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Macro Insights Weekly

Upward momentum to start the year

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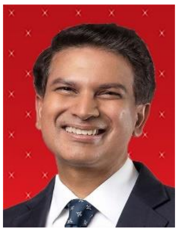

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- *We expect the late-year positive momentum characterising the global economy to spill over to the early part of 2026. We consider four positive trends and two risks.*

- *From China to the US, economic activity is holding up better-than-expected.*

- *Trade is flourishing, despite the US push toward protectionism.*

- *Other than in Japan and the US, inflation is benign.*

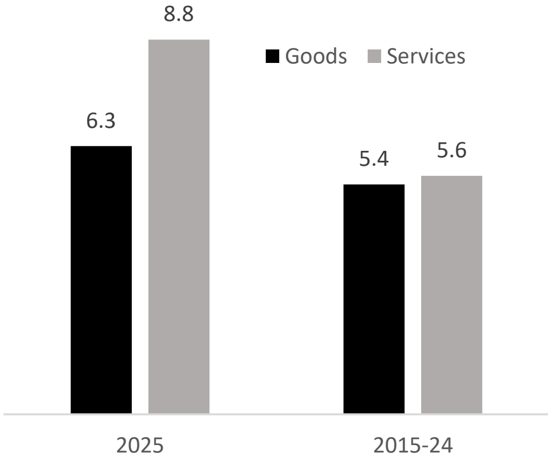
- *High sovereign debt burden notwithstanding, long-term rates are also on a stable footing for now.*

- *Key risks are over-reliance on AI-spending and ever escalating US hegemonic assertiveness.*

Chart of the Week: Resilient trade

Trade flourished in 2025, overcoming the spike in geoeconomic volatility. The US turning protectionist did not make the rest of the world turn inward; instead, global trade in goods and services is slated to rise by 6.3% and 8.8% respectively, above trend. Unsurprisingly, East Asia's exports recorded the strongest regional growth (+9%yoy) in the world, with intra-regional trade growing by 10%. Encouragingly, trade between developing economies expanded by 8%. Trade outside the US is the silver lining for 2025 and beyond, in our view.

Trade value in goods and services
%yoy growth



Source: UNCTADsta, DBS

Commentary: Upward momentum

We expect the late-year positive momentum characterising the global economy to spill over to the early part of 2026. We consider four key metrics of positive momentum:

First, economic growth. China and the US are tracking around 5% and 3% growth presently. China's long list of headwinds, from property market slump to trade war, industrial overcapacity to a paucity of jobs, are well recognised, but it gets insufficient credit for decent consumption growth, a revitalised capital market, and a steady stream of innovation and tech adoption. As for the US, its investment dynamic may well be disproportionately reliant on AI spending, the balance sheets of its consumers and firms are in sound health on aggregate, laying the foundation for strong retail sales and service sector activity. Here in south-east Asia, trade, tourism, events, and domestic demand have also held up rather well. We expect more of the same for the time being.

Second, trade. All EM and DM economies we track had moderate to excellent expansion in trade in 2025, defying the staunchly protectionist stance undertaken by the Trump administration. Looking ahead, the latest PMI reading bode well for demand, with almost all the economies in our coverage reporting expanding order books.

Third, inflation. With exception of Japan and the US, all EM and DM economies under our coverage are tracking trend or below-trend inflation, with food, fuel, and core prices stable. Among a long list of potential spoilers in 2026, we don't think inflation will be one. Even in the US, inflation turning sticky won't cause much consternation, in our view, as markets already take for granted the dovish push coming from the Trump administration.

Fourth, rates. The global economy is characterised by a mountain of debt, with little sign of movement toward fiscal consolidation. This should cause long-term interest rates to rise, but there are several mitigating factors at play. Since the 2007/08 global financial crisis, central banks have supported public debt issuance. Holders of US treasuries, for instance, don't see much risk in the horizon, as they expect the US Fed and Treasury doing whatever it takes to cap long-term yields. The long-term ramifications of such practice are negative, we are sure, but short-term manifestations will likely be muted. From central bank credibility to the value of the dollar, the erosion would take place gradually, not in a seismic manner.

Now, for the risks. The first is clear—the lopsided nature of the investment cycle in the US, which is presently being driven almost entirely by AI-related spending. If the sector faces revenue disappointments or some its promises fall short, a major downturn in investments would ensue, causing growth to slow. The selloff in AI stocks would have a substantial international dimension, we fear.

Second, geopolitics. The first few days of the new year has already shown evidence matters heating up, from central America to the Middle East. The US asserting its hegemony repeatedly hurts the global rules-based order and compounds the already-heightened sense of geoeconomic uncertainty. From now till the November US mid-term elections, there won't be any respite in this arena, we suspect.

Taimur Baig

FX: A mixed start to 2026

Until US President Donald Trump nominates a new Fed Chair, the **Fed's credibility concerns remain latent, allowing the Developed Market exchange rates to be driven primarily by monetary policy divergences rather than hypothetical threats to its independence**. For 2026, the futures/OIS markets are keeping the USD on the defensive by pricing two rate cuts at the Fed and the Bank of England, no change at the European Central Bank and the Swiss National Bank, one hike at the Bank of Japan and the Bank of Canada, and two hikes at the Reserve Bank of Australia and the Reserve Bank of New Zealand.

However, **in the near term, the same markets expect these central banks to keep their policy rates unchanged at their first monetary policy meetings in 2026**. So, expect volatility in data that questions the market's asymmetric pricing of interest rates across countries. For example, US jobs data has eclipsed better-than-expected GDP growth in driving the dovish Fed outlook. Conversely, Australia's elevated inflation readings amid an improving economic outlook supported the RBA's pivot towards holding policy restrictive for longer with a tightening bias. Having rebounded from its post-Covid low slightly below 0.60, AUD/USD could extend its rise towards 0.70 pending a sustainable break above 0.67.

Fingers crossed, Venezuela is unlikely to be a market-moving issue. With Venezuela already heavily sanctioned and isolated from global capital markets, any tough rhetoric carries limited immediate economic or oil market risk, making it an example of America's policy assertiveness. President **Trump's State of the Union address** in late January or early February may reinforce a broader message that access to the USD-centric financial system is conditional on political alignment and compliance. Such framing could add to longer-term concerns about the weaponisation of the USD, keeping the de-dollarisation narrative intact. Hence, any decision by the US Supreme Court to rule against Trump's use of the International Emergency Economic Powers Act (IEEPA) for tariffs (in January or February) could hurt the greenback through a fiscal hit from potential tariff refunds.

Against this background, **markets have noted the CNY's steady appreciation** following the April 2025 US Liberation Day tariffs. USD/CNY closed the year 2025 lower by 4.3% at 6.9890, below 7.00 for the first year since 2022. The CNY emerged stronger after Beijing demonstrated its policy resolve to resist asymmetric tariff pressure from Washington. The transition into 2026 should mark a less politically charged phase in US-China relations. Presidents Trump and Xi are expected to meet several times, amid Trump's preoccupation with the US mid-term elections and China's launch of its 15th Five-Year Plan (2026-2030). Like Brussels, Beijing has been pushing for a larger international role for its currency, not as a direct challenge to the free-floating USD, but as a more trusted and steadily managed currency within the global system. Hence, it was likely no coincidence that spot USD/CNY started trading below its daily fixing in December.

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