

Feb 26, 2025

Three Take-Aways

- 1) Mounting US trade antagonism dents risk sentiments and tech.
- 2) China risks re-emerge prominently as Trump tightens Biden-era chips sanctions with North Asia spill-over
- 3) Softer UST yields will do little to assuage in Asia. CAD and MXN fret (25%) tariff kick-off next week.

MACRO THEME: Trade-Off, No Exceptions

- Markets stumbled into **emphatic “risk off”** on US trade antagonism as *Trump 2.0 tariffs widened, with notable tightening of Biden-era chips restrictions on China*. Apart from mounting tariffs on China, the **delayed (25%) tariffs on Canada and Mexico “on track” to kick-in next week exacerbated trade-driven retrenchment of risk**. In addition, **increasing doubts cast on the US exceptionalism narrative** amid downside data/sentiments surprise further dented risk appetite on Wall St.

Yields (2Y: -8.0bp; 10Y: -10.6bp; 30Y: -10.0bp)

- Flight to safety apparent as UST yields dived across the curve.

Equities (Nasdaq: -1.4%; S&P500: -0.5%; Dow: +0.4%)

- Nasdaq plunged on Mag 7 woes with Tesla's 8.4% plunge leading loss. Without the tech drag, Dow gained.

FX (DXY: -0.3%)

- Lower UST yields guided USD weaker. USD/JPY sank to below 149 while the EUR rose to above 1.05.

China' Mounting Industrial Risks

Our long-standing **misgiving about premature hopes** (earlier) of, much less relief about, **measured and ring-fenced US-China trade conflict** are **validated**. The **Trump Administration** is not only **widening the scope of tariffs and trade actions** trained on China but is also **tightening on the Biden-era chips restrictions** placed on Beijing. In other words, **Beijing is now subject to both upstream supply-chain risks over and above barriers to exports**. What's more, **worryingly for Beijing, US trade partners** (e.g. Korea, Vietnam, Mexico) appear to be **considering tariffs on Chinese goods that match those by the US**, if they have not already done so. As we have warned before, it is **recklessly complacent to brush off all tariff threats from the US as a bluff** that is meant as leverage. **Especially not in China's case**. Fact is, the **US intends to inflict significant industrial pain** compromising tech/manufacturing advantage.

Consequent economic pain from industrial headwinds appears inevitable. Particularly as Beijing would have benefitted from industrial-led lift to the economy. What this means is that **China's deflationary pressures onshore is prone to intensify as the ability to export this capacity elsewhere is impeded**. In turn, this raises the urgency to dole out and front-load significant fiscal stimulus to blunt the pain. Regardless, downside CNH risks will mount. Elsewhere, **China risks will spillover into the North Asia FX space** (e.g. KRW, TWD and even JPY) *as upstream, high-tech exports from these countries to China are threatened by US sanctions*.

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(TH) Customs Exports/Imports(Jan)	13.6%/7.9%	7.4%/2.5%	8.7%/14.9%
(TW) Industrial Production YoY (Jan)	5.1%	8.5%	20.0%
Bok Policy Rate Decision	2.75%	2.75%	3.00%
(JP) Machine Tool Orders (Jan F)	4.7%	--	4.7%
(US) Consumer Confidence (Feb)	98.3	102.7	104.1
(US) Richmond Fed Mfg Index (Feb)	6.0%	-3.0	-4.00

Today	Actual	Exp.	Prior
(AU) CPI/Trimmed Mean YoY (Jan)	2.5%/2.8%	2.6%/--	2.5%/2.7%
(AU) Construction Work Done (4Q)	0.5%	1.0%	1.6%
Bank Of Thailand Policy Rate	2.25%	2.25%	
(SG) Industrial Production YoY (Jan)		9.1%	10.6%
(TW) Unemployment Rate (Jan)		3.4%	3.4%
(TW) GDP YoY (4Q P)		1.8%	1.8%
(JP) Leading Index Cl (Dec F)			108.90
(US) New Home Slaes (Jan)		680k	698k

So the JPY's haven bid could be impaired, perhaps even reversed beyond a certain point.

Why Reciprocity is No Guarantee of Relief

Admittedly, there is a **compelling silver lining to reciprocal tariffs**: a pathway to dial back tariff threats. Specifically, *countries can pre-emptively lower effective tariffs on US imports to skirt any direct impact from US imposing reciprocal tariffs*.

This is **starkly at odds with the retaliatory clause in the initial Executive Order** on tariffs signed by President Trump, **which in principle elevated the risks of escalatory tariffs**. **But the relief is at best partial, if not wholly hollow** for two reasons.

First, the **Trump Administration's approach to tariffs may be layered**, or in other words, **additive**. In which case, circumventing reciprocal import tariffs will not provide relief from other dimensions tariffs (e.g. by products).

Second, and **crucially**, the **non-trade aspects of reciprocal tariffs can far outweigh** and overwhelm.

The Trump team suggesting **VAT and other non-tariff barriers are liable to attract reciprocal tariffs** warns of a staggering scale of reciprocal tariffs. What's more, **trade antagonism has been directed at regulatory impositions** that US (tech) companies may be liable for elsewhere (e.g. Digital Services tax). The upshot is that **Trump 2.0 tariffs appear to have an element of overreach far beyond international trade seeping into domestic taxation/regulations elsewhere**. What that means is that only reciprocity to the benefit of the US applies. Whereas all other trading nations remain vulnerable to the vagaries of "Trump tariffs".

Extracting Greater Gold Allure

"They don't give you gold medals for beating somebody. They give you gold medals for beating everybody." - **Michael Johnson, 1996 Olympics double (200m & 400m sprint) Gold medalist**

With the **distinct threat of expanding Trump 2.0 tariffs denting market sentiments, Gold appears to have held its ground** relatively well. This is despite the slip off the highs.

In fact, there is a case to be made that **even as the wider risk on "Trump trades" have been falling by the wayside**, gold has shone. Specifically, **Gold has shown remarkable resilience through higher real yields**, and not just purely on "Trump-flation" boost. Notably, **Gold has far outshone Bitcoin as a fiat hedge**.

Since Trump's inauguration speech, which may be deemed as the (policy) rubber meeting the road, **Gold is up 8% while Bitcoin is down 15%**. And this is **despite the additional "Trump regulatory boost" for Bitcoin** (and the wider crypto ecosystem), **which Gold does not enjoy**. We concur with the extensively discussed **bullish shift in Gold's dynamics driven by real institutional and central bank demand**. **Crucially, a more isolationist and antagonistic US prone to extraction** (in every sense of the word) of income/wealth from it global partners/creditors, may merely **accentuate the extraction of greater value for Gold**. In a perverse interpretation-application of Michael Johnson's **praise (and rise) of Gold** (medal), it can be attributed this time to the **US "beating (down on) everybody"**.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	149.03	149.08	▼0.46%	147.50 - 151.00
EURUSD	1.0514	1.0520	+0.44%	1.0380 - 1.0580
GBPUSD	1.2666	1.2673	+0.32%	1.2550 - 1.2780
AUDUSD	0.6344	0.6351	▼0.09%	0.6300 - 0.6430
DXY	106.3	--	▼0.27%	106.0 - 107.0
USDCNY	7.2510	--	+0.06%	7.2100 - 7.2900
USDCNH	7.2549	7.2524	+0.02%	7.2000 - 7.2900
USDHKD	7.7739	7.7735	▼0.01%	7.7500 - 7.7900
USDSGD	1.3363	1.3357	▼0.18%	1.3240 - 1.3450
USDKRW	1431	1434	+0.00%	1425 - 1445
USDTWD	32.81	--	+0.25%	32.50 - 33.00
USDINR	87.20	--	+0.57%	86.30 - 87.85
USDIR	16345	--	+0.43%	16150 - 16450
USDMYR	4.424	4.419	+0.29%	4.380 - 4.450
USDPHP	57.94	--	+0.20%	57.60 - 58.30
USDTHB	33.71	33.78	+0.60%	33.3 - 34.2
USDVND	25519	25520	+0.16%	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)	4.096	4.295	-8.0	-10.6
JGB (JP)	0.792	1.367	-1.9	-5.6
Bunds (GE)	2.060	2.457	-2.3	-1.9
Gilts (UK)	4.169	4.508	-5.4	-5.5
AGB (AU)	3.800	4.398	-3.8	-3.9
SGS (SG)	2.690	2.804	-3.1	-4.4
CGB (CN)	1.459	1.770	-0.3	-2.0
KGB (KR)	2.800	2.666	-10.0	-8.0
SDL (IN)	6.706	6.569	-0.5	-1.9

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	156.69	156.83	▼0.02%
GBP/JPY	188.772	188.915	▼0.13%
JPY/SGD (100yen)	0.8965	0.896	+0.25%
JPY/HKD (100yen)	5.2162	5.2145	+0.44%
CNH/JPY	20.574	20.559	▼0.34%
CNH/HKD	1.0721	1.0721	▼0.07%
EUR/GBP	0.8301	0.83014	+0.12%
AUD/NZD	1.108	1.1084	+0.04%
EUR/CNH	7.6277	7.6295	+0.45%
GBP/CNH	9.1888	9.1906	+0.33%

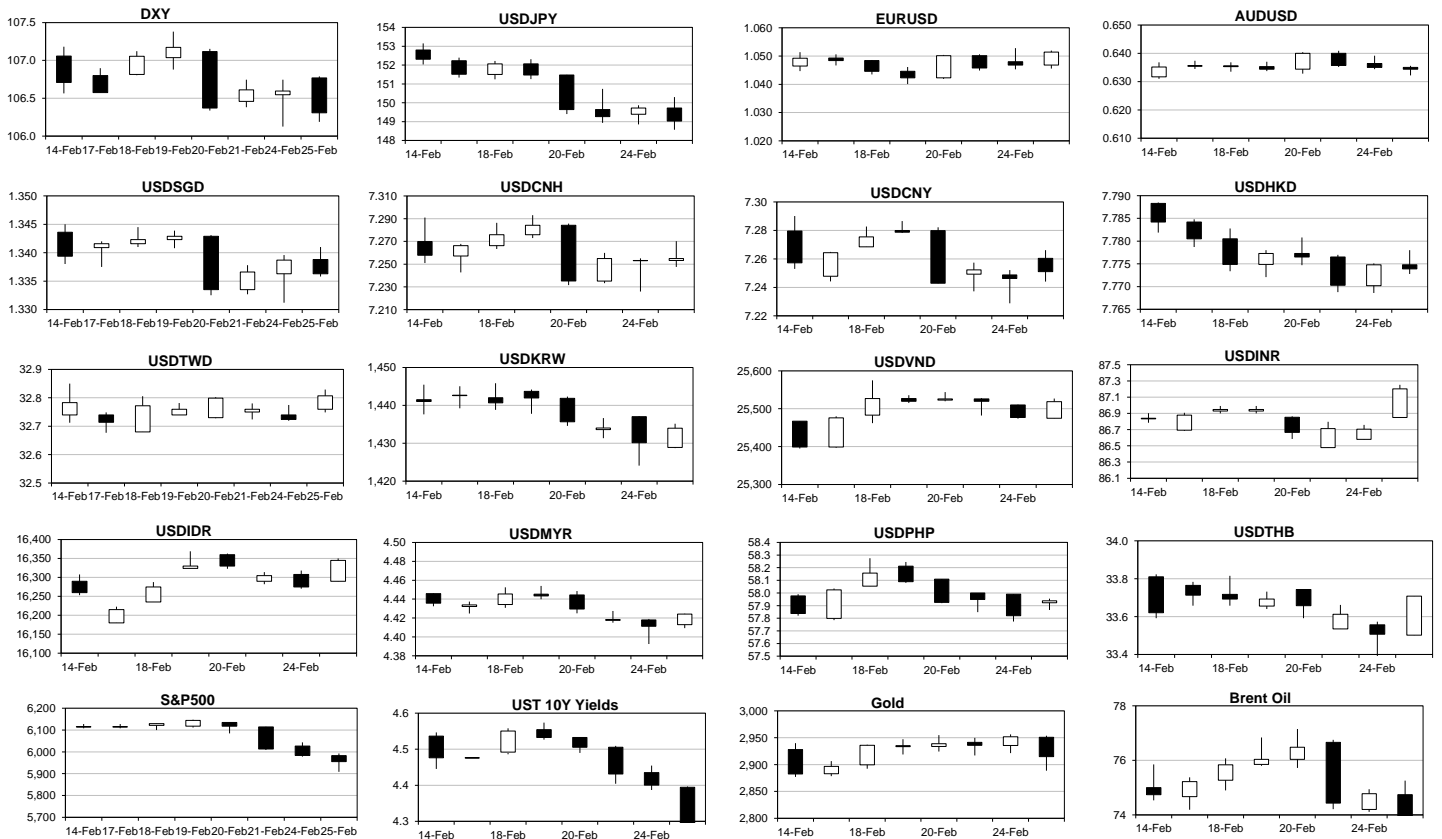
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5955.25	-28.00	▼0.47%
Nasdaq (US)	19026.39	-260.54	▼1.35%
DJIA (US)	43621.16	159.95	+0.37%
N225 (JP)	38237.79	-539.15	▼1.39%
STOXX50 (EU)	5447.9	-5.86	▼0.11%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4692.51	3.11	+0.07%
STI (SG)	3915.87	-11.88	▼0.30%
SHCOMP (CN)	3346.04	-26.99	▼0.80%
SZCOMP (CN)	2074.313	-17.15	▼0.82%
HSI (HK)	23034.02	-307.59	▼1.32%
SENSEX (IN)	74602.12	147.71	+0.20%
JSE (ID)	6587.087	-162.51	▼2.41%
KLSE (MY)	1568.03	-16.22	▼1.02%
PSE (PH)	6064.16	-31.81	▼0.52%
SET (TH)	1206.39	-29.46	▼2.38%
VNINDEX (VN)	1303.16	0.00	▼0.11%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,363.85	-125.64	▼1.32%
IRON ORE (CN)	107.10	0.20	▼0.44%
GOLD	2,914.98	-36.75	▼1.25%
SILVER	31.74	0.18	+4.51%
OIL (BRENT)	73.02	-1.76	▼2.35%
OIL (WTI)	68.93	-1.77	▼2.50%
NATURAL GAS	4.17	-0.61	▼1.89%

CHARTS



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