中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

Subject: Under the tariff tension, could the FX market be a way out?

Video highlights:

- The global financial market is experiencing significant turbulence, with the US stock market facing continued declines. European and Hong Kong stock markets have also nearly erased their gains from the beginning of the year. The current market sentiment is largely driven by fears that new US tariffs could trigger an economic recession.

- In terms of investment strategy, the focus remains on controlling market volatility and diversifying into bond market is one of the strategies. Recently, the US Treasury yield fell, signaling a shift of funds into government bonds and high grade bonds for safety. However, high-yield bonds have not performed well, as potential economic downturns lead investors to avoid lower-rated options.

- Investors are encouraged to manage duration carefully. Although expectations for the Federal Reserve rate cuts are rising, the uncertain tariff landscape complicates predictions about monetary policy.

- The US dollar has emerged as a safe-haven asset, but the slowing US economy may limit the dollar's upward potential. On the other hand, the JPY has performed relatively well recently. Factors supporting the JPY include reduced carry trade demand and ongoing tariff negotiations between Japan and the US.

- The GBP is also in focus, especially as the US imposes a 10% tariff on the UK, which is relatively low. Besides, recent economic data from the UK shows more positive than expected. However, future developments regarding tariffs and potential agreements between the UK and US will be crucial.

- In contrast, the AUD has faced significant declines due to the global tariff situation, impacting its export-driven economy. The AUD/USD rate has dropped to a near five-year low, with market expectations suggesting a potential 100 basis point cut by the Reserve Bank of Australia this year, further complicating its outlook.

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When investing in high-yield or unrated bonds or related products, investors face higher default risk, credit risk or liquidity risk, and are more susceptible to the impact of economic cycles. During economic downturns, their value typically declines more as (i) investors become more risk-averse and (ii) default risk increases. Foreign currency investments are subject to exchange rate risk which may result in gain or loss. The fluctuation in the exchange rate of foreign currency may result in losses in the event that customer converts the foreign currency into HKD or other foreign currencies. Renminbi is not freely convertible at present. The actual conversion arrangement will depend on the restrictions prevailing at the relevant time.

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