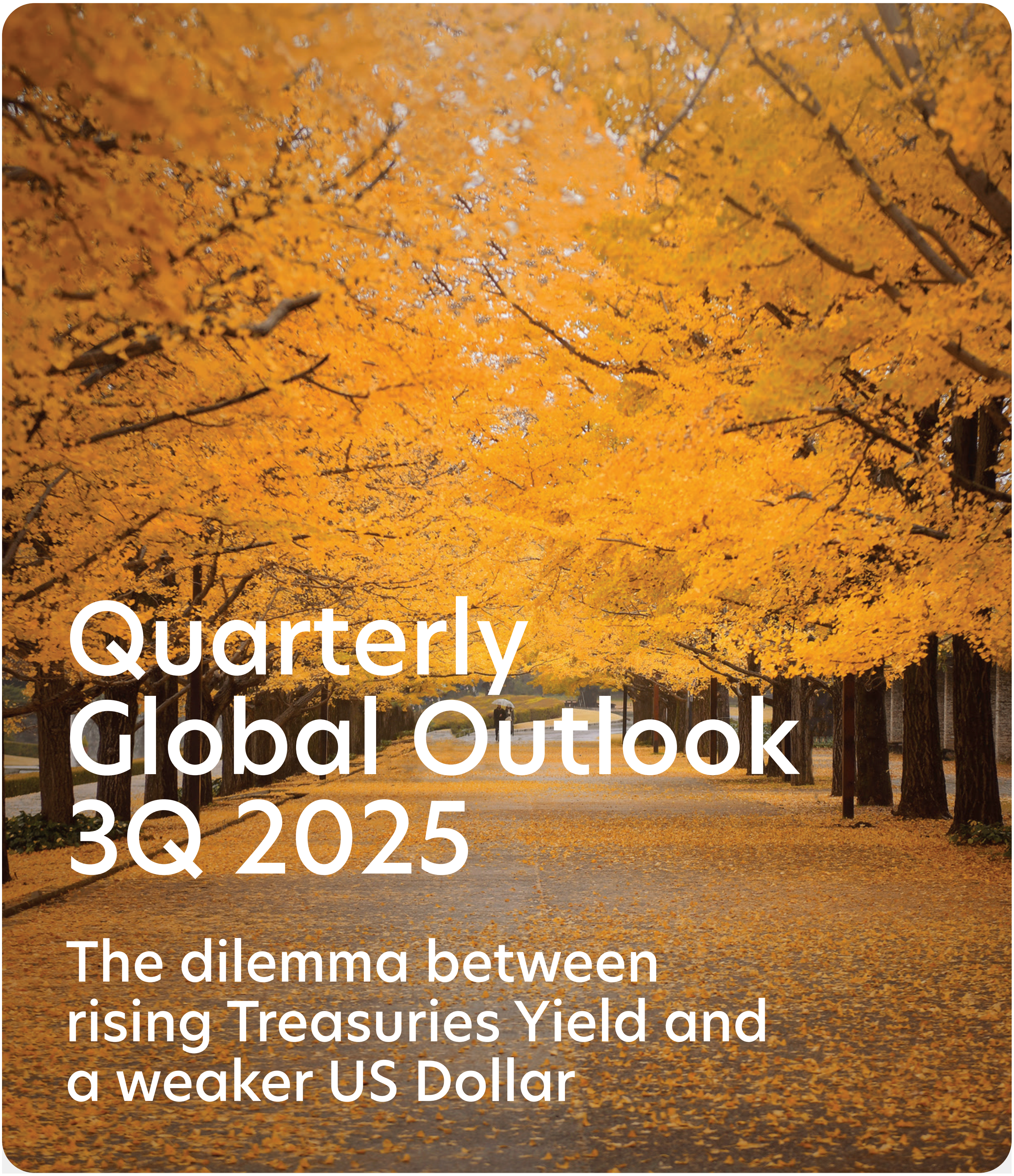

Quarterly Global Outlook 3Q 2025

The dilemma between rising Treasuries Yield and a weaker US Dollar

Right By You

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EXECUTIVE SUMMARY

The dilemma between rising Treasuries Yield and a weaker US Dollar

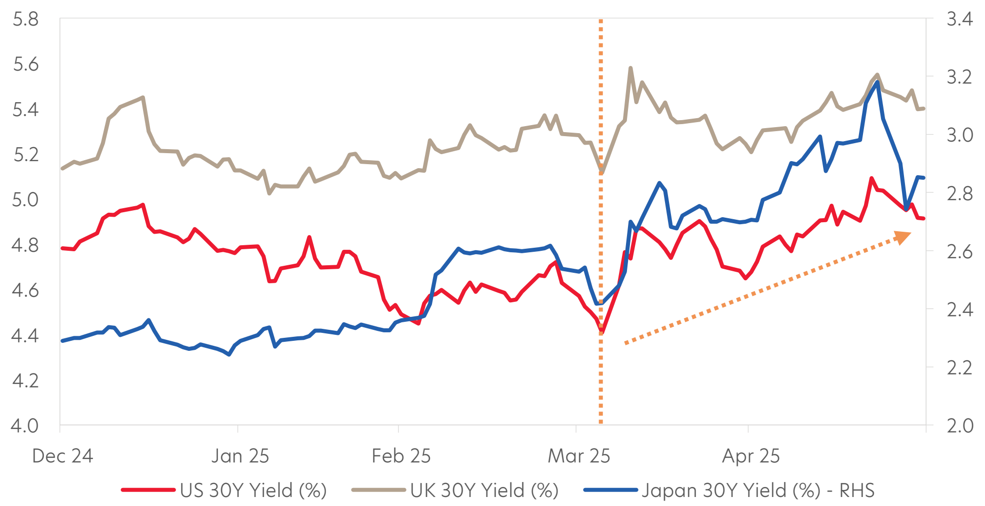
"Dollar depreciation leads to higher inflation and ultimately forces foreign creditors to question their rationale and indeed their sanity for continuing purchases of US Treasuries."

Bill Gross

Since Liberation Day on 2 Apr, global investors have grappled with two key concerns in the FX & Rates markets that are inter-related and are of increasing significance to financial markets worldwide.

There has been a noticeable rise in LT bond yields since Liberation Day

Source: Bloomberg, UOB Global Economics & Markets Research



First key concern is what to make of the further rise in US Treasuries yield and long-term bond yield across the Developed Markets space?

Objectively, it is likely that with increasing worries over global trade and growth slowdown following the higher trade tariffs imposed by the US on all of its trading partners across the world, investor focus has now been tuned to the growing indebtedness and weaker finances of both the US and key economies worldwide.

Specifically, since Liberation Day, 10-year US Treasuries yield rose from 4.0% to 4.5%, while 30-year US Treasuries yield spiked from 4.4% to test the very sensitive 5% level. Concurrently, 30-year JGB yields popped from 2.4% to 3.0% and 30-year Gilt yields also rallied hard from 5.1% to 5.5%. All these long-term government yields jumped following Liberation Day. Objectively, it is likely that with increasing worries over global trade and growth slowdown following the higher trade tariffs imposed by the US on all of its trading partners across the world, investor focus has now been tuned to the growing indebtedness and weaker finances of both the US and key economies worldwide.

The Moody's downgrade of US sovereign rating refocused investors' attention on the country's deteriorating fiscal outlook. Federal Reserve Chair Jerome Powell had indeed on several previous occasions warned that the long-term debt path of the US is unsustainable. Unfortunately, President Trump's "big and beautiful" tax cut bill, is likely to add yet another USD 3.8 tn to US overall debt, according to prelim analysis done by the bipartisan Congressional Budget Office (CBO) and magnified investor attention on this unsustainable debt path for the US at the most inconvenient time. The CBO has also warned that US outstanding debt will balloon from USD 30 tn to north of USD 50 tn in the coming decade by 2035.

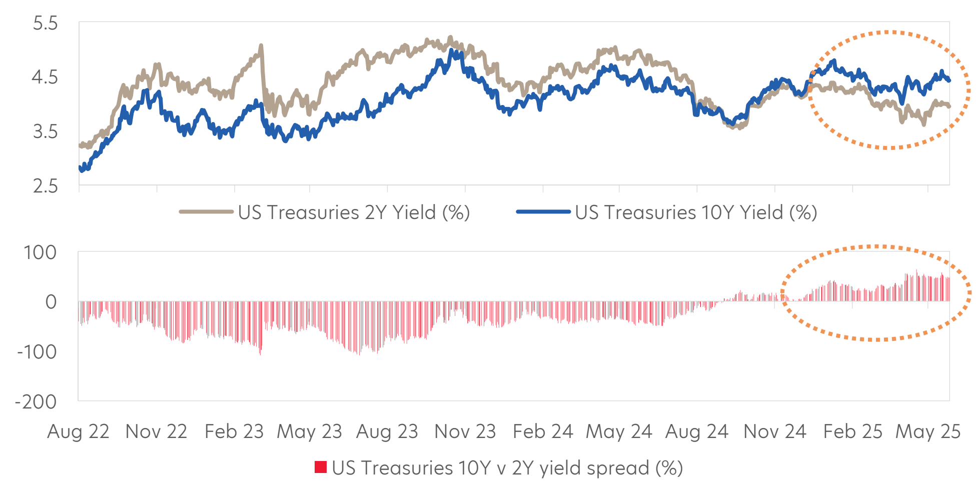
By extension, long term bond yields for the UK, Japan and other DM economies have also jumped since Liberation Day as well. For the UK, it is the same concern over fiscal sustainability and investors are increasingly jittery as long-term Gilt yields rose towards the highs last seen in 2022 during the period of disruptive sell-off during then Prime Minister Liz Truss' budget debacle.

There was a recent weak auction of 20-year JGB which exacerbated the tighter liquidity in the longer end of the JGB market. Higher JBG yields may encourage the repatriation of investment capital from abroad and accelerate the anticipated JPY strength in the coming months.

For Japan, it is a combination of both macroeconomic and technical factors. On one hand, long term JGB yields are very sensitive to inflation dynamics and have risen in line with the further rise in inflation for Japan. Specifically, the latest core inflation rate for Japan rose to a strong 2 year high of 3.5% y/y with food inflation spiking by 6.5% y/y as well in the latest monthly reading for Apr. What made the headlines was the almost doubling of rice prices over the past year. As for technical factors, there was a recent weak auction of 20-year JGB which exacerbated the tighter liquidity in the longer end of the JGB market. Higher JBG yields may encourage the repatriation of investment capital from abroad and accelerate the anticipated JPY strength in the coming months.

US Treasuries yield curve steepen as LT yield heads up to 5%

Source: Bloomberg, UOB Global Economics & Markets Research



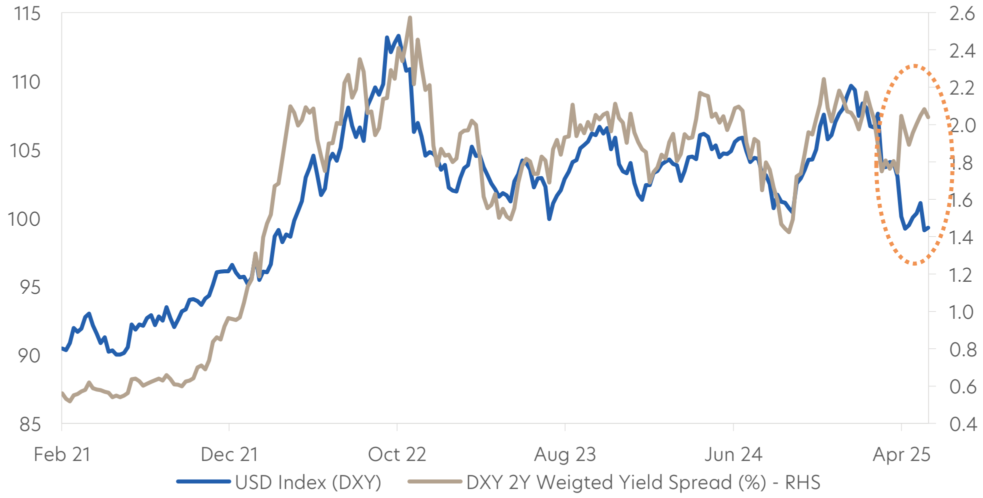
As higher risk is now being priced in for longer term government benchmarks and US Treasuries, the "Fed put" seemed even further away with the Federal Reserve reiterating a "wait and see" approach amidst the uncertain economic backdrop from the volatile trade policies of the Trump Administration.

What should investors make of this concurrent jump in US Treasuries and long-term bond yields across key economies? Needless to say, as a result of the more elevated scrutiny of fiscal worries for key economies, it is likely that long-term bond yields will be sticky on the upside. It has not been lost to many that the term premium for US Treasuries in particular has been climbing since the outbreak of COVID-19 in 2020. By one estimate, i.e. the Adrian Crump and Moench model, the term premium for 10-year US Treasuries have now risen in excess of 80 bps. As higher risk is now being priced in for longer term government benchmarks and US Treasuries, the "Fed put" seemed even further away with the Federal Reserve reiterating a "wait and see" approach amidst the uncertain economic backdrop from the volatile trade policies of the Trump Administration.

As a result, expectations of near-term Fed rate cuts have been pushed back, keeping short-dated Treasuries yield anchored near 4% while long term Treasuries yield head higher towards 5%. This resulted in the further steepening of the yield curve with the 10s2s yield spread rising to around 50 bps and the 30s2s yield spread rising to about 100 bps. It is likely that US Treasuries yield curve will continue to steepen further in line with increasing risk and volatility. Risk is that longer term US Treasuries yield is likely to be "sticky on the upside" for some time to come as more discussion of stagflation risk comes to the fore.

The USD Index has weakened despite firm yield differential support

Source: Bloomberg, UOB Global Economics & Markets Research



Relating to the first key concern, the second key concern amongst investors is what to make of the sell-off in the USD and more specifically, whether the USD weakness will extend further?

We used to live in a strong USD world by default, but that appears to be changing. Rising long term Treasuries yield is no longer a guarantee for a stronger USD. The above chart highlights this divergence starkly whereby the DXY (USD Index) is no longer benefiting from higher yield differential support afforded by higher Treasuries yield. Making things worse, there are a lot of half-truths in various unverified market talk about both President Trump and China's desire for a weaker USD.

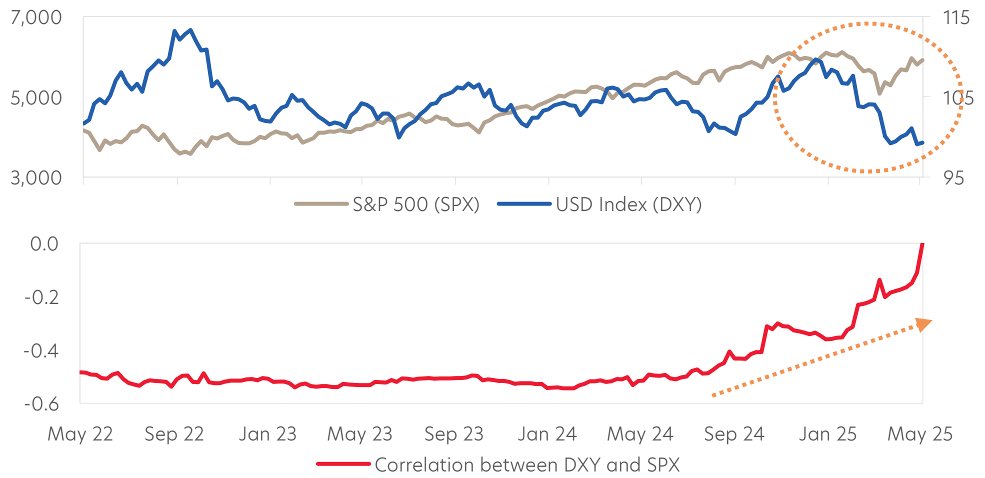
On the surface, President Trump's strategy of higher trade tariffs against US trading partners would require a weaker USD to encourage the return of manufacturing back to the US. And China's on-going efforts to reduce its holdings of US Treasuries and increase the use of Renminbi for trade payment does imply weaker demand for the USD as well.

A back of the envelope estimates suggest that there could be as much as USD 2 tn worth of trade proceeds amongst Asian exporters that will need to be repatriated back into local currencies.

More importantly, what is clear is that global corporates have been caught long USD as they held onto their export proceeds for far too long. Global investors were also "trained" to maintain adequate USD liquidity after the painful short squeeze in the USD during Covid pandemic. As such, now that the trade tariffs have yet to result in a meaningfully stronger USD and the USD has weakened instead, there is now a rush for the door against the USD. A back of the envelope estimates suggest that there could be as much as USD 2 tn worth of trade proceeds amongst Asian exporters that will need to be repatriated back into local currencies.

USD Index no longer benefiting from SPX risk-off moments

Source: Bloomberg, UOB Global Economics & Markets Research



This overhang in USD would explain why the USD is no longer able to benefit from traditional risk-off episodes. Another stark example of this fallout is the change in relationship between the DXY (USD Index) and the SPX (S&P 500 Index). Previously, the DXY typically enjoys a strong inverse correlation with the SPX. Specifically during risk-off sessions whereby the SPX was sold-off, typically the DXY would strengthen on safe haven demand. Lately that inverse relationship has broken down, with the DXY losing its inverse correlation to SPX and unable to benefit from any safe haven inflows on risk-off days. Is this weakness of the DXY another sign that the exceptionalism of the US dollar is now in doubt?

While it is easy to extrapolate this recent weakness of the USD into an expectation of long-term structural decline, it is important to note that the USD still remains the leading central bank asset and the main currency of choice for global trade.

While it is easy to extrapolate this recent weakness of the USD into an expectation of long-term structural decline, it is important to note that the USD still remains the leading central bank asset and the main currency of choice for global trade. According to the IMF, US Treasuries still account for almost 60% of global allocated central bank reserves and according to SWIFT, the USD is still used for about 50% of global payments.

In this latest Quarterly Global Outlook, we update on our macroeconomic outlook for key economies and review our analysis and forecasts for the outlook for the US Dollar and long-term Treasuries yield, together with the accompanying suite of currencies and rates forecasts.

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

FX STRATEGY

Will the USD crisis of confidence persist in 2H25?

Major FX Strategy - Monetary policy starts to matter again as tariff escalation risks abate

As tariff-related risks abate, monetary policy considerations may return to the forefront again. We reiterate the view of 3 x 25 bps Fed rate cuts in the second half of the year, in the Sep, Oct and Dec FOMC meetings. Our expectations of the Fed resuming its easing cycle after a nine-month pause—while other G10 central banks are gradually concluding theirs—could once again narrow the USD's interest rate differentials, exerting downward pressure on the USD. To be sure, both monetary policy considerations and reallocation away from US assets are negative-USD factors, though the latter will likely cede dominance to the former, possibly reducing the pace of USD declines going forth. We also noted that net-short USD futures positioning within the G-10 space may have peaked in the short-term. Overall, we maintain a downward trajectory in the DXY, with updated implied forecasts of 98.4 by end-2025 and 96.5 by end-2Q26. In short, we see EUR/USD, GBP/USD and AUD/USD rising to 1.17, 1.40 and 0.67 respectively by 2Q26. As for USD/JPY it is expected to drop to 138 by 2Q26 as well.

We continue to project most USD/Asia currency pairs to trend higher through 3Q25, before reversing lower from 4Q25 onward as gradual Asia FX strength takes hold heading into first half of 2026.

Asia FX Strategy - Staying cautious as tariff truce deadline looms in 3Q25

Over the past quarter, Asia FX continued to make strong gains amidst the weaker USD backdrop and as the DXY fell back below 100 yet again. Worth reiterating are some key risks that may temper with the nascent Asia FX rally. They include uncertainties of the tariff direction going forth, sustainability of the de-dollarization trend, weak economic outlook for Asia economies and limits as to how much further some Asia FX can appreciate from here. Given the aforementioned risks, we maintain a cautious near-term outlook for Asia FX. As such, we continue to project most USD/Asia currency pairs to trend higher through 3Q25, before reversing lower from 4Q25 onward as gradual Asia FX strength takes hold heading into first half of 2026. Overall, we forecast USD/CNY, USD/SGD, USD/MYR, USD/THB, USD/IDR and USD/VND at 7.12, 1.28, 4.20, 32.50, 16,100 and 25,700 respectively by 2Q26.

RATES STRATEGY

Soft SG rates continue to diverge from sticky US rates

Over the near term, investor jitters against deteriorating US debt and fiscal outlook will continue keep longer dated UST yield elevated and continue to drive the on-going steepening of the UST yield curve from last year.

US SOFR and Treasuries - Stay sticky on the upside as Fed keeps to wait-and-see

In the front end, our view remains that the Fed will make 3 x 25 bps cuts this year, but accordingly in line with the Fed's guidance now expect the 3 x 25 bps cuts to be backloaded in the final three FOMCs for the year, namely at Sep, Oct and Dec. Needless to say, we see little change in our 3M compounded SOFR forecast for now and continue to forecast near term consolidation around current levels at 4.20% in 3Q25, before falling below 4% to 3.82% by 4Q25 as the Fed rate cut starts. Thereafter, a further drift lower to 3.64% by 1Q26 and 3.41% by 2Q26. As for US Treasuries (UST), we continue to reiterate that upcoming Fed rate cuts across 4Q25 will likely provide a breather against rising UST yields. However, over the near term, investor jitters against deteriorating US debt and fiscal outlook will continue keep longer dated UST yield elevated and continue to drive the on-going steepening of the UST yield curve from last year. Overall, our updated forecast calls for 10Y UST yield to stay sticky at 4.40% in 3Q25, before easing to 4.30% in 4Q25 and drifting further back down to 4.20% by 1Q26 and 4.10% by 2Q26.

SG SORA and SGS - Limit to how much lower local SG yield can drop

It has been a remarkable year so far in terms of SGD strength as well as the further drop in both short-dated SORA and longer dated SGS yields. By now it is apparent to all why local SG yield is lower. The combination of S$NEER strength, coupled with the strong safe haven attributes for Singapore which was magnified by the elevated global trade uncertainties following Liberation Day pushed local SG yield lower. Overall, we reiterate our view that there is limited scope for further accelerated downside in SG yield. Our updated forecast for 3M compounded SORA is 2.24% in 3Q25, 2.16% in 4Q25 and thereafter 2.10% in 1Q26 and 2.03% in 2Q26. Our updated forecast for 10Y SGS is 2.40% in 3Q25, 2.35% in 4Q25, 2.30% in 1Q26 and 2.25 in 2Q26.

COMMODITIES STRATEGY

On-going global trade tariff uncertainty continues to favor Gold over LME Copper and Brent

Gold - Further USD weakness and strong China demand are key long-term positives

After brief consolidation in early May, gold resumed its strong rally with all key medium to long term positive drivers remaining intact. These positive drivers include a weaker USD, on-going strong appetite for gold from China and firm net long positioning in gold in the futures market. All the above reinforce the on-going strong safe haven demand, consistent strong central bank allocation and reaffirm our positive long-term outlook for gold. We reiterate our positive forecast of USD 3,400 / oz for 3Q25, USD 3,500 / oz for 4Q25. For 2026, we see further strength to USD 3,600 / oz for 1Q26 and USD 3,700 / oz for 2Q26

Given the uncertain global trade outlook as well as threat of further OPEC+ resumption of production, we maintain our cautious outlook for Brent crude oil.

Brent Crude Oil - Accelerated pace of supply resumption from OPEC+ a major negative

At the latest meeting 31st May, OPEC+ decided to make yet another outsized production hike of 411k bpd for Jul. This latest production hike has been rumored for some time and is now the third running hike of 411k bpd. Following previous production hikes scheduled for Apr, May, Jun and now Jul, the total production volume returned is now about 1.4 mio bpd, or just about under 2/3 of the previous total production cuts of about 2.2 mio bpd from 2022. It is clear that both Saudi Arabia and OPEC+ are now prioritizing market share compared to previous strategy of keep oil prices stable. Given the uncertain global trade outlook as well as threat of further OPEC+ resumption of production, we maintain our cautious outlook for Brent crude oil. Our updated forecast is USD 65 / bbl for 3Q and USD 60 / bbl for 4Q25, followed by USD 55 / bbl for both 1Q and 2Q26.

LME Copper: Strong COMEX stockpiling amidst tariff uncertainty is unsustainable

The strong influx of copper inventory into COMEX from Q1 continues unabated across Q2 leading to a further rise in Copper stock. This is mainly motivated by on-going uncertainties that President Trump may well impose trade tariffs as well on Copper imports into the US. Consequently, COMEX copper continued to maintain its price premium over LME Copper. Strictly speaking, after accounting for shipping costs, there should be little to no arbitrage between COMEX and LME Copper price. But this was not the case since the start of the year amidst such elevated trade tariff uncertainty. Overall, we remain concerned that this short-term tightness in the copper market, particularly the inventory build-up on COMEX is unsustainable. As such, we maintain our modest negative outlook for LME Copper. Our updated forecasts are USD 9,500 / MT for 3Q25, USD 9,000 / MT for 4Q25 and thereafter USD 8,500 / MT for 1Q and 2Q26.

Global FX

USD/JPY: We still expect monetary policy divergence between Fed (easing bias) and BOJ (tightening bias) to keep USD/JPY biased to the downside. That said, a one-quarter delayed BOJ rate hikes to Sep 2025 and 1Q 2026 is likely to translate to more measured JPY strength going forth. Our updated USD/JPY forecasts are at 144 in 3Q25, 142 in 4Q25, 140 in 1Q26 and 138 in 2Q26.

EUR/USD: If the de-dollarization theme fades alongside tariff risks, the euphoria over the EUR may cool somewhat. While an expected recovery of the EUR-USD rate differentials may keep the EUR/USD uptrend intact, its pace is likely to moderate. Overall, our updated forecasts EUR/USD are 1.14 in 3Q25, 1.15 in 4Q25, 1.16 in 1Q26 and 1.17 in 2Q26, positioning the EUR as one of top-performing Major FX this year.

GBP/USD: The preliminary trade deal between UK and US may constitute a tailwind for GBP/USD as it reduces tariff-induced downside risks for the GBP. On the flip side, there is a risk the euphoria on GBP in the options market – similar to that of the EUR – may recalibrate if the de-dollarization theme loses steam. Overall, we keep to our bullish outlook in GBP/USD with updated forecasts at 1.35 in 3Q25, 1.37 in 4Q25, 1.39 in 1Q26 and 1.40 in 2Q26.

AUD/USD: Overall, we reiterate our cautiously positive view on AUD/USD premised on broad USD weakness and gradual progress in trade talks, though a global trade slowdown will likely cause AUD to lag its G-10 peers this year. Our updated AUD/USD forecasts are 0.64 in 3Q25, 0.65 in 4Q25, 0.66 in 1Q26 and 0.67 in 2Q26.

NZD/USD: Looking ahead to 3Q25, NZD/USD may enter a phase of consolidation as markets digest developments around global trade tariffs. However, a gradual upward trend is expected to resume in the following quarters. Our updated NZD/USD forecasts are 0.60 in 3Q25, 0.61 in 4Q25 and 0.62 in both 1Q and 2Q26.

Asian FX

USD/CNY: Market expectations of higher end-state US tariffs on China relative to peers pave the way for sustained weakness in the CFETS RMB index and underperformance within the Asia FX space. In the near term, we stay cautious on the CNY and forecast a higher USD/CNY in the coming quarter (3Q25). Overall, our updated USD/CNY forecasts are at 7.26 in 3Q25, 7.22 in 4Q25, 7.18 in 1Q26 and 7.12 in 2Q26.

USD/SGD: We expect the MAS to ease policy further by flattening the slope in Jul, which could prompt the S$NEER to begin normalizing lower. As a result, we anticipate USD/SGD to consolidate near the 1.30 level in the coming quarters, with updated forecasts of 1.30 in 3Q25, 1.29 in both 4Q25 and 1Q26, and 1.28 in 2Q26.

USD/HKD: While the currency move appears excessive, it would not be surprising if USD/HKD lingers near the upper limit a while longer provided domestic liquidity remained flushed. As such, our updated USD/HKD forecasts are 7.84 in 3Q25, 7.82 in 4Q25 and 7.80 in 1Q and 2Q26.

USD/TWD: Going forward, we expect a period of consolidation in USD/TWD as markets assess tariff developments in the coming quarter just as the 90-day reciprocal tariff truce is expected to expire in Jul. After which, USD/TWD may continue to grind lower. Overall, our updated USD/TWD forecasts are at 30.5 in 3Q25, 30.2 in 4Q25, 29.8 in 1Q26 and 29.5 in 2Q26.

USD/KRW: In the coming quarter (3Q25), the KRW may start to consolidate recent gains given tariff uncertainties may start to rise again as the expiration of the 90-day tariff truce looms in Jul. Domestic headwinds include a downbeat growth outlook and a dovish BOK. Overall, our updated USD/KRW forecasts are 1,420 in 3Q25, 1,380 in 4Q25, 1,360 in 1Q26 and 1,340 in 2Q26.

USD/MYR: The MYR's sharp rebound seems overdone, having returned to pre-Trump 2.0 levels of around 4.20/USD. Markets may have prematurely priced out tariff-related risks, despite ongoing trade war uncertainty. We expect some consolidation in the MYR as investors await clearer global tariff signals. Additionally, our forecast of two 25 bps BNM OPR cuts in 2H25 could further weigh on the currency. Overall, our updated USD/MYR forecasts are 4.32 in 3Q25, 4.27 in 4Q25, 4.24 in 1Q26 and 4.20 in 2Q26.

USD/IDR: Our projection of a 25 bps rate cut by BI in 3Q25, coupled with lingering investor caution over Indonesia's final tariff rate (relative to the initial reciprocal rate of 32%), could weigh on the IDR in the upcoming quarter. Overall, our updated USD/IDR forecasts are 16,700 in 3Q25, 16,500 in 4Q25, 16,300 in 1Q26 and 16,100 in 2Q26.

USD/THB: We think the THB is still facing some idiosyncrasies which may weigh on its current strength. These include a potential reset to a higher US tariff rate after the 90-day truce period from the current 10% universal rate, persistent outflows from the local stock market and our expectations of an additional 50 bps BOT rate cuts in 2H25. As such, we expect the THB to pare some of its recent gains in the coming 3Q25 before recovering starting 4Q25. Overall, our updated USD/THB forecasts are 33.4 in 3Q25, 33.0 in 4Q25, 32.7 in 1Q26 and 32.5 in 2Q26.

USD/PHP: Going forward, sentiment on the Philippine markets is also expected to improve as investors look past the mid-term election results and anticipate policy continuity and financial stability. In the near term, the PHP may consolidate recent gains as the expiration of the 90-day tariff pause looms in Jul. Our updated forecasts for USD/PHP are at 56.5 in 3Q25, 55.8 in 4Q25, 55.3 in 1Q26, and 55.0 in 2Q26.

USD/VND: We anticipate the currency will remain near the weaker end of its trading band against the USD through 3Q25. However, starting in 4Q25, the VND may begin to align with the broader recovery trend in Asian currencies as trade-related uncertainties begin to ease. Overall, our updated USD/VND forecasts are 26,300 in 3Q25, 26,100 in 4Q25, 25,900 in 1Q26 and 25,700 in 2Q26.

USD/INR: Looking forward, the INR is likely to stay defensive, at least in the coming quarter, as markets evaluate the possibility of a US-India trade deal. After which, USD/INR may resume its downward trajectory as the Fed resumes its rate-cut cycle, putting renewed pressure on the USD. Our updated USD/INR forecasts are at 86.5 in 3Q25, 85.5 in 4Q25, 85.0 in 1Q26, and 84.5 in 2Q26.

FORECAST

Real GDP growth trajectory

y/y% change	2024	2025F	2026F	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25F	3Q25F	4Q25F
China	5.0	4.6	4.2	5.3	4.7	4.6	5.4	5.4	4.9	4.2	4.2
Hong Kong	2.5	2.3	1.9	2.8	3.0	1.9	2.5	3.1	2.8	2.2	1.1
India (FY)	9.2	6.5	6.6	9.7	9.3	9.5	8.4	6.5	5.6	6.4	7.4
Indonesia	5.0	4.9	5.2	5.1	5.1	5.0	5.0	4.9	5.0	5.0	4.8
Japan	0.2	1.0	1.5	-0.7	-0.6	0.8	1.3	1.6	0.6	0.8	0.8
Malaysia	5.1	4.0	4.8	4.2	5.9	5.4	4.9	4.4	3.8	3.9	4.0
Philippines	5.7	5.0	5.5	5.9	6.5	5.2	5.3	5.4	5.2	4.9	4.6
Singapore	4.4	1.7	1.4	3.2	3.4	5.7	5.0	3.9	3.5	0.3	-0.6
South Korea	2.0	1.0	1.7	3.3	2.3	1.5	1.2	-0.1	0.8	1.5	1.9
Taiwan	4.8	3.5	2.5	6.6	4.9	4.2	3.8	5.5	5.1	1.9	1.4
Thailand	2.5	2.0	2.6	1.7	2.3	3.0	3.3	3.1	2.5	1.4	1.1
Vietnam	7.1	6.0	6.3	6.0	7.2	7.4	7.6	6.9	6.1	5.8	5.3
Australia	1.1	1.8	2.2	1.1	1.0	0.8	1.3	1.6	1.8	2.0	1.9
Eurozone	0.7	0.5	1.0	0.4	0.5	1.0	1.2	1.2	0.6	0.2	0.3
New Zealand	-0.5	1.0	2.4	1.3	-0.5	-1.6	-1.1	-1.0	0.5	2.3	2.2
United Kingdom	1.1	0.8	0.9	0.3	1.1	1.2	1.5	1.3	0.6	0.6	0.7
United States (q/q SAAR)	2.8	1.0	1.5	1.6	3.0	3.1	2.4	-0.2	-1.1	1.0	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	04 Jun	3Q25F	4Q25F	1Q26F	2Q26F
USD/JPY	144	144	142	140	138
EUR/USD	1.14	1.14	1.15	1.16	1.17
GBP/USD	1.35	1.35	1.37	1.39	1.40
AUD/USD	0.65	0.64	0.65	0.66	0.67
NZD/USD	0.60	0.60	0.61	0.62	0.62
DXY	99.1	99.4	98.4	97.4	96.5
USD/CNY	7.19	7.26	7.22	7.18	7.12
USD/HKD	7.85	7.84	7.82	7.80	7.80
USD/TWD	30.0	30.5	30.2	29.8	29.5
USD/KRW	1,376	1,420	1,380	1,360	1,340
USD/PHP	55.7	56.5	55.8	55.3	55.0
USD/MYR	4.25	4.32	4.27	4.24	4.20
USD/IDR	16,290	16,700	16,500	16,300	16,100
USD/THB	32.7	33.4	33.0	32.7	32.5
USD/VND	26,057	26,300	26,100	25,900	25,700
USD/INR	85.6	86.5	85.5	85.0	84.5
USD/SGD	1.29	1.30	1.29	1.29	1.28
EUR/SGD	1.47	1.48	1.48	1.50	1.50
GBP/SGD	1.74	1.76	1.77	1.79	1.79
AUD/SGD	0.83	0.83	0.84	0.85	0.86
SGD/MYR	3.30	3.32	3.31	3.29	3.28
SGD/CNY	5.58	5.58	5.60	5.57	5.56
JPY/SGDx100	0.90	0.90	0.91	0.92	0.93

POLICY RATES	04 Jun	3Q25F	4Q25F	1Q26F	2Q26F
US Fed Fund Rate	4.50	4.25	3.75	3.75	3.50
JPY Policy Rate	0.50	0.75	0.75	1.00	1.00
EUR Refinancing Rate	2.40	1.90	1.65	1.65	1.65
GBP Repo Rate	4.25	4.00	3.75	3.50	3.25
AUD Official Cash Rate	3.85	3.60	3.35	3.10	2.85
NZD Official Cash Rate	3.25	3.00	3.00	3.00	3.00
CNY 1Y Loan Prime Rate	3.00	3.00	2.90	2.90	2.90
HKD Base Rate	4.75	4.50	4.00	4.00	3.75
TWD Official Discount Rate	2.00	2.00	2.00	2.00	2.00
KRW Base Rate	2.50	2.50	2.25	2.00	2.00
PHP O/N Reverse Repo	5.50	5.00	4.75	4.75	4.75
MYR O/N Policy Rate	3.00	2.75	2.50	2.50	2.50
IDR 7D Reverse Repo	5.50	5.25	5.25	5.25	5.00
THB 1D Repo	1.75	1.75	1.25	1.00	1.00
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	6.00	5.50	5.50	5.50	5.50

INTEREST RATES	04 Jun	3Q25F	4Q25F	1Q26F	2Q26F
USD 3M SOFR (compounded)	4.35	4.20	3.82	3.64	3.41
SGD 3M SORA (compounded)	2.27	2.24	2.16	2.10	2.03
US 10Y Treasuries Yield	4.44	4.40	4.30	4.20	4.10
SGD 10Y SGS	2.35	2.40	2.35	2.30	2.25

COMMODITIES	04 Jun	3Q25F	4Q25F	1Q26F	2Q26F
Gold (USD/oz)	3,358	3,400	3,500	3,600	3,700
Brent Crude Oil (USD/bbl)	66	65	60	55	55
LME Copper (USD/mt)	9,634	9,500	9,000	8,500	8,500

Source: UOB Global Economics & Markets Research Estimates

KEY EVENTS
3Q 2025

JULY

Early July
Thailand

The cabinet will approve the new BOT governor, who will assume office on 1 Oct, following the end of incumbent Governor Sethaput Suthiwartnarueput's five-year term in Sep.

03
Malaysia

The 13th Malaysia Plan (13MP), which serves as Malaysia's socioeconomic development plan for the period 2026 to 2030 and is formulated based on the Madani Economy goals, will be tabled in Parliament.

09
Global

The 90-day pause for US' Liberation Day reciprocal tariffs imposed against various economies will expire on 9 Jul. UK has concluded a trade deal with the US in May and we expect more trade deals to be announced in the weeks leading up to 9 Jul. It remains to be seen whether Trump will grant a further extension to the pause.

No later than 22 July
Japan

The 27th general election of the House of Councillors (Upper House of the National Diet) to be held by 22 Jul to elect 124 of the 248 members, for a term of six years. The Oct 2024 snap elections saw the ruling LDP lose its majority for the first time since 2009. Ruling coalition (LDP-Komeito) is likely to suffer another "major defeat" in July if opposition parties unite their candidates.

28 & 30
US

US Treasury Quarterly Refunding – the announcement will be on 28 Jul with the details out on 30 Jul.

July
Malaysia

The Ministry of Investment, Trade and Industry of Malaysia (MITI) will unveil new incentives to boost the country's semiconductor industry.

AUGUST

09
Singapore

Singapore will commemorate her 60th year of independence on 9 Aug. The subsequent National Day Rally (NDR) speech could feature enhancements to help businesses fortify resilience amidst heightened uncertainty and tariff risks. The recent GE2025 electoral outcome reflects a strong mandate for the ruling People's Action Party (PAP) and this likely implies policy continuity along the contours of the Forward Singapore report as well as support measures unveiled in Budget 2025 and earlier budgets.

13
US & China

The 90-day pause of the reciprocal tariffs between US and China will expire with an interim agreement or extension expected by then.

August
China

The annual Beidaihe meeting or "summer summit" will likely take place in early Aug for around a week. The focus will be on China's priorities as it sets its 15th five-year plan (FYP) – from 2026 to 2030, and boosting its economic resilience amid the trade war.

August-September
South Korea

The finalized 2026 Budget proposal will be submitted to the National Assembly by 2 Sep.

SEPTEMBER

09-23
Global

The 80th UN General Assembly (UNGA 80) – where heads of state and other world leaders will gather in US – the event will open on 9 Sep while the high-level General Debate will take place on 23 Sep.

September
Hong Kong

Belt and Road Summit 2025 to be held in Hong Kong aims to gather senior government officials and business leaders from countries and regions along and beyond the Belt and Road for promoting business collaboration.

3Q/4Q
China

The draft proposal of the 15th FYP will likely be endorsed at the Communist Party's annual Central Committee 4th plenum. The FYP will be unveiled at the annual National People's Congress (NPC) in Mar 2026.

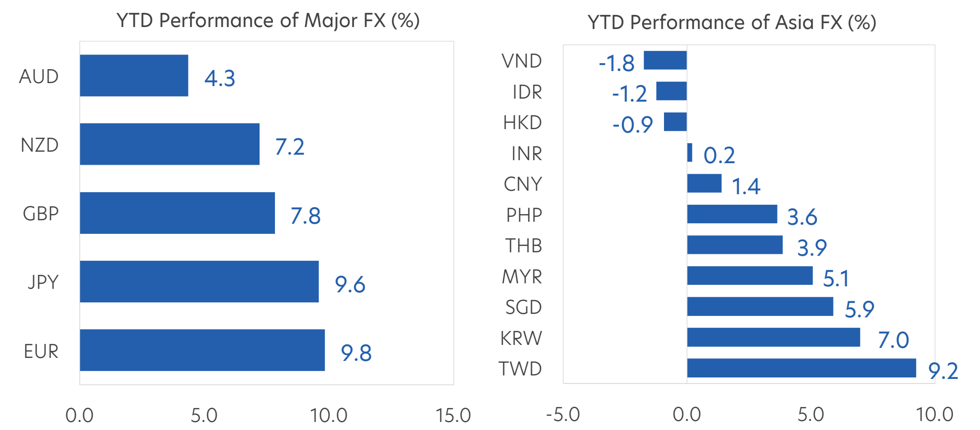
FX STRATEGY
Will the USD crisis of confidence persist in 2H25?

Following the recent US sovereign rating downgrade and expectation that Trump's tax bill will balloon US debt load further, investors start to question the dominant role of USD as the world's reserve currency. Will the USD crisis of confidence extend into the second half of the year and how low can DXY reach by the end of 2025?

The USD selloff intensified in 2Q25 as President Trump's erratic trade policies triggered a reallocation away from USD-denominated assets. The US Dollar Index (DXY) clocked its worst month (Apr: -4.6%) since Nov 2022 and slumped to a 3-year low of just under 98. While the global trade war appeared to have simmered after entering the 90-day truce period, rising US fiscal risks spurred a selloff in long-end US Treasuries, further weakening the USD. Following the recent US sovereign rating downgrade and expectation that Trump's tax bill will balloon US debt load further, investors start to question the dominant role of USD as the world's reserve currency. Will the USD crisis of confidence extend into the second half of the year and how low can DXY reach by the end of 2025?

Chart 1: Most Major and Asia FX rose strongly against the USD year-to-date

Source: Bloomberg, UOB Global Economics & Markets Research



Given some Asia FX already strengthened to pre-Trump 2.0 levels against the USD, it appears that markets are underpricing the risks that reciprocal tariffs against Asian economies may be reinstated back to its original levels from the current 10%.

In our last FX & Rates monthly published 9 May, we opined that while the worst for Asia FX may have passed, there are some key risks that may temper with the nascent Asia FX rally. They include uncertainties of the tariff direction going forth, sustainability of the de-dollarization trend, weak economic outlook for Asia economies and limits as to how much further some Asia FX can appreciate from here. These considerations remain valid one month on, especially when the 90-day reciprocal tariff pause is set to expire on 9 Jul. Given some Asia FX already strengthened to pre-Trump 2.0 levels against the USD, it appears that markets are underpricing the risks that reciprocal tariffs against Asian economies may be reinstated back to its original levels from the current 10%. Overall, we keep to our near-term cautious outlook in Asia FX and update our USD/Asia forecasts accordingly in this report.

There is a strong likelihood that the global trade war will begin to ease in the second half of 2025. As a result, the shift away from US assets may decelerate, reducing a major source of downward pressure on the USD.

Major FX Strategy

Monetary policy starts to matter again as tariff escalation risks abate

To the extent that Trump's on-again, off-again tariff threats triggered a reallocation away from US assets in the 2Q25, a subsequent tariff de-escalation may just temper with the flow away from US assets. The third quarter marks an important period whereby the 90-day tariff pause on US' trading partners and China will expire on 9 Jul and 13 Aug respectively. While the ex-post scenarios – either to reset to Liberation Day tariff levels, or impose a prescribed tariff rate, or extend the deadline - remain highly uncertain, the barriers to Trump escalating back to the Apr's prohibitive tariff rates are likely to be high. Furthermore, the Trump administration is now facing a legal challenge to constrain its tariffs. There is a strong likelihood that the global trade war will begin to ease in the second half of 2025. As a result, the shift away from US assets may decelerate, reducing a major source of downward pressure on the USD.

As tariff-related risks abate, monetary policy considerations may return to the forefront again. We reiterate the view of 3 x 25 bps Fed rate cuts in the second half of the year, in the Sep, Oct and Dec FOMC meetings. Our expectations of the Fed resuming its easing cycle after a nine-month pause—while other G10 central banks are gradually concluding theirs—could once again narrow the USD's interest rate differentials, exerting downward pressure on the USD.

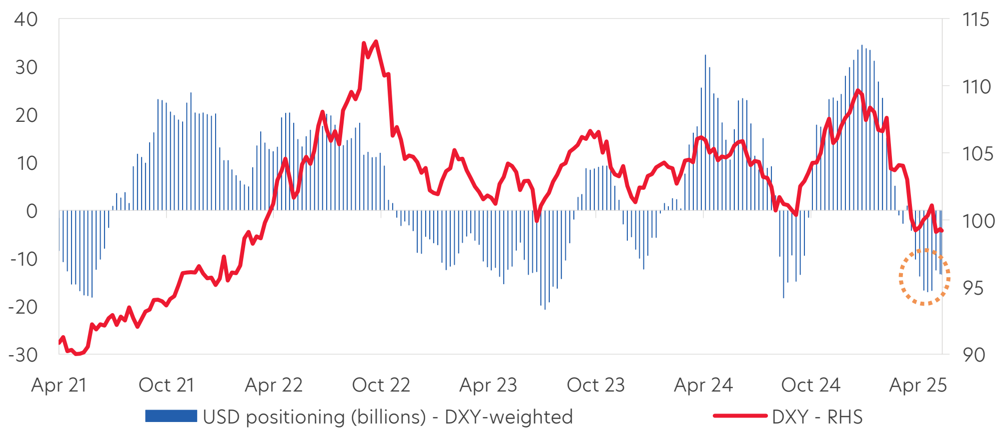
Chart 2: DXY is likely to trade below 100 in the coming quarters

Source: Macrobond, UOB Global Economics & Markets Research

To be sure, both monetary policy considerations and reallocation away from US assets are negative-USD factors, though the latter will likely cede dominance to the former, possibly reducing the pace of USD declines going forth. We also noted that net-short USD futures positioning within the G-10 space may have peaked in the short-term. Overall, we maintain a downward trajectory in the DXY, with updated implied forecasts of 98.4 by end-2025 and 96.5 by end-2Q26.

Chart 3: Net-short USD positioning may have peaked in the short-term

Source: Bloomberg, UOB Global Economics & Markets Research



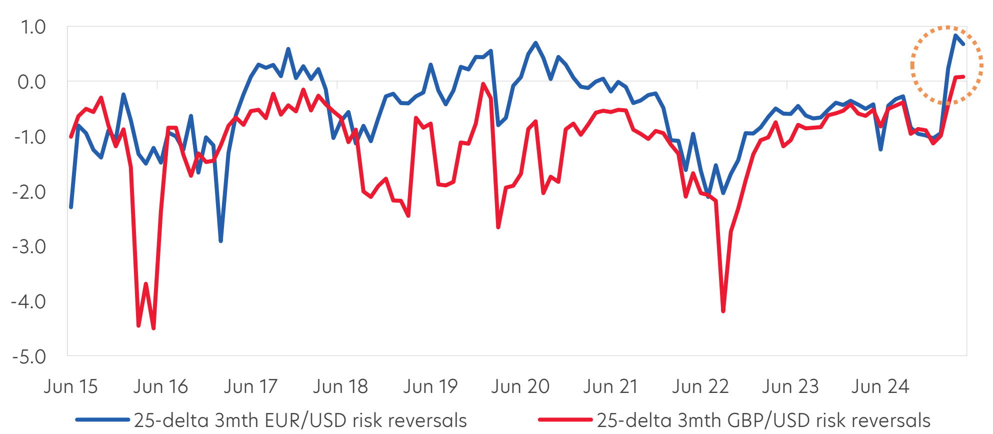
While an expected recovery of the EUR-USD rate differentials may keep the EUR/USD uptrend intact, its pace is likely to moderate.

EUR was the direct beneficiary when de-dollarization speculation talks gained traction in the last couple of months and touched a high of 1.1573 in Apr, the highest since Nov 2021. The euphoria over the EUR was also captured by the option markets which priced the highest premium of EUR/USD calls relative to puts since the height of the pandemic in Mar 2020. For the same reason, if the de-dollarization theme fades alongside tariff risks, the euphoria over the EUR may cool somewhat. While an expected recovery of the EUR-USD rate differentials may keep the EUR/USD uptrend intact, its pace is likely to moderate. Overall, our updated forecasts EUR/USD are 1.14 in 3Q25, 1.15 in 4Q25, 1.16 in 1Q26 and 1.17 in 2Q26, positioning the EUR as one of top-performing Major FX this year.

GBP/USD jumped to almost 1.36, the highest in over three years on broad USD weakness and hotter than expected UK inflation which prompted traders to pare bets on rate cuts from the Bank of England (BOE). The inflation spike will likely keep the BOE cautious in future rate-cut deliberations, keeping to quarterly cadence of 25 bps deductions till end-2025. The net effect is positive on GBP/USD given that we expect 3 x 25 bps Fed rate cuts by end-2025. The preliminary trade deal between UK and US may constitute a tailwind for GBP/USD as it reduces tariff-induced downside risks for the GBP. On the flip side, there is a risk the euphoria on GBP in the options market – similar to that of the EUR – may recalibrate if the de-dollarization theme loses steam. Overall, we keep to our bullish outlook in GBP/USD with updated forecasts at 1.35 in 3Q25, 1.37 in 4Q25, 1.39 in 1Q26 and 1.40 in 2Q26.

Chart 4: Risk reversals may start to normalize lower if de-dollarization loses steam

Source: Bloomberg, UOB Global Economics & Markets Research



We still expect monetary policy divergence between Fed (easing bias) and Bank of Japan (BOJ, tightening bias) to keep USD/JPY biased to the downside.

USD/JPY has traded down to 145 as of 29 May from about 150 at the start of the 2Q25, tracing lower USD-JPY rate differentials. While 10-year US Treasuries yield has risen to 4.5% to reflect increased US fiscal worries, the 10-year Japan Government Bond (JGB) also rebounded strongly from Liberation Day's lows near 1.1% to 1.5% (as of late May) after a series of poor investor demand at longer-dated JGB auctions. We still expect monetary policy divergence between Fed (easing bias) and Bank of Japan (BOJ, tightening bias) to keep USD/JPY biased to the downside. That said, a one-quarter delayed BOJ rate hikes to Sep 2025 and 1Q 2026 is likely to translate to more measured JPY strength going forth. Our updated USD/JPY forecasts are at 144 in 3Q25, 142 in 4Q25, 140 in 1Q26 and 138 in 2Q26.

After staging a v-shaped recovery in response to the 90-day Liberation Day tariffs pause, AUD/USD has largely consolidated between 0.6350 and 0.6500 since mid-Apr. The US-China deal in May to reduce tariffs for 90 days also failed to inspire an upside breakout in AUD/USD even amidst broad USD weakness. This reflected investors' caution about further progress in US-China trade negotiations. A dovish Reserve Bank of Australia (RBA) rate cut weighed on the AUD as well as the central bank's consideration for a larger half-point reduction. Overall, we reiterate our cautiously positive view on AUD/USD premised on broad USD weakness and gradual progress in trade talks, though a global trade slowdown will likely cause AUD to lag its G-10 peers this year. Our updated AUD/USD forecasts are 0.64 in 3Q25, 0.65 in 4Q25, 0.66 in 1Q26 and 0.67 in 2Q26.

Worth reiterating are some key risks that may temper with the nascent Asia FX rally. They include uncertainties of the tariff direction going forth, sustainability of the de-dollarization trend, weak economic outlook for Asia economies and limits as to how much further some Asia FX can appreciate from here.

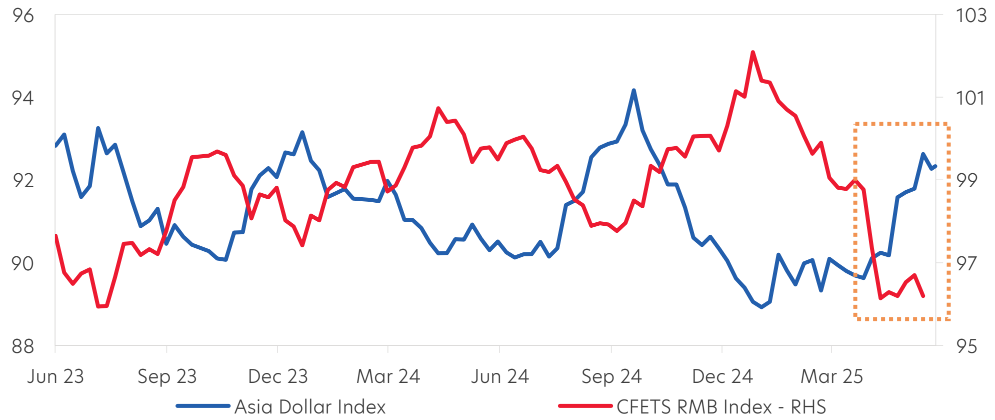
Asia FX Strategy

Staying cautious as tariff truce deadline looms in 3Q25

Since our last monthly update on 9 May, most Asia FX continued to make modest gains against the USD amidst broad USD weakness, with the DXY breaking back below the key 100 level. Worth reiterating are some key risks that may temper with the nascent Asia FX rally. They include uncertainties of the tariff direction going forth, sustainability of the de-dollarization trend, weak economic outlook for Asia economies and limits as to how much further some Asia FX can appreciate from here.

Chart 5: Asia FX rebound in 2Q25 was not accompanied by the CFETS RMB index

Source: Bloomberg, UOB Global Economics & Markets Research



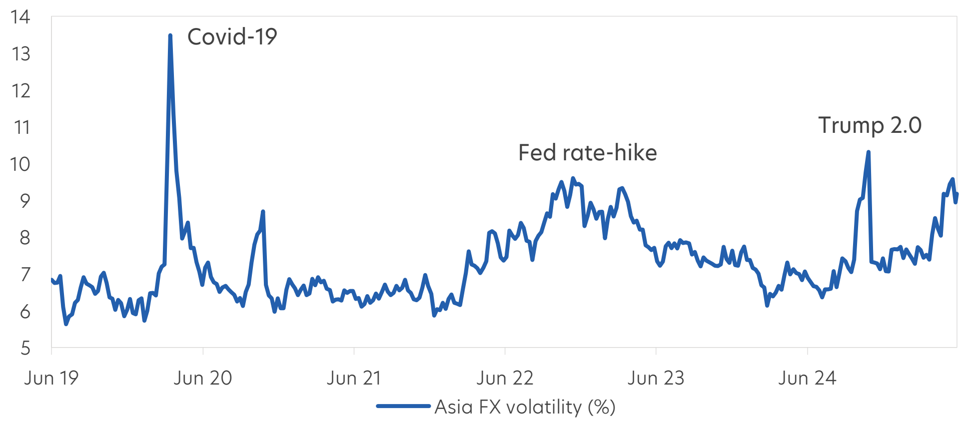
A more convincing rebound in the RMB may be necessary before we can be more confident that the current strength in Asia FX has further momentum.

Despite the generally upbeat sentiment, there are a few noteworthy market observations. Firstly, implied volatility in Asia FX remains elevated, indicating the potential for significant two-way currency swings ahead. Historically, such periods of heightened FX volatility have often preceded phases of weakness in Asia FX. Secondly, the recent appreciation in Asian currencies is not being mirrored by the CFETS RMB Index, which remains near its lowest point in nearly two years. A more convincing rebound in the RMB may be necessary before we can be more confident that the current strength in Asia FX has further momentum.

Given the aforementioned risks and market observations, we maintain a cautious near-term outlook for Asia FX. We continue to project most USD/Asia currency pairs to trend higher through 3Q25, before reversing lower from 4Q25 onward.

Chart 6: Elevated Asia FX volatility may lean against the current bout of Asia FX strength

Source: Bloomberg, UOB Global Economics & Markets Research



USD/CNY has normalized back to the daily fixing rate from its +2% upper limit (from fixing) in early Apr when trade tensions erupted. From here, uncertainties about reaching a trade deal before the tariff truce expires on 13 Aug, the ongoing domestic growth slowdown and People's Bank of China's (PBOC) "moderately loose" policy stance are likely to tether the CNY on the weak end of the daily fixing.

In 2Q25, USD/CNY pulled back from its psychological 7.35 level to as low as 7.17, a level last seen in Nov 2024. At current levels of about 7.20 (as of 30 May), markets have unwound a large part of the Trump 2.0 tariff risk premium. USD/CNY has normalized back to the daily fixing rate from its +2% upper limit (from fixing) in early Apr when trade tensions erupted. From here, uncertainties about reaching a trade deal before the tariff truce expires on 13 Aug, the ongoing domestic growth slowdown and People's Bank of China's (PBOC) "moderately loose" policy stance are likely to tether the CNY on the weak end of the daily fixing. Market expectations of higher end-state US tariffs on China relative to peers pave the way for sustained weakness in the CFETS RMB index and underperformance within the Asia FX space. In the near term, we stay cautious on the CNY and forecast a higher USD/CNY in the coming quarter (3Q25). Overall, our updated USD/CNY forecasts are at 7.26 in 3Q25, 7.22 in 4Q25, 7.18 in 1Q26 and 7.12 in 2Q26.

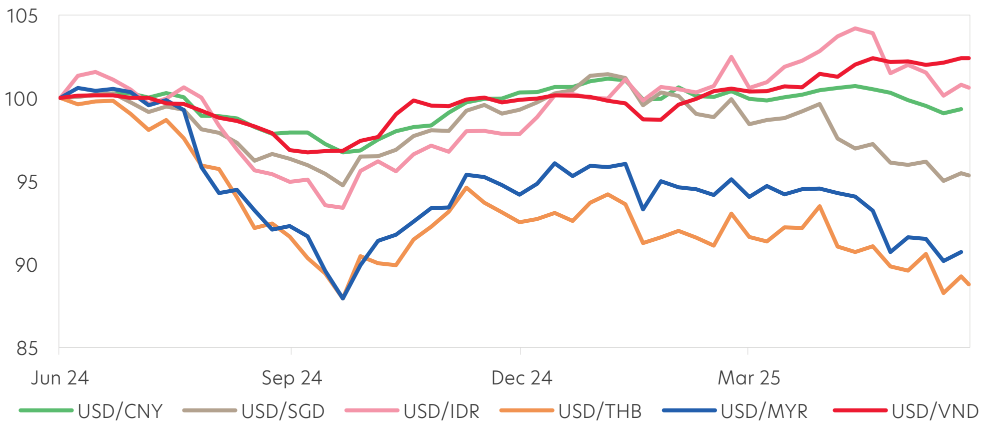
Amidst broad USD weakness and safe haven flows into Singapore, USD/SGD dipped below the psychological 1.30 level and touched an 8-month low of 1.2802 late May. Year-to-date, the SGD has gained close to 6% against the USD, making it the best-performing ASEAN currency. The S$NEER is currently trading about 1.8% above the policy midpoint (as of 30 May), near to its 2.0% limit which limits further appreciation potential both against the USD and other currencies in the S$NEER basket, according to our estimates. We expect the Monetary Authority of Singapore (MAS) to ease policy further by flattening the slope in Jul, which could prompt the S$NEER to begin normalizing lower. As a result, we anticipate USD/SGD to consolidate near the 1.30 level in the coming quarters, with updated forecasts of 1.30 in 3Q25, 1.29 in both 4Q25 and 1Q26, and 1.28 in 2Q26.

We expect some consolidation in the MYR as investors await clearer global tariff signals. Additionally, our forecast of two 25 bps Bank Negara Malaysia (BNM) rate cuts in 2H25 could further weigh on the currency.

Closely linked to the developments in the CNY, the MYR rose over 4% in 2Q-to-date, pacing gains in the region after the US-China trade tensions showed signs of easing off. Flows also underpinned the resilience of the MYR. Foreign investors turned net buyers of Malaysian debt securities (+MYR13.4bn in Mar-Apr) while foreign reserves rose to USD 119.1 bn as at mid-May, up from USD 116.2 bn at the end of 2024. That said, the MYR's sharp rebound seems overdone, having returned to pre-Trump 2.0 levels of around 4.20/USD. Markets may have prematurely priced out tariff-related risks, despite ongoing trade war uncertainty. We expect some consolidation in the MYR as investors await clearer global tariff signals. Additionally, our forecast of two 25 bps Bank Negara Malaysia (BNM) rate cuts in 2H25 could further weigh on the currency. Overall, our updated USD/MYR forecasts are 4.32 in 3Q25, 4.27 in 4Q25, 4.24 in 1Q26 and 4.20 in 2Q26.

Chart 7: THB and MYR led gains within ASEAN this year while VND lagged

Source: Bloomberg, UOB Global Economics & Markets Research



The THB mirrored gains of its Southeast Asian (SEA) peers in the 2Q25 and rebounded to a 7-month high of 32.37 late May as the global trade war showed signs of de-escalation. That said, we think the THB is still facing some idiosyncratic risks which may lean against its current strength. These include a potential reset to higher US tariff rate after the truce period from the current 10% universal rate, persistent outflows from the local stock market and our expectations of an additional 50 bps Bank of Thailand (BOT) rate cuts in 2H25. As such, we expect the THB to par some of its recent gains in the coming 3Q25 before recovering starting 4Q25. Overall, our updated USD/THB forecasts are 33.4 in 3Q25, 33.0 in 4Q25, 32.7 in 1Q26 and 32.5 in 2Q26.

Our projection of a 25-bps rate cut by BI in 3Q25, coupled with lingering investor caution over Indonesia's final tariff rate (relative to the initial reciprocal rate of 32%), could weigh on the IDR in the upcoming quarter.

Supported by a swift recovery in global risk sentiment following the tariff truce and continued intervention by Bank Indonesia (BI), the IDR rebounded from its record low of 17,224/USD in early Apr to 16,320/USD (as of 30 May). Foreign investors also made a return to the local equity markets for the first time since last Sep, recording net purchases of $337 million, which helped support the IDR. Our projection of a 25-bps rate cut by BI in 3Q25, coupled with lingering investor caution over Indonesia's final tariff rate (relative to the initial reciprocal rate of 32%), could weigh on the IDR in the upcoming quarter. Overall, our updated USD/IDR forecasts are 16,700 in 3Q25, 16,500 in 4Q25, 16,300 in 1Q26 and 16,100 in 2Q26.

The VND stands out as an underperformer amid the broader regional FX rebound in 2Q25, depreciating by 1.8% in the quarter-to-date to a new record low of about 26,000 /USD. This weakness is driven by a subdued economic outlook—our 2025 GDP growth forecast is 6.0%, down from 7.09% in 2024—and the looming risk of a return to the steep 46% Liberation Day tariff should the US-Vietnam trade agreement fail to materialize. These factors are expected to keep the VND under pressure in the near term. We anticipate the currency will remain near the weaker end of its trading band against the USD through 3Q25. However, starting in Q4 2025, the VND may begin to align with the broader recovery trend in Asian currencies as trade-related uncertainties begin to ease. Overall, our updated USD/VND forecasts are 26,300 in 3Q25, 26,100 in 4Q25, 25,900 in 1Q26 and 25,700 in 2Q26.

RATES STRATEGY

Soft SG rates continue to diverge from sticky US rates

The overnight SOFR rate was little changed across 2Q25, trading in a tight range around 4.30% as the Federal Reserve (Fed) reiterated its cautious wait-and-see approach.

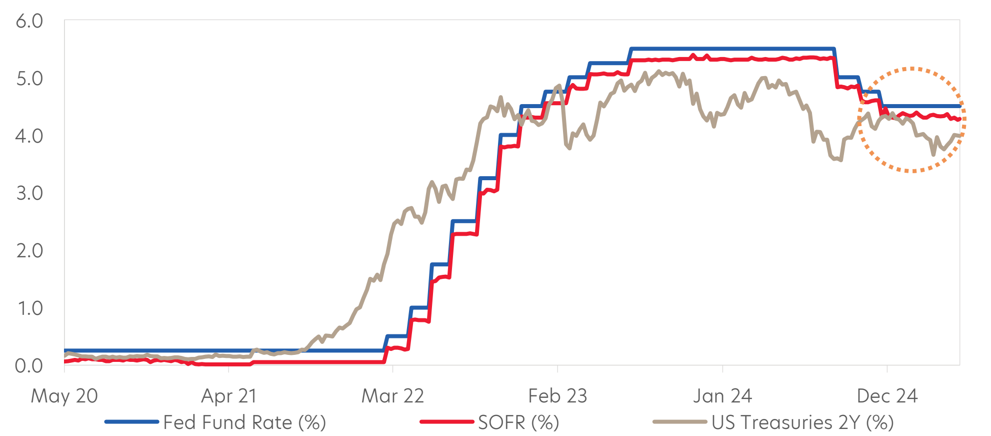
US SOFR and Treasuries: Stay sticky on the upside as Fed keeps to wait-and-see

The overnight SOFR rate was little changed across 2Q25, trading in a tight range around 4.30% as the Federal Reserve (Fed) reiterated its cautious wait-and-see approach. By the end of May, it was increasingly apparent to investors that the Fed is in no hurry to adjust monetary policy. As such, futures-implied expectations of near-term rate cuts were pushed back further towards the end of the year, with cumulative expected rate cuts for the year trimmed down as well.

Our view remains that the Fed will make 3 x 25 bps cuts this year, but to be backloaded in the final three FOMCs for the year, namely at Sep, Oct and Dec. Needless to say, we see little change in our 3M compounded SOFR forecast for now and continue to forecast near term consolidation around current levels at 4.20% in 3Q25, before falling below 4% to 3.82% by 4Q25 as the Fed rate cut starts. Thereafter, a further drift lower to 3.64% by 1Q26 and 3.41% by 2Q26.

Chart 1: US SOFR stuck above 4% as Fed adopts "wait and see" approach

Source: Bloomberg, UOB Global Economics & Markets Research



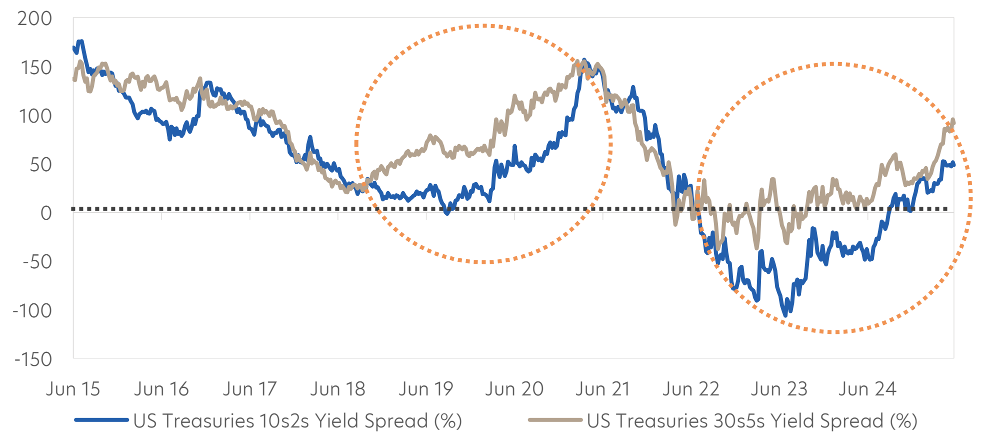
The action across 2Q25 was mostly in the US Treasuries (UST) market, particularly in the longer dates. 2Y UST yield rose from 3.7% to 4.0% while 10Y UST yield jumped from 4.0% to 4.5%. US inflation indicators are still fairly mild with m/m gains in CPI stable at 0.2% and have yet to show the price increases from the incoming trade tariffs on foreign goods imported into the US. However, the UST market appears to be reacting more to the increasing uncertainties and deteriorating dynamics of the US fiscal outlook. Moody's sovereign downgrade of the US coupled with President Trump's push for his latest tax cut bill focused the UST market attention on the increasing debt load for the US. As such, there was a further rise in UST term premium across 2Q25.

Over the near term, investor jitters against deteriorating US debt and fiscal outlook will continue keep longer dated UST yield elevated and continue to drive the on-going steepening of the UST yield curve from last year.

Overall, we continue to reiterate that upcoming Fed rate cuts across 4Q25 will likely provide a breather against rising UST yields. However, over the near term, investor jitters against deteriorating US debt and fiscal outlook will continue keep longer dated UST yield elevated and continue to drive the on-going steepening of the UST yield curve from last year. Overall, our updated forecast calls for 10Y UST yield to stay sticky at 4.40% in 3Q25, before easing to 4.30% in 4Q25 and drifting further back down to 4.20% by 1Q26 and 4.10% by 2Q26.

Chart 2: US Treasuries yield curve steepens as longer dates get pulled higher

Source: Bloomberg, UOB Global Economics & Markets Research

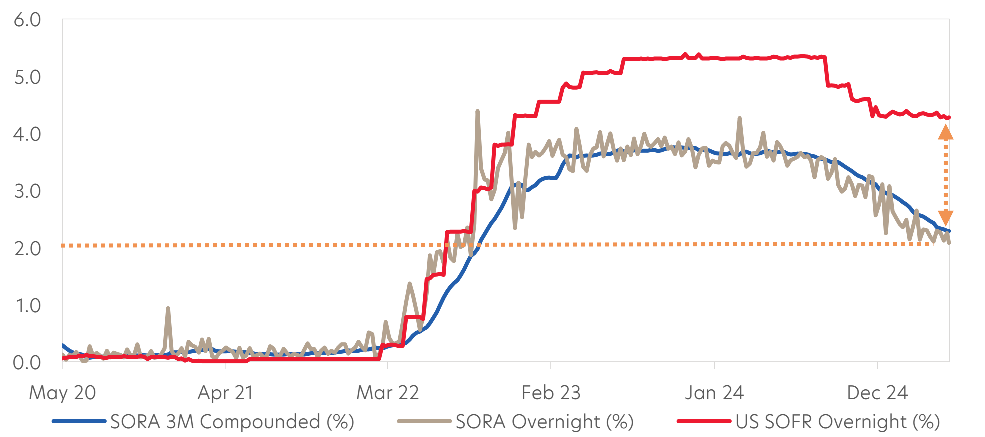


SG SORA and SGS: Limit to how much lower SG yield can drop

It has been a remarkable year so far in terms of SGD strength as well as the further drop in both short-dated SORA and longer dated SGS yields. In particular, across 2Q25, USD/SGD fell back hard from 1.34 to back below 1.30 yet again and appears to be testing the 1.28 floor of last Sep. Amidst the weak USD backdrop, the S$NEER remains elevated and continued to push higher towards the 2% upper limit from the estimated mid-point of the S$NEER trading band. Consequently, overnight SORA continued its drift lower, falling to just above the psychological 2.0% level at the moment of writing. The 10Y SGS yield tracked a similar lower trajectory, falling from 2.7% to 2.4%.

Chart 3: SORA diverges further away from SOFR amidst fall towards 2% floor

Source: Bloomberg, UOB Global Economics & Markets Research



The debate going forward is whether local SG yield will accelerate the drop below the critical 2.0% level. Some investors have started to extrapolate this move below 2.0%, pointing to the "forward looking" SG OIS swaps which have fallen to 1.8% in the 1Y and 2Y tenors.

By now it is apparent to all why local SG yield is lower. The combination of S$NEER strength, coupled with the strong safe haven attributes for Singapore which was magnified by the elevated global trade uncertainties following Liberation Day pushed local SG yield lower. The debate going forward is whether local SG yield will accelerate the drop below the critical 2.0% level. Some investors have started to extrapolate this move below 2.0%, pointing to the "forward looking" SG OIS swaps which have fallen to 1.8% in the 1Y and 2Y tenors.

Chart 4: SGS yield diverges further away UST yield

Source: Bloomberg, UOB Global Economics & Markets Research

While the 2.0% floor may be tested in the remaining months of 2025, we do not think SORA can continue to fall at such an intense pace.

Our view remains that there are limits as to just how much lower local SG yield can drop. While the 2.0% floor may be tested in the remaining months of 2025, we do not think SORA can continue to fall at such an intense pace. There are several objective reasons for this. First, the anticipated Fed rate cuts are now backloaded and "delayed" till late 2025. Second, the yield spread between SG yield and US yield are getting overly extended. Overnight SORA is now trading at a wide 2% discount to overnight SOFR. Similarly, the 10Y SGS is now trading slightly in excess of 2% discount to 10Y UST yield as well. Strictly speaking, there is nothing that will stop this spread from widening further, but at current wide levels, the transmission of lowering US yield to SG yield will be increasingly muted.

Third and most importantly, our MAS view remain that the MAS will further ease monetary policy at the upcoming Jul MPS. Our macroeconomic team expects the MAS to fully flatten the S$NEER as the conditions for further easing are now in place. These include the on-going negative output gap for Singapore's economy as well as the entrenched disinflation trajectory. As a result, with MAS likely to slow down the appreciation of the SGD going forward, this will also limit the drop in SG yield. Finally, there should be no surprise that MAS may well increase near term SGS issuances in an attempt to mop up excessive onshore liquidity from the safe haven inflows.

Overall, we reiterate that there is limited scope for further accelerated downside in SG yield. Our updated forecast for 3M compounded SORA is 2.24 in 3Q25, 2.16 in 4Q25 and thereafter 2.10% in 1Q26 and 2.03% in 2Q26. Our updated forecast for 10Y SGS is 2.40% in 3Q25, 2.35% in 4Q25, 2.30% in 1Q26 and 2.25 in 2Q26.

The rise in long term JGB yield was exacerbated by tight liquidity in the long-end of theJGB market. As such, across 2Q25, 10Y JGB yield rebounded strongly from its 1.1% low back towards the Mar high of just under 1.6%.

DM and Asian Yield: Spike in JGB yield vs collapse in Hibor rates

Outside of the US and SG markets, there was contrasting action across the quarter between JGBs and Hibors. In the JGB market, the rise in long term yield accelerated further following the latest strong monthly print of Japan's inflation figure, with CPI rising at a strong 2Y high of 3.5% y/y fueled by the 6.5% y/y jump in food price inflation. The rise in long term JGB yield was exacerbated by tight liquidity in the long-end of the JGB market. As such, across 2Q25, 10Y JGB yield rebounded strongly from its 1.1% low back towards the Mar high of just under 1.6%.

Going forward, with the Bank of Japan (BOJ) still cautious about making any further near-term hikes to its benchmark rate, there is a limit to further rise in JGB yield. In fact, BOJ governor Kazuo Ueda has repeatedly said that the BOJ is in no hurry to raise rates further as it needs to first access the magnitude and severity of the fallout from the higher trade tariffs from the US. Our view is that the BOJ will only be able to make the next 25 bps hike to 0.75% at the Sep MPM. Thereafter, any further hike to 1.0% is delayed till 1Q26. At the moment of writing, unconfirmed news reports suggest that Japan's Ministry of Finance (MOF) will fine tune the JGB issuance volume for the coming months of the year to shift the volume away from longer dated JGBs into shorter dated JGBs. This will improve the tight liquidity in the long-dated JGBs and appears to be aimed at limiting the quick rise in 10Y JGB yield above the 1.5% level.

Chart 5: JGB yields spike with 30Y yield jumping to 3%

Source: Bloomberg, UOB Global Economics & Markets Research

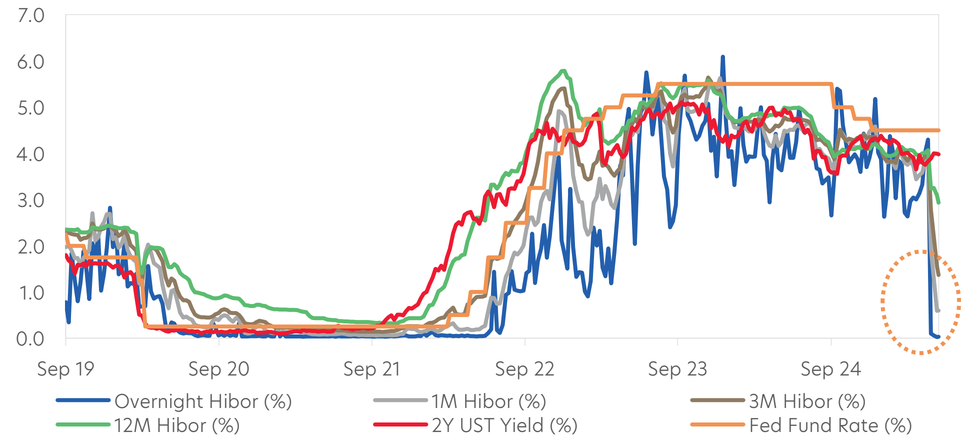
In Hong Kong, Hibor rates instead staged a spectacular collapse. The intervention by HKMA to sell HKD and secure the USD/HKD floor at 7.75 triggered a sudden jump in daily aggregate balance for the local monetary system resulting in a sudden drop in short dated Hibor rates in the money market. Specifically, the overnight Hibor slumped to almost zero, while the 1M Hibor fell to as low as around 50 bps. There was much excitement over this drop in Hibor rate because many local mortgage rates are pegged to short term Hibor. This drop in Hibor rates will be an opportune time to refinance many of the mortgage rates that previously were refinanced around the Covid-19 period lows in rate. However, it would be unrealistic to expect a protracted period of low Hibor rates.

Objectively, given the HKD's peg to the USD, Hibor rates should trade in line with US money market rates. As such, it is interesting to note that longer dated Hibor rates, particularly in the 12M are just modestly lower and still stay above the 3% level.

Objectively, given the HKD's peg to the USD, Hibor rates should trade in line with US money market rates. As such, it is interesting to note that longer dated Hibor rates, particularly in the 12M are just modestly lower and still stay above the 3% level. This is in line with US SOFR which remains firm above 4% as Fed rate cut expectations are now backloaded to the year end. In addition, with USD/HKD now racing back to 7.84, HKMA will likely stop its very successful intervention to weaken the HKD. As such, the rise in daily aggregate balance will likely taper off, easing the pressure on local Hibor rates. Finally, upcoming strong pipeline of local IPOs are also expected to soak up domestic liquidity and help Hibor rates to firm up as well.

Chart 6: Short dated Hibor collapse towards 0% as HKMA intervenes to weaken HKD

Source: Bloomberg, UOB Global Economics & Markets Research



As for the rest of the DM space, we continue to see gradual easing by the (ECB) and the (BOE), dropping their respective benchmark rates to 1.65% and 3.25% respectively by 2Q26. The modus operandi going forward remains that of cautious and targeted cuts of 25 bps. Having started the rate-cut cycle later than RBNZ and the rest of the DM space, the RBA may well need to play catch up. It is interesting to note that with the notable pullback in housing and rental inflation, RBA Governor Michelle Bullock has now dropped hints of a larger 50 bps cut going forward. For now, we see RBA easing to 2.85% by 2Q26. The BOJ as mentioned above is likely to make a further 25 bps hike to 0.75% at the Sep MPM with a final hike to 1.0% delayed till 1Q26.

The weaker USD backdrop accords more flexibility to Asian central banks to ease monetary policy to cushion the growth slowdown without having to worry about the risk of triggering domestic currency weakness.

Across Asia, gradual easing by regional central banks remains the path of least resistance and is in line with efforts to support the local economy given the elevated tariff risk. The weaker USD backdrop accords more flexibility to Asian central banks to ease monetary policy to cushion the growth slowdown without having to worry about the risk of triggering domestic currency weakness. The PBOC, BOK, BNM, BI, RBI are all expected to maintain easy monetary policy. The only major change been the BOT, which is seen intensifying its monetary policy easing in light of more weakness in Thailand's economy. Our updated BOT policy rate path from the macroeconomic team sees the Thai central bank cutting more aggressively to 1.0% by 1Q26. At the other spectrum, both CBC and SBV are expected to be on hold for their respective benchmark rates.

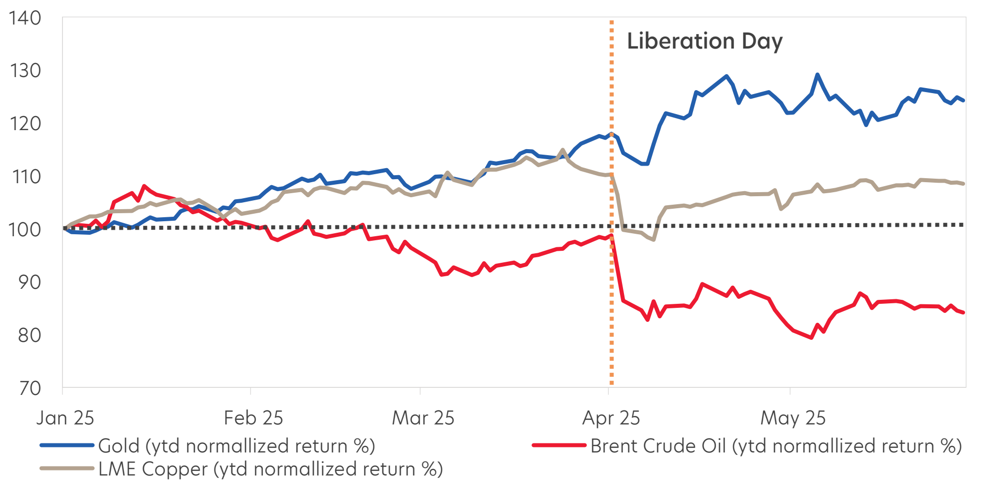
COMMODITIES STRATEGY

On-going global trade tariff uncertainty continues to favor Gold over LME Copper and Brent

When we published our previous Quarterly Global Outlook report back in Mar, it was prior to Liberation Day on 2nd Apr. Since then, the escalating global trade tension has had a clear impact on key global commodities prices. On the surface, it does look like the increasing global trade tariff uncertainty is a clear positive for gold as well as a negative for both Brent crude oil and LME Copper.

Gold solidifies strong performance after Liberation Day

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.

So far, gold was the clear darling having maintained its strong rally since the start of the year. The post Liberation Day sell-off turned out to be fairly brief with gold resuming its rally from USD 3,150 / oz and back to above USD 3,300 / oz within just two weeks. At such elevated prices of about 1/3 higher than the start of the year, will gold continue to gain support from strong safe haven demand? By extension, will there be “buyer’s fatigue” from both global central banks and retail investors alike at such elevated price levels?

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.

Brent crude oil continues to be on the defensive after been sold-off by about USD 10 / bbl after Liberation Day. Both Saudi Arabia and OPEC+ are not helping as they are seen pivoting away from maintaining price stability to regaining lost market share. Elevated global trade uncertainty implies weaker global growth outlook which would lead to lower energy demand on balance. Having fallen from pre-Liberation Day level of USD 75 / bbl, will Brent crude oil be able to sustain current level around USD 65 / bbl?

Finally, LME Copper has rebounded strongly from its Liberation Day low of USD 8,600 / MT to USD 9,500 / MT. On-going fear of tariffs helped trigger the short squeeze and inventory accumulation on COMEX helped LME Copper to maintain its poise. Afterall President Trump has further raised tariffs on steel and aluminum to 50%. However, is this inventory build-up sustainable? Afterall, the jump in COMEX inventory will eventually need to flow back into productive use. Is “Dr Copper” at risk of renewed price weakness?

Gold

Further USD weakness and strong China demand are key long-term positives

UOB's Forecast	3Q25	4Q25	1Q26	2Q26
Gold (USD/oz)	3,400	3,500	3,600	3,700

In our commodities strategy update following the de-escalation of trade tariffs between US and China on 12th May, while we warned of near-term consolidation risk, we reiterated that long term positive outlook for gold remain intact.

That near term consolidation lasted barely two weeks. By end of May, gold resumed its strong rally, bouncing off its intra-monthly low of about USD 3,130 / oz on 15th May to above USD 3,300 by the end of May.

Several long-term positive drivers reinforced this on-going rally in gold. Firstly, after a brief hiatus, the USD resumed its sell-off with the USD Index (DXY) falling back below 100 yet again. Renewed threats from President Trump on imposing higher trade tariffs, this time against the European Union, triggered the latest sell-off in the USD. So far this year, the sell-off in the USD has fueled the rally in gold.

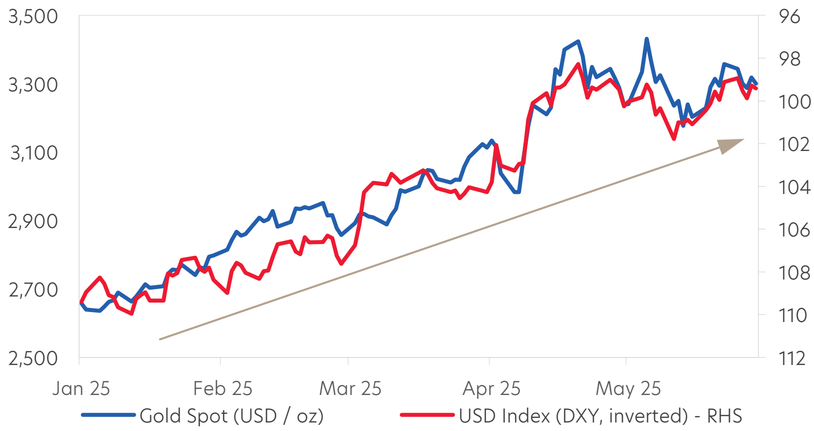
Secondly, China's strong appetite for gold remains unabated. After the hike in import quotas from the PBOC, China's monthly import of non-monetary gold jumped 73% for the month of Apr to a one year high of 127 MT.

Thirdly, key futures positioning for gold remains firmly in net long position for both COMEX and SHFE. In fact, SHFE net long positioning in gold continues to pick up, alongside evidence of increasing domestic retail interest for gold ETFs in China.

All the above reinforce the on-going strong safe haven demand, consistent strong central bank allocation and reaffirm our positive long-term outlook for gold. We reiterate our positive forecast of USD 3,400 / oz for 3Q25, USD 3,500 / oz for 4Q25. For 2026, we see further strength to USD 3,600 / oz for 1Q26 and USD 3,700 / oz for 2Q26.

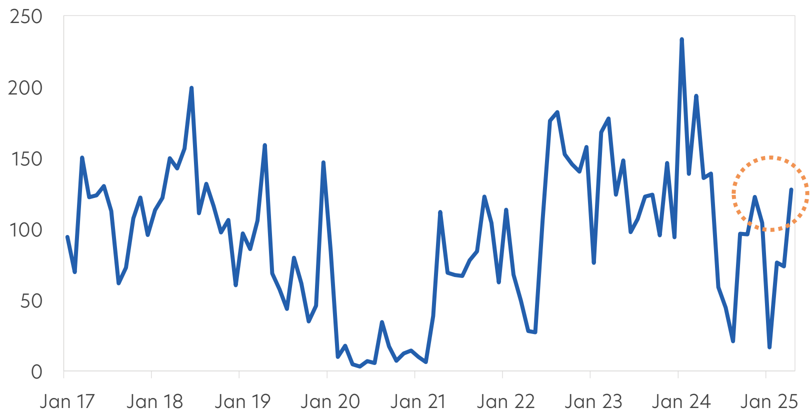
Gold rallies in tandem with weaker Dollar

Source: Bloomberg, UOB Global Economics & Markets Research



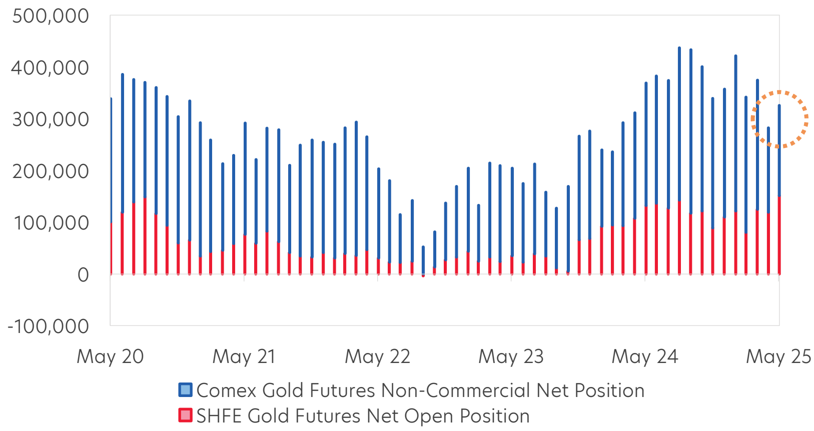
China non-monetary gold imports bounce back after quota release

Source: Bloomberg, UOB Global Economics & Markets Research



Both COMEX and SHFE open position remain firmly net long

Source: Bloomberg, UOB Global Economics & Markets Research



Brent Crude Oil

Accelerated pace of supply resumption from OPEC+ a major negative

UOB's Forecast	3Q25	4Q25	1Q26	2Q26
Brent crude oil (USD/bbl)	65	60	55	55

As the year progressed, it is increasingly evident that Saudi Arabia's patience is wearing thin and OPEC+ overall strategy has moved on from maintaining price stability to that of regaining market share. Previously OPEC+ was looking to return the 2.2 mio bpd of production cuts by end of 2026 but latest indications suggest that Saudi Arabia is increasingly impatient and wants to expedite the timeline to as early as the end of this year.

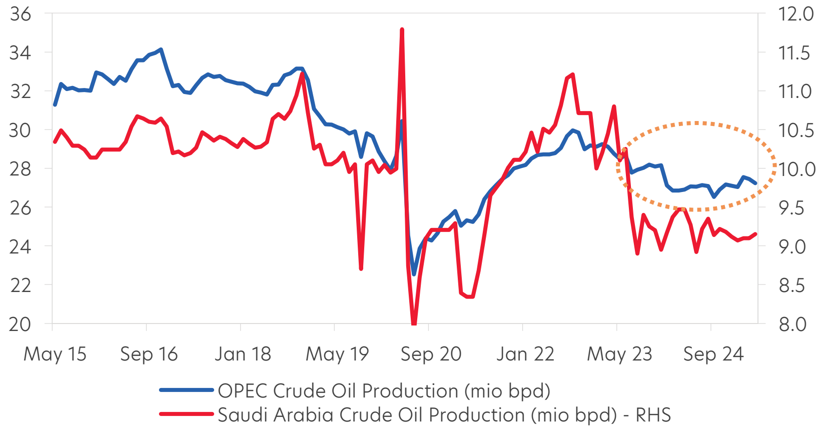
Therefore, it came as no surprise that at the latest meeting 31st May, OPEC+ decided to make yet another outsized production hike of 411k bpd for Jul. This latest production hike has been rumored for some time and is now the third running hike of 411k bpd. Following previous production hikes scheduled for Apr, May, Jun and now Jul, the total production volume returned is now about 1.4 mio bpd, or just about under 2/3 of the previous total production cuts of about 2.2 mio bpd from 2022.

While this uncertainty of renewed supply from OPEC+ is a key negative, it is interesting to note that China's import of crude oil has stayed strong across Apr and May. It is likely that China is maintaining its strict discipline for strong energy imports amidst the on-going trade war with the US. This will likely be followed by rebound in domestic refinery runs as well and is in line with the renewed ramp up in manufacturing following the 90-day tariffs truce between US and China.

Nonetheless, the damage to crude oil price is evident post Liberation Day, where Brent crude oil fell by about USD 10 / bbl to a lower trading range. Given the uncertain global trade outlook as well as threat of further OPEC+ resumption of production, we maintain our cautious outlook for Brent crude oil. Our updated forecast is USD 65 / bbl for 3Q and USD 60 / bbl for 4Q25, followed by USD 55 / bbl for both 1Q and 2Q26.

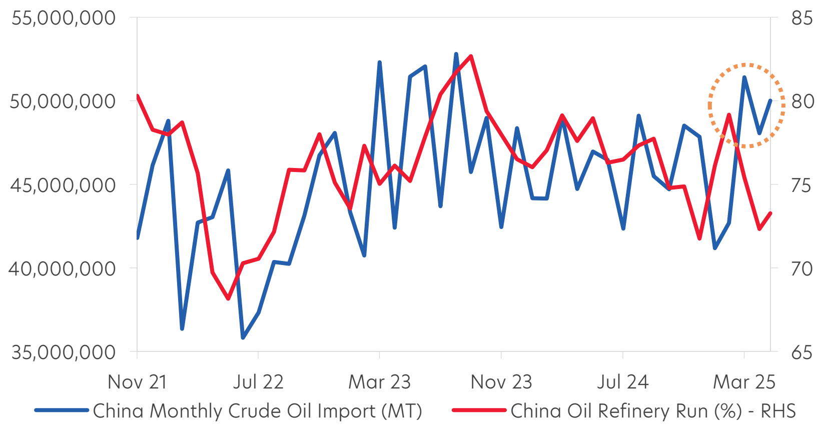
Saudi and OPEC now prioritize market share and aim to raise production quicker

Source: Bloomberg, UOB Global Economics & Markets Research



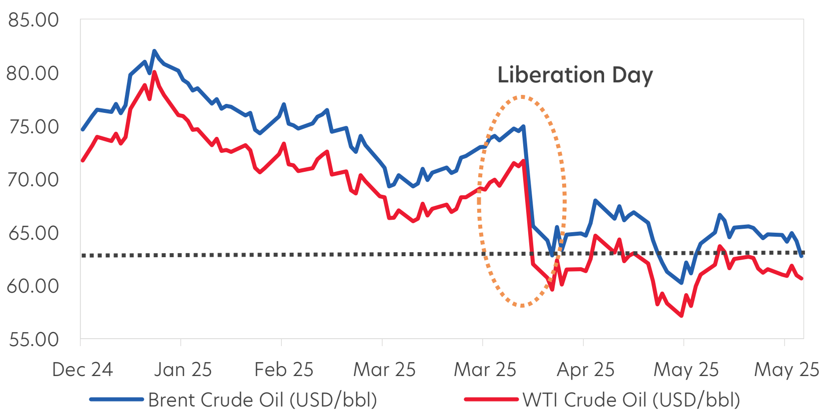
China likely to ramp up crude oil import as trade war intensifies

Source: Bloomberg, UOB Global Economics & Markets Research



Liberation Day with accelerated OPEC production hikes triggered a USD 10 / bbl sell-off in Brent crude oil

Source: Bloomberg, UOB Global Economics & Markets Research



Copper

Strong COMEX stockpiling amidst tariff uncertainty is unsustainable

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

In the previous edition of the Quarterly Global Outlook 2Q25 in Mar 25, we highlighted the strong stockpiling of copper inventory on COMEX. This strong influx of copper inventory on COMEX continues unabated leading to a further rise in Copper stock. This is mainly motivated by on-going uncertainties that President Trump may impose trade tariffs as well on Copper imports into the US. Strictly speaking, President Trump has not signaled as such, but given the importance of copper in the manufacturing process and particularly for conductivity in electronics and semiconductors, investors decided to err on the side of caution.

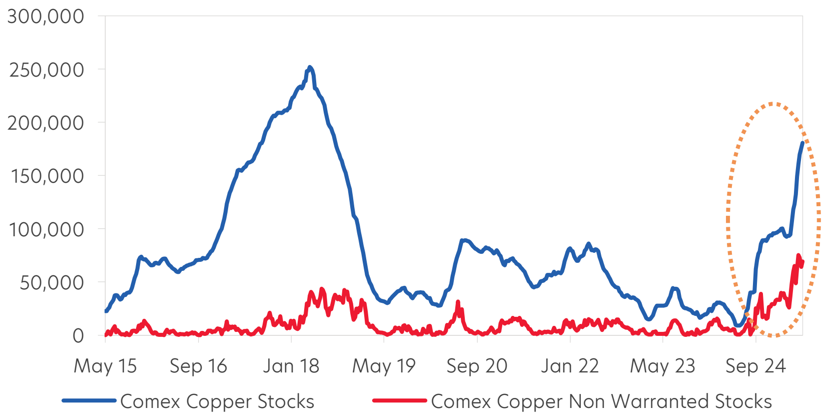
Consequently, COMEX copper continued to maintain its price premium over LME Copper. After accounting for shipping costs, there should be little to no arbitrage between COMEX and LME Copper price. But this was not the case since the start of the year amidst such elevated trade tariff uncertainty.

In line with this dislocation on COMEX, the short-term liquidity for copper remains tight, leading to the further rise in cash spread for LME Copper and higher Yangshan premium for domestic copper in China. Similar to the energy market, amidst the on-going US-China trade war, there appears to be renewed determination by China to stock up on key commodities like copper, adding to the tighter near-term liquidity.

Overall, we remain concerned that this short-term tightness in the copper market, particularly the inventory build-up on COMEX is unsustainable. As such, we maintain our modest negative outlook for LME Copper. Our updated forecasts are USD 9,500 / MT for 3Q25, USD 9,000 / MT for 4Q25 and thereafter USD 8,500 / MT for 1Q and 2Q26.

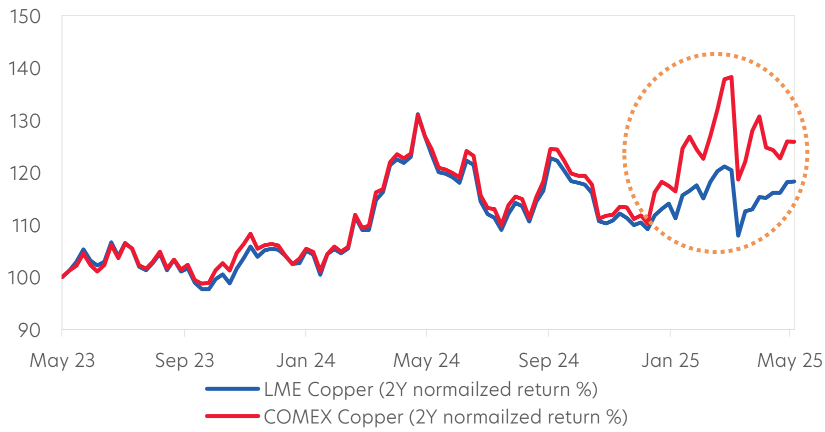
COMEX copper stocks continue to climb on elevated tariff uncertainty

Source: Bloomberg, UOB Global Economics & Markets Research



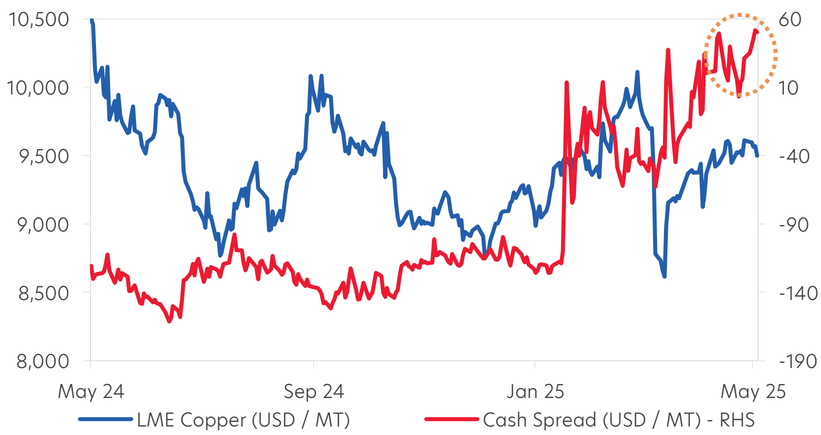
Comex copper maintains price premium over LME copper

Source: Bloomberg, UOB Global Economics & Markets Research



LME Copper cash spread stays elevated and continue to climb

Source: Bloomberg, UOB Global Economics & Markets Research



FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
USD/CNY	7.26	7.22	7.18	7.12
CNY 1Y Loan Prime Rate	3.00	2.90	2.90	2.90
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	5.4	5.0	4.6	4.2
CPI (avg y/y %)	0.2	0.2	0.0	1.0
Unemployment Rate (%)	5.1	5.1	5.3	5.2
Current Account (% of GDP)	1.4	2.3	2.0	1.3
Fiscal Balance (% of GDP)	-4.5	-4.8	-5.8	-5.7

ECONOMY

Uncertainties stay high

China's economy expanded at a robust pace of 5.4% y/y, 1.2% q/q sa in 1Q25. The economy had remained resilient in Apr even as US' reciprocal and tit-for-tat tariffs kicked in with the slowdown in industrial production contained as frontloading continued in other markets after the US paused its reciprocal tariffs on those countries. The trade truce with US announced on 12 May that reduces tariffs on Chinese goods to 30% (including 20% fentanyl-related levy) from 145%, will sustain the positive momentum in the near term.

Exports are the main growth driver, underpinned by frontloading activities while private consumption demand lacks traction and investments continued to be held back by uncertainties and trade frictions. The property market remained a key concern for policymakers as indicators such as home prices, property investment and residential property sales softened in Apr. The stimulus package (7 May) included further monetary easing and support for targeted areas such as service consumption, elderly care, equipment upgrading, consumer goods trade-in program, agriculture and the small & medium enterprises (SMEs). These represent its key efforts to boost local consumption and the industrial sector. China continues to support its high-tech and green industries but the financial incentives for some industries such as the EV sector may worsen the overcapacity problem in the longer run. China also reiterated its strong support for financial market stability. This remains important to anchor domestic sentiment.

Near-term economic stabilisation is dependent on reaching a trade deal with the US, which will take precedence over more policy stimulus. Having said that, US-China tensions are ratcheting up again three weeks into the trade truce, highlighting the fragility of the agreement. However, with a mechanism established to continue discussions, this could reduce the risk of a breakdown in negotiations. Following the Phase 1 trade deal in 2020, we think an eventual trade deal this time would likely commit China to reduce its trade surplus with the US by increasing its US imports. It is likely that the baseline tariff rate will be raised for China but the two countries may find some resolution to address the Trump administration's concerns about China's role in the fentanyl trade. This could potentially lead to a removal of the 20% fentanyl-related tariff, in the optimistic scenario. Thus, it is conceivable that the "final" US tariff rate on imports from China may settle between 30% to 60%. It is important to remember that any trade deal will not resolve longstanding conflicts and competition between the two economic powers, and the US is likely to continue using various ways to contain China's development in the high-tech sectors.

We reiterate our forecast for China's GDP growth at 4.6% in 2025 with the trade truce providing some near-term support for growth at 4.9% y/y in 2Q25 before slowing to 4.2% y/y in 2H25. The outlook for 2026 remains challenging and we maintain our forecast for a slowdown in growth to 4.2%. The risk is tilted to the downside.

Deflation remains a key threat to China's economy. In Jan-Apr, headline and core CPI averaged -0.1% y/y and 0.4% y/y respectively while PPI averaged -2.4% y/y. In the May PMI data, downward price pressure remains evident in the manufacturing sector. Tariffs and increased competition will continue to depress manufacturers' margins, translating to weaker domestic demand. We maintain our forecast for 2025 CPI and PPI at 0.0% and -2.0% respectively. This will mark the third consecutive year of annual PPI contraction.

CENTRAL BANK

10bps rate cut likely in 4Q25

PBOC eased its monetary policy in May to soften the impact of the US' tariffs, comprising 50-bps cut in banks' reserve requirement ratio (RRR) to release CNY1 tn in long-term liquidity, and 10-bps cut in key interest rates, which led to a corresponding decline in the loan prime rates (LPRs). Major Chinese banks also lowered their deposit rates to stimulate consumption and preserve margins, sending the 1Y deposit rate below 1% for the first time.

Considering the new stimulus measures on 7 May and the 90-day dial back in US' tariff on Chinese imports, the PBOC is likely to hold back from further easing in the near term. As such, we only expect an additional 10-bps rate cut in 4Q25 with the 7-day reverse repo rate, 1Y LPR and 5Y LPR to end the year at 1.30%, 2.90% and 3.40% respectively. The prospect of another 50-bps cut to the RRR remains.

CURRENCY

CNY to underperform peers

In 2Q25, USD/CNY pulled back from its psychological 7.35 level to as low as 7.17, a level seen last Nov. At current levels of about 7.20 (as of 30 May), markets have unwound a large part of the Trump 2.0 tariff risk premium. USD/CNY has normalized back to the daily fixing rate from its +2% upper limit (from fixing) in early Apr when trade tensions erupted. From here, uncertainties about reaching a trade deal before the tariff truce expires on 13 Aug, the ongoing domestic growth slowdown and PBOC "moderately loose" policy stance are likely to tether the CNY on the weak end of the daily fixing. Market expectations of higher end-state US tariffs on China relative to peers pave the way for sustained weakness in the CFETS RMB index and underperformance within the Asia FX space. In the near term, we stay cautious on the CNY and forecast a higher USD/CNY in the coming quarter (3Q25). Overall, our updated USD/CNY forecasts are at 7.26 in 3Q25, 7.22 in 4Q25, 7.18 in 1Q26 and 7.12 in 2Q26.

FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
USD/HKD	7.84	7.82	7.80	7.80
HKD Base Rate	4.50	4.00	4.00	3.75
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP (%)	3.2	2.5	2.3	1.9
CPI (avg y/y %)	2.1	1.7	1.8	1.9
Unemployment Rate (%)	2.9	3.1	3.4	3.2
Current Account (% of GDP)	8.5	12.9	9.2	8.0
Fiscal Balance (% of GDP)	-3.4	-2.5	-2.0	-0.6

ECONOMY

Improvements in business activities did not translate to stronger private demand

Hong Kong's GDP growth accelerated to 3.1% y/y and 1.9% q/q from 2.5% y/y and 0.9% q/q in 4Q24. The y/y growth was the fastest pace in five quarters. Export was the main engine of growth due to the frontloading of goods shipments to US while services exports continued to expand on the back of the increase in visitor arrivals and other cross-boundary economic activities. Goods and services exports surged 8.4% y/y and 6.6% y/y respectively. Gross domestic fixed capital formation (GDFCF) also rebounded to grow 2.8% y/y from a contraction of -0.7% y/y in 4Q24, supported by an increase in investments in machinery, equipment, and intellectual property products, as well as higher number of property transactions.

Despite the pick-up in business activities, private consumption had extended its contraction to the fourth straight quarter, with the decline widening to -1.1% y/y from -0.2% y/y in 4Q24. The change in local consumption pattern with residents choosing to spend across the border is becoming more entrenched. Coupled with weaker purchasing power from mainland visitors, this will weigh on Hong Kong's economic recovery prospects. Visitors to Hong Kong increased by 8.9% y/y in 1Q25 to reach 12.2 million, though this was only 2/3 of the arrivals in 1Q19. Furthermore, retail sales have continued to contract for more than a year, led by sharp falls in the consumer durable goods (such as cars & parts, furniture & fixtures), clothing and footwear, and valuable goods (such as jewellery, watches).

Domestically, the labour market conditions remain largely favourable although the seasonally adjusted unemployment rate rose to more than 2-year high of 3.4% in Apr. In 1Q25, median monthly employment earnings increased by 6.4% y/y. Meanwhile, the property market outlook remains challenging as private residential prices continued its downtrend to fall a further 1.2% in the first four months of the year and cumulative decline of more than 28% since the peak in 2021. Lower Hibor rates may bolster property demand but investor sentiment could stay cautious amid the economic uncertainties.

Overall, net exports (+2.4 ppt) made the largest contribution to the headline GDP growth in 1Q25, followed by inventory (+0.8 ppt), GDFCF (+0.4 ppt) and government consumption (+0.2 ppt) while private consumption (-0.7 ppt) posed a significant drag.

Hong Kong's export strength may start to unwind in 4Q25 following an extended frontloading in 2Q-3Q from the US-China trade truce. Factoring in the better-than-expected 1Q25 GDP, stronger financial market activities (as of 25 May, Hong Kong's IPO fundraising has surpassed HKD76 bn) and near-term support including China's stimulus, we raise our forecast for Hong Kong's GDP growth to 2.3% this year (from 2.0%), within the official forecast range of 2% to 3% while revising lower our forecast to 1.9% for 2026 (from 2.4%) due to the external uncertainties and projected slowdown in China.

Inflation stayed mild with headline and underlying CPI (net out government's one-off relief measures) rising 1.7% and 1.3% respectively in Jan-Apr. Contributions from private housing rent (33.6% weight), food (26.5% weight) and transport (7.3% weight) had remained modest. Business costs were also contained as commercial rentals trended lower and wage growth was largely commensurate with the labour productivity growth while import prices rose slightly. The government projects the headline and underlying CPI rate to rise to 1.8% and 1.5% respectively this year from 1.7% and 1.1% respectively in 2024. We tweak our forecasts for the headline inflation marginally lower to 1.8% and 1.9% for 2025 and 2026 from 1.9 and 2.0% respectively.

CENTRAL BANK

Hibor drop to be more measured

Hibors plunged in May, particularly for the shorter tenor rates due to HKMA's intervention to weaken the HKD as it rose to the strong side of the convertibility undertaking. The aggregate balance, a proxy for interbank market liquidity jumped to HKD173.4 bn from HKD44.6 bn during the month, resulting in 3M Hibor falling from 4.0% to 1.3%. Notwithstanding large IPO-related capital inflows, the decline looks overextended in the short-term given our forecast for three 25bps rates cut in the later part of 2025. Our forecast for the 3M Hibor is at 1.50% end-3Q25, 1.20% end-4Q25 and end-1Q26 and 1.05% end-2Q-26.

CURRENCY

USD/HKD stays high

The USD/HKD pair experienced one of its most turbulent periods in recent years, swinging from the lower bound of 7.75 to nearing the upper limit of 7.85 in the span of just one month (May). The move was initially triggered by strong HKD selling by HKMA in early May to protect the peg at 7.75 /USD. Flushed HKD liquidity exacerbated the move as the wide interest rate gap between HKD and USD rates made it very attractive for investors to pile into the USD/HKD carry trade.

While the currency move appears excessive, it would not be surprising if USD/HKD lingers near the upper limit a while longer provided domestic liquidity remained flushed. As such, our updated USD/HKD forecasts are 7.84 in 3Q25, 7.82 in 4Q25 and 7.80 in 1Q and 2Q26.

FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
USD/INR	86.5	85.5	85.0	84.5
INR Repo Rate	5.50	5.50	5.50	5.50
Economic Indicator	2023	2024	2025F	2026F
GDP, FY (%)	7.6	9.2	6.5	6.6
CPI, FY (avg y/y %)	6.7	5.4	4.6	3.7
Current Account, FY (% of GDP)	-2.0	-0.7	-1.3	-1.5
Fiscal Balance, FY (% of GDP)	-6.4	-5.6	-4.8	-4.4

ECONOMY

Strong positive surprise in 4QFY25 GDP & GVA; Inflation settles comfortably below the 4%-handle

India's GDP strengthened in 4QFY25 to 7.4% y/y (3Q: 6.4%), surprising strongly on the upside (Bloomberg: 6.8%) while the reading for 3Q was revised upwards to 6.4% (from 6.2%), bringing the full-year FY25 GDP growth to 6.5% (FY24: 9.2%). In the details, the robust 4Q GDP outturn was driven by an acceleration in GFCF (9.4% y/y, 3Q: 5.2%) with a stronger contribution from net exports as the moderation in export growth (3.9% y/y, 3Q: 10.8%) was accompanied by a slump in imports (-12.7% y/y, 3Q: -2.1%). However, both private consumption (6.0% y/y, 3Q: 8.1%) and government spending (-1.8% y/y, 3Q: +9.3%) weakened.

Similarly, gross-value added (GVA) improved in 4QFY25 to 6.8% y/y (Bloomberg: 6.4%) with the 3Q reading revised meaningfully upwards to 6.5% (from 6.2%), resulting in a full-year FY25 GVA growth of 6.4% (FY24: 8.6%). The improvement in 4Q GVA was led by a surge in construction (10.8% y/y, 3Q: 7.9%) while manufacturing (4.8% y/y, 3Q: 3.6%) and financial, real estate & professional services (7.8% y/y, 3Q: 7.1%) strengthened, although the gains were partly offset by a slowdown in agriculture to 5.4% y/y (3Q: 6.6%).

We recently raised our FY26 GDP growth forecast (note) to 6.6% (from 6.3% previously) with activity likely to remain resilient due to several factors: [1] India's relatively lower share of domestic value added (DVA) in final demand implying domestic buffers from external tariff shocks; [2] rural demand supported by optimistic prospects in the agriculture sector with the IMD projecting an above normal SWM rainfall at 106% of LPA which could bode well for kharif crop yields although partly mitigated by less favourable terms of trade for farmers given the softer hike in the 2025-2026 MSP compared to recent years; [3] services PMI surged to 61.2 in May (Apr: 58.7) although manufacturing PMI eased (May: 57.6, Apr: 58.2); and [4] private consumption could strengthen in 4QFY26 and into FY27 with the boost from the 8th Pay Commission salary and pension hikes. Under our baseline GDP scenario and assuming a potential growth target of 7%-8% (midpoint: 7.5%), FY26 growth is still likely to be slightly below potential.

India's headline CPI halted five consecutive months of m/m nsa decline and recorded a modest +0.31% sequential increase in Apr, with the y/y reading remaining comfortably below the 4%-handle at 3.16% y/y (Mar: 3.34%). The disinflation was mainly driven by yet again moderating price pressures in food & beverage (Apr: 2.1% y/y, Mar: 2.9%) where favourable supply conditions supported the ongoing decline in prices of vegetables (Apr: -11.0% y/y, Mar: -7.0%) and pulses & products (Apr: -5.2% y/y, Mar: -2.7%). Core inflation held steady at 4.10% y/y in Apr, with personal care & effects still seeing double-digit y/y inflation (Apr: 12.9%, Mar: 13.5%) largely attributed to elevated gold, silver, and ornament prices.

We project FY26 headline inflation to average 3.7% (RBI Apr MPC: 4.0%, FY25: 4.6%). IMD's projection of an above normal SWM rainfall could imply a lower risk of weather-related food supply disruptions. High frequency daily retail prices suggest that food CPI may rise sequentially in May after six successive months of sequential m/m (nsa) declines, although price pressures are likely to stay muted.

CENTRAL BANK

Expecting RBI to deliver its third rate cut in Jun

We expect RBI to deliver its third 25bps rate cut in the upcoming MPC meeting on 6 Jun and project a total of 100bps of rate cuts in this easing cycle, taking our terminal rate forecast to 5.50%, which is consistent with the RBI's assessment of the (real) neutral rate in the range of 1.4%-1.9%. Recent measures by RBI to boost system liquidity (OMO purchases, VRR, USD/INR buy/sell swap auctions) have resulted in surplus liquidity conditions, with the 14DMA WACR markedly below the policy repo rate (6.00%), inducing a de facto easing of financial conditions. Any reinforcement in government expenditure following the RBI's record dividend transfer to the federal government (~INR 2.7tn, prev: INR 2.1tn) could further amplify the surplus liquidity conditions.

CURRENCY

INR lagged in regional rally

INR underperformed within Asia FX in 2Q25, trading flat on the quarter at 85.4 /USD while most of its Asian peers capitalised on the broad USD weakness. Tariff uncertainties and geopolitical tensions, particularly at India's borders, dampened investor sentiment. Expectations of further monetary easing by RBI also weighed on the INR.

Looking forward, the INR is likely to stay defensive, at least in the coming quarter, as markets evaluate the possibility of a US-India trade deal. After which, USD/INR may resume its downward trajectory as the Fed resumes its rate-cut cycle, putting renewed pressure on the USD. Our updated USD/INR forecasts are at 86.5 in 3Q25, 85.5 in 4Q25, 85.0 in 1Q26, and 84.5 in 2Q26.

FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
USD/IDR	16,700	16,500	16,300	16,100
IDR 7D Reverse Repo	5.25	5.25	5.25	5.00
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP (%)	5.1	5.0	4.9	5.2
CPI (avg y/y %)	3.7	2.3	2.4	2.7
Unemployment Rate (%)	5.3	4.9	5.0	5.0
Current Account (% of GDP)	-0.1	-0.6	-1.0	-1.5
Fiscal Balance (% of GDP)	-1.7	-2.3	-2.8	-2.9

ECONOMY

Rocky start points towards more sluggish growth

1Q25 GDP growth of just 4.87% y/y marked a sluggish start to the year and likely to see a rockier road ahead. Activities in 1Q25 were supported mainly by agriculture, manufacturing, trade, and information and communication sectors, saved for the all-important mining sector, which contracted slightly by 1.23% y/y due to lower demand for coal & lignite as well as generally lower global commodity prices. By expenditure, all components increased albeit at a slower pace, except government consumption, which contracted by 1.38% y/y. Additionally, private household consumption grew slower to sub 5% growth at 4.89% y/y. We therefore revised our 2025 GDP growth forecast lower from 5.2% previously to 4.9%, below the 5% mark.

Latest inflation prints of 1.95% y/y in Apr have shown that headline inflation remained well within BI's inflation target range of 1.5-3.5%. Historical precedence typically show an elevated inflation during the Eid festivities, which fell in early Apr this year. However, at below the 2% mark, it seemed that demand-pulled inflation was not present this year, though core inflation stood higher at 2.5% in Apr. From an average of 2.3% last year, we continue to expect inflation to average about the same this year and we have revised our forecast slightly lower to 2.4%.

Indonesia registered a narrowing current account (CA) deficit of USD0.2bn (0.1% of GDP) in 1Q25, slightly lower from the previous quarter's deficit of USD1.1bn (0.3% of GDP). The narrowing deficit was mainly driven by a sustained trade surplus. From the services balance and primary income, the deficit widened by USD0.3bn and USD0.4bn to USD5.4bn and USD9.4bn respectively compared to the previous quarter.

The capital and financial account balance turned around from a surplus of USD9.64bn to a deficit of USD0.3bn (-0.1% of GDP), driven by a wider deficit of other investment owing to purchases of offshore financial instruments by local residents. This was offset by direct and portfolio investment. Foreign Direct Investment (FDI) recorded a surplus of USD2.6bn in tandem with portfolio investment's surplus of USD1.0bn.

Looking ahead, Bank Indonesia (BI) expects the current account deficit in 2025 to remain low in the range of 0.5% - 1.3% of GDP despite global uncertainty and challenges. The de-escalation between US-China has eased volatility but uncertainty remains. We keep our 2025 CA deficit forecast of 1% of GDP for now as we expect imports to increase while exports to decrease in the coming quarters ahead.

CENTRAL BANK

Low, stable inflation amid sluggish growth supports another rate cut

Low and stable inflation will continue to give room for BI to continually lower its benchmark rate from its current level to lend support towards risks of slowing economic growth. Already, in May 2025, BI cut its benchmark interest rates by 25bps to 5.50%, as rupiah appreciated from its trough post reciprocal tariff announcement back in early Apr. BI lowered its growth forecast for 2025 by 0.10-ppt to 4.6%-5.4% amidst rising global challenges and uncertainty especially surrounding the US tariff policy. BI stated its commitment to support economic growth through monetary policy easing that is hoped to translate into higher banking sector's credit disbursement. Additionally, BI will ensure adequate liquidity in the domestic financial system through its macroprudential policies. The most recent rhetoric from the latest MPC statement seemed to suggest that BI's focus has shifted from anchoring stability per se into more monetary easing to support sluggish growth.

Therefore, we keep our forecast for the BI rate to be cut once more in 3Q25 by 25bps to reach 5.25% and stay at that level till the end of the year. For 2026, we continue to believe that with BI's inflation target range of 1.5%-3.5% (midpoint of 2.5%), conditional upon stable and within-target inflation rates as well as stable rupiah exchange rate, there is room for BI rate to be lowered further.

CURRENCY

IDR to pare recent gains in 3Q25

Supported by a swift recovery in global risk sentiment following the tariff truce and continued intervention by BI, the IDR rebounded from its record low of 17,224/USD in early Apr to 16,320/USD (as of 30 May). Foreign investors also made a return to the local equity markets for the first time since last Sep, recording net purchases of $337 million, which helped support the IDR. Our projection of a 25 bps rate cut by BI in 3Q25, coupled with lingering investor caution over Indonesia's final tariff rate (relative to the initial reciprocal rate of 32%), could weigh on the IDR in the upcoming quarter.

Overall, our updated USD/IDR forecasts are 16,700 in 3Q25, 16,500 in 4Q25, 16,300 in 1Q26 and 16,100 in 2Q26.

FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
USD/JPY	144	142	140	138
JPY Policy Rate	0.75	0.75	1.00	1.00
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	1.7	0.2	1.0	1.5
CPI (avg y/y %)	3.2	2.8	2.9	1.8
Unemployment Rate (%)	2.5	2.5	2.8	2.8
Current Account (% of GDP)	3.8	4.8	3.8	4.5
Fiscal Balance, FY (% of GDP)	-7.5	-7.1	-4.8	-4.5

ECONOMY

1% growth forecast for 2025 at risk from US-related developments with a chance of technical recession in 1H

Japan's 1Q25 GDP surprised to the downside, with the economy recording a contraction of -0.2% q/q (-0.7% q/q SAAR) the first sequential fall since 1Q24, due to weakness in net exports (-0.8% q/q) as exports were hurt by US tariff uncertainties while imports jumped as companies likely stockpiled products ahead of trade tariffs and restrictions. The 1Q q/q contraction underscored Japan's vulnerability to global trade developments while the wage-induced consumption recovery remains patchy. Japan has yet to reach any trade agreement with the US ahead of the 90-day pause of the Liberation Day reciprocal tariff (of which US will impose 24% rate on Japan) that will expire on 8 Jul. Particularly painful for Japan will be the existing 25% tariff rate imposed by US on steel, aluminum and autos (which remain in place and unaffected by the 28 May US trade court orders). Japan's auto sector is a key pillar of Japan's exports (US$106.8 bn of the total exports of US$ 707.5 bn in 2024, and US is the top destination for Japanese cars exports, receiving nearly US$41 bn in 2024). In comparison, Japan exported US$2 bn of steel and US$208 mn of aluminum to US in 2024.

Domestically, household spending grew in most months so far in 2025, but real wages returned to negative in 1Q 2025 as strong inflation outstripped wage growth (-2.1% y/y in Mar, -1.5% in Feb). The 2025 Shunto (wage negotiation) outcome was strong, achieving wage increment averaging 5.46%, highest since 1991, adding cautious optimism to the (much touted) "virtuous cycle from income to spending". Continued tourist arrivals and the positive impact on the tourism-related in-person services will further add to the domestic growth outlook although weakness in external markets may curb some of the tourism-related projections. Accelerated investments into semiconductor technology and production continues to bode well for its long-term potential and may lead to a bump up in investments spending though not likely to add much to near-term production. The government may announce an emergency relief package (of around US$ 6.3 bn to mitigate utility costs and provide financial aid for smaller firms) before Jul Upper House election.

That said, the downside factors loom large, and the main risk is from US trade tariffs and Trump's other "America First" policies while retaliatory tariffs enacted by other major economies will create a negative shock to the global trade environment and cause potential supply chain disruptions. Another downside risk is the sluggish Chinese demand recovery (made worse by the Trump 2.0 trade war), and the tighter monetary stance from BOJ. With a negative 1Q in the bag, we are not ruling out a technical recession in 1H25, and we keep our 2025 growth forecast of +1.0% (from +0.2% in 2024) with risk biased towards the downside.

Inflation started the year on a high at 4.0% y/y in Jan, subsequently overall CPI inflation eased but stayed elevated at 3.6% (in Apr and Mar), partly accounted by dearer food prices and energy costs. Excluding fresh food, CPI rose 3.5% y/y in Apr, up from 3.2% in Mar, highest since Jan 2023 (4.2% y/y) due to the uplift from costlier processed food. Core inflation (which excludes fresh food and energy) also edged higher to 3.0% y/y from 2.9% in Mar. After the recent peak of 3.5% y/y in Jan, services producer prices eased but stayed elevated at a pace above 3% (Apr: 3.1%, Mar: 3.3%). The BOJ (in Bank View for Apr) lowered the inflation projections for FY2025 & FY2026 and delayed achieving of 2% price target till FY 2027 (from mid-FY2025 previously). Recent price trajectory implied a higher inflation path, and we revise our overall CPI and core inflation forecast to average 2.9% and 2.8% respectively in 2025 (from 2.5% previously for both), easing to 1.8% in 2026.

CENTRAL BANK

Expecting more hikes still with caution

Based on the dovish pause in the May MPM, coupled with an "uncertainty"-ridden outlook and the weaker growth projections and a delay in the 2% inflation objective till FY 2027, has set the stage for a re-evaluation of the timing of BOJ's rate hikes. The uncertainties over US tariff policies have generated downside risks to BOJ's outlook for both growth (previously balanced) and inflation (previously upside risks). We still expect the BOJ to stay on the rate tightening path as Ueda steers toward further policy normalisation, although we now expect BOJ to hike its policy rate by 25-bps to 0.75% later in the 18/19 Sep MPM. We defer the next hike to 1.00% only in 1Q26 which we believe will be the terminal rate. As the trade negotiation situation remains fluid, there is a high level of uncertainty whether the timeline for the next hike will be pushed back further or conversely brought forward.

CURRENCY

Measured JPY strength

USD/JPY has traded down to 145 as of 29 May from about 150 at the start of the 2Q25, tracing lower USD-JPY rate differentials. While 10-year US Treasuries yield has risen to 4.5% to reflect increased US fiscal worries, the 10-year Japan Government Bond (JGB) also rebounded strongly from Liberation Day's lows near 1.1% to 1.5% (as of late May) after a series of poor investor demand at longer-dated JGB auctions. We still expect monetary policy divergence between Fed (easing bias) and BOJ (tightening bias) to keep USD/JPY biased to the downside. That said, a one-quarter delayed BOJ rate hikes to Sep 2025 and 1Q 2026 is likely to translate to more measured JPY strength going forth. Our updated USD/JPY forecasts are at 144 in 3Q25, 142 in 4Q25, 140 in 1Q26 and 138 in 2Q26.

FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
USD/MYR	4.32	4.27	4.24	4.20
MYR O/N Policy Rate	2.75	2.50	2.50	2.50
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	3.5	5.1	4.0	4.8
CPI (avg y/y %)	2.5	1.8	2.3	2.5
Unemployment Rate (%)	3.3	3.1	3.2	3.2
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 momentum tapers off

Malaysia's final 1Q25 GDP moderated to a one-year low of 4.4% y/y (4Q24: 4.9%), matching the advance estimate. Both domestic demand and external sector slowed even before the tariff announcement in Apr. While public spending improved, private expenditure moderated as private consumption eased to 5.0% (4Q24: 5.3%) and private investments came off to 9.2% (4Q24: 12.7%). Most key sectors slowed while the mining sector contracted for the 3rd straight quarter.

The slower growth momentum reaffirms our expectations for a moderating trend in 2H25. Our base case remains that there is no outright recession with GDP growth projected at 4.0% in 2025 (2024: 5.1%). Domestic demand continues to be the key driver of growth albeit slower, particularly as investments are weighed down by tariff uncertainties.

Supporting streams could come from a potential extension of the 90-day reciprocal tariff at 10% beyond 9 Jul, with front-loading activity, trade diversion, and slower imports providing some buffer for net trade. Domestic demand remains an anchor of growth with private consumption driven by low unemployment, seasonal spending activities, and tourism events. Ongoing and new fiscal measures including subsidies, financing guarantees for affected businesses, and expediting investments also provide underlying support for growth. Malaysia has started negotiations with US officials to seek lower reciprocal tariffs. However, there remains ongoing US Section 232 investigations that could lead to additional tariffs on pharmaceuticals, semiconductors & manufacturing equipment, copper, timber & lumber, and critical minerals.

Foreign direct investments (FDIs) remain forthcoming, though net inflows narrowed to MYR15.6bn in 1Q25 (4Q24: MYR18.7bn). Other supportive factors include (i) current US tariff exemptions for key exports including semiconductors and energy related items; (ii) 83% of Malaysia's exports are price inelastic suggesting more resilient exports; (iii) limited US exposure for local companies, and (iv) Malaysia's reciprocal tariff of 24% is relatively lower in the region. Johor-Singapore Special Economic Zone (JS SEZ) continues to make inroads with Johor securing MYR23bn in its investment pipeline for Apr alone, from MYR27.4bn in 1Q25.

The country's fiscal deficit narrowed to MYR21.9bn in 1Q25 (4Q24: -MYR26.4bn) thanks to higher revenue (+3% to MYR72.1bn) from increased income tax and sales & service tax collections. Meanwhile, operating expenditure fell 1.7% to MYR76.4bn due to reduced spending on subsidies amid removal of diesel subsidy and lower global oil prices. Development expenditure fell 5.8% to MYR17.8bn. Gross borrowings recorded MYR51.5bn in 1Q25, from issuances of Malaysian Government Securities (MGS, MYR23bn), Malaysian Government Investment Issues (MGII, MYR25bn) and Treasury bills (MYR3.5bn). Federal government debt was MYR1.28tn or 62.6% of GDP as at end-Mar. Bulk of the debt (97.8%) comprises of domestic debt while offshore borrowings are 2.2%, which limits the exposure to FX risk.

CENTRAL BANK

OPR cuts likely in 2H25 on dovish BNM

BNM kept the Overnight Policy Rate (OPR) unchanged at 3.00% in May but cut the Statutory Reserve Requirement (SRR) by 100bps to 1.00%, effective 16 May. This SRR reduction is estimated to release ~MYR19bn of liquidity into the banking system. Following the SRR cut, the 3-month interbank rate (3M KLIBOR) has fallen 15bps to 3.50%.

BNM shifted to a more dovish tone that signals the central bank's readiness to ease monetary policy given a benign inflation outlook and rising downside risks to growth. Other factors that pave the way for OPR cuts include a stronger MYR, lower commodity prices and softer demand that ensures the RON95 subsidy rationalization to have a minimal impact on inflation. The government has deferred the subsidy plan rollout to 2H25 while finalizing eligibility of the subsidies that will continue to benefit 95% of Malaysians. Subsidies will not be granted to foreigners and the top 5% of income earners. We penciled in two 25bps OPR cuts in 2H25. The next monetary policy meeting (8-9 Jul) coincides with the end of the 90-day reciprocal tariff pause.

CURRENCY

MYR to pare gains in 3Q25

Closely linked to the developments in the CNY, the MYR rose over 4% in 2Q-to-date, pacing gains in the region after the US-China trade tensions showed signs of easing off. Flows also underpinned the resilience of the MYR. Foreign investors turned net buyers of Malaysian debt securities (+MYR13.4bn in Mar-Apr) while foreign reserves rose to USD 119.1 bn as at mid-May (vs. USD 116.2 bn at end-2024).

That said, the MYR's sharp rebound seems overdone, having returned to pre-Trump 2.0 levels of around 4.20/USD. Markets may have prematurely priced out tariff-related risks, despite ongoing trade war uncertainty. We expect some consolidation in the MYR as investors await clearer global tariff signals. Additionally, our forecast of two 25 bps BNM OPR cuts in 2H25 could further weigh on the currency. Overall, our updated USD/MYR forecasts are 4.32 in 3Q25, 4.27 in 4Q25, 4.24 in 1Q26 and 4.20 in 2Q26.

FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
USD/PHP	56.5	55.8	55.3	55.0
PHP O/N Reverse Repo	5.00	4.75	4.75	4.75
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	5.5	5.7	5.0	5.5
CPI (avg y/y %)	6.0	3.2	2.0	3.0
Unemployment Rate (%)	4.6	4.3	4.4	4.4
Current Account (% of GDP)	-2.8	-3.8	-2.8	-2.5
Fiscal Balance (% of GDP)	-6.2	-5.7	-5.3	-4.7

ECONOMY

US tariff risks cloud growth outlook

The Philippines' economy kicked off with a softer-than-expected growth of 5.4% y/y in 1Q25 (4Q24: +5.3%). On a seasonally adjusted basis, the nation's real GDP grew by 1.2% q/q (4Q24: +1.5%), suggesting a cooling growth momentum.

The slower y/y gain in 1Q25 GDP was largely due to a smaller increase in utilities (1Q25: +3.8% y/y, 4Q24: +5.7%), construction (1Q25: +6.8%, 4Q24: +7.7%), and services sectors (1Q25: +6.3%, 4Q24: +6.7%) particularly financial & insurance, accommodation & food, professional & business services, and public admin & defence services sub-segments. This fully tempered the improvement in agriculture (+2.2%, 4Q24: -1.6%), manufacturing (+4.1%, 4Q24: +3.3%), and mining & quarrying (+2.0%, 4Q24: -4.1%) sectors.

A sluggish external sector also weighed on economic growth in 1Q25, with net trade shaving 2.1ppts off 1Q25 GDP growth. This came along with inventory withdrawal (-0.4ppt) despite higher household consumption (+5.3% y/y, 4Q24: +4.7%), robust government spending (+18.7%, 4Q24: +9.0%) ahead of the mid-term election on 12 May, as well as stronger investment (+5.9%, 4Q24: +5.0%).

In view of a downbeat GDP reading for 1Q25 even before tariffs hit and ongoing global trade threats, we have slashed our 2025 real GDP growth forecast for the Philippines to 5.0% (from 6.0%, 2024: 5.7%, official est: 6.0%-8.0%). The outlook going into 2H25 hinges largely on external developments such as the outcome of trade deals by major economies including the Philippines with the US before the 90-day suspension ends on 9 Jul, and the Trump administration's decision on sector-specific tariffs under the Section 232, which involves semiconductor and pharmaceutical products, amongst others. Thus, domestic demand will come to the rescue, with growth levers including a larger national budget expenditure, easing inflation pressures, broader transmission of monetary policy easing, and sustained overseas cash remittance inflows.

CENTRAL BANK

Plenty of room to cut interest rates

Headline inflation has come down since Feb 2025 to the lowest level not seen since Nov 2019 at 1.4% y/y in Apr. It also fell below the BSP's 2.0%-4.0% target range for the second straight month. This coupled with ongoing mitigating factors such as continued non-monetary intervention, softer global energy prices, and a stronger currency, suggest a more moderate inflation outlook than previously anticipated. We now project inflation to moderate to 2.0% in 2025 (2024: 3.2%), with consumer price index growth expected to rebound back to above 2.0% in 4Q25. Looming tariff uncertainty will also weigh on global demand and pose downside risks to the nation's near-term inflation prospect.

Relatedly, a more benign inflation outlook gives BSP more flexibility to support the slowing economy going into 2H25 and to fend off a deeper slowdown in growth from tariff uncertainty. Higher positive real interest rates, which are at almost 10-year high, also indicate that the central bank has plenty of room to ease in the near term. Thus, we maintain our BSP outlook with three 25bps cuts this year, one each in Jun, 3Q25 and 4Q25. This will bring the overnight reverse repurchase rate to 4.75% by end-2025.

To further enhance its monetary policy framework, BSP is contemplating a shift to a fixed inflation goal, possibly setting it at 2.0% next year (2026), from the existing 2.0%-4.0% target range. BSP Governor said this aims at improving clarity and conveying policy direction more effectively.

CURRENCY

Consolidation of recent gains in 3Q25

During 2Q25, the peso (PHP) has appreciated by 2.8% q/q to 55.71 against the USD on 2 Jun (vs 1Q25: +1.3% to 57.26), in tandem with regional currencies. This is mainly a result of US tariffs, fiscal outlook, and US credit rating downgrade eroding investors' confidence on the greenback and dollar-denominated assets.

Other factors driving the gains in PHP included (i) lower global oil prices that would help to narrow the country's balance of payment deficits and to contain inflation; (ii) signs of policy continuity as President Ferdinand Marcos Jr retained his economic managers while replacing his top diplomat during a Cabinet reshuffle on 22 May after an underwhelming performance by his allies in the 12 May mid-term elections; and (iii) BSP's plans to reduce its holdings of US Treasuries and diversify its foreign reserves into other currencies and asset classes. Presently, dollar-denominated assets made up about 80% of the Philippines' foreign reserves.

Going forward, sentiment on the Philippine markets is also expected to improve as investors look past the mid-term election results and anticipate policy continuity and financial stability. In the near term, the PHP may consolidate recent gains as the expiration of the 90-day tariff pause looms in Jul. Our updated forecasts for USD/PHP are at 56.5 in 3Q25, 55.8 in 4Q25, 55.3 in 1Q26, and 55.0 in 2Q26.

FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
USD/SGD	1.30	1.29	1.29	1.28
SGD 3M SORA (compounded)	2.24	2.16	2.10	2.03
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	1.8	4.4	1.7	1.4
Core CPI (avg y/y %)	4.2	2.8	0.7	1.3
Unemployment Rate, eop (%)	2.0	1.9	2.6	2.4
Current Account (% of GDP)	17.7	17.5	16.5	16.0
Fiscal Balance, FY (% of GDP)	-0.4	0.9	0.9	1.1

ECONOMY

Payback effects likely to weigh on growth in 2H25/1H26

Singapore's economy could continue to remain resilient in 2Q25, supported by front-loading activity given the current pause on reciprocal tariffs and (temporary) truce on US-China trade tensions opens a window for acceleration in deliveries by exporters as a hedging strategy given the risk could now be asymmetrically skewed towards higher tariffs post the 90-day period as well as looming Section 232 tariffs on pharma and semiconductors, especially if ongoing US' negotiations with its trading partners were to go south, as in the case of EU where Trump threatened to raise reciprocal tariffs on EU to 50% on 9 Jul 2025, much higher than the 20% announced on Liberation Day. For Singapore, it could be somewhat challenging to negotiate away the baseline 10% tariff (following the contours of the US-UK trade deal) although negotiations will focus on lowering pharma tariffs even to zero percent and securing Singapore's access to US chips (ST, 19 May).

Monthly data for Apr indicates lingering front-loading momentum as reflected by the surge in electronics NORX to a near record 58.9% y/y (Mar: 9.2%) and resilient container throughput (Apr: 7.1% y/y, Mar: 7.0%). For 2025, we project Singapore's economic growth to moderate to 1.7% (2024: 4.4%) with a much weaker 2H as front-loading momentum dissipates, compounded by less favourable base effects. Payback from the earlier frontloading could result in a more protracted downturn in manufacturing and trade-related services (wholesale trade, transportation & storage) into 2026 and we forecast GDP growth to slow further to 1.4%. Under our baseline assumptions, the output gap remains slightly negative in 2025 with growth likely to run markedly below potential into 2026. Firms and consumers are likely to remain cautious and hold back on large purchases or investments amidst elevated tariff and financial market uncertainty, portending a more challenging external demand backdrop in the near-term, which could affect Singapore's economy disproportionately given its higher share of domestic value-added (DVA) in final demand compared to other Asian economies.

CENTRAL BANK

MAS to ease further and flatten slope (i.e. 0% p.a.) in Jul MPS

Singapore's core inflation momentum (on a 3M/3M sa basis) saw a slight pickup in Apr although still below historical averages. Should recent weakness in core momentum persist, the 2025 full-year average core inflation is likely to undershoot MAS' forecast of 0.5-1.5%. We project the full-year 2025 average core inflation at 0.7% (2026F: 1.3%) with risks tilted towards the downside on weaker external demand, in addition to possible rerouting of excess supply into ASEAN. Upside risks to services inflation should be capped amidst a cooling domestic labour market where surveys by MOM in the 1Q25 Labour Market Advance Release indicate a lower proportion of firms having plans to hire and/or intention to raise wages for the next 3 months where services ULC (unit labour cost) moderated further in 1Q25 (0.8% y/y, 4Q24: 1.5%). Imported inflation is likely to stay contained given benign external inflation conditions as proxied by our import-weighted inflation index (note).

In our view, thresholds for an adjustment to a zero percent appreciation stance have likely already been met. Recall in the Apr 2016 episode where MAS then assessed that core inflation is likely to come in the "lower half of the 0.5%-1.5% forecast range" with the level of activity "slightly below potential", the current outlook is arguably similar. Our base case calls for MAS to ease policy further in the upcoming Jul 2025 MPS via a complete flattening of the S$NEER slope i.e. 0% p.a. Odds of a S$NEER band widening in Jul are low in our assessment - with the current S$NEER hovering near the top of the policy band and should the S$NEER levels continue to remain elevated in the run-up to the Jul MPS, any move to widen the policy band would provide the latitude to accommodate a stronger S$NEER, tantamount to a de facto tightening of the current monetary policy stance, which could amplify headwinds to growth or induce deflationary risks.

CURRENCY

USD/SGD to consolidate

Amidst broad USD weakness and safe haven flows into Singapore, USD/SGD dipped below the psychological 1.30 level and touched an 8-month low of 1.2802 late May. Year-to-date, the SGD has gained close to 6% against the USD, making it the best-performing ASEAN currency. The S$NEER is currently trading about 1.8% above the policy midpoint (as of 30 May), near to the 2.0% band which limits further appreciation potential both against the USD and other currencies in the S$NEER basket. We expect the MAS to ease policy further by flattening the slope in Jul, which could prompt the S$NEER to begin normalizing lower. As a result, we anticipate USD/SGD to consolidate near the 1.30 level in the coming quarters, with updated forecasts of 1.30 in 3Q25, 1.29 in both 4Q25 and 1Q26, and 1.28 in 2Q26.

FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
USD/KRW	1,420	1,380	1,360	1,340
KRW Base Rate	2.50	2.25	2.00	2.00
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	1.4	2.0	1.0	1.7
CPI (avg y/y %)	3.6	2.3	1.9	1.9
Unemployment Rate (%)	3.2	3.7	3.2	3.2
Current Account (% of GDP)	1.8	5.3	4.5	3.5
Fiscal Balance (% of GDP)	-1.5	-1.7	-2.2	-1.5

ECONOMY

Weak momentum

South Korea's advance 1Q25 GDP contracted by -0.1% y/y, -0.2% q/q. This is the first q/q contraction since 3Q24 and the first y/y contraction since 1Q21. Notably, the economy was already on a weak footing before the start of the trade war as the GDP momentum stalled in the past year. On the expenditure side, the decline in growth momentum was seen across all the key components in 1Q25 including private and government consumption, gross fixed capital formation and goods exports while services exports managed to stay positive.

US tariffs have begun to take a toll on South Korea's economy. The manufacturing PMI contracted at a larger pace in Apr and May. Exports fell in May for the first time in four months by -1.3% y/y as shipments to both the US and China contracted. Chip exports continued to expand at a double-digit pace which cushioned the declines in exports of petrochemicals, petroleum products, steel, home appliances as well as automobiles and auto parts.

Despite external uncertainties, the domestic outlook may start to pick up after the presidential election on 3 Jun. The consumer sentiment index jumped to 101.8 in May from 93.8 in Apr, returning to expansion (reading of >100) for the first time since the Dec martial law in anticipation of stronger economic policy from the new government and the temporary suspension of US' tariffs. Nonetheless, business sentiment has remained in contraction despite some improvements. Private sector hiring has continued to decline in Apr despite the increase in employment which was due largely to the government's job support programme.

The BOK has lowered its forecasts for GDP growth in both 2025 and 2026, to 0.8% (from 1.5%) and 1.6% (from 1.8%) respectively. The 0.7%-point downgrade for 2025 growth is attributed to a worsening slump in the construction business (-0.4% point), a weaker-than-expected recovery in private consumption (-0.15% point) and export slowdown (-0.2% point). Looking ahead, more sector-specific tariffs on semiconductors and pharmaceuticals by the Trump administration will have a significant impact on South Korea's trade. We have revised down our projection for 2025 GDP growth to 1.0% (from 1.7%) following the release of the preliminary 1Q25 GDP data. Our forecast for GDP growth in 2026 is also lower at 1.7% compared to 1.9% previously.

Key watchpoints will be the potential policy changes related to corporate governance reform, stronger support for key industries, and prospects of a second supplementary budget after the 3 Jun presidential election. South Korea's government has approved its first supplementary budget for this year on 1 May, raising it to KRW13.8 tn from a proposed KRW12.2 tn which is estimated to lift the growth by slightly more than 0.1% point this year with 70% of the extra budget to be used within three months. On the top of the new government's task list is to finalise a package deal with the US on trade issues, including tariffs, non-tariff barriers and economic cooperation, by 8 Jul before the end of the US' 90-day pause on the 25% reciprocal tariff on the country. The outlook is clouded with more uncertainties following the legal twists in the US over the Trump's tariffs imposed using the International Emergency Economic Powers Act (IEEPA).

Headline and core inflation (excluding food & energy) both averaged 2.1% y/y in Jan-Apr. Inflation is expected to have stabilized at around 2.0% though it will continue to be affected by the volatilities in exchange rates and global oil prices while domestic demand pressure is expected to stay muted. We keep our inflation forecast for 2025 at 1.9%.

CENTRAL BANK

Extending rate cuts to 1Q26

BOK's 25bps rate cut on 29 May brings the benchmark 7-day repo rate to 2.50% and the cumulative easing since Oct 2024 to 100bps. The key driver is the increasing downside growth risks and trade uncertainties while inflation continues to stabilize. The BOK is maintaining its rate cut stance. While Governor Rhee said larger rate cuts are possible in the future, he indicated that the base rate is unlikely to fall below 2.00% in the short term. Clearly, the BOK remained concerned about the impact of monetary easing on household debt growth and the won.

There are four more meetings for the rest of 2025 - 10 Jul, 28 Aug, 23 Oct and 27 Nov. For this year, we maintain our call for one more 25bps cut but we push back the call to 4Q25 (likely in Oct) rather than 3Q25. Additionally, we now factor in one more 25bps rate cut in 1Q26 to bring the base rate to a terminal level of 2.00%.

CURRENCY

KRW to pull back in 3Q25

The KRW was amongst outperformers within the Asia FX space, rising over 7% to 1,374 /USD in the 2Q-till-date (as of 2 Jun). The broad de-dollarization theme together with speculation that US may request KRW appreciation as part of US-Korea trade talks contributed to the outsized move.

In the coming quarter (3Q25), the KRW may start to consolidate recent gains given tariff uncertainties may start to rise again as the expiration of the 90-day tariff truce looms in Jul. Domestic headwinds include a downbeat growth outlook and a dovish BOK. Overall, our updated USD/KRW forecasts are 1,420 in 3Q25, 1,380 in 4Q25, 1,360 in 1Q26 and 1,340 in 2Q26.

FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
USD/TWD	30.5	30.2	29.8	29.5
TWD Official Discount Rate	2.00	2.00	2.00	2.00
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP (%)	1.1	4.8	3.5	2.5
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	14.1	13.5	13.0
Fiscal Balance (% of GDP)	-0.6	-1.7	-0.7	-0.5

ECONOMY

Strong momentum to reverse in 2H25

Taiwan's GDP growth surged to 5.48% y/y or 1.76% q/q in 1Q25 from the preceding quarter's 3.82% y/y or 1.68% q/q. The upbeat performance was due to more than 20% y/y expansion in exports and private sector gross fixed capital formation. This was in turn underpinned by frontloading of exports to the US and strong global demand for advanced chips and investments in R&D. The unemployment rate remained at a low 3.36% in Mar while wage growth was supported by the robust outlook. However, private consumption and government consumption growth moderated to 1.36% y/y and 0.44% y/y from 2.12% y/y and 2.43% y/y respectively in 4Q24.

The main contributions to the headline GDP growth in 1Q25 came from gross fixed capital formation and net exports at 4.54% points and 0.77% points respectively. Contributions from private consumption were 0.63% point and government consumption at a modest 0.06% point. Inventory was a drag of -0.52% point on growth.

The frontloading of industrial production and shipments to the US have stayed strong ahead of the expiration of the 90-day tariff pause on 9 Jul after which US' 32% reciprocal tariffs on Taiwanese goods will kick in. Export orders rose by nearly 20% y/y in Apr, with orders to the US up 30.3% y/y and the electronics export orders surging 35.0% y/y. Taiwan's dependence on the US markets and electronics exports is stark with US' share of Taiwan's exports rising sharply to 23.4% in 2024 (2017: 11.7%). Electronic components and parts accounted for 37.3% while ICT and audiovisual products accounted for 27.9% of its total exports.

The path to a trade deal with the US faces complications after the US Court of International Trade blocked Trump's tariffs imposed using the International Emergency Economic Powers Act (IEEPA). Taiwan also faces significant risks from a potential tariff on US' semiconductor imports, which is currently exempt from the reciprocal tariffs. This would serve to quicken frontloading as much as possible.

Looking ahead, the high base and payback from the strong frontloading in 1H25 will contribute to a sharp reversal in growth momentum in 2H25, potentially leading to a contraction in exports and investments in the later part of the year. The relatively lackluster private consumption will need to be bolstered and there will also be concerns over the secondary impact from US' trade war as demand from other markets such as China, EU and ASEAN slow. Despite the downside risks, AI-related demand is expected to stay relatively strong and factoring in the 1Q25 data, we maintain our forecast for Taiwan's GDP growth at 3.5% this year, compared to the official forecast of 3.1%. We assume growth to stay at a robust 5.1% y/y in 2Q25 before slowing to 1.7% y/y in 2H25. We lowered our forecast for 2026 GDP growth to 2.5% from 3.0% previously.

Taiwan's core inflation has eased, and headline inflation is settling around the 2% threshold. Headline and core inflation averaged 2.2% y/y and 1.6% y/y in Jan-Apr. Lower oil and raw material prices as well as the appreciation in TWD are expected to temper food and rent inflation. The government also delayed an electricity rate increase in 1H25. Headline inflation is likely to moderate gradually and average 1.9% in 2025 and 1.8% in 2026.

CENTRAL BANK

Monetary policy easing bet surfaced amid tariff risks

Taiwan's 1Y swaps fell to a low of 1.52% post-Liberation Day tariff announcement, around 16-bps below the 3M TAIBOR and the widest gap since 2014. The discount has since halved as markets pared back rate cut expectations.

The CBC has delivered cumulative rate hikes of 87.5 bps between Mar 2022 to Mar 2024, and tightened the reserve requirement ratios (RRR) and its selective credit control measures several times to cool the property market. The current benchmark discount rate at 2.0% is the highest level since 2008. While our base case remains for the CBC to stay on hold at 2.0% for the rest of the year, we acknowledge the risk of a 12.5-bps rate cut in 2H25 as Taiwan's growth slows. The sharp appreciation of the TWD against the USD and slowdown in property price gains also has created some policy space for the CBC to cut interest rates or lower banks' RRR to inject liquidity into the market. The upcoming quarterly monetary policy decision will be on 19 Jun.

CURRENCY

Consolidation to follow

The TWD was the best performing Asia FX in 2Q25, surging over 10% to about 30 /USD. Against a backdrop of strong domestic fundamentals, relatively stable monetary policy stance, strong inflows from exporters and foreign investors in the TWD contributed to the local dollar surge. The daily volume of USD/TWD trades in early May also jumped to the most since the 2008 global financial crisis.

The TWD topped out at 29.45 /USD after intervention by the CBC to smooth volatility and also clarification by Taiwan's trade negotiation team that US did not require the TWD to appreciate in its trade talks.

Going forward, we expect a period of consolidation in USD/TWD as markets assess tariff developments in the coming quarter just as the 90-day reciprocal tariff truce is expected to expire in Jul. After which, USD/TWD may continue to grind lower. Overall, our updated USD/TWD forecasts are at 30.5 in 3Q25, 30.2 in 4Q25, 29.8 in 1Q26 and 29.5 in 2Q26.

FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
USD/THB	33.4	33.0	32.7	32.5
THB 1D Repo	1.75	1.25	1.00	1.00
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP (%)	2.0	2.5	2.0	2.6
CPI (avg y/y %)	1.2	0.4	0.6	0.8
Unemployment Rate (%)	1.3	1.0	1.0	1.0
Current Account (% of GDP)	1.5	2.1	2.3	2.5
Fiscal Balance (% of GDP)	-2.3	-2.4	-4.5	-4.3

ECONOMY

Slower growth momentum ahead

The Thai economy grew by 3.1% y/y and 0.7% q/q sa in 1Q25, exceeding market expectations of 2.9% y/y and 0.6% q/q sa, according to a Reuters poll. Growth was driven by external demand, particularly merchandise exports, which benefited from a front-loading effect that mitigated the impact of reciprocal tariffs imposed by the US. Government spending and private consumption also contributed to growth. The near-term outlook has become more cautious due to global trade policy uncertainties, weakening global growth, and softening domestic demand. While we expect economic momentum to slow in the latter half of 2025, we maintain our 2025 growth forecast at 2.0% (vs. NESDC est: 1.8%).

Despite the temporary trade truce, global tensions and uncertainty are expected to continue exerting downward pressures on the economy, particularly in the second half of 2025 and into 2026, given the country's considerable dependence on global trade and external demand. While trade negotiations remain in the backdrop, we expect that Thailand could face a 10% universal tariff rate imposed by the US once the 90-day suspension on reciprocal tariffs expires in early Jul, under our base case scenario.

The expected cyclical recovery is now more challenging in the near term. However, key growth drivers — external demand, government spending, and private consumption — are expected to remain resilient. Merchandise exports are expected to maintain positive growth in 1H25, but moderate in 2H25. Tourism continues to normalize, albeit more slowly than expected. Government spending will focus on public investment and short-term fiscal support, while a surge in approved FDI amounts could bolster private sector investment, particularly in new S-curve industries (including EVs, smart electronics, and automation).

Risks to the outlook are skewed to the downside amid structural challenges domestically. Key concerns include a softer global economy, escalating trade tensions, and the negative feedback loop between contracting bank lending and slowing economic activity.

Inflationary pressures are expected to remain subdued, with headline inflation projected to remain below the lower bound of the BOT's 1%-3% target range over the medium term. Headline CPI is expected to average 0.6% in 2025, rising slightly to 0.8% in 2026. External stability remains broadly intact. However, a smaller current account surplus is anticipated due to weaker merchandise exports and lower foreign tourist arrivals. Cross-border portfolio flows are expected to remain volatile amid global trade tensions.

CENTRAL BANK

Further rate cuts anticipated

We expect the BOT to maintain a cautious stance and pause rate adjustments at the upcoming meetings in Jun and Aug, reflecting its patience during the current 90-day suspension period for the US' reciprocal tariffs. The central bank has communicated a cumulative 50 bps of rate cuts in the last two MPC meetings should provide adequate cushioning against tariff-related headwinds in the near term. Furthermore, with limited policy space, it has highlighted that heightened uncertainty may limit the immediate effectiveness of additional monetary easing. This underscores the importance of reassessing the broader economic impact of the evolving global trade policies on the economy.

However, we anticipate that the BOT will resume monetary easing once the 90-day tariff pause ends, particularly following the expiry of the temporary tariff reductions between the US and China on 12 Aug. Under our baseline scenario, a 10% reciprocal tariff imposed by the US upon the conclusion of the suspension period would likely intensify negative feedback loops between weakening external demand and deteriorating domestic economic conditions, compounding ongoing domestic challenges, including contracting commercial bank lending, a subdued inflation outlook, and lingering tight financial conditions, reinforcing the case for further monetary support. Given narrower fiscal policy space, we anticipate the central bank to implement additional rate cuts of 25 bps each in Oct, Dec, and the first quarter of next year, bringing the policy rate down to 1.00% by the first quarter of 2026.

CURRENCY

Consolidate gains in 3Q25

The THB mirrored gains of its ASEAN peers in 2Q25 and rebounded to a 7-month high of 32.37 in late May as the global trade war showed signs of de-escalation. That said, we think the THB is still facing some idiosyncrasies which may weigh on its current strength. These include a potential reset to a higher US tariff rate after the 90-day truce period from the current 10% universal rate, persistent outflows from the local stock market and our expectations of an additional 50 bps BOT rate cuts in 2H25. As such, we expect the THB to pare some of its recent gains in the coming 3Q25 before recovering starting 4Q25. Overall, our updated USD/THB forecasts are 33.4 in 3Q25, 33.0 in 4Q25, 32.7 in 1Q26 and 32.5 in 2Q26.

FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
USD/VND	26,300	26,100	25,900	25,700
VND Refinancing Rate	4.50	4.50	4.50	4.50
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	5.1	7.1	6.0	6.3
CPI (avg y/y %)	3.3	3.6	3.6	4.0
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

Tariff risks continue to weigh on outlook

Vietnam's real GDP moderated to 6.93% y/y in 1Q25, the General Statistics Office reported on 6 Apr. The pace was below our and consensus views of 7.1% (4Q24: 7.55%). The slower pace was partly due to the Lunar New Year holidays but was cushioned by a generally positive tone in trade and investment activities during the quarter. Nonetheless, the data became moot as the 2 Apr "Liberation Day" event had dominated market sentiment during that time.

The 2 Apr "Liberation Day" announcement of a punitive 46% rate against Vietnam's exports certainly shocked the world. This, along with many of the "reciprocal tariffs" announced on the day was significantly higher than previously expected. Even Singapore, which has a bilateral free trade agreement with the US, is subject to a baseline of 10%.

In the 2Q25 Quarterly Report published on 7 Mar, we had cautioned that Vietnam's heavy dependence on international trade and open nature of its economy rendered it vulnerable to disruptions to international trade – especially in light of US President Trump's persistent emphasis on addressing trade imbalances. Soon after the announcement of "reciprocal tariffs", the US introduced a 90-day pause on 9 Apr, applying a universal 10% "baseline" tariff (except for China) to allow time for trade negotiations.

In response to the 2 Apr announcement, we lowered our growth outlook for 2025 and 2026 across the board to factor in the sharp negative impact on global trade and investment flows. For Vietnam, we slashed its growth forecast by 1% pt, to 6.0% (from previous forecast of 7.0% before 2 Apr) vs 7.09% in 2024. The National Assembly had earlier set a growth target of "at least 8%" in 2025 with aspirations to achieve "double-digit" growth between 2026 and 2030.

Looking ahead, the next critical milestone will be 9 Jul when the 90-day pause is set to expire. According to news reports, Vietnam has been engaging the US in trade negotiations, with the second round of discussions held on 19-22 May. The next round is set for "end of Jun".

Economic activities have picked up with the 90-day reprieve, with both exports and imports in Apr rising more than expected from a year earlier, at 20% and 23%, respectively, due to "frontloading" in the 90-day window. Exports to its largest market, the US, surged by 34% y/y, the fastest pace since Jan 2024.

With looming uncertainty over tariffs, we remain cautious on Vietnam's outlook, given its heavy dependence on trade (exports at 90% of GDP), reliance on the US (about 30% of total exports), and concentration in key sectors such as electronics & electrical, furniture, apparel and footwear (which collectively make up 80% of exports to the US). We maintain our call for Vietnam's full-year growth forecasts at 6% in 2025 and 6.3% in 2026, with growth projections for 2Q25 and 3Q25 at 6.1% and 5.8%, respectively.

CENTRAL BANK

SBV to hold steady for now

Vietnam's inflation rate slowed somewhat, to around 3.1% y/y in both Mar and Apr, decelerating from the average of 3.6% in 2024 and 3.26% in 2023, staying below the 4.5% target. This benign inflation backdrop amidst global trade tensions and uncertainty over tariffs has opened the possibility for the SBV to ease its policy stance. However, unlike other regional neighbours, the current weakness in the VND exchange rate is a consideration for the SBV. At the current juncture, we expect SBV to keep its main policy rate steady, with the refinancing rate held at 4.50%. Should domestic business and labour market conditions deteriorate sharply, we anticipate the possibility of SBV lowering the refinancing rate in a single step to the COVID-19 low of 4.00%, then followed by an addition 50bps cut to 3.50%, provided that the FX market remains stable and the US Fed moves ahead with rate cuts. For now, our base case remains that SBV will keep policy rates unchanged.

CURRENCY

Laggard within the region

The VND stands out as an underperformer since "Liberation Day" amid the broader regional FX rebound in 2Q25. VND depreciated by 1.8% in the quarter-to-date to a new record low of about 26,000/USD. This weakness is driven by a subdued economic outlook – our 2025 GDP growth forecast is 6.0%, down from 7.09% in 2024 – and the looming risk of a return to the steep 46% "Liberation Day" tariff should the US-Vietnam trade negotiations fail to see meaningful progress. These factors are expected to keep the VND under pressure in the near term. We anticipate the currency will remain near the weaker end of its trading band against the USD through 3Q25. However, starting in 4Q25, the VND may begin to align with the broader recovery trend in Asian currencies as trade-related uncertainties begin to ease. Overall, our updated USD/VND forecasts are 26,300 in 3Q25, 26,100 in 4Q25, 25,900 in 1Q26 and 25,700 in 2Q26.

FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
AUD/USD	0.64	0.65	0.66	0.67
AUD Official Cash Rate	3.60	3.35	3.10	2.85
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	2.1	1.1	1.8	2.2
CPI (avg y/y %)	5.6	3.2	2.5	2.7
Unemployment Rate (%)	3.7	4.0	4.2	4.3
Current Account (% of GDP)	-0.3	-1.9	-2.0	-2.5
Fiscal Balance, FY (% of GDP)	0.1	-1.4	-1.0	-1.5

ECONOMY

To see impact from global uncertainties

GDP grew 0.2% q/q in 1Q25 from 4Q24, when it expanded 0.6% q/q. From a year earlier, growth came in at 1.3% in 1Q25, unchanged from 4Q24. Public spending recorded the largest detraction from growth since 3Q17. Extreme weather events reduced domestic final demand and exports. Weather impacts were particularly evident in mining, tourism and shipping.

Tariff announcements from the US since 2 Apr have led to significant downside risks both globally and domestically. The direct impact from Australia's bilateral trade with the US is expected, in aggregate, to be limited given the US accounts for about 4.6% of Australia's goods exports (in 2024). However, particular sectors will be more affected than others. The indirect effects on Australian exports through other major trading partners, particularly China, will be more significant. Ongoing uncertainty in relation to the ongoing trade war will likely have negative implications for consumption and business investment in Australia. As such, we have slightly revised lower our economic growth forecast for Australia to 1.8% in 2025 (from 1.9% previously).

The unemployment rate has been broadly stable at around 4.0% over the past year and is expected to rise to 4.4% later this year. Employment growth over the past two years has been driven primarily by employment in the non-market sector. As economic activity picks up, market sector employment growth is expected to gradually recover while non-market sector employment growth moderates.

Inflation has moderated, both in headline and underlying terms, since its peak in 2022. CPI rose 0.9% q/q in 1Q25, stronger than consensus forecast of 0.8% q/q, but slightly weaker than the RBA's projection of 1.0% q/q in Feb. The annual pace remained steady at 2.4%. Core inflation also came in stronger than expected, with the trimmed mean CPI rising 0.7% q/q, following the 0.5% q/q rise in 4Q24. The annual pace of trimmed-mean inflation slowed to 2.9% from an upward revised reading of 3.3% y/y in 4Q24. For the month of Mar, the monthly CPI was steady at 2.4% y/y, while on a month-on-month basis, CPI rose 0.6% after staying unchanged in Feb. As Commonwealth and state energy rebates expire, headline inflation will be temporarily higher in the near term. That said, overall inflation is easing and now sits within the RBA's target band of 2%-3%. This gives the RBA more room to consider further easing without risking inflation overshooting.

CENTRAL BANK

RBA to continue easing

As expected, the RBA decided to lower the cash rate target by 25 bps to 3.85% and the interest rate paid on Exchange Settlement balances to 3.75% on 20 May. This is the second interest rate cut this year. The RBA had lowered borrowing costs in Feb for the first time in five years, but kept the cash rate steady in Apr, just a day before US President Donald Trump unleashed a wave of reciprocal tariffs.

The RBA stated in the May accompanying press release, that "the Board judged that the risks to inflation have become more balanced. Inflation is in the target band and upside risks appear to have diminished as international developments are expected to weigh on the economy. With inflation expected to remain around target, the Board therefore judged that an easing in monetary policy at this meeting was appropriate. The Board assesses that this move will make monetary policy somewhat less restrictive".

The RBA also released its updated economic forecasts in the quarterly release of its Statement on Monetary Policy – May 2025, reflecting a cautiously optimistic outlook amid easing inflation and global uncertainties. The RBA sees headline inflation dropping to 2.1% by mid-2025 before going back to 3.0% by the end of the year, as the electricity subsidies are removed. By mid-2027, it will be back near the middle of the 2%-3% target. Underlying inflation is forecast to stay around the middle of the target band throughout. Meanwhile, the RBA slashed its forecast for GDP to 2.1% by Dec, down from its previous forecast of 2.4% made in Feb. The unemployment rate is expected to increase to 4.3% by the end of the year and remain there through 2026.

We had penciled in an additional 50 bps of easing in 2025 (25 bps cuts in Aug and Nov). That said, given the softening in the economy, low inflation and rising unemployment rate, we now look for the Australian central bank to take the cash rate into modestly accommodative territory, delivering another 50 bps thereafter to reach a cyclical low of 2.85% (versus 3.35% previously) by mid-2026.

CURRENCY

Cautiously positive AUD

After staging a v-shaped recovery in response to the 90-day Liberation Day tariffs pause, AUD/USD has largely consolidated between 0.6350 and 0.6500 since mid-Apr. The US-China deal in May to cut tariffs for 90 days also failed to inspire an upside breakout in AUD/USD even amidst broad USD weakness. This reflected investors' caution about further progress in US-China trade negotiations. A dovish RBA rate cut weighed on the AUD as well as the central bank considered a larger half-point reduction. Overall, we reiterate our cautiously positive on AUD/USD premised on broad USD weakness and gradual progress in trade talks, though a global trade slowdown will likely cause AUD to lag its G-10 peers this year. Our updated AUD/USD forecasts are 0.64 in 3Q25, 0.65 in 4Q25, 0.66 in 1Q26 and 0.67 in 2Q26.

FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
EUR/USD	1.14	1.15	1.16	1.17
EUR Refinancing Rate	1.90	1.65	1.65	1.65
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	0.4	0.7	0.5	1.0
CPI (avg y/y %)	5.5	2.4	2.0	1.7
Unemployment Rate (%)	6.6	6.4	6.3	6.4
Current Account (% of GDP)	1.7	2.7	2.3	2.3
Fiscal Balance, FY (% of GDP)	-3.5	-3.1	-3.3	-3.2

ECONOMY

Slowdown as trade war hits

GDP growth in the Eurozone will be sluggish in 2025. At the time of writing, the extent of tariff increases that the US administration will impose on European imports is unclear. Much will depend on how talks with the US develop during the current 90-day window that U President Donald Trump has allowed for negotiations. Notably, before the recent trade tensions, the average US tariff rate on imports from the EU was about 1.47%, while on EU imports from the US, it stood around 1.35%. Based on 2023 trade volumes, full implementation of Trump's tariffs could potentially raise the average tariff rate on imports from the EU to 15.2%. Most of this comes from the 20% "reciprocal tariff" on most products (9.7ppts of an increase of 13.7ppts), while tariffs on steel and aluminium (1.4ppts) and vehicles (2.6ppts) contribute relatively little.

The hit for the European economy will depend on the actual tariff rate the US settles on and the EU's response. We estimate that the effective tariff rate increase on US imports from the EU is around 9ppts, now that Trump has paused the higher-rate reciprocal tariffs on the EU. This number could rise if pharmaceuticals and chemicals are hit with a higher tariff. These political developments have, nonetheless, led us to make changes in our base-case scenario. We have revised our GDP growth forecast for 2025 downward to 0.5%, compared with 0.9% previously, as uncertainty and higher US tariffs on European goods imports weigh on demand. Structural issues in key economies like Germany, especially in manufacturing and infrastructure, are also a drag on growth.

That said, confidence in Europe has started to recover. This rebound resulted from falling interest rates and inflation, as well as the continued strength of the labour market. Of significance is Germany's historic amendment to its Basic Law on 18 Mar, which represents a significant departure from its traditionally conservative fiscal stance. The amendment paves the way for a fiscal package of up to EUR900bn, which is almost 20% of German GDP and about 5% of EU GDP. This includes a EUR500bn infrastructure investment fund, EUR100bn of which will be allocated to a climate change fund. Most notably, the country's debt brake has been adjusted to allow for greater military and civil defence manufacturing, cybersecurity investment, and support for Ukraine. We believe its effects on the real economy will materialize gradually.

Inflation in the Eurozone is moderating and expected to approach the ECB 2.0% target by 2026. This decline is driven by easing commodity prices and the lagged effects of tighter monetary policy. CPI eased to 1.9% y/y in May, down from 2.2% y/y in Apr. The figure surprised to the downside, coming in slightly below forecast of 2.0%. Core CPI fell to 2.3% y/y from 2.7% y/y in Apr. Services inflation, which is the big area of concern for the ECB, also fell sharply to 3.2% y/y in May from 4.0% y/y in Apr. The broad downward trend is likely to remain in place as wage growth returns to levels consistent with price stability. Our inflation forecasts for the Eurozone now stand at 2.0% in 2025 and 1.7% in 2026, down from 2.2% and 1.9%, respectively.

CENTRAL BANK

ECB to remain data-dependent

The ECB meets on 5 Jun, where we are anticipating a 25 bps cut. It had cut interest rates by 25 bps at its 17 Apr meeting, marking the seventh time since Jun 2024 that the central bank has lowered rates. During the press conference, ECB President Christine Lagarde said that the Governing Council had discussed the option of a 50 bps cut, but that the decision to cut by 25 bps was unanimously taken. In addition, Lagarde said that assessing the current level of monetary policy restrictiveness is "meaningless", after the ECB Governing Council removed a line characterizing the level of restrictiveness of monetary policy from its statement.

Notably, the disinflationary consequences of weaker demand and cheaper imports looking for new destinations will strengthen the case for further monetary easing by the ECB. On balance, ECB officials have recently signaled they are ready to bring rates lower. Including the 25 bps cut in Jun, we are expecting three reductions of the same size this year, taking the deposit rate to 1.50%. We previously expected it to settle at 2.00%.

CURRENCY

EUR benefiting from USD weakness

EUR was the main beneficiary when de-dollarization talks gained traction in the last couple of months and touched a high of 1.1573 in Apr, its highest level since Nov 2021. The optimism over the EUR was also captured by the option markets, which priced the highest premium of EUR/USD calls relative to puts since the height of the pandemic in Mar 2020. For the same reason, if the de-dollarization theme fades alongside tariff risks, EUR's rally may cool. While an expected recovery of the EUR-USD rate differentials may keep the EUR/USD uptrend intact, its pace is likely to moderate. Overall, our updated forecasts for EUR/USD are 1.14 in 3Q25, 1.15 in 4Q25, 1.16 in 1Q26 and 1.17 in 2Q26, positioning the EUR as one of top-performing Major FX this year.

FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
NZD/USD	0.60	0.61	0.62	0.62
NZD Official Cash Rate	3.00	3.00	3.00	3.00
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	1.8	-0.5	1.0	2.4
CPI (avg y/y %)	5.8	2.9	2.1	2.1
Unemployment Rate (%)	3.7	4.7	5.3	5.0
Current Account (% of GDP)	-7.8	-6.5	-5.0	-4.6
Fiscal Balance, FY (% of GDP)	-2.1	-1.9	-3.3	-2.5

ECONOMY

In a phase of recovery

The New Zealand economy is slowly recovering from a deep recession which occurred last year. Real GDP grew by 0.7% q/q in 4Q24, up from the -1.1% q/q reading in 3Q24. 1Q25 figures will be due on 19 Jun. The economy is expected to receive broad support from lower interest rates, a strong export performance (particularly in dairy and meat), and a rebound in tourism. Still, confidence and investment remain weak. New Zealand's business confidence slumped to a nine-month low in Apr, as US President Donald Trump's tariff policies prompted companies to put investment and hiring plans on hold. The monthly index of business sentiment fell to 49.3 from 57.5 in Mar, the lowest reading since Jul 2024. A gauge of firms' own-activity expectations that correlates with economic growth eased to 47.7 from 48.6. At this juncture, we see the New Zealand economy expanding by around 1.0% in 2025.

Inflation, which peaked at 7.3% in 2022, has been brought under control through monetary policy. That said, inflation accelerated for the first time since 2Q22, when it reached a 32-year high of 7.3%. CPI rose 2.5% in the first quarter from a year earlier, quickening from 2.2% three months prior. Consumer prices advanced 0.9% from the fourth quarter, also exceeding estimates. We see headline CPI inflation hovering around 2.1% for 2025, largely due to base effects and some imported cost pressures. However, it is expected to return close to the 2% midpoint of the target range by early 2026.

As far as the jobs market is concerned, employment rose 0.1% from 4Q24, in line with the consensus. The level of employment came in 0.1% above the RBNZ's Feb forecast, though a lower-than-expected participation rate kept the unemployment rate in line with the central bank's projection. The labour force participation rate dropped to 70.8%, the lowest since mid-2021. The unemployment rate was unchanged at 5.1%, the highest since 3Q20. The latest jobs data also revealed that pressure on wages is easing as the labour market weakens, with annual wage inflation slowing for an eighth straight quarter. Ordinary time wages for non-government workers rose 0.4% from the previous quarter — the smallest gain since early 2021 — and gained 2.5% from a year earlier, slowing from a 2.9% pace in the previous quarter. Average ordinary time hourly earnings for non-government workers gained 0.2% from the previous quarter and 3.8% from a year earlier. We expect the jobs market to remain sluggish, with the unemployment rate potentially rising above 5.0% over the months ahead. Business confidence has dipped and hiring intentions have retreated amid the uncertainty, dashing hopes for a strong domestic expansion and job creation.

CENTRAL BANK

Towards end of current easing cycle

As widely expected, the RBNZ decided to lower the Official Cash Rate (OCR) for a sixth consecutive meeting in May by 25bps to 3.25%. The decision was not unanimous, with one of the six Monetary Policy Committee members voting against the cut, marking only the second time an OCR decision has gone to a vote. The media release concluded with the statement, "Inflation is within the target band, and the Committee is well placed to respond to both domestic and international developments to maintain price stability over the medium term".

The RBNZ's latest forecasts in its Monetary Policy Statement May 2025 indicate one more 25 bps rate cut and the chance of another, with the benchmark rate now close to its neutral level. The central bank's forward guidance shows the average OCR falling to 2.92% by the end of the year. When asked if the committee has an easing bias, RBNZ Governor Christian Hawkesby said the scenarios are wide enough for the bank not to have a pre-determined path, and that the next decision will be driven by developments.

There will be no monetary policy meeting in Jun, and the next time the RBNZ meets will be on 9 Jul, where we are expecting another 25 bps cut. At this juncture, our view is that this will likely be the last 25 bps cut. Following the start of the current easing cycle in Aug 2024, the RBNZ has been one of the most aggressive rate cutters among its peers, lowering the OCR by 225 bps so far. While the vote reinforces our view that the bar for further OCR cuts going forward remains high, risks are nonetheless tilted towards a lower OCR trough due to increased uncertainty.

CURRENCY

Gains to slow

NZD/USD rebounded strongly from a brief dip to 0.5486 in early Apr, a 5-year low, to 0.6050 as of 3 Jun. The rally was driven by a combination of factors, including broad USD weakness, improving risk sentiment and a rebound in commodity prices (notably dairy, a key New Zealand export). Additionally, the RBNZ's signaling that it may be approaching the end of its monetary easing cycle contributed to the NZD's relative strength, especially against the AUD. Looking ahead to 3Q25, NZD/USD may enter a phase of consolidation as markets digest developments around global trade tariffs. However, a gradual upward trend is expected to resume in the following quarters. Our updated NZD/USD forecasts are 0.60 in 3Q25, 0.61 in 4Q25 and 0.62 in both 1Q and 2Q26.

FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
GBP/USD	1.35	1.37	1.39	1.40
GBP Repo Rate	4.00	3.75	3.50	3.25
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP (%)	0.4	1.1	0.8	0.9
CPI (avg y/y %)	7.4	2.5	3.0	2.3
Unemployment Rate (%)	4.1	4.3	4.6	4.6
Current Account (% of GDP)	-3.5	-2.7	-2.5	-2.5
Fiscal Balance, FY (% of GDP)	-5.2	-5.0	-4.1	-3.6

ECONOMY
Sluggish as global demand weakens

The UK economy saw a strong start to the year, with GDP rising 0.7% q/q in 1Q25, after gaining 0.1% q/q in 4Q24. This was a touch higher than the consensus and the BOE's projection of 0.6%. On a monthly basis, output grew by 0.2% in Mar (consensus forecast: 0.0%). There were no revisions to the Jan and Feb prints of 0.0% and 0.5%, respectively. Overall, the data suggest there was some front-running of tariffs in 1Q25, ahead of the announcement of higher levies in Apr, with underlying demand failing to rebound as meaningfully.

While financial markets cheered a new trade agreement hammered out between the US and the UK on 8 May, there is still a lot of uncertainty as the global tariff war weighs on consumer spending and business investments. We now expect UK's GDP to grow by 0.8% this year, down from our previous projection of 1.0%, and we have also cut our 2026 forecast from 1.4% to 0.9% as longer-term effects hit the UK.

Inflation in the UK jumped to 3.5% in Apr, from 2.6% a month earlier, its highest rate in over a year, driven by increases in energy, water, and other administered prices. Services inflation, watched closely by the BOE for signs of underlying price pressures, accelerated to 5.4% from 4.7%. The central bank had expected a rate of 5.0%. Core inflation, which excludes energy and food, climbed to 3.8%, the highest since Apr last year. Overall, the external environment remains challenging for inflation. Though slowing in commodity prices are likely to offset significant gains; inflation is now well above the 2.0% target, and the BOE expects the rate to accelerate further to a peak of 3.7% in Sep. We see inflation creeping up to 3.0% later this year.

This is a fresh blow for UK PM Keir Starmer, as households face a renewed cost-of-living squeeze at a time when US President Donald Trump's tariffs are weighing on the economic outlook. In the backdrop of these developments, we also have to contend with the effects of a recent increase in National Insurance contributions, which could impact employment, wages, and prices. Employers have warned of lower job creation due to the contributions and minimum wage increases.

CENTRAL BANK
BOE on a careful approach

The BOE delivered a widely anticipated 25 bps cut to its Bank Rate to 4.25% on 8 May. This decision marks the fourth reduction since rates peaked at 5.25% in Jun last year, and it reflects the central bank's efforts to cushion the UK economy against the adverse effects of the trade war. There was a hawkish surprise in the vote split, nonetheless. Five members (Andrew Bailey, Sarah Breeden, Megan Greene, Clare Lombardelli and Dave Ramsden) voted in favour of the proposition. Meanwhile, two members (Swati Dhingra and Alan Taylor) preferred to reduce the Bank Rate by 50 bps to 4.00%. Two members (Catherine L Mann and Huw Pill), however, preferred to leave the Bank Rate unchanged at 4.50%.

As far as updated economic projections were concerned, there was little to suggest an acceleration in the pace of rate cuts. The forecasts are based on the assumption that the BOE's policy rate will decline gradually to 3.50% by 2Q26. UK GDP was expected to jump 0.6% q/q in 1Q25 before slowing sharply thereafter. In terms of its overall GDP forecasts, the BOE raised its growth forecast for 2025 to 1.0% (previously 0.75%), lowered its growth forecast for 2026 to 1.25% (previously 1.50%), and kept its 2027 growth forecast at 1.50%. Meanwhile, CPI inflation forecasts for 2025, 2026 and 2027 were lowered. The BOE now sees a lower inflation peak of 3.5% in 3Q25, compared to a previous forecast peak of 3.7%. CPI inflation is expected to return to the 2.0% target by early 2027, and to fall slightly below that target at 1.9% in both 2Q27 and 2Q28.

It is interesting to note that despite the tariff developments, the BOE has made minimal changes to its growth forecasts as well as its inflation outlook, beyond slightly lowering its headline CPI forecasts to reflect the fall in oil prices. Given all of that, we are maintaining our view that the BOE will keep to a quarterly cadence of cuts for the time being, and hence will choose to pause at the next monetary policy meeting on 19 Jun. Barring any major surprises, further out, we see 25 bps rate cuts in Aug, Nov, and Feb, with the policy rate expected to reach 3.00% by 3Q26.

CURRENCY
Stay positive and carry on

GBP/USD jumped to almost 1.36, the highest in over three years on broad USD weakness and hotter than expected UK inflation, which prompted traders to pare bets on rate cuts from the BOE. The inflation spike will likely keep the BOE cautious in future rate-cut deliberations, keeping to quarterly cadence of 25 bps deductions till mid-2026. The net effect is positive on GBP/USD given that we expect 3 x 25 bps Fed rate cuts by end-2025. The preliminary trade deal between UK and US may constitute a tailwind for GBP/USD as it reduces tariff-induced downside risks for the GBP. On the flip side, there is a risk the euphoria on GBP in the options market – similar to that of the EUR – may recalibrate if the de-dollarization theme loses steam. Overall, we keep to our bullish outlook in GBP/USD with updated forecasts at 1.35 in 3Q25, 1.37 in 4Q25, 1.39 in 1Q26 and 1.40 in 2Q26.

FX & Rates	3Q25F	4Q25F	1Q26F	2Q26F
DXY	99.4	98.4	97.4	96.5
US Fed Funds Rate	4.25	3.75	3.75	3.50
Economic Indicator	**2023**	**2024**	**2025F**	**2026F**
GDP (%)	2.9	2.8	1.0	1.5
CPI (avg y/y %)	4.1	3.0	3.6	2.0
Unemployment Rate (%)	3.8	4.1	4.5	4.5
Current Account (% of GDP)	-3.3	-3.9	-3.9	-3.8
Fiscal Balance, FY (% of GDP)	-6.3	-6.9	-6.3	-6.1

ECONOMY

Sub-trend US growth, inflation risks but no 2025 recession

The US economy started the year with a 0.2% q/q SAAR contraction in 1Q 25, albeit a slight improvement from advance estimate of -0.3%. The main drag on growth was net exports (-4.90 ppts, which was mainly due to a sharp import spike of 42.6%) and to a lesser extent, government spending (-0.1ppt) more than offsetting the positive but slower private consumption (1.2%, 0.8ppt in 1Q, from 4.0%, 2.7 ppts in 4Q), a strong rebound in fixed investments (7.8%, 1.3ppt from -5.6%, -0.2ppt in 4Q) and an even stronger rebound in private inventories (2.64ppts from -0.84ppt in 4Q). Compared to one year ago, GDP grew by 2.1% y/y in 1Q, easing from 2.5% in 4Q.

While the latest GDP report corroborated the view of the US economy entering a sub-trend growth trajectory coupled with rising price pressures, there is upside risk to our growth outlook of 1.0% for 2025 (from 2.8% in 2024) given the improvement to the US-China trade developments (with reference to the 90-day pause) but things are still fluid (i.e. outbursts from China and US that the other side violated the recent trade agreement). We think there is a higher chance of a technical recession in 1H as we are concerned about another import surge in 2Q (following the 90-day pause) which may lead to a weaker 2Q GDP (much like 1Q GDP) although that risk is somewhat reduced following the record 19.8% decline in Apr imports. Atlanta Fed's GDPNow is projecting 2Q GDP growth of 4.6% (as of 2 Jun) while we have a more pessimistic projection of -1.1%.

The road to the US tariff endpoint will not be straightforward, as shown by the legal challenge posed by the US Court of International Trade that blocked many of the tariff measures, only for the Appeals Court to temporarily reinstate them 24 hours later and the subsequent hearing is set on 5 Jun. This could go all the way to Supreme court, but we believe that President Trump will still get his tariffs imposed: if not via the International Emergency Economic Powers Act of 1977 (IEEPA) then perhaps through, 1) more sectoral tariffs under Section 232 (i.e. already on steel, aluminum and autos, potentially on pharmaceuticals, semiconductors, lumber and more?) and 2) Section 301 of the US Trade Act of 1974.

Our Base Case For US Tariffs is as follows:

- Global baseline tariff of 10% regardless of country-specific trade agreement
- 20% tariff rate imposed on economies that run significant trade surpluses with the US
- Up to 60% tariff rate imposed on China
- 25% tariff rate on specific products under Section 232 (where specific economies can get exemptions based on terms of the bilateral trade agreement, such as UK)
- 25% tariff due to fentanyl and border security eventually to be removed.

Beyond tariffs, 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 be positive for US growth in 2H. However, these are likely to add to inflationary pressures and worsen the federal fiscal deficit by adding between US$3 and 5 trillion to the deficit over the next decade. Trump's tough immigration policies may have 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 positive for US energy output and lower pump prices. Our base case remains for no US recession and we have adjusted our recession probability slightly lower to 35% from our previous guidance of 40%.

Unemployment rate is expected to edge higher to 4.5% (from 4.2% in Apr/Mar) while wage growth which has been rising sequentially since Apr 2021, may have settled at the lower range of 0.2-0.3% m/m. CPI inflation will continue to face the challenge of Trump's tariffs. Prices paid for inputs by manufacturers jumped 69.8 in Apr (highest since Jun 2022) and while it eased slightly to 69.4 in May, it nonetheless added to the inflation concerns and expectations for price increases to stay above the Fed's 2% target. That said, because of the 90-day pause and guarded optimism for some degree of de-escalation of US-China trade tensions, we revise our 2025 US headline forecast lower to 3.6% (from the previous forecast of 4.0%) while our core CPI inflation is projected higher than headline CPI at 3.8% due to weaker energy outlook. We continue to assume the tariff-driven inflation to be a one-time spike in prices before coming off sometime next year.

CENTRAL BANK

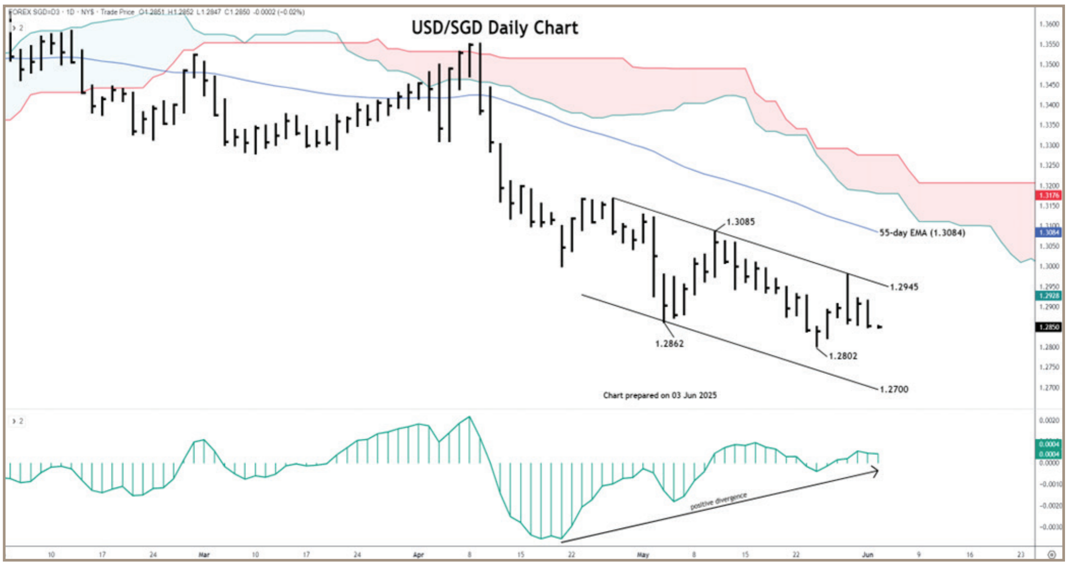
Still expecting 3 cuts in 2H 2025 but the risk is for fewer

The US Fed kept its current Fed Funds Target Rate (FFTR) range unchanged at 4.25%-4.50% so far in 2025 as widely expected, after delivering a total of 100 bps in cuts in the last three meetings of 2024. The May FOMC minutes affirmed the Fed's wait-and-see approach (i.e. pause expected in Jun and Jul FOMC) even as it has upped its warnings about the risks of higher inflation and unemployment, triggered by US trade tariffs and other policies. We continue to hold our view of three 25-bps cuts in 2025, one each in Sep, Oct and Dec FOMC, bringing the FFTR to 3.50-3.75% by end-2025 (although the risk is for fewer cuts due to the heavier emphasis on inflation worries). We are also keeping our view for two rate cuts in 2026, implying a terminal FFTR of 3.25% in 2026.

FX TECHNICALS

USD/SGD: 1.2850

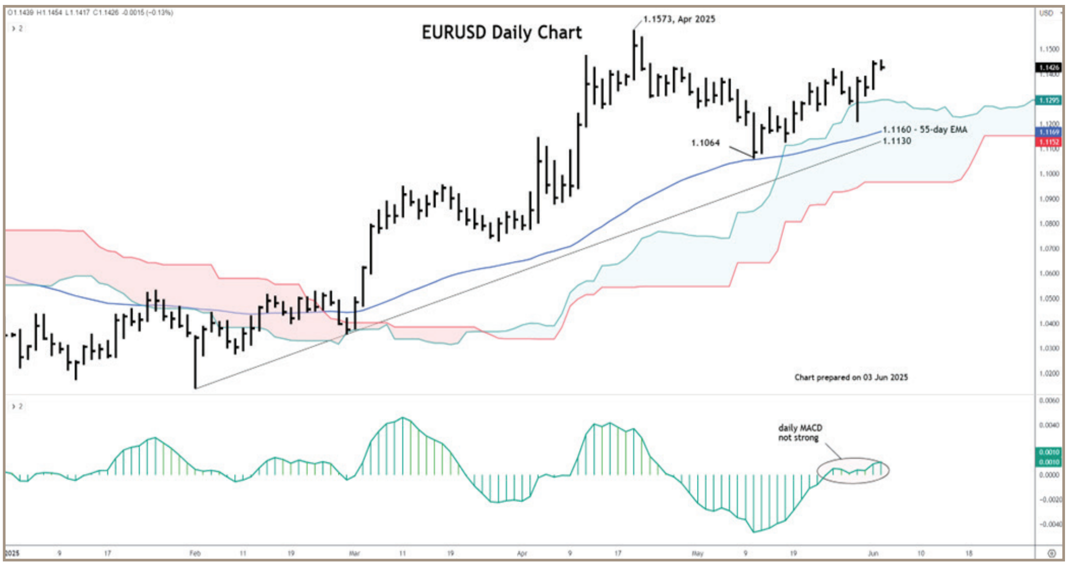
USD/SGD must break above 1.2945 for a recovery or it may drop below last year's low of 1.2790. Positive divergence suggests 1.2700 should hold.



USD/SGD dropped to 1.2862 in early May, rebounded to 1.3085, and subsequently declined to a new low of 1.2802. The daily MACD did not confirm the new low, instead forming a higher low and indicating a positive divergence. Heading into the third quarter of the year, USD/SGD may edge higher, but it must first break above the top of the declining channel, currently at 1.2945, before a more sustained recovery can be expected. While the trendline remains intact, there is scope for USD/SGD to dip below last year's low of 1.2790. Given the positive divergence, any downside below this level is unlikely to reach the base of the channel at 1.2700.

EUR/USD: 1.1425

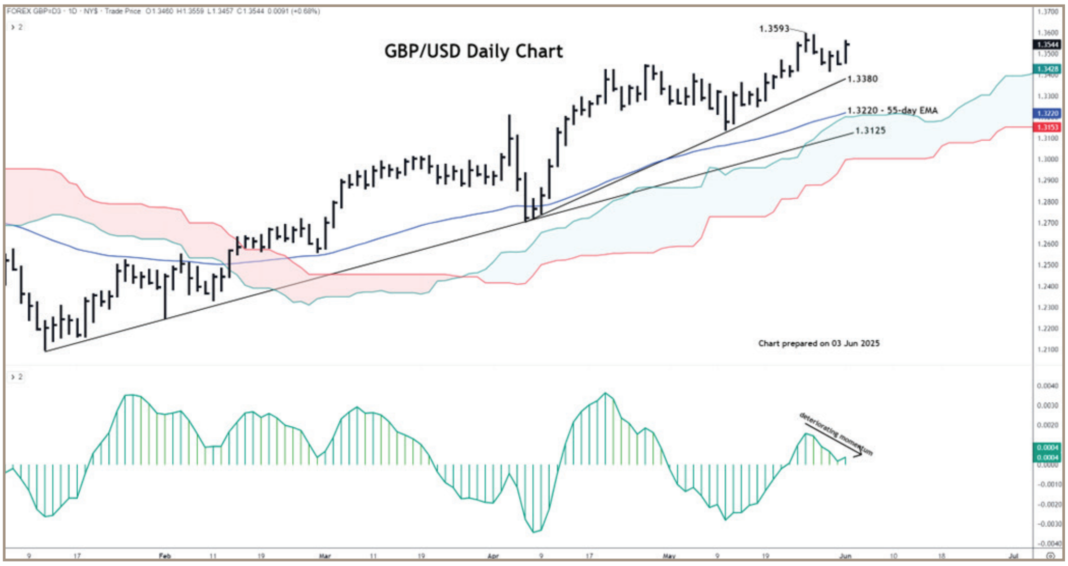
There is scope for further EUR/USD upside; current momentum suggests a sustained break above the mid-April high of 1.1573 is unlikely.



After rallying to a high of 1.1573 in mid-April, EUR/USD pulled back to test the 55-day EMA support near 1.1064. Although EUR/USD has since rebounded, upward momentum is not strong for now. While there is scope for further upside, the current momentum suggests a sustained break above the mid-April high is unlikely. On the downside, a break below the 1.1130/1.1160 key support zone (rising trendline support and 55-day EMA) could trigger a deep pullback.

GBP/USD: 1.3545

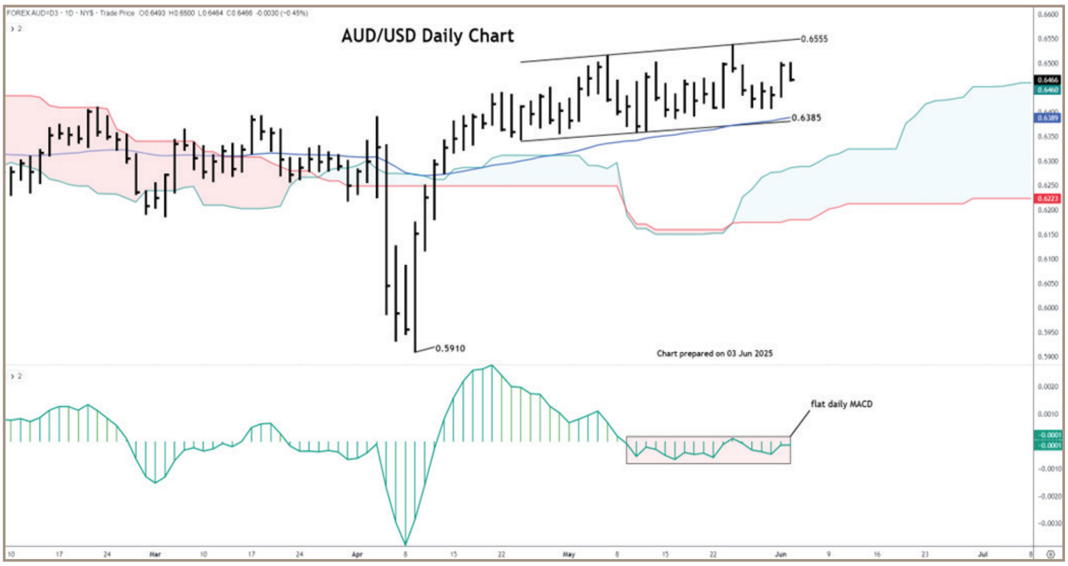
There is a chance for GBP/USD to rise above 1.3600; given the deteriorating momentum, a sustained rise above this level seems unlikely.



In late May, GBP/USD climbed to 1.3593, marking its highest level since February 2020. However, the daily MACD is heading lower, indicating deteriorating upward momentum. While there is a chance for GBP/USD to rise above 1.3600, given the weakening momentum, a sustained rise above this level appears unlikely. The next resistance at 1.3720 is also unlikely to come into view. The near-term support level to watch is the rising trendline, currently at 1.3380. A breach of this level could lead to a pullback toward the 55-day EMA, currently at 1.3220.

AUD/USD: 0.6465

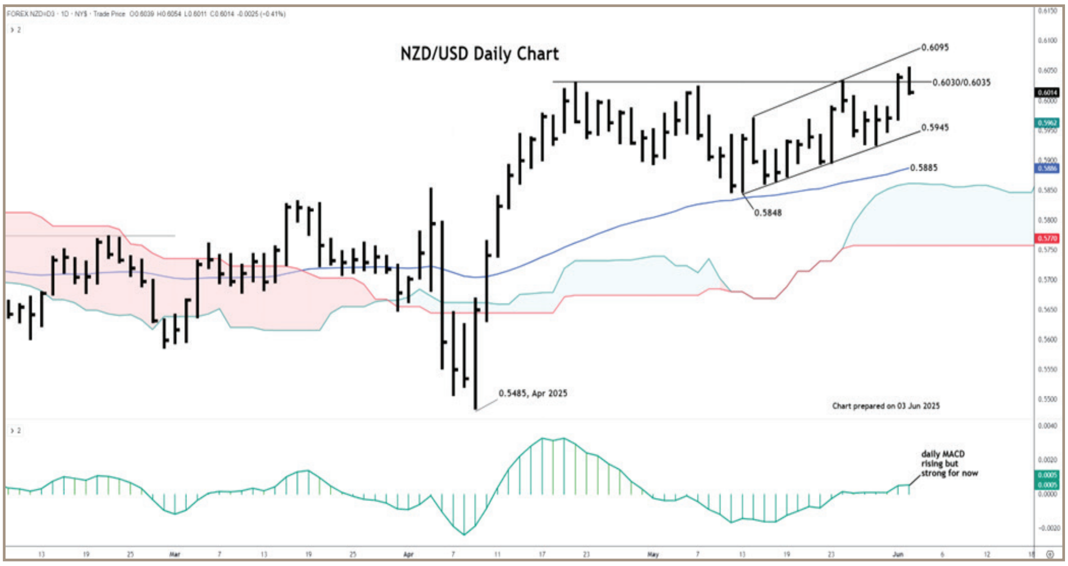
Non-directional price action for now, but AUD/USD may test the channel top near 0.6555.



AUD/USD plunged to 0.5910 in mid-April, rebounded sharply, and then traded in a range throughout most of May. The daily MACD, while in negative territory, has been flat since mid-May, suggesting non-directional price action for now. However, as long as the key support at 0.6385 – both the base of the channel and the 55-day EMA are near this level – is not breached, AUD/USD may test the top of the channel at 0.6555. Based on the current momentum profile, a sustained rise above this level is unlikely.

NZD/USD: 0.6010

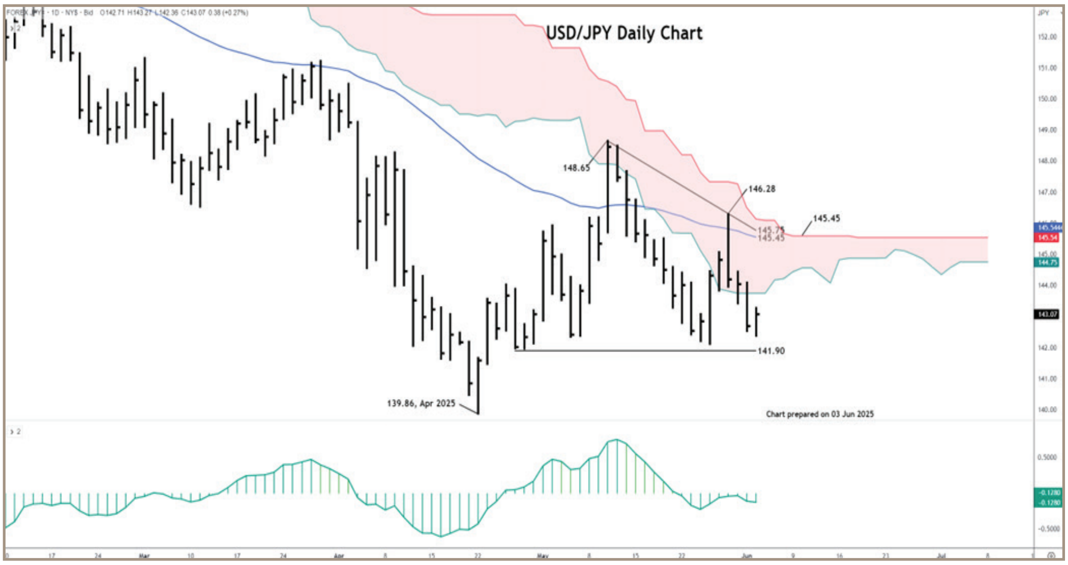
Near-term bias for NZD/USD is on the upside; any advance may find the top of the ascending channel near 0.6095, difficult to break.



At the time of writing in early June, NZD/USD broke above the major resistance levels between 0.6030 and 0.6035. The daily MACD is rising, but it is not strong for now, suggesting that while there is a near-term upside bias, any advance may find it difficult to break clearly above the top of the ascending channel, currently near 0.6095. On the downside, a break of the base of the channel at 0.5945 may lead to a test of the 55-day EMA, now at 0.5885.

USD/JPY: 143.00

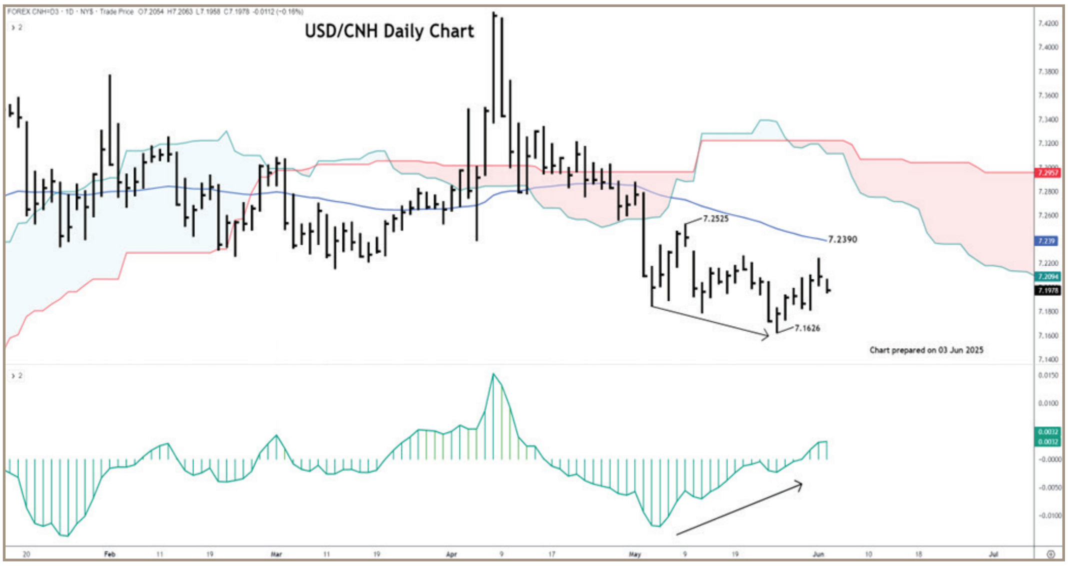
USD/JPY may break below the strong support at 141.90; as downward momentum is not strong, any decline is unlikely to revisit April's low of 139.86.



USD/JPY plunged to a low of 139.86 in April and rebounded. The recovery from the low was contained by the daily Ichimoku cloud twice, first in early May (148.65), then again in late May (146.28). At the time of writing in early June, USD/JPY is trading not far above the 141.90 support. Although a breach of this strong support is not ruled out, downward momentum is not strong, suggesting any decline is unlikely to revisit the 139.86 low. On the upside, the levels between 145.45 and 145.75 are acting as a key resistance zone. This resistance zone is the confluence of the 55-day EMA, trendline, and top of the daily Ichimoku cloud. A break of this resistance could potentially lead to a more sustained and sizeable recovery.

USD/CNH: 7.1980

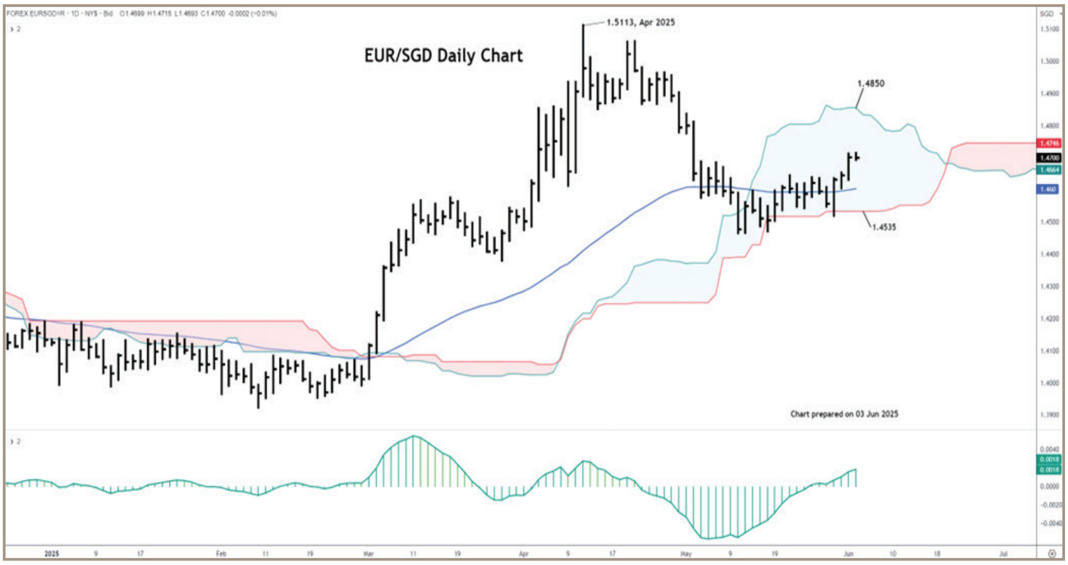
USD/CNH could edge lower; given the weak momentum, any decline may find it difficult to break 7.1400.



Since early May this year, USD/CNH has been trading in a relatively quiet manner, edging lower within a range of 7.1626/7.2525. The daily MACD, instead of edging lower, is edging higher, indicating weak downside momentum. As long as USD/CNH holds below the 55-day EMA (7.2390), it could continue to edge lower. Given the weak momentum, USD/CNH may find it difficult to break below 7.1400.

EUR/SGD: 1.4700

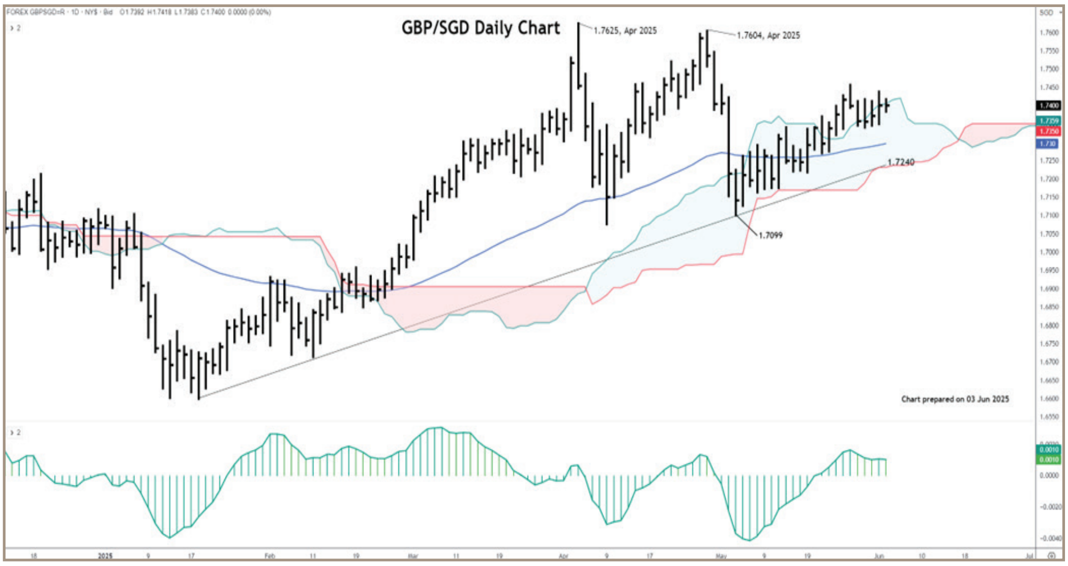
There has been a tentative buildup in momentum; any advance in EUR/SGD is likely to be slow-going and face resistance at 1.4850.



After surging to a high of 1.5113 in April of this year, EUR/SGD pulled back sharply. The pullback has been supported by the base of the daily Ichimoku cloud. As of the time of writing in early June, EUR/SGD is rising, and there has been a tentative buildup in upward momentum. However, EUR/SGD is still trading within the cloud, so any advance is likely to be slow-going, and the top of the cloud (1.4850) is likely to offer strong resistance. The base of the cloud is currently at 1.4535.

GBP/SGD: 1.7400

GBP/USD could continue to grind higher; lacklustre momentum suggests it is unlikely to threaten April's highs of 1.7604 and 1.7625.



GBP/USD fell to a low of 1.7099 in early May and then recovered. The recovery has been grinding and slow-going. With the daily MACD holding in positive territory, GBP/SGD could continue to grind higher. Based on the lacklustre momentum, any advance is unlikely to threaten April's highs of 1.7604 and 1.7625, at least not in the next couple of months. On the downside, the key support level is 1.7040; both the rising trendline and the base of the Ichimoku cloud are near this level.

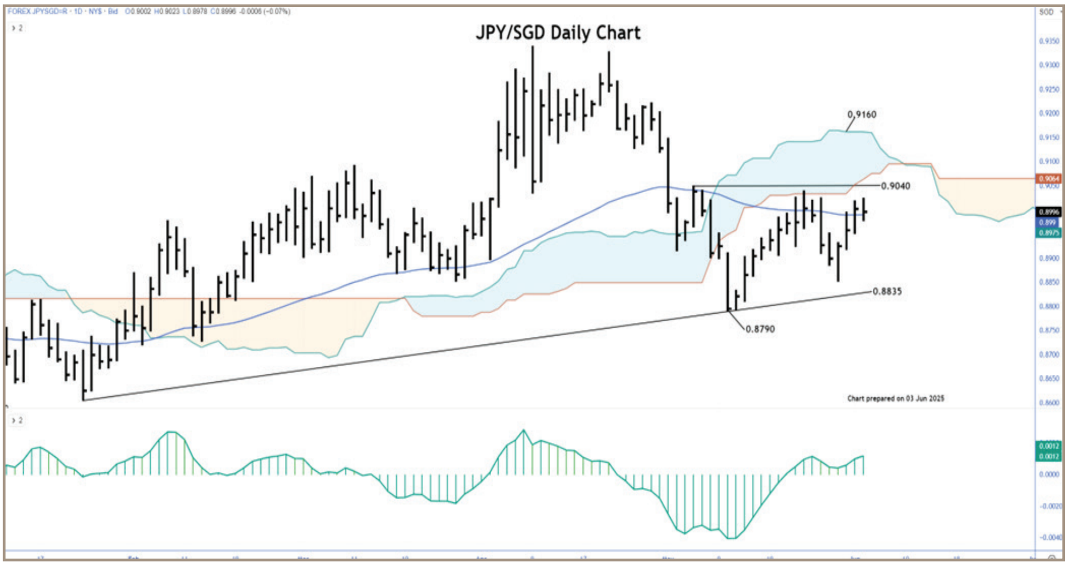
AUD/SGD: 0.8315

Further range trading in AUD/SGD seems likely, probably between 0.8240 and 0.8445.

For most of May and early June, AUD/SGD has been trading in a narrow range. The daily MACD is hovering around the zero level, reinforcing the lack of a directional price action. Further range trading seems likely, probably between 0.8240 and 0.8445.

JPY/SGD: 0.8980

Should recovery in JPY/SGD break above 0.9040, it could extend to the top of the daily Ichimoku cloud.

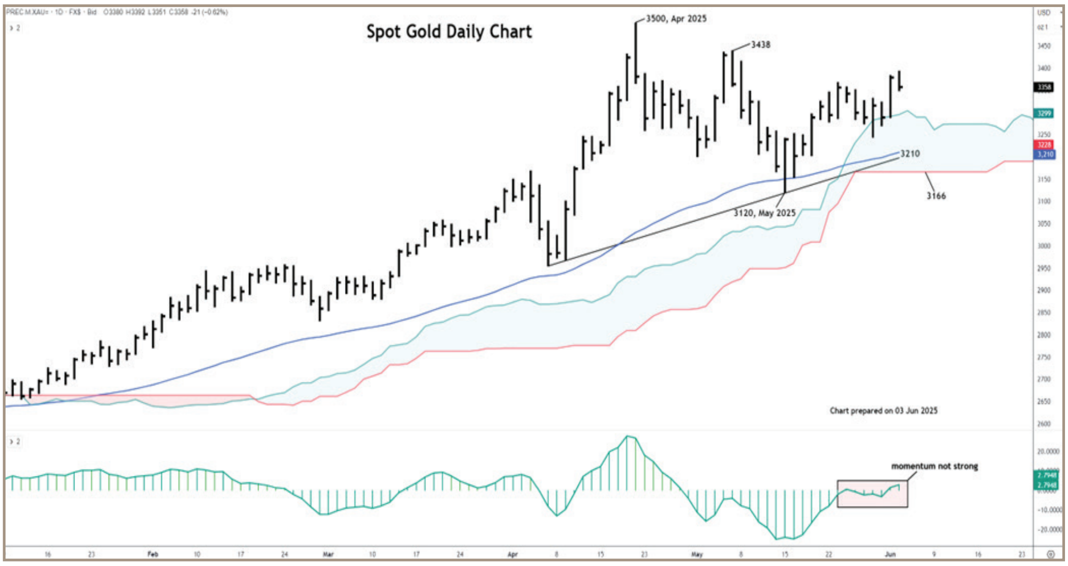


The price action since May's low of 0.8790 is likely part of an ongoing recovery phase. Upward momentum is building, and should JPY/SGD break above 0.9040, it could lead to a test of the top of the daily Ichimoku. The top of the cloud is currently at 0.9160 but is set to move lower. On the downside, a breach of the trendline support at 0.8835 would mean the recovery phase has come to an end.

COMMODITIES TECHNICALS

Spot Gold
$3,358/oz

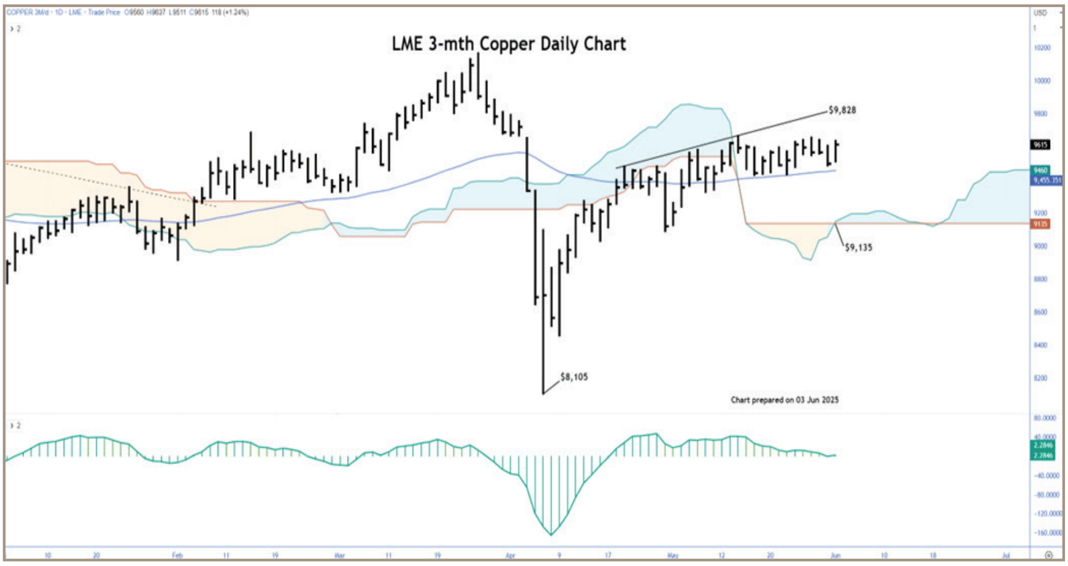
Current price movements are likely part of a $3,210/$3,500 consolidation phase.



Spot gold surged to a record high of $3,500 in April and then pulled back. The pullback dipped slightly below the 55-day EMA support, reaching a low of $3,120. Although spot gold has since rebounded from the low, there has been no significant increase in upward momentum. Instead of a resumption of gold's uptrend, the current price movements appear to be part of a consolidation phase, likely between the $3,210 and $3,500.

LME 3-mth Copper
$9,615/mt

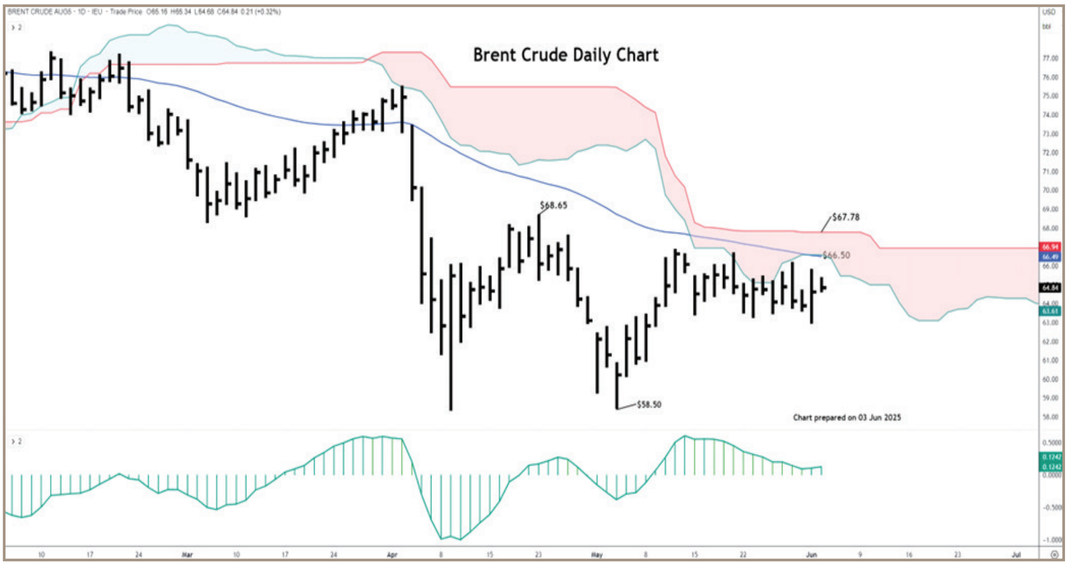
Outlook is unclear; copper could trade between $9,135 and $9,828.



While the recovery from April's low of $8,105 has since moved out of the daily Ichimoku cloud, there is no increase in upward momentum. The outlook is unclear, and copper could trade between $9,135 and $9,828 for the time being.

Brent Crude
$64.79/bbl

Brent crude could continue to trade in a range of $58.50/$68.65.



Brent crude has been trading in a range between $58.50 and $68.65 since late April. The daily MACD is holding in positive territory, suggesting a positive underlying bias. However, unless Brent can break above $66.50 (55-day EMA), and more importantly $67.78 (top of the daily Ichimoku cloud), it could continue to trade in a range over the coming months.

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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