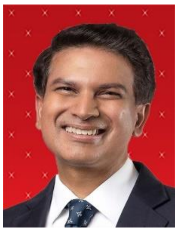
Macro Insights Weekly
Impact of Trump's first week in office

Group Research

January 27, 2025



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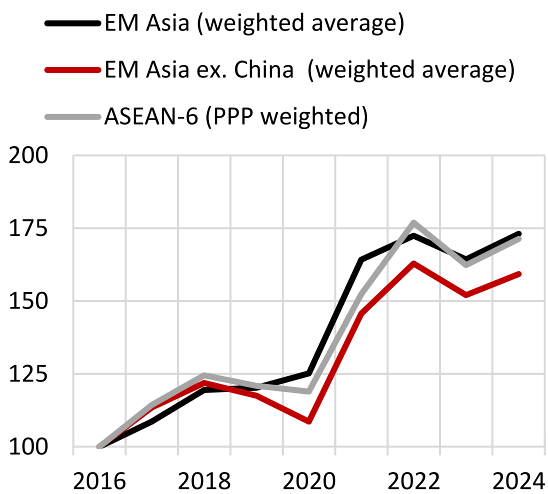
- *US President Trump unleashed a flurry of executive orders in his first week back in office. We worry that the markets' complacency about the macro impact will prove to be wrong.*
- *Rallies in stocks and bonds point to receding fear of inflation or fiscal slippage.*
- *USD selloff suggests tariffs will prove to be benign.*
- *But America First policy could meet with global retaliation.*
- *US macro cycle is also not conducive for a bout of policy fog and possible overheating.*
- *We will watch for last week's complacency to be reversed shortly.*

Chart of the Week: Asia's exports dynamic

Through nearly a decade of shocks, including trade wars, a global pandemic, and volatile recovery, Asia's exports have grown impressively. In USD value, exports are 75% higher today than they were in 2016, an annualised growth of 7.3%. Asean-6 countries together have had nearly identical outturn. Vietnam, with a 229% jump in exports, is the continent's number one, while China, India, Indonesia, Malaysia, and Taiwan are in the second cohort with exports growth of 65-82%.

Exports, 2016=100



Source: CEIC, DBS

Commentary: Impact of Trump's first week

Trump 2.0 has started with a determined and organised set of actions. Through a flurry of executive orders over the last few days, President Trump took the US out of the Paris climate accord, the World Health Organisation, and a global agreement on corporate minimum income tax. Several steps against undocumented immigrants were rolled out, while the crypto space received a bunch of supportive measures. On trade, the US-Mexico-Canada agreement was put under review, along with trade dealings with China, Mexico, and Canada. The Tik Tok ban was paused for 75 days, a national energy crisis was declared that would allow for easing of exploration and drilling, and a wide range of steps were announced to reverse climate change related regulation. Additionally, many measures were announced to undo diversity, equity, and inclusion initiatives. Federal hiring and foreign aid were largely frozen. The president has also made strong push for taking over Greenland. A fill list of executive orders can be found here.

The week was characterised by a lot of talk about impending tariffs. Trump threatened 25% tariff on Canada and Mexico from February 1 over what he views as failure to stop drugs and migrants from coming into the US. There were also musings about a universal tariff of 10% on all imports and additional tariff on China.

It is tempting to see the developments of the first week of Trump's presidency and take comfort from the fact that no actual tariff has been imposed. In fact, market pricing so far indicates fairly low probability that major tariffs would be unleashed soon. The dollar sold off during the week, stocks rose, and fixed income rates rallied. Fears of inflation that could come with Trump's policies have taken a backseat for the time being. The market is keen to believe that tariff threats are nothing more than a bargaining ploy, scaling back of various Biden-era spending measures would bring fiscal policy under control, and immigration measures won't go too far. Expectations are also for the crypto/tech complex to see a surge in investment, followed by productivity boost and value creation.

But these are extremely early days for such complacency. Trump's mercurial policy-making comes with risks of creating a series of headwinds, including setback for green transition, regulatory capture by the tech oligarchy, and retaliatory measures by nations and blocs affected by the confrontational America First approach.

Given that Trump has talked about his belief in the potency of tariffs, actual and threatened, for four decades, we are sceptical that this four-year term would somehow begin and end with minimal application of his favourite tool. A week without tariff imposition should not be seen as a welcome marker for things to come.

More critically, the current macro juncture does not lend much room for policy volatility. Asset price valuations are at an all-time high, economic momentum has been strong for years, and the investment cycle has already been going through a purple patch. Trump's actions to deregulate and cut taxes, and desire to tighten labour supply and lower borrowing costs, are a recipe for economic overheating, we fear.

Taimur Baig

FX: FOMC, ECB, and Trump's tariff countdown

It is premature to conclude that the greenback's uptrend has ended. Last week, the DXY Index 1.7% decline was the fastest weekly drop since November 2023. The DXY must still break sustainably below the 10w7-neckline level to affirm a reversal of the Truwmp Trade rally in 4Q24 back into its previous two-year range.

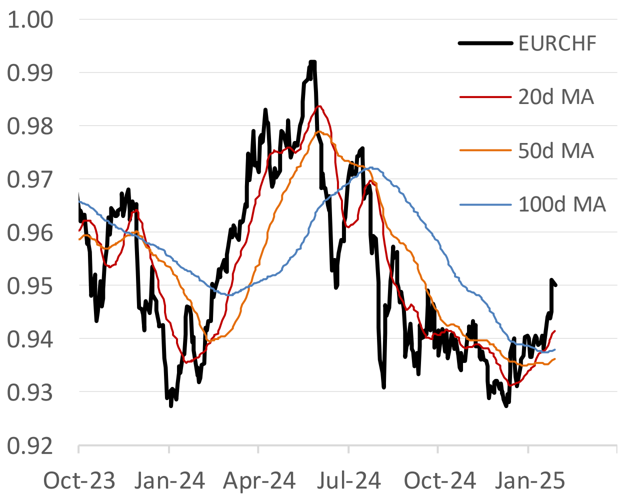
DXY Index's uptrend remains intact until it invalidates the neckline re-test

Sources: DBS Reseach, Bloomberg data

The overarching theme for the USD continues to revolve around US President Donald Trump's approach to tariffs. Tariffs heighten global uncertainties and boost the USD's haven appeal. Tariffs are considered an inflationary risk for the US and a growth threat for the rest of the world. Until his cabinet nominees are confirmed, Trump has kept the tariff threat alive by setting a February 1 deadline to impose tariffs on Canada, Mexico, and China. The countdown will likely dampen the Lunar New Year holiday mood during this shortened trading week in Asia.

Last week, Trump exerted pressure on the Federal Reserve to lower interest rates. However, the Fed will demonstrate its independence by leaving the Fed Funds Rate unchanged at 4.25-4.50% during the FOMC meeting on January 28-29. Friday's US PCE inflation should vindicate the Fed's cautious approach to rate cuts by rising to 0.3% MoM (2.5% YoY) in December from 0.1% MoM (2.4% YoY) in November. However, **markets will be alert to Trump's attempts to influence the Fed in future FOMC meetings.**

EUR/CHF higher on aggressive SNB



Sources: DBS Reseach, Bloomberg data

EUR/CHF has gained upside momentum after its 1.2% rally (fastest in eight months) **to 0.95 last week.** The **Swiss National Bank is resolute about countering the CHF's haven status** from global uncertainties with interventions and negative interest rates. The OIS market has priced in two rate cuts this year, in March and December, bringing the SNB policy rate to 0%. **However, EUR/CHF could correct to 0.9450 into this Thursday's European Central Bank meeting**, where we expect it to keep the door open for more rate cuts after lowering the deposit facility rate by 25 bps to 2.75%. The ECB's confidence in Eurozone inflation meeting the 2% target in 2025 supports our forecast for the policy rate to decline to 2% by mid-year.

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