ECONOMICS & GLOBAL FOREIGN EXCHANGE HIGHLIGHTS

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FIRST ROUND OF TRUMP'S UNILATERAL TARIFF LETTERS ROCKED MARKETS

The End before the Deadline. As the 9th July deadline looms for the trade partners affected by the U.S. Liberation Day tariffs to finalize their bilateral trade agreements, markets could only watch from the sidelines, attuned to every signal be it for the better or worse. Thus far, the road proves to be bumpy for certain economies while it seems relatively smooth sailing for others. Countries like Taiwan, Indonesia and Malaysia are on track with negotiations while Vietnam had successfully reached a trade deal with the U.S., including 20% tariffs on Vietnamese goods as well as a 40% transshipping tariff. Meanwhile, the European Union (EU) and the U.S. had hit several snags in their discussions as disputes arise surrounding areas of autos, metals and digital regulations. Should they fail to reach a deal by Wednesday, the bloc is at risk of being hit with up to 50% tariffs, much higher than the first 20% underlined on 2nd April. Notably, in recent news, Trump had doubled down by threatening a 17% tariff on EU's food and farm exports, potentially escalating the trade frictions to new highs. On closer shores, trade talks between Canada and the U.S. was derailed following U.S.' opposition to the former's digital tax. Soon after Trump pledged to impose a new tariff rate on Canada within the week, Canadian authorities halted the rollout of its Digital Services Tax Act just hours before its set to take effect and cited their intention to rescind it, cooling the rising tensions between the two countries. In comparison, Japan proved to be more steadfast in its standing with Prime Minister Shigeru Ishiba stating that they "will not easily compromise", viewing that their significant contributions towards investments and employment in the U.S. should be taken into account in achieving a fair deal. Previously, Trump had criticized Japan's reluctance to import U.S. rice and autos while stating that he would unilaterally impose up to 35% levies on Japanese goods. It is apparent that achieving satisfactory and fair agreements among all parties was a tall feat but Trump still opted to solve tensions by throwing out yet another warning of steeper rates, effectively increasing frictions with trade partners and sending jitters throughout markets. In latest news, Trump had threatened an additional 10% levies on countries aligning themselves with the "anti-American policies" of BRICS (bloc of Brazil, Russia, India, China and South Africa, among others).

However, Trump threw another curveball into the mix late last week when he announced that he will unilaterally impose tariffs on selected trade partners, citing that it is "much easier to send a letter". On Monday, the signed letters were officially sent to 14 countries, namely Malaysia, Japan, South Korea and Thailand, among others. These letters underlined conditional tariffs rates ranging from 25% on South Korea, Japan, Tunisia, Malaysia and Kazakhstan; 30% on South Africa, Bosnia and Herzegovina; 32% on Indonesia; 35% on Serbia and Bangladesh; 36% on Cambodia and Thailand and 40% on Laos and Myanmar. These tariffs will go into effect on 1st August and notably, Trump warned that any retaliatory tariffs will result in steeper rates. Nonetheless, Trump had granted a reprieve to the remaining trade partners spared from this round, extending the 9th July deadline to the first of August.

Upcoming Events: Key Economic Data Release

Monday	Euro Area Retail Sales (May), Thailand Inflation (June)
Tuesday	Indonesia Consumer Confidence (June)
Wednesday	BNM Policy Rate Decision, China Consumer & Producer Prices (June), Indonesia Retail Sales (May)
Thursday	Malaysia Unemployment Rate (May), Japan Producer Prices (June)
Friday	Malaysia Retail Sales & Production (May), Singapore GDP Growth (2Q2025), China Vehicle Sales (June)

Table 1: Selected Currencies Overview

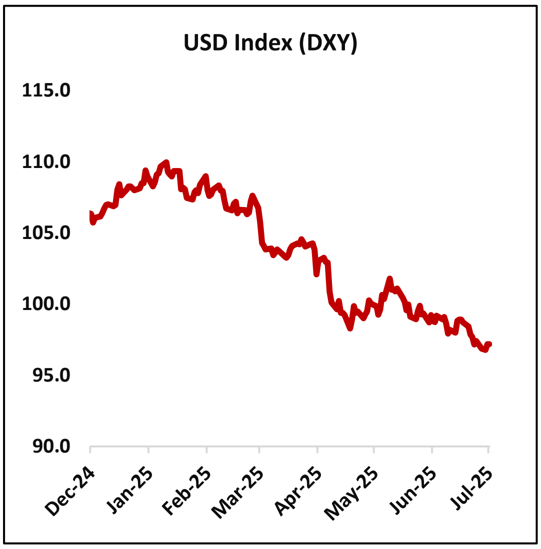
	20-Jun	27-Jun	4-Jul	WoW	YTD
DXY Index	98.71	97.40	97.18	-0.2%	-10.4%
USDMYR	4.25	4.23	4.22	0.2%	5.9%
XAUUSD	3,368.39	3,274.33	3,337.15	1.9%	27.2%
EURUSD	1.15	1.17	1.18	0.5%	13.8%
GBPUSD	1.35	1.37	1.37	-0.5%	9.1%
AUDUSD	0.65	0.65	0.66	0.4%	5.9%
USDSGD	1.29	1.28	1.27	0.1%	7.2%
USDJPY	146.09	144.65	144.47	0.1%	8.8%
USDCNY	7.18	7.17	7.17	0.1%	1.9%

Sources: Bloomberg, Bank Islam

Commentaries

DXY: USD slipped as fiscal and trade worries dominated

The USD index dipped by 0.2% w-o-w for the week ending July 4 as worries surrounding the U.S. fiscal outlook mounted following the passage of Trump's sweeping tax cut and spending bill until it was signed into law on Friday. The bill is expected to add trillions to the government's ballooning USD36.2 trillion debt and widen its budget deficit, causing rippling fears through investors surrounding its worsening fiscal outlook. Previously, Moody's Ratings had slashed the U.S. sovereign credit rating to Aa1 from Aaa, highlighting the government's increasing debt and failure to narow it as focal areas of concern. Coupled with trade-related worries, the USD had remained under pressure despite markets expecting slower pace of Fed rate cuts in 2025, taking cues from the favourable job market data. Latest Nonfarm Payroll (NFP) figures showed that the economy added 147K jobs in June, significantly surpassing market estimates of a 110K rise, while the unemployment rate ticked down to 4.1% (May: 4.2%), contrary to expectations of an increase to 4.3%. This marks another instance of the resilient job market, providing ample space for the Fed to navigate its policy path without risking one half of its dual mandate. As such, the likelihood of the Fed maintaining current rates in its July meeting surged sharply to almost 94.0% following the release from around 81.0% just a week before.

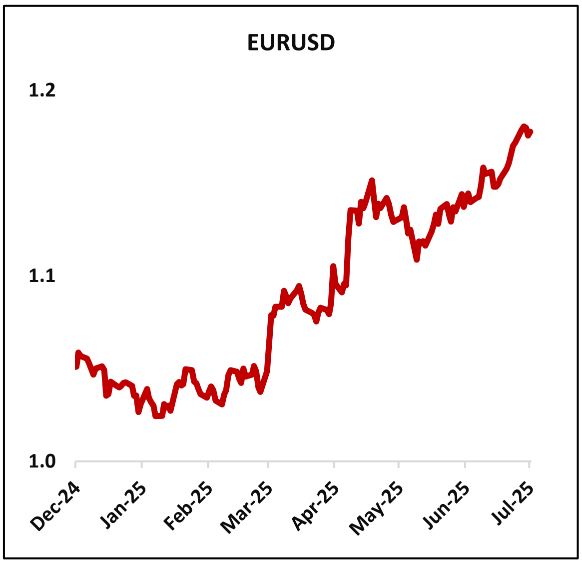


Source: Bloomberg

Short-term outlook: Looking ahead, investor sentiments plummeted following the release of Trump's unilateral tariff letters. At this juncture, it is unclear whether the doors for negotiation will still be open for the trade partners on the receiving end of the letters, although investors are cautiously optimistic on the language in Trump's announcement. All is not lost as Trump had shown that his word is not the final say—minds could be changed at any moment and scales could still tip in any direction. Thus, markets will be on high alert until this wave of unpredictability ebbs. Nonetheless, these prolonged times of heightened uncertainties would still drag the USD, keeping it under pressure.

EURUSD: Euro appreciated as markets held steady on rates outlook

The Euro strengthened by 0.5% w-o-w as markets maintained their view that the European Central Bank (ECB) will keep key interest rates steady during its July meeting while the monetary policy outlook for 2025 remains largely unchanged. Such view was supported by ECB President Lagarde's remarks that the central bank is in a "good position" on its current rates as well as slight upticks in inflation figures. Of note, latest preliminary data showed that headline inflation ticked up to 2.0% YoY in June from 1.9% YoY while core inflation steadied at 2.3% YoY. In particular, the rise of the headline figure was underpinned by an increase in services inflation (June: 3.3% vs. May: 3.2%) as well as a smaller decline in energy prices (June: -2.7% vs. May: -3.6%), highlighting the risk of rising commodity prices amid the escalation of the Middle East conflict. The slew of data solidified the case of slower cuts moving forward, eclipsing the emerging signs of a softening job market when the unemployment rate edged up to 6.3%, above market estimates of 6.2%. Should the trend persist into the next month, the economy's growth outlook could be derailed as consumer sentiments weaken. Thus far, household spending had declined by 0.7% MoM (May: 0.3% MoM) to mark the steepest contraction since August 2023, signalling rising consumer fatigue and slowing demand.

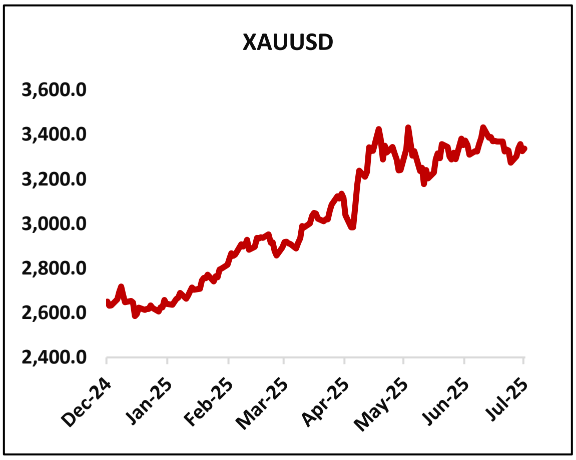


Source: Bloomberg

Short-term Outlook: Looking ahead, the data calendar is light this week while trade-related developments is expected to be on the forefront. EU officials had come forward with an optimistic tone, stating that they could potentially ink a deal by this week. Should they manage to finalize the deal, they are getting ahead of the curve vis-à-vis other U.S. trade partners which will continue negotiations throughout the extended 1st August deadline. As such, we maintain a slightly bullish outlook on the EURUSD.

XAUUSD: Gold price surged on increased global trade volatility

Gold price soared by 1.9% w-o-w last week on the back of the USD's downtrend as well as increased safe-haven demand amid heightened concerns surrounding the global trade landscape. Following the aforementioned snags in discussions between the U.S. and its trade partners, the highly volatile situation had kept markets on their toes with every sign of worsening frictions prompting increased buying interest in the bullion. Additionally, Trump's unpredictability returns when he announces that he will be sending out letters to impose tariffs of up to 70% on U.S. trade partners despite the ongoing negotiations. However, the Liberation Day tariff deadline remains, which Trump had previously stated that he is not inclined to extend, and the uncertainty of how this play will unfold has propelled the XAU's acceleration.

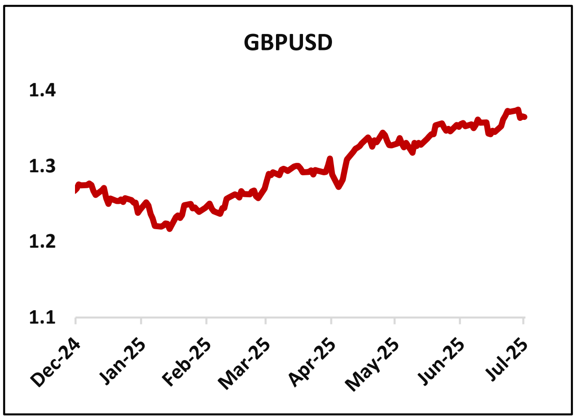


Source: Bloomberg

Short-term Outlook: Following the unilateral tariff letters, markets will be highly volatile as the situation will play out longer, watching closely whether affected economies would try to renegotiate or retaliate. However, they are more likely to favour the first outcome in light of Trump's accompanying warning of steeper blowbacks. Nonetheless, the persisting uncertainties are seemingly here to stay which would drive the XAU's uptrend and thus, we maintain a bullish outlook on XAUUSD.

GBPUSD: British Pound depreciated amid dovish hints

The British pound (GBP) declined by 0.5% w-o-w following dovish signals from the Bank of England (BOE)'s Governor Bailey, heightening market bets of further cuts by the central bank. During his press conference, Bailey noted that the prolonged uncertainties surrounding global policy shifts had resulted in weaker economic activity and declining investor confidence while stating that the current restrictive monetary settings will "come down over time", signalling that the central bank is far from over in its policy easing efforts. Supporting this view, Bailey further remarked on the cooling trend of the labour market, reinforcing concerns that had been echoed through markets which exerted pressure on the GBP. Of note, UK's unemployment rate accelerated to the highest level since August 2021 at 4.6% in April (Mar: 4.5%) whilst employment rose at the slowest pace this year (Apr: +89K vs. Mar: +112K). Furthermore, UK officials has yet to finalize a trade deal with the U.S. which will slash the tariffs on UK steel and aluminum to 0% as announced by Prime Minister Keir Starmer in early May. Pending an official agreement, said metals are currently still subject to 25% levies and should the UK fail to reach the agreement by 9th July, it could face the 50% levies already imposed on the rest of the world. As this deadline approaches, market jitters are ramping up, weighing on the GBP.

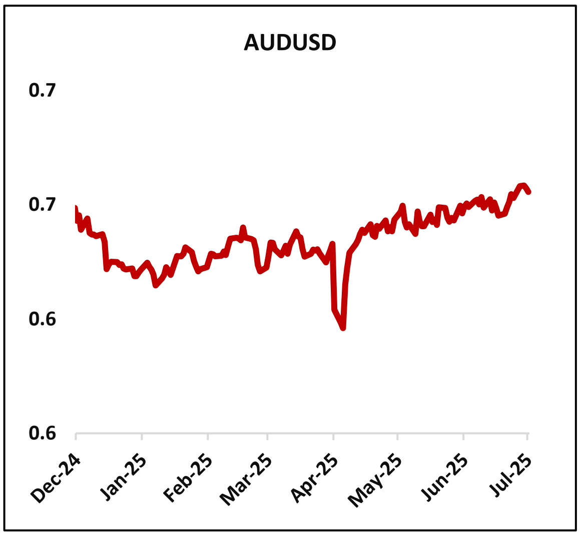


Source: Bloomberg

Short-term Outlook: Moving forward, markets are keeping their eyes trained for further developments on the metal tariffs—whether the UK has successfully circumvented it, safely maintain the current rates alongside a deadline extension or regrettably fail to cinch a deal and see the levies soar to doubled highs. Furthemore, latest production data is scheduled to be released on Friday, which could shed more light on the current state of factory activities. As such, we are slightly bullish on the GBPUSD.

AUDUSD: Australian Dollar ticked up ahead of RBA's July meeting

The Australian dollar rose by 0.4% as markets weigh in on a rate cut by the Reserve Banks of Australia (RBA) in its coming meeting following a slew of weaker economic data. Previously, Australia's employment change missed estimates to decline by 2.5K in May (Est: +25.0K), significantly slower compared to the 87.6K surge in April. On top of that, firms reported that they added employees at the weakest pace in four months during June, reflecting the lower output levels after U.S. tariffs weighed on external demand. Evidently, Australia's Manufacturing Purchasing Managers' Index (PMI) slipped to the lowest level since February (June: 50.6 points vs. May: 51.0 points) as volume of new orders contracted. Notably, exports of goods recorded a larger contraction of 2.7% MoM in May while the decline in April is revised downwards to 1.7% MoM, highlighting a more severe impact from the U.S. trade policies than expected. On the consumer prices front, inflation eased to 2.1% in May from 2.4% in April, marking the softest level since October 2024 and further reinforcing bets of an incoming rate cut.

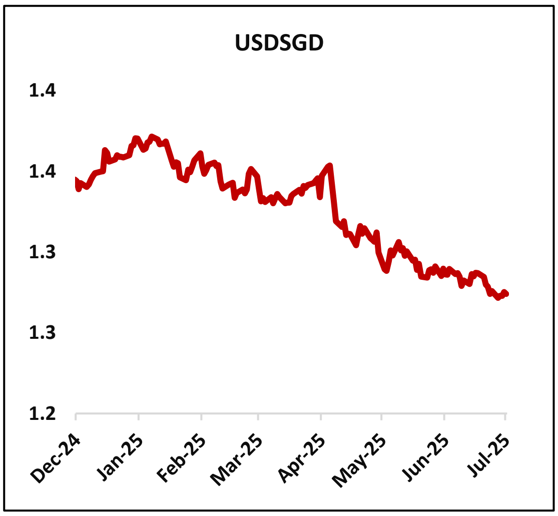


Source: Bloomberg

Short-term Outlook: As such, the RBA has more impetus to reduce the degree of its monetary policy to support the economy as inflation comfortably ranges between its 2-3% target. While household spending remained resilient as it increased by 4.2% YoY in May from 3.8% YoY in April, the softening job market could dampen consumer confidence over the long term and result in weaker demand. Thus, an early move to ease financial conditions could be a driver to prop up household spending in the face of intensifying global headwinds. In light of this, we remain neutral to slightly bearish on the AUDUSD.

USDSGD: Singaporean Dollar strengthened as retail activity picked up

The Singaporean dollar rose slightly by 0.1% w-o-w for the week ending July 4 as domestic demand regained momentum. Latest figures showed that retail sales accelerated by 1.4% YoY in May from a marginal growth of 0.2% YoY in April, marking the fastest pace since January. On a monthly basis, retail sales grew by 1.0% after stagnating in April. On the factory front, Singapore's manufacturing PMI returned to the neutral level of 50.0 points in June after two straight months trending in the negative, underpinned by increasing volume of new orders and exports as well as higher input purchases. While trade uncertainties linger, external demand for its exports seemed to have recovered slightly as firms accelerated their frontloading activities ahead of the expiration of the tariff deadline.

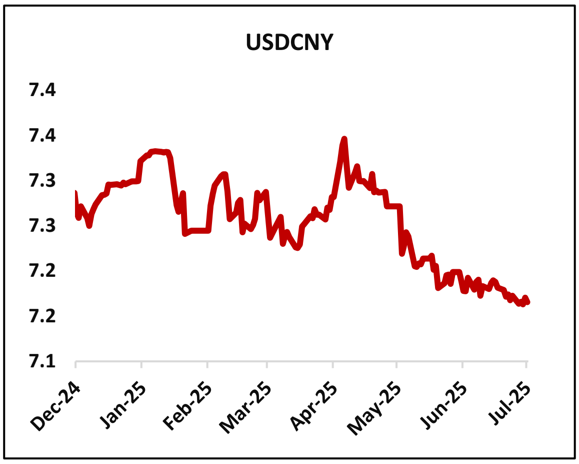


Source: Bloomberg

Short-term Outlook: Throughout its trade negotiations with the U.S., Singaporean officials have been actively pushing for carve-outs on key sectors, specifically on pharmaceuticals and semiconductor chips which makes up a bulk of its epxorts to the U.S. Nonetheless, there has been little breakthrough in these talks and as the clock ticks closer to the end, there is little room for the tides to turn in favour of Singapore. As such, we maintain a neutral to slightly bullish view on the USDSGD.

USDCNY: Chinese Yuan climbed on stronger manufacturing data

The Chinese yuan appreciated by 0.1% w-o-w for the week ending July 4 as latest manufacturing PMI data surpassed estimates, rebounding to the expansionary level in June (June: 50.4 points vs. May: 48.3 points). Such performance was underpinned by an increase in new orders and subsequently higher output level, marking the fastest acceleration since November 2024. Additionally, new export orders marked a significantly softer decline compared to May as China's trade truce with the U.S. places it on relatively better standing while firms are more cautious on other U.S. trade partners as the clock ticks out on the negotiation frame.

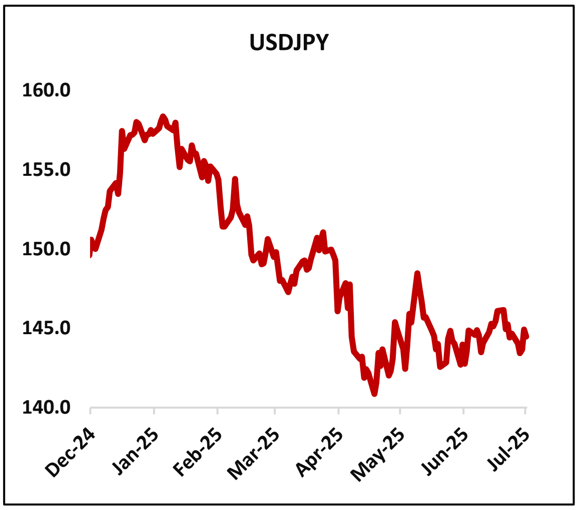


Source: Bloomberg

Short-term Outlook: In recent news, Trump had threatened an additional 10% tariffs on countries deemed to align with anti-American policies of BRICS. Considering that Trump's stance on U.S. protectionism and unpredictable temperament, markets chose to err on the side of caution as he could impose the levies without much preamble or reason, exerting pressure on the CNY. However, contrary to market expectations, China was out of the firing range in the recent round of tariff letters, potentially providing some lift to the CNY amid rising investor confidence. In light of this, we remain slightly bearish on USDCNY in the near term.

USDJPY: Japanese Yen edged up on stronger household spending

The Japanese Yen increased by 0.1% w-o-w against the USD as stronger than expected domestic demand rallied markets behind Bank of Japan (BOJ)'s policy normalization measures. Of note, Japan's household spending outpaced estimates in May as it surged by 4.7% YoY (Est: 1.2% YoY) compared to a decline of 0.1% YoY in April, marking the strongest level since August 2022. Meanwhile, similar trend was seen on a monthly basis as household spending rebounded strongly to 4.6% from a contraction of 1.8% in the previous month. Such performance underlined the government's commitment to boost domestic consumption in the face of elevated price pressures and heightened global headwinds. As such, favourable domestic economic data had steered sentiments despite complications on the trade front as Trump criticized Japan's reluctance towards U.S. rice and autos exports.

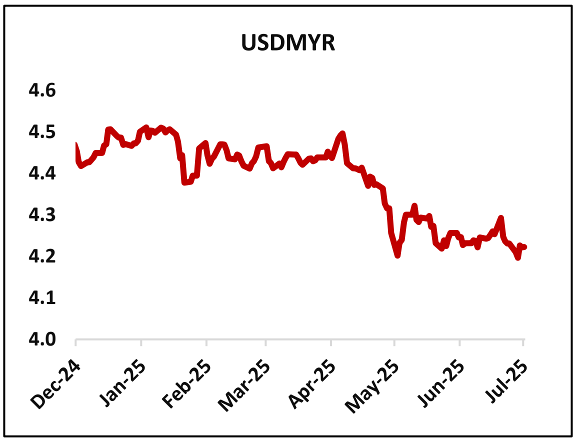


Source: Bloomberg

Short-term Outlook: Following the snags in Japan-U.S. trade talks, Japan's Prime Minister Ishiba had stated that Japan will not cave under pressure which led to cautiously optimistic chatters in the market for a fairer deal. However, in a rapid escalation of the situation, Trump had targeted Japan with 25% tariffs through his letters on Monday while warning them that any retaliation will be met equally. Considering the intensifying frictions as markets watch for signals from Japanese officials, we hold a slightly bullish view on the USDJPY in the near term.

USDMYR: The Ringgit appreciated amid implementation of policy reforms

The Ringgit increased by 0.2% w-o-w against the USD amid the implementation of several key policy reforms. On 1st July, the revision of the Sales and Services Tax (SST) took effect where the Sales tax rate was hiked up to 10% based on a tiered system while the Services tax scope was broadened to include six new areas. Alongside the rollout of this, a new electricity tariff structure was introduced to Peninsular Malaysia which breaks down users' electricity bills by components while respective tariff rates are streamlined according to the category and consumption level. More importantly, the Time-of-Use (ToU) scheme was introduced which offers lower rates during off-peak hours. While consumer sentiments were dampened by these new measures, investors view them through more optimistic glasses, taking the implementations as signs of greater accountability by the government to enhance the country's fiscal position.



Source: Bloomberg

Short-term Outlook: Moving forward, markets are anticipating Bank Negara Malaysia's policy decision on 9th July with solid cases to be made in support of the central bank reducing the Overnight Policy Rate (OPR). Considering the evolving global landscape and the impact to domestic growth, we maintain our view that BNM will hold the OPR steady but bias is tilted to the downside. Furthermore, investor sentiments will be taking a hit from the 25% tariffs imposed on Malaysia, one percentage point higher than the initial Liberation Day tariffs, likely spurring a flight away from Malaysian markets. Thus, at the current juncture, we maintain our bullish view on the USDMYR.

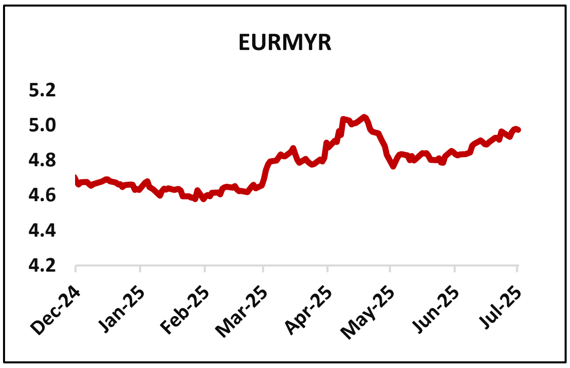
Table 2: Selected Currencies Overview (MYR Crosses)

	20-Jun	27-Jun	4-Jul	WoW	YTD
USDMYR	**4.2535**	**4.2308**	**4.2225**	**0.2%**	**5.9%**
EURMYR	**4.9028**	**4.9563**	**4.9729**	**-0.3%**	**-6.3%**
GBPMYR	**5.7394**	**5.8152**	**5.7669**	**0.8%**	**-2.6%**
SGDMYR	**3.3112**	**3.3188**	**3.3149**	**0.1%**	**-0.9%**
JPYMYR	**2.9117**	**2.9262**	**2.9225**	**0.1%**	**-2.6%**
AUDMYR	**2.7618**	**2.7688**	**2.7689**	**0.0%**	**0.4%**
CNYMYR	**0.59237**	**0.59018**	**0.58935**	**0.1%**	**3.9%**

Sources: Bloomberg, Bank Islam

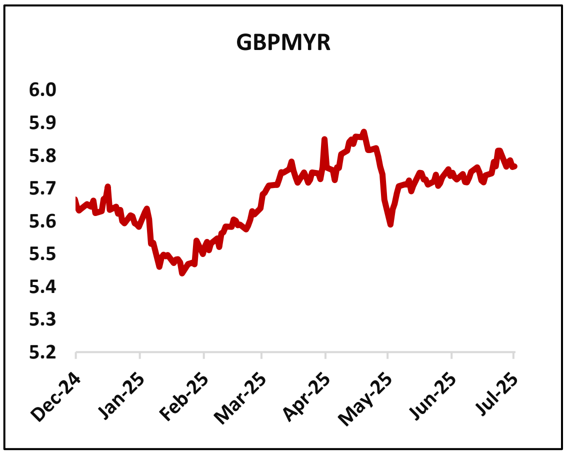
Short Term Outlook for Ringgit Pairs

The outlook for EUR/MYR remains bullish as the Euro Area currently has a relative edge compared to Malaysia in regards to U.S. tariffs. It is a wildly different landscape compared to just a week ago when Malaysia is favoured among firms aiming for its stability and optimistic outlook on trade while the EU was facing complications in their bilateral negotiations with the U.S. However, come Monday, Trump's letters had zeroed in on Malaysian goods with a 25% tariff, causing sentiments to plunge and exerts pressure on the MYR.



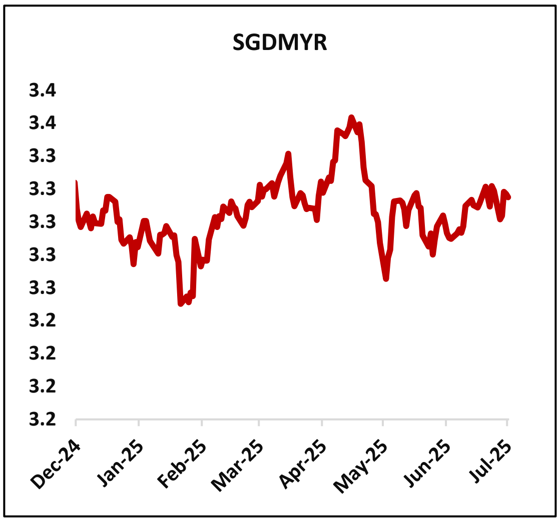
Source: Bloomberg

The GBP/MYR outlook remains slightly bullish as UK officials race against the extended 1st August deadline to finalize an agreement that will spare UK metals from the doubled 50% tariffs. Should they successfully achieve this target, U.S. firms will reroute their buying to enjoy the lower rates as against metal exports from other countries which will provide lift to UK's economic outlook. As such, the GBP will strengthen compared to the MYR.



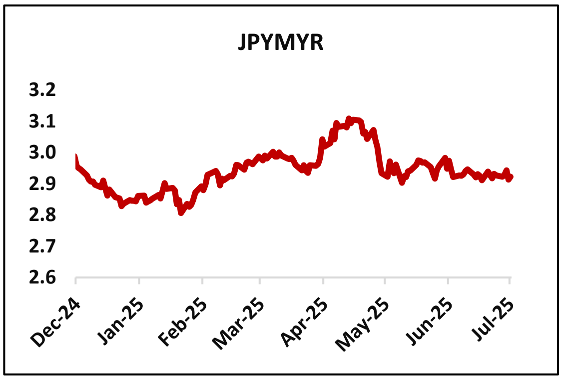
Source: Bloomberg

The SGD/MYR outlook remains neutral to slightly bullish following the latest 25% tariffs on Malaysian exports to the U.S., placing Singapore on a relatively solid footing compared to Malaysia. Thus far, Singapore's production levels have begun to recover amid frontloading activities and such trend will likely continue given the recent development, strengthening the SGD against Ringgit.



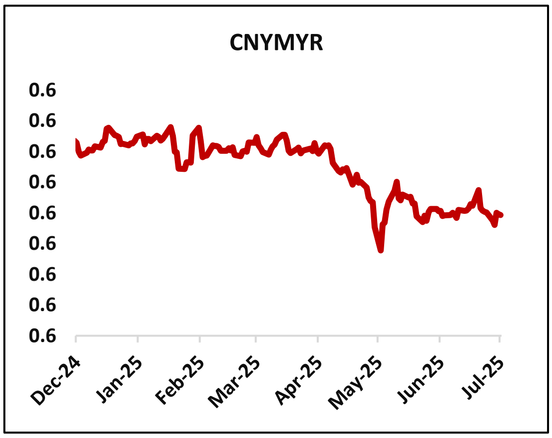
Source: Bloomberg

The JPY/MYR outlook remains slightly bearish following Trump imposing 25% tariffs on both Japan and Malaysia. However, taking cues from previous statements from respective officials, investor sentiments are more cautious on Japan's reaction to the trade policy which would drag the performance of the JPY.



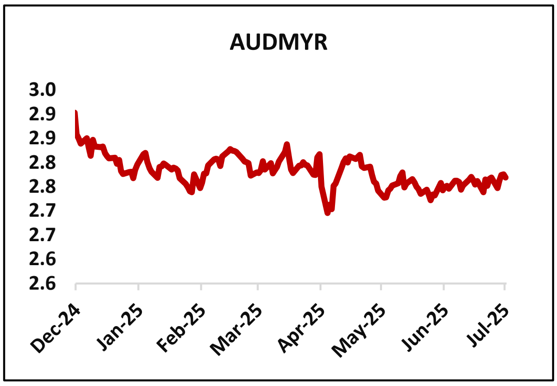
Source: Bloomberg

The outlook for CNY/MYR remains slightly bullish as China's trade truce with the U.S. proved to be more stable than expected while Malaysia's trade will potentially be weaker moving forward, drawing demand away from the Ringgit.



Source: Bloomberg

The AUD/MYR outlook remains neutral to slightly bullish amid heightened bets of a rate cut by the RBA in its upcoming meeting. However, downsides to the AUD is limited given market expectations are also dovish on BNM's policy path following the recent U.S. trade policy surprise.



Source: Bloomberg