Macro Insights Weekly
Liberation Day 2.0: Weighing options

Group Research

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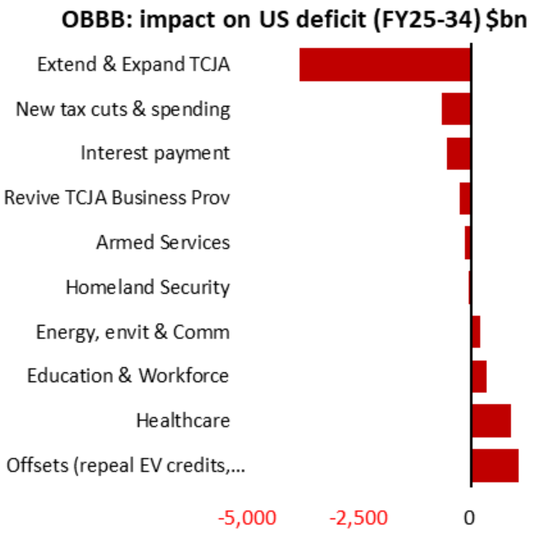
- *The US administration plans to announce the tariff rates (and deals) this week, but will take effect on 1 Aug.*
- *Trading partners have endured a busy few weeks of travelling the Asia-Washington corridor.*
- *Three trade deals have been signed, with few common undercurrents. Finer details are still pending.*
- *Asean's exports to the US have risen sharply in 2025 thus far, but at a modest pace to rest of the world.*
- *We draw up a few possibilities.*
- *On FX, while we remain negative on the USD in the longer term, it may be due for a modest correction or a consolidation.*
- *US Treasuries were sanguine about the passing of the One Big Beautiful Bill (OBBB). Risks remain.*

Chart of the Week: Bringing out the fiscal guns

Both houses of the US Congress backed the government's tax cuts and spending plan, dubbed as the 'One Big Beautiful Bill'. An imminent fiscal cliff has been averted with a USD5tn increase in the debt ceiling. The scale of impact, by the Congressional Budget's office estimates, will be even more significant if these are made permanent. While the initial impact in the bond market was modest, pipeline concerns remain.



Source: CRFB, DBS; negative adds to deficit, positive are spending cuts

Commentary: Liberation Day 2.0 – Weighing options

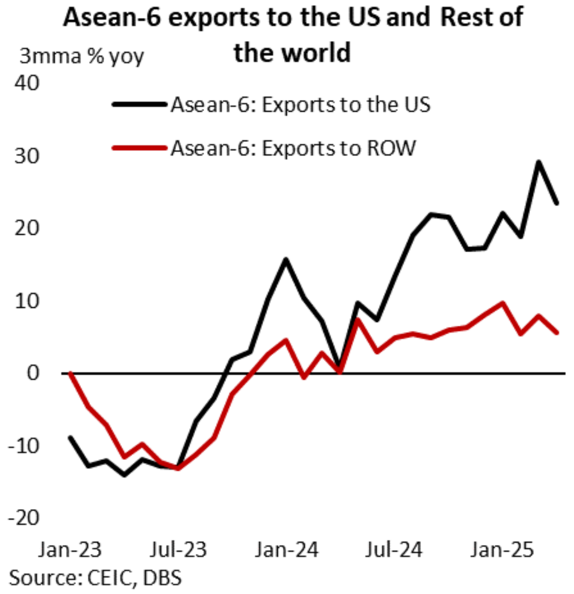
As we approach Liberation Day 2.0 deadline, one is none the wiser. The 90-day reprieve saw a tentative stabilisation in sentiments, weakened the US dollar, perked global financial markets and delayed a knock-on impact on the real economies. There has been a constant trickle of on-again off-again trade deal discussions and counter-tariff announcements. Trading partners have endured a busy few weeks of travelling the Asia-Washington corridor, seeking relief from tariffs, including sector specific rates, offering import concessions in return. **Over the weekend, US Commerce Secretary Lutnick said that US tariff rates might be set this week, but will come into effect on 1 August.**

Three trade deals have been concluded (at the time of writing), with the UK, China and Vietnam. **What were the telling parts of these deals?**

Firstly, a baseline tariff rate stays, ranging from 10% to 30%. Details on the exact concessions and product-wise relaxations are scant, beyond few key talking points.

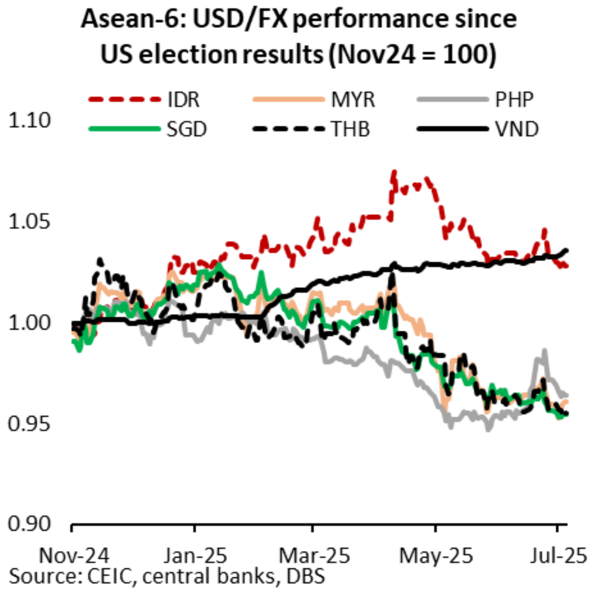
Secondly, an implicit acknowledgement that partners will buy more from the US has been built in, aimed at reducing the trade gap and addressing few non-trade measures.

Next, efforts have been made to rein in transshipment flows, likely targeted at China's move to channel trade through the region to tap the tariff differential (for instance, 40% levy on any goods deemed to be transhipped through Vietnam) evident in the recent months (see chart). We also note that regional countries have initiated counteraction on their end, for instance India tightening rules of origin documentation and Vietnam creating a central agency to issue and verify origin documents.



Source: CEIC, DBS

Add to this, calls to be tolerant of currency appreciation by the region vs the US dollar was presumably also in the mix, even if not explicitly mentioned. Lastly, assurances of an increase in investments into the US.



Source: CEIC, central banks, DBS

Where to from here? In addition to being a risk mitigation exercise, which way the tariff announcements go will have material impact on markets and economies. We draw up scenarios for Liberation Day 2.0 (changes to take effect in August).

- *April redux (35%)* - this scenario assumes that the US administration reinstates the reciprocal tariffs with the rate determined by level of perceived cooperation in trade deals by partners. Few of the 10-15 countries with whom discussions are nearing the final leg might get temporary reprieve. Impact: Unless details are readily available, this might sow confusion, and hurt confidence.

- *Summer discount (25%)* – Preset reduction of the reciprocal rates (for instance, half) announced back in April, with the baseline minimum rate of 10%. Washington may continue to negotiate with countries in the coming weeks, which might could see further finetuning of the bilateral rates. Impact: This will keep markets' ears close to the ground but not be viewed as an outright negative.

- *Kick the can (probability assigned 20%)* – an extension of 30-90 days citing the long list of countries that are still in wait to finalise details and concessions for the US (1 Aug kick-in reflects this). Impact: Status quo for markets and economic outlook.

- *Sector-specific action (15%)* – this assumes a continuation of the current 10% baseline on most of the countries and higher 30% on China, while focusing more on sector specific moves, which the US might deem sensitive, strategic or technologies that can be put to dual-use. Action on semiconductors, electronics, and pharmaceuticals, which were left out of the tariff umbrella might be considered. Action on auto, steel and aluminium are bound to continue. Impact: Part relief as a sharp increase in tariff rates are allayed, but countries with exposure to these specific sectors will be impacted. For instance, Asian countries are key suppliers of semiconductors to the US, with Malaysia leading the pack, followed by Taiwan, Vietnam, and South Korea.

- *Reconciliation (5%)* – this would be the most optimistic but least probable scenario where the US government strikes a conciliatory tone and counts on bilateral trade deals to gradually improve its trade balance.

After a roller coaster ride in wake of the April's Liberation Day, equities have since recovered, notwithstanding an escalation in Middle east tensions, US fiscal concerns, and tariff uncertainty, in the interim. S&P 500 is near a fresh high, while regional bond/equity markets have attracted diversification inflows. Much of the complacency is evident in options markets, signalling traders are not betting on a significant shake up post Liberation Day 2.0.

Adopting a cautious but non-recessionary stance, DBS US economist has maintained the GDP forecast at 1.5% YoY, along with a 50bp cut from the US Fed in 2H25 and another 50bp cut in 2026. DBS currency strategist maintains that while the USD retains its structural advantages, there are early signs of erosion that leads to a slow and steady decline in its global dominance. For Asia, these scenarios (barring the most optimistic option) are likely to impact regional and trade outlook, with some concern already baked into a stronger first half of exports on frontloading, setting the stage for a weak 2H25. No easy choices here. ***Radhika Rao***

FX: USD faces correction or consolidation

While we remain negative on the **USD** in the longer term, it **may be due for a modest correction or a consolidation**. The factors that depreciated the DXY Index by more than 10% over the past six months have faded.

First, the waning US exceptionalism narrative that weighed on the USD has faded. US equities (S&P 500) have rebounded to fresh record highs. The Atlanta Fed GDPNow model expects advance GDP growth (out on July 30) to recover to an annualized 2.6% QoQ saar in 2Q25 following a 0.5% contraction in 1Q25.

Second, last Thursday's stronger-than-expected US jobs report dashed the market's hope for an earlier Fed cut on July 30. The unemployment rate declined to 4.1% in June after holding steady at 4.2% for three months, bucking the Fed's projection, in the June Summary of Economic Projections (SEP), for it to rise to 4.5% in 4Q25. The FOMC meeting minutes due on July 10 should reiterate Fed Chair Jerome Powell's view that tariffs will drive inflation higher in the coming months. Despite the New York Fed's softer inflation expectation readings, FOMC members proceeded to lift their 4Q25 projection for core PCE inflation to 3.1% from 2.8%. in June's SEP.

At the European Central Bank Forum in Sintra, major central banks collectively became less complacent about cooling inflation. They pivoted towards cautious monitoring, signalling no overt moves and only data-driven decisions on interest rates. As seen over 2023-2024, such a synchronization towards "wait-and-see" guidance weakened the directional conviction in currency markets.

Third, US President Donald Trump signed the One Big Beautiful Bill on Independence Day, **along with a USD5 trillion increase in the debt ceiling**, thereby removing the risk of a US government debt default. US Treasury Secretary Scott Bessent said he would not increase the sales of longer-dated debt in the next several quarters.

Fourth, global trade uncertainty could resurface because the Trump administration did not deliver the comprehensive trade deals by the July 9 expiration of the 90-day tariff pause. Meanwhile, the Court of International Trade's legal case against Trump's IEEPA-related tariffs remains unresolved, with a hearing scheduled for July 31. In response, Trump plans to issue "tariff letters" to 12 countries, presenting them with non-negotiable "take it or leave it" offers or face higher tariff rates on August 1. Bessent added that the focus is on 18 nations that accounted for 95% of the trade deficit.

Fifth, Bessent expressed some discomfort about the recent speculation against the USD's global status. He dismissed the Chinese yuan's prospects of replacing the USD as a reserve currency due to its non-convertibility on the capital account. He also noted that some EU policymakers have become wary of the EUR/USD's strength near 1.20, which has partially offset some of the enthusiasm generated by ECB President Christine Lagarde's push for a larger international role for the EUR.

However, if US bond yields rise due to debt and inflation concerns, and stocks start giving back gains amid tariff-related growth worries, the USD could resume its downtrend.

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