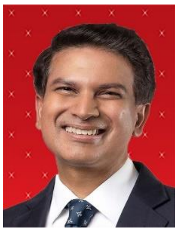
Macro Insights Weekly

Six dimensions of US trade negotiations

Group Research | April 21, 2025



Taimur Baig
Chief Economist
taimurbaig@dbs.com

Ma Tieying
Senior Economist
matieying@dbs.com

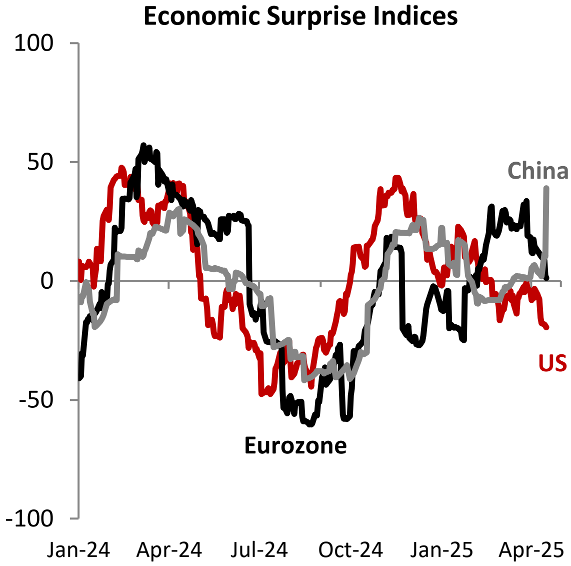
For Alliance Bank clients, please direct your enquiries to
Malaysia Research +603 2604 3915 general@alliancedbs.com

- *Many nations are making overtures to the US to find a more lasting respite from the high "reciprocal" tariffs than the prevailing 90-day pause. What can they expect during negotiations?*
- *They would likely face demand for more purchases from the US and investment in the US.*
- *Voluntary restriction of import from China and export restriction to the US could be on the table.*
- *Currency appreciation against the USD, a la Plaza Accord, is likely to be demanded.*
- *Nations might even face pressure to mirror US tariffs on China.*
- *These demands could generate considerable backlash and risk negotiation to fail.*

Chart of the Week: Slipping growth momentum

A substantial shift in economic data surprise has taken place over the past six months, with both the US and Eurozone losing pace. The US has lately seen a series of downside surprises, from goods orders to business expectation surveys. China is beset with trade war's fallout, but latest data on retail sales and industrial production show, at least for now, buoyant economic activity. Risks ahead for the global economy are tilted heavily to the downside, but not all major economic blocs are entering the uncertain period ahead with similar momentum.

Economic Surprise Indices



Source: Bloomberg, DBS

Commentary: Dimensions of US negotiations

Many nations are making overtures to the US to find a more lasting respite from the high "reciprocal" tariffs than the prevailing 90-day pause. As they engage Washington, we see six types of demands coming their way.

1. **Buy more from the US**. This might be the most obvious and anticipated demand, with the likes of India and Vietnam taking pre-emptive promises to reduce tariffs on US imports, as well as purchase more US goods (agriculture, energy, aviation, and defence equipment are the most cited areas).

2. **Invest more in the US**. From Nvidia to Novartis, TSMC to Hyundai, many multinational companies have announced multibillion-dollar investments in the US. We are sure these examples will be referenced during trade negotiations, and the US side would demand additional pledges from countries.

3. **Sell less to the US**. This is where matters begin to become tenuous. With its fixation on trade balances, US would demand a narrowing of deficits through a variety of channels. One would be a voluntary restraint on exports. This would most prominently feature during negotiations with countries like Vietnam, with their burgeoning imbalances vis-à-vis the US.

4. **Buy less from China**. The US administration is adamant to reduce transshipment of made-in-China goods and equipment. We envision demands of import restraint as part of this strategy.

5. **Appreciate FX against the USD**. The Plaza Accord—a coordinated agreement in 1985 that entailed FX market intervention to appreciate the Yen and Deutsche Mark, is finding resonance in parts of the Trump administration. US may demand countries to prop up their currencies against the USD in the event tariffs cause their currencies to face selling pressure.

6. **Mirror US tariffs on China**. If the ultimate target of this entire exercise is China, the US could push to extend the tariff moat beyond its border. The US could go so far as to demand that to be in its circle of trade, countries would have to mirror its tariffs against China. A country like Mexico may see that as the price of remaining in USMCA.

There could be other elements. Countries with US military presence may be asked to pay more for the cost of running those operations. But that would be a case for some, not most countries in the region. Finally, the US could even demand a "user fee" for holding US assets or receiving the benefits of the US security umbrella around the world.

All these demands may make sense from the perspective of the Trump administration, but most are unlikely to go down well with many governments. Some would see these as infringement on their sovereignty, finding the cost of the doing business intolerably high. Others may see strong reaction from the local population, who may shy away from purchasing US goods and services, or for that matter no longer see the US as a place to travel for tourism, education, or immigration purposes. US has economic and military might, but it risks an erosion of its soft powers due to a ratcheting up of coercive policies.

Taimur Baig

FX: USD weakness in focus this week

The USD's weakness will likely be a key topic at the G20 Finance Ministers and Central Bank Governor **Meeting** on April 23-24 in Washington D.C., which will be part of the Spring Meetings of the IMF and the World Bank. **The Trump administration will hold high-level talks with Japan and South Korea** on the sidelines, likely including discussions on the weakness of the JPY and KRW. **Both countries will likely push back against perceived currency manipulation**; Japan Prime Minister Shigeru Ishiba was more vocal in emphasizing fairness in currency discussions.

Japan and South Korea are treading a careful diplomatic line, offering incremental concessions to reduce or remove US tariffs on their imports without capitulating to all US demands and avoiding direct alignment with US efforts to economically isolate China. **Japan and South Korea are increasingly seen as model cases for nations navigating the geopolitical and economic tensions between the US and China.** Their ability to maintain security alliances with Washington while sustaining economic ties with China offers a playbook for other countries.

Although the IMF is not anticipating a global recession, it will downgrade its global growth forecasts and warn that US-led prolonged trade tensions and policy uncertainties could lead to financial market stress, undermine investor confidence, and pose challenges to financial stability. Despite the darkest global economic backdrop since the global financial crisis, countries are divided at this week's meetings.

Hence, markets will not take kindly to any renewed efforts by US President Donald Trump to fire Fed Chair Jerome Powell. For example, when Trump said that Powell's "termination cannot come fast enough" on April 17, the US Treasury 10Y yield rose 4.8 bps to 4.325% amid a 1.3% decline in the Dow, telling Trump that this outcome would fuel stagflation instead of his desire for lower rates. **Investors know that Trump cannot unilaterally remove Powell because of disagreements over monetary policy.** The US Congress upholds the Fed's independence embedded in the Federal Reserve Act, which states that the Fed Chair can be removed only "for cause" – misconduct, neglect of duty, or incapacity.

EUR/USD faces resistance near 1.15

Sources: Bloomberg data, DBS Research

The DXY Index's fate hinges on its most significant component – the EUR. Having appreciated 10.5% ytd to 1.1440 this morning, EUR/USD faces major resistances near 1.15. The European Central Bank acknowledged the risks a strong EUR poses to inflation and growth. The Eurozone economy faces significant risks from a potential trade war with the US that threatens to overshadow the infrastructure and defence spending boost from the "Readiness 2030" plan.

Philip Wee

Group Research

Economics & Strategy

Taimur BAIG, Ph.D.
Chief Economist
Global
taimurbaig@dbs.com

Wei Liang CHANG
FX & Credit Strategist
Global
weiliangchang@dbs.com

Tracy Li Jun LIM
Credit Analyst
USD Credit
tracylimt@dbs.com

Amanda SEAH
Credit Analyst
SGD Credit
amandaseah@dbs.com

Nathan CHOW
Senior Economist
China/HK SAR
nathanchow@dbs.com

Eugene LEOW
Senior Rates Strategist
G3 & Asia
eugeneleow@dbs.com

Daisy SHARMA
Analyst
Data Analytics
daisy@dbs.com

Han Teng CHUA, CFA
Senior Economist
Asean
hantengchua@dbs.com

Teng Chong LIM
Credit Analyst
SGD Credit
tengchonglim@dbs.com

Joel SIEW, CFA
Credit Analyst
SGD Credit
joelsiew@dbs.com

Mo JI, Ph.D.
Chief Economist
China/HK SAR
mojim@dbs.com

Tieying MA, CFA
Senior Economist
Japan, South Korea, Taiwan
matieying@dbs.com

Mervyn TEO
Credit Strategist
USD Credit
mervynteo@dbs.com

Byron LAM
Economist
China/HK SAR
byronlamfc@dbs.com

Radhika RAO
Senior Economist
Eurozone, India, Indonesia
radhikarao@dbs.com

Samuel TSE
Senior Economist
China/HK SAR
samueltse@dbs.com

Violet LEE
Associate
Publications
violetleeyh@dbs.com

Philip WEE
Senior FX Strategist
Global
philipwee@dbs.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)