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U.S. EMPLOYMENT MOMENTUM REMAINED WEAK IN 2025, REINFORCES THE CASE OF FURTHER FED CUTS

U.S. hiring gains remained weak in the last month of the year. The latest data showed that December nonfarm payrolls (NFP) rose by 50K, slightly below market expectations of a 60K increase, signalling a further cooling in labor market momentum. Job gains were concentrated in services-related sectors, led by food services and drinking places (+27K), health care (+21K), and social assistance (+17K). In contrast, employment in retail and wholesale trade contracted sharply, declining by 25K and 2K, respectively. This divergence suggests that consumer demand is increasingly skewed towards essential services, while discretionary and leisure-related spending continues to soften amid prolonged economic and policy uncertainties. On the production side, manufacturing employment extended its downturn for an eighth consecutive month, with payrolls falling by 8K in December, compared with a 2K decline in November, reflecting ongoing weakness in business confidence and investment appetite. In aggregate, private sector hiring slowed further, with private businesses adding just 37K jobs (Nov: 50K), well below the expected 64K increase. Following the resumption of federal government operations, federal payrolls posted a modest gain of 2K during the month.

Despite hiring gains across most sectors, overall employment momentum remained subdued. Downward revisions to October and November payrolls, by a combined 76K, pulled the three-month average NFP growth through December down by 22K, a sharp contrast to the 209K increase recorded a year earlier. This underscores the marked cooling in the labour market in 2025. On an annual basis, the U.S. economy added just 584K jobs in 2025, far below the 2.0 million gains in 2024. While economic resilience has so far been evident, the rapid deceleration in job creation raises the risk of spillovers to broader growth, reinforcing the case for a more accommodative policy stance by the Federal Reserve going forward.

However, the path of Fed rate cuts remains highly uncertain. According to the Bureau of Labor Statistics (BLS), the unemployment rate edged lower to 4.4% in December from 4.5% in November, while wage growth stayed firm. Average hourly earnings rose 3.8% y-o-y to USD37.02 (Nov: USD36.90) and increased by 0.3% m-o-m, underscoring persistent underlying labor cost pressures. Against this backdrop of softer job creation but resilient wages, markets have shifted to a more cautious stance, tempering expectations for an early pace of easing. At the time of writing, the probability of the Fed holding rates steady in March has climbed above 71%, from just under 50% a week earlier. Investors are also awaiting clearer signals from incoming data on the cumulative impact of the three consecutive 25 bp cuts implemented in 2025, echoing guidance from the latest FOMC minutes. Notably, several officials indicated it may be “appropriate to keep the target range unchanged for some time” to assess the effects of prior easing. At the same time, lingering upside risks to inflation, despite only gradual increases so far, have heightened concerns that price pressures could become more pronounced in 2026, further clouding the outlook for the Fed’s easing trajectory.

Upcoming Events: Key Economic Data Release

Monday	Australia Household Spending (November)
Tuesday	U.S. Consumer Inflation (December), China Vehicle Sales (December)
Wednesday	China Trade Data (December), U.S. Producer Prices and Retail Sales (November)
Thursday	Japan Producer Prices (December), Euro Area Industrial Production (November)
Friday	Malaysia Advance Estimates 4Q2025 GDP, Singapore Exports (December), U.S. Industrial Production (December)

Table 1: Selected Currencies Overview

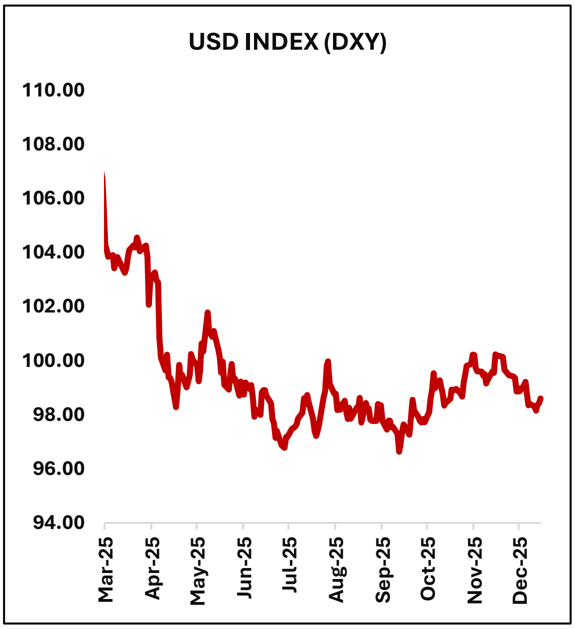
	26-Dec	2-Jan	9-Jan	WoW	YTD
DXY Index	98.02	98.42	99.13	0.7%	0.8%
USDMYR	4.05	4.05	4.07	0.5%	0.3%
XAUUSD	4,533.21	4,332.29	4,509.50	4.1%	4.4%
EURUSD	1.18	1.17	1.16	-0.7%	-0.9%
GBPUSD	1.35	1.35	1.34	-0.4%	-0.5%
AUDUSD	0.67	0.67	0.67	-0.1%	0.2%
USDSGD	1.28	1.29	1.29	0.1%	0.2%
USDJPY	156.57	156.84	157.89	0.7%	0.8%
USDCNY	7.01	6.99	6.98	-0.2%	-0.1%

Sources: Bloomberg, Bank Islam

Commentaries

DXY: USD climbed as markets dialled back their rate cut bets

The USD Index strengthened by 0.7% w-o-w for the week ending January 9, reaching its highest level in nearly a month as markets reassessed near-term Federal Reserve policy expectations in light of mixed U.S. labor market data. December's nonfarm payrolls and moderation in job growth underscored softer employment momentum, even as the unemployment rate dipped to 4.4% and wage gains remained solid. This ambivalence in the labor market has complicated the narrative for monetary policy. While weaker job gains support the case for eventual easing, resilient labour conditions, coupled with persistent inflation pressures and unexpected economic resilience, have blurred the timing of future rate cuts. In turn, markets have grown more cautious, pushing up the probability of the Fed holding the Federal Funds Rate steady in March as traders await further inflation and activity data to gauge the impact of the three back-to-back 25 bp cuts delivered in 2025. The dollar's advance was also underpinned by intermittent safe-haven demand amid heightened geopolitical tensions following U.S. military action in Venezuela, which spurred risk aversion and supported haven assets, including the greenback. Overall, the interplay of softer payroll growth, resilient labor market signals, inflation uncertainty, and geopolitical risk has contributed to a more defensive market stance, tempering urgency for imminent policy easing while keeping the Fed's future path firmly data-dependent

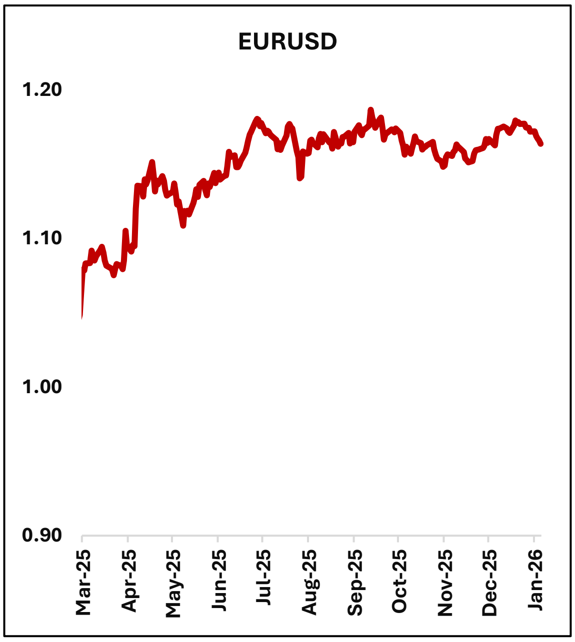


Source: Bloomberg

Short-term outlook: Moving forward, markets will likely remain cautious on the Fed's policy path, keeping market moves contained in the lead-up to the FOMC meeting on 27-28 January. However, central to their attention will be the upcoming consumer and producer inflation figures, providing greater clarity on underlying price pressures currently at play. As such, we expect the USD to trade within a limited range between 98.20–99.40 in the near term, with some potential upside stemming from geopolitical concerns.

EURUSD: Euro depreciated despite a slew of positive economic data

The euro (EUR) weakened 0.7% w-o-w, pressured by a stronger USD, although solid Eurozone economic data provided some support to the EUR/USD pair. Preliminary December consumer inflation eased to 2.0% y-o-y (Nov: 2.1%), the lowest since August, largely reflecting falling energy costs (Dec: –1.9% vs. Nov: –0.5%) and moderating prices for services and non-energy goods. Core inflation also slowed to 2.3% y-o-y (Nov: 2.4%), while producer prices fell sharply by 1.7% in November (Oct: –0.5%), pointing to limited upside risks to underlying price pressures. Alongside stable inflation, the Eurozone labor market showed gradual improvement, with unemployment edging down to 6.3% in November from 6.4% over the previous six months. Consumer activity remained resilient, with retail sales rising 2.3% y-o-y (Oct: 1.9%), the strongest increase in four months. Overall, these developments reinforce expectations that the European Central Bank is likely to maintain interest rates steady in the near term.

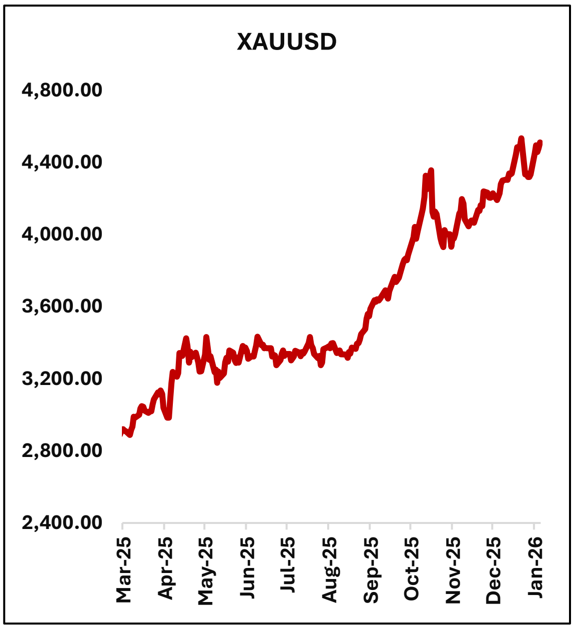


Source: Bloomberg

Short-term Outlook: Looking ahead, November's industrial production data will be closely watched for insights into the Eurozone's manufacturing sector and overall economic performance in 4Q 2025, complementing the positive signals from easing inflation, a resilient labor market, and robust consumer spending. On the policy front, the ECB is expected to maintain current rates, providing support for the EUR in a broader environment where monetary easing remains the theme for 2026. In the near term, we maintain a neutral to slightly bullish view on EUR/USD, with the pair likely to trade within a 1.1620–1.1720 range.

XAUUSD: Gold price climbed above the USD4,500-level amid rising geopolitical concerns

Gold prices surged sharply, climbing around 4.1% w-o-w to USD 4,509.50 last week, as investors sought safe-haven assets amid heightened geopolitical tensions. The uptick was driven largely by market reactions to the unexpected U.S. military operation that resulted in the capture of Venezuelan President Nicolás Maduro, which sparked renewed uncertainty over regional stability and oil market dynamics. The swift change in Venezuela's leadership and subsequent debate over U.S. involvement amplified risk-off sentiment across markets, bolstering demand for bullion as a hedge against instability and geopolitical risk. Meanwhile, broader geopolitical frictions have intensified in East Asia. China's recent ban on exports of dual-use goods to Japan, items capable of both civilian and military applications, alongside an anti-dumping investigation into Japanese dichlorosilane imports, underscores a deepening diplomatic and trade dispute between China and Japan. These measures reflect mounting strategic rivalry over regional security issues, particularly concerning Taiwan, and have stirred concerns about potential disruptions in critical supply chains, including rare earth materials. Against this backdrop of elevated geopolitical risk and safe-haven demand, gold's notable gains underscore its role as a key hedge in uncertain times, with markets remaining sensitive to unfolding global political developments.



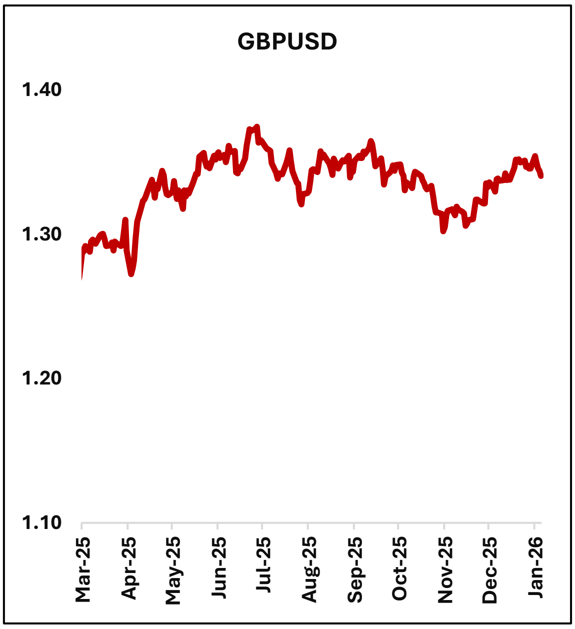
Source: Bloomberg

Short-term Outlook: Moving forward, prolonged geopolitical tensions is expected to drive the XAU's bullish momentum. Resistance is around USD4,600 and support emerge around USD4,475. However, in latest news, both U.S. and Venezuelan governments appear open to restoring diplomatic relations, a development that will be closely monitored by market participants. Of note, The U.S. State Department reported that a team of U.S. diplomats and security detail had travelled to Venezuela to make a preliminary assessment about the potential reopening of the U.S. Embassy in Caracas while the Venezuelan government highlighted its plans to send a delegation to the U.S., aiming to reestablish diplomatic missions between the two. Nevertheless, investors are likely to remain cautious given the historically strained relations between both countries, sustaining the safe haven flight towards the XAU until there are credible positive developments while the Japan-China conflict remains as key momentum support.

GBPUSD: British Pound slipped, BOE easing trajectory remains intact

The British pound (GBP) weakened by 0.4% w-o-w last week amid a stronger USD while the relatively light calendar week offered little support to the currency. December Services Purchasing Managers' Index (PMI) was revised down to 51.4 points from 52.1 points reported earlier, little changed from 51.3 observed in November. The slight uptick was bolstered by a rebound in new work as well as improving client confidence after a period of prolonged uncertainties and downbeat sentiments following the Budget. While employment fell for the fifteenth straight month, the decline was smaller than November which suggested that business confidence is gradually picking up. Reflecting this, business activity expectations for the year ahead has improved, marking the second-highest level since October 2024. Nevertheless, the report failed to garner momentum for the GBP with the USD movement dominating the GBP/USD pair last week.

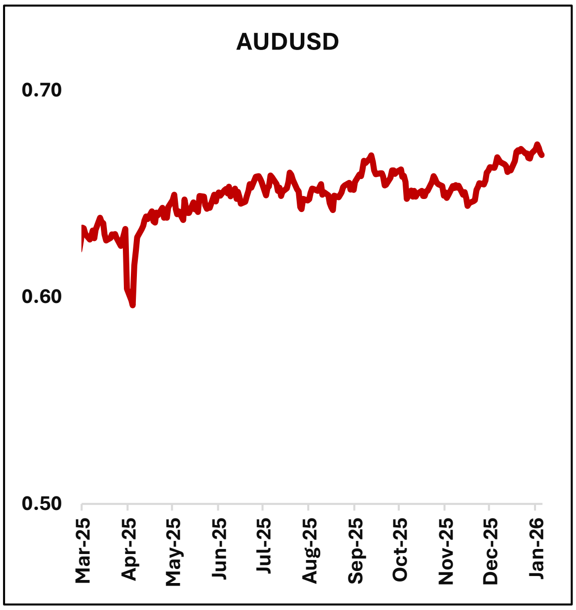
Short-term Outlook: However, investors are gearing up for a slew of economic indicators this week, pivotal in shaping their policy expectations. The UK's November Gross Domestic Product (GDP), industrial production and balance of trade figures will be released back-to-back, shedding more light on the current state of the economy. Of note, the economy appears to be moderating with its GDP easing from 0.7% q-o-q in 1Q25 to 0.1% q-o-q in 3Q25 while labor market conditions have cooled considerably with the unemployment rate hitting the highest level since March 2021. Should the trend persist, it will only reinforce further Bank of England (BOE) rate cut hopes. As such, the GBP/USD is expected to trade with a slightly bearish bias, moving within the 1.3340–1.3495 range.



Source: Bloomberg

AUDUSD: Australian Dollar hit highest level in fifteen months

The Australian dollar (AUD) reached its strongest level in fifteen months on January 7 (0.6760) before easing to close the week marginally lower by 0.1% w-o-w. The AUD/USD rally was initially supported by market speculation that the Reserve Bank of Australia (RBA) might consider a rate hike in 2026, following hawkish signals in the December RBA minutes, which noted that elevated inflation in 3Q 2025 and October could warrant tighter policy. However, the outlook remains complicated after November's inflation surprised to the downside, with consumer prices moderating to 3.4% y-o-y (Oct: 3.8%), below consensus of 3.7%. Softer price growth was observed across housing (Nov: 5.2% vs. Oct: 5.9%), alcohol and tobacco (4.3% vs. 4.4%), clothing (5.1% vs. 5.4%), health (3.6% vs. 4.0%), and recreation (2.0% vs. 3.2%). Trimmed mean inflation eased to 3.2% y-o-y from 3.3%, rising 0.3% m-o-m. The unexpected disinflation prompted investors to temper near-term rate expectations, supporting bond prices and bolstering the AUD. Nonetheless, RBA tightening in 2026 remains a possibility, as Deputy Governor Andrew Hauser noted that while the inflation slowdown was welcome, it was largely expected, with core inflation in 4Q slightly above forecasts, keeping the door open for policy adjustments.



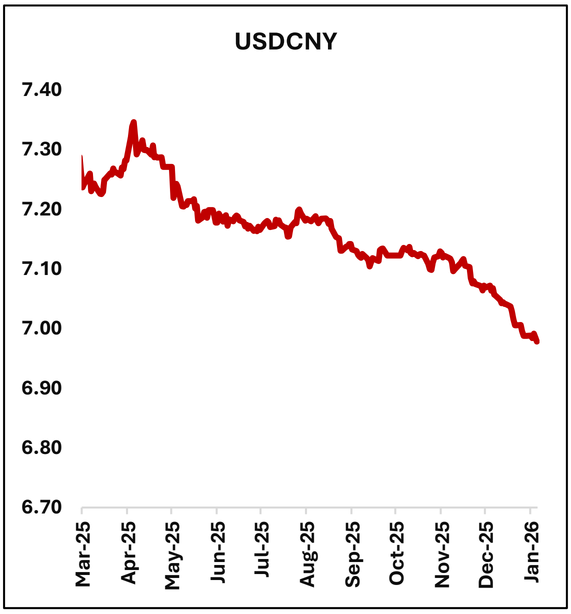
Source: Bloomberg

Short-term Outlook: With the RBA still mindful of elevated underlying inflationary pressures, investors remain cautious, seeking further signals on the bank's policy trajectory. While the surprise moderation in consumer prices has pushed back near-term rate hike expectations, strong household spending, up 6.3% in November (Oct: 5.6%), the highest since September 2023, supports the case for eventual tightening. Against this backdrop, we maintain a constructive view on AUD/USD, expecting the pair to trade within a 0.6650–0.6740 range in the near term.

USDCNY: Chinese Yuan appreciated as inflation picks up slightly

The Chinese yuan (CNY) edged up by 0.2%, extending its bullish run and notably, marking the strongest level in more than fifteen months at 6.9698 on 2nd January. This was supported by China's inflation climbing to 0.8% y-o-y in December (Nov: 0.7%), marking the highest level since February 2023. The increase underscored food prices surging at the fastest pace in fourteen months (Dec: 1.1% vs. Nov: 0.2%) while non-food inflation remained steady at 0.8%. Additionally, core inflation persisted at a 20-month high of 1.2%. Taken together, this signalled that underlying price pressures is gradually heating up. Meanwhile, producer inflation recorded a smaller decline of 1.9% in December compared to 2.2% in November, pointing towards rising supply-side costs. On a different front, the CNY was also lifted by rising geopolitical concerns following China's announcement of export bans against Japan as well as the launch of an investigation of selected Japanese import products. As jitters echoed through markets surrounding potential retaliation from Japan, investors cautiously positioned themselves for the slightest advantage, lending some modest support to the CNY.

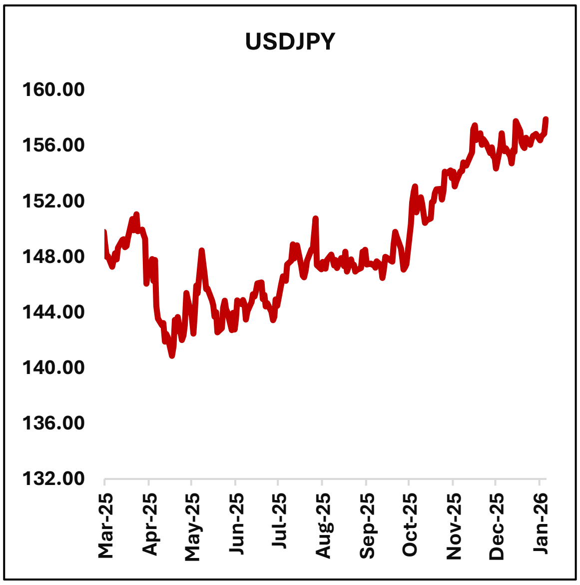
Short-term Outlook: However, the CNY's upside potential could be capped by heightened risk aversion should Japan retaliate stronger than expected or investors judged that the mounting risks are trade-offs they would rather avoid. Furthermore, investors will likely be more cautious this week ahead of the release of China's 4Q25 GDP data, alongside several other key macroeconomic indicators. Coupled with the CNY's gradual appreciation trend, we maintain a mildly bearish view on the USD/CNY pair, expecting the pair to trade within a 6.9755–6.9910 range.



Source: Bloomberg

USDJPY: Japanese Yen depreciated despite uptick in household spending

The Japanese yen (JPY) declined by 0.7% w-o-w last week despite household spending figures coming in stronger than expected. November household spending rebounded sharply by 2.9% y-o-y from a decline of 3.0% in October, underpinned by higher winter-related purchases and easing prices on essential goods. Looking closer, demand picked up across several categories such as food (Nov: 0.9% vs. Oct: -1.1%), furniture and household items (Nov: 10.6% vs. Oct: -0.3%), transportation and communication (Nov: 20.4% vs. Oct: -9.2%), culture and recreation (Nov: 2.2% vs. Oct: -0.6%), clothing and footwear (Nov: 7.5% vs. Oct: 6.3%) and education (Nov: 10.2% vs. Oct: 7.6%). On a monthly basis, household spending surged by 6.2%, a sharp revival from a 3.5% decline in the previous month. However, the surprise uptick failed to lend meaningful support to the JPY as investors remained wary of the private consumption momentum in Japan. As the higher reading could be attributed to winter- and holiday-related shopping, more sustainable readings would be preferable. Backing the cautious view, the consumer confidence index declined to 37.2 in December (Nov: 37.5), missing consensus estimates of an increase and signalling that lingering uncertainties still weigh on consumers. Furthermore, the Bank of Japan (BOJ)'s recent rate hike is anticipated to strain financial conditions, increasing some downside risk that would curb consumer demand.



Source: Bloomberg

Short-term Outlook: Looking ahead, Japan's December producer price index is scheduled for release on Friday, offering deeper insight into underlying price pressures from the producers' side. Given that Japan's economy has slowed considerably in 3Q25 while consumer spending remains sluggish, the report will be pivotal in deciphering the delicately balanced risks the BOJ faces in navigating its policy path. As such, we hold a mildly bullish view on USD/JPY, with a likely trading range of 157.50–158.10.

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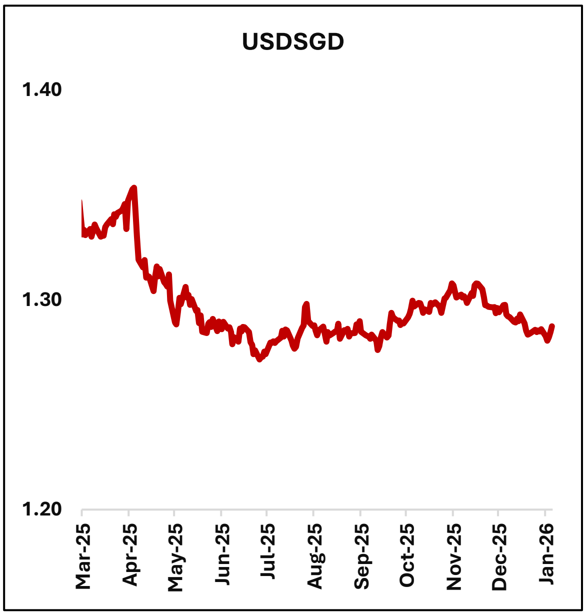
USDSGD: Singaporean Dollar declined against the USD last week

The Singapore dollar dipped by a marginal 0.1% w-o-w last week, largely dominated by the strength of the USD. Domestically, Singapore's retail sales jumped by 6.3% y-o-y in November from 4.4% in October, marking the highest level since February 2024 and providing some crucial support to the SGD. The acceleration was driven by higher sales for motor vehicles (Nov: 10.4% vs. Oct: 9.7%), supermarkets and hypermarkets (Nov: 6.8% vs. Oct: 3.6%), mini-marts and convenience stores (Nov: 9.2% vs. Oct: 3.3%), and cosmetics, toiletries, and medical goods (Nov: 11.4% vs. Oct: 8.0%) as well as a rebound in department stores (Nov: 2.1% vs. Oct: -1.7%). The stronger demand for leisure and discretionary spending observed in November suggested that consumer confidence has been improving following the period of uncertainty, bolstered by low inflation, solid labour market conditions and improving financial conditions. However, on a monthly basis, November retail sales were little changed compared to a 2.3% increase in October.

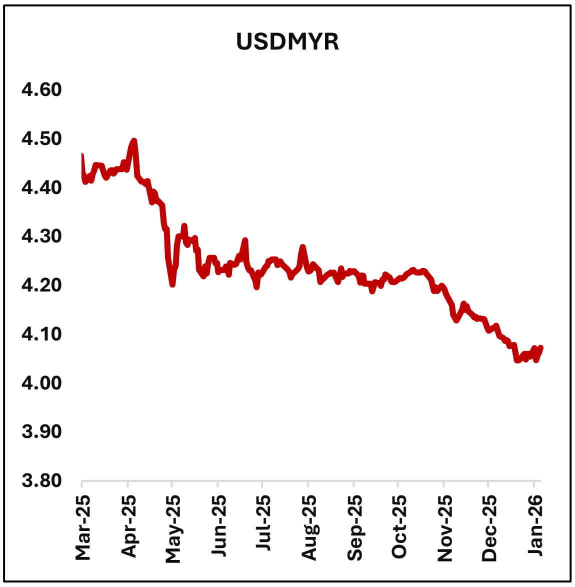


Source: Bloomberg

Short-term Outlook: Moving forward, it will be a relatively light calendar week on the data front, barring the release of Singapore's December export figures on Friday. Based on earlier data, exports had remained resilient as trade diversification efforts bolstered shipments to various destinations while exports to the U.S. rebounded strongly (+106%). Given that Singapore faces relatively lower U.S. tariff rates at 10%, the country stands to benefit further from the stabilizing global trade environment, although recent geopolitical tensions remain as key risk. As such, the gradually improving domestic spending alongside potential improvements in trade performance is casting an optimistic glow over Singapore's outlook. We maintain a neutral to slightly bearish view on USD/SGD, expecting the pair to trade within the 1.2765–1.2890 range.

USDMYR: The Ringgit eased despite record strength in the labour market

The ringgit depreciated 0.5% w-o-w last week, pressured by the USD index rebounding above the 99-level. The local currency also reflected the moderation in recent economic data, even as record-strong labor market conditions provided some support. Malaysia's Industrial Production Index (IPI) eased to 4.3% y-o-y in November (Oct: 6.0%), driven by slower growth in manufacturing (Nov: 4.9% vs. Oct: 6.5%) and mining (Nov: 2.3% vs. Oct: 5.8%), while electricity output accelerated to 2.7% from 1.8%. On a monthly basis, the IPI recorded its first contraction since April (Nov: –1.1% vs. Oct: 2.1%), suggesting softer underlying momentum and potential easing in external demand. Nevertheless, the ongoing global technology upcycles, and AI-related demand are expected to remain key drivers for Malaysia's exports. Meanwhile, distributive trade sales edged lower to 6.4% y-o-y in November (Oct: 7.2%), with broad-based moderation across wholesale (6.0% vs. 7.3%), retail (6.4% vs. 6.8%), and motor vehicle sales (8.0% vs. 8.2%). Despite the slowdown, the readings remain strong historically, reflecting resilient consumer spending. The labor market remained a pillar of strength, with unemployment falling to 2.9% in November (Oct: 3.0%), the lowest since December 2014, and the Labour Force Participation Rate steady at a historic 70.9%. Overall, while growth in industrial and retail activity has moderated, consumer spending is expected to stay robust, supported by solid employment conditions, stable inflation, and ongoing government measures.



Source: Bloomberg

Short-term Outlook: Looking ahead, investors will be on high alert for the advanced estimates of Malaysia's 4Q2025 GDP. Slated to be released on Friday, this will be the penultimate piece in capturing the performance of the economy in 2025. Despite several rocky bumps amid rising external headwinds and global trade volatilities, the Malaysian economy had performed better than expected, fuelling optimistic sentiments surrounding its overall growth. As such, we expect the pair to trade with a mildly bearish bias, trading within 4.06–4.09 range this week.

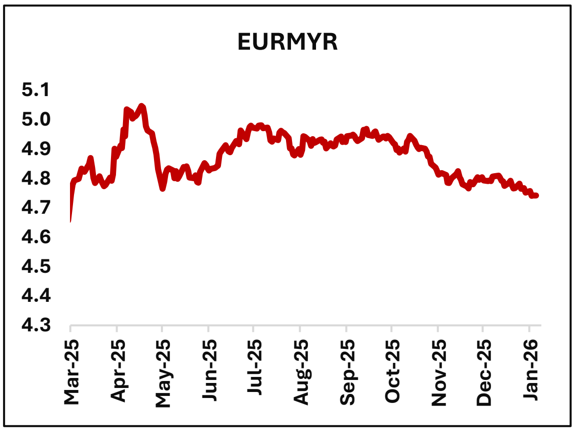
Table 2: Selected Currencies Overview (MYR Crosses)

	26-Dec	2-Jan	9-Jan	WoW	YTD
USDMYR	4.0485	4.0540	4.0725	0.5%	0.3%
EURMYR	4.7674	4.7516	4.7423	-0.2%	-0.5%
GBPMYR	5.4596	5.4545	5.4615	0.1%	0.1%
SGDMYR	3.1523	3.1524	3.1656	0.4%	0.3%
JPYMYR	2.5866	2.5848	2.5789	-0.2%	-0.5%
AUDMYR	2.7115	2.7156	2.7208	0.2%	0.3%
CNYMYR	0.5780	0.5800	0.5837	0.6%	0.5%

Sources: Bloomberg, Bank Islam

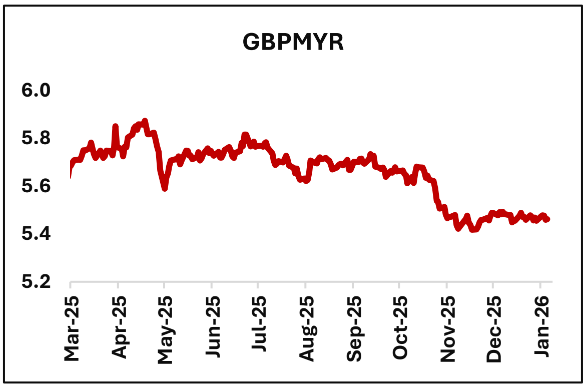
Short Term Outlook for Ringgit Pairs

The outlook for EUR/MYR is neutral to mildly bullish ahead of the Euro Area's industrial production figures. Earlier data pointed towards a resilient Eurozone economy with inflation moderating to the ECB's 2.0% target, solid job market conditions and improving consumer confidence. Against this backdrop, investors are optimistic of economic activities sustaining the favourable momentum in 4Q2025. As such, this will make the EUR relatively more appealing compared to the MYR, underpinning its strength. Nevertheless, the Malaysian economy has also held its ground in the face of heightened external headwinds. With the 4Q2025 advanced GDP estimates scheduled for Friday, this is expected to provide some fundamental support to the MYR.



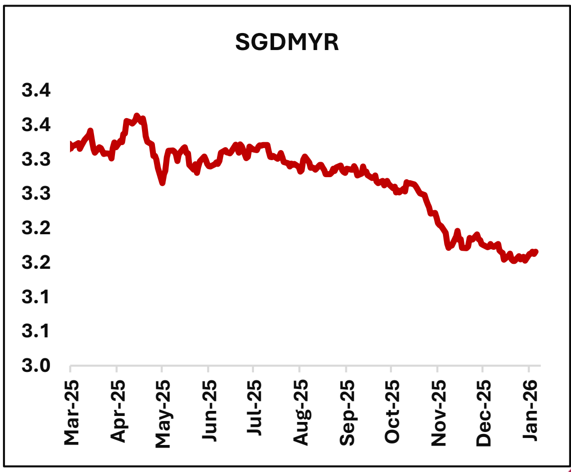
Source: Bloomberg

The outlook for GBP/MYR remains bearish as the UK appears to be slowing down, reinforcing hopes for further BOE cuts. This week will oversee the release of UK's November GDP alongside Malaysia's 4Q25 preliminary GDP numbers, keeping the GBP/MYR trading within a limited range. However, the MYR will likely gain the slightest edge over the GBP given the resilience displayed by the economy thus far.

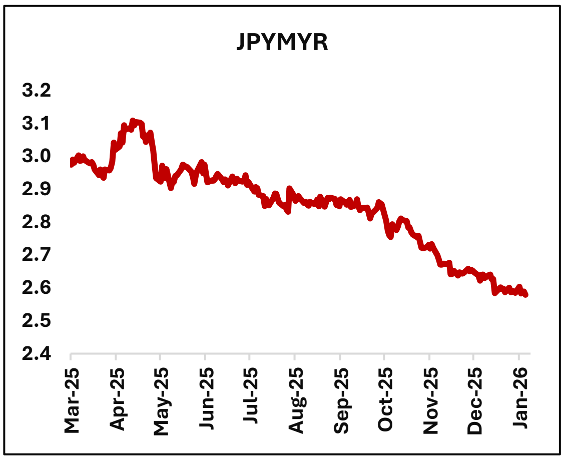


Source: Bloomberg

The outlook for SGD/MYR is neutral to mildly bullish ahead of Singapore's export figures. On the external trade front, Singapore appears to hold an advantage given the comparatively lower U.S. tariffs on its goods (10% vs. 19% on Malaysia), making its exports more attractive. Furthermore, the recent strength of the Ringgit makes Malaysia's exports relatively more expensive, potentially curbing some upside. With both countries closely matched in other avenues such as their vital role in global semiconductor supply chains and strategic ties, the differences would be paramount in influencing business sentiments. As such, the current landscape seems to slightly favour the SGD over the MYR.

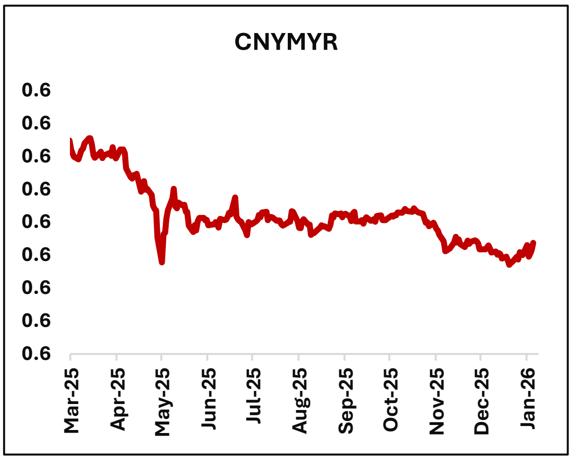


The outlook for JPY/MYR is slightly bearish as markets weighed the probabilities of the next BOJ rate hike. On one hand, persistent inflationary pressures and a recent uptick in household spending supports the case for more tightening. On the other hand, the Japanese economy is on shaly footing following a contraction in 3Q2025 while concerns are raised whether the increase of consumer spending represents a shifting trend or just a one-off coincidence. The heightened risks to inflation and growth have thus complicated the BOJ's policy path ahead. Additionally, rising tensions between Japan and China further clouds the country's outlook. Thus, we expect markets to err on the side of caution, keeping the JPY/MYR currency pair within a limited trading range.



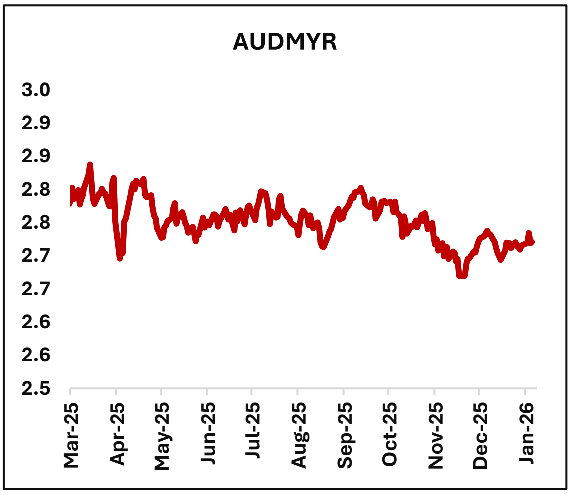
Source: Bloomberg

The outlook for CNY/MYR is mildly bullish, underpinned by the CNY's gradual appreciation trend. Furthermore, China's 4Q25 GDP figures will also be released this week. While the Chinese economy had eased slightly in 3Q25 (+4.8%), it remains on track to achieve the official target of ~5.0% with an expansion of 5.2% in 9M2025. This provides the economy some wiggle room to achieve its target, potentially gathering enough momentum to support the CNY/MYR pair.



Source: Bloomberg

The outlook for AUD/MYR remains bullish as markets deliberate on the possibilities of the RBA hiking its cash rate in the near term. Such view was sparked by the December meeting minutes where policymakers tilted more hawkishly, discussing the viability of a rate hike in 2026. Evidently, recent macroeconomic data backs the case as Australia's household spending surged to the strongest level since September 2023 while inflation remains persistently elevated, despite some slight moderation. Speaking on the easing November inflation, RBA Deputy Governor Andrew Hauser stated that core inflation still remains higher than forecasted, keeping rate hike bets alive. In contrast, Bank Negara Malaysia is well-positioned to keep its Overnight Policy Rate (OPR) steady, thus the anticipation of widening rate differentials will benefit the AUD over the MYR.



Source: Bloomberg