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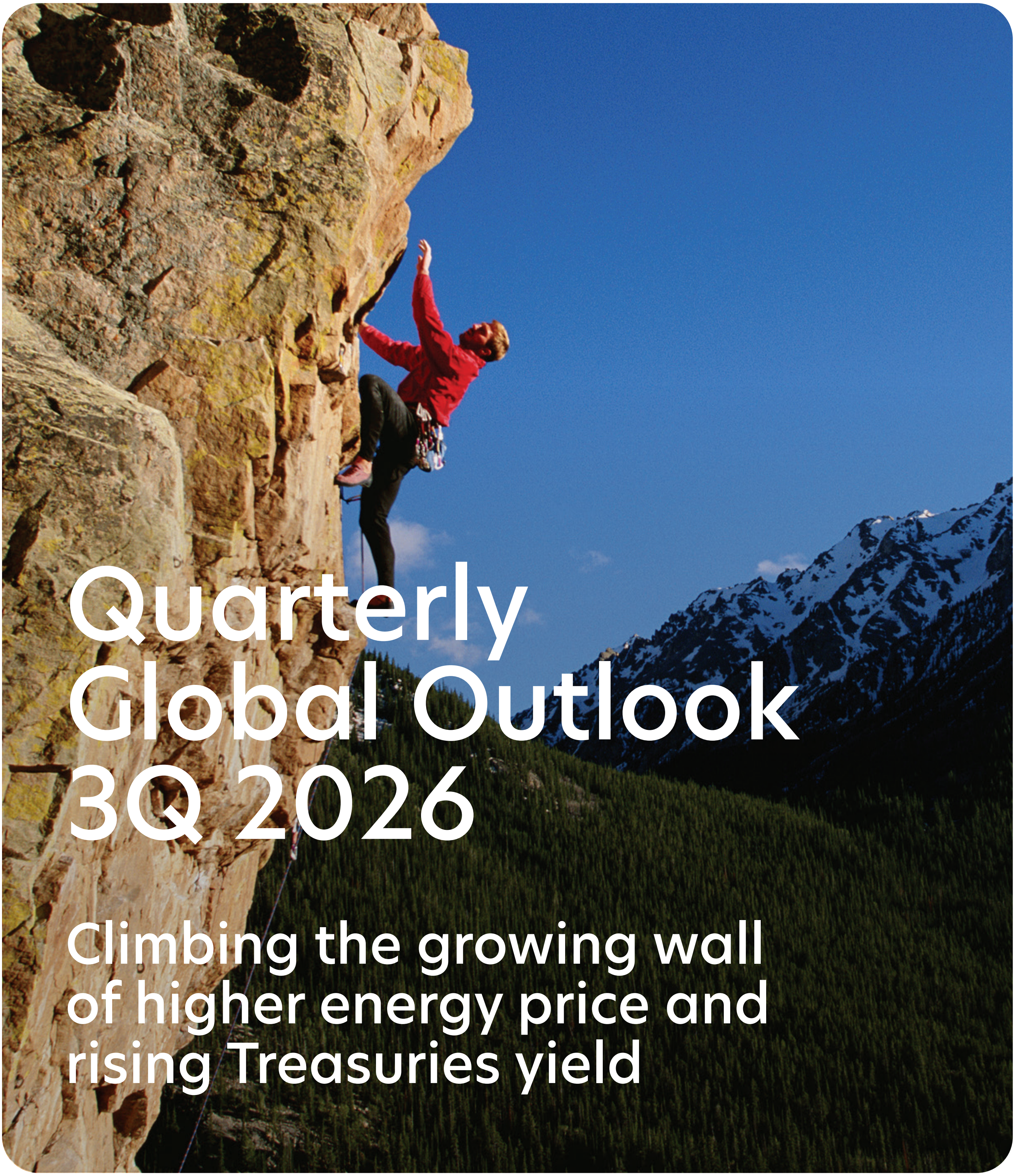

Quarterly Global Outlook 3Q 2026

Climbing the growing wall of higher energy price and rising Treasuries yield

Right By You

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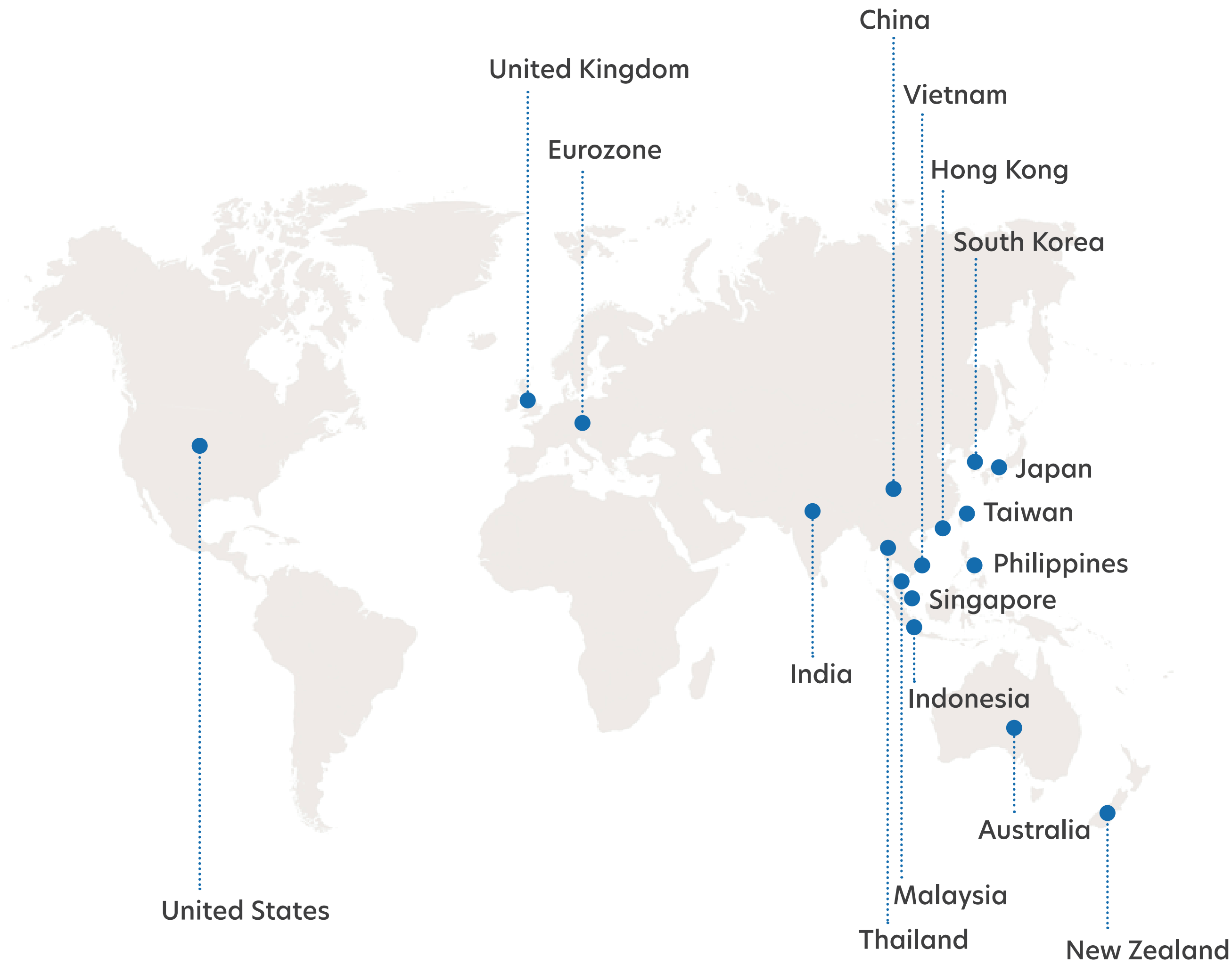

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EXECUTIVE SUMMARY

Climbing the growing wall of higher energy price and rising Treasuries yield

"It is not the mountain we conquer but ourselves"
- Sir Edmund Hillary

What's next for Brent crude oil amidst the uncertainty over Strait of Hormuz?

More than 3 months have passed since the onset of the Iran War, at the moment of writing, a durable peace deal between US and Iran seems elusive and the Strait of Hormuz remains disrupted to shipping. Nonetheless, of late Brent crude oil has fallen to consolidate above the USD 90 / bbl level on strong hopes that a peace deal would eventually be reached between US and Iran.

By now the stumbling blocks against achieving a peace deal have been widely discussed in the media. Two key stumbling blocks from the US side include how to effectively open up the Strait of Hormuz for safe passage and without toll as well as how to address the issue of Iran's nuclear enrichment. The stumbling blocks from Iran's perspective are an end to all sanctions and release of frozen funds and assets as well as an end to all hostilities across the Middle East.

> "In light of the on-going uncertainty with the elusive US-Iran peace deal, our updated quarterly Brent crude oil forecast is USD 100/bbl for 2H26 and USD 90/bbl for 1H27. This is a cautious forecast in view of all the above-mentioned geopolitical risks and ongoing inventory drawdown."

Heng Koon How
Head of Markets Strategy

Needless to say, going forward, Brent crude oil is at an important crossroad. Should the US and Iran achieve a credible peace deal with broad international support, leading to a gradual reopening of the Strait of Hormuz, Brent crude oil will likely fall further below USD 90 / bbl as the energy disruption eases. However, the disruption across the Strait of Hormuz will take months to clear and optimism should be tempered that an immediate pullback in Brent crude oil to the pre-war level below USD 70 / bbl is unlikely.

On the other hand, it is important to note that the current stalemate may well extend indefinitely into 2H26, whereby both the US and Iran fail to reach a peace deal and fall back to an uneasy ceasefire. In such a situation, the Strait of Hormuz remains blocked and the ongoing disruption to energy supply continues with energy inventory tightening further as supply drawdown persists. Under such a circumstance, Brent crude oil may well rebound to trade back above USD 100/ bbl. Needless to say, should broader military conflict resume between US and Iran, Brent crude oil will risk jumping back to USD 120 / bbl or higher.

Brent Crude Oil consolidates above USD 90/bbl amidst uncertainty over US-Iran peace deal

Source: Bloomberg, UOB Global Economics & Markets Research

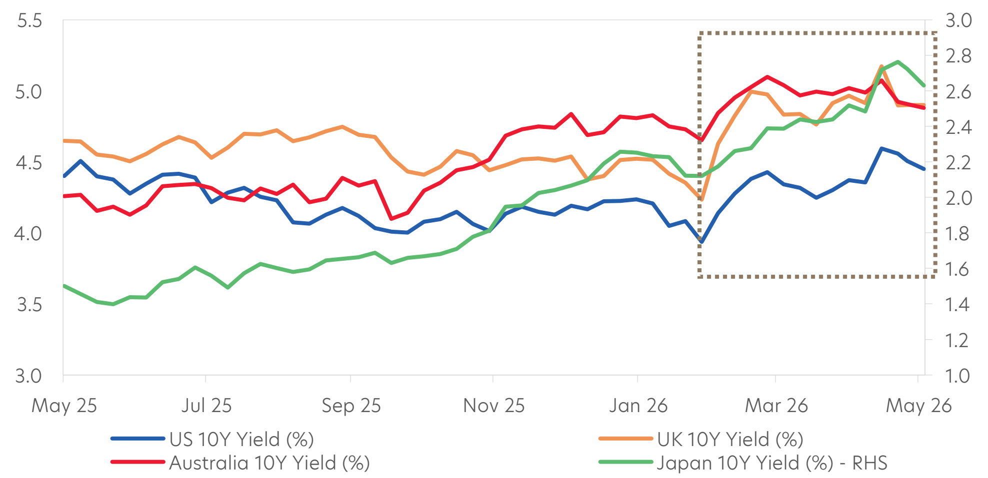
Amidst the Hormuz uncertainty, global yield continues to grind higher

Irrespective of where energy prices head from here on, since the Iran War started in late February, global yields, especially long term government bond (Govies) yields have indeed staged a steady and consistent climb higher.

Irrespective of where energy prices head from here on, since the Iran War started in late February, global yields, especially long term government bond (Govies) yields have indeed staged a steady and consistent climb higher. In particular, 10Y UK and 10Y Australia yields traded up to test the psychologically important 5% resistance. Japan's 10Y JGB yield pushed up above 2% to as high as 2.7%. One could argue that the rise in Govies yields this year is not standalone, but the latest act in a long term series of shocks starting from Covid-19 in 2020 to Russia's invasion of Ukraine in 2022.

Global 10Y yields climb further as Iran War drags on

Source: Bloomberg, UOB Global Economics & Markets Research



Entire US Treasury Yield Curve about 50bps higher since start of Iran War

Source: Bloomberg, UOB Global Economics & Markets Research

Most importantly, the entire US Treasury yield curve is now decidedly higher with the 30Y US Treasury yield leading the charge above 5%. In the front end, the 2Y US Treasury yield, which is widely regarded as a key proxy for Fed Fund Rate has jumped from 3.6% in end Feb to 4.1% now. The consequential 10Y US Treasury yield is also about 50 bps higher across the same time frame, from 4.0% to 4.5%.

Questions are now being asked as to how sustainable is this rise in Govies yields? Objectively there are two key related drivers that have triggered this latest round of higher Govies yields. And both are non-too familiar to many investors.

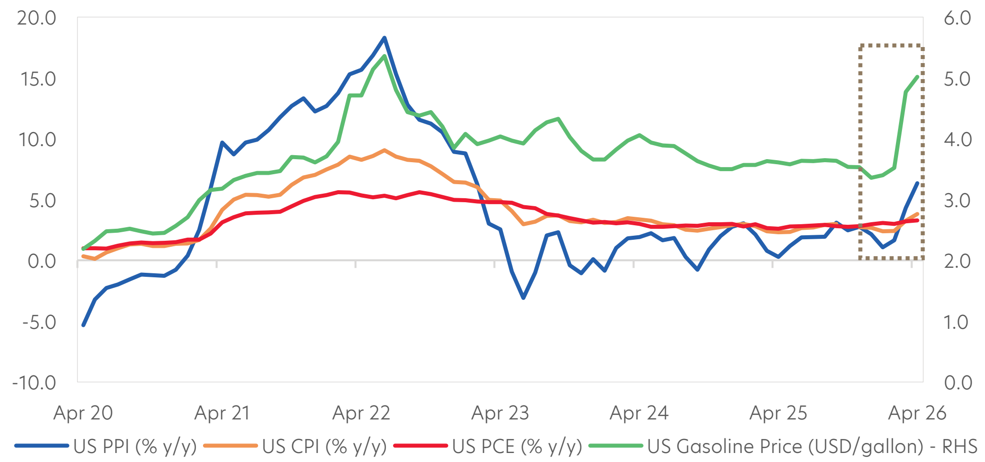
Specific to the US, the national average for gasoline price has spiked from USD 3.5 / gallon to USD 5.0 / gallon and that is widely seen as the key culprit for triggering the jump in headline US PPI to 6.0% y/y and headline US CPI to 3.8% y/y, both in the latest April monthly read.

US is now on inflation watch amidst energy price surge

The first is the sharp rise in crude oil and energy prices since the start of the Iran War. The onset of the Iran War and the subsequent disruption of shipping through the Strait of Hormuz have triggered an unprecedented surge in energy prices. Brent crude oil has jumped by about 40% since the start of the Iran War. Other energy distillates like jet fuel have almost doubled in price. Specific to the US, the national average for gasoline price has spiked from USD 3.5 / gallon to USD 5.0 / gallon and that is widely seen as the key culprit for triggering the jump in headline US PPI to 6.0% y/y and headline US CPI to 3.8% y/y, both in the latest April monthly read. Long term government bonds and US Treasuries alike are of course very vulnerable to rising inflation risk, hence the jump in yields.

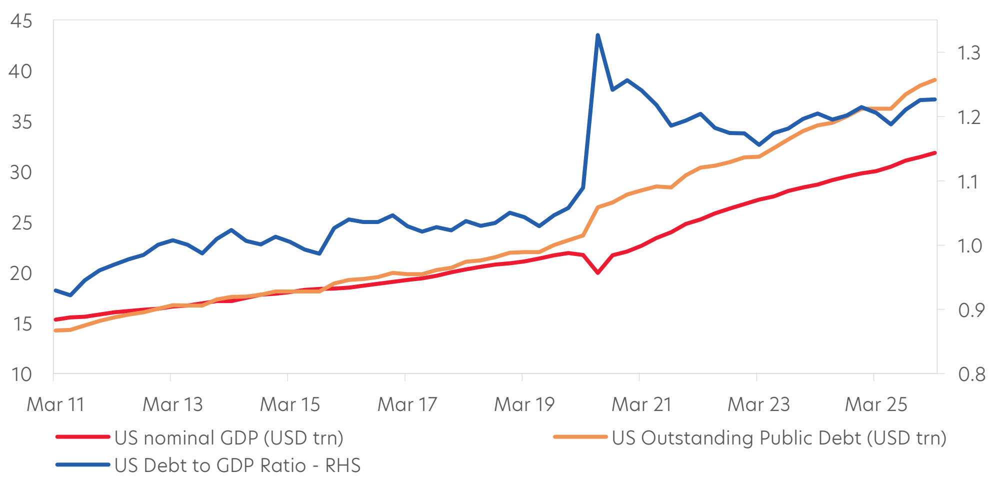
US Gasoline price has surged 50% since start of Iran War, igniting inflation risk

Source: Bloomberg, UOB Global Economics & Markets Research



US Total Public Debt is now 122% of GDP

Source: Bloomberg, UOB Global Economics & Markets Research



Higher fiscal risk and debt burden across a growing number of economies

Related to this rise in energy price is the further deterioration in fiscal outlook for the US and many other economies in both the Developed Markets (DM) as well as Emerging Markets (EM). The higher fiscal burden from the sudden spike in energy imports coupled with increasing long term infrastructure and strategic security spending needs have added to the already strained fiscal outlook for many economies. Japan's overall debt to GDP ratio has crossed 200%. France's overall debt to GDP ratio is now heading towards 100%. And despite the strong AI-driven economic growth spurt of late, the US' overall debt to GDP ratio is now in excess of 120%. According to the EU, the Euro area's overall debt to GDP ratio is at a disconcerting 88% as of end 2025. At the height of the Eurozone debt crisis about a decade ago, Greece's overall debt to GDP ratio spiked to around 180%.

If governments need to issue more debt to fund more liabilities and higher energy bills, the yield and cost of such debt have no choice but to go higher.

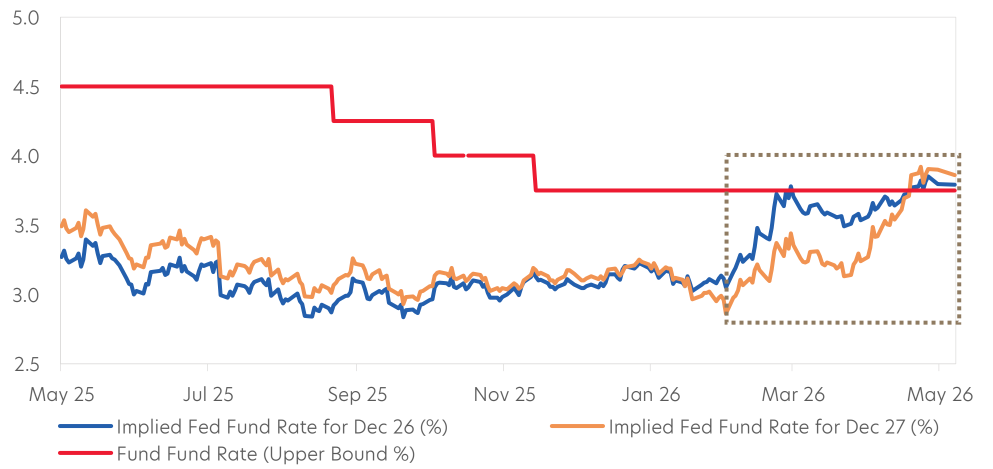
This is not to say that another global debt crisis is now imminent or in the offing. The overall debt to GDP ratio is but one of many important metrics for debt sustainability, including size of FX reserves, level of foreign investor ownership, ratio of short-term vs long-term debt etc. But the higher fiscal stress and higher overall debt level are indeed a magnet pulling Govies yields higher. Simply put, if governments need to issue more debt to fund more liabilities and higher energy bills, the yield and cost of such debt have no choice but to go higher.

Futures are now starting to price in minor bias for Fed rate hike

As a result of higher energy prices and higher inflation risk, investors have voted decisively to erase all of the previous bias for rate cuts by the Fed. At the start of the year, prior to the start of the Iran War, the Fed Fund Futures were pricing in about 3 x 25 bps cuts from the Fed for this year. Now futures-implied rates have removed all easing bias and even went further to price in a small hiking bias. The latest FOMC minutes noted that "a majority of members" warn of increasing inflation risk and would like to remove the easing bias from the FOMC statement. Fed Governor Chris Waller, who was previously a devoted dove has recently switched position and now warns of inflation risk as well. Our macroeconomic team has also updated the Fed view to flat, forecasting an extended hold till end of the year and noted that risk for inflation and rates is now tilted to the upside.

Fed Fund Futures have all but erased previous bias for rate cuts

Source: Bloomberg, UOB Global Economics & Markets Research



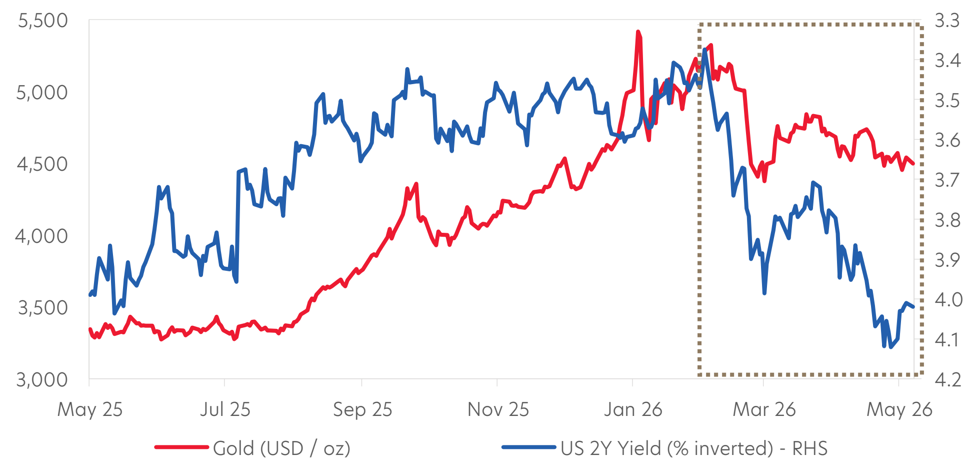
The increasing consequences of higher energy price and rising Treasuries yield

Over the near term, further consolidation in gold may be necessary as investors start to weigh the higher opportunity costs from the higher yield environment.

There are consequences to this gradual but decisive turn in Fed monetary policy view amidst the higher inflation risk and higher yields from the spike in energy price. The USD which we had expected to weaken appears to have stabilized near term as the USD Index (DXY) now consolidates around 99. Gold has retreated from USD 5,000 / oz to current level of around USD 4,500 / oz as UST yields climb anew. Over the near term, further consolidation in gold may be necessary as investors start to weigh the higher opportunity costs from the higher yield environment. In addition, as fiscal pressures take precedence, gold has lost a few friends of late with Indian PM Narendra Modi asking his fellow citizens to stop purchasing gold.

Gold weighed down near term by rebound in yield

Source: Bloomberg, UOB Global Economics & Markets Research



In ASEAN, in an attempt to stabilize the IDR, Bank Indonesia (BI) led the tightening cycle with a surprise 50 bps hike. In the Philippines, the BSP is on inflation watch as CPI jumped to 7.2% y/y. Thailand's growing fiscal strain is also increasingly evident after the sharp widening of trade deficit to an unprecedented USD 10 bn, mostly as a result of elevated energy purchases sending imports soaring by 45% y/y in April. Complicating the inflation risk is the exceptional semiconductor and AI boom that has triggered a further leg up in growth, manufacturing and exports of selected economies that are plugged into this rally. Specifically, Singapore's 1Q26 GDP was revised strongly upward to 6% y/y, beating the most optimistic of forecasts as the K-shaped economic boom triggered a sharp 24.5% y/y jump in the latest Non-Oil Domestic Exports for April.

Will the USD climb anew instead? How high will rates and yields climb further? Will gold be able to rebound from here on? In this latest quarterly report for 3Q26, we review the consequences of higher energy prices and rising Govies and Treasuries yields, taking stock of the latest Fed monetary policy bias, to update on our economic, FX and Rates outlook for the key global and ASEAN economies that we focus on.

FX Strategy: Is USD at a potential inflection point?

Major FX Strategy: Monetary policy to take over in 2H26 as key driver

Looking ahead to 2H26, our base case remains that diminishing geopolitical risk premia will erode a key pillar of USD support. In turn, market focus is likely to shift back toward monetary policy differentials. Our Fed view has notably pivoted less dovish relative to the pre-war baseline. Concurrently, select G10 central banks have already initiated tightening cycles. As such, we retain a medium-term bearish bias on the USD. The continued narrowing in US rate differentials versus G10 peers should act as a structural headwind for the USD. Consistent with this view, our updated DXY forecasts are still biased lower, at 97.9 in 3Q26, 97.0 in 4Q26, 95.7 in 1Q27, and 94.9 in 2Q27.

Risks to our USD outlook remain skewed to the upside should the closure of the Strait of Hormuz persist deeper into 2H26. Under such a scenario, sustained high oil prices—potentially at or above USD120/bbl—would likely amplify second round inflation effects, particularly through wages, services, and core components. This would present a material challenge for the Fed, limiting its ability to look through supply driven price pressures. In turn, the policy narrative could shift more decisively toward the prospect of renewed tightening into year-end. Such a development (while not yet our base case) would represent a clear upside risk to the USD and necessitate a reassessment of our baseline expectation for a weaker dollar trajectory.

Asian FX Strategy: Recovery deferred as Hormuz risks linger on

We have consistently highlighted in prior publications that Asia FX remains disproportionately exposed to prolonged Middle East tensions. Since the onset of the Iran conflict, most regional currencies have weakened against the USD, with net energy importers—such as PHP, THB, INR and IDR—underperforming. The ongoing closure of the Strait of Hormuz, now into its fourth month, has intensified fiscal strains associated with securing energy supplies, particularly in economies with administered fuel pricing frameworks. Each additional day of disruption heightens inflation risks across the region, while macro buffers—including current account positions and FX reserve adequacy—have eroded in several cases.

On balance, we judge that a cautious stance remains warranted until there are clearer signs of normalisation in the Strait of Hormuz and a meaningful easing in regional inflationary pressures. Accordingly, we maintain a defensive bias on Asia FX into 3Q26 and push back the expected timing of a more sustained recovery to 4Q26. We expect CNY, MYR and SGD to stay resilient as they had during the Middle East conflict thus far, while TWD and KRW are expected to post a stronger recovery due to sustained AI tailwinds. On the other hand, PHP, IDR and INR are expected to underperform and stay near record lows against the USD.

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Rates Strategy: Central banks running short of runway to look through inflation

US Rates: Higher 10Y UST forecast due to Fed vigilance on inflation, economy still resilient, step-up in AI-related corporate bond issuance and worrying fiscal trajectory

Three months into Iran War, composition of Fed has turned decidedly more hawkish, and the division of opinions is apparent. Apart from inflation concerns affecting the Fed rate path, three other drivers also push rates higher, namely still resilient US data, strong corporate issuance this year and worsening US fiscal sustainability. Under this backdrop, our macroeconomic team now sees the Fed on extended pause through 2026, delaying any easing cycle until 2027 with one 25 bps rate cut each in late-2Q27 and late-4Q27. This path implies a steady 3M compounded in arrears SOFR projection at 3.62% in 3Q26, 3.62% in 4Q26, 3.62% in 1Q27 and 3.45% in 2Q27.

As for the long-end, we have been consistent to project a gradually increasing UST 10-year trajectory given the longstanding fiscal concerns. The recent developments of higher inflation concerns, still robust economy, increased corporate issuance and fiscal overhang reinforced our projection. Incorporating the latest Fed call of no more 2026 cuts, our updated forecasts stand at 4.60% for 3Q26, 4.65% for 4Q26, 4.70% for 1Q27 and 4.70% for 2Q27, about 10-20bps higher than our previous forecast made 5 May. Even if geopolitical risks dissipate, we think it's hard to see yields meaningfully lower to pre-war levels given the confluence of above-mentioned factors.

SG Rates: Upward pull from global rates likely to dominate downward push from safe-haven flows

Overnight SORA continues to trade within the range 0.75-1.45%. Another 50 bps increase in the S$NEER slope in Oct MPS would mechanically result in a lower SORA, though we expect the spillover to be limited. Similarly, we note that the safe-haven flows from the Middle East conflict thus far was less intense than the de-dollarization episode in 2025. In contrast, we continue to see US and global rates as the dominant driver to pull SORA upwards. Expectations of less Fed rate cuts inevitably reduce the downside of SORA and could potentially lead to an increasing pull in SORA upwards if markets pivot towards no more Fed rate cuts or even rate hikes going forward.

Overall, we reiterate the view that the sharpest drop in SORA is likely behind us and we continue to expect SOFR-SORA spread to normalize gradually from a historically wide level. We project 3M compounded in arrears SORA at 1.24% in 3Q26, 1.42% in 4Q26, 1.56% in 1Q27 and 1.64% in 2Q27. At the longer end, we continue to expect a gradual rebound in 10Y SGS yields tracking UST yields. Overall, our updated forecasts for 10Y SGS yield are 2.30% in 3Q26, 2.45% in 4Q26, 2.65% in 1Q27 and 2.80% in 2Q27. Similarly, we expect a gradual normalization of SGS versus UST spread.

Overall, we reiterate the view that the sharpest drop in SORA is likely behind us and we continue to expect SOFR-SORA spread to normalize gradually from a historically wide level.

Commodities Strategy: What's next for Brent crude oil amidst the uncertainty over Strait of Hormuz?

This near-term consolidation around USD 4,500 / oz is very important and necessary for gold to find a stable footing ahead of long term positive safe haven drivers reasserting in the months ahead.

Gold: Near term consolidation around USD 4,500/oz is both important and necessary

Gold now consolidates around the USD 4,500 / oz level as US Treasuries yield trade higher on increasing worries of inflation from higher crude oil prices. Amidst this consolidation, both trading and speculative activity has cooled down as well. In addition, there are some additional near-term headwinds against gold. These include central bank sales from Russia and Turkey as well as India's efforts to scale back on its gold purchases to limit INR weakness. As such, this near-term consolidation around USD 4,500 / oz is very important and necessary for gold to find a stable footing ahead of long term positive safe haven drivers reasserting in the months ahead. Overall, while we stay cautious near term, we reiterate the long-term positive view. Our updated gold forecast is USD 4,600 / oz in 3Q26, USD 4,800 / oz in 4Q26, USD 5,000 / oz in 1Q27 and USD 5,200 / oz in 2Q27.

Brent: Hormuz has to reopen soon for Brent to normalize below USD 90/bbl

Brent Crude Oil is now at a critical juncture after 3 months of the Iran War. The shutting down of the Strait of Hormuz to shipping has significantly constricted global energy supply. A large part of the stop gap for supply disruption was achieved from drawing down of existing global crude oil inventories. Based on the International Energy Agency (IEA) estimates, there was about 4 mio bpd of "global observed inventory" drawdown across Mar and Apr. However, this inventory drawdown cannot continue indefinitely. Therefore, with the peace deal between US-Iran remaining elusive and Hormuz still blocked to shipping, our updated quarterly Brent crude oil forecast retains a cautious outlook for USD 100 / bbl in 2H26 and USD 90 / bbl in 1H27. Should there be a credible peace deal leading to then gradual reopening of Hormuz, then Brent may well pull back below USD 90 / bbl. On the other hand, resumption of hostilities and conflict between US and Iran may well push Brent back up above USD 100 / bbl and towards USD 120 / bbl.

LME Copper: Increasingly stretched after price rally towards USD 14,000/MT

The industrial metals complex performed remarkably well since the onset of the Iran War with LME Copper leading the charge towards USD 14,000 / MT due to supposedly increasing industrial demand from AI data centers as well as EV cars. However, the picture is decidedly bearish in China with both monthly Copper import and demand indicators pulling back noticeably. Some industry reports suggest that this is a deliberate effort by Chinese manufacturers to control cost and rely on domestic recycling instead. Overall, we continue to highlight the risk that current strength in LME Copper price is inconsistent with various moderate macroeconomic indicators especially out of China. We maintain our modestly cautious outlook for LME Copper with forecasts for USD 13,500 / MT in 3Q26, USD 13,000 / MT in 4Q26 and USD 12,500 / MT in 1H27.

Global FX

USD/JPY: Looking ahead, we reiterate our bias for a lower USD/JPY trajectory. Our expectation of a further 25-bps BOJ rate hike in 3Q26 could act as a catalyst for gradual normalisation in the currency pair, in line with narrowing rate differentials. In addition, any reopening of the Strait of Hormuz would alleviate a key structural drag on the yen, as reduced energy import costs improve Japan's terms of trade. On balance, we maintain a constructive view on JPY, with updated USD/JPY forecasts at 157 in 3Q26, 155 in 4Q26, 153 in 1Q27, and 151 in 2Q27.

EUR/USD: Looking ahead, the anticipated ECB rate lift-off in Jun would mark the conclusion of its two-year easing cycle and could catalyze a further narrowing of EUR–USD rate differentials, providing a renewed tailwind for EUR/USD. In addition, any tangible de-escalation in Middle East tensions would offer an additional layer of support for the pair. Taken together, we maintain a constructive bias on EUR/USD and reaffirm our upward trajectory, with revised forecasts of 1.18 in 3Q26, 1.19 in 4Q26, 1.21 in 1Q27, and 1.22 in 2Q27.

GBP/USD: Looking ahead, we continue to expect broader USD weakness to remain the dominant driver. Political developments, while impactful, are typically episodic and less likely to exert a sustained drag on sterling. That said, we remain attentive to gilt market dynamics, as an uncontained rise in yields—whether driven by fiscal concerns, inflation risks, or political uncertainty—could generate outsized spillovers into GBP. On balance, we maintain a modestly constructive outlook for GBP/USD, with updated forecasts at 1.35 in 3Q26, 1.37 in 4Q26, 1.38 in 1Q27, and 1.39 in 2Q27.

AUD/USD: While we maintain a constructive medium-term outlook on AUD/USD, near-term price action may consolidate as the hawkish RBA premium that underpinned Apr's rally fades. On the supportive side, a confirmed reopening of the Strait of Hormuz, alongside stabilisation in Australian labour market conditions, would reinforce our positive medium-term thesis and could bring forward upside risks. Overall, we retain a modestly bullish bias in AUD/USD, with updated forecasts at 0.72 in 3Q26, 0.73 in 4Q26, 0.74 in 1Q27, and 0.75 in 2Q27.

NZD/USD: Taken together, we see scope for further upside in NZD/USD, particularly if a confirmed reopening of the Strait of Hormuz coincides with the delivery of RBNZ rate hikes. This combination would reinforce both cyclical and relative yield support for the currency. On balance, we retain a constructive medium-term outlook for NZD/USD, with updated forecasts at 0.60 in 3Q26, 0.61 in 4Q26, 0.62 in 1Q27, and 0.63 in 2Q27. Key downside risks to this view include a breakdown in the ceasefire arrangement and a renewed surge in oil prices, which could trigger a resurgence in global risk aversion and bolster USD safe-haven demand.

Asian FX

USD/CNY: Several factors are likely to temper the pace of CNY appreciation. A recent surge in onshore USD funding costs has raised the carry cost of maintaining short USD/CNY positions, weighing on forward net FX settlements and constraining spot gains. More importantly, the PBOC appears increasingly sensitive to the pace of CNY strength. Its latest monetary policy report reintroduced language emphasising the need to "foster a stable exchange rate environment for the real economy," in response to a growing number of exporters reporting currency-related margin pressures in 1Q26 earnings. These developments are consistent with our long-held view that policymakers will lean against excessive CNY strength, as reflected in the PBOC consistently setting the USD/CNY fixings stronger than market-implied levels. We maintain our expectation of a gradual appreciation path for the CNY, with updated USD/CNY forecasts at 6.80 in 3Q26, 6.76 in 4Q26, 6.73 in 1Q27, and 6.70 in 2Q27.

USD/SGD: Overall, we expect USD/SGD to resume its underlying downtrend as geopolitical risk premia gradually unwind and regional growth dynamics improve. Accordingly, we reiterate our USD/SGD forecasts at 1.28 in 3Q26, 1.27 in 4Q26, 1.26 in 1Q27, and 1.25 in 2Q27.

USD/HKD: In the near term, we expect USD/HKD to remain skewed toward the upper half of the currency band, reflecting continued geopolitical uncertainty. A credible resolution to the conflict would likely shift dynamics, allowing the pair to gradually normalise toward the mid-point of the band around 7.80, more in line with underlying rate differentials. Accordingly, our updated USD/HKD forecasts are at 7.83 in 3Q26, before easing to 7.80 from 4Q26 through 3Q27.

USD/TWD: On balance, these idiosyncratic developments over the past two months have materially exceeded our prior assumptions and have largely offset the drag from geopolitical risks. Reflecting this strong outlook for Taiwan's growth and export trajectory, we revise our USD/TWD forecasts lower to 31.5 in 3Q26, 31.2 in 4Q26, 31.0 in 1Q27, and 30.7 in 2Q27.

USD/KRW: Looking ahead, we expect downside risks to be partially mitigated by continued verbal intervention from authorities. At the same time, prospective 50bps of cumulative BOK rate hikes in 2H26, alongside expectations of a normalization in global energy supply conditions, should provide more durable support to the currency. On balance, we maintain a cautiously constructive outlook on the KRW, with updated USD/KRW forecasts at 1,530 in 3Q26, 1,510 in 4Q26, 1,490 in 1Q27, and 1,480 in 2Q27.

USD/MYR: We retain a cautious near-term stance on MYR through 3Q26, in line with our broader Asia FX view. A credible reopening of the Strait of Hormuz would serve as a key catalyst for Malaysia's favourable idiosyncratic fundamentals to reassert themselves. We reiterate our USD/MYR forecasts at 4.00 in 3Q26, 3.98 in 4Q26, 3.94 in 1Q27, and 3.92 in 2Q27.

USD/IDR: Looking ahead, our expectation of three more 25-bps BI rate hikes this year should provide incremental support to the IDR. Nevertheless, near-term risks remain tilted toward further weakness, given the combination of external shocks and domestic vulnerabilities. Over the medium term, the IDR is also likely to underperform regional peers, even as geopolitical risks recede, unless credible progress is made on fiscal consolidation. Accordingly, we revise our USD/IDR forecasts to 18,000 in 3Q26, 17,800 in 4Q26, and 17,700 in both 1Q and 2Q27.

USD/THB: On balance, we expect the THB to remain under near-term pressure and to underperform regional peers during any tentative medium-term recovery, as long as the macroeconomic backdrop remains challenged. Accordingly, we revise our USD/THB forecasts to 32.9 in 3Q26, 32.7 in 4Q26, 32.5 in 1Q27, and 32.3 in 2Q27.

USD/PHP: Overall, the PHP is expected to stay weak in 3Q26 before gradually stabilizing and rebounding in line with broader Asia FX strengthening from 4Q26 onwards. Our revised USD/PHP forecasts are 63.0 in 3Q26, 62.5 in 4Q26, 62.0 in 1Q27, and 61.5 in 2Q27.

USD/VND: In the near term (3Q26), the VND is likely to stay on the defensive alongside regional peers amid lingering geopolitical uncertainty. Over the medium term, we maintain a broadly stable view, supported by robust growth, sustained FDI inflows, and a steady monetary policy stance, with the SBV expected to keep its policy rate unchanged at 4.5% through 2026. Vietnam's potential upgrade to Emerging Market status in Sep 2026 could also provide a structural boost to portfolio inflows. On balance, we retain a gradual depreciation bias for USD/VND, with updated forecasts of 26,500 in 3Q26, 26,400 in 4Q26, 26,300 in 1Q27, and 26,100 in 2Q27.

USD/INR: Looking ahead, we continue to expect the INR to underperform regional peers through 2026 in the absence of a credible reopening of the Strait of Hormuz. Near-term focus will centre on the 5 Jun RBI policy meeting, as well as developments surrounding the durability of the US-Iran ceasefire, both of which are key catalysts for the currency. On balance, we retain a cautious outlook, with updated USD/INR forecasts at 96.0 in 3Q26, 95.5 in 4Q26, 95.0 in 1Q27, and 94.0 in 2Q27.

01. FORECAST: REAL GDP GROWTH TRAJECTORY

y/y% change	2025	2026F	2027F	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26F	3Q26F	4Q26F
China	5.0	4.7	4.6	5.4	5.2	4.8	4.5	5.0	4.7	4.7	4.6
Hong Kong	3.6	3.9	2.4	3.2	3.3	3.8	4.0	5.9	4.4	3.0	2.5
India (FY)	7.1	7.5	6.8	7.5	6.6	7.4	7.0	6.7	8.4	7.8	7.3
Indonesia	5.1	5.2	5.4	4.9	5.1	5.0	5.4	5.6	5.1	5.2	5.0
Japan	1.1	1.0	1.5	1.5	2.0	0.5	0.2	0.5	0.3	1.4	1.7
Malaysia	5.2	4.5	4.6	4.4	4.6	5.3	6.2	5.4	4.4	4.2	4.2
Philippines	4.4	3.2	5.0	5.4	5.4	4.0	3.0	2.8	2.0	3.8	4.3
Singapore	5.0	3.2	2.1	4.5	5.4	4.5	5.7	6.0	4.3	2.0	0.9
South Korea	1.0	2.6	2.0	0.0	0.6	1.8	1.6	3.6	3.0	1.9	1.8
Taiwan	8.8	9.5	3.5	5.5	7.7	8.4	13.0	14.5	10.8	9.6	4.0
Thailand	2.4	1.5	2.4	3.1	2.8	1.2	2.5	2.8	1.2	1.3	0.5
Vietnam	8.0	7.0	7.0	7.0	8.2	8.3	8.5	7.8	6.5	6.8	7.0
Australia	1.9	2.0	1.7	1.3	1.9	2.1	2.6	2.6	2.0	1.9	1.5
Eurozone	1.5	0.8	1.2	1.6	1.6	1.4	1.2	0.8	0.8	0.7	0.7
New Zealand	0.2	1.6	2.4	-0.7	-1.0	1.1	1.3	1.0	1.8	1.5	1.9
United Kingdom	1.4	0.8	1.1	1.8	1.4	1.3	1.0	1.1	0.7	0.7	0.8
United States (q/q SAAR)	2.1	1.7	2.5	-0.6	3.8	4.4	0.5	1.6	0.8	1.6	2.0

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

02. FORECAST: FX, RATES & COMMODITIES

FX	05 Jun	3Q26F	4Q26F	1Q27F	2Q27F
USD/JPY	160	157	155	153	151
EUR/USD	1.16	1.18	1.19	1.21	1.22
GBP/USD	1.34	1.35	1.37	1.38	1.39
AUD/USD	0.71	0.72	0.73	0.74	0.75
NZD/USD	0.59	0.60	0.61	0.62	0.63
DXY	99.4	97.9	97.0	95.7	94.9
USD/CNY	6.77	6.80	6.76	6.73	6.70
USD/HKD	7.83	7.83	7.80	7.80	7.80
USD/TWD	31.5	31.5	31.2	31.0	30.7
USD/KRW	1,539	1,530	1,510	1,490	1,480
USD/PHP	61.6	63.0	62.5	62.0	61.5
USD/MYR	4.02	4.00	3.98	3.94	3.92
USD/IDR	18,033	18,000	17,800	17,700	17,700
USD/THB	32.7	32.9	32.7	32.5	32.3
USD/VND	26,333	26,500	26,400	26,300	26,100
USD/INR	95.8	96.0	95.5	95.0	94.0
USD/SGD	1.28	1.28	1.27	1.26	1.25
EUR/SGD	1.49	1.51	1.51	1.52	1.53
GBP/SGD	1.72	1.73	1.74	1.74	1.74
AUD/SGD	0.92	0.92	0.93	0.93	0.94
SGD/MYR	3.13	3.13	3.13	3.13	3.14
SGD/CNY	5.27	5.31	5.32	5.34	5.36
JPY/SGDx100	0.80	0.82	0.82	0.82	0.83

POLICY RATES	05 Jun	3Q26F	4Q26F	1Q27F	2Q27F
US Fed Fund Rate	3.75	3.75	3.75	3.75	3.50
JPY Policy Rate	0.75	1.00	1.00	1.00	1.00
EUR Refinancing Rate	2.15	2.40	2.40	2.40	2.40
GBP Repo Rate	3.75	3.75	3.75	3.75	3.75
AUD Official Cash Rate	4.35	4.35	4.35	4.35	4.35
NZD Official Cash Rate	2.25	2.50	2.50	2.50	2.50
CNY 7D Reverse Repo	1.40	1.40	1.40	1.40	1.40
HKD Base Rate	4.00	4.00	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	2.75	3.00	3.00	3.00
PHP O/N Reverse Repo	4.50	5.00	5.00	5.00	5.00
MYR O/N Policy Rate	2.75	2.75	2.75	2.75	2.75
IDR 7D Reverse Repo	5.25	5.75	6.00	6.00	6.00
THB 1D Repo	1.00	1.00	1.00	1.00	1.00
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	5.25	5.25	5.25	5.25	5.25

INTEREST RATES	05 Jun	3Q26F	4Q26F	1Q27F	2Q27F
USD 3M SOFR (compounded)	3.64	3.62	3.62	3.62	3.45
SGD 3M SORA (compounded)	1.06	1.24	1.42	1.56	1.64
US 10Y Treasuries Yield	4.47	4.60	4.65	4.70	4.70
SGD 10Y SGS	2.07	2.30	2.45	2.65	2.80

COMMODITIES	05 Jun	3Q26F	4Q26F	1Q27F	2Q27F
Gold (USD/oz)	4,455	4,600	4,800	5,000	5,200
Brent Crude Oil (USD/bbl)	95	100	100	90	90
LME Copper (USD/mt)	13,932	13,500	13,000	12,500	12,500

Source: UOB Global Economics & Markets Research Estimates

KEY EVENTS: 3Q 2026

JULY

01 - Ofgem Price Cap Adjustment - Households in the UK face a potential increase in energy bills as higher hydrocarbon prices filter through the market.

AUGUST

03 & 05 - US Treasury Quarterly Refunding – the announcement will be on 3 Aug with the details out on 5 Aug.

Likely on 23 - Singapore National Day Rally – likely to revolve around three key themes: [1] Fertility – measures to support marriage and parenthood, including enhancements to flexible working arrangements and efforts to defray childcare-related costs; [2] Continued emphasis on AI-driven workforce transformation and transitions; [3] Support measures for low-income households, SMEs, platform workers, and taxi drivers to mitigate the cost increases from the Middle East conflict.

27-29 - US Jackson Hole Symposium - the topic this year is “Financial Innovation: Implications for Payments and Policy." In the past, this symposium has occasionally been used as a platform to signal major Fed policy changes but given the topic for 2026 relates to financial innovation, it may not be used to signal Fed policy shifts. Fed Chair Kevin Warsh has not indicated his attendance.

Aug - The annual Beidaihe leadership retreat, or “summer summit”, will likely take place in early Aug for around a week. Chinese leaders use this unofficial retreat to discuss major economic issues.

SEPTEMBER

08-23 - The 81st UN General Assembly (UNGA81) – where heads of state and world leaders will gather in the US – the event will open on 8 Sep while the high-level General Debate will take place on 22 Sep.

09-10 - Belt and Road Summit 2026 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 to promote business collaboration.

12-13 - BRICS Summit 2026. India is set to host leaders from the BRICS grouping, including Russia’s President Vladimir Putin and China’s President Xi Jinping.

24 - President Trump has invited President Xi to the US; this marks an important milestone in the trade negotiation timeline with the truce due to expire by 10 Nov 2026.

FX STRATEGY

Is USD at a potential inflection point?

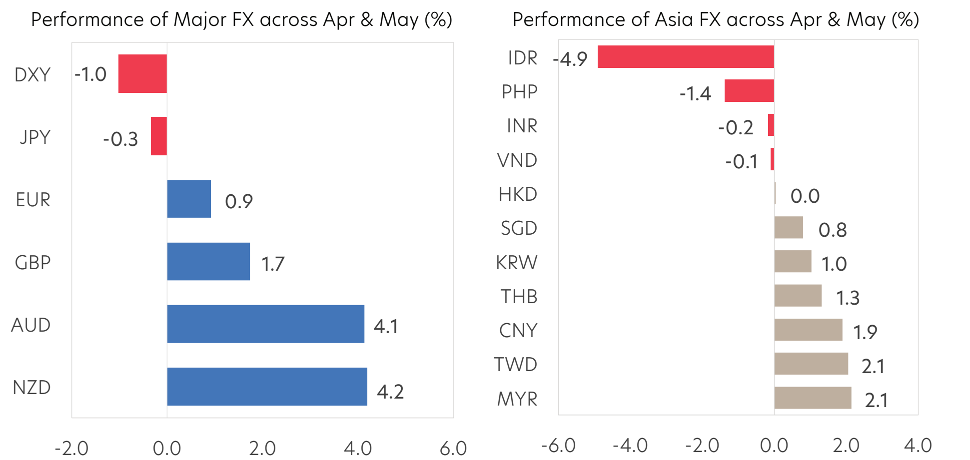
Against this backdrop of shifting relative rate dynamics, we reassess the validity of our medium-term bearish USD thesis.

As expected, the USD remained underpinned through 2Q26, supported by safe-haven flows during the early stages of the Iran conflict. While the announcement of a ceasefire in early Apr triggered a temporary USD retracement, subsequent repricing of Fed expectations—driven by firmer inflation prints, resilient US activity data (notably NFP and retail sales), and a hawkish tone at the 30 Apr FOMC—reinstated support for the USD. On balance, the DXY traded largely rangebound within 98-100 over Apr-May, as markets balanced evolving Fed rate expectations against geopolitical risk premia.

Looking ahead to 2H26, our base case remains that diminishing geopolitical risk premia will erode a key pillar of USD support. In turn, market focus is likely to shift back toward monetary policy differentials. Our Fed view has notably pivoted less dovish relative to the pre-war baseline. Concurrently, select G10 central banks have already initiated tightening cycles. Against this backdrop of shifting relative rate dynamics, we reassess the validity of our medium-term bearish USD thesis.

Chart 1: USD was mostly weaker against G-10 peers, while strengthening against most Asia FX across Apr & May

Source: Bloomberg, UOB Global Economics & Markets Research



We have consistently highlighted in prior publications that Asia FX remains disproportionately exposed to prolonged Middle East tensions. Since the onset of the Iran conflict, most regional currencies have weakened against the USD, with net energy importers—such as PHP, THB, INR and IDR—underperforming. The ongoing closure of the Strait of Hormuz, now into its fourth month, has intensified fiscal strains associated with securing energy supplies, particularly in economies with administered fuel pricing frameworks. Each additional day of disruption heightens inflation risks across the region, while macro buffers—including current account positions and FX reserve adequacy—have eroded in several cases.

In aggregate, downside pressures on Asia FX are likely to persist in the absence of a credible resolution to the conflict, with elevated oil prices and supply disruptions remaining key headwinds.

In aggregate, downside pressures on Asia FX are likely to persist in the absence of a credible resolution to the conflict, with elevated oil prices and supply disruptions remaining key headwinds. That said, tentative signs of stabilisation are emerging. Renewed negotiations between the US and Iran toward a memorandum of understanding could pave the way for the resumption of oil flows. In parallel, portfolio outflows appear to have moderated across Apr-May, while relative resilience in the CNY may help anchor broader regional sentiment.

Our cautious stance on Asia FX in 2Q26 has proven well-placed. We had previously anticipated a recovery beginning in 3Q26. However, in light of evolving geopolitical and macro conditions, we reassess whether this baseline remains intact, or whether a more defensive positioning is warranted pending greater clarity on the conflict trajectory.

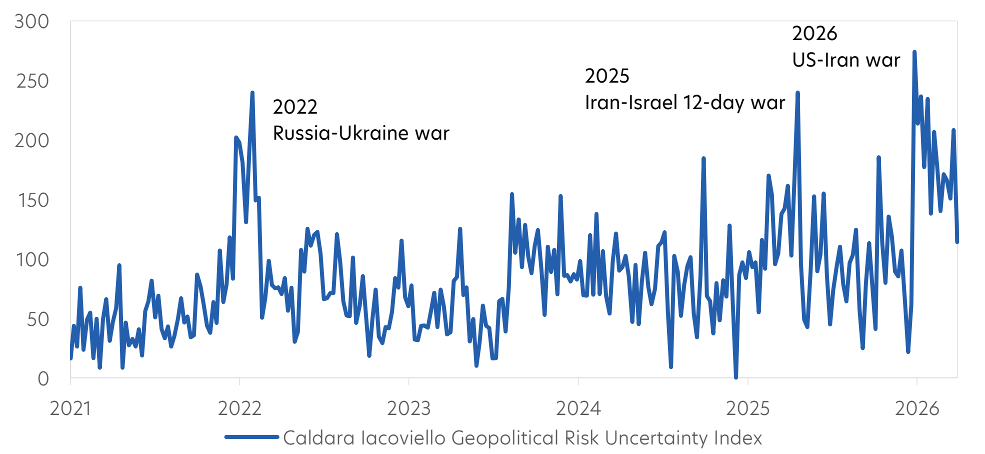
Major FX Strategy

Monetary policy to take over in 2H26 as key driver

We maintain our view that monetary policy will reassert itself as the primary FX driver in 2H26, as geopolitical risk premia gradually take a back seat. Notably, our Fed view has shifted materially less dovish relative to the pre-war baseline. Our macro team no longer anticipates any Fed rate cuts in 2026, versus expectations of 50 bps of easing this year before the war. This reassessment reflects a combination of broadening price pressures in the Apr CPI release and increasing dissent within the Fed to remove the easing bias at the Apr FOMC meeting.

Chart 2: Geopolitical risk premia for the US-Iran war may have peaked in Mar

Source: Bloomberg, UOB Global Economics & Markets Research



That said, we still view the Fed as not being close to embarking on a tightening cycle. Weak consumer sentiment and declining real wages suggest inflation dynamics are increasingly supply-driven rather than demand-led, reducing the urgency for restrictive policy action. Our baseline remains that disinflation will gain traction into 1H27, paving the way for two 25bp rate cuts in late-2Q27 and late-4Q27.

Despite the recalibration in our Fed outlook, we retain a medium-term bearish bias on the USD. This primarily reflects the relative policy stance, as most G10 central banks are further advanced in their tightening cycles in response to elevated inflation. The Reserve Bank of Australia (RBA) has already delivered three consecutive rate hikes through May, while Norges Bank surprised markets with a 25bp liftoff. Looking ahead, we expect the European Central Bank (ECB) and Bank of Japan (BOJ) to deliver 25bp hikes in Jun and 3Q26, respectively.

As such, **the continued narrowing in US rate differentials versus G10 peers should act as a structural headwind for the USD**. Consistent with this view, our updated DXY forecasts are still biased lower, at 97.9 in 3Q26, 97.0 in 4Q26, 95.7 in 1Q27, and 94.9 in 2Q27.

Chart 3: DXY still biased lower due to continued narrowing in US rate differentials versus G10 peers

Source: Bloomberg, UOB Global Economics & Markets Research

Risks to our USD outlook remain skewed to the upside should the closure of the Strait of Hormuz persist deeper into 2H26. Under such a scenario, sustained high oil prices—potentially at or above USD120/bbl—would likely amplify second-round inflation effects, particularly through wages, services, and core components.

This would present a material challenge for the Fed, limiting its ability to look through supply-driven price pressures. In turn, the policy narrative could shift more decisively toward the prospect of renewed tightening into year-end. Such a development (while not our base case) would represent a clear upside risk to the USD and necessitate a reassessment of our baseline expectation for a weaker dollar trajectory.

EUR/USD

EUR/USD traded broadly rangebound between 1.1505 and 1.1849 across Apr-May, exhibiting one of the lowest levels of both realized and implied volatility within the G10 complex despite evolving geopolitical tensions. The shock from the Iran conflict impacted both US and Eurozone growth and inflation trajectories in a largely symmetric manner, resulting in relatively muted adjustments in EUR/USD compared to other more sensitive commodity-linked and energy-importing currency pairs.

Recent communication from ECB Governing Council members has tilted decisively hawkish, with a broad consensus emerging around a 25bp rate hike at the 10-11 Jun meeting—consistent with our own expectations—as inflation continues to run above the 2% target in the wake of the Iran conflict. In contrast, we expect the Fed to remain on hold throughout 2026.

Looking ahead, the anticipated ECB rate lift-off in Jun would mark the conclusion of its two-year easing cycle and could catalyze a further narrowing of EUR-USD rate differentials, providing a renewed tailwind for EUR/USD. In addition, any tangible de-escalation in Middle East tensions would offer an additional layer of support for the pair.

Taken together, we maintain a constructive bias on EUR/USD and reaffirm our upward trajectory, with revised forecasts of 1.18 in 3Q26, 1.19 in 4Q26, 1.21 in 1Q27, and 1.22 in 2Q27.

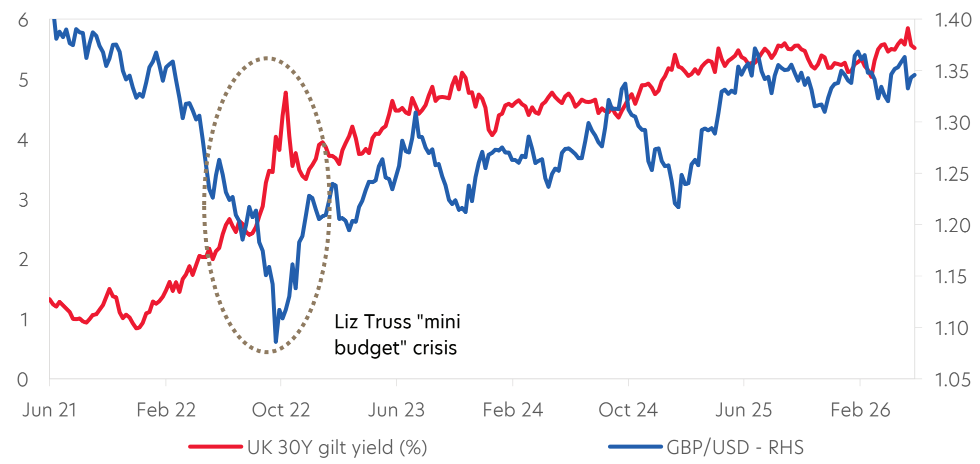
Looking ahead, the anticipated ECB rate lift-off in Jun would mark the conclusion of its two-year easing cycle and could catalyze a further narrowing of EUR-USD rate differentials, providing a renewed tailwind for EUR/USD.

GBP/USD

Sterling faced a notable idiosyncratic shock in 2Q26, driven by the emergence of Manchester Mayor Andy Burnham as a potential leadership challenger to PM Keir Starmer. This development triggered a sharp sell-off in gilts and weighed on GBP in mid-May. In addition, a softer-than-expected Apr CPI print prompted a repricing lower in Bank of England (BOE) tightening expectations, adding further downside pressure. As a result, GBP/USD retraced part of its Apr rally, easing from a peak of 1.3658 on 1 May to 1.3461 by end-May.

Chart 4: An uncontained rise in yields could generate outsized spillovers into GBP, as it did in 2022

Source: Bloomberg, UOB Global Economics & Markets Research



Looking ahead, we continue to expect broader USD weakness to remain the dominant driver. Political developments, while impactful, are typically episodic and less likely to exert a sustained drag on sterling. That said, we remain attentive to gilt market dynamics, as an uncontained rise in yields—whether driven by fiscal concerns, inflation risks, or political uncertainty—could generate outsized spillovers into GBP. On balance, we maintain a modestly constructive outlook for GBP/USD, with updated forecasts at 1.35 in 3Q26, 1.37 in 4Q26, 1.38 in 1Q27, and 1.39 in 2Q27.

USD/JPY

Within the span of a month, USD/JPY has retraced nearly the entirety of the decline triggered by an estimated JPY 11.73tn (USD 73.6bn) intervention, which had briefly pushed the pair to a low of 155.04 on 6 May. The subsequent rebound toward the 160 handle reinforces our long-held view that one-off intervention is typically insufficient to drive a sustained trend reversal in USD/JPY, consistent with prior episodes observed in 2022 and 2024. The recovery in the pair has also been supported by renewed USD strength and persistently elevated US real yields, which have restored the attractiveness of yen-funded carry trades. That said, we continue to view the 160 level as a credible intervention threshold for Japan's Ministry of Finance.

Our expectation of a further 25bp BOJ rate hike in 3Q26 could act as a catalyst for gradual normalisation in the currency pair, in line with narrowing rate differentials.

Looking ahead, we reiterate our bias for a lower USD/JPY trajectory. Our expectation of a further 25bp BOJ rate hike in 3Q26 could act as a catalyst for gradual normalisation in the currency pair, in line with narrowing rate differentials. In addition, any reopening of the Strait of Hormuz would alleviate a key structural drag on the yen, as reduced energy import costs improve Japan's terms of trade. On balance, we maintain a constructive view on JPY, with updated USD/JPY forecasts at 157 in 3Q26, 155 in 4Q26, 153 in 1Q27, and 151 in 2Q27.

AUD/USD

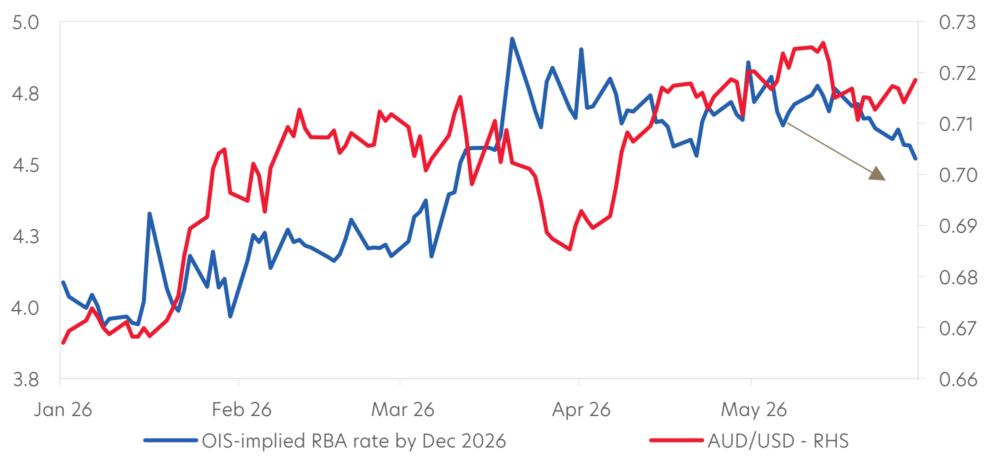
AUD/USD has retraced part of its strong Apr rally (+4.4%) following a shift by RBA toward a more data-dependent stance, after it delivered a third consecutive 25bp rate hike that lifted the cash rate to 4.35% on 5 May. Subsequent macro data surprised to the downside, with a weaker-than-expected Apr labour market print—pushing unemployment (4.5%) to its highest level since 2021—as well as a larger-than-expected cooling in Apr's CPI. These developments prompted a recalibration lower in subsequent rate hike expectations, with our macro team now anticipating an extended pause in the RBA's tightening cycle.

While we maintain a constructive medium-term outlook on AUD/USD, near-term price action may consolidate as the hawkish RBA premium that underpinned Apr's rally fades. On the supportive side, a confirmed reopening of the Strait of Hormuz, alongside stabilisation in Australian labour market conditions, would reinforce our positive medium-term thesis and could bring forward upside risks. Overall, we retain a modestly bullish bias in AUD/USD, with updated forecasts at 0.72 in 3Q26, 0.73 in 4Q26, 0.74 in 1Q27, and 0.75 in 2Q27.

While we maintain a constructive medium-term outlook on AUD/USD, near-term price action may consolidate as the hawkish RBA premium that underpinned Apr's rally fades.

Chart 5: The AUD rally cooled in May alongside RBA rate-hike expectations

Source: Bloomberg, UOB Global Economics & Markets Research



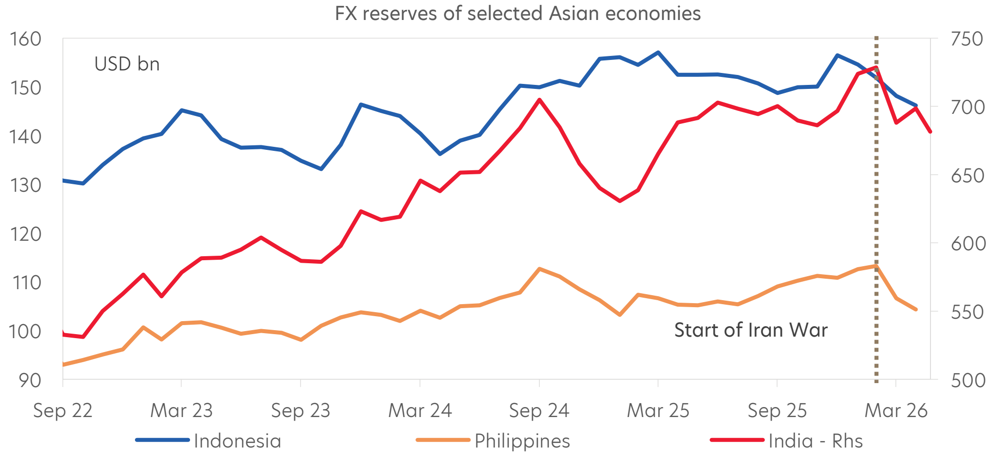
Asian FX Strategy

Recovery deferred as Hormuz risks linger on

We have consistently highlighted in prior publications that Asia FX remains disproportionately exposed to prolonged Middle East tensions. Since the onset of the Iran conflict, most regional currencies have weakened against the USD, with net energy importers—such as PHP, THB, INR and IDR—underperforming. The ongoing closure of the Strait of Hormuz, now into its fourth month, has intensified fiscal strains associated with securing energy supplies, particularly in economies with administered fuel pricing frameworks. Each additional day of disruption heightens inflation risks across the region, while macro buffers—including current account positions and FX reserve adequacy—have eroded in several cases.

Chart 6: FX reserve adequacy has fallen in some Asian economies

Source: Bloomberg, UOB Global Economics & Markets Research



In aggregate, downside pressures on Asia FX are likely to persist in the absence of a credible resolution to the conflict, with elevated oil prices and supply disruptions remaining key headwinds. That said, tentative signs of stabilisation are emerging. Renewed negotiations between the US and Iran toward a memorandum of understanding could pave the way for the resumption of oil flows. In parallel, portfolio outflows appear to have moderated across Apr-May, while relative resilience in the CNY may help anchor broader regional sentiment.

On balance, we judge that a cautious stance remains warranted until there are clearer signs of normalisation in the Strait of Hormuz and a meaningful easing in regional stagflationary pressures. Accordingly, **we maintain a defensive bias on Asia FX into 3Q26 and push back the expected timing of a more sustained recovery to 4Q26**. We expect CNY, MYR and SGD to stay resilient as they had during the Middle East conflict thus far, while TWD and KRW are expected to post a stronger recovery due to sustained AI tailwinds. On the other hand, PHP, IDR and INR are expected to underperform and stay near record lows against the USD.

A key upside risk to our medium-term constructive outlook is a clear shift in Fed policy toward rate hikes to fight inflation—relative to current expectations of a prolonged pause—which could drive stronger broad-based USD strength and further delay the recovery in Asia FX.

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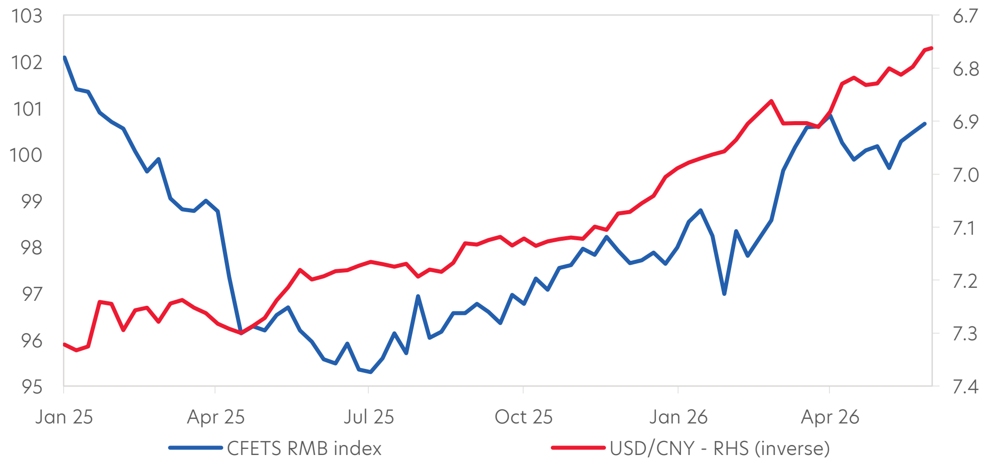
USD/CNY

The CNY has remained the most resilient currency in the Asia complex, appreciating around 1.5% against the USD since the onset of the Iran conflict, in stark contrast to broader regional weakness and elevated FX volatility. The currency extended its gains for a second consecutive month in May, reaching 6.7662 on 29 May—its strongest level against the USD since early 2023. Notably, the Trump-Xi summit in Beijing (13-15 May) delivered a constructive set of outcomes, including a USD30bn reciprocal tariff reduction framework, a 200-aircraft Boeing order, USD 17bn in annual US agricultural purchase commitments, and the establishment of bilateral trade and investment platforms. Collectively, these developments have materially reduced trade-related tail risks and reinforced positive sentiment toward CNY.

Chart 7: Trade truce and oil shock resilience anchor sustained RMB strength

Source: Bloomberg, UOB Global Economics & Markets Research



That said, several factors are likely to temper the pace of appreciation. A recent surge in onshore USD funding costs has raised the carry cost of maintaining short USD/CNY positions, weighing on forward net FX settlements and constraining spot gains. More importantly, the People's Bank of China (PBOC) appears increasingly sensitive to the pace of CNY strength. Its latest monetary policy report reintroduced language emphasising the need to "foster a stable exchange rate environment for the real economy," in response to a growing number of exporters reporting currency-related margin pressures in 1Q26 earnings.

These developments are consistent with our long-held view that policymakers will lean against excessive currency strength, as reflected in the PBOC consistently setting the USD/CNY fixings stronger than market-implied levels.

These developments are consistent with our long-held view that policymakers will lean against excessive currency strength, as reflected in the PBOC consistently setting the USD/CNY fixings stronger than market-implied levels. Against this backdrop, we maintain our expectation of a gradual appreciation path in the CNY, with updated USD/CNY forecasts at 6.80 in 3Q26, 6.76 in 4Q26, 6.73 in 1Q27, and 6.70 in 2Q27.

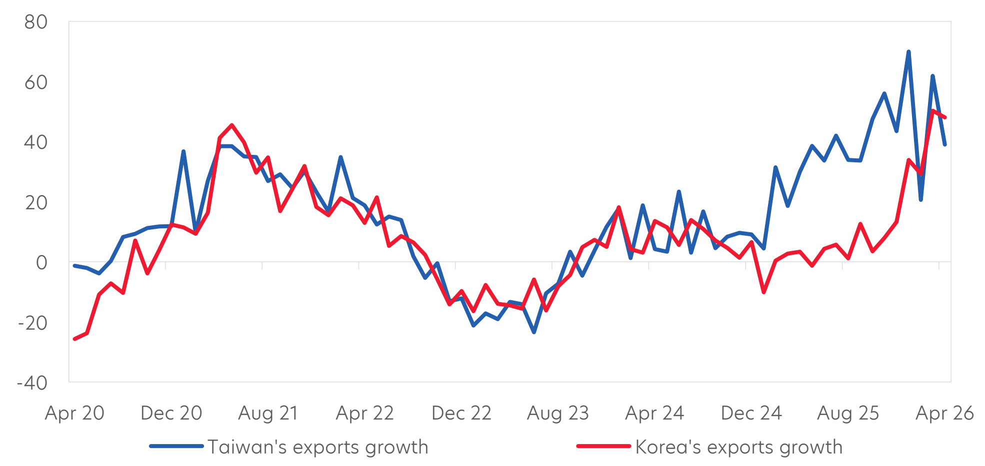
USD/KRW

The KRW has been one of the underperformers within the Asia FX complex, depreciating by more than 4% against the USD since the onset of the Iran conflict. This weakness highlights a clear divergence between Korea's strong underlying fundamentals and the currency's heightened sensitivity to geopolitical developments and equity flow dynamics.

From a macro standpoint, Korea's export engine—particularly driven by semiconductors—has continued to outperform. Export growth remained robust, accelerating to 53.2% y/y in May from 48.0% in Apr. The current account surplus also reached a record high of USD 37.3bn in Mar. Reflecting these developments, the Bank of Korea (BOK) revised its 2026 growth forecast upward to 2.6% (from 2.0%) and lifted its CPI projection to 2.7%, while signaling a shift toward policy normalization at its May meeting.

Chart 8: AI-driven export strength reduces currency drag for Taiwan and Korea

Source: Bloomberg, UOB Global Economics & Markets Research



However, these positive fundamentals have been overshadowed by external headwinds. As a net energy importer, Korea has been adversely affected by elevated oil prices following the US-Iran conflict. In addition, equity outflows have been a key driver of KRW weakness, with foreign investors withdrawing USD 27.3bn from local equities across Apr–May amid profit-taking in the world-beating Kospi rally. This more than offset the USD 12.9bn inflows to bond markets over the same period following WGBI inclusion. Elevated USD funding costs in the FX swap market have also contributed to sustained downward pressure on the KRW.

Looking ahead, we expect downside risks to be partially mitigated by continued verbal intervention from authorities. At the same time, prospective 50bp of cumulative BOK rate hikes in 2H26, alongside expectations of a normalization in global energy supply conditions, should provide more durable support to the currency. On balance, we maintain a cautiously constructive outlook on the KRW, with updated USD/KRW forecasts at 1,530 in 3Q26, 1,510 in 4Q26, 1,490 in 1Q27, and 1,480 in 2Q27.

Looking ahead, we expect downside risks to be partially mitigated by continued verbal intervention from authorities. At the same time, prospective 50bp of cumulative BOK rate hikes in 2H26, alongside expectations of a normalization in global energy supply conditions, should provide more durable support to the currency.

USD/TWD

Taiwan's robust macroeconomic fundamentals have underpinned an earlier-than-anticipated recovery in the TWD, which has appreciated by around 2% quarter-to-date to 31.36 /USD. Strength in the currency has been driven primarily by AI-related semiconductor demand, with exports surging 39% y/y in Apr. This has prompted the statistics bureau to significantly upgrade its 2026 export growth forecast to 39.77% (from 22.22%), marking the fastest pace of expansion in 50 years. In parallel, sustained foreign equity inflows—amounting to USD 16bn quarter-to-date—have provided additional support, as Taiwan's equity market continues to reach fresh record highs.

On balance, these idiosyncratic developments over the past two months have materially exceeded our prior assumptions and have largely offset the drag from geopolitical risks. Reflecting this strong outlook for Taiwan's growth and export trajectory, we revise our USD/TWD forecasts lower to 31.5 in 3Q26, 31.2 in 4Q26, 31.0 in 1Q27, and 30.7 in 2Q27.

USD/SGD

The SGD has remained one of the more resilient performers within Asia FX amid the Middle East conflict, trading within a relatively tight 1.2650–1.2930 range throughout the three-month period.

This stability has been underpinned by Singapore's stronger-than-expected macroeconomic backdrop. Final 1Q26 GDP growth was revised up sharply to 6.0% y/y and +1.0% q/q, significantly outperforming the advance estimate of 4.6% y/y and a 0.3% q/q contraction. The upside surprise was driven by broad-based strength in AI-linked manufacturing and services sectors. Reflecting this momentum, our macro team has raised its 2026 GDP growth forecast to 3.2% from 2.5% previously.

In parallel, the Monetary Authority of Singapore (MAS) policy trajectory has evolved broadly in line with our expectations, with Singapore moving ahead of regional peers in pre-emptive tightening. The MAS increased the S$NEER slope by an estimated 50bp to 1.0% p.a. in Apr, and we anticipate a further steepening to 1.5% p.a. at the Oct 2026 MPS. Risks remain skewed toward an earlier adjustment, potentially as soon as the Jul meeting, given upside risks to both core and headline inflation projections.

Additionally, the SGD continues to benefit from its safe-haven characteristics during periods of heightened global uncertainty. Taken together, these factors have kept the S$NEER anchored near the upper bound of its policy band (around 2% above the midpoint) throughout the Middle East conflict, effectively containing FX volatility.

Overall, we expect USD/SGD to resume its underlying downtrend as geopolitical risk premia gradually unwind and regional growth dynamics improve.

Overall, we expect USD/SGD to resume its underlying downtrend as geopolitical risk premia gradually unwind and regional growth dynamics improve. Accordingly, we reiterate our USD/SGD forecasts at 1.28 in 3Q26, 1.27 in 4Q26, 1.26 in 1Q27, and 1.25 in 2Q27.

USD/MYR

In retrospect, USD/MYR's ability to remain below the key 4.00 threshold throughout the Middle East conflict reflects Malaysia's resilient macroeconomic fundamentals, its resilience to energy price shocks as a net oil exporter, and a benign inflation backdrop supporting our expectations for a stable OPR at 2.75% through 2026. Additionally, the MYR is likely to benefit from continued short-term capital inflows into the local bond market, as global investors rebalance regional exposures and seek yield opportunities amid a strong MYR.

That said, the MYR is not insulated from external headwinds. While the current growth-inflation mix remains favourable, stagflation risks could escalate should disruptions to global oil supply persist into 3Q26. Prolonged reliance on fuel subsidies could also incrementally weigh on Malaysia's fiscal position. On the domestic front, speculation around a potential snap general election—despite not being due until early 2028—introduces an additional layer of uncertainty, although its impact on foreign investor sentiment is likely to remain limited until more concrete developments emerge.

Taken together, we retain a cautious near-term stance on the MYR through 3Q26, in line with our broader Asia FX view. A credible reopening of the Strait of Hormuz would serve as a key catalyst for Malaysia's favourable idiosyncratic fundamentals to reassert themselves. Accordingly, we reiterate our USD/MYR forecasts at 4.00 in 3Q26, 3.98 in 4Q26, 3.94 in 1Q27, and 3.92 in 2Q27.

USD/THB

Following an initial phase of weakness—where USD/THB rose from 31 to 33 during the escalation of the Middle East conflict in Mar—the THB has since stabilised, trading largely within a 31.93-32.85 range across Apr-May. The ceasefire announcement in early Apr played a key role in anchoring the pair and curbing further volatility.

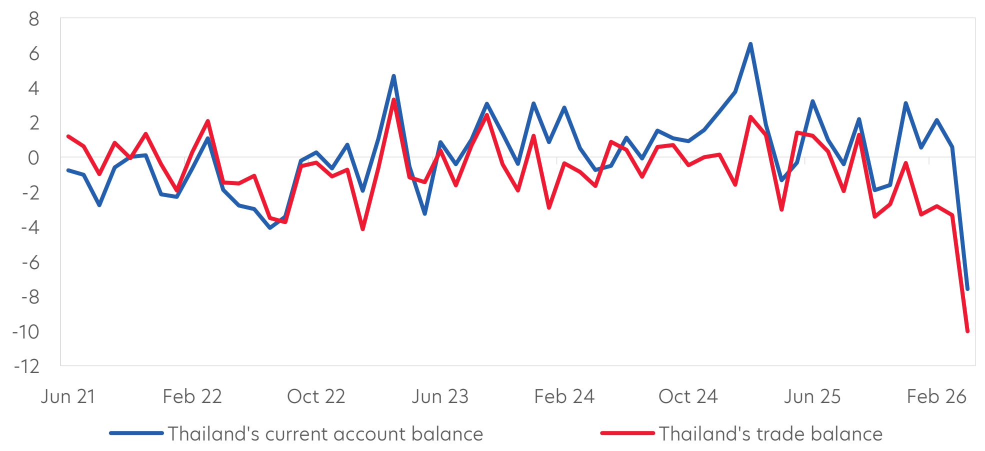
This relative stability, however, masks a noticeable deterioration in Thailand's macroeconomic backdrop. The current account swung to a record deficit of USD7.59bn in Apr, driven by a record USD10bn trade deficit as import growth continued to outpace exports for a seventh consecutive month. At the same time, stagflationary pressures are becoming more apparent, with CPI accelerating sharply to 2.89% y/y in Apr from -0.08% in Mar, largely reflecting higher oil prices linked to the conflict. On the fiscal front, plans to raise THB175bn to fund a co-payment stimulus programme—entailing monthly issuance of THB35bn between Jun and Sep—could add to fiscal pressures.

We expect the THB to remain under near-term pressure and to underperform regional peers during any tentative medium-term recovery, as long as the macroeconomic backdrop remains challenged.

On balance, we expect the THB to remain under near-term pressure and to underperform regional peers during any tentative medium-term recovery, as long as the macroeconomic backdrop remains challenged. Accordingly, we revise our USD/THB forecasts to 32.9 in 3Q26, 32.7 in 4Q26, 32.5 in 1Q27, and 32.3 in 2Q27.

Chart 9: Thailand's current account and trade balance slumped to record deficits in Apr

Source: Bloomberg, UOB Global Economics & Markets Research



USD/IDR

The IDR has continued to come under pressure despite a more constructive global risk backdrop, with intensifying domestic concerns dominating currency dynamics. USD/IDR rose 3.1% in May to a fresh record high of 17,881—marking the largest monthly gain since Oct 2024 and exceeding our 2Q26 forecast of 17,600. The depreciation reflects a confluence of negative factors, including a drawdown in FX reserves to multi-year lows, a rising fiscal burden from energy subsidies, equity outflows linked to MSCI deletions, and heightened policy uncertainty surrounding resource nationalism.

In response, Bank Indonesia (BI) delivered a surprise 50bp rate hike in May as part of a broader "all-out" policy effort to stabilise the currency. However, the move has thus far had limited impact in reversing the depreciation trend. BI has since reiterated it remains in the market "around the world, around the clock" to maintain rupiah stability, citing geopolitical uncertainty and higher seasonal FX demand for outbound dividend and loan payments as ongoing pressures.

Looking ahead, our macroeconomic team's expectation of three more 25-bps BI rate hikes this year should provide incremental support to the IDR. Nevertheless, near-term risks remain tilted toward further weakness, given the combination of external shocks and domestic vulnerabilities. Over the medium term, the IDR is also likely to underperform regional peers, even as geopolitical risks recede, unless credible progress is made on fiscal consolidation. Accordingly, we revise our USD/IDR forecasts to 18,000 in 3Q26, 17,800 in 4Q26, and 17,700 in both 1Q and 2Q27.

USD/VND

The VND has shown signs of stabilisation in recent weeks, trading within a narrow 26,291–26,372 range over Apr-May, comfortably within the State Bank of Vietnam's (SBV) ±5% trading band around its daily reference rate. The SBV's Apr intervention—via 180-day cancellable forwards at a fixed rate of 26,850/USD—appears to have established an effective ceiling, anchoring market expectations and containing speculative pressures. In addition, the tentative extension of the US-Iran ceasefire in late May has contributed to a more supportive external environment.

More broadly, the stabilisation in the US-China trade framework following the Trump-Xi summit in mid-May is a constructive development for Vietnam's export-oriented manufacturing sector. Reduced bilateral tensions help mitigate the risk of secondary tariff spillovers, further reinforcing Vietnam's positioning as a key beneficiary of global supply chain diversification and underpinning its medium- to long-term FDI inflow narrative.

In the near term (3Q26), the VND is likely to remain on the defensive in line with broader regional dynamics amid lingering geopolitical uncertainties.

That said, in the near term (3Q26), the VND is likely to remain on the defensive in line with broader regional dynamics amid lingering geopolitical uncertainties. Over the medium term, however, we maintain a broadly stable outlook, supported by a robust growth trajectory, sustained FDI inflows, and a steady monetary policy stance, with the SBV expected to keep its policy rate unchanged at 4.5% through 2026. Additionally, Vietnam's potential upgrade to Emerging Market status in Sep 2026 could provide a structural tailwind for portfolio inflows. On balance, we retain a gradual depreciation bias for USD/VND, with updated forecasts at 26,500 in 3Q26, 26,400 in 4Q26, 26,300 in 1Q27, and 26,100 in 2Q27.

RATES STRATEGY

Central banks running short of runway to look through inflation

Short-term interest rate market has started to price in probability of hikes instead of cuts, with the OIS market pricing in a 22bps rate hike by Mar 2027 as of 29 May.

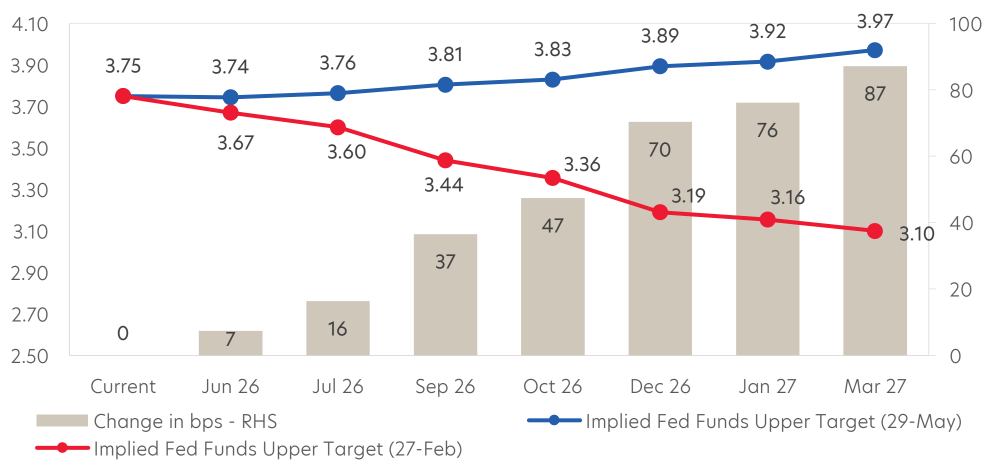
US Rates

Higher 10Y UST forecast due to Fed vigilance on inflation, economy still resilient, step-up in corporate bond issuance and worrying fiscal trajectory

Three months into Iran War, composition of Fed has turned decidedly more hawkish, and the division of opinions is apparent. In the Apr FOMC, three regional Fed Presidents (Hammack, Kashkari, and Logan) dissented over inclusion of an easing bias in the statement, while Fed governor Miran dissented favoring a 25bp cut. Fed Governor Waller, who was previously considered a dovish member on FOMC, also subsequently supported "removing the easing bias language in policy statement to make it clear that a rate cut is no more likely in the future than a rate increase" in a recent speech. Consequently, short-term interest rate market has started to price in probability of hikes instead of cuts, with the OIS market pricing in a 22 bps rate hike by Mar 2027 as of 29 May.

Chart 1: Change in Implied Fed Funds Upper Target pricing since war

Source: Bloomberg, UOB Global Economics & Markets Research



Apart from inflation concerns affecting the Fed rate path, three other drivers also push rates higher ...

Apart from inflation concerns affecting the Fed rate path, three other drivers also push rates higher, namely 1) still resilient US data, 2) strong corporate issuance this year, and 3) worsening US fiscal sustainability.

Labor market seems broadly balanced in a low-hire, low-fire environment. Overall unemployment rate has ticked lower from 4.5% in Nov 2025 to the current 4.3% and showed no concrete trend of deteriorating. Claims data also appears healthy with both initial jobless claims and continuing claims hovering near two-year lows.

Chart 2: Unemployment rate

Source: Bloomberg, UOB Global Economics & Markets Research

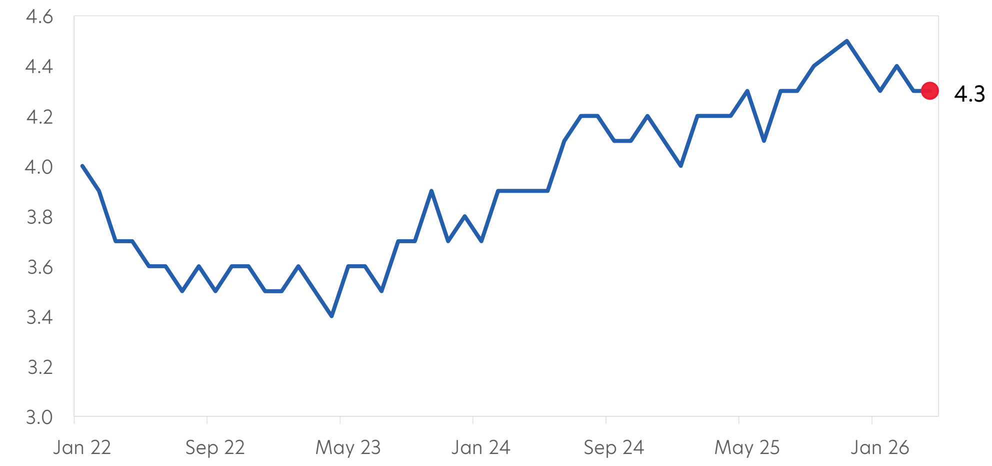
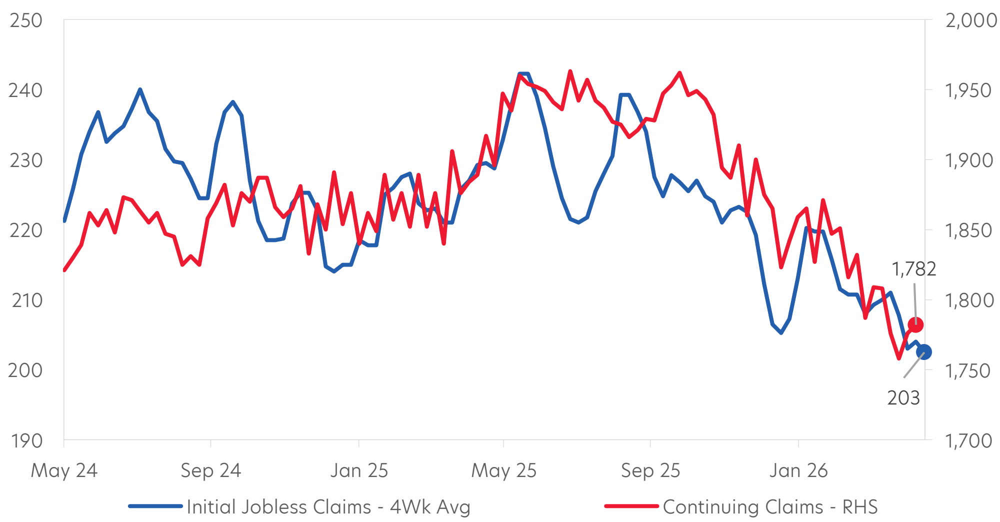


Chart 3: Claims data hovering around two-year lows

Source: Bloomberg, UOB Global Economics & Markets Research

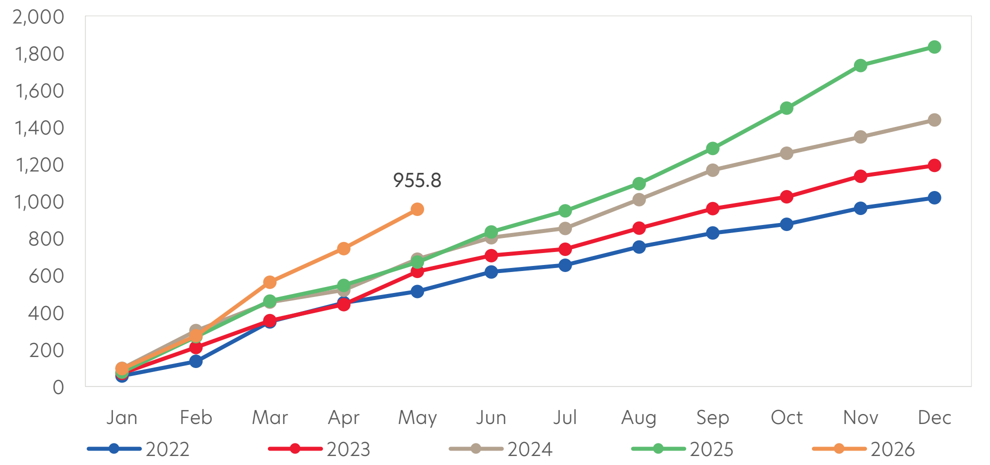


By the end of May, corporate issuance this year has reached USD 956bn, 43% more than same period in 2025, adding to the supply of debt at a time when investors are shying away from bonds due to inflation concerns.

USD-denominated corporate issuance from US is also on the rise. In fact, by the end of May, corporate issuance this year has reached USD 956bn, 43% more than same period in 2025 (USD 671bn), adding to the supply of debt at a time when investors are shying away from bonds due to inflation concerns.

Chart 4: US USD-denominated corporate bond issuance (USD bn) by years

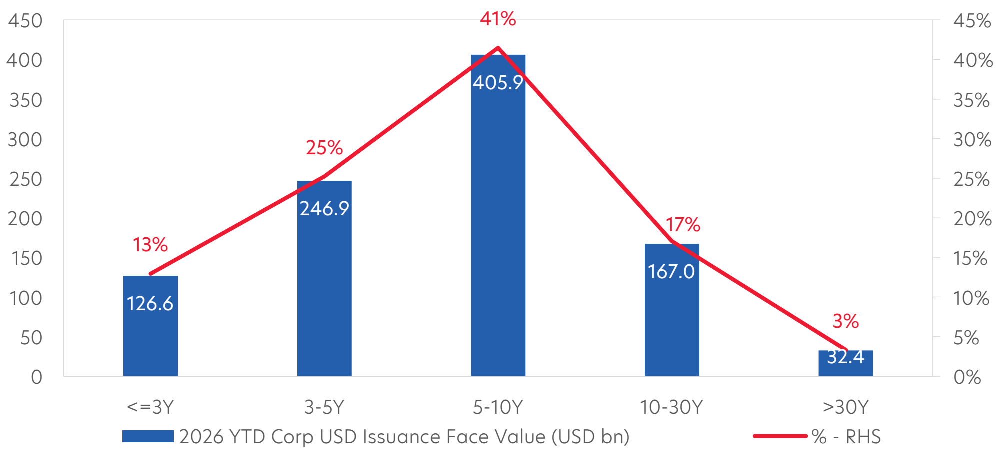
Source: Bloomberg, UOB Global Economics & Markets Research



Maturity distribution of the USD corporate bond issuance shows a skew towards belly part of the curve (5-10Y) at 41%, while above 10Y issuance at 20%. On the margin, the new corporate bond issuance adds to the increased supply of durations that market needs to digest.

Chart 5: US USD-denominated corporate bond 2026 ytd issuance by maturity bucket

Source: Bloomberg, UOB Global Economics & Markets Research

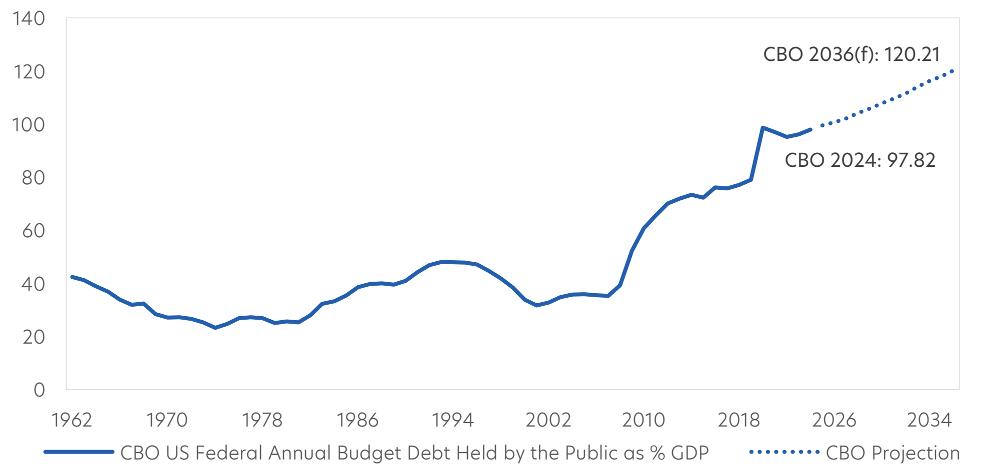


CBO projected US Federal debt held by the public to grow to 120.21% of GDP in 2036. This does mean that private sector will need to digest a mounting Treasury supply at the same time ...

Last but not the least, US fiscal situation is a slow burning overhang in the background. Congressional Budget Office (CBO) projected US Federal debt held by the public to grow to 120.21% of GDP in 2036. This does mean that private sector will need to digest a mounting Treasury supply at the same time when other traditional buyers like foreigners have less appetite for US Treasuries. Recent developments also added to the deterioration of US fiscal situation: 1) Pentagon officials said Iran war has cost USD 25 bn as of 29 Apr, while independent Penn Wharton Budget Model estimated a direct cost of USD 38 to 47 bn through end of Apr, 2) Supreme Court's ruling of IEEPA tariffs unconstitutional would prompt tax refunds of over USD 150 to 175 bn in reimbursements, and the new 10% global tariffs Trump administration proposed under section 122 might not be enough to make up the amount of refunds.

Chart 6: US federal fiscal situation projected to worsen by CBO

Source: CBO, UOB Global Economics & Markets Research



Under this backdrop, **our macroeconomic team now sees the Fed on extended pause through 2026, delaying any easing cycle until 2027 with one 25 bps rate cut each in late-2Q27 and late-4Q27**. (see Macro Note dated 14 May) This path implies a steady 3M compounded in arrears SOFR projection at 3.62% in 3Q26, 3.62% in 4Q26, 3.62% in 1Q27 and 3.45% in 2Q27.

Even if geopolitical risks dissipate, we think it's hard to see yields meaningfully lower to pre-war levels given the confluence of above-mentioned factors.

As for the long-end, we have been consistent to project a gradually increasing UST 10-year trajectory given the longstanding fiscal concerns. The recent developments of higher inflation concerns, still robust economy, increased corporate issuance and fiscal overhang reinforced our projection. Incorporating the latest Fed call of no more 2026 cuts, our updated forecasts stand at 4.60% for 3Q26, 4.65% for 4Q26, 4.70% for 1Q27 and 4.70% for 2Q27, about 10-20bps higher than our previous forecast made 5 May. Even if geopolitical risks dissipate, we think it's hard to see yields meaningfully lower to pre-war levels given the confluence of above-mentioned factors. The risks to our view include a faster and meaningful re-opening of Strait of Hormuz, quick resolution of supply chain disruptions, and lower than expected realized inflation.

SG Rates
Upward pull from global rates likely to dominate downward push from safe-haven flows

We have just entered the fourth month into US/Israel-Iran conflict, while the economic growth of Singapore remains on solid footing amid AI-related tailwinds. 1Q26 GDP was revised sharply higher to 6.0% y/y from 4.6% y/y in the advance estimates ...

We have just entered the fourth month into US/Israel-Iran conflict, while the economic growth of Singapore remains on solid footing amid AI-related tailwinds. 1Q26 GDP was revised sharply higher to 6.0% y/y from 4.6% y/y in the advance estimates (ae) led by stronger growth across all key sectors: manufacturing (7.9% y/y from 5.0% in ae), construction (11.8% y/y from 9.0%) and services (5.7% y/y from 4.7%). MTI maintained its 2026 growth forecast range at "2.0 to 4.0%" reflecting 1Q outperformance amidst sustained AI-related tailwinds, outweighing limited growth drag from Middle East conflict (so far). As such, our macroeconomic team has raised 2026 growth forecast to 3.2% (from 2.5% prev). The continued Middle-East conflict and supply chain disruptions, however, introduce significant left-tail risks to this forecast. For more details, kindly refer to Macro Note published 25 May 2026.

The inflation side of the picture is also strengthening despite a downside surprise in Apr core inflation. Core inflation momentum strengthened on a 3m/ 3m seasonally adjusted basis in Apr, while imported inflation accelerated sharply in Apr and the shares of CPI basket with items > 2% y/y inflation recorded a slight uptick, a sign of broadening inflationary pressures. For more details, kindly refer to Macro Note published 25 May 2026.

Given the robust economic growth and inflationary concerns, our macroeconomic team maintains the call that MAS will further tighten monetary policy through a 50bps steepening of the S$NEER policy band slope to 1.5% in Oct with risks of earlier tightening in Jul MPS should inflation prove stronger than anticipated.

Overnight SORA continues to trade within the range 0.75-1.45%. Another 50 bps increase in the S$NEER slope in Oct MPS would mechanically result in a lower SORA ...

Overnight SORA continues to trade within the range 0.75-1.45%. Another 50 bps increase in the S$NEER slope in Oct MPS would mechanically result in a lower SORA, though we expect the spillover to be limited. Similarly, we note that the safe-haven flows from the Middle East conflict thus far were less intense than the de-dollarization episode in 2025.

In contrast, we continue to see US and global rates as the dominant driver to pull SORA upwards. Expectations of less Fed rate cuts inevitably reduce the downside of SORA and could potentially lead to an increasing pull in SORA upwards if markets pivot towards no more Fed rate cuts or even rate hikes going forward.

Overall, we reiterate the view that the sharpest drop in SORA is likely behind us, and the cumulative daily fixing changes this year also suggest a relatively muted safe-haven flow to Singapore compared to the previous period in 2H25.

Overall, we reiterate the view that the sharpest drop in SORA is likely behind us, and the cumulative daily fixing changes this year also suggest a relatively muted safe-haven flow to Singapore compared to the previous period in 2H25. We continue to expect SOFR-SORA spread to normalize gradually from a historically wide level, although the question of speed of the normalization remains slower than we previously expected. We project 3M compounded in arrears SORA at 1.24% in 3Q26, 1.42% in 4Q26, 1.56% in 1Q27 and 1.64% in 2Q27.

In May FXRM, we examined in detail, past MAS tightening cycles and concluded that 2s10s SGS curve will likely be flatter going forward. This view is so far playing out as 2s10s flattened by 5bps in May. In the box below, we present the hedging framework for corporates to manage rising interest rate risk via OIS swaps. It's also worth mentioning that not all tightening episodes resulted in a rise in front-end interest rates. Since 2010, only two out of the past four tightening episodes see outright rise in 2Y SGS yields: Apr 2012 to Jan 2015 and Oct 2021 to Jan 2025.

Table 1: MAS tightening cycles usually coincide with swap curve flattening consistently, but 2Y yield might not increase everytime

Start	End	2Y Swap Start	2Y Swap End	10Y Swap Start	10Y Swap End	2Y Swap Chg	10Y Swap Chg	2s10s Swap	Swap Reference
14/04/2010	13/10/2011	1.16	1.18	1.19	1.20	-0.79	0.93m	-0.14	SOR 6M
13/04/2012	27/01/2015	1.32	1.34	1.36	1.38	0.36	-0.06	-0.42	SOR 6M
13/04/2018	11/10/2019	0.69	0.71	0.72	0.73	-0.42	-0.89	-0.47	SOR 6M
13/10/2021	23/01/2025	0.58	0.59	0.60	0.61	2.18	1.31	-0.87	SORA OIS
14/04/2026		99.1	97.6	96.7	95.8				SORA OIS

Note: Oct 2007 to Oct 2008 episode not showing as swap data is not available for the period
Source: Bloomberg, UOB Global Economics and Markets Research

At the longer end, 10Y Singapore Government Securities (SGS) yields declined from 2.09% to 2.02% through May, outperforming US rates. Looking ahead, we continue to expect a gradual rebound in 10Y SGS yields tracking UST yields. Overall, our updated forecasts for 10Y SGS yield are 2.30% in 3Q26, 2.45% in 4Q26, 2.65% in 1Q27 and 2.80% in 2Q27. We expect a gradual normalization of SGS versus UST spread, although at a slower speed than we previously expected.

Box 1 - Suggested hedging framework to manage SG SORA interest rate risks

Corporate treasurers face a fundamental question when managing interest rate risk: whether to hedge, when to hedge, and for how long. Key aspects to consider are 1) rolling hedge vs full duration hedge, 2) annualized break-even rate at different tenors for hedging and 3) corporate treasurers' own future rate outlook.

Consider a hypothetical case of a corporate with 10Y floating rate liability and worry about rising interest rates due to inflation concerns in the next two years. Given the long liability tenor, the company could consider wide spectrum of tenors for rolling hedges or a long 10Y pay-fixed hedge. The benefits and costs of each strategy are summarized into below table:

Table A: Rolling hedges vs full duration hedge

	Benefits	Costs
Rolling hedges	▪ Flexibility to reprice ▪ Generally lower costs due to positively sloped curve.	▪ Refixing/ rollover rate risk of the prevailing swap rate at the time of rolling hedges.
Full duration hedge	▪ Certainty as swap rate locked for the entire liability life.	▪ Generally higher costs due to positively sloped curve

Source: UOB Global Economics and Markets Research

By studying the current interest rate swap (IRS) curve shape, corporate can analyze the annualized break-even rate, which translates the question of "what does this swap cost" into "how much do rates need to move for the hedge to be the better decision". If realized floating rates exceed the threshold of break-even rate, the hedge proves its worth. If they remain below it, the corporate would – in hindsight – have been better off staying unhedged.

Core Formula

Break-even (per annum) = Annual Carry Cost = Fixed rate paid (F) - Floating rate received (SORA)

Break-even (total) = Break-even (per annum) x Tenor

Source: UOB Global Economics and Markets Research

Below we present the break-even analysis using SORA compounded 3M at 1.0645% (as of 29 May) as the floating leg instead of using daily SORA because it is too volatile to provide an unbiased analysis, while overnight indexed swap (OIS) rate is sourced from Bloomberg as of 29 May. Note actual SORA OIS swap references daily SORA at the float leg.

Given current positively sloped curve shape, it is no surprise that annualized break-even rate is smallest at short-end: 2Y annualized break-even rate at ~40bps, while a full duration 10Y hedge for the corporate will cost ~111bps annually. If the corporate treasurer has a view that interest rate is likely to rise by 70bps over next year, it would make sense to consider hedge with pay-fixed swap on 2Y and 3Y using this analysis.

Table B: Breakeven analysis

Tenor	SG OIS Rate (%)	vs SORA Compounded 3M (bps)*	Ann. Carry Cost (bps)	Break-even Δ Rate (bps)
2Y	1.460%	39.6	39.6	39.6
3Y	1.640%	57.5	57.5	57.5
5Y	1.875%	81.0	81.0	81.0
7Y	2.024%	96.0	96.0	96.0
10Y	2.170%	110.5	110.5	110.5

* SORA compounded 3M at 1.0645% and break-even analysis assumes unchanged curve for the period
Source: Bloomberg, UOB Global Economics and Markets Research

DM and Asia Rates

Divergence in fundamentals makes countries harder to look through inflation amid a dragged-on Middle East conflict

In the month of May, global yields have generally climbed higher in 1H of May, before a slew of weaker data from Australia, Europe, dovish central bank comments and a potential US-Iran peace deal delivered a fall in global yields. There is significant divergence in rates movement between countries, while we have made a number of changes in the central bank calls.

Table 2: Change in G10 IRS/ OIS in May

End May level vs end Apr	SOFR OIS	Euribor IRS	SONIA OIS	IRS	IRS	OIS
	USD	EUR	GBP	AUD	NZD	JPY
2y	3.86 (+16)	2.73 (-12)	4.08 (-24)	4.51 (-20)	3.51 (-6)	1.37 (-1)
5y	3.87 (+16)	2.77 (-12)	4.12 (-17)	4.74 (-19)	3.86 (-12)	1.88 (+5)
10y	4.03 (+11)	2.98 (-10)	4.39 (-16)	4.94 (-16)	4.20 (-14)	2.45 (+15)

Source: Bloomberg, UOB Global Economics and Markets Research

In developed markets, apart from the change in Fed call, our macroeconomic team is now calling for a 25bps hike in ECB in coming Jun meeting (refer to Macro Note published 04 May 2026) and a 25bps hike in RBNZ in Jul meeting (refer to Macro Note published 28 May 2026).

Recent ECB communications, particularly the interview from ECB Governing Council member, Schnabel, imply a high likelihood of a Jun hike. This is consistent with our economist's assessment after last ECB Apr meeting that President Lagarde signalled that "coming six weeks" would allow policymakers to assess incoming data and decisions would be based on refreshed and validated information. The recent data actually came in slightly weaker than expected for Germany and France's prelim May CPI. Versus market pricing at 2 hikes till end 2026, we are slightly dovish at 1 hike in coming Jun meeting, while market has pared expectations for 1 full hike due to the recent weakness in data and potential US-Iran deal. That said, a lot still depends on the second-round effects which we are actively monitoring. In addition, we also project a higher path for EUR 10Y swaps (indexed to 6m Euribor) at 3.15% by 4Q26 (versus end May level of 2.97%).

The RBNZ kept rates on hold on 28 May in a close meeting in which Chair Breman had to cast a tie-breaking vote. Our economist updates the RBNZ to look for a 25-bps hike in Jul with three supporting factors: 1) persistence of inflation 2) hawkish divide evidenced by three dissents at the May meeting and 3) the need for RBNZ to reinforce credibility. Looking ahead, incoming inflation and labour market data will be pivotal.

UK also remains on the investor radar as PM Keir Starmer battled internal politics from the Mandelson scandal to the dismal local election results which Labour lost grounds to far-right Reform UK and left-wing Green party. Currently, the situation remains fluid and that Labour MPs could call for his departure with Andy Burnham as the main frontrunner, who first needs to win in the upcoming 18 Jun by-election to secure a place as MP. The political uncertainty has previously caused gyrations to UK rates, but recent weaker than expected Apr CPI release and potential re-opening of the Strait of Hormuz have instilled some calmness in the market with hawkish BOE pricing pared to about 1 full hike by end 2026. Our economist team maintains our BOE call as unchanged and prefers to wait for clearer signals from incoming data as we see market expectations running ahead of fundamentals. (see Macro Note published 04 May 2026)

The political uncertainty has previously caused gyrations to UK rates, but recent weaker than expected Apr CPI release and potential re-opening of the Strait of Hormuz have instilled some calmness in the market with hawkish BOE pricing pared to about 1 full hike by end 2026.

After delivering three consecutive hikes, we see RBA on extended pause to assess the effects of earlier hikes and Middle East situation. This view is reinforced by the latest softer-than-expected Apr headline inflation at 4.2% y/y and 0.4% m/m. (see Macro Note published 28 May 2026) Labour market also shows signs of weakening with latest unemployment rate rising to 4.5%, highest reading since Nov 2021 (see Macro Note published 21 May 2026). Overall, the combination of recent weak data, pre-emptiveness of RBA, and relatively strong and restraint fiscal (see Macro Note published 13 May 2026) will inject calmness in its rates market. We see AUD 10Y IRS at 4.82% at 4Q26 (versus end May level of 4.94%).

In Japan, our macroeconomic team's view remains unchanged, with expectations for a final 25bps rate hike from BOJ in 3Q 2026, bringing the terminal rate to 1.00%. For more details, kindly refer to Macro Note published 28 Apr 2026. Japan long-end continues to come under pressure as curve bear steepened in May: 2s10s TONA OIS curve steepened by 16bps, a 20 year high as inflation returns to Japan and market considers BOJ behind the curve.

As for Asia, divergence continues to be the main theme driven by differences in countries' energy resilience, economic fundamentals, and central bank paths. We have made a few changes in central bank path as we now see two hikes for Bank of Korea (BOK) at 3Q26 and 4Q26 following the hawkish hold in May, and three more 25bps hikes by Bank Indonesia (BI) in Jun, 3Q26 and 4Q26, following the surprise jumbo 50bps hike in May.

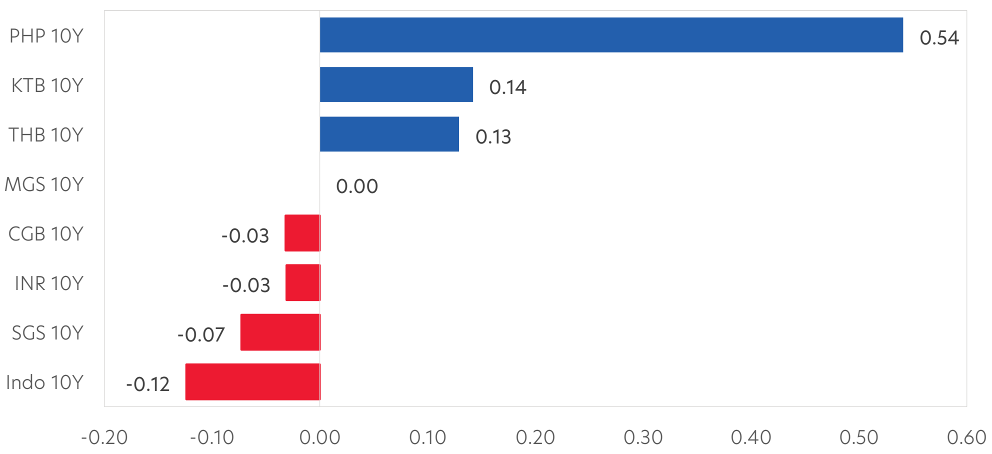
Table 3: Change in Asia rates in May

End May level vs end Apr	Onshore IRS	Onshore OIS	SORA OIS	Onshore IRS	Onshore OIS	Onshore IRS	IRS	Onshore IRS	Bonds	Bonds
	KRW	INR	SGD	MYR	THB	CNY	HKD	TWD	IDR	PHP
2y	3.76 (+13)	6.29 (+5)	1.46 (-1)	3.44 (+4)	1.37 (+8)	1.44 (-4)	3.18 (+22)	2.00 (+5)	6.63 (+38)	-
5y	3.90 (+11)	6.61 (+5)	1.87 (-1)	3.53 (+4)	1.78 (+11)	1.53 (-5)	3.22 (+24)	2.22 (+5)	6.71 (+1)	7.19 (+57)
10y	3.95 (+12)	6.80 (-5)	2.17 (-5)	3.75 (+5)	2.20 (+11)	1.67 (-5)	3.41 (+22)	2.45 (-9)	6.70 (-12)	-

Source: Bloomberg, UOB Global Economics and Markets Research

Chart 7: Asia benchmark 10Y yield change in May %

Source: Bloomberg, UOB Global Economics & Markets Research



The Bank of Korea (BOK) maintained its policy rate unchanged at 2.50% for an 8th consecutive meeting in May with two dissents (Chang Yongsung, and Ryoo Sangdai) out of the 7 board members. The new Governor Shin Hyun-song commented the growth, inflation, currency and housing market trajectories are all pointing to a clear policy path of tightening. Korea has benefited the AI-related tailwinds especially as it houses two of the world's key producers of High Bandwidth Memory (HBM). Our economist has raised our forecast for 2026 GDP growth to 2.6% from 2.0% after accounting for 1Q's outperformance while we see 2027 growth at around 2.0%, and we continue to see upside risk in growth. It is in this backdrop that our economist is now calling for two hikes this year, in line with the median dot of BOK for the next six months. For more details, kindly refer to Macro Note published 23 Apr 2026. Market is more hawkish in pricing: slightly more than 2 hikes in 6 months and another 2 more hikes in 6-12 months' time, which we believe to be excessive at this point in time.

Bank Indonesia (BI) shocked the market by delivering a 50-bps rate hike in May meeting to anchor the rupiah's stability. Our economist sees this as the start of a tightening cycle with three more 25 bps rate hikes expected this year: 25bps in Jun, 25bps in 3Q26 and a final 25bps in 4Q26. Front-end SRBI 12 month yield has reached 6.92% just shy of 7% key level as of end May, a 174bps rise since end Feb. The IndoGB curve has notably flattened, with the 10Y yields showing signs of stabilisation at 6.70% as of end May, just as pace of outflows have slowed across Apr - May. A quick resolution of US-Iran deal and re-opening of Strait of Hormuz will help to calm the market more sustainably. Please refer to Macro Note published 21 May for more details.

Elsewhere, we look for the Bank of Thailand (BOT), Taiwan Central Bank (CBC), Bank Negara Malaysia (BNM), State Bank of Vietnam (SBV), and Reserve Bank of India (RBI) to maintain benchmark rates at 1.0%, 2.0%, 2.75%, 4.5%, and 5.25% respectively and China to maintain key 7-day reverse repo rate at 1.4%.

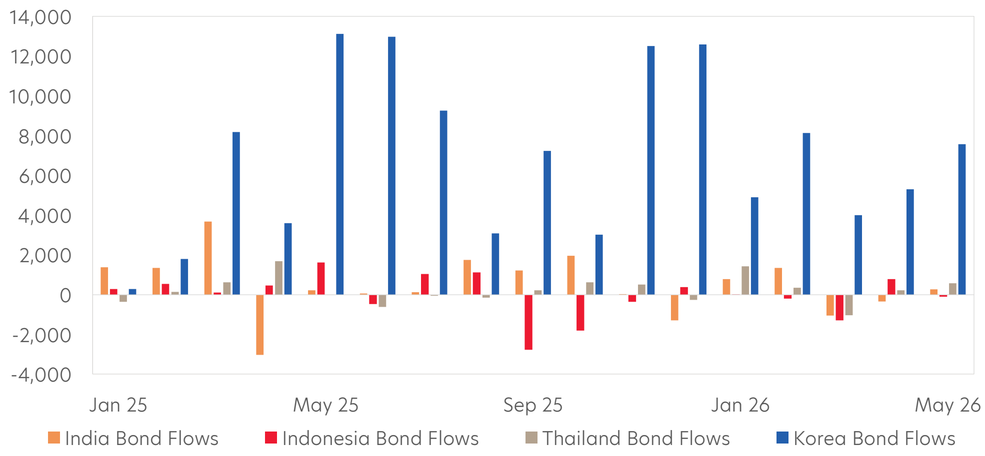
In Thailand, the Cabinet has recently approved a broader THB400bn emergency borrowing decree, which include the THB175.72bn Thai Helps Thai Plus scheme. Our macroeconomic team estimates the fiscal relief GDP impact at 0.3-0.4%. As it remains a fiscal bridge rather than a structural growth upgrade, our economist maintains the 2026 GDP growth forecast at 1.5% for now. The structural tepid growth continues to support an extended pause from BOT at 1.0%. Please refer to Macro Note published 28 May for more details.

In Malaysia, monetary policy is generally in a good place with robust growth supported by the ongoing AI cycle, data centre operations and a stable labour market while inflation picture still looks benign. BNM has adopted a cautious stance, sounding continued vigilance over external headwinds and second-round inflation effects. This supports our view of a steady Overnight Policy Rate (OPR) at 2.75% until material shifts in global and domestic conditions emerge. Please refer to Macro Note published 19 May and 26 May for more details.

Separately, KTBs have seen strong inflows in May, adding USD 7.6bn in May and USD 30bn this year, while flows are much more muted in Thailand, Indonesia and India.

Chart 8: Selected Asian countries monthly net bond flows (USD mn)

Source: Bloomberg, UOB Global Economics & Markets Research



Central bank policy rate changes: actual so far and UOB forecast ahead

Start	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F	3Q27F	4Q27F
US^	-	-	-25bp	-50bp	-	-	-	-	-	-25bp	-	-25bp
Euro Area	-50bp	-50bp	-	-	-	+25bp	-	-	-	-	-	-
UK	-25bp	-25bp	-25bp	-25bp	-	-	-	-	-	-	-	-
Japan	+25bp	-	-	+25bp	-	-	+25bp	-	-	-	-	-
Australia	-25bp	-25bp	-25bp	-	+50bp	+25bp*	-	-	-	-	-	-
New Zealand	-50bp	-50bp	-25bp	-75bp	-	-	+25bp	-	-	-	-	-
Singapore#	-50bp	-50bp	-	-	-	+50bp*		+50bp	-	-	-	-
Malaysia	-	-	-25bp	-	-	-	-	-	-	-	-	-
Thailand	-25bp	-25bp	-25bp	-25bp	-25bp	-	-	-	-	-	-	-
Indonesia	-25bp	-25bp	-75bp	-	-	+75bp*	+25bp	+25bp	-	-	-	-
Philippines	-	-50bp	-25bp	-50bp	-25bp	+50bp*	+25bp	-	-	-	-	-
India	-25bp	-75bp	-	-25bp	-	-	-	-	-	-	-	-
China	-	-10bp	-	-	-	-	-	-	-	-	-	-
Korea	-25bp	-25bp	-	-	-	-	+25bp	+25bp	-	-	-	-
Taiwan	-	-	-	-	-	-	-	-	-	-	-	-
Vietnam	-	-	-	-	-	-	-	-	-	-	-	-

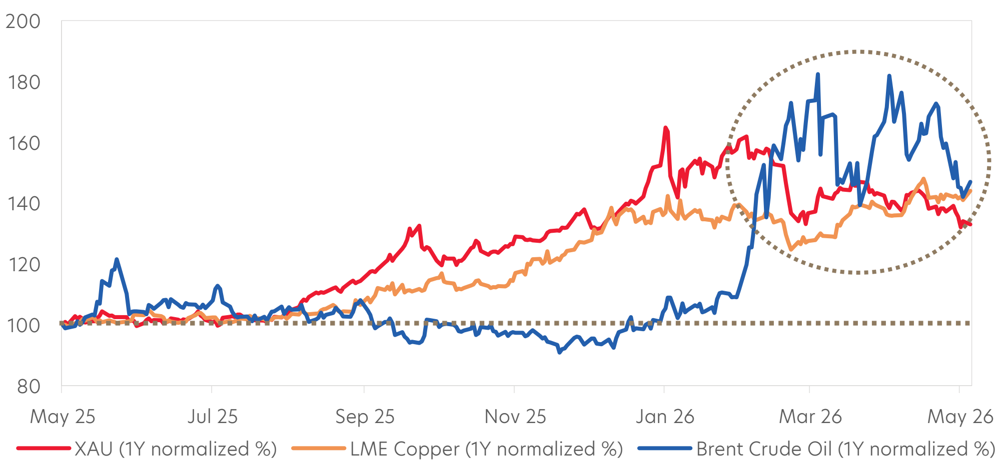
Estimated adjustment of SGD NEER slope
^ UOB sees two Fed cuts in 2Q27 and 4Q27
* RBA already hiked 25bps in May; BI already hiked 50bps in May; BSP already hiked 25bps in Apr; MAS tightened slope by 50bps in Apr
Source: UOB Global Economics and Markets Research

COMMODITIES STRATEGY

What's next for Brent crude oil amidst the uncertainty over Strait of Hormuz?

Brent has played catch up to Gold and LME Copper's performance over the past year

Source: Bloomberg, UOB Global Economics & Markets Research



As a result of the Iran War, 2Q26 was a remarkable quarter for Brent crude oil and the entire energy complex. Widespread and prolonged supply disruption triggered a strong and volatile rally in Brent crude oil from below USD 70 / bbl to USD 120 / bbl before pulling back to current level above USD 90 / bbl at the moment of writing. Brent crude oil price swung violently across the day depending on the news flow around Iran and the Strait of Hormuz. Going forward, at current level above USD 90 / bbl, Brent crude oil is at a decidedly critical juncture. It is imperative that both the US and Iran achieve a peace deal soon that results in the gradual reopening of the Strait of Hormuz. That will determine the path of Brent crude oil in 2H26, i.e. whether Brent will pull back on a sustained basis below USD 90 / bbl or whether Brent will rebound back above USD 100 / bbl from here on.

As for gold, after the strong rally of the past year, gold suddenly finds itself in unfamiliar and on slightly less friendly ground. The jump in yield and increasing inflation risk from higher Brent crude oil and energy prices has weighed down on gold. This is because gold is zero interest-bearing and the higher yield environment results in higher opportunity cost against holding gold. As such, gold has pulled back across 2Q26, from its high above USD 5,000 / oz to consolidate at a lower level around the USD 4,500 / oz level. Will gold be able to shake off the near term uncertainty to resume its rally?

Finally, LME Copper continues to push ahead towards USD 14,000 / MT. The outlook for LME Copper is decidedly mixed. On one hand, there appears to be strong demand from AI data centers and EVs. On the other hand, China's Copper import and demand is weak amidst softening industrial production. Prices have already rallied significantly from the mid Mar low of USD 12,000 / MT to current level of about USD 13,700 / MT. Has the strong rally outpaced itself?

GOLD

Near term consolidation around USD 4,500 / oz is both important and necessary

UOB's Forecast	3Q26	4Q26	1Q27	2Q27
Gold (USD/oz)	4,600	4,800	5,000	5,200

In late Mar, after the Iran War intensified leading to the shutting down of Strait of Hormuz to shipping, Brent crude oil prices spiked above USD 100 / bbl and we promptly lowered our gold forecast to USD 4,400 / oz in 2Q26 and USD 4,600 / oz in 3Q26, on the worry of near-term price weakness from higher inflation expectations. For more details, kindly refer to the Commodities Strategy note: "US/Israel – Iran War supports Brent crude oil above USD 100 /bbl while pressuring gold price below USD 5,000 / oz" dated 22 Mar 26.

That near term cautious view on gold turned out to be prescient as gold now consolidates around the USD 4,500 / oz level as US Treasuries yield trade higher on increasing worries of inflation from higher crude oil prices. Amidst this consolidation, both trading and speculative activity has cooled down, as seen in the drop in gold inventory held on COMEX as well as the drop in trading volume for the benchmark GLD ETF.

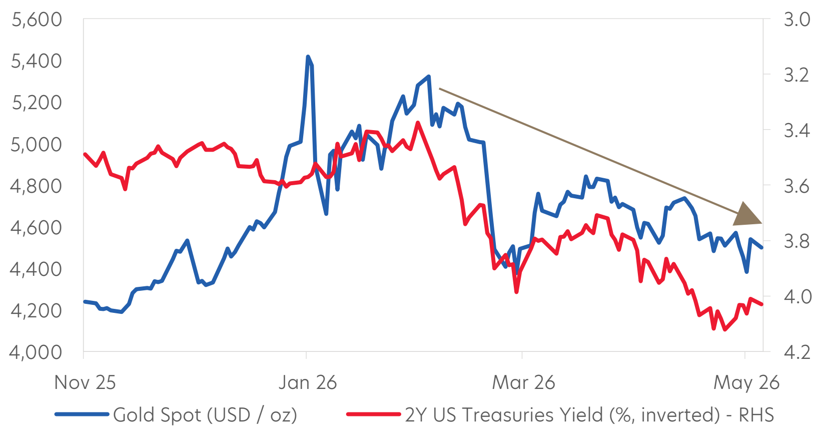
There are some additional near-term headwinds against gold. These include central bank sales from Russia and Turkey as well as India's efforts to scale back on its gold purchases to limit INR weakness.

As such, this near-term consolidation around USD 4,500 / oz is very important and necessary for gold to find a stable footing ahead of long term positive safe haven drivers reasserting in the months ahead.

Overall, while we stay cautious near term, we reiterate the long-term positive view. Our updated gold forecast is USD 4,600 / oz in 3Q26, USD 4,800 / oz in 4Q26, USD 5,000 / oz in 1Q27 and USD 5,200 / oz in 2Q27.

Rise in 2Y UST yield weighs down on gold near term

Source: Bloomberg, UOB Global Economics & Markets Research

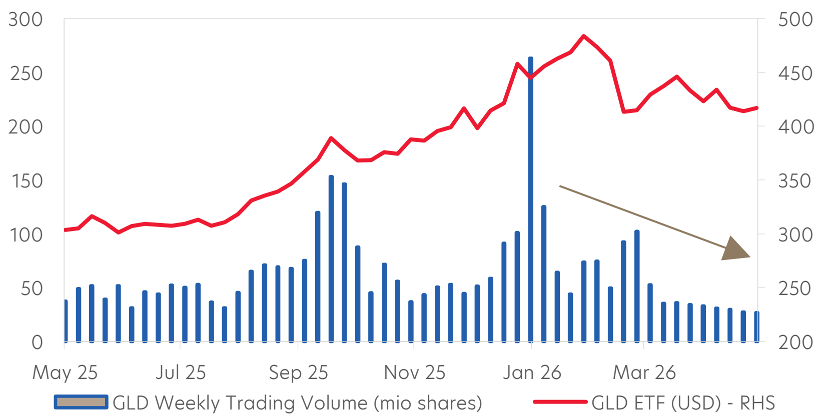


COMEX gold inventory unwinds as threat of gold tariffs receeds

Source: Bloomberg, UOB Global Economics & Markets Research

Trading volume in GLD ETF retreats as speculative frenzy dissipates

Source: Bloomberg, UOB Global Economics & Markets Research



BRENT CRUDE OIL

Hormuz has to reopen soon for Brent to normalize below USD 90 / bbl

UOB's Forecast	3Q26	4Q26	1Q27	2Q27
Brent crude oil (USD/bbl)	100	100	90	90

Brent Crude Oil is now at a critical juncture after 3 months of the Iran War. The shutting down of the Strait of Hormuz to shipping has significantly constricted global energy supply. OPEC's overall crude oil production has dropped by 1/3 to about 20.5 mio bpd.

The world, especially Asia, has adjusted to seek out alternative crude oil supply from the Americas and Africa. In addition, China has done its part by reducing oil imports significantly and drawing down on its massive domestic reserves instead.

Saudi Arabia has also successfully shipped oil from its East-West pipeline out via the Red Sea port of Yanbu. About 5 mio bpd of crude oil is now shipped via this alternative route, going a long way to alleviate the crunch from the 20 mio bpd lost from Hormuz blockage.

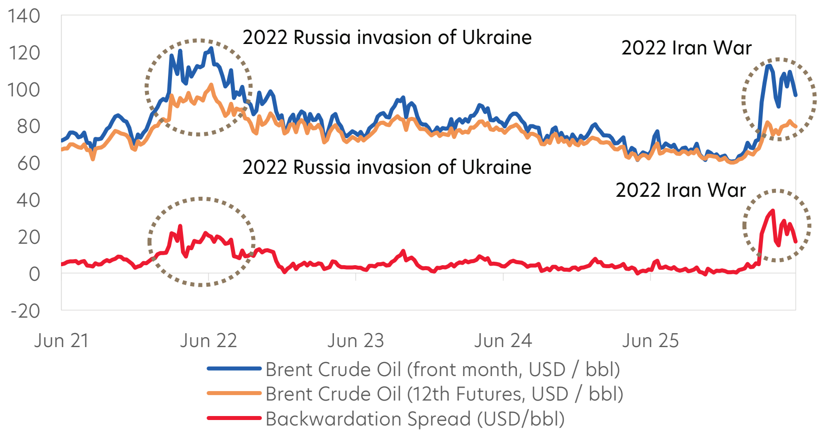
Most importantly, a large part of the remaining stop gap was achieved from drawing down of existing global crude oil inventories. The International Energy Agency (IEA) estimates that 129 mio bbl of "global observed inventory" was drawn down in Mar and another 117 mb in Apr. This amounts to an estimated 4 mb per day across Mar and Apr and is likely to have intensified across May.

With the peace deal between US-Iran remaining elusive and Strait of Hormuz still blocked to shipping, our updated quarterly Brent crude oil forecast retains a cautious outlook for USD 100 / bbl in 2H26 and USD 90 / bbl in 1H27.

Should there be a credible peace deal leading to then gradual reopening of Hormuz, then Brent may well pull back below USD 90 / bbl. On the other hand, resumption of hostilities and conflict between US and Iran may well push Brent back up above USD 100 / bbl and towards USD 120 / bbl.

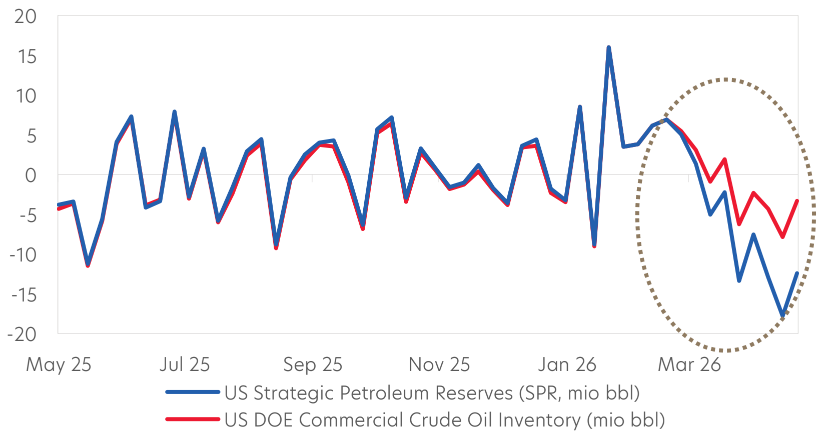
Backwardation Spread still at historically elevated level

Source: Bloomberg, UOB Global Economics & Markets Research



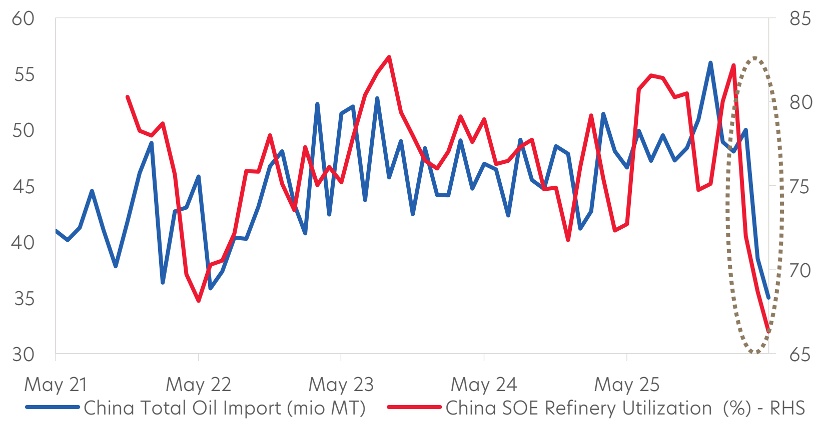
Intensifying drawdown of US crude oil inventory since start of Iran War

Source: Bloomberg, UOB Global Economics & Markets Research



China's Oil Import and Refinery Utilization back down to 2022 low

Source: Bloomberg, UOB Global Economics & Markets Research



COPPER

Increasingly stretched after price rally towards USD 14,000 / MT

UOB's Forecast	3Q26	4Q26	1Q27	2Q27
LME Copper (USD/mt)	13,500	13,000	12,500	12,500

The industrial metals complex performed remarkably well since the onset of the Iran War. Various idiosyncratic factors have pushed up the prices of three key industrial metals, namely Copper, Aluminum and Nickel. For Copper, it is of concern due to increasing industrial demand from AI data centers as well as EV cars. For Aluminum, it was the supply disruption from the Iran War after key smelters in Qatar were shut down. Has this rally in industrial metals, particularly LME Copper run its course?

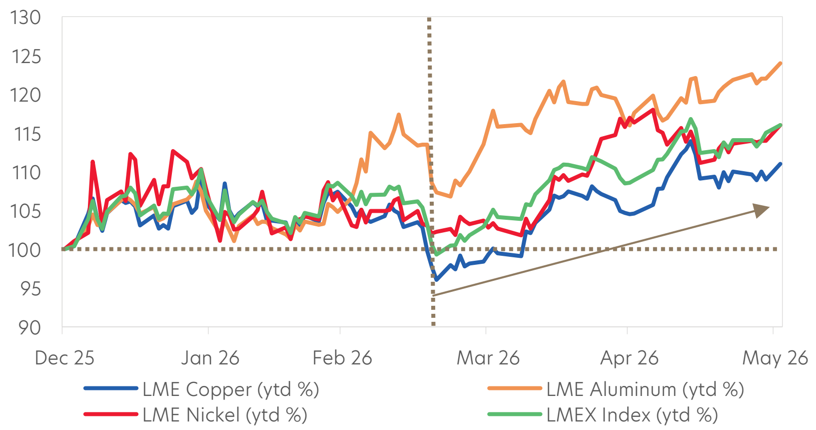
Specific to Copper, over the near term, there are still nagging concerns that US may well impose import tariffs on refined Copper. As such, Comex Copper premium has picked up modestly while US refined Copper imports remain strong. But cancelled warrants on LME may have peaked, signaling a demand top.

However, the picture is decidedly bearish in China with both monthly Copper import and demand indicators pulling back noticeably. Some industry reports suggest that this is a deliberate effort by Chinese manufacturers to control cost and rely on domestic recycling instead. The latest soft industrial production and infrastructure investment figures for China do point to weaker demand.

Overall, we continue to highlight the risk that current strength in LME Copper price is inconsistent with various moderate macroeconomic indicators especially out of China. We maintain our modestly cautious outlook for LME Copper with forecasts at USD 13,500 / MT in 3Q26, USD 13,000 / MT in 4Q26 and USD 12,500 / MT in 1H27.

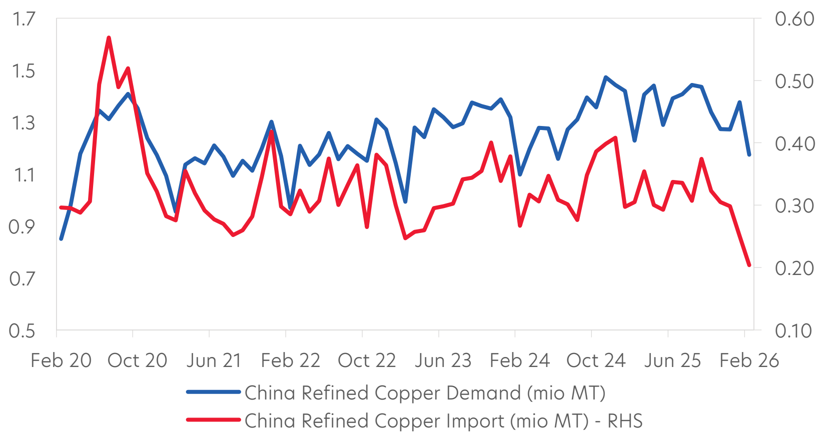
Top LME Metals rally since onset of Iran War

Source: Bloomberg, UOB Global Economics & Markets Research



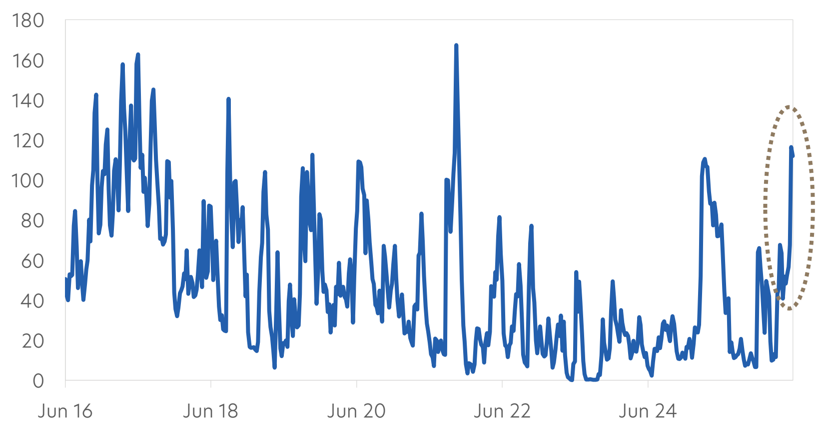
China's refined copper demand starts to cool

Source: Bloomberg, UOB Global Economics & Markets Research



Has LME Copper cancelled warrants topped out?

Source: Bloomberg, UOB Global Economics & Markets Research



CHINA

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
USD/CNY	6.80	6.76	6.73	6.70
CNY 7D Reverse Repo	1.40	1.40	1.40	1.40
Economic Indicator	**2024**	**2025**	**2026F**	**2027F**
GDP (%)	5.0	5.0	4.7	4.6
CPI (avg y/y %)	0.2	0.0	1.3	1.1
Unemployment Rate (%)	5.1	5.1	5.2	5.2
Current Account (% of GDP)	2.5	3.8	3.6	3.0
Fiscal Balance (% of GDP)	-4.8	-5.1	-5.8	-5.5

ECONOMY

Growth loses traction after strong start

China's economy started 2026 on a firm footing, with real GDP growth accelerating to 5.0% y/y in 1Q26 (4Q25: 4.5%). Nominal GDP growth also strengthened to 4.9% y/y, its fastest pace in nearly three years, as deflationary pressures eased. However, high-frequency indicators point to a loss of momentum in 2Q. The official PMIs in May indicate that China's manufacturing sector is hovering around the expansion threshold but losing momentum, due to softer external demand and Middle East-related cost pressures. The services rebound offers limited offset amid weak consumption and property market drag. The latest PMI data reinforce the slowdown evident in Apr's broader macro indicators where urban FAI returned to a contraction, reflecting slower fiscal spending—the steepest decline in six months—while credit growth continued to disappoint given ongoing deleveraging pressure.

Despite the slowdown, several buffers remain in place. Global AI-related demand continues to support high-tech manufacturing, which outperformed broader industrial production in Apr. Externally, US-China relations have stabilised following the May summit between presidents Trump and Xi, signalling a shift toward managed competition. Ahead of the Sep meeting between the two leaders and the Nov expiry of the current tariff truce, we see limited risks of renewed tensions, but US' tariff rates on China are likely to be raised from their levels post-IEEPA ruling (avg effective rate of around 21%) after US concludes its Section 301 investigations with USTR indicating 12.5% tariff for forced-labour practices.

Property price declines narrowed in Apr, suggesting early signs of stabilisation. Year-to-date, new and secondary home prices declined by 1.05% and 1.44% respectively (2025: -3.13% and -6.22%). Recovery will remain fragmented as tier-1 cities report a stronger rebound in sales and prices than lower-tier cities with a supply overhang. We expect a more moderate pace of decline in 2026, with prices likely bottoming in 2027. There remain other challenges to a broader consumption recovery, especially as the effects of the trade-in program fade. China has also introduced measures to boost services spending and strengthen the social safety net, including recent guidelines allowing migrant workers to access urban public services regardless of residency, continuing efforts to reduce regional disparities. Overall, we affirm our forecast for GDP growth to moderate to 4.7% in 2Q and our full-year 2026 outlook remains at 4.7%.

Meanwhile, producer prices have turned positive, rising 0.2% y/y year-to-date in Apr, supported by higher energy and raw material costs. We project PPI to reach 2.8% in 2026, the first gain after three consecutive years of deflation. However, consumer inflation remains subdued, averaging 0.9% (headline) and 1.2% (core), which reflect weak demand and softer food prices. We expect headline CPI at 1.3% this year.

CENTRAL BANK

Policy steady amid balanced risks

Monetary conditions remain accommodative, but credit demand is lacklustre. Since Mar, the PBOC has been draining medium-term liquidity via reverse repos and its 1-year MLF facility, with Apr marking the first net MLF withdrawal since Feb 2025. Short-term rate management remains a priority. The overnight interbank rate has persistently traded below the 7-day reverse repo rate, reflecting excess system liquidity.

Unless further evidence suggests that growth could slow below the official target of 4.5%-5.0%, we think policy responses will remain calibrated. In our base case, we expect the PBOC to keep its 7-day reverse repo rate steady at 1.40% through 2026. Policymakers are expected to rely on fiscal policy with increased government spending to cushion external shocks and offset weak private sector demand, while allowing monetary policy to remain broadly stable.

CURRENCY

CNY stays resilient

The CNY has remained the most resilient currency in the Asia complex, appreciating around 1.5% vs. USD since the onset of the Iran conflict, in stark contrast to broader regional weakness and elevated FX volatility. The currency extended its gains for a second consecutive month in May, reaching 6.7662 on 29 May—its strongest level since early 2023. Notably, Trump-Xi summit in Beijing delivered constructive outcomes, which have materially reduced trade-related tail risks and reinforced positive sentiment toward CNY.

That said, several factors are likely to temper the pace of appreciation. A recent surge in onshore USD funding costs has raised the carry cost of maintaining short USD/CNY positions, weighing on forward net FX settlements and constraining spot gains. More importantly, the PBOC appears increasingly sensitive to the pace of CNY strength. Its latest monetary policy report reintroduced language emphasising the need to "foster a stable exchange rate environment for the real economy," in response to a growing number of exporters reporting currency-related margin pressures in 1Q26 earnings. These developments are consistent with our long-held view that policymakers will lean against excessive CNY strength, as reflected in the PBOC consistently setting the USD/CNY fixings stronger than market-implied levels. We maintain our expectation of a gradual appreciation path for the CNY, with updated USD/CNY forecasts at 6.80 in 3Q26, 6.76 in 4Q26, 6.73 in 1Q27, and 6.70 in 2Q27.

HONG KONG

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
USD/HKD	7.83	7.80	7.80	7.80
HKD Base Rate	4.00	4.00	4.00	3.75
Economic Indicator	**2024**	**2025**	**2026F**	**2027F**
GDP (%)	2.6	3.6	3.9	2.4
CPI (avg y/y %)	1.7	1.4	2.5	2.0
Unemployment Rate (%)	3.1	3.8	3.5	3.5
Current Account (% of GDP)	13.1	12.3	11.2	10.5
Fiscal Balance (% of GDP)	-2.5	0.1	0.6	0.2

ECONOMY

Growth to moderate after 1Q26 surge

Hong Kong's economy expanded at the fastest pace since 3Q21 following its Covid re-opening. The real GDP surged by 5.9% y/y in 1Q26 (4Q25: 4.0%). On a seasonally adjusted quarter-on-quarter basis, the economy grew by 2.9% (4Q25: 1.1%) and extended the positive momentum now sustained for over three years. Growth was robust across all GDP components with private consumption (+4.9% y/y) rising at the fastest pace in two and a half years. Gross domestic fixed capital investment (+17.7% y/y) was driven by strong demand for machinery, equipment and intellectual property products, an increase in property transactions, alongside continued support from the low base. Goods exports (+23.7% y/y) rose at a strong double-digit pace while services exports (+3.5% y/y) sustained growth, led by tourism and cross-border financial activities. Government spending (+3.0% y/y) also contributed to overall expansion.

External demand remained a key growth engine, supported by strong global appetite for semiconductors and communication equipment. Merchandise exports recorded broad-based, sharp increases across Hong Kong's major markets in 1Q26, led by the US (+47.5% y/y), followed by ASEAN (+38.3% y/y), mainland China (+34.8% y/y) and the EU (+15.5% y/y). This export strength reflects both firm global tech demand and Hong Kong's role as a regional trading hub.

Domestic demand conditions also continued to improve. Retail sales remained resilient in early 2026, having returned to positive growth since mid-2025. This was underpinned by a combination of improving household sentiment, a gradual recovery in inbound tourism, and a low base of comparison. Tourist arrivals rose by 17.0% y/y to 14.3 million in 1Q26, marking the highest quarterly arrivals since the pandemic, though still about 21% below the pre-pandemic level in 1Q19. Positive consumer sentiment has been reinforced by buoyant equity market activity and recovery in the domestic residential property market where prices rose a further 4.4% in 1Q26 (2025: +3.6%, 2024: -7.1%). However, the unemployment rate stayed relatively elevated at 3.7% in Apr as ongoing economic restructuring and external uncertainties have weighed on corporate hiring sentiment.

The AI-driven export and investment upcycle has helped to cushion Hong Kong's economy from the impact of the Iran war. At the same time, both the composite and underlying inflation were muted in Mar-Apr at 1.7% y/y and 1.6% y/y respectively. Despite higher energy and transportation costs, food prices were stable while prices of durable goods continued to contract. Mainland China supplies around 80% of Hong Kong's oil products and this helped to maintain the stability of supply. The government noted that the city's low energy intensity due to its predominantly service-oriented economy has helped to anchor inflation. To alleviate the cost pressures on sectors with relatively high fuel costs, the government has introduced two-month support including the diesel subsidy scheme targeting public and commercial vehicles and vessels and related industries; 50% reduction of tunnel tolls for all commercial vehicles; and LPG subsidy for taxis, public light buses and school private light buses.

The economy is expected to moderate for the rest of 2026, with the geopolitical conflict in Middle East posing downside risks. On a more positive note, a resilient mainland Chinese economy will help to consolidate the recovery in Hong Kong's retail and catering sectors but China's move to strengthen oversight of outbound investment which tightens cross-border capital flows could weigh on domestic asset prices. Overall, we lift our full-year 2026 GDP forecast to 3.9% from 3.0% after factoring in the strong upside surprise in 1Q26. This exceeds the official outlook of 2.5-3.5%. We expect GDP growth to slow to 4.4% y/y in 2Q and further to 2.8% y/y in 2H26. For 2027, we lower our growth forecast to 2.4% from 2.9%. On the other hand, we expect inflation to rise to 2.5% in 2026 and 2.0% in 2027, up from our previous forecast of 1.7% and 1.9% respectively.

CENTRAL BANK

Hibors picking up

Hibors edged higher since the start of the Iran war with funding demand for local IPOs partly contributing to the tighter liquidity. The 3M Hibor moved from 2.6% at the end of Feb to around 2.8% by end-May. As US yields stay elevated and higher global inflation continues to cloud outlook, Hibors could be set for slight near-term gains. Our forecast for the 3M Hibor is at 2.80% end-3Q26, 2.85% end-4Q26, 2.95% end-1Q27, and 2.75% end-2Q27.

CURRENCY

USD/HKD sticky at top half for now

USD/HKD traded largely within a tight 7.83–7.84 range across Apr–May, with the pair finding support from sustained USD safe-haven demand amid the protracted Iran conflict. This resilience came despite a concurrent narrowing in USD–HKD rate differentials, as a recovery in Hibor—driven by tighter liquidity conditions—reduced the attractiveness of carry positioning.

In the near term, we expect USD/HKD to remain skewed toward the upper half of the currency band, reflecting continued geopolitical uncertainty. A credible resolution to the conflict would likely shift dynamics, allowing the pair to gradually normalise toward the mid-point of the band around 7.80, more in line with underlying rate differentials. Accordingly, our updated USD/HKD forecasts are at 7.83 in 3Q26, before easing to 7.80 from 4Q26 through 3Q27.

INDIA

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
USD/INR	96.0	95.5	95.0	94.0
INR Repo Rate	5.25	5.25	5.25	5.25
Economic Indicator	**2024**	**2025**	**2026F**	**2027F**
GDP, FY (%)	7.2	7.1	7.5	6.8
CPI, FY (avg y/y %)	--	--	2.1	4.2
Current Account, FY (% of GDP)	-0.7	-0.6	-1.1	-1.5
Fiscal Balance, FY (% of GDP)	-5.6	-4.8	-4.4	-4.3

ECONOMY

High frequency data demonstrates broad resilience

The volume of GST e-way bills continued to grow at a double-digit rate (Apr: 11.8% y/y; Mar: 12.9%), alongside a strong surge in digital payment volumes (Apr: 19.7% y/y; Mar: 21.0%), reflecting broad resilience in economic activity. Retail automobile sales softened to 12.9% y/y (Mar: 25.3%), with strong growth in tractor sales (Apr: 23.3% y/y; Mar: 10.9%) partially offset by a slowdown in two-wheeler sales (Apr: 13.6% y/y; Mar: 28.7%). Electricity demand rose (Apr: 3.7% y/y; Mar: 0.9%), driven by rising temperatures ahead of the looming Super El Niño. Both manufacturing (Apr: 54.7, Mar: 53.9) and services (Apr: 58.8, Mar: 57.5) PMI improved. However, signs of stress are emerging following the effective closure of the Strait of Hormuz since 28 Feb. Petrol consumption volumes declined (-4.6% y/y vs. Mar: 3.2%), while domestic air passenger traffic recorded a deeper contraction (-4.1% y/y vs. Mar: -1.3%).

MOSPI will release the 4QFY26 GDP figures on 5 Jun, for which we project growth to moderate to 7.3% y/y (3Q: 7.8%), implying a FY26 growth rate of 7.5%, broadly in line with the second advance estimate of 7.6%. Looking ahead, we expect GDP growth to slow to 6.8% in FY27, reflecting a broader drag on services activity from fuel supply shortages linked to the Middle East conflict. In addition, disruptions to agricultural activity due to a strong El Niño could weigh on rural demand.

India's CPI recorded a slight 8 bps uptick to 3.48% y/y in Apr (Mar: 3.40%), undershooting Bloomberg consensus expectations of 3.78%. The increase was largely driven by stronger readings in food & non-alcoholic beverages (Apr: 4.0% y/y; Mar: 3.7%) and restaurants & accommodation services (Apr: 4.2% y/y; Mar: 2.9%), while several categories exhibited softer price gains, including recreation, sport & culture (Apr: 2.1% y/y; Mar: 2.5%), housing, water, electricity & gas (Apr: 1.7% y/y; Mar: 2.0%), and education (Apr: 3.2% y/y; Mar: 3.3%). Looking ahead, y/y inflation could gradually rise toward the midpoint of the RBI's 2-6% target band, supported by low base effects from Jul 2026 onwards, potential upside risks to food prices stemming from a strong El Niño, and announced LPG, petrol and diesel price hikes with potential spillovers to other CPI categories. We project inflation to strengthen to 4.2% in FY27 (FY26: 2.1%), with risks tilted towards the upside. Our forecasts do not point to an imminent breach of the 5% threshold over the FY27-FY28 horizon, suggesting limited scope for significant rate hikes.

CENTRAL BANK

RBI likely to hold in Jun albeit with possible hawkish signalling

Current account deficit pressures, driven by a rising energy import bill from the Middle East conflict, and AI-related risks to IT and software services exports have led to a significant weakening of the INR, which has depreciated ~6% YTD, raising speculation about a possible RBI rate hike to defend the rupee. Macro fundamentals do not suggest a rate hike in Jun, with inflationary pressures still contained, fuel-related shortages likely to weigh on activity, and a strong El Niño potentially disrupting agricultural activity. We expect the RBI to maintain its policy repo rate at 5.25% in the upcoming Jun meeting, with possible hawkish signalling in the vote split and potentially in the monetary policy stance, opening the door to future rate hikes. We will review our policy rate trajectory after the 5 Jun MPC decision.

CURRENCY

INR remains laggard

The INR has remained on the back foot through 2Q26, depreciating modestly by 0.2% to 95.0/USD as of 29 May. The currency has been weighed down by elevated energy import costs, persistent USD safe-haven demand, and the repricing out of Fed-easing expectations.

Since the onset of the Iran conflict, USD/INR has exhibited a strong correlation with Brent crude prices, underscoring India's significant reliance on oil imports from the Middle East. The extension of the US-Iran ceasefire has helped moderate upward pressure on crude, thereby slowing the pace of USD/INR appreciation. In addition, active intervention by the RBI in FX markets has helped contain downside risks to the rupee.

Looking ahead, we continue to expect the INR to underperform regional peers through 2026 in the absence of a credible reopening of the Strait of Hormuz. Near-term focus will centre on the 5 Jun RBI policy meeting, as well as developments surrounding the durability of the US-Iran ceasefire, both of which are key catalysts for the currency.

On balance, we retain a cautious outlook, with updated USD/INR forecasts at 96.0 in 3Q26, 95.5 in 4Q26, 95.0 in 1Q27, and 94.0 in 2Q27.

INDONESIA

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
USD/IDR	18,000	17,800	17,700	17,700
IDR 7D Reverse Repo	5.75	6.00	6.00	6.00
Economic Indicator	**2024**	**2025**	**2026F**	**2027F**
GDP (%)	5.0	5.1	5.2	5.4
CPI (avg y/y %)	2.3	1.9	2.5	3.0
Unemployment Rate (%)	4.8	4.9	5.2	5.1
Current Account (% of GDP)	-0.6	-0.1	-1.5	-1.8
Fiscal Balance (% of GDP)	-2.5	-2.9	-2.8	-2.9

ECONOMY

State-led strategy to navigate global uncertainty

Indonesia's economy grew 5.6% y/y in 1Q26, above the market consensus of 5.3%. Nevertheless, this outcome appears to have been supported by a significant increase in government consumption, which rose by 21.81% y/y, suggesting the implementation of a counter-cyclical fiscal approach amid ongoing global uncertainties, which may not be sustainable in quarters to come given the fiscal deficit cap of 3% of GDP. While public spending likely provided an important boost, overall economic activity continued to be underpinned by household consumption and investment, which expanded by 5.52% y/y and 5.96%, respectively. Investment realization reached IDR 498.8 tln, with a continued focus on mineral down-streaming in line with government priorities. On the consumption side, expansionary fiscal policy appears to have played a meaningful role, partly through multiplier effects that helped stimulate broader private sector activity. In the external sector, although import growth outpaced exports, the trade balance remained in surplus, extending its streak to 71 consecutive months.

Indonesia's inflation rebounded in May, rising to 3.08% y/y from 2.42% in April though remaining within BI's target range of 2.5% ±1.0%. The uptick was driven mainly by two categories that have consistently fueled recent inflation: food, beverages & tobacco and personal care & other services. Specific commodities contributing to the increase included fresh fish, rice, red chili, shallots, cooking oil, machine-rolled cigarettes, and gold jewelry. Core inflation remained stable at 2.59% y/y (0.22% m/m), suggesting that underlying price pressures remain manageable despite heightened geopolitical uncertainties. Looking ahead, inflation is projected to average 2.5% in 2026 with some upside risks due to uncertain external development with regards to the ongoing geopolitical tensions in the Middle East.

Indonesia recorded a wider current account deficit of USD 4.00 bn (-1.09% of GDP) in 1Q26, compared with USD 2.47 bn (-0.67% of GDP) in 4Q25 and USD 0.15 bn (-0.04% of GDP) in 1Q25. The widening deficit was mainly driven by relatively modest export growth alongside stronger import demand. In contrast, the services account showed some improvement, with its deficit narrowing by USD 0.77 bn while the primary and secondary income accounts remained broadly stable compared to the previous year. The financial account recorded a deficit of USD 4.93 bn in 1Q26, a notable shift from a surplus of USD 8.79 bn in 4Q25 and compared with a smaller deficit of USD 0.34 bn in 1Q25. This sharp deterioration was largely due to a significant contraction in other investment flows (-77.9% y/y) as well as a decline in FDI, which fell to USD 2.02 bn (-28.1% y/y). Overall, the current account deficit is projected at 1.5% of GDP this year.

CENTRAL BANK

Surprise rate hike marks the start of a tightening cycle

BI surprised markets by raising its benchmark rate by 50bps to 5.25% at the May Monetary Policy Decision, alongside corresponding adjustments to the deposit and lending facility rates. The policy move appears to be aimed at anchoring the rupiah's stability amid pressure due to capital outflows. To further reinforce currency stability, BI has introduced a multi-layered stabilization framework comprising seven policy measures. In addition, BI has implemented the Time Deposit for Natural Resource Export Proceeds (TD DHE SDA) policy, effective 1 Jun, which is intended to help reduce FX volatility, enhance onshore FX liquidity, and strengthen the rupiah's underlying fundamentals over time. Despite the rate hike, BI reiterated its commitment to sustaining credit growth through forward-looking macroprudential policies. In light of what may signal the beginning of a tightening cycle, coupled with continued external uncertainties, we have revised our outlook to incorporate three additional 25bps rate hikes, bringing the projected FY26 terminal rate to 6.00%.

CURRENCY

IDR likely to underperform

The IDR has continued to come under pressure despite a more constructive global risk backdrop, with intensifying domestic concerns dominating currency dynamics. USD/IDR rose 3.1% in May to a fresh record high of 17,881—marking the largest monthly gain since Oct 2024 and exceeding our 2Q26 forecast of 17,600. The depreciation reflects a confluence of negative factors, including a drawdown in FX reserves to multi-year lows, a rising fiscal burden from energy subsidies, equity outflows linked to MSCI deletions, and heightened policy uncertainty surrounding resource nationalism.

In response, BI delivered a surprise 50bp rate hike in May as part of a broader "all-out" policy effort to stabilise the currency. However, the move has thus far had limited impact in reversing the depreciation trend. BI has since reiterated it remains in the market "around the world, around the clock" to maintain rupiah stability, citing geopolitical uncertainty and higher seasonal FX demand for outbound dividend and loan payments amid ongoing pressures.

Looking ahead, our expectation of three more 25-bps BI rate hikes this year should provide incremental support to the IDR. Nevertheless, near-term risks remain tilted toward further weakness, given the combination of external shocks and domestic vulnerabilities. Over the medium term, the IDR is also likely to underperform regional peers, even as geopolitical risks recede, unless credible progress is made on fiscal consolidation. Accordingly, we revise our USD/IDR forecasts to 18,000 in 3Q26, 17,800 in 4Q26, and 17,700 in both 1Q and 2Q27.

JAPAN

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
USD/JPY	157	155	153	151
JPY Policy Rate	1.00	1.00	1.00	1.00
Economic Indicator	**2024**	**2025**	**2026F**	**2027F**
GDP (%)	-0.2	1.1	1.0	1.5
CPI (avg y/y %)	2.8	3.2	2.0	2.1
Unemployment Rate (%)	2.5	2.6	2.8	2.8
Current Account (% of GDP)	4.5	4.7	4.5	4.5
Fiscal Balance, FY (% of GDP)	-7.1	-4.8	-4.5	-4.5

ECONOMY

2026 growth outlook uncertain due to Middle East conflict

Japan's economy expanded faster than expected in 1Q26, posting a growth of 2.1% (0.5% q/q). Growth was driven by gains in private consumption (thanks to stronger real wage growth) and exports (especially autos and technology goods) helped accelerate 1Q26 growth. Business spending remained expansionary, but pace slowed compared to the previous quarter. Government consumption remained positive but modest, while public investment rebounded.

That said, growth outlook for 2026 has shifted from one of guarded optimism, to one of elevated downside external risks. Within domestic demand, business spending (capex) is expected to rise (2-3%) in 2026 which includes accelerated investments in AI-related, digital sectors and semiconductor technology, supporting growth this year and bodes well for Japan's long-term potential and structural issues of the shrinking labor force. Private consumption will continue to be supported by wage growth on the back of the successful spring wage negotiations ("Shuntō"), which will see real wage growth staying positive this year, after 4 years of decline (Mar: 1.4% y/y), fueling the "virtuous cycle" between income and spending. Tourism and services exports are expected to remain supportive, with continued inbound travel contributing to service sector activity. Fiscal policy is also expected to remain accommodative, with continued government support measures helping to cushion households and firms against rising costs, particularly energy-related expenses. But on the flipside, fiscal challenges are expected to persist with the pursuit of expansionary policies, including the proposal to temporarily reduce the consumption tax on food by 1%, together with higher defense spending, pressuring JGB yields higher.

Downside risks remain significant. The escalation of the US-Iran conflict has already contributed to higher energy prices, which are expected to balloon Japan's import bill, weigh on household consumption and corporate profitability, complicating Japan's growth and inflation outlook. Japan is a major oil importer, and prior to the disruption in the Strait of Hormuz, over 90% of its crude oil came from the Middle East. Persistently higher crude oil prices could also potentially create slowdown in major external markets such as the US and China, dampening export demand. We have revised our 2026 growth forecast lower to 1.0% (previous: 1.3%, 2025: 1.1%), with downside risks from weak domestic and external demand amid elevated crude oil prices.

Japan's CPI inflation eased further in Apr with headline CPI lower at 1.4% y/y (Mar: 1.5%), falling further below the Bank of Japan's (BOJ) 2.0% target. Core inflation (which excludes fresh food), also eased to 1.4% (Mar: 1.8%), while core-core inflation (which excludes fresh food and energy), came in at 1.9% y/y (Mar: 2.4%), just below the BOJ's target, implying demand driven price pressures are under threat. We keep our overall CPI inflation forecast intact, looking for an average of 2.0% in 2026 (2025: 3.2%), with upside risks due to elevated energy and goods prices, although government subsidies may help to cushion some of the increase.

CENTRAL BANK

Geopolitical risks imply cautious path to BOJ hikes

The Middle East conflict is now the BOJ's dominant risk factor. Persistent high oil prices pose downside risks to growth but upside risks to inflation, especially as firms are now more willing to pass costs through and inflation expectations rise. Supply chain disruptions add two sided risks. In his latest speech (3 Jun), Gov Ueda signaled a strong possibility of a Jun hike if risk of prices outpacing forecasts outweighs impact of growth weakening due to US-Iran war. But we believe the political hurdle to overcome in Jun is high and we may even see MOF requesting BOJ to delay vote on policy change until following meeting. We still expect the BOJ to remain in a period of pause (including Jun) before the subsequent hike to 1.00% in 3Q26 (i.e. as early as Jul MPM) which we believe will be the terminal rate. While a BOJ move in Jun cannot be completely ruled out, uncertainty in the Middle East and domestic political pressure may keep a Jun move at bay.

CURRENCY

Intervention risks to cap USD/JPY

Within the span of a month, USD/JPY has retraced nearly the entirety of the decline triggered by an estimated JPY11.73tn (USD73.6bn) intervention, which had briefly pushed the pair to a low of 155.04 on 6 May. The subsequent rebound toward the 160 handle reinforces our long-held view that one-off intervention is typically insufficient to drive a sustained trend reversal in USD/JPY, consistent with prior episodes observed in 2022 and 2024. The recovery in the pair has also been supported by renewed USD strength and persistently elevated US real yields, which have restored the attractiveness of yen-funded carry trades. That said, we continue to view the 160 level as a credible intervention threshold for Japan's Ministry of Finance.

Looking ahead, we reiterate our bias for a lower USD/JPY trajectory. Our expectation of a further 25-bps BOJ rate hike in 3Q26 could act as a catalyst for gradual normalisation in the currency pair, in line with narrowing rate differentials. In addition, any reopening of the Strait of Hormuz would alleviate a key structural drag on the yen, as reduced energy import costs improve Japan's terms of trade. On balance, we maintain a constructive view on JPY, with updated USD/JPY forecasts at 157 in 3Q26, 155 in 4Q26, 153 in 1Q27, and 151 in 2Q27.

MALAYSIA

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
USD/MYR	4.00	3.98	3.94	3.92
MYR O/N Policy Rate	2.75	2.75	2.75	2.75
Economic Indicator	**2024**	**2025**	**2026F**	**2027F**
GDP (%)	5.2	5.2	4.5	4.6
CPI (avg y/y %)	1.8	1.4	2.0	2.0
Unemployment Rate (%)	3.2	2.9	2.9	2.9
Current Account (% of GDP)	1.4	1.6	1.8	1.8
Fiscal Balance (% of GDP)	-4.1	-3.7	-3.5	-3.3

ECONOMY

Growth likely to moderate further in 2H26

Real GDP growth slowed to 5.4% y/y (from 6.2% in 4Q25), supported by festive demand (Lunar New Year and Hari Raya), government cash transfers, subsidies, and civil service pay increases. Monthly GDP growth (Jan: +6.8%; Feb: +5.2%; Mar: +4.1%) signaled a clear moderation trend following the escalation in Middle East tensions from 28 Feb.

On a seasonally adjusted basis, real GDP contracted marginally for the first time since 4Q22 by 0.01% q/q (4Q25: +1.4%). This suggests more cautious demand amid ongoing external headwinds and shifting domestic policies.

Domestic demand remained the primary growth driver, albeit at a slower pace. Private consumption (+4.7% y/y) and government spending (+4.1%) were underpinned by income support measures and a stable labour market, while investments grew 7.3%. Net exports (+0.6ppt) turned around, helping to offset inventory drawdowns (-0.3ppt).

Sectoral performance moderated broadly. Services (+5.6%) and manufacturing (+5.9%) sectors continued to anchor growth, supported by the ongoing AI upcycle and data centre expansion. Construction (+7.7%) and agriculture (+2.6%) sectors provided additional support, offsetting a contraction in the mining & quarrying sector (-2.1%).

Despite resilient 1Q26 GDP performance, downside risks have intensified. Prolonged Middle East tensions and continued disruption in the Strait of Hormuz pose increasing supply risks, particularly for petrochemicals, industrial chemicals, metals, and packaging materials. Inventory depletion and supply constraints may begin to disrupt production from Jun onwards.

These headwinds are expected to constrain upside from key domestic drivers, including data centre-related investments and services as well as tourism activities. Pending greater clarity from the external front, we maintain our 2026 GDP growth forecast at 4.5% (BNM est: 4.0%-5.0%; 2025: 5.2%), assuming continued targeted policy support and potential additional measures as conditions evolve.

CENTRAL BANK

BNM keeps policy decisions data-dependent

BNM left the OPR unchanged at 2.75% for the fifth straight meeting on 7 May, maintaining its wait-and-see approach and highlighting risks to growth and inflation stemming from the Middle East conflict, as well as concerns over valuations in financial markets. Importantly, the central bank emphasized vigilance and policy flexibility to manage potential second-round effects from higher costs, trade disruptions, and shifts in market sentiment. This underscores a more complex growth-inflation trade-off.

Given subdued underlying inflation and elevated external risks, BNM is expected to remain on hold in the near term, with any policy recalibration contingent on clearer macroeconomic signals. In May, the central bank revised its baseline to assume a more protracted conflict lasting three to six months (up to end-Aug vs one to two months assumed in Mar), with oil prices projected to stay elevated at USD85-105/bbl (Mar's assumption: USD70-90/bbl). Against this backdrop, the OPR is likely to remain at 2.75% until clearer shifts in global and domestic conditions emerge.

CURRENCY

MYR supported by fundamentals and policy stability

In retrospect, USD/MYR's ability to remain below the key 4.00 threshold throughout the Middle East conflict reflects Malaysia's solid macroeconomic fundamentals and resilience to current geopolitical disruptions relative to regional peers. Growth prospects remain intact, with external trade benefiting from the ongoing AI upcycle, global supply chain diversification, and firmer commodity prices, underpinning a sustained current account surplus. The services account recorded a third consecutive quarterly surplus in 1Q26 and is expected to remain supportive in the near term, subject to uninterrupted data centre operations.

While real investment inflows are expected to persist albeit at a moderate pace due to cautious sentiment; short-term capital inflows into Malaysian debt market will likely sustain in the remaining months as global funds continue to rebalance portfolio risks across the region. The financial account recorded the largest net inflows since 1Q22 at MYR27.4bn in 1Q26, with decent inflows into portfolio, direct investments, and other investments.

That said, the MYR is not insulated from external headwinds. While the current growth-inflation mix remains favourable, stagflation risks could escalate should disruptions to global oil supply persist into 3Q26. Prolonged reliance on fuel subsidies could also incrementally weigh on Malaysia's fiscal position. On the domestic front, speculation around a potential snap general election—despite not being due until early 2028—introduces an additional layer of uncertainty, although its impact on foreign investor sentiment is likely to remain limited until more concrete developments emerge.

We retain a cautious near-term stance on MYR through 3Q26, in line with our broader Asia FX view. A credible reopening of the Strait of Hormuz would serve as a key catalyst for Malaysia's favourable idiosyncratic fundamentals to reassert themselves. We reiterate our USD/MYR forecasts at 4.00 in 3Q26, 3.98 in 4Q26, 3.94 in 1Q27, and 3.92 in 2Q27.

PHILIPPINES

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
USD/PHP	63.0	62.5	62.0	61.5
PHP O/N Reverse Repo	5.00	5.00	5.00	5.00
Economic Indicator	**2024**	**2025**	**2026F**	**2027F**
GDP (%)	5.7	4.4	3.2	5.0
CPI (avg y/y %)	3.2	1.7	7.5	4.0
Unemployment Rate (%)	3.8	4.2	5.1	5.1
Current Account (% of GDP)	-4.0	-3.3	-3.5	-3.0
Fiscal Balance (% of GDP)	-5.7	-5.6	-5.3	-5.0

ECONOMY

Growth set for lowest since pandemic

The Philippines' economic recovery remains off track. GDP growth slowed for a third consecutive quarter to 2.8% y/y in 1Q26, the weakest since 1Q21 (4Q25: 3.0%). On a seasonally adjusted basis, growth edged up to 0.9% q/q from 0.6%, but this marked a fourth straight quarter of sub-1.0% expansion, underscoring persistently weak momentum amid rising headwinds.

The slowdown reflects compounded domestic and external pressures, including higher energy costs linked to the Middle East conflict and governance issues that curtailed public investment and dampened consumption. All major sectors recorded weaker y/y performance - agriculture (-0.2%), construction (-2.8%), mining & quarrying (+3.8%), manufacturing (+0.5%), utilities (+0.7%), and services (+4.5%). Government spending (+4.8% vs +0.7% in 4Q25) rebounded and was the primary growth driver, partially offsetting softer household consumption (+3.0%) and a contraction in investment (-2.7%), alongside negative contributions from inventories (-0.1ppt) and net trade (-0.2ppt).

In response to the weaker-than-expected 1Q26 outcome and ongoing geopolitical risks, we have lowered our 2026 GDP growth forecast to 3.2% (from 5.0%; 2025: 4.4%), the slowest since the pandemic. The Philippines remains highly exposed to Middle East disruptions given its heavy reliance on regional oil imports (over 90%). The declared national energy emergency on 24 Mar 2026 for one year and airline capacity cuts are likely to further weigh on growth in 2Q26 and 3Q26, if the conflict persists.

Growth risks are further compounded by a high likelihood of El Niño conditions from mid-2026, with 79% probability of El Niño emerging in Jun-Aug 2026 season and predicted to persist until early 2027. This dry spell will weigh on agricultural output and push up prices in 2H26.

CENTRAL BANK

Policy reverting to tightening

The BSP raised the target RRP rate by 25bps to 4.50% in Apr, marking its first tightening since Oct 2023 and effectively reversing its prior easing cycle amid rising oil-driven inflation pressures. Headline inflation surged to a 37-month high of 7.2% y/y (Mar: 4.1%), with broad-based price increases exacerbated by persistent PHP weakness. The BSP now expects inflation to exceed its 4.0% upper target band in both 2026 (6.3%; 2025: 1.7%) and 2027 (4.3%), with core inflation also approaching the ceiling. Reflecting these developments, we have revised our 2026 inflation forecast upward to 7.5% (from 5.5%), the highest since 2008, with risks skewed to further upside—including a potential rise toward 10% by end-year if Middle East supply disruptions persist.

While the Apr monetary policy rate decision signals a renewed policy focus on inflation, weak growth is likely to constrain the scope for aggressive or off-cycle tightening ahead of the 18 Jun meeting. Policymakers are expected to adopt a calibrated, data-dependent approach, balancing inflation risks against softening growth, with greater reliance on targeted fiscal measures alongside gradual monetary tightening amid rising stagflation risks.

Against this backdrop, we maintain our call for two additional 25bps hikes in the target RRP rate—one in Jun and another in 3Q26—bringing the target RRP rate to 5.00%, where it is likely to remain through end-2026.

CURRENCY

PHP likely to remain under depreciation pressure

The PHP has depreciated by 4.7% YTD to 61.71 per USD as of 3 Jun, making it one of laggards in Asia. The underperformance is driven by persistently elevated global oil prices amid the prolonged Middle East conflict. This geopolitical tension disproportionately affects the Philippines, given its heavy reliance on energy imports from the region, transmitting pressures through inflation and external balances, including remittance flows.

Further downside pressure may come in the form of rising expectations of Fed rate hikes – though we still expect Fed pause through 2026 – and tighter global financial conditions. While the BSP is expected to pursue a gradual tightening path, this is unlikely to fully counter external headwinds or restore durable currency strength in the near term, unless domestic growth momentum strengthens materially and inflation is firmly contained. In addition, emerging political risks also present another source of uncertainty, with the impeachment proceedings involving Vice President Sara Duterte potentially influencing investor sentiment, fiscal policy continuity, and PHP stability.

The aforementioned factors have also contributed to a revision in the Philippines' sovereign rating outlook by Fitch Ratings on 20 Apr, to 'Negative' from 'Stable', while affirming the long-term foreign currency issuer default rating at 'BBB'. This adjustment signals that the Philippines could face its first sovereign credit downgrade in decades should fiscal and macroeconomic conditions fail to stabilize.

Overall, the PHP is expected to stay weak in 3Q26 before gradually stabilizing and rebounding in line with broader Asia FX strengthening from 4Q26 onwards. Our revised USD/PHP forecasts are 63.0 in 3Q26, 62.5 in 4Q26, 62.0 in 1Q27, and 61.5 in 2Q27.

SINGAPORE

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
USD/SGD	1.28	1.27	1.26	1.25
SGD 3M SORA (compounded)	1.24	1.42	1.56	1.64
Economic Indicator	**2024**	**2025**	**2026F**	**2027F**
GDP (%)	5.3	5.0	3.2	2.1
Core CPI (avg y/y %)	2.8	0.7	1.9	2.0
Unemployment Rate, eop (%)	1.9	2.0	2.3	2.0
Current Account (% of GDP)	17.2	16.7	18.5	17.7
Fiscal Balance, FY (% of GDP)	0.8	1.9	1.0	0.8

ECONOMY

AI-related tailwinds to outweigh drag on petrochemical/energy-related industries from ME conflict

Singapore's 1Q26 GDP growth was revised sharply higher to 6.0% y/y, 1.0% q/q sa from 4.6% y/y, -0.3% q/q sa in the advance estimates, respectively. Growth rates were lifted across all key sectors: manufacturing (7.9% y/y from 5.0% in the ae), construction (11.8% y/y from 9.0%), and services (5.7% y/y from 4.7%). Within services, wholesale trade (2.3% q/q sa; 4Q25: 3.5%) was a clear outperformer, driven by robust increases in wholesale volumes of telecom equipment, computers, and electronic components, linked to AI-related tailwinds.

We raised our 2026 GDP growth forecast to 3.2% (from 2.5% prev; 2027F: 2.1%), incorporating the 1Q outperformance, with AI-driven momentum likely to persist through 3Q26 and to largely offset the associated drag from energy and petrochemical input supply disruptions stemming from the ME conflict. Strong Apr outturns in IP (17.6% y/y; Mar: 9.2%) and NODX (24.5% y/y; Mar: 15.3%), both driven by electronics, suggest a solid start to 2Q. Our forecast is subject to significant left-tail risks, contingent on the duration and extent of the supply disruptions. In particular, material disruptions to critical semiconductor inputs (helium, bromine) could result in a slowdown in semiconductor production.

Based on the LMAR, Singapore's job market remained largely resilient in 1Q26, with employment rising by 5K, albeit at a slower pace compared to 17.7K in 4Q25. Retrenchment figures were broadly stable at 3,700 (4Q25: 3,690) and remained consistent with historical averages. The overall unemployment rate posted a slight uptick to 2.1% in Mar (Feb: 2.0%; resident: 2.9% from 2.8%; citizen: 3.1% from 2.9%), but remained within the non-recessionary range of 1.8–2.3% (2015–2019). However, firms struck a more cautious note given uncertainties surrounding the impact of the ME conflict on prices and supply chains. The proportion of firms with hiring plans dipped to 44.6% in Mar (Feb: 54.6%), while those intending to raise wages fell to 25.4% (Feb: 39.3%), although the report noted "early signs of stabilization in April."

CENTRAL BANK

MAS tightening still on the cards despite downside surprise in Apr core inflation

Singapore's core CPI registered a mild +0.2% m/m nsa increase (Mar: 0.1%), translating to a softer 1.4% y/y rise (Mar: 1.7%), undershooting Bloomberg consensus forecast of 1.8%. In particular, the softer reading was driven by sequential price contractions in key categories such as info & communications (Apr: -1.5% m/m nsa; Mar: +0.1%) and clothing & footwear (Apr: -0.5% m/m; Mar: +1.5%). Meanwhile, the sequential uptick in airfares (Apr: 0.4% m/m; Mar: -5.0%) was surprisingly muted despite the outsized jump in jet fuel costs, likely reflecting some degree of fuel cost hedging and temporary restraint in passthrough to consumers.

Despite the downside surprise in core inflation, we think the Apr print actually bolsters the case for further MAS policy tightening given: [1] strengthening core inflation momentum (on a 3m/3m sa basis); [2] sharp acceleration in imported inflation; and [3] early signs of broadening inflationary pressures as inflation pervasiveness – defined as the share of CPI basket with items exhibiting >2% y/y inflation – recorded a slight uptick. We maintain our 2026 core inflation forecast at 1.9% (2027F: 2.0%) and headline inflation projection at 2.2% (2027F: 2.2%), with upside risks to both. We expect MAS to tighten policy further at the Oct 2026 MPS, through a 50bps steepening of the S$NEER policy band slope to 1.5% p.a. Risks are skewed toward an earlier move at the Jul 2026 MPS if second-round effects prove stronger than anticipated.

CURRENCY

USD/SGD still biased lower

The SGD has remained one of the more resilient performers within Asia FX amid the ME conflict, trading within a relatively tight 1.2650–1.2930 range throughout the three-month period. This stability has been underpinned by Singapore's stronger-than-expected macroeconomic backdrop and MAS moving ahead of regional peers in pre-emptive tightening in Apr, with expectations of further tightening. Additionally, the SGD continues to benefit from its safe-haven characteristics during periods of heightened global uncertainty. Taken together, these factors have kept the S$NEER anchored near the upper bound of its policy band (around 2% above the midpoint) throughout the ME conflict, effectively containing FX volatility.

Overall, we expect USD/SGD to resume its underlying downtrend as geopolitical risk premia gradually unwind and regional growth dynamics improve. Accordingly, we reiterate our USD/SGD forecasts at 1.28 in 3Q26, 1.27 in 4Q26, 1.26 in 1Q27, and 1.25 in 2Q27.

SOUTH KOREA

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
USD/KRW	1,530	1,510	1,490	1,480
KRW Base Rate	2.75	3.00	3.00	3.00
Economic Indicator	**2024**	**2025**	**2026F**	**2027F**
GDP (%)	2.0	1.0	2.6	2.0
CPI (avg y/y %)	2.3	2.1	2.7	2.2
Unemployment Rate (%)	3.1	3.3	3.2	3.2
Current Account (% of GDP)	5.3	6.6	9.0	6.5
Fiscal Balance (% of GDP)	-3.6	-4.2	-4.0	-4.1

ECONOMY

Underpinned by remarkable export growth

South Korea's advance 1Q26 GDP strengthened more than expected to grow by 3.6% y/y, 1.7% q/q SA (4Q25: 1.6% y/y, -0.2% q/q). There are signs of gradual broadening in economic growth, but the recovery remains uneven and still heavily tech driven. Exports of semiconductors and computers surged by 171.2% and 376.7% in Apr-May compared to 139.1% and 169.0% in 1Q26, respectively. Consumer sentiment also rebounded back to expansion in May after briefly turning negative in Apr. The chip cycle has generated macro spillovers - support for incomes, consumption, and financials - for instance the latest wage deal by Korea's largest chipmaker and the rally in the stock market (KOSPI jumped 101% YTD as of end-May). Fiscal policy—such as the government job programs, supplementary budget, and measures to cap fuel and food costs—remains a key stabilizer of domestic demand but high household debt continues to weigh. The KRW26.2 tn (0.9% of GDP) supplementary budget rolled out in Apr allocated KRW4.8 tn for cash handouts of KRW100k to KRW600k per person, paid to the bottom 70% of income earners starting in late-Apr. There is also strong political pressure to redistribute the AI windfalls. The recent "citizen dividend" debate underscores efforts to redistribute the higher tax revenues from the chips sector, whether through fiscal spending, AI investment, direct transfers or social programs.

Growth is likely to remain above trend but moderate in 2H26, due to factors such as tightening financial conditions and fading fiscal support from the supplementary budget. We have raised our forecast for 2026 GDP growth to 2.6% from 2.0% previously, after accounting for 1Q's outperformance while we keep the 2027 growth outlook at 2.0%. There remains upside potential if the AI capex upcycle continues to support South Korea's tech exports.

Meanwhile, the oil price shock is filtering through to domestic inflation but the government's cap on domestic fuel and measures to stabilise food prices such as instant noodles and cooking oil, have helped to blunt the impact so far, particularly on the core inflation. The fuel price cap is the first in nearly 30 years, with prices reviewed every four weeks. South Korea's headline inflation jumped to 3.1% y/y in May, the fastest pace in more than two years. This was largely contributed by 11.6% rise in transport costs, the sharpest increase since Jul 2022. Core inflation (ex-food & energy) was more muted at 2.5% in May. The transmission of the energy shock and supply bottleneck of tech products will increase price pressures ahead. We expect the headline inflation to stay above 3% through 3Q before easing in 4Q, averaging 2.7% and 2.2% in 2026 and 2027, respectively.

CENTRAL BANK

BOK preps for a hike in Jul

The BOK has clearly pivoted to a tightening bias in May. This was the first meeting chaired by Governor Shin Hyun Song. Despite BOK keeping its base rate unchanged at 2.50% for an 8th consecutive meeting in May, the governor said a rate hike would already have been justified —a strong signal that policy is now behind the curve. The macro backdrop reinforces this: growth is resilient, inflation is firming, the KRW has weakened, and housing activity is rebounding. Together, these point clearly to a path for monetary policy tightening.

The BOK's six-month conditional base rate projections have shifted decisively. The "dot plot" in May shows median view for roughly 50bps of hikes in the next six months, a clear step-up from Feb where the board members were expecting interest rates to be flat over a six-month period. Given the hawkish bias, our base case is now for a first 25-bps hike in Jul, followed by another 25-bps hike in 4Q (Oct or Nov) to bring the base rate to 3.00% by end-2026. We expect BOK to hold thereafter given its expectation for inflation to peak in 2H26 and ease to 2.3% in 2027, but the outlook continues to hinge on a potential peace deal in the Middle East.

CURRENCY

KRW weighed by geopolitics

The KRW has been one of the underperformers within the Asia FX complex, depreciating by more than 4% against the USD since the onset of the Iran conflict. This weakness highlights a clear divergence between Korea's strong underlying fundamentals and the currency's heightened sensitivity to geopolitical developments and equity flow dynamics. Korea's strong exports growth, record current account surplus and hawkish BOK have been overshadowed by external headwinds. As a net energy importer, Korea has been adversely affected by elevated oil prices following the conflict. In addition, equity outflows have been a key driver of KRW weakness, with foreign investors withdrawing USD 27.3bn from local equities across Apr-May amid profit-taking in the world-beating Kospi rally. This more than offset the USD 12.9bn inflows into bond markets over the same period following WGBI inclusion. Elevated USD funding costs in the FX swap market have also contributed to sustained downward pressure on the KRW.

Looking ahead, we expect downside risks to be partially mitigated by continued verbal intervention from authorities. At the same time, prospective 50bps of cumulative BOK rate hikes in 2H26, alongside expectations of a normalization in global energy supply conditions, should provide more durable support to the currency. On balance, we maintain a cautiously constructive outlook on the KRW, with updated USD/KRW forecasts at 1,530 in 3Q26, 1,510 in 4Q26, 1,490 in 1Q27, and 1,480 in 2Q27.

TAIWAN

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
USD/TWD	31.5	31.2	31.0	30.7
TWD Official Discount Rate	2.00	2.00	2.00	2.00
Economic Indicator	**2024**	**2025**	**2026F**	**2027F**
GDP (%)	5.3	8.8	9.5	3.5
CPI (avg y/y %)	2.2	1.7	2.0	2.0
Unemployment Rate (%)	3.4	3.4	3.3	3.3
Current Account (% of GDP)	14.1	19.5	20.5	18.4
Fiscal Balance (% of GDP)	0.4	-1.2	-1.0	-0.5

ECONOMY

Exports enter a structural upswing on sustained AI demand

Taiwan's economy accelerated sharply in 1Q26, with real GDP expanding 14.55% y/y—the fastest pace in 44 years. On a seasonally adjusted basis, growth reached 1.69% q/q, extending the expansion streak to 12 consecutive quarters. The upswing continues to be led by strong external demand tied to AI and related infrastructure, which has generated positive spillovers into domestic demand and investment activity. Private consumption strengthened, supported by higher spending on communication, entertainment, transport, and outbound tourism, alongside buoyant financial markets that lifted sentiment. Gross fixed capital formation remained robust, underpinned by sustained investment in machinery, equipment, and intellectual property. Net exports (+10.33ppt) were the primary driver of 1Q26 growth, but contributions from private consumption (+2.16ppt), fixed investment (+1.69ppt), and government consumption (+0.48ppt) also improved notably. Meanwhile, the drag from inventories (-0.11ppt) narrowed and is expected to turn positive from 2Q26 following a drawdown through 2025.

Industrial production has recorded uninterrupted monthly growth for over two years. Although Apr's growth moderated to 14.2% y/y from 23.7% in 1Q26, leading indicators remain firm. The S&P Global Taiwan manufacturing PMI rose to a more than 3-year high of 56.1 in May from 55.3 in Apr. Export orders surged by a strong 48.1% y/y in Apr (vs. 50.0% in 1Q26), driven by sustained demand for electronics and ICT products—including servers, networking equipment, and telecommunications hardware—which collectively account for nearly 77% of total orders. However, base effects are likely to dampen the contribution from net exports in 2H26. Looking ahead, demand for emerging technologies should continue to support manufacturing output and capital expenditure, even as headline growth gradually normalizes. Tight supply-demand conditions are also expected to lift export prices, further boosting nominal export performance.

Potential headwinds from US tariff measures appear contained, while improving resilience in China's economy should help stabilize the broader global outlook. The main external risk is the prolonged disruptions to shipping through the Strait of Hormuz, weighing on global demand and lift costs for production amid tight supply of tech-related products. In light of the strong 1Q26 momentum, we have revised up our 2026 GDP growth forecast to 9.5% from 7.7%, in line with the revised official projection of 9.64%. Growth is expected to moderate to 10.8% in 2Q26 and 6.8% in 2H26. We maintain our 2027 growth outlook at 3.5%, reflecting increasingly binding base effects.

Headline CPI remained below the central bank's 2% target for a 12th straight month through Apr. Meanwhile, core inflation moderated to 1.9% y/y over Mar-Apr, reversing from as high as 2.6% y/y in Feb. Government measures—such as fuel tax reductions and LNG procurement—have helped contain inflation within the 2% annual threshold. Authorities have also extended a freeze on electricity tariffs until the next review in Sep. In addition, the government highlighted that domestic price increases for fuels and lubricants between Mar and May were contained at roughly one-fifth of the 70% surge in OPEC basket prices. Notably, the upward revision of the official 2026 CPI forecast by 0.25ppt to 1.93% appears modest, given Taiwan's significant reliance on imported energy. Looking ahead, base effects are likely to push headline inflation slightly above the 2% threshold over the remainder of the year. As a result, we expect full-year 2026 inflation to average around 2.0%, up from 1.4% in Jan-Apr.

CENTRAL BANK

Tightening bias

The CBC shifted to a tightening bias at the Mar policy meeting while keeping the benchmark discount rate unchanged at 2.0%, the highest level since late 2008. Although we see potential for a 25-bps hike in 2H26, this is not yet our base case. Moderately contained inflation and resilient growth will enable Taiwan's economy to absorb the higher import costs. However, the likelihood of policy tightening in 2H26 would increase materially if supply chain disruptions remain unresolved and spill over more clearly into consumer prices in the next 2-3 months.

CURRENCY

Worst may be over for TWD

Taiwan's robust macroeconomic fundamentals have underpinned an earlier-than-anticipated recovery in the TWD, which has appreciated by around 2% quarter-to-date to 31.36 /USD. Strength in the currency has been driven primarily by AI-related semiconductor demand. The statistics bureau significantly upgraded its 2026 merchandise export growth forecast to 39.8% (from 22.2%), marking the fastest pace of expansion in 50 years. In parallel, sustained foreign equity inflows—amounting to USD16bn quarter-to-date—have provided additional support, as Taiwan's equity market continues to reach fresh record highs.

On balance, these idiosyncratic developments over the past two months have materially exceeded our prior assumptions and have largely offset the drag from geopolitical risks. Reflecting this strong outlook for Taiwan's growth and export trajectory, we revise our USD/TWD forecasts lower to 31.5 in 3Q26, 31.2 in 4Q26, 31.0 in 1Q27, and 30.7 in 2Q27.

THAILAND

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
USD/THB	32.9	32.7	32.5	32.3
THB 1D Repo	1.00	1.00	1.00	1.00
Economic Indicator	**2024**	**2025**	**2026F**	**2027F**
GDP (%)	2.9	2.4	1.5	2.4
CPI (avg y/y %)	0.4	-0.1	1.4	1.2
Unemployment Rate (%)	1.0	0.8	1.0	1.0
Current Account (% of GDP)	2.2	3.1	1.3	1.7
Fiscal Balance (% of GDP)	-1.3	-2.2	-2.7	-2.4

ECONOMY

A better 1Q print, but still not a broad upturn

Thailand's 1Q26 GDP print was stronger than expected, but we do not read it as a regime shift. Real GDP expanded 2.8% y/y and 0.7% q/q sa, supported by investment, goods exports, government spending, and still-firm private consumption. Beneath the headlines, however, the upturn remains uneven: imports rose faster than exports, domestic value-added spillovers remained limited, and the trade balance slipped into deficit for the first time in 14 quarters.

Exports should remain the key cyclical cushion in 2026, supported by electronics, technology-related goods, and autos, as well as front-loaded orders linked to supply-chain and cost pressures. Apr exports rose 23.1% y/y to USD31.6bn, marking the 22nd consecutive month of expansion, while Jan-Apr exports were up 18.9%. But the same data also showed a leakage problem: imports surged 45.0% y/y in Apr, resulting in a USD10.0bn trade deficit, highlighting that export strength helps headline growth but does not automatically translate into a broad domestic income rebound. Domestic demand is likely to stay constrained. Private consumption is being squeezed by higher living costs, elevated household debt, and uneven income prospects. Investment is improving, but it remains concentrated in machinery, electronics, and digital-related sectors rather than in a broad-based capex cycle.

Tourism is recovering, but not enough to offset the broader drag. Tourism receipts have improved, yet international arrivals remained below pre-COVID levels in 1Q26, and higher fuel costs, airfares, and geopolitical uncertainty pose headwinds for long-haul travel. At the same time, higher import prices and Thailand's reliance on Middle East-linked inputs reinforce the negative terms-of-trade shock rather than a demand-led reflation cycle. We therefore keep our 2026 GDP growth forecast at 1.5%, below the NESDC's midpoint of 2.0% within its 1.5-2.5% range, before a modest recovery to 2.4% in 2027. Upside risks would come from stronger fiscal execution, stimulus measures, more durable electronics exports, faster conversion of private investment, and progress on OECD-related reforms and advanced FTAs. Downside risks remain a longer Middle East disruption, higher oil and freight costs, weaker tourism receipts, US trade-policy uncertainty, and more stress among energy-intensive SMEs.

CENTRAL BANK

Terminal policy rate at 1.00%; targeted measures to do the heavy lifting

The BOT's unanimous 6-0 decision on 29 Apr to hold the policy rate at 1.00% reinforced our view that the Feb cut was the terminal move in this easing cycle. We expect the policy rate to remain at 1.00% through 2026-27. Growth is still running well below the central bank's estimated potential of around 2.7%, which argues for an accommodative stance, but not necessarily for further rate cuts. The inflation impulse is externally driven and energy-led, not demand-pull: this means that lower rates would do little to reduce oil, freight, or utility costs, while using limited policy space against a cost-push shock could weaken inflation-expectation discipline.

We keep our CPI forecasts at 1.4% in 2026 and 1.2% in 2027, as weak domestic demand, a negative output gap, administrative price smoothing, and limited risk of a wage-price spiral should cap second-round effects. The hurdle for both easing and tightening is high: Thailand is facing a low-growth, negative terms-of-trade shock rather than overheating, so targeted fiscal and credit measures should do the heavy lifting while monetary policy stays accommodative at 1.00%.

CURRENCY

THB to remain under near-term pressure

Following an initial phase of weakness—where USD/THB rose from 31 to 33 during the escalation of the Middle East conflict in Mar—the THB has since stabilised, trading largely within a 31.93-32.85 range across Apr-May. The ceasefire announcement in early Apr played a key role in anchoring the pair and curbing further volatility.

This relative stability, however, masks a noticeable deterioration in Thailand's macroeconomic backdrop. The current account swung to a record deficit of USD7.59bn in Apr, driven by a record USD10bn trade deficit as import growth continued to outpace exports for a seventh consecutive month. At the same time, stagflationary pressures are becoming more apparent, with CPI accelerating sharply to 2.89% y/y in Apr from -0.08% in Mar, largely reflecting higher oil prices linked to the conflict. On the fiscal front, plans to raise THB175bn to fund a co-payment stimulus programme—entailing monthly issuance of THB35bn between Jun and Sep—could add to fiscal pressures.

On balance, we expect the THB to remain under near-term pressure and to underperform regional peers during any tentative medium-term recovery, as long as the macroeconomic backdrop remains challenged. Accordingly, we revise our USD/THB forecasts to 32.9 in 3Q26, 32.7 in 4Q26, 32.5 in 1Q27, and 32.3 in 2Q27.

VIETNAM

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
USD/VND	26,500	26,400	26,300	26,100
VND Refinancing Rate	4.50	4.50	4.50	4.50
Economic Indicator	**2024**	**2025**	**2026F**	**2027F**
GDP (%)	7.1	8.0	7.0	7.0
CPI (avg y/y %)	3.6	3.3	4.5	4.8
Current Account (% of GDP)	6.6	6.7	4.5	4.5
Fiscal Balance (% of GDP)	-2.5	-3.3	-4.0	-3.8

ECONOMY

Resilience amid cost pressures and external strains

Vietnam's economic growth slowed to 7.83% y/y in 1Q26 from 8.46% in 4Q25, but still beat both our 7.0% forecast and Bloomberg's 7.60% consensus. Growth was supported by manufacturing, construction and services, underpinned by strong export demand (19.1% y/y) and realized FDI inflows (up 9.1% y/y to US$5.41bn), as firms continued diversifying supply chains amid changing global trade rules.

Recent data, though, point to a mixed near-term outlook as higher energy costs weigh. Manufacturing improved in May, with the PMI rising to 52.8 from 50.5 in Apr and 49.8 a year earlier, while the output index surged to 55.6. But inflation rose further to 5.6% in May (Apr: 5.5%; Mar: 4.7%), reaching a six-year high. Manufacturing output growth slowed to 9% y/y in May from 10% in Apr, averaging 9.5% in 2Q26 versus 11% in 1Q26. Exports eased to 18% y/y from 21% in Apr, while imports rose 33.8% from 32.5%. This pushed the Jan-May trade balance to a US$12.7bn deficit, vs a US$5bn surplus in 2025, the widest gap in nearly three decades.

We expect pressure on balance of payments to continue. Major infrastructure and transport projects should boost demand for imported machinery, while higher oil prices will raise energy costs. Our simulations show that if crude averages US$100/bbl for 6-12 months, Vietnam's energy import bill could rise by about 40%, or US$5.2bn, in 2026, while the current account surplus could narrow by around 20%, or US$6.5bn, from US$33bn in 2025.

Outlook: Vietnam's medium-term ambitions remain highly aspirational. On 24 Apr, the National Assembly set a 2026-2030 agenda targeting at least 10% average annual GDP growth. By 2030, the authorities aim to reach upper-middle-income status, build a modern industrial base, rank among the world's 30 largest economies, and lift GDP per capita to US$8,500. By comparison, the World Bank forecasts 6.8% growth in 2026 and 4.2% inflation, citing the impact of the Middle East conflict on trade, fuel prices, and businesses. In our view, downside risks from energy prices and possible shifts in US tariff policy remain significant, though external demand has held up so far, supported in part by the global AI build-out.

On balance, we continue to expect growth to moderate to 7.0% in 2026. The most challenging period is likely in 2Q26-3Q26, with growth averaging about 6.7%.

CENTRAL BANK

SBV holds firm as it watches inflation and FX pressures

A key concern for the SBV is inflation, which averaged 4.3% y/y in the first 5 months, close to its 4.5% target, and the SBV expects it could rise to 5.5% this year. As SBV monitors downside pressure on the VND, its preference is likely to keep policy rates steady.

Separately, the SBV has urged banks to lower lending rates to support borrowers, while fiscal measures are deployed, including extending the zero-rate tax on petrol and selected fuel products until end-Jun. Even so, some local banks have raised deposit rates amid competition for liquidity as credit demand rises. Outstanding loans reached more than VND19.4 quadrillion as of 28 Apr, up 18.26% y/y, while total liquidity grew a slower 7.7% y/y YTD. The SBV also noted that 80% of VND deposits are short term.

CURRENCY

Signs of stabilisation

The VND has stabilised in recent weeks, trading in a 26,291-26,372 range in Apr-May, well within the SBV's ±5% band around its daily reference rate. The Apr intervention, via 180-day cancellable forwards at 26,850/USD, appears to have set an effective ceiling, anchoring expectations and curbing speculation. The extension of the US-Iran ceasefire in late May has also supported the external backdrop.

More broadly, the stabilisation in the US-China trade framework after the Trump-Xi summit in mid-May is constructive for Vietnam's exports. Lower bilateral tensions reduce the risk of secondary tariff spillovers, reinforcing Vietnam's role as a key beneficiary of global supply chain shifts and supporting its medium- to long-term FDI story.

That said, in the near term (3Q26), the VND is likely to stay on the defensive alongside regional peers amid lingering geopolitical uncertainty. Over the medium term, we maintain a broadly stable view, supported by robust growth, sustained FDI inflows, and a steady monetary policy stance, with the SBV expected to keep its policy rate unchanged at 4.5% through 2026. Vietnam's potential upgrade to Emerging Market status in Sep 2026 could also provide a structural boost to portfolio inflows.

On balance, we retain a gradual depreciation bias for USD/VND, with updated forecasts of 26,500 in 3Q26, 26,400 in 4Q26, 26,300 in 1Q27, and 26,100 in 2Q27.

AUSTRALIA

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
AUD/USD	0.72	0.73	0.74	0.75
AUD Official Cash Rate	4.35	4.35	4.35	4.35
Economic Indicator	**2024**	**2025**	**2026F**	**2027F**
GDP (%)	1.0	1.9	2.0	1.7
CPI (avg y/y %)	3.2	2.8	4.2	2.8
Unemployment Rate (%)	4.0	4.2	4.4	4.6
Current Account (% of GDP)	-2.2	-2.6	-2.3	-2.5
Fiscal Balance, FY (% of GDP)	-4.0	-2.7	-1.3	-1.2

ECONOMY

Growth set to moderate

GDP rose 0.3% q/q in 1Q26, slowing from the revised 0.9% q/q expansion recorded in 4Q25 (0.8% q/q previously), reflecting modest household and public sector expenditure as well as cyclone disruptions to mining and export activities. From a year earlier, the economy expanded by 2.5% y/y, broadly steady relative to the end 2025 pace. Overall, the economy is slowing, with domestic demand turning more uneven and external conditions proving less supportive. While household consumption remains positive, the composition of spending suggests increasing strain from elevated borrowing costs. At the same time, the pullback in public spending and weather-related supply disruptions highlight downside risks to near-term activity. Looking ahead, we expect the economy to slow further as the cumulative impact of restrictive monetary policy continues to filter through to households and businesses. Consumption growth is likely to soften as elevated borrowing costs and still-high living expenses constrain discretionary spending. At the same time, uncertainty related to ongoing tensions in the Middle East continues to pose upside risks to commodity prices and inflation, complicating the backdrop.

Inflation has shown tentative signs of easing but remains above the RBA's target range. Headline CPI moderated to 4.2% y/y from 4.6% in Mar, driven in part by lower transport and fuel prices. Housing, the largest component in the CPI basket, remained the biggest contributor to annual inflation, rising 6.3%. Transport costs increased 6.6%, easing from 8.9% previously. On a monthly basis, CPI rose 0.4%, down from 1.1% in Mar. That said, the underlying details were less encouraging. Trimmed mean inflation rose 0.3% m/m (from a revised 0.2% m/m reading in Mar), in line with expectations, lifting the annual rate to 3.4% (from 3.3% y/y in Mar), the highest since late 2024 and still above the RBA's 2–3% target range. Even so, Apr's data suggests underlying inflation has been running slightly below the RBA's May Statement on Monetary Policy projections, which show inflation peaking at 3.8% in Jun, before easing to 3.5% by Dec and moderating further to 3.1% by mid 2027.

Labour market conditions are beginning to soften, albeit from a position of resilience. The unemployment rate rose more than expected in Apr, climbing to 4.5% from 4.3% in Mar. Employment fell by 18,600, driven primarily by a sharp decline in full-time jobs. Both full-time and part-time employment contracted, by 10,700 and 7,900 respectively, while the number of unemployed increased by 33,000. The participation rate edged lower to 66.7% from 66.8%, suggesting some workers exited the labour force. The decline in full-time employment and rise in unemployment indicate that labour demand is beginning to respond to tighter financial conditions. While the participation rate remains historically elevated, the marginal drop reinforces the view that labour supply dynamics are stabilising. We expect the unemployment rate to trend towards 4.4%–4.5% by late 2026 as growth slows.

CENTRAL BANK

Cautious RBA to pause for now

The RBA lifted its cash rate by 25bps to 4.35% in May, marking a third consecutive increase. The nine member board voted 8-1 in favour of the hike, compared with a narrow 5-4 decision in Mar, effectively unwinding all of last year's monetary easing. While the 8-1 vote underscored the Board's continued focus on addressing persistent inflation pressures, the policy trade-off now appears to be more balanced. Inflation remains above target and elevated; but weak consumer confidence, softer headline inflation, a rising unemployment rate, and stagnant wage growth reduce the urgency for further tightening.

We maintain our view that the RBA will keep the cash rate unchanged at 4.35% while retaining a tightening bias, by signaling that further hikes remain possible if underlying inflation or expectations fail to ease. However, after three rate increases this year, policy is already sufficiently restrictive, supporting a wait-and-see approach as the RBA assesses incoming inflation data, labour market trends, and household demand.

CURRENCY

AUD's Apr rally has cooled

AUD/USD has retraced part of its strong Apr rally (+4.4%) following a shift by the RBA towards a more data-dependent stance. Subsequent macro data surprised to the downside, with a weaker-than-expected Apr labour market print as well as a larger-than-expected cooling in Apr's CPI. These developments prompted a recalibration lower in subsequent rate hike expectations, with our macro team now anticipating an extended pause in the RBA's tightening cycle.

While we maintain a constructive medium-term outlook on AUD/USD, near-term price action may consolidate as the hawkish RBA premium that underpinned Apr's rally fades. On the supportive side, a confirmed reopening of the Strait of Hormuz, alongside stabilisation in Australian labour market conditions, would reinforce our positive medium-term thesis and could bring forward upside risks. Overall, we retain a modestly bullish bias in AUD/USD, with updated forecasts at 0.72 in 3Q26, 0.73 in 4Q26, 0.74 in 1Q27, and 0.75 in 2Q27.

EUROZONE

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
EUR/USD	1.18	1.19	1.21	1.22
EUR Refinancing Rate	2.40	2.40	2.40	2.40
Economic Indicator	**2024**	**2025**	**2026F**	**2027F**
GDP (%)	0.9	1.5	0.8	1.2
CPI (avg y/y %)	2.4	2.1	3.0	2.0
Unemployment Rate (%)	6.3	6.3	6.3	6.2
Current Account (% of GDP)	2.7	2.6	1.5	1.7
Fiscal Balance, FY (% of GDP)	-3.0	-2.9	-3.4	-3.4

ECONOMY

Fragile recovery

The Eurozone economy lost momentum in 2Q26 as elevated energy prices, geopolitical uncertainty and weak external demand weighed on activity. The escalation of conflict in the Middle East pushed oil and gas prices sharply higher, raising production costs across manufacturing and transport-intensive sectors, while dampening consumer confidence. Although manufacturing activity received a temporary boost from precautionary inventory building and front-loaded orders amid fears of supply disruptions, underlying business sentiment weakened, and firms became increasingly cautious about investment and hiring decisions. Domestic consumption remained the main source of support for growth, underpinned by still-positive household spending and public investment programmes, but tighter financing conditions and subdued export performance constrained broader economic expansion. Looking ahead to 3Q26, the Eurozone economy is expected to remain in a low-growth environment, with downside risks continuing to dominate. Elevated energy costs are likely to weigh on household purchasing power and corporate profitability, while persistent geopolitical uncertainty may further suppress investment and trade activity. Although some support should come from resilient domestic demand and ongoing fiscal spending in key economies, growth is expected to remain below trend. Our full-year GDP projections are 0.8% in 2026 and 1.2% in 2027 (down from 1.2% and 1.5%, respectively).

Preliminary figures showed that Euro area HICP inflation rose to 3.2% y/y in May, up from 3.0% y/y in Apr, marking the highest level since Sep 2023. The increase in headline inflation was driven largely by a renewed surge in energy prices, which lifted the overall CPI profile. More importantly, underlying inflation pressures also strengthened, with core CPI rising to 2.5% y/y from 2.2% y/y in Apr. Overall, the May inflation print points to a renewed loss of momentum in the disinflation process, reversing part of the progress seen earlier this year. However, the latest data highlights the continued vulnerability of the inflation outlook to energy price shocks, as well as the risk of persistence in core components, particularly services. The breadth of the pickup across both countries and components further suggests that underlying inflation remains sticky rather than transitory.

CENTRAL BANK

ECB to address higher inflation

The ECB kept interest rates unchanged for the seventh consecutive meeting in Apr. The accompanying press release offered little new guidance for financial markets and reiterated the ECB's data dependent stance. Policymakers highlighted rising geopolitical risks, noting that "the war in the Middle East has led to a sharp increase in energy prices, pushing up inflation and weighing on economic sentiment." The ECB emphasised that the medium term inflation outlook will hinge on the intensity and duration of the energy price shock, as well as the magnitude of indirect and second round effects. The longer energy prices remain elevated, the greater the risk to both inflation and growth.

We now expect a 25-bps hike at the upcoming 11 Jun meeting. The latest May inflation print reinforces this view. The broadening of price pressures across both components and major economies indicates that second-round effects are increasingly taking hold, raising the risk that inflation remains above target for longer. Against this backdrop, the ECB is likely to adopt a more proactive stance to safeguard its price stability mandate, with the latest data providing a clear rationale for further policy tightening. Risks are tilted towards additional tightening should incoming data continue to point to sticky core inflation and elevated services price pressures.

CURRENCY

EUR draws support from hawkish ECB

EUR/USD traded broadly rangebound between 1.1505 and 1.1849 across Apr–May, exhibiting one of the lowest levels of both realized and implied volatility within the G10 complex despite evolving geopolitical tensions. The shock from the Iran conflict impacted both US and Eurozone growth and inflation trajectories in a largely symmetric manner, resulting in relatively muted adjustments in EUR/USD compared to other more sensitive commodity-linked and energy-importing currency pairs.

Recent communication from ECB Governing Council members has tilted decisively hawkish, with a broad consensus emerging around a 25bp rate hike at the Jun meeting—consistent with our own expectations—as inflation continues to run above the 2% target in the wake of the Iran conflict. In contrast, we expect the Fed to remain on hold throughout 2026. Looking ahead, the anticipated ECB rate lift-off in Jun would mark the conclusion of its two-year easing cycle and could catalyze a further narrowing of EUR-USD rate differentials, providing a renewed tailwind for EUR/USD. In addition, any tangible de-escalation in Middle East tensions would offer an additional layer of support for the pair. Taken together, we maintain a constructive bias on EUR/USD and reaffirm our upward trajectory, with revised forecasts of 1.18 in 3Q26, 1.19 in 4Q26, 1.21 in 1Q27, and 1.22 in 2Q27.

NEW ZEALAND

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
NZD/USD	0.60	0.61	0.62	0.63
NZD Official Cash Rate	2.50	2.50	2.50	2.50
Economic Indicator	2024	2025	2026F	2027F
GDP (%)	-0.3	0.2	1.6	2.4
CPI (avg y/y %)	2.9	2.8	3.4	2.1
Unemployment Rate (%)	4.8	5.3	5.2	4.8
Current Account (% of GDP)	-5.3	-3.8	-3.5	-3.3
Fiscal Balance, FY (% of GDP)	-3.2	-0.2	-3.2	-2.5

ECONOMY

Delicate recovery

New Zealand's recovery is proving weaker than earlier anticipated, with momentum fading into late 2025 and leaving a larger than expected output gap. GDP rose only 0.2% q/q in 4Q25, slowing sharply from a revised 0.9% increase in 3Q25, as subdued household consumption and a drag from rising imports offset otherwise broad based sectoral gains, with public expenditure providing the main pillar of support. Against this backdrop, the recovery trajectory remains intact but fragile, characterised by only moderate growth, still elevated inflation, and persistent external headwinds. In particular, higher global energy prices stemming from ongoing geopolitical tensions and weak confidence are expected to dampen both consumption and private investment, contributing to an uneven growth profile through 2026. While 1Q26 GDP data will only be due on 18 Jun, leading indicators point to only a gradual and patchy improvement in activity in the quarters ahead.

CPI inflation was steady at 3.1% y/y in 1Q26, unchanged from 4Q25. However, this is the highest level since 2Q24, and remains above the upper bound of the RBNZ's target range. While upside in prices was widely anticipated, the impact of the energy shock is only beginning to emerge. Inflationary pressures are likely to remain sticky in the near term, limiting the pace at which monetary conditions can normalise even as underlying price dynamics slowly ease. We expect inflation to accelerate ahead, with headline inflation peaking above 5.5% in the second half of 2026 as higher fuel costs and fertiliser shortages push up food prices.

Employment grew by 0.2% in 1Q26, easing from 0.5% in 4Q25. Employment levels were 0.4% lower than the RBNZ's Feb projection. The unemployment rate ticked down to 5.3% from 5.4%. The decline was driven by lower participation, as employment gains fell short of growth in the working-age population. We anticipate firms to adjust to disruptions in energy supply, higher prices, and uncertainty related to the Iran war. As such, labour market slack is expected to persist, with elevated unemployment constraining wage growth and reinforcing the soft demand environment.

CENTRAL BANK

RBNZ on hawkish bias

As widely expected, the RBNZ kept the OCR unchanged at 2.25% at its May meeting. However, the outcome was more hawkish than anticipated. Most notably, the Monetary Policy Committee revealed a 3-3 split decision, with RBNZ Governor Anna Breman casting the deciding vote to hold rates steady. The split highlights increasing unease within the Committee that recent inflation shocks could prove more persistent than previously assumed.

The accompanying statement reinforced this hawkish tilt. The RBNZ acknowledged that inflation is set to rise sharply in the near term, driven largely by higher energy and transport costs due to ongoing geopolitical tensions in the Middle East. While the Bank continues to emphasise weak domestic demand and a fragile recovery, its reaction function has clearly pivoted towards inflation containment. Importantly, the RBNZ stated explicitly that the OCR will most likely increase this year.

A 25-bps rate hike in Jul now appears likely due to three key factors. First, inflation persistence is proving more entrenched than expected, with the RBNZ projecting a delayed return to the 2% target midpoint only by mid-2027 and growing concern that external cost pressures could spill over into wages, services prices, and inflation expectations. Second, the Monetary Policy Committee is evenly split, with half already favouring an immediate hike, suggesting only modest upside surprises in upcoming data could tip the balance toward tightening. Third, maintaining policy credibility and with the RBNZ having fewer meetings than other major central banks, delaying action risks undermining the Bank's commitment, making a pre-emptive Jul hike the most straightforward way to reinforce its stance while keeping tightening gradual.

CURRENCY

NZD to trade above 0.60

Since our last quarterly review in Mar, two key developments warrant a reassessment of our NZD outlook. First, the RBNZ has shifted to a more hawkish stance—pivoting from a neutral bias to actively signalling imminent rate hikes—providing stronger support for the NZD than we had previously incorporated. Second, the partial easing of geopolitical tensions, following the extension of the US-Iran ceasefire, has helped unwind some of the safe-haven premium embedded in the USD, which had weighed on NZD in Mar.

Taken together, we see scope for further upside in NZD/USD, particularly if a confirmed reopening of the Strait of Hormuz coincides with the delivery of RBNZ rate hikes. This combination would reinforce both cyclical and relative yield support for the currency. On balance, we retain a constructive medium-term outlook for NZD/USD, with updated forecasts at 0.60 in 3Q26, 0.61 in 4Q26, 0.62 in 1Q27, and 0.63 in 2Q27. Key downside risks to this view include a breakdown in the ceasefire arrangement and a renewed surge in oil prices, which could trigger a resurgence in global risk aversion and bolster USD safe-haven demand.

UNITED KINGDOM

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
GBP/USD	1.35	1.37	1.38	1.39
GBP Repo Rate	3.75	3.75	3.75	3.75
Economic Indicator	**2024**	**2025**	**2026F**	**2027F**
GDP (%)	1.1	1.4	0.8	1.1
CPI (avg y/y %)	2.5	3.4	3.3	2.5
Unemployment Rate (%)	4.3	4.8	5.3	5.4
Current Account (% of GDP)	-3.0	-2.4	-2.8	-2.4
Fiscal Balance, FY (% of GDP)	-5.2	-5.0	-3.8	-3.2

ECONOMY

Subdued growth despite strong start to the year

The UK economy expanded by 0.6% q/q in 1Q26, up from 0.2% q/q in 4Q25, and a touch above the BOE's projection for 0.5%. Household spending (+0.6% q/q) and government consumption (+0.4% q/q) were the main drivers of the gain, adding 0.4ppt and 0.1ppt, respectively, to the headline print. On a month-on-month basis, output grew by 0.3% in Mar. This follows a 0.4% increase in Feb and flat growth in Jan (revised from 0.5% and 0.1%, respectively). Growth in Mar was driven by services (+0.3%) and construction (+1.5%), while industrial production edged down by 0.2%. The services sector saw widespread gains, with consumer-facing services rising by 0.5% m/m. While PMI readings into Apr suggest some resilience and 1Q26 growth benefitted from easing headwinds, this strength is unlikely to be sustained, with activity expected to soften in 2H26. Household spending will remain constrained by multiple factors, including a rising tax burden, tighter financial conditions, a gradually loosening labour market, and an increasing savings rate. Additionally, the UK's reliance on energy imports is set to weigh on real disposable incomes, while domestic political uncertainty may further dampen confidence and investment. Against this backdrop, GDP growth is expected to remain subdued, consistent with our downward revision in full-year GDP to around 0.8% from 1.1% previously.

CPI inflation was 2.8% y/y in Apr, down from 3.3% y/y in Mar, largely due to declines in household energy bills and softer services inflation. Energy costs fell sharply in the month, supported by government measures, while services inflation slowed notably as the previous year's price resets were not one-off. Underlying measures of services inflation also pointed to a clear moderation. Food price inflation provided an additional downside surprise, though this likely is temporary given ongoing supply and cost pressures. Offsetting these declines, fuel prices rose strongly due to earlier increases in oil prices linked to geopolitical tensions, although this impact now appears largely reflected in overall inflation. Inflation is expected to remain sticky going forward, even as underlying demand softens. While earlier declines in headline inflation have been supported by easing energy prices and base effects, these moderations are likely to prove fragile given the UK's continued dependence on imported energy and exposure to global price shocks. Domestically, cost pressures from wages, despite some cooling in the labour market, alongside a higher tax environment and supply-side constraints, are expected to keep services inflation elevated. At the same time, weaker household demand and a rising savings rate should help contain broader price pressures. Overall, inflation is likely to remain above the BOE's target through much of 2026.

CENTRAL BANK

A cautious BOE

The BOE kept the Bank Rate at 3.75% in an 8-1 vote in Apr, framing the decision as a "deliberately active hold" amid heightened geopolitical uncertainty, while reiterating readiness to act if inflation threatens the 2% target.

Our base case remains that the BOE stays on hold for now, as recent softness in labour market data and a downside surprise in Apr's CPI release argue against an imminent hike. That said, with inflation set to move higher and limited signs that the Strait of Hormuz will reopen anytime soon, the risk of a rate increase has risen. Should a hike be deemed necessary, we think the BOE is more likely to act in Jul rather than Jun, reflecting the need for additional data confirmation.

Even in that scenario, we continue to see market pricing as running ahead of underlying fundamentals. While a precautionary hike remains possible, we expect it to be a 'one-and-done' move. In our view, the weakening in the labour market will ultimately constrain the BOE from delivering the additional one or two hikes currently priced by markets, even in the face of rising inflation. We will review and update our forecasts as incoming data and the energy price outlook become clearer, with particular focus on Apr GDP (12 Jun), May payrolls (16 Jun), and May CPI (17 Jun).

CURRENCY

GBP weighed by politics

Sterling faced a notable idiosyncratic shock in 2Q26, driven by the emergence of Manchester Mayor Andy Burnham as a potential leadership challenger to PM Keir Starmer. This development triggered a sharp sell-off in gilts and weighed on GBP in mid-May. In addition, a softer-than-expected Apr CPI print prompted a repricing lower in BOE tightening expectations, adding further downside pressure. As a result, GBP/USD retraced part of its Apr rally, easing from a peak of 1.3658 on 1 May to 1.3461 by end-May.

Looking ahead, we continue to expect broader USD weakness to remain the dominant driver. Political developments, while impactful, are typically episodic and less likely to exert a sustained drag on sterling. That said, we remain attentive to gilt market dynamics, as an uncontained rise in yields—whether driven by fiscal concerns, inflation risks, or political uncertainty—could generate outsized spillovers into GBP. On balance, we maintain a modestly constructive outlook for GBP/USD, with updated forecasts at 1.35 in 3Q26, 1.37 in 4Q26, 1.38 in 1Q27, and 1.39 in 2Q27.

UNITED STATES

FX & Rates	3Q26F	4Q26F	1Q27F	2Q27F
DXY	97.9	97.0	95.7	94.9
US Fed Funds Rate	3.75	3.75	3.75	3.50
Economic Indicator	**2024**	**2025**	**2026F**	**2027F**
GDP (%)	2.8	2.2	1.7	2.5
CPI (avg y/y %)	3.0	2.7	3.7	2.0
Unemployment Rate (%)	4.1	4.4	4.5	4.3
Current Account (% of GDP)	-3.9	-3.7	-3.6	-3.5
Fiscal Balance, FY (% of GDP)	-6.9	-6.2	-6.4	-6.0

ECONOMY

Resilient growth, but prices, geopolitics complicate outlook

While the US economy rebounded in 1Q26 (following a shutdown-distorted 0.5% increase in 4Q25 with a -16.6%, -1.2ppts collapse in federal spending), the expansion was revised lower to 1.6% q/q SAAR (prelim. est. 2.0%). The 1Q rebound partly reflected a mechanical payback in government spending (9.5%, 0.6ppt), alongside robust private-sector momentum, led by non-residential investment, which surged 10.1% (1.4ppts), driven overwhelmingly by AI-related equipment, software, and data-centre capex. Private consumption remained resilient but moderated, rising by a revised 1.6% (1.0ppt), from 1.9% in 4Q25, as higher fuel prices and sticky inflation weighed on discretionary goods spending, while services (especially healthcare) continued to provide support (1.8%). Real final sales to private domestic purchasers rose a firm 2.4% (4Q: 1.8%), reflecting still-healthy underlying domestic demand. In contrast, residential investment weakened further (-6.2%, -0.2ppts), extending its downturn amid elevated mortgage rates and affordability constraints. Net exports were a significant drag, subtracting around 1.3ppt from growth, as imports surged following temporary tariff relief and inventory restocking, overwhelming gains in exports.

The US economy remained resilient through early 2026, but also increasingly bifurcated, as higher-income households and corporates continue to benefit from tax policies, deregulation and strong equity-linked wealth effects, while AI-driven capex provides a structural tailwind. In contrast, lower-income households face mounting pressure from elevated inflation and spending challenges (i.e. higher energy bills act like a tax, reducing spending power, and therefore reduce demand). For 2026, we continue to expect positive but moderating growth of around 1.7% (2025: 2.1%), as AI-driven investments & related-productivity gains provide support amidst dissipating fiscal impulse, and increasingly constrained US consumer spending as the spike in energy costs risks could persist well into 2H. Higher crude oil prices is a double-edged sword for US: they will drive gasoline prices higher (as seen post-28 Feb) and thus, push up CPI inflation but at the same time, the US is a major energy exporter, and will benefit from higher crude prices (US exported record 5.6 million barrels a day in May). Despite these headwinds, our base case remains no US recession, though recession risk is still elevated (at 35%), reflecting the narrow nature of US growth with energy prices weighing on US consumers and businesses.

US jobs market extended its rebound into Apr as non-farm payrolls increased by 115,000, while unemployment rate stayed steady at 4.3%. Job openings jumped in Apr to the highest in nearly two years and layoffs fell, adding to signs the labor market remained resilient even as the gains were not broad-based. While labor market momentum seems broadly balanced in a low-hire-low-fire environment, weak consumer sentiment (record low in Apr) and declining real wages suggest weakness in the labor market may re-emerge later this year. We expect unemployment rate to edge higher to 4.5% for 2026. As for inflation, Apr CPI rose 0.6% m/m or 3.8% y/y (fastest since May 2023), exceeding expectations, driven largely by a spike in energy prices amid Middle East tensions. Core CPI also came in stronger at 0.4% m/m or 2.8% y/y, reflecting firmer shelter costs and broadening services inflation. US wholesale (PPI) inflation also accelerated in Apr, to 6% y/y, the fastest pace since 2022, adding to inflation concerns. We have revised our inflation forecasts for 2026 higher (headline CPI at 3.7%, core CPI at 3.0% before easing closer to 2% in 2027), to reflect persistent energy and services' upward pressures, and that upside risks remain heavily dependent on geopolitical developments—particularly oil prices—where escalation could push inflation significantly higher.

US tariff policy is shifting but remains entrenched. While the Supreme Court blocked Trump's IEEPA-based tariffs, the administration turned to Section 122 as a temporary bridge and has now used Section 301 investigations to propose new tariffs on key trading partners, as authorities prepare longer-term measures to "rebuild the tariff wall".

CENTRAL BANK

A prolonged pause in 2026 before resuming cuts in 2027

The Fed kept its current Fed Funds Target Rate (FFTR) unchanged in the range of 3.50-3.75% at its first three meetings of 2026, following three consecutive 25-bps reductions in late 2025. While we began the year with rate cut bias, market expectations have markedly shifted since the outbreak of the US-Iran war that drove energy costs higher. Various Fed officials have turned hawkish in their policy outlook, most recently Fed Governor Waller (who previously was seen as one of the more dovish Fed policymakers). We now expect an extended period of policy pause through 2026 before the Fed resumes easing in 2027 (with two rate cuts in late-2Q27 and late-4Q27). This represents a materially long pause even as we keep our view of an easing stance for Fed policy, reflecting our expectation that inflation pressures will only begin to taper meaningfully in 1H27. We note that interest rate policy can deal with demand shocks, but it cannot directly address the supply shocks (such as this war-induced oil price rise). However, if the war drags on and supply chain disruptions spread, shocks turn into persistent inflation, and inflation expectations are unanchored, then the Fed will face the difficult trade-off between containing inflation and supporting growth/employment.

FX TECHNICALS

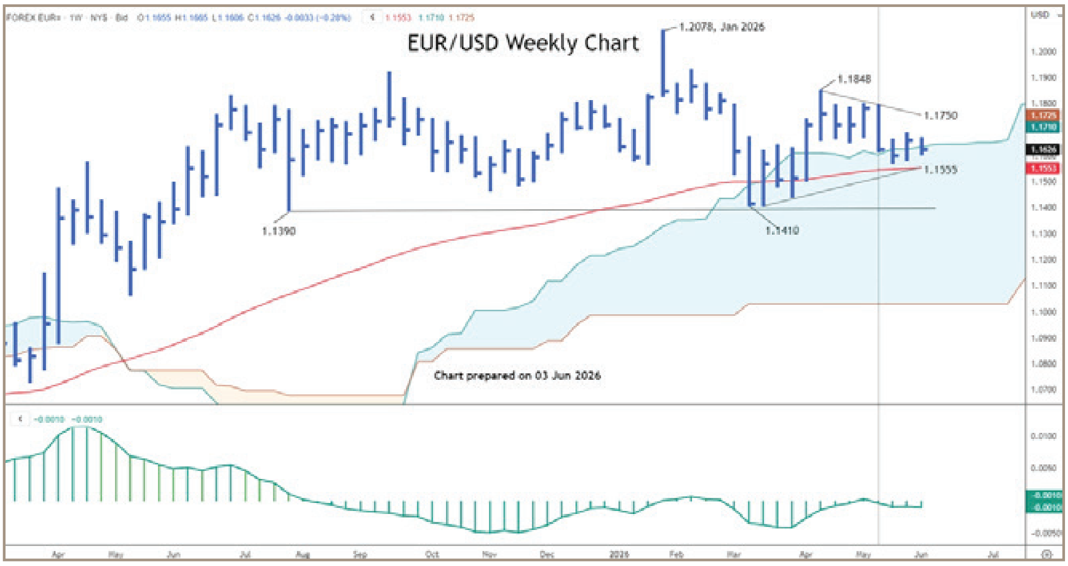
USD/SGD: 1.2785

The bias for USD/SGD appears to be tilted to the upside; any advance is expected to face significant resistance in the 1.2855/1.2890 zone.

USD/SGD rose to 1.2930 in late March and then fell and tested the 1.2660 support in early May, printing a low of 1.2653. While it has since rebounded from the low, it has not been able to make meaningful headway on the upside. That said, the bias for 3Q26 appears to be tilted to the upside, though any advance is expected to encounter significant resistance in the 1.2855/1.2890 zone. The declining trendline connecting the highs of 1.3095 and 1.2930 sits at 1.2855, while the 55-week EMA is currently at 1.2890. On the downside, a clear breach of the key support at 1.2660 would suggest that USD/SGD is more likely to settle into a range-trading phase rather than maintaining an upside bias.

EUR/USD: 1.1635

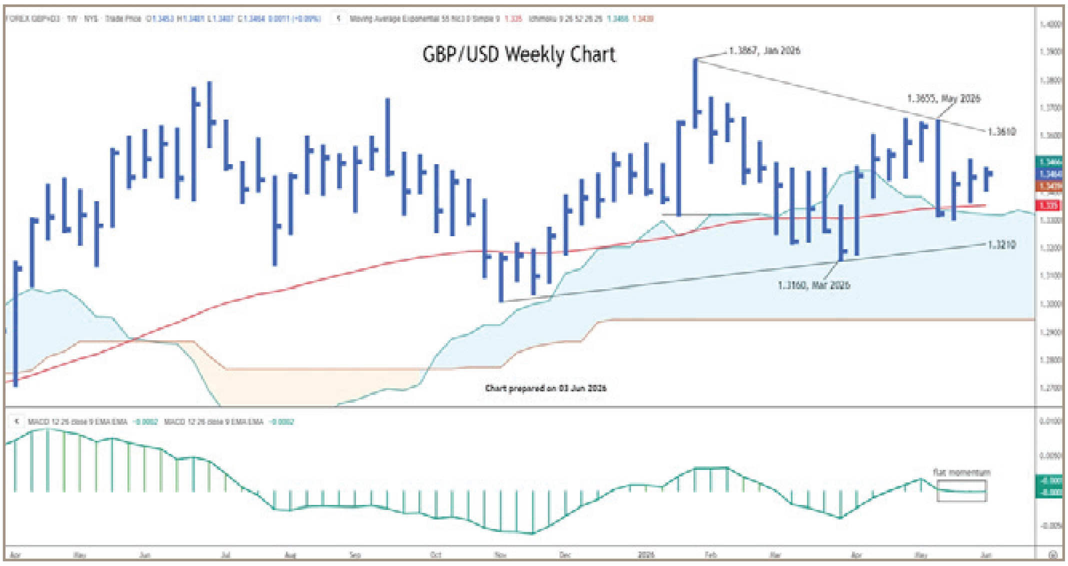
Price action in early 3Q26 could be contained within a 1.1555/1.1750 range; 1.1555 appears to be more vulnerable, and a break of this level could open the way for a move to the significant weekly support zone of 1.1390/1.1410.



While EUR/USD staged a sharp weekly decline in mid-May, there has been no significant follow-through as it subsequently traded mostly sideways. Heading into early 3Q, price action in EUR/USD is likely to be contained within a 1.1555/1.1750 range. However, given the soft underlying tone, the support at 1.5550 appears more vulnerable. A break below 1.1555 could open the way for a test of the significant weekly zone at 1.1390/1.1410.

GBP/USD: 1.3460

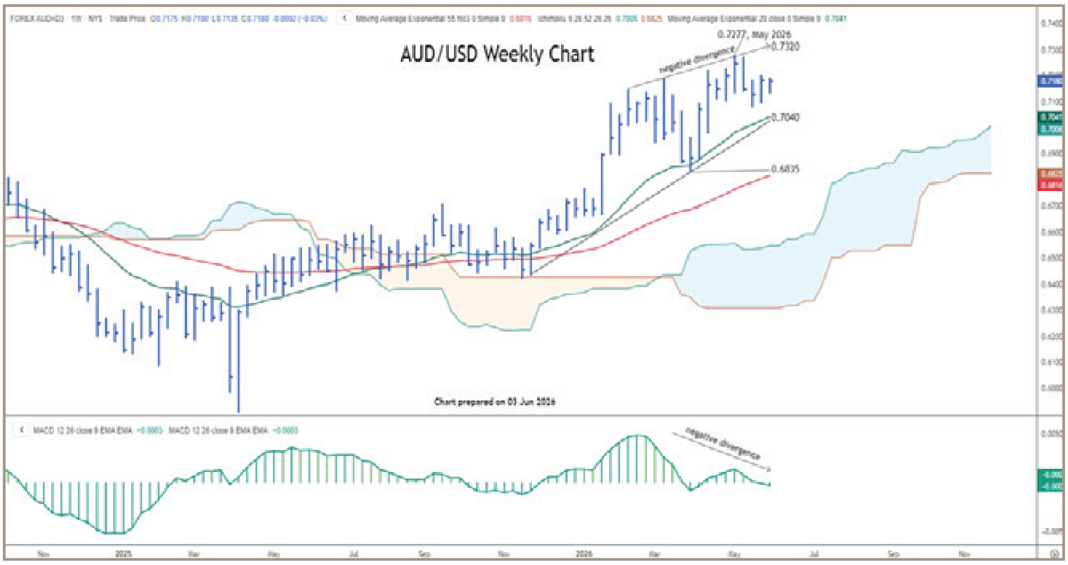
Momentum indicators are largely flat, and GBP/USD is likely to range-trade; supports are at 1.3210 and 1.3160, while resistances are at 1.3610 and 1.3655.



GBP/USD declined to a low of 1.3160 in late March before rebounding to 1.3653 in early May, only to pull back again. Momentum indicators are largely flat, suggesting that GBP/USD is likely to range-trade, at least in the early parts of 3Q. Support levels are at 1.3210 and 1.3160, while resistance levels are at 1.3610 and 1.3655.

AUD/USD: 0.7165

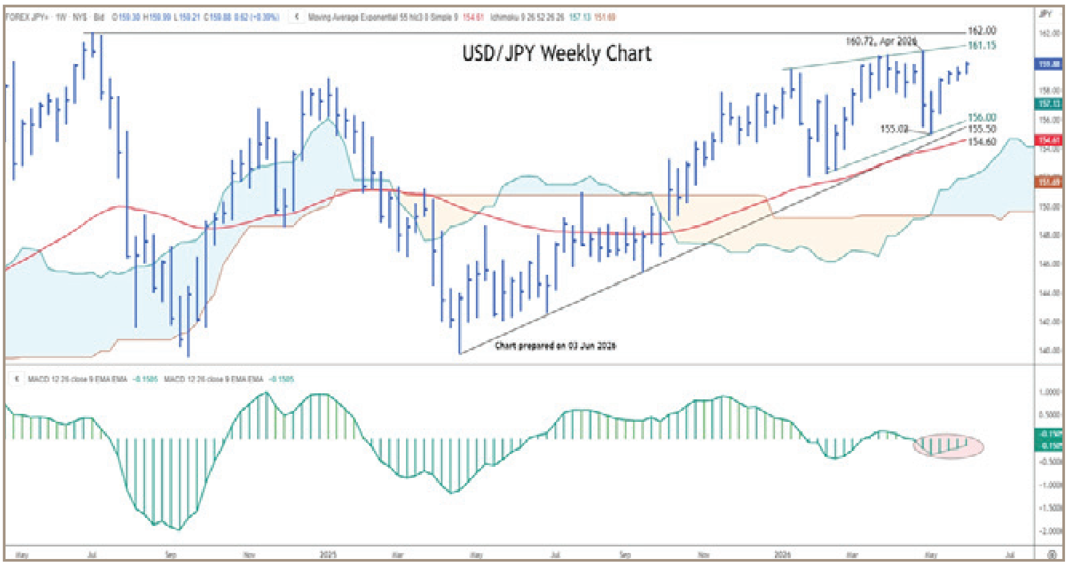
Risk for AUD/USD is tilted to the downside; the pace of any decline is likely to be gradual with significant support near 0.7040.



While AUD/USD rose to a two-year high in early May, it was unable to hold its gains, easing from a high of 0.7277. Despite the fresh high, negative divergence on the weekly MACD points to waning upside momentum. However, after the strong uptrend over the past year, it is premature to expect a significant reversal. Overall, the risk for AUD/USD is tilted to the downside, but the pace of any decline is likely to be gradual, with the rising trendline and the 21-week EMA (both are near 0.7040) expected to offer significant support. On the upside, resistance is at the 0.7277 high, followed by 0.7320.

USD/JPY: 159.90

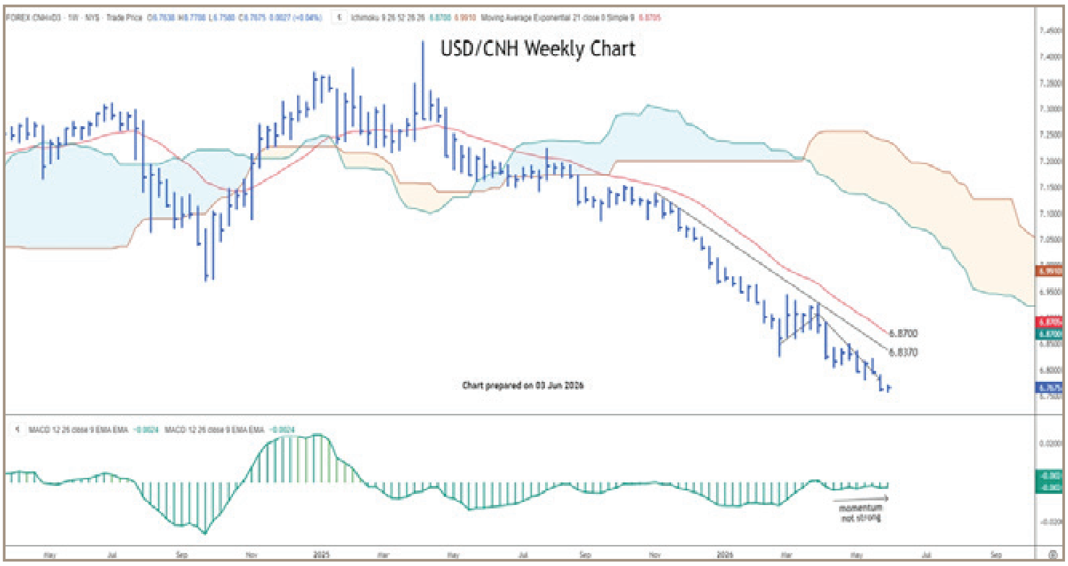
Despite lacklustre momentum, there is scope for USD/JPY to test the top of the rising wedge near 161.15.



USD/JPY rose to a high of 160.72 in late April before plunging to a low of 155.02. While USD/JPY has since rebounded, the weekly MACD remains in negative territory, indicating that upward momentum is lacklustre. However, there is scope for USD/JPY to test the top of what appears to be a rising wedge formation. The top of the wedge is now at 161.15. Based on the prevailing momentum, USD/JPY does not appear to have sufficient momentum to break the significant resistance at 162.00. On the downside, a cluster of strong support lies between 154.60 and 156.00.

USD/CNH: 6.7580

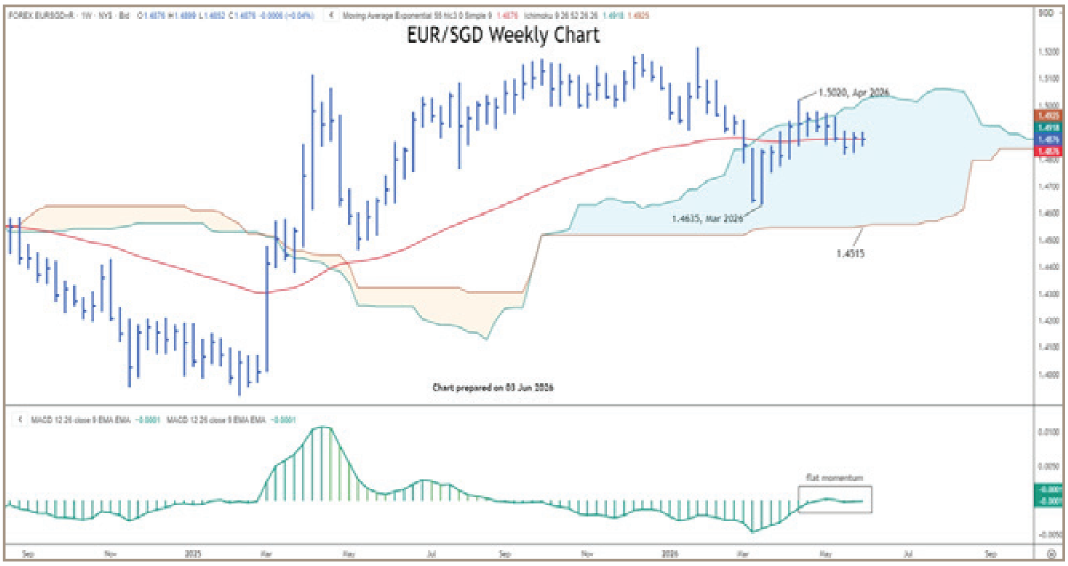
USD/CNH is likely to continue grinding lower; it remains to be seen whether it can reach the 2023 low of 6.6980



The downtrend from September last year remains in place, with USD/CNH drifting lower in a gradual but unrelenting fashion. Notably, the recovery attempt in March this year faltered and gave way to renewed weakness. Over the coming months, as long as USD/CNH holds below the 21-week EMA (now at 6.8700), it is likely to continue grinding lower. In the near-term, 6.8370 already serves as a firm resistance level. That said, whether any further decline can reach the 2023 low of 6.6980 remains to be seen.

EUR/SGD: 1.4880

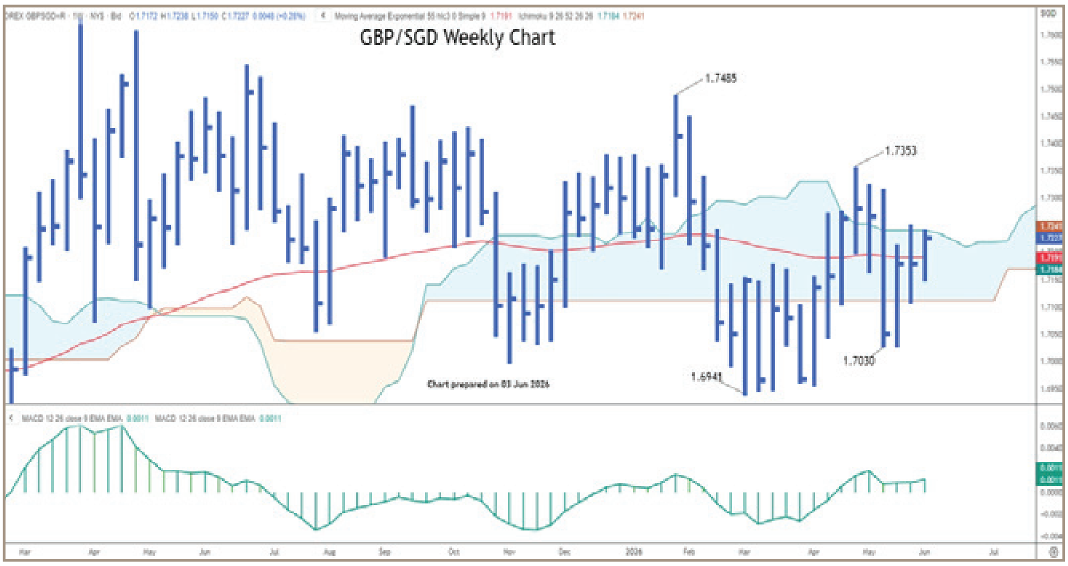
EUR/SGD is likely to trade in a range, with support at 1.4635 and resistance at 1.5020.



EUR/SGD fell sharply and entered the weekly Ichimoku cloud in mid-March, printing a low of 1.4635. Despite rebounding strongly from the low, the flat weekly MACD suggests lacklustre upward momentum. The sideways-moving 55-week EMA also suggests lacklustre momentum. Over the next couple of months, EUR/SGD is likely to trade in a range, with support at 1.4635 and resistance at 1.5020.

GBP/SGD: 1.7225

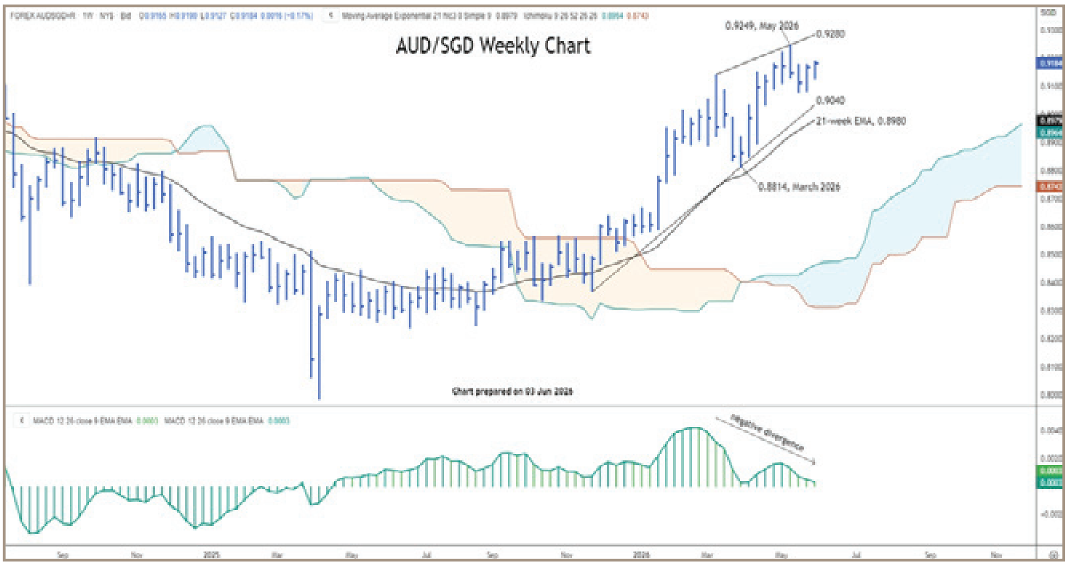
There is no clear directional bias; GBP/SGD is likely to trade within the year-to-date range of 1.6941/1.7485.



GBP/SGD broke below the base of the weekly Ichimoku and fell to a low of 1.6941 in early March. However, GBP/SGD was unable to sustain its decline, rebounding back above the top of the weekly cloud. The 55-week EMA has been moving mostly sideways, indicating no clear directional bias for now. Over the coming months, GBP/SGD is likely to trade within its year-to-date range of 1.6941/1.7485. In the near-term, support is at 1.7030, while resistance is at 1.7353.

AUD/SGD: 0.9185

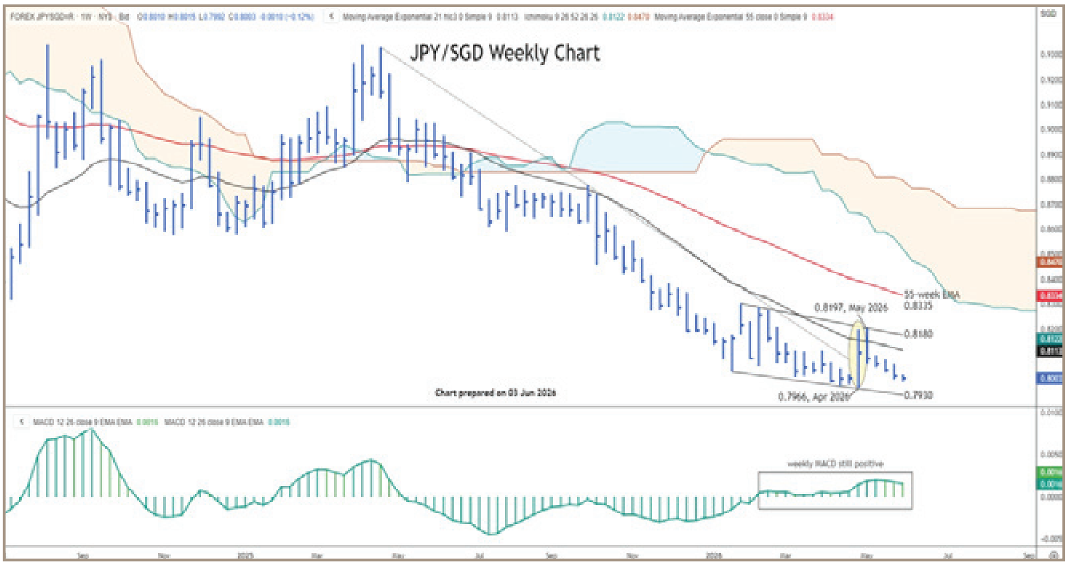
Despite clear negative divergence, there is scope for AUD/SGD to test 0.9280 before the risk of a pullback increases.



AUD/SGD pulled back to a low of 0.8814 in late March before resuming its uptrend, printing a high of 0.9249 in mid-May. Despite the fresh highs, a clear negative divergence on the weekly MACD points to waning upward momentum. However, as long as the rising trendline, currently at 0.9040, remains intact, there is scope for AUD/SGD to test 0.9280 before the risk of another pullback increases. Given the waning momentum, a continued advance beyond 0.9280 is unlikely. Conversely, a breach of the trendline would raise the risk of a break below the 21-week EMA, which AUD/SGD has held above since early this year.

JPY/SGD: 0.8000

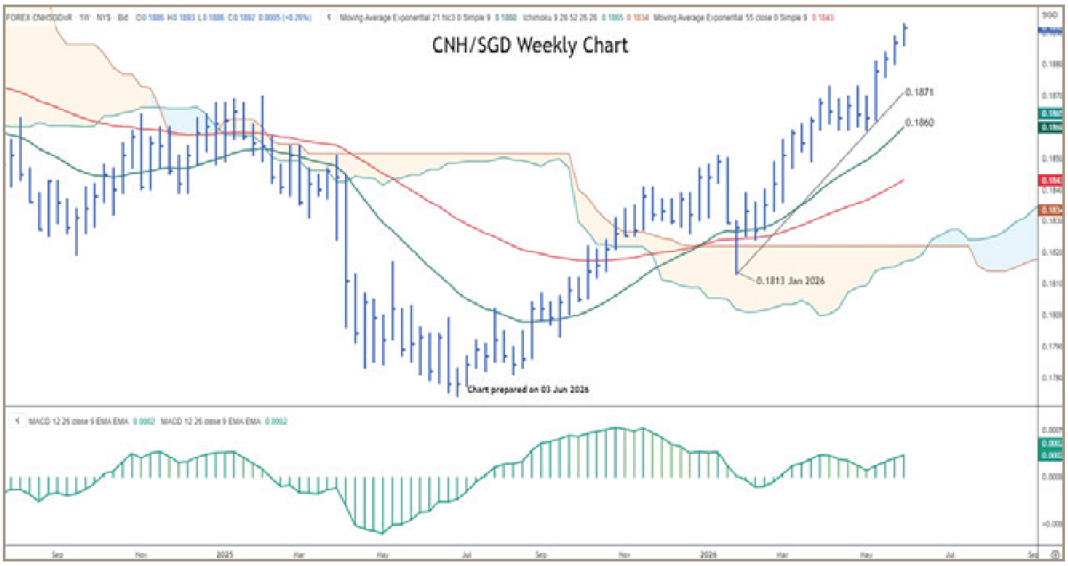
Positive weekly MACD suggests JPY/SGD is unlikely to break below the base of the falling wedge, now at 0.7930.



JPY/SGD edged to a low of 0.7966 in late April before surging sharply. While the sharp rally cleared both the descending weekly trend-line and the 21-week EMA, the advance was capped by what appears to be the top of the falling wedge formation. JPY/SGD has since pulled back from the top of the wedge and is edging lower toward its base, currently at 0.7930. With the weekly MACD still in positive territory, a break below 0.7930 appears unlikely. The 0.7966 low is expected to offer support as well. On the upside, the top of the wedge is now at 0.8180, while the long-term key resistance is at the 55-week EMA, which is some distance higher at 0.8335.

CNH/SGD: 0.1892

CNH/SGD could continue to rise toward 0.1900.

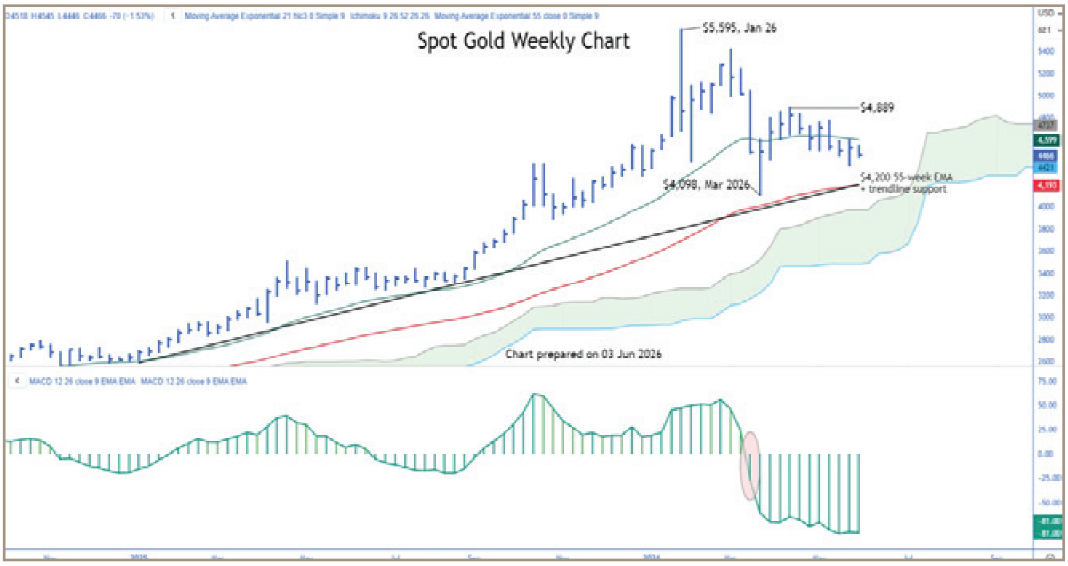


After dropping to a low of 0.1813 in January, CNH/SGD has staged a strong uptrend. While conditions are overbought, upward momentum remains strong, and CNH/SGD could continue to rise toward 0.1900. To keep the momentum going, CNH/SGD must not break below the trendline support, now at 0.1871.

COMMODITIES TECHNICALS

Spot Gold
$4,466/oz

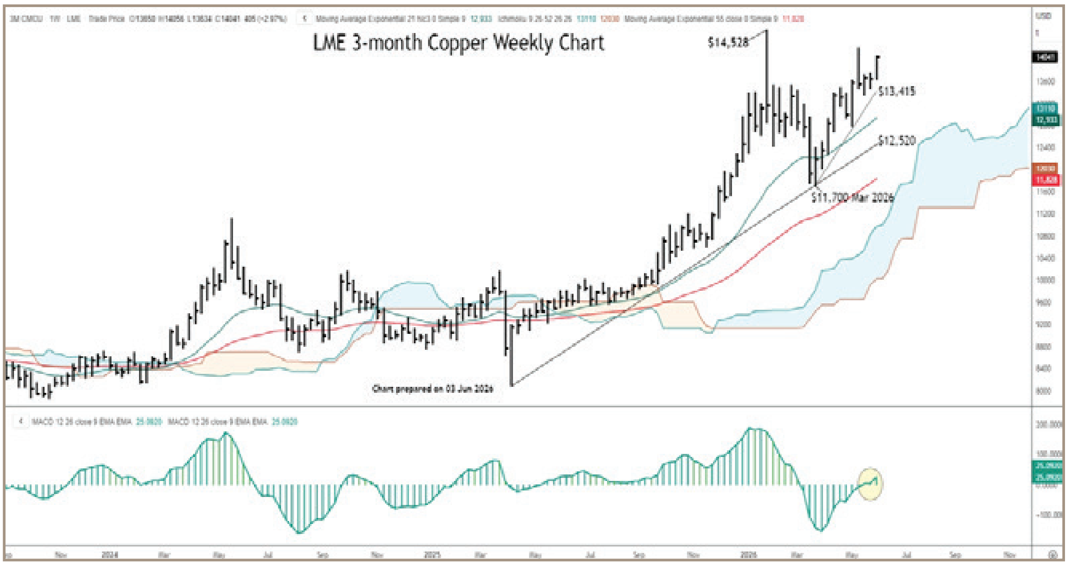
Spot gold could edge lower but is unlikely to breach the key weekly support near $4,200.



Spot gold plunged sharply, but briefly, to a low of $4,098 in late March before rebounding to a high of $4,889. While spot gold has since eased from the high, the decline has been choppy. Although downward momentum is not strong, gold could continue to edge lower. Based on prevailing downward momentum, any decline is unlikely to breach the key weekly support at $4,200. The ascending weekly trendline and the 55-week EMA are both clustered around $4,200. Over the coming few months, any recovery is likely to encounter significant resistance at the $4,889 high.

LME 3-mth Copper
$14,040/mt

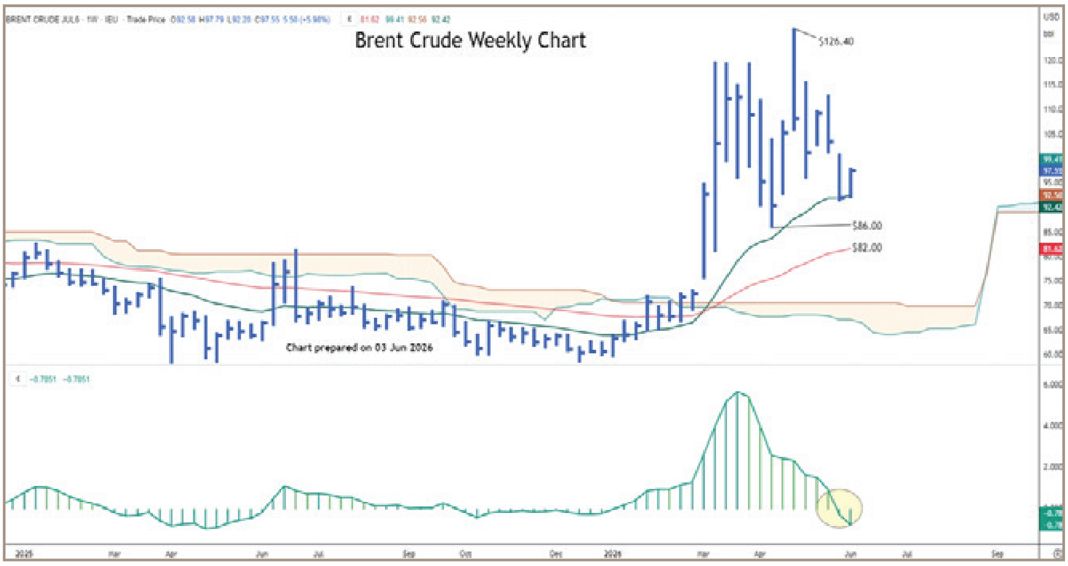
Copper appears to have resumed its uptrend, but it is premature to expect a move beyond the January high of $14,528.



The 3-month LME copper contract pulled back sharply to a low of $11,700 in March. While the strong recovery from the low suggested that copper has resumed its uptrend, the weekly MACD has only recently crossed into positive territory, indicating that upward momentum is still in the early stages of building. In other words, a sustained advance above the January high of $14,528 appears premature. On the downside, copper must hold above $13,415 to sustain the nascent build-up in momentum.

Brent Crude
$97.50/bbl

Brent is likely to stay volatile, but it is unlikely to revisit the $126.40 high.



Brent crude lifted off in early March and rallied sharply. However, after briefly touching a high of $126.40 in April, Brent fell sharply, and the price action has remained volatile. Over the coming months, Brent is likely to stay volatile. That said, with the weekly MACD having crossed into negative territory, a retest of the $126.40 high appears unlikely. On the downside, strong support is seen at $86.00 and $82.00.

GLOSSARY

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

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