From the Desk of the
Chief Economist

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THE RINGGIT STRENGTHENED TO SIX-MONTH HIGH AMID ROSY ECONOMIC PROSPECTS

- **U.S. Dollar (USD) remained on downward trajectory as uncertainties persisted**
- **EURUSD surged on the back of a strong economy and hawkish ECB signals**
- **XAUUSD (XAU) on a winning streak, underpinned by safe haven demand**
- **The Japanese Yen (JPY) appreciated by 4.8% MoM against the USD amid rising rate hike bets**
- **The Chinese Yuan (CNY) depreciated by 0.2% MoM as trade-induced jitters dampened sentiments**

Table 1: Selected Currencies Overview

	Feb-25	Mar-25	Apr-25	MoM	YTD
DXY Index	107.61	104.21	99.47	-4.6%	-8.3%
EURUSD	1.0375	1.0816	1.1328	4.7%	9.4%
XAUUSD	2,857.83	3,123.57	3,288.71	5.3%	25.3%
USDJPY	150.63	149.96	143.07	4.8%	9.9%
USDCNY	7.2784	7.2569	7.2714	-0.2%	0.4%
USDMYR	4.4625	4.4383	4.3158	2.8%	3.6%

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

- **Prolonged uncertainties remained from Trump's pivots, although this month comes with the promise of a relief.** On 2nd April, dubbed the "Liberation Day", Trump had unveiled a slew of reciprocal tariffs against more than 60 trade partners, sending global markets into a frenzy. Nevertheless, despite initially preparing to implement the measures, he abruptly scaled them back just hours before they were set to take effect, another striking example of his trademark policy reversals. What made this move particularly notable, however, was his decision to grant a 90-day exemption from the sweeping 10% tariff, creating space for negotiations and giving affected countries an opportunity to argue for concessions. Meanwhile, China had hit back against the U.S. with its own trade policies, sparking a flurry of tit-for-tat measures in an escalation of the U.S.-China trade war. However, signs of a potential reconciliation had emerged as the month ends when both sides had shown willingness to ease down from the conflict, soothing markets sentiments somewhat. Other notable actions by Trump included exempting certain electronic devices, automobiles, and auto parts from tariffs, as well as issuing, then later retracting, a threat to remove Federal Reserve Chair Jerome Powell. While hopes of easing trade tensions have grown stronger, the U.S. economy contracted in 1Q25, prompting the International Monetary Fund (IMF) to sharply cut its growth forecast from 2.7% to 1.8%. This has intensified expectations of a more dovish stance from the Fed and added downward pressure on the USD.

- On the home front, Malaysia's Ringgit was supported by solid economic fundamentals amid recent favourable developments on the foreign front. During the month, Malaysia had welcomed China's President Xi Jinping in his tour to strengthen regional unity in the face of rising U.S. protectionism while a delegation to Washington had initiated reciprocal tariff talks with the Trump administration. By strengthening ties on both fronts, investor confidence in Malaysia's outlook rose, drawing interest to the Ringgit alongside a rebound in FBM KLCI.

U.S. Dollar (USD) Remained On A Downward Trajectory As Uncertainties Persisted

- The greenback's weakness persisted for the fourth straight month, plummeting by 4.6% MoM to close below the 100-level (30th Apr: 99.47 vs. 31st Mar: 104.21). Starting the month on unstable ground, the USD slipped on 2nd April, dubbed the 'Liberation Day', as Trump unveiled a slew of reciprocal tariffs against trade partners on the basis of unfair trade practices vis-à-vis the U.S., starting with a base rate of 10% across the board alongside differing higher rates for each country. This had sparked jitters throughout global markets, exacerbating fears of a recession in the U.S. as higher prices weighed on demand, with JP Morgan raising the probabilities of it to 60% from 40% previously. Considering the large exposure of the giant economy on the world stage, a slowdown would drag global growth while the supply chain disruptions would ripple through other economies. These mounting fears dominated sentiments, heightening bets of faster than expected Fed rate cuts to support the economy. Following the announcement, several trade partners had threatened to unleash countermeasures, albeit most of the affected countries opting for the negotiation route. As a result of the latter, the Trump administration has suspended the reciprocal tariffs for 90-days to make room for talks just hours after their implementation, ultimately maintaining the base 10%. Nevertheless, the USD failed to gain grounds as the flight from U.S. dollar denominated assets persisted amid the display of swapping one poison for another, as the dissipating recessionary fears gave way to mounting uncertainties plaguing the global trade landscape.

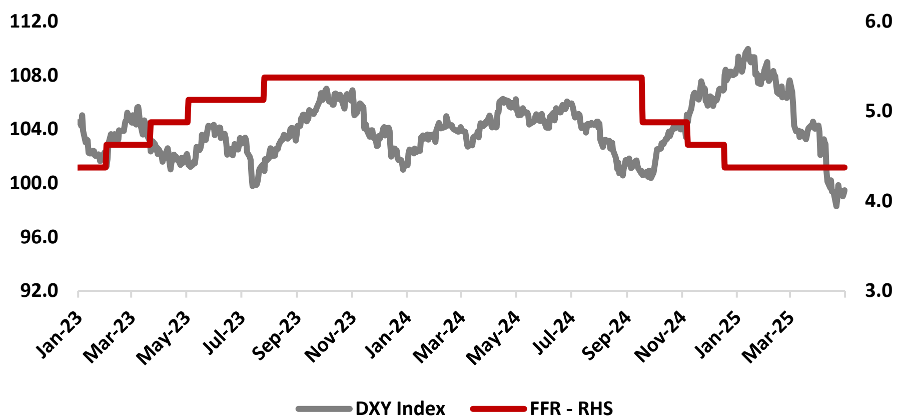
- This set the tone for the month, as Trump announced a temporary exemption for electronic devices such as laptops and smartphones from the broad-based tariffs. He also floated the idea of exempting the auto industry from the 25% levies imposed on fully imported cars starting 3rd April, following discussions with U.S. automakers. In addition, he signaled a possible reprieve for tariffs on auto parts used in domestically manufactured vehicles ahead of their scheduled implementation on 3rd May. Beyond trade measures, Trump stirred market anxiety by suggesting the removal of Federal Reserve Chair Jerome Powell, a move that raised concerns about the Fed's independence and the direction of its policy. This fueled a sharp drop in the USD, which fell to its weakest level since March 2022, hitting 98.28 on 21st April. However, Trump later clarified that he had no intention of dismissing Powell, easing immediate fears. For his part, Powell reiterated the Fed's commitment to its inflation-targeting mandate, warning that trade tensions could stoke price pressures, even as broader concerns about a potential economic slowdown continued to mount.

- Diving into the nitty-gritty, contrary to the other trade partners seeking a middle ground, China had delivered an equal blow to the U.S., announcing 35% duties on all U.S. imports effective 10th April alongside imposing controls on its rare earth exports. Such moves had propelled the two giant economies on a tit-for-tat race, pushing for more hikes to bring their respective tariffs to absurd levels. At the time of writing, the U.S. has slapped tariffs of up to 245% on Chinese goods, prompting China to retaliate with duties of 125% on U.S. imports. The escalating and unpredictable nature of the trade war has rattled investors, adding further downward pressure on the USD. Despite the tensions, there have been emerging signs of reconciliation. Trump hinted that discussions with China were underway, a claim initially dismissed by Beijing. However, China later signalled a willingness to ease tensions by proposing exemptions on selected U.S. imports from the 125% tariffs. In the days that followed, Chinese media reported that the U.S. administration had initiated contact for renewed negotiations, an account later confirmed by China's Ministry of Commerce on 2nd May, which stated that the government is actively reviewing the request to re-engage in talks.

- Given the risks to growth stemming from turbulent global trade policies, we maintain our forecast for total Fed rate cuts of -50bps in 2025, bringing the Fed Funds Rate (FFR) to 3.75%-4.00% by year-end, with a downside bias. On top of the trade factor, the focal areas supporting our view is the slowdown of the U.S. economy and its disinflation trend. The economy had shrunk by 0.3% QoQ in 1Q25 (Est: +0.3% QoQ), marking the first contraction since 1Q22, as trade-fueled fears materialized in the firms' and consumers' spending patterns to display a sharp rise in imports. Notably, the IMF had also downgraded its U.S. growth forecast down to 1.8% from 2.7% previously. Meanwhile, core Personal Consumption Expenditure (PCE) price index – the Fed's preferred gauge for inflation – eased to 2.6% YoY in March (Feb: 3.0% YoY), the lowest reading since March 2021, while the PCE inflation moderated to 2.3% YoY from 2.7% YoY in February.

- Looking ahead, we expect the USD trajectory to be dominated by developments on the trade front. While the steep tariffs have been shelved for the near term, investors remained on risk off modes as long as the lack of clarity persists. Trump had shown to be volatile in making decisions only to suspend them after as well as making premature statements that do not come to pass. As such, risks surrounding the U.S.' trade policies remain. This also rings true for the early reconciliation between U.S. and China as their blow-for-blow run had only reinforced the possibility of one slip to spark off a fire, sending the global markets spiraling.

Chart 1: USD Index (DXY) vs. Federal Funds Rate (FFR), %



Sources: Federal Reserve Board, Bloomberg, Bank Islam

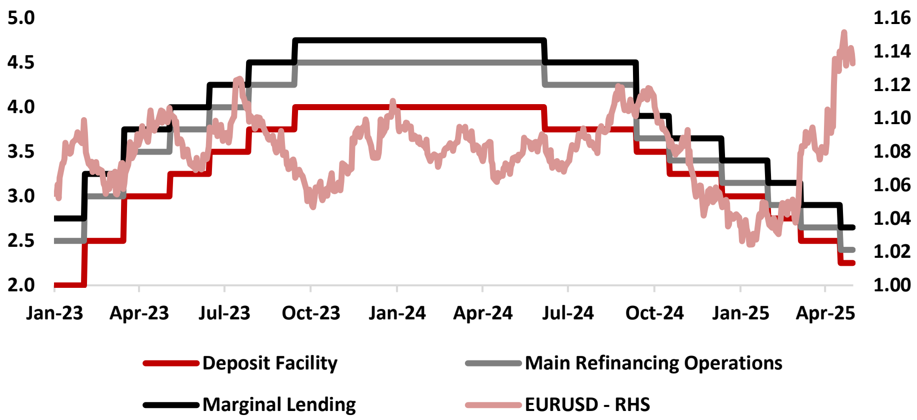
EURUSD Surged On The Back Of A Strong Economy And Hawkish ECB Signals

- The EUR strengthened by 4.8% MoM against USD (30th Apr: 1.1328 vs. 31st Mar: 1.0816) whilst marking the highest level of 1.1515 since September 2021 on 21st April. The uptrend was attributed to the USD's slide while, domestically, stronger than expected economic data during the month and hawkish signals from the European Central Bank (ECB) supported the EUR. The impact from the EBC's policy easing cycle since June last year had materialized through consumer spending patterns following more supportive financial conditions, with retail sales in the region increasing faster than expected in February (Act: 2.3%, Est: 1.8%). Additionally, the acceleration in spending was driven by firms and consumers increasing their stockpiles ahead of the looming tariff announcement from the U.S. as concerns of widespread supply chain disruptions and higher prices spurred frontloading activities. Evidently, factory activities in the region marked the first expansion after 22 consecutive months of decline (Feb: +1.1% MoM, +1.2% YoY; Jan: +0.6% MoM, -0.5% YoY). Adding to the positive momentum, the region's economy grew faster than expected in 1Q25, expanding by 0.4% QoQ, double the forecasted 0.2% and up from 0.2% in the previous quarter. On a yearly basis, growth reached 1.2%, surpassing the projected 1.0%. This outperformance was driven by robust expansions in Spain (+2.8% YoY), France (+0.8% YoY), and Italy (+0.6% YoY), which helped offset the drag from Germany's 0.2% contraction.

- Beyond favourable economic conditions, the EUR was supported was heightened bets of a slower than expected pace of rate cuts from the ECB. During the month, the central bank had reduced key interest rates by 25 bps while cautioning of weaker growth prospects for the European Union (EU), echoing sentiments by the IMF as it revised its growth forecast downward to 0.8% YoY from 1.0% YoY previously. Nevertheless, markets digested ECB President Christine Lagarde's hawkish tone where she highlighted that the central bank's path to return inflation sustainably to its target is "nearing completion" as well as previous shocks which contributed to elevated price pressures are fading away. Furthermore, Lagarde maintained that policy decisions will remain data dependent "to the extreme", and latest figures supports the case of a slowdown in the rate cutting cycle. Producer price inflation surged to 3.0% YoY in February, up from 1.7% in January, marking the fastest pace since March 2023 and adding upward pressure on consumer prices. Despite this, headline inflation held steady at 2.2% YoY in April, defying expectations of a slight slowdown to 2.1%. Meanwhile, core inflation picked up to 2.7% YoY (Mar: 2.4% YoY), also exceeding forecasts of a 2.5% rise, underscoring persistent underlying price pressures. On the trade front, the initial reaction from Trump's Liberation Day tariffs was concerns of a flagging economy and higher prices, especially as the European Commission (EC) stepped up with threats of countermeasures. However, it announced a postponement of the first stage of retaliatory tariffs after the U.S. had been receptive towards renegotiation efforts. With the fears abated for the time being, sentiments were largely dominated by expectations of rate differentials that tilt in favour of the EUR, increasing its appeal to investors. Additionally, Germany's increased fiscal spending on infrastructure and defence remained as a commitment to long-term fiscal expansion and economic revitalization, propping up the region longer term outlook. On a YTD basis, the EUR surged by 9.4% against the USD.

- Looking ahead, we expect the EUR to remain supported in the near term, underpinned by mounting inflationary pressures and stronger-than-anticipated economic performance, which could delay the ECB's plans for rate cuts. Adding to this support is a shift in U.S. trade rhetoric, with Trump showing signs of easing his aggressive tariff stance. Notably, despite Germany's contraction, Trump's openness to rolling back certain auto-related tariffs could offer relief to the country's export-heavy and manufacturing-driven economy. Germany has also recently unlocked billions in spending through its landmark infrastructure and defense package, which may provide a much-needed boost to growth in the quarters ahead. While markets have largely priced in a rate cut by June and another by 3Q25 before a potential pause, the resurgence in inflation suggests there may be an upside risk to the ECB's policy path, adding further upward momentum to the EUR. However, the inflation outlook remains fluid, influenced by global trade developments and the sustained strength of the EUR. A prolonged rally in the currency could exert disinflationary pressure by making imports cheaper, and when combined with falling energy prices, this could accelerate a slowdown in inflation more than currently anticipated.

Chart 2: EURUSD vs. Key Interest Rates, %



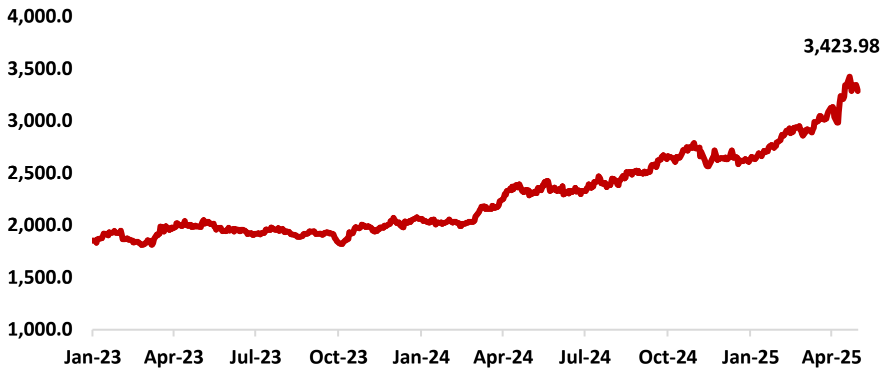
Sources: European Central Bank (ECB), Bloomberg, Bank Islam

XAUUSD (XAU) On A Winning Streak, Underpinned By Safe-Haven Demand

- The gold price soared by 5.3% MoM in April, marking fresh highs along the way as cautious sentiments permeated through global markets. Following Trump's Liberation Day announcement, the bullion price marked a record high of USD3,134.17 before dipping below the USD3,000 days after as fears of a recession mounted which triggered widespread selloffs across financial markets, thus sparking a wave of gold liquidation to cover broader losses. Nevertheless, the slide was short lived as markets pared back the worst of their concerns following the 90-day pause on steeper tariffs for most of the U.S.' trade partners. Stripping away the countries heading for the discussion tables, what's left was China who stood its ground with 35% retaliatory tariffs on all U.S. imports. The escalation of U.S.-China trade tensions, marked by the U.S. raising tariffs from 104% to 145% and ultimately to 245%, and China retaliating with hikes to 84% and then 125%, coupled with persistent uncertainty from abrupt shifts in trade policy, propelled gold prices to a record high of USD3,423.98 on 21st April. The bullish momentum was further reinforced by Trump's decision to launch an investigation into all critical mineral imports, signalling a potential expansion of trade restrictions. This move is widely viewed as laying the groundwork for broader tariffs, particularly targeting China's mineral exports to the U.S., along with those from key resource-rich nations such as Canada, Mexico, and Chile. However, gold prices have since eased from their peak, following reports that both Washington and Beijing may soon enter discussions, reviving hopes of a possible de-escalation in their trade conflict.

- Looking ahead, we expect XAU to remain highly responsive to developments in the global trade landscape. As a traditional safe haven, gold tends to benefit from heightened uncertainty and geopolitical risk, meaning any escalation in trade tensions is likely to drive increased investor demand, while signs of de-escalation could reduce its appeal. At present, the U.S. has reached out to China for trade negotiations, and China is reportedly considering the proposal. Simultaneously, Beijing is seeking talks with Washington over its concerns related to fentanyl, signaling a broader willingness to engage on contentious issues. The prospect of both sides opening channels for dialogue has raised hopes of a potential resolution to the tit-for-tat trade conflict that has weighed heavily on global markets. Nevertheless, near-term support for gold remains underpinned by lingering uncertainty surrounding Trump's next steps. Although he has temporarily shelved the more punitive "Liberation Day" tariffs, the fate of affected trade partners remains uncertain as the 90-day negotiation window approaches. Given Trump's unpredictable track record, markets remain wary of abrupt policy shifts in either direction. Still, the overall tone of recent developments has been more constructive, leading to cautious optimism that he may moderate his approach going forward. Overall, gold remains in a bullish trend, but the near-term momentum is sideways to slightly corrective, pending more clarity on trade negotiations and Trump's tariff decisions.

Chart 3: Gold Price per oz, XAUUSD



Sources: Bloomberg, Bank Islam

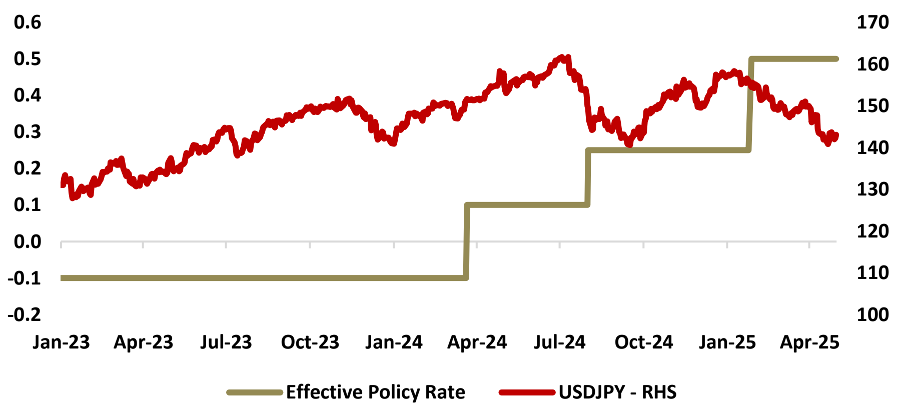
The Japanese Yen (JPY) Appreciated By 4.8% Mom Against The USD Amid Rising Rate Hike Bets

- In the absence of a Bank of Japan (BOJ) policy meeting in April, market attention shifted to economic data for clues on the central bank's next moves. The latest figures revealed a strong rebound in household spending, which surged by 3.5% MoM in February, recovering from a sharp 4.5% decline in January and marking the fastest pace of growth since March 2022. The revival was driven by improving labour market conditions as February's unemployment rate slipped to 2.4% (Jan: 2.5%) as well as higher pay increases which was reported previously by Japan's largest umbrella group for unions, stating its members had secured pledges from companies for 34-year high wage hike of 5.5%, translating into an increase of 2.7% YoY in average cash earnings for February (Jan: 1.8% YoY). As the wage hikes start to come into effect through the year, household spending is expected to remain on the positive momentum, offsetting drags stemming from anticipated slowdown in external demand. Additionally, price pressures on the factory front had flared up with the Producers' Price Index (PPI)accelerating by 4.2% YoY in March (Feb: 4.1% YoY) despite expectations of it easing to 3.9%. Similarly, on a monthly basis, the PPI rose by 0.4%, overshooting estimates of steadying at 0.2% MoM. As such, measures of inflation had increased further from their already elevated levels, except for headline inflation which eased to 3.6% YoY in March from 3.7% YoY in February. Of note, core inflation accelerated by 3.2% in the same month against 3.0% in February while inflation, minus fresh food and fuel costs, rose at the fastest pace in twelve months (Mar: 2.9%, Feb: 2.6%). Thus, the solid domestic indicators had lifted Japanese Government Bond (JGB) yields, fueling the strengthening of the JPY. Speculations of a more hawkish BOJ was also spurred by BOJ's new board member Junko Koeda who will feature in the upcoming meetings, who had historically been a voice for policy normalization and recently shared her views that the current rates are "extremely low". With the addition to the board, markets are cautiously betting for a tighter policy path moving forward. Furthermore, the JPY had rose on ahead of the meeting between finance ministers from Japan and U.S., backed by expectations that Japan would face pressure to strengthen the JPY against the US Dollar. However, following the meeting, Japanese Finance Minister Kato remarked that no such discussions had taken place, and both parties reconfirmed their stance that exchange rate levels shall be determined by markets. With further talks to take place amid the ongoing trade discussions, the JPY will remain supported by its more attractive position against the US Dollar.

- Nevertheless, risks remain on the external front where, despite Trump laying off the steeper Liberation Day tariffs, the base rate of 10% remains, on top of the 25% tariffs on auto imports as well as aluminium and steel. Cumulatively, these tariffs could present a worse than expected drag to the Japanese economy as its auto and export-related industries poses as heavy hitters for its growth, the impacts of which had reverberated through Japan's industrial sectors as its factory output declined by 1.1% MoM in March (-0.3% YoY) amid slower productions of motor vehicles (Mar: -5.9% MoM, Feb: 0.2% YoY) among others. Additionally, Japan's exports had risen below markets forecast (Act: 3.9% YoY, Est: 4.5% YoY), dragged by a contraction in exports of iron and steel (-8.2% YoY), highlighting the effects of the tariffs thus far, heightening fears of a further slowdown should Trump decide to press the accelerator on his trade policies. On a YTD basis, the JPY climbed by 4.8% against the USD.

- We maintain our expectation for the BOJ to implement two rate hikes in 2025, each by 25 bps, bringing the policy rate to 1.00% by year-end. This outlook is underpinned by a continued rise in inflation and strengthening labor market conditions, both of which point to greater policy flexibility and room for further tightening. The JPY also stands to benefit from evolving global trade dynamics. Should trade tensions escalate, the JPY would likely attract safe haven flows, further supported by expectations of narrowing yield differentials as U.S. Treasury yields decline amid the Fed's more dovish stance, while the BOJ advances along its tightening path. Conversely, if trade conditions stabilize, Japan's export-driven economy would likely rebound, bolstering trade-related inflows and adding another layer of support for the JPY. As such, we maintain a constructive view on the JPY over the near term. Nevertheless, risks remain from the weakening external demand, weighed by Trump's tariffs, which had already translated into lower export volumes and industrial output, particularly in areas directly targeted by the tariffs. While domestic consumption is expected to sustain its upbeat momentum, prolonged weak external demand would likely translate into an economic slowdown, thus undermining confidence in the BOJ's tightening trajectory and reverse JPY gains. However, Japanese officials had engaged with their U.S. counterparts to seek tariff concessions. In doing so, Finance Minister Kato had drawn attention to Japan's leverage against the U.S., namely its U.S. Treasury holdings, signaling their willingness to use this trump card when, just a month ago, Kato had denied placing it on the table. This had open up further opportunities for negotiations and Japan may yet weave its way out of the worst trenches of the trade conflict.

Chart 4: USDJPY vs. Effective Policy Rate, %



Sources: Bank of Japan (BOJ), Bloomberg, Bank Islam

The Chinese Yuan (CNY) Depreciated By 0.2% Mom As Trade-Induced Jitters Dampened Sentiments

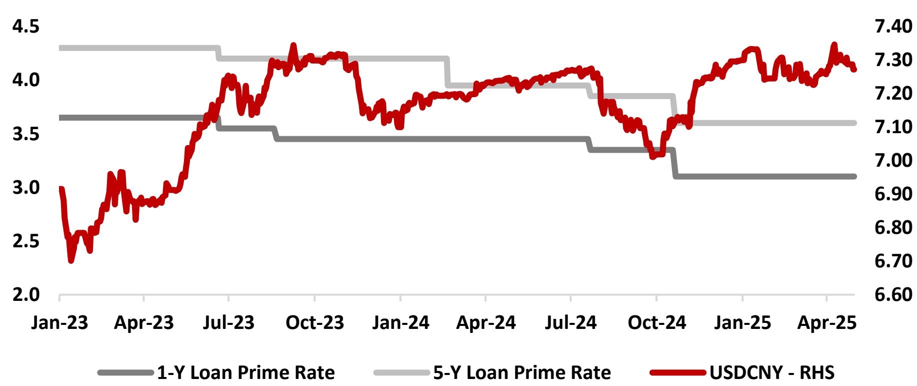
- The CNY slipped by 0.2% MoM to mirror the US Dollar's weakness as amid the intensifying trade war between the two countries. Following the 34% tariffs announced on Chinese imports on 2nd April, stacked on top of 20% that went into effect earlier, China had shifted from targeted policies against key U.S. goods to 35% levies on all U.S. imports. In a rapid escalation of the conflict, both sides had dealt flurry of hikes, with the U.S. ultimately imposing 245% duties on Chinese imports while the other retaliated with 125%. These tit-for-tat moves had rocked through global markets, dragging fears of a prolonged conflict which would spill over into global economies. As such, the CNY remained under pressure for the first half of the month, marking the weakest level of 7.3463 on 9th April, ahead of the imposition of said trade policies. Nevertheless, the CNY earned some reprieve as China's President Xi Jinping set off to tour three Southeast Asian countries, namely Vietnam, Malaysia and Cambodia, to highlight the unity of the Asian nations. As the trade war sparked fears of a global divide should other countries have to pick a side between the economic giants, China sought to position itself as a credible partner for Southeast Asia to counterbalance U.S.' protectionism, cementing its commitment to the region by engaging in efforts to strengthen their economic and trade partnerships. These visits had buoyed market sentiments, softening the blow of the significantly high U.S. tariffs on the Chinese economy as they underline China's efforts to mitigate risks and diversify their trade operations to provide buffer for its growth.

- Market sentiments also rebounded as the economy was reported to kick off the year on a solid footing with its Gross Domestic Product (GDP) surpassing estimates of a 5.1% growth, accelerating by 5.4% YoY in 1Q25, as recorded in 4Q24. Such performance was underpinned the government's robust fiscal stimulus which encouraged household spending as well as higher exports ahead of looming U.S. tariffs. China's exports surged by a double-digit increase of 12.4% YoY in March (Feb: 2.3% YoY), lifting industrial output to expand at the fastest pace since June 2021 (Mar: 7.7% YoY, Feb: 5.9% YoY) through growth across all major sectors. On the consumer end, a tightening job market with unemployment rate ticking down to 5.2% (Feb: 5.4%) and more favourable stimulus had propelled retail sales to a 15-month high of 5.9% YoY (Feb: 4.0% YoY). The resilience of the economy provides ample space for the People's Bank of China (PBoC) to navigate its policy rate, where it had maintained both the one-year Loan Prime Rate (LPR) at 3.1% and the five-year LPR at 3.6% in April, citing the need to assess the impact of the evolving trade conflict with the U.S. before introducing further stimulus, compared to their previous statement of possibly lowering rates and its reserve requirement ratio to support a sluggish economy. However, deflationary pressures in the economy persisted, albeit at a slower pace (Mar: -0.1% YoY, Feb: -0.7% YoY). In the latter half of the month, chatters of a potential de-escalation of the U.S.-China trade war were piqued as Trump remarked that he was willing to "substantially" reduce tariffs on Chinese imports followed by a later statement that negotiations with China are underway. Whilst China had denied the latter claims, it had proposed exemptions on selected U.S. imports, further solidifying hopes of a reconciliation. Nevertheless, while the CNY had strengthened, it was unable to erase earlier losses. On a YTD basis, the note closed 0.4% higher than the USD.

- Moving forward, we believe the CNY will likely remain volatile in the near term, subject to the willingness of both U.S. and China to power down their engines and embark on a more mutually constructive path. Despite denying trade talks were being conducted, China has shown to be receptive towards the U.S.' efforts to reach out when its Commerce Ministry stated that the administration was evaluating approaches from U.S. officials.

On their end, Chinese media outlets reported that China is also seeking avenues to discuss the U.S.' concerns of fentanyl, pointing towards common ground for to meet on. However, these talks are still in the earliest possible stages, which means they could tilt in either way, and the fallout if they could not reach an understanding would be worse. Previously, U.S. Treasury Secretary Bessent had stressed that the U.S. will not unilaterally lower tariffs and placed the burden of responsibility on China while China's commerce ministry had underlined the U.S.' role in initiating the war and stated it should take accountability to correct its wrong, pledging "If we fight, we will fight to the end". In the face of both economic giants returning to the negotiating table, with underlying threats of renewed escalation should talks collapse, it remains premature to take a bullish stance on the CNY. The currency continues to be caught in a delicate balancing act: on one hand, the prospect of a breakthrough in U.S.-China trade talks has weighed on the USD, offering some relief to the CNY. On the other, the risk of a breakdown in negotiations continues to cap any meaningful appreciation, as markets remain wary of a potential reintensification of tensions. Moreover, while the PBOC maintains a strong countercyclical adjustment factor to guide the CNY's daily fix, the deviation from the market-implied rate has narrowed more significantly in recent days, indicating a possible shift toward letting market forces play a greater role in price discovery. This could reflect growing confidence in CNY stability or an effort to avoid drawing attention to excessive intervention amid ongoing trade negotiations. Looking ahead, the CNY's path will be shaped by two competing forces: optimism over a diplomatic resolution, which would support a stronger CNY, and the persistent threat of policy volatility, which could trigger renewed capital outflows and depreciation pressure. Until greater clarity emerges, we expect the CNY to trade in a cautious range, with asymmetric risks skewed to the downside should talks deteriorate.

Chart 5: USDCNY vs. Loan Prime Rates (LPR), %



Sources: People's Bank of China (PBOC), Bloomberg, Bank Islam

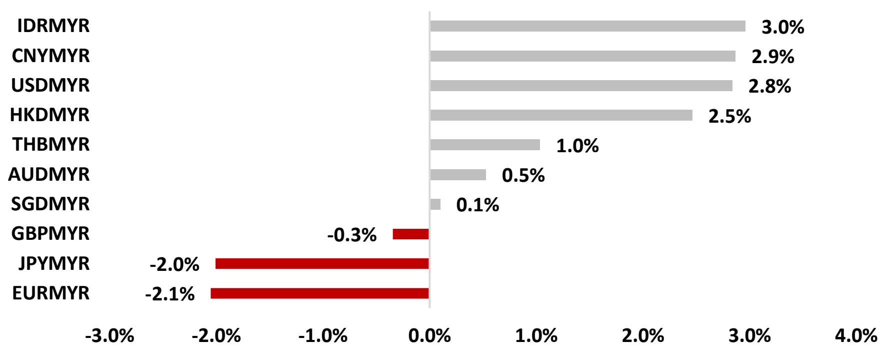
The Ringgit Strengthened To Six-Month High Amid Rosy Economic Prospects

- The local note appreciated by 2.8% MoM against the greenback as the USD index dipped below the 100-level, marking the strongest level since October 2024 at RM4.3158 on 30th April. The local note initially weakened during the run from Trump's Liberation Day announcement to the day of implementation as investor sentiments soured. However, Trump's pivot proved to be a boon for the Ringgit when he pared back the 24% tariffs imposed on Malaysia to just reflect the base rate of 10%, suspending the higher rate for 90-days to make way for negotiations, leading to a short recovery for the local note. With fears of higher costs dragging external demand placed on the backburner, markets shift their attention to Malaysia's steady economic fundamentals to chart a course for their outlook. Private consumption – a mainstay of growth – remained resilient as seen in the expansions of retail trade (Feb: 5.9% YoY; Jan: 8.2% YoY) and wholesale trade (Feb: 5.3% YoY; Jan: 4.9% YoY) sales while motor vehicle sales had rebounded to 1.5% YoY from a contraction of 9.1% YoY in January. Such performance signalled a sustained improvement in the households' purchasing power on the back of a more favourable wage conditions, following the minimum wage hike and civil servants' pay increase, as well as a tight job market, with the unemployment rate steadying at 3.1% while the Labour Force Participation Rate (LFPR) marked a fresh high of 70.7% in February. Furthermore, Malaysia's disinflation trend lent boost to spending amid headline inflation rising at the slowest pace in four years at 1.4% YoY in March (Feb: 1.5% YoY) despite core inflation steadying at 1.9% YoY, as of February. On the production front, manufacturing activities accelerated by 4.8% YoY in February (Jan: 3.7% YoY) amid stronger domestic- (Feb: 2.9% YoY, Jan: 0.2% YoY) and export- (Feb: 5.7% YoY, Jan: 5.6% YoY) oriented outputs. As such, the strong economic readings had bolstered markets' optimism of the Malaysian economic outlook, supporting appreciation of the local note.

- On top of this, the positive sentiments had been dominated by China's state visit to Malaysia during the month, headed by President Xi Jinping himself. The visit marked a stronger era of partnership between the two countries amid cooperation talks and inking their commitment through 31 Memoranda of Understandings (MoUs) covering areas of trade, technology, tourism and security. Beyond the strategic display of partnership in the face of the current shifting global trade dynamics, the visit had opened avenues to empower Malaysia's economic sectors through higher influx of foreign investments, buoying investors' confidence in the outlook ahead. Nevertheless, we remain cautious on Malaysia's growth amid external headwinds, downgrading our GDP forecast down to 4.4% from 4.7% previously. However, there may still be the sun shining behind the gloomy clouds as Malaysian officials have begun negotiations with their U.S. counterparts to seek mutually agreeable solutions to the reciprocal tariffs situation, represented by a delegation led by the Ministry of Investment, Trade and Industry. By solidifying its ties between U.S. and China, Malaysia is positioning itself to benefit from both ends of the trade war, and hopefully, see a stronger rebound in external demand should the tensions resolve following U.S.-China reconciliation. On a YTD basis, the Ringgit had appreciated by 3.6% against the USD.

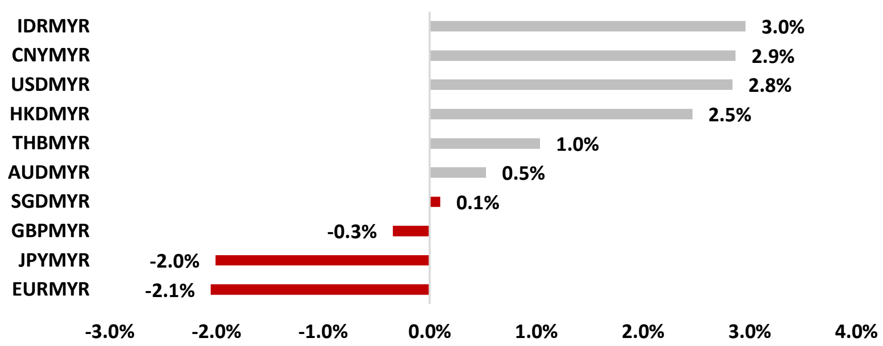
- Moving forward, the MYR's trajectory in the coming months will remain influenced by global trade developments, although its resilient economic fundamentals with provide crucial support to the local note. With U.S. and China both being Malaysia's top trade partners, an escalation of their conflict could exert pressure on Ringgit, but vice versa, easing tensions would prop up sentiments, thus drawing investors back into the local market. Thus far, U.S. and China have shown signs of willingness to put aside their differences to sit at the negotiation table. As a result, Ringgit's uptrend continued through the early days of May. This is in line with our expectations that as global conditions become stable, we will see a rebound in Ringgit. Nevertheless, its appreciation could be disrupted should the economy slow down more than expected, dampened by downbeat sentiments and weaker demand following U.S.' tariffs. Despite trade-related output increasing, it could be attributed to frontloading activities, while the volume of new orders itself is declining. This is reported in the manufacturing Purchasing Managers' Index (PMI) where new orders fell for the second month in April while firms have reported to cut output for the eleventh straight month. While we continue to expect Bank Negara Malaysia (BNM) to keep the Overnight Policy Rate (OPR) unchanged throughout 2025, the balance of risks is skewed to the downside. The growing economic headwinds, particularly weaker growth momentum, have increased the likelihood of a dovish pivot, potentially in the form of a 25bps rate cut later in the year. Looking ahead, markets are awaiting the release of Malaysia's official 1Q2025 GDP figures with early indicators pointing to a slowdown compared to 4Q24. Undoubtedly, we are still cautious of the volatile nature of the evolving trade policies, however we maintain our forecast of MYR appreciating to RM4.25 by year end-2025.

Chart 6: MYR Against Regional Currencies, m-o-m% (as of 30 April 2025)



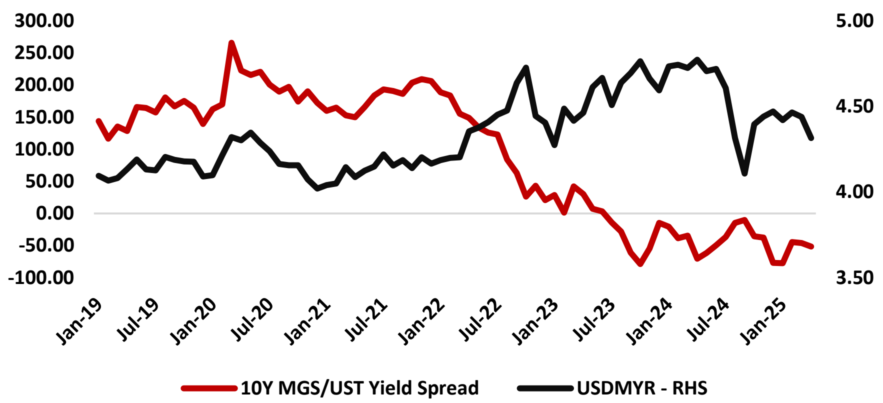
Sources: Bank Negara Malaysia (BNM), Bloomberg, Bank Islam

Chart 7: MYR Against Regional Currencies, YTD% (as of 30 April 2025)



Sources: BNM, Bloomberg, Bank Islam

Chart 8: MYR vs. 10Y MGS/UST Yield Spread



Sources: BNM, Bloomberg, Bank Islam

Outlook

- Looking ahead, we anticipate the uncertainties surrounding the turbulent trade landscape to persist despite Trump signaling that he may pare back on certain tariffs as well as head for the negotiating table with China. Following talks with domestic and foreign carmakers, Trump had signed an executive order to relax some of the 25% tariffs on autos and auto parts, aiming to help the transition for domestic manufacturers to move their production and assembly lines to the U.S. as part of his protectionist policies. On the other hand, the Trump administration had also been receptive to requests for engagements from the trade partners affected by his sweeping Liberation Day tariffs, sitting down to discuss agreeable solutions to the disparities and disputes he underlined previously. On top of that, U.S. officials had also reached out to China amid their escalating tit-for-tat conflict, potentially seeking an end to their defensive stances and instead moving towards a mutually constructive environment. These recent developments have soothed market sentiments as they cautiously await further positive updates, hopefully those that hint at a significant easing of the global trade tensions. Nevertheless, it would be naïve to view the situation through a single rose-tinted lens. Notably, Trump's first 100 days in office were characterized by a lack of clear policy direction and frequent reversals, which unsettled global markets and amplified investor uncertainty. His approach to trade policy, in particular, was marked by a series of bold announcements, many of which failed to materialize or were subsequently rolled back. While recent developments have sparked a degree of optimism, caution remains warranted given his history of abrupt pivots. Importantly, many of the trade measures introduced during his previous term remain intact, continuing to weigh on domestic demand and household spending, and ultimately contributing to the broader economic slowdown. This, alongside the latest disinflationary signals, most notably the decline in core PCE to multi-year lows in March, has bolstered market expectations for a more dovish Fed stance to shore up growth. Against this backdrop, although easing trade tensions may offer some near-term support for the USD, its broader outlook remains biased to the downside as softer macro fundamentals and accommodative policy expectations take precedence.

- Meanwhile, the ringgit has shown remarkable resilience in recent weeks, buoyed by a confluence of domestic strengths and external tailwinds. Malaysia's solid macroeconomic fundamentals, including robust domestic demand, healthy external balances, and disciplined fiscal management, continue to underpin investor confidence. Moreover, the country's strategic position as a diversified trade player with deep linkages across ASEAN, China, and other major economies serves as a key buffer amid ongoing global trade uncertainties. The evolving U.S.-China trade dynamics have also indirectly supported the MYR. With China repositioning itself as a regional economic anchor in response to rising U.S. protectionism, Malaysia stands to benefit significantly from its historically strong relationship with China and the recent revitalization of this partnership. Meanwhile, improving diplomatic engagement with the U.S., including ongoing negotiations over reciprocal tariffs, has further bolstered hopes for Malaysia's exemption from steep duties once the 90-day pause concludes, adding to positive sentiment.

- The ringgit's outperformance relative to regional peers is also driven by three notable external factors. First, the USD has softened amid declining U.S. Treasury yields, as markets price in a more dovish Federal Reserve stance. Second, stronger-than-expected yuan fixings have lifted the CNH, which in turn supports the MYR due to its close trade correlation with China. Third, market speculation of a potential BNM rate cut, triggered by recent remarks from the BNM Governor and the Second Finance Minister, has boosted bond inflows, lending further support to the currency. While there are market jitters around a possible cut in the OPR, we believe

BNM will maintain its current stance given Malaysia's economic stability and resilient domestic anchors. In fact, the narrowing yield differential, driven by potential Fed easing against a steady BNM, may strengthen the case for ringgit appreciation. Thus, the MYR is likely to hold firm in its trajectory through the rocky seas. Taken together, we expect the MYR to hold firm and appreciate gradually, maintaining our year-end forecast of RM4.25 against the USD, even as global uncertainties persist.

Technical Analysis

• CODE	: DXY		:	BEARISH
• NAME	: DOLLAR INDEX		:	100.036
• TICKER	: DXY CURNCY		:	97.92 – 94.70

DAILY CHART

Indicators	Analysis	Signals
RSI	40.61	Bearish
MACD	-0.955	Bearish
200 MA	104.394	Bearish
62 MA	103.613	Bearish
21 MA	100.264	Bearish

Resistance		Support	
R1	103.540	S1	97.921
R2	104.683	S2	94.706
R3	107.661	S3	88.253

The U.S. Dollar Index closed at 100.036 on the daily chart. It is trading below its key moving averages: the 21-day Simple Moving Average (SMA) at 100.264, the 62-day SMA at 103.613, and the 200-day SMA at 104.394 – indicating a predominantly bearish trend across short, medium, and long-term perspectives. Momentum indicators reinforce this outlook: the Relative Strength Index (RSI) stands at 40.61, signifying bearish momentum, while the Moving Average Convergence Divergence (MACD) reading of -0.955 further confirms the negative trend. The index faces immediate resistance near the 21-day SMA (100.264), with subsequent resistance levels identified at 103.540 and 104.683. Key support levels are located at 97.921, 94.706, and 88.253. Given the consistent bearish signals from price action relative to moving averages and momentum indicators, we expect the index to move lower, with a potential target near the first support level of 97.921. Nonetheless, as the RSI nears oversold territory, a short-term rebound cannot be ruled out.

Technical Analysis

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- **CODE** : **USDMYR** : **BEARISH**
- **NAME** : **USD-MYR X-RATE** : **4.2580**
- **TICKER** : **USDMYR BGN CURNCY** : **4.09 – 4.00**

DAILY CHART

Indicators	Analysis	Signals
RSI	14.71	Bearish
MACD	-0.0448	Bearish
200 MA	4.3998	Bearish
62 MA	4.4179	Bearish
21 MA	4.3826	Bearish

Resistance		Support	
R1	4.3260	S1	4.0941
R2	4.4080	S2	4.0066
R3	4.5050	S3	3.8606

On the daily chart, the USD/MYR closed at 4.2580, trading below all key moving averages, with the 21 SMA at 4.3826, 62 SMA at 4.4179, and 200 SMA at 4.3998, confirming a strong MYR bullish trend. The RSI reading of 14.71 indicates severely oversold conditions, suggesting extreme selling pressure on the USD. This bearish sentiment is further validated by the negative MACD value of -0.0448. Price action is currently positioned between the first support at 4.0941 and first resistance at 4.3260, with additional support at 4.0066 and 3.8606, and resistances at 4.4080 and 4.5050 respectively. The consistent positioning below all major moving averages establishes a clear downward trajectory for the pair. While the deeply oversold RSI could signal a potential short-term technical bounce, the prevailing technical structure remains fundamentally bearish. We believe the pair is weakening with a target price of 4.0941, with potential to extend toward 4.0066 if momentum persists. On the flip side, we should monitor any reversal signals given the oversold conditions, but the overall technical outlook favors MYR strength against the USD.

Technical Analysis

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DEFINITION OF RATINGS

- **CODE** : **GOLD** : **BULLISH**
- **NAME** : **GOLDS SPOT** : **3,240**
- **TICKER** : **GOLDS COMDTY** : **3,489 - 3,633**

DAILY CHART

Indicators	Analysis	Signals
RSI	54.23	Bullish
MACD	55.50	Bullish
200 MA	2,756	Bullish
62 MA	3,056	Bullish
21 MA	3,240	Bullish

Resistance		Support	
R1	3,489	S1	3,196
R2	3,633	S2	2,963
R3	3,908	S3	2,838

Daily chart for GOLD exhibits a predominantly bullish trend, with the instrument closing at 3,240. The 21-day Simple Moving Average (SMA) aligns precisely with the closing price at 3,240, indicating short-term stability and bullish momentum. The 62-day SMA at 3,056 and the 200-day SMA at 2,756 further reinforce this upward trajectory, as the price remains well above these longer-term averages, signaling sustained bullish sentiment. The Relative Strength Index (RSI) at 54.23 resides in neutral territory, suggesting neither overbought nor oversold conditions, which supports the potential for continued upward movement without immediate risk of reversal. The Moving Average Convergence Divergence (MACD) at 55.50 remains positive, affirming bullish momentum as the MACD line stays above the signal line. Key support levels are identified at 3,196, 2,963, and 2,838, providing downside cushions, while resistance levels at 3,489, 3,633, and 3,908 present potential upside targets. Given the alignment of bullish technical indicators and the absence of overbought signals, GOLD is poised for further gains, though caution is warranted near the first resistance at 3,489. A breakout above 3,489 could trigger a push towards 3,633 level, contingent on continued momentum and volume confirmation**.**