



EXECUTIVE SUMMARY

On a slower, uncertain tide

“You shouldn’t trust the storyteller. Only trust the story.”
- Neil Gaiman

A story of two halves: stronger-than-expected 1H but a slower, fragile 2H

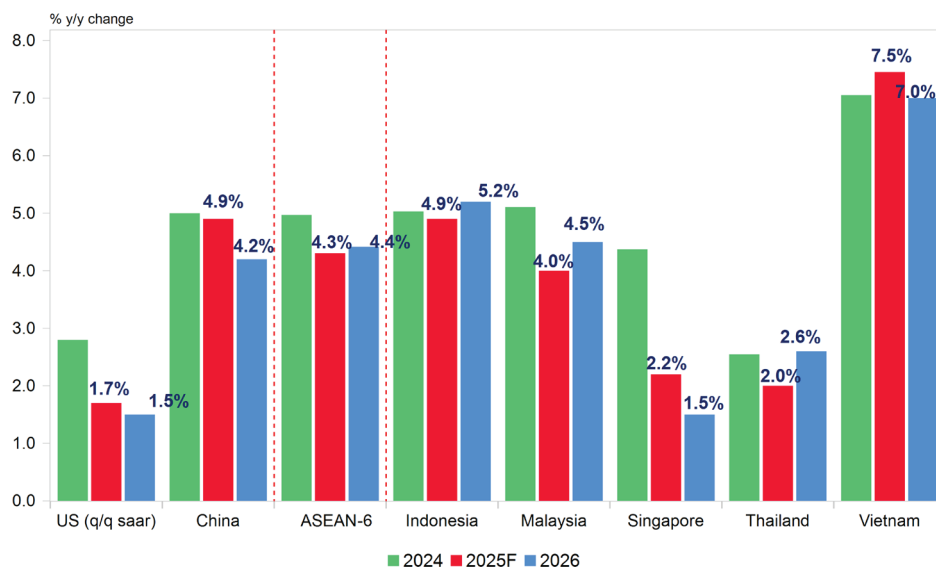
In the face of the most significant US tariffs in nearly a century, we were surprised by the resilience of the macro-economy. Based on the GDP data available across developed economies and Asia so far, the growth outcomes for 2Q25 – and by extension, 1H25 – have generally exceeded expectations. A significant part of this upside likely came from the 90-day tariff pause, which led to a surge in export orders and a ramp-up in manufacturing activity to fulfill these “frontloading” demands. At the same time, domestic business activity remained resilient, further supporting the strong performance in the first half. Even the growth in the US outpaced expectations amidst significant volatility due to the outsized swings in contributions of net exports in response to the tariff situation, and clouded the real economic cost imposed on the US.

The revised US tariff rates, effective 7 Aug, are likely to weaken import demand and private consumption spending in the US, which in turn will weigh on Asia’s growth outlook for the remainder of the year.

In light of this, we have revised higher most of our 2025 growth forecasts (except for South Korea, Malaysia, and Indonesia). However, the strong 2Q GDP readings are unfortunately backward-looking, and we do not expect this momentum to carry into 2H25. The [revised US tariff rates](#), effective 7 Aug, are likely to weaken import demand and private consumption spending in the US, which in turn will weigh on Asia’s growth outlook for the remainder of the year.

Annual real GDP change ASEAN: Slower growth ahead due to trade uncertainty

Source: Macrobond, UOB Global Economics & Markets Research





The economic landscape is not just affected by tariff policies, but also by the Trump administration's transformative policies on immigration, fiscal management, and most recently, central bank independence.

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Tariffs: A New Trade Paradigm that may endure beyond Trump's second term

It is clear that trade policy volatility has picked up quite a few notches in Trump's 2nd term, with the US effective rate reaching levels not seen since the 1930's. A quick recap: there is a baseline tariff of 10% for all goods coming into the US, a reciprocal tariff of between 15% and 20% for several major trading partners that run significant trade surpluses with the US, and an additional 40% tariff imposed on "transshipment goods". Some economies are hit with higher reciprocal tariffs, such as Switzerland (39%) and South Africa (30%) while others were imposed even higher rates due to geopolitical reasons, such as Brazil (50%) and India (50%). Even though the US has a trade agreement with Canada (under the USMCA), Canadian exports to the US are subjected to a 35% levy while Mexico has received another 90-day tariff pause. The biggest trade deal that is yet to reach the table is between the US and China which has seen the pause extended to Nov. We think that the eventual tariff rate for China will settle between 30% and 60%, but a feature that was in many of the trade deals, the additional investment "commitments", will be complex to impose in the case of China. Sitting alongside the reciprocal tariffs is an expanding list of sectoral tariffs including steel & aluminum (50%), copper (50% on "semi-finished" Copper) and potentially soon on Pharmaceuticals, semiconductors and gold imports.

Notwithstanding the latest (29 Aug) setback of the Appeals court ruling against Trump's tariffs, we remain of the view that Trump will still get his tariffs one way or another, using another statute if he has to (i.e. Section 122, 201, 301, 232 or 338). Tariffs will remain Trump's weapon of choice given that for what he has done, the amount of tariff retaliation has been less than expected (except perhaps China and Canada), In addition, the US Congressional Budget Office (CBO) recently estimated (22 Aug) that new tariffs would reduce the federal budget deficit by US\$4.0 trillion from 2025 to 2035 (up from a previous estimate of US\$ 2.8 tn and more than the cost of extending the tax cuts from Trump's first term), a potentially important revenue source that Trump will continue to trumpet widely. And if we include the entrenched interest from specific lobby groups, the combination of these factors will likely make it hard for tariffs to be removed or reduced and more likely, endure beyond Trump's second term no matter who succeeds him.

US Immigration policy shifts and labor market impact

One of the main policy measures Trump campaigned for during the run-up to the Presidential election which, in our view, will have a material macro-economic impact on the US was immigration (with mass deportation of undocumented migrants & border security). Indeed, since Trump became president, immigration enforcement has intensified, with deportations and the termination of parole programs affecting labor supply. The cessation of Temporary Protected Status for several nationalities could reportedly remove work permits for nearly a million workers in key sectors. We noted in the July employment report that the US labor force contracted for the third straight month (Jul: -38,000, Jun: -130,000, May: -625,000) despite the continued rise in the US overall population (Jul: +200,000, Jun: +200,000, May: +188,000).

Thus, the rewiring of trade and immigration policies will have implications for US growth, likely dampening the growth trajectory (although AI-driven productivity gains could help mitigate some of the downside to economic growth).



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Losing Fed's independence

During what is widely seen as his last speech at the Jackson Hole Symposium (22 Aug), Fed Chair Powell opened the door to resuming rate cuts in the upcoming Sep Federal Open Market Committee (FOMC) meeting, as he warned “the shifting balance of risks” [to employment] may warrant adjusting the policy stance. Another important point that reinforced the view of Fed resuming easing in Sep was Powell’s remarks of “reasonable base case is that the [tariff] effects will be relatively short lived—a one-time shift in the price level.” And while Powell did caveat his temporary inflation view with the other possibilities, the writing on the wall is quite clear that the resumption of Fed easing rates will likely start in Sep FOMC. The latest jobs data report showed a sub-par jobs creation in Jul and more importantly, a significant downward revision of -258,000 jobs gain for the prior two months of May and Jun (somewhat coinciding with the aftermath of the Liberation Day tariff announcement timing in Apr and the subsequent uncertainty amidst the pause that ensued.) Effectively, the average 3-month jobs gain has now collapsed to just 35,000 (May-Jul), well below the monthly average of 168,000 in 2024.

But what is not so ideal for the Fed in the larger scheme of things is the purposeful steps taken by President Trump and his administration to chip away at the independence of the Fed. One of the long-cherished pillars of the US financial system is the independence of the central bank, and that there is always that trust and confidence for the Fed to rise up to do the “right thing” in times of crisis. Now that institution is coming under unprecedented attacks by the Trump administration, from President Trump’s constant harsh criticism towards Chair Powell for not cutting rates, an unprecedented move by Trump to fire Fed Governor Lisa Cook for alleged mortgage fraud. Trump is also looking to fast-track the appointment of his close advisor Stephen Miran as a Fed Governor to replace the remaining term (ending Jan 2026) of former Fed Governor Kugler, so that he can vote in the 16/17 Sep FOMC. Miran has publicly advocated his support for Fed independence but is widely regarded to be aligned with Trump for lower rates.

The Trump administration is also reportedly reviewing options to exert more influence over the Fed’s 12 regional banks (of which each year, four regional Fed presidents will be rotated into FOMC voting positions). Meanwhile, US Treasury Secretary is said to begin on 5 Sep the interviewing process for candidates to replace FOMC Chair Powell whose term as Chair ends in May 2026 but his governor post runs till 2028.

Political interference, exemplified by Trump’s efforts to replace Fed Governors to achieve his preference for lower interest rates, will undermine the Fed’s credibility and erode the public view of the central bank’s independence. The consequences will include increasing difficulty for the Fed to achieve its Congress-mandated dual objectives of maximum employment and price stability, elevated long-term rates, and a depreciating US dollar.

We think that there is a strong probability for President Trump to achieve his objective to influence monetary policy via having a majority of the voters align with his view. And when that day comes, we should not be surprised to see a larger than expected drop in the Fed Funds target Rate. But beyond lower rates, perhaps there will also be no more Fed to come to the rescue of the global financial system when the next crisis strikes.

Hereafter is a brief synopsis of our key FX and Rates views.



FX STRATEGY

The next leg of USD decline is about to commence in line with anticipated Fed rate cut in Sep

Major FX Strategy: Resumption of Fed rate cuts likely to pressure USD lower

We maintain a more dovish outlook than the market consensus, expecting 3 x 25 bps cuts this year, at the remaining Sep, Oct and Dec FOMC. As the Fed embarks on its next phase of monetary accommodation, it is likely to appear more dovish relative to its G-10 counterparts, many of whom are nearing the end of their respective easing cycles. This divergence should lead to a further narrowing of USD interest rate differentials against major FX peers, reinforcing downward pressure on the USD. Overall, our revised negative DXY forecasts are lowered further to 96.3 by 4Q25 and 93.9 by 3Q26. Consequently, we do see gradual rise in EUR, GBP, AUD and JPY in the corresponding quarters ahead.

Asian FX Strategy: Asian FX likely to resume modest recovery once trade tariff uncertainties roll off in 3Q25.

As global trade tensions continue to ease, the tail risks for Asian currencies are also diminishing. Looking ahead, we expect broad-based USD weakness to re-emerge as the Fed resumes its rate-cutting cycle, guiding USD/Asia lower in the coming quarters. However, the pace of depreciation may be modest, as Asia's challenging growth outlook and the dovish stance of regional central banks could temper investor sentiment toward Asian FX. This Asian FX strength will be anchored in part by further downside potential in USD/CNY. We see USD/CNY lower at 7.11 in 4Q25 and 7.02 in 3Q26. USD/SGD appears to be finding some support around the 1.28 level over the past two months. Our macroeconomic team continues to expect the Monetary Authority of Singapore (MAS) to ease monetary policy, potentially shifting to a "fully flat" zero-appreciation stance for the S\$NEER in the Oct 2025 MPS (or Jan 2026 MPS), this is seen tempering further strength in the SGD. As such, our revised USD/SGD forecasts are 1.29 in 4Q25 and 1.27 in 3Q26.

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RATES STRATEGY

A Sep Fed rate cut paves the way for a lower-rate environment

US Rates: Jackson Hole clears the clouds surrounding rate cuts.

In line with our macroeconomic team's expectation of 3 x 25 bps rate cuts from the Fed at the three remaining FOMCs for this year, we anticipate the 3-month compounded in arrears Sofr to resume its downward trajectory as this Fed easing cycle resumes. Our updated forecasts for 3M compounded Sofr are 3.82% in 4Q25 and 3.20% in 3Q26. Prevailing o/n Sofr is about 4.33%. As for US Treasuries (USTs), there is room for the yield curve to bull steepen as rate cuts come into clearer focus. Yields at the front-end of the curve (2Y) are likely to be more responsive to repricing of rate expectations, while the back-end yields (10Y) may be cushioned by a still-elevated term premium and the further steepening of the yield curve. As such, our updated 10Y UST yield forecasts are at 4.10% in 4Q25 and 4.10% in 3Q26. Prevailing 10Y UST yield is about 4.25%.

While the upcoming Fed rate cuts may well dampen any significant upside in Sora, we feel that much of this transmission may have already occurred. In addition, the upcoming potential flattening of the S\$NEER slope by the MAS may also limit further downside in Sora.

SG Rates: How low can Sora go?

In the 3Q25, abundant domestic liquidity and sustained safe haven inflows continued to exert downward pressure on Sora. Notably, the overnight Sora – exhibiting its inherent volatility – fixed at low of 0.72% on 1st Sep, marking its lowest level in over three years. This divergence has widened the spread between overnight Sora and Sofr to approximately 350 bps, the largest gap since records began in 2018. While the upcoming Fed rate cuts may well dampen any significant upside in Sora, we feel that much of this transmission may have already occurred. In addition, the upcoming potential flattening of the S\$NEER slope by the MAS may also limit further downside in Sora. Most importantly, with no broad-based recession expected in the US and Singapore through 2025-2026 and a projected terminal Fed Funds Rate of 3.25% in 2026, a return to crisis-era near zero Sora levels is unlikely. Accordingly, our updated forecast for 3M compounded Sora is 1.28% in 4Q25 and 1.29% in 3Q26. Prevailing 3M compounded in arrears Sora is about 1.55%. As for 10Y SGS yield, the anticipated narrowing of historically wide spread with 10Y UST yield may see a gradual renewed grind higher. Our updated forecast for 10Y SGS is 1.90% in 4Q25 and 2.30% in 3Q26. The prevailing 10Y SGS yield is about 1.88%.

DM and Asian Rates: Recent Hibor spike unlikely to persist.

The recent spike in Hibor has largely closed the previously wide gap with the HK Base Rate (currently at 4.75%), which had widened during the May Hibor collapse. Looking ahead, as the Fed resumes its rate-cutting cycle, a declining HK Base Rate is expected to exert renewed downward pressure on Hibor. Overall, our updated forecast for 3M Hibor is 2.85% in 4Q25 and 2.75% in 3Q26. Bank Indonesia (BI) surprised markets by cutting its benchmark 7-day reverse repo rate by 25 bps to 5.00% in Aug, aiming to bolster economic growth amid risks stemming from US tariff policies. Following this move, we have revised our forecast to include an additional 25 bps rate cut in 4Q25, with BI expected to hold steady at 4.75% throughout 2026. Finally, there are revisions as well to both New Zealand and Australia rates outlook. For Reserve Bank of New Zealand (RBNZ), we now expect two 25-bps cuts in the Official Cash Rate (OCR) – one each in 4Q25 and 1Q26 – bringing the OCR to 2.50%, down from our previous forecast of a 3.00% floor. As for Reserve Bank of Australia (RBA), we now see two 25 bps cuts in the Official Cash Rate (OCR) as well, one each in 4Q25 and 1Q26, bringing the OCR to 3.1%, from the previous forecast of 2.85%.



COMMODITIES STRATEGY

Raising our long term positive gold forecast further to USD 4,000 / oz by 3Q26

The latest key positive driver being Chinese investors now seen actively joining the rally as evidenced by the doubling of gold inventory on Shanghai Futures Exchange (SHFE) over the past two months. The technical chart points higher as well after this decisive break above USD 3,500 / oz.

Gold: Raising our positive forecast further to USD 4,000 / oz by 3Q26.

After consolidating under USD 3,400 / oz since May, Gold finally broke higher in a decisive fashion in this latest leg of its long-term rally. Long term fundamental drivers like on-going safe haven buying from central banks and retail investors, are in sync as well with increased liquidity drivers ahead of the widely anticipated resumption of Fed rate cuts from the Sep FOMC. The latest key positive driver being Chinese investors now seen actively joining the rally as evidenced by the doubling of gold inventory on Shanghai Futures Exchange (SHFE) over the past two months. The technical chart points higher as well after this decisive break above USD 3,500 / oz. As such we raise our gold forecast further to USD 3,700 / oz by 4Q25 and USD 4,000 / oz by 3Q26.

Brent Crude Oil: Back in “boring” trading range, albeit with a downward bias.

Remarkably and fortuitously for the global economy, significant event risks like Liberation Day in Apr and the Israel-Iran conflict across Jul have since dissipated and calmed down and Brent crude oil has managed to stay within its medium-term broad trading range from USD 60 to 80 / bbl. The technical chart suggests as well that there is no clear trend right now. With the passage of acute geopolitical risks, the focus for Brent crude oil reverts back to the traditional fundamental demand and supply drivers. Specifically, it is noted that OPEC+ will continue its eager resumption of supply cuts, capping any significant upside in crude oil price as the Trump administration continues its careful replenishment of the Strategic Petroleum Reserves (SPR), supporting the downside in crude oil prices. As such we reiterate our cautiously neutral forecast of USD 70 / bbl for 4Q25 and USD 60 / bbl for 3Q26.

LME Copper: Testing the key USD 10,000 / MT resistance amidst contrasting drivers

LME Copper price has grinded higher towards the key psychological resistance of USD 10,000 / MT. This after US investors and global manufacturers remain unconvinced and worried that the Trump administration will not impose import tariffs on refined Copper. However, this strength in LME Copper price is not in line with the weakening global economic backdrop. While most economies have done much better than expected in 2Q25, this pre-tariff export rush is set to taper off in 4Q25. There is increasing concern that global manufacturing and exports may weaken anew in 4Q25. Adding to this is increasing signs of job market weakness in the US as well. As such, we are not convinced of a premature sustained break in LME Copper price above USD 10,000 / MT. We maintain our cautiously neutral forecast for USD 10,000 / MT for 4Q25 and USD 9,000 / MT for 3Q26.



Global FX

USD/JPY: Going forward, we expect USD/JPY to converge to the falling rate spread as Fed rate cut expectations drive another leg lower in US yields together with renewed USD weakness. At the same time, our forecast for a 25-bps BOJ rate hike in 4Q25 could ignite demand for the JPY. We maintain our view of a gradual decline in USD/JPY, with forecasts at 144 in 4Q25, 142 in 1Q26, 140 in 2Q26 and 138 in 3Q26, unchanged from 4 Aug review.

EUR/USD: Looking ahead, we expect USD weakness to resume dominance, particularly as the Fed begins its rate-cutting cycle in Sep. Over the longer term, the EU's expansive fiscal initiatives may bolster the EUR's yield advantage, potentially fueling expectations of stronger regional growth and higher interest rates. We reiterate our bullish stance on EUR/USD, with updated forecasts at 1.19 in 4Q25, 1.20 in 1Q26, 1.21 in 2Q26 and 1.22 in 3Q26.

GBP/USD: For now, we maintain a modestly constructive view on GBP/USD, as anticipated Fed rate cuts continue to weigh on the USD. Our latest projections for GBP/USD are 1.37 in 4Q25, 1.39 in 1Q26, and 1.40 in both 2Q26 and 3Q26.

AUD/USD: A less dovish RBA translates to more support for the AUD amidst a backdrop of broader USD weakness. Our updated AUD/USD forecasts are 0.66 in 4Q25, 0.67 in 1Q26, 0.68 in 2Q26 and 0.69 in 3Q26.

NZD/USD: Looking ahead, we expect NZD/USD to remain biased to the upside, supported by anticipated rate cuts from the Fed, which should help offset the drag from the RBNZ's dovish stance. As US yields decline, the relative attractiveness of the NZD may improve, providing a modest tailwind for the currency pair. Our updated NZD/USD forecasts are 0.59 in 4Q25, 0.60 in 1Q26, and 0.61 in both 2Q and 3Q26.

Asian FX

USD/CNY: Looking ahead, we see further downside potential for USD/CNY, driven by expectations of a US-China trade agreement by end-2025 and continued USD weakness as the Fed cuts rates. However, the pace of decline may be limited by the PBOC's daily fixing rate, especially if concerns over China's growth persist and PBOC maintains its "moderately loose" policy stance. Overall, our updated USD/CNY forecasts are at 7.11 in 4Q25, 7.08 in 1Q26, 7.05 in 2Q26 and 7.02 in 3Q26.

USD/SGD: MAS' potential shift to a zero-appreciation stance for the S\$NEER in the Oct 2025 MPS (or Jan 2026 MPS) could serve as a catalyst for further S\$NEER depreciation. Consequently, even though the USD is projected to weaken from 4Q25 due to anticipated Fed rate cuts, the SGD may underperform relative to regional peers. Accordingly, our revised USD/SGD forecasts are 1.29 in 4Q25, 1.28 in 1Q26, and 1.27 in both 2Q26 and 3Q26.

USD/HKD: Going ahead, we expect the USD/HKD pair to consolidate in the coming quarters as the volatility of the FX movements eventually subside. Hence, we forecast USD/HKD at 7.80, the middle of the peg, for the next four quarters through 3Q26.

USD/TWD: Looking ahead, the TWD is likely to strengthen further against the USD as a resumption of Fed rate cuts starting Sep puts pressure on the USD. Resilient fundamentals and a more hawkish CBC relative to regional peers are likely to sustain TWD's outperformance in the Asian FX space. Overall, our updated USD/TWD forecasts are at 30.3 in 4Q25, 30.0 in 1Q26, 29.7 in 2Q26 and 29.5 in 3Q26.

USD/KRW: Looking ahead, we anticipate renewed USD weakness as the Fed resumes rate cuts starting in Sep. Given the KRW's historically higher beta relative to other Asian currencies, it stands to benefit more from the expected USD depreciation. We also expect the KRW to recoup much of the losses sustained during the political turbulence of 4Q24. Overall, our USD/KRW forecasts are 1,370 in 4Q25, 1,350 in 1Q26, 1,330 in 2Q26 and 1,310 in 3Q26.



USD/MYR: Looking ahead, we anticipate USD/MYR to resume its downward trajectory as the Fed begins its rate-cutting cycle in Sep, likely triggering broad-based USD weakness. On the domestic front, Malaysia's economic fundamentals remain resilient, supported by steady GDP growth, ongoing foreign direct investment inflows, and a sustained – though narrower – current account surplus. Moreover, the interest rate differential between Malaysia and the US is expected to narrow from 175 basis points currently to 125 bps by end-2025—the smallest gap in three years – providing additional support for the MYR. Overall, our USD/MYR forecasts are 4.20 in 4Q25, 4.17 in 1Q26, 4.15 in 2Q26, and 4.12 in 3Q26.

USD/IDR: In the near term, negative sentiment stemming from public protests may exert pressure on the IDR. BI's firm commitment to maintain currency stability should help contain volatility. The anticipated resumption of Fed rate cuts in Sep is expected to trigger renewed broad-based USD weakness, which could provide support for the IDR. Encouragingly, portfolio flows turned positive in Aug, with foreign investors injecting a net USD1.5 bn into Indonesia's equity and bond markets, reversing earlier outflows. In light of these developments, we have updated our USD/IDR forecasts to 16,500 in 4Q25, 16,400 in 1Q26, and 16,300 in both 2Q26 and 3Q26.

USD/THB: Looking ahead, we anticipate renewed USD weakness as the Fed resumes its rate-cutting cycle, which should support further downside in USD/THB. However, our expectations of a further 50 bps of rate cut from the BOT through 1Q26, along with continued underperformance in the SET index, could contribute to two-way volatility. As such, our revised USD/THB forecasts are 32.1 for 4Q25, 31.9 for 1Q26, 31.7 for 2Q26 and 31.5 in 3Q26.

USD/PHP: Domestically, the country's economic fundamentals remain solid and supportive of the PHP outlook. They include a low inflation environment, narrowing current account deficit and fiscal deficit, as well as possibility of wider interest rate differentials with US rates entering 2026. Hence, our updated USD/PHP forecasts are 56.8 in 4Q25, 56.5 in 1Q26, 56.2 in 2Q26, and 56.0 in 3Q26.

USD/VND: Looking ahead, the VND may underperform relative to regional currencies in capitalizing on renewed USD softness, which is expected to stem from upcoming Fed rate cuts. Our upward revision of Vietnam's GDP growth forecast to 7.5% in 2025, from 7.09% in 2024, could provide some support for the VND. Overall, our updated USD/VND forecasts are 26,300 in 4Q25, 26,200 in 1Q26, 26,100 in 2Q26 and 26,000 in 3Q26.

USD/INR: Looking ahead, there is potential for a modest rebound in the INR, particularly if the Fed resumes rate cuts in Sep, which could exert downward pressure on the USD. Additionally, our forecast for the RBI to maintain its policy rate at 5.5% through 2025 and 2026 could help support sentiment and provide some stability for the INR. Overall, our updated USD/INR forecasts are at 88.2 in 4Q25, 87.8 in 1Q26, 87.4 in 2Q26 and 87.0 in 3Q26.