WEEKLY BULLETIN

March 2025: Issue #1

Quote of the Week.

"The wise man profits more from his enemies than the fool from his friends" – Baltasar Gracian

March began on a rocky note as Trump's tariff policies sent shockwaves through global markets. In a dramatic flip-flop, Trump initially imposed tariffs on Canada and Mexico, only to backpedal a day later amid intense backlash from corporate America and consumer advocates. The confusion roiled markets, triggering a sharp selloff in U.S. stocks as investors braced for rising costs across industries—from automobiles to basic groceries.

Economic red flags are multiplying. February's Nonfarm Payrolls report disappointed at 151K, falling short of the expected 160K, while January's figures were revised sharply lower. Meanwhile, the Atlanta Fed's GDP forecast plunged to -2.8%, stoking fears that the U.S. economy could be heading toward a sharper-than-expected slowdown.

The Federal Reserve now faces a difficult dilemma: Should it cut rates quickly to cushion the economy, or risk a deeper downturn by waiting? Powell's latest remarks suggest a "wait-and-see" approach—acknowledging the risks but holding off on immediate action.

Despite volatility, Wall Street remains hopeful that the Fed will step in if economic conditions deteriorate. Meanwhile, Trump's softened stance on tariffs has eased some market anxiety, and investors appear eager to test new highs—provided there's clarity on trade policy and a firm signal from the Fed.

Over in Asia, China's consumer inflation turned negative for the first time in 13 months, with CPI falling 0.7% year-over-year, highlighting persistent deflationary pressures. Weak domestic demand continues to struggle against excess supply, raising concerns about the broader economic outlook. Yet, within this uncertainty, opportunities are emerging. South Korean investors have tripled their purchases of Chinese A-shares and H-shares compared to January levels, betting on a turnaround in Chinese tech stocks. Meanwhile, some foreign hedge funds are locking in profits after the recent rally, suggesting that momentum may be stalling..

If Beijing delivers aggressive fiscal measures, the next leg up for Chinese stocks could be substantial. Until then, expect high volatility and tactical trading opportunities—a prudent strategy would be to take profits on extended rallies and re-enter when fresh economic support is announced.

Last Week 's Notable Events.

US Economy/Politics

- US economic activity up slightly as tariff worries rise, Fed survey shows – 6th Mar
- US Nonfarm Payrolls +151K vs exp 160K; Jan NFP adjusted to 125k from 143K – 7th Mar
- US Unemployment rate 4.1% vs exp 4.0% - 7th Mar
- Trump does not rule out recession as he rejects business fears over tariffs – 9th Mar
- Trump tariffs raise recession red flags – 10th Mar

Europe Economy/Politics

- EU slams US tariffs on Canada, Mexico as threat to global trade – 4th Mar
- ECB cuts interest rate by 25bps to 2.5% – 6th Mar

Asia Pacific Economy/Equity

- China foreign minister condemns US imposition of tariffs as 'two-faced' – 6th Mar
- China hits Canada with retaliatory tariffs on agriculture goods – 7th Mar
- ASEAN Summit invites China, Gulf States amid tariffs threat – 9th Mar
- Thailand readies 27 billion baht in new cash handout to spur growth – 10th Mar

Weekly Data Monitor

Weekly chart:

- US equities erased all 2023 gains as concerns over Trump's tariff policies weighed on corporate earnings..
- Oil prices declined amid fears that US tariffs could slow global growth, compounded by rising OPEC output..
- MSCI Asia Pacific Index climbed on increased safe haven demand,

Note: The chart shows normalised weekly highs and lows for the Indicator, BLUE being the LATEST.

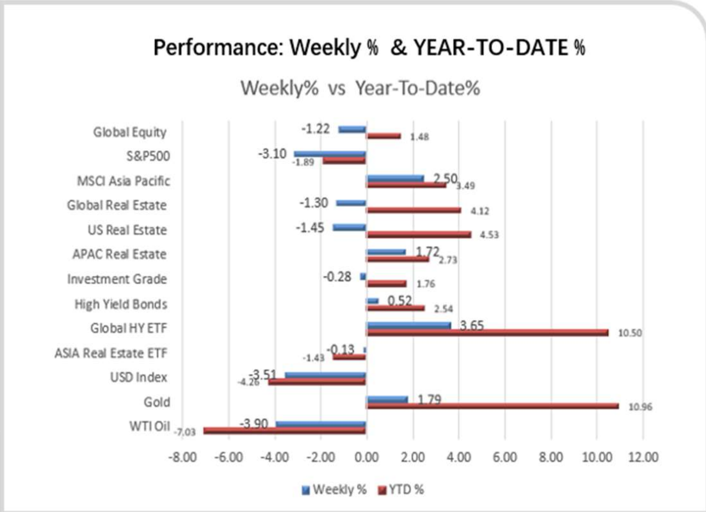
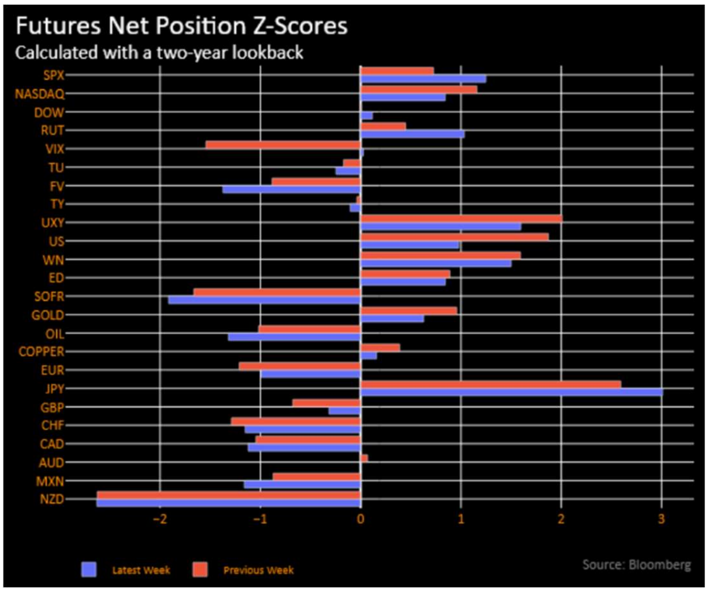


Chart of the Week

The latest CFTC futures positioning report highlights a notable shift in trader sentiment toward JPY long positions, signalling growing conviction that the Bank of Japan (BOJ) may further tighten monetary policy. This shift also reflects a bearish outlook on USD/JPY, with traders betting on a stronger yen.



Key Observations:

- JPY net long positions have surged, indicating expectations of higher Japanese interest rates or increased capital inflows into Japan.
- USD positioning has weakened, reflecting a broader market expectation of potential Fed rate cuts or a policy divergence favouring the yen.
- Extreme positioning levels suggest a crowded trade, raising the risk of sharp reversals if market conditions shift unexpectedly.

Investor Considerations:

- Short USD/JPY Cautiously
  - While the trend favours further yen strength, excessive JPY long positioning raises the risk of short squeezes.
  - Scaling into shorts gradually or using options strategies (e.g., put spreads) instead of outright shorts can help manage risk.
  - Close monitoring of BOJ and Fed policy shifts is crucial.
- Yen Strength Playbook: Equity & Fixed Income Opportunities
  - Japanese equities hedged for FX risk or JGB yield plays could benefit from a stronger yen.
  - Gold and other non-USD assets may attract flows if the dollar weakens further.
- Hedge Against Reversal Risks
  - If positioned short USD/JPY, maintaining stop-loss discipline and risk-adjusted position sizing is essential.
  - USD/JPY call options could serve as a hedge against sudden upward moves.
  - Extreme positioning levels signal potential volatility ahead, requiring investors to remain agile and watch for BOJ policy surprises or liquidity-driven unwinds.

The JPY long trade remains compelling, but the crowded positioning raises the risk of sharp reversals. Investors should manage exposure carefully, monitor central bank developments, and consider hedging strategies to navigate potential volatility.