

FX, Fixed income, Econ, Facts & Fallacies

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Capital markets recap, February 2025

- ▶ The US dollar weakened compared to the previous month after Trump announced postponing import tariffs on Canada and Mexico. However, the US dollar rebounded slightly towards the end of February due to planned additional US import tariffs and uncertainty surrounding the Russia-Ukraine war.
- ▶ The Thai baht was highly volatile and ended the month weaker following the BOT surprise rate cut. The recent weaker-than-expected GDP drove this.
- ▶ US bond yields fell sharply in a bull-flattening pattern in the bond market as expectations of two Fed rate cuts this year became more certain amid increasing concerns over the US economy. Meanwhile, Thai bond yields declined sharply in a bull steepening pattern due to

the BoT's surprise rate cut, following weaker-than-expected Thai GDP data, alongside a global decline in government bond yields

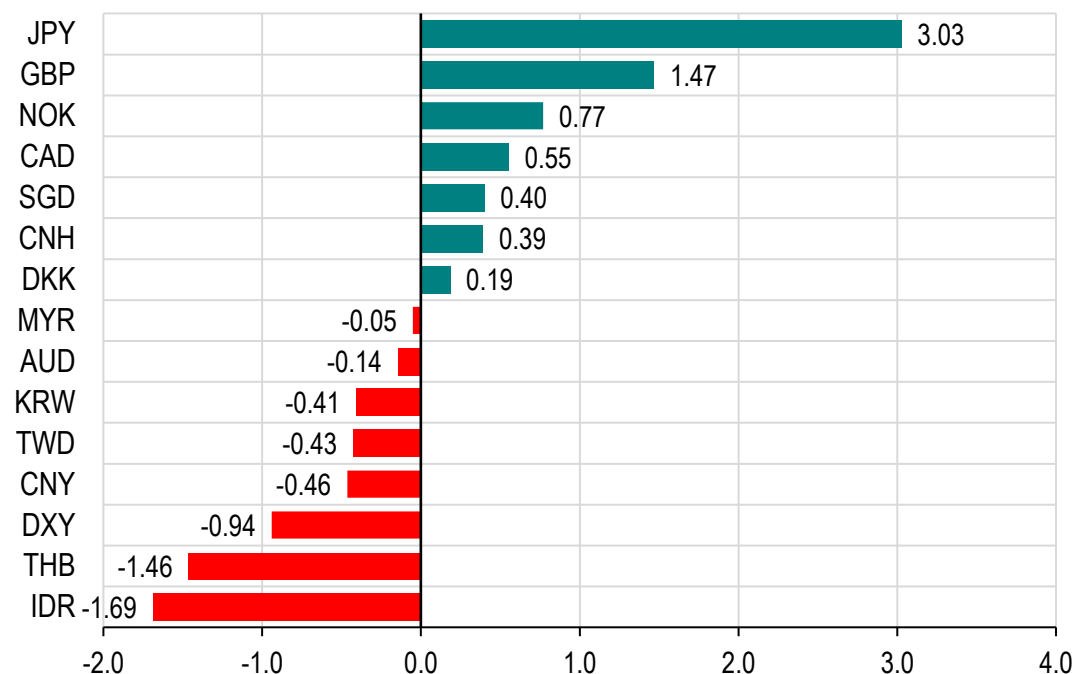
Hot 'n cold month in the currency market

The US dollar index weakened in February compared to the previous month. This outcome was due to Trump's announcement to postpone the 25% import tariff on Canada and Mexico by one month, moving it to 4 March. Although a 10% import tariff on China had already been implemented and a 25% tariff on steel and aluminum was set to take effect on 12 March, the US labor market data came in lower than expected. Both non-farm payrolls and new job openings were weaker than forecast, raising concerns about a potential slowdown in the overall US economy. As a result, the market now expects the Fed to cut interest rates twice this year, whereas previously, there was still uncertainty between one or two rate cuts.

However, the US dollar rebounded slightly at the end of February due to preparations for additional US import tariffs (reciprocal tariffs) and uncertainties regarding the Russia-Ukraine war. This outcome followed Trump's and Zelensky's failure to reach an agreement on natural

resources between the US and Ukraine. Trump also announced plans to end military aid to Ukraine, increasing concerns about European security. This outcome could lead to higher security budgets to further support Ukraine.

Figure 1: Change in major currencies in February 2025 (%MoM against the USD)



Source: Bloomberg, KBank

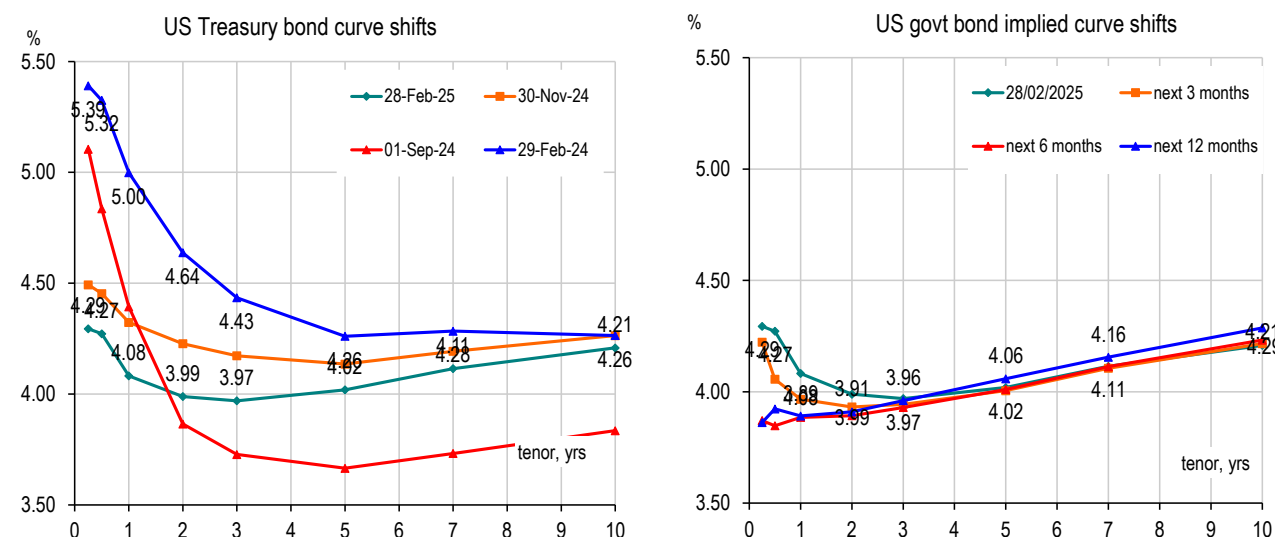
Meanwhile, **the Thai baht was highly volatile in February, reaching its strongest level since October 2024.** This outcome was driven by the appreciation of the Japanese yen and a new record high in gold prices, reaching USD 2,956 per ounce. However, by the end of the month, the baht had weakened by -1.46% after an unexpected interest rate cut by the Bank of Thailand (BoT), which surprised the market. This decision was made in response to weaker-than-expected Q4 GDP, leading to a full-year GDP growth of just 2.5% in 2024. Additionally, towards the end of the month, the baht faced pressure from the US dollar's rebound, the yen weakening past 150 yen per US dollar and a gold price correction.

Bond markets

US bond yields declined in February in a bull-flattening pattern, with the 2-year yield dropping 21bps and the 10-year yield falling 33bps from the previous month. This outcome was driven by growing certainty that the Fed would cut interest rates around twice this year. The market expects the first rate cut to take place in June. Additionally, the Fed's meeting minutes indicated plans to scale back QT, signaling a more accommodative monetary policy amid rising concerns about the US economy.

Meanwhile, newly appointed US Treasury Secretary Scott Bessent stated that he would continue issuing short-term bonds, following the approach of former Secretary Janet Yellen. This outcome helped ease concerns about a potential increase in long-term government bond issuance.

Figure 2: US Treasuries Curve



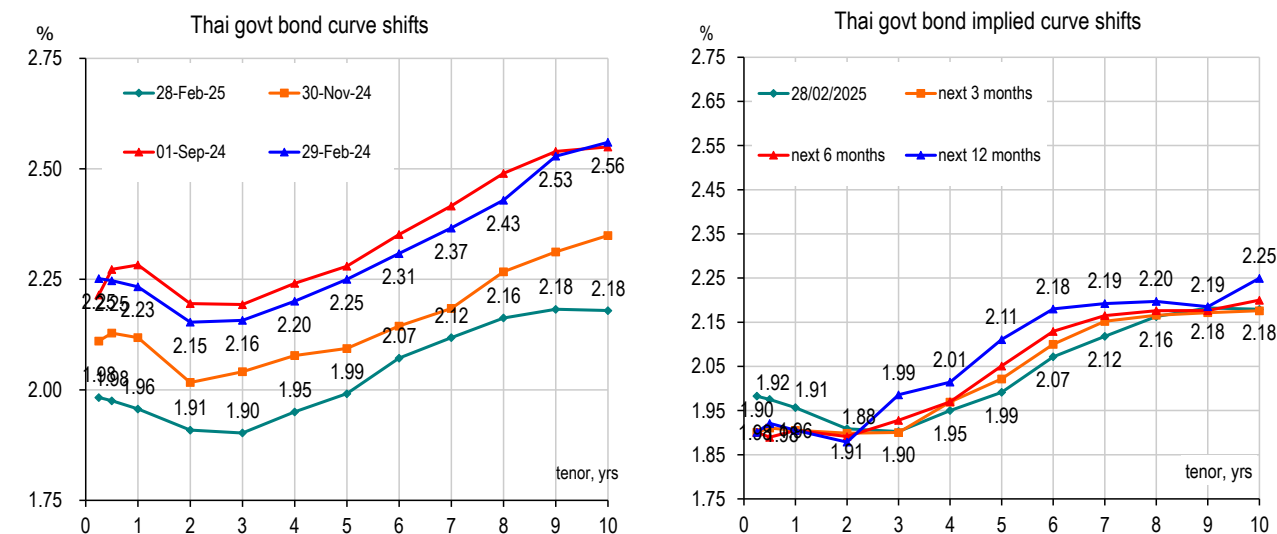
Source: Bloomberg, KBank

Thai bond yields saw a sharp decline in a bull steepening pattern, with the 2-year yield dropping 14bps and the 10-year yield falling 12bps. This outcome was driven by the BOT surprise 25bps rate cut to 2.00%, which

caught the market off guard as expectations were for rates to remain unchanged. The decision followed weaker-than-expected Thai GDP data alongside a global decline in government bond yields.

The Ministry of Finance has also nominated Somchai Sajjapongse, former Permanent Secretary of Finance, as the new Chairman of the Bank of Thailand's board. His appointment has already been submitted for Cabinet approval.

Figure 3: Thai Government Bond Curve



Source: Bloomberg, KBank

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