From the Desk of the Chief Economist

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Imran Nurginias Ibrahim | Chief Economist | inurginias@bankislam.com.my
Khayrin Farzana Fazli | Economist | kfarzana@bankislam.com.my

THE RINGGIT STRENGTHENED AHEAD OF THE 46TH ASEAN SUMMIT IN KUALA LUMPUR

Table 1: Selected Currencies Overview

	9-May	16-May	23-May	WoW	YTD
DXY Index	100.34	101.09	99.11	-2.0%	-8.6%
USDMYR	4.30	4.29	4.23	1.5%	5.7%
XAUUSD	3,324.98	3,203.65	3,357.51	-2.0%	27.9%
EURUSD	1.13	1.12	1.14	1.8%	9.7%
GBPUSD	1.33	1.33	1.35	1.9%	8.2%
AUDUSD	0.64	0.64	0.65	1.3%	4.8%
USDSGD	1.30	1.30	1.28	1.2%	6.3%
USDJPY	145.37	145.70	142.56	2.2%	10.3%
USDCNY	7.24	7.21	7.18	0.5%	1.6%

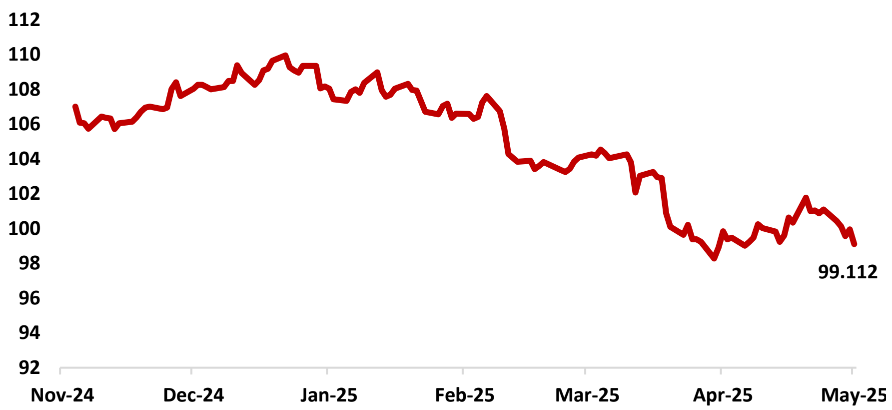
Sources: Bloomberg, Bank Islam

- **Fiscal worries weigh on the USD, leading to gains in its currency pairs.** Investor confidence on the U.S. fiscal outlook was dragged in the past weeks with Moody's Ratings downgrading the U.S. sovereign credit rating by a notch to Aa1 from Aaa, citing rising government debt and a lack of progress in narrowing it. This move sparked jitters throughout financial markets amid concerns of increasing borrowing costs to follow, with the USD slipping from its recent recovery. With the dark cloud hanging over market sentiments, worries of a worsening fiscal deficit was exacerbated when the House of Representatives passed a sweeping tax and spending bill, further exerting pressure on the greenback. According to the Congressional Budget office, the bill is expected to add nearly USD4 trillion to the existing USD36 trillion Federal debt. Furthermore, Trump had again fanned the flames of trade fears when he threatened to impose 25% tariffs on Apple on the basis that iPhones must be domestically manufactured, alongside a whopping 50% tariff on EU imports effective June 1, citing stalled negotiations. As such, the USD index had slipped to close just above the 99-level. Despite granting an extension to the EU until 9th July, this move marked another instance on a growing list of Trump pivots, prolonging uncertainties surrounding the volatile global trade landscape.

- The USD index depreciated by 2.0% w-o-w for the week ending May 23 (16 May: +0.8% w-o-w) following the passage of a sweeping tax cut and spending bill in the U.S. House of Representatives. The Dollar began the week on a weaker note after Moody's Ratings downgraded the U.S. sovereign credit rating from Aaa to Aa1, triggering a bond selloff and raising concerns over higher borrowing costs. Investor sentiment further deteriorated after the House approved the proposed tax and spending bill, which aims to extend tax breaks from President Trump's first term and increase defense and national security expenditures. According to the Congressional Budget Office, the bill could add an estimated USD3.8 trillion to the federal deficit over the next decade. Amid rising worries over the ballooning fiscal deficit and the absence of a credible consolidation plan, investors reduced their exposure to U.S.-denominated assets, driving the USD Index below the 100 mark.

- In the near term, the outlook of the USD is slightly bearish given the developments on the fiscal front, with risks tilted to the downside. The situation does not look much better through the trade lens as Trump had recently threatened a whopping 50% tariffs on the European Union, citing difficulties in progressing with their trade talks, which heightened fears of a recession should trade tensions intensify. Thus far, the U.S. economy had contracted sharply in 1Q2025 although many had hoped the 90-day pause across the 'Liberation Day' tariffs would bring some respite. However, broad-based tariffs remain, such as the 10% base tariffs on all imports from selected partners, 25% levies on steel and aluminum as well as 25% levies on auto imports, which would still create an environment of elevated underlying price pressures. This would complicate the Fed's policy easing efforts as the central bank is treading a fine balance between its dual mandate, risking growth at the price of curbing inflation or vice versa. As such, markets are eyeing the release of the U.S. core personal consumption expenditure (PCE) figures for further clues on the Fed's monetary path. Even if the threat fails to materialize in another instance of a Trump pivot, the prolonged trade uncertainties underpinned by the unpredictability of his moves would weigh on the USD. Evidently, Trump had announced an extension of the 90-day deadline to 9th July for the EU over the weekend, with the USD opening lower on Monday. DXY faces interim resistance at the 100 level, with a more significant resistance zone around 102. On the downside, initial support is seen near 98.70. In the near term, the bias remains tilted towards further downside, with a potential retest of the recent low at 97.92 increasingly likely.

Chart 1: USD Index (DXY)

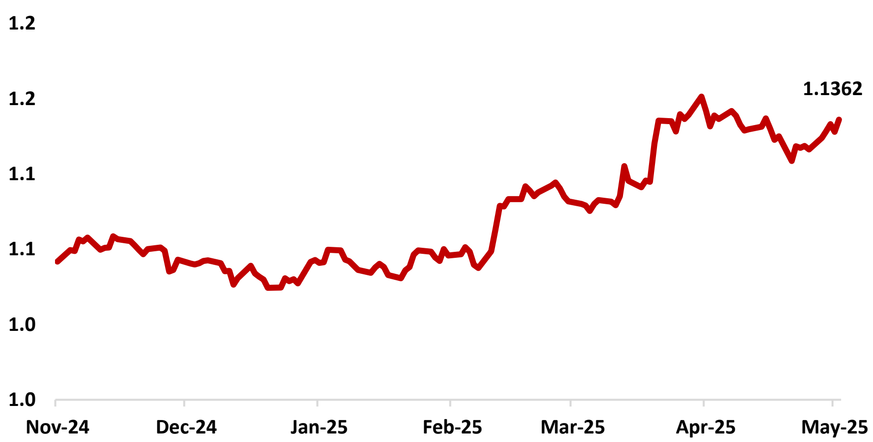


Sources: Federal Reserve Board, Bloomberg, Bank Islam

- The EURUSD (EUR) strengthened by 1.8% w-o-w against the USD for the week ending May 23 (16 May: -0.8%), supported largely by broad-based USD weakness. Although the EUR faced downward pressure following Trump's threat to impose steep 50% tariffs on all European Union (EU) imports, the drag on the USD proved more significant. Investors turned increasingly cautious toward U.S. denominated assets amid heightened trade tensions and growing concerns over the fragile state of the U.S. economy. Notably, U.S. GDP contracted by 0.3% q-o-q in 1Q2025 (4Q2024: +2.4% q-o-q), marking its first quarterly decline in three years. In contrast, the Eurozone economy posted a modest 0.3% q-o-q expansion during the same period, buoyed by easing inflation, improved financial conditions following the European Central Bank's (ECB) monetary easing cycle as well as rising optimism surrounding Germany's fiscal outlook.

- Moving forward, markets will be keeping a close look for the response to Trump's threat from European officials. While tariff negotiations between the two countries are underway, it seems to be rocky thus far with both sides reporting unfair concessions requested of them, culminating in the recent outburst. Since these talks started, the EU had shelved its retaliatory tariffs on approximately USD23.0 billion worth of U.S. goods. As such, it is possible for the EU to move forward with its countermeasure, but it is far more likely for the threat to be rolled back in hopes of amicably continuing negotiations—both of which would provide support to the EUR. Thus far, Trump had granted an extension to 9th July on recently warned 50% tariffs on EU imports. Meanwhile, the ECB is slated to hold its meeting on 4-5 June where markets are widely betting on the central bank reducing rates by another 25 bp. Counterintuitively, such expectations would bolster the EUR against the current global backdrop as lower rates would spur domestic demand, buffering the economy from external headwinds. In light of the interplay between intensifying trade tensions and the ECB's easing cycle, we hold a slightly bullish outlook on the EUR in the short term. EURUSD remained anchored around the 1.13 level, and in the near term, the pair is likely to trade within a range of 1.1200 to 1.1450.

Chart 2: EUR/USD

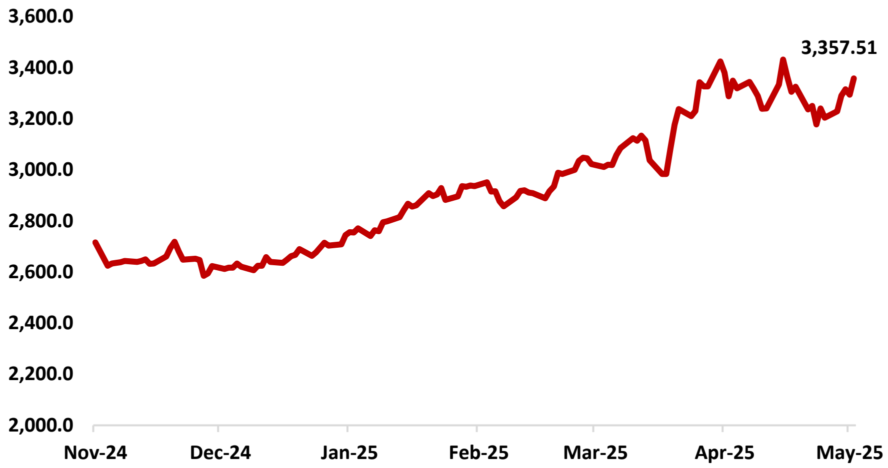


Sources: Bloomberg, Bank Islam

- The gold price (XAU) had surged by 4.8% w-o-w for the week ending May 23 (16 May: -3.6% w-o-w), reversing its previous losses amid increasing safe haven demand. In the past week, fears of a worsening U.S. debt had sent jitters throughout the market as the Trump administration pushed for a sweeping tax cut bill which would add USD3.8 trillion to the U.S. government deficit over 10 years, according to the Congressional Budget Office. Thus far, the bill has passed the U.S. House of Representatives and advanced to the Senate. This had exacerbated concerns of a ballooning government debt and a lack of progress in addressing it, which had notably been cited by Moody's Ratings when it downgraded the U.S. sovereign credit rating previously. On the trade front, Trump had taken shots against the EU as well as threatening tariffs of at least 25% on Apple, renewing concerns of escalating trade tensions and elevated price pressures. As such, cautious sentiments had spiked the demand for the bullion, driving the safe haven flight from U.S. assets.

- Looking ahead, we hold a bullish view on the XAU as the U.S. and EU hash out their differences—whether it may be in the form of retaliatory threats or amicable talks is left to be seen. Previously, easing tensions between U.S.-China had capped the XAU's winning streak but any signs of tipping the fragile global trade balance could send the gold price higher. However, just as true, should officials from either side steps up to lay the fears to rest, the gold price's ascent would be limited. XAU is seeing support at the 3,300 and 3,280 levels. On the upside, a sustained break above the falling trendline resistance at 3,364 is needed to confirm a resumption of the uptrend. Should this breakout occur, a move toward 3,400 is plausible, with the key psychological level of 3,500 coming into focus thereafter.

Chart 3: XAU/USD

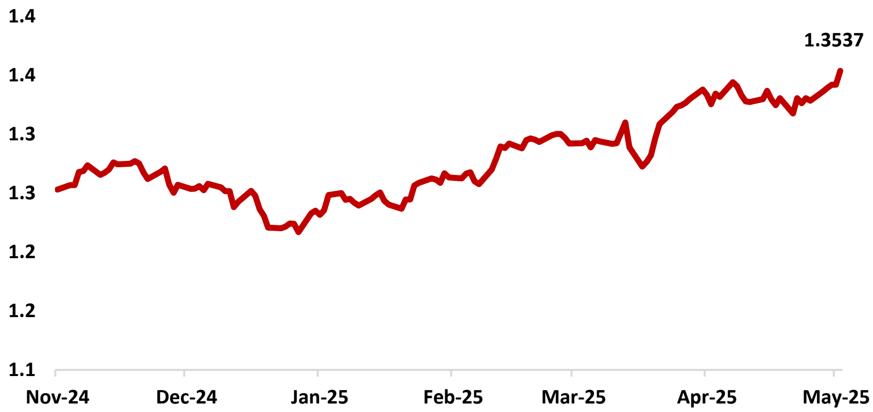


Sources: Bloomberg, Bank Islam

- The British Pound (GBP) had strengthened by 1.9% w-o-w against the USD (16 May: -0.2% w-o-w), underpinned by robust economic data. Earlier last week, UK inflation had surged to 3.5% y-o-y in April (March: +2.6%), overshooting estimates of 3.3% on the back of higher Ofgem energy price cap introduced during the month. Similarly, core inflation rose to 3.8% y-o-y from 3.4% in March, marking the highest reading in a year. These figures had raised bets of a possible delay in the Bank of England (BOE)'s rate cut path, lending support to the GBP. Such view was supported by a BOE policymaker, Huw Pill, who opined that the policy easing has been a little too fast as of late. Of note, the central bank had slashed its key interest rate by another 25 bp in earlier this month. Beyond higher prices which would necessitate a more restrictive policy environment, the central bank has room to navigate now that the 1) UK had reached a trade deal with the U.S., exempting it fully from steel tariffs whilst conditionally reducing the steep auto tariffs to only 10%, erasing concerns of a significant blow on UK's businesses and workers, and 2) household spending has shown to be more robust than expected with retail sales accelerating by 5.0% y-o-y in April (March: +1.9%), marking the fastest growth since February 2022. Both of these point to the UK economy faring better than expected during these turbulent times, casting an optimistic glow on the economy while shedding worries of the BOE needing to cut rates with an urgency to bolster growth.

- Moving forward, we are neutral to slightly bullish on the GBP in the short term with the GBPUSD pair likely to trade within a range of 1.3450 to 1.3600 in the near term. While it will be a quiet calendar period on the UK front for the next fortnight, the GBP could gain ground on the USD's weakness as the tensions between U.S. and the EU ramp up, shifting focus towards other advanced market assets. With its favourable economic performance and possibility of a delay in BOE cuts, the GBP is positioned to benefit from this.

Chart 4: GBP/USD

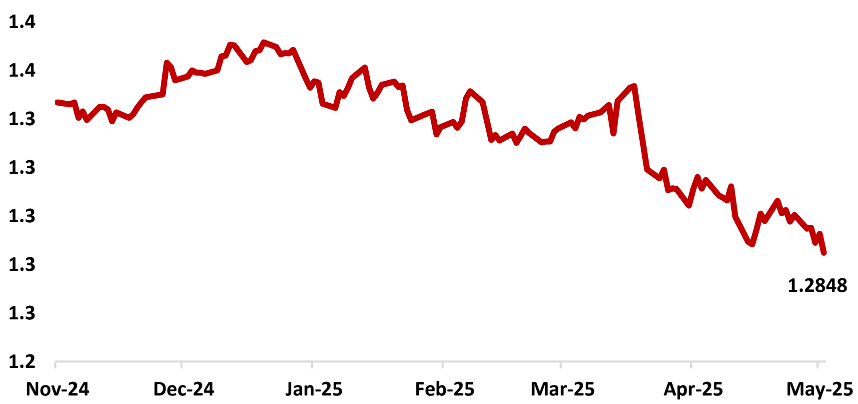


Sources: Bloomberg, Bank Islam

- The SGDUSD (SGD) appreciated by 1.2% w-o-w against the USD (16 May: -0.2% w-o-w) as the Singapore economy surpasses expectations. Singapore's Gross Domestic Product (GDP) had rose by 3.9% y-o-y against estimates of a 3.6% growth in 1Q2025, albeit slowing down from 5.0% in the previous quarter. Nevertheless, the display of resilience, as the case with its regional peers, had supported the SGD and offset the downbeat notes stemming from the government revising the official 2025 growth forecast down to a range of 0% to 2% from 1% to 3% previously. Meanwhile, inflation had plateaued at 0.9% y-o-y for the third straight month, the lowest reading since February 2021. However, core inflation accelerated by 0.7% y-o-y in April from 0.5% in March.

- Looking ahead, we are neutral to slightly bullish on the SGD considering it is highly sensitive to the USD's movements. In the near term, we anticipate a probable trading range of 1.2770 to 1.3070. Thus far, Singapore had gained from front-loading activities with factory output accelerating (April: +5.9% y-o-y vs. March: +6.8% y-o-y) to support a significant surge in exports (April: +21.9% y-o-y vs. March: +3.1% y-o-y). However, there will be a lack of fresh domestic catalyst to support the SGD once the shine from resilient output figures fades which leaves it vulnerable to upside risks should the USD recover. FUthermore, as an export-oriented economy, the SGD would face drags from deteriorating sentiments if the global trade landscape worsens, the possibilities of which had rose amid a comeback of Trump's pivots.

Chart 5: USD/SGD

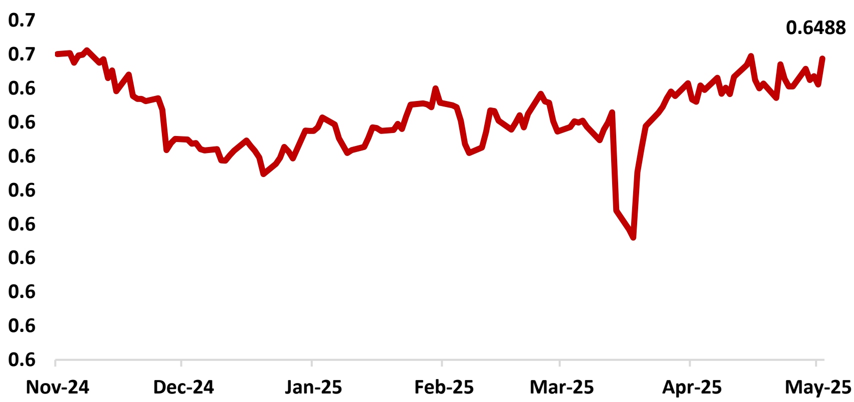


Sources: Bloomberg, Bank Islam

- The AUDUSD soared by 1.3% w-o-w for the week ending May 23 (16 May: -0.1% w-o-w) amid the Reserve Bank of Australia (RBA) cutting its cash rate by 25 bp to 3.85% from 4.10%. During its May meeting, the central bank had reduced its cash rate to the lowest level in two years, in line with market expectations, citing that inflation risks are more balanced. Of note, Australia's inflation rose by 2.9% y-o-y in 1Q2025 (4Q2024: +3.3% y-o-y), marking the lowest reading in more than three years and finally easing within the RBA's 2-3% target range. While external risks stemming from the volatile trade tensions remain, the Australian economy will receive much needed buffer from a tight job market, moderating inflation environment and easing borrowing costs, a recipe that would bolster domestic demand. Notably, employment had surged by 89K in April (Est: +20K) to a record high of 14.64 million persons amid fresh highs in both full-time and part-time employments.

- Such figures had solidified the case for a slower pace of RBA cuts with markets viewing that the current rate is sufficiently restrictive to curb any spikes from demand-side inflationary pressures. Beyond the robust domestic economy, the threat of higher tariffs from the U.S. are kept at bay while negotiations are underway which provides ample space for the central bank to navigate its monetary settings. With the UK setting a positive precedent in achieving a trade deal, markets are optimistic that the impact of U.S. tariffs will be less catastrophic than previously expected. At this juncture, signs of a solid economy and a possibly hawkish RBA lifts our view. As such, we hold a bullish view for the AUD ahead of key releases, namely the RBA meeting minutes and 1Q2025 growth figures which are likely to provide catalysts for further appreciation. We expect the AUD to trade within a likely range of 0.6370 to 0.6570 in the near term.

Chart 6: AUD/USD



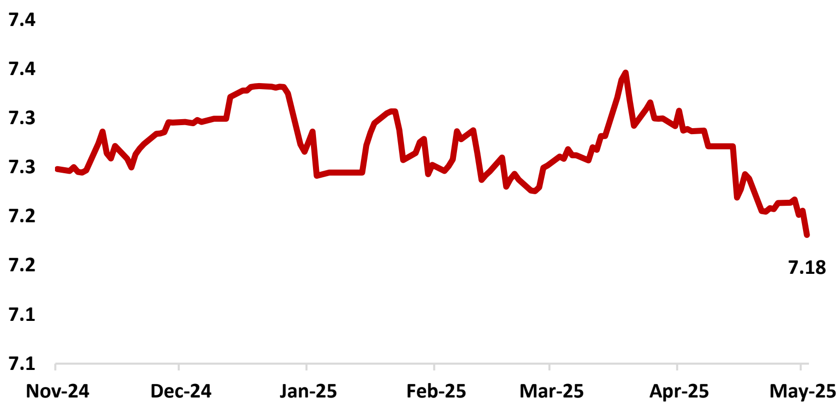
Sources: Bloomberg, Bank Islam

- The Chinese Yuan (CNY) had appreciated by 0.5% w-o-w against the USD for the week ending May 23 (16 May: +0.3%) to mark the fifth consecutive weekly gains. Such performance was underpinned by easing trade tensions between China and U.S. following a truce on their tit-for-tat tariffs while they convene at the negotiation table, with crucial support to the CNY emerging from more favourable financial conditions as the People's Bank of China (PBOC) had reduced its benchmark rates for the first time since October last Tuesday. Of note, the central bank had cut both the 1-Y and 5-Y Loan Prime Rates (LPR) by 10 bp to record lows of 3.0% and 3.5%, respectively. Markets are optimistic of this move, anticipating the lower borrowing costs to stimulate consumer demand in an effort to prop up the economy while risks on the external front hangs in a fragile balance. Household spending in China has historically been sluggish with its inflation trend diverging from most economies where consumer prices remained persistently low, declining by 0.1% y-o-y in April.

However, the recent monetary stimulus, coupled with an earlier announcement of a sizable fiscal package, is a sign of shifting tides from the officials to actively strengthen consumer demand. As such, investor confidence on China's outlook is slowly recovering, buoying the CNY during the week.

- Moving forward, the CNY's trajectory will largely be steered by the release of China's manufacturing data, barring any shocks from the trade front. The Manufacturing Purchasing Managers' Index (PMI) had recorded a seventh consecutive month of expansion in April, buoyed by front-loading activities ahead of the expected U.S. tariffs. Considering that a truce has been reached, markets are eager to assess the current progress of the economy to chart its outlook. Should manufacturing activities prove to be resilient and negotiations are fruitful, it will position the economy on a more solid footing to reach the government's optimistic growth target of around 5%. Additionally, China had made moves to strengthen strategic partnerships with the ASEAN region, sowing another layer of support for economic growth. At the grassroots level, consumer spending is also poised to expand, driven by a mix of proactive government measures and easing benchmark rates.

Chart 7: USD/CNY

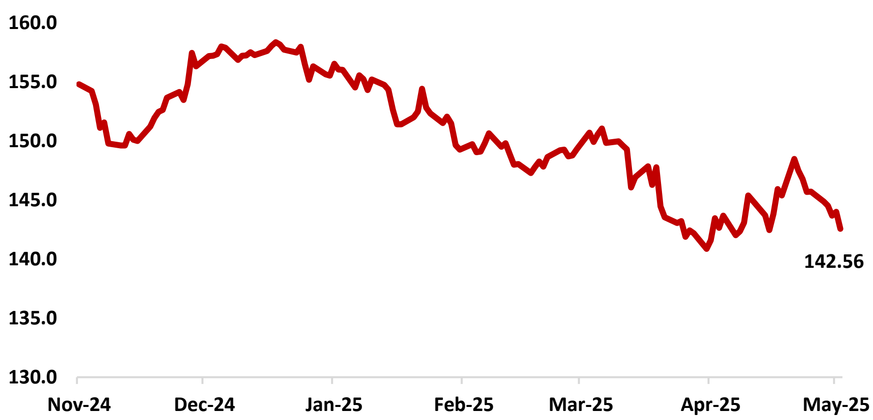


Sources: Bloomberg, Bank Islam

- The Japanese Yen surged by 2.2% w-o-w against the USD for the week ending May 23 (16 May: -0.2% w-o-w), reversing four straight weeks of decline as markets rallied behind further policy normalisation by the Bank of Japan (BOJ). Latest figures show that inflation remained at 3.6% y-o-y in April as at March while inflation excluding food and energy prices ticked up to 3.0% y-o-y in the same month from 2.9% in March, pointing to sticky price pressures plaguing the economy. Additionally, consumer prices excluding fresh food costs had surpassed expectations of a 3.4% rise, accelerating by 3.5% y-o-y in April (March: 3.2%), further reinforcing market bets of BOJ rate hikes. Such view was underlined by BOJ Governor Kazuo Ueda's earlier signals that the central bank is ready to raise rates further if economic and price conditions evolve in line with its forecasts. However, downside risks to this view remain from signs of a cooling economy as its 1Q2025 GDP contracted more than expected by 0.7% y-o-y, below estimates of a 0.2% y-o-y decline (Act: 0.2% q-o-q vs. Est: 0.1% q-o-q). Additionally, the JPY had appreciated on the back of rising bond yields with the 40-year bond yield marking a record high of 3.69% last week.

- Looking ahead, the scales are finely balanced on the pace of BOJ hikes with bias tilted to the upside in light of hotter than expected inflation readings. Furthermore, the current U.S. tariff postponement and ongoing negotiations bode favourably for the BOJ to move as markets are optimistic of concessions to be made given Trump's receptibility, taking cues from the easing U.S.-China tensions and U.S.-UK trade deal. Against a backdrop of rising prices and prospects of easing strain on the economy, there could be enough impetus for BOJ hikes. In the coming week, markets are eyeing the release of Tokyo inflation figures to gauge the general direction of where price pressures are heading. As such, we are slightly bearish on the USDJPY amid bets of BOJ's policy normalisation while the USD will remain under pressure as trade uncertainties persisted from Trump's pivots. We foresee a probable trading range of 141.50 to 144.50 for USDJPY in the near term.

Chart 8: USD/JPY



Sources: Bloomberg, Bank Islam

Table 2: Selected Currencies Overview

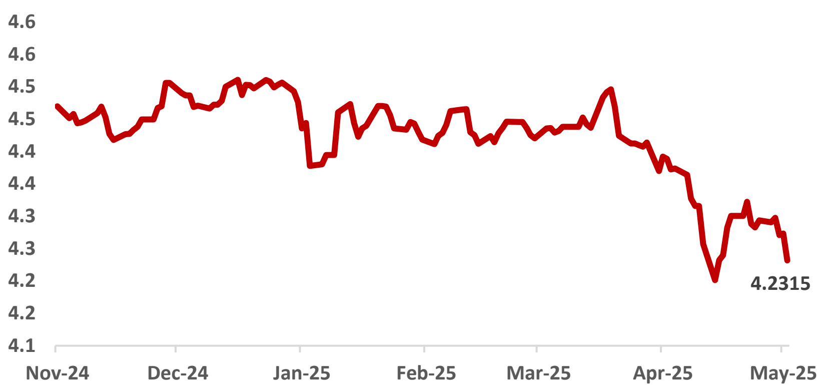
	9-May	16-May	23-May	WoW	YTD
USDMYR	4.3007	4.2937	4.2315	1.5%	5.7%
EURMYR	4.8345	4.8069	4.8026	0.1%	-3.0%
GBPMYR	5.7065	5.7075	5.7117	-0.1%	-1.7%
SGDMYR	3.3124	3.3071	3.2919	0.5%	-0.2%
JPYMYR	2.9614	2.9416	2.9683	-0.9%	-4.1%
AUDMYR	2.7523	2.7564	2.735	0.8%	1.7%
CNYMYR	0.59374	0.59596	0.58894	1.2%	4.0%

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

- The Ringgit had appreciated by 1.5% w-o-w against the USD (16 May: +0.2% w-o-w) ahead of the 46th ASEAN Summit which was held in Kuala Lumpur on 26th and 27th May, alongside the 2nd ASEAN Gulf Cooperation Council (GCC) Summit and the ASEAN-GCC-China Summit. As the ASEAN Chair for 2025, Malaysia had hosted delegations from across the region for a series of high-level meetings which would discuss current ASEAN progress, set shared future goals and directions as well as reaffirm ASEAN's commitment to regional collaboration, casting an optimistic glow over the outlook of the region. This would further highlight ASEAN's growth prospects amongst the emerging economies, especially after displaying resilience in the face of global slowdowns, laying the groundwork for further expansion and encouraging high value investments into the member countries. Domestically, Malaysia's trade had shown a solid performance with exports accelerating by 16.4% y-o-y in April (March: +6.8%), amid a double-digit growth of 19.0% in manufacturing exports, while imports surged by 20.0% y-o-y (March: -2.9%). Such figures had supported the resilient 1Q2025 growth figures, backed by steady private consumption and sustained investment momentum, providing a boost for the Ringgit's appreciation.

- Moving forward, we hold a neutral to slightly bearish view on the Ringgit with domestic fundamentals holding the fort as key support areas. USDMYR is eyeing a likely trading range of 4.1950 to 4.2450 in the near term. However, the local note is highly vulnerable to 1) the movement of the USD, which could swing in either direction considering the volatility of trade-related developments, and 2) external shocks, which are aplenty in these times of shifting trade policies and intensifying geopolitical tensions. As such, we remain cautious of the Ringgit's uptrend, keeping an eye out for key U.S. inflation figures slated to be released this week. Should the figures come in lower, the Fed may have room to ease its monetary settings. However, the gap between the FFR and OPR, granted that Bank Negara Malaysia (BNM) maintains it at 3.00% as we expect, would be less pronounced than anticipated if the U.S. inflation proves to be stickier than expected, thus limiting the Ringgit's rise.

Chart 9: USD/MYR

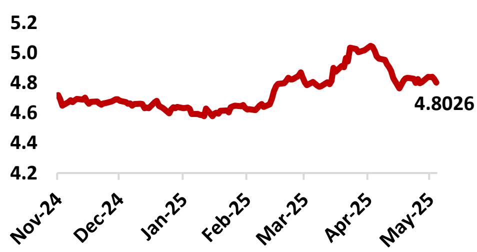


Sources: Bloomberg, Bank Islam

Short Term Outlook for Ringgit Pairs

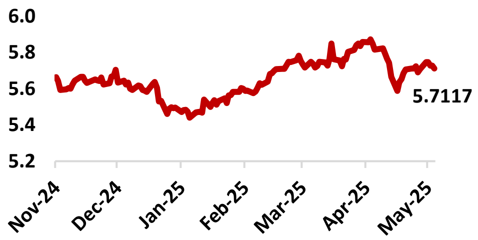
EUR/MYR outlook is slightly bearish as markets have largely priced in another cut during the ECB's June meeting while trade worries climbed following Trump's threat.

Chart 10: EUR/MYR



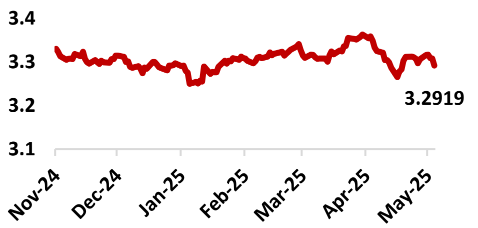
GBP/MYR outlook is neutral to slightly bearish due to lack of fresh catalysts on the GBP front.

Chart 11: GBP/MYR



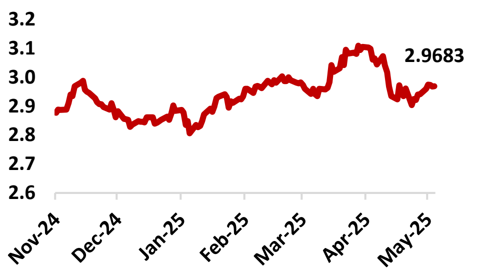
SGD/MYR outlook is neautral as both economies stand on a relatively equal ground with the 46th ASEAN Summit to cast a glow over both countries and draw in more high-value investment opportunities.

Chart 12: SGD/MYR



JPY/MYR outlook is bullish, underpinned by heightened bets of continue policy normalisation by the BOJ amid hotter than expected inflation figures.

Chart 13: JPY/MYR



AUD/MYR outlook is neutral to slightly bullish as the Australian economy proved to be more resilient than expected with employment surging to record highs.

Chart 14: AUD/MYR

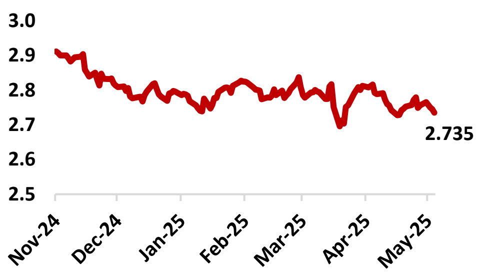


Chart 15: CNY/MYR

CNY/MYR outlook is bearish as lingering trade concerns exerts pressure on the CNY. Meanwhile, the brighter economic prospects for Malaysia amid a solid domestic demand, relative to China, will lift the Ringgit.