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FX

Global

FX Insight

How Would FX Fare in the Current Tariff Situation?

Summary

Over the last couple of weeks, Trump has launched an avalanche of tariff threats, which initially looked to have shaken markets and lead to higher volatility. However, over time, market reaction to these tariffs are starting to look more measured given that the threats have still not quite materialized.

Nonetheless, we are cautious on the tariff situation. Based on our analysis, some currencies directly or indirectly vulnerable to tariffs include the EUR, CAD, CNY/CNH, KRW, VND, THB, MYR, AUD and NZD. However, we also would like to note that we have found the situation to be very fluid given the potential for negotiations between the US and a number of these countries.

Meanwhile, we do believe that the JPY can outperform this year. Japan is also at risk of tariffs but it does appear that the Japanese government so far is at a good footing with Trump, giving some confidence that Japan can get a compromise with the US. Idiosyncratically, BOJ tightening also provides another supportive factor for the JPY.

On trade recommendations, we suggest going short on the USDJPY, CNHJPY and AUDJPY whilst also reiterating our short AUDNZD call. The first three recommendations are on the basis of our said argument of JPY performing better whilst the CNH and AUD does face the tariff headwinds. As for AUDNZD, even though both currencies are expected to take a hit from the tariff threats, the AUD we think is likely to underperform the NZD due to insufficient pricing of potential RBA rate cuts this year, while RBNZ dovishness for 2025 appears priced in.

Proposed Recommendations

Trade	Entry [SL]	Objective (s)	Risk Reward Ratio
Short USDJPY	149.80 [152.50]	145.20; 140.20	1:1.7; 1:3.6
Short CNHJPY	20.90 [21.30]	20.30; 19.70	1:1.5; 1:3
Short AUDJPY	96.85 [100.50]	91.50; 90.30	1:1.5; 1:1.8
Short AUDNZD	1.1090 [1.1180]	1.0970; 1.0880	1:1.3; 1:2.3

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Background

Over the last couple of weeks, Trump has launched an avalanche of tariff threats, which at times had targeted specific countries but has also been broad based in nature. Many of his announcements have come at unexpected times and have also varied quite differently in nature.

Initially, markets looked to have been shaken by his announcements and volatility was high especially with regards to assets and currencies tied directly to countries that he had targeted. However, over time, market reaction to these tariffs are starting to look more measured as markets are seeing that the tariffs that Trump has proposed could be "negotiable" in nature. In some sense, the President has given out that sort of impression as he actually delayed Canada and Mexico's 25% tariffs whilst also talking about the possibility of a deal with China.

However, this "negotiable" nature of the tariffs also actually make the situation uncertain. Trump's tariffs threats have been justified on a hodge podge of various reasons, which in turn makes it unclear what his goals are. The threats have also been rather arbitrary and occurring at unexpected times. Given such a situation, we are undertaking a deeper assessment of the risk that could be forthcoming for currencies amid the Trump tariff situation.

Trade Imbalance is a Major Factor But the President Looks to be Aiming for More than That

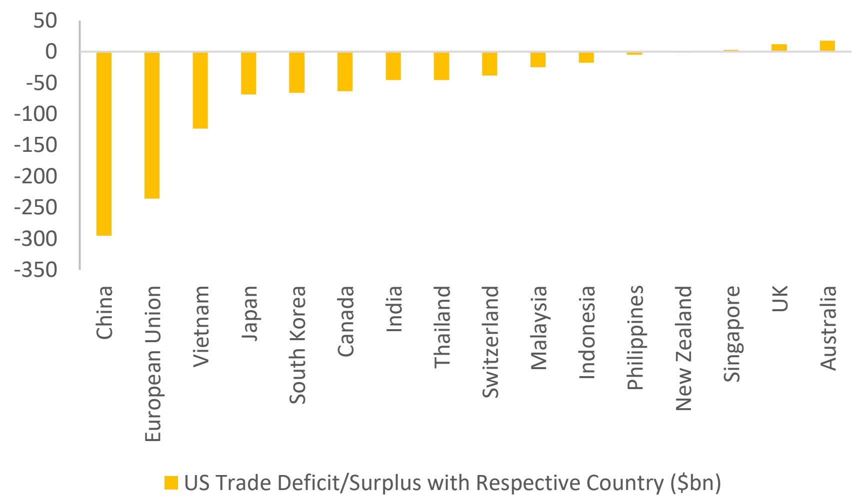
As a start though, before we can actually assess the risks and impacts that can be forthcoming in the currency space, we do need to understand more on Trump's motives and goals behind the tariff threats. This would better help us better ascertain which countries and currencies could actually really be at risk of the tariffs. As mentioned, the President has justified his tariffs on a variety of reason so far and this has made it harder to understand the goals he intends to achieve. However, in some sense, this is of little surprise given that negotiators can be unwilling to reveal their true motives.

We have attempted to hypothesize a few potential goals that Trump could be attempting to achieve with his tariff threats:

1) Address Trade Imbalance

This is the most clear goal of the president with regards to using tariffs as a threat. After all, it was Trump's concerns about the US trade deficit that had looked to spark the trade war in his first term. Under the President's America first trade policy memorandum issued on 20 Jan 2025, it was also stated that the US intended to address unfair and unbalanced trade between the US and other countries. Looking at the countries that the US has a high trade deficit with, we can easily see that China and the EU are among the highest. Within the Asia space, the US maintains quite a substantial deficit with India, Thailand, Vietnam, Japan, South Korea and Malaysia. Other major countries that we also take note that the US has quite a deficit with include Switzerland and Canada.

Chart 1: Trade Surplus/Deficit Between the US and Various Countries



Source: USTR, Maybank FX Research & Strategy

2) Bringing Back Industries and Jobs to the US

This has been a justification for many of Trump's tariff threats as he looks to either strengthen American industry or bring jobs and factories home. The President had been constantly pledging to prioritize US manufacturing in his first term and throughout his campaign and reiterated that even in his inaugural speech. He has noted that he intends to rebuild America's metals industries in addition to that of autos, semiconductors, etc. He even had mentioned that Taiwan took away US semiconductor chip businesses.

3) Reducing Fiscal Commitments and Yields

We would not rule this out as a possible goal of the Trump administration with regards to tariff threats given Treasury Scott Bessent has spoken about their intention to try to reduce the UST yields. Lowering the yields would have to likely involve a multi-pronged approach of a reduction in Fed rates, inflation and bond supply. The latter would be strongly related to reducing their fiscal commitments they face. As it is, the Trump administration has already touted that tariffs itself can help fiscal revenue, which in turn can be seen to ease the fiscal situation although that is somewhat debatable given the impact that tariffs can have on the US economy. The Committee for a Responsible Federal Budget has said that Trump's 10% tariff on China can raise $20bn in revenue for the government. Aside that, the Trump administration has been looking to trying to negotiate a peace deal for the Ukraine that could include Europe shouldering more of the defense cost for the country. The Ukraine defense cost has been a large expense for the US. Although there has not been any links between tariffs and the peace deal just yet, we cannot rule out if tariff threats could end up being involved in any agreement of the terms of a deal.

That said, the recent Mar-a-Lago accord talk can also back the possibility of a goal of the Trump administration using tariff threats to improve America's fiscal position. The accord had spoken about the US forcing foreign creditors to accept a swap of their treasury holdings for ultra long-term bonds (that could be 100-year, non-tradeable zero-coupon bonds). However, any proposal of that looks quite extreme at the moment.

4) Access and "Fair Competition" for American Firms

On the 21 Feb, the President had signed a memorandum on "defending American companies and innovators from overseas extortion and unfair fines and penalties". The signing of this memorandum quite clearly links the goal of ensuring more "fair competition" and access for American firms via utilizing tariff threats. More specifically, the President has ordered that the USTR investigate countries that impose digital taxes "to discriminate against US companies" and to look into imposing tariffs on imports from such countries that do.

5) Acquisition of Companies and Access to Minerals

The Trump administration has not made any open statements just yet of linking tariff threats to acquisition of companies. However, we do take note that any US acquisition of Tik Tok is happening in the background of tariffs on China. There also has not been any link just yet between tariffs and access to key minerals. Trump though has been attempting to seek access to Ukraine's key minerals as we know too.

6) Achieving campaign promises related to immigration and fentanyl

Trump's 25% tariffs on Mexico and Canada tariffs whilst the 10% on China have been justified on this basis. He has also threatened tariffs on Columbia unless they accepted deportees. Given the immigration and fentanyl were related to major campaign promises for Trump, we do not rule out the possibility that he may keep leveraging on tariff threats to continue to achieve his campaign promises.

Who is Really Under Threat from his Tariff Announcements?

With these potential goals that the Trump administration could have in mind, it then becomes the question who would really be under threat from his current tariff announcements.

To answer this question, we think it would be good to look at each of his tariff announcements and who would directly be most impact by them.

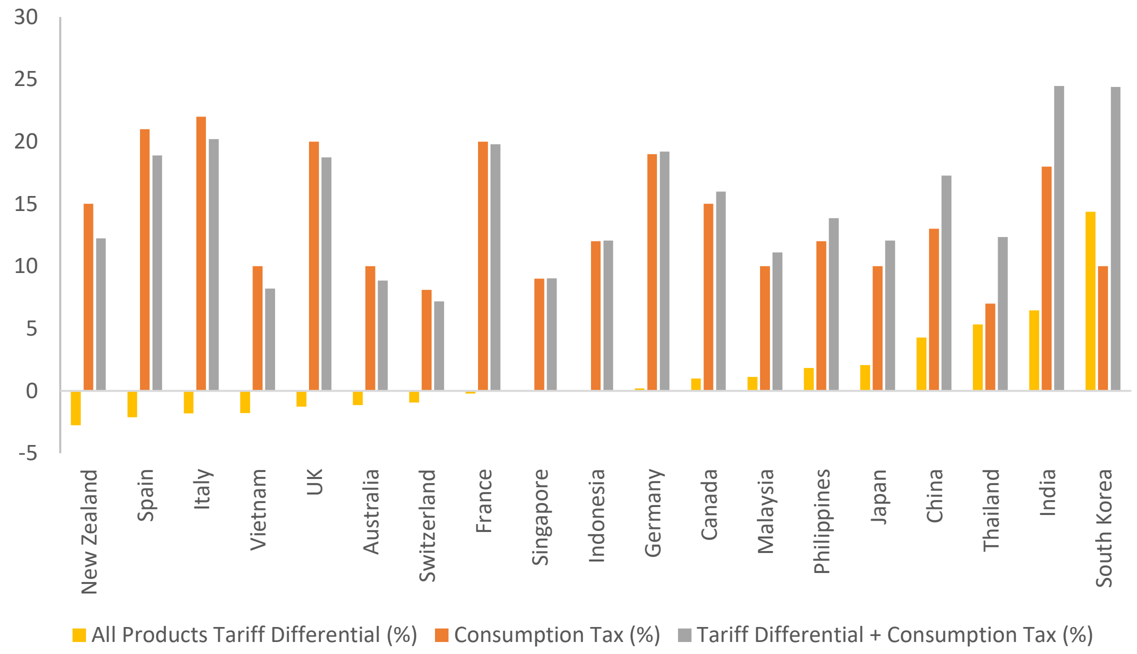
1) Reciprocal Tariffs

Under the condition of imposing reciprocal tariffs based on those who had imposed tariffs on the US, we would find that India, Thailand, South Korea and China would be most under threat. Japan would be somewhat vulnerable although its tariff differentials with the US are not as high as those countries. However, these findings are based on the overall average weighted levels of tariffs for these countries on the US. If we looked at it on more granular product basis, then more countries and regions could be at risk. The European Union for example has countries such as Germany and France that have quite a substantial tariff differential with the US in the food and transportation categories.

That said, the Trump memorandum on the reciprocal tariff threat doesn't just only consider direct tariffs but also looks at consumption taxes and other factors such as non-tariff measures, regulation etc. We note that the factors that the Trump administration is considering for tariffs are rather broad in nature but if we were to just consider factoring consumption tax into tariff differentials, we would easily already see that more regions or countries (than those already mentioned above) can be directly at risk. The European Union would outright be under threat under these conditions and so would a number of other countries such as the UK, Malaysia, Philippines, Indonesia, New Zealand, Australia, Singapore and Switzerland. If non-tariff measures are also considered, then a substantial number of countries would be in the firing line of Trump.

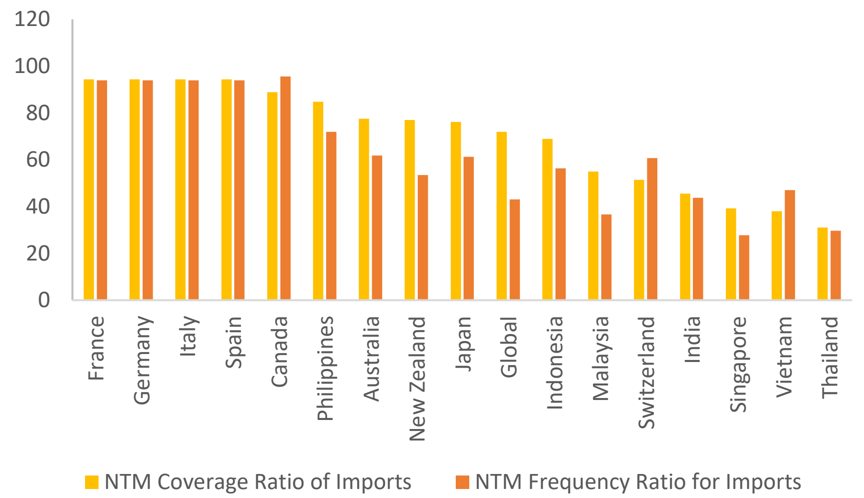
However, whilst the Trump memorandum on the reciprocal tariffs do form some basis that we can work off, it would not be likely that the US would just tariff all these countries. Rather, the administration may take into account those hypothesized goals written about above when deciding on reciprocal tariffs. Countries that are in the crosshairs of the US meeting the goals of addressing trade imbalances, reducing fiscal commitments, ensuring access and “fair competition” for US firms and access to minerals could be targeted.

Chart 2: Tariff Differentials Between the US and Various Countries



Source: WITS, PwC Worldwide Tax Summaries, Maybank FX Research & Strategy
Note: 1) The numbers for All Products Tariff Differential is the effectively applied AHS weighted average tariff of that country minus th at of the US a positive numbe r represents the tariff of that country is higher than that of the US whilst a negative number is the opposite, 2)Consumption tax for Malaysia, China and Canada are the maximum possible levels

Chart 3: Non-Tariff Measures



Source: WITS, Maybank FX Research & Strategy
Note: 1) NTM (non-tariff measures) coverage ratio of imports is the percentage of the value of imports subjected to non tariff measures, 2) NTM frequency ratio of imports is the percentage of traded products that are subjected to non tariff measures 3) NTM are

regulations such as packaging requirements, labelling requirements, quotas on imports that affect trade

2) 25% Tariffs on Autos, Semiconductors and Pharmaceuticals and Steel and Aluminium, Copper

Malaysia, Singapore, Thailand, Vietnam, South Korea, Japan, Switzerland and Canada would be hit the hardest based on the total exposure that their economy have to some of these exports to the US. Again, we would like to mention that the US may take into consideration the hypothesized goals of addressing trade imbalances, reducing fiscal commitments, ensuring access and "fair competition" for US firms and access to minerals or acquisition of companies when deciding to target these countries.

Table 1: Exposure of Countries to Tariffs on Autos, Semiconductors and Pharmaceuticals and Steel and Aluminium and Copper (Export of Product as % of GDP)

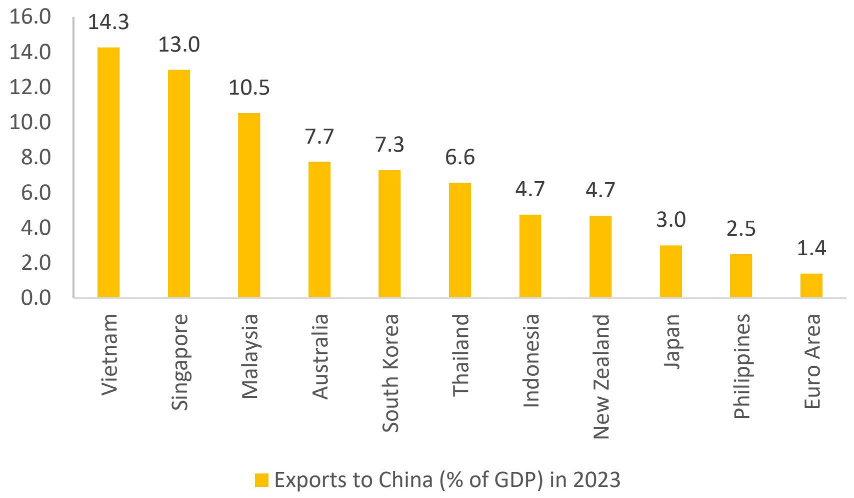
Country	Pharmaceuticals	Autos	Semiconductors and Other Exports	Steel & Aluminium	Copper
Malaysia	0.0	0.0	3.3	0.1	0.0
Singapore	2.3	0.0	0.2	0.0	0.0
Thailand	0.0	0.4	1.2	0.2	0.0
Indonesia	0.0	0.0	0.0	0.0	0.0
Philippines	0.0	0.0	0.4	0.0	0.0
Vietnam	0.0	0.2	1.6	0.2	0.0
China	0.0	0.1	0.0	0.0	0.0
South Korea	0.2	2.1	0.2	0.3	0.0
Japan	0.2	1.2	0.1	0.1	0.0
India	0.3	0.1	0.1	0.1	0.0
UK	0.2	0.2	0.0	0.0	0.0
Switzerland	1.7	0.0	0.0	0.0	0.0
Australia	0.1	0.0	0.0	0.1	0.0
New Zealand	0.0	0.0	0.0	0.0	0.0
Canada	0.3	2.6	0.0	0.9	0.1

Source: US Census, World Bank WDI, Macrobond, Maybank FX Research & Strategy
Note: Semiconductors and other exports refers to a larger category of SITC (776) - Thermionic, Cold Cathode or Photocathode Valves & Tubes; Diodes, Transistors & Similar Semiconductor Devices; Integrated Circuits, Etc.; Parts. It may include other exports but the number we believe is largely reflective of the semiconductor vulnerability of Malaysia, Thailand and Vietnam given the size of the semiconductor industries of these countries.

3) China 10% Tariffs

Aside China being directly affected by a 10% tariff, we would also stay wary of those with a high trade exposure to China facing an impact. Within Asia, these include Thailand, Malaysia, Vietnam, South Korea and Singapore. Australia and New Zealand close trade links with China also makes the two susceptible to any tensions between the US and China. So far, any trade deal between China and the US looks uncertain whilst Trump has instead ramp up his attacks on the country. Trump's recent memorandum is looking towards restricting China investments in the US and also ensuring ADR compliance with the existing rules. Also, it calls for expanded limits on US pension and endowment funds investing in China tech. In addition, the USTR has outlined a plan for fees on China built ships that transport traded goods whilst there are reports that the US has asked other countries such as Mexico to tariff China imports. All these only look to increase his leverage for the US in negotiations whilst at the same time, creates concerns about the level of tensions between the two sides.

Chart 4: Level of Trade Exposure of Countries to China



Source: Macrobond, Maybank FX Research & Strategy

4) Tariffs in Response to Digital Services Tax (DST)

This would impact Canada, Australia, United Kingdom, India, Vietnam, Switzerland, New Zealand, Malaysia, Singapore, Indonesia, South Korea and Japan as they have all applied a form of digital services tax (DST). The European Union itself has paused work on the digital services tax (DST) as they look to find a solution at the OECD but a number of the member states such as Austria, France, Italy, Hungary, Poland, Portugal and Denmark have implemented a digital services tax (DST). The OECD has itself published its two pillar solution with pillar one in particular looking at reallocating taxing rights over the profits of large multinational enterprises (MNEs) to market jurisdictions - countries where consumers are located at. Technically, the adoption of pillar one would require countries to withdraw the DST. The implementation of pillar one though has face challenges and it has not actually been signed nor ratified by any of the Inclusive Framework Members. Overall, the DST matter looks like it could be under negotiations but it would remain to be seen how Trump would utilize tariffs to either force the withdrawal of DST or influence discussions over pillar one.

5) 25% Mexico and Canada Tariffs

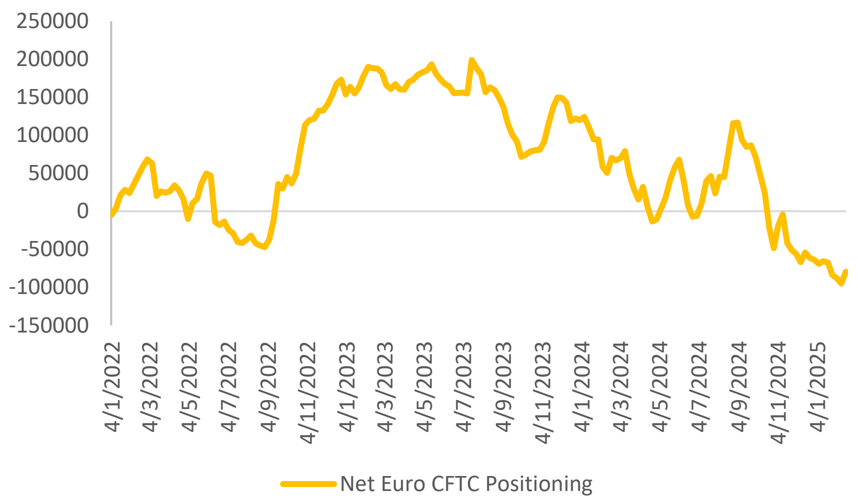
These tariffs would very much have an impact on the trade relations among the North American countries. Whether Trump would really go ahead with tariffs on the US's two neighbours however is still up in the air. The President had initially threatened to have them imposed on the 4 Feb and then only to have it delayed to the 4 Mar. Trump has said that these tariffs are "going forward" although it is now rather confusing when the actual date for imposition would be as the President had recently talked about it taking effect from 2 Apr. A White House official later clarified the deadline remains on 4 Mar and that Trump has not yet decided on granting another extension. Mexican President Claudia Sheinbaum herself meanwhile has appeared to be confident that her administration can reach an agreement with the US before the 4 Mar deadline.

Impact on Currencies

Based on assessing the potential goals of the administration and the tariff threats we can identify the currencies that either appear vulnerable or less so.

EUR for one would look like a prime target for Trump given the US has a large trade deficit (second largest after China) with the EU in addition to several countries in that area applying a digital service tax. Additionally, relations between the US and EU can also be fraught by the intention of the Trump administration to drive at a Ukrainian peace deal and push more of the security burden to Europe. Trump himself has sounded hawkish on trade policy with the EU and recently proposed a tariff of 25% on "cars and all other things" although there is great uncertainty in how, when and on what other goods the proposed tariffs would affect. Tariffs on the EU may not be justified on the EU tariffs on the US alone but it may instead be done on the basis of the bloc's high consumption tax in addition to certain member states rolling out DST. Despite the currency's vulnerability, we would be wary about being too bearish or bullish on the EUR at this point. At this juncture, net short positioning for EUR is at a relatively high historical level, an indication that a good amount of bearishness could already be priced in. While in itself that may skew risks for the EUR to the upside, we also note that the ECB is on a rate cut path while the Fed itself looks to be on an extended hold, which should naturally be bearish for the EUR. In addition, the possibility of any agreeable Ukrainian peace deal between all parties (leading to resumption of Russian natural gas export to Europe) can provide some upside for the Euro. Also, with the Trump tariffs appearing negotiable in nature, any surprise between the two sides to get to a compromise can give the currency an upside. Therefore there are major two-way risks for the EUR ahead. As a whole, we stay cautious on being too convicted on a directional bias for the EUR, noting of two-way risks.

Chart 5: Short Positioning in the EUR is High Compared to Prior Years



Source: Bloomberg, Maybank FX Research & Strategy

CAD looks likely to stay vulnerable especially as we are now getting closer to the 4 Mar deadline on whether Trump would still go ahead with his 25%

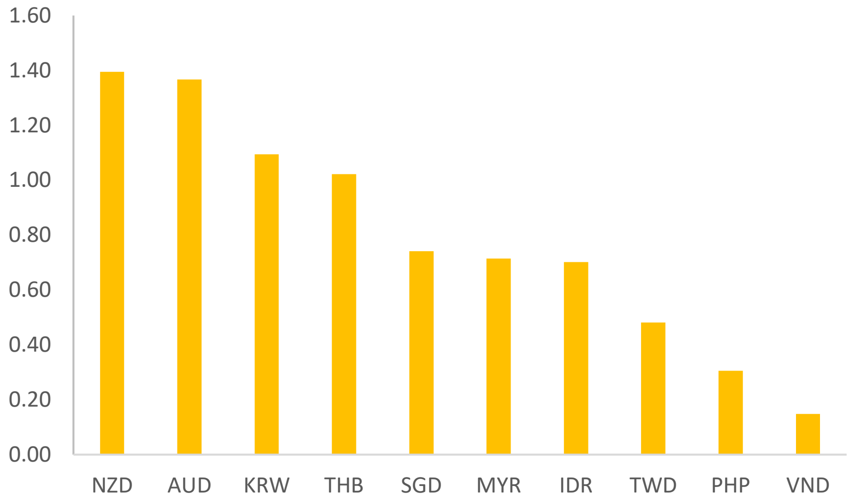
tariff threat on the country or if he would either cancel/postpone it. So far USDCAD has actually not decisively broken above a multi-year resistance at 1.4500 although the negative factors clouding CAD (trade tensions, easing rates and economic weakness) looked to have quite substantially been priced in. Short positioning in the currency also has been at the highest level in years based on CFTC data. Candidates that are contesting to succeed PM Trudeau have pledged to ramp up military spending to protect Canada's sovereignty and to retaliate against Trump for his tariffs via targeted tariffs. An escalation of trade conflict cannot be ruled out on that front. As such, we see two-way risks to the CAD even with extreme short position.

CNH/CNY would no doubt be vulnerable given the US's high trade deficit with China in addition to economic rivalry with the country. As it is, the outcome of any trade deal between the two side is looking unclear especially as Trump ramps up attacks on the country. The recent memorandum signed by Trump with regards to China, USTR outlined planned fees on China and reports of Mexico being asked to tariff China imports are dimming hopes of any trade resolution so soon. Trade concerns are looking to be a strong pressure on the RMB within 1H 2025 and any signs of escalation in trade conflict between the US and China could force PBoC to relent on the fix and allow the RMB to weaken more discernibly.

AUD and NZD are likely to be quite impacted by the imposition of Trump tariffs even though both Australia and New Zealand are less likely to face tariffs directly from the US. New Zealand maintains a low trade surplus with the US whilst Australia actually has a trade deficit. Furthermore, the two countries are not on the radar for the US when it comes the security, immigration or drug matters. However, given that the AUD is a high beta currency and Australia has close trade relations with China, US tariffs imposed globally can indirectly have its impact on the currency. The NZD's close correlation with the AUD would also mean that the NZD can also fall in line with the AUD. China is also another major trading partner of the NZD. Pro-cyclical AUD and NZD would be swung by tariff developments once the trade negotiations take a turn for the worse.

Other vulnerable EM Asia currencies susceptible to tariffs include the INR, VND, MYR, KRW and THB given their large trade surpluses they maintain with the US. Reciprocal tariffs could be the measured utilized for the INR, KRW and THB given their high tariff differential with the US. The KRW, MYR, THB and VNB are also all susceptible to Trump's sectorial tariffs. Whilst we are wary of these currencies being at risk, we do take note that negotiations are still possible between these countries and the US. For example, Indian PM Narendra Modi has recently met with Trump where the two have agreed for the US to become the top supplier of oil to India and that India will also buy F35 aircraft for the US. Thailand is also looking to import more US ethane and agricultural products according to a top government official from that country. Aside that, other factors can also risk providing a lift for these currencies including any signs of better performance for the CNY/CNH.

Chart 6: Sensitivity of EM Asian FX Plus AUD and NZD to the CNH



Source: Bloomberg, Maybank FX Research & Strategy
Note: Sensitivity is calculated based on a regression of the regression of the respective currency on the CNH, utilizing weekly data between the 1 Jan 2020 - 21 Feb 2025

Beyond the vulnerable space, we would also like to note of certain currencies we believe that could stand out in the coming months or possibly perform more resiliently. This would be the JPY. Whilst Japan has a high trade surplus with the US, Ishiba and Trump look to have so far started off on a sound footing and the Japanese government for now appears to be in some negotiation over potential tariffs that could be placed on the country. We do note that reciprocal tariffs and not so much of a threat to Japan as the country's tariff differential with the US is not particularly high. In addition, the goal of the Trump administration to bring down UST yields and rates also works in favor of the JPY. In the background, Japan's economic data remains supportive of further BOJ tightening and QEE has ended, which both support normalization in the JGB market and push JGB yields higher whilst the term premia has turned positive.

GBP, SGD, IDR and PHP are not particularly vulnerable to the tariffs given that these countries either have a trade deficit or a low trade surplus with the US. They also do not appear to be the crosshair of the US when it comes to security spending nor regarding immigration or fentanyl.

Key Trade Events Ahead to Watch

Event	Date
25% tariffs on Mexico and Canada	4 Mar or 2 Apr (White House Official Clarifies it as 4 Mar although Trump mentioned it as 2 Apr)
25% tariffs on Steel and Aluminium	12 Mar
From America Frist Trade Policy memorandum - comprehensive review and recommendations by various agencies on US trade and economic policies, focusing on trade deficits, unfair trade practices, and the impact of existing trade agreements	1 Apr

Secretary of Commerce and USTR to initiate "all necessary actions" to investigate harm to the United States from other countries' non-reciprocal trade arrangements and submit a report detailing proposed remedies in pursuit of reciprocal trade relations with each trading partner to the President	Apr Onwards
25% tariffs on pharmaceutical, autos and semiconductors	Unclear but Trump said it could start as early as 2 Apr
Copper Tariffs	Within 270 days from 25 Feb that the Secretary of Commerce submits a report to President on an investigation into the national security impact of copper imports

Conclusion: Caution on the Extent of Tariff Risks, Also Take Rates into Account

Tariff concerns would without doubt be an overhang on the markets for the entirety of this year especially as President Trump has essentially made it the hallmark of his administration. However, we would be cautious on overpricing risks associated with it nor under-pricing it. As we have discussed in this piece, multiple currencies no doubt are vulnerable to the tariffs but negotiations are ongoing between the US and various countries too. Therefore, the tariff situation appears quite fluid. Market price action currently though we think is looking to be more reflective of this kind of situation. Investors look to have been taking off some of that excessive directional bets prior to Trump's inauguration of a tough tariff outcome and instead look to be recognizing this dynamic situation more.

Amid the tariff situation, we have also highlighted in this piece how a number of the currencies can also be moved by other key factors. For example, rate movements this year are likely to be the key focus for quite a number of them. The Fed easing path as it is looks to be ever evolving as the central bank continues to assess the nature of US data. US data is does so far seem to be more mixed with US consumption showing signs of weakness although inflation data still faces some upward pressure. Idiosyncratically, rate movements in quite a number of other countries could also see quite some movements. Japan yields could keep edging up amid as the BOJ continues on a tightening track and normalizes whilst China yields could see further pick up on the basis of a China tech rally and stronger domestic growth conditions. ECB rates in contrast could continue its move lower faster than the US, feeding into a more subdued performance for the currency.

Taking both the tariff and global rate situation in mind, we develop some strategy recommendations on the basis where we believe that both the tariff and rates situation concurrently can develop in favor of the currency.

We suggest opening a short USDJPY position at 149.80 with a first objective level at 145.20 and the second at 140.20. Stop loss to be at 152.50. This is on the rationale that we have some expectations that via negotiations, Japan can limit the tariffs placed on it but at the same time also, our analysis has shown that current known tariff threats may not necessarily be too severe on Japan. Also, yield differentials should keep turning in favor of the JPY with JGB yield possibly continuing higher whilst UST yields can edge lower.

We also recommend some relative value plays with regards to JPY crosses. We think a short CNHJPY looks like another play for consideration with entry at around of 20.90. First objective level at 20.30 before the next at 19.70. Stop loss to be at 21.30. CNH strengthening for now still looks rather limited even as CGB yields rise given that the trade tensions between the US and China could persist for some time. No trade deal for now looks to be so forthcoming.

We also recommend short AUDJPY with entry around 96.85. First objective level at 91.50 with the next after that at 90.30. Stop loss at 100.50. AUD is a pro-cyclical high beta currency with quite some sensitivity too to the CNH. This puts it under pressure when sentiment is weighed down by trade concerns. RBA we also believe still has some further cutting to undertake. Such conditions should back a JPY outperformance compared to AUD.

We also reiterate our current short AUDNZD play. Entry had already been set at 1.1090 with objective levels at 1.0970 and 1.0880. Stop loss at 1.1180. Whilst both AUD and NZD can decline on the basis of rising trade tensions especially that related to China, we have reason to believe the former can underperform the latter. A dovish trajectory for the RBNZ for 2025 looks to be sufficiently priced while markets have still not sufficiently priced in the possibility of more RBA cuts in the AUD this year.

Table 2: Proposed Recommendations

Trade	Entry [SL]	Objective (s)	Risk Reward Ratio
Short USDJPY	149.80 [152.50]	145.20; 140.20	1:1.7; 1:3.6
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