

Delayed Tariffs Is Good News Despite Hotter Inflation

Macro Overview

US

US markets clocked in a weekly gain despite hotter than expected inflation data. The January Consumer Price Index (CPI) showed headline inflation rising 0.5% mom to 3.0% yoy, whilst core inflation, excluding volatile food and energy prices, increased 0.4% mom to 3.3% annually. However, beneath the headline figures, several encouraging trends emerged. Food prices, which had been a major concern for two years, have largely stabilised and are now running below the overall inflation rate, with the notable exception of egg prices. Shorter-term trends in core deteriorated. Updated seasonal factors made little change to the recent short-run trends, though did contribute some to January's strong print particularly with respect to energy. In terms of the breakdown, gains in core goods prices were robust largely off continued outsized strength in used cars and trucks, as well as a surge in medical care commodities prices. Core services also saw broad-based strength, particularly outside of rent and healthcare services. Supercore services posted the fourth-largest price gain since July 2020 on strong lodging away, recreation, airline fares, and motor vehicle insurance. The annual update to the unit-level weights did not cause a repeat of 2024 when owners' equivalent rent (OER) printed 20bps above primary rents. Indeed, the reverse occurred this year with gains in primary rents slightly above those for OER. Leading indicators continue to point towards rental disinflation.

Chair Powell stressed that inflation, though easing, continues to run "somewhat elevated" above the Fed's 2% target. "The economy is strong, and we have the luxury of being able to wait and let our restrictive policy work to get inflation coming down again". He also told Congress on Tuesday that the Fed did not need to rush rate cuts. Industrial production month-on-month beat expectations at 0.5%. Trump on the other hand on Wednesday, called for lower rates, seeking to raise pressure on the central bank as he moves to implement a 2nd term economic agenda high on tariffs and expanding tax breaks.

President Trump also said Friday he would unveil new tariffs on automobiles, a day after ordering his administration to consider imposing reciprocal tariffs on numerous trading partners. That effort, however, could take until April to complete, said Howard Lutnick, Trump's nominee to lead the Commerce Department. That "delay" triggered a run up in stocks as the market looked past inflation. A Bank of America strategist opined that faster inflation in the US could end up being good news for financial markets because it would force Trump to opt for smaller trade levies.

Retail sales slumped in January by the most in nearly 2 years, coming in at -0.9% from 0.4% previously. Control Group Sales falling -0.8% MoM Vs +0.30% expected, in a payback from strong holiday spending. Unseasonably cold weather in January likely played a part, but revisions to prior months should drag Q4 GDP estimates slightly lower.

January PPI MoM printed at +0.40% Vs +0.30% expected. The Core PPI YoY printed at +3.40% Vs +3.30% expected. However, within the PPI, the specific details that feed into core PCE were quite soft. We are tracking core PCE to increase by 0.27% to 0.29% in January. This would be consistent with 2.6% year-over-year, though there were some revisions evident in the PPI data which could impart some upside risk to that. Our initial read on the February CPI data is for a more moderate 0.26% gain in core. While there could be continued strength in goods prices, service prices should moderate some as they did after last January's surge. In terms of our longer-term forecasts, they are mostly unchanged. We have increased our 2025 forecasts by a tenth to 2.9% for core CPI and 2.6% for core PCE, mostly as a function of the outperformance in the January data. The technology sector was the biggest gainer of the week, boosted by companies related to chips and artificial intelligence, including Super Micro Computer Inc., Intel Corp., Micron Technology Inc. and Dell Technologies Inc. Meta Platforms Inc. extended a streak of gains to 20 days, pushing the Nasdaq to within a percent of its all-time high.

This week will see the last FOMC's minutes, together with US manufacturing, services and composite PMI's. We'll also have the U. of Mich. inflation expectations and sentiment on Friday.

Separately, Trump is seen as rushing toward a deal with Putin whilst leaving Europe in the wilderness. US officials told some Europeans in Munich that they believe America and China are the two big powers in discussions over Ukraine, even though the war is in the EU's backyard, one European official said. The US will keep the Europeans abreast on progress, but they're not seen as significant players. Markets will be closed Monday in observation of President's Day.

With rates remaining on hold, and deregulation in the sector yet to be unfolded, we remain overweight in finan

EUROPE

Eurostoxx 600 closed the week at 1.78%. The index marked its eighth consecutive week of gains, which have taken it around 9% higher so far this year.

Following the introduction of 25% tariffs on steel and aluminum, the Commission President von der Leyen said that 'unjustified tariffs on the EU will not go unanswered – they will trigger firm and proportionate countermeasures.' It has been reported that Brussels could reimpose tariffs – currently paused – worth €2.83bn on US goods, targeting specific products. In 2018 the EU hit back at tariffs on European steel (25%) and aluminium (10%) introduced during Trump's first term as US president. It then retaliated with duties on €2.8 billion of US products, before a temporary truce was brokered under the Biden administration, in a deal which expires at the end of March. Since 2018, it has strengthened its arsenal of retaliatory measures with anti-coercion tools which includes barring the right to participate in public procurement tender procedures, or trade in services and trade-related aspects of intellectual property rights.

On the other hand, the announcement of a global 25% aluminium and steel tariff by the US is unlikely to have material impact on the UK. The production of all basic metals amounts to 0.2% of UK GDP. Of this, only a proportion is exported to the US. 3 MPC members spoke on monetary policy last week, with Pill and Greene identifying themselves in the MPC's most hawkish group of "cautious" cutters. That group sees risks of entrenched inflation and appears to have reservations about how much easing they are willing to support this year. In contrast, Mann is unusually in the dovish camp. But in the speech this week she cautioned that her vote for a 50bp cut in February doesn't necessarily she plans to support a succession of large cuts in future meetings.

Polls ahead of the German election on Sunday 23rd Feb look very tight. Changes have been small over the recent weeks, but the 5% hurdle for Bundestag representation means that small changes can have big impact. As on 15 Feb 2025, the CDU/CSU leads in the polling aggregate by 8 points over the AfD.

In data, EA industrial production ended 2024 on a weak note, posting a 1.1% m/m contraction in December. This was despite the strong rebound in volatile Irish series. Excluding Ireland, EA industrial production dropped by 2.1% m/m in December. Geographically, output contracted across all major EA economies except Spain (+1.4% m/m), with production contracting 2.9% m/m in Germany and 3.1% m/m in Italy. Sector-wise, developments at the EA level largely mirrored those in Germany, with a marked decrease in motor vehicle production (-7.1% m/m). On a better note, EA real GDP growth in Q4 was revised upward to 0.1% q/q, likely triggered by the 0.4% q/q growth in the Netherlands, with growth in the EA4 unrevised from the preliminary print. Employment grew 0.1% q/q in Q4, leaving growth in labour productivity flat. German headline and core HICP inflation were unrevised at 2.8% y/y and 3.6% y/y, respectively, from the flash prints. Spanish headline HICP inflation was also unrevised from the flash prints, at 2.9% y/y and core CPI printed at 2.4% y/y. Over in the UK, Real GDP grew 0.1% q/q in the final quarter of 2024, according to this week's first estimate. In the details, this was driven by public sector consumption and inventories. Conversely, private sector domestic demand was weak, contracting 0.4%.

This week, we will see inflation numbers, GfK consumer confidence, retail sales and the flash PMI figures and unemployment rate in the UK.



ASIA

Markets in **Asia extended gains last week with the MSCI Asia Ex Japan up 1.68%** taking year to date gains to +4.15%. **Hong Kong was a standout, up 7.04%. AI optimism remains key upside narrative for China** and Hong Kong with the latest news on Apple partnering with Alibaba on AI for iPhones in China. A potential encounter this week between President Xi Jinping and e-commerce icon Jack Ma, coming after a blistering run by tech shares, could be the next catalyst to extend the rally in China's stocks. Many of the other **tech entrepreneurs will be present at the symposium to take place this week and President Xi who is chairing it, is expected to encourage them to expand their businesses domestically and internationally** amidst an intensifying Sino-U.S. technology war.

State media Economic Information Daily reported land plots in various major Chinese cities sold at high premiums in recent weeks amid supportive policies and better market confidence. Transactions for residential properties by floor area jumped during Lunar New Year holiday with top-tier cities gaining 134% from a year ago, citing CRIC data.

Singapore's economy grew 4.4% in 2024, beating forecasts and an earlier estimate, the Ministry of Trade and Industry said. The electronics cluster of the manufacturing sector and the machinery,

equipment and supplies segment of the wholesale trade sector grew robustly due to the upturn in the global electronics cycle. Growth in the finance and insurance sector was driven by elevated trading activity as the sentiment in the global and local financial market shifted. Net fees and commissions among banks and fund managers saw strong growth, said MTI. "By contrast, the retail trade and food and beverage services sectors contracted, partly due to locals shifting their spending to overseas travel destinations," the ministry said.

Other data points from Asia: **Japan's** wholesale inflation in January jumped to seven-month high. **India** headline retail CPI inflation in January eased to five-month low, justifying RBI's rate cut hopes. The central bank sees inflation averaging 4.8% in the current financial year, easing to 4.2% next year.

Philippine central bank kept policy rate on hold in surprise move amid growing macroeconomic risks.

GeoPolitics

US – Russia- China: *U.S. President Donald Trump expressed a desire to discuss limiting nuclear arsenals with Russian President Vladimir Putin and Chinese President Xi Jinping, aiming for denuclearization in his second term.* The New START treaty, which limits U.S. and Russian nuclear warheads, will expire in February 2026. Trump noted that during his first term, he had reached an understanding with Putin on nuclear cuts, and China was open to the idea, but progress stalled due to the COVID-19 pandemic. He emphasized the excessive nuclear stockpiles and China's efforts to catch up, predicting they would be on par with the U.S. and Russia in 5-6 years.

Munich conference: Ahead of the Munich conference Europe was stunned by news that Trump had held an apparently cordial 90-minute phone call with Putin, thus abruptly ending the West's three-year freeze in talking to the Russian leader that has been in place since the time of the 2022 invasion.

US Defence Secretary Pete Hegseth had stunned America's allies with a speech setting out what many saw as a series of concessions Ukraine would have to make to sign any peace deal with Russia brokered by President Trump. Hegseth said it was "unrealistic" to think Ukraine could win back its sovereign territory occupied by Russia, as was its demand for Nato membership, adding it was up to European and not US troops to keep the peace.

The fear in Munich amongst European leaders and their delegations is that in Donald Trump's rush to secure a peace deal in Ukraine, Putin will emerge victorious, stronger and planning to seize more parcels of land in Europe.

Secretary of State, *Marco Rubio is traveling this week to Saudi Arabia to begin negotiations with their Russian counterparts - without Ukrainian involvement. There's a realisation in Europe that the old transatlantic partnership between the US and Europe is "broken".*

Europe – Russia: The Baltic states of Estonia, Latvia, and Lithuania officially switched from the Russian and Belarusian electricity grid to the European market yesterday (Sunday), noting it reduces Russia's ability to use energy as a tool of blackmail.

US tariffs: Tariffs in focus again after US President Donald Trump tasked his economic team on Thursday with devising plans for reciprocal tariffs on every country taxing US imports, with potential targets including South Korea, China, Japan and the European Union. Among the top 15 US trading partners, South Korea's tariff rates are the second highest after India.

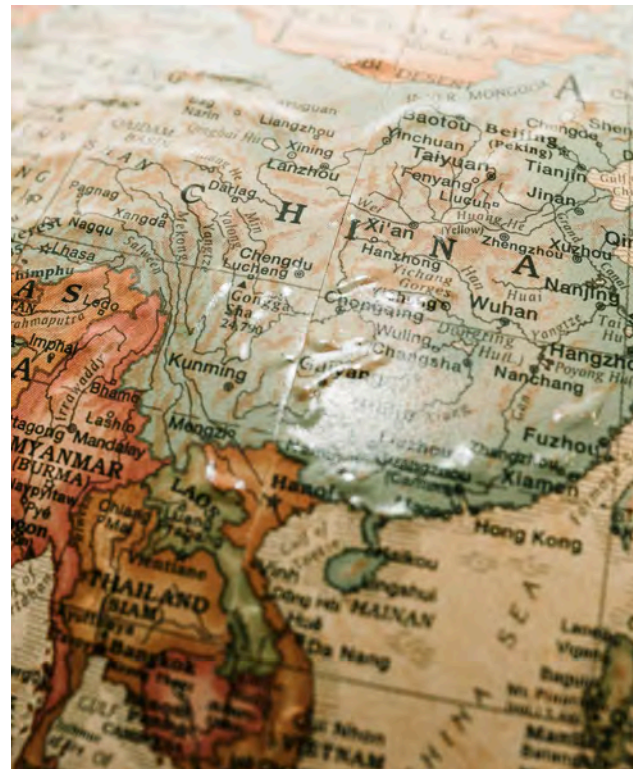
Modi, only the fourth world leader to visit the White House since Trump's return, described the fellow nationalist as a friend and told him he was adopting a take on his "Make America Great Again" slogan. "Starting this year, we'll be increasing military sales to India by many billions of dollars," Trump told a joint news conference with Modi. "We're also paving the way to ultimately provide India with the F-35 stealth fighters," Trump said. Trump, who has previously complained about Indian tariffs,

agreed with Modi that the two countries would work together on a trade deal. Trump could visit India later this year for a summit of the Quad - a four-way grouping of Australia, India, Japan and the US.

As for **South Korea**, nearly all were eliminated by the free trade pact first signed in 2007 and revised in 2018 during Trump's first term. South Korea's average tariff rate on imports from the US stood at 0.79% as of 2024, and is expected to be lower this year, with no duties on manufactured goods, the finance ministry said in a separate statement.

US – Palestine- Israel: Trump says Palestinians will not have right to return to Gaza under his deal framework

Israel-Hamas accuse each other of truce violations; next hostage release date postponed indefinitely



Credit/Treasuries

The *US Treasury curve bull steepened slightly last week with the 2years yield losing 3bps, the 5 & 10years yield lost 1bps and the long bond yield gained 1bps.* US IG 5years credit spreads tightened by 1.5bps. They are now trading at their tightest level over the last 3 1/2years. US HY 5years credit spreads tightened last week by 6bps. In term of performances, US IG gained about 40bps while US HY gained about 30bps.

FX

DXY USD Index fell 1.23% to 106.71 driven by better than feared tariff headlines and lower US treasury yields.

Reciprocal tariff fears were dialled back as widely anticipated Trump announcement lacked key details, including on timing. 25% tariff on US imports of steel and aluminium is set to be implemented on 4 March. Despite inflation concerns surrounding higher than consensus US headline and core CPI, January core PCE read-throughs were less hawkish. US PPI data came in higher than consensus expectations and with upward revisions but signal a benign translation to PCE with softer-than-expected healthcare, financial services, and airfare prices. In addition, a material miss in January US Retail Sales with the headline figure falling -0.9% m/m (C: -0.2%) and Control Group Sales falling -0.8% m/m (C: 0.3) increase market pricing to 40 bps easing in 2025, which is up from 25 bps of easing that was priced immediately following the CPI release.

European Currencies rose against USD driven by broad USD weakness and supported by headlines on finding solutions around potential US tariff policies and discussions around Russia-Ukraine. EURUSD rose 1.59% to 1.0492; GBPUSD rose 1.48% to 1.2586; USDCHF fell 1.11% to 0.8998. EUR strengthened as yield differentials moved in its favor. In the Eurozone, 4Q24 GDP growth was revised up to 0.1% q/q (Preliminary: 0.0%; 3Q24: 0.4%). In the UK, GDP growth grew 0.4% m/m in December (C: 0.1%; P: 0.1%) with notable upside surprises in the "white collar" services sectors. The Index of Services rose 0.4% m/m (C: 0.1%; P: 0.2%), while Industrial Production rose 0.5% (C: 0.3%; P: -0.5%). In Switzerland, Headline CPI slowed to 0.4% y/y in January (C: 0.4%; P: 0.6%), but Core CPI unexpectedly accelerated to 0.9% y/y (C: 0.6%; P: 0.7%) supporting CHF strength.

Antipodean Currencies rose against USD, with AUDUSD (+1.24%) to 0.6352 and NZDUSD (+1.15%) to 0.5725. Apart from USD weakness, NZD was supported as NZ Manufacturing PMI rose to 51.4 in January (P: 45.9), the first expansionary print since February 2023, and the highest level since September 2022. The growth positive news in NZ has a positive spillover effect on AU. This week, we have the rate decision in both AU and NZ (RBA (Feb 18) and RBNZ (Feb 19)).

USDJPY rose 0.59% to 152.31 despite broad USD weakness and fall in US Treasury yields. USDJPY movement was driven by the better than feared Tariff Headline, which resulted in lower JPY. USDJPY touched a high of 154.80 intra-week before paring back its gain following the weak US retail sales and underlying PPI components. Trading between on USDJPY between 155 and 150, and a break on either side imply further reversal.

Oil & Commodity

Oil Futures was mixed last week, with WTI falling 0.37% to 70.74 and Brent rose 0.11% to 74.74. Russian data shows crude output has fallen further below OPEC+, supporting Brent crude oil future. However, WTI crude oil futures fell as the EIA report for the week ending February 7 showed a 4.1mn barrel increase in crude oil inventories.

Gold rose 0.75% to 2882.53 driven by tariff uncertainty, central bank and investment demand, with new ETFs launched in India and China now allowing insurance firms to invest in gold. In addition, geo-political tensions in the Middle East flared back up with potential unravelling of fragile ceasefire deal and report Israel considering strikes on Iran's nuclear facilities this year, supported Gold price. Although Ukraine ceasefire hopes gained traction following Trump-Putin Call. Gold price touched a record high of 2942.68 intra-week, before paring back its gain following the weak US retail sale last Friday. Resistance level at 2940/3000, and support level at 2800/2700.

Economic News This Week

- **Monday** – JP GDP/Indust. Pdtn, SW Unemploy. Rate
- **Tuesday** – AU RBA Rate Decision, UK Unemploy. Rate, SW/CA CPI, EU ZEW Exp., US Empire Mfg
- **Wednesday** – JP Core Machine Order, AU Wage price index, NZ RBNZ Rate Decision, UK CPI/RPI, US MBA Mortg. App./Housing Starts
- **Thursday** – AU Unemploy. Rate, CH LPR, US Initial Jobless Claims/Leading Index
- **Friday** – JP Natl CPI, JP/EU/UK/US Mfg/Svc/Comps Feb Prelim., UK/CA Retail Sales, US UMich Sentiment/Existing Home Sales



Key Market Moves

14 February, 2025

Name	WTD	MTD	YTD	Last px
MSCI ACWI Index	1.70%	1.75%	5.10%	884.24
S&P 500 Index	1.47%	1.23%	3.96%	6,114.63
Dow Jones Industrial Average	0.55%	0.00%	4.71%	44,546.08
NASDAQ Composite Index	2.58%	2.03%	3.71%	20,026.77
EURO STOXX 50 Price EUR	3.15%	3.91%	12.20%	5,493.40
STOXX Europe 600 Price Index EUR	1.78%	2.39%	8.82%	552.41
Nikkei 225	0.93%	-1.03%	-1.83%	39,164.87
Tokyo Stock Exchange Tokyo Price Index TOPIX	0.80%	-0.80%	-0.66%	2,766.47
MSCI AC Asia Pacific Index	1.26%	2.15%	3.53%	188.05
MSCI AC Asia Pacific Excluding Japan Index	1.68%	2.84%	4.15%	593.03
MSCI Emerging Markets Index	1.51%	2.91%	4.63%	1,125.23
Shanghai Shenzhen CSI 300 Index	1.19%	3.33%	0.24%	3,944.27
Hang Seng Index	7.04%	12.31%	13.23%	22,714.64
India NSE Nifty 50 Index	-2.68%	-2.46%	-3.03%	22,929.25
Taiwan Stock Exchange Index	-1.39%	-0.33%	1.79%	23,448.10
Korea KOSPI Index	2.74%	3.67%	8.76%	2,609.76
Singapore Straits Times Index STI	0.42%	0.96%	2.78%	3,892.73
Thailand SET Index	-0.78%	-3.23%	-9.15%	1,272.10
Jakarta Stock Exchange Composite Index	-1.54%	-5.18%	-4.79%	6,741.04
Philippines Stock Exchange PSEI Index	-1.52%	2.43%	-8.02%	6,004.93
Vietnam Ho Chi Minh Stock Index / VN-Index	0.07%	0.88%	0.74%	1,276.19

Source: Bloomberg

Name	WTD	MTD	YTD	Last px
US Generic Govt 10 Year Yield	(0.00)	(0.01)	(0.02)	4.48
Euro Generic Govt Bond 10 Year	0.02	(0.01)	0.03	2.43
Japan Generic Govt 10Y Yield	0.05	0.10	0.25	1.38
MARKIT CDX.NA.HY.32 06/24	-2.71%	-2.95%	-6.44%	291.43
MARKIT CDX.NA.IG.32 06/24	-3.67%	-3.92%	-6.21%	46.75
MARKIT CDX.EM.31 06/24	-4.65%	-6.12%	-12.87%	150.32
EUR-USD X-RATE	1.59%	1.36%	1.44%	1.05
GBP-USD X-RATE	1.48%	1.63%	0.65%	1.26
CHF-USD X-RATE	1.13%	1.26%	0.86%	1.11
USD-JPY X-RATE	0.59%	-2.33%	-3.58%	151.58
USD-CNY X-RATE	-0.51%	0.04%	-0.71%	7.25
USD-HKD X-RATE	-0.08%	-0.15%	0.15%	7.78
USD-INR X-RATE	-0.68%	0.25%	1.43%	86.83
NYMEX Light Sweet Crude Oil	-0.37%	-2.59%	-1.49%	70.65
ICE Brent Crude Oil Future	0.11%	-2.61%	0.16%	74.76
VIX Index	-10.70%	-10.10%	-14.87%	14.77
Gold Spot	0.75%	3.64%	10.51%	2,900.24
Silver Spot	0.90%	3.56%	12.17%	32.42
Palladium Spot	-0.15%	-3.41%	7.57%	981.74
Bitcoin/USD	2.06%	-5.82%	2.61%	96,164.26
Etherum/USD	5.25%	-19.67%	-20.35%	2,665.40

Sources – Various news outlets including Bloomberg, Reuters, Financial Times, FactSet, Associated Press

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