FINANCIAL MARKETS VIEWS&ANALYSIS

FX, Fixed income, Econ, Facts & Fallacies

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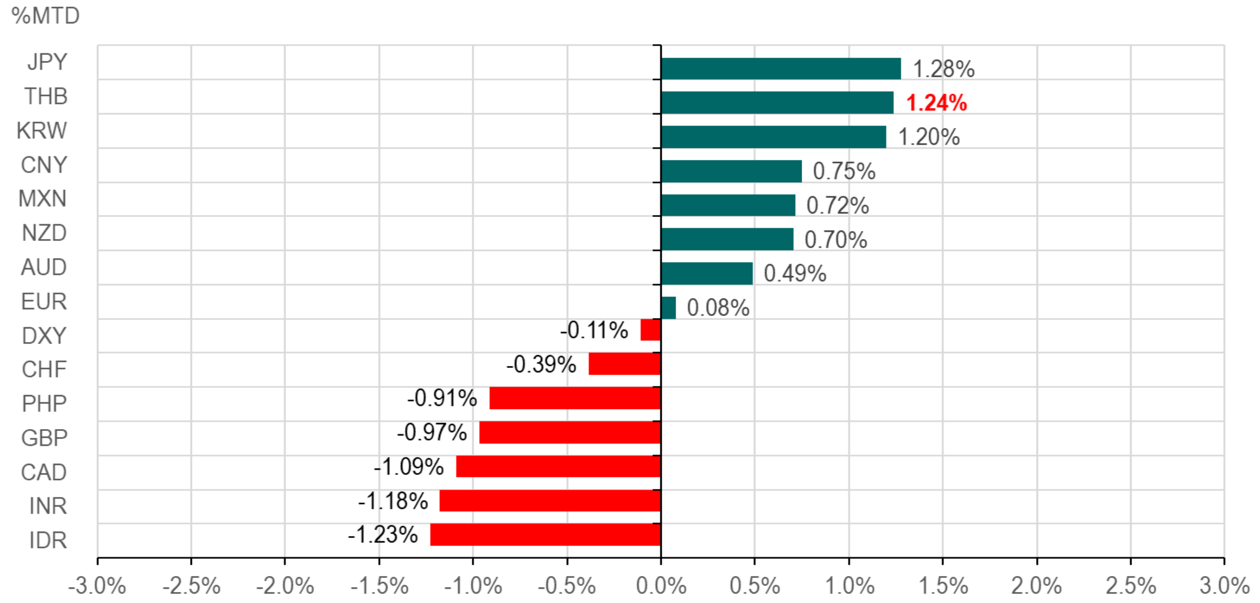
Capital markets recap, January 2025

- **The FX market fluctuated according to Trump's policies,** with the US dollar index strengthening due to his import tariff measures. The Canadian dollar was hit hardest in January, weakening to its lowest level since the COVID period after Trump confirmed the tariff hikes. The Japanese yen strengthened the most in over a month due to the BOJ's rate hike. Meanwhile, the Thai baht appreciated, supported by record-high gold prices and peak tourist season.
- **The movement in yields mostly mirrored US Treasury bonds, as Trump's tax policies triggered global bond sell-offs.** The US yield curve steepened due to concerns over Trump's fiscal policies, leading to a faster rise in long-term bond yields.

Figure 1: Change in major currencies in January 2025



Source: Bloomberg, KBank

US political drives major currencies; while Thai baht gains in line with major Asian currencies and amid rising gold prices

The US dollar index is on the stronger side, even though it slightly weakened at the end of January, closing at 108.37. In January, the US dollar reached its highest point in over two years, at 110. The stronger-than-expected economic data was the main driver, with non-farm payrolls surpassing forecasts and the unemployment rate dropping to 4.1%. With US headline CPI came out in line with market expectation at 2.9% well-above the target and the month before. This strong data led markets to push back expectations for the first Fed rate cut to be between mid-year to late Q3.

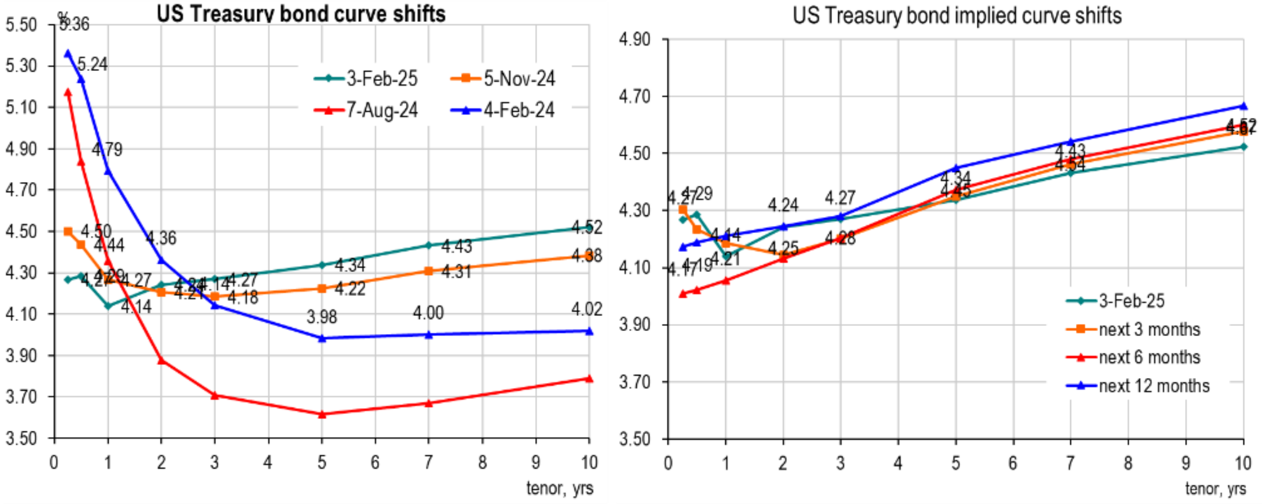
However, the US dollar weakened slightly after Trump's inauguration on January 20, as markets were disappointed that he did not immediately announce tariffs on Chinese goods. Instead, he announced a 25% tariff on imports from Canada, Mexico, and Colombia. However, even though the measure against Colombia was later canceled, **he ultimately moved forward with signing tariffs of 25% on Canadian and Mexican imports and 10% on Chinese imports,** effective February 4. Meanwhile, **the Fed kept its key rates at 4.25-4.50%** and signaled that it is not in a hurry to lower rates further. This factor helped support the US dollar's strengthening during the final week of January.

Other major currencies saw mixed movements in January. **The Canadian dollar weakened by -1.09% against the US dollar**, marking its largest decline since the COVID period, partly due to the announcement of US import tariffs. **The Chinese yuan (CNY) appreciated by 0.75% against the US dollar,** as concerns over US-China trade tensions are not as severe as expected, coinciding with the Chinese financial markets closing for the Lunar New Year during Trump's announcement of a 10% tariff on China. **The euro remained stable as Trump did not yet announce any tariffs on the** EU, and it was supported by stronger-than-expected Eurozone economic data, despite the ECB cutting rates further and adopting a more dovish stance. Meanwhile, **the Japanese yen strengthened by over 1%, its biggest gain in more than a month**, supported by the BOJ rate hike, especially after the governor hinted in the January meeting that the neutral interest rate could be above 1% up from current level at 0.50%.

The Thai baht strengthened by 1.24% against the US dollar, reaching 33.67 THB per USD, driven by the appreciation of the yen and yuan. This increase also coincided with new highs in gold prices, as well as domestic factors like Thailand's tourist season boosting demand for the baht. However, in February, the baht weakened to above 34.00 THB per USD following Trump's signing of tariff hikes at the end of January.

Bond markets

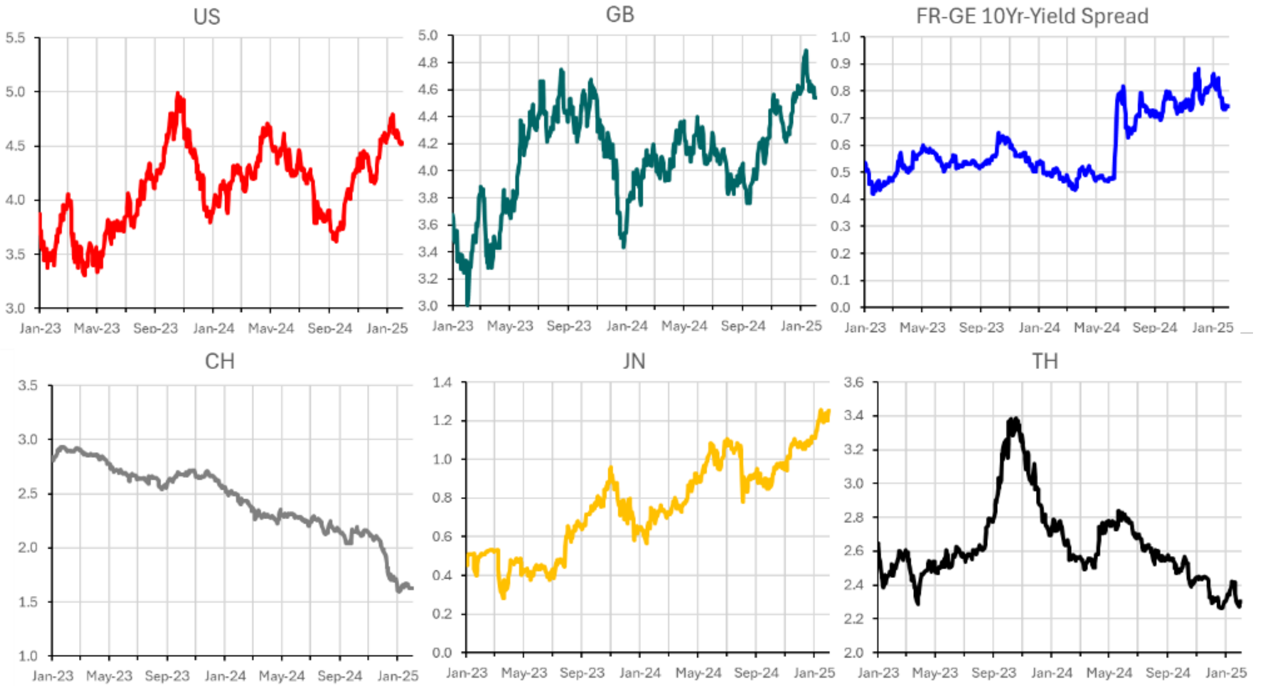
Figure 2: US Trusuries Curve



Source: Bloomberg, KBank

US Treasury yields initially rose in January, fueled by robust economic data. **The yields curve also steepening**, as concerns over President Trump's fiscal policy weighed on the market. The 10-year yield peaked at its highest level since November 2023, driven by worries over increased bond supply under Trump 2.0.

Figure 3: Major economies 10-year treasury yields



Source: Bloomberg, KBank

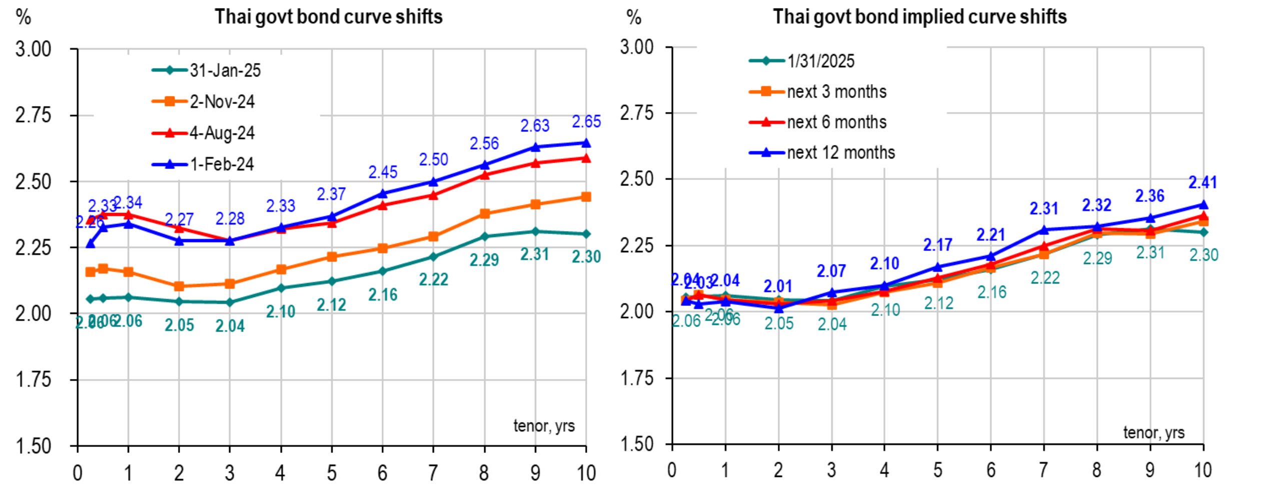
In Europe, the yield movement largely mirrored that of US peers, with potential tariffs from Trump contributing to a global bond sell-offs. **The UK's 10-year bond yield hit 4.89%, its highest since 2008,** amid concerns over budget and government spending potentially being insufficient due to high borrowing costs. While the recent rise in bond yields wasn't as rapid as during Liz Truss's tenure, investor anxiety increased before easing significantly after the BOE cut rates and the UK government confirmed it would stick to its original budget plan**.**

While in Eurozone, the market concerns over France's fiscal stability eased, with the French-German 10-year yield spread narrowing to its tightest level since October 2024. This followed a period of widening after the collapse of the previous French government's handling of the 2025 budget. New Prime Minister François Bayrou alleviated concerns by securing Socialist Party support in exchange for political concessions.

In Asia, China's yields remain at historically low levels, with the 10-year bond yield at 1.63% at the end of January. The key driver behind the low yields is market anticipation of further monetary easing by the PBOC and a persistent shortage of attractive investment opportunities, as economic weakness and high uncertainty over US trade policy triggered a flood into safe assets. **In Japan, 10-year yields reached 1.25%, the highest since July 2011,** amid global market selloff and that the BOJ contemplate a rate hike at its January meeting and signal that the hiking path is not yet over.

Thailand's 10-year bond yields hit a two-month high, driven by the global selloff. The government plans to quickly appoint a new BOT's chairman, with the process restarting and a target re-election for early February. While the BOT chair doesn't participate in monetary policy meetings, they can assess the governor's performance and influence the selection of outside experts for the rate panel.

Figure 4: Thai Government Bond Curve



Source: Bloomberg, KBank

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