Weekly Market Report For 3 – 7 March 2025

Overview

- Trump tariffs sparked higher volatility across markets.
- Trump has used tariffs as a negotiating tool with several changes have been made during last week.
- US reports soft data, but overall economy remains strong.
- China sets 5% GDP target, raises budget deficit to 4% of GDP.
- The ECB lowered its benchmark interest rates by 0.25% as expected.

Market Brief

Global stocks posted higher volatility. The VIX index gapped higher, boosted by Trump tariffs and a slowing economy.

- S&P 500 fell 3% Nasdaq dropped 3.5% WoW.
- Gold prices rose, driven by safe-haven demand amid concerns over Trump tariffs.
- Europe STOXX600 dipped 0.7% WoW. Hope on higher fiscal spending from Germany boosted optimism during the week.
- China shares outperformed global peers, led by tech stocks after Alibaba launched new AI. The Two Sessions meeting signaled Beijing's commitment to add more stimulus, which aims to boost domestic consumption and pledged to provide more support to high-tech industries.

Trump's tariffs

- Trump continues to use tariffs as a trade negotiation tool with many reversals have been made last week. The US president imposed 25% tariffs on Canada and Mexico, along with a further 10% hike on Chinese goods. He quickly provided one-month exemptions for autos from Canada and Mexico and many other goods covered by the US-Mexico-Canada Agreement on trade that Trump negotiated in his first term as president until April 2.
- China retaliated by imposing extra tariffs of 10%-15% on US farm and food products, effective from March 10. The Chinese government also said it was blocking 15 US companies from buying Chinese products and was blocking another 10 US companies from doing business in China. However, China's government is signaling that they do not want to escalate, they want to negotiate.
- Trump tariff continued to rattle markets. The Fed Chair Jerome Powell said the net effect of trade, immigration, fiscal policy and regulation changes will impact the economy and the path of monetary policy. He reiterated that the central bank does not need to be in a hurry to cut interest rates and is well-positioned to wait for greater clarity.

US economy

- February's manufacturing PMI came below expectation.
- The US economy created 151,000 new jobs in February, less than the 160,000 expected by economists, but more than the 125,000 seen in January.
- The unemployment rate edged up to 4.1%, surpassing expectations of 4.0%.
- The Fed Chair Jerome Powell said the US economy continues to be in a good place with no sign of crisis. Some economic data may show signs of slowing, but they do not point to recession, and inflation is expected to move toward the central bank's 2% target.

Two Sessions meeting and China economic policy

- China set the economic growth target at 5% for 2025 and raised its budget deficit level to 4% of GDP.
- China will issue a total of CNY1.3 trillion of ultra-long special treasury bonds, up CNY300 billion from last year, to boost consumption and invest in infrastructure projects.
- The country will issue an additional CNY500 billion of local government special-purpose bonds to boost capital at its biggest banks to support the economic recovery and to stabilize its banking system.
- The country plans for proactive fiscal policy amid domestic and external uncertainties.
- The PBOC signaled it will cut interest rates and Reserve Requirement Ratio (RRR) at an appropriate time. The government has reduced its inflation target to 2%, the lowest level in 20 years, from 3% previously. February's inflation fell 0.7% YoY, the first drop in 13 months.

Europe

- The parties hoping to form Germany's next government - CDU/CSU and SPD - agree to loosen fiscal rules. Its defense spending will be raised from 0.3% to 1% of GDP. It will also create a EUR500 billion special infrastructure fund, which require a two-thirds majority in parliament. Goldman Sachs expected increased military and infrastructure spending could lift Germany's economic growth.
- The ECB lowered its policy rates by 0.25% as expected. The ECB expected inflation will gradually decline but may still remain above its 2% target. GDP growth forecasts were revised downward to 0.9% for 2025 and 1.2% for 2026, while inflation is projected to average 2.3% in 2025, reflecting weak exports and uncertainty in global trade.
- The ECB president Christine Lagarde said the next move would depend on incoming data. Market expected another 2 rate cuts this year.

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