Khayrin Farzana Fazli | Economist | kfarzana@bankislam.com.my

RINGGIT GAINED GROUNDS AS US DOLLAR SLIPPED FROM HIGHS

- **US Dollar on a downtrend as trade policies lacking rhyme or reason plagued the markets**
- **EURUSD soared as markets anticipated slower pace of cuts moving forward**
- **USDCAD strengthened on the back of USD's weakness**
- **The Japanese Yen (JPY) ticked up by 0.4% m-o-m against the USD amid heightened rate hike hopes**
- **Chinese Yuan appreciated by 0.3% m-o-m on proactive fiscal stimulus amid unfolding trade risks**
- **USDMYR climbed by 0.5% m-o-m amid a sound domestic outlook**

Table 1: Selected Currencies Overview

	Jan-25	Feb-25	Mar-25	MoM	YTD
DXY Index	108.37	107.61	104.21	-3.2%	-3.9%
EURUSD	1.0362	1.0375	1.0816	4.3%	4.5%
USDCAD	1.4541	1.4461	1.4387	0.5%	0.0%
USDJPY	155.19	150.63	149.96	0.4%	4.8%
USDCNY	7.2446	7.2784	7.2569	0.3%	0.6%
USDMYR	4.4602	4.4625	4.4383	0.5%	0.8%

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

- **Mounting global trade risks loomed over the market amid rollout of tariffs and Trump promising more.** Kicking off the month aggressively, the 25% tariffs on Mexican and Canadian imports went into effect before Trump granted a conditional exemption to most goods just days later. Unwittingly, the display further solidified wary concerns that Trump's moves lack direction or structure, utilizing these policies as bargaining chips despite setting off a frenzy in the markets. This view was further supported by his threats to other trade partners alongside his remarks that negotiations following his 'Liberation Day' tariffs are taking place immediately. Notwithstanding tentative hopes that these measures are reversible, it is the 'here and now' that matters when such moves fueled the escalation of the trade war. China, in particular, was on the receiving end of multiple blows as Trump tacked on another 10% on top of the earlier tariffs in March, before doling out 34% more on 2nd April, not to mention the levies on metals and autos. In return, China retaliated with equals rate on American imports, more widespread than its initial blow on key U.S. farm products, as well as imposing export controls on precious rare earth minerals. Based on the rapidly unfolding situation, fears of a U.S. and global recession mounts with JP Morgan raising chances of both happening to 60% from 40% previously. In the near term, we expect the currency market to remain volatile as major affected trade partners place talks of retaliation on the table.

- On the home front, Malaysia's Ringgit remained bolstered by solid domestic demand amid favourable inflation trend and the resilient labour market. Furthermore, the rising odds of a recession in the U.S. had driven risk averse investors away, the capital outflows weakening the greenback and thus, supporting Ringgit's appreciation during the month. Looking ahead, while Malaysia is one of the targeted countries (24% reciprocal tariffs), we opine there is limited negative impact to the sectors.

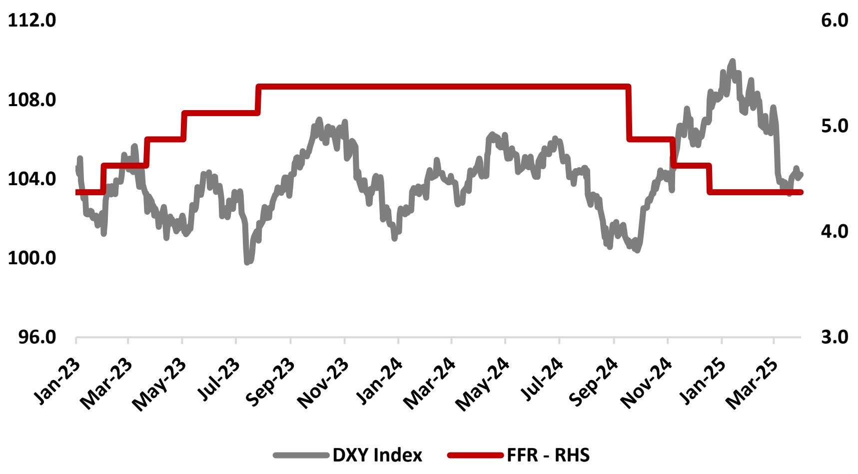
U.S. Dollar On A Downtrend As Trade Policies Lacking Rhyme Or Reason Plagued The Markets

- The greenback marked a third month on m-o-m loss as it depreciated by 3.2% in March as Trump's policies proved to be more wildly aggressive and in particular, lacking a concise direction, than expected. Markets had remained cautious as they awaited the 2nd April deadline where Trump was set to unveil a slew of reciprocal tariffs against trade partners found to have trade surpluses or unfair trade practices relative to the U.S. However, it was far from a quiet month as previously announced policies took effect, prompting initial retaliatory measures alongside several new decisions by Trump. On 4th March, the 25% duties on Canadian and Mexican imports as well as the doubled tariff of 20% on Chinese imports went into motion, of which the latter was followed by China retaliating with up to 15% of tariffs on key American farm imports, set to take effect on 10th March. Nevertheless, Trump granted a month-long exemption for U.S. automakers importing from Mexico and Canada just a day later before taking another day to expand the postponement for all imports which complies with the 2020 USMCA trade deal. In the span of three days, his moves further sowed the seeds of uncertainties among market participants as the back and forth made it increasingly difficult to anticipate his next moves as well as the retaliatory measures, plaguing the turbulent global trade environment for longer. In addition, Trump had also proposed raising the tariffs on Canadian metals to 50% before reversing the decision within hours.

- Meanwhile, duties of 25% across the board for all aluminium and steel imports went into effect on 12th March. This was followed by the European Union (EU) announcing countermeasures worth EUR26 billion to be delivered by mid-April, one of which was 50% duties on American whiskey. Following this, Trump boldly rebuffed the threat with warnings of four times the rate on European alcohol, building on the uncertainties in the market. Further concerns rose following the announcement of 25% tariffs on all automobile imports, effective 3rd April, which will eventually expand to include auto parts as well. While these policies are aimed to bolster U.S.' domestic manufacturing, concerns arise as the sector seemed ill-equipped to accommodate the demand shock as consumers turn inward, especially since American companies themselves had always relied on output and production elsewhere. Experts reported that reshoring production would take time and higher costs, pointing to consumers being torn between paying currently elevated prices for imported goods and curbing their spending. With one option being more palatable, the weakening demand would undoubtedly be a drag on growth. In the Federal Reserve (Fed)'s March Summary of Economic Projections (SEP), the central bank had revised its growth forecast downwards to 1.7% from 2.1% previously, highlighting the risks from the global trade uncertainties. However, the Fed maintained its median projection of the year-end Federal Funds Rate (FFR) at 3.9%, signalling only two cuts. Nevertheless, mounting worries of an economic slowdown dominated sentiments and thus, markets rallied behind more policy easing this year to bolster the economy, leading to a more bearish slide for the greenback. The Dollar also lost ground on a YTD basis, declining by 3.9% from 108.49 to 104.21.

- Looking ahead, we expect the USD to remain under pressure as markets digested Trump's 'Liberation Day' tariffs while affected trade partners hashed out countermeasures. On 2nd April, Trump rolled out sweeping tariffs against approximately 60 countries, setting alarms blaring across markets as fears of recession in both the U.S. and global economies, climbed. Of note, JP Morgan raised its probabilities of a global recession by 60% while S&P Global now viewed a 30-35% chance of a U.S. recession by year end. Worsening market jitters, China had already made a move as it announced 34% levies on all American imports, effective 10th April, while warning of export controls of rare earth minerals, key components in many high-tech productions. Cloaked as part of Trump's protectionism policies, his trade policies have now become the greenback's major drag. Given the risks to growth stemming from shifting 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. Nevertheless, given Trump's previous pivots, there may still be room for withdrawals or reductions of the steep tariffs should the countermeasures be overwhelmingly against the U.S.

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



Sources: Federal Reserve Board, Bloomberg, Bank Islam

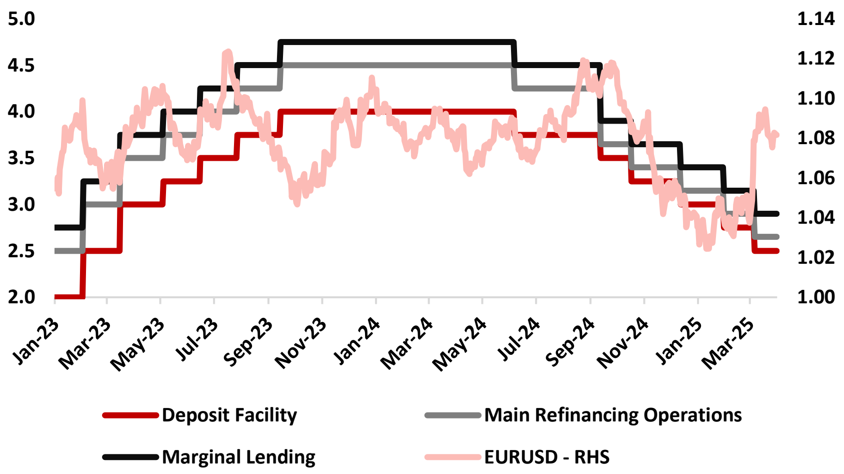
EURUSD Soared As Markets Anticipated Slower Pace Of Cuts Moving Forward

- The EUR surged by 4.3% m-o-m against USD from 1.0375 to 1.0816, underpinned by the political stability in Germany, increased fiscal spending in the region as well as markets repricing their rate cut expectations. Whilst the European Central Bank (ECB) had delivered another 25bp cut to its three key interest rates, it had barely made a dent in the EUR's rise as markets had fully priced in the cut. Instead, all eyes zeroed in on ECB President Lagarde's remarks that the monetary policy is becoming 'meaningfully less restrictive', hinting a possible slowdown in the central bank's rate cutting cycle. Of note, the region's headline inflation had slowed at a faster pace than anticipated in February at 2.3% (Est: 2.4%) from 2.5% in January, sending signals that the level of monetary policy is sufficiently restrictive to tame the underlying price pressures. Additionally, core inflation had slowed to 2.6% in the same month from 2.7% in January. Coupled with the reiteration that the disinflation trend is sustainably converging towards the targeted 2.0% and the ECB cautioning of higher inflation from the trade uncertainties, the statements combined had markets slashing their rate cut expectations. Looking closer, the volatile global trade situation supports the case of a more hawkish policy outlook as the European Commission had pledged countermeasures against the U.S.' inflammatory trade policies which includes tariffs worth EUR26 billion on American goods thus far, set to take effect in mid-April. Taking the move of retaliation instead of renegotiation into account, the EU seemed poised for the trade war which could possibly reignite price pressures once more, necessitating a higher for longer interest rate environment. The central bank had also upwardly revised its headline inflation forecast to average at 2.3% in 2025, citing price pressures from stronger energy prices.

- Additionally, the EUR also gained major boost from Germany's fiscal reform when the parliament approved the bill unlocking billions of euros for infrastructure and defense spending, spurring the rapid climb of borrowing costs of the economy and its peers across the region. With the increased spending, the German economy could finally gain enough steam to propel out of its persistently sluggish performance. Such development had dominated sentiments despite Trump's trade policy, especially on automobiles, which would negatively impact Germany's manufacturing and auto exports. Considering its position as the Eurozone's largest economy, the upbeat outlook had brightened the broader regional growth prospects and may soften the blow from the U.S. tariffs. On a YTD basis, the Euro rose by 4.5% against the USD.

- Looking ahead, we expect the EUR to remain supported in the near term, buoyed by an improving economic outlook and persistent inflationary pressures that may delay ECB easing. The backdrop of rising German Bond yields, coupled with declining U.S. Treasury yields, should also provide relative support for the EUR, narrowing transatlantic yield differentials and enhancing the EUR's appeal to investors. Additionally, sentiment has been lifted by Germany's landmark defense spending bill, which signals a commitment to long-term fiscal expansion and economic revitalization. Increased government investment, particularly in sectors like defense and infrastructure, is expected to bolster domestic demand, further anchoring support for the EUR. In the absence of further aggressive U.S. trade actions, we foresee upward bias for the euro to persist. While increased fiscal spending leading to economic expansion should be positive for the EUR, there remain risks over how the fiscal expansion can be funded and if there might be loss of confidence from the increased borrowing. If growth in the eurozone disappoints significantly, the ECB could be forced to ease monetary policy earlier or more aggressively than expected, which would put renewed downward pressure on the EUR. As such, while the near-term outlook remains constructive, the medium-term trajectory will depend heavily on how economic growth and fiscal credibility evolve amid shifting global dynamics.

Chart 2: EURUSD vs. Key Interest Rates, %



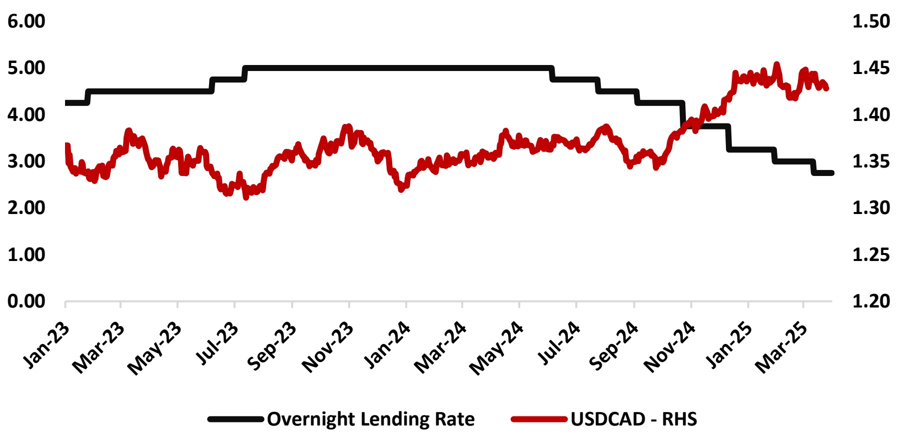
Sources: European Central Bank (ECB), Bloomberg, Bank Islam

USDCAD Strengthened On The Back Of USD's Weakness

- The Canadian Dollar (CAD) rose by 0.5% m-o-m in March as the scales tipped in favour of the note despite weights looming over both ends. On the domestic front, the Bank of Canada (BoC) had delivered another 25bps cut to reduce its key interest rate to 2.75%, bringing the cumulative cuts to 225bps since the start of its easing cycle in June last year. Nevertheless, markets pared back their rate cut expectations as headline inflation in February beats estimates, surging to 2.6% (Est: 2.2%) in the strongest reading since June 2024. Similarly, core inflation accelerated by 2.7% in February from 2.1% in January, marking the highest point in fifteen months. Such performance was attributable to the end of goods and services tax (GST) and harmonized tax (HST) breaks halfway through the period, the effects of which the BoC expects to slow gradually. Furthermore, price on the factory front also proved to be persistent as it accelerated, albeit at a slower pace, in February (+4.9% y-o-y, Jan: +5.9% y-o-y). On the other hand, the U.S.' trade policies also weighed in on the CAD's ride as it slid following the end on the month-long pause, which marked the implementation of the 25% levies on all Canadian imports to the U.S. However, Trump had granted an exemption to imports complying with the 2020 USMCA agreement. Rather than providing solace to the economy, this added to the uncertainties surrounding the trade environment as it became harder to gauge Trump's direction. In addition, he also threatened to double the 25% tariffs placed on Canadian metals in reaction to the electricity surcharge imposed on certain American cities, before the decision was revoked hours after. Such scenario had been cautioned by the BoC where it noted the strength of the economy but expected slowdowns in consumer confidence, investment expectations and economic growth stemming from the heightening trade conflict with the U.S. Despite the hurdles, the inconsistencies ultimately resulted in risk-off caution against the USD, causing it to depreciate and in turn, lifted the CAD.

- Moving forward, we view the risk-sensitive CAD to be vulnerable to further weakness amid escalating tariff-related developments. While the currency had ended strong on upbeat sentiments following the 'Liberation Day' as Canada faced no fresh tariffs, the trade war is far from over. The Canadian government had promised retaliatory actions with Prime Minister Carney stating a matching countermeasure to U.S.' auto tariffs, which could spark a more aggressive round of back and forth with the U.S. The job market had also displayed the early signs of cooling as uncertainties weighed on firms with the economy marking the first employment decline since January 2022 (Mar: -33K; Feb: +1.1K) while unemployment rate ticked up to 6.7% from February's 6.6%, emphasizing the shaky footing the economy stands on. Any further disruption could cause more harm to the job market and economy. Furthermore, CAD faces downward pressure in the near term on political uncertainty ahead of the national snap elections on 28th April. Thus far, polls show a close race between the Conservative and Liberal parties.

Chart 3: USDCAD vs. Overnight Lending Rate, %



Sources: Bank of Canada (BOC), Bloomberg, Bank Islam

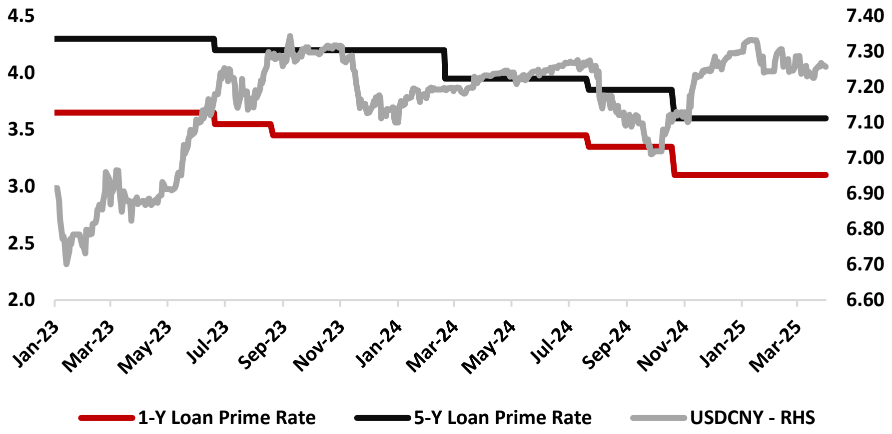
The Chinese Yuan Appreciated By 0.3% m-o-m On Proactive Fiscal Stimulus Amid Unfolding Trade Risks

- In China's annual 'two sessions' earlier in the month, the government remained steadfast in anticipating the economy to expand at around 5.0% in 2025, centering domestic demand as the top focus of the administration moving forward. Facing hurdles on the external front, China shifted focus to boost consumer spending with measures including 1) pledging more robust fiscal stimulus with a record budget deficit announced of around 4% of GDP in 2025, 2) easing credit constraints and 3) stimulating diversified consumption. As such, the government issued a net CNY2.4 trillion in bonds in the first two months of the year, significantly higher than CNY1.0 trillion issued in the same period last year. The rapid front-loading further highlighted China's commitment to meet the target set at the National People's Congress, leading to rising yields which in turn supported CNY's appreciation. Nevertheless, there seemed to be a long way to go as its sluggish consumption and cooling job market concerns plagued the markets. Of note, consumer prices declined by 0.7% y-o-y in February (Jan: 0.5% y-o-y), marking the first deflation in thirteen months, which calls for higher spending under the "more proactive fiscal policy". Furthermore, the deflation opens room for the People's Bank of China (PBoC) to cut rates, taking cues from the central bank's remarks of lowering rates and its reserve requirement ratio to support the sluggish economy which would strip away the CNY's defense. Previously, the PBoC held rates steady for the fifth straight month in March, maintaining the one-year Loan Prime Rate (LPR) at 3.1% and the five-year LPR at 3.6%, aligning with market expectations.

- On the foreign trade front, the 20% tariffs on Chinese goods went into effect on 4th March but China quickly retaliated with levies of up to 15% on selected American farm products. U.S.' steep tariffs are widely feared to significantly impact China's exports and drag economic growth, which was apparent as sentiments soured even before the implementation. Exports in February dipped into the red zone, contracting by 3.0% from January's 6.0% y-o-y growth, as softer than expected external demand outweighed any potential front-loading. Following China's countermeasures taking effect on 10th March, CNY rose modestly as markets cautiously rallied behind the solid move. On another development, Trump had stated that he will reconsider lowering tariffs on China to ease the way for a sale of the U.S. TikTok operations to an American company. This refers to the looming 5th April deadline, which Trump had previously extended (Trump granted another 75-day extension to the ban on 4th April), requiring ByteDance to sell TikTok to an American company to continue its operations. The last-minute announcement had provided one last boost to CNY, and the note closed 0.6% YTD higher than the USD.

- In the face of these headwinds – ranging from household consumption struggling to gain traction to mounting risks on the external front amid China brandishing its trump card – the CNY will likely remain volatile in the near term. Despite the illusion of renegotiation, China was hit with more aggressive trade policies on the U.S.' 'Liberation Day', another 34% on top of the aforementioned 20%. In a rapid escalation of the trade war, China then imposed a matching rate on all American imports starting 10th April while adding some 27 American firms to the list of companies subjected to sanctions and export controls. However, the move that sent markets into a flurry was the export controls on rare earth minerals, key materials in high-tech products. Considering its position as the world's top rare earth exporter, this move would be highly detrimental to U.S. manufacturers, prompting Trump to fire back with threats of an additional whopping rate of 50% on Chinese imports. We do not expect the year-to-date consolidation of USDCNY between 7.25 and 7.33 to persist much longer, especially where additional tariff rate on Chinese goods into US has escalated to a punitive combined tariff rate of 54%. As such, the trajectory of USDCNY will largely hinge on how this trade war will unfold further – whether there is room for reconciliation or if the ship had fully sailed.

Chart 4: USDCNY vs. Loan Prime Rates (LPR), %



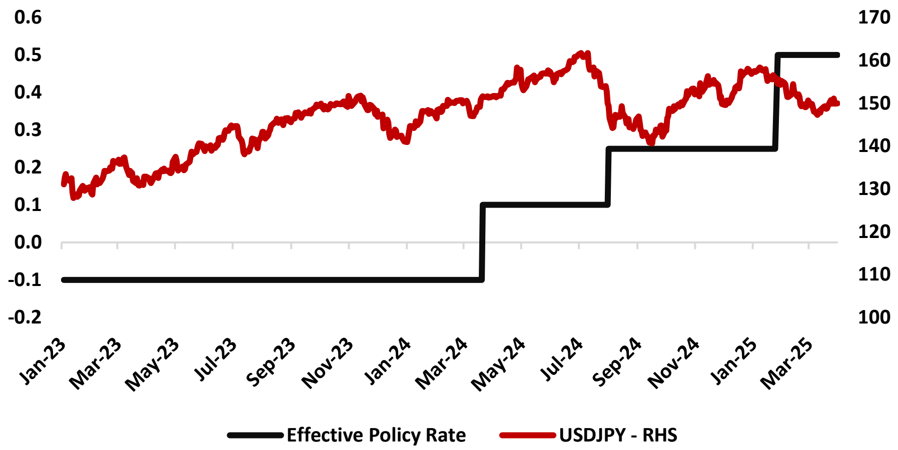
Sources: People's Bank of China (PBoC) Bloomberg, Bank Islam

The Japanese Yen (JPY) Ticked Up By 0.4% m-o-m Against The USD Amid Heightened Rate Hike Hopes

- The Bank of Japan (BOJ) stayed pat on its policy tightening path in March, as widely anticipated, by maintaining its key interest rate at 0.5% to assess the impact of its previous hikes as well as the global economic risks on its economy. Nonetheless, in its summary of opinions, the central bank noted the sustained expansion of private consumption and persistent cost pressures, a recipe for higher rates that had markets cautiously betting on more hikes this year. Despite measures of inflation slowing down in February relative to the highs in the month before, they remain elevated. Of note, headline inflation clocked in at 3.7% in February from the two-year high of 4.0% in January, underpinned by still hot food prices (Feb: 7.6%; Jan: 7.8%), while core inflation (Feb: 3.0%) ticked down from the nineteen-month high of 3.2%, supported by the resumption of energy subsidies. Stripping away fresh food and fuel costs, core-core inflation rose at the fastest pace in eleven months (Feb: 2.6%; Jan: 2.5%). On the labour market front, Japan's largest umbrella group for unions reported that its members had secured pledges from companies for a 5.5% wage hike to mark the strongest gain in 34 years, which would sustain the households' spending momentum. As such, the solid economic indicators had lifted Japanese Government Bond (JGB) yields, fueling the strengthening of the JPY. Considering the favourable landscape back home, the economy has some breathing room while facing external headwinds. Such support is vital as Japan's key automobile sector is held at stake in the trade conflict in face of the U.S.' 25% auto tariffs. According to Japan's Automobile Manufacturers Association, auto-related firms employ up to 5.58 million workers, a significant cost to pay should demand plunge worse than expected which leads to lower production volume, lower productivity and possible layoffs. On a YTD basis, the JPY climbed by 4.8% against the USD.

- We continue to expect the BOJ to implement two rate hikes in 2025, each by 25 bps, bringing the policy rate to 1.00% by year-end. Our conviction is underpinned by persistently high inflation readings and a resilient labor market, both of which suggest the BOJ has further room to tighten monetary policy. The strength of recent economic data—especially firm core inflation and accelerating wage growth—adds to the case for continued policy normalization after years of ultra-loose conditions. In this context, we maintain a constructive view on the JPY. Over the medium term, the currency should gain ground, supported by either a risk-off environment or a more synchronized global policy shift. In scenarios of heightened geopolitical or trade tensions, safe haven flows and declining U.S. Treasury yields would bolster JPY demand. On the other hand, if global conditions stabilize, the BOJ's tightening cycle—especially if accompanied by U.S. Federal Reserve rate cuts—should provide further tailwinds to the yen. That said, risks remain. The recently announced 24% reciprocal tariff on Japanese imports to the U.S., alongside existing auto sector tariffs, poses downside pressure on Japan's trade outlook and sentiment. While the narrowing yield differential supports JPY appreciation, any sharp deterioration in global demand or Japan's domestic economy could shift the narrative. A sustained economic slowdown would likely undermine confidence in the BOJ's tightening trajectory, reduce foreign investment inflows, and reverse JPY gains.

Chart 5: USDJPY vs. Effective Policy Rate, %



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

The Ringgit Gained Grounds As The USD Slipped From Its Highs

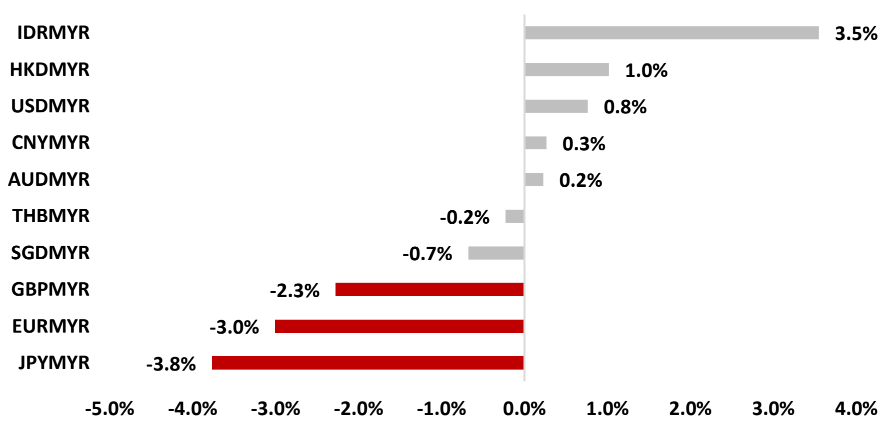
- The local note appreciated by 0.5% m-o-m against the greenback as the USD index hovered just above the 104-level. As the global trade conflict intensified further, risk averse investors began fleeing the U.S. markets as Trump's protectionist policies proved to be wreaking havoc on the economy instead as uncertainties mounted from his aggressive moves and reversals. As such, the USD had weakened by 4.7% from the day of his inauguration to month-end March. Meanwhile, Malaysia's steady economic fundamentals bolstered some confidence. Household spending remained robust as retail trade sales marked the fastest acceleration since May 2024 (Jan'25: 8.2% y-o-y; Dec'24: 5.4% y-o-y) while wholesale trade sales expanded by 4.9% y-o-y in the same month (Dec'24: 5.7% y-o-y), signalling healthy sentiments among domestic consumers. Such upbeat momentum was underpinned by a tight job market, with the unemployment rate steadying at 3.1%, alongside moderate inflation as headline inflation edged down to 1.5% y-o-y in February (Jan: 1.7% y-o-y) despite core inflation ticking up to 1.9% y-o-y in the same month (Jan: 1.8% y-o-y). Based on Bank Negara Malaysia's Annual

Report 2024, Malaysia's economy is estimated to expand by 4.5-5.5% in 2025, driven by strong private consumption and private investment momentum. Mirroring the view, markets remained optimistic of the Malaysian economic outlook, lending boost to the local note.

- This had offset the drags stemming from the foreign fund outflows recorded in the local equity and bond markets in March, totalling RM4.6 billion and RM1.1 billion, respectively. Notably, the equity market bore the brunt of the rocky global trade risks as investors err on the side of caution, resulting in the sixth consecutive month of net foreign outflows. On the foreign trade front, as of March, Malaysia has yet to be targeted with the new round of U.S. trade policies. As such, its exports jumped by 6.2% y-o-y in February (Jan: 0.3% y-o-y) while export-oriented manufacturing output increased by 5.6% (Jan: 6.8%), possibly due to front-loading activities in anticipation of the coming tariffs. Nevertheless, Trump had unveiled 24% reciprocal tariffs in early April, potentially weakening external demand and dragging growth. On a YTD basis, the Ringgit had appreciated by 0.2% against the USD.

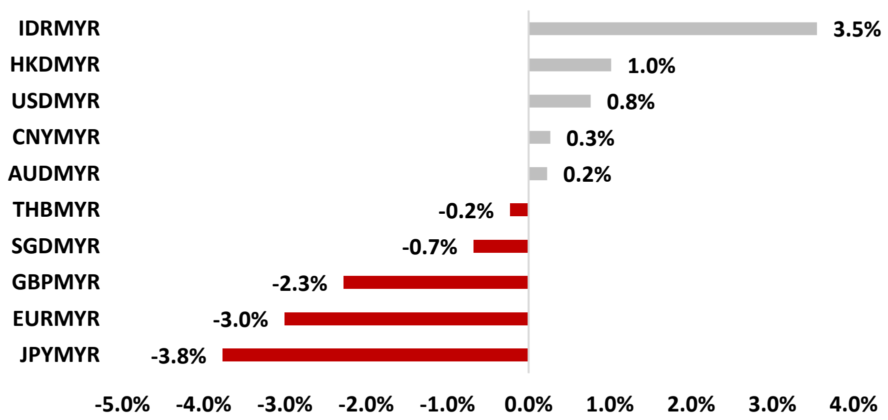
- Moving forward, the MYR's trajectory in the coming months will largely be steered by the global trade developments. While the domestic outlook remained sound, evolving risk sentiments could easily tip in any direction. Thus far, the Liberation Day tariffs had sparked fears of a recession in the U.S. which reinforced Fed rate cut hopes, exerting downwards pressure on the USD. However, the U.S. economy had proven before to be resilient and outpaced estimates, which is a turn that could happen with the remaining months down the line. Furthermore, as Trump begins negotiations with some affected trade partners, there may be a few reversals or reductions on the horizon, dialing back the recessionary fears. On the other hand, countermeasures – such as China's and Canada's equal retaliation – could intensify the trade war, adding to the odds of a global recession. External developments including those related to the US and China look like it would continue to be the main driver for the MYR. As such, we remain cautious on the MYR outlook, albeit foreseeing the local note to rebound stronger in 2H2025 as conditions restabilize.

Chart 6: MYR Against Regional Currencies, m-o-m% (as of 31 March 2025)



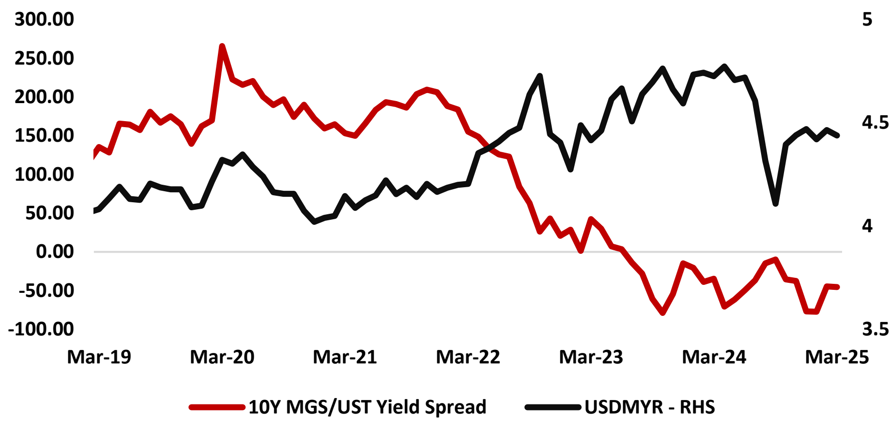
Sources: Bank Negara Malaysia (BNM), Bloomberg, Bank Islam

Chart 7: MYR Against Regional Currencies, YTD% (as of 31 March 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 continued market volatility as global trade tensions escalate in the aftermath of Trump's so-called 'Liberation Day' tariffs. These sweeping measures have triggered a wave of reactions from affected trade partners, ranging from retaliatory tariffs to renewed calls for negotiation. Although the Trump administration has signaled some willingness to revisit its trade stance, the lack of clarity and the unpredictable trajectory of talks are likely to sustain uncertainty in the markets for the foreseeable future. The situation has intensified with China's latest move to impose a 34% matching tariff on all American imports effective 10th April, alongside fresh export restrictions on rare earth elements—critical materials for U.S. manufacturing. In a swift response, Trump threatened to raise tariffs on Chinese goods by an additional 50%, effective a day earlier, effectively shutting down the window for negotiations. This tit-for-tat escalation between the world's two largest economies is casting a shadow over global trade, with investors bracing for broader economic fallout. As cost pressures rise under the weight of these tariffs, recession risks in the U.S. are mounting. JP Morgan has revised its U.S. recession probability upward to 60%, from 40% previously, while Goldman Sachs has similarly raised its forecast to 45% from 35% before. With fears of a downturn intensifying, market expectations have shifted sharply toward a more accommodative stance from the Federal Reserve, with growing consensus around at least two 25bp rate cuts by year-end. This has already started to weaken the USD, especially as the Fed pivots to support growth. Nevertheless, should the countermeasures be overwhelmingly against the U.S. or the renegotiations succeed, we may see Trump dialling back the steep tariffs.

- In this environment, we expect the MYR to remain relatively resilient. While global uncertainties may spark short-term volatility, Malaysia's solid economic fundamentals—including robust domestic demand, healthy external balances, and sustained fiscal discipline—should act as key anchors for the ringgit. Additionally, as the USD softens in response to potential Fed easing and trade-driven recession fears, regional currencies like the MYR are likely to benefit. Malaysia's status as a diversified trade player with strong ties to ASEAN, China, and other major economies could help buffer the worst of the trade fallout. Moreover, a relatively stable inflation outlook and steady monetary policy guidance from Bank Negara Malaysia (BNM) should further support currency stability in the months ahead. Overall, while we acknowledge the fluidity of the situation, we maintain our view for two Fed rate cuts by year-end, with a downside bias on the greenback. Against this backdrop, the ringgit is well-positioned to hold firm amid a turbulent global backdrop.