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Quarterly Global Outlook 2Q 2025

Tariff frenzy or empty threats ahead?

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EXECUTIVE SUMMARY

Tariff frenzy or empty threats ahead?

Tariffs – Economic weapon of choice for Trump's America First policies

In his second (non-consecutive) term as US President, Donald Trump has acted with a great sense of urgency, bringing to bear the most significant US tariff increases not seen in decades within less than two months in office.

After imposing a blanket 10% tariff on all Chinese imports to US in early Feb, it was followed up with an additional 10% on 4 Mar, drawing a measured retaliatory response from China. And after a brief one-month reprieve, Trump imposed new 25% tariffs on imports from Mexico and Canada on 4 Mar, which Canada responded with 25% retaliatory levy on CAD 155bn of US goods, while Mexican President said the country will respond on 9 Mar (Sun).

The focus is no longer just on China but also other trade partners including US allies. Attention is also on product specific tariffs such as aluminum and steel due to be reinstated on 12 Mar, and potentially on copper, lumber, automobiles, semiconductors and pharmaceuticals.

2nd of Apr will be a key date to watch as the US is set to announce reciprocal tariffs (under the "Fair and Reciprocal Plan") on countries that currently place a higher tariff rate on US or have non-tariff measures to put US exporters at a disadvantage as per investigations to be concluded by the Commerce department/USTR.

And while there may be some rollbacks (such as the 1-month tariff delay extended to 50% of Mexican imports and 38% of Canadian imports which are compliant with US-Mexico-Canada Agreement, USMCA till 2 Apr), the writing on the wall is clear that more tariffs and frictions are likely, at least in the second quarter. 2nd of Apr will be a key date to watch as the US is set to announce reciprocal tariffs (under the "Fair and Reciprocal Plan") on countries that currently place a higher tariff rate on US or have non-tariff measures to put US exporters at a disadvantage as per investigations to be concluded by the Commerce department/USTR. In his recent joint Congress address (4 Mar), President Trump flagged out several economies/blocs that may get caught in this latest US tariff crosshairs including India, South Korea and EU.

Trump 2.0: Trade measures announced to-date (2025)	
Date	**Trade Measures**
04 Feb	US imposes 10% tariff on >US$400 bn Chinese goods while 25% on Mexico and Canada (energy resources from Canada at 10% tariff) receives 30-day delay with a decision due on 4 Mar.
10 Feb	China imposes retaliatory tariffs on US$14-20bn worth of American products (10%-14% of US exports to China) including coal and LNG (15%) and crude oil, agricultural machinery and large-engine cars (10%). This is significantly lower in magnitude and do not include strategic items.
27 Feb	President Trump signed executive order to direct the Commerce Department to examine possible import tariffs on all forms of copper.
04 Mar	The delayed 25% tariffs on Canada and Mexico to take effect on 4 Mar. China will also be charged an additional 10% tariff on the same day, which will be on top of a previous 10% tariff that took effect on 4 Feb, for a total of 20%.
05 Mar	China's retaliatory tariffs: to impose an additional 15% tariff on US chicken, wheat, corn and cotton and an extra 10% levy on US soybeans, sorghum, pork, beef, aquatic products, fruits and vegetables and dairy imports from 10 Mar.
06 Mar	US to delay the 25% tariff on 50% of Mexican imports and 38% of Canadian imports (which are deemed compliant with USMCA) till 2 Apr.
12 Mar	US to reinstate the full 25% tariff on steel imports and increase tariffs on aluminum imports to 25%, accounting for US$49bn or 1.5% of its imports.
02 Apr	US to announce reciprocal tariffs on trading partners with Brazil, India, South Korea and EU being flagged. US potentially to announce new tariffs on copper, lumber, automobiles, semiconductors and pharmaceuticals. Recommendations under "America First Trade Policy" due for announcement.

As of 07 Mar 2025
Source: US Whitehouse, Newswire, UOB Global Economics & Markets Research

Trump's additional tariff on all Chinese goods and the delayed tariffs on Mexico and Canada are aimed at US' concerns over illegal immigration and drugs such as fentanyl entering the US. On the other hand, the factor driving the 2nd Apr US trade escalation is the large and growing trade deficits that US continues to run against some of its trade partners, with US total goods trade deficits reaching a record US$1.2 trillion in 2024, and President Trump is looking for ways to address the worsening imbalance in his second term.

Which countries are at risk on 2 Apr? The list of the economies and blocs that US run the most trade deficits with will be a good starting place with EU perched near to the top just after China. In Asia, Vietnam, Taiwan, South Korea, India and Thailand recorded the largest increases in trade surpluses against the US between 2018 and 2024. In our view, these economies will be most at risk if Trump proposes additional tariffs or trade measures to reconfigure production and trade to the US.

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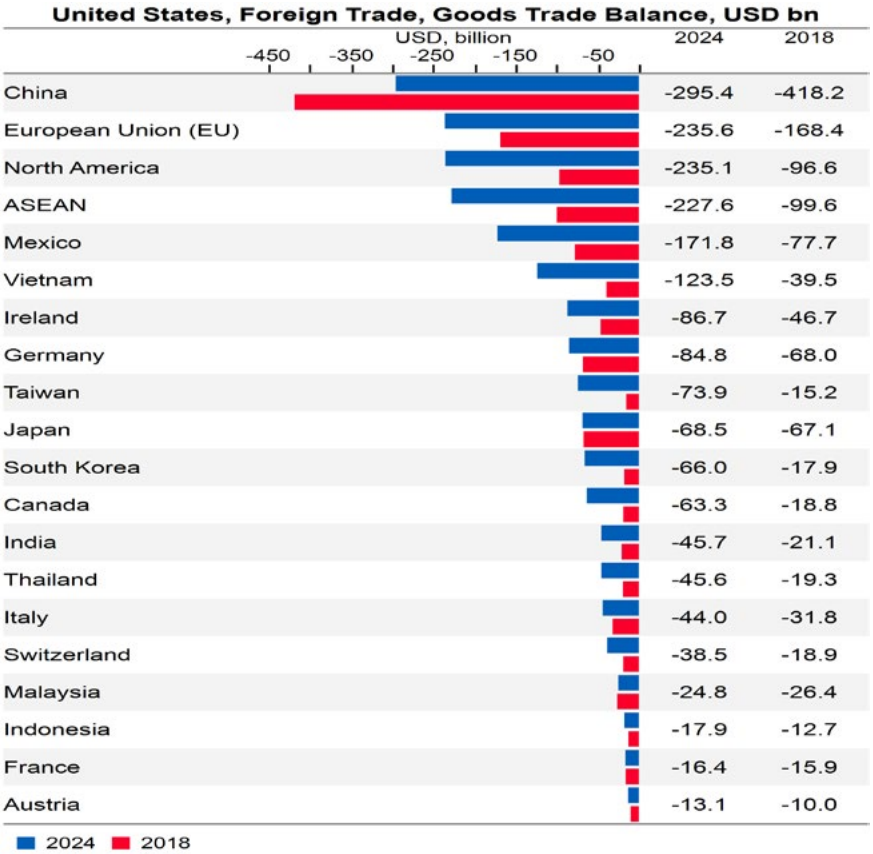
US trade deficits with the top 20 economies and blocs

Source: Macrobond, UOB Global Economics & Markets Research



Shifting sands: from inflation to growth slowdown concerns. In our previous report, we had believed that Trump will use tariff threats as a bargaining chip or negotiation ploy to eventually gain concessions from China and key trade partners, rather than being laid out as an immediate policy action. That had been proven to be too optimistic and Trump's tough approach (instead of empty threats) has created a more uncertain economic environment. That uncertainty has set the stage of increasing growth concerns. While the latest 4Q GDP report corroborated with the view of a strong US economy, and that the Fed monetary policy was not overly restrictive to hurt growth last year (with final sales to private domestic purchasers advancing at a strong pace of 3.2% in 4Q), recent economic indicators and surveys point to weakening optimism and growth trajectory coupled with rising price pressures.

Overall, we are keeping our US growth forecast at 1.8% in 2025 (from 2.8% in 2024) as we are already more conservative in our outlook versus IMF (2.7% updated in Jan 2025) and most of the major US banks (mostly above 2.0%). That said, the risk to our forecast is dependent on extent of Trump's policies, and that risk now is tilted to the downside as tariffs are coming well ahead of the expansionary fiscal policies.

We remain watchful of energy costs and higher wages feeding into goods and services inflation, but the biggest uncertainty is the magnitude and extent of Trump's tariff policies.

As for prices, CPI inflation will face the challenge of Trump's tariffs. Prices paid for inputs by manufacturers soared to 62.4 in Feb, highest since Jun 2022, adding to the stickiness and expectations for price increases to stay above the Fed's 2% target. We remain watchful of energy costs and higher wages feeding into goods and services inflation, but the biggest uncertainty is the magnitude and extent of Trump's tariff policies. Our 2025 headline and core inflation forecasts are at 2.5% and 2.6% respectively, with the balance of risk tilted towards the upside.

While we acknowledge the downside risk to growth has increased, the elevated start to US CPI inflation in early 2025 and the uncertainty of Trump's tariff and other policies would continue to reinforce the case for the Fed to stay on pause for longer.

The combination of below trend US economic growth and higher inflation risks due to Trump's trade measures approach has raised to spectre of US economy falling into stagflation (i.e. weaker or stagnant growth together with higher prices). That is not our base case for now, but a rising risk that the Federal Reserve (Fed) may have to contend with in its policy formulation ahead. While we acknowledge the downside risk to growth has increased, the elevated start to US CPI inflation in early 2025 and the uncertainty of Trump's tariff and other policies would continue to reinforce the case for the Fed to stay on pause for longer. We continue to hold our view of only one 25-bps cut in 2Q 2025 (likely Jun FOMC) and stay on hold for rest of the year at 4.25% (upper bound of Fed Funds Target Rate). In 2026, we pencil in a resumption of two rate cuts, one each in 2Q and 3Q, bringing the terminal rate to 3.75% in 3Q 2026.

Our Fed funds forecast is seen as hawkish relative to Bloomberg's analyst consensus for rate cuts over 2025 but converges down towards the consensus by end 2026. The median forecast from our peer group has 2 rate cuts penciled this year, while the futures market as of end-Feb is pricing 3 cuts in 2025.

Further easing from selected Asian central banks in 2025 remains our base case but faced with the prospect of less Fed cuts, and uncertainties surrounding trade and tariff policies, Asian FX has the potential to become more volatile ...

Several other major central banks (ECB, BOE, RBA and RBNZ) are positioned to continue cutting their policy rates in 2025. Going against the grain, the BOJ will continue its path towards policy normalization in 2025, likely with another two rate hikes, if inflation remains above target and wage growth continues. Meanwhile, further easing from selected Asian central banks in 2025 remains our base case but faced with the prospect of less Fed cuts, and uncertainties surrounding trade and tariff policies, Asian FX has the potential to become more volatile, as such Asian central banks will likely tread more cautiously when it comes to future monetary policy easing.

China's NPC still expecting 5% growth in 2025

China has set its GDP growth target at "around 5%" for 2025 at the National People's Congress (NPC), the same as the past two years as policymakers attempt to shore up confidence and expand its policy support to stabilise growth. As such, there were no big surprises from the annual NPC in Mar where China emphasized high quality growth led by domestic demand, in particular by stimulating private consumption, and technological innovation.

China's stimulus measures have continued to stabilise its economy with the government pledging stronger monetary and fiscal policy stimulus where the focus is on boosting consumption and strengthening capabilities in its high-tech industries. Frontloading of industrial production and exports ahead of Trump's tariff announcements also likely contributed to the strong manufacturing output so far but this is unlikely to be sustained. Private consumption was more moderate and tilted towards purchases under the government's subsidy program and demand for luxury goods and other consumer spending stayed weak. Meanwhile, outlook for investments remains lacklustre with supply chain shifts to accelerate. The property market continued to stabilize on the back of stimulus measures and easing purchase restrictions, and prices will likely adjust lower in 2025 in order for the supply glut to clear (which we estimate to take around 30 months in tier-1 cities) but transactions may pick up. Overall, confidence has remained soft.

In comparison to the official 5% target, our forecast for China's growth in 2025 is at a more conservative 4.3% on the back of the on-going trade war with US.

In comparison to the official 5% target, our forecast for China's growth in 2025 is at a more conservative 4.3% on the back of the on-going trade war with US. Some upsides likely from stronger monetary and fiscal policy support to drive growth towards the official target of "around 5%" this year. The recent tariff escalation brings total additional tariff on Chinese goods to 20% since the start of Trump's second term, towards our base case assumption of 25%. China's retaliation to the US tariffs to date is significantly lower in magnitude and do not include strategic items, suggesting that China wants to prevent an all-out trade war.

The PBOC accelerated easing in 2024, with the 1Y and 5Y LPR falling by 35bps and 60bps, respectively, and banks' reserve requirement ratio (RRR) was cut by 100bps. In 2025, we expect 50-100 bps reduction to the RRR and a further 30 bps cut to the benchmark 7-day reverse repo rate (with loan prime rates to fall by 30 bps). These moves will bring the 7-day reverse repo rate, 1Y LPR and 5Y LPR to 1.2%, 2.8% and 3.3% by end-2025. Depreciation pressure on the CNY may affect the timing of any interest rate cuts.

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

FX STRATEGY

Will the year-to-date weakness in USD last?

After strong rally in 4Q24, DYX pulled back in 1Q25 on "tariff fatigue"

After a strong 4Q24, the USD pulled back in 1Q25, largely due to "tariff fatigue" as President Trump's initial tariffs salvo was less intense than thought, prompting markets to scale back the "Tariff Risk Premium" which has helped boost USD previously. Furthermore, renewed US growth concerns took centre stage and USD slid alongside falling US rates just as markets priced once again for more Fed rate cuts later in the year. In all, the US Dollar Index (DXY) which had risen to two-year highs of around 110 in early Jan retraced back towards 105.7 as of 5 Mar.

We argue that the still-wide rate differential between US and its DM peers will likely spur a rebound in the USD in 2Q25 before pulling back starting 3Q25.

Major FX: Has the USD topped out against the Majors?

Within the Major FX space, the USD was weighed by the renewed US growth concerns. US consumer confidence fell the most since August 2021 in Feb due to uncertainty over the Trump administration's policies. The data followed recent disappointments on the retail sales, ISM manufacturing and housing data. We argue that the still-wide rate differential between US and its DM peers will likely spur a rebound in the USD in 2Q25 before pulling back starting 3Q25. Overall, we expect the DXY to rise to 107.1 by mid-2025 before easing off to 103.6 by end-2025, still anchoring DXY at the top half of past 3-year trading range.

EUR: Why is the EUR suddenly stronger?

At the moment of writing, the EUR/USD rebounded sharply in early Mar to 1.08 after touching a two-year low of 1.0178 in early Feb. The move coincided with a narrowing of USD's rate advantage over the EUR as US yields tumbled in the face of emerging US growth concerns. There is also a marked improvement in investor sentiment towards Eurozone risky assets as well as the EUR, following expectations of a possible quick end to Russia's invasion of Ukraine. The latest effort by Germany's incoming government to loosen fiscal restrains by spending more for defense and infrastructure is also seen as a strong fiscal push that is potentially positive for the EUR. That said, a more dovish ECB relative to the Fed and the risk of US imposing tariffs on EU goods in the near term will likely keep the EUR/USD biased to the downside in the coming quarter.

Asia FX is vulnerable to further weakness against the USD. Reciprocal tariffs if announced on selected Asian economies could trigger an outsized drop in the respective currencies.

Asia FX: The recent calm may not last amidst risk of escalating tariffs

Due to the nature of the exports and close trade linkages with China, Asia FX are more sensitive compared to its Developed Market (DM) peers to US tariff actions. Following President Trump's imposition of 10%+10% tariffs on Chinese exports to the US, the tariff agenda against China is likely to escalate further. As such the calm in Asia FX in 1Q25 is unlikely to persist. Consequently, Asia FX is vulnerable to further weakness against the USD. Reciprocal tariffs if announced on selected Asian economies could trigger an outsized drop in the respective currencies. In all, we reiterate the view of further Asia weakness till 3Q25 before stabilising from 4Q25. Overall, we reiterate our forecast for USD/CNY, USD/KRW, USD/SGD, USD/IDR, USD/THB, USD/MYR and USD/VND to rise further to 7.65, 1,500, 1.38, 16,900, 34.80, 4.65 and 26,000 respectively by 3Q25.

RATES STRATEGY

The narrative pendulum swings back towards growth slowdown concerns

Sentiment shift towards growth slowdown concerns may have room to run

Previous iterations have largely concluded that US policy uncertainty will result in upside risk for inflation and as such results in slow or no monetary policy accommodation scenarios. However, more recent takes on US policy uncertainty have aligned towards growth slowdown risks and greater monetary policy accommodation possibilities. Monetary policy will largely be hostage to by the fluidity of fiscal policies. As stated, we see room for growth slowdown risk narrative to run, but we are not prepared to make recession our Macro base case scenario at this stage.

Softer SOFR expected in line with projection of one 25 bps Fed cut for this year

For now, we project only one cut in 2025 to take Fed funds down to 4.25%. Extending into 2026, our base case assumption is that the policy rate still has some room to adjust lower towards more neutral settings, with two more projected 25 bps rate cuts to 3.75%. In our base case for end 2Q25, we forecast the 3M compounded in arrears Sofr at 4.24%. Thereafter, short term rates are then expected to drift lower across 2025 in tune with our expectations of a further 25bps rate cuts from the US Federal Reserve. Eventually the 3M compounded in arrears Sofr could drop to 4.13% by 4Q25.

10Y UST yield is expected to remain rangebound albeit with relatively higher volatility

In our base case for end 2Q25, we forecast the 10Y UST at 4.30%. Thereafter, 10Y yield is expected to remain rangebound albeit with relatively higher volatility. Notwithstanding the volatility, we forecast 10Y UST to end 4Q25 at 4.30%.

Our base case forecast for 10Y UST yield retains a higher end state term premium estimate as well as incorporates a more front-loaded adjustment path to this end state. That said, monetary policy expectations remain the primary driver of our directional forecast for bond yields. While our current outlook suggests a rangebound environment in 10-year US Treasury yields for 2025, certain scenarios could disrupt this view and propel yield towards the 5% mark. In our base case for end 2Q25, we forecast the 10Y UST at 4.30%. Thereafter, 10Y UST yield is expected to remain rangebound albeit with relatively higher volatility. Notwithstanding the volatility, we forecast 10Y UST yield to end 4Q25 at 4.30%.

COMMODITIES STRATEGY

Safe haven demand for gold demand intensifies with physical bullion short squeeze

Overall, we keep our positive view for gold as long term safe haven demand needs will likely stay strong amidst further rise in geopolitical risks and economic risks from Trump 2.0 policies.

Gold: Physical Bullion short squeeze to drive gold above USD 3,000 / oz

In the previously quarterly report, we highlighted that the main key positive driver for gold remains that of long-term safe haven demand which is likely to stay strong. This safe haven demand intensified since the start of the year and manifested itself in terms of the gold bullion short squeeze witnessed across the globe after the sudden flow of gold bullion back to the US. Overall, we keep our positive view for gold as long term safe haven demand needs will likely stay strong amidst further rise in geopolitical risks and economic risks from Trump 2.0 policies. We hereby update our quarterly forecasts to USD 2,900 / oz for 2Q25, USD 3,000 / oz for 3Q25, USD 3,100 / oz for 4Q25 and USD 3,200 / oz for 1Q26.

We maintain our moderate negative outlook for Brent crude oil, given the on-going concern over weak global demand as a result of growth slowdown fears as well as the ever-constant threat of unwinding of OPEC+ supply cuts.

Brent Crude Oil: Pulling back to USD 70 / bbl amidst uncertain global demand and OPEC re-supply risks

In terms of supply, the potential unwinding of supply cuts from OPEC+ remains an ever-constant threat. At the moment of writing, OPEC+ announced that it will start unwinding a small portion of the supply cut in Apr. Industry estimates this amount to be about 130k bpd of the above mentioned 2 mio bpd supply cut. Overall, we maintain our moderate negative outlook for Brent crude oil, given the on-going concern over weak global demand as a result of growth slowdown fears as well as the ever-constant threat of unwinding of OPEC+ supply cuts. We therefore lower our forecast further to USD 70 / bbl for 2Q25 and 3Q25 and thereafter USD 65 / bbl for 4Q25 and 1Q26.

LME Copper: Renewed pullback below USD 9,000 / MT possible as recent stockpiling boost may not be sustainable

The threat of potential trade tariffs turned out to be a near term positive driver for LME Copper. Similar to gold, the tariff threats resulted in increased stock piling of copper inventory on COMEX which intensified after President Trump confirmed the go ahead for 25% blanket tariffs on all aluminum and steel imports and threatened to impose tariffs on copper imports too. While the recent recovery in LME Copper price from USD 9,000 / MT in Jan to USD 9,500 / MT in Feb is encouraging, prices are particularly sensitive to renewed risk from global trade and China's growth slowdown. As such we maintain our modest negative outlook but adjust the price forecasts to USD 9,000 / MT for 2Q25 and 3Q25, thereafter USD 8,500 / MT for 4Q25 and 1Q26.

Global FX

USD/JPY: US yields may rebound in 2Q25 as more tariffs are announced, possibly leading markets to refocus on the tariff impact on inflation again. As a result, USD/JPY may consolidate in the coming quarter before weakening anew. Overall, our updated USD/JPY forecasts are 152 in 2Q25, 149 in 3Q25, 147 in 4Q25 and 145 in 1Q26.

EUR/USD: A still-dovish ECB relative to the Fed, the risk of US imposing tariffs on EU goods in the near term and short-term overbought conditions will likely keep the EUR/USD biased to the downside in the coming quarter. Further out, we acknowledge that probability of the pair returning below parity has reduced somewhat compared to our last review in early Feb as prospect of a peace deal and a brighter growth outlook for Germany and the EU are balancing the risks now. Overall, our updated forecasts are 1.05 in 2Q25, 1.07 in 3Q25, 1.09 in 4Q25 and 1.10 in 1Q26.

GBP/USD: Going forward, GBP is likely to remain resilient even as we expect a USD rebound in 2Q25. Overall, our GBP/USD forecasts are 1.25 in 2Q25, 1.28 in 3Q25, 1.30 in 4Q25 and 1.32 in 1Q26.

AUD/USD: In the coming quarter, it may not so smooth sailing for AUD. We expect an escalation of trade tariffs against China which may spillover to the AUD. However, further policy support to achieve the ambitious 5% GDP growth target for 2025 set in the China's Two Sessions may offset part of the pressure. Overall, our AUD/USD forecasts are 0.60 in 2Q25, 0.61 in 3Q25, 0.62 in 4Q25 and 0.63 in 1Q26.

NZD/USD: Similar to other G-10 peers, we expect NZD/USD to dip further in 2Q25 before rebounding from 3Q25 onwards. Our updated NZD/USD forecasts are 0.54 in 2Q25, 0.55 in 3Q25, 0.56 in 4Q25 and 0.57 in 1Q26.

Asian FX

USD/CNY: Overall, our updated USD/CNY forecasts are at 7.50 in 2Q25, 7.65 in 3Q25, 7.50 in 4Q25 and 7.40 in 1Q26. However, in the event of the worst-case scenario of an outsized 60% tariff against Chinese imports into the US, we reiterate that it would be difficult for PBOC to reign back more extended CNY weakness and expect USD/CNY to rise above the psychological 8.0 level, last seen in 2006.

USD/SGD: Going forward, we expect a positive-sloping S$NEER and SGD's reputation as a regional safe-haven currency to help buffer the SGD against uncertainties due to Trump's latest tariff actions, as it had during the last trade war in 2018. This is likely to translate to more measured move in USD/SGD compared to other USD/Asia pairs. Overall, our updated USD/SGD forecasts are 1.36 in 2Q25, 1.38 in 3Q25, 1.36 in 4Q25 and 1.35 in 1Q26.

USD/HKD: Since the start of the US (and Hong Kong) easing cycle last Sep, USD/HKD spent most time at the lower half of its 7.75 – 7.85 allowable trading band, consistent with previous easing cycles. As such, in this report we lower our forecasts of USD/HKD to average 7.78 for the next four quarters compared to 7.80 previously.

USD/TWD: Overall, we expect the TWD to weaken alongside the CNY and regional peers for the coming quarters as Trump escalates his tariff agenda against China. The prospect of direct tariffs against Taiwan is a tail risk that needs to be monitored as well. Our updated USD/TWD forecasts are 33.8 in 2Q25, 34.5 in 3Q25, 33.8 in 4Q25 and 33.4 in 1Q26.

USD/KRW: Going forward, with a dim growth outlook, a dovish monetary policy stance and tariff uncertainty, the risk is that KRW will stay biased on the weaker side of 1,400 / USD. Our updated forecasts for USD/KRW are 1,470 in 2Q25, 1,500 in 3Q25, 1,480 in 4Q25 and 1,460 in 1Q26.

USD/MYR: Overall, in line with our expectations for higher USD/Asia for most part of 2025, our USD/MYR forecasts are at 4.55 in 2Q25, 4.65 in 3Q25, 4.55 in 4Q25 and 4.50 in 1Q26.

USD/IDR: Overall, we still expect further IDR weakness as part of a regional trend as the Trump administration ramps up its tariffs on China. Our updated USD/IDR forecasts are higher at 16,800 in 2Q25, 16,900 in 3Q25, 16,700 in 4Q25 and 16,600 in 1Q26.

USD/THB: While we do not expect any more BOT rate cuts for the rest of the year, THB may still be weighed by persistent outflows from the local stock market and the government's push to keep the THB competitive to aid exports. Hence, we reiterate our call of further THB weakness till 3Q25 before seeing a rebound. Our updated USD/THB forecasts are 34.4 in 2Q25, 34.8 in 3Q25, 34.4 in 4Q25 and 34.0 in 1Q26.

USD/PHP: We continue to expect USD/PHP to edge higher alongside other USD/Asia pairs. Our updated forecasts are at 58.5 in 2Q25, 59.5 in 3Q25, 59.0 in 4Q25 and 58.5 in 1Q26.

USD/VND: From here, the path of resistance is still biased towards further VND weakness due to China growth and tariff uncertainties. There is a risk of US imposing tariffs on Vietnam, owning to the latter's sizable and growing trade surplus with US. Potential tailwinds to offset VND depreciation pressures include strong domestic growth outlook and the SBV's pledge to ensure a "stable exchange rate." Overall, our updated USD/VND forecasts are 25,800 in 2Q25, 26,000 in 3Q25, 25,800 in 4Q25 and 25,600 in 1Q26.

USD/INR: Overall, we expect INR to weaken to fresh record lows against the USD, with updated forecasts at 89.0 in 2Q25, 90.0 in 3Q25, 89.0 in 4Q25 and 88.5 in 1Q26.

FORECAST

Real GDP growth trajectory

y/y% change	2024	2025F	2026F	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F
China	5.0	4.3	4.2	5.3	4.7	4.6	5.4	4.7	4.5	4.3	4.0
Hong Kong	2.5	2.0	2.4	2.8	3.1	1.9	2.4	2.1	2.1	2.1	1.9
India (FY)	9.2	6.4	6.6	9.7	9.3	9.5	8.4	6.5	5.6	6.2	7.1
Indonesia	5.0	5.2	5.3	5.1	5.1	5.0	5.0	5.1	5.2	5.4	5.2
Japan	0.1	1.0	1.5	-0.8	-0.8	0.6	1.2	2.0	1.2	0.4	0.2
Malaysia	5.1	4.7	4.8	4.2	5.9	5.4	5.0	4.8	4.7	4.6	4.6
Philippines	5.6	6.0	6.0	5.8	6.4	5.2	5.2	5.6	6.1	6.1	6.0
Singapore	4.4	2.5	1.8	3.2	3.4	5.7	5.0	5.0	4.4	0.8	0.0
South Korea	2.0	1.7	1.9	3.3	2.3	1.5	1.2	1.3	1.6	1.8	2.1
Taiwan	4.6	3.0	3.0	6.6	4.9	4.2	2.9	3.4	3.0	3.0	2.4
Thailand	2.5	2.9	3.0	1.7	2.3	3.0	3.2	3.1	3.2	2.6	2.9
Vietnam	7.1	7.0	7.4	6.0	7.2	7.4	7.6	7.1	6.9	6.9	7.2
Australia	1.1	1.9	2.3	1.1	1.0	0.8	1.2	1.5	1.8	2.1	2.2
Eurozone	0.7	0.9	1.2	0.4	0.5	0.9	0.9	0.9	0.9	0.8	1.0
New Zealand	-0.5	1.0	2.5	1.3	-0.5	-1.5	-1.2	-1.1	0.5	2.2	2.5
United Kingdom	0.9	1.0	1.4	0.3	0.7	1.0	1.4	0.7	0.7	1.0	1.4
United States (q/q SAAR)	2.8	1.8	2.5	1.6	3.0	3.1	2.3	-1.1	3.1	2.6	1.9

For India, full-year and quarterly growth are based on its fiscal calendar (Apr-Mar)
Source: Macrobond, UOB Global Economics & Markets Research Forecast

FORECAST

FX, interest rate & commodities

FX	07 Mar	2Q25F	3Q25F	4Q25F	1Q26F
USD/JPY	148	152	149	147	145
EUR/USD	1.08	1.05	1.07	1.09	1.10
GBP/USD	1.29	1.25	1.28	1.30	1.32
AUD/USD	0.63	0.60	0.61	0.62	0.63
NZD/USD	0.57	0.54	0.55	0.56	0.57
DXY	104.1	107.1	105.2	103.6	102.7
USD/CNY	7.24	7.50	7.65	7.50	7.40
USD/HKD	7.77	7.78	7.78	7.78	7.78
USD/TWD	32.87	33.8	34.5	33.8	33.4
USD/KRW	1,448	1,470	1,500	1,480	1,460
USD/PHP	57.33	58.5	59.5	59.0	58.5
USD/MYR	4.43	4.55	4.65	4.55	4.50
USD/IDR	16,330	16,800	16,900	16,700	16,600
USD/THB	33.74	34.4	34.8	34.4	34.0
USD/VND	25,493	25,800	26,000	25,800	25,600
USD/INR	87.12	89.0	90.0	89.0	88.5
USD/SGD	1.33	1.36	1.38	1.36	1.35
EUR/SGD	1.44	1.43	1.48	1.48	1.49
GBP/SGD	1.72	1.70	1.77	1.77	1.78
AUD/SGD	0.84	0.82	0.84	0.84	0.85
SGD/MYR	3.32	3.35	3.37	3.35	3.33
SGD/CNY	5.43	5.51	5.54	5.51	5.48
JPY/SGDx100	0.90	0.89	0.93	0.93	0.93

POLICY RATES	07 Mar	2Q25F	3Q25F	4Q25F	1Q26F
US Fed Fund Rate	4.50	4.25	4.25	4.25	4.25
JPY Policy Rate	0.50	0.75	0.75	1.00	1.00
EUR Refinancing Rate	2.65	2.40	2.15	2.15	2.15
GBP Repo Rate	4.50	4.25	4.00	3.75	3.50
AUD Official Cash Rate	4.10	3.85	3.60	3.35	3.35
NZD Official Cash Rate	3.75	3.25	3.00	3.00	3.00
CNY 1Y Loan Prime Rate	3.10	2.90	2.80	2.80	2.80
HKD Base Rate	4.75	4.50	4.50	4.50	4.50
TWD Official Discount Rate	2.00	2.00	2.00	2.00	2.00
KRW Base Rate	2.75	2.50	2.50	2.50	2.50
PHP O/N Reverse Repo	5.75	5.50	5.50	5.50	5.50
MYR O/N Policy Rate	3.00	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	5.75	5.50	5.25	5.25	5.25
THB 1D Repo	2.00	2.00	2.00	2.00	2.00
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	6.25	5.75	5.75	5.75	5.75

INTEREST RATES	07 Mar	2Q25F	3Q25F	4Q25F	1Q26F
USD 3M SOFR (compounded)	4.41	4.24	4.13	4.13	4.13
SGD 3M SORA (compounded)	2.71	2.60	2.61	2.61	2.60
US 10Y Treasuries Yield	4.28	4.30	4.30	4.30	4.30
SGD 10Y SGS	2.74	2.90	2.90	2.90	2.90

COMMODITIES	07 Mar	2Q25F	3Q25F	4Q25F	1Q26F
Gold (USD/oz)	2,898	2,900	3,000	3,100	3,200
Brent Crude Oil (USD/bbl)	69	70	70	65	65
LME Copper (USD/mt)	9,734	9,000	9,000	8,500	8,500

Source: UOB Global Economics & Markets Research Estimates

KEY EVENTS
2Q 2025

APRIL

02
US

US set to announce reciprocal tariffs on trading partners with Brazil, India and EU being flagged, new tariffs on automobiles and recommendations under "America First Trade Policy".

07-10
ASEAN

ASEAN Finance Ministers' and Governors' Meeting Week

21-26
Global

The 2025 Spring Meetings of the World Bank Group and the International Monetary Fund (WB-IMF) will take place in Washington, D.C. US.

MAY

01
UK

Local elections will be held, where all seats on 14 county councils and eight unitary authorities in England will be up for election.

22
New Zealand

Finance Minister Willis will be delivering the Budget.

May
Global

Malaysia will host the first summit between ASEAN, China and the Gulf Cooperation Council (GCC). GCC members include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE. China is a major partner of both blocs.

20 May - 01 Jun
Asia

IISS Shangri-La Dialogue is held annually at Shangri-La Hotel Singapore. This is widely considered as Asia's premier defence summit.

By Nov 2025
Singapore

General Elections 2025 (GE2025) must be held no later than Nov 2025 and in our view, the GE should be held sooner rather than later post Budget 2025 to ride on the constructive economic window and macro backdrop.

If history serves as a guide, May could be a possible month as was the case in the 2006 and 2011 GEs.

JUNE

15-17
G7

The 51st G7 Leaders' summit will be held in Kananaskis, Alberta, Canada.

30 Jun - 02 Jul
EU

ECB Forum on Central Banking in Sintra, and the theme this year is "Adapting to change: macroeconomic shifts and policy responses".

June
China

16th Lujiazui Forum – Professional forum in the finance industry, typically held in Shanghai and attended by leaders from China's top financial regulators, including the PBOC, the National Financial Regulatory Administration (NFRA), and the China Securities Regulatory Commission (CSRC).

Thailand

BOT Governor Sethaput will complete his five-year term in Sep this year but is ineligible for reappointment under the central bank's regulations, as his age will be over 60. The selection panel will be appointed in Mar and it is required to finalize the list of candidates at least 90 days before the incumbent's term expires.

FX STRATEGY

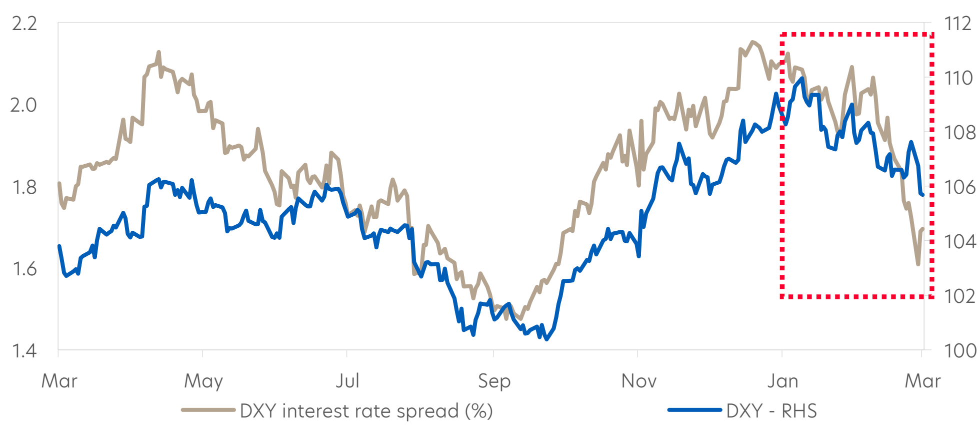
Will the year-to-date weakness in USD last?

Renewed US growth concerns took centrestage and USD slid alongside falling US rates just as markets priced once again for more Fed rate cuts later in the year.

After a strong 4Q24, the USD pulled back in 1Q25, largely due to "tariff fatigue" as President Trump's initial tariffs salvo was less intense than thought, prompting markets to scale back the "Tariff Risk Premium" which has helped boost USD previously. Furthermore, renewed US growth concerns took centrestage and USD slid alongside falling US rates just as markets priced once again for more Fed rate cuts later in the year. In all, the US Dollar Index (DXY) which had risen to two-year highs of around 110 in early Jan retraced back towards 105.7 as of 5 Mar. How would the tug-of-war between inflation and growth concerns evolve in the coming quarter and what would be its impact on the USD?

Chart 1: DXY pulled back in 1Q25 alongside falling US rates as US growth concerns overshadowed tariffs' inflationary risks

Source: Bloomberg, UOB Global Economics & Markets Research



The Asia Dollar Index has staged a modest rebound off its two-year lows in the first two months of the year. Going forward, how long more will Asia FX be able to hold up in this new normal of constant tariff threats?

Most Asia FX had a mixed start to 2025 as Trump's tariffs against China weighed on some regional currencies. That said, the initial damage from trade war 2.0 appears manageable as Trump's stance towards China this time round seen to be softer than expected. This trade war is set out to address US trade imbalances with most of its key trading partners, including Mexico and Canada, rather than China alone in the 2018/19 precedent. As such, CNY and other Asia FX may have bought themselves some time for the time being. So far, USD/CNY is tethered by a stable central parity fixing rate at around 7.17 and remained capped below the line-on-the-sand at 7.35. The Asia Dollar Index has also staged a modest rebound off its two-year lows in the first two months of the year. Going forward, how long more will Asia FX be able to hold up in this new normal of constant tariff threats?

Major FX Strategy

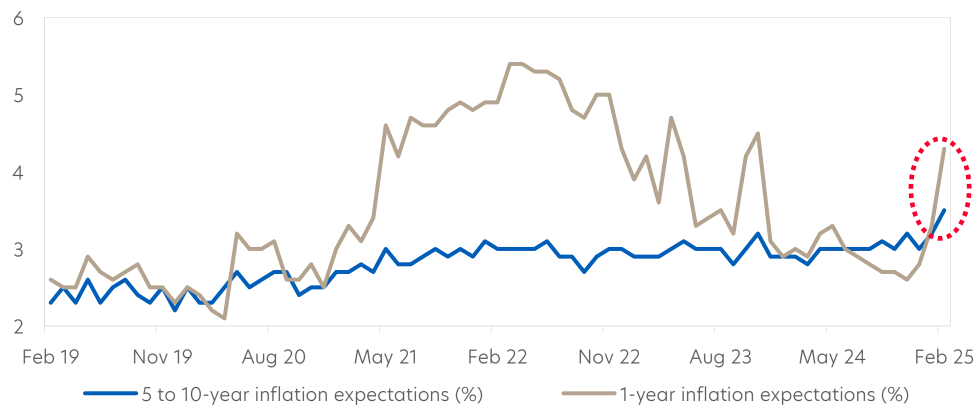
Has the USD topped out against the Majors?

Within the Major FX space, the USD was weighed by the renewed US growth concerns. US consumer confidence fell the most since August 2021 in Feb due to uncertainty over the Trump administration's policies. The data followed recent disappointments on the retail sales, ISM manufacturing and housing data.

That said, we still think the Fed is likely to prioritize inflation concerns over growth slowdown at this juncture. Recent Fed commentary still points to the Fed keeping rates steady in the near term until clearer signs that inflation is moving lower towards the 2% target. Furthermore, the Fed will pay closer attention to US long-term inflation expectations which have risen to the highest level since 1995 as consumers expect Trump's tariff policy to drive up prices.

Chart 2: The Fed is likely to pay attention to recent surge in inflation expectations

Source: Bloomberg, UOB Global Economics & Markets Research



In light of sticky inflation, we are keeping to expectation of one 25-bps Fed rate cut this year, likely at the Jun FOMC. This contrasts with other Developed Markets (DM) central banks such as the European Central Bank (ECB) which we expect further easing of 50 bps while Bank of England (BOE), Reserve Bank of Australia (RBA) and Reserve Bank of New Zealand (RBNZ) may slash rates by 75 bps each for the rest of 2025.

We argue that the still-wide rate differential between US and its DM peers will likely spur a rebound in the USD in 2Q25 before pulling back starting 3Q25. Overall, we expect the DXY to rise to 107.1 by mid-2025 before easing off to 103.6 by end-2025, still anchoring DXY at the top half of past 3-year trading range. The risks to our USD forecast appear more balanced, with upside risks stemming from renewed inflationary risks as tariffs are progressively increased, which would trigger a hawkish Fed response. In contrast, downside risks include a material and sustained deterioration to the US growth outlook or a Russia-Ukraine peace deal which may boost global risk appetite again and reduce the need of the USD as a safe haven currency.

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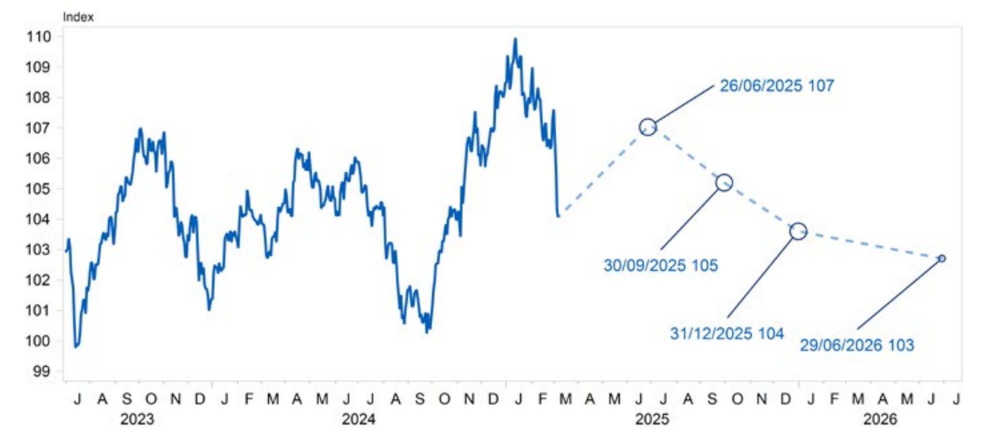
Chart 3: We expect DXY to rebound in 2Q25 before pulling back

Source: Macrobond, UOB Global Economics & Markets Research



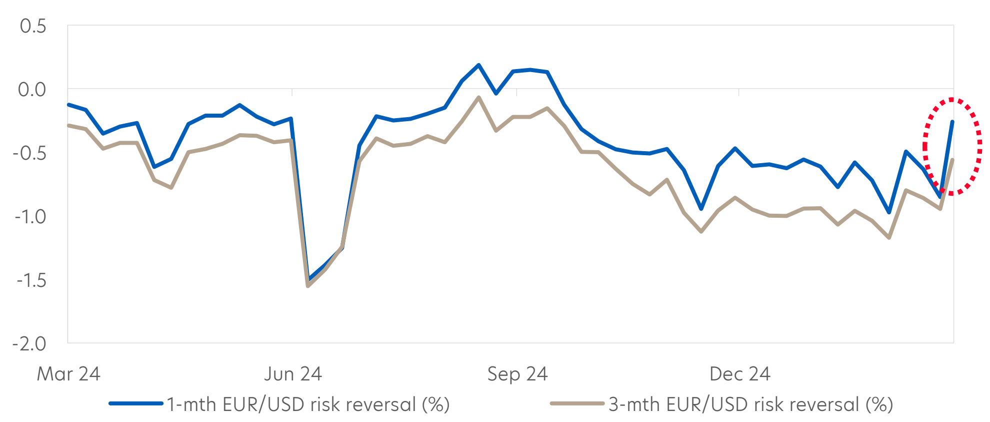
At the moment of writing, the EUR/USD rebounded sharply in early Mar to 1.07 after touching a two-year low of 1.0178 in early Feb. The move coincided with a narrowing of USD's rate advantage over the EUR as US yields tumbled in the face of emerging US growth concerns. Peace talks to end the 3-year Russia-Ukraine war also helped dramatically improve investor sentiment for Eurozone risky assets as well as the EUR. In addition, latest effort by Germany's incoming government to loosen fiscal rules and allow for significantly higher defence spending in excess of 1% of GDP, as well as creating a EUR 500 bn special infrastructure fund is seen as a potentially significant fiscal boost to Germany's growth prospects. Ironically, the marked jump in German bund yields and by extension benchmark Eurozone yields following the increasing expectations of more fiscal spending in Germany and across Europe is offering near term support for the EUR.

A still-dovish ECB relative to the Fed, the risk of US imposing tariffs on EU goods in the near term and short-term overbought conditions will likely keep the EUR/USD biased to the downside in the coming quarter.

That said, a still-dovish ECB relative to the Fed, the risk of US imposing tariffs on EU goods in the near term and short-term overbought conditions will likely keep the EUR/USD biased to the downside in the coming quarter. Further out, we acknowledge that probability of the pair returning below parity has reduced somewhat compared to our last review in early Feb as prospect of a peace deal and a brighter growth outlook for Germany and the EU are balancing the risks now. Overall, our updated forecasts are 1.05 in 2Q25, 1.07 in 3Q25, 1.09 in 4Q25 and 1.10 in 1Q26.

Chart 4: A recovery in EUR/USD risk reversals suggest lesser downside risk in spot compared to start of the year

Source: Bloomberg, UOB Global Economics & Markets Research



Going forward, GBP is likely to remain resilient even as we expect a USD rebound in 2Q25.

As the UK was not singled out in Trump's initial list of tariff action, GBP was amongst outperformers within the G-10 FX space when the USD started to weaken broadly in Feb when tariff fatigue sets in. While markets had initially taken notice of the dovish vote split in the Feb's BOE meeting where two policymakers voted for a larger 50 bps rate cut, the negative effects on GBP did not persist owning to hawkish CPI projections by the BOE. Going forward, GBP is likely to remain resilient even as we expect a USD rebound in 2Q25. Overall, our GBP/USD forecasts are 1.25 in 2Q25, 1.28 in 3Q25, 1.30 in 4Q25 and 1.32 in 1Q26.

US yields may rebound in 2Q25 as more tariffs are announced, possibly leading markets to refocus on the tariff impact on inflation again. As a result, USD/JPY may consolidate in the coming quarter before weakening anew.

The JPY was the best performing G-10 FX year-to-date, rising over 5% to 149 /USD, underpinned by monetary policy divergence. The 10-year Japan Government Bond (JGB) yield rose about 30 bps to 1.40% since the start of year as markets priced in further rate hikes beyond the 25 bps BOJ rate increase in Jan. Given the sustained rising inflation bias and strong wage growth in Japan, our macroeconomic team continue to forecast two more 25 bps hikes from the BOJ this year. On the flip side, the 10-year US Treasury yield slumped to two-month lows on renewed US growth concerns. That said, US yields may rebound in 2Q25 as more tariffs are announced, possibly leading markets to refocus on the tariff impact on inflation again. As a result, USD/JPY may consolidate in the coming quarter before weakening anew. Overall, our updated USD/JPY forecasts are 152 in 2Q25, 149 in 3Q25, 147 in 4Q25 and 145 in 1Q26.

AUD/USD rebounded strongly from a 4-year low of 0.6088 in early Feb as Trump's initial tariff actions were seen to be less aggressive than thought. The AUD was also underpinned by caution from the RBA that it would not ease as aggressively as markets anticipated after the first rate cut in four years in Feb. In the coming quarter, it may not be so smooth sailing for AUD. We expect further escalation of trade tariffs against China which may spillover to the AUD. However, further policy support to achieve the ambitious 5% 2025 GDP target set in the China's Two Sessions may offset part of the pressure. Overall, our AUD/USD forecasts are 0.60 in 2Q25, 0.61 in 3Q25, 0.62 in 4Q25 and 0.63 in 1Q26.

Asia FX Strategy

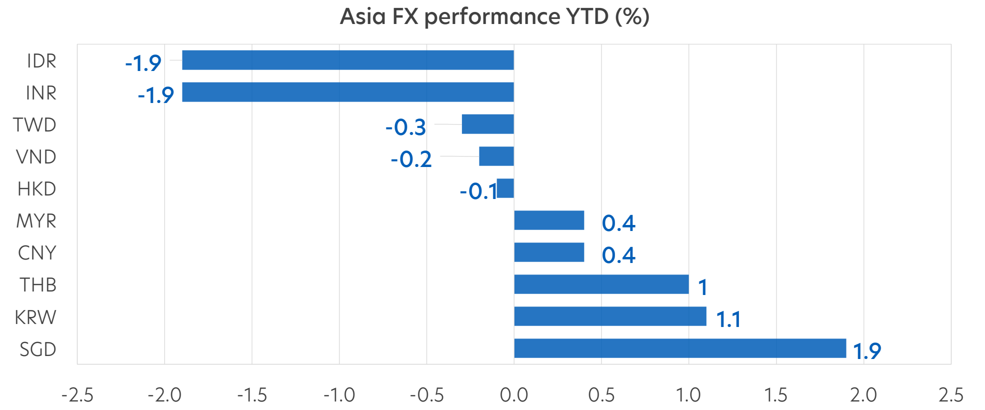
Asia FX not out of the woods yet despite relatively calm markets in first two months of 2025

Due to the nature of the exports and close trade linkages with China, Asia FX are more sensitive compared to its Developed Market (DM) peers to US tariff actions. President Trump had imposed a "10% + 10%" tariff on Chinese imports which were implemented in full on 4 Mar.

From here, Trump's tariff agenda is likely to escalate further. On the horizon, global reciprocal tariffs on US trading partners and 25% tariffs on pharmaceuticals, automobiles, and semiconductor chips imports are expected to be effective early Apr. Trump also threatened a 25% tariff on EU imports "very soon". An investigation into determining whether China is acting in accordance with the commitments made in the 2020 Phase One trade deal is expected to be completed in Apr as well. This may be the precursor of any further tariff actions against China.

Chart 5: Some Asia FX felt the weight of trade tariffs more than others

Source: Macrobond, UOB Global Economics & Markets Research



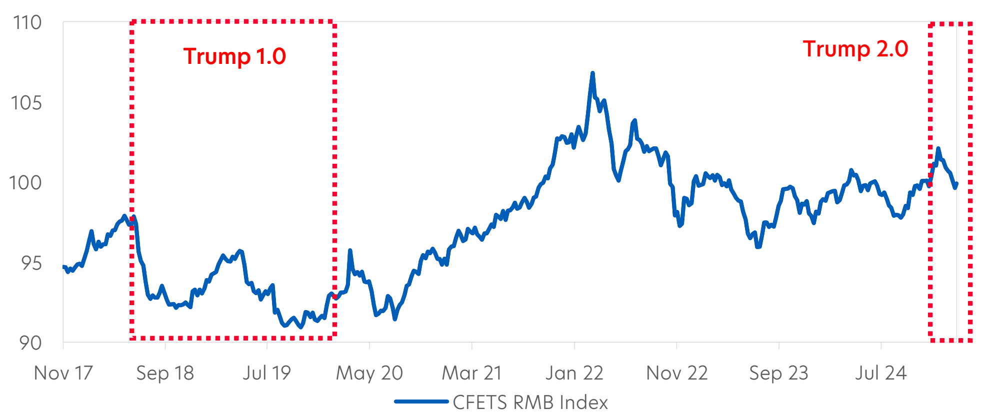
Reciprocal tariffs if announced on selected Asian economies could trigger an outsized drop in the currencies of the affected economies. In all, we reiterate the view of further Asia weakness till 3Q25 before stabilising from 4Q25.

What this means is that the calm in Asia FX in 1Q25 is unlikely to persist. In the new normal of constant tariff threats, portfolio flows into Asian economies are likely to stay cautious. Consequently, Asia FX is vulnerable to further weakness against the USD. Reciprocal tariffs if announced on selected Asian economies could trigger an outsized drop in the currencies of the affected economies. In all, we reiterate the view of further Asia weakness till 3Q25 before stabilising from 4Q25.

While USD/CNY was largely stuck within familiar ranges between 7.23 and 7.31 since trade war 2.0 started in early Feb, we do not expect this calm to persist. As the tariff fight escalates and drags on, the downside risks to our expectation of 4.3% 2025 China GDP will increase. We will not be surprised that the People's Bank of China (PBOC) will allow the CNY to do the adjustment on behalf of the economy and guide USD/CNY higher via the fixing. Separately, the US-China rate differential will likely bias the USD/CNY higher as well. Overall, our updated USD/CNY forecasts are at 7.50 in 2Q25, 7.65 in 3Q25, 7.50 in 4Q25 and 7.40 in 1Q26. However, in the event of the worst case scenario of an outsized 60% tariff against Chinese imports into the US, we reiterate that it would be difficult for PBOC to reign back more extended CNY weakness and expect USD/CNY to rise above the psychological 8.0 level, last seen in 2006.

Chart 6: The RMB may underperform relative to its trade partners, as it did during the first trade war

Source: Bloomberg, UOB Global Economics & Markets Research



Going forward, with a dim growth outlook, a dovish monetary policy stance and tariff uncertainty, the risk is that KRW will stay biased on the weaker side of 1,400 /USD.

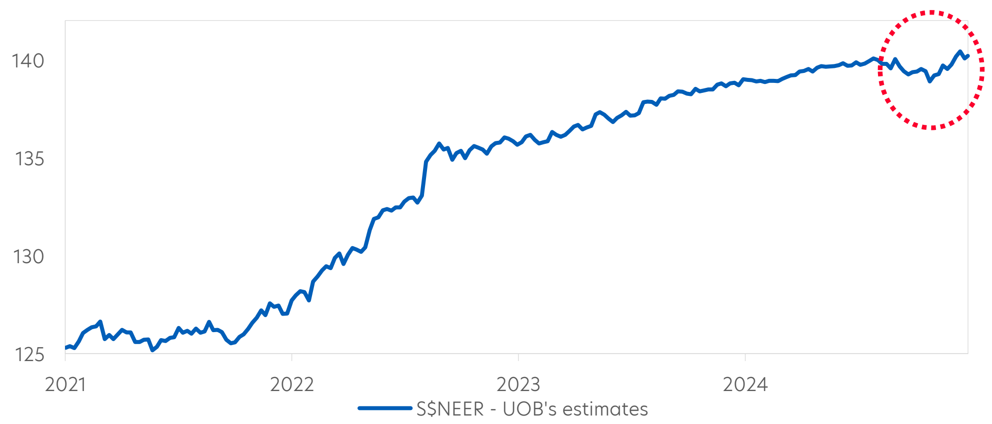
In line with the highly sensitive nature of South Korea's automotive and semiconductor focused export driven economy to potential trade tariffs, the KRW weakened immediately from 1,430 to 1,460 against the USD, upon news that US will impose 10%+10% tariffs against Chinese imports. South Korea's quarterly economic growth has effectively flatlined over the past three quarters. And the recent political uncertainty is also weighing down on consumer spending. After the Bank of Korea (BOK) made its latest 25 bps cut, Governor Rhee Chang Yong reiterated his call for parliament to issue a much needed supplementary stimulus package to support the economy. Going forward, with a dim growth outlook, a dovish monetary policy stance and tariff uncertainty, the risk is that KRW will stay biased on the weaker side of 1,400 /USD. Our updated forecasts for USD/KRW are 1,470 in 2Q25, 1,500 in 3Q25, 1,480 in 4Q25 and 1,460 in 1Q26.

We expect a positive-sloping S$NEER and SGD's reputation as a regional safe-haven currency to help buffer the SGD against uncertainties due to Trump's latest tariff actions, as it had during the last trade war in 2018. This is likely to translate to more measured move in USD/SGD compared to other USD/Asia pairs.

The S$NEER has rebounded strongly in the first two months of the year, paring almost all the losses sustained in 4Q24. The advance came despite a lowering of the S$NEER's policy slope to 1.0% p.a. from 1.5% p.a (according to our model projections) at the recent Jan 2025 MPS. Going forward, we expect a positive-sloping S$NEER and SGD's reputation as a regional safe-haven currency to help buffer the SGD against uncertainties due to Trump's latest tariff actions, as it had during the last trade war in 2018. This is likely to translate to more measured move in USD/SGD compared to other USD/Asia pairs. Overall, our updated USD/SGD forecasts are 1.36 in 2Q25, 1.38 in 3Q25, 1.36 in 4Q25 and 1.35 in 1Q26.

Chart 7: S$NEER traded to fresh highs after reversing declines in 4Q24

Source: Bloomberg, UOB Global Economics & Markets Research



Despite sound economic and financial fundamentals, the MYR is still vulnerable to external developments going forward, especially as persistent tariff threats from the Trump administration are expected to weigh on Asia FX as a whole. The MYR which is closely correlated to the CNY is likely to feel the spillover of a weaker CNY across most part of 2025 as Trump intensified tariffs against China.

The MYR stayed resilient and was marginally higher year-to-date at 4.46 /USD as of 28 Feb after being crowned the best performing Asia FX in 2024. Despite sound economic and financial fundamentals, the MYR is still vulnerable to external developments going forward, especially as persistent tariff threats from the Trump administration are expected to weigh on Asia FX as a whole. The MYR which is closely correlated to the CNY is likely to feel the spillover of a weaker CNY across most part of 2025 as Trump intensified tariffs against China. Overall, in line with our expectations for higher USD/Asia for most part of 2025, our USD/MYR forecasts are at 4.55 in 2Q25, 4.65 in 3Q25, 4.55 in 4Q25 and 4.50 in 1Q26.

The IDR was amongst the laggards regionally, falling close to 3% year-to-date to about 16,600 /USD – also in line with our 1Q25 forecast - due to IDR's higher sensitivity to tariff-related news. An unexpected Bank Indonesia (BI) rate cut in Jan and prospects of a slower and shallower Fed rate cut cycle in 2025 spark portfolio outflow concerns. Our expectation of 2x25bps rate cuts by the BI, each in 2Q25 and 3Q25 is likely to keep the pressure on the IDR in the near term. To temper with the depreciation pressures, BI continued to intervene in both the spot and domestic non-deliverable forwards and may intensify efforts to smooth currency volatility as USD/IDR approaches its pandemic high of 16,625. Overall, we still expect further IDR weakness as part of a regional trend as the Trump administration ramps up its tariffs on China. Our updated USD/IDR forecasts are higher at 16,800 in 2Q25, 16,900 in 3Q25, 16,700 in 4Q25 and 16,600 in 1Q26.

While we do not expect any more BOT rate cuts for the rest of the year, THB may still be weighed by persistent outflows from the local stock market and the government's push to keep the THB competitive to aid exports. Hence, we reiterate our call of further THB weakness till 3Q25 before rebounding.

The THB pared gains in late Feb to trade largely flat at 34.0 /USD as a surprise Bank of Thailand (BOT) rate cut – even though we correctly called for the pre-emptive cut to bolster domestic demand and support growth - and Trump's tariff escalation weighed on the THB. While we do not expect any more BOT rate cuts for the rest of the year, THB may still be weighed by persistent outflows from the local stock market and the government's push to keep the THB competitive to aid exports. Hence, we reiterate our call of further THB weakness till 3Q25 before rebounding. Our updated USD/THB forecasts are 34.4 in 2Q25, 34.8 in 3Q25, 34.4 in 4Q25 and 34.0 in 1Q26.

VND weakened to a record low of about 25,600 /USD in early Mar after the State Bank of Vietnam (SBV) raised its USD sale prices to banks to 25,698 /USD from 25,450 /USD, the first increase since last Oct. From here, the path of resistance is still biased towards further VND weakness due to China growth and tariff uncertainties. Also, there is a risk of US imposing tariffs on Vietnam, owning to the latter's sizable trade surplus with US. Potential tailwinds to offset VND depreciation pressures include strong domestic growth outlook and the SBV's pledge to ensure a "stable exchange rate." Overall, our updated USD/VND forecasts are 25,800 in 2Q25, 26,000 in 3Q25, 25,800 in 4Q25 and 25,600 in 1Q26.

RATES STRATEGY

The narrative pendulum swings back towards growth slowdown concerns

Same inputs different outputs

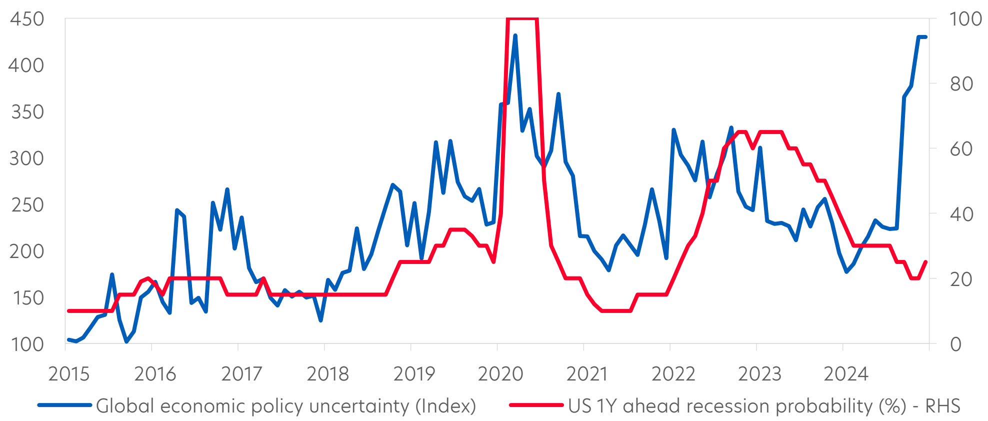
Ever since last Nov's US elections, the most repeated known unknown across the investment world has been "US policy uncertainty". Indeed, based on the conduct by the US administration since, we can safely conclude that this caveat continues to be justified when formulating views on future economic states. Whilst this may be a case of "same inputs", we are regularly reminded that we operate in a non-deterministic system where a multitude of different possible outcomes was always going to be the case. A scenario that gains traction for a given period, drowns out competing narratives.

Previous iterations have largely concluded that US policy uncertainty will result in upside risk for inflation and as such results in slow or no monetary policy accommodation scenarios. However, more recent takes on US policy uncertainty have aligned towards growth slowdown risks and greater monetary policy accommodation possibilities.

Consensus analysts' expectations of US recession in the year ahead is illustrative of this process. While global economic policy uncertainty spiked higher post Nov's US elections, the consensus has been marking their probability of recession lower. This has only changed with the most recent Feb update. Even so, the gap between economic policy uncertainty and the level of growth concern remains wide. Thus, there is room to run before the recent narrative shift can claim to be the dominant zeitgeist.

Chart 1: Hard to ignore the divergence

Source: Bloomberg, UOB Global Economics & Markets Research



Supporting our early days statement, it can be seen that US economic data has only just turned negative. At the same time, pricing for Fed funds at the end of the year which has been in hibernation since Dec FOMC has recently begun to stir from its slumber. Looking back at the historical tendencies for both series, there is clearly large ground to cover before they come close to being over extended.

Chart 2: US economic data no longer on upside

Source: Bloomberg, UOB Global Economics & Markets Research

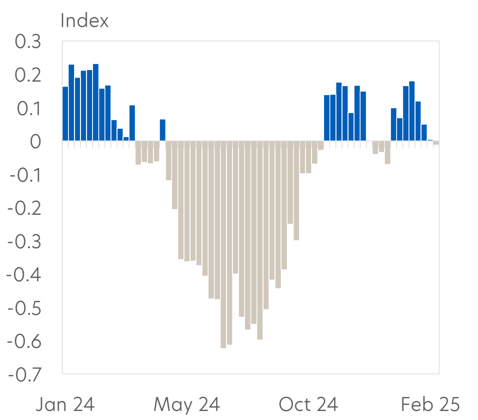
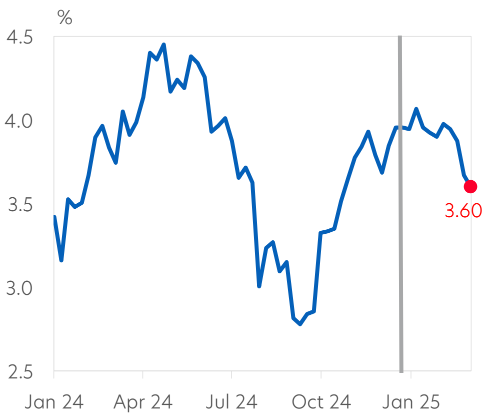


Chart 3: Dec 2025 Fed Funds

Source: Bloomberg, UOB Global Economics & Markets Research



Monetary policy will largely be hostage to the fluidity of fiscal policies. As stated, we see room for growth slowdown risk narrative to run, but we are not prepared to make recession our Macro base case scenario at this stage. The pendulum will swing again in the future at which point value will be had when the negative growth narrative is priced in.

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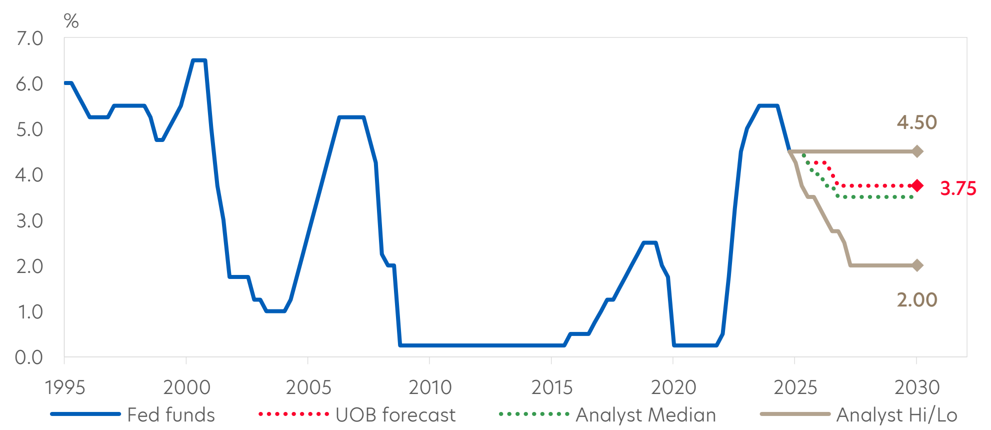
Our existing FOMC view

We project only one cut in 2025 to take Fed funds down to 4.25%. This is in acknowledgement that our Macro base case sees risk of sticky inflation on the back of fiscal and trade policy proposals by the US administration. The Fed will not be able to ignore this which accounts for our truncated easing cycle.

Extending into 2026, our base case assumption is that the policy rate still has some room to adjust lower towards more neutral settings. This move towards neutral is warranted since we see US economic growth cycle in its advanced stage and more likely to soften over time. Therefore, we have penciled in 50bps of rate cuts next year which will translate to an easing cycle bottom of 3.75% for the Fed Funds rate by end of 2026.

Chart 4: US rate outlook

Source: Bloomberg, UOB Global Economics & Markets Research



Our Fed funds forecasts tracks hawkish relative to Bloomberg's analyst consensus for rate cuts over 2025 but converges down towards the consensus by end 2026. The median forecast from our peer group has 2 rate cuts penciled this year, while the futures market as of Feb month end close is priced for 3 cuts. We see 2025 as "one and done" given that the known unknowns require time to play out.

The current distribution of analysts' Fed funds forecasts for end 2025 is skewed to the right, i.e. exhibits a bias towards a higher end state or less rate cuts. It is also notable that a 2025 rate hike scenario has not yet presented itself in the latest Feb survey, which in any case we would argue to be premature at this stage given the lack of clarity on fiscal policy implementation.

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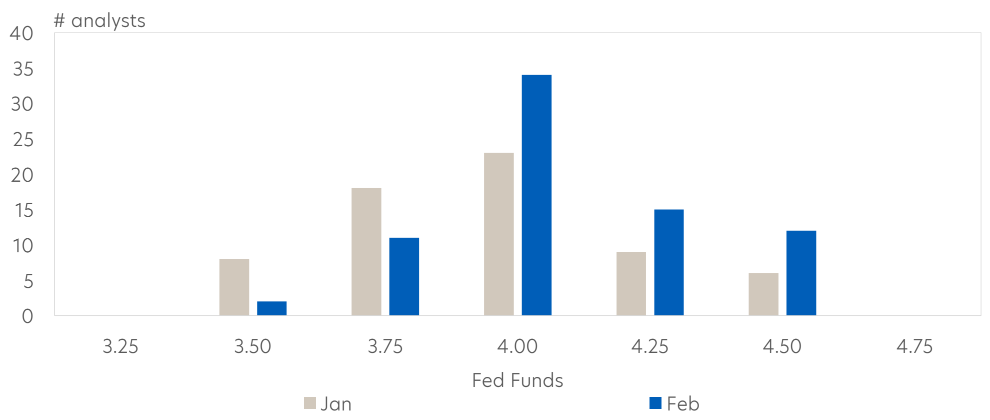
Chart 5: Distribution of end 2025 analysts Fed Funds forecasts

Source: Bloomberg, UOB Global Economics & Markets Research



In our base case for end 2Q25, we forecast the 3M compounded in arrears Sofr at 4.24%. Thereafter, short term rates are then expected to drift lower across 2025 in tune with our expectations of a further 25bps rate cuts from the US Federal Reserve. Eventually the 3M compounded in arrears Sofr could drop to 4.13% by 4Q25.

In our base case for end 2Q25, we forecast the 3M compounded in arrears Sofr at 4.26%. Thereafter, short term rates are then expected to drift lower across 2025 in tune with our expectations of a further 25bps rate cuts from the US Federal Reserve.

Our existing MAS view

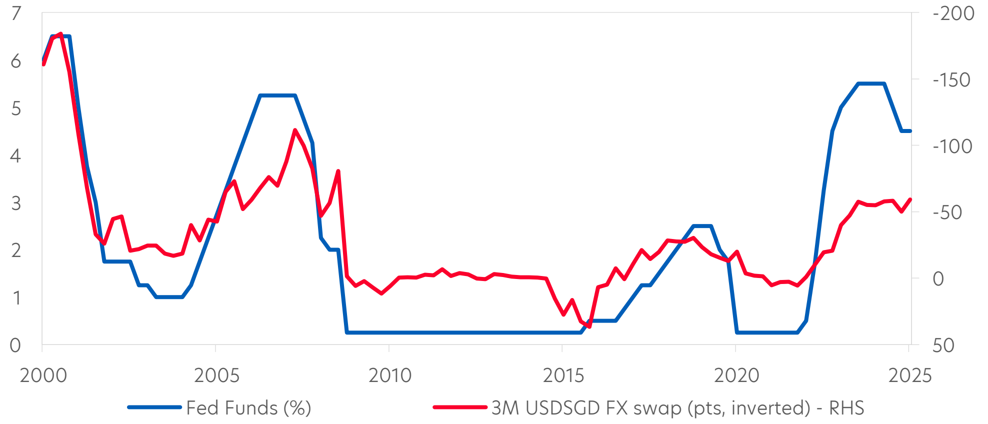
While we keep to our call for MAS to maintain the current S$NEER settings for the rest of 2025 for now, we acknowledge that risks are tilted towards further easing via lowering of the S$NEER slope should the core inflation momentum decelerate further. This could manifest via US "America First" policy directives as well as from lackluster Chinese economic momentum.

Incorporating our MAS expectation, we anticipate that short term SG yields will track lower alongside an expected decline in the US Fed funds rate. However, the pass through into SG yields may be smaller when we account for a more modest appreciation path in the S$NEEER. To be clear, even after easing, we have the S$NEER policy slope still staying positive in 2025. This means that divergence scenarios (i.e. US rates down but SG rates up) are primarily consigned to tail events.

Incorporating our MAS expectation, we anticipate that short term SG yields will track lower alongside an expected decline in the US Fed funds rate. However, the pass through into SG yields may be smaller when we account for a more modest appreciation path in the S$NEEER.

Chart 6: SGS yield discount vs UST to narrow as Fed cuts

Source: Bloomberg, UOB Global Economics & Markets Research



In our base case for end 2Q25, we forecast the 3M compounded in arrears Sora at 2.65%. Thereafter, short term rates are then expected to drift lower across 2025 but to a lesser extent than declines in US yields.

In our base case for end 2Q25, we forecast the 3M compounded in arrears Sora at 2.65%. Thereafter, short term rates are then expected to drift lower across 2025 but to a lesser extent than declines in US yields. Eventually the 3M compounded in arrears Sora could drop to 2.61% by 4Q25.

Our wider monetary policy views: Asian central banks to tread more carefully when it comes to further easing

Our monetary policy views on major developed markets (DM) and selected Asian economies sees central bankers there positioned to continue cutting their own policy rates in 2025. Broadly speaking, we see reductions at a more measured pace of 25bps clips going forward.

Statements from the ECB retain a dovish tilt but given the prospects for increased government spending we think that the ECB may elect a more cautious approach towards adjusting refi rates down to neutral, which we estimate that to be around 2.15%. For the BOE, sticky inflation dynamics keeps aggressive monetary policy action at bay. We continue to believe that the BOE will stick to recent guidance of a gradual easing approach and look for the central bank to move at a quarterly cadence, bringing the Bank Rate lower by 100 bps in 2025.

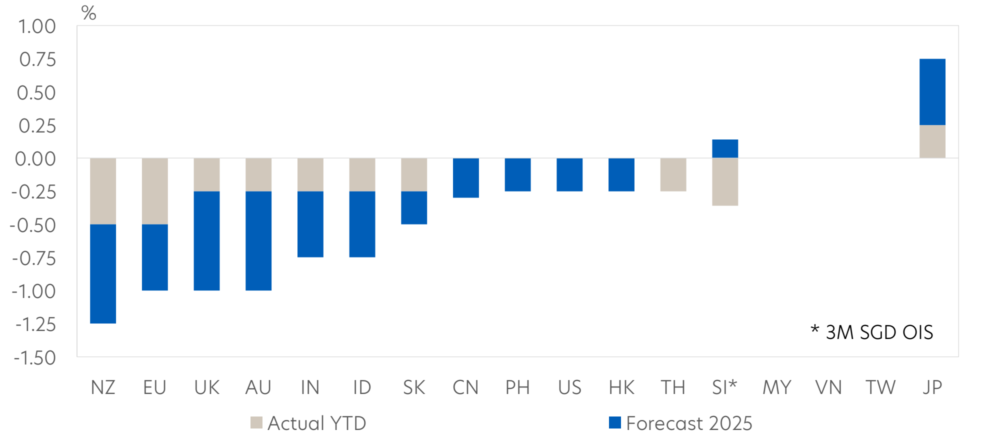
As for the BOJ, it is clearly on a determined hiking path. Firm inflation trend with strong wage growth provides the BOJ with the confidence to be the outlier in the central bank space and continue its hiking process. We forecast two more 25 bps hikes from the BOJ this year, lifting its benchmark rate higher to 1.0% by 4Q25 .

With the OCR now much closer to neutral and the economy recovering slowly, the era of bold moves by RBNZ is over. We expect future adjustments will occur in clips of 25bps. Across the Tasman, RBA cut its policy rate for the first time in more than four years in Feb. Their accompanying statement was more hawkish than expected, nonetheless we see monetary conditions shifting towards the accommodative spectrum to account for a turn lower in the business cycle.

In the Asian region, although further easing from selected Asian central banks in 2025 remains our base case. We are cognizant that faced with the prospect of less cuts in Fed funds rates as well as the uncertainties around trade and tariff policies, Asian currencies have an increased potential to become more volatile and undershoot on the downside. As such, Asian central banks may decide to tread more cautiously when it comes to future monetary policy easing.

Chart 7: Expected change in policy rates 2025

Source: Bloomberg, UOB Global Economics & Markets Research



Our 10Y UST view: notwithstanding potential volatility; yield to stay rangebound for now

Our base case forecasts for 10Y UST retains a higher end state term premium estimate as well as incorporates a more front-loaded adjustment path to this end state. That said, monetary policy expectations remain the primary driver of our directional forecast for bond yields.

While our current outlook suggests a rangebound environment in 10-year US Treasury yields for 2025, certain scenarios could disrupt this view and propel yield towards the 5% mark.

While our current outlook suggests a rangebound environment in 10-year US Treasury yields for 2025, certain scenarios could disrupt this view and propel yield towards the 5% mark. As it stands, the distribution of outcomes from analysts' consensus has not factored in a Fed re-pivot towards rate hikes. If this were to change because of a combination of inflation stickiness, surprise growth surge, or fiscal policy tailwinds then a 5% yield on 10-year US Treasuries in 2025 is certainly within the realm of possibility.

Chart 8: UOB vs consensus forecast (10Y UST)

Source: Bloomberg, UOB Global Economics & Markets Research

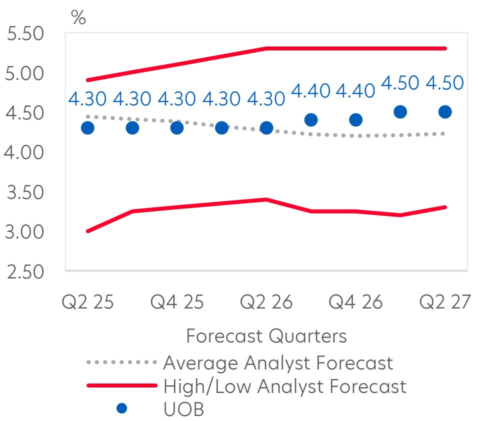
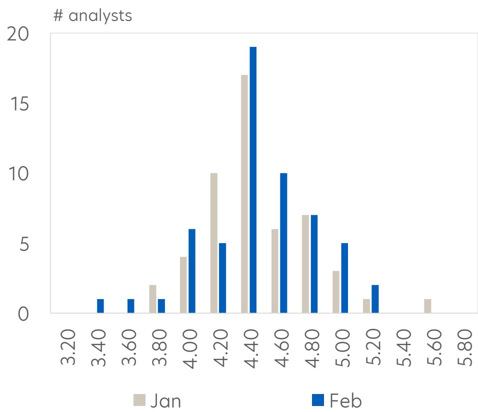


Chart 9: Distribution of end 2025 anaylsts 10Y UST forecast

Source: Bloomberg, UOB Global Economics & Markets Research



In our base case for end 2Q25, we forecast the 10Y UST yield at 4.30%. Thereafter, 10Y yield is expected to remain rangebound albeit with relatively higher volatility. Notwithstanding the volatility, we forecast 10Y UST to end 4Q25 at 4.30%.

Our 10Y SGS view: healthy demand and positive domestic dynamics to cap upside

As UST goes so goes the SGS. But we think that the yield upside for domestic bond yields will be more limited for two reasons...

As UST goes so goes the SGS. But we think that the yield upside for domestic bond yields will be more limited for two reasons. Firstly, part of the uplift in 10Y UST is due to cyclical fiscal deficit fears. This feature does not apply to the SGS market. Secondly, demand for SGS overall has been healthy considering an easing MAS policy bias. Given that we still expect a Fed easing cycle in 2025 and extending into 2026, demand for SGS should remain supportive which will help keep a lid on domestic yields.

In our base case for end 2Q25, we forecast the 10Y SGS at 2.90%. Thereafter, 10Y yield is expected to remain rangebound across rest of 2025 to end 4Q25 at 2.90% as well.

Table 1: Summary table of rates forecasts

Rates	07 Mar 25	Forecast	2Q25F	3Q25F	4Q25F	1Q26F
US Fed Funds Target	4.50	Current	4.25	4.25	4.25	4.25
		Previous	4.25	4.25	4.25	4.25
3M Compounded SOFR	4.41	Current	4.24	4.13	4.13	4.13
		Previous	4.25	4.12	4.12	4.12
10Y UST	4.28	Current	4.30	4.30	4.30	4.30
		Previous	4.50	4.40	4.40	4.40
3M Compounded SORA	2.71	Current	2.60	2.61	2.61	2.60
		Previous	2.78	2.61	2.61	2.60
10Y SGS	2.74	Current	2.90	2.90	2.90	2.90
		Previous	2.90	2.80	2.80	2.90

Source: UOB Global Economics & Markets Research forecasts

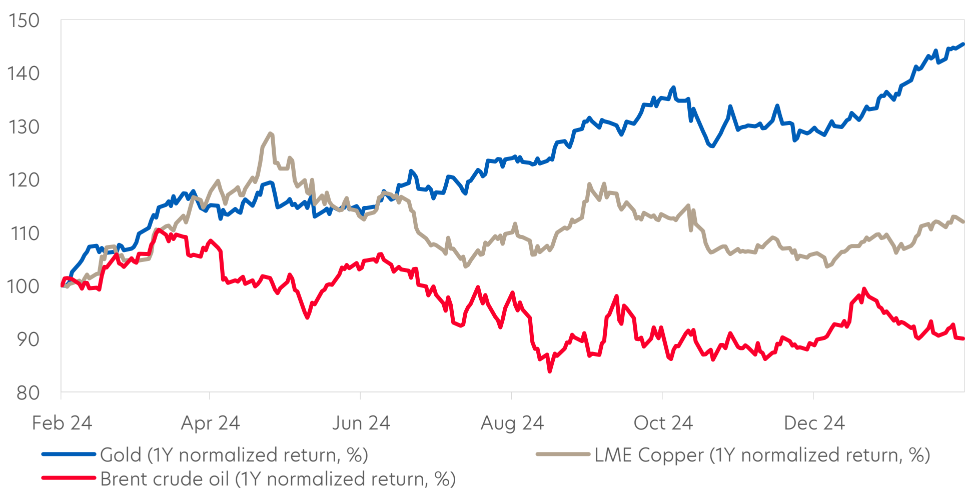
COMMODITIES STRATEGY

Safe haven demand for gold intensifies with physical bullion short squeeze

The first quarter of 2025 saw a continuation of the key trends in the commodities complex from late last year whereby safe haven demand for gold propelled the shiny metal ever higher while Brent crude oil continued to languish around familiar levels. Meanwhile LME Copper tried to steal a march by tagging along the coat tails of gold's strong rally.

Gold maintains price leadership over LME Copper and Brent crude oil

Source: Bloomberg, UOB Global Economics & Markets Research



So far, with its strong rally from late last year, gold has proven that it is immune to USD strength as well as sticky interest rates.

Breaking one price record after another, gold continued its strong rally in 1Q25, jumping further from USD 2,650 / oz in early Jan to USD 2,950 / oz by late Feb before pulling back below USD 2,900 / oz by early Mar. At USD 2,950 / oz, gold is now within striking distance of the psychological headline level of USD 3,000 / oz. So far, with its strong rally from late last year, gold has proven that it is immune to USD strength as well as sticky interest rates. Will strong safe haven demand continue to push gold above the USD 3,000 / oz resistance to even greater heights?

Persistent worries of the easing of OPEC supply cuts hangs like the Sword of Damascus over Brent crude oil price. Adding to this is the growing cloud of trade tariffs that may weigh down on global energy demand further.

Meanwhile the consolidation in Brent crude oil price continued. After starting the year at a promising level near USD 80 / bbl, Brent crude oil dipped anew and pulled back to languish back below the USD 75 / oz level to USD 70 / bbl support. Persistent worries of the easing of OPEC supply cuts hangs like the Sword of Damascus over Brent crude oil price. Adding to this is the growing cloud of trade tariffs that may weigh down on global energy demand further. Will Brent crude oil price steady itself in this latest quarter?

Finally, not intend to be left out of the party, LME Copper surprised with a stealth rally from USD 8,800 / MT in early Jan towards USD 9,500 / MT. Renewed stockpiling of Copper inventory on COMEX triggered by tariff related fears appears to be driving this contrarian recovery in prices. However, will there be eventual strong enough recovery in copper demand to sustain this nascent push in prices back above USD 9,000 / MT?

Gold

Physical bullion short squeeze to drive gold above USD 3,000 / oz

UOB's Forecast	2Q25	3Q25	4Q25	1Q26
Gold (USD/oz)	2,900	3,000	3,100	3,200

In the previously quarterly report, we highlighted that the main key positive driver for gold remains that of long-term safe haven demand which is likely to stay strong. This safe haven demand intensified since the start of the year and manifested itself in terms of the gold bullion short squeeze witnessed across the globe.

Worried that President Trump may eventually impose blanket tariff on the exports from Europe to US, investors decided to err on the side of the caution to ship gold bullion back from various parts of Europe, particularly Switzerland and from the vault of the Bank of England. As a result, physical gold inventory on COMEX jumped back to the post-Covid high of just under 40 mn oz.

This sudden flow of gold bullion back to the US generated a short squeeze across the world. By mid-February, South Korea Mint temporarily suspended sales of gold bars. Various Asian countries also saw a jump of gold shipment to the US, with Singapore reporting a 27% jump in gold shipment in Jan.

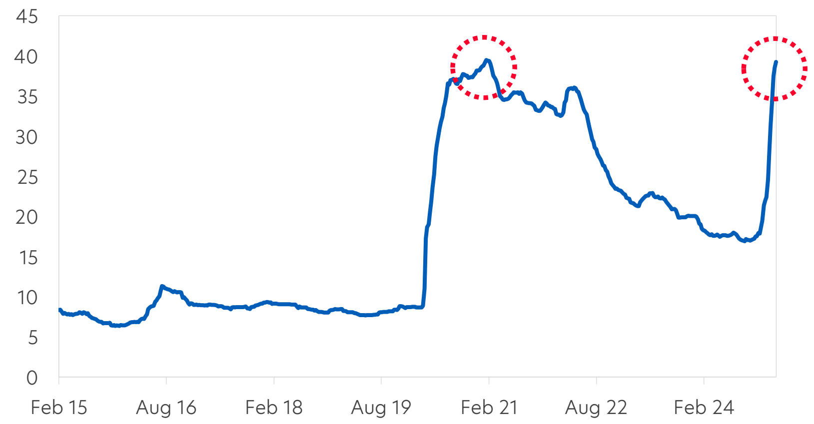
The hallmark signs of a short squeeze are unmistakable including a spike in gold lease rate above 2%. While net long futures positioning in gold appears extended and are now near previous cycle highs, this shortage in gold bullion will likely continue in the months ahead.

Overall, we keep our positive view for gold as long term safe haven demand needs will likely stay strong amidst further rise in geopolitical risks and economic risks from Trump 2.0 policies.

We hereby update our quarterly forecasts to USD 2,900 / oz for 2Q25, USD 3,000 / oz for 3Q25, USD 3,100 / oz for 4Q25 and USD 3,200 / oz for 1Q26. Previous quarterly forecasts were USD 2,800 / oz for 2Q25, USD 2,900 / oz for 3Q25 and USD 3,000 / oz for 4Q25.

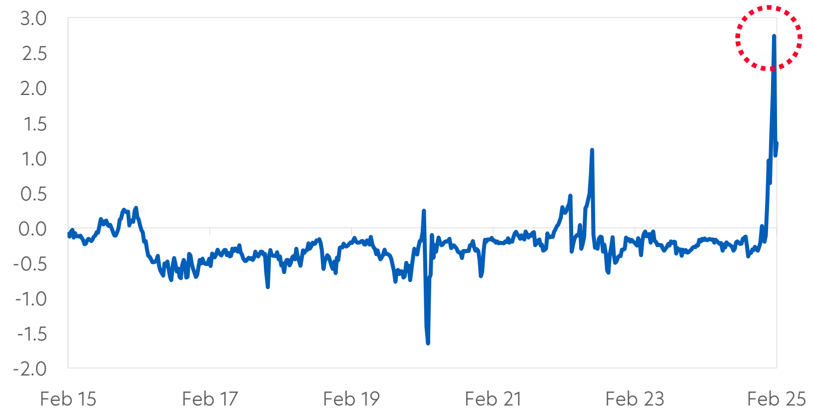
Physical gold inventory on COMEX has jumped back to Covid outbreak high

Source: Bloomberg, UOB Global Economics & Markets Research



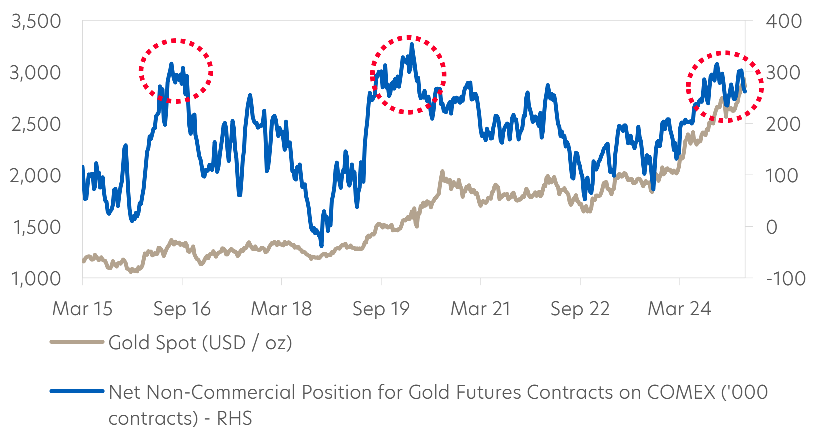
Gold 3M Implied Lease Rate jumps on phyiscal shortage

Source: Bloomberg, UOB Global Economics & Markets Research



Net Non-Commercial Gold Futures Positioing back at 2016 and 2020 high

Source: Bloomberg, UOB Global Economics & Markets Research



Brent Crude Oil

Pulling back to USD 70 / bbl amidst uncertain global demand and OPEC re-supply risks

UOB's Forecast	2Q25	3Q25	4Q25	1Q26
Brent crude oil (USD/bbl)	70	70	65	65

As highlighted in the previous quarterly report, all the bad news against crude oil price were very apparent. However, the bad news had remained so as we progressed through 1Q25.

In terms of supply, the potential unwinding of supply cuts from OPEC+ remains an ever-constant threat. Since the supply cuts were instituted in 2022, OPEC+ has taken a total of about 6 mn bpd of supply off the market. About 2 mn bpd of this supply cut is supposed to be resumed in 2024 but this has been repeatedly delayed due to weak global demand conditions.

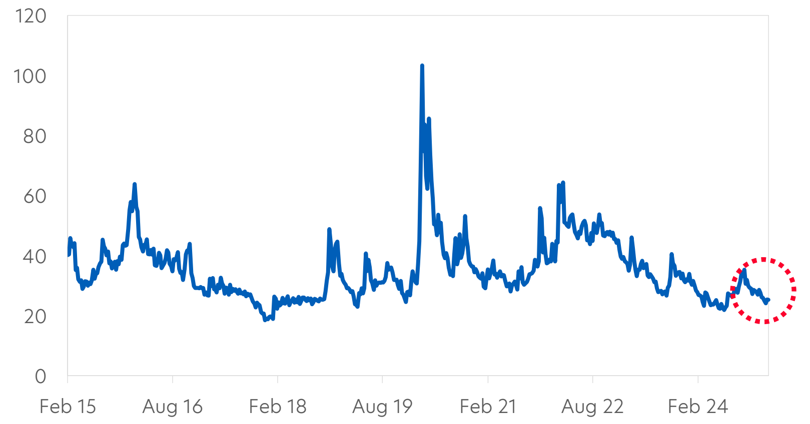
At the moment of writing, OPEC+ announced that it will start unwinding a small portion of the supply cut in Apr. Industry estimates this amount to be about 130k bpd of the above mentioned 2 mn bpd supply cut. However, OPEC+ also warned that "this gradual increase may be paused or reversed subject to market conditions".

Specifically on global energy demand, while China's oil demand appears to be stabilizing, the outlook for Europe's energy demand is uncertain amidst the Eurozone growth slowdown. The potential incoming trade tariffs from the second Trump administration will weigh down on demand further. An early resolution to the Ukraine-Russia conflict may result in the possible relaxation of sanctions against Russian energy supply. Overall, the International Energy Agency (IEA) has warned that 2025 may well see an excess supply of about 1.1 mn bpd.

Overall, we maintain our moderate negative outlook for Brent crude oil, given the on-going concern over weak global demand as well as the ever-constant threat of unwinding of OPEC+ supply cuts. We therefore lower our forecast further to USD 70 / bbl for 2Q25 and 3Q25 and thereafter USD 65 / bbl for 4Q25 and 1Q26. Previous price forecasts were USD 75 / bbl for 2Q25 and USD 70 / bbl for 3Q and 4Q25.

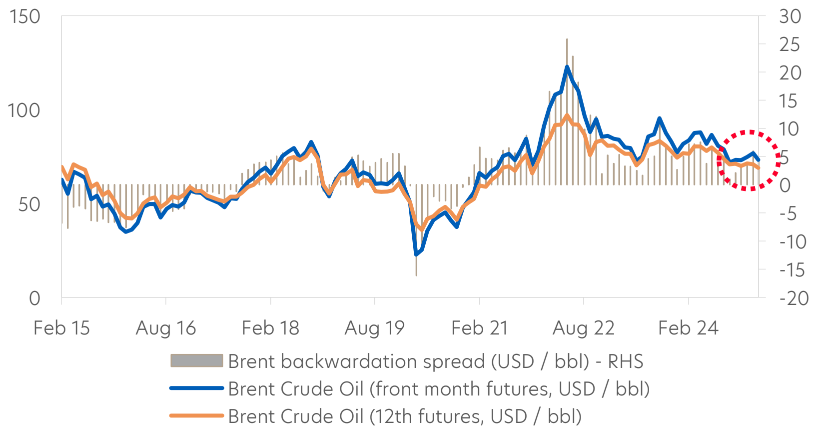
Crude Oil volatlity back near historical low

Source: Bloomberg, UOB Global Economics & Markets Research



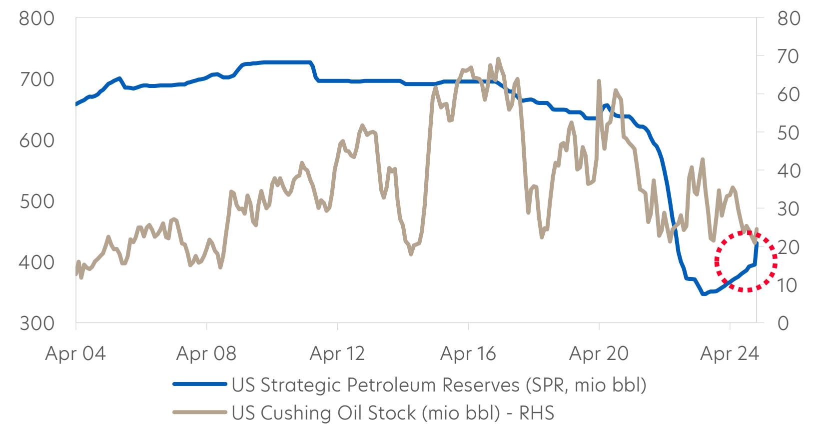
Brent backwardation spread stays benign

Source: Bloomberg, UOB Global Economics & Markets Research



US has been gradually rebuilding its Strategic Petroleum Reserves (SPR)

Source: Bloomberg, UOB Global Economics & Markets Research



Copper

Renewed pullback below USD 9,000 / MT possible as recent stockpiling boost may not be sustainable

UOB's Forecast	2Q25	3Q25	4Q25	1Q26
LME Copper (USD/mt)	9,000	9,000	8,500	8,500

In the previous quarterly report, we further downgraded LME Copper outlook to negative on concerns that incoming trade tariffs from the second Trump administration will weigh down on global trade and manufacturing activity thereby reducing overall demand for LME Copper.

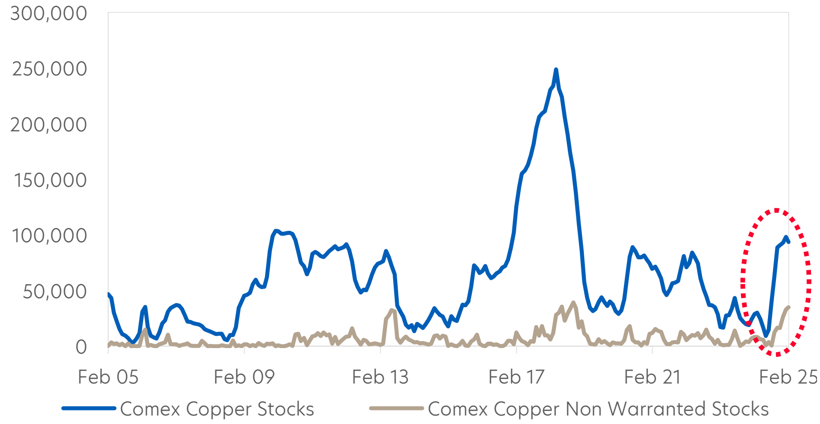
But the threat of potential trade tariffs turned out to be a near term positive driver for LME Copper. Similar to gold, the tariff threats resulted in increased stock piling of copper inventory on COMEX which intensified after President Trump confirmed the go ahead for 25% blanket tariffs on all aluminum and steel imports and now threatened to impose tariffs on copper imports too. Hence, implied Copper premium on COMEX jumped in excess of Copper price on the LME.

Concurrently in China, while the debt restructuring process for the property sector remains a work in progress, the latest round of monthly indicators does suggest that the massive round of stimulus from last Sep has managed to stabilize China's domestic property market. The monthly drop in China's residential property prices appear to have stopped and the residential property market even staged a modest recovery in monthly sales over the past 3 months. Consequently, LME Copper's cash to 3M discount narrowed meaningfully. Affirmation of a meaningful GDP target at China's Twin Sessions may help copper price to stabilize.

While the recent recovery in LME Copper price from USD 9,000 / MT in Jan to USD 9,500 / MT in Feb is encouraging, prices are particularly sensitive to renewed risk from global trade and China's growth slowdown. As such we maintain our modest negative outlook but adjust the price forecasts to USD 9,000 / MT for 2Q25 and 3Q25, thereafter USD 8,500 / MT for 4Q25 and 1Q26. Previous quarterly forecasts were USD 8,000 / oz for 2Q25 and USD 7,500 / oz 2H25.

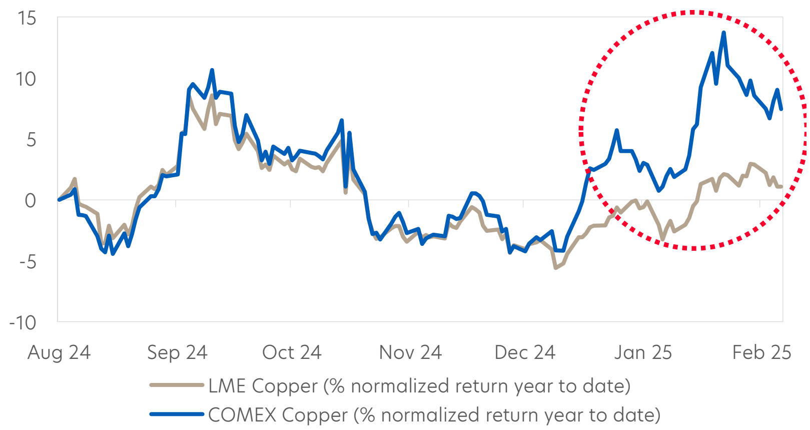
Copper inventory on COMEX has picked up as well

Source: Bloomberg, UOB Global Economics & Markets Research



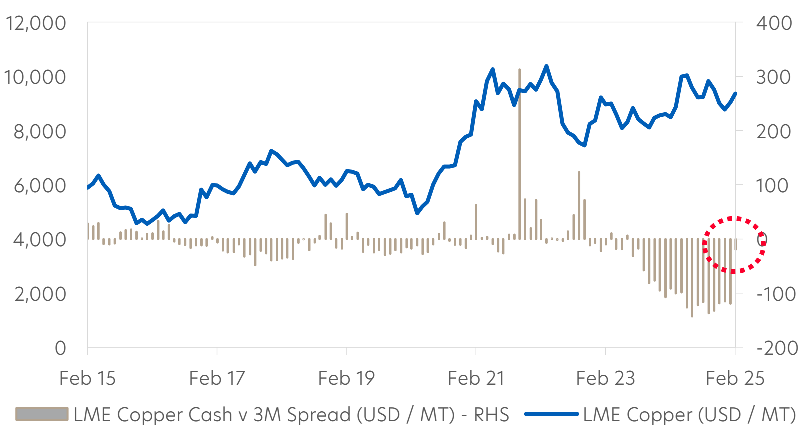
COMEX Copper premium soars as tariff fears mount

Source: Bloomberg, UOB Global Economics & Markets Research



LME Copper 3M cash spread recovers on short covering

Source: Bloomberg, UOB Global Economics & Markets Research



FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
USD/CNY	7.50	7.65	7.50	7.40
CNY 1Y Loan Prime Rate	2.90	2.80	2.80	2.80
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP (%)	5.4	5.0	4.3	4.2
CPI (avg y/y %)	0.2	0.2	0.9	1.2
Unemployment Rate (%)	5.1	5.1	5.2	5.2
Current Account (% of GDP)	1.4	2.3	1.1	1.0
Fiscal Balance (% of GDP)	-4.5	-4.8	-5.8	-5.7

ECONOMY

China targets "around 5%" growth for 2025

China's 4Q24 GDP growth accelerated to 5.4% y/y and 1.6% q/q sa from 4.6% y/y and 1.3% q/q sa in 3Q24. The recovery was driven by the industrial sector while private consumption saw more moderate performance and the property market continued to stabilize on the back of government's stimulus measures and easing purchase restrictions. The full year growth of 5.0% in 2024 was in line with the official target.

With US President Trump launching a hefty additional 20% tariff on all Chinese goods since he took office, we expect the strong industrial production and exports since late-2024 to soon unravel as the earlier gains were boosted by frontloading activities. China's retaliation of 10%-15% tariffs on certain US energy products, farm equipment, cars, trucks (w.e.f. 10 Feb) and agriculture exports (w.e.f. 10 Mar) has been more muted, suggesting that it seeks to avoid an all-out trade war. The US-China trade conflict will have a significant impact on China's growth outlook beyond Trump 2.0.

Domestically, the weaker economic prospects continue to weigh on the employment outlook and keep consumer sentiment soft despite the barrage of stimulus measures in Sep last year. The property market is stabilizing but it must contend with the supply glut. More measures to improve sales and developers' liquidity including planned ending of price cap for local governments buying unsold apartments will be positive. Thus, we expect prices to adjust lower while transactions may pick up this year.

China has set its GDP growth target at "around 5%" for 2025 at the National People's Congress (NPC), the same as the past two years as policymakers attempt to shore up confidence and expand its policy support to stabilise growth. As such, there were no big surprises from the annual NPC in Mar where China emphasized high quality growth led by domestic demand and technological innovation. Private consumption will be prioritised with the top task for 2025 to "vigorously boost consumption, improve investment efficiency, and expand domestic demand in all aspects". The consumption boost remains centred on its consumer goods trade-in policy which has been renewed in Jan and further expanded to include certain digital products. China will foster the development of high-tech industries such as biomanufacturing, quantum technology, embodied AI, and 6G technology. There will be stronger support for private enterprises and continuing opening-up of its trade and investment.

The fiscal deficit target has been set at around 4% of GDP for 2025 compared to 3% in 2024, the highest in three decades. China will issue CNY1.3 tn in ultra-long-term special treasury bonds this year, up from CNY1 tn in 2024 but below our expectation of CNY2 tn. CNY300 bn of the bonds will be used to support the consumer goods trade-in program. There are also plans for CNY500 bn of special sovereign bonds for the recapitalization of its big banks. Furthermore, the quota of special local government bonds will be increased to a new record of CNY4.4 tn in 2025 from CNY3.9 tn last year. The proceeds from the issuances are mainly used to boost the local infrastructure.

Notwithstanding the above, we maintain our forecast for China's GDP growth at 4.3% this year. There is some upside potential from stronger monetary and fiscal policy support to drive growth towards the official target. We will review our projections as more data falls in. The recent tariff escalation remains within our base case assumption of 25% tariff rate on Chinese exports to the US but the developments are fluid and unpredictable.

Deflationary pressure may ease slightly given the weak consumer sentiment and potential excess supply. We maintain our forecast for 2025 CPI inflation at 0.9%, up from the annual rate of 0.2% in the past two years. Our forecast for PPI stays at -1.2% in 2025 which would be the third consecutive year of contraction after -2.2% in 2024 and -3.0% in 2023.

CENTRAL BANK

Monetary policy will be eased at appropriate timing

PBOC has adopted a "moderately loose" monetary policy stance in Dec, a shift from "prudent" that was held since 2011. For this year, we anticipate an additional 50-100 bps reduction to banks' reserve requirement ratio (RRR) and 30 bps cut to the benchmark 7-day reverse repo rate (with loan prime rates to fall by 30 bps). These moves will bring the 7-day reverse repo rate, 1Y LPR and 5Y LPR to 1.2%, 2.8% and 3.3% by end-2025. Depreciation pressure on the CNY may affect the timing of any interest rate cuts. We now expect 20 bps rate cut in 2Q25 and 10 bps cut in 3Q25.

CURRENCY

Trade war will weigh on CNY

While USD/CNY was largely stuck within familiar ranges between 7.23 and 7.31 since trade war 2.0 started in early Feb, we do not expect this calm to persist. As the tariff fight escalates and drags on, the downside risks to our expectation of 4.3% for China's 2025 GDP will increase. We will not be surprised that the PBOC will allow the CNY to do the adjustment on behalf of the economy and guide USD/CNY higher via the fixing. Separately, the US-China rate differential will likely bias the USD/CNY higher as well.

Overall, our updated USD/CNY forecasts are at 7.50 in 2Q25, 7.65 in 3Q25, 7.50 in 4Q25 and 7.40 in 1Q26. However, in the event of the worst-case scenario of an outsized 60% tariff against Chinese imports into the US, we reiterate that it would be difficult for PBOC to reign back more extended CNY weakness and expect USD/CNY to rise above the psychological 8.0 level, last seen in 2006.

FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
USD/HKD	7.78	7.78	7.78	7.78
HKD Base Rate	4.50	4.50	4.50	4.50
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP (%)	3.2	2.5	2.0	2.4
CPI (avg y/y %)	2.1	1.7	1.9	2.0
Unemployment Rate (%)	2.9	3.1	3.1	3.1
Current Account (% of GDP)	8.5	12.0	8.5	7.5
Fiscal Balance (% of GDP)	-3.4	-2.8	-2.0	-0.6

ECONOMY

Weak consumption weighed on Hong Kong's recovery

Hong Kong's GDP rose 2.4% y/y and 0.8% q/q in 4Q24, a rebound from 1.9% y/y and -0.1% q/q in 3Q24 where the sequential contraction in 3Q24 was revised sharply from -1.1% q/q. Private consumption remained lackluster as it contracted for a third straight quarter by -0.2% y/y in 4Q24, bringing the full year decline to -0.6% after the post-pandemic rebound to 6.8% in 2023. Investments contracted due to increased external uncertainties and against a high base of comparison with gross domestic fixed capital formation (GDFCF) falling by -0.9% y/y in 4Q24 but it was still up 2.4% for the full year. On the other hand, services export strengthened to expand by 5.6% y/y in 4Q24 even as goods export growth moderated to 1.3% y/y. Meanwhile, government consumption picked up slightly to rise 2.0% y/y as fiscal consolidation stayed in focus following Hong Kong's recovery from the pandemic.

The contributions to 4Q24 GDP growth came from increase in inventory (+1.4 ppt), net export (+1.1 ppt) and government consumption (+0.3 ppt) while private consumption (-0.2 ppt) and GDFCF (-0.2 ppt) subtracted from the headline growth rate.

Hong Kong's economy continues to face challenges from the geopolitical tensions and intensifying trade conflicts. The Chinese government is expected to boost policy stimulus to cushion the impact from unfavourable external conditions, targeting support for Chinese consumption and investment. The stabilisation in mainland's economy will have positive spillovers on Hong Kong, while it will also benefit from a pick-up in Chinese listings on the Hong Kong Exchange. The domestic housing market is expected to bottom out as demand for investment rise alongside lower interest rates, but its recovery will be hindered by ample supply. Recent budget measure to increase the maximum value of properties chargeable to a stamp duty of HK$100 from HK$3 mn to HK$4 mn will only affect the low-end segment of the market. On the private consumption, the weak retail outlook may continue to be a significant drag on GDP with the increase in cross border consumption contributing to the weakness. The official 2025 GDP forecast for Hong Kong is set at 2%-3%. Our forecast is at the lower end of the official range at 2.0%.

As expected, there were few new initiatives in Budget FY2025-26 to boost the economy, provide support for lower income households and elderly or promote domestic consumption. Nonetheless, Hong Kong government remains committed to key infrastructure projects such as the Northern Metropolis (NM) and public housing construction. Bond issuance will be increased to finance infrastructure investment. The focus of the budget has remained on closing its fiscal deficits with a slew of cost cutting measures announced, including civil service pay freeze and job cuts as well as a cap on the $2 transport subsidy scheme. The civil service job cuts totalling 10,000 positions by 1 Apr 2027 is equivalent to around 6% of the 173,000 government employees. This is supplemented by revenue measures including increases in government fees and a hike in the air passenger departure tax. However, it has continued to steer away from implementing a broad-based GST or VAT which will delay the return to fiscal health as revenue from land premiums are expected to stay weak. Based on the government's estimate, it is expected to rebalance its budget only in FY2028-29. Fiscal sustainability remains a key concern for investors.

Inflation was mild with headline and underlying CPI (net out government's one-off relief measures) rising 1.7% and 1.1% respectively in 2024. The government forecasts the headline and underlying CPI rate to rise to 1.8% and 1.5% respectively this year as domestic cost pressures increase. The extent of increase will be moderate as external price pressure is likely to be contained. We expect the headline inflation to be slightly higher than the official forecast at 1.9% this year.

CENTRAL BANK

Lower trajectory for Hibor

Hong Kong's aggregate balance has held steady at around HK$45bn since mid-2023 as US Fed reached the end of its rate hike cycle and began to ease in Sep 2024. With the interbank liquidity at its lowest since 2008, any short-term funding squeeze due to factors such as dividend payments, regulatory requirements and stock market activities could have a more pronounced effect on the Hibor rates. The 1-month Hibor rate has pulled back to around 3.85% after surging to 4.58% end-Dec and the 3-month Hibor is under 4% from 4.37% end-Dec. Despite the volatility, the Hibor rates are expected to stay on a lower trajectory in the coming months.

CURRENCY

A lower range for USD/HKD

USD/HKD has been tracking closely the Sofr-Hibor spread since the start of the year. As US yields tumbled in Feb due to renewed US growth concerns, USD/HKD roundtripped back to 7.77, the level it started the year after rising to 7.79 in end-Jan.

Since the start of the US (and Hong Kong) easing cycle last Sep, USD/HKD spent most time at the lower half of its 7.75 – 7.85 allowable trading band, consistent with previous easing cycles. As such, in this report we lower our forecasts of USD/HKD to average 7.78 for the next four quarters compared to 7.80 previously.

FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
USD/INR	89.0	90.0	89.0	88.5
INR Repo Rate	5.75	5.75	5.75	5.75
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP, FY (%)	7.6	9.2	6.4	6.6
CPI, FY (avg y/y %)	6.7	5.4	4.7	4.2
Current Account, FY (% of GDP)	-2.0	-0.7	-1.2	-1.5
Fiscal Balance, FY (% of GDP)	-6.4	-5.6	-4.8	-4.4

ECONOMY

Pickup in growth momentum

India's real GDP growth strengthened to 6.2% y/y in 3QFY25 (Oct-Dec 2024) from 5.6% in 2Q, supported by a pickup in private consumption (3QFY25: 6.9% y/y, 2Q: 5.9%) and a higher y/y increase in government spending (3Q: 8.3%, 2Q: 3.8%) due to low base effects. Net exports contributed positively to the y/y GDP growth in 3Q as exports surged by 10.4% y/y (2Q: 2.5%) while imports posted a slight contraction of -1.1% y/y (2Q: -2.5%). The Gross Value Added (GVA), which excludes taxes and subsidy transfer payments, similarly improved to 6.2% y/y in 3Q from 5.8% in 2Q, driven by robust activity in agriculture (3Q: 5.6% y/y, 2Q: 4.1%) owing to the strong kharif harvest while key services sub-industries such as trade, hotels, transport & communication, financial, real estate & professional services stayed resilient. The second FY25 advance growth estimate of 6.5% (first: 6.4%) implies a 4Q growth of at least 7.4%, which in our view is a tall order and thus, we project full year FY25 growth a tad lower at 6.4% (FY24: 9.2%).

Tariff Risks Under Trump 2.0 – India may face heightened risk of direct US tariffs given (i) its large and growing trade surplus vis-à-vis the US and its (ii) disproportionately higher average tariff rates on US imports compared to the US' tariff rates on India's imports (note). To this end, India was flagged as an example in Trump's Fair and Reciprocal Plan on trade. To soften the risks, India has taken steps to mitigate the imbalances such as the reduction of custom duties on several items announced in the latest Union Budget (note). At the same time, it was reported that Indian officials are exploring ways to lower tariffs on a wide range of imports including cars and chemicals (Bloomberg, 27 Feb 2025) following Modi's recent visit to the US. While it can be argued that India's economy is more domestic-oriented and may be relatively more shielded from tariff shocks, the US is still an important end-market and plays a pivotal role in Modi's "Make in India" campaign.

Headline CPI growth eased meaningfully to 4.31% y/y in Jan (Dec: 5.22%), justifying RBI's move to lower the policy repo rate in the Feb MPC meeting. The disinflation was primarily driven by the deceleration in food inflation momentum, supported by the strong kharif output. In particular, vegetables saw a significant price correction (Jan: 11.3% y/y, Dec: 26.6%) as inflationary pressures in garlic, potatoes, and tomatoes abated. Core inflation strengthened a tad to 3.66% y/y in Jan (Dec: 3.58%) led by the personal care & effects component due to stronger gold, silver and ornament prices. Meanwhile, price pressures are also becoming less broad-based as the share of items in the CPI basket with y/y inflation exceeding the upper limit of RBI's inflation target band (6%) fell to 43% in Jan (Nov/Dec: 45%).

CENTRAL BANK

Expect RBI to deliver another 25bps rate cut in Apr MPC

High frequency daily retail prices suggest that food inflation should continue to decline sequentially, leading to the next Feb 2025 CPI reading on 12 Mar. We expect RBI to deliver a second 25bps rate cut in the next Apr MPC meeting in a relatively shallow easing cycle this round (total of 75bps cut), taking the terminal rate to 5.75% by end-Jun 2025, incorporating an assessment in RBI's Jul 2024 bulletin that the (real) neutral rate has risen. Furthermore, should food and overall inflation continue to slow meaningfully in the upcoming CPI reading, a change from a neutral to an accommodative stance in the Apr MPC meeting could be on the table.

RBI has employed several tools to manage the recent bout of system liquidity tightness such as the host of measures announced on 27 Jan (OMO purchases, VRR auction, USD/INR buy-sell swap auction), with another USD10bn USD/INR buy-sell swap auction on 28 Feb for a tenor of 3 years to inject durable INR liquidity which could help to improve the rate cut transmission process.

CURRENCY

INR expected to trade to new lows

INR underperformed within Asia FX, falling about 2% year-to-date to 87.4 /USD while some of its Asian peers rebounded in Feb following renewed US growth concerns.

Going forward, we keep INR to trade with a downside bias against the USD despite falling for a fifth straight month in Feb. The heightened risk of direct US tariffs is likely the key factor weighing on the INR, especially where global reciprocal tariffs loom in early Apr. However, RBI is likely to continue intervening in the currency markets to smooth volatility if required, curbing INR's downside.

Overall, we expect INR to weaken to fresh record lows against the USD, with updated forecasts at 89.0 in 2Q25, 90.0 in 3Q25, 89.0 in 4Q25 and 88.5 in 1Q26.

FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
USD/IDR	16,800	16,900	16,700	16,600
IDR 7D Reverse Repo	5.50	5.25	5.25	5.25
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	5.1	5.0	5.2	5.3
CPI (avg y/y %)	3.7	2.3	2.5	2.8
Unemployment Rate (%)	5.3	4.9	5.0	5.0
Current Account (% of GDP)	-0.1	-0.6	-0.9	-1.3
Fiscal Balance (% of GDP)	-1.7	-2.3	-2.7	-2.9

ECONOMY

Stable and solid economic growth

In 2024, Indonesia's economy grew 5.0%, (5.1% in 2023). The steady growth was supported by household consumption (+4.9%) and investment spending (4.6%). We expect growth to rebound slightly in 2025 on the back of faster and bigger government spending that is likely to boost domestic demand. Additionally, faster investment spending in the coming quarters in focused sectors such as agriculture, mining, and processed metal may also lend support towards growth. Combination of higher fiscal and investment spending is hoped to spark confidence and propel household consumption further. Our growth forecast for 2025 remains at 5.2%.

Inflation averaged just 2.3% last year, well within Bank Indonesia's (BI) target range of 2.5%+/-1%. Combination of moderation in private consumption demand and less supply disruptions have resulted in a much lower inflation rate last year compared to 2023's 3.7%. Going forward, with hopeful expectations of better job prospects amidst government expansionary fiscal policy and higher foreign direct investments, we expect there will be more demand-pull inflation. Gradual depreciation in the rupiah exchange rate since Sep 2024-to date is also likely to add some extent of imported inflation. Our 2025 average inflation forecast currently stands at 2.5%.

The current account deficit (CAD) in 4Q2024 stood at USD1.1bn (0.3% of GDP), smaller than the previous quarter at USD2.1bn (0.6% of GDP). This improved trade balance performance was driven by a surplus in the goods trade balance, especially non-oil & gas, as the price of Indonesia's main export commodities increased. However, import activity also increased due to high demand during the holidays. Capital and financial transactions also recorded an increase in surplus of USD1.0 billion, to USD8.5 billion (2.3% of GDP) in the fourth quarter of 2024. The increase came from direct investment that remained strong, reflecting Indonesia's economy that remains attractive to investors and a supportive and conducive investment climate. Having recorded wider current account deficit of 0.6% of GDP in 2024 (2023: -0.1%), we project that Indonesia's CAD will be in the range of -1.2 to -0.7% GDP (with a midpoint of -0.9%). Higher investment expenditure will likely be the key catalyst that will push CAD to widen.

In the upcoming months, we are relatively more sanguine on domestic economic activities to pick up pace as the government is to continue with its pump-priming. This will take the form of social assistance and holiday allowances ahead of the Eid-al-Fitr festivities. Government's planning for some relief measures in MSMEs debt and also to extend investment credits for certain labor-intensive industries is also hoped to boost confidence. All of these measures are expected to stimulate higher household consumption demand and in turn to give some upside risks to growth.

CENTRAL BANK

Monetary policy to complement fiscal strategy

BI has started to complement the expansionary fiscal policy in supporting economic growth by delivering another 25bps rate cut at the start of this year. While continuing to remain vigilant and proactive towards financial stability risks and challenges, the central bank is likely to continue extending its monetary policy support to provide additional stimulus for economic growth. We keep our forecast for BI to take on a further and cumulative 2x25bps rate cut, each in 2Q25 and 3Q25, and to keep it steady at 5.25% for the rest of the year. With inflation currently hovering near the bottom end of the BI's inflation target range (latest inflation print at sub 1% amidst a one-off effect from electricity rebates) and is only likely to gradually pick up pace towards the center of BI's target range as demand improves, this eventuality would give BI more ease and space to continue with its rate-cutting cycle while continuing its stride to manage rupiah's volatility via intermittent intervention to keep risks of unwarranted imported inflation at bay.

CURRENCY

IDR amongst the laggards

The IDR was amongst laggards regionally, falling close to 3% year-to-date to about 16,600 /USD – also our 1Q25 forecast - due to IDR's higher sensitivity to tariff-related news. An unexpected BI rate cut in Jan and prospects of a slower and shallower Fed rate cut cycle in 2025 spark portfolio outflow concerns. Our expectation of 2x25bps rate cuts by the BI, each in 2Q25 and 3Q25 is likely to keep the pressure on the IDR in the near term. To temper with the depreciation pressures, BI continued to intervene in both the spot and domestic non-deliverable forwards and may intensify efforts to smooth currency volatility as USD/IDR approaches its pandemic high of 16,625. Overall, we still expect further IDR weakness as part of a regional trend as the Trump administration ramps up its tariffs on China. Our updated USD/IDR forecasts are higher at 16,800 in 2Q25, 16,900 in 3Q25, 16,700 in 4Q25 and 16,600 in 1Q26.

FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
USD/JPY	152	149	147	145
JPY Policy Rate	0.75	0.75	1.00	1.00
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP (%)	1.7	0.1	1.0	1.5
CPI (avg y/y %)	3.2	2.7	2.5	1.8
Unemployment Rate (%)	2.5	2.4	2.8	2.8
Current Account (% of GDP)	3.8	4.6	3.8	4.5
Fiscal Balance, FY (% of GDP)	-7.5	-6.1	-4.8	-4.5

ECONOMY

Expecting growth of 1% for 2025 but outlook ahead paved with Trump uncertainties

Japan's 4Q24 GDP surprised to the upside, with the economy expanding more than expected at 2.8%, thanks to the jump in net exports while private consumption expanded at a slower pace but managed to avoid a contraction. Business spending rebounded at a sub-par pace after a decline in 3Q. Government consumption was the other bright spot supporting growth in 4Q while public investment contracted for the second straight quarter. The main drag on 4Q came from net private inventories. With the materially robust 4Q growth and revisions to the data, Japan managed to etch out a slight growth of 0.1% for 2024, albeit its worst growth performance since the pandemic.

We expect the economy to extend the growth trajectory into 2025, supported by the wage-induced consumption recovery. Real wages turned positive in the last two months of 2024 (0.6% y/y in Dec, 0.5% in Nov) while the annual wage negotiation has started with the largest labour federation pushing for at least 5% of wage increment for 2025 (with a higher 6% target for smaller firms to shrink the income gap between small and large firms) while household spending also turned positive in Dec (2.7% y/y), adding to the consumption optimism, and reinforcing the (much touted) "virtuous cycle from income to spending".

Continued tourist arrivals and the positive impact on the tourism-related in-person services will also anchor the domestic growth outlook together with the loosening of monetary conditions in the international markets. Accelerated investments into semiconductor technology and production will bode well for its long-term potential and may lead to a bump up in investments spending in the upcoming quarters though not likely to add much to near-term production. The government approved a JPY 39 trillion stimulus package which will be another positive to support wage gains and cope with higher prices for households and businesses this year (but likely at the expense of funding part of the new spending with new debt).

That said, the downside factors loom large, and the main risk is from US President Trump and his new set of tariffs and his other "America First" policies. Other related risk includes retaliatory tariffs enacted by other economies, creating a negative shock to the global trade environment and potential supply chain disruptions. Other downside risks include the resumption of weak domestic demand if wage growth stalls in 2025, China's sluggish recovery (made worse by the Trump 2.0 trade war), and the tighter monetary stance from Bank of Japan (BOJ). With the positive wage developments matched against Trump's policy uncertainties and its negative impact on China and Asia, we keep our 2025 growth forecast of +1.0% (from +0.1% in 2024) and risk is likely to be biased towards the downside.

Inflation started the year on a high, with overall CPI inflation accelerating to 4.0% y/y in Jan (from 3.6% in Dec), the highest since Jan 2023 (4.3% y/y) partly accounted by dearer fresh food prices. Excluding fresh food, CPI rose by 3.2% y/y, up from 3.0% in Dec, highest since Jun 2023 (3.3% y/y) due to the uplift from higher processed food prices. Core inflation (which excludes fresh food and energy) also edged higher to 2.5% y/y from 2.4% in Dec. After a recent peak of 3.2% y/y, services producer prices continued to rise at a pace well above 2% (Sep: 2.6%, Aug: 2.8%). The Bank of Japan (BOJ) projected (in Jan Bank View) that risks to prices are skewed to the upside for fiscal 2024 and 2025 with the added hawkishness reflected by FY2025 CPI revised markedly higher to 2.4% (from 1.9% previously). We lifted our headline and core CPI to average 2.5% for 2025 (from 2.0% previously) before easing to 1.8% in 2026.

CENTRAL BANK

Expecting more hikes in 2025 with caution

Based on the BOJ's Jan MPM forward guidance and upward CPI forecast revisions coupled with Governor Ueda's and his deputies' comments, we believe that the BOJ is not done with tightening, but the timing could be influenced by external developments, especially Trump's trade policies. Ueda unequivocally voiced his optimism for the upcoming wage negotiation, but he did caution about the uncertainties over Trump's policies. Most importantly, Ueda said the neutral range is broad but confirmed that the current rate is still far from neutral. That means there is quite a bit of room for rates to go higher. We now expect the BOJ to hike its policy rate another two times, by 25-bps to 0.75% in the 30Apr/1 May MPM, and another hike in 29/30 Oct MPM to 1.00% which we believe will be the terminal rate. That said, we cannot rule out another hike in Mar especially if wage negotiation turns out more positive than expected and coupled with a still peaceful trade environment.

CURRENCY

JPY draws strength from BOJ rate hikes

The JPY was the best performing G-10 FX year-to-date, rising over 5% to 149 /USD, underpinned by monetary policy divergence. The 10-year Japan Government Bond (JGB) yield about 30 bps to 1.40% since the start of year as markets priced in further rate hikes beyond the 25 bps BOJ rate increase in Jan. On the flip side, the 10-year US Treasury yield slumped to two-month lows on renewed US growth concerns. That said, US yields may rebound in 2Q25 as more tariffs are announced, possibly leading markets to refocus on the tariff impact on inflation again. As a result, USD/JPY may consolidate in the coming quarter before weakening anew. Overall, our updated USD/JPY forecasts are 152 in 2Q25, 149 in 3Q25, 147 in 4Q25 and 145 in 1Q26.

FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
USD/MYR	4.55	4.65	4.55	4.50
MYR O/N Policy Rate	3.00	3.00	3.00	3.00
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	3.6	5.1	4.7	4.8
CPI (avg y/y %)	2.5	1.8	2.3	2.5
Unemployment Rate (%)	3.3	3.1	3.0	3.0
Current Account (% of GDP)	1.5	1.7	1.7	1.9
Fiscal Balance (% of GDP)	-5.0	-4.1	-3.8	-3.5

ECONOMY

Growth hits a higher note

Malaysia's final 4Q24 GDP expanded by 5.0% y/y, better than the advance estimate of 4.8%, thanks to a pick-up in activity towards the end of last year. However, growth remains on a moderating trend from the peak of 5.9% in 2Q24 and 5.4% in 3Q24. This brought the full-year GDP growth to 5.1% in 2024 (vs. 3.6% in 2023). It was on the upper-end of the government's forecast range of 4.8%-5.3%.

For 2025, we continue to expect sustained growth of 4.7% (MOF est: 4.5%-5.5%) backed by several domestic drivers amid a challenging external landscape that is largely brought about by uncertainty surrounding US trade and tariff policies. In 2Q25, government officials plan to engage with the US on planned tariffs on imported semiconductors. Meanwhile the investment landscape continues to be buoyed by ongoing domestic spending (including MYR25.0bn by government linked-investment companies or GLICs) and record high total approved investments of MYR378.5bn in 2024. Overall FDI totaled MYR47.4bn in 2024 (vs. MYR40.4bn in 2023) with the highest source of FDI flows from HK SAR, Singapore, USA, Japan, and France.

The impact from continued government reforms also bears watching, such as higher foreign worker levies, increase in minimum wages, rationalization of fuel subsidies, and full implementation of e-invoicing, that will raise the cost of doing business. We expect some degree of pass-through to consumers given expectations of resilient labor market conditions and decent nominal wage growth this year. However, there are also signs that higher cost of living and festive fatigue is weighing on private consumption, which recorded a growth below 5% in 3 out of 4 quarters last year. This could help contain the degree of cost pass-through and keep inflation pressures manageable.

The country's fiscal deficit reached MYR79.2bn or 4.1% of GDP in 2024, which was better than the government's target of 4.3%. For 2025, the government plans for an expansionary budget of MYR421.0bn or 20.2% of GDP, while further reducing its fiscal deficit to 3.8% of GDP.

The Joint Agreement on Johor-Singapore Special Economic Zone (JS-SEZ) was officially signed on Tue (7 Jan). Concurrently, six Memorandum of Understanding (MOUs) and one Letter of Intent (LOI) on education, women and social welfare, climate change, carbon capture and storage, urban development and combatting transnational crimes were also endorsed during the two-day (6-7 Jan) official visit by Singapore's Prime Minister to Malaysia. Several incentives for the SEZ have been announced for seven flagship zones by the Malaysia Industrial Development Authority (MIDA) while the Johor state government is currently drafting a masterplan that involves key state agencies to outline development over the next few years. Allocations from the MYR5bn designated infrastructure fund will tie to the masterplan. To improve connectivity and ease congestion in the city, the Autonomous Rapid Transit (elevated ART) system project to help disperse traffic in Johor Bahru's city area is expected to be finalized by Mar.

CENTRAL BANK

OPR on extended hold at 3.00%

BNM held the Overnight Policy Rate (OPR) unchanged through its 11th straight meeting since Jul 2023. We expect the OPR to stay on hold at 3.00% for the rest of the year. Thus far, the guidance from BNM has been neutral. We also believe that the monetary policy committee is likely to wait for further clarity on US trade and tariff policies, as well as further announcements on domestic policy changes mainly pertaining to the fuel subsidy rationalization mechanism. The US trade investigations and tariff announcements are expected by 2 Apr. Meanwhile the Malaysia government are still finalizing the eligibility criteria for the fuel subsidy implementation, targeted to be implemented by mid-year.

CURRENCY

MYR traces a weaker CNY

The MYR stayed resilient and was marginally higher year-to-date at 4.46 /USD as of 28 Feb after being crowned the best performing Asia FX in 2024. Malaysia continued to face foreign portfolio outflows in Jan, albeit solely due to equity outflows (-MYR3.2bn), as foreigners returned to MYR debt securities with net purchases of MYR1.2bn.

Despite sound economic and financial fundamentals, the MYR is still vulnerable to external developments going forward, especially as persistent tariff threats from the Trump administration are expected to weigh on Asia FX as a whole. The MYR which is closely correlated to the CNY is likely to feel the spillover of a weaker CNY across most part of 2025 as Trump intensified tariffs against China. BNM remains committed to ensuring an orderly market and preventing excessive volatility in the MYR. To support the MYR, BNM continues to actively engage with government-linked companies, exporters and corporates to encourage consistent repatriation and conversion of their foreign investment income into MYR.

Overall, in line with our expectations for higher USD/Asia for most part of 2025, our USD/MYR forecasts are at 4.55 in 2Q25, 4.65 in 3Q25, 4.55 in 4Q25 and 4.50 in 1Q26.

FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
USD/PHP	58.5	59.5	59.0	58.5
PHP O/N Reverse Repo	5.50	5.50	5.50	5.50
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP (%)	5.5	5.6	6.0	6.0
CPI (avg y/y %)	6.0	3.2	2.8	3.5
Unemployment Rate (%)	4.6	4.3	4.4	4.4
Current Account (% of GDP)	-2.7	-3.0	-2.8	-2.5
Fiscal Balance (% of GDP)	-6.2	-5.7	-5.3	-4.7

ECONOMY

Rising challenges to keep the momentum intact in 2025

The Philippine economy grew by 5.2% y/y in 4Q24, the same pace as in 3Q24, primarily supported by robust government spending (4Q24: +9.7%, 3Q24: +5.0%) that helped to offset the weakness in investments (4Q24: +4.8%, 3Q24: +7.6%) and household consumption (4Q24: +4.7%, 3Q24: +5.2%). A series of typhoons striking the country during the quarter also weighed on the agriculture, hunting, fishery & forestry (4Q24: -1.8%, 3Q24: -2.7%), mining & quarrying (4Q24: -3.4%, 3Q24: +1.2%), utilities (4Q24: +6.1%, 3Q24: +7.1%) and construction sectors (4Q24: +7.8%; 3Q24: +9.0%).

On a seasonally adjusted basis, real GDP expanded at a faster pace and for the sixth straight quarter by 1.8% q/q in 4Q24 (3Q24: +1.5%). This implies a continued improvement in real economic activities albeit at a bumpy pace.

For the full year, real GDP growth inched up to 5.6% in 2024 (from 5.5% in 2023) but fell short of the government's target of 6.0%-7.0%. In 2025, we expect the economic growth to miss the government's 6.5%-7.5% target again as external uncertainties (particularly related to global trade policies) heightened and obstruct the monetary policy easing pace to uphold the growth momentum. Our GDP growth forecast for the Philippines is 6.0% in 2025, which will be backed by a larger budget expenditure, expedition of some infrastructure projects as the government gears up for the mid-term elections on 12 May 2025, and broader transmission of monetary policy easing since Aug 2024.

CENTRAL BANK

A shallower monetary policy easing pace

BSP unexpectedly took a prudent pause in Feb, leaving its RRP rates unchanged at 5.75%. This marked the first rate pause after three back-to-back rate cuts since Aug 2024, and followed the US Fed rate pause on 28-29 Jan. It cited that uncertainty about the outlook for inflation and growth warranted a steady monetary policy setting.

There were material changes in the Feb monetary policy statement, including the inflation forecasts and forward guidance. BSP revised the risk-adjusted inflation forecast for 2025 slightly higher to 3.5% from 3.4% previously (vs UOB's baseline inflation est: 2.8%) with upside risks mainly arising from the utilities sector. However, it expects the non-monetary intervention (i.e. rice import tariffs and declaration of food security emergency) by the national government will mitigate the upside risks from utility costs and base effects, leading to a broadly balanced inflation outlook for 2025 and 2026.

On forward guidance, BSP remains data-dependent and keeps its door open for further rate easing but at a more measured pace than previously anticipated. BSP Governor shared that the rising external uncertainty particularly regarding trade policy has made it harder for BSP to assess the impact on domestic growth and inflation at this juncture, and hence the central bank requires "a little bit more time" to recalibrate its rate cuts. With that, we have changed our RRP rate projection to just one more 25bps cut to 5.50% this year (likely in Jun), from previous forecast of 3x 25bps cut to 5.00%.

In a continued effort to stimulate the domestic economy, BSP announced on 21 Feb (a week after the benchmark rate pause decision) that it will reduce the reserve requirement ratio (RRR) by 200bps for universal & commercial banks and non-bank financial institutions with quasi-banking functions to 5.00%, with effect from 28 Mar. The RRR for digital banks and thrift banks will also be reduced by 150bps to 2.50% and 100bps to 0% respectively.

With RRR for big banks reaching a mid-single digit as envisioned by BSP under its medium-term plan, we think that the central bank may be done with the RRR cuts for now. In addition, these lower RRRs will not deter further monetary policy easing this year, albeit likely at a lower frequency.

CURRENCY

PHP expected to weaken anew

The peso (PHP) traded roughly flat year-to-date at 57.8 / USD on 4 Mar, paring early weakness at the start of the year as tariff fatigue and US growth concerns set in.

That said, the calm in the PHP is unlikely to persist, especially with the recent tariff escalation by the Trump administration in early Mar. With external downside risks dominating the outlook for domestic growth, inflation, monetary policy and PHP, we keep our call for the PHP to weaken anew in the near term. US President Trump's protectionist policies, China's modest growth prospects and lingering geopolitical risks will deter trade and investment flows into the Philippines, as well as impact global oil prices and remittances from overseas Filipino workers.

On top of that, the outcome of the mid-term elections slated for 12 May could be another key influencing factor for PHP in the coming quarters. Potential shifts in economic policy and political stability post the election will have an effect on investor confidence on the country.

Therefore, we continue to expect USD/PHP to edge higher alongside other USD/Asia pairs. Our updated forecasts are at 58.5 in 2Q25, 59.5 in 3Q25, 59.0 in 4Q25 and 58.5 in 1Q26.

FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
USD/SGD	1.36	1.38	1.36	1.35
SGD 3M SORA (compounded)	2.60	2.61	2.61	2.60
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP (%)	1.8	4.4	2.5	1.8
Core CPI (avg y/y %)	4.2	2.8	1.3	1.6
Unemployment Rate, eop (%)	2.0	1.9	2.3	2.3
Current Account (% of GDP)	17.7	17.5	16.2	15.8
Fiscal Balance, FY (% of GDP)	-0.4	0.9	0.9	1.1

ECONOMY

Downside growth risks in 2025

Singapore's economy ended on a strong footing in 2024 with a robust 4Q24 growth outturn of 5.0% y/y, 0.5% q/q sa, translating to a full-year growth of 4.4% in 2024 (2023: 1.8%). Activity in the manufacturing and wholesale trade sectors were underpinned by the upturn in the electronics cycle owing to robust demand for semiconductor chips in the PC, smartphone and data centre end-markets. Within services, growth was broadly driven by the modern services cluster, in particular the finance & insurance sector posted the strongest seasonally-adjusted sequential expansion since the post-COVID recovery in 4Q20, rising by 5.3% q/q sa, 6.1% y/y in 4Q24 (3Q24: 0.5% q/q sa, 5.6% y/y) driven by elevated trading activity amidst financial market volatility. However, consumer-facing sectors (retail trade, F&B) remained challenging partly weighed by diversion of resident spending abroad while tourist arrivals have yet to recover to pre-pandemic levels in 2024 (87% of 2019 levels).

We project growth to moderate to 2.5% in 2025 (2024: 4.4%), penciling in a deceleration in 2H25 growth momentum owing to the negative impact of tariffs on global trade activity. Front-loading of exports and production meant to avoid Trump's tariffs could begin to reverse with some payback from the manufacturing and transportation & storage sectors towards the middle and latter half of 2025. Consumer-facing sectors could face better recovery prospects this year, supported by the expansionary Budget 2025 (note) as reflected by the positive fiscal impulse of +0.9% of GDP according to MOF's estimates while there has been a significant ramp-up in efforts to promote tourism in Singapore. Demand for construction in 2025 will be underpinned by large-scale developments such as the Changi Airport Terminal 5 (T5) where construction will begin in 1H25.

Singapore faces a lower risk of direct tariffs given that the US consistently exports more to Singapore than it imports from Singapore (except in 2020) and furthermore, Singapore applies a Most-Favored-Nation (MFN) zero-duty to nearly all of its tariff lines except for certain alcoholic beverages. While Singapore may be less susceptible to direct US tariff risks, we will not be shielded from a negative shock to the global trade environment given our extensive reliance on trade as a small and open economy as reflected by the significantly higher share of domestic value added embodied in foreign final demand amongst the ASEAN-6 economies (see note).

CENTRAL BANK

Risks tilted towards further easing

Singapore's core inflation slowed significantly to 0.8% y/y in Jan 2025 (Dec: 1.7%) under the 2024-rebased series, with a broad-based disinflation across various key categories such as food, clothing & footwear, health and recreation, sport & culture. The core inflation momentum has decelerated meaningfully to below historical averages while various government subsidies will help to keep a lid on services inflation such as the lower monthly childcare fee caps announced in Budget 2025 as well as the enhanced MediShield Life premium subsidies to cushion the impact of the phased premium increases associated with the expansion of the MediShield Life scheme (MOH). We recently lowered our 2025 core inflation projection to 1.3%, which falls within MAS' forecast range of 1.0-2.0%. While we keep to our call for MAS to maintain the current S$NEER settings through 2025, we acknowledge that risks are titled towards further easing via lowering of the S$NEER slope should the core inflation momentum decelerate further and growth prospects darken. We will review our monetary policy call at the next Feb 2025 CPI release on 24 Mar.

CURRENCY

SGD to weaken modestly

The S$NEER has rebounded strongly in the first two months of the year, paring almost all the losses sustained in 4Q24. The advance came despite a lowering of the S$NEER's policy slope to 1.0% p.a. from 1.5% p.a (according to our model) at the recent Jan 2025 MPS. Going forward, we expect a positive-sloping S$NEER and SGD's reputation as a regional safe-haven currency to help buffer the SGD against uncertainties due to Trump's latest tariff actions, as it had during the last trade war in 2018. This is likely to translate to more measured move in USD/SGD compared to other USD/Asia pairs.

Overall, our updated USD/SGD forecasts are 1.36 in 2Q25, 1.38 in 3Q25, 1.36 in 4Q25 and 1.35 in 1Q26.

FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
USD/KRW	1,470	1,500	1,480	1,460
KRW Base Rate	2.50	2.50	2.50	2.50
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	1.4	2.0	1.7	1.9
CPI (avg y/y %)	3.6	2.3	1.9	2.0
Unemployment Rate (%)	3.2	3.7	3.2	3.0
Current Account (% of GDP)	1.8	5.3	3.6	3.2
Fiscal Balance (% of GDP)	-0.6	-1.8	-2.5	-1.0

ECONOMY

Economy struggled to stay on positive momentum

South Korea's GDP growth slowed further to 1.2% y/y in 4Q24 from 1.5% y/y in 3Q24, the weakest quarterly growth in 1½ years. The economic momentum has stalled with the sequential growth flat in the last three quarters. The weakness in 4Q24 was due to a further q/q contraction in construction investment (-4.5%) while private consumption (+0.2%) growth momentum also eased as sentiment was hit following President Yoon Suk Yeol's short-lived martial law declaration on 3 Dec 2024. These offset relatively firmer growth in exports of goods and services (+0.8%), facilities investment (+1.2%) and government consumption (+0.7%) in 4Q24.

For the full year, South Korea's economy expanded by 2.0% in 2024, up from 1.4% in 2023. While semiconductor production and investment continue to provide much needed support to the outlook this year, the materialisation of US tariff measures (on China, Mexico and Canada) and its own domestic political crisis will pose a significant drag. Korean companies producing in Mexico and Canada, particularly the household appliances manufacturers, car markers and their suppliers will be inevitably hit. Following Trump's threat of reciprocal tariffs on US' trading partners, South Korea has said that its effective tariff on US imports is close to zero under the Korea-US FTA. There are also concerns of a diversion of cheap Chinese goods to the local markets, with the government planning to slap provisional antidumping duties of up to 38% on Chinese steel plate imports as global trade tensions flare.

Recent high frequency data suggests that manufacturing growth may have peaked with the PMI falling below the 50 expansion-threshold in 4 out of the 6-month period since Sep 2024. Against a high base of comparison, exports contracted by 4.7% y/y in Jan-Feb and growth in semiconductor shipments narrowed to 2.4% y/y from 43.9% in 2024. Semiconductors accounted for a fifth of total Korean exports last year. Meanwhile, consumer sentiment has started to pick up in Jan and Feb, after the Dec slump to its lowest since Nov 2022. The unemployment rate has also eased back to 2.9% in Jan from a 1%-point jump to 3.7% in Dec following the resumption of the government-job support programme. Political uncertainties may increase near-term economic risks and any negative shocks could potentially upset an expected economic recovery in the second half of the year. A delay in the implementation of a supplementary budget may also necessitate stronger monetary policy support. The proposed size of the stimulus is as high as KRW35 tn (1.4% of GDP) while BOK Governor Rhee Chang-yong earlier suggested a more moderate size between KRW15 tn to KRW20 tn.

We have revised lower our GDP growth forecast for South Korea to 1.7% this year (from 2.0%), taking into consideration of the increase in downside risks. In the Feb economic review, BOK slashed its GDP growth forecast for 2025 more than expected to 1.5% from 1.9% while maintaining the outlook at 1.8% in 2026.

Headline inflation picked up at the start of the year as a weaker KRW led to higher import inflation. However, core inflation (excluding food & energy) remained anchored below 2% in Jan-Feb as domestic demand stayed subdued. We expect headline inflation to moderate to 1.9% this year from 2.3% in 2024, in line with the BOK's latest forecast. With average inflation below BOK's 2.0% target, the environment remains conducive for a further rate cut this year as it seeks to boost the economic outlook amidst rising growth risks while household debt growth slows.

CENTRAL BANK

Rate pause likely in Apr

Following the dovish pause in Jan, BOK resumed its rate cut in Feb as expected with the benchmark 7-day repo rate lowered by 25bps to 2.75%. Last year, the BOK had cut rates by 25bps each time in Oct and Nov.

The forward guidance indicated that BOK may pause again at its next meeting on 17 Apr, after which we think the BOK may deliver an additional 25bps cut at the 29 May meeting before stopping to reassess if further monetary easing is needed. An earlier rather than later rate cut will be more favourable for the economic outlook but the central bank will also consider the impact on the currency as well as the size and timing of the extra budget. For now, we factor in a total of 50bps reduction this year to bring the benchmark rate to its terminal level of 2.50% by end-2Q25, which is estimated to lift the GDP growth by 0.15% point. There is a possibility that the BOK may cut interest rate by three times this year instead of our base case assumption of two cuts if the economy continues to lose steam.

CURRENCY

KRW stays weak

In line with the highly sensitive nature of South Korea's automotive and semiconductor focused export driven economy to potential trade tariffs, the KRW weakened immediately from 1,430 to 1,460 against the USD, upon news that US will impose 10%+10% tariffs against Chinese imports.

Going forward, with a dim growth outlook, a dovish monetary policy stance and tariff uncertainty, the risk is that KRW will stay biased on the weaker side of 1,400 /USD. Our updated forecasts for USD/KRW are 1,470 in 2Q25, 1,500 in 3Q25, 1,480 in 4Q25 and 1,460 in 1Q26.

FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
USD/TWD	33.8	34.5	33.8	33.4
TWD Official Discount Rate	2.00	2.00	2.00	2.00
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	1.1	4.6	3.0	3.0
CPI (avg y/y %)	2.5	2.2	1.9	1.8
Unemployment Rate (%)	3.4	3.4	3.3	3.3
Current Account (% of GDP)	14.0	14.3	13.2	12.6
Fiscal Balance (% of GDP)	-0.6	-1.7	-0.7	-0.5

ECONOMY

Outlook stays resilient

Taiwan's 4Q24 GDP growth was revised sharply higher to 2.90% y/y from 1.84% y/y in the advance estimate. The growth momentum strengthened to its fastest pace this year with GDP expanding by 1.62% q/q sa, up from 0.59% q/q sa in 3Q24. For the whole of 2024, the economy grew 4.59%, the fastest pace since 6.72% in 2021.

Gross capital formation (GCF) continued to expand strongly in 4Q24, led by robust investments in machinery equipment, construction and intellectual property products as well as inventory building. Private final consumption improved but government consumption moderated. Exports of goods and services remained robust though this was overshadowed by a faster expansion in imports. As a result, net export turned more negative in 4Q24.

In terms of their respective contributions to the 4Q24 headline GDP growth rate, this was predominantly from fixed investment (+2.74 ppt), inventory replenishment (+1.74 ppt) and private consumption (+1.18 ppt) while government consumption (+0.30 ppt) added marginally to growth. Gains were offset by the larger drag from net exports (-3.07 ppt).

Economic indicators have been positive. The manufacturing PMI has remained in expansion since Apr last year with exports rising for the 15th consecutive month in Jan. Tourism has room for further improvement as international arrivals rose to 2/3 the pre-pandemic level last year. The unemployment rate is at a record low of 3.37% in Jan.

In 2025, Taiwan's economy is expected to stay resilient. We expect the strong investment and sustained growth in household consumption to help cushion uncertainties from US' trade and tariff policy as well as the geopolitical tensions. Fixed investments will continue to be driven by expansion of the AI-related industries. Real wage growth in turn boosts private consumption which is forecast to grow at a moderate pace. However, inventory building is likely to have peaked after rising in the last five quarters. Conversely, net exports should turn positive as imports slow.

We maintain our forecast for 2025 GDP growth at 3.0%, slightly below the official forecast of 3.14%. There is upside risk from a stronger electronics cycle while the downside risks include a sharper slowdown in China's demand, wider trade conflicts as more economies are placed in the direct line of fire for new US tariffs, and an escalation in geopolitical tensions. Taiwan's exports to the US more than doubled to 14% of its GDP in 2024 from 6.5% in 2018, exposing its economy to risks from any trade measures from its largest export market. US' trade deficit with Taiwan has increased steadily to reach US$73.9 bn last year, one of the largest amongst US trade partners.

The upshot in headline and core inflation to 2.66% y/y (Dec: 2.11%) and 2.26% y/y (Dec: 1.65%) respectively in Jan was mainly due to holiday demand and the timing of Lunar New Year vs. last year. Overall domestic demand is likely to stay firm due to wage growth, higher food prices and increase in rentals, but inflation is expected to continue its moderating trend. We are watching out for a potential electricity price hike in Apr due to the utility funding cut in the 2025 government budget. For now, we maintain our forecast for headline inflation to average 1.9% this year from 2.2% in 2024, the first time in five years that the rate falls below 2%.

CENTRAL BANK

No room for monetary policy easing

One of Taiwan's central bank board members recently said it does not have the room to ease monetary policy but instead faces pressure to hike interest rate. The increase in electricity tariff by an average of 11% was the main trigger for CBC's surprise 12.5 bps hike back in Mar 2024. The impact of any electricity tariff increase will need to be watched.

Having said that, we maintain our base case forecast for CBC to keep its benchmark discount rate at 2.0% through 2025 as it considers both increasing downside risk to growth and the upside in inflation risks. Signs of stabilisation in domestic property prices also reduces CBC's motivation to tighten monetary policy in the near-term including banks' reserve requirement ratios which was hiked twice last year to rein in the property market rally in addition to the mortgage tightening measures. The upcoming meeting will be on 20 Mar and the post decision conference will be an opportunity to gather CBC's thinking of the inflation risk and prospect of further rate tightening this year.

CURRENCY

TWD to weaken further

After falling 3.6% in 4Q24, the TWD had a quiet start to the year, trading largely flat on the year at 32.9 /USD. Despite resilient fundamentals, the TWD is largely driven by external factors which remained highly uncertain, such as Trump's tariff policy.

Separately, local exporters are also reluctant to sell their USD proceeds amid expectations of a stronger USD. The amount of USD that exporters converted into the local currency decreased over 22% m/m in Jan, according to CBC's data.

Overall, we expect the TWD to weaken alongside the CNY and regional peers for the coming quarters as Trump escalates his tariff agenda against China. The prospect of direct tariffs against Taiwan is a tail risk that needs to be monitored as well. Our updated USD/TWD forecasts are 33.8 in 2Q25, 34.5 in 3Q25, 33.8 in 4Q25 and 33.4 in 1Q26.

FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
USD/THB	34.4	34.8	34.4	34.0
THB 1D Repo	2.00	2.00	2.00	2.00
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP (%)	2.0	2.5	2.9	3.0
CPI (avg y/y %)	1.2	0.4	1.2	1.3
Unemployment Rate (%)	1.0	1.0	1.0	1.0
Current Account (% of GDP)	1.5	2.3	2.5	3.0
Fiscal Balance (% of GDP)	-2.3	-2.4	-4.5	-4.3

ECONOMY

Growth to accelerate despite headwinds

The Thai economy expanded by 2.5% in 2024, up from 2.0% in 2023, supported primarily by a sustained rebound of tourism, goods exports, government spending, and steady private consumption. Growth in 2025 is expected to continue, driven by tourism, merchandise exports, and fiscal support. However, declining commercial banks' loan growth and elevated household debts are expected to soften private consumption.

Nonetheless, downside risks persist, particularly from escalating trade tensions and subdued manufacturing activity, which could dampen external demand and weigh on the economic momentum. However, a record-high public investment budget and the anticipated boost from approved FDI applications are expected to stimulate private investment, reinforcing the country's cyclical economic recovery. As a result, we maintain our growth forecast at 2.9% for 2025 (vs. the NESDC est: 2.8%), with a modest acceleration to 3.0% in 2026.

We expect foreign tourist arrivals to reach 37.5 million in 2025, up from 35.5 million in 2024 but still below the official projection of approximately 40 million, primarily due to the slower-than-expected return of Chinese tourists. This bodes well for services exports and continue to underpin Thai's current account surplus position. Merchandise exports are expected to maintain momentum in the first half of 2025, supported by frontloading efforts to mitigate the impact of impending U.S. tariffs and ongoing trade uncertainties, before moderating in the latter half of the year. Government spending will play a crucial role in supporting economic activity, with the fiscal deficit projected to widen to a decade-high of 4.5% of GDP. With a record-high budget, public investment is set to provide a key stimulus to private investment, alongside strong FDI inflows.

However, near-term growth prospects remain weighed down by several downside risks, including (1) the adverse impact of U.S. trade protectionism on external demand, (2) weaker-than-expected domestic consumption and investment, (3) China's industrial overcapacity and its sluggish economic recovery, (4) heightened domestic political uncertainty, (5) softer-than-anticipated tailwinds from the global trade recovery, and (6) escalating geopolitical tensions that could disrupt supply chains and investor sentiment.

Macroeconomic stability remains intact. We maintain our headline inflation projection at 1.2% for 2025, slightly accelerating to an average of 1.3% in 2026. External positions are expected to remain resilient, underpinned by a current account surplus driven by sustained growth in merchandise exports and a continued rebound in tourism. This should help mitigate the impact of potential portfolio investment outflows.

CENTRAL BANK

Dovish pause for now

Following the Feb's 25bps rate cut, we expect the BOT to maintain the policy rate at 2.00% for the remainder of the year. The MPC has signaled a prolonged pause in its monetary policy stance, emphasizing the need to preserve sufficient policy space to cushion potential economic shocks amid an increasingly uncertain global environment. Additionally, the Committee underscored the importance of implementing structural reforms and supply-side policies to enhance Thailand's economic competitiveness and boost long-term potential growth. The MPC reaffirmed that the current policy rate of 2.00% aligns with its assessment of prevailing economic and financial conditions and remains resilient to evolving risks. However, the economic outlook remains tilted to the downside.

Additional rate cuts cannot be ruled out, though, particularly as the downside risks to the near-term growth outlook intensify. Key risks stem from escalating trade tensions and the negative feedback loop between weak credit growth and worsening real economic activity. Should these risks materialize and significantly dampen the growth trajectory, the BOT may consider further policy easing to bolster economic momentum and safeguard financial stability.

CURRENCY

THB may weaken to 34.8 /USD

The THB pared gains in late Feb to trade largely flat on the year at 34.0 /USD as a surprise BOT rate cut – though we called for the pre-emptive cut to bolster domestic demand and support growth - and Trump's tariff escalation weighed on the THB. While we do not expect any more BOT rate cuts for the rest of the year, THB may still be weighed by persistent outflows from the local stock market and the government's push to keep the THB competitive to aid exports.

Hence, we reiterate our call of further THB weakness till 3Q25 before seeing a rebound. Our updated USD/THB forecasts are 34.4 in 2Q25, 34.8 in 3Q25, 34.4 in 4Q25 and 34.0 in 1Q26.

FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
USD/VND	25,800	26,000	25,800	25,600
VND Refinancing Rate	4.50	4.50	4.50	4.50
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	5.1	7.1	7.0	7.4
CPI (avg y/y %)	3.3	3.6	3.7	4.2
Current Account (% of GDP)	5.8	3.0	3.6	3.0
Fiscal Balance (% of GDP)	-3.0	-2.5	-3.5	-3.5

ECONOMY

Positive momentum to continue but with risks ahead

Vietnam's real GDP in 4Q24 surged 7.55% y/y, extending the momentum from a revised 7.43% y/y in 3Q24, and far ahead of market expectations. With the surprisingly strong performances in 3 straight quarters, Vietnam's economy expanded 7.09% in 2024 from 5.1% in 2023, beating handily consensus call of 6.7% and official target of 6.5%. This was the best showing since the post-COVID rebound in 2022 (8.1%).

Both manufacturing and services sectors were the main drivers of activities in 4Q24, while external trade maintained its strong pace through most of 2024. The upswing in semiconductor sales since mid-2023 also boosted exports performance. Exports activities expanded for the 10th month in 2024, registering full year gain of 14%, and reversing the 4.6% contraction in 2023. Imports rose 16.1% in 2024 to deliver Vietnam's second largest trade surplus of about USD23.9 bn following the record high of USD28.4 bn in 2023. This is the ninth consecutive year that Vietnam has registered an annual trade surplus, which will be helpful in anchoring the VND exchange rate.

Vietnam's heavy dependence on international trade is reflected in the roller coaster ride of economic growth over the 2023-24 periods, where a bust in exports in 2023 caused a significant slowdown to the headline GDP. The boom in exports in 2024 resulted in its strongest economic performance since 2022. Vietnam's economy highly open nature (exports value was about 90% of GDP in 2024, the second highest in ASEAN after Singapore's 174% and ahead of the third-placed Malaysia's 69%).

This high degree of openness means that Vietnam is vulnerable to disruptions and frictions to international trade especially with US President Trump's focus on trade imbalances. It should be noted that US trade deficit with Vietnam has nearly quadrupled from 2016, to USD124 bn in 2024. Overall, US trade deficit with ASEAN has nearly tripled to USD228 bn in the same period as global trade flows and supply chain shifts accelerated in response to trade restrictions implemented in Trump 1.0 era.

Vietnam's National Assembly on 19 Feb raised the country's 2025 growth target to "at least 8%" and looked to target "double digit" growth from 2026-2030, with official forecast remaining at 6.5-7%. While 8% or higher growth rate is possible, exports and manufacturing will not be sufficient to drive such outperformance.

Additional capital expenditure, particularly from public investment, will be needed to stretch further as well as to buffer against any potential downturns to trade. Vietnam's capital investment ratio has stayed around 30% of GDP at least over the past decade. In contrast, China's gross capital formation has stayed consistently above 40% in the same period. This suggests that Vietnam has been underinvesting relative to its large neighbour and there is certainly a case for higher public investment, particular the government is aiming for double-digit growth rate ahead.

Taking into account the above factors, we stay cautiously positive for Vietnam's outlook. We maintain our call for Vietnam's full year growth forecast at 7.0% in 2025, assuming 1Q25 GDP growth of 7.1%. For 2026, we anticipate the expansion pace to step up to 7.4%, benefitting from the government's efficiency drive.

CENTRAL BANK

SBV to stay steady for now

With economic growth staying robust in 2024 and into 2025 and the US Fed poised to hold steady, there is less urgency for the central bank to hurry into any policy easing. At the same time, inflation ticked higher to 3.6% in 2024 from 3.26% in 2023, though still below the 4.5% target. However, with the prospects of further trade tensions globally under Trump 2.0 and the accompanying US dollar strength an emerging concern, SBV is expected to stay alert to downside pressures on the VND. As such, the best course of action currently is for the key refinancing rate to stay at 4.50%.

CURRENCY

VND likely to weaken further

VND weakened to a record low of about 25,600 /USD in early Mar after the SBV raised its USD sale prices to banks to 25,698 /USD from 25,450 /USD, the first increase since last Oct. From here, the path of resistance is still biased towards further VND weakness due to China growth and tariff uncertainties. There is a risk of US imposing tariffs on Vietnam, owning to the latter's sizable and growing trade surplus with US. Potential tailwinds to offset VND depreciation pressures include strong domestic growth outlook and the SBV's pledge to ensure a "stable exchange rate."

Overall, our updated USD/VND forecasts are 25,800 in 2Q25, 26,000 in 3Q25, 25,800 in 4Q25 and 25,600 in 1Q26.

FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
AUD/USD	0.60	0.61	0.62	0.63
AUD Official Cash Rate	3.85	3.60	3.35	3.35
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP (%)	2.1	1.1	1.9	2.3
CPI (avg y/y %)	5.6	3.1	2.7	2.7
Unemployment Rate (%)	3.7	4.0	4.4	4.3
Current Account (% of GDP)	-0.3	-1.9	-1.6	-1.8
Fiscal Balance, FY (% of GDP)	-0.7	-2.2	-1.0	-1.5

ECONOMY

Per capita contraction streak ends

GDP grew 0.6% q/q in 4Q24 from 3Q24, when it expanded 0.3% q/q. From a year earlier, growth picked up to 1.3%, from 0.8% y/y in 3Q24. The solid GDP growth was also stronger than the RBA's Feb Statement on Monetary Policy forecast of 0.5%. Headline growth benefited from a population that increased 2.0% versus the prior year. Per-capita GDP rose 0.1% q/q from 3Q24, putting an end to seven quarters of declines. Compared with a year earlier, though, it was 0.7% lower. The latest GDP data reinforces our view that the economy has passed its trough and should pick up further helped by an improvement in real household income. Real household income growth was 1.8% over 2024, near its pre-pandemic average of 2.0% y/y, after a period of declines alongside elevated inflation. The net savings rate was 3.8%, below the 5%-6% that prevailed prior to the pandemic, but up from its low of 2.4%.

Inflation was steady at 2.5% y/y in Jan, undershooting consensus forecast for a pickup to 2.6% y/y. Underlying inflation measures were mixed. Gains for the CPI excluding volatile items (fruits and vegetables, holiday travel and automotive fuel) rose to 2.9% y/y from 2.7% y/y in Dec. The rise in trimmed-mean inflation was more muted, to 2.8% y/y from 2.7% y/y in Dec. On a month-on-month basis, the CPI fell 0.2% in Jan after a 0.8% rise in Dec. Government subsidies placed significant downward pressure on prices in 2H24. Headline inflation, on a three-month annualized basis, was 4.3% and, on a six-month annualized basis was 1.1%.

Employment rose by 44k positions (or 0.3%) in Jan, following an upwardly revised 60k gain in Dec. The Jan increase was stronger than the consensus estimate for a 20k increase. Employment growth is running at an annual rate of 3.5%, slightly below the strong expansion in the labour force (3.6%) but well ahead of the rise in the working-age population (2.3%). The unemployment rate rose to 4.1% from 4.0% in Dec and was unchanged from a year earlier. This was in line with consensus estimate and consistent with the RBA's Feb statement on monetary policy projection.

Overall, we see GDP growth climbing to 1.9% this year on the back of a recovery in household spending, though this will also require an uptick in both building activity and business investment growth. The job market may weaken going forward as labour demand slows on the back of a pullback in growth and a slump in job advertisements. Meanwhile, inflation is seen returning towards the mid-point of the target from around mid-2025.

CENTRAL BANK

RBA begins easing cycle

The RBA decided to lower the cash rate target by 25bps to 4.10% and the interest rate paid on Exchange Settlement balances to 4.00% at its Feb meeting. This is the first interest rate cut in more than four years, with the RBA citing some progress towards bringing down inflation. The central bank kept the policy rate steady since Nov 2023, following a series of 13 rate hikes to tame domestic inflation.

In the accompanying press release, the RBA stated that "Inflation has fallen substantially since the peak in 2022, as higher interest rates have been working to bring aggregate demand and supply closer towards balance" adding that the Board is more confident that "inflation is moving sustainably towards the midpoint of the 2%-3% target range". With inflation still remaining well above the RBA's 2%-3% annual target, the latest decision was a cautious one. The RBA warned that "if monetary policy is eased too much too soon, disinflation could stall, and inflation would settle above the midpoint of the target range. In removing a little of the policy restrictiveness in its decision today, the Board acknowledges that progress has been made but is cautious about the outlook".

While we are mindful that the pullback in price gains could stall and have an impact on additional monetary policy easing plans, we currently pencil in a total of 100bps of easing in 2025 (including Feb's 25bps cut), taking the cash rate target to a terminal level of 3.35%. Note that there will be no meeting in Mar, and the next RBA meeting will be on 1 Apr, where we are expecting a pause.

CURRENCY

AUD to fall towards 0.60 before rebounding

AUD/USD rebounded strongly from a 4-year low of 0.6088 in early Feb as Trump's initial tariff actions were seen to be less aggressive than thought. The AUD was also underpinned by caution from the RBA that it would not ease as aggressively as markets anticipated after the first rate cut in four years in Feb.

In the coming quarter, it may not so smooth sailing for AUD. We expect an escalation of trade tariffs against China which may spillover to the AUD. However, further policy support to achieve the ambitious 5% GDP growth target for 2025 set in the China's Two Sessions may offset part of the pressure. Overall, our AUD/USD forecasts are 0.60 in 2Q25, 0.61 in 3Q25, 0.62 in 4Q25 and 0.63 in 1Q26.

FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
EUR/USD	1.05	1.07	1.09	1.10
EUR Refinancing Rate	2.40	2.15	2.15	2.15
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP (%)	0.4	0.7	0.9	1.2
CPI (avg y/y %)	5.5	2.4	2.2	1.9
Unemployment Rate (%)	6.6	6.4	6.4	6.4
Current Account (% of GDP)	1.7	2.3	2.4	2.5
Fiscal Balance, FY (% of GDP)	-3.6	-3.2	-3.0	-2.9

ECONOMY

Eurozone outlook stagnant as all eyes remain on Germany

The Eurozone economy grew faster than expected in 4Q24, though employment barely grew. GDP was up 0.1% q/q, unchanged from a revised reading in 3Q24. From a year ago, GDP grew by 0.9% y/y in the Eurozone in 4Q24, similar to the previous quarter but a modest expansion from earlier quarters. Headline annual HICP inflation came in at 2.4% in Feb, down from 2.5% in Jan. Core inflation also declined, to 2.6% from 2.7% in Jan. The big area of concern for the ECB has been services inflation. That most closely reflects domestic cost pressure – something the ECB should reasonably be expected to get under control. That measure came in at 3.7% for Feb, down from 3.9% in Jan. Inflation will likely continue to trend downwards as services inflation moderates, with the headline inflation rate dipping slightly below 2% in the summer.

At this juncture, we see headline inflation averaging 2.2% in 2025. As for growth, we have lowered our 2025 projection to 0.9% from 1.2% previously. Not only will US tariffs on European goods pose a downside risk to activity in the coming quarters; vows by European leaders to increase borrowing to ramp up military spending will reshape the fiscal backdrop, and ongoing developments will be keenly eyed. On 4 Mar, likely-to-be chancellor Friedrich Merz and other political leaders announced plans to reform the long-standing fiscal pillar known as Germany's debt brake, specifically to allow for higher defense spending. They also revealed a new EUR500bn special fund for infrastructure. This led to a rout in German bonds, with yields on 10-year bunds adding as much 30 bps on 5 Mar, the biggest increase since the months after the Berlin Wall fell in Nov 1989.

CENTRAL BANK

ECB's path less clear

The ECB lowered interest rates for the sixth time since Jun 2024 at its Mar meeting. At 25 bps lower, the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility will be at 2.50%, 2.65% and 2.90% respectively. Of significance was a rephrase of a key sentence in the accompanying press release. The ECB said that "monetary policy is becoming meaningfully less restrictive", as compared to "monetary policy remains restrictive" back in Jan's press release.

The ECB will likely aim to reach a broadly neutral stance this year and 2.00% seems like a reasonable bet for the terminal rate. As such, our view remains for the deposit rate to be cut by an additional 50 bps this year to 2.00%. However, the path ahead has become less clear. First and foremost, the statement suggested that ECB officials are close to seeing the light at the end of the tunnel of rate cut. Indeed, the risks to our forecast of a further 50 bps of rate cuts could lie in both directions.

One could argue that the Eurozone economy is in poor shape, and with inflation looking well-controlled, putting aside energy price volatility and tariff risks, there is clearly sufficient room for additional easing. However, a shift in Germany's fiscal policy has compounded uncertainty. Not forgetting as well, that looming US tariffs on European goods and high geopolitical uncertainty will also affect the ECB's path going forward.

We had previously penciled in 25 bps cuts at each of the Apr and Jun meetings. However, there is a growing chance of a pause in Apr. We now think that moves in Jun and Sep will be more likely (and we expect the ECB to pause in Apr and Jul) as the ECB navigates trade uncertainty stemming from the trade war with the US as well as major changes to German and European Commission fiscal rules. We will update accordingly as we stick to a data-dependent and meeting-by-meeting approach.

CURRENCY

EUR downside risks have abated

EUR/USD has rebounded sharply in early Mar to 1.07 after touching a two-year low of 1.0178 in early Feb. The move coincided with a narrowing of USD's rate advantage over the EUR as US yields tumbled in the face of emerging US growth concerns. Peace talks to end the 3-year Russia-Ukraine war also helped dramatically improve investor sentiment for Eurozone risky assets as well as the EUR. In addition, with the latest developments out of Germany, the marked jump in German bund yields and by extension benchmark Eurozone yields following the increasing expectations of more fiscal spending in Germany and across Europe is offering near term support for the EUR.

That said, a still-dovish ECB relative to the Fed, the risk of US imposing tariffs on EU goods in the near term and short-term overbought conditions will likely keep the EUR/USD biased to the downside in the coming quarter. Further out, we acknowledge that probability of the pair returning below parity has reduced somewhat compared to our last review in early Feb as prospect of a peace deal and a brighter growth outlook for Germany and the EU are balancing the risks now. Overall, our updated forecasts are 1.05 in 2Q25, 1.07 in 3Q25, 1.09 in 4Q25 and 1.10 in 1Q26.

FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
NZD/USD	0.54	0.55	0.56	0.57
NZD Official Cash Rate	3.25	3.00	3.00	3.00
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP (%)	1.8	-0.5	1.0	2.5
CPI (avg y/y %)	5.8	2.9	2.1	2.1
Unemployment Rate (%)	3.7	4.7	5.4	5.1
Current Account (% of GDP)	-7.9	-6.3	-5.2	-4.6
Fiscal Balance, FY (% of GDP)	-3	-2.9	-3.4	-2.5

ECONOMY

To improve slowly

The New Zealand economy ended 2024 on a rather negative note. The 19 Dec 3Q24 GDP release and the accompanying revisions revealed a much weaker economy than expected. GDP fell 1.0% q/q on a seasonally adjusted basis after a downwardly revised 1.1% q/q decline in 2Q24. The reading was much weaker than the consensus forecast for a 0.2% contraction. The RBNZ had also projected a 0.2% drop from 2Q24. GDP was 1.5% smaller in 3Q24 than it was a year earlier. 4Q24 GDP figures will only be due on 20 Mar. After having begun a very tepid recovery in 4Q24, growth is likely to pick up from mid-2025, as lower interest rates will encourage spending, although elevated global economic uncertainty is expected to weigh on business investment decisions. We forecast the economy to expand 1.0% in 2025.

The labour market has also deteriorated. The unemployment rate rose to 5.1% in 4Q24, the highest since 3Q20. Employment has declined in eight of the past 12 months. The number of filled jobs is now 1.3% lower than the peak in Mar 2024. The RBNZ's Feb Monetary Policy Statement revised down its labour market projections to incorporate a 0.6% y/y decline in employment in 1Q25. That will result in the jobless rate climbing to 5.2%. We think the weaker projection still underestimates the deterioration in the labour market going forward. We project the unemployment rate to rise to 5.4% in 1H25, above the peak of 5.2% forecast by the RBNZ. That said, employment growth is expected to pick up in the second half of the year as the domestic economy recovers. 1Q25 jobs data will be published on 7 May, ahead of the central bank's next publication of its Monetary Policy Statement on 28 May.

As for inflation, the headline reading remained steady at 2.2% y/y in 4Q24. The result was stronger than the consensus forecast of 2.1%. Still, inflation is falling back inside the RBNZ's 1%-3% target band, and is the lowest reading since 1Q21. Underlying inflation measures revealed a further softening. The trimmed mean rose 0.5% q/q in 4Q24, taking annual inflation down to 2.3% from 2.4% in 3Q24. The weighted median measure rose 0.3% q/q, to be 2.6% higher than a year ago. Non-tradable prices rose 0.7% q/q. The annual pace of increase slowed to 4.5% from 4.9% in 3Q24. Tradable prices rose 0.3% q/q, to be 1.1% lower than a year earlier. Tradable inflation has typically undershot non-tradable inflation, but the current divergence in domestically versus externally driven price gains remains around 20-year highs.

CENTRAL BANK

Most aggressive rate cutter

The RBNZ, at its first monetary policy of the year, decided to lower the Official Cash Rate (OCR) by 50bps to 3.75%. This is the RBNZ's fourth cut since it kicked off an easing cycle in 2024, bringing rates lower by a total of 175bps since Aug 2024.

Supporting its decision, the RBNZ in its accompanying media release, said that "annual consumer price inflation remains near the midpoint of the Monetary Policy Committee's 1 to 3 percent target band. Firms' inflation expectations are at target and core inflation continues to fall towards the target midpoint. The economic outlook remains consistent with inflation remaining in the band over the medium term, giving the Committee confidence to continue lowering the OCR".

According to the Monetary Policy Statement - Feb 2025, annual headline inflation is forecast to remain in the 1%-3% target range and remain near the target mid-point from 2026. The RBNZ's updated forecasts show inflation at 2.4% in the first quarter from 2.2% at the end of last year, but after picking up mid-year it is seen slowing to 2.2% again by early 2026. Recent increases in petrol prices are assumed to lead to higher near-term headline inflation than expected in the Monetary Policy Statement - Nov 2024. However, underlying inflationary pressures are assumed to continue to ease, and headline inflation is forecast to remain near the 2% mid point once the effect of recent increases in petrol prices on inflation wanes.

As far as the OCR is concerned, the latest forward guidance shows the average OCR falling to 3.14% by Dec 2025, lower than the 3.55% it projected in Nov. The RBNZ forecasts the benchmark will drop further to 3.10% in Mar 2026 and remain there over the forecast horizon. With the OCR now much closer to neutral and the economy recovering slowly, we expect a more cautious RBNZ from here. Our view is that this is likely the last 50bps cut. For now, we look for a further 75bps of rate cuts (in clips of 25bps) for the rest of this year, taking the OCR to 3.00% by 3Q25, though the risks are tilted towards a lower OCR trough than we are expecting. The next monetary policy meeting is on 9 Apr.

CURRENCY

NZD not out of the woods yet

While New Zealand is unlikely to be in direct crosshair of Trump's trade tariffs, RBNZ keeping to a slightly faster rate-cut pace relative to the Fed is likely to keep the pressure on the NZD. We see 75 bps of easing from RBNZ for the rest of the year compared to 25 bps from the Fed. Global risk aversion due to tariff uncertainties is likely to spillover to the NZD too.

Similar to other G-10 peers, we expect NZD/USD to dip further in 2Q25 before rebounding from 3Q25 onwards. Our updated NZD/USD forecasts are 0.54 in 2Q25, 0.55 in 3Q25, 0.56 in 4Q25 and 0.57 in 1Q26.

FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
GBP/USD	1.25	1.28	1.30	1.32
GBP Repo Rate	4.25	4.00	3.75	3.50
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	0.4	0.9	1.0	1.4
CPI (avg y/y %)	7.4	2.5	2.8	2.4
Unemployment Rate (%)	4.1	4.3	4.5	4.6
Current Account (% of GDP)	-2.2	-2.6	-2.9	-2.9
Fiscal Balance, FY (% of GDP)	-5.2	-4.5	-3.8	-3.4

ECONOMY

Sluggish growth momentum

The UK economy only grew by 0.1% q/q in 4Q24, after stagnating in the prior quarter. The reading was above consensus forecast for a decline of 0.1%. The BOE was projecting a similar print. On a monthly basis, output grew by 0.4% in Dec. There were no revisions to the Oct and Nov prints of 0.1% and -0.1% respectively. Dec's gain was driven by services (0.4% m/m). Production also helped (0.5% m/m), while construction dragged on GDP (-0.2% m/m). Household consumption flatlined in the last three months of 2024, from a gain of 0.6% in 3Q24. Investment fell by 0.9%, following a gain of 1.0% previously. Government consumption pushed up GDP, rising by 0.8% on the quarter and adding 0.2 percentage point to growth.

The UK flash composite PMI survey suggests the economy will likely stall in 1Q25, slipping to 50.5 in Feb from 50.6 the prior month. The services PMI figure rose to 51.1 from 50.8 in Jan. However, the manufacturing survey remained firmly in contractionary territory, dropping sharply to 46.4 from 48.3. That suggests the sector will continue to remain in the doldrums. Thankfully, the public sector is likely to play an increasing role in supporting growth over the course of 2025 due to the government's decision in the Autumn budget to materially loosen fiscal policy relative to previous plans. Our baseline forecast is for the UK economy to expand by 1.0% in 2025, with downside risks to our forecasts, given the repercussions from the uncertainty of tit-for-tat tariffs between the world's biggest economies could have on the UK.

CPI inflation rose to 3% in Jan, from 2.5% in Dec. The reading was above consensus view and the BOE's Feb projection of 2.8%. The upside surprise was mostly due to food inflation, which came in at 3.3%. Going forward, food inflation will likely rise as firms pass on higher labor costs (from the rise in employer National Insurance Contributions and the minimum wage hike). The movements in the price of education and airfares contributed to services inflation — a key metric for the BOE - rising to 5.0% from 4.4%. That was below consensus expectation for a print of 5.1% and the BOE's projection for a figure of 5.2%. Elsewhere, core goods prices rose by a faster-than-expected 1.6% y/y. Reflecting the offsetting surprises in core goods and services, core inflation came in at 3.7%, in line with consensus forecast.

Overall, inflation is likely to rise to over the first half of this year. This is because of increases in energy prices, and in some regulated prices such as water bills. However, we see headline inflation falling back after that. But the economy may not evolve as expected. Loose labour market and other uncertainties especially on the global front, could push down on demand in a longer-lasting way over the forecast period.

CENTRAL BANK

BOE to tread carefully

The BOE decided to reduce its Bank Rate by 25 bps from 5.00% to 4.75% at its 6 Feb meeting, as expected. The Monetary Policy Committee (MPC) had voted by a majority of 7-2 in the latest decision, with Swati Dhingra and Catherine Mann both favouring a bigger move of 50 bps.

The forward guidance was broadly unchanged. But the vote split turned out to be far more dovish than anticipated. Ahead of the Feb meeting, expectations were for eight committee members to vote for the cut and that Catherine Mann will vote to keep policy unchanged. She did not vote in favour of either of the prior two rate cuts and had been voting for hikes long after the rest of the committee had decided rates had gone high enough. However, she surprisingly doubled down with a vote to slash rates by 50 bps in Feb. Though not directly attributed to Mann, the meeting minutes suggested that she saw a need to give a "clear signal" on where interest rates need to get to, whilst still recognising policy needs to stay restrictive for some time to come.

The BOE had also become more pessimistic about the near-term growth outlook. The central bank now expects GDP to have contracted by 0.1% in 4Q24 (from a 0.3% gain in its Nov forecast) and to expand modestly by 0.1% in 1Q25 (from 0.4%). It also expects inflation to rise faster in the months ahead, with the headline gauge set to peak at 3.7% in 3Q25, mostly on the back of higher energy prices.

Overall, our base case remains rate cuts at a quarterly cadence over the coming year, bringing the Bank Rate lower to 3.75% by end-2025. For now, we are looking for the next rate cut in May, with further moves in Aug and Nov. That said, if the UK economy experiences a more prolonged period of economic weakness, we may see the possibility of swifter action later this year.

CURRENCY

GBP to stay resilient

As the UK was not singled out in Trump's initial list of tariff action, GBP was amongst outperformers within the G-10 FX space when the USD started to weaken broadly in Feb when tariff fatigue sets in. While markets had initially taken notice of the dovish vote split in the Feb's BOE meeting where two policymakers voted for a larger 50 bps rate cut, the negative effects on GBP did not persist owning to hawkish CPI projections by the BOE. Going forward, GBP is likely to remain resilient even as we expect a USD rebound in 2Q25. Overall, our GBP/USD forecasts are 1.25 in 2Q25, 1.28 in 3Q25, 1.30 in 4Q25 and 1.32 in 1Q26.

FX & Rates	2Q25F	3Q25F	4Q25F	1Q26F
DXY	107.1	105.2	103.6	102.7
US Fed Funds Rate	4.25	4.25	4.25	4.25
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP (%)	2.9	2.8	1.8	2.5
CPI (avg y/y %)	4.1	3.0	2.5	2.0
Unemployment Rate (%)	3.8	4.1	4.5	4.5
Current Account (% of GDP)	-3.3	-3.5	-3.9	-3.8
Fiscal Balance, FY (% of GDP)	-6.2	-6.9	-6.3	-6.1

ECONOMY

Below-trend US growth, with higher inflation risks in 2025

The US economy continued to expand in 4Q24, albeit at a slightly slower 2.3% q/q SAAR (down from 3.1% in 3Q). Growth was driven by resilient private consumption (4.2% in 4Q,from 3.7% in 3Q, and the fastest pace since 1Q23, led by increase in motor vehicle sales), together with residential investments (5.4% from -4.3% in 3Q), government consumption and investment (2.9% from 5.1% in 3Q) and even a small contribution from net exports of goods and services (+0.12ppt in 4Q versus -0.43ppt subtracted from headline growth in 3Q). The main drags to 4Q growth were the decline in investment spending (-3.2% or -0.45ppt, from 2.1% or +0.55ppt in 3Q) and a back-to-back fall in private inventories (-0.81ppt from -0.22ppt in 3Q), on the back of strikes in a major airplane maker and leaner inventory investment. Compared to one year ago, GDP grew by 2.5% y/y in 4Q, from 2.7% in 3Q, 3.0% in 2Q, and 2.9% in 1Q. for the full year, the US economy expanded by 2.8% in 2024, extending the robust pace of 2.9% in 2023.

While the latest GDP report corroborated with the view of a strong US economy, and that the Fed monetary policy was not overly restrictive to hurt growth last year, recent economic indicators and surveys point to weakening optimism and growth trajectory coupled with rising price pressures. The Conference Board's consumer confidence survey unexpectedly fell to 98.3 in Feb, the steepest decline since Aug 2021, while consumer spending weakened by -0.2% in Jan, the merchandise trade deficit widened to a record US$153.3bn in Jan (likely reflecting frontloading purchases in early 2025 ahead of tariff imposition, and that will mean weaker US 1Q growth on a sharper decline in net exports of goods & services). Activities in 1Q are tracking meaningfully lower from last year with Atlanta Fed's GDPNow projecting 1Q GDP contracting by -2.8% q/q SAAR (as of 5 Mar) while we have a less punitive projection of -1.1% for 1Q.

The additional US tariffs on key US trading partners (China, Mexico and Canada, which accounted for more than 40% of US imports for 2024) and key products (steel and aluminum imports tariffs on 12 Mar) will affect a significant portion of US imports (and depending on the magnitude, coverage and duration of the tariff imposition). This could weigh on US GDP growth through the domestic consumption channel while retaliatory tariff responses from affected countries will hurt US-based exporters. Beyond tariff, President Trump's tax cuts and deregulation drive could offset some of the tariff fallout and reignite animal spirits, boost business confidence and investment sentiment and therefore positive for US growth and productivity. However, these are likely to add to inflationary pressures and worsen the federal fiscal deficit. But fiscal policy actions may happen only in 2H 2025. Trump's tough immigration policies are coming sooner than fiscal policy with negative implications for US GDP growth if large-scale deportations significantly lower labour supply. The rollback of green policies will be to the detriment of the environment but will be positive for US output for crude oil & gas.

Overall, we are keeping of US growth forecast at 1.8% in 2025 (from 2.8% in 2024) as we are already more conservative in our outlook versus IMF (2.7% updated in Jan 2025) and most of the major US banks (mostly above 2.0%). That said, the risk to our forecast is dependent on extent of Trump's policies, and that risk now is tilted to the downside as tariffs are coming well ahead of the fiscal policies, and the announcements due on 2 Apr (including potential reciprocal tariffs on trading partners with Brazil, India and EU being flagged and potential product-specific tariffs on cars, semiconductors and pharmaceuticals) will matter to the outlook. Our base case remains for no US recession but admittedly risk of one in 2025 is higher now.

Unemployment rate remained benign with a dip for the 2nd month in a row to 4.0% (from 4.1% in Dec) while job creation was weaker-than-expected at 143,000 in Jan (Dec: 307,000). The moderate Jan job gains was due to private sector and government hiring, offsetting losses in leisure, professional services, and mining. But government hiring will come under pressure amidst a radical revamp, and we expect jobless rate to edge higher to 4.5% by end-2025. Wage growth reaccelerated above forecast to 0.5% m/m, 4.1% y/y in Jan, marking the fastest m/m pace since Aug 2024, so wage-price inflation worries may not be over yet. CPI inflation will also face the challenge of Trump's tariffs. Prices paid for inputs by manufacturers soared to 62.4 in Feb, highest since Jun 2022, adding to the stickiness and expectations for price increases to stay above the Fed's 2% target. We remain watchful of energy costs feeding into goods inflation and higher wages feeding into services inflation, but the biggest uncertainty is the magnitude and extent of Trump's tariff policies. Our 2025 headline and core inflation forecasts are at 2.5% and 2.6% respectively, with the balance of risk tilted towards the upside.

CENTRAL BANK

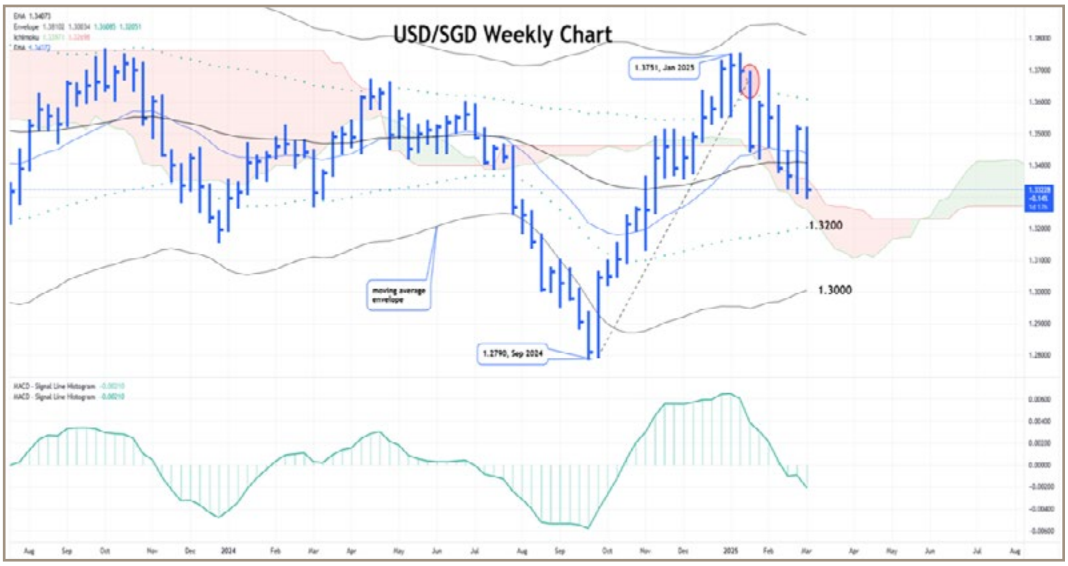
Still expecting only one cut in 2025

The US Fed kept its current Fed Funds Target Rate (FFTR) range unchanged at 4.25%-4.50% in Jan FOMC as widely expected, after delivering a total of 100-bps of cuts in the last three meetings of 2024. While we acknowledge the downside risk to growth has increased, the elevated start to US CPI inflation in early 2025 and the uncertainty of Trump's tariff and other policies would continue to reinforce the case for the Fed to stay on pause for longer. We continue to hold our view of only one 25-bps cut in 2Q 2025 (likely Jun FOMC) and stay on hold for rest of the year at 4.25% (upper bound of Fed Funds Target Rate). We continue to see the risk tilted towards a more prolonged rate pause from the Fed.

FX TECHNICALS

USD/SGD: 1.3330

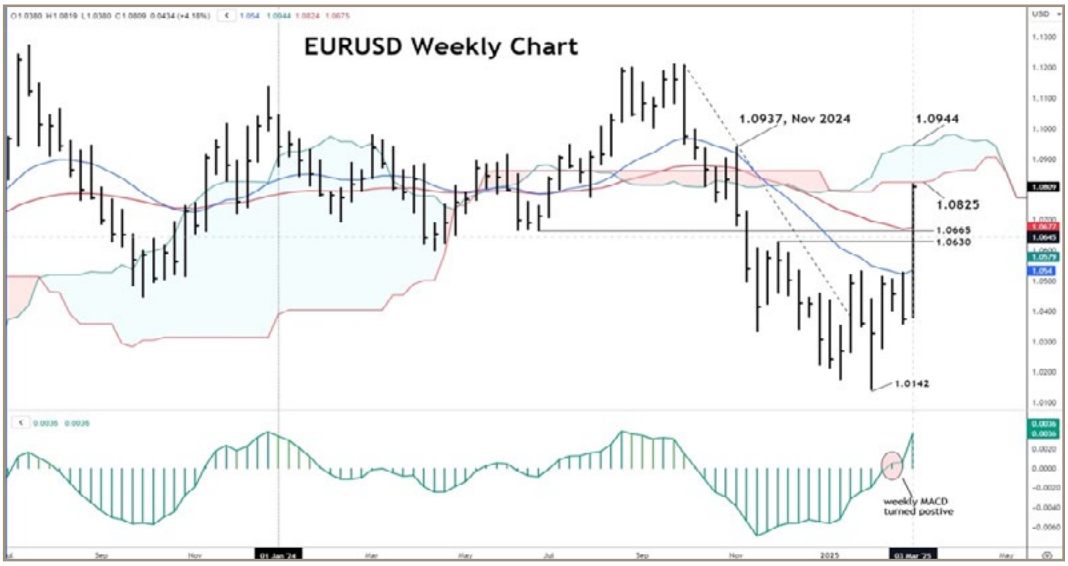
Room for USD/SGD to pull back further but note strong support levels at 1.3200 and 1.3000.



The USD/SGD rally from last September to January this year is considered to have ended following the break below the rising trendline support. The subsequent pullback has been uneven and choppy, a movement that is not entirely surprising, given the sharp three-month rally. While there is room for USD/SGD to continue to pull back, it is premature to anticipate a major bearish reversal or a sustained downtrend. Notably, there is a pair of strong support levels at 1.3200 and 1.3000. The former level appears within reach, but at this stage, it is too early to determine if 1.3000 will come into view.

EUR/USD: 1.0800

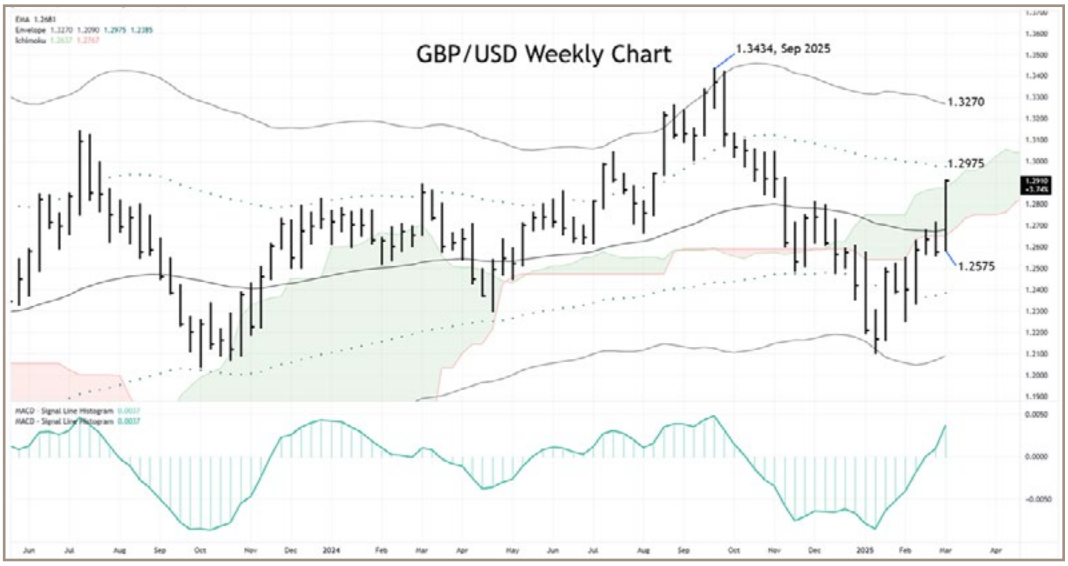
EUR/USD: 1.0800
Impulsive rally could test and potentially break above the significant resistance at 1.0940.



As of early March, EUR/USD staged a remarkable rally and appears poised to enter the weekly Ichimoku cloud. Given the impulsive nature of the rally, EUR/USD could test and potentially break above the cloud resistance at 1.0944. Note that the top of the cloud is near the minor peak of 1.0937 from November last year, making these levels significant resistance. On the downside, any pullback is likely to find support above 1.0530.

GBP/USD: 1.2900

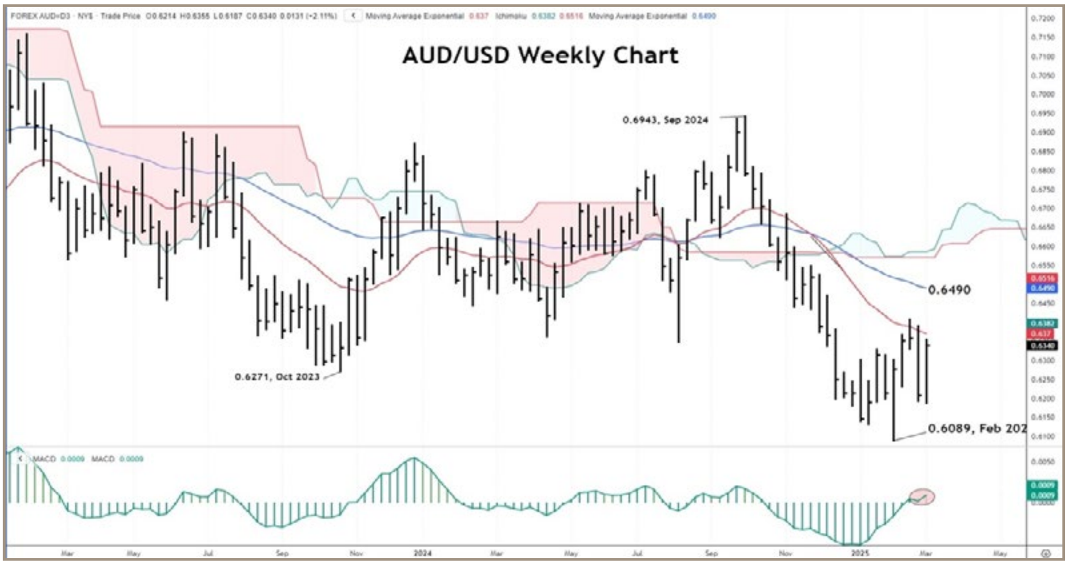
Steep rally could break above 1.2975; the next level to focus is 1.3270.



In early March, GBP/USD surged higher, breaking above the weekly Ichimoku cloud in less than a week. The sheer pace of the steep rally suggests it is likely to break above 1.2975. A clear break of this level would shift the focus to the top of the weekly moving average envelope, currently at 1.3270. To sustain its impulsive momentum, GBP/USD must not move back below 1.2575.

AUD/USD: 0.6340

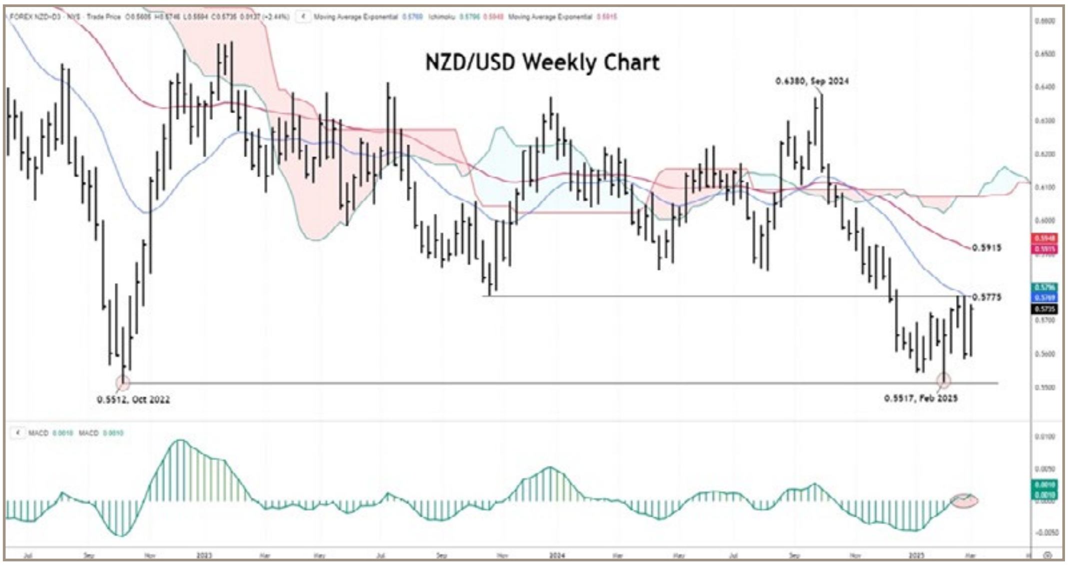
AUD/USD is likely to trade with an upward bias towards the 55-week EMA, currently at 0.6490.



Although the weekly MACD has crossed into positive territory, AUD/USD has not been able to make much headway on the upside. However, as long as it remains above the early February low of 0.6089, it is likely to trade with an upward bias towards the 55-week EMA, currently at 0.6490.

NZD/USD: 0.5735

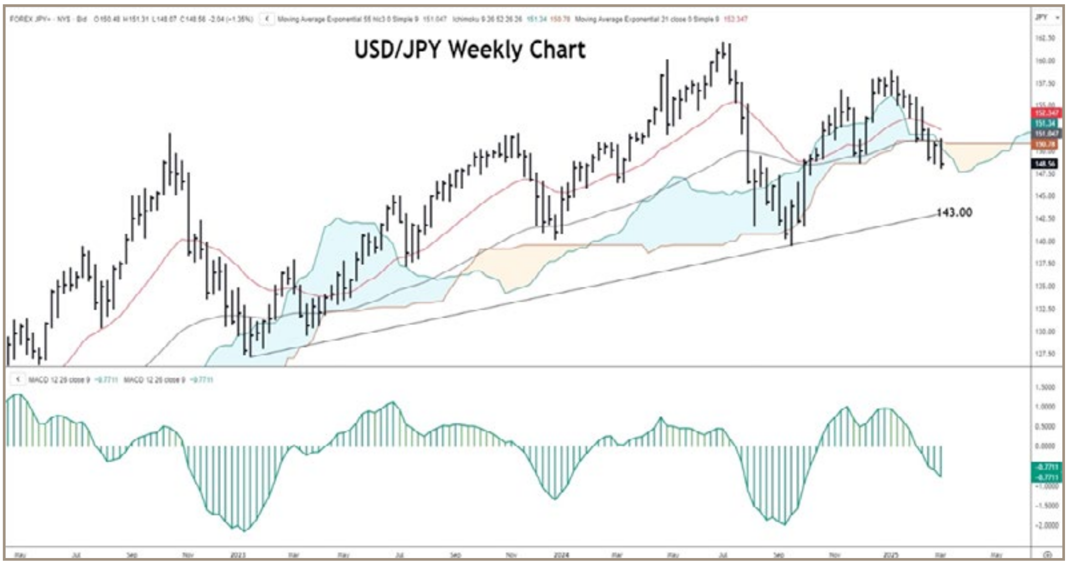
Despite subdued momentum, there is a chance for NZD/USD to rebound above 0.5775; the next level to focus on is 0.5915.



In the first week of February this year, NZD/USD fell and tested last October's 2022 low, near 0.5515. This strong support level held, resulting in a rebound. While upward momentum remains subdued for now, there is a chance for NZD/USD to rebound above 0.5775 (21-week EMA). A clear break above this level would shift the focus to 0.5915, the current level of the 55-week EMA. On the downside, support is found at 0.5580, followed by 0.5515, which is acting as a formidable support now.

USD/JPY: 148.50

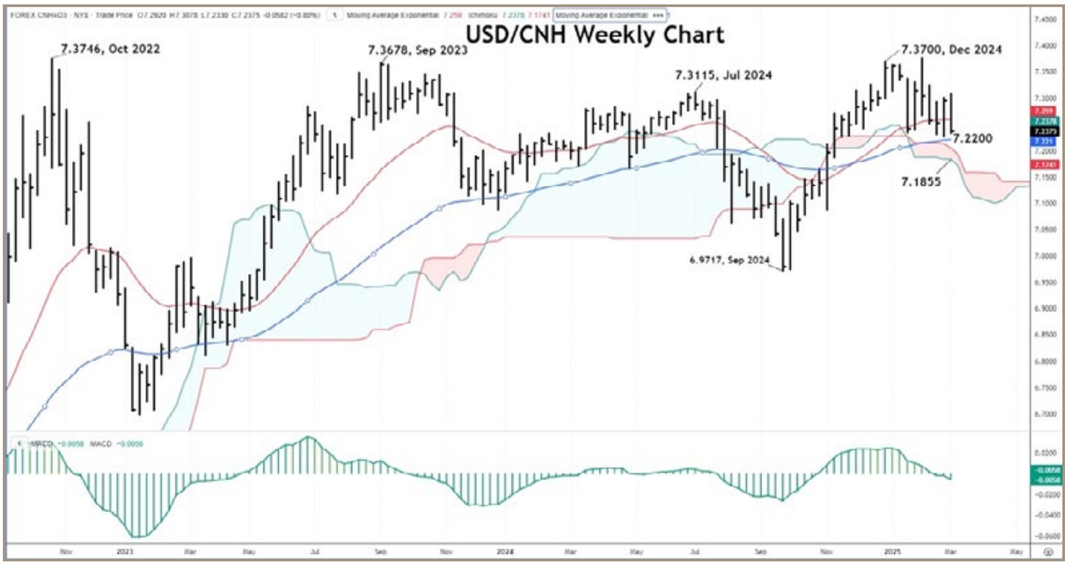
USD/JPY faces continued downside pressure; trendline at 143.00 is expected to provide significant support.



Having broken below the key support at the bottom of the weekly Ichimoku cloud, USD/JPY is likely to face continued downside pressure in the coming months. The weekly MACD, which is heading steadily lower, supports the bearish outlook. That said, the rising trendline at 143.00, drawn from early January last year, is expected to offer significant support.

USD/CNH: 7.2375

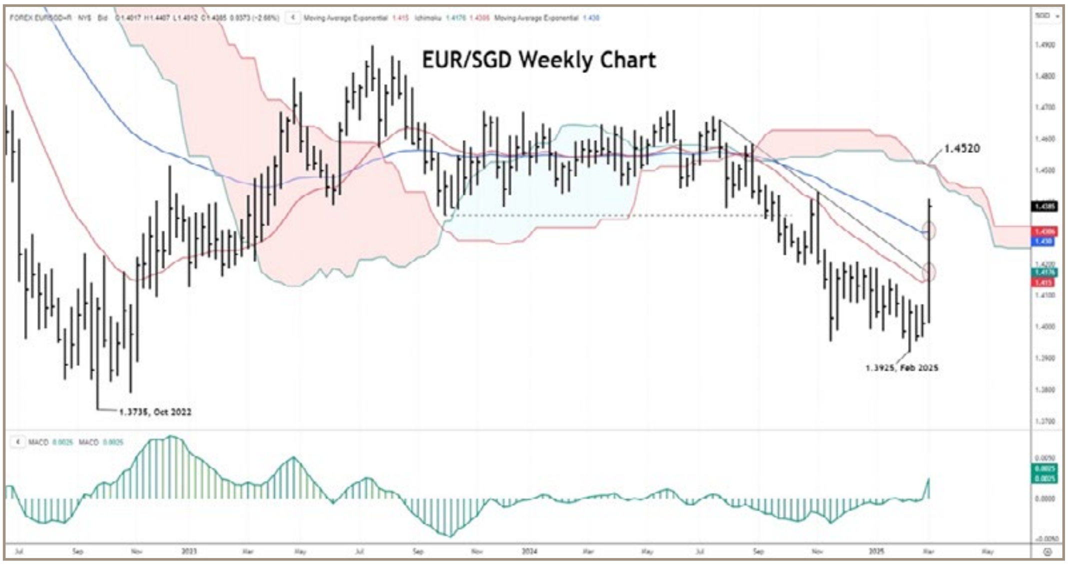
Downward momentum appears to be tentatively building; a break below 7.2200 could trigger a decline to 7.1855.



After peaking at 7.3700 in late December last year, USD/CNH has traded in a choppy and erratic manner. However, downward momentum appears to be tentatively building. Should USD/CNH break below 7.2200 (55-week EMA), it could trigger a decline to 7.1855, the bottom of the weekly Ichimoku cloud. Note that the cloud is expected to shift lower over time.

EUR/SGD: 1.4385

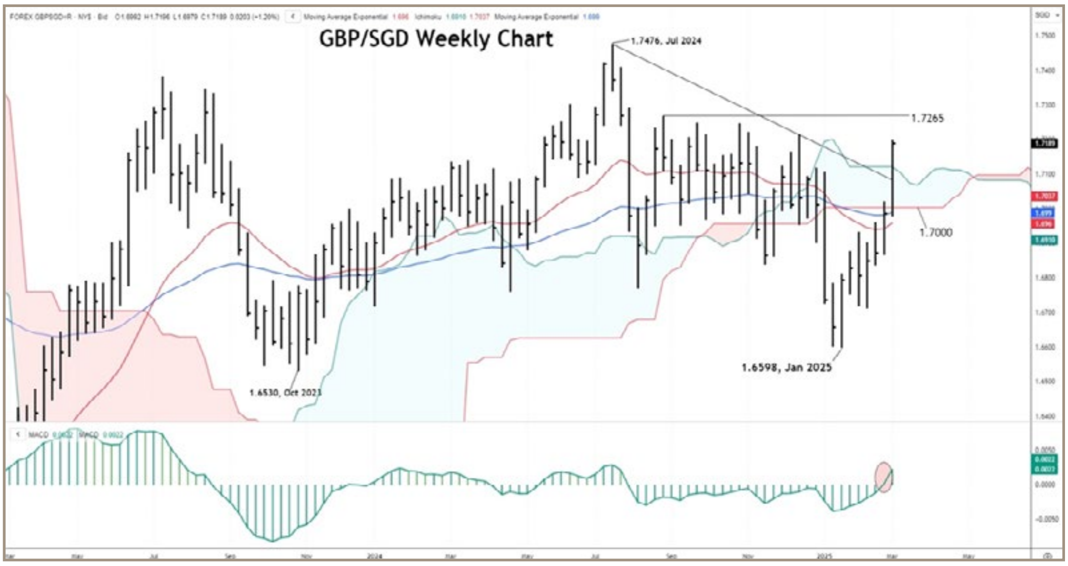
Impulsive momentum could carry EUR/SGD higher toward 1.4520.



EUR/SGD staged an astounding rally in the first week of March and, as of the time of writing, appears poised to post its largest one-week gain in nearly a decade. The impulsive momentum could continue to carry it higher toward 1.4520. In the medium term, we do not expect a retest of the February low at 1.3925.

GBP/SGD: 1.7190

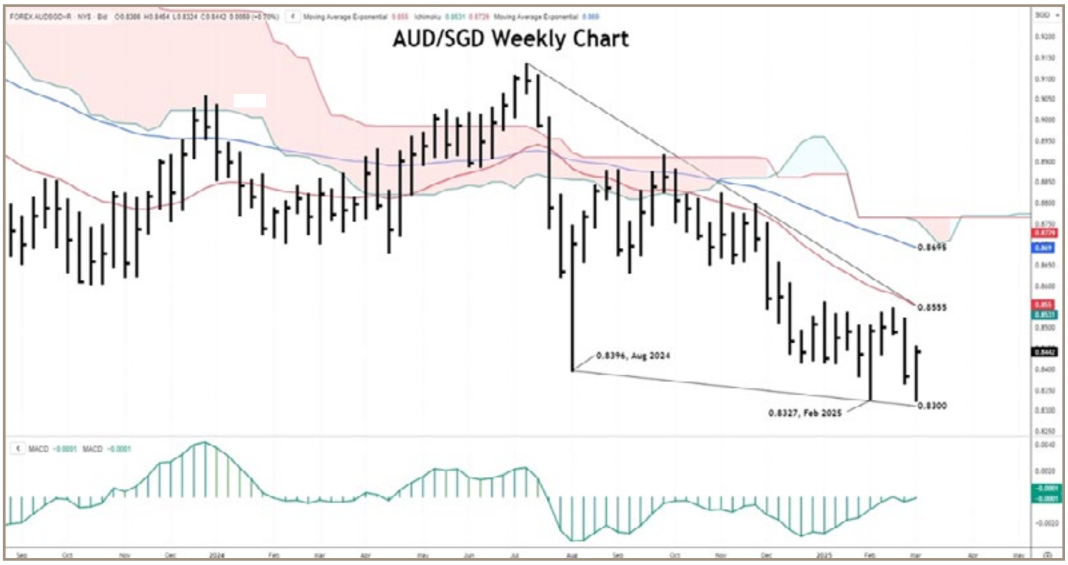
Further GBP/SGD strength would not be surprising; the levels to watch are 1.7265 and 1.7475.



In early March, GBP/SGD skyrocketed, breezing past several strong resistance levels with ease. Considering the weekly MACD has just crossed into positive territory, further gains in the coming months will not be surprising. The two resistance levels to watch are 1.7265 and 1.7475, while key support is at 1.7000.

AUD/SGD: 0.8440

Too early to anticipate a substantial recovery, but there is potential for AUD/SGD to rebound above 0.8555.



AUD/SGD dipped and tested the key support at 0.8300, which held. While it is too early to anticipate a substantial recovery, there is a potential for AUD/SGD to rebound above the resistance at 0.8555. At this stage, it is uncertain whether the next resistance level at 0.8695 will come into view. On the downside, the key support remains at 0.8300.

JPY/SGD: 0.8980

Despite breaking the key resistance at 0.9050, it is too early to determine if JPY/SGD can sustain a foothold above this level.

After testing the significant support level of 0.8580 in late December of last year, JPY/SGD has risen, albeit in an uneven and choppy manner. In early March, JPY/SGD broke above the key resistance level at 0.9050, though it is too early to determine if it can sustain a foothold above this level. The likelihood of JPY/SGD maintaining a hold above 0.9050 will remain intact as long as 0.8870 is not breached. In the near term, the next level to watch above 0.9050 is 0.9100.

COMMODITIES TECHNICALS

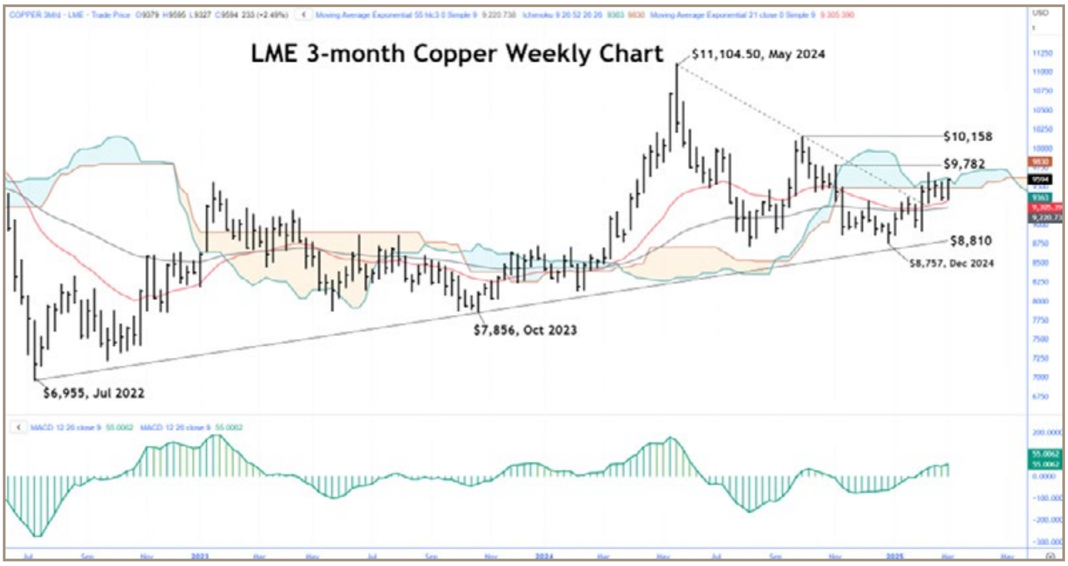
Spot Gold
$2,893/oz

Spot gold could continue to edge higher, remaining within the rising channel formation, currently between $2,690 and $3,020.

While the record-breaking rally in spot gold appears to be losing momentum, there are no signs of an imminent pullback yet. In the near term, spot gold could continue to edge higher, likely remaining within the rising channel formation, currently between $2,690 and $3,020.

LME 3-mth Copper
$9,594/mt

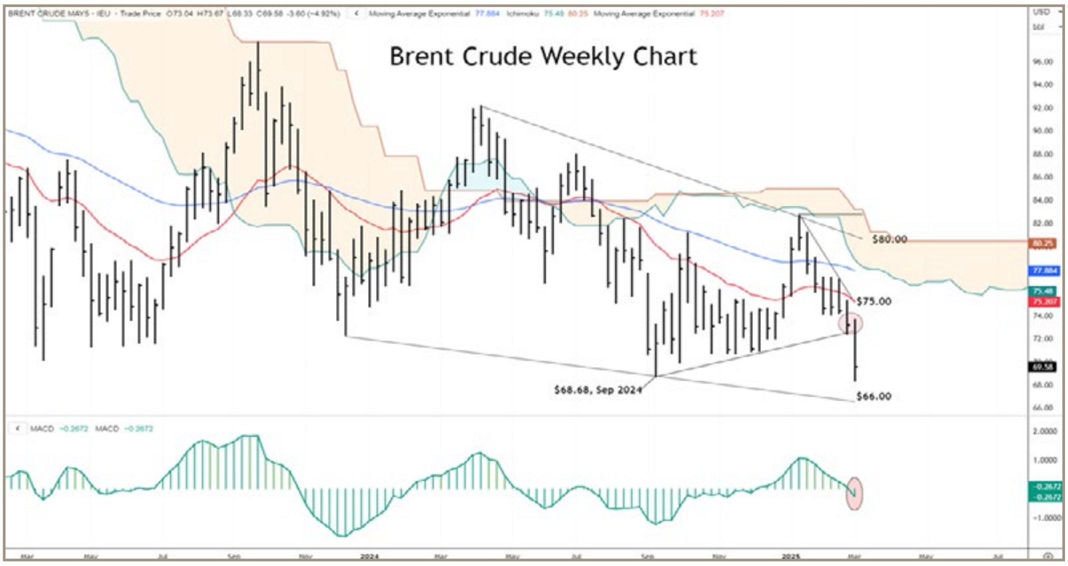
Copper could trade with an upward bias, with resistance levels at $9,782 and $10,158. The latter level is unlikely to be tested in the near term.



After dipping to a low of $8,757 in late December last year, the LME 3-month copper futures contract rose and broke above the descending trendline drawn from the high in May last year. Despite breaching the resistance level, upward momentum has not increased significantly. However, the positive momentum suggests copper could trade with an upward bias in the coming months. Resistance levels are at $9,782 and $10,158. Given that momentum is not strong, the latter level is unlikely to be tested in the near term. On the downside, key support lies at the long-term ascending trendline, currently at $8,810.

Brent Crude
$69.60/bbl

With the weekly MACD poised to crossover into negative territory, Brent crude could decline to $66.00.



In the first week of March, Brent crude futures broke below a rising trendline support. The breach of the trendline triggered a sharp decline, and as of the time of writing, it is testing last September's low of $68.68. With the weekly MACD poised to cross into negative territory, a break below this level would not be surprising. The next support lies at $66.00, followed by $64.00. To sustain the downward momentum, Brent must remain below $75.00.

GLOSSARY

BI	Bank Indonesia
BNM	Bank Negara Malaysia
BOE	Bank of England
BOJ	Bank of Japan
BOK	Bank of Korea
BOT	Bank of Thailand
BSP	Bangko Sentral ng Pilipinas
CBC	The Central Bank of the Republic of China (Taiwan)
ECB	European Central Bank
FOMC	Federal Open Market Committee
HKMA	Hong Kong Monetary Authority
MAS	Monetary Authority of Singapore
PBOC	The People's Bank of China
RBA	Reserve Bank of Australia
RBI	Reserve Bank of India
RBNZ	Reserve Bank of New Zealand
SBV	State Bank of Vietnam

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