Global

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US Reciprocal Tariff and its implications

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- The new tariff formula reflects Trump's zero-tolerance stance on trade deficits, signalling a deeper shift in global economic order under his second-term agenda.
- **Macroeconomics:** While fiscal and monetary support may help cushion the blow, the larger-than-expected tariff escalation introduces new headwinds for China's economy. We revise our 2025 China GDP growth forecast down to 4.6% YoY, from 4.8% YoY previously, to reflect the downside risk. In ASEAN, Vietnam will be hardest hit with GDP growth, followed by Thailand, Malaysia while Indonesia and India could be more insulated. Philippines, by our estimates, will be least impacted. For the US economy, the estimated recession probability has probably risen from 20% in mid-February to around 30%, according to the Bloomberg surveys. Tit-for-tat retaliation from major trading partners like China and Europe may escalate tensions, dampen growth and contribute to further volatility in global financial markets if prolonged.
- **Rates**: Market will stay volatile as inflation worries and growth concerns may take turn to be the dominating theme at different points of time. Interim upticks in UST yields cannot be ruled out but we do not see a reversal to an extended uptrend in yields before the next major catalyst.
- **FX:** FX markets appear to shift from trading tariff fears to trading US recession, and to some extent even trading the de-dollarisation narrative. 2-way trades are still likely as markets await clarity post-tariff negotiations. We should continue to see USD divergence at play: with USD weaker vs G3 majors (EUR, JPY and GBP) but USD maintaining a bid tone vs AXJ FX, taking into consideration the implication of Trump tariffs on global growth and sentiments.

The reciprocal tariff shoe has finally dropped—and it's heavier than expected. Contrary to earlier expectations that Trump's new tariff measures would be capped at 15% and China might not be the primary target, the actual announcement has surprised markets. Asia, in particular, is bearing the brunt. The new tariff formula reflects Trump's zero-tolerance stance on trade deficits, signalling a deeper shift in global economic order under his second-term agenda.

Despite all the rhetoric about unfair trade practices, currency manipulation, or regulatory barriers, the reciprocal tariff rates appear to be mechanically derived—specifically from each country's trade surplus with the U.S. as a share of its total exports to the U.S. In other words, the higher a country's dependence on the U.S. market to generate its surplus, the higher the tariff rate.

The calculation is straightforward:
Reciprocal Tariff (%) = (Trade Surplus with U.S. in 2024 / Total Exports to U.S. in 2024) × 100

Country	Export to US (USD billion) in 2024	Trade Surplus with US (USD billion) in 2024	Ratio of Surplus to Export	Reciporcal tariff announced	Discounted reciporcal tariff
China	438.9	295.4	**67%**	**67%**	**34%**
Vietnam	136.6	123.5	**90%**	**90%**	**46%**
Malaysia	52.5	24.8	**47%**	**47%**	**24%**
Indonesia	28.1	17.9	**64%**	**64%**	**32%**
Thailand	63.3	45.6	**72%**	**72%**	**36%**
Philippines	14.2	4.88	**34%**	**34%**	**17%**
India	87.4	45.7	**52%**	**52%**	**26%**
Cambodia	12.7	12.3	**97%**	**97%**	**49%**
Pakistan	5.1	2.98	**58%**	**58%**	**29%**
South Korea	131.5	66	**50%**	**50%**	**25%**
Japan	148.2	68.5	**46%**	**46%**	**24%**

Source: US Census, OCBC Calculation

This formula effectively punishes countries that rely heavily on the U.S. as a net buyer of their goods, regardless of whether that surplus is driven by actual unfair practices or just supply chain positioning. In particular, it punishes small developing countries like Cambodia that simply don't have the capacity to buy much from the U.S.

Macro impact on the US

The tariffs are touted as a clear win for the Trump administration. However, the implications are far-reaching for the US economy across multiple dimensions. First, GDP growth could moderate as trade disruptions impact supply chains and increase costs for businesses and consumers, albeit the extent depends on retaliatory actions and how quickly companies adjust. For trade, US imports will likely become more expensive and imported inflation could rise, which could be tricky for the US Federal Reserve in terms of monetary policy direction. The futures market has increased the cumulative rate cuts to 80bps for the rest of this year, which translates to slightly more than three cuts of 25bps (our house view is 3 x 25bps). If this does not materialise, then appetite for US consumer spending and investments could slow, although an outright US recession is not our base case for this year. A prolonged trade war could weaker confidence in the US economic stability and take a toll on the USD dominance. Near-term, some domestic industries may benefit from reduced foreign competition, but potentially higher input costs, especially for sectors reliant on imported inputs, could offset any immediate gains. The labour market could face a double-edged sword – domestic industries and reshoring activities may boost employment, but job losses in export-dependent sectors facing retaliatory measures could suffer. While the tariffs aim to boost US self-reliance, they also introduce risks, including slower growth, persistent inflation and heightened market volatility. At this juncture, the situation is still very fluid so we retain our 2025 GDP growth forecast of 1.7%.

Macro impact on China

President Trump has announced a 34% reciprocal tariff on all Chinese imports, raising the total additional tariffs imposed this year to 54%. When combined with the existing tariffs from Trade War 1.0, total U.S. tariff exposure on Chinese goods is now estimated at around 65%. This marks a significant upside surprise relative to prior market expectations, which had assumed the reciprocal tariffs would remain capped at 15% and that China—having already been subject to an additional 20% tariff—would likely not be a primary target in this new round of tariff measures.

If fully implemented, the larger-than-expected tariff shock will weigh meaningfully on China's 2025 growth outlook. **In this note, we outline three key implications and what to watch in the coming months.**

Firstly, roughly 20% of this year's 54% tariff imposed on China can be attributed to fentanyl-related concerns, suggesting potential room for negotiation. The looming implementation of the reciprocal tariff could also prompt China to reengage more actively in trade talks with the U.S. While Trump 1.0 focused squarely on China, Trump 2.0 has adopted a broader, more global approach—targeting multiple trading partners. In this context, tariffs become a relative game. If Washington's tariff net widens globally, the relative pressure on China may ease. As of writing, China has refrained from announcing any retaliatory measures, suggesting Beijing may be keeping the door open for future dialogue. We expect any response from China to be measured, preserving space for negotiation.

Secondly, the impact on ASEAN is more pronounced this time, as the region has borne the brunt of the reciprocal tariff measures. Given a narrower tariff gap between China and previous popular destinations such as Vietnam and Thailand, China's prior strategy of routing exports through ASEAN may now be less effective. As a result, the trade dynamic may shift again, potentially driving China to pivot more of its exports directly to North America, despite the broader tariff environment.

Looking ahead, President Xi is scheduled to visit Vietnam, Malaysia, and Cambodia in mid-April—his first overseas trip this year. We expect China to emphasize its role as a reliable trading partner to ASEAN amid rising global trade uncertainty. Regionally, China-Japan-Korea economic dialogue has also resumed after a five-year hiatus, with China potentially stepping up its leadership role in promoting free trade across Asia.

Thirdly, it is more difficult to quantify the eventual impact on China's exports and economy from the rising tariff. Applying export elasticity estimates from trade war 1.0, a 54% tariff could equate to a potential 1% GDP loss for China in 2025. However, the situation is more nuanced this time. A universal tariff regime may dilute the relative impact, and in the absence of viable alternatives, higher prices may simply be passed on to consumers in the US. Ultimately, the real economic cost may depend more on substitution limits than the nominal tariff rate itself.

Looking ahead, we expect China to place greater emphasis on boosting domestic demand. The recently announced Special Action Plan to Boost Consumption highlights policy intent to stabilize household spending and encourage durable goods replacement. We expect monetary easing to complement this effort, starting with a RRR cut as early as April, followed by a policy rate cut in Q2 to support sentiment.

On the currency front, the higher-than-usual USDCNY fixing today (set over 100 bps higher) suggests China may allow more FX flexibility. However, we believe China still has incentives to keep the RMB relatively stable. First, as currency manipulation is a component of Trump's tariff logic, depreciation could invite further escalation. Second, a stable RMB serves as an anchor for regional stability, which aligns with China's long-term ambition of RMB internationalization.

While fiscal and monetary support may help cushion the blow, the larger-than-expected tariff escalation introduces new headwinds for China's economy. We revise our 2025 China GDP growth forecast down to 4.6% YoY, from 4.8% YoY previously, to reflect the downside risk.

Macro impact on ASEAN and India

The sharp escalation of tariffs rates, if realised, will have a hard-hitting impact on economic growth through the export channels. Based on import elasticities and our back of the envelope calculations, Vietnam will be hardest hit with GDP growth, followed by Thailand, Malaysia while Indonesia and India could be more insulated. Philippines, by our estimates, will be least impacted.

%YoY	Previous forecast (2025)	Revised forecast (2025)	Change in GDP growth
Vietnam	6.2	5.0	-1.2
Thailand	2.8	2.0	-0.8
Malaysia	4.5	4.3	-0.2
Indonesia	4.9	4.7	-0.2
India	6.2	6.0	-0.2
Singapore	2.2	2.1	-0.1
Philippines	6.0	5.9	-0.1
Source: OCBC.			

Central banks more inclined to support growth

We now expect regional central banks to become more supportive of growth, particularly in 2H25. We are adding rate cuts to our Vietnam, Thailand, Indonesia and India forecasts. We expect the State Bank of Vietnam and Bank of Thailand to cut by an additional 50bps in 2H25, while Bank Indonesia and Reserve Bank of India will likely cut by an additional 25bp on top our current forecast of 25bp. This implies an additional 50bps in rate cuts by end-2025. Although the growth impact is limited for BSP, we expect it will take the opportunity to lower rates further to mitigate downside risks. We, therefore, expect a cumulative 50bp in rate cuts in 2025.

%, year-end	Present rate (2025)	Revised forecast (2025)	Change policy rate (bp)
Vietnam	4.50	4.00	-0.50
Thailand	2.00	1.50	-0.50
Malaysia	3.00	3.00	*Rising risk of a rate cut in 2H25*
Indonesia	5.75	5.25	-0.50
India	6.25	5.75	-0.50
Philippines	5.75	5.25	-0.50
Source: OCBC.			

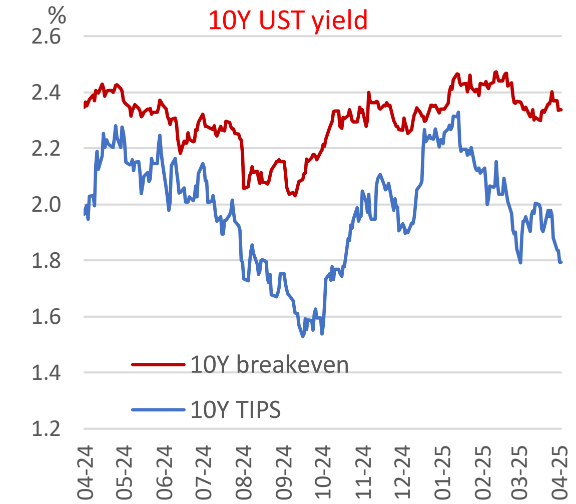
For further country specific details, please refer to ASEAN-6 & India: Some of the hardest hit by reciprocal tariffs, 3 April 2025.

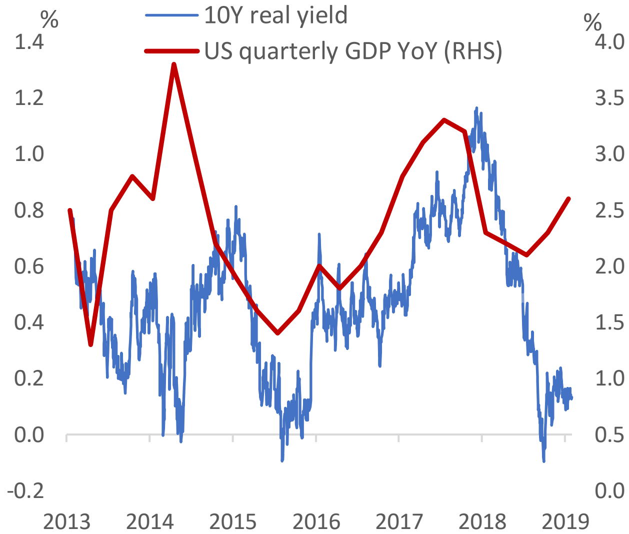
Rates Implications

USTs extended recent rallies upon the tariff announcement, benefiting from safe-haven flows as growth fears were heightened. Fed funds futures added to rate cuts expectation, last priced a total of 82bps of cuts for this year with the chance of a 25bp cut by the June FOMC seen at 88%. **We have argued our base-case for three 25bp Fed funds rate cuts this year reflects a no-recession scenario.** We are of the view that triggers for rate cuts will likely need to come from the labour market/growth front; continued cooling in the labour market will justify rates at less restrictive levels as long as there is no strong rebound in inflation. We have pencilled in one 25bp Fed funds rate cut in each of Q2, Q3 and Q4 2025. The risk, however, is there may be delays in rate cuts if the inflation impact of tariff is reflected in the data sooner than the growth impact, given the dramatically high tariff rates to start with. Nevertheless, should there be a delay in rate cuts compared to our expectation, the Fed may need to play some catch-up in the second half of the year.

Market will stay volatile as inflation worries and growth concerns may take turn to be the dominating theme at different points of time. The recent leg lower in UST yields was mainly driven by real yields, while breakevens were relatively stable – or more precisely, breakevens were sticky downward. These dynamics of yield movements were in line with our expectations. We have long seen 10Y breakeven in the range of 2.2-2.4% as a fair representation of long-term inflation expectations, and any further downward move in the nominal yield would likely require real yield to fall. 10Y real yield was last at 1.79%; making reference to the 2013-2019 period — during which US enjoyed decent economic growth but 10Y real yield was capped at 1.2%, we reckon there is further downside to 10Y real yield. That said, given the recent rallies, USTs may consolidate around current levels near-term. **Interim upticks in yields** upon any concession in tariff rates achieved by negotiations **cannot be ruled out but we do not see a reversal to an extended uptrend in yields before the next major catalyst**. While there may be room for negotiation on tariffs, any improvement from this hawkish starting point will still likely drag growth, and retaliation cannot be ruled out despite Bessent urged trading partners to negotiate instead of retaliating. Besides, the US labour market is already showing signs of cooling while the current yield levels do not appear to have incorporated a US recession scenario. And there are a couple of technical factors which will lend support to

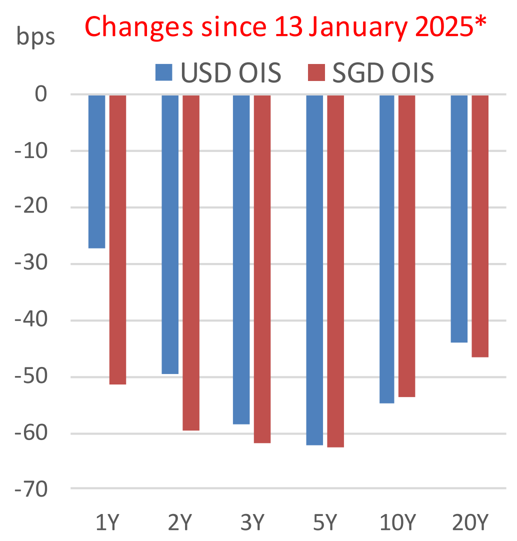
USTs, namely the slowdown in QT (quantitative tightening) and the stable bond auction sizes (i.e. no upsizes). 10Y UST yield has broken below our target of 4.15% and near-term range is seen at 4.00-4.20%.

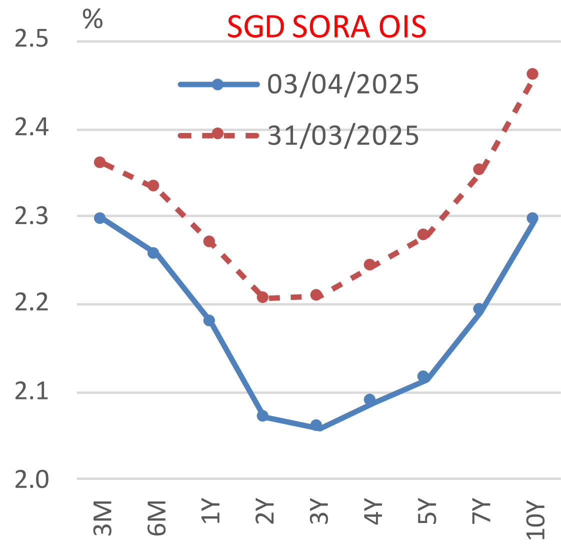




Source: Bloomberg, OCBC Research

SGD rates performance. SGD rates outperformed USD rates on the downward move which started in mid-January; or, in other words, the “pass-through” from USD rates onto SGD rates that we usually look at, were more than 100%. SGD rates outperformances on a downward move in rates deviated from historical pattern. And this happened after a period of SGD rates outperformances during the upward move between September and mid-January. As a result, SGD-USD OIS spreads have become yet more negative, more so at the short end. SGD rates outperformances might be partly explained by flush SGD liquidity. **For how long this flush SGD liquidity condition will last is uncertain**. SORA the overnight itself has been volatile, fluctuating in a range of 2.00-2.98% over the past month alone. **Still, on the SORA OIS curve, the 2Y and 3Y rates have remained as the low points**, appearing to have incorporated the view for an extended period of flush liquidity with some further downside. **Chasing these rates lower is not preferred**; near-term expected range is at 2.00-2.20% for SGD OIS of tenors 1Y to 5Y.

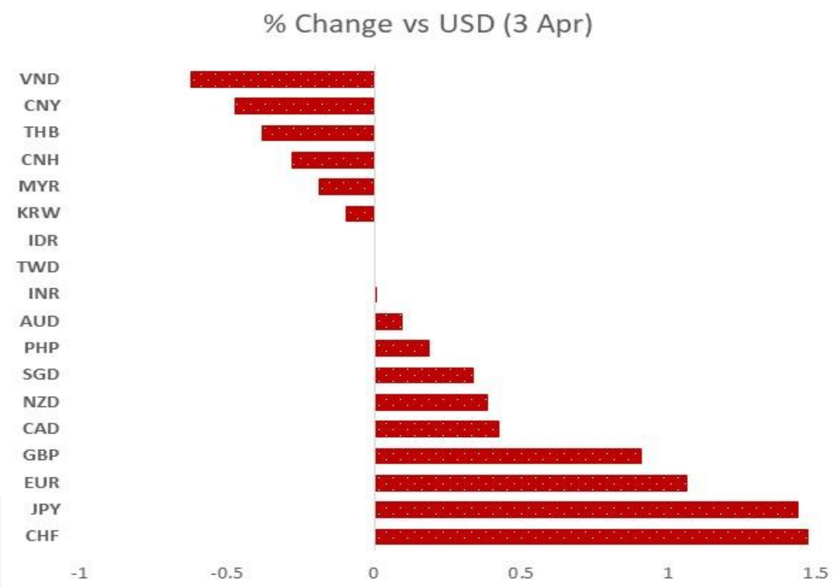




*Source: Bloomberg, OCBC Research *as of 3 April*

FX Implications

Varied reaction observed in FX markets post-tariff announcement so far. Open trade, growth-sensitive FX such as CNH, KRW, SGD, MYR, THB were under some pressure but have also seen some pare back over the session so far (3 Apr). FX markets appear to shift from trading tariff fears to trading US recession, and to some extent even trading the de-dollarisation narrative. 2-way trades are still likely as markets await clarity post-tariff negotiations.



Notes: 1d FX % change as of 3 Apr 1545hr SGT; TWD, IDR markets closed for holidays

Source: Bloomberg, OCBC Research

More broadly, we should continue to see USD divergence at play: with USD weaker vs G3 majors (EUR, JPY and GBP) but USD maintaining a bid tone vs AXJ FX, taking into consideration the implication of Trump tariffs on global growth and sentiments.

Safe-haven proxies such as gold, JPY and CHF should continue to stay supported. For the week remaining, FX markets will put a focus on data, in particular on ISM services tonight and payrolls tomorrow. Another softer set of US data may reinforce growth concerns in US and undermine US equity sentiments and DXY.

We had earlier noted that the trade friction during Trump 1.0 primarily involved the US and China, whereas in current episode, Trump took it further. Trade friction becomes a broader conflict between the US and the rest of the world (ROW). And this time, nations including China and Europe seem more prepared, whether it is deploying retaliatory strategies or counter-negotiation tactics or even coming together. Earlier, North Asian neighbours including Japan, China and South Korea have agreed to make a joint response to US tariffs while Trump's tariff and security threat (over aid to Ukraine) has also seen a rare unity among European countries, to put together a "ReArm Europe" plan. EU members are also considering deploying its anti-coercion instrument, which could lead to restrictions on trade and services, intellectual property rights, foreign direct investment, and access to public procurement. At the same time, the EU is also identifying concessions it is willing to make to secure partial removal of US tariffs. It may be premature to draw definitive conclusions about the future dynamics of trade friction and negotiations, but we cannot dismiss the possibility that the USD could weaken if the trade fight between the US and the rest of the world results in US being worse-off. For now, we expect a period of negotiations and retaliatory responses going at the same time between tariffed countries and US, before we see the final tariff outcome.

Ultimately for FX, relative growth also matters (apart from rate differentials). While US is a major economic powerhouse (accounted for 25% of the world's nominal GDP in 2024), the other big nations such as EU (18.4%) and China (16.6%) should not be written off. For EU, massive defence spending can be supportive of growth while in China, there are some signs of tentative economic stabilisation. If US growth slumps as a result of its own doing (i.e. protectionism measures) while growth for the rest of the world holds up (on a relative basis), then USD may end up weaker over time.

Taking a few steps further, US protectionism measures, fading US exceptionalism and ballooning US debt are some catalysts that may question USD's status as a reserve currency. Although the USD is not likely to be displaced in the short term, the global financial landscape is evolving. A transition to a more diversified reserve currency regime is likely to erode USD in the medium term.

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