Trump yields to bond mkt threats?

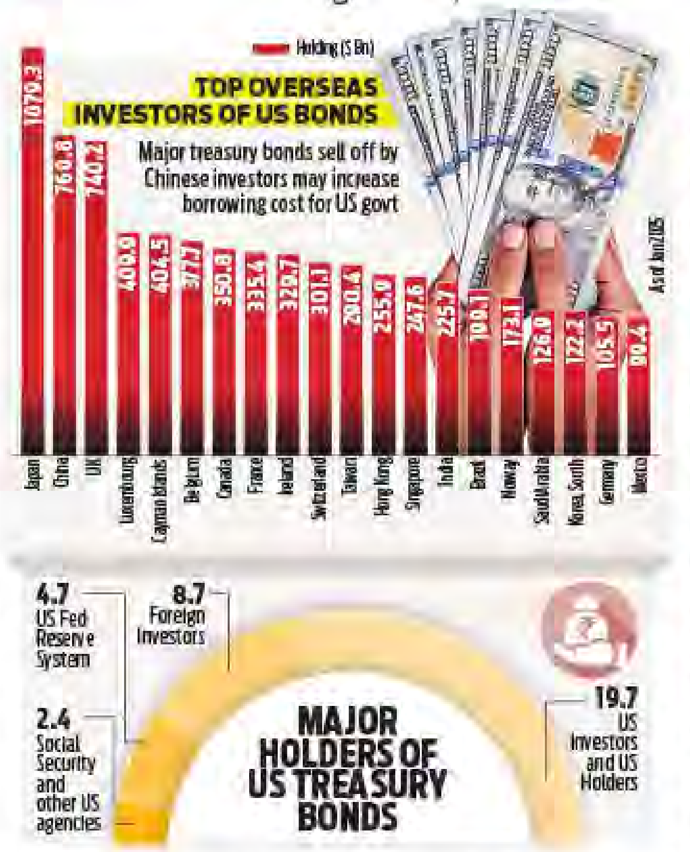
US treasury bonds are viewed as safe havens during turmoil, but recent sell-off has shaken that belief

DIPAK MONDAL @ New Delhi

US President Donald Trump, with his bold and aggressive reciprocal tariff announcements, has managed to tie himself in knots. Now, in an apparent effort to undo the damage, he's opted to defer the tariffs by 90 days. Predictably, he's framing the move as a "brave" gesture — claiming global leaders are lining up to negotiate with him, and thus justifying his decision to delay the tariffs.

In another visible climbdown, the Trump administration has also exempted imports of electronic items from the tariff list.

However, the reality is far more complex. While several theories are circulating to explain Trump's sudden change of heart, the most compelling points to fears of a massive sell-off of US Treasury bonds by foreign investors.



BONDS THAT MATTER

During the week, US Treasury bond yields — comparable to Indian government bonds—saw their sharpest rise since 2001. The 10-year yield climbed to 4.592% on Friday, the highest since February 13, 2025, and closed at 4.49%. It marked a weekly increase of 60 basis points — the biggest since 2001. Yields rise when bond prices fall. What's alarming is that bond yields increased even as equity markets tumbled — a rare occurrence in normal times.

Typically, bond prices and stock prices move in opposite directions. However in periods of deep economic uncertainties, both can decline simultaneously.

United States' Treasury bonds are traditionally viewed as safe havens during global turmoil, but the recent sell-off has challenged that long-standing belief.

"The pause on the reciprocal tax wasn't a strategic recalibration—it was a bond market intervention," according to Utkarsh Sinha, managing director at Bexley Advisors, a boutique investment banking firm.

"Historically, equity and bond markets rarely sell off in tandem. When they do, it's a red flag. It last happened during episodes of extreme uncertainty—like the 2008 crisis or the height of the pandemic," he explains.

Higher yields on US Treasuries translate to increased borrowing costs for both corporations and the government. When confidence debt wavers and borrowing costs spike in the United States, the implications ripple far beyond the realm of trade, says Sinha.

THE SELL-OFF THREAT

Roughly a quarter of the $36 trillion US Treasury market is held by foreign investors. Japanese investors alone hold over $1 trillion in US bonds. But the real concern for the US administration lies with China, which holds around $760 billion worth of Treasuries. With tensions between Washington and Beijing running high, neither side seems willing to back down.

In retaliation to US tariffs, China has hiked tariffs on American imports to 125%, even as the White House threatens to raise tariffs on Chinese goods to 145%. While Trump has offered a 90-day reprieve to several nations, he has not extended the same to China. In 2024, China exported $440 billion worth of goods to the US, maintaining a trade surplus of $295 billion.

The prospect of China dumping US Treasuries in favor of gold or other currencies has unnerved Washington. Still, Trump insists, "The bond market's going good. It had a little moment, but I solved that problem quickly." Namrata Mittal, economist with SBI Mutual Fund, underscores the scale of the US government's financing challenge. "The US plans to issue $2 trillion in new debt this year, and has $8 trillion maturing debt to roll over — on top of its existing interest obligations," she says. "Restoring confidence in US Treasuries may be essential. Perhaps that's one reason for delaying the tariffs — a tactical move to buy time," Mittal adds.

NEWSCOPE

TRUMP'S 'GETTING JOBS HOME' IS A PIPE DREAM

GURBIR SINGH

A recent Reuters story details how 6 years ago, in President Donald Trump's first term, LVMH's billionaire and CEO Bernard Arnault joined the US president to open a designer handbags factory for the Louis Vuitton luxury brand in rural Texas. Over the years, the sprawling site at an old ranch has ranked among the worst-performing LVMH units. Workers have been unable to meet the high standards of design, resulting in waste and damaged products. What was projected to generate 1,000 high-skilled jobs is today struggling with just 300 hands.

Meanwhile, in response to Presidents Trump's call to bring back manufacturing to the US, derisive memes in China's booming social media have been lampooning the return of the American blue collar. Obese and awkward white, males are pictured clumsily struggling with sewing machines trying to thread Nike shoes or screw on iPhone covers. Trump's sweeping tariffs are about getting manufacturing back to the US. His math is: make importing goods to the US so expensive, that industries and production lines will come back home. He has been consistent on the theme for over four decades blaming past presidents for sacrificing US industries and jobs. In his second term, he has gone about it with a vengeance.

"American steel workers, auto workers, farmers and skilled craftsmen...They watched in anguish as foreign leaders have stolen our jobs, foreign cheaters have ransacked our factories," Trump said from the White House Rose Garden last week. But can Trump recreate the manufacturing heydays of the 1950s?

Turning the clock back

The USA in the 1950s was a different place. It had won the World War and was the least unscathed among the Western Allies. While Europe and England were devastated, American industries were booming, accounting for one-third of the world's exports while taking in only a tenth of all imports.

What the West hadn't figured is the defeat of Nazi Germany also signaled the end of the old colonial era and the rise of the new nations in Asia and Africa. Countries like China and India had shed their shackles and launched their own industries and growth stories. Over time, manufacturing of steel, textiles, toys and cars became cheaper and more efficient in Mexico, Bangladesh and China, and the fall of the US industries set in. Detroit, US' automotive hub, become a ghost town and much of the booming mid-west looked like an industrial graveyard.

In the early 1970s, US blue collars in manufacturing made up over a quarter of the country's workforce; today they account for just 8%. Peter Navarro, counsellor to Trump, says the logic of the tariff war is to see that the under capacity and deserted factories of the mid-west are repopulated. But is that possible?

MANDAR PARDIKAR

Apparently not. Even if the Trump administration does succeed in reversing the trade deficit through heavy tariffs, and if some industries returned to the US, this would increase the share of manufacturing employment in the country by one percentage point, from about 8% today to 9%, as per the US Bureau of Labour Statistics. This is hardly the 'Liberation Day Revolution' Trump has been crowing about.

Moreover the business landscape has changed since the 1970s. The Rust Belt days of millions working on long assembly lines have been replaced by automation and artificial intelligence (AI). Industrial robots have taken over. Those workers still on the job are highly skilled technicians. Even if some of the US companies bring back their offshore production, as some like Nvidia and Stellantis have pledged, this will not be a boom for blue collar jobs.

A bigger question is: does the US worker have the stomach anymore for the dirt and grime of the old assembly lines? Probably not. Even with an unemployment rate at 4.2 percent, there are manufacturing jobs going a begging. In February there were, 482,000 manufacturing jobs open, according to the latest Job Openings and Labor Turnover Survey. By 2033, the number of unfilled manufacturing jobs is expected to rise to 1.9 million.

Reversing globalisation

And finally, the overarching issue of globalisation. While posturing to be a votary of traditional capitalism, Donald Trump's Make-America-Great-Again (MAGA) agenda defies everything capitalist free enterprise stands for. Geographically, distribution of production has evolved. Location is not country specific. It is based on availability of inputs, skills and levels of efficiency. In this system, to erect walls through tariffs is to set the clock back.

The US dominates the world order accounting for 26 percent of the global economy in terms of nominal gross domestic product (GDP). While manufacturing may have declined, the US is the world leader in technology, finance, healthcare and consumer services. Big Tech across the globe is dominated by the big 5 US companies - Alphabet (Google), Apple, Amazon, Meta (formerly Facebook), and Microsoft. Financial services too are centered in the US with its various arms - banking, insurance, etc - accounting for as much as 21 percent of the country's economy.

Other economies, meanwhile, have integrated into the international supply chains. For instance, while diamonds are mined in South Africa, Botswana and Russia, the roughs are traded in Antwerp, and polished and cut in Surat, India before they are exported and retailed as jewelry in the US. Similarly, Nike and Adidas produce the designs of their shoes in their US headquarters, but manufacture them in Vietnam, China and Indonesia.

Free enterprise and free trade are the watchwords of the international economy. Trump cannot grudge why Bangladesh is the hub for producing finished textiles, or why Mexico and Canada have emerged as alternatives to Detroit for automobile production.

The good news is there is resistance to Trump's bullying. The market meltdown and disruption of supply chains has pushed Donald Trump's closest allies and his worst foes to push back. The 90-day pause on the reciprocal tariffs is proof they might be winning the war.

Smartphone industry gets relief from reciprocal tariff

RAKESH KUMAR @ New Delhi

IN a major relief for India's smartphone industry, the US has exempted electronic items such as smartphones, computer monitors, and other gadgets from reciprocal tariffs.

The US Customs and Border Protection on Friday published a notice stating that electronic items would be excluded from the reciprocal tariffs announced by the Trump administration on various countries — including a 26% tariff on India and a 145% tariff on China.

Experts believe the move follows concerns that iPhones could become three times more expensive in the US if the tariff were implemented. Apple manufactures nearly 80% of its devices in China, with the remaining 20% produced in countries such as Vietnam, India, and Brazil. Moreover, as per Counterpoint Research, Apple accounted for more than half of the smartphone sales in the US last year. Therefore, the tariffs would have significantly inflated iPhone prices in the US. In fact, Apple reportedly airlifted about 1.5 million devices from India ahead of the tariff announcement by Trump administration.

Relief for India's exports

This decision brings significant relief to India, as smartphones became the country's single-largest export commodity in the last financial year. India's phone exports crossed an all-time high of ₹2,00,000 crore in FY25

This decision brings significant relief to India, as smartphones became the country's single-largest export commodity in the last financial year. India's phone exports crossed an all-time high of ₹2,00,000 crore in FY25, marking a 55% increase over the ₹1,29,000 crore recorded in FY24. According to the India Cellular and Electronics Association (ICEA), the surge in exports is led by Apple and Samsung, both of which have significantly scaled up their manufacturing operations in India. As a result, India's mobile phone production is estimated to have reached ₹5,25,000 crore in FY25, up from ₹4,22,000 crore in the previous fiscal year.

Meanwhile, industry experts in India welcomed the move, calling it expected, as electronic items constitute a major share of US imports. According to Faisal Kawoosa, founder of Techarc, it was impractical to expect a rapid shift of the entire value chain to meet the new tariff requirements.

"This outcome was largely what I had anticipated. As you may recall, I mentioned earlier that an exclusion list or exemption list would be necessary, given the impracticality of quickly shifting the entire value chain to meet the new requirements. I foresaw this development," he said.

Prabhu Ram, vice President of the Industry Intelligence Group at CyberMedia Research (CMR), added, "The U.S. tariff exclusions are a timely and meaningful move toward cooling trade tensions and bringing relief across the global tech ecosystem. The exemptions provide a solid tailwind for tech majors, including Apple, Samsung, Lenovo, Dell, AMD, Nvidia, and the broader semiconductor and hardware industry.

25 bps lending rate cut by IOB; BoI FD rate falls

ENS ECONOMIC BUREAU @ New Delhi

INDIAN Overseas Bank has reduced the Repo Linked Lending Rate by 25 basis points with immediate effect, the bank said on Saturday after the recent policy rate reduction by the RBI's MPC by 25 bps.

The decision to slash the rates by the apex bank comes amid looming uncertainties after last week's announcement of 27% tariffs on Indian imports to the US by President Donald Trump.

Meanwhile, public sector Bank of Indiahas announced to withdraw its special fixed deposit scheme for 400 days where interest rate was at maximum of 7.30%. The bank has reduced rate on its short-term & medium-term Fixed Deposits for various maturities w.e.f 15th April 2025.

UPI payments server down for third time in two months

ENS ECONOMIC BUREAU @ New Delhi

THE Unified Payments Interface (UPI) continued to face interruptions for the second time this month, with thousands of customers reporting payment failures on their platforms like PhonePe, Googlepay and Paytm, among others.

Despite UPI's dominance, frequent outages are frustrating users. The National Payments Corporation of India (NPCI) had said on April 1 the UPI transaction volume hit a record high of 18.3 billion in March, which was over 13.5% year-on-year, while the value touched a record ₹24.77 trillion. In February, the volume stood at 16.11 billion. As per Downdetector, the platform that tracks online payments, complaints regarding UPI services surged were over 2,000 as of noon Saturday. Saturday's outage is the third one, disrupting transactions and frustrating users. A significant outage occurred on March 26, leaving users unable to access UPI functions for up to three hours. The next outage was reported on April 1, which the NPCI attributed to the surge is fiscal year ending lag. Earlier in the day, NPCI put out a message on the X platform saying, "We are working to resolve the issue, and will keep you updated."