FX, Fixed income, Econ, Facts & Fallacies

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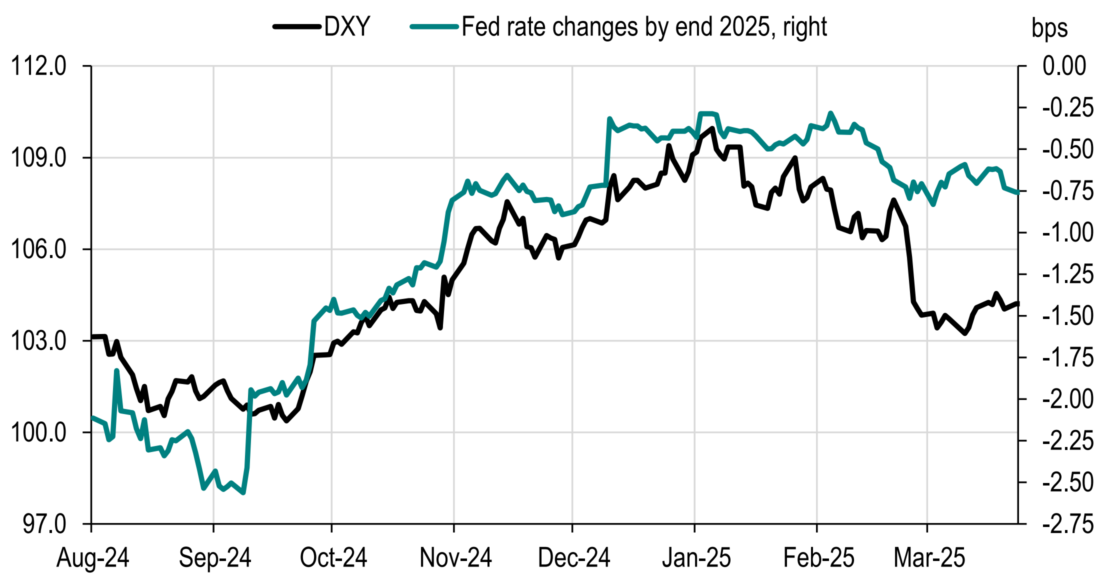
Capital markets recap, March 2025

- The US dollar declined by over 3% in March and weakened by almost 4% in the first quarter of 2025 as markets grew concerned that Trump's policies could slow down the US economy. As a result, investors now expect the Fed to implement three rate cuts this year, up from an earlier expectation of just two cuts. Meanwhile, other currencies generally strengthened, particularly the euro, which benefitted from expectations of increased government spending. The yen and yuan also saw modest gains despite the month's volatility. Despite weak underlying fundamentals, the Thai baht also strengthened, supported by record-high gold prices.
- Global bond yields showed mixed performance in March. The 10-year US Treasury yield ended the month relatively steady, although it experienced significant fluctuations due to concerns that Trump's policies could harm the economy and complicate the Fed's efforts. Meanwhile, the 10-year Thai bond yield dropped sharply, reaching its lowest point since January 2022, as expectations grew for more rapid rate cuts from the BoT. In contrast, the 10-year Japanese bond yield rose to its highest level since 2008, driven by expectations of a rate hike by the BoJ. The German Bund also saw a rise of +33bps, bolstered by anticipated government spending plans.

Another tough month for the dollar amid Trump's uncertainty

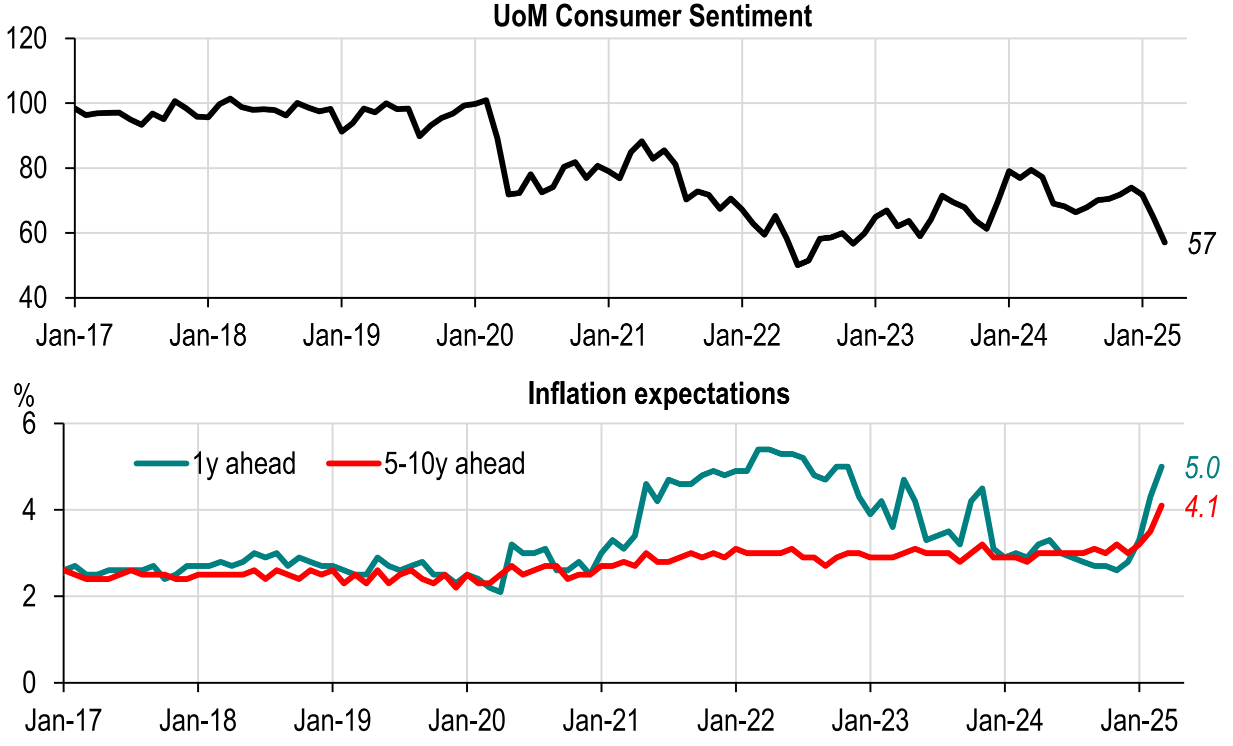
The US dollar (DXY) declined by over 3% in March, reaching around 104, its weakest since November 2024. This drop brought the dollar's decline to nearly 4% for the first quarter of 2025, a sharp contrast to the more than 7% gain in the final quarter of 2024. **Markets grew concerned that Trump's policies, particularly tariff hikes and layoffs of public sector workers, could slow down the US economy and increase the likelihood of a recession. As a result, investors now expect the Fed to implement three rate cuts (-75bps) this year**, up from an earlier expectation of two cuts. Meanwhile, the uncertainty surrounding Trump's tariff hikes continues to cause confusion and concern in the market. US economic data came in mixed: soft data, such as the University of Michigan consumer sentiment index, fell more than expected amid inflation concerns, but hard data remains generally stable. Inflation remains sticky, and **the Fed held rates steady at its March 18-19 meeting, still forecasting two rate cuts this year** (as indicated in the dot plot) despite revising down GDP growth projections for 2025-2027.

Figure 1: Rising Fed cuts expectations add downward pressure on the US dollar



Source: Bloomberg, KBank as of March 31 2025.

Figure 2: US consumer confidence fell while inflation expectations surged



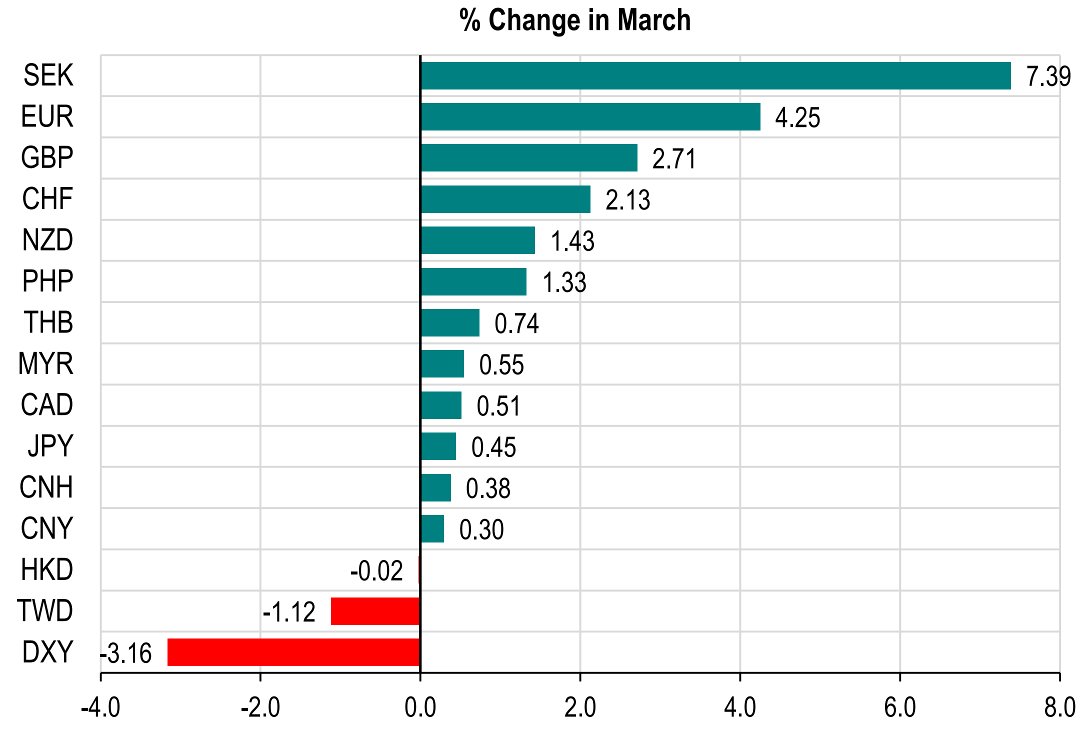
Source: Bloomberg, KBank

Other currencies generally strengthened in March due to weaknesses in the US dollar, with the euro gaining more than 4%. It closed the month at 1.08 US dollars per euro, its strongest level since November 2024, **driven by expectations of increased government spending. This**

spending boost is likely to come from Germany, where the government recently passed a massive EUR 500 billion defense and infrastructure plan while easing its fiscal deficit rule, known as the "debt brake." However, the euro is expected to face downward pressure as markets anticipate two more rate cuts from the ECB this year, following two cuts in the first quarter. This outcome would result in more cuts than the Fed, which is expected to reduce rates 2-3 times this year.

The Japanese yen strengthened by 0.5% against the US dollar, closing the month at 149.96 yen per US dollar. However, the yen experienced significant volatility, reaching its strongest point at 146.51 and its weakest at 151.25 during the month. **The yen received an additional boost from the BoJ's policy normalization, with expectations that the BoJ will further raise rates as inflation remains above the 2% target, driven in part by rising inflationary pressures from wage growth.** Japan's largest labor union, Rengo, reached a preliminary agreement for a 5.46% average wage increase this year, the highest since 1991 and above last year's figure. Demand for safe-haven assets amid global trade war risks has also contributed to the yen's strength.

Figure 3: Change in major currencies in March 2025



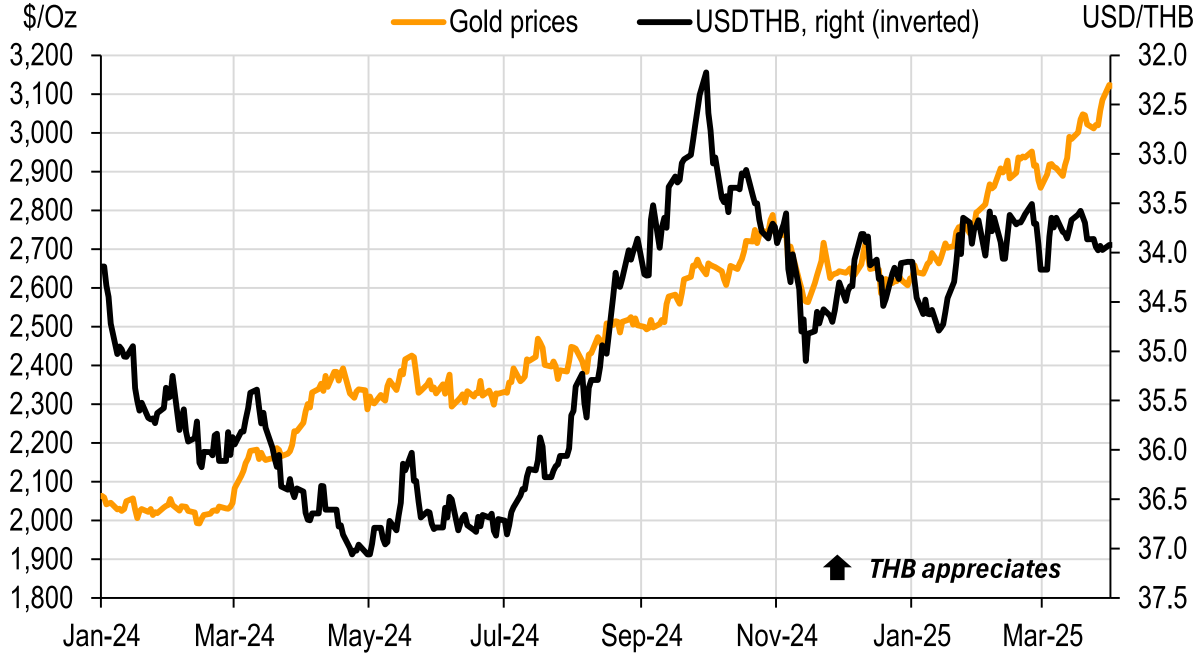
Source: Bloomberg, KBank

Similarly, **the Chinese yuan gained approximately 0.4% against the US dollar, closing the month at 7.257 yuan per US dollar.** It, too, experienced volatility, strengthening to as low as 7.22 and weakening to as high as 7.28 yuan per US dollar. **The yuan benefited from US dollar**

weakness and ongoing currency interventions by Chinese officials, helping to offset pressures from the 20% US tariff hike. At the Chinese National Party Congress (NPC) earlier in the month, **China set its GDP growth target for the year at around 5% and signaled more expansionary fiscal and monetary policies** to support a fragile economy.

The **Thai baht strengthened by 0.74% against the US dollar in March, closing the month at 33.92 baht per US dollar.** Despite weak economic fundamentals, including a fragile recovery and ongoing net outflows from both the stock and bond markets, the baht remained relatively strong, trading in the range of 33.50–34.10 baht per US dollar. The Bank of Thailand (BoT) is expected to cut rates more quickly than previously anticipated following a recent earthquake on March 28 and concerns about potential tariffs from the Trump administration. **A weaker US dollar primarily supported the baht's strength** amid concerns that Trump's policies could harm the US economy and uncertainty surrounding the Federal Reserve's policy. Furthermore, **record-high gold prices, which recently exceeded USD 3,100 per ounce, helped support the baht.** However, **the baht may face depreciation pressure after the US announces reciprocal tariffs on April 2.** Additionally, with Thailand's dividend season for foreign shareholders running from mid-March to the end of May and the tourism season nearing its end after the Songkran festival, the baht is expected to strengthen slightly in the fourth quarter.

Figure 4: Record high gold prices help support Baht

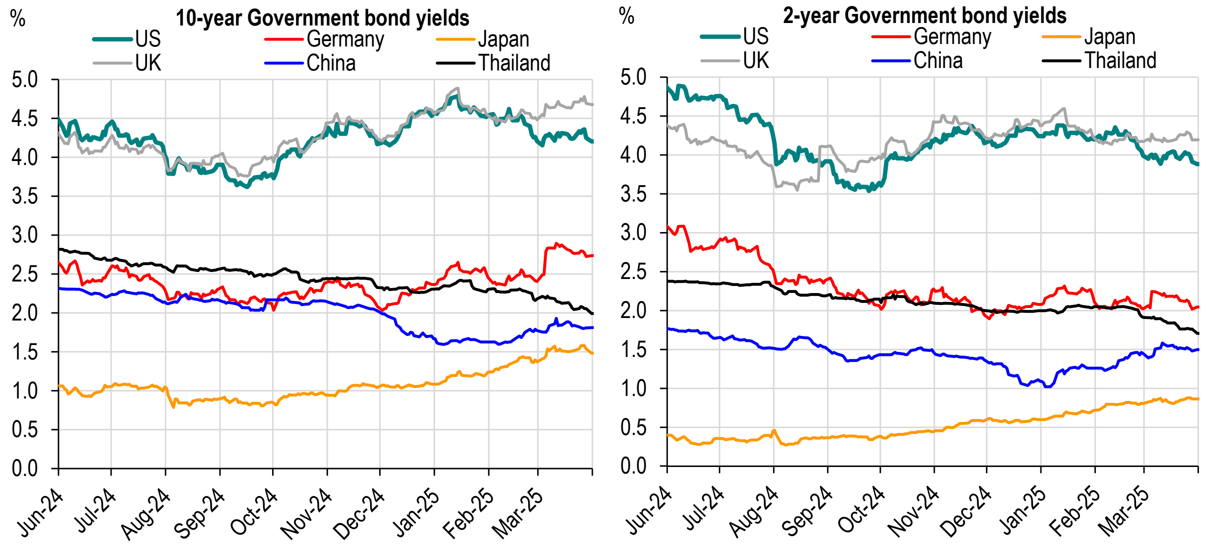


Source: Bloomberg, KBank as of March 31, 2025.

Bond markets show mixed performance.

Global bond yields showed mixed performance in March. The 10-year US Treasury yield ended the month relatively steady, following a decline the previous month. However, it experienced significant fluctuations amid concerns that Trump's policies could harm the economy and complicate the Federal Reserve's efforts. Meanwhile, **10-year European bond yields rose, mainly for German bunds, supported by anticipated government spending plans** for defense and infrastructure, amounting to EUR 500 billion, and the easing of its fiscal deficit rule (the "debt brake"), a shift not seen since the financial crisis of 2008. **Additionally, 10-year Japanese yields surged above 1.5%, the highest since 2008,** driven by expectations of further BoJ rate hikes, contrasting with the policies of other major central banks**. In contrast, Thailand's 10-year bond yield dropped sharply, reaching its lowest point since January 2022,** as expectations grew for more rapid rate cuts from the Bank of Thailand.

Figure 5: 10-year and 2-year government bond yields

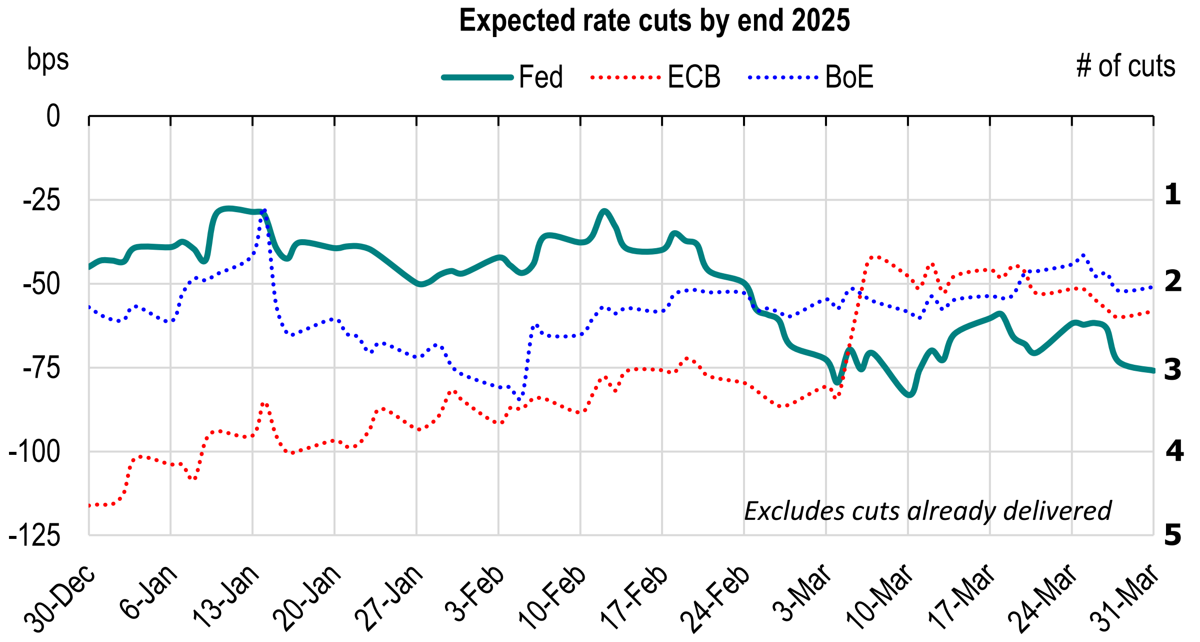


Source: Bloomberg, KBank as of March 31 2025.

The 10-year US Treasury yield ended the month relatively steady at 4.21%, although it experienced significant fluctuations amid concerns that Trump's policies could harm the economy. These concerns were reflected in a decline in consumer sentiment but also raised inflation risks, as consumers' inflation expectations surged, particularly for the next 5-10 years, reaching their highest level in over three decades. The 10-year yield peaked at 4.40% and dipped to a low of 4.15%. Meanwhile, **the 2-year yield fell by 11 basis points to close the month at 3.88%, its lowest**

level since October 2024, driven by economic concerns that led markets to revise their expectations for Fed rate cuts, now anticipating three cuts (-75bps) this year, up from the 1-2 cuts expected earlier. While the Fed kept rates steady at its March 18-19 meeting, the dot plot indicated expectations for two rate cuts this year. The Fed also projected weaker economic growth and higher inflation during the meeting.

Figure 6: Market now expects three cuts from the Fed (vs. 1-2 cuts prior)



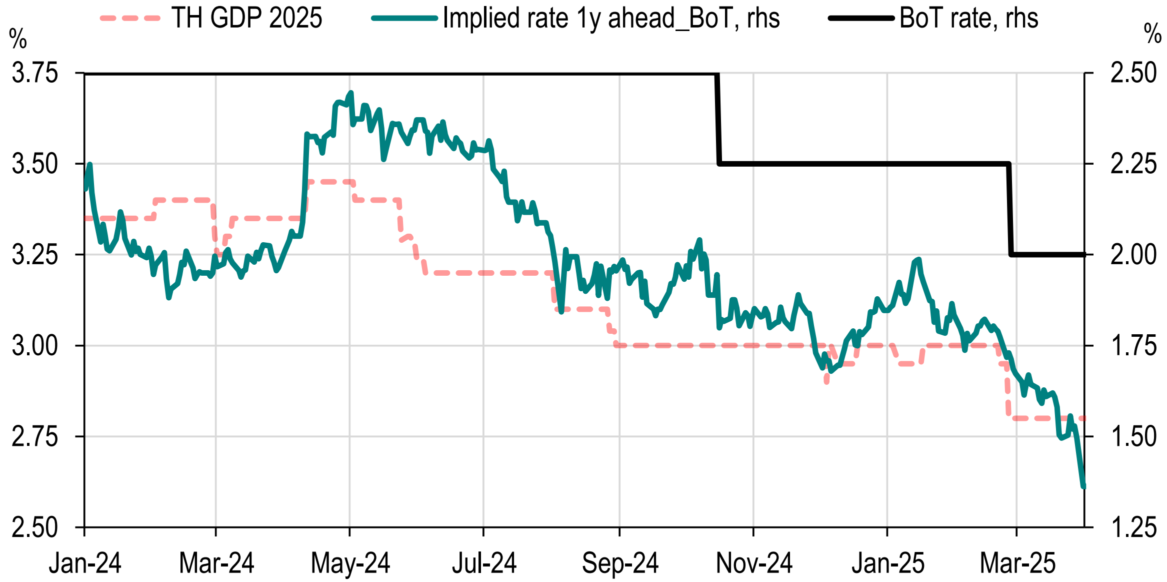
Source: Bloomberg, KBank as of March 31 2025.

On the other hand, **10-year European bond yields surged, mainly for German bunds, which rose by 33 basis points to close the month at 2.74%, the highest since September 2023. This increase was driven by expectations of government spending,** especially in defense, following the US withdrawal of military support for Ukraine. Germany recently passed a massive EUR 500 billion defense and infrastructure plan and eased its fiscal deficit rule, known as the "debt brake," which has been in place since the 2008 financial crisis. Markets expect these measures to help stimulate the economy and potentially drive inflation. Meanwhile, **the 2-year German bond yield closed slightly lower, down two basis points to 2.04%, with the market anticipating two more rate cuts from the ECB**, following cuts in January and March. The European economy remains fragile, with risks from US trade policies, despite the support of higher government spending.

The **10-year Japanese yield rose by 11 basis points to close the month at 1.50%, the highest level since 2008, while the 2-year yield increased by 5.7 basis points to 0.86%, the highest since 2007. This uptick was driven by expectations of further rate hikes by the BoJ,** which contrasts with the policies of other major central banks. Japan's inflation remains above the BoJ's 2% target, with inflationary pressures rising, particularly from increasing wage growth. The BoJ kept its rate steady at 0.50% during its March 18-19 meeting and indicated that further rate hikes would depend on the impact of Trump's tariffs.

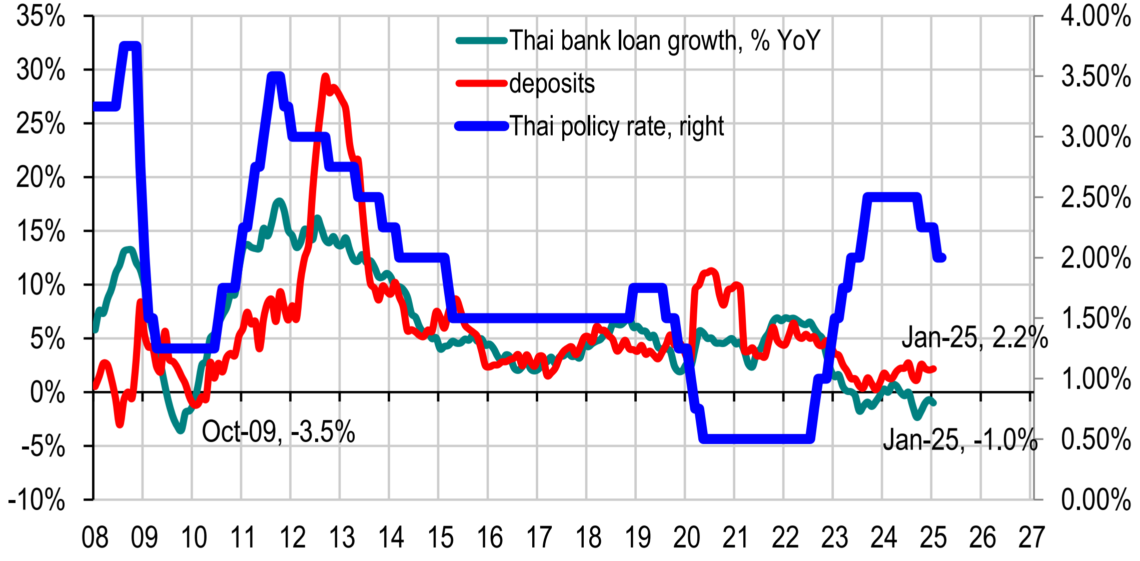
Thai bond yields dropped significantly in March, with the 10-year yield falling by nearly 19 bps to close the month at 1.99%, the lowest since early January 2022. Meanwhile, the 2-year yield decreased by 22 bps to 1.69%, the lowest since January 2023. The decline in Thai bond yields followed the Bank of Thailand's surprise rate cut at its February 26 meeting, which passed with a 6-1 vote. Since then, the market has anticipated further rate cuts from the BoT this year. The earthquake drove the sharp drop in yields at the end of March 28, which is expected to have a significant economic impact. As a result, the market and CMB research expect the BoT to cut rates to 1.75% at its **meeting on April 30** to support growth, boost confidence, and manage the impact of Trump's tariffs.

Figure 7: Market foresees BoT rate below 1.5% in the next 12 months



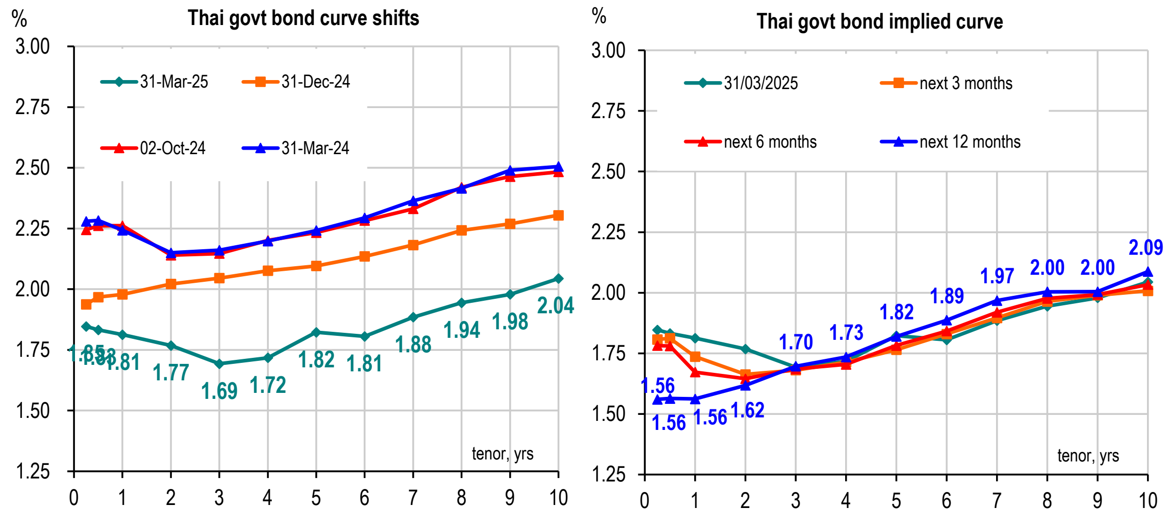
Source: Bloomberg, Kbank as of March 2025.

Figure 8: Thai's loan growth was weak



Source: CEIC, KBank

Figure 9: Movement along Thai yield curve



Source: Bloomberg, KBank

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