Macro Insights Weekly

Wither green transition?

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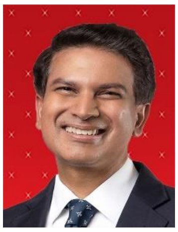

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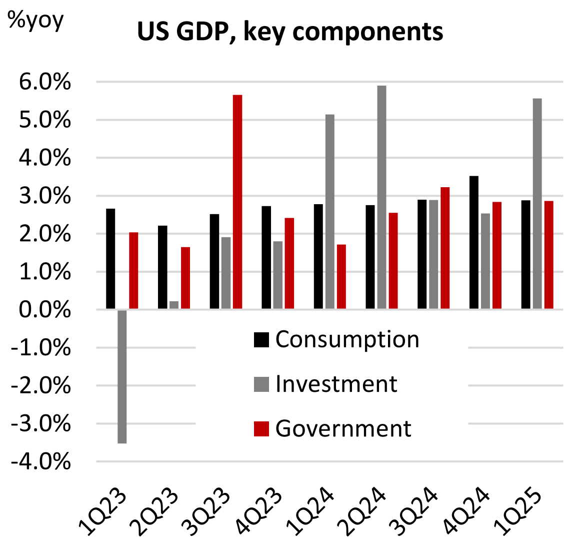
- *Under President Donald Trump, the US will push for a surge in energy production, particularly oil and gas, while neglecting renewables. Does this mark a major setback for green transition? We think not.*
- *The world has made good progress toward decarbonisation in the past decade.*
- *Already, about 30% of global electricity generation is by renewable energy technology.*
- *The US is not the key player in renewables; that role is taken up by China and Europe.*
- *There will be no change in either economy's green transition goals regardless the US's stance.*
- *Green transition's outlook remains bright, with or without the US.*

Chart of the Week: US GDP's underlying strength

An upturn in imports, a deceleration in consumer spending, and a downturn in government spending, partly offset by upturns in investment and exports characterised the US economy in 1Q25. Real GDP grew up 2%yoy, although on a seasonally adjusted, quarter over quarter, annualised basis, it shrank by 0.3%. Tariff related mayhem was only reflected in the 12.7%yoy jump in imports, which in turn creates an upside for 2QGDP. Incorporating the latest data into our forecast, we see the US economy growing by 1.5% in 2025.



Source: CEIC, DBS

Commentary: Wither green transition?

The signals are clear; under President Donald Trump, the US will push for a surge in energy production, particularly oil and gas, while neglecting renewables. Does this mark a major setback for green transition? We think not.

The world has made good progress toward decarbonisation in the past decade. Already, about 30% of global electricity generation is by renewable energy technology. According to International Energy Agency (IEA), this share will be heading toward 50% by the end of this decade. The components of renewables that are contributing to this development are solar and wind. Just a decade ago, they did not add up to even half of global hydroelectricity production. Today, they add up to more than hydro power, and by the end of 2030 each is on track to generate more electricity than hydro.

If these trends were largely underwritten by the US, we would worry about the path ahead. The US has made a decisive shift toward expanding drilling, mining, and logging. Substantial pushback is underway against nationwide clean energy mandates and pollution standards, while a wide range of green finance initiatives, especially those put in place under Biden's Inflation Reduction Act, has been cancelled. As soon as Trump 2.0 began, the US once again moved for the withdrawal process from Paris Climate Agreement, along with suspending contribution to numerous climate initiatives.

But the world's move toward green transition is not US-centric at all. Lack of US leadership during Trump 1.0, followed by renewed vigour toward green transition under Biden, and now reverting to even greater pushback under Trump 2.0, have left the US as a non-reliable partner in green transition. The developments in China and EU are far more consequential in this context.

Today, the renewable sector in China and Europe combines for more than 15% of global electricity generation, with the share projected to rise to 27% by the end of this decade, as per the IEA. The US share is less than 5% and is not expected to rise materially.

China is the global leader in renewable electricity capacity addition, with over 700 GW added in 2023-24, two-thirds all global deployment. The 14th Five-Year Plan for Renewable Energy, released in 2022, provides ambitious targets for renewable energy use, with USD80bn+ in annual investments.

The European Union is accelerating solar and wind deployment, with almost 150 GW added during 2023-24. This reflects a doubling of pace since the Russian invasion of Ukraine, which underscored Europe's over-reliance on imported fossil fuels. Policies and targets proposed in the REPowerEU Plan and The Green Deal Industrial Plan are expected to be important drivers of renewable energy investments in the coming years.

There will be no change in China and EU's strategy toward green transition, we are sure. These two large economic powerhouses will provide ample leadership to the global community, helping with setting rules and standards, financing, and technological innovation. **Green transition's outlook remains bright, with or without the US**.

Taimur Baig

FX: USD weakness will be less one-sided

In the short term, we are cautious about last Friday's rally in Asian currencies, which was driven by hopes for a thaw in the US-China trade conflict. For now, Washington and China share a common objective – to avoid a further escalation of the trade war. Although Beijing acknowledged Washington's desire to engage in trade talks, it also wanted the US to first demonstrate sincerity by removing all the unilateral tariffs imposed on China. Conversely, the Trump administration reckoned it was up to China to de-escalate, believing that it held the cards – China exports five times more to the US than the US to China.

We are mindful that the world's two largest economies are engaged in shadow play, with both sides projecting strength and resolve without making real concessions or commitments. Hence, they are likely posturing to test each other's intentions while avoiding being the first to appear weak. Beijing also perceived the US trade talks with its trading partners as an encirclement strategy to contain its economic and geopolitical influence. The global landscape is still evolving from the strategic competition between the US and China, with trade as the battleground for dominance and influence.

Based on their trade negotiations with the US, Japan and South Korea want to balance their strategic alliances with the US while safeguarding their economic interests with China. US President Donald Trump is keen to showcase success in his strategy to use tariffs for leverage in trade negotiations before the reciprocal tariff pause ends on July 8. However, meeting this deadline may prove elusive because of South Korea's presidential elections on June 3 and Japan's upper house elections on July 20. Given the electoral victories in Australia and Canada on firm stances against Trump's trade policies, Japan and South Korea may be pressured to address the impact of Trump's tariffs on their auto sectors without appearing submissive. Markets should view Japanese Finance Minister Katsunobu Kato's remark that Japan's US Treasury holdings could serve as a "card" in tariff negotiations in this context.

The FOMC meeting on May 7 will likely be a non-event for the USD. US equities have recovered their post-Liberation Day tariff losses, and **Trump appeared to have learned his lesson about threatening the Fed's independence**. Trump will still likely criticize the Fed's decision to leave interest rates unchanged but refrain from talking about removing Fed Chair Jerome Powell before his term ends in May 2026. **Powell should reaffirm the Fed's extended rate pause**, advocating continued vigilance in tariff-led inflation amid the resilient US economy and labour market. The contraction in the US economy in 1Q25 was driven mainly by the frontloading imports to beat tariffs. Personal consumption growth remained positive amid a surge in gross private investment.

Markets remain vigilant that the USD could fall again on rising US 10Y bond yields on US fiscal sustainability worries. Apart from the push to pass Trump's weeping tax cuts by Independence Day, the administration is pushing for financial deregulation later this year. Although the Atlanta Fed GDPNow model expects the US economy to avert a technical recession in 2Q25, growth will likely remain weak. Hence, **Asia ex-Japan nations will likely intervene to resist excessive currency appreciation from USD weakness.**

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