Maybank

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Global

FX Monthly

2025, Issue 5: Shifting Signals - Global Trade and USD Recalibration

What Has Changed This Month?

- We revise our GBP forecasts stronger on potential tailwinds from the recent EU-UK deal that could potentially herald greater future cooperation between the bloc and its former member. Other forecasts remain unchanged as the USD fades alongside US exceptionalism.

Our Strategies and Views

- A few of our key themes listed in FX Outlook 2025 came to fruition in the 1H of 2025. We had projected AUD to underperform peers and that had panned out as well. We have overshot our targets for AUDNZD at 1.0850, AUDCHF at 0.53-handle and EURAUD at 1.68. The central bank divergence play for USDJPY hinged on virtuous wage-price cycle to become entrenched whilst US data cool. That seems to have led to USDJPY lower as we have projected. The de-dollarization theme was a wildcard and that is a testament to how wild this year has been. Our call for USDCNY to head towards 7.55 did not play out as Trump declared tariffs on almost all sovereigns and territories in the world at the same time on Liberation Day. That had accelerated the USD sell-off in 1H 2025, in line with the “Sell America” trade.
- Into 2H 2025, even as the “sell America” narrative fades, the bearish trend for the USD could continue for a good portion of 2H 2025 due to 1) US economic slowdown, 2) Fed cuts, 3) the potential for global growth to exceed the current pessimistic expectations. We see a possibility for a virtuous circle for Asian currencies especially with bearish USD allowing regional central banks to cut interest rates even more to boost growth and that could in turn be positive for regional currencies. Watch for any sign of trade deals that could be short-term positive for the USD and negative for safe havens like Gold, CHF and to some extent, SGD and THB given the latter’s link to gold.
- JPY remains choppy last month given the concerns on the super long-end JGB market and the ongoing trade tensions. Regarding the former, weaker demand and the uncertainty on the BOJ bond purchase plans has created some volatility in super-long end rates. As for the latter, swinging trade headlines has created much uncertainty. JPY volatility though is unlikely to dissipate given anxiety remains on these two items with a tariff deadline in early Jul and a BOJ bond purchase review at their Jun meeting. However, we see the JPY can overall appreciate further in Jun amid the risk of the trade situation tensing up more even as the BOJ, MOF may try to smoothen the bond market.
- We continue to expect ASEAN FX to be on a positive 2025 trajectory given the possibility of further USD softening. Idiosyncratically, foreign currency holdings of ASEAN nations are heavy too, which could open the way for further strengthening when conversion occurs more significantly. Regional bond inflows can also be strong amid central bank easing. Easing domestic concerns are also of some help. On the flip side, tense US – China relations can limit gains.

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Top 3 Currency Plays for Jun

Short USD Against G10 Rallies
Short CNY, VND Against AUD, NZD, CAD, KRW
Sell USDAsian on rallies

Key Events for the Month Ahead

Date	Event
3 Jun	South Korea Presidential Elections
13 - 15 Jun	G7 Summit

USD: Fading Exceptionalism and Global Asset Reallocation

USD DXY	2Q 2025	3Q 2025	4Q 2025	1Q 2026
	99.61 (99.74)	98.32 (98.58)	97.22 (97.35)	96.50 (96.67)

Previous Forecasts in Parentheses

Motivation: USD saw a tale of two halves in May as the dollar strength picked up ahead of the US-China trade talks on 10-11 May, despite being weighed down by the increased potential of fading US exceptionalism and a flight to quality. Ahead of the US-China talks, the White House declared China is now subjected to the 104% tariff with effect on 9 Apr (20% for fentanyl, 34% for reciprocal, another 50% tariff for its retaliation). During that period, India-Pakistan tensions had escalated. But by 12 May, a trade truce between the US and China was reached. Both sides reduced the tariffs that were implemented during the tit-for-tat last month, with US tariffs slashed to 30% (from 145%) and China tariffs dropped to 10% on most goods. However, concerns have again remerged regarding US - China relations as Trump claims that China has violated the agreed truce between the two. The President has also announced that aluminium tariffs would be doubled from 25% to 50%. Amid these developments, longer-term bearish USD factors such as fading exceptionalism and diversification away from the USD are still at play. Note that Trump has made about-turns a few times and uncertainty still remains, especially with the tariffs being suspended for 90-days and not rolled back. A separate truce has also been reached with India and Pakistan agreeing to a ceasefire. More recently, a panel of three judges at the US Court of International Trade in Manhattan issued a ruling Wed (28 May) that President Trump's global tariffs were deemed illegal and blocked his "Liberation Day" tariffs from going into effect, saying that Trump had wrongfully invoked an emergency law to justify the levies. The ruling can now be appealed by the Trump administration in federal court. This has led to some USD support since its announcement. However, it does add to the uncertainty in markets.

NFP came in stronger than expected at 177K for Apr vs. expected 185k, but NFP numbers have been revised downwards for Mar and Feb. US economic data such as the April ISM came in better than expected raising but we continue to see US growth eventually slowing. Our economist recently downgraded the house view for US GDP growth in 2025 to 1.5% (prev: 1.7%) and is now pricing in 75bps of cuts (prev: 50bps) and is expecting the Fed to be more growth supportive. It does seem like the balance of risks could still favour a more bearish outlook for the US and the USD. More generally, US's recent turn towards trade protectionism, as well as other policy changes both domestically and abroad, have weakened the case for US growth outperformance. We continue to see USD at a peak in 2Q 2025 and the view for this remains intact as the USD weakens with every escalation in trade tensions. As we suggested in our annual, the imposition of tariffs has accelerated the pace of re-allocation out of US assets as the US faces potential issues about its credibility and as global investors look for potential alternatives for the USD such as the EUR, CHF or gold.

The US and China agreed on 12 May to temporarily cut massive tariffs imposed on each other's goods. US will cut tariffs on imports from China to 30% from 145% for 90 days, while Beijing will slash duties on US imports to 10% from 125% for the same period. Both have agreed to establish a dialogue mechanism to continue trade and economic discussions. 90 days may not be enough to reach a comprehensive deal that addresses barriers to trade on both sides. These include intellectual property issues, the role of state-owned enterprises in China, and export controls on the US side. During this 90-day pause, we should expect USD to remain soft.

Domestically US economic data has indeed showed signs of fading US exceptionalism as business and consumer confidence wane. Latest 1QA GDP data showed a larger than expected slowdown at -0.3% QoQ (exp: -0.2%; prev: 2.4%) and the US labour market shows signs of weakness with jobless claims rising and ADP and JOLTS employment indicators coming in weaker. While the latest Apr NFP print remained above estimates at 177k (exp: 138k; prev: 228k revised down to 185k), it also featured a downward revision in the previous print. Trump's tariffs are widely expected to weigh on US growth and hasten the fading of US exceptionalism. Consensus forecasts for US growth have been revised downwards to 1.4% (prev: 2.0%) in 2025 with the probability of a US recession in 2025 at 40%.

Apr core CPI rose 0.24% m/m, below expectations, and down to 2.78% on a y/y basis. Airfares declined by 2.8%, possibly reflecting a continued drag from softer demand for business, tourism, and government travel, and the volatile used cars component declined 0.5%. We expect upward pressure from tariffs to raise the core. The tariff related categories expected to put upward pressure on prices, including the video and audio products (+1.0%) and photographic equipment (+2.2%) categories, boosted the core by about 3bp this month relative to a quarter ago. Headline CPI rose 0.22%, reflecting a 0.67% increase in energy prices but was offset by a 0.08% decline in food prices.

Fed kept the fed funds rate (FFR) at 4.25%-4.50% for the third consecutive FOMC meeting at the 6-7 May 2025 meet. FOMC statement flags further increased uncertainty to economic outlook, especially “stagflation” risk. Revised our 2025 FFR outlook to -75bps cuts to 3.50%-3.75% (-50bps cuts to 3.75%-4.00% previously) and keep -50bps cuts view for 2026 (end-2026: 3.00%-3.25%).

FOMC statement maintained the view that the US economy continued to expand at solid pace amid low and stable unemployment rate on the back of solid labour market conditions as well as inflation that remains somewhat elevated. However, Fed also noted that “the swings in net exports have affected the data” – which we think is in reference to 1Q 2025 GDP that slowed YoY to +1.9% (4Q 2024: +2.5% YoY; 2024: +2.8%) and shrank seasonally-adjusted annualised QoQ by -0.3% (4Q 2024: +2.4% QoQ).

This led to the remark that “uncertainty around the economic outlook has increased further” (vs “uncertainty around the economic outlook has increased” previously, which was changed from “economic outlook is uncertain” in Jan 2025 FOMC statement) and added “the risks of higher unemployment and higher inflation have risen”.

Following the release of 1Q 2025 GDP, we trimmed full-year US real GDP growth to +1.5% from +1.7% (which was lowered from +2.0% in the wake of 2 Apr 2025’s “Liberation Day” announcement of reciprocal tariff). Consequently, we also revised our forecast of FFR cuts in 2025 to -75bps total i.e. end-2025: 3.50%-3.75%. At the same time, we maintained the outlook of -50bps total cuts in 2026 i.e. end-2026: 3.00%-3.25%. The volatile futures market pricing of FFR is currently also looking at three cuts totaling -75bps this year and two cuts totaling -50bps cuts next year. Fed’s current “dot plot” (released after the 18-19 Mar 2025 FOMC meet) signals of slower easing cycle in 2025 vs -100bps cuts in 2024 i.e. -50bps cuts in 2025 to be followed by another -50bps in 2026 and -25bps in 2027. The latest dot-plot also projects FFR to settle at 3.00% in the longer run.

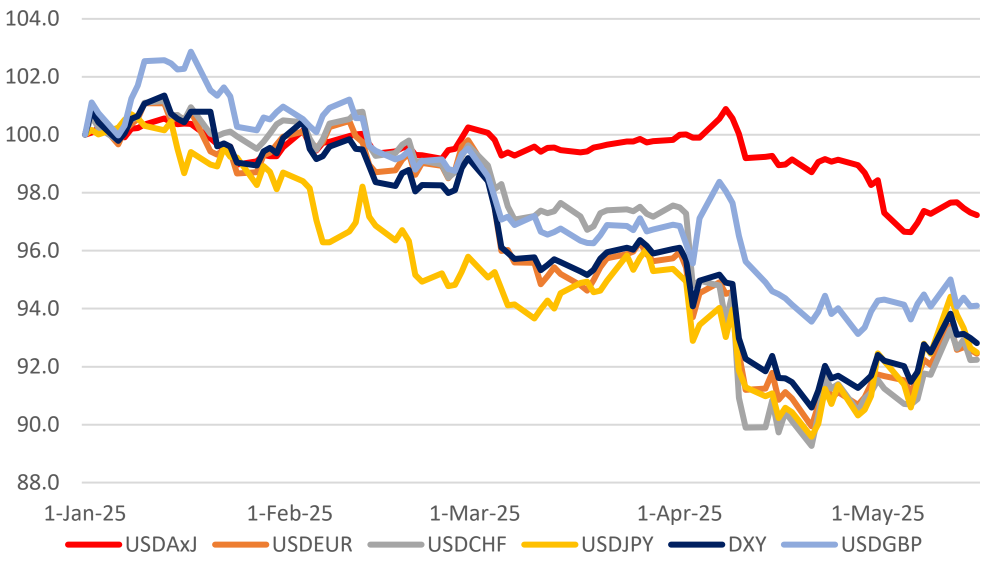
Fed’s current Summary of Economic Projection (SEP, as of Mar 2025) saw a less sanguine macro outlook as Fed expects sub-2% real GDP growth of +1.7% for 2025, +1.8% for 2026 and +1.8% for 2027. On inflation i.e. based on Fed’s preferred measure of inflation – Personal Consumption Expenditure (PCE) price index, Fed sees headline inflation for 2025 at +2.7% (Apr 2025: +2.3%; 1Q 2025: +2.5%; 2024: +2.5%), +2.2% for 2026 and +2.0% for 2027, and As core PCE inflation of +2.8% this year (Apr 2025: +2.6%; 1Q 2025: +2.8%; 2024: +2.8%) and +2.2% and +2.0% for 2026 and 2027 respectively. Meanwhile, Fed expects the unemployment rate this year to be at 4.4% (Apr 2025: 4.2%; 4M 2025 average: 4.1%; 2024 average: 4.0%) followed by 4.3% for both 2026 and 2027. Fed will update its “dot plot” and SEP at the next FOMC meeting on 17-18 June 2025.

The FOMC statement on 8 May mentioned that “uncertainty about the economic outlook has increased further” after keeping policy settings unchanged with FFTR still at 4.25-4.50%. The vote was unanimous and it is increasingly clear that while markets had been more worried about growth, Powell reminded that the Fed is concerned about both its mandates - employment and inflation. With the impact of the tariff not felt yet, Powell continues to reiterate that the Fed’s decision is to “wait and see and to watch”. Market-implied rates suggest that rate cut expectations for Jun had been adjusted lower to just 20% and that markets now expect three cuts this year. While the adjustment in rate-cut expectations would have contributed to the strength of the USD overnight, Trump’s mention that he will not be willing to cut tariffs on China to get trade negotiations to start might have lifted the USD further against Asian currencies.

While we make this broad downward revision in USD forecasts, we recognize that the current environment is highly uncertain and volatile. There are certainly scenarios where a USD rebound could play out. However, the current balance of risks signals likely continued USD weakness at least until Jul. If global investors have truly lost faith in the USD, then it may ultimately be extremely difficult for such faith to be restored. That is not our current baseline. The USD-smile theory could be at play, where the USD finds support in a time of a deep global or US recession, but current base case expectations suggest that this is unlikely.

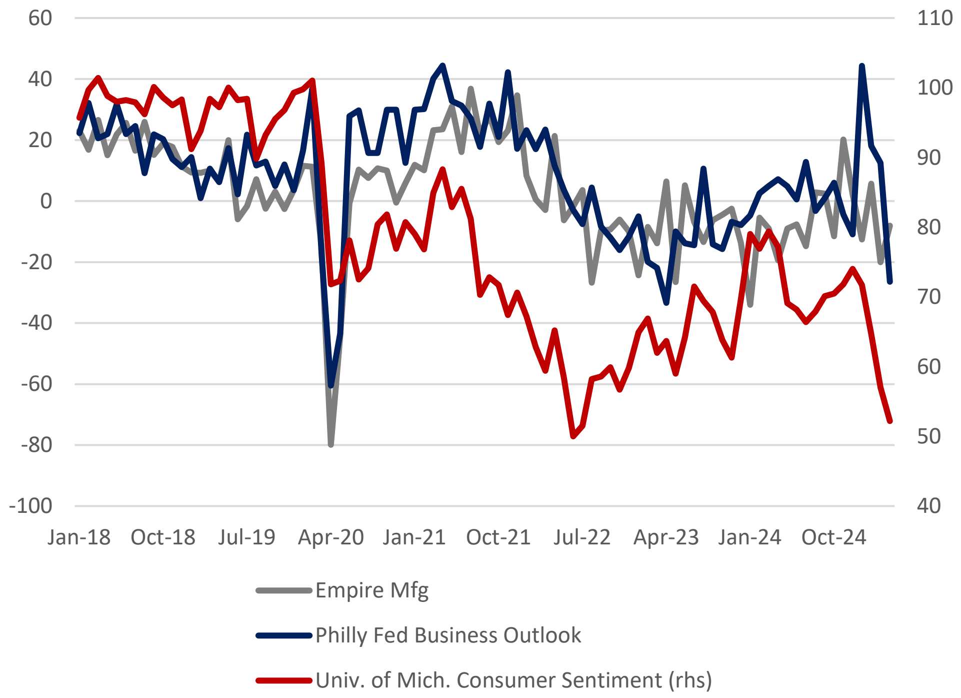
Key Data/Events in Jun 2025: ISM Manuf (2 Jun), Factory Orders, Durable Goods Orders (3 May), May ISM, Svcs/Comp PMIs (4 Jun), Apr Trade Balance (5 Jun), NFP (6 June), May CPI (11 Jun), May Retail Sales, May PPI, May Empire Manufacturing, May Industrial Production (17 Jun), May Housing Starts, May P U Mich Indices (16 Jun), FOMC (19 Jun), 1QT GDP (26 Jun), Core PCE Price Index (26 Jun).

The USD Has Sold Off and Recovered Modestly on Negotiations



Source: Bloomberg, Maybank FX Research & Strategy

Businesses and Consumers Are Less Optimistic in the Face of Uncertainty



Source: Philly Fed, NY Fed, Bloomberg, Maybank FX Research & Strategy

EUR: A Credible Alternative

EUR/USD	2Q 2025	3Q 2025	4Q 2025	1Q 2026
	1.1300	1.1400	1.1500	1.1600
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our EURUSD forecasts despite the changes on the US trade and tax policy front. Earlier themes of increased defence spending and fiscal expansion continue to be at play and the recent deal with the UK could eventually benefit the EUR. The earlier peak that we saw for the USD appears to have materialized and EUR has been one of the biggest beneficiaries of USD weakness. Trump's threatened 50% tariff looks to be a way to get the EU to the negotiating table, although risks still do remain with the suspension. At the same time, earlier headwinds for the EUR from (1) political uncertainty in Germany and France, (2) tepid growth prospects which are likely to worsen as (3) potential Trump trade policies weigh on exports (especially of cars) are now likely to be offset by better growth and sentiment. With the credibility of the USD now called into question and the USD being broadly weaker regardless of whether tariffs are being implemented or suspended, we believe that risks for the EUR are skewed to the upside as it emerges as one of the main if not the main legitimate alternative to the USD. ECB's Lagarde has also played up the EUR as a credible alternative to the USD and this theme could continue to develop.

EURUSD traded in a 1.1065 to 1.1419 range in May compared to the 1.0778 to 1.1573 range in Apr. The flight to quality narrative and emergence of the EUR as a legitimate alternative to the USD is evident as the correlation between yields and currencies broke down. Bunds rallied and EUR strengthened as USTs sold off and USD weakened. The increased fiscal spending (for defence) narrative continues to be at play which should offset some negative impact from trade. EURUSD has retraced its gains and looks to hover around the 1.1300 figure after retreating from highs, although we believe risks remain skewed to the upside. The 1.14 and 1.15 resistances have proven difficult for the pair to break and breaks above that level should be closely watched to see if they can sustain.

We expect ECB not to deviate from their data-dependent approach and expect 25bps more of cuts and for the ECB deposit facility rate to end 2025 at 2.00%. ECB dovishness is well priced and that should be supportive for the EUR. ECB cut by 25bps on 17 Apr 2025 to 2.25% and EURUSD remained well supported above the 1.1200 figure. The fiscal spending narrative could challenge the ECB rate cut outlook although we expect the ECB to remain supportive. A cut is priced on 5 Jun 2025 at 93.3%. Market expectations are more dovish than our house view and see 60bps more of cuts from the ECB in 2025. The potential for support from an ECB that has already cut is in line with our annual theme of "Snooze in 2024, Lose in 2025".

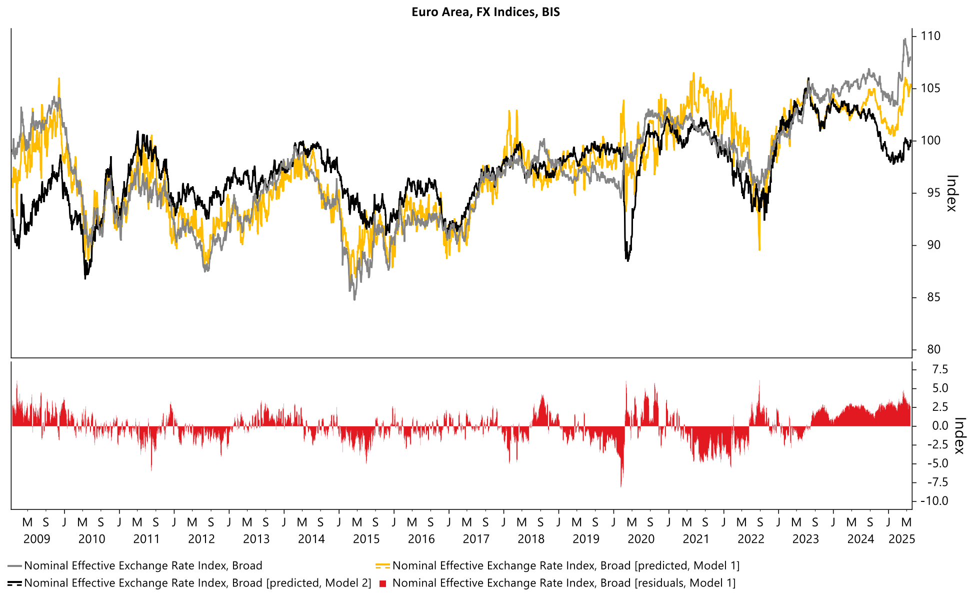
Eurozone growth has been tepid with significant downside risks from potential Trump trade policies and political issues in Germany and France. However, we expect that the fiscal expansion from defence spending narrative should provide some offset for the downside risks and anchor future growth. 1QA GDP estimates showed the Eurozone economy expanded by more than expected at 1.2% SA YoY (exp: 1.1%; prev: 1.2%) and 0.4% SA QoQ (exp: 0.2%; prev: 0.2%). Eurozone recession probability is estimated at 30% (prev: 30.0%) and Germany's is at 50.0% (prev: 50.0%). In addition, there is some potential for the Eurozone to step in to take on a greater role as an advocate for free and open global trade should the US carry through on its tariff plans. The recent deal with the UK should be a testament to this. Should global investors indeed diversify away from the US towards Europe and the Eurozone, a future pick-up to growth could be expected.

The worst has been avoided on political woes in the Eurozone. Moreover, the defence spending plan should provide some improvement to sentiment and the deal with the UK signifies a step closer to the reset of the UK-Eurozone relationship bloc. We suggest that this could provide further tailwinds for the EUR and make it an even more credible alternative to the USD. Nevertheless, we recognize the risks on the fiscal front as France runs budget deficits that have been flagged as contravening the fiscal rules. The broader question on which countries may be able to realistically fund a fiscal expansion could therefore be asked. As a baseline however, Germany as the largest economy and one of the more prudent borrowers, seems to be well-equipped to provide fiscal support.

Risks to our view: An early resolution to the Ukraine war should provide the EUR with a boost although this could then call the defence spending narrative into question. Further escalations in the Ukraine war should weigh on the EUR. US trade policy creates an extremely uncertain and challenging external environment and there is the potential for the EU as a bloc to be singled out by Trump for further tariffs. As such, risks to the downside on this front still exist. Moreover, borrowing challenges and potential rating downgrades could also challenge the outlook for fiscal spending optimism.

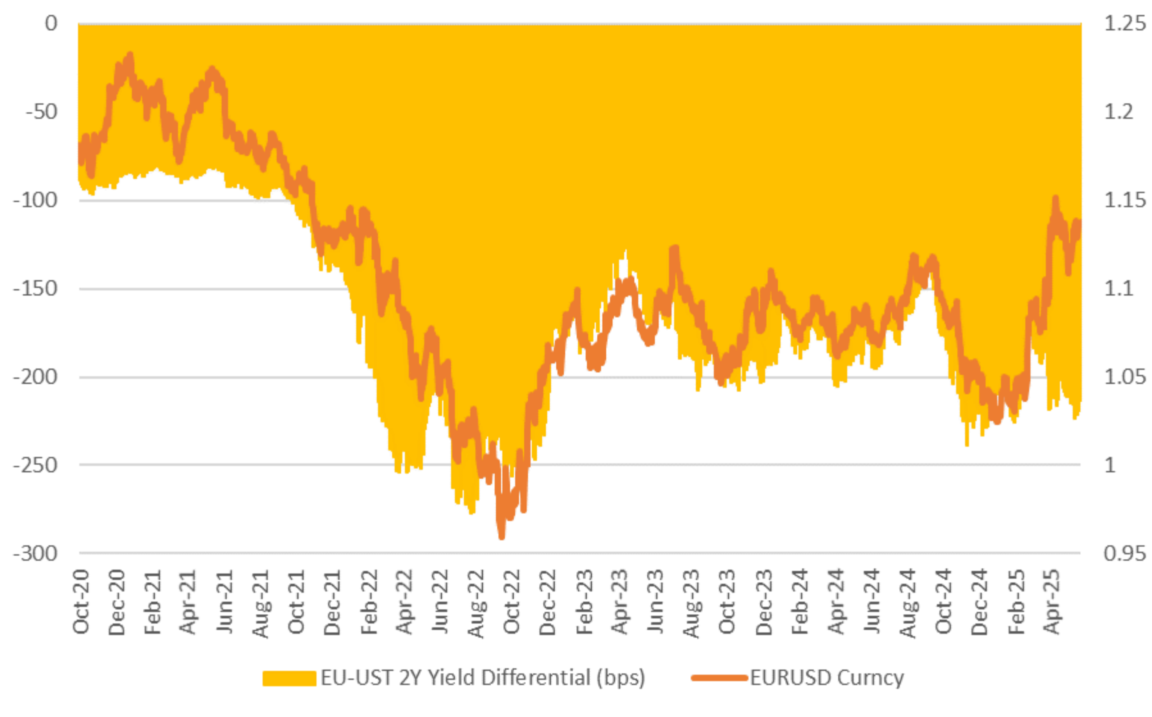
Key data/events: May Mfg PMI (2 Jun), May P CPI, Apr Unemployment (3 Jun), Apr PPI, **ECB Policy Decision (5 Jun),** 1Q GDP (6 Jun), Apr Trade Balance, Apr Industrial Production (13 Jun), Jun ZEW Survey (17 Jun), Apr ECB Current Account, May CPI (18 Jun), ECB Economic Bulletin (20 Jun), Mfg/Svcs/Comp PMIs (23 Jun), May ECB 1Y/3Y CPI Expectations (23 to 27 Jun), Jun Confidence Indices (27 Jun).

Models Imply Further Upside for EUR NEER



Source: BIS, Macrobond, Maybank FX Research & Strategy

Recent Disconnect Between Yields and EURUSD



Source: Bloomberg, Maybank FX Research & Strategy

GBP: Expect Tailwinds from Deals

	2Q 2025	3Q 2025	4Q 2025	1Q 2026
GBP/USD	1.3500 (1.3300)	1.3550 (1.3350)	1.3600 (1.3400)	1.3650 (1.3400)

Previous Forecasts in Parentheses

Motivation: We revise our GBPUSD forecasts even higher on expected tailwinds from a deal with the EU and India amid plans to increase defence spending, maintain fiscal discipline and easing stagflation risks still at play. The EU deal in particular we believe is significant as it truly represents a meaningful reset of relations after Brexit and increases cooperation between the UK and the EU and we do see potential for even more upside. As we suggested the GBP was indeed more resilient on the basis that the UK as a services-oriented economy is less likely to be influenced by Trump trade policies as the UK was hit with the lowest possible 10% global tariff. The GBP has also emerged as a potential alternative for diversification away from the USD and the US. However, we continue to believe that the external environment remains highly uncertain and challenging, which could weigh on a high-beta currency like the GBP.

GBPUSD traded in a 1.3140 to 1.3593 range in May, higher than the 1.2709 to 1.3444 range in Apr. We do think that GBP as a high beta currency, cannot fully escape the ebb and flow of sentiment. However, where trade policy comes into play, there is reason to believe that the GBP can show more resilience given that its economy is more services-oriented and this has indeed played out. The GBP has also been a beneficiary of USD weakness or global push to diversify away from the USD, albeit to a smaller extent than the EUR or CHF. At the same time, the increased defence spending narrative and improved relations with the EU should remain supportive of the GBP.

We see the BOE cutting by 25bps more in 2025. After the 25bps cut on 8 May 2025, we see 25ps of cuts left in 2025. This should bring the policy rate to 4.00% which is slightly more hawkish than current market pricing of 3.78%. We think the BOE continues to be more cautious as set out at the 20 Mar meeting where Bailey espoused a "gradual and careful approach" to cutting rates. Inflation prints have come in a tad firmer than expected and show some bumpiness in the disinflation outlook although risks to growth are now balanced with the fiscal spending narrative and deal with the UK. This should enable the BOE be a tad more cautious when setting rates. While there was no mention of the expected increases in defence spending, we think that policymakers would have considered the potential implications.

UK growth could perform worse than initially expected in 2025, but growth prospects for years ahead looks promising. Probability of a UK recession is 37.5% (prev: 40.0%) although UK economic data has generally been better than expected. The prospects for a services-oriented economy are also likely better than for goods-oriented economies against a backdrop of tariffs and potential escalation in trade tensions. As a close ally of the US, the UK is also unlikely to be flagged by the Trump administration for further trade measures. Consensus forecasts for real GDP growth are at 1.0% in 2025 and 1.1% in 2026. Increased cooperation with the EU and the deal signed with India should be positive for the UK as the rest of the world grapples with tariffs. The Office for Budget Responsibility (OBR) made a downward revision to the growth outlook in 2025 to 1% (prev: 2%). Forecasts for 2026 to 2029 (end of this term of parliament) were revised upwards by 0.1 to 0.3 percentage points each.

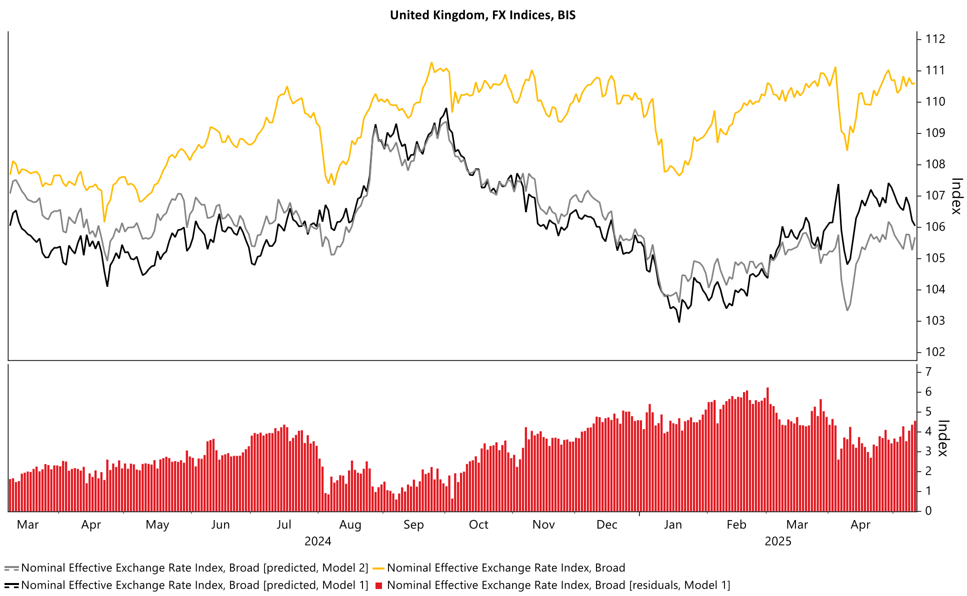
The Starmer government is committed towards fiscal discipline and improving relations with the EU, which should be supportive of the GBP. UK fiscal deficits are expected to narrow to 4.1% of GDP in 2025 and 3.6% of GDP in 2026. We earlier expected reduced fiscal deficits to be better for the GBP. However, one could question how the increase in defence spending is going to be funded with fiscal tightening. The UK government was elected on a platform of not returning to the EU, although the recent deal could signal the start of a vastly improved relationship between the UK and the EU. We continue to recognize that better relations in 2025 between the UK and EU for trade and cooperation exist and there is every possibility that closer relations could be established, especially if Trump's policies eschew the EU. **We expect these policies to provide tailwinds for the GBP.**

Risk sentiment improving should result in GBP outperformance, conversely a hit to risk sentiment should weigh on the GBP. US trade policies are a major focal point in 2025, and the uncertainty over what and how these policies may be implemented should be worse for the GBP as opposed to safe-havens or other lower beta currencies. However, we also note that there remains room for GBP outperformance to return (recall how GBP was the standout performer for the better part of 2024) should greater clarity on trade policies be supportive of a global growth environment. Both the US and China have softened their stance on trade and this should be better for risk sentiment on net, however there could also be some drag on the GBP should global growth come in weaker, which is what is being expected.

Risks to our view: GBP remains a high beta currency that is susceptible to changes to the global economic outlook. More specifically, if Trump's policies threaten a soft landing for the global economy and threaten the resilient economic outlook for the UK, that could weigh on the GBP and lead to a return to USD safe haven support. An early end to the Ukraine war should also be GBP positive. Fiscal discipline could also be threatened by domestic politics, although this remains unlikely. Risks to the defence spending narrative could also jeopardize confidence in the UK and the GP (recall Liz Truss).

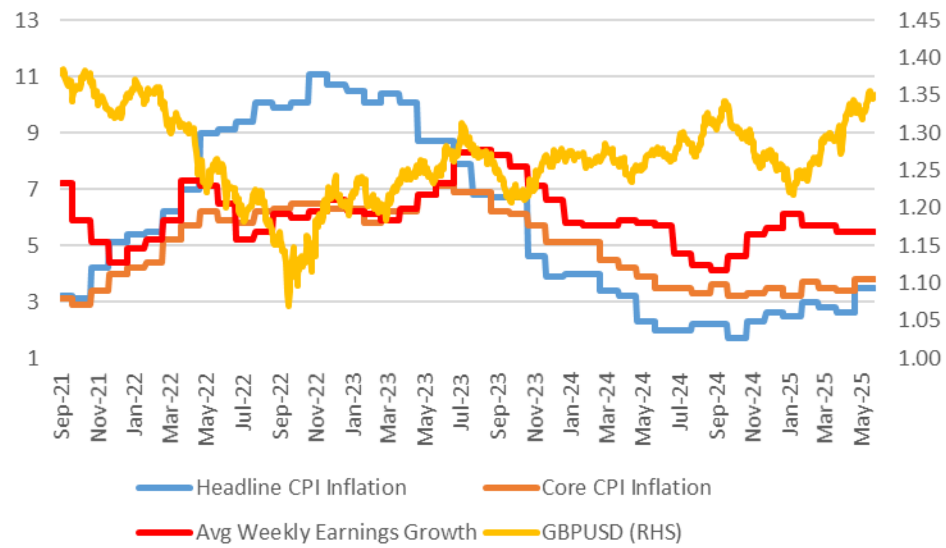
Key data/events: May Mfg PMI (2 Jun), May Comp/Svcs PMI, May Official Reserves Changes (4 Jun), ILO Unemployment (10 Jun), Apr GDP, Apr Industrial Production, Apr Trade Balance (12 Jun), May CPI/RPI/PPI (18 Jun), **BOE Policy Decision (19 Jun),** May Public Finances (20 Jun), Jun P Mfg/Svcs/Comp PMIs (23 Jun), 1Q GDP (27 Jun), May Mortgage Approvals (30 Jun).

Room for GBP NEER to Correct



Source: BIS, Macrobond, Maybank FX Research & Strategy

Shifting Balance of Risks Supportive of GBP



Source: Bloomberg, Maybank FX Research & Strategy

CHF: The True Safe Haven

USD/CHF	2Q 2025	3Q 2025	4Q 2025	1Q 2026
	0.8300	0.8250	0.8200	0.8150
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our USDCHF forecasts on the belief that the CHF is a true safe haven and should continue to be better supported amid changes to US tax and trade policy. However, we also recognize that there are intervention risks that linger as inflation in Switzerland are at the lower bound of SNB's target band and this factors into our forecasts. We look for EURCHF to stay above the 0.92 level and view it as a potential intervention trigger for the SNB. We maintain that the SNB has expressed a preference for a weaker CHF and could cut rates into negative territory should deflation become a real threat for Switzerland. The SNB has cut rates to a point where the CHF has become cheaper than the JPY on an overnight basis. However, it maintains its resilience with its strong fundamentals such as its AAA rating, strong net reserves position and gold holdings. In times of heightened volatility such as these, it has also yet to become the funding currency of choice to fund carry trades. Given the divergence between the SNB and BOJ, we expect that it is a matter of time where that pivot is crossed and when it is we would expect significant pressures on CHF and more specifically on the CHFJPY cross.

USDCHF traded in a 0.8186 to 0.8476 range in May, compared to the 0.8040 to 0.8849 range in Apr. USDCHF traded above lows seen in Apr but was in general lower than Apr highs amid a continuation of fading US exceptionalism and a flight to quality theme as the imposition of tariffs likely weighed on the credibility of the US and the USD. CHF was further buoyed by its safe-haven allure. While we have long cited the risk of intervention by the SNB, it is quite likely that the broad weakness of the USD and concomitant strength of the EUR gave the SNB sufficient reason not to intervene to weaken the CHF as much as we would have expected. Nevertheless, we expect the risk of intervention and safe-haven properties to remain intact amid highly uncertain and volatile US trade and foreign policy.

We expect the SNB to cut rates by 25bps more to bring its policy rate to 0% in 2025. As we expected, SNB delivered a 25bps cut in Mar. Inflation levels are benign in Switzerland, while growth prospects are tepid. The SNB should continue to remain dovish as the tepid Swiss economy could potentially be threatened by Trump tariffs. SNB President Schlegel has acknowledged that Switzerland would be vulnerable to Trump's tariffs and hinted that the SNB could intervene to control disorderly CHF movement, and we think that this would necessarily place a cap on CHF strength. Schlegel has also added that a move to negative rates would only happen if inflation were to go out of the 0% to 2% target band. Latest inflation print showed that Apr inflation was threatening the bottom of the target band at 0% YoY (exp: 0.2%; prev: 0.3%) and 0% MoM (exp: 0.2%; prev: 0%). The Swiss REERs and NEERs remain at elevated levels, and while EUR and GBP are concomitantly stronger, the risk of falling below the target band is now elevated. We watch the 19 Jun meeting and guidance for further hints on the SNB policy stance.

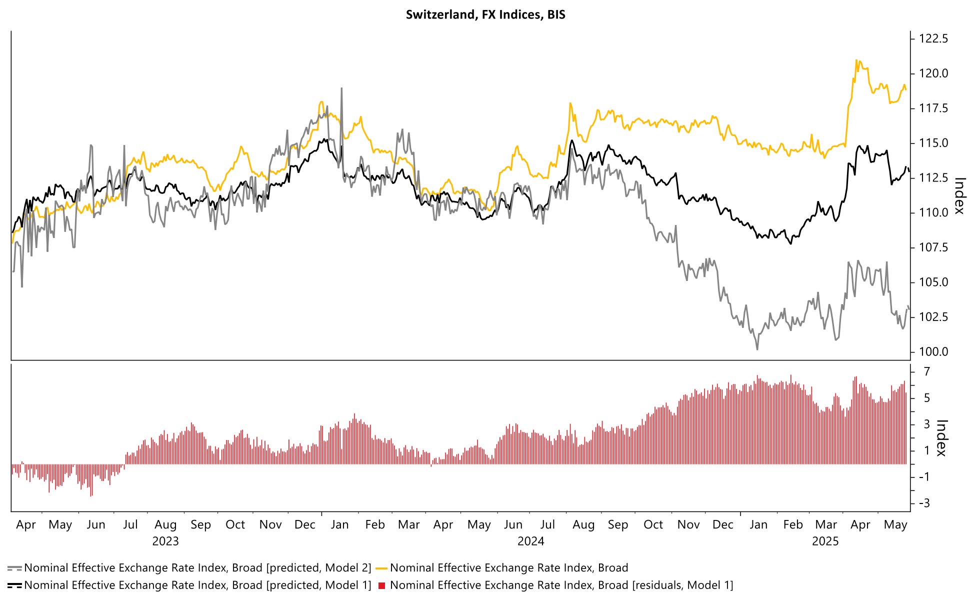
Economic growth in Switzerland is tepid. While probability of a recession is relatively low at 25.0% (prev: 17.5%), growth is expected to print at 1.1% in 2025 and 1.4% in 2026 (prev 2025: 1.4%; prev 2026: 1.5%). 1QF GDP print (sport event adjusted) came in slightly above expectations at 0.8% QoQ (exp: 0.7%; prev: 0.7%). Risks to the growth outlook are to the downside given the uncertainty over Trump's trade policies and the potential impact on demand for luxury watches. The CHF is expected to remain resilient given its safe-haven status, but a strong CHF would also make Swiss exports relatively expensive and unattractive.

With BOJ expected to hike and SNB expected to ease, we approach a potential pivot where CHF could replace JPY as the funding currency of choice. BOJ overnight rate is now at 0.50% and SNB is at 0.25%. BOJ is also expected to hike further while SNB should ease to 0%. Should the conditions for carry trades continue to persist i.e. if volatility turns low, that could weigh heavily on the CHF if it does indeed become the preferred funding currency of choice. Nevertheless, safe-haven flows should keep USDCHF relatively supported and the CHFJPY cross could be more directly affected.

Risks to our view: The chance that the BOJ turns dovish and chooses not to hike rates, that could result in CHF's status as the preferred safe-haven currency persisting and a more prolonged period of relative CHF strength. A more rapid escalation of geopolitical tensions that expected could also result in demand for CHF and be more supportive of the CHF that we initially anticipated.

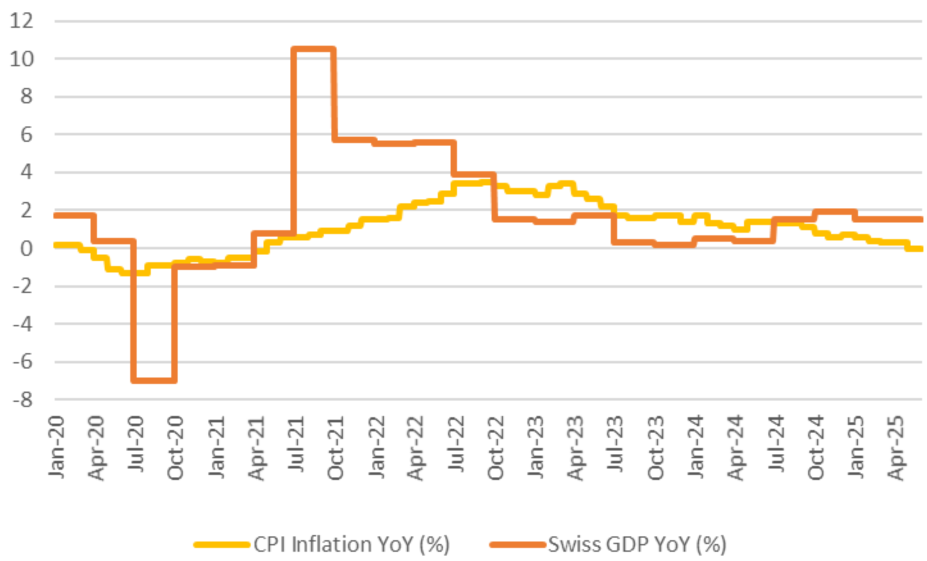
Key data/events: Apr Retail Sales, 1Q GDP, Mfg/Svcs PMI (2 Jun), May CPU (3 Jun), May Unemployment (5 Jun), May FX Reserves (6 Jun), May SECO Consumer Confidence (10 Jun), May Exports/Imports, **SNB Policy Decision (19 Jun),** Jun UBS Survey Expectations (25 Jun), 1Q FX Transactions (30 Jun).

Swiss NEER Retreated but Remains Elevated



Source: BIS, Macrobond, Maybank FX Research & Strategy

Inflation Comes Off Further and Challenges the Zero Bound



Source: Bloomberg, Maybank FX Research & Strategy

AUD: Back-To-Back Cuts Likely From Here

AUD/USD	2Q 2025	3Q 2025	4Q 2025	1Q 2026
	0.6350	0.6400	0.6400	0.6500
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: The AUDUSD trajectory has turned out roughly in line with our view. We had looked for the AUD to slow in its rise against the USD in May but that was mostly due to our expectations for US' rate exceptionalism to return. AUDUSD traded sideways for the rest of the month after touching a high of 0.6515 on 7 May. The US' rate exceptionalism did return but not due to higher inflation and certainly not in the favour of the USD as growing concerns on US' fiscal position continue to fuel the "sell America" story. As such, even as UST yields rose, the USD remained offered. AUDUSD was stuck between opposing forces of weaker USD and tepid risk sentiment.

Our mildly bullish AUDUSD forecast trajectory for the next quarters reflects our expectation for the USD to decline in the 2H of 2025, as the US economy slows and UST yields fall. Better clarity and bilateral trade deals between the US and its trade partners would also be supportive of sentiment and the AUD but we expect that a complete resolution will not be reached within the year and the overhang of the trade policy uncertainty and its impact on global growth will affect demand for Australia's resources and slow AUD gains.

Liberation Day and Trump's tariff uncertainties is the top uncertainty for businesses and perhaps individuals. Even with the latest US court blocking Trump's Liberation Day tariffs, some USD upswing emerged but this development adds to further uncertainty in the tariff phase. **Trump's penchant for grandiosity might have amplified concerns on growth slowdown.** As such, at this point, there is a possibility that global growth in 2H of 2025 could outperform already pessimistic expectations. That is why we continue to remain somewhat constructive on the AUD. In addition, initial speculation on the Trump administration pursuing a weaker USD might have taken a life on its own despite repeated denial by Treasury Secretary Scott Bessent. With the USD still likely to fall on multiple factors (1) bets on Trump's desire for a weaker USD, (2) slowdown in the US, (3) Fed to cut (4) outperformance of global growth, we see possibility that the current environment may be benign for central banks in the region to cut more and that could generate even more flows in the region, forming a virtuous circle for regional currencies.

What Happens At Home - RBA Cuts A Second Time This Cycle and Pivoted Dovish, in Line with Our Expectation. RBA cut cash target rate by 25bps, in line with expectations including our own, taking the policy rate from 4.10% to 3.85%. There were quite a number of calls for a hawkish cut but we had warned in our GM daily (20 May) and FX Monthly Issue 4 that this is a cut that is unlike the one in Feb. With underlying inflation back within the 2-3% target range, deterioration in business conditions and a flat growth for retail sales in 1Q, we had looked for the RBA to make a more decisive dovish pivot this time and this dovish pivot is unlikely to be priced in and that in turn posed downside risks to the AUD.

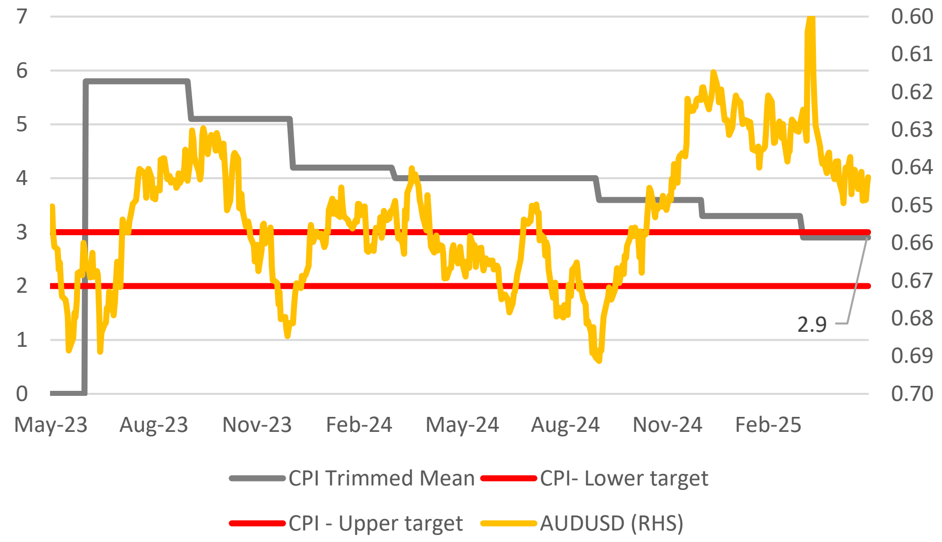
Growth Forecasts Slashed and Underlying Inflation Is Expected To Be Around The Middle Of Target Range Over the Next Two Years. GDP forecast was downgraded to 1.8% for year ending Jun 2025 and then to 2.1% for Dec 2025 from 2.0% and 2.4% respectively. Trimmed mean inflation is shaved to 2.6% for Jun 2025-Jun 2027 vs. 2.7% seen before. Unemployment rate is now expected to rise further to 4.3% by end 2025 compared to 4.2% seen in Feb. Taking into consideration the downside revision for GDP growth and inflation metrics, we see this as a dovish pivot and that RBA is now ready to cut more if necessary. This was a dovish cut, in line with our call. Given the fog of uncertainty posed by Trump, RBA devised scenarios and the worst case scenario (where US imposes all of Liberation Day tariff rates and retaliations by all countries) would see GDP more than 3% below baseline, unemployment rate would rise to nearly 6%.

Back-to-Back Cuts From Here. The hurdle for future rate cuts is lowered at the May meeting with the mention of a bigger cut of 50bps and RBA's projection (and confidence) that underlying inflation would remain near the middle of the target range over the 2Y forecast period (2025-2027). These factors suggest that the central bank is ready to react to further growth shocks. As such, markets now look for more rate cuts this year (-67bps today), shifting from another 50bps cut seen to a greater probability of a third cut for this year. We look for two more rate cuts - in Jul and in Aug that can take cash target rate to 3.35% with risks skewed to the downside.

Risks to the AUD Forecast: (1) US inflation and concomitant policy trajectory is key for USD direction and a stickier-than-expected US inflation could exert some pressure on the AUD. (2) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a sharper than expected global recession is negative for the AUD. (3) Trump's trade agenda is key and a deal with China would be positive for AUD.

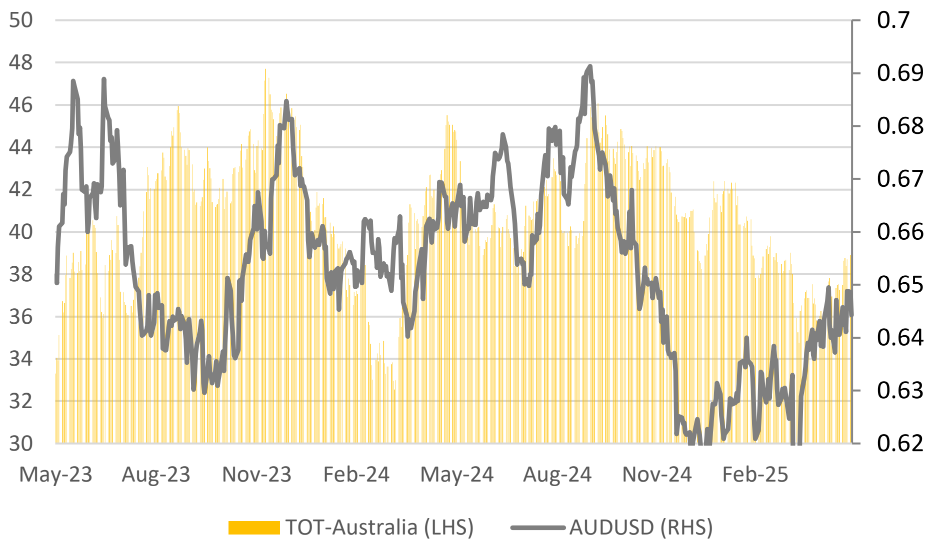
Key Data/Events: May CoreLogic home value (1 Jun), M-I May inflation gauge, ANZ-Indeed May Job advertisements (2 Jun), Minutes of May meeting, 1Q BoP current account bal (3 Jun), 1Q GDP (4 Jun), Apr trade, Apr household spending (5 Jun), Westpac Jun consumer confidence, May NAB business confidence (10 Jun), May labour report (19 Jun), May CPI (25 Jun), M-I Jun inflation gauge (30 Jun).

Underlying Inflation Has Slipped into RBA's 2-3% Target Band



Source: Bloomberg, Maybank FX Research & Strategy

AUD is Lifted by its Improving Terms of Trade



Source: Bloomberg, Maybank FX Research & Strategy

NZD: RBNZ Cuts into Neutral Zone

NZD/USD	2Q 2025	3Q 2025	4Q 2025	1Q 2026
	0.5800 (--)	0.6000 (--)	0.6100 (--)	0.6100 (--)

No Change to Previous Forecasts

Motivation: Liberation Day triggered a false break of the bullish trend channel for NZDUSD. This pair continued to trend higher within the same trend channel and was last seen around 0.5950. NZDUSD seems to have formed a triple top at around 0.6030 with the price action in Apr-May. Momentum is less bullish. Possibility of trade deals may see some unwinding of short USD positioning before NZDUSD can resume its uptrend for the rest of the year. We do expect the USD to extend its downtrend on the back of 1) US economic slowdown, 2) Fed cuts, 3) the potential for global growth to exceed the current pessimistic expectations. On top of that, there remains quite a bit of speculation on Trump admin's intention for a weaker USD that is fuelling the USD decline. Such bearish sentiment could continue to provide room for central banks in the rest of the world to cut rates deeper and provide a stronger boost to growth, especially in an environment of trade uncertainty. **We looked for AUDNZD to head towards 1.10. While it did not quite reach this target, the high for May was still a respectable 1.0922 vs. Apr low of around 1.0650, a 2.6% rise.**

Recovery has been shaky and outlook remains murky. Employment conditions had been weak (filed jobs at -0.1%m/m in Apr, jobless rate steadied at an elevated level around 5.1%) but there are signs of improvement with jobs ads on the rise for three consecutive months, posting a 1.1%m/m increase in Apr. 1Q retail sales came in stronger than expected. Card spending is still negative at -0.2%m/min Apr, albeit less so compared to -1.6% in Mar. Survey sentiments are mixed with clear and sharp fall in business confidence for Apr to 49.3 from previous 57.5 and activity outlook at 47.7 from previous 48.6. Performance Services index fell to 48.5 from previous 48.9. What has been supportive of the NZ economy has been the strong commodity prices (global dairy auction clearing prices have been hovering near historical high) for NZ while interest rates have been falling to support underpin private consumption. Looking forward, uncertainties may continue to dampen demand and economic recovery would be gradual.

Trade. Trade balance had been improving with 12m rolling trade deficit narrowing to NZ$-4.8bn Apr from prev. NZ$-6.3bn. Export receipts have been supported by strong demand for meat while demand for dairy continues to remain robust. Trade balance surplus widened to N$1.4bn from previous N$0.79bn. Thus far, the tariffs announced have not made a discernible impact on NZ trade. Weakness may emerge should the 90-days reciprocal tariffs pause expire with some tariffs reinstated. For now, that uncertainty could continue to drive some front-running demand.

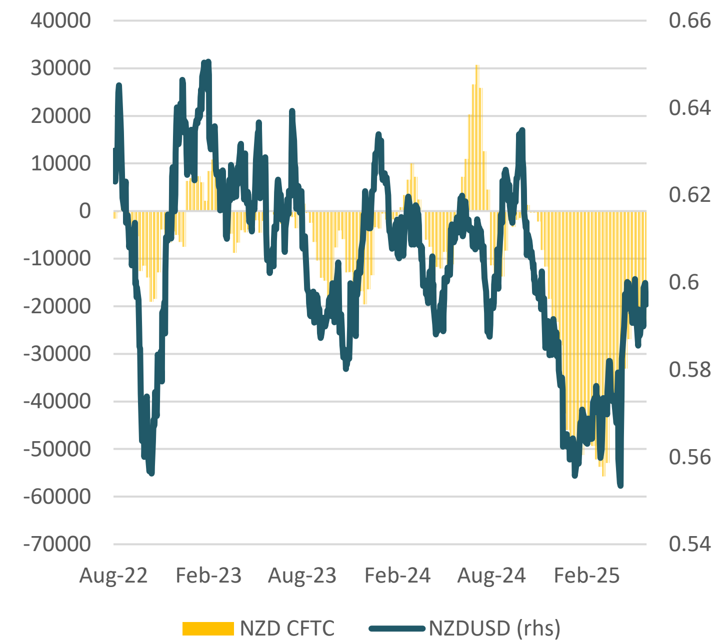
RBA-RBNZ Policy Divergence To Play Out via AUDNZD decline near-term. We had look for RBA to pivot dovish with a 25bps cut and RBNZ to surprise on the less dovish side alongside a 25bps cut as well. Both calls were right for May. More importantly, RBNZ Hawkesby held his first OCR presser as the interim Governor for the Reserve Bank. Projections lowered the "terminal rate" from 3.1% seen earlier to 2.85%, which is in line with expectations.

We reckoned that markets were too dovishly positioned into this decision and the rebound in the NZD thereafter validated our call. Committee voted 5 votes to 1 for the decision. The statement noted that inflation expectations have increased for individuals and businesses but notes decline in the core inflation as well as spare capacity in the economy. Hawkesby as well as Chief Economist Conway mentioned that the central bank is in the "neutral zone". Hawkesby also said that the scenarios drawn were wide enough for RBNZ to "not have a bias for the next meeting" and "the decision will be driven by developments". In fact, another comment that drove the NZD higher was on how the effects of accumulated rate cuts have yet to be fully realized according to the committee and that could mean that the next rate cut may not come so soon. Along with that, the RBNZ looks for employment growth to increase from 2H 2025.

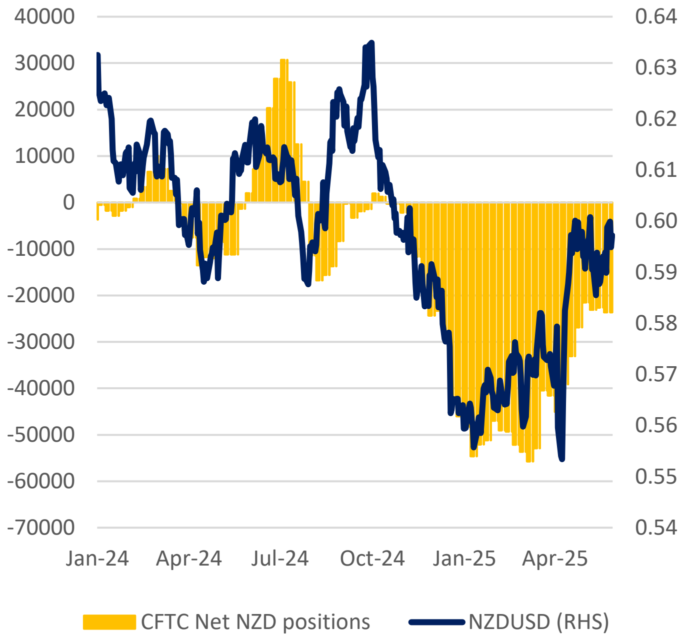
Risks: 1) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a sharper than expected global recession is negative for the NZD via the sentiment as well as the trade channel; 2) Trump's trade policies could continue to generate greater volatility for the NZD in the near term; 3) The NZ economy still looks a tad fragile and any downgrade to growth outlook will be negative for the NZD and warrant more aggressive rate cuts by the RBNZ.

Key Data: 1Q Terms of Trade (3 Jun); CoreLogic May Home value (4 Jun), ANZ May commodity price (5 Jun), 1Q Mfg activity (9 Jun), Apr net migration (11 Jun), May card spending (12 Jun), May busiensNZ mfg PMI (13 Jun), May performance services (16 Jun), May food prices (17 Jun), 2Q Westpac consumer confidence, 1Q current account (18 Jun), 1Q GDP (19 Jun), May trade (25 Jun), Jun ANZ consumer confidence (27 Jun), May filled jobs (30 Jun).

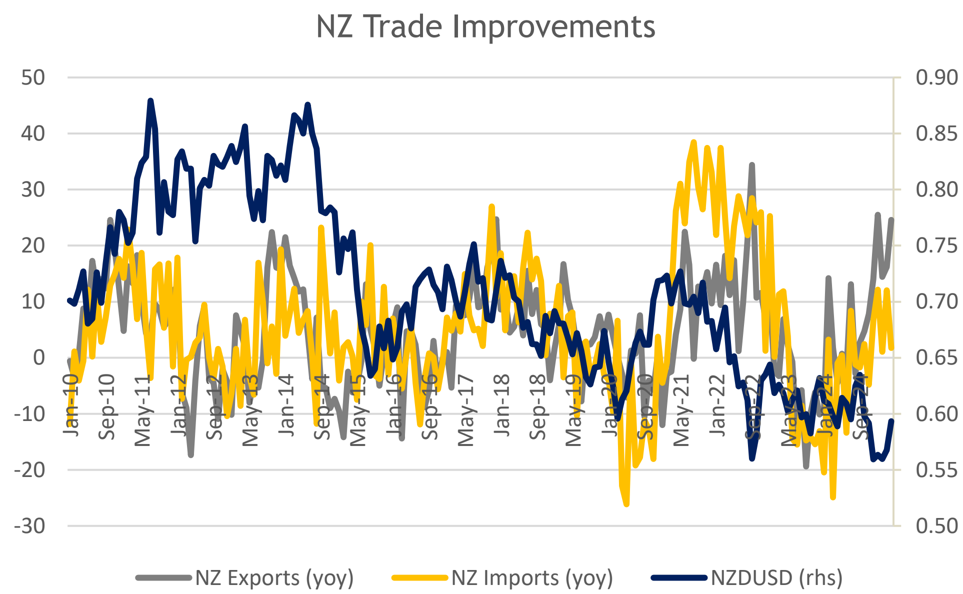
<u>**NZ-US Yield Differential Lift the NZDUSD**</u>



<u>**Net Short NZD Positions Are Correcting, +NZD**</u>



<u>**No sign of Pressure from Tariffs Yet**</u>



Source: Bloomberg, Maybank FX Research & Strategy

CAD: An Economic and Security Deal in the Making by Fall

USD/CAD	2Q 2025	3Q 2025	4Q 2025	1Q 2026
	1.39	1.37	1.35	1.34
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: May was also a month of two halves for USDCAD. The pair started off with a move towards the 1.40-figure before making a full reversal lower on the back of weaker USD. Right now, the USDCAD hovers around 1.3820. We continue to look for the pair to head towards 1.34 in twelve months on the back of broader USD weakness and potential for resource-driven, pro-cyclical CAD to strengthen as global growth recovers. At this point, after supranationals and central banks downgraded forecasts alongside Trump's penchant for grandiosity, we see potential for global growth to outperform already pessimistic expectations and that would be CAD positive. We look for BoC to cut overnight lending rate to 2.00% instead of 2.25% seen previously as business sentiment remained weak, a deal and budgetary spending to be delayed. There could also be a significant increase in borrowing costs as debt issuance is projected to surpass pandemic-era high. We could be seeing another knee-jerk move higher in the USDCAD as we look for BoC to signal more cuts this year.

Trade War Status: Trump imposed 25% tariff on Canada with the exemption of oil and energy (at 10%) which took effect on 4 Mar. USMCA compliant goods are exempted. Canada's retaliatory actions include 25% levies on CA$30bn of American goods which could be expanded to CA$155bn at a later date. More recently, PM Carney mentioned that officials from both nations are in intense negotiation over **an economic and security deal** and both leaders are not willing to let talks drag on **beyond fall.** While Carney touts a reset in the US-Canada relationship, Lagarde spoke about US trade threats as "opportunity for Canada-EU relations".

Sovereignty Threats and Military Step-Up. PM Carney told the local press that the country will raise defence spending "soon", specifically in the fall budget plan (a full budget in place of the Fall Economic statement typically released in Nov-Dec) to incorporate accelerated military expenditures, noting that the Jun NATO summit will have "budgetary implications". Trump had mentioned about the Golden Dome Protection (his missile defense project to protect the US from foreign threats) that Canada would enjoy if it becomes "its cherished 51st state" but in fact, US officials and experts noted that Canada's cooperation is needed to provide radars and airspace to track incoming missiles in the Arctic. The re-negotiation of **an economic and security deal** may include the Golden Dome Protection that requires the collaboration of both Americas.

Apart from national defense, the Liberal Party had campaigned on spending on housing and critical infrastructure. The Liberal government under Carney intend to raise budget deficit from C$42.2bn seen last year for FY2025/2026 to C$62.3bn based on the Liberal party platform – due to the new priorities that the Trump administration thrusted upon its northern neighbours.

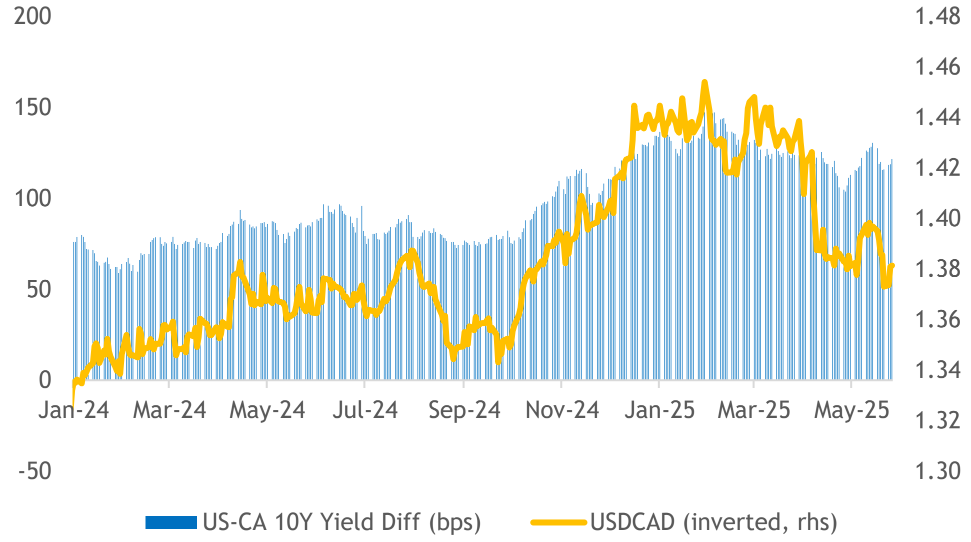
Sentiment survey remains rather cautious with S&P Mfg and Services PMI still in contractionary region, rising unemployment rate (back to cycle high of 6.9% for Apr). falling interest rates might be spurring nascent signs of recovery in property markets – housing starts have shot up to 278.6K in Apr, highest since Jun 2023 while existing home sales fell -0.1%m/m. CFIB business barometer saw a modest rise to 40.0 from previous 34.7. Retail sales swung into positive growth of +0.8%m/m but ex auto, the retail sales was much weaker at -0.7% vs. previous +0.6%. Meanwhile, trade deficit narrowed to C$0.51bn from previous C$1.4bn.

BoC is quite likely to cut policy rate by 25bps to 2.50%. We look for terminal rate at 2.00% as opposed to 2.25% seen previously. Contractionary PMIs flag cautious investment sentiment. Even with the improvement in the business barometer that rose to 40 from previous 34.7 in the month prior, the CFIB report noted that optimism among all SMEs is "extremely low" with exporters registering lower levels than firms reliant on domestic demand. With the new economic and security deal likely to come to fruition in fall (at the earliest), the full budget to only manifest in Nov-Dec, it is likely that BoC would act now to support sentiments. Beyond the cut in Jun, we see room for BoC to lower policy rate (overnight lending rate) by a further 50bps within the year and take the policy rate to 2.00% (vs. previous 2.25%) but it would likely be paced out to conserve ammunition in case such a significant trade negotiation turns awry. This is especially due to the fact that CAD in this special environment that consists of negative USD and sentiment, is less likely to act as a shock absorber as it did in the past. That would probably require the BoC to cut rates more to support the economy.

Risks Ahead: (1) US inflation and concomitant policy trajectory is key for USD direction and any re-accelerations to boost USD against the CAD. (2) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a global recession is negative for the CAD. (3) Focus on the economic and security deal that is in the making between Carney and Trump. 4) Inflation pressures should be monitored.

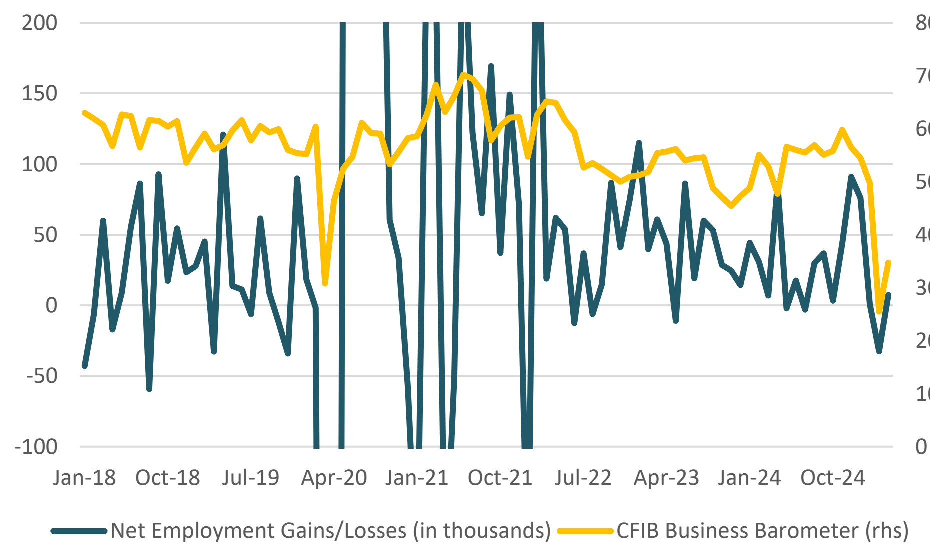
Key Data/Events: BoC policy decision (4 Jun), Apr trade (5 Jun), May labour (6 Jun), CFIB business barometer (19 Jun), Apr retail sales (20 Jun), May CPI (24 Jun), Apr GDP (27 Jun).

USDCAD Trended Lower



Source: Bloomberg, Maybank FX Research & Strategy

Hiring Sentiments, Business Confidence Remain Weak



Source: Bloomberg, Maybank FX Research & Strategy

JPY: Remain Bullish on Favorable Factors

	2Q 2025	3Q 2025	4Q 2025	1Q 2026
USD/JPY	140.00	135.00	132.00	132.00
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our JPY forecasts and still expect the currency should appreciate over the next year on a number of favorable factors that include 1) softer USD trend, 2) safe haven demand, 3) ongoing BOJ normalization (guiding yields higher) and 4) potential informal currency agreements. On the USD, we are expecting that the greenback should continue to soften throughout this year as investors diversify from their heavy US positions amid the ongoing US policy uncertainty. The latter is likely to also guide more safe haven demand for the JPY especially as investors continue to search for alternatives beyond the US treasuries. Meanwhile, regarding the BOJ normalization, we expect the central bank to keep cutting back on bond purchases albeit at sustainable pace that would gradually guide the JGB yields higher. For now, we are not expecting any further rate hikes by the BOJ in 2025 although we are not ruling out resumption this year if the trade situation turns out to be less detrimental to the economy. On informal currency agreements, we see the potential that any trade deal reached can include an element addressing the currency’s weakness. In the near term, we expect the JPY to climb given the possibility of a reescalation in trade tensions after a recently calmer period. Risks to our view include any major sustained USD rebound or the BOJ tilting dovish again.

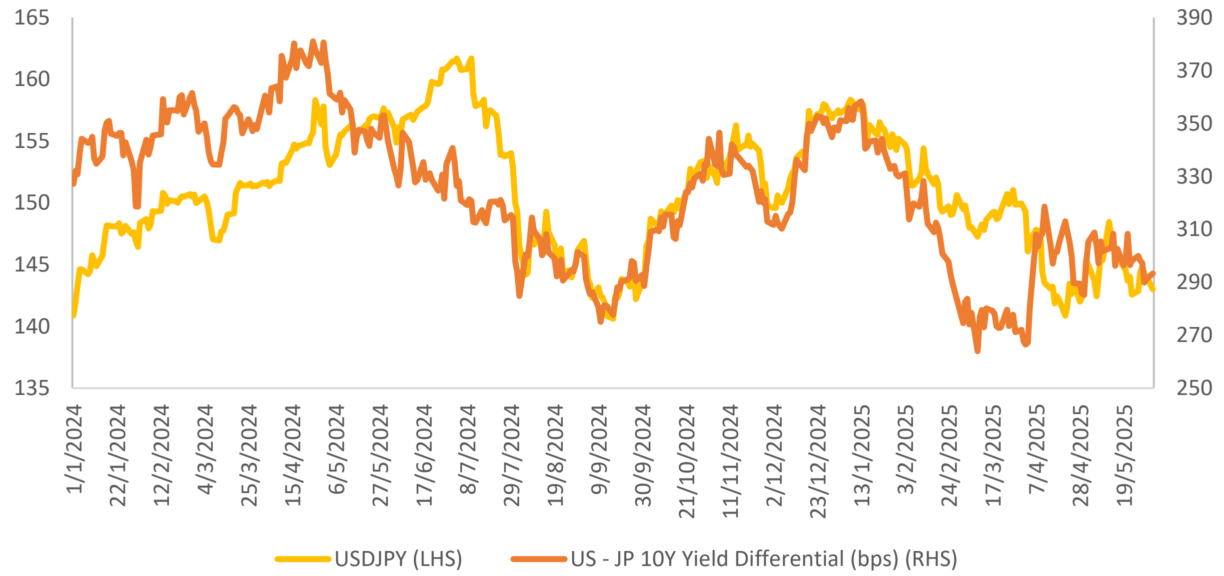
We expect BOJ normalization to continue at a sustained pace although for now, we do not expect any further hikes this year - Jun meeting therefore to be a hold. The ongoing uncertainty related to the global trade situation is likely we believe to keep the BOJ cautious on undertaking another hike for this year. For that matter, BOJ Governor Ueda has in the May meeting highlighted the risks associated with the tariff situation and hence, the trade situation remains the major issue that would still hold back any further BOJ moves. As it is, there are still limited clarity for now on the extent to which Trump would clawback on the tariffs for Japan. **The next BOJ hikes we see would be a 25bps increase in Jan 2026 and another of the same amount in Jul 2026.** Meanwhile, the volatility in the super long-end JGB yields has created risks for the BOJ normalization pace. However, we are expecting both the government and the BOJ to take actions that would smoothen the market and allow a more manageable level of normalization amid reduced demand. Demand has recently taken a hit from less asset swap purchases, lower levels of rebalancing by big players to JPY bonds and decreased flattener positions. We do note foreign demand should increase but not fast enough rate to offset any demand loss elsewhere. At this point, we are wary of the possibility of the BOJ tweaking the pace of bond purchase scaling back or the government adjusting the supply of bonds. The BOJ Jun meeting would be closely watched on updates regarding the bond purchases. The MOF is also reportedly meeting primary dealers on 20 Jun.

We are cautious of the trade situation for Japan whilst also remaining wary of any informal currency agreement seeping into potential trade deals. Japan’s lead tariff negotiator Ryosei Akazawa has said that it is “desirable” to reach a trade agreement with the US in June but over the last month, there is still not much clarity if the two sides are getting closer to one even. There have been some major developments related to business relations of the two sides although details regarding them are not fully known. This includes the Nippon Steel and US Steel deal of which the two sides have not disclosed sufficient information on it. Exactly how the Nippon Steel and US Steel development factors into the trade negotiations is unclear. Regarding informal currency agreements (to address JPY weakness), an inclusion of this element into a final trade deal should be closely watched. Trumps has in the past bemoaned the weakness of the JPY as he claimed that the country intentionally depreciates its currency to help exporters. Furthermore, authorities in other jurisdictions such as Taiwan have not reacted strongly to stopping the currency’s rapid appreciation in early May. Reports have also emerged that South Korea had discussed about the currency direction with the US as the latter believes a relatively weak won is a fundamental cause of South Korea’s trade surplus with the US. So far, both the US and Japan have downplayed any speculation associated with informal currency agreements. The US has said that both sides have not discussed foreign exchange levels. Ironically though, Japanese Finance Minister Kato mentioned that Bessent and him were able to deepen discussions on the fundamentals of currency policies during their meetings. Any stronger cues on an informal can go some way to lift the JPY quite a bit.

Risks Ahead: Downside risks include any major sustained rebound in the USD or the BOJ tilting dovish. Upside risk for the JPY meanwhile would be a deep US and global recession that would support more safe haven demand for the currency.

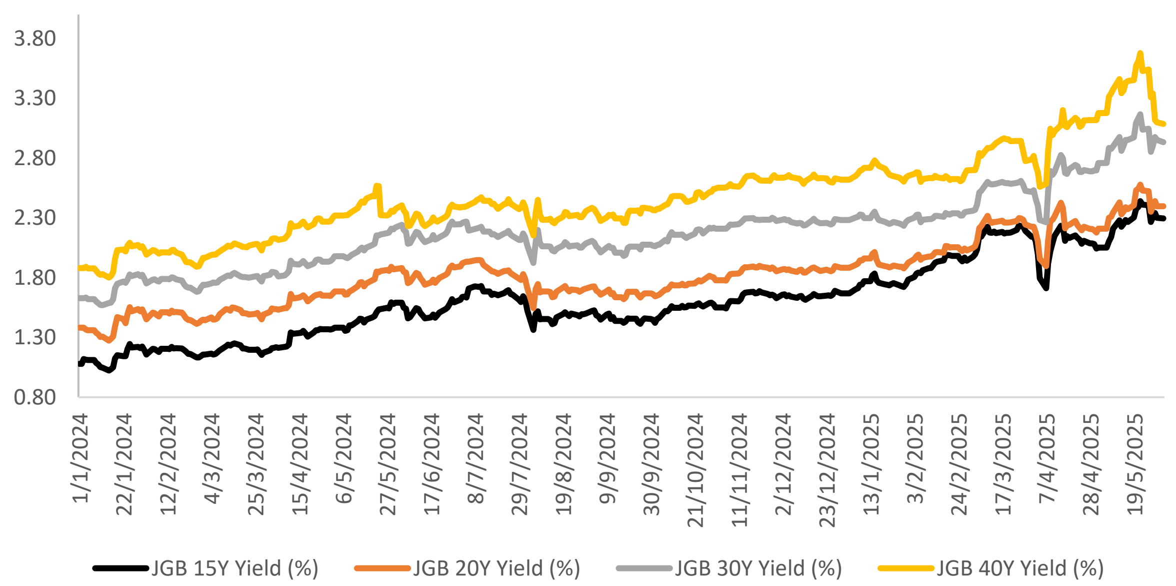
Key Data/Events: 1Q capital spending (2 Jun), 1Q company sales (2 Jun), Apr cash earnings (5 Jun), Apr household spending (6 Jun), Apr P leading/coincident index (6 Jun), 1Q F GDP (9 Jun), Apr BoP CA/trade balance (9 Jun), May bank lending (9 Jun), May eco watchers (9 Jun), May PPI (11 Jun), 2Q BSI large all industry/manufacturing (12 Jun), May Tokyo avg vacancies (12 Jun), Apr capacity utilization (13 Jun), Apr teratiry industry index (13 Jun), May nationwide/Tokyo dept sales (16 – 23 Jun), BOJ policy decision (17 Jun), May trade data (18 Jun), Apr core machine orders (18 Jun), May Tokyo condo sales (19 Jun), May CPI (20 Jun), Jun P Jibun Bank PMI composite/mfg/services (23 Jun), May PPI services (25 Jun), May jobless rates/job-to-applicant ratio (27 Jun), Jun Tokyo CPI (27 Jun), May retail sales/dept store,supermarket sales (27 Jun), May P IP (30 Jun) and May housing starts (30 Jun).

Yield Differentials Have Recently Deviated from Currency Movements But a Relationship Between the Two can be Reestablished



Source: Bloomberg, Maybank FX Research & Strategy

Volatility in the Super Long-Eng JGB Yields Create Risks for the Ongoing BOJ Normalization



Source: Bloomberg, Maybank FX Research & Strategy

RMB: A Pause on Tariffs and A Push for Yuan Internationalization

	2Q 2025	3Q 2025	4Q 2025	1Q 2026
USD/CNY	7.25 (--)	7.20 (--)	7.18 (--)	7.15 (--)

No Change to Previous Forecasts

Motivation: May saw some de-escalation where China reduced the tariff rate on US goods to 10% (from 125%) while the US lowered tariffs to 30% (from 145%), including more recently, the lower value goods which were covered under the de minimis exemption before. USDCNY fix and the spot have converged and countercyclical factor is milder now that the USD has been under persistent pressure for the past several weeks and due to some easing of tensions. We do see potential for an unwinding of short USD positions should there be further signs of trade tensions easing or a trade deal between the US and other countries but those will be taken as opportunities to short the USD rather than to chase a reversal higher. USDCNH has the potential to head higher towards 7.27 before coming off again. We are still holding a bearish view on the USD in the medium term – as US continues to slow, Fed cuts and the fact that the rest of the world may potentially outperform current pessimistic expectations. Our observation is that PBoC is not willing to let yuan appreciate too fast or depreciate in an orderly manner, in case it triggers an avalanche of export receipt conversion.

Yuan internationalization. Interestingly, as markets started to get tired of alluding every bout of USD weakness to Trump's policies (his attack on the integrity of the US institutions such as the Federal Reserve, his protectionist trade policies as well as concerns over his tax legislation) that contribute to a grand de-dollarisation narrative, the central banks have just started to jump on the band wagon. PBoC has urged state banks to use yuan for 40% of its cross border transactions, up from 25%. This probably is PBoC's way of stepping up the use of yuan and with China having its payment system (albeit still requiring SWIFT) and e-CNY (which is its central bank digital currency), China's sizeable trade with the world (and probably growing faster due to Trump's tariff policies), there is a significant possibility that yuan is going to rise in invoicing and reserve share for central banks. China has most of its infrastructure already up and coming to internationalise its currency, especially given the uncertainty surrounding the US-China relations in the longer term.

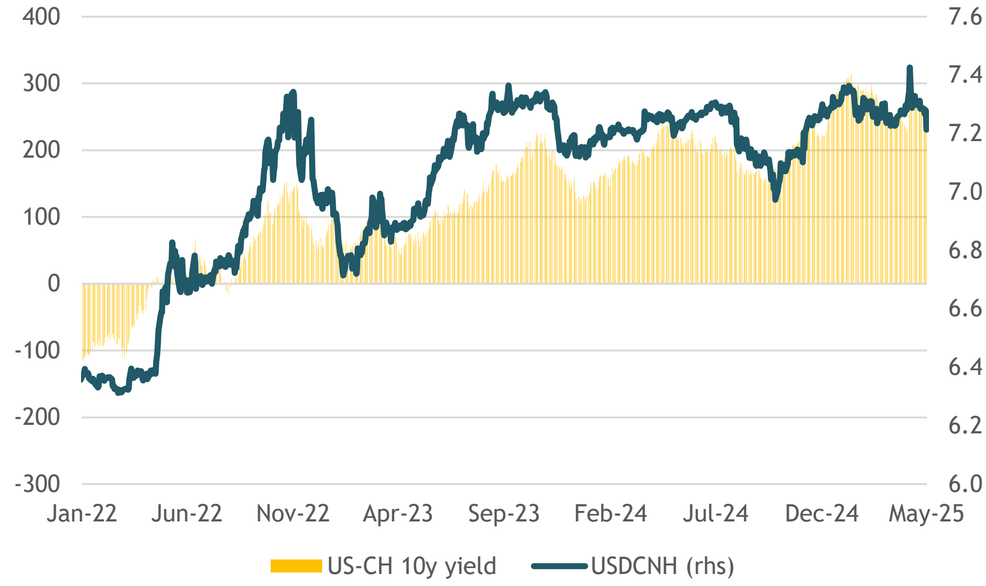
Stimulus frontloaded before Trade Talks. Ahead of the talks in Geneva earlier this month, China unleashed a combination of monetary policy stimulus as well as a package of fiscal support measures that includes cutting 7D reverse repo by 10bps to 1.40% which led to 10bps fall in the LPR. Reducing 25bps to targeted relending instruments and to provident funds' first-home mortgage rates, lower 50bps to RRR and dropped the RRR's of car finance and leasing firms' by 500bps to 0%. Expand the relending of funds for consumers trade-in and firm tech upgrade programs from RMB500bn to RMB 800bn as targeted liquidity support. The CSRC and PBoC also backed a market stabilization funds that would probably mitigate the impact of a negative wealth effect from the stock market.

Trade data suggests there had been frontloading activities and in addition to that, a surge of intermediate goods and machinery were detected with a pivot to ASEAN according to our economist. Consumer electronics shipment such as that of mobile phones contracted -21.4% while tech components surged. There was a significant shift in the components owed to the impact of sectoral tariffs as well as China-specific levies. The Geneva talk was "successful" in getting a mutual reduction of tariffs to 30% for China and 10% for the US for 90 days. Treasury Secretary Bessent had said that officials from both sides would meet to work on a "more fulsome agreement" thereafter. Since then, officials have been in discussions but the US has stepped up curbs on the use of Huawei Ascend chips, noting that the use of Ascend chips would be interpreted as a violation of American export controls. This comes as the Chinese government readies its next Five-Year Plan with sources cited saying that the China will still prioritize manufacturing and focus on developing core technologies such as semiconductors and new energy materials. A "fulsome agreement" may spur some unwinding of USD short positions but will nudge USDCNH lower. We continue to look for USDCNH to trend south.

Monetary Policy is Likely to Have Little Effect. There is little need for monetary policy as monetary policy alone is unable to boost consumer and business confidence. There is little PBoC can do when the trade war is the key drag on the economy. Regardless, PBoC and CSRC just announced a 50bps RRR cut, 10bps to 7-day reverse repo along with other measures to support consumption and stock markets. PBoC CGB 10y yield may not have a lot more room to fall. USDCNY and USDCNH is still driven by yield differential and further decline in the UST 10y yield should bring both pairing lower.

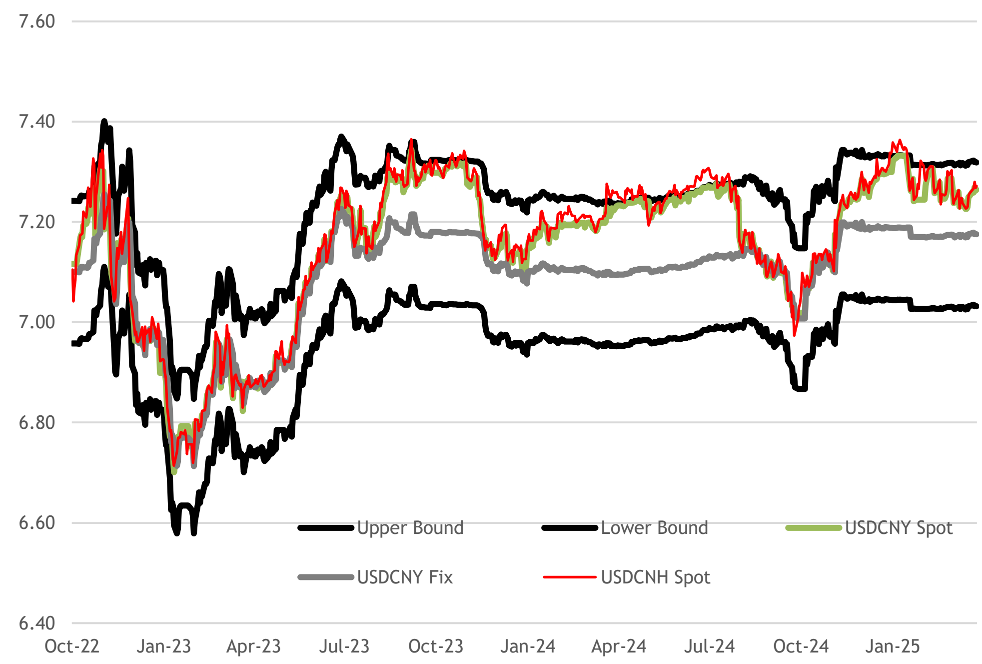
Key Data/Events: Foreign reserves [7 Jun], May trade, CPI, PPI [9 Jun]; May new yuan loans, money supply, aggregate financing [9-15 Jun]; New home price, used home prices, retail sales, industrial production, fixed assets ex rural for May [16 Jun]; FX Net settlements for May [17 Jun]; 1Y,5Y LPR [20 Jun]; SWIFT [22 May]; May industrial profits [27 Jun]; Mfg, non-mfg PMI [30 Jun].

Fall in UST yields Going to be a Boon for the CNY against the USD



Source: Bloomberg, Maybank FX Research & Strategy

USDCNY on the Downtrend, Albeit Still Above the Fix



Source: Bloomberg, Maybank FX Research & Strategy

KRW: Stronger as Political Issues Resolve

USD/KRW	2Q 2025	3Q 2025	4Q 2025	1Q 2026
	1400	1390	1370	1360
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our USDKRW forecasts. We hold the view that the USD is likely to broadly weaken on the back of fading US exceptionalism and any relief on the tariff front should be beneficial for Asian currencies. Our anticipated peak in the USD has materialized and the USDKRW is a high beta North Asian and is likely to benefit more from resolutions on the trade front. On the other hand, protracted negotiations could weigh on the KRW. There are also salient risks on the political front with the impeachment of President Yoon. An election will be held in Jun and it remains to be seen if the eventual winner can allay the concerns that investors could have on the political front. Nevertheless, we do expect the KRW to appreciate and have carefully considered the risk premiums in our forecasts.

USDKRW NDF traded within a 1356.84 to 1436.79 range in May, broadly lower than the 1410.80 to 1484.89 range in Apr 2025. USDKRW NDF was last seen at 1373.11 levels. Heightened volatility in the wake of tariff imposition is to be expected for a high-beta currency like the KRW, especially when lingering political issues surrounding the impeachment of President Yoon also serve to exacerbate volatility. However, note that there could also be easing of the political uncertainty premium when issues surrounding the Presidency are resolved. There has also been market chatter that North Asian real money could pare down on their USD assets, which could lead to more volatility and perhaps further upside for the KRW.

We expect the BOK to cut rates by 50bps more in 2025 with the policy rate ending at 2.00%. BOK cut rates by 25bps on 29 May to 2.50%, largely in line with expectations. We see a further 50bps of rate cuts by the BOK in 2025 and this is more dovish than the approximately 30bps of cuts implied by market pricing and 40bps of rate cuts forecast by economists. We think that the BOK should continue to pivot towards growth support as inflation eases, although should concerns over KRW weakness arise then they could be more hawkish to be supportive. This remains in line with other central banks pivoting to become more growth supportive as the disinflationary trend gathers steam.

Growth could be hindered by a challenging and uncertain external environment in 2025. Consensus forecasts see 2025 growth moderating to 0.9% (prev: 1.3%; 2024: 2.1%) in real terms, with a 20.0% (prev: 25.0%) probability of a recession. Korea is potentially vulnerable to further US trade measures on semiconductors and pharmaceuticals. Trump has already signalled potential measures on Taiwan for "stealing" US chip business and Korea could also similarly be flagged. Moreover, Korea has a trade surplus with the US and that could be a reason for further trade measures being applied. However, the flip side is that Korea could be viewed as a US strategic ally and be spared from Trump's ire which should support the KRW.

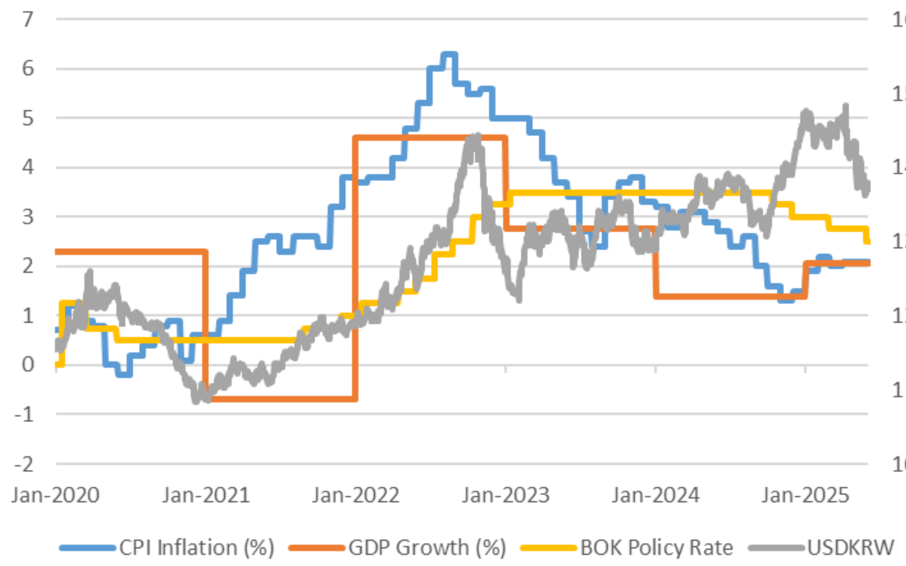
Political uncertainty should reach a resolution after the election. President Yoon's brief declaration of martial law has shaken confidence in Korea and the subsequent drama that has ensued has led to confidence issues and weighed on the KRW. Presidential elections are due on 3 Jun 2025 following the impeachment and removal of President Yoon. The three likely candidates are Lee Jae Myung (Democratic), Kim Moon Soo (People Power, Yoon's party) and Han Duck Soo (independent, but was part of Yoon's administration). The frontrunner Lee Jae Myung also has an ongoing legal case regarding an infringement of election law and this could potentially complicate the election. He is however also the front runner with prediction markets pricing him at 95% to win the Presidency. Nevertheless, our base case is for political uncertainty to start to ease after the election.

While the external environment in 2025 remains uncertain and challenging, structural inflows to Korea bonds should continue. Korea was included into major government bond indices and structural inflows are expected to continue into 2025. This should provide some support for the KRW at the margin. The push to diversify away from the USD and USD denominated bonds could also be beneficial for the KRW denominated assets should it continue. We note that the value proposition of Korean debt is quite different from that of say German Bunds and while the latter may be a larger beneficiary of diversification away from the USD and US assets, continued structural inflows from index inclusion should continue to be supportive.

Risks to our view: Extended period of political uncertainty could weigh heavily on confidence on Korea and the KRW. Potential further action from the Trump administration on China or worse yet Korea itself, given sensitivity over chips and pharmaceuticals, could also weigh on the KRW.

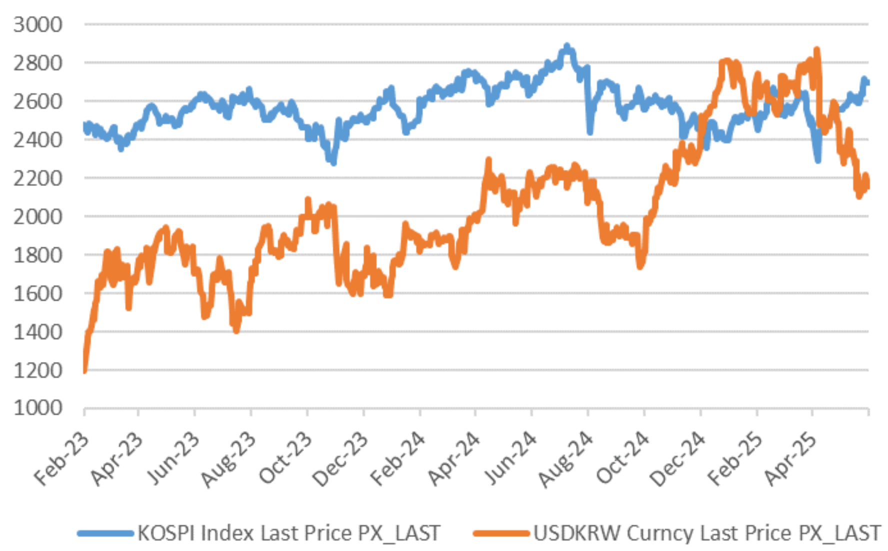
Key data/events: May Exports/Imports/Trade Balance (1 Jun), May Mfg PMI (2 Jun), May CPI (4 Jun), May FX Reserve, 1Q GDP, Apr BOP (5 Jun), May Unemployment (11 Jun), Apr Money Supply (16 Jun), Export/Import Price Index (17 Jun), May PPI (20 Jun), Jun 20-Days Exports/Imports (23 Jun), May Retail Sales (24 Jun to 30 Jun), May Industrial Production (30 Jun).

Falling USDKRW Could Enable Further BOK Cuts



Source: Bloomberg, Maybank FX Research & Strategy

KOSPI Recovers as USDKRW Falls



Source: Bloomberg, Maybank FX Research & Strategy

SGD: Resilience from Stability

	2Q 2025	3Q 2025	4Q 2025	1Q 2026
USD/SGD	1.2950	1.2800	1.2650	1.2600
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our USDSGD forecasts. SGD can continue to appreciate against the USD as US exceptionalism fades and a broad diversification on a flight to quality away from the USD continues. The SGD is a currency that has strong fundamentals and has proven to be a regional safe haven of sorts and we think that it can continue to benefit against a backdrop of a broadly weaker USD. On a bilateral USDSGD basis, the SGD has also been resilient likely on strong safe-haven demand for SGD assets. This is evident from the outperformance of SGS (outperforming USTs and largely keeping pace with German bunds). We recognize that Singapore is an open economy and trade frictions could negatively impact growth, a bilateral trade deficit with the US is likely to keep it out of Trump's crosshairs and with the lower reciprocal tariff rate of 10% imposed puts in on a better position on a relative basis with others. However, we also suggest that Singapore could benefit from a global re-routing of trade and look for the SGD to retain its appeal as diversifications away from the USD are sought. MAS policy remains supportive at +0.5% per annum appreciation in the SGDNEER and our base case is for no further easing unless there is a technical recession.

USDSGD traded lower within a 1.2802 to 1.3129 range in May, compared to the 1.3011 to 1.3550 range in Apr 2025. Pair was last seen lower at 1.2862 levels, below the key 1.29 level. SGDNEER was last seen at +1.90% above the mid-point after having gained sharply and stayed above the +1.20% above the mid-point level after MAS' easing on 14 Apr. As we suggested earlier, there has not been excessive SGDNEER weakness from MAS' easing. We think support for SGDNEER can remain in an environment of broad USD weakness. We note that a move lower in USDSGD will only be possible if other basket constituents broadly appreciate against the USD. **One-sided SGD appreciation is very likely to be moderated by MAS given the current relative close proximity to what we see as the band edge of 2%.** The SGD has the tendency to not be an outlier and a moderate appreciation in line with a broadly weaker USD is our base case expectation.

MAS eased via a slight slope reduction on 14 Apr with a statement that was balanced. We view the move as an adjustment to reflect the downside risks in inflation and growth. This is largely in line with the stance of other central banks globally. Current pace of SGDNEER appreciation (0.5%) is what MAS believes to be appropriate given the considerable downside risks to both growth and inflation. **Our economists see MAS standing pat, but cannot rule out a shift to a flat slope or a re-centering of the mid-point of the SGD NEER lower should there be a recession or an escalation in trade tensions.** Our Taylor Rule estimates suggests a gentle upward trajectory for the SGDNEER should be appropriate given the expected growth inflation dynamics. MAS could also opt to retain the policy space to react to any future downside shocks. We note that this has been the first time MAS has opted to ease the slope slightly at consecutive meetings, given that on earlier occasions MAS has preferred to set the appreciation to 0% after a slight reduction (Oct 2015, Apr 2016 & Oct 2019, Mar 2020). However, we also note that MAS has moved to quarterly (from semi-annual) meetings and this could also be to facilitate more nuanced and perhaps more gradual policy moves.

Core inflation dipped to 1.8% in 2024, below the historical mean of 2% and is expected to fall further. Growth is expected to remain robust. Apr Core CPI ticked higher to 0.7% YoY (exp: 0.7%; prev: 0.5%) **and o**ur economists forecast core inflation at +0.5% (prev: +0.8%), headline inflation at 0.8% (prev: 1.0%) and revise real growth up to +2.4% (prev: 2.1%) in 2025. Price pressures could cool by more than previously expected on the back of government subsidies, benign external cost pressures and base effects from the GST hike, travel-related costs and cooling aggregate demand. Manufacturing grew by +5.9% MoM SA in Apr amid a frontloading of manufacturing activity. Our economists see some easing recession risks amid a US-China trade truce and a front-loading of manufacturing supporting 2Q growth. Singapore remains a bellwether for the global economy and a slowdown could be reflective on the likely state for the rest of the world.

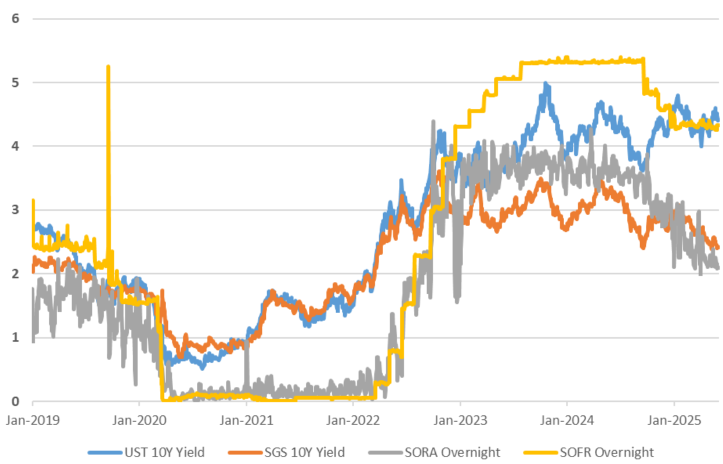
Budget 2025, the last budget for this term of government was delivered by PM Wong on 18 Feb 2025. The budget was expansionary, and yet a healthy S$6.8b (or 0.9% of GDP) fiscal surplus is still expected. Key budget initiatives included household goodies and social policies and support for businesses as well as setting aside funds for longer-term priorities. Our economists do not expect a surprise at the elections. Similarly, we suggest that the baseline election outcome is not expected to shake confidence in Singapore and the strength of its institutions. It remains the sole AAA rated sovereign in the region and is required by legislation to operate a balanced budget over a term of government. **Few countries would be able to announce an expansionary budget and maintain a healthy fiscal surplus, so Budget 2025 underscores one of the fundamental strengths of the SGD**. In uncertain times, this would make the SGD a relatively attractive currency to hold.

Given the current balance of risks, we do think that the SGD resilience and support will continue to persist. MAS has assessed that the current stance as appropriate to address the current growth and inflation risks, although the reference to "medium term price stability" was dropped. Within the Asian currency space, the SGD is also one of the most recognized and reliable stores of value given Singapore's strong fundamentals. MAS' policy is an explicit appreciation stance and this is unlikely to change given the history of MAS policy and the potential negative implications of having a depreciating stance.=. In an environment of heightened external uncertainty, the SGD is likely to outperform its peers.

Risk to our view: Developments that could derail MAS' expected path for inflation to come off or cause growth prospects for Singapore to worsen. These could include oil price shocks or supply chain disruptions that could arise from geopolitical conflicts. In the absence of such developments, our base case expectations for SGD appreciation should hold. We cannot rule out further MAS easing and possibly the need for fiscal policy as part of a macro policy mix, if downside risks to growth or inflation materialize. Pharmaceutical and semi-conductor tariffs could weigh on the growth outlook for Singapore

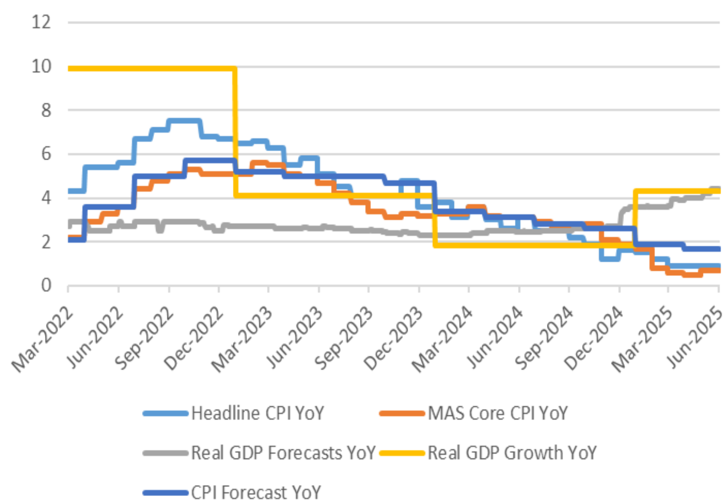
Key data/events: May Purchasing Managers Index, Electronics Sector Index (2 Jun), May Global PMI (4 Jun), Apr Retail Sales (5 Jun), May FX Reserves (5 Jun to 9 Jun), May NODX/Electronics Exports (17 Jun), May CPI (23 Jun), May Industrial Production (26 Jun), May Money Supply (30 Jun).

SGD Remains Resilient Even Though SGS Yields Are Lower



Source: Bloomberg, Maybank FX Research & Strategy

Inflation Risks to Downside, Growth Remains Respectable



MYR: Tariff Crosswinds, Sustaining Tailwinds

USD/MYR	2Q 2025	3Q 2025	4Q 2025	1Q 2026
	4.25	4.20	4.10	4.05
	(--)	(--)	(--)	(-)

No Change to Previous Forecasts

Motivation: MYR remains one of the top performers in the ASEAN in May and year-to-date but we continue see sharp swings since Apr due largely to tariff related concerns and USD related volatility. Year-to-date MYR has appreciated around 6% against the USD. USDMYR saw a month low of 4.19 on 5 May due in part to a broadly weaker USD amid de-escalation of US-China concerns. The currency was likely lifted by 1) recent softness on the dollar again and lower UST yields, 2) supportive CNY fixings and 3) rising expectations of an incoming BNM cut. On factor one, the USD appears to be holding below the 100.00 and it pulled back from that mark after trading close to it for a few sessions. UST yields have edged lower on amid rising bets of Fed cuts. Meanwhile, on factor 2, strong CNY fixings looks to be giving the CNH lift, which has benefitted the MYR given the latter's sensitivity to the former as China is a major trade partner of Malaysia. On factor 3, recent concerns about lowering the growth forecast has raised bets of BNM cutting rates, which has likely supported inflows into the bonds. Since early May and to mid May, an escalation in the US-China tariff tit-for-tat actions and the emergence of the India-Pakistan war led to a rise in the pair until 12 May, when a trade truce between the US and China was reached. Both sides reduced the tariffs that were implemented during the tit-for-tat, with US tariffs slashed to 30% (from 145%) and China tariffs dropped to 10% on most goods. USDMYR reached a high of 4.34 on 13 May before falling again to current 4.20 levels by end May.

Going forward, we are seeing that these positive factors above can continue to prevail with the global economy looking to soften whilst trade related uncertainties are unlikely to dissipate so quickly. We do recognize that Malaysia does remain vulnerable to US imposed tariffs especially as negotiations are not straightforward but we do think that any negative impact arising from this can be offset by the positive factors we have talked about. Upcoming trade negotiations with the US via the ASEAN platform is currently at an early stage, and no final commitments have been made by Malaysia or the US. However, the US government has agreed to negotiate further with Malaysia following the Malaysian delegation's working visit to the US on 22-24 Apr including to address the non-tariff barriers. These are additional positive factors. Until then, we maintain our USDMYR forecast (with a downward trajectory intact) to better reflect the conditions that are actually more supportive for the currency. Globally, more recent signs of thawing relations between US and China for the next few months provide the possibility of a sustained de-escalation scenario and may contribute to further emerging market FX support.

Bank Negara Malaysia (BNM) kept Overnight Policy Rate (OPR) at 3.00% for the twelfth consecutive time at the 7-8 May 2025 Monetary Policy Committee (MPC) meeting. But the Statutory Reserve Requirement (SRR) is cut by -100bps to 1% from 2%, effective 16 May 2025. At the same time, with an increasingly dovish Monetary Policy Statement (MPS), we expect - 25bps cut in OPR next quarter to mitigate downside risk to domestic growth as the hurdle for monetary policy easing is lowered amid external headwinds from global trade uncertainties, currently tame inflation – with manageable upside risk - and firm Ringgit.

Latest Monetary Policy Statement appears "increasingly dovish" vs the "dovish tilt" of the previous MPS, amid heightened emphasis on global headwinds and fallouts on key trading partners' growth stemming from US-driven trade policy shifts and tariff actions, thus downsides to domestic growth primarily through the external trade channel. At the same time, BNM remains relatively sanguine on domestic inflation, expecting it to remain manageable this year, with the "overall impact of the announced domestic policy reforms on inflation" to be contained (note: current official inflation rate forecast for 2025 is a wide spread of between +2.0% and +3.5% (1Q 2025: +1.8%; 2024: +1.8%).

Our outlook of -25bps cut in OPR by BNM next quarter is also premised on the move being a "complement" to measures to mitigate US tariff impact, including: On-going negotiation between Malaysia and US over the 24% reciprocal tariff – currently under the 90-day suspension from 9 Apr 2025 - which officially begins at officials/technical level from 6 May 2025. More to the point, the final paragraph of MPS acknowledged the downside risk in the economic environment and remove the words "price stability" from the last sentence regarding BNM's monetary policy stance, which is now about ensuring sustainable growth (only). Given the above take on MPS, we now expect OPR to by lowered by -25bps in 3Q 2025 to support domestic demand as our forecast of slower GDP growth this year (2025F: +4.3%; 2024: +5.1%) is subjected to downside risk amid headwinds and uncertainties on global trade due to President Trump's trade policy and tariff actions. At the same time, the official 2025 growth forecast of 4.5%-5.5% is under review.

Our economics team trimmed 2025 real GDP growth to +4.1% (2024: +5.1%) from +4.3% previously given the arithmetic effect of the revisions to 2024 GDP numbers and as 1Q 2025 growth was below our estimate, plus the expected further deceleration in 2Q 2025 growth on high base effect last year (2Q 2024: +5.9% YoY) as well as the impact of the spike uncertainties and volatility amid the twists and turns in US tariffs, including the impact on manufacturing and exports after the front-loading ahead of US tariff deadlines.

Mitigating the downside are resilient consumer spending on measures to boost consumer income and continued tourism upside; sustained investment upcycle; measures to support export sector (announced on 5 May 2025); and potential deal with US from on-going negotiations, taking cue from "market-positive" headlines e.g. exemption of key exports to US from reciprocal tariffs i.e. semiconductor and electronics; US focusing on concluding trade deals with 20 countries – including Malaysia – amid announcements of trade deals with UK and GCC countries; de-escalation in US-China tariff war; recission of Biden's AI Diffusion Rule.

Factoring 4M2025 exports and imports growth of +7.4% and +7.2% respectively, we recalibrate full-year growth forecasts to +5.5% and +6.5% from +4.5% and +6.3% previously, and revised trade surplus to +MYR131b from +MYR120b (4M2025: +MYR46.2b; 2024: +MYR136.8b). So far, exports have benefitted from the 90-day suspension of the reciprocal tariff coupled with exemption on E&E products like "semiconductor & semiconductor equipment", "computer & data storage", as well as "smartphones & other communication devices", which are key exports to US i.e. 44% of total US imports from Malaysia. However, we expect volatile monthly external trade figures ahead given the risk of dissipating export front-loading as the reciprocal tariff suspension deadline approaches and pending the outcomes of Malaysia's negotiation with US as well as US decision on the separate semiconductor tariff. Imports will also be correspondingly volatile in response to exports – especially that of intermediate goods which is highly-correlated to the export-oriented manufacturing sector - which is going through a soft patch. Meanwhile, imports of capital goods trend point to resilient investment upcycle.

On inflation, Malaysia's headline inflation came in at 1.4% YoY in April (Mar: 1.4%), matching the consensus. However, core inflation increased slightly to 2.0% YoY (Mar: 1.9%), mainly due to higher inflation for services and durable goods. Our economics team has maintained its 2025 headline CPI forecast at 2.0%, signaling an upward trajectory in the second half of the year in view of potential upside risks from the planned expansion of sales & service tax (delayed from May 2025), RON95 subsidy rationalisation and TNB tariff review.

1Q 2025 current account (CA) surplus rose +91.1% YoY and +29.4% QoQ to +MYR16.7b or +3.4% of GDP (4Q 2024: +MYR12.9b or +2.6% of GDP) as larger goods surplus and smaller net income outflow offset wider services trade deficit. Given the solid start to 2025, we revised upward 2025 CA surplus to +MYR43b or 2.1% of GDP vs +MYR30b or +1.5% of GDP previously (2024: +RM27.7b or +1.4% of GDP), providing fundamental support for Ringgit (USDMYR – 16 May 2025: 4.27; end-2024: 4.47; end-2025F: 4.10).

Meanwhile, the net outflows in financial accounts jumped to -MYR20.3b last quarter (4Q 2024: -MYR9.3b). Key factor was the rise in net outflow of Portfolio Investment (1Q 2025: -MYR48.3b; 4Q 2024: -MYR42.0b), driven by outflows in both equity and debt securities, alongside higher net outflows of Other Investments (1Q 2025: -MYR17.6b; 4Q 2024: -MYR16.5b). At the same time, Direct Investment posted smaller net inflows (1Q 2025: +MYR12.1b; 4Q 2024: +MYR13.5b) amid the dip in net inflows into Foreign Direct Investment or FDI into Malaysia (1Q 2025: +MYR15.6b; 4Q 2025: +MYR18.7b) which offset the lower net outflows of Direct Investment Abroad or DIA (1Q 2025: -MYR3.5b; 4Q 2024: -MYR5.2b).

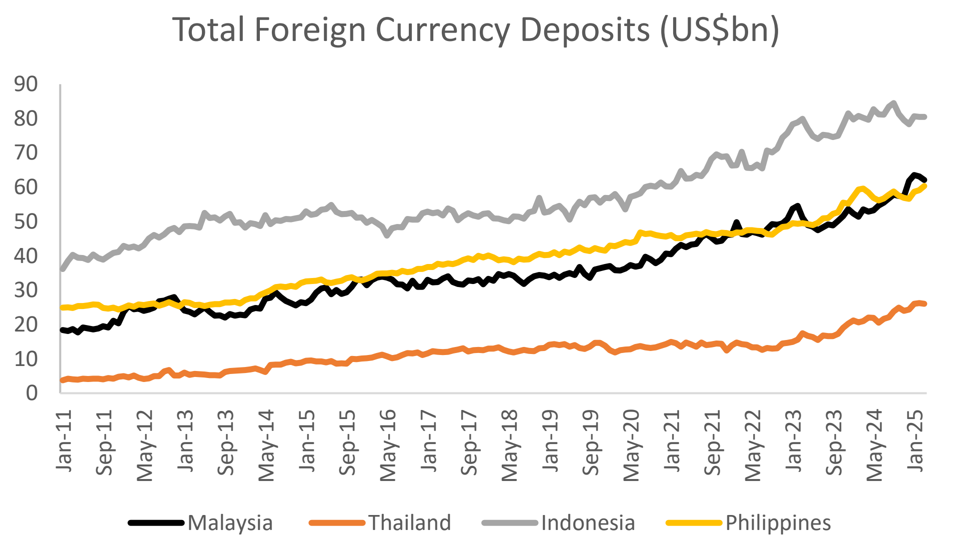
Given the solid start to 2025, we revised upward full-year 2025 CA surplus to +MYR43b or 2.1% of GDP from +MYR30b or +1.5% of GDP previously (2024: +RM27.7b or +1.4% of GDP). This eased concerns over past couple of years about narrowing surplus, and provides the macro fundamental support for Ringgit which has gained YTD vs USD by +4.7% to 4.27 as of 16 May 2025 (end2024: 4.27).

Regarding portfolio flows, there are likely to have been stronger inflows into bonds. In May, Ringgit bonds traded stronger, largely shielded from the duration selloffs in developed-market bonds. Alongside broad Asia FX gains against the USD, the theme of diversification away from USD-based assets appears to remain in play. The MGS curve ended between flat and 5bp lower WoW, led by a rally in the belly 5-7y segment where yields eased 3-5bp, while the front-end took a breather as yields on MGS maturing in 2025-2026 have already fallen below the OPR. The 3M KLIBOR fixing declined at a faster pace last week, falling by 7bp to 3.52%, dragging down MYR IRS by 3-9bp across the 1-3y segment. Since the last MPC meeting on 8 May 2025, the KLIBOR curve has flattened by 11-12bp, and the 3-month fixing looks set to reach our target of falling below 3.50% before the next MPC meeting.

Risks to look out for in Jun 2025. Downside risks include Malaysia being singled out alone for higher reciprocal tariffs among regional peers or a major downturn in China's economy could emerge. However, upside risks may also materialize such as a more benign trade friction scenario, with US-China trade tensions averted and sustained beyond Jul, which could lead to significantly lower USDMYR.

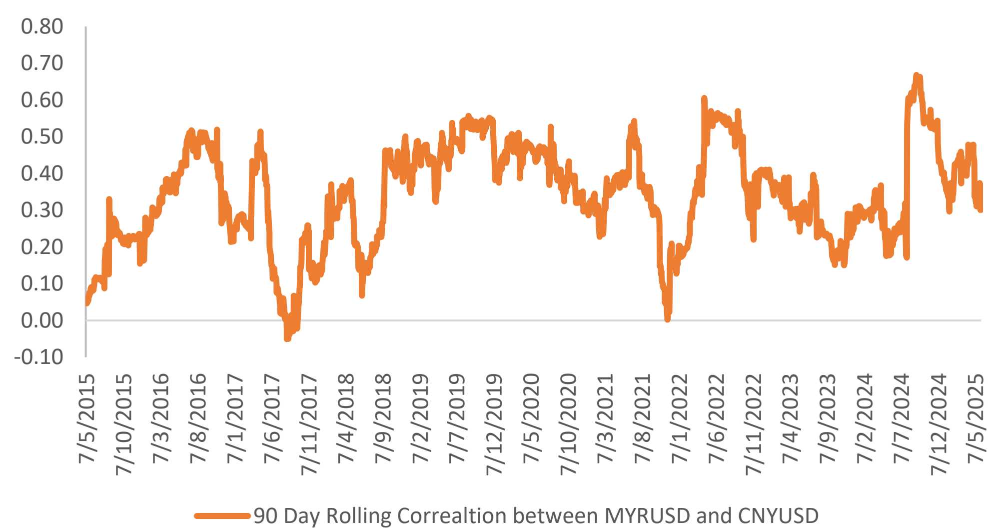
Key domestic events and issues to watch in Jun: S&P Global Malaysia PMI Mfg (3 Jun), Apr IP (13 Jun), Mar mfg sales (11 Jun), BNM policy decision (8 May), 30 May foreign reserves (9 Jun), May trade data (20 Jun), May CPI (24 Jun) and 13 Jun foreign reserves (20 Jun).

Hoarding of Foreign Currency in Malaysia Opens the Way for More MYR Appreciation When Conversion Occurs More Significantly



Sources: Macrobond, Maybank FX Research & Strategy

Relationship between MYR and CNY Makes US - China Trade Tensions a Key Focus



Sources: Bloomberg, Maybank FX Research & Strategy

IDR: Positive as Supportive Factors Develop

USD/IDR	2Q 2025	3Q 2025	4Q 2025	1Q 2026
	16500	16250	16150	16000
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our forecast of a positive trajectory for the IDR as the supportive factors driving the currency are looking to take hold more strongly. These include 1) softer dollar trend, 2) BI cutting cycle (giving support to bond inflows), 3) some easing domestic concerns and 4) potential conversion of heavy foreign currency holdings. On factor 1), we continue to believe that the greenback is likely to decline over the next year on the basis of both potential informal currency agreements and asset diversification away from USD. Regarding factor 2), we believe that BI is likely to ease further this year with our economist calling for an additional 25bps cut although there is a possibility of more slashing of rates. As for factor 3), we take note that the market had previously factored in quite a bad domestic scenario and instead, we see the possibility that the situation in the medium term may not pan out to be as bad. The fiscal deficit could stay below the 3.00% mark whilst more clarity can emerge on other items such as regarding Danantara. Finally, on factor 4), holdings of foreign currency in Indonesia is heavy and this can open the way for stronger IDR appreciation once conversions occur more significantly. Near term, we see the IDR continuing to climb in line with the positive trajectory given ongoing dollar softness. Risks to our view include a domestic situation worsening or dollar strength returning.

After pausing for three months, BI cut rates by 25bps to 5.50% as they appeared to express a dovish tilt. The central bank highlighted economic concerns as they downgraded the growth forecast from 4.7% - 5.5% to 4.6% - 5.4%. At the same time, they remained vigilant of the IDR as they noted they would continue to intervene market to support the currency's stability. Such actions and comments from BI reflects that the central bank is likely to ease further to give the economy more support but that any future moves would be subjected to IDR stability. Given both the central bank's stance and our positive IDR view, our economist sees another 25bps cut would occur this year although more easing is also not ruled out. Under such circumstances, further cuts should help support the short end of the Indo GB curve and possibly guide more flows into bonds, which in turn again can help further strengthen the IDR.

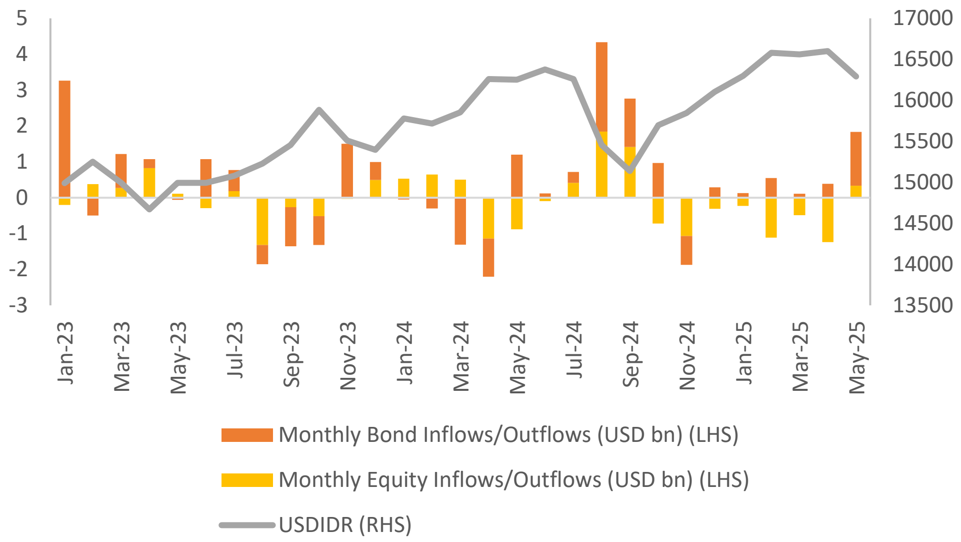
On the fiscal front, we are seeing the possibility that the situation could be manageable. The latest budget numbers for the month of Apr have turned back into a surplus as revenue has started to pick up. In terms of spending, it also remains to be seen if the government would be able to meet its targets set out in the year and the possibility of any shortfall could result in the fiscal situation being better than expected. We do take note that they have rolled a stimulus package recently that includes covering travel, electricity, food and wage support but that is reportedly still within budget and should not be too concerning. Overall, our economist is expecting that the budget deficit should be at 2.9%. However, the possibility that this year's number can come out quite below that figure should not be ruled out.

Net portfolio flows saw a turnaround month to date (mtd) as of 26 May as there were positive inflows into both bonds and equities. Bonds saw an inflow mtd as of 26 May, which amounted to $1.5bn as markets likely positioned in anticipation of more BI easing to come. We remain positive on bonds and see the possibility of more inflows as the short end of the curve could get more support from further central bank easing. A stabilizing IDR and softening economy is likely to guide BI to cut rates further. Additionally, the possibility of flows coming out of the US and moving into EM bonds, can give Indo GBs some support. Meanwhile, on the equities side, there were inflows mtd as of 28 May that amounted to $0.3bn. Local equities have done better as the global stock markets have rallied given Trump has pulled back on his tariffs. At the same time, the selloff for the Indonesian market earlier in the year look to also have been overdone and therefore some rebound was due. We are cautious though on equity flows going forward given that risk assets we notice do not necessarily perform well when there is immense global uncertainty. The latter could happen as there is still insufficient clarity on the trade situation. Overall, we believe Indonesia can on net see more portfolio inflows in the coming months.

Risks Ahead: Downside risks include significant budget slippage beyond the 3% legal limit or worsening concerns about Danantara, which has not been factored into our forecasts. Other risks include USD climbing back up strongly as appetite returns for US assets. Higher oil prices arising from geopolitical tensions can also hurt the IDR given the country is a net oil importer.

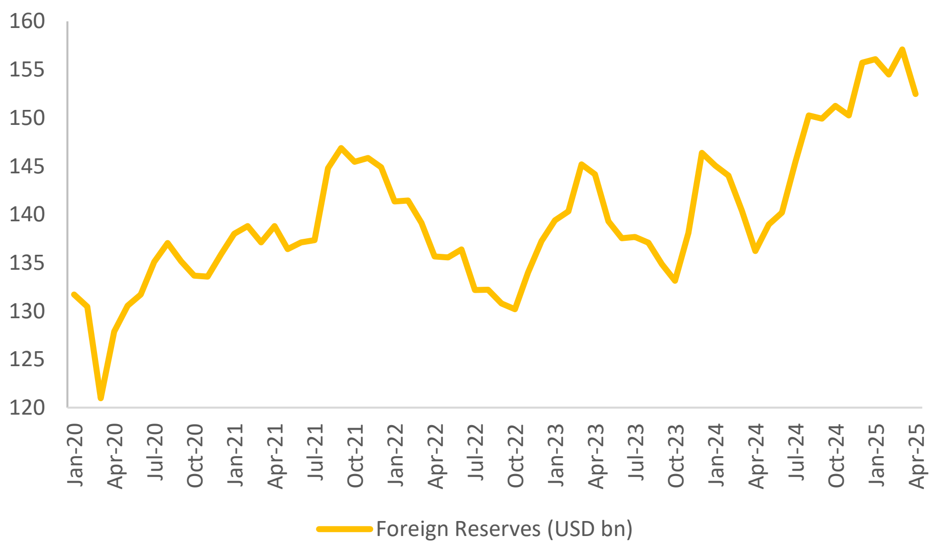
Key Data/Events: May S&P Global PMI mfg (2 Jun), May CPI (2 Jun), Apr trade data (2 Jun), May foreign reserves (10 Jun), May local auto sales (11 – 15 Jun), May consumer confidence index (12 Jun), Apr external debt (16 Jun) and BI policy decision (18 Jun)

Portfolio Inflows Picked Up with Bonds and Equities in Favor



Source: Bloomberg, Maybank FX Research & Strategy
Note: May 2025 data for equities until 28 May 2025 and for bonds it is until 26 May 2025
USDIDR rate is as of close on 28 May 2025

Foreign Reserves Declined in Apr But IDR has Since Strengthened



Source: Bloomberg, Maybank FX Research & Strategy

PHP: The Shelter in a Storm

	2Q 2025	3Q 2025	4Q 2025	1Q 2026
USD/PHP	55.50	55.00	54.50	54.00
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We expect that the PHP should continue to strengthen throughout the next year on stronger portfolio flows, a softening dollar trend and potential conversion of high foreign currency holdings. Regarding the former, the country's equities have long been underappreciated despite its low valuations. This looks to be changing as the country's domestically orientated economy is attracting more interest in its equities, which in turn should pull in more foreign flows. At the same time, bond flows are also likely to be strong given that the BSP still has some way to go in its easing cycle as the central bank looks to provide more support to the economy. Our economist sees there can be another 50bps of cuts this year and Governor Remolona has also mentioned of the possibility of two more cuts in 2025. Meanwhile, on USD softening, we are expecting to see more US asset diversification, which should continue to guide the greenback lower. This would support for a stronger PHP given its sensitivity to the USD. Also, foreign currency holdings in the country are also heavy and the softening dollar can guide for more significant conversions. On the risk front, any significant sustained rebound in USD strength and substantial domestic economic weakness can derail our expectations of a positive PHP trajectory.

We stick to our expectations for the BSP to cut rates by another 50bps this year as the central bank looks to provide more support to the economy. At its last meeting in Apr, Governor Remolona had highlighted economic concerns as he mentioned they are "looking at slower growth" and "lower inflation". At the same time, the central bank maintained the view that 2025 GDP growth would likely come out at the lower end of the government's target for 2025 – 2028 of 6.0 – 8.0%. Headline inflation continues to keep edging lower with the Apr number coming out at 1.4% YoY (est. 1.8% YoY, Mar. 1.8% YoY). In light of the economic situation, Governor Remolona has also stressed that they "still have plenty of room to cut". Currency wise, the PHP has also been performing well in the last two months, which put the central bank in a better position to ease rates. Given our expectations of more cuts to come from the central bank in this easing cycle, we believe that Philippines government bonds should be further supported and inflows can rise this year.

We are optimistic of the potential of more inflows in the months to come given the country's favorable position in the ongoing tense trade environment. Equities saw marginal inflows of $0.0185bn for month to date (mtd) until 28 May 2025 but we expect that this should pick-up as there would be greater appreciation of the fundamentals of Philippines equities. This is especially given their low valuations relative to peers in addition to the country's economy being shielded from the ongoing trade tensions. Meanwhile, on the bonds side, there was outflows of -$1.9bn for the month of Apr. However, this data was in itself dated and occurred during the month of liberation day whilst at the same time it came ahead of the BSP May cut. We think bond inflows would improve in the coming months given the BSP's dovish tilt and the possibility of further cuts by the BSP in this easing cycle.

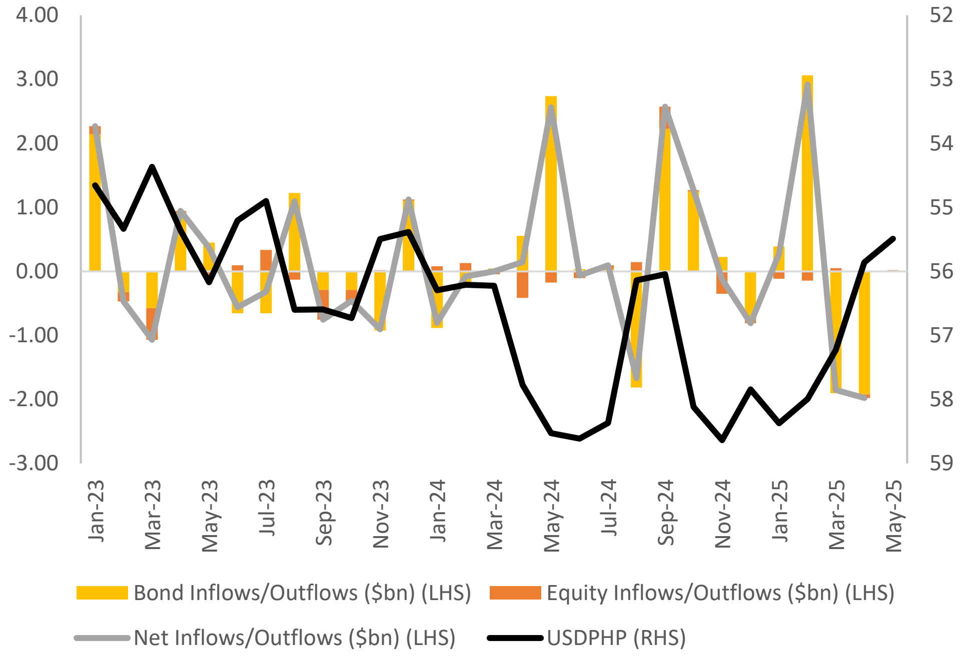
Economic data for the last month showed more softness in the economy, which backs further BSP easing. Apr CPI softened further to 1.4% YoY (est. 1.8% YoY, Mar. 1.8% YoY). The Mar unemployment rate inched higher to 3.9% (Feb. 3.8%) and stands higher compared to last year's levels at 3.50%. The recent readings as a whole added to the continued concerns about the economy. Not to forget too, 4Q GDP had previously disappointed below expectations at 5.2% YoY (est. 5.5% YoY). Meanwhile, Feb budget balance fell back into a deficit at -171.4bn pesos. However, there was a bright spot as the Apr S&P Global PMI mfg rebounded into expansion at 53.0 (Mar. 49.4).

OFWR growth in the month of Mar fell below expectations at 2.6% YoY (est. 2.9% YoY, Feb. 2.7% YoY) with the absolute number at $2558m. Our economist continues to see that OFWR growth can still be strong in 2025 at 2.9% YoY to $35.5bn as the global PMI should stay in expansion levels of above 50.0 despite the various concerns. OFWR therefore can still act as a support for the PHP.

Risks Ahead: Downside risks include any USD sustained rebound and domestic economic weakness that can hurt interest in Philippines assets. Political uncertainty can also impact investor appetite. Upside risks meanwhile would be Fed rate cuts that exceed our call of 50bps as this would help support EM sentiment as a whole.

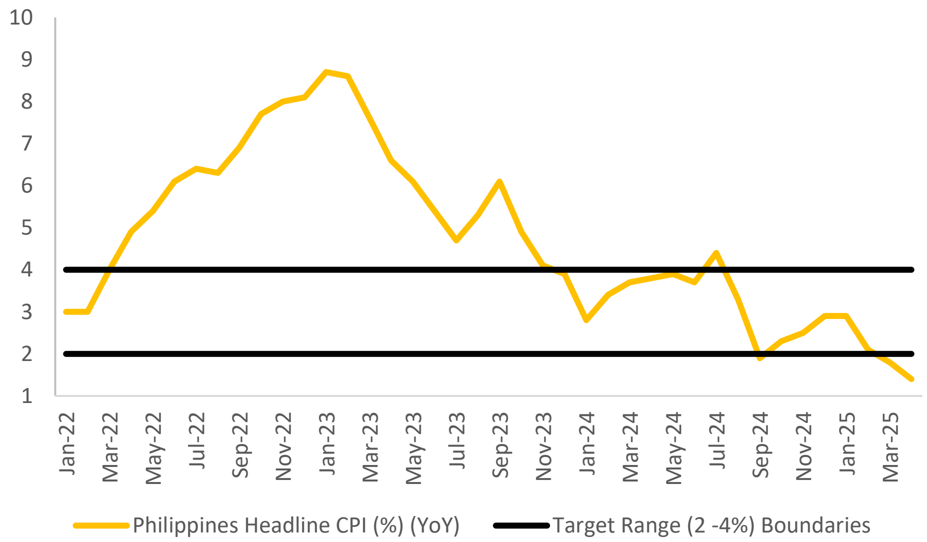
Key Data/Events: May S&P Global PMI mfg (2 Jun), May CPI (5 May), Apr unemployment rate (6 Jun), May foreign reserves (6 Jun), Apr OFWR (16 Jun), May BoP overall (19 Jun), May budget balance (26 Jun), May trade data (27 Jun) and May bank lending (30 Jun)

Portfolio Flows Can Strengthen Overtime Amid More Rate Cuts and Greater Appreciation of Philippines Stocks



Source: Bloomberg, Maybank FX Research & Strategy
Note: Bond flow data not available for Apr 2025 whilst equity flow and USDPHP data for May 2025 is as of 28 May 2025.

Inflation Continues to Soften, Backing Further BSP Rate Cuts



Source: Bloomberg, Maybank FX Research & Strategy

THB: Appreciating Trend to Hold

USD/THB	2Q 2025	3Q 2025	4Q 2025	1Q 2026
	33.00	32.00	31.50	31.00
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We expect the currency to continue to strengthen throughout the next year as a variety of both external and domestic factors support it. This includes 1) softer USD trend, 2) BOT rate easing (putting their Thai bonds in favor), 3) elevated gold prices, 4) potential informal currency agreements and 5) potential conversion of heavy foreign currency holdings. Regarding the first factor, we see that continue US asset diversification should guide for a greenback decline as investors now choose to spread their holdings after years of heavy US positioning. As for the second factor, a weak Thai economy that remains under pressure from global trade tensions is likely to keep the BOT dovish with our economist expecting another 25bps of rate cuts in 3Q 2025. On the third factor, global uncertainty we believe should keep gold appetite strong and prices elevated. This should benefit the THB given the country's position as a gold trading hub. Regarding the fourth point, we see the potential that the trade talks between the US and Asian countries can involve an element of some informal currency agreement for Asian FX strength and this in turn should boost the THB too. Finally, on point five, foreign currency holdings in Thailand have been building up over the last few years and it has become quite heavy. The possibility of significant conversions occurring can give the THB quite a boost. Meanwhile, on the flip side, we are aware that the ongoing trade tensions itself can weigh heavily on the economy given Thailand is highly trade exposed. Regardless, we see this more as limiting to the THB strength rather than hindering its appreciation trend. In the near term, the THB could be range traded before breaking out stronger.

We continue to expect that the BOT would hold in Jun but cut rates by another 25bps to 1.50% in 3Q 2025. This would be on the premise that any US – Thai trade deal would result in tariffs that are only slightly higher than the current 10%. If global tensions were to worsen, then there could be forceful monetary easing in 2H 2025. At the last meeting in Apr, the BOT already sounded more cautious about the global and domestic economy. They commented that there are high uncertainties and see a slower pace of global growth, noting that the world is just at a beginning part of a process where significant changes would be caused by US trade policies and the potential retaliations. More importantly, they saw that Thailand's economy would grow by approximately 2% in 2025 if the US tariffs remain close to the current rate but that it would grow at only 1.3% if it is set a higher rate. These numbers are much lower than the previous forecasts of around 2.5% back when the Feb decision was made. On inflation, the central bank sees that the headline number would come out at 0.5% YoY, which would actually be much lower than its target rate of 1% – 3%.

Thailand's economy remains under significant threat from the US reciprocal tariffs that could be placed on it. On 2 Apr, the US government had announced that the country would be subjected to a reciprocal tariff rate of 36%, which would later be suspended for 90 days as announced by Trump on 9 Apr. The tariff situation for Thailand as it is remains unclear as updates in the month of May have been rather limited. The Thai government has submitted a proposal to the US and currently awaits for the US to set a date for formal negotiations. The proposal itself involves five main elements which are 1) strengthening US – Thailand processed food cooperation, 2) increasing imports of US products, 3) opening markets and reducing trade barriers, 4) strict enforcement of rules of origin and 5) promoting Thai investment in the US. US Treasury Scott Bessent has also commented that Thailand did submit an excellent proposal. For now, we continue to stay vigilant of the trade situation and take note of the immense uncertainty. There remains multiple contentious trade issues between the US and various countries and a reaching agreement is looking anything but straightforward. We are also wary of the potential of an informal currency (addressing Asian FX weakness) agreement seeping into any trade deal, which can in turn lead to more THB strength.

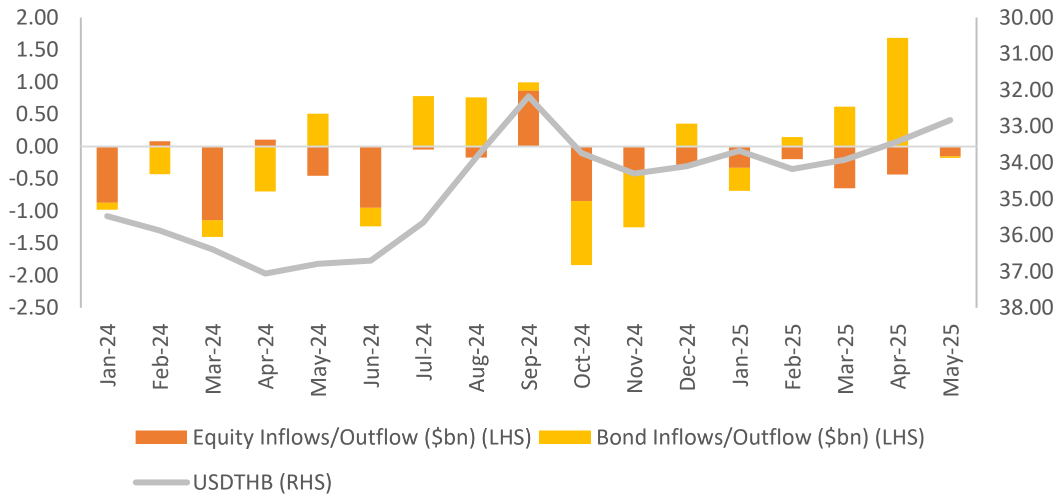
Thailand saw marginal equity outflows of -$0.15bn month to date (mtd) 29 May 2025 whilst bonds similarly too saw very light outflows of -$0.02bn in May. The latter bond outflows occur after there had been strong inflows in the prior month on rate cut bets. With the BOT rate cut in May having already been realized, it was unlikely for the pace of inflows to continue strongly again for another month. Nonethless, we see the possibility of further bond inflows in the coming future given that the BOT can still cut rates further this year. Meanwhile, regarding equities, the SET performance has been rather mixed over the last month. Just like global equity markets, the SET did see a strong rally and even rebounded to levels seen earlier this year. It would though later go on to retrace quite a substantial amounts of these gains. We remain cautious of the equity markets given the ongoing global uncertainty and that risk assets such as stocks have a tendency to underperform in such circumstances.

Elevated gold prices remain a major support for the THB given Thailand's position as a gold trading hub. Our analysis has shown that higher gold prices likely supported the THB's outperformance in recent times. We are bullish on gold prices as appetite could remain strong amid the uncertainty ahead still and the precious metal has shown to be an effective safe haven in the last few years. Therefore, we expect higher gold prices to keep boosting the THB.

Risks Ahead: There can be upside risks for the THB if there is a strong China growth recovery given the trade links between the two. On the downside, a sustain USD rebound can weigh heavily on the THB. Also, Thailand being singled out alone for the high additional reciprocal tariffs would do no favors for the currency.

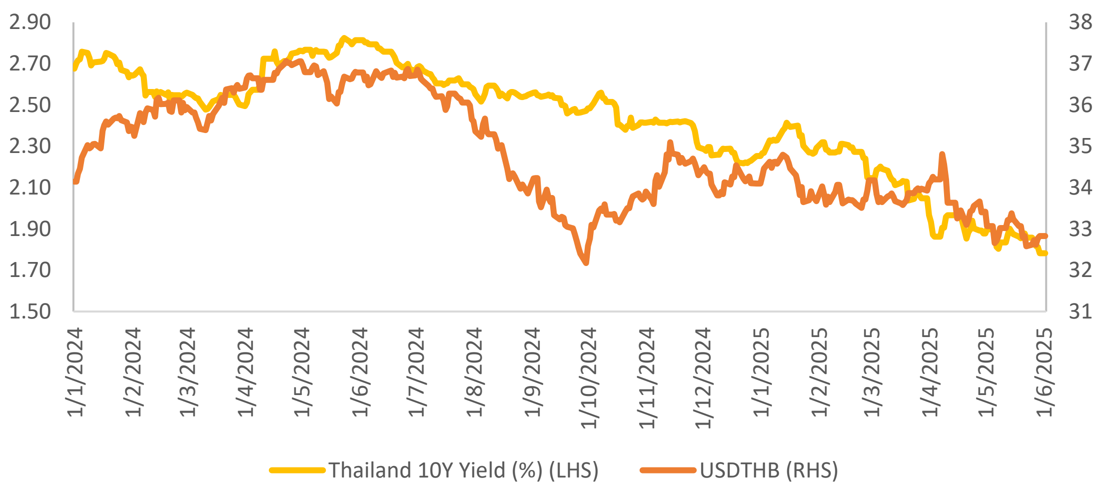
Key Data/Events: May S&P Global PMI mfg (2 Jun), May business sentiment index (2 Jun), May CPI (5 Jun), May consumer confidence (9 – 13 Jun), May car sales (18 – 24 Jun), May customs trade (21 – 26 Jun), BOT policy decision (25 Jun), May ISIC capacity utilization and mfg index (26 – 30 Jun), May trade data (30 Jun) and May BoP overall/CA balance (30 Jun).

Flattish Bond Flows in May But it Should Pick-Up Again Amid More BOT Cuts, Equities Outflows Though can Continue Given Volatile Global Environment



Source: Bloomberg, Maybank FX Research & Strategy

Thai Bond Yields Have Edged Lower as Appetite Builds Up Due to USD Weakness and Dovish BOT



Source: Bloomberg, Maybank FX Research & Strategy

VND: Looking Vulnerable

USD/VND	2Q 2025	3Q 2025	4Q 2025	1Q 2026
	25800 (--)	25800 (--)	25600 (--)	25500 (--)

No Change to Previous Forecasts

Motivation: We see upside risks to our forecasts from here as the VND recovery in the past few weeks was even smaller than expected against the USD and we could be in a phase of a bullish retracement already. To be clear, we expected the VND to remain as a laggard against most regional currencies as we do not expect Vietnam to drastically reduce the tariffs from 46% to zero or even to 10%, despite strong efforts by the government to secure the best deal. As such, one way that Vietnam can cushion the impact of the tariffs would be to allow the VND to depreciate on top of the various fiscal measures.

US' reciprocal tariff on Vietnam is on pause and will take effect on 9 Jul if a deal is not struck by then. Thus far, there have been trade talks and a few developments that might contribute in some ways to a trade deal - (1) nuclear power agreement between US Westinghouse and PetroVietnam, (2) The Trump Organization's $1.5bn complex of hotels, golf courses and homes in Hung Yen (started construction in 21 May) + an upcoming Trump Tower in Thu Thien, (3) Trade Minister Nguyen urging firms in energy, mining, telecommunications and aviation to buy high-value US imports in large volumes and at a stable pace, (4) Vietnam will screen investment projects that show signs of simple processing without creating added value, encourage high-tech projects and to adhere to product origin criteria. A MOU signed to share real-time data to prevent frauds. The second round of talks had concluded with a statement from the Ministry of Industry and Trade, noting "positive progress" on identifying issues of agreement and reaching consensus on matters that require further discussion. **Next negotiation session will happen in early Jun**.

Recall on the fiscal front, the Finance Ministry had proposed to delay the implementation of alcohol excise tax to 2027 from 2026. There is also a plan to diversify its export markets for its agricultural, forestry and fishery products. Deputy Director Nguyen Xuan Hoa of the National Authority of Agro-Forestry-Fishery Quality highlighted that Southeast Asia, the EU, Japan, South Korea and the Middle East offer promising opportunities for the long-term sustainability of Vietnam's agriculture sector (Saigon News). The officials emphasized that plans to diversify would benefit Vietnam in the long term and it is not just a reaction to trade war fluctuations.

Growth was starting to show signs of pressure with the latest Apr PMI sharply lower at 45.6 vs. previous 50.5. Trade surplus narrowed to $0.577bn in Apr from previous -$1.635bn. Exports accelerated to 19.8%y/y from previous 14.5% while the growth of imports also picked up pace to 22.9%y/y from previous 19.0%. Retail sales firmed to 11.1%y/y in Apr vs. previous 10.8%, lifted by tourism spending at 46.1%y/y from previous 25.1%. Services also picked up pace to 17.0%y/y from previous 15.4%.

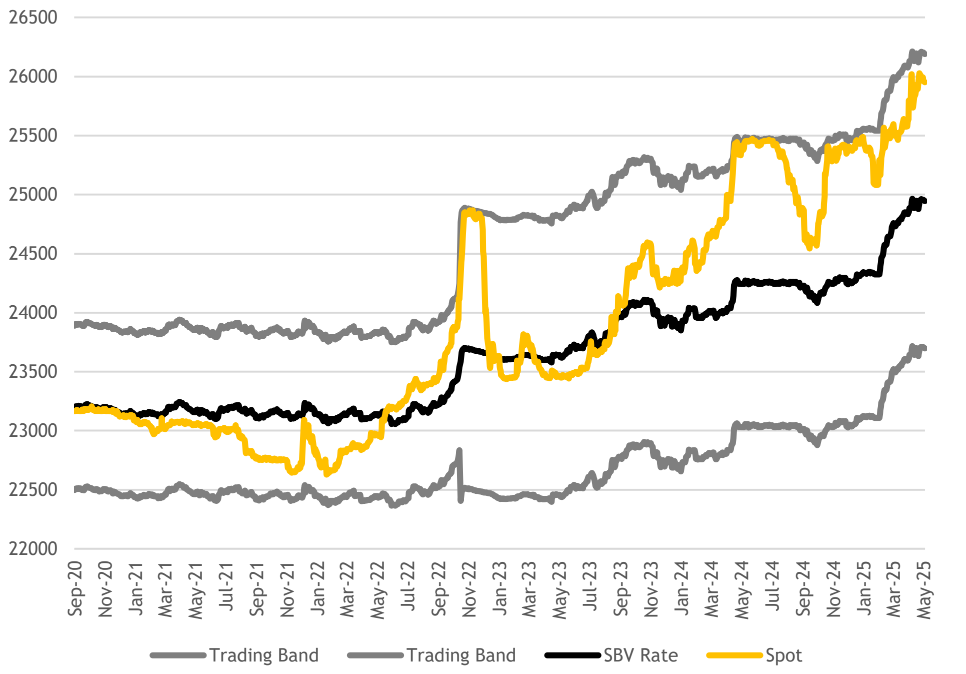
Industrial production quickened to 10.2%y/y from previous 8.1%. Month-on-month, production slow to 1.4%y/y from previous 12.0% - mining & quarrying contracted -3.1%m/m vs. previous 14.0%. Mfg slowed to 1.7%m/m from previous 11.1%. Water supply swung into growth of +4.9%m/m from previous -2.6%.

Our economist looks for slower growth of 5.9% in 2025 vs. 7.1% in the prior year and inflation at 2.9%. The strength of the industrial sector and consumer spending in Apr could fade once the 90-day US tariff pause and electronics exemption expire. A 25bps cut is still expected from SBV this year amid weaker growth and inflation. Earlier, SBV Governor Hong had urged commercial banks to cut operation costs in order to lower lending rates and increase business' access to loans repeatedly. On top of that, Vietnam's government has raised foreign ownership of a few banks from 30% to 49% with effect from 19 May to pave the way to get more foreign investments and find strategic partners from overseas. SBV had said that commercial banks will participate in a VND500trn credit package (imbued with preferential interest rate) for businesses to invest in infrastructure and digital technology.

Risks to the VND: 1) A re-acceleration of inflation in the US could lift the USD and US rates and lift the USDVND. 2) Growth slowdown of the world becomes a more severe downturn that could weaken Vietnam's external position and the VND. 3) A full 46% tariff rate to kick in on Vietnam on 9 Jul that would take the effective rate to 31% (assuming exemption on electronics amongst others).

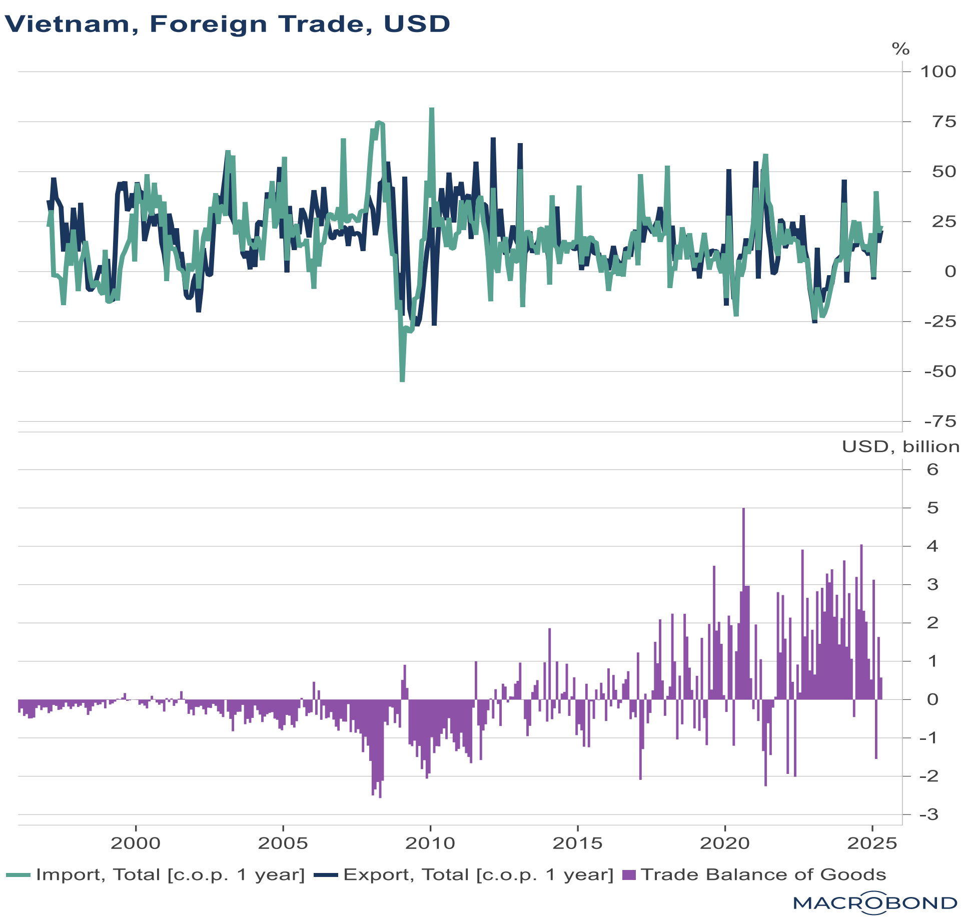
Key Data/Events: May PMI [2 Jun]; May trade, IP, CPI and retail sales [6 Jun].

USDVND Spot has been stable within the band, albeit Elevated. Reference Rate Higher



Source: Bloomberg, Maybank FX Research & Strategy

Foreign Trade Surplus Narrows



Source: Macrobond, Maybank FX Research & Strategy

INR: RBI Shifting to Accommodative

USD/INR	2Q 2025	3Q 2025	4Q 2025	1Q 2026
	84.50	84.25	84.00	83.75
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our USDINR forecasts on the belief that Asian currencies can continue to broadly appreciate against the USD on fading US exceptionalism and an easing of trade tensions. India has been one of the more proactive in negotiating a trade deal with the US and US Vice President JD Vance has expressed positivity over negotiations. Reports are that India is proposing a reciprocal zero tariff deal for steel, car parts and pharmaceuticals up to a certain threshold. While we expect INR to appreciate against the USD, we remain wary that the RBI will continue its stance of leaning against the wind and preferring a stable INR, and this is reflected in the relatively gentler appreciation of the INR in our forecasts.

USDINR NDF traded within an 83.96 to 86.36 range in May 2025, broadly lower than the 84.68 to 86.97 range in Apr 2025. Broad-based USD moves remain the dominant driver as we believe RBI is watching the INR closely. India has been very proactive in engaging the US on trade talks, in contrast to China's harder and somewhat unyielding stance. This has provided some reason for previous pressures from the trade front on the INR to ease. Indeed, good relations with the US could potentially improve the situation for India against the highly uncertain and challenging external environment.

In 2025 we see RBI cutting rates by a further 50bps to bring the policy rate to 5.50%. RBI has become accommodative and cut rates by 25bps to 6.00% on 9 Apr 2025. Our expectations are largely in line with market pricing (5.56%) and consensus forecasts (5.45%). Risks are tilted to the downside for growth and inflation is expected to ease in the months ahead which should provide RBI with the comfort to embark on their easing cycle and align the policy rate with the accommodative stance. We expect this to moderate INR appreciation, in line with our view in the Annual 2025 highlighting the potential for some catch up for the currencies with central banks that have eased early.

Inflation is expected to ease into 2025 with consensus forecasts suggesting 4.6% YoY. There is an anticipated easing of food costs, which should reduce volatility in consumer prices. **Growth is expected to remain reasonably strong at 6.3% YoY (prev: 6.3%) in real terms, with probability of a recession estimated to be close to 0%.** The fiscal deficit is projected to narrow to 4.8% of GDP in 2025. While these factors are largely supportive of the INR, the RBI and a narrowing yield differential could help to moderate the appreciation of the INR. **India's population dynamics remain favourable for growth.** The population is younger than those of China or the US, with the proportion of Indians who are 65 and older likely to remain under 20% in 2063 and will not approach 30% until 2100 by UN median projections.

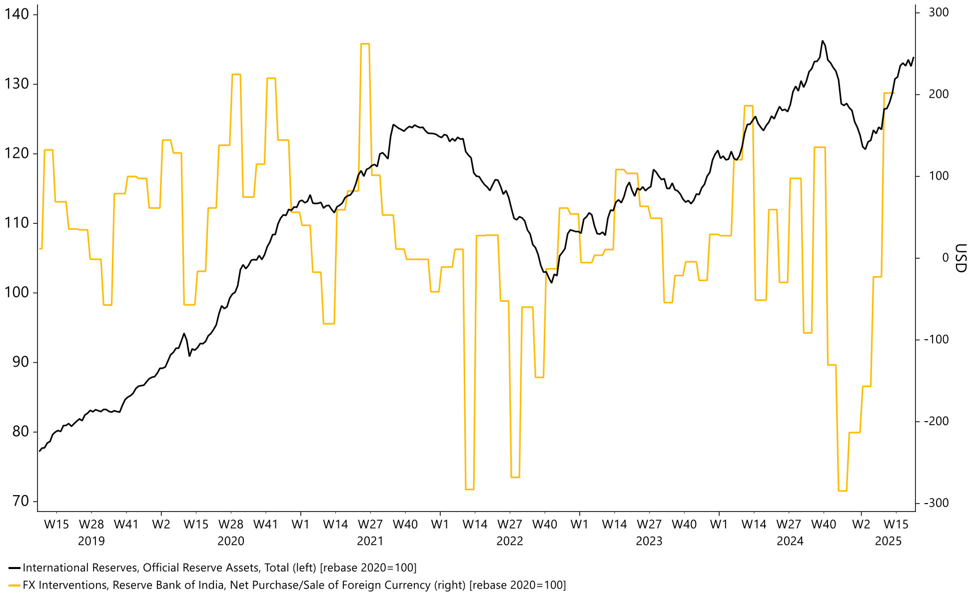
Modi's proactive engagement with Trump should pay dividends. While the Indian economy is not reliant on exports to the US and they are unlikely to be flagged for specific measures from Trump, the mention of reciprocal tariffs could put them in the administration's crosshairs. India is prepared to propose reciprocal zero-tariff arrangements with the US, which if accepted could provide some upside for the INR. Inflows into India after its inclusion in global bond indices should also provide the INR with some support, although we expect gains to the INR to be limited by RBI's preference for stability. Good relations should also mitigate the fact that India is firmly in the crosshairs of the Trump administration as one of the "Dirty 15" that are "cheating on trade" and that could pressure the INR further. Trump could also use India as a sign to show China that trade deals are not only possible, but potentially rewarding.

India and Indonesia discussed diversifying their trade basket to improve economic ties. Modi and Prabowo met to discuss "freedom of navigation" and to increase cooperation in defence manufacturing. India could be launching a charm offensive to warm ties with Southeast Asian nations, officially referred to as the "Act East" policy. Following Modi's visit to Singapore in Sep 2024 and a subsequent visit by President Tharman to India in Jan 2025. **Increased trade between India and ASEAN could help to offset some of the negative impact of US trade policies, which should at the margin support the INR.**

Risk to our view: The RBI switching out of its stance to lean against the wind. This could occur as a matter of policy change or if there is too much scrutiny, possibly by the US Treasury. Should a challenging external environment result in higher inflation or poorer growth prospects, that should also challenge our view on the INR. Governor Sanjay has not shown an inclination to ease prematurely and we think that him being a career bureaucrat and a safe pair of hands should mitigate some of these risks.

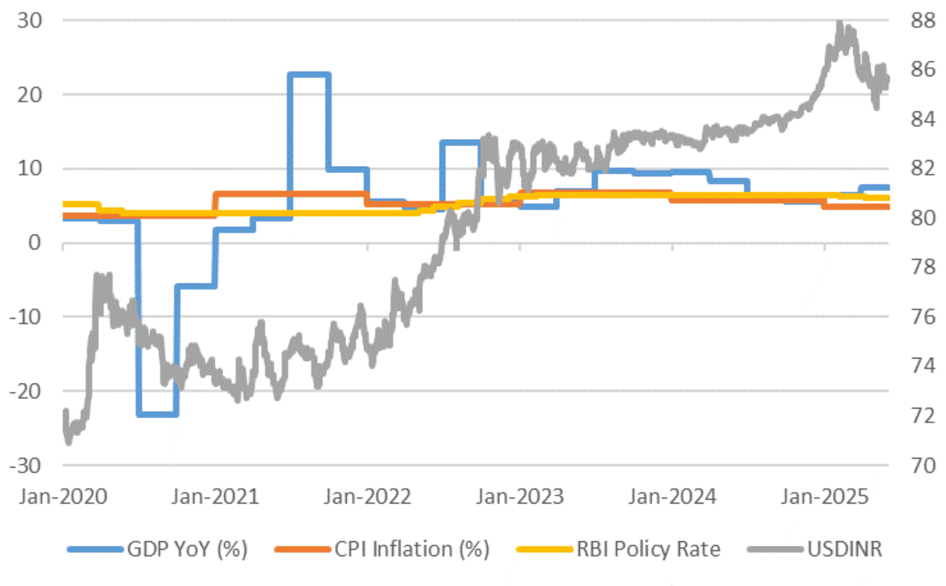
Key data/events: May Mfg PMI (2 Jun), May Svcs/Comp PMIs (4 Jun), **RBI Policy Decision (6 Jun),** May CPI (12 Jun), May Exports/imports/Trade Balance (13 Jun to 16 Jun), May Eight Infrastructure Industries (20 Jun), Jun P MFg/Svcs/Comp PMIs (23 Jun), 1Q BOP CA Balance (23 to 30 Jun), May Industrial Production (27 Jun), May Fiscal Deficit, MayBank Credit (30 Jun).

Interventions Continue as Reserves Recover



Source: Macrobond, Maybank FX Research & Strategy

USDINR Settling Alongside Growth and Inflation



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

Gold: Further Retracement Not Ruled Out if More Deals Struck

	2Q 2025	3Q 2025	4Q 2025	1Q 2026
XAU/USD	3350	3400	3450	3500
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: May was a more bearish month for the bullion. After hitting a high of $3500 in Apr, gold was last seen around 3280 and price action has been a whipsaw within the $3000-$3500 range for almost the whole of May. Gold had taken a breather from its rally amid a truce in the US-China trade war, a preliminary trade deal between the US and UK. In addition, there have been headlines suggesting that trade talks are underway. Even so, we have heard more chip restrictions imposed by the US on China since and a threat by Trump to raise tariffs on the EU from 20% to 50% for slow-walking. As such, gold was not quite able to make a meaningful bearish retracement in the past month. We do not rule out further retracement towards the 3030 (50% Fibonacci retracement of the Dec-Apr rally). The US should be close to striking some quicker deals as the 90-day tariff-pause window draws to a close on 9 Jul. Those quick deals and resolutions may drive the USD higher, may spur unwinding of safe haven gold into the next month.

<u>We remain constructive on gold.</u> Underpinning factors for the gold remain 1) outlook for real UST yields remain bearish, 2) geopolitical conflicts (such as that of US and China, amongst others) that could still occur that spur safe haven demand, 3) inflation expectations in the US have risen due to tariffs, 4) de-dollarization or rather the diversification away from USD or even the fiat may pause but not end. In an environment of rate cuts, growth concerns and inflation fears, gold is likely to remain supported. **However, the cadence of its climb could reduce in 2H of 2025 with the worst of trade uncertainty likely behind us.**

Geopolitical Conflicts/tensions have paused alongside Trump's Tariffs – Driving Safe Haven Demand for gold. The US daily trade policy uncertainty index (that monitors the press coverage on policy-related economic uncertainty that also contain references to trade policy) indicated that the trade uncertainty remained elevated could continue to underpin gold.

Gold may continue to play a role as an inflation hedge (at least in the US). Surveys (NY Fed 1Y inflation expectations, Univ. of Mich. Sentiment 1Y and 5Y inflation (eye popping 7.3% and 4.6% respectively), ISM Mfg and Services prices paid suggest that inflation expectations could be at risk of rising. Fed officials have repeatedly cautioned that a pro-longed period of trade uncertainty and price uncertainty could raise the risk of unmooring inflation expectations.

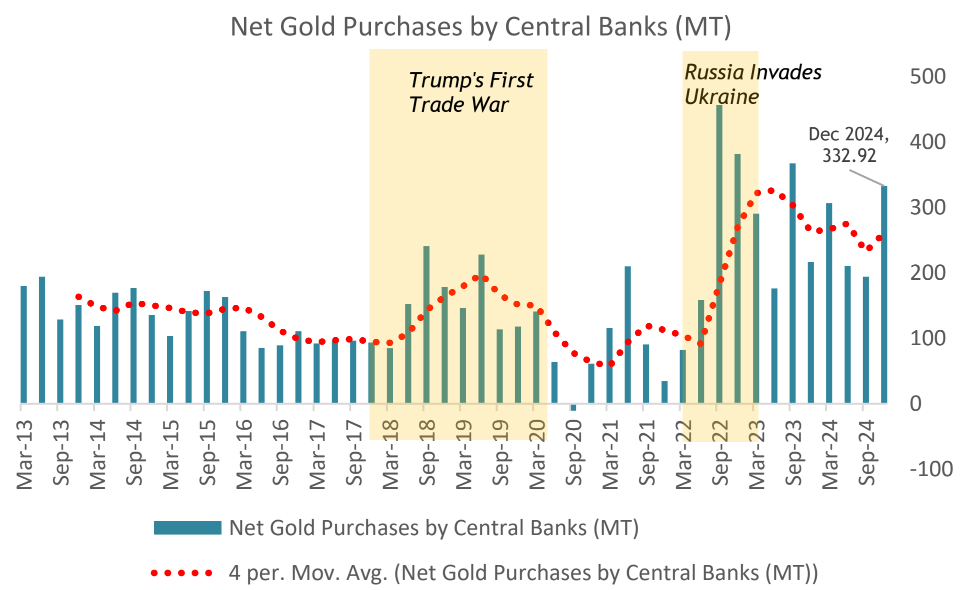
US GDP contracts in 1Q, Apr Mfg PMI Deteriorates in Asia, Downside Risks to Real Yields. US growth continues to face downside risks – the Fed downgraded GDP forecast for 2025-2027 in its Mar summary of economic projection and the advanced estimate of 1Q GDP confirmed a -0.3%q/q contraction. After taking the Fed Funds Target rate 100bps lower from its peak of 5.25-5.50% last year, the Fed could be in for an extended pause. And as such, the balance of risks to real yields is to the downside, especially if US growth takes a hit and inflation becomes increasingly sticky. That is an environment that remains constructive for gold.

FOMC Minutes conveyed a similar message to recent comments made by Fed officials – that the Fed is "well positioned to wait for clarity on outlook". This suggests that the bar to cut remains rather high. There are also concerns that the Fed would face difficult tradeoffs – if inflation proves more persistent than expected while the outlooks for growth and employment weaken. The Fed Staff lowered their economic growth projection for 2025 and 2026 and the probability of a recession is almost as likely as its base forecast. Labour market is also expected to deteriorate "substantially". While that means that the Fed will not cut anytime soon, the risks to rates remain skewed to the downside.

Trump's unpredictable policies could keep investors cautious for the rest of his term. We recall that gold had risen around 50% by the end of Trump's first term even with the phase 1 of trade deal inked with China.

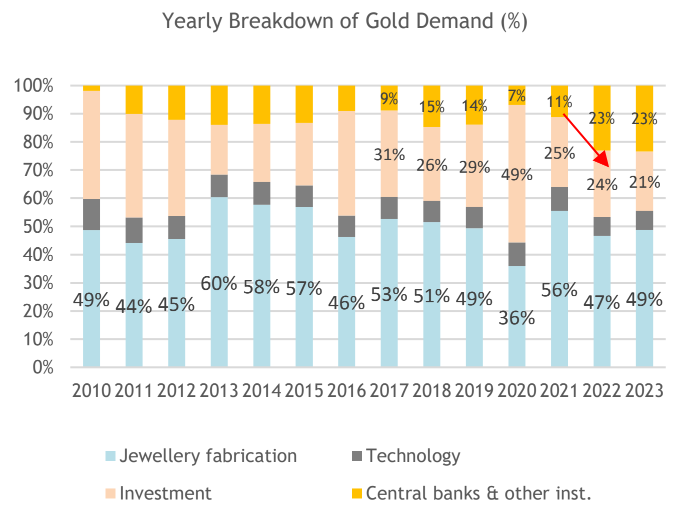
Technical Analysis: Gold was stuck in the $3000-3500 range. Momentum on the weekly chart is bullish but weakening. Support is seen around 3140 before the next at 3040 (21-ma). Resistance at 3500 and then at 3520. Break of the year high would expose next key target at 3750. Stochastics indicate overbought condition. There could be further bearish retracement.

Quarterly Net Gold Purchases by Central Banks Have Risen Since First Trade WAr



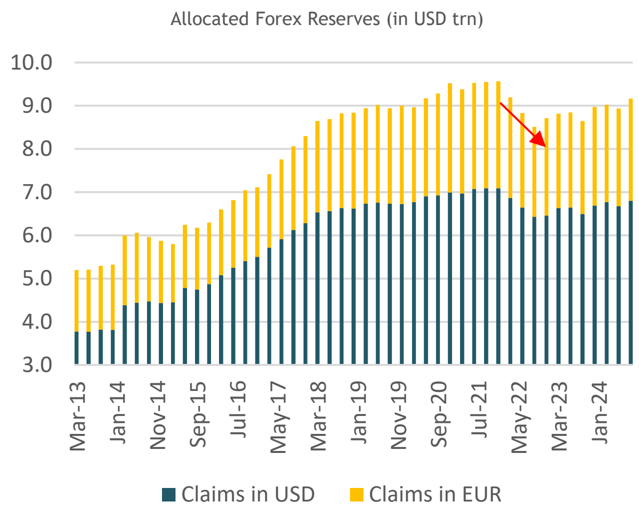
Source: Bloomberg, Univ. of Michigan, Maybank FX research & Strategy

The rise in gold acquisition by central banks…



Source: World Gold Council, Maybank FX Research & Strategy

… Coincides with the drop in USD and EUR forex holdings



Source: Bloomberg, IMF COFER, Maybank FX Research & Strategy

FX Forecast Table

	End Q2-25	End Q3-25	End Q4-25	End Q1-26
USD/JPY	140.00	135.00	132.00	132.00
EUR/USD	1.1300	1.1400	1.1500	1.1600
GBP/USD	1.3500	1.3550	1.3600	1.3650
AUD/USD	0.6350	0.6400	0.6400	0.6500
NZD/USD	0.5800	0.6000	0.6100	0.6100
USD/CAD	1.3900	1.3700	1.3500	1.3400
USD/CHF	0.8300	0.8250	0.8200	0.8150
USD/SGD	1.2950	1.2800	1.2650	1.2600
USD/MYR	4.2500	4.2000	4.1000	4.0500
USD/IDR	16500	16250	16150	16000
USD/THB	33.00	32.00	31.50	31.00
USD/PHP	55.50	55.00	54.50	54.00
USD/CNY	7.25	7.20	7.18	7.15
USD/CNH	7.25	7.20	7.18	7.15
USD/HKD	7.75	7.75	7.75	7.75
USD/TWD	31.80	31.60	31.50	31.30
USD/KRW	1400	1390	1370	1360
USD/INR	84.50	84.25	84.00	83.75
USD/VND	25800	25800	25600	25500
DXY Index	99.61	98.32	97.22	96.50
Gold ($/oz)	3350	3400	3450	3500
	End Q2-25	End Q3-25	End Q4-25	End Q1-26
SGD/MYR	3.28	3.28	3.24	3.21
JPY/SGD	0.93	0.95	0.96	0.95
EUR/SGD	1.46	1.46	1.45	1.46
GBP/SGD	1.75	1.73	1.72	1.72
AUD/SGD	0.82	0.82	0.81	0.82
NZD/SGD	0.75	0.77	0.77	0.77
CAD/SGD	0.93	0.93	0.94	0.94
CHF/SGD	1.56	1.55	1.54	1.55
SGD/IDR	12741	12695	12767	12698
SGD/THB	25.48	25.00	24.90	24.60
SGD/PHP	42.86	42.97	43.08	42.86
SGD/CNY	5.60	5.63	5.68	5.67
SGD/HKD	5.98	6.05	6.13	6.15
SGD/TWD	24.56	24.69	24.90	24.84
SGD/KRW	1081	1086	1083	1079
SGD/INR	65.25	65.82	66.40	66.47
SGD/VND	19923	20156	20237	20238
	End Q2-25	End Q3-25	End Q4-25	End Q1-26
JPY/MYR	3.04	3.11	3.11	3.07
EUR/MYR	4.80	4.79	4.72	4.70
GBP/MYR	5.74	5.69	5.58	5.53
AUD/MYR	2.70	2.69	2.62	2.63
NZD/MYR	2.47	2.52	2.50	2.47
CAD/MYR	3.06	3.07	3.04	3.02
CHF/MYR	5.12	5.09	5.00	4.97
MYR/IDR	3882	3869	3939	3951
MYR/THB	7.76	7.62	7.68	7.65
MYR/PHP	13.06	13.10	13.29	13.33
MYR/CNY	1.71	1.71	1.75	1.77
MYR/HKD	1.82	1.85	1.89	1.91
MYR/TWD	7.48	7.52	7.68	7.73
MYR/KRW	329	331	334	336
MYR/INR	19.88	20.06	20.49	20.68
MYR/VND	6071	6143	6244	6296

*Source: Maybank FX Research as of 1 June 2025. *These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.*

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