

Mar 05, 2025

## Three Take-Aways

1) Risk sentiments remained soft amid tariff headlines; UST yields climbed as US fiscal woes return to spotlight.

2) Tariff uncertainties persist with markets pondering the actual extent of exemptions and relief.

3) Central bank trilemma compromises PBoC's policy options; AxJ more susceptible to spillover pressures.

## MACRO THEME: Freight Times, Dangerous Path

- Risk sentiments remained soft, with US equities extending declines while Gold continued its climb by +0.8%, as tariffs news continued to overwhelm headlines.

- UST yields climbed following former Treasury Secretary Rubin's characterisation US fiscal trajectory as "enormously dangerous" and the Trump's policies "at least as current projected, are going to make that worse". Notably, while Rubin noted that some federal spending can be cut, he expressed reservations on DOGE's actions, noting that there's insufficient scope for that to rein in deficits. Rubin also hammered tariff hikes, commenting that the tariffs will only have a "modest" effect, as while providing revenues, the tariffs are going to adversely affect growth.

- In addition, UST yield's climb could have been aided by cautious positioning ahead of jobs reports today while FedSpeak retained its cautious tone. Fed Williams noted uncertainties on how tariffs will contribute to inflation and activity. He also described monetary policy in a good place and doesn't see the need to change borrowing costs.

- Near markets close, Commerce Secretary Lutnick suggested that Trump may roll back on Canada's and Mexico's tariffs, and details could be announced as early as tonight.

**Yields (2Y: +4.1bp; 10Y: +8.9bp; 30Y: +8.9bp)**

- UST yields climbed across the curve in a steepening move, reversing yesterday's declines.

**Equities (Nasdaq: -0.4%; S&P500: -1.2%; Dow: -1.6%)**

- US equities extended the sell-off.

**FX (DXY: -0.9%)**

- The USD was weaker against most G10 currencies despite higher UST yields, likely underscoring some jitters as the sustainability of US debt heft comes into the spotlight again. JPY bucked the trend and weakened against the USD, with USD/JPY moving higher towards 150 levels.

- AUD underperformed, but still climbed over mid-62 cents as RBA minutes alluded to the tilt towards a cut in February stemmed from downside growth risks while inflation remained on trend towards target, suggesting that growth risks are likely to dictate outcomes rather than overweight the bumpy inflation path.

- EUR led gains, moving above 1.06 levels, on expectations of imminent defence spending. Germany announced the creation of a special defence fund and said it would reform its stance on government borrowing. The defence spending could soften the impact of upcoming tariffs and help to support growth.

- Elsewhere, USD/SGD dipped below 1.34 levels. And this morning, the NZD is starting on the backfoot amid news of RBNZ Governor Orr resigning.

## China: Worst Fears Not Realised?

- In retaliation of US levies, Chinese authorities announced tariffs as high as 15% on US goods and banned exports to some defence companies. Alas, CSI300 only slipped -0.1% (and Nasdaq Golden Dragon Index even gaining 2% overnight), suggesting that markets were probably expecting worse, even as the breadth of farming targets for tariffs was far-reaching, touching commodities from beef and poultry to grains. The Chinese tariffs are expected to be effective on 10 March.

- The relatively more subdued (or even positive) reaction on Chinese equities could also be due to sanguine expectations of imminent stimulus to be announced at China's NPC today.

## Asia & China Risks: Trilemmas & Traps\*

- Global policy divergence entrenched in elevated trade/tariff uncertainties, relative US exceptionalism and consequent Fed restraint accentuate the classic central bank trilemma ("impossible trinity"); requiring sharp trade-offs between managing interest rates, exchange rates and capital flows.

- This necessitates that central banks have to strike a delicate balance between shifting economic and macro stability risks; compounding policy uncertainty and heightening the risk of sharp downside volatility in currencies.

- Dynamically managing these risks mean prevailing FX risks/volatility will have increasing sway on policy decisions. And shifts in liquidity may be the collateral damage from policy rate-FX tensions.

- The upshot being that the trilemma is binding, posing a mounting constraint on policy optimisation.

- The PBoC is not only susceptible to the trilemma, but arguably suffers a more acute iteration given starker policy divergence and geoeconomic risks associated with trade. What's more the trilemma conspires with pre-existing "liquidity trap" risks and two-way renminbi threats to further compromise the PBoC's policy options.

- Inadvertently, the rolling policy risks manifesting in the context of yet-to-be-resolved private sector confidence deficit suggest a flatter-than-UST CGB curve and more pronounced downside (than upside) risks in a more volatile renminbi. AXJ may be subject to spillover pressures, although susceptible to be amplified via China dependencies and higher risk premium being priced in (which could dampen relief from rate cuts).

\*For full report, click here.

## DATA/EVENTS

| Yesterday                               | Actual    | Exp.      | Prior     |
|---|-----------|-----------|-----------|
| (AU) BoP C/A Balance (4Q)               | -\$12.5b  | -\$12.0b  | -\$13.9b  |
| <b>(AU) RBA Minutes for Feb Meeting</b> |           |           |           |
| (AU) Retail Sales MoM (Jan)             | 0.3%      | 0.3%      | 0.1%      |
| (KR) Industrial Production YoY (Jan)    | -4.1%     | -2.0%     | 5.3%      |
| (EZ) Unemployment Rate (Jan)            | 6.2%      | 6.3%      | 6.2%      |
| (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       |
| Today                                   | Actual    | Exp.      | Prior     |
| (CH) Caixin China PMI Svcs (Feb)        |           | 50.8      | 51.0      |
| (SG) Retail Sales/Ex Auto YoY (Jan)     |           | --        | -2.9%/-4% |
| (AU) GDP YoY/SA QoQ (4Q)                | 1.3%/0.6% | 1.3%/0.6% | 0.8%/0.3% |
| (KR) GDP YoY/SA QoQ (4Q P)              | 1.2%/0.1% | 1.2%/0.1% | 1.2%/0.1% |
| (TH) CPI/Core YoY (Feb)                 |           | 1.1%/0.9% | 1.3%/0.8% |
| (PH) CPI YoY (Feb)                      | 2.1%      | 2.6%      | 2.9%      |
| <b>(CH) National People's Congress</b>  |           |           |           |
| (US) ADP Employment Change (Feb)        |           | 140k      | 183k      |
| (US) ISM Svcs/Prices Paid (Feb)         |           | 53.0/--   | 52.8/60.4 |
| (US) Factory Orders (Jan)               |           | 1.4%      | -0.9%     |
| (EZ) PPI YoY (Jan)                      |           | --        | 0.0%      |
| (US) Fed Releases Beige Book            |           |           |           |

## FX OUTLOOK

| FX     | Close (NY) | Open*  | Daily %Δ | Forecast        |
|--------|------------|--------|----------|-----------------|
| USDJPY | 149.79     | 149.77 | +0.19%   | 147.50 - 152.00 |
| EURUSD | 1.0626     | 1.0624 | +1.33%   | 1.0520 - 1.0750 |
| GBPUSD | 1.2795     | 1.2793 | +0.74%   | 1.2640 - 1.2950 |
| AUDUSD | 0.6272     | 0.6268 | +0.76%   | 0.6200 - 0.6340 |
| DXY    | 105.7      | --     | ▼0.94%   | 105.0 - 106.5   |
| USDCNY | 7.2639     | --     | ▼0.33%   | 7.2300 - 7.3000 |
| USDCNH | 7.2533     | 7.2558 | ▼0.68%   | 7.2200 - 7.2900 |
| USDHKD | 7.7714     | 7.7729 | ▼0.07%   | 7.7600 - 7.8000 |
| USDSGD | 1.3389     | 1.3380 | ▼0.59%   | 1.3260 - 1.3500 |
| USDKRW | 1454       | 1459   | +0.00%   | 1445 - 1470     |
| USDTHW | 32.92      | --     | ▼0.03%   | 32.70 - 33.20   |
| USDINR | 87.27      | --     | ▼0.10%   | 86.60 - 87.90   |
| USDIDR | 16445      | --     | ▼0.21%   | 16300 - 16600   |
| USDMYR | 4.465      | 4.465  | +0.01%   | 4.430 - 4.500   |
| USDPHP | 57.76      | --     | ▼0.25%   | 57.30 - 58.30   |
| USDTHB | 33.84      | 33.68  | ▼0.97%   | 33.3 - 34.0     |
| USDVND | 25566      | 25566  | ▼0.12%   | 25450 - 25700   |

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

## MARKET MOVES

| Bond Yields | 2Y Close | 10Y Close | 2Y Δ (bps) | 10Y Δ (bps) |
|-------------|----------|-----------|------------|-------------|
| UST (US)    | 3.993    | 4.245     | 4.1        | 8.9         |
| JGB (JP)    | 0.831    | 1.417     | 0.5        | 0.8         |
| Bunds (GE)  | 2.033    | 2.493     | -3.0       | 0.3         |
| Gilts (UK)  | 4.177    | 4.538     | -2.6       | -1.6        |
| AGB (AU)    | 3.705    | 4.268     | -5.6       | -6.0        |
| SGS (SG)    | 2.564    | 2.676     | -4.0       | -5.0        |
| CGB (CN)    | 1.402    | 1.756     | 1.3        | 0.0         |
| KGB (KR)    | 2.711    | 2.653     | 8.9        | 4.1         |
| SDL (IN)    | 6.745    | 6.567     | -1.2       | 0.5         |

| Cross FX         | Close (NY) | Open*   | Daily %Δ |
|------------------|------------|---------|----------|
| EUR/JPY          | 159.17     | 159.11  | +1.52%   |
| GBP/JPY          | 191.641    | 191.587 | +0.92%   |
| JPY/SGD (100yen) | 0.8933     | 0.8934  | ▼0.83%   |
| JPY/HKD (100yen) | 5.187      | 5.1901  | ▼0.28%   |
| CNH/JPY          | 20.526     | 20.618  | ▼0.39%   |
| CNH/HKD          | 1.0699     | 1.0701  | +0.25%   |
| EUR/GBP          | 0.8304     | 0.83049 | +0.55%   |
| AUD/NZD          | 1.107      | 1.1073  | ▼0.12%   |
| EUR/CNH          | 7.7072     | 7.7086  | +0.63%   |
| GBP/CNH          | 9.2804     | 9.282   | +0.06%   |

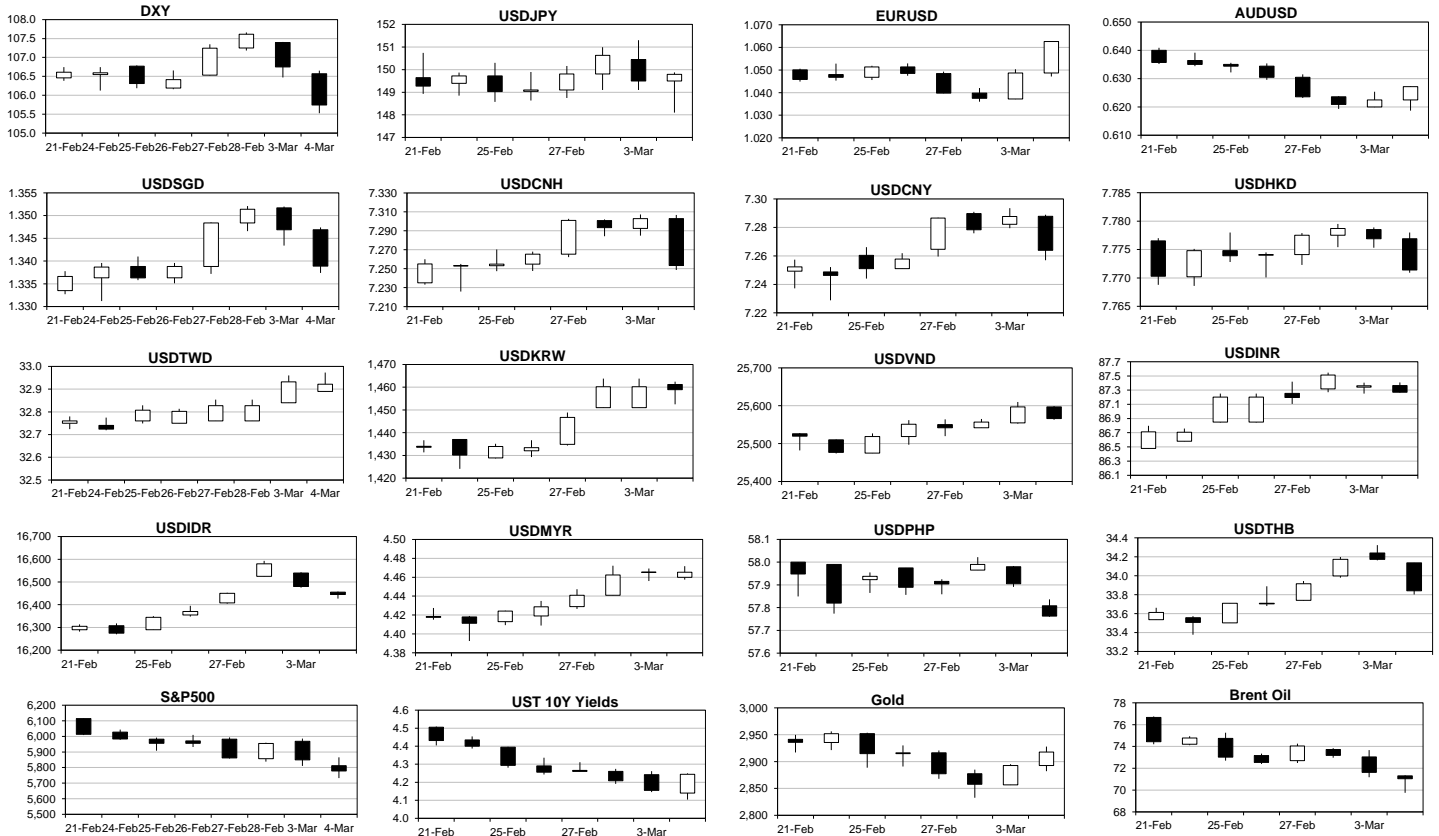
\*Open is as at 8am HKT/SGT.

| G3 Equities  | Close    | Net Chg | Daily %Δ |
|--------------|----------|---------|----------|
| S&P500 (US)  | 5778.15  | -71.57  | ▼1.22%   |
| Nasdaq (US)  | 18285.16 | -65.03  | ▼0.35%   |
| DJIA (US)    | 42520.99 | -670.25 | ▼1.55%   |
| N225 (JP)    | 37331.18 | -454.29 | ▼1.20%   |
| STOXX50 (EU) | 5387.31  | -153.38 | ▼2.77%   |

| Asia Equities | Close    | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| ASX (AU)      | 4719.21  | -65.58  | ▼1.37%   |
| STI (SG)      | 3890.76  | -18.16  | ▼0.46%   |
| SHCOMP (CN)   | 3324.21  | 7.28    | +0.22%   |
| SZCOMP (CN)   | 2045.8   | 13.83   | +0.68%   |
| HSI (HK)      | 22941.77 | -64.50  | ▼0.28%   |
| SENSEX (IN)   | 72989.93 | -96.01  | ▼0.13%   |
| JSE (ID)      | 6380.401 | -139.26 | ▼2.14%   |
| KLSE (MY)     | 1555.66  | -15.73  | ▼1.00%   |
| PSE (PH)      | 6064.11  | 26.92   | +0.45%   |
| SET (TH)      | 1177.64  | -10.77  | ▼0.91%   |
| VNINDEX (VN)  | 1311.91  | 0.00    | +0.19%   |

| Commodity     | Close    | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| COPPER (LME)  | 9,328.39 | -65.89  | ▼0.70%   |
| IRON ORE (CN) | 101.87   | -5.23   | +0.96%   |
| GOLD          | 2,917.89 | 25.16   | +0.87%   |
| SILVER        | 31.98    | 0.23    | +5.53%   |
| OIL (BRENT)   | 71.04    | -0.58   | ▼0.81%   |
| OIL (WTI)     | 68.26    | -0.11   | ▼0.16%   |
| NATURAL GAS   | 4.35     | 0.30    | +0.94%   |

## CHARTS



## RESEARCH TEAM

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