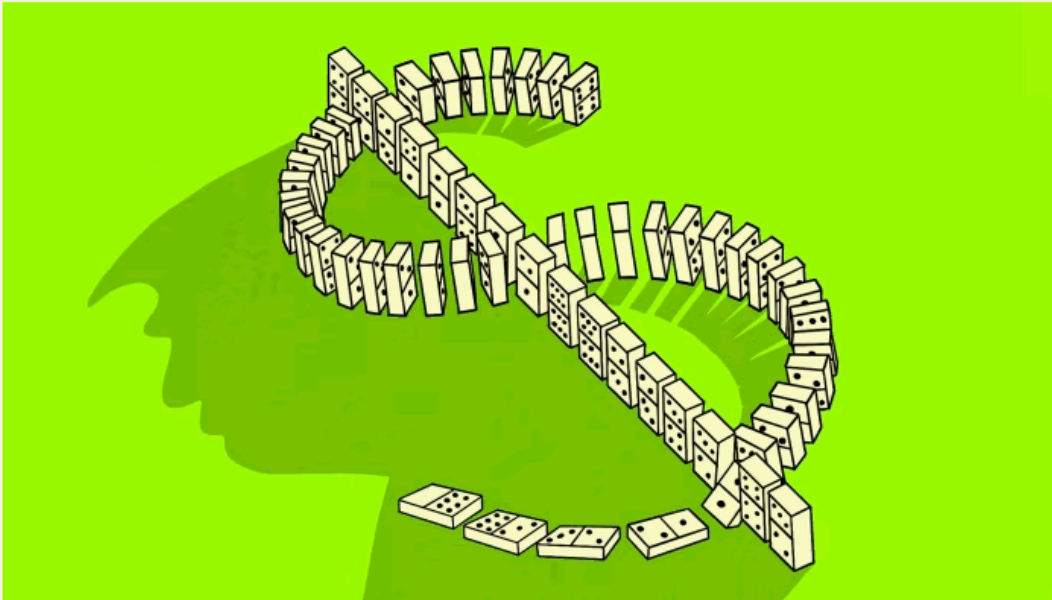


“Sell America”

*Is the Genie Out of the Bottle?
... But Even Then, Buy What?*



*He that breaks a thing to find out
what it is, has left the path of
wisdom.”*

— Gandalf

*“A man that flies from his fear may
find that he has only taken a short cut
to meet it.”* - J.R.R Tolkien

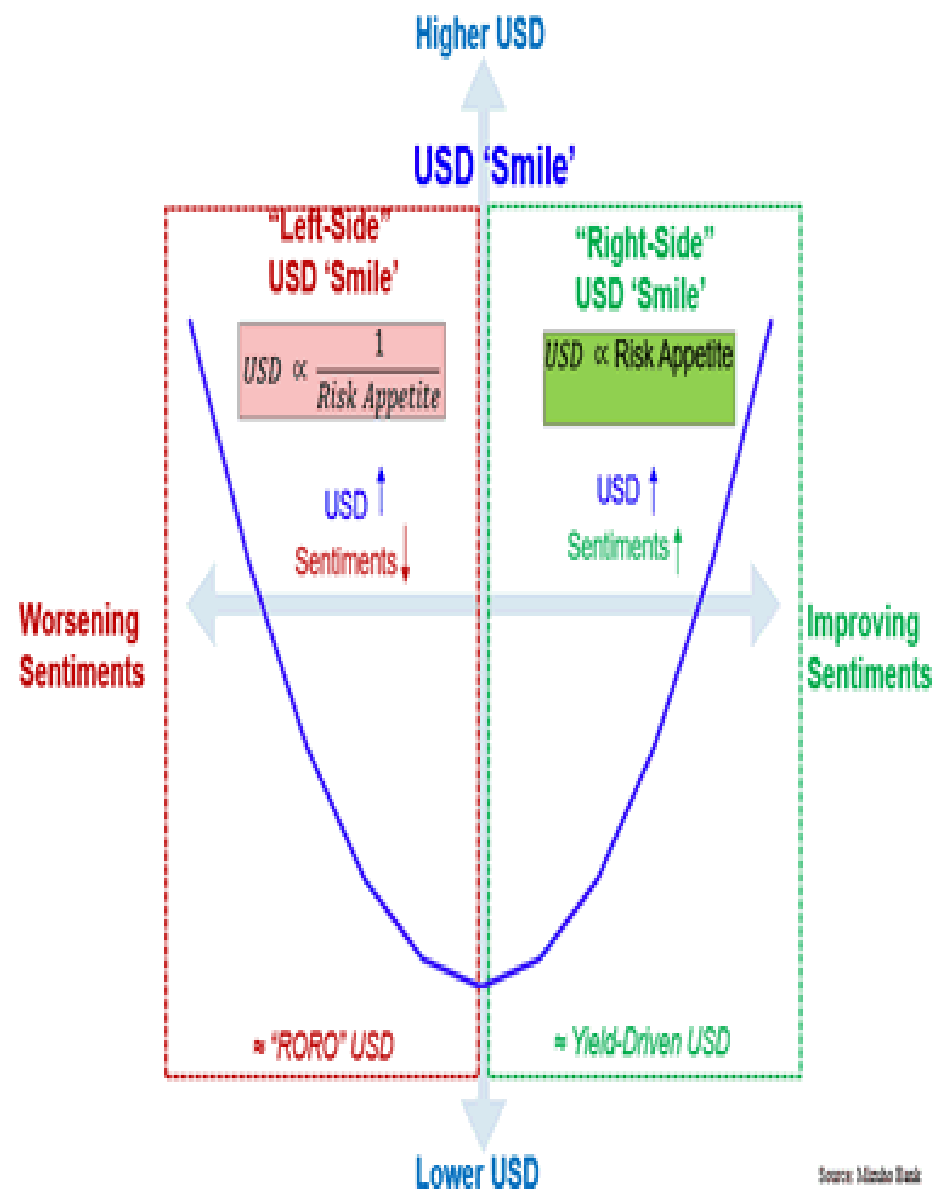
MIZUHO

Private and confidential

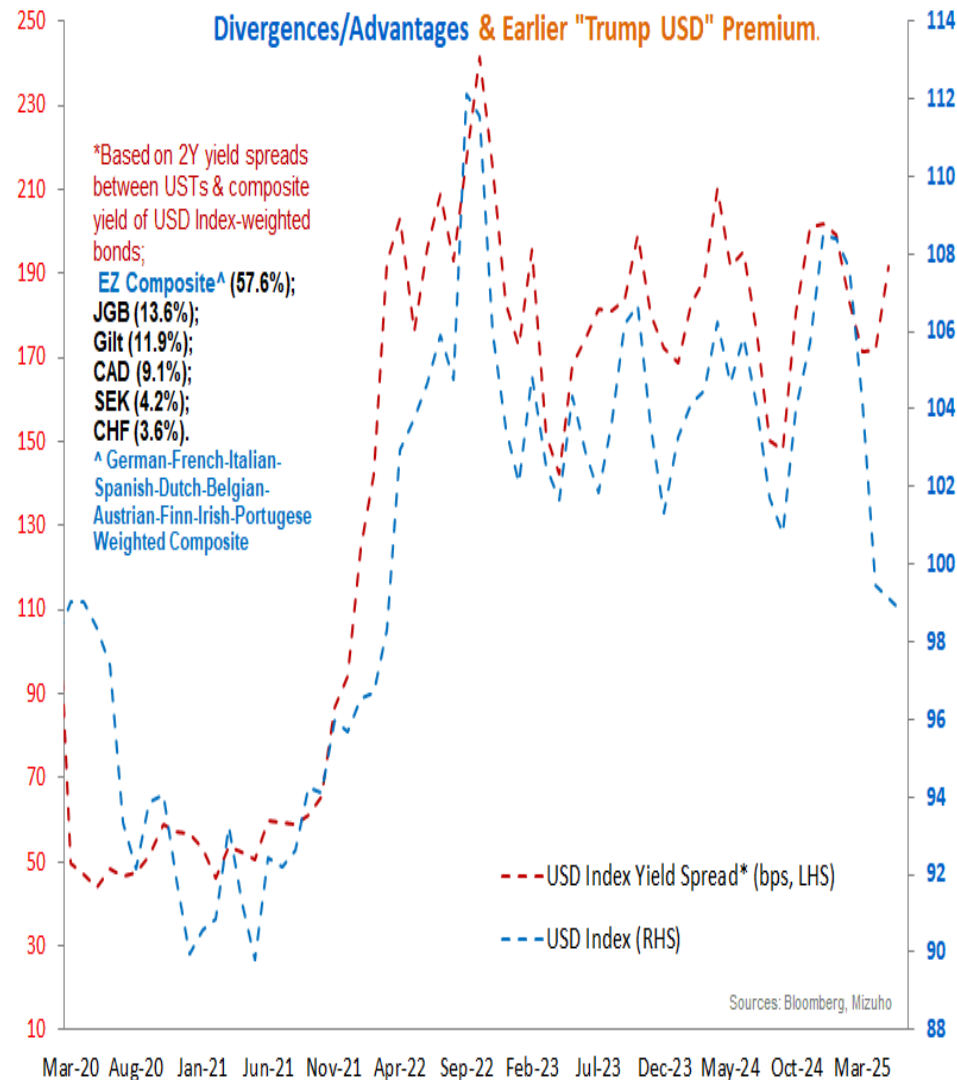
Photo Credit: FT

June 2025

Wiping Off the "USD Smile"?



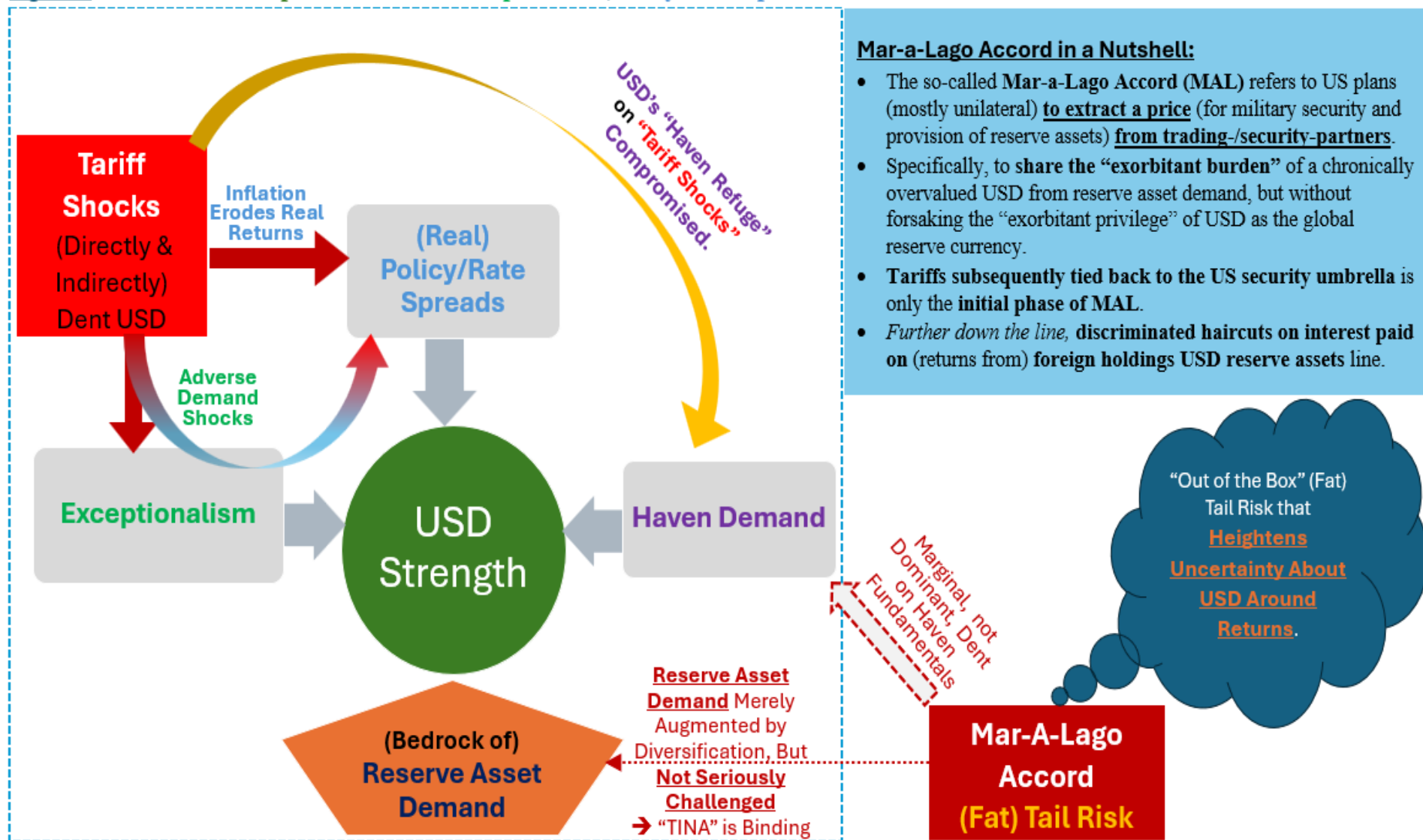
The "Sell America" USD: 2Y UST yield spreads (vs. a composite of Yields based on the USD Index) suggest that USD Declines Sharply Reversing Policy Divergences/Advantages & Earlier "Trump USD" Premium.



USD's "Trump Trade" Reversals Confuse Correlations

"I find your lack of faith disturbing."
- Darth Vader, Star Wars: A New Hope

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

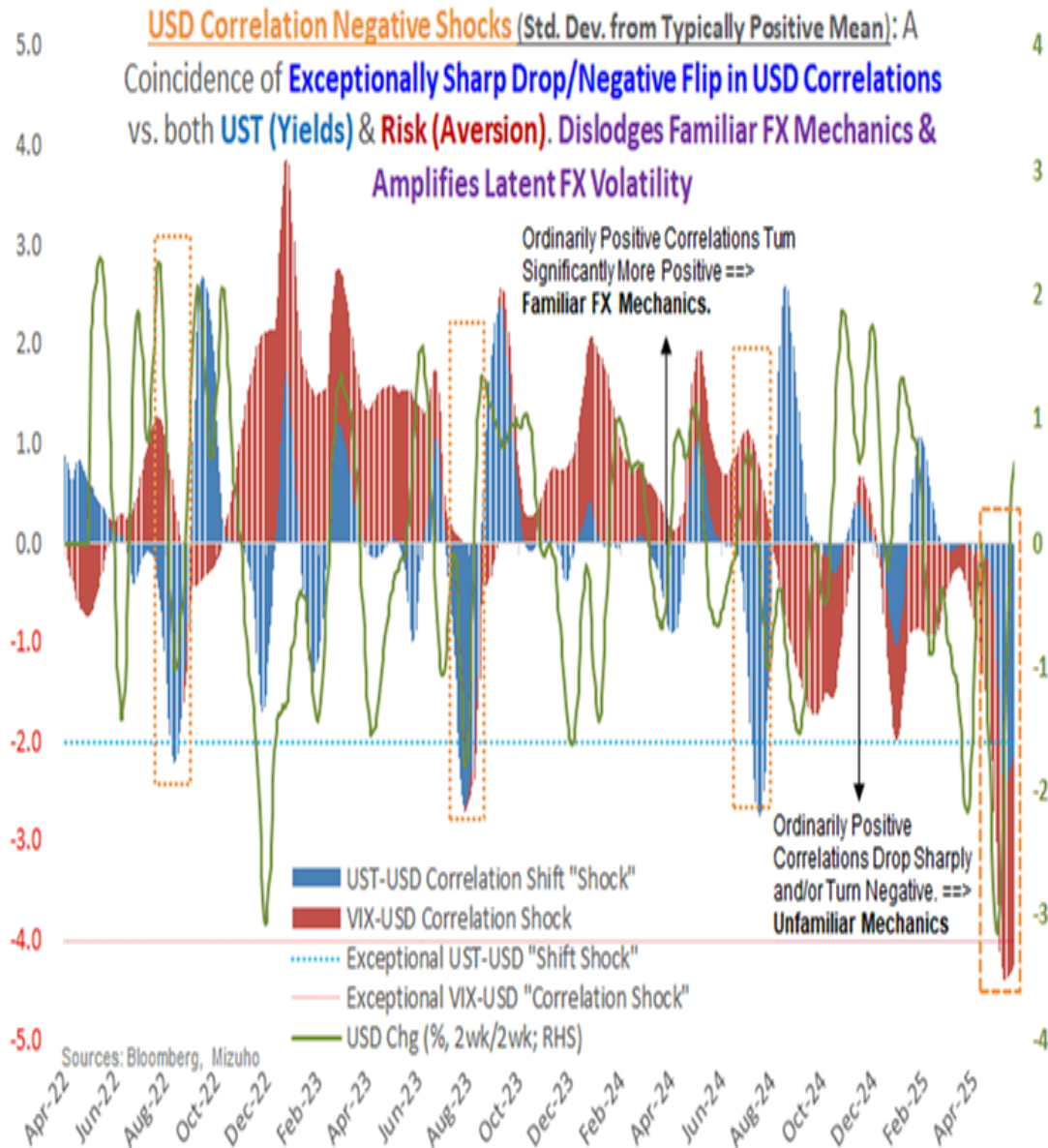


Mar-a-Lago Accord in a Nutshell:

- The so-called **Mar-a-Lago Accord (MAL)** refers to US plans (mostly unilateral) **to extract a price** (for military security and provision of reserve assets) **from trading-/security-partners**.
- Specifically, to **share the "exorbitant burden"** of a chronically overvalued USD from reserve asset demand, but without forsaking the "exorbitant privilege" of USD as the global reserve currency.
- **Tariffs** subsequently tied back to the US security umbrella is only the **initial phase of MAL**.
- *Further down the line, discriminated haircuts on interest paid on (returns from) foreign holdings USD reserve assets line.*

USD's "Trump Trade" Reversals Confuse Correlations

"I'm afraid I can't explain myself, sir.
Because I am not myself, you see?"
– Alice in Wonderland



- Exceptional departures from well-established USD correlation dynamics warn of elevated **unpredictability** that has become *inconspicuously embedded* in FX markets.
- Specifically, **exceptional in the momentum and degree of correlation shifts**. That reveal **extraordinarily stretched standard deviations** in USD correlations.
- Specifically, **magnitude and coincidence** of excessive (>2 standard deviation) decline in both **change in UST-USD correlation** and **VIX-USD correlation**.
- **implications** are that; 1)USD has decoupled, and *unpredictably so*, from (UST) yield-driven moves; 2)USD's haven allure has weakened dramatically, **arresting received wisdom about buying USD (vis-à-vis EM FX) into "risk off" triggers**.
- **Greenback may be less reliably predicted by both rates** (long-end UST yields) **and risk**. Resulting unfamiliarity of FX mechanics inevitably **elevates unpredictability in FX markets**.
- This in turn *sets the stage for outbursts of latent* (currently subdued) **volatility**.
- Notably, what's **at risk is the remarkable (and unexpected) stability of AXJ through turbulent tariff headlines in the cover of a bearish USD dissociated from haven allure and higher UST yields**.
- Hence, **risks of sharp downside volatility in AXJ cannot be dismissed prematurely**. Neither on complacency about resilience thus far (which is **distorted by correlation departures**), nor on account of US-China tariff relief that falls woefully short of a durable resolution.

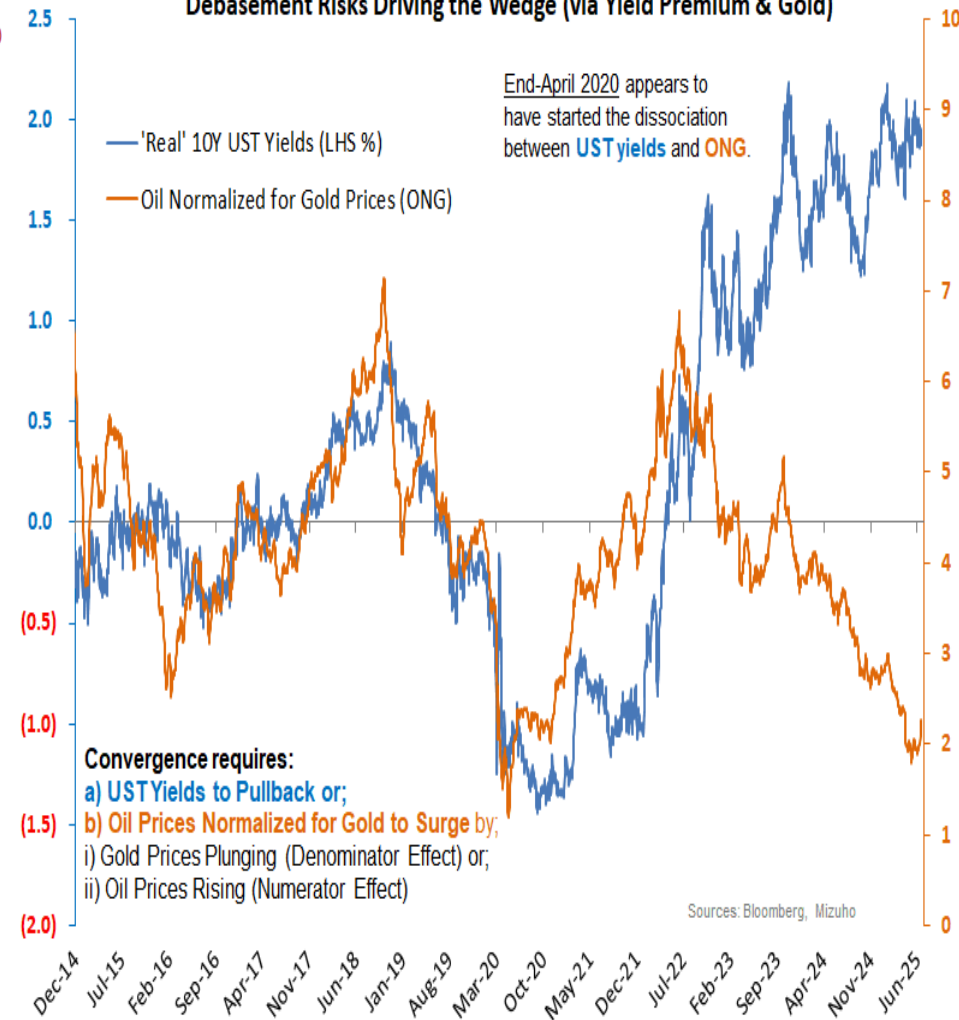
UST Yield-Oil: Departure on Debasement Risks?

“To a dark place this line of thought will carry us. Hmm. Great care we must take.”
– Master Yoda, Star Wars

Oil & 10Y UST Yields: Sharp Divergence Suggests a Complex Confluence of
(Non-Oil) Stagflation Risks & Geo-Economic Shocks Feeding into USD
Hegemony Being Challenged

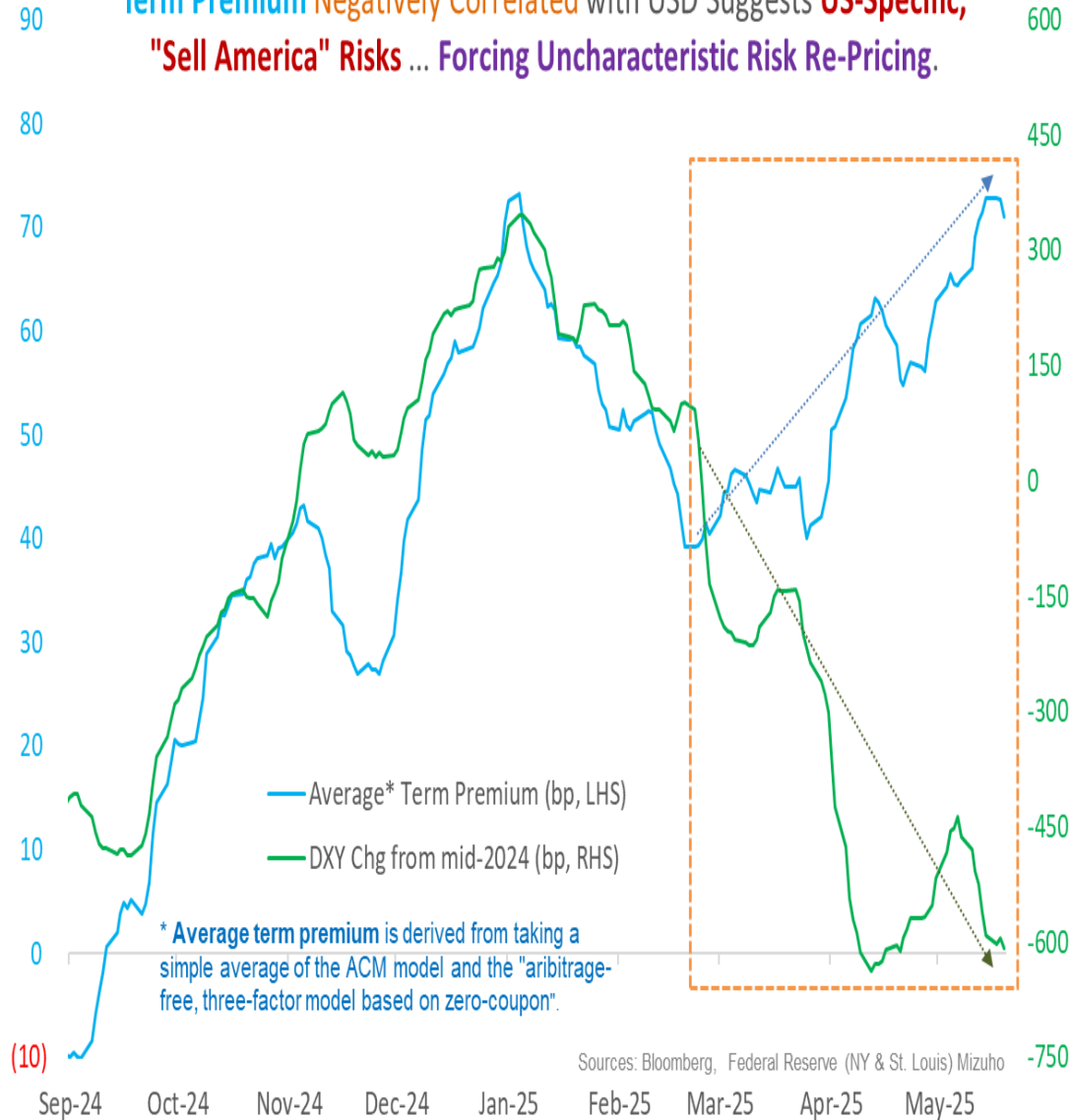


ONG Dynamics & Real Yield Correlations Breakdown Suggest Serious USD
Debasement Risks Driving the Wedge (via Yield Premium & Gold)



Term Premium Accounting for US (& USD) Risks

Term Premium Negatively Correlated with USD Suggests **US-Specific, "Sell America" Risks** ... Forcing Uncharacteristic Risk Re-Pricing.



Which has Corresponded to a Steeper Yield curve Coinciding with a Bearish USD

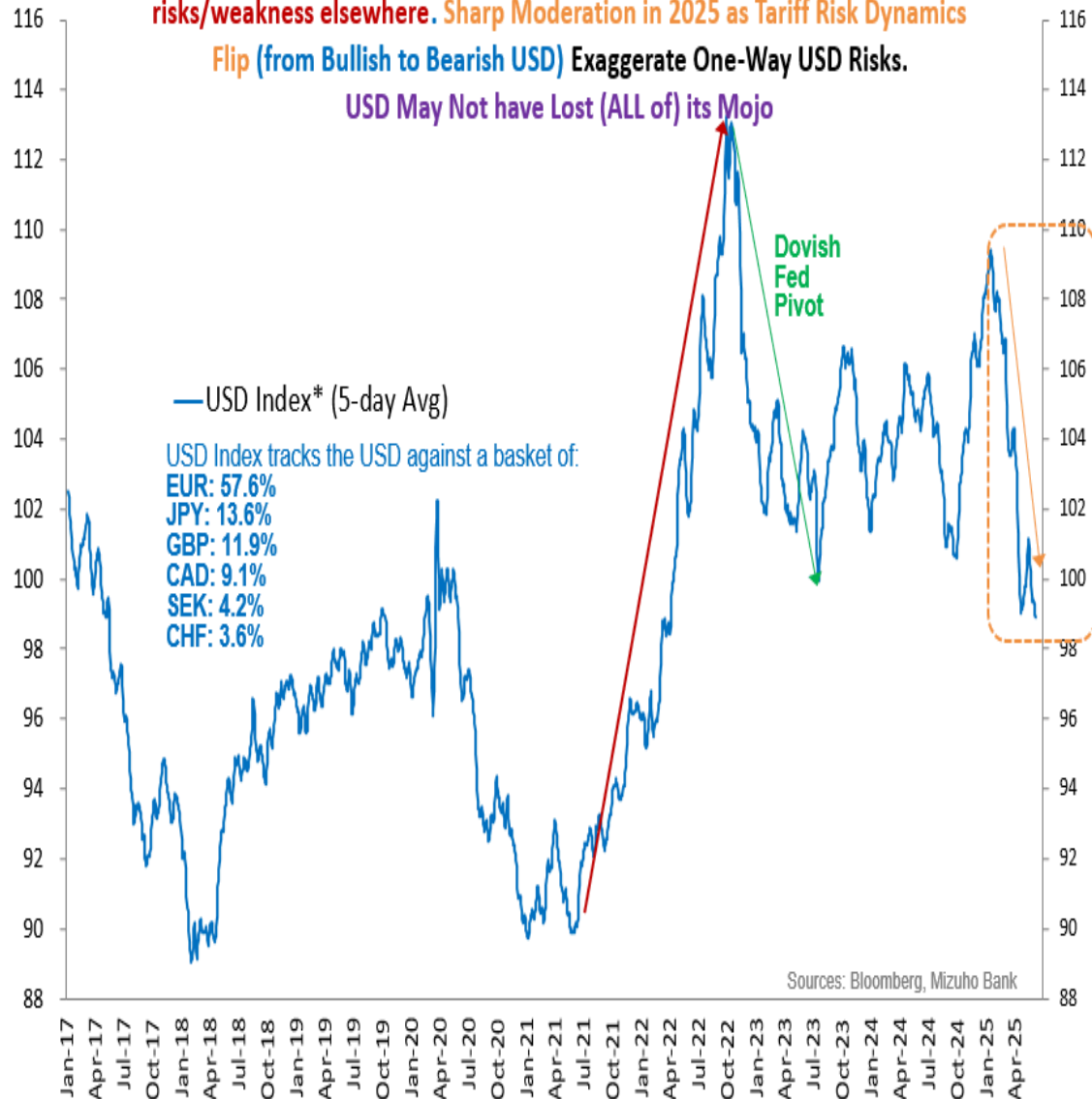


"It is a capital mistake to theorize before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts." – Sherlock Holmes

USD: Demise (De-Dollarization) Exaggerated?

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

USD Index hit 20-year highs in Oct 2022, Agitated by Fed Hawks and Incited by risks/weakness elsewhere. Sharp Moderation in 2025 as Tariff Risk Dynamics Flip (from Bullish to Bearish USD) Exaggerate One-Way USD Risks.
USD May Not have Lost (ALL of) its Mojo

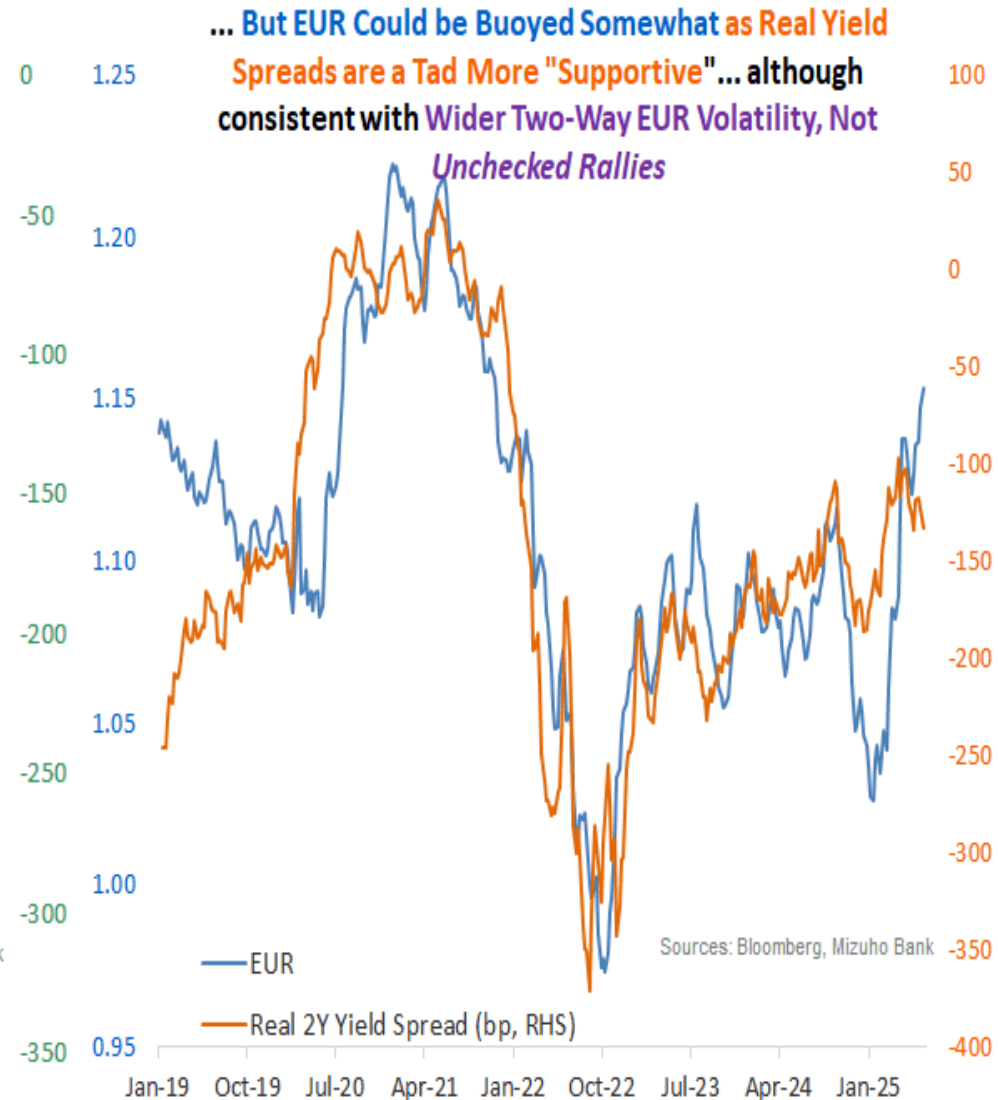
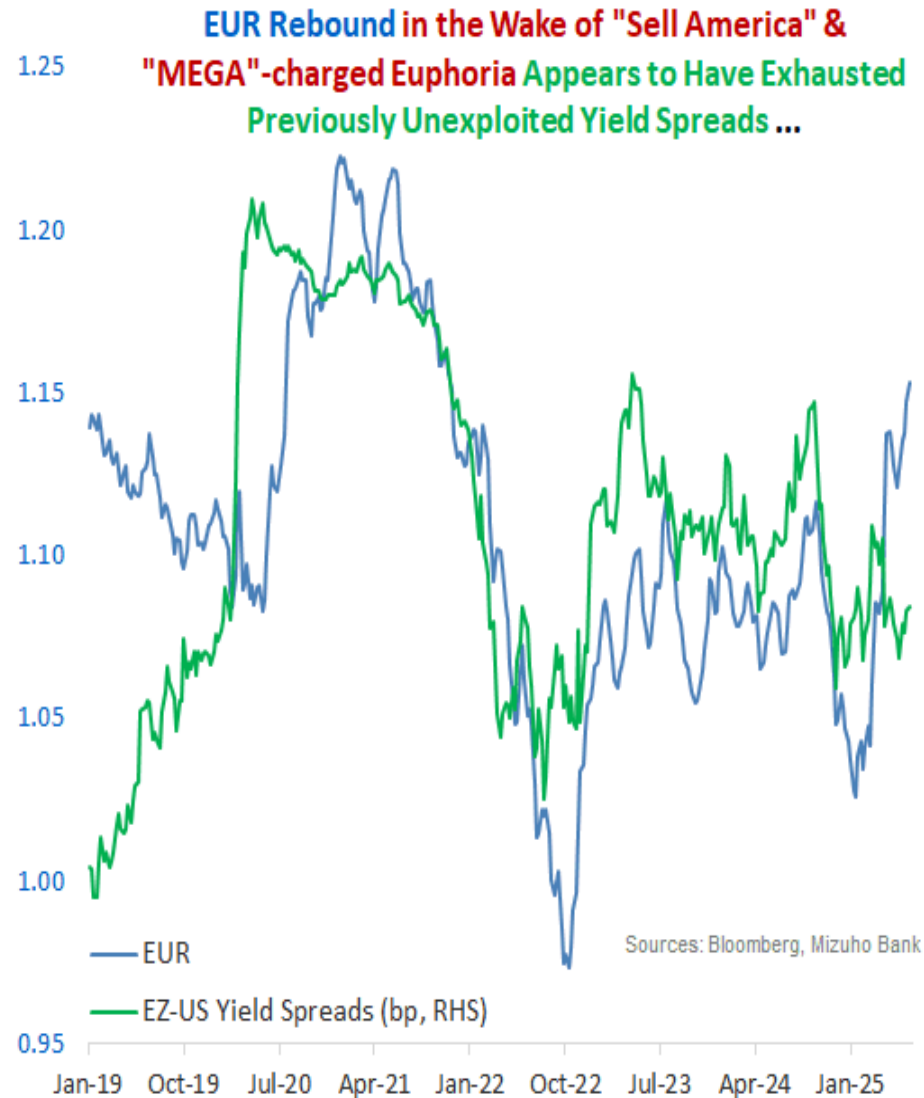


USD: Doubt, Not Demise

- USD's exceptional plunge mainly reflects *abrupt & upfront macro doubts* on tariff shocks.
- **Not an imminent demise of USD's reserve currency status** that portends a collapse.
- 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's **misguided to project a linear USD depreciation** based off current pace of travel.
 - Measured DXY Declines: Instead, a measured **USD level shock** shifting 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 as US-China "deal" emerges.
 - Exploiting Convenient Policy Buffer: But for now, **expect the PBoC to exploit cover of a weak USD** to derive relief via **considerably weaker trade-weighted CNH** amid trade headwinds.
 - Relative CNH & AXJ Underperformance: In other words, **CNH is set to continue underperforming most Major FX** amid a softer USD. And **AXJ are likely to follow suit as trade bugbear impacts Asia disproportionately.**

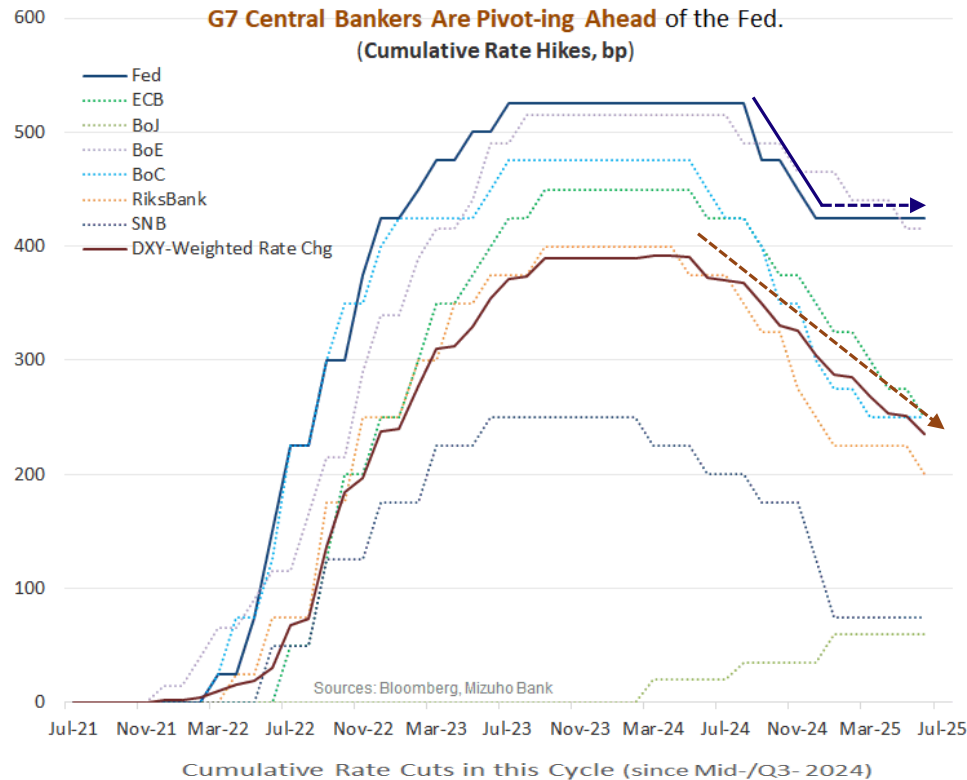
"You will find that many of the truths we cling to depend greatly on our own point of view."
– Master Yoda

Stretched EUR May Temper Brutality of USD Bears

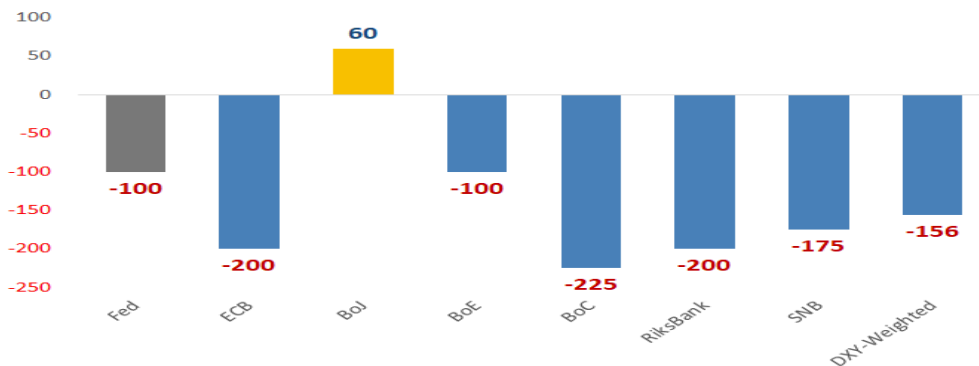
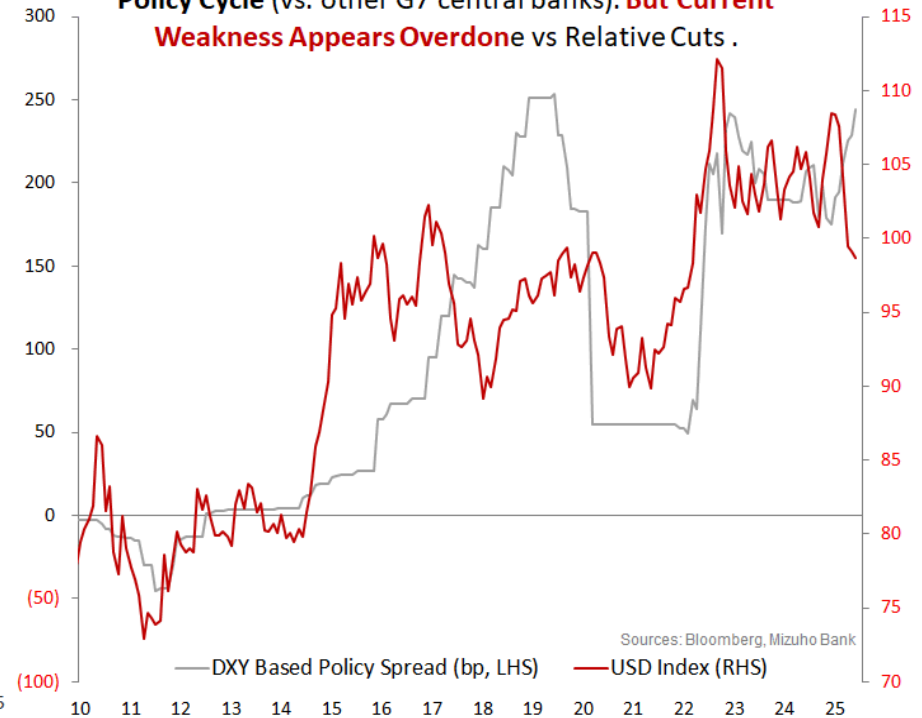


Especially Given the Distribution of Risks & (Policy) Response

Peak Fed Rate Bets Ought to be Tempered by the Fact that **Other G7 Central Bankers Are Pivoting Ahead of the Fed.**
(Cumulative Rate Hikes, bp)



USD Strength Endured Longer than is Typical in the Policy Cycle (vs. other G7 central banks). **But Current Weakness Appears Overdone vs Relative Cuts.**



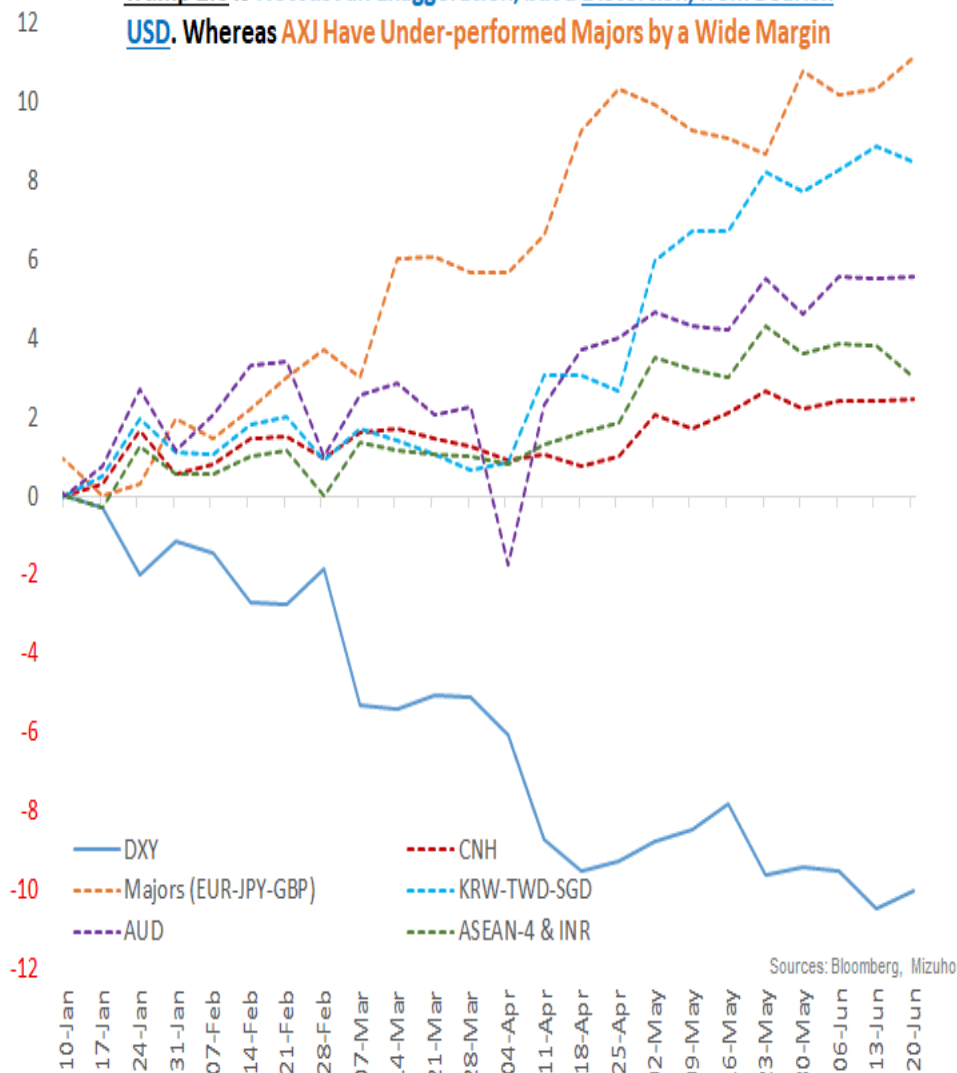
"Crime is common. Logic is rare. Therefore, it is upon the logic rather than upon the crime that you should dwell."

- Sherlock Holmes

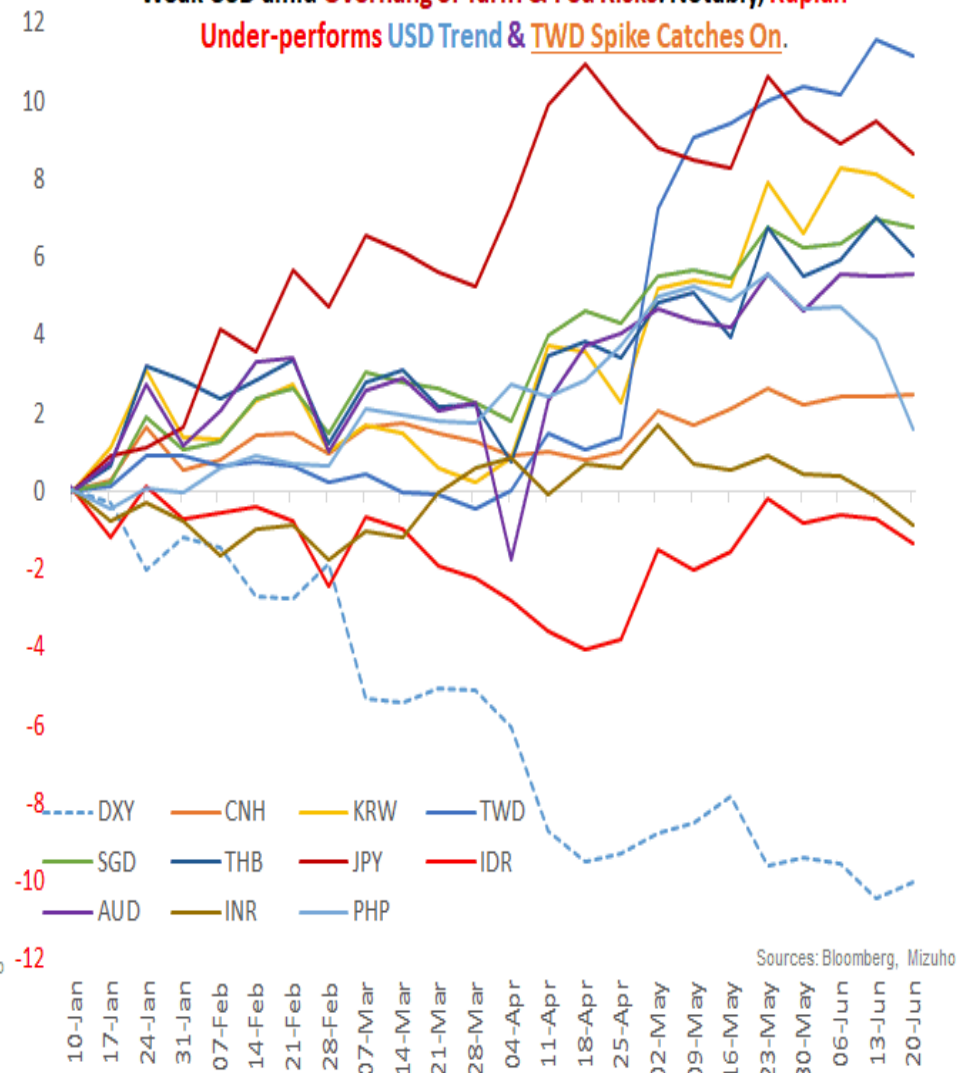
USD Bears – AXJ: Obfuscate & Overstate (Resilience)

"Your focus determines your reality."
- Star Wars, Qui-Gon Jinn

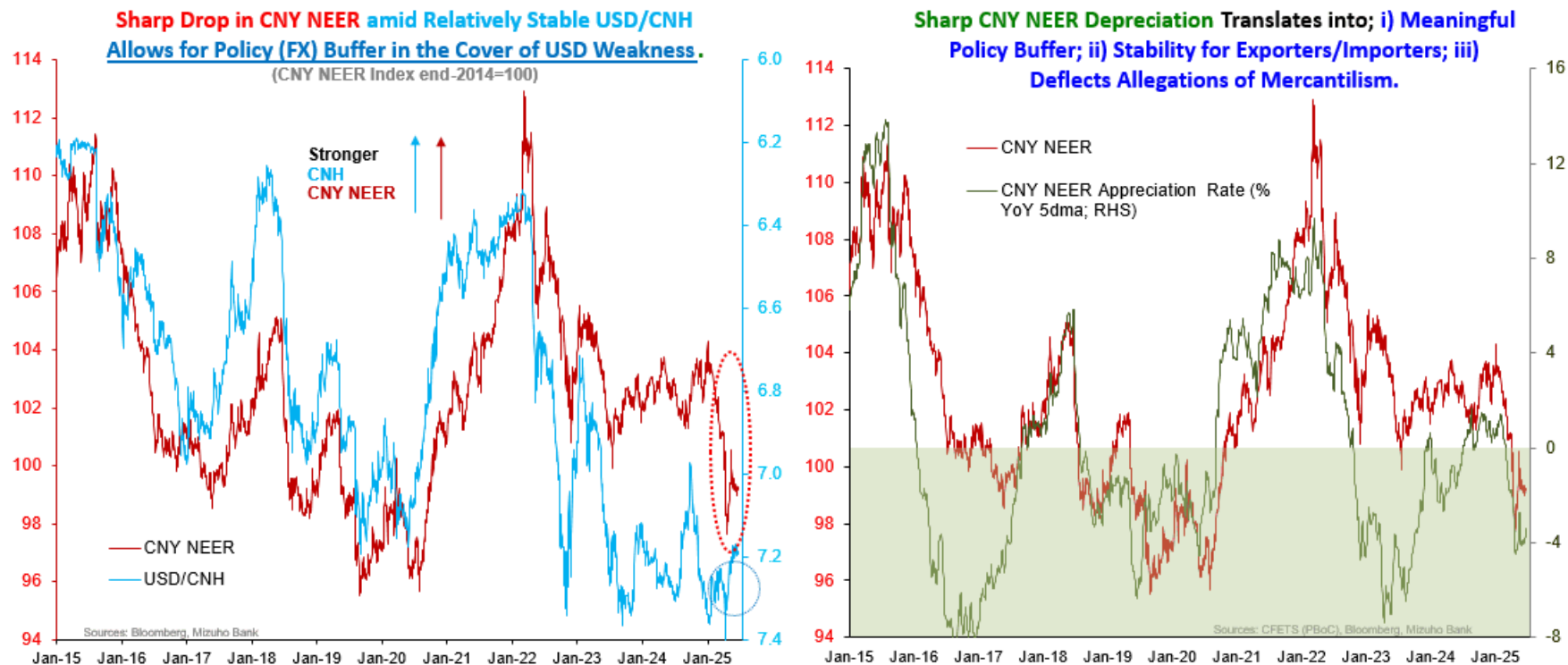
% Chg (vs. USD) since early-Jan 2025 DXY ~110 Peak: **AXJ Resilience amid Trump 2.0 is Not Just an Exaggeration, but a Distortion, from Bearish USD. Whereas AXJ Have Under-performed Majors by a Wide Margin**



...a **Very Differentiated Path for AXJ** mostly Unable to Exploit a Weak USD amid **Overhang of Tariff & Fed Risks. Notably, Rupiah Under-performs USD Trend & TWD Spike Catches On.**



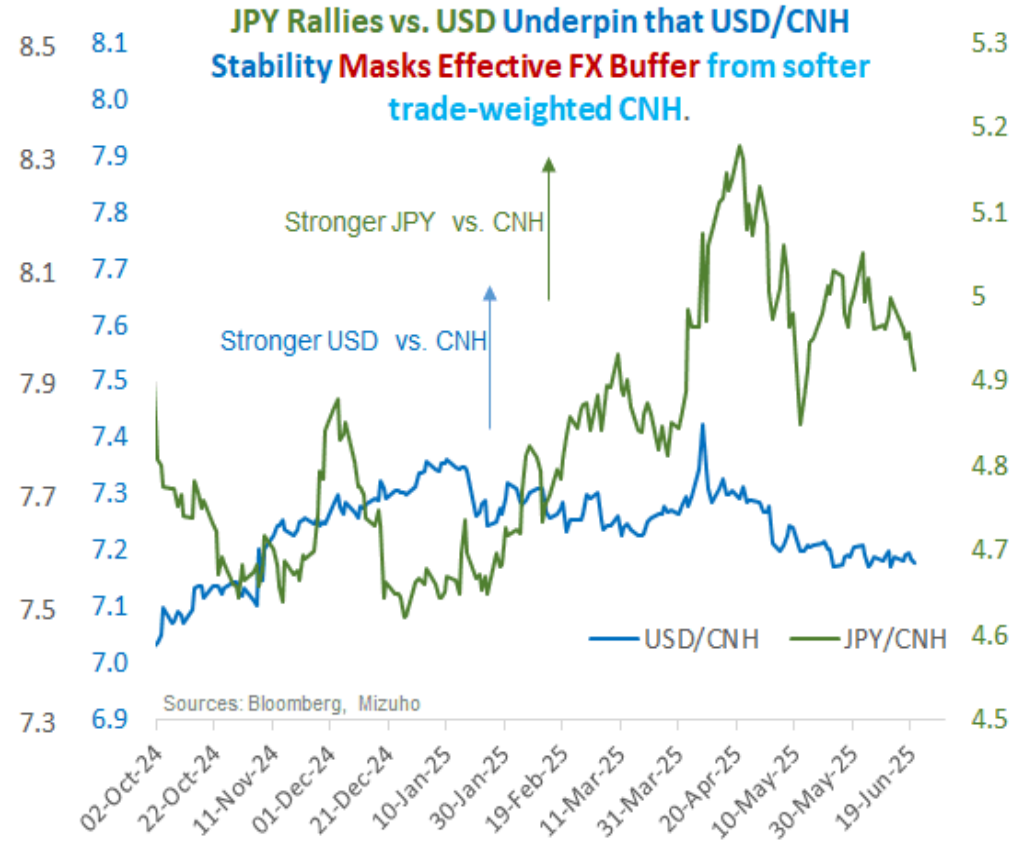
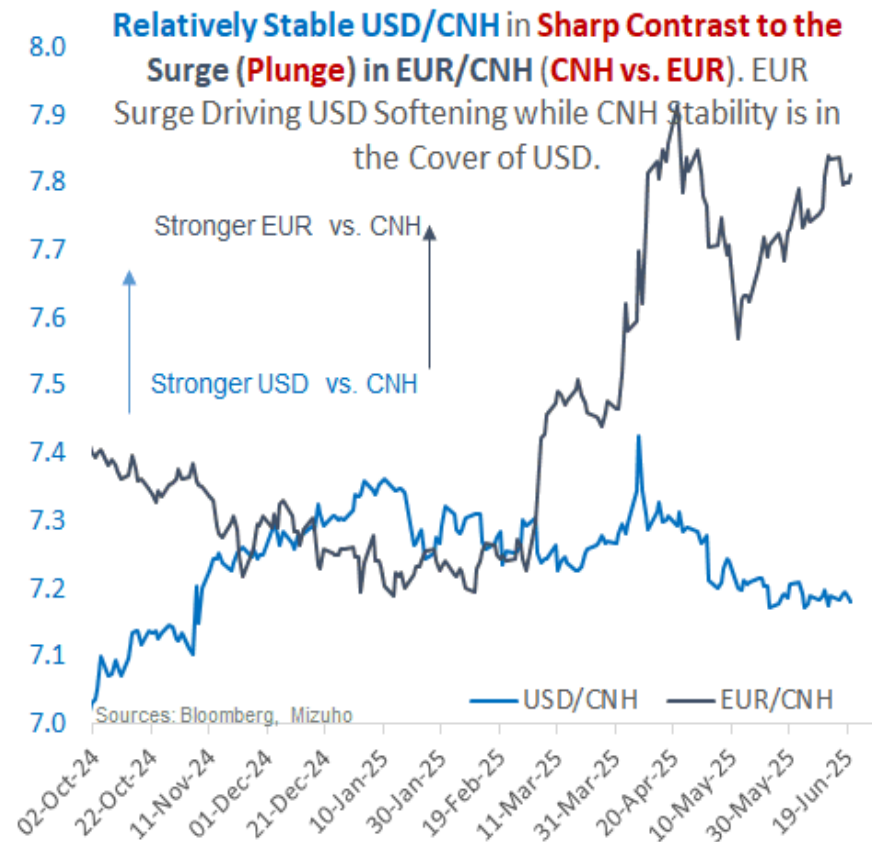
CNH Stability Trade-Offs (USD & NEER) Amid USD Cover



- **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** courtesy 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.

“There is nothing more deceptive than an obvious fact.”
– Sherlock Holmes, The Bascombe Valley Mystery

CNH's Illusion of Stability Masks Latent Volatility



- 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 \(vs. CNH\)](#).

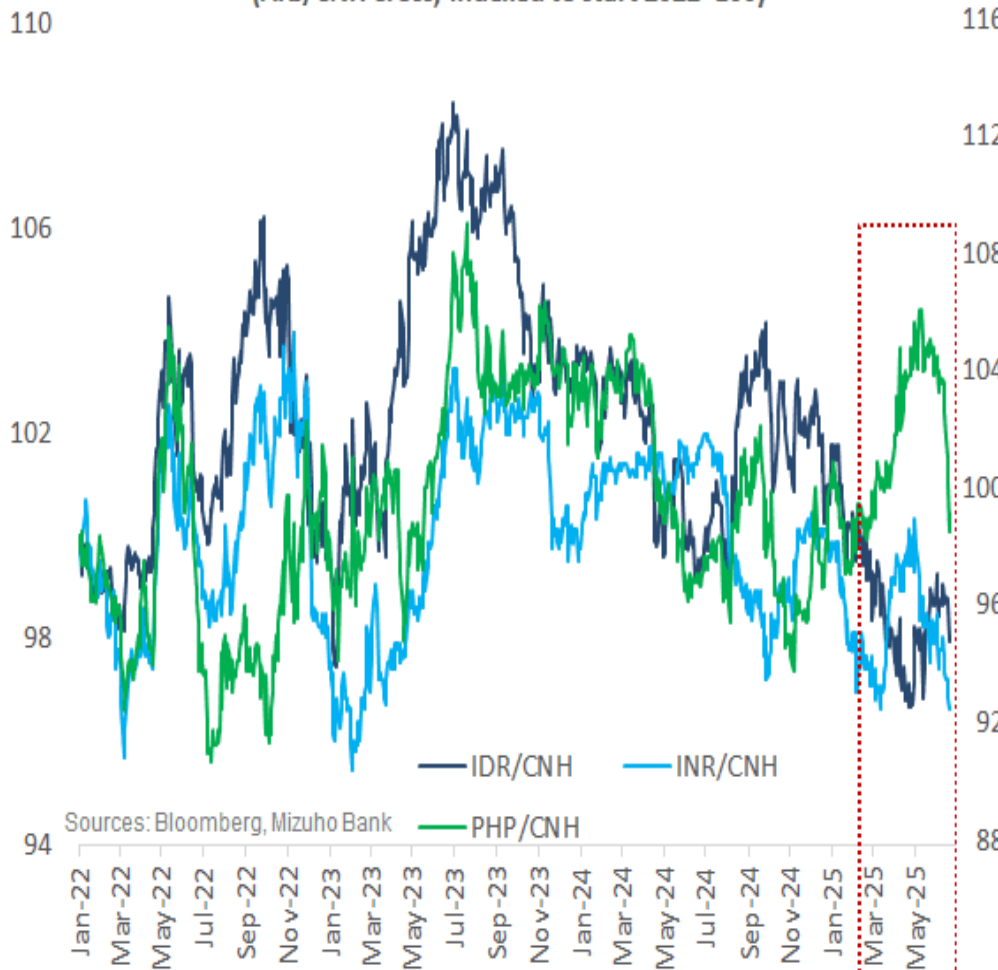
CNH-AXJ: Departures, Divergences & Pent-Up Volatility?

"but some ... are more equal than others."
- George Orwell, Animal Farm

Relative Higher-Yielders vs. CNH: **Highly Differentiated.**

IDR Under-performs but **PHP has Surged** (vs. CNH)

(AXJ/CNH Cross; Indexed to start 2022=100)

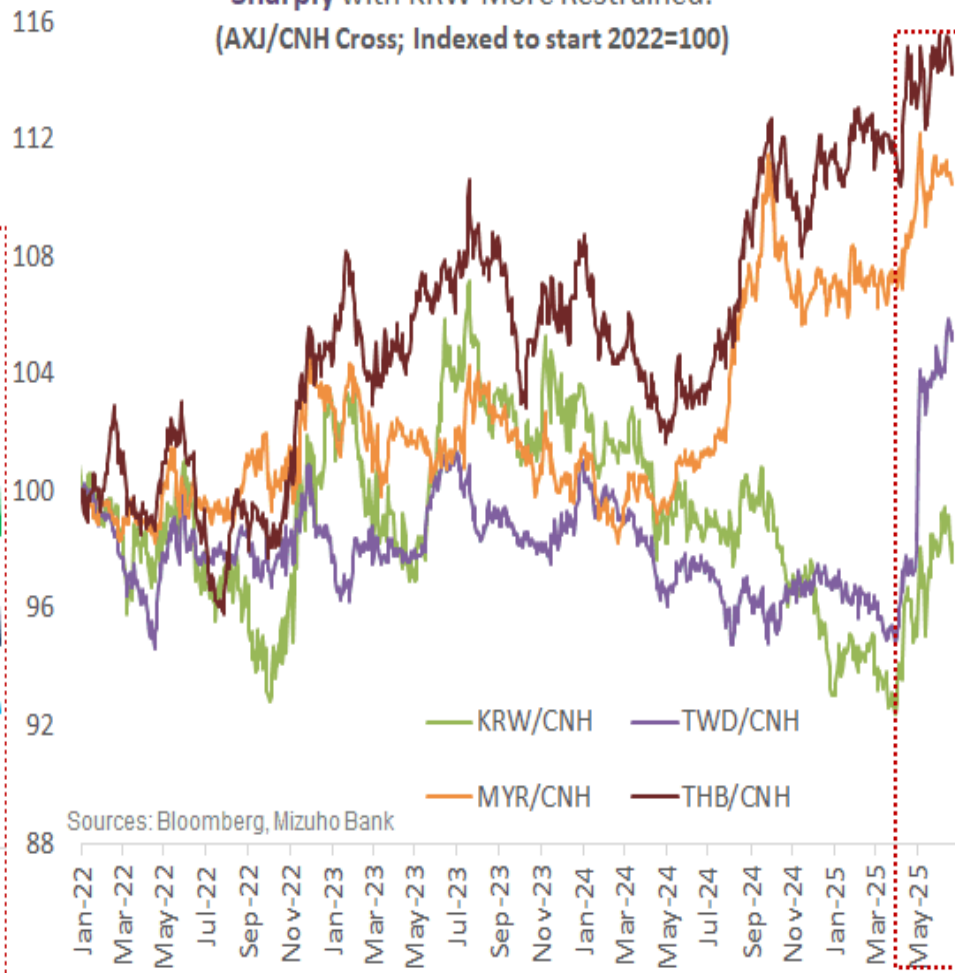


Relative Low-Yielders vs. CNH: **THB & MYR** Continue to

be **Run-away Higher-Performers.** **TWD** has Caught Up

Sharply with KRW More Restrained.

(AXJ/CNH Cross; Indexed to start 2022=100)

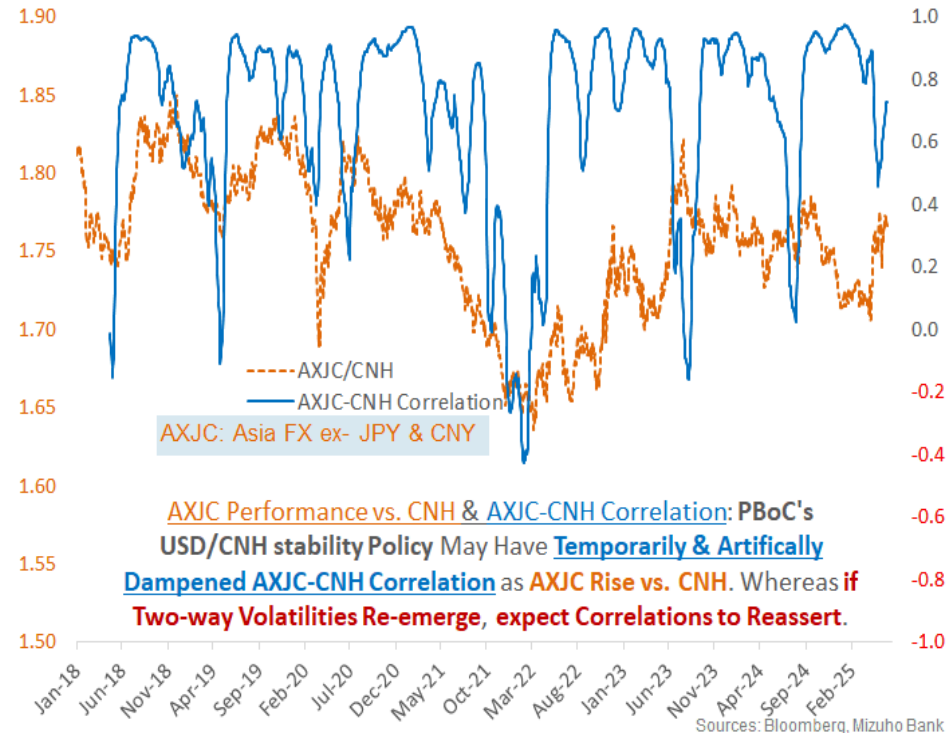
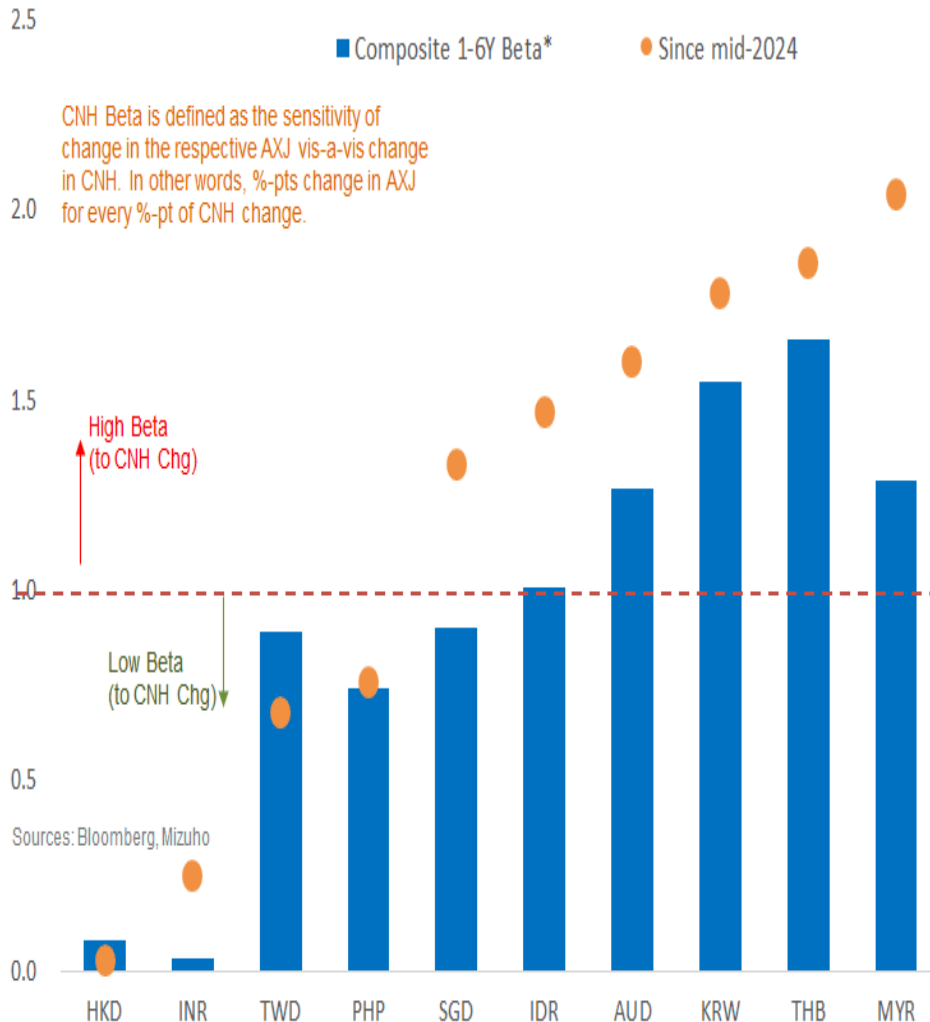


FX - CNH Beta: Expect AXJ Volatilities to be Heightened & Fluid

CNH Beta*: There is Notable Variation in CNH-Beta of AXJ, which are both Differentiated & Time-Varying.

■ Composite 1-6Y Beta* ● Since mid-2024

CNH Beta is defined as the sensitivity of change in the respective AXJ vis-a-vis change in CNH. In other words, %pts change in AXJ for every %-pt of CNH change.



AXJC Performance vs. CNH & AXJC-CNH Correlation: PBoC's USD/CNH stability Policy May Have Temporarily & Artificially Dampened AXJC-CNH Correlation as AXJC Rise vs. CNH. Whereas if Two-way Volatilities Re-emerge, expect Correlations to Reassert.

Sources: Bloomberg, Mizuho Bank

- Triggers & Transmission: But averting direct confrontation is no real comfort, given various transmission channels of shocks from global trade upheaval. Most conspicuous are CNY ripples owed to sweeping and inextricable linkages with China. Spill-over EUR drag, should Trump make good EZ tariff threats, is another channel. And transmissions from indirect commodity shocks could also show up.
- With "Beta" Discrimination: And this so-called "beta" (sensitivity to) will vary across AXJ. Commodity beta variations even more stark across producers and importers. Notably "CNY beta", will be differentiated for trade/investment/ geo-political exposure. In fact, some AXJ may exceed corresponding CNY losses.
- Devil in the Dynamic Details: Notably, commodity FX (AUD, IDR.) may far more sensitive to onshore China stimulus triggers. And the trade sensitivities in other supply-chain reliant AXJ may be further differentiated. Upstream trade assaults, which restrict China's technology access are likely to adversely impact KRW, TWD and JPY most. Whereas downstream impact flows more to ASEAN FX (e.g. THB, MYR).

"I presume nothing."

- Sherlock Holmes, *The Hounds of Baskerville*

Fed & Global Central Banks

Dichotomies & Dissonance



MIZUHO

Private and confidential

*"Doubt is not a pleasant condition, but
certainty is absurd."* - Voltaire

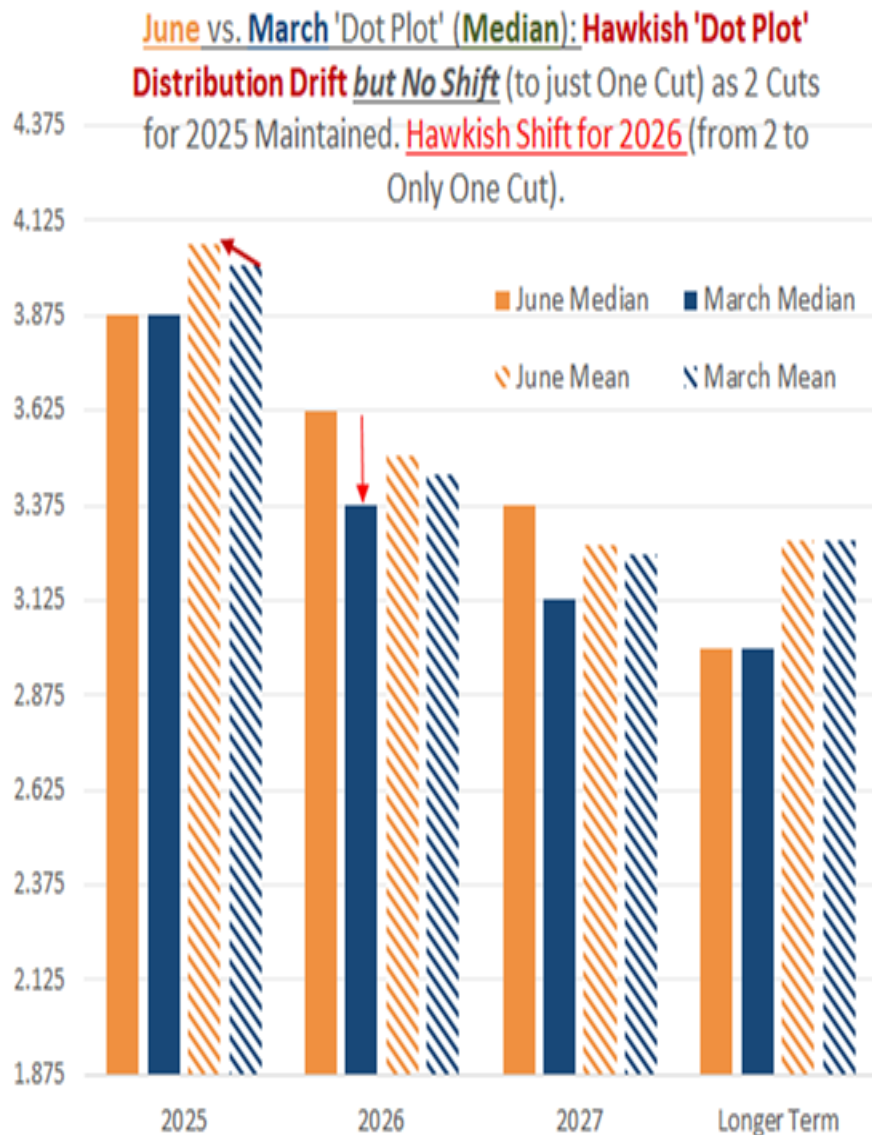
Photo Credit: FT

June 2025

FOMC: Pause Amid Sharper Trade-Offs

“In a dark place we find ourselves, and a little more knowledge lights our way.”

– Master Yoda



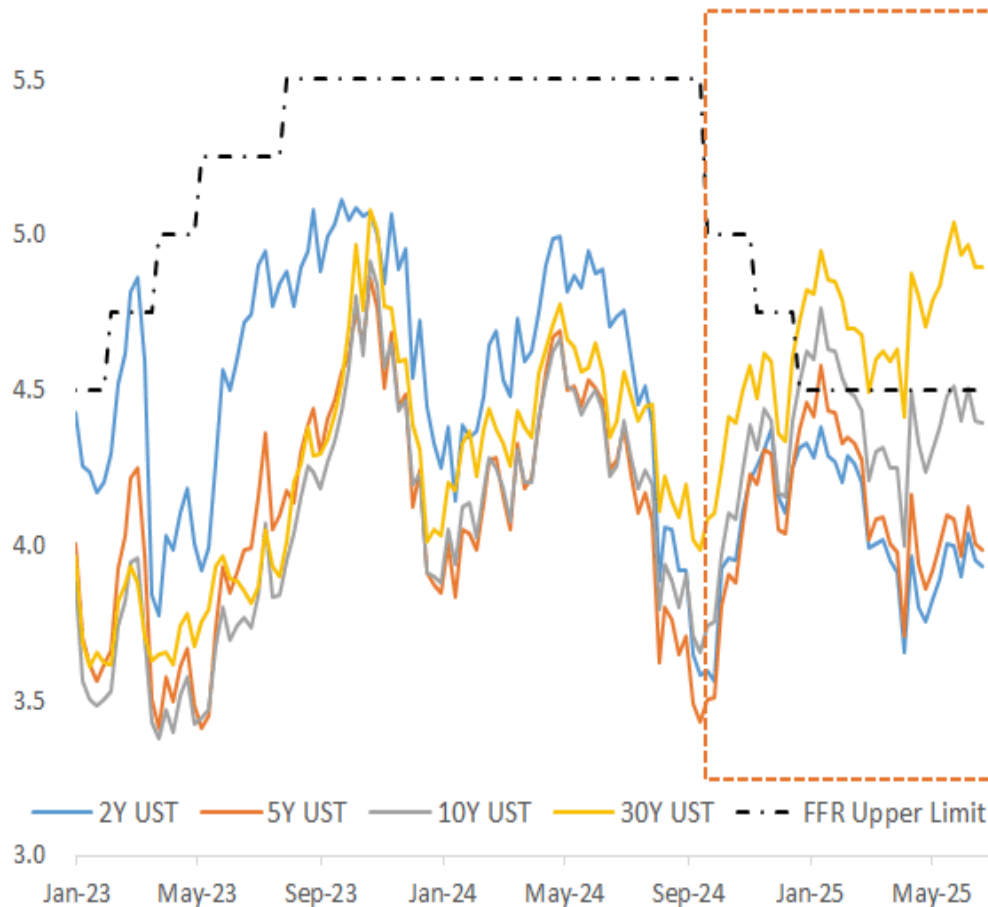
Percent

Variable	Median ¹				Central Tendency ²			
	2025	2026	2027	Longer run	2025	2026	2027	Longer run
Change in real GDP	1.4	1.6	1.8	1.8	1.2–1.5	1.5–1.8	1.7–2.0	1.7–2.0
March projection	1.7	1.8	1.8	1.8	1.5–1.9	1.6–1.9	1.6–2.0	1.7–2.0
Unemployment rate	4.5	4.5	4.4	4.2	4.4–4.5	4.3–4.6	4.2–4.6	4.0–4.3
March projection	4.4	4.3	4.3	4.2	4.3–4.4	4.2–4.5	4.1–4.4	3.9–4.3
PCE inflation	3.0	2.4	2.1	2.0	2.8–3.2	2.3–2.6	2.0–2.2	2.0
March projection	2.7	2.2	2.0	2.0	2.6–2.9	2.1–2.3	2.0–2.1	2.0
Core PCE inflation ⁴	3.1	2.4	2.1		2.9–3.4	2.3–2.7	2.0–2.2	
March projection	2.8	2.2	2.0		2.7–3.0	2.1–2.4	2.0–2.1	

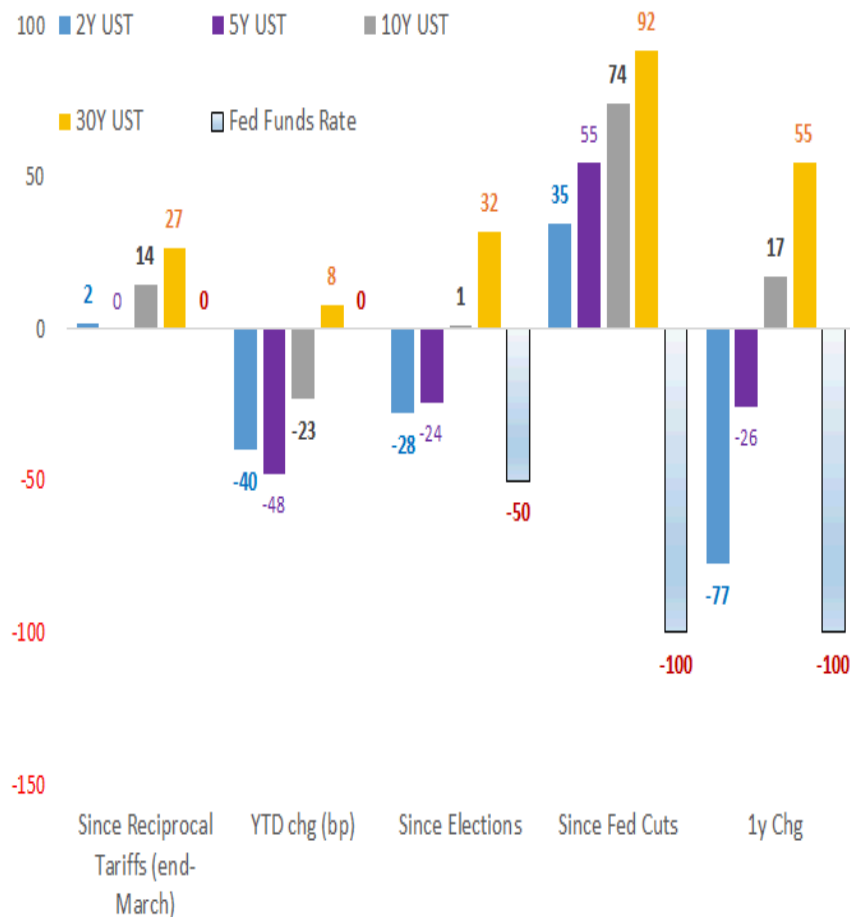
- **Status Quo Amid Greater Dilemma:** The Fed’s **widely expected status quo** (for a fourth straight meeting over six months) **masks diverging growth and inflation risks.**
- **“Dot Plot” Leaves 2 Cuts in Place for 2025:** Arguably, the **most notable dimension of the Fed’s inertia** pertained to the **“Dot Plot” leaving 2 cuts left on the table or 2025.**
- **To Be (Dovish):** The ostensibly suggests that the question of **“to be or not to be (dovish)”** answers itself. Especially as the direction of (contingent) travel remains lower.
- **Or Not Two Be:** Nonetheless, the **appreciable hawkish drift** (although shy of a hawkish shift) **of the ‘Dot Plot’ distribution**, with seven voters looking at no cuts (compared to 4 in the March “Dot Plot”), reveals **underlying tensions.**
- **Not 2 (Cuts to) Be for 2026:** And this guarded stance shows in the **‘Dot Plot’ tipping less dovish for 2026;** with the median now suggesting **just one cut instead of two next year.**

Rising Yields (*Despite Cuts*) on Risk Re-Pricing Flags Impaired “Transmission”

UST Yields (%): **Surge Led by the Long-End**. Amplified Impact as Fiscal Woes Collide with USD/UST Reserve Asset Doubts.
Overrides Fed's Late-2024 Rate Cuts.



Change in Fed Funds Rate & Yields (bp)

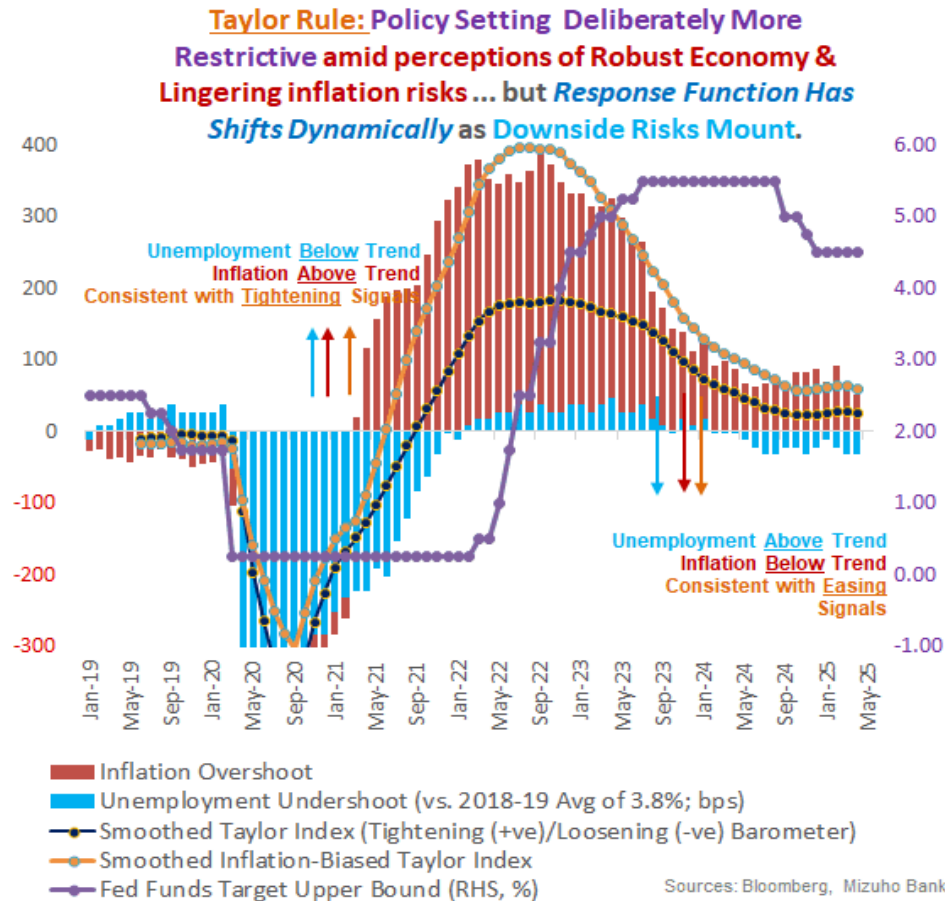
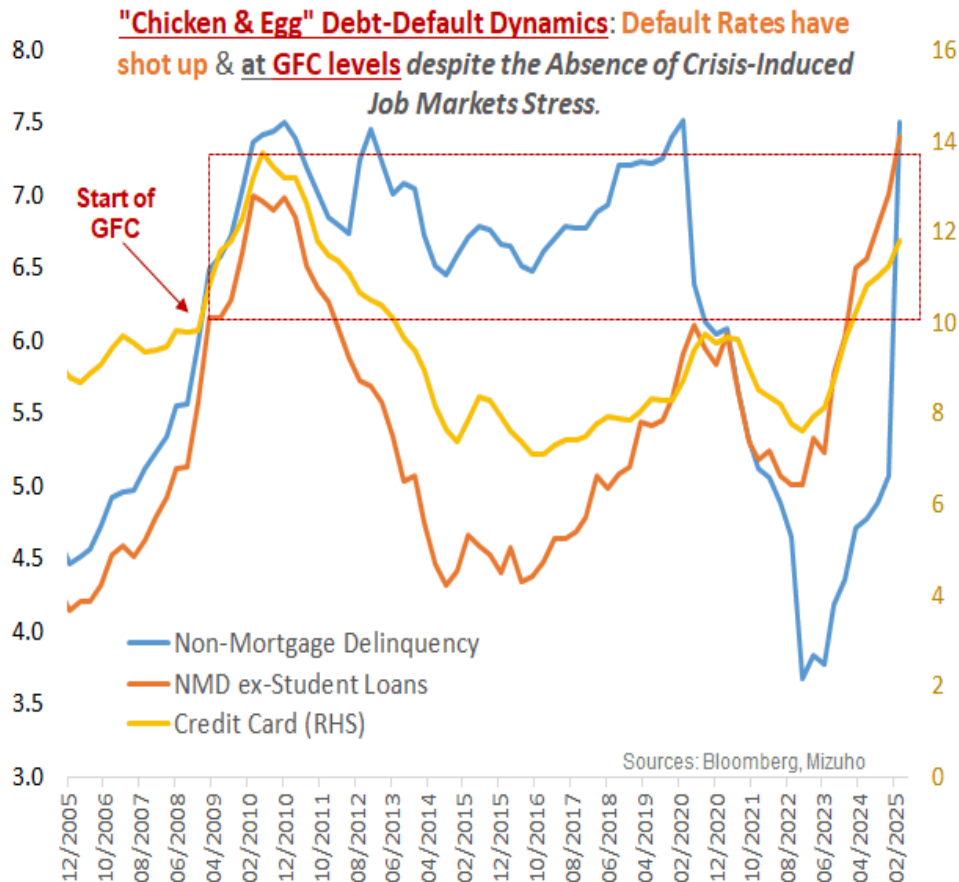


“What you do in this world is a matter of no consequence. The question is what can you make people believe you have done.”

– Sherlock Holmes

Fed to Turn More Dovish than Expected? ...

“Anyone who lives within their means suffers from a lack of imagination.” – Oscar Wilde



Front-Loaded 100bp in 2024 May Not Cut It

- The Fed's 100bp of cuts in 2024, initiated with 50bp Sep cut, **signals front-loaded easing**.
- But real rates remain (too) elevated. So early-2025 policy is more “skip” not “pause”.

An Overly Hawkish (Dot) Plot for 2025-26

- Barring significant inflationary shocks, **50bp each for 2025 and 2026 is too little to insure “Goldilocks”**.
- “Sticky” inflation merely tempers but doesn't derail path back lower “neutral”.

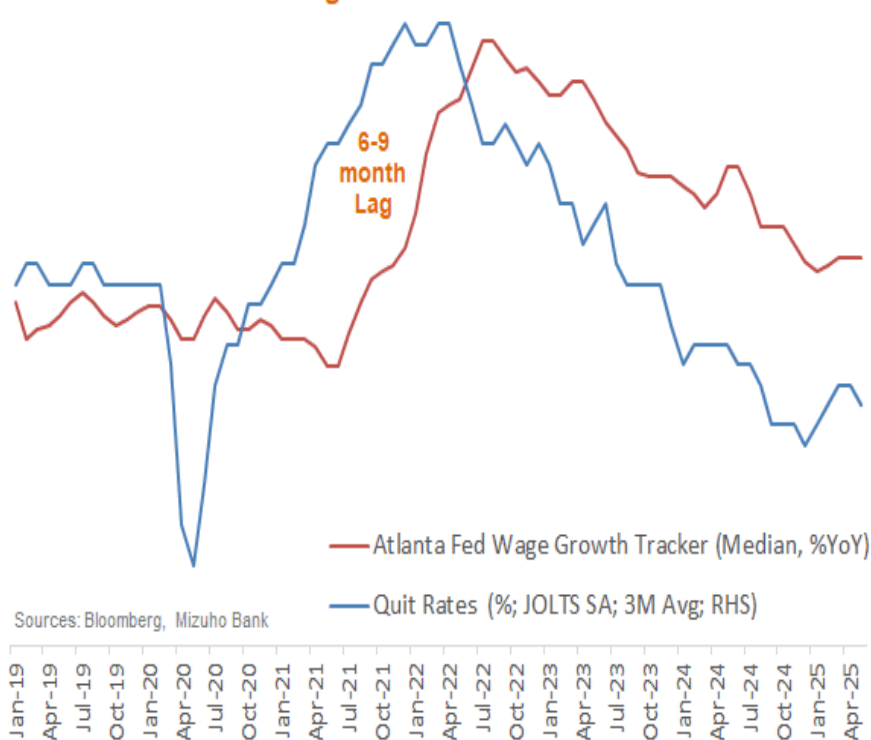
Rate Cuts to Cluster Around Mid-2025

- **Expect faster cuts into late-2025**, with some 75-100bp on the cards, to lower rates to ~3%.
- And then, some more by ~50bp later in 2025 if as **risks to soft-landing re-emerge** amid elevated real rates.

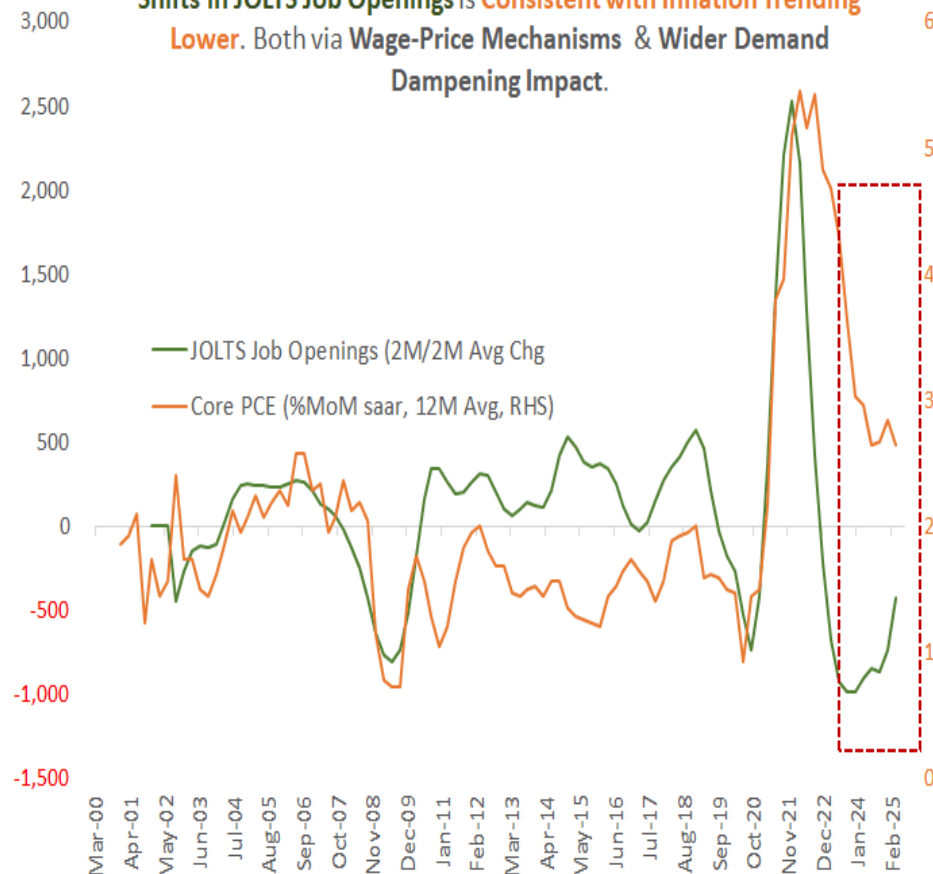
... Especially as Jobs Soften

"I have never let my schooling interfere with my education."
– Mark Twain

Quit Rates Moderating Below Pre-COVID Trend, Suggests **Easing Labour Squeeze**; as Participation picks up. This has **Assuaged Wage Inflation Risks**. **More Pipeline Cooling expected & 6-9 month Lag Warns of Too Slow on Cuts.**



Shifts in JOLTS Job Openings is **Consistent with Inflation Trending Lower**. Both via **Wage-Price Mechanisms & Wider Demand Dampening Impact**.



More Distinctly Dovish Leg Not Ruled Out

- **Scope for distinctly dovish 2025 back-end** *if jobs/demand deteriorate too sharp for a "controlled landing"*.
- **Premise: Consumer Slowdown, Not Crisis**
- Deeper cuts are premised on **sharper consumption slowdown** as **cash-flows tighten** → a **not-so-soft landing**.
- And **not a crisis** from a **balance sheet shock** – for which far deeper and larger rate slashing will be required.

Global Assumptions

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	96.2-104.5	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%

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, policy 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**.

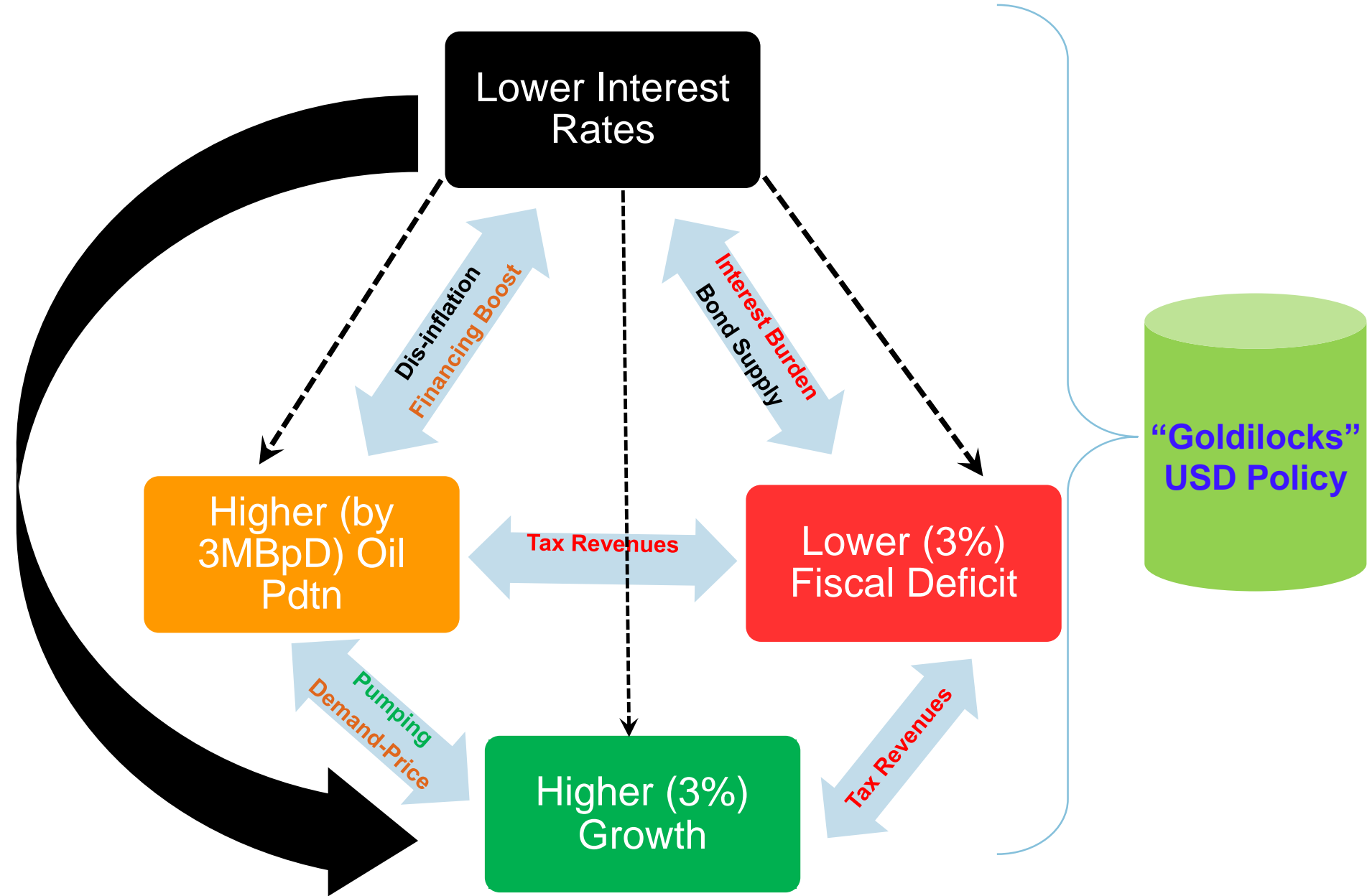
ECB: Revealingly, the **ECB is increasingly alluding to tariff shocks that ultimately prove dis-inflationary as adverse income shocks outlast and overwhelm price jumps**. But the hawkish camps continue to reserve judgment and defer to data dependence. Nonetheless, a **higher degree of economic uncertainty** 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%*.

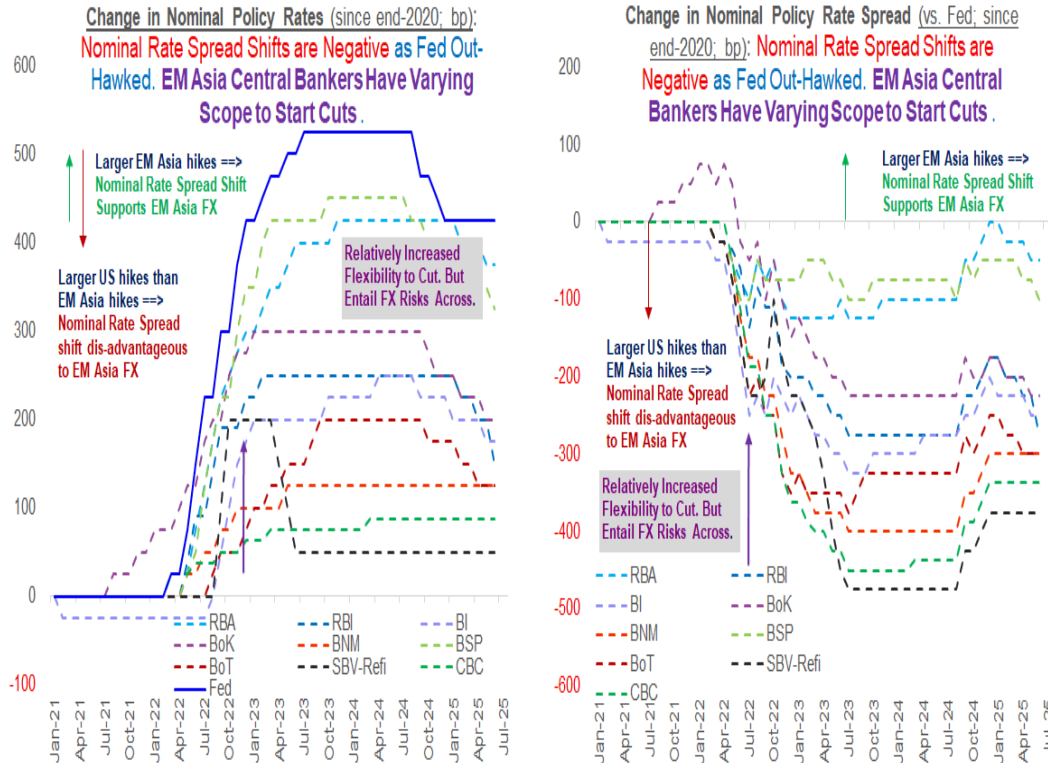
"One Ring to rule them all, One Ring to find them, One Ring to bring them all and in the darkness bind them." - **The Lord of the Rings**

Lower Rates to “Bridge” the “Three-3s” → The One Ring!

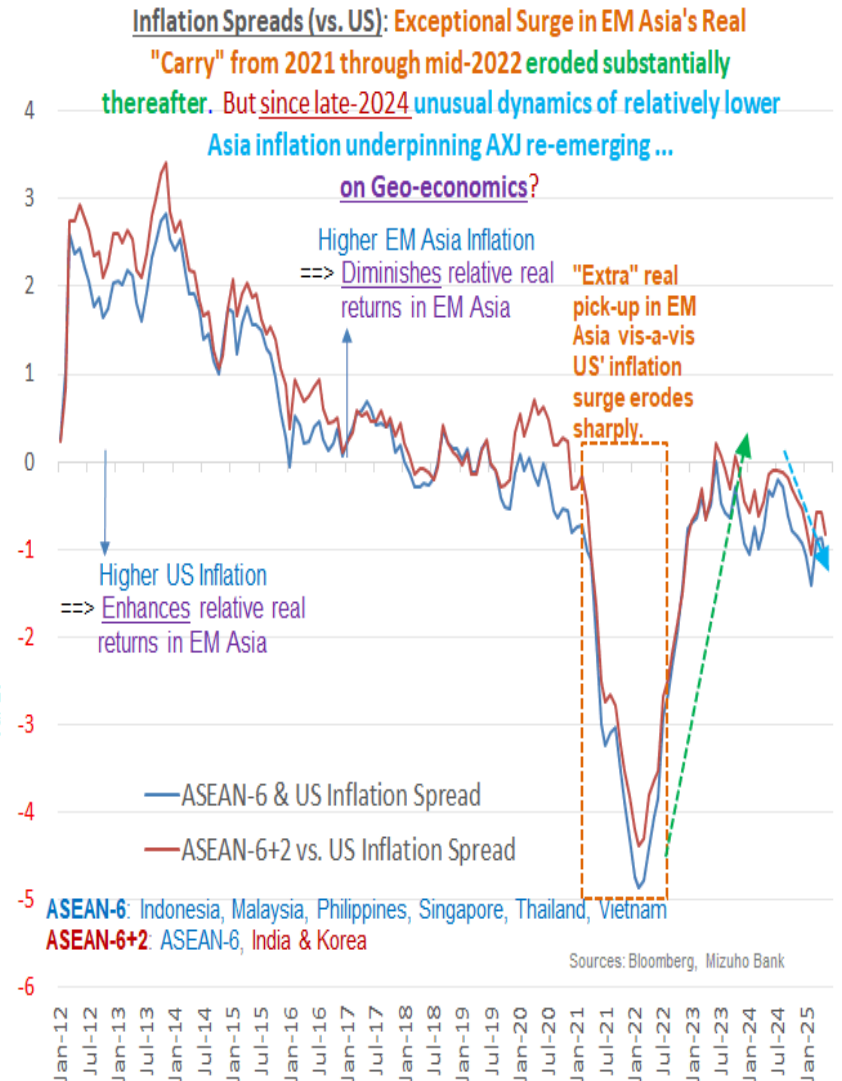
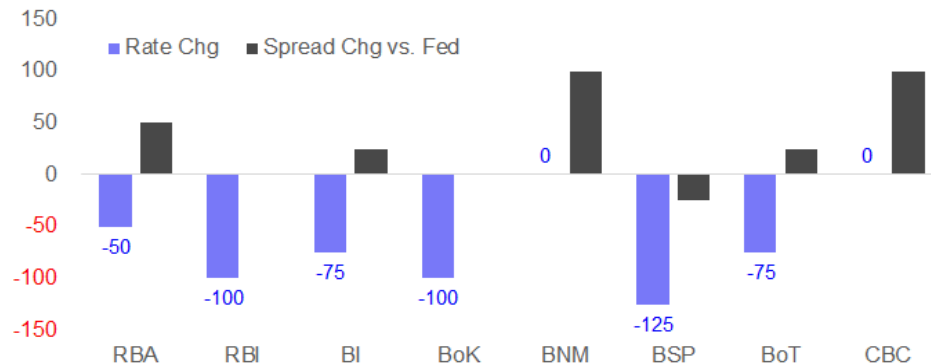


Do Asia CBs Have More Space?

"You will only find what you bring in."
- Master Yoda, Star Wars



Shifts in Policy Rates & Spreads (since mid-/late-2024)



Tariffs: Tyranny of “Liberation”

Assessing Threats & Anticipating Turmoil



AMERICA IS BACK

Every single day I will be fighting for you with every breath in my body. I will not rest until we have delivered the strong, safe and prosperous America that our children deserve and that you deserve. This will truly be the golden age of America.

Private and confidential

Photo Credit: The White House website

“Losing all hope was freedom.”
- Fight Club

OUR PRIORITIES

President Trump is committed to lowering costs for all Americans, securing our borders, unleashing American energy dominance, restoring peace through strength, and making all Americans safe and secure once again.

MIZUHO

June 2025

False Dichotomies & Persistent Threats – Disturbance, Disruptions & Departures

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;

- a) major **disturbance** in the *flow, allocation and cost of capital*;
- b) Involving **disruptions** in *global trade/industry* and;
- c) Consequent **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 **rapid 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 inflicted US risks rubbing the wrong way.

*“Without pain, without sacrifice,
we would have nothing.”*

– Fight Club

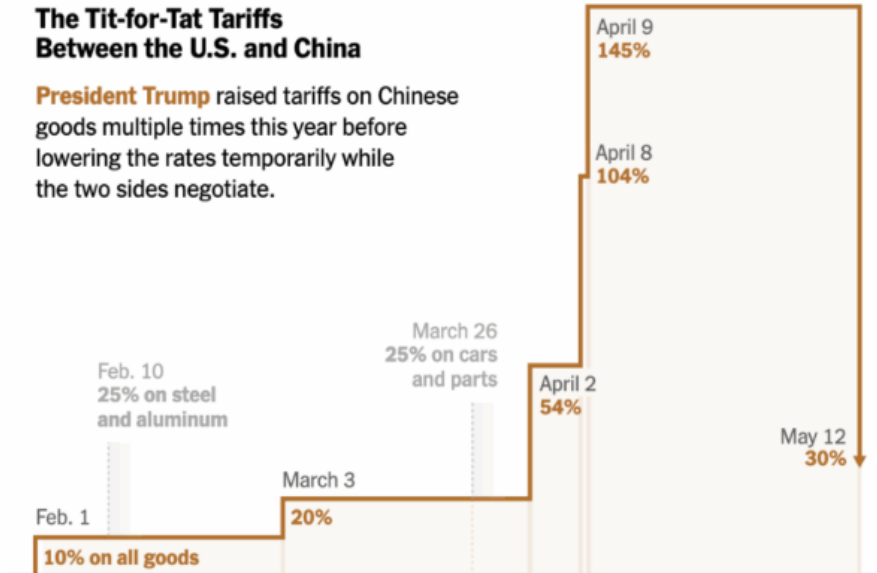
Tariff: Underlying Turbulence, Not Lasting Truce

“Great, kid, don’t get cocky.”
– Han Solo, *Star Wars: A New Hope*

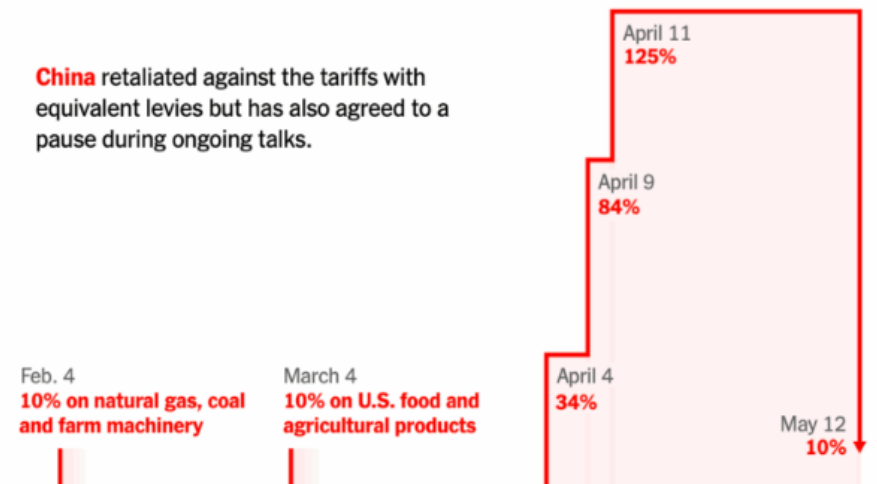
Tariff timeline with China, so far

The Tit-for-Tat Tariffs Between the U.S. and China

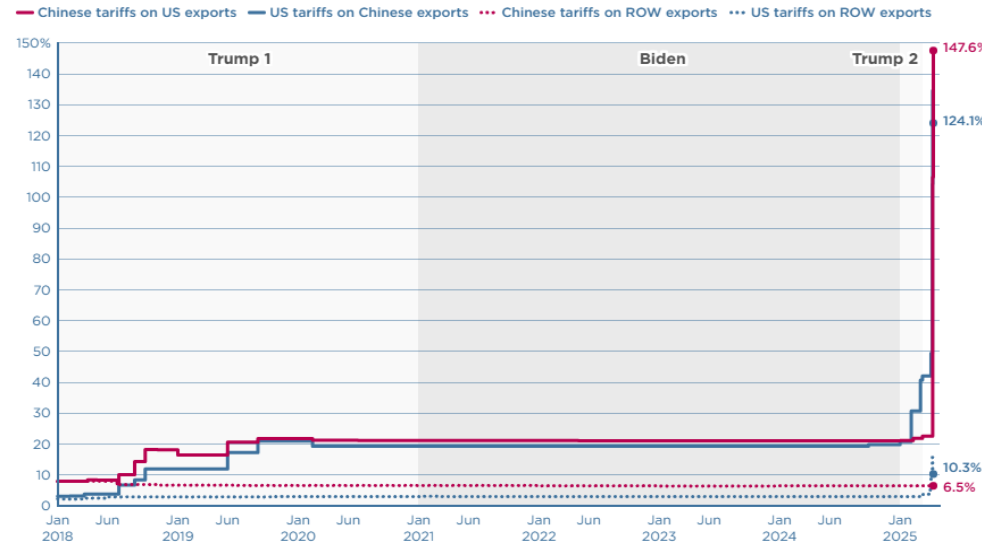
President Trump raised tariffs on Chinese goods multiple times this year before lowering the rates temporarily while the two sides negotiate.



China retaliated against the tariffs with equivalent levies but has also agreed to a pause during ongoing talks.

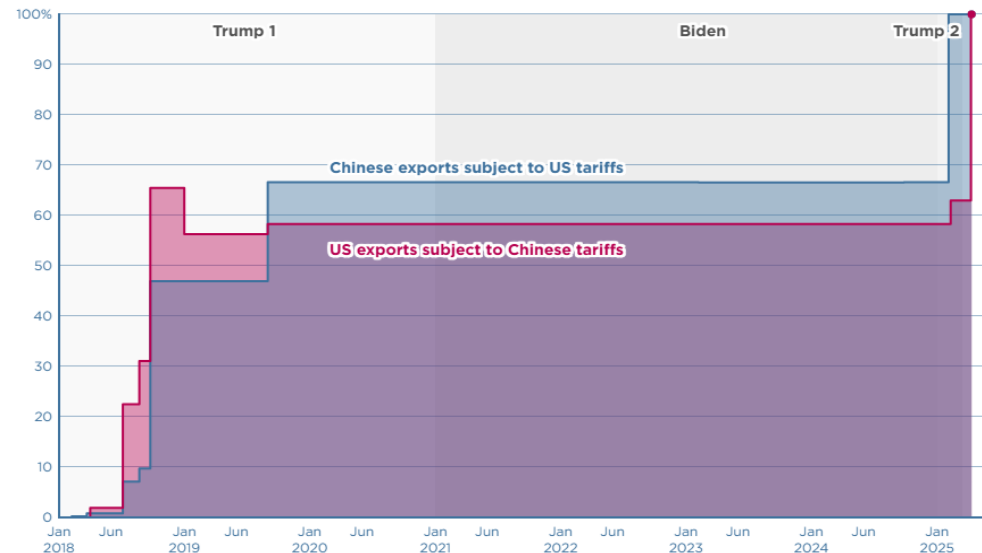


a. US-China tariff rates toward each other and rest of world (ROW)



Download image

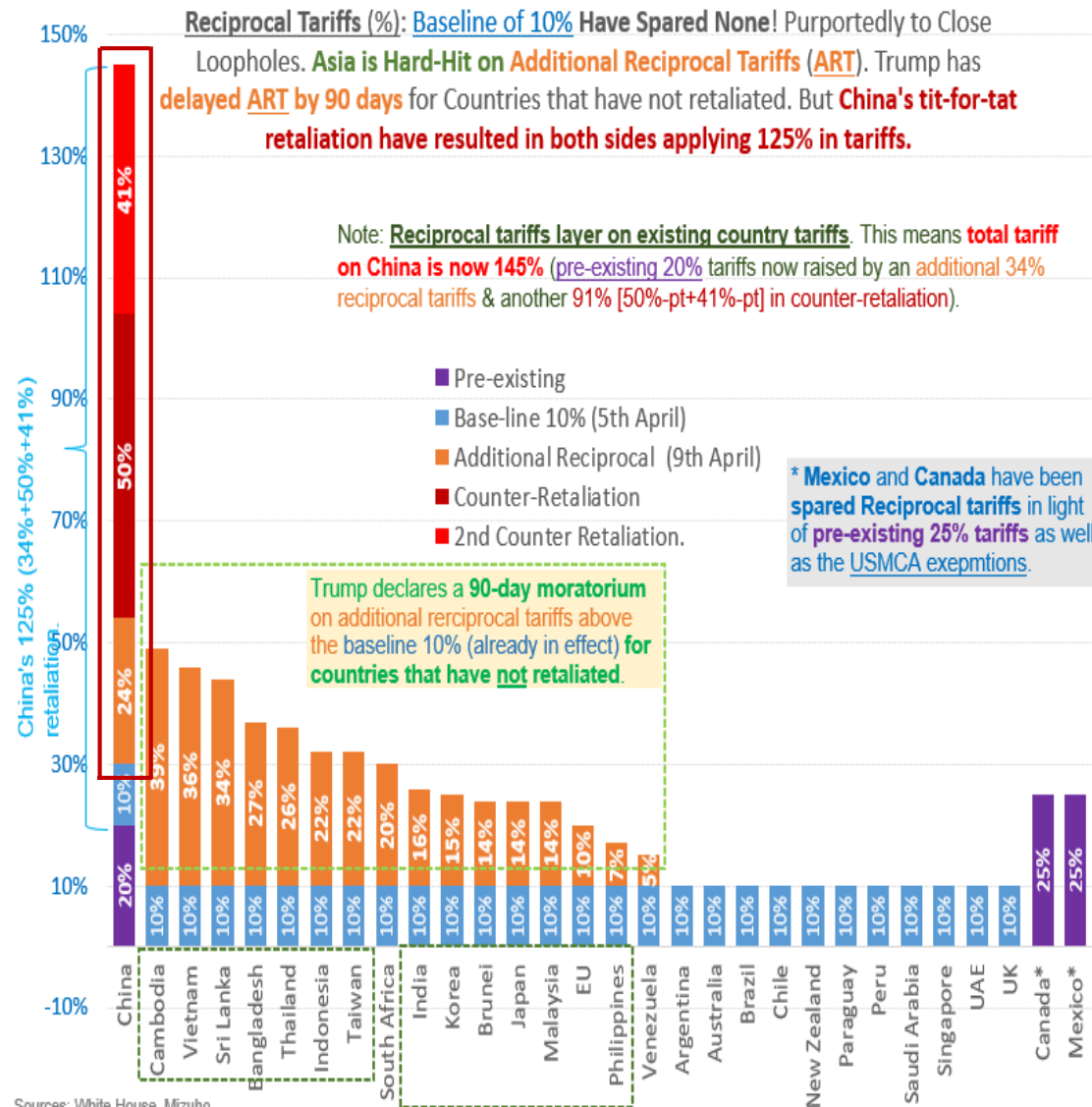
b. Percent of US-China trade subject to trade war tariffs



Tariffs: US-China Reprieve, Not Resolution

"Great warrior. Wars not make one great."

- Master Yoda, Star Wars



- **Reciprocal tariffs** with a *baseline* (minimum for any country) of **10%**.
- **Elevated uncertainty** amid *threats of escalation* threaten global demand.
- **Opaque & Misguided reciprocal tariffs** complicate path to **dial back**.
- **Asia hard-hit.** Notably, **ASEAN as "China + 1" hedge is challenged**.
- **AXJ Pressures:** **AXJ pressures may persist despite softer USD**, as demand shock, China spillover & FDI holdback flag **disproportionate pain**.
- **US-China Temporary Relief:** While it is encouraging that US & China have agreed to **de-escalate (by 125%-pts)**, it is **premature to declare a resolution**. Negotiations are set to be tough. Both sides subject to miscalculations. **US' overestimation of leverage is worrying.**

1. "Reciprocal" Ideology Complex by Nature

Now pushed out to 9th July

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%
Saudi Arabia	10%	10%	10%	0%
Singapore	10%	10%	10%	0%
UAE	10%	10%	10%	0%
UK	10%	10%	10%	0%

US Reciprocal Tariffs by Country Announced April 2

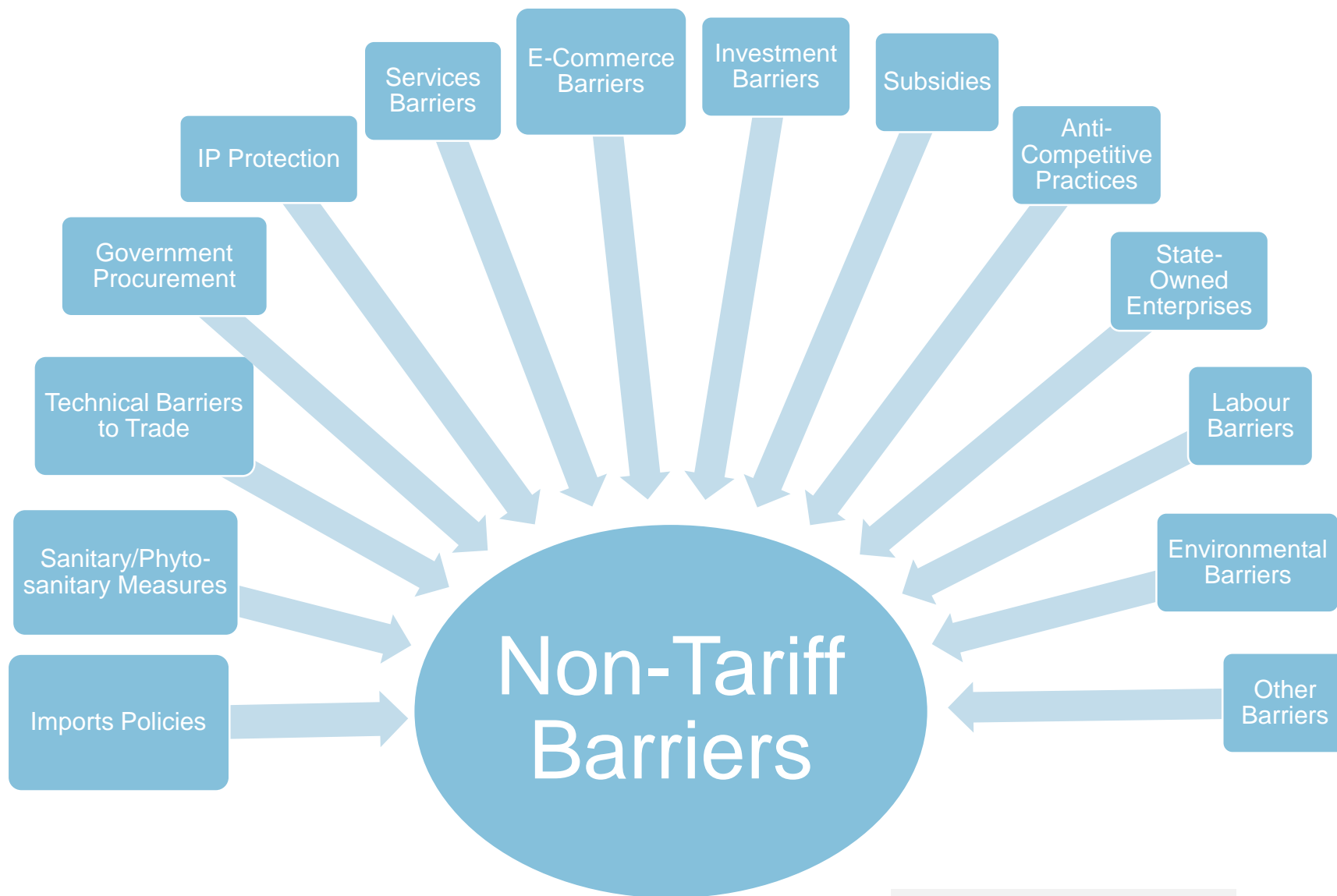
Pre-retaliation Forecasts

Country	Country's Tariff* (RHS, %)	US Reciprocal Tariffs	Base-line (5th April)	Additional (9th April)	Pre-Tariff Forecast (2025-26 avg)		Impact of Tariffs		Policy Direction	
					Growth (%)	Inflation (%)	Growth (%-pts)	Inflation (%-Pts)	Impact (bps)	End-2025
Vietnam	90%	46%	10%	36%	6.8%	3.5%	-1.2%	-0.2%	0.00	4.50%
Thailand	72%	36%	10%	26%	2.8%	1.5%	-0.7%	-0.3%	-75	1.25%
China	67%	34%	10%	24%	4.8%	0.5%	-0.3%*	-0.3%	-60	0.90%
Indonesia	64%	32%	10%	22%	5.0%	1.8%	-0.4%	-0.2%	-75	4.75%
Taiwan	64%	32%	10%	22%	3.0%	1.9%	-0.6%	-0.3%	-50	1.50%
India	52%	26%	10%	16%	6.0%	4.8%	-0.6%	-0.2%	-100	5.25%
Korea	50%	25%	10%	15%	1.8%	2.1%	-0.7%	-0.4%	-75	2.00%
Malaysia	47%	24%	10%	14%	4.8%	2.1%	-0.6%	-0.2%	-25	2.75%
Philippines	34%	17%	10%	7%	5.4%	2.5%	-0.3%	-0.2%	-100	4.75%
Australia	10%	10%	10%	0%	1.1%	2.6%	-0.5%	-0.2%	-75	3.35%
Singapore**	10%	10%	10%	0%	2.3%	1.8%	-0.6%	-0.4%	--	--

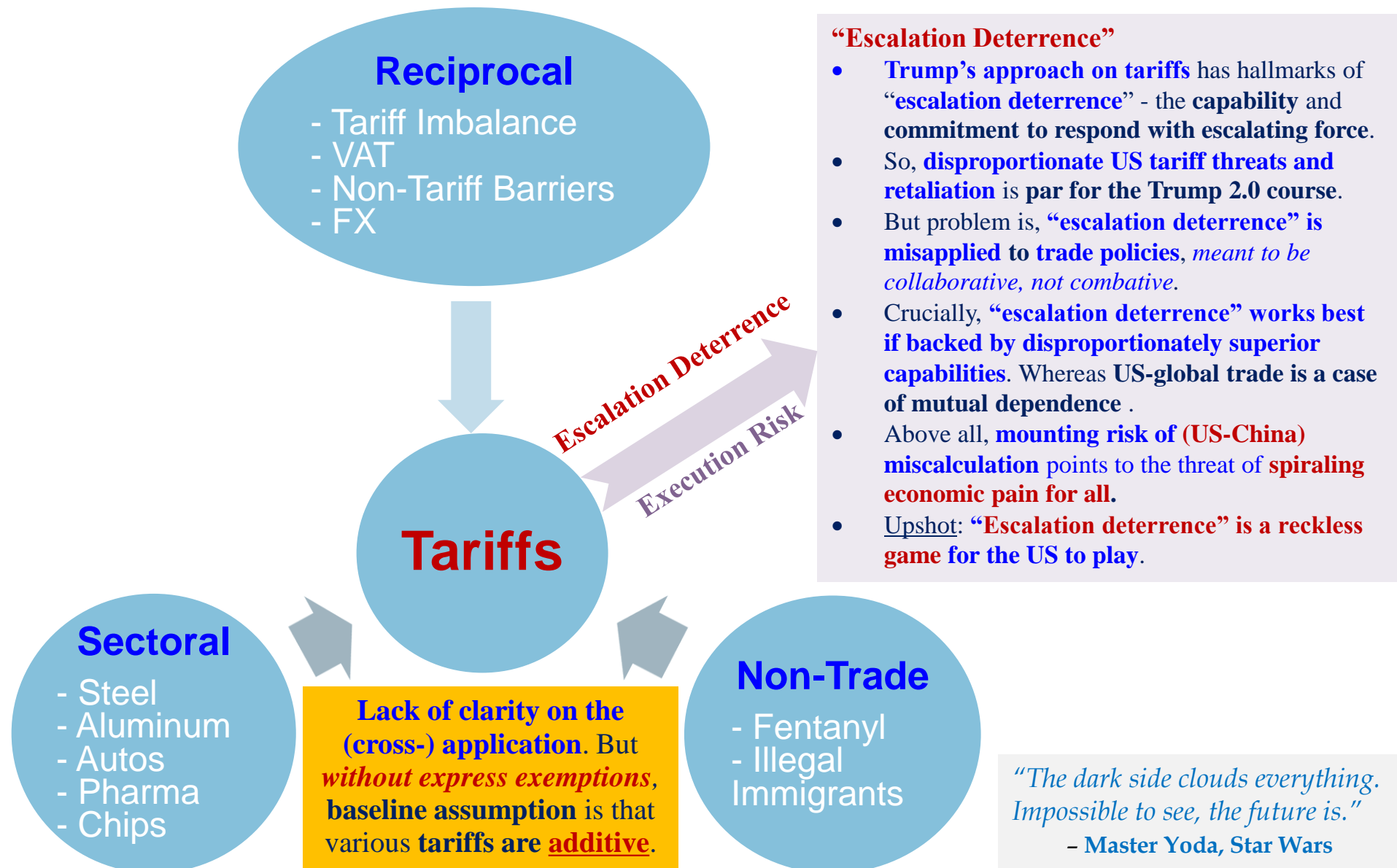
*Expectations of significant policy stimulus to boost domestic demand to largely offset margin squeeze and demand shocks, even on enlarged China trade risks. **

Singapore uses SSNEER as a policy tool

Obfuscated/Obstructed by a Plethora of Hard-to-Quantify Considerations



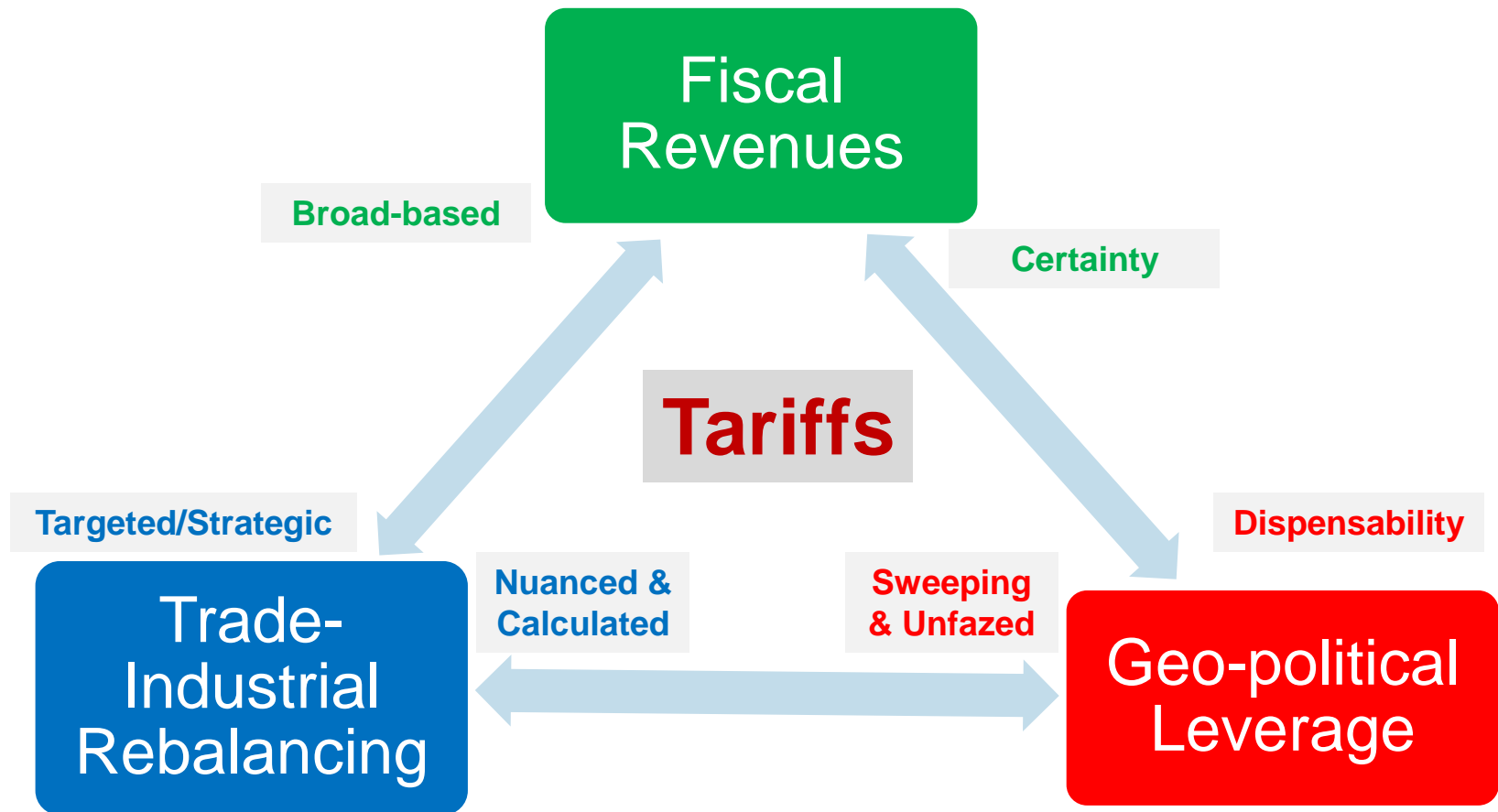
1-2. Trump 2.0 Tariffs: Multi-Dimensional Uncertainty & Execution Risks



The Impossible Trinity of Trump Tariffs

“How puzzling all these changes are! I'm never sure what I'm going to be, from one minute to another.”

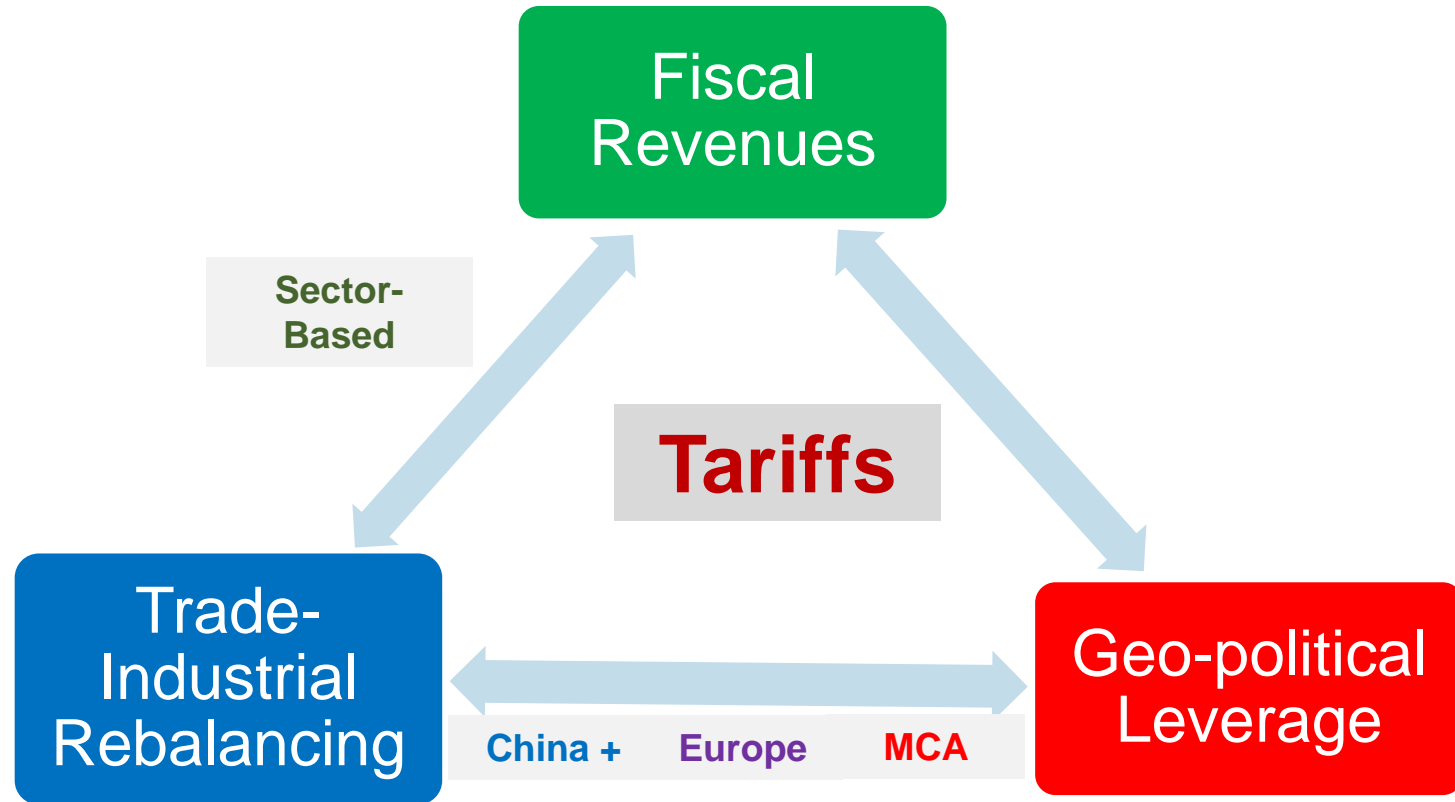
– Alice's Adventures in Wonderland



- One (Tariff) Tool, Many Objectives Apart from the obvious motivation to force trade/industrial re-balancing and supply-chain relocation (to the US), tariffs also pursue geopolitical leverage and to raise fiscal revenues.
- Conflicting Objectives: Conflict in objectives. Fiscal revenues argue for *steady, wide and steep tariffs*. Leverage prioritizes *non-trade deal-making (that entails rescinding on tariffs)* and trade rebalancing requires *strategic nuance*.
- Conflicting Objectives: Acute tariff uncertainty results from the one tariff tool is being exploited for multiple objectives. , undermines a path to quick resolution.

& the **Asymmetric** Inclinations *Tilted Against China+*

*"Get your facts first, then you
can distort them as you please."*
– Mark Twain

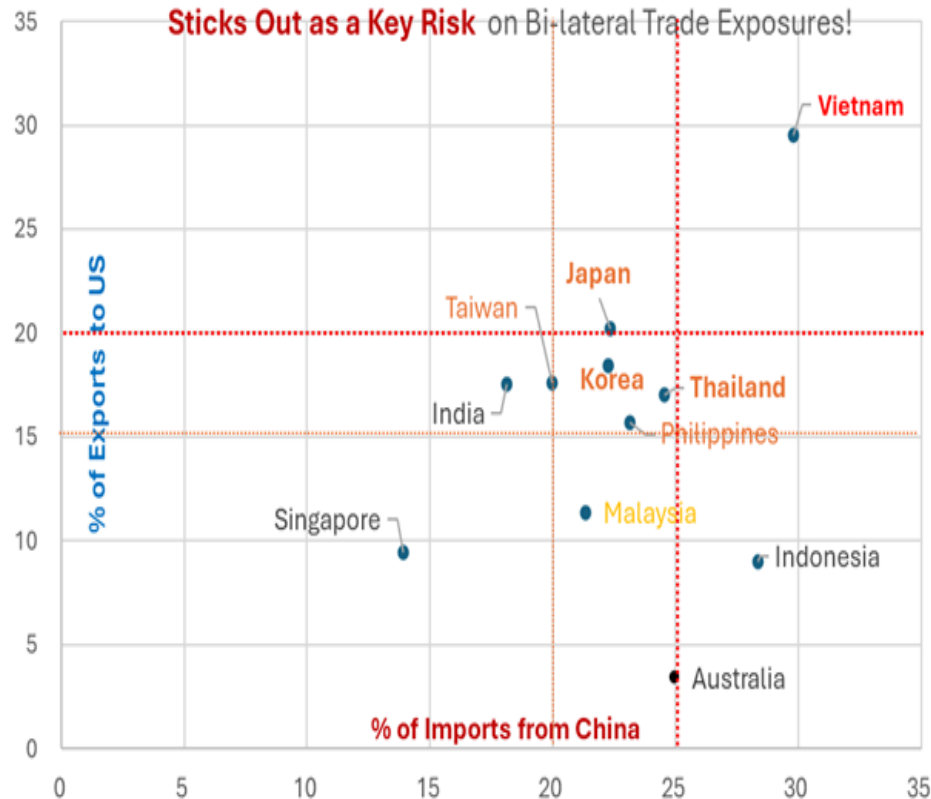


- Heightened Tariff Uncertainty: **Inherent conflict** entailed in the three objectives heighten tariff-related uncertainty.
- Recognizing Differentiated Tariff Risks: Crucially, a **more pronounced country/bloc-specific emphasis**.
- Trade/Industrial Rebalancing Bent for China-Asia: Conceivably, a **more emphatic Trade-Industrial Rebalancing bent** of stickier tariffs may *apply for China, spilling over into Asia*, given the geo-economic rivalry.
- Leverage Bias for North American: In contrast, **supply-chain dependencies** may dictate a **greater degree of leverage angle on North American tariffs**, which may be primed for dial-back.
- China Complex-North American Divergence: As a result of which, a more prominent divergence in the tariff threats/resolution between China-Asia complex and North America may emerge.

2. Tariff Risks: China-Linked Risks Elsewhere Not Eradicated

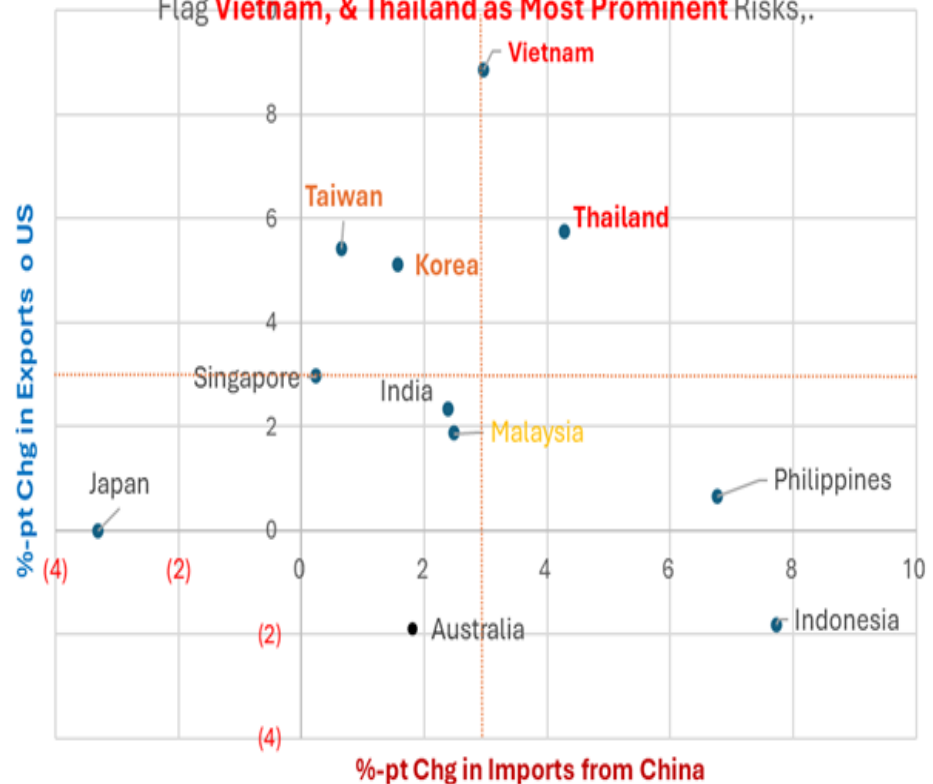
% Share of Exports to US & Imports from China: **Vietnam**

Sticks Out as a Key Risk on Bi-lateral Trade Exposures!



Chg in US Exports -China Imports Shares: **Dynamic Shifts**

Flag **Vietnam, & Thailand** as Most Prominent Risks,.



ASEAN Risk
Determination

Enabler of
China

Trade Risks
Escalate

Substitute for
China

Trade Risks
Subside

"The probability lies in that direction."
– Sherlock Holmes

Mar-a-Lago Accord

The Tail Risks to Capital Markets

- **Tariffs as strategic tools.** He supports tariffs not only to protect domestic industry but also to raise revenue, shift burdens onto foreign producers, and serve as leverage in international negotiations.
- **Currency offset theory.** He argues that tariffs do not necessarily lead to inflation at home if the dollar strengthens in response. A stronger dollar can reduce the price of imported goods, offsetting the cost of tariffs, and lowering the real income of foreign exporters.
- **A new international currency agreement.** Miran proposes a modern equivalent of the 1985 Plaza Accord, which he refers to as the Mar-a-Lago Accord. The goal would be coordinated currency appreciation among U.S. trading partners to address the dollar's overvaluation.
- **Unilateral options if diplomacy fails.** If a multilateral agreement is not possible, Miran advocates for using legal and financial tools such as capital restrictions, targeted taxes, or financial regulation under existing laws like the International Emergency Economic Powers Act.
- **Burden sharing within the reserve currency system.** Miran reframes the traditional Triffin dilemma, arguing that while the world relies on the United States to supply dollar reserves, the costs of doing so have fallen disproportionately on U.S. industry. His framework calls for redistributing those costs through strategic trade and monetary policy.
- **Trade and security alignment.** Miran supports linking economic partnerships to defense cooperation. He argues that countries benefiting from U.S. security guarantees should align their economic practices with American strategic interests.
- **Industrial revival and deregulation.** A key part of his strategy is to rebuild industrial strength in sectors critical to national power, including energy, defense, semiconductors, and advanced manufacturing. He also calls for regulatory reform to help domestic firms compete more effectively in a strong dollar environment.

Private and confidential

Sources: Wikipedia summary of Stephen Miran's Report: [A User's Guide to Restructuring the Global Trading System](#)

"All rulers in all ages have tried to impose a false view of the world upon their followers."
— George Orwell

MIZUHO

June 2025

3. Tariff Not Just about Trade → Pure Trade Imbalance Analysis Misguided

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.

^ The so-called **Mar-a-Lago Accord** refers to the proposal of “burden sharing” with US’ trade and security, by imposing an explicit cost on trade and financial assets (associated with the “burden” of USD overvaluation that has been detrimental to US workers/manufacturing/exports). This proposal hinges on the idea that US trade and security partners should pay for the privilege of access to US consumer (trade tariffs), the benefit of holding US reserve assets (involving second order financial levies), and *above all, for the benefit of the US security umbrella*. The degree of (concessions on) burden sharing will depend on security alignment/profile of partners. The ideas are laid out in a paper (“A User’s Guide to Restructuring the Global Trading System”, Nov 2024) by Stephen Miran, the *Chair of President Trump’s Council of Economic Advisers*.

3. Miran & (so-called) Mar-a-Lago Accord

A User's Guide to Restructuring the Global Trading System

November 2024

Executive Summary

The desire to reform the global trading system and put American industry on fairer ground vis-à-vis the rest of the world has been a consistent theme for President Trump for decades. We may be on the cusp of generational change in the international trade and financial systems.

The root of the economic imbalances lies in persistent dollar overvaluation that prevents the balancing of international trade, and this overvaluation is driven by inelastic demand for reserve assets. As global GDP grows, it becomes increasingly burdensome for the United States to finance the provision of reserve assets and the defense umbrella, as the manufacturing and tradeable sectors bear the brunt of the costs.

In this essay I attempt to catalogue some of the available tools for reshaping these systems, the tradeoffs that accompany the use of those tools, and policy options for minimizing side effects. This is not policy advocacy, but an attempt to understand the financial market consequences of potential significant changes in trade or financial policy.

Tariffs provide revenue, and if offset by currency adjustments, present minimal inflationary or otherwise adverse side effects, consistent with the experience in 2018-2019. While currency offset can inhibit adjustments to trade flows, it suggests that tariffs are ultimately financed by the tariffed nation, whose real purchasing power and wealth decline, and that the revenue raised improves burden sharing for reserve asset provision. Tariffs will likely be implemented in a manner deeply intertwined with national security concerns, and I discuss a variety of possible implementation schemes. I also discuss optimal tariff rates in the context of the rest of the U.S. taxation system.

Currency policy aimed at correcting the undervaluation of other nations' currencies brings an entirely different set of tradeoffs and potential implications. Historically, the United States has pursued multilateral approaches to currency adjustments. While many analysts believe there are no tools available to unilaterally address currency misvaluation, that is not true. I describe some potential avenues for both multilateral and unilateral currency adjustment strategies, as well as means of mitigating unwanted side effects.

Finally, I discuss a variety of financial market consequences of these policy tools, and possible sequencing.

Stephen Miran, Senior Strategist

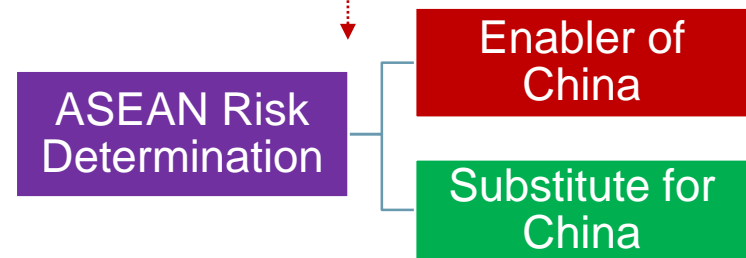
"When you look at the dark side, careful you must be, for the dark side looks back."

– Master Yoda, Star Wars

Scott Bessent, a Trump advisor floated as potential Treasury Secretary, has proposed putting countries into different groups based on their currency policies, the terms of bilateral trade agreements and security agreements, their values and more. Per Bessent (2024), these buckets can bear different tariff rates, and the government can lay out what actions a trade partner would need to undertake to move between the buckets.

maybe the U.S. wants to discriminate based on:

- Does the nation apply similar tariff rates to their imports from the U.S. as America does on their exports here?
- Does the nation have a history of suppressing its currency, for instance via the accumulation of excessive quantities of foreign exchange reserves?
- Does the nation open its markets to U.S. firms in the same way America opens its markets to foreign firms operating stateside?
- Does the nation respect American intellectual property rights?
- Does the nation help China evade tariffs via re-export?
- Does the nation pay its NATO obligations in full?
- Does the nation side with China, Russia, and Iran in key international disputes, for instance at the United Nations?



Miran's paper

[638199 A Users Guide to Restructuring the Global Trading System.pdf]

3. Miran & (so-called) Mar-a-Lago Accord → Evolving Risks

These considerations suggest several consequences:

- 1) There is good reason to be more cautious with changes to dollar policy than with changes to tariffs.
- 2) Steps to strengthen undervalued currencies will likely not be taken until risks can be mitigated. The Administration will likely wait for more confidence that inflation and deficits are lower, to limit potentially harmful increases in long yields that could accompany a change to dollar policy. Waiting for turnover at the Federal Reserve increases the likelihood that the Fed will voluntarily cooperate to help accommodate changes in currency policy.
- 3) Tariffs are a tool for negotiating leverage as much as for revenue and fairness. Tariffs will likely precede any shift to soft dollar policy that requires cooperation from trade partners for implementation, since the terms of any agreement will be more beneficial if the United States has more negotiating leverage. Last time, tariffs led to the Phase 1 agreement with China. Next time, maybe they will lead to a broader multilateral currency accord.
- 4) Therefore, I expect policy to be dollar-positive before it becomes dollar negative.

Despite the dollar's role in weighing heavily on the U.S. manufacturing sector, President Trump has emphasized the value he places on its status as the global reserve currency, and threatened to punish countries that move away from the dollar. I expect this tension to be resolved by policies that aim to preserve the status of the dollar, but improve burden sharing with our trading partners. International trade policy will attempt to recapture some of the benefit our reserve provision conveys to trading partners and connect this economic burden sharing with defense burden sharing. Although the Triffin effects have weighed on the manufacturing sector, there will be attempts to improve America's position within the system without destroying the system.

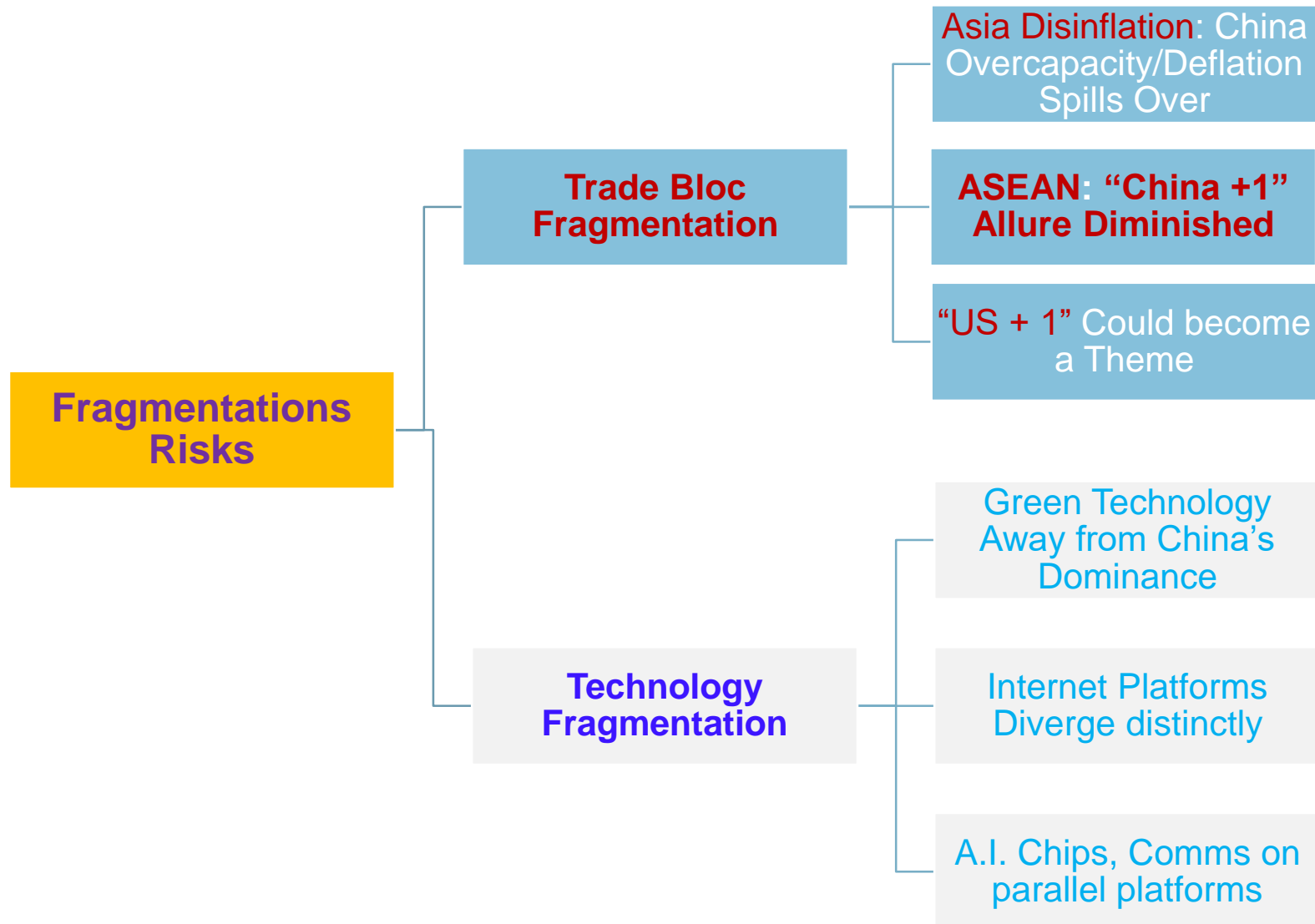
"The world is indeed full of peril, and in it there are many dark places."

– Lord of the Rings

4. Key Fragmentation Outcomes

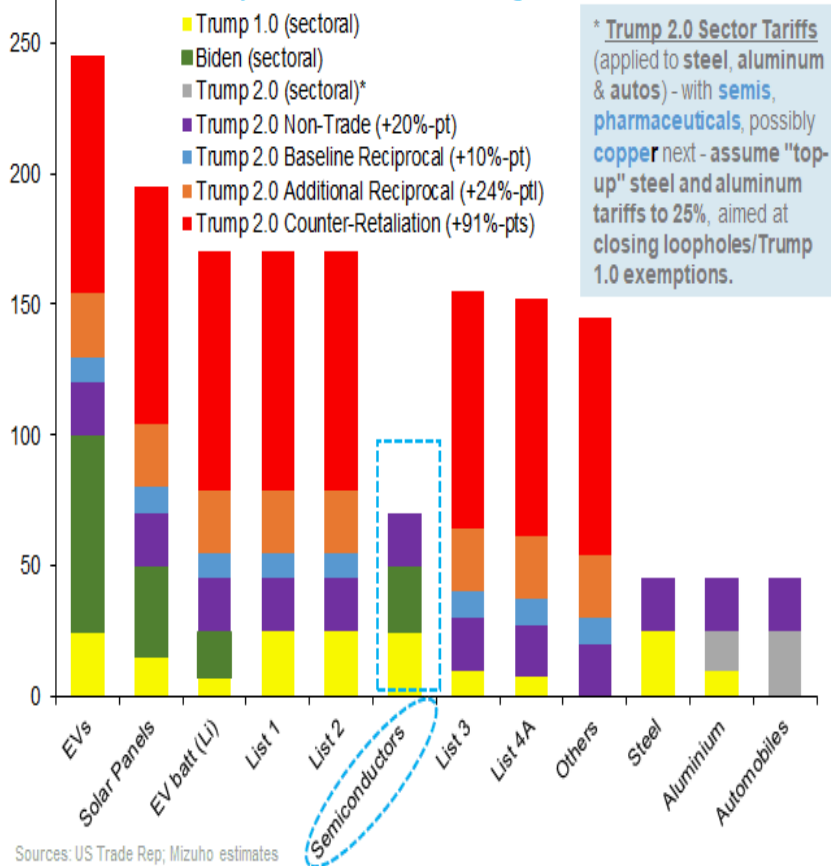
"Once you start down the dark path, forever will it dominate your destiny. Consume you, it will."

- Master Yoda, Star Wars



US-China Risks Could Splinter Global Trade

Cumulative Tariffs on China (%-pts): An **Aggressive Assault** on China's Exports to US. **Devastating "Additional 145%" from Reciprocal & Counter-Retaliation**. **Semiconductors Temporarily Exempted are Liable for In-coming Sectoral Tariffs.**



Notes:

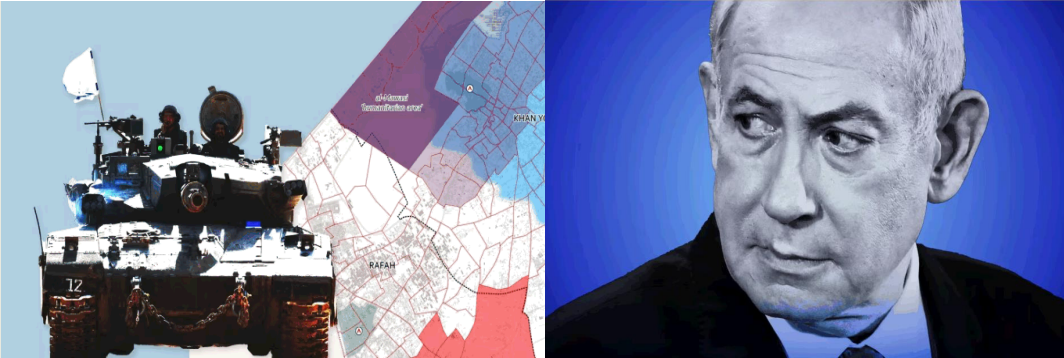
- 1) **Electric Vehicles (EVs)**: Under Trump 1.0, EVs fell under List 1 and subject to 25% tariffs; tariffs was increased to 100% under Biden in September 2024.
- 2) **Solar panels**: Trump imposed 30% in 2018, which was decreased every year. Biden extended the tariffs and increased tariffs to 50% in May 2024.
- 3) **Lithium-ion EV batteries**: Under Trump 1.0, lithium-ion EV batteries fell under list 4A; tariffs was increased to 25% under Biden administration in September 2024.
- 4) **List 1/2/3/4A**: Broad range of goods subject to varying tariffs. Original value of targeted groups were as follows: list 1 - US\$34bn; list 2 - US\$16bn; list 3 - US\$200bn; list 4 - \$125bn, although various exclusions were granted for all four lists.
- 5) **Semiconductors**: Under Trump 1.0, semiconductors were included under List 1 and subject to 25% tariffs; tariffs were increased to 50% under Biden in September 2024.
- 6) **Steel**: Trump imposed 25% tariff on steel in March 2018 during his first term. Biden expanded scope of 25% tariffs to apply to steel-goods that were previously in List 4A (i.e. tariffs of 7.5%). Trump's announcement to impose tariff on steel imports in 2025 only affected previously exempted countries (e.g. Australia, Canada).
- 7) **Aluminum**: Trump imposed 10% tariff on aluminum in March 2018, which was increased to 25% in April 2025.
- 8) **Automobiles**: Under Trump 1.0, automobiles were originally included in list 1, but subsequently removed. Nonetheless, China was hit by Trump 2.0's 25% sectoral tariff.
- 9) **10% + 10% tariffs on China** applied across the board.
- 10) **Exceptions for 34% reciprocal tariffs** include steel, aluminum, autos, copper, pharmaceutical, lumber, critical minerals and energy sectors. And now Note that we did not single out the exceptions, if any, from Lists

Date	Event
Jan-17	Trump's first term commences.
Feb-18	30% tariffs on imported solar panels and 18% tariffs on washing machines. Tariffs will reduce each year.
Mar-18	25% and 10% tariffs on steel and aluminum respectively; China not in list of exempted countries.
Jul-18	25% tariffs on List 1 goods (US\$34bn).
Sep-18	25% tariffs on List 2 goods (US\$16bn).
Sep-18	10% tariffs on List 3 goods (\$200bn).
Jun-19	Tariffs on List 3 goods increased to 25%.
Sep-19	15% tariffs on a subset of List 4 goods (US\$300bn). Revised list of goods was US\$120bn (i.e. List 4A).
Jan-20	US and China sign a Phase One trade deal through which China commits to buying an additional \$200bn of US goods and services over the next two years.
Feb-20	Steel/aluminum tariffs extended to products that use aluminum and steel.
Feb-20	15% imposed on List 4A goods cut to 7.5%.
Jan-21	Biden administration starts; Trump administration ends.
Feb-22	Tariffs on solar panels extended.
Feb-23	Tariffs on washing machines expire.
Sep-24	Slew of tariffs adjusted on selected Chinese products, including EVs (25% to 100%); lithium-ion EV batteries (7.5% to 25%), solar cells (25% to 50%).
Jan-25	Slew of tariffs on selected Chinese goods, including tungsten (0% to 25%), wafers and polysilicon (both 25% to 50%).
Jan-25	Trump administration starts; Biden administration ends.
Feb-25	10% imposed on all imports from China.
Mar-25	Additional US tariffs of 10% on all imports from China.
Mar-25	25% tariffs imposed on all steel, aluminum and derivative products.
Apr-25	Trump's announces 34% reciprocal duties on Chinese imports, with certain goods exemptions.
Apr-25	Trump's imposes an additional 91% duties on Chinese goods.

"Move not unless you see an advantage; use not your troops unless there is something to be gained; fight not unless the position is critical." – Sun Tzu, The Art of War

Conflict & Spill-Over!

The Tragedy of Rolling Conflicts



MIZUHO

Private and confidential

"It is not despair, for despair is only for those who see the end beyond all doubt. We do not." — Gandalf, Lord of the Rings

Photo Credit: FT

June 2025

Iran-Israel Risks: Fat Tails!

Fatter Tail (Risk)!

- Tensions between hopes for a negotiated truce and dislocations involved in regime change entail **fatter tail risks**: keeping volatility intact, possibly more profound and susceptible to sudden flares.

Dangerous Escalation

- Trump's inclination are unclear. Admittedly, **brinksmanship aimed at curbing Iran's nuclear ambitions** is possible.
- Nonetheless, in the context of **Israel's unrelenting strikes on Iran**, during which the chances of negotiations are stymied, the clear and present danger is **escalation** and **spill-over**.
- Crippled as they may be, **Iran's proxies may not be completely neutered**, given the DNA of working in cells.
- And **if the leadership in Iran smells regime change on the agenda**, the **risk** is that it may **shift** :
 - from *loss-minimizing survival strategies*
 - to *destruction maximizing end-game*
- In which case, amongst other more extreme threats, the **evident danger/deterrent of US involvement of a brutal US intervention** may be less of a deterrent to blockading the Strait of Hormuz.
- **Oil** (and consequently wider energy) and **shipping** are rendered **first-order tail risks**.
 - **Oil**: Oil prices may double in an effective blockade. *Even with quick reversal, a lingering 10-15% premium is a risk.*
 - **Shipping rates** too could *remain elevated long after peak uncertainty passes*.
 - **Haven/FX**: Instinctive flight to safety may favour Gold, CHF, to a lesser extent USD and JPY.
 - **FX Spill-over**: Further out though, **de-dollarization bug bear** and a **stretched EUR** could instead boost SEK and DKK amid defense spending fillip and added 'AAA' ratings allure.
 - **Haven/UST**: UST allure may be tarnished by "Sell America" and so may have significantly less draw limiting depth of downside in UST yields. And any remnant demand may pool at the front end.
 - **Curve**: **Term premium is building-up** as *perceived inflation risks* from trade/geo-political shocks *compound*; *US fiscal woes fester* and; are exacerbated by *term-driven uncertainty premium from de-dollarization dynamics*.



Shipping

Tanker rates double as
shipowners steer clear of
Strait of Hormuz

4 HOURS AGO

Iran-Israel Risks: Oil

"The dog did nothing (dog that did not bark) in the night-time ... That was the curious incident."
- Sherlock Holmes

Oil Markets: Insurance, Not Inflammation

- Crude Cautious, Not Alarmed: Whereas, *despite the over 10-15% surge in crude prices* (but off highs), the **price dynamic is consistent with caution, not alarm**.
- Still De-Sensitized: Fact is, in the grander scheme of things, a **\$7-8 jump in crude prices** contained below \$80, in response to an **unprecedented volley of Iran-Israel strikes** reflects **desensitized oil markets**.
- Insurance, Not Disruption: Rule of thumb suggests **oil's ~10% surge factors** in a mere 2-3% global supply squeeze consistent with **measured insurance premium**, and *not positioning for a major disruption* in the production and/or passage of crude.
- Supply Assurances: Ostensibly, the **presumed assurance of Russian, Saudi, wider OPEC and non-OPEC supply** bump-up elsewhere promises to **more than compensate for any potential Iranian supply compromised** by the Israel-Iran conflict arguably **dampens oil market volatility**.
- Not Excuse for Complacency: But **markets cannot afford complacency**. Especially if the apparent calm in oil markets perversely underestimates the cost of military antagonism against Iran.



Straits of Hormuz: Conflict risks
Critical Oil choke point
20-22MBpD of Oil
(~\$1.2b worth)

Most of Saudi's Oil passage
~20-25% of seaborne Oil Passage

Almost all of Oman's Gas as well.

Possibly Doubling Oil Prices!

1Y View



5Y View



Disclaimer

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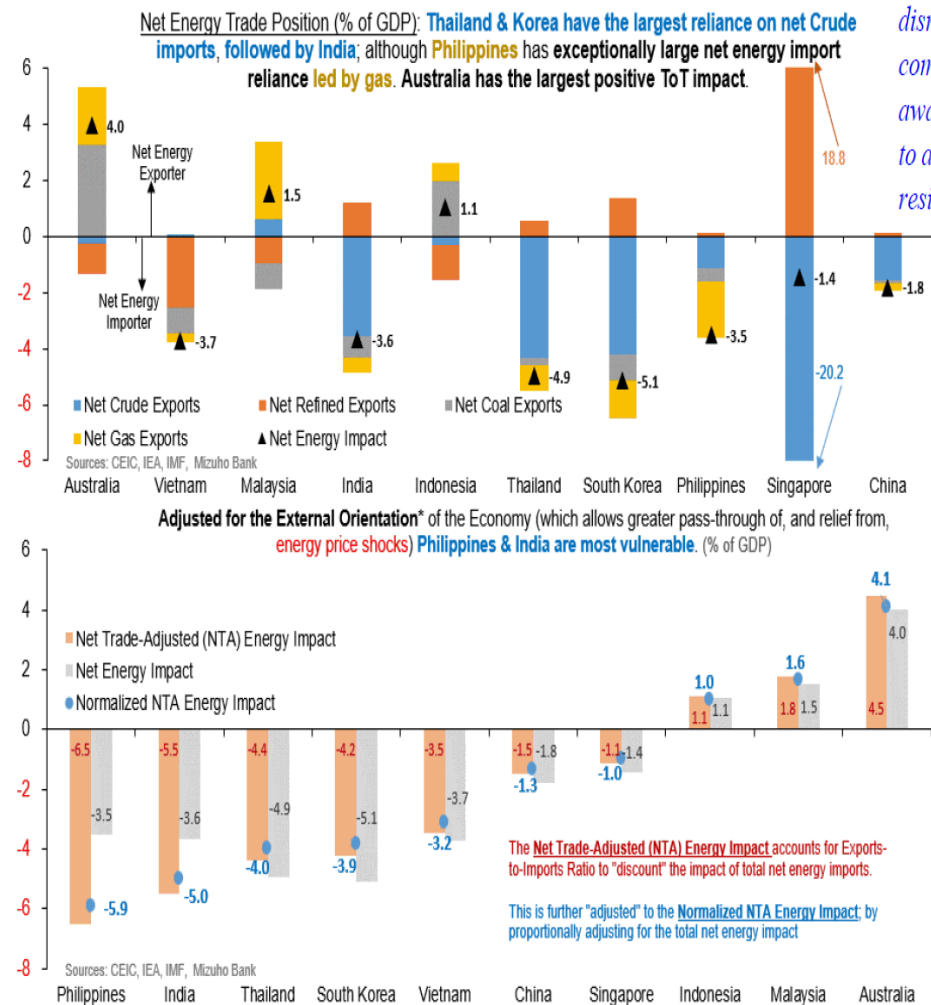
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Oil Risks & AXJ Spill-Over

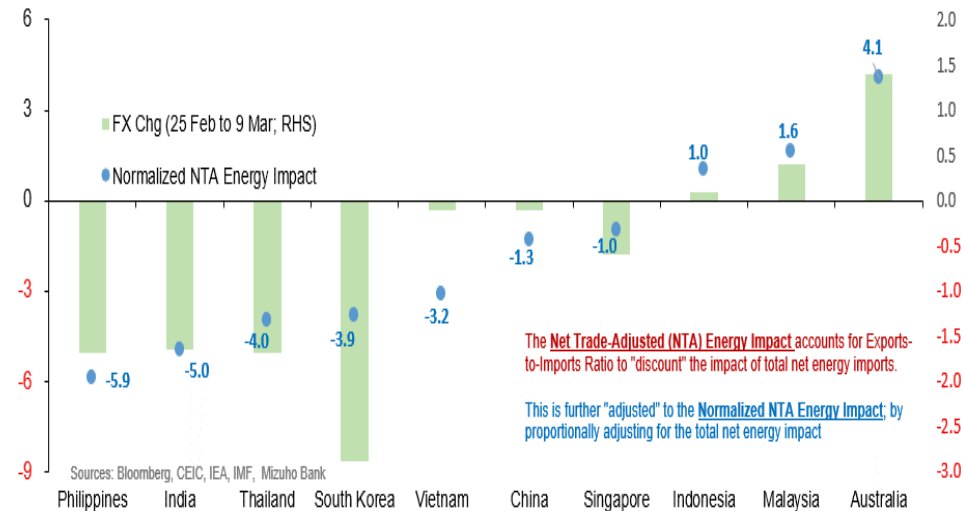
EM Asia FX: Oil's Domination & (Fractional) Distillation



PHP and INR are arguably most vulnerable to further and sustained oil shocks, with KRW and THB marginally less so; (thanks to partial relative external-orientation buffer). But, until wider industrial supply disruption risks abate and tourism resumes, this external-orientation buffer for KRW and THB is compromised; in comparison to better refining exports offset for SGD. On the flip side, AUD is the runaway beneficiary from positive terms of trade (ToT) accentuated by shocks to European gas and coal. MYR, to a lesser extent gains from crude and coal. Notably, IDR has far greater ToT (coal and nickel in particular) resilience to geo-political risks, but is far from immune.

The 2022 Experience

FX Shifts (% Chg vs. USD) mostly in-line with Oil/Energy Vulnerabilities (% of GDP)



Pre-Iran-Israel Oil View: Bearish Outcome Despite Conflict Risks

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.).

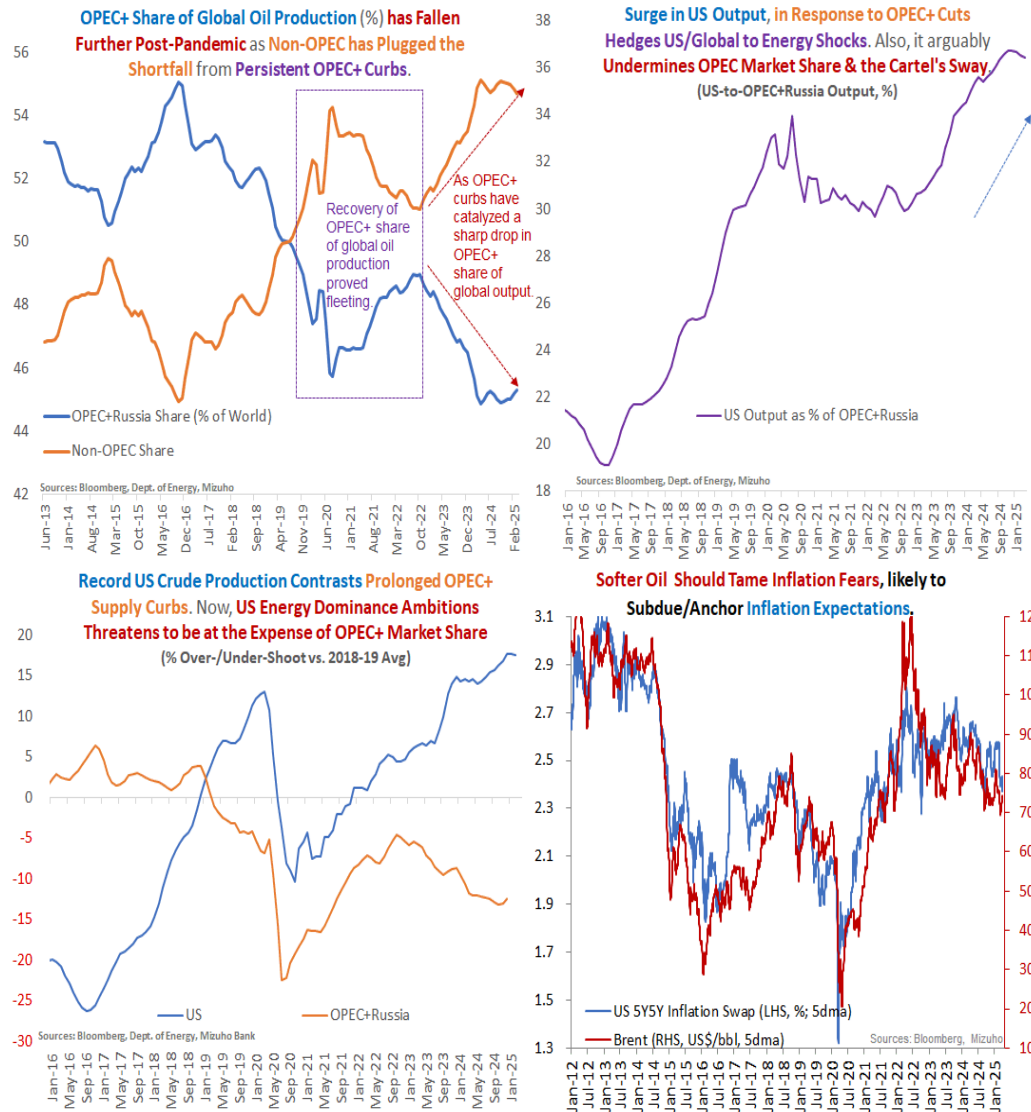
China Shortfall: What's more, despite the assurances of more emphatic stimulus, downside risks to China's growth persist. And given the stockpiling of Oil by China, the potential for a large bump-up in oil demand from China is somewhat less promising than is the risk of slippage in demand.

Exacerbated by Trump 2.0 Trade Conflict: What's more, the potential for negative demand shocks from Trump 2.0 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 risks 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.



AXJ Risks & Outlook

Currency Forecast

FX Forecasts	Q1 25	Q2 25	Q3 25	Q4 25	Q1 26	Q2 26
USD/CNH	7.21-7.38	7.12-7.43	7.10-7.45	7.03-7.38	7.00-7.28	6.98-7.36
	7.266	7.18	7.23	7.12	7.14	7.11
USD/HKD	7.76-7.80	7.80-7.85	7.80-7.85	7.79-7.84	7.77-7.84	7.76-7.83
	7.78	7.84	7.83	7.81	7.80	7.80
USD/INR	85.4-87.9	84.2-87.7	84.6-87.3	84.5-87.6	84.5-87.3	84.3-86.8
	85.4	86.5	86.2	85.8	86.3	85.2
USD/KRW	1424-1477	1340-1488	1345-1470	1355-1480	1380-1450	1360-1440
	1473	1380	1390	1400	1395	1385
USD/SGD	1.327-1.376	1.278-1.355	1.276-1.312	1.288-1.332	1.282-1.328	1.276-1.328
	1.342	1.284	1.296	1.306	1.298	1.289
USD/TWD	32.6-33.2	29.0-33.2	28.5-31.9	28.6-31.0	29.0-31.2	28.8-31.3
	33.2	29.8	29.2	30.1	30.5	29.8
USD/IDR	16130-16595	16000-16960	15810-16980	15920-17080	15760-16740	15360-16480
	16560	16400	16300	16500	16250	16000
USD/MYR	4.38 – 4.51	4.12 – 4.51	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	54.8 – 57.5	53.3 – 57.1	54.4 – 57.9	53.5 – 56.9	52.8 – 56.0
	57.2	56.0	55.4	56.1	55.2	54.4
USD/THB	33.3-34.9	32.1-35.4	31.6-33.9	31.7-34.1	32.1-33.5	31.5-33.8
	33.9	32.7	32.2	33.0	32.8	32.5
USD/VND	25038-25651	25400-27000	25600-26900	25700-27000	25600-26900	25300-26600
	25577	26100	26100	26200	26100	25900
AUD/USD	0.608-0.641	0.591-0.663	0.622-0.675	0.626-0.664	0.632-0.678	0.637-0.684
	0.625	0.649	0.655	0.638	0.658	0.664

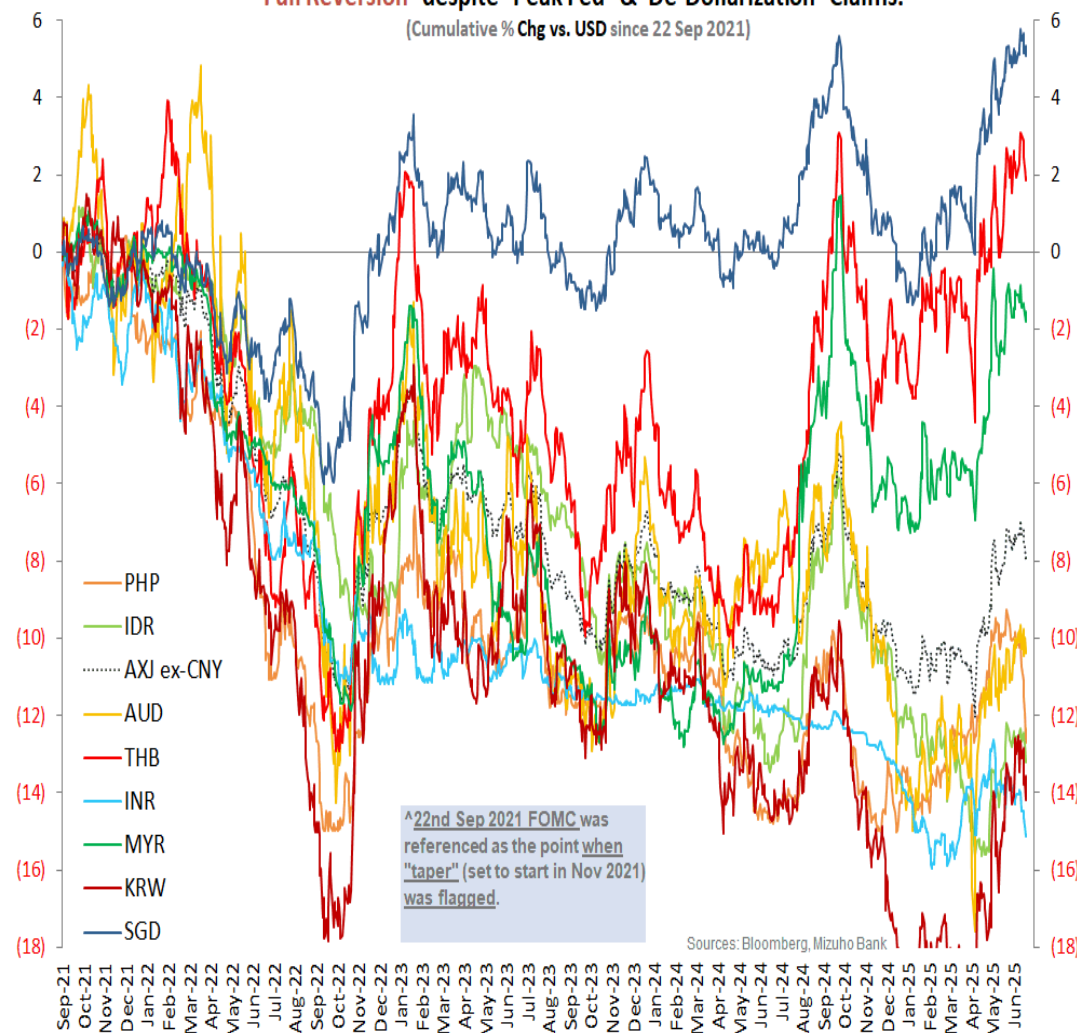
Note: Values in black are historical whereas those in blue represent forecasts. *Point forecast is for end-period. Ranges are only indicative.

- **(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 pressur strength) from trade uncertainties.**

AXJ Risks & Outlook (Cont'd)

AXJ are Highly Differentiated, with Reversal of USD Dominance Still a Long Way Off
 "Full Reversion" despite "Peak Fed" & "De-Dollarization" Claims.

(Cumulative % Chg vs. USD since 22 Sep 2021)



- **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 0.0 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**.

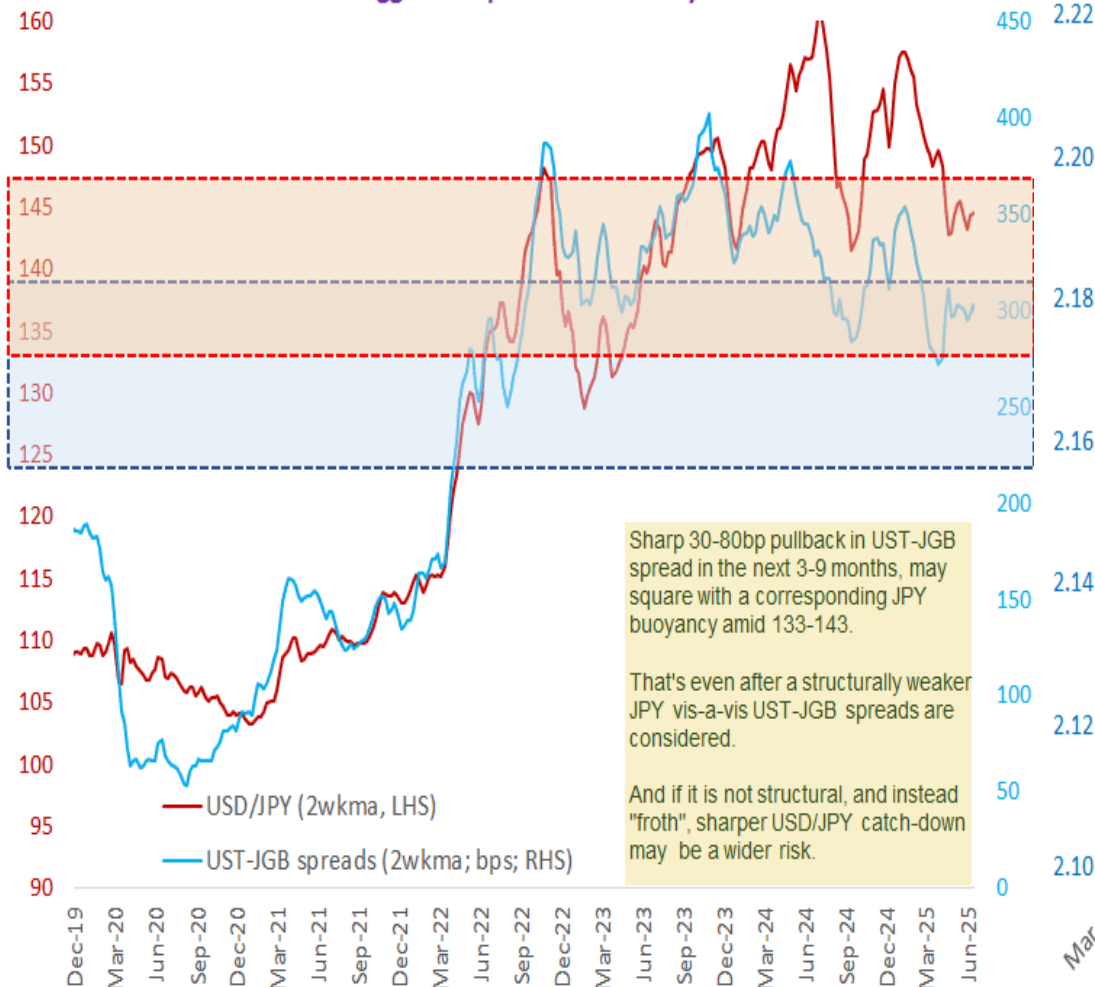
- **CNH Cover & Correlations:** More **complex CNH-AXJ dynamics** further obfuscates the AXJ view. This is a result of **intense US-China risks that require extraordinary policy bracing by the PBoC**. Hence, a **relatively steady CNH against a bearish USD [Box 1]** resulted in **AXJ outperforming CNH 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.

JPY-BoJ Risks: Trump 2.0 Heightens Inherent Volatility

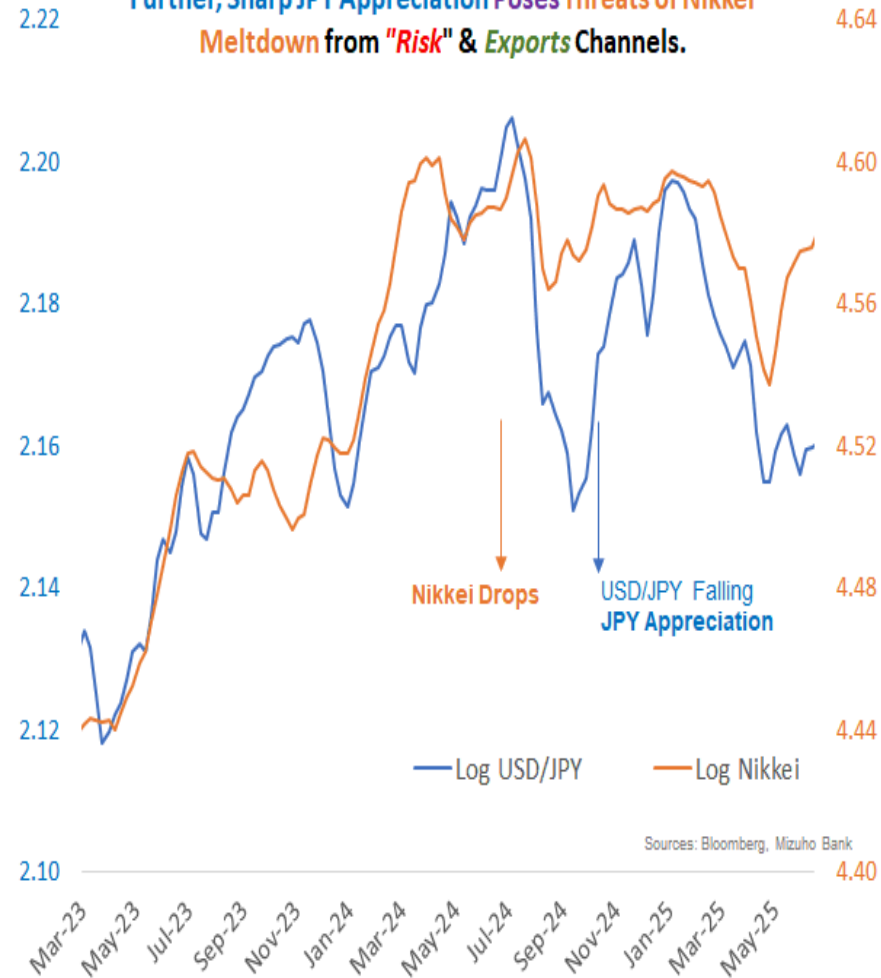
1. “JPY Problem with a Fed Solution” Distorted by Trump 2.0 Disruptions
2. Fed Doubt & Trade pain may inflict bouts of JPY sell-off initially

Fed Pivot Could Trigger JPY Rebound (USD/JPY Pullback) amid BoJ Tightening. Notably, the Optics of Fed-BoJ Divergence May Also Exaggerate Upside JPY Volatility.



Sources: Bloomberg, Mizuho

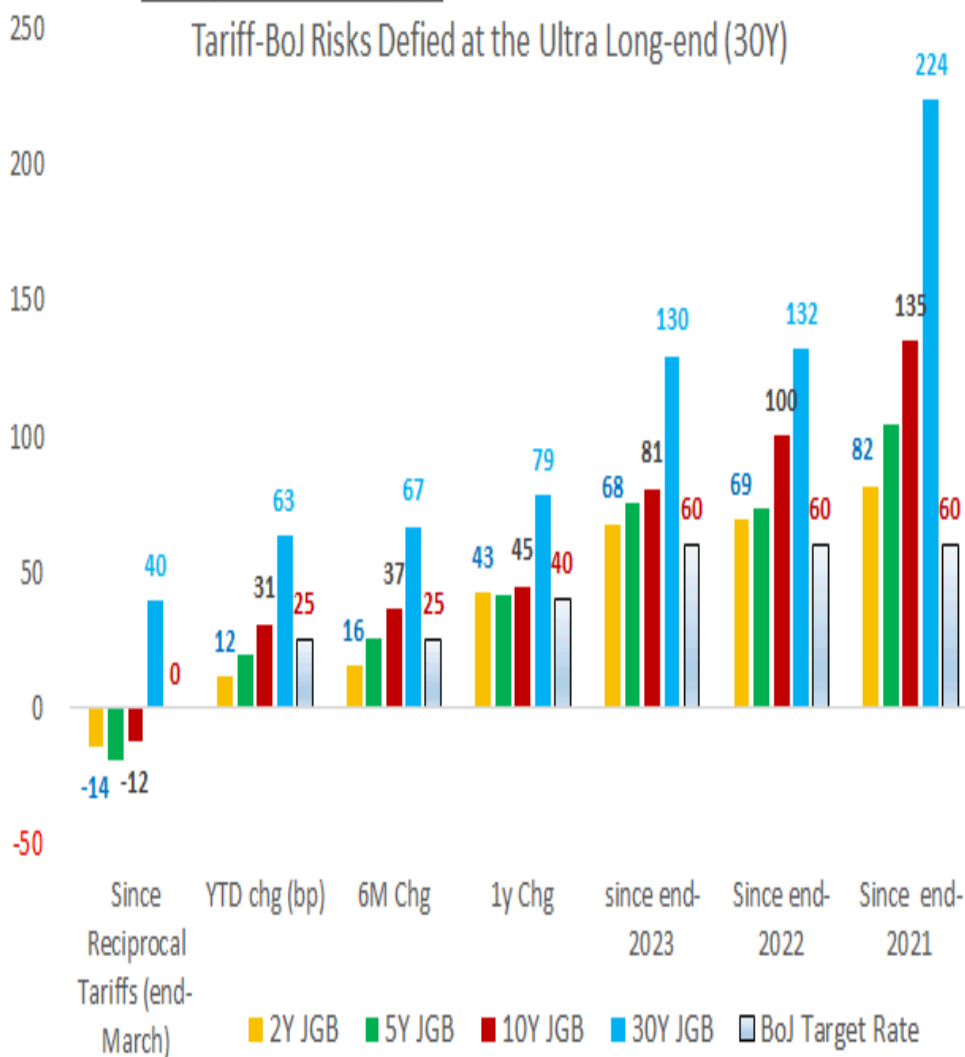
Co-Movement between Changes in Nikkei & Changes in USD/JPY Underline Negative JPY-Nikkei Correlations. Further, Sharp JPY Appreciation Poses Threats of Nikkei Meltdown from "Risk" & Exports Channels.



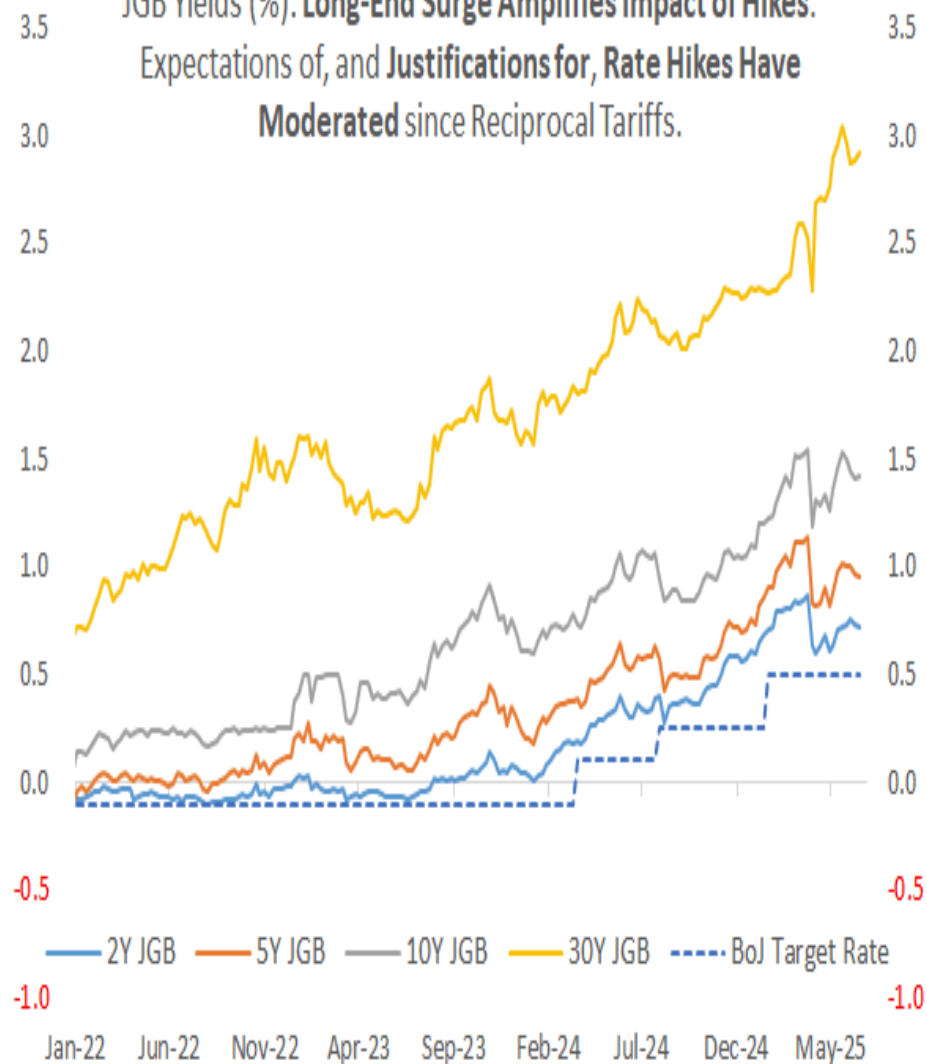
Sources: Bloomberg, Mizuho Bank

JGB Long End Volatility: Bumpy Course for JPY & Rates Price Discovery

Change in JGB Yields (bp): Front-end & 10Y Moderation on
Tariff-BoJ Risks Defied at the Ultra Long-end (30Y)

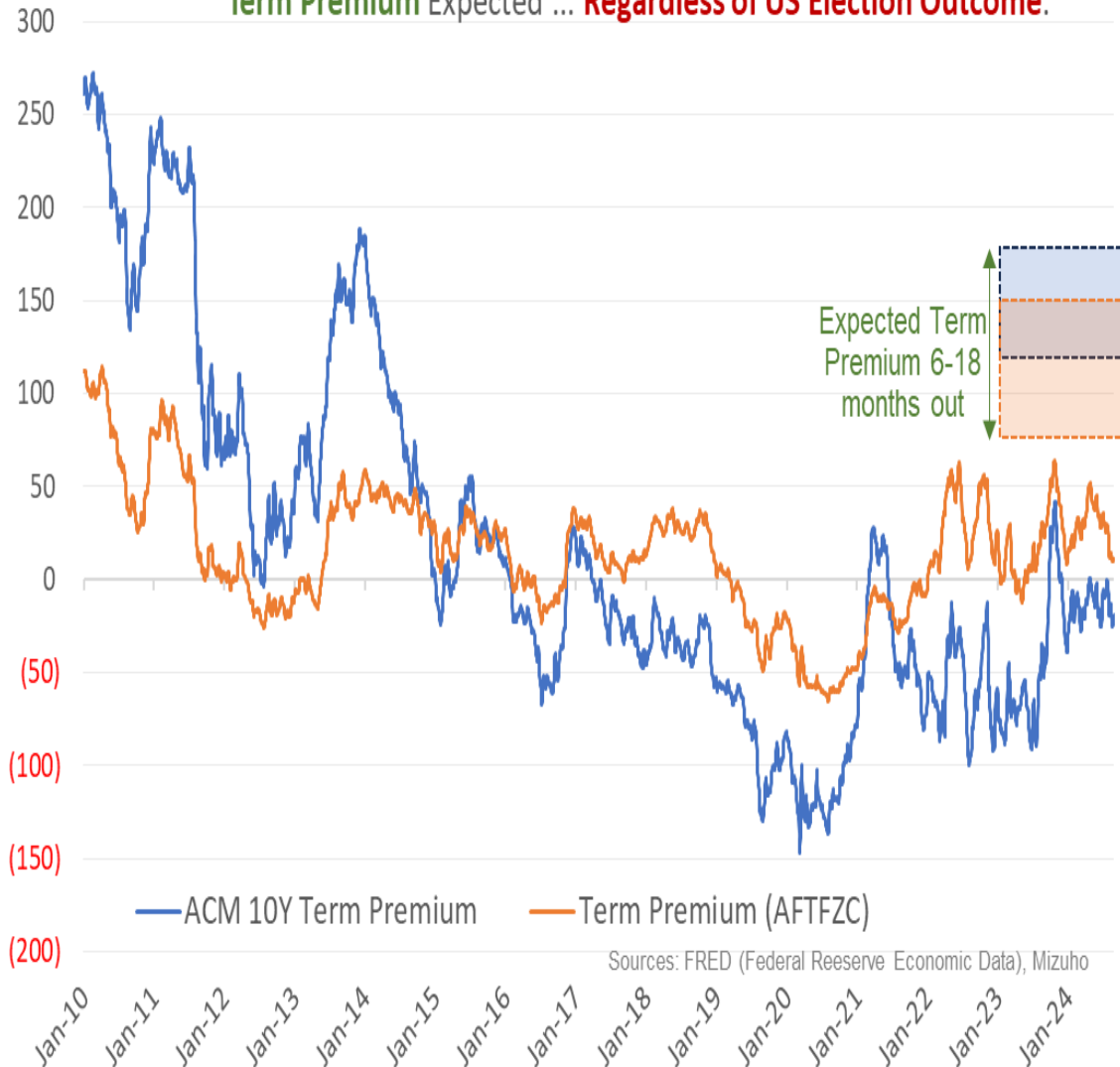


JGB Yields (%): Long-End Surge Amplifies Impact of Hikes.
Expectations of, and Justifications for, Rate Hikes Have
Moderated since Reciprocal Tariffs.



Higher Term Premium Beyond Cyclical Forces

Modelled 10Y UST Term Premia (bp): A **Sustained & Structural Pick-up in Term Premium** Expected ... **Regardless of US Election Outcome.**



Significant & Structural lift in term premium, accentuating the policy cycle buoyancy expected in longer-end yields (in re-steepening), a key macro risk

i) Inflation Expectations: Up & Uncertain?

- First, **structurally higher inflation**, associated with *de-globalization threats that feature antagonistic US-China geo-politics**** colliding with “green-flation”.

ii) Geo-Political/Social Costs Termed Out

- Moreover, **conflict/geo-political tensions raising longer-end bond supply globally**, exacerbated by a *more isolationist and less predictable US*, feature in the term structure via **higher volatility expectations**.

iii) Debt, Debasement & Dollar

- Crucially**, **dramatically increased**, but **harder-to-time**, **USD debasement risks** from *burgeoning debt*, may emerge as **pronounced UST term premium**.

Appendix - Channels of “Dollar Trump”

