BANK ISLAM

THE RINGGIT STRENGTHENED AS RENEWED TRADE-RELATED UNCERTAINTIES DRAGGED THE USD

Trump once again rocked the global markets with his trade-related unpredictability. Over the past month, global trade tensions saw a brief reprieve as former President Trump initiated tariff negotiations with several affected trade partners. This included progress on the U.S.-UK trade agreement and a temporary truce with China, which collectively contributed to a fragile rebound in global markets after prolonged uncertainty. However, investor sentiment quickly deteriorated following renewed volatility in Trump's approach. He unexpectedly threatened to impose 50% tariffs on the European Union (EU) due to stalled negotiations, only to later extend the deadline from 1st June to 9th July. Compounding the unease, Trump accused China of breaching the truce agreement, an allegation China swiftly rejected, countering that the U.S. was in fact undermining the deal. This war of words raised fears of a collapse in U.S.-China trade relations, prompting a flight to safe-haven assets. In an effort to calm markets, officials announced that talks between Trump and Chinese President Xi Jinping would take place soon. The two leaders subsequently held a phone call, which Trump described as yielding "a very positive conclusion for both countries", with both sides reaffirming their commitments under the Geneva consensus. Notably, Trump highlighted rare earth minerals as a key area of agreement, previously a major sticking point. While these tensions appear to have eased for now, they underscore a persistent concern among investors: the unpredictability of Trump's trade stance. This unease was further reinforced by his decision to double tariffs on steel and aluminium imports to 50%, effective 4th June, excluding only the UK. Given the U.S.' outsized influence in global trade, such abrupt protectionist moves carry the potential to destabilize international markets. In a separate development, senior U.S. officials indicated that the administration would not respond in kind even if Vietnam agreed to eliminate all tariffs on American goods. Instead, the U.S. demanded that Vietnam reduce its economic reliance on China, signaling a hardline stance likely to influence ongoing negotiations with other nations. Markets now await further clarity, with representatives expected to reconvene in the first half of June.

In the currency market, the U.S. dollar (USD) initially weakened as political uncertainty surrounding Trump's actions triggered a cautious retreat from U.S. assets. However, the greenback later regained some ground, buoyed by a strong U.S. non-farm payroll report that helped temper fears of a deeper economic slowdown. Sentiment was further supported by signs of a thaw in U.S.-China relations toward the end of the week. Despite these developments, the USD still ended as the second worst-performing major currency. Nevertheless, technical indicators suggest the potential for a near-term rebound. Gold and the Euro remained resilient throughout the volatility, underpinned by diversification flows and safe haven demand. The Euro, along with the Canadian dollar (CAD), settled in the middle of the performance spectrum. Both the European Central Bank (ECB) and Bank of Canada (BoC) delivered rate decisions broadly in line with expectations, the ECB cut rates by 25bps, while the BoC held steady. However, any gains they made against the USD faded as improving global trade prospects and a rebound in U.S. Treasury yields helped stabilize the greenback. The JPY was the week's worst-performing major currency, as subdued consumer spending and persistent inflationary pressures undermined confidence in the Bank of Japan's policy normalization trajectory. With the economy grappling with global headwinds and weakening external demand, signs of a domestic slowdown further cloud the outlook. In contrast, the Australian dollar outperformed, topping the FX leaderboard, followed by the Malaysian ringgit and the Sterling. Meanwhile, the Chinese yuan and Singapore dollar ended the week near the bottom of the pack, reflecting a more subdued market response.

Imran Nurginias Ibrahim
inurginias@bankislam.com.my

Khayrin Farzana binti Fazli
kfarzana@bankislam.com.my

Upcoming Events: Key Economic Data Release

Monday	**China CPI, PPI & External Trade (May), Japan 1Q2025 GDP**
Tuesday	**UK Unemployment Rate (April)**
Wednesday	**U.S. CPI (May)**
Thursday	**U.S. PPI (May), UK Industrial Production (April)**
Friday	**Malaysia Retail Sales, Eura Area & Japan Industrial Production (April)**

Table 1: Selected Currencies Overview

	23-May	30-May	6-Jun	WoW	YTD
DXY Index	99.11	99.33	99.19	-0.1%	-8.6%
USDMYR	4.23	4.26	4.23	0.6%	5.7%
XAUUSD	3,357.51	3,289.25	3,310.42	0.6%	26.1%
EURUSD	1.14	1.13	1.14	0.4%	10.1%
GBPUSD	1.35	1.35	1.35	0.5%	8.1%
AUDUSD	0.65	0.64	0.65	0.9%	4.9%
USDSGD	1.28	1.29	1.29	0.1%	5.9%
USDJPY	142.56	144.02	144.85	-0.6%	8.5%
USDCNY	7.18	7.20	7.19	0.1%	1.5%

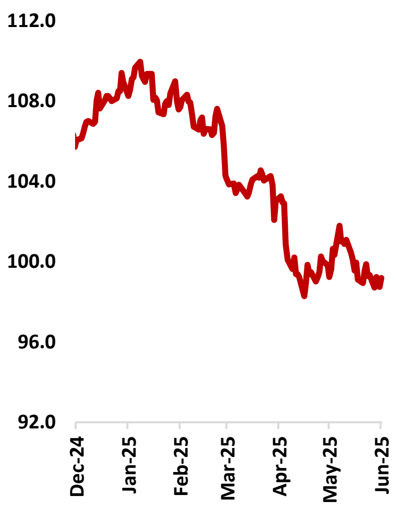
Sources: Bloomberg, Bank Islam

Commentaries

DXY: Dollar slipped amid erratic U.S. trade policies.

The USD index dipped by 0.1% w-o-w for the week ending June 6 (30 May: +0.2% w-o-w) as trade-related concerns dominated market sentiments as Trump's significantly high tariffs made a comeback whilst the U.S. had also hit snags in negotiations with its counterparts. However, the weakness of the USD was buffered by a more resilient than expected labour market with number of job openings in April exceeding estimates (Act: 7.39 million, Est: 7.10 million). The strong demand was met with similarly tight labour supply, marked by stronger than expected May Non-Farm Payrolls (NFP) figures (Act: +139K, Est: +130K). Coupled with expectations of policy-driven hotter price pressures, such resilience had led markets to reprice their Fed rate cut bets with bias to the upside. In the near term, the outlook of the USD is neutral to slightly bullish as markets await fresh U.S. inflation figures for further hints on the Fed's policy path.

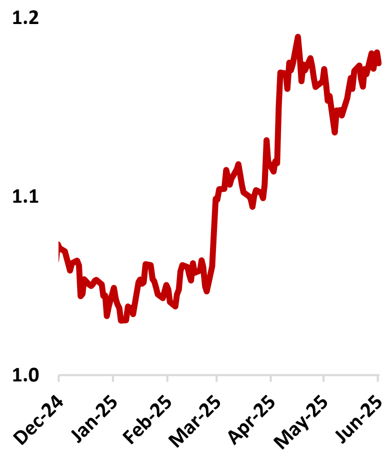
Chart 1: USD Index (DXY)



EURUSD: Euro appreciated as the ECB hinted at a pause on the horizon

The EUR strengthened by 0.4% w-o-w against the USD for the week ending June 6 (30 May: -0.1%), driven by heightened demand for asset diversification amid the volatile policy shifts in the U.S., spurring cautious flight away from its assets. Additionally, whilst the European Central Bank (ECB) had reduced its key interest rates by another 25bp in its June meeting, ECB President Lagarde had stated that the central bank is approaching the end of a cycle, hinting a pause in the horizon for its monetary easing efforts which propelled the EUR's strength. Looking at the data, the moderating Euro Area headline (May: 1.9% YoY, Apr: 2.0% YoY) and core inflations (May: 2.3% YoY, Apr: 2.5% YoY), record-low unemployment rate (Apr: 6.2%, Mar: 6.3%) as well as stronger than expected 1Q2025 GDP growth (Act: 0.6% QoQ, Est: 0.4% QoQ) echoed the hawkish view, although risks still remain from the evolving trade situation. At this juncture, the EUR has become more appealing to investors amid rising asset diversification demands, its comparatively resilient economy and expectations of relatively higher interest rates against the U.S. As such, we hold a bullish outlook on the EUR in the short term.

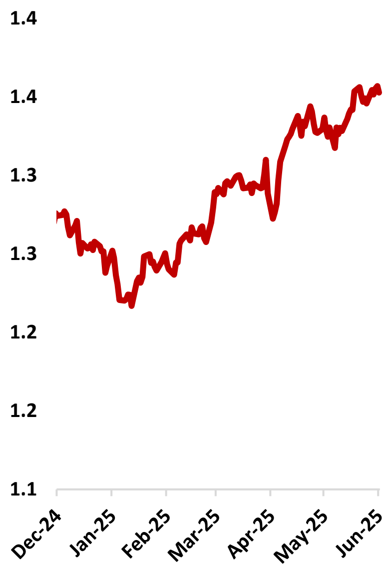
Chart 2: EURUSD



GBPUSD: Sterling gained on tariff exception

The British Pound (GBP) rose by 0.5% w-o-w against the USD (30 May: -0.6% w-o-w), supported largely by the weakness of the USD. While other U.S. trade partners are contending with doubled tariffs of 50% on steel and aluminium, the UK secured a reprieve under the terms of a bilateral trade agreement reached weeks earlier. According to a statement from the Prime Minister's Office in early May, the deal will eliminate tariffs on UK steel and aluminium exports to the U.S. and conditionally reduce auto tariffs to 10%. However, the UK must meet specific compliance requirements by the 9th of July to fully benefit from the agreement. Currently, the UK is still facing 25% tariffs on said metals, among others. Moving forward, we are slightly bullish on the GBP in the short term as markets seek to digest the impact from the global trade policies thus far, eyeing the incoming job market and industrial production data. Amid optimistic hopes of the U.S.-UK trade deal being successfully concluded which will lead to a rebound in demand, the UK economy could still find its footing to achieve an anchored growth this year.

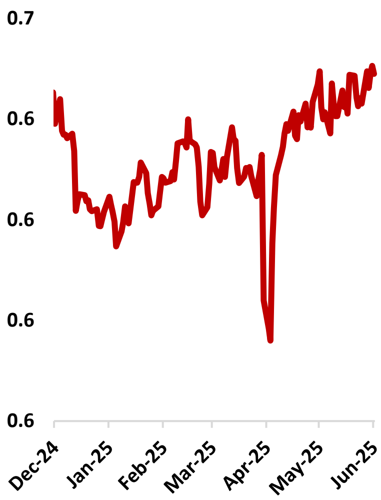
Chart 3: GBPUSD



AUDUSD: AUD appreciated, RBA maintained dovish stance.

The AUDUSD appreciated by 0.9% w-o-w for the week ending June 6 (30 May: -0.9% w-o-w) despite the rollout of weaker economic data as well as the Reserve Bank of Australia (RBA) maintaining its dovish tone. In its recently released May meeting minutes, the central bank policymakers were seen to deliberate on a 50 bps cut amid heightened global uncertainties while stating that more cuts are necessary should the impact from the global turmoil be worse than expected. Although it only slashed cash rate by 25 bps to 3.85% from 4.10%, the inclusion of such discussions had fuelled market bets of another 25 bps cut in July. Of note, weaker external demand had led to Australia's exports contracting by 2.4% MoM in April (Mar: +7.2% MoM) while domestically, consumer spending rose at a slower pace of 0.2% QoQ in 1Q25 (4Q24: +0.6% QoQ). Additionally, the economy undershoots estimates to grow by 0.2% QoQ in1Q25 from 0.6% in 4Q24 (Est: +0.4%). However, counterintuitively, RBA's dovish stance had spurred the AUD's rise when paired with the weaker economic performance as lower rates would support domestic demand against the backdrop intensifying global headwinds. As such, we hold a neutral to slightly bullish view for the AUD in the near term.

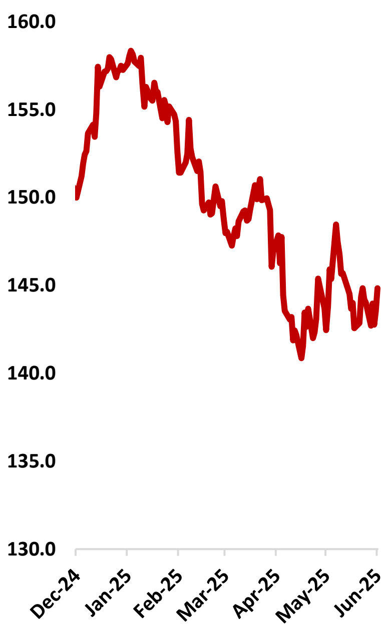
Chart 4: AUDUSD



USDJPY: Yen slumps as hopes of stronger spending failed to materialize.

The Japanese Yen depreciated by 0.6% w-o-w against the USD for the week ending June 6 (30 May: -1.0% w-o-w). Earlier this year, markets are optimistic of stronger domestic demand to buoy the economy following the decades-high spring pay negotiations. However, latest figures showed nominal wages expanding by 2.3% YoY in April as of March while real wages–the key indicator for consumers' purchasing power–contracted by 1.8%, marking the fourth straight month in the negative. Despite hopes for higher wages to support spending, Japan's elevated inflation (Apr: 3.6% YoY) proved to be bigger obstacle than expected. Furthermore, household spending declined by 0.1% YoY in April, a stark disparity against estimates of a 1.4% growth. Such performance had heightened worries surrounding Japan's outlook, already plagued by the turbulent global trade environment and further dampened by muted household consumption. This also will complicate the Bank of Japan (BOJ)'s policy normalisation path as higher rates to curb inflation would cinch consumer spending further. As such, we are neutral to slightly bullish on the USDJPY ahead of the BOJ's policy meeting on 17th June as the interplay of elevated inflation, slowdown in domestic demand and prolonged trade tensions tips the scale in favor of the BOJ keeping its rate steady. The economy evidently

Chart 5: USDJPY

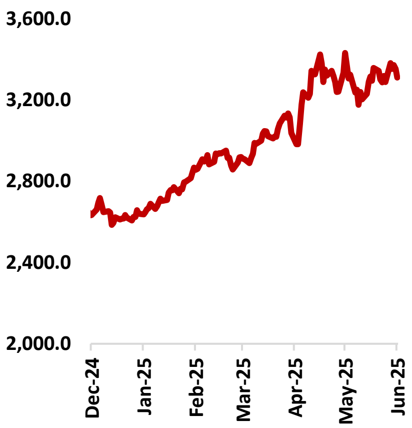


stagnated on a quarterly basis in 1Q2025 from a 0.6% QoQ growth last quarter (1Q25: -0.2% YoY, 4Q24: +2.2% YoY).

Gold (XAU/USD): XAU strengthened on trade woes.

Gold prices (XAU) soared 0.6% w-o-w for the period ending June 6 (30 May: -2.0% w-o-w), and climbing back above the USD3,300 level. The rally was driven by renewed safe haven demand as heightened uncertainty in global markets prompted investors to turn to bullion. Market sentiment was weighed down by stalled negotiations between the U.S. and its trade partners, compounded by the unexpected hike in steel and aluminium tariffs. Looking ahead, we hold a slightly bearish view on the XAU as the U.S. had apparently set aside differences with China as they head to the negotiating table once more while Trump had granted an extension to the EU on his 50% tariffs.

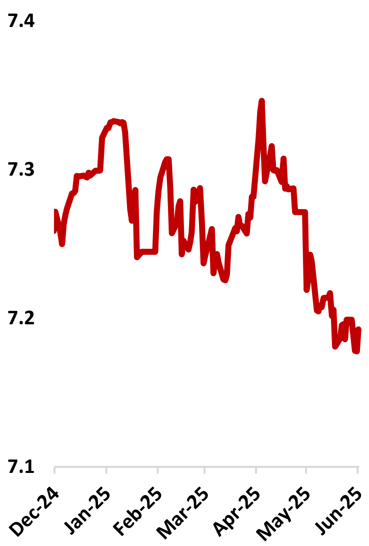
Chart 6: XAUUSD



USDCNY: Yuan rallies following high-level U.S.-China call.

The Chinese yuan (CNY) appreciated by 0.1% w-o-w against the USD (30 May: -0.2% w-o-w) following a positive turn in U.S.-China negotiations. Although both sides had earlier reached a truce, tensions soon resurfaced amid mutual accusations of undermining the agreement, putting renewed pressure on the CNY. However, talks between U.S. President Trump and Chinese President Xi were reportedly constructive, with both leaders expressing optimism, a development that helped lift the CNY. Despite this rebound, the long-standing history of geopolitical friction between the two powers keeps markets on edge. Attention now turns to Monday's scheduled meeting in London, where representatives from both countries will continue discussions. Investors are hopeful that the talks will yield progress, especially given the economic toll of prolonged tensions: the U.S. economy contracted in the first quarter of 2025, while China's Manufacturing PMI fell to 48.3 in May, marking the sharpest contraction since September 2022. The outcome of the meeting could prove pivotal in either easing or escalating the current standoff. Moving forward, the outlook of the CNY is neutral to slightly bearish in the near term.

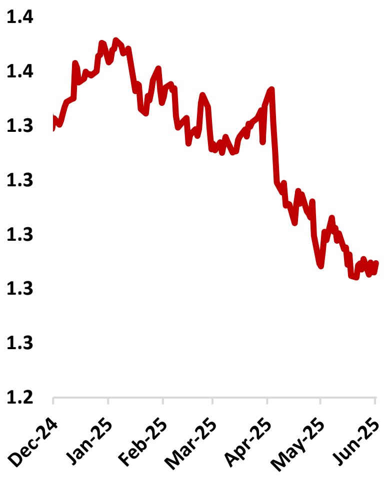
Chart 7: USDCNY



USDSGD: Singapore dollar edged up on retail sales rebound.

The SGD appreciated slightly by 0.1% w-o-w against the USD (30 May: -0.5% w-o-w) on the back of the USD's weakness. Meanwhile, domestic figures showed the Singaporean retail sales rebounding by 0.3% on a monthly basis in April from a decline of 2.7% in March. However, risks remain from cautious sentiments among households as the global trade turmoil persists, potentially weakening consumer spending and slowing down another engine of growth for the export-oriented economy. On an annual basis, household spending has slowed to 0.3% in April from 1.3% growth in March while Manufacturing PMI contracted for the second consecutive month (May: 49.7 points, Apr: 49.6 points). Moving forward, we are neutral to slightly bullish on the SGD considering it is highly sensitive to the USD's movements. Should the USD gain from positive outcomes of the U.S.-China talks, this will exert pressure on the SGD.

Chart 8: USDSGD



USDMYR: Ringgit reversed losses on reaffirmed policy direction.

The Ringgit had appreciated by 0.6% w-o-w against the USD, reversing the 0.6% w-o-w decline in the week before. While it was a quiet calendar week on the data front, investor confidence was bolstered by the affirmation from the Ministry of Finance (MOF) that the RON95 subsidy rationalisation will be implemented in 2H2025, previously slated to be in effect by mid-2025. The policy reforms introduced by the Madani government have served as a key catalyst for foreign investment, with a focus on narrowing the fiscal deficit, attracting capital into high-value industries, and uplifting the *rakyat*. However, details on broader subsidy rationalisation efforts have remained limited since last year's diesel subsidy reform. Recent remarks by government officials, however, have reaffirmed their commitment to advancing these reforms and achieving the fiscal targets set. Moving forward, we hold a neutral to slightly bearish view on the Ringgit ahead of a slew of domestic data releases, notably on the job market, industrial production and household spending. USDMYR is eyeing a likely trading range of 4.1950 to 4.2350 in the near term.

Chart 9: USDMYR

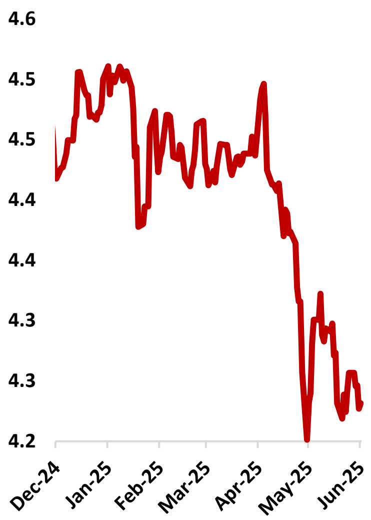


Table 2: Selected Currencies Overview (MYR crosses)

	23-May	30-May	6-Jun	WoW	YTD
USDMYR	4.2315	4.2568	4.2315	0.6%	5.7%
EURMYR	4.8026	4.8212	4.8322	-0.2%	-3.6%
GBPMYR	5.7117	5.734	5.7267	0.1%	-2.0%

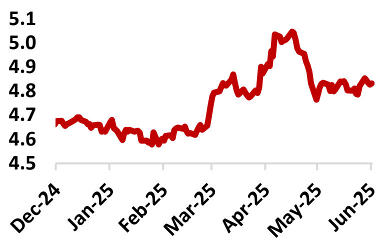
SGDMYR	**3.2919**	**3.2972**	**3.2896**	**0.2%**	**-0.1%**
JPYMYR	**2.9683**	**2.9552**	**2.9213**	**1.2%**	**-2.6%**
AUDMYR	**2.735**	**2.7318**	**2.7459**	**-0.5%**	**1.3%**
CNYMYR	**0.58894**	**0.5913**	**0.58918**	**0.4%**	**4.0%**

Sources: Bank Negara Malaysia (BNM), Bloomberg, Bank Islam

Short Term Outlook for Ringgit Pairs

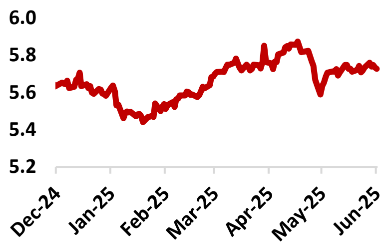
The EUR/MYR outlook remains bullish as markets anticipate a pause in the ECB's easing cycle, following hawkish signals amid persistent eurozone inflation, especially in services. Resilient economic data from key EU economies and rising euro yields further support the currency, reinforcing strength in the EUR/MYR pair.

Chart 10: EURMYR



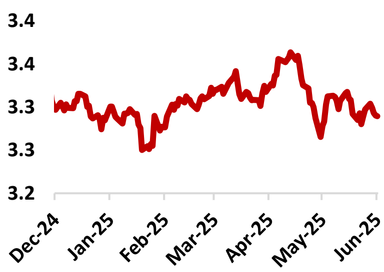
The GBP/MYR outlook is slightly bullish, supported by the UK's exemption from U.S. metals tariffs under a recent trade agreement. This development has improved trade sentiment and boosted investor confidence in the UK's external outlook. Coupled with steady UK economic data and stable policy expectations, the pound is likely to maintain a modest edge over the ringgit in the near term.

Chart 11: GBPMYR



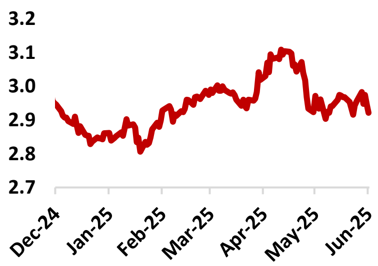
The SGD/MYR outlook is neutral to slightly bearish as markets adopt a cautious stance ahead of key Malaysian economic data releases. Anticipation of potentially stronger domestic figures could lend support to the ringgit, while the SGD remains range-bound amid stable MAS policy expectations and subdued external catalysts.

Chart 12: SGDMYR



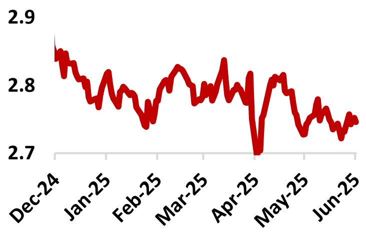
The JPY/MYR outlook is neutral to slightly bearish as markets scale back expectations for further BOJ rate hikes following weaker-than-expected household spending. The soft data reinforces doubts over the BOJ's policy normalization pace, limiting JPY strength, while the ringgit may find modest support from upcoming domestic economic releases.

Chart 13: JPYMYR



The AUD/MYR outlook is slightly bullish, driven by expectations of policy support as weaker Australian economic data and the RBA's dovish tone fuel speculation of rate cuts. Markets view potential easing as a growth catalyst, which has lifted sentiment toward the AUD, while the ringgit remains range-bound ahead of key domestic indicators.

Chart14: AUDMYR



The CNY/MYR outlook is slightly bullish as optimism surrounding ongoing U.S.-China trade talks in London is expected to ease bilateral tensions. A more stable external environment could support the CNY, while the MYR may trade cautiously ahead of domestic data and global risk cues.

Chart 15: CNYMYR