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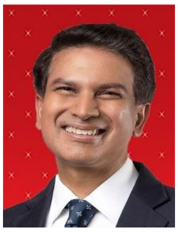
Macro Insights Weekly

Trade distortion/diversion

Group Research **June 9, 2025**



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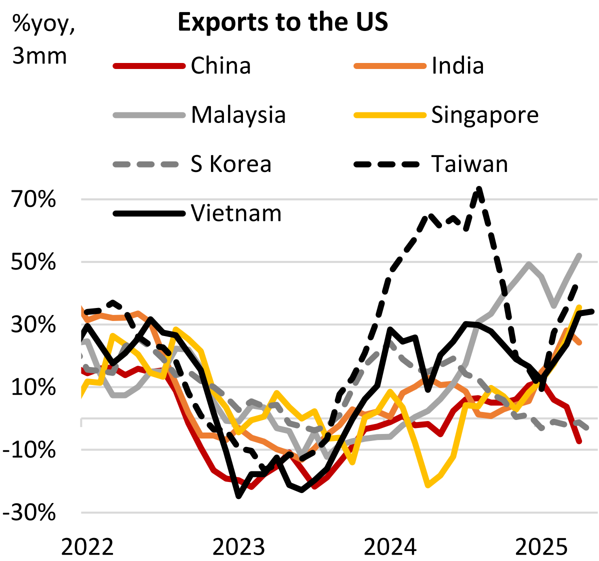
- *Asia's exporters are negative about the outlook, but for the time being, they are hunkering down. The divergence between PMI readings and actual exports is striking.*
- *Through April, Asean-6 exports growth was on an uptrend, marking a sharp divergence from PMIs.*
- *Vietnam's vulnerability to reciprocal tariff is high, but exports to the US are presently surging.*
- *China's overall exports are up, but exports to the US are plunging.*
- *Trade is being front-loaded, trans-shipped, diverted.*
- *Watch for trade numbers to follow sentiments, not the other way round.*

Chart of the Week: Exports to the US

On-and-off tariffs are creating havoc in trade with the US. Latest data reflect that, with a surge in exports for some countries and a plunge for others. There is also distortion across time; the 1Q surge in US imports is likely to be followed by a correction in 2Q. Although China's total exports are rising by 5-6%yoy, its exports to the US are contracting; same is true for South Korea. On the other end, exports from India, Malaysia, Singapore, Taiwan, and Vietnam are doing great. Trade distortion/diversion will continue to cloud the data this year.



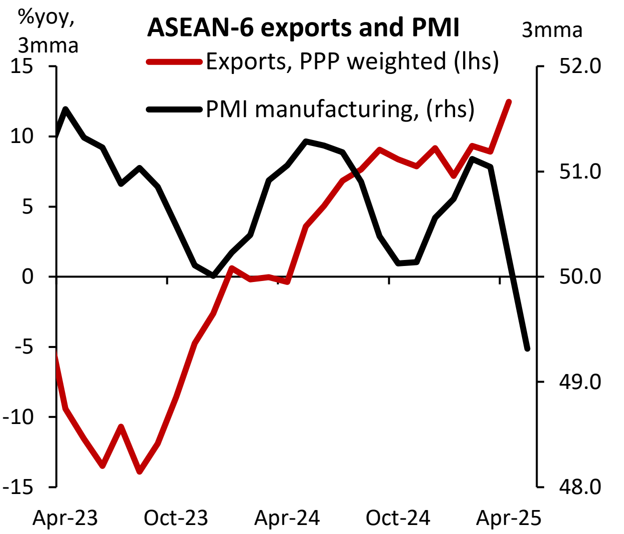
Source: CEIC, DBS

Commentary: Trade distortion/diversion

More than two months after the reciprocal tariff bombshell and less than a month to go before the "pause" expiration, how is it going with Asian exports and exporters? Emblematic of this episode, there is a great deal of concern and fear, but life goes on. Asia's exporters are negative about the outlook, but for the time being, they are hunkering down, doing what they can.

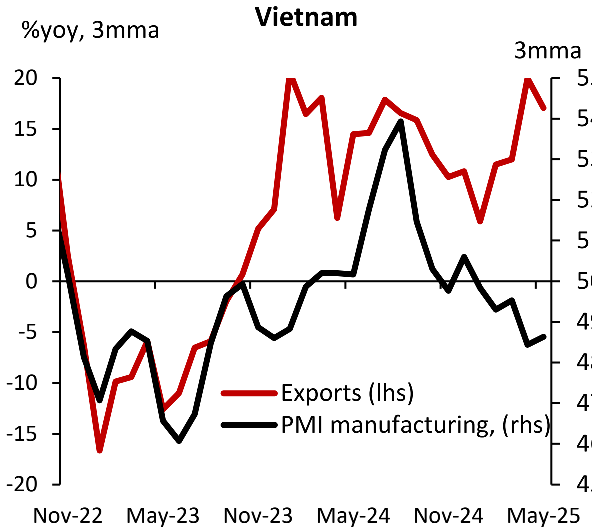
As soon as Donald Trump was re-elected last November, an exacerbation of the trade war was guaranteed. From January onward, shipments to the US began to jump as traders tried to get ahead of whatever restrictions were coming down the road. But regardless of such efforts, the early April announcements were so much worse than expected that PMIs dived sharply for several countries. The aggregate PMIs of Asean-6, for instance, are now down to levels not seen in years.

But that doesn't mean that poor sentiment has translated into poor numbers. Through April, Asean-6 exports growth was on an uptrend, marking a sharp divergence from PMIs.



Source: CEIC, DBS.

Vietnam's exports data, available through May, is an apt illustration of this ongoing dynamic. With a third of its exports going to the US, Vietnam has major vulnerabilities if the 46% reciprocal tariffs are implemented. But through May, total exports were up 17%yoy, while exports to the US were up 36%yoy. PMI reading however suggest that this is unlikely to last.



Source: CEIC, DBS

In contrast to Vietnam, China's exports to the US are contracting, although its overall exports are rising. Combine China and Vietnam's data and PMI, four conclusions emerge:

- A lot of front-loading type trade is taking place to get ahead of the tariffs.
- Shipments from China are going to other countries to make their way to the US.
- Parts of China's excess capacity is ending up in non-US parts of the world.
- Sentiment is poor regardless of the flurry of trade activities. No one is expecting a reversion to pre-Trump days for global trade. Watch for trade numbers to follow sentiments, not the other way round.

Taimur Baig

FX: The USD and its web of gridlocks

The US dollar is supported by resilient US data but faces downside risks from potential risks to the Fed's independence, legal challenges to Trump's IEEPA-related tariffs, hopes of trade deals between the US and some major countries, and political resistance to Trump's sweeping tax cut agenda. The DXY Index started the first week of June in a tight 98.4-99.4 range following its decline from 102 after the US-China tariff truce on May 12.

The Fed is in a blackout period ahead of next week's FOMC meeting. US President Donald Trump urged the Fed for a 100 bps rate cut after last Friday's US nonfarm payrolls eased to 139k in May from 147k in April. However, the US Treasury 10Y yield rose 11.5 bps to 4.51% while the 30Y yield increased 9 bps to 4.97%. Trump added that a decision on the next Fed Chair will be made soon. Former Fed Governor Kevin Warsh is a frontrunner to succeed Fed Chair Jerome Powell when the latter's term ends in May 2026. Any threat to the Fed's independence will hurt the greenback.

However, the Fed is focused on US data, not politics, in carrying out its dual mandate of maximum employment and price stability. The resilience of the US labour market was underscored by the 3-month moving average nonfarm payrolls rising a second month to 135k in May from its 111k low in March, the unemployment rate staying unchanged at 4.2% for a third month, and the average hourly earnings growth steady at 3.9% YoY for a fifth month. The Fed will pay attention to how tariffs lift CPI inflation on June 11. Consensus expects headline inflation rising to 2.5% YoY in May from 2.3% in April and core inflation to 2.9% from 2.8%.

The US economy will likely avert a technical recession. The Atlantic Fed GDPNow model sees GDP growth rebounding to an annualized 3.8% QoQ saar in 2Q25 from -0.2% in 1Q25. The drag from businesses frontloading imports to beat on headline growth tariffs has eased significantly; the trade deficit narrowed substantially to USD61.6bn in April from 138.3bn in March. The initial panic from Trump's Liberation Day tariff announcement on April 2 appeared to have calmed after the 90-day pause announcement on April 9 for most of the world, and on May 12 for China.

The direction of Trump's tariff policy is unclear after the US Court of International Trade (CIT) ruled on May 28 that the president exceeded his statutory authority on imposing sweeping tariffs under the International Emergency Economic Powers Act (IEEPA). However, the US Court of Appeals for the Federal Circuit issued a temporary stay of the CIT's injunction, keeping the IEEPA-based tariffs in place, pending responses by the plaintiffs by June 9, and the Trump administration by June 9. Both cases are anticipated to ultimately reach the Supreme Court.

Despite the legal uncertainty surrounding Trump's IEEPA-based tariffs, countries are moving ahead with trade talks to secure more stable market access and hedge risks. Japan's top trade negotiator Ryosei Akazawa is targeting a trade agreement before the G7 summit that starts on June 15, when Trump is expected to meet Japanese Prime Minister Shigeru Ishiba. Newly-elected South Korean President Lee Jae-myung has spoken to Trump to seek tangible results in trade talks as soon as possible.

The US Treasury semi-annual currency report published on June 5 signalled that FX transparency may become a condition for trade cooperation. For example, the US urged the Bank of Japan to tighten monetary policy to support the JPY and help rebalance trade. The report criticised China's lack of transparency in its exchange rate policies.

US and Chinese officials will meet in London for the first meeting of the China-US economic and trade consultation mechanism. The US delegation includes US Treasury Secretary Scott Bessent, Commerce Secretary Howard Lutnick, and Trade Representative Jamieson Greer, while the Chinese team will be led by Chinese Vice Premier He Lifeng. China is leveraging export controls on rare-earths and has signalled non-committal openness to trade dialogue pending US sincerity, e.g., tariff rollbacks.

Trump's goal to pass his One Big Beautiful Bill (OBBB) by Independence Day is running into hurdles. Despite the Republicans holding 53 out of the 100 seats in the Senate, the bill faces strong opposition from four or more fiscal conservative Senators opposed to increasing the deficits or the impact on Medicaid. The House passed the bill on May 22 by an extremely narrow margin of 215-214 vote following Moody's decision on May 16 to axe America's final triple-A debt rating on the federal increasing to 134% of GDP by 2035 from 98% in 2024. The Congressional Budget Office projected that the sweeping tax cuts could add USD 2.4 trillion to the federal debt over the next ten years. The Trump administration is also pushing to increase the federal debt ceiling by USD 4 trillion before "X-date" expected in August.

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

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