Sell Or Pay America?
Non-Linearity & Geoeconomic Upheavals

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

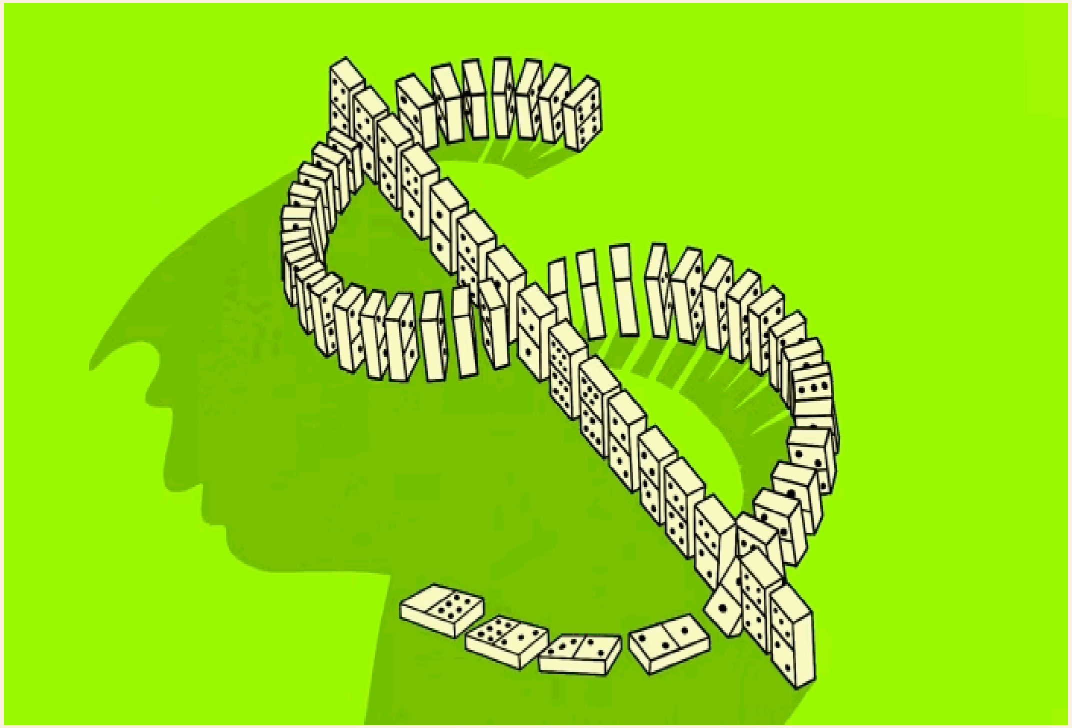
Private and confidential

Photo Credit: FT

October 2025

1. "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

Photo Credit: FT

Aspects of "Sell America"?

^ Bond prices and yields are inversely related: **Selling Bonds ➔ Lower Prices ➔ Higher Yields**

Sell America

Sell USD

DXY ↓
EUR ↑
Other FX ↑

Sell Bonds

UST Yields^ ↑
*Steeper Curve**

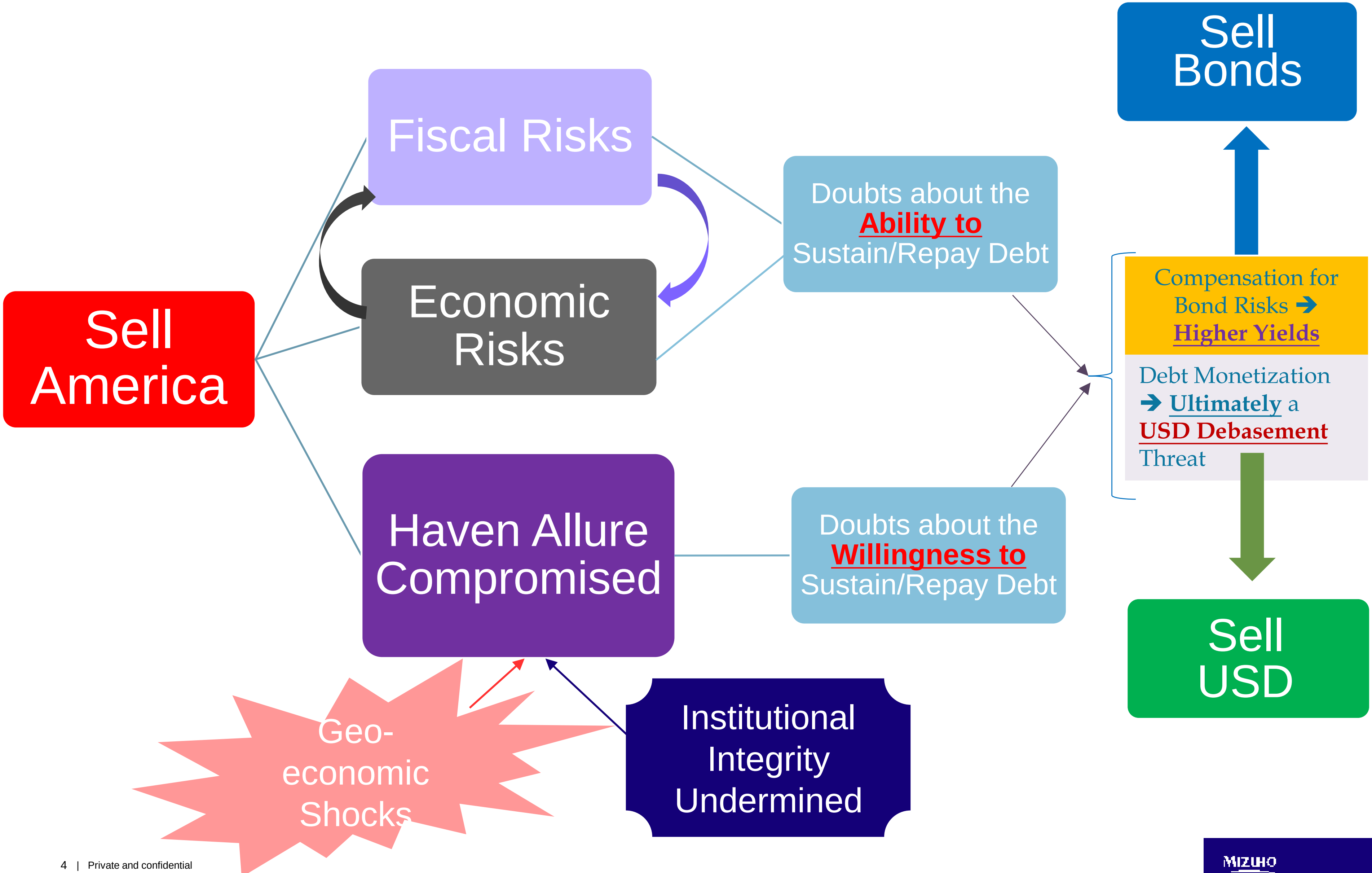
Sell Equities

Sell US Equities?
↓ or ↑ ?

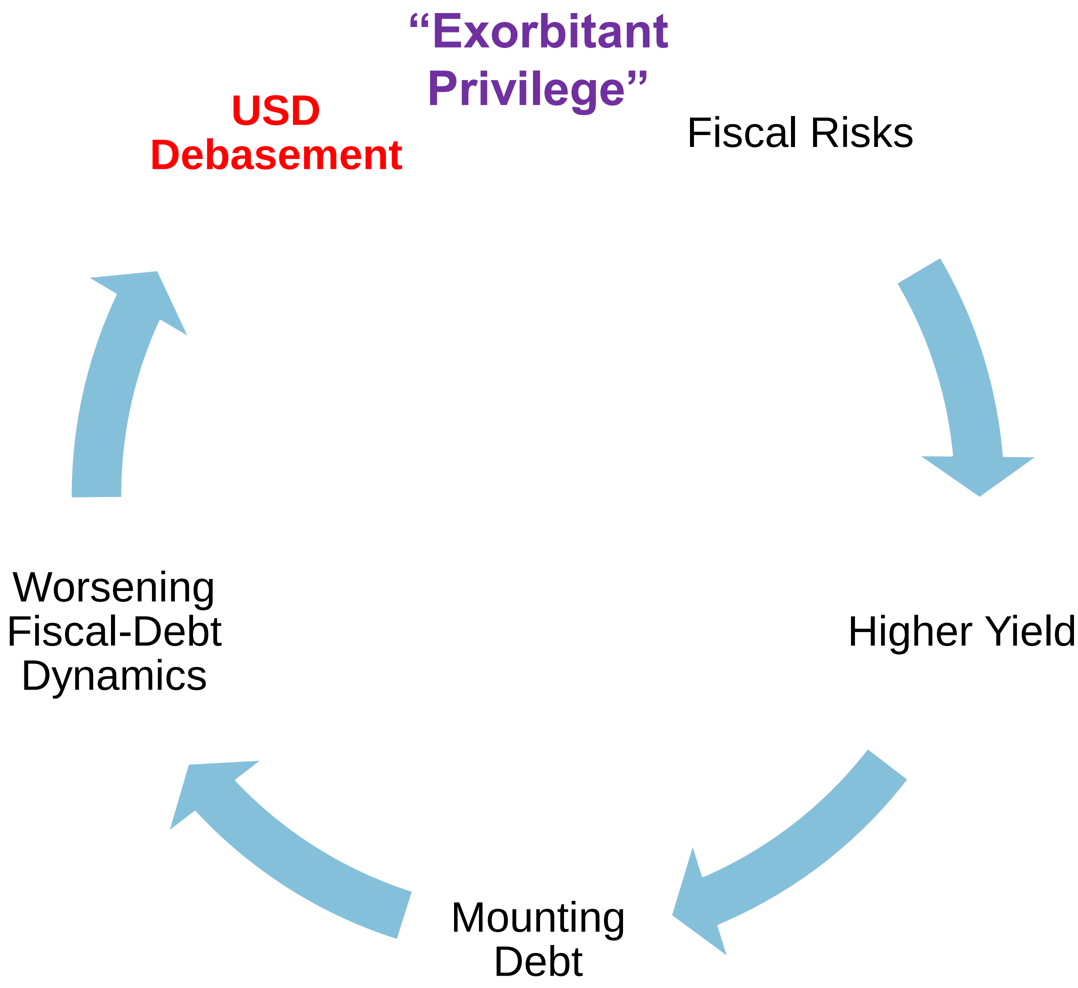
* "Steeper Curve" ➔ Long-end (10Y) yields rising faster than front-end (2Y) yields ➔ Higher "term premium" ➔ Additional compensation for greater uncertainty over a longer-period.

The “Sell America” Proposition

“I felt like destroying something beautiful." **– Fight Club**

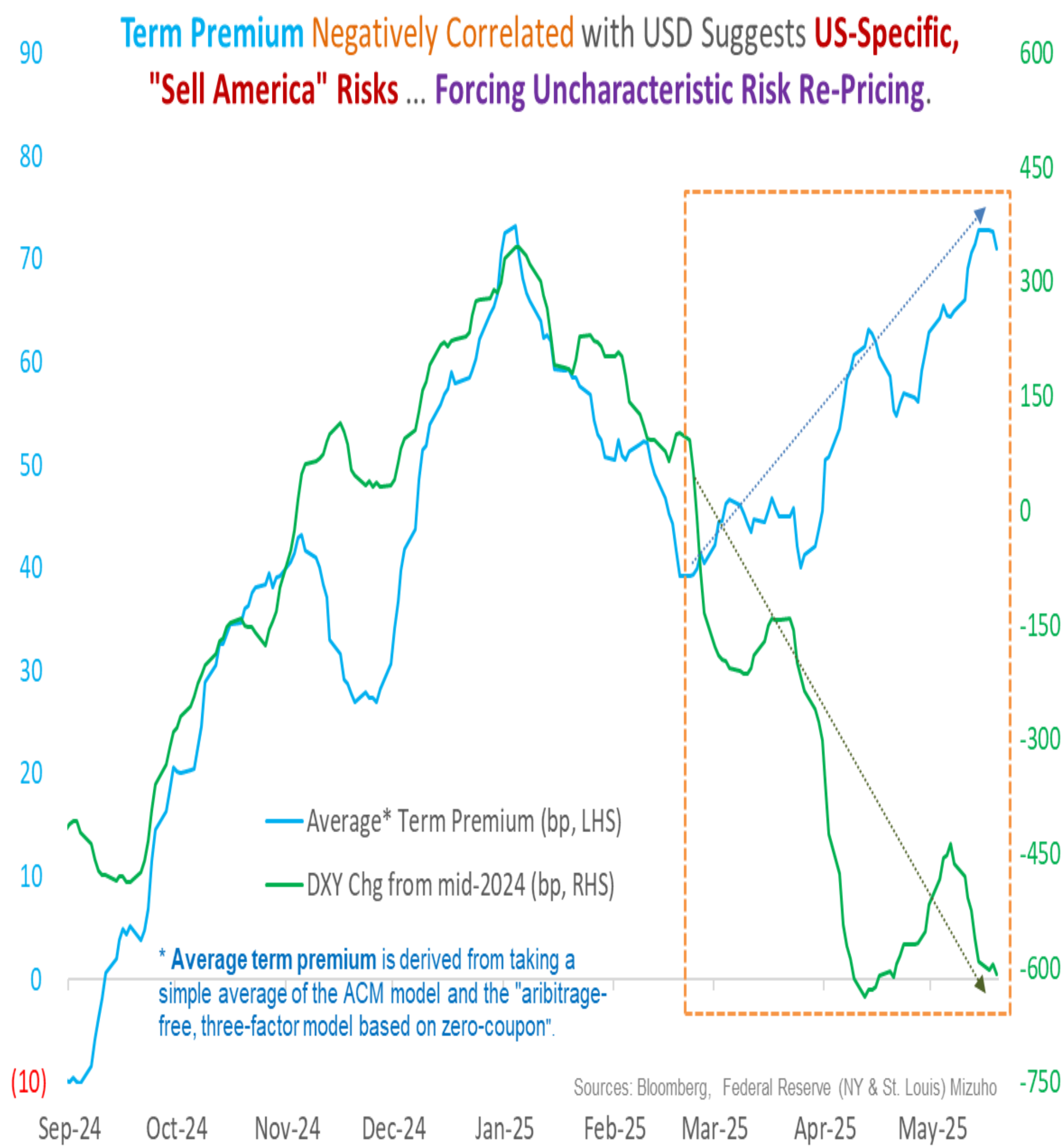


"Sell America" Ultimately Most Acute in USD ➔ Where the Buck Stops



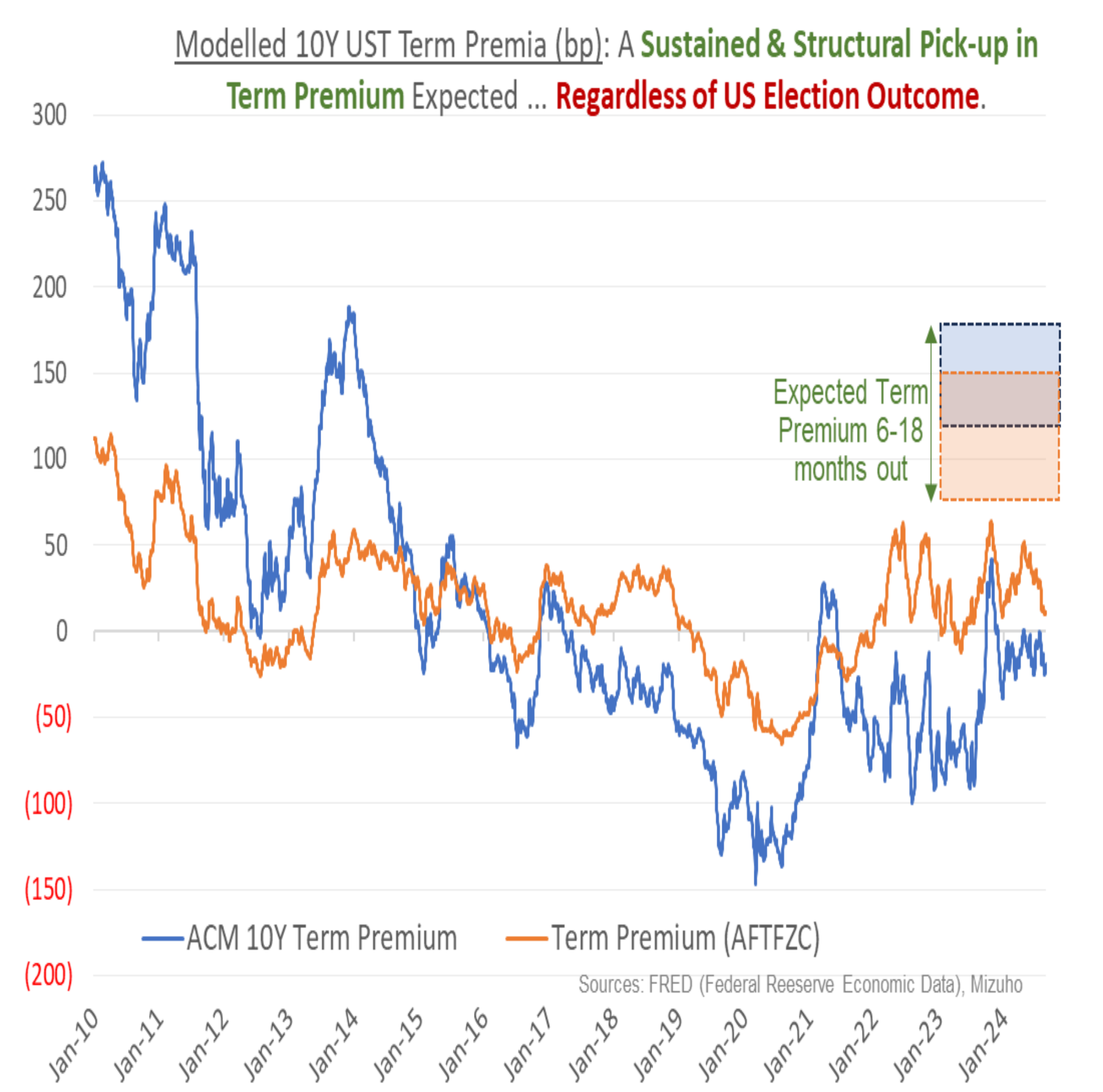
"When you have eliminated the impossible, whatever remains, however improbable, must be the truth." – **Sherlock Holmes**

Term Premium Accounting for US (& USD) Risks



"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**

Box 1 (Sep 2024 Analysis): Higher Term Premium Beyond Cyclical Forces



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.**

2. *"Pay/Hedge America"*

"Sell America" Neither Even or Unqualified

"I believe in America. America has made my fortune." – **The Godfather**

- "Pay (to Play) America": *Highly extractive* **US(-**imposed) *trade deals* **require trade partners literally pay for the benefit of US trade**; **by way of guaranteed US imports** and/or **investments**.

- Disadvantages AXJ via C/A, Fiscal & Capital Conduits: **Conspiracy of tariffs and "pay-to-play" extractive trade deals impose a cost via** trade (C/A), investments and/or accompanying fiscal burden ➔ **denting AXJ**.

- More So Given Costly Bearish USD Bets: Moreover, **elevated USD rates**, *underpinned by a relatively less dovish Fed* (vis-à-vis its global peers) renders betting against the USD a costly proposition ➔ Backstop USD.

- Accentuated "Pay America" Risks for AXJ: **"Pay America" extraction of multi-dimensional tariffs ➔ Comparatively more strains** on **AXJ ➔ relatively under-perform Majors – led by EUR**.

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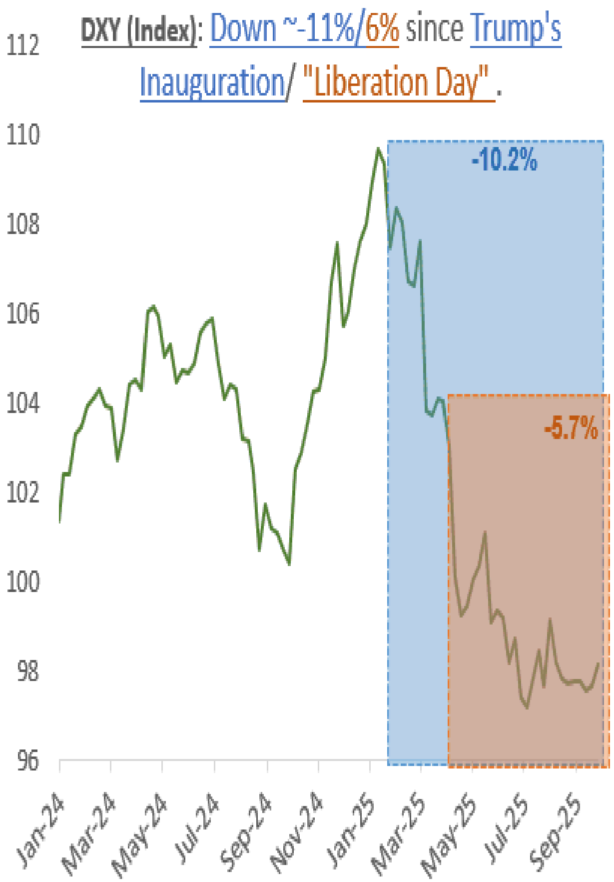
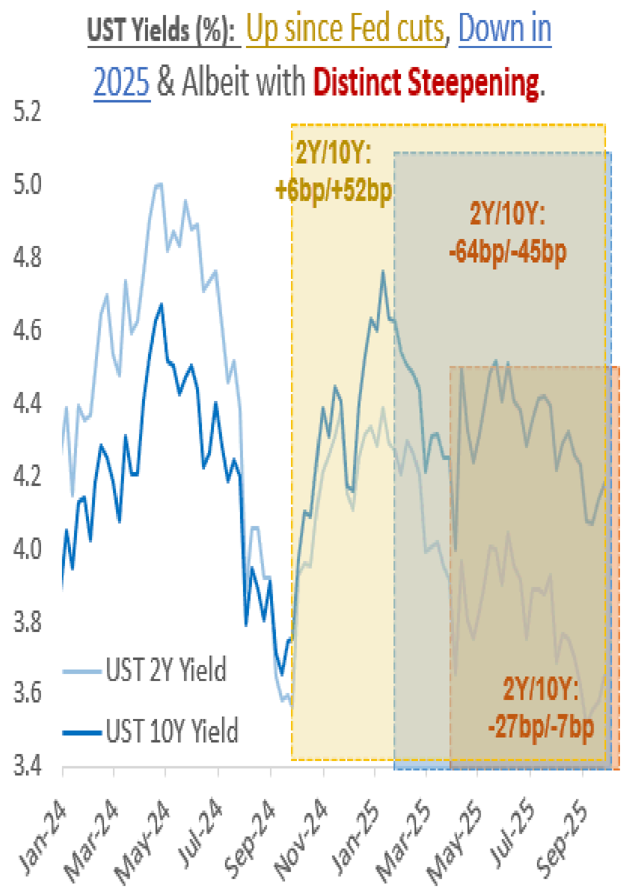
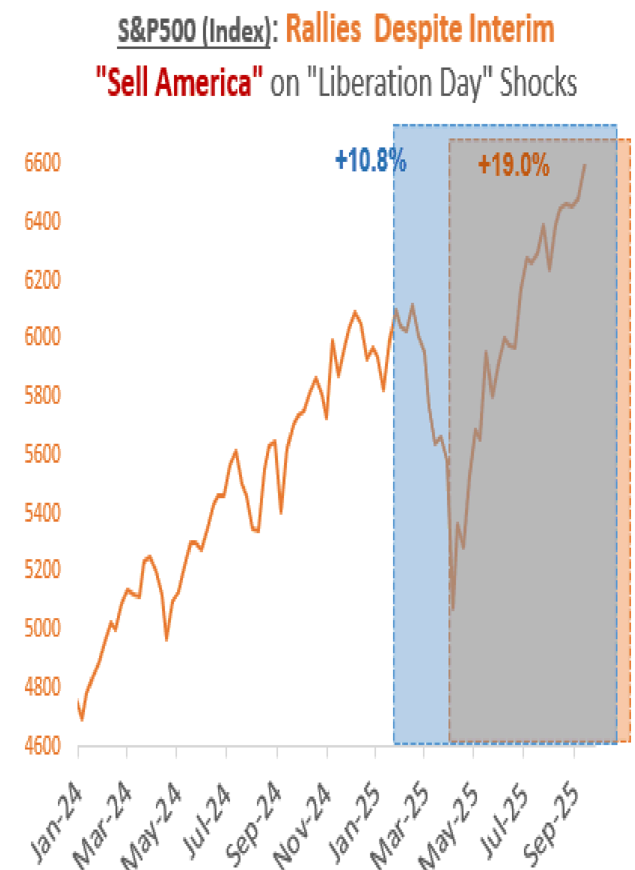
“Sell America” is at Best Mixed. Certainly Not Unqualified!

> “Great, kid. Don’t get cocky!”
> \- Han Solo, Star Wars







Sources: Bloomberg, Mizuho

- **Given** that a **naked “Sell America”** position can be **a costly endeavour;**
  - *when long-end UST yields (near-4.3%) are this lofty* and;
  - *flush liquidity incites equity bulls* more than erasing post-Liberation Day” sell-off in US equities.
- So, markets may be inclined to cost-effectively **“Hedge America”** (risks) not ***outright “Sell America”***.
- In which case, **hedging for US risks via a sufficiently softer USD *while being invested in US equities and USTs*** may be a **compelling alternative for a while yet**.

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"Pay-to-Pay" US Extortion & Attendant Risks

> "It's not personal … it's strictly business."
> – **The Godfather**

- The **widening "pay-to-play" imposition** of US trade/tariff policies suggests a **heavier toll extracted on US trade partners** and the **private sector** at large.
- Nvidia and AMD having to pay 15% of revenues to the US on exports of chips to China is the **latest, but perhaps not the last, iteration** of "play to play" US extortion.
- As discussed before, this **extraction via imposed US imports and/or investments** (into the US) will hit as ***compromised Current Accounts*** and ***increased fiscal burden*** elsewhere.
- In addition, it will inevitably entail **some combination of profit margins and household income/savings confiscated** by the US government.
- Imposition of export levies on chips (to China) threaten **to intensify industrial deflationary pressures for China**, ➔ raises the bar for Beijing's anti-involution measures to snap deflation.
- As Chinese producers export higher costs, **stagflation-type dilemma will mount elsewhere as higher prices collide with negative demand pressures**.

- USD Buoyancy
  - C/A Transfers
  - Forced Capital Inflows
  - "Live" Extortion Risks
  - High Cost to Short USD

- Why USD May Not Crash Imminently: Perversely, such **forced transfer**, or ***confiscation***, of private sector/trading partner resources is one reason **why the Greenback may not crash imminently**. Especially *as "Sell America" is checked by "Pay(to Play) America"*.
- But Risks USD May Not Crash Imminently: Although inevitable, possibly irredeemable, **loss of trust enlarges risks to USD and its standing** (as the global reserve currency) in the **longer-run**.
- Watch CNH & Attendant AXJ Risks: Mounting pressures on China, regardless of signs of reciprocal tariff risks being assuaged, could **dampen CNH and increase downside risks**. Accordingly, **AXJ** will be **vulnerable to bouts of further "Pay (to Play) America" risks**.

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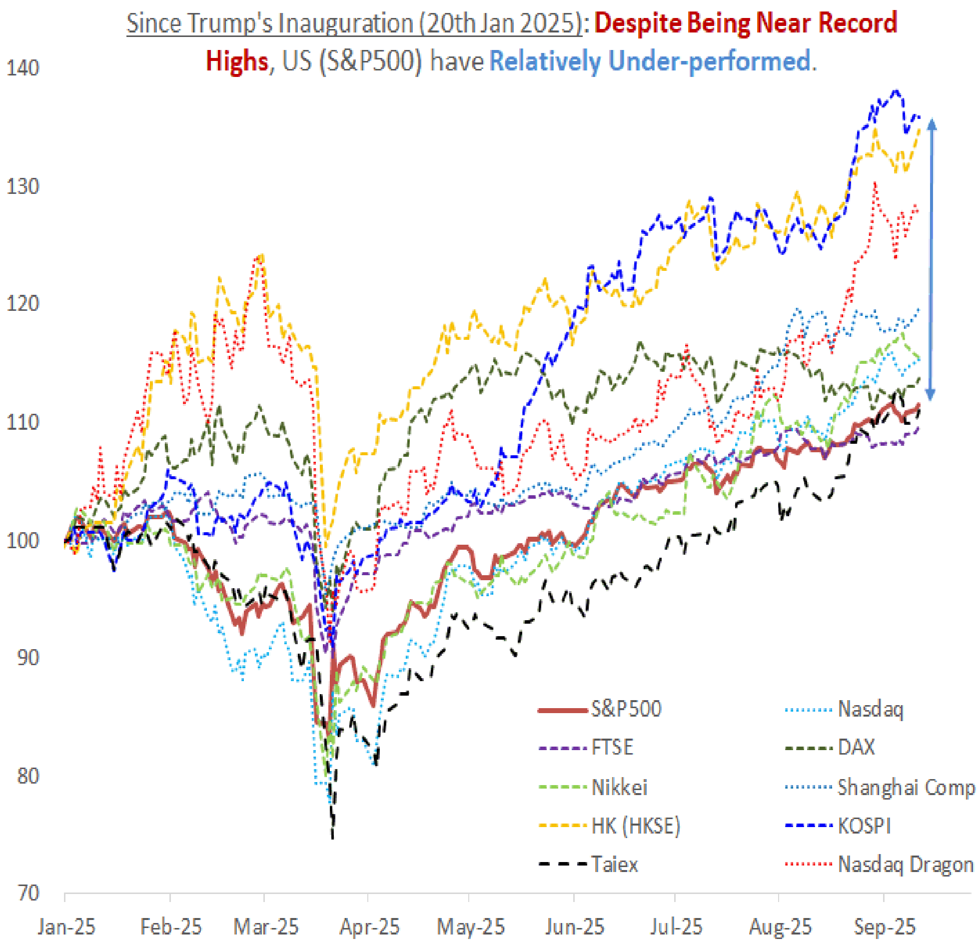
“Pay-to-Pay” US Extortion & Attendant Risks

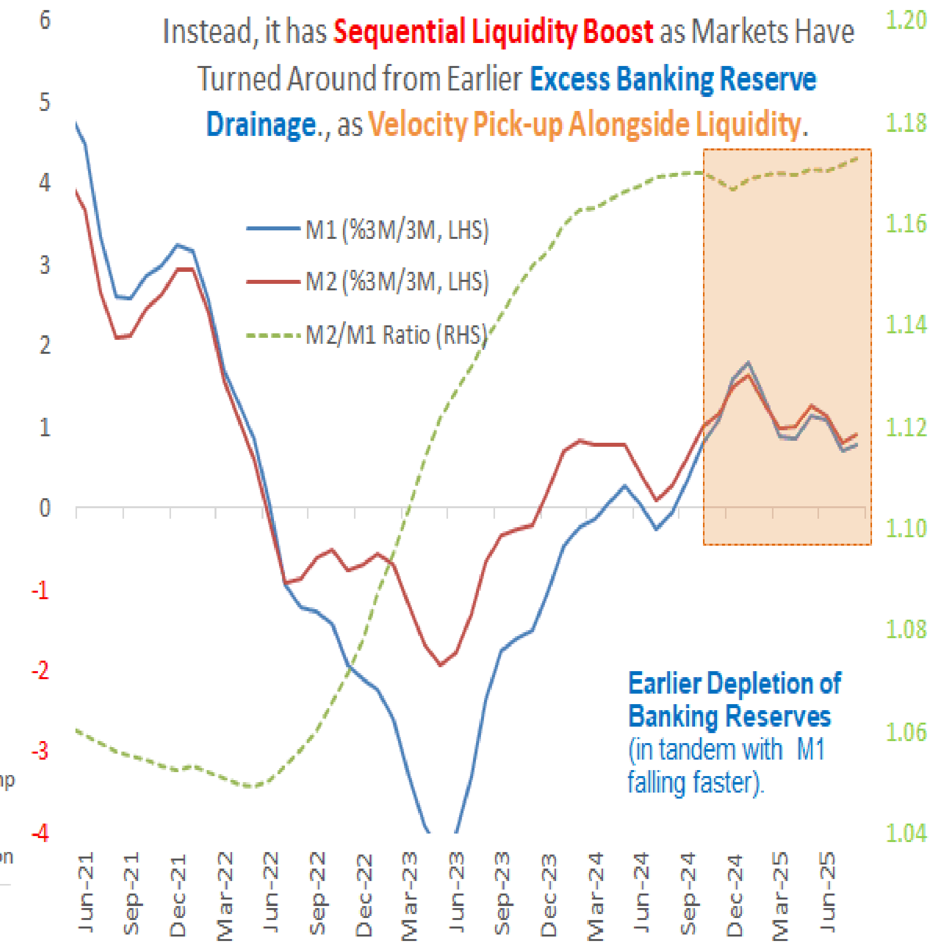
“I’m gonna make him an offer he can’t refuse.” – **The Godfather**

Indonesia	• Eliminating tariff barriers • Breaking down non-tariff barriers • Removing barriers for digital trade • Purchase aircrafts (US$3.2bn), agriculture products (US$4.5bn) and energy products (US$15bn)	• Fact Sheet: The United States and Indonesia Reach Historic Trade Deal – The White House • Joint Statement on Framework for United States-Indonesia Agreement on Reciprocal Trade – The White House
Japan	• Agriculture & Food: Increase imports of US rice by 75%; buy US$8bn in US goods, including corn, soy benas • Energy: Buy more US energy goods • Manufacturing and Aerospace: Purchase US-made commercial aircraft, including an agreement to buy 100 Boeing aircrafts; additional billions of dollars annually of purchases of US defense equipment • Automobiles & industrial goods: Longstanding restrictions on US cars and trucks will be lifted	• Fact Sheet: President Donald J. Trump Secures Unprecedented U.S.–Japan Strategic Trade and Investment Agreement – The White House
EU	• EU will purchase $750bn in US energy and make new investments of $600bn in the US, all by 2028.	• Fact Sheet: The United States and European Union Reach Massive Trade Deal – The White House
UK	• Providing market access to US goods • Preferential treatment outcomes for UK pharmaceuticals goods • Automobiles: first 100k vehicles imported into the US by UK manufacturers subject to a total tariff rate of 10%. Any additional imported vehicles subject to rate of 25%.	• Fact Sheet: U.S.-UK Reach Historic Trade Deal – The White House • Fact Sheet: Implementing the General Terms of the U.S.-UK Economic Prosperity Deal – The White House
Gulf states	• UAE committed $200bn in commercial deals between US and UAE. • Qatar and US signed an agreement to generate an economic exchange worth at least $1.2tn. Economic deals worth more than $243.5n between US and Qatar, including an historic sale of Boeing aircraft and GE Aerospace engines to Qatar Airways. • Saudi Arabia committed $600bn worth o investments in US. • **Note:** All three Gulf nations had the baseline 10% tariffs on “Liberation Day”. These commitments were announced post-“Liberation Day”.	• Fact Sheet: President Donald J. Trump Secures $200 Billion in New U.S.-UAE Deals and Accelerates Previously Committed $1.4 Trillion UAE Investment – The White House • Fact Sheet: President Donald J. Trump Secures Historic $1.2 Trillion Economic Commitment in Qatar – The White HouseFact Sheet: President Donald J. Trump Secures Historic $1.2 Trillion Economic Commitment in Qatar – The White House • Fact Sheet: President Donald J. Trump Secures Historic $600 Billion Investment Commitment in Saudi Arabia – The White House
Malaysia	• Reuters reported that Tengku Zafrul Aziz said that Malaysian negotiators have agreed to spend up to $150bn over the next 5 years to buy equipment from US MNCs. • This includes agreements for state energy firm Petroliam Nasional Berhad buy LNG worth $3.4bn a year. • Malaysia will also commit US$70bn in cross-border investments in US over the next five years. • Reducing or abolishing duties on US imports.	• Firms in Malaysia to boost tech, LNG purchases from US as part of trade deal | Reuters • No official statement available.
Thailand	• Previous commitments before the revised tariff level was announced, include increasing imports of energy, aircraft and agriculture products. But magnitude is unclear.	• No official statements available.
Philippines	• Philippines going “open market” with the US. • Marcos clarified that this means automobiles will have zero tariffs. • Reports suggests Philippines may be increasing imports of soy, wheat and pharmaceutical products from US.	• US-Philippines tariff update: What it means for local businesses • No official statements available.

Equities: Liquidity Tempers "Sell America"

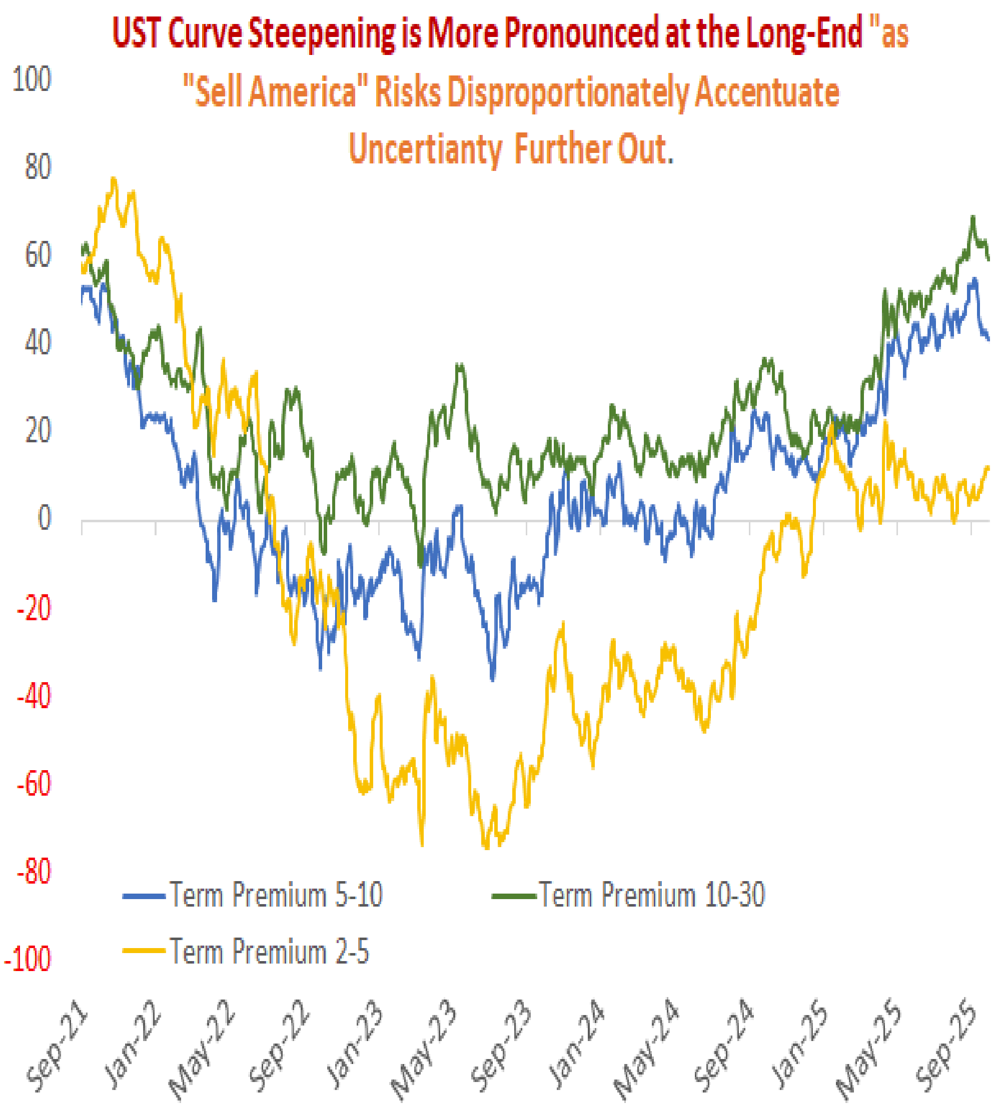
> "Show me the money!"
> - Jerry Maguire

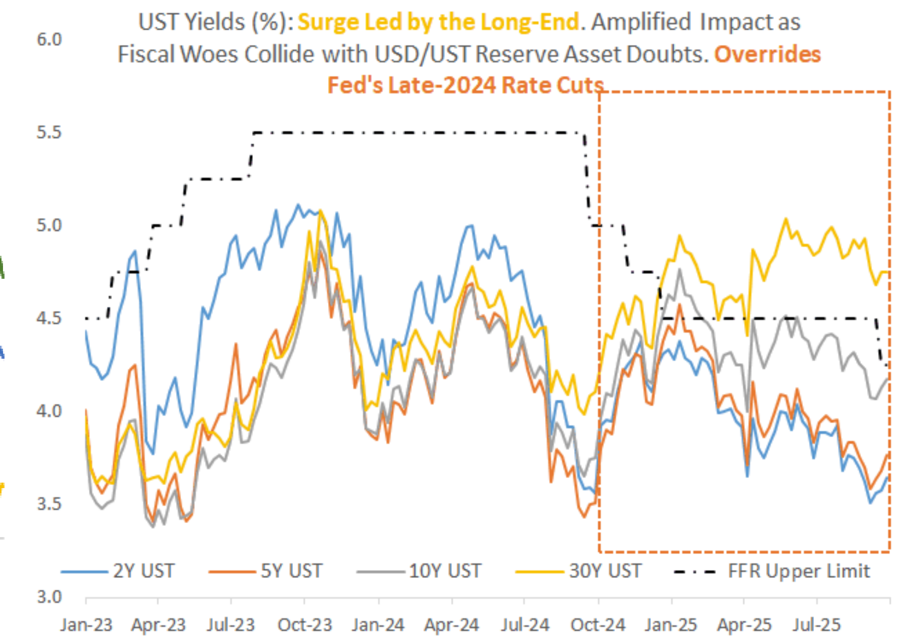


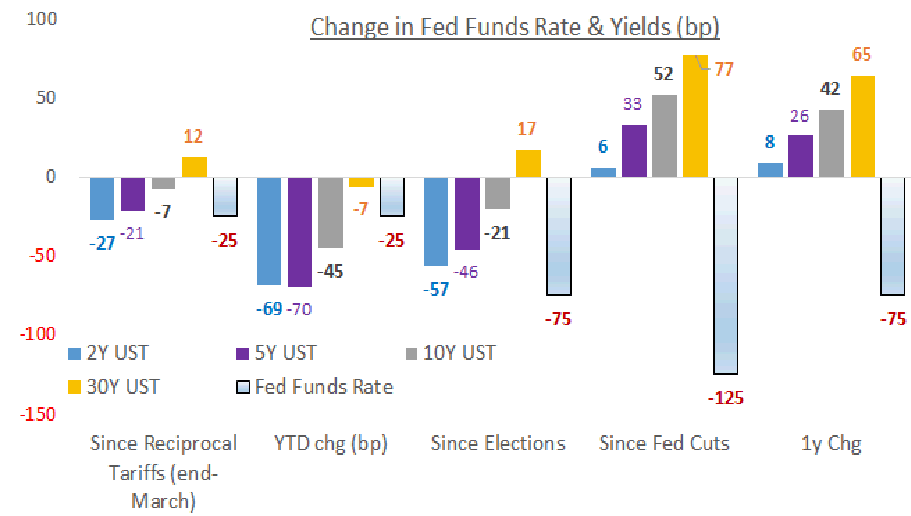


- The **resurgence in US liquidity**, *led by high-powered M1 that tends to boost excess reserves*, has likely **flattered the bullish momentum in US equities** and ***in apparent defiance of "Sell America"*** at that.
- But **relative under-performance of US equities** *via-a-vis global equities* is **sobering reminder that "Sell America"** may **merely** be **augmented to "buy relatively less"**.
- And so, **US equity bulls may be dependent on the liquidity cover**. And the **trajectory of liquidity will determine the endurance of US equity rallies**.

USTs: Steeper Curve amid “Sell America” & Fed Policy Levers

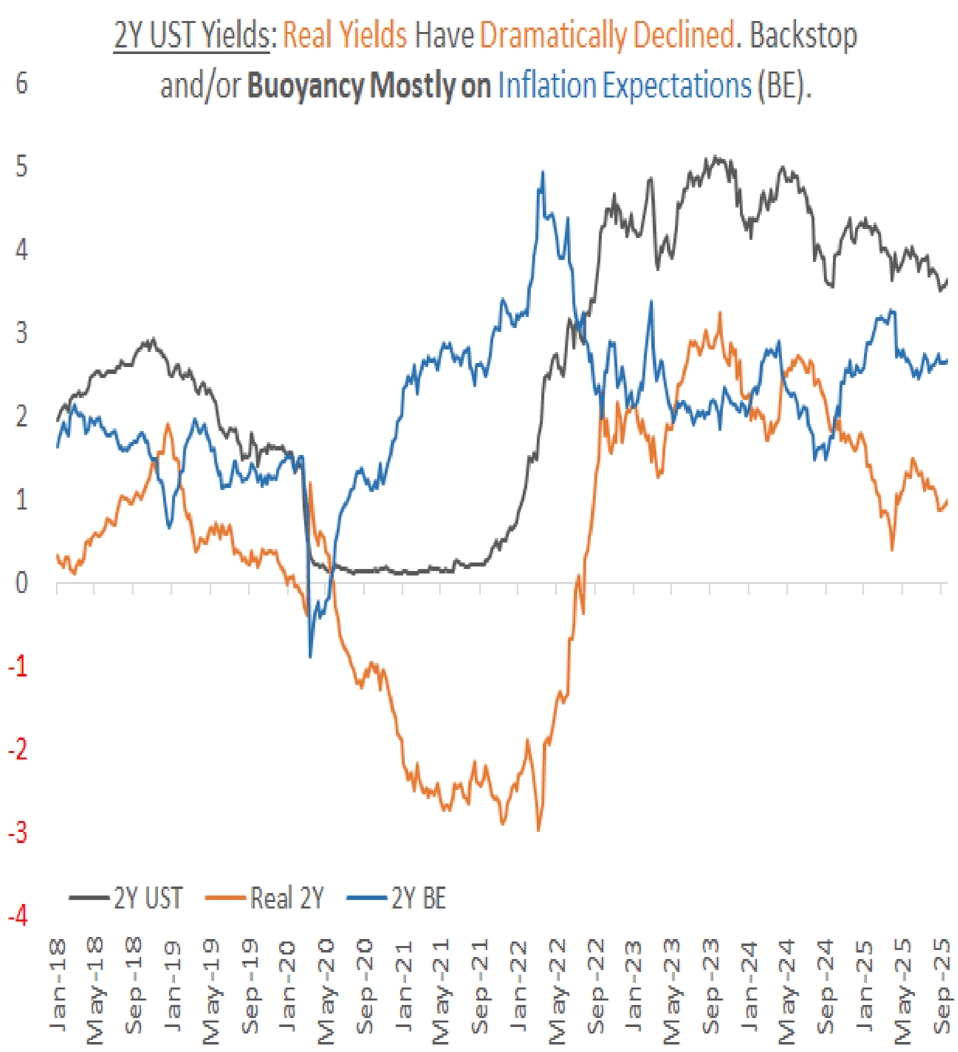


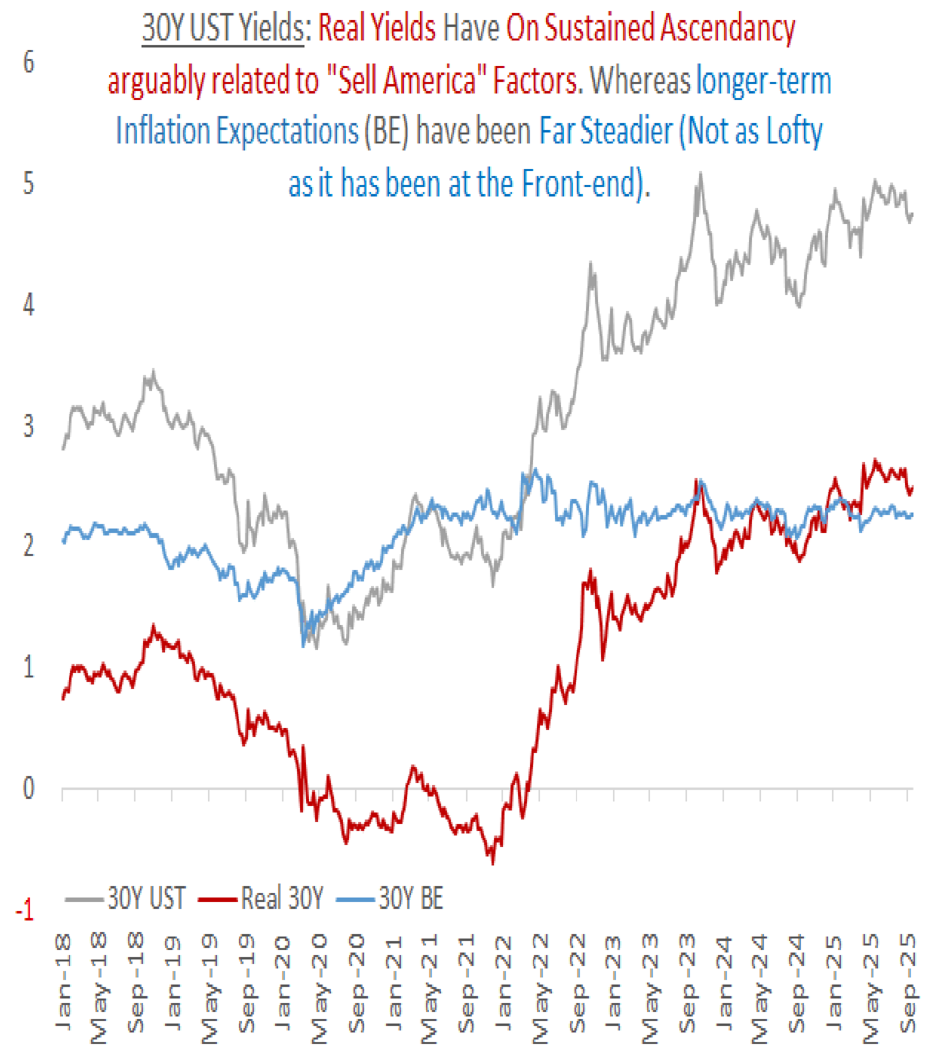




“Stop trying to control everything and just let go. Let go!.” - **Fight Club**

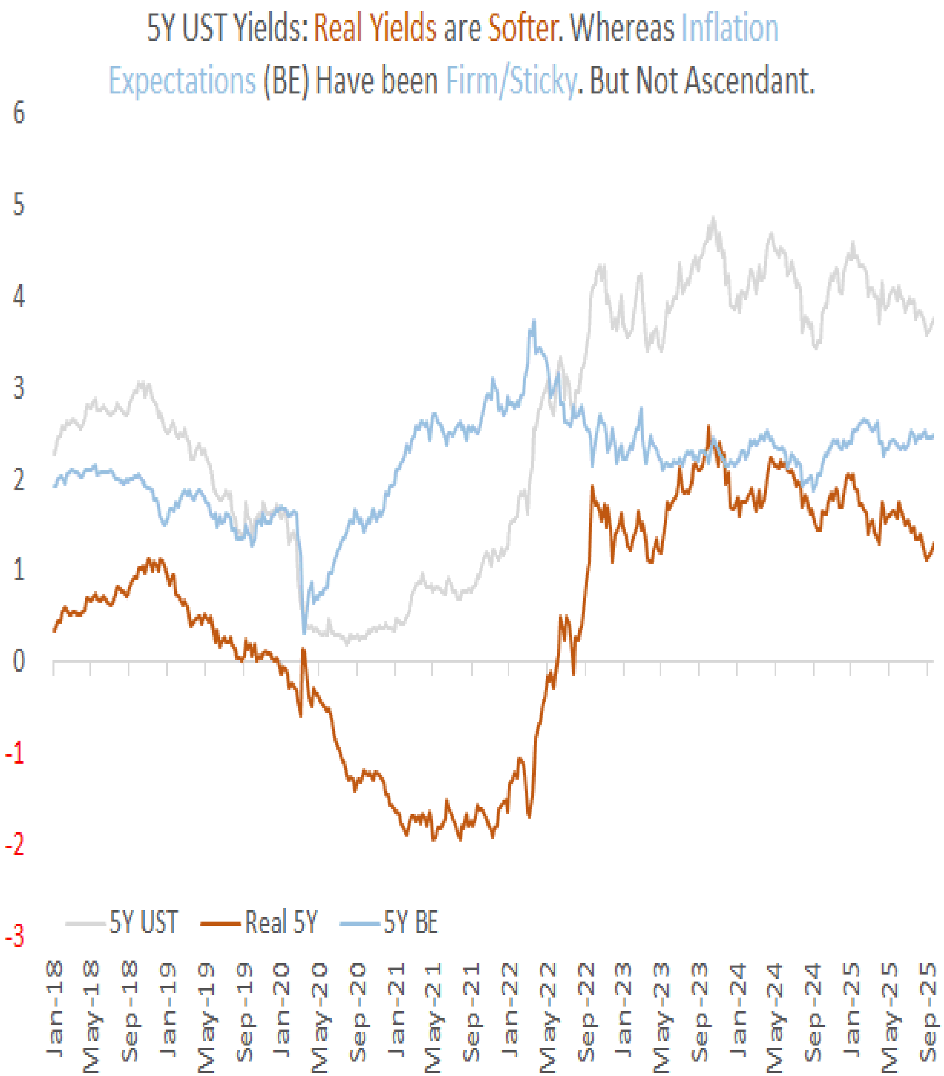
USTs: Different Drivers (Direction?) Along the Curve … *Between Fed & Fear*

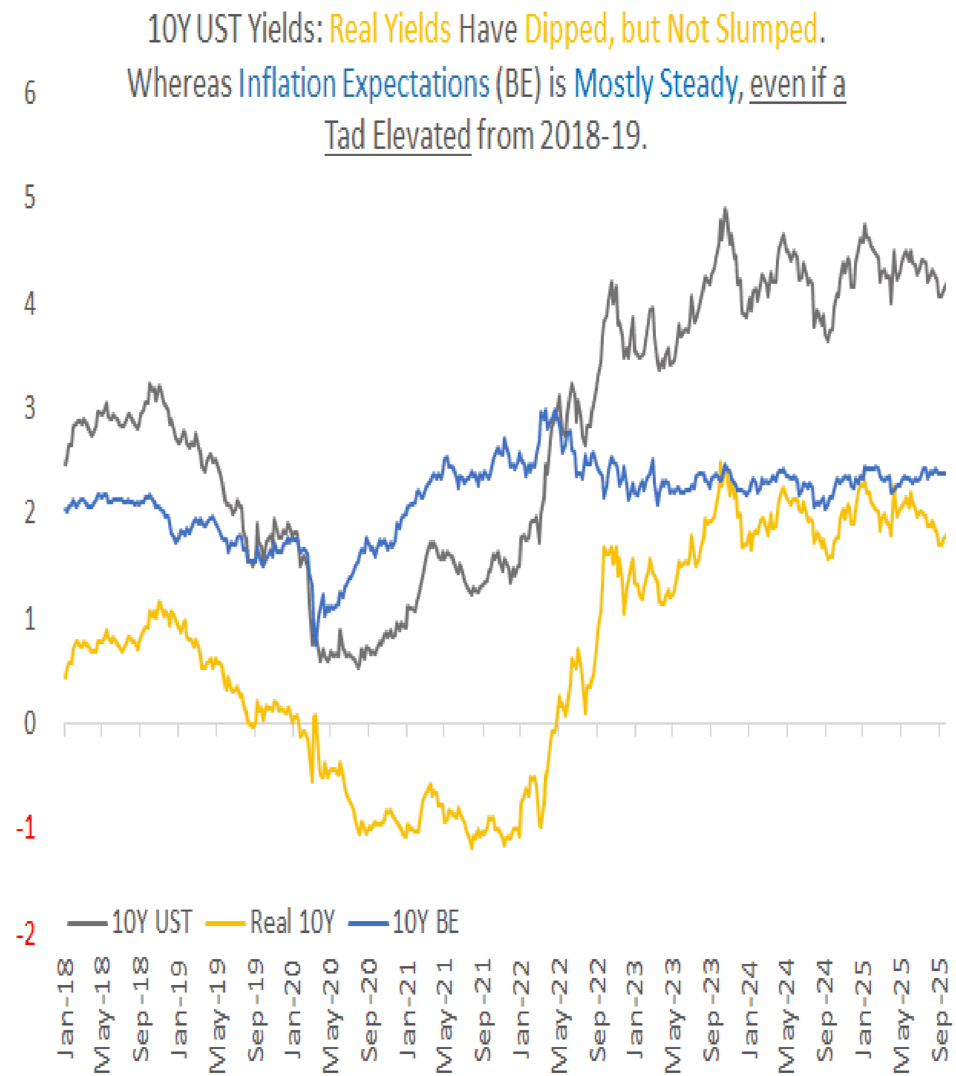




"Always remember. Your focus determines your reality." - **Qi-Gonn Jinn, Star Wars**

USTs: Policy & Geoeconomic Risks to Conspire & Collide … Opportunities in the Belly?



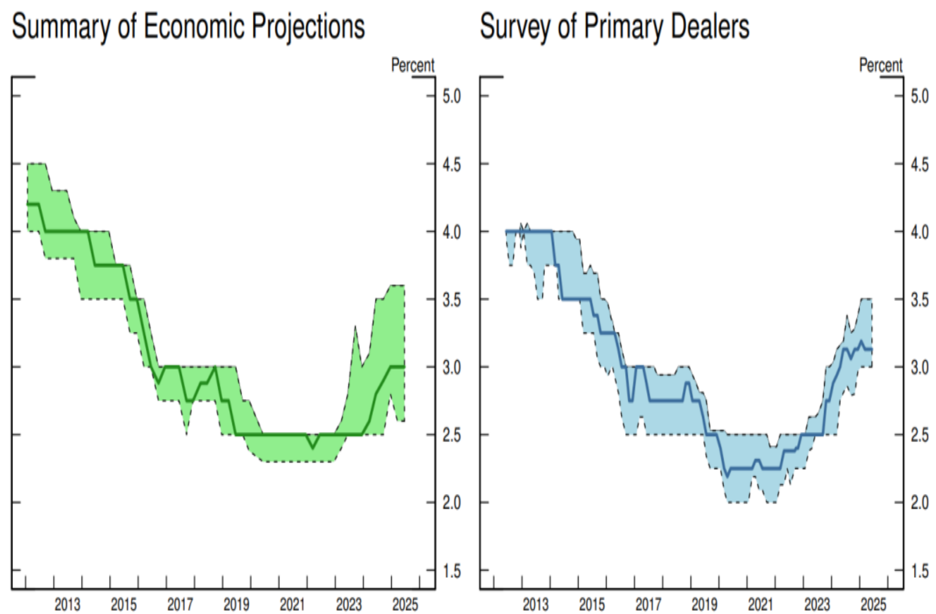


Luke Skywalker: "What's in there?"
Master Yoda: "Only what you take with you."
- **Star Wars**

3. Fed Outlook

Doves Interrupted, Not Hawks Instigated

Figure 6: Longer-Run Federal Funds Rate: Summary of Economic Projections and Survey of Primary Dealers



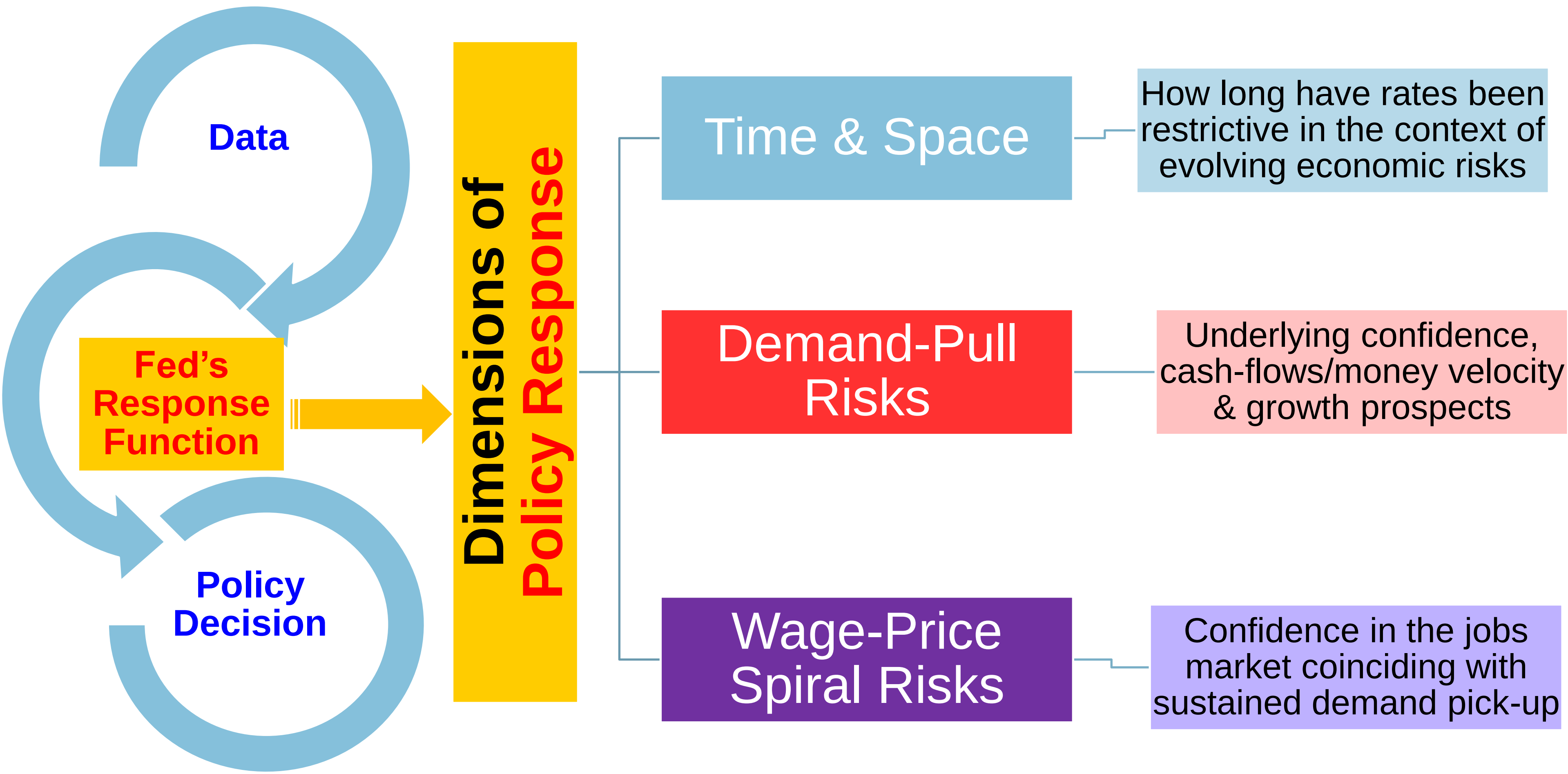
Note: The green shading is the central tendency from the Summary of Economic Projections. The blue shading represents the 25th to 75th percentile of responses from the Survey of Primary Dealers.

"Not all those who wander are lost." - **Lord of the Rings**

Sources: Federal Reerve , Jackson Hole 2025 Charts

Dimensions of Fed Response Function

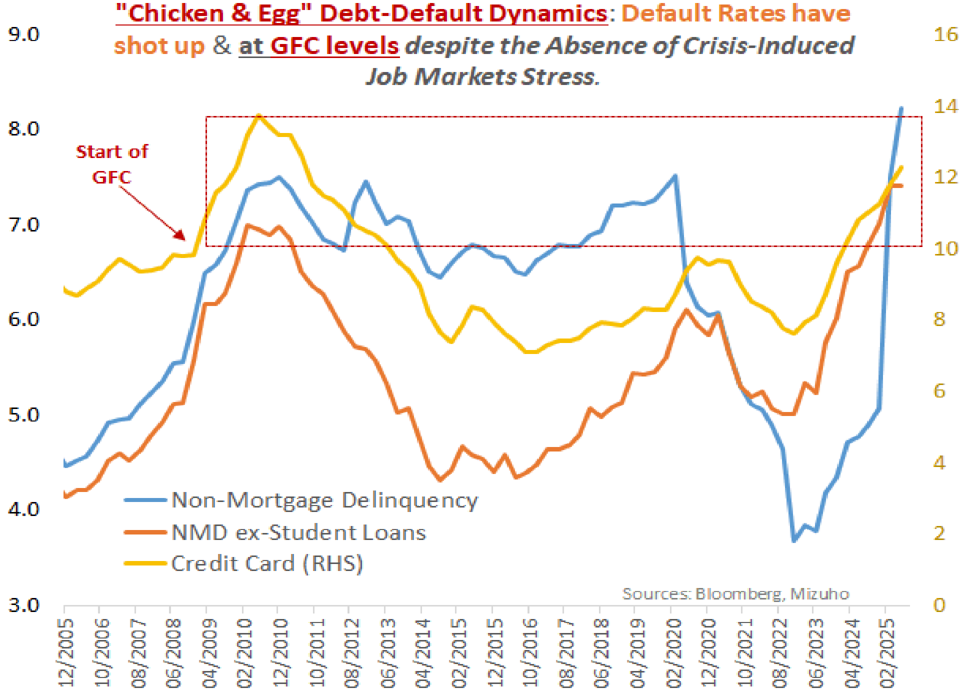
"I know who I was when I got up this morning, but I think I must have been changed several times since then." – **Alice in Wonderland**



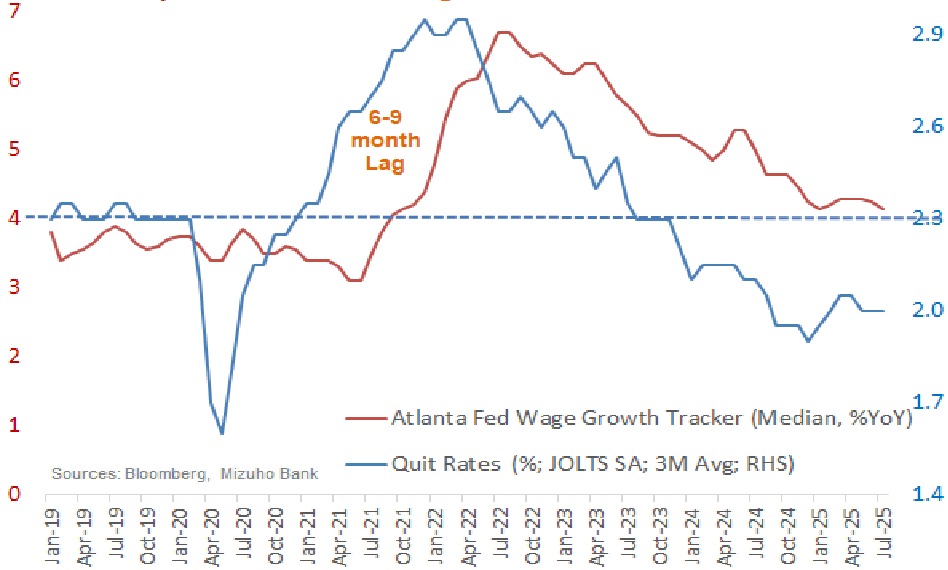
The Dovish Fed Bias

> "Anyone who lives within their means suffers from a lack of imagination." – **Oscar Wilde**

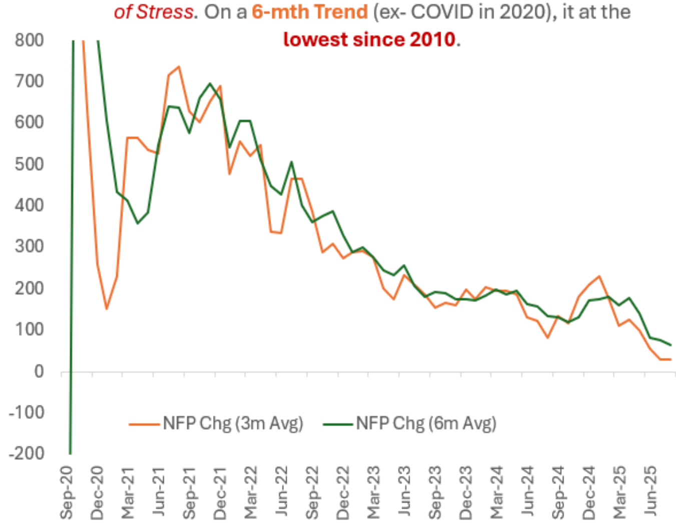
"Chicken & Egg" Debt-Default Dynamics: Default Rates have shot up & at GFC levels *despite the Absence of Crisis-Induced Job Markets Stress.*



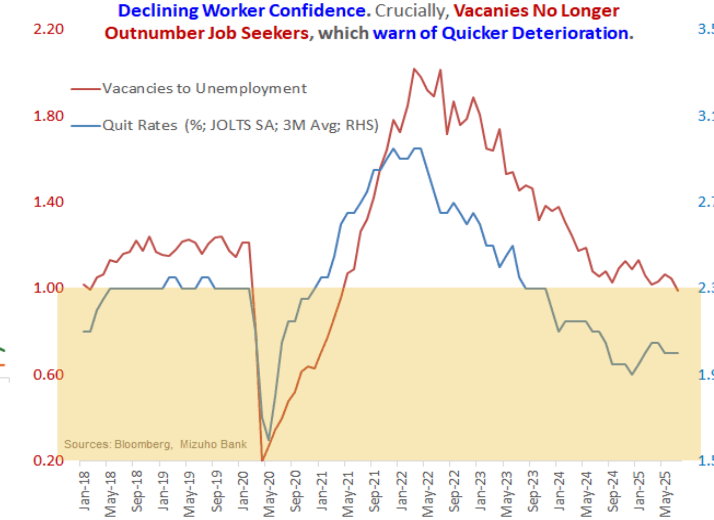
Quit Rates Moderating Below Pre-COVID Trend, Suggests Easing Labour Squeeze; as Participation picks up. This has Assuaged Wage Inflation Risks. More Pipeline Cooling expected & 6-9 month Lag Warns of Too Slow on Cuts.



NFP Weakness is Not Just a Blip, *But a Sustained Source of Stress*. On a 6-mth Trend (ex- COVID in 2020), it at the lowest since 2010.



Quit Rates Have Fallen Below Pre-COVID Trend, Suggesting Declining Worker Confidence. Crucially, Vacanies No Longer Outnumber Job Seekers, which warn of Quicker Deterioration.



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The Left Field Outcome is Abruptly Deeper Cuts into Mid-2026

Risks of **"Kokomo shock"**, entailing sharply lower USD and front-end yields and likely a steeper curve (given stickier long-end), are most likely from late-Q1 2026 through mid-2026 around (and in anticipation of) Fed Chair change.

Fed & Rates Outlook

	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026
Prior Baseline	4.00-4.25	3.50-3.75	3.25-3.50	3.00-3.25	2.75-3.00	2.75-3.00
Aggressively Dovish	4.00-4.25	3.50-3.75	3.25-3.50	**2.50-2.75**	**1.75-2.00**	**1.75-2.00**
New Baseline	4.00-4.25	3.50-3.75	3.25-3.50	2.75-3.00	2.25-2.50	2.25-2.50
FFR Mid*	4.125	3.625	3.375	2.875	2.375	2.375
SOFR (3M)	4.075	3.605	3.425	2.815	2.455	2.575
2Y UST	3.758	3.345	3.025	2.215	2.225	2.325
10Y UST	4.408	3.895	3.745	3.015	2.985	3.175

*Fed Fund Rates Range and mid-point

"Kokomo" assumes more aggressive, front-loaded cuts from Q2 as Fed Chair is replaced

- **Temptation to view the USD as a linear** bearish **bet on** a dovish **Fed shifts is understandable** ***but flawed***.
- For one, **with Fed rate cuts already priced in**, USD response to dovish/hawkish triggers are **likely to be asymmetric**.
- Second, **dynamic shifts** in comparative policy **amid geoeconomic uncertainties** will augment relative FX shifts.
- Third, coincident economic, geo-political and fiscal/political stress elsewhere will dampen relative USD decline.
- Finally, *should more aggressive Fed cuts trigger recessions fears*, **USD could flip the script to surge** (on haven demand).
- All said, the **USD** is **neither a linear** (both in sensitivity and symmetry) **nor a stable Fed bet**.
- Notably, any AXJ gains on USD slippage from Fed cuts are expected to be relatively more muted (anchored by relative CNH stability) and crucially, performance far more divergent on risk exposures.

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The "Kokomo" Dovish Fed Risk

"We'll get there fast
And then we'll take it slow
That's where we wanna go
Way down in Kokomo" **- Kokomo, Beach Boys, 1988**

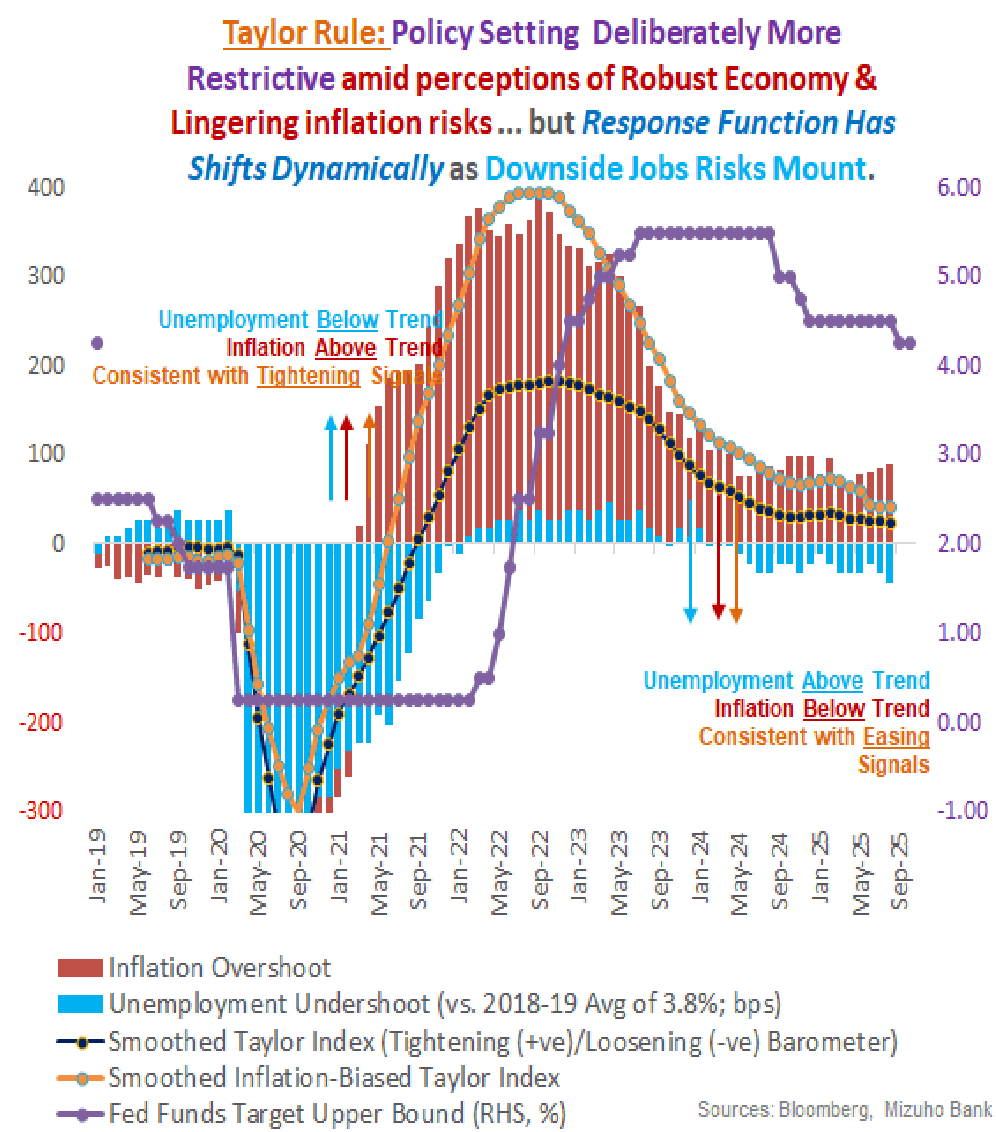
- **Aggressive rate cut calls by Bessent** on *softer jobs* and *absence of inflation flares* ➔ **dovish "Kokomo" Fed ➔ a Fed that is inclined to deliver deeper cuts, sooner**.

- To be sure, **even Fed doves only concede room**, ***not urgency***, **to cut**. Crucially, the broader **dovish inclination is for gradual (not rushed) easing,** even when cuts resume.

- **But Bessent, and now Miran, are imploring greater urgency for substantially lower rates**.
  ➔ Front-loaded 100-150bp sooner than later
  ➔ 'Dot Plot' (Another 75bp into 2026) falls short.

- **Reconciling this Bessent-Fed gap will likely require dovish Fed travel**.

- **Especially given** political pressures for **dovish pipeline Fed displacements**
  ➔ *"Kokomo Fed dove" bets not outlandish per se.*



Sources: Bloomberg, Mizuho Bank

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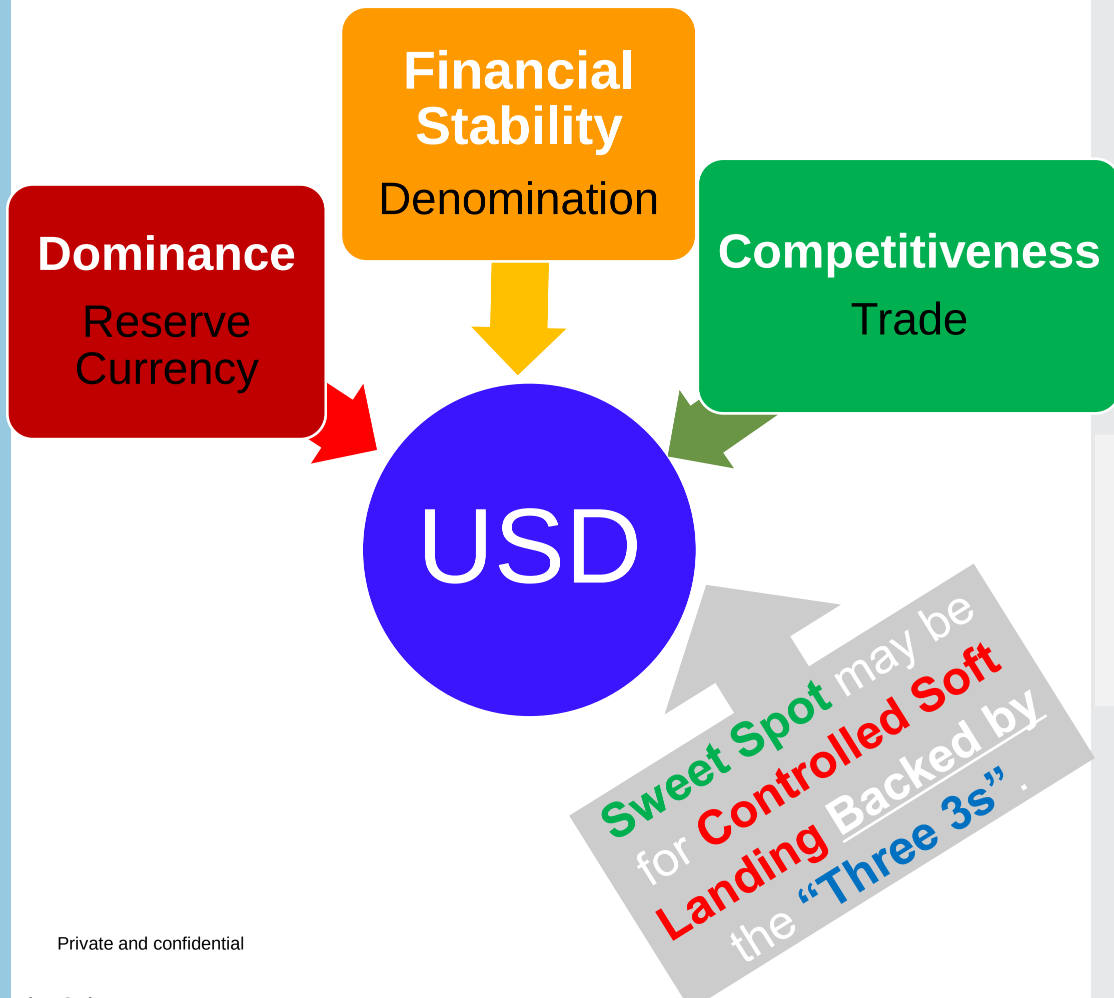
4. FX: Why USD May Not Plunge



"The Dollar is our currency, but your problem."
– John Connally, US Treasury Secretary, G10 Meeting, 1971

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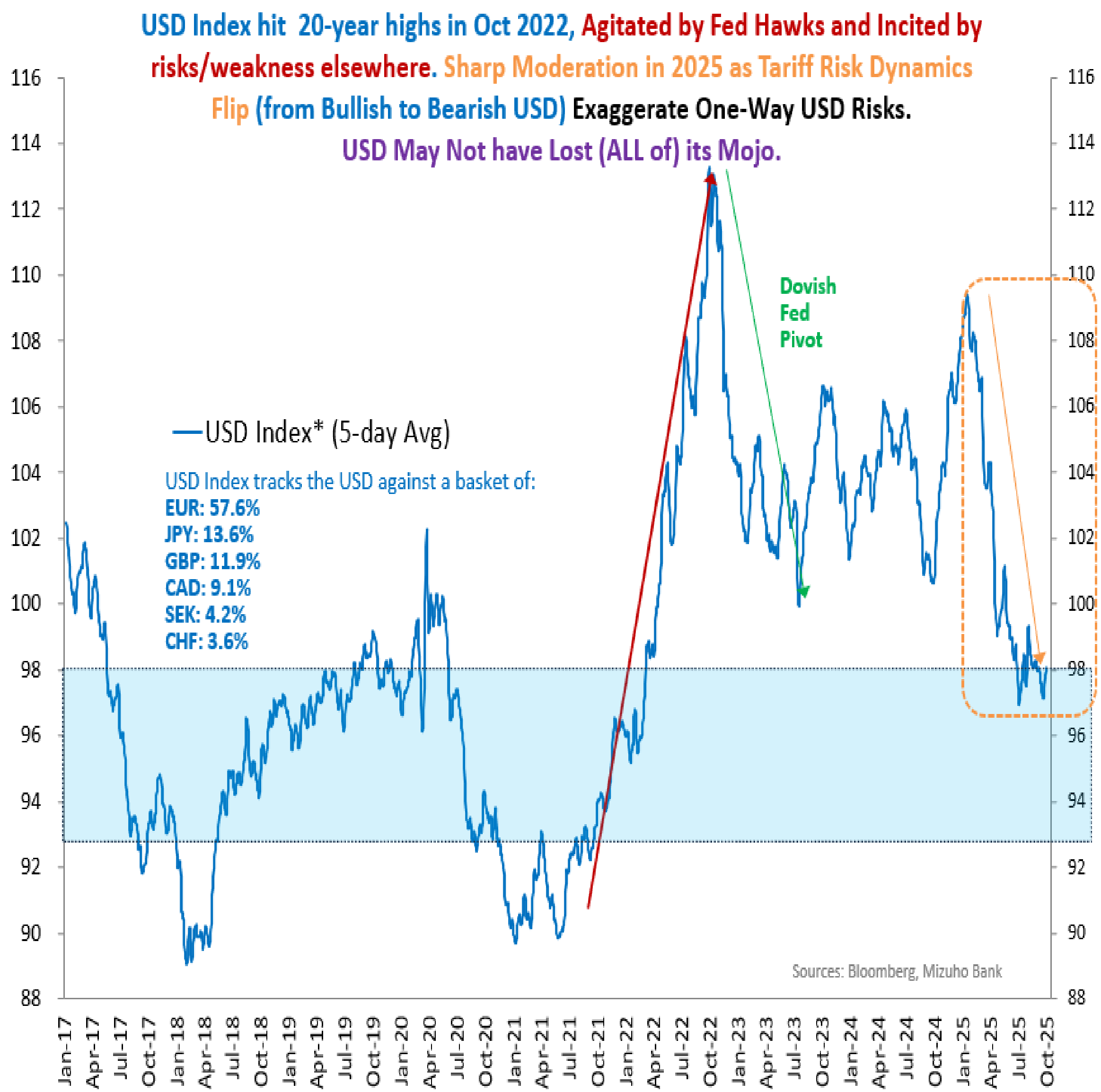
Photo Credit: FT

USD: Demise (De-Dollarization) Exaggerated?

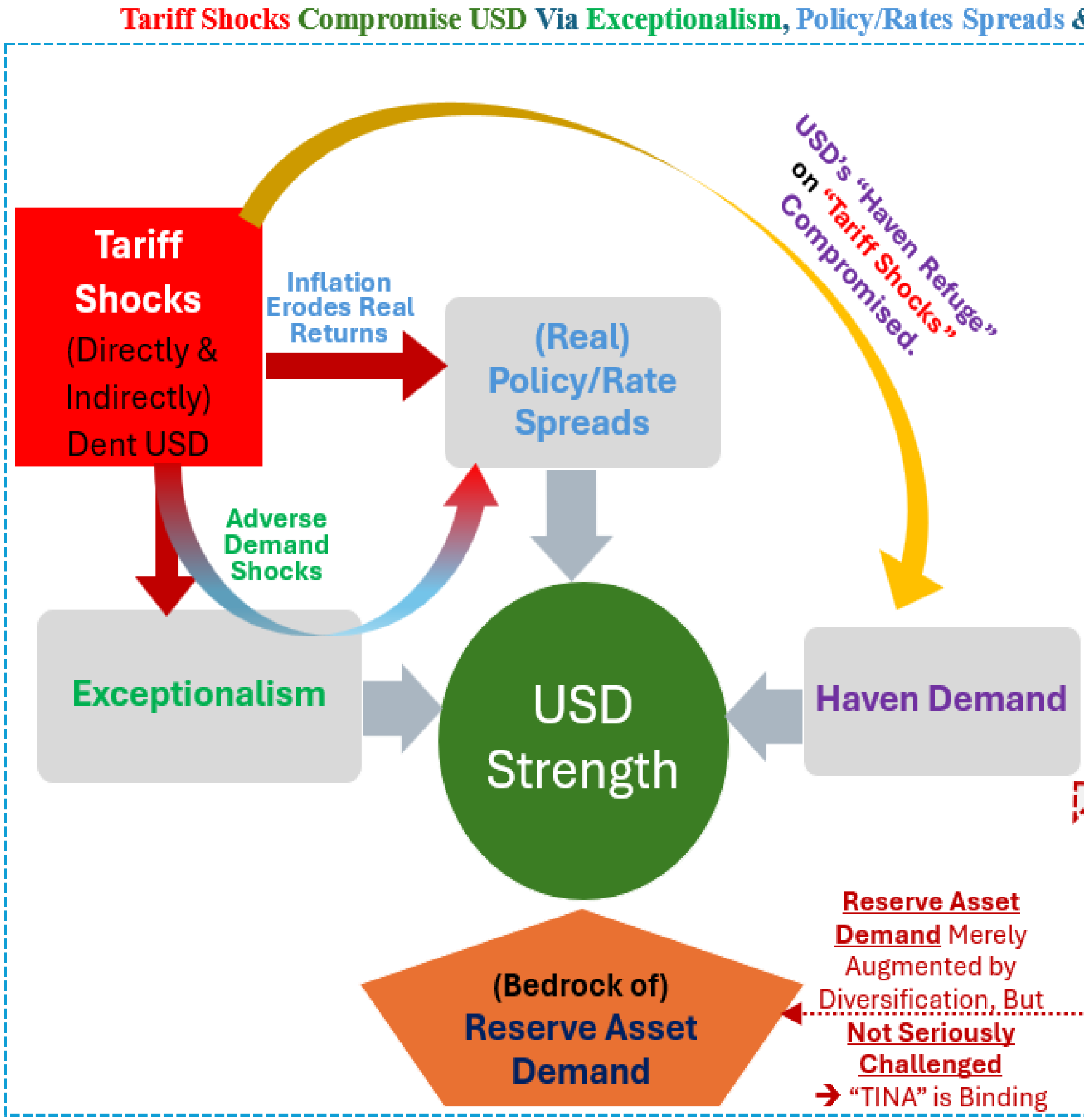
> *"Reports of my death are greatly exaggerated."*
> **– Mark Twain**



USD: Doubt, Not Demise

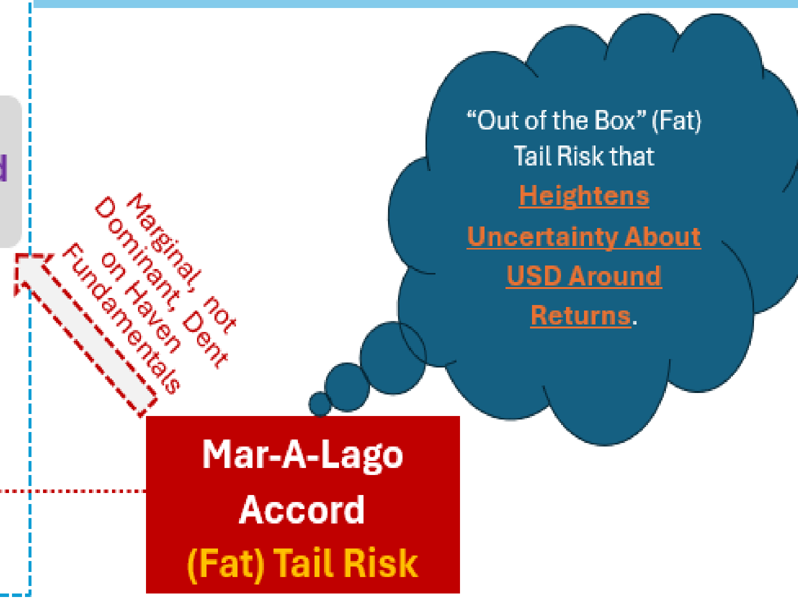
- **USD's exceptional plunge** mainly reflects *abrupt & upfront* **macro doubts** on tariff shocks.
- **Not an imminent demise of USD's reserve currency status** that portends a collapse.
- **Stretched bullish USD positioning earlier** had **exaggerated the intensity of USD bearishness**.
- More so 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** (~93-98 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 under-performing most Major FX** amid a softer USD. And **AXJ are likely to follow suit** as *trade bugbear impacts Asia disproportionately*.

Why USD May Retain Some Support, Dampening "Sell America"



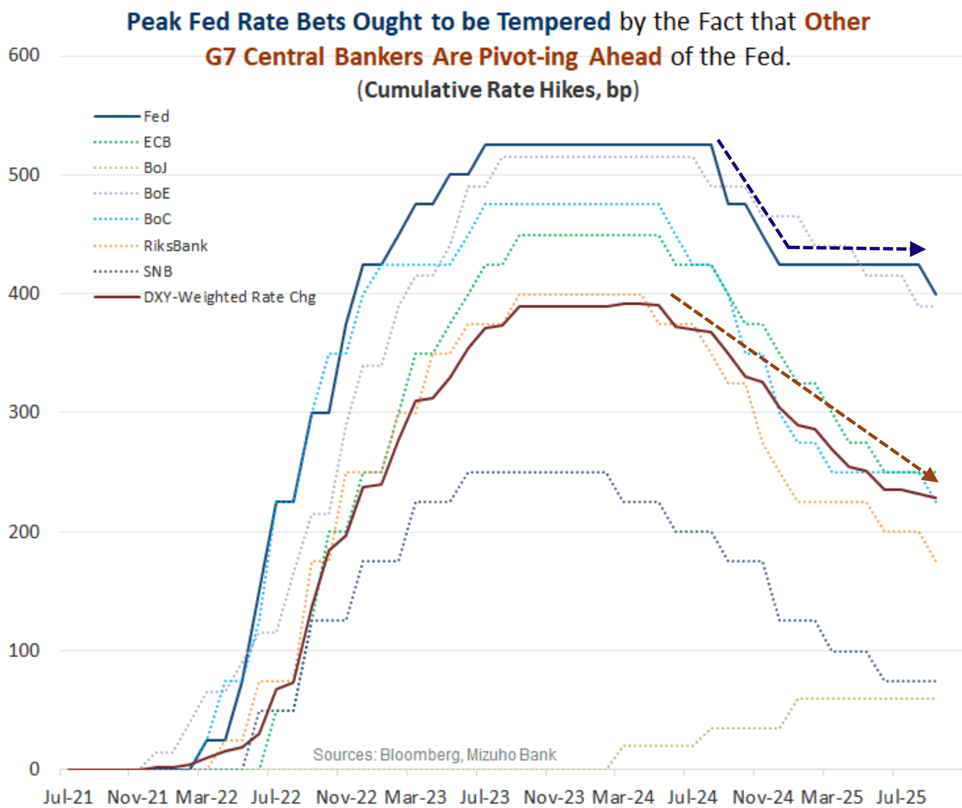
Mar-a-Lago Accord in a Nutshell:

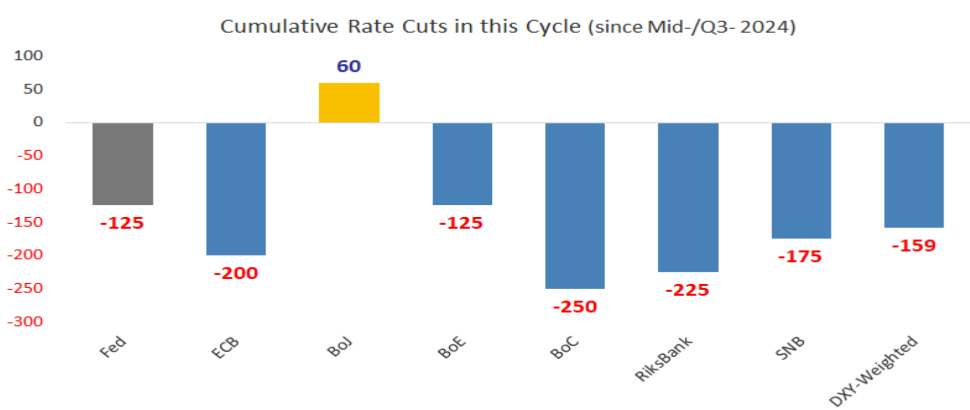
- The so-called **Mar-a-Lago Accord (MAL)** refers to US plans (mostly unilateral) **to extract a price** (for military security and provision of reserve assets) **from trading-/security-partners**.
- Specifically, to **share the "exorbitant burden"** of a chronically overvalued USD from reserve asset 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.

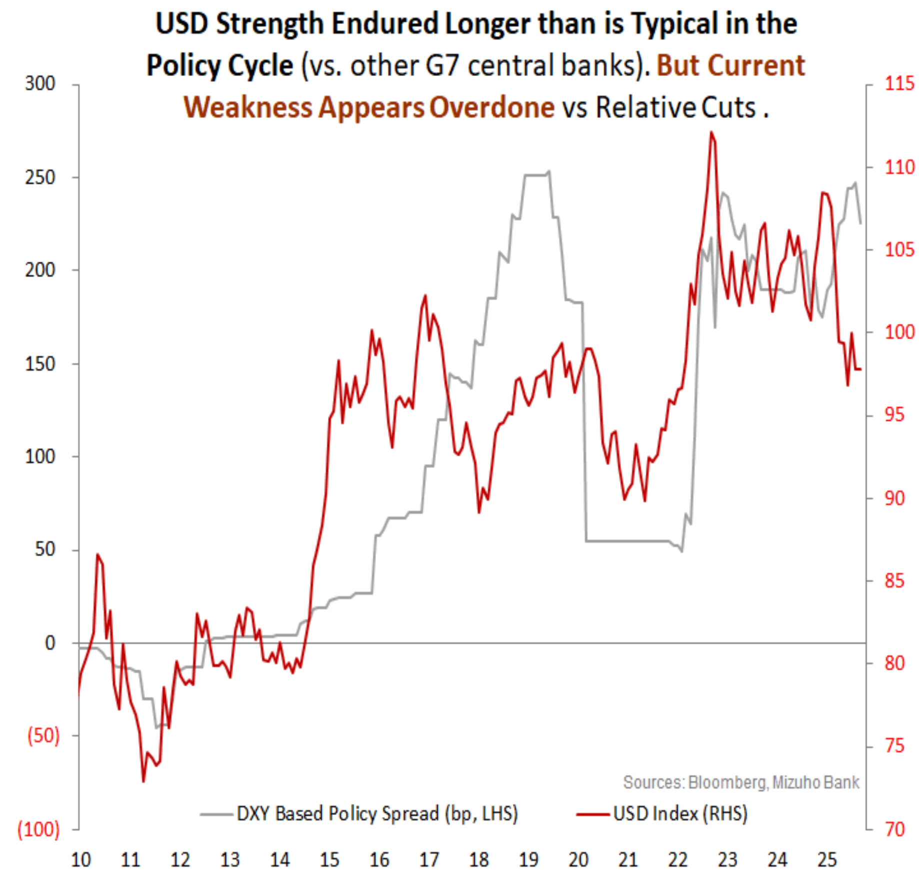


"I find your lack of faith disturbing."
- Darth Vader, Star Wars: A New Hope

But Dampened by Distribution of Risks & (Policy) Response



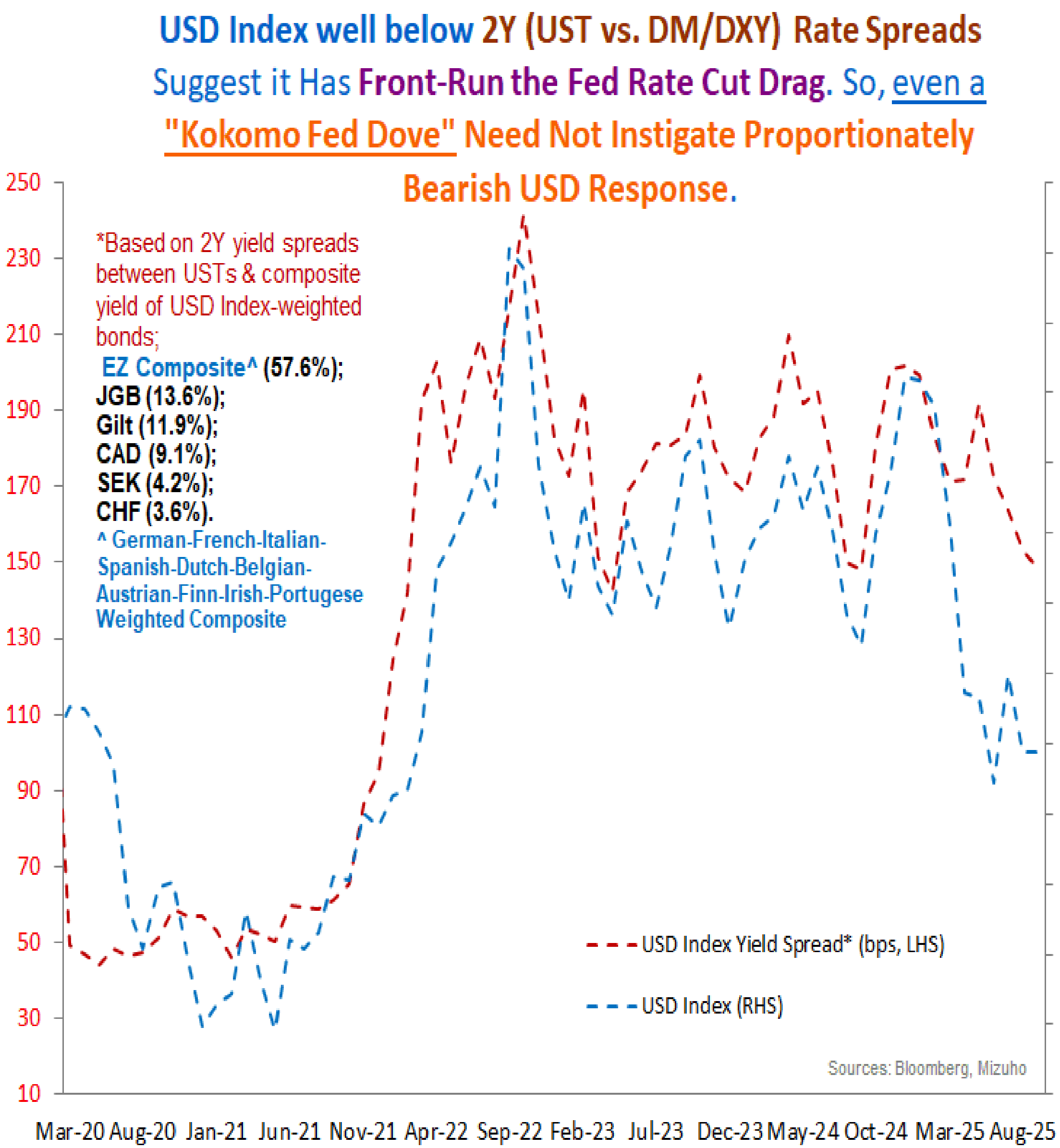




> *"Crime is common. Logic is rare. Therefore, it is upon the logic rather than upon the crime that you should dwell."*
> **– Sherlock Holmes**

DXY-Weighted Yield Spreads to Backstop USD

Sentence first – verdict afterwards."
– Alice in Wonderland



- "Sell America" purportedly warns that **firing from the hip** with ***aggressively antagonistic*** and ***extractive trade policies*** *(that border on extortion)* **risk eroding trust in USD-based global system**.
- ***But*** t **USD is not unequivocally compromised** by international policy adventurism amid ***perverse dimension of "Pay America"*** *lift*.
- To be sure, **self-harm inflicted by Presidential power grab at the expense of institutional integrity undermine fundamentally**.
- But, *for now*, **front-loaded** & **overdone USD weakness stifle aggressive USD shorts.**
- Crucially, **interim "TINA" support retains** *global reserve currency backstop.*

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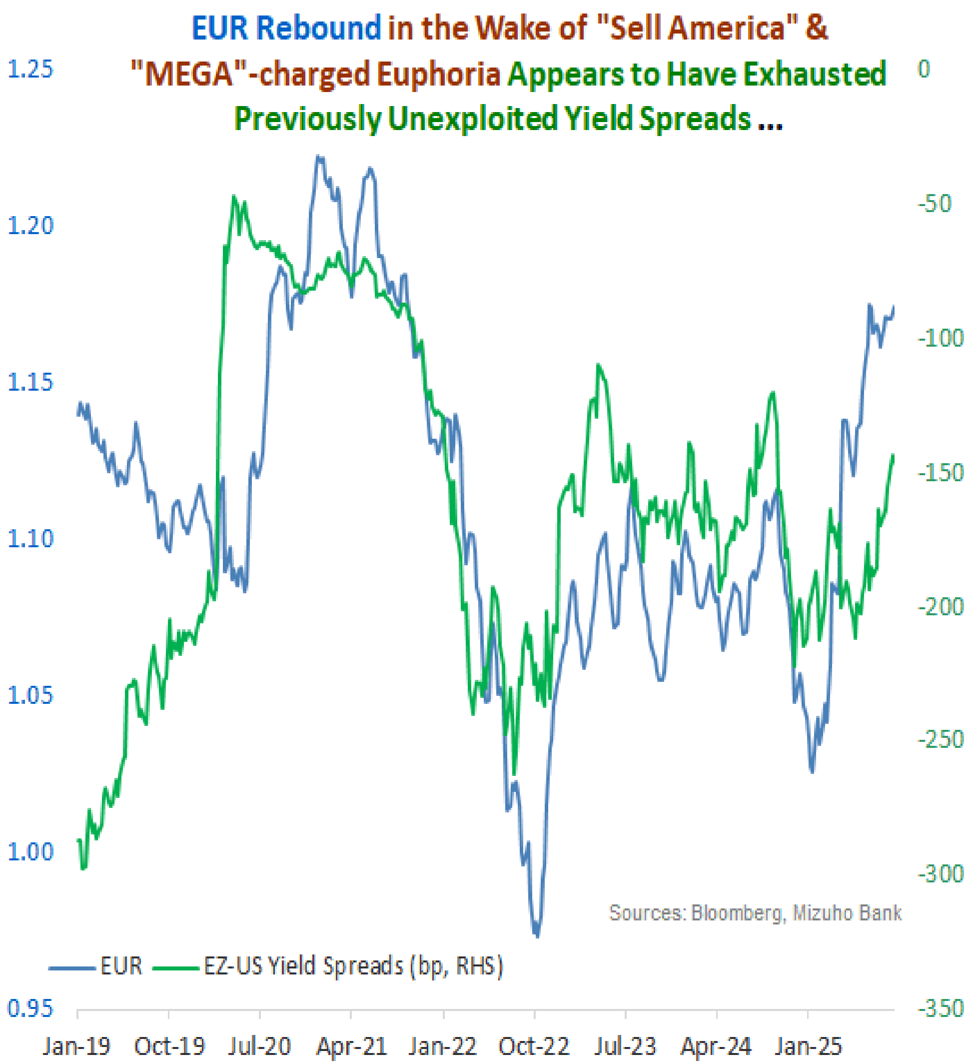
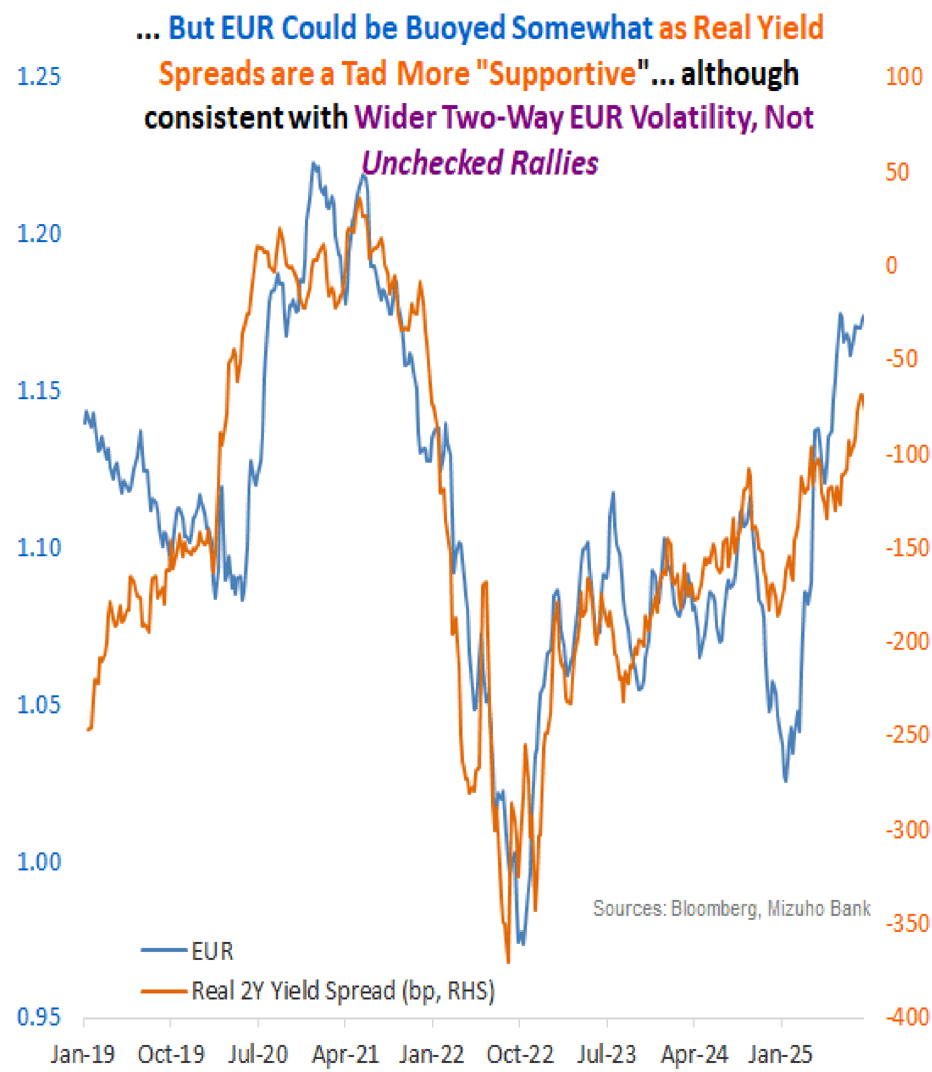
Stretched EUR May *Temper* USD Bears

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





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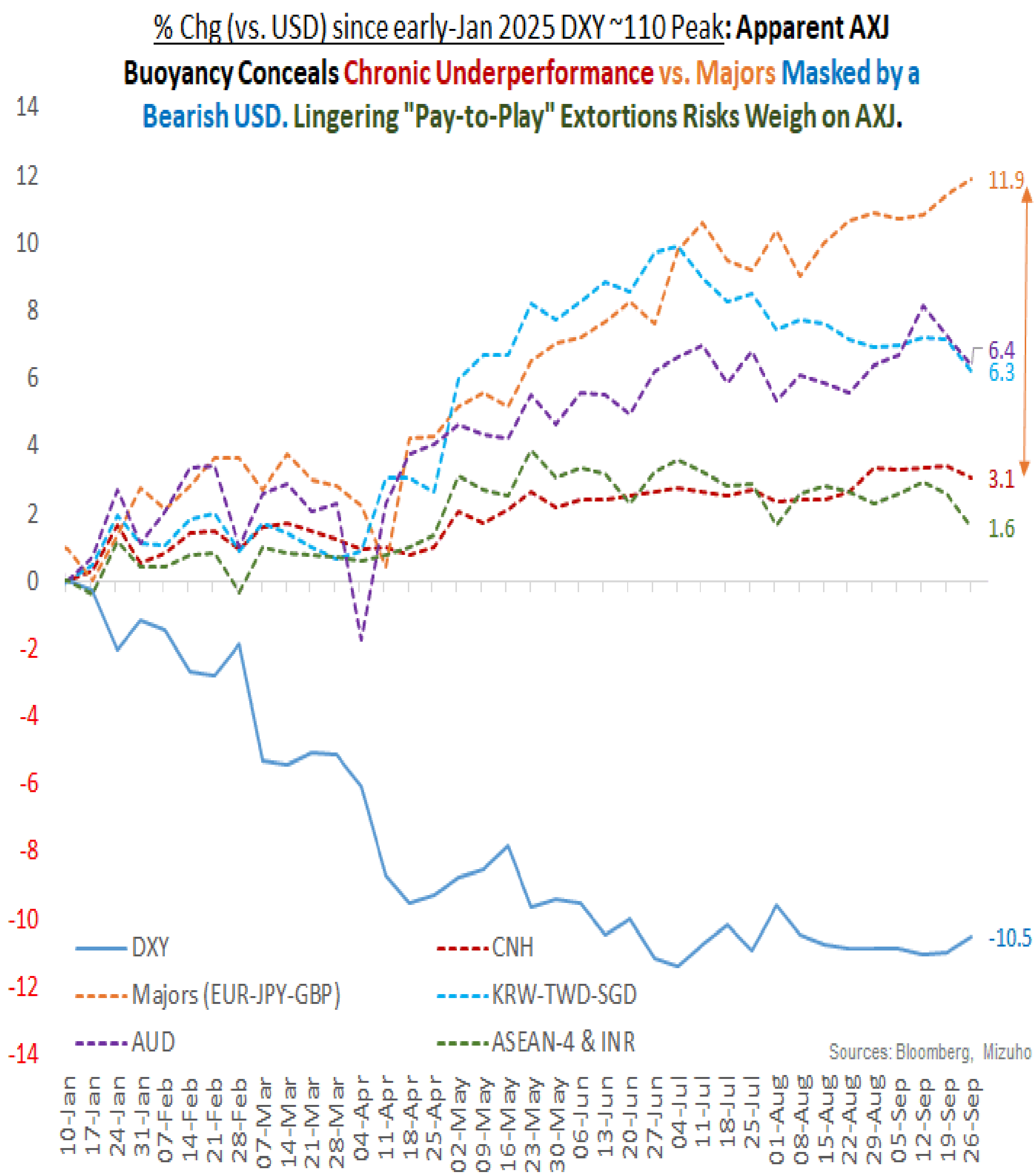
AXJ: Watch for "Pay America" Hijacking "Sell America"



"Pay America" Risks Overwhelm "Sell America" Cover

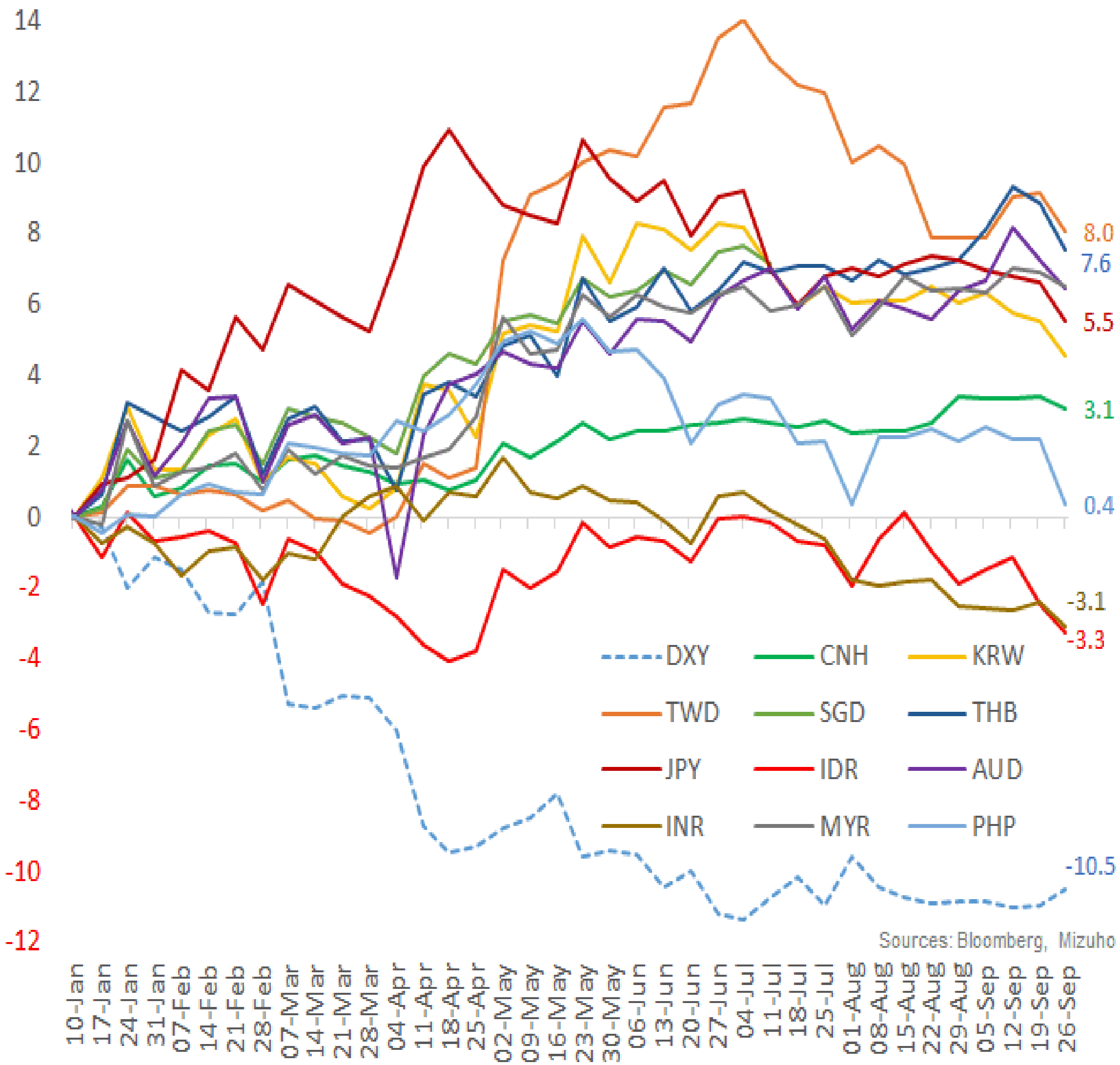
- Cover of **"Sell America" USD bears propping up AXJ *into trade uncertainties* is an anomaly, *may not last*.**
- *As US-China crossfire risks* grow with sectoral tariffs, the **illusion of AXJ resilience may unravel ➔ more two-way volatility**.
- Furthermore, **greater differentiation across AXJ** is likely depending on;
  - *reciprocal tariff specifics*;
  - *China/CNH impact;*
  - *sectoral tariff impact*.
- Crucially, **whether trade deals entail currency appreciation** requirements (as presumably anticipated by TWD and marginally factored into KRW) could also trigger abrupt adjustments.
- Regardless, the **"Pay America" extraction of multi-dimensional tariffs** could **impose** (*despite "Sell America" USD bears*) **comparatively more** on **AXJ**, which by and large may **relatively under-perform Majors – led by EUR**.

"I know who I was when I got up this morning, but I think I must have been changed several times since then." – **Alice in Wonderland**

& Differentiating AXJ Outcomes

"There's no harm in hoping for the best as long as you're prepared for the worst."
– Stephen King

...a Very Differentiated Path for AXJ mostly Unable to Exploit a Bearish USD amid Geo-economic, Policy & Political Risks.



Sources: Bloomberg, Mizuho

- FX Risk 1 (AXJ Under-performance): With evolving tariff/deal risks, entailing widening trade risks, *fading AXJ strength against USD and EUR is preferred*.

- FX Risk 2 (Two-Way AXJ Volatility): As *US-China crossfire risks* grow alongside the impact of sectoral tariffs, the **illusion of AXJ resilience may start to give way** to **more two-way volatility**.

- FX Risk 3 (Starker Differentiation): Furthermore, **greater differentiation across AXJ** is also par for the course depending on; *i) reciprocal tariff specifics*; *ii) China/CNH impact;* iii) *sectoral tariff impact*.

- FX Risk 4 (Forced Currency Revaluation): Crucially, **whether trade deals entail demands for currency appreciation** requirements (presumably anticipated by TWD/KRW?) could also **trigger abrupt adjustments**, *amplifying intra-AXJ divergence*.

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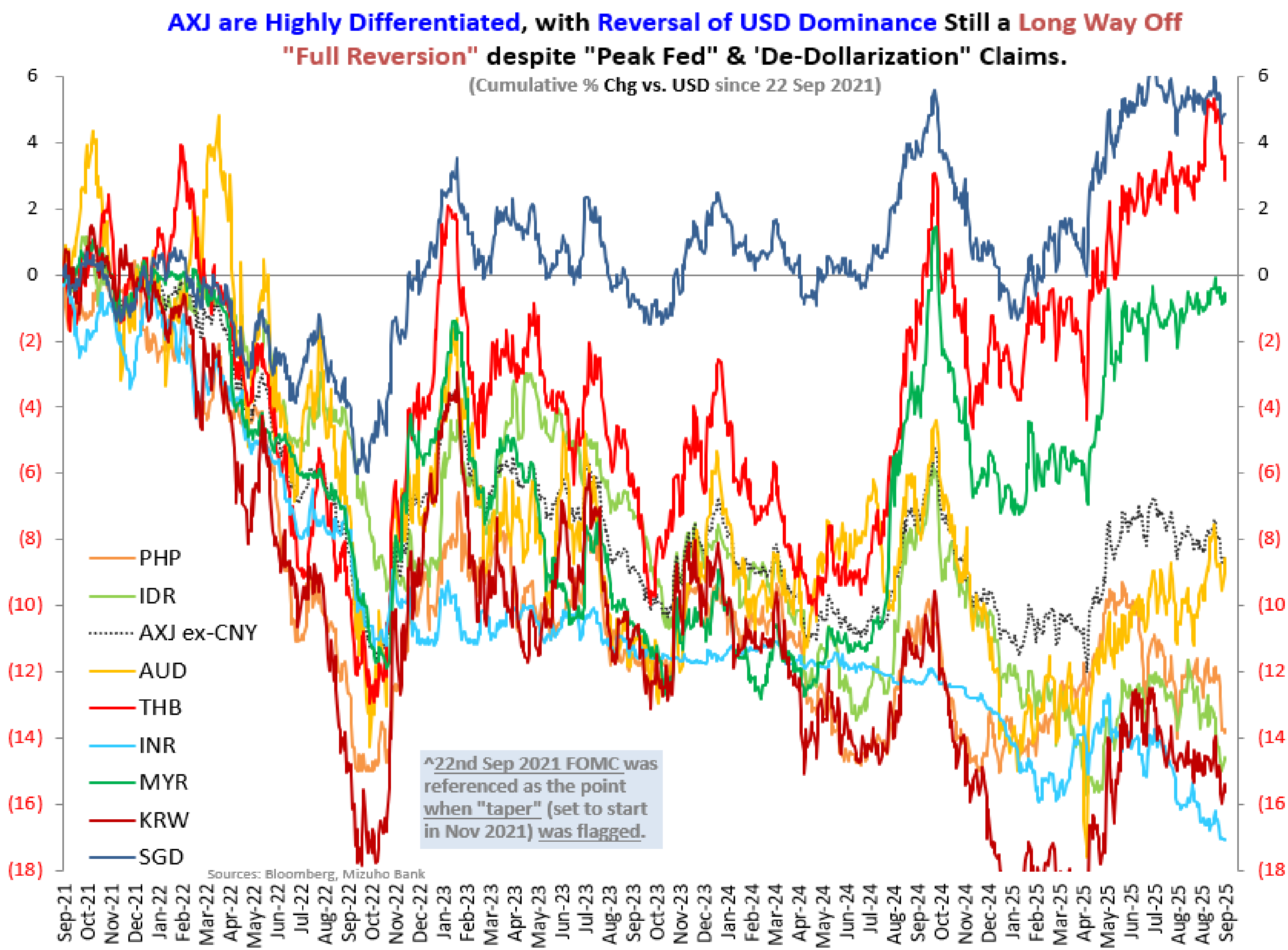
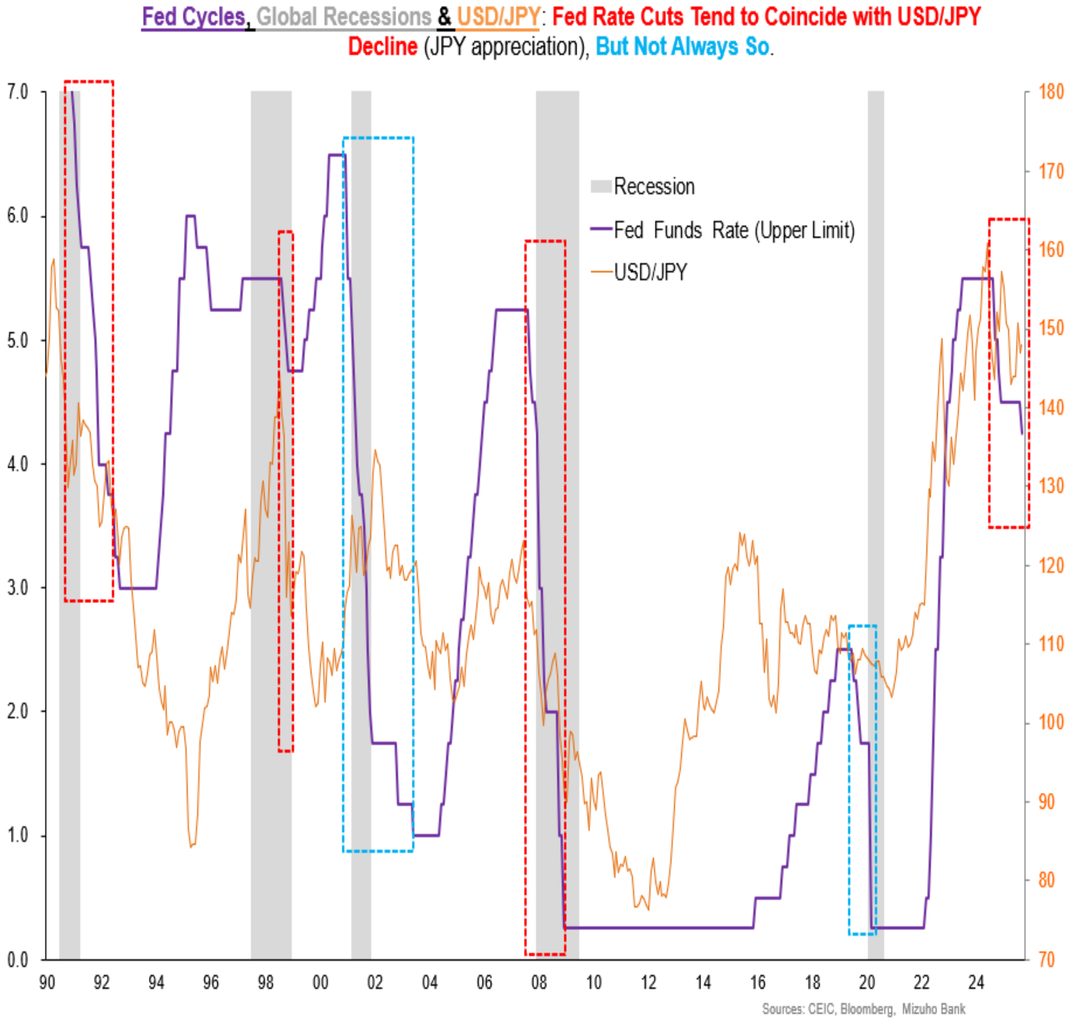
AXJ: Wider Lens Reveals Non-Reversion Risks

"… but it's no use going back to yesterday, because I was a different person then."
– Alice in Wonderland



5. BoJ-JPY: A Fed Problem



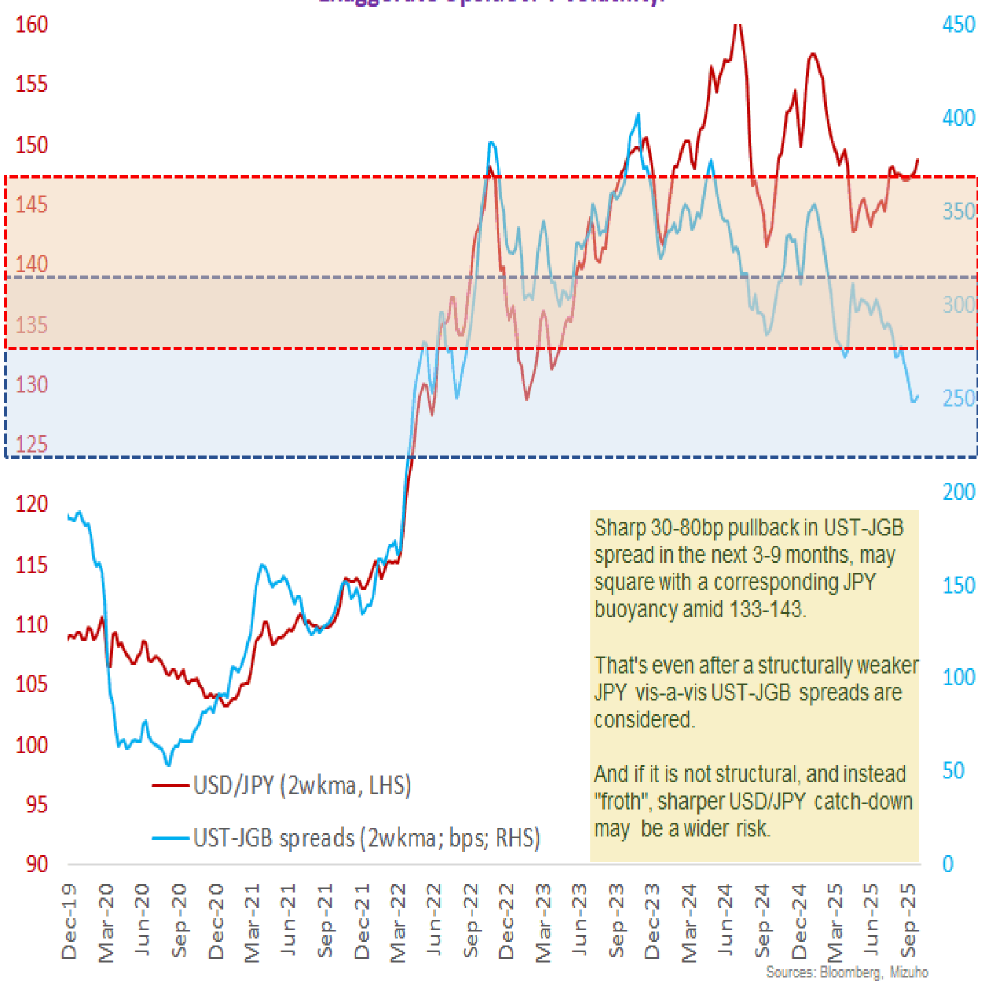
"I find your lack of faith disturbing." **– Darth Vader, Star Wars, Ep IV: A New Hope**

JPY-BoJ Risks: Trump 2.0 Heightens Inherent Volatility

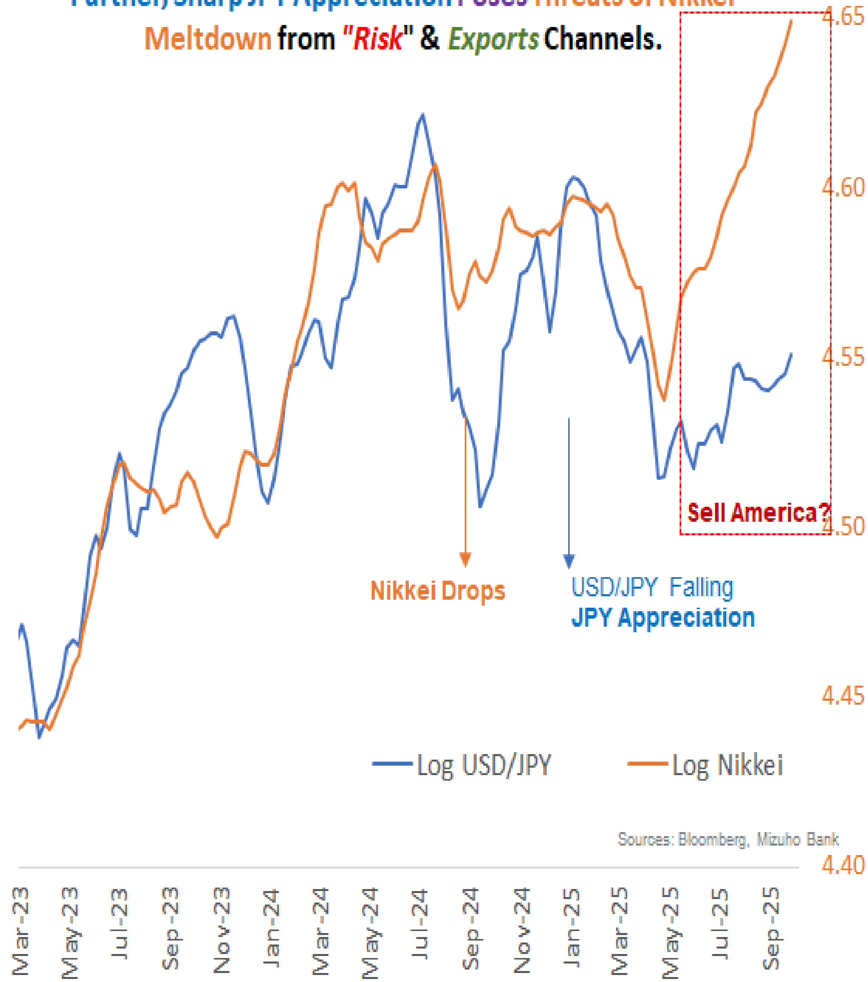
> "I ca'n't explain myself, I'm afraid, Sir," said Alice, "because I am not myself, you see."
> – Alice in Wonderland

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

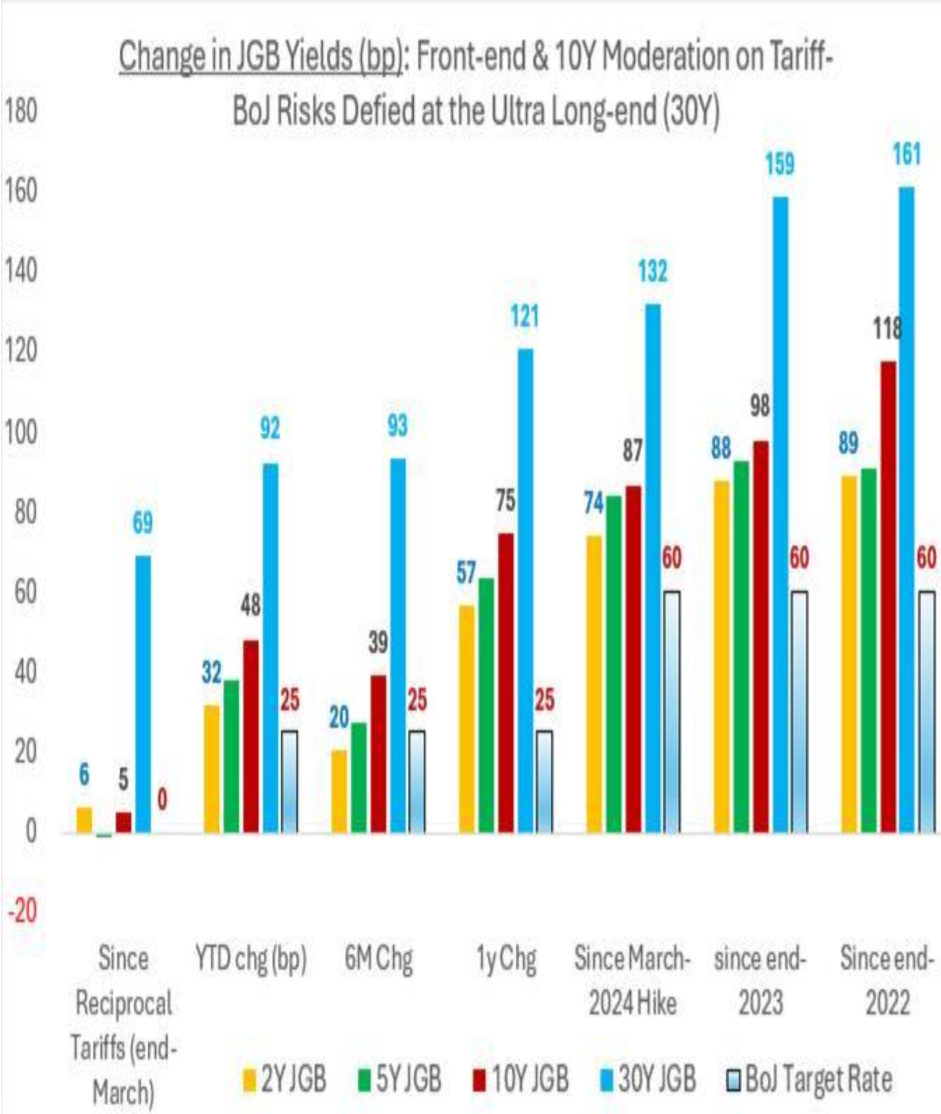
Fed Pivot Could Trigger JPY Rebound (USD/JPY Pullback) amid BoJ Tightening. Notably, the Optics of Fed-BoJ Divergence May Also Exaggerate Upside JPY Volatility.

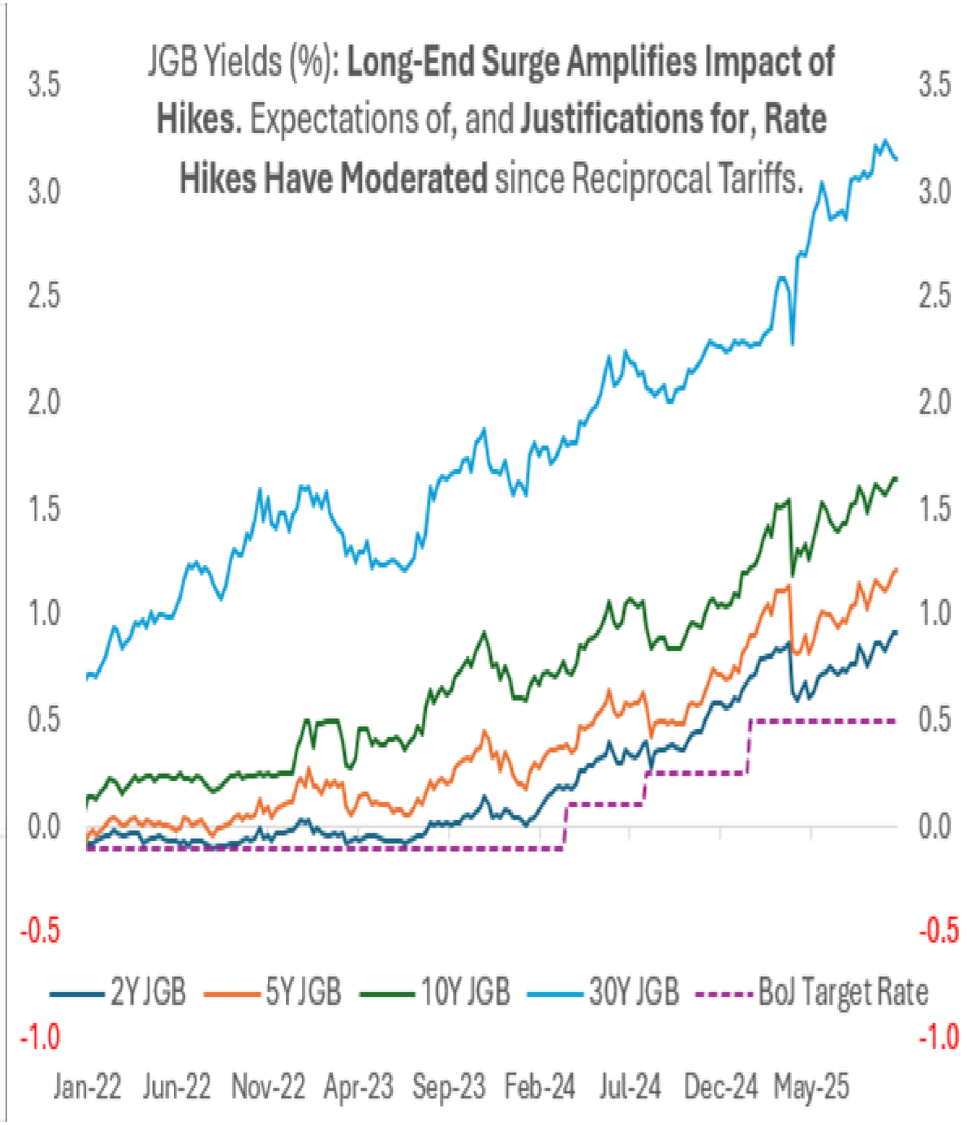


Co-Movement between Changes in Nikkei & Changes in USD/JPY Underline Negative JPY-Nikkei Correlations. Further, Sharp JPY Appreciation Poses Threats of Nikkei Meltdown from "*Risk*" & *Exports* Channels.



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





"The force is strong with this one."

*– Darth Vader, **Star Wars, Ep IV: A New Hope***

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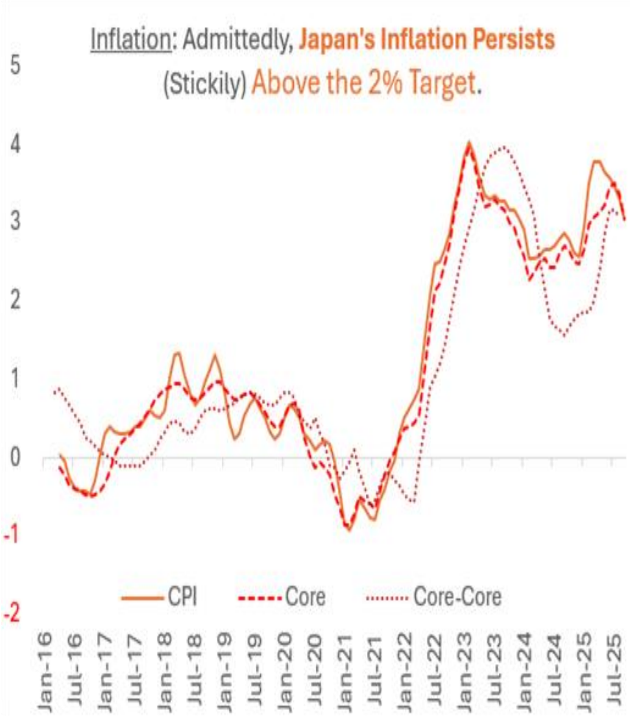
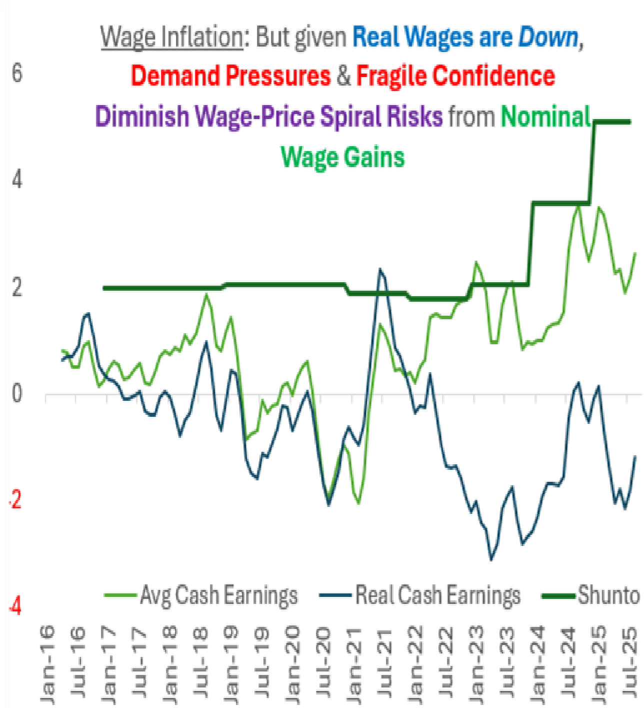
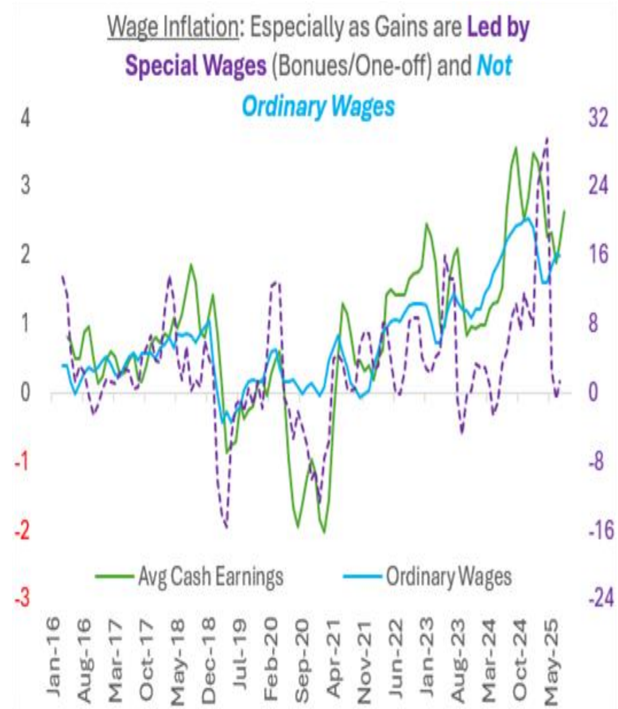
Japan's Inflation-Deflation Conundrum: Inflation May Cost too Much (of Demand)!



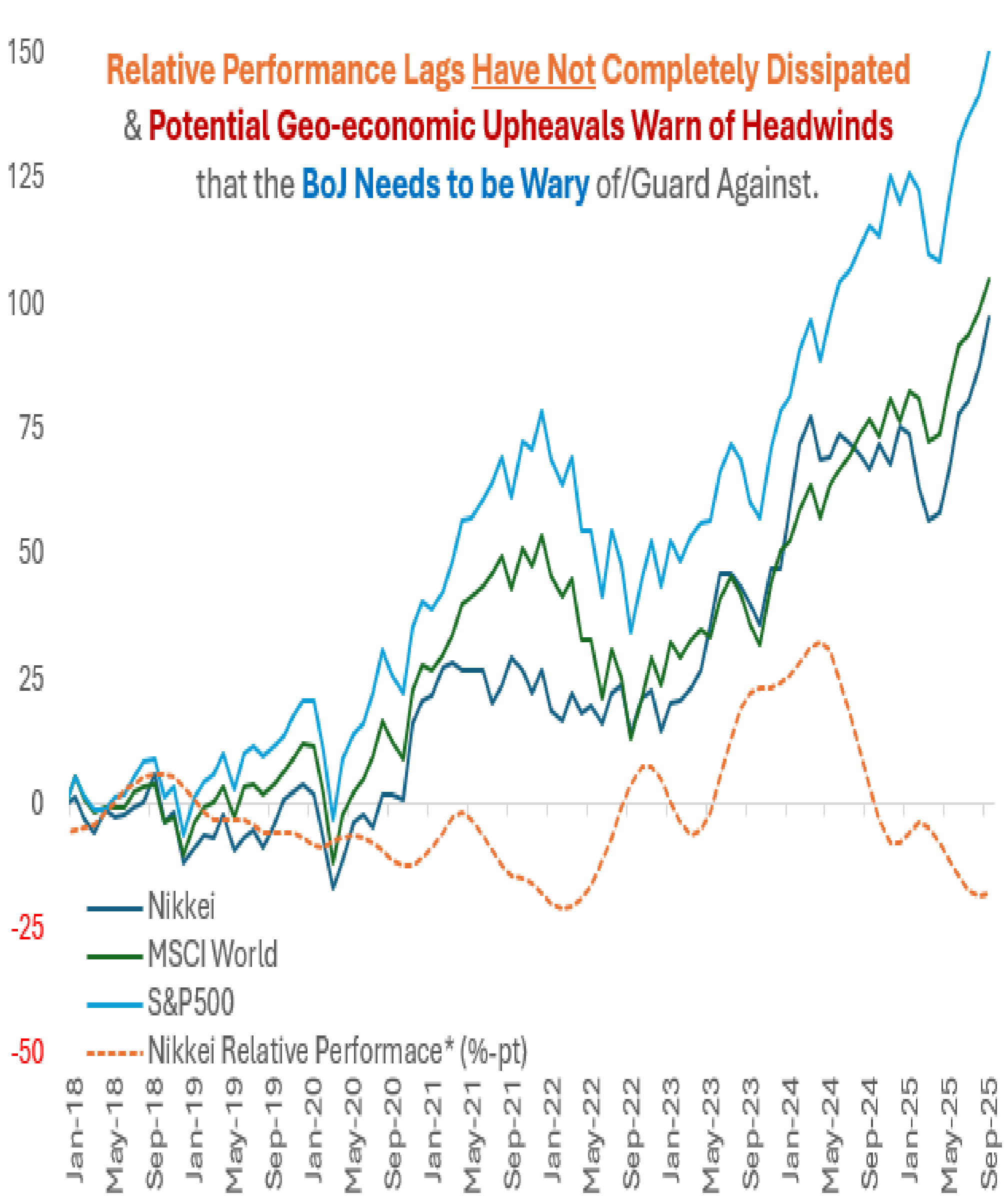




- Admittedly, **BoJ will still be inclined to express scope for rate hikes**, band retain **higher neutral rate view**.
- *But* there will surely be **no urgency** for these hike. First, the limited 60bp of hikes have already delivered ***outsized tightening in the transmission to longer yields***. 30Y (10) yields are up a staggering 130-140bp (80-90bp) since hikes. Hence, the BoJ *ought to be careful not to overly constrict the economy*.
- Second, with the *demand-destruction impact of tariffs yet to be determined*, whilst **household confidence is still fragile**, the *BoJ risks aborting nascent (positive) reflation dynamics with excessive hikes*.
- Finally, *JPY appreciation accentuated by Fed-BoJ divergence*, may set-off a feedback loop of **economic pain-asset pressures**. And ***with Fed rate cuts the BoJ has more reasons to be measured***.
- All said, **the structural case for higher rates is being assessed**, and ***contingent on durable recovery***.
- Meanwhile, **geoeconomic/cyclical threats counsel patience**, if not cautious reassessment.

"Be careful not to choke on your aspirations." – **Darth Vader**

Nikkei Threat: BoJ Could Gt Owned by Adverse JPY-Nikkei Feedback Loop



- A **sharp, negative Nikkei jolt** is a **prominent**, ***but*** currently **overlooked**, **risk associated with BoJ hikes**.
- The **negative JPY-Nikkei correlation** suggest that *adverse financial tightening from BoJ* may be suddenly *amplified*

➔ Strong JPY driving Nikkei lower on the back of diminished export earnings

- More so **if US-induced global trade risks accentuate pain** from **inadvertent JPY appreciation** from BoJ hikes.
- In which case, any **exacerbated Nikkei sell-off** magnify **adverse confidence multipliers**, accentuating economic pain.
- BoJ risks are heightened as **JPY appreciation sensitives** *to BoJ hikes* are *far overshadowed by Fed cuts*.
- Upshot: **BoJ may inadvertently over-tighten** *to the point of destabilization* via JPY-Nikkei dynamics ➔ As Fed impact goes well **beyond intended calibration to JPY, JGB & Equity market** policies.

"The things that you own end up owning you." – **Fight Club**

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The "Pay-to-Play" AXJ Risks

FX Forecast

		Q2 25	Q3 25	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26
USD/CNH		7.15-7.43	7.08-7.23	7.09-7.39	7.05-7.28	7.02-7.32	6.96-7.35	7.02-7.32
		7.16	7.13	7.23	7.14	7.11	7.08	7.12
USD/HKD		7.75-7.85	7.76-7.85	7.76-7.84	7.75-7.84	7.75-7.83	7.75-7.83	7.75-7.83
		7.85	7.78	7.78	7.78	7.77	7.76	7.76
USD/INR		83.7-86.9	85.2-88.8	84.5-88.5	84.5-87.3	84.3-86.5	83.8-86.8	83.8-86.5
		85.70	88.8	85.8	86.3	85.5	85.8	85.3
USD/KRW		1347-1488	1348-1414	1355-1480	1380-1450	1360-1440	1320-1410	1320-1410
		1353	1404	1410	1395	1385	1360	1360
USD/SGD		1.27-1.355	1.2698-1.3001	1.288-1.332	1.282-1.328	1.273-1.323	1.27-1.318	1.268-1.308
		1.272	1.2901	1.306	1.298	1.286	1.282	1.276
USD/TWD		29-33.2	28.7-30.8	28.1-31.6	29.0-31.2	28.8-31.3	28.8-31.3	28.7-31.1
		29.800	30.5	30.9	30.3	29.8	29.7	29.6
USD/IDR		16155-16957	16090-16788	15920-17280	15960-16840	15860-16780	15960-16780	15960-16780
		16238	16665	17000	16560	16450	16500	16550
USD/MYR		4.18-4.51	4.18-4.29	4.12-4.41	4.02-4.31	3.92-4.19	3.93-4.18	3.93-4.18
		4.21	4.20	4.26	4.14	4.07	4.06	4.06
USD/PHP		55.1-57.6	56.1-58.6	54.4-58.8	53.5-56.9	52.8-56.0	52.8-56.1	52.8-56.1
		56.3	58.2	56.1	55.2	54.4	54.4	54.4
USD/THB		32.3-35	31.6-32.9	31.7-34	32.1-33.5	31.5-33.8	31.5-33.8	31.4-33.5
		32.5	32.4	33.0	32.8	32.5	32.3	32.0
USD/VND		25571-26203	26080-26437	25700-27000	25600-26900	25300-26600	25300-26600	25500-26700
		26118	26424	26450	26350	26300	26250	26300
AUD/USD		0.591-0.658	0.641-0.671	0.626-0.664	0.632-0.678	0.637-0.684	0.637-0.686	0.64-0.698
		0.658	0.6613	0.638	0.658	0.668	0.675	0.688

Note: For FX forecasts, level in parentheses pertains to period end forecasts; and the period's range precedes this.

- Increasingly, the relative US trade deal allure/burden may differentiate AXJ.
- Alongside tariff rates that AXJ via terms of trade effects, how extractive the wider "pay to play" US trade impositions will feature in AXJ sensitivities.
- This includes, but need not be limited to, requirements of US farm/energy imports, aircraft/military equipment purchases and direct capital investment commitments in the US.
- All of which ultimately entail fiscal/current account burden, with attendant AXJ impact.
- Furthermore, Asian central banks inclined to cut ahead, and in excess, of the Fed could also erode relative inflation advantage for the AXJ in the interim (given higher & stickier US inflation diminish US real rates).
- Hence, even with the base case for measured USD softening into 2026, AXJ gains may be more modest, and highly differentiated amid potential bumpiness