

Feb 04, 2025

## Three Take-Aways

1) **Tariffs on Mexico and Canada have been delayed by a month on a last-minute border deal involving commitment of border troops to check immigration and drugs.**

2) **Relief on the tariff stay order triggers a resounding rebound in MXN, CAD, that lifts G10 FX and AXJ more broadly.**

3) **CNH also bounces on assumed relief (from a deal with Beijing) emboldened by the assumption of tariffs being deployed as a negotiation tool.**

## MACRO THEME: Kicking Cans

- **Interim relief** came through **as President Trump kicked the can on (planned 25%) tariffs to be imposed on Mexico and Canada.**

- **Mexico:** President Trump **delayed tariffs (due 4<sup>th</sup> Feb) by a month** as Mexican President Claudia Sheinbaum committed to 10,000 National Guards at the border to tackle the illegal passage of immigration and drug.

- **Canada:** Similarly, **Canada also has bought itself 30 days** with President Trudeau also reportedly committing to 10,000 troops at the border.

- Consequently, **MXN** (back at 20.40 from testing 21.20) and **CAD** (back at 1.44 after flirting with 1.48) **have both fully retraced the losses** from the tariff jolt over the. This **turns the attention to the fate of impending China tariffs, with Trump set to speak with President Xi today.** And the **temptation may be to conclude that Presidents Trump and Xi will reach a deal to temporarily suspend 10%-(pt increase in) levy.**

- Such a **deal might imaginably involve Beijing's commitments to curb the flow of chemical components of fentanyl**, which are allegedly being shipped out of China. **CNH has already assumed this deal, pulling back from 7.37+ highs yesterday to 7.30. Extending CNH rebound to 7.26-7.28 is not outlandish**, although two-way interest set to resurface at sub-7.30 favours being nimble and opportunistic.

## Relief, Not Resolution

- But **relief is not the same thing as a resolution.** Afterall, **President Trump has warned that tariff plans remain intact.** And even if one (understandably) is not inclined to take Trump at his word, the **unavoidable question of "what then?" when the month's grace is over demands caution**, if not answers.

- Moreover, and quite glaringly, there are **no clear quantifiable metrics to gauge thresholds for desired outcomes over the month** on which tariff decisions may be based.

- What's more, **Trump's threat of "definite" tariffs to be aimed at the Euro-zone** means that **tariffs risks have not ridden off into the sunset.** The upshot is that **notwithstanding the interim relief for Mexico and Canada (and potentially China as well) US-driven, unilateral, tariff/trade antagonism threats remain at large.**

- Accordingly, it **promises to be a bumpy ride for markets** in the weeks ahead.

## DATA/EVENTS

Yesterday/ Over the Holidays	Actual	Exp.	Prior
(KR) Industrial Production YoY (Dec)	5.3%	1.2%	0.1%
(AU) Retail Sales MoM (Dec)	-0.1%	-0.7%	0.8%
(ID) CPI/Core YoY (Jan)	0.8%/2.4%	1.8%/2.3%	1.6%/2.3%
<b>(EZ) CPI/Core YoY (Jan P)</b>	<b>2.5%/2.7%</b>	<b>2.4%/2.6%</b>	<b>2.4%/2.7%</b>
(US) ISM Manufacturing (Jan)	50.9	49.9	49.2

Today	Actual	Exp.	Prior
(US) JOLTS Quits Rate		--	1.9%
<b>(US) JOLTS Jobs Openings (Dec)</b>		<b>8000k</b>	<b>8098k</b>
(US) Factory Orders (Dec)		-0.7%	-0.4%
(US) Durable Gds Orders (Dec F)		-2.2%	-2.2%

Fed's Bostic Speaks

- Notably, **currency markets are set up to be the most sensitive** (as a trade adjustment mechanism with efficient pricing to boot) **to US tariff threats.** **EUR, CNH, AUD, KRW, THB and MYR remain on the line.** With **JPY/Crosses worth watching for abrupt two-way convulsions.**

## JPY Squeeze: Don't be Fooled by Correlation & Carry Quirks

On that note, **JPY picking up in the wake of tariffs (and now slipping back on relief)** is worth closer examination. Crucially, this **should not be mistaken for bona fide haven reflex.** Instead, it may be **quirks masquerading as strength into risk retrenchment.**

Specifically, we identify **two separate** (although at time coinciding) factors related to the **peculiarities of JPY carry** (and attendant unwind) as well as **negative Nikkei correlations.**

**First,** the **intense sell-off in FX markets led by the MXN, ZAR, NZD, EUR and AUD inevitably set off JPY carry squeeze/unwind entailing JPY buyback.**

**Second,** **risks of Nikkei sell-off on exporter stress** also adds to some element of **JPY lift given the negative correlation reflex between Nikkei and JPY.** Whereas **sweeping US tariffs hurting autos and chips** will inevitably end up **hurting Japanese exports earnings** with an **eventual drag on JPY.** **More so, if external headwinds** are assessed by the BoJ as justifiably cause to **hold off further tightening.**

**Yields (2Y: +5.1bp; 10Y: +1.6bp; 30Y: +0.3bp)**

- The bear flattening (albeit relatively mild) in the UST yield curve speaks to inflation risks slightly nudging out demand dent worries. But as we highlighted, the conviction behind the balance of opposing (growth vs. inflation) risks from tariffs remains flimsy at best.

**Equities (Nasdaq: -1.2%; S&P 500: -0.8%; Dow: -0.3%)**

- Equities recovered from the day's lows in the NY session as prospects of the tariff stay too some edge off. Futures in solid positive (but partial retracement) territory underpin relief, but arguably with justifiable overhang on the uncertainty. Scope for some rebound in Asian equities if Beijing pulls off a similar deal to buy time.

**FX (DXY: +0.0%)**

In tandem with the rebound in MXN and CAD that also lent some rebound momentum to EUR, USD (DXY) has eased, but not buckled, back to mid-108. Similarly, the CNH rebound has also lent itself to AUD bounce back to above 62 cents from sub-0.61 lows yesterday. Most other AXJ are likely to be poised for this relief bounce as well.

## China Risks: Not Just Leverage

**All eyes will be on the talk between Presidents Trump and Xi** later today. The first pass is whether a **deal to delay tariffs on China** is struck. But that is the **absolute low bar.** Whereas assessing where tariffs will head from here will be key. Fact is, the overarching geo-economic dimensions to US-China trade means that resolution will be far more fraught than is the case with Mexico and Canada. The **(tariff) tool may be the same. But the game is different** and higher stakes. Hence, **downside risks in CNH could prove harder to durably shake-off.**

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	154.73	155.26	▼0.30%	152.80 - 156.80
EURUSD	1.0344	1.0328	▼0.17%	1.0180 - 1.0300
GBPUSD	1.2450	1.2432	+0.44%	1.2200 - 1.2400
AUDUSD	0.6227	0.6218	+0.14%	0.6130 - 0.6280
DXY	108.4	--	+0.03%	106.8 - 110.0
USDCNY	7.2446	--	+0.00%	7.2300 - 7.3700
USDCNH	7.3114	7.3084	▼0.14%	7.2400 - 7.3700
USDHKD	7.7927	7.7926	+0.00%	7.7750 - 7.8000
USDSGD	1.3611	1.3600	+0.32%	1.3550 - 1.3800
USDKRW	1458	1462	+0.00%	1445 - 1480
USDTWD	32.98	--	+0.89%	32.50 - 33.10
USDINR	87.20	--	+0.67%	86.00 - 87.50
USDIDR	16435	--	+0.83%	16200 - 16500
USDMYR	4.474	4.465	+0.30%	4.420 - 4.500
USDPHP	58.66	--	+0.49%	58.10 - 58.80
USDTHB	34.03	33.85	+1.06%	33.6 - 34.4
USDVND	25291	25301	+0.83%	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)	4.250	4.557	5.1	1.6
JGB (JP)	0.724	1.244	0.6	0.5
Bunds (GE)	2.024	2.383	-8.6	-7.5
Gilts (UK)	4.158	4.486	-5.5	-5.1
AGB (AU)	3.731	4.379	-6.6	-5.0
SGS (SG)	2.805	2.891	-0.1	-1.8
CGB (CN)	1.259	1.627	0.0	0.0
KGB (KR)	2.836	2.662	0.3	5.1
SDL (IN)	6.667	6.577	-0.8	0.6

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	160.06	160.35	▼0.45%
GBP/JPY	192.642	193.019	+0.14%
JPY/SGD (100yen)	0.8792	0.876	+0.59%
JPY/HKD (100yen)	5.0358	5.0191	+0.30%
CNH/JPY	21.354	21.431	+0.11%
CNH/HKD	1.0757	1.0756	+0.01%
EUR/GBP	0.83084	0.83076	▼0.62%
AUD/NZD	1.1061	1.105	+0.40%
EUR/CNH	7.5638	7.5481	▼0.35%
GBP/CNH	9.1027	9.0858	+0.31%

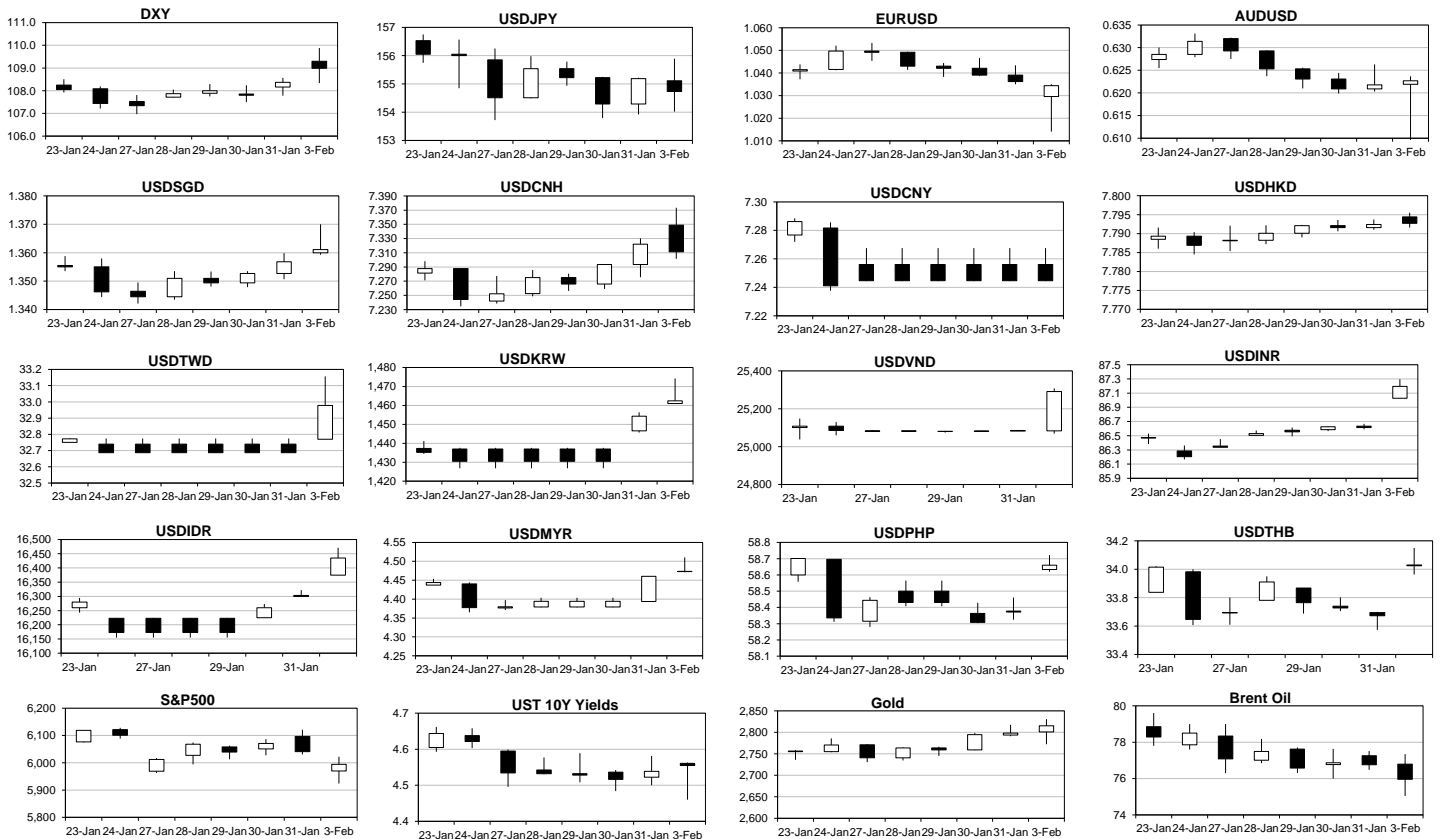
\*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5994.57	-45.96	▼0.76%
Nasdaq (US)	19391.96	-235.48	▼1.20%
DJIA (US)	44421.91	-122.75	▼0.28%
N225 (JP)	38520.09	-1052.40	▼2.66%
STOXX50 (EU)	5217.91	-68.96	▼1.30%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4660.82	-49.76	▼1.06%
STI (SG)	3826.47	-29.35	▼0.76%
SHCOMP (CN)	3250.601	0.00	+0.00%
SZCOMP (CN)	1911.088	0.00	+0.00%
HSI (HK)	20217.26	-7.85	▼0.04%
SENSEX (IN)	77186.74	-313.83	▼0.40%
JSE (ID)	7030.058	-79.14	▼1.11%
KLSE (MY)	1553.63	-3.29	▼0.21%
PSE (PH)	5883.04	20.45	+0.35%
SET (TH)	1304.39	-10.11	▼0.77%
VNINDEX (VN)	1253.03	-0.01	▼0.95%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,978.57	50.10	+0.56%
IRON ORE (CN)	104.78	3.24	+3.14%
GOLD	2,815.21	16.80	+0.60%
SILVER	31.60	0.31	+10.12%
OIL (BRENT)	75.96	-0.80	▼1.04%
OIL (WTI)	73.16	0.63	+0.87%
NATURAL GAS	3.35	0.29	+0.94%

## CHARTS



## RESEARCH TEAM

Vishnu Varathan | Serena Zhou | Ken Cheung | Tan Boon Heng | Tan Jing Yi

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