2H 2025 FX and Rates Outlook

Global Markets Research & Strategy
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Summary of Rates Market Views:

- **FOMC outlook.** Our base-case remains for a total of 75bps of Fed funds rate cuts before year end. Continued cooling in the labour market will justify rates at less restrictive levels. Key risk to our base-case emanates from inflation pressure – with tariff/trade policies and geopolitics being the main swing factors. Should inflation quicken more than expected, room for additional rate cuts would be smaller.
- **Mild downward bias to UST yields.** Market pricings are slightly less dovish than our base-case; as rate cuts materialise, the lower level of rates will be factored more into short-end bond valuation. US fiscal position remains a concern for foreign investors but for domestic investors, USTs are local currency and safe-haven assets. A subdued growth outlook, a neutral supply outlook in the next 2 quarters, easing SLR and potential stop to QT, are likely to lend some support to USTs.
- **Asian LCY government bonds have shown some degree of decoupling from USTs.** Asian local currency (LCY) government bond outperformance has been due to domestic factors and likely diversion of flows away from USD assets. CGBs, KTBs, MGS and SGS are potential candidates to benefit from inflows.
- **IDR**. 15 of the 22 auctions in H125 were upsized, leaving funding position comfortable. IndoGBs are likely to stay supported by steady domestic demand and foreign flows from time to time. At current IndoGB-UST spreads, short-end bonds may look more attractive to foreign investors.
- **MYR**. Bond auctions have been well received thus far and domestic demand is expected to stay steady. MGS can also potentially benefit from inflows given its relatively high credit rating and presence in key bond indices. We expect KLIBORs to follow OPR lower, but with a mild re-widening in KLIBOR-OPR spread.
- **SGD**. SGD liquidity is flush, and SGD rates have moved on to lower ranges. Before higher supply of bills mop up some liquidity, short-end SGD rates may be capped at 1.8-2.0% level. But we do note front-end SGD rates have been volatile. SGS stand to benefit from safe-haven/diversion flows. Long-end SGS exhibit relative value on the steepness of the curve, while short-end bonds may further outperform swaps.
- **CNY/CNH**. Front-end CNY rates are likely to stay anchored, on expectation of additional monetary easing and continued liquidity support. Front-end CNH rates are likely to stay low on flows from onshore to HKD market.
- **HKD**. HKD-USD rates spreads are biased upward on prospect for HKD liquidity to turn less flush. If USD softness is to stay, then the amount of FX intervention that is required to keep spot away from 7.8500 may be smaller than the earlier injections, leaving front-end HKD rates below pre-May levels.
- **KRW**. We are constructive on KTBs on the favourable monetary policy backdrop, expected index-induced passive inflows, and potential safe-haven flows. Depending on AUM assumption, cumulative passive inflows are estimated at USD40-50bn. Asset-swap pick-up at KTBs appear decent vis-à-vis its credit rating.
- **Risks**. Tariff/trade policies and geopolitics are key swing factors to the disinflation progress and growth outlook, which in turn have implications on central bank policies and bond performances.

Summary of FX Market Views:

- **"Sell USD" Trade.** US policy unpredictability related to Trump tariffs, erosion of US exceptionalism and increasing concerns over US fiscal health are some factors that can continue to hurt sentiment and confidence in the USD. Over the forecast horizon, we continue to expect USD to trade weaker as USD diversification/ re-allocation trend takes centre-stage while Fed cut cycle comes into focus in 2H 2025.
- As confidence in USD continues to waver, exporters in the region and asset managers will continue to reduce their USD holdings and increase hedge ratio — basically reducing USD exposure. TWD's surprise rally in early May serves as a reminder to those hoarding USD to manage their exposure. We believe Asian currencies can continue to appreciate so long USD softness persists owing to US-centric risks and that global growth outside US still holds up. That said, we also need to caution that in the event global growth starts to show signs of slowdown or coming to a standstill, then the momentum in Asian FX may slow.
- **Amongst DM FX, we favour long EUR, GBP and JPY**.
    - EUR: EU/ German spending plans can boost growth; ECB nearing the end of easing cycle while portfolio flows and reserve diversification out of USD may favour alternative reserve currencies such as EUR.
    - GBP: UK-US trade deal takes away the element of tariff uncertainty for UK while GBP as a DM carry alternative and softer USD trend are some factors that should still be supportive of GBP. USD diversification/ re-allocation flows can also benefit GBP amongst other reserve FX.
    - JPY: "Sell USD" trade, room for BoJ to hike rates and Fed-BoJ policy divergence should continue to underpin JPY strength.
- **Amongst AxJ FX, we see room for KRW, TWD and MYR to outperform; neutral on SGD; while IDR and THB may lag peers**.
    - KRW: Election results paved the way for greater political stability while the government focuses on delivering fiscal stimulus to support growth. Improvement in risk appetite should see high beta KRW appreciate further.
    - TWD: Ongoing demand from exporters and financial institutions to hedge USD exposure should be supportive of TWD.
    - SGD: Nearing S$NEER upper-bound suggests limited room for SGD to appreciate on trade-weighted terms.
    - IDR, THB: Likely laggards, held back by softer domestic fundamentals and tentative domestic uncertainty (TH).
    - **Risks**: 1/ Geopolitics can affect oil prices, sentiment and derail "sell USD" momentum. 2/ Tariff uncertainty — if nations will agree to unilateral tariff rates set by Trump; if tariff truce deadline on 9th Jul is extended.

OCBC

Rates 2H 2025 Outlook

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FX and Rates Strategy

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- **Mild downward bias to UST yields:** Market pricings are slightly less dovish than our base-case; as rate cuts materialise, the lower level of rates will be factored more into short-end bond valuation. US fiscal position remains a concern for foreign investors but for domestic investors, USTs are local currency and safe-haven assets. A subdued growth outlook, a neutral supply outlook in the next 2 quarters, easing SLR and potential stop to QT, are likely to lend some support to USTs.
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OCBC

DM Rates

OCBC Bank

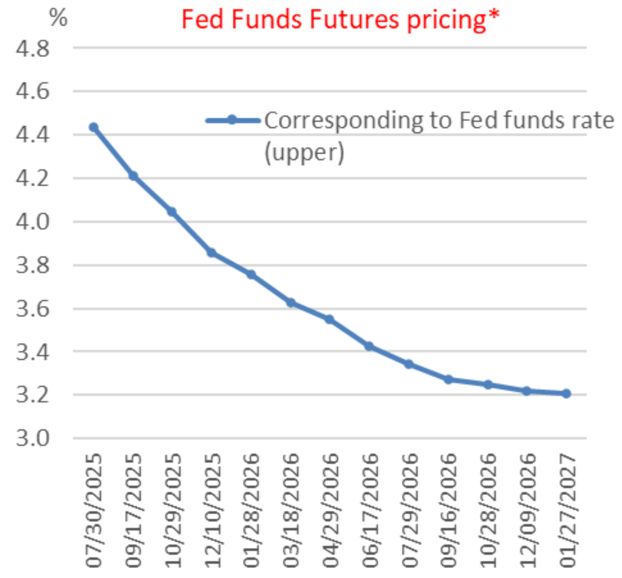
FOMC outlook – rate cuts still on the cards

- Our base-case remains for a total of 75bps of Fed funds rate cuts before year end, pencilling in one 25bp cut in Q325 and two 25bp cuts in Q425. This base-case represents a no-recession scenario. Triggers for rate cuts will likely need to come from the labour market/growth front. Continued cooling in the labour market will justify rates at less restrictive levels as long as there is no strong rebound in inflation. OCBC economists expect US 2025 GDP growth at 1.3% and 2025 CPI inflation at 2.4%.
- The 2025 median dot on the Fed's "dot-plot" (as per June Summary of Economic Projections) continues to point to two cuts (considering 25bp each) before end-2025. We do however note the distribution of individual dots is very dispersed, covering scenarios of no cut, one cut, two cuts and three cuts for this year, plainly reflecting a divided FOMC amid high uncertainty in the economic outlook.
- Key risk to our base-case emanates from inflation pressure – with tariff/trade policies and geopolitics being the main swing factors. Should inflation quicken more than expected, room for additional rate cuts would be smaller.

OCBC Interest Rates Forecasts*

	3Q25	4Q25	1Q26	2Q26
FFTR Upper	4.25	3.75	3.50	3.50
SOFR	4.09	3.59	3.34	3.34
3M SOFR OIS	4.15	3.70	3.50	3.50
2Y UST	3.70	3.60	3.60	3.60
10Y UST	4.20	4.10	4.05	4.05

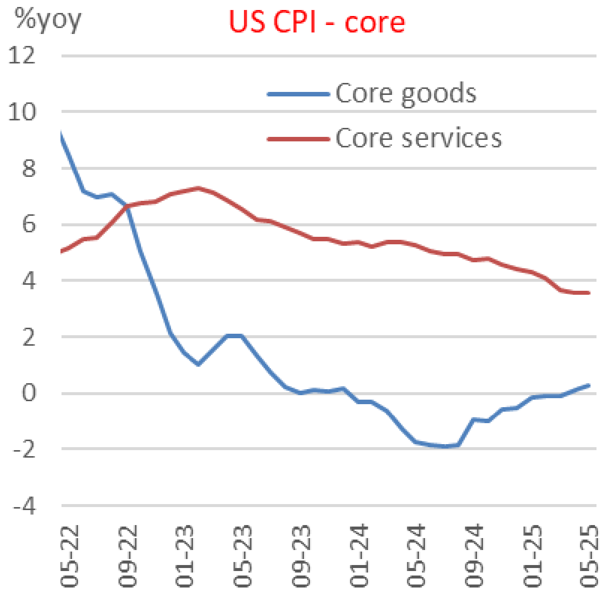
*for a full set of USD rates and UST yields forecasts, please refer to our monthly *OCBC Research Monitor.*

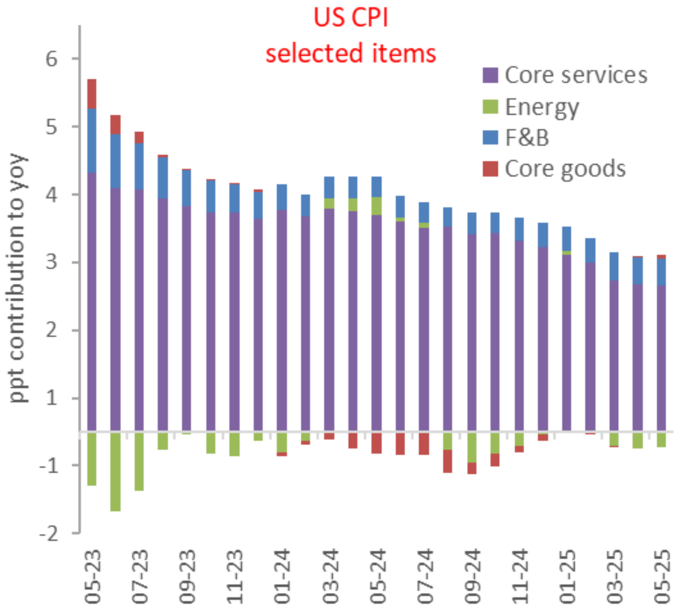


Source: Bloomberg, OCBC Research
*25 June pricing

US disinflation is still in progress but there are risk factors

- On a sequential basis, both headline and core CPI inflation eased in May to 0.1% MoM. On a year-on-year basis, core services inflation – which is the largest contributor to headline inflation – has been largely on an easing path since peaking in February 2023; notably, YoY increase in the index for rent of shelter has decelerated further. Core goods have emerged from deflation to very subdued inflation, which is not a major concern – it has been our view that we should not expect deflation in core goods prices to be extended. Overall, our assessment remains that the broader disinflation trend remains intact, amid a cooling labour market. Base effect however becomes less favourable in the months ahead.
- Trade policies and geopolitics are key swing factors to the disinflation progress. Inflation impact of tariff is not straightforward. While the first round impact is direct increases in the price tags, second round impact could involve consumers cutting back on discretionary spending thereby softening prices of these items.

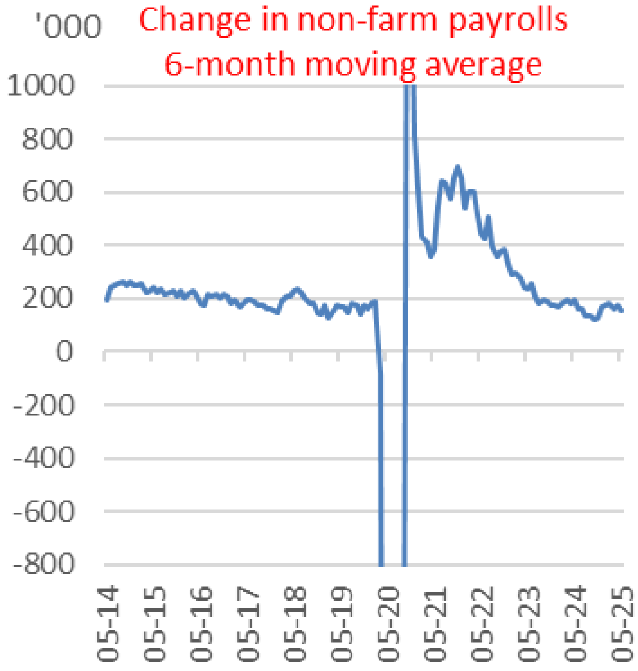


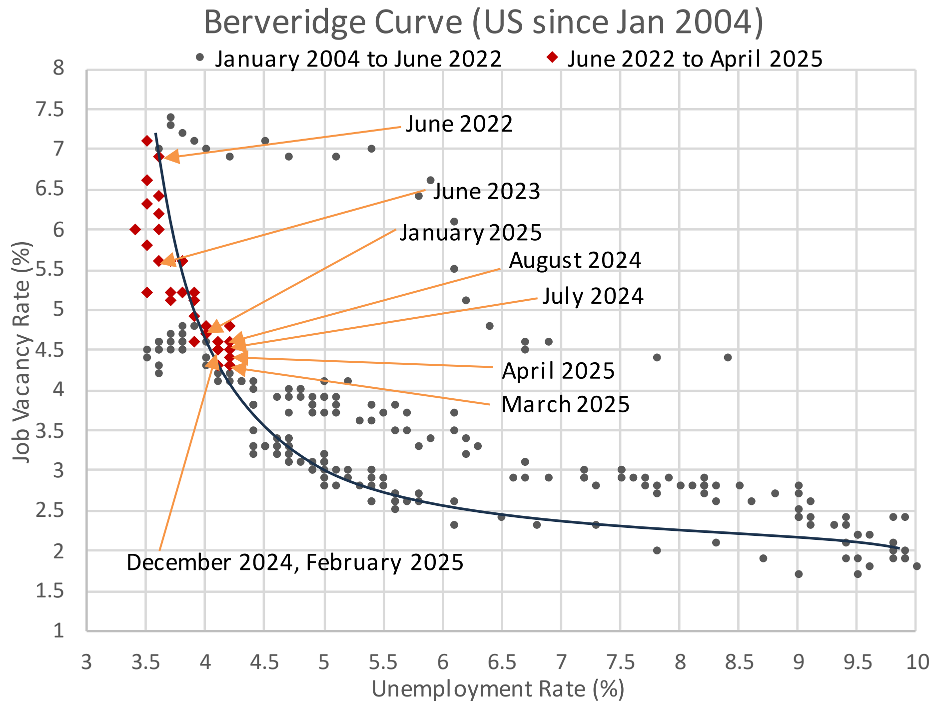


Source: Bloomberg, CEIC, OCBC Research

US labour market has continued to cool

- Six-month average of non-farm payrolls change was last at 157K (as of May), lower than most of the months in the years 2013-2019 before Covid-19. In comparison, Fed funds target rate ranged between 0.25% and 2.50% in those years. From this perspective, current policy rate is still restrictive or probably overly restrictive.
- The unemployment rate stayed at 4.2% in May 2025 for the third month, which was the highest level since October 2021. As illustrated by the Beveridge curve, we are probably near the point where further falls in job vacancies would translate into adjustments in actual employment itself. The ratio of job vacancies to unemployed person has edged lower over recent months and was last at 1.043 in April 2025. FOMC forecast the unemployment rate to rise to 4.5% in Q425.

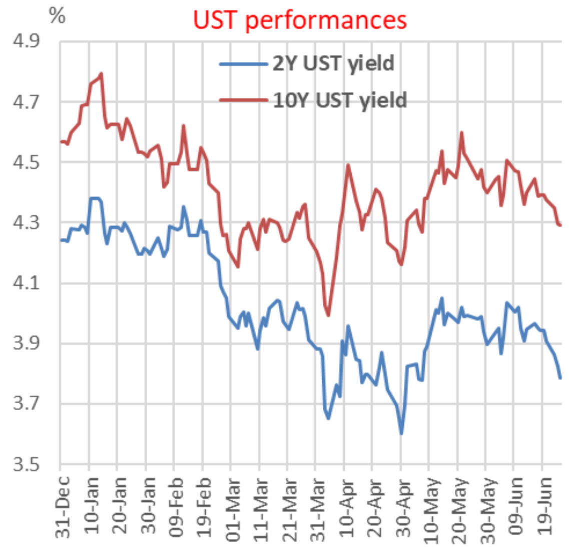


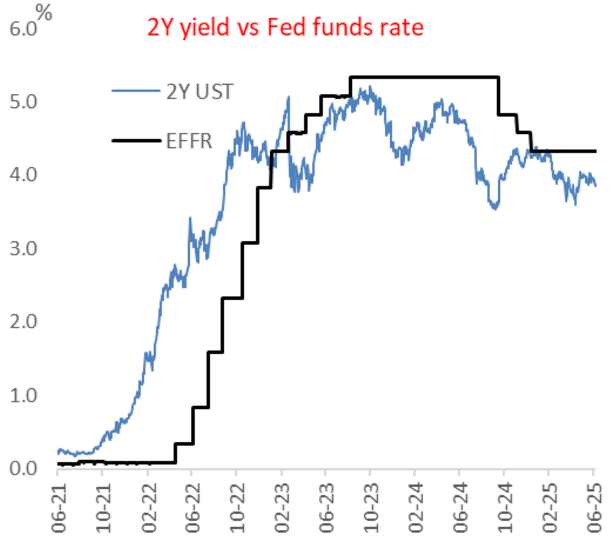


Source: Bloomberg, OCBC Research

UST performances

- UST yields are lower across the curve compared to levels at the start of the year, in line with our downward bias. Yields fell during Q1 and April as growth concerns intensified with tariffs/tariff threats and market added to Fed funds rate cuts expectations. Yields mostly rebounded from April lows thereafter, as growth concerns subsided somewhat on hope for trade talks and market pared back rate cuts expectations. More recently, yields eased again.
- Market last priced around 64bps of cuts this year. We had a mild downward bias to short-end UST yields as 1/ market pricings were slightly less dovish than our base-case; and 2/ as rate cuts materialise, the lower level of front-end rates will be factored more into the valuation of short-end bonds.
- Still, as market has recently added to rate cut expectation, the room for the 2Y yield to fall from here has become more limited. The 2Y yield is likely to settle at a level that is a tad above the policy rate when the easing cycle is seen as concluded. Given our current base-case for the Fed funds rate (upper) to be cut to 3.50%, we expect 2Y UST yield to settle at around 3.60% level.

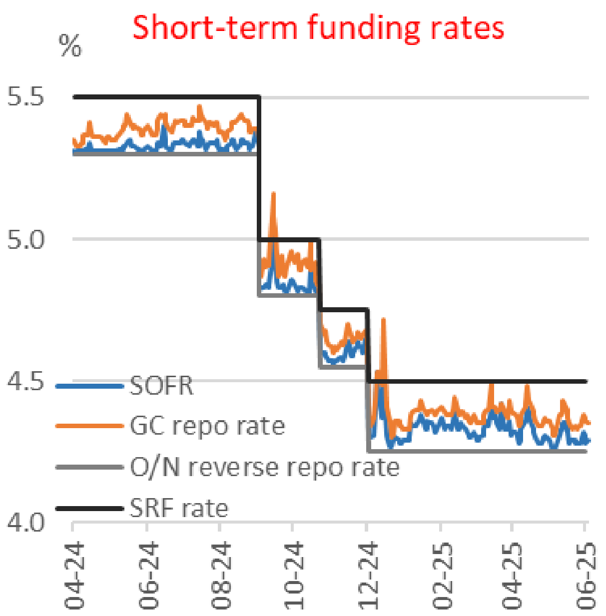


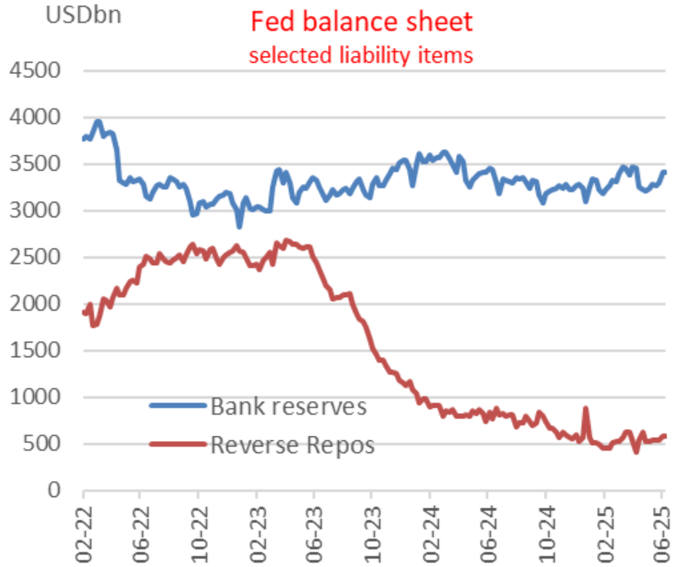


Source: Bloomberg, OCBC Research

Slower QT; USD liquidity

- The pace of QT has slowed since April 2025. The monthly redemption cap on Treasury securities have been reduced from USD25bn to USD5bn starting 1 April, while the cap on MBS has stayed the same at USD35bn. Although the decision at that time was understood to be in reaction to the debt ceiling issue, we suspect there may not be a re-acceleration in QT pace before a complete stop – by then MBS redemptions may be re-invested into Treasury securities (expected to be mostly bills).
- On the liability side of the Fed's balance sheet, bank reserves stood at USD3.4trn and reverse repos (all tenors) at USD577bn as of 18 June. These balances may allow QT to run through Q3 at least, given the slower QT pace. Nevertheless, given the much slower pace of Treasury securities redemption, the impact of QT on USTs is small.
- According to NY Fed's estimates of Reserve Demand Elasticity (RDE), the latest conclusion (May 2025 update) has remained that "the elasticity of the federal funds rate to reserve changes is very small and statistically indistinguishable from zero" and this "suggests that reserves remain abundant". Bank reserves are expected to fall upon further QT when the usage of reverse repos falls to and stays stable at a low level. As bank reserves move from abundant to ample, QT will likely come to an end. We have pushed our expected "end-day" of QT to Q425 as the balance sheet run-off pace has slowed materially.

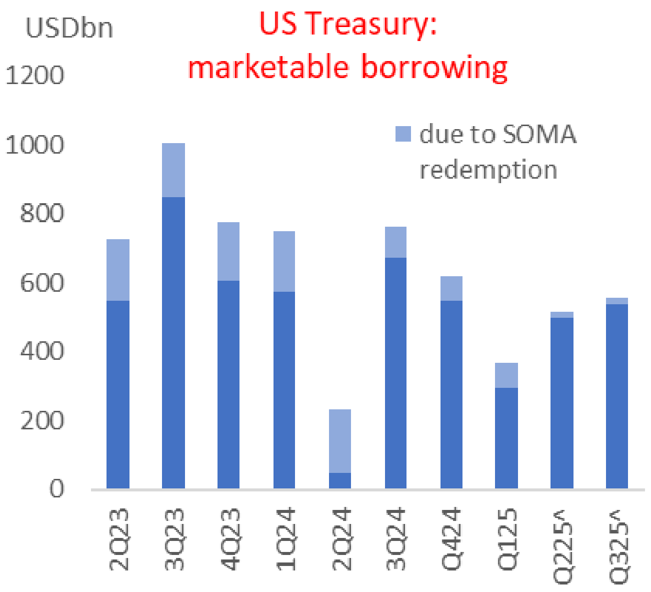


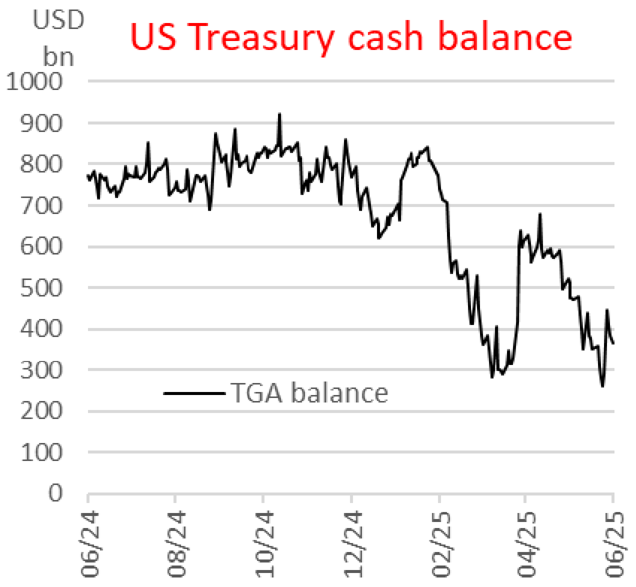


Source: Bloomberg, OCBC Research

US Treasury's refunding and debt ceiling

- The near-term coupon bond supply outlook is neutral. The impact of slower QT pace is already reflected in the US Treasury refunding plan as we have long flagged. For Q125 and Q225 together, latest borrowing estimates (April quarterly update) are USD55bn lower than previous estimates (January quarterly update), roughly equalling the USD60bn/quarter impact of the slower QT pace. This allows US Treasury to keep auction sizes unchanged for May-July 2025 period and likely for August-October 2025 period as well.
- There have been T-bills paydown as bill issuances are constrained by the debt ceiling. As and when the debt ceiling issue is resolved, we expect US Treasury to catch up with bills issuances to replenish cash position. TGA balance stood at USD358bn as of 24 June, versus end-June and end-September target of USD850bn.
- The bills yield curve appears to be pricing the "X-day" (the day US Treasury is expected used up its cash balance and extraordinary measures) sometime in August. The yield premium priced has recently widened which is not surprising as we get nearer the expected "X-day".
- Under the One Big Beautiful Bill Act, the plan is to raise the debt ceiling by USD4trn, which may be enough to cover around two years of fiscal deficits by simple extrapolation.
- Fiscal positions remain a medium-term concern. The Congressional Budget Office (CBO) estimated that the One Big Beautiful Bill Act will add USD2.8trn to fiscal deficits over the 2025-2034 period. The fiscal outlook may render investors reluctant to add to holdings of super-long end (20Y and beyond) bonds.



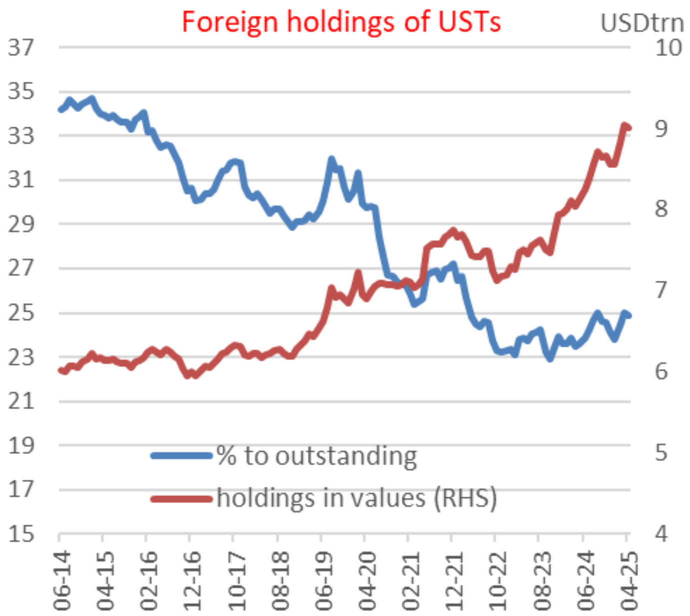


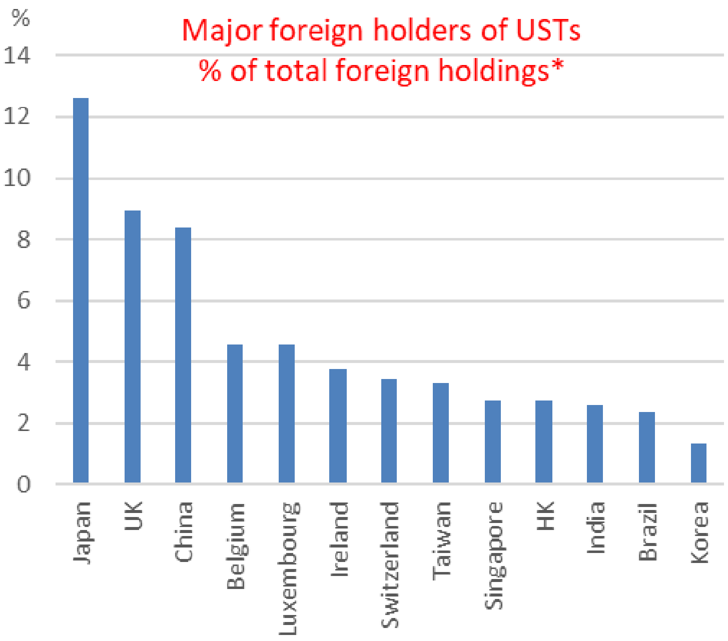
Source: US Treasury, Bloomberg, OCBC Research
^ Treasury's estimates

OCBC

USTs: Foreign holdings

- According to US TIC (Treasury International Capital) data, foreign holdings of US Treasury securities (bills, notes and bonds) have been falling as a percentage share of total outstanding to 24.9% as of end April 2025, from 34.6% at end-2014. Meanwhile, foreign holding amounts have largely been on an uptrend.
- Within foreign holdings, holdings by the official sector (presumably mostly central banks) fell in share, while the private sector took up the slack. In other words, some of the foreign demand for USTs has been shifted to investors who are likely more price sensitive. Within the foreign holdings of USTs, Japan is the biggest holder, followed by UK and China with similar amounts held.
- US fiscal position remains a concern for foreign investors likely leading to continued, gradual diversification away from USD assets. For domestic investors, USTs are local currency assets and remain as safe havens.



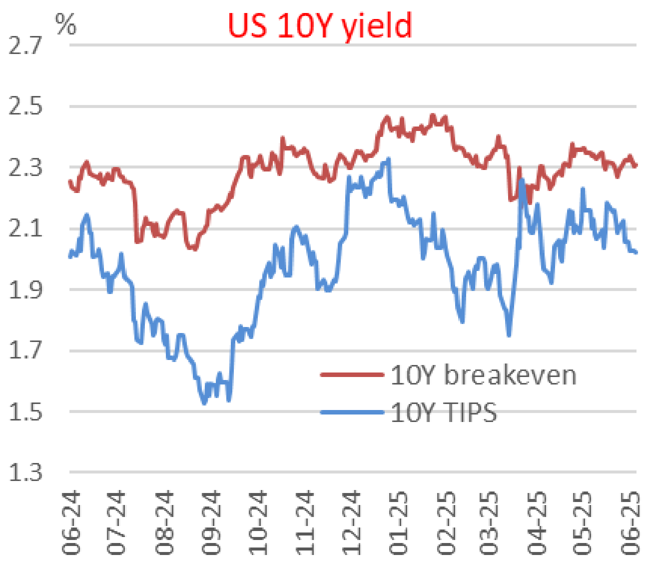


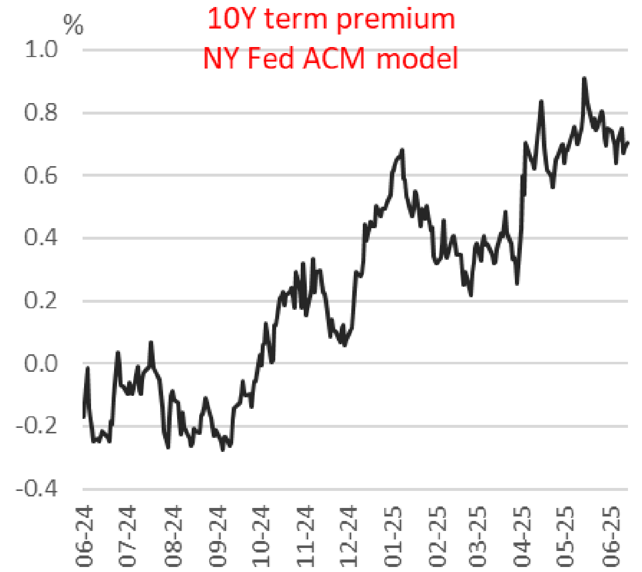
Source: Bloomberg (on US TIC data), OCBC Research
*as of end April 2025

OCBC

Mid to long-end USD rates: term premium has risen

- The term premium embarked on another leg higher since the start of May, reflecting concerns over US fiscal position as the Trump administration has been trying to push through the One Big Beautiful Bill Act. The higher 10Y term premium could have fed through onto 10Y real yield or 10Y breakeven or both. 10Y real yield was the main contributor (accounting for around 70%) to the increase in the 10Y UST yield during the upward move in end-April to 21 May period.
- Yields have since eased. 10Y real yield at 2.00% level was not as elevated as before but still appears somewhat high compared to the growth outlook (OCBC economists expect 2025 GDP growth at 1.3%). 10Y breakeven was last at 2.3%, within the 2.1-2.4% range which we have seen as consistent with medium term inflation expectation. Downward move in 10Y UST yield will likely require both real yield and breakeven to edge lower.
- Recent coupon bond auctions have mostly gone well, with solid end-user demand, mitigating concerns over dwindling demand for USTs. At the 10Y, current swap/spread level appears supportive of the bond. SLR de-regulation has been confirmed to be cuts in the SLR itself under the eSLR framework (enhanced SLR), instead of exemption of USTs from the calculation. Lower SLR nevertheless still means higher capacity for big banks to hold USTs. Investor concerns over US fiscal and debt positions may be more reflected at longer end bonds (20Y and beyond). We maintain a mild downward bias to 10Y UST yield, towards 4.10% level by year-end.
- We are roughly neutral on the UST curve across 2s10s the segment, as we see triggers for rate cuts coming from labour market/growth front, i.e. a dovish Fed likely comes with a worsened growth outlook potentially affecting the 2s10s part in a parallel manner.





Source: Bloomberg, OCBC Research

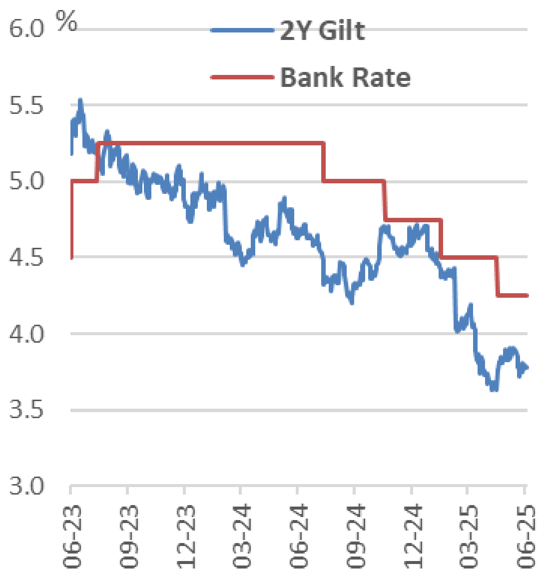
OCBC

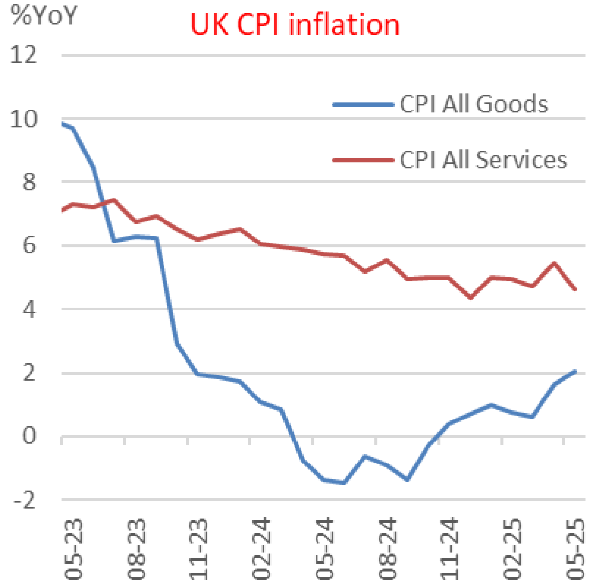
GBP rates: a gradual rate cut path

- Bank of England delivered one 25bp cut in Q1 and one 25bp cut in Q2, in line with our expectation. We continue to expect one 25bp cut in each quarter, i.e. additional 50bps of cuts for the rest of the year, as a gradual and careful approach remains appropriate. GBP OIS last priced 56bps of cuts for the rest of the year; 2Y Gilt has been moving roughly in line with rates expectations. Further downside to short end Gilt yields may be limited to some adjustment in valuation as rate cuts come nearer and then materialise.
- While the 6.7% rise in the NLW *per se* is expected to push up annual wage growth somewhat, the increase in employer NICs may lead firms to contain pay increase to partly offset the impact on their costs. We therefore expect wage growth to slow. BoE has a more dovish assessment, expecting "a significant slowing" in pay growth. On potential impact of tariff, BoE has judged that "higher tariffs will weigh slightly on UK inflation".
- Upside risk to inflation comes from geopolitics/energy prices and a more resilient than expected labour market. Ofgem has set energy price cap lower at GBP1690 for Q325 (versus the GBP1849 for Q225); we have assumed no strong rebound in energy prices in our benign 2025 CPI inflation forecast of 2.7%.

OCBC interest rates forecasts

	3Q25	4Q25	1Q26	2Q26
BoE Base Rate	4.00	3.75	3.50	3.50
GBP SONIA	3.95	3.70	3.45	3.45
3M GBP OIS SONIA	3.95	3.70	3.50	3.50

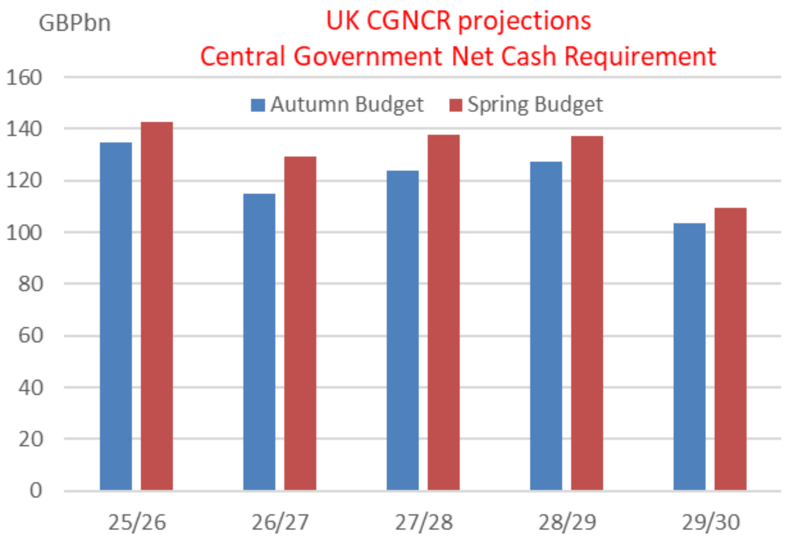


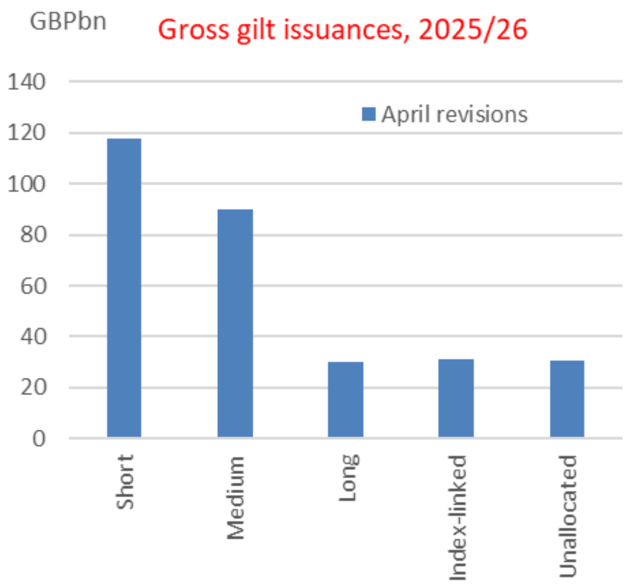


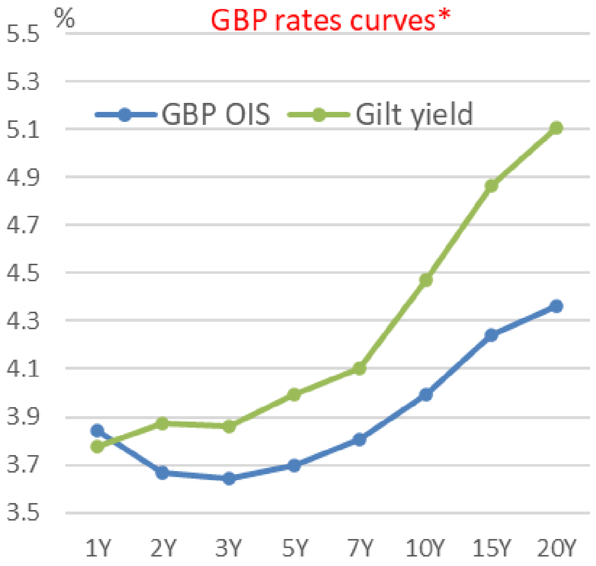
Source: Bloomberg, CEIC, OCBC Research

GBP rates: bond supply and bond/swap

- The Spring Budget revised upward borrowing projections for this year and the years ahead. For 2025/26, the April revision reduced the portion of gross gilt issuances in the long bucket (over 20Y) to a relatively low 10.0%, which has lent support to long-end Gilts. Portions for short-end bonds (3-7Y) and unallocated have been increased.
- Meanwhile, BoE QT is still ongoing. QT pace for the October 2024 – September 2025 period has been planned at GBP100bn, removing the same amount of bond demand as that during the previous 12-month period.
- Most of market reaction to the heavy supply outlook happened in Q42024 when material borrowing revisions were made at the Autumn Budget. After an extended downtrend, long-end bond/swap spreads have been trading in ranges for most of this year, as we last opined there might be some consolidation. Market might have found an interim equilibrium and on the curve, the 10Y gilt appears supported at current bond/swap level.







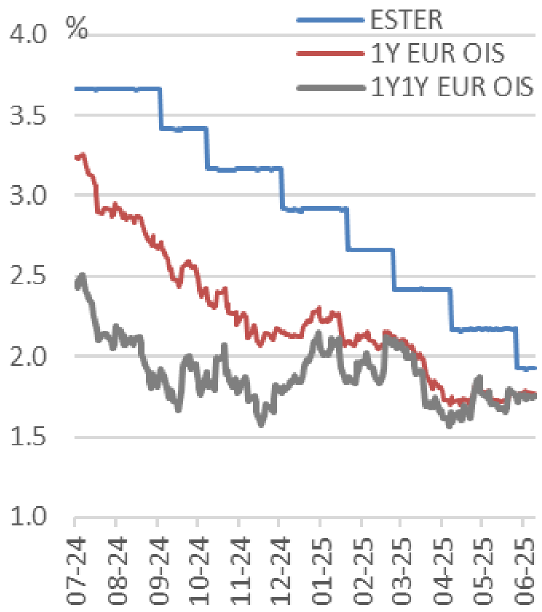
Source: UK DMO, UK OBR, Bloomberg OCBC Research
*24 June 2025

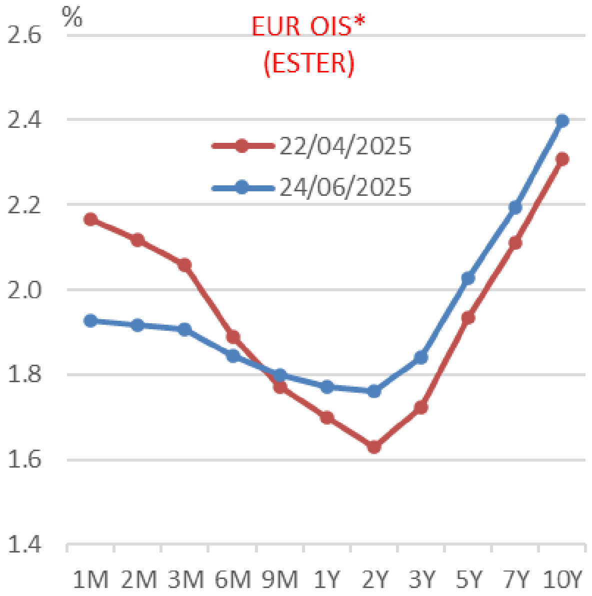
ECB – nearing the end of monetary easing

- ECB is ahead of most DM central banks in the rate-cutting cycle, having cut policy rates by cumulative 200bps, with the key policy Deposit Facility Rate at 2.00%, which is seen as a neutral level. From here, the decision to be made is whether to deliver outright stimulative monetary policy, which may be warranted given downside risk to growth. We still have one more 25bp cut in our forecast profile, expecting the deposit rate to be cut to 1.75% by year-end. OCBC economists highlighted the Eurozone growth outlook "will be heavily dependent on the outcome of tariff negotiations". Inflation implication of latest geopolitical tensions has added further to such uncertainty. We see two-way risk to our expected 1.75% level for the policy Deposit Facility Rate.
- EUR OIS last priced 25bps of cut for the rest of the year. The EUR OIS curve has "corrected" from the deep-V shape, upon materialisation of rate cuts and as the 1Y and 2Y OIS adjusted higher. These pricings look roughly fair to us. Barring bigger than expected downside to growth, we do not expect 1Y or 2Y EUR OIS to fall meaningfully.

OCBC interest rates forecasts

	3Q25	4Q25	1Q26	2Q26
ECB Depo	1.75	1.75	1.75	1.75
1M EURIBOR	1.75	1.75	1.75	1.75
3M EURIBOR	1.80	1.80	1.80	1.80

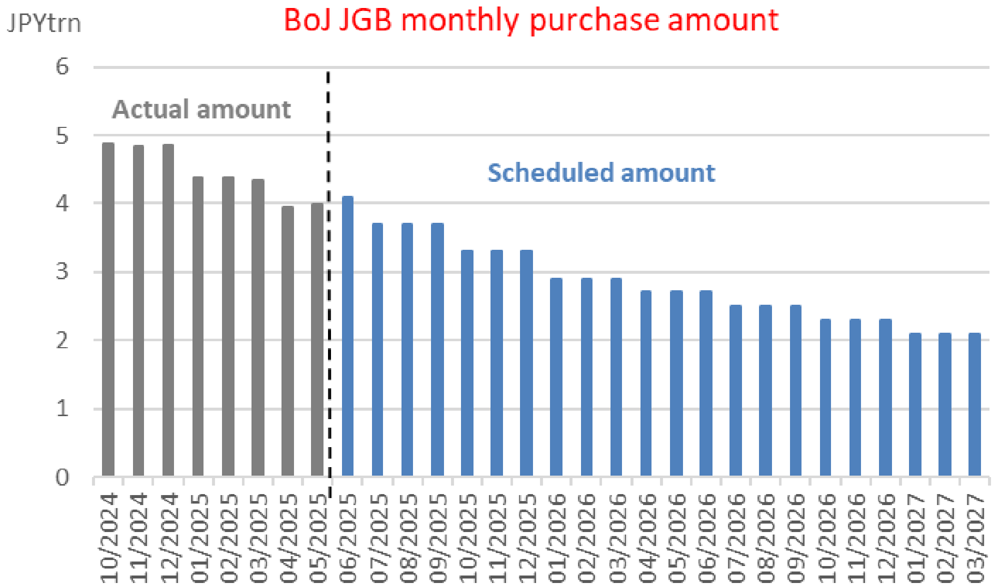




Source: ECB, Bloomberg, OCBC Research
*date was picked to mark year-low for 2Y EUR OIS

JPY rates: BoJ continue with policy normalisation

- Bank of Japan hiked its Target Rate by 25bps in January. We expect another 25bp hike in Q425, and another 25bp hike in Q126, which will bring the Target Rate to 1.00%.
- A tight labour market and firms' price-setting behaviour suggest that the prospect remains for inflation to stay sustainably above the 2% target. However, risk to growth is to the downside, with business fixed investment plans turning more cautious amid tariff uncertainty while net exports may be a drag to growth. On balance, we still expect BoJ to continue with policy normalisation in a gradual manner.
- Balance sheet run-off started in April 2024. One year on, BoJ sticks to its plan of reducing the amount of JGB purchases for the April 2025 – March 2026 period, i.e. monthly JGB purchase will be cut to JPY3.7trn/3.3trn/2.9trn for Q325/Q425/Q126. QT pace will therefore quicken mildly for the quarters ahead (as maturing amounts stay steady) as previously planned. Nevertheless, QT pace remains measured, at around an annual rate of 5.0-5.3% to balance sheet size. For the April 2026 – March 2027 period, JGB purchases will be on a slower step-down profile.



Source: BoJ, Bloomberg, OCBC Research

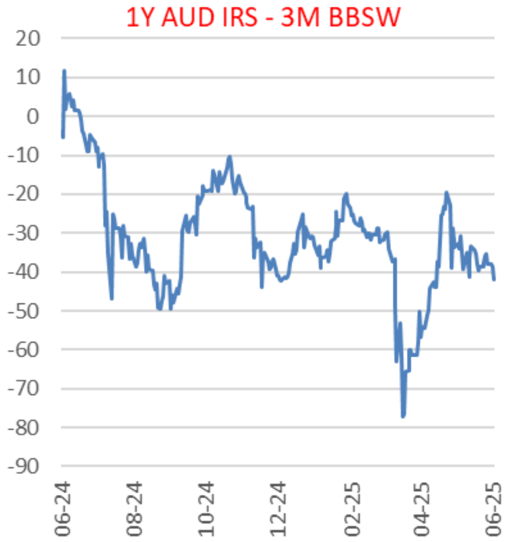
OCBC interest rates forecasts

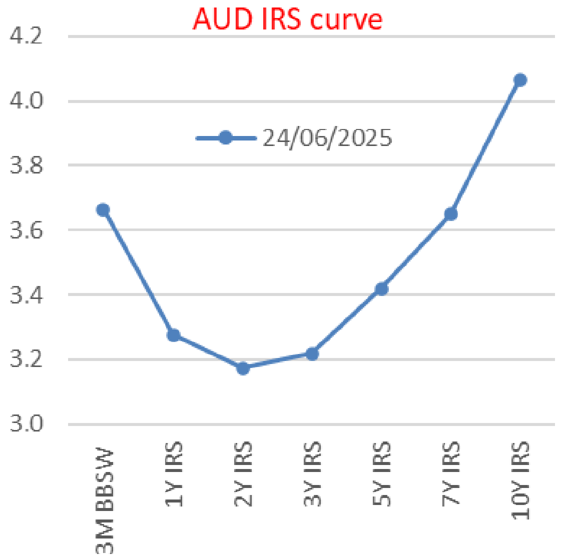
	3Q25	4Q25	1Q26	2Q26
BoJ Target Rate	0.50	0.75	1.00	1.00
1M JPY TIBOR	0.60	0.85	1.10	1.10
3M JPY TIBOR	0.78	0.95	1.20	1.20

OCBC

AUD rates: room for rate cuts but market pricing too dovish

- RBA has finally started its rate-cutting cycle, having cut the OCR by cumulative 50bps so far this year. After the rate cut decision at the May meeting, the rhetoric turned out to be more dovish than expected. Governor Bullock revealed a 50bp cut was discussed. The Board has a scenarios analysis – considering a severe downside scenario and noted that "monetary policy is well placed to respond decisively"; while this is a scenario analysis, it nevertheless reflects the asymmetric risk that the Board sees.
- Disinflation is on track, with headline and underlying inflation having eased back to RBA's target range of 2-3%, while the labour market is resilient. On balance, we expect additional 50bps of cuts for the rest of the year. Cash rate futures last priced additional 82bps of cuts, which appears too dovish to us. We expect BBSW to trend lower as additional rate cuts materialises, but with 3M BBSW normalising back to a level that is a tad above OCR towards year end.





Source: Bloomberg, OCBC Research

OCBC interest rates forecasts

	3Q25	4Q25	1Q26	2Q26
RBA OCR	3.60	3.35	3.35	3.35
1M BBSW	3.55	3.40	3.40	3.40
3M BBSW	3.55	3.45	3.45	3.45

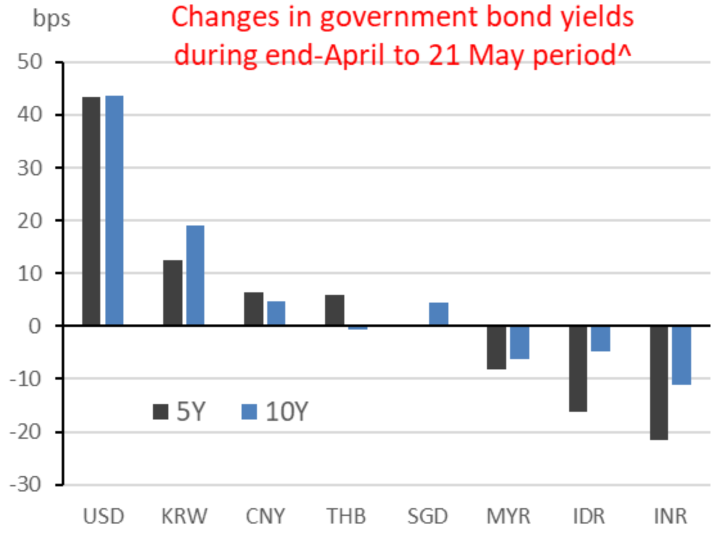
OCBC

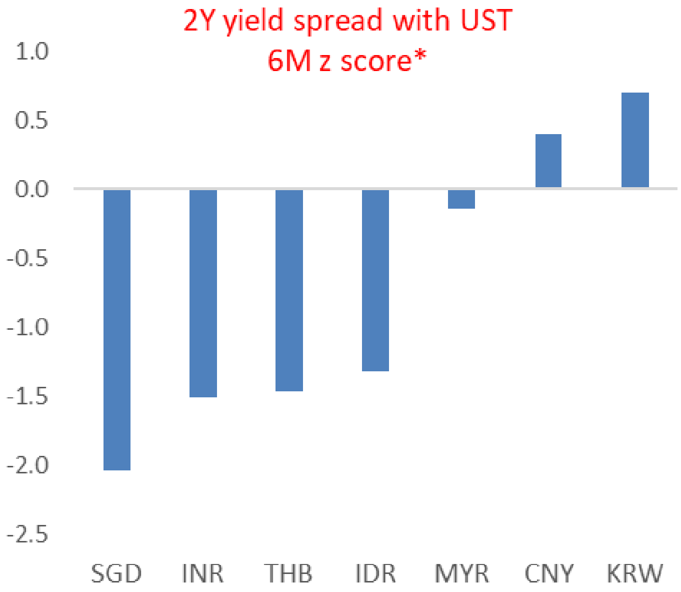
Asian Rates

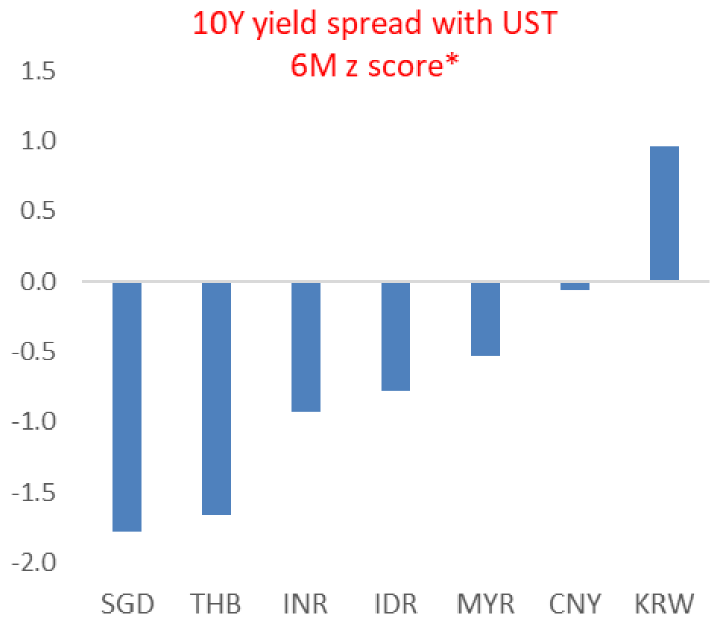
OCBC Bank

Asia: some degree of decoupling from UST performance

- While UST yields have been on a broad uptrend during end-April to 21 May period, more so for long-end yields, some Asian yields went up by smaller magnitudes while other yields softened. Asian local currency (LCY) government bond outperformance was likely due to domestic factors and potential diversion of flows away from USD assets, while USD rates themselves were driven by idiosyncratic factors.
- As a result, Asia-US LCY government bond yields differential mostly narrowed (in most case became more negative).
- In Z-score terms, SGD-USD yield spreads narrowed by a large extent, with 2Y spread at 2 standard deviations below 6-month average. This was followed by INR-USD and THB-USD yield spreads, with their spreads around 1.5 standard deviations below 6-month averages. KTBs had underperformed mildly ahead of supplementary budget and upon a delay in WGBI inclusion.





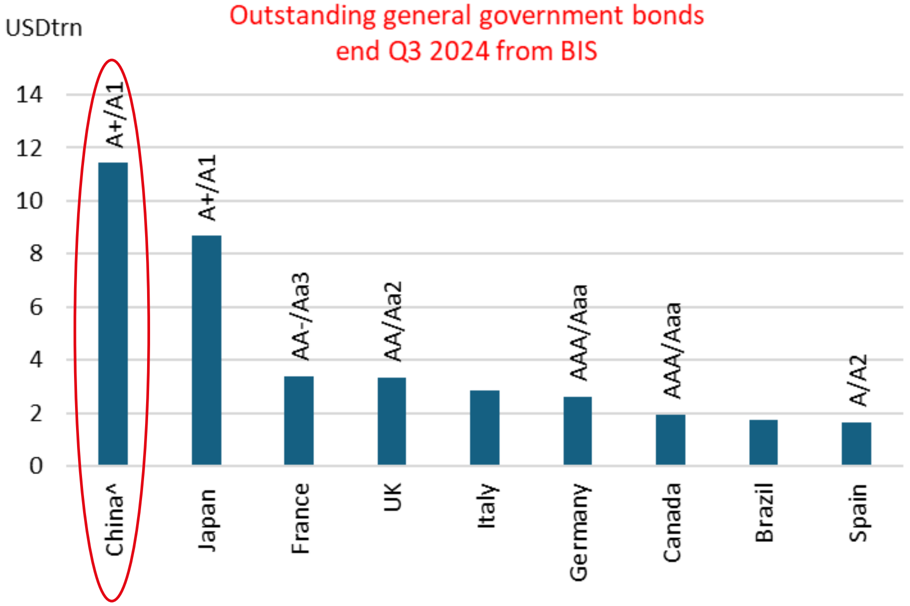


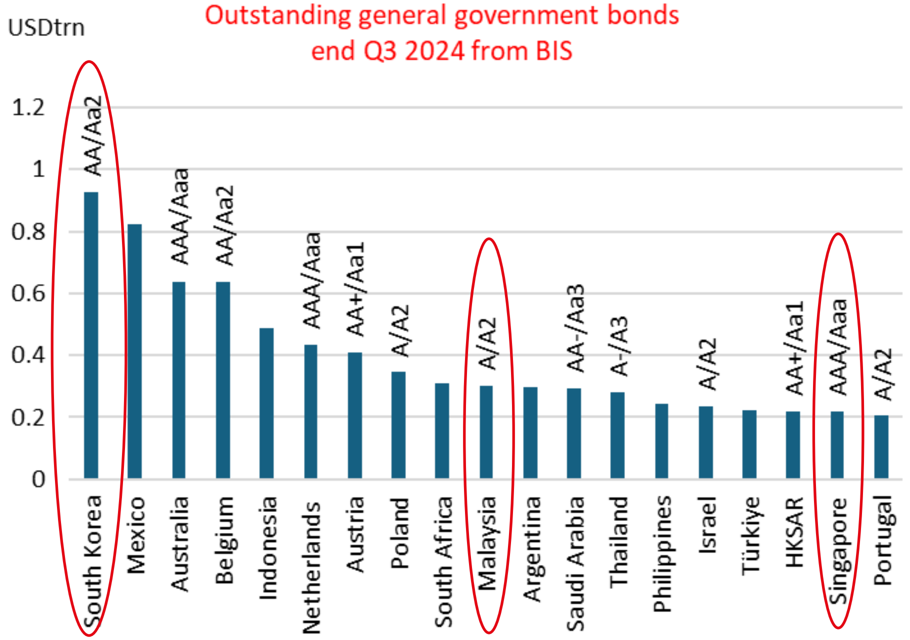
Source: Bloomberg, OCBC Research
^the period marked the recent leg of upward moves in USD yields
*as of 23 June 2025

OCBC

Asia government bonds likely benefit from diversion flows

- One of the key themes dominating the market across asset classes this year has been re-allocation away from USD assets. As investors diversify away from USTs, they will be in search for alternative government bonds. Viable government bonds presumably are relatively high-rated, or of significant outstanding amounts, or both.
- Under the criteria of i) government bonds which are AAA-rated (top notch) and of size of at least USD200bn as per BIS data for Q3-2024, and ii) government bonds which are rated A-/A3 and above (top 7 notches) and of sizes of at least USD300bn equivalent, we highlight CGBs, KTBs, MGS and SGS within Asian markets as potential candidates to benefit from inflows.
- These criteria are set to try to include more AAA-rated bonds and not ignore big markets if their ratings are also relatively high.





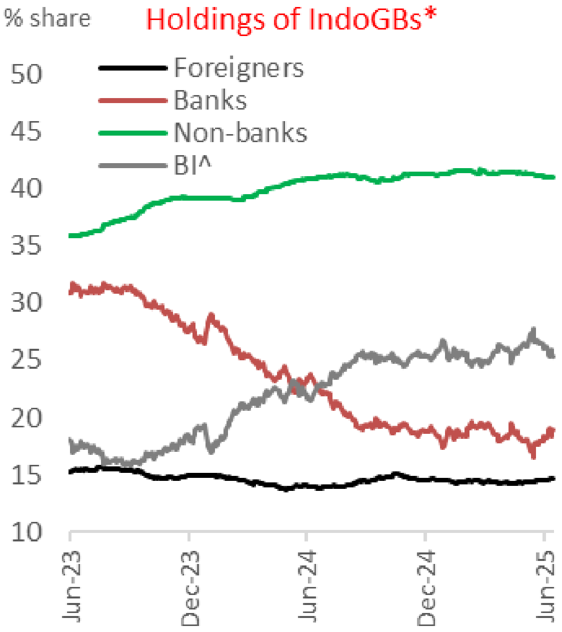
Source: BIS, OCBC Research

^BIS statistics appear to have included China Local Government Bonds (LGB); central government CGB (China Government Bond) outstanding was at around USD4.66trn as of end 3Q24

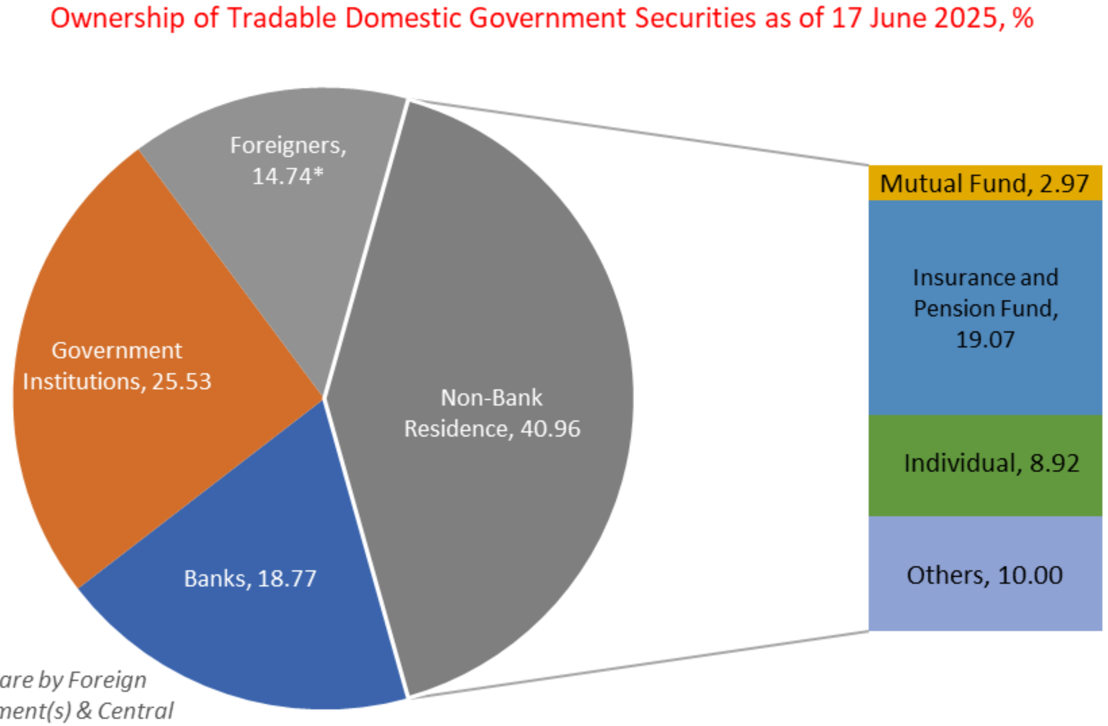
Note: only credit ratings of A-/A3 or above from at least one credit rating agency are indicated in the charts

IndoGBs: bond demand

- Banks were the major buyers of government securities thus far this year, having increased holdings by IDR140trn year-to-date (as of 23 June); this is followed by non-bank domestic investors (holdings were up by IDR73trn), while foreign investors also increased holdings by IDR44trn during the period.
- Banks' loan-to-deposit ratio (LDR) has stayed steady at around the 88% level thus far this year, after having risen during 2023 and 2024. A steady LDR contributes to bond demand by banks due to organic growth of the deposit base.
- Foreign holdings of IndoGBs have been on a broad uptrend this year, through the fluctuations in IndoGB-UST yield differentials. Foreign investors have increased allocation to bonds of tenors 5-10Y and reduced allocation to shorter tenors (in % share terms) over the past months. Looking ahead, some rebuilding of short-tenor position cannot be ruled out amid the favourable monetary policy backdrop and still supportive yield differentials.



Source: Bloomberg, DJPPR, OCBC Research
*Government securities including bonds and bills
^excluding holdings for monetary operations

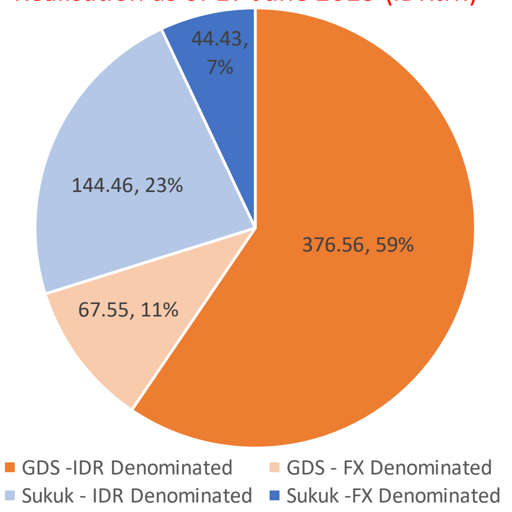


*4.22% are by Foreign Government(s) & Central Bank

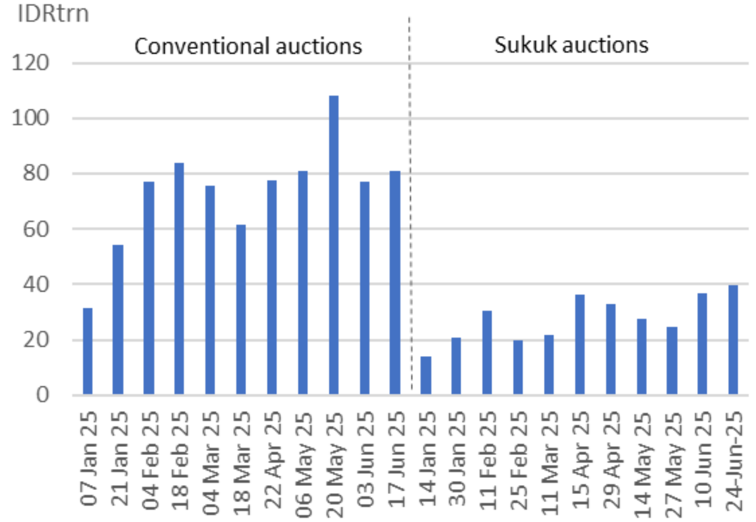
IDR: debt financing and auctions

- H1 gross issuances of IndoGBs (conventional and sukuk bonds + bills) amounted to IDR430trn, higher than the combined targets of IDR418trn initially set for the first half of the year. Demand at recent auctions was strong, with incoming bids for individual conventional bond auction mostly in the range of IDR60-80trn while it hit IDR108trn at the 20 May auction. 15 of the 22 auctions in H125 were upsized amid strong demand. Funding position is comfortable.
- Year-to-date (as of 17 June), gross debt financing amounted to IDR633trn, through IndoGB (conventional and sukuk bonds + bills) auctions, retail tranches, private placement, international bond offering – including the recent Samurai bonds and prefunding. The government aims to keep fiscal deficit this year as per budget (2.53% to GDP). Should there be any fiscal slippage, we believe funding will likely remain manageable as recent domestic auctions have gone well, while the government can tap various channels.

Breakdown of Government Securities Issuance Realisation as of 17 June 2025 (IDRtrn)



IndoGBs: incoming bids

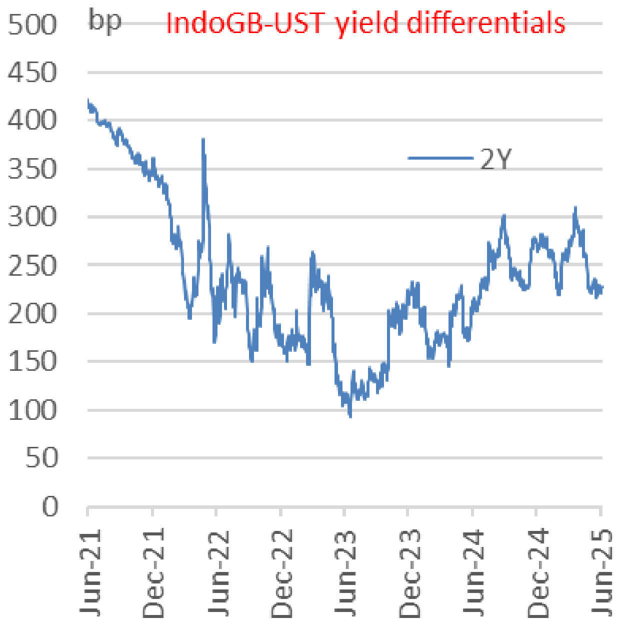


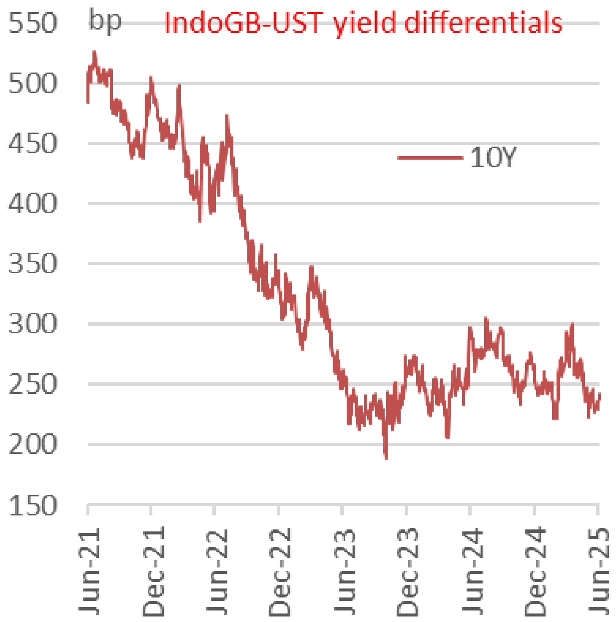
GDS- Government Debt Securities (SUN), Sukuk - Soverign Sharia Securities (SBSN)
Note: Realisation of issuances including prefunding in 2024

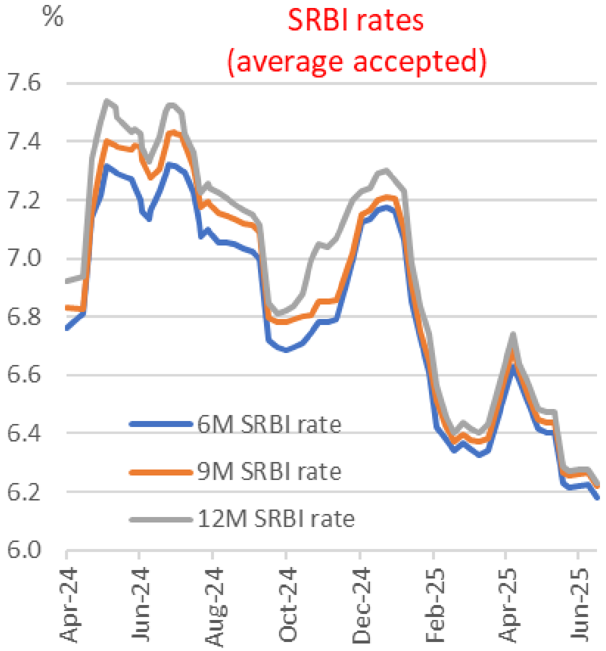
Source: DJPPR, OCBC Research

IDR: shorter tenors are preferred

- 10Y IndoGB-UST yield spread last traded at 240bps, within the 230-250bp range which we have seen as supportive of the domestic bond; but this spread level may not be seen as particularly attractive to foreign investors. Instead, 2Y IndoGB-UST yield spread at 230bps, albeit having come in, remained at the higher end of the range in 2024 and 2025 thus far. The favourable monetary backdrop and easing SRBI rates are other factors rendering short-end bonds more appealing.
- Bank Indonesia delivered two 25bp policy rate cuts this year, and our house view is for one additional 25bp cut before year-end, which will then bring BI Rate to 5.25%. The falls in SRBI rates amounted to cumulative 99-107bps year-to-date (as of 20 June), bigger than the 50bps of BI rate cuts. Onshore implied IDR rates have fallen as well, facilitating investment into onshore IDR assets.



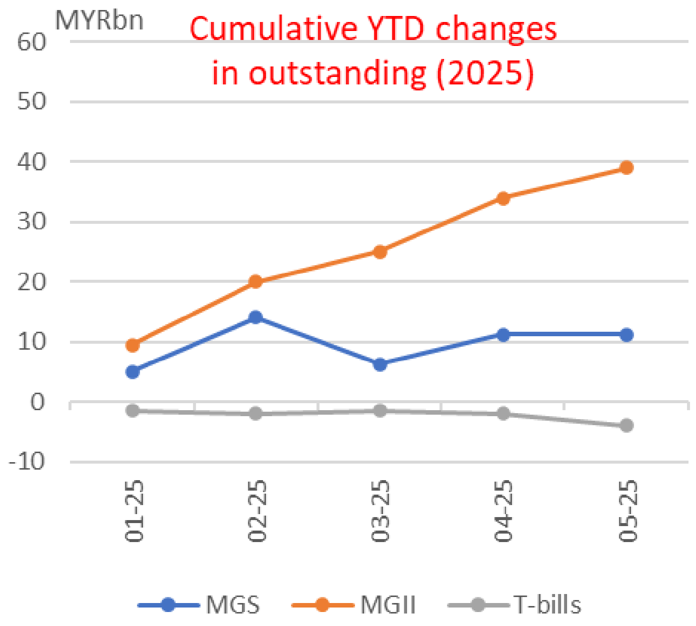


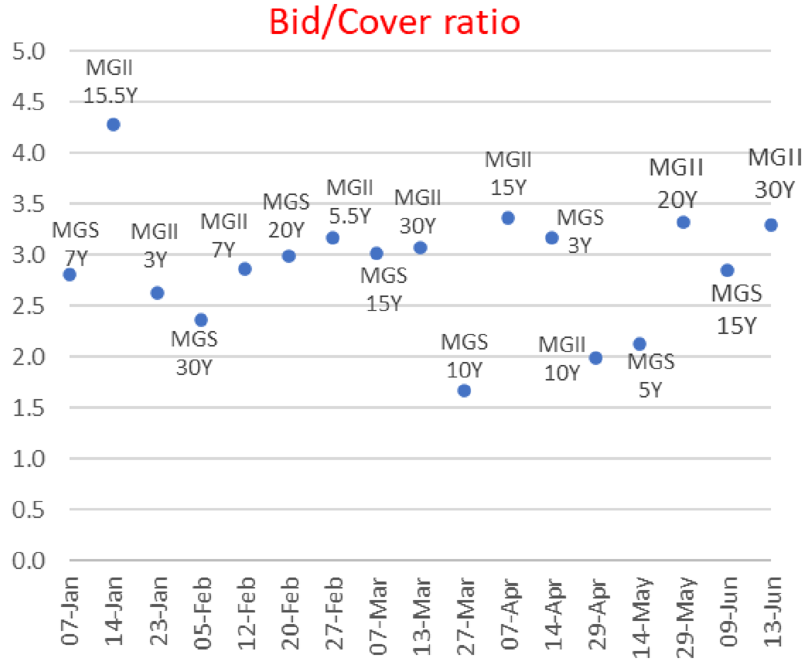


Source: Bloomberg, CEIC, OCBC Research

MGS: bonds sales have been readily absorbed

- We have mentioned one of the swing factors to our full-year gross MGS+MGII issuance estimates of MYR163-164bn is bill issuance. We have assumed minimal net bill issuances or a small bills paydown in 2025 as MoF may look to reduce reliance on bills. Year-to-May, there were net bills paydown of MYR4bn, versus the net bills paydown of MYR5bn in the whole year of 2024. Should there be further bills paydown during the rest of the year, gross issuances of MGS+MGII will be slightly higher than our initial estimates which is however not a concern given solid demand.
- Bond auctions this year have been well received especially at some of the long-tenor sales. Year-to-date gross issuances (as of 13 June auction) amounted to MYR81bn. Given heavier maturities in H2-25 than in H1-25, we expect more bonds can be absorbed in the second half of the year. Issuances are on track with our full-year gross MGS+MGII issuance estimates with room for mildly bigger issuances if need be, e.g. if further reduction in reliance on bills is preferred.

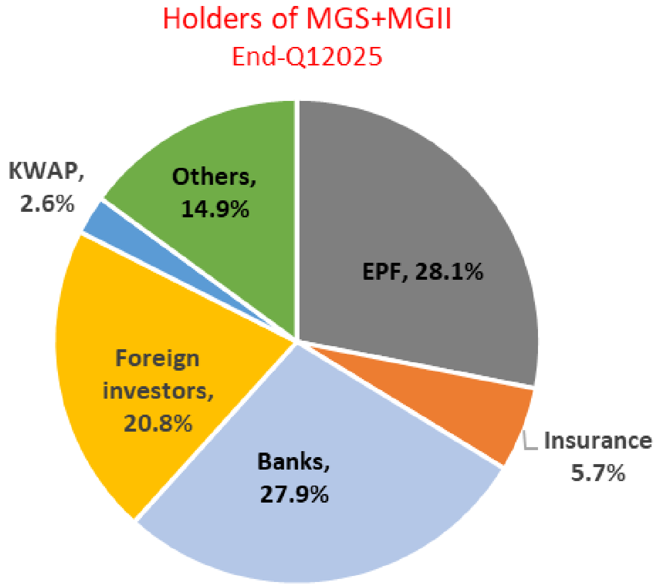


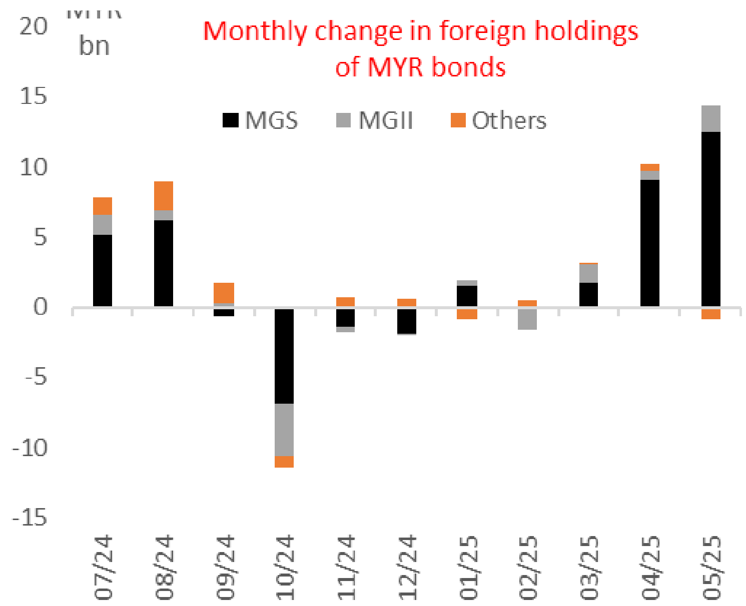


Source: BNM, CEIC, OCBC Research

MGS: steady demand; benefit from inflows

- *EPF and Banks* are the major holders of MGS+MGII. Buying by banks can be seasonal, partly depending on loan demand. The loan-to-fund ratio in the banking system stood at 83.3% at end April. With this ratio, demand for bonds by banks will likely be sustained, coming from organic growth in deposits. Within EPF assets, percentage allocation to fixed income instruments went higher to 48% at end Q12025 versus the 46.2% at end Q42024; however, investment in MGS+MGII by EPF was somewhat slow in Q12025, which might be attributable to some portfolio adjustment. Overall, we expect healthy demand for MGS/MGII from EPF on organic growth in contributions – contributions amounted to MYR33.54bn in Q12025 versus MYR29.13bn in Q12024.
- *Foreign demand.* Foreign investors held 20.8% of outstanding MGS+MGII as at end Q12025. Malaysia has a local currency credit rating of A (S&P)/ A3 (Moody's), while MGS are included in key bond indices including FTSE Russell's WGBI and GBI-EM. The domestic government bond market stands to benefit from inflows including those diverted from USD assets. For three months in a row, there were net inflows into MYR bonds, with most of the flows having gone to MGS. Inflows have quickened as the latest data show, where MGS+MGII received net inflows of MYR14.326bn in May, following the inflows of MYR9.727bn in April and MYR3.052bn in March. Within foreign holdings of MGS+MGII, 29% were held by foreign official sector (including foreign central banks) as at end Q12025.

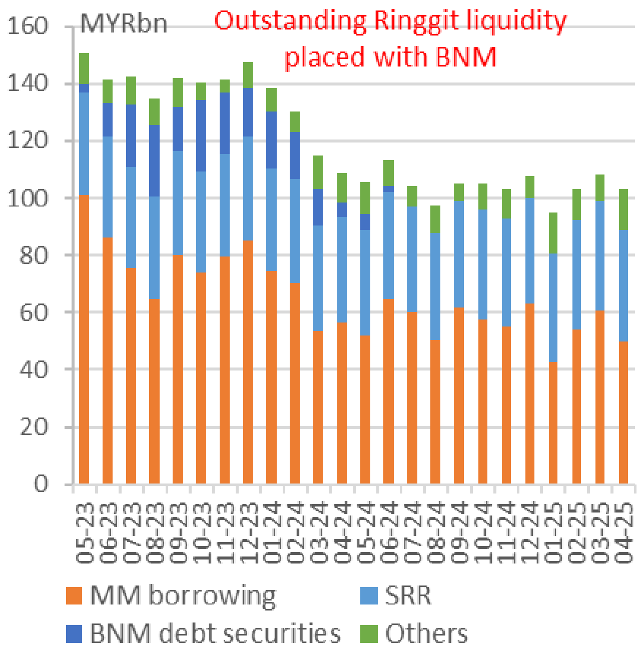


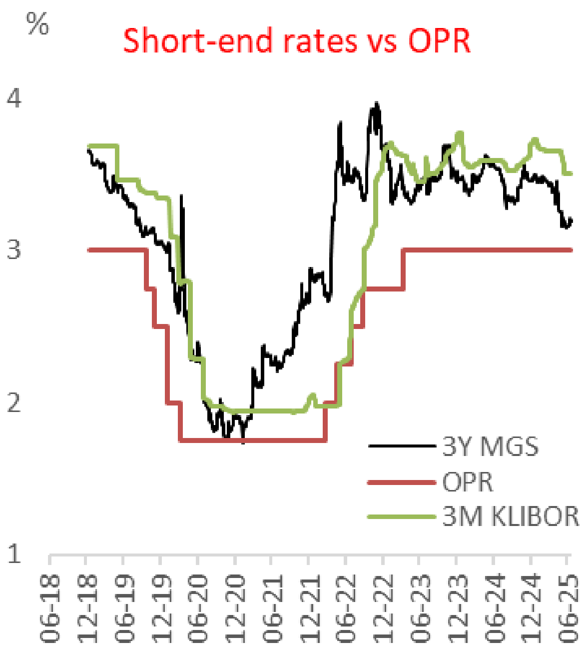


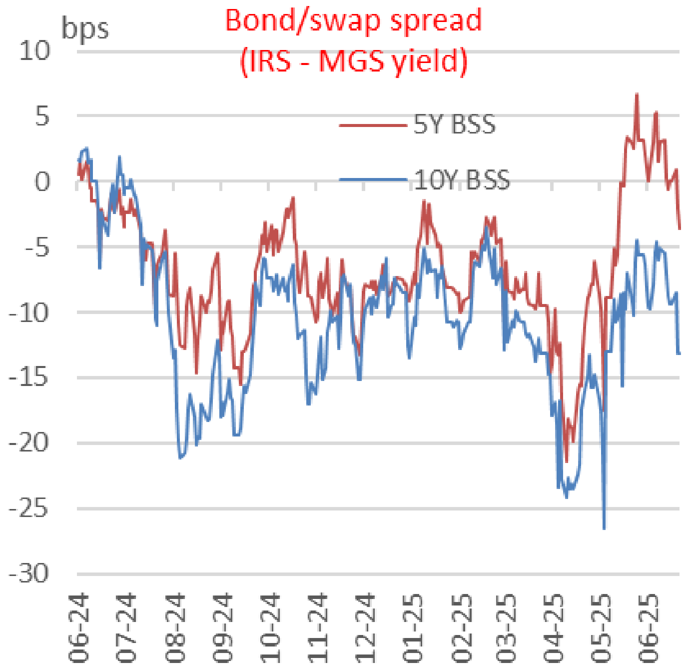
Source: CEIC, OCBC Research

MYR rates: relative stability

- The spread between 3M KLIBOR and OPR narrowed more rapidly than we had expected, upon the 100bp cut in the SRR (Statutory Requirement Ratio). BNM kept OPR unchanged at 3.00% at the last meeting in May. OCBC Economists expect a total of 50bps of OPR cuts before year end amid downside risks to growth. We expect KLIBORs to follow OPR lower, but potentially not entirely, resulting in a mild re-widening in KLIBOR-OPR spread. Outstanding Ringgit liquidity placed with BNM have been settling at around the MYR100bn level versus higher levels at around MYR140bn level in previous years.
- MGS-UST yield differentials have become mildly more negative on MGS outperformance over USTs. Current levels of negative spreads may be maintained given the prospect of BNM interest rate cuts. Within the domestic market, MGS outperformed swaps with bond/swap spreads (MYR IRS – MGS yield) having gone up from the lows in April, in line with our view. After small reversals over recent days, we see a small room for further bond outperformance against swaps.





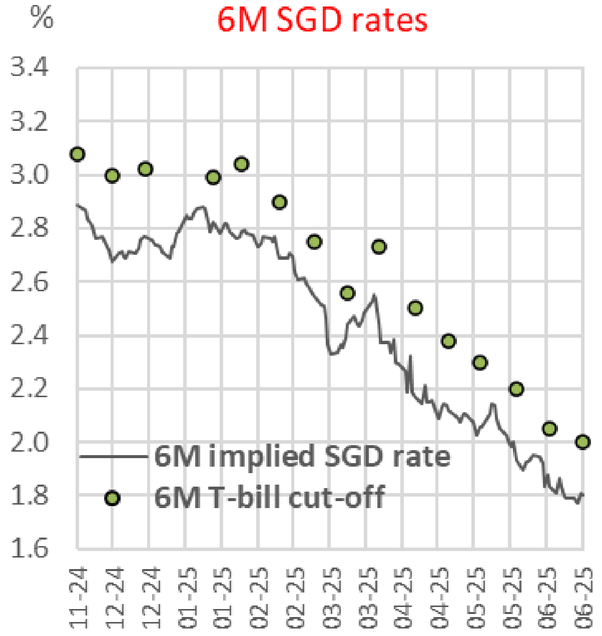


Source: Bloomberg, CEIC, OCBC Research

SGS: safe-haven status

- Year-to-date gross issuances amounted to SGD14.9bn (including the SGD1.6bn at the 26 June auction). Issuance amounts are on track with our full-year estimates of SGD26-27bn.
- SGS auctions thus far this year were well received, with bid/cover ratios mostly above 2.00x except the 30Y Green SGS (Infra) which garnered a still decent 1.84x bid/cover considering the long tenor.
- T-bills and MAS bills have been popular as well. Cut-offs at T-bills and MAS bills have trended lower alongside implied SGD interest rates. Spreads between bills cut-offs and implied rates may stay within ranges except for MAS bills that mature at quarter-end.
- SGS stand out to benefit from safe-haven flows. SGS are AAA-rated. The Singapore Government operates a balanced budget policy and most of the government's borrowings are not used to fund its expenditure, which allows flexibility in the calibration of auction sizes in reaction to prevailing market conditions.

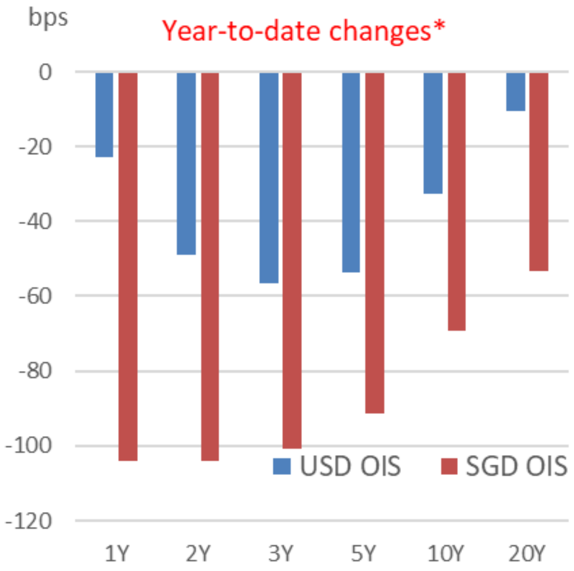
Auction date	Tenor	New/Reopen	SGS type	Actual amount
27/01/2025	2-year	Reopen	MD	2700
26/02/2025	10-year	New	MD	3200
26/03/2025	5-year	New	MD	3000
28/04/2025	30-year	Reopen	Green SGS (Infra)	1800
28/05/2025	5-year	Reopen	MD	2600
26/06/2025	15-year	New	Infra	1600
29/07/2025	2-year	Reopen	MD	
27/08/2025	5-year	Reopen	MD	
26/09/2025	50-year	Reopen	Green SGS (Infra)	
29/10/2025	10-year	Reopen	MD	
Mini auctions (optional)				
26/02/2025	NA			
28/05/2025	10-year	Reopen	MD	900
29/10/2025	TBA			

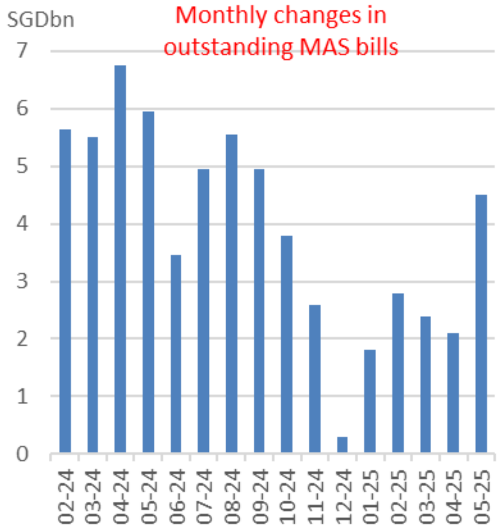


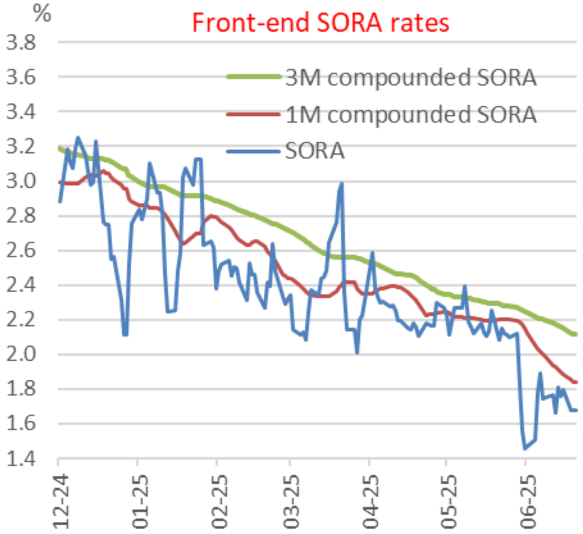
Source: MAS, Bloomberg, OCBC Research

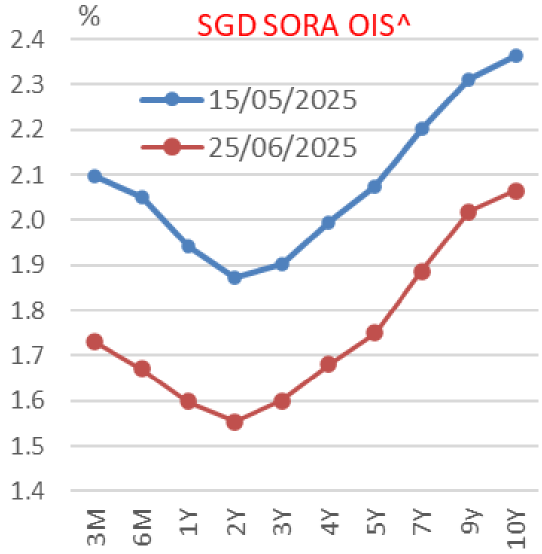
SGD rates outperformed by a wide margin

- SGD rates have outperformed USD rates by a wide margin this year. The passthrough rates that we used to look at became irrelevant at one point, as SGD rates and USD rates were moving in opposite direction during some periods.
- SGD liquidity is flush, and SGD rates have moved on to lower ranges. Before higher supply of bills mop up some liquidity, short-end SGD rates may be capped at 1.8-2.0% level. But we do note front-end SGD rates have been volatile. SORA the overnight itself fluctuated in a wide range of 1.4568%-2.1229% in June thus far (as of 25 June).
- The more recent pick-up at front-end SGD rates suggests that 1.5-1.6% level may be seen as the interim floor to interest rates. On the SORA OIS curve, 2Y and 3Y remain as the sweet spots at this point in time for hedging purposes.





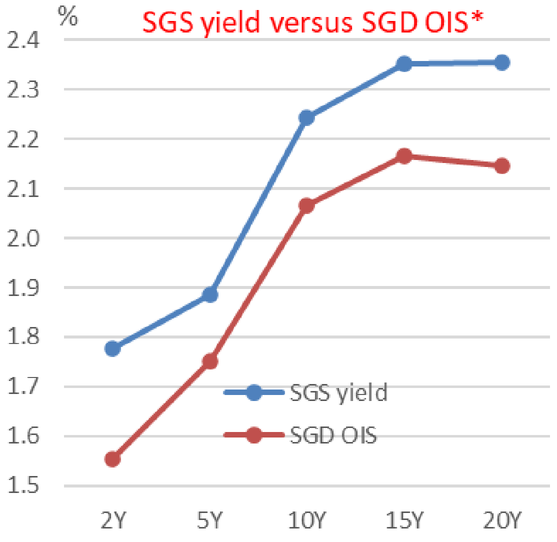


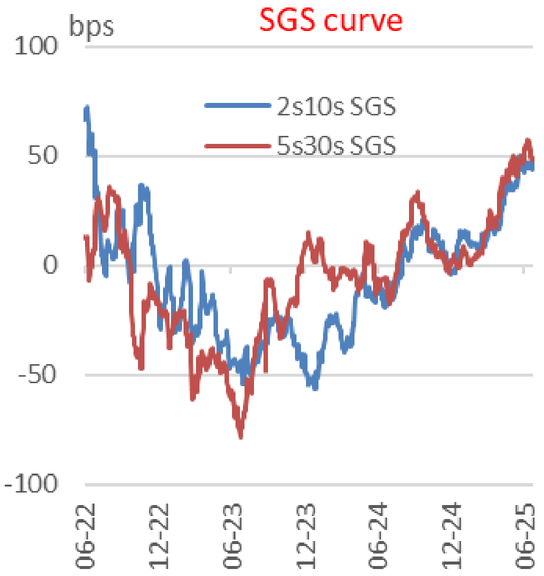


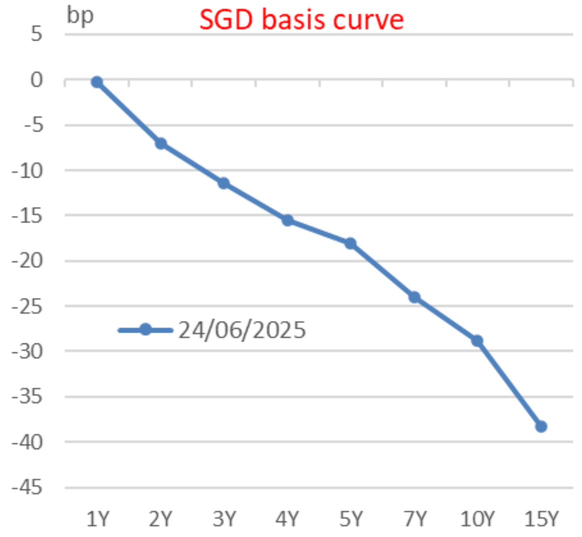
Source: Bloomberg, OCBC Research
*as of 24 June 2025
^date was picked to mark recent highs

SGD rates: bond/swap spreads and asset-swap

- Bond/swap spreads (OIS – yield) have corrected higher from the lows attained in late April / in early May, as SGS played catch-up with the earlier falls in SGD OIS. From here, there may be more room for further SGS outperformance against swaps at the 2Y. On the SGS curve itself, long-end bonds exhibit some relative value as the SGS curve has steepened alongside UST curve, in the absence of fiscal concern in the SGD market. The 2s10s segment was last at 1.4 standard deviations wider than 6-month average, and the 5s30s segment was at 1.2 standard deviations wider than 6-month average.
- With the recent movement in bond/swap spreads while SGD basis traded a tad higher, asset swap pick-up has narrowed mildly. Still, asset-swap trades remain a viable investment option, with pick-up wider further out the curve riding on the inverted SGD basis curve, at around SOFR+47bps (before bid/offer spreads) at 10Y SGS and at around SOFR+60bps (10Y hedge) at 20Y SGS. If foreign investors look to diversify their portfolios, then they may even accept narrower pick-up.



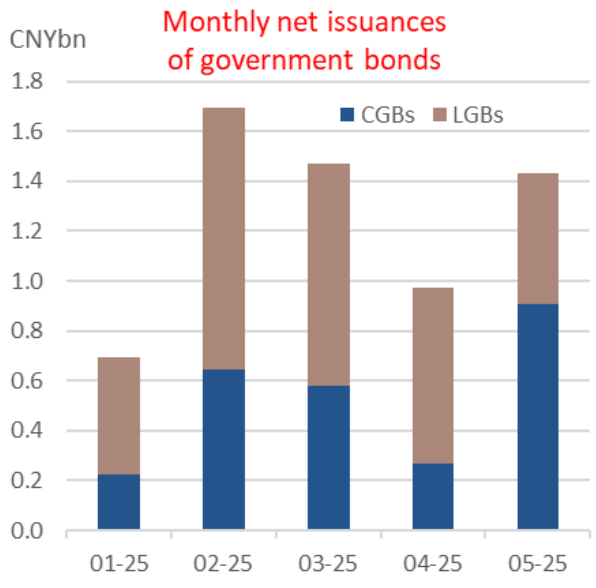


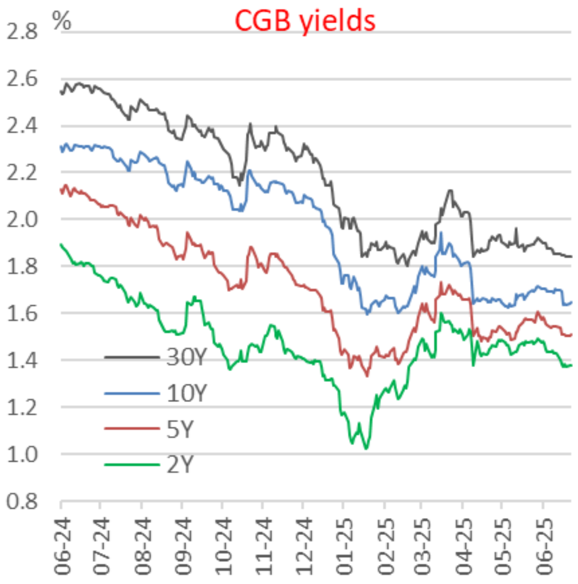


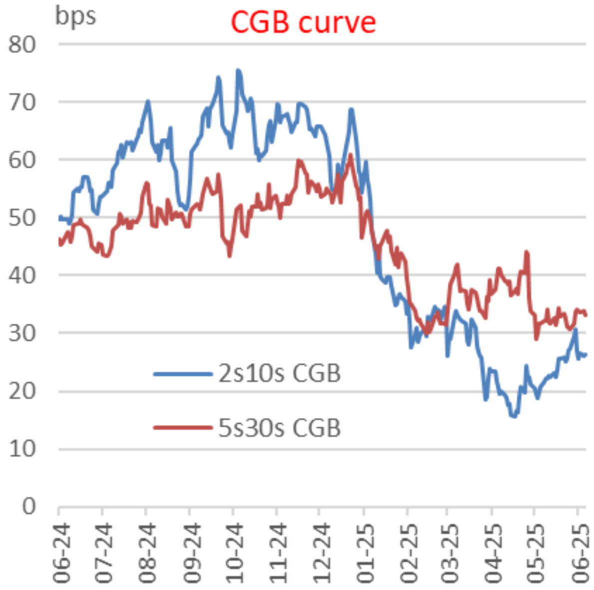
Source: Bloomberg, OCBC Research
*24 June 2025

CGBs: limited room for further flattening

- The CGB curve flattened in the first half of the year, as growth concerns amid tariff uncertainty have taken hold and have sustained demand for bonds. Most CGB and special CGB auctions have been well received thus far, despite bigger net issuances during the first five months of the year compared to the same period in 2024.
- Supply is still higher than that in 2024 with this year's fiscal deficit target at 4% to GDP versus the usual 3%. Budgeted fiscal deficit will increase by CNY1.6trn to CNY5.66trn. There are more bonds to be digested. The 2s10s part of the curve has rebounded from lows and steepened mildly. While near-term steepening momentum may not be strong, we do not expect the 2s10s segment to flatten back to the low seen in late April. The 5s30s segment has been trading in ranges recently, after the flattening earlier in the year. Similarly, we see limited room for further flattening there.



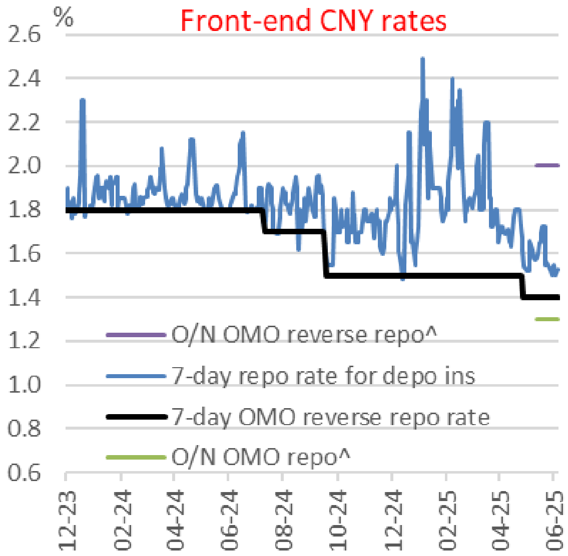


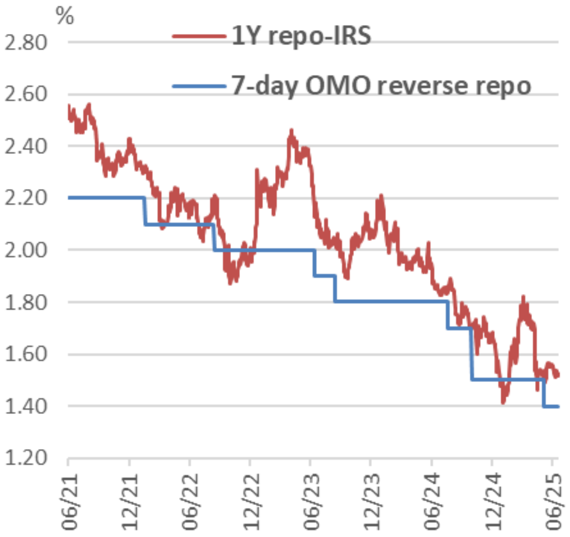


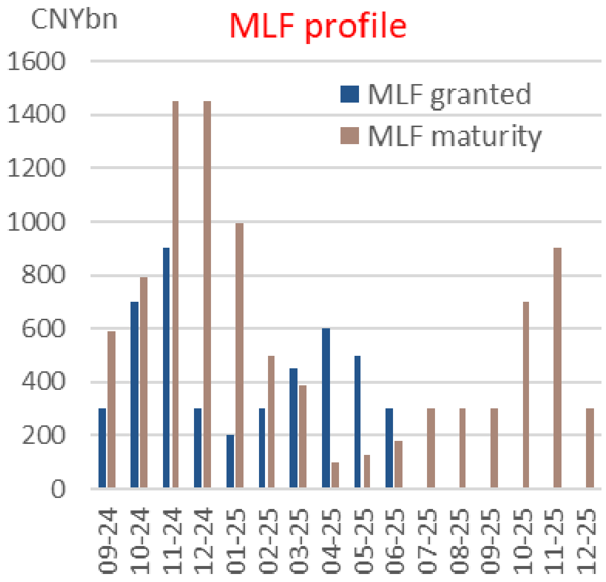
Source: Bloomberg, CEIC, OCBC Research

CNY rates: supportive liquidity environment

- PBoC cut OMO 7-day reverse repo rate by 10bps and cut the required reserve ratio by 50bps in May. For the rest of the year, OCBC economists expect another 50bps RRR cuts but have trimmed rate cut expectation to additional 20bps from 30bps previously, noting monetary policy may reach its bottleneck in that monetary easing may increase production capacity which renders it more difficult to revive inflation. That said, the monetary backdrop remains a favourable one for the rates market.
- Apart from possibility of monetary easing, front-end liquidity is likely to stay supported over the coming months. PBoC has shown intention to provide support if need be, deploying a combination of tools including OMO outright reverse repos and MLFs – outsized MLFs in recent months have provided extra liquidity.
- Front-end CNY rates are likely to stay anchored. It had been our view that 1Y repo-IRS appeared higher compared to bond yield, and the 1Y repo-IRS has since retraced meaningfully lower. Another leg lower in rates and bond yields may require the materialisation of additional monetary easing. For now, the 1.4% OMO reverse repo rates appear to set a floor to front-end CNY rates.



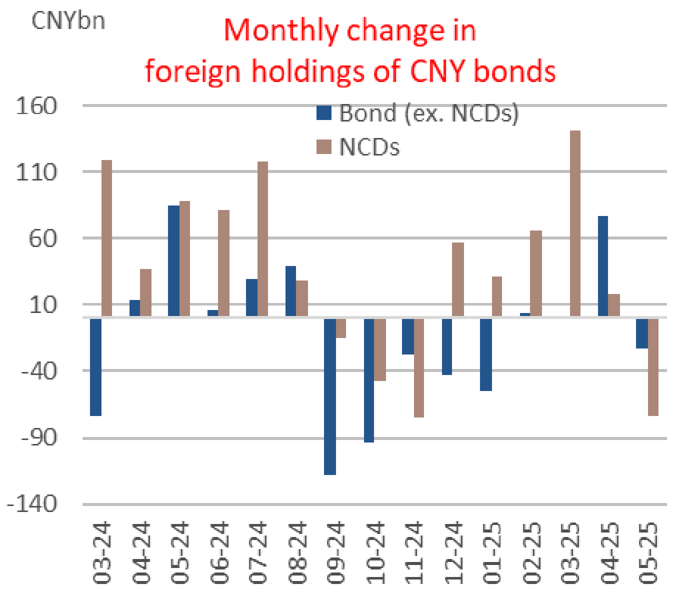


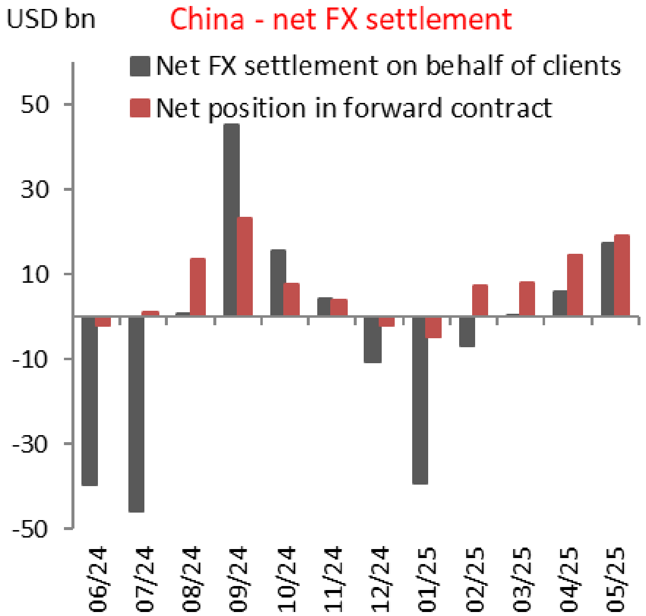


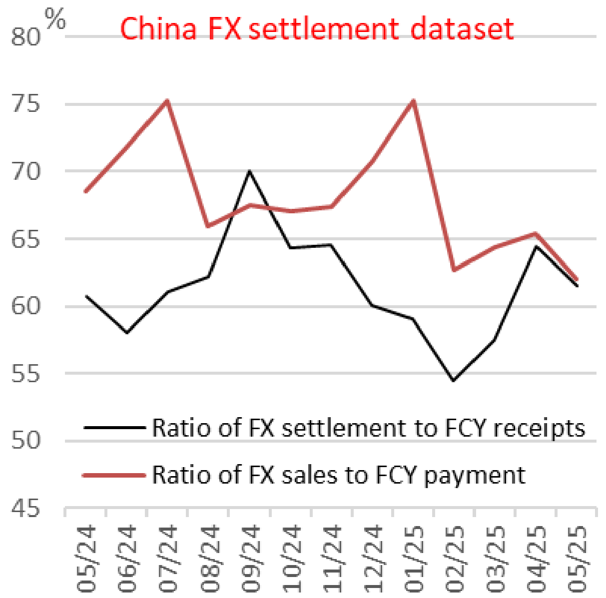
Source: Bloomberg, OCBC Research
^to be conducted

CNY rates: bond and FX flows

- Bond flows fluctuated over the months; year-to-May onshore CNY bonds (excluding NCDs) received a modest net inflow of CNY7.37bn, while onshore NCDs received a hefty CNY183bn. NCD flows are opportunistic in nature, mostly depending on supply and asset-swap pick-up. UST-CGB yield differentials have narrowed from the levels at the start of the year, in line with our expectations. With spreads at more favourable levels, together with the broader theme of diversification away from USD assets, prospect is for flows to continue to come into the RMB bond market.
- Net FX settlement and sales turned positive in April and May, with inflows mostly coming from the usual goods trade balance. Willingness to covert foreign currency (FCY) receipts into RMB fluctuated, which appeared to be partly driven by RMB sentiment. The ratio of FX settlement to FCY receipts fell to a recent low of 54.4% in February, before rebounding back to the more usual range of 60-65% in April and May after the slide in the DXY.



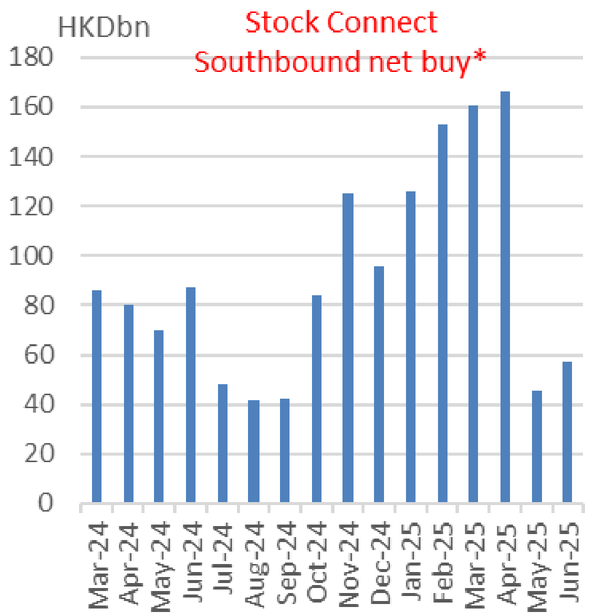


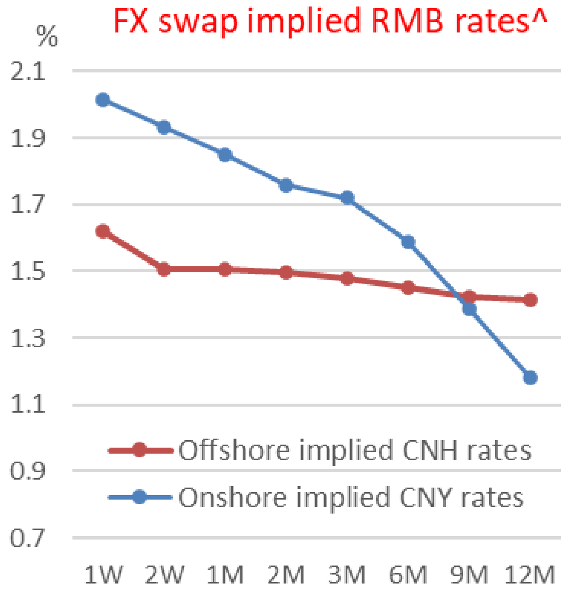


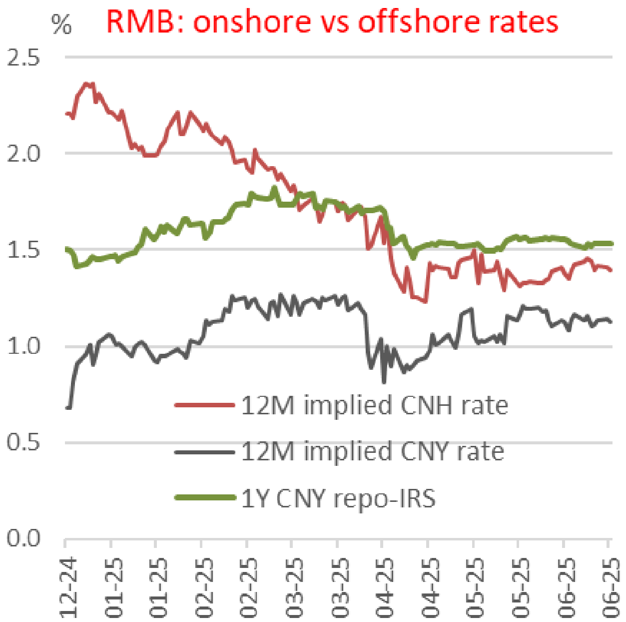
Source: CEIC, OCBC Research

CNH rates: likely stay anchored

- Offshore CNH liquidity has become flusher as the offshore CNH pool became bigger upon inflows. Southbound Stock Connect flows in Jan-Apr were strong, amounting to HKD605bn. Southbound flows slowed in May and June thus far, but were still positive. As investors will need to exchange CNY into HKD in the offshore market, these flows add to the offshore CNH pool (while tightening HKD liquidity). Offshore RMB deposits in Hong Kong stood at RMB1.03trn at end April. The flush CNH liquidity is reflected in narrower spreads between CNH rates and CNY rates; at front end implied CNH rates are below CNY rates.
- Prospect remains for inflows to come to the HKD market, while onshore monetary policy remains supportive. Therefore, CNH rates are likely to stay anchored. Front-end CNH rates may stay below onshore levels, before materialisation of additional monetary easing by then onshore CNY rates may react more. At back end (12M), there appears not much room for further narrowing in offshore-onshore spread.



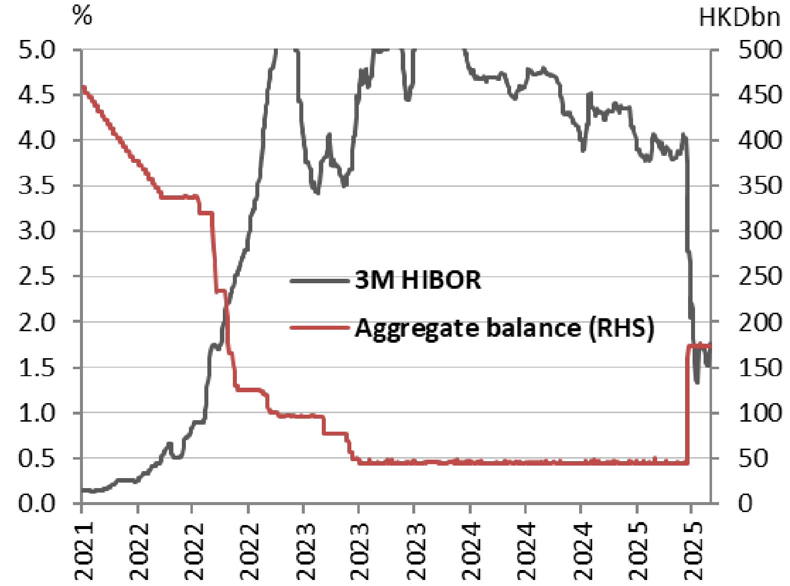


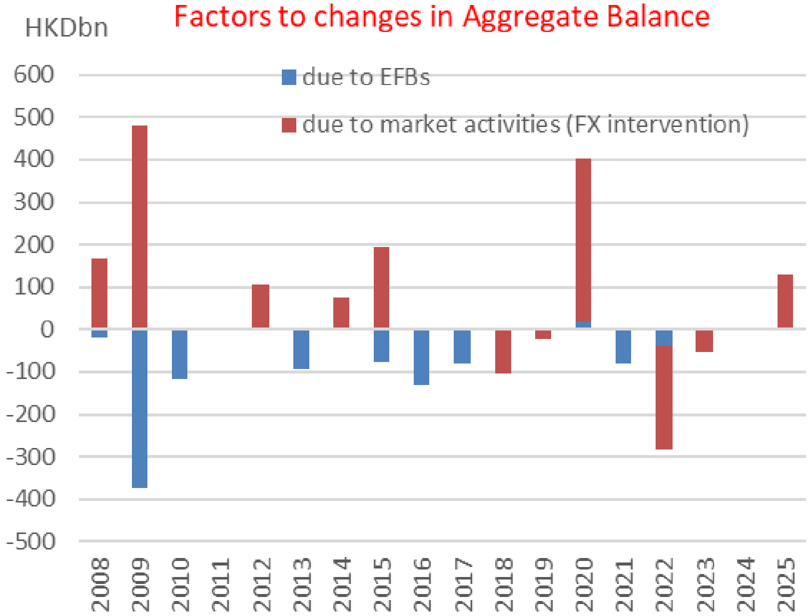


Source: Bloomberg, CEIC, OCBC Research
^23 June 2025
*as of 24 June 2025

Flush HKD liquidity

- Upon FX intervention at the strong-side Convertibility Undertaking of 7.7500 in early May, Aggregate Balance (AB, interbank HKD liquidity) rose to above HKD170bn level after staying at around HKD45bn for an extended period. HIBORs and front-end rates slid amid flush HKD liquidity. Subsequently, spot USD/HKD had touched 7.8500 multiple times transiently without triggering FX intervention, until the most recent day. The size of the latest intervention at 7.8500 was small though, at HKD9.4bn, which will leave AB still huge at HKD164bn. Liquidity stays flush unless 1/ there is additional FX intervention at 7.8500, or 2/ HKMA proactively shifts liquidity from interbank bank to the bills market (it has had tendency to do so upon demand for bills, with a time lag).
- Initial reactions in HIBORs and front-end HKD rates were muted as the weak side intervention amount was small to start with. The wide USD-HKD rates differentials continue to encourage carry trades. We expect to see this process of carry trade pushing spot higher, triggering FX intervention which in turn pushes HKD rates higher to repeat itself in the periods ahead.
- If USD softness is to stay, then the total amount of FX intervention required to keep spot away from 7.8500 may be smaller than the earlier injections. One potential scenario is AB falls but stays above HKD100bn level, then HIBORs may normalise back up to levels which are below 3.0%.
- At this juncture, we do not expect HKMA to actively shift liquidity from the interbank market to the bills market, as FX intervention may be triggered anytime, which automatically mop up liquidity.

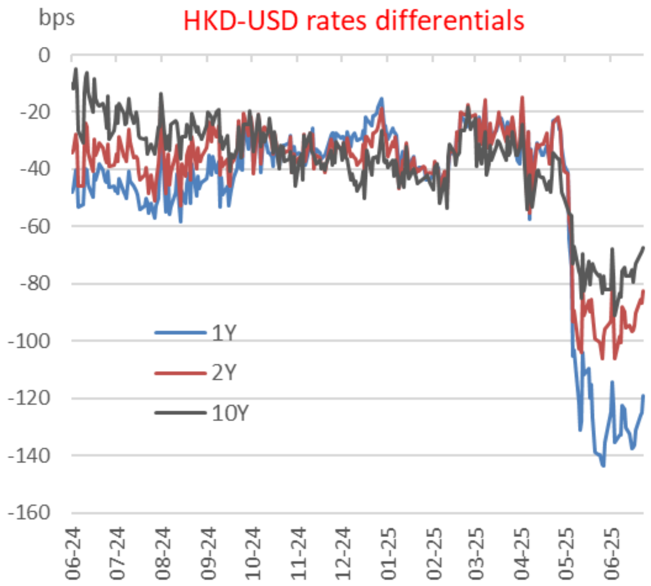


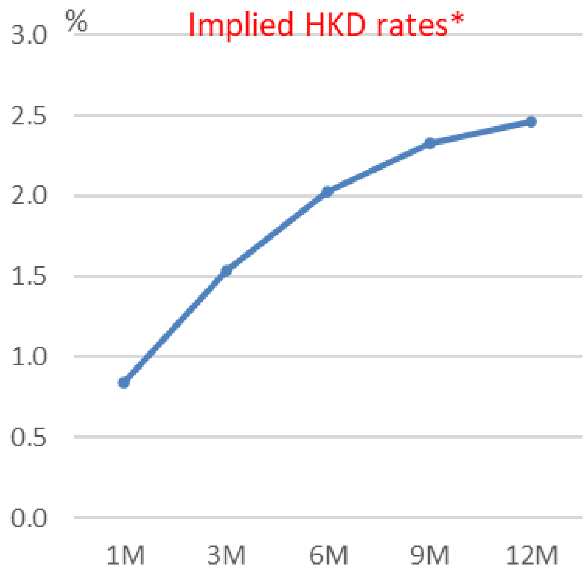


Source: Bloomberg, CEIC, OCBC Research

HKD-USD rates spreads may partially normalise

- As a result of the falls in HKD rates, HKD-USD rates spreads turned deeper into negative territory. Back-end forward outright trading below 7.7500 primarily reflects the very negative interest rate differentials. The uncovered part of interest rate parity (implied HKD basis) remain within ranges – e.g. 1Y implied HKD basis was last at -26bps which was on the low side but not out of range.
- Other than FX intervention at weak-side Convertibility Undertaking, factors which may tighten HKD liquidity include inflows (e.g. equity-related inflows) and recovering loan demand. Southbound Stock connect flows have been mostly positive, while the pick-up in IPO activities may also help sustain inflows. Loan demand, on the other hand, has yet to stage a strong recovery. HKD long-to-deposit ratio has been on an extended downtrend. OCBC economists expect a slow recovery on loan demand over time.
- We therefore maintain an upward bias to HKD-USD interest rates differentials.

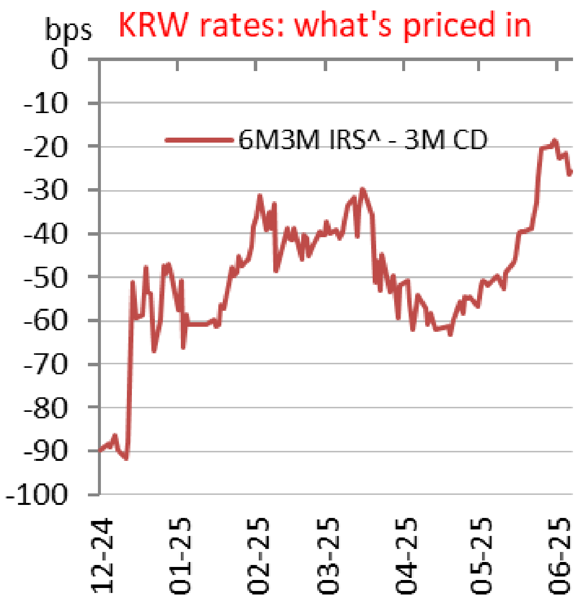


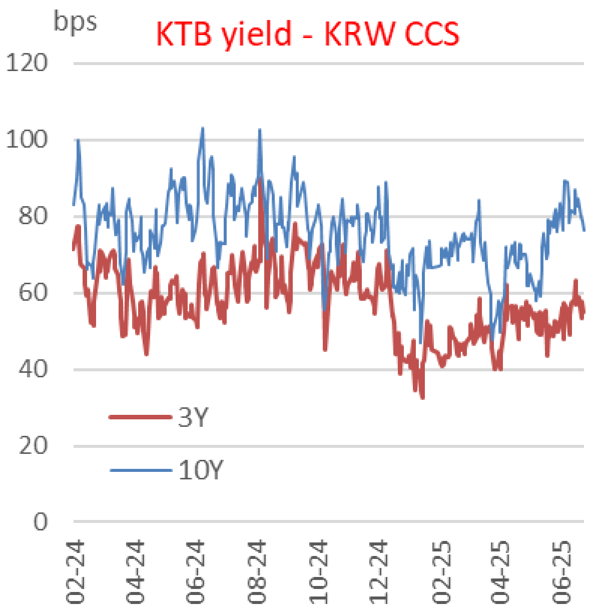


Source: Bloomberg, OCBC Research
*24 June

KRW rates: index-induced flows and safe-haven flows

- BoK delivered two 25bp policy rate cuts thus far this year and has maintained a dovish bias. We expect additional 50bps of cuts for the rest of the year, amid a soft growth outlook. Risk to our rate cut expectations emanates from concerns that easier monetary policy may fan housing demand. KRW rates market is pricing in around 25bps of cut on a 6-month horizon.
- We are constructive on KTBs on the favourable monetary policy backdrop, expected index-induced passive inflows, and potential safe-haven flows. Inclusion into FTSE WGBI has been delayed to April 2026 but full weight will still be reached by November 2026, i.e. weight will be increasing at a quicker pace. Latest estimate for the full weight is 2.05%. Depending on AUM assumption, cumulative passive inflows are estimated at USD40-50bn.
- The Korean government bond market is a relatively big market in the region, while having an AA/Aa2 local currency rating. Asset swap pick-up has widened back over the recent months, partly because of the lower KRW basis. Asset swap pick-up was last at around SOFR+58bps (mid-point, before taxes) at 3Y KTBs, and at around SOFR+82bps at 10Y KTBs.



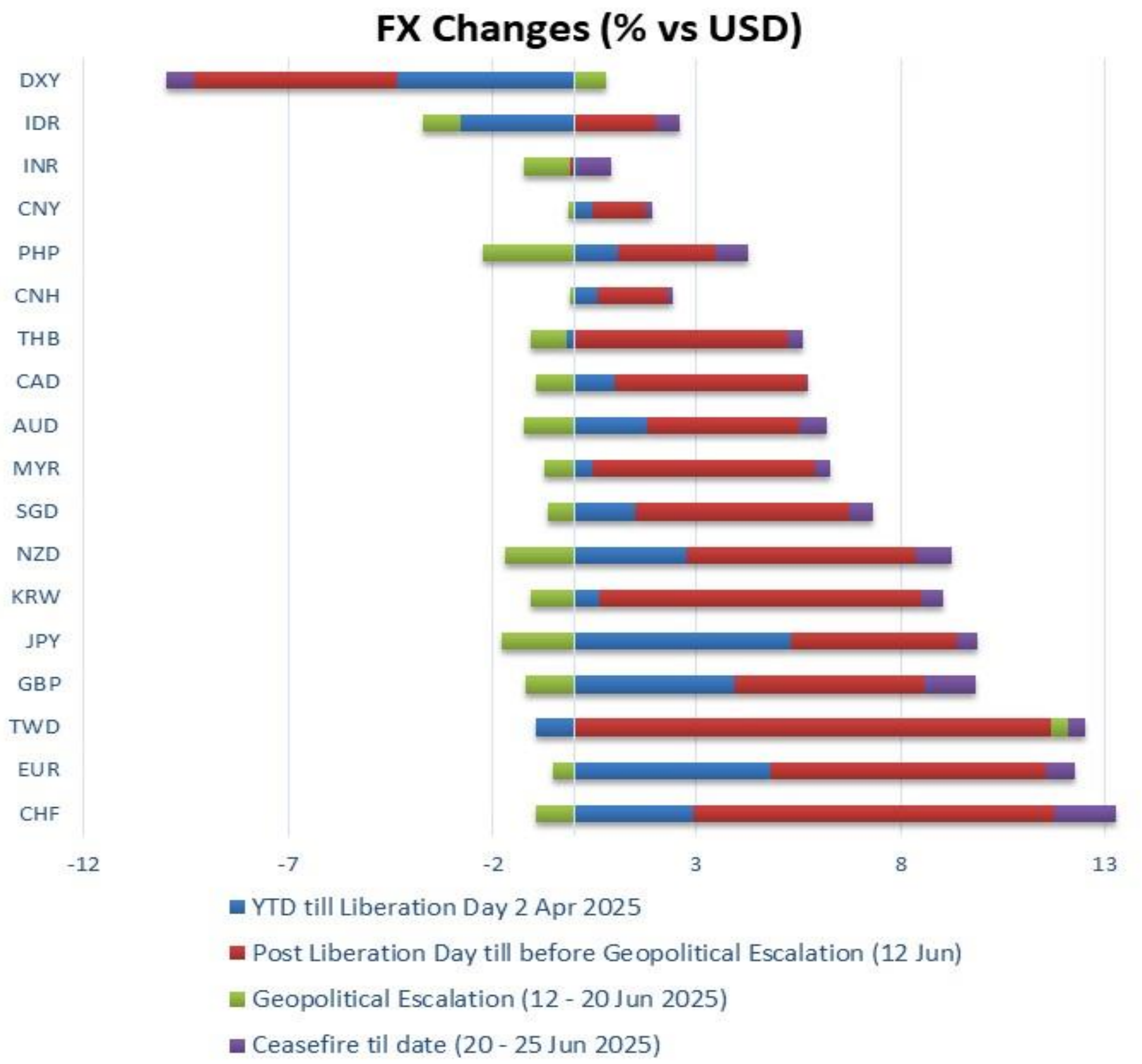


Source: Bloomberg, OCBC Research
^implied

FX 2H 2025 Outlook

Christopher Wong
FX and Rates Strategy

Broad USD underperformance, albeit slightly bumpy and uneven



Source: Bloomberg, OCBC Research
Note: FX sorted in order of cumulative gains YTD as of 25 June 2025

- USD saw broad weakness in 1H2025 YTD. This contrasts with 2024, when the greenback outperformed due to US exceptionalism, alongside hawkish re-pricing and fears of tariff/ trade war 2.0 during Trump's presidency.
- This time, USD's underperformance was due to USD diversification/ re-allocation flows, among many other factors.
- Top DM performers were CHF and EUR due to safe-haven demand and macroeconomic underpinnings.
- In Asian FX, North Asian FX including TWD, JPY and KRW outperformed ASEAN FX peers. 1/ Signs of foreign inflows returning, 2/ prospects of de-escalation in trade tensions as US engages in trade talks with a handful of Asian countries and 3/ chatters of FX being discussed with some countries (Korea, Japan, etc) during trade talks with US are some of the factors driving North Asian FX strength.
- Other underperformers include INR and IDR, as softer fundamentals weighed.
- Geopolitical escalation in Middle East temporarily derailed the "sell USD" momentum but this was reversed after the Israel-Iran ceasefire was reached.

Summary of FX Market Views:

- **"Sell USD" Trade.** US policy unpredictability related to Trump tariffs, erosion of US exceptionalism and increasing concerns over US fiscal health are some factors that can continue to hurt sentiment and confidence in the USD. Over the forecast horizon, we continue to expect USD to trade weaker as USD diversification/ re-allocation trend takes centre-stage while Fed cut cycle comes into focus in 2H 2025.
- As confidence in USD continues to waver, exporters in the region and asset managers will continue to reduce their USD holdings and increase hedge ratio — basically reducing USD exposure. TWD's surprise rally in early May serves as a reminder to those hoarding USD to manage their exposure. We believe Asian currencies can continue to appreciate so long USD softness persists owing to US-centric risks and that global growth outside US still holds up. That said, we also need to caution that in the event global growth starts to show signs of slowdown or coming to a standstill, then the momentum in Asian FX may slow.
- **Amongst DM FX, we favour long EUR, GBP and JPY**.
    - EUR: EU/ German spending plans can boost growth; ECB nearing the end of easing cycle while portfolio flows and reserve diversification out of USD may favour alternative reserve currencies such as EUR.
    - GBP: UK-US trade deal takes away the element of tariff uncertainty for UK while GBP as a DM carry alternative and softer USD trend are some factors that should still be supportive of GBP. USD diversification/ re-allocation flows can also benefit GBP amongst other reserve FX.
    - JPY: "Sell USD" trade, room for BoJ to hike rates and Fed-BoJ policy divergence should continue to underpin JPY strength.
- **Amongst AxJ FX, we see room for KRW, TWD and MYR to outperform; neutral on SGD; while IDR and THB may lag peers**.
    - KRW: Election results paved the way for greater political stability while the government focuses on delivering fiscal stimulus to support growth. Improvement in risk appetite should see high beta KRW appreciate further.
    - TWD: Ongoing demand from exporters and financial institutions to hedge USD exposure should be supportive of TWD.
    - SGD: Nearing S$NEER upper-bound suggests limited room for SGD to appreciate on trade-weighted terms.
    - IDR, THB: Likely laggards, held back by softer domestic fundamentals and tentative domestic uncertainty (TH).
    - **Risks**: 1/ Geopolitics can affect oil prices, sentiment and derail "sell USD" momentum. 2/ Tariff uncertainty — if nations will agree to unilateral tariff rates set by Trump; if tariff truce deadline on 9th Jul is extended.

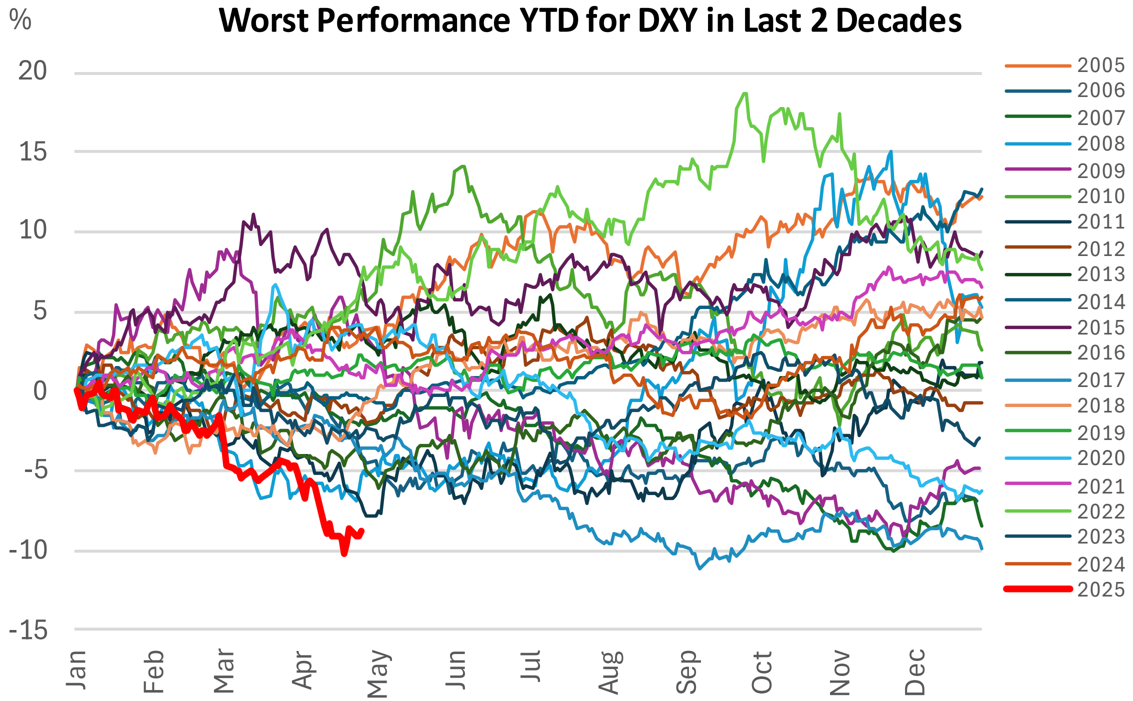
OCBC

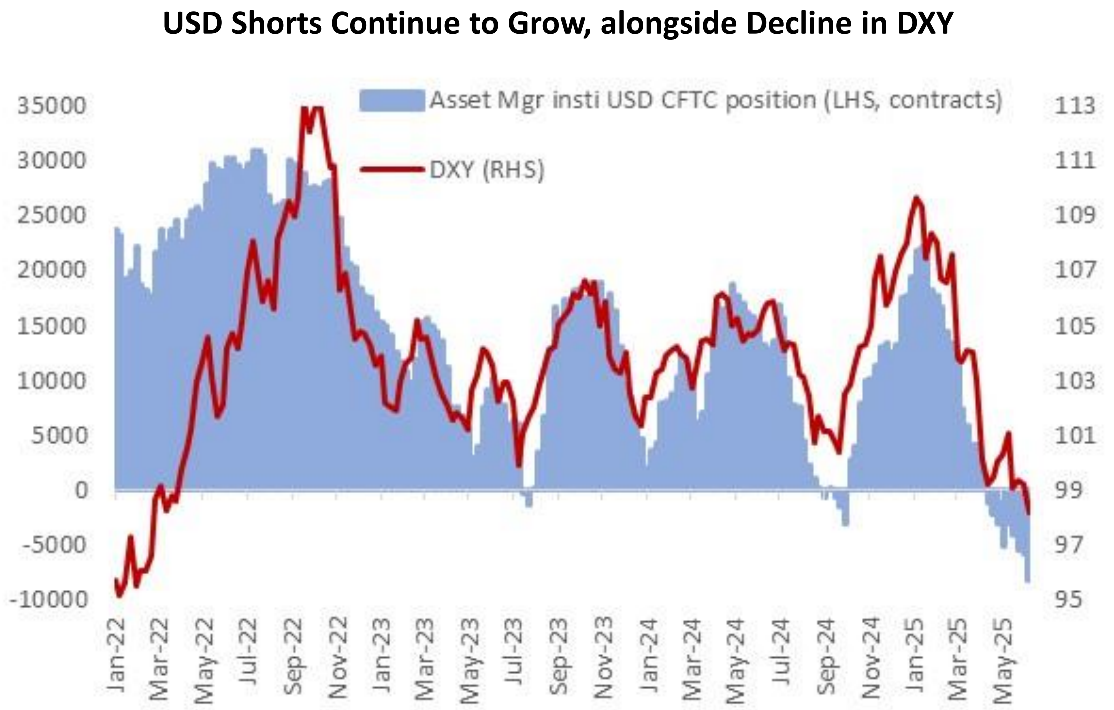
DM FX Outlook

DXY: One of the worst YTD performance in last 2 decades

USD underperformance this year has been driven by a confluence of factors, ranging from US policy unpredictability related to Trump tariffs, erosion of US exceptionalism and increasing concerns over US fiscal health which hurt sentiment and confidence in the USD.

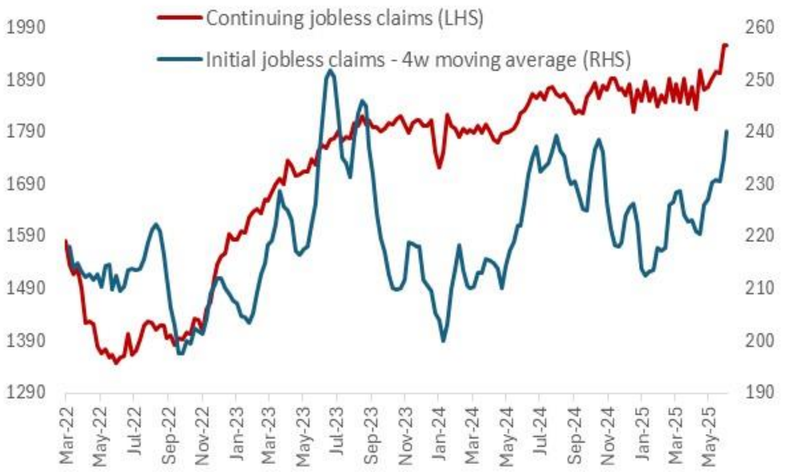
Over the forecast horizon, we continue to expect USD to trade weaker as USD diversification/ re-allocation trend takes centre-stage while Fed cut cycle potentially comes into focus in 2H 2025.

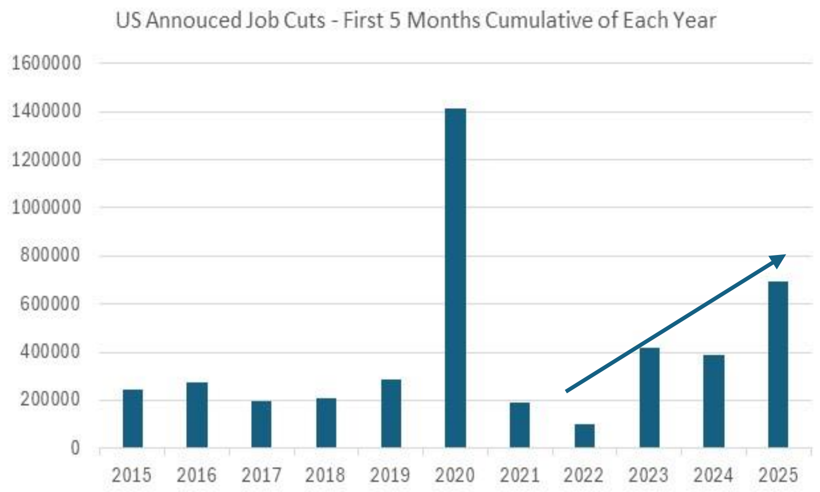


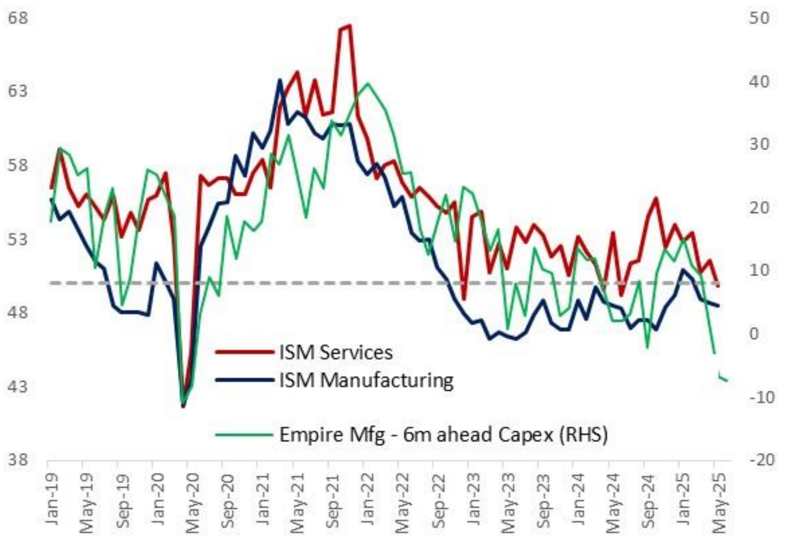


Source: Bloomberg (YTD as of 19 Jun 2025), OCBC Research

USD: US exceptionalism goes into reverse







Source: Bloomberg, OCBC Research

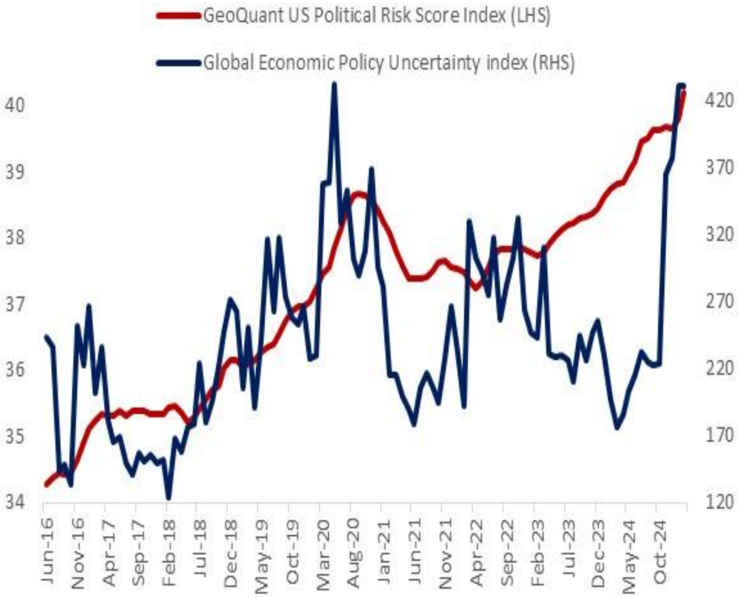
- US exceptionalism is fading: job market is showing signs of easing although there are no big cracks for now. Jobless claims continue to rise while job cuts surged.
- Softness in ISM surveys – both manufacturing and services sectors contracted, while Empire State Manufacturing Survey pointed to a weakening in capex as businesses held back investment decisions amid tariff, policy uncertainties.
- Downside surprises to inflation readings, but tariff pass-through may come in 3Q 25. That said, tariff are one-off price hikes. Cooling job market can help to mitigate tariff impact.

Growing doubts over USD’s status as safe-haven, reserve currency

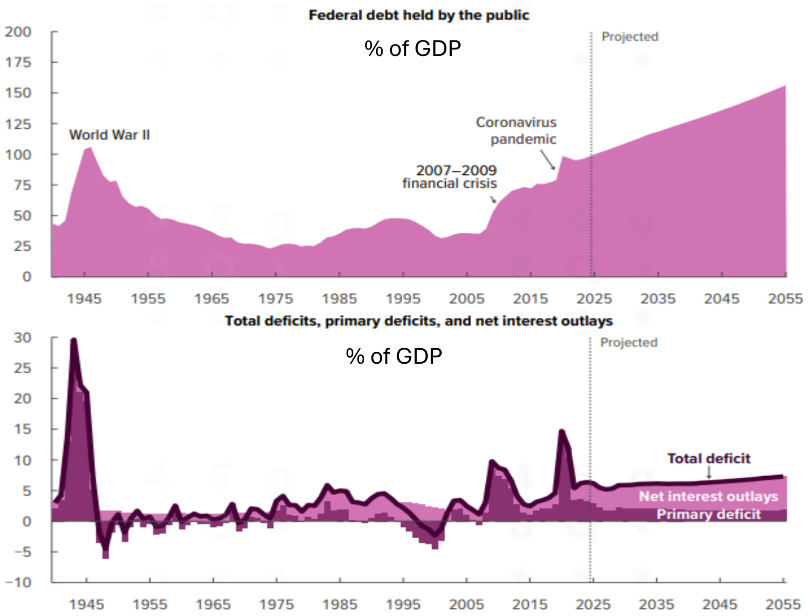
- Rise in **US protectionist measures**, **fading US exceptionalism** and **unsustainable rise in US debt** are some catalysts that may question USD’s status as a reserve currency. Likely not just a cyclical but a fundamental shift away from the USD, albeit at a gradual pace.

- One, Big, Beautiful Bill potentially add ~USD3trn to US's USD36.2trn debt over the next decade, with the deficit potentially stretching to around 7% of GDP in the coming years. While this may stimulate growth in the short term, it raises significant concerns about the rising trajectory of debt and deficits in the medium term, as well as the associated sovereign risk. These factors, combined with the policy unpredictability surrounding Trump’s tariffs and the erosion of US exceptionalism, can continue to undermine sentiment and confidence in the USD.

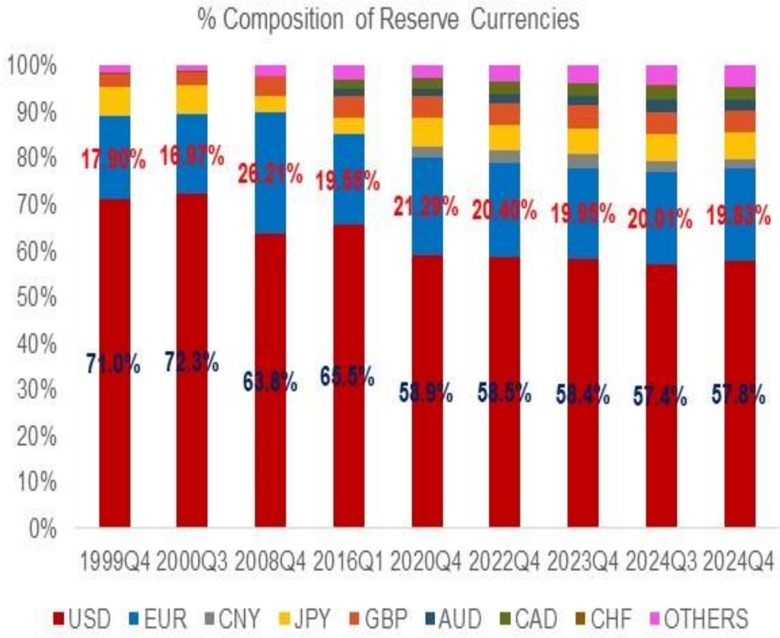
Global economic uncertainty, US political risk at elevated levels



Persistent deficits, ballooning debt raises questions about sustainability of US finances



A gradual but steady decline in USD share of global FX Reserves while others rose



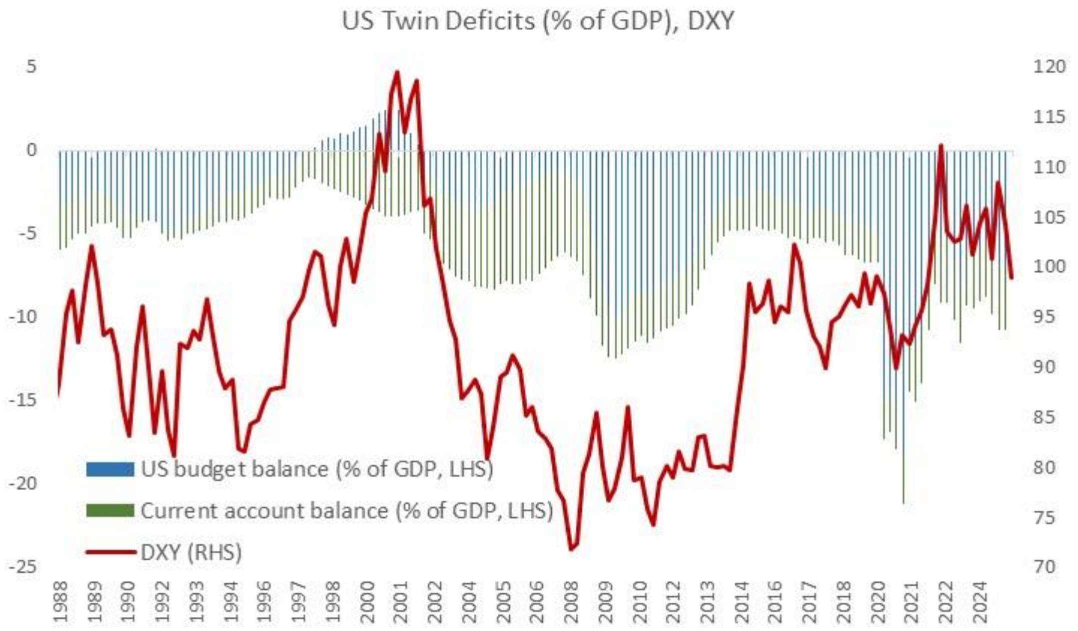
Source: IMF COFER, CBO Office, Bloomberg, OCBC Research

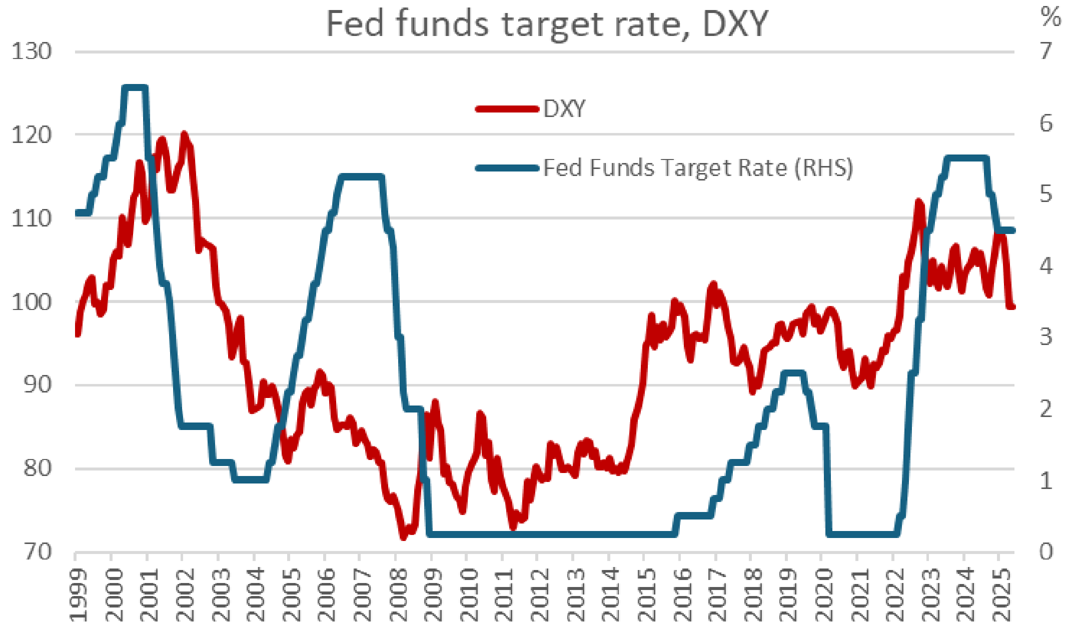
US-centric risks can undermine USD

- The last time we had a multi-year decline in the USD driven by US-centric risk factors were in 1/ 2002 - 2004 and 2/ 2007 - 2009.

- First episode in 2002 - 2004, where USD fell 30% was the widening in fiscal and current account deficits, which raises concerns about the sustainability of US economic policy. During the same period, there was also an Iraq war – military spending and the Fed at that time was also cutting rates, from 6% down to 1%.

- The second episode in 2007 – 2009 was also a case of widening twin deficits, Fed rate cut from 5.25% in mid-2007 to 0% by end-2008. More importantly, US subprime crisis was the trigger in mid-2007 and subsequently, the downfall of some US financial institutions. That period, USD fell over 20%.





Source: Bloomberg, OCBC Research

DXY: Break out of trend channel can open room for further downside

Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index
Source: Bloomberg (Monthly chart), OCBC Research

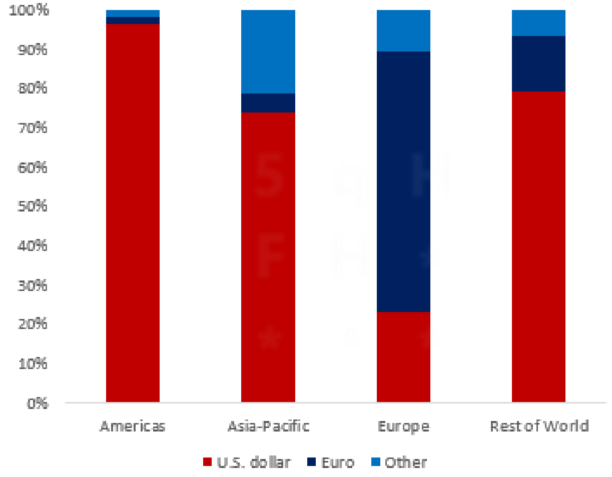
Nevertheless, no imminent displacement of the USD

Despite the US only accounting for 10% of global trade, trade invoices denominated in USD accounts for half of global trade, albeit its share faces a varying contrast depending on regions. In fact, other than Europe, the remainder of world still largely relies on USD for global trade invoicing. According to Boz et al, the share of USD in invoicing has varied little over history across different regions.

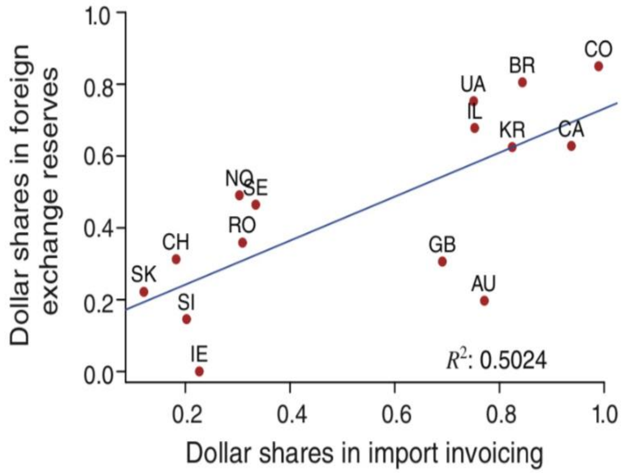
The FX markets is predominantly concentrated in USD with 88% (2022) of spot, forward and swap markets featuring USD in one leg of the transactions. As a comparison, the EUR, being the second most trade currency, is trailing behind with a rather large margin.

USD still accounts for ~58-59% of global foreign exchange reserves though this share has fallen over the last 2 decades. Liquidity in the US government bond market also remains unmatched globally. USD share of swift payment is still high around 49% (as of 1Q 2025) vs. 5y average of 43%. Overall, USD still holds dominance in transactional uses and is a primary currency in international banking and debt markets.

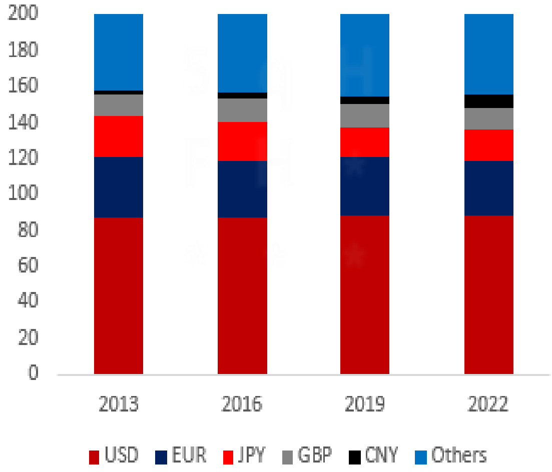
% Share of export invoicing through 1999 to 2019



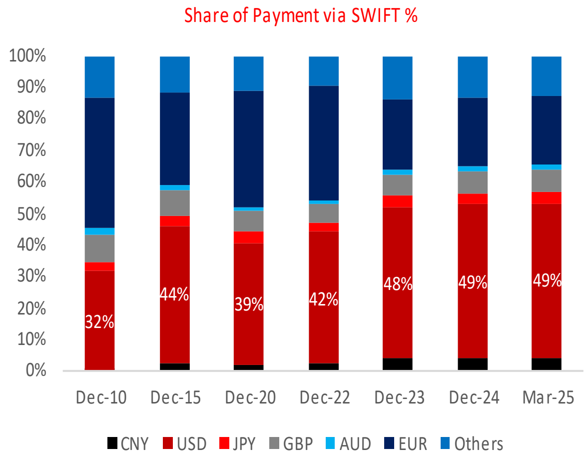
Strong correlation between USD share in import invoicing and USD share in FX Reserves



% Share of FX turnover by currency



USD share of swift payment is still high around 49%



Source: IMF Direction of Trade; Central Bank of the Republic of China, Federal Reserve, Gita Gopinath & Jeremy C. Stein, 2018, OCBC Research

EUR: Room for EUR to shine

- We remain constructive on EUR's outlook due to recent developments:

  1/ German/European defence and infrastructure spending plans can lend a boost to growth;

  2/ a Ukraine peace deal at some point (can lead to supply chain normalisation, lower energy costs, reduce existing burden on corporates and households, improve sentiments and growth outlook);

  3/ prospects of ECB cut cycle nearing its end while there is room for Fed to resume easing cycle;

  4/ China's economic growth showing tentative signs of stabilisation (stable to stronger RMB can see positive spillover to EUR);

  5/ signs of portfolio flows and reserve diversification that may favour alternative reserve currencies such as the EUR.

- Also, the main factors that previously constrained reserve managers' allocation to EUR was the European sovereign debt crisis/fears on Euro breakup in 2011/12, the era of negative rates in EU, and limited availability of EUR-denominated bond papers. Today, these issues are no longer a hurdle.

- The EUR today is in a better position to benefit from a potential reduction in USD dominance in trade flows, international payments, reserve diversification and FX turnover.

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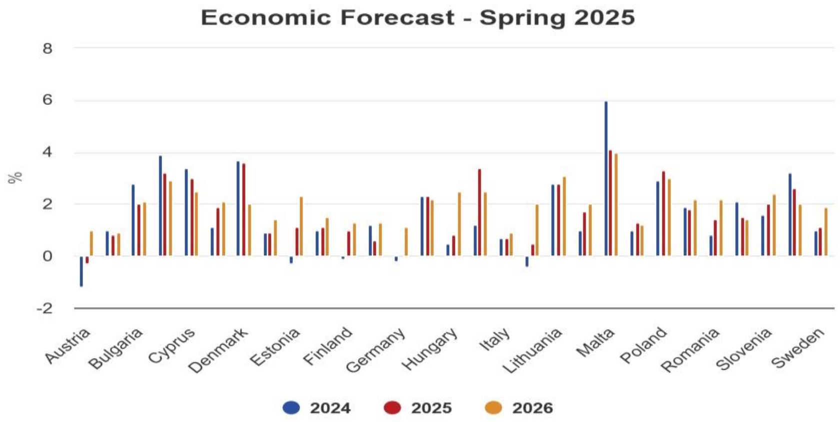
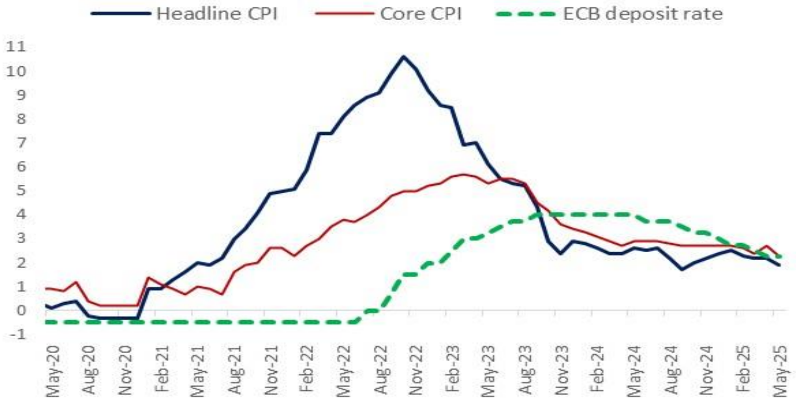
Source: OCBC Research

EUR: Supportive factors

Moderate growth outlook, supported by continued consumption growth and rebound of investments

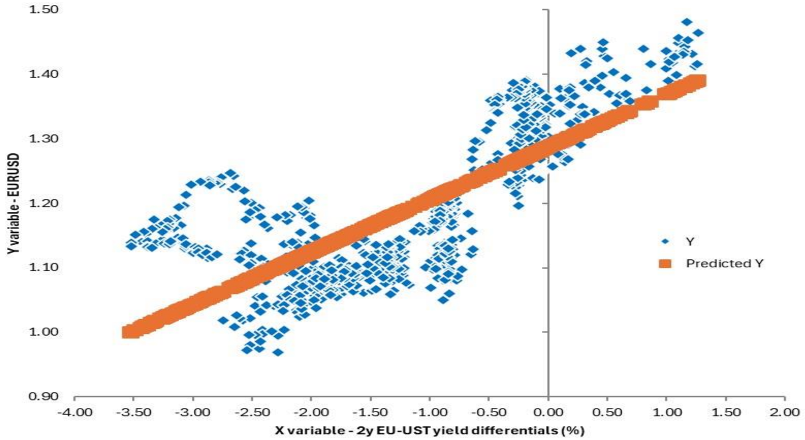


ECB's easing cycle nearing its end as inflation eases to below 2% target, though risks remain (watch oil prices)



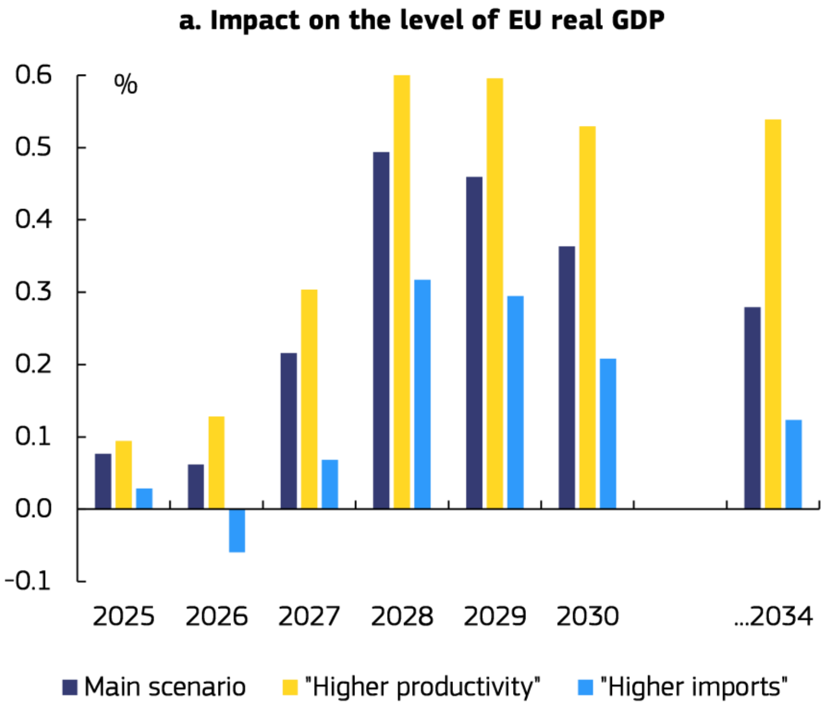
Surge in pan-European equities to record high, alongside the sharp rebound in EUR

Room for EUR to strengthen to 1.20 over time, if EU-UST yield differentials continue to narrow (ceteris paribus)



Note: (1) Growth forecasts based on Spring 2025 Economic forecasts; EURUSD simplified fair value estimate modelled as a function of 2y EU-UST yield differentials (OCBC estimates)
Source: Bloomberg, European Commission, OCBC Research

Higher defence spending can provide a modest boost to economic growth



- Heightened geopolitical tensions and the changing focus of traditional allies has prompted EU leaders to strengthen EU defence capabilities.
- The Readiness 2030 package provides financial levers to increase defence capabilities in the EU. This flexibility would allow Member States to temporarily exceed the net expenditure paths set out by the Council to finance increased defence spending. To safeguard fiscal sustainability, the Commission has framed the timing and scope of the national escape clause: the flexibility for higher defence spending is capped at 1.5% of GDP compared to a base year and will be available for a period of four years (2025-2028).
- According to European Commission's estimate of a linear increase in defence spending by up to 1.5% of GDP (starting 2025 till 2028) shows that real GDP would rise by 0.5% above baseline by 2028 (in the main scenario).
- A higher share of spending devoted to R&D and infrastructure investment could generate more positive GDP effects in the longer term ('higher productivity' scenario), while a "higher imports" content of defence spending would reduce the overall economic stimulus in the EU.

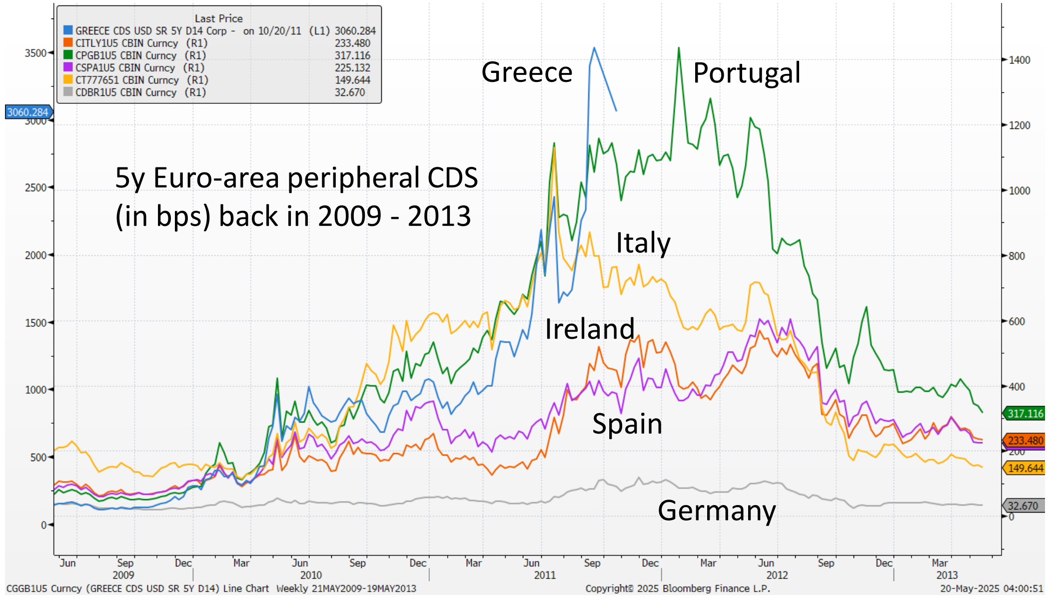
OCBC

Note: Model simulation using QUEST macroeconomic model was intended to present potential effects of defence expenditure and several assumptions were made by the European Commission in this exercise. For details, please refer to this report published by European Commission in May 2025
Source: European Commission, Bloomberg, OCBC Research

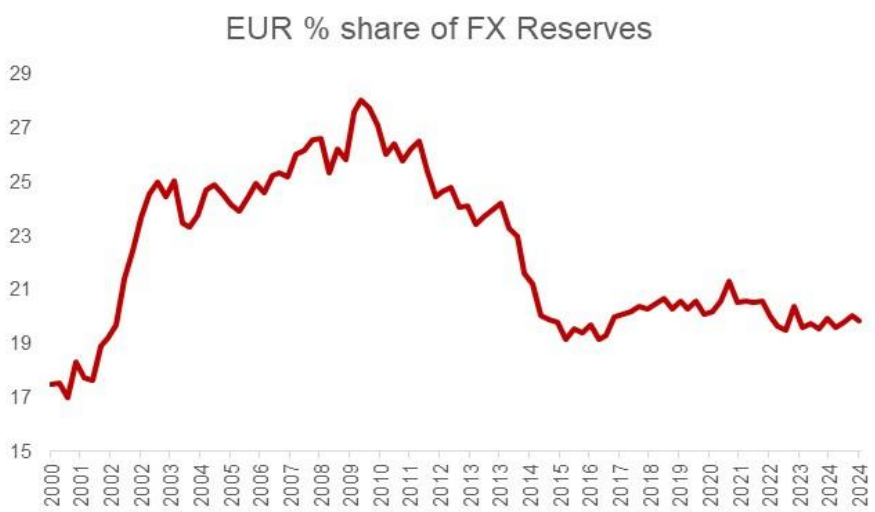
EUR may be in a better position today to benefit from any USD fallout

- EUR's share of global FX reserves fell from over 28% (in 2009) to around 20% in 2016. For the last decade, EUR's share did not recover.
- While Greece was the focal point of the European sovereign debt crisis in 2010-12, contagion quickly spread to other vulnerable countries. Negative feedback loops between vulnerable banks, indebted sovereigns, weak economies which took hold in several countries (Shambaugh et al., 2012). Fears of Euro-area breakup then led to concerns about the stability of EUR.
- This time however, issues of the past were less of a hurdle for the Euro-area and EUR today. Euro-area bond market appears less fragmented today with bond yields and spreads showing relative stability. EUR may be in a better position than before to benefit from any decline in USD's dominance.

European sovereign debt crisis in 2010-12



Room for EUR % share of FX Reserves to recover from multi-year low



Source: ECB, Bloomberg, OCBC Research

EU, ECB officials appear "Comfortable" with EUR's strength thus far; promoting bond market as a haven

Bloomberg.com

ECB's Lagarde Says Euro's Strength Is Counterintuitive, But Justified

European Central Bank President Christine Lagarde said the recent rise of the euro against the dollar is a consequence of US President...

18 May 2025

THE ECB BLOG

Europe's "global euro" moment

17 June 2025

By Christine Lagarde, President of the European Central Bank

> *For the euro to reach its full potential, Europe must strengthen three foundational pillars: geopolitical credibility, economic resilience and legal and institutional integrity.*

EU capital markets are "an anchor of stability" that he contrasted with the "turbulence" of US markets. It's an opportunity for Europe to strengthen its position in global capital markets, …these shifts take some time, and we don't have concrete numbers here, but we see the interest. We see new names in our syndicated transactions from countries or regions which are typically very dollar based.

Siegfried Ruhl, senior advisor to EU
17 Jun 2025

- Isabel Schnabel sees a "window of opportunity" to increase the international role of the euro as investors turn to Europe.
- Schnabel notes that investors are focusing on the continent to diversify their portfolios, calling it a "positive confidence effect".
- European policymakers, including Christine Lagarde, are seeking to strengthen the euro's global role, taking advantage of President Donald Trump's attacks on global trade and US institutions.

8 Jun 2025

ECB relaxed about euro strength, risk of too low inflation, de Guindos says

By **Balazs Koranyi** and **Francesco Canepa**

June 16, 2025 1:04 PM GMT+8 · Updated June 16, 2025

Aa

The Economist

Greece's central-bank chief on why the euro should take on a bigger role as the dollar's dominance wanes

THE TRUMP administration has injected a level of uncertainty into the international monetary system that global investors can no longer...

22 May 2025

OCBC

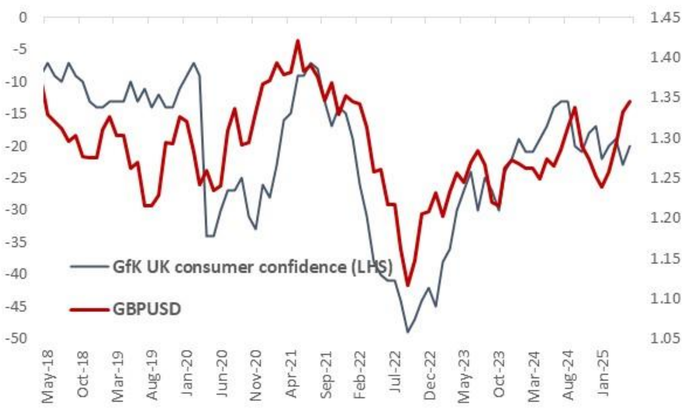
Source: Various media, OCBC Research

EUR: Rebound from multi-year lows may have legs

Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index
Source: Bloomberg (Monthly chart), OCBC Research

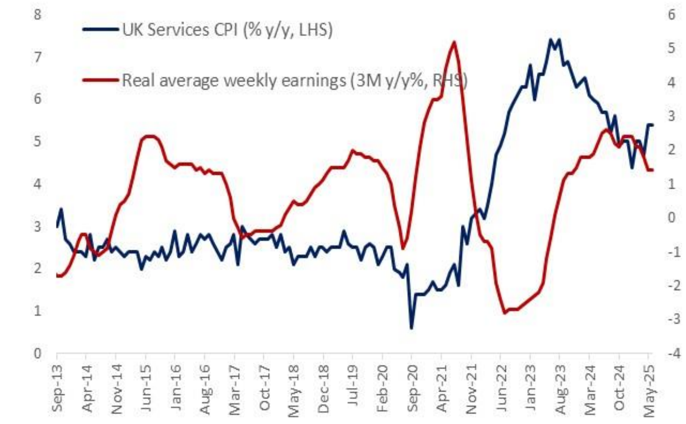
GBP: Cautiously optimistic

Strengthening in UK consumer confidence supportive of GBP upside

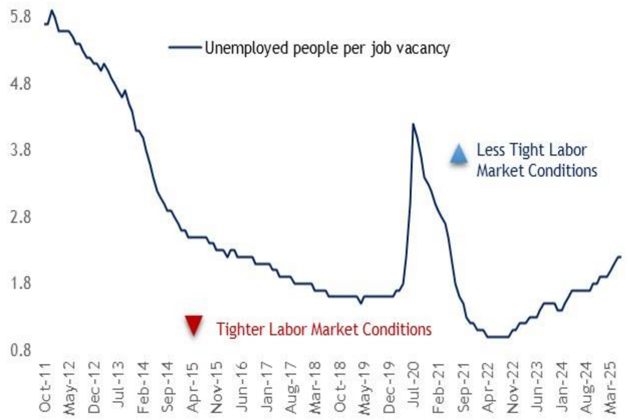


GBP long position does not appear crowded; room for bullish momentum to stretch

Slowing wage growth and moderation in price pressures warrant a gradual BoE rate cut cycle



Loosening job market thus far – will it loosen further?

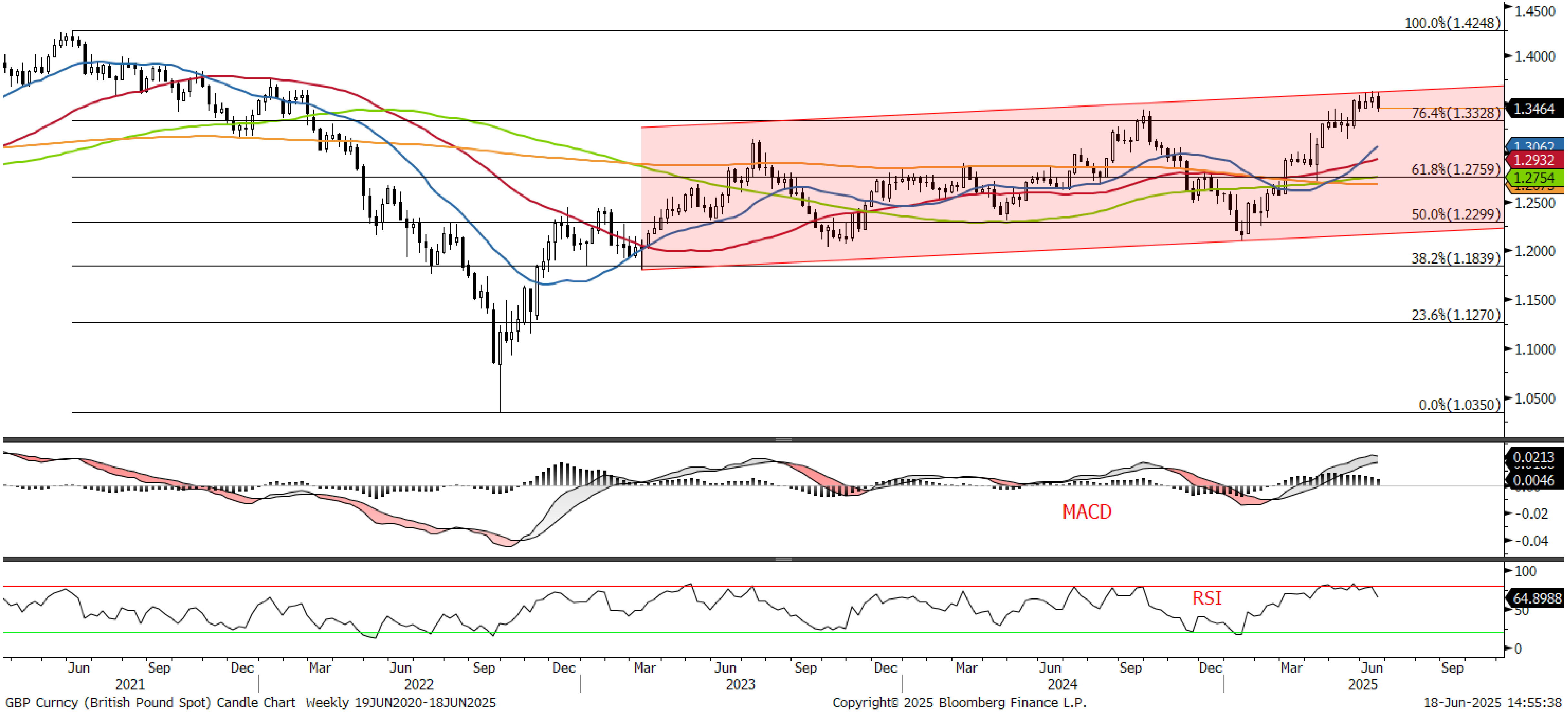


- We are slightly optimistic on GBP outlook, owing to soft USD narrative. The UK trade deal with US takes away some element of tariff uncertainty for now while GBP as a carry alternative, alongside softer USD trend are some factors supportive of GBP. USD diversification/ re-allocation trend can also benefit GBP amongst other reserve FX.

  For downside risks, we continue to watch labour market development (if job growth slows further) and if BoE may quicken rate cut cycle (lesser risk for now unless conditions deteriorate). The KPMG and REC UK Report on Jobs for May showed a continued decline in UK recruitment activity, with hiring activity for permanent staff slowing. Employers are still holding back on hiring due to weaker confidence around the outlook and concerns over costs has dampened staff hiring. Elsewhere, candidate supply saw its sharpest rise in 4.5 years. It was also mentioned in the report there were frequent cases that redundancies and fewer job opportunities has pushed up candidate numbers in the latest survey period.

Source: Bloomberg, OCBC Research

GBP: Mild bullish trend channel intact



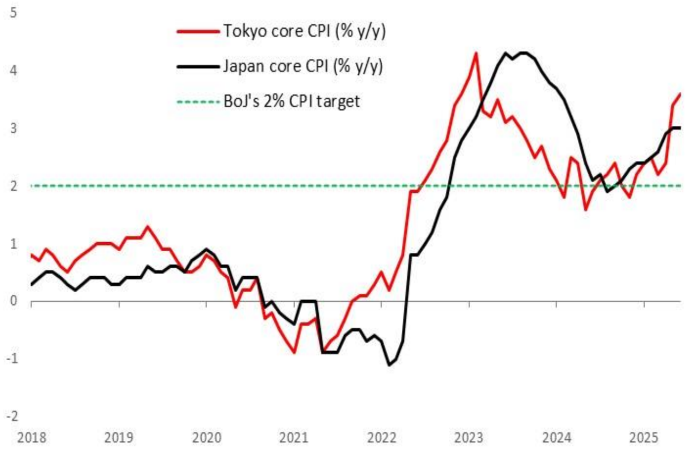
OCBC

Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index

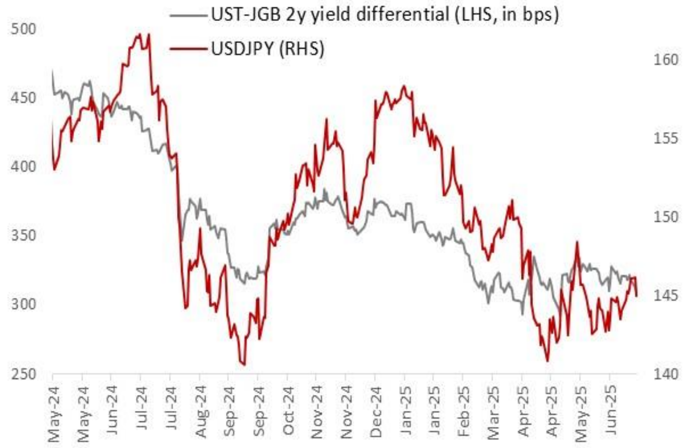
Source: Bloomberg (Weekly chart), OCBC Research

USDJPY: Resumption of downtrend after short squeeze

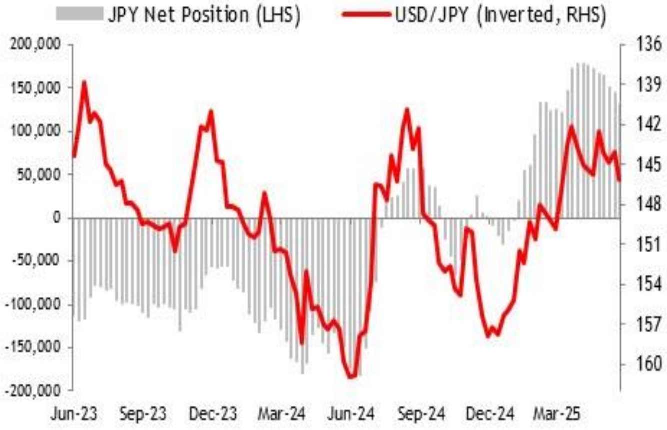
Still room for BoJ to pursue policy normalisation amid rise in services inflation



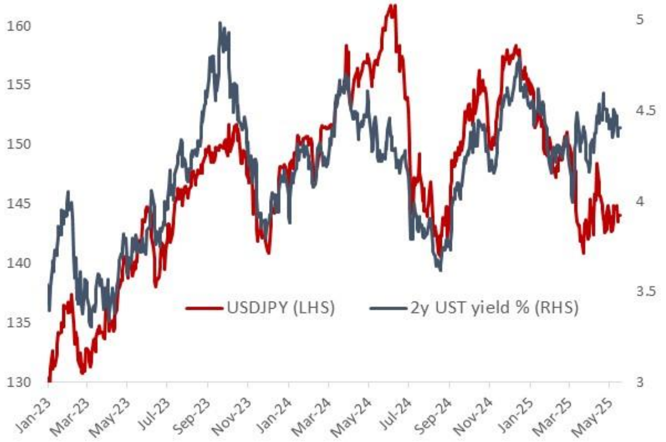
Further narrowing of UST-JGB yield differentials to underpin USDJPY's direction to the downside



JPY longs are high; unwinding of JPY longs may add to JPY weakness



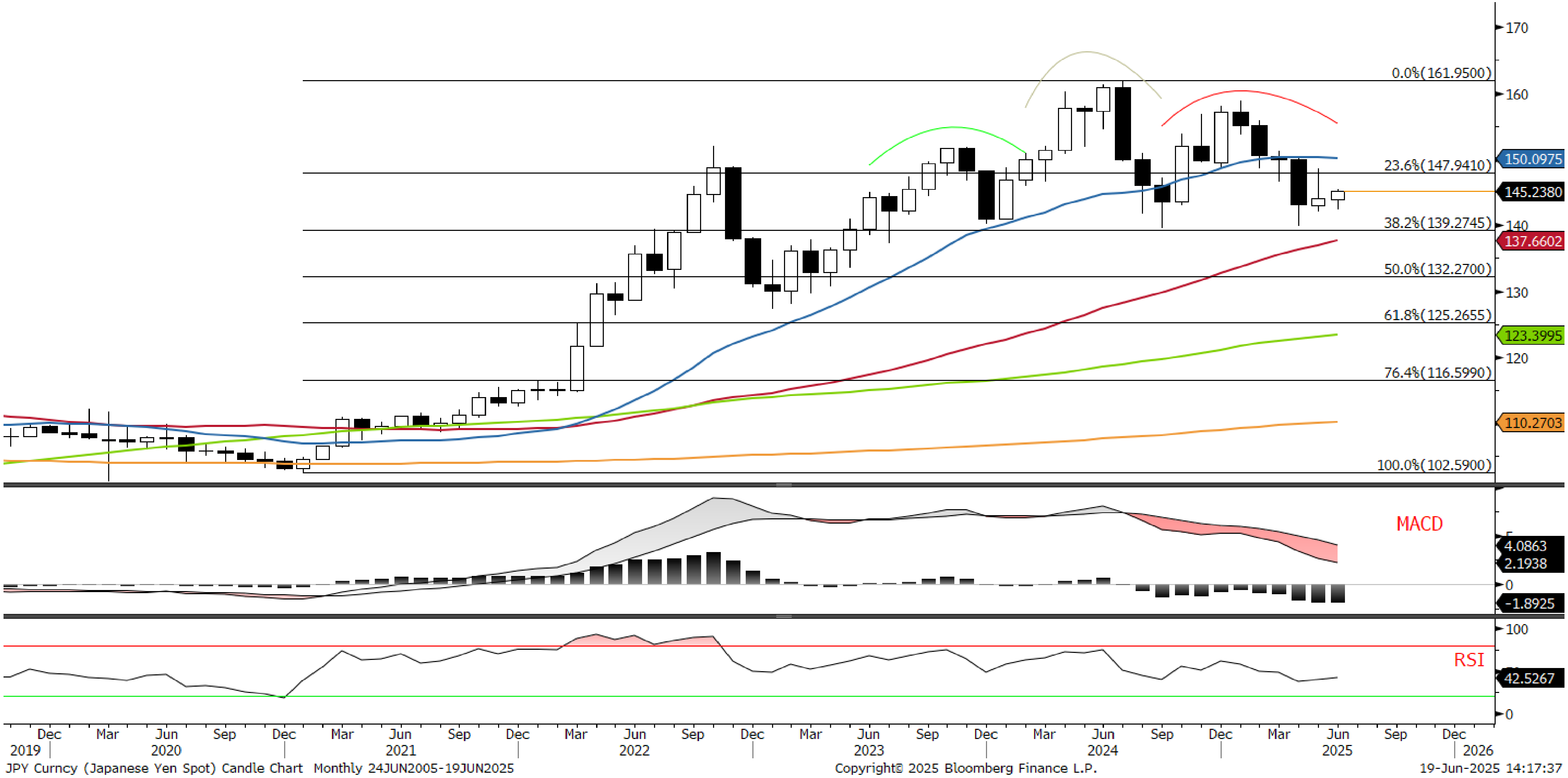
Risks: Rise in oil prices may pose upward pressure to USDJPY



- More broadly, we continue to look for USDJPY to trend lower, premised on the USD sell-off story and Fed-BoJ policy divergence at some point (Fed rate cut cycle to resume while the BoJ has room to further pursue policy normalisation). Of interest, some Fed officials have tilted dovish and Powell is open to earlier rate cuts if inflation pressure is contained. Meanwhile, wage growth, broadening services inflation and upbeat economic activities in Japan should continue to support BoJ policy normalisation.
- While the timing of BoJ policy normalisation may be deferred, policy normalisation is not derailed. Fed-BoJ policy divergence and USD diversification theme should still support USDJPY's broader direction of movement to the downside.
- Risks to consider: 1/ JPY longs are significant by historical standards – any unwinding can result in JPY weakness; 2/ oil prices due to geopolitical risks in Middle East; any unexpected halt to Fed-BoJ policy normalization plans.

Source: Bloomberg, OCBC Research

USDJPY: More downside should 'neckline' gives way

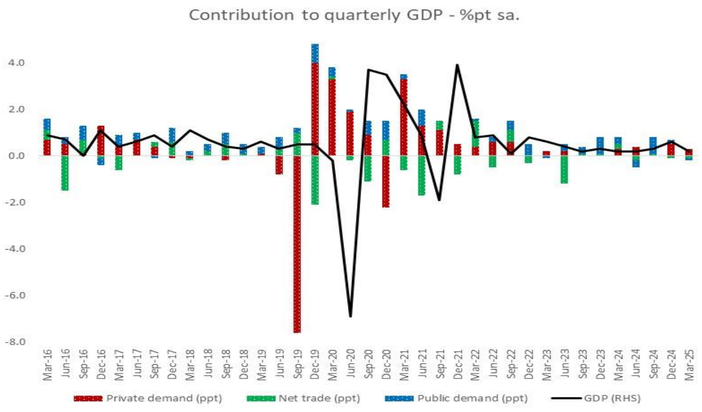


Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index

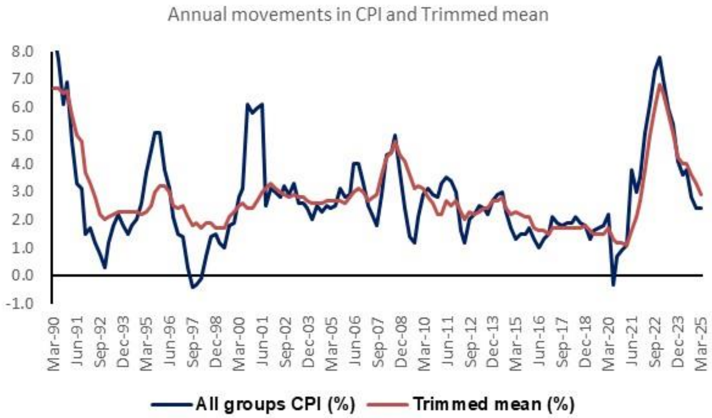
Source: Bloomberg (Weekly chart), OCBC Research

AUD: To trend higher gradually

Growth likely to continue; pace of recovery may be more gradual

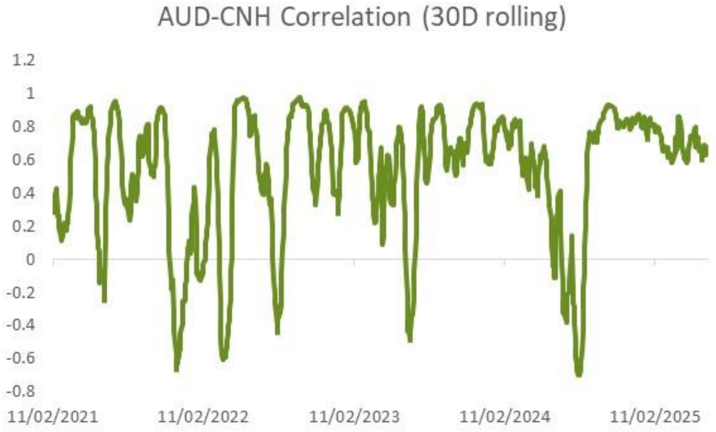


Disinflation journey progressed steadily; AU CPI returns to RBA's target range



AUD a risk-sensitive FX; swings in equities will affect AUD

AUD and CNH correlation remains significant; swings in CNH likely to influence AUD



Source: Bloomberg, OCBC Research

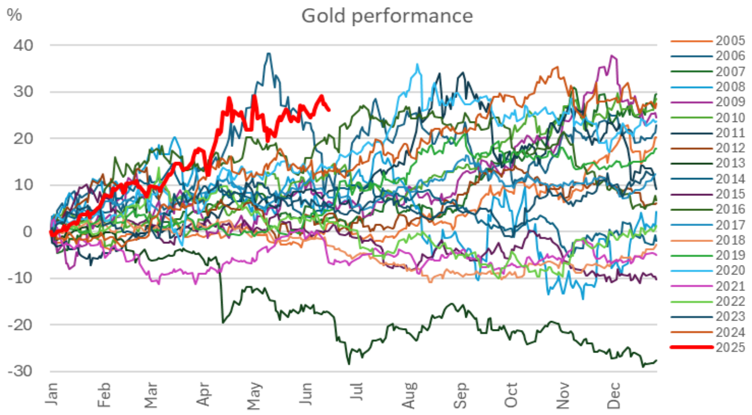
- AUD, a high beta FX, can be exposed to geopolitical shocks, swings in RMB, equity sentiments and global growth prospects. The interplay of geopolitical risks (weighing on sentiments), dovish RBA, tariff uncertainty are some factors that restrain AUD from breaching higher but on the other hand, softer USD trend cushions the impact.
- Australia growth remains intact but pace of recovery is expected to moderate, due to weaker global demand, trade related uncertainties and softer domestic consumption momentum. Slowing CPI into RBA's target range and a less tight labour market allows for RBA to continue it gradual path of easing monetary policy. This calibration should be perceived as one of the means of supporting growth.
- Near term, geopolitical flare-up in Middle East and uncertainty going into 9th Jul expiry of US tariff truce may see a more cautious stance. A downside pullback is not ruled out in the interim before AUD continues to trend higher when USD softness resumes, geopolitical uncertainty fades and China's growth momentum/ RMB finds firmer footing.

AUD: Tentative signs of bullish turnaround

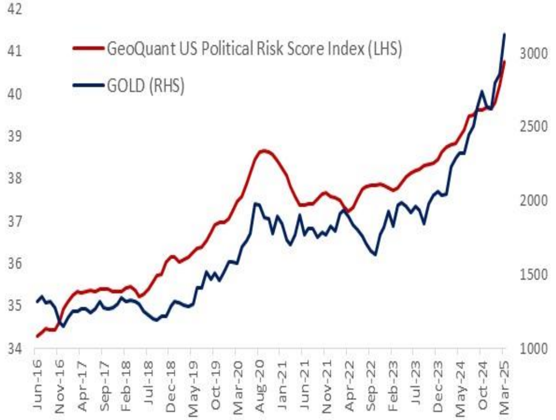
Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index
Source: Bloomberg (Weekly chart), OCBC Research

Gold: Constructive bias but pace of gains may slow

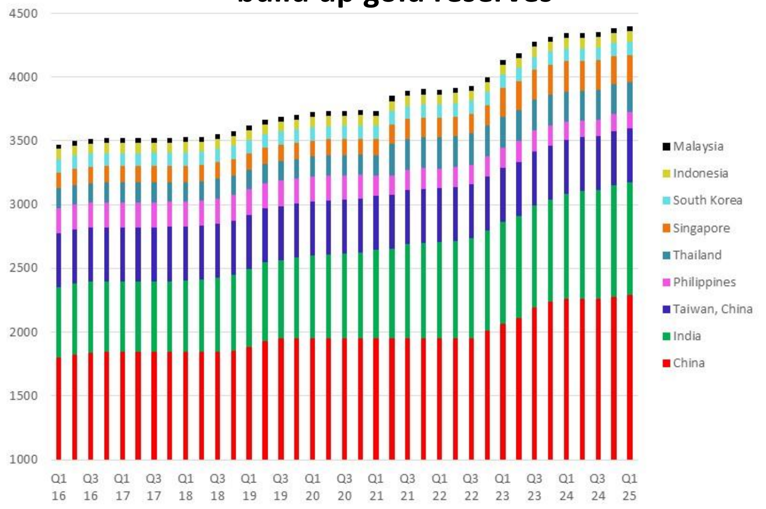
One of the strongest YTD performance in 25 years



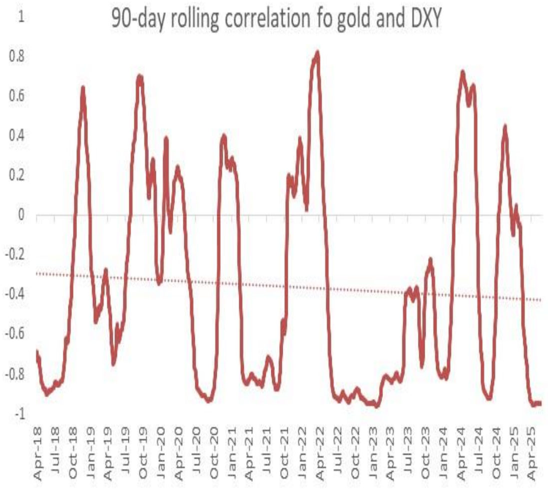
Gold rises alongside the rise In political uncertainty



Central banks continue to build up gold reserves



Strong inverse correlation; watch for risk of USD rebound



Gold's ~30% rally in 2025 has been driven by a powerful mix of macroeconomic, geopolitical and structural forces. Persistent geopolitical tensions—from Ukraine to the Middle East—which have boosted gold's appeal as a safe-haven asset in an increasingly uncertain world. Global central banks easing monetary policies is also supportive of gold prices. Meanwhile, US policy unpredictability especially with regards to tariff uncertainties, questions about US debt sustainability are also some drivers that have undermined sentiments in the USD.

Structural demand has also played a major role. Central banks, particularly in emerging markets like China and Turkey, have been aggressively diversifying reserves away from the USD and into gold, with official sector purchases hitting record highs.

Combined with growing retail and institutional interest, these factors have propelled gold to new all-time highs, cementing its role as a key hedge in portfolios.

A statistically strong inverse relationship between gold and USD shows gold acting like a clean "anti-USD" trade while other factors such as real yields take a back seat. That said, if USD were to rebound, then gold could face a meaningful corrective pullback.

Note: YTD gold performance as of 19 Jun 2025
Source: Bloomberg, Various central banks, World Gold Council, OCBC Research

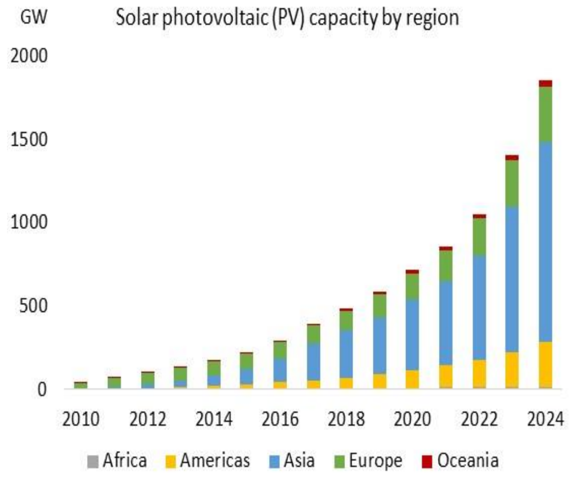
XAU: Bulls consolidating near record highs

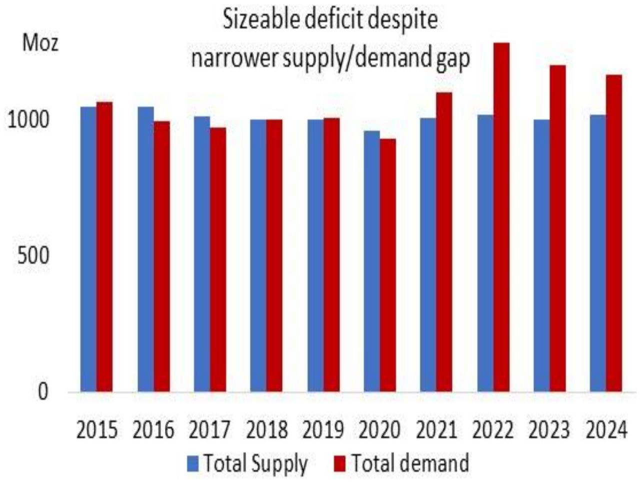
OCBC

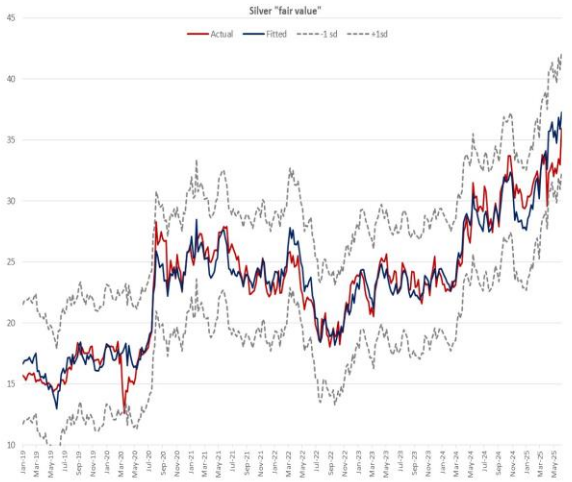
Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index
Source: Bloomberg (Weekly chart), OCBC Research

Silver: Room to play catch up

- The outlook for silver remains constructive, driven by several key factors: strong momentum behind the low-carbon transition, safe-haven appeal, physical market undersupply, positive spillover effects from gold prices onto other "less expensive" precious metals and potential industrial demand for post-war reconstruction demand.
- Robust growth in the solar sector is expected to remain a major factor in driving silver demand, with a significant portion of this growth projected to come from China as they are the global leader in solar PV installations. According to IEA, global new renewables installations hit record levels for the 22nd consecutive year, of which nearly 80% was solar PV. As the demand for solar energy continues to rise, silver's critical role in solar PV is likely to further support prices.
- Drawing on the last 50 years of silver price cycles — marked by sharp surges and corrections — we identify recurring macro drivers such as geopolitical tensions, inflation concerns, monetary policy shifts, investor sentiment, and industrial demand. We then modelled the relationship between several key drivers in attempt to find the "fair value", which appears to suggest that there is room for further upside. Fair value around \$37.40/oz, with upper bound around \$42/oz.







Notes: OLS regression on weekly frequency data starting 1 Jan 2019 till 4 June 2025. Estimates based on COMEX silver positioning (as a proxy for investor sentiment); 10-year breakeven inflation rates (proxy for inflation expectations, shifts in market expectations on monetary policy, economic conditions); Gold prices (proxy for safe-haven demand), US 10y real yields (opportunity cost of holding non-yielding assets); prices of copper (as proxy to industrial demand); and the DXY dollar index (USD trend).
Source: IRENA, IEA Global Energy Review, Metals Focus, Bloomberg, OCBC Research

XAG: Break out trade but some tentative retracement

OCBC

Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index

Source: Bloomberg (Weekly chart), OCBC Research

AxJ FX Outlook

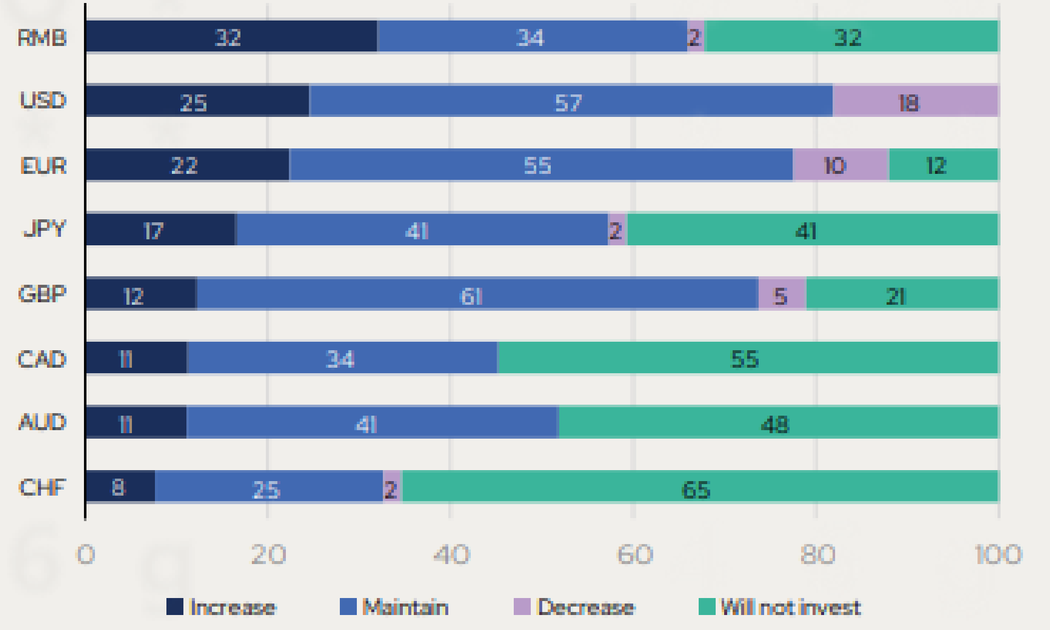
OMFIF Survey Findings: USD diversification trend remains intact

- USD is the only currency where net demand by reserve managers has dropped in the past year.
- Central banks surveys indicated their intent to raise allocation in most other currencies – highlighting a broad trend of diversification or re-allocation flows out of USD, over the next 12–24 months. EUR, RMB and JPY could further see an increase in allocation.
- Over a 10y horizon, reserve managers' preference is to increase their exposure to RMB. Report indicated that this is the 3rd consecutive year, 30% or more central banks expect to add to their RMB holdings. This share is also concentrated among respondents in EM countries.

Do you plan to increase, decrease or maintain your exposure to the following currencies over the next 12-24 months? Share of respondents, %

	Increase	Maintain	Decrease	Net
EUR	23 (▲17)	70 (▼73)	7 (▼10)	16 (▲7)
RMB	20 (▲13)	73 (▼75)	7 (▼12)	14 (▲2)
JPY	11 (▲3)	88 (▼90)	2 (▼7)	9 (▲-3)
AUD	9 (▲3)	89 (▼95)	2 (►2)	7 (▲2)
CAD	7 (▲0)	91 (▼100)	2 (▲0)	5 (▲0)
GBP	13 (▲5)	79 (▼88)	8 (▲7)	5 (▲-2)
USD	20 (▼29)	64 (▲60)	16 (▲11)	5 (▼18)
CHF	4 (▲0)	95 (▼98)	2 (►2)	2 (▲-2)

Do you plan to increase, decrease or maintain your exposure to the following currencies over the next 10 years? Share of respondents, %



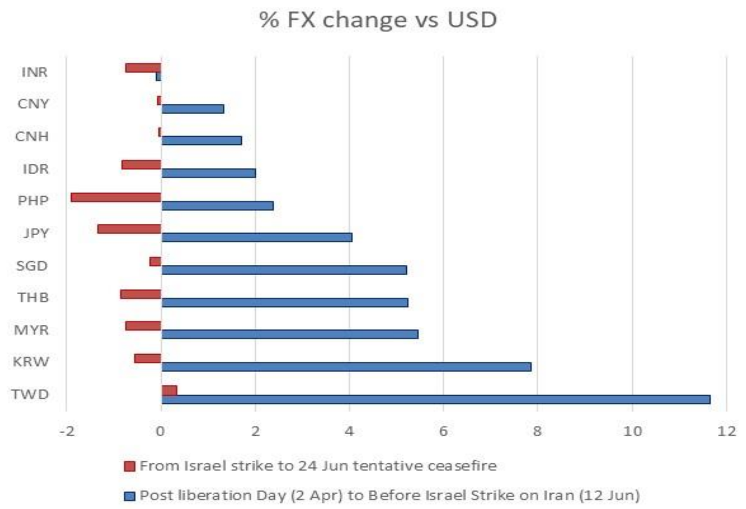
Note: Survey conducted between Mar and May 2025 on 75 central banks globally (with international reserve assets totalling $5.2tn).
Source: OMFIF Global Public Investor 2025 Survey, OCBC Research

Asian FX: Room for recovery to resume

- The relatively strong performance in Asian FX was largely due to a "sell USD" trade, signs of foreign inflows returning, prospects of de-escalation in trade tensions as US engages in trade talks with a handful of Asian countries including China, Korea, Japan as well as chatters of FX being discussed with some Asian countries during bilateral trade talks with US (i.e. Korea).

- “Sell USD” trade is due to a range of reasons from US policy unpredictability related to Trump tariffs to an erosion of US exceptionalism and increasing concerns over US fiscal health. These factors can continue to hurt USD sentiments.

- As the confidence in the USD starts to waver after geopolitical tensions fade, exporters in the region, asset managers will continue to reduce their USD holdings and increase their hedge ratio – basically reducing USD exposure. Asian currencies can continue to appreciate so long USD softness persists owing to US-centric risks and that global growth outside US still hold up. But the momentum could be jeopardised if US exceptionalism makes a comeback or if global growth shows further signs of weakening or if there is a systematic crisis/ geopolitical setback.



	06-Feb-25	20-Feb-25	06-Mar-25	20-Mar-25	03-Apr-25	17-Apr-25	01-May-25	15-May-25	29-May-25	12-Jun-25	Trend
USD/CNY	1.15	0.88	0.77	0.24	0.47	0.57	0.2	0	-0.67	-0.78	
USD/KRW	1.01	0.83	1	0.72	1.13	0.19	-0.06	-0.22	-1.2	-1.37	
USD/SGD	0.86	0.31	0.34	0.15	0.54	-0.26	-0.67	-0.54	-1.34	-1.24	
USD/IDR	1.25	1.06	1.36	0.97	1.2	1.33	1.27	0.7	-0.32	-0.6	
USD/TWD	1.14	0.59	0.71	0.85	1.14	0.06	-0.53	-1.01	-1.5	-1.58	
USD/INR	1.98	1.22	1.47	1.09	0.01	-0.2	-0.58	-0.19	-0.08	0.03	
USD/MYR	0.62	0.37	0.45	0.42	0.33	0.04	-0.4	-0.15	-1.04	-1.25	
USD/PHP	0.93	0.31	0.2	-0.13	-0.15	-0.65	-1.02	-0.68	-1.19	-0.93	
USD/THB	0.23	0.02	0.48	0.08	0.4	-0.3	-0.61	-0.45	-1.14	-1.24	

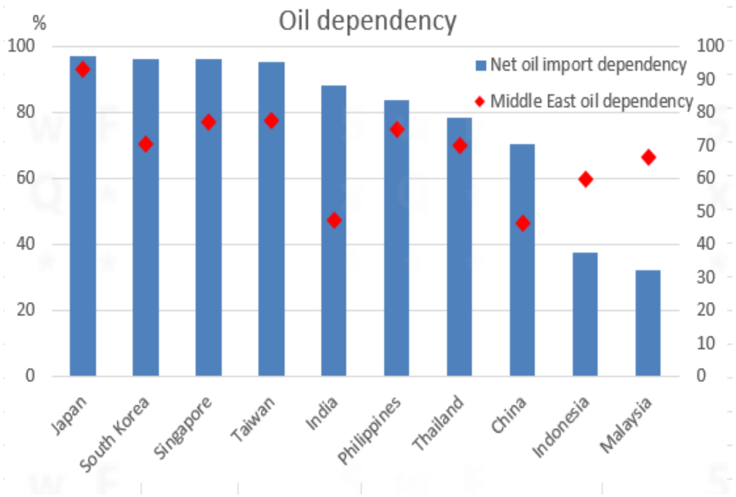
Note: Latest Reuters EMFX poll data available as of 12 Jun.
Asian FX poll is conducted by Reuters, on bi-weekly basis on what analysts and fund managers believe the current market positioning are. Poll uses estimates of net short or long on a scale of -3 to +3. A score of +3 indicates significant long USD against the AxJ FX. Arrow direction indicates change in positioning from last date.
Source: EPFR, Bloomberg, OCBC Research

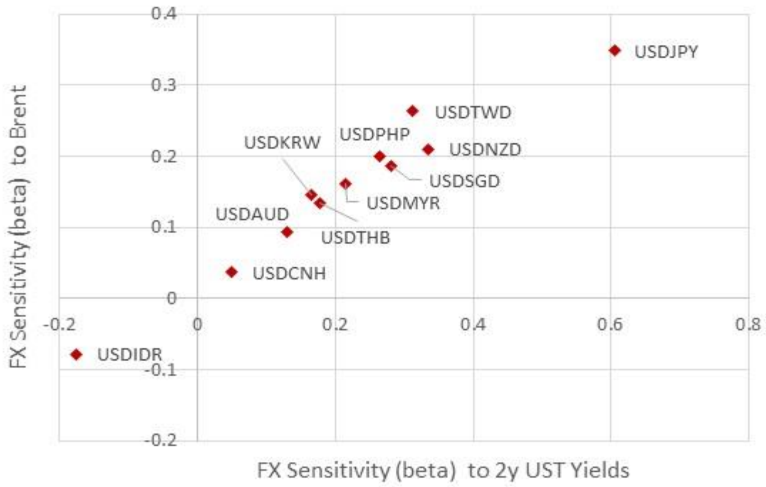
Risk: Geopolitical uncertainty can influence Asian FX

- Tentative Israel-Iran ceasefire, signalled a reduction in geopolitical tensions. This environment is likely to provide relief for high beta and net oil importing Asian FX like the JPY, TWD, and PHP. We continue to keep a close eye on whether there will be total ceasefire or further escalation. The risk of further escalation can potentially bring disruption to supply chains and result in even higher oil prices, as well as undermine broader risk sentiments (but this is now a reduced risk for now). At the same time, recent comments from Fed officials have indicated that a rate cut in July is a possibility. A dovish repricing of Fed can weigh on USDAxJs.

- Elsewhere, Trump's tariffs remain uncertain. Following reciprocal tariffs and its subsequent pause, the 90d truce from Liberation Day will expire on 9th July for most countries and 12th Aug for China. He had earlier threatened to set unilateral (country-specific) tariffs soon and it is unclear if this will be final or will there be another truce. The key question is whether global growth will be hit. If global growth shows signs of weakening or comes to halt, then pro-cyclical Asian FX will be hurt. However, if global growth can still sustain its momentum, then the US policy unpredictability element will play up (i.e. USD negative).

JPY, TWD, NZD, SGD, KRW amongst AxJ FX sensitive to moves in oil prices and yields





Narrowing in UST-AxJ yield differentials when Fed cuts can weigh on USD/AxJs

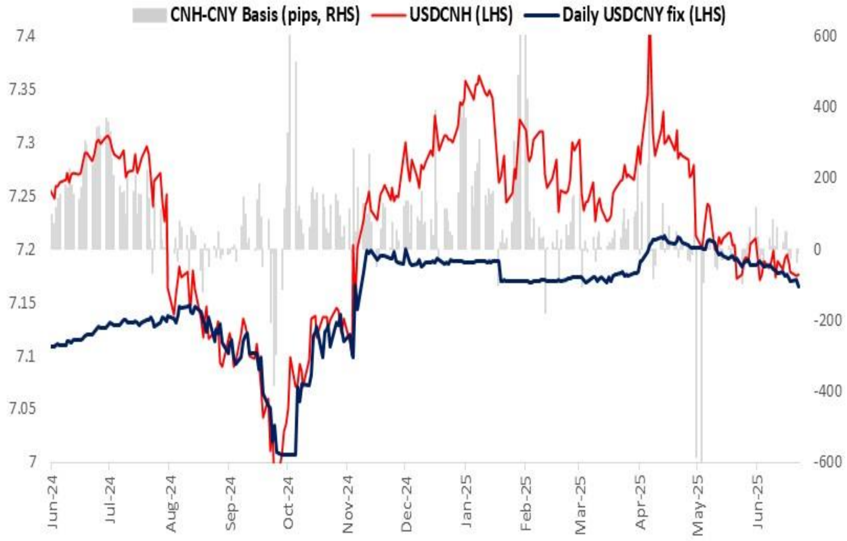
Note: Oil import dependency = net oil imports / (domestic production + net oil import). Middle East oil dependency = oil import from Middle East / total oil imports. FX sensitivity to brent and 2y UST yield using OLS regression on last 6months of log daily data
Source IEA, BP Statistical review of world energy, Bloomberg, CEIC, various sources, OCBC Research

CNY: Measured approach to achieve relative stability

Lower USDCNY fix in a “measured pace” continued to help anchor relative stability in USDRMB. Any sharp RMB appreciation may risk triggering exporters rushing to sell USD holdings and that cycle (if it happens) may result in excessive RMB volatility and strength. This may hurt exporters’ margins and wider repercussion on deflation. A more gradual pace of appreciation could repair investor sentiments and encourage a return of foreign inflows.

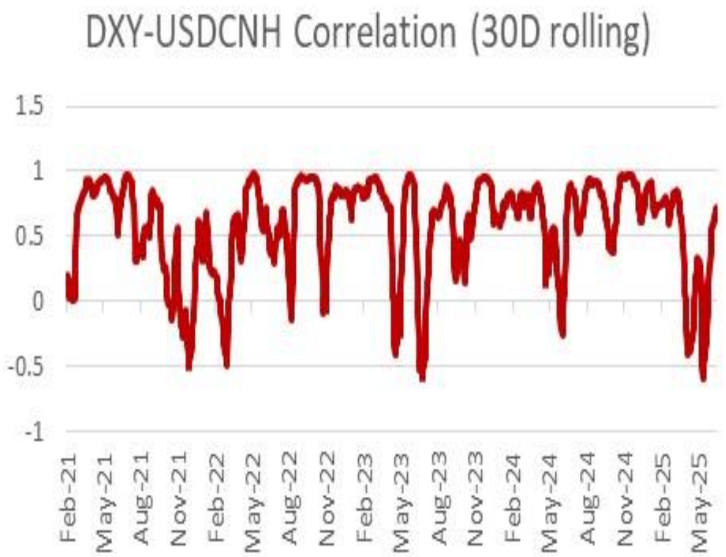
Moves between DXY and RMB CFETS index remain highly correlated. This reinforces our view that that a softer USD trend allows for RMB softness to play out vs. other regional FX, while RMB holds steady to slight strength vs. USD. On the contrary, the reverse is also true. When DXY and RMB CFETS rise, RMB strength can be seen vs. trade peers (because the latter group may weaken more in the environment of a stronger USD due to higher sensitivity).

Stable to lower USDCNY daily fix helps to anchor relative stability in RMB



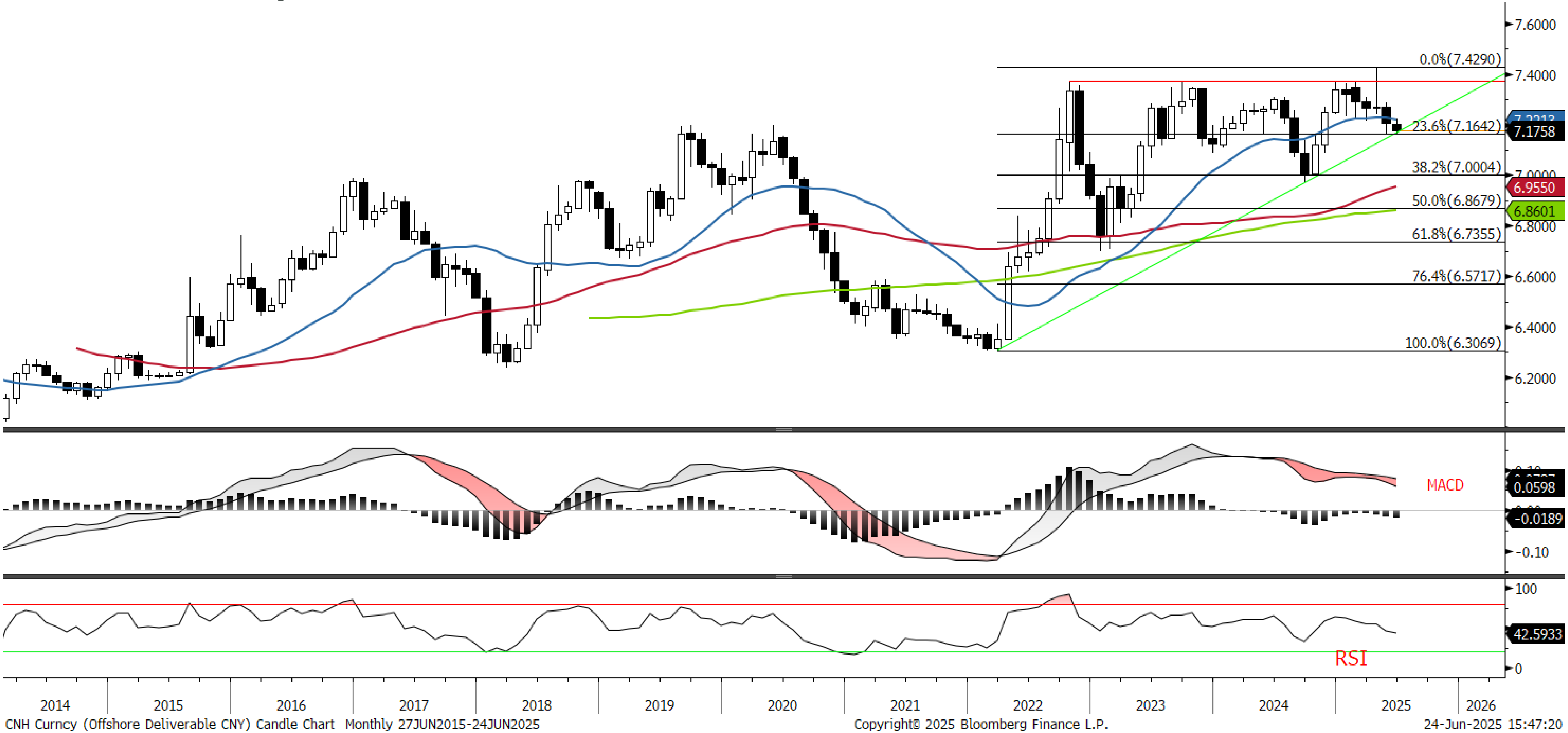
RMB CFETS index trading in line with DXY

Pick up in correlation between DXY and USDCNH



OCBC Source: Bloomberg, OCBC Research

USDCNH: May have room for further downside



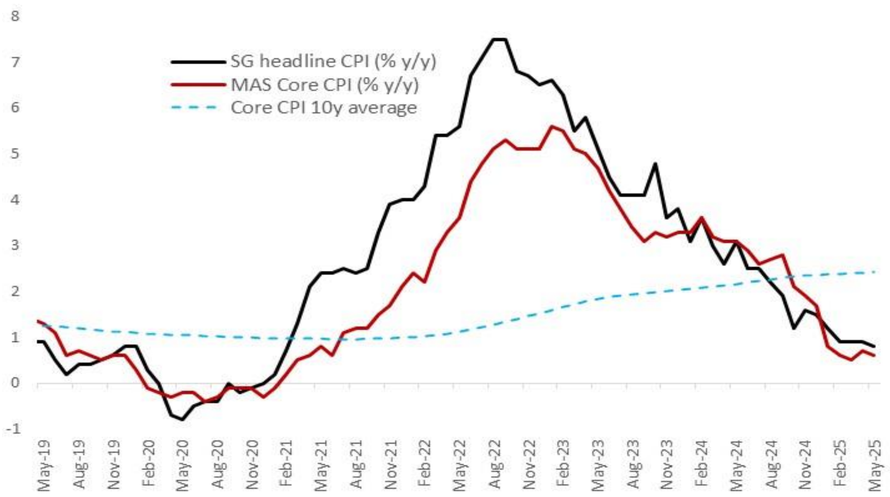
Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index

Source: Bloomberg (Monthly chart), OCBC Research

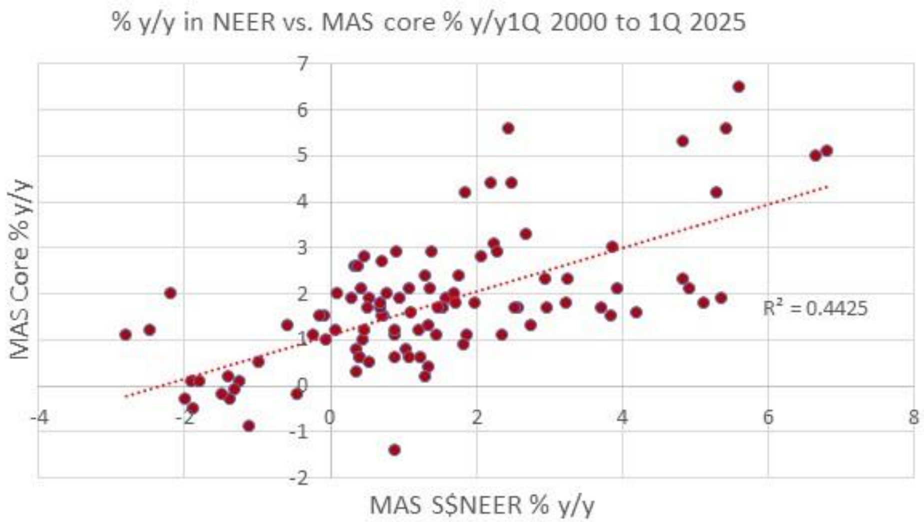
SGD: Softer core CPI suggests that doors remain open for further easing

- Core CPI edged down to 0.6% YoY in May (from 0.7% in Apr), due to lower food inflation. MAS-MTI joint statement noted that **imported inflation should remain moderate**. Report acknowledged the recent rise in crude oil prices but also indicated that price levels are now close to 2024 average while food commodity prices should also stay contained. The report also highlighted that **impact of trade conflicts and increase in global energy prices on Singapore's import prices, is likely to be mitigated by disinflationary drags due to weaker external demand**. Domestically, enhanced government subsidies for essential services are likely to dampen services inflation.
- Overall, core and headline inflation are projected to average 0.5 – 1.5% for 2025 (unchanged from previous statement). There may be little urgency to ease at the July MPC meeting for a 3rd consecutive time after 2 back-to-back easing in Jan and Apr this year.
- Nevertheless, earlier downgrades to growth and inflation projections for 2025 alongside a highly uncertain external environment suggests that the door remains open for further easing, should macroeconomic conditions deteriorate further.

Singapore's disinflation journey remains intact; core CPI well below 10y average



S$NEER has a stable and predictable relationship with core inflation; softer core allows for MAS to ease



Source: Bloomberg, MAS

SGD: Chance for MAS to pause in Jul after easing policy twice this cycle

Dates	Policy Action			Economic Considerations (Respective MAS policy statements)
	Slope	Band	Midpoint	
28 Jan 15*	↓	-	-	MAS Core Inflation and CPI-All Items inflation is expected to be 0.5-1.5% and -0.5-05% respectively due to lower oil prices and moderate economic growth environment.
14 Oct 15	↓	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 0.5-1.5% and -0.5-0.5% respectively due to benign core inflation outlook and weak global demand.
14 Apr 16	Reduce to zero	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 0.5-1.5% and -1.0-0% respectively due to benign core outlook and less favourable external environment.
13 Apr 18	↑	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 1-2% and 0-1% respectively due to improving labour market and projection of higher imported inflation.
12 Oct 18	↑	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 1.5-2% and 0.5% respectively due to imported inflation from higher O&G. Wage growth expectations.
14 Oct 19	↓	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 1-2% and 0.5% respectively due to low projected core inflation. Oil prices slumped and NODX contracted.
30 Mar 20	Reduce to zero	-	↓	MAS lowered the forecast range for both Core Inflation and CPI-All Items inflation to -1-0% due to external and domestic pressures.
14 Oct 21	↑	-	-	MAS Core Inflation expected to rise to 1-2% for 2022 due to accumulating external and domestic core
25 Jan 22*	↑	-	-	MAS revised its Core Inflation forecast upwards to 2-3% due to higher inflation outlook.
14 Apr 22	↑	-	↑	MAS revised its Core Inflation forecast higher at 2.5-3.5% for due to global inflationary pressures and tight
14 Jul 22*	-	-	↑	MAS revised its Core Inflation forecast higher to 3-4% due to elevated inflationary pressures.
14 Oct 22	-	-	↑	MAS Core Inflation should come in at 3.5–4.5% on average, and CPI-All Items inflation at 5.5–6.5%.
24 Jan 25	↓	-	-	MAS Core Inflation and CPI-All Items inflation is forecast to average 1.0–2.0% and 1.5-2.5% respectively due to core inflation moderating more quickly than expected.
14 Apr 25	↓	-	-	MAS Core Inflation is now forecast to average 0.5–1.5% in 2025, CPI-All Items inflation in 2025 is similarly expected to average 0.5–1.5% due to weakening external outlook.

↓ denotes reduction in slope/re-centering of midpoint downwards
↑ denotes increase in slope/re-centering of midpoint upwards

Blue shaded rows represent easing while red shaded represent tightening move
* denotes offcycle moves

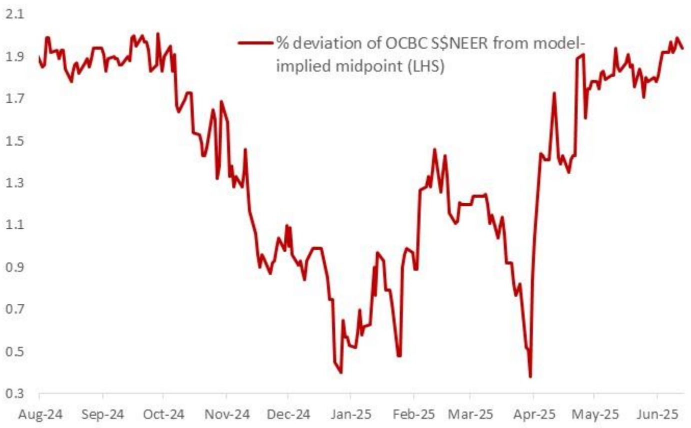
Source Bloomberg, OCBC Research

USDSGD: Can trend lower even as SGD strength fade against peers

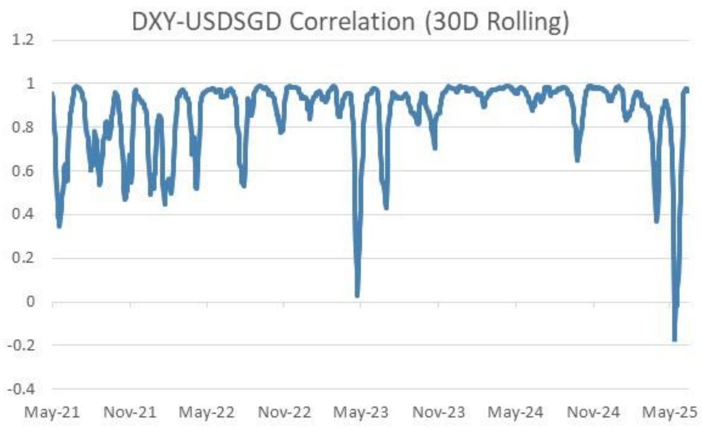
- With SGDNEER very near our model-implied upper bound, we see limited room for SGD to appreciate on a trade-weighted basis and expect trade peers (i.e. JPY, KRW) to play catch-up on gains if tariff de-escalation momentum and softer USD trend continue to play out.
- **With regards to USDSGD, the USD leg plays a significant role in the bilateral pair. Hence, if the USD continues to weaken, USDSGD can still trend lower.** For instance, SGD has performed well this year, up about 6.4% YTD (vs. USD) despite MAS easing policy twice this year. The resilience was largely due to SGD's appeal as a safe-haven (especially in the environment of Trump's tariff uncertainty, geopolitical concerns), and a softer USD trend. For the remainder of the year, we continue to project a mild degree of USDSGD downside over the forecast trajectory, premised on 1/ tariff de-escalation with tariff impact on regional growth largely manageable (i.e. no sharp recession); 2/ softer USD trend to continue and Fed resumes easing cycle in due course.
- Risks/ Catalysts - 1/ tariff developments; 2/ broad USD trend – if the weakness continues; 3/ RMB movements – in particular China's economic recovery and RMB fixing trend; 4/ the extent of EUR's recovery. More positive developments on these fronts (i.e. stronger recovery in EUR, RMB and weaker USD) can pose risks to our USDSGD forecasts.

MAS eased policy twice this year; but S$NEER is allowed to trade within a trading band

S$NEER strength nearing upper bound



Significant correlation between DXY and USDSGD



OCBC

Note: TWI refers to trade-weighted index
Source: Bloomberg, OCBC Research

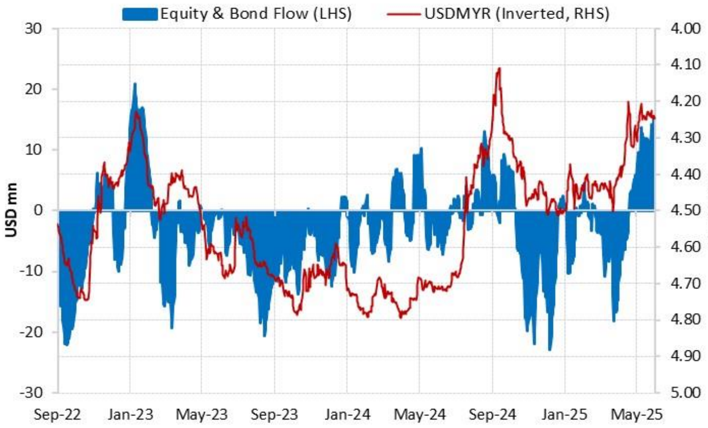
USDSGD: Decline underway

Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index
Source: Bloomberg (Daily chart), OCBC Research

MYR: Room for gains amid US softness

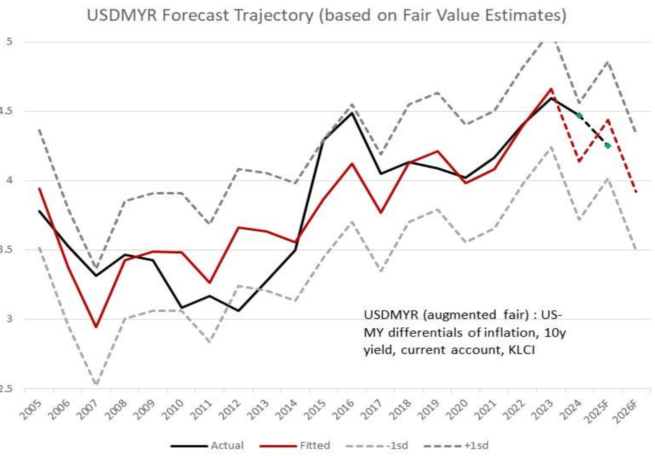
Softer USD trend can weigh on USDMYR

Further foreign inflow can be supportive of MYR



MYR-CNH correlation remains significant; firmer CNH can anchor relative strength in MYR

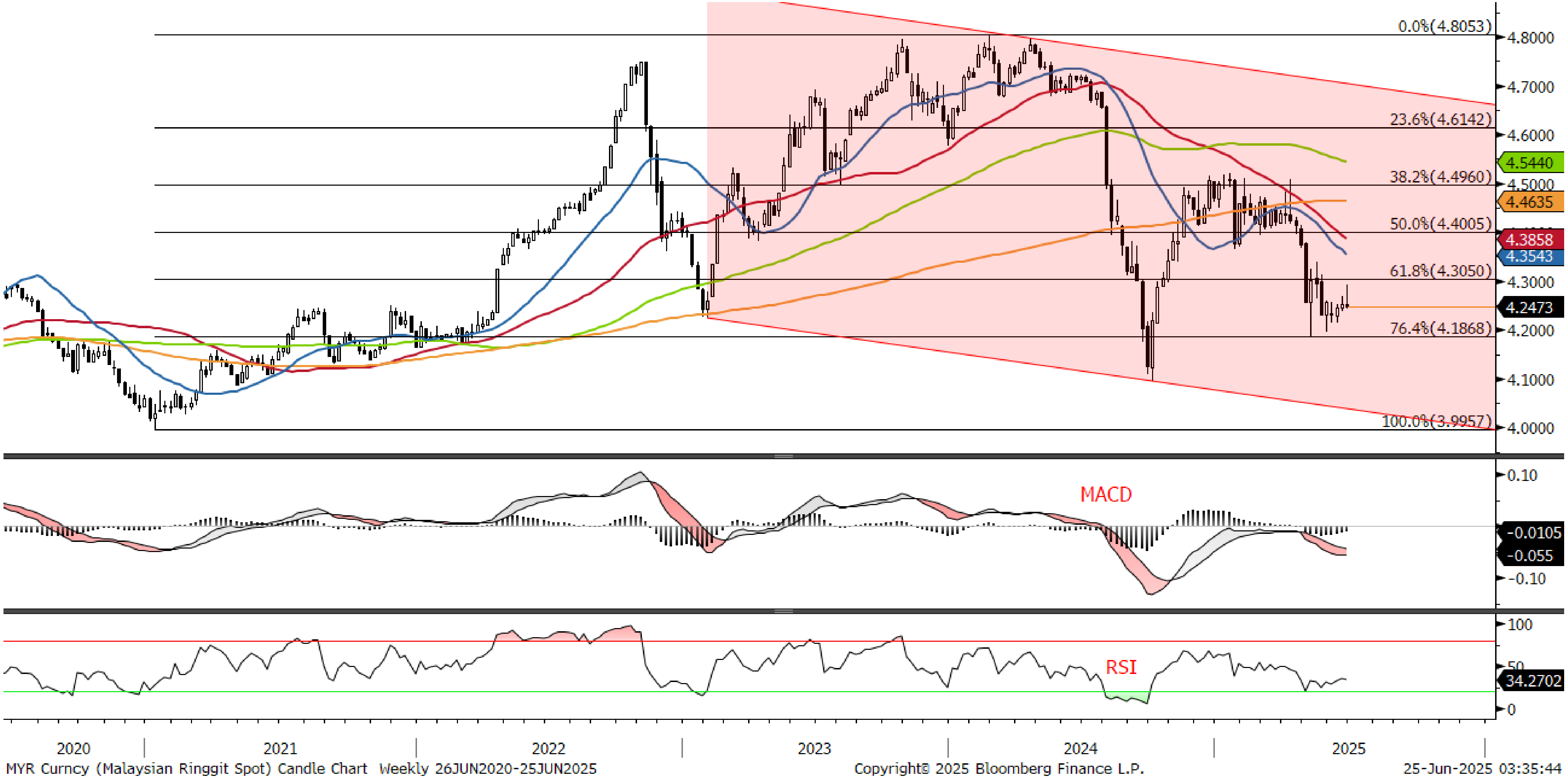
Augmented fair value model estimates point to USDMYR downside



- MYR has appreciated about 5.5% vs. USD YTD. The broad USD sell-off, steady RMB were some of the key drivers alongside tariff de-escalation.
- Our projection for a firmer MYR takes into consideration both domestic and external factors. On the domestic front, supportive drivers include robust FDI inflows, prospects of continued foreign fund inflows, current account surplus while commitment to follow through fiscal consolidation also provides reassurance to investors. In terms of external factors, soft USD trend is likely intact while a more sustained economic turnaround for Chinese economy, and recovery in sentiment and confidence in Chinese assets, including RMB can have positive spillover effects onto MYR from investment, trade and sentiments channels.
- While the 90-day tariff truce was a welcome relief, the one big uncertainty is what happens beyond the expiry of the 90-day truce in July. Malaysia has already had 2 rounds of trade talks and is planning the next round soon. Some clarity on that front would be helpful. If tariffs are reduced, and growth turns out to be better than feared, then MYR appreciation bias can continue. However, a bad outcome on tariffs can prove to be volatile for MYR.

Source: Bloomberg, OCBC Research

USDMYR: Near term consolidation; bearish trend intact



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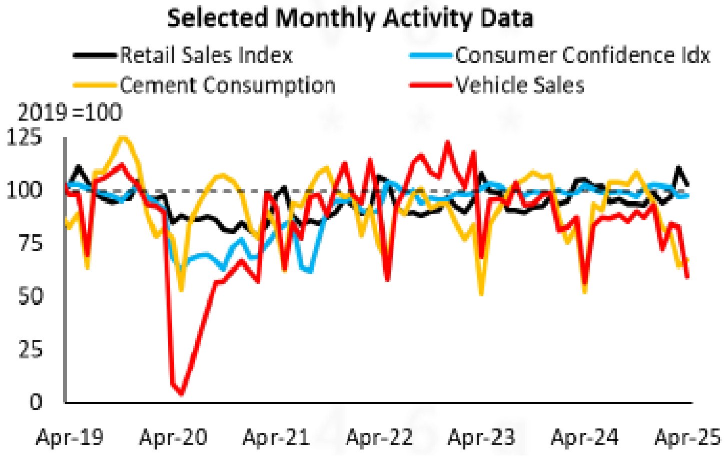
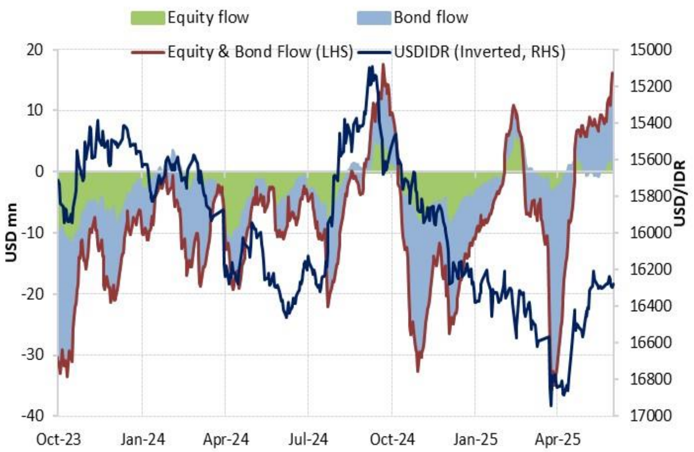
Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index
Source: Bloomberg (Weekly chart), OCBC Research

IDR: Neutral-to-slight cautious outlook

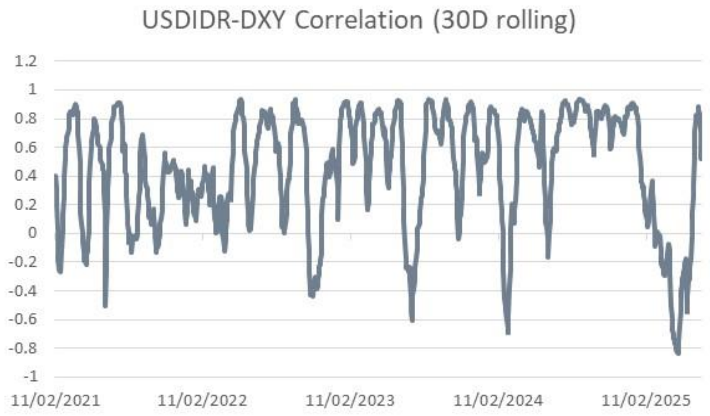
Lower growth forecast; weak underlying demand



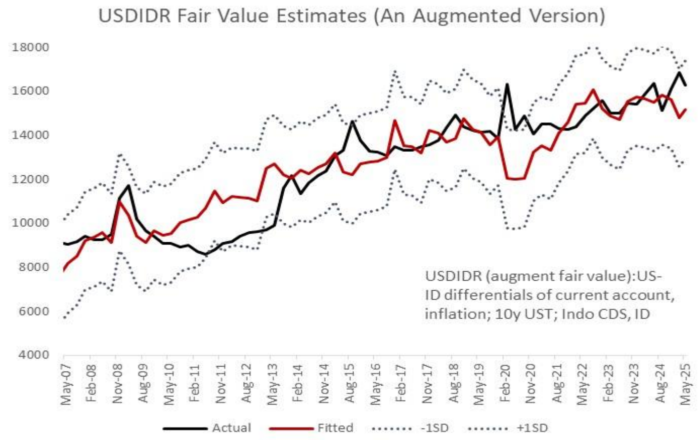
Foreign flows a key driver of IDR



Strong correlation suggests that a weaker USD can help to offset softer fundamentals



USDIDR can correct lower over time; our "fair value" estimate at ~15,200 levels



Source Bloomberg, OCBC Research

- Our Economists forecast 2025 GDP growth slowing to 4.7% YoY from 5.0% in 2024 implying growth of 4.7% in 2Q-4Q25 from 4.9% YoY in 1Q25. The risks to our forecast are to the downside given heightened external uncertainties related to US trade policies but also limited signs of a clear turnaround in domestic policy direction. High-frequency indicators continue to reflect weak underlying demand; real retail sales growth fell to -2.2% YoY in April from 5.5% growth in March while consumer confidence remains shaky, and both automotive and cement sales remained weak.
- Softer fundamentals including fiscal uncertainties, expectations for current account deficit, economic soft patch are some factors that will undermined the IDR but a broadly softer USD trend can help to offset.
- USD, foreign portfolio flows are typically significant drivers of IDR.
- Since Apr-2025, IDR benefited slightly from the broad sell-off in USD.
- Swing factors for IDR to appreciate would require further foreign inflows and much softer USD.

USDIDR: Corrective pullback has more to go?

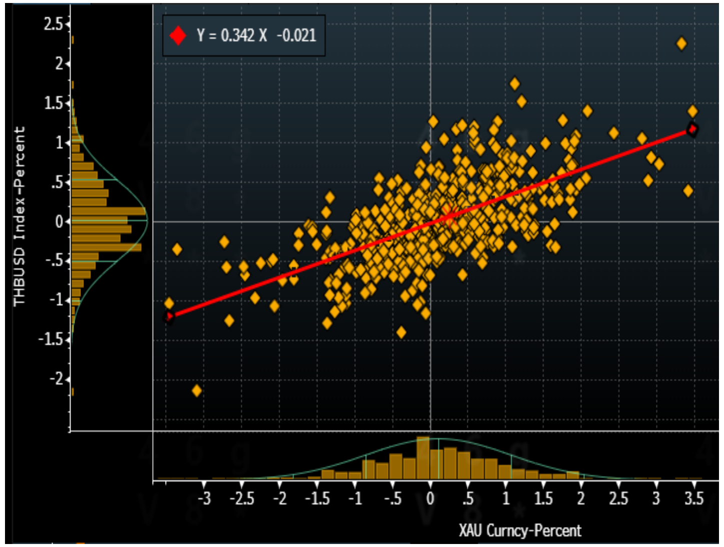
OCBC

Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index
Source: Bloomberg (Weekly chart), OCBC Research

THB: Appreciation may lag peers

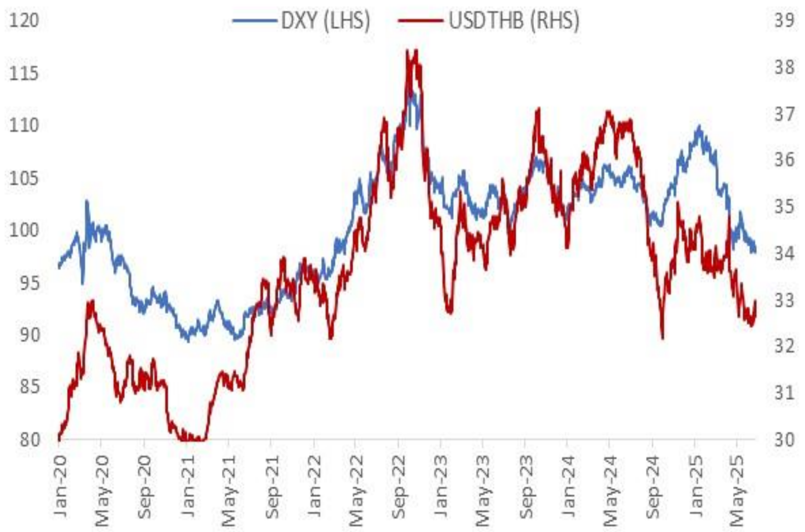
- Tourism revenue, exports momentum, tariff implications, prices of gold, RMB and USD trend are significant drivers of THB.
- YTD, THB was up 4.4% (vs. USD), due to higher gold prices, softer USD trend, and positive exports momentum.
- Near term, domestic stability and tariff uncertainty are some risk factors that may hinder THB's appreciation. Elsewhere, we also monitor oil prices and exports momentum. Any moderation in Thailand exports growth or flare-up in geopolitical tensions (leading to higher oil prices) may also weigh on THB.
- Despite some risk factors, USD trend ultimately matters. A softer USD trend could see USDTHB trade broadly lower.

Strong positive correlation between gold and THB



Can exports momentum be sustained?

USD trend still matters



Note: OLS regression over % daily changes on THB-Gold, over last 2 years as of 25 Jun 2025
Source Bloomberg, Reuters, OCBC Research

USDTHB: Mild bearish bias but nears lower bound of trend channel

OCBC

Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index

Source: Bloomberg (Daily chart), OCBC Research

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Thank you