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RINGGIT ON A ROLL AMID TRADE WOES AND A SOFTER U.S. DOLLAR

- **USD embarked on a downward trajectory following Trump's Liberation Day amid prolonged uncertainties and cautious sentiments**
- **Rapid frontloading activities lifted currencies of exporter countries**
- **Demand for Ringgit increased as exports surged significantly**
- **Moving forward, Malaysian exports to recover under the new trade norm**
- **Ringgit will remain supported by strong economic fundamentals and trade performance**

- On the 2nd April Liberation Day, U.S. President Donald Trump unveiled his reciprocal tariff plan against more than 60 trade partners deemed to employ unfair trade practices against the U.S., implementing a two-tier structure made of a baseline 10% tariffs on imported goods across all countries as well as additional levies ranging from 11% to as steep as 50%. Although market participants had mostly priced in another round of U.S.-China tariff war, mirroring Trump's first term in the office, the announcement marked the beginning of a more aggressive, broader trade conflict. What followed was a period of heightened global trade volatility amid a flurry of surprise escalations, tentative truces, and last-minute extensions, keeping markets at the edge of their seats as they cautiously await Trump's next move.
- Beyond country-specific reciprocal tariffs, Trump had imposed import duties on targeted goods including steel, aluminum and autos while ordering a probe into other taxable goods such as copper and lumber, among others. Nearly three months after the 25% tariffs on steel and aluminum took effect, they were doubled to 50%, causing another tumble across global markets. At the time of writing, Trump remarked that he is considering raising the tariffs on steel as well as eyeing potential levies on semiconductors and pharmaceuticals. Bolstered by the expectations of wider supply chain disruptions ahead of the respective tariff deadlines, firms had ramped up their production and output levels to match the increased demand.
- Considering the U.S.' significant presence in the global value chain, the trajectory of the USD is tied into the turbulent trade environment, in addition to the interplay of the Federal Reserve Board (Fed)'s monetary policy, investor sentiments and economic indicators. Buoyed by Trump's stance of U.S. protectionism, markets were optimistic on the economic outlook while still keeping a finger on the risks stemming from his trade policies, prompting the USD index to trend around the 107.0-109.0 level during the first quarter of the year. However, the USD began to slip from its steady footing when Trump's protectionist campaign appeared to be more aggressive than expected, plummeting by more than 6.7% YTD following the Liberation Day announcement. Jitters of an economic downturn against a backdrop of a hotter and more persistent inflation dynamic spread throughout markets. Stepping out to the bigger picture, the global economic

outlook turned cloudy as trade tensions between U.S. and its trade partners intensified, particularly with China, while echoing fears of weakening external demand spilled over into most economies. Consequently, regional development banks had downgraded an array of economic outlooks, reflecting the rising volatility surrounding the global trade landscape.

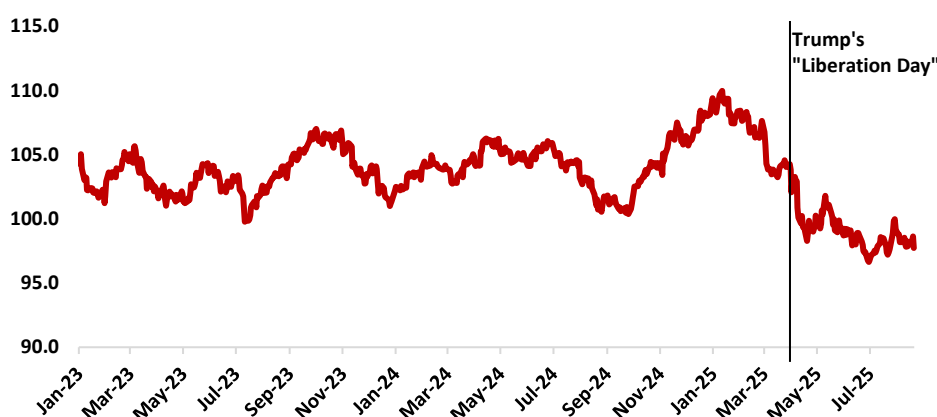
Table 1: International Monetary Fund (IMF) 2025 GDP Growth Forecasts, YoY%

	January	April	July
World	3.3	2.8	3.0
U.S.	2.7	1.4	1.9
Euro Area	1.0	1.8	1.0
U.K.	1.6	1.1	1.2
China	4.6	4.0	4.8
Japan	1.1	0.6	0.7
South Korea	2.0	1.0	0.8
Taiwan	2.7	2.9	-
Indonesia	5.1	4.7	4.8
Singapore	2.5	2.0	-
Thailand	2.9	1.8	2.0
Vietnam	6.1	5.2	-
Malaysia	4.7	4.1	4.5

Sources: Bank Negara Malaysia (BNM), Bank Islam

- The USD standing at the epicenter of the trade volatility lost out, its appeal dimmed to risk adverse investors as they fled to other safe-haven assets. Furthermore, the environment of prolonged uncertainties weighed on the USD further as steeper country-specific tariffs had yet to kick in following several extensions made on their deadlines. While tariff-driven price pressures had gradually fed into consumer prices and the U.S. economy remained exceptionally resilient through the first half of the year, the USD failed to gain ground as it trended between 96.45-101.85.

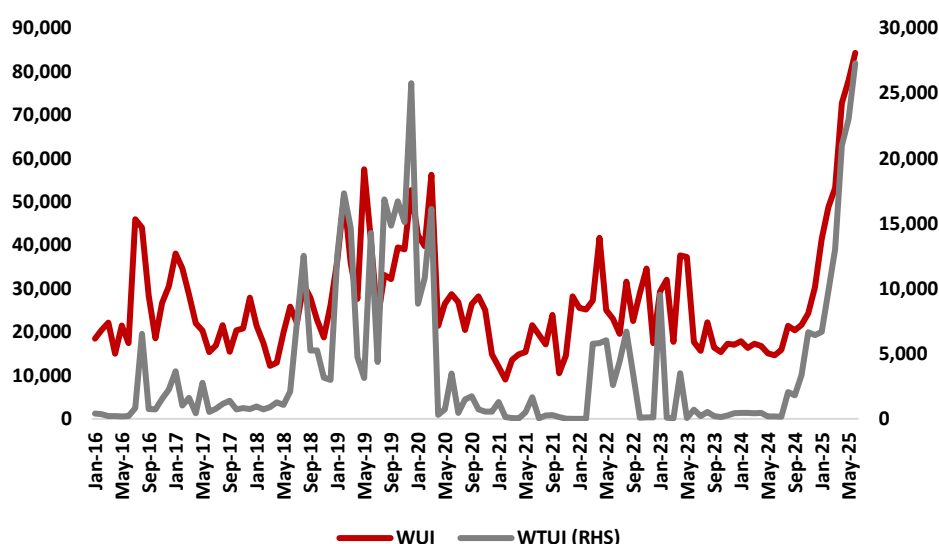
Chart 1: USD Index (DXY)



Sources: CEIC Data, Bank Islam

- Without finalised deals in place, the situation remained highly volatile, exacerbated by Trump's history of sudden inexplicable moves. This was evidenced by his threats to impose higher levies on the European Union and Japan, citing snags in the negotiations with these countries. As such, despite continuous efforts by the targeted trade partners to negotiate bilateral agreements with the U.S., markets remained cautiously on high alert. During this period, the World Uncertainty Index (WUI) and World Trade Uncertainty Index (WTUI) surged to multi-year highs. However, the impact of the shifting trade policies appeared to be less severe than anticipated, leading to another round of revisions to the aforementioned growth outlook.

Chart 2: World Uncertainty Index (WUI) vs. World Trade Uncertainty Index (WTUI)



Sources: International Monetary Fund (IMF), Bank Islam

- The global trade landscape gradually steadied following the conclusion of this round of tariff conflicts, after Trump unveiled the final rates just hours before the 2nd of August deadline. The measures ranged from modest to sharply punitive: countries with which the U.S. runs trade surpluses will face a blanket 10% tariff on most goods, while Mexico was granted a 90-day reprieve before the 25% levy on its exports takes effect. Conversely, nations running surpluses against the U.S. will be subject to a universal 15% tariff, except for 26 countries that were singled out with even higher rates. Compared with the tense “Liberation Day” standings, however, most economies emerged in a stronger position than feared, helping to clear the clouds that had overshadowed their outlooks. Canada, by contrast, was hit hardest as tariffs on its goods—excluding those protected under the 2020 USMCA trade pact—were lifted to 35% from 25%. Despite easing trade anxieties and a rebound in investor sentiment, the USD failed to stage a recovery, weighed down by growing expectations that the Federal Reserve will begin cutting rates in September.

Table 2: Currency Performance vs USD, YTD%

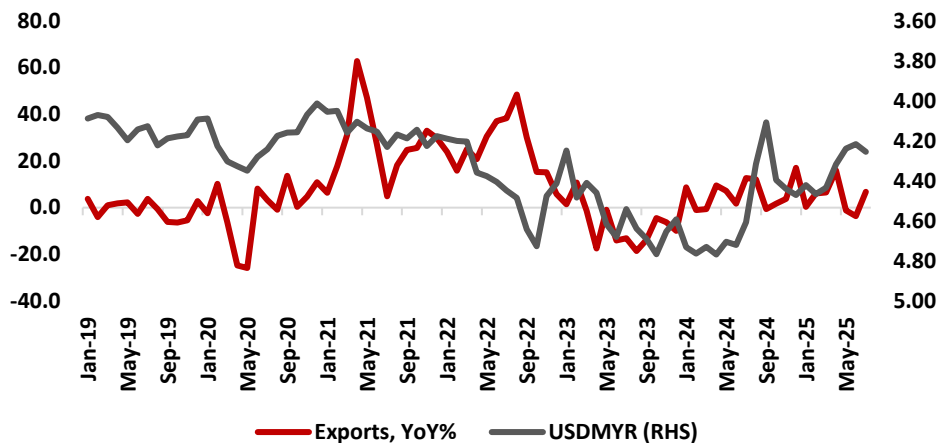
	Dec-24	May-25	Jun-25	Jul-25	YTD%
USDMYR	4.470	4.239	4.217	4.254	5.1%
EURUSD	1.252	1.346	1.373	1.321	10.2%
GBPUSD	1.035	1.135	1.179	1.142	5.5%
USDCNY	7.299	7.199	7.164	7.200	1.4%
USDTWD	32.79	29.917	29.587	29.868	9.8%
USDJPY	157.20	144.02	144.03	150.75	4.3%
USDKRW	1471.95	1382.60	1353.75	1393.40	5.6%
USDSGD	1.366	1.291	1.272	1.298	5.2%
USDIDR	16102	16290	16238	16455	-2.1%
USDVND	25485	26022	26118	26198	-2.7%
USDTHB	34.095	32.830	32.502	32.682	4.3%

Sources: Bloomberg, Bank Islam

- On the flip side, the turbulent global trade environment had lifted global currencies against the USD, driven both by the dollar's downward trend and by heightened demand for alternative currencies amid concerns over supply chain disruptions triggered by Trump's tariffs.
- Historically, currency depreciation has supported export competitiveness by making goods cheaper for foreign buyers, a trend consistently observed in export-driven economies such as China, Taiwan, South Korea, Japan, Indonesia, and Thailand. Yet, this relationship broke down in 1H25 as Trump's aggressive trade rhetoric and tariff threats distorted normal trade dynamics. Instead of weaker currencies driving exports, it was the urgency to frontload shipments ahead of tariff deadlines that fueled export growth. Firms across supply chains accelerated both orders and production, creating an unusual surge in external demand. This rush not only lifted trade volumes but also generated increased demand for exporter-country currencies, adding upward pressure on their exchange rates. In effect, tariff uncertainty temporarily inverted the traditional currency-trade nexus, suggesting that policy-induced distortions, rather than market fundamentals, became the dominant driver of trade and currency movements in 1H25.
- As such, the previous relationship between the currencies and export performance was upended whereby firm export growth was recorded despite their stronger currencies. On a YTD basis, the CNY (+1.4%), TWD (+9.8%), JPY (+4.3%), KRW (+5.6%) and THB (+4.3%) appreciated against the USD while the IDR weakened (-2.1%).
- On the contrary, Europe traced a different arc. In the European Union and United Kingdom (UK), the conventional correlation between exports and currency performance largely held. Both registered a pre-deadline export burst (EU: +14.2%, UK: +18.2%), but momentum cooled thereafter as risk premia rose under relatively harsher perceived tariff exposure. Crucially, however, the EUR and GBP were steadied more by domestic fundamentals and evolving monetary-policy expectations than by trade swings. Solid growth anchors and central bank signaling kept currency moves contained, preserving the textbook linkage: as export momentum

eased, currency appreciation did not perversely accelerate; instead, FX was guided by rate differentials, inflation trajectories, and relative growth.

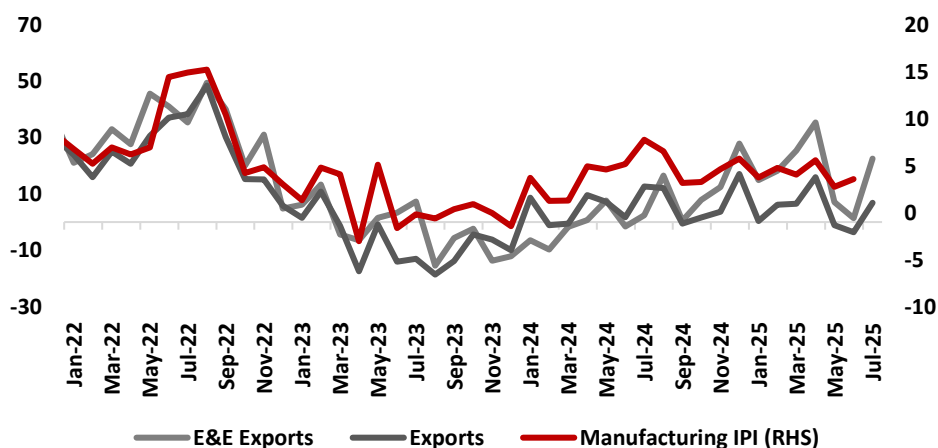
Chart 3: USDMYR vs. Exports, YoY%



Sources: Bank Negara Malaysia (BNM), Department of Statistics Malaysia (DOSM), Bank Islam

- As with many of its regional peers, Malaysia's exports have historically exhibited a strong negative correlation with the MYR, where a weaker Ringgit tends to enhance the price competitiveness of its goods. This pattern was evident in the latter half of 2024, when a softer Ringgit helped bolster export growth. However, the trend shifted in 2025 as exports expanded sharply despite currency appreciation. Malaysia's pivotal role in the global value chain, particularly in semiconductors, meant that external demand surged after the Liberation Day announcement, with firms rushing to place orders ahead of tariff deadlines to avoid higher costs and disruptions. This surge in orders not only lifted export volumes but also generated stronger demand for the ringgit itself, reinforcing its appreciation alongside the broader downtrend in the USD.

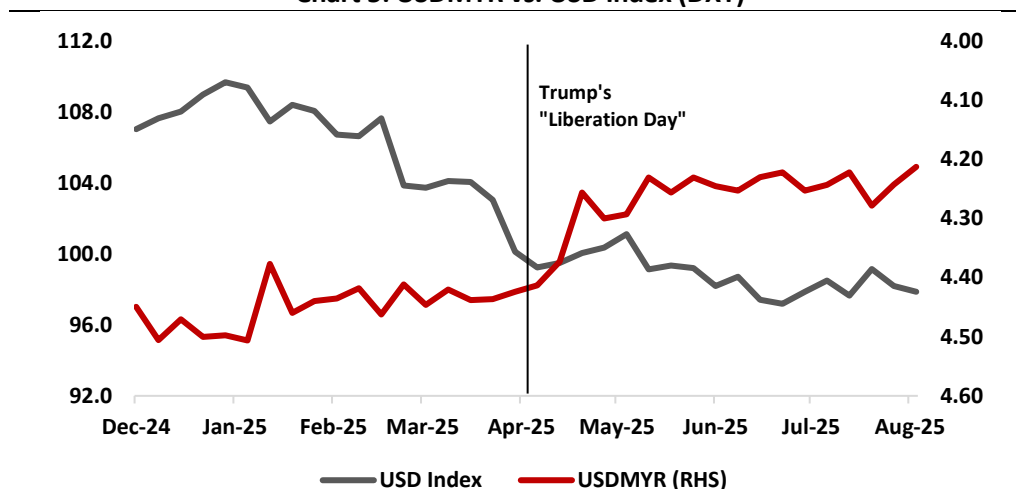
Chart 4: Manufacturing IPI vs. Exports, YoY%



Sources: DOSM, Bank Islam

- On the flip side, heightened external demand triggered rapid frontloading activities, which in turn spurred higher domestic production and accelerated export shipments. This was evident in the manufacturing sector, where the Industrial Production Index (IPI) rose by 5.6% YoY in April, up from 4.0% YoY in March. Export performance strengthened in tandem, climbing steadily from 0.4% YoY in January to 6.1% in February and 6.5% in March, before surging to 15.9% YoY in April. The momentum was especially pronounced in the electrical and electronic (E&E) segment, Malaysia's largest export category. E&E shipments grew by 25.4% YoY in March and then soared to 35.4% in April, the fastest pace since September 2022, underscoring the extent to which Malaysia benefitted from pre-tariff frontloading within global supply chains.
- Nevertheless, Trump extended the implementation of the initial round of tariffs by 90 days to allow room for negotiations, which tempered the urgency among businesses and consumers as they cautiously awaited positive signals from the trade talks. For Malaysian firms, the prospect of an improved bilateral trade deal with the U.S. provided an incentive to delay transactions in hopes of operating under more favorable terms. However, the prolonged uncertainty eroded market sentiment, resulting in muted buying interest and causing exports to contract for two consecutive months (May: -1.2% YoY; June: -3.6% YoY). The landscape shifted again in July when Trump announced a fresh wave of unilateral tariffs against several trading partners, with Malaysia hit particularly hard by a 25% tariff on most goods effective August. Reflecting earlier frontloading trends, Malaysian exports rebounded sharply ahead of the deadline, rising 6.8% YoY in July, while E&E exports surged to a three-month high of 22.5% YoY. During this volatile period, the ringgit fluctuated in response to shifting expectations of U.S. Federal Reserve rate cuts and wavering investor confidence. Yet, it remained fundamentally anchored by Malaysia's resilient trade performance and solid macroeconomic underpinnings. On a YTD basis, the MYR appreciated by 5.1% against the USD, while our Trade-Weighted Ringgit Index (TWRI) showed a 3.0% gain against a basket of currencies, underscoring the currency's relative strength despite heightened global trade turbulence.

Chart 5: USDMYR vs. USD Index (DXY)



Sources: BNM, Bank Islam

- Malaysia and the U.S. finalised a trade deal that lowered tariffs on most Malaysian goods to 19%. While this reduced rate eases some of the earlier pressure, it also diminishes the urgency to frontload orders, suggesting that near-term demand could moderate as buyers adjust to the new environment. Even so, Malaysia retains a relative advantage: its tariffs are lower than those imposed on several other U.S. trade partners, and its export mix is anchored by high-demand products such as semiconductor chips, which continue to benefit from the global technology upcycle. Over the medium term, as global trade stabilizes into a “new normal” under Trump’s administration, with supply chains reconfigured and trade partnerships realigned, Malaysia is positioned to leverage its strategic role in the global value chain. This could reinforce its earlier status as a reliable manufacturing hub, cementing its place in the evolving trade equilibrium.
- Malaysia’s trade outlook for 2H25 will enter a transition phase as the newly concluded deal with the U.S. lowers tariffs on most Malaysian goods to 19%. The reduced rate is expected to moderate the pace of frontloading, leading to softer near-term export momentum. Even so, Malaysia retains a relative advantage given its comparatively lower tariff exposure and the continued strength of semiconductor demand amid the global technology upcycle. Over the medium term, as global trade stabilises under Trump’s administration and supply chains adapt to the new configuration, Malaysia’s role in the global value chain should help sustain competitiveness and underpin external resilience.
- For the Ringgit, narrowing external imbalances and steady trade inflows suggest it will remain broadly firm in 2H25. Volatility in the currency market, however, is likely to persist, driven by shifting U.S. monetary policy expectations and lingering uncertainty in global trade. We expect the Ringgit to trade within a range of 4.15–4.25 against the USD in the coming months and to end the year at around 4.20, supported by resilient exports and anticipated Fed rate cuts.
- Against this backdrop, export performance is expected to remain a key pillar of Ringgit support in the long run. However, risks are tilted to the downside. Trump’s protectionist rhetoric and the potential for further tariff escalation, particularly if semiconductor exports are targeted, pose meaningful threats to Malaysia’s external outlook. Should such measures materialise, they could erode the competitive edge secured under the current agreement and weaken both trade flows and currency stability.