound)	4.25%/4.50%	4.25%/4.50%	4.25%/4.50%
(PH) GDP YoY/SA QoQ	5.2%/1.8%	5.5%/1.9%	5.2%/1.7%
(US) GDP Annualized QoQ (4Q A)	2.3%	2.6%	3.1%
(EZ) Unemployment Rate (Dec)	6.3%	6.3%	6.2%
(EZ) ECB Deposit Facility Rate	2.75%	2.75%	3.00%
(EZ) GDP SA YoY/QoQ (4Q A)	0.9%/0.1%	1.0%/0.1%	0.9%/0.4%
Today	Actual	Exp.	Prior
(JP) Retail Sales YoY (DeC)	3.7%	3.2%	2.8%
(AU) PPI YoY (4Q)	--	--	3.9%
(TH) Current Account Bal. (DeC)	--	\$2200m	\$2034m
(US) Personal Income (Dec)	--	0.4%	0.3%
(US) Personal Spending (DeC)	--	0.5%	0.4%
(US) MNI Chicago PMI (Jan)	--	40.00	36.90

- In which case, the **case for FX reversion to pre-tightening cycles may be challenged**. Accordingly, **USD could partially resist rate cuts to retain a greater portion of its** (hiking cycle) **strength**, and perhaps for longer, **than received wisdom would otherwise suggest**.

Bessent's Goldilocks USD Policy

- Especially so (this **persistence of USD strength**) in a world with less **compelling fiat alternatives**.

- The question of global consequence is **how US Treasury Secretary Scott Bessent attains that "Goldilocks" USD**, which strikes a **delicate balance between dominance** (as a reserve currency) and **trade/industrial compatibility** but not excessively strong.

- To be sure, Bessent has been unequivocal about how **critical it is to have the USD as the uncontested global reserve currency**.

- Yet, there is the opposing (but not incompatible) objective of a USD that is **not so strong that it suppresses US industrial/manufacturing viability**. We expect that mix of conditions for; i) further Fed cuts; ii) fiscal consolidation (via spending cuts) and; iii) tariffs that are tempered as tools of negotiation to nudge, but not "go nuclear" must be parts of a dynamic response.

China: DeepSeek Deepens Tariff Threats

DeepSeek has deepened threats of US trade antagonism for China, highlighting the high-stakes involved in the AI "arms race". Unsurprisingly, the stellar efficiencies that DeepSeek has demonstrated has drawn awe, ire and antagonism in equal parts Which has led the **US is investigating DeepSeek for flouting US restrictions to attain advanced Nvidia chips** and further **exploring the efficacies of existing chip/upstream high-tech restrictions**.

Concurrently, OpenAI* is also investigating if DeepSeek used OpenAI's API to accelerate "training" results. The upshot is that the **enlarged strategic elements of geo-political dominance involved** means that the risks of **harsher US trade/industrial antagonism against China will likely mount**. And the **ASEAN will not be exempt from collateral damage** given inextricable supply-chain linkages. For now, Singapore is being scrutinized to see if Nvidia chips were routed to China via third party firms in the city state.

* Notably, OpenAI faces lawsuits for copyright infringement.

Yields (2Y: -0.8bp; 10Y: -1.3bp; 30Y: -0.9bp)

- USTs yields edged slightly lower after the post FOMC rise the previous day.

Equities (Nasdaq: +0.3%; S&P 500: +0.5%; Dow: +0.4%)

- US equities recover, with some late session wobbles.

FX (DXY: -0.2%)

- Despite softer UST yields, USD gained traction against most G10 peers to reflect US exceptionalism. USD/JPY a notable exception as BoJ Governor Himino stated that real interest rates should not stay negative.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	154.29	154.16	▼0.60%	152.80 - 156.80
EURUSD	1.0391	1.0396	▼0.29%	1.0330 - 1.0520
GBPUSD	1.2419	1.2422	▼0.27%	1.2320 - 1.2550
AUDUSD	0.6209	0.6214	▼0.35%	0.6200 - 0.6320
DXY	107.8	--	▼0.19%	106.8 - 108.0
USDCNY	7.2446	--	+0.00%	7.2300 - 7.2800
USDCNH	7.2934	7.2854	+0.38%	7.2400 - 7.2900
USDHKD	7.7916	7.7914	▼0.01%	7.7750 - 7.8000
USDSGD	1.3527	1.3522	+0.24%	1.3400 - 1.3640
USDKRW	1448	1442	+0.00%	1425 - 1445
USDTWD	32.69	--	+0.00%	32.50 - 33.00
USDINR	86.63	--	+0.08%	86.00 - 86.70
USDIDR	16260	--	+0.54%	16050 - 16350
USDMYR	4.395	4.394	+0.00%	4.330 - 4.440
USDPHP	58.31	--	▼0.21%	58.10 - 58.80
USDTHB	33.73	33.62	▼0.11%	33.5 - 34.1
USDVND	25082	25084	+0.00%	25000 - 25200

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.208	4.517	-0.8	-1.3
JGB (JP)	0.708	1.209	1.6	2.0
Bunds (GE)	2.199	2.517	-6.8	-6.5
Gilts (UK)	4.251	4.560	-7.3	-6.1
AGB (AU)	3.783	4.379	0.8	0.9
SGS (SG)	2.793	2.876	0.7	0.0
CGB (CN)	1.259	1.627	0.0	0.0
KGB (KR)	2.858	2.660	-0.9	-0.8
SDL (IN)	6.681	6.614	0.5	1.6

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	160.32	160.25	▼0.89%
GBP/JPY	191.612	191.491	▼0.86%
JPY/SGD (100yen)	0.8763	0.8772	+0.78%
JPY/HKD (100yen)	5.0511	5.0543	+0.58%
CNH/JPY	21.313	21.274	▼0.42%
CNH/HKD	1.0754	1.0754	▼0.01%
EUR/GBP	0.83683	0.83686	▼0.02%
AUD/NZD	1.1019	1.1028	+0.05%
EUR/CNH	7.5793	7.5742	+0.08%
GBP/CNH	9.0556	9.0498	+0.13%

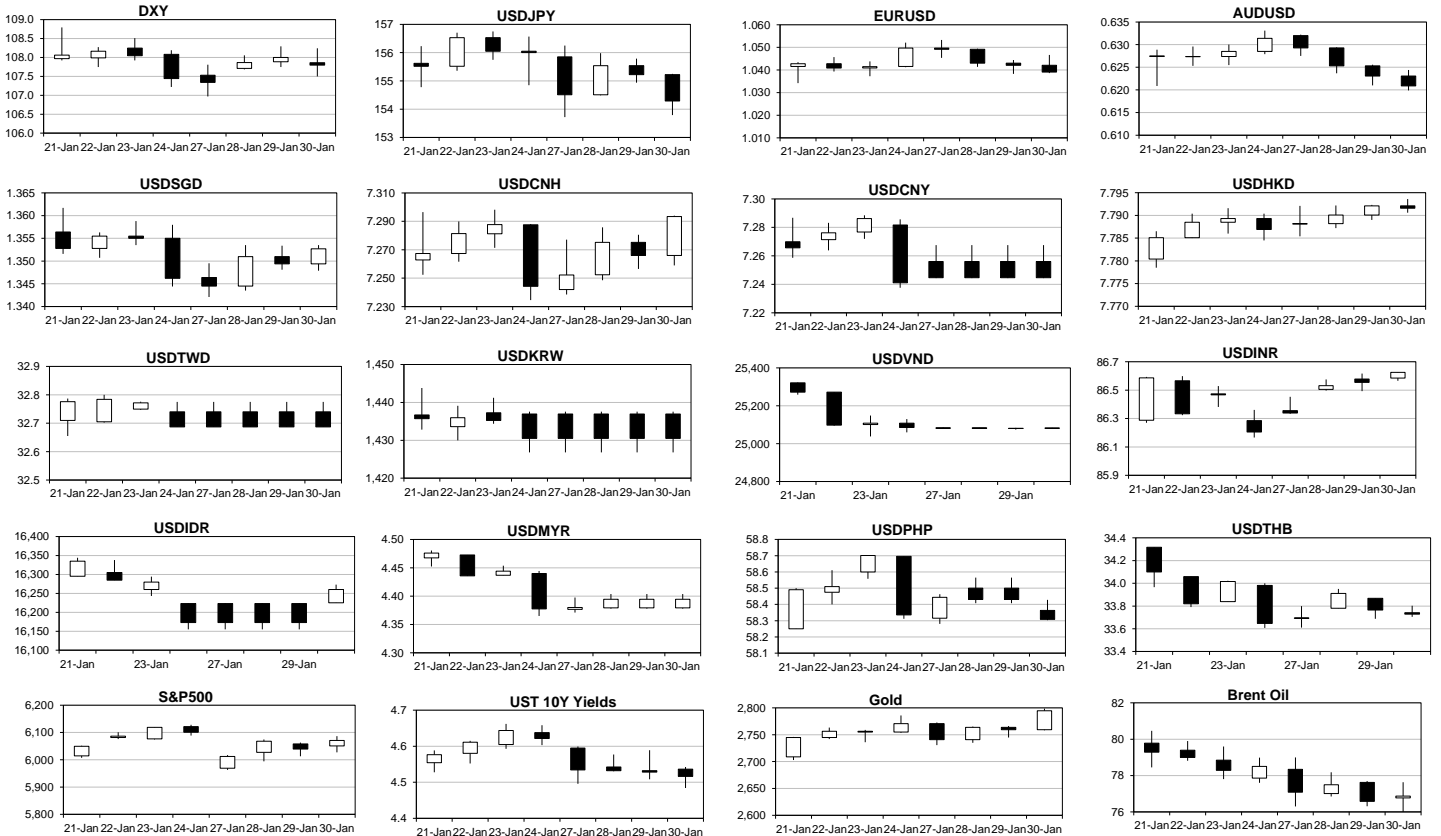
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6071.17	31.86	+0.53%
Nasdaq (US)	19681.75	49.43	+0.25%
DJIA (US)	44882.13	168.61	+0.38%
N225 (JP)	39513.97	99.19	+0.25%
STOXX50 (EU)	5282.21	51.55	+0.99%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4693.65	48.77	+1.05%
STI (SG)	3801.07	0.00	+0.00%
SHCOMP (CN)	3250.601	0.00	+0.00%
SZCOMP (CN)	1911.088	0.00	+0.00%
HSI (HK)	20225.11	0.00	+0.00%
SENSEX (IN)	76759.81	226.85	+0.30%
JSE (ID)	7073.478	-92.58	▼1.29%
KOLSE (MY)	1552.69	0.00	+0.00%
PSE (PH)	6107.66	-45.81	▼0.74%
SET (TH)	1335.64	-7.55	▼0.56%
VNINDEX (VN)	1265.05	0.00	+0.00%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,008.68	64.88	+0.73%
IRON ORE (CN)	101.60	0.16	+0.05%
GOLD	2,794.59	35.23	+1.28%
SILVER	31.60	-0.12	▼3.88%
OIL (BRENT)	76.87	0.29	+0.38%
OIL (WTI)	72.73	0.11	+0.15%
NATURAL GAS	3.05	0.75	+2.42%

CHARTS



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