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INTENSIFYING GEOPOLITICAL TENSIONS AND EVOLVING TRADE DYNAMICS CLOUD THE PATH FORWARD

The Fed Signalled a Slower than Anticpated Policy Easing Cycle. In its June meeting, the U.S. Federal Reserve (Fed) had kept its Federal Funds Rate (FFR) steady at 4.25-4.50% as widely expected. However, with markets already pricing in such probability, they were instead on high alert for other signals to gauge the Fed's policy cycle, namely Fed Chair Powell's press conference and the Fed's Summary of Economic Projections. On the former, Fed Chair Powell communicated a more balanced tone compared to his statement just a month earlier where he highlighted the central bank's increasingly complicated dilemma of achieving price stability against a backdrop of trade-related uncertainties and geopolitical pressures. He noted that policymakers are currently "well positioned to wait" before moving further on rates while the policy statement echoed the sentiment, noting that job market conditions and economic activity remained solid. As such, the Fed has more space to navigate its monetary policy without risking growth. However, should signs of a cooling job market emerge faster than expected, the central bank would find itself yet again stuck between the balance of its dual mandate. On the flipside, tariff-driven price pressures has begun to trickle into consumer prices although the worst is yet to come given the nature of lagged impact, necessitating an appropriately restrictive monetary policy level to curb the rising inflation.

Elevated Tariff-driven Price Pressures May Persist Longer than Anticipated. Another focal point of the latest policy meeting was the Fed's Summay of Economic Projections (SEP) where markets are eyeing the central bank's projections–which ones are maintained, hiked, or slashed. In light of the evolving policy dynamics under the Trump administration, particularly trade-related policies, concerns of heightened price pressures had plagued markets alongside the broader impacts including weaker household spending, eroding purchasing power and slowing economic activity. Notably, the central bank had revised its headline PCE inflation forecast upwards to 3.0% in 2025 from 2.7% previously, before easing to 2.4% in 2026 and 2.1% in 2027. Meanwhile, core PCE inflation is projected to average at 3.1% in 2025 compared to the previous estimate of 2.8%. Evidently, the Fed foresees inflation to linger longer than previously expected, reasonably so considering the 1) delayed impact of tariff-induced price pressures and 2) delayed implementation of several tariffs pending negotiations with the respective trade partners. Therefore, while the central bank still projecting 50 bps of rate cuts this year (unchanged from the March SEP), the pace of policy easing is hinted to be slower moving forward with only one cut each in 2026 and 2027.

Another Wild Card: Intensifying Middle East Tensions. Global markets remained on edge throughout the week following Israel's strike on Iran, as cautious sentiment intensified over the growing risk of a wider regional conflict. However, market jitters temporarily eased after the White House stated that Trump would make a decision on U.S. involvement in the conflict within the next two weeks, providing a brief reprieve. Nevertheless, in a swift turn of events over the weekend, Trump announced that U.S. warplanes had targeted three nuclear sites in Iran, reigniting fears and sending markets back into negative territory.

Upcoming Events: Key Economic Data Release

Monday	Flash PMI (June)
Tuesday	Fed Chair Powell Testimony, Malaysia CPI (May)
Wednesday	Fed Chair Powell Testimony, Bank of Japan Summary of Opinions
Thursday	U.S. GDP Final (1Q2025)
Friday	UK GDP Final (1Q25), U.S. PCE Index (May), Japan Retail Sales & Unemployment Rate (May)

Table 1: Selected Currencies Overview

	6-Jun	13-Jun	20-Jun	WoW	YTD
DXY Index	99.19	98.18	98.71	0.5%	-9.0%
USDMYR	4.23	4.25	4.25	-0.2%	5.1%
XAUUSD	3,310.42	3,432.34	3,368.39	-1.9%	28.3%
EURUSD	1.14	1.15	1.15	-0.2%	11.3%
GBPUSD	1.35	1.36	1.35	-0.9%	7.5%
AUDUSD	0.65	0.65	0.65	-0.5%	4.3%
USDSGD	1.29	1.28	1.29	-0.4%	6.1%
USDJPY	144.85	144.07	146.09	-1.4%	7.6%
USDCNY	7.19	7.18	7.18	0.0%	1.6%

Sources: Bloomberg, Bank Islam

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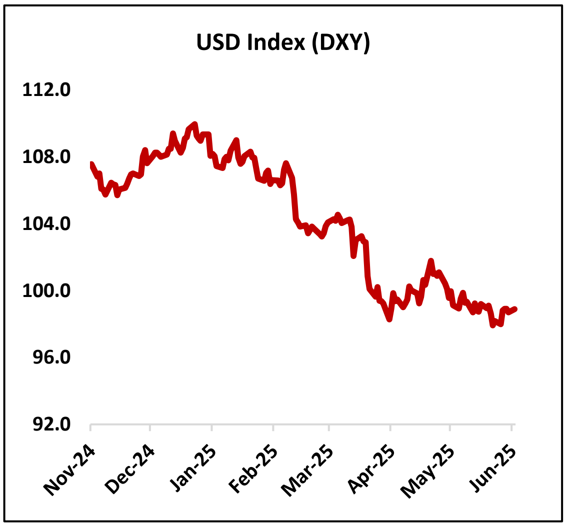
Commentaries

DXY: USD rose on hawkish Fed signals

The USD index strengthened by 0.5% w-o-w for the week ending June 20 as markets repriced their rate cut bets following the Fed's June meeting. While the Fed had left its FFR unchanged, the central bank seemed to adopt a wait and see approach to assess the evolving impact of the trade policies on inflation and growth, comfortably buffered by the classic case of U.S. job market resilience. Backing this view, Fed Chair Powell also noted that he saw no signs of the economy weakening in the near term. Across the longer term, the central bank had lowered its real GDP growth forecast to 1.4% in 2025 from 1.7% previously, before rising modestly to 1.6% in 2026 from the previous estimate of 1.8%. Although the economy is projected to grow at a slower pace, this is far from jitters of a downturn seen in the markets earlier. As such, this would provide some room for the Fed to keep rates at a sufficiently restrictive level for longer to tame the elevated tariff-driven price pressures.



Source: Bloomberg

Short-term outlook: The upcoming release of the U.S. PCE inflation data on Friday will be closely watched for further guidance on the Fed's policy outlook. At the same time, the USD may see support from safe-haven flows amid escalating tensions in the Middle East. However, any upside in the USD is likely to be capped by lingering trade-related uncertainties and concerns over deeper U.S. involvement in the conflict. These factors could influence investor sentiment, prompting a shift toward alternative assets perceived as more attractive.

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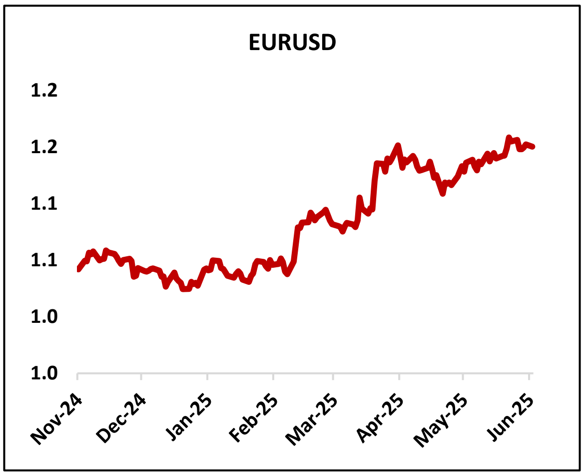
EURUSD: Euro dipped on moderating inflation

The Euro slipped by 0.2% w-o-w as the Eurozone disinflationary trend backed European Central Bank (ECB) President Lagarde's earlier remark that the central bank is nearly at the end of a cycle. Of note, healine inflation has eased significantly from its high to 1.9% in May, falling below the ECB's target for the first time since September 2024. Such trend was underpinned by the services inflation easing to 3.2% in May (Apr: 4.0%), marking the slowest pace in more than three years. Furthermore, core inflation moderated faster than anticipated to 2.3% in the same month from 2.7% in April (Est: 2.5%) to record the lowest level since October 2021. Based on the slew of cooler inflation figures, markets are betting on fewer cuts moving forward, albeit still calling for further easing to support the economy in the face of trade-related headwinds.



Source: Bloomberg

Short-term Outlook: As such, market attention will be firmly focused on the release of June's flash manufacturing Purchasing Managers' Index (PMI) to assess the impact of U.S. tariffs on Eurozone factory activity. Given the Eurozone's significant exposure to U.S. trade, any slowdown in external demand could lead to softer production at home, weighing on the region's growth prospects. In light of these dynamics, we maintain a neutral to slightly bullish outlook on the EURUSD.

XAUUSD: Gold price plummeted amid rising geopolitical tensions

Gold price plunged by 1.9% w-o-w from its record high in the previous week to close at USD3,368.39 per oz following a brief lull in the Middle East conflict. In the week before, the bullion price soared on increased safe haven demand following Israel's preemptive strike. Throughout the week, risk-off sentiments had maintained the gold price around its range, especially as markets cautiously await for U.S. involvement in the conflict, taking cues from Trump's statements on his social media account. Nevertheless, the XAU retreated when the White House announced that the President will come to a decision in two weeks with the lack of developments in the Middle East adding the pressure on the gold price.

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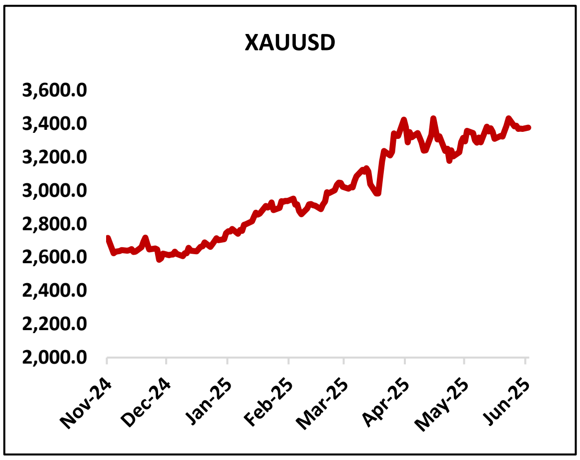
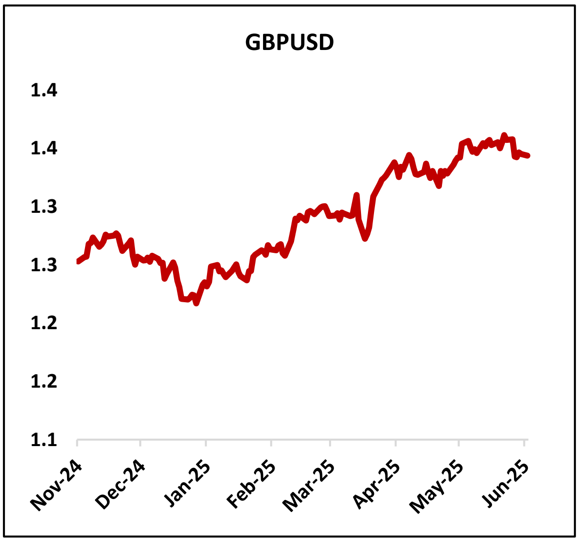


Source: Bloomberg

Short-term Outlook: However, the situation escalated sharply over the weekend after Trump announced that the U.S. had carried out strikes on multiple sites in Iran. Despite the heightened geopolitical tensions, gold has shown signs of fatigue, failing to post further gains. Nonetheless, we maintain a bullish outlook on XAUUSD, supported by growing concerns over the potential for a wider regional conflict.

GBPUSD: British Pound depreciated as the BOE kept rates unchanged

The British pound (GBP) weakened by 0.9% w-o-w as markets are increasingly betting on further policy easing from the Bank of England (BOE) to support the flagging economy. Despite the central bank keeping rates steady, this probability have largely been priced in, thus the swaying factor emerged from the meeting minutes where policymakers noted that growth "appears to have remained weak" while the job market has seemingly cooled. This view was echoed by markets amid the latest retail sales figures which contracted at the steepest pace since April 2024 (May: -1.3% YoY, Apr: +5.0% YoY), causing the GBP to depreciate. However, the central bank is treading a fine balance between accommodating growth and taming inflation. While growth figures are less than favourable, data on consumer prices remains persistently high. Albeit slowing slightly, headline inflation rose by 3.4% YoY in May (Apr: 3.5% YoY) while core inflation eased to 3.5% from 3.8% in April (Est: 3.6% YoY).



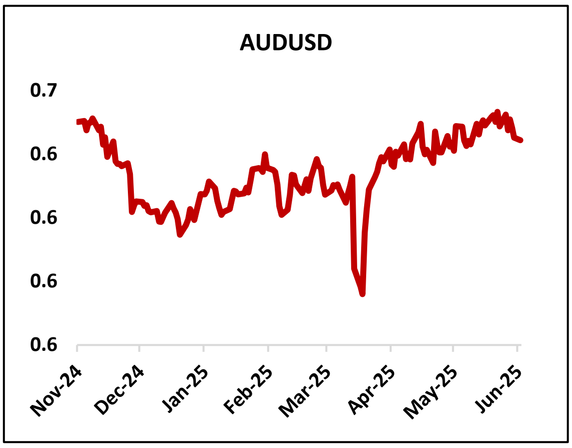
Source: Bloomberg

Short-term Outlook: While the UK is exempt from the 50% U.S. tariffs on metals, it remains bound by the terms of its trade agreement with the U.S., with a compliance deadline set for early July. Should the U.S. deem it unsatisfactory, the UK could potentially be hit with the steeper tariffs, weakening demand for its exports. However, the UK has been compliant with the deal thus far with no disputes from the U.S. compared to the snags with its other trade partners. As such, we maintain a neutral to slightly bullish view on the GBPUSD.

AUDUSD: Australian Dollar slipped following signs of cooling labour market

The Australian dollar depreciated by 0.5% as figures point towards a loosening job market. Of note, employment change volume missed estimates when it declined by 2.5K in May (Est: +25.0K), significantly slower compared to an 87.6K surge in April. Looking closer, full time employment rose by 38.7K to 10.1 million in the same month (Apr: +58.6K) while part time employment contracted sharply by 41.2K from 29.0K in April. Despite the expectations of higher part time employment during the summer months, these figures indicated weaker demand for labour and slower economic activity. Nevertheless, recent PMI data shows solid growth across manufacturing and services sectors which underlines a still healthy economy.

Short-term Outlook: Looking ahead, the data calendar is relatively light this week, with the key highlight being Australia's monthly CPI indicator. With labour market conditions showing signs of softening, attention will turn to the inflation print for clues on the Reserve Bank of Australia's policy direction. The AUDUSD remains under pressure amid broader risk-off sentiment, and for now, we maintain a neutral stance on the pair.



Source: Bloomberg

USDSGD: Singaporean Dollar depreciated as exports contracted

The Singaporean dollar weakened by 0.4% w-o-w, dragged by the strength of the USD amid a lack of drivers on the domestic front. Furthermore, Singapore's exports had contracted by 3.5% in May, a sharp drop from a 12.4% growth in April and missing expectations of an 8.0% gain. Such performance was due to exports to the U.S. plummeting by 20.6% following the imposition of tariffs, despite the steeper rate being shelved until early July to make way for negotiations. As frontloading activity subsided, a decline in new orders led to a sharp drop in Singapore's production and export levels. Given its heavy reliance on external demand, this slowdown dealt a blow to consumer confidence and contributed to the weakening of the SGD.

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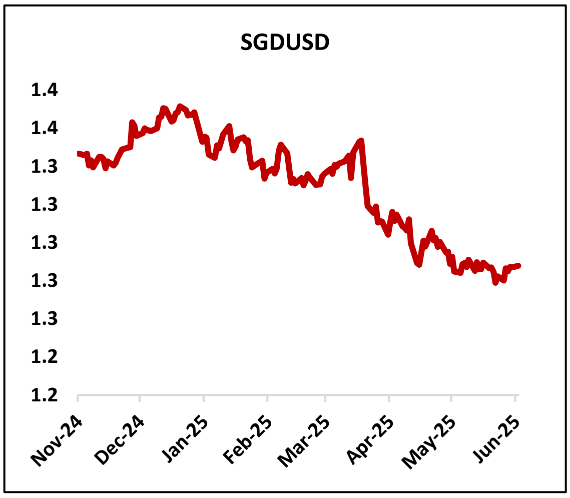
Short-term Outlook: As an open economy, Singapore is highly sensitive to external developments. If tariff negotiations drag on longer than expected, the lingering uncertainty will continue to weigh on external demand. However, a negative outcome from the talks would pose a more significant risk to Singapore's economic outlook. As such, we maintain a neutral to slightly bullish view on the SGDUSD. That said, some support could come from upcoming domestic data releases, including inflation and industrial production figures this week.

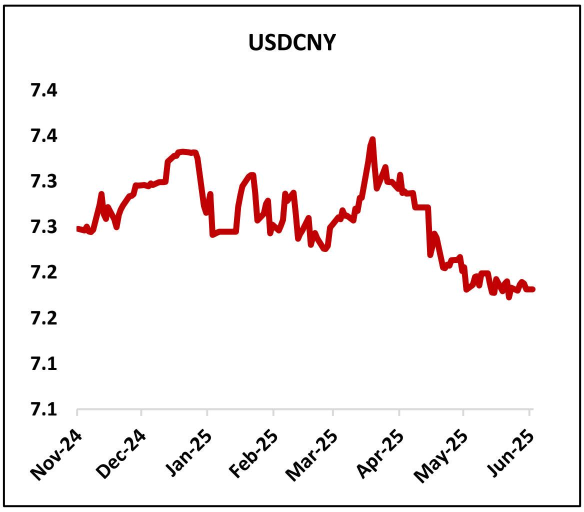


Source: Bloomberg

USDCNY: All quiet on China's front

The Chinese yuan ended the session flat against the U.S. dollar, reflecting a lack of fresh catalysts surrounding the trade truce. After a brief flare-up in tensions, U.S. and Chinese officials met in London for renewed negotiations, which concluded on a positive note. As a result, the market has remained relatively calm, with no major surprises emerging from this typically volatile front. The quiet environment extends further across the market when the People's Bank of China (PBOC) maintained its 1-year and 5-year loan prime rates (LPR) at 3.0% and 3.5%, respectively. However, some movement was seen when China's industrial production expanded by 5.8% YoY in May compared to 6.1% YoY in April, signalling robust factory activities. Meanwhile, retail sales accelerated faster than expected at 6.4% in May (Apr: 5.1% YoY) against estimates of a 5.0% growth as the government's stimulus measures spur household spending. Nevertheless, the favourable data failed to lift the CNY and it ended on a flat note.

Short-term Outlook: Moving forward, China is set to hold its National People's Congress Standing Committee on Tuesday through Thursday which could provide some catalyst for CNY's appreciation. Thus, we remain slightly bearish on USDCNY in the near term.

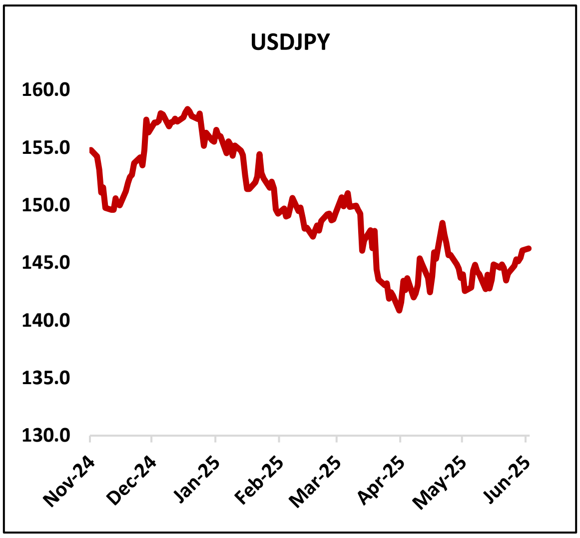


Source: Bloomberg

USDJPY: Japanese Yen depreciated despite inflation spike

The Japanese Yen weakened by 1.4% w-o-w against the USD, despite stronger-than-expected inflation data. In the first half of the week, the Bank of Japan (BOJ) held its short-term interest rate steady at 0.5% as widely expected. However, the JPY remained under pressure due to a broadly stronger USD and a contraction in Japan's exports (May: -1.7% YoY vs. Apr: +2.0% YoY). Adding to the drag, trade talks between Japanese and U.S. officials during the G7 summit in Canada failed to produce a breakthrough, with negotiations set to continue, prolonging uncertainty and weighing on market sentiment. On the inflation front, while headline inflation eased slightly to 3.5% YoY in May from 3.6% in April, core inflation surprised to the upside at 3.7% YoY (Est: 3.6% YoY). Prices excluding fresh food and energy also rose sharply, climbing to 3.3% from 3.0%. These developments could strengthen the case for tighter policy by the BOJ. However, in the current environment, broader economic and geopolitical concerns have overshadowed the impact of rising inflation, limiting support for the JPY.

Short-term Outlook: Looking ahead, we hold a neutral to slightly bullish view on the USDJPY in the near term ahead of Japan's retail sales, job market and flash PMI figures. These pivotal data will help markets gauge the BOJ's policy path, between balancing domestic growth and taming inflation against a landscape of trade-related and geopolitical turmoil.



Source: Bloomberg

USDMYR: The Ringgit slipped on exports downturn

The Ringgit edged down by 0.2% w-o-w against the USD, weighed by a contraction in Malaysia's exports. While shipments to the U.S. remained resilient, driven by accelerated frontloading ahead of the early July tariff deadline, exports to key partners such as Singapore, Japan, and China weakened. As a result, Malaysia recorded its first export decline since September 2024, with exports falling sharply by 1.1% YoY in May, following a robust 16.4% increase in April. From a sectoral perspective, mining exports were the main drag, plunging by 23.6% amid softer external demand and production disruptions. Several companies reported temporary shutdowns for maintenance, which significantly delayed output and contributed to the overall weakness.

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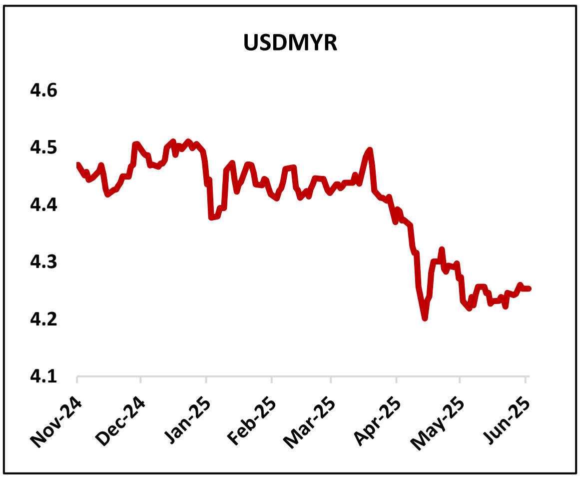
Short-term Outlook: Looking ahead, Malaysia's consumer and producer price data, scheduled for release this week, will be closely watched as markets seek clarity on the inflation outlook ahead of the broadened Sales and Services Tax (SST) implementation on 1 July. While the overall inflation trend has remained favourable, we maintain a neutral to slightly bearish view on the Ringgit. That said, risks persist from recent geopolitical developments in the Middle East, which could continue to support the USD and weigh on the Ringgit in the near term.



Source: Bloomberg

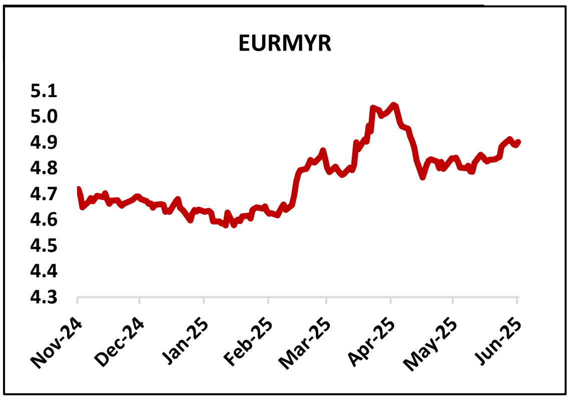
Table 2: Selected Currencies Overview (MYR Crosses)

	6-Jun	13-Jun	20-Jun	WoW	YTD
USDMYR	4.2315	4.2458	4.2535	-0.2%	5.1%
EURMYR	4.8322	4.8926	4.9028	-0.2%	-5.0%
GBPMYR	5.7267	5.7505	5.7394	0.2%	-2.2%
SGDMYR	3.2896	3.3098	3.3112	0.0%	-0.8%
JPYMYR	2.9213	2.9462	2.9117	1.2%	-2.3%
AUDMYR	2.7459	2.7523	2.7618	-0.3%	0.7%
CNYMYR	0.58918	0.591	0.59237	-0.2%	3.4%

Sources: Bloomberg, Bank Islam

Short Term Outlook for Ringgit Pairs

The outlook for EUR/MYR remains bullish, as markets increasingly expect the ECB to pause its rate-cutting cycle in response to the ongoing disinflation trend. While some argue that further monetary easing is needed to support growth, we believe the ECB is likely to adopt a more cautious stance, holding off on additional cuts until there is clearer evidence of a softening labour market or a more pronounced slowdown in economic activity.



Source: Bloomberg

The GBP/MYR outlook remains slightly bearish as household spending in the UK was reported to contract in May, signalling cracks beginning to form from the easing consumer confidence. This is further worsened by an easing job market, thus placing the Pound on a less solid footing than the Ringgit.

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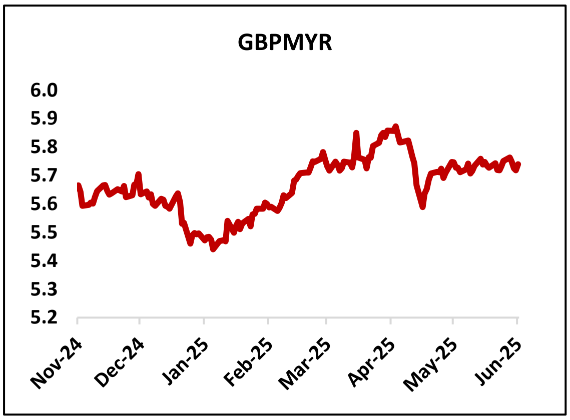
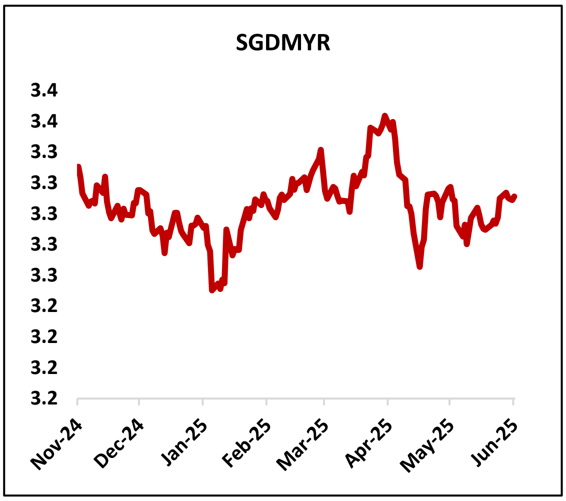


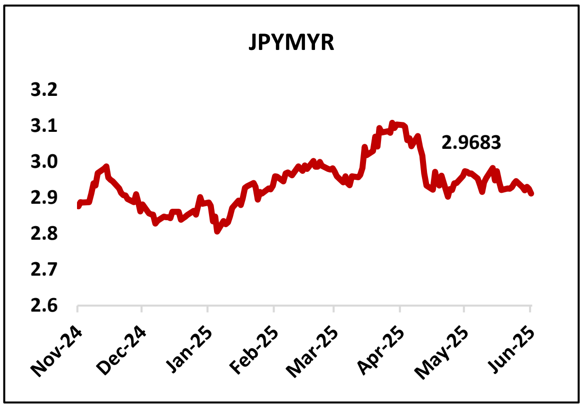
Source: Bloomberg

The SGD/MYR outlook remains neutral to slightly bearish ahead of the release of consumer prices, among others, from both countries this week. However, Malaysia's economic fundamentals and trade position appear to be more resilient compared to Singapore, providing the Ringgit with a relative edge for the time being.



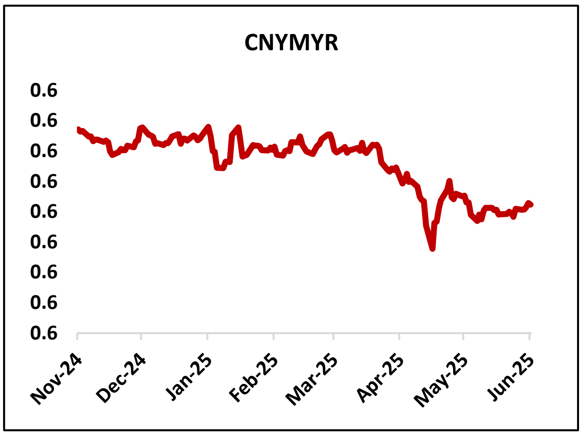
Source: Bloomberg

The JPY/MYR outlook remains slightly bearish ahead of key domestic figures from Japan that will tip the scales of market expectations on BOJ's policy path in either direction. If the impact of U.S. tariffs on the economy proves to be more severe than anticipated, the BOJ may be compelled to postpone its policy normalization efforts. This would be a precautionary move to safeguard domestic demand and support overall economic growth.



Source: Bloomberg

The outlook for CNY/MYR remains bullish ahead of the upcoming National People's Congress Standing Committee meeting, which could introduce new measures to support China's growth. In contrast, Malaysia faces near-term headwinds from the impending implementation of the broadened SST, making China's outlook relatively more attractive. This divergence may lead to increased investor interest in Chinese assets, drawing demand away from the Ringgit.



Source: Bloomberg

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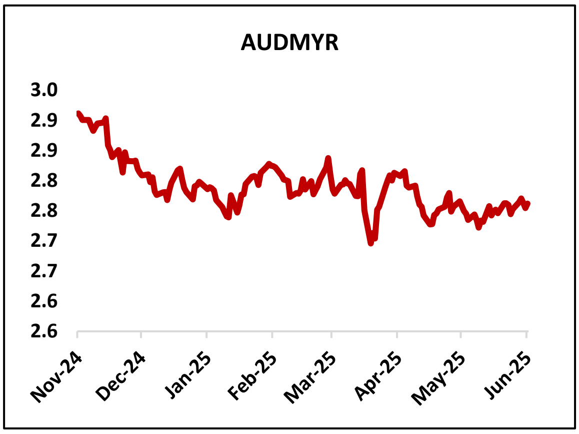
The AUD/MYR outlook remains neutral to slightly bullish ahead of the release of key CPI indicators from both Australia and Malaysia, which could offer further clarity on their respective monetary policy paths. A hotter-than-expected inflation print could reignite expectations of a more hawkish stance from the RBA, potentially lending support to the AUD. Meanwhile, in Malaysia, a subdued inflation reading would reinforce the case for policy stability but could also weigh on the Ringgit, especially as markets brace for the impact of the broadened SST starting in July. However, lingering geopolitical risks and trade-related uncertainties may temper gains, keeping the pair range-bound in the near term.



Source: Bloomberg