

Mar 07, 2025

## Three Take-Aways

1) **Despite Trump's USMCA exemptions, US equities sank and front end UST yields edged lower amid downbeat risks sentiments as imposition is kicked down the road.**

2) **ECB cuts by 25bp but sounds more cautious on further easing as well as potential for defence spending boost.**

3) **Vietnam's inflation decline not a clear case for SBV easing as VND woes take precedence amid dwindling trade surpluses.**

## MACRO THEME: Bark, Bite and Bumps

- Last night, **risks sentiments worsened** amid sinking US equities as flight to safety took hold. This was **despite** US President Trump declaring **exemptions for Mexican and Canadian goods under the USMCA**. For Mexico, about 10% of Mexican exports will be subject to the new tariffs while more than half of the remaining exempted under USMAC, the rest of Mexican exports may rush to comply with the qualifications under the agreement. Meanwhile, it is reported that almost two-thirds of imports of Canadian imports will be subject to tariffs but most of these consists of energy goods and are subject to a lower 10% rate.

- Admittedly, the **reversal is significant** considering the extent of exemptions **but this is very much still a delay of imposition** until 2 April when reciprocal tariffs will be announced. In response, Canada has halted their **second** tranche of tariffs to 2 April.

- Even on Doge-led **job cuts**, US President has now said that it will be conducted **with a scalpel than hatchet**. While this may be welcomed especially as headcount cost do not move the fiscal savings needle, some **bumpiness in employment may be hard to avoid** especially amid other projects such as abolishing the DoE.

For now, even as markets look for a **bark worse than bite type of relief, the uncertainty may crimp longer term investment spending. To be clear, the bark being worse than the bite certainly doesn't imply painless bites.**

- On the policy front, Fed Governor Waller has stated that the inflation impact from tariffs likely won't be significant and that he saw room to cut two or possible three times this year but won't say it is at the next meeting. Treasury Secretary Scott Bessent said that tariffs will be a one off price adjustment.

- On the other hand, the **ECB is sounding more cautious on further easing after cutting by 25bps in a widely expected decision** as policy is now being viewed as meaningfully less restrictive. On defence spending, ECB President Lagarde has cautioned that it is too early to draw conclusion.

- **Yields (2Y: -4.6bp; 10Y: -0.1bp; 30Y: +0.5bp)**

- UST yield curve bull steepened.

**Equities (Nasdaq: -2.6%; S&P500: -1.8%; Dow: -1.0%)**

- US equities sank led by heavy tech sell-off.

## DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(KR) CPI/Core YoY (Feb)	2.0%/1.8%	2.1%/1.9%	2.2%/1.9%
(AU) Building Approvals MoM (Jan)	6.3%	0.0%	0.7%
(VN) CPI YoY (Feb)	2.9%	3.2%	3.6%
(VN) Industrial Production YoY (Feb)	17.2%	--	0.6%
(EZ) Retail Sales YoY (Jan)	1.5%	2.0%	1.9%
(US) Initial Jobless Claims	221k	233k	242k
<b>ECB Deposit Facility Rate</b>	<b>2.50%</b>	<b>2.50%</b>	<b>2.75%</b>
(US) Challenger Job Cuts YoY	103.2%		-39.2%

Today	Actual	Exp.	Prior
(KR) Current Account Balance (Jan)	US\$2.9b	--	US\$12.4b
(TH) CPI/Core YoY (Feb)		1.1%/0.9%	1.3%/0.8%
(TW) CPI/Core YoY (Feb)		1.8%/1.4%	2.7%/2.3%
(CH) Exports/Imports YTD YoY% February)		--	5.9%/1.0%
(EZ) GDP SA YoY (4Q F)		0.9%	0.9%
(US) Change in Nonfarm Payrolls (Feb)		160k	143k
(US) Unemployment Rate (Feb)		4.0%	4.0%

## FX (DXY: -0.2%)

- Greenback continued to softened slightly. EUR is hovering around both sides of 1.08 while the USD/JPY sank below 148. AUD remain buoyed above 63 cents while USD/SGD was sideways above 1.33.

## China: Room for Responses

- At China's NPC, PBoC Governor Pan display a clear bias to support growth by lowering interest rates and reserve requirement ratios. The unspecified timeline is not surprising given the need to watch for RMB risks. Meanwhile, the PBoC will also support big tech firms to issues medium and long term bonds and expanding relending programs with lower interest rates. This is yet perhaps another welcome sight of regulators and big tech symphony.

- On the external front, Commerce Minister Wang has put up a strong response saying that **they will fight till the end** if the US continues tariff escalation.

## Vietnam: Cuts Are Dangerous Even Amid Growth Woes

- Vietnam headline CPI for February declined to 2.9% YoY from 3.6% in January on base effects and fading of Tet demand. The latter is reflected by lower prices for garment and footwear. Nonetheless, food inflation remains a concern as **cost of dining rose 0.8% MoM** with the offset coming from lower vegetable prices on abundant supply. Furthermore, the decline in underlying core inflation was milder from 3.1% to 2.9% YoY.

- Meanwhile, **industrial production's** 17.2% YoY growth is largely flattered by base effects especially amid a **2.2% MoM decline from January on the back of a 2.3% contraction in the manufacturing sector**. Output of communication and electrical equipment dropped 8.7% and 1.9% respectively. Weakness was also seen in sectors such a base metals, vehicles, petroleum products and furniture. The consolation here is that some of these weakness may have stemmed from the fact that demand may have been frontloaded ahead of Trump's inauguration and may see some recovery ahead.

- **These growth weakness perhaps reflect PM Pham Minh Chinh's earlier call for the SBV to lower interest rates** to support growth. At this juncture, the VND's lacklustre performance is really a key impediment especially if tariff headwinds worsen both FX and growth to tighten policy space. On that note, Vietnam has sent their trade minister to meet the US Trade representative and also mentioned a slew of initiatives to purchase US goods which range from Boeing Jets, LNG and providing Musk's Starlink with a license.

- Meanwhile the sight of **FX reserves holding steady from March to October** at around 2.5 months of import expenditure amounting to US\$82.5bn (as of October) **is no comfort**. Specifically, the implication is that **much of the current account surpluses in Q4 2024 were likely utilised to defend the VND**. Furthermore, with trade surpluses showing weakness in Jan-Feb 2025, the lack of buffer represents a key risk for the VND and a **pushback against calls for rate cuts**.

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	147.98	148.07	▼0.60%	147.00 - 151.00
EURUSD	1.0785	1.0787	▼0.04%	1.0600 - 1.0850
GBPUSD	1.2882	1.2885	▼0.10%	1.2680 - 1.2950
AUDUSD	0.6333	0.6332	▼0.03%	0.6200 - 0.6400
DXY	104.1	--	▼0.21%	103.6 - 105.0
USDCNY	7.2418	--	+0.07%	7.2300 - 7.3000
USDCNH	7.2441	7.2452	+0.10%	7.2200 - 7.2900
USDHKD	7.7720	7.7721	+0.01%	7.7600 - 7.7900
USDSGD	1.3333	1.3329	+0.15%	1.3260 - 1.3450
USDKRW	1447	1447	+0.00%	1440 - 1470
USDTHW	32.87	--	+0.12%	32.70 - 33.20
USDINR	87.12	--	+0.17%	86.60 - 87.90
USDIDR	16330	--	+0.10%	16200 - 16500
USDMYR	4.426	4.425	▼0.09%	4.400 - 4.480
USDPHP	57.33	--	▼0.03%	57.00 - 58.00
USDTHB	33.75	33.73	+0.29%	33.4 - 34.1
USDVND	25499	25500	▼0.05%	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)	3.961	4.279	-4.6	-0.1
JGB (JP)	0.857	1.537	2.6	9.6
Bunds (GE)	2.241	2.832	-0.4	4.1
Gilts (UK)	4.216	4.664	-5.4	-1.8
AGB (AU)	3.835	4.481	8.2	12.8
SGS (SG)	2.571	2.730	1.1	2.5
CGB (CN)	1.429	1.778	2.3	2.5
KGB (KR)	2.815	2.703	0.5	-4.6
SDL (IN)	6.681	6.532	-1.8	2.6

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	159.6	159.72	▼0.64%
GBP/JPY	190.635	190.774	▼0.70%
JPY/SGD (100yen)	0.901	0.9002	+0.77%
JPY/HKD (100yen)	5.2521	5.2491	+0.63%
CNH/JPY	20.406	20.444	▼0.85%
CNH/HKD	1.0731	1.0731	▼0.07%
EUR/GBP	0.83728	0.83721	+0.07%
AUD/NZD	1.1043	1.1039	▼0.18%
EUR/CNH	7.8123	7.8154	+0.06%
GBP/CNH	9.3317	9.3351	▼0.01%

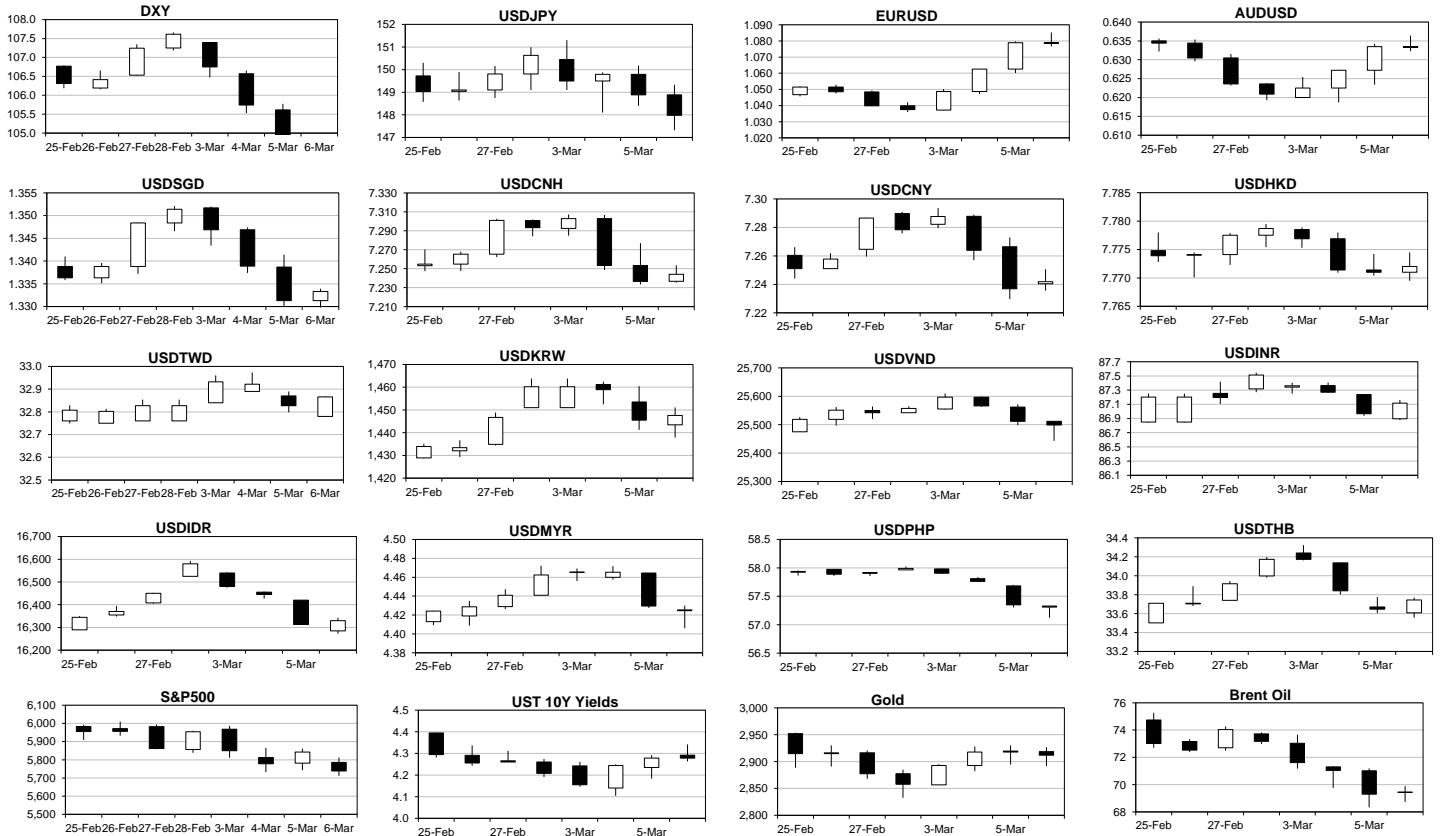
\*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5738.52	-104.11	▼1.78%
Nasdaq (US)	18069.26	-483.47	▼2.61%
DJIA (US)	42579.08	-427.51	▼0.99%
N225 (JP)	37704.93	286.69	+0.77%
STOXX50 (EU)	5520.47	31.35	+0.57%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4689.88	-33.23	▼0.70%
STI (SG)	3917.06	18.66	+0.48%
SHCOMP (CN)	3381.098	39.13	+1.17%
SZCOMP (CN)	2091.266	37.11	+1.81%
HSI (HK)	24369.71	775.50	+3.29%
SENSEX (IN)	74340.09	609.86	+0.83%
JSE (ID)	6617.847	86.45	+1.32%
KLSE (MY)	1558.91	-5.51	▼0.35%
PSE (PH)	6219.96	98.19	+1.60%
SET (TH)	1189.55	-17.41	▼1.44%
VNINDEX (VN)	1318.22	0.01	+1.04%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,747.77	160.85	+1.68%
IRON ORE (CN)	101.25	-5.78	+0.45%
GOLD	2,911.80	-7.59	▼0.26%
SILVER	32.65	-0.15	▼0.33%
OIL (BRENT)	69.46	0.16	+0.23%
OIL (WTI)	66.36	0.05	+0.08%
NATURAL GAS	4.30	-0.01	▼0.04%

## CHARTS



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