Economics & Strategy | Asia ex-Japan

May 7, 2025

MIZUHO

Asia ex-Japan FX & Rates Outlook

Apr-May 2025: **Deals & Wars**

The (False) Deal Dichotomy: Trump has global economies fixated on striking a deal, in desperate hopes of averting US trade tariffs. So, "**deal" or "no deal"** has become **the misguided dichotomy of risk sentiments**. This is but a tragic distraction from the inevitability of geoeconomic turbulence ahead. The **deals** are meant to **divide, disorientate** and **fragment**. **Not provide a resolution** for a resumption of global commerce as the world knew it. In which case, **industries** will invariably be **adversely impacted**. **Supply chains** will be **disrupted**. **Margins** will be **battered**. And **financial markets** will be **forced to re-price risks**.

Dealing with (US-China Geoeconomic) War: Whereas the **"real deal"** is that the (**US-China geoeconomic**) **war will remain unresolved**, with the negative spill-overs likely to overwhelm any trade deal relief. Point being, the US deems; i) unilateral redefinition of the global order as the only means for the US to secure the upper hand against China and; ii) dire economic, geo-political and environmental consequences merely the necessary cost of ensuring US supremacy. Crucially, this **cost** (economic or geopolitical) will be **imposed on the rest of the world**. Geo-economic shocks of this order inevitably trigger; i) major ***disturbance*** in the flow, allocation and cost of capital; ii) ***disruptions*** *i*n global trade/industry and **departures** from known geopolitical/economic/market dynamics and associated correlations.

FX: Brace for Shocks: Elevated uncertainty entails **greater two-way volatility** *hinging on a cascade of acute headline risks.* **Non-linearity of FX dynamic** and **rapidly shifts in correlations** accentuate vulnerabilities and amplify pain if markets are caught wrong-footed. Moreover, a **dynamic re-ordering of haven asset allure** that stress-tested USD and USTs enlarges the threat of abrupt inflections/"level shocks". What's more, *mounting JPY tensions* from evolving BoJ-haven-trade dynamics and *sharp CNH trade-offs* (conflicting trade and geopolitical objectives) may **spillover as latent AXJ shocks**.

Softer, But Steeper Rates: **Softer front-end rates** are underpinned by *growing dovish bets,* edging out "higher for longer" narrative at the margin as overriding adverse demand shocks from tariffs are more widely conceded. In addition, **significantly and structurally higher term premium**, reflecting the new geo-economic realities, is also par for the course. But that said, sharp lurches in US fiscal-tariff balance is likely to **accentuate two-way, long-end volatility**. In Asia, more pronounced term and risk premia, from inherited UST dynamics rubbing off and inflict6ed US risks rubbing the wrong way.

Deals & Wars: Disturbance, Disruptions & Departures

- **Asia FX**: Buoyant AXJ despite elevated Tump 2.0 tariff/trade risks is a clear departure from typical USD-"risk off" negative correlation – USD falling (instead of rising) during "risk off". Specifically, conflating tariffs with compromised US exceptionalism has expressed itself as a broadly weaker USD. But perversely flipping the expected AXJ outcomes. This counter-intuitive coincidence of AXJ appreciation amid acute trade risks is not just unusual, but unlikely to endure. As low-hanging USD declines (from rich levels) are exhausted, AXJ could revert to being more exposed to adverse ripples from tariff/trade risks, which may endure. Especially as US-China risks entrench regardless of the chances of a negotiated dial-back in absolute rates of reciprocal tariffs.

- **CNH:** The RMB showed resilience against the USD surprisingly following the US-China tit-for-tat tariff hikes to above 125%, on PBoC's CNY fixing guidance and USD decline. While the deteriorating China data could weigh on CNY, hopes for China-US trade talks and the supplementary stimulus would counter depreciation pressure.

- **HKD:** Firmer expectations for Fed rate cuts, capital repatriation amid market turbulence, and buoyant Stock Connect flows contributed to HKD strength. Dividend payout flows could further fuel HKD appreciation.

- **INR**: From whipping boy early part of the year – on a conspiracy of adverse growth shocks dovish RBI pivot and perceived reciprocal tariff risks from US-India tariff imbalances – INR has turned around as; i) deal hopes; ii) relative tariff insulation; iii) services buffer; iv) softer inflation/oil and; v) fiscal traction boost relative rupee allure,

- **KRW**: Political uncertainty may continue to restrain the KRW recovery heading into elections and on-going tariff uncertainty will dent growth and worry KRW bulls amid prospects of further calibrated BoK easing.

- **TWD**: Hedging vulnerabilities may aid appreciation though UST yield dynamics tell of interim weakness. Difficulties of negotiations with the US may also surface after the initial optimism from US-China talks.

- **SGD**: Further S$NEER slope reduction by the MAS fell short of more dovish expectations, thereby keeping S$NEER buoyed. Moreover, Singapore "only" subjected to headline 10% reciprocal tariffs is a relief. But lingering trade/tariff risks liable to reverberate via indirect trade linkages can easily filter through the NEER to hit SGD.

- **IDR**: Lower YTD fiscal expenditures compared to a year-ago have not lent much support to a sluggish rupiah, as confidence deficit in fiscal outlook persists amid bill revisions on governance and BI's mandate, compounded by signs of slowing growth.

- **MYR**: Steady hands by BNM ought to impart strength to the ringgit, especially if UST yields move lower. Given that the worst of US-China trade tensions may have passed, ringgit could stand to outperform in coming months given its trade sensitivity.

- **PHP**: Philippines relative outperformance on trade antagonism (given its tariff differential advantage) may mean underperformance on de-escalation of trade tensions. Expect middle-of-the-pack performance especially as BSP is on course for further easing.

- **THB**: Fiscal woes may rear its ugly head alongside potential for further easing to dampen rallies aided by JPY and gold tailwinds.

- **VND**: Reciprocal tariffs may see shift in fundamental prospects of the VND in the medium term and exacerbates risk of policy mistakes in the near term. Depreciation pressures par for the course.

- **AUD**: US-China talks will impart significant volatility especially if fiscal stimulus in China falls short. Waning commodity prices may also restrain rallies. RBA to calibrate rates lower as well.

Currency Forecast

FX Forecasts	Q1 25	Q2 25	Q3 25	Q4 25	Q1 26	Q2 26
USD/CNH	7.21-7.38	7.18-7.45	7.10-7.45	7.03-7.38	7.00-7.28	6.98-7.36
	7.266	7.24	7.23	7.12	7.14	7.11
USD/HKD	7.76-7.80	7.75-7.79	7.75-7.79	7.76-7.80	7.76-7.80	7.76-7.81
	7.78	7.76	7.75	7.76	7.76	7.77
USD/INR	85.4-87.9	84.2-87.7	84.2-87.3	84.5-87.9	83.8-86.9	83.2-86.0
	85.4	85.2	85.5	86.2	85.2	84.3
USD/KRW	1424-1477	1350-1488	1380-1470	1400-1480	1380-1450	1360-1440
	1473	1415	1400	1420	1405	1385
USD/SGD	1.327-1.376	1.278-1.355	1.289-1.341	1.299-1.353	1.292-1.344	1.276-1.328
	1.342	1.303	1.315	1.326	1.318	1.302
USD/TWD	32.6-33.2	29.6-32.4	29.8-31.9	30.7-33.0	30.5-32.8	29.8-32.2
	33.2	31.3	31.0	31.8	31.3	30.7
USD/IDR	16130-16595	15910-16930	15810-16980	15920-17080	15760-16740	15360-16480
	16560	16400	16300	16500	16250	16000
USD/MYR	4.38 – 4.51	4.12 – 4.50	4.06 – 4.33	4.12 – 4.41	4.02 – 4.31	3.92 – 4.19
	4.43	4.27	4.18	4.26	4.14	4.07
USD/PHP	57.1 – 58.7	53.6 – 57.5	53.3 – 57.1	54.4 – 57.9	53.5 – 56.9	52.8 – 56.0
	57.2	55.8	55.4	56.1	55.2	54.4
USD/THB	33.3-34.9	32.1-35.4	31.9-33.9	32.7-34.1	32.1-33.5	31.9-33.8
	33.9	33.3	32.6	33.4	32.8	32.5
USD/VND	25038-25651	25400-27000	25600-26900	25700-27000	25600-26900	25300-26600
	25577	26200	26100	26200	26100	25800
AUD/USD	0.608-0.641	0.594-0.663	0.622-0.675	0.626-0.664	0.632-0.678	0.637-0.684
	0.625	0.639	0.655	0.645	0.658	0.664

Note: Values in black are historical whereas those in blue represent forecasts. *Point forecast is for end-period. Ranges are only indicative.

Asia Ex-Japan (AXJ) FX: Disturbance, Disruptions & Departures

Fig 1a. USD Bears Mislead on AXJ Resilience

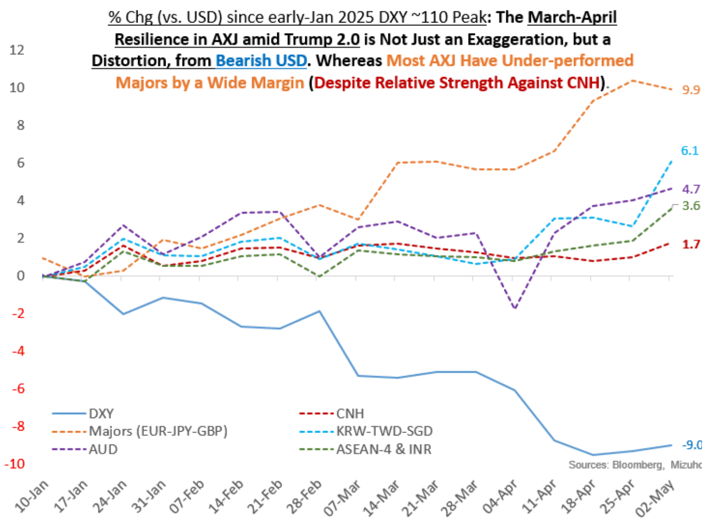


Fig 1b. Tariff Uncertainty Elevated

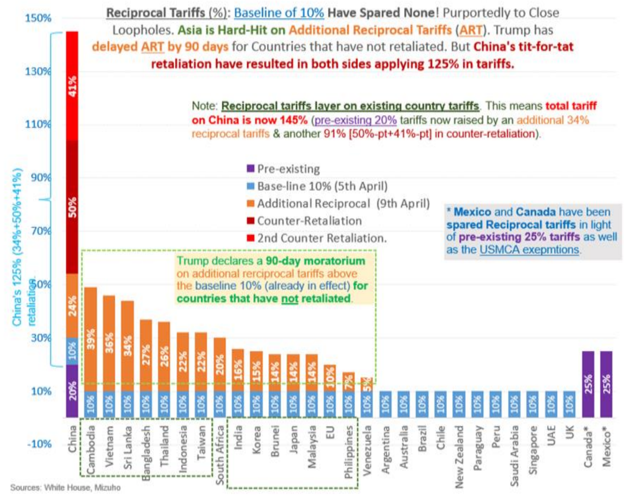


Fig 1c. China Linkages Dull Deal Relief

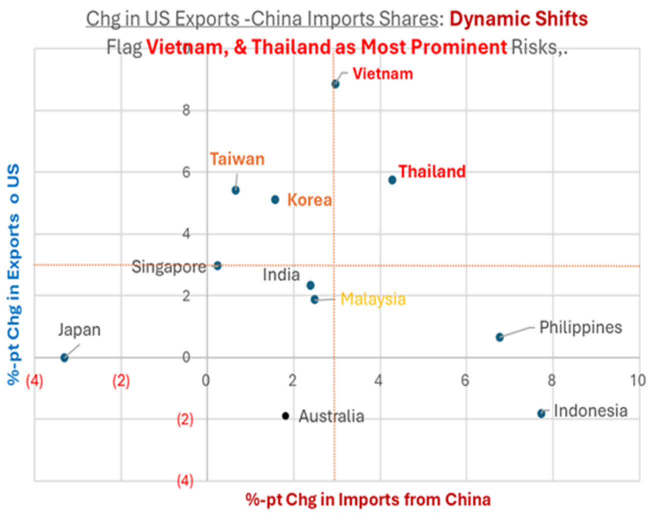
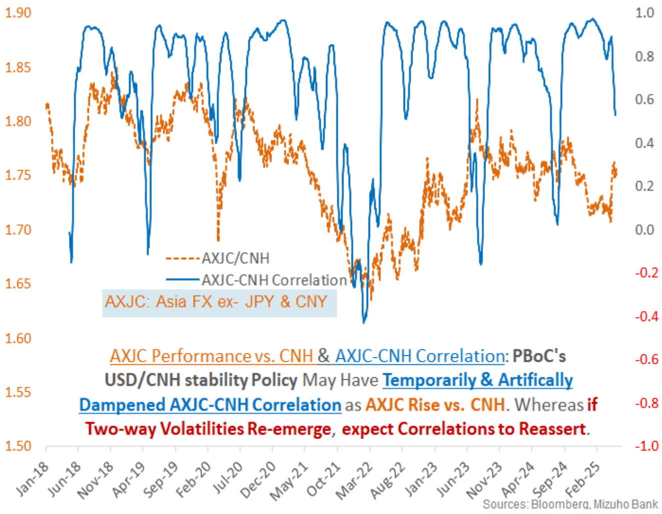


Fig 1d. CNY Correlation Shifts Obfuscate



"There will be a little disturbance" - **Donald Trump** (understating expected disruption from tariffs)

FX

- (Tariff) **Disturbance** & **Disruption**: **Trump's understatement** about "***a little disturbance***" from tariffs is **self-serving**. But equally, an unintended (albeit admission of economic self-harm from indiscriminate, sweeping tariffs. But as it turns out, "a little disturbance" entailed nerve-wrecking disruption bordering on dislocations.

- Manic Depressive (FX) Markets: Wild swings in AXJ alongside wider risk asset as markets lurched from acute fears of economic crash (from global trade shocks) to exuberant relief on suspended tariff step-up accompanied by the prospects for a deal to avert the worst.

- False Dichotomies: Trouble is, with the **extreme fears of outsized tariffs, false dichotomies**, which **amplify volatility**, ***without effectively ameliorating the underlying risks***, have been adopted. Misguided focus on "deal" or "no deal" that is falsely conflated with "risk on"/relief and "risk off"/fear's amplify headline risks and associated swings in sentiments, risk assets and FX (AXJ).

- Flawed Risk Gauges: Whereas, **complex and inextricably linked supply-chains**, especially within Asia, suggest that bilateral **deals with US may only offer superficial relief**. Whereas resolution for Trump 2.0 tariffs may be far more fraught. Accordingly, the "risk on"/"risk off" reflexes are liable to be flawed.

- Dollar-Risk **Departure**: What doesn't help is that there has been a **departure from the usual "left-half USD Smile" (haven allure of USD) dynamics**, which stipulates USD gains during episodes of "risk off". But in sharp contrast, **Trump 2.0 tariffs assaults** have, counter-intuitively**, triggered a broad-based USD sell-off** since March, **overwhelming early(-Q1) AXJ pressures** (amid USD strength) **from trade uncertainties**.

- Confusion & Complacency: The real danger as such is that **markets mistake fortuitous FX dynamics for rightful, guaranteed, AXJ relief**. First, there is **confusion about USD dynamics** amid.0 geoeconomic risks. Whether it is **merely assuming level shocks** *to make adjustments for tariff self-harm, attendant dovish Fed calibrations* and some *interim weakening of haven flows.* **Or** in fact, *FX mechanics have durably shifted* and *USD is irredeemably subordinated to AXJ on tariff-induced risks.* **Persistent trade- and China-linked vulnerabilities in Asia warn against**, **complacency about passing storms is not an option**. Instead, **acute trade uncertainties and geopolitical antagonism flag potential AXJ volatility**.

- CNH Cover & Correlations: More **complex CNH-AXJ dynamics** further obfuscates the AXJ view. This is a result of **intense US-China risks that require extraordinary policy bracing by the PBoC**. Hence, a **relatively steady CNH against a bearish USD** [Box 1] resulted in *AXJ outperforming CNH considerably.* But in the context of *temporarily looser CNH-AXJ correlations.* So, a **reinstatement of CNH-AXJ co-movement could revive more two-way AXJ risks**; **beyond scope for CNH catch-up with AXJ** further down the line.

- Fits & Starts: This **sets AXJ up for fits and starts of rallies and retreats** in response to Trump 2.0 headlines. *Outsized moves, exceptionally wide ranges* and *sudden inflections* are all par for the bumpy course. Through all the volatility, **opportunism masquerading as optimism could flatter AXJ upside**. But **trade exposures and fiscal strains**, which could **accentuate latent pressures** from central bank policy dilemmas.

- Central Bank Dilemmas Abound: Meanwhile, central banks in Asia are confronted with multiple dimensions of dilemmas. For one, **while the Fed retains restraint, Asia's central banks must measure easing bias**. Especially without the cover of a bearish USD. What's more, **FX market jawboning/intervention may also need to be reined in given sensitivities around negotiating a trade deal with the US**.

Rates

- Credit Ratings Amid Double Whammy: Increasingly, the *implied growth/revenue pressures* from US trade antagonism and *urgency for fiscal offset burdening fiscal bottom-lines* in Asia could be a **double whammy in terms of credit risks**. **Thailand's negative outlook by Moody's** is but one manifestation of wider risks. More could follow. And this suggests greater differentiation based on export-growth buffers and fiscal consolidation traction. For now, **Thailand**, **Indonesia** and **Korea** could be **potential risks**, while ***India*** and ***Malaysia stand out for fiscal consolidation gains***.

- Wider Risk Premiums: Inevitably, this spells a **restoration of wider**, *albeit differentiated,* **EM Asia, risk premium** (vs. USTs). Notably, the credit risk premium component could **build upon the pressures created by UST term premium restoration**. The resultant **risk re-pricing ought to widen Asia HY-UST spreads as the allure of "all in" returns from HY diminishes** *with increasing uncertainties.*

- Rate Cuts to Only Part Mitigate: To be sure, **further rate cuts in the pipeline could pressure yields lower**. ***But*** this will **only partly offset wider premiums** coming home to roost on *growth risks* and *fiscal pressures.*

Fig 1e. Risk-repricing to Challenge

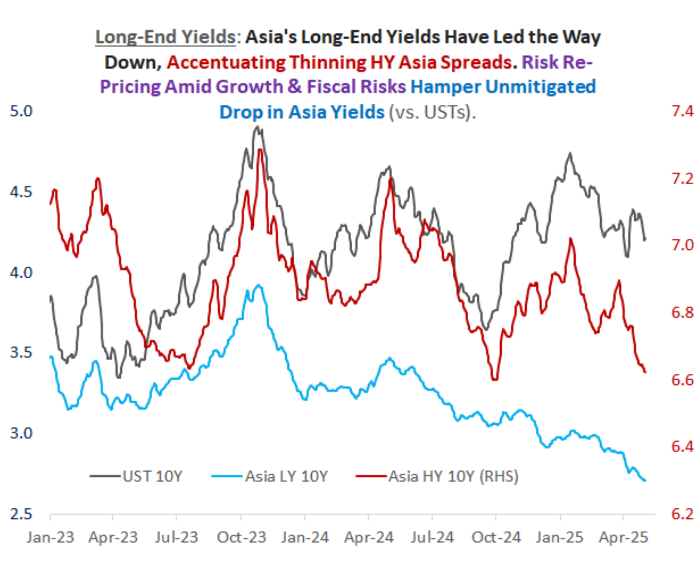
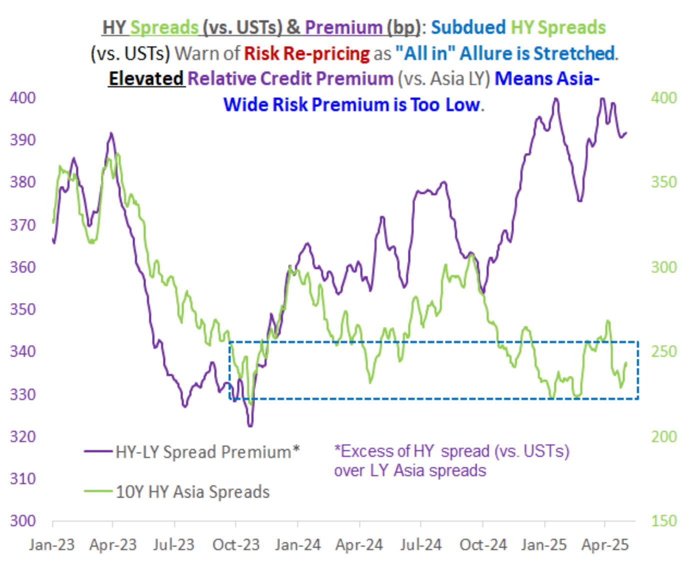
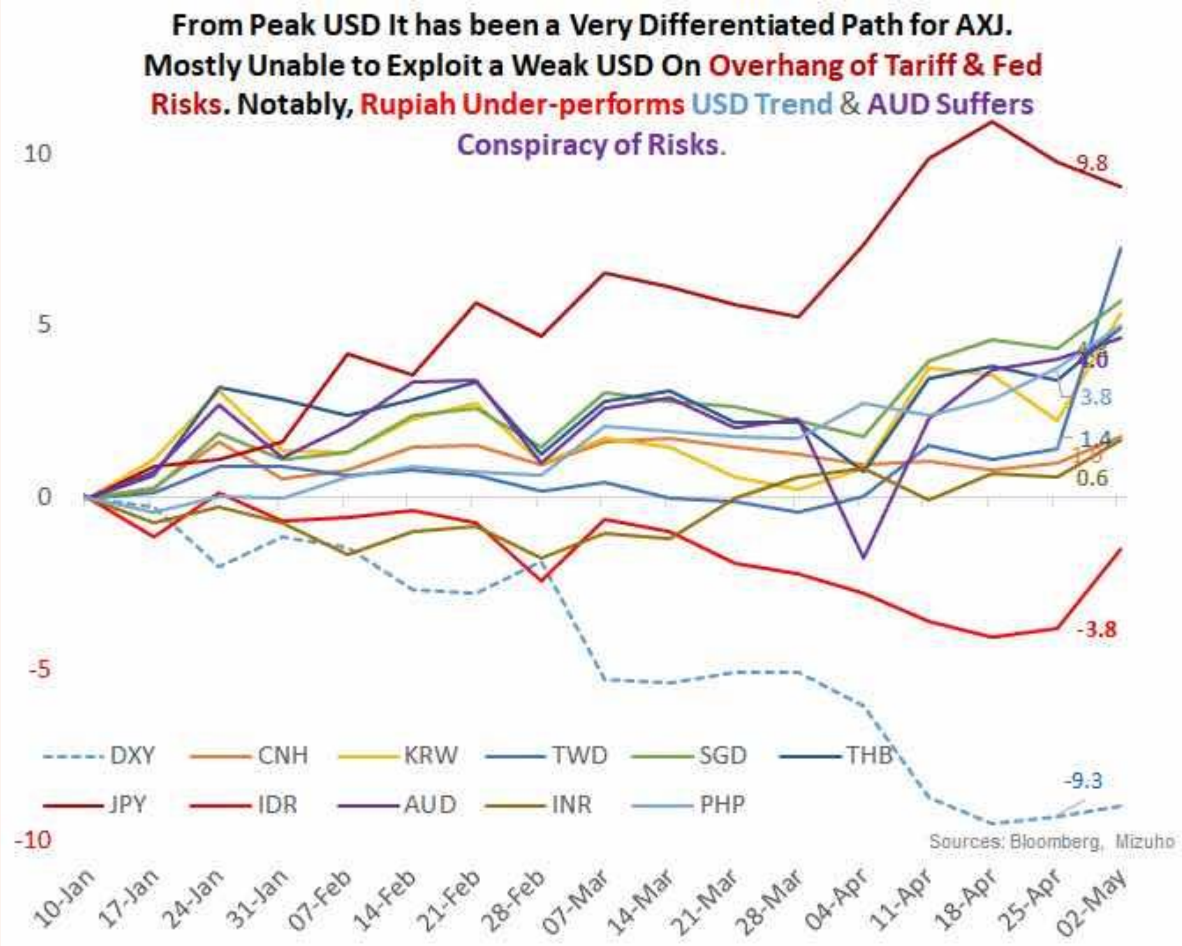


Figure 1f. Unsustainably Low Risk Premium



Special Feature: TWD Perspectives - Turbulent, Not Tectonic



Wrong-Footed Exposure

The sharp, historic (amplitude of) surge in TWD was reportedly amplified by;

1) lapse in anticipated CBC intervention (at key) levels triggering a wave of (self-reinforcing) TWD buying;

2) magnified as under-hedged exporters and insurers (both constituting significant long-USD exposures) inadvertently caused a stampede into panicked hedges.

Historic, Not Necessarily Disproportionate

Admittedly, the historic proportions of the intensity/pace of TWD surge justifiably raises concerns about dislocations. But what's notable that in the grander scheme of things, TWD's move is not disproportionate per se as it merely catches up with JPY moves.

Sympathetic TWD-JPY Dynamic

The TWD-JPY comparison, and expectations of convergent dynamics, is not too stretched given both the "flow" and "stock" similarities.

Flow (P&L): That is, Taiwan is a huge Current Account surplus country (with massive USD P&L exposed to FX volatility),

Stock (Balance Sheet): And like Japan, Taiwan is a huge net USD asset owner. Hence, USD exposures on the balance sheet are massive, and under conditions of heightened volatility in FX markets, can invoke massive FX reactions.

Compressed, Not "Continental Drift"

Admittedly, just how compressed this massive TWD catch-up is raises legitimate concerns about reflexivity - which definition warns of destabilising overshoot.

But it will be hasty to declare a tectonic and permanent shift in FX valuations resulting from sustained, significant, reserve asset/wealth reallocation out of USD assets.

Instead, this arguably reflects aggressive compensation for under- hedged exposures. Not a wholesale migration out of US assets to elsewhere. This is not "continental drift" across the Atlantic (or for that matter, Pacific).

Deal Over De-dollarization

The elephant in the room is the question of whether this is the beginning of a broader de-dollarization move by massive US asset owners - with Taiwan staging its asset reallocation for strategic reasons.

We think not. Taiwan has very few good options. And while US security guarantees are eroded, and perhaps even ephemeral, it is still the best bet that Taiwan has.

Hence a dedollarization strategy by Taiwan is not conceivable as a viable position. Instead, allowing some TWD appreciation with further commitment to support US asset markets may be the least unfavourable concession to retain the US security umbrella and strike a deal.

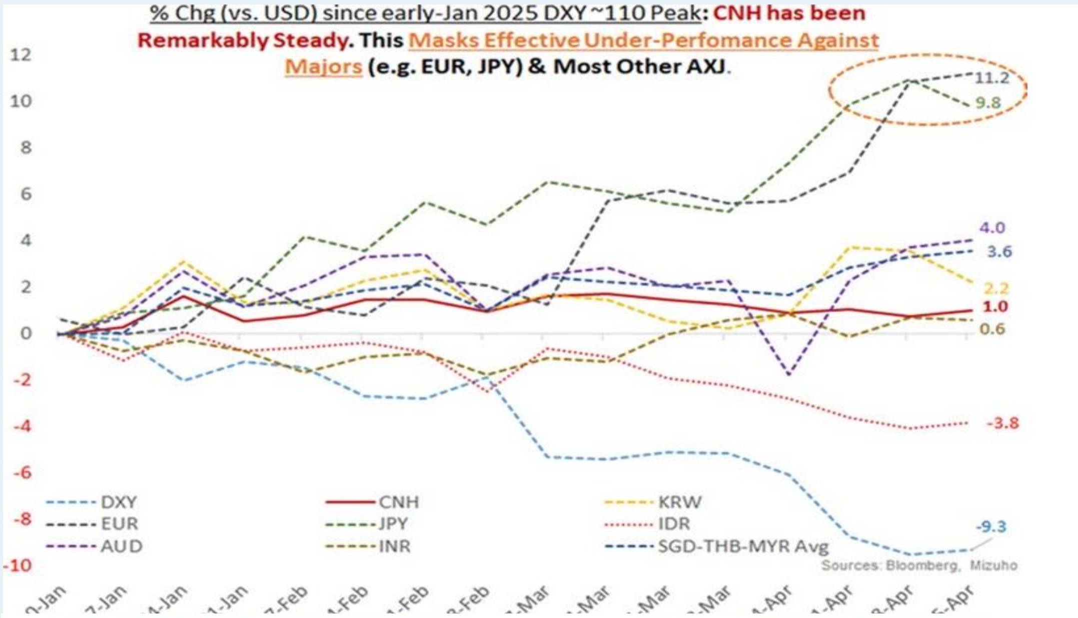
TWD Outlook: Further appreciation is not ruled out, but may be restrained in pace. A wider trading range through low-/mid-29 to mid-32 is par for the course.

Box 1: CNH & the Illusion of Stability [published 28th April 2025]

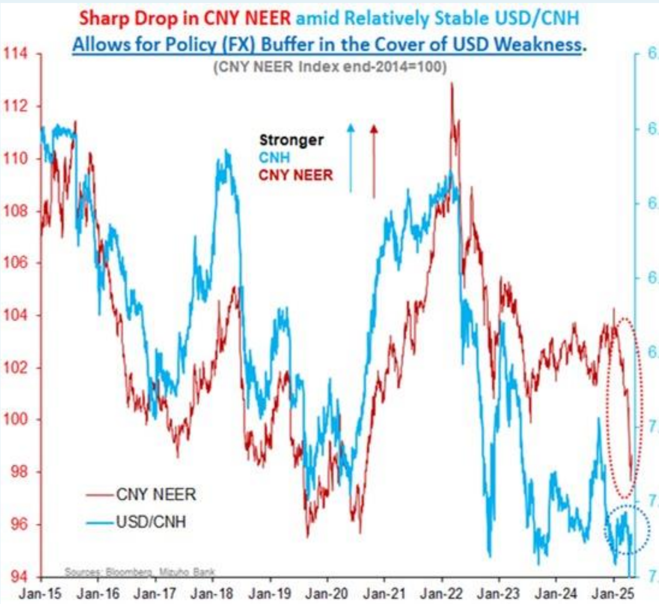
"Reality is an illusion, albeit a persistent one" **– Albert Einstein**

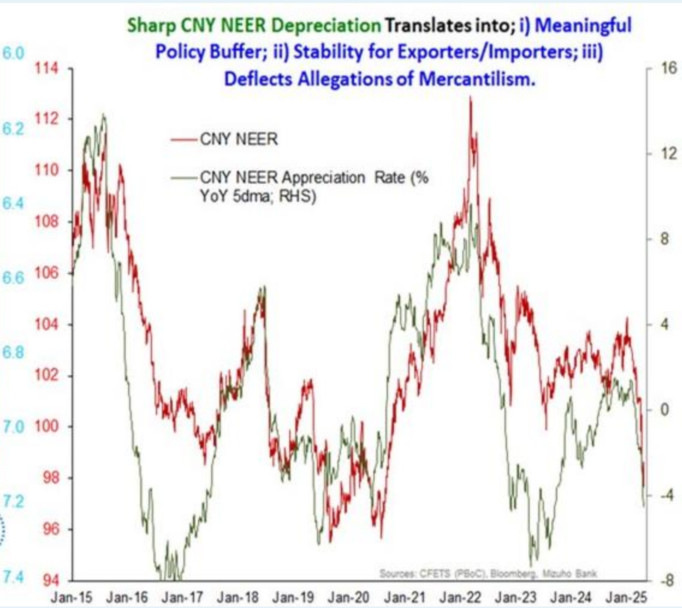
In a Nutshell:

- **CNH stability** (vs. USD) is **an *illusion* enabled by a bearish USD wave**, whereas the ***reality* is sharp drop in effective** (trade-weighted) **CNH exchange rates**.
- Nonetheless, this is a useful "illusion", **providing the PBoC with sufficient geo-political cover**, as a *relatively softer USD helps deflect potential criticisms of mercantilist policies*.
- Not only does the PBoC enjoy *FX policy buffer* against acute trade turbulence, but it also offers *stability for Chinese exporters/importers* and *builds FX reserves*.
- To be sure, this **FX policy sweet spot c**ourtesy of USD bears is likely to be **fleeting**.
- **Whereas what's *persistent* are acute geo-economic risks**, *and attendant policy trade-offs,* that **feature in the new global order** us being advanced.
- Associated **CNH vulnerabilities** and **wider two-way volatility** are thus merely masked currently and are **liable to resurface** amid elevated threats of US-China antagonism.
- Inevitably, **AXJC** on the hook for spill-over turbulence**, with potentially amplified pressures, as China- and trade-related risks persist amid uncertainty.
- Especially ***if the absence of emphatic bearish USD*** conspires with AXJC-CNH correlation rebound and exaggerated AXJC gains (vs. CNH).



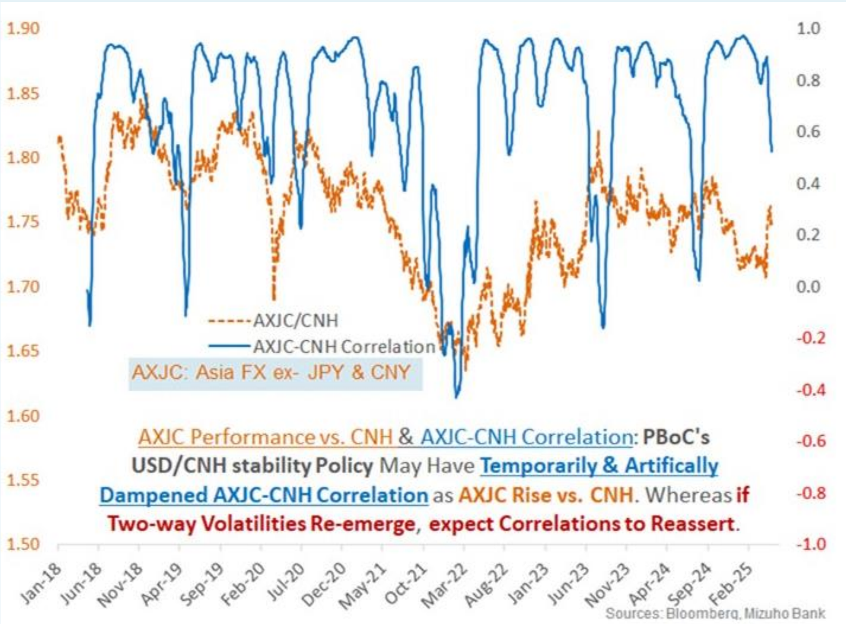
- Remarkably Stable (USD/)CNH: *Ironically,* in the midst of acute tariff turbulence that has been trained on China, **CNH** (vis-à-vis the USD) **has been remarkably stable***.
- Merely an Illusion (Masking Broader Under-performance): But that **stability is merely an illusion,** that masks broader, significant CNH under-performance of the vs. JPY, EUR and other AXJ (See Charts above).
- Albeit a Highly useful one (for Beijing): Nonetheless, this **illusion of CNH stability** masking effective weakness is **highly useful *in the context of conflicting risks amid heightened trade conflict/tariff uncertainties***.
- Weak USD Cover Affords Critical Policy/Geopolitical Buffer: Point being, the **cover of a sharply weaker USD** (that is down 9-10% since mid-Jan highs) **allows the PBoC to extend low-cost policy buffer** whilst **mitigating geo-political blowback risks**.
- Effective Currency Cushion: First and foremost, the ***reality*** is that a **stable USD/CNH** *against a bearish USD* delivers a ***considerably softer effective** (**trade-weighted**) **CNH exchange rate*** **to help buffer against trade/tariffs headwinds**.
- Deflects Allegations of Mercantilist (FX) Policies: **Crucially**, this may be **achieved at minimal geo-political cost** as **CNH stability vs. (a weakening) USD** helps *deflects potential US allegations of mercantilist PBoC (FX) policies.*
- Mitigates FX Uncertainty for Trade: What's more, **stable USD/CNY rates alleviate the burden of managing outsized FX risks** for **Chinese exporters/importers already hobbled by acute trade uncertainties**.
- Building FX Buffer: Finally, the PBoC has the **benefit of potentially building FX reserves**. Specifically, as **maintaining a stable CNH** (vis-à-vis USD) **amid broad-based the Greenback** typically **entails accumulating FX** (USD) **reserves**.





- FX Policy "Sweet Spot" Compliments of (Weak) USD: Hence, the **silver lining** is that the **PBoC** has the **benefit of a window of (FX) policy "sweet spot"** *compliments of USD woes*, **dulling trade-offs otherwise associated with policy stimulus**.
- But "Gift of Cover" Likely Fleeting: Nonetheless, the **"gift" of bearish USD cover** is **unlikely to endure**, *as exaggerated one-way bearish USD forces* on **under-accounted tariff blows-back** shocks and associated **US exceptionalism erosion** *peter out.*
- Unlike the Feature of Acute Geo-Economic Threat: Whereas what's ***persistent*** are the ***complex and acute geo-economic threats*** **likely to feature in the "new order"**.

- "Two-Way" Volatility Risks May Build Again: Necessarily, it is **just a matter of time** before **CNH stability is upended, as "two-way", potentially out-sized, volatility resurface**. Especially **as sharp, underlying, policy trade-offs reassert more forcefully**.



- Attendant AXJC** Volatility Risks: Inevitably, such an **outburst of CNH volatility** is likely to entail **AXJC spillover** as ***AXJC-CNH correlations are likely to remain high***
- Given Temporarily Suppressed Correlations. In fact, potential CNY-triggered AXJ turbulence may be amplified **if AXJC-CNH correlations, temporarily suppressed amid the PBoC's current policy of USD/CNH stability**, **reverts higher**.
- & Exaggerated AXJC (vs. CNH) Gains: What's more, **artificially inflated*** AXJC/CNH gains** *given the soft USD peg of the CNH,* warn of **potentially accentuated downside pressures for AXJ** ***should "risk off" re-emerge without the benefit of a bearish USD cover***.

* Looking past a fleeting step up in volatility (and CNH weakness) on retaliation headlines in the second week of April.

** AXJC refers to Asia currencies excluding JPY and CNH.

*** From the PBoC's USD/CNH stability that indirectly suppresses CNH gains with a soft "USD peg"

CNH: (Qualified) Risk Reduction, Not Rallies

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
Policy Rate (%)	1.3	1.1	0.9	0.9	0.9	0.9
USD/CNH	7.21-7.38	7.18-7.45	7.10-7.45	7.03-7.38	7.00-7.28	6.98-7.36
	7.266	7.24	7.23	7.12	7.14	7.11
GDP (% YoY)	5.4	4.4	4.1	4.1	4.2	4.5
CPI (% YoY)	-0.1	0.0	0.3	1.2	0.5	0.5

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 2a. CNY weakened amid tariff concerns

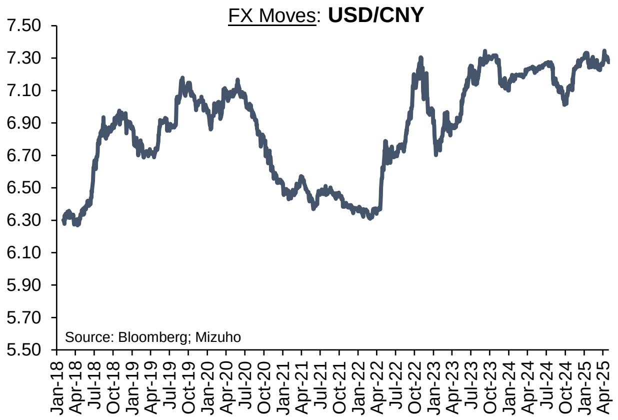


Fig 2b. Continued deflationary pressure onshore

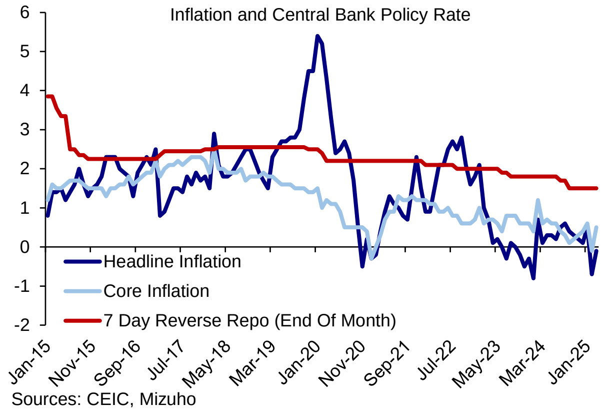


Fig 2c. CNY fixing at 7.2 as a policy watershed

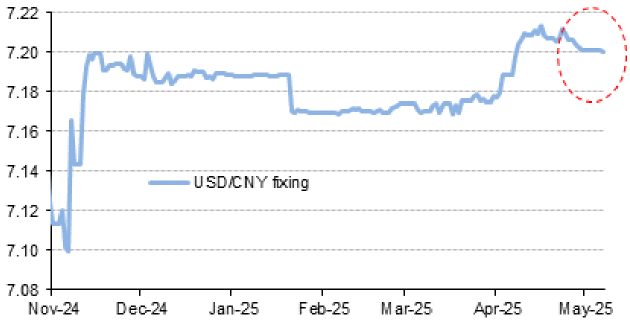
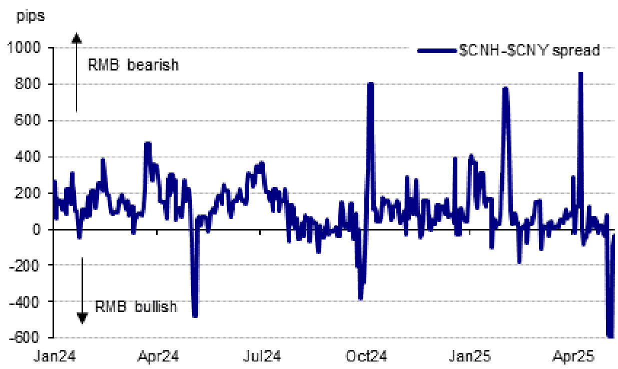


Fig 2d. CNH-CNY gap narrowed after the holiday



FX

- <u>145% US Tariffs Levies on Chinese goods:</u> As China retaliated against US tariff implementations, Trump excluded China from its 90-day pause on reciprocal tariffs and subsequently raised tariffs on Chinese goods to 145%. In response, China imposed tit-for-tat tariffs on US goods, increasing tariffs to 125%. Afterwards, China stated it would ignore any US tariff hikes. Despite some US tariff exemptions in specific sectors such as consumer electronics, both sides refuse to take the first step to break the stand-off and begin trade talks on lowering the tariffs.

- <u>The Surprising RMB Resilience:</u> The sweeping US tariff hikes and China's retaliation ramped up RMB depreciation pressure significantly, with the CNY spot sinking to its decade-low of 7.3512. The CNH spot also plummeted to its record low of 7.429. With mounting FX volatilities, the PBoC lost grip on the CNY fixing above the 7.2 threshold, green-lighting further RMB depreciation. However, the CNY and CNH spots stabilized, reverting to near the 7.3 handle, as the USD weakened amid Trump's erratic policies. Considering the escalation in China-US tariffs, both economies are set to suffer a more severe hit in growth, leading to the underperformance of the USD and RMB basket index against other major currencies.

- <u>Just Risk Reduction, No rallies:</u> Despite the stable CNY against the USD, room for any RMB appreciation will likely remain slim. In the near term, the PBoC is holding the USD/CNY steadier to anchor broad RMB expectations given concerns over capital outflow, while allowing further decline in the RMB basket index to support exports to non-US trading partners. Indeed, the CNY weakened dramatically against the EUR in April, hitting its decade low of 8.438. In the coming months, both the USD and CNY are expected to extend their underperformance as deteriorating data starts to bite and we maintain our Q2 CNY forecast at 7.38 level. However, one-way CNY depreciation is less likely as weaker data will pressure both sides to begin trade negotiations. Hopes for China stimulus following the Politburo meeting, which vows to accelerate the deployment of stimulus measures, should counter the impact from China-US tensions. Otherwise, the Fed's reluctance on rate cuts and lingering UST-CGB yield spread, as well as potential spillovers of China-US tensions to other fields, should cap room for RMB appreciation.

Rates

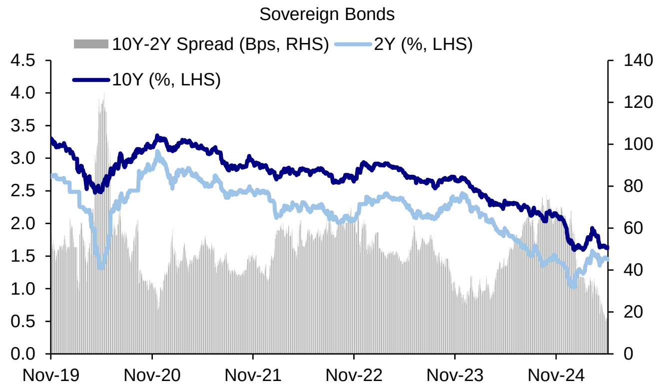
- Increased deflationary pressure… We see no resolution to the China-US trade confrontation by year-end as the most likely outcome. As a result, we estimate that China's exports to the US will decline by 35% YoY in 2025, adding to the issue of industrial over-supply. This export decline will probably reduce China's industrial value added by about RMB 1.1 trillion in 20251, equivalent to 0.8% of GDP in 2024. Beyond the direct impact, suspended trade activity is expected to reduce income, if not unemployment, for workers in both manufacturing and service sectors related to international trade, affecting household consumption.

- To be mitigated by fiscal stimulus. That said, it should be relatively easy for China to increase its fiscal deficit by another RMB 1 trillion around mid-year, or 0.7% of GDP, to support household consumption and investment for national investment projects, though part of the fiscal support may not be reflected in this year's growth. Consequently, we expect China's annual GDP growth to slow only moderately to 4.5% in 2025, down from our previous estimate of 4.8%.

- PBoC on the move: At a recent joint press conference, PBoC Deputy Governor Zou Lan reiterated the commitment to timely cuts in the RRR and interest rates. In that regard, we believe China's next major easing move is around the corner. Last week, 10Y CGB yields stabilized at around 1.66%, while interbank 7D repo rates remained notably above their target rate of 1.5%, indicating relatively tight liquidity at the short end. Additionally, smaller Chinese banks have lowered their deposit rates by 10-30bp since April, paving the way for lower bank lending rates in the coming weeks.

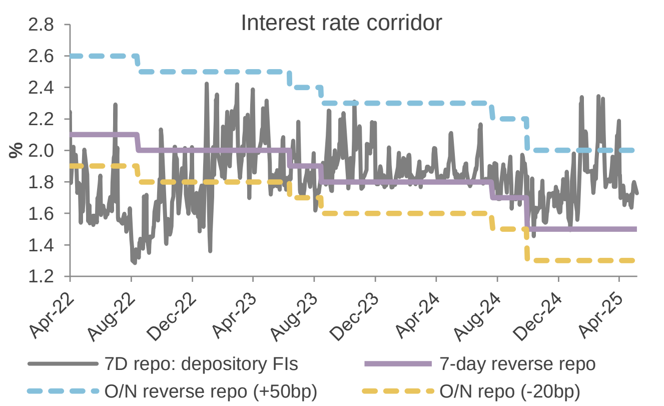
- A bull steepening: We anticipate a more rapid decline in front-end CGB yields in the coming months, driven by the PBoC reduction of the 7D reverse repo rate, China's new benchmark rate, and other liquidity easing measures. It is likely that the 2Y CGB yields will challenge their YTD low of 1.025% in the near future. Concurrently, term spreads may widen, as there is limited scope for further declines in China's 10Y CGB yields from current levels. Nonetheless, we expect the 10Y CGB yields to find significant support at the 1.6% level, despite heightened trade uncertainties, thanks to China's pledge to boost social welfare over the long term.

Fig 2e. 10Y-2Y term spreads likely to widen from here



Sources: Bloomberg, Mizuho

Figure 2f. 7D repo rates moved closer to the target rate



Box 2: Reassessing China's Economic Outlook Amid Trade Uncertainty

[Published 30th April 2025]

Since early April, trade confrontation between China and the US has quickly escalated. The US has imposed a 145% tariff on imports from China, while China has retaliated with a 125% tariff on US products. Recently, both parties have slightly dialled back their tariff policies, with the US exempting smartphones, laptops, and other essential electronics from the new tariffs and China granting an exception to chips designed by US firms but manufactured overseas. Despite US claims of continued contact with China, Chinese officials have denied any ongoing trade discussions.

dGiven this continued trade uncertainty, we outline different tariff impacts on China's economic growth based on three sets of assumptions.

Our base case

Assumptions. No trade deal will be reached to resolve the China-US trade confrontation by year-end. Both nations will remain in trade talks to manage geopolitical tensions, but progress will be limited. Intermittent tariff exemptions on certain goods may occur to avoid drastic supply shocks and to keep ongoing negotiations.

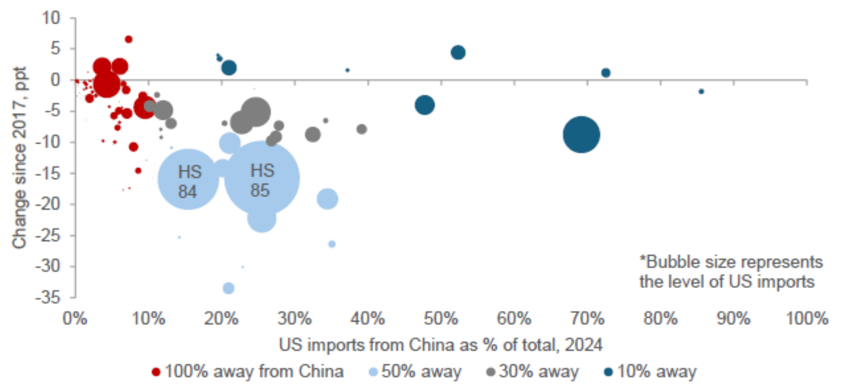
To estimate the impact of tariffs, we categorize US imports into five groups based on their reliance on China manufacturing. The lower the reliance, the easier it is for the US to source these imports domestically or from other countries, and vice versa. Our detailed assumptions are illustrated in Figure 1 & 2 below.

Fig 1 Our assumptions on changes in US imports from China under current tariff rates

Type	% of US imports from China	Change since 2017	% of exports diverted away from China	Examples
1	<10%	n/a	100%	Vehicle parts, rubber products, etc.
2	10%<x<40%	Decline by more than 10ppt	50%	Garments, furniture, semiconductors, etc.
3	10%<x<40%	Decline by less than 10ppt	30%	Plastic and iron articles, etc
4	10%<x<40%	Increase	10%	Special import provisions, etc
5	x>40%	n/a	10%	Toys, games, etc.

Source: Mizuho

Fig 2 US imports from China by HS category



Source: CEIC, Mizuho

Likely impacts. We estimate that China's exports to the US will decline by 40-50% due to hefty tariffs. Approximately 50% of the US demand for Chinese goods will be diverted under our assumptions. However, this estimate may overstate the impact, as it does not account for current tariff exemptions on smartphones and computers, FOB exports where tariffs are paid by US importers, and exports rerouted to other countries like Vietnam and Thailand during 90-day tariff exemptions.

With strong Q1 results this year, China's exports to the US are expected to decline by around 35% YoY in 2025. This decline will reduce China's industrial value added by about RMB 1.1 trillion in 20251, equivalent to 0.8% of GDP in 2024. Beyond the direct impact, suspended trade activity is expected to reduce income, if not unemployment, for workers in both manufacturing and service sectors related to international trade, affecting household consumption.

Meanwhile, it should be relatively easy for China to increase its fiscal deficit by another RMB 1 trillion around mid-year, or 0.7% of GDP, to stabilize domestic demand amid trade uncertainty, though part of the fiscal support may not be reflected in this year's growth. Consequently, we expect China's annual GDP growth to slow only moderately to 4.5% in 2025, down from our previous estimate of 4.8%.

Flaws in our assumptions. That said, trade confrontation on this scale is unprecedented and may lead to unexpected consequences. For instance, could it foster closer trade and investment ties between China and the EU, creating new business opportunities? Might broad-based US tariffs trigger an economic recession, further reducing US import demand? Could China-US trade decoupling heighten geopolitical tensions, destabilizing global financial markets and leading to a self-fulfilling financial crisis? These potential impacts are difficult to quantify at this stage and are not included in our GDP estimates.

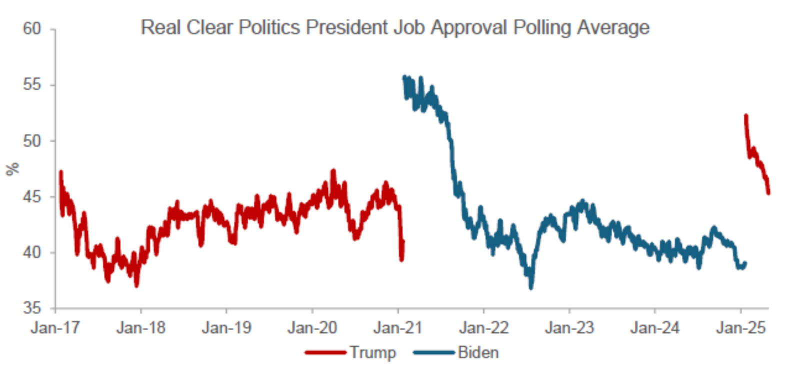
Potential future developments. The deadlock in China-US trade confrontation is expected to persist for the foreseeable future. The situation may worsen before either party is willing to make sufficient concessions to resume high-level trade talks, and both parties will be seeking more leverage in the meantime. For example, the Trump administration extended the TikTok sale ban by another 75 days, while Beijing banned rare earth exports, suspended imports of US Boeing planes and agricultural products, and halted the transfer of the Panama Canal operation license.

Tail risk to the upside

Assumptions. The Trump administration is poised to significantly reduce import tariffs within the next few months to avert a prolonged supply shock that could hinder the Federal Reserves' decision to cut rates amid impaired purchasing power domestically. Mid-term elections expected next year may also pressure the administration to soften its tariff stance in order to support domestic growth and employment. In this scenario, we expect China's growth outlook to remain stable, with this year's GDP forecast holding steady at 4.8%.

Low likelihood. However, we suspected that Trump may be less concerned about an economic recession, given his preference for a weaker dollar and lower UST yields. Trump's current job approval ratings, which are higher than the average during his first term and ex-President Biden's ratings of around 40% in 1H24, suggest limited political headwinds in the near term. Furthermore, it has become less and less likely for China to make significant concessions for a short-term trade deal with the US, after recognizing the enduring nature of their conflicts.

Fig 3 Trump's job approval rates are still higher than the average of his first term



Source: Bloomberg, Mizuho

Tail risk to the downside

Assumptions. Should economies with strong ties to China, such as Japan and Vietnam, agree to impose additional tariffs on China in exchange for lower US tariffs, China could face a significant loss in global trade share. This would likely lead to a surge in domestic bankruptcies and unemployment, potentially reducing China's GDP growth by over 2ppt and severely impacting market sentiment.

Extremely low likelihood. The close economic and geographic ties these economies have with China suggest that additional tariffs could disrupt their domestic supply chains and cost them access to China's market and investments. Moreover, China would likely retaliate with measures ranging from tariffs to bans on imports and investments, making the trade-off for lower US tariffs unappealing. President Xi's recent visits to Southeast Asian countries, including Vietnam and Malaysia, are also expected to mitigate this risk.

[1]"China's domestic value added in exports reached 83% in 2016.", cited from Ping Hua, January 2022. How did China rise its manufacturing domestic value added in exports through GVC moving up?

HKD: Rallied to 7.75

		Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
USD/HKD		7.76-7.80	7.75-7.79	7.75-7.79	7.76-7.80	7.76-7.80	7.76-7.81
		7.78	7.76	7.75	7.76	7.76	7.77
GDP (% YoY)		1.7	0.0	1.3	2.4	2.6	2.5
CPI (% YoY)		1.6	2.7	2.3	2.1	1.9	2.0

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 3a. HKD rallied to 7.75 amid capital inflow

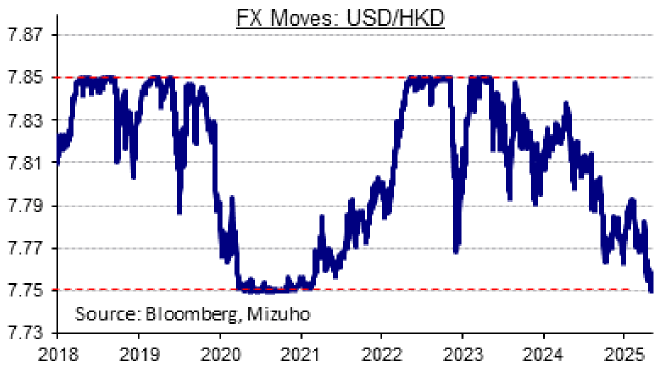


Fig 3b. Subdued underlying inflation

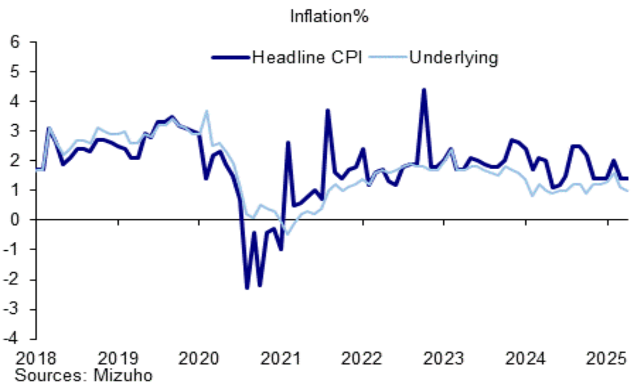


Fig 3c. HKMA conducted FX intervention

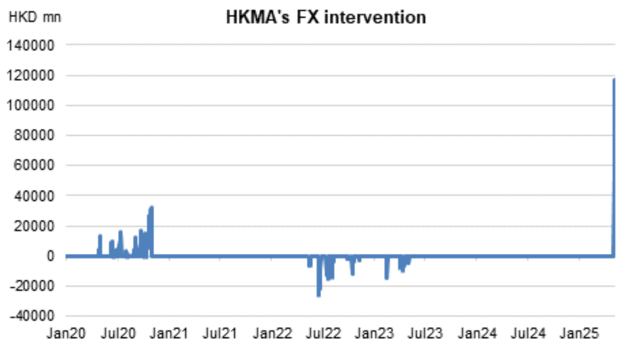
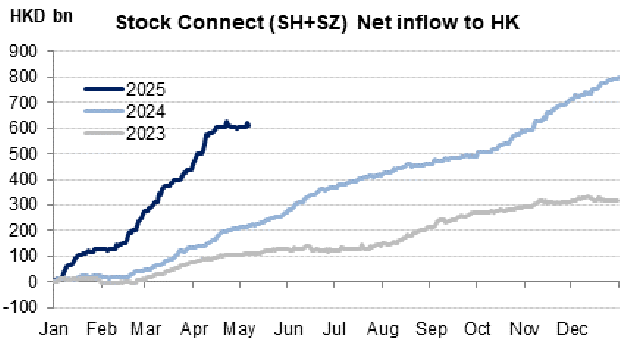


Fig 3d. Stock Connect flow remained buoyant



FX

- HKD touched 7.75: Since the announcement of Trump's sweeping reciprocal tariffs, the HKD has strengthened from 7.7832 to its strong-side convertibility undertaking of 7.75. This strength is attributed to spillovers of de-dollarization to Asian currencies driven by uncertainties surrounding Trump's policies and the tariffs-induced US recession. As an international finance center, HK-based investors and funds may face pressure to offload their USD bonds and equities amid market turmoil, repatriating capital back to home currencies, which leads to HKD appreciation. During turbulent market conditions, the long USD/HKD carry trade was unwound, making the HKD less sensitive to the USD-HKD interest rate differential temporarily.

- Buoyant Stock Connect flow: The HKD purchase via the Stock Connect scheme, with year-to-date inflows exceeding HKD 600bn, also provided strong support to the HKD. As RMB sentiment held broadly steady amid escalating China-US tariffs, the short-lived CNH depreciation had limited impact on the HKD spot. IPO activities picked up continuously as the Hang Seng Index recovered from the historical crash of 3,000 points in a single day amid the US reciprocal tariffs shock and China's retaliations.

- Deteriorating HK growth outlook: HK growth expectations deteriorated significantly due to the 145% US tariffs on China, including HK. Meanwhile, the HK government maintained the city as a free trade port, refraining from imposing retaliatory tariffs on US goods. This means the export sector is set to take a severe hit from the sky-high tariffs, while import demand should hold relatively steady. In the absence of tariff exemptions, the escalating HK trade deficits will notably drag on HK growth momentum in Q2.

- HKD Demand to hold up: As the Fed is expected to keep its policy rate at the current level for longer, the HKD upside momentum may moderate after the significant HKD liquidity injection via the FX intervention. When financial market conditions stabilize, the long USD/HKD carry trade flow will likely resume, shifting HKD spot away from the 7.75 level subsequently. Apart from the Fed's policy, we reckon that the HKD will remain strong in the near term. A renewed IPO frenzy and dividend payouts flow could stimulate demand for HKD and squeeze HKD liquidity conditions, with the EV battery producer giant filing its second IPO listing. However, the IPO-induced liquidity squeeze is less likely to repeat following regulators' moves to cap margin financing for IPOs.

Rates

- Ample HKD Liquidity: The HKD aggregate balance was boosted by HKMA's FX intervention to defend the USD-HKD peg, as the HKD spot hit the 7.75 level for the first time since 2020. Overnight HKD HIBOR eased after the FX intervention. When HK equities stabilized, the return of margin finance activities could soak up HKD liquidity. In April, the HKMA scaled down the discount window liquidity injection. Despite the surging HKEx mainboard turnover in the historical Hang Seng Index crash, HKD front-end rates remained relatively soft amid de-leveraging activities in early April.

- USD-HKD Rates Premium Persisted: The pick-up in HKD rates led to narrowing the USD-HKD rates premium, but fundamentals pointed to the persistence of the USD-HKD rates premium. The escalating China-US tensions and global trade war will jeopardize HK's growth outlook, dampening loan demand. If the Fed keeps its policy rate steady for longer due to inflation risk, HK mortgage demand could remain soft under the USD-HKD peg. In this circumstance, the HKD loans-to-deposits ratio tumbled to its 15-year low of 73.5 in February. Unless the US economy falls into recession shortly coupled with Fed rate cuts, the USD-HKD rate premium will likely continue.

- HKD IRS Retreated: The HKD IRS tracked USD IRS lower as Trump's policy uncertainties heightened recession risks. The 3Y HKD IRS fell towards 3%, compared to 3.4% for USD IRS. As the HKD HIBOR curve remained robust, the carry of entering HKD IRS (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD HIBOR) widened to nearly 100bps. Front-end HKD rates will likely stay robust as the Fed is expected to keep rates steady to assess the impact of tariffs on inflation, while the seasonality of dividend payouts from Chinese corporates could temporarily tighten HKD liquidity conditions.

Fig 3e. HKGB term premium remained positive

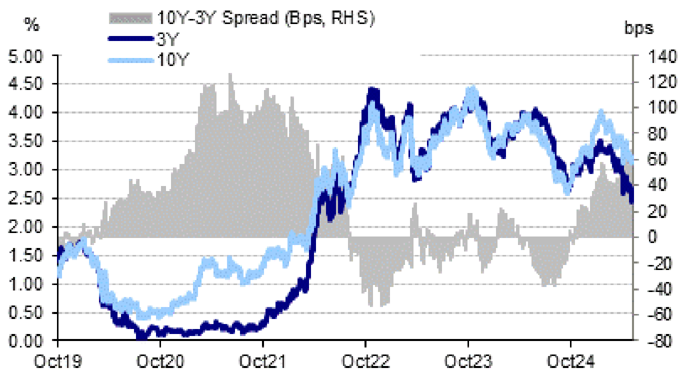
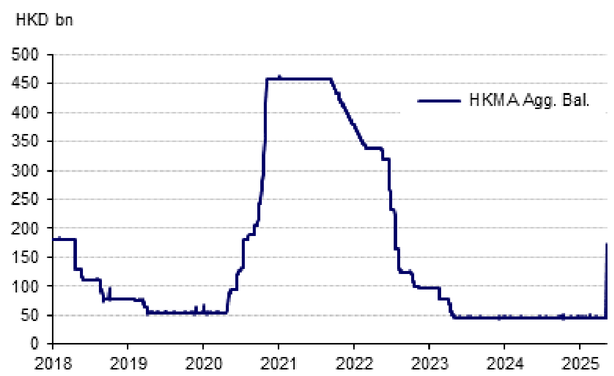


Figure 3f. Aggregate balance jumped on FX intervention



INR: (I-) Deal Buffet

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
Policy Rate (%)	6.25	5.75	5.50	5.25	5.00	4.75
USD/INR	85.4-87.9	84.2-87.7	84.2-87.3	84.5-87.9	83.8-86.9	83.2-86.0
	85.4	85.2	85.5	86.2	85.2	84.3
GDP (% YoY)	5.9	6.3	6.1	5.3	5.6	6.2
CPI (% YoY)	3.7	3.8	4.2	4.5	4.8	5.4

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 4a. Aggressive Rupee Bears Checked

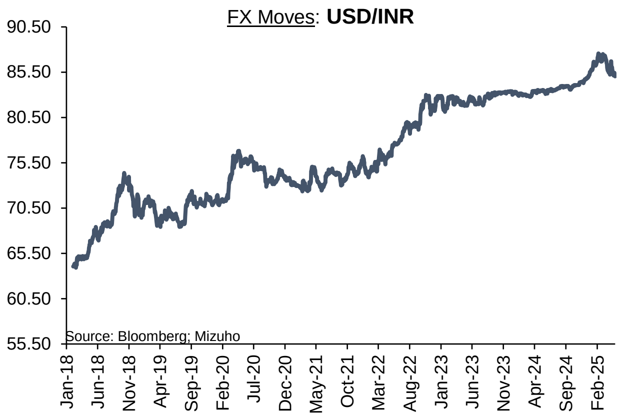


Fig 4b. RBI Kicks off Easing Cycle

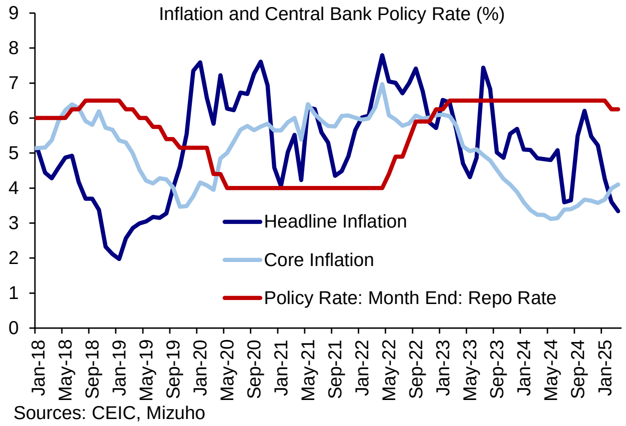


Fig 4c. Facilitated by Elevated Real Rate

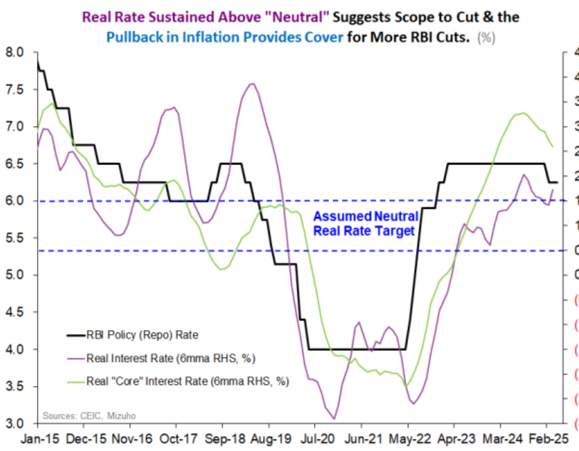
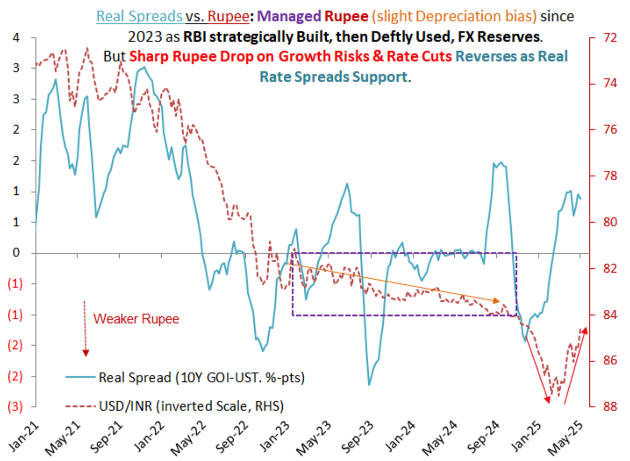


Fig 4d. Real Spreads Arrest Earlier Rupee Sell-Off



FX

- Regaining Ground: After a dismal, bottom-of-the-pack performance earlier this year on an “perfect storm” of growth woes, dovish RBI shifts, US tariff risks implied by early guesses about “reciprocal tariffs”, the rupee has smartly recovered much of the ground lost.

- Relative Tariff Buffer: Notably, the rupee has managed to flip the Trump 2.0 trade antagonism narrative back to its advantage. Specifically, from early buffer on relatively smaller trade-reliance to liabilities of large tariff imbalances against the US, now back to a more favourable strategic position with the US. As a result of which, the fears of adverse Trump 2.0 tariffs outcomes for India are diminished.

- (I-)Deal: In fact, optimists will argue, and perhaps compellingly so, that India could pull off one of the better deals with US given its strong proposition as a substitute for China. Insofar that this is useful, if not critical, to the US, even Trump’s trade hawks could be induced to engage more favourably. The freshly inked landmark UK-India also places India in an ideal position for a deal with the US. And this shows in the rupee’s comeback.

- Real Advantage: What’s more, conveniently low inflation propping up real rates means that the rupee (stability) trade-off involved in RBI rate cuts are appreciably diminished. This in turn takes the heat off RBI and policy-induced pressures on the rupee. This real (rate) advantage for the INR is further enhanced by deeper rate cuts elsewhere in Asia as well as more dovish Fed bets (without the benefit of significantly lower inflation).

- Growth Shock Normalised(?): What's more, while the rupee was earlier battered by India's adverse growth shock, this drag factor has now been normalized by threats of even larger growth shocks elsewhere. In fact, India's growth risks may be eclipsed by trade-shock induced headwinds in many other Asian economies. And so could perversely be a mild advantage.

- The Services (Double) Edge: Especially considering the external make-up of India's value-add. More specifically, India's relatively larger reliance on services exports as a key source of Current Account boost. Insofar that Trump 2.0 tariffs have not gone after services sector imbalances - perhaps conveniently given that the US runs a services account surplus with most trade partners - India stand to gain relatively. Although the risk here is that services may be a double-edged sword given India runs one of the rare services surplus against US (over and above a goods surplus).

- Fuel-inflation Rupee Support: Finally, softer oil prices in the face of adverse global demand shock threats amid trade war risks helps to prop up the rupee to some extent. Blunted "twin deficit" and inflation pressures from softer oil prices tends to be of a greater relief for rupee (alongside KRW, THB and PHP).

- INR Outlook**:** A conspiracy of mitigating factors, from relative Trump 2.0 trade antagonism to softer inflation lifting real rates to softer oil outlook taming "twin deficit" vulnerabilities (alongside fiscal consolidation) all point to relative rupee traction within the AXJ space. Whilst rupee has regained composure back to sub-85 levels, near-term uncertainty and volatility are likely to remain elevated, suggesting risks back to 87-88 are not eliminated. Heading into 2026, 83-84 levels come into play.

Rates

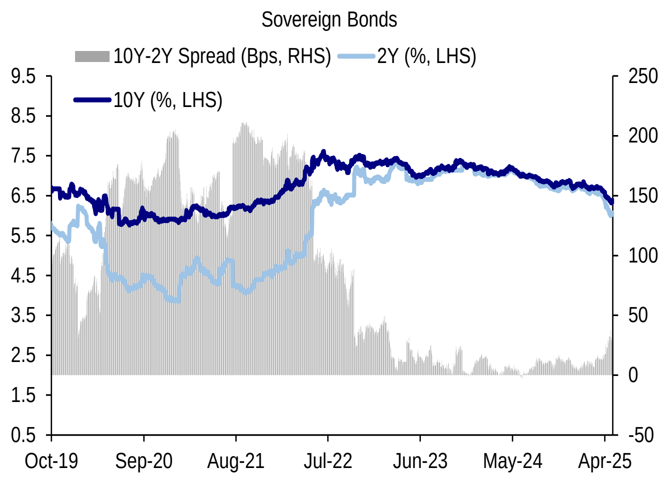
- Central Bank: The RBI has taken on a more dovish bias, and may be expected to cut purposefully into year-end amid a sluggish and bumpy economy. Relative trade turmoil buffer is far from meaningful insulation. Nonetheless. The RBI will still be cautious and judicious. So, a bumpy rate cut path, contingent on inflation remaining subdued and rupee stability, is the base case.

- Policy Rate: Our base case is for policy rates to go lower by 100-150bp into 2026. So long as inflation does not unexpectedly re-accelerate and/or rupee stability is not compromised. Exceptionally elevated real rates in the context of sharp slowdown in growth momentum amid global growth threats warrant further easing.

- Lower Yields Checked by Spreads: A dovish RBI suggests a **path to softer GOI yields**. But perhaps neither proportionately nor in a linear manner. Although Fed cuts and accompanying downside in UST yields will help soften yields, already compressed (GOI-UST) spreads prone to higher term premium and credit risk re-pricing suggests somewhat more constrained pullback in the yields.

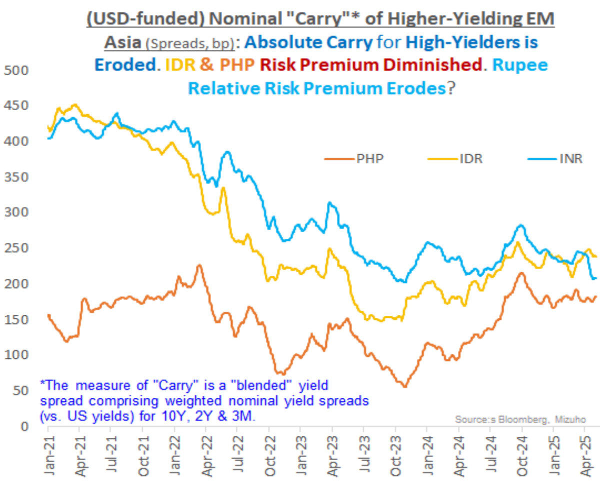
- Fiscal Conditions Matter: Admittedly, India's fiscal has fared well, which should help subdue yields across the curve amid RBI cuts. But fiscal uncertainties and challenges are accentuated by deteriorating global conditions spilling over, and fiscal strains in the rise. And this could hamper more unfettered transmission of lower (RBI) rates across the curve.

Fig 4e. Yields declined in March and April



Sources: Bloomberg, Mizuho

Figure 4f. Prone to risk repricing?



Note: The fairly positive rupee outlook assumes that the India-Pakistan conflict de-escalates rapidly rather than escalating.

KRW: Political and Policy Conundrum

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
Policy Rate (%)	2.75%	2.50%	2.25%	2.00%	2.00%	2.00%
USD/KRW	1424-1477	1350-1488	1380-1470	1400-1480	1380-1450	1360-1440
	1473	1415	1400	1420	1405	1385
GDP (% YoY)	-0.1	0.5	0.7	1.0	1.7	1.5
CPI (% YoY)	2.1	2.2	2.3	2.0	2.2	2.1

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 5a. KRW recovery a restrained one

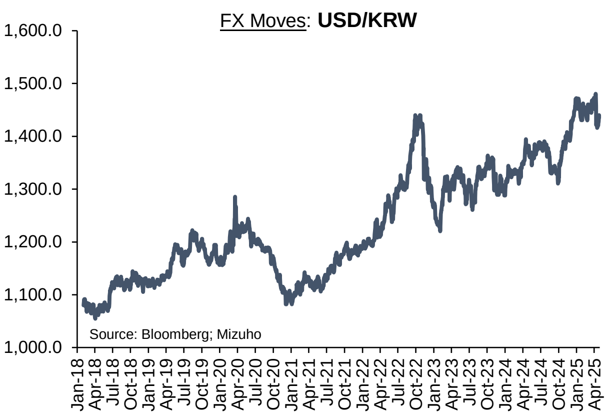
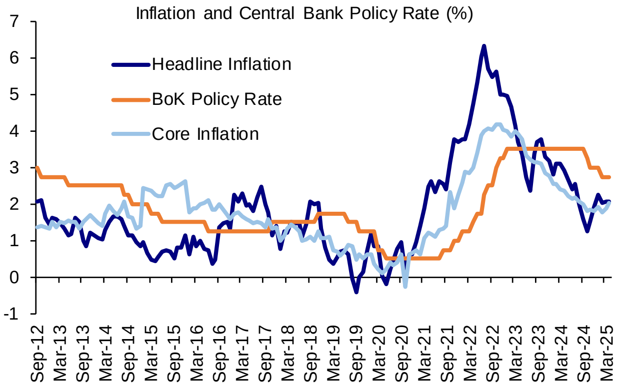
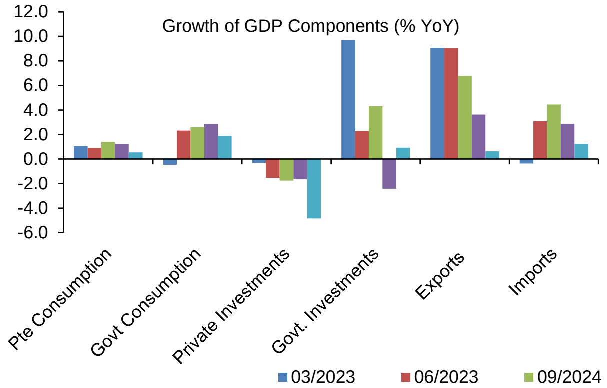


Fig 5b. Inflation remains conducive for easing



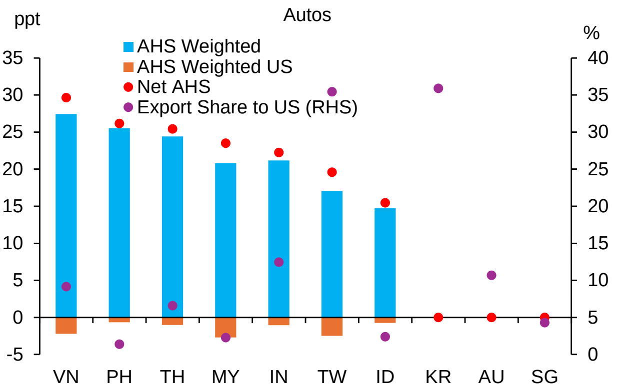
Source: CEIC; Mizuho

Fig 5c.



Sources: CEIC, Mizuho

Fig 5d. Auto sector faces headwinds



Sources: WITS; UNComtrade; Mizuho

FX

- Setbacks abound: Since early Feb, KRW underperformance has been apparent alongside fellow strugglers such as the IDR. KRW depreciation is driven by both domestic and external headwinds. **Domestically political uncertainty has been rising and will continue remain elevated until the 3 June Presidential election deliver a discernible outcome following ex-President Yoon's impeachment**. US President Donald Trump's reciprocal tariff woes also added to the dire performance.

- Reciprocal Tariffs: Despite Korea-US FTA, Korea was handed 25% reciprocal tariffs on account of its higher bilateral trade surplus. While US President Trump said that prospects for a trade deal was looking good, it remains to be seen the extent of concessions that can be given. With auto tariffs already in place, **underlying growth drags are already weighing on the economy.**

- Electronics: Electronics exemption within both reciprocal and baseline tariffs is also partial relief as one worries about the potential of sector tariffs for semiconductors.

- Growth Woes**:** Q1 GDP growth contracting laid bare underlying weakness as private consumption growth slowed and investment spending decline as inventories were drawn down. Real exports revenue growth also slow significantly even amid the frontloading indicated by nominal trade surplus. KRW bulls will continue to be worried about the need for the BoK to provide more monetary policy support and the extent required.

- Political uncertainties: Ex-President Yoon's impeachment is only a marginal relief to heightened political uncertainty as election outcomes may bring again a lame duck parliament. That said, the opposition leader Lee Jae-Myung lead in opinion polls and they hold a majority in the National Assembly. Recent resignation of finance minister Choi also reflects the undercurrent of domestic political uncertainty.

- Supplementary Budget: Fortunately, the **supplementary budget** to boost the economy which is facing significant headwinds was recently passed. Business support for Small and Medium Enterprise is a key area of focus given their vulnerabilities and exposure to global trade headwinds. Given slumping external demand, Korea will also look to boost domestic consumption and alleviate cost of living pressures for lower income groups through vouchers.

- Continuation of flow tussle: Foreign inflows into bonds was decent as risk off mood took hold and set back **equities which suffered from more than US$4bn outflows over Feb-March**. Outflows intensified further after the onset of reciprocal tariffs.

- Outlook: Buoyancy above 1410 for Q2 2025 will be sustained as tariffs threats get re-iterated and negotiations provide two-way volatility and domestic politics weigh. The BoK's easing cycle will also imply the KRW recovery may not be as deep as bulls hope for in Q3, barring a complete and sensible resolution of reciprocal tariffs which would allow some cautious testing of sub-1400. Point being, durability of rallies would depend on the terms of the deal which is struck. Political uncertainty may add further bumps to their recovery especially if election outcome uncertainties are prolonged.

Rates

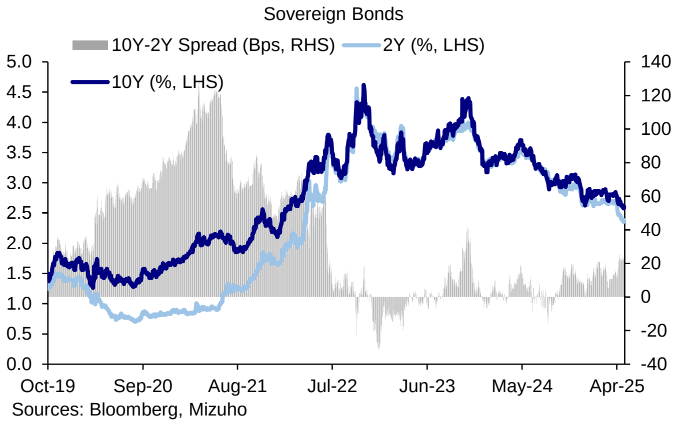
- Central Bank: We retain our policy rate forecast and expect another rate cut by the BoK in Q2 especially as we expect annual growth to only come in at 0.5% for the entire year after the dismal print in Q1. Admittedly, the situation is now further complicated by a **resurgence of housing prices in Seoul**, nonetheless the prompt manner in which the authorities re-instated housing transaction measures indicate a willingness to stem housing price speculation which in turns allows for the BoK to reduce rates. A 25bp cut in Q3 and Q4 respectively remains par for the course as global growth slowdown concerns take precedence.

- Risks: Front loaded cuts are a clear risk especially if tariff negotiations fail to bear fruit. On the other hand, the remote risk is that additional property market tightening measures may coincide with a global slowdown to conspire in declining housing prices which exacerbates the need for sharper drop in rates in H2.

- Yields: Front end yields declined from early Feb alongside lower UST yields. Nonetheless, with markets implied policy rates at less than two cuts, there is further room for front end yield to head lower.

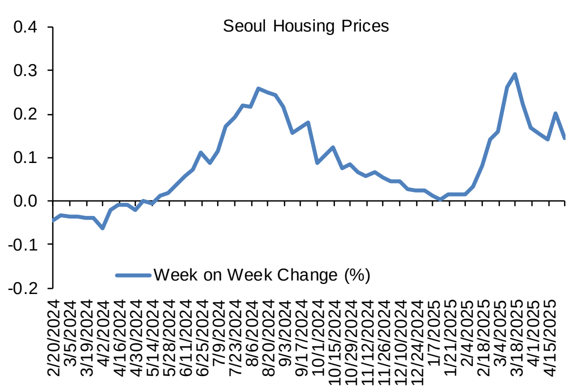
- Curve: Along with USTs, yield curve flattened in early March before re-steepening towards late March. Given the supplementary budget alongside likely lower revenue collections on slower growth, fiscal concerns remain on the card to bias towards further yield curve steepening.

Fig 5e. Steepening on the cards



Sources: Bloomberg, Mizuho

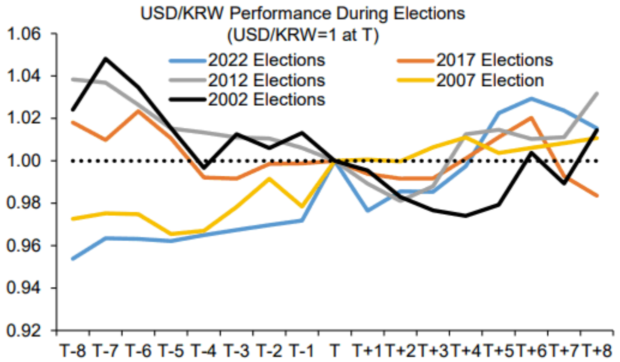
Figure 5f. House prices may swing marginal decisions



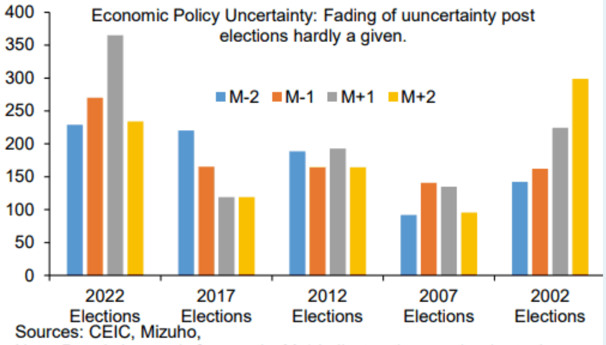
Sources: CEIC, Mizuho

Box 3: KRW and Elections: Barely Stylized

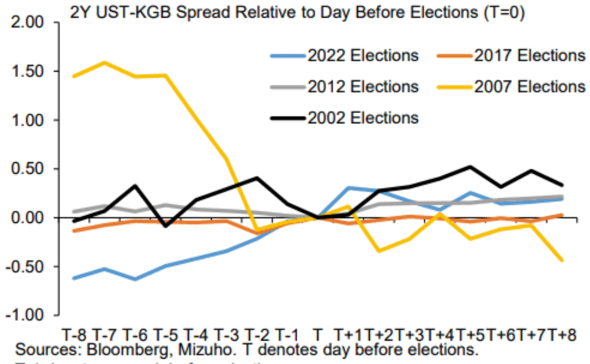
[Published 4th April 2025]



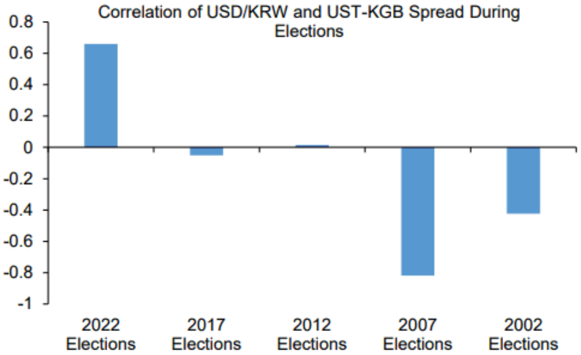
Sources: Bloomberg, Mizuho. T denotes day before elections.
T-1 denotes a week before elections



Sources: CEIC, Mizuho,
Note: Data is in montly frequently, M-1 indicates the month prior to the election or the month of election if the date of election is in the second half of the month.



Sources: Bloomberg, Mizuho. T denotes day before elections.
T-1 denotes a week before elections



Sources: Bloomberg, Mizuho.Note: Time Period spans 4 months, 2 months prior and 2 months post elections

After a prolonged period of political uncertainty, Korea looks to be headed for snap elections within the next two months after President Yoon's impeachment in a unanimous decision by the Constitutional court today.

Our examination of KRW performance during presidential elections (+/- 2 months) over the past two decade reveal that generalizations around stylized facts of FX movements are hardly consistent across these periods.

In short, KRW performance were reflective of the idiosyncratic circumstances during those instances.

First, there is no clear distinction of KRW performance prior and post elections. This is perhaps not surprising given the policy uncertainty showed no significant difference before and after elections.

Nonetheless, this does not fade the efficacy of political uncertainty on KRW as we had cleared observed its impact during the martial law episode in late 2024.

Second, received wisdom around UST-KGB spreads driving KRW performance has barely held up. Expected positive correlation between UST-KGB spread and KRW was only observed in the latest 2022 election. In fact, 2007 and 2002 elections showed sharp negative correlations.

Lastly, it is on this note that warrants a closer examination of the circumstances of each of these elections to elicit the appropriate reminders. During the late 2002 elections, Korea was undergoing a brewing credit card crisis which may have sent domestic yields lower.

While in 2007, it was external circumstances during the GFC which saw the FED embarks on sharp rate cuts that led to a narrower UST-KGB spread. Nonetheless, the risk off sentiments imply that the KRW was not able to ride on the seemingly favorable tailwinds from lower UST yields.

As for the current environment, beyond the initial reaction from the unanimous court ruling, reciprocal tariffs and risk off mood would set the tone to restrain the KRW even as likelihood of reduced political uncertainty is welcomed.

TWD: Artificial, Real and Hedging Threats

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
Policy Rate (%)	2.000	2.000	1.875	1.750	1.625	1.500
USD/TWD	32.6-33.2	29.6-32.4	29.8-31.9	30.7-33.0	30.5-32.8	29.8-32.2
	33.2	31.3	31.0	31.8	31.3	30.7
GDP (% YoY)	5.4	3.2	3.2	3.0	2.8	2.9
CPI (% YoY)	2.2	1.9	2.1	2.2	2.2	2.1

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 6a. TWD gain on broad USD weakness

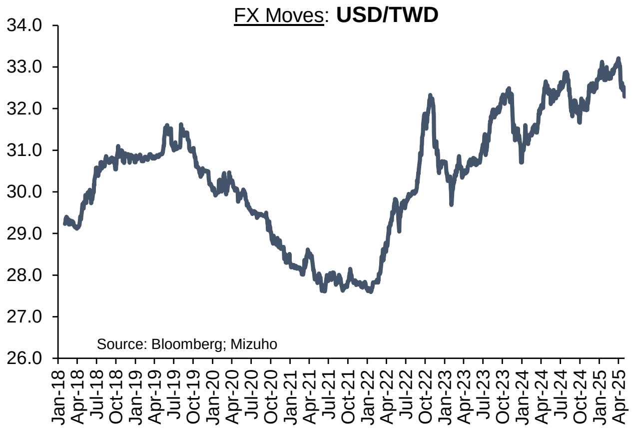
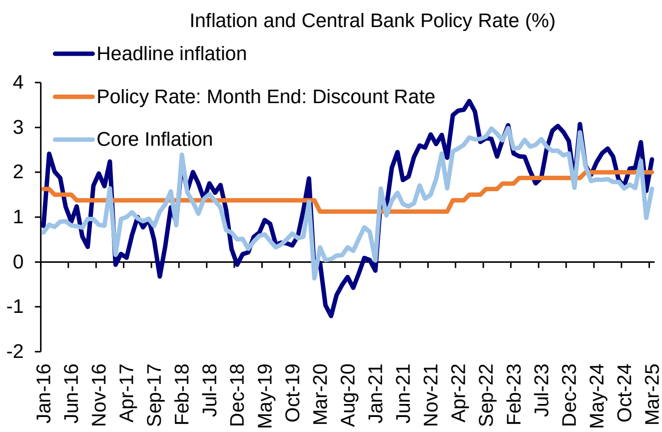
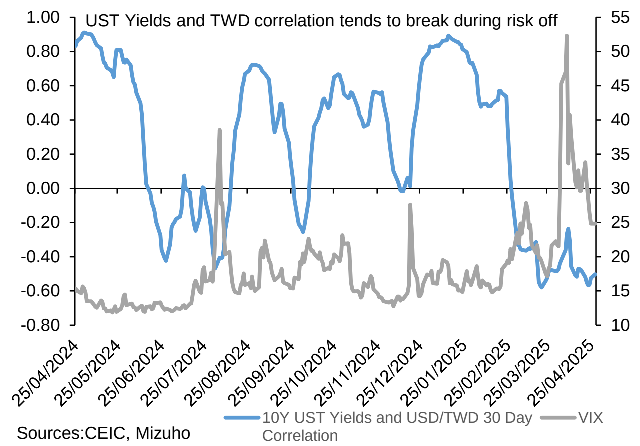


Fig 6b. Bumpy dis-inflation restrain CBC in Q2



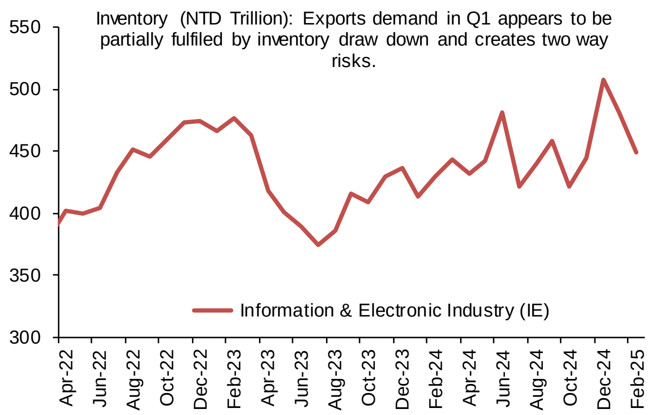
Sources:CEIC, Mizuho

Fig 6c. Risk off episodes to dampen TWD



Sources:CEIC, Mizuho

Fig 6d. Inventory depletion point to front loading



Source: CEIC; Mizuho

FX

- Lagging Recovery: For most of April, TWD lagged behind the SGD, MYR and PHP as risk off sentiments dented TWD recovery and the on-going US-China tensions imply that adverse economic spillovers will be worrying. Equity outflows from Taiwan intensified amid uncertainties over Trump's reciprocal tariffs. Meanwhile, the ETF outflow to global fixed income markets eased in late April amid the wave of USD assets sell-offs, supporting the TWD. In early May, the TWD outperformed as risk on flows collided with panic hedging on speculation that the CBC was allowing the TWD to appreciate due to trade talks.

- Defence Becoming the main risk: While defence has always been brought up as a key risk, the tendencies of the Trump administration to **extract costs from even ensuring freedom of navigation imply** the issues of paying for US security is likely to be come up sooner rather than later. Specifically, President Trump during his campaign trail called for Taiwan to be raised to 10% of GDP. Should such calls be re-iterated in Q2-Q3, TWD may be subject to a level shift on such shocks as political risk premium widens on a structural basis.

- Trade Talks: Accordingly, while there has been initial optimism over the initiation of trade talks with the US, the priority also underscores the fact that **there is much to discuss and negotiate** over which ranges from semiconductor technology to defence. On balance, any form of deal would likely tilt towards already reported investments in the US directly alongside military spending. Regarding currency valuation, the authorities stated that the US did not request a TWD appreciation.

- Antagonism Persists: Purchases of US made weapons may be a low bar for fiscal spending but may worsen antagonism from China especially if the US decides on an enhancement of military presence on the island. Chinese military drills and economic measures will continue to persist.

- Semi-conductor Relief: Admittedly, with the latest electronic exemptions from reciprocal tariffs covering Taiwan's semiconductor exports which make up a quarter of exports, there is understandably some relief for TWD bulls. Nonetheless, this **does not resolutely preclude continued exclusion from sectoral tariffs** in the months ahead given the fluidity situation. That said, the importance of semiconductors and electronics to major US firms as well as the defence industry imply that lobbying efforts will remain strong in the US.

- Frontloaded Growth: Q1 GDP growth of 5.4%YoY is one which is flattered by frontloading of exports and may slow in the months ahead. Nonetheless, with inventories being used as a buffer, there may be less of an outright cliff in production as the need for restocking in late 2025 may reveal itself.

- Equity Outflows: US$17bn outflows from equities since early February impact the TWD's ability to take advantage of the weaker USD, though the signs of trade talks and semiconductor exemptions aided some inflows in mid-April after six straight weeks of outflows from mid-Feb.

- TWD Outlook: We retain our view that the TWD will be in a state of vulnerability as risk off episodes upended the tailwinds from lower UST yields. Any inability to successfully navigate trade talks may lead to a re-test of 32 and even disproportionate negotiation costs in favour of the US may also lend weakness to the TWD. A broader backdrop of averting worst case global outcomes may also backstop oil prices and takes some shine of the TWD. As such, we expect a moderate and bumpy recovery for the TWD.

Rates

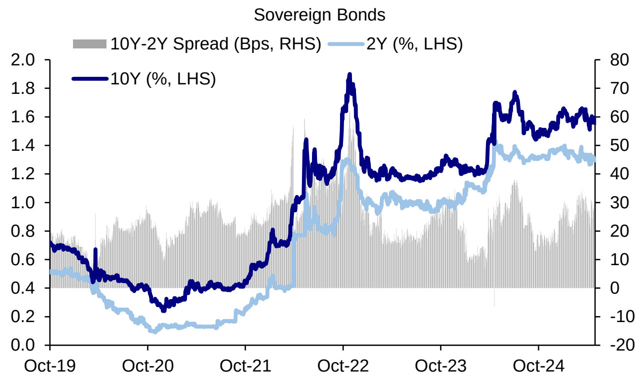
- Central Bank: Amid the **slower momentum of housing price growth in Taipei**, the CBC may have less qualms about easing policy rates in the months ahead. Given the significance of the US share of Taiwan's exports at around one-fifth as well as the indirect spillover from the trade war between US and China, the CBC may soon begin to ponder if **they should pre-emptively lower rates** in a calibrated manner. As such, we expect a 12.5bp cut starting in Q3 as frontload growth momentum push back the need for a Q2 start.

- Risks: The risk to our base case is that a bumpy growth path caused by ebbs and flows due to exemption windows may see the CBC refrain from easing until Q4/early 2026 when the growth momentum slows.

- Yields: Front end yields declined around 5bps from early February as tariff woes imparted easing prospects. The decline though still lacks regional peers reflecting the relative economic resiliency as well as the much small extent of rate hikes earlier.

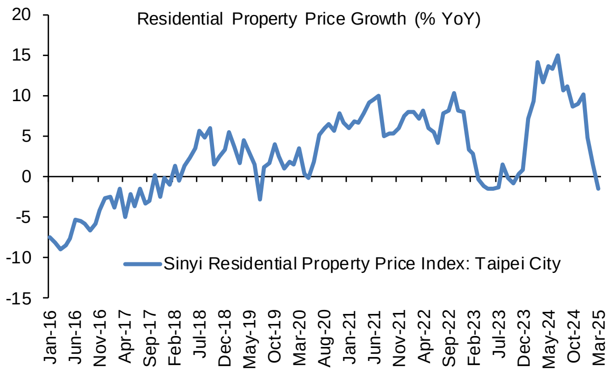
- Curve: With longer end yield dropping by a similar extent, the yield curve stay relatively unchanged. Our expectations are for further curve steepening but at a much small magnitude relative to UST yields.

Fig 6e. Decline in yields are relatively milder



Sources: Bloomberg, Mizuho

Figure 6f. Property price momentum slowed



Sources:CEIC, Mizuho

SGD: Intentions and Outcomes

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
S$NEER Slope	1.5%	1.0%	1.0%	0.0%	0.0%	0.0%
S$NEER Mid-pt	Hold	Hold	Hold	Hold	Hold	Hold
USD/SGD	1.327-1.376	1.278-1.355	1.289-1.341	1.299-1.353	1.292-1.344	1.276-1.328
	1.342	1.303	1.315	1.326	1.318	1.302
GDP (% YoY)	3.8 (A)	2.4	2.3	2.1	1.9	2.0
CPI (% YoY)	1.0	1.1	1.2	1.7	2.1	1.9

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 7a. SGD is the Clear Outperformer

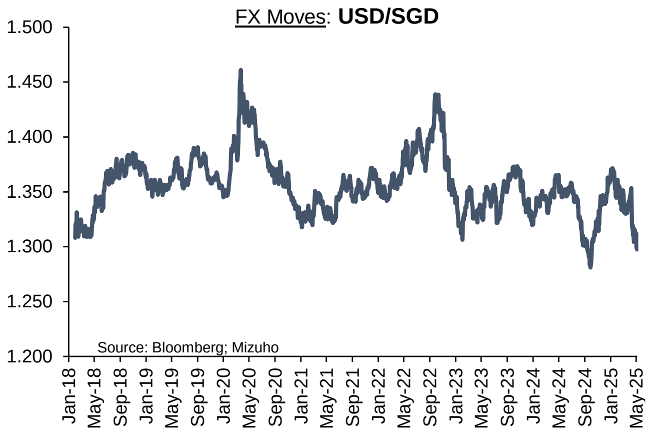
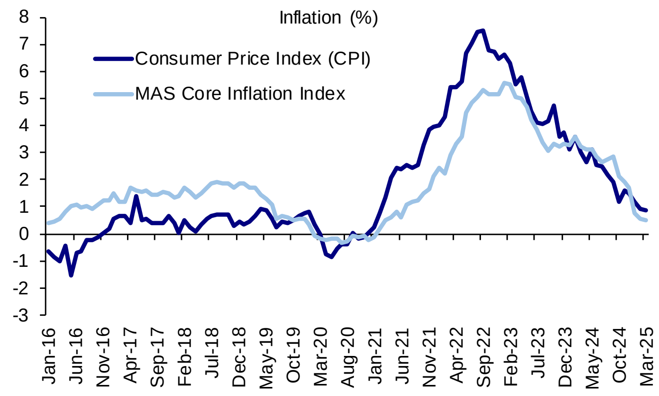
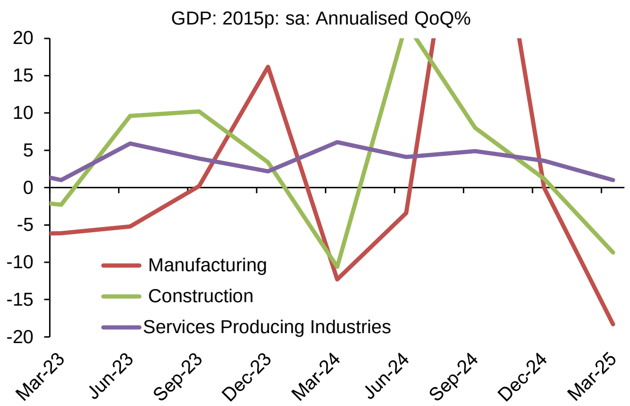


Fig 7b. Inflation Inflects Lower



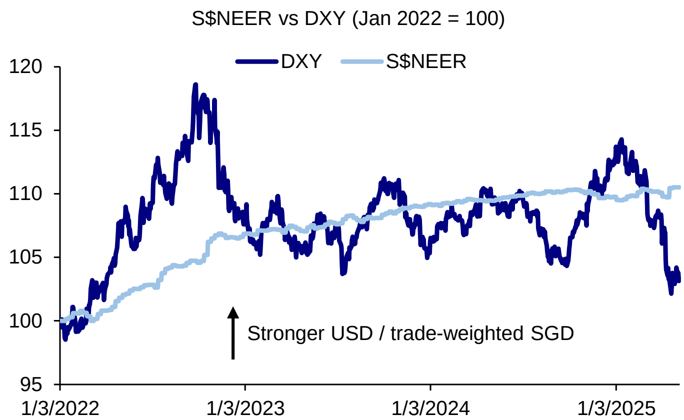
Sources:CEIC, Mizuho

Fig 7c. Q1 Growth Momentum Slowed



Sources:CEIC Mizuho

Fig 7d. S$NEER Remains Rich



Sources: Bloomberg; Mizuho

FX

- Outperformed: Since early February, the SGD has continued to outperform regional peers except for the TWD and JPY. A conspiracy of factors continued to aid the latest out performance

- Risk Off Sentiments: The SGD's quasi-haven status shone as risk off sentiments took hold in the US with equities plummeting amid sight of an escalating trade war between the US and China as well as the announcement and subsequent delay of reciprocal tariffs.

- Reciprocal tariff differentials: Singapore's trade deficit would aid in the implementation of reciprocal tariffs, Singapore was accorded the baseline tariff of 10% which was the lowest among ASEAN peers as the likes of Vietnam were threatened with punitive tariffs.

- Delays, Exemptions and Uncertainty: The sight of delayed tariffs and an escalating trade war with China ought to have took the shine of the more benign reciprocal arrangements. Nonetheless, the consequent exemptions for semiconductors also assisted given Singapore's importance in the electronics supply chain. The uncertainty over trade talks also mean that haven seeking behaviour also buoyed the SGD.

- MAS-Unintended Hawkish Easing: Domestically, the MAS delivered what was an effective, albeit inadvertent, hawkish easing. The hawkish surprise was written all over the counter-intuitive jump in the SGD (from ~1.32 USD/SGD towards mid-131). It appears that markets hoping for a more emphatic dovish move (i.e. slope suspension and/or re-centring the S$NEER mid-point lower). And to that they were disappointed with just a "slight" reduction* in the S$NEER slope., which is a more measured iteration of slope easing. Admittedly, this decision was not our pre-reciprocal call (which was a hold) given that the absolute scale of reciprocal tariffs surprised us even though the relative nature was within our calculus

- Dovish Guidance: To be sure, the guidance appears to be adequately dovish, with the MAS; suggesting that the "output gap will turn negative"; revising down inflation (core to 0.5-1.5%) as well as growth outlook (to 0.0%-2.0%); Alluding to external uncertainty in warning of economic and inflation risks tilted to the downside.

- Priming for Suspending Slope: Nonetheless, markets were justifiably probably primed for more unequivocal and urgent easing, with more unfettered shift to buffer against in-coming income shocks (from Trump 2.0 tariffs). In our view a suspended slope (0 % appreciation path in October) would have provided the three distinct advantages in policy positioning. First it unequivocally conveys a "neutral-dovish" stance to better respond to shocks either way. Especially given an already rich S$NEER. Second, and crucially, it would increase the chances of S$NEER softening now to provide interim buffer, whereas the S$NEER has ironically appreciated now. Finally, a suspended slope alongside dovish guidance will also help augment S$NEER for potential mid-point re-centring lower (if need be), as two-way $NEER impetus improves probability of S$NEER at the softer side of policy bands.

- SGD Outlook: Our revised SGD outlook is premised on our updated USD assumptions given that the SGD is likely to defer to broader USD movements.

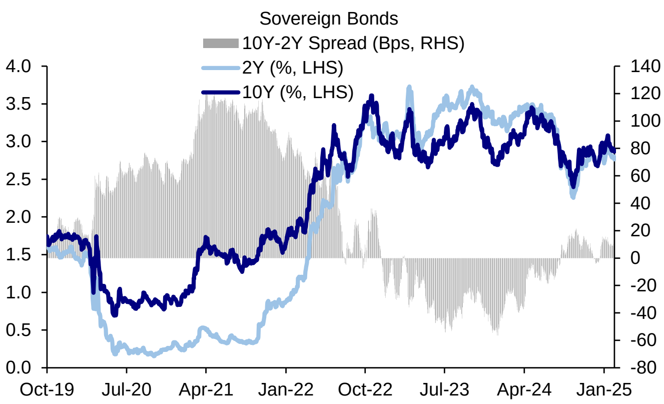
Rates

- Softer with Global Yields: Given that SGD rates are predominantly driven by global yields (mostly UST yields), the likelihood is that of softer rates as global central banks cut rates further wi translate into lower SGD rates 6-18months out.

- But Shallower Discount & Steeper Slope: Although, SGD yields may not quite fall as much as UST yields given that it is already at a significant discount. More importantly, policy shifts and capital flow risks could induce a narrowing of UST-SGS spreads (that impedes a more emphatic fall in yields. Moreover, long-end yields may also be propped up to a greater extent as a steeper UST curve is transmitted to the SGS curve.

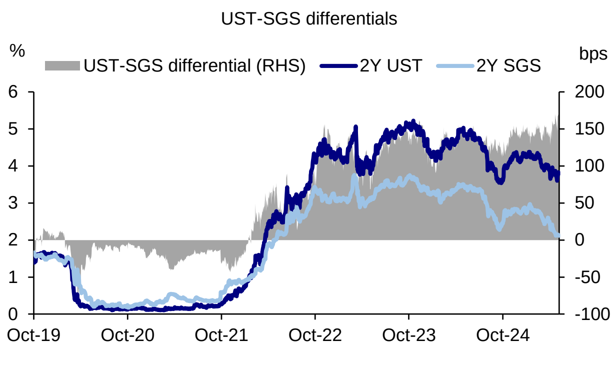
- The CIP & Wealth Impact: At the margin, the now reduced S$NEER slope could shift USD/SGD forward points to be less negative (less appreciation bias) in turn reducing SHD rate shortfall via-a-vis UST as per covered interest rate parity. Although for now the bearish USD effect is far outpacing the CIP effect. What's more, Trump 2.0 induced risk wobbles could also slow the pace of wealth inflows for Singapore, also limiting how much lower SGD rates may be than corresponding USD rates.

Fig 7e. Price-Taker of UST Shifts



Sources: Bloomberg, Mizuho

Figure 7f. SGD yields already at discount



Sources: Bloomberg; Mizuho

IDR: Little Cheer

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
Policy Rate (%)	5.75%	5.50%	5.25%	4.75%	4.50%	4.25%
USD/IDR	16130-16595	15910-16930	15810-16980	15920-17080	15760-16740	15360-16480
	16560	16400	16300	16500	16250	16000
GDP (% YoY)	4.9%	4.6%	4.6%	4.3%	5.1%	5.2%
CPI (% YoY)	0.6%	1.2%	2.2%	2.2%	2.7%	1.8%

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 8a. IDR shy of 17,000 amid BI interventions

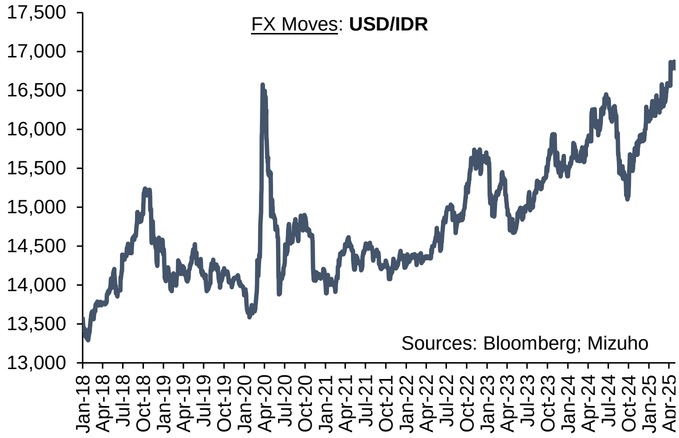
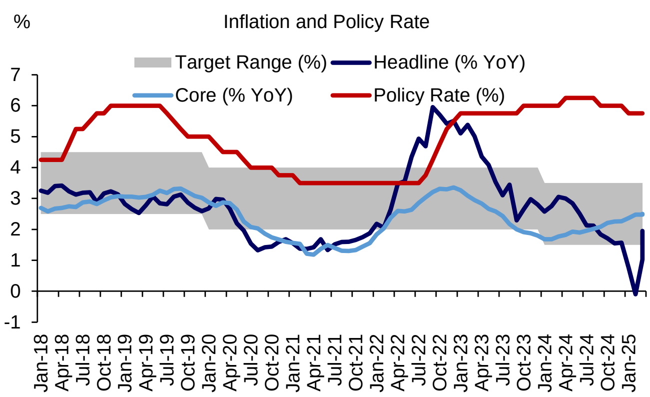
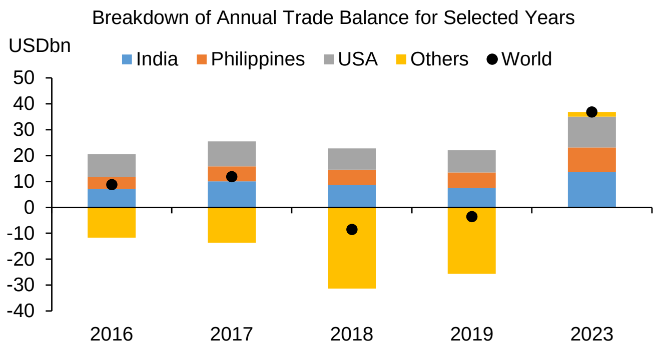


Fig 8b. Inflation returned to target range in April



Sources: CEIC; Mizuho

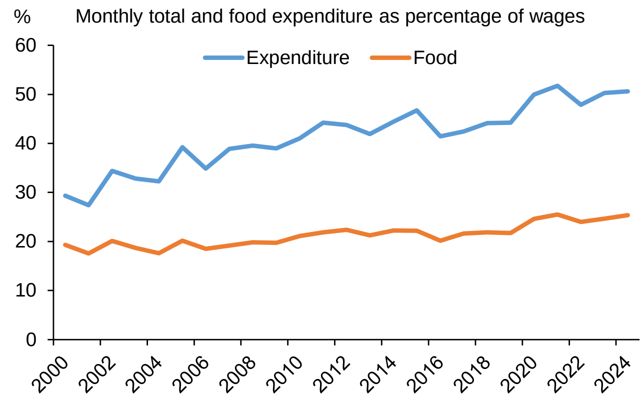
Figure 8c. Trade surplus against US is material



Note: Indonesia has largest trade surplus with India, Philippines and USA for selected years above.

Sources: UNComtrade; Mizuho

Fig 8d. Consumers spending more of wages on food



Sources: CEIC; Mizuho

FX

- Battered: Even as EM Asia FX has underperformed G10 currencies, the rupiah has fared worse compared to regional peers, with USD/IDR reaching record highs. Weakness in IDR was also despite frequent affirmations by BI that they have been intervening "boldly" in the markets.

- Unexplained Expenditure-Revenue Gap?: Relatively subdued tariff relief in IDR following Trump's temporary postponement of additional reciprocal tariffs (despite Indonesia's relatively higher additional tariffs) underscore fiscal worries. The confirmed expansion of the free lunch programme, which require another 0.4% of GDP is unlikely to be wholly financed by higher revenues from hiking mining royalties.[1]

- US Tariffs Potentially Worsen Current Account Surplus: Anyhow, tariff woes threaten to reduce Indonesia exports to the US, who is one of the top 3 contributors for Indonesia's trade surplus. This would have a direct hit on goods balance. Indonesia's pledge to offer to buy $10bn (~0.7% of GDP) worth of crude oil and LPG in trade negotiations does not bode well for the current account balance either.

[1] On 16 April, Indonesia raised the royalty rates to be paid by nickel, tin and other metal producers, following a public consultation.

- Reallocation of Funds Raises Domestic Tailrisks: Domestically, extreme austerity from deep budget cuts by various ministries, with funds channelled to new sovereign wealth fund (Danantara), risks engendering social unrest should the desired outcome of reducing expenditures be realised through removal of on-the-ground programmes rather than trimming inefficiencies.

- Danantara's Confidence Gap & Equities Outflows: Persistent equity outflows add to pressure on IDR. Notably, the Jakarta Composite Index selling off (down 4.7% intraday) on 24 March amid transfers of stakes to Danantara underscore jitters surrounding the fund's governance and accountability.

- Nonetheless, early Budget Deficit May Not be as Bad as it seems: Early budget deficit (belatedly revealed) may not be as bad as headlines suggest, as the deficit was mainly due to a sharp fall in revenues (YTD revenues down 13%), while the much-feared large-scale spending did not realise, with YTD expenditures registering only a ~1% increase on a year-ago basis. The Finance Ministry attributed the fall in revenues to poor commodity prices and complications in tax collection due to the watered-down VAT taxes.

- Jitters Amid Bill Revisions: Compounding the above issues, an amendment to Indonesian Armed Forces (TNI) Bill was passed, which would allow military personnel to take on civilian posts. Previously, military officers can only hold top positions in certain government agencies primarily related to security and defence. Military officers are still prohibited from engaging in business activities. Nonetheless, the amendment may see a shift towards more pro-growth policies at the expense of fiscal sustainability.

- Growth Risks Abound: Q1 GDP disappointed; while long-term prospects have been dimmed on shrinking middle class and rising informal employment for university graduates (which alludes to structural skills mismatch).

- Little Cheer to IDR Outlook: Any dips below 16,000 would be tough, while break of 17,000 may be forthcoming.

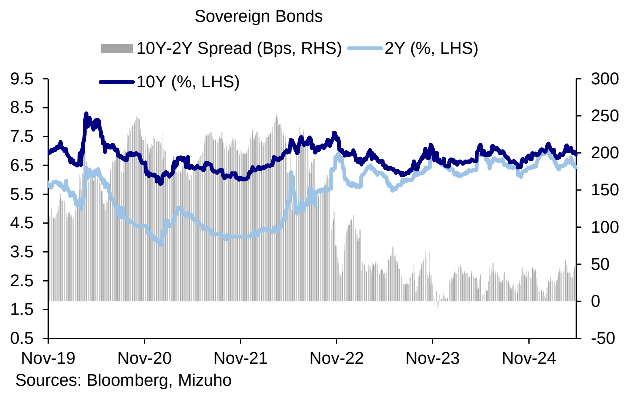
Rates

- Return to a Pause: Following a surprise cut in January, Bank Indonesia returned to a pause for subsequent meetings on rupiah stability concerns. While heightened growth risks add pressure for a cut while inflation has been printing below target[2], BI have few good options amid heightened IDR risks.

- BI Mandate Revisions?: Lawmakers discussing changes to BI's mandate also does not incite confidence. While BI Governor Warjiyo has clarified that the mandate change is to clarify the definition of supporting "sustainable economic growth" as encompassing stability, economic growth, and job creation, one major risk to watch is whether the revisions touch on BI's bond-buying powers, which could mean increased bond purchases and see BI's holdings of IndoGBs climb from already elevated levels.

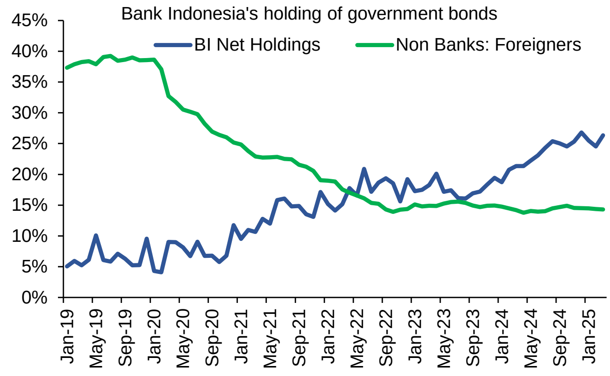
- Yield Curve: Likely to steepen as BI's easing bias is arguably intensified, while longer-ends yields ought to be supported amid fiscal woes.

Fig 8e. Term spread broadly stable.



Sources: Bloomberg, Mizuho

Fig 8f. BI Holdings of Government Bonds elevated



Source: CEIC; Mizuho Bank

[2] Note: Headline inflation plunging to deflation territory was on the back of massive discounts to electricity tariffs in January and February.

MYR: External Risks

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
Policy Rate (%)	3.00%	3.00%	3.00%	2.75%	2.75%	2.75%
USD/MYR	4.38 – 4.51	4.12 – 4.50	4.06 – 4.33	4.12 – 4.41	4.02 – 4.31	3.92 – 4.19
	4.43	4.27	4.18	4.26	4.14	4.07
GDP (% YoY)	4.4% (A)	4.7%	3.6%	3.9%	4.5%	4.1%
CPI (% YoY)	1.5%	1.5%	1.9%	2.1%	2.0%	2.0%

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 9a. MYR stronger since "Liberation Day"

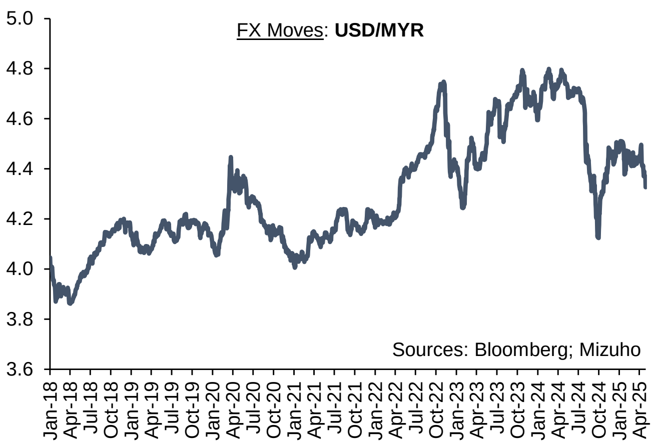
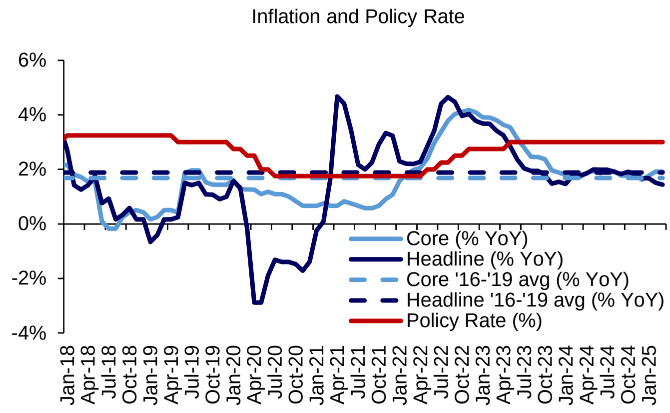
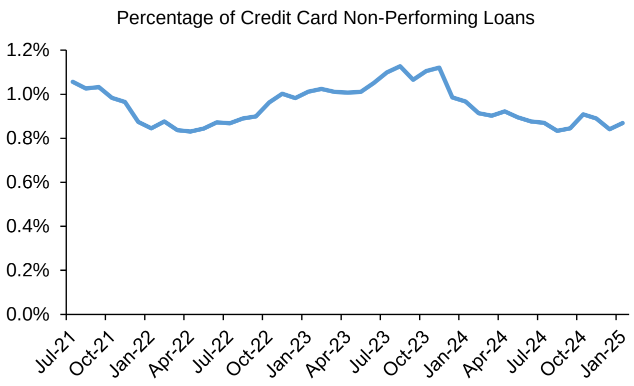


Fig 9b. Inflation remains stable



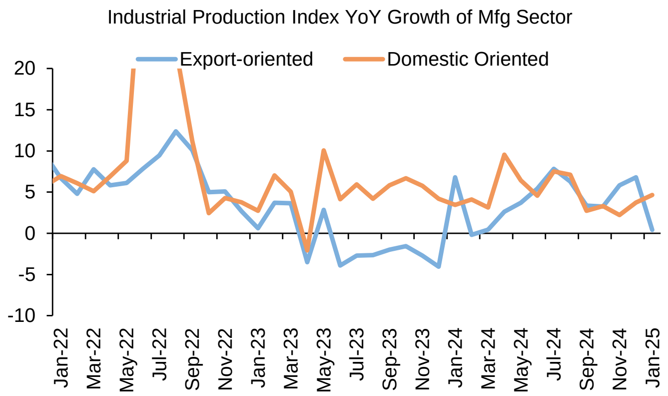
Source: CEIC; Mizuho

Fig 9c. NPL of credit card loans modest



Sources: CEIC: Mizuho

Fig 9d. Domestic-oriented manufacturing supported



Source: CEIC; Mizuho Bank

FX

- Outperformance: MYR is ~5% stronger against the greenback since Trump's "Liberation Day" on April 2, making it one of the outperformers alongside trade-sensitive TWD, KRW, SGD and THB. The somewhat counterintuitive performance that trade-sensitive currencies are stronger despite the tariffs may be attributed to reduced uncertainty on how the Trump administration would go about tariffs prior "Liberation Day", in addition to the temporary relief from the 90-day stay order and some progress in trade talks which signal that the Trump administration is open to negotiate.

- Second-order Tariffs Headwinds?: While Malaysia's original 24% tariff (which has been temporarily reduced to 10% for 90-days) is lower compared to Vietnam, the export sector constitute a relatively larger proportion of GDP (exports at 71.4% of GDP). In addition, sectoral tariffs on semiconductors (if indeed actualised) would have a disproportionately larger impact on Malaysia.

- Disappointing Q1 GDP Print & Domestic Resiliency: Q1 GDP print disappointed on slower growth in manufacturing, construction and services. Nonetheless, growth should be supported by domestic resiliency in household spending. Industrial production for domestic-oriented manufacturing has been stable, while growth in export-oriented manufacturing moderated. For now, front-loaded disbursement of handouts (announced in Budget 2025)[3] and last year's EPF withdrawals ought to support spending; but to watch for any souring of domestic sentiment. All in, we lower our 2025 GDP forecast to 4.2%.

- Imminent Support: The Malaysian government has shown to be rather proactive amid trade headwinds. In March, it was announced that the Employees Provident Fund (EPF), state sovereign wealth fund Khazanah Nasional and investment management company Permodalan Nasional Berhad (PNB) will commit an additional MYR120bn to private companies, including startups, over the next five years, as part of a broader strategy to reduce Malaysia's reliance on FDI and to strengthen its economic resilience as geopolitical risks loom. Assuming a uniform outlay per year, FDI boost per year could account for 1.0% of GDP. Nonetheless, overall investment growth could still decelerate this year as heightened uncertainty taper FDI inflows.

- Downside Inflation Risks: Inflation has been stable. The delay in roll-out of SST should continue to see sub-1.5% headline inflation in the next few months. While the eventual increase in SST and RON95 subsidy rationalisation programme would add to the headline number, we do not expect the impact to be significant given moderate impact from 2024 SST rise and the latter being a two-tier programme where only the top 15% earners are ineligible for the fuel subsidies. In fact, risks could be tilted to downside given that US-China terse trade relationship could mean China's diversification and exporting deflation to ASEAN countries.

- Fiscal Consolidation on Track: Fiscal consolidation met 2024 target of 4.3% of GDP, while fiscal consolidation appears in progress. Despite the delay, we expect SST to be implemented this year; while RON95 subsidy rationalisation appears on track with authorities stating that it was firming up the mechanism behind the programme. Commitment towards fiscal consolidation ought to impart confidence to the ringgit.

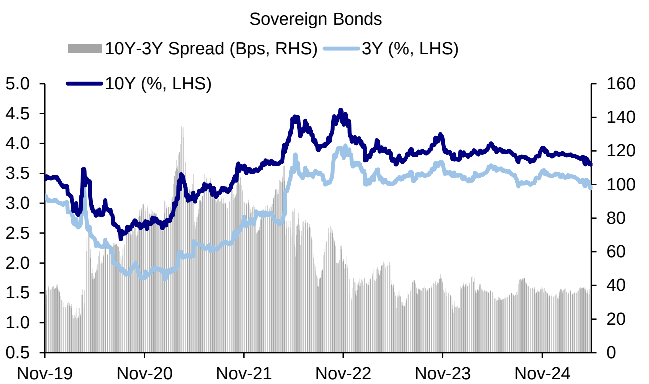
- MYR Outlook: BNM's steady hands ought to provide an anchor for rates, and ringgit ought to be benefit from lower UST yields. Nonetheless, heightened two-way volatility persists as headline tariffs risks could evolve into actual trade headwinds.

Rates

- Prudent BNM?: No surprises to BNM's hold at the March meeting. Looking ahead, inflation should be steady but key risks lay in global uncertainties and attendant spillovers to domestic sector. We have thus changed our base case from a prolonged hold to a cut in H2 (likely Q4), especially if there is any evidence of a material manufacturing sector downturn and/or souring domestic consumer sentiment. Following the cut, we expect BNM to take a prudent approach and be cautious against further easing. In other words, we expect BNM to pause for a prolonged period after any easing as it wait-and-see.

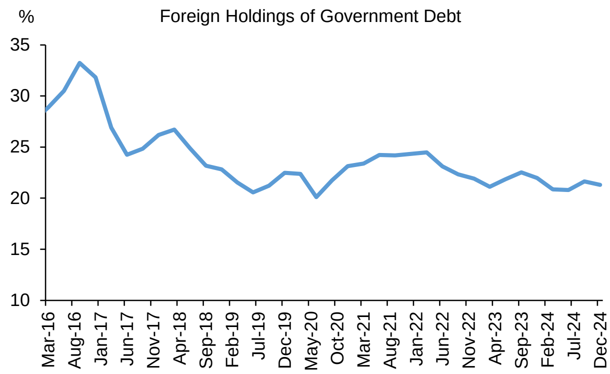
- Bias for bull-steepener: Yields have moved lower across the curve, with 3Y ~17bps lower and 10Y ~14bps lower compared to end-February levels, in a steepening move. This may be attributed to external headwinds imparting higher odds for a possible cut by BNM in coming quarters. Curve could bull-steepen further in coming further as growth risks add to odds of an insurance cut by BNM.

Fig 9e. Spreads stable with BNM anchoring rates



Sources: Bloomberg, Mizuho

Figure 9f. Foreign Holdings of Government Debt



Sources: CEIC; Mizuho

[3] Government has agreed to provide a special Aidilfitri financial assistance to civil servants of certain grades and government retirees; and has brought forward the disbursement of Sumbangan Tunai Rahmah (STR) handouts for nine million recipients.

PHP: Two Sides of a Coin?

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
Policy Rate (%)	5.75%	5.25%	5.00%	4.75%	4.50%	4.50%
USD/PHP	57.1 – 58.7	53.6 – 57.5	53.3 – 57.1	54.4 – 57.9	53.5 – 56.9	52.8 – 56.0
	57.2	55.8	55.4	56.1	55.2	54.4
GDP (% YoY)	5.7%	5.8%	5.1%	4.9%	5.4%	5.8%
CPI (% YoY)	2.2%	1.9%	2.0%	2.1%	2.0%	2.5%

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 10a. PHP outperformed regional peers of-late

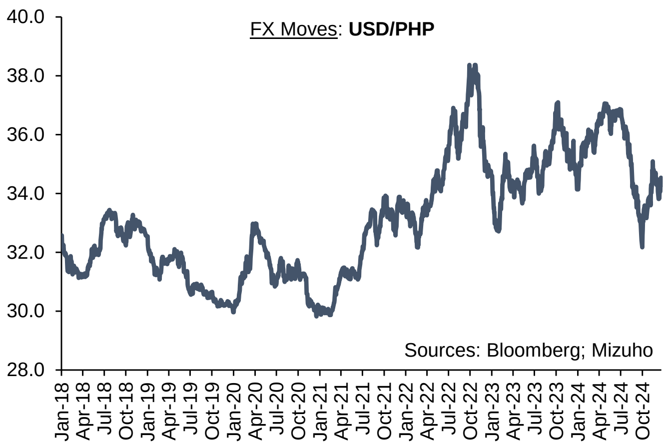


Fig 10b. Upside inflation risks contained

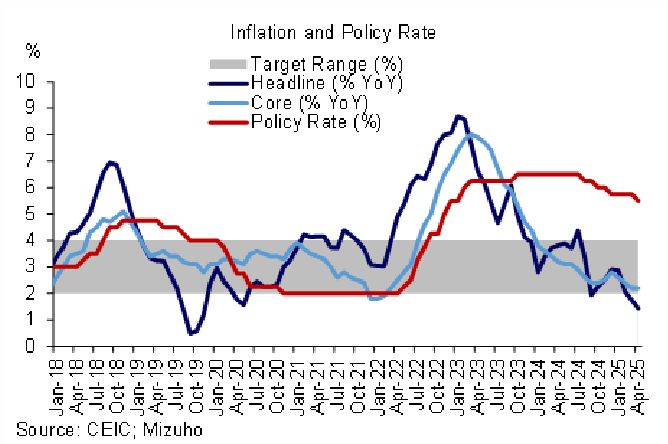
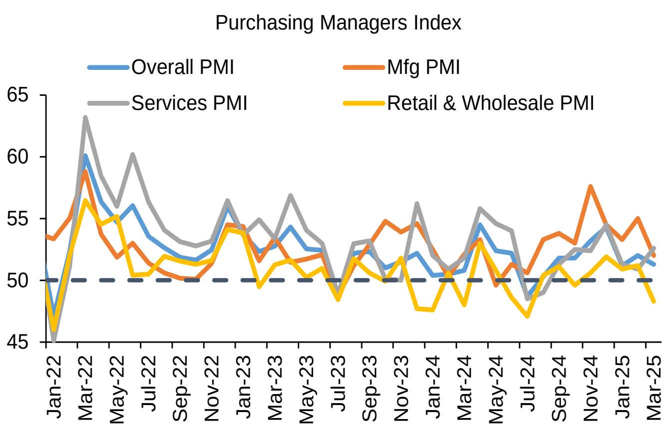
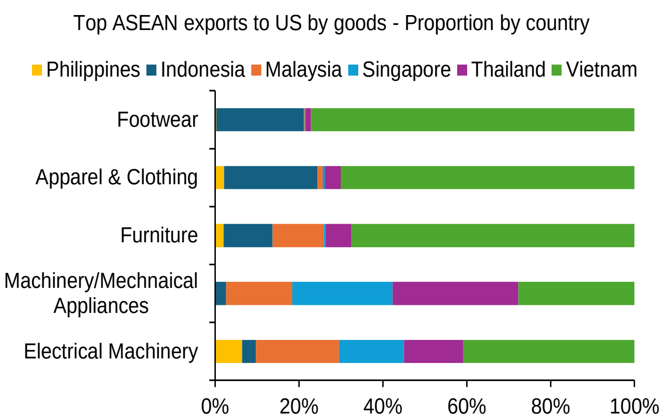


Fig 10c. Contracting Wholesale & Retail PMI



Sources: CEIC; Mizuho

Fig 10d. Philippines may gain from trade diversion



Note: In this case, for ASEAN, we only used Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam.
Sources: UNComtrade (2022); Mizuho

FX

- Unlikely (Tariff) Relief?: Philippines's lower beta to tariff headlines saw the Peso outperforming regional peers. Notably, USD/PHP has held to gains below 58 levels with BSP Governor Remolona stating in late March that the central bank had been "less active (in interventions)" in the last few months.

- US Tariffs Impact More Measured Relative to Regional Peers: Philippines fared relatively better compared to regional peers for US' reciprocal tariffs. Even as positioning in semiconductor supply chain would mean spillovers, impact ought to be more modest relative to regional peers. Meanwhile, nascent pharmaceutical industry and a more domestically-focused automobile industry limit impact of external trade headwinds. Somewhat ironically, Philippines not as strong sectors relative to regional peers have turned into shelter amid tariff threats.

- Unfazed by Trade Headwinds?: Notably, Philippines has appeared less anxious compared to regional peers, with talks with US only scheduled in May. DOF had also previously put a positive spin on the tariffs, commenting that Philippines could still be "a hub for global value chains, particularly in industries like electronics, textiles, food and automobiles." While the optimism may stem from the relatively lower US tariffs levied on Philippine imports, it remains an open question how much Philippines may benefit.

- Domestic Growth Risks Dominate: Meanwhile, downside growth risks continue to be watched closely. Retail & wholesale PMI has dipped into contractionary territory which is likely emblematic of weak consumer sentiments. All in, we have revised our 2025 GDP forecast lower to 5.4%, from 5.6% previously.

- Some Scope for Further Narrowing of Current Account: Current account deficit narrowed to 3.5% in Q4 (Q3: 4.7%), and ought to continuing narrowing on improved goods balance. In particular, imports of necessities (e.g. rice) could come down on better stock inventory. Nonetheless, current account deficit ought to remain a distance from 2016-2019 average (1.1% of GDP). While goods balance face trade headwinds, boost from services balance may be limited insofar as Chinese tourists are unlikely to return to pre-pandemic levels (2024: 5.7% of tourist arrivals; 2019's number was 21.3%), given visa requirements, bumpy China recovery and ongoing geo-political tensions in relation to disputed waters.

- Limited FX Spillovers from Political Tensions: Thus far, we have seen somewhat limited spillovers amid the ongoing Marcos-Duterte saga. Insofar as the mid-terms due May 12 are unlikely to see a drastic change in economic and/or fiscal policy direction, FX spillovers may continue to remain measured despite news headlines.

- PHP Outlook: Insofar as tariff news still dominate headlines, PHP may see better-than-average performance. However, once trade negotiations takes off or amid tariff relief, PHP may underperform regional peers. Overall, may perform in the middle of the pack given lower boost from China's (albeit bumpy) recovery.

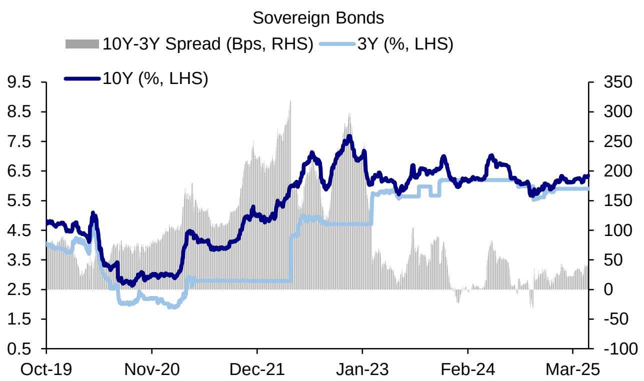
Rates

- On course to ease: BSP resumed easing in April after unexpectedly standing pat in February. Notably, BSP lowered its risk-adjusted 2025 inflation forecast from 3.5% to 2.3%. Alongside recognition of growth risks, it appears that all stars are aligned for further easing. Premised on a supported PHP, managed inflation and subdued growth indicators, BSP ought to proceed with another cut in June. Notably, Governor Remolona recently expressed his openness to a further 75bps more cuts this year (i.e. 100bps cut this year from 50bps previously in March).

- Some tailrisks of "Jumbo cut": We think there are some tail risks of a "jumbo cut" in H2 should domestic growth deteriorates materially. This could bring total number of cuts to 125bps this year. Should this scenario be realised, rates in 2026 could go below 4.50% as BSP moves towards accommodative stance.

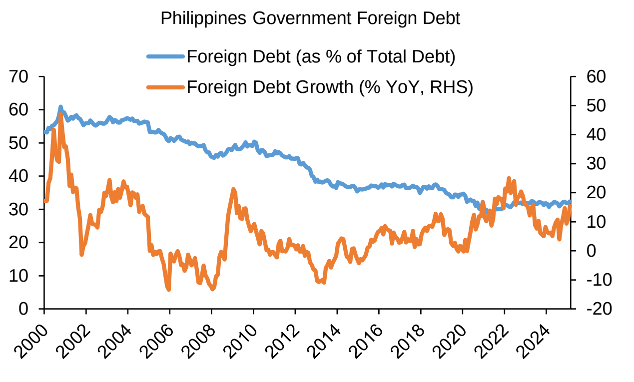
- Yields: Down bias as sovereign bonds may benefit from investors looking to sit out any ripple effects from US tariffs on emerging bonds amid high yields, easing bias (which means increase in prices), Philippines' relatively lower dependence on external trade, and foreigners' minimal holdings of government securities.

Fig 10e. Short-term stable despite BSP's cuts



Sources: Bloomberg, Mizuho

Figure 10f. Foreigners' Government Bonds Holdings



Sources: CEIC; Mizuho

THB: Hits and Misses

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
Policy Rate (%)	2.00%	1.50%	1.25%	1.25%	1.25%	1.25%
USD/THB	33.3-34.9	32.1-35.4	31.9-33.9	32.7-34.1	32.1-33.5	31.9-33.8
	33.9	33.3	32.6	33.4	32.8	32.5
GDP (% YoY)	2.7%	2.3%	1.4%	1.6%	1.7%	1.8%
CPI (% YoY)	1.1%	1.2%	1.5%	1.4%	1.4%	1.3

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 11a. THB heading for bumpy recovery

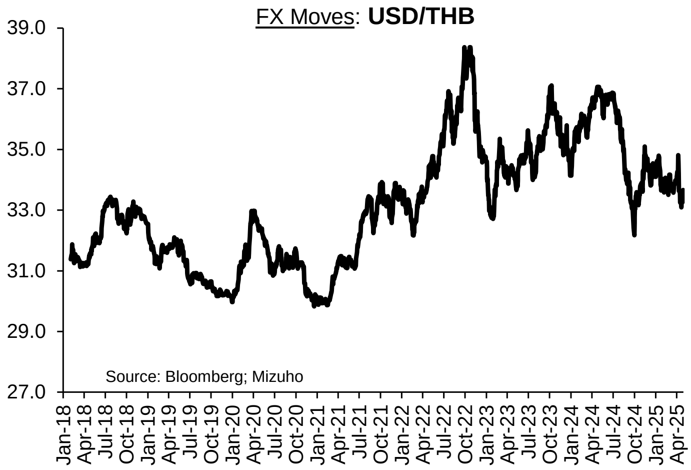


Fig 11b. BoT keeps the door open for further cuts

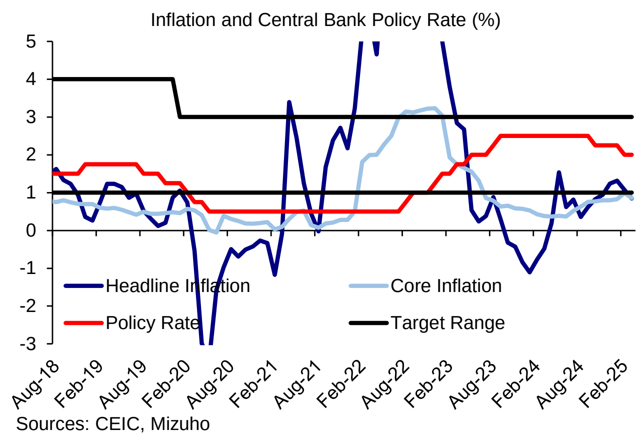


Fig 11c. Tourism soft spots persist

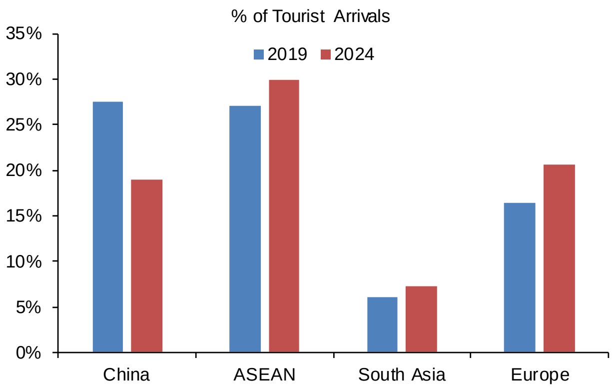
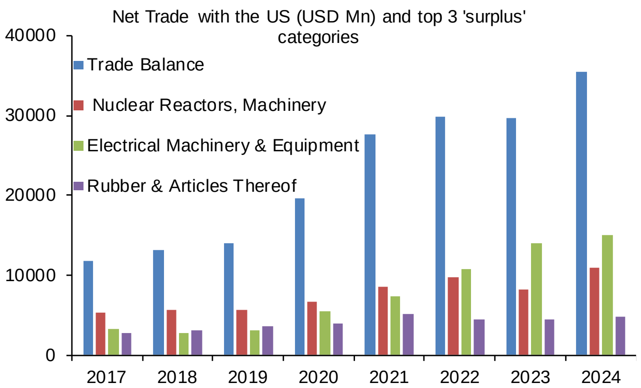


Fig 11d. Trade surplus becomes a key risk



FX

- Middle, Not Necessarily Stable: While the THB has appreciated with a **middle of the pack performance since early Feb, this should not be misconstrued as relative stability** given substantial volatility of riding on the coat tails of lower UST yields, JPY gains and gold's strong ascendency. The THB will still be subject to downside pressures from the need to cut rates even after the surprise Q1 cut which we had anticipated and the April cut. Uncertainty over tariff negotiations will also weigh on THB. Furthermore, BoT Governor selection will turn more critical and is likely to end up more contentious than the chairman selection process.

- Tariffs Hits and Misses: Externally, **US tariffs on steel and aluminium will remain painful as the US market makes up about 10% of their aluminium exports**. This though may not show up via aggregated GDP figures as the mining and quarry sector makes up less than 2% of GDP. Moreover, reciprocal tariffs at 37% will be economically damaging should it come through after the 90 day delay and its rate is only behind regional peers such as Vietnam and Cambodia**.**

- Negotiations Hardly Smooth: Even as negotiation teams flew into Washington alongside Asian peers, the sight of being tasked by the US to relook into various trade issue which delayed the initial start date is hardly comforting for THB bulls hoping for a smooth resolution. With planned talks said to come only in early May rather than the initial 23 April, “good news” may be hard to come by and actual details of a deal is certainly a much higher bar should the pace of the oscillating progress continues.

- Tourism Hits and Misses: Tailwinds are also not at full speed. While arrivals have largely recovered to pre-pandemic levels, the underlying composition has largely shifted. The share of visitors from China has plummeted to below 20% in 2024 while the corresponding in ASEAN arrivals tend to have slightly shorter stays and lower expenditure per capita. European tourists have also taken a larger share, the attractiveness of their longer stays though is diminished by lower expenditures. On balance**, travel receipts are only at about half of pre-pandemic levels** but the ability of THB bulls to exploit this upside may be limited given China’s worries over consumption and adverse headlines surrounding scam centres along Thailand’s borders.

- Accumulation of Worrying Tranches: While the initial shock of the digital wallet plans from 2024 have largely faded, we note that the more optically pleasing mechanism of splitting up these cash transfer into various tranches (such as the **third tranche** being catered to 16- to 20-year-olds which will amount to 27b THB) represents a **creep up in fiscal debt that remains worrying**. In turn, Moody’s downgrade of sovereign rating from stable to negative was not too surprising considering growth woes.

- Unrelenting outflows: Equities outflows persisted throughout February and March though there were some bond inflows in early March amid the risk off tones.

- China’s Trade Woes Dent Domestic Policy Efficacy: The on-going phenomena of **imports from China denting growth will continue to persist and may even intensify as Chinese companies diversify their target markets away f**rom the US. Efficacy of fiscal transfers may be diminished.

- Outlook: Given the level USD shifts experienced recently, we downwardly revised our projection for the THB to sustain buoyancy above mid-32 especially as reciprocal tariff deadline approaches in Q3 amid a need for further rate cuts. Even as we envisage a further recovery in USD/THB, it can still easily re-test 34 in various scenarios which range from a return of US exceptionalism alongside fading gold tailwinds to a worries about the fiscal sustainability in Thailand as trade woes may trigger another round of increase in public debt levels.

Rates

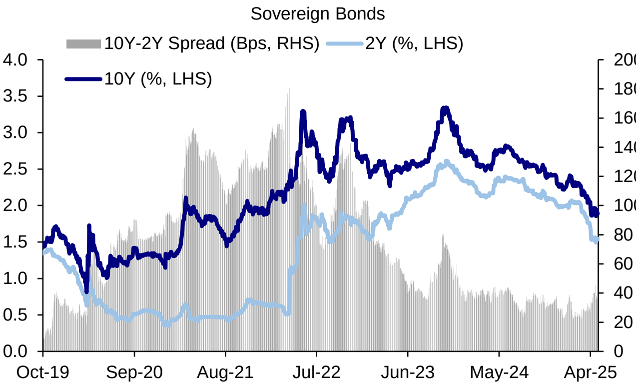
- Central Bank: Even though the BoT proceeded with a consecutive cut in April**, we envisage another 25bp cut to materialise in June** as growth momentum may begin to affirm their expectations of a slowdown. Looking ahead, we continue to expect rate cuts in Q3 and at 1.25%, the BoT may pause to reassess the severity of economic slowdown before embarking on further cuts.

- Risks: The main worry continues to be an erosion of central bank independence which leads to a bigger than expected decline in yields on the front end while longer end may rise as a greater risk premium is demanded with the fiscal trajectory heading toward the legal limit in the medium term.

- Yields: Front end yield have declined by almost 50bps since early February amid the rare cut for the BoT.

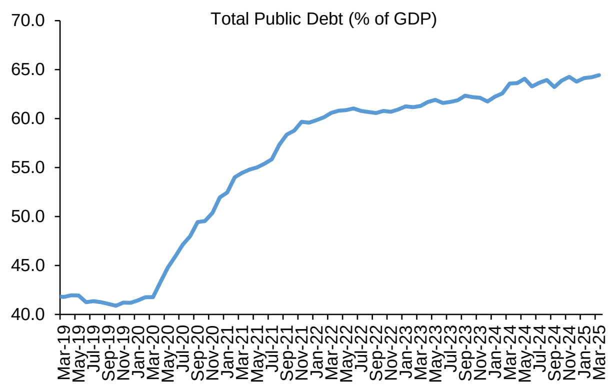
- Curve: The smaller decline in 10Y yields resulted in a curve steepener. Nonetheless, there is more room for further steepening as the fiscal slippage risks remain high and the need for monetary policy accommodation at the front end continues to rise.

Fig 11e. Curve steepened in recent months



Sources: Bloomberg, Mizuho

Figure 11f. Public debt crept up in Q1 2025



Source: CEIC; Mizuho

VND: Heavy Damage and Extreme Volatility

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
Policy Rate (%)	**4.50%**	4.50%	4.50%	4.50%	4.50%	4.50%
USD/VND	**25038-25651**	25400-27000	25600-26900	25700-27000	25600-26900	25300-26600
	25577	26200	26100	26200	26100	25800
GDP (% YoY)	**6.9**	6.0	6.1	6.3	6.3	5.8
CPI (% YoY)	**3.2**	3.0	3.3	3.6	3.2	2.9

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 12a. VND weakness hard to reverse

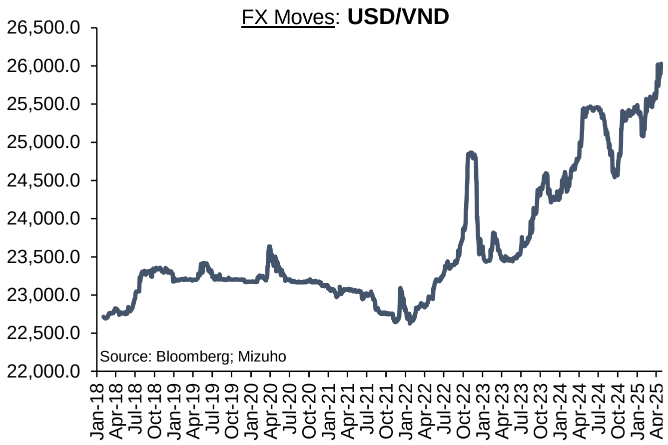
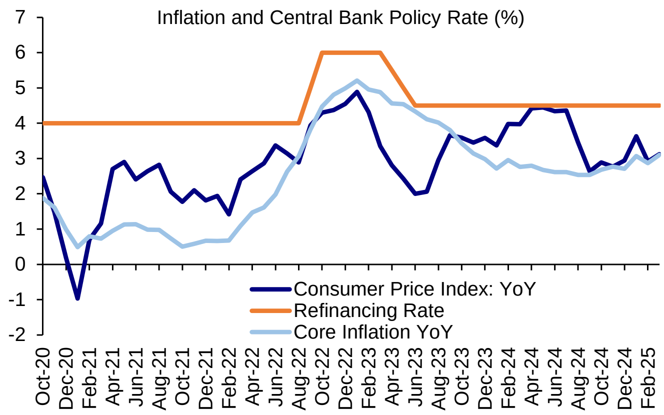
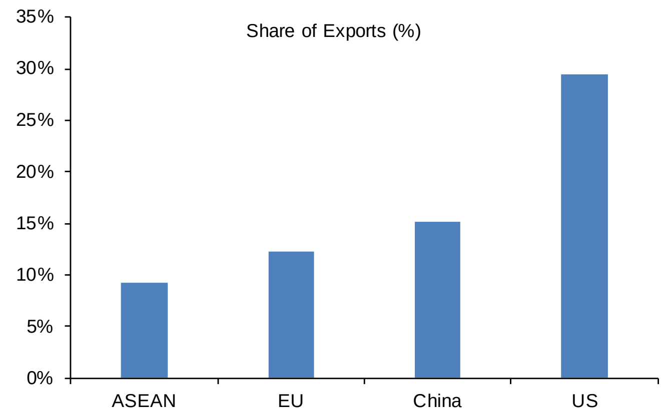


Fig 12b. SBV to continue to hold rates



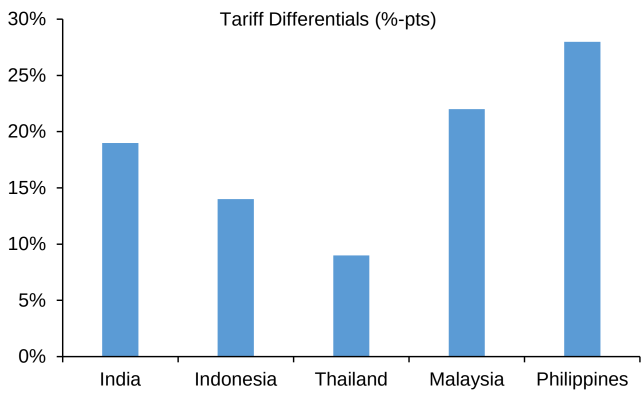
Source: CEIC; Mizuho

Fig 12c. US is a key export market for Vietnam



Sources: CEIC, Mizuho

Fig 12d. Vietnam subject to higher reciprocal tariffs



Sources: White House, Mizuho

FX

- Tailwinds Faded: As expected, fading of seasonal demand and rising tariff fears led to VND weakening since early Feb. Even as growth targets are upgraded and economic activity in Q1 staying robust, the tendency for front-loading imply that the growth momentum may be tough to sustain in late 2025. Furthermore, **Trump's 46% tariffs on Vietnam's exports to the US will be utterly damaging** on growth if it comes through and even as the reciprocal tariffs are delayed and trade talks are indeed on-going, the VND has barely shown any relief to reflect that worries are merely being kicked down the road.

- Front load growth resilience: Q1 GDP growth stayed resilient and may even stay robust in Q2 on substantial efforts to ramp up production and frontload exports to the US. Nonetheless, the uncertainty of investment spending will crimp the VND outlook.

- Deep and Broad Tariff Risks: With **US taking up a staggering 29% share of Vietnam's total exports**, trade diversification is far from easy. The hit on corporate margins will be utterly discernible and lower employment may easily follow from lower orders especially in the labour intensive apparel and footwear sector. More worryingly, longer term investment shifts away from Vietnam may come to mind as the extent of these punitive tariffs utterly **decimates the China+1 strategy and erodes Vietnam's comparative advantage as a manufacturing hub.** Sub-6% GDP growth is a tail risk worth pondering about for 2025. Official growth targets which were too lofty to begin with ought to be adjusted downwards.

- Rise In VND reference rate: The recent creep up in the SBV's VND reference rate is worrying. For one, even if it makes exports more competitive, the VND weakness does not reflect broader economic confidence. In fact, given the substantial widening of the spot rate and the upper limit, this could path the way for SBV easing without breeching the upper limit which would involve depleting already lower FX reserves.

- Depreciation on Easing: Consequently, any attempts to ease policy rates would need to face reckoning from sharp VND depreciation pressures. This **risk of a policy mistake is not a remote one at this juncture as growth risks will weigh heavily on policy makers** especially as any hopes of a repeat of trade diversion into Vietnam under Trump 1.0 would have been dashed after the reciprocal tariff announcements.

- Negotiation Prospects Dim: Even as optimist hinge on negotiation hopes, a quick resolution or reversal is unlikely for Vietnam and this is not a reflection of the Vietnamese government lack of actions. Instead, it is rather evident that **members of his administration had already prior experience of opposing Vietnam's market economy status and Vietnam's perceived close relations with China. These non-quantitative aspects will significantly lower the odds of a successful negotiations.**

- Outflows to Persist: Outflows from equities persisted into December 2024 and intensified in Q1. Risk off sentiments imply that outflows will continue and pressure the VND.

- Outlook: Sharp VND depreciation risks is to be watched for and testing 26500 is certainly a possibility even as the SBV will attempt to temper extreme volatility. Into H2, even as global trade negotiations may temper USD strength, a quick return to sub-25500 may elude as supply chains would have taken a fundamental shift and reversion to pre-Covid levels are now a remote possibility unless trade negotiation yield very significant roll-back in tariffs. Policy errors in the face of heighten uncertainty may worsen the VND's recovery path.

Rates

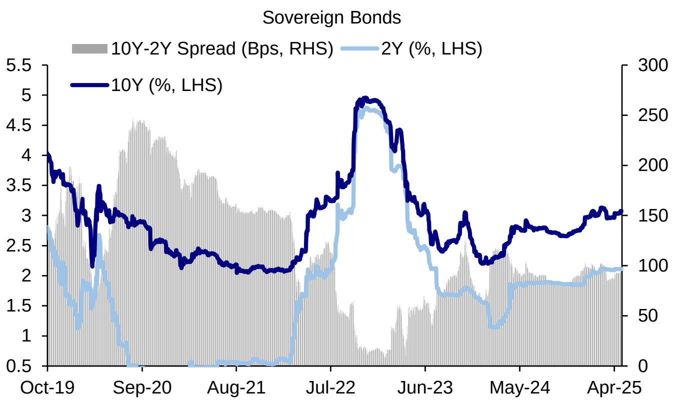
- Central Bank: Amid growing concerns over Vietnam's medium-term prospects, VND pressures will remain the primary concern amid a need to continue debt restructuring efforts in the bond market. Accordingly, we retain our base case for the SBV to continue to hold onto rates for the year ahead.

- Risks: Policy mistakes continue to be key tail risks and the tendency to slip into an error has grown because trade-offs have grown even more acute. Downside risks to growth have grown considerably to back the case to ease monetary policy.

- Yields: Front end yields were lifted slightly higher relative to long end yields to result in some mild flattening.

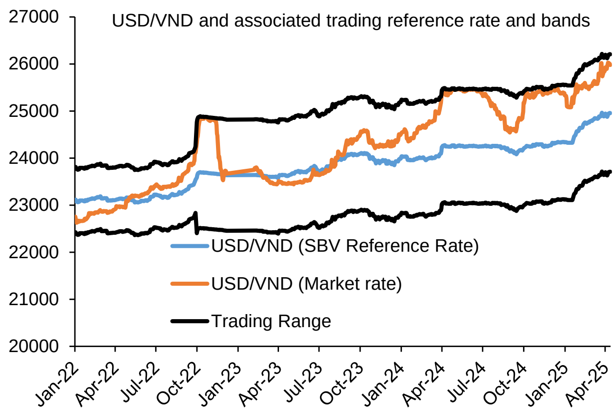
- Curve: The curve may remain rather stable on most occasion but is subject to risks of steepening pressures from spillover effect of UST yields. Stability is very much desired by the authorities who are looking to backstop growth by keeping front end yields low and as such upside in front end yields is temper but may still give way to overall UST dynamics. Nonetheless, downside room is also limited as the need to anchor VND is apparent.

Fig 12e. Curve mildly flattened



Sources: Bloomberg, Mizuho

Figure12f. VND depreciation risks remain.



Source: Bloomberg; Mizuho

AUD: Reciprocity and Spillovers

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
Policy Rate (%)	4.10%	3.85%	3.60%	3.35%	3.35%	3.35%
USD/AUD	0.608-0.641	0.594-0.663	0.622-0.675	0.626-0.664	0.632-0.678	0.637-0.684
	0.625	0.639	0.655	0.645	0.658	0.664
GDP (% YoY)	1.3	1.3	1.1	0.6	0.9	1.0
CPI (% YoY)	2.4	1.9	2.3	2.2	2.3	2.4

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 13a. AUD gains since early Feb lagged G10

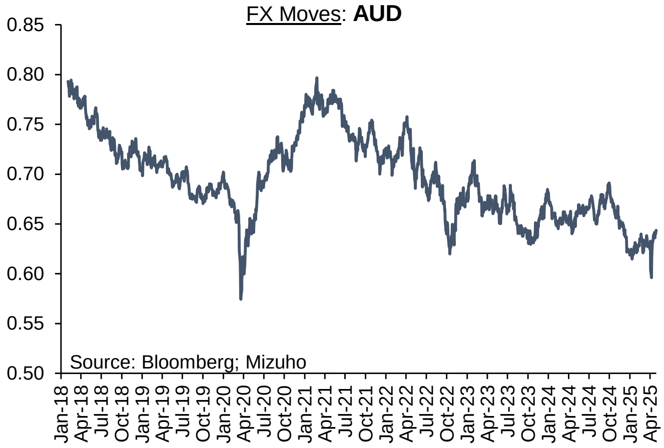


Fig 13b. Inflation within range

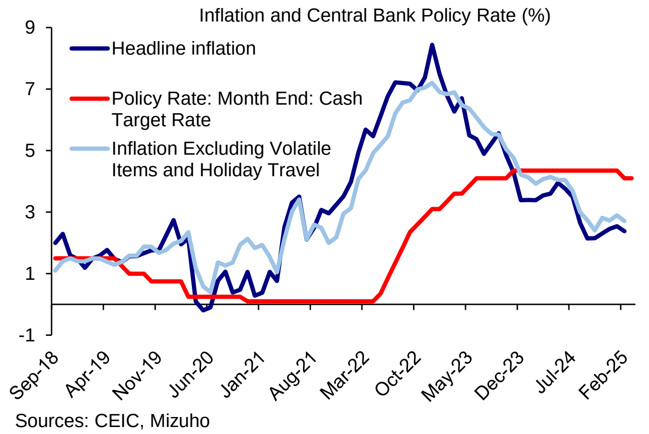


Fig 13c. Employment not yet a full blown worry…

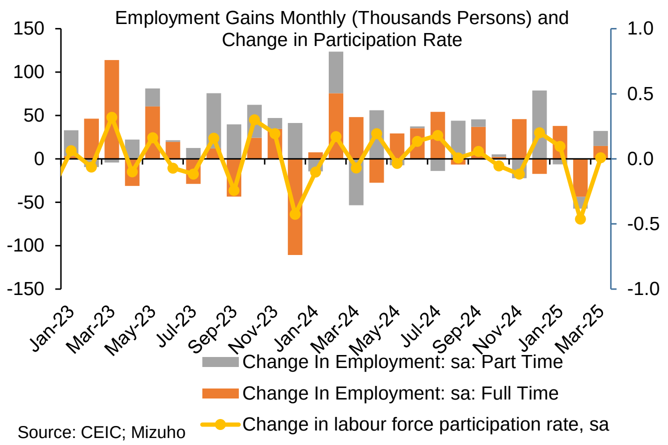
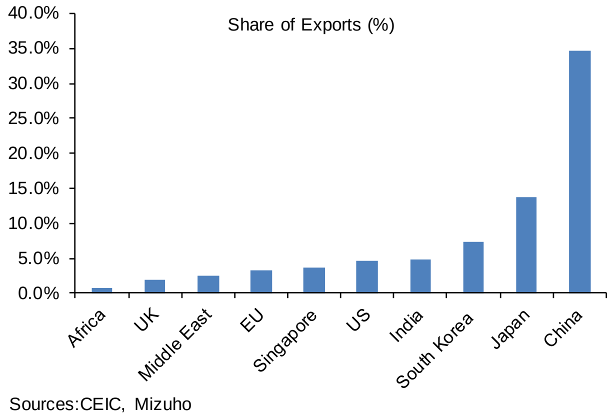


Fig 13d...but adverse spillover from China should



FX

- Wild Ride: Amid some gains from early Feb, AUD has spent nearly the entirety of March and early April hovering around 63 cents with a lack of durability above mid-63 cents. Consequently, the sight of reciprocal tariffs and an **escalation in trade tensions with China sank the AUD to be below 60 cents alongside plummeting commodity prices**. Subsequent relief from the 90-day pause and plausible US-China talks alongside lower UST yields allowed recovery back above 63 cents amid a backdrop of weaker USD.

- Tariff Relativity: With the delay in reciprocal tariffs, the relative advantage of their 10% baseline tariffs has diminished while the steel and aluminium tariffs and **tariffs on China still represent substantial indirect exposure to reciprocal tariffs given that exports to China consists of a third of Australia's total exports and dwarfs its exports to the US. In turn, durable rallies above 66 cents may elude.**

- Employment slippage not an outright worry yet: Domestically, the employment contraction in February will add to worries about the potential for consumption to soften further but is yet to present evidence of an outright slackening in labour market conditions especially after a prolonged period of sustained hiring expansion. March's incomplete rebound also not provide a clean bill of health. Given that the commodity and mining sector may be face headwinds from US-China trade headwinds, the sector's above median wage employment may be at risk and portend a weaker consumer outlook.

- Fiscal Buffers Apparent: Nonetheless, the **government's 2025-26 budget will provide an expansionary impulse** as they widened the fiscal deficit to provide consumption boost via tax cuts and cost of living relief by extension of electricity rebates. The reliance on public spending will standout as external demand falters and private consumption growth remains weak. This will create bouts of doubt into the RBA's easing cycle and allow some pauses but will not cause any substantial derailment.

- Inflation Relief Extended: The budget measures are also likely to keep inflation within the RBA's target range as the mechanical rebound in electricity prices is pushed further down the road.

- Further Insurance Needed?: Following our call for RBA to cut to February in our previous report, AUD bulls will need to now ponder if further or even if deeper cuts are needed considering the potential for growth headwinds. For now, at mid-64cents, the risks are to the downside for AUD bulls especially as they may face near term prospects of an upsized RBA easing especially if employment buckles.

- Risk Sentiments Weigh: Risk off sentiments have weighed on the ASX and showed its consequent potential to dent the AUD. While Chinese authorities will be stepping in to backstop risk assets in China, AUD bulls may attempt some consolidation rather than be overly excited for rallies for the rest of Q2.

- Outlook: For near term dynamics, we also expect the AUD to be able to consolidate above 62 cents post elections after the labour win aided by fading of uncertainty which is similar to that is previous elections as no major about turn in fiscal policy trajectory is expected. Continued worries about the backdrop of commodity demand will restrain the strength of rallies. Relative to EM-Asia, long AUDSGD is likely still attractive and the potential for MAS flattening the S$NEER slope will be increasing in H2 as trade woes weigh. In H2, sight of negotiations among the G3 may allow some relief rally to seep through in the AUD though difficulties surrounding China remain highly structural and impart substantial two-way volatility especially for the AUD.

Rates

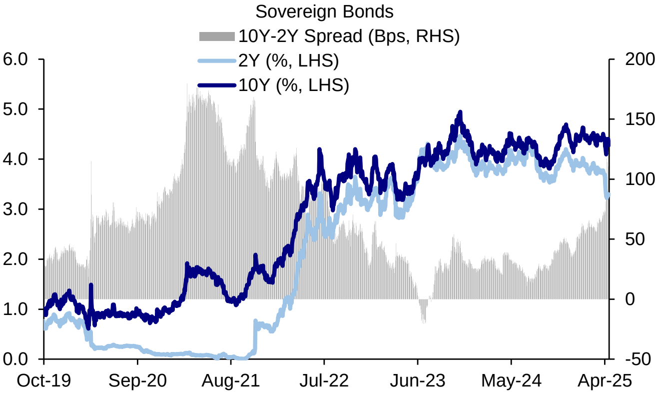
- Central Bank: We retained our base case for a 25bp cut every quarter by the RBA as they react cautiously to the sight of continued below trend growth amid a pipeline of tariff led growth woes. That said, we have added a 25bp cut to Q4 for rates to plateau at 3.35% to reflect **the lagged real economic effects of tariff induced growth slowdown.**

- Risks: The risk for the RBA is the form of having to take deeper 50bps in Q3 to provide insurance against growth headwinds. That said, the heightened uncertainty around US policy and around the efficacy of China's stimulus will justify the RBA's case for being cautious and in continued deference to incoming data rather than making policy calls on forecasts which face a large variance of outcome.

- Yields: Front end ACGB yields have plunged alongside 2Y UST yields. That said, the decline in yields is stronger to reflect prospects of deeper RBA cuts as trade tensions weigh.

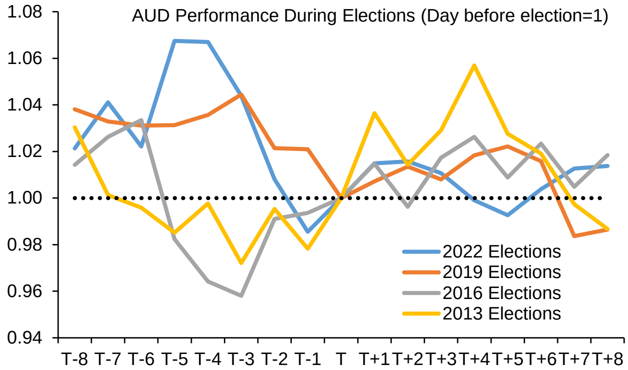
- Curve: Yield curve steepened sharply to above 90-120bp from the 55-65 bps in late January-early February. With the term premium having already risen significantly, the allure of further steepening has diminished.

Fig 13e. Long end yields rose and curve steeepened



Sources: Bloomberg, Mizuho

Figure 13f. AUD election performance



Sources: Bloomberg, Mizuho. T denotes day before elections.
T-1 denotes a week before elections

Global FX Assumptions: USD – Doubt, Not Demise

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
DXY	104.2	98.8	96.8	99.2	98.5	96.5
	103.1-110.2	96.2-104s.5	93.5-100.8	94.8-102.5	94.0-100.5	93.6-99.5
Brent Crude (US$/brrl)	68.5	64.5	61.5	65.5	63.8	63.8
	63.5-78.8	60.5-72.5	57.5-69.6	58.5-72.5	58.5-70.5	58.5-70.5
Fed	4.25-4.50%	4.00-4.25%	3.50-4.00%	3.00-3.50%	2.75-3.00%	2.75-3.00%
ECB	2.50%	2.00%	1.75%	1,50%	1.50%	1.50%
BoJ	0.50%	0.75%	0.75%	0.75%	0.75%	0.75%

The USD Backdrop

1) USD Bears Out in Force: **USD bears have been out in force** since March, *as earlier underpriced recoil* from **fast and furious Trump 2.0 tariffs hit hard**. The first leg of tariffs on Canada, Mexico, China alongside steel and aluminum knocked USD off early-/mid-Jan 106-108 aspirations to 104 levels, with reciprocal tariffs in earl-April triggering the second, and more dramatic leg down to 98-100 levels. Despite further USD decline will probably be more measured, and probably less pronounced vis-à-vis AXJ (see Box 4).

2) (Reciprocal) Tariff Blowback: To be sure, a **conspiracy of geo-economic drivers** has **accentuated the speed and depth of USD pullback**. off. Nonetheless, **belated realization of self-harm from US reciprocal tariffs**, which have turned out to be *far more profound* and *pervasive* than imagined earlier, was probably **culpable for a large degree of bearish USD shock**. Which in turn was a ***catalyst for the abrupt, about turn in bullish "Trump USD" dynamics*** that had dominated earlier (Q4 '24 to mid-Jan 2025).

3) Exceptionalism Eradicated: One of which is a rude **repudiation of US exceptionalism**. Fact is, *Trump 2.0 shocks, dominated by brutal tariffs assaults,* jolted markets into a sobering **realization that just a few strokes of callous, miscalculated, executive orders have significantly elevated the risks of a (self-inflicted) US hard landing**. And with that, further **eroded the allure of the USD** as US growth shortfall/recession risks also dents Fed (hawkish) divergence bets as well.

4) Attendant Fed (Dovish) Dent: Notably, earlier expectations of a **"higher for longer" Fed** are now **seriously compromised**, with softer rate projections now *undermining USD buoyancy*. Compared to the March 'Dot Plot" guidance for just 50bp of rate cuts (which markets by and large concurred with in Q1), the current consensus has significantly (but not completely) caught up with our dovish view of 125bp (Mkt: ~91bp) of rate cuts in 2025.

5) Real Dilemma: But a far **greater Fed threat** than just ***dovish impulses dragging USD via rate differentials***, is arguably **sharp policy trade-offs** *amid mounting stagflation type risks.* The resultant **policy dilemma** threatens to **materially erode real USD returns** on a double whammy of growth and inflation.

6) De-dollarization Drift: What's more, **some shift to de-dollarization** appears to be at work, **reflecting global discomfort with** an **increasingly mercurial US stance in international policies**, prone *to unilateral actions* underpinned by *extractive and isolationist policies* **premised on deeply flawed zero-sum calculus**. As a result of which Greenback correction from lofty valuations amid an unchecked USD ascendancy is validated.

7) Merely De-Risking Not Deserting: But this is **merely de-risking saturated USD exposure**, ***not deserting the global reserve currency proposition***. Fact is, current USD correction dynamics is merely in the context of marginal re-allocation to hedge away from excessive USD concentration risks.

8) Suspended Allure, Not Supplanted (Reserve) Status: What's more, **"de-dollarization" may be temporarily exaggerated** by the USD's **haven allure being suspended on tariff self-harm**. Whereas the USD is **nowhere near being realistically supplanted as the global reserve currency of choice**. Fact is, there is *simply no deep, liquid and structurally viable* (much less compelling) *alternatives* at this point. Which will be even more evident as early-2025 under-valuation of Majors (EUR, JPY, GBP) wash out further.

9) Upfront, Not Unmitigated (USD Woes): All said, **USD** is **more likely to consolidate lower, not crash** as, **USD decline** will **not** be **unmitigated**, sustained at Mar-Apr pace ***given*** a lot of the **bearish catch-down has been expressed upfront**. To be sure **bumpy and non-linear** USD (DXY) **slippage** remains **par for the course** given disorderly Trump 2.0 headline risks. But declines are likely to be tempered – with **DXY consolidating 96-98**. Ironically, could be backstopped as the Fed cuts (after falling earlier on anticipation instead).

G3 Central Banks: Timing (Cuts) is Everything

Fed: **Despite an even more hawkish accent to the March 'Dot Plot'**, with just two (50bp) rate cuts for 2025, the stage is set for an **abrupt dovish inflection in H2** – to cut rates by 125bp to about 3.00-3.25%. ***But for now*, *p*olicy is in a state of suspended animation amid rippling Trump 2.0 tariff assaults**, which *threaten to inflict simultaneously price shocks* and *adverse demand hit.* Hence, the **interim Fed playbook** will be to **hold its ground** to better **assess the evolving balance of risks**. But this is merely timing the optimal (and likely sharp) rate cut path. Point being, the **direction of travel (lower) in rates is not in doubt**, much less seriously challenged. That said, the **Fed does not have the luxury of pre-emptive rate cuts** given inherited, post-pandemic "sticky" inflation conspiring with left-over (albeit fading with a lag) job market resilience. US exceptionalism is over. So, **sharp catch-down cuts are a matter of time**. ***But* timing matters!** In fact, it **is everything**.

ECB: Revealingly, the **ECB is increasingly alluding to tariff shocks that ultimately prove dis-inflationary** *as adverse income shocks outlast and overwhelm price jumps*. **But the hawkish camps continue to reserve judgment** and **defer to data dependence**. Nonetheless, a **higher degree of economic uncertainty** and **geo-political liabilities**, suggest persistent **fragilities in confidence**. This in turn is set to be a ***bugbear for growth (multipliers) outside of select industries***. As such, the **ECB will have to cut deeper heading into H2 2025** if pre-existing **economic weakness** and **vulnerabilities** are **exacerbated by trade trades making landfall**. **Inadvertent** (but inevitable) **EUR volatility** through pockets of perceived policy divergence and trade/diplomatic abrasion/relief render policy complex, and trade-offs sharper. But this is a **necessary cost of policy relief**.

BoJ: To be fair, the BoJ is **serious about setting course for rates to go higher. *But*** just **not imminently so**. *Especially given Japan's disproportionate vulnerabilities to* any *global trade shocks unleashed by Trump 2.0 tariffs*. Crucially, the consolation of a bilateral US-Japan deal does not sufficiently mitigate, **dire threats of adverse income/balance sheet shocks from wider global trade upheaval** reverberating via complex, interconnected supply-chain linkages. Hence, **Japan's deep exports dependency** *that ties back to wages* and already *fragile household confidence*, **ought to hobble BoJ hawks**. Point being, the **BoJ's greatest peril is premature tightening into debilitating external headwinds** that amplifies economic pain. What's more, when **the Fed re-hastens its pace of cuts**, the ***consequent* ill-timed, sharp JPY strength threatens to aggravate economic pain**. So, hawkish talk on further tightening conditioned on averting trade shocks and securing further wage gains is as far as BoJ hawks may push the envelope. Timing is everything. And **"not right now" is the overarching message for BoJ hawks**. *So, for now, BoJ hikes ought to stop short of 1.00%.*

Box 4: USD: Doubt, Not Demise [published 23rd April 2025]

"Reports of my death are greatly exaggerated." – **Mark Twain***

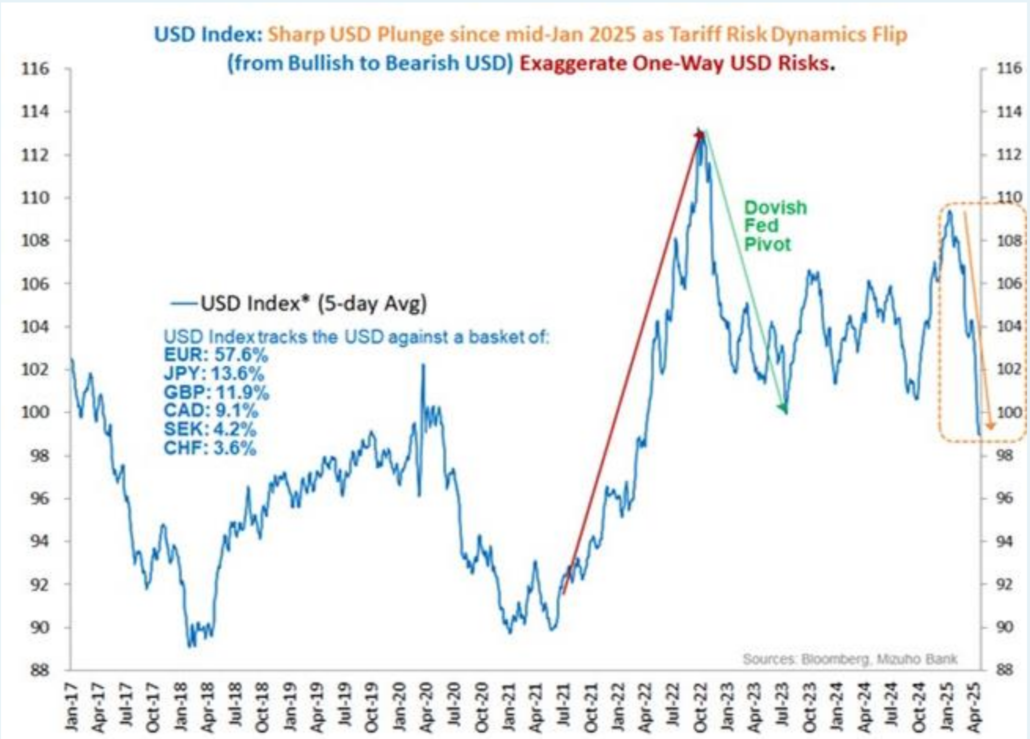
In a Nutshell:

- The **USD's exceptionally sharp plunge** predominantly reflects **abrupt** and **front-loaded macro doubts** amid tariff shocks.
- **Not an imminent demise of the USD's reserve currency status** that squares with a far greater order decline.
- **Stretched bullish USD positioning earlier** had **exaggerated the intensity of USD bearishness**.
- More so given aggressively **front-loaded, tariff blowback shocks** (detrimental to USD) **accentuated by overturned haven allure**.
- But it will be **misguided** to **project a linear USD depreciation of the USD** based off current pace/rate of travel.
- Measured DXY Declines: Instead, a (relatively) measured a **level shock for the USD** that **shifts near-term equilibrium lower** (~96-98 DXY center-of-gravity) is more likely.
- Lagged, Phased, Incomplete CNH Gains: **Lagged**, **phased** and **incomplete CNH catch-up *corresponding to USD declines*** is **likely on the cards as US-China trade talks emerge**.

- <u>Exploiting Convenient Policy Buffer</u>: But for now, **expect the PBoC to exploit the** cover of a weak USD to derive some policy from a **considerably weaker trade-weighted CNH** amid trade headwinds.
- <u>Relative CNH & AXJ Underperformance</u>: In other words, **CNH is set to continue under-performing most Major FX** amid a softer USD. And **AXJ are likely to follow suit** as trade bugbear impacts Asia disproportionately.

<u>Rude Doubt, Not Imminently Inevitable Demise</u>

- A **staggeringly sharp 10-11% plunge in the USD**** since its mid-January highs (of 110 DXY to test 98) begs the question of **how much further the USD is liable to fall**.
- And that ultimately depends on **whether** the **USD** is merely *suffering* from a bout of **acute macro doubt** that is **driving sharp**, ***but not unbridled,*** **recalibration** or; *staring down* **unavoidable** (albeit phased) **demise** that **structurally shatters significant reserve currency premium**.
- Admittedly, the **Trump Administration unwittingly flirts with dangerous erosion of critical reserve asset backstop every time it** *disregards Fed independence* or *indulges in extractive "Mar-a-Lago Accord"* plans.
- Nonetheless, <u>**current USD woes predominantly reflect rude doubt**</u> **from the blowback of Trump 2.0 tariff shocks**, and <u>***not imminently inevitable demise***</u> **of the USD's reserve asset status**.



<u>Exaggerated by Wrong-Footed Positions</u>

- Admittedly, **USD woes have been exceptionally sharp since the "Liberation Day" tariffs shocks**.
- But the **intensity of the overwhelming speed and depth of USD sell-off** is arguably **exaggerated** by *an exceptionally rich Greenback wrong-footed.*
- Especially given the run-up of **exceptionally low Majors** (led by EUR, JPY, GBP) **starting point** exaggerating the moves
- Notably, the **abrupt impetus to unwind** sweeping and saturated USD strength is likely to have been inadvertently amplified as **"tariff shocks" ripple across various dimensions of** (earlier) USD buoyancy.

<u>Tariff Shock Ripples</u>

1. Most obviously, the **USD has been subject to a <u>fundamental tariff "shock"</u> re-pricing lower** on the basis of; <u>Pricing the tariff blowback</u> that was earlier ignored (and complacently assumed to be predominantly detrimental to trading partners).
   - In turn, <u>US exceptionalism</u> (and attendant long-USD positions) <u>seriously challenged</u> on account of **mounting US vulnerabilities to adverse income/demand shocks**.

- Corresponding/consequent Fed (dovish) re-pricing in **response to income/demand shocks** that are **expected to accompany tariff risks**.
- As a result of which, "haven demand" for the USD from "tariff shocks" is undermined, if not overturned.

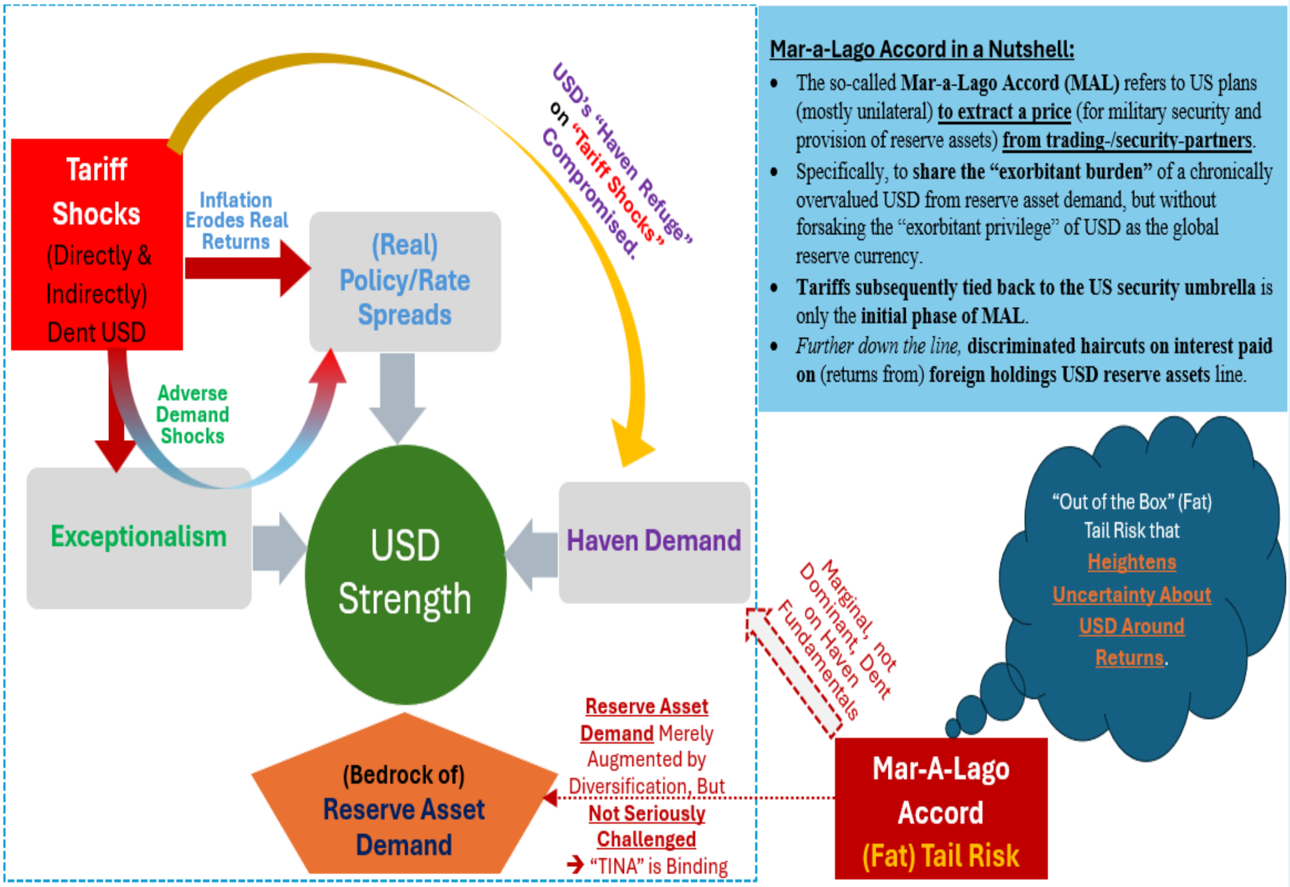
2. What's more, **harsher inflation shocks tilted to US** *diminishing the relative real return profile for USD assets.*

- *Specifically, the* asymmetry of effective import tariffs *(US imposing far higher tariffs than most trade partners)* **suggests US suffers relatively larger inflation shocks** *associated with* **eroding real (US) returns**.
- *What's more,* *adverse feedback between real US returns eroded by relatively higher US inflation and a softer USD also features as dent on the USD.*

3. In addition, **structural global asset re-allocation away from "richly valued" US** assets to global assets elsewhere (led by reallocation to "cheaper" EUR and JPY assets) on account of;

- In particular, as global supply-chain reconfigure around US barriers, **potentially isolating** *and partly undermine* **US interests**. More imminently, there is also the very real prospect of US margins being squeezed amid higher costs from self-inflicted tariffs (at least near-term), which begs a **revaluation (lower) of US assets**, with **corresponding USD drag**.

Figure 1. Tariff Shocks Compromise USD Via Exceptionalism, Policy/Rates Spreads & Haven Demand



Reserve Asset Demand Augmented, Not (effectively) Challenged

- Arguably, **"Mar-a-Lago" (MAL) Accord fears prompting large-scale** and **irrevocable capitulation out of the USD** may be **overblown** *at this point.*
- To be sure, this is a so-called **"fat-tail" risk**, the **probability of which is not negligible**. Afterall, it is well-documented, and part of the broader global re-ordering plan.
- Nonetheless, with ***USD already on an unexpected sharp and early decline***, on fundamental US doubts, it is **unlikely that the Trump Administration will further jeopardize confidence in the USD**.

- Crucially, as **retaining the USD's global reserve currency status** (and attendant **exorbitant privileges**) **is an overt desire enshrined in the MAL Accord**.
- This underpins **marginal hedge against**, *not wholesale capitulation out of,* USD (**to the benefit of hard non-USD currencies/real assets**).
- Especially as the **"TINA*** problem" of no viable and liquid alternative to USD reserve assets** (USD as reserve currency) limits prevailing "exit options".

Measured Level Shock for USD?

- All said, a **level shock for the USD** is, **shifting near-term equilibrium lower**, is not outlandish given that **wider "tariff shock" factors** were **under-accounted for earlier**. ***But*** equally, much of the softer USD re-pricing from these "shocks" are **probably extrapolated and** front-loaded.
- Hence, it may be **misguided** to **project a linear USD depreciation of the USD** based off current pace/rate of travel.
- Instead, **further USD depreciation**, while ***prone to bouts of exaggerated swings amid turbulence from over-the-top tariff headlines***, will **probably have downside guarded** ahead of 95, then 90-92.
- The **"center-of-gravity" for USD swings** may be in the **ballpark of 96.0-98.0** (from our call of "either side of 100) earlier.

CNY "Catch-Up"

- Broad USD moves though are **not likely to be perfectly matched/synchronised with corresponding CNY antagonism**.
- That is, ***CNY** is **unlikely to appreciate*** *(depreciate)* ***in lockstep with USD pullback*** *(gains).*
- Instead, **policy of (by and large) stable USD/CNH levels** pursued by the PBoC (with **corresponding, sharp CNH under-performance against** many of the **G10 FX**) may be retained.
- Notably, as **effectively weaker trade-weighted CNH** provides **convenient buffer from trade headwinds**, in the ***cover of USD weakness****.* Effectively, this **allows PBoC to side-step US allegations of mercantilist FX policy** response to tariffs.
- Into **H2** though, odds of **US-China negotiations may prompt** a **cautious, phased shift lower in USD/CNY** in ***partial CNH catch-up****.*
- Although *even with the partial catch-up,* **CNH will be well under levels that had corresponded to 96-98 DXY in the past** as the bugbear of US-China trade antagonism lingers.
- Likewise, AXJ could also take cues from CNH to under-perform most Major FX against a backdrop of weaker USD as structural US-China geoeconomic risks disproportionately impact the region

* This is the more popular paraphrasing of Mark Twain's original quote, which was "the report of my death was an exaggeration".

** Although (at the point of publication) this was partly reversed to ~99 as Trump denied (implied) treats to fire the Fed Chair and suggested a path to US-China tariff de-escalation.

*** TINA being a well-known market acronym for "there is no alternative". Arguably this applies most distinctly to the USD's role as the global reserve currency.

Rates: Softer, Steeper & (Highly-)Sensitive

Sharp Bull Steepening: **Since reciprocal tariffs** the **UST yield curve has bull steepened** sharply *led by >20bp of drop at the front -end yields.* More measured long-end dip (~4bp) though just masks volatility. A **confluence of demand shocks from tariff threats** – set to lower front-end rates on global rate cuts – and **mounting fiscal pressures** alongside **geo-economic shocks** suggest *this dynamic will remain intact*.

Softer Rates: Arguably, **softer global rates** are already **beginning to filter through** as *fears of adverse demand shocks from Trump 2.0 tariffs* **feed into global policy/rates**. But this is nascent in some cases and temporarily hobbled in a few others given lingering impact of past policy tightening, mixed signals from "sticky" inflation and tariff-induced inflation threats. To be sure, **further and more emphatic rate softening is in the pipeline**. But for the time being, this remains a bumpy and interrupted process.

Rate Cuts Cycles Underway: For one, fragile underlying demand conditions alongside lingering geo-political risks make the case for more emphatic rate cuts. The Fed will, despite current reservations, probably set the stage for global rates to decline. This **sets front-end yields up for more pronounced pullback**.

Even Steeper Curve Amid Bumpy Path: **Lower rates** will also be **accompanied by an even steeper yield curve**. Whilst the yield curve has already steepend (UST 10Y-2Y at ~50bp), this might have *further to run towards 80-100bp into 2026.* Apart from rate cut mechanics adding to the widening, fiscal and geo-political liabilities could add more term premium.

Amid Bumpy Path: Although the path of travel to higher yields is likely to be a rather bumpy one. Notably, fiscal uncertainty will add two-way volatility as could “risk on”-“risk off” dynamics. Especially as correlations between UST demand and risk retrenchment remains a tad fluid.

Wider (Risk) Premium: ***Associated with a steeper UST yield curve*** and Fed rate cuts is a **wider risk premium**. This, ***as the allure of “all-in” returns is challenged by risk-adjusted re-pricing***. Pressures from fiscal deficits and trade disruptions only exacerbate these dynamics.

Oil: Bears Caution

Softer: **Oil prices could soften further in 2025** on a conspiracy of demand dampeners and supply-push despite lingering volatility (and latent upside risks) from unabating Geo-political risks. The upshot is that the **overwhelming conspiracy of demand (depressing) factors alongside impending supply boost** are likely to keep prices suppressed, and more likely than not, a tad softer amid Trump 2.0 uncertainties.

Demand Dampeners: Signs of **softening demand as global fiscal push becomes more constrained** and post-pandemic consumption bump-up fizzles point towards softening demand growth outside of specific pockets of optimism (in AI, tech, etc.).

China Shortfall: What’s more, despite the assurances of more emphatic stimulus, downside risks to China’s growth persist. And given the stockpiling of Oil by China, the potential for a large bump-up in oil demand from China is somewhat less promising than is the risk of slippage in demand.

Exacerbated by Trump 2.0 Trade Conflict: What’s more, the potential for negative demand shocks from Trump2.0 trade tariffs and threats of a retaliatory spiral, *even if only due to uncertainty,* is more likely than not to suppress demand and consequently keep prices soft.

& US Energy Dominance Goals: More so as **overarching US strategic energy dominance** objectives. Point being, **materially higher oil/energy output under Trump 2.0** (O&G deregulation/incentivization) should, all else equal, accentuate downside in oil prices even if output ramp-up falls short of Bessent’s 3MBpD output increase ambitions. So, **softer oil** is an inevitable reality of a by-product, of US exceptionalism.

OPEC+ Shift to Secure Market Share: Finally, the biggest supply hold-back factor, the **OPEC’s deliberate and deliberated production curbs could also start to be loosened**, softening oil. Notably, a distinct shift in OPEC+ strategy shifts to regaining market share, rather than underpinning prices (See Box 5). Whilst OPEC+ remains inclined to prefer higher prices, the trade off in market share is overwhelming. What’s more, non-compliance (to curbs) is now being punished with a ramp up in production for all, which punishes higher cost producers flouting the quotas.

Conflict –Latent, Not Unleashed, Volatility: Admittedly, **tail risks of oil prices surging on conflict r**isks spinning out of control cannot be dismissed. In which case, the potential for prices to spiral past $100/bbl cannot be dismissed. ***But*** **desensitization to war** means that *unless there is imminent and inevitable disruption to production and/or passage of crude,* prices and volatility are more likely to be contained.

Box 5. OPEC+ & Oil: Lesser Evils & Lower Yields? [published 4th April 2025]

"The probability lies in that direction." – **Sherlock Holmes, The Hound of Baskervilles**

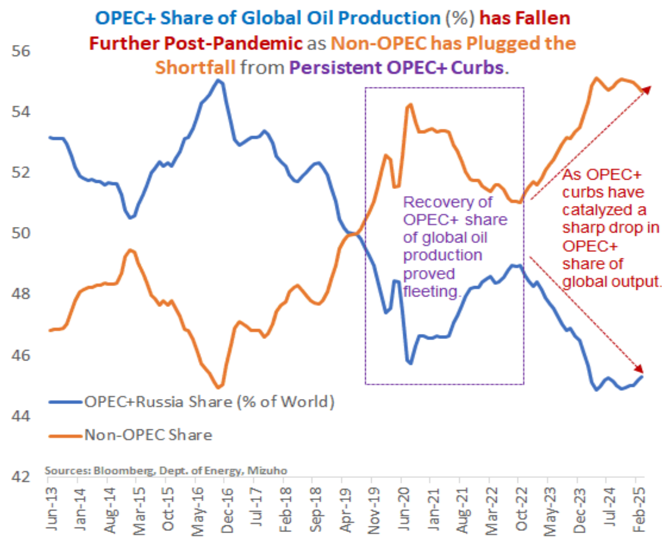
In a Nutshell:

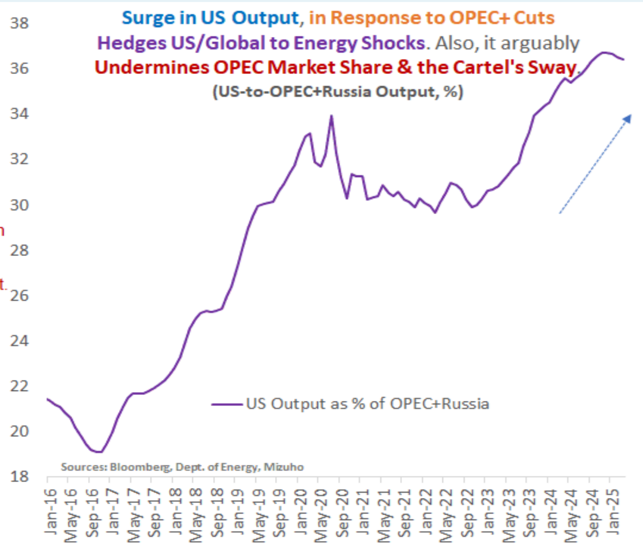
- A **surprisingly large bump up in OPEC+ supply restoration**, dragging crude prices, is **ostensibly at odds with OPEC+'s desire for price support**. ***But*** it is **consistent with the broader interests of the OPEC+**.
- Most prominently, **averting further, irrevocable loss of market share to non-OPEC** competition, led by *aggressive US energy dominance ambitions (to pump 3MBpD more).*
- Moreover, the **strategic importance of aligning with Trump's call for a "cut in Oil prices"** also features conspicuously.
- Furthermore, **geo-political calculus** that involves compensating for Iran's output, to **facilitate a policy of "maximum pressure"/sanctions on Iran**.
- Finally, higher output is **a warning to non-compliant members** (e.g. Kazakhstan and Iraq), who have more to lose against low-cost producers such as Saudi and Russia.
- Upshot being **lower crude prices are the lesser evil** compared to *hard-to-recover loss of share, geo-political pitfalls* or *inadvertent loss of cartel discipline.* Especially considering the overhanging risk of geo-economic shocks.
- Admittedly, ***OPEC further supply ramp-up is highly contingent***. Nonetheless, **rising risks of adverse demands shocks** suggest **softer oil price on balance**.
- This **squares with underlying anchor for, if not drag on, inflation expectations**, in turn ***supports further*** *(even if not imminent)* ***global easing***.
- **More durably lower yields** backed by Fed cuts on well-anchored inflation expectations.

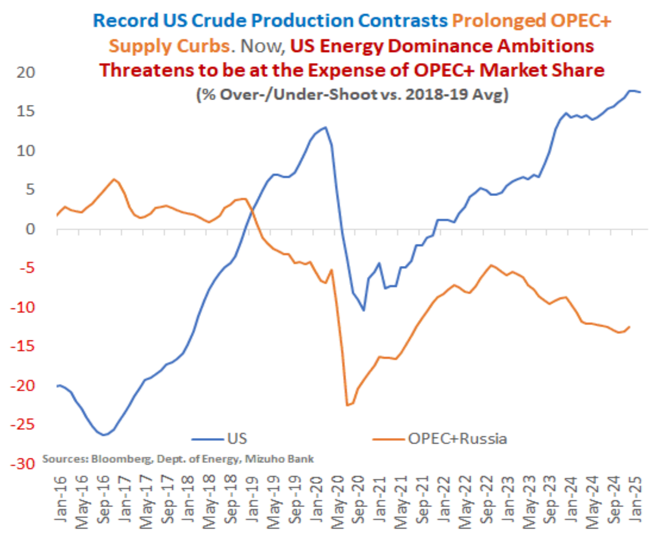
- OPEC Surprises with Upsized Output Bump-Up: In a **dovish** (bearish for Oil) surprise, **OPEC+ announced a 411KBpD addition for May**, *three times the earlier guidance for a calibrated 138KBpM monthly increment.*
- Crude Prices Sink: Markets took heed, **sinking crude prices some 7-8%** (Brent from $75+ to $sub-$70 | WTI from $72 to $66-67).
- Contrary to OPEC Preferences …: The **price action is ostensibly the opposite of what the OPEC+ would have desired**. Afterall, the OPEC+ is known for its inclination to protect, if not buoy, prices.
- … & Fiscal Support: In fact, *Saudi's implied preference for (Brent) crude price is closer to $90,* as backed out of its fiscal breakeven.
- Uncharacteristic At face value, this admittedly appears like **diametrically opposed to OPEC+'s usual caution and conservatism in adding crude supplies** (to the detriment of price support).
- But Not Misaligned: ***But*** it is **not a departure from the OPEC+'s fierce defence of self-interest**.
- Lesser Evil on Greater Considerations: In fact, **lower prices are the lesser evil** when **accounting for a wider array of risks**, *including risks to market dominance, geo-political posturing, (intra-cartel) game-theory and overarching geo-economic risks augmenting pure profit motives.*
- 1. To Avert Irrevocable Loss of Share: For one, **OPEC+ is acutely aware of irrevocably losing even more market share**, (to non-OPEC output led by US, Canada, etc.) ***if it does not increase output***.
- Especially on US Energy Dominance Ambitions" : **A risk accentuated by US' aggressive energy dominance ambitions**. **US' world-leading, record 13MBpD US production**, **with sights on an additional 3MBpd** is ***a serious threat to the cartel***.
- Price Support Too Expensive: Fact is, **price support by OPEC+ benefits the competition *at the expense of its market share***. In other words, **OPEC+ simply cannot afford stubbornly** support **prices**, (with output) curbs at the cost of market share.
- 2. Trump's Pressure to "Cut Oil Price": Second, and the elephant in the room, is **Trump's persistent pressures to "cut oil prices"**. Imaginably, *both Saudi and Russia want to oblige, given the geo-political stakes involved.*

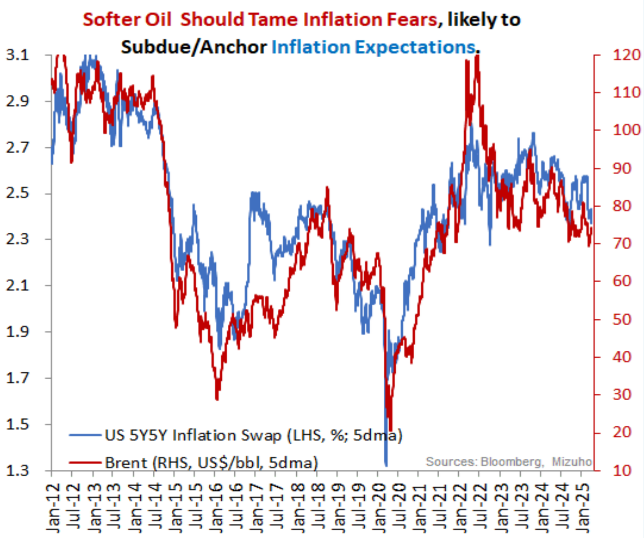
- 3. Pressuring Iran: What' more, it **is in Saudi's geo-political interest to displace Iran's exports share** *so as to lower US hurdles for "maximum pressures" sanctions on Iran.*
- 4. Intra-OPEC Discipline: Finally, **increasing output may be a "Prisoner's Dilemma" type warning for non-compliant members** (notably Kazakhstan and Iraq). Especially given flouters have more to lose on falling prices than low-cost producers such as Saudi and Russia.
- Opportune Timing of Tariff Turmoil Cover: Notably, the **cover of tariff turmoil to up output** *may partly piggy-back on dominant bearish demand factors,* **potentially blunting price pain** from the supply bump-up.
- Non-Linear & Contingent: To be sure, this a **linear projection of May's upsized output restoration is far from guaranteed**. Instead, **OPEC+ supply response will fluidly respond to** *evolving demand risks* and *geo-political contingencies.*
- Albeit Tilted to Softer Oil: Nonetheless, **softer oil prices* are likely to prevail on balance**, *as competition for share checks the temptation to fully offset price declines* in an environment of adverse demand shocks.
- Dampening Inflation Expectations: Consequently, this **squares with inflation expectations being materially dampened** as **follow-through demand-pull risks from potential tariff price shocks** are **more than offset.**
- & Dovish Monetary Policy Impetus: In turn, tis **lowers the hurdle of global central banks to ease further**, as they are ***no longer unduly hobbled by opposing price and income shocks***.
- Lower Yields Hastened by OPEC+: The upshot is that **OPEC+'s distinct shift from price support to market share**, **prioritizing geo-political considerations**, **hastens a path to a more dovish Fed and durably lower UST yields**.

*$60-$75 (compared to 2024 average of $80/bbl)









Macro Research, Asia ex-Japan

Vishnu Varathan
Managing Director, Head of Macro Research
Vishnu.varathan@sg.mizuho-sc.com

Tan Boon Heng
Vice President, Macro Strategist
boonheng.tan@sg.mizuho-sc.com

Serena Zhou
Director, Senior China Economist
serena.zhou@hk.mizuho-sc.com

Tan Jing Yi
Associate, Macro Strategist
jingyi.tan@sg.mizuho-sc.com

Ken Cheung
Director, FX Strategy
Ken.Cheung@hk.mizuho-sc.com

MARKET COMMENTARY DISCLAIMER

THIS DOCUMENT IS NOT A RESEARCH REPORT AND IS NOT INTENDED AS SUCH.

Unless stated otherwise in the country specific distribution information below, this document has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. It is intended for informational purposes only and does not purport to make any investment recommendations.

This document has been prepared solely for the information of the intended recipients. Recipients in any jurisdiction should contact your usual Mizuho contact in relation to any matters arising from, or in connection, with this document.

This document has been prepared by Mizuho Bank, Ltd., Singapore Branch ("**MBSG**"), a full bank, exempt capital markets services entity and exempt financial adviser regulated by the Monetary Authority of Singapore ("**MAS**"), Mizuho Bank, Ltd., Hong Kong Branch ("**MBHK**"), a licensed bank regulated by the Hong Kong Monetary Authority, with business address at 12/F, K11 Atelier, 18 Salisbury Road, Tsim Sha Tsui, Kowloon, Hong Kong, Mizuho Bank, Ltd., Sydney Branch, an authorised deposit-taking institution regulated by the Australian Prudential Regulation Authority and holder of an Australian financial services licence ("**MBAU**"), Mizuho Securities Asia Limited ("**MHSA**"), licensed and regulated by the Hong Kong Securities and Futures Commission and/or Mizuho Securities (Singapore) Pte. Ltd. ("**MHSS**"), a holder of a capital markets services licence and an exempt financial adviser regulated by the MAS, as the case may be.

This does not constitute investment or personal advice.

This document has been prepared solely for the purpose of supplying general market information and/or commentary for general information purposes to clients of MBSG, MBHK, MBAU, MHSA, MHSS and their affiliates (collectively, "**Mizuho**") to whom it is distributed, and does not take into account the specific investment objectives, financial situation or particular needs of any client or class of clients and it is not prepared for any client or class of clients.

This is not an offer or solicitation.

This document is not and should not be construed as an offer to buy or sell or solicitation to enter into any transaction or adopt any hedging, trading or investment strategy, in relation to any securities or other financial instruments.

Mizuho shall have no liability for contents.

This document has been prepared solely from publicly available information. Information contained herein and the data underlying it have been obtained from, or based upon, sources believed by Mizuho to be reliable, but no assurance can be given that the information, data or any computations based thereon are accurate or complete and Mizuho has not independently verified such information and data. Mizuho is not obliged to update any of the information and data contained in this document.

Mizuho makes no representation or warranty of any kind, express, implied or statutory, regarding, but not limited to, the accuracy of this document or the completeness of any information contained or referred to in this document. Mizuho accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental or consequential loss or damage) arising from or in connection with any person's use or reliance of this document or the information contained in this document.

Information contained herein is no indication of future performance.

Some of the statements contained in this document may be considered forward-looking statements which provide current expectations or forecasts of futures events. Any opinions, projections, forecasts and estimates expressed in the document are solely those of Mizuho based on factors it considers relevant as at the date of the document and are subject to change without notice. Past performance is not indicative of future performance. Consequently, no expressed or implied warranty can be made regarding the projections and forecasts of future performance stated therein.

This material is confidential.

This document is intended for the exclusive use by the recipients, and is provided with the express understanding that the information contained herein will be regarded and treated as strictly confidential. All recipients may not reproduce or use this document in whole or in part, for any other purpose, nor disclose, furnish nor distribute this document to any other persons without the prior written permission of Mizuho. Any such reproduction, use, delivery or distribution in form or to any jurisdiction may be effected only in accordance with all applicable laws and regulations in the relevant jurisdiction(s).

Disclosure regarding potential conflicts of interest.

Mizuho, its connected companies, employees or clients may at any time, to the extent permitted by applicable law and/or regulation, take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments referred therein. Accordingly, Mizuho, its connected companies or employees may have a conflict of interest that could affect the objectivity of this document. This document has been prepared by employees who may interact with Mizuho's trading desks, sales and other related personnel when forming the views and contents contained within.

Financial instruments may not be for sale to all categories of investors.

There are risks associated with the financial instruments and transactions referred to in this document. Investors should not rely on any contents of this document in making any investment decisions and should consult their own financial, legal, accounting and tax advisors about the risks, the appropriate tools to analyse an investment and the suitability of an investment in their particular circumstances. Mizuho is not responsible for assessing the suitability of any investment. Investment decisions and the responsibility for any investments are the sole responsibility of the investor. Neither Mizuho nor of its directors, employees or agents accepts any liability whatsoever with respect to the use of this document or its contents.

WARNING: THE CONTENTS OF THIS DOCUMENT HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY. YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO SUCH CONTENTS. THIS DOCUMENT IS NOT INTENDED TO CONSTITUTE ANY INVESTMENT, LEGAL, FINANCIAL, BUSINESS, ACCOUNTING, TAXATION OR OTHER ADVICE. IF YOU ARE IN ANY DOUBT AS TO THE ACTION YOU SHOULD TAKE, YOU SHOULD SEEK PROFESSIONAL ADVICE FROM YOUR RELEVANT ADVISERS ABOUT YOUR PARTICULAR CIRCUMSTANCES. YOU ARE RESPONSIBLE FOR YOUR OWN INVESTMENT CHOICES.

This document is not directed to, or intended for distribution to or use by, any person who is a citizen or resident of, or entity located in, any locality, territory, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to or restricted by law or regulation. Persons or entities into whose possession this document comes should inform themselves about and observe such restrictions.

COUNTRY SPECIFIC DISTRIBUTION INFORMATION

Australia: This document is intended only for persons who are sophisticated or professional investors for the purposes of section 708 of the *Corporation Act 2001* (Cth) of Australia ("**Corporations Act**"), or "wholesale clients" for the purpose of section 761G of the Corporations Act. It is not intended for and should not be passed on, directly or indirectly, to other classes of persons/investors in Australia. In Australia, Mizuho Bank, Ltd. Sydney Branch ("**MBSO**") is an authorised deposit-taking institution regulated by the Australian Prudential Regulation Authority in accordance with the *Banking Act 1959* (Cth), and holds an Australian financial services licence number 231240 (**AFSL**). Mizuho Securities Asia Limited (ABRN 603425912) and Mizuho Securities (Singapore) Pte. Ltd. (ARBN 132105545) are registered foreign companies in Australia and are each exempt from the requirement to hold an AFSL under the *ASIC Corporations (Repeal and Transitional) Instrument 2023/588*. MHSA is licensed by the Hong Kong Securities and Futures Commission under Hong Kong laws and MHSS is licensed by the Monetary Authority of Singapore under Singapore laws, which laws differ from Australian laws respectively.

Costa Rica: Nothing in this document constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. This document is published solely for information purposes, it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. In accordance with local laws, it does not constitute a public offering of securities under Regulations for Public Offering of Securities (National Counsel of Financial System Supervision, article 11 of Session Act 571-2006), and therefore cannot be understood and interpreted as an implicit or explicit offering that intends to place, issue, negotiate or trade securities transmitted by any means to the public or to certain groups. This document will not be disclosed to groups of more than 50 investors.

Guatemala: This document does not constitute an offering under the rules of the Ley del Mercado de Valores y Mercancías (Stock Exchange Act, Decree 34-96 of the Congress of the Republic of Guatemala), and any of its amendments, including without limitation, Decree 49-2008 of the Congress of the Republic of Guatemala, and its applicable regulation (Governmental Accord 557-97). The document will not be registered for public offering with the Securities Market Registry of Guatemala (Registro del Mercado de Valores y Mercancías), because the products will not be offered or sold: (1) to any person in an open market, directly or indirectly, by means of mass communication; (2) through a third party or intermediary to any individual person or entity that is considered an institutional investor, including entities that are under the supervision of the Guatemalan Superintendency of Banks (Superintendencia de Bancos), the Guatemalan banking regulator, the Guatemalan Social Security Institute (Instituto Guatemalteco de Seguridad Social) and its affiliates; (3) through a third party or intermediary to any entity or vehicle used for purposes of collective investment; or (4) to more than 35 individual persons or entities.

Hong Kong: This document, when distributed in Hong Kong ("**HK**"), is distributed by MHSA or MBHK, depending of the Mizuho entity which you are a client of.

Japan: This document is intended only for certain categories of persons to whom a foreign securities broker is allowed to carry out regulated activities under the relevant articles of the Financial Instruments and Exchange Act (the "**Act**") and the subordinate legislative instruments (as amended), including but not limited to Financial Services Providers who are engaged in an Investment Management and certain Financial Institutions subject to conditions and limitations in Article 17-3(i) of the Order for Enforcement of the Act. It is solely for the use of such investors and shall not be distributed, forwarded, passed on or disseminated to any other person. This document is solely for the purpose of supplying general information and shall not constitute any investment or financial advice in relation to any products or services.

Malaysia: These documents shall be distributed solely to existing subscribers or clients of Mizuho Securities, and do not constitute an invitation, offer, or recommendation to subscribe for or purchase any securities mentioned therein. These materials also do not, whether directly or indirectly, refer to a prospectus in respect of securities of a corporation; in the case of a unit trust scheme or prescribed investment scheme, a prospectus in respect of any unit of the unit trust scheme or prescribed investment scheme, as the case may be; an issue, intended issue, offer, intended offer, invitation or intended invitation in respect of securities; or another notice that refers to a prospectus in relation to an issue, intended issue, offer, intended offer, invitation or intended invitation in respect of securities. Whilst there may be statements concerning securities and/or derivatives of a certain corporation or entity in these materials, we wish to highlight that these do not constitute, whether directly or indirectly, any form of advice, recommendation, encouragement, promotion, analysis, report or inducement to take any action , i.e., to buy, sell, or hold any securities and/or derivatives, nor is it a form of inducement for the reader to take any position regarding a particular class, sector, or instrument in relation to the securities and/or derivatives so mentioned.

New Zealand: This document is intended only for persons who are "wholesale investors" and "wholesale clients" under the Financial Markets Conduct Act 2013 ("**FMCA**"), as persons who are an "investment business", meet relevant investment activity criteria, are "large" or are a "government agency", in each case within the meaning of clauses 37 to 40 of Schedule 1 of the FMCA. It is not intended for, and should not be reproduced or distributed in any form to any other person in New Zealand. This document is distributed in New Zealand by MHSA or MHSS, which are licensed in their respective jurisdictions but are not registered as overseas companies or financial service providers in New Zealand or licensed under the FMCA. Nothing in this document constitutes or is supplied in connection with a regulated offer nor an offer to the public within the meaning of the FMCA.

Singapore: This document is distributed in Singapore by MBSG or MHSS, a holder of a capital markets services licence and an exempt financial adviser regulated by the MAS. Nothing in this document shall be construed as a recommendation, advertisement or advice to transact in any investment product mentioned herein.

Where the materials may contain a recommendation or opinion concerning an investment product, MHSS is exempted from complying with sections 34, 36 and 45 of the Financial Advisers Act 2001 of Singapore. This document is only intended for distribution to "institutional investors", "accredited investors" or "expert investors", as defined under the Financial Advisers Regulations, and is solely for the use of such investors. It shall not be distributed, forwarded, passed or disseminated to any other person.

South Korea: This document is distributed in South Korea by Mizuho Securities Asia Limited, Seoul branch solely acting as a broker of debt securities under the Korea Financial Investment Services and Capital Markets Act.

Switzerland: This document is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any financial instrument or to adopt any investment strategy mentioned in this document. The information contained on this document shall not be construed to be an advertisement for any of the financial instruments or services mentioned herein.

Taiwan: This document distributed via MHSA or MHSS from outside Taiwan shall not be re-distributed within Taiwan and does not constitute recommendation of, and may not be used as a basis for recommendation of, securities within Taiwan. This document may not be distributed to the public media or used by the public media without prior written consent of MHSA or MHSS (as the case may be).

Thailand: This document does not constitute any investment or financial advice or any general advice in relation to any products or services and, when distributed in Thailand, is intended only for "institutional investors", as defined in the Notification of the Office of the Securities and Exchange Commission No. Gor Thor. 1/2560 Re: Provision of Advice to the Public which is not classified as the undertaking of Investment Advisory Business dated 12 January 2017 (as amended). It is solely for the use of such investors and shall not be distributed, forwarded, passed on or disseminated to any other person. The distribution of this document to such institutional investors in Thailand, is solely for the purpose of supplying general information, without charge. It neither constitutes any intention to conduct, or any engagement in any securities business, service business, investment or financial advisory business, or any other business in Thailand, for which Thai licensing is required, nor marketing, offering, solicitation or sale of any products, securities, or services to customers, potential customers or any person in Thailand.

United Arab Emirates (excluding the Dubai International Financial Centre and the Abu Dhabi Global Market): This document is intended only for persons who qualify as professional investors as defined in the Securities and Commodities Authority ("**SCA**") Rulebook. It is not intended for or should not be passed on, directly or indirectly, to other classes of persons/investors in the United Arab Emirates. The contents of this document have not been reviewed or approved by, or deposited with, the Central Bank of the United Arab Emirates, SCA or any other regulatory authority in the United Arab Emirates. If you do not understand the contents of this document you should consult an authorised financial adviser.

United Kingdom / Germany / European Economic Area: This document is being distributed in the United Kingdom by Mizuho International plc ("**MHI**"), 30 Old Bailey, London EC4M 7AU. MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange. This document may be distributed in the European Economic Area by MHI or Mizuho Securities Europe GmbH ("**MHEU**"), Taunustor 1, 60310 Frankfurt, Germany. MHEU is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht ("**BaFin**"). For the avoidance of doubt this report is not intended for persons who are Retail Clients within the meaning of the FCA's or the BaFin's rules. Details of organizational and administrative controls for the prevention and avoidance of conflicts of interest can be found at https://www.mizuhoemea.com.

United States: This document is being distributed in the United States by Mizuho Securities USA LLC ("**MSUSA**") and is the responsibility of MSUSA. The content of publications distributed directly to US customers by non-US members of Mizuho Securities is the responsibility of such member of Mizuho Securities which distributed it. US investors must affect any order for a security that is the subject of this document through MSUSA. For more information, or to place an order for a security, please contact your MSUSA representative by telephone at 1-212-209-9300 or by mail at 1271 Avenue of the Americas, New York, NY 10020, USA. MSUSA acts as agent for non-US members of Mizuho Securities for transactions by US investors in foreign sovereign and corporate debt securities and related instruments. MSUSA does not guarantee such transactions or participate in the settlement process.