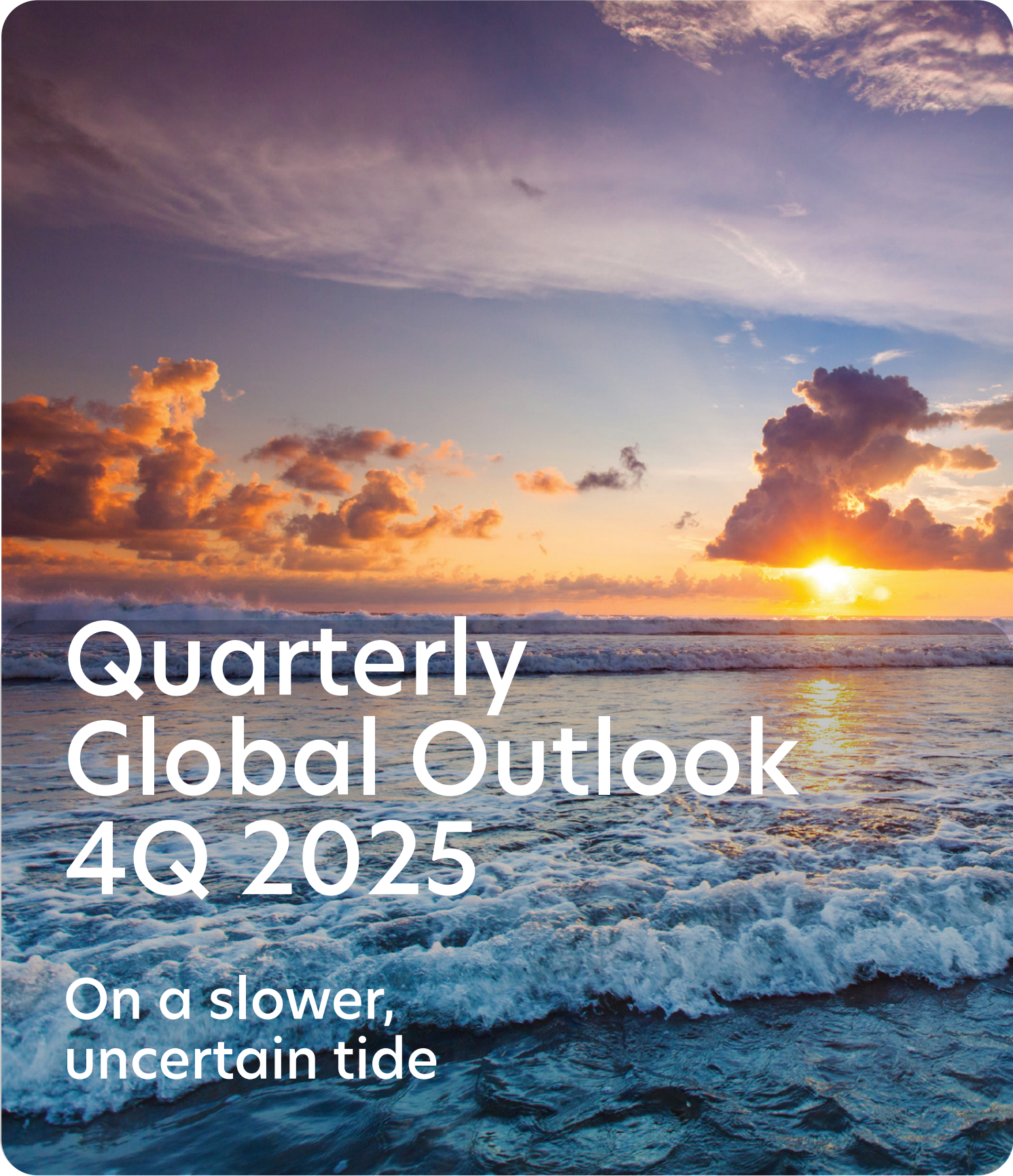




Quarterly Global Outlook 4Q 2025

On a slower,
uncertain tide



Right By You

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EXECUTIVE SUMMARY

On a slower, uncertain tide

"You shouldn't trust the storyteller. Only trust the story."

- Neil Gaiman

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

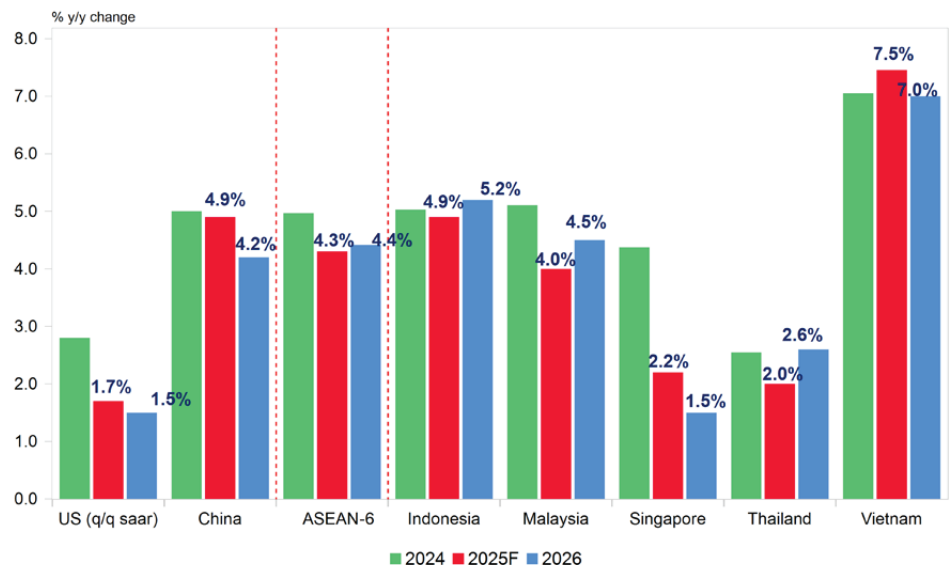
In the face of the most significant US tariffs in nearly a century, we were surprised by the resilience of the macro-economy. Based on the GDP data available across developed economies and Asia so far, the growth outcomes for 2Q25 – and by extension, 1H25 – have generally exceeded expectations. A significant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

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

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

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

Source: Macrobond, UOB Global Economics & Markets Research





The biggest trade deal that is yet to reach the table is between the US and China which has seen the pause extended to Nov. We think that the eventual tariff rate for China will settle between 30% and 60%, but a feature that was in many of the trade deals, the additional investment “commitments”, will be complex to impose in the case of China.

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

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

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

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

US Immigration policy shifts and labor market impact

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

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



And while Powell did caveat his temporary inflation view with the other possibilities, the writing on the wall is quite clear that the resumption of Fed easing rates will likely start in Sep FOMC.

Losing Fed's independence

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

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

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

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

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

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



FX STRATEGY

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

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

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

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

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

As global trade tensions continue to ease, the tail risks for Asian currencies are also diminishing. Looking ahead, we expect broad-based USD weakness to re-emerge as the Fed resumes its rate-cutting cycle, guiding USD/Asia lower in the coming quarters.



RATES STRATEGY

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

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

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

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

SG Rates: How low can Sora go?

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

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

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



COMMODITIES STRATEGY

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

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

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

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

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

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

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

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



Global FX

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

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

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

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

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

Asian FX

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

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

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

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

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



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

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

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

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

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

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



FORECAST

Real GDP growth trajectory

y/y% change	2024	2025F	2026F	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25F	4Q25F
China	5.0	4.9	4.2	5.3	4.7	4.6	5.4	5.4	5.2	4.7	4.4
Hong Kong	2.5	2.8	2.0	2.8	3.0	1.9	2.5	3.0	3.1	2.9	2.2
India (FY)	9.2	6.5	6.9	9.7	9.3	9.5	8.4	6.5	5.6	6.4	7.4
Indonesia	5.0	4.9	5.2	5.1	5.1	5.0	5.0	4.9	5.1	4.9	4.8
Japan	0.1	1.2	1.3	-0.8	-0.7	0.8	1.2	1.8	1.2	0.9	0.9
Malaysia	5.1	4.0	4.5	4.2	5.9	5.4	4.9	4.4	4.4	3.6	3.7
Philippines	5.7	5.3	5.7	5.9	6.5	5.2	5.3	5.4	5.5	5.2	5.0
Singapore	4.4	2.2	1.5	3.2	3.4	5.7	5.0	4.1	4.4	0.8	-0.1
South Korea	2.0	1.0	1.7	3.4	2.2	1.4	1.1	0.0	0.6	1.5	1.9
Taiwan	4.8	5.4	3.0	6.6	4.9	4.2	3.8	5.5	8.0	4.7	4.2
Thailand	2.5	2.0	1.8	1.7	2.3	3.0	3.3	3.2	2.8	1.4	0.7
Vietnam	7.1	7.5	7.0	6.0	7.2	7.4	7.6	7.0	8.0	7.6	7.2
Australia	1.1	1.7	2.2	1.1	1.0	0.8	1.3	1.4	1.8	1.8	1.8
Eurozone	0.7	1.1	0.9	0.4	0.5	1.0	1.3	1.5	1.4	0.8	0.7
New Zealand	-0.5	1.1	2.3	1.3	-0.5	-1.6	-1.3	-0.7	0.5	2.2	2.2
United Kingdom	1.1	1.1	1.0	0.3	1.1	1.2	1.5	1.3	1.2	1.0	1.1
United States (q/q SAAR)	2.8	1.7	1.5	1.6	3.0	3.1	2.4	-0.5	3.3	0.9	1.7

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



FORECAST

FX, interest rate & commodities

FX	05 Sep	4Q25F	1Q26F	2Q26F	3Q26F
USD/JPY	148	144	142	140	138
EUR/USD	1.17	1.19	1.20	1.21	1.22
GBP/USD	1.35	1.37	1.39	1.40	1.40
AUD/USD	0.65	0.66	0.67	0.68	0.69
NZD/USD	0.59	0.59	0.60	0.61	0.61
DXY	98.2	96.3	95.3	94.6	93.9

USD/CNY	7.14	7.11	7.08	7.05	7.02
USD/HKD	7.80	7.80	7.80	7.80	7.80
USD/TWD	30.7	30.3	30.0	29.7	29.5
USD/KRW	1,392	1,370	1,350	1,330	1,310
USD/PHP	56.9	56.8	56.5	56.2	56.0

USD/MYR	4.23	4.20	4.17	4.15	4.12
USD/IDR	16,420	16,500	16,400	16,300	16,300
USD/THB	32.3	32.1	31.9	31.7	31.5
USD/VND	26,386	26,300	26,200	26,100	26,000
USD/INR	88.2	88.2	87.8	87.4	87.0

USD/SGD	1.29	1.29	1.28	1.27	1.27
EUR/SGD	1.50	1.54	1.54	1.54	1.55
GBP/SGD	1.73	1.77	1.78	1.78	1.78
AUD/SGD	0.84	0.85	0.86	0.86	0.88
SGD/MYR	3.28	3.26	3.26	3.27	3.24
SGD/CNY	5.54	5.51	5.53	5.55	5.53
JPY/SGDx100	0.87	0.90	0.90	0.91	0.92

POLICY RATES	05 Sep	4Q25F	1Q26F	2Q26F	3Q26F
US Fed Fund Rate	4.50	3.75	3.75	3.50	3.25
JPY Policy Rate	0.50	0.75	0.75	0.75	1.00
EUR Refinancing Rate	2.15	1.65	1.65	1.65	1.65
GBP Repo Rate	4.00	3.75	3.50	3.25	3.00
AUD Official Cash Rate	3.60	3.35	3.10	3.10	3.10
NZD Official Cash Rate	3.00	2.75	2.50	2.50	2.50

CNY 1Y Loan Prime Rate	3.00	2.90	2.90	2.90	2.90
HKD Base Rate	4.75	4.00	4.00	3.75	3.50
TWD Official Discount Rate	2.00	2.00	1.88	1.88	1.88
KRW Base Rate	2.50	2.25	2.00	2.00	2.00
PHP O/N Reverse Repo	5.00	4.75	4.75	4.75	4.75
MYR O/N Policy Rate	2.75	2.50	2.50	2.50	2.50
IDR 7D Reverse Repo	5.00	4.75	4.75	4.75	4.75
THB 1D Repo	1.50	1.25	1.00	1.00	1.00
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	5.50	5.50	5.50	5.50	5.50

INTEREST RATES	05 Sep	4Q25F	1Q26F	2Q26F	3Q26F
USD 3M SOFR (compounded)	4.36	3.82	3.68	3.44	3.20
SGD 3M SORA (compounded)	1.53	1.28	1.26	1.24	1.29
US 10Y Treasuries Yield	4.15	4.10	4.00	4.00	4.10
SGD 10Y SGS	1.83	1.90	1.85	2.10	2.30

COMMODITIES	05 Sep	4Q25F	1Q26F	2Q26F	3Q26F
Gold (USD/oz)	3,555	3,700	3,800	3,900	4,000
Brent Crude Oil (USD/bbl)	67	70	65	60	60
LME Copper (USD/mt)	9,898	10,000	9,500	9,000	9,000

Source: UOB Global Economics & Markets Research Estimates



KEY EVENTS

4Q 2025

OCTOBER

01 Thailand

Vitai Ratanakorn will assume office as BOT Governor, with a five-year term.

10 Malaysia

The tabling of Budget 2026 in Parliament focuses on two main thrusts: "Raise the Ceiling" to boost the economy & national wealth, and "Raise the Floor" to enhance wellbeing.

23-24 Europe

European Council Meeting - key agenda will include Competitiveness & Twin Transition (green & digital); Housing affordability; Migration policy; and EU's global role amid geopolitical tensions.

25-26 ASEAN

The ASEAN Business and Investment Summit (ABIS), themed "Unifying Markets for Shared Prosperity, will be held in Kuala Lumpur with over 1,000 global leaders and CEOs expected to attend the event.

26-28 ASEAN

The 47th ASEAN Summit will be held in Kuala Lumpur, with some major agreements expected to be signed during the Summit. US President Trump is expected to attend.

Oct China

China will hold its Fourth Plenum to review proposals for the 15th five-year plan (FYP) for 2026-2030, covering the economic, social, and environmental development goals. The 15th FYP will be officially endorsed by the National People's Congress (NPC) in Mar 2026.

31 Oct - 01 Nov Global

The Asia-Pacific Economic Cooperation (APEC) Forum 2025 will be held in Gyeongju, South Korea - the first APEC meeting for US President Trump (in his second term), Canadian PM Carney and South Korean President Lee Jae-myung.

OCTOBER/NOVEMBER

Oct - Nov India

Bihar Legislative Assembly Elections - scheduled to fill all 243 seats. The current assembly term ends on 22 Nov 2025, but the new assembly must be in place before that.

09-10 Nov Global

CELAC-EU Summit - the leaders of the 27 European Union (EU) member states and the 33 countries of the Community of Latin American and Caribbean States (CELAC) will meet in Santa Marta, Colombia for the fourth CELAC-EU summit.

12-14 Singapore

Singapore FinTech Festival - designed to foster impactful connections and collaborations, SFF is a platform to explore the intersections of cutting-edge financial solutions, evolving regulatory landscapes, and the latest technological innovations.

20-21 Asia-Pacific

The Pacific Region Investment Conference 2025 will be held in Makati, Philippines. A platform for fiduciaries, institutional investors, and financial leaders to explore emerging investment trends, governance standards, and responsible financial stewardship.

26 UK

Autumn Budget 2025 - the government will present its fiscal plans, including details on spending, borrowing, and tax changes.

Nov US

The US Treasury Department will release its semiannual Report on "Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States" to the Congress. Read our previous coverage of this event [5 Jun 2025](#) and [14 Nov 2024](#).

DECEMBER

07 Hong Kong

Hong Kong to hold election for the 8th Legislative Council (LegCo), the second since the national security law and electoral changes in 2021.

18-19 Europe

European Council Meeting - while the official agenda has not been published yet, it is expected to be a key summit where EU leaders will gather in Brussels to discuss major policy issues and strategic priorities.

Dec China

The annual Central Economic Work Conference (CEWC) will discuss the economic work for 2026 with the economic targets to be announced at the NPC in Mar 2026.

Dec Philippines

Congress ratifies the final version of Budget 2026, to be signed into law by President Marcos Jr.



FX STRATEGY

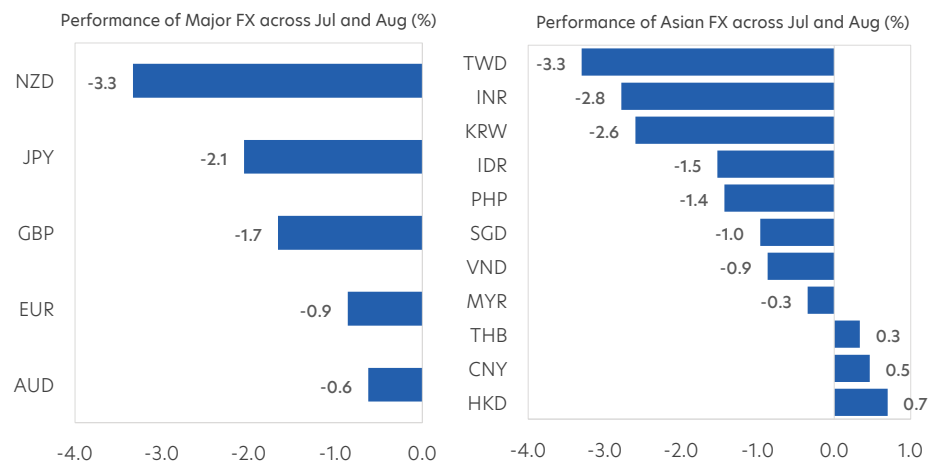
The next leg of USD decline is about to commence in line with anticipated Fed rate cut in Sep

Looking ahead, we maintain our view that the USD is likely to weaken in the coming quarters, in line with lower US interest rates, although the pace of depreciation may be more measured.

After a sharp 10.8% decline in the first half of 2025, the US Dollar Index (DXY) staged a modest recovery of 1.3% in 3Q25. This rebound came as market sensitivity to tariff-related headlines diminished, following the Trump administration's finalization of tariff rates – generally lower than those announced during Liberation Day – for most major economies. The previously crowded short-USD positioning began to unwind as the de-dollarization narrative lost momentum. Market focus shifted back to monetary policy, with Fed Chair Powell signaling a renewed path of rate cuts during the Jackson Hole Symposium, citing rising downside risks to the labor market. Looking ahead, we maintain our view that the USD is likely to weaken in the coming quarters, in line with lower US interest rates, although the pace of depreciation may be more measured.

Chart 1: Most Major and Asian FX slipped against the USD across Jul and Aug

Source: Bloomberg, UOB Global Economics & Markets Research



Looking ahead, the key question is whether this bout of weakness will persist, or if a renewed phase of broad USD softness will take hold as the Fed resumes its rate-cutting cycle.

Most Asian FX weakened against the USD in 3Q25, giving back part of their year-to-date gains as markets digested the economic implications of the country-specific tariffs announced in early Aug. This regional FX performance was in line with our cautious outlook on Asian currencies during the quarter. Looking ahead, the key question is whether this bout of weakness will persist, or if a renewed phase of broad USD softness will take hold as the Fed resumes its rate-cutting cycle.



Major FX Strategy

Resumption of Fed rate cuts likely to pressure USD lower

The recently concluded Jackson Hole Symposium may have provided a catalyst for renewed USD weakness after consolidating across Jul and Aug. Market attention has shifted back to monetary policy after Fed Chair Powell acknowledged that the “shifting balance of risks may warrant adjusting policy stance,” signaling a potential resumption of rate cuts after a nine-month pause. Fed Funds futures now reflect over an 80% probability of a 25-bps cut at the upcoming Sep FOMC meeting, with a total of 55 bps in reductions priced in by year-end.

As the Fed embarks on its next phase of monetary accommodation, it is likely to appear more dovish relative to its G-10 counterparts, many of whom are nearing the end of their respective easing cycles. This divergence should lead to a further narrowing of USD interest rate differentials against major FX peers, reinforcing downward pressure on the USD.

We maintain a more dovish outlook than the market consensus, expecting 3 x 25 bps cuts this year, at the remaining Sep, Oct and Dec FOMC. This view is primarily driven by increasing downside risks to growth and employment. The growing dovish sentiment within the Fed, coupled with political pressure from the Trump administration to lower rates, may introduce an asymmetric bias in interpreting economic data in favor of easing. As the Fed embarks on its next phase of monetary accommodation, it is likely to appear more dovish relative to its G-10 counterparts, many of whom are nearing the end of their respective easing cycles. This divergence should lead to a further narrowing of USD interest rate differentials against major FX peers, reinforcing downward pressure on the USD.

Chart 2: DXY is still expected to weaken anew, albeit at the more moderate pace

Source: Macrobond, UOB Global Economics & Markets Research



Ahead of the Sep FOMC, the Aug US labor market report will be closely watched. A second consecutive downside surprise in payrolls could solidify the case for a rate cut and may trigger another leg lower in the DXY. Notably, short-USD positioning has normalized following the late-Jul short squeeze, creating conditions for a more sustainable and gradual decline in the DXY. Overall, our revised DXY forecasts are 96.3 by end-2025 and 93.9 by 3Q26, down from 97.8 as of 2 Sep.

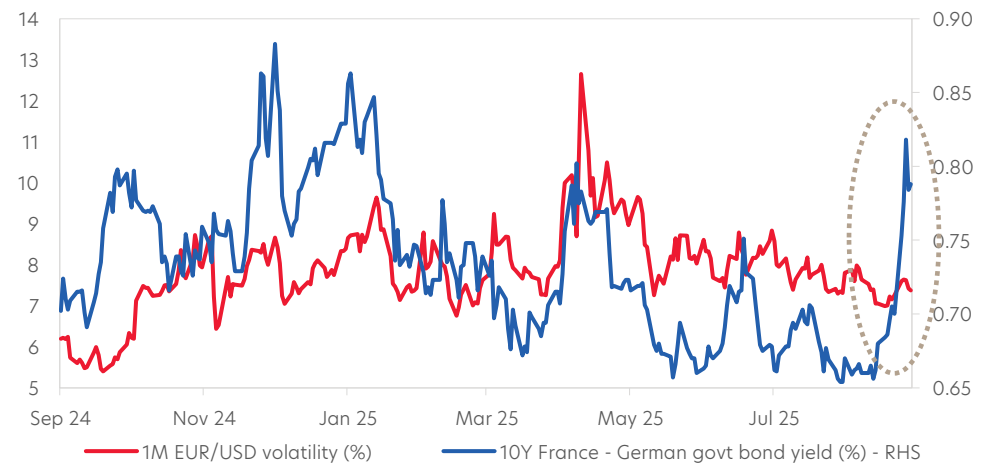
EUR/USD's recent rally has lost momentum, as political uncertainty in France – stemming from a deadlock over proposed budget cuts – raises concerns about a potential government collapse. This anxiety is reflected in the widening spread between French and German 10-year bond yields, which surged past 80 bps in late Aug, marking the highest level since Jan. Despite these developments, we view the current French political turmoil as likely contained – a “storm in a teacup” – rather than a broader systemic risk. This is supported by the muted 1-month EUR/USD volatility, as well as low and benign credit default swap (CDS) spreads in general for Eurozone countries, suggesting limited market contagion for now.



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

Chart 3: While French yields widened relative to German's, subdued FX volatility suggests French political crisis may not spillover to the EUR

Source: Bloomberg, UOB Global Economics & Markets Research



For now, we maintain a modestly constructive view on GBP/USD, as anticipated Fed rate cuts continue to weigh on the USD.

Although GBP/USD declined by 1.7% in 3Q25, the currency pair is still expected to find support from widening GBP-USD yield differentials, which have reached a five-month high. This follows the Bank of England's (BOE) hawkish rate cut in Aug, where four policymakers dissented against the move, signaling underlying caution over persistent inflation. Concerns over the UK's fiscal outlook have also driven 30-year gilt yields above 5.6% - the highest level since 1998. The upcoming autumn budget, expected in late Oct or early Nov, will be closely monitored for any potential impact on market sentiment and the GBP. Domestic news headlines suggesting an alarming IMF bailout for the UK next year, are viewed as "tabloid" news for now unless the UK government could not contain the fiscal issues. For now, we maintain a modestly constructive view on GBP/USD, as anticipated Fed rate cuts continue to weigh on the USD. Our latest projections for GBP/USD are 1.37 in 4Q25, 1.39 in 1Q26, and 1.40 in both 2Q26 and 3Q26.

Chart 4: The divergence of USD/JPY and its rate spread is unlikely to persist

Source: Bloomberg, UOB Global Economics & Markets Research





USD/JPY has shown a notable divergence from the 10-year USD-JPY yield differential through Jul and Aug. The rate spread dropped to its lowest level in three years, driven by a 20-bps rise in Japan's 10-year government bond yield, which climbed to 1.6% - its highest level since 2008 - amid growing concerns over Japan's fiscal expansion. USD/JPY rose from 144 to 147 in the same period, taking guidance from the broad USD rebound in the quarter and the disappointing Bank of Japan (BOJ) meeting in Jul which offered no clear guidance on the timing of the next rate hike.

Going forward, we expect USD/JPY to converge lower with the falling rate spread as Fed rate cut expectations drive another leg lower in US yields together with renewed USD weakness. At the same time, our forecast for a 25-bps BOJ rate hike in 4Q25 could ignite demand for the JPY.

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

Among G-10 currencies, the AUD posted one of the smallest declines against the USD, slipping just 0.6% over Jul and Aug. This resilience was partly supported by stronger-than-expected monthly inflation in Jul, which rose 2.8% y/y, approaching the upper bound of the Reserve Bank of Australia's (RBA) 2-3% target range. The data reinforces the RBA's cautious stance on rate cuts and we now only expect two more 25 bps rate cuts - instead of three previously. A less dovish RBA translates to more support for the AUD amidst a backdrop of broader USD weakness. Our updated AUD/USD forecasts are 0.66 in 4Q25, 0.67 in 1Q26, 0.68 in 2Q26 and 0.69 in 3Q26.

Asian FX Strategy

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

As anticipated, most Asian currencies weakened against the USD during Jul and Aug, as markets reassessed the implications of a structurally higher tariff environment. The expectation that elevated tariffs could dampen export growth and slow regional economic momentum prompted some profit-taking after strong Asian FX gains in the first half of the year.

With tariff rates now finalized for most economies, investor attention is shifting to potential sector-specific tariffs - particularly on semiconductor chips, pharmaceuticals and automotive sector - and the outcome of ongoing US-China trade negotiations, both of which could significantly influence sentiment toward Asian FX.

The recent three-month extension of the US-China tariff truce through Nov raises hopes for a broader trade agreement. Our base case remains a trade deal by end-2025. Such an outcome would likely help stabilize and support Asian currencies. However, if negotiations break down, regional FX could face renewed volatility, potentially echoing the sharp market reactions seen after the Liberation Day tariff announcement in Apr.

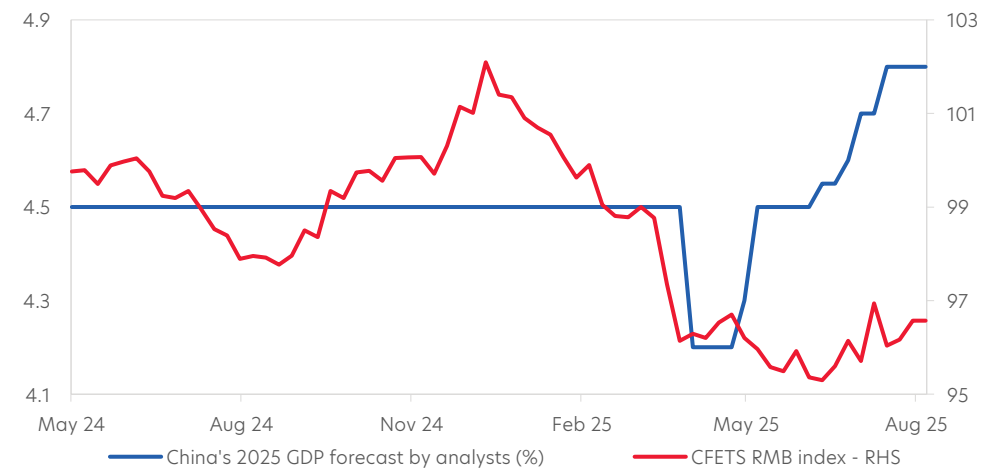
As global trade tensions continue to ease, the tail risks for Asian currencies are also diminishing. Looking ahead, we expect broad-based USD weakness to re-emerge as the Fed resumes its rate-cutting cycle, guiding USD/Asia lower in the coming quarters.

As global trade tensions continue to ease, the tail risks for Asian currencies are also diminishing. Looking ahead, we expect broad-based USD weakness to re-emerge as the Fed resumes its rate-cutting cycle, guiding USD/Asia lower in the coming quarters. However, the pace of depreciation may be modest, as Asia's challenging growth outlook and the dovish stance of regional central banks could temper investor sentiment toward Asian FX.



Chart 5: A brighter China's 2025 GDP outlook across Jul and Aug spurred a recovery in the CFETS RMB index

Source: Bloomberg, UOB Global Economics & Markets Research



The CNY demonstrated remarkable resilience over the past two months, defying the broader regional pull-back in Asian currencies. This strength was supported by recent robust export growth despite trade headwinds which improved China's GDP outlook. Additionally, the PBOC's move to set the daily fixing at 7.1030/USD on 29 Aug – the strongest since last Nov – signaled a subtle shift in policy, suggesting a willingness to allow modest CNY appreciation to help stabilize sentiment and support the recovery in local equity markets. A firmer yuan may also play a constructive role in US-China trade negotiations, countering past accusations from the US that China was deliberately weakening its currency to boost exports.

We see further downside potential for USD/CNY, driven by expectations of a US-China trade agreement by end-2025 and continued USD weakness as the Fed cuts rates. However, the pace of decline may be limited by the PBOC's daily fixing rate, especially if concerns over China's growth persist and the central bank maintains its "moderately loose" monetary policy stance.

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

The KRW appears to be finding some support across Aug after the new government of President Lee Jae Myung is now in place. Domestic sentiment has recovered as President Lee wasted no time to rebuild trade ties with Japan and China, both key trading partners of South Korea. President Lee's recent trip to Washington was also widely viewed as a success. Going forward, potentially more fiscal stimulus as well as further modest rate cuts from Bank of Korea (BOK) in early 2026 may build on the growth recovery. As such, we see USD/KRW being capped at 1,400 and forecasts will gradually drop to 1,370 in 4Q25, 1,350 in 1Q26, 1,330 in 2Q26 and 1,310 in 3Q26.

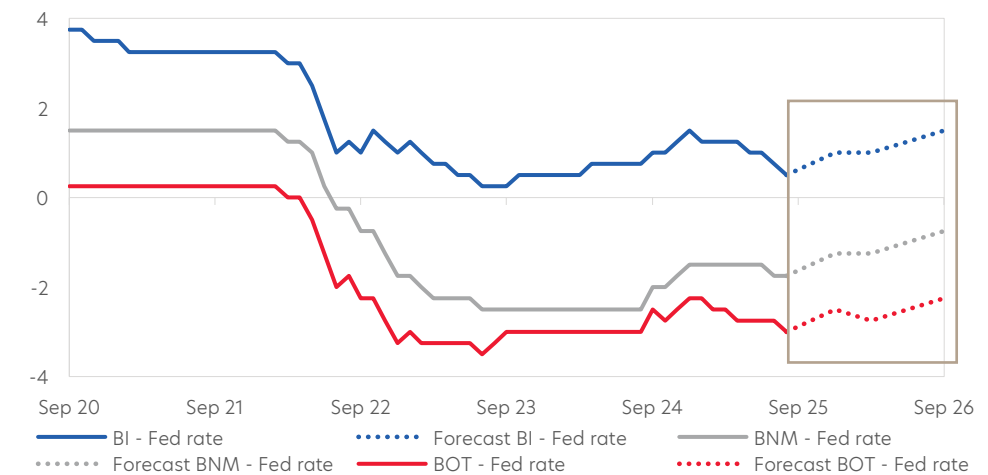
USD/SGD appears to be finding some support around the 1.28 level over the past two months, following a year-long decline from 1.36 at the start of the year. After rebounding from a decade-low of around 1.27 in early Jul, the pair has been consolidating above 1.28 throughout Aug. This price action reinforces our view that the S\$NEER likely peaked in Jun and has been gradually trending lower since.

Our macroeconomic team continues to expect the Monetary Authority of Singapore (MAS) to ease monetary policy, potentially shifting to a zero-appreciation stance for the S\$NEER in the Oct 2025 MPS (or Jan 2026 MPS). Such a move could serve as a catalyst for further S\$NEER depreciation. Consequently, even though the USD is projected to weaken again from 4Q25 due to anticipated Fed rate cuts, the SGD may underperform relative to regional peers. Accordingly, our revised USD/SGD forecasts are 1.29 in 4Q25, 1.28 in 1Q26, and 1.27 in both 2Q26 and 3Q26.



Chart 6: Rate differentials may narrow further in ASEAN FX favour as the Fed resumes rate cuts

Source: Bloomberg, UOB Global Economics & Markets Research



USD/MYR stabilized through Jul and Aug, following a nearly 6% decline in the first half of 2025. Rising concerns over a tariff-driven economic slowdown prompted some profit-taking on the MYR's strong year-to-date performance, with the 4.20 level emerging as a key support for the pair in the near term.

Looking ahead, we anticipate USD/MYR to resume its downward trajectory as the Fed begins its rate-cutting cycle in Sep, likely triggering broad-based USD weakness. On the domestic front, Malaysia's economic fundamentals remain resilient, supported by steady GDP growth, ongoing foreign direct investment inflows, and a sustained – though narrower – current account surplus.

Moreover, the interest rate differential between Malaysia and the US is expected to narrow from 175 basis points currently to 125 bps by end-2025—the smallest gap in three years – providing additional support for the MYR. Overall, our USD/MYR forecasts are 4.20 in 4Q25, 4.17 in 1Q26, 4.15 in 2Q26, and 4.12 in 3Q26.

The THB managed to clock a modest 0.3% gain against the USD across and Jul and Aug while maintaining a decent 5.3% year-to-date gain. The resilience in the THB is particularly noteworthy despite foreign investors pulling out from the local stock and bond markets in the same period amidst the ongoing political uncertainty. Thailand's on-going current account surplus is deemed as a supportive driver in times of elevated domestic uncertainty.

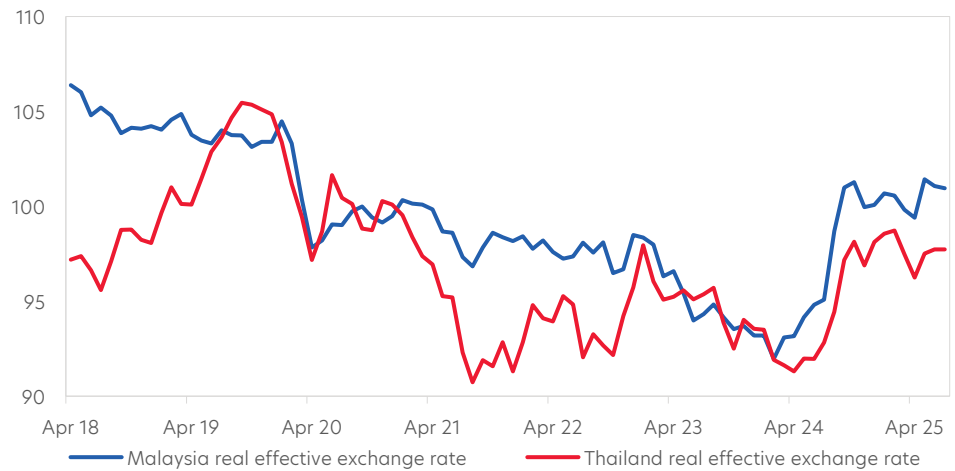
Looking ahead, we anticipate renewed USD weakness as the Fed resumes its rate-cutting cycle, which should support further downside in USD/THB. However, our expectations of a further 50 bps of rate cut from the Bank of Thailand's (BOT) through 1Q26, along with continued underperformance in the SET index,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

The interest rate differential between Malaysia and the US is expected to narrow from 175 basis points currently to 125 bps by end-2025—the smallest gap in three years – providing additional support for the MYR.



Chart 7: The MYR and THB have rebounded strongly in the past year; further gains likely to come at a more modest pace

Source: Bloomberg, UOB Global Economics & Markets Research



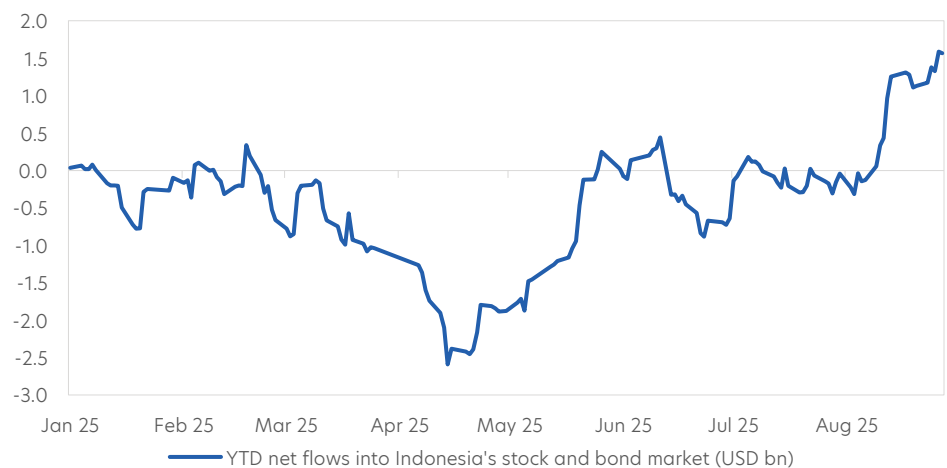
The IDR depreciated by 1.5% over the past two months, settling at 16,500 /USD as of 29 Aug. This decline was largely driven by consecutive rate cuts from Bank Indonesia (BI), which lowered the 7-day reverse repo rate to 5.0% - its lowest level in nearly three years. With a cumulative 100 basis points of easing in 2025, BI's dovish stance has weighed on the IDR, making it one of the region's underperformers. Year-to-date, the IDR has weakened by over 2% against the USD, in contrast to gains seen in most other Asian currencies.

In the near term, negative sentiment stemming from public protests may exert pressure on the IDR. BI's firm commitment to maintain currency stability should help contain volatility. The anticipated resumption of Fed rate cuts in Sep is expected to trigger renewed broad-based USD weakness, which could provide support for the IDR.

In the near term, negative sentiment stemming from public protests may exert pressure on the IDR. BI's firm commitment to maintain currency stability should help contain volatility. The anticipated resumption of Fed rate cuts in Sep is expected to trigger renewed broad-based USD weakness, which could provide support for the IDR. Ahead of the round of domestic protests in late Aug, portfolio flows turned positive in Aug, with foreign investors injecting a net USD 1.5 bn into Indonesia's equity and bond markets, reversing earlier outflows. In light of the latest developments, we have updated our cautious USD/IDR forecasts to 16,500 in 4Q25, 16,400 in 1Q26, and 16,300 in both 2Q26 and 3Q26.

Chart 8: Indonesia's portfolio flows have improved of late

Source: Bloomberg, UOB Global Economics & Markets Research





Bucking the regional trend, the VND weakened to a record 26,436 /USD in Aug, marking a 3.4% year-to-date decline and setting the stage for a fourth consecutive year of depreciation. Although Vietnam secured a trade deal with the US that reduced tariff rates to 20% from the 46% previously announced in Apr, uncertainty remains around the 40% transshipment tariff. This could prompt firms to reassess supply chain strategies, potentially dampening Vietnam's attractiveness for foreign direct investment (FDI).

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



RATES STRATEGY

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

US Rates: Jackson Hole clears the clouds surrounding rate cuts

A year ago, Fed Chair Jerome Powell used the Jackson Hole Symposium to deliver a clear signal – “the time has come for policy to adjust” – marking the beginning of the Fed’s easing cycle as post-Covid inflation moderated and moved sustainably toward the 2% target. This year, Powell struck a similar tone. Following a nine-month rate pause, he stated at this year’s gathering of central bankers that “the shifting balance of risks may warrant adjusting the policy stance.”

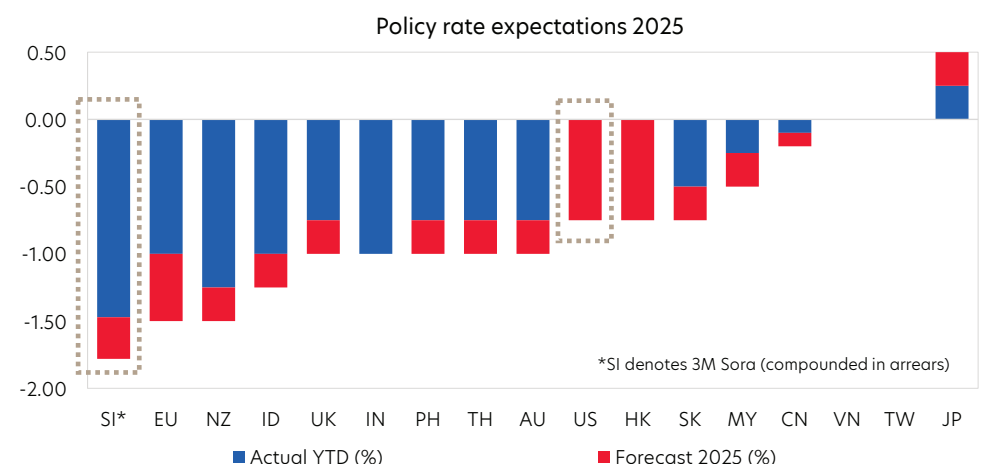
While the Fed remains cautious about the inflationary impact of potential trade tariffs under a Trump administration, it is increasingly concerned about downside risks to the US labour market. A growing divergence within the Fed Board – highlighted by Governors Waller and Bowman voting for rate cuts in the Jul FOMC meeting – has further accelerated the shift in policy direction.

The upcoming Sep FOMC meeting is shaping up to be a pivotal event. The swaps market is currently pricing in over an 80% probability of a 25-bps cut in this meeting, with a cumulative 55 bps reduction expected by year-end. We maintain a more dovish stance than the market, anticipating three 25-bps cuts in Sep, Oct and Dec ...

Taken together, the upcoming Sep FOMC meeting is shaping up to be a pivotal event. The swaps market is currently pricing in over 80% probability of a 25-bps cut in this meeting, with a cumulative 55 bps reduction expected by year-end. We maintain a more dovish stance than the market, anticipating three 25-bps cuts in Sep, Oct and Dec, primarily driven by increasing risks to growth and employment. This would lower the upper bound of the Fed Funds Target Rate (FFTR) to 3.75% by end-2025. We also retain our forecast of two additional rate cuts in 2026, implying a terminal FFTR of 3.25%.

Chart 1: SG rates have dropped the most this year while we expect the Fed to cut 75 bps for the remainder of 2025

Source: Bloomberg, UOB Global Economics & Markets Research





As the FFTR begins to trend lower in the coming months, the overnight Sofr rate, which has consolidated around 4.3% since early 2025, is expected to follow suit. Similarly, we anticipate the 3-month compounded in arrears Sofr to resume its downward trajectory as the Fed's easing cycle progresses. Our updated forecasts for 3M compounded Sofr are 3.82% in 4Q25, 3.68% in 1Q26, 3.44% in 2Q26 and 3.20% in 3Q26. Prevailing overnight Sofr is about 4.33%.

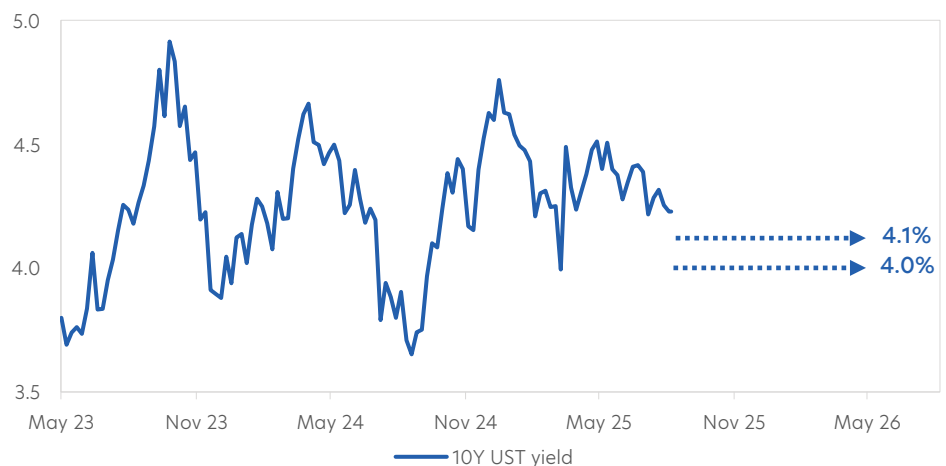
The key risk to our projected Fed rate-cut path remains the potential for tariff-driven price pressures to trigger a more persistent shift in inflation dynamics and expectations. Nonetheless, with signs of weakening in the US labor market, the Fed is now compelled to balance both sides of its dual mandate. As a result, the threshold for inflation to delay rate cuts has risen compared to just a few months ago.

Turning to US Treasuries (USTs), there is room for the yield curve to bull steepen as rate cuts come into clearer focus. Yields at the front-end of the curve (2Y) is likely to be more responsive to repricing of rate expectations, while the back-end yields(10Y) may be cushioned by a still-elevated term premium, which remained sticky at around 80 bps for the 10Y tenure. Overall, we anticipate further steepening of the 2s10s curve - from 60 bps currently to 80 bps by 3Q26. Our updated 10Y UST yield forecasts are at 4.10% in 4Q25, 4.00% in 1Q26, 4.00% in 2Q26 and 4.10% in 3Q26. Prevailing 10Y UST yield is about 4.25%.

Turning to US Treasuries (USTs), there is room for the yield curve to bull steepen as rate cuts come into clearer focus. Yields at the front-end of the curve (2Y) is likely to be more responsive to repricing of rate expectations, while the back-end yields(10Y) may be cushioned by a still-elevated term premium, which remained sticky at around 80 bps for the 10Y tenure. Overall, we anticipate further steepening of the 2s10s curve - from 60 bps currently to 80 bps by 3Q26. Our updated 10Y UST yield forecasts are at 4.10% in 4Q25, 4.00% in 1Q26, 4.00% in 2Q26 and 4.10% in 3Q26. Prevailing 10Y UST yield is about 4.25%.

Chart 2: 10Y UST yield expected to ease somewhat, but still confined within 4.0 - 4.1% in the next 4 quarters

Source: Bloomberg, UOB Global Economics & Markets Research



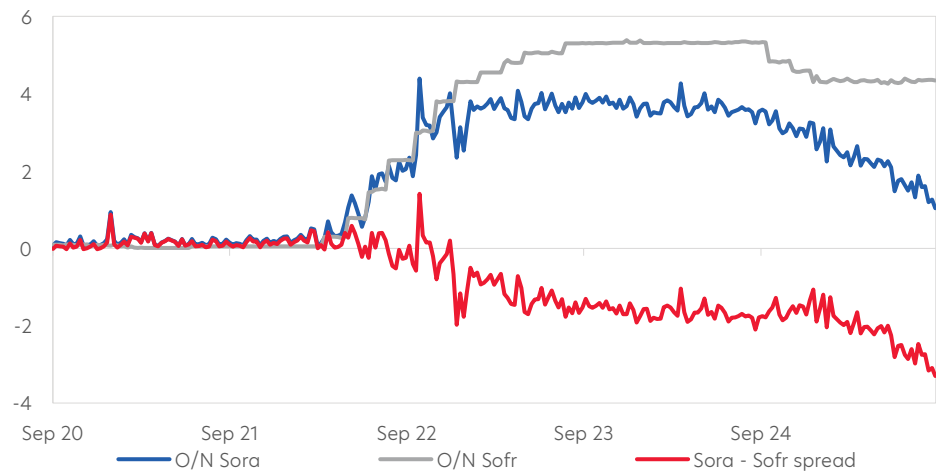
From a relative standpoint, Sora has declined sharply year-to-date, having started 2025 around 2.5%, while Sofr remained stable near 4.3%. This divergence has widened the spread between overnight Sora and Sofr to approximately 350 bps, the largest gap since records began in 2018.

SG Rates: How low can Sora go?

In the 3Q25, abundant domestic liquidity and sustained safe haven inflows continued to exert downward pressure on Sora. Notably, the overnight Sora - exhibiting inherent volatility - fixed at low of 0.72% on 1 Sep, marking its lowest level in over three years. From a relative standpoint, Sora has declined sharply year-to-date, having started 2025 around 2.5%, while Sofr remained stable near 4.3%. This divergence has widened the spread between overnight Sora and Sofr to approximately 350 bps, the largest gap since records began in 2018. This unusually wide differential is also evident further along the curve, including 1M and 3M Sora OIS versus their Sofr counterparts, as well as SGS yields relative to USTs.

Chart 3: The interest rate gap between overnight Sora and Sofr is now the widest on record

Source: Bloomberg, UOB Global Economics & Markets Research



While we continue to argue that this significant SG-US interest rate gap is unsustainable and should eventually narrow, several factors suggest Sora may remain subdued for longer. First, the anticipated resumption of the Fed's rate-cutting cycle in Sep could transmit further downward pressure to Singapore rates. Although we believe much of this transmission has already occurred, residual effects are likely to keep Sora soft alongside as the Fed cuts induced a further drop in Sofr. Second, there are no clear signs of a reversal in safe haven flows into Singapore. In fact, the weak USD environment continues to encourage portfolio inflows into Asian economies, including Singapore.

That said, there are also factors that could limit how low Sora can go. Our macro team maintains the view that the Monetary Authority of Singapore (MAS) will continue to ease monetary policy, potentially flattening the S\$NEER slope completely in either the Oct 2025 or Jan 2026 MPS. A shift to a zero-percent appreciation stance could trigger renewed S\$NEER depreciation. As SGD strength fades, the wide SG-US rate differential should naturally narrow, providing Sora with a firmer base. Additionally, it's important to note that near-zero Sora levels in 2020-2021 were a result of the emergency zero interest rate pandemic response. With no broad-based recession expected in the US and Singapore through 2025-2026 and a projected terminal Fed Funds Rate of 3.25% in 2026, a return to crisis-era near-zero Sora levels is unlikely.

Overall, we expect the path of least resistance for Sora is to drift lower in the coming quarters, in line with the Fed's easing cycle. Further MAS policy easing in Oct is likely to alleviate some of the pressure on Sora.

Overall, we expect the path of least resistance for Sora is to drift lower in the coming quarters, in line with the Fed's easing cycle. Further MAS policy easing in Oct is likely to alleviate some of the pressure on Sora. Accordingly, our updated forecast for 3M compounded Sora is 1.28% in 4Q25, 1.26% in 1Q26, 1.24% in 2Q26 and 1.29% in 3Q26. Prevailing 3M compounded in arrears Sora is about 1.55%.

Similar to movements in short-dated SG risk-free rates, the yield discount of Singapore Government Securities (SGS) relative to USTs has widened significantly. This reflects SGS's role as a relative safe haven during periods of heightened uncertainty. From a longer-term perspective, the current spread between the 10Y SGS and 10Y UST is approaching -2 standard deviations below its historical mean. Looking ahead, we expect this spread to gradually narrow over the coming quarters. Our updated forecast for 10Y SGS is 1.90% in 4Q25, 1.85% in 1Q26, 2.10% in 2Q26 and 2.30% in 3Q26. The prevailing 10Y SGS yield is about 1.88%.



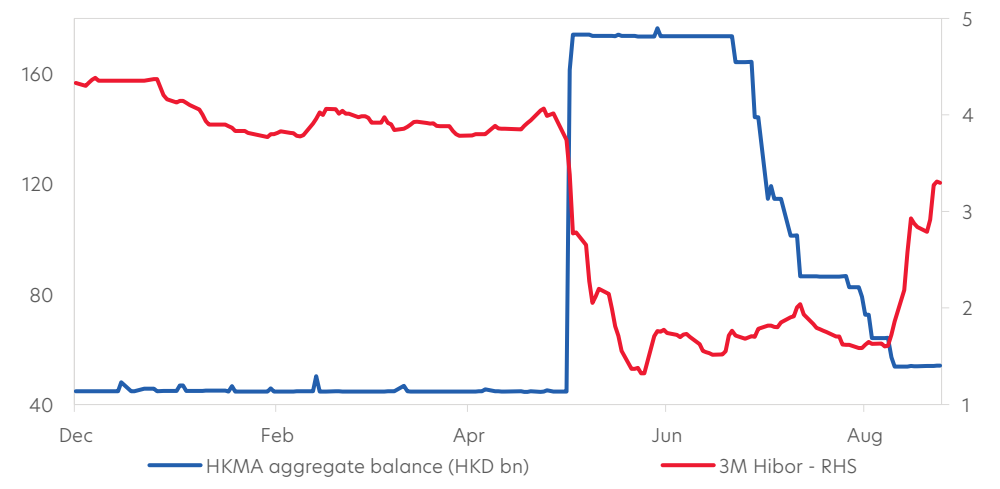
Volatility in Hong Kong's Hibor rates has remained a key focus for investors over the past couple of months. Following a sharp decline in May, Hibor rates rebounded strongly in Aug, driven by multiple rounds of FX intervention by the Hong Kong Monetary Authority (HKMA) at the weak side of the HKD convertibility band for the USD at 7.85, which tightened domestic liquidity.

DM and Asian Rates: Recent Hibor spike unlikely to persist

Volatility in Hong Kong's Hibor rates has remained a key focus for investors over the past couple of months. Following a sharp decline in May, Hibor rates rebounded strongly in Aug, driven by multiple rounds of FX intervention by the Hong Kong Monetary Authority (HKMA) at the weak side of the HKD convertibility band for the USD at 7.85, which tightened domestic liquidity. The HKMA's aggregate balance dropped to approximately HKD 54 bn by end-Aug, down from a peak of HKD 173 bn at end-Jun – effectively reversing almost fully the liquidity injection seen in early May. As a result, both overnight and 3M Hibor surged to 4.00% and 3.30% by end-Aug, up from extreme lows of 0.02% and 0.50% respectively in Jun.

Chart 4: Hibor rates has largely round-tripped back to May's levels just as HKMA aggregate balance tumbled

Source: Bloomberg, UOB Global Economics & Markets Research



The recent spike in Hibor has largely closed the previously wide gap with the HK Base Rate (currently at 4.75%), which had widened during the May Hibor collapse. Looking ahead, as the Fed resumes its rate-cutting cycle, a declining HK Base Rate is expected to exert renewed downward pressure on Hibor. Persistently elevated Hibor levels could also pose risks to Hong Kong's fragile economic recovery – an outcome local authorities may seek to avoid. There is also a limit as to how much liquidity there is to withdraw further given that the HKMA's aggregate balance is near the lows recorded in the last couple of years. Separately, we note that the current premium of the overnight Hibor over the 3M Hibor is unusual and likely to normalize, with the overnight rate expected to trade at a modest discount to the 3M rate. Overall, our updated forecast for 3M Hibor is 2.85% in 4Q25, 2.80% in 1Q26, 2.65% in 2Q26 and 2.75% in 3Q26.

Overall, we have revised our forecasts for Jibor and Indonesian government bond yields downward from the previous review, reflecting BI's increasingly accommodative monetary stance.

In Asia, Bank Indonesia (BI) surprised markets by cutting its benchmark 7-day reverse repo rate by 25 bps to 5.00% in Aug, aiming to bolster economic growth amid risks stemming from US tariff policies. Following this move, we have revised our forecast to include an additional 25 bps rate cut in 4Q25, with BI expected to hold steady at 4.75% throughout 2026. Overall, we have revised our forecasts for Jibor and Indonesian government bond yields downward from the previous review, reflecting BI's increasingly accommodative monetary stance.

In Malaysia, persistent economic challenges strengthen our view that Bank Negara Malaysia (BNM) may implement a final 25bps rate cut at its upcoming policy meeting on 5–6 Nov, lowering the Overnight Policy Rate (OPR) to a terminal level of 2.5%. By that time, Budget 2026 will have been tabled, and greater clarity around US sector-specific tariffs may emerge, offering further guidance for policy decisions.



For Thailand, we anticipate the BOT will reduce its benchmark rate by a cumulative 50bps – 25bps in Dec and another 25bps in 1Q26 – bringing it to a terminal rate of 1.00% under our baseline scenario.

This expectation is supported by: (1) a weakening growth trajectory and muted outlook; (2) rising deflationary pressures linked to soft aggregate demand; and (3) persistently tight financial conditions that continue to constrain private-sector spending.

For Thailand, we anticipate the Bank of Thailand (BOT) will reduce its benchmark rate by a cumulative 50bps – 25bps in Dec and another 25bps in 1Q26 – bringing it to a terminal rate of 1.00% under our baseline scenario. This expectation is supported by: (1) a weakening growth trajectory and muted outlook; (2) rising deflationary pressures linked to soft aggregate demand; and (3) persistently tight financial conditions that continue to constrain private-sector spending.

In developed markets, the most notable revision this past month was in New Zealand. The Reserve Bank of New Zealand (RBNZ) adopted a more dovish tone in its Aug meeting, with the Monetary Policy Committee voting 4-2 in favor of a 25-bps cut, while a minority supported a larger 50 bps reduction. We now expect two 25-bps cuts in the Official Cash Rate (OCR) – one each in 4Q25 and 1Q26 – bringing the OCR to 2.50%, down from our previous forecast of a 3.00% floor. This adjustment will translate into lower NZD bill and swap rate projections.

Japan remains an outlier in the global monetary easing cycle, as we expect the Bank of Japan (BOJ) to continue on its rate tightening path. We anticipate a 25bps policy rate hike to 0.75% in Dec, followed by a final increase to 1.00% in 3Q26, which we view as the terminal rate. Supporting the BOJ's hawkish stance is the persistence of headline and core inflation – though moderating – remaining above the central bank's 2% target. This tightening bias is likely to keep upward pressure on Japanese interest rates, with 3M Tibor projected to rise to 1.0% from the current 0.77% by end-2025, while 10Y JGB yields are expected to maintain their upward trajectory.

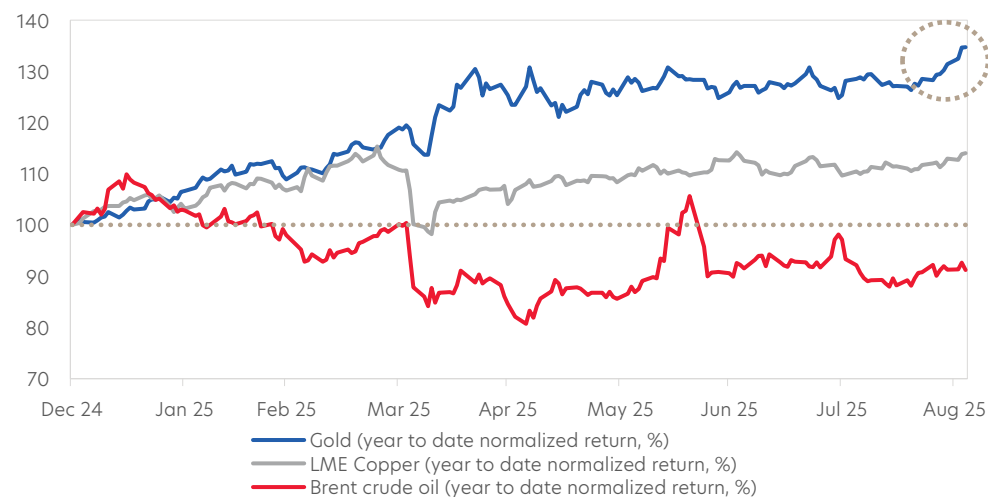


COMMODITIES STRATEGY

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

Gold continues to lead with its explosive rally while LME Copper has recovered all of its Liberation Day losses

Source: Bloomberg, UOB Global Economics & Markets Research



It has been a very interesting and exciting year so far for the commodity complex with many surprising twists and turns for key commodities like Gold, Brent Crude Oil and LME Copper.

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

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

As for Brent crude oil, it has gone nowhere and has pulled back into the “boring” medium term trading range from USD 60 to 80 / bbl, albeit with a downward bias. The acute geopolitical event risk of the Israel-Iran conflict is but a distant memory. What's next for Brent crude oil?

Finally, despite President Trump's reassurance that the US will not impose import tariffs on refined Copper, US investors and global manufacturers alike remain worried and unconvinced. As such, LME Copper continues to grind higher towards the psychological resistance of USD 10,000 / MT. But this move higher is in contrast with weak global manufacturing PMIs and renewed worries of a 4Q25 global exports and manufacturing slowdown after the pre-tariff export rush tapers off. How will this dilemma be resolved for LME Copper?



Gold

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

UOB's Forecast 4Q25 1Q26 2Q26 3Q26

Gold (USD/oz) 3,700 3,800 3,900 4,000

After consolidating under USD 3,400 / oz since May, gold finally broke higher in late Aug and shot up to a new record high of USD 3,578 / oz. On the technical chart, the strength of the breakout indicates that gold could continue setting fresh record highs. The immediate levels to monitor are \$3,600 and \$3,650. To sustain the current momentum, gold must hold above the key support at \$3,451.

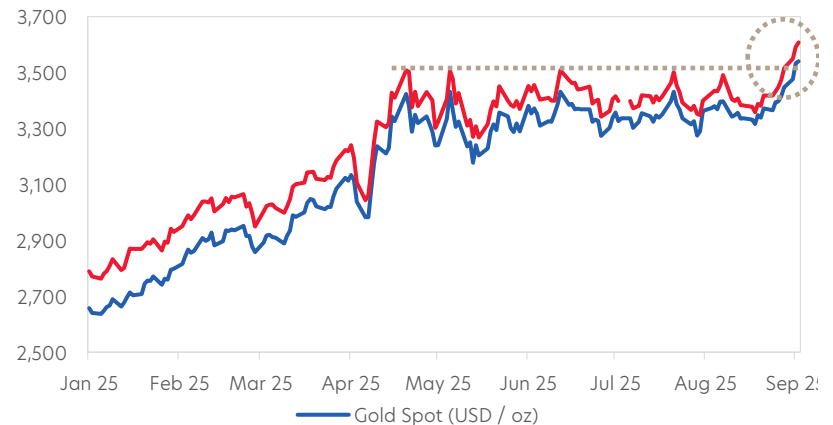
A confluence of explosive factors triggered this latest leg of gold's rally. First, there is now widespread expectations of a 25-bps rate cut at the upcoming FOMC on 16/17 Sep. Second, with France experiencing political pressure and UK suffering from deteriorating fiscal prospects, their long term bond yields have shot up. Third, Chinese investors have lately upped their frenzied buying of gold.

All the above-mentioned developments reinforced the long term positive drivers for gold. Specifically, the resumption of the Fed rate cuts will steepen the US yield curve further, drive the US Dollar lower and remains a key positive for gold. In addition, the fiscal issues in Europe reinforce the long term safe haven attributes of gold. Finally, the strong surge in Chinese buying has momentum. The amount of gold inventory held on the Shanghai Futures Exchange (SHFE) has doubled in just two months to above 40 tonnes.

Our previous forecast of USD 3,500 / oz for 4Q25 has been reached. Overall, we reiterate our positive long-term view for gold. In light of the reinforcement of key long term positive drivers and the strong technical breakout higher, we raise our gold forecast further to USD 3,700 / oz for 4Q25, USD 3,800 / oz for 1Q26, USD 3,900 / oz for 2Q26 and USD 4,000 / oz for 3Q26.

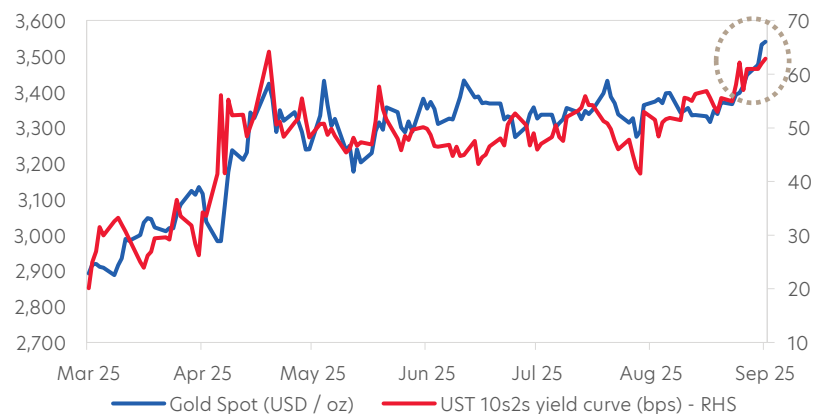
Gold breaks out of its consolidation since May and rallies decisively above USD 3,500 / oz

Source: Bloomberg, UOB Global Economics & Markets Research



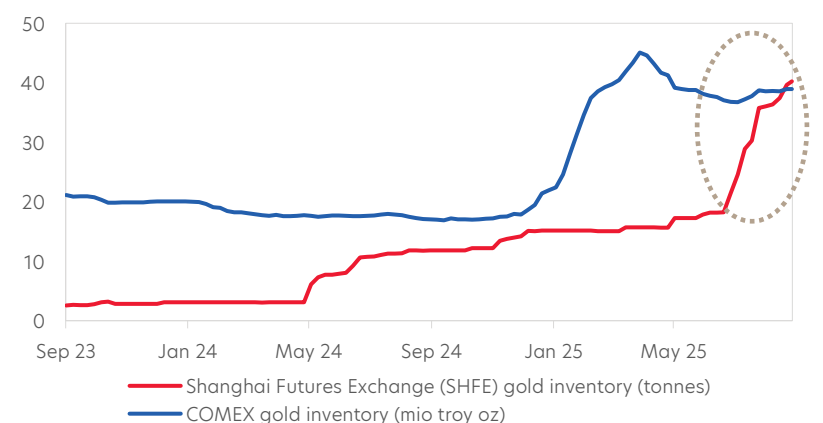
Gold advances alongside steepening of US 10s2s yield curve

Source: Bloomberg, UOB Global Economics & Markets Research



Gold inventory on SHFE shot up and doubled over past 2 months as COMEX inventory stays elevated

Source: Bloomberg, UOB Global Economics & Markets Research





Brent Crude Oil

Back in “boring” trading range, albeit with a downward bias

UOB's Forecast 4Q25 1Q26 2Q26 3Q26

Brent crude oil (USD/bbl) 70 65 60 60

The volatile events of the two quarters have now given way to a “boring” trading range for Brent crude oil. In early April, Brent crude oil collapsed from USD 75 to USD 65 / bbl after President Trump announced reciprocal tariffs on Liberation Day. Then in late Jun, Brent crude oil shot up from USD 65 to almost USD 80 / bbl as US bombed the nuclear sites in Iran and risk escalating the Israel-Iran conflict further.

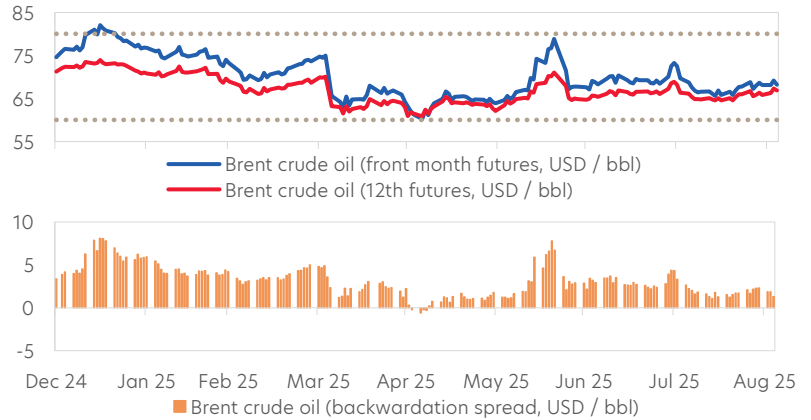
Remarkably and fortuitously for the global economy, both significant event risks have since dissipated and calmed down and Brent crude oil has managed to stay within its medium-term broad trading range from USD 60 to 80 / bbl. The technical chart also suggests that there is no clear trend right now.

With the passage of acute geopolitical risks, the focus for Brent crude oil reverts back to the traditional fundamental demand and supply drivers. In the background, Saudi Arabia and OPEC+ have returned about 2 mio bpd of production and is expected to continue their eager unwinding of production cuts. This will cap any strong upside in crude oil price. On the other hand, the US is carefully replenishing its much-depleted Strategic Petroleum Reserve (SPR) and mindful not to inject any more unnecessary volatility. This may add some support to the floor in crude oil price.

Overall, barring a renewed surge in acute political risk, it does look like Brent crude oil has fallen back to its medium-term trading range. We update our cautiously neutral forecast of USD 70 / bbl for 4Q25, USD 65 / bbl for 1Q26 and USD 60 / bbl for 2Q26 and 3Q26.

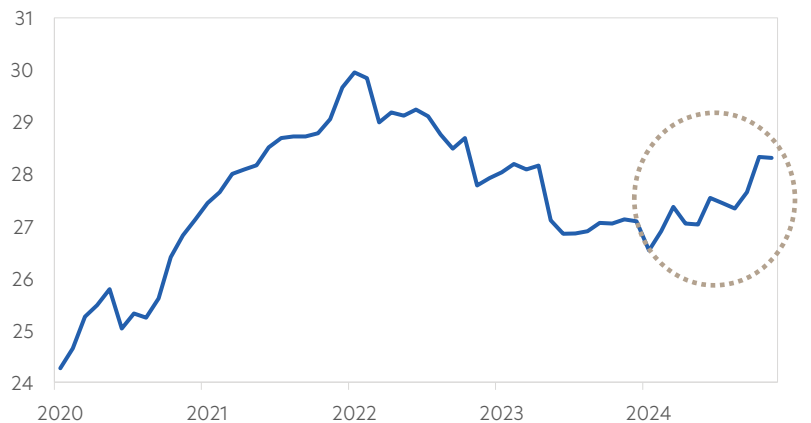
Brent pulls back into broader \$60 to \$80 trading range

Source: Bloomberg, UOB Global Economics & Markets Research



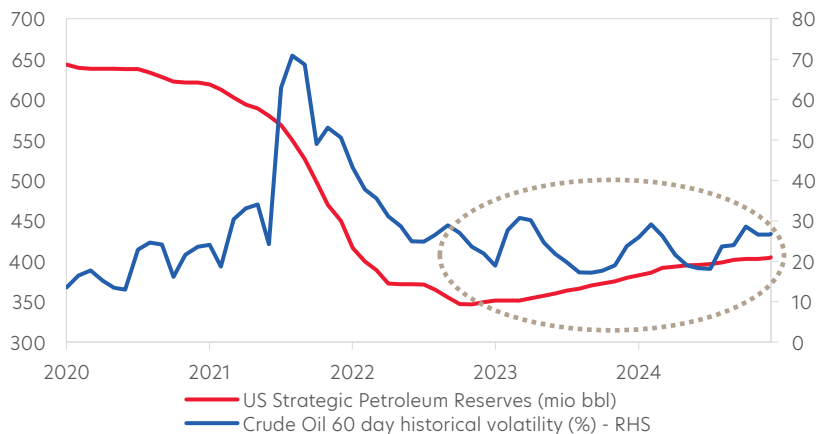
OPEC has been unwinding its production cuts

Source: Bloomberg, UOB Global Economics & Markets Research



US has been cautiously replenishing its SPR as crude oil volatility continue to stabilize

Source: Bloomberg, UOB Global Economics & Markets Research





Copper

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

UOB's Forecast 4Q25 1Q26 2Q26 3Q26

LME Copper (USD/mt)	10,000	9,500	9,000	9,000

While Gold's long term positive trend is reinforced and Brent crude oil has fallen back into a clearly defined trading range, the outlook for LME Copper in contrast appears decidedly mixed.

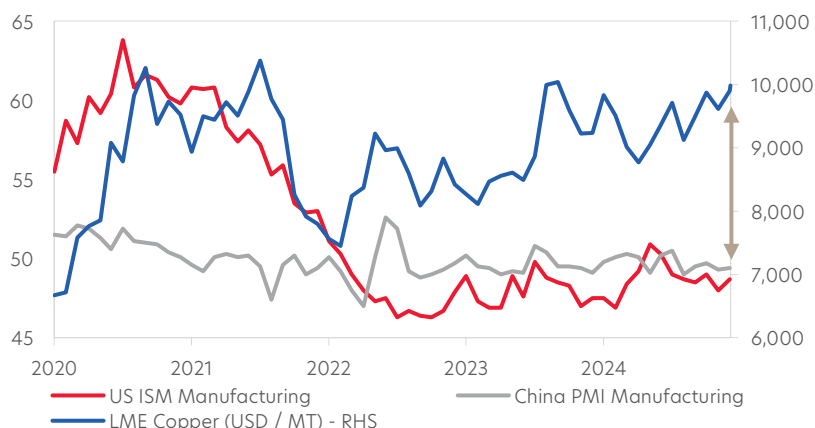
On one hand, despite President Trump in late Jul ruling out imposing import tariffs on refined Copper, both US investors and global manufacturers remained worried and unconvinced. While the COMEX Copper premium over LME Copper has since been largely unwound, there is evidence of renewed exports of refined Copper and various downstream products into the US. This has supported LME Copper price which has gradually grinded higher from USD 9,700 / MT in Jul to the high of USD 9,975 / MT in end Aug. Our technical analysis notes that there is a chance for copper to break above \$10,021 / MT, potentially revisiting the year-to-date high of \$10,165 / MT.

On the other hand, further strength in LME Copper price is not in line with the weakening global economic backdrop. While most economies have done much better than expected in 2Q25, this pre-tariff export rush is set to taper off in 4Q25. There is increasing concern that global manufacturing and exports may weaken anew in 4Q25. Adding to this is increasing signs of job market weakness in the US as well. So far, the strength in LME Copper price is not supported by soft global manufacturing PMI particular that of China and US. Key demand indicators like China's Yangshan premium and LME's cash spread have also pulled back.

As such, we are not convinced of a premature sustained break in LME Copper price above USD 10,000 / MT. Our updated cautiously neutral forecast is USD 10,000 / MT for 4Q25, USD 9,500 / MT for 1Q26 and USD 9,000 / MT for 2Q26 and 3Q26.

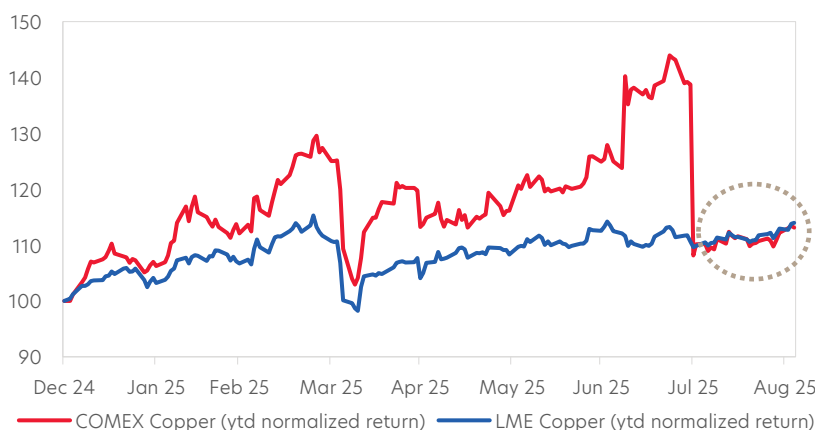
Ongoing price strength does not gel with weak China and US manufacturing PMIs

Source: Bloomberg, UOB Global Economics & Markets Research



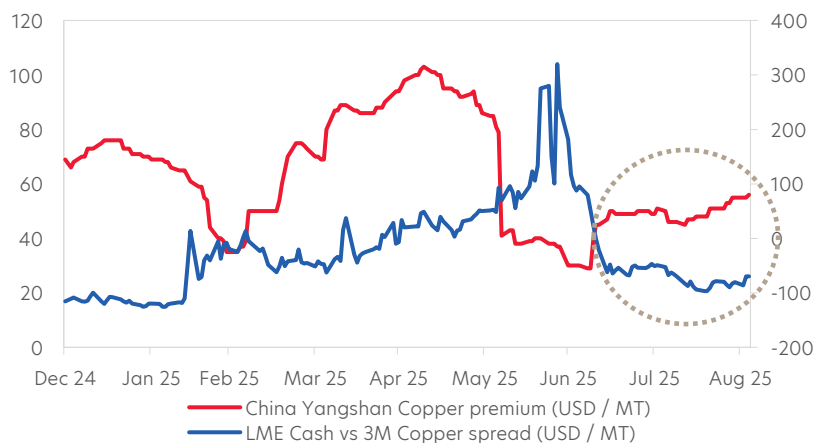
COMEX Copper has given up all of its premium over LME Copper

Source: Bloomberg, UOB Global Economics & Markets Research



Both Yangshan premium and LME Cash spread have now pulled back

Source: Bloomberg, UOB Global Economics & Markets Research





FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
USD/CNY	7.11	7.08	7.05	7.02
CNY 1Y Loan Prime Rate	2.90	2.90	2.90	2.90
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	5.4	5.0	4.9	4.2
CPI (avg y/y %)	0.2	0.2	-0.2	0.9
Unemployment Rate (%)	5.1	5.1	5.3	5.2
Current Account (% of GDP)	1.4	2.3	2.2	1.5
Fiscal Balance (% of GDP)	-4.5	-4.8	-5.8	-5.8

ECONOMY

Broad-based slowdown in July

The key Chinese data weakened more than expected in Jul with a more pronounced downturn in domestic demand. New loans collapsed, amid a sharper decline in property sales and real estate investment as well as persistent economic uncertainties. The contraction in new domestic currency loans in Jul (by CNY50 bn) for the first time in two decades, has increased concerns over weak demand from both households and corporates. Both the surveyed jobless rates at the national level and 31 large cities rose to 5.2% in Jul from 5.0% while the youth unemployment rate jumped to 17.8% from 14.5% in Jun. Labour market pressures are likely to intensify with the graduation season.

This highlights the risks for China's economy in 2H25, as production and export frontloading wanes, and global demand may start to ease noticeably with stiffer US tariffs rolling in, including impending sector-specific tariffs. Nevertheless, China's GDP growth of 5.3% y/y in 1H25 underpins the government's confidence in meeting the official growth target of "around 5%" in 2025 with only 4.6% growth required in 2H25.

The trade truce with US through 10 Nov provides room for Chinese policymakers to focus on the domestic economy. The government's subsidies and trade-in policy for consumer goods remain critical to supporting retail sales for the rest of the year. An expansion of the financial support program to include more goods, as well as services consumption, will help to broaden the recovery in consumption demand. China has also taken additional steps, including the interest subsidy policy for personal consumption loans effective from 1 Sep, and the nationwide childcare subsidy program. The worsening downturn in the domestic real estate market may derail further recovery in consumption. Thus, there are growing expectations of stronger policy support, such as accelerating the urban renovation projects, and for state-owned enterprises and bad debt managers to be involved in programs to clear the housing glut.

We expect China's real GDP growth to moderate to 4.7% y/y and 4.4% y/y in 3Q25 and 4Q25 respectively. We forecast growth at 4.9% in 2025 while we keep our outlook for 2026 at 4.2%, as we await details of the US-China trade deal in Nov. A potential meeting between President Xi and President Trump in late-Oct to early Nov could help to stabilise bilateral relations.

Nonetheless, the longstanding conflicts and competition between the US and China are likely to remain entrenched, and ongoing supply-chain restructuring is likely to accelerate. To reverse the downward trend in FDI which fell 13% y/y in Jan-Jul to US\$65.1 bn, China has focused on accelerating the opening-up of the services sector and expanding the industries that are open to foreign investments, amongst other reforms. The focus of the 15th five-year plan (2026-2030), which will be discussed at the Fourth Plenum in Oct, will likely continue to focus on boosting private consumption (including services), supply chain resilience, reforms, innovation and the development of its high-tech industries.

So far, the "anti-involution" policy push appears to be more symbolic, due to the government's reluctance to disrupt businesses. The campaign is aimed at curbing disorderly competition and overcapacity problem in key industries such as EVs, solar and steel. Although it will have near-term negative impact due to expected job losses and other disruptions, it is expected to promote stabilization in industrial profits and reduce deflationary pressure in the longer term. We maintain our forecast for 2025 CPI at -0.2% (Jan-Jul: -0.1%), with a recovery to around 0.9% in 2026.

CENTRAL BANK

Policy support to be incremental

The loan interest subsidies function similarly to a targeted interest rate cut for households and the smaller service operators. These measures are aimed at bolstering the consumer sectors without further compressing banks' margins. Following the 10-bps rate cut in May and the latest loan interest subsidy policy, we only expect a 10-bps rate cut in 4Q25, with the 7-day reverse repo, 1Y LPR and 5Y LPR to end the year at 1.30%, 2.90% and 3.40%, respectively. We also see prospect of a further 50-bps cut to the RRR. However, fresh concerns over a bubble in the stock market may reduce enthusiasm for near-term monetary easing.

CURRENCY

CNY to stabilise further

The CNY has demonstrated resilience over the past two months, defying the broader regional pullback in Asian currencies. This strength was supported by recent robust export growth despite trade headwinds, which improved China's GDP outlook. Additionally, the PBOC's move to set the daily fixing at 7.1030/USD on 29 Aug – the strongest since last Nov – signalled a subtle shift in policy, suggesting a willingness to allow modest CNY appreciation to help stabilize sentiment and support the recovery in local equity markets. A firmer yuan may also play a constructive role in US-China trade negotiations, countering past accusations from the US that China was deliberately weakening its currency to boost exports. Looking ahead, we see further downside potential for USD/CNY, driven by expectations of a US-China trade agreement by end-2025 and continued USD weakness as the Fed cuts rates. However, the pace of decline may be limited by the PBOC's daily fixing rate, especially if concerns over China's growth persist and PBOC maintains its "moderately loose" policy stance. Overall, our updated USD/CNY forecasts are at 7.11 in 4Q25, 7.08 in 1Q26, 7.05 in 2Q26 and 7.02 in 3Q26.



FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
USD/HKD	7.80	7.80	7.80	7.80
HKD Base Rate	4.00	4.00	3.75	3.50
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	3.2	2.5	2.8	2.0
CPI (avg y/y %)	2.1	1.7	1.6	1.9
Unemployment Rate (%)	2.9	3.1	3.4	3.3
Current Account (% of GDP)	8.5	12.9	9.7	8.0
Fiscal Balance (% of GDP)	-3.4	-2.8	-2.0	-1.7

ECONOMY

Tentative broadening of growth drivers

Hong Kong's economy expanded by a stronger-than-expected 3.1% y/y, 0.4% q/q in 2Q25. Although the export sector continued to lead Hong Kong's economic expansion, the recovery has broadened out, underpinned by stronger business and financial activities as well as wage growth.

Strong export of merchandise goods to mainland and ASEAN more than offset contractions in the US and EU markets. Meanwhile, services export rose across the major services groups with transport, travel and financial services buoyed by the growth in inbound tourism, buoyant financial services and the stock market. Gross domestic fixed capital formation (GDFCF) was driven by investments in machinery, equipment and intellectual property products but continued to be hampered by contraction in the building and construction segment. Importantly, private consumption turned around to register its first expansion in five quarters as the low base effect kicked in. Similarly, retail sales are beginning to stabilise after a year-long contraction. After falling 28% since its peak in late-2021, Hong Kong's residential property prices are also stabilising in 2Q25 as sales picked up, on the back of easing measures over the past two years including stamp duties relief and the scrapping of its property demand-side management measures. However, the sharp rebound in domestic interest rates in Aug may upend the recovery in consumer demand and domestic real estate market.

The unwinding of export frontloading in 2H25 is expected to contribute to a growth moderation but the outlook for Hong Kong's financial sector remains positive, especially the wealth management segment. We expect GDP growth at 2.5% in 2H25 compared to 3.1% in 1H25. Our full-year 2025 GDP growth forecast is 2.8%, sitting at the upper end of the official 2%-3% forecast range. We expect a further moderation in growth to 2.0% in 2026.

Despite the thaw in US-China trade tensions, US' tariffs against its trading partners including the mainland will impact global trade flows. In particular, the stabilisation in the mainland's economy remains crucial for Hong Kong given the deep financial and trade linkages. The 2025 policy address on 17 Sep is expected to outline measures to revitalise Hong Kong's economy, attract investments and build on its status as an international financial and trading hub while integrating more closely with the mainland

economy. Domestic focus will be on the housing market, driving innovation and measures to boost consumption and fertility. This will be Chief Executive John Lee's fourth Policy Address.

Headline CPI inflation has eased to 1.0% y/y in Jul, with a broad-based moderation across the CPI basket including housing, utilities, durable goods, transport and miscellaneous services. The headline inflation is at the slowest pace since Jun 2021 whereas the underlying CPI (net out government's one-off relief measures) remained mild at 1.0% y/y in Jul. Domestic price pressure is likely to stay contained for the rest of the year. We lower our forecast for the headline inflation to 1.6% for 2025 (Jan-Jul: 1.6%) from 1.8% while maintaining 2026 forecast at 1.9%. Official forecast for 2025 stays at 1.8% for the headline CPI and 1.5% for underlying CPI.

CENTRAL BANK

Further Hibor gains face resistance from Fed rate cuts

Hibors had reversed much of the pullback in May as HKMA withdrew liquidity to counter the fall in HKD to the weak side of the trading band. The swing in USD/HKD from 7.75 to 7.85 between May and Aug had resulted in the abrupt moves in Hibors which are more pronounced at the shorter end. The 3M Hibor is back at 3.2% after falling to as low as 1.3% in May but still well-below 4.0% at the end of Apr. As such, the discount to 3M SoFr has narrowed to around 110 bps from 300 bps in May. Reflecting the tightened interbank market liquidity, Hong Kong's aggregate balance has fallen by nearly 70% to HKD54 bn after rising to HKD176 bn in early-Jun.

Looking ahead, further gains in Hibor could face resistance from the resumption in US Fed easing and potential equity inflows. We expect three 25-bps rates cut to US Fed Funds Rate this year, starting from Sep. This underpinned our forecast for the 3M Hibor to ease to 2.85% end-4Q25, 2.80% end-1Q26, 2.65% end-2Q26 and 2.75% end-3Q26.

CURRENCY

Consolidating at 7.80

It was a rollercoaster ride for the USD/HKD in the past few months. The currency pair swung from one end of the convertibility limit to another, from 7.75 in May to 7.85 in Jun as the HKMA responded to changes in liquidity conditions.

Since mid-Aug, USD/HKD tumbled from 7.85 to a low of 7.78 on 27 Aug before rebounding to 7.81 as of 3 Sep. The movement resulted from a spike in Hibor rates after a series HKMA interventions at 7.85 - via selling USD and buying HKD - tightening HKD liquidity substantially. Consequently, a narrower USD versus HKD interest rate gap spurred the unwinding of the once in-favour USD/HKD carry trades, leading to the sharp slide in USD/HKD.

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



FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
USD/INR	88.2	87.8	87.4	87.0
INR Repo Rate	5.50	5.50	5.50	5.50
Economic Indicator	2023	2024	2025F	2026F
GDP, FY (%)	7.6	9.2	6.5	6.9
CPI, FY (avg y/y %)	6.7	5.4	4.6	3.2
Current Account, FY (% of GDP)	-2.0	-0.7	-0.6	-1.2
Fiscal Balance, FY (% of GDP)	-6.4	-5.6	-4.8	-4.4

ECONOMY

1QFY26 GDP outperformance likely overstated by low GDP deflator

India's real GDP strengthened to 7.8% y/y in 1QFY26 (4Q: 7.4%) surpassing Bloomberg consensus estimate of 6.7% although actual growth performance is likely overstated by an unusually low GDP deflator, which tracks closely the y/y changes in the wholesale price index (see Fig). Nonetheless, real growth in 1Q was driven by robust government consumption (1Q: 7.4% y/y, 4Q: -1.8%) and investment (1Q: 7.8% y/y, 4Q: 9.4%) amidst resilient private consumption (1Q: 7.0% y/y, 4Q: 6.0%) although net exports were a drag given the surge in imports (1Q: 10.9% y/y, 4Q: -12.7%) outweighed the rise in exports (1Q: 6.3% y/y, 4Q: 3.9%). We raise our FY26 GDP growth forecast to 6.9% (from 6.6% previously) reflecting the 1Q outperformance while the removal of the 12% and 28% GST tax brackets, leaving behind just three – 5%, 18% and the newly introduced 40% (for luxury & non-essential goods) with effect from 22 Sep ([Bloomberg](#), 4 Sep) could support private consumption. By sectors, services real GVA (1Q: 9.3% y/y, 4Q: 7.3%) outperformed with robust growth across all clusters while manufacturing activity improved (1Q: 7.7% y/y, 4Q: 4.8%) although mitigated by a slump in mining & quarrying (1Q: -3.1% y/y, 4Q: 2.5%) and electricity (1Q: 0.5% y/y, 4Q: 5.4%) likely due to the stronger-than-seasonal (and earlier) SWM rainfall in the months of May/June.

India's tariff negotiations with the US remain challenging as US President Donald Trump recently noted ([Straits Times](#), 3 Sep) that he is not looking at lowering tariffs on India, after the US doubled levies on imports from India to 50% (effective 27 Aug) due to contentions over India's Russian oil purchases. Numerically, India's merchandise exports to the US totalled US\$87bn in 2024, constituting about 2.3% of its GDP, with key export categories including gemstones & jewellery, pharmaceuticals, electrical machinery & equipment, textiles and iron & steel. In the Aug MPC [minutes](#), RBI MPC member Dr Nagesh Kumar noted that preliminary calculations (under the previous 25% tariff rate assumption) could hurt India's FY26 growth by 20-30bps with the drag to growth now likely more pronounced especially if the tariff rate is maintained at 50%.

CENTRAL BANK

Prospects of further rate cuts hinge on growth

India's headline CPI eased further to 1.55% y/y in Jul (Jun: 2.10%), the lowest reading since Jun 2017 driven mainly by a weaker-than-seasonal m/m increase in the food & non-

alcoholic beverage component, translating to a second consecutive negative y/y print (Jul: -0.8%, Jun: -0.2%). Core inflation moderated to 4.1% y/y in Jul (Jun: 4.4%) reflecting softer services inflation such as transport & communication (Jul: 2.1% y/y, Jun: 3.9%) and education (Jul: 4.0% y/y, Jun: 4.4%) although the personal care & effects category remained robust (Jul: 15.1% y/y, Jun: 14.8%) due to elevated gold, silver and ornament prices. We maintain our FY26 headline inflation forecast at 3.2%.

In its Aug MPC meeting, the RBI held the policy repo rate steady at 5.50%, and while RBI revised down its FY26 inflation forecast sharply to 3.1% (from 3.7% in the Jun MPC), RBI emphasized that the disinflation was largely food-driven and appears willing to look past temporarily low y/y CPI readings in 2Q-3QFY26 (based on the quarterly projections), focusing instead on the medium-term trajectory where y/y inflation could rise above RBI's 4% target by 4QFY26. For now, we expect RBI to maintain its policy repo rate at 5.50% through 2025 and 2026 though we see room for a further 25bps cut should downside growth risks materialize.

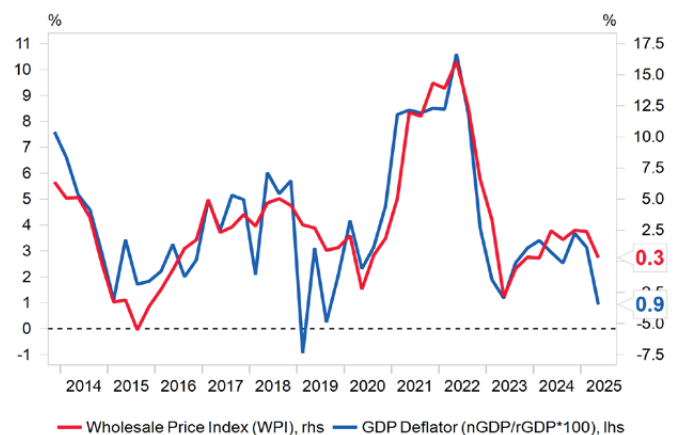
CURRENCY

INR continues to underperform

The Trump administration's steep 50% tariff has weighed heavily on the INR, contributing to its decline as USD/INR surged to a record high of 88.31 in late Aug. Year-to-date, the INR has been the weakest performer among Asian currencies, depreciating nearly 3% against the USD, while most regional peers have posted gains. Without a trade agreement to ease the punitive tariff burden, we anticipate continued relative underperformance of the INR within the region. Looking ahead, there is potential for a modest rebound in the INR, particularly if the Fed resumes rate cuts in Sep, which could exert downward pressure on the USD. Additionally, our forecast for the RBI to maintain its policy rate at 5.5% through 2025 and 2026 could help support sentiment and provide some stability for the INR. Overall, our updated USD/INR forecasts are at 88.2 in 4Q25, 87.8 in 1Q26, 87.4 in 2Q26 and 87.0 in 3Q26.

GDP Deflator vs WPI (%y/y)

Source: Macrobond, UOB Global Economics & Markets Research





FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
USD/IDR	16,500	16,400	16,300	16,300
IDR 7D Reverse Repo	4.75	4.75	4.75	4.75
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	5.1	5.0	4.9	5.2
CPI (avg y/y %)	3.7	2.3	2.2	2.5
Unemployment Rate (%)	5.3	4.9	5.0	4.8
Current Account (% of GDP)	-0.1	-0.6	-1.0	-1.8
Fiscal Balance (% of GDP)	-1.7	-2.3	-2.7	-2.8

ECONOMY

Investment-led growth underpinned stronger 2Q

Indonesia posted solid economic growth in the second quarter of 2025, with GDP expanding by 5.12% y/y (4.04% q/q) vs. 4.87% in 1Q, primarily driven by two components: household consumption and investment. Solid household consumption (4.97% y/y vs. 4.95% in 1Q25), particularly for essential goods, was fueled by a rise in domestic tourism during school and religious holiday periods. Meanwhile, investment rose 7% vs. 2.1% prior, notably driven by capital expenditures for machinery and equipment for government-led infrastructure projects. By sector, Indonesia's economic growth in 2Q 25 was supported by manufacturing (5.68% y/y) and trade (5.37%).

Indonesia's inflation steadied at 2.3% y/y in Aug, well within BI's inflation target range of 1.5-3.5%, driven by volatile food-related prices (4.5% y/y) amid higher demand in key consumables such as tomatoes, shallots, chili, and rice. On the other hand, core inflation and administered prices recorded inflation at 2.2% y/y and 1% respectively. Looking ahead, inflation may accelerate due to rising food and energy prices. Additionally, potential inflationary impact from the US tariffs may exert upside risks to our inflation forecast. Our forecast remains for inflation to average 2.2% this year before accelerating to 2.5% in 2026.

On the external balance, Indonesia's current account deficit widened significantly from just USD0.2bn (0.1% of GDP) in 1Q to USD3.0bn (0.8% of GDP) in 2Q. Higher deficits primarily driven by a sharp decline in the goods trade surplus from USD13.0bn to USD10.5bn due to non-oil & gas imports outpacing exports. Other deficit-driven component is primary income, which rose by 5.1% to USD9.8bn driven by higher dividend and interest payments.

The financial and capital account deficit also widened significantly from USD0.4bn to USD5.2bn as portfolio investment saw significant reversal from a USD1.0bn surplus to a USD8.1bn deficit. But in contrast to that, FDI increased by around 4.1% from USD2.5bn in 1Q to USD2.6bn in 2Q, supported by strong inflows into the manufacturing, financial services and insurance, and trade sectors.

In late Aug, public protests to seek government's actions to address the rising cost of living have unfortunately turned awry, leading to the unfortunate riots and lootings before the weekend. Though it has somewhat deterred investors'

confidence, the President went on to make clear statements and showed sympathetic response on people's aspiration for the government to immediately address the rising costs issues, which has since managed to restore market confidence. At the start of Sep, the conditions have been calmer, and businesses have started to operate per usual, rendering the perception that the recent unwarranted adverse events could be short-lived. With that, we are of the view that the recent mishaps shall not alter our growth outlook of 4.9% this year and 5.2% next year. The government is also likely to direct more expansionary fiscal measures to sustain household consumption to address such increase in living costs, which in turn could sustain economic growth. Monetary policy is also likely to remain accommodative.

CENTRAL BANK

Focusing on growth in 2H25 and beyond

BI cut its benchmark interest rate in Aug MPC by 25bps to 5% in an unexpected move and against market consensus. BI has cut a cumulative 100bps year-to-date and our forecast is that there will be an additional 25bps rate cut in the final quarter of 2025. This will bring our forecast of terminal rate to 4.75%. Our current forecast is also for BI to now stay on hold in 1H26 viz. our earlier forecast of rate cuts then. BI also continued with its macroprudential policies to shore up growth such as by increasing short-term foreign borrowing limits from 30% to 35% effective 1 Jun and by lowering the outstanding amount of its short-term money market instruments (SRBI). On the loan side, BI lowered the secondary reserve requirements to 4% and offer incentives for loans relating to strategic sectors to support growth. BI is confident that Indonesia will deliver around 5.1% GDP growth for 2025 (BI's GDP growth range is 4.6-5.4%) and expects an inflation target range of 2.5% $\pm$ 1% for the next two years.

CURRENCY

IDR to consolidate in narrow ranges

The IDR depreciated by 1.5% over the past two months, settling at 16,500 /USD as of 29 Aug. This decline was largely driven by consecutive rate cuts from BI, which lowered the 7-day reverse repo rate to 5.0% - its lowest level in nearly three years. With a cumulative 100 basis points of easing in 2025, BI's dovish stance has weighed on the IDR, making it one of the region's underperformers. Year-to-date, the IDR has weakened by over 2% against the USD, in contrast to gains seen in most other Asian currencies.

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



FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
USD/JPY	144	142	140	138
JPY Policy Rate	0.75	0.75	0.75	1.00
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	1.2	0.1	1.2	1.3
CPI (avg y/y %)	3.2	2.8	2.9	1.8
Unemployment Rate (%)	2.5	2.5	2.8	2.8
Current Account (% of GDP)	3.8	4.8	3.8	4.5
Fiscal Balance, FY (% of GDP)	-7.5	-7.1	-4.8	-4.5

ECONOMY

Better than expected 1H25 growth but outlook clouded

Japan's 2Q25 GDP surprised on the upside as the economy expanded at a faster than expected pace of 0.3% q/q (1.0% q/q annualized rate), while 1Q's GDP -0.2% contraction was revised up materially to a +0.6% expansion. Both private consumption (0.2% q/q) and business spending (1.3% q/q) came in above Bloomberg estimates while net exports rebounded with a 0.3ppt contribution to headline growth (after a dismal -0.8ppt in 1Q). When compared one year ago, GDP grew by 1.2% y/y in 2Q, from 1.8% in 1Q, the 4th straight y/y expansion since 3Q24. In real terms, the economy expanded to JPY 563.0 tn in 2Q, a record high.

Japan reached a trade agreement with President Trump on 22 Jul, which saw reciprocal tariffs lowered to 15% from 25% previously threatened, but cars were still tariffed at 25% until written documentation was completed. The auto sector is a key pillar of Japan's exports (US\$106.8 bn of total exports of US\$ 707.5 bn in 2024) and US is the top destination, receiving nearly US\$41 bn in 2024 (vs US\$2 bn of steel and US\$208 mn of aluminum exported to US that year.) The tariff impact was evident, where exports declined for three straight months, and fell -2.6% y/y in Jul, steepest fall in 4 years since Feb 2021 (-4.5%). By value, exports to US fell by -10.1% y/y in Jul, of which vehicles fell by -28.4% while auto parts fell by -17.4%. But by volume, exports to US rose by 1.2% y/y, implying exporters were absorbing US tariff costs by cutting selling prices. The reprieve finally came as President Trump signed the executive order on 5 Sep to implement the trade agreement with Japan, with maximum tariff rate at 15% on most products, including cars and parts. At 15%, it will still hurt but less.

Household spending growth was positive so far in 2025 (Jul: 1.4% y/y), while real wages which stayed negative in 1H25 (despite 2025 Shunto - wage negotiation - achieving highest wage increment since 1991) finally turned positive in Jul (+0.5%) for the first time this year. Strong tourist arrivals and tourism-related in-person services will add to the domestic growth outlook although weakness in external markets may soften tourism. Accelerated investments into semiconductor technology and production continue to bode well for its long-term potential, translating to higher investments spending in 2H25 and into 2026. Higher government aid to households and smaller firms, and higher defense spending, implies a persistent challenging fiscal outlook.

Japan managed to avoid a technical recession in 1H but trade-related factors still posed challenges, including tariffs on autos, and soon on semiconductors & pharmaceuticals while awaiting resolution to US-China trade negotiations. Sluggish external demand from China and Europe as well as soft domestic support are also uncertainties. Tighter BOJ monetary stance will weigh growth further. With stronger growth outturn in 1H, we revise our 2025 growth forecast higher to 1.2% (versus previous 1.0%) but risk is still tilted towards downside. Our 2026 growth forecast is lowered to 1.3% (versus previous 1.5%). Inflation started 2025 on a high at 4.0% y/y but gradually moderated, partly due to easing food prices and energy costs. Excluding fresh food, CPI rose 3.1% y/y in Jul (Jun: 3.3%). Core inflation (which excludes fresh food and energy) rose 3.4% in Jul. The BOJ (in Jul Bank View) revised the FY 2025 inflation projections upwards materially with a slight bump-up for FY 2026-2027 (but no change to achieving the price stability target by mid-FY2026 onwards). We keep our overall CPI and core inflation forecast to average 2.9% and 2.8% respectively in 2025, easing to 1.8% in 2026 for both.

CENTRAL BANK

Next hike pushed back to 4Q, risk of delay still material

Despite the US-Japan trade deal, uncertainties over US tariff policies still loom large and Gov Ueda signaled (in Jul) the impact (while buttressed somewhat by a trade deal) still needs to be assessed in 2H this year given risks to BOJ's outlook for both growth and inflation. While we still expect the BOJ to stay on the rate tightening path, we now expect BOJ to delay its policy rate hike of 25-bps to 0.75% only at the 18/19 Dec MPM (from Sep MPM previously). We also defer the next hike to 1.00% only in 3Q26 (from 1Q) which we believe will be the terminal rate. While Ueda has in the past did some sudden U-turns and surprises, we think he will likely stick to a cautious approach, and the risk is for later rather than earlier policy moves.

CURRENCY

USD/JPY to converge to falling rate spread

USD/JPY has shown a notable divergence from the 10-year USD-JPY yield differential through Jul and Aug. The rate spread dropped to its lowest level in three years, driven by a 20-bps rise in Japan's 10-year government bond yield, which climbed to 1.6% - its highest level since 2008 - amid growing concerns over Japan's fiscal expansion. USD/JPY rose from 144 to 147 in the same period, taking guidance from the broad USD rebound in the quarter and the disappointing BOJ meeting in Jul which offered no clear guidance on the timing of the next rate hike.

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



FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
USD/MYR	4.20	4.17	4.15	4.12
MYR O/N Policy Rate	2.50	2.50	2.50	2.50
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	3.5	5.1	4.0	4.5
CPI (avg y/y %)	2.5	1.8	1.8	2.5
Unemployment Rate (%)	3.4	3.2	3.2	3.2
Current Account (% of GDP)	1.1	1.4	1.7	1.8
Fiscal Balance (% of GDP)	-5.0	-4.1	-3.8	-3.5

ECONOMY

Banking on resilient domestic demand

Malaysia's economy maintained a steady expansion of 4.4% y/y in 2Q25, unchanged from the previous quarter. This brought the average growth in 1H25 to 4.4%, marking a moderation from 5.2% in 2H24 and 5.0% in 1H24, reflecting a gradual softening in momentum.

Stronger domestic demand, especially in private consumption (+5.3% y/y, 1Q: +5.0%) and investments (+12.1%, 1Q: +9.7%), was the key contributor to 2Q GDP growth, offsetting the weakness in external sectors (net trade: -2.6ppts, 1Q: +0.8ppt). Higher government spending (+6.4%, 1Q: +4.3%) and stock replenishment (+0.3ppt to 2Q GDP, 1Q: -2.1ppts) were also factors holding the growth momentum in 2Q25.

By sector, all but the mining & quarrying industry (-5.2% y/y, 1Q: -2.7%) continued to record positive growth amid robust import duties (+16.9%, 1Q: +5.0%). Services sector (+5.1%, 1Q: +5.0%) remained the key growth driver, followed by the agriculture (+2.1%, 1Q: +0.7%), construction (+12.1%, 1Q: +14.2%), and manufacturing (+3.7%, 1Q: +4.1%) sectors.

However, we continue to remain cautious for 2H25 and into 2026 given persistent tariff risks, geopolitical tensions, and the ongoing implementation of domestic fiscal reforms. The impact of delayed global tariff measures is expected to unfold gradually following US President Trump's confirmation on 1 Aug of reciprocal tariffs on most trading partners including Malaysia (19%), effective 7 Aug, with further actions such as Section 232 duties and a 10% levy targeting BRICS nations still pending confirmation.

Although domestic policy support – including cash assistance, higher pay for civil servants, and infrastructure projects – is expected to help sustain domestic demand, business sentiment is likely to remain feeble following the implementation of several domestic fiscal reform measures (i.e. expanded sales and service tax (SST), e-invoicing, and full enforcement of higher minimum wages) starting Jul/Aug 2025, which may cap the strength of private spending and investment in the near term.

Another downside risk is a lower-than-expected commodity production due to persistent disruptions in the oil and gas sub-sector. Thus, we project GDP growth to moderate to ~3.6% in 2H25, resulting in a full-year expansion of 4.0% in

2025 (2024: 5.1%). This places our forecast at the lower end of BNM's revised target range of 4.0%-4.8%, announced on 28 Jul, which incorporates reciprocal tariff assumptions ranging from 10% to 25%, and existing product tariffs such as steel, aluminum, copper, and autos.

For 2026, we project growth to improve to 4.5%, after taking into account several positive factors and expectations of another 25bps cut in the OPR to 2.50% by end-4Q25 that aims to reinforce growth momentum in 2026. Key growth catalysts include Visit Malaysia Year 2026 campaign, expansionary Budget 2026 (to be tabled on 10 Oct 2025), and the next phase of civil servant salary hikes in Jan 2026.

CENTRAL BANK

Next rate move hinges on external developments

BNM kept the OPR unchanged at 2.75% on 4 Sep after delivering a 25bps cut in Jul. There was a shift to a more cautiously optimistic tone, while citing that the current level of OPR is deemed accommodative and supportive of domestic growth amid benign inflation. BNM anticipates resilient domestic demand to keep Malaysia's economy on track to grow between 4.0% and 4.8% this year, with momentum extending into 2026. BNM expects inflation to remain moderate in 2025-2026 in the absence of excessive demand pressures, and the impact of announced and forthcoming domestic policy reforms on inflation to remain contained.

Despite the change in tone, we maintain our view of a potential 25bps cut in the OPR to 2.50%, subject to reassessment following upcoming external developments and Malaysia's 2026 Budget announcement ahead of the final MPC meeting of this year on 5-6 Nov. The Madani Government is scheduled to table its 2026 Budget in Parliament on 10 Oct.

CURRENCY

MYR may strengthen beyond 4.20

USD/MYR stabilized through Jul and Aug, following a nearly 6% decline in the first half of 2025. Rising concerns over a tariff-driven economic slowdown prompted some profit-taking on the MYR's strong year-to-date performance, with the 4.20 level emerging as a key support for the pair in the near term.

Looking ahead, we anticipate USD/MYR to resume its downward trajectory as the Fed begins its rate-cutting cycle in Sep, likely triggering broad-based USD weakness. On the domestic front, Malaysia's economic fundamentals remain resilient, supported by steady GDP growth, ongoing foreign direct investment inflows, and a sustained – though narrower – current account surplus.

Moreover, the interest rate differential between Malaysia and the US is expected to narrow from 175 basis points currently to 125 bps by end-2025—the smallest gap in three years – providing additional support for the MYR. Overall, our USD/MYR forecasts are 4.20 in 4Q25, 4.17 in 1Q26, 4.15 in 2Q26, and 4.12 in 3Q26.



FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
USD/PHP	56.8	56.5	56.2	56.0
PHP O/N Reverse Repo	4.75	4.75	4.75	4.75
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	5.5	5.7	5.3	5.7
CPI (avg y/y %)	6.0	3.2	1.5	2.5
Unemployment Rate (%)	4.6	4.3	4.3	4.3
Current Account (% of GDP)	-2.8	-3.8	-2.8	-2.5
Fiscal Balance (% of GDP)	-6.2	-5.7	-5.3	-4.7

ECONOMY

Policy easing continues to transmit through the economy

The Philippines' real GDP growth beat expectations at 5.5% y/y in 2Q25 (1Q25: +5.4%), marking the biggest gain since 2Q24. This takes the country's average real GDP growth higher to 5.4% in 1H25 (from +5.2% in 2H24). On a seasonally adjusted basis, the economy expanded by 1.5% q/q last quarter (1Q25: +1.2%), implying underlying strength in economic activity.

The 5.5% annual real GDP growth in 2Q25 was primarily boosted by robust services (+6.9%, 1Q25: +6.2%) and agriculture (+7.0%, 1Q25: +2.2%) sectors, fully cushioning the weakness in other industries - mining & quarrying (-2.9%, 1Q25: +2.0%), manufacturing (+2.7%, 1Q25: +4.3%), utilities (+1.1%, 1Q25: +2.7%), and construction (+2.0%, 1Q25: +7.0%).

Higher household consumption (+5.5%, 1Q25: +5.3%) was also the prime contributor of overall real GDP growth in 2Q25 on the back of easing inflationary pressures and a more accommodative monetary policy environment. Net trade contributed 0.1ppt to 2Q25 GDP (1Q25: -2.0ppts) despite looming global tariff and trade uncertainty. Both components helped to soften the blow from the moderation in government spending (+8.7%, 1Q25: +18.7%), total investments (+2.6%, 1Q25: +6.5%), and persistent inventory withdrawals (-0.5ppt, 1Q25: -0.4ppt).

We had tweaked our 2025 GDP growth forecast for the Philippines higher to 5.3% (from 5.0% previously, official est: 5.5%-6.5%) after considering a stronger GDP outturn in 2Q25, marginal impact from the 19% US reciprocal tariffs imposed on the Philippines (which is on par with most of its regional peers), and expectations of further monetary policy loosening by BSP in the coming months to further secure economic growth. The persistence of benign inflation, higher daily wages and sustained overseas cash remittance inflows are also key factors that could support domestic demand in 2H25 amid lingering external uncertainties.

For 2026, we project economic growth to accelerate at a faster-than-previously-anticipated pace to 5.7% (previous est: 5.5%), primarily driven by resilient domestic demand on the back of stable monetary policy settings, a manageable inflation outlook, and favourable labour market conditions. The proposed PHP6.793tn budget for 2026, which is 7.4% higher than the PHP6.362tn allocation in 2025 and currently undergoing Congressional deliberation from 18 Aug till 11 Oct, will further reinforce the growth outlook next year.

CENTRAL BANK

BSP maintains flexibility for further easing

Headline inflation have been trending below the BSP's 2.0%-4.0% target range since Mar 2025, resulting in a much lower statistical base than previously projected. Thus, we had downgraded our inflation outlook to 1.5% for 2025 (from 2.0% previously, 2024: 3.2%) and to 2.5% for 2026 (from 3.0% previously). Major factors that will support a benign inflation outlook ahead include steady or lower global oil prices as a result of increasing oil supply from OPEC+, continuation of national government's non-monetary policy intervention, and firmer local currency due to expectations of a broad dollar weakness.

Expectations of more moderate inflation, alongside persistent external headwinds that may dampen domestic growth momentum in the near term, reinforce our view of another 25bps cut in the RRP rate to 4.75% in 4Q25 and for the rate to remain unchanged throughout 2026. The latest Aug monetary policy statement is also deemed dovish and indicates that BSP still leaves the door open for further easing to help cushion the downside risks to growth heading into 2026. Additionally, during the post-meeting briefing on 28 Aug, BSP Governor signaled that there is still room for the central bank to cut the RRP rate one more time this year to further safeguard the growth momentum amid global uncertainties and subdued price pressures. BSP will have two more monetary policy meetings before year end - 9 Oct and 11 Dec.

CURRENCY

PHP to gain strength in 4Q25 and into 2026

Despite depreciating modestly by 1.4% to 57.3 in QTD as of 2 Sep, the PHP is expected to remain on course for a rebound heading into 4Q25 and 2026. This is largely premised on the view of broad dollar weakness, driven by the anticipated resumption of Fed rate cuts, US' deteriorating fiscal outlook, and growing concerns over Fed's independence as current Fed Chair Jerome Powell's term ends in May 2026.

Domestically, the country's economic fundamentals remain solid and supportive of the PHP outlook. They include a low inflation environment, narrowing current account deficit and fiscal deficit, as well as possibility of wider interest rate differentials with US rates entering 2026.

Hence, our updated USD/PHP forecasts are 56.8 in 4Q25, 56.5 in 1Q26, 56.2 in 2Q26, and 56.0 in 3Q26.

FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
USD/SGD	1.29	1.28	1.27	1.27
SGD 3M SORA (compounded)	1.28	1.26	1.24	1.29
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	1.8	4.4	2.2	1.5
Core CPI (avg y/y %)	4.2	2.8	0.6	1.1
Unemployment Rate, eop (%)	2.0	1.9	2.3	2.3
Current Account (% of GDP)	17.7	17.5	18.4	16.8
Fiscal Balance, FY (% of GDP)	-0.4	0.9	0.9	1.1

ECONOMY

Activity still resilient on residual front-loading amidst robust AI-related demand

Monthly trade-related activity indicators remained resilient into Jul, posting robust m/m nsa increases across manufacturing (Jul: 6.3%, Jun: 5.9%), real NODX (Jul: 2.3%, Jun: 13.7%), real NORX (Jul: 15.4%, Jun: -6.0%), sea cargo volumes (Jul: 7.6%, Jun: -5.7%) and container throughput (Jul: 4.3%, Jun: -3.1%). These increases likely stem from residual front-loading activity ahead of the 1 Aug US tariff deadline. Notably, the electronics cluster outperformed, as evidenced by the strong m/m nsa surge in IP (Jul: 17.6%, Jun: -1.3%), NODX (Jul: 8.1%, Jun: -8.3%) and NORX (Jul: 15.7%, Jun: -5.1%). This was partly driven by front-loading in anticipation of potential US sector-specific tariffs on semiconductors. According to the Jul 2025 MAS [MR](#), semiconductors (including other electronics & semiconductor equipment) constituted a significant 16.6% share of Singapore's domestic exports to the US in 2024 (pharmaceuticals: 12.3%) which could weigh on growth should these tariffs materialize. The robust electronics momentum is also driven by structural AI-related demand from the US as evidenced by the surge in US gross private domestic investment in information processing equipment as well as intellectual property (software) segments in the recent quarters.

The financial services sector could experience a pickup in loan and credit intermediation activity, supported by the YTD decline in SGD SORA rates (3M Compounded SORA end-Aug: 1.60%, 2-Jan-25: 3.03%) although tempered by cautious business and consumer sentiment amid ongoing macroeconomic uncertainty. Tariff-related uncertainty has likely peaked, and in the absence of a sharp global downturn, risk appetite could recover further, potentially bolstering net fees and commissions for financial institutions. We see upside risk to our 2025 Singapore's GDP growth forecast of 2.2% should the strong AI-related demand momentum persist, and if payback effects from earlier front-loading are delayed, which could portend weaker growth in 2026 instead (UOB: 1.5%). In our baseline assumptions, we have penciled in a short-lived technical recession in 2H25.

CENTRAL BANK

MAS likely to narrow/lower its 2025 core inflation forecast in Oct 2025 MPS

Singapore's core inflation momentum (3m/3m sa) softened in Jul, following the earlier months of a temporary uptick driven by the hike in MediShield Life Premiums associated with coverage expansion and increase in water tariffs in Apr. Inflation pervasiveness, the share of CPI basket items exceeding the 2%-threshold, rose slightly in Jul (28.7%, Jun: 26.1%) but remains comfortably below the historical norm of ~31%, reflecting subdued price increases across a broad range of goods and services. External inflation conditions remain benign, as proxied by our import-weighted inflation index constructed using the CPI of Singapore's top 10 import partners, implying imported inflation should stay contained. Demand-side price pressures should also remain constrained amidst a gradually cooling domestic labour market. Surveys by MOM in the 2Q25 Labour Market Advance Release indicate a lower proportion of firms planning to hire or raise wages for the next 3 months, while services ULC turned contractionary for the first time since 1Q21 (2Q25: -0.8% y/y). Measures to support employment could be enhanced to prevent an undue loosening of labour market conditions – for example, the recently announced GRaduate Industry Traineeships ([GRIT](#)) aims to help fresh graduates gain industry-relevant experience and skills. In our view, another weak CPI reading in Aug would likely give MAS the confidence to revise its 2025 core inflation forecast, either by narrowing it to 0.5-1.0% (from 0.5-1.5%), or downshifting it entirely to 0.0-1.0%, supporting the case for further monetary policy easing via a complete flattening of the S\$NEER slope in the Oct 2025 MPS, if not in Jan 2026. Should MAS proceed with further easing in Oct 2025/Jan 2026, considerations of a re-steepening of the S\$NEER slope (to 0.5% p.a.) could surface around the Jan 2027 MPS, contingent on the normalization of inflation conditions.

CURRENCY

Downside in USD/SGD to be limited from here

USD/SGD has stabilized over the past two months, following a year-long decline from 1.36 at the start of the year. After rebounding from a decade-low of around 1.27 in early Jul, the pair has been consolidating above 1.28 throughout Aug. This price action reinforces our view that the S\$NEER likely peaked in Jun and has been gradually trending lower since.

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



FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
USD/KRW	1,370	1,350	1,330	1,310
KRW Base Rate	2.25	2.00	2.00	2.00
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	1.6	2.0	1.0	1.7
CPI (avg y/y %)	3.6	2.3	2.0	2.0
Unemployment Rate (%)	3.2	3.7	3.0	3.0
Current Account (% of GDP)	1.8	5.3	4.7	3.7
Fiscal Balance (% of GDP)	-1.5	-1.8	-2.2	-2.0

ECONOMY

Investment stays weak amid US tariffs

South Korea's 2Q25 GDP improved to 0.6% y/y, 0.7% q/q SA from 0% y/y, -0.2% q/q SA in 1Q25. The US trade truce and South Korea's presidential election in early Jun have bolstered trade and consumer sentiment but capital investments continued to contract due to US' trade policy uncertainty.

South Korea reached a tariff deal with the US just before the 1 Aug deadline that set the reciprocal tariff rate on South Korean exports at 15% (from baseline 10% but lower than threatened 25%) and reduce duties on South Korea-made automobiles to 15% from 25%. Steel and aluminium exports will continue to be taxed at 50%. This places the country at the same level as major competitors in the EU and Japan. While there remain uncertainties for other product-specific duties, US President Trump said South Korea's semiconductor and pharmaceutical exports would not be treated more harshly than those from other countries. In return, South Korea will purchase USD100 bn of US energy products and invest USD350 bn in the US, of which USD150 bn of the fund will be earmarked for the shipbuilding industry while USD200 bn would be invested in industries such as chips, nuclear power, batteries and biotechnology. The BOK estimates that US' tariffs will shave 0.45 ppt off the GDP growth rate in 2025 and 0.6 ppt in 2026. It also pointed out the risks of US' tariffs and investment push in hollowing out the Korean industry.

South Korea's exports continued to be driven by semiconductors and ships in Jul and Aug while its exports of petroleum chemicals, steel and household appliances remained weak. The higher US tariffs and the unwinding of frontloading activities would be negative on growth in 2H25 but this is cushioned by the expansion of the fiscal and monetary policy. To date, the government has announced two supplementary budgets totaling KRW45.6 tn (1.7% of GDP). For 2026, the government proposed a record 8.1% increase in the budget to KRW728 tn (USD522 bn), compared with a 3.2% increase in 2025 with large increases in spending on R&D and Industry, SMEs and Energy. A better-than-expected growth outcome in South Korea's key markets such as China, EU and ASEAN will also have a positive spillover on Korea's economy.

The unemployment rate continued to ease to 2.5% in Jul from 2.9% at the start of the year with the youth unemployment rate falling to 5.5% from as high as 7.5%

in Mar. As of Jul, the economy created 286k jobs even as manufacturing recorded 5k job losses. This is credited to the government's job program for the youth and support to seniors' employment as well as an increase to the public sector workforce. The government has also budgeted an increase in 2026 spending to support the introduction of the 4.5-day work week for selected corporations, various maternity and childcare-related benefits and job seeker benefits. South Korea's economy barely grew in 1H25, coming in at just 0.3% y/y. In 2H25, growth will be supported by a more favourable base effect and some improvement in sentiments. Our forecasts for GDP growth in 3Q25 and 4Q25 are at 1.5% y/y and 1.9% y/y respectively.

Inflation has been largely stable due to the subdued demand-side pressure and stabilization of global oil prices while US tariffs could dampen the domestic inflation outlook. The headline and core CPI growth averaged 2.0% y/y and 2.2% y/y respectively in Jan-Aug. We expect the headline inflation at 2.0% in 2025 and 2026. Despite inflation staying contained, rising household debt and house prices are worrying. The government has rolled out new conditional restrictions on property purchases by foreigners in the greater Seoul area (effective from 26 Aug) and tightened restrictions on mortgages and jeonse loans (effective from 28 Jun). There are also plans for a new housing supply package to ease shortages and rein in prices.

CENTRAL BANK

BOK to resume rate cut in Oct

The recent macroprudential measures are expected to stabilise household debt growth and price expectations, thus allowing the BOK to resume cutting its interest rate in 4Q25. This is reinforced by the non-consensus pause in Aug (one board member voted for a 25-bps rate cut) and BOK's guidance. Five out of six board members (excluding Governor Rhee) are open to a rate cut in the next three months, an increase from four in the Jul meeting. Governor Rhee also said that the rate cut stance may remain in place until 1H26. There are two more meetings for the rest of 2025, on 23 Oct and 27 Nov. We keep our call for BOK to cut policy rate by 25-bps at the Oct meeting, followed by one more 25-bps rate cut in 1Q26 to bring the base rate to a terminal level of 2.00% and the cumulative cut to 150-bps since Oct 2024.

CURRENCY

KRW to rebound further

USD/KRW rose from 1,350 to 1,393 through 3Q25, tracking a broad-based rebound in the USD and partially reversing its earlier decline in the first half of the year. This move reflected investor reassessment of US tariff impacts on South Korean exports, as well as implications for growth and market sentiment. Looking ahead, we anticipate renewed USD weakness as the Fed resumes rate cuts starting in Sep. Given the KRW's historically higher beta relative to other Asian currencies, it stands to benefit more from the expected USD depreciation. We also expect the KRW to recoup much of the losses sustained during the political turbulence of 4Q24. Overall, our USD/KRW forecasts are 1,370 in 4Q25, 1,350 in 1Q26, 1,330 in 2Q26 and 1,310 in 3Q26.



FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
USD/TWD	30.3	30.0	29.7	29.5
TWD Official Discount Rate	2.00	1.88	1.88	1.88
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	1.1	4.8	5.4	3.0
CPI (avg y/y %)	2.5	2.2	1.8	1.9
Unemployment Rate (%)	3.4	3.4	3.3	3.3
Current Account (% of GDP)	14.0	14.1	14.6	13.0
Fiscal Balance (% of GDP)	-0.6	0.4	-0.1	-0.5

ECONOMY

Upgrading Taiwan's GDP forecast on sustained export outperformance

Taiwan's GDP growth jumped to 8.01% y/y in 2Q25, the fastest quarterly expansion in four years and the momentum picked up sharply to 3.05% q/q SA basis from 1.51% in 1Q25. This exceeded the statistical agency's forecast in May where it had factored in 2Q25 growth of 5.23% y/y, 0.47% q/q.

Net exports were the main driver of the robust economic performance in 2Q25, backed by strong global demand for artificial intelligence (AI) and emerging technologies. Net exports (6.05 ppt) contributed 75% of the headline GDP growth, followed by contributions from gross fixed capital formation (3.61 ppt), government consumption (0.37 ppt) and private consumption (0.22 ppt) but inventory (-2.24 ppt) drawdown accelerated and posed a significant drag on growth as manufacturers turned more cautious. The labour market conditions remain robust. Employment gains have been driven by the services sector this year with labour force participation rate edging higher to 59.51% and the SA unemployment rate at 3.33% in Jul – the lowest on record.

Global demand for high-end chips related to AI applications and 5G is likely to continue underpinning Taiwan's economic resilience but the pace of growth may slow. On the other hand, investments will be led by the establishment of R&D and data centers. Starting from 2026, Taiwan will launch its "Ten Major AI Infrastructure Projects" initiative, including three smart applications, three key technologies and four infrastructure plans. The fiscal expansion will be another source of growth support. The Legislature passed revisions to the special relief package at end-Aug, setting the funding ceiling at NT\$570 bn. This includes the special defense budget, subsidies for national health and labour insurance and universal cash payments of NT\$10,000 to its citizens with disbursements expected to begin in Oct.

Effective from 7 Aug, the US has imposed a 20% tariff on imports from Taiwan, on top of the most favored nation (MFN) duties and any anti-dumping or countervailing tariffs. This significantly disadvantages Taiwanese firms compared to other economies such as Japan, South Korea and the EU where the reciprocal tariff rate is lower at 15%. The US has yet to announce sectoral tariffs on semiconductors and pharmaceuticals but the higher

reciprocal tariff on Taiwan is a setback for other sectors. It is notable that the US is now Taiwan's largest trade partner with its exports to US surging 51% y/y in 1H25, dominated by ICT and audiovisual products. The strong Taiwan dollar vis-à-vis USD and other Asian currencies has also raised concerns over weakening export competitiveness.

Taiwan's economy expanded by 6.75% y/y in 1H25. Given the YTD outperformance and revised prelim data, we adjust our forecast for 2025 GDP growth to 5.4% with 3Q25 at 4.7% y/y and 4Q25 at 4.2% y/y. The slowdown in 2H25 will be primarily driven by further inventory depletion while any delay in frontloading payback due to sustained global demand for AI-related applications could cushion the growth moderation. For 2026, we have also raised our outlook to 3.0% (from 2.5%). Our forecasts are more bullish than the official outlook of 4.45% and 2.81% for 2025 and 2026 respectively.

Both the headline and core inflation have settled below CBC's threshold of 2% in the past few months, averaging 1.9% and 1.6% in Jan-Jul respectively. We expect headline inflation to remain below 2% for the rest of the year despite the prospect of higher food prices due to the typhoons. Importantly, the TWD strength continues to cap imported inflation. We forecast the headline inflation at 1.8% and 1.9% in 2025 and 2026 respectively.

CENTRAL BANK

Monetary policy easing likely within the next 6 months

With the upbeat economic performance, Taiwan's CBC will have room to delay the start of its interest rate cut through the end of 2025 despite the lower inflation. This will preserve the policy space for easing should growth slow more than expected next year. Taiwan's 1Y swap rate has recovered to around 1.67% from a low of 1.52% in May as investors pared back rate cut expectations. In 2H25, the monetary policy decisions are scheduled on 18 Sep and 18 Dec. For now, we maintain our call for a 12.5-bps cut to the official discount rate to 1.875% in 1Q26. Any further rate cuts will depend on incoming data on growth, inflation and the housing market.

CURRENCY

TWD still likely to outperform

TWD fell over 3% in the 3Q25 to 30.7 /USD as of 3 Sep though it remains the best performing Asian FX year-to-date. Investors took profit of strong TWD gains registered in the 2Q25 as they assessed the effects of the 20% US tariffs on Taiwan imports starting Aug. This bout of TWD weakness also coincided with some foreigner outflows from Taiwan stock markets late Aug which tipped the YTD flows into a modest USD 137 mn outflow.

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



FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
USD/THB	32.1	31.9	31.7	31.5
THB 1D Repo	1.25	1.00	1.00	1.00
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	2.0	2.5	2.0	1.8
CPI (avg y/y %)	1.2	0.4	0.4	0.6
Unemployment Rate (%)	1.3	1.0	1.0	1.0
Current Account (% of GDP)	1.5	2.2	2.1	2.3
Fiscal Balance (% of GDP)	-2.3	-2.4	-4.5	-4.3

ECONOMY

Bracing for the adverse impact of the US's tariffs

Thailand's 2Q25 GDP surprised to the upside at 2.8% y/y (0.6% q/q sa), beating both our forecast and the Reuters consensus (2.5% y/y; 0.3% q/q sa). This followed a 3.2% y/y reading in 1Q25, placing 1H25 growth at 3.0% y/y. The outperformance was driven by external demand—most notably front-loaded merchandise exports ahead of reciprocal tariffs—supported by resilient private domestic demand and steady government spending. We forecast real GDP growth of 2.0% in 2025, in line with the NESDC (+2.0%) and slightly below the BOT's estimate of 2.3%, and 1.8% in 2026 (vs. BOT est: +1.7%).

The near-term outlook has turned more subdued, with growth momentum set to weaken notably in 2H25–1H26 amid a mix of cyclical headwinds and structural competitiveness challenges. Despite greater clarity on the US reciprocal tariff regime, trade policy uncertainty persists, particularly around enforcement and sectoral carve-outs. Thailand's 19% surcharge—layered on top of generally low MFN rates—and its higher effective rate once imported inputs are considered – will erode price competitiveness and compress margins in export-reliant sectors. At the same time, the slower-than-expected return of Chinese visitors has interrupted the normalization of tourism. Taken together, these forces point to softer external demand over the medium term and a more fragile growth trajectory.

Looking ahead, the growth mix is set to pivot towards domestic demand—namely private consumption and private investment—underpinned by a sizable public capex pipeline. The FY2026 budget allocates 23% to public investment, down from 25% in FY2025, which should support infrastructure outlays, crowd in complementary private investment, and partially offset softer external growth engines.

Despite elevated policy uncertainty, FDI signals turned more constructive in 1H25. BOI-approved applications rose +75% y/y in 2Q25 (after +86% y/y in 1Q), with approvals in the Eastern Economic Corridor (EEC) up +91% y/y (vs +116% in 1Q). While approvals are not the same as realized inflows, this pipeline points to a firmer capex cycle over the next 6–12 months—led by new S-curve clusters such as automotive/EV and parts, smart electronics, affluent tourism, and biofuels & biochemicals—helping to partially offset softer external demand.

Deflation risks are mounting amid a prolonged K-shaped economic path. The broad price gauge—the GDP deflator—remained negative in 1H25, slipping to -1.52% y/y in 2Q25 from -0.13% in 1Q25, signaling economy-wide price weakness beyond the CPI. With domestic demand soft and pricing power limited, we now expect headline inflation to average 0.4% in 2025 and 0.6% in 2026, underscoring disinflationary pressures and a rising real policy rate.

CENTRAL BANK

More rate cuts to support the economy

Following the 25-bps policy rate reduction in Aug, we anticipate further monetary policy accommodation via an additional 25 bps cut in Dec. This would bring the policy rate to 1.25% by year-end, with a subsequent 25 bps reduction in 1Q26, lowering the benchmark rate to 1.00%—which we view as the likely terminal rate.

We view that there are three key factors underpinning this trajectory: (1) a weakening growth impulse and subdued outlook; (2) mounting deflationary risks tied to soft aggregate demand; and (3) persistently tight financial conditions that are compressing private-sector spending. Importantly, Aug's full pass-through to key bank lending rates (notably the MLR) signals firmer transmission, probably justifying a pause in Oct. That said, if downside risks increase and financial conditions are assessed to be tighter, we may see a pre-emptive easing, with the policy rate potentially drifting toward pandemic-era lows of around 0.50%, though this is not our base case.

CURRENCY

THB to appreciate further

The THB managed to clock a modest 0.3% gain against the USD across Jul and Aug while maintaining a decent 5.3% year-to-date gain. The resilience in the THB is particularly noteworthy given that foreign investors pulled out of the local stock and bond markets in the same period, amidst ongoing political uncertainty.

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



FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
USD/VND	26,300	26,200	26,100	26,000
VND Refinancing Rate	4.50	4.50	4.50	4.50
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	5.1	7.1	7.5	7.0
CPI (avg y/y %)	3.3	3.6	3.6	4.0
Current Account (% of GDP)	5.8	3.0	3.6	3.0
Fiscal Balance (% of GDP)	-3.0	-2.5	-3.5	-3.7

ECONOMY

Revising higher 2025 growth forecast

Vietnam's real GDP surged 7.96% y/y in 2Q25 (vs. revised 7.05% in 1Q25), beating Bloomberg's 6.85% estimate and our 6.1% forecast. This brought 1H25 growth to 7.52% y/y—the strongest first-half performance since 2011.

The robust first-half showing was driven by a 14% y/y export surge, as sentiment rebounded after President Trump lowered the 2 Apr "Liberation Day" tariff to a temporary 10% baseline rate on trade partners for 90 days.

Tariff uncertainty eased in 2H25 after the US finalized country-specific rates before the 1 Aug deadline. Vietnam's rate was set at 20% (see [US: Tariff reset offers clarity, but trade uncertainty persists](#)).

While lower than the initial 46% threat, concerns remain. The 40% transshipment tariff lacks detail, and sector-specific rates, especially for semiconductors and furniture, are still pending. These sectors are critical: electronics (HS 85) made up 31% of US imports from Vietnam in 2024, followed by machinery (HS 84; 21%) and furniture (HS 94; 10%). Tariffs on these could affect more than 40% of Vietnam's exports to the US.

Data in Jul suggests growth momentum remains positive, though the outlook is clouded by ongoing tariff developments. Exports rose 17% y/y to a record USD42.3 bn, lifting YTD growth to nearly 16%. The trade surplus reached USD9.5 bn in the first seven months, below the USD14 bn in the same period last year due to higher import from frontloaded export orders. Despite tariff pressures, annual exports could still rise about 10% (vs 14% in 2024), assuming a moderate 1-5% y/y pace for the rest of 2025.

Other indicators also point to resilience: the PMI rebounded to 52.4 in July after three months below 50, and manufacturing output rose 9% y/y despite a high base. Realized FDI inflows hit USD13.6 bn YTD July, ahead of USD12.6 bn a year ago, suggesting full-year FDI could exceed USD20 bn (2024: USD25.4 bn).

Amid external headwinds, Vietnam announced in mid-Aug a USD48 bn infrastructure drive covering 250 projects. The state will fund 129 projects, focused on urban development and transport with USD18 bn, while the remaining 121 projects, worth USD30.5 bn, will be financed by other sources, including foreign firms.

Despite tariff threats and uncertainty, Vietnam's economy continues to show resilience and dynamism. Export performance has been particularly strong, though risks remain if US demand weakens amid tariff-induced price pressures. Following the robust 7.5% growth in 1H25 and expected support from increased government investment, we revise our full-year GDP forecast to 7.5% ([from 6.9% previously](#); 2024: 7.09%), with 3Q25 growth at 7.6% y/y and 4Q25 at 7.2%. For 2026, we maintain our growth projection at 7%. The government is aiming for GDP expansion of 8.3%-8.5% this year.

CENTRAL BANK

SBV to hold rates steady amid resilient economic growth

Vietnam's inflation rate has yet to show a meaningful slowdown. YTD headline inflation rate hit 3.3% in Jul, vs average of 3.6% in 2024 and 3.26% in 2023. Main drivers continue to be housing & construction materials (5.9% y/y average YTD; 18.8% weight) and health care (18% y/y average YTD; 5.4% weight). Combined with the potential for decent growth prospects in 2H25 and persistent VND weakness, these factors would constrain SBV's ability to ease its policy stance. As such, we expect SBV to keep its refinancing rate steady at 4.50%. If business and labour market conditions deteriorate sharply, there is a possibility for SBV to cut the refinancing rate in a single step to the COVID-19 low of 4.00%, though this is not our base case.

CURRENCY

VND to underperform peers

Bucking the regional trend, the VND weakened to a record low of 26,436 /USD in Aug, marking a 3.4% year-to-date decline and setting the stage for a fourth consecutive year of depreciation. Although Vietnam secured a trade deal with the US that reduced tariff rates to 20% from the 46% announced in Apr, uncertainty remains around the 40% transshipment tariff. This could prompt firms to reassess supply chain strategies, potentially dampening Vietnam's attractiveness for FDI.

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



FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
AUD/USD	0.66	0.67	0.68	0.69
AUD Official Cash Rate	3.35	3.10	3.10	3.10
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	2.1	1.1	1.7	2.2
CPI (avg y/y %)	5.6	3.2	2.5	2.7
Unemployment Rate (%)	3.7	4.0	4.2	4.3
Current Account (% of GDP)	-0.3	-2.0	-2.0	-2.5
Fiscal Balance, FY (% of GDP)	0.1	-1.4	-1.0	-1.5

ECONOMY

Recovery remains patchy

GDP rebounded 0.6% q/q in 2Q25, up from a revised 0.3% q/q reading (0.2% q/q previously) in 1Q25, which was heavily impacted by weather events. The reading came in stronger than consensus forecast as well as the RBA's Aug Statement on Monetary Policy forecast of 0.5%. Compared to a year ago, GDP rose 1.8%, up from a revised 1.4% y/y reading (1.3% y/y previously) in 1Q25. While the pace of growth remains below potential, the economy is now expanding at a slightly faster pace than the population. GDP per capita rose 0.2% in 2Q25, to be 0.2% higher than a year earlier. GDP per capita remains 1.3% lower than the most recent peak in 2Q22.

As far as inflation is concerned, headline CPI growth spiked to 2.8% y/y from 1.9% in Jun. The Jul outcome was substantially higher than consensus forecast of 2.3%. Trimmed mean inflation, which excludes big swings in fuel prices and electricity bills, rose to 2.7% y/y, from 2.1% in Jun – which was the slowest annual pace since Nov 2021. Gains for the CPI excluding volatile items (fruits and vegetables, holiday travel and automotive fuel) jumped to 3.2% y/y from 2.5% in Jun. On a month-on-month basis, the CPI rose 0.9% in Jul after a 0.2% lift in Jun. Headline inflation was 3.2% on a three-month annualized basis and 4.5% on a six-month annualized basis. Increases in electricity prices were a key driver behind the upside surprise in the Jul inflation data. Electricity prices rose 13.0% m/m in Jul, to be 13.1% higher than a year ago. Once the rebates are applied in Aug, electricity prices will fall, reversing the surge in Jul. As such, we expect inflation to fall back towards the lower end of the RBA's 2%-3% target band.

Turning to the labour market, the seasonally adjusted unemployment rate fell to 4.2% in Jul from 4.3% in Jun, as employment rose by 25,000 people and the number of unemployed decreasing by 10,000 people. Growth in employment was driven by full-time employment, which was up by 60,000 people, with a 36,000 person fall in part-time employment partly offsetting this rise. Female full-time workers grew by 40,000 while male full-time workers rose by 20,000. The growth in employment resulted in the employment-to-population ratio rising slightly to 64.2%. We expect the unemployment rate to drift up modestly, peaking at 4.4% in late 2025 before falling back to 4.3% in 2026.

Our outlook for the Australian economy remains broadly unchanged. On the downside, we are mindful of elevated global risks to activity and the likelihood that additional US tariffs would be disinflationary for Australia. The upside stems from a stronger-than-expected run of domestic data. Our 2025 GDP growth forecast is at 1.7%, and our 2026 GDP growth forecast is at 2.2%.

CENTRAL BANK

A cautious RBA likely to ease further

The RBA decided to lower the cash rate target by 25 bps to 3.60% at its Aug meeting. The decision was unanimous across the 9-member board, and at 3.60%, the cash rate target is at its lowest since Apr 2023. The RBA has cut rates three times so far this year – each by 25 bps – since it raised it to a 12-year high of 4.35% to combat higher-than-anticipated inflation.

In its accompanying press release, the RBA stated that the Board "remains cautious about the outlook, particularly given the heightened level of uncertainty about both aggregate demand and potential supply. It noted that monetary policy is well placed to respond decisively to international developments if they were to have material implications for activity and inflation in Australia".

The RBA has been moving cautiously in the current easing cycle with RBA Governor Michele Bullock repeatedly highlighting that the central bank may not have to lower rates as much as global counterparts given it did not push policy as high during the 2022-23 tightening cycle. On 3 Sep, Bullock flagged that there may be no further interest rate cuts if consumer spending continues to rise rapidly, as new data shows annual household spending growth hit a 20-month high in Jul. Consumer spending grew by 5.1% y/y in Jul, driven by increased purchases of health services, hotels, air travel and restaurant meals. Spending has increased in nine out of the last 10 months in the ABS' monthly household spending indicator.

With these figures confirming that consumer spending is recovering after several years of subdued activity; and following stronger-than-expected 2Q25 GDP data, we now forecast the RBA to deliver two more 25 bps rate cuts (instead of three previously), in Nov and Feb, taking the cash rate target to 3.10% by early-2026.

CURRENCY

AUD draws support from less dovish RBA

Among G-10 currencies, the AUD posted one of the smallest declines against the USD, slipping just 0.6% over Jul and Aug. This resilience was partly supported by stronger-than-expected monthly inflation in Jul, which rose 2.8% y/y, approaching the upper bound of the RBA 2%-3% target range. The data reinforces the RBA's cautious stance on rate cuts and we now only expect two more 25 bps rate cuts – instead of three previously. A less dovish RBA translates to more support for the AUD amidst a backdrop of broader USD weakness. Our updated AUD/USD forecasts are 0.66 in 4Q25, 0.67 in 1Q26, 0.68 in 2Q26 and 0.69 in 3Q26.



FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
EUR/USD	1.19	1.20	1.21	1.22
EUR Refinancing Rate	1.65	1.65	1.65	1.65
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	0.4	0.7	1.1	0.9
CPI (avg y/y %)	5.5	2.4	2.1	1.9
Unemployment Rate (%)	6.6	6.4	6.3	6.3
Current Account (% of GDP)	1.7	2.7	2.5	2.2
Fiscal Balance, FY (% of GDP)	-3.5	-3.1	-3.3	-3.4

ECONOMY

Gradual recovery amid trade uncertainty

The Eurozone economy grew by 0.1% q/q in 2Q25, according to preliminary estimates. While the reading was slightly better than expected, country-level data from the bloc's largest economies indicate that US tariffs are starting to weigh. The slowdown follows an unexpectedly strong first quarter, when the economy grew by 0.6%. Among the largest economies, both Germany and Italy contracted by 0.1% q/q, while France surprised to the upside with 0.3% growth, driven largely by inventory accumulation.

While the EU-US trade deal has helped avoid a deeper trade conflict, the ongoing uncertainty and increased costs for EU exporters and weakening external demand are likely to keep economic growth subdued through the rest of the year. Our forecasts for Eurozone GDP growth are at 1.1% and 0.9% for 2025 and 2026, respectively. We see some resilience in the Eurozone economy stemming from a more expansionary fiscal policy, especially in Germany; and also from signs of growth in domestic demand, which should help cushion some of the impact from tariffs as Europe's dependence on export-led manufacturing falls.

Inflation in the Eurozone ticked up to 2.1% y/y in Aug from 2.0% y/y in Jul. The core reading was unchanged from the previous month at 2.3%, confirming a stable inflation climate. The drop in services inflation was too small to pull the core figure down with it. Services inflation fell to 3.1% from 3.2%. The stickiness of services inflation has been a main area of concern for the ECB because it most directly reflects domestic cost pressures. Going forward, headline inflation is likely to head higher again in Sep as the drag from energy prices fades before moving back towards 2.0%. Our inflation forecasts for the Eurozone have been revised slightly higher to 2.1% in 2025 and 1.9% in 2026.

The labour market is set to remain resilient overall, with Eurozone unemployment edging down to 6.2% in Jul from 6.3% in Jun. The latest fall was mainly due to a tick lower in Italian unemployment from 6.2% to 6.0%. The rate held stable in the other major economies like Germany, France, Spain and the Netherlands. Smaller economies showed a mixed picture, with Belgium and Austria seeing declines, while Ireland and Finland experienced increases.

CENTRAL BANK

ECB to remain data-dependent

After seven consecutive 25 bps rate cuts totaling 200 bps since Sep 2023, the ECB kept its policy interest rates on hold in Jul, as widely expected.

In the accompanying press release, the ECB stated that "the environment remains exceptionally uncertain, especially because of trade disputes". The forward guidance was kept unchanged, with the ECB saying that "it will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance; and the Governing Council is not pre-committing to a particular rate path".

Overall, there were little changes to the ECB's macro-economic assessment. The ECB still sees a resilient Eurozone economy, though risks to the growth outlook remain tilted to the downside. Lagarde made explicit what these downside risks were: a further escalation in global trade tensions, geopolitical tensions and a deterioration in financial market sentiment. As far as inflation was concerned, the ECB still refrains from gauging the risk assessment. Instead, the ECB has again labelled the outlook for inflation as more uncertain than usual.

The ECB is expected to take a data-dependent approach. At this juncture, we expect a 25 bps cut at the next ECB meeting on 11 Sep, and we see the ECB cutting again by 25 bps in Oct or Dec. We recognize that the ECB is approaching the end of its current rate cutting cycle, but much depends on how tariffs, growth and inflation evolve.

CURRENCY

EUR to capitalize on USD weakness

EUR/USD's recent rally has lost momentum, as political uncertainty in France – stemming from a deadlock over proposed budget cuts – raises concerns about a potential government collapse. This anxiety is reflected in the widening spread between French and German 10-year bond yields, which surged past 80 bps in late Aug, marking the highest level since Jan. Despite these developments, we view the current French political turmoil as likely contained – a "storm in a teacup" – rather than a broader systemic risk. This is supported by the muted 1-month EUR/USD volatility, as well as low and benign credit default swap (CDS) spreads in general for Eurozone countries, suggesting limited market contagion for now.

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



FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
NZD/USD	0.59	0.60	0.61	0.61
NZD Official Cash Rate	2.75	2.50	2.50	2.50
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	1.9	-0.5	1.1	2.3
CPI (avg y/y %)	5.8	2.9	2.5	2.1
Unemployment Rate (%)	3.8	4.8	5.3	5.0
Current Account (% of GDP)	-7.8	-6.5	-5.0	-4.6
Fiscal Balance, FY (% of GDP)	-2.1	-1.9	-3.3	-2.8

ECONOMY

Sluggish recovery

Following the deepest recession since 1991, economic activity in New Zealand began to recover in late-2024. However, the recovery has stalled in the second quarter of this year. Spending by households and businesses has been constrained by global uncertainty. New Zealand's consumer confidence index fell to 92.0 in Aug from 94.7 in Jul, marking its lowest point in ten months and signaling increased pessimism among consumers regarding the economic outlook.

As far as the jobs market is concerned, employment fell 0.1% q/q in 2Q25 from +0.1% q/q in 1Q25. The unemployment rate rose to 5.2% in 2Q25, the highest since 3Q20. While the 2Q25 outcome was in line with the RBNZ's projection, but this was due to a decline in the participation rate. Going forward, we expect the job market and wage growth to soften further.

On inflation, CPI was up 0.5% q/q in 2Q25, easing from the 0.9% q/q reading in 1Q25, and a tad below expectations for a print of 0.6% q/q. Compared to the same period a year ago, CPI growth picked up to 2.7% y/y in 2Q25, just a tad below expectations for a reading of 2.8% y/y. Non-tradables prices increased 0.7% q/q, matching estimates. Tradables prices rose 0.3% q/q. Core inflation excluding food, energy and fuel was 2.7%, accelerating from 2.6% in the first quarter. Meanwhile, annual non-tradables inflation, a closely watched indicator of domestic price pressures, slowed to 3.7% in the second quarter from 4% in the prior period. The RBNZ tipped 3.7% in its May projections. Imported or so-called tradables prices rose 1.2% y/y, picking up from 0.3% y/y in 1Q25.

According to the Monetary Policy Statement Aug 2025, the RBNZ has downgraded the 2Q25 GDP growth forecast from +0.2% to -0.3%, with annual growth lifting to around 3.0% by 2027. Annual CPI inflation is expected to accelerate to 3.0% in 3Q25. However, this is driven by the volatile tradable side of the basket. The RBNZ is forecasting slightly weaker non-tradable inflation over the remainder of this year and next. As for the unemployment rate, the RBNZ expects it to peak at 5.3% in 3Q25, before falling from late-2025, reaching 4.3% by the end of the forecast horizon.

2Q25 GDP figures will be due on 18 Sep. We project GDP to rise to 1.1% in 2025 and 2.3% in 2026, supported by lower interest rates. However, increased trade restrictions and high uncertainty about trade policy globally will temper external demand, confidence, and the pace of the recovery.

CENTRAL BANK

RBNZ turns more dovish

The RBNZ decided to cut the Official Cash Rate (OCR) by 25 bps from 3.25% to 3.00% in Aug, the lowest level in three years. The reduction was in line with expectations and marked a resumption of its easing cycle following the pause in Jul. Including the latest reduction, the RBNZ has lowered interest rates by a total of 250 bps since Aug 2024. The media release concluded with the RBNZ saying that "further data on the speed of New Zealand's economic recovery will influence the future path of the OCR. If medium-term inflation pressures continue to ease as expected, there is scope to lower the OCR further".

The latest decision marks a notable shift towards a more dovish stance from earlier meetings. There were differing views among the six members of the MPC deciding on the OCR. This resulted in only the third vote in the history of the MPC - and the most split vote so far, with four voting for the 25-bps cut and two voting against and in favour of a 50-bps cut. This is a pivot from May, where one member opposed any rate cut, underscoring growing concerns about medium-term economic momentum and inflation persistence. In addition, the trough of the RBNZ's OCR projection was lowered from 2.85% in the May Statement to 2.55%, indicating a further 45 bps of easing by 1Q26.

Given the weakness in the economy, and the RBNZ's shift to a more dovish stance, we now see the RBNZ taking rates further below neutral. As such, we expect two more 25 bps rate cuts in the OCR to 2.50% (previously we forecast 3.00% would be the low for the OCR).

CURRENCY

NZD feels the drag of more RBNZ rate cuts

NZD underperformed in the latest quarter, falling 3.8% to 0.5860 against the USD as of 3 Sep. This weakness was driven by an unexpected dovish tilt by the RBNZ, with additional 50 bps rate cuts expected from the RBNZ than previously thought. The AUD/NZD pair rose to 1.11, the highest since Feb as the AU-NZ interest gap now flipped into AUD's favour (RBA terminal rate of 2.85% vs RBNZ's 2.50% from 3.00% previously).

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



FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
GBP/USD	1.37	1.39	1.40	1.40
GBP Repo Rate	3.75	3.50	3.25	3.00
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	0.4	1.1	1.1	1.0
CPI (avg y/y %)	7.4	2.5	3.3	2.4
Unemployment Rate (%)	4.1	4.3	4.7	4.8
Current Account (% of GDP)	-3.5	-2.7	-2.8	-2.7
Fiscal Balance, FY (% of GDP)	-5.2	-5.1	-4.3	-3.7

ECONOMY

Subdued growth outlook

UK inflation unexpectedly rose to 3.8% y/y in Jul, from 3.6% y/y in June. This is the highest reading since Jan 2024, and was above consensus expectation of 3.7% y/y. The increase was mainly driven by air fares, hotels and motor fuel. Soaring air fares - which jumped by 30.2% y/y - were driven by higher school holiday prices, while food inflation accelerated to 4.9% y/y (driven by higher prices for beef, instant coffee and orange juice), up from 4.5% y/y in Jun, and the highest since Feb 2024. This is an important measure as it tends to have a big influence on household inflation expectations, which are currently elevated. Services inflation, also another closely watched gauge of underlying prices pressures, climbed to 5.0%, above the 4.9% forecast by the BOE. Meanwhile, core inflation, which excludes more volatile energy, food, alcohol and tobacco prices, rose by 3.8% y/y, up from 3.7% y/y in Jun. Overall, the figures add to evidence that firms are responding to the Chancellor of the Exchequer Rachel Reeves' bumper tax and minimum wage increases in Apr by passing on the extra costs to consumers.

For economic growth, according to preliminary figures, GDP cooled in 2Q25, as temporary factors that boosted activity in 1Q25 - predominantly the frontrunning of taxes and tariffs - unwound. The UK economy expanded by 0.3% q/q, after rising by 0.7% q/q in 2Q25. A look at the expenditure breakdown shows government consumption was the main contributor to the rise in quarterly output, jumping 1.2%. More worryingly, household consumption remained weak, growing by just 0.1%. Investment fell by 1.1%, partly unwinding the large rise seen in 1Q25. Within total capital spending, there was also a 6.9% rise in public sector outlays but a 4.0% fall in business expenditure. Overall, a slowdown in global demand and ongoing consumer caution will likely see growth subdued. We have revised lower our GDP forecasts to 0.9% in 2025 and 1.4% in 2026 (compared to 1.1% and 1.6% three months ago).

Meanwhile, data quality issues have made it difficult to assess the UK jobs market. That said, employment has fallen in eight of the last nine months. A broad set of indicators suggest it continues to loosen, though the pace of cooling has slowed more recently. Annual private-sector regular wage growth remains elevated at 4.8%. But timelier measures suggest further moderation ahead.

CENTRAL BANK

A cautious BOE

As expected, the BOE lowered its policy rate by 25 bps to 4.00% in Aug, after a rare second round of voting in a 5-4 split within the Monetary Policy Committee (MPC).

As reflected in the latest Monetary Policy Summary and Minutes, the key policy guidance was little changed, with the BOE saying that "a gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate". The BOE went on to say that "the restrictiveness of monetary policy has fallen as Bank Rate has been reduced. The timing and pace of future reductions in the restrictiveness of policy will depend on the extent to which underlying disinflationary pressures continue to ease. Monetary policy is not on a pre-set path, and the Committee will remain responsive to the accumulation of evidence".

The next monetary policy meeting is on 18 Sep, where we are expecting a rate hold. Our current base case is for the BOE to deliver rate cuts at a quarterly cadence - and at this juncture, we are penciling in the next 25 bps rate cut at the 6 Nov meeting. That said, from the overall tone, given the vote split and the increase in inflation forecasts, we may see BOE preferring to wait a little longer before moving again.

We also bear in mind that the prospect of a more restrictive Autumn Budget argues for lower rates, though the BOE can only factor it in once the measures have been announced on 26 Nov, which comes after the 6 Nov BOE meeting. As it is, UK government long-term borrowing costs reached their highest level since 1998 on 2 Sep, adding to the pressure on the UK Chancellor ahead of the Budget. There are rising concerns that Reeves will increase taxes later this year in order to meet her borrowing and spending rules. Further tax increases from already-high levels could damage growth, add to inflation, and leave a sizeable hole in the public finances.

CURRENCY

GBP/USD to rise towards 1.40

Although GBP/USD declined by 1.7% in 3Q25, the currency pair is still expected to find support from widening GBP-USD yield differentials, which have reached a five-month high. This follows the BOE hawkish rate cut in Aug, where four policymakers dissented against the move, signaling underlying caution over persistent inflation. Concerns over the UK's fiscal outlook have also driven 30-year gilt yields above 5.6% - the highest level since 1998. The upcoming autumn budget, expected in late Oct or early Nov, will be closely monitored for any potential impact on market sentiment and the GBP.

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



FX & Rates	4Q25F	1Q26F	2Q26F	3Q26F
DXV	96.3	95.3	94.6	93.9
US Fed Funds Rate	3.75	3.75	3.50	3.25
Economic Indicator	2023	2024	2025F	2026F
GDP (%)	2.9	2.8	1.7	1.5
CPI (avg y/y %)	4.1	3.0	2.9	2.6
Unemployment Rate (%)	3.8	4.1	4.5	4.5
Current Account (% of GDP)	-3.3	-3.9	-3.9	-3.8
Fiscal Balance, FY (% of GDP)	-6.3	-6.9	-6.3	-6.1

ECONOMY

Strong 3.3% 2Q rebound, slower growth outlook ahead

US 2Q GDP's expansion was revised higher to 3.3% q/q SAAR (versus prelim est 3.0%) up from -0.5% in 1Q. Personal consumption grew by a faster 1.6% q/q (versus prelim 1.4%) from 0.5% in 1Q but it was the upgrade to 2Q business spending growth (5.7% versus prelim 1.9%, from 10.3% in 1Q) that made a bigger difference due to transportation equipment investments (7.4%) and the strongest rise in intellectual property products (12.8%) in four years. However, the solid 3.3% print needs to be taken in context of the significant reversal in trade, which saw net exports adding 5 ppts to GDP, after having subtracted 4.6ppts in 1Q, largely due to the uncertainty imposed by Trump's tariffs. Another weakness is the US housing market which loomed large as residential investment within GDP fell by -4.7% (from -1.3% in 1Q), the weakness since 2022. Private inventories exerted a significant -3.3ppts drag. Compared to one year ago, GDP grew 2.1% y/y in 2Q, from 2.0% in 1Q.

In the first half of 2025, US economic growth averaged just 1.4%. This is a clear moderation compared to 2024, likely a reflection of cooler domestic demand and in line with the shift in tone on economic growth in the Jul FOMC. While the latest GDP report still corroborated the view of the US economy entering a sub-trend growth trajectory, coupled with uncertain inflationary impact from tariffs, there is an upside risk to our growth outlook for 2025 given the relative success of the trade deals secured by the US, the protracted timeline for the US-China trade negotiations (with a further extension to the reciprocal tariff pause till early Nov for now, a framework in place but how the final trade deal will look remains uncertain and fluid). And while we note the latest (29 Aug) setback of the Appeals court ruling against Trump's tariffs, we remain of the view that Trump will still get his tariffs using another statute if he has to. The Atlanta Fed's GDPNow is projecting 3Q GDP growth of 3.5% (as of 2 Sep) while we have a conservative 0.9% projection.

Beyond tariffs, President Trump's tax cuts and deregulation drive could offset some of the tariff fallout, boost business confidence and investment sentiment, and thus be positive for US growth in 2H. However, these are likely to add to inflationary pressures and worsen the federal fiscal deficit, although tariff revenues will provide some degree of offset. Trump's tough immigration policies will have negative implications for US GDP growth if large-scale deportations significantly reduce labour supply. The rollback of green

policies will be detrimental to the environment but positive for US energy output and lower pump prices. As such, we revise our US GDP growth forecast for 2025 higher to 1.7% (up from our previous forecast of 1.0%) on the back of improvements on tariffs, stronger investment outlook but with growing concerns about the state of the labor market. Our 2026 growth forecast remains unchanged at a conservative 1.5%. Our base case remains for no US recession, and we keep the recession probability at 35%.

The third quarter started with a negative jobs surprise as US reported a worse-than-expected jobs gain of 73,000. More striking was the sharp downward revision of total -258,000 in May and Jun job prints, the biggest downward revision since May 2020 (-642,000) during the height of the Covid-19 pandemic. The widely quoted number is that employment growth averaged a paltry 35,000 in for May-Jul, well below the 2024 average of 168,000, somewhat coinciding with the aftermath of the Liberation Day tariff announcement and subsequent uncertainty during the tariff pause. Unemployment rate is expected to edge higher to 4.5% by end-2025 (Jul: 4.2%) while wage growth which continued to rise since 2021, may head towards 3.5% y/y by end-2025 (Jul: 3.9%). CPI inflation will continue to face the impact from Trump's tariffs and made worse by the recent end to the "de minimis" exemption. Prices paid for inputs by manufacturers jumped to 69.9 in Jul (highest since Oct 2022), adding to the inflation concerns and expectations for price increases to stay above the Fed's 2% target. That said, while tariff-related goods showed moderate price increases, the pass-through effect appears orderly for now. We revise our 2025 US headline CPI forecast to average 3.6% in 4Q, full year at 2.9% (from the previous forecast of 3.6% average for 2025) while our core CPI inflation is projected higher at 3.8% in 4Q, full year at 3.2% (from the previous forecast of 3.8% average for 2025) due to weaker energy outlook. We continue to assume the tariff-driven inflation to be a one-time spike in prices before easing sometime next year.

CENTRAL BANK

Still expecting 3 cuts in 2H 2025

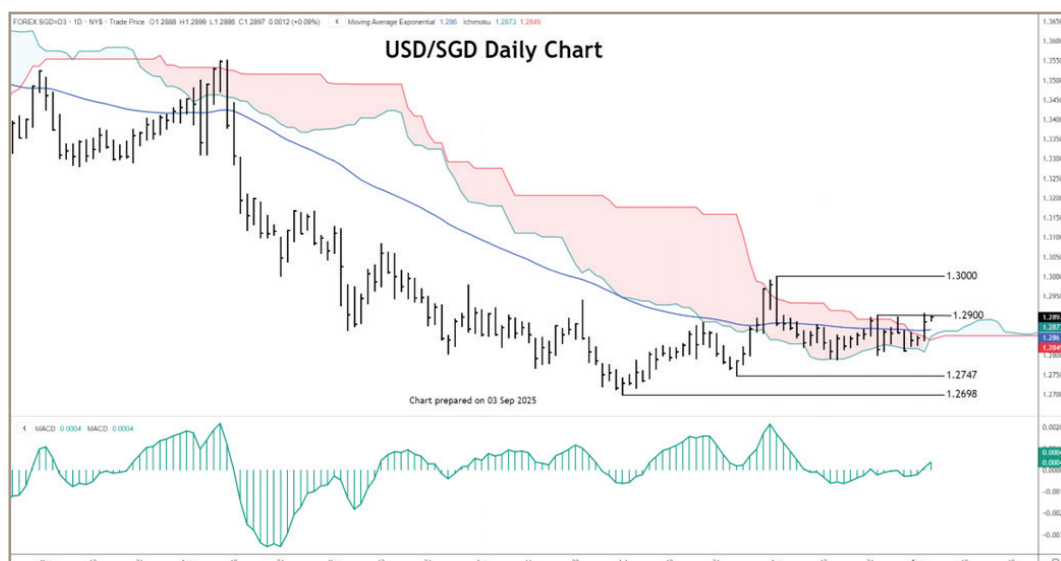
The US Fed kept its current Fed Funds Target Rate (FFTR) range unchanged at 4.25%-4.50% so far in 2025 as widely expected, after delivering a total of 100 bps in cuts in the last three meetings of 2024. FOMC Chair Powell's (likely) last Jackson Hole speech was seen as a strong affirmation for a Sep move to resume easing. Powell warned "the shifting balance of risks" [to employment] may warrant adjusting the policy stance. Another important point was that while Powell stated that the "effects of tariffs on consumer prices are now clearly visible", he also noted the "reasonable base case is that the [tariff] effects will be relatively short lived—a one-time shift in the price level." With this reaffirmation, we continue to hold our view of three 25-bps rate cuts in 2025, to be executed at the Sep, Oct and Dec FOMC meetings, primarily driven by downside risks to growth/employment. This will bring the Fed Funds Target rate (FFTR) to 3.75% (upper bound of FFTR) by end-2025. We are also keeping our view of two rate cuts in 2026, implying a terminal FFTR of 3.25% in 2026.



FX TECHNICALS

USD/SGD: 1.2890

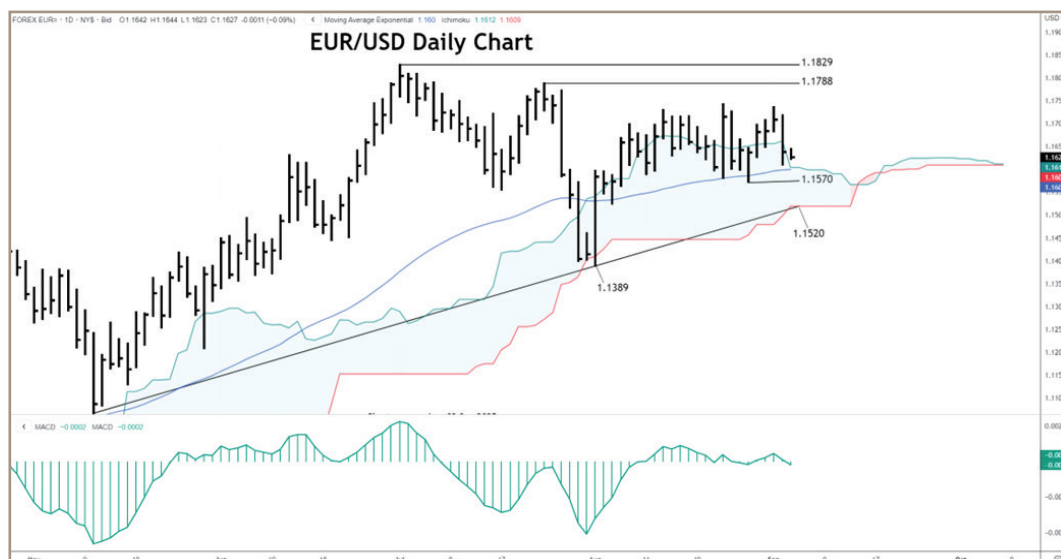
A slight uptick in momentum may lead to USD/SGD edging higher; any advance is unlikely to threaten the major resistance at 1.3000.



USD/SGD dropped to a low of 1.2698 in early July and then recovered. Although the recovery broke above the top of the daily Ichimoku cloud in early August, the advance was capped by the 1.3000 resistance level. USD/SGD pulled back from 1.3000 and has since been trading mostly sideways. That said, as of early September, USD/SGD edged slightly above the 1.2900 resistance level, and upward momentum has ticked higher, though it remains tentative. Heading into the last quarter of the year, USD/SGD may edge higher, but based on the current momentum, any advance is unlikely to threaten the major resistance at 1.3000. On the downside, there is a pair of strong support levels at 1.2747 and 1.2698.

EUR/USD: 1.1630

Thinning daily Ichimoku cloud points to low volatility and a lack of directional bias for now.

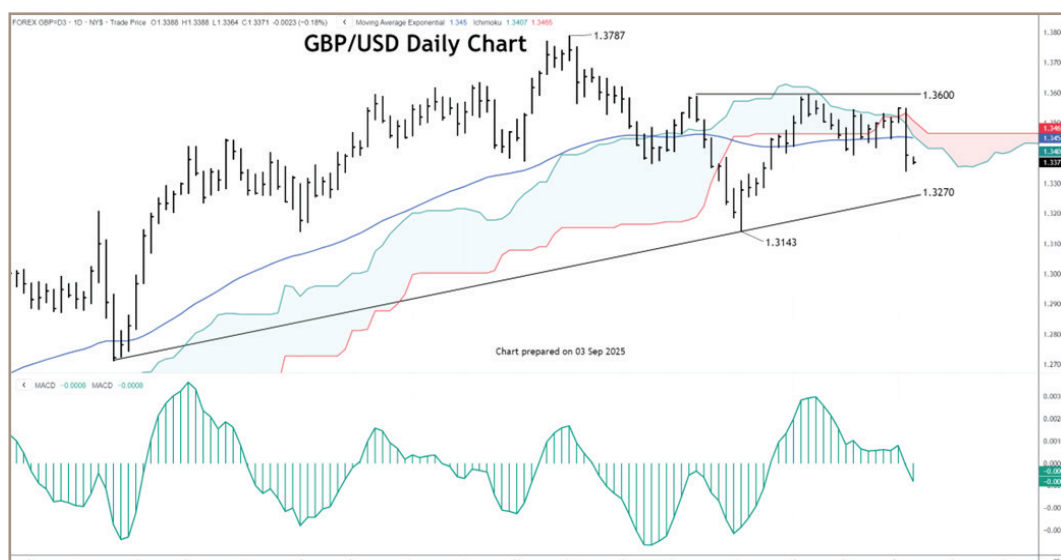


EUR/USD traded between 1.1389 and 1.1829 in July of this year. Since then, it has been trading in a relatively subdued manner, remaining well within the range established in July. The thinning daily Ichimoku cloud points to subdued volatility and a lack of directional bias for now. However, the area between 1.1788 and 1.1829 is a significant resistance zone, and based on the current conditions, the odds of EUR/USD breaking above these levels in the final quarter of the year are not high. On the downside, a breach of the minor support at 1.1570 may lead to a test of the significant support level at 1.1520. Notably, both the rising trendline and the base of the daily Ichimoku cloud are around 1.1520.



GBP/USD: 1.3375

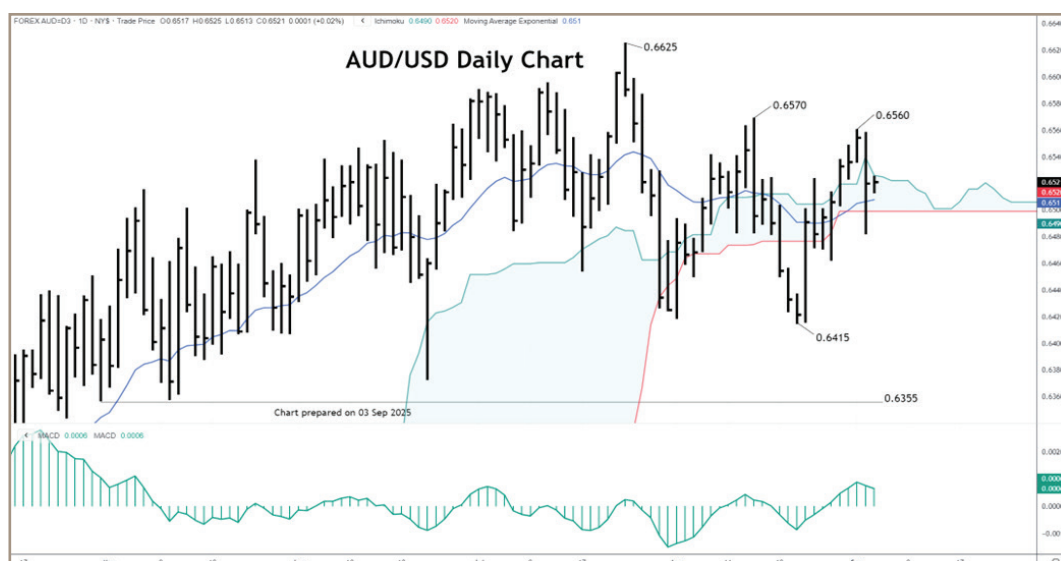
Rapid buildup in downward momentum may lead to a breach of the rising trendline support at 1.3270; it is too early to tell if the August low of 1.3143 will be revisited.



GBP/USD dropped to a low of 1.3143 in early August this year and then rebounded strongly. The rebound was capped by the strong resistance level at 1.3600. Note that this level was also tested in late July but held. As of early September, GBP edged slightly above the daily Ichimoku cloud and then fell sharply. The rapid buildup in downward momentum could lead to a breach of the rising trendline support at 1.3270. That said, it is too early to tell whether the August low of 1.3143 will be revisited. On the upside, 1.3600 continues to offer strong resistance, ahead of the year-to-date high of 1.3787.

AUD/USD: 0.6520

With no clear directional bias, AUD is likely to remain within a choppy and indecisive range for now.

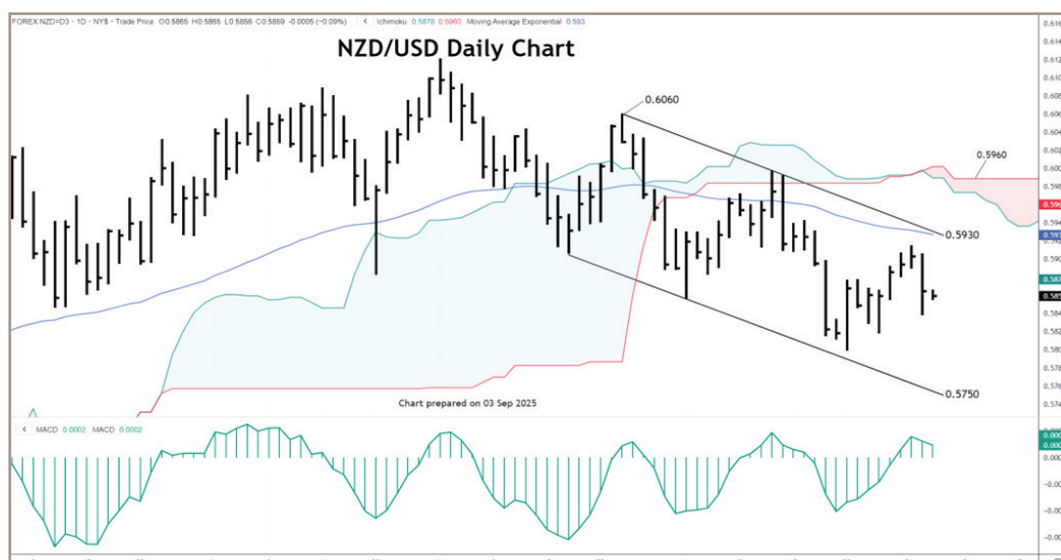


AUD/USD has moved in a choppy and indecisive manner since early May, grinding higher with intermittent pullbacks. It reached a high of 0.6625 in late July, pulled back to a low of 0.6415, and then rebounded. The rebound stalled just below the August high of 0.6570, reaching 0.6560, before retreating sharply. With no clear directional bias, AUD is likely to remain within a choppy and indecisive range for now. Support levels are at 0.6415 and 0.6355, while resistance levels are at 0.6570 and 0.6625.



NZD/USD: 0.5860

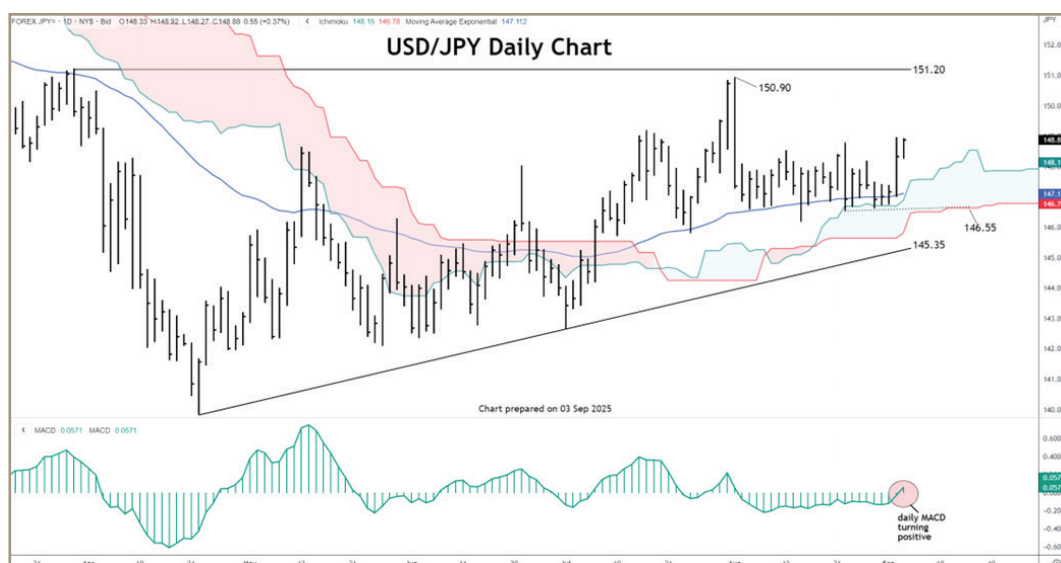
NZD/USD could continue to trade within the descending channel.



The price movements in NZD/USD since late July's high of 0.6060 appear to be forming a descending channel. At the time of writing in early September, the top of the channel is at 0.5930, while the base of the channel is at 0.5750. Heading in the last quarter of the year, NZD/USD could continue to trade within the channel.

USD/JPY: 148.90

While momentum indicators suggest a near-term upward bias, it is premature to expect a test of the strong resistance zone between 150.90 and 151.20.

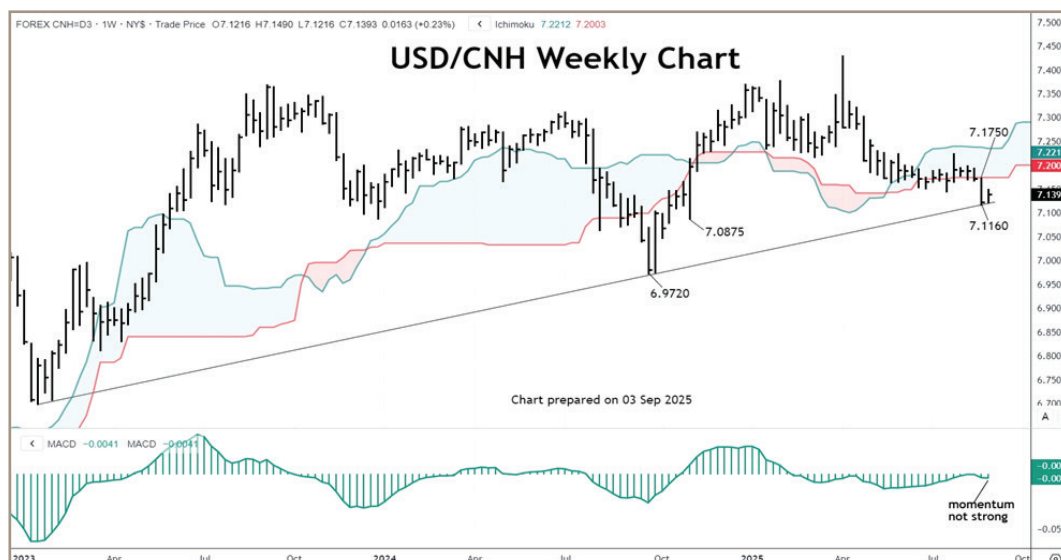


USD/JPY rose sharply to a high of 150.90 in early August and then staged a sharp and swift pullback. It then traded sideways until early September, when it rose sharply. The daily MACD is turning positive, indicating that upward momentum is building. While momentum indicators suggest a near-term upward bias, it is premature to expect a test of the strong resistance zone between 150.90 and 151.20. Note that there is another resistance level at 149.55. To sustain the current upward bias, USD/JPY must remain above the support level at 146.55.



USD/CNH: 7.1450

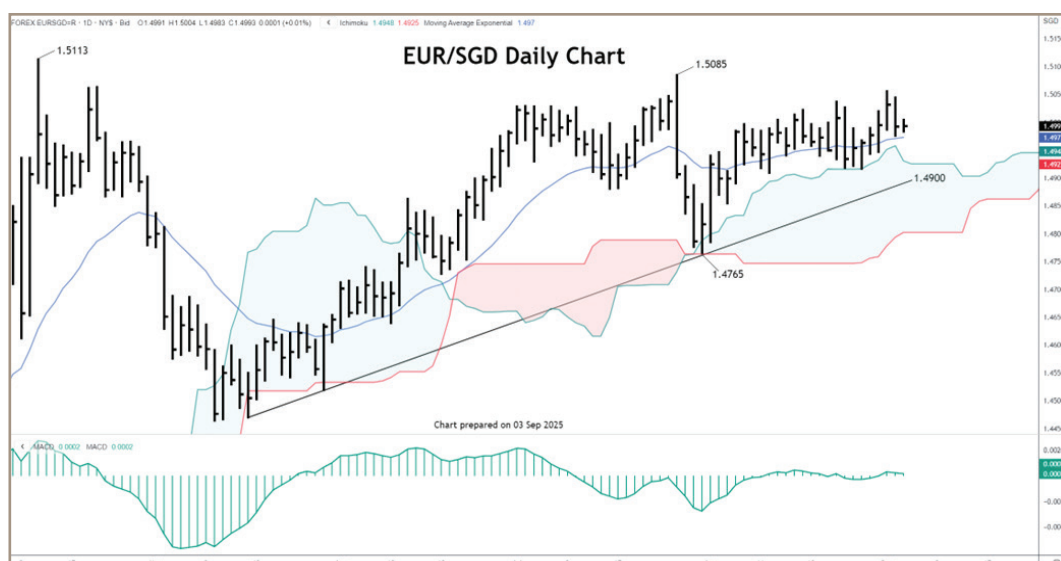
As long as USD/CNH stays below 7.1750, the risk of breaking the weekly trendline (now near 7.1160) support remains.



At the time of writing in early September, USD/CNH tested but failed to break clearly below the rising weekly trendline connecting the lows of January 2023 and September 2024. Downward momentum is building, but it is not strong for now. On balance, as long as USD/CNH stays below 7.1750, the risk of breaking the trendline support (now near 7.1160) remains intact. However, the current lack of strong downward momentum suggests that any decline is likely to be gradual and uneven, and it is premature to expect the support level at 7.0875 to come into view.

EUR/SGD: 1.4995

There is scope for EUR/SGD to recover; given the current mild upward momentum, any advance is unlikely to reach the year-to-date high, near 1.5115.

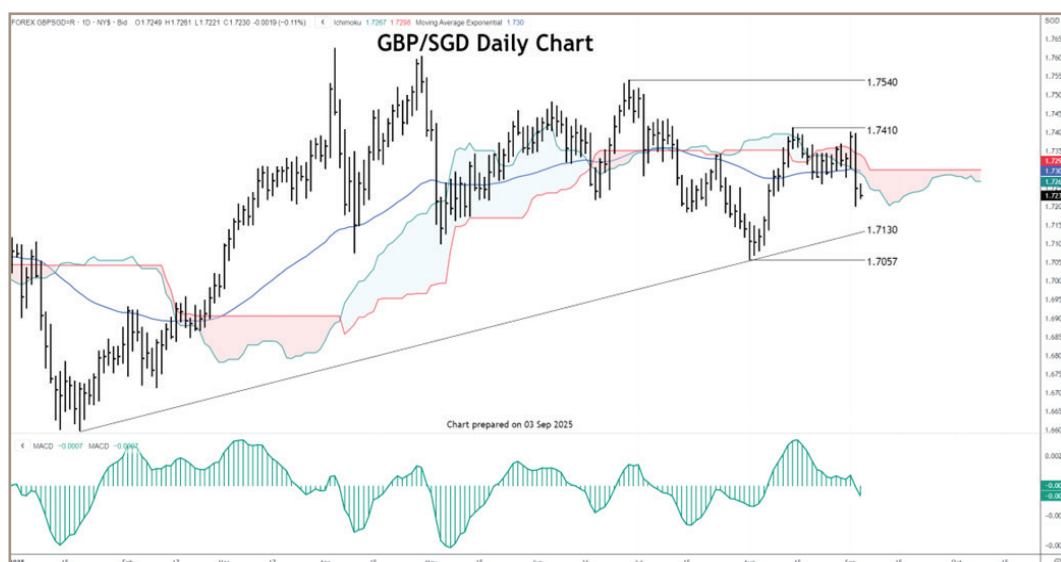


In July of this year, EUR/SGD rose to a high of 1.5085, then plummeted and tested the base of the daily Ichimoku cloud before recovering. While there has been no significant increase in upward momentum, there is scope for EUR/SGD to recover further, provided that the rising trendline support, now at 1.4900, is not breached. However, given the mild upward momentum, EUR/SGD is unlikely to reach the year-to-date high, near 1.5115. Note that the July high of 1.5085 is expected to offer resistance too.



GBP/SGD: 1.7230

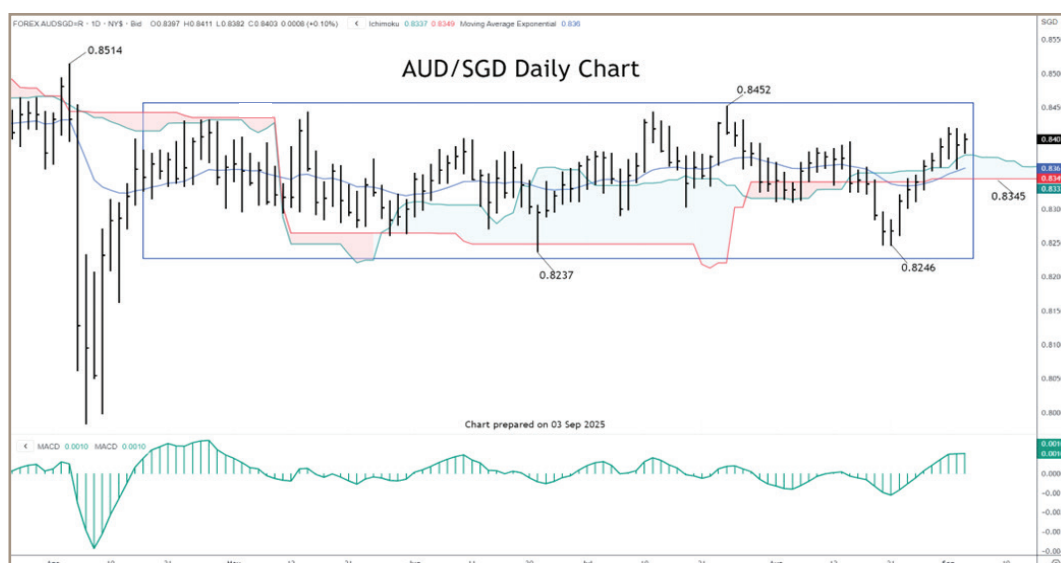
Downward momentum is building rapidly; the risk of GBP/SGD breaking the rising trendline support, now at 1.7130, is increasing.



GBP/SGD rebounded strongly from the early August low of 1.7057 and reached a high of 1.7410. It subsequently traded sideways, but in early September, it neared 1.7410 again, reaching a high of 1.7400 before dropping sharply. The sharp drop has led to rapid buildup in downward momentum, and the risk of GBP/SGD breaking the daily trendline support, now at 1.7130, is increasing. That said, it is unclear for now if there is sufficient momentum for GBP/SGD to revisit the August low of 1.7057. On the upside, 1.7410 remains a strong resistance level that is unlikely to come under threat, at least for now.

AUD/SGD: 0.8400

The risk of AUD/SGD testing and possibly breaking above the 0.8237/0.8452 range is increasing.

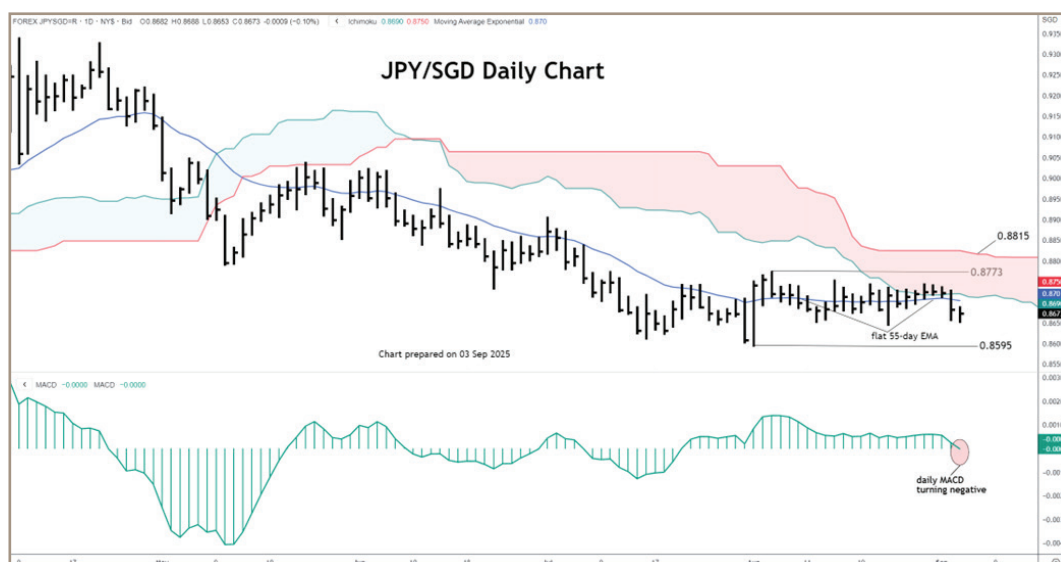


AUD/SGD traded in a choppy manner in April this year, but since then, there has been a sharp decrease in volatility. Over the past few months, AUD/SGD has traded sideways, confined within a range of 0.8237/0.8452. In mid-August, AUD/SGD fell toward the lower boundary of the range, reaching a low of 0.8246 before rebounding. Upward momentum is building tentatively with the rebound, and the risk of AUD/SGD testing and possibly breaking above the 0.8237/0.8452 range is increasing. To sustain the momentum buildup, AUD/SGD must not break below 0.8345. Looking ahead, the next resistance level above 0.8452 is at the April high of 0.8514.



JPY/SGD: 0.8675

JPY/SGD could continue to trade sideways between 0.8595 and 0.8773.



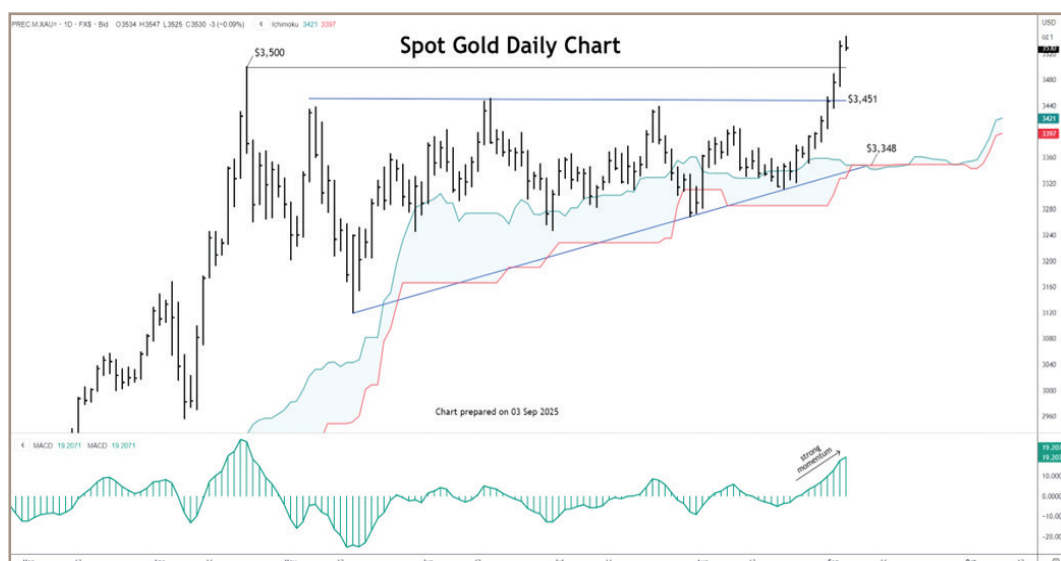
JPY/SGD dropped to a low of 0.8595 in early August, rebounded to 0.8773, and has since been trading sideways between these two levels. While the flat 55-day EMA suggests a lack of clear directional bias, as of early September, the daily MACD has started to turn negative, indicating a tentative buildup in downward momentum. The buildup in downward momentum may lead to a test of 0.8595, but based on the current momentum, a clear break below this level is unlikely. In other words, JPY/SGD could continue to trade sideways between 0.8595 and 0.8773 for now.



COMMODITIES TECHNICALS

Spot Gold \$3,530/oz

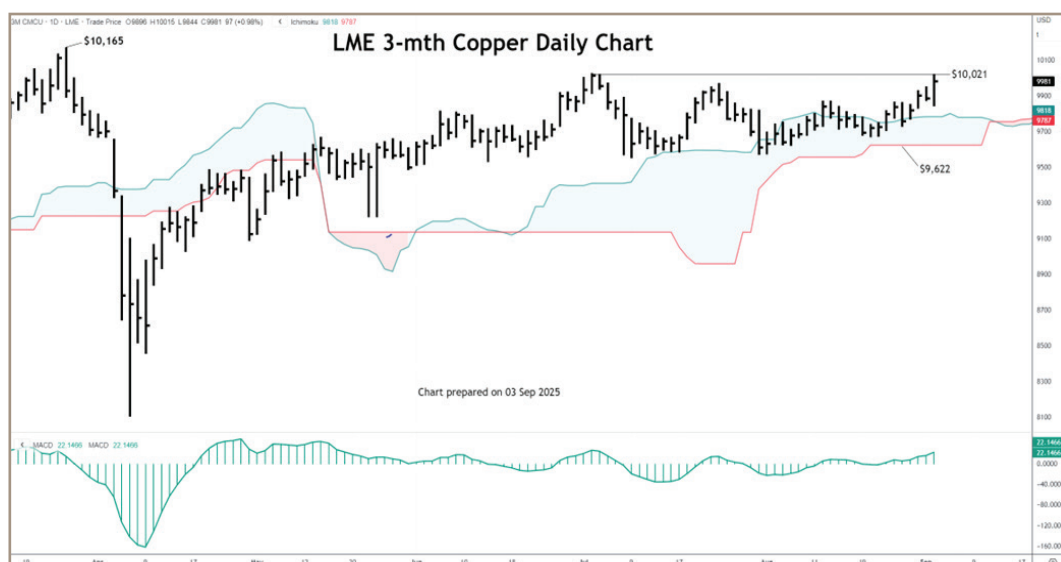
Strength of the triangle breakout indicates spot gold could continue setting record highs; the levels to monitor are \$3,600 and \$3,650.



The price movements in spot gold since early May have formed a triangle formation. At the time of writing in early September, spot gold broke above the top of the triangle at \$3,451 and then quickly rose above the previous record high of \$3,500. The strength of the breakout indicates that spot gold could continue setting fresh record highs. The levels to monitor are \$3,600 and \$3,650. To sustain the current momentum, gold must hold above the key support at \$3,451. The significant support level at \$3,348 is unlikely to come under threat in the next few months. Notably, both the base of the weekly Ichimoku cloud and the bottom of the triangle formation are near \$3,348.

LME 3-mth Copper \$9,980/mt

There is a chance for copper to break clearly above the July high of \$10,021, potentially revisiting the year-to-date high of \$10,165.

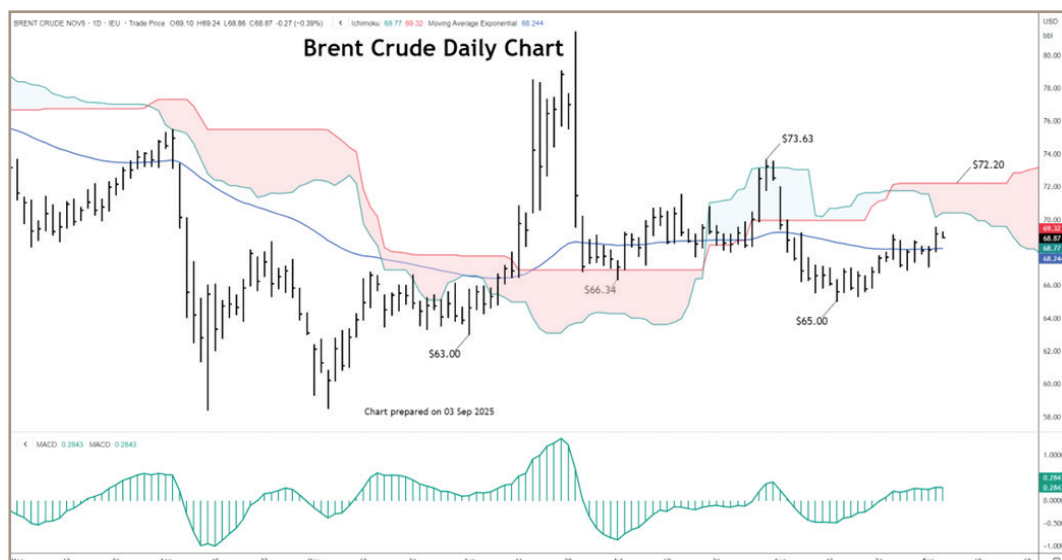


While copper been trading sideways since rising to a high of \$10,021 in early July, it retested the high in early September. Upward momentum is improving, but it is not strong for now. That said, there is a chance for copper to break clearly above \$10,021, potentially revisiting the year-to-date high of \$10,165. To maintain the current momentum, copper must hold above the base of the daily Ichimoku cloud, currently at \$9,622.



Brent Crude \$68.80/bbl

There are no clear trends in Brent crude for now.



Brent crude futures plunged in June of this year and reached a low of \$66.34. It then rebounded to a high of \$73.63, dropped back down to \$65.00 before rebounding again. There are no clear trends for now, and Brent could continue to trade in a directionless manner. Support levels are at \$65.00 and \$63.00, while resistance levels are at \$72.20 and \$73.63.

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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