25 April 2025

Charts of the Week

Dollar Dips and Trade Trips

HAVER ANALYTICS®

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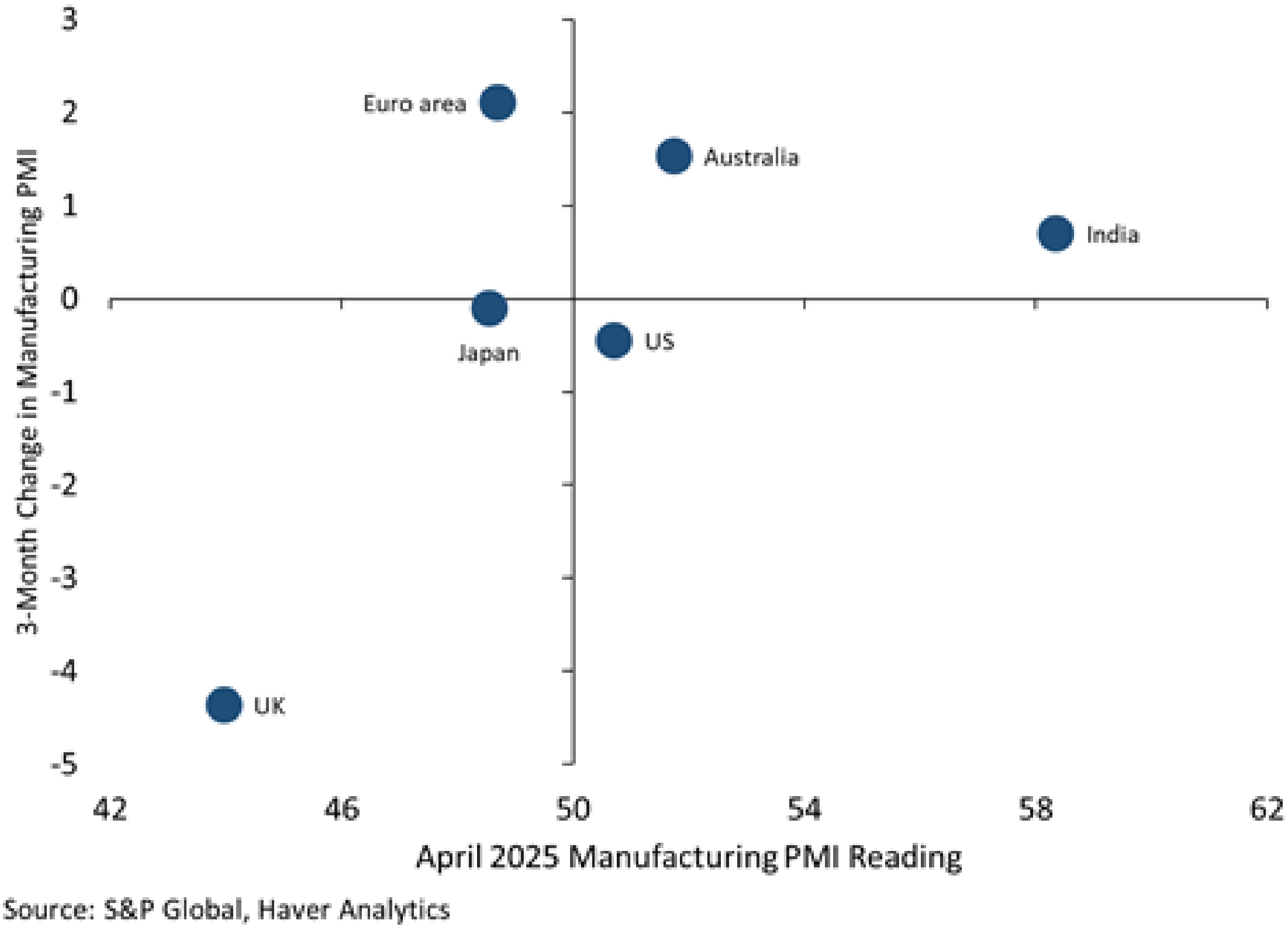
Financial market volatility has remained elevated over the past several days as investors attempted to weigh a modest improvement in sentiment—driven by a potential, if partial, retreat by the US administration from its aggressive tariff stance—against a still-cloudy global outlook. Signals from flash PMI surveys on global growth remain mixed: Europe continues to stagnate, with the UK particularly weak, while India stands out with resilient and rising manufacturing activity (chart 1). In the US, most of the incoming data suggest that business confidence has faltered, with capital expenditure intentions plunging particularly sharply in the wake of the April 2nd tariff announcement (chart 2). The drag from trade tensions is, moreover, becoming more evident: South Korea's exports have slumped, especially to the US, and even sectors granted exemptions—like semiconductors—are showing signs of strain (chart 3). These pressures are reverberating through financial markets as well, where Chinese investors are shifting into gold as a hedge, fuelling record trading volumes on the Shanghai Gold Exchange and lifting global gold prices (chart 4). Meanwhile, a broadly-based decline in the US dollar and persistently high readings on the VIX index arguably reflect a deeper reassessment of US assets as reliable safe havens amid mounting policy unpredictability (chart 5). Beneath these short-term ripples lie more entrenched structural challenges: the US is seeking to rebalance away from external deficits linked to its reserve currency role, while China is under growing pressure to pivot toward consumption-led growth—an imperative sharpened by American efforts to choke off its export strength (chart 6). In short, the latest softening in US trade rhetoric may offer brief relief, but the underlying economic, geopolitical, and structural crosswinds remain very much in play.

Global growth

Latest flash PMI readings reveal a widening gap in manufacturing performance across major economies. Europe remains mired in contraction, with both the UK and euro area registering PMI figures below the 50 threshold. The UK's manufacturing sector is particularly under pressure, with the PMI dropping to a new low not seen in over a year—reflecting weak output and mounting challenges from both domestic uncertainty and external shocks, including the disruptive impact of recent US trade actions. While the euro area shows tentative signs of stabilization, with PMI readings inching higher, the recovery remains fragile. In sharp contrast, India's manufacturing sector continues to outperform, with PMI figures climbing further and signalling resilient industrial momentum amidst global headwinds.

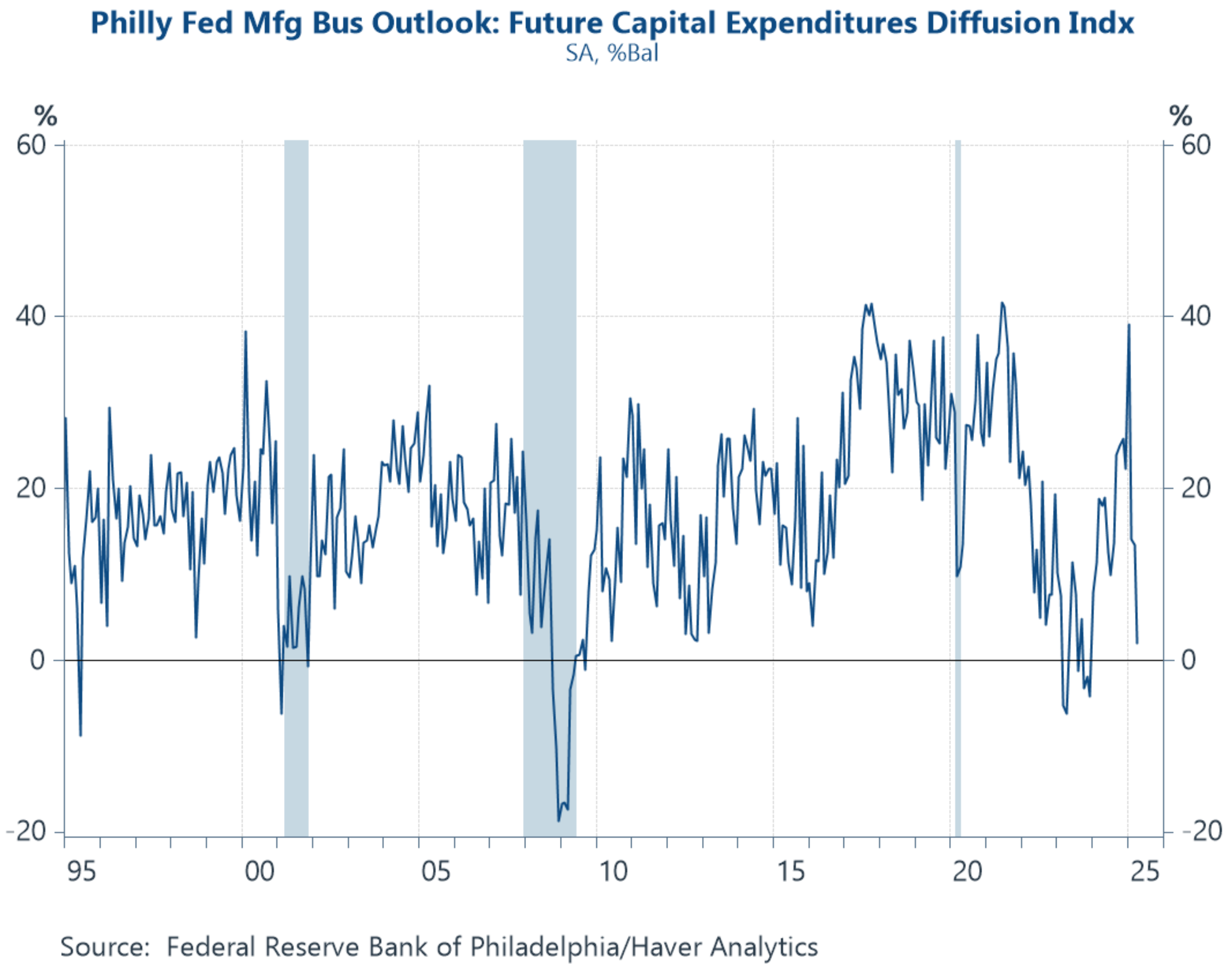
Chart 1: Flash PMI surveys: April's levels versus 3 month changes



US capex intentions

The latest reading from the US Philly Fed survey suggests a sharp drop in capex intentions among manufacturers in the Philadelphia region, likely reflecting growing uncertainty in the wake of the US administration's surprise announcement of sweeping tariffs on April 2nd, 2025. This abrupt policy shift has rattled business confidence, echoing past episodes—such as during the 2008 financial crisis and early stages of the pandemic—when capex sentiment similarly plunged. The downturn underscores how policy-induced trade disruptions can swiftly chill investment appetite, particularly in manufacturing sectors exposed to global supply chains.

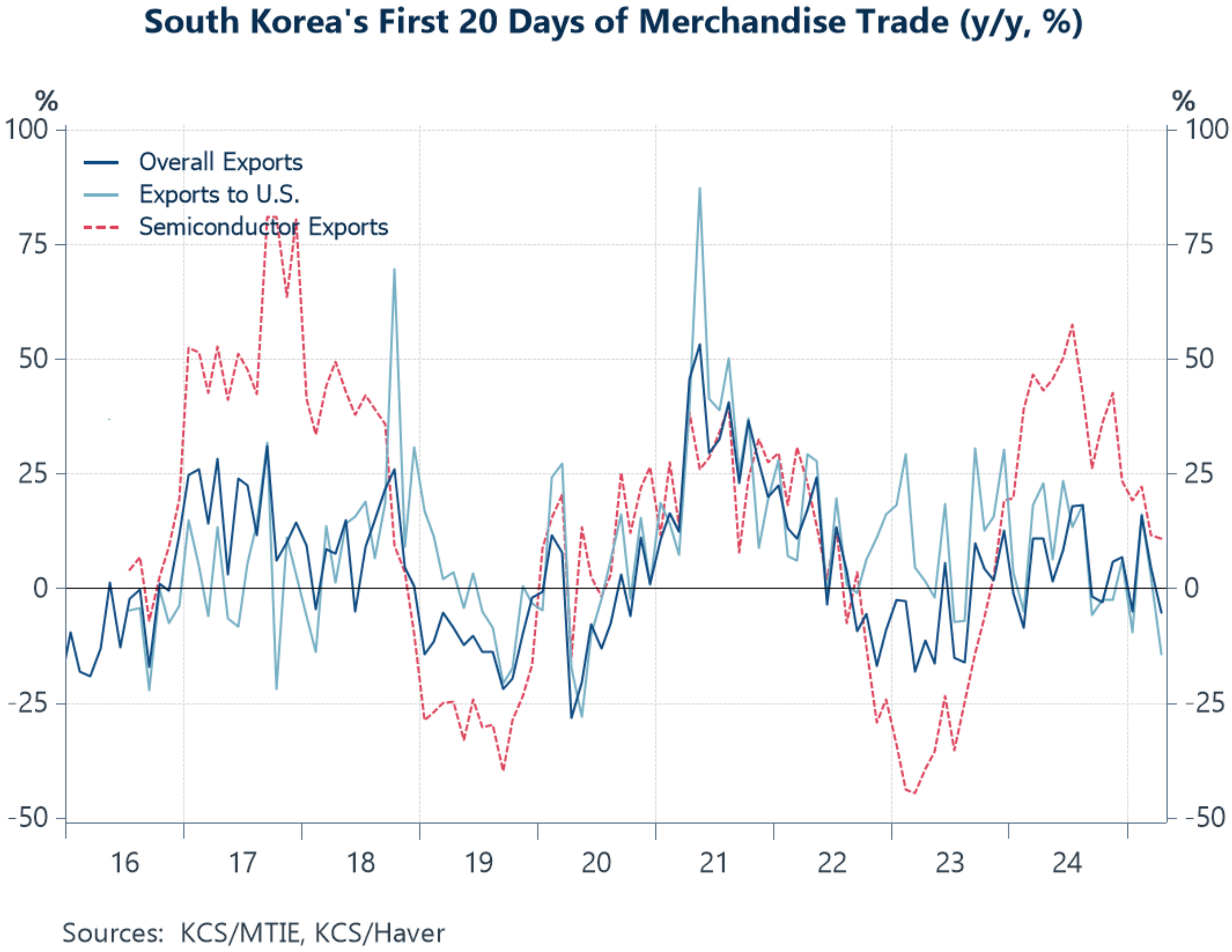
Chart 2: US Philadelphia Fed Survey: Capex intentions



South Korean trade

The fallout from President Trump's "reciprocal" tariffs and the rapid escalation of the trade dispute with China is also now becoming evident in Asia's trade data. South Korea's trade figures for the first 20 days of April—often seen as a bellwether for global trade—fell sharply compared to the same period last year. The drop was led by a steep decline in exports to the United States, where tariffs on Chinese goods have surged to as high as 145%, effectively choking bilateral trade flows outside a narrow band of exemptions for strategic goods like electronics and semiconductors. Even these sectors are feeling the strain: South Korea's semiconductor exports continued to decelerate in April, highlighting the broader collateral damage of deepening trade tensions.

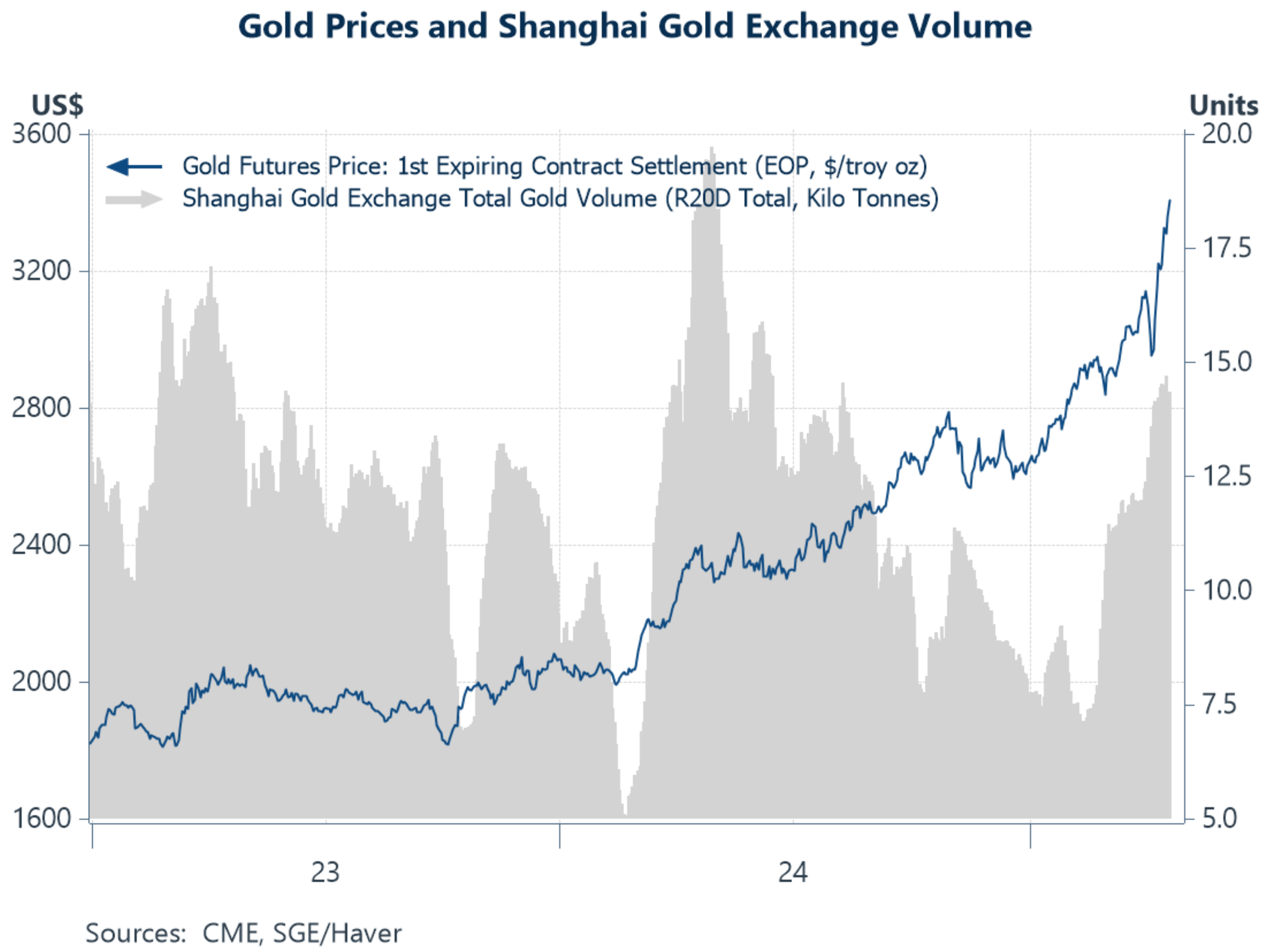
Chart 3: South Korea’s first 20 days of merchandise trade



Gold prices

The latest escalation in US-China trade tensions is reverberating far beyond traditional trade channels. Market sentiment has deteriorated noticeably, weighed down by darkening global growth prospects and deepening uncertainty over the future of relations between the world’s two largest economies. The forced decoupling is also reshaping investor behaviour, particularly among Chinese investors, who are increasingly turning to stateless safe-haven assets like gold. This shift is evident in the surge in trading volumes on the Shanghai Gold Exchange and the steady climb in global gold prices—buoyed further by a weakening US dollar. The trend points to rising concern among Chinese investors about the geographic concentration of their wealth, as Washington’s increasingly hawkish posture prompts a reassessment of cross-border financial exposure.

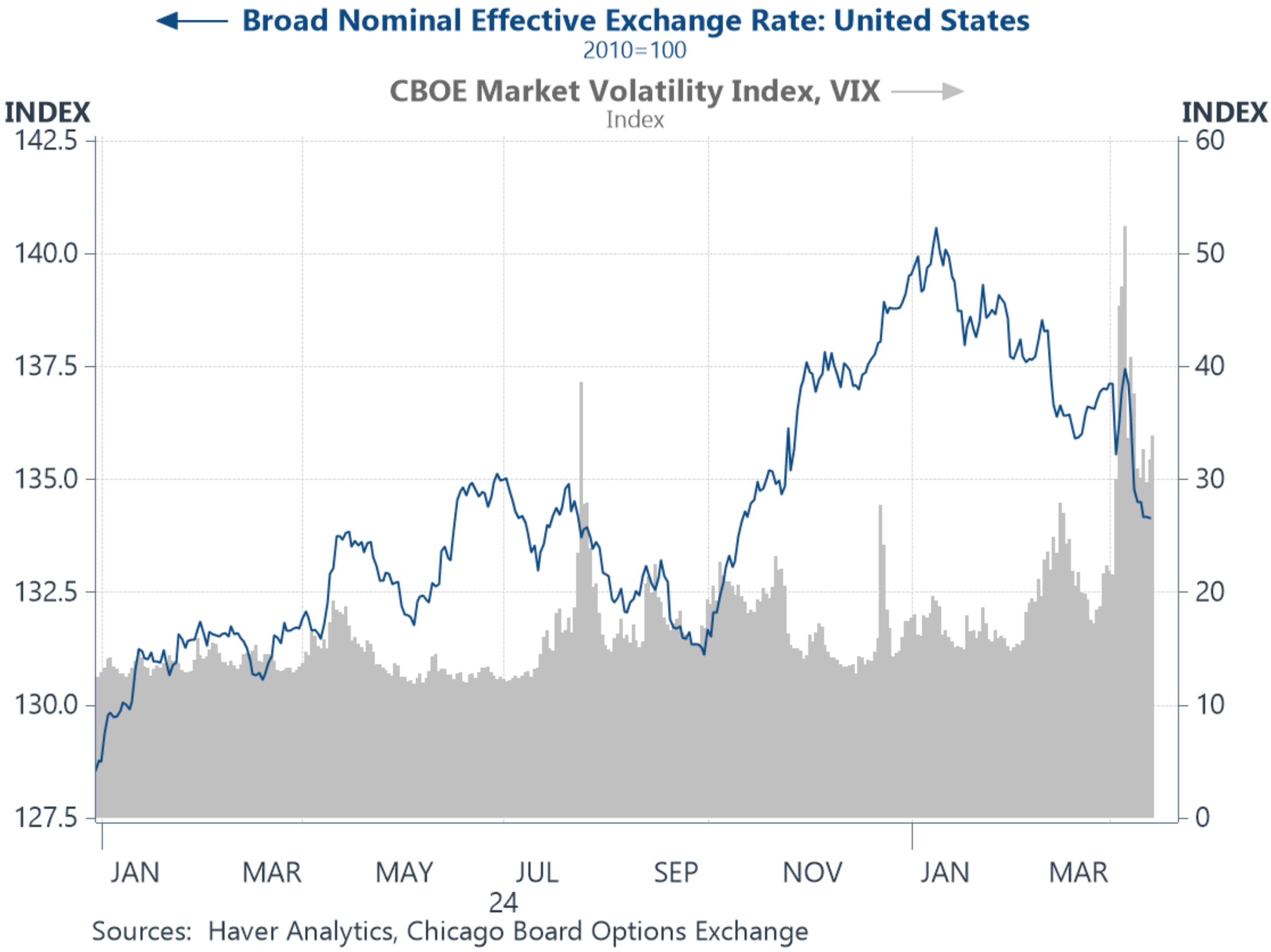
Chart 4: Gold prices and Shanghai Gold Exchange volume



The US dollar and market volatility

Recent sweeping US-led trade actions and a broader turn toward protectionism have sharply eroded the goodwill and soft power long associated with the US and its financial assets. As Washington becomes an increasingly prominent source of global instability, investor confidence in the US dollar as a safe-haven currency has weakened. This loss of faith is reflected across asset markets, with the dollar's persistent and more entrenched decline against major currencies standing out as a clear signal of a broader reassessment of the US's global economic role. Elevated market uncertainty reinforces this shift, as underscored by still-high—albeit slightly moderated—readings on the VIX volatility index.

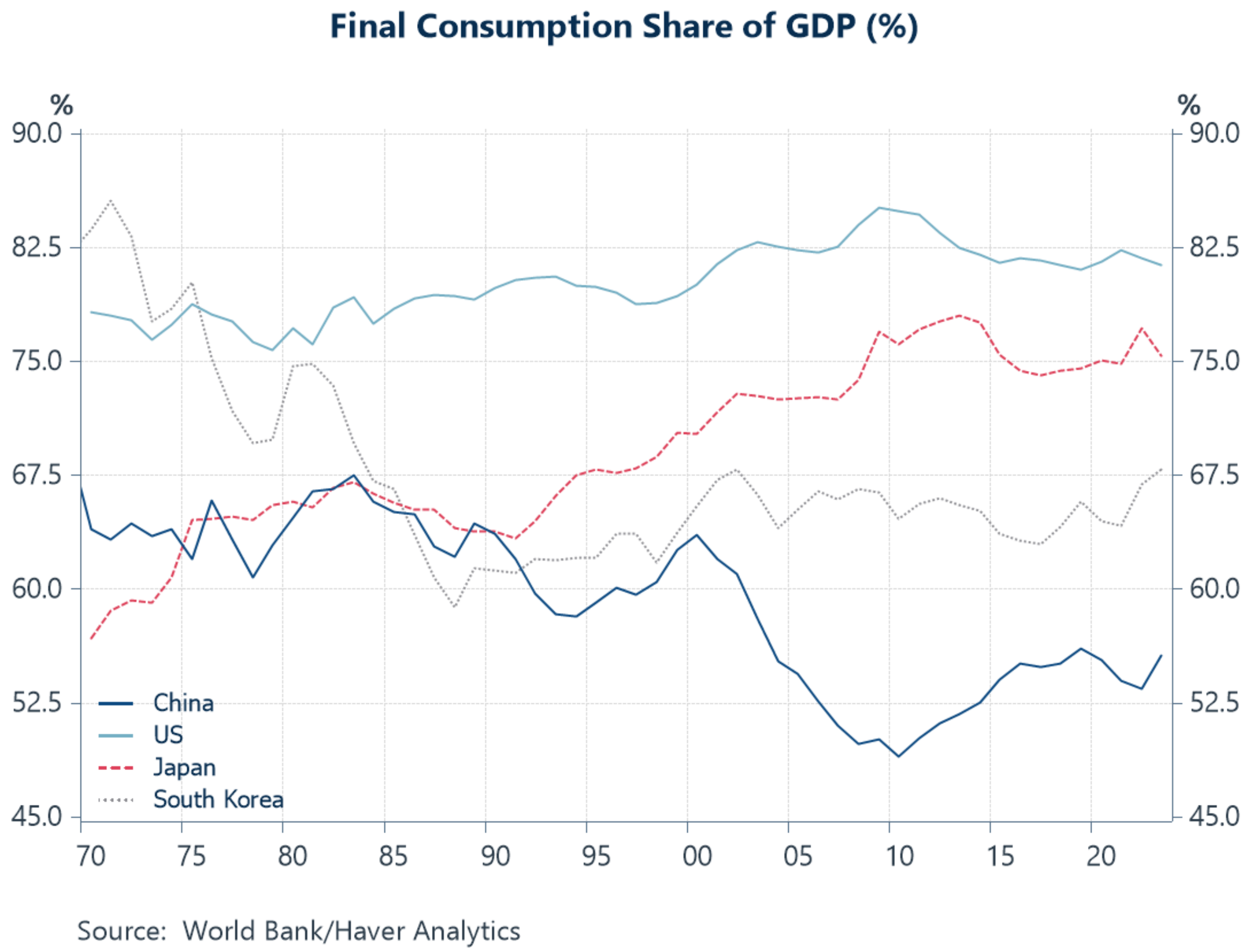
Chart 5: US nominal effective exchange rates and the VIX index



Asia's consumption

Viewed in a broader context, the recent actions by the US may signal an effort to rebalance its economy—though whether this strategy is well-calibrated remains highly contested. As the issuer of the world's dominant reserve currency, the US has long been ensnared in the so-called Triffin dilemma: global demand for dollar-denominated assets has sustained persistent trade deficits, gradually undermining the competitiveness of its domestic manufacturing and other tradable sectors. China, by contrast, grapples with the mirror image of this problem. Its growth model remains heavily anchored in manufacturing and external surpluses, and it is now under mounting pressure to pivot toward consumption-led growth—an imperative sharpened by the latest wave of US measures designed to curb Chinese export strength.

Chart 6: US and Asia's consumption share of GDP



About the author

Haver Analytics is pleased to bring Andy Cates's commentaries on the state of the global economy to its clients. Andy has more than 25 years of experience forecasting the global economic outlook and in assessing the implications for policy settings and financial markets. He has held various senior positions in London in a number of Investment Banks including as Head of Developed Markets Economics at Nomura and as Chief Eurozone Economist at RBS. These followed a spell of 21 years as Senior International Economist at UBS, 5 of which were spent in Singapore. Prior to his time in financial services Andy was a UK economist at HM Treasury in London holding positions in the domestic forecasting and macroeconomic modelling units. He has a BA in Economics from the University of York and an MSc in Economics and Econometrics from the University of Southampton.

Series info:

Chart 1: Flash PMI surveys: April's levels versus 3 month changes

*Please refer to Excel file included in VG3 folder download.

Chart 2: US Philadelphia Fed Survey: Capex intentions

Series 1: BOFCEX@SURVEYS

BOFCEX@SURVEYS [Philly Fed Mfg Bus Outlook: Future Capital Expenditures Diffusion Indx(SA, %Bal)]

Chart 3: South Korea's first 20 days of merchandise trade

Series 1: yryr%(N542IX20@EMERGEPR)

N542IX20@EMERGEPR [South Korea: First 20 Days Merchandise Trade: Exports (NSA, Mil.US$)]

Series 2: N542XTUS@EMERGEPR

N542XTUS@EMERGEPR [South Korea: First 20 Days of Merchandise Trade: Exports to U.S. (NSA, Y/Y%)]

Series 3: N542XTVR@EMERGEPR

N542XTVR@EMERGEPR [South Korea: First 20 Days of Trade: Exports: Semiconductor (NSA, Y/Y%)]

Chart 4: Gold prices and Shanghai Gold Exchange volume

Series 1: PZGLF@DAILY

PZGLF@DAILY [Gold Futures Price: 1st Expiring Contract Settlement (EOP, $/troy oz)]

Series 2: movt(na2z(CDPAAPK@CHINA),20)

CDPAAPK@CHINA [China: Turnover: Volume: Shanghai Gold Exchange: Total (Kg)]

Chart 5: US nominal effective exchange rates and the VIX index

Series 1: FXTNBUS@DAILY

FXTNBUS@DAILY [Broad Nominal Effective Exchange Rate: United States (2010=100)]

Series 2: SPVIX@DAILY

SPVIX@DAILY [CBOE Market Volatility Index, VIX (Index)]

Chart 6: US and Asia's consumption share of GDP

Series 1: N924ZS@WDI

N924ZS@WDI [China: Final Consumption Expenditure (% of GDP)]

Series 2: N111ZS@WDI

N111ZS@WDI [United States: Final Consumption Expenditure (% of GDP)]

Series 3: N158ZS@WDI

N158ZS@WDI [Japan: Final Consumption Expenditure (% of GDP)]

Series 4: N542ZS@WDI

N542ZS@WDI [South Korea: Final Consumption Expenditure (% of GDP)]

Get in touch

Email sales@haver.com and someone from our team will connect with you to discuss your data needs.