

Feb 25, 2025

## Three Take-Aways

1) **Trump's renewed focus on looming tariffs on Mexico and Canada, dismal manufacturing data and elevated geo-political uncertainties dent risk sentiments and aided UST rallies.**

2) **Trump's explicit targeting of China via executive orders douse the Chinese equities rally.**

3) **Bank of Thailand face a tough call balancing longer term financial stability and near term growth needs and we lean towards a cautious cut tomorrow.**

## MACRO THEME: On Course, Wrong Course?

- Risks sentiments continued their downbeat tone as **US equities had a bad start to the week** amid dismal manufacturing data and renewed tariff threats putting in doubt the efficacy of negotiations.

- US President Donald Trump said that **tariffs on Canada and Mexico** which were delayed until 4 March are **on time and on schedule**. Nonetheless, there were follow-up remarks from US official which displayed more conditionality of his tariffs.

- Meanwhile, **Trump's executive orders on China sent China tech shares (Nasdaq Golden Dragon Index: -5.2%) on the wrong course** after the recent rally. In a more direct manner, his memo renewed scrutiny of accounting practices of these firms and increasingly limited investments of US pension and endowment funds in high tech sector in China. Indirectly, measures also range from shipping fees and raised the bar for foreign entities to buy US companies and properties.

- On the geopolitics front, the US did an about-turn and voted against an European resolution in the UN which calls out Moscow's full scaled invasion. Given the lack of confirmation from the US on European involvement in peace talks even after French President Macron's visit, security guarantees appear a lost cause amid a quest for minerals in both Russia and Ukraine. EUR was weighed below 1.05 staying cautious given the elevated uncertainty and a likely ramp up in spending on defense to see higher borrowing needs in Germany.

## Yields (2Y: -2.4bp; 10Y: -3.1bp; 30Y: -2.3bp)

- Amid the downbeat risk sentiments, UST yields fell across the curve with strong demand at 2Y auctions.

## Equities (Nasdaq: -1.2%; S&P500: -0.5%; Dow: +0.1%)

- US equities sold-off as big tech weigh on news of data center contract cancellations from Microsoft which sent semiconductor counters tumbling.

## FX (DXY: -0.0%)

- In general, amid the risk off backdrop, the **USD retained traction** against most G10 peers. Unsurprisingly, the CAD underperformed under the looming tariff threats. This morning, USD/JPY remains buoyed above 150. AUD slippage extended to below mid-63 cents.

- In EM-Asia, the USD/SGD rose towards 1.34 and regional peers will find their early week gains at risks.

## China: Divergent Manufacturing?

- After the Chinese New Year holiday, high-frequency indicators associated with manufacturing activities showed a lack of recovery. Demand for manufacturing raw materials, such as thermal coal and PTA, has exhibited limited improvement in February.

- Additionally, shipping prices for exports softened further in February, indicating slower export demand. However, high-end manufacturing remains resilient, with factory operation rates for semi-steel and all-steel tires rebounding quickly. Overall, we expect a milder recovery in China's official manufacturing PMI, rising to 49.8 in February from January's 49.1.

- Looking ahead, we expect the Chinese government to prioritize efforts to guide a moderate increase in prices and potentially adopt a more binding CPI target of "around 2%", rather than maintaining the old range of "below 3%." Such a decision, if any, will be unveiled at the National People's Congress expected in early March.

## Bank of Thailand: High Hurdle and Close Call

- As far as subjectivity goes in monetary policy making, the Bank of Thailand's upcoming meeting remains a **highly subjective call** as they weigh an array of **economic indicators against financial stability and fiscal policy directions** in terms of both the extent and quality of support.

- It is not a stretch to characterise the **current pace of growth as weak** with GDP growth at just 2.4% in 2024, the slowest among ASEAN peers and only faster than Korea within Asia.

- Headline inflation has returned to the BoT target range while core inflation is slightly elevated at 0.8% is slightly above pre-pandemic trends. **Policy easing re-igniting inflation is certainly not a worry** here especially amid the dismal economic expansion.

- As such, the restraint on policy easing points to the BoT's preference to **anchor the current debt deleveraging process** as household debt to GDP ratio remains highly elevated at 89% of GDP and is in need to return to **more sustainable levels**.

- On this perspective of longer term sustainability, the BoT's reluctance on easing also serves as a reminder that much of **longer term growth rest on fiscal policies** to improve productivity and that keeping the policy rate elevated serves as providing a **robust hurdle rate to ensure an efficient allocation of resources**. From the financial stability perspective, while the **NPL ratio declined in Q4**, some of it was due to **reclassification** of debts under debt restructuring programs rather than economic recovery. In turn, credit channels remain impair as loan growth remain dire.

- All in, we expect a **split decision which leans marginally towards a rate cut** in which the BoT will continue to emphasize that longer term productivity require cooperation from fiscal policy and push back against further rate cuts.

## DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(SG) CPI/Core YoY (Jan)	1.2%/0.8%	2.3%/1.5%	1.6%/1.8%
(US) Dallas Fed Mfg Activity (Feb)	-8.3	6.4	14.1
(US) Chicago Fed Nat Activity Index (Jan)	0.0	-0.1	0.2
(EZ) CPI/Core YoY (Jan F)	2.5%/2.7%	2.5%/2.7%	2.4%/2.7%
(GE) IFO Current Assessment (Feb)	85.0	86.3	86.1
(GE) IFO Business Climate (Feb)	85.2%	85.8	85.1

Today	Actual	Exp.	Prior
(TH) Customs Exports/Imports(Jan)		7.4%/2.5%	8.7%/14.9%
(TW) Industrial Production YoY (Jan)		9.3%	20.0%
<b>Bok Policy Rate Decision</b>		<b>2.75%</b>	<b>3.00%</b>
(JP) Machine Tool Orders (Jan F)		--	4.7%
(US) Conf. Board Consumer Confidene (Feb)		102.70	104.10
(US) Richmond Fed Mfg Index (Feb)		-3.0	-4.00

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	149.72	149.87	+0.30%	147.50 - 151.00
EURUSD	1.0468	1.0461	+0.10%	1.0380 - 1.0580
GBPUSD	1.2625	1.2617	▼0.06%	1.2550 - 1.2780
AUDUSD	0.6350	0.6338	▼0.11%	0.6300 - 0.6430
DXY	106.6	--	▼0.02%	106.0 - 107.0
USDCNY	7.2463	--	▼0.08%	7.2100 - 7.2900
USDCNH	7.2532	7.2566	▼0.02%	7.2000 - 7.2900
USDHKD	7.7748	7.7742	+0.06%	7.7500 - 7.7900
USDSGD	1.3387	1.3393	+0.16%	1.3240 - 1.3450
USDKRW	1430	1430	+0.00%	1425 - 1445
USDTWD	32.72	--	▼0.11%	32.50 - 33.00
USDINR	86.71	--	▼0.01%	86.30 - 87.00
USDIDR	16275	--	▼0.18%	16150 - 16450
USDMYR	4.411	4.413	▼0.16%	4.380 - 4.450
USDPHP	57.82	--	▼0.22%	57.60 - 58.30
USDTHB	33.51	33.54	▼0.31%	33.3 - 33.8
USDVND	25477	25478	▼0.17%	25400 - 25650

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

## MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.176	4.401	-2.4	-3.1
JGB (JP)	0.811	1.423	0.0	0.0
Bunds (GE)	2.083	2.476	-1.9	0.7
Gilts (UK)	4.223	4.563	-0.2	-0.8
AGB (AU)	3.838	4.437	-6.6	-7.5
SGS (SG)	2.723	2.848	-1.4	-2.1
CGB (CN)	1.463	1.790	1.5	4.0
KGB (KR)	2.829	2.674	-2.3	-2.4
SDL (IN)	6.704	6.594	-0.5	0.0

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	156.72	156.77	+0.37%
GBP/JPY	189.025	189.077	+0.21%
JPY/SGD (100yen)	0.8943	0.8937	▼0.10%
JPY/HKD (100yen)	5.1933	5.1875	▼0.22%
CNH/JPY	20.644	20.682	+0.39%
CNH/HKD	1.0729	1.0729	+0.15%
EUR/GBP	0.82912	0.82915	+0.15%
AUD/NZD	1.1076	1.1069	+0.05%
EUR/CNH	7.5932	7.5911	+0.07%
GBP/CNH	9.1588	9.1553	▼0.07%

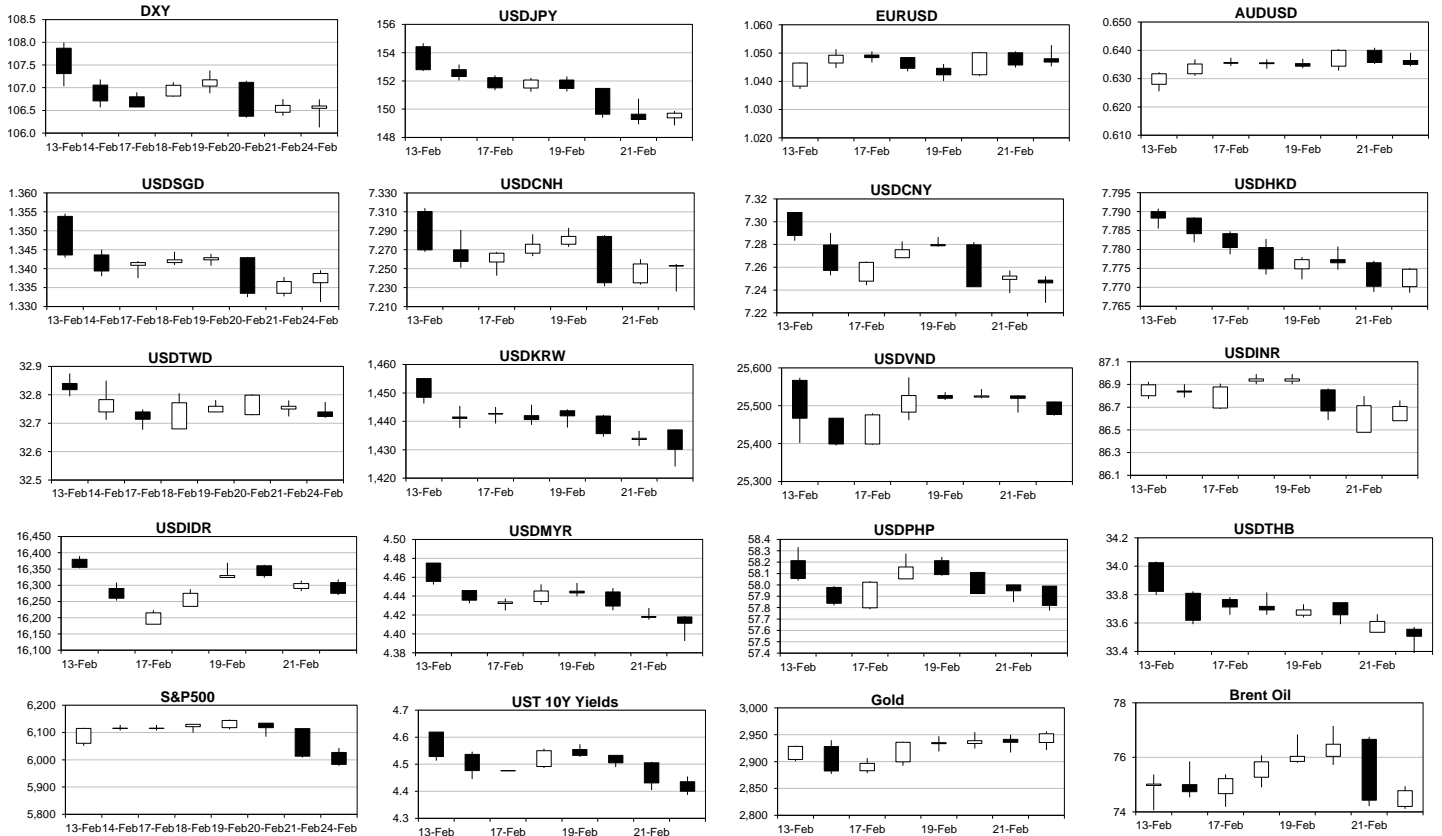
\*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5983.25	-29.88	▼0.50%
Nasdaq (US)	19286.93	-237.08	▼1.21%
DJIA (US)	43461.21	33.19	+0.08%
N225 (JP)	38776.94	0.00	+0.00%
STOXX50 (EU)	5453.76	-21.09	▼0.39%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4689.4	-3.95	▼0.08%
STI (SG)	3927.75	-2.19	▼0.06%
SHCOMP (CN)	3373.028	-6.09	▼0.18%
SZCOMP (CN)	2091.462	2.65	+0.13%
HSI (HK)	23341.61	-136.31	▼0.58%
SENSEX (IN)	74454.41	-856.65	▼1.14%
JSE (ID)	6749.601	-53.40	▼0.78%
KLSE (MY)	1584.25	-6.78	▼0.43%
PSE (PH)	6095.97	-2.07	▼0.03%
SET (TH)	1235.85	-10.36	▼0.83%
VNINDEX (VN)	1304.56	0.01	+0.60%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,489.49	-29.35	▼0.31%
IRON ORE (CN)	107.57	1.11	▼0.03%
GOLD	2,951.73	15.68	+0.53%
SILVER	32.35	-0.24	▼5.67%
OIL (BRENT)	74.78	0.35	+0.47%
OIL (WTI)	70.70	0.30	+0.43%
NATURAL GAS	3.99	-0.11	▼0.33%

## CHARTS



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