Macro Insights Weekly

Spillover from Trump's policy "flexibility"

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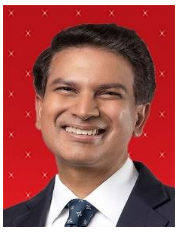

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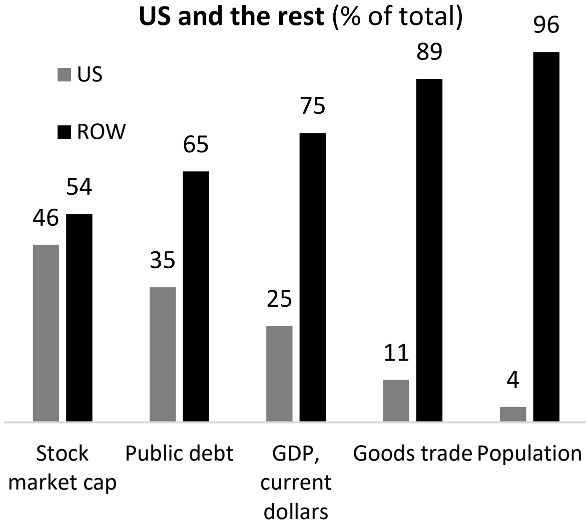
- *Trade war escalation and de-escalation continue apace. The blizzard of actions has made even a basic statistic like average tariff on US imports all but impossible to estimate precisely.*
- *Markets may rally around occasional tariff reprieve or trade deal.*
- *But we fear lasting damage to global order of trade and commerce.*
- *Gold has rallied 21% YTD, while USD and UST have lost value.*
- *This attests to the nervousness of investors.*
- *US assets no longer seemed the place to hide during times of heightened uncertainty.*

Chart of the Week: Transition to TOTUS?

A permanently high tariff moat to bring in investment and generate manufacturing jobs forms the contours of Donald Trump's plans to reshape the US economy. If this is pursued to the fullest, a bifurcation with the rest of the world is bound to follow. There would be one set of rules and agreements for the US (build in the US to sell in the US), while another set would have to be written for "Trade Outside The US" (TOTUS). The latter world makes up sizeable chunks of global GDP, trade, and population. The show will go on.



Source: WTO, DBS. In ppp terms, US GDP accounts for 15% of the world total.

Commentary: Spillover from Trump's policy "flexibility"

During yet another week of elevated market volatility, trade war escalation and de-escalation, and persisting policy uncertainty, the rest of the world remained fixated on the pronouncements from the White House. The blizzard of tariff announcements, followed by partial rollbacks and postponement, has made even a basic statistic like average tariff on US imports all but impossible to estimate precisely.

Latest news-flow suggests exemptions on smartphones, laptop computers, hard drives, computer processors, memory chips and other electronics products (from tariffs of 125% on China and 10% on the rest of the world). But as is the case with most policies under Trump, it is not at all clear if the tariff reprieve will be a lasting one. Indeed, the administration is expected to soon launch a new investigation into the import of semiconductors, which could lead to a renewed imposition of tariffs on related products.

The Trump administration terms this constant state of flux as policy flexibility, with the sword of tariff hanging over counterparties for perceived transgression on trade (reciprocal tariff), currency practice (specific tariff), and relations with adversaries (secondary tariff). At the end, this approach is expected to extract favours, concessions, market access, balanced trade, and a "user fee" for benefitting from the US security umbrella. Influential advisers like Peter Navarro (President's Senior Counsellor for Trade and Manufacturing) and Stephen Miran (Chair of the Council of Economic Advisers) see tariffs, actual or threatened, as a critical tool to implement President Trump's America First agenda.

Embedded in this approach is the supposition that trade is a zero-sum game, any tariff imposed-loss will be on China as its runs a large trade-in-goods surplus with the US (amounting to USD360bn last year).

The events of the past two weeks support the opposite case. Trade is a positive-sum game, with both sides primed to gain from trade or lose from tariffs. Additionally, the substitutability of the goods flowing back and forth is key. If China puts tariffs on imports of American agriculture goods and energy products, two of its key imports from the US, it can purchase them elsewhere, from Latin America, Russia, and the Middle-East. But the US, with its blanket 145% tariff, can't readily find alternative producers of goods like electric fans and microwaves, as 90% of its imports of such products are made in China. This is the case for numerous goods; moving their production onshore or to ostensible allies will take years, if ever.

Right or wrong, tariff weaponisation is here to stay. Markets may rally around occasional tariff reprieve or trade deal, but the damage to the global order of trade and commerce is going to be lasting, we fear. The key reason is that the reliability of the US as an upholder of rules and agreements has been eroded considerably by Trump's policy "flexibility" strategy. Gold's 21% rally year-to-date, plus the sustained selling pressure on US dollar and US treasuries this month, attest to the nervousness of global investors. US assets have always been seen as a refuge during times of uncertainty. Strikingly, that does not appear to be the case in these epoch defining times.

Taimur Baig

FX: Not revising our currency forecasts

US President Donald **Trump and his administration are likely in damage control mode**, spooked that the equity sell-off did not lead investors to seek safety in US Treasuries, sending the USD diverging with rising bond yields. Following the significant market turmoil, Trump paused on April 9 reciprocal tariffs for 90 days for countries that did not retaliate. On April 11, he also temporarily exempted electronics from tariffs, including those from China. US Commerce Secretary Howard Lutnick said tariffs on semiconductors would be delayed to May-June. It would also be good if Trump resisted his warning to impose tariffs on pharmaceuticals.

Fed officials do not see the tariffs leading to a US recession; they **are alert to inflation risks and disagree with the market's pricing for four rate cuts this year**. New York Fed President John Williams sees tariffs slowing US GDP to below 1%, lifting inflation to 3.5-4% in 2025, and the unemployment rate rising to 4.5-5% over the next year. Chicago Fed President Austan Goolsbee reckoned rates would be lower 12-18 months from today. Today's New York Fed inflation expectations will be important, especially if the longer-term readings start rising. **If the DXY recovers from its pivotal 100 level amid lower US bond yields, the haven appeal of the CHF and JPY should subside**.

Meanwhile, China has stated that it has become meaningless to keep retaliating against Trump's tariffs; its tariff on US imports from 84% to 125% on April 11 will likely be its last (for now). **Fears that China would respond to the high US tariffs with CNY devaluation has subsided for now.** Offshore USD/CNH ended last week at 7.2875, below onshore USD/CNY's 7.2919. In turn, this **brought relief to other Asian currencies**, especially the VND and IDR. USD/VND retreated from its lifetime high of 26125 to 25737, while USD/IDR peaked at 17224 and fell to 16580. Chinese President **Xi Jinping will tour Southeast Asia** this week to strengthen regional alliances and economic partnerships amid the challenging global trade landscape.

EUR/USD likely capitulated after its explosive surge from below 1.10 to almost 1.15 last Thursday-Friday. Languishing around 1.13 this morning, EUR/USD **faces downside risks if the focus shifts from the US towards the Eurozone economy**. At its meeting on April 17, the European Central Bank will lower its deposit facility rate by 25 bps to 2.25%, the top of its 1.75-2.25% neutral range. Contrary to the Fed, **ECB officials believed Trump's tariffs would lead to a significant negative demand shock that creates deflationary pressures**. Trump's tariffs will likely weigh on Germany's hopes to embark on defence and infrastructure spending to pull its economy out of its doldrums. To deflect the heat from tariffs, Trump should focus on engaging Russia to end the war with Ukraine.

The Monetary Authority of Singapore reduced slightly the SGD NEER policy band's slope this morning, in line with recent guidance by the government to lower this year's growth forecast to 0-2% from 1-3% previously. The new slope will likely be flattish; the statement said the NEER has, over the last 3 months, been broadly unchanged vs. the preceding 3 months. On a positive note, fears of global recession are not imminent yet because the NEER has fluctuated in the upper half of the band. USD/SGD will likely bottom if the Trump administration enters damage control mode after the recent significant market turmoil.

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