Mizuho Brief: Trump 2.0

Economics & Strategy | Asia ex-Japan

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Vishnu Varathan | Head Macro Research, Asia ex-Japan

Trump 2.0 Trade War: Beware Dead Cats on Rollercoasters

"Great warrior. Wars not make one great." – **Master Yoda, Star Wars**

In a Nutshell:

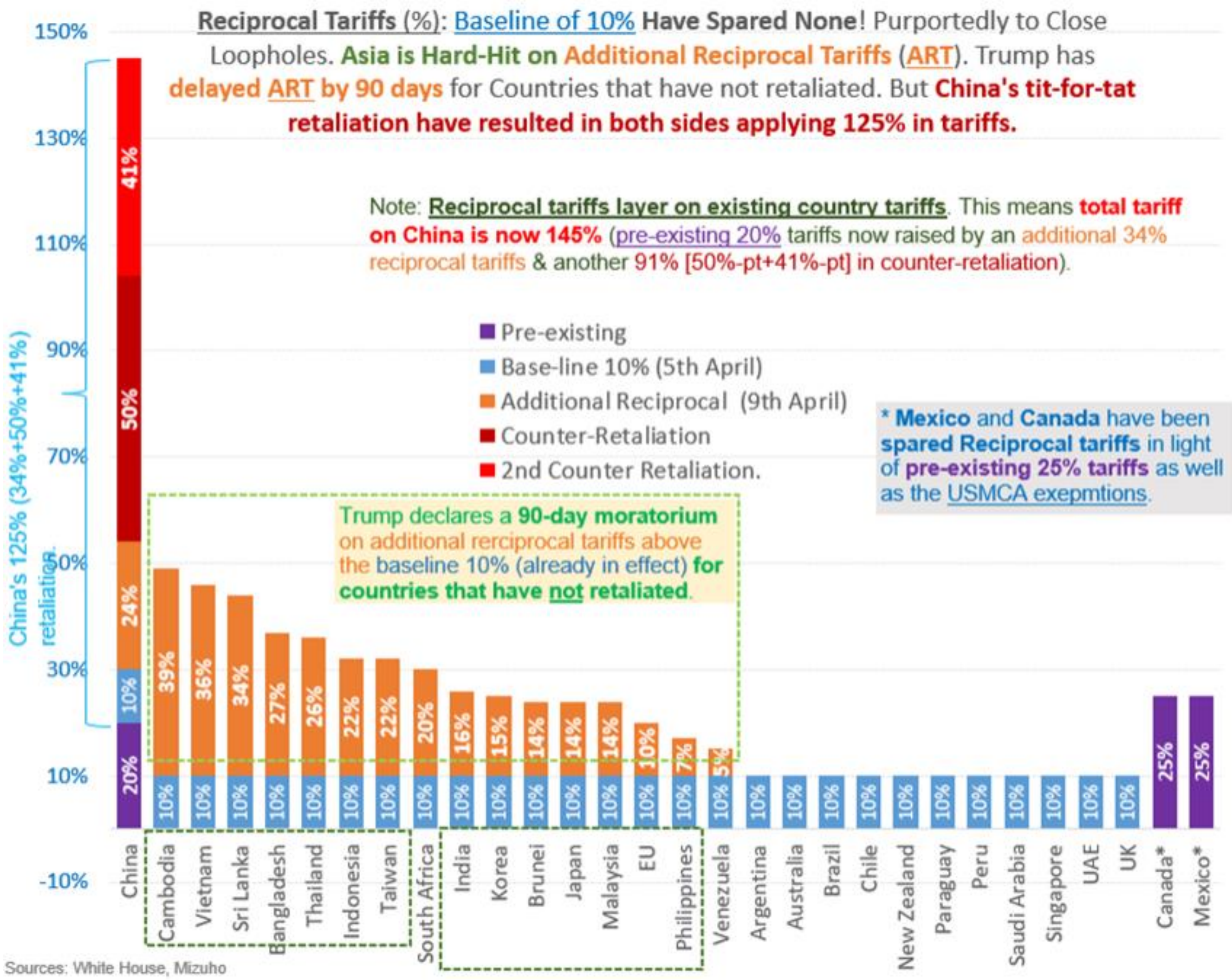
- **Despite the encouraging** (albeit incomplete) **rebound** in sentiments/asset markets, the **risk of dead cat bounces** as clarity and visibility eludes amid exceptionally elevated tariff uncertainty.
- Fact is, the global landscape, **strewn with significant binary risks** around trade deals, negotiations during temporary exemptions **warn against one-way**, **linear**, **bullish bets**. That is, to **brace a (Trump) tariff rollercoaster**!
- What's more, with **the added US security angle**, geo-politics trumps economic, *lowering the bar for self-harm* and *global disruption.*
- Crucially, the **structural nature of US' ambitions to re-order global trade/industrial**, warns of a far ***longer game****,* involving ***higher stakes*** and **prolonged disruptions**.
- Add to that **Trump's** *mercurial and ill-conceived imposition of tariffs* that **diminishes the chances of a quick resolutions.**
- Worse, when *executed with a high-handed "escalation deterrence",* **aggravates risks of prolonged US-China standoff**, and associated ***adverse disruption/spillover****.*
- Given the vulnerabilities involved in *inextricable supply-chain, and related, financial linkage transmit,* **US-China antagonism may not only transmit, but end up being amplified**, **elsewhere**.
- Against this backdrop, five themes worth pondering are;
    i. Adverse demand/income shocks: **Downside risks in global energy/equities** to remain intact.
    ii. Consequent dovish policy catch-down: **Steepening in the yield curve** with *higher odds of lower front-end rates.*
    iii. JPY Trade-Haven Conflict: **Sharp two-way JPY volatility** if "haven reflex" lifting JPY is supplanted by trade risks hitting Japan hard (more so if accompanied by dovish BoJ pivot).
    iv. Gold & Hard Assets: A combination of stagflation-type risks accompanied by the threat of debasement of fiat from QE-type reflexes (on financial shocks) may **enhance the shine for Gold and hard assets**.
    v. AXJ Compromised by More Profound (US-China) Geoeconomic Risks Contagion: **AXJ unable to fully exploit even broad-based USD softening** as the wider China-Asia complex is hobbled by **harsher geo-economic risks/outcomes** given hard-to-disentangle supply-chain/financial associations.

1. Beware Dead Cats

- Admittedly, the relief **rebound** from tariff exemptions* appears **intuitive at first glance**.
- ***But*** it **could yet turn out to be a dead cat bounce** *as clarity* and *visibility elude*
- Notably, **ahead of persistent uncertainty** into *fraught bilateral trade deal negotiations* and *impending sectoral tariffs* amid a tense standoff with China.

- The **bumpy**, **disorderly** even, **transition to** a world with *higher trade barriers, increased diplomatic friction,* and *fragmented trade,* is **hardly a recipe for one-way, linear rallies**.

* This includes earlier stay order on higher reciprocal tariffs (above the 10% baseline) and the recent exemption on semiconductors, computers, mobile devices and displays.



Sources: White House, Mizuho

2. As Geoeconomic Conflicts Threaten Demand

- Fact is, **rising hopes of Trump 2.0 tariff exemptions**/trade deals **have only eased**, ***not eliminated***, **overarching** (engineered) **threats to global demand**.
- Especially **as** geo-political objectives of the US have been framed in direct conflict with optimal global economic outcomes.
- Consequently, the ***unpredictability quotient** is **raised significantly*** as a **series of binary risks lurk beneath hopes of bilateral negotiations struggle to surmount enduringly mercurial US tariff threats**.
- Which **means t**hat **markets may still be caught off-guard**. Possibly also ***woefully wrong-footed*** as the series of binary risks abound

3. Windows (of Relief) …

- To be sure, **exemption for chips/mobile devices/consumer electronics from Trump 2.0 reciprocal tariffs** is **by and large welcome relief**.
- ***Even if*** the reprieve is only **temporary, procedural intermission before specific sectoral tariffs** are applied.
- For one, the effective sectoral tariffs are likely to be appreciably lower than effective reciprocal tariffs (led by the 125% on China).
- What's more, the reprieve opens a window for circumventing tariffs by **front-loading key electronic imports** (to US) before sectoral tariffs come into force.

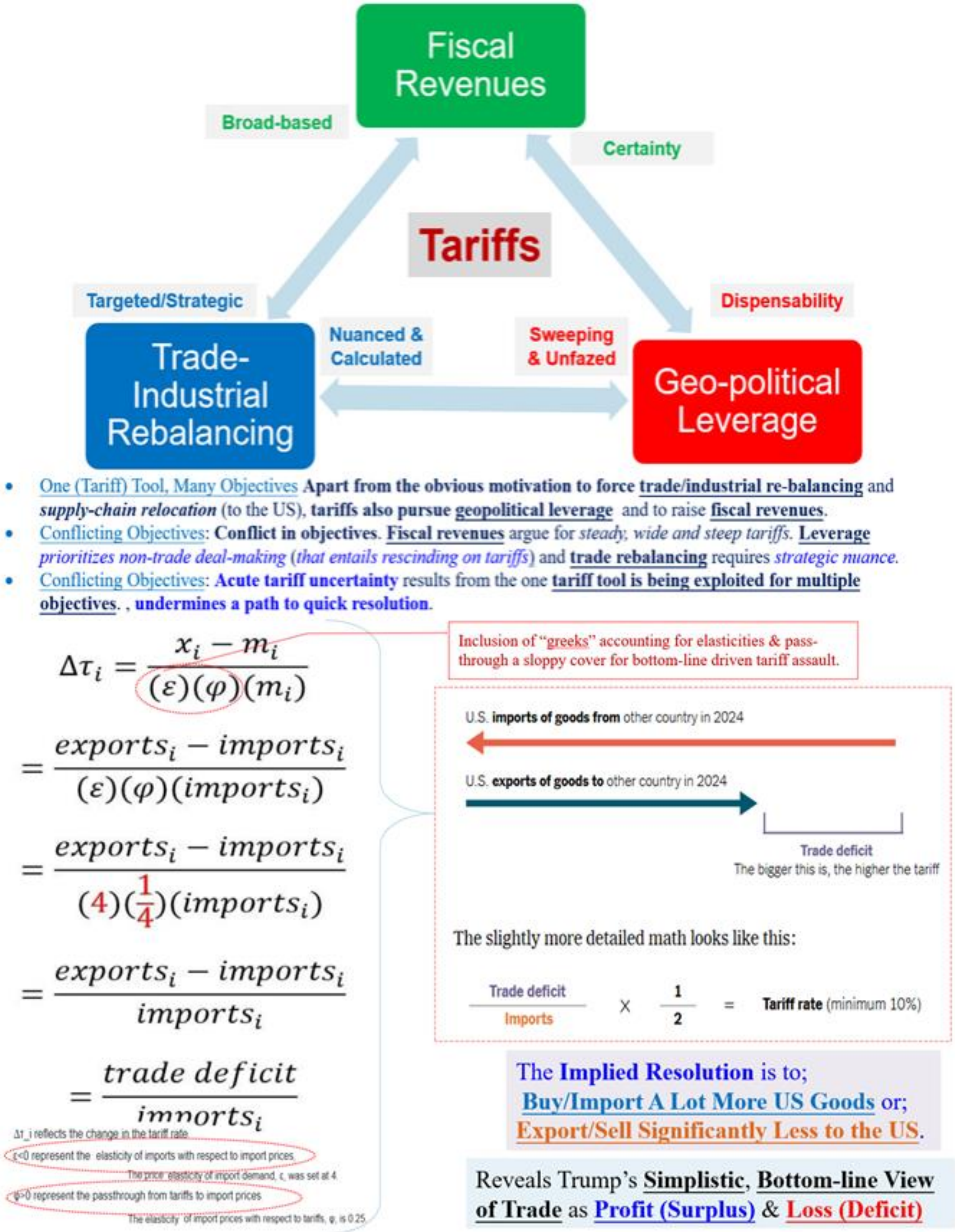
4. … Not Way Out

- But the bottom-line is that the **temporary windows* of opportunities**, invariably set to close (soon), are simply **not a way out of broader US trade antagonism** (aimed at structural shifts).
- Instead, the **staunch "America First" agenda** adopted in Trump 2.0 tariffs **warn of greater uncertainty and accompanying upheaval ahead**.
- Simply put, the bigger picture here suggests that it is *way too premature to bet big on lasting de-escalation*; much less resolution.

** Temporary relief from additional reciprocal tariff (above the 10% baseline) and pipeline sectoral tariffs planned yet to be implemented.

5. Trump Tariff Rollercoaster

- **Instead, Trump's shoot-from-the-hip execution of tariffs** that is still underway **necessitates that markets hunker down** for an enduring **rollercoaster ride**.
- Point being, **with Trump's** "*shoot first, question later*" tendencies, **uncertainty is merely moved around**, ***not meaningfully mitigated***.
- What's more, **incompatible tariff objectives** (between fiscal revenues, geo-political leverage and trade-industrial rebalancing) **couched in baseless, zero-sum game, tariff math *challenges any resolution***.



6. Geopolitics Amplify Economic Shocks

- Most worryingly, the **added national security calculus amplifies risks of adversarial US-China dynamics,** *with wider negative spillover to trade partner and market.*

- In fact, the danger is that the US' **(mis-)perceived geopolitical exigencies lower the hurdle to endure *miscalculated* economic self-harm**.
- From which **painful demand shocks** will **inevitably be inflicted on the global economy**. Perhaps ***disproportionately so*** for trade-dependent economies.
- Especially given **inextricably inter-connected supply-chain, and associated financial, linkages** have a propensity to not **just transmit**, but ***possibly amplify*, shocks**.

Table 1. Emergency Powers Enacted in Tandem with Trade & Energy/Mineral Security Policies

Sector	Emergency Powers Invoked	Coordination Agencies
Trade	International Emergency Economic Powers Act (IEEPA)	Department of Commerce Trade Representative
Energy	National Energy Emergency** Defense Production Act (DPA)	National Energy Dominance Council (NEDC)*** Department of Energy Department of Defense Department of Interior Department of Commerce
Minerals	National Energy Emergency** Defense Production Act (DPA)	National Energy Dominance Council (NEDC) Department of Defense Department of Energy Department of Interior Department of Agriculture

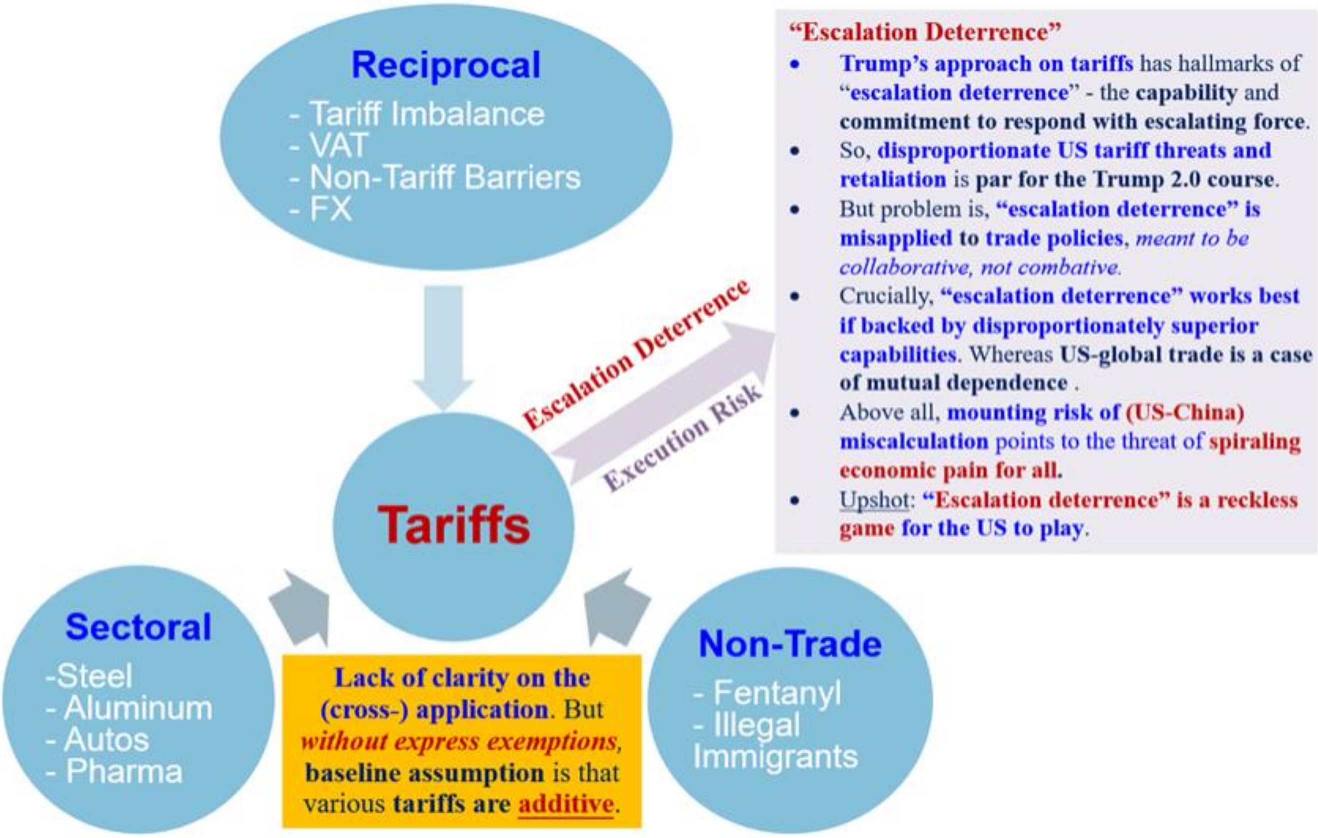
* The pursuit of mineral security entails both the invocation of the DPA alongside the National Energy Emergency to boost domestic mineral production as well as external mineral acquisition such as the Ukrainian Minerals deal.
** The National Energy Emergency covers energy and critical minerals. And it falls under the wider umbrella of the National Emergencies Act (NEA) that covers 117 emergency statutes.
*** The National Energy Dominance Council (NEDC), established on 14th Feb 2025, is Chaired by the Secretary of Interior, with the Energy Secretary as Vice Chair. Some of the key members of this Council the Secretaries of Treasury, Defense, Agriculture, Commerce, Transportation, Attorney General and the Environmental Protection Agency (EPA) Administrator.

7. Relief is Opportunistic, Not Cathartic

- Hence, **any interim relief** (for markets and trading partners alike) **from tariff pause/exemptions** alongside **inspired hopes of negotiations** are still likely to be **opportunistic**, ***not cathartic***.
- And not just **due to constant** *flip-flops* and *shifting goalposts* that **challenge even tactical bets** and *make long shots of strategic plays*.
- Rather, critically because the underlying US **ambitions to reshape global industrial/trade dominance** is a far ***longer game***, involving ***higher stakes***, ***evolving objectives,*** and that **risk prolonged disruptions**.

8. Uncertainty & Undue Aggravation

- What's more, the **disorderly and clumsy executions of hastily cobbled plans**, subject to flip-flops and significant shifts, **unnecessarily elevate uncertainty**.
- In turn, this lack of clarity needlessly **hampers timely responses** and **accentuates policy paralysis**.
- Especially as **misguided US "escalation deterrence" approach aggravates China push-back**, (See US-China Feature below for more details) dangling **mounting threat** of *higher-order disruptions, including fragmentation risks*.



Five "Dead Cat on Rollercoaster" Themes to Consider

- Prolonged, and possibly pronounced, tariff and geoeconomic uncertainties will probably impose higher risk premiums for longer.
- Volatility is also par for the course as unpredictability, tail risks and abrupt shifts rule the roost.
- Against this backdrop, five themes worth pondering are;
    i. Adverse demand/income shocks: **Downside risks in global energy/equities** to remain intact.
    ii. Consequent dovish policy catch-down: **Steepening in the yield curve** with *higher odds of lower front-end rates.*
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US-China Feature

Beijing Will Not Flog a Dead Horse

- It is admittedly tempting to argue that **Beijing's express allusion to not engaging in further escalatory retaliation** is a **positive checking global tariff escalation risks**.
- But this is **misplaced optimism** that **masks what is essentially a terse stand-off**.
- Specifically, the fact that Beijing considers the **current scenario as maximum pain**, *with further escalation meaningless*.
- So, **Beijing refusing to flog the proverbial dead horse**, in fact **underpins its unyielding stance**.

But Neither Will It Blink

- To that point, **Beijing** has made abundantly clear that it **will not blink**.
- Case in point being China's *unflinching tit-for-tat tariff response* *(raising tariffs on the US to 125%)* undeterred by intimidating US counter-retaliation***.
- *In fact,* **Beijing has deployed a much wider array of retaliatory tools**^ meant to **hit where it hurts**, as dig its heels in.

Raises the Bar for a Resolution

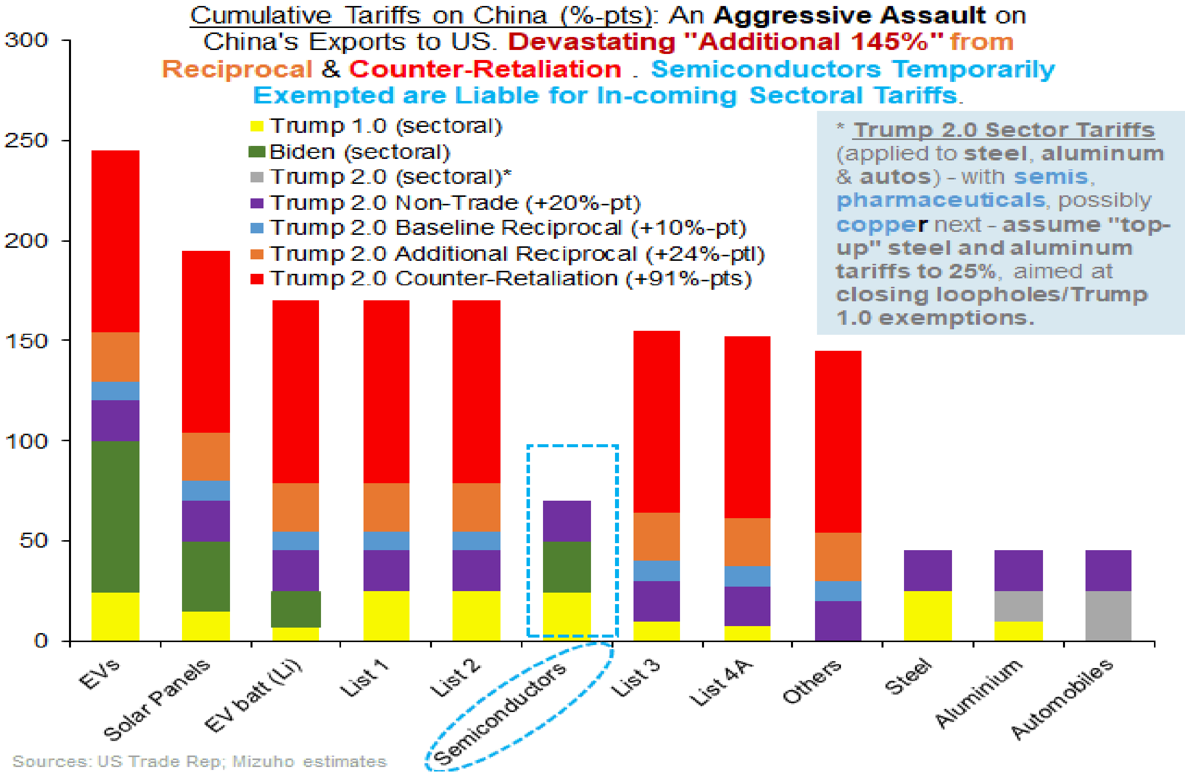
- Effectively this is **Beijing demonstrating leverage** and the **will to use it**, *rather than prematurely fold.*
- This conspiracy of US overestimating its advantage and Beijing increasingly averse to US hegemony inevitably **raise bar for negotiations towards a *mutually acceptable compromise.***
- At least not *until the Trump Administration backs down from high-handed threats* and *opens the door for good-faith dialogue,* and *on unambiguously equal footing.*

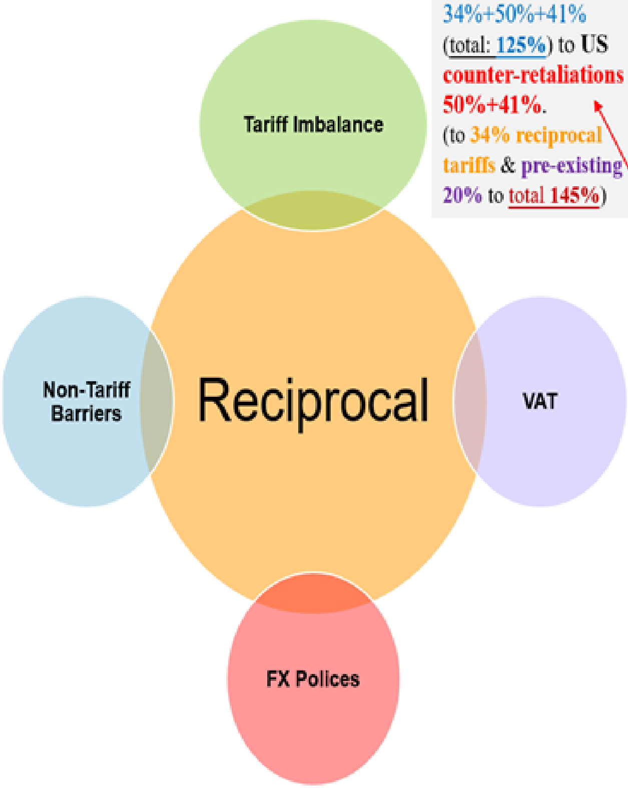
Heightened Uncertainty

- Consequently, the **US-China stand-off may be inadvertently prolonged** *as both parties associate initiating talks with conceding vital advantage in trade negotiations*.
- Trouble is, US-China tensions have impact far beyond just the largest economies, as **prospects for a meaningful dial-back in global trade/industrial tensions** are likely to s**tymied**.
- And with **elevated global trade (and supply-chain) uncertainties** feed off, and into, **far-reaching inhibitions on** confidence, spending and investments.

*** The US layered on an addition 91%-pts of tariffs (in two counter retaliation moves of 50%-pt and 41%-pt, taking Trump 2.0 China tariffs to 145% (20%-pt pre-reciprocal + 34%-pt reciprocal + 50%-pt +41%-pt)

^ Involving restricting exports control of critical (to US) rare earths, blacklisting/investigating US firms, restricting aircraft orders/deliveries (Boeing)





China's tit-for-tat 34%+50%+41% (total: 125%) to US counter-retaliations 50%+41%. (to 34% reciprocal tariffs & pre-existing 20% to total 145%)

Country	Country's Tariff* (RHS, %)	US Reciprocal Tariffs	Base-line (5th April)	Additional (9th April)
Cambodia	97%	49%	10%	39%
Vietnam	90%	46%	10%	36%
Sri Lanka	88%	44%	10%	34%
Bangladesh	74%	37%	10%	27%
Thailand	72%	36%	10%	26%
China	67%	34%	10%	24%
Indonesia	64%	32%	10%	22%
Taiwan	64%	32%	10%	22%
South Africa	60%	30%	10%	20%
India	52%	26%	10%	16%
Korea	50%	25%	10%	15%
Brunei	47%	24%	10%	14%
Japan	46%	24%	10%	14%
Malaysia	47%	24%	10%	14%
EU	39%	20%	10%	10%
Philippines	34%	17%	10%	7%
Venezuela	29%	15%	10%	5%
Argentina	10%	10%	10%	0%
Australia	10%	10%	10%	0%
Brazil	10%	10%	10%	0%
Chile	10%	10%	10%	0%
New Zealand	20%	10%	10%	0%
Paraguay	10%	10%	10%	0%
Peru	10%	10%	10%	0%
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