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U.S. FED RATE CUT HOPES DIMINISHED AS TRUMP'S TARIFFS REIGNITED INFLATIONARY PRESSURES

Trump steamrolling ahead on his trade rhetoric. Trump's tariff blitz continued to plague markets for the past weeks as he unveiled a slew of protectionist policies, prolonging the uncertainties surrounding the global trade landscape. Notably, Trump announced a 50% tariff on all copper imports, citing national security concerns under a Section 232 investigation. Furthermore, following the first 14 letters, Trump had issued another round of tariff letters to 7 countries, underlining a range of conditional tariffs from 20% to as high as 40%. While markets are cautiously optimistic that these rates are negotiable, taking cues from 1) Trump's remarks that they are "firm but not 100% firm" and 2) the positive culmination of Indonesia-U.S. trade talks, such developments foster an environment of high volatility. Markets are kept on the edge of their seats, watching the flipflops of U.S. tariffs which steadily erodes firm and consumer sentiments alike, all hinging on Trump's assessment of unfair trade practices vis-à-vis the U.S. Looking at the Indonesia-U.S. trade deal, the U.S. had conditionally slashed the levies imposed on Indonesian goods from 32% to 19% with the former pledging to import more U.S. energy, agricultural products and aircrafts. Stepping back to the broader picture, Trump elaborated on his unilateral tariff letters by stating that he has more than 150 countries next on his list, with tariff rates from 10% to 15% to be imposed.

Additionally, Trump had placed a 35% tariff on Canadian imports, barring those protected under the 2020 U.S.-Mexico-Canada Agreement (USMCA). However, Canadian Prime Minister Mark Carney reassured markets that the government will continue negotiations ahead of the 1st August deadline, a silver lining to the dark cloud looming over the economy especially considering Trump's mellow signals that he would "consider an adjustment to this letter" given the Canadian government's cooperation with the U.S. on the issue of fentanyl. Brazil was also on the firing range last week, being hit with a whopping 50% tariff from the initial 10% rate. Thus far, Brazilian officials have reached out to U.S. administration with their proposal, aiming to renegotiate a bilateral deal before the deadline.

Rate cut hopes dim further. Currency markets have been swayed by a repricing of Federal Reserve (Fed) rate cut expectations as inflationary pressures intensified in June—an indication that Trump's sweeping tariffs are beginning to feed through to consumer prices. Headline inflation rose to 2.7% YoY (May: 2.4%), while the monthly increase accelerated to a six-month high of 0.3% (May: 0.1%). Core inflation, which strips out volatile components, also picked up to 0.2% MoM from 0.1% previously, with the annual rate edging up to 2.9% from 2.8%, moving further away from the Fed's 2.0% target. This inflationary uptick has prompted markets to dial back expectations for rate cuts in the July and September meetings, reinforcing a "higher for longer" narrative. Importantly, the latest figures likely understate the full impact of tariff-induced price pressures, as many country-specific levies, including a 10% across-the-board tariff, a 25% duty on autos, and 50% tariffs on steel and aluminium, are only set to take effect from August 1. Against this backdrop, the Fed appears inclined to keep interest rates steady as it monitors the evolving inflation landscape and the broader economic effects of Trump's trade agenda. For now, it is adopting a patient and data-dependent stance, buoyed by signs of underlying economic resilience that allow for greater policy flexibility.

Upcoming Events: Key Economic Data Release

Monday	**People's Bank of China (PBOC) Policy Rate Decision**
Tuesday	**Malaysia Consumer Prices (June)**
Wednesday	**Singapore Consumer Prices (June)**
Thursday	**European Central Bank (ECB) Policy Rate Decision, Euro Area, Japan&U.S. Flash Purchasing Managers' Index (PMI) (July)**
Friday	**Japan Consumer Prices (June), Singapore Industrial Production (June)**

Table 1: Selected Currencies Overview

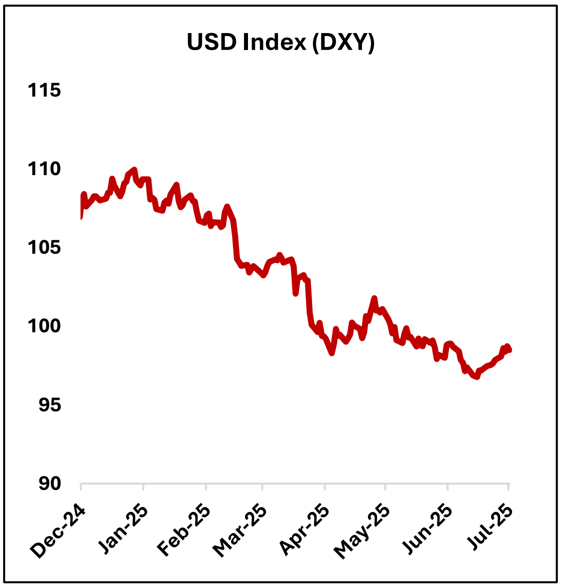
	4-Jul	11-Jul	18-Jul	WoW	YTD
DXY Index	97.18	97.85	98.48	0.6%	-9.2%
USDMYR	4.22	4.25	4.24	0.2%	5.4%
XAUUSD	3,337.15	3,355.59	3,349.94	-0.2%	27.6%
EURUSD	1.18	1.17	1.16	-0.5%	12.3%
GBPUSD	1.37	1.35	1.34	-0.6%	7.2%
AUDUSD	0.66	0.66	0.65	-1.0%	5.2%
USDSGD	1.27	1.28	1.29	-0.4%	6.2%
USDJPY	144.47	147.43	148.81	-0.9%	5.6%
USDCNY	7.17	7.17	7.17	-0.1%	1.7%

Sources: Bloomberg, Bank Islam

Commentaries

DXY: USD appreciated amid dimmer Federal Reserve (Fed) rate cut hopes

The USD index strengthened by 0.6% w-o-w for the week ending July 18 as markets repriced their Fed rate cut bets following higher June inflation figures. eyond concerns of elevated tariff-driven price pressures, this view was bolstered by the case of U.S. exceptionalism which opened up ample space for the central bank to act on its monetary settings. Previously, U.S. job market proved to be tighter than expected when the number of job openings rose to the highest level since November 2024 (May: 7.77 million vs. Apr: 7.39 million). In meeting the roaring demand, U.S. Nonfarm Payroll (NFP) surpassed estimates to expand by 147K in June (Est: 110K persons) while the unemployment rate ticked down to 4.1%, beating expectations of a 4.3% rise. Latest figures showed that household spending rebounded by 0.6% MoM in June from a deep decline of 0.9% MoM in May, signalling that consumer sentiments are still holding up. As such, markets have slashed their rate cut estimates with the probabilities of a July cut falling to just above 50.0% at the time of writing from almost 60.0% the week before, leading to the USD's appreciation. Nevertheless, Trump has remained vocal in his criticism of the Federal Reserve, advocating for a sharp reduction in the federal funds rate (FFR) to as low as 1.00%, a dramatic shift from the current range of 4.25%–4.50%. His rhetoric, combined with threats to remove Fed Chair Jerome Powell and install more dovish leadership, injected fresh uncertainty into the Fed's future policy direction. This heightened volatility around the central bank's independence and leadership outlook contributed to a spike in 10-year U.S. Treasury yields. However, markets partially reversed course after Trump downplayed speculation about firing Powell, saying such a move was "unlikely." Following this clarification and reaffirmation of Powell's tenure, which is set to expire in May 2026, market conditions gradually normalized, retracing much of the earlier reaction and lent further support to the USD.

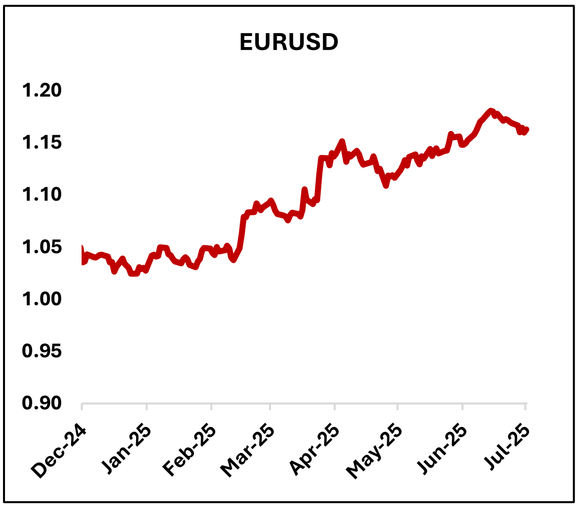


Source: Bloomberg

Short-term outlook: Markets will be closely eyeing Fed Chair Powell's speech for more hints on the central bank's policy decision before Fed policymakers enter the blackout stage ahead of its 30th July meeting. Based on prior signals and the current data, we expect Powell to maintain the "wait and see" tone which casts a more bullish light on the USD. However, downside risks remain from the persistent volatility surrounding the global trade landscape amid the interplay of Trump's aggressive tariff moves, trade partners scrambling to renavigate the rocky seas of trade negotiations and Trump's pivots should the winds in his sails change.

EURUSD: Euro slipped despite expectations of steady interest rates

The Euro weakened by 0.5% w-o-w ahead of the European Central Bank (ECB)'s July meeting despite markets betting that the central bank will keep interest rates on hold. Thus far, the ECB had reduced rates by a cumulative 235 bps since June 2024, and its disinflation had subsequently eased closer to the central bank's target. Eurozone's headline inflation had edged up slightly by 2.0% YoY in June from 1.9% YoY in May while core inflation steadied at 2.3% in the same month. As such, ECB policymakers have sufficient space to wait for clearer data on the impact of shifting global trade policies on its economy and prices before making a move. The heightened volatility surrounding Trump's tariffs is throwing a wrench in central bank's outlook as bilateral talks between U.S. and European officials proved to be less straightforward than expected. Previously, Trump had threatened the bloc with higher rates, citing complications at the negotiation table. However, this warning was rescinded after both parties cordially made up with European officials and Trump himself signalling that an agreement is close to be finalized in just a few days. Nonetheless, latest news reported that Trump is eyeing levies of at least 15% to 20% on EU imports, potentially derailing talks once again as EU officials had previously stated their aim of achieving a deal similar to UK.

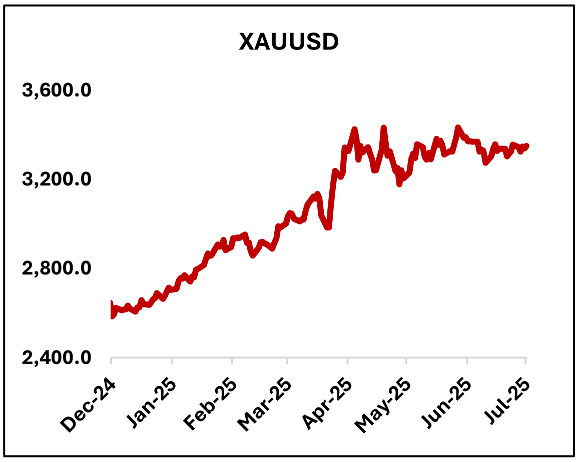


Source: Bloomberg

Short-term Outlook: Looking ahead, markets are largely rallying behind the central bank maintaining its interest rates this week while betting on a more hawkish pause for the rest of the year, pricing in one more cut in 2025. All eyes will be looking for further guidance from ECB President Lagarde in the last stretch before the policymakers convene on 24th July. As such, we maintain a neutral to slightly bullish outlook on the EURUSD and expect the pair to trade in the range of 1.1580 and 1.1710.

XAUUSD: Gold price dipped as investor risk sentiments stabilizes

Gold price eased by 0.2% w-o-w for the week ending July 18, losing out on the back of the USD's appreciation. As market expectations of the Fed maintaining interest rates for longer increases, investors shifted their focus back towards U.S. assets, exerting pressure on the XAU. Furthermore, demand for the safe haven asset have slowed amid rising gold fatigue after the bullion price have been trending near historic highs for the past weeks, underpinned by heightened geopolitical tensions and rising global protectionism. As tensions in the Middle East plateaued, investor sentiments gradually stabilizes as they await further developments on this front.

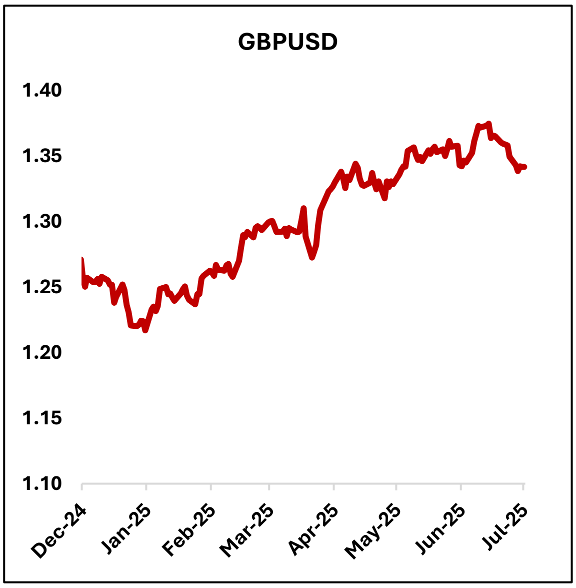


Source: Bloomberg

Short-term Outlook: Moving forward, markets have almost fully priced in the odds of the Fed keeping the FFR at the current levels. As Fed policymakers enter the blackout period ahead of the July FOMC meeting, this view remains unchallenged, barring shocks on the U.S. policy front. However, last minute data surprises could still tilt the scales with the June JOLTS job openings and advanced 2Q2025 GDP figures slated to be released just before the much-anticipated meeting convened. As such, we maintain a slightly bearish outlook on XAUUSD. Support is at $3,300 and resistance is seen around $3,435

GBPUSD: British Pound depreciated as unemployment rate eased to multi-year low

The British pound (GBP) slipped by 0.6% w-o-w as the UK job market appeared to cool faster than expected, fuelling concerns of a slowing economy amid the turbulent global trade landscape. Previously, UK's industrial output unexpectedly declined by 0.3% y-o-y in May (Apr: +0.3% y-o-y) as external demand slowed. Of note, the unemployment rate had edged up to 4.7% in three months to May, surpassing expectations of a rise to 4.6% and marking the highest level since July 2021. This could weaken consumer sentiments and subsequently weigh on household spending, potentially shifting the tracks further to derail a shaky economic outlook. Despite the UK officially cementing a bilateral trade deal with the U.S., Bank of England (BOE) Governor Andrew Bailey stressed that uncertainties still remain a risk to growth expectations, signalling the central bank's readiness to act should incoming data necessitates it. Nevertheless, employment figures on the other hand paint a more optimistic picture when the number of employed persons in May rose at the fastest pace since February, surging significantly by 134K against estimates of only 46K. Furthermore, price pressures seemed to have been reignited again with headline inflation rising faster than expected by 3.6% y-o-y in May from 3.4% (Est: 3.4% y-o-y). Similarly, core inflation accelerated by 3.7% y-o-y, above estimates of 3.5% y-o-y and further complicating the BOE's monetary policy outlook.

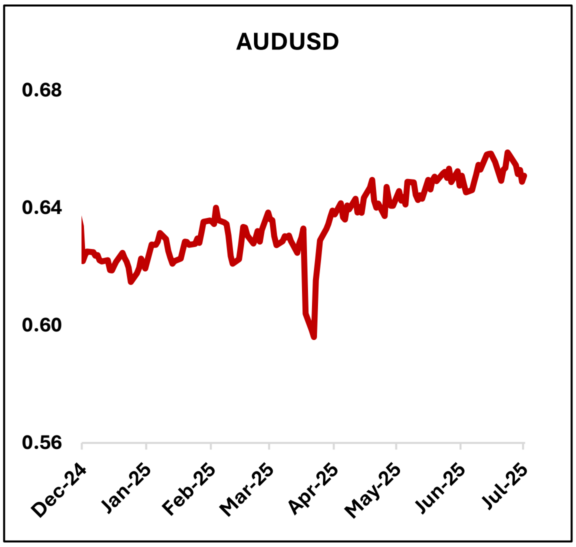


Source: Bloomberg

Short-term Outlook: Looking ahead, markets will be keeping their eyes trained on the preliminary PMI figures on the factory front as well as the retail sales data on the household spending front, searching for more clues that could shed light on the BOE's policy path. With risks emerging from both ends of the spectrum, the central bank has to strike a fine balance in curbing rising inflationary pressures without risking the growth outlook. It proved to be a divisive task with the latest June meeting minutes showing that policymakers are split 6-3 on reducing the Bank Rate by 25 bp. As such, we are neutral to slightly bearish on the GBPUSD foreseeing a possible trading range of 1.3360 – 1.3510.

AUDUSD: Australian Dollar weakened amid considerably cooler job market

The Australian dollar plunged by 1.0% w-o-w as latest figures showed the Australian job market cooling significantly, causing markets to cast a sceptical eye on the Reserve Bank of Australia (RBA)'s July policy decision where it kept the cash rate steady at 3.85% against expectations of a 25 bp reduction. Notably, the full-time employment plummeted by a four-month low of 38.2K persons in June from an expansion of 41.9K a month prior while unemployment rate rose to 4.3% from 4.1% in May (Est: 4.1%). Meanwhile, part time employment rebounded strongly by 40.2K in June from a decline of 43.0K. Overall, Australia's employment rose marginally by 2.0K, well below estimates of 20K, albeit marking a revival from May's 1.1K decline. As such, market bets of further policy easing have ramped up, eyeing for lower interest rates to support domestic demand, especially considering that inflation have settled within the RBA's 2-3% target.

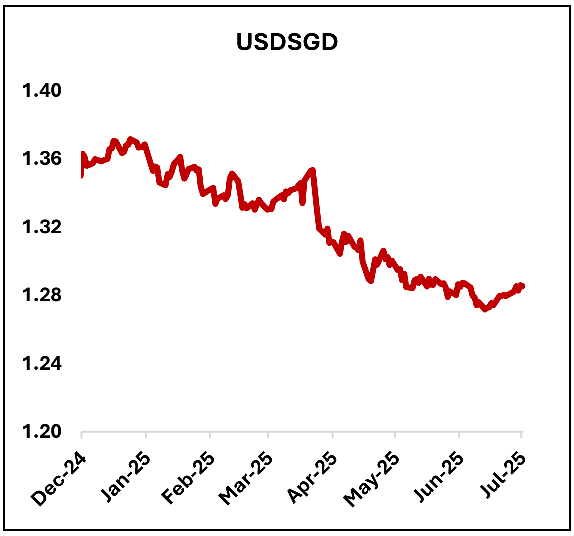


Source: Bloomberg

Short-term Outlook: Moving forward, markets are on their toes awaiting the July meeting minutes scheduled to be released on Tuesday for hints on the central bank's policy decision. Additionally, the flash PMI figures will also be the focus to digest the impact of U.S. tariffs thus far, ahead of the looming August deadline. Australia is a key player in the global copper value chain, making it vulnerable to demand slumps following Trump's 50% copper levies. Furthermore, Trump had previously threatened a whopping 200% tariffs on Australian pharmaceuticals, which are key exports goods of the economy. Should the warning come through, exacerbating the other tariffs in place or set to come into effect such as the copper, it could significantly dampen Australia's outlook. In light of this, we remain neutral to slightly bearish on the AUDUSD, eyeing a probable trading range of 0.6460 – 0.6590 for the pair.

USDSGD: Singaporean Dollar dipped despite strong economic data

The Singaporean dollar weakened slightly by 0.4% w-o-w, pressured by the appreciation of the USD despite robust economic data released during the week. Singapore's economy rebounded strongly by 1.4% q-o-q in 2Q2025 from a 0.5% q-o-q contraction in the previous quarter, beating estimates of a 0.7% growth. On an annual basis, the economy accelerated faster than anticipated by 4.3% (Est: 3.5%) from 4.1% in 1Q2025. These figures surprised markets who had been cautious on Singapore's trade and outlook, considering its high exposure to the U.S. Nevertheless, it appeared that frontloading activities trumped the higher U.S. tariffs, propelling its exports to surge by 13.0% y-o-y in June (May: -3.9% y-o-y). Firms had rushed to meet the higher demand, bolstering the manufacturing sector's 5.5% expansion in 2Q2025 (1QQ2025: 4.4%). Thus far, the economy is on track to achieve the official 2025 growth target between 0-2.0%, which would provide support for the SGD.

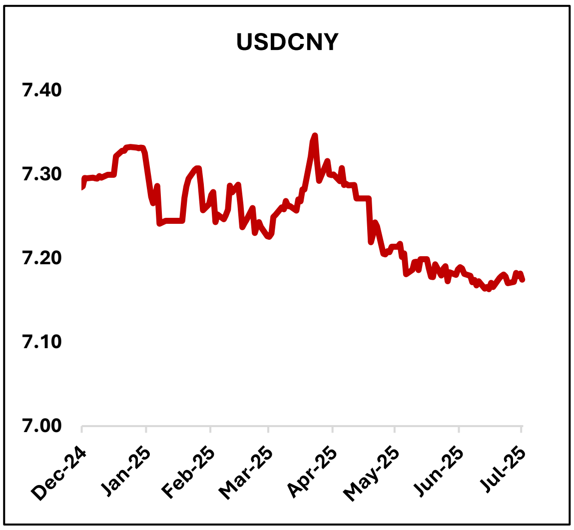


Source: Bloomberg

Short-term Outlook: Looking ahead, Singapore stands on a more appealing footing compared to its regional peers as it had avoided Trump's initial rounds of unilateral tariffs. Another plus in its books is that Singapore is not bound by the 1st August deadline as the Liberation Day tariff tacked onto the country is equal to the current baseline rate of 10% imposed on all countries. Even as the deadline comes and goes, Singapore would maintain its competitive edge over its peers and thus, we maintain a slightly bearish view on the USDSGD, looking at a likely trading range of 1.2790 – 1.2890.

USDCNY: Chinese Yuan declined marginally despite robust growths across multiple fronts

The Chinese yuan slipped by 0.1% w-o-w on the back of the USD's strength, although support to the currency emerged from its solid economic data. Kicking off the week on a positive note, China's exports surpassed expectations to accelerate by 5.8% y-o-y in June (Est: 5.0% y-o-y, May: 4.8% y-o-y), signalling rapid frontloading activities and firms rushing to fulfil orders during the U.S.-China truce. Furthermore, businesses appear to expect higher volume of orders as imports marked the first expansion this year in the same month (June: 1.1% y-o-y vs. May: -3.4% y-o-y), fuelled by resilient external demand whilst consumer spending remained solid following supportive government measures to encourage domestic demand. Of note, retail sales rose, albeit at a slower pace of 4.8% y-o-y in June compared to 6.4% y-o-y in May. On the factory front, China's industrial production surged by 6.8% y-o-y in June from 5.8% y-o-y in May (Est: 5.6%). All in all, the economy emerged scarred but still standing in 2Q2025 with its GDP increasing by 5.2% y-o-y, slightly slower than 5.4% recorded in 1Q2025. On a quarterly basis, the economy expanded by 1.1% (1Q2025: 1.2% q-o-q).



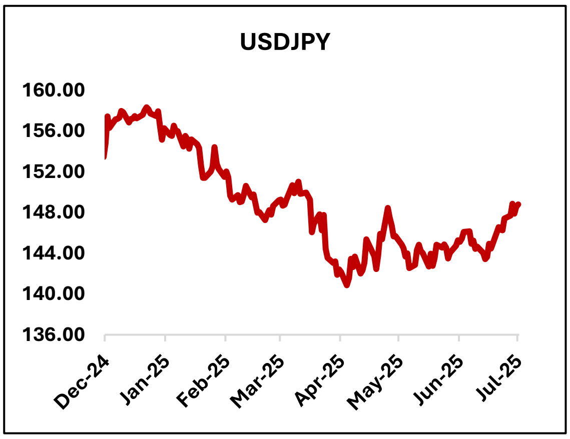
Source: Bloomberg

Short-term Outlook: China's economy proved to be more resilient than expected, placing it on track to achieve the official 5.0% growth target this year. However, downside risks still remain from prolonged trade-related uncertainties, rising global protectionism and policy shifts, as well as China's persistent property woes and historically sticky deflationary pressures. Looking ahead, we remain bearish on USDCNY in the near term.

USDJPY: Japanese Yen depreciated as trade woes weighed on the economy

The Japanese Yen weakened by 0.9% w-o-w as the effects of U.S. tariffs materialized into weaker economic activity. Of note, Japan's industrial production marked the deepest decline since November 2024, contracting by 2.4% y-o-y in

May from April's marginal 0.5% rise. Such performance was dragged by slower external demand with its exports slipping by 0.5% y-o-y in June (May: -1.7% y-o-y). However, the worst is yet to come for the economy as Japan was one of the targets of Trump's tariff letters, being hit with 25% tariffs on its goods alongside a warning of higher rates should Japan retaliate. This rate is set to come into effect in August, potentially worsening the factory and trade slump seen in Japan thus far. As such, markets was downbeat on Japan's economic outlook, exerting pressure on the JPY. On the flip side, consumer prices eased further in June, abating the urgency for the Bank of Japan (BOJ) to continue its policy normalization rate and extending JPY's weakness. Latest figures showed both headline and core inflations in June moderated to 3.3% y-o-y from 3.5% y-o-y and 3.7% y-o-y in May, respectively. Stripping away volatile food and energy prices, core core inflation ticked up slightly to 3.4% y-o-y (May: 3.3% y-o-y).

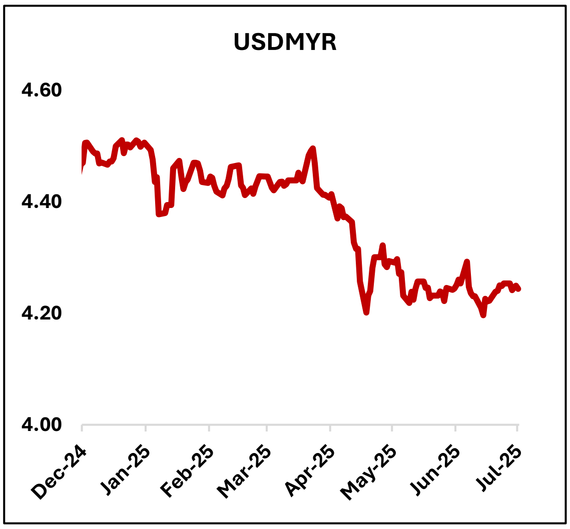


Source: Bloomberg

Short-term Outlook: Moving forward, we hold a bullish view on the USDJPY in the near term considering the trade-related pressures weighing on the Japanese economy. Previously, Japan's Prime Minister Ishiba had firmly announced that Japan would not cave in negotiations with the U.S. Should this stance be maintained, it dims hopes of reaching a favourable trade deal with the U.S., casting a cloud over the economy. Furthermore, Japan is currently plagued with political uncertainty as the ruling coalition faced a loss in the upper house election, following its loss in the lower house election last year which makes it the first government in decades to be the minority in both the lower and upper house. This could further drive investors away from Japanese assets amid rising risk aversion, dragging the JPY. We are bullish on USDJPY for the week ahead, foreseeing a possible trading range of 147.00 – 149.15 for the currency pair.

USDMYR: The Ringgit appreciated as the Malaysian economy remained steadfast

The Ringgit rose by 0.2% w-o-w against the USD as the economy grew by 4.5% y-o-y in 2Q2025, faster than 4.4% recorded in the first quarter. Such growth had soothed market jitters of a significant hiccup in Malaysia's growth trajectory. Looking closer, the performance is propelled by expansions in the Services (2Q2025: 5.3% vs. 1Q2025: 5.0%) and Agriculture (2Q2025: 2.0% vs. 1Q2025: 0.6%) sectors. Meanwhile, the Manufacturing (2Q2025: 3.8% vs. 1Q2025: 4.1%) and Construction (2Q2025: 11.0% vs. 1Q2025: 14.2%) sectors also accelerated albeit at slower paces compared to the previous quarter. On the contrary, the Mining sector persisted in its downturn as it plunged by 7.4% (1Q2025: -2.7%). Furthermore, household spending remained resilient as it increased by 4.9% y-o-y in May from 4.7% y-o-y in April, supporting the economy through the turbulent times.



Source: Bloomberg

Short-term Outlook: While Malaysia's economy has prevailed through the headwinds, worries arose that the momentum could sputter and slow, especially following the latest round Trump's tariff waves. Nevertheless, Malaysian officials have reassured that they will be negotiating a deal with the U.S. However, while markets are optimistic on these signals, they maintain a heightened level of caution as tides could turn for the worse as was seen just two weeks before. Moving forward, Malaysia's strong economic fundamentals is expected to provide crucial layers of support to the MYR, bolstered by Bank Negara Malaysia (BNM)'s policy rate cut to 2.75% previously. As such, we maintain our slightly bearish view on the USDMYR, looking at a likely trading range of 4.2280 – 4.2580.

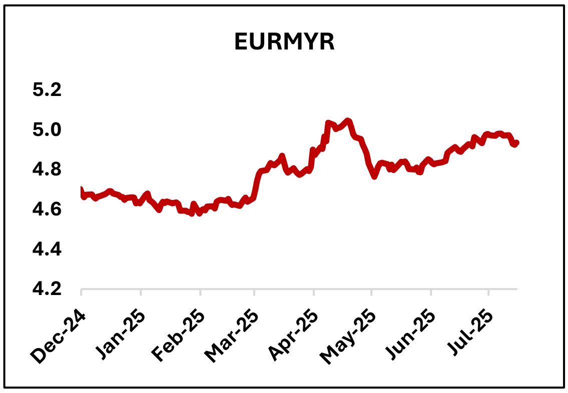
Table 2: Selected Currencies Overview (MYR Crosses)

	4-Jul	11-Jul	18-Jul	WoW	YTD
USDMYR	4.2225	4.2535	4.2438	0.2%	5.4%
EURMYR	4.9729	4.9706	4.9364	0.7%	-5.6%
GBPMYR	5.7669	5.7608	5.7041	1.0%	-1.6%
SGDMYR	3.3149	3.3206	3.3047	0.5%	-0.6%
JPYMYR	2.9225	2.8829	2.8508	1.1%	-0.2%
AUDMYR	2.7689	2.7973	2.7667	1.1%	0.5%
CNYMYR	0.58935	0.59289	0.59143	0.2%	3.6%

Sources: Bloomberg, Bank Islam

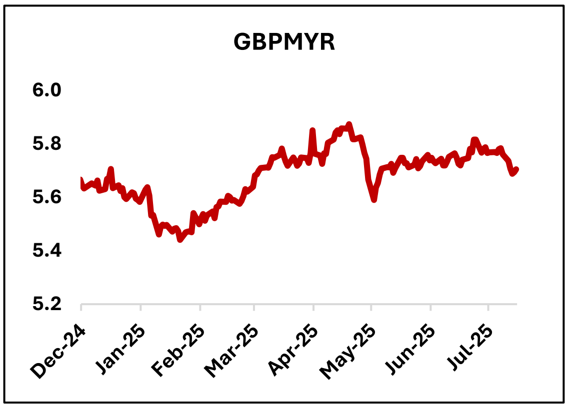
Short Term Outlook for Ringgit Pairs

The outlook for EUR/MYR remains bullish amid expectations of the ECB reaching the end of its policy easing cycle. Considering that Eurozone inflation has eased significantly from its highs, the central bank has ample space to wait and assess the impact of Trump's tariffs, making the EUR more attractive to investors. Furthermore, both Trump and EU officials are optimistic that a deal would be finalized in the near term and should it come through, the EUR will see further support.



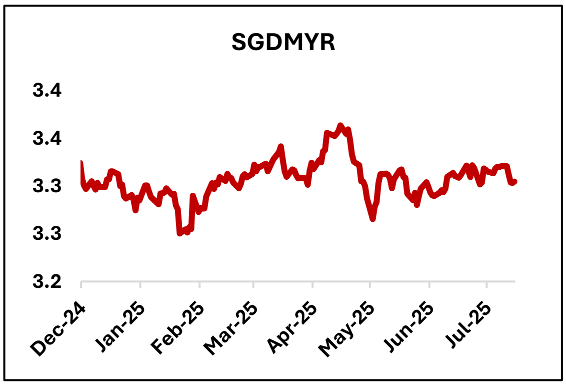
Source: Bloomberg

The GBP/MYR outlook remains neutral to slightly bearish as UK's economic data paint a complicated terrain for the BOE to navigate as the job market and factory activities eased while inflationary pressures rose. However, the UK had inked a bilateral trade agreement with the U.S., tempering over the worst jitters of a slowing economy. On the contrary, Malaysia is still in the midst of negotiations with a steeper rate of 25% looming over the economy should the trade talks fall through.



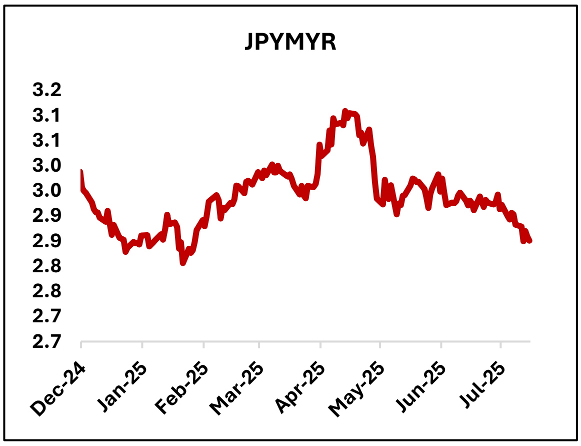
Source: Bloomberg

The SGD/MYR outlook remains slightly bullish as Singapore emerged on a more stable footing compared to Malaysia. While Malaysia is battling Trump's unilateral tariff rate, Singapore has more room to breathe as the Liberation Day tariff placed on it is equal to the current base rate imposed on all countries–at 10%.



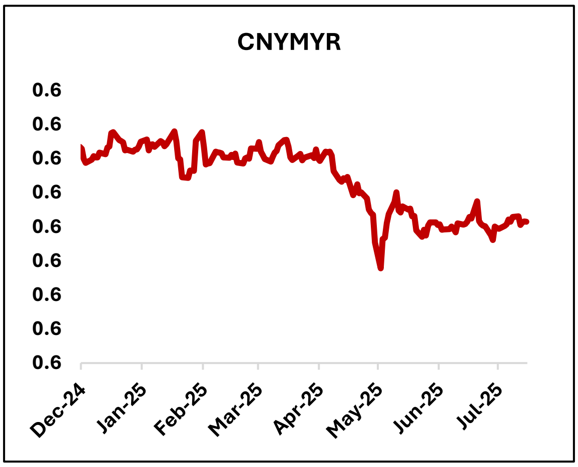
Source: Bloomberg

The outlook for the JPY/MYR remains bearish, as several factors continue to weigh on the yen. Despite both Japan and Malaysia being subject to the same 25% U.S. tariffs, Japanese authorities have adopted a more confrontational stance in defending their trade position, an approach that has unsettled investor sentiment. Adding to the pressure, ongoing political instability in Japan is likely to further undermine confidence, exacerbating downward pressure on the JPY and contributing to its continued depreciation against the MYR.



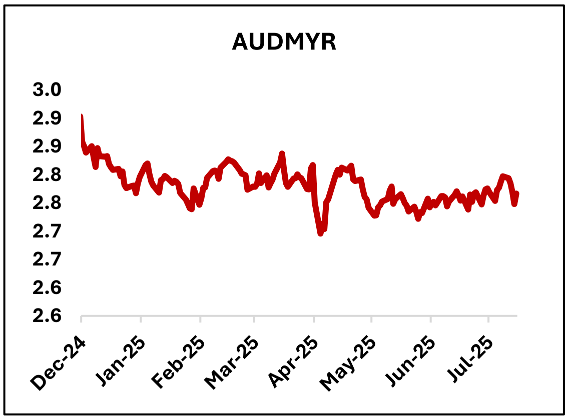
Source: Bloomberg

The outlook for CNY/MYR remains bullish as China's trade momentum remained robust, underpinned by frontloading activities. Furthermore, MYR would appear less appealing following the 25% U.S. tariffs placed on its goods compared to the concessions and deals under the U.S.-China trade truce.



Source: Bloomberg

The AUD/MYR outlook is slightly bearish following the cooler Australian job market, heightening bets of further rate cuts by the RBA. Comparatively, Malaysia's economy proved to be more resilient than expected with its unemployment rate at a decade-low of 3.0% while Labour Force Participation Rate trended at a record high of 70.8%.



Source: Bloomberg