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Macro Insights Weekly
Trump’s world and Asia’s playbook

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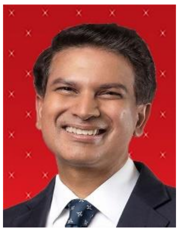

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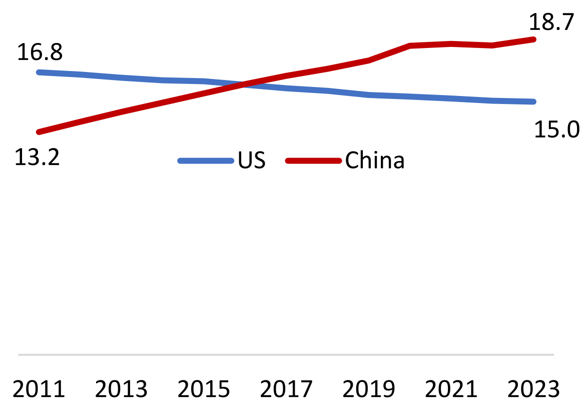
- *Trump 2.0 comes with promises of a wider trade war, affecting not just China, but all countries who trade with the US. This need not be a zero-sum narrative at the expense of Asia.*
- *Trump’s return is a headache for China, but this time anyone trading with the US is a target.*
- *Both China and the rest of Asia have a set of options to pursue.*
- *First, spread the cost of tariffs across various parts of the supply chain and end-consumer.*
- *Two, find ways to take Chinese products to the US through third markets.*
- *Three, deepen regional integration and improve trade ties with the non-US world.*
- *Asia has the wherewithal to deal with a damaging trade war.*

Chart of the Week: China’s relative rise

The US remains equipped with the world’s most impactful and advanced military, capital markets, and science/technology. It has also spent the last 8 years containing China through a variety of trade/tech restrictions. And yet, on purchasing power parity basis, China’s economy now makes up a substantially larger share of global GDP. While considerably richer on per capita basis, and likely to intensify the pushback against China’s rise in the coming years, we don’t think the US will manage to make China less consequential to the global economy.

Gross domestic product based on purchasing-power-parity
% of world total



Source: IMF, DBS

Commentary: Trump's world and Asia's playbook in the coming years

Last week's US elections, which delivered an emphatic victory for Donald Trump and the Republican party, have brought in a sense of déjà vu for Asia. Eight years ago, the region's commitment to a global rules-based order and open trade was challenged by the surprising victory of Trump, who came to office with commitments to a trade war. Since then, through Trump and Biden, tariffs, restrictions on tech access, and scrutiny on investments have been ramped up progressively. But most of these were aimed at China, which, while being hurt by these actions, has the wherewithal to counter them to some extent.

Trump 2.0 comes with promises of a wider trade war, affecting not just China, but all countries who trade with the US. Trump's campaign promises include installing a blanket tariff of 10% to 20% on all imports, with additional tariffs of 60% to 100% on goods brought in from China.

How would nations deal with this shock if followed through? The playbook is an obvious one, tried and tested over the past eight years:

First, divide the cost between supplier and buyer. Trade percolates through factories, traders, whole-sellers, and retailers of sizes large and small. There is plenty of empirical evidence from recent tariff measures that they are absorbed in bits and pieces through the supply chain and the end consumer. In some cases, they lead to near-shoring and on-shoring, although it is not clear if that leads to benefits to US consumers in terms of better prices or jobs. Further supply chain fragmentation, pressure on margin, higher retail prices, are all on the table.

Second, find ways to take Chinese goods to the US without paying the highest tariffs. Solar panels, for instance, find their way to the US via third countries. Another case in point is pharmaceutical drugs. The US may be keen to reduce its dependence on Chinese pharmaceuticals, and buy from elsewhere, India, for instance. Four out of ten prescriptions filled in the US in 2022 were supplied by Indian companies, and Indian companies supplied 47% of all generic prescriptions filed in the US. But where does the bulk of India's active pharmaceutical ingredients come from? China.

US imports in 2023

Ranking	Country	USDbn
1	Mexico	480.1
2	China	448.0
3	Canada	429.6
4	Germany	163.0
5	Japan	151.6
6	South Korea	119.7
7	Vietnam	118.9
8	India	87.3
9	Taiwan	87.0
16	Malaysia	47.3
18	Singapore	40.7
20	Indonesia	28.1
32	Philippines	13.7
34	Cambodia	12.1
41	Bangladesh	8.7

Source: UN COMTRADE database, DBS

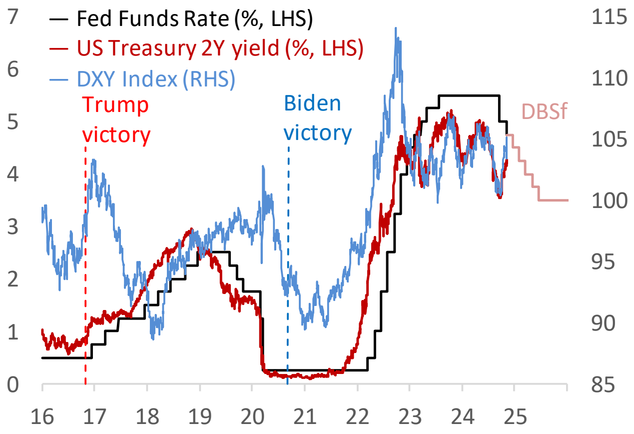
Third, invest more in non-US markets. US is the largest economy in the world, but China is not far behind, while the rest of the world offers plenty of opportunities. Asian economies will be compelled to deepen regional integration and improve market ties with Europe, Middle East, Africa, and Latin America. Trump's trade war will reshape the world, but it doesn't have to be a so-called zero-sum narrative at the expense of Asia.

Taimur Baig

FX: Trump's USD policy appears double-edged

We have revised our 2025 outlook for US interest rates and the USD, recalibrating their declines after Trump's victory in the US Presidential Elections. We now anticipate the Fed Funds Rate reaching a floor of 3.50% in 2Q25, up from our prior forecast of 3.00% in 3Q25. Consequently, we project the DXY to remain near the lower boundary of its two-year range of 99-107 by mid-2025 rather than entering a lower 95-100 range as previously forecasted.

Trump's USD rally in 2016 reversed in 2017



Sources: DBS Research, Bloomberg data

We recall that the DXY rose following Trump's 2016 victory, only to reverse into a decline in 2017. Trump's inauguration as the 47th President of the United States is scheduled for January 20, 2025, bringing with it **questions about whether his ambitious campaign promises can transition from rhetoric into reality**.

Until gaining more clarity on the incoming administration's actual policies, the **Fed is committed to a more neutral stance laid out in September.** Fed reckoned monetary policy was still restrictive even with today's tax cuts. Having cooled from its overheated state two years ago, the labour market is in balance and does not need further cooling to achieve the 2% inflation target. This Wednesday's US CPI data should affirm expectations for a rate cut in December, with headline and core inflation likely to remain unchanged at 0.2% MoM and 0.3%, respectively.

Trump's approach to the USD has been inconsistent and reactive rather than part of a coherent long-term strategy. For example, his threat of 100% tariffs on nations reducing USD reliance could inadvertently accelerate de-dollarisation. His potential push for increased Fed influence also risks diminishing the USD's appeal as a stable reserve currency. As will his ambitious fiscal policies (e.g., extending the 2017 tax cuts) by putting the national debt on an unsustainable trajectory through 2035, as signalled by recent bond yield rises. While Trump champions reshoring to bring manufacturing jobs back to the US, his criticisms of the weak JPY and CNY reflect concerns over trade imbalances and the competitiveness of US exports.

Trump's proposal to impose blanket tariffs of up to 20% on all imports from all countries encounters legal, political, and economic challenges. US trade law limits the president's ability to impose tariffs unilaterally without an investigation by the Department of Commerce or the Trade Representative Office. Blanket tariffs lacking justification on national security or trade violation grounds could violate WTO rules and invite retaliation. Indiscriminate tariffs could also face backlash from US companies and labour groups by raising import costs for companies and triggering price increases for consumers. **Overall, the broader implication for the USD depends on whether Trump's promises can translate into concrete actions, but his strategy appears double-edged for now.**

Philip Wee

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