

# Macro Insights Weekly

## Trade distortion/diversion

Group Research

June 9, 2025



**Taimur Baig**  
Chief Economist  
[taimurbaig@db.com](mailto:taimurbaig@db.com)



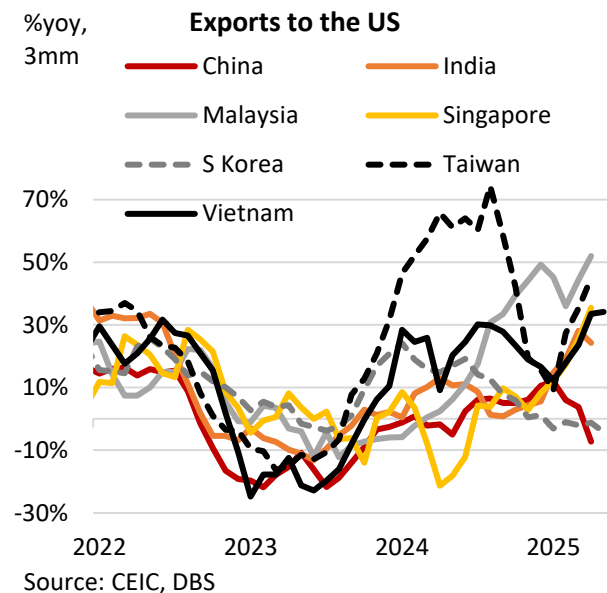
**Chua Han Teng**  
Senior Economist  
[hantengchua@db.com](mailto:hantengchua@db.com)

For Alliance Bank clients, please direct your enquiries to  
Malaysia Research +603 2604 3915 [general@alliancedbs.com](mailto:general@alliancedbs.com)

- *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.

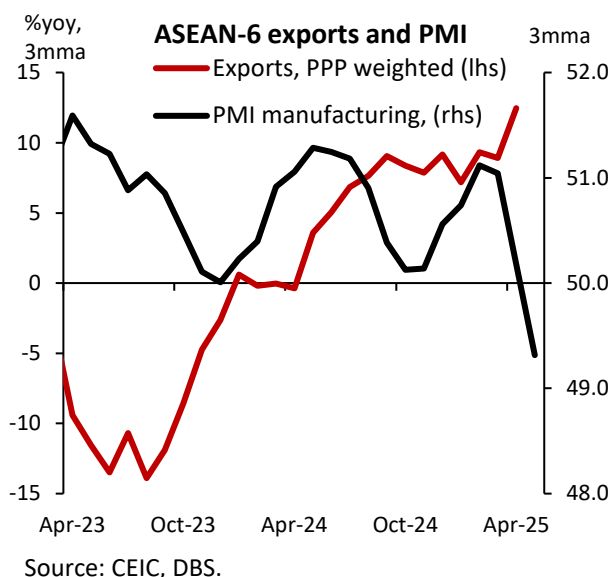


**Commentary: Trade distortion/diversion**

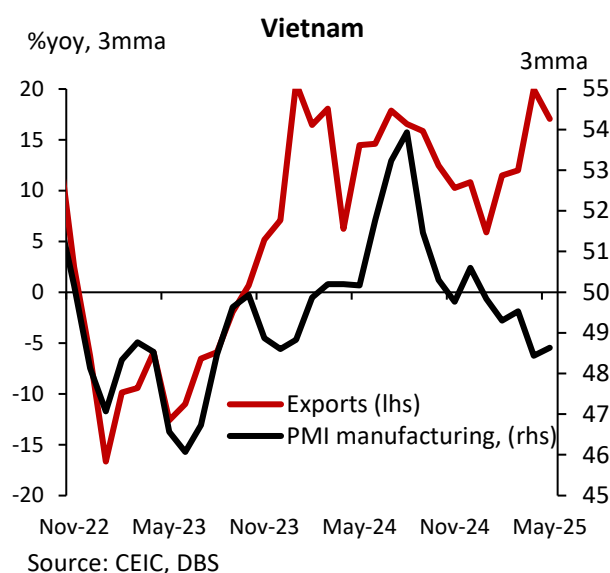
More than two months after the reciprocal tariff bombshell and less than a month to go before the “pause” expiration, how is it going with Asian exports and exporters? Emblematic of this episode, there is a great deal of concern and fear, but life goes on. Asia’s exporters are negative about the outlook, 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.



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.



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.

**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 (OB BB) 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.

*Philip Wee*

**Group Research****Economics & Strategy****Taimur BAIG, Ph.D.**

Chief Economist

Global

[taimurbaig@dbs.com](mailto:taimurbaig@dbs.com)**Wei Liang CHANG**

FX &amp; Credit Strategist

Global

[weiliangchang@dbs.com](mailto:weiliangchang@dbs.com)**Tracy Li Jun LIM**

Credit Analyst

USD Credit

[tracylimt@dbs.com](mailto:tracylimt@dbs.com)**Amanda SEAH**

Credit Analyst

SGD Credit

[amandaseah@dbs.com](mailto:amandaseah@dbs.com)**Nathan CHOW**

Senior Economist

China/HK SAR

[nathanchow@dbs.com](mailto:nathanchow@dbs.com)**Eugene LEOW**

Senior Rates Strategist

G3 &amp; Asia

[eugeneleow@dbs.com](mailto:eugeneleow@dbs.com)**Daisy SHARMA**

Analyst

Data Analytics

[daisy@dbs.com](mailto:daisy@dbs.com)**Han Teng CHUA, CFA**

Senior Economist

Asean

[hantengchua@dbs.com](mailto:hantengchua@dbs.com)**Teng Chong LIM**

Credit Analyst

SGD Credit

[tengchonglim@dbs.com](mailto:tengchonglim@dbs.com)**Joel SIEW, CFA**

Credit Analyst

SGD Credit

[joelsiew@dbs.com](mailto:joelsiew@dbs.com)**Mo Ji, Ph.D.**

Chief Economist

China/HK SAR

[mojim@dbs.com](mailto:mojim@dbs.com)**Tieying MA, CFA**

Senior Economist

Japan, South Korea, Taiwan

[matieying@dbs.com](mailto:matieying@dbs.com)**Mervyn TEO**

Credit Strategist

USD Credit

[mervynteo@dbs.com](mailto:mervynteo@dbs.com)**Byron LAM**

Economist

China/HK SAR

[byronlamfc@dbs.com](mailto:byronlamfc@dbs.com)**Radhika RAO**

Senior Economist

Eurozone, India, Indonesia

[radhikarao@dbs.com](mailto:radhikarao@dbs.com)**Samuel TSE**

Senior Economist

China/HK SAR

[samueltse@dbs.com](mailto:samueltse@dbs.com)**Violet LEE**

Associate

Publications

[violetleeyh@dbs.com](mailto:violetleeyh@dbs.com)**Philip WEE**

Senior FX Strategist

Global

[philipwee@dbs.com](mailto:philipwee@dbs.com)

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

#### **GENERAL DISCLOSURE/ DISCLAIMER (For Macroeconomics, Currencies, Interest Rates)**

The information herein is published by DBS Bank Ltd and/or DBS Bank (Hong Kong) Limited and distributed by AllianceDBS Research Sdn Bhd (ADBS), a subsidiary of Alliance Bank Malaysia Berhad (ABMB) (each and/or collectively, the "Company"). It is based on information obtained from sources believed to be reliable, but the Company does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. The information herein is published for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Company and its associates, their directors, officers and/or employees may have positions or other interests in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking or financial services for these companies. The information herein is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction (including but not limited to citizens or residents of the United States of America) where such distribution, publication, availability or use would be contrary to law or regulation. The information is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction (including but not limited to the United States of America) where such an offer or solicitation would be contrary to law or regulation.

This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) which is Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Singapore recipients should contact DBS Bank Ltd at 65-6878-8888 for matters arising from, or in connection with the report. This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd.

DBS Bank Ltd., 12 Marina Boulevard, Marina Bay Financial Centre Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.

DBS Bank Ltd., Hong Kong Branch, a company incorporated in Singapore with limited liability. 18th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong SAR.

DBS Bank (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability. 13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong SAR

AllianceDBS Research Sdn Bhd (128540 U), 19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia. Tel.: +603 2604 3915.

Virtual currencies are highly speculative digital "virtual commodities", and are not currencies. It is not a financial product approved by the Taiwan Financial Supervisory Commission, and the safeguards of the existing investor protection regime does not apply. The prices of virtual currencies may fluctuate greatly, and the investment risk is high. Before engaging in such transactions, the investor should carefully assess the risks, and seek its own independent advice.