Instant Thoughts

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Greener Grass on the Other Side

- **Will what happened in Greenland stay in Greenland? Serenity is hardly divisible. U.S. Treasuries would lose sponsorship from European participants.**
- **As the mid-election pressure mounts, Trump will probably stop speaking as if military conflict is inevitable.**
- **European retaliation is unlikely to be overdone, either. A categorical leap to JGBs when Takaichi's stimulus plan might run afoul is eliciting more eye rolls than eagerness.**
- **The financial markets will be trading primarily through the lens of a reflationary narrative. The recent spike in the 10-year Treasury yield is more like a knee-jerk reaction to a reversal of JGB-UST hedged spread and the breakout of its Bollinger Band. Now that the 200-moving average of 4.23% is retested, the follow-through orders might fizzle out. 4.35% might offer a good entry point.**

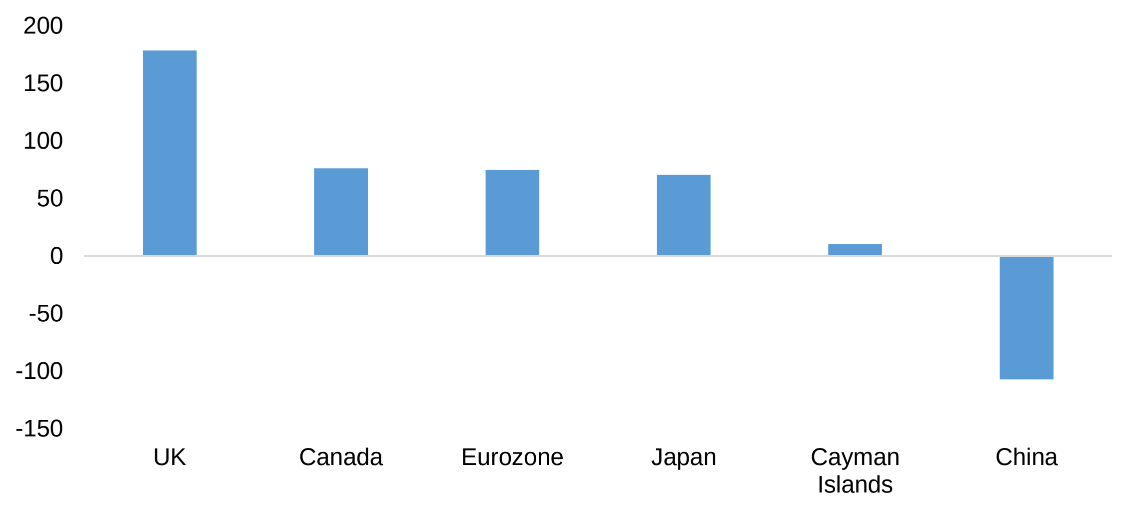
International anarchy, as the realist school of international relations predicted, leads to tragedy. Doubling the tariffs on targeted European countries to 25%, Trump engineered a surgical strike to force a sale of Greenland "one way or another." Greenland's fear can no longer be dismissed as paranoia.

Will what happened in Greenland stay in Greenland? Serenity is hardly divisible. One could be excused for looking at the conflicts over Greenland as a potential flight-to-quality trigger. Potentially, Treasuries would lose sponsorship from European participants. The warship has set sail.

While a clash seems only one click away from realizing, remember what followed Trump's threat of all-out tariff war: He backed down from his self-orchestrated drug war when Mexico and Canada vowed to deploy sufficient troops to the border. He will need that maturity again to escape another destructive cycle. As the mid-election pressure mounts, Trump will probably stop speaking as if military conflict is inevitable.

European retaliation is unlikely to be overdone, either. The U.K, the biggest net buyer of U.S. Treasuries (Exhibit 1), remains calm so far. Even if they want to take the chips off the table, what's the alternative other than U.S. Treasuries and bunds? A categorical leap to JGBs when Takaichi's stimulus plan might run afoul is eliciting more eye rolls than eagerness.

Exhibit 1: Net Purchases of U.S. Treasury Bond (Q1-Q3 2025, US$ billion)



Source: U.S. Treasury, Bloomberg, Shanghai Commercial Bank

At the end, we believe the financial markets will continue to trade primarily through the lens of a reflationary narrative. It will draw skepticism.

To begin with, the legal foundation of the colonialist tariffs relying on the International Emergency Economic Powers Act is tenuous. Perhaps more soothing, the impact of tariffs as an inflationary tax on consumption has proven to be manageable. To us, the recent spike in the 10-year Treasury yield is more like **kn**ee-jerk reaction to a reversal of JGB-UST hedged spread and the breakout of its Bollinger Band. Now that the 200-moving average of 4.23% is retested, the follow-through orders might fizzle out. 4.35% might offer a good entry point.

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