Maybank

FX

Global

FX Insight

Strategies in the Wake of "Reciprocal" Tariffs

FX Strategies with Interwoven Themes

Trade War Broadens and How to Play It

Currencies had a brief knee-jerk reaction to Trump's latest tariff announcements. We see opportunities for a short-term FX play based on the development of the global trade war. While the USD could continue to see two-way volatility in the near-term, **we prefer relative value plays.** **We see potential for EUR, GBP, CHF, JPY to outperform selected AxJ (PHP, THB, INR, KRW, TWD, CNH, VND) as well as commodity currencies (AUD, NZD) as the trade war continue to develop or worsen.** These could be susceptible to reversals should there be some kind of resolution.

The Longer-Term View – ASEAN FX may be Cushioned

Regardless of where the trade war leads to, growth and inflation in almost all across the world, including the US, will be impacted. As such, we shift our focus to the longer-term FX play.

The greenback's supreme status of exceptionalism seems to have significantly weakened. Some countries have indicated intentions to band together. Trade blocs alienating the US may weaken the US reserve status and its dominance in payments. Meanwhile, flight to quality underpins CHF and EUR. EUR and GBP could remain supported by their military spending narrative.

The high level of tariffs and uncertainties that persist in this global trade war are negative demand shocks for most economies, including ASEAN's. Barring a financial crisis, however, the fall in US dollar and rates can act as counterweights to tariff-related shocks for ASEAN FX.

Meanwhile, we see JPY as a potential booster for ASEAN FX, as its divergent monetary policy and safe haven allure continue to keep it on a strengthening path.

PBoC's preference to still keep RMB stable may also mean less risk for regional currencies in spite of the trade war development.

Taken together, market forces of these major currencies could provide some buffer for ASEAN FX, notwithstanding idiosyncratic factors.

We also see opportunities that the RMB could weaken on a trade weighted basis as the USD fall. **We see the sharpest gains for CNH against the SGD, JPY and MYR in an environment this year.**

Expect SGD Resilience with Nuances Even if MAS Eases

We expect the SGD and SGDNEER to remain supported even if MAS eases in line with our house view via a slight (-0.5%) slope reduction as the policy stance remains appreciating and the SGD could potentially attract flight to quality flows. We however suggest that there could be some important nuances – we expect SGD to underperform the JPY and outperform the AUD and CNY. **We therefore recommend a strategy of being long SGDNEER (sans JPY weight 7.2%) and potentially allotting the weight equally to CNY and AUD.** We expect this to work out even if MAS chooses not to ease, which should be more supportive of the SGD.

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This report is split into two main parts – the short-term FX play based on the development of the global trade war and a longer-term play. While the USD could continue to see two-way volatility, **we prefer relative value plays in the near-term.** We see potential for EUR, GBP, CHF, JPY to outperform selected AxJ (PHP, THB, INR, KRW, TWD, CNH, VND) as well as commodity currencies (AUD, NZD) as the trade war continues.

Regardless of where the trade war leads to, impact is likely on growth and inflation across the world, including the US. As such, we shift our focus to the longer-term FX play. The greenback's supreme status of exceptionalism seems to have significantly weakened. Some countries have indicated intentions to band together. Trade blocs alienating the US may weaken the US reserve status and its dominance in payments. Meanwhile, flight to quality underpins CHF and EUR. EUR and GBP could remain underpinned by their military spending narrative. The high level of tariffs and uncertainties that persist in this global trade war are negative demand shocks for most economies, including ASEAN's. Barring a financial crisis, however, the fall in US dollar and rates can act as counterweights to tariff-related shocks for ASEAN FX. Meanwhile, we see JPY as a potential booster for ASEAN FX, as its yield play and safe haven allure continue to keep it on a strengthening path.

The Impact of Liberation Day

Trump's Liberation Day has come and gone at his first Rose Garden Event. The tariffs announced on 2 Apr came in two parts

1) A universal tariff of (minimum) 10% is now levied on all US imports as of 4 Apr and

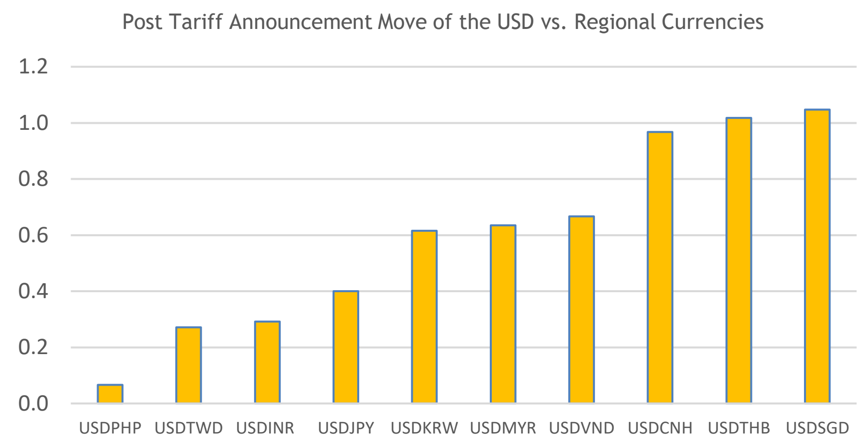
2) Reciprocal tariffs (of varying rates) will take effect on 9 Apr.

In addition, the US has also decided to end the de minimis tariff exemption. Low value packages (amounting to less than $800) would face a tax rate of 30% of their value or $25 per item with effect from 2 May. The dollar amount will be raised to $50 after 1 Jun.

Initial Reactions to Reciprocal Tariffs

The greenback was boosted at first against most Asian currencies, even against the JPY at first. Chart 1 records the move of the USD against respective currencies to its intra-day peak on 3rd Apr. However, the USD gave up all gains thereafter.

Chart 1: Moves of the USD against Asian Currencies



Note: Moves are recorded in percentage from close of previous day (2 Apr) to the high of 3 Apr with the exception of currencies that are traded overnight.

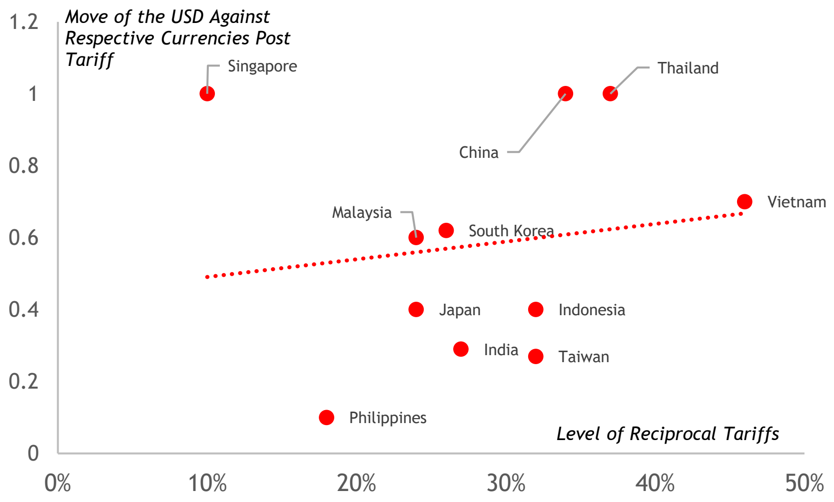
Source: Maybank, FX Research & Strategy

Table 1: Reciprocal Tariffs

Countries and Territories	Reciprocal Tariff, Adjusted
Lesotho	50%
Cambodia	49%
Laos	48%
Madagascar	47%
Vietnam	46%
Myanmar (Burma)	45%
Sri Lanka	44%
Falkland Islands	42%
Syria	41%
Mauritius	40%
Iraq	39%
Botswana	38%
Guyana	38%
Serbia	38%
Bangladesh	37%
Liechtenstein	37%
Thailand	37%
Bosnia and Herzegovi	36%
China	34%
North Macedonia	33%
Angola	32%
Fiji	32%
Indonesia	32%
Switzerland	32%
Taiwan	32%
Libya	31%
Moldova	31%
South Africa	31%
Algeria	30%
Nauru	30%
Pakistan	30%
Tunisia	28%
India	27%
Kazakhstan	27%
South Korea	26%
Brunei	24%
Japan	24%
Malaysia	24%
Vanuatu	23%
Côte d`Ivoire	21%
Namibia	21%
European Union	20%
Jordan	20%
Nicaragua	19%
Malawi	18%
Philippines	18%
Zimbabwe	18%
Israel	17%
Zambia	17%
Mozambique	16%
Norway	16%
Venezuela	15%
Nigeria	14%
Chad	13%
Equatorial Guinea	13%
Cameroon	12%
Democratic Republic c	11%

Source: The White House, Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual US Good Trade Deficits, Annex I

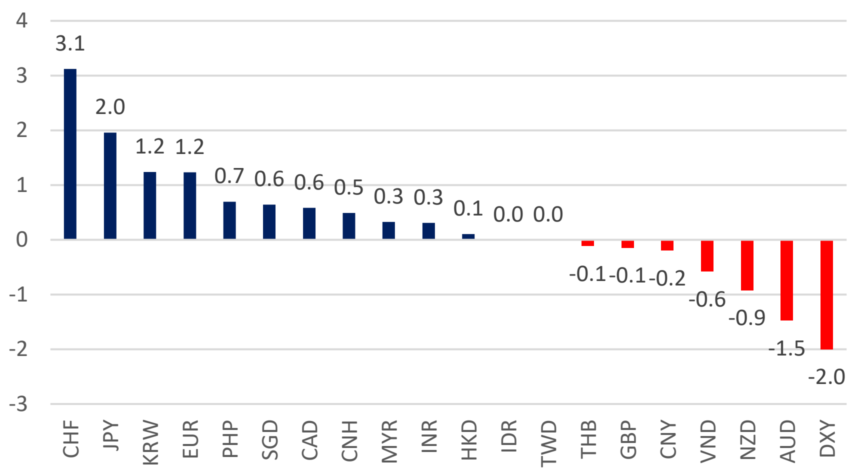
Chart 2: Moves of the USD against regional currencies roughly correspond with the rate of reciprocal tariff levied on the country but not entirely



Note: % Move of the USD against Asian Currencies are reflected in Chart 1. Also note that the reciprocal tariffs are not stacked on the minimum level of tariffs.

Source: Bloomberg, Maybank FX Research & Strategy.

Chart 3: USD Performance Was Mixed



Note: Currency Moves are taken from close of 2 Apr to around 5pm KLT/SGT (4 Apr). IDR was closed the whole week while CNY was closed on 4 Apr.

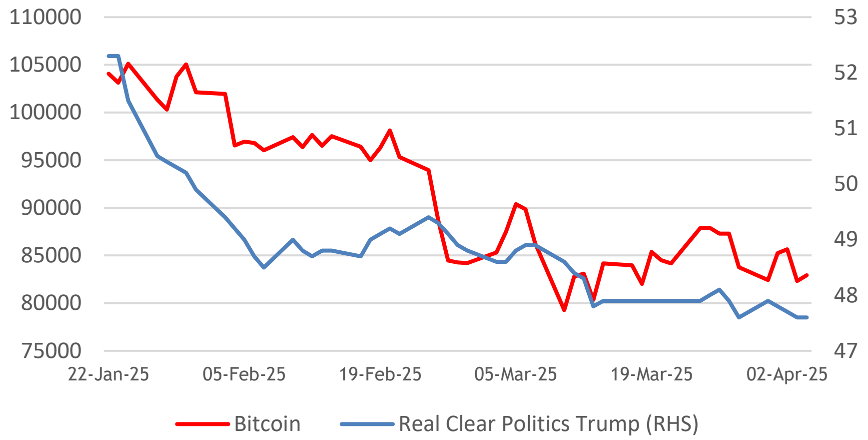
Source: Bloomberg, Maybank FX Research & Strategy

AUD and NZD were worst hit, even though tariffs imposed on Australia and New Zealand were at minimum level (10%). These antipodeans are hurt the most as they are trade exposed and risk-sensitive. We continue to look for AUD to remain under pressure in the near-term as risk sentiment remains jittery. In contrast, safe havens strengthened. Even though China remains the country that is worst hit by trade war 2.0, there was already slight recovery in the CNH. Not even the Fitch downgrade of its sovereign credit rating form A+ to A hurt its sentiment.

Trump's Truth Social post (3 Apr) that "the operation is over, the patient lived and is healing" hinted that he acknowledged the pains of the market and the economy. He may even be wary of dealing more damage. He also said he was open to "reducing tariffs" if other nations offer something "phenomenal" in negotiations.

Sectoral-specific tariffs on pharmaceutical, semi-conductors, lumber and copper could follow in due course. China just responded with 34% tariff on all US imports (amongst others to be elaborated in the latter part of the report), the harshest in this round of trade war. **We shall watch for Trump's retaliation and the level of rates for his sectoral-specific tariffs as a gauge of his tolerance for market pain. With Trump mentioning a third term that he is considering, he may continue to care about his approval rating and that could also be a gauge of how far he would go in his frictional trade policies.**

Chart 4: Trump's Rating Has Fallen Since his Inauguration



Source: Real Clear, Bloomberg, Maybank FX Research & Strategy

As such, we prefer relative value plays in the wake of tariffs in the near-term. We see potential for EUR, GBP, CHF, JPY to outperform selected AxJ (PHP, THB, INR, KRW, TWD, CNH, VND) as well as commodity currencies (AUD, NZD) as the trade war continues. KRW has strengthened recently due to improved political clarity at home, but this could be susceptible to reversal as the global trade war worsens. This is a slight change from our FX Weekly dated 1 Apr where we also advocate a similar basket of relative value plays favour service-oriented GBP, safe havens JPY and CHF over trade-exposed currencies such as CNH, KRW, AUD, SGD and THB.

Should there be any sign of negotiations, this could also reverse. As such, we could look past this trade war in 2Q and focus on longer term FX views.

The USD - From Exceptionalism to Alienation?

As earlier outlined, we saw USD weaker against most currencies in the wake of tariffs. Directly linked to that the EUR, CHF and GBP outperformed right after the tariffs. GBPUSD has given up its gains since hitting a high of 1.3207 on 3 Apr on bets of deeper BOE cuts and rallying gilts, but CHF and EUR have held on to their gains.

We reiterate our view that the fiscal expansion driven by defence spending buoying both the EUR and GBP remains intact against the backdrop of tariffs. In line with that is the theme that the US could be alienating itself from its closest allies with tariffs and adopting a foreign policy stance that NATO allies should be more responsible for their own defence. The USD could be weakening, not just because US exceptionalism is showing signs of fading, but rather because the US is alienating itself from the rest of the world.

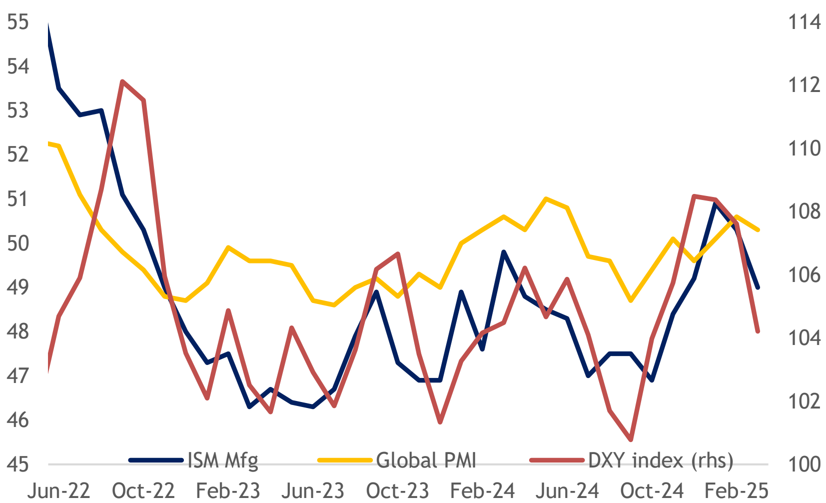
We maintain our positive outlook on the EUR and the GBP and suggest that in times of uncertainty a flight to quality could also be buoying the EUR, with Germany and the Netherlands being AAA rated countries and the EU rated AAA by two agencies (Moody's, DBRS) and AA (S&P). While there are risks on the horizon given the elevated uncertainty, the US alienating itself could force its allies to band together and perpetuate the defence spending optimism.

Ancillary to the flight to quality theme, the CHF has been the standout performer even though the SNB has expressed a preference for a weaker CHF. This could also be reflective of a flight to quality (Switzerland is AAA) and while we suggested that JPY could become the preferred safe-haven due to monetary policy divergence, that has not quite materialized.

Note that we have observed some blocs of countries already banding together, with China, Japan and South Korea suggesting they could jointly respond to tariffs. Meanwhile the EU, spearheaded mainly by France and Germany have suggested that they could band together with Canada and Mexico to confront the US on tariffs. Formation of trade blocs was one of the possible scenarios that we articulated in our earlier piece on tariffs, and it seems that such a scenario could be coming to fruition as the US alienates itself from the rest of the world. This trend, if sustained, may weaken the USD' reserve status, its dominance in payments and concomitantly hasten the de-dollarization phenomenon.

Another key driver of the USD is the trajectory of the US economy. With US consumer and business confidence sliding, it may only be a matter of time before it hits investment and employment. UST 10y yields have fallen under 4.0%, at last check.

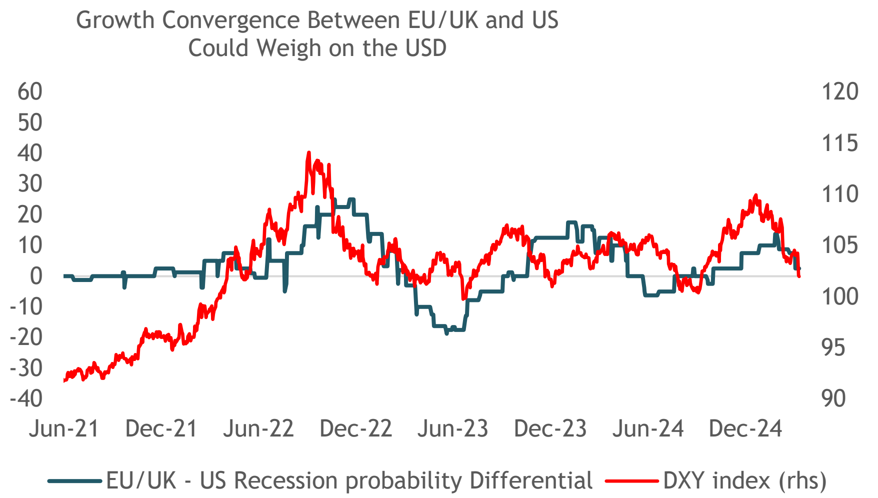
Chart 5: ISM Mfg Have Been Sliding of Late, Taking the DXY Lower



Source: Bloomberg, Maybank FX Research & Strategy

Recession probability of EU, UK and US seem to have converged of late with recession probability of the US in the next 1 year upgraded to 30% from 25% in late Mar while that of the EU has been downgraded to 30% from 32.5%. Probability of the UK sinking into recession in the next 1 year was upgraded to 35%. There is some kind of convergence in growth trajectory and that has brought USD lower. With the military spending narrative still intact for EUR, GBP and China's economy potentially buffered by fiscal stimulus, there is a possibility that growth of major economies could continue to converge. The fading of US exceptionalism could remain a negative environment for the USD.

Chart 6: As the Probability of Recession Between EU/UK Start to Converge With the US, USD Falls



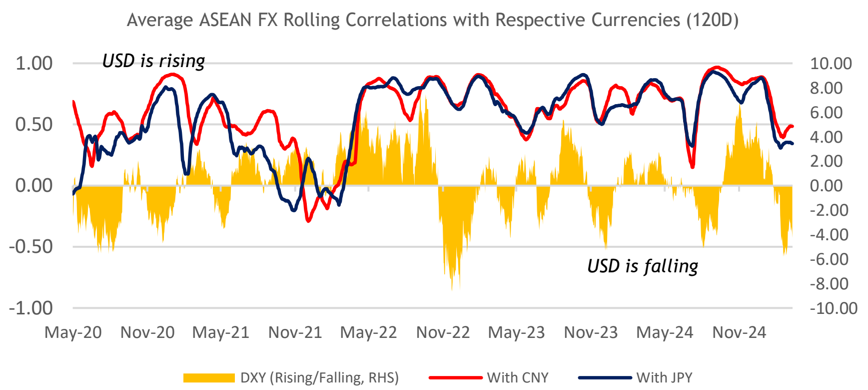
Source: Bloomberg (compilation of forecasts from various banks), Maybank FX research

Even with a 0.3ppt downgrade in the growth forecast of the US to 1.7% this year, our economist still looks for the Fed to ease the target rate by 50bps in 2025. Our economists have also downgraded the growth and inflation forecasts for all ASEAN economies. Lower ASEAN inflation will open the door for more ASEAN central banks to ease, including Indonesia (-50bps), Philippines (-50bps), Thailand (-50bps), Vietnam (-25bps) and Singapore in 2025. Even so, these are mostly in line with the magnitude of the Fed cuts that we are looking for and as such, the pressure on the currencies may be limited as well.

From Anchors to Boosters of ASEAN FX? - JPY and RMB

USD was strengthening into the US elections last year and for much of 4Q 2024 amid fears of US tariffs and when that happened, ASEAN FX's movement against the USD became more tightly correlated with JPY and CNY. As the USD weakens, that correlation has weakened but still remained positive. PBoC's persistence in keeping yuan supported in 4Q of 2024 likely also anchored regional currencies and could remain an anchor should trade war escalate this quarter.

Chart 7: ASEAN's positive correlation with CNY and JPY strengthens in times of USD Strength (Yellow region above zero)

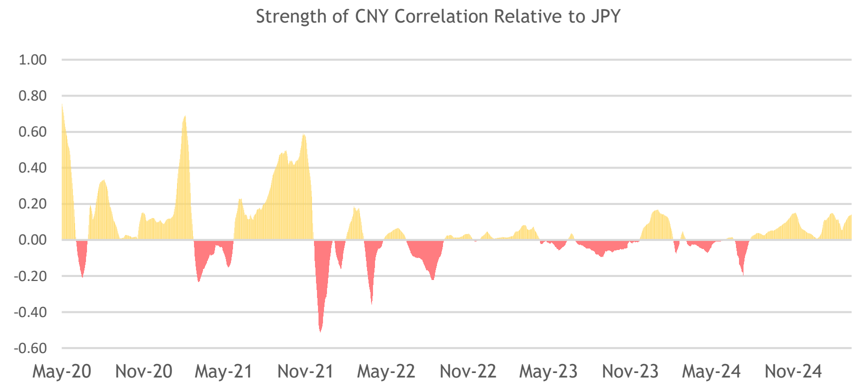


Note: The yellow region demarks the period when the USD is falling or rising. It is calculated as the cumulative changes of the DXY over 60 days. ASEAN FX refers to SGD, IDR, PHP, THB, THB and MYR against the USD.

Source: Bloomberg, Maybank FX Research & Strategy

A comparison revealed that the onshore yuan (CNY) is still more tightly correlated to ASEAN FX compared to the JPY. Since 2020, strength of CNY correlation with the ASEAN FX surpassed that of JPY 62% of the time.

Chart 8: CNY has a stronger correlation to ASEAN relative to JPY 62% of the time since 2020



Note: The areas are tabulated by taking the difference of CNY correlation to ASEAN with that of JPY. Anything above 0 indicates a stronger CNY correlation vs. the JPY.

Source: Bloomberg, Maybank FX Research & Strategy

It is thus imperative that we crystallize our view of how CNY and JPY for the rest of the year and that could give us a gauge of their influence on regional currencies, notwithstanding idiosyncratic drivers. A beta study between 1 Jan 2020 – 2 Apr 2025 on a broader set of currencies suggest that currencies in general are more sensitive to CNY vs. JPY as well.

Table 2: Most Currencies have Higher Sensitivity to CNY

	CNY	CNH	JPY	SGD	MYR	IDR	THB	PHP	VND	KRW	TWD	INR	AUD	NZD	CAD
Beta to CNY	1.00	1.01	2.24	0.05	0.82	0.80	0.71	1.08	0.64	1.33	1.12	0.94	1.16	1.32	0.77
Beta to CNH	0.99	1.00	2.22	0.06	0.81	0.79	0.71	1.07	0.63	1.32	1.10	0.93	1.15	1.31	0.76
Beta to JPY	0.24	0.24	1.00	-0.02	0.29	0.27	0.35	0.45	0.21	0.50	0.34	0.38	0.30	0.39	0.17

Source: Bloomberg, Maybank FX Research & Strategy estimates

The Worst of Trade War Could Be Close, Within this Quarter

Right after Trump's Rose Garden announcement of reciprocal tariffs, US Treasurer Scott Bessent gave an interview to Bloomberg, urging countries not to retaliate and that the **respective tariff levels imposed are actually the highest level** which could be negotiated lower.

Our view of the CNY

On 4 Apr, China gave its strongest retaliation yet for Trade war 2.0, imposing 34% tariff on all American imports wef 10 Apr, export controls on rare earths, launching an anti-dumping probe into medical CT X-ray tubes from the US and India, and halting imports of poultry products from two American firms. 11 US defense firms are added to an unreliable entity list and imposing export controls on 16 US firm. USDCNH rose a tad in response, pending further response from the US.

Before this latest measure, China's response to Trump's tariff announcements this year had been rather measured. The USDCNY central parity was fixed highest since 17 Jan 2025. USDCNY rose in reaction to the tariff announcement as well as the daily fix this morning at 7.1889. It is only 0.13% higher compared the USDCNY fix yesterday at 7.1793 but this was in spite of broader USD weakness overnight. The median estimate of USDCNY fix was actually -0.07% lower. We think this sends a signal that PBoC may allow more room for CNY to react to market forces. At the same time, the risk of CNY spiraling lower is reduced at this point given the weak US dollar and rates environment.

USDCNY traded around 1.45% above the daily fix on 3 Apr 2025 (before it closed on 4 Apr). The onshore pairing is only allowed to trade 2% above and below the daily fix. The arguably soft USD environment keeps the USDCNY from testing the upper bound of the band and while the fix guidance could nudge the USDCNY higher, it is also likely that concerns on US growth and the concomitant drag on the greenback would keep the USDCNY in two-way trades. **We expect the USDCNY to remain somewhat bid in the near-term (2Q 2025), pending negotiations and possible retaliatory measures.**

Chart 9a: USDCNY Spot Rises But Stops Short of Testing the Upper Bound of the Band

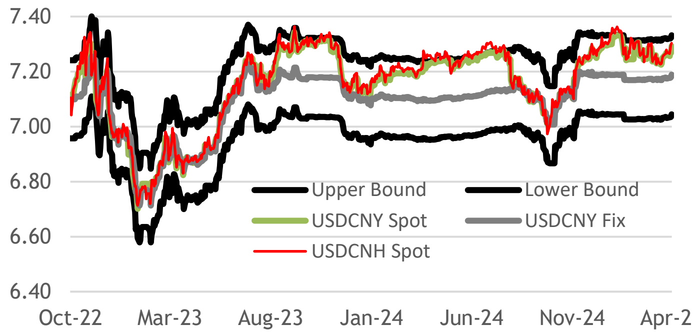
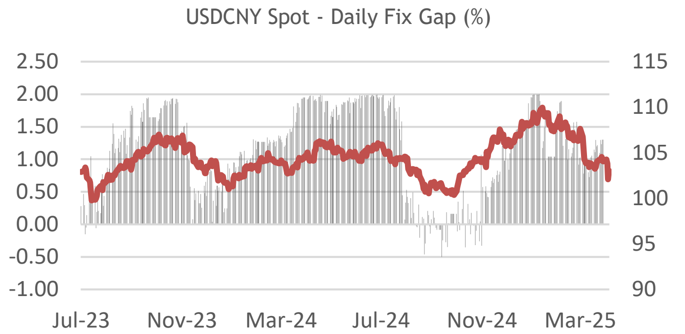


Chart 9b: The Fall in the Broader USD to Bring USDCNY Lower, Trading 1.3% above the mid-point



Source: Bloomberg, Maybank FX Research & Strategy

Diminishing Marginal Boosts to the USD from Sentiment Likely Set In

Scott Bessent had mentioned that this could be the highest level of tariffs if countries do not retaliate and that the tariff revelation should provide markets some "certainty". His words suggest that the worst of trade conflict could be near. From our observation on the first US-China trade war, the diminishing marginal boosts to the USD have likely to set in by the first imposition of tariffs vs. threats mentioned earlier. With every escalation in the first trade war, the USD boosts got smaller against the CNY and that was during a rate hiking cycle of the Fed. Coming back to the present, the economic strength of the US is now in question and a much riskier trade policy approach (imposing a universal tariff and more, against the whole world) could limit the gains of the USD against AxJ FX.

Stronger Trade Relations Could lend Support to CNY

Earlier this week, state media CCTV had said that China, South Korea and Japan agreed to jointly respond to US tariffs. Any sign that China is forging stronger relations with major trade partners could be positive for the yuan and negative for the USD. Any sign that there could be some kind of partial resolution could also be negative for the USD.

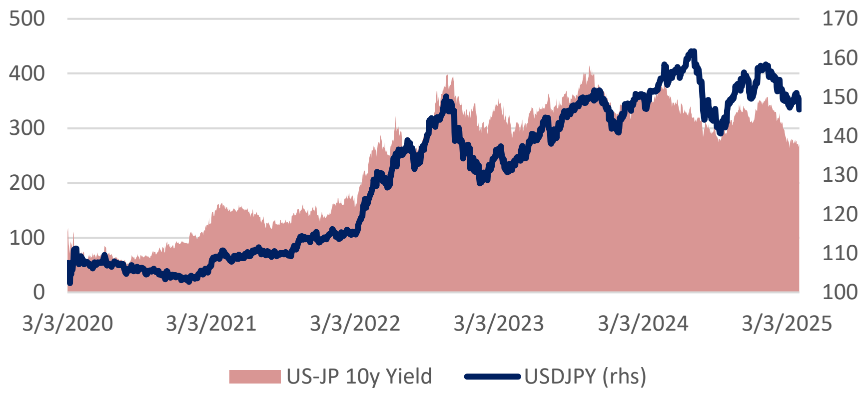
USDCNY to Fall Modestly For the Next Few Quarters

Overall, the medium-term view is for USDCNY to fall in the next few quarters as US growth continues to slow and as Fed eases monetary policy further. China has already acted to cushion growth with fiscal stimulus measures and its readiness to add more could mean that yuan may not even take much of a hit from the interest rates differential perspective. We retain our bearish bias for the USDCNY from 2Q 2025 to 1Q 2026 and see some downside risks to our 2Q forecast at 7.50.

JPY - the Yield Play, A Safe Haven, A Booster for ASEAN

On the JPY, we lean bullish on the currency even amid the concerns associated with the tariffs. We have been expecting the JPY to appreciate on the basis of the BOJ hiking 50bps this year, which would be a divergence from a Fed 50bps easing.

Chart 10: USDJPY Can Fall Further as US-JP Yield Differential Narrows



Source: Bloomberg, Maybank FX Research & Strategy

However, we do note that Japan has been slapped with a hefty 24% reciprocal tariff in addition to the 25% auto tariff and that this could affect the central bank's hiking path. We are not ruling out that the BOJ may delay rate increases amid this difficult tariff situation but even in this scenario, the JPY may still benefit from strong safe haven demand and falling UST yields.

Back in the last trade war, **the JPY itself had actually performed strongly in the second part when UST yields had declined too.** We also would like to point out that the falling US equity markets has been moving in line with JPY appreciation. A worsening trade situation and concerns of the impact it can have on the US economy can risk resulting in more US equity market weakness and possibly lift the JPY further. Putting it together, the JPY therefore stands in a unique position where it can see appreciation in either a more tense or benign trade environment.

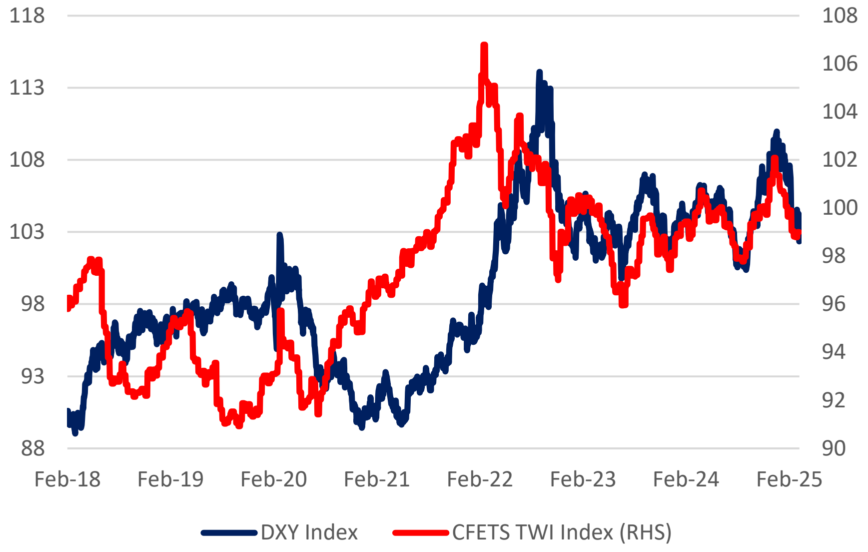
With PBoC looking to keep the CNY stable, the USD likely to waffle lower and JPY on a steady creep higher, ASEAN FX could continue to rely on these major external market forces to keep them buffered.

Relative Value Plays

We also see opportunity for CNY and CNH to weaken further against certain FX like JPY, CHF, SGD and MYR. This is especially given the fact that CNY tends to underperform on a trade-weighted basis as the DXY continues to fall. We look for JPY, SGD and MYR to remain most resilient as JPY and the CHF are safe havens. SGD and MYR could be most resilient because Trump has imposed lower tariffs on both countries, relative to peers. SGD retains safe haven allure. We are still not expecting BNM to cut rates or even if it does will be measured and limited and that could also support MYR on a rate-differential basis as UST yields continue to trend lower.

Strategy: Relative Value Play - Short CNY vs. SGD, MYR and JPY

Chart 11: Tendency for CNY TWI to Fall With DXY



Source: Bloomberg, CFETS, Maybank FX Research & Strategy

FX Forecasts

	End Q2-25	End Q3-25	End Q4-25	End Q1-26
USD/JPY	145.00	142.00	140.00	138.00
EUR/USD	1.0700	1.0900	1.1000	1.1000
GBP/USD	1.2900	1.3000	1.3050	1.3100
AUD/USD	0.6000	0.6100	0.6200	0.6300
NZD/USD	0.5500	0.5700	0.5800	0.5900
USD/CAD	1.4600	1.4500	1.4300	1.4000
USD/CHF	0.8850	0.8850	0.8850	0.8875
USD/SGD	1.3750	1.3600	1.3450	1.3400
USD/MYR	4.6000	4.4500	4.3500	4.3000
USD/IDR	17000	16500	16500	16400
USD/THB	36.00	35.30	35.30	35.00
USD/PHP	59.00	58.00	58.00	57.50
USD/CNY	7.50	7.45	7.40	7.35
USD/CNH	7.50	7.45	7.40	7.35
USD/HKD	7.77	7.78	7.79	7.80
USD/TWD	32.70	32.80	33.00	32.50
USD/KRW	1470	1410	1400	1390
USD/INR	87.75	88.00	88.25	88.00
USD/VND	25800	25800	25600	25500
DXY Index	105.03	103.40	102.48	102.05
Gold ($/oz)	3200.00	3250.00	3300	3300.00
	End Q2-25	End Q3-25	End Q4-25	End Q1-26
SGD/MYR	3.35	3.27	3.23	3.21
JPY/SGD	0.95	0.96	0.96	0.97
EUR/SGD	1.47	1.48	1.48	1.47
GBP/SGD	1.77	1.77	1.76	1.76
AUD/SGD	0.83	0.83	0.83	0.84
NZD/SGD	0.76	0.78	0.78	0.79
CAD/SGD	0.94	0.94	0.94	0.96
CHF/SGD	1.55	1.54	1.52	1.51
SGD/IDR	12364	12132	12268	12239
SGD/THB	26.18	25.96	26.25	26.12
SGD/PHP	42.91	42.65	43.12	42.91
SGD/CNY	5.45	5.48	5.50	5.49
SGD/HKD	5.65	5.72	5.79	5.82
SGD/TWD	23.78	24.12	24.54	24.25
SGD/KRW	1069	1037	1041	1037
SGD/INR	63.82	64.71	65.61	65.67
SGD/VND	18764	18971	19033	19030
	End Q2-25	End Q3-25	End Q4-25	End Q1-26
JPY/MYR	3.17	3.13	3.11	3.12
EUR/MYR	4.92	4.85	4.79	4.73
GBP/MYR	5.93	5.79	5.68	5.63
AUD/MYR	2.76	2.71	2.70	2.71
NZD/MYR	2.53	2.54	2.52	2.54
CAD/MYR	3.15	3.07	3.04	3.07
CHF/MYR	5.20	5.03	4.92	4.85
MYR/IDR	3696	3708	3793	3814
MYR/THB	7.83	7.93	8.11	8.14
MYR/PHP	12.83	13.03	13.33	13.37
MYR/CNY	1.63	1.67	1.70	1.71
MYR/HKD	1.69	1.75	1.79	1.81
MYR/TWD	7.11	7.37	7.59	7.56
MYR/KRW	320	317	322	323
MYR/INR	19.08	19.78	20.29	20.47
MYR/VND	5609	5798	5885	5930

*Source: Maybank FX Research as of 27 Mar 2025. *These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.*

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