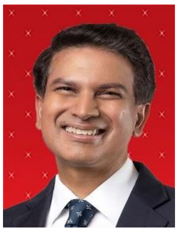
Economics & Strategy Research

Macro Insights Weekly

Asia's playbook for Trump's tariff storm

Economics/Strategy/Rates/FX/Credit

April 7, 2025



Taimur Baig
Chief Economist
taimurbaig@dbs.com

Radhika Rao
Senior Economist
radhikarao@dbs.com

Please direct distribution queries to
Violet Lee +65 68785281 violetleeyh@dbs.com

- *Global markets and economies are still struggling to absorb the seismic tariff shock of last week. Risk is now between stagflation and outright recession in the US and the associated spillovers.*
- *For the US, we see 1% upside to inflation and 1% downside risk from baseline forecast.*
- *These estimates could turn worse if trade war intensifies further.*
- *There could be secondary tariffs--penalty for buying goods from countries under US sanction.*
- *China/EU could retaliate by imposing tariffs on US services exporters.*
- *We examine the impact on Asian economies and their possible policy responses.*

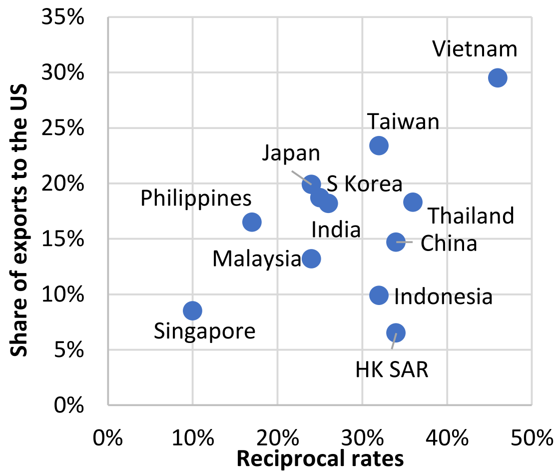
Key data release and events this week:

- *The RBI and BSP are expected to lower rates this week*
- *Taiwan exports are expected to stay resilient in 2Q*
- *Malaysia production likely expanded*

Chart of the Week: Reciprocal tariffs

The method behind the flurry of tariff measures announced by the US on April 2 is simple—the more a nation is reliant on US markets, the more tariffs they face. From there it should follow that the only way a country can see tariff relief in the future is by buying more from or selling less to the US. But since the reliability of the US to uphold any agreement is all but gone for now, such gestures may still fall short of providing meaningful relief. The playbook for most Asian economies ought to be to combine remaining open to the US while pushing for greater integration with the rest of the world.

Tariffs and vulerabilities



Source: CEIC, DBS. China faces other tariffs as well.

Commentary: Asia's playbook for Trump's tariff storm

Global markets and economies are still struggling to absorb the seismic tariff shock unleashed last week. There seems to be no end of risk aversion and market selloff. The key reason for that is that despite the spate of announcements, there is still substantial fear that more measures are to come. Perhaps more critical is the notion that nations trying to do a deal with the US will not be able rest easy upon signing agreements, as no deal with US seems to be reliable any longer.

Before examining what Asia can and would do to deal with the tariffs, we first take stock of our US forecasts. If tariffs stay the way are for the rest of the year, core PCE inflation could readily exceed 3.5%, while household income and consumption will be dented, especially for those at the low end of the income spectrum. Real GDP growth could face 50-100bps downside. We will keep aside the impact on fiscal as whatever tariff revenues are raised will be more than offset by forthcoming tax cuts.

There is another, more adversarial, scenario. If trade war intensifies with additional tariffs and retaliations, and financial market correction worsens, US recession risks will rise considerably. **This will especially be the case if the US ratchets up secondary tariffs (penalty on nations for buying goods from countries under US sanctions) and China/EU take aim at the US services exports**. The Fed will face pressure to cut interest rates even if inflation remains well over its target. Global financial stability could also be at stake.

We would assign a probability of 45% to a scenario of below-trend growth and above-trend inflation, and a 35% probability to a US recession scenario, which in turn will drag down the outlook of Asia's exports-dependent economies.

In the following sections, we present DBS economists' analysis on the impact of tariffs on key economies and likely policy response.

Downside from tariff shock

Real GDP growth, yoy	2025 forecast	Risk to forecast
China	5.00%	-0.50% to -1.0%
Hong Kong SAR	2.50%	-0.50% to -1.0%
India	6.50%	-0.50%
Indonesia	5.00%	-0.50%
Malaysia	4.80%	-1.00%
Philippines	5.80%	-0.50%
Singapore	2.80%	-0.50% to -0.75%
South Korea	1.70%	-0.75% to -1.0%
Taiwan	3.00%	-1.5% to -2.0%
Thailand	2.60%	-1.5% to -2.0%
Vietnam	6.80%	-2.0% to -2.5%
Eurozone	1.00%	-0.50%
Japan	0.90%	-0.30%
United States	2.00%	-0.50% to -1.0%

Source: CEIC, DBS. Downside estimates include (i) impact of terms of trade shock calculation and (ii) assumptions on domestic fiscal and monetary policy response.

Taimur Baig

China

We estimate that the direct impact of US tariffs imposed so far this would subtract 1.15% from China's GDP. The actual impact could however end up being less severe as the US is raising tariffs on other countries, which could dilute the specific effect on China.

China is also better positioned to withstand the protectionist climate compared to the past. Burgeoning demand from emerging markets may help cushion the potential loss of trade income from the US. China has seen significant growth in exports to ASEAN, which accounted for 16.4% of its total shipments in 2024.

Meanwhile, the loss of trade income from the US may be partly offset by fiscal stimulus. Beijing will likely accelerate the issuance of the RMB4.4 trillion local government special bonds and RMB1.8 trillion special sovereign bonds to support the economy.

The PBOC may return to easing to support the economy. We expect another 30 basis points of 1-year LPR and 100 basis points of RRR cut this year, in tandem with the resumption of the government bond buying program.

Mo Ji, Nathan Chow, Samuel Tse, Byron Lam

Hong Kong

While not explicitly targeted, Hong Kong's 2020 loss of preferential trade status subjects it to equal treatment with mainland China under US trade regulations. The direct impact on domestic exports is minimal—these account for just 1.3% of total exports in 2024, with only a small share destined for the US—but re-export activity may experience some drag. Still, the US now comprises only 5–6% of Hong Kong's total trade, a sharp decline from a decade ago, which helps contain the overall impact. Resilience will depend on deepening economic integration with mainland China and expanding ties with ASEAN and the Middle East.

A stabilizing Chinese economy—underpinned by fiscal stimulus and monetary easing—should support Hong Kong's re-export flows. The city is also expected to accelerate efforts to strengthen supply chains, broaden trade financing, and diversify market exposure. In real estate, a weaker re-export and investment outlook could dampen office demand from multinationals, though increased interest from mainland firms may offer some offset. Residential demand may soften if sentiment weakens, but continued mainland wealth inflows and enhanced cross-border connectivity should provide support. Further relaxation of property measures is likely if market conditions deteriorate. Overall, we estimate a 0.5–1%ppt downside risk to our 2025 GDP growth forecast of 2.5%.

Mo Ji, Nathan Chow, Samuel Tse, Byron Lam

Singapore

With the balance of risks to Singapore's growth and inflation outlook skewed to the downside, we expect the Monetary Authority of Singapore (MAS) to ease its monetary policy during its upcoming policy review in April 2025. This would mark a back-to-back easing, following MAS's slight reduction of its SGD NEER policy band in January 2025.

Policymakers are already sounding caution, with Deputy Prime Minister and Minister for Trade and Industry Gan Kim Yong mentioning that the situation has "turned out to be worse" than expected, following the US tariff announcement. Singapore will have to reassess its 1-3% economic growth forecast for 2025, considering the potential for fresh US tariffs to escalate into a tit-for-tat global trade war.

Singapore's deep integration in the global supply chain makes it vulnerable to a broader global trade and manufacturing slowdown induced by sweeping US tariffs, posing considerable downside risks to our 2025 economic growth outlook. Nonetheless, we see a silver lining compared to other hard hit Southeast Asian economies, as it faces the baseline 10% US tariff rate, the lowest amongst ASEAN-6 peers.

We estimate lower direct negative growth impact of 0.50-0.75 percentage points (ppt) to our Singapore 2025 GDP growth forecast of 2.8%, with the negative impact mitigated by the exemption of additional reciprocal rates on pharmaceutical and semiconductor products. We still foresee pipeline risk of US tariffs on these goods, which would pose a bigger direct drag to Singapore's economy.

Chua Han Teng

India

The US announced a 26% reciprocal tax on India, which is more than two and a half times of the existing average tariff gap. With the effective reciprocal taxes likely to be implemented on April 9, we will wait to see if India manages to receive some reprieve.

The authorities have engaged in negotiations with the US in the past few months, including openness to cut or scrap tariffs on part of US imports, and lower tariffs on selected US agriculture imports but exclude key segments, amidst negotiations on the Bilateral Trade Agreement (BTA), with the initial contours to be released by fall of 2025. As it stands, the rate imposed on India is less than most Asean-6 peers, with sectoral carve outs/ exemptions providing temporary relief. However, exemptions add to a little more than a tenth of the total exports to the US, with other sectors still exposed to higher tariffs. India retains comparative advantage in specific sectors like electronics manufacturing for now as key competitor countries face higher tariffs.

Our growth impact framework, which marries export elasticities and bilateral trade/ sector flows, signals about 0.5% of GDP downside risk for India. Authorities have steered clear from retaliatory action, instead counting on a successful conclusion of the ongoing bilateral trade agreement with the US next quarter to lower the effective tariff rate. The RBI is expected to lower rates by 50-75bp more this year, in addition to February 2025's move.

Radhika Rao

Indonesia

A significant increase in reciprocal tariff on Indonesia came as a surprise. The US announced a 32% tariff on Indonesia, likely influenced by the trade balance gap rather than purely the difference in the bilateral tariff rates. The latest USTR National Trade estimate Report highlights Indonesia's average MFN applied tariff rate at around 8% in 2023, whilst expressing concern on progressive increase in import tariffs, a cumbersome domestic tax assessment process, and increase in the withholding tax rates on selected imports, apart from zooming in on the non-trade barriers including import licensing mechanism including on agricultural products, quantitative restrictions/ import limits, limited access in the pharma industry and state trading, amongst others. Local content requirements on certain information and communication technologies to sell products was also cited as a constraint, likely referring to negotiations with Apple in recent months.

China's dominance in Indonesia's trade and investment landscape was expected to be a potential flashpoint. Key exports to the US include textiles, seafood, footwear, palm oil, electronics etc. The government has signalled scope for negotiations to reach some compromise and receive relief on these rates. Our impact analysis points to 0.5% of GDP knock-on repercussion on growth, with second order effects from slower global growth. In a fractious global economy, we expect domestic policymakers to step up on boosting demand engines. BI is expected to lower rates by 50bp more, with an eye on rupiah volatility. Domestic considerations had dented sentiments in the onshore markets, weighing on the currency and bond markets.

Radhika Rao

ASEAN-6

ASEAN-6 is amongst the hardest hit by US reciprocal tariffs, even as the region was not explicitly mentioned in the "Fair and Reciprocal Plan." The region faces a potential average 27.5% increase in their US tariff rates, with Vietnam, Thailand, Indonesia, and Malaysia facing the highest increases (ranging from 46% on Vietnam to 24% on Malaysia), as they were amongst the US's top 15 trade deficit partners in 2024.

To assess the direct impact on ASEAN's growth, we considered the US reciprocal tariff rates, alongside US exports exposure and elasticities, as well as exemption of additional reciprocal rates for few key sectors such as semiconductors, pharmaceuticals, and autos exports to the US. We estimate a significant hit to the region, with greater negative impact on the GDP of Malaysia, Thailand, and Vietnam ranging from 1.0-2.5 percentage points (ppt). Vietnam, which faces amongst the highest reciprocal rates, is also the most exposed to the US. US accounts for almost 30% of the total Vietnam goods exports, with key segments comprising of electronics items, such as mobile phones, and textiles, garment, and footwear.

Regional governments are likely to initiate bilateral discussions and seek concessions with the US administration as the scale and scope of reciprocal action become clearer. A broad range of conciliatory options include diplomatic and other economic steps - bilateral trade agreement/ critical minerals agreement (applicable for Indonesia for instance) with the US.

The region might seek to step up purchases from the US, for instance agricultural inputs, machinery, aircrafts, energy and defence, to balance the trade gaps. A unilateral reduction in tariffs to accommodate US demands (without an FTA) might be challenging given the need to level the playing field with all the countries under the MFN terms.

Concurrently, there might be cascading tariffs in the region as any instance of dumping activity from China or other trading partners might attract countervailing duties. National governments and policymakers are likely to double down on efforts to bolster domestic demand to compensate for weaker trade performance including fiscal spending and monetary policy easing.

Chua Han Teng and Radhika Rao

Japan

Japan faces a 24% reciprocal tariff rate, which is relatively low compared to the average of 29% across the 60 countries in the reciprocal tariff list. However, Japan also faces a 25% increase in automobile tariffs, the largest product category it exports to the US. Assuming a price elasticity of 0.5, Japan's GDP growth is likely to be reduced by approximately 0.3 ppt.

The Bank of Japan is likely to delay its next rate hike, despite recent strong wage and inflation data. The positive wage-inflation dynamics could be at risk if global economic conditions deteriorate sharply. Additionally, the strong appreciation of the yen—driven by a surge in safe-haven demand—will make the BOJ cautious about implementing domestic rate hikes.

Ma Tieying

South Korea

South Korea is subject to a 25% reciprocal tariff rate, which is relatively low compared to the 29% average tariff across 60 countries on the list. Additionally, South Korea faces a 25% tariff hike on its automobile exports to the US, the largest category of products it exports to the country. With an assumed price elasticity of 0.5, the 25% tariff hike is expected to reduce South Korea's GDP growth by approximately 0.7ppt.

Growth risks are likely to prompt further monetary easing by the Bank of Korea. The BOK is expected to cut the benchmark rate by another 25 bps to 2.50% during the April 17 policy meeting. Substantial government policy support is anticipated following the upcoming presidential election. On April 4, the Constitutional Court upheld the impeachment of President Yoon, leading to a new election within 60 days, which is expected to occur by early June. The new government is likely to engage with the Trump administration to find a solution, which may include increasing imports from the US and boosting manufacturing investment in the US. If the opposition Democratic Party wins the election, the chances of fiscal stimulus through a supplementary budget would increase.

Ma Tieying

Taiwan

Taiwan's reciprocal tariff rate is unexpectedly high at 32%. In 2024, Taiwan's exports to the US accounted for 23% of total exports and 14% of nominal GDP. Its total exports accounted for 63% of GDP. Assuming an elasticity of 0.5, a 32% reciprocal tariff could reduce Taiwan's exports to the US by 16%, lowering GDP growth by approximately 2 ppt. Regarding second-order impacts, if global economic growth decreases by 1 ppt, it could reduce Taiwan's GDP growth by nearly 1 ppt.

Semiconductors are not subject to reciprocal tariffs, so the direct impact on Taiwan-made chips remains minimal for now. However, the second-order effects of a potential US/global recession, which could dampen semiconductor demand, would still be considerable. A strong policy response is necessary to mitigate the impacts of reciprocal tariffs. With government debt at around 30% of GDP, it also has significant room for fiscal policy expansion.

Monetary policy easing seems unlikely in the near term, as the central bank's policy rate is already low at 2.00%, and the inflation-adjusted real policy rate is near zero.

Ma Tieying

Tactical trade ideas

Trade	Entry	Exit	Rationale	Returns
Running				
FX				
Short AUD/SGD	Entry 0.8530 (Feb 17), TP: 0.82, SL: 0.8630		AUD is more volatile than SGD from Trump's tariffs.	+4.0%
Short EUR/USD	Entry 1.0760 (Mar 27), TP: 1.0550, SL: 1.0930)		Trump's tariffs tempering EU's growth optimism from "ReArm Europe" Plan	-1.6%
Rates				
Long 10Y CGB	Entry: 1.79% (Feb 24), TP: 1.50%, SL: 2.05%		A sustained recovery will require further easing.	+11.3bps
Rec 2Y SORA-SOFR basis	Entry: -5bps (Feb 25), TP: -17bps, SL: 2bps		Toppy as carry positions get stretched.	+3.8bps

Note: Performance for Rates ideas are expressed in running basis points and percentage terms.

Key forecasts for the week

Event	DBS	Previous
Apr 8 (Tue)		
Indonesia: CPI (Mar)	1.2% y/y	-0.1% y/y
Taiwan: CPI (Mar)	2.1% y/y	1.6% y/y
Apr 9 (Wed)		
India: RBI repurchase rate	6.00%	6.25%
China: M2 (Mar) (9 to 15 Apr)	7.1% y/y	7.0% y/y
- aggregate financing	CNY 14251bn	CNY 9292.1bn
- new yuan loans	CNY 9510bn	CNY 6138.7bn
Apr 10 (Thu)		
China: CPI (Mar)	0.3% y/y	-0.7% y/y
Philippines: BSP o/n rate	5.50%	5.75%
Taiwan: exports (Mar)	11.8% y/y	31.5% y/y
- imports	15.3% y/y	47.8% y/y
- trade balance	$8.53bn	$ 6.55bn
US: CPI (Mar)		2.8% y/y
Apr 11 (Fri)		
India: industrial production (Feb)	3.1% y/y	5.0% y/y
Malaysia: industrial production (Feb)	1.5% y/y	2.1% y/y

Forthcoming data releases

India: The RBI monetary policy committee will announce its rate decision on Wednesday. Dr Poonam Gupta, current head of NCAER has been named as the new RBI Deputy Governor and will join the upcoming rate review. Domestic data has aligned to make way for the Monetary Policy Committee (MPC) to lower rates further, characterised by easing inflation and growth whilst depreciation pressure on the rupee has eased significantly. We look for a 25bp rate cut with a change in stance to accommodative. January-February inflation combined with our early estimate for March, point to a 40-50bp undershoot in the actual vs RBI's quarterly forecast. Growth, meanwhile, is seen around 6.4-6.5% in FY25 and FY26, down from the 8% run rate in the previous two years. The rupee was the regional outperformer, rallying 2.3% in March, as seasonality and dollar weakness coincided. Bond yields slipped further after the RBI surprised by announcing another INR800bn OMO for April, signaling a strong preference for surplus liquidity to aid transmission. While confident on domestic developments, the MPC is likely to be guarded on the uncertain global backdrop as trade distortions pose stagflationary risks to the US and raise the risk of slower global trade.

Taiwan: March trade and inflation data are due this week. Export growth is expected to slow to 11.8% YoY, down from 17.9% in Jan-Feb, while CPI inflation is projected to remain stable at 2.1%. The March S&P manufacturing PMI dropped to 49.8, dipping below 50 for the first time in a year, whereas the CIER manufacturing PMI remained robust at 54.2. Trade front-loading is anticipated to continue supporting export shipments in March. However, downside risks are elevated following the US's announcement of reciprocal tariffs in April, including a 32% tariff on Taiwan. As US importers face challenges finding alternatives, and with trade being relatively inelastic, Taiwan's export performance is expected to remain resilient in 2Q. Downside risks are likely to materialize in 2H, as alternatives become available and elasticity increases. Additionally, the second-order impact on Taiwan's exports from a potential global slowdown or recession is expected to become more pronounced from 2H onwards.

Malaysia: Malaysia's industrial production (IP) likely grew for the 14th consecutive month in February 2025, but at a slower pace of 1.5% YoY, compared to 2.1% YoY in January 2025. While resilient near-term external demand likely supported this continued expansion, waning IP growth momentum suggests downside risks for Malaysia's trade dependent economy. Malaysia's export-oriented industrial sector faces considerable downside risks from escalating US-led trade tensions, particularly from 24% US tariffs on Malaysian imports that were announced on Liberation Day.

Philippines: The BSP is expected to lower rates by 25bp this week to backstop domestic growth, amidst a challenging global outlook. Inflation in March was well within the target range. The Philippine government meanwhile downplayed risks to exports citing the comparatively lower 17% reciprocal tariff on Philippines, vs most regional peers. Electronic exports that form bulk of the shipments are likely to be impacted, apart from apparel, footwear and textile products. The country aims to push for higher farm exports to the US, seeking to displace countries in the region which have higher rates.

China: Consumer prices are expected to rise from -0.7% YoY in February to 0.3% in March, largely due to the fading seasonal impact of the early Lunar New Year. Core CPI growth is projected to turn positive after a 0.1% YoY contraction, supported by improving consumption sentiment. On the monetary front, money supply growth remains in expansion territory as ongoing stimulus measures take effect. We expect a pickup in aggregate financing and yuan loans after the Lunar New Year holiday, reaching approximately RMB4,950 billion and RMB3,370 billion, respectively, in March. As a result, M2 growth is projected to accelerate from 7.0% YoY in February to 7.1% in March. The gap between M2 and M1 is expected to narrow further going forward.

Economics Team

Recent publications

Webinar: Trump Tariffs: Economic and market implications

Crypto Digest: Corporate participation in Bitcoin markets

Taiwan: Initial assessment of reciprocal tariff impacts

FX: Navigating an evolving and complex landscape amid global trade shifts

The DXY Index reached a low of 101.27 on April 3, before rebounding to 103 last week. First, US President Donald Trump's announcement of larger-than-expected tariffs triggered global recession fears, hammered global equities, and revived the USD's haven status. **The commodity-linked and emerging Asian currencies were particularly vulnerable**, while traditional safe-haven currencies like the JPY and CHF saw increased demand. EUR/USD should fluctuate around 1.10, with GBP/USD consolidating within a 1.28-1.30 range.

Second, Fed Chair Jerome **Powell indicated no immediate urgency to adjust interest rates** following the 228k increase in US nonfarm payrolls in March, which surpassed the 140k consensus. Powell **cautioned that the inflationary effects of the tariffs could become persistent if they elevate long-term inflation expectations**. While Thursday's US CPI inflation is expected to slow to 2.6% YoY in March from 2.8% in February, inflation expectations are seen rising again in Friday's University of Michigan's April survey. The US Treasury 10Y yield ended last Friday at nearly 4% despite an initial decline to 3.856%. This did not prevent the futures market from pricing four Fed rate cuts in June-October.

The greenback is expected to remain volatile. Investors are hopeful that the "Hand's Off" protests across America and a legislative initiative by a bipartisan group of lawmakers to curb the presidential tariff authority might compel the Trump administration to roll back the tariffs. However, the administration is resolutely asserting that tariffs were necessary to renegotiate global trade terms, dismissing allegations of instigating a trade war. Worries persist that countries with significant trade relationships with the US may follow China's lead in implementing retaliatory tariffs.

AUD/USD is weak after its 4.6% plunge to 0.6056 last Friday, marking **its worst single day fall since 2008**. Although Australia was subjected to a baseline 10% tariff on its exports to the US, the US tariffs imposed across Asia (Australia's top export region) were significantly higher. The AUD, often viewed as a barometer of global risk appetite, also declined alongside commodities and equities worldwide. Brent crude oil prices fell by 12.4% over two days, reaching USD65.58/barrel last Friday. The futures market indicated a 90% probability of the Reserve Bank of Australia lowering rates by 25 bps to 3.60% on May 20, following the general elections scheduled for May 3. A sustainable breach of the 0.60 psychological level could send **AUD/USD descending further to 0.57**

The escalation of global trade tensions continues to pressure currencies in Asia ex-Japan. Some countries have responded with measures to maintain orderly exchange rates and financial markets. Recession risks have widened credit default swaps across several countries, not helped by Fitch's downgrade of China's sovereign debt rating to A from A+. While the Trump administration is engaging with foreign governments to address trade imbalances and negotiate agreements, it placed greater priority on companies to reshore manufacturing operations to the US, aligning with the "Make America Great Again" agenda.

Philip Wee

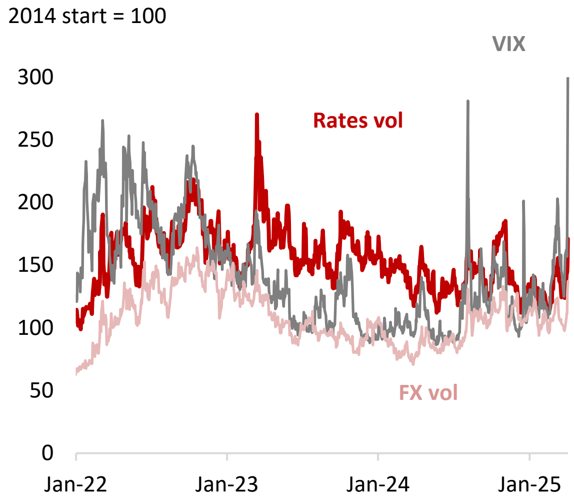
USD Rates: Watching for short-term capitulation

Stress levels have hit acute levels as markets adjust to the reciprocal tariffs announced by the US and the subsequent retaliation from China. In the rates space, 10Y yields dipped as are down by some 80bps since the high registered in mid-January and the market is now anticipating four Fed cuts this year (compared to less than two cuts just a few weeks ago). At current levels, these are consistent with recession pricing. Note that all these are sentiment driven and we have seen these kinds of moves over the past few years as the market participants gyrated between pessimism and optimism. 80-100bps swings in 10Y yields even as the real economy chugs along is fair game.

Even as sentiment remains extremely weak, we wonder if yields may be trying to find a short-term bottom. Fundamentally, there is nothing wrong with the US economy. Labour market data released on Friday showed a strong uptick in NFP (228k vs consensus of 140k). The surge in private payroll is impressive (209k vs consensus of 135k). There was an uptick in unemployment rate to 4.2% but this appears to be driven by a higher participation rate. The upshot is that the labour market has thus far been resilient. As much as it is convenient to wave these to be backward looking, we should note that the US economy is on relatively firm footing ahead of Liberation Day.

From a technical angle, there are some early signs that extreme levels have been hit. For example, the VIX has shot to 45, levels not seen since 2020, suggesting that there may be some capitulation soon. From a rates perspective, on an intraday basis last Friday, 10Y UST yields made a round trip, pushing as low as 3.86% before closing at 3.99%. 2Y yields also briefly broke below 3.50% before rebounding strongly.

Extreme Fear Has Hit



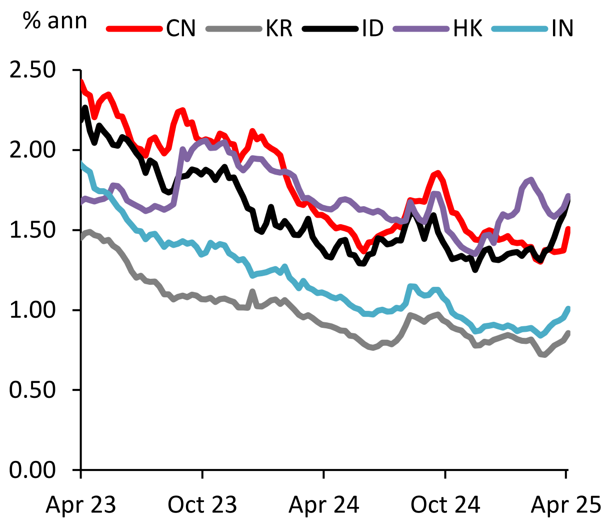
Source: Bloomberg, DBS

Post China's tariff retaliation (we reckon only Europe might announce tariffs on the US), there was a lot of bad news reflected in depressed yields. Between a firm labour market and cautious comments from Fed Chair Powell (indicating that perhaps only one cut is needed this year and pulling back somewhat from a view of transitory tariff-led inflation), considerable amount of pessimism has been baked in within just a few trading days. **More positive signs from negotiation breakthroughs ahead of the reciprocal tariff headlines on 9 April would help to stabilize sentiment.**

Eugene Leow

Credit: From exuberance to risk aversion

Asian USD Credit: Country DACS Indices



Source: DBS

Global credit markets are firmly reversing from exuberance towards more a risk-averse tone. The announcement of sweeping tariffs across countries and product categories by Trump last week raises risks of a global slowdown, if not an outright recession. There is almost no wiggle room for negotiations given that the unilateral 10% tariffs has already started on 5 April, while higher US levies on goods will start on April 9. China has already retaliated with a 34% tariff on all US goods, deviating from its previous strategy of targeting tariffs on goods from Trump's support base.

Given our estimates for growth to slip by 0.5%-2% across Asia ex-Japan, our Asian DACS credit spread index has scope to widen further even with a 10bps jump last week to 1.43%. **Chinese and Korean financials credit could be more vulnerable** as spreads are still tight compared to historical norms, while domestic loans may see rising stresses given the hit to exporters from high tariffs, and a brewing US-China trade war.

Chang Wei Liang

Growth, Inflation, Policy Rates & FX forecasts

	GDP growth, % YoY						CPI inflation, % YoY, ave					
	2021	2022	2023	2024	2025f	2026f	2021	2022	2023	2024	2025f	2026f
China	8.1	3.0	5.2	5.0	5.0	4.5	0.9	2.2	0.2	0.6	1.0	1.5
Hong Kong SAR	6.3	-3.5	3.3	2.5	2.5	2.5	1.6	1.9	2.0	1.5	1.5	1.5
India	10.3	7.2	8.8	6.7	6.5	6.5	5.1	6.7	5.7	4.9	4.1	4.0
*India (FY basis)**	*9.7*	*7.6*	*9.2*	*6.5*	*6.4*	*6.4*	*5.5*	*6.7*	*5.4*	*4.7*	*4.2*	*4.0*
Indonesia	3.7	5.3	5.1	5.0	5.0	5.0	1.6	4.2	3.7	2.3	2.0	2.0
Malaysia	3.3	8.9	3.6	5.1	4.8	4.6	2.5	3.4	2.5	1.8	2.8	2.3
Philippines	5.7	7.6	5.6	5.6	5.8	5.6	3.9	5.8	6.0	3.2	2.6	2.4
Singapore	9.8	4.1	1.8	4.4	2.8	2.5	2.3	6.1	4.8	2.4	1.3	1.7
South Korea	4.6	2.7	1.4	2.0	1.7	2.2	2.5	5.1	3.6	2.3	2.0	2.0
Taiwan	6.7	2.7	1.1	4.6	3.0	2.4	2.0	2.9	2.5	2.2	1.9	1.7
Thailand	1.6	2.6	2.0	2.5	2.6	2.4	1.2	6.1	1.2	0.4	1.2	1.5
Vietnam	2.6	8.0	5.0	7.1	6.8	6.6	1.8	3.2	3.3	3.6	3.5	3.3
Eurozone	5.3	3.5	0.5	0.7	1.0	1.2	2.6	8.4	5.5	2.3	2.2	2.0
Japan	2.7	0.9	1.5	0.1	0.9	0.6	-0.3	2.5	3.3	2.7	2.7	1.8
United States	6.1	2.5	2.9	2.8	2.0	2.0	4.7	8.0	4.1	3.0	2.9	2.5

*2020 represents Fiscal 21; ending Mar 21

Policy interest rates, eop

	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
China*	3.10	2.95	2.80	2.80	2.80	2.55	2.55	2.55
India	6.25	5.75	5.75	5.75	5.75	5.75	5.75	5.75
Indonesia	5.75	5.75	5.25	5.25	5.25	5.25	5.25	5.25
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Philippines	5.75	5.75	5.25	5.25	5.25	5.25	5.25	5.25
Singapore**	2.88	2.88	2.73	2.63	2.63	2.63	2.63	2.63
South Korea	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Taiwan	2.00	2.00	2.00	2.00	2.00	2.00	1.875	1.875
Thailand	2.00	2.00	1.75	1.75	1.75	1.50	1.50	1.50
Vietnam***	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Eurozone^	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Japan	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.00
United States	4.50	4.50	4.25	4.00	4.00	4.00	4.00	4.00

* 1-yr Loan Prime Rate; ** 3M SORA OIS ; *** refinancing rate; ^ deposit facility rate

Exchange rates, eop

Ccy pair	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
USD/CNY	7.26	7.26	7.34	7.32	7.29	7.27	7.25	7.22	7.20
USD/HKD	7.78	7.77	7.80	7.79	7.79	7.79	7.78	7.78	7.77
USD/INR	84.0	87.5	88.3	88.3	88.2	88.2	88.1	88.1	88.0
USD/IDR	15910	16450	16500	16430	16370	16300	16230	16170	16100
USD/MYR	4.48	4.45	4.52	4.49	4.47	4.44	4.41	4.39	4.36
USD/PHP	59.1	57.6	59.0	58.9	58.8	58.7	58.5	58.4	58.3
USD/SGD	1.35	1.34	1.37	1.36	1.36	1.35	1.34	1.34	1.33
USD/KRW	1405	1460	1480	1475	1470	1460	1455	1450	1445
USD/THB	34.7	34.1	35.0	34.8	34.5	34.3	34.1	33.8	33.6
USD/VND	25460	25520	25650	25620	25600	25570	25540	25510	25480
AUD/USD	0.65	0.62	0.60	0.61	0.61	0.62	0.62	0.62	0.63
EUR/USD	1.04	1.08	1.04	1.05	1.06	1.07	1.08	1.09	1.10
USD/JPY	155	148	151	149	148	146	144	143	141
GBP/USD	1.25	1.28	1.23	1.24	1.25	1.26	1.28	1.29	1.30

Interest rate forecasts

		2025				2026			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
US	3M SOFR OIS	4.38	4.38	4.13	3.88	3.88	3.88	3.88	3.88
	2Y	4.25	4.20	4.15	3.90	3.90	4.00	4.10	4.10
	10Y	4.30	4.20	4.20	4.50	4.60	4.70	4.75	4.80
	10Y-2Y	5	0	5	60	70	70	65	70
Japan	3M TIBOR	0.65	0.65	0.90	0.90	1.00	1.15	1.15	1.15
	2Y	0.70	0.80	0.90	0.95	1.00	1.10	1.10	1.10
	10Y	1.15	1.25	1.35	1.50	1.60	1.60	1.70	1.70
	10Y-2Y	45	45	45	55	60	50	60	60
Eurozone	3M EURIBOR	2.70	2.20	2.20	2.20	2.20	2.20	2.20	2.20
	2Y	2.20	2.15	2.15	2.15	2.15	2.20	2.30	2.40
	10Y	2.70	2.80	2.90	3.00	3.10	3.20	3.25	3.25
	10Y-2Y	50	65	75	85	95	100	95	85
Indonesia	3M JIBOR	6.35	6.10	6.10	6.10	6.10	6.10	6.10	6.10
	2Y	6.35	6.15	6.20	6.20	6.20	6.25	6.25	6.25
	10Y	6.55	6.45	6.45	6.45	6.45	6.55	6.55	6.55
	10Y-2Y	20	30	25	25	25	30	30	30
Malaysia	3M KLIBOR	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
	3Y	3.45	3.40	3.40	3.40	3.45	3.45	3.45	3.45
	10Y	3.85	3.80	3.85	3.90	3.95	4.00	4.00	4.00
	10Y-3Y	40	40	45	50	50	55	55	55
Philippines	3M NDF implied yield	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00
	2Y	5.75	5.50	5.50	5.55	5.60	5.60	5.60	5.60
	10Y	6.00	5.80	5.80	5.85	5.90	5.90	5.90	5.90
	10Y-2Y	25	30	30	30	30	30	30	30
Singapore	3M SORA OIS	2.88	2.88	2.73	2.63	2.63	2.63	2.63	2.63
	2Y	2.95	2.90	2.85	2.70	2.70	2.80	2.90	2.90
	10Y	2.90	2.80	2.80	3.10	3.10	3.20	3.25	3.25
	10Y-2Y	-5	-10	-5	40	40	40	35	35
Thailand	3M BIBOR	2.15	2.15	1.90	1.90	1.90	1.65	1.65	1.65
	2Y	1.85	1.65	1.55	1.55	1.35	1.25	1.25	1.25
	10Y	2.10	1.95	1.90	1.90	1.75	1.70	1.70	1.70
	10Y-2Y	25	30	35	35	40	45	45	45
China	1Y LPR	3.10	2.95	2.80	2.80	2.80	2.55	2.55	2.55
	2Y	1.35	1.25	1.10	1.10	1.05	1.00	1.00	1.00
	10Y	1.70	1.65	1.50	1.50	1.45	1.40	1.40	1.40
	10Y-2Y	35	40	40	40	40	40	40	40
Hong Kong, SAR	3M HIBOR	3.80	3.80	3.60	3.40	3.40	3.40	3.40	3.40
	2Y*	3.75	3.75	3.75	3.55	3.50	3.60	3.70	3.70
	10Y*	3.60	3.55	3.60	3.95	4.00	4.10	4.15	4.20
	10Y-2Y	-15	-20	-15	40	50	50	45	50
Korea	3M CD	2.85	2.60	2.60	2.60	2.60	2.60	2.60	2.60
	3Y	2.50	2.40	2.40	2.50	2.55	2.60	2.60	2.60
	10Y	2.80	2.70	2.70	2.85	2.90	2.95	2.95	3.00
	10Y-3Y	30	30	30	35	35	35	35	40
India	3M MIBOR	7.00	6.65	6.65	6.65	6.65	6.65	6.65	6.65
	2Y	6.35	6.00	6.00	6.00	6.05	6.10	6.10	6.10
	10Y	6.55	6.45	6.50	6.55	6.60	6.65	6.65	6.65
	10Y-2Y	20	45	50	55	55	55	55	55

%, eop, govt bond yield for 2Y and 10Y, spread bps, *HKD swaps

Group Research

Economics & Strategy

Taimur BAIG, Ph.D.
Chief Economist
Global
taimurbaig@dbs.com

Wei Liang CHANG
FX & Credit Strategist
Global
weiliangchang@dbs.com

Tracy Li Jun LIM
Credit Analyst
USD Credit
tracylimt@dbs.com

Amanda SEAH
Credit Analyst
SGD Credit
amandaseah@dbs.com

Nathan CHOW
Senior Economist
China/HK SAR
nathanchow@dbs.com

Eugene LEOW
Senior Rates Strategist
G3 & Asia
eugeneleow@dbs.com

Daisy SHARMA
Analyst
Data Analytics
daisy@dbs.com

Han Teng CHUA, CFA
Senior Economist
Asean
hantengchua@dbs.com

Teng Chong LIM
Credit Analyst
SGD Credit
tengchonglim@dbs.com

Joel SIEW, CFA
Credit Analyst
SGD Credit
joelsiew@dbs.com

Mo JI, Ph.D.
Chief Economist
China/HK SAR
mojim@dbs.com

Tieying MA, CFA
Senior Economist
Japan, South Korea, Taiwan
matieying@dbs.com

Mervyn TEO
Credit Strategist
USD Credit
mervynteo@dbs.com

Byron LAM
Economist
China/HK SAR
byronlamfc@dbs.com

Radhika RAO
Senior Economist
Eurozone, India, Indonesia
radhikarao@dbs.com

Samuel TSE
Senior Economist
China/HK SAR
samueltse@dbs.com

Violet LEE
Associate
Publications
violetleeyh@dbs.com

Philip WEE
Senior FX Strategist
Global
philipwee@dbs.com

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