



EXECUTIVE SUMMARY

Implications of Trump 2.0

"Things we lose have a way of coming back to us in the end, if not always in the way we expect."

- Luna Lovegood

Our economic outlook for 2025 will now need to put a heavy dose of consideration for the myriad of policies that Trump has planned for US and their implications for the rest of the world.

Bottomline, the impact of Trump's various policies are likely to be inflationary with mixed effect on growth.

Trump's tough immigration policy proposals are another area of concern and may come sooner than fiscal policy issues with the expected negative implications for US GDP growth.

The Tariff Man returns and more...

After 4 years of absence, Donald Trump is back in the hot seat as the president of the most powerful nation in the world. And with the Republican clean sweep of the control of the US Senate and House of Representatives, this means it will be easier to implement policies for Trump. Our economic outlook for 2025 will now need to put a heavy dose of consideration for the myriad of policies that Trump has planned for US and their implications for the rest of the world. We admit a lot of the Trump policy measures (announcements, threats and/or projections) are highly speculative and unpredictable at this juncture and will be subject to significant changes once Trump officially comes into office on his 20 Jan (2025) inauguration.

We broadly highlight a few categories of policy measures Trump campaigned for during the run-up to the Presidential election which, in our view, will have material macro-economic impact to the US and globally, including tax cuts, deregulation, tariffs, immigration (with mass deportation of undocumented migrants & border security), the independence of the US Federal Reserve (Fed), green policy (rollbacks) and foreign policy. Bottom-line, the impact of Trump's various policies are likely to be inflationary with mixed effect on growth.

The extension of current tax cuts and introduction of new cuts, coupled with the deregulation drive will likely reignite animal spirits, boost business confidence and investment sentiment for US economy and therefore positive for US growth and productivity, but is likely to add to inflationary pressures and worsen the federal fiscal deficit. That said, fiscal policy issues are likely to take some time and probably be debated in the US Congress only in 2H 2025. Trump's tough immigration policy proposals are another area of concern and may come sooner than fiscal policy issues with the expected negative implications for US GDP growth. The inflationary impact is less clear, as large-scale deportation may lower the workforce numbers and drive demand for the remaining workers and thus lead to higher wages and inflation. But at the same time, the reduced workforce could also lead to lower domestic consumption in the US and create deflationary effects.

On green policies, it is expected that Trump will follow his past actions, such as withdrawing from the Paris Agreement, repealing Inflation Reduction Act which supports clean energy projects and electric vehicles, relaxing environmental regulations and enacting policies that favour conventional fossil fuel extraction. This will potentially see higher US output for crude oil & gas, while missing its carbon neutral pledges. On foreign policy, if Trump does see through his promise to end all wars, then one of the impacts could well be lower prices of commodities (excluding gold) for 2025.



Potential impact of Trump's policies						
Impact on each of the indicators	Taxes 	Tariff 	Immigration 	US Fed 	Green policy 	Foreign policy
Real GDP	+	--	---	+/-	+	+
Inflation	+	+++	+/-	+	-	-
Fed funds	+	+++	--	--	-	-
Other impacts	Worsen fiscal deficit	Subject to retaliation from China & others	Negative for domestic spending	Upside risks to UST yields, capital outflow	Greater output for US oil and gas	Lower commodity prices

Source: UOB Global Economics & Markets Research

- +/- mild impact
- ++/-- moderate impact
- +++/---- major impact

Scenarios for Trump's trade tariff 2.0 – Base case: 25% tariff rate on China, 10% tariff on selected countries that benefited from China's trade diversion, no blanket tariffs.

Here comes the tariff man (again). To be fair, the Biden administration did not shy away from tariffs as they kept the tariffs imposed during the first Trump administration and added a few targeted tariffs of their own.

The stark difference is perhaps Trump's sensational way of delivering news/threats of trade tariffs. Trump brandished his tariff man credentials again on 26 Nov when he pledged to impose 25% tariff on all imports from Canada and Mexico, and 10% tariffs (on top of additional tariffs) on all imports from China in an executive order on his first day in office (20 Jan) for drugs (fentanyl) and border security issues.

Using Section 232 or the International Emergency Powers Act (signed into law in 1977), Trump can exercise executive power to impose these tariffs on the basis of an “unusual and extraordinary threat” to national security, foreign policy or the US economy. And he did use this power and threatened countries (including Mexico) during his first term in office. But equally important, he never invoked that power to enact tariffs once countries acceded to his terms.

So what can we expect on US trade policy in 2025? The short answer is more tariffs and frictions.

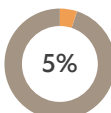
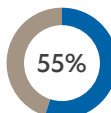
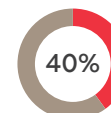
So what can we expect on US trade policy in 2025? The short answer is more tariffs and frictions. That said, it is difficult to say at this point what tariffs will be enacted, to whom, and what will the amount be. The reason is that Trump has floated various tariff proposals since he officially started his bid for the White House in Sep 2023, from baseline 10%-20% tariff rates on all imports, and as much as 60% on imports from China, to 25% or even as much as 100% on Mexican-made goods, to 100% tariffs on countries that want to shift away from using US dollar. Trump has named credible nominees for his economic team (US Treasury secretary, NEC director), which now included Jamieson Greer for the US Trade Representative (as of 27 Nov, subject to Senate confirmation). Greer previously served as the chief of staff for Robert Lighthizer, who was Trump's Trade Representative for the full 4-year term and oversaw the imposition of billions in tariffs. Long seen as a protégé of Lighthizer, Greer will be tasked with “reining in the Country's massive Trade Deficit, defending American Manufacturing, Agriculture, and Services, and opening up Export Markets everywhere.” We also believe that Trump will use tariff threats as a bargaining chip or negotiation ploy to eventually gain concessions from China and key trade partners, rather than being laid out as an immediate policy action.

Regarding Trump's tariff implementation, we foresee three scenarios based on the tariff proposals touted so far, and our estimated implementation timelines. These will have their respective impact on the macroeconomic outlook for the US, China and the world's economy and translate into different outlook for the FX and Interest Rates spaces.



Trump 2.0

Scenarios for tariff in 2025

Scenarios	Optimistic	Base case	Pessimistic
Probability	 5%	 55%	 40%
Trump 1.0 trade tariff	<ul style="list-style-type: none"> Imposed additional tariffs of up to 25% on about US\$370 bn of Chinese imports in 2018-19 		
Trump 2.0 proposed tariff policies	<ul style="list-style-type: none"> Baseline 10%-20% tariffs on all imports, and as much as 60% on imports from China 25% or even 100% on Mexican-made goods and 200% or 500% on autos imports from Mexico 100% tariffs on countries that want to shift away from using US dollar 25% "anti-drug" tariff on all imports from Mexico & Canada, 10% "anti-drug" tariff (additional) on all imports from China Trade diversion from China to ASEAN to bypass tariffs could be pursued by Trump, although details are lacking at this stage 		
Tariff measures that may be implemented under different scenarios	10% "anti-drug" tariff on all imports from China scrapped if China commits to significantly increase fixed amount of purchases from the US and to clamp down on drugs. Prospect of targeted tariff increases on strategic industries in China which affect a smaller amount of US imports	Additional tariffs imposed on China (25% instead of 60% after investigation) and 10% tariffs on economies that increased in trade surplus with US due to trade diversion from China. Tightened measures related to technology transfer and on high tech industries in China. No blanket tariff (of 10%) imposed on all imports. Assume China retaliates by imposing similar tariffs on US goods but limited retaliatory responses from other economies.	"Anti-drug" tariff - 10% on all imports from China and 25% on all imports from Mexico & Canada. 200% tariff on auto imports from Mexico. Subsequently, 10-20% tariffs on all imports, and 60% on China imports. Higher tariffs (20%) on imports from economies (including ASEAN) deemed to have benefitted via trade diversion from China. Tightened measures related to technology transfer & on high tech industries to China. Assumes tit-for-tat (retaliatory) responses from China and other affected economies.
Tariff implementation timeline	As early as 2Q25	Staggered implementation from 2Q25. Likely to start with List 4b (mostly consumer goods). Investigations could take 6 months to 1 year. Full implementation by 1H26.	To begin "anti-drug" 10% tariff on all imports from China as early as Jan 2025, further tariffs in 2Q25 on half of Chinese goods including List 4b and 4a. Intermediate and capital goods likely to reach additional 60% tariff rate first while taking longer for consumer goods. Full implementation by 1H26. Trump may bring forward the implementation.
Global economy outlook	Reduce trade tensions as US reviews progress of its new trade deals. Growth is more positive than previous projection, with trade seeing a robust rebound.	Growth still positive but moderates slightly on the measures imposed. Uneven recovery, differences in sectoral outcomes caused by different tariff changes and differentiated between economies. Moderate rise in US CPI inflation (2025: +0.3ppt to 2.4%).	Sub-par global growth for full year, re-emergence of some supply chain disruption and demand destruction. One-time US inflation spike in 2H25 - 1H26 (2025: +0.5ppt to 2.6%).
2025 Growth			
Global economy	3.5%	3.1%	2.5%
US	2.2%	1.8%	1.3%
China	4.6%	4.3%	3.5%
Changes in Fed funds rate	<ul style="list-style-type: none"> Dec 24 -25bps 2025 -100bps 1Q26 -25bps (terminal rate of 3.25%) 	<ul style="list-style-type: none"> Dec 24 -25bps 2025 -75bps (terminal rate of 3.75% by 3Q25) 	<ul style="list-style-type: none"> Dec 24 -25bps Early 2025 -25bps rate cuts to resume in 2026 on growth concerns but limited to just two 25bps cuts due to one-time inflation spike & higher inflation expectations (terminal rate of 4% by 1Q26)
Rates view	10Y UST to settle at around 3.80% at the end of Fed easing cycle. Term risk premiums see modest upside.	10Y UST to settle at around 4.10% (potentially 4.50% if term premiums repricing is front loaded) at the end of Fed easing cycle. Term risk premium see moderate upside from higher uncertainty over Fed path and upside inflation risk.	10Y UST to settle at around 4.50% (potentially 4.90% if term premiums repricing is front loaded) at the end of Fed easing cycle. Term risk premium see pronounced upside risk from Fed path uncertainty and bond buyers strike.
Currency view	USD weakens anew as markets unwind tariff-related premium and refocus back to Fed's rate-cut plan.	USD to strengthen against most G-10 peers in 1H25 before moderating in 2H25. DXY to rise to 111.1 by mid-2025 before easing off to 107.6 by end-2025. Asia FX to weaken for the first three quarters of 2025 before rebounding in 4Q25. USD/CNY to test key 7.35 level in 1Q25 and trade to as high as 7.60 in 3Q25. USD/SGD to rise modestly to 1.38 in 3Q25 before pulling back to 1.36 in 4Q25.	USD to appreciate sharply against most G-10 peers. DXY to potentially test 2022's high near 115. Asia FX to depreciate sharply against the USD due to potential portfolio outflows. USD/CNY to potentially test the psychological 8.00 level though countercyclical policies to prevent one-sided speculative moves can be expected. USD/SGD to potentially trade above 1.40.

Source: UOB Global Economics & Markets Research



Ahead of the tariff implementation, there is a consensus view that growth (especially for exporter economies) may be lifted as US importers may frontload purchases in early 2025.

We are revising our 2025 rate cut trajectory to a total 75 bps of cuts and end the rate cycle to bring the terminal rate to 3.75% (upper bound of FFTR).

How would China respond? Similar to the 2018 episode, China is unlikely to take pre-emptive actions against US before actual tariffs are implemented.

Our **Base Case scenario**, which we ascribe a 55% probability, calls for more measured imposition of tariffs (Additional 25% tariff on China, instead of the claimed 60%, 10% tariffs on economies that recorded increase in trade surplus with US due to trade diversion from China, and no blanket tariff on all US imports), with a staggered implementation pace from as early as 2Q 2025 and fully completed by 1H 2026. Ahead of the tariff implementation, there is a consensus view that growth (especially for exporter economies) may be lifted as US importers may frontload purchases in early 2025. That early lift is expected to be short-lived and the global economy will eventually see a slight growth moderation to 3.1% in 2025 (versus IMF forecast of 3.2%), albeit with an uneven recovery differentiated across sectors and countries that are targeted by the tariffs. The rise in tariffs could weigh on US GDP growth which is expected to be lower at 1.8% for 2025 (versus a projected 2.7% for 2024) while tariffs are also likely to push US inflation higher above the Fed's 2% target in 2025 and 2026.

A revised Fed policy trajectory: lesser cuts in 2025 with a higher terminal rate

We continue to hold the view the Fed will reduce the Fed Funds Target Rate (FFTR) by another 25-bps to 4.25-4.50% in the Dec 2024 FOMC. However, we are revising our 2025 rate cut trajectory to a total 75 bps of cuts (i.e. three 25-bps cuts, one in each quarter of 1Q, 2Q and 3Q 2025) and end the rate cycle to bring the terminal rate to 3.75% (upper bound of FFTR). Prior to Trump's election victory, we had projected 100bps of cuts in 2025 and one last 25-bps cut in 1Q 2026 to bring the terminal rate to 3.25%. The reduced number of cuts reflect the higher inflation pressures from the projected tariff implementation during the latter part of 2025.




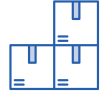


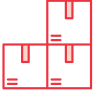
It should be noted that for our **pessimistic scenario** which we ascribe a significant probability of 40%, reflects our view that the risk for US trade policy this time round is tilted towards a more negative outcome of higher tariffs (60% tariff rate for China as claimed), coupled with the imposition of a blanket tariff for all US imports (10-20%) and an earlier and shorter implementation timeline, starting on Trump's Day 1 (20 Jan) and fully implemented by 1H 2026. The impact of this scenario will be weaker growth outlook accompanied by higher inflation outturns, which implies even fewer Fed rate cuts in 2025. Though we include an **optimistic scenario** (with an ascribed 5% probability), we see a very low likelihood of such a benign outcome where Trump will change his mind, and decide to only impose targeted tariffs and result in a significant de-risking of the trade friction between US and China.

How would China respond? Similar to the 2018 episode, China is unlikely to take pre-emptive actions against US before actual tariffs are implemented. At the same time, China could retaliate with corresponding measures, potentially escalating trade tensions as seen in the earlier trade war (2018). We also note that since the trade war of 2018, US exports to China has risen significantly (23% increase to US\$ 148 bn in 2023 from US\$ 120.3 bn). This increase in dependence implies that more US industries may be vulnerable to Chinese retaliation in the event of a tit-for-tat trade conflict.



Trump 1.0

A lookback in history - Tariff size and timeline 2018-2020

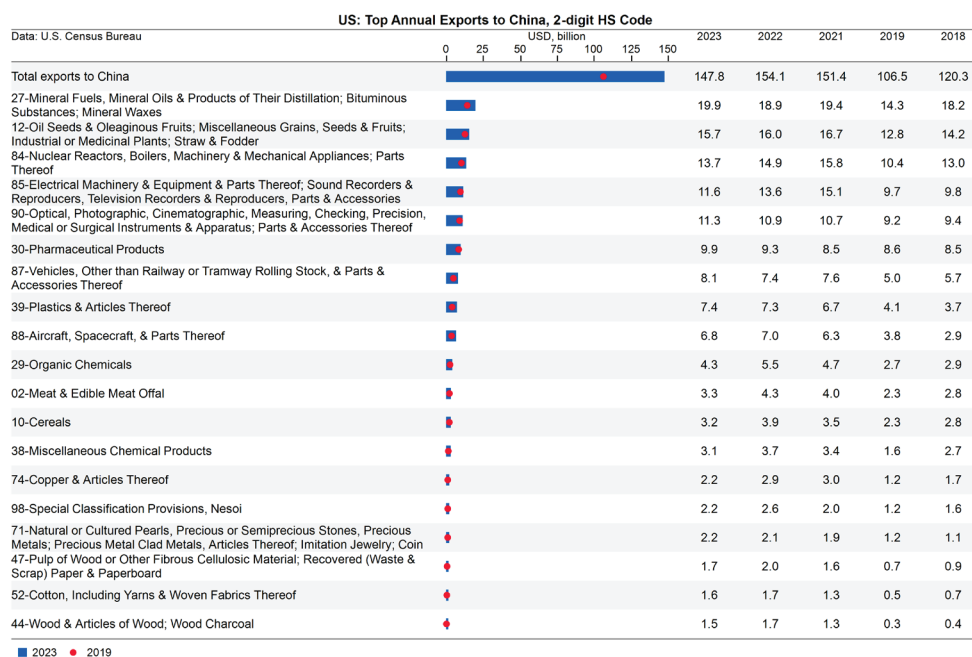
 Effective date	 Additional tariff rate	 Amount	 Goods involved	 Additional tariff rate	 Amount	 Goods involved
Implemented by US				Implemented by China		
06 Jul 2018	25%	US\$34bn (List 1*)	machinery, cars, hard disks and aircraft parts	25%	US\$34bn (some were rolled back in Sep 2019-2020)	545 goods including agricultural products, automobiles and aquatic products
23 Aug 2018	25%	US\$16bn (List 2*)	semiconductors, iron and steel products, electrical machinery, railway equipment, instruments and apparatus	25%	US\$16bn (some were rolled back in Dec 2019-2020)	114 goods including motorcycles, bourbon, orange juice, chemicals, medical equipment and energy products such as coal and crude oil
24 Sep 2018	10% (raised to 25% from 10 May 2019)	US\$200bn (List 3*)	telecom equipment, computers & parts, furniture, electric appliances, metals, plastics, travel bags and agricultural & food products	10% (raised to 10-25% from 01 Jun 2019)	US\$60bn (some were rolled back in 2020)	5,207 goods including food stuff, industrial minerals and chemicals, textiles and clothing, jewelry, metal products, machinery parts, and a wide range of consumer products
01 Sep 2019	15% (cut to 7.5% from 14 Feb 2020)	US\$120bn (List 4a*)	Some consumer goods such as footwear, textiles, clothing, food products, smart watches, dishwashers, and flat-panel televisions	5 -10% (halved from 14 Feb 2020)	US\$75bn	5,078 goods ranging from agricultural products to crude oil
		US\$160bn (List 4b* initially scheduled from 15 Dec 2020 was scrapped)	toys, cell phones, laptop computers, video game consoles, computer monitors List 4a & 4b excludes some pharmaceuticals and medical goods, rare earth and critical minerals			

* Details can be found at <https://ustr.gov/issue-areas/enforcement/section-301-investigations/tariff-actions>
Source: USTR, UOB Global Economics & Markets Research



US exports to China rose by 22.8% between 2018 and 2023

Source: Macroband, UOB Global Economics & Markets Research



One key difference for China when comparing the 2018 trade war (Trump 1.0) and upcoming Trump 2.0, was that China was coming into Trump 1.0 from a position of strength. However, China is now facing significant domestic headwinds and weak domestic demand.

China - Stimulus measures insufficient for meaningful turnaround while Trump adds downside challenges to growth

One key difference for China when comparing the 2018 trade war (Trump 1.0) and upcoming Trump 2.0, was that China was coming into Trump 1.0 from a position of strength. However, China is now facing significant domestic headwinds and weak domestic demand.

Looking back at September 2024, the stimulus measures announced by Chinese authorities involved minimal "new and actual spending," and mostly through monetary measures such as interest rate reductions, loosening of home purchase restrictions, and swap of local government debt, among others. While the announced quantum appears substantial, it is relatively small, amounting to about 8% of GDP compared to the 2008 stimulus package which, amounted to the 12.5% of GDP at that time. Notably, there has been no fresh direct stimulus spending aimed at boosting consumption, while the amount earmarked to resolve the local government debt looked woefully inadequate.

Housing market in China remains a big challenge and the current stock of housing inventory will likely take some years to clear. The missing growth contribution from real estate activities, will likely cap China's GDP growth to well below 5% in the next few years. (Moody's estimated real estate activities contributed about 25% of China's GDP in 2022, and the direct contribution could languish at around 18% by 2030). While the developed economies have brought inflation back under control, China faces the opposite problem as deflation remains a key threat as consumer and business confidence has remained weak. Based on the above, we are lowering China's GDP growth forecast to 4.3% for 2025 (previous: 4.6%) on the extra burden imposed by Trump's tariffs on top of the soft domestic fundamentals.

In our view, further LPR cuts will be less likely if the CNY comes under increasing depreciation pressure.

In terms of monetary policy response, PBOC focus in the coming months is likely to be on RRR (reserve requirement ratio) as the main tool for easing instead of interest rate cuts. There is ample room for PBOC to ease RRR further in 2025 (as the US Fed progressively cuts rates while China's domestic deflation worsens). PBOC already signalled another 25-50 bps RRR cuts in 4Q 2024, and we expect further RRR cuts in 2025. In our view, further LPR cuts will be less likely if the CNY comes under increasing depreciation pressure.



Hereafter is a brief synopsis of key Focus pieces as well as key FX and Rates views. We wish our readers a peaceful end to the year, a happy new year in 2025!

FX STRATEGY

Will Trump 2.0 make the USD great again?

Our base case for incoming trade tariff outlook under Trump 2.0 - at 55% probability - sees additional 25% tariffs imposed on China and 10% tariffs imposed on economies that increased in trade surplus with US due to trade diversion from China. We also assume China will retaliate by imposing similar tariffs on US goods but limited retaliatory responses from other economies. The clear consequence of trade tariffs is higher US inflation of 0.3ppt in 2025 for this base case. As such, the Fed will be on guard against any sign of building up of price pressures. We think this will translate to lesser Fed rate cuts, at just 75bps of cuts across 2025 and a higher terminal rate of 3.75% by 3Q25 for base case. As compared to our previous outlook before the elections of cumulative 125 bps of cuts to come and a terminal rate of 3.25% by 1Q26.

As a result of this base case for trade tariff outlook, we now expect USD to strengthen further against most Major FX peers in 1H25 as tariff uncertainties dominate. In 2H25, USD strength may start to moderate ...

As a result of this base case for trade tariff outlook, we now expect USD to strengthen further against most Major FX peers in 1H25 as tariff uncertainties dominate. In 2H25, USD strength may start to moderate and as most of the repricing for Trump's tariffs (base case) may have already been done and our downward trajectory in US rates could start to exert downward pressure on the USD. Overall, we expect the DXY to rise to 111.1 by mid-2025 before easing off to 107.6 by end-2025. We also expect FX volatility to stay elevated as investors digest incoming tariff headlines and the ensuing Fed response. Consequently, we turn negative in our outlook for EUR, GBP and AUD as we see more weakness to come in 1H25, before stabilizing somewhat in 2H25. Risk is for EUR/USD, GBP/USD and AUD/USD to drop further to 0.99, 1.21 and 0.61 respectively by 2Q25 before modest recovery thereafter to 1.03, 1.25 and 0.64 by 4Q25. Similarly, we see potentially higher USD/JPY at 157 by 2Q25 before pulling back to 152 by 4Q25.

The key message is that Asia FX are more sensitive to the tariffs and may have to endure a slightly longer period of weakness compared to Major FX.

As a result of the incoming trade tariffs, we expect most Asia FX to weaken alongside the CNY for the first three quarters of 2025 before rebounding in 4Q25. In the event that the pessimistic scenario comes to pass where a maximum of 60% tariffs (instead of 25% tariffs in base case) are imposed on the Chinese goods, the fallout on Asia FX is likely to be considerably stronger and more enduring compared to the base case. The key message is that Asia FX are more sensitive to the tariffs and may have to endure a slightly longer period of weakness compared to Major FX.

It is teeing up to be yet another difficult year for both China's economy and the CNY in 2025. Trump's tariffs are likely to exacerbate the existing concerns about China's economic slowdown. As a result, our macroeconomic team have downgraded 2025 GDP growth forecast to 4.3% from 4.6% as we factor in some tariffs on Chinese goods to become effective in 4Q25. On top of a weaker domestic growth outlook, the CNY is likely to fall further against the USD as a shorter and shallower Fed rate-cut cycle helps support the USD. Overall, we now see upside risk to USD/CNY in the coming few quarters and our updated USD/CNY forecasts are 7.35 in 1Q25, 7.50 in 2Q25, 7.60 in 3Q25 and 7.45 in 4Q25. Asian currencies are expected to weaken in tandem with the CNY across 2025. As such, we see potential highs in 3Q25 for USD/SGD, USD/MYR, USD/THB, USD/IDR, USD/VND at 1.38, 4.65, 35.7, 16,400, 26,200 respectively.



As for Sora, in our base case for end 1Q25, we forecast the 3M compounded in arrears Sora at 2.77% and thereafter to 2.23% by 4Q25. Sora can be expected to drop to a lesser extent than declines in US rates.

Overall, SG yields may see some stickiness from a gentler MAS policy slope. Yield upside potential may be more limited because US term premium risks do not map 1 to 1.

RATES STRATEGY

10Y UST yield to stay above 4% across 2025 amidst a shallower FED easing cycle

Compared to our previous update at the end of Oct, our base case for Fed funds has been adjusted higher. We have removed 50bps of cuts from the previous easing cycle estimates and now project only three cuts in 2025 for an easing cycle bottom in Fed funds of 3.75%. Risk is that Trump 2.0 fiscal policy proposals may skew even more inflationary if enacted in full and we expect the Fed to calibrate its approach as actual policies are made known. In our base case for end 1Q25, we forecast the 3M compounded in arrears Sofr at 4.35%. Thereafter, short term rates are then expected to drift lower across 2025 in tune with our expectations of a further 75bps rate cuts from the Fed. Eventually the 3M compounded in arrears Sofr could drop to 3.61% by 4Q25. As for Sora, in our base case for end 1Q25, we forecast the 3M compounded in arrears Sora at 2.77% and thereafter to 2.23% by 4Q25. Sora can be expected to drop to a lesser extent than declines in US rates.

Our base case forecasts for 10Y UST have been marked higher compared to the previous month largely in view of the substantial upward shift in our Fed funds baseline. Contributing to a lesser extent, we have also built in a higher end state term premium estimate as well as incorporated a more front-loaded adjustment path to the end state into our 10Y UST forecast. This is due to the uncertainties surrounding the follow through of fiscal policy proposals, how these ultimately plays out on the inflation front and how deftly the Fed adjusts its policy stance to emerging realities which we expect is likely to play out as higher yields to compensate investors for assuming such risks.

In our base case for end 1Q25, we now forecast the 10Y UST at 4.20% (vs our pre-US election forecast of 3.80% for 1Q25). Thereafter, 10Y yield is expected to drift slightly lower in tune with our expectations of a further 75bps rate cuts from the Fed. Eventually the 10Y UST could settle at 4.10% by 4Q25. In summary, 10Y UST yield post Trump's re-election is now expected to stay above 4% across 2025, albeit with a mild downward sloping bias mainly due to anticipated Fed rate cuts across 2025. As UST goes so goes the SGS. We have marked our forecast for 10Y SGS higher but with a smaller increase compared to that in UST. In our base case for end 1Q25, we forecast the 10Y SGS at 2.80% and thereafter settle at 2.70% by 4Q25. This updated forecast is modestly higher compared to our previous forecast of 2.70% for 1Q25 followed by a mild drift lower towards 2.60% across 2025. Overall, SG yields may see some stickiness from a gentler MAS policy slope. Yield upside potential may be more limited because US term premium risks do not map 1 to 1.



Specifically, the strong retail sector demand for gold is driven by on-going substantial depreciation of domestic currencies like INR, CNH and VND, which amplify the gains in gold prices in local currency terms.

In short, while most of the negative factors like global demand downgrade are now apparent, we acknowledge the further downside risk from negative impact from Trump 2.0 tariffs on China and global energy demand. As such, we now adopt a negative outlook for Brent crude oil ...

Political stability and continuity cannot be assumed, if the loose coalition with DPP breaks down, or the LDP loses ground further in the upper house elections in 2025.

COMMODITIES STRATEGY

Safe haven demand for gold to stay strong amidst Trump 2.0 economic uncertainties

Gold: Positive safe haven drivers remain intact ahead of Trump 2.0. From a longer-term perspective, the positive drivers from on-going Emerging Market (EM) and Asian central bank allocation into gold, as well as strong physical gold and jewellery demand from the retail sector remain intact. It is important to note the common thread between both positive long-term demand from central banks and retail sector alike. Both are driven by safe haven needs to diversify away from rising geopolitical concerns and uncertainties around the US Dollar ahead of disruptive trade and fiscal policies from Trump 2.0. Specifically, the strong retail sector demand for gold is driven by on-going substantial depreciation of domestic currencies like INR, CNH and VND, which amplify the gains in gold prices in local currency terms. Overall, we keep our positive view for gold as long-term safe haven demand needs will likely stay strong amidst further rise in geopolitical risks and economic risks from Trump 2.0 policies. Our forecasts for 2025 are USD 2,700 / oz for 1Q25, USD 2,800 / oz for 2Q25, USD 2,900 / oz for 3Q25 and USD 3,000 / oz for 4Q25.

Brent: Trump 2.0 tariffs to keep oil prices pressured around USD 70 / bbl. One major worry overhanging oil price is the much uncertainty over the global growth outlook as well as China's economic recovery after the possible large tariff hikes from Trump 2.0 across 2025. This risk of further growth slowdown from renewed tariffs in 2025 appears to be nullifying any rise in geopolitical risk from the on-going Russia-Ukraine war. In short, while most of the negative factors like global demand downgrade are now apparent, we acknowledge the further downside risk from negative impact from Trump 2.0 tariffs on China and global energy demand. As such, we now adopt a negative outlook for Brent crude oil forecasting USD 75 / bbl for 1H25 and USD 70 / bbl for 2H25. If global trade conflict worsens, the risk of further sell-off below USD 70 / bbl cannot be ruled out later in 2025.

LME Copper: Downgrading Copper outlook further to negative as Trump 2.0 tariffs loom. Over the longer run, the risk of further supply disruption from aging copper mines remains a key concern. However, this supply risk is now completely overtaken by more immediate concerns of the risk of global trade contraction and manufacturing slowdown due to the incoming Trump 2.0 tariffs later in 2025. As a result of risks from Trump 2.0 tariffs, our macroeconomic team has downgraded the base case estimate of China's economic growth in 2025 to 4.3%. Depending on the intensity and pacing of the incoming Trump 2.0 tariffs, it is likely that China, Asia as well as the rest of the world will suffer yet another round of trade and export contraction across 2025 and further into 2026. This will likely weigh down on LME Copper prices. As a result of immediate risks to global trade and production from incoming Trump 2.0 tariffs, we downgrade LME Copper outlook further from neutral to negative. Updated forecasts are USD 8,000 / MT for 1H25 and USD 7,500 / MT for 2H25.

JAPAN FOCUS

Snapshot of Japan's political scene post election

- Prime Minister Ishiba and the Liberal Democrat Party (LDP) survived the Oct election drubbing and is now ruling as a minority government.
- PM Ishiba managed to pass the JPY21.9 trillion stimulus package with the help of opposition DPP in return for including the measure to raise the threshold for tax-free income which may improve labour supply and increase consumption spending but will invariably widen the fiscal burden.
- Political stability and continuity cannot be assumed, if the loose coalition with DPP breaks down, or the LDP loses ground further in the upper house elections in 2025.



Global FX

USD/JPY: Despite tariff uncertainties probably anchoring the USD for a while longer, further gains in USD/JPY may be held back by the persistent monetary policy divergence between the Fed (easing bias) and the Bank of Japan (BOJ) which we still forecast a rate hike in the coming Dec meeting. Also, traders may also turn cautious ahead of previous intervention levels near 160. Overall, our updated USD/JPY forecasts are 155 in 1Q25, 157 in 2Q25, 154 in 3Q25 and 152 in 4Q25.

EUR/USD: While markets scale back expectations for Fed rate cuts due to the inflation spillover of Trump's tariff policy, they intensified pricings for more aggressive easing from the ECB to bolster the region's economy after Euro-area business activity unexpectedly shrank in Nov. Political crises in Germany and France and escalating Russia-Ukraine war which now included long-range missile in the warfare also add to the perfect storm against the EUR. An over 50% chance of a half-point ECB rate cut in Dec weighed further on EUR/USD while futures markets have flipped to a net short EUR/USD position since late Oct. With the multitude of headwinds, it seems inevitable that EUR/USD would test the well-watched parity level in the coming months. Overall, our updated EUR/USD forecasts are 1.02 in 1Q25, 0.99 in 2Q25, 1.01 in 3Q25 and 1.03 in 4Q25.

GBP/USD: GBP is likely to face lesser headwinds compared to other Major FX peers such as the EUR. Most importantly, the monetary policy gap between the Fed and the Bank of England (BOE) remains reasonably small. Both central banks are expected to guide rates lower to a similar 3.75% by end-2025. Futures traders also kept to a modest net long GBP/USD position amidst the pullback in spot. Taken together, while the path of least resistance is likely for a lower GBP/USD, further losses from here may be limited. Overall, our updated GBP/USD forecasts are 1.23 in 1Q25, 1.21 in 2Q25, 1.23 in 3Q25 and 1.25 in 4Q25.

AUD/USD: Going forth, AUD's close correlation to the CNY meant that a potential repeat of the 2018-2020 US-China trade war may see AUD underperform within the G-10 FX space, as it did during the first year of trade war in 2018. At the same time, a hawkish RBA rhetoric relative to the Fed may counteract part of the depreciation pressures on the AUD. Overall, our updated AUD/USD forecasts are 0.63 in 1Q25, 0.61 in 2Q25, 0.62 in 3Q25 and 0.64 in 4Q25.

NZD/USD: While New Zealand is unlikely to be in direct crosshair of Trump's upcoming trade tariffs, RBNZ keeping to a slightly faster rate-cut pace relative to the Fed is likely to keep the pressure on the NZD. Like other G-10 peers, we now expect NZD to weaken further against the USD in 1H25 before rebounding in 2H25. Our updated NZD/USD forecasts are 0.57 in 1Q25, 0.55 in 2Q25, 0.56 in 3Q25 and 0.57 in 4Q25.

Asian FX

USD/CNY: Referencing the 2018-2020 trade war, it is likely that USD/CNY will test recent key highs of 7.35 in the coming months as tariff uncertainties build. A pickup of hedging demand upon the breach of 7.35 may lead to USD/CNY beginning a new trading range above that level. To maintain an orderly devaluation, the PBOC may guide markets expectations via the daily CNY fixing and warns against one-sided speculative bets on its currency. Overall, our updated USD/CNY forecasts are 7.35 in 1Q25, 7.50 in 2Q25, 7.60 in 3Q25 and 7.45 in 4Q25. The risk is skewed to further downside for CNY if larger or sooner tariffs are implemented compared to our base case.

USD/SGD: Notwithstanding a "slight" reduction to the slope in the coming Jan 2025 MPS, a still-positive S\$NEER slope may underpin SGD-crosses. To this point, the recent dip of S\$NEER below the policy midpoint (according to our model) may offer opportunities for investors to reload on selected SGD-crosses to hedge for Trump tariffs. Volatility of USD/SGD is likely to be checked by the SGD's reputation as a regional safe-haven currency. Currently, we do not see USD/SGD rising beyond 1.40 in our base case scenario. Overall, our updated USD/SGD forecasts are 1.36 in 1Q25, 1.37 in 2Q25, 1.38 in 3Q25 and 1.36 in 4Q25.



USD/HKD: Alongside our expectations that USD is likely to stay bid in the coming quarters as Trump's tariff policy takes shape, we expect USD/HKD to normalise further towards the middle of its 7.75 - 7.85 trading band. As such, we reiterate our USD/HKD forecasts of 7.80 for the next four quarters in 2025.

USD/TWD: With the return of Trump and trade tariffs looming, we argue that the path of least resistance is still for TWD to weaken further against the USD, mirroring similar moves in other Asian peers. That said, favourable factors such as the ongoing AI upcycle underpinning demand for Taiwan's chips and CBC's stable rate outlook may limit TWD's downside. Overall, our latest USD/TWD forecasts are 32.8 in 1Q25, 33.0 in 2Q25, 33.2 in 3Q25 and 32.9 in 4Q25.

USD/KRW: 2025 may continue to be a challenging year for the KRW. Trump's proposed trade tariffs against China is likely to weigh on the CNY and spill over negatively to the KRW. Being a higher beta currency, we accord a higher drawdown of the KRW in 2025 compared to regional peers. The key high of 1,450 in USD/KRW will probably be tested in 2025 as Trump's tariff policy takes shape. Overall, we expect USD/KRW to trade higher across most part of 2025 and our latest forecasts are at 1,420 in 1Q25, 1,440 in 2Q25, 1,460 in 3Q25 and 1,430 in 4Q25.

USD/MYR: Despite sound economic and financial fundamentals, the MYR is vulnerable to external developments, especially the potential upcoming Trump tariffs which is expected to weigh on Asia FX as a whole. The MYR which is closely correlated to the CNY will likely take direction from the latter. We expect the CNY and hence MYR to weaken against the USD for the first three quarters of 2025 as Trump's tariff plan takes shape before rebounding in 4Q25. Overall, our USD/MYR forecasts are now at 4.53 in 1Q25, 4.60 in 2Q25, 4.65 in 3Q25 and 4.55 in 4Q25.

USD/IDR: Going forth, while further USD strength is the likely path of least resistance, BI's emphasis on rupiah stability may slow USD/IDR's ascent. Overall, our updated USD/IDR forecasts are 16,000 in 1Q25, 16,200 in 2Q25, 16,400 in 3Q25 and 16,200 in 4Q25.

USD/THB: It is worth noting that the THB was the most resilient Asia FX in the last trade war (2018-2020) as investors took refuge in the safe-haven currency. This time round, favourable factors similar to 2018 include Thailand's current account surplus, low inflation and a stable benchmark rate outlook. Overall, we expect THB's currency fluctuation to be lesser than regional peers in our base case scenario. Our updated USD/THB forecasts are 35.2 in 1Q25, 35.5 in 2Q25, 35.7 in 3Q25 and 35.2 in 4Q25.

USD/PHP: In 2025, the PHP is likely to be on the defensive, taking direction from Trump's tariff policy as it takes shape as well as the CNY. A faster pace of rate cuts by the BSP relative to the Fed in 2025 is likely to weigh on the PHP as well. It appears that the record low of 59.33 /USD will be tested in the near term as external headwinds build. Overall, we forecast USD/PHP to be at 59.5 in 1Q25, 60.0 in 2Q25, 60.5 in 3Q25 and 60.0 in 4Q25.

USD/VND: Going forth, the VND is likely to take direction from Trump's tariff policy and the CNY. Currently consolidating near the record low of 25,463 /USD, the VND looks set to trade to a new low given the external headwinds. Overall, our updated USD/VND forecasts are 25,800 in 1Q25, 26,000 in 2Q25, 26,200 in 3Q25 and 26,000 in 4Q25.

USD/INR: Going forward, further outflows from the local bond and stock markets may continue to be a drag on the INR. On the other hand, a shallower RBI rate cut cycle this time round may maintain the INR's rate advantage over the Fed, buffering the currency. The RBI may continue to draw upon its big stockpile of forex reserves to limit currency volatility as INR trades to a new record low against the USD. Overall, our updated USD/INR forecasts are at 85.0 in 1Q25, 85.5 in 2Q25, 86.5 in 3Q25, and 85.5 in 4Q25.