

**FX Thoughts**

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**Await Reciprocal Tariffs**

Reciprocal tariffs are likely to be the next set of tariffs that Trump will announce soon. Given that FX can be somewhat sensitive to tariff announcements, our preliminary findings from WITS show that KRW, INR, THB and JPY are likely to be amongst some of the currencies that may face higher volatility. Korea, India, Thailand and Japan impose higher tariff rates on US than the US does on these countries. Reciprocal tariff rate adjustments by US may potentially impact these countries more. On the other end of the list, AUD, GBP may be less affected assuming reciprocal tariff adjustments do not impact Australia and UK.

**Christopher Wong**  
 FX and Rates Strategy  
[ChristopherWong@ocbc.com](mailto:ChristopherWong@ocbc.com)

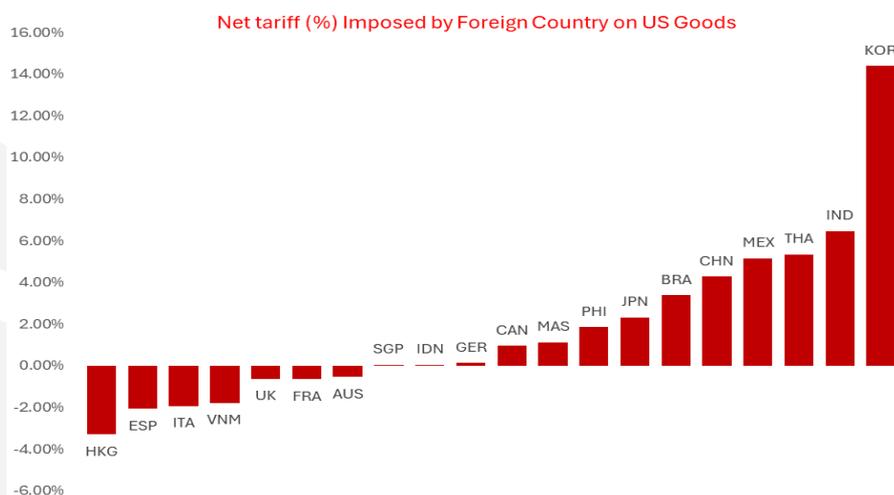
Assisted by Miki Tan Wei Xi

**Reciprocal Tariffs May Come Soon (Maybe?)**

On 7 Feb, Trump brought up introducing **reciprocal tariffs on all nations, likely to be announced this week**. There are little details at this point, but Trump indicated that this action would affect “everyone” and is intended to “equalise” trade. Trump wants to hit any country that charges a duty on a US-made good with “the same exact tariff”.

**Which FX May Be More Affected?**

We attempt to look at the tariff rates imposed on US by trading partners and vice versa to create a proxy list on which FX may be more/ less impacted in the event of reciprocal tariffs. We based the data off World Integrated Trade Solution (WITS) – which is a collaboration between United Nations Conference on Trade and Development (UNCTAD) and the World Bank. Tariff rates below refer to the average of tariffs weighted by their corresponding trade values as of 2022.



Source: World Bank, UNCTAD (WITS), OCBC Research. [Data available as of 2022].

### Potential Risks in Sight

Based on the preliminary finding on existing weighted average tariff rates, Korea, India, Thailand and Japan imposes a higher tariff rate than the US does on these countries. Reciprocal tariff rate adjustment by US may potentially impact these countries more. If FX were to be reactive to tariff announcements, then KRW, INR, THB and JPY may potentially be subjected to higher volatility.

Near term outlook for JPY and KRW remains tricky as reciprocal tariffs may affect Japan and Korea. For automobiles, Japanese cars are the top 5 most popular in US and Korean cars make it to the top 10 list. On agricultural products, Japan has a high tariff rate of 204.3% for rice and 23.3% for meat. The risk is a direct tariff hit on Japanese and Korean goods that can potentially put a downward pressure on JPY and KRW.

Trump told the BBC last week that tariffs on EU goods imported into the US could happen "pretty soon" with no specific timeline stated. He added that "They don't take our cars, they don't take our farm products, they take almost nothing and we take everything from them. Millions of cars, tremendous amounts of food and farm products". Over the weekend, there were reports that EU is considering to lower import tariff on American cars closer to the US rate of 2.5%, from current 10%. That said, the uncertainty on tariffs may still weigh on EUR for now.

Risks can be higher for some EM FX like India and Thailand who imposed average weighted tariff rates of more than 3 and 7 times on US respectively, compared to that imposed by US in 2022. According to recent media reports, Thailand is considering to increase imports of ethane and agricultural goods this year in attempt to be proactive and "leverage this in talks with the US" as stated by Pongsarun Assawachaisophon, the Deputy Secretary-General to the PM. Talks are also underway between US and India for the purchase of combat vehicles and jet engines under Trump's request to increase purchase of American-made security equipment to move toward a "fair bilateral trading relationship".

But on the other end of the spectrum, Australia and UK are likely to be relatively safer since Australia's average weighted tariff rate on US is zero while UK imposed a lower average weighted tariff rate. When asked about tariffs on Britain last week, Trump told reporters: "We'll see how things work out. It might happen with them, but it will definitely happen with the European Union, I can tell you that. The UK is out of line, but I think that one can be worked out". The less-definitive tone relative to EU suggests that UK may be at less risk.

AUD may continue to stay somewhat less affected on the recent news that Australia may be exempted from US tariffs on steel and aluminium imports. Australian PM Albanese mentioned that he had a "very constructive and warm discussion" and believed that they had a "tremendous start to the relationship". This is in light of Australia's argument that their steel and

aluminium are key inputs for US-Australia defence industries that would benefit both countries. However, we are also cautious of recent reports citing Trump's senior counselor for trade and manufacturing, Peter Navarro. He told CNN that Australia is “killing the US aluminium market”, with mention that the volume of US imports of primary aluminium from Australia surged to be about 103% higher in 2024 than the average volume for 2015 through 2017.

With that said, this list is only intended to show which countries may potentially be at risk of being hit with reciprocal tariffs, and by proxy, how some currencies may be more impacted than the rest in the near term. The does not change the core view we have on our currency outlook. For now, we continue to keep a close watch on tariff developments and US CPI data (Wed).

**Table for Weighted Average Tariff Imposed on US (vice versa)**

	Tariffs Imposed on US goods (%) - A	US imposes tariff (%) - B	Net tariff (%) imposed by Foreign country on US goods (positive means foreign imposes higher tariff than US) A-B
HK	0	3.3	-3.30%
Spain	0.78	2.84	-2.06%
Italy	1.12	3.05	-1.93%
Vietnam	2.85	4.63	-1.78%
UK	0.69	1.32	-0.63%
France	1.25	1.9	-0.65%
Australia	0	0.53	-0.53%
Singapore	0.04	0	0.04%
Indonesia	4.16	4.11	0.05%
Germany	1.8	1.65	0.15%
Canada	1.08	0.12	0.96%
Malaysia	1.84	0.72	1.12%
Philippines	3.25	1.4	1.85%
Japan	3.9	1.58	2.32%
Brazil	4.7	1.32	3.38%
China	7.13	2.86	4.27%
Mexico	5.17	0.01	5.16%
Thailand	6.19	0.85	5.34%
India	9.45	2.99	6.46%
Korea	14.39	0.01	14.38%

Notes: Based on Effectively Applied Weighted Average (%) tariff; The average of tariffs weighted by their corresponding trade value. Sorted in order of net tariffs from low risk (green shade) to high risk (red shade). Negative values show that foreign country imposes lower rate of weighted average tariff than US imposes on imports while positive value shows that foreign country imposes higher rate of weighted average tariff than US on imports.

Source: World Bank, UNCTAD (WITS), OCBC Research. [Data available as of 2022].

## Macro Research

**Selena Ling**  
Head of Research & Strategy  
[lingssselena@ocbc.com](mailto:lingssselena@ocbc.com)

**Tommy Xie Dongming**  
Head of Asia Macro Research  
[xied@ocbc.com](mailto:xied@ocbc.com)

**Keung Ching (Cindy)**  
Hong Kong & Macau Economist  
[cindyckeung@ocbc.com](mailto:cindyckeung@ocbc.com)

**Herbert Wong**  
Hong Kong & Taiwan Economist  
[herberhtwong@ocbc.com](mailto:herberhtwong@ocbc.com)

**Lavanya Venkateswaran**  
Senior ASEAN Economist  
[lavanyavenkateswaran@ocbc.com](mailto:lavanyavenkateswaran@ocbc.com)

**Ahmad A Enver**  
ASEAN Economist  
[ahmad.enver@ocbc.com](mailto:ahmad.enver@ocbc.com)

**Jonathan Ng**  
ASEAN Economist  
[jonathannq4@ocbc.com](mailto:jonathannq4@ocbc.com)

**Ong Shu Yi**  
ESG Analyst  
[shuyionq1@ocbc.com](mailto:shuyionq1@ocbc.com)

## FX/Rates Strategy

**Frances Cheung, CFA**  
Head of FX & Rates Strategy  
[francescheung@ocbc.com](mailto:francescheung@ocbc.com)

**Christopher Wong**  
FX Strategist  
[christopherwong@ocbc.com](mailto:christopherwong@ocbc.com)

## Credit Research

**Andrew Wong**  
Head of Credit Research  
[wongvkam@ocbc.com](mailto:wongvkam@ocbc.com)

**Ezien Hoo, CFA**  
Credit Research Analyst  
[ezienhoo@ocbc.com](mailto:ezienhoo@ocbc.com)

**Wong Hong Wei, CFA**  
Credit Research Analyst  
[wonghongwei@ocbc.com](mailto:wonghongwei@ocbc.com)

**Chin Meng Tee, CFA**  
Credit Research Analyst  
[mengqtechin@ocbc.com](mailto:mengqtechin@ocbc.com)

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