

Mar 04, 2025

Three Take-Aways

1) US's tariffs on Canada and Mexico to follow through while tariffs on China to double; Canada and China threatened retaliation.

2) US equities sold off and USTs rallied amid risk-off mood.

3) BNM set to hold amid resilient growth and contained inflationary pressures.

MACRO THEME: Tariff Face-Off

- Tariffs news filled headlines as Trump said he would follow through with new tariffs on Canada and Mexico effective today, while the White House said Trump **signed an order doubling tariffs on China to 20% effective today**, as Beijing had "not taken adequate steps" to address the flow of illicit fentanyl into the US.

- Targeted countries have threatened retaliation. Canada Foreign Minister Joly said the government is ready to go ahead with the retaliatory duties unveiled by PM Trudeau last month, which includes immediate levies of C\$30bn of US goods, including orange juice, peanut butter and coffee, as well as second tranche of duties in a few weeks on about \$86bn worth of products, including cars, trucks, steel and aluminium. Early this morning, Ontario Premier Ford added that Ontario will cut off nickel exports to the US. Mexico has yet to announce its response.

- Meanwhile, it was reported that **Beijing is considering retaliation on American agriculture and food products** in response to tariffs from the Trump administration.

- The next series of tariffs, due to take effect March 12, will be on specific sectors that includes a 25% tariff on steel and aluminium. Countries that may be more affected include Canada, China, Mexico, and Australia.

- Against this backdrop, US equities fell as US data stoked stagflationary fears, with **ISM manufacturing disappoint but with prices paid surprising to the upside**. Meanwhile, US Treasuries rallied, shrugging off continued cautious comments from Fed. Fed Musalem said policy should stay "modestly restrictive" until there is more evidence inflation is headed towards 2%, although he will be watching for any signs of inflation expectations becoming unanchored, or more evidence of a consumer pullback or a dampening of business confidence and investment plans.

- Amid the risk-off backdrop, Brent **Crude prices fell 2.1%** following the surprise move by OPEC+ to increase production by +138k bpd in April, defying expectations that the group would push back the restart for the fourth time amid weak (and uncertain) demand, expected supply surplus and Trump's calls for lower oil prices.

Yields (2Y: -3.9bp; 10Y: -5.3bp; 30Y: -4.0bp)

- UST yields fell across the curve.

Equities (Nasdaq: -2.6%; S&P500: -1.8%; Dow: -1.5%)

- US equities sold-off, erasing all gains from last Friday. Tech and energy counters led declines. Meanwhile, the Nasdaq Golden Dragon index slumped 3% amid escalating trade woes.

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(EZ) CPI/Core YoY (Feb P)	2.4%/2.6%	2.3%/2.5%	2.4%/2.7%
(US) ISM Manufacturing (Feb)	50.3	50.8	50.9
(US) ISM Prices Paid (Feb)	62.4	56.0	54.9
(ID) CPI/Core YoY (Feb)	-0.1%/2.5%	0.6%/2.4%	0.8%/2.4%
(SG) Purchasing Managers Index (Feb)	50.7	--	50.9
(CH) Caixin China PMI Mfg (Feb)	50.8	50.4	50.1
Today	Actual	Exp.	Prior
(AU) BoP C/A Balance (4Q)		-\$12.0b	-\$14.1b
(AU) RBA Minutes for Feb Meeting			
(AU) Retail Sales MoM (Jan)		0.3%	0.1%
(KR) Industrial Production YoY (Jan)		-2.0%	5.3%
(EZ) Unemployment Rate (Jan)		6.3%	6.3%
(JP) Capital Spending YoY (4Q)	-0.2%	5.0%	8.1%
(JP) Jobless Rate (Jan)	2.5%	2.4%	2.4%
(JP) Job-to-Applicant Ratio (Jan)	1.3	1.3	1.3

FX (DXY: -0.8%)

- The USD weakened against most G10 currencies amid lower UST yields and perhaps also on Trump's comments on FX, saying that countries like Japan and China are putting the US at an unfair disadvantage when they weaken their currencies.

- CAD bucked the trend, weakening against the greenback amid the tariff face-off. AUD underperformed ahead of looming tariffs on its aluminium and steel exports, and mostly traded below mid-62 cents. Meanwhile, EUR moved higher to around 1.05 levels while USD/JPY fell to around mid-149 levels.

- Elsewhere, USD/SGD moved lower to below mid-1.34 levels.

China: Clouded Recovery

- While China's official manufacturing PMI for Feb over the weekend surpassed market expectations, tariff headlines may dent some optimism on the recovery outlook. The improvement was broad-based and partly helped by favourable seasonality following the Chinese New Year holiday.

- Both the production and new order sub-indices reached 10-month highs. While new export orders and import indices also saw significant gains in Feb, they remained below the expansion threshold. By enterprise size, the improvement was solely driven by large factories, with small and medium ones experiencing further weakening. The non-manufacturing PMI also improved in February to 50.4, buoyed by a recovery in construction activity.

BNM: Sound Fundamentals, Stable Hold

- BNM is set for another hold at the upcoming meeting (6 March) amid resilient growth and contained inflationary pressures.

- Q4 GDP growth was revised higher to 5.0% YoY (prelim: 4.8%) as upward revisions to services, construction and manufacturing offsetted a deeper contraction in mining and quarrying activity.

- From a demand perspective, household spending remained resilient, investments buoyant while exports growth surged. The Malaysian Investment Development Authority also recently shared that the country saw a 14.9% YoY growth in approved investments in 2024, of which 66.8% and 31.8% were in the services and manufacturing sector respectively. Approval of projects and creation of new jobs increased 31.3% and 62.8% YoY respectively. We expect the strong growth momentum to continue despite trade headwinds, on Malaysia's sound macrofundamentals.

- Meanwhile, inflationary pressures remain contained with headline inflation stable at 1.7% in January (Dec: 1.7%). Looking ahead, inflation is expected to dip for March's and April's prints as the base effects from last year's round of SST revision fades away, but rebound higher from May amid upward pressures could be expected as the SST expansion announced in Budget 2025 last year is due to be implemented that month. More details on the expanded scope are due this quarter. But overall, inflationary should remain stable.

- All in, BNM's prolonged hold is expected to continue amid stable macrofundamentals.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	149.50	149.29	▼0.75%	147.00 - 152.00
EURUSD	1.0487	1.0484	+1.08%	1.0360 - 1.0600
GBPUSD	1.2701	1.2701	+0.99%	1.2600 - 1.2800
AUDUSD	0.6225	0.6215	+0.26%	0.6130 - 0.6280
DXY	106.7	--	▼0.81%	106.0 - 107.8
USDCNY	7.2876	--	+0.13%	7.2600 - 7.3300
USDCNH	7.3029	7.3041	+0.13%	7.2600 - 7.3400
USDHKD	7.7769	7.7774	▼0.02%	7.7600 - 7.8000
USDSGD	1.3469	1.3465	▼0.33%	1.3350 - 1.3630
USDKRW	1461	1457	+0.00%	1445 - 1470
USDTWD	32.93	--	+0.32%	32.70 - 33.20
USDINR	87.36	--	▼0.17%	86.60 - 87.90
USDIDR	16480	--	▼0.60%	16350 - 16650
USDMYR	4.465	4.460	+0.06%	4.420 - 4.500
USDPHP	57.91	--	▼0.15%	57.40 - 58.50
USDTHB	34.17	34.05	+0.00%	33.8 - 34.4
USDVND	25597	25597	+0.16%	25500 - 25700

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.952	4.156	-3.9	-5.3
JGB (JP)	0.826	1.409	2.1	3.7
Bunds (GE)	2.063	2.490	4.2	8.5
Gilts (UK)	4.204	4.558	3.3	7.8
AGB (AU)	3.760	4.328	3.1	3.4
SGS (SG)	2.606	2.726	-2.1	0.0
CGB (CN)	1.389	1.756	-5.8	-1.6
KGB (KR)	2.714	2.666	-4.0	-3.9
SDL (IN)	6.738	6.587	-1.8	2.1

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	156.79	156.51	+0.33%
GBP/JPY	189.885	189.599	+0.24%
JPY/SGD (100yen)	0.9008	0.902	+0.38%
JPY/HKD (100yen)	5.2018	5.2098	+0.74%
CNH/JPY	20.607	20.485	▼0.23%
CNH/HKD	1.0672	1.0672	▼0.12%
EUR/GBP	0.82582	0.82548	+0.11%
AUD/NZD	1.1083	1.1076	▼0.06%
EUR/CNH	7.6589	7.6576	+1.17%
GBP/CNH	9.2752	9.2766	+1.11%

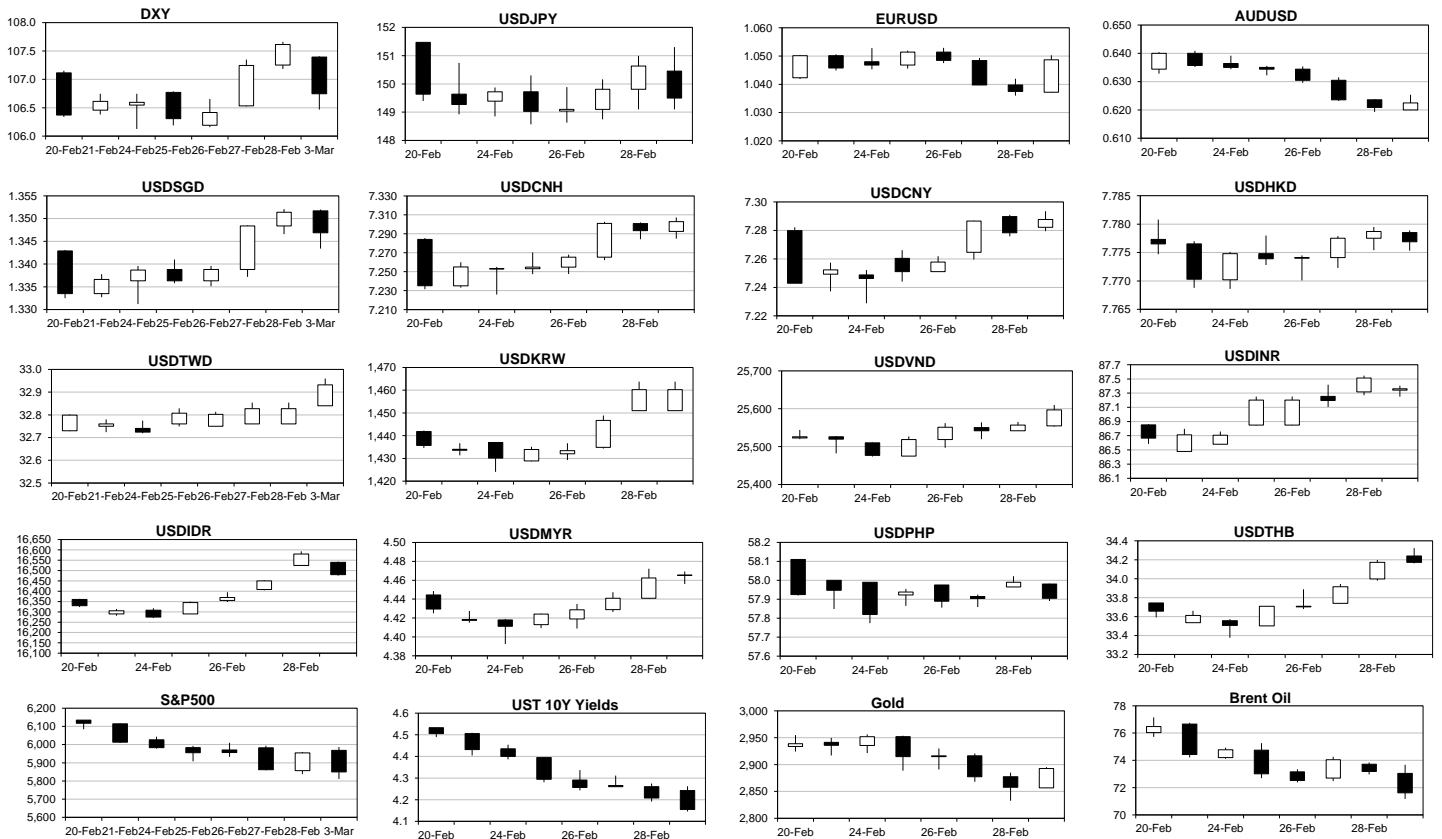
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5849.72	-104.78	▼1.76%
Nasdaq (US)	18350.19	-497.09	▼2.64%
DJIA (US)	43191.24	-649.67	▼1.48%
N225 (JP)	37785.47	629.97	+1.70%
STOXX50 (EU)	5540.69	77.15	+1.41%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4784.79	30.47	+0.64%
STI (SG)	3908.92	13.22	+0.34%
SHCOMP (CN)	3316.925	-3.97	▼0.12%
SZCOMP (CN)	2031.971	6.72	+0.33%
HSI (HK)	23006.27	64.95	+0.28%
SENSEX (IN)	73085.94	-112.16	▼0.15%
JSE (ID)	6519.658	249.06	+3.97%
KLSE (MY)	1571.39	-3.31	▼0.21%
PSE (PH)	6037.19	39.22	+0.65%
SET (TH)	1188.41	-15.31	▼1.27%
VNINDEX (VN)	1309.37	0.00	+0.31%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,394.28	56.22	+0.60%
IRON ORE (CN)	100.90	-6.67	▼5.61%
GOLD	2,892.73	34.90	+1.22%
SILVER	31.68	0.29	+7.51%
OIL (BRENT)	71.62	-1.56	▼2.13%
OIL (WTI)	68.37	-1.39	▼1.99%
NATURAL GAS	4.12	0.53	+1.71%

CHARTS



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