Mizuho Chart Speak: Global

Economics & Strategy | Asia ex-Japan

18 July 2025 |
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Don't Dismiss Global Dis-inflation

"It is a capital mistake to theorize before one has data." – **Sherlock Holmes**

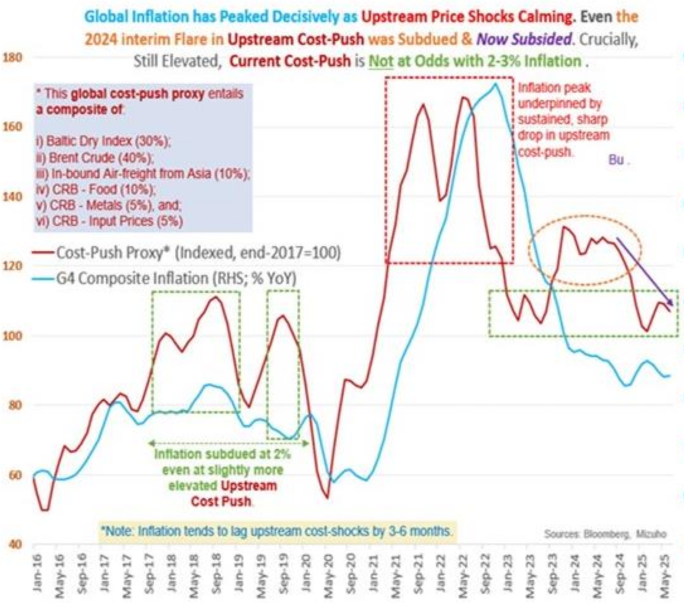
In a Nutshell:

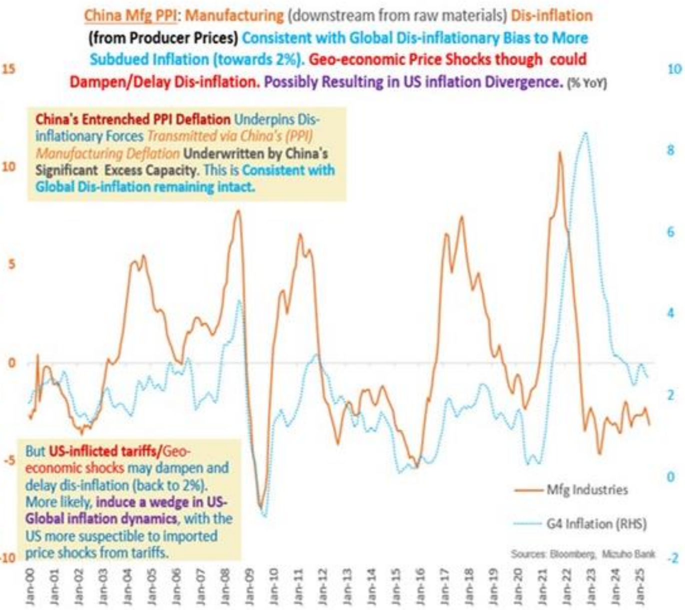
- **Conflating Trump 2.0 tariffs with ubiquitous global price shocks** that overturn the global dis-**inflation trend is misguided.**
- ***Instead,* sustained ex-US global dis-inflation looks likely *given* a conspiracy of *subdued upstream cost-push dynamics* and *China's export of industrial dis-inflation*.**
- For one, *global upstream cost-push drivers* are by and large *subdued,* **underpinned by** the odds stacked in favour of **global energy dis-inflation**.
- Crucially, *China's deeply entrenched manufacturing deflation* ought to export global dis-inflation by default (barring tariffs in sympathy with the US).
- Macro Implications: If realized, **further ex-US global dis-inflation** is likely to;

  1. **underpin deeper global monetary easing** as well as;
  2. **induce US-ROW^ inflation wedge**.

- Rates Implications: This in turn squares with;

  i. **softer global rates**, with *deeper global rate cuts vis-à-vis the Fed.*
  ii. But **offsetting US-ROW inflation wedge** will **mitigate/diminish corresponding pressures in real rate spreads** (vs. US).





- **Tariffs** are understandably **conflated with price shocks** and *consequent inflation.*
- And given the current **preoccupation with global tariffs**, the **instinct** may be **to fret about global inflation**.
- *But* this simplistic **worry about ubiquitous inflation driven by Trump 2.0 tariffs** is a **grossly misplaced** concern.
- In fact, the evidence at hand suggests that the conditions for **global dis-inflation by and large remain intact**.
- For one, our proxy of **upstream drivers of global cost-push*** (based on *energy, key commodities,* and *freight*) are **consistent with subdued inflation**.
- *Admittedly,* inflation hawks could argue **upstream cost-push**, while significantly diminished from 2022 peaks, is still **relatively more elevated** vis-à-vis pre-pandemic norms.
- And that the full **tariff ripple-effect through global supply-chains** is **yet to be determined**.
- Fair points. But *reasonable doubt about unfettered dis-inflation* is *not incrimination of* an *impending inflationary spiral.*
- And the bigger picture is that far more **subdued upstream cost-push** *underpinned by dis-inflationary energy* squares with **broader global dis-inflation remaining intact**.
- What's more, **China's entrenched industrial deflation** is **well-placed to export dis-inflation** *outside of the US.*
- Specifically, China's ***manufacturing component of PPI remains deeply deflationary***,
- Given **China's sheer global manufacturing dominance heft/overcapacity** *this is highly correlated with global inflation*.
- And *under the current conditions* ***consistent with sustained global dis-inflation***.
- Admittedly, **US tariff barriers may mean higher US-specific inflation** *despite China's dis-inflationary global dynamic default.*
- Whereas **US tariff barriers could actually** *accentuate** ex-US global dis-inflation* **from increased relative Chinese good supply elsewhere**.

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*Mizuho's global cost-push proxy in this iteration is comprised of; Brent Crude, Baltic Dry Index, In-bound Airfreight from Asia; CRB-Food, CRB- Metals and CRB – Input Prices.

** This assume (And requires) that other trade partners do not raise tariffs on Chinese goods in tandem/sympathy with the US.

^ Rest of the world