2 Sep 2025

FX Monthly

2025, Issue 8: Parsing the Risk of US Sep FOMC Inflection

What Has Changed This Month?

- Our CNH forecasts are revised stronger given the Chinese government's more supportive growth measures and lower CNY fixings. We also adjust our AUD forecast to be higher on likely weaker US data and Australian economic resilience. We raised CAD forecast in 3Q due to an improving the chance of a trade resolution as well as the prospect of economic recovery. Meanwhile, safe haven flows continue to support our CHF forecast stronger. On the flipside, VND and INR forecasts were adjusted weaker due to the impact of tariffs and policy shifts.

Our Strategies and Views

- Powell's message at the Jackson Hole Economic Symposium was clear – time to focus on the labor market. For much of Aug, the DXY index was caught in a tight range, not able to get more directional cues from trade-related headlines, sticky inflation reports and second tier labour market metrics. Expectations for the Fed to resume its easing cycle have dragged the DXY index to the bottom of its well established range while lingering wariness over tariff-induced inflation continue to keep the DXY index from testing lower. The USD direction remains highly dependent on data releases – most notably upcoming NFP and the next few inflation prints. A more significant deterioration in the NFP could swing markets towards larger cuts for Sep FOMC which could be an inflection point.

- With US rates and the USD environment rather benign in Aug, most Asian currencies should have benefitted but that was not the case – KRW, VND, INR and TWD fell against the greenback in the month. Their weakness could be attributed to stretched positioning and other idiosyncratic reasons. Without a breakout in the USD, we can expect relative value plays to continue with INR, VND underperforming CNY, THB. Into Sep, we see potential for CAD to catch up as Carney has declared that most of its retaliatory tariffs could be dismantled, paving the way for warmer trade relations with the US and concomitant CAD gains. Meanwhile, the Tianjin Declaration issued at the 2025 Council of Heads of State of the Shanghai Cooperation Organisation (SCO), outlined a vision for a multipolar world order led by BRICS. We note of any emerging de-dollarization initiatives and Trump administration response.

- ASEAN currencies broadly tracked global trends over the month, except for the IDR. Without strong directionality in the USD and oil prices, most pairs stayed range-bound. PHP though did outperform due to its high sensitivity to both USD and oil—key factors that impact the import cost of the trade deficit economy. While oil and USD remained range, they moved from top end to bottom over the month. THB, MYR, and SGD lacked any distinct drivers for outperformance. IDR was the outlier, weakening sharply toward 16,500 amid the protests, though we think the pressure would recede after Prabowo rolled back parliamentary allowances. We remain constructive on ASEAN FX, supported by expected USD softness, potential Fed cuts, and an anchoring CNY strength.

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Top 3 Currency Plays for Sep

Short USD on Rallies
Long CAD
Tactical Short INR, VND vs. CNY, THB

Key Events for the Month Ahead

Date	Event
8 Sep	France Confidence Vote
9-12 Sep	NPC Standing Committee Meeting (17th Session)

SEE PAGE 41 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

USD: At the Crossroads of Policy and Positioning

USD DXY	3Q 2025	4Q 2025	1Q 2026	2Q 2026
	99.04 (99.26)	98.01 (98.09)	97.06 (97.13)	96.10 (96.15)

Previous Forecasts in Parentheses

Motivation: USD DXY fell around 1.9% in Aug on the back of several episodes. First, early Aug NFP data which showed new hiring rose less than expected in Jul, while estimates for job growth in May and Jun were cut by a quarter-million positions as the US economy slows under Trump's economic policies. Second, CPI data also came in line with expectations on 12 Aug which raised probabilities that the Fed will be able to start easing soon. Thereafter, the dovish speech from Fed Chair Powell on 23 Aug indicating the central bank is ready to begin lowering interest rates again led to further dollar weakness. Powell shared that near-term, risks to inflation are tilted to the upside, and risks to employment to the downside. While he gave no indication a cut will come at the end of the next meeting of the Fed's policy committee, he signalled a change to the bank's stand-pat policy is coming. Markets are anticipating an eventual cut in Sep FOMC. Our house view of 2 more Fed rate cuts and expected US macro softness on the back of the effects from the higher tariffs is expected to continue to weigh mildly on the USD. We hold the view that kneejerk reactions to trade deals tend to be brief and better global growth prospects vis-à-vis the US would drive USD lower. At the same time, European and UK defense renaissance factors, signs of China's strong signals to use fiscal, credit and monetary policies to support growth will continue to support the euro, GBP, CNY and EM FX vis-à-vis USD. However, if global growth starts to falter as the second and third order effects of the tariffs start hitting global demand, dollar could start to strengthen again. The USD DXY was adjusted slightly lower to factor in a slightly stronger CHF.

Beyond the headline tariffs announced on 1st Aug, uncertainty still remains such as how will trans-shipment tariffs be implemented and will Section 232 sectoral tariffs be tagged on. Besides that there is still the ongoing US courts challenge to President Trump's use of IEEPA emergency powers. In addition, concerns about US Fed independence has also intensified with new appointments and impending removal of Gov Cook. What happens next for Canada, India, Brazil as they have yet to make a trade deal and will China successfully secure another 90-day extension beyond 10 Nov. Adding to this complex web of tariffs implementation and impact is the weakening of US non-farm payroll job numbers. The surprising 258k downward revision of job gains over the past 2 months now paints a rather weak outlook and convinced markets that the Fed is now poised to cut at the next FOMC in Sep.

Amidst the tariff impact uncertainty and the weakening US job market, the scenario of further steepening of the US yield curve, with front end depressed by upcoming rate cuts and longer dated yield sticky due to US fiscal woes could remain. Albeit with less steepening concerns as revenue from tariffs has in some way helped alleviate market's longstanding concerns of fiscal deficiency for now. In the short term, dollar support may remain but we still stay negative on the USD over the medium to long term based on a still steepening yield curve outlook driven by the short end.

Our economists maintain 2025 FFR cut outlook for -50bps cuts to 3.75%-4.00% (-75bps cuts to 3.50%-3.75% previously) and forecast of -50bps cuts for 2026 i.e. revised end-2026 FFR to 3.25%-3.50% from 3.00%-3.25% previously. Fed's latest "dot plot" reiterates median -50bps cuts in 2025, but signal -25bps (vs -50bps) in 2026, followed by another -25bps (unchanged) in 2027, as well as projects long-run FFR of 3.00%. The latest FOMC statement, the post-FOMC press conference and "dot plot" indicate to us the Fed is in no rush to cut FFR.

The second estimate from the US Bureau of Economic Analysis on 28 Aug showed the US economy expanded in 2Q at a slightly faster pace than initially estimated on a pickup in business investment and an outsize boost from trade. Inflation-adjusted gross domestic product, which measures the value of goods and services produced in the US, increased at a 3.3% annualized pace showed Thursday. That compared with an initially reported 3% increase. Business investment expanded at a 5.7% pace after surging in the first quarter. The latest figure was stronger than the 1.9% initially reported and reflected an upward revision to investment in transportation equipment and the strongest advance in intellectual property products in four years. The turnaround in GDP followed a first-quarter contraction that was the first since 2022 as companies raced to import goods ahead of tariff hikes. Looking forward, the economy is projected to expand at a modest pace as consumers and businesses adjust to President Donald Trump's trade policy. We still expect underlying growth will slow further as the labor market weakens and tariff costs increasingly weigh on activity.

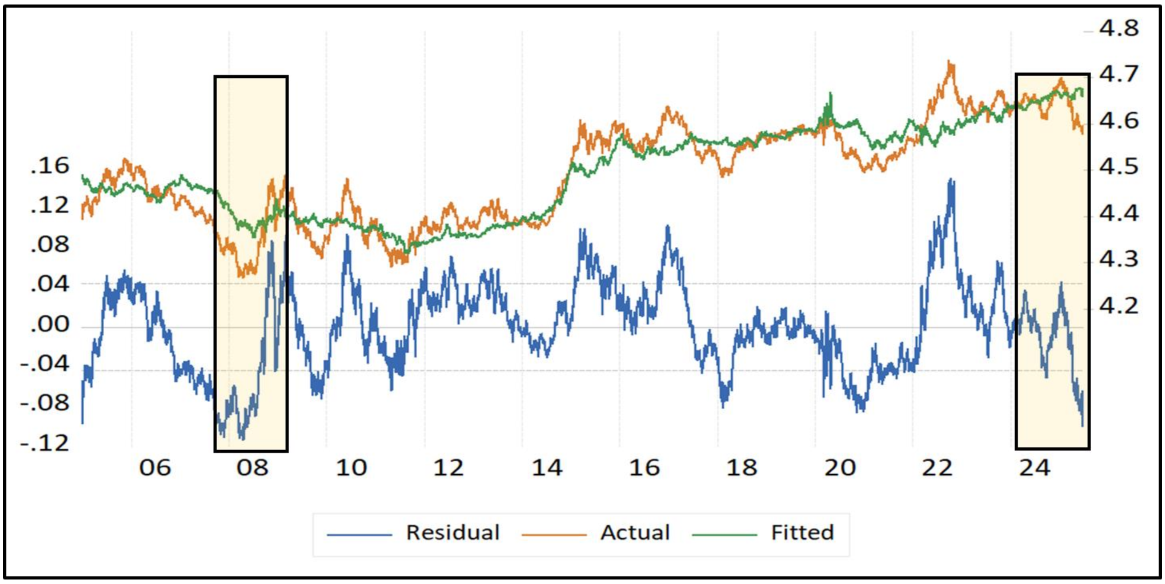
Consumer spending bounced back in Jul, rising 0.5% month-over-month, following a 0.4% gain in Jun — its strongest increase in four months—driven by purchases of motor vehicles, food, clothing, and recreational goods. Spending on goods rose 0.8%, and services lifted 0.4%, supported by healthcare, financial services, and housing, offset by declines in restaurant and lodging expenditures. Inflation remains firm: the PCE price index climbed 0.2% in Jul, with headline PCE inflation at 2.6% year-on-year and core PCE at 2.9%, the highest since February. Weekly jobless claims declined slightly to 229,000, down from a revised 234,000 the prior week, underscoring continued labor market resilience.

The latest GDP revision showed stronger-than-expected growth: U.S. real GDP expanded at a 3.3% annualized rate in 2Q, up from the prior estimate of 3.0%, buoyed by robust consumer spending and business investment, particularly in AI-driven intellectual property and structures. Growth has rebounded from a 0.5% contraction in 1Q, delivering an average 1.4% growth in the first half of 2025—still below 2024's 2.5% pace—for a modest recovery trajectory. Looking ahead, consumer and inflation data will continue shaping Fed expectations, with markets anticipating further rate cuts in Sep as softening job gains and persistent cost pressures add complexity.

Although US data shows resilience, we recognize that the current environment is highly uncertain and volatile. There are certainly scenarios where a USD rebound could play out. However, we still maintain, softness in the USD could still be there with eventual Fed easing and growth slowdown and 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 and if risks emerge to indicate inflationary pressures have emerged strongly, pivots in the Fed policy could lead to USD support. Going forward, expectations for more monetary easing by the Fed still remains albeit with some trepidation, along with abating geopolitical tensions, have boosted sentiment and may support the USD somewhat.

Key Data/Events: ISM Manuf (2 Sep), Factory Orders, Durable Goods Orders (3 Sep), Aug ISM, Svcs/Comp PMIs (4 Sep), Jul Trade Balance (4 Sep), NFP (5 Sep), Aug CPI (11 Sep), Aug Retail Sales, PPI, Empire Manufacturing, Industrial Production (16 Sep), Jul Housing Starts, P U Mich Indices (17 Sep), FOMC (18 Sep), 2QT GDP (25 Sep), Core PCE Price Index (26 Sep), FOMC Meeting Minutes (21 Aug).

Signs of A Rising USD Risk Premium



Source: Bloomberg, Maybank FX Research & Strategy

Note: When residuals become deeply negative, the actual observed values are much lower than predicted values from the model. This suggests that the usual drivers of the DXY were less able to *explain the USD weakness. A linear estimation of DXY was run on Brent, NASDAQ, UST 2y yield, 10y yield based on daily data from 1 Jan 2005 to 26 Jun 2025.*

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Signs of Labour Market Weakness Emerge

Source: Department of Labour, BLS, Bloomberg, Maybank FX Research & Strategy

EUR: Political Risk Déjà Vu

EUR/USD	3Q 2025	4Q 2025	1Q 2026	2Q 2026
	1.1400	1.1500	1.1600	1.1700
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our EURUSD forecasts amid an expected retracement of the pair closer to our forecasts on political risks from a likely collapse of the French government. French PM Francois Bayrou will face a vote of confidence that is likely to fail as he attempts to push through a budget to rein in the French fiscal position. At the same time, earlier positives from the defence/fiscal spending narrative could be under threat for France should the government collapse. At the same time, there remain positives for the EUR amid expected broad USD weakness. The ECB is likely done with rate cuts and that should continue to provide a boost for the EUR against the current backdrop as Fed cuts get priced in. A potential ceasefire being negotiated for the Ukraine war could also further buoy the EUR. As such, political risks notwithstanding, we maintain our appreciation trajectory for the EUR.

EURUSD traded in a narrower 1.1392 to 1.1743 range in Aug compared to the 1.1401 to 1.1829 range in Jul. The pair largely tracked broader developments in the USD which weakened in the month of Aug, although there were no huge breakout moves to either side for either currency. As we head into the year-end, there could be some seasonal factors that remain bullish for the USD although we expect the broad 1.14 to 1.18 range that the pair has largely vacillated within to hold.

We maintain that we see no further cuts for the ECB and for the ECB deposit facility rate to end 2025 at 2.00%. The ECB was cautious of potential upside risks to inflation (while recognizing that there are also downside risks) and as such are likely to adopt a wait and see approach, supporting our view for no further ECB cuts. Moreover, current rates are viewed to be broadly within the territory of neutral rates (R*) and the ECB viewed fiscal expansion in the euro area (defence spending) as having the potential to raise neutral rates. Lastly, ECB views recent EUR strength as structural and such structural strength is unlikely to change soon. ECB stood pat on 24 Jul and signalled the need to observe a fluid environment going forward. Lagarde in particular, expressed confidence that the earlier inflationary shock was "behind" the ECB. The fiscal spending narrative could challenge the ECB rate cut outlook although we expect the ECB to remain supportive. A cut is priced on 11 Sep at 2.6% and roughly 9bps of further cuts are priced for the rest of 2025. Market expectations are moving more in line with our house view of no further cuts 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". In other words, as other central banks still look for further cuts or have yet to cut, there could be some support for the EUR as ECB has already cut.

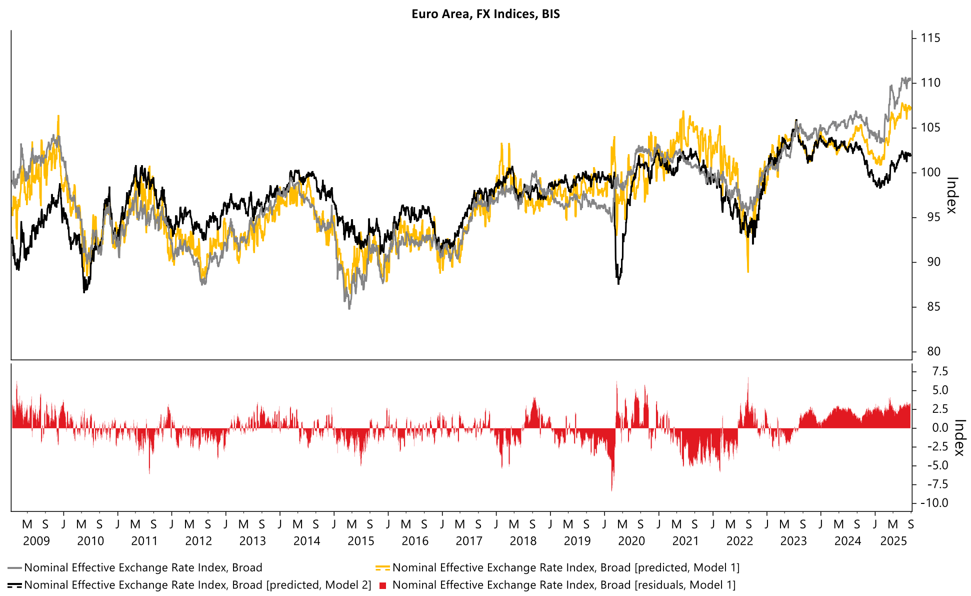
Eurozone growth has been tepid with significant downside risks from potential Trump trade policies and political issues in Germany and France. However, we expect that the fiscal expansion from defence spending narrative should provide some offset for the downside risks and anchor future growth. Second reading of 2Q GDP showed the Eurozone growth held at 1.4% SA YoY (exp: 1.4%; prev: 1.4%) and 0.1% SAS QoQ (exp: 0.1%; prev: 0.1%). Odds of a recession have retreated, with Eurozone recession probability at 25% (prev: 30.0%) and Germany's at 35.0% (prev: 40.0%). There are some debates and posturing going on about who is the winner of the EU-US trade deal. ECB's earlier rate cuts should provide support for growth, although it is likely that it could take some time for growth to pick up.

Despite the recent developments in French politics, we maintain that the Eurozone should have avoided the worst case scenarios in politics. 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. The French political situation shows the dire fiscal situation that France is facing, which we have always viewed as a risk to the defence spending narrative. Nevertheless, the broader question on which countries may be able to realistically fund a fiscal expansion could therefore be asked. Spain has flat out refused to meet Trump's suggested 5% military spend and that could be a dangerous precedent. 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. Downside risks from recurring political themes e.g. French government shutdown should also weigh on the EUR. Moreover, borrowing challenges and potential rating downgrades could also challenge the outlook for fiscal spending optimism.

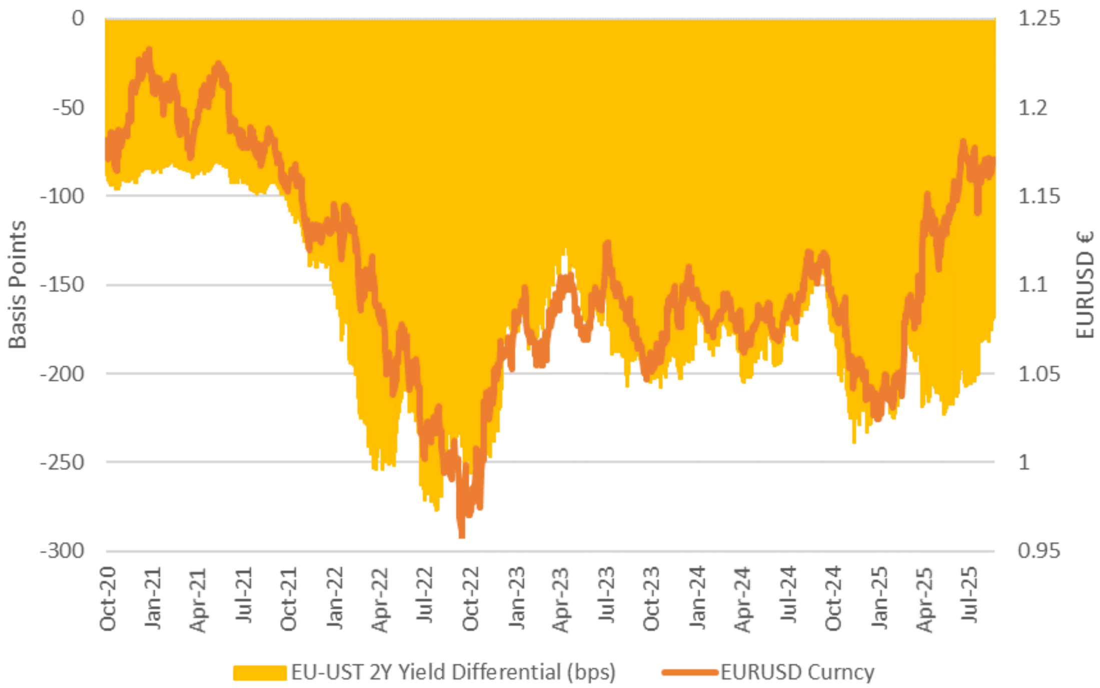
Key Data/Events: Aug Mfg PMI, Jul Unemployment (1 Sep), Aug CPI (2 Sep), Aug Svcs/Comp PMIs, Jul PPI (3 Sep), 2QT GDP, 2Q Employment (5 Sep), **ECB Policy Decision (11 Sep),** Jul Trade Balance (15 Sep), Sep ZEW Survey, Jul Industrial Production (16 Sep), Aug F CPI (17 Sep, Jul ECB Current Account (18 Sep), Sep P Consumer Confidence, Sep P Mfg/Svcs/Comp PMIs (23 Sep), ECB Economic Bulletin, Aug Money Supply (25 Sep), Aug 1Y/3Y CPI Expectations, Sep Consumer/Economic/Industrial/Services Confidence (29 Sep).

EUR NEER Remains Elevated



Source: Macrobond, Maybank FX Research & Strategy

Disconnect Between Yields and EURUSD Remains



Source: Bloomberg, Maybank FX Research & Strategy

GBP: Holding Within Range as Risks Persist

	3Q 2025	4Q 2025	1Q 2026	2Q 2026
GBP/USD	1.3400 (--)	1.3500 (--)	1.3600 (--)	1.3700 (--)

No Change to Previous Forecasts

Motivation: We maintain our GBPUSD forecasts which are broadly in line with the current market after a correction and rebound in the cable. Risks still persist for the pair, with lingering fiscal risks and a tension between the Treasury and the BOE. Concerns could be building if UK growth continues to be tepid and the external environment remains highly uncertain and challenging, which could weigh on a high-beta currency like the GBP. In addition, earlier fiscal concerns have reemerged with the U-turn in welfare policy and public disagreements between Chancellor Reeves and BOE Governor Bailey on the policy tradeoffs between de-regulation and being business friendly against maintaining regulatory standards. Nevertheless, we maintain an appreciating trajectory on the cable on the belief that the BOE-Fed divergence will continue to be supportive of the cable as the USD fades.

GBPUSD traded in a 1.3142 to 1.3595 range in Aug as compared to the higher 1.3186 to 1.3789 range in Jul. As market shifts its attention away from trade policy, then the resilience of the GBP we saw earlier could fade. Nevertheless, the increased defence spending narrative and improved relations with the EU should remain supportive of the GBP. We expect cable to remain well within the earlier wide ranges, although downside risks from fiscal concerns and for a high-beta currency like the cable do exist.

We see the BOE holding its policy rate at 4.00% for 2025. In line with consensus and our view, the BOE cut rates by 25bp to 4.00% on 7 Aug 2025. Market is pricing in 10bps of cuts for the BOE till end-2025, slightly more dovish than we are, although 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 is rather bumpy and services inflation and wage growth could compel the BOE to be a tad more cautious when setting rates.

UK growth could perform worse than initially expected in 2025, but growth prospects for years ahead looks promising. Probability of a UK recession is 30.0% (prev: 30.0%) and consensus forecasts see growth at 1.2% in 2025 and 1.1% in 2026. 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. 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.

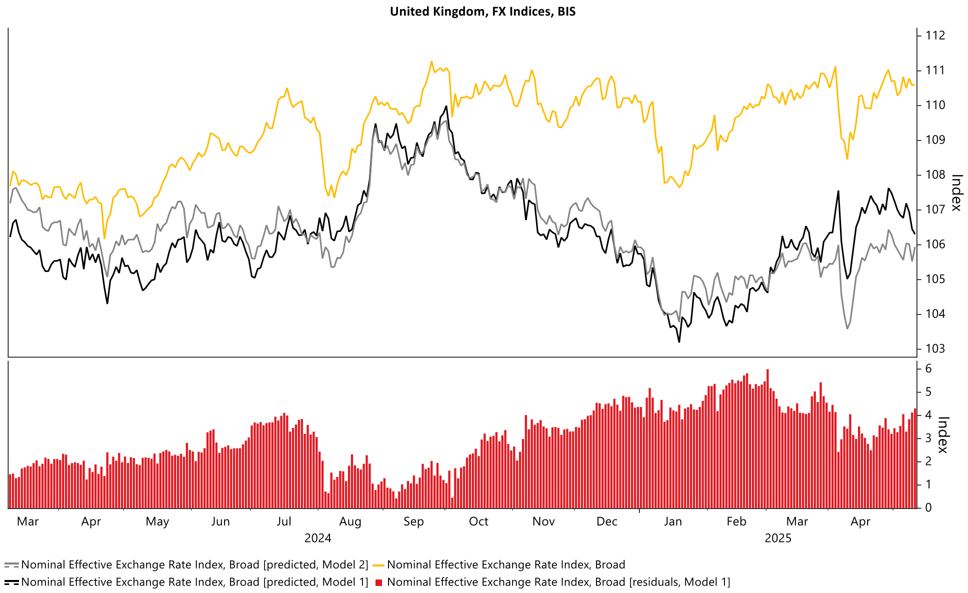
The Starmer government is committed towards fiscal discipline and has improved relations with the EU, which should be positive GBP. However, risks on the fiscal front are emerging over the recent U-turn in welfare policy. UK fiscal deficits are expected to narrow to 4.3% of GDP in 2025 and 3.7% of GDP 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. Closer ties to the EU should provide tailwinds for the GBP, however, markets attention seems to be changing focus from trade policy to data and central bank decisions, two fronts on which risks for the GBP could be to the downside.

Risk sentiment improving should result in GBP outperformance, conversely a hit to risk sentiment should weigh on the GBP as a high-beta currency. 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. Conversely, the GBP could also underperform should there be sufficiently large drags to global growth from a more isolationist US.

Risks to our view: GBP remains a high beta currency that is susceptible to changes in the global economic outlook. More specifically, if Trump's policies threaten a soft landing for the global economy and threaten the resilient economic outcome or the growth prospects for the UK 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. Risks to the defence spending narrative could also jeopardize confidence in the UK and the GBP (recall Liz Truss).

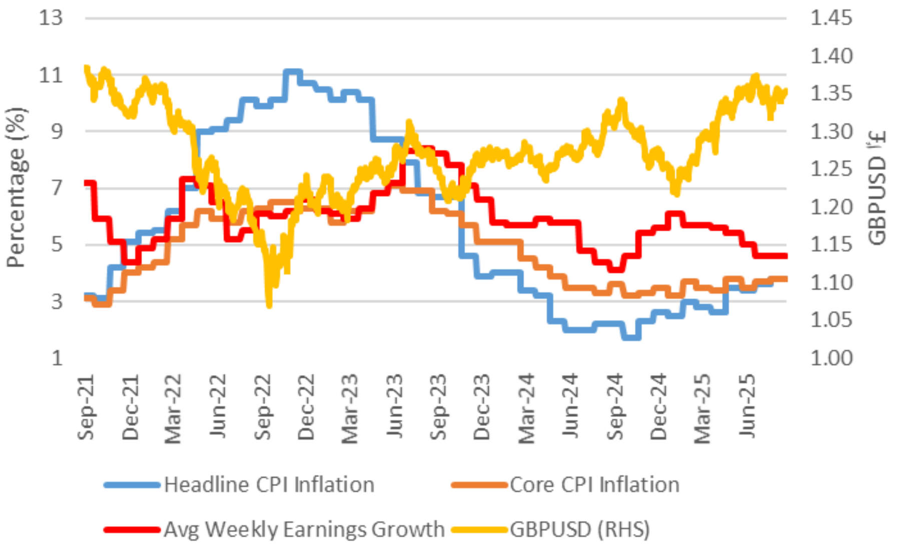
Key Data/Events: Aug Nationwide House Px, Jul Mortgage Approvals, Aug Mfg PMI (1 Sep), Aug Svcs/Composite PMI, Aug Reserves Changes (3 Sep), Aug, Construction PMI (4 Sep), Jul Retail Sales (5 Sep), SP Jobs Report (8 Sep), Jul GDP, Jul Industrial/Manufacturing Production, Jul Trade Balance (12 Sep), Jul ILO Unemployment (16 Sep), Aug CPI/RPI (17 Sep), **BOE Policy Decision (18 Sep),** Aug Public Finances, Aug Retail Sales (19 Sep), Sep P PMIs (23 Sep), Aug Mortgage Approvals (29 Sep), 2QF GDP, 2Q CA Balance (30 Sep).

GBP NEER Remains Elevated And Has Room to Correct



Source: BIS, Macrobond, Maybank FX Research & Strategy

Inflation On the Uptick, While Growth and Cable Stabilize



Source: Bloomberg, Maybank FX Research & Strategy

CHF: No Further Cuts and Safe Haven Support

USD/CHF	3Q 2025	4Q 2025	1Q 2026	2Q 2026
	0.8050	0.8025	0.8000	0.8000
	(0.8250)	(0.8200)	(0.8150)	(0.8100)

Previous Forecasts in Parentheses

Motivation: We lower our USDCHF forecasts on the back of continued safe haven inflows, and our view that SNB will not move to negative rates. We factor in a gentle downward trajectory for USDCHF on the view that SNB would intervene to prevent excessive CHF strength. We view EURCHF at 0.92 as a potential intervention trigger for the SNB. 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 narrower 0.7986 to 0.8171 range in Aug compared to the 0.7872 to 0.8151 range in Jul. USDCHF kept within a 0.8000 to 0,.8100 range for a large part of Aug. CHF remains better supported by its safe-haven allure than other currencies and as such remains resilient on a REER and NEER basis. We could see some further retracement in the pair as the attention of markets turns away from trade policies and towards data and central bank decisions. Nevertheless, we expect the risk of intervention and safe-haven properties of the CHF to remain intact amid a highly uncertain external environment.

In line with our view, the SNB cut rates by 25bps more to bring its policy rate to 0% on 19 Jun 2025. Inflation levels are benign in Switzerland (2025 forecast: 0.2%), while growth prospects are tepid (2025 forecasts 1.4%). The SNB should continue to remain neutral at current policy rate levels. 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 effectively 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 Jun Swiss CPI showed that inflation was at 0.1% YoY. The Swiss REERs and NEERs remain at elevated levels, and while EUR and GBP are concomitantly stronger, the risk of a sustained stint below target band is now elevated. Nevertheless, our base case is that the SNB will stand pat at 0% and not move to negative rates at this juncture.

Economic growth in Switzerland is tepid. The probability of a recession has risen to 27.5% (prev: 20.0%) and growth is expected to print at 1.1% in 2025 and 1.4% in 2026 (prev 2025: 1.1%; prev 2026: 1.4%). 2Q GDP printed at 1.2% YoY (exp: 1.3%; prev: 1.8%). 1Q headline GDP stood at 0.1% QoQ (sport event adjusted) (exp: 01%; prev: o.1%). 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 goods (watches) and the pharmaceutical sector. 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.

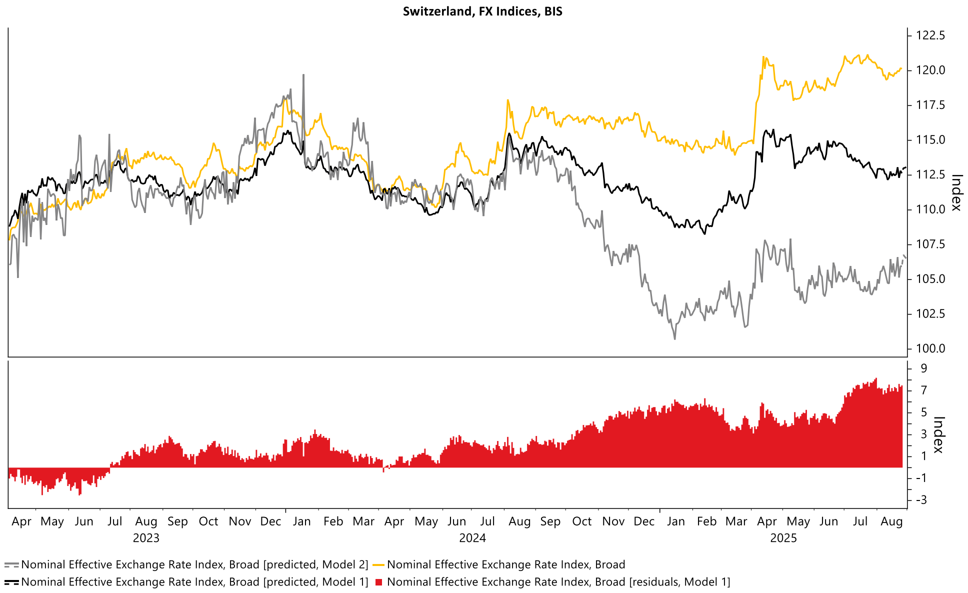
With BOJ expected to hike and SNB expected to ease, we approach a potential pivot where CHF could replace JPY as the funding currency of choice. BOJ overnight rate is now at 0.50% and SNB is at 0.00%. BOJ is also expected to hike further while SNB should stand pat and there are risks of them heading into negative territory. For now, there is market chatter that long GBPCHF carry trades are being funded via the CHF and this could be the start of the phenomenon that we expect. Should the conditions for carry trades be favourable 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.

Tariffs levied on Switzerland are higher than initially mooted at 39% (prev: 31%). The US is focusing on the bilateral deficit (US$38.5b in 2024, just out of the top 10 bilateral deficits the US has) and potentially on the exports of luxury goods (watches) and pharmaceuticals to the US. The Swiss have also yet to strike a deal before the 1 Aug deadline that Trump set and were likely levied with a higher than earlier mooted tariff because of that.

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.

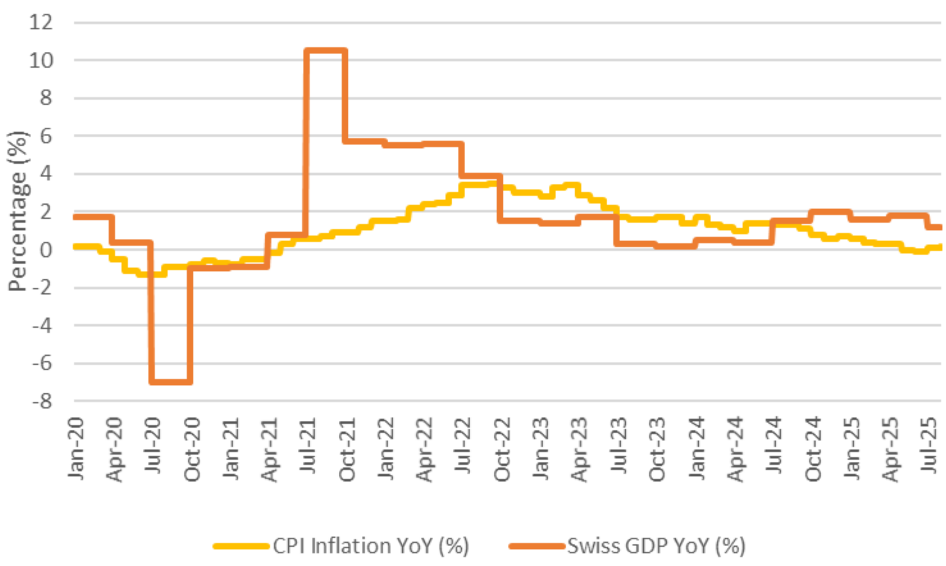
Key Data/Events: Jul Retail Sales, Aug Mfg/Svcs PMI (1 Sep), Aug CPI, Aug Unemployment Rate (4 Sep), Aug SECO Consumer Confidence, Aug Foreign Currency Reserves (5 Sep), Aug Producer and Import Prices (15 Sep), Aug Exports/Imports (18 Sep), Aug Money Supply (22 Sep), Sep UBS Survey Expectations, KOF Autumn Economic Forecasts (24 Sep), **SNB Policy Decision (25 Sep),** 2Q Foreign Exchange Transactions, Aug Retail Sales (30 Sep).

Swiss NEER Remains Elevated Amid Safe Haven Flows



Source: BIS, Macrobond, Maybank FX Research & Strategy

Inflation Stays Above the Zero-Bound



Source: Bloomberg, Maybank FX Research & Strategy

AUD: Grind Higher to Continue

AUD/USD	3Q 2025	4Q 2025	1Q 2026	2Q 2026
	0.6500	**0.6600**	**0.6700**	**0.6700**
	(0.6400)	(0.6400)	(0.6500)	(0.6600)

Previous Forecasts in Parentheses

Motivation: We had warned about Aug and Sep being seasonally bearish for the AUD and while AUDUSD is about to end Aug marginally higher, it is a month that saw it threatened the bullish trend channel. That said, we view this as a pause in its uptrend rather than an end. There could be some two way trades over the next month within the 0.6430-0.6600 range. AUDUSD may be driven by the US-related data rather than domestic factors but Australia's economic resilience could give it a relative boost against non-USD peers. The greenback is still in a tug of war between opposing factors – inflation and employment. While there are signs that the labour market is softening, it is still hard to declare the all-clear for US inflation. As such, the DXY index is stuck in range in the short term but we maintain a weaker DXY in the medium term. Meanwhile, AUD can benefit if China continues to stimulate its economy – the latest is to provide the service consumption a lift in the form of lower taxation and financing support.

Medium-Term AUD Positive: Beyond the near-term, AUDUSD could continue to grind higher. The worst case scenario for trade war has indeed been averted and Trump had likely announced his most aggressive trade policies. Even as there are still loose ends to be tied up (with India, China, Switzerland, etc), sentiment amongst consumers, businesses and possibly investors could be making a cautious recovery locally and potentially, globally. We expect the AUD grind higher to continue within the bullish trend channel. We only expect one more rate cut for this cycle as we look for recovery to take hold.

RBA cut cash target rate by 25bps, in line with expectations including our own, taking the policy rate from 3.85% to 3.60%. This was already well anticipated after the central bank surprised markets by holding the cash target rate unchanged at the Jul meeting. The decision was unanimous and RBA defended its decision to cut rates today (and not in Jul) by noting that "there is a little more clarity on the scope and scale of US tariffs and policy responses in other countries". Recall that the decision to keep cash target rate unchanged was split 6-3 in Jul.

Inflation To Moderate and Growth Outlook Downgraded

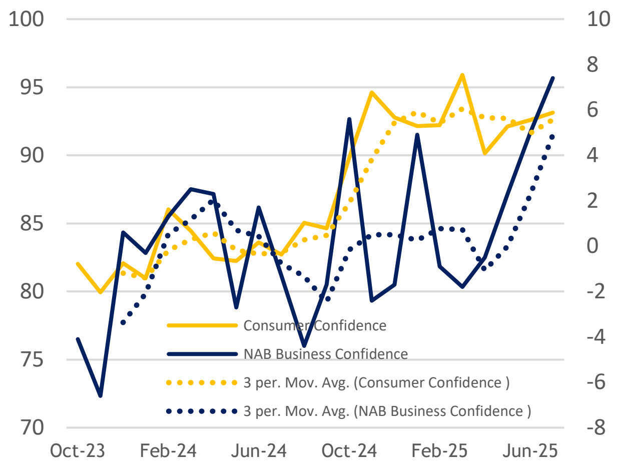
A key reason for RBA to cut cash target rate in Aug was the moderation in underlying inflation - trimmed mean inflation eased to 2.1% in Jun and headline CPI was at 1.9%. Staff forecasts suggests that the underlying inflation would continue to ease towards the centre of the 2-3% target range and it is appropriate for cash rate to fall in tandem. The reserve bank also sees growth in Australia's major trading partners slowing in 2H 2025 into 2026. The forecast for Australia's GDP growth was also downgraded to 1.7% for 2025 (from previous 2.1% in May), partly due to the lower outlook for productivity growth. Household consumption is now expected to expand 1.8% vs. 1.9% seen in May. Exports is now expected to eke out a growth of 1.0% vs. 1.5% seen prev. That said, the labour market could remain rather tight with jobless rate seen unchanged at 4.3% by the end of the year. The outlook for the cash rate is still at 3.4% by the end of 2025 but the trough of the easing cycle is expected to be at 2.9% by the end of 2026, a drop from the terminal rate of 3.2% indicated in the May SoMP.

One More Cut To the Trough of this Easing Cycle. Beyond the Aug meeting, we look for only one more cut to take cash target rate to 3.35% this year. We were looking for the next cut to happen in Nov and that could bring RBA to the bottom of this easing cycle, barring an unexpected shock to demand. Household consumption had been on the recovery as net incomes rise. The Jul CPI report came in hotter than expected yesterday - headline CPI flew to 2.8%y/y from previous 1.9%, above the already firmer expectations. Breakdown saw firmer price pressure for alcohol and tobacco, clothing and footwear, housing and recreation. Trimmed mean also rose to 2.7%y/y from previous 2.1%, in line with the observation that private demand could be recovering. Labour market remains remarkably resilient - Au labour report for Jul was solid with jobless rate back lower at 4.2% (vs. prev. 4.3%). Net employment addition came in at 24.5K, well in line with expectation, much of the employment added was full-time hire at +60.5K added in the month. Participation rate steadied at 67.0% with the prior print revised lower. There is still some uncertainty on how the exports downturn would pan out in the 2H of the year. A more severe one would require RBA to cut more.

Risks to the AUD Forecast: (1) US inflation and concomitant policy trajectory is still key for USD direction and a stickier-than-expected US inflation could exert some downward 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) Export downturn in the rest of the world would be negative for the AUD.

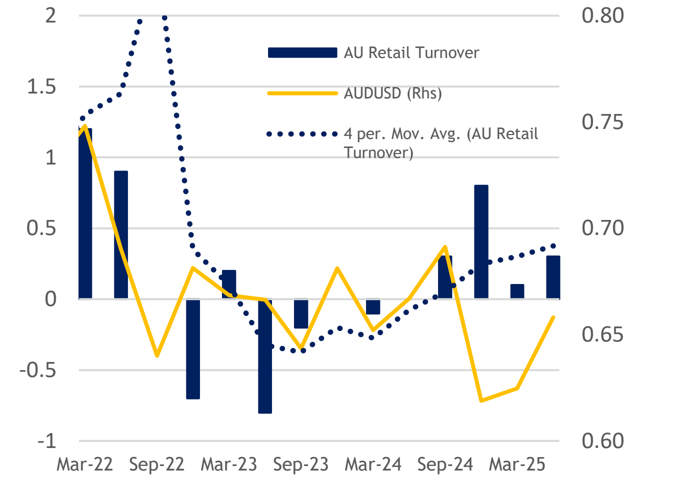
Key Data/Events: Aug M-I inflation gauge, Jul building approvals [1 Sep]; 2Q BoP current account [2 Sep]; 2Q GDP [3 Sep]; Jul trade [4 Sep]; Aug foreign reserves [5 Sep]; Sep consumer confidence, Aug business confidence [9 Sep]; Aug labour report [18 Sep]; prelim. Sep S&P PMI [23 Sep]; Aug CPI [24 Sep]; Aug building approvals, Sep home value, RBA policy decision [30 Sep].

Chart 1: Recovery in Consumer, Business Confidence



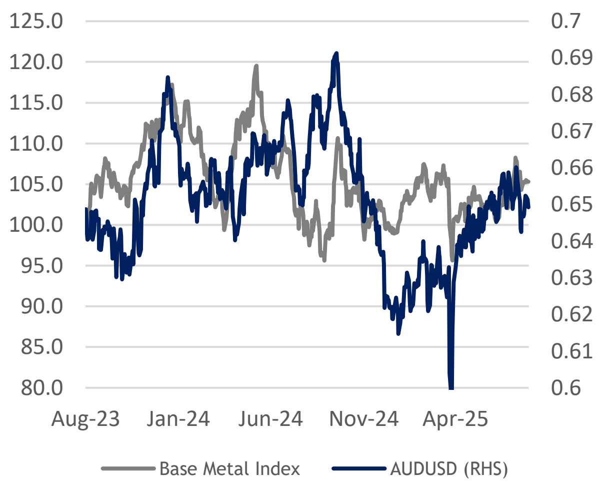
Source: Bloomberg, Maybank FX Research & Strategy

Chart 2: Quarterly Retail Turnover Has Been on a Gentle Recovery



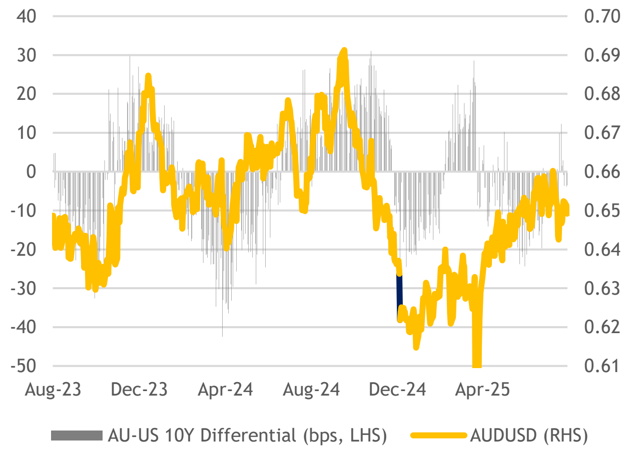
Source: Bloomberg, Maybank FX Research & Strategy

Chart 3: Gradual Recovery in Base Metals (Copper + Iron Ore) To Lead AUD Higher



Source: Bloomberg, Maybank FX Research & Strategy

Chart 4: AU-US Yield Differential Less Deterministic of AUDUSD, We do not Expect Much Divergence



Source: Bloomberg, Maybank FX Research & Strategy

NZD: Gradual Recovery from Here

	3Q 2025	4Q 2025	1Q 2026	2Q 2026
NZD/USD	0.6000 (--)	0.6100 (--)	0.6100 (--)	0.6200 (--)

No Change to Previous Forecasts

Motivation: We hold a cautiously optimistic view of the NZD. Leading indicators still give mixed signals - ANZ activity outlook was a tad weaker for Aug while business confidence rose to 49.7 from previous 47.8. Performance services rose to 48.9 from previous 47.6. Given that growth recovery is still lacking momentum, inflation potentially easing (including food prices), there is a good chance for RBNZ to cut the OCR another 25bps in Nov. Our view that RBA-RBNZ policy divergence had played out in the form of higher AUDNZD and deep retracements are still seen as opportunities to buy dips as we look for cumulative rate cuts to start to support NZ economic recovery.

RBNZ Cuts 25 bps in Aug and Signals More. RBNZ took OCR down by 25bps to 3.00%, in line with expectations (including ourselves). What surprised was the dovish statement and the fact that a larger 50bps cut was debated. The board was rather divided with a 4-2 vote landing on the smaller 25bps cut as final decision. Interim RBNZ Governor Hawkesby said that data will determine the pace of the monetary policy easing but all meetings are “live”. We look for NZD to remain on the backfoot against the USD but retracement (higher) against the AUD is likely in the near-term. While PM Luxon had opined that the RBNZ should have cut a deeper 50bps, he was also quick to emphasize that its independence is “sacrosanct” and he does not “direct” the Reserve Bank. Any threat to RBNZ’s independence could erode confidence in the NZD but this is not a likely scenario at this point.

Recovery Has Been Languid. There is still “significant spare capacity”. Based on RBNZ’s projections, the output gap is more negative than expected, estimated to be -1.8% for 3Q vs. -1.6% seen in May and the narrowing of the output gap is likely to take a longer time. Growth recovery has been weaker than expected with a -0.3% contraction assumed for 2Q. Cooling price pressure and significant spare capacity were key reasons for those who voted for a larger reduction in the OCR. There is concern that the impact of global policy uncertainty on domestic demand could be self-reinforcing and more persistent. A larger reduction in the OCR may generate a clearer signal to support consumption and investment that a smaller reduction may not be able to provide. Still, the vote went to a 25bps cut in the end.

Key Rate is No Longer Restrictive. RBNZ has lowered its average OCR projection to 2.55% by 1Q 2026 vs. the trough of 2.85% seen in the May MPS. The “Orr era” of bold decisions still linger given that a 50bps cut was even considered. However, Chief Economist Conway noted that the key rate is “not restrictive” anymore and Hawkesby also cautioned that RBNZ has done enough of rapid policy easing and could “start feeling our way”. In addition, Assistant Governor Karen Silk also noted that the central bank is investigating into the slow transmission of the monetary policy easing thus far. This could suggest that the new few cuts may not come in succession and highly dependent on data. RBNZ may want to pause in Oct before another 25bps cut in Nov and then a final one to take it to the trough of 2.50% in Feb. In addition, the statement did see emphasize on the “upside and downside risks to around the central projections being broadly balanced”. There is also an alternative scenario that “economic recovery could accelerate as the full effects of interest rate reductions flow through the economy”.

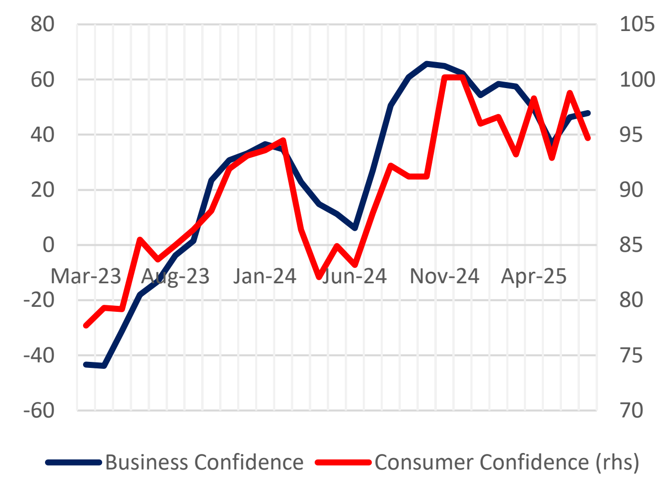
Dairy prices are still elevated around 4290 (last average winning price). Farm confidence survey released in the last week of Jul showed that a net 33% of respondents believe conditions are currently good, a rise from 2% seen in Jan due to lower interest rates, strong dairy and meat prices and administrative improvements. We continue to look for dairy as a source of support for the NZD.

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) Stronger price pressure in the US that can bring the NZDUSD lower 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/Events: Jul Building permits, 2Q TOT [1 Sep]; Cotality Aug home value [3Sep]; 2Q Mfg activity [9 Sep], Jul net migration [10 Sep]; Aug BusinessNZ Mfg PMI, Aug retail card spending [12 Sep]; Aug performance services index [15 Sep]; Aug food prices [16 Sep]; 3Q Westpac consumer confidence [16 Sep]; Westpac 3Q consumer confidence [17 Sep]; 2Q GDP

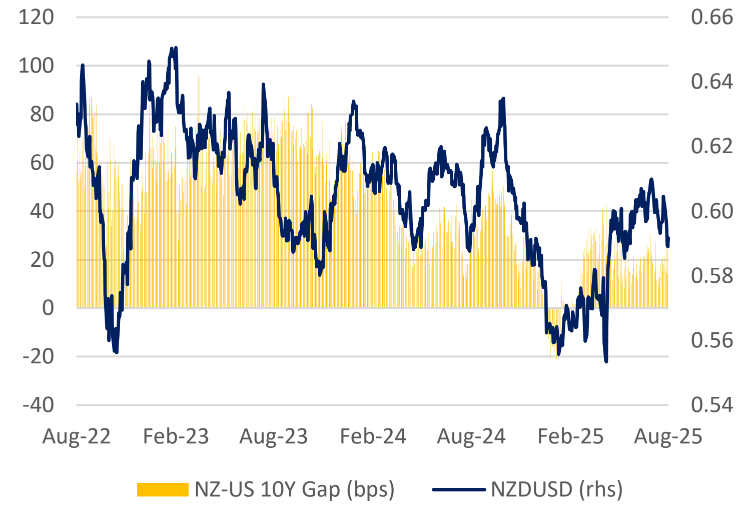
[18 Sep]; Aug trade [19 Sep], ANZ Sep consumer confidence [19 Sep]; ANZ business confidence [26 Sep].

Chart 1: Recovery in Consumer, Business Confidence Stalls



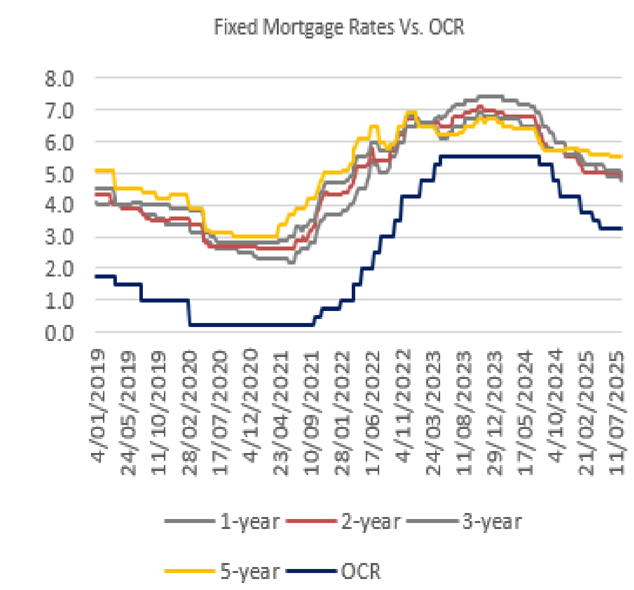
Source: Bloomberg, Maybank FX Research & Strategy

Chart 2: NZ-US Yield Differential Supportive of NZDUSD



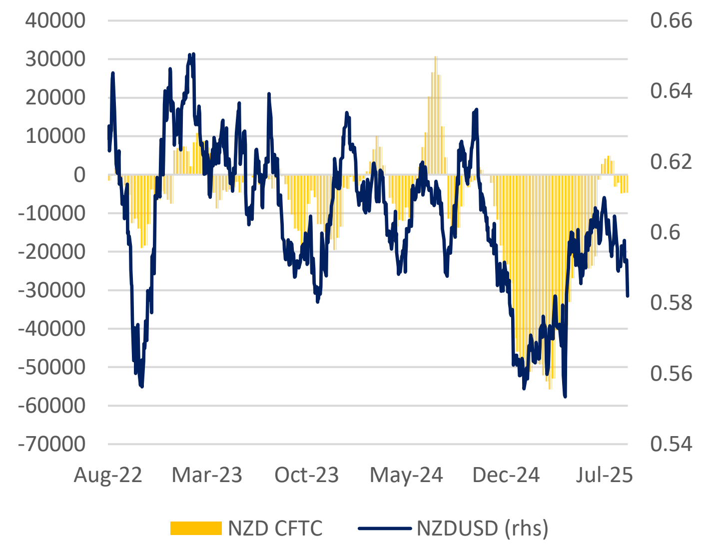
Source: Bloomberg, Maybank FX Research & Strategy

Chart 3: Mortgage Rates Are falling Slowly



Source: RBNZ, Maybank FX Research & Strategy

Chart 4: CFTC Positioning is Light



Source: Bloomberg, Maybank FX Research & Strategy

CAD: Thawing The Ice Could Pave the Way for CAD Gains

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

Previous Forecasts in Parentheses

Motivation: USDCAD rose in line with our expectations for it to head towards the 1.39-figure before easing in the last week of Aug. Canada was one of the few countries that did not seem to be able to come to any trade resolution with the US and had its reciprocal tariffs raised to 35% wef 1 Aug. Thus far, it has been the former USMCA trade agreement that shielded a portion of Canada's trade from the US tariffs but recent data suggest that tariffs could be taking a toll. With growth surprising to the downside, our out-of-consensus call for BoC to cut in Sep is becoming a consensus call. At the start of Aug, OIS implied 27% probability of a cut in Sep but that has risen to 55%. We had suspected that CAD was already pricing that in well before OIS and the GDP print confirmed our suspicion – CAD did not weaken much, having priced that in. What is bring priced in since the start of last week (25 Aug) was incremental efforts that PM Carney seems to be taking to thaw the ice with Donald Trump and thereby improving the chance of a trade resolution as well as recovery prospect of the Canadian economy, a tad faster than we had expected. We therefore shift the 3Q forecast back down to 1.37 and leave the levels for the next few quarters unchanged.

Trade War Updates: PM Carney has announced that he would remove majority of his retaliatory tariffs on the US from 1 Sep but reciprocal steel and aluminium duties would remain. This came after the digital services tax was also abandoned in Jun. Recent discussions focused on sectoral specific tariffs especially in steel, aluminium, autos, copper and softwood lumber. **Recall in Jul**, US raised its anti-dumping duty on softwood lumber on Canada to 20.56%. Taken together with the countervailing duty, the total tariff on lumber is taken to be almost 35%, doubling the existing rate of 14.54%. Now, Carney's willingness to compromise further could potentially warm ties enough to strike a deal with the US.

Fiscally, Canada is looking at spending more. Recall earlier that PM Carney had committed Canada to take military spending to 5% of GDP by 2035 (also a demand from Trump). That will require an additional $50-$90bn a year, depending on how much the economy grows. As such, along with plans for infrastructure spending and likely drop in the revenue from slower economic growth, the Department of Finance released an updated debt management strategy – planning to raise gross issuance of Canadian government bonds, treasury bills to C$612bn this fiscal year. This would exceed the previous record set during the pandemic (FY2020-21). This was taken to be a confirmation of the guidance given in Apr.

2Q GDP shrank more than expected by -1.6%q/q (ann.) vs. expected -0.7%. 1Q growth was also revised lower to 2.0%. Jun GDP seems to have lost momentum as well to 0.9%y/y from previous 1.2% - as exports start to show more discernible damage from the trade conflict with the US. Household spending grew 4.5%, PCFC fell -2.4% and the headline was dragged the most by the widening trade deficit. This validated our call that a rate cut in Sep is inevitable.

Business sentiment is arguably more cautious. The CFIB small business barometer index fell to 47.8 in Aug from 51.5 in Jul. While there are more firms reporting intention to increase staffing and firms reporting good business situation is also slightly higher, more firms reported weaker performance. Long-term confidence also fell. Weakening investment sentiment could mean that the recent pick-up in retail sales/household spending may not last long, especially with labour market potentially softening further. A rate cut could be warranted, in spite of sticky price pressures.

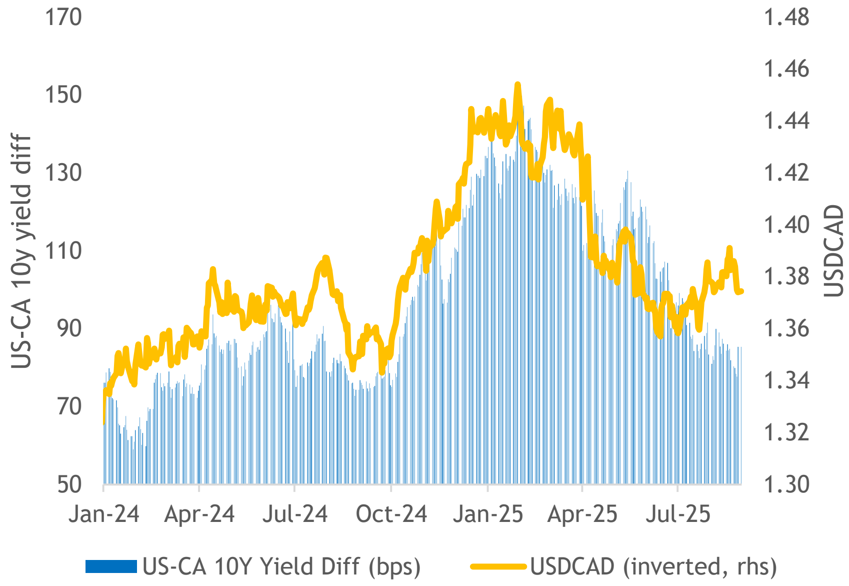
Core CPI hovered around 3.0-3.1%y/y while headline CPI printed a tad lower at 1.7% vs. previous 1.9%. That is why expectation for a rate cut in Sep remains a coin-toss. It is likely that the mix of data could swing BoC focus on risk of rising unemployment. **We are even more convinced that BoC would take policy rate 25bps lower from 2.75**% to 2.50% in Sep as Canada has shown no signs of retaliating (which could mitigate inflation risks) and BoC is already expecting inflation to unwind further. This rate cut would be necessary to support business sentiments, investment, growth and employment. Markets have priced in this possibility to a certain extent.

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.

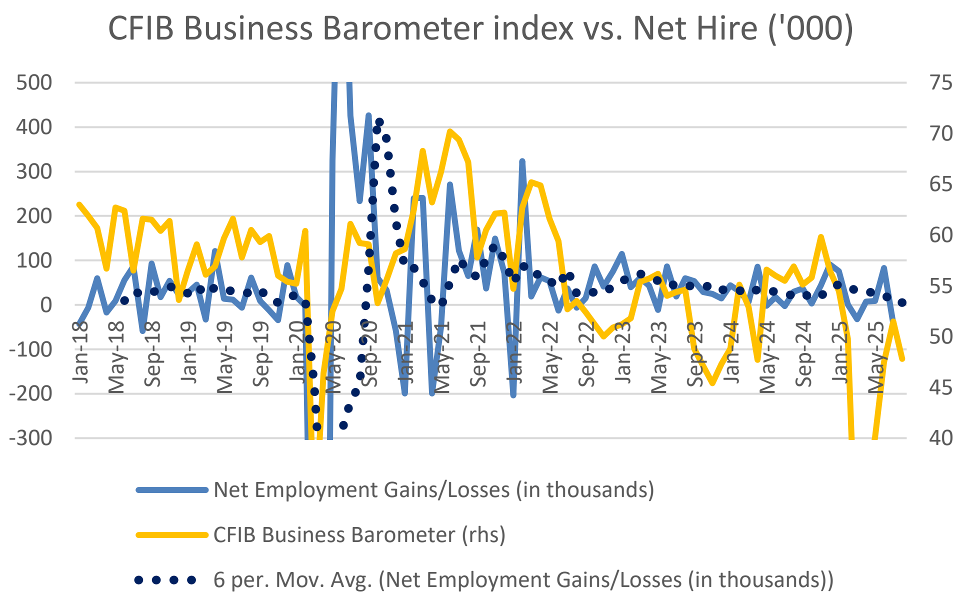
Key Data/Events: S&P Services for Aug F [2 Sep]; Jul trade [4 Sep]; Aug labour report [5 Sep]; Aug CPI [16 Sep]; BoC policy decision [19 Sep]; CFIB Sep business barometer [18 Sep]; Jul retail sales [19 Sep]; Jul GDP [26 Sep].

A US-CA 10y Yield Convergence Should Bring USDCAD Lower, Watch Catch-Up



Source: Bloomberg, Maybank FX Research & Strategy

CFIB Small Business Barometer As Well As Employment Conditions Soften



Source: Bloomberg, Maybank FX Research & Strategy

JPY: Appreciation in Play Amid BOJ Hikes, More Political Clarity

USD/JPY	3Q 2025	4Q 2025	1Q 2026	2Q 2026
	142.00 (--)	140.00 (--)	138.00 (--)	135.00 (--)

No Change to Previous Forecasts

Motivation: We continue to stick to our forecasts expecting the currency to end the year stronger albeit only seeing a measured level of appreciation. The gradual BOJ hikes we have been calling for are still in play with the next moves of 25bps each likely to come in Jan 2026 and Jul 2026. The BOJ we see are keeping an eye on both the impact of US tariffs and the bond market volatility. Regarding the latter, long end yields have been climbing but we think that the political concerns are receding. Local media has reported that the LDP report is due to be finalized on 2 Sep, which would put the blame on the entire party instead of just Ishiba mainly. This raises the possibility that Ishiba could actually stay on providing much relief to bonds. Whilst we do recognize that this does raise the risk of BOJ Oct move (but not a Sep move), we stick to our mentioned BOJ hiking base case given the Governor's somewhat dovish tone (unless there is a shift in this). This therefore supports our forecast of a more gradual USDJPY downwards trajectory. Near term, the receding of the political uncertainty can nonetheless play up expectations of an Oct hike move and guide the USDJPY lower below its recent range of 147.00 -148.00 towards our end Sep forecast. Meanwhile, risks to our USDJPY forecast is the Fed cutting less than out expectations of 50bps this year or the BOJ reversing its normalization direction entirely. Upside risk for the JPY meanwhile would be a deep US and global recession that would support more safe haven demand for the currency or the BOJ accelerating the pace of hikes.

We are still expecting the BOJ to be on hold at 0.50% come the Sep meeting. The central bank we take note is likely watching both the impact of US tariffs and bond market volatility before making their next move. On the latter, the long end yields have continued to inch higher with the JGB 30y yield for example recently trading around the 3.20% mark, which is an 12bps increase since the start of the month. Both the domestic Japanese political situation and fiscal concerns in DM countries recently look to have weighed on sentiment towards the long end JGB. However, concerns related to the domestic political situation (more elaboration below) can potentially recede in the coming months providing some relief to the JGB long end market. However, even then, the BOJ may still need some time to assess the impact of the US tariffs on the economy and that could still hold them back from making a move so soon. The new level of the Trump tariffs have just come into effect from Aug onwards and it is difficult for the central bank to just see the impact so soon. Governor Ueda did say at the last meeting that he did not see a high risk of falling "behind the curve", meaning that they can afford to be patient if need be. We therefore the next moves would still come in Jan 2026 and Jun 2026 of 25bps each. However, if there is any major shift in the Governor's tone, we do recognize there is a risk of an Oct move. We also take note of the possibility that the market can also play up an Oct move (even if they do not expect a Sep move) given the potential improvement in the political situation, which can give the JPY support in Sep.

The political situation merits a close watch although we are of the view that concerns related to it could recede somewhat. The LDP report on the upper house elections is set to be finalized on 2 Sep. Local media has reported that the entire party is to be blamed for the losses rather than just pitting it mainly against Ishiba. Given this, we do think there is an increasing likelihood that Ishiba may be able to stay on. However, we also take note that Sec Gen Hiroshi Moriyama, a supporter of Ishiba could be made to go as he takes the fall for the election losses. Some lawmakers and members of the LDP are calling for an early leadership election although there is no certainty this could materialize. Amid the possibility that the political situation can improve, there could be some relief for the long end of the JGB market, which in turn raises the risk the USDJPY could break below its sideways trading range of 147.00 – 148.00 in the coming month.

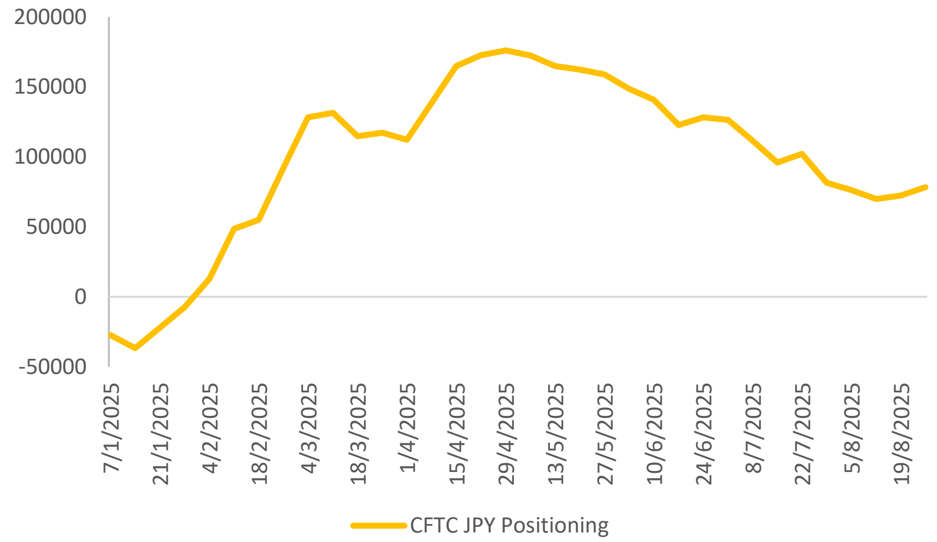
Economic data on net in Aug remains supportive of a BOJ hike. The crucial inflation data whilst it has been softening is still holding well above the BOJ's 2.00% target. The Jul headline CPI reading stood at 3.1% YoY whilst the core core figure was at 3.4% YoY. Even the latest Aug Tokyo headline CPI reading was strong at 2.6% YoY whilst the core core number was at 3.0% YoY. 2Q P GDP also surprised on the upside at 1.0% QoQ (est. 0.4% QoQ, 1Q. 0.6% QoQ) with business spending doing much better than estimates at 1.3% QoQ (est. 0.7% QoQ, 1Q. 1.0% QoQ). Aug P services PMI also remained at expansion at 52.7 (Jul. 53.6). There were patches of softness but the positive readings still outweigh the negative aspects. Private consumption was just a tad stronger than expectations at 0.2% QoQ (est. 0.1% QoQ, 1Q. 0.2% QoQ) whilst Jul retail sales was also below the estimates at 0.3% YoY (est. 1.6%

YoY, Jun. 1.9% YoY). Jul P IP too fell short at -0.9% YoY (est. -0.6% YoY, Jun. 4.4% YoY). Despite the economic data, we do though take note that the BOJ may still be cautious about further immediate hikes as they may still need time to assess the impact of the US tariffs.

Risks Ahead: Downside risks include the Fed cutting less than out expectations of 50bps this year or the BOJ reversing its normalization direction entirely. Upside risk for the JPY meanwhile would be a deep US and global recession that would support more safe haven demand for the currency or the BOJ accelerating the pace of hikes.

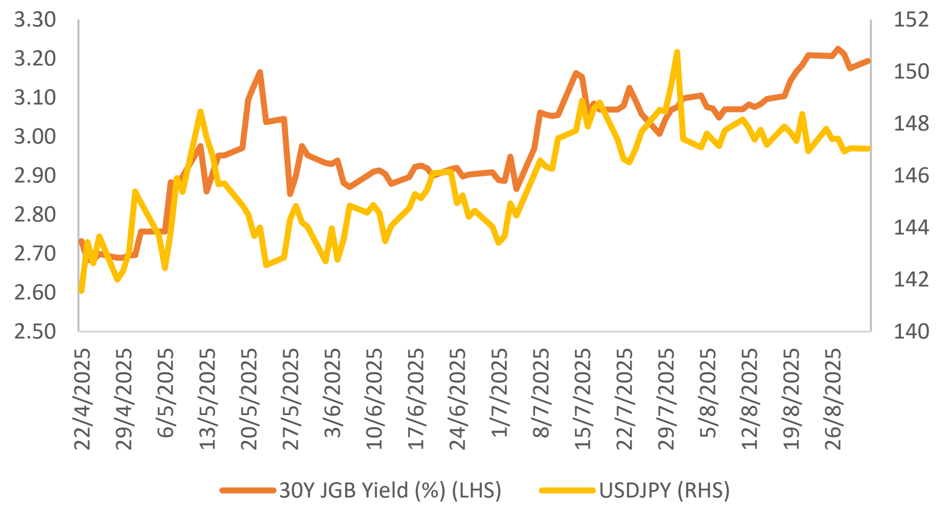
Key Data/Events: Jul cash earnings (5 Sep), Jul P leading/coincident index (5 Sep), 2Q F GDP (8 Sep), Jul BOP (8 Sep), Aug bank lending (8 Sep), Aug eco watchers survey (8 Sep), Aug P machine tool orders (9 Sep), 3Q BSI large all industry/mfg (11 Sep), Aug PPI (11 Sep), Jul capacity utilization (12 Sep), Jul tertiary industry index (16 Sep), Aug nationwide/Tokyo dept sales (16 – 22 Sep), Aug trade data (17 Sep), Jul core machine orders (18 Sep), Aug CPI (19 Sep), BOJ policy decision (19 Sep), Sep S&P Global PMI composite/mfg/services (24 Sep), Aug PPI services (25 Sep), Sep Tokyo CPI (26 Sep), Aug P IP (30 Sep), Aug retail sales/dept store, supermarket stores (30 Sep) and Aug housing starts (30 Sep).

CFTC JPY Long Positioning has Already Unwinded Substantially, Pointing Towards



Source: Bloomberg, Maybank FX Research & Strategy

Stability Should Return to the Long Eng JGB Market, Providing Support to the JPY



Source: Bloomberg, Maybank FX Research & Strategy

RMB: Turning the Corner

USD/CNY	3Q 2025	4Q 2025	1Q 2026	2Q 2026
	7.13	7.11	7.08	7.06
	(7.20)	(7.18)	(7.15)	(7.15)

Previous Forecasts in Parentheses

Motivation: The USDCNH and USDCNY have been drifting lower for a while and the break-of the USDCNH-support at 7.1470 seem to have triggered some stop-losses. There have been a few attempts at supporting consumption that were uplifting for the RMB and local equities 1) upcoming fiscal spending to support services consumption, 2) subsidies for loans for personal loans as well as SME loans. Markets are seeing this commitment from the government to support growth, market sentiment and the yuan. That is tilting risks to the upside for the CNY and CNH. Near-term, USDCNY may settle within the lower 7.10-7.16 range.

USDCNY fixes have been keeping the CNY stable. As we have mentioned, the USDCNY and USDCNH have been driven mostly by broader market forces but the pace at which they move remains controlled by the PBoC. China relishes the ability to be the anchor for regional stability, providing a contrast to the White House perceived to be a source of volatility with its unpredictable trade policies. **Weak US labour market metrics, increasingly supportive growth measures from the Chinese government have shifted the balance of risks to the downside for the USDCNY.**

The Break-Up of the USD DXY and the USDCNY. For a good part of 1Q and well into 2Q, the USDCNY have been trading close to the upper bound of the daily trading range before easing to trade around the USDCNY fix from May. While the plunge of the DXY index was happening Jan-May, the CNH and CNY were under pressure, even against the greenback before joining the rest of the non-USD currency in their surge in early May. That was a period of stark deviation between the DXY index and USDCNH/USDCNY. Since the mid of May, the decline of the DXY index had slowed into a sideway grind that was still on a gradual downtrend. The USDCNH and USCNY were also on a gradual decline. The USDCNY fix has also been on a gradual move lower, mostly in line with the broader market action, including the moves of the DXY index. More recently, the yuan sentiment has been turning increasingly optimistic, more than what is implied by the DXY index. **The correlation between the USDCNH and the DXY index weakened considerably.**

Was it a PBoC Triggered Move? Bloomberg conducts a daily survey and provides a consensus on what the daily fix could be before the actual morning fixing. The Bloomberg consensus typically does not include countercyclical adjustment factor. During times of pressure such as what was seen in the earlier part of this year, the difference in the market estimated USDCNY fix and the actual can provide an estimate of the countercyclical adjustment factor. **What we noticed is that the actual fix remains in line with market-estimated fix and the ratio of the actual fix and the market-estimated fix is still less than one. <u>This does suggest that the fix is still reining in the appreciation pace of the spot.</u>** Markets, on the other hand, may interpret the fix of the USDCNY below the 7.13-figure as a significant shift in policy and decided to push the USDCNY and USDCNH in the said direction.

We think the CNY appreciation is more a market-driven phenomenon, borne out of rising equity exuberance that could potentially bring about positive wealth effect. This has the potential to support the domestic demand that the Chinese government has been desperately trying to revive. The Chinese Commerce Vice Minister Sheng Qiuping said at a briefing that financial and fiscal tools will be utilized to improve service supply and drive new consumer spending and this will be announced in Sep.

The ratio of FX settlement by bank customers to foreign-related FX receipts rose 2.4ppt to 63.3% from a month ago according to SAFE. The conversion rate of FX receipts back to yuan seems to have risen. Meanwhile, FX sales ratio was stable in Jun at 62%, still well below the 75% seen in Jan. Clients are still buying 62% of foreign exchange as a proportion of total payment. The demand for foreign exchange seems to be stable as expectations for the USD remains a benign one. With the recent drop in the USDCNY and USDCNH, the yuan demand could rise.

Addressing Involution and Deflation - For many quarters, there have been talks about this concept of excessive competition that has become an unhealthy dynamic for industries. More recently, the Politburo had urged to tighten oversight in competitive manufacturing sectors such as the EVs and solar power. Details were lacking. The State Administration for Market Regulation held a meeting (27-29 Jul) and pledged that it would "regulate enterprises' low quality, cut-price competition in accordance with laws and regulations"

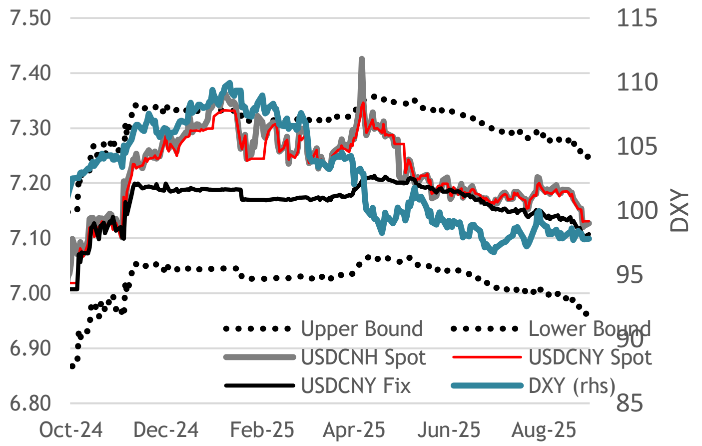
(SCMP). Earlier in mid-Jul, Xi had spoken at a meeting about urban development and questioned whether all provinces have to develop industries in AI, computing power and new energy vehicles. This involution is exacerbating the deflationary pressure at home. PPI fell a steeper -3.6%y/y vs. previous -3.3%.

Demand Outlook remains Subdued. CPI headline was flat in Jul, with consumer goods prices still on a decline (-3.1%y/y). Services on the other hand, saw some healthy price pressure at 0.5%y/y. Housing inflation was mild around +0.1%. Outlook remains a tad subdued for demand with export frontloading potentially facing payback and there are signs that the effects of the government trade-in subsidies that supported consumption in the 1H of the year could be waning. Retail sales slowed to 3.7%y/y from previous 4.8%. Industrial production also slowed quite considerably to 5.7%y/y from previous 6.8%.FAI ex rural decelerated in growth to +1.6% from previous 2.8%. Deflation remains a significant drag that could undermine investment, consumption at home. **Eyes are on the upcoming batch of fresh graduates that could add to the youth unemployment rate, currently at 14.50%.** The Chinese government has already started to step up on stimulus, targeting services consumption this month. There will be new measures launched soon to boost services exports - urge manufacturers to evolve from product makers to integrated service providers with emphasis on digital services an AI-powered trade model. Property supports are also expected given the still-sluggish property market.

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. PBoC and CSRC 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.

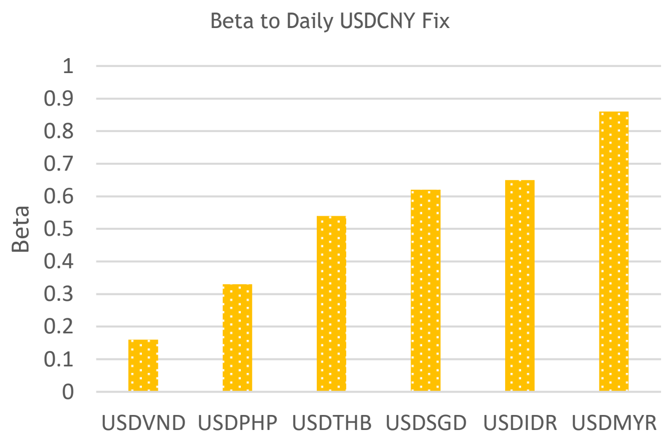
Key Data/Events: RatingDog Aug Services PMI [3 Sep]; Aug trade [8 Sep]; Aug credit data [9-15 Sep]; Aug CPI, PPI [10 Sep]; Aug property data, activity data, surveyed jobless rate [15 Sep]; FX net settlement on behalf of Clients [19 Sep]; LPRs [22 Sep]; Aug industrial profits [27 Sep]; NBS Sep Mfg, Non-Mfg PMI, RatingDog Sep Services, Mfg PMI [30 Sep].

USDCNY is Back on the Uptrend, Led by the DXY



Source: Bloomberg, Maybank FX Research & Strategy

PBoC Ensures That CNY Remains the Regional Anchor



Note: Simple regression conducted on sample of weekly data from Jul 2010-2025.

Source: Bloomberg, Maybank FX Research & Strategy

KRW: Concerns Fade as President Lee Launches Charm Offensive

	3Q 2025	4Q 2025	1Q 2026	2Q 2026
USD/KRW	1390	1370	1360	1350
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our USDKRW forecasts on the basis that the KRW can continue to strengthen against the USD alongside our longer-term view that the USD is likely to broadly weaken on the back of fading US exceptionalism. The high beta KRW has been plagued by a series of issues from domestic political developments to tariff woes from the US administration. However, there are indications that the storm is over. President Lee Jae Myung has assumed office and concerns over the domestic political situation should eventually fade. Moreover, President Lee has engaged the Trump administration on a variety of issues ranging from security to trade and that **should alleviate earlier worries that Trump could further target South Korea with further chip related measures.**

USDKRW NDF traded in a broadly higher 1373.69 to 1404.50 range in Aug, compared to the 1345.95 to 1395.21 range in Jul. Fluctuations in sentiment look to be largely responsible for driving movement in the pair which is unsurprising considering its high beta status. In addition, tariffs continue to provide uncertainty and risks to the export-oriented Korean economy, especially as potential sectoral tariffs on semiconductors and pharmaceuticals could disrupt the economy.

We expect the BOK to cut rates by 50bps more in 2025 with the policy rate ending at 2.00%. BOK held steady on 28 Aug at 2.50%, largely in line with expectations as the BOK chose to stay their hand with lingering risks on the property front. We see a further 50bps of rate cuts by the BOK in 2025 and this is more dovish than the approximately 15bps of cuts implied by market pricing and 32bps 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 1.0% (prev: 1.0%; 2024: 2.0%) in real terms, with a 15.0% (prev: 15.0%) probability of a recession. Korea is potentially vulnerable to further US trade measures on semiconductors and pharmaceuticals. However, President Lee's charm offensive on Trump and engagement of the US could mitigate some of the risks on this front.

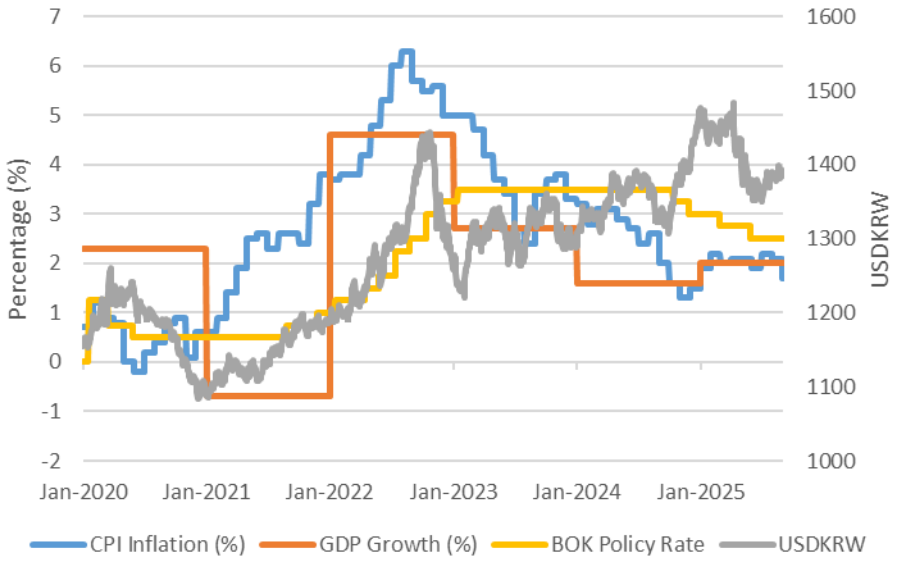
As we expected, political issues have largely resolved after the election. The Presidency has been won by front runner Lee Jae Myung who has set priorities to revitalize the economy, contain a potential debt issue and appropriately addressing the risks of US trade policy on the export-oriented Korean economy. Thus far a second supplementary budget of KRW30.5t to provide support for the Korean economy has been announced, dwarfing the first supplementary budget of 12.2t (introduced in Apr. The new budget includes measures to boost consumption and investment, support SMEs and vulnerable groups and to offset a shortfall in tax revenues.

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: 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.

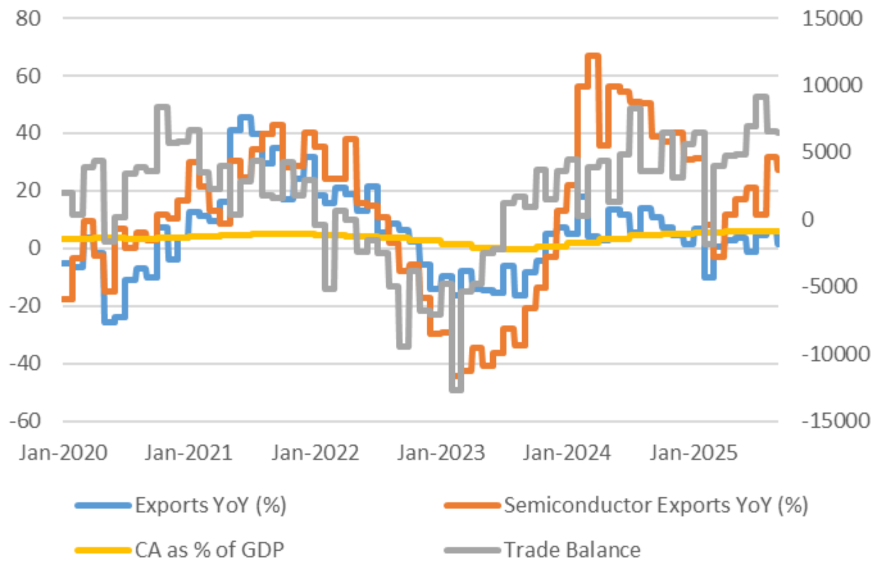
Key Data/Events: Aug Exports/Imports/Trade Balance, Aug Mfg PMI (1 Sep), Aug CPI (2 Sep), Aug Foreign Reserves, 2Q GDP (3 Sep), Aug BoP CA Balance (4 Sep), Aug Unemployment Rate (10 Sep), 20-Days Exports/Imports (22 Sep), Aug PPI (23 Sep), Aug Retail Sales (24 to 30 Sep), Sep Consumer Confidence (24 Sep), Sep Business Survey Mfg/Non-Mfg (26 Sep), Aug Industrial Production (30 Sep).

USDKRW and Growth Stabilize as Inflation Falls



Source: Bloomberg, Maybank FX Research & Strategy

Semiconductors Remain Key to Korean Exports



Source: Bloomberg, Maybank FX Research & Strategy

SGD: Resilience from Stability

USD/SGD	3Q 2025	4Q 2025	1Q 2026	2Q 2026
	1.2800	1.2650	1.2600	1.2550
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our USDSGD forecasts on the belief that the 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. Therefore, we think that it can be one of the main beneficiaries 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. 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. In addition, the relatively lower tariff rate of 10% imposed puts Singapore in a better position on a relative basis. 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 recession.

USDSGD traded within a 1.2788 to 1.3001 range in Aug, higher than the 1.2698 to 1.2991 range in Jul. SGDNEER was last seen at +1.80% above the mid-point and has stayed above the +1.20% above the mid-point level after MAS' easing on 14 Apr. In fact, the SGDNEER has been above the +1.60% mark on our SGDNEER model since mid-May. Even the recent resurgence of USD strength has not weighed on the SGDNEER strength as much as one would expect. **Note that one-sided SGD appreciation which translates to trade-weighted SGDNEER strength raises the risk of MAS intervention given the current relatively close proximity to what we see as the band edge of 2%.** The SGD has the tendency to not be an outlier and therefore a moderate appreciation in line with a broadly weaker USD is our base case expectation.

MAS stood pat on 31 Jul with a balanced statement that we view as a preservation of policy space to react to potential future negative shocks. MAS recognizes downside risks to growth and two-way risks to inflation. 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 balance of risks. **Our economists and us see MAS standing pat for the foreseeable future.** Our Taylor Rule estimates suggest a gentle upward trajectory for the SGDNEER should be appropriate given the expected growth-inflation dynamics, in line with the current stance. MAS has the policy space to react to any future downside shocks by flattening the slope, or re-centering downwards.

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. Jul Core CPI edged lower to 0.5% YoY (exp: 0.6%; prev: 0.6%). Our economists forecast core inflation at +0.5% (prev: +0.5%), headline inflation at 0.8% (prev: 0.8%) and revised real growth up to +3.2% (prev: 2.4%) in 2025. Singapore avoided a technical recession in 2Q2025 with growth accelerating to +4.4% YoY on a frontloading of exports and stronger manufacturing and regional trade activities. Jul Industrial Production print at 8.2% MoM (exp: 1.1%; prev: -0.8%) suggests that manufacturing remains healthy and the expected slowdown in the 2H2025 could be shallower than expected. Singapore remains a bellwether for the global economy and a slowdown could be reflective on the likely state for the rest of the world.

Singapore may have a relative tariff advantage, but it would be tricky to benefit from it without any repercussions. As mentioned, Singapore has a current account deficit with the US i.e. it buys more from the US than it sells to the US and this is a reason why it has thus far been given favourable treatment. If exports were to be re-routed through Singapore, the current account balance could swing to a surplus and Singapore may not be provided with as favourable terms going forward. Moreover, Singapore's strong governance standards would likely preclude any tariff dodging shenanigans. Nevertheless, we expect the relative tariff advantage to be supportive of the SGD.

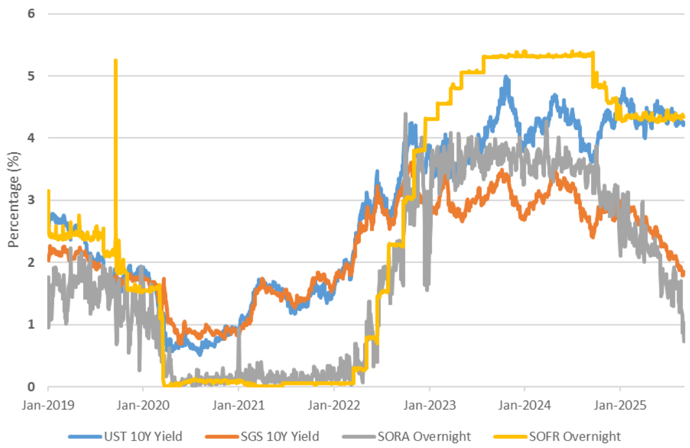
Budget 2025, the last budget for this term of government was delivered by PM Wong on 18 Feb 2025. The budget was expansionary, and yet a healthy S$6.8b (or 0.9% of GDP) fiscal surplus is still expected. Key budget initiatives included household goodies and social policies and support for businesses as 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.

We 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 reliable stores of value given Singapore's strong fundamentals. MAS' policy is at worst at no appreciation and is typically at some positive appreciation stance (also alluded to as the R* equivalent by Chief Economist Robinson in his speech) 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 remain resilient relative to 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. The Singapore Business Federation's (SBF) latest survey also showed that business confidence has waned with a softer outlook for hiring and wages, presenting a downside risk for the SGD.

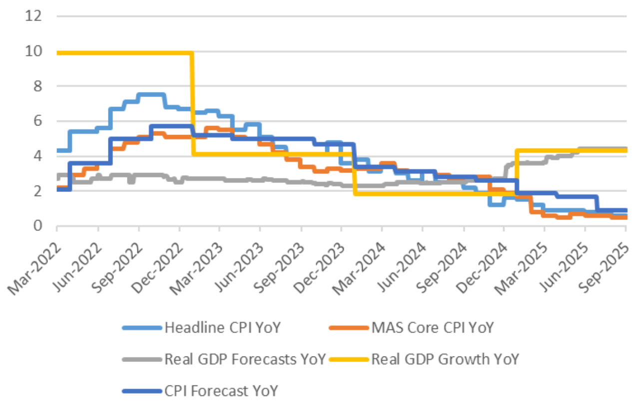
Key Data/Events: Aug PMI/ESI (2 Sep), Aug Global PMI, MAS Survey of Professional Forecasters (3 Sep), Aug Foreign Reserves (4 Sep to 8 Sep), Jul Retail Sales (5 Sepo), Aug NODX/Electronics Exports (17 Sep), Aug CPI (23 Aug), Aug Industrial Production (26 Sep), Aug Money Supply (30 Sep).

SORA Falls (Outperforms) as SG-US Rate Correlation Breaks Down



Source: Bloomberg, Maybank FX Research & Strategy

Growth and Inflation Converge to Forecasts



Source: Bloomberg, Maybank FX Research & Strategy

MYR: Navigating Fed FOMC Moves and RMB Anchoring

	3Q 2025	4Q 2025	1Q 2026	2Q 2026
USD/MYR	**4.20** **(--)**	**4.10** **(--)**	**4.05** **(--)**	**4.00** **(-)**

No Change to Previous Forecasts

Motivation: MYR remains one of the top performers in the ASEAN year-to-date, appreciating around 6.2%. In the month of Aug, MYR appreciated around 1.3% and saw some swings as USD generally weakened in Aug. USDMYR saw a month low of 4.1858 on 14 Aug due in part to the US CPI data, which came in line with expectations and raised probabilities that the Fed will be able to start easing soon. The USDMYR move down has been supported by positive factors from USD softness, CNY strength and some level of global growth pick up. 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 trade truce between US and China will last for the next few months until Nov and the major economies such as Japan, Eurozone trade deal announcements provide an environment supportive of EM FX and MYR support. Meanwhile, Malaysia has reportedly struck a trade deal with the US whereby tariffs on Malaysian goods by the latter would be set at 19%. This development should bode well for the MYR and Malaysian assets given that it would lead to more certainty on the economic outlook. We maintain our USD/MYR forecast to reflect these factors, in particular the continued CNY strength which will provide some resilience to regional currencies.

We raised slightly 2025 real GDP growth to +4.2% from +4.1% (2024: +5.1%) given 1H 2025 growth of +4.4% and the notably resilient 2Q 2025 growth despite the high base effect last year when growth surged to +5.9% YoY in 2Q 2024 (1Q 2024: +4.2% YoY). We also tweaked 2026 growth forecast to +4.1% from +4.2% following the change to 2025 forecast. “Domestic Tailwinds vs External Headwinds” remains the narrative on growth dynamics. External headwinds on growth remain despite the clarity on US reciprocal tariffs on its trading partners - with the final rate of 19% for Malaysia vs the original 24% in Apr 2025 and the subsequent 25% in early-July 2025. This is due to the uncertainties on product-specific tariffs by US, especially semiconductor tariff. Semiconductor is Malaysia’s major exports to US that is currently exempted from the reciprocal tariff. Positively, there are domestic tailwinds keeping the economy on the growth path. Consumer spending is supported by income growth reflecting favourable job market conditions, income-lifting measures (e.g. minimum wage hike; civil service salary and pension revisions; higher cash handouts for lower income individuals/households), 25bps OPR cut by BNM and additional consumer-friendly measures (announced on 23 July 2025). Investment upcycle is sustained by the on-going realization of robust approved private investment since 2021, domestic direct investment by Government-linked investment companies, progress in major infrastructure projects, and impact of strategic initiatives like the Johor-Singapore Special Economic Zone (JS-SEZ).

Inflation rose to +1.2% YoY in July (Jun 2025: +1.1% YoY). Core inflation steady at +1.8% YoY. 7M 2025 inflation averaged +1.4%. We cut 2025 full year forecast to +1.5% YoY from +2.0% previously (2024: +1.8%) given persistence of sub-2% inflation rate, despite minimum wage hike (1 Feb 2025 and full implementation in 1 Aug 2025) plus SST and Tenaga’s tariff reviews (1 July 2025). Upcoming inflation lookouts include targeted RON95 petrol subsidy rationalization (details on end-Sep 2025); foreign worker’s EPF contributions (Oct 2025); and water tariff revisions.

In July 2025, exports rebounded +6.8% YoY (June 2025: -3.6%) while imports slowed to +0.6% YoY (June 2025: +1.3%). 7M2025 exports and imports grew +4.3% YoY (2024: +5.8%) and +5.1% YoY (2024: +13.1%) giving +MYR70.7b trade surplus (2024: +MYR137b). Expect continued choppy external trade numbers as US tariff uncertainties shift from reciprocal tariff to product-specific tariffs, namely on semiconductor. Our full-year export and import growth forecasts are +4.3% and +6.4% respectively.

US reciprocal tariffs on trade partners were finalized at the end of last month, with Malaysia getting a 19% rate effective 7 Aug 2025 vs the original 24% announced on 2 Apr 2025 and the revised 25% in Trump’s letter dated 7 July 2025. This could well be behind the export rebound last month on another round of front-loading ahead of reciprocal tariff deadline. We expect external trade to remain on choppy waters as US tariffs uncertainties persist amid the prospect of more product/sector-specific tariffs by US, with eyes on semiconductor – Malaysia’s major exports to US. The devil is in the details as the US Commerce Department’s investigation under Section 232 of US Trade Act on semiconductor imports and its impact on US national security has been on-going since Apr 2025, pending the submission of report and recommendation to President Trump.

2Q 2025 current account (CA) surplus narrowed sharply to just +MYR0.3b or +0.1% of GDP (1Q 2025: +MYR16.7b or +3.4% of GDP) on smaller net exports of goods amid transient factors like lower mining exports on maintenance shutdowns and surge in capital goods imports on data centre-related investment, plus reduced services trade and income account deficits. We expect CA surplus of +MYR35b or +1.7% of GDP this year (1H 2025: MYR17b or +1.7% of GDP; 2024: +RM27.7b or +1.4% of GDP).

Bank Negara Malaysia (BNM) cut the Overnight Policy Rate (OPR) by 25bps to 2.75% at the 8-9 July 2025 Monetary Policy Committee (MPC) meeting. The move was expected as the hurdle for monetary policy easing is lower - and to pre-empt the downside risk to domestic growth - amid the external headwinds from US tariffs and global trade uncertainties, the currently tame inflation with manageable upside risk, as well as the firmer and stable Ringgit. BNM flags revision to current official growth forecast of 4.5%-5.5% later this month, but it will not be a major markdown. We expect no further OPR cut for the rest of the year. Given the above take on MPS, we expect OPR to remain at 2.75% until the end of the year. The next MPC is on 4 Sep 2025.

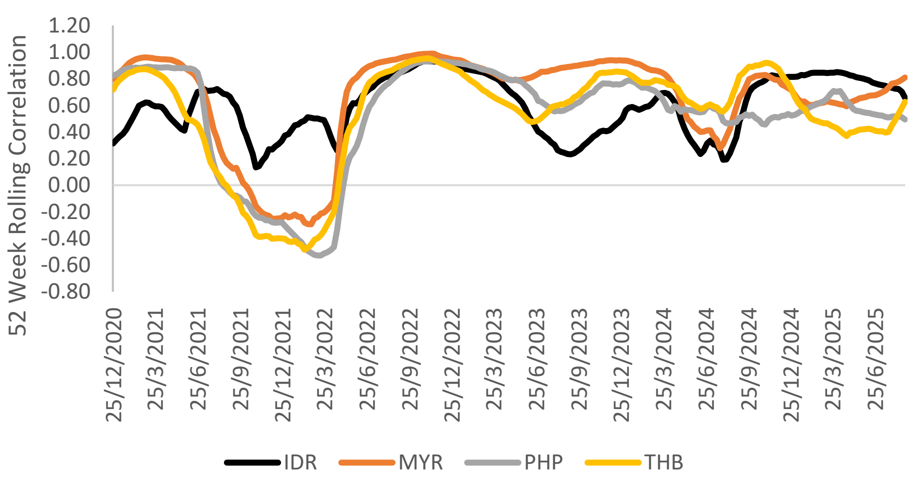
2H25 will also be dominated by domestic policy lookouts. First and foremost will be fiscal policy, pertaining to achieving the 3.8% budget deficit to GDP ratio (2024: +4.1%) amid the expected downward revision to current official growth forecast range of +4.5% to +5.5%; the still pending rollout of targeted RON95 subsidy rationalisation; the slightly delayed review in Sales Tax and broadening of the Services Tax scope; and the adjustment in e-invoice implementation timeline. Budget deficit consolidation and fiscal reforms. Looking at the current trajectory of budget deficit, 1Q/4M 2025 recorded the second lowest as % of GDP and in value (MYRb) since the current period of fiscal consolidation begins in 2022. These provide us with comfort against the risk of “slippage” – at least for now.

13MP seeks to sustain GDP growth momentum (13MP: 4.5%-5.0% p.a.; 12MP: 5.1% p.a.) via resilient consumer spending and sustained investment upcycle, as well as continued reforms and restructuring to transform into a “value creation” and high-income economy, labour market policies to boost workers’ income and strengthening governance. Given 13MP’s growth projections and key areas of reforms and restructuring, we listed five key things to watch over the next five years i.e. #1 Investment Upcycle; #2 Workers/Household income; #3 Fiscal Consolidation and Reforms; #4 Productivity, Efficiency, Innovation; and #5 Legislative Reforms on Governance.

Risks to look out for in Sep 2025. Upside risks may also materialize such as a more benign trade friction scenario, with US-China trade tensions averted in a sustained way until early Nov, which could lead to significantly lower USDMYR and a positive deal being made with US. A more dovish or larger than expected easing by the US Fed could also weigh on the USD, leading to lower USDMYR.

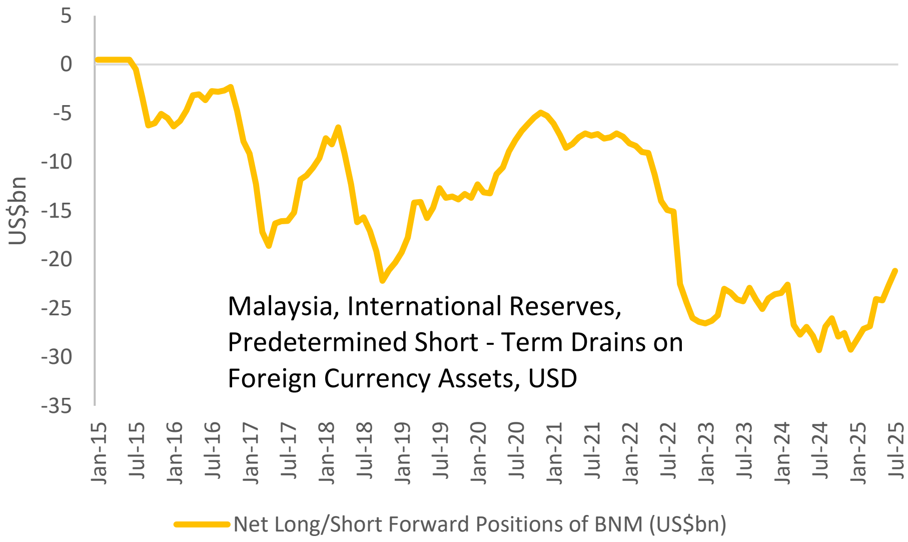
Key Data/Events: S&P Global Malaysia PMI Mfg (2 Sep), BNM policy (4 Sep); Jul mfg sales (11 Sep), 29 Aug foreign reserves (9 Sep), Aug trade data (19 Sep), Aug CPI (23 Sep) and 15 Sep foreign reserves (23 Sep.

Correlation Between MYR and CNY Remain Anchored



Sources: Bloomberg, Maybank FX Research & Strategy

BNM Short Forward Positions Have Reduced Amid USD Softness



Sources: Macrobond, Maybank FX Research & Strategy

IDR: Near Term Volatility But Positive Over Medium Term

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

No Change to Previous Forecasts

Motivation: We maintain our forecast for the IDR, expecting it to remain on a gradual appreciation trajectory as we see bond inflows should continue to support the currency. Potential for further bond appreciation, structurally softer dollar and lower relative levels of foreign ownership should all continue to back further inflows into the Indo GBs. On the first point particularly, we expect another 50bps of rate cuts from Bank Indonesia in 2025 (followed by another 50bps in 2026) together with Fed rate cuts and SRBI scaled down should continue to guide Indo GB yields lower. A softer dollar should also help to improve appetite for EM assets whilst the foreign ownership in Jul 2025 is only at 18.5% compared to over 40% pre-pandemic. Meanwhile, certain risks we do recognize cloud Indonesia's outlook and limit the strengthening of the IDR. This includes concerns about the country's fiscal situation given the goal of achieving a 2.48% budget deficit for fiscal 2026 amid higher revenue, expenditure and growth. However, we take note that spending itself can fall quite below the target and this in turn can help offset any revenue and growth misses, allowing for the deficit to stay below the 3.00% legal limit. Other policy concerns that include the operational nature of Danantara are likely to see more clarity overtime. Meanwhile, upside risks to our forecasts would include stronger foreign inflows into Indo equities or more aggressive Fed easing than our expectations. Near term, the recent protests have placed pressure on the IDR and pushed it to test the 16500 mark. However, we think that pressure is interim and that there should a sustainable return in calmness especially with Prabowo's commitment to revoke the parliamentary housing allowances. The pair should therefore pullback from the 16500 level.

BI cut the benchmark rate by 25bps to 5.00%, which was in line with our call as the central bank looked to provide support to the domestic economy. The relative stability of the IDR at that point also provided the central bank with the space to ease. BI's tone as a whole remained dovish givend they mentioned they will continue to monitor the space for further interest rate cuts in order to encourage higher growth amid low inflation. They see that 2025 global economic growth would also be lower than the expected at 3% whilst they kept their GDP growth forecast at 4.6% - 5.4% (which had already been lowered earlier in the year). They also actually see economic growth improving in 2H 2025 and also think the entire year GDP number would be above the midpoint of that range. Nonetheless, they noted the need to boost credit growth more of which their forecast remains at 8% - 11% in addition to strengthening the transmission of their recent cuts. Inflation they see is likely to be within 1.5% - 3.5%. **Given this, our economist expects the central bank to cut by another 50bps in 2025 and another 50bps in 2026, which would bring the rate down to 4.00% by end 2026. This should support Indo GBs concurrently together with a softer dollar and Fed rate cuts.**

We keep a positive view on Indo GBs expecting inflows to continue at a gradual pace. Month to date (mtd) as of 27 Aug, there were positive inflows of $0.7bn with the year to date (ytd) number standing at $4.3b. Inflows into Indo GBs would still be supported by – 1) potential for further bond rally, 2) persistent softer dollar environment and 3) low foreign ownership relative to pre-pandemic. On the first point, although the 10Y yield has fallen by 67bps since start of the year, we still expect that the rally for the 10Y Indo GB can continue given our economist sees that BI can cut by another 50bps this year (and by another 50bps in 2026). Also, SRBI levels is being scaled down with the volume having already fallen by -IDR182tn from start of the year to end Jul or by about nearly 20%. The decline should continue as the BI works to ease liquidity conditions and therefore more flows can be diverted to the Indo GB market. Our expectations at the same time is for the softer dollar to persist, which would make the EM bonds attractive given the lower currency risk whilst also raising the return potential. Foreign ownership is still relatively low at around 18.5% (Jul 2025) compared to more than 40% pre-pandemic. Meanwhile, we do acknowledge there are factors that can limit appetite, making the inflows more steady in nature. Fiscal concerns for one linger but we also believe that the government can keep the budget deficit below the legal limit of 3.00% of GDP, which could keep issuance more controlled. The revenue and growth targets are high but so is the spending level and therefore, shortfall regarding the latter can help offset misses in the first two items. We take note too that the real yield differentials between the Indo GBs 10Y and the UST 10Y are already substantially narrow but further rate cuts by the Fed should prevent this from weighing too much into the bond appetite.

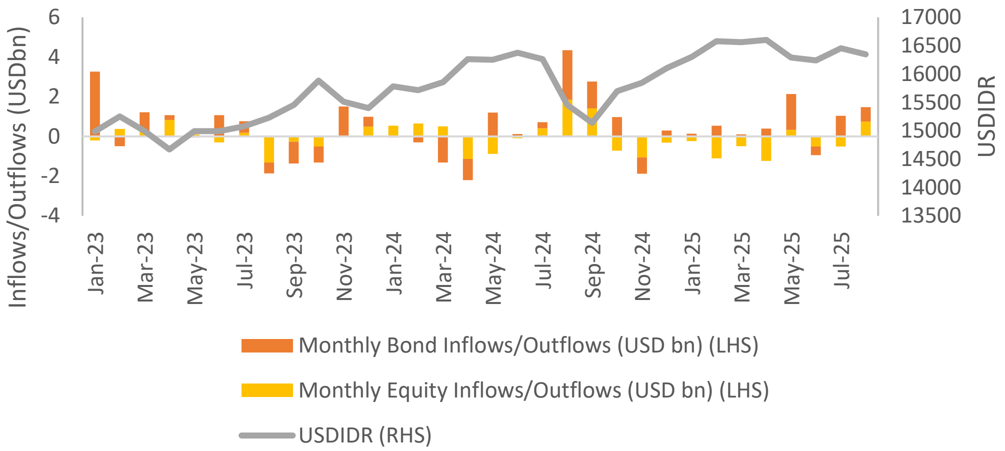
There is likely to be less support for inflows into the currency from other sources. Indonesia equity markets have been seeing a strong rally but ytd as of 28 Aug 2025, there has been a substantial outflow of -$3.0bn. We do recognize that there that foreign interest picked up recently with the mtd number at $0.7bn but we are cautious on the sustainably of this. The forward PE for the JCI is only around 13.00 but it is either similar or lower than more liquid regional peers such as the SET at around 13.00 or the KLCI at about 14.50. For that matter, the PE stands higher than the HSI at around 11.50. The recent rally in the onshore Chinese stocks can also divert interest away from other regional EM bourses. The country is still maintaining a trade surplus but the current account remains in a deficit with the latest 2Q reading at -$3bn.

Meanwhile, on other items, Danantara would reportedly be looking to raise $1.3bn or IDR50tn in bonds from "patriot" investors. The sovereign wealth fund would be issuing the debt in five and seven year parts at IDR25tn each on 1 Oct with the proceeds going to Danantara waste-to-energy projects. The tranches would carry a 2% coupon. Danantara itself has said that it plans to issue "tens of trillions of rupiah" via private placement to the nation's most prominent business leader.

Risks Ahead: Downside risks include budget slippage beyond the 3% legal limit or worsening concerns about Danantara. Other risks include USD climbing back up strongly as appetite returns for US assets or a rise in geopolitical tensions. Upside risks include higher equity inflows or more aggressive Fed easing.

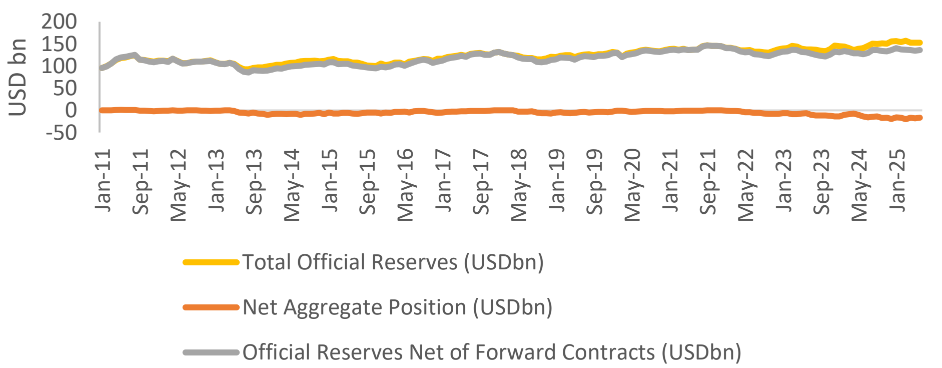
Key Data/Events: Aug S&P Global PMI mfg (1 Sep), Aug CPI (1 Sep), Jul trade data (1 Sep), Aug foreign reserves (8 Sep), Aug consumer confidence (10 Sep), Aug local auto sales (11 - 15 Sep), Jul external debt (15 Sep) and BI policy decision (17 Sep).

Positive Portfolio Inflows Provides the Support



Source: Bloomberg, Maybank FX Research & Strategy
Note: Aug bonds data is as of 27 Aug 2025 whilst for equities, USDIDR is as of 28 Aug 2025

Bank Indonesia's Official Reserves Levels Remains Sufficient



Source: Bloomberg, Maybank FX Research & Strategy

PHP: Sideways, Medium Term Gradual Appreciation

	3Q 2025	4Q 2025	1Q 2025	2Q 2026
USD/PHP	56.50	56.00	55.50	55.50
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our PHP gradual pace of appreciation vis-à-vis the USD.. Support for the PHP is likely to come in part from 1) broad dollar softness and 2) OFWR going forward. The former should help lower import costs and relieve the pressure on the country's external position whilst the latter can continue to give some support to the currency with the global economy appearing to be resilient. Further BSP easing is not ruled out as our economist expects another cut of 25bps this year. However, the central bank has implied that it is near the end of its easing cycle which would mean that support for the bonds can be more limited from that angle. The potential of the bonds being included in the JPM GBI-EM Global Diversified Index in Sep can back inflows but we see that as more of an upside risk at this point rather than a clear certainty. Meanwhile, the country's existing trade and current account deficit continues to weigh on the currency. Equity inflows are also unlikely to pick-up given that the narrative of a trade sheltered Philippines would not appeal in environment where there has been more clarity regarding the trade situation. Near term, we expect the USDPHP to be ranged given the lack of strong directionality for the USD. Downside risks for our PHP forecast include a pick-up in dollar strength, higher oil prices and political uncertainty. Upside risks would be if the Fed cuts faster than our expectation of 50bps this year, which can guide the USD lower than our forecast and give bonds support.

BSP cut by another 25bps at the recent meeting, which was in line with expectations. Interestingly, whilst the central bank still noted concerns about the economy (impact of US policies on the global economy), they did somewhat sound less dovish and actually implied they were at the end of their easing cycle. Governor Remolona has not ruled out one more cut if there are signs of weakness in the economy but also said that further easing may not actually be needed if economic numbers stayed the same. In his own words, he said that they have reached a "sweet spot for inflation as well as for output growth" and that if the BSP is to keep rates on hold "the timeframe" they are looking at is "one year". The central bank sees its inflation forecast for 2025 at 1.7% (upward revision from 1.6% previously) whilst it would be at 3.3% (lower from 3.4%) and 3.4% (higher from 3.3%) in 2026 and 2027 respectively. Going forward, our economist is expecting another 25bps cut this year from the BSP. Given the situation, we take note that support from the central bank cuts on the country's bonds is likely to be more limited. Meanwhile, Remolona has said they are not targeting any level of USDPHP although we stay wary of any threshold at around the 59.00 – 60.00 level.

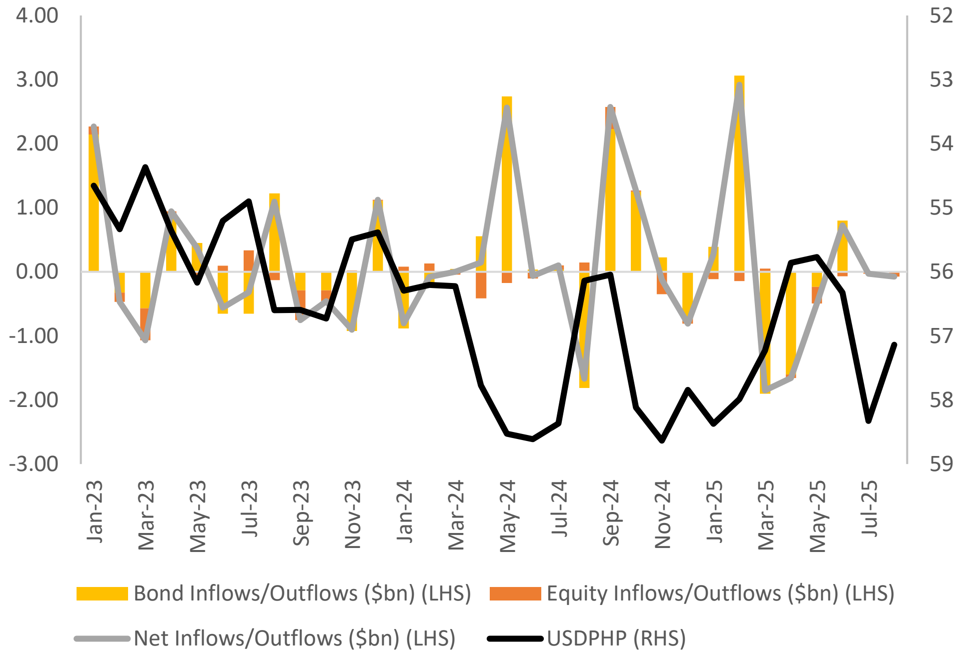
We are not anticipating strong portfolio inflows into the country either. Equity outflows continued in Aug with mtd as of 29 Aug 2025 at -$0.1bn and the ytd number at -$0.7bn. Although PSEi valuations are low with the forward PE at around 9.0 (compared to around 13.0 for JCI and SET and 14.50 for KLCI), we are not of any conviction that investors would be attracted to invest. The PSEi valuations has actually been lower than its regional peers for years but lower liquidity and concerns about currency weakness has held back interest. A softer dollar may somewhat ease concerns on the latter but not enough as per our elaboration on the PHP outlook. Meanwhile, the country's shelter from trade conflicts is also less of an appeal now given there has been more trade certainty. Therefore, we are not expecting inflows into the country's equity markets to necessarily pick up much going forward. On the bonds side, there was mtd inflows of $0.8bn as if 30 Jun 2025 but the ytd remained low at $0.5bn. We do not expect bond inflows to pick up much going forward given that the BSP is hinting to being near the end of its easing cycle. However, we do take note of the potential of the country's bonds being included in the JPM GBI-EM Global Diversified Index in Sep can back inflows but we see that as more of an upside risk at this point rather than a clear certainty.

OFWR growth in the month of Jun was higher than consensus at 3.7% YoY (est. 2.8% YoY, May. 2.9% YoY) as the number was at the highest to date. There were some significant pick-ups from major source countries including Singapore and Middle East although others such as the US, Japan and South Korea all saw some pick-up as well. Broad dollar weakness and a stronger PHP did still impacted OFWR flows but to a lesser extent. Our economist continues to see that OFWR growth can still be strong in 2025 at 2.9% YoY to $35.5bn as global services PMI has remained strong (Jul at 52.4), which has offset contraction in mfg PMI (Jul. 49.7). With the resilient global economy, OFWR should continue to provide support to the PHP.

Risks Ahead: Downside risks for our PHP forecast include a pick-up in dollar strength, higher oil prices and political uncertainty. Upside risks if the Fed cuts faster than our expectation of 50bps this year, which can guide the USD lower than our forecast and give bonds support.

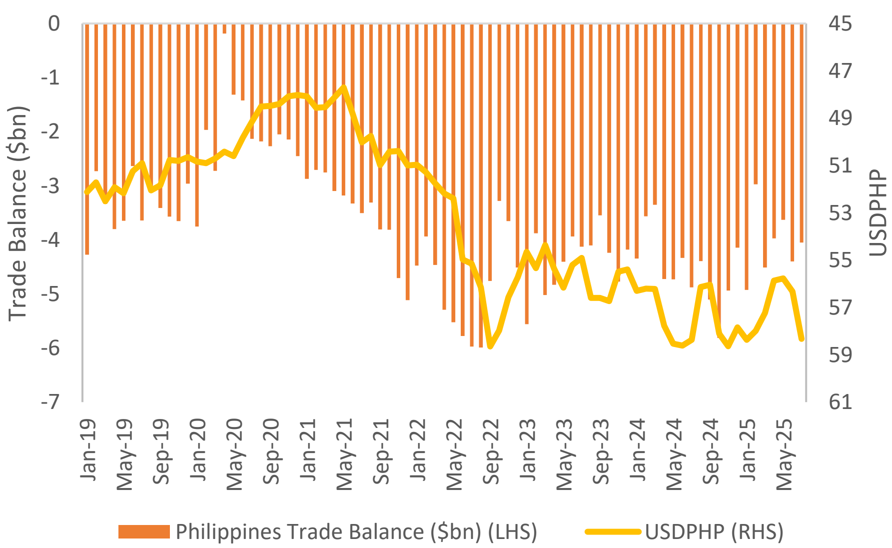
Key Data/Events: Aug S&P Global PMI mfg (1 Sep), Aug bank lending (5 Sep), Aug CPI (5 Sep), sJul unemployment rate (10 Sep), Jul OFWR (15 Sep), Aug BoP overall (19 Sep), Aug budget balance (24 Sep), Aug trade data (30 Sep), Aug bank lending (30 Sep) and Aug M3 money supply (30 Sep).

Expect Softer Portfolio Flows in the Coming Months



Source: Bloomberg, Maybank FX Research & Strategy
Note: Equity inflows data and USDPHP for Aug 2025 is as of 29 Aug 2025 whilst there is no available bond data for Jul and Aug yet

Trade Deficit Has Not Sustainably Narrowed as Climbing Imports Offset Rise in Exports



Source: Bloomberg, Maybank FX Research & Strategy

THB: Steady Appreciation Amid Sum of Net Inflows

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

No Change to Previous Forecasts

Motivation: We keep to our USDTHB forecast expecting that the pair should remain on a gradual downward trajectory. Factors on net look to remain supportive for the THB whilst there are limited circumstances at this point that would guide significant outflows. Such supportive factors for the currency include 1) softer dollar, 2) elevated gold prices, 3) CNH strength, 4) potential for equity flows and 5) current account surplus. Our expectations for a dollar softness story has not changed as we see the greenback should continue to move lower at a steady pace amid the possibility of Fed rate cuts this year. The greenback decline should continue to support appetite for EM assets including those of Thailand. Meanwhile, gold prices and the CNH both historically have a positive correlation with the THB given Thailand's position as a gold trading hub and the close trade linked with China. Gold prices should remain elevated given demand for it as a resilient safe haven whilst our house view is for further CNH strengthening. There is also potential for equity inflows given the low valuation of the SET whilst the country should likely maintain a current account surplus for the rest of this year. BOT easing is likely to continue with another 25bps this year towards the 1.25% mark but take note that 10y Thai GB yields have already fallen by 97bps ytd as of 1 Sep (vs 75bps of cuts so far), making further climbs more limited. Bond inflows should therefore be more measured. On the flipside, we stay cognizant of risks related to the political situation such as Paetongtarn Shinawatra's removal as PM by the constitutional court which is not much of a surprise. As it is, the situation remains fluid and there is no clarity just yet that the current government cannot stay in power. Other risks to our forecast include any significant rebound to the USD.

The BOT cut by 25bps at the last meeting to 1.50%, which was in line with our forecast and we expect another further 25bps of cuts this year. The central bank continued to sound rather dovish as they continued to note the softness in the economy as they project headline inflation to stay subdued and that credit growth has been negative. They see that growth should slowdown in 2H 2025 amid US trade policies and decline in short-haul tourist arrivals whilst also mentioning that 1H 2025 growth had been strong due to front loading in exports. Crucially, the central bank did say that there is scope for further easing and that the monetary should remain accommodative going forward. Such comments together with an incoming dovish Governor – Vitai Ratanakorn backs the possibility for further cuts in the books. On other items, it was interesting that the BOT actually mentioned in the statement that it "deems it necessary to monitor credit growth and movements of the baht, which could have implications for economic activity". At this point, the words look at most to represent some jawboning on their part and reflect their concern possibly about the THB strength and the economy (not to mention the disconnect all this while between the two). Nonetheless, the BOT's words are not necessarily out of line with our forecast for only gradual further THB appreciation.

Paetongtarn Shinawatra has been removed from her position as PM by the constitutional court although there is no clarity that the current government cannot remain in power. Local media The Nation has reported that Bhumjaithai and its leader Anutin Charnvirakul has the support of 279 MPs out of 492 in the house for the latter to become PM. This includes support from People's Party and various other MPs including those from the existing governing coalition. This comes up on top of the 69 that Bhumjaithai holds. However, there is no confirmation that People's Party even backs Anutin as the PM and the party has said it has not made any agreements with any group. Anutin though has reportedly pledged that he will lead an "interim government" that will dissolve the parliament in four months and hold a referendum on amending the constitution. The governing coalition's PM candidate is likely to be Chaikasem Nitisiri – former attorney general and justice minister who is from Pheu Thai. Take note, developments so far just look like political jockeying and does not represent fait accompli de-seating just yet of the Pheu Thai led coalition. Nonetheless, the ongoing instability does raise the risk for elections before the current term is completed. Even if there is an early election, we still think it is likely there would be either a Pheu Thai or Bhumjaithai led government. Either type of government would still look to support the economy, making the situation little different from what it is currently. Given this, we see the impact on the currency from this political noise to be interim and short-lived.

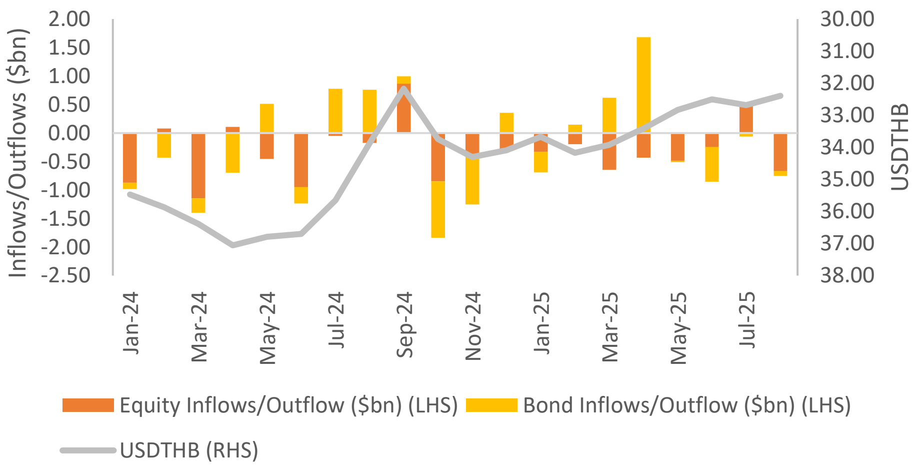
Gold's corelation with the THB looks to hold, which would provide much support for the currency going forward. The country has been a regional gold trading hub and gold prices have remained elevated throughout this year. The precious metal looks to be in strong demand given its resiliency as a safe haven over the last few years. Our house view is for gold prices to hit 3550 by end 2025 although there are significant upside to be higher than that.

Thailand saw mtd as of 29 Aug equity outflows of -$0.67bn whilst bonds as 4 Aug on net saw little change in terms of flows at -$0.08bn. Bond flows are likely to remain more tepid given the already strong rally in Thai GBs with the 10Y yield having fallen by 97 bps ytd as of 1 Sep. This compares to cumulative rate cuts of 75bps so far this year with our expectation of only another 25bps cut for 2025. We do not think that there would be any significant outflows given the soft economy and ongoing dollar softness. On the equities side, the monthly data implies the lack of pick-up of foreign inflows yet as foreign appetite has been weak with the ytd number showing substantial outflows of -US$2.5bn. However, we are inclined to believe that this can turn around. Whilst the political situation is of concern, the SET is undervalued. Low BOT rates together with global equity exuberance should also help lift foreign interest towards the local bourse. Nonetheless, we see inflows to be measured in nature as sentiment gradually only improves.

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 worsening domestic political situation and a sustain USD rebound can weigh on the THB.

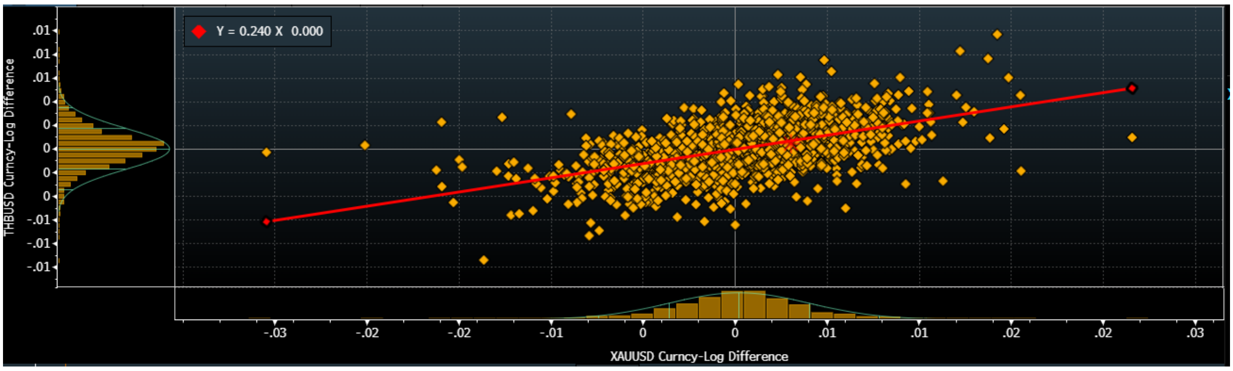
Key Data/Events: Aug S&P Global PMI mfg (1 Sep), Aug business sentiment index (1 Sep), Aug CPI (4 Sep), Aug consumer confidence (8 – 15 Sep), Aug car sales (18 – 24 Sep), Aug customs trade data (18 – 26 Sep), Aug ISIC capacity utilization and mfg index (26 – 30 Sep), Aug trade data (30 Sep) and Aug BoP overall/CA balance (30 Sep).

Bond Flows to be Measured But Equity Inflows Can See Some Pick-Up



Source: Bloomberg, Maybank FX Research & Strategy
Note: Equity inflows and USDTHB data is as of 29 Aug whilst bond data is as of 4 Aug

Somewhat Positive Relationship Between Daily THB and Gold Price Movements



Source: Bloomberg, Maybank FX Research & Strategy

VND: To Remain Soft

	3Q 2025	4Q 2025	1Q 2026	2Q 2026
USD/VND	26450 (26200)	26600 (26000)	26700 (25900)	26800 (25800)

Previous Forecasts in Parentheses

Motivation: We revised our USDVND forecasts higher, anticipating USDVND to remain rather elevated at around current levels for the rest of the month. Vietnam has successfully clinched a deal with the US, taking its reciprocal tariff rate from 46% to 20%. Any transhipped goods would face a tariff of 40% according to the latest proclamation from the White House. An internal government assessment projected a fall of up to $37bn in export revenue from this tariff and major industries such as electronics, machinery, garments, footwear and furniture would be taking a hit. This figure assumes that the local firms would bear the full cost of the tariffs according to an unknown source cited by Bloomberg and the person went on to elaborate that importers may need to take on some of the burden.

Focus on inflation and dong. Deputy Governor Pham Thanh noted that uncertainties from higher US tariffs are risks to inflation and growth and may even exert pressure on monetary policy and the dong. Central bank will continue to manage the dong in flexible manner and use monetary policy tools to keep the FX market stable. Head of monetary policy at SBV noted that the central bank will “take multiple measures” to manage inflation and lift growth towards the GDP target.

To be clear, spot USDVND has only risen 0.32% (Bloomberg quote), which is considerably small compared with the rise seen in most other USDAsians. Even USDCNY rose +0.5%. However, the reference rate was raised considerably more at 0.79% between 1-31 Jul. This underscores SBV’s intent to keep the VND on a weakening bias against the USD. Even as the USD weakens on a quarterly basis, we suspect the VND gains will be limited. The inflows seen at the start of Jul has waned with equity related outflow of around $113.6mn estimated in the last week of Jul (28-31 Jul), resulting in a net inflow of $297.6mn for the month. Regardless, this hardly correlates with the VND.

Our Vietnam economist upgraded the Vietnam 2025 forecast to 7.3% on brighter outlook, expecting the slowdown in the economy to be moderate. Growth in 2H of the year would probably moderate only to 7% vs. 7.5% in the first half. The forecast takes into consideration the moderation in export and manufacturing growth in light of higher US tariffs and payback from frontloading sales. Notwithstanding some impact from tariff rates, strong FDI is expected to support exports by boosting production capacity and its relatively lower rate compared to China continues to position it as a China+1 destination. The strong FDI will keep the USDVND from rising too much. We revised the USDVND higher but trajectory remains a moderate decline.

Inflation has been on an uptrend with headline CPI at 3.6% in Jun vs. 3.2% in May. Core inflation also pick pace to 3.5% from 3.3%. The SBV target is 4-4.5%. This was driven by housing and construction materials, household electricity prices. Our economist looks for subdued import inflation (due to soft oil prices, deflationary pressures in China).

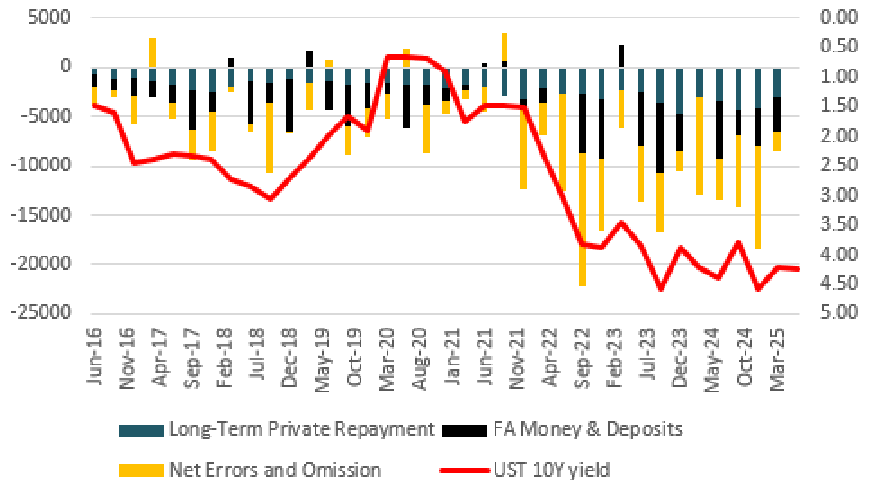
Gold Reform Update: The SBV had submitted a draft decree on the management of gold business activities. License applicants for gold production need to meet certain conditions such as a trading license, minimum charter capital, having no record of administrative violations in gold trading and an internal process for gold bullion production. Feedbacks from banks include a proposal to establish an independent centre for gold quality inspection. Businesses urged SBV to create a legal framework to expand financial instruments and scope of gold trading. Ministry of Public Security proposed to limit the spread between the gold buying and selling prices. Thus far, the domestic-international gold premium widened to around 17%. Higher gold prices tend to undermine the demand for VND. However, there seem to be a negative feedback with elevated gold prices reducing the consumption of gold in 2Q.

The USDVND does take cue from the broader USD and we continue to see the USDVND making a gradual fall in line with our view that the greenback is in for another leg of decline. The gold reform could also aid in supporting the local currency as well. On the other hand, support from its trade surplus could moderate in the 2H along with the export slowdown. USDVND could be allowed to rise in order for Vietnam to cope with the new tariff rates.

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 stronger than expected inflation momentum could be negative for the VND.

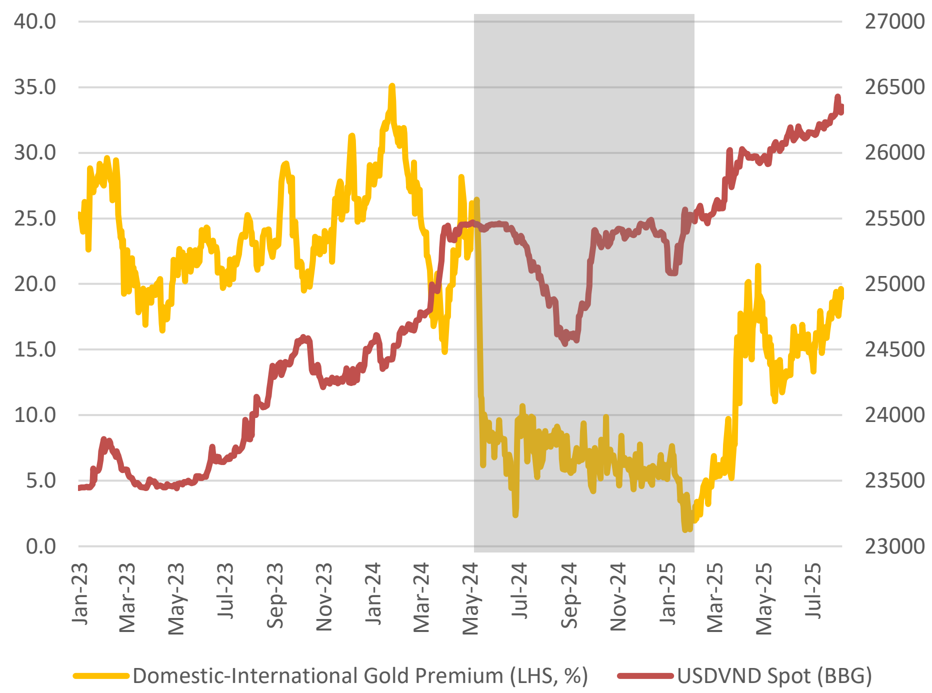
Key Data/Events: Jul PMI [1 Aug]; Jul trade, IP, CPI and retail sales [6 Aug].

US Rates Can Play a Part in Driving Vietnam's External Balance



Source: Bloomberg, State Bank of Vietnam, Maybank FX Research & Strategy

Domestic-International Gold Premium Can Affect the VND



Source: Bloomberg, State Bank of Vietnam, Maybank FX Research & Strategy

INR: Punished for Not Wanting to Cross "Red Lines"

USD/INR	3Q 2025	4Q 2025	1Q 2026	2Q 2026
	88.00 (86.00)	87.75 (85.50)	87.50 (85.00)	87.25 (84.75)

Previous Forecasts in Parentheses

Motivation: We revise our USDINR forecasts higher as the INR continues to lag its peers with the US levying a 50% tariff, the highest rate alongside Brazil. India has elected not to cross what it views as "red lines" of stopping trading with Russia. We expect some upward pressures on USDINR in the near-term, however we maintain the gradual downward trajectory in the USDINR on the longer-term view for a fading USD. Expectations were possibly built up too high with earlier trade talks with the US being broadcast as positive and with potential zero tariffs on certain goods. As we suggested, such optimism has since faded. 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 gentle appreciation of the INR in our forecasts.

1M USDINR NDF traded within a higher 87.06 to 88.45 range in Aug against the 85.31 to 87.66 range in Jul. The INR continued to lag Asian peers as trade negotiations with the US started to breakdown. As a member of BRICS and a purchaser of Russian energy, India was also hit with penalties for the latter. This shows that India's bargaining power in the space is not as strong as that of China (also BRICS and purchaser of Russian energy), which may have some trump cards e.g. rare earths. India is likely to consider its national interests first and as such will not cross "red lines" of stopping trade with Russia. As such, there could be some short-term INR weakness arising from the trade disagreements with the US.

In 2025 we see no further cuts from the RBI and for the policy rate to end the year at 5.50%. RBI stood pat on 6 Aug 2025 in a unanimous decision, citing a steady economy while recognizing the risks of tariffs. Our expectations are largely in line with market pricing (5.43%) and more hawkish than consensus forecasts (5.29%). Should the RBI decide to ease further, there could be likely further pressures on the INR, which could be tricky for the RBI to deal with at this juncture when there is uncertainty from tariffs as well.

Inflation is expected to ease into 2025 with consensus forecasts suggesting 4.8% YoY. There is an anticipated easing of food costs, which should reduce volatility in consumer prices. **Growth is expected to remain reasonably strong at 6.4% 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.

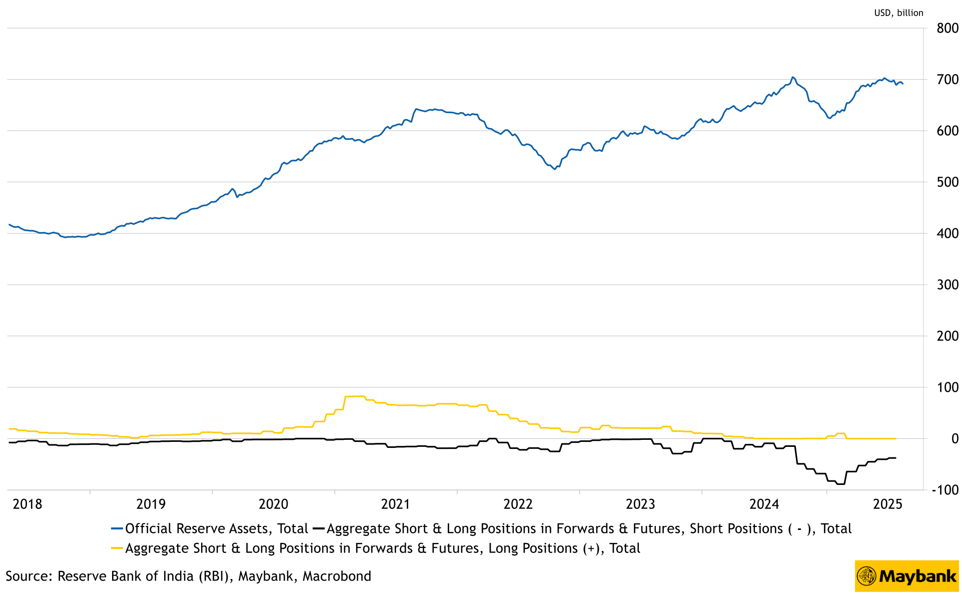
India faces a tricky balancing act in maintaining relations with the US and its BRICS and regional partners. India's refusal to alienate Russia and warming relations with China could be frowned upon by the US, especially in the absence of a trade deal. Nevertheless, we expect that India will focus on its own national interests, even if that could be at odds with what the US wants. Earlier, 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 Singaporean 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.**

The INR has sold off by about 1.6% from the strongest point in Aug amid a selloff in equities and bonds. Indian equities saw about US$4b in outflows in Aug, which pales in comparison to the volumes dealt in USDINR spot (about US$30b daily). Indian bond should continue to see structural inflows after their inclusion in global bond indices, but saw their sharpest selloff in 3 years as the RBI declined to cut rates and the 10Y rose by some 19bps in Aug. Fiscal concerns after Modi's mid-month GST reform could also weigh on the sovereign debt. India plans to slash GST to 5% and 18% from 12% and 28% currently in place.

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.

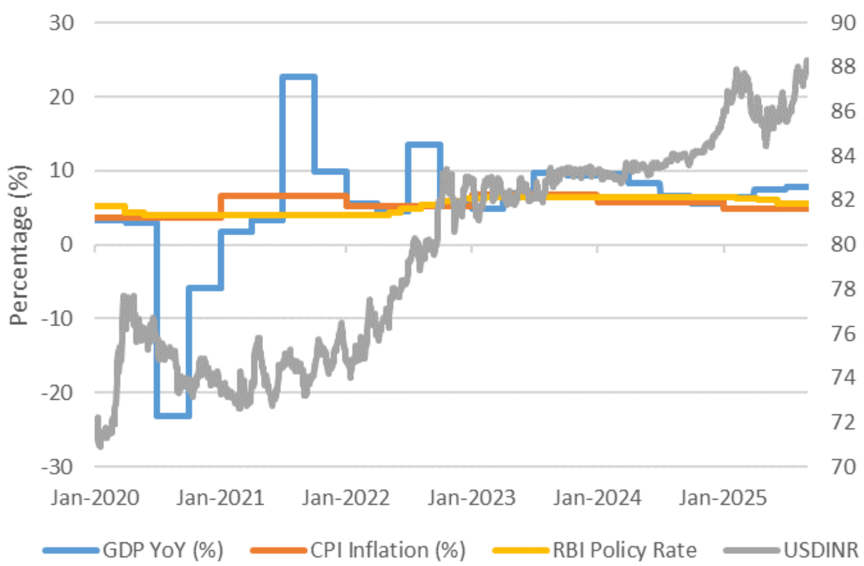
Key Data/Events: Aug Mfg PMI, 2Q CA Balance (1 Sep), Aug F Svcs/Comp PMIs (3 Sep), Aug CPI (12 Sep), Aug Unemployment rate, Aug Exports/Imports/Trade Balance (15 Sep), Aug Eight Infrastructure Industries (22 Sep), Sep Mfg/Svcs/Comp PMIs (23 Sep), Aug Industrial Production (26 Sep), Aug Fiscal Deficit, Aug Bank Credit (30 Sep)

Reserves Growth Tapers



Source: Macrobond, Maybank FX Research & Strategy

USDINR Continues to Move Higher



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

Gold: Breaking Out Higher, 3500 Eyed

	3Q 2025	4Q 2025	1Q 2026	2Q 2026
XAU/USD	3500 (3400)	3550 (3450)	3600 (3500)	3650 (3550)

Previous Forecasts in Parentheses

Motivation: The start of Aug was slightly more volatile for gold, rocked by speculation that Trump would impose tariff on US bullion imports. That speculation was put to rest after Trump clarified that tariffs on gold will not be imposed. Nonetheless, we are still looking at break-out of a pennant formation that is significantly bullish for the bullion, even as most trade conflicts with the US have come to some form of resolution. Other bullish drivers for gold include 1) outlook for real UST yields remaining bearish; 2) lingering risks of geopolitical conflicts could still occur that could spur safe haven demand such as the recent calls for secondary sanctions on Russia; 3) inflation expectations in the US are still elevated due to tariffs; 4) Trump's increasingly blatant and aggressive effort at exerting influence over the Federal Reserve and in the process, undermining its independence which could continue to drive demand for the safe haven. In an environment of rate cuts, lingering growth concerns and inflation fears, gold is likely to remain supported. A break above the 3500 would further confirm a bullish extension in the making.

Gold may continue to play a role as an inflation hedge (at least in the US). Jul inflation data suggests that goods inflation are showing signs of pass through from tariffs. In addition, the Beige Book also noted price pressures from tariff-related input costs and insurance, some of which are already passed on to consumers. Inflation is still a concern. However, in other **parts of the world such as China, deflationary pressure has taken hold** and might have reduced demand for the bullion. Investors in China seem to be pivoting from gold-backed ETF into local equities according to Bloomberg which estimated a net outflows of about CNY3.2bn in Jul. Inflation divergence could ensure offsetting demand shifts that keep the gold in range in the near-term but that has shifted recently.

Fatigue in Ukraine War Could Result in West Vs. Asian Giants. Gold could continue to be driven higher should calls for secondary sanctions on countries supporting Russia's war efforts in Ukraine by Germany and France come to fruition. That could mean that buyers of cheap Russian crude oil such as China and India could be targeted - the war in Ukraine and Trump's change in his stance towards India could potentially pit the Western major economies against the Asian giants. Over the recent weekend (31 Aug), China Xi and India Modi met for the first time since the start of Trump's second term. Modi announced the resumption of direct flights between the two countries while Xi said border issues should not define their relationship and the "right choice" is to be friends, "partners who enable each other's success and to have the dragon and the elephant dance together". The two major countries in BRICS seem to have banded together as the West grow impatient by the war in Ukraine. Gold may thus have room to rise.

We are watchful of the White House Fed debacle. Central bank independence is critical to ensure price stability that would sustainably support economic growth. Fed Governor Cook vowed to resist Trump's attempt at removing her from her position and a suit was filed against the president. The Fed said it will abide by the court's decision, highlighting that governors may only be removed "for cause". Perhaps, also adding to some pressure on the USD (as well as lifting safe haven gold) is Trump's mention (on a televised cabinet meeting) that he would soon "have a majority very shortly". He was referring to a majority of his nominees on the Federal Reserve Board of Governors that would work to cut policy rates - a blatant disregard for Fed's independence.

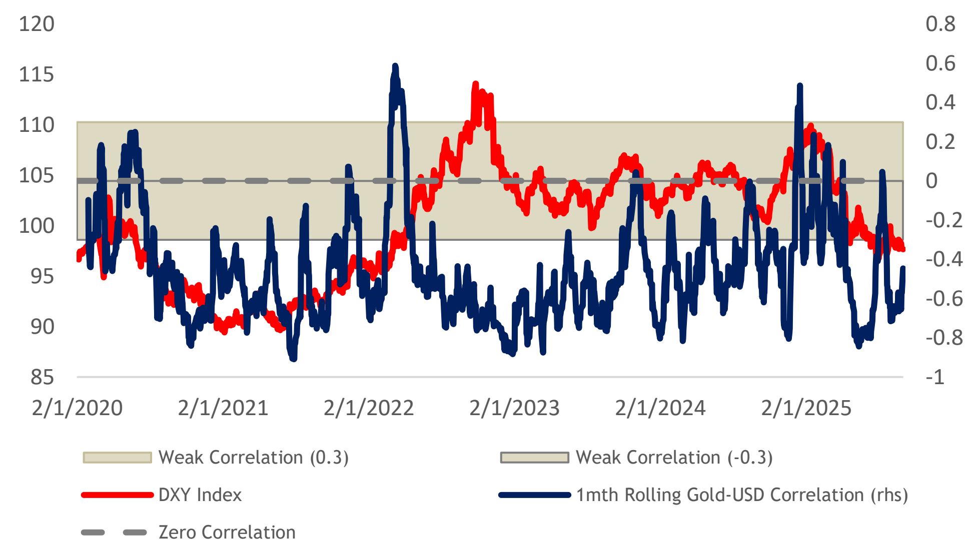
Downside Risks to Real Yields Still Suggest Higher Gold. The US growth has moderated and uncertainties remain elevated. After taking the Fed Funds Target rate 100bps lower from its peak of 5.25-5.50% last year, the Fed has been on an extended pause and markets are pricing in less than two cuts this year. The balance of risks to real yields is still to the downside in the medium term. Powell had even hinted a cut in Sep in his speech at the Jackson Hole Economic symposium. We look for gold to continue to remain supported for the rest of 2H 2025.

Supply Conditions: According to WGC, annual mine production was estimated to be at a record high of around 3661.2 tonnes in 2024. Elevated gold prices lifted gold recycling activity higher to 1370 tonnes last year. We look for hold mine production to remain stable as it has been in the past decade as the process from mine discovery to production typically take years. As such, the discovery of new gold deposits in Hunan mayStrong demand conditions, elevated gold prices could continue to fuel recycling activity, much of which seem to be from East Asia.

Technical Analysis: Gold was last seen around 3410, rising on the back of lower USD. The White-House-Fed debacle continues to support safe havens to some extent. Gold has broken out of the bullish pennant formation - a continuation pattern typically that could take the bullion well above the 4000 towards a target of 5000. A A break above the 3500 would further confirm a bullish extension in the making.

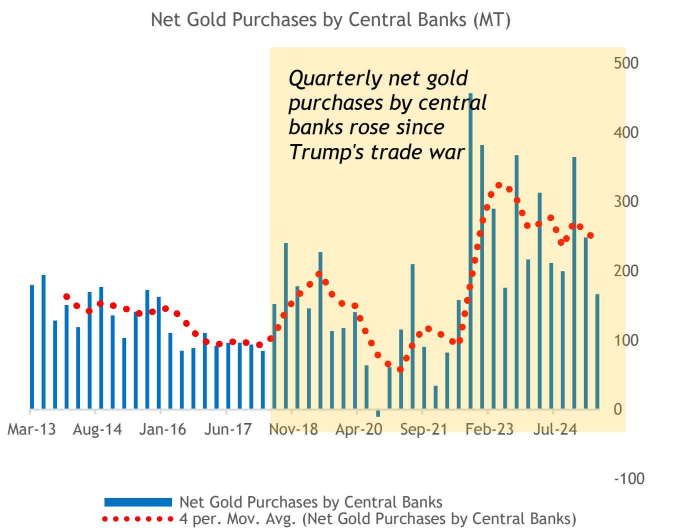
Technical Analysis Chart: XAU/USD – Daily – Gold has broken Out Higher

The USD-Gold Inverse Correlation Has Strengthened



Source: Bloomberg, Maybank FX Research & Strategy

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



Source: World Gold Council, Maybank FX Research & Strategy

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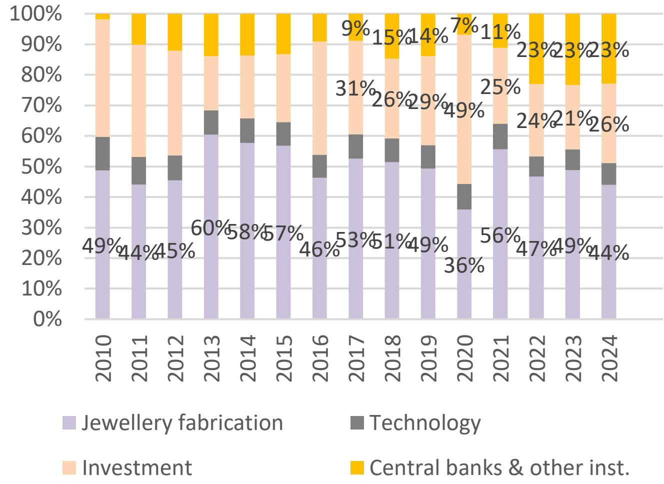

Source: World Gold Council, Maybank FX Research & Strategy

FX Forecast Table

	End Q3-25	End Q4-25	End Q1-26	End Q2-26
USD/JPY	142.00	140.00	138.00	135.00
EUR/USD	1.1400	1.1500	1.1600	1.1700
GBP/USD	1.3400	1.3500	1.3600	1.3700
AUD/USD	0.6500	0.6600	0.6700	0.6700
NZD/USD	0.6000	0.6100	0.6100	0.6200
USD/CAD	1.3700	1.3500	1.3400	1.3400
USD/CHF	0.8050	0.8025	0.8000	0.8000
USD/SGD	1.2800	1.2650	1.2600	1.2550
USD/MYR	4.2000	4.1000	4.0500	4.0000
USD/IDR	16250	16150	16000	16000
USD/THB	32.00	31.50	31.00	31.00
USD/PHP	56.50	56.00	55.50	55.50
USD/CNY	7.13	7.11	7.08	7.06
USD/CNH	7.13	7.11	7.08	7.06
USD/HKD	7.83	7.81	7.78	7.75
USD/TWD	31.60	31.50	31.30	31.00
USD/KRW	1390	1370	1360	1350
USD/INR	88.00	87.75	87.50	87.25
USD/VND	26450	26600	26700	26800
DXY Index	99.04	98.01	97.06	96.10
Gold ($/oz)	3500	3550	3600	3650
	End Q3-25	End Q4-25	End Q1-26	End Q2-26
SGD/MYR	3.28	3.24	3.21	3.19
JPY/SGD	0.90	0.90	0.91	0.93
EUR/SGD	1.46	1.45	1.46	1.47
GBP/SGD	1.72	1.71	1.71	1.72
AUD/SGD	0.83	0.83	0.84	0.84
NZD/SGD	0.77	0.77	0.77	0.78
CAD/SGD	0.93	0.94	0.94	0.94
CHF/SGD	1.59	1.58	1.58	1.57
SGD/IDR	12695	12767	12698	12749
SGD/THB	25.00	24.90	24.60	24.70
SGD/PHP	44.14	44.27	44.05	44.22
SGD/CNY	5.57	5.62	5.62	5.63
SGD/HKD	6.12	6.17	6.17	6.18
SGD/TWD	24.69	24.90	24.84	24.70
SGD/KRW	1086	1083	1079	1076
SGD/INR	68.75	69.37	69.44	69.52
SGD/VND	20664	21028	21190	21355
	End Q3-25	End Q4-25	End Q1-26	End Q2-26
JPY/MYR	2.96	2.93	2.93	2.96
EUR/MYR	4.79	4.72	4.70	4.68
GBP/MYR	5.63	5.54	5.51	5.48
AUD/MYR	2.73	2.71	2.71	2.68
NZD/MYR	2.52	2.50	2.47	2.48
CAD/MYR	3.07	3.04	3.02	2.99
CHF/MYR	5.22	5.11	5.06	5.00
MYR/IDR	3869	3939	3951	4000
MYR/THB	7.62	7.68	7.65	7.75
MYR/PHP	13.45	13.66	13.70	13.88
MYR/CNY	1.70	1.73	1.75	1.77
MYR/HKD	1.86	1.90	1.92	1.94
MYR/TWD	7.52	7.68	7.73	7.75
MYR/KRW	331	334	336	338
MYR/INR	20.95	21.40	21.60	21.81
MYR/VND	6298	6488	6593	6700

*Source: Maybank FX Research as of 2 Sep 2025. *These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.*

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