Thematic

11 April 2025

Global Economics & Market Strategy

Pathfinder 2Q25 Addendum: Tariff Fears = Risks to Growth

- **Our key conviction is for US tariff risks to escalate into 2H25. Market-watchers' relief may be short-lived should our view for US universal tariffs to increase by another 10% (to a total of 20%) materialise in 2H25. We do not discount further downside bias for US equities of another 5 – 10% in the current quarter.**
- **US stagflation risks are elevated at this point. We view US GDP growth to expand at merely 1.5% in 2025, with downside risk towards 1.0%. We downgrade ASEAN's growth to average 3.5% in 2025, against 2024's expected growth of 4.5%.**
- **We keep our asset allocation strategy to be overweight fixed income, market-weight equities, and underweight cash. We pencil three US Fed Funds Rate (FFR) cuts in 2025, with the first cut to materialise in June 2025.**
- **We revised ASEAN's economic outlook for 2025. Malaysia's GDP growth forecast is downgraded to 4.5% from 5.0%, with risks skewed towards 3.5%–4.0% if tensions escalate. Singapore's forecast is revised to 2.0% from 2.8%, and Thailand's to 2.0% from 2.5%, with downside risks between 0.5% and 1.0%. Indonesia's growth projection has been adjusted to 4.5% from 4.9%.**
- **We revise our DXY forecast lower to 101.5 in view of lower GDP growth target and signs of fading long dollar positioning. We maintain our call for ringgit to end the year at circa-4.20 on the back of decent fundamentals and continued expectations for Fed to cut its rate will provide support for the MYR.**

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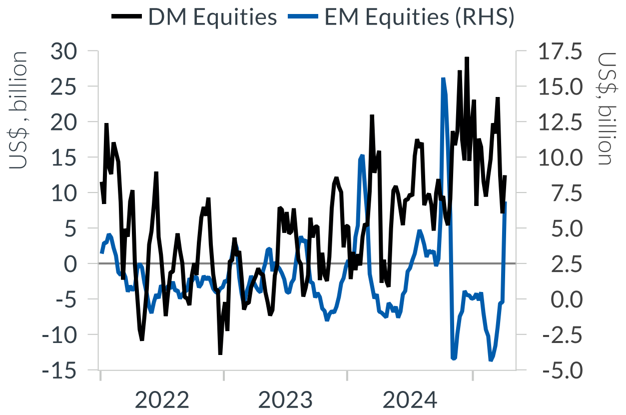
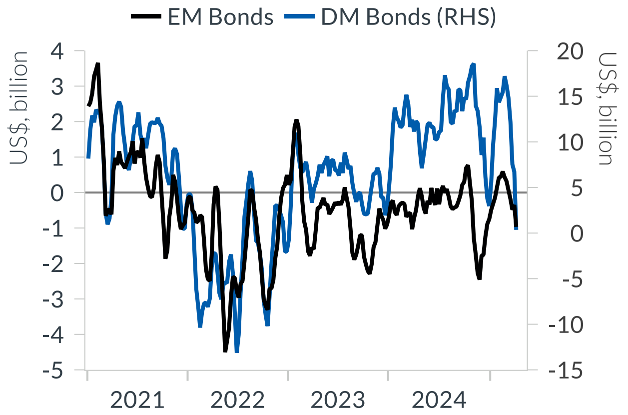
Figure 1: Investors will continue to sell off global equities due to recessionary fears…



Source: Macrobond, RHB Economics & Market Strategy,

Figure 2: … while bonds are not spared, rate cuts into year-end may inject positive price returns



Source: Macrobond, RHB Economics & Market Strategy

Figure 3: RHB government bond yield forecasts versus Bloomberg consensus forecasts

	RHB Forecasts				Bloomberg Consensus			
10Y Govt Bond %	2Q25F	3Q25F	4Q25F	2026F	2Q25F	3Q25F	4Q25F	2026F
United States	4.00	3.90	3.80	3.00-3.50	4.29	4.28	4.26	4.13
Malaysia	3.75	3.75	3.75	3.75	3.80	3.78	3.73	3.68
Singapore	2.60	2.50	2.40	2.30	2.74	2.70	2.62	2.56
Indonesia	6.88	6.74	6.61	6.35	6.81	6.74	6.60	6.40
Thailand	2.22	2.21	2.01	2.00	2.32	2.32	2.30	2.35

Source: Bloomberg, RHB Economics & Market Strategy

Figure 4: RHB USD/Asia forecasts versus Bloomberg consensus forecasts

	RHB Forecasts					Bloomberg Forecasts			
G10 FX	1Q25	2Q25F	3Q25F	4Q25F	2026F	2Q25F	3Q25F	4Q25F	2026F
DXY	104.3	103.5	102.5	101.5	100.0	107.6	106.6	104.1	101.7
EUR-USD	1.081	1.092	1.107	1.123	1.146	1.080	1.080	1.100	1.120
USD-JPY	150.6	149.0	146.8	144.7	141.6	148.0	146.0	144.0	140.0
GBP-USD	1.292	1.295	1.306	1.318	1.335	1.280	1.290	1.300	1.330
AUD-USD	0.629	0.615	0.622	0.629	0.639	0.630	0.640	0.640	0.680
NZD-USD	0.573	0.560	0.566	0.572	0.582	0.570	0.570	0.580	0.600
AXJ FX	1Q25	2Q25F	3Q25F	4Q25F	2026F	2Q25F	3Q25F	4Q25F	2026F
USD-CNH	7.267	7.348	7.313	7.277	7.223	7.350	7.400	7.350	7.240
USD-IDR	16,555	16,811	16,779	16,746	16,697	16,600	16,500	16,500	16,000
USD-MYR	4.440	4.455	4.370	4.286	4.161	4.480	4.460	4.400	4.360
USD-SGD	1.339	1.342	1.326	1.310	1.286	1.350	1.360	1.350	1.330
USD-THB	34.01	34.31	34.13	33.94	33.66	34.60	34.50	34.60	33.40
USD-VND	25,648	25,879	25,748	25,615	25,416	25,775	25,725	25,675	25,390

Source: Bloomberg, RHB Economics & Market Strategy
Note: The above forecasts are indicative for the end of the quarter

Figure 5: RHB real GDP growth forecasts versus Bloomberg consensus forecasts

RHB Real GDP Growth Forecasts					Actual / Bloomberg Consensus				
% YoY	2023	2024	2025F	2026F	% YoY	2023	2024	2025F	2026F
US	2.9	2.7	1.5	2.0	US	2.9	2.7	2.2	2.0
W. Europe	1.1	1.0	0.5	1.5	W. Europe	1.1	0.8	1.1	1.4
Japan	1.7	0.0	0.8	1.1	Japan	1.7	-0.2	1.2	0.9
China	5.4	5.0	4.0(-)	4.6	China	5.4	5.0	4.5	4.2
ASEAN					**ASEAN**				
Indonesia	5.1	5.0	4.5	5.0	Indonesia	5.1	5.0	5.0	5.1
Malaysia	3.6	5.1	4.5	4.9	Malaysia	3.6	5.1	4.7	4.6
Singapore	1.8	4.4	2.0	2.6	Singapore	1.8	4.4	2.6	2.3
Thailand	2.0	2.5	2.0	2.6	Thailand	2.0	2.5	2.8	2.7

Source: Bloomberg, RHB Economics & Market Strategy

Figure 6: RHB CPI inflation forecasts versus Bloomberg consensus forecasts

RHB CPI Inflation Forecasts					Actual / Bloomberg Consensus				
% YoY	2023	2024	2025F	2026F	% YoY	2023	2024	2025F	2026F
US	4.1	2.9	3.5	2.5	US	4.1	2.9	2.9	2.6
W. Europe	5.7	2.3	2.2	2.1	W. Europe	5.7	2.3	2.2	2.0
Japan	3.3	2.7	2.5	2.0	Japan	3.3	2.7	2.6	1.9
China	0.2	0.2	1.0	1.5	China	0.2	0.2	0.6	1.2
ASEAN					**ASEAN**				
Indonesia	3.7	2.3	2.0	2.5	Indonesia	3.7	2.3	2.1	2.7
Malaysia	2.5	1.8	2.2	2.3	Malaysia	2.5	1.8	2.4	2.3
Singapore	4.8	2.4	1.6	1.8	Singapore	4.8	2.4	1.6	1.8
Thailand	1.3	0.4	1.4	1.6	Thailand	1.3	0.4	1.1	1.2

Source: Bloomberg, RHB Economics & Market Strategy

Figure 7: RHB policy interest rate forecasts versus Bloomberg consensus forecasts

RHB Policy Rate Forecast					Actual / Bloomberg Consensus				
%	2023	2024	2025F	2026F	%	2023	2024	2025F	2026F
US	5.50	4.25 - 4.50	3.50 - 3.75	3.00 - 3.25	US	5.50	4.55	4.05	3.60
W. Europe	4.50	3.25	2.00	2.00	W. Europe	4.50	3.00	2.35	2.30
Japan	0.00	0.25	1.00	1.00	Japan	0.00	0.30	0.90	1.00
China	3.45	3.10	2.00	2.60	China	3.45	3.10	2.75	2.60
ASEAN					**ASEAN**				
Indonesia	6.00	6.00	5.00	4.50	Indonesia	6.00	6.00	5.30	5.10
Malaysia	3.00	3.00	3.00	3.00	Malaysia	3.00	3.00	3.05	3.05
Thailand	2.50	2.25	1.50	1.75	Thailand	2.50	2.25	1.90	1.75

Source: Bloomberg, RHB Economics & Market Strategy

Scenarios Again – What Can We Expect

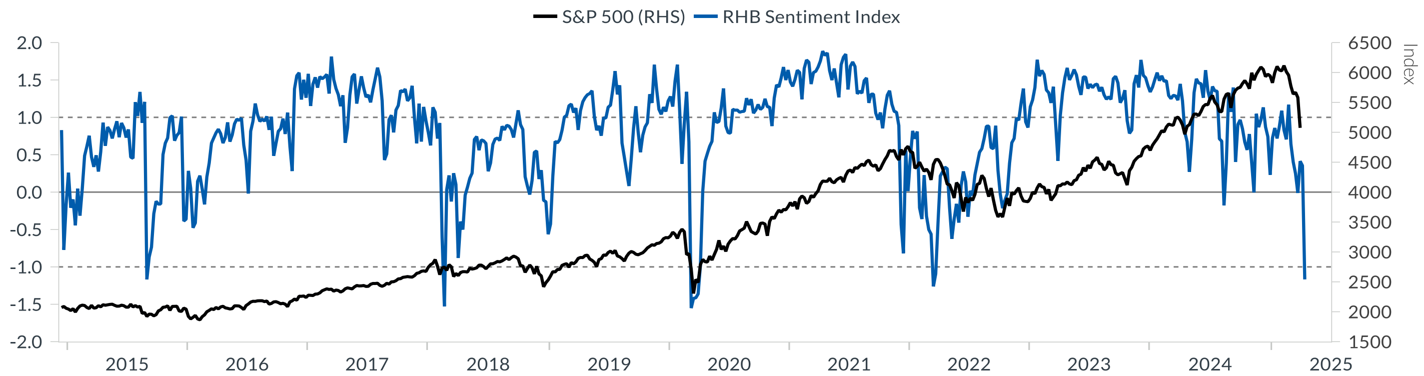
Our key conviction is for US tariff risks to escalate into 2H25. Market-watchers' relief may be short-lived should our view for US universal tariffs to increase by another 10% (to a total of 20%) materialise in 2H25. We do not discount further downside bias for US equities of another 5 – 10% in the current quarter. Given the uncertainties of the matter, we pencil three scenarios we think could occur and their probabilities. Suffice it to say, our scenarios paint a relatively cautious outlook – we pencil 55% probability for our base case view against a relatively sizeable likelihood (40%) for the bad case, with only a small probability (5%) for a good scenario to occur.

Figure 8: Scenario Analysis – Keeping your nose clean, but is it enough?

	Bad - Look Down (40%)	Base - Clean Nose (55%)	Good - Thumbs Up (5%)
Tariffs	- Universal Tariffs 10% in 2Q25 - Higher reciprocal tariffs 2H25 - Tariffs to China > 145% - China: 125% tariff on US goods	- Universal Tariffs 10% in 2Q25 - Universal Tariffs 20% in 2H25 - Tariffs to China = 145% - China: 125% tariff on US goods	- Universal Tariffs 10% in 2Q25 - No tariffs in 2H25 - No tariffs on China - China: 0% tariff on US
Asset Allocation Strategy	Safe haven is king; UW equities and bonds	OW fixed income; MW equities; UW cash	OW equities; MW fixed income; UW cash
United States	Growth slows to 0 - 1%, biased towards downside	Growth slows to 1.0 - 1.5%, balanced risks	Steady growth around 2 - 3%, biased towards top-point
China	Negative domestic conditions intensify; growth to slow to < 3.0%; China dumps US treasuries, limit rare earth exports	Engages supportive monetary conditions, growth slows to 4.0 - 4.5%	Domestic conditions improve drastically, growth accelerates > 5.0%
ASEAN	US tariffs intensify on ASEAN economies which trades with China; labelled as a China-supply route	No increase tariffs on ASEAN trade with China. Losers Indonesia, Vietnam	Status quo growth potential, strong external trade. Winners include Vietnam, Malaysia & Singapore
Global Inflation	Severe supply chain congestions; consumer prices surge extensively across the globe	Moderate supply chain congestions lead US inflation higher; ASEAN prices turn soft on lower commodity prices	Status quo inflation potential, Brent oil to average US$70 - 80 per barrel, stable food prices on favourable weathers
Global Interest Rates	Global central banks race to cut rates to support growth and labour conditions. FFR down 125bps (five cuts)	FFR down 75bps (three cuts). BNM keeps rate unchanged, BOT and BI cuts 2 - 3 times	FFR down 50bps (two cuts). Less rate cuts across ASEAN given stable price conditions
Currency Trend (End 2025)	DXY plummets < 100. Fund flows exit global markets, cash is king. Gold prices surge to US$3,800/oz	DXY stabilisesat 101 - 102 handle. Fund flows improve into US+ASEAN, negative for China	DXY surges > 105. Fund flows improve into US shores, positive for China

Source: RHB Economics & Market Strategy

Figure 9: RHB proprietary sentiment index, which leads S&P by two weeks, is suggesting further risk-taking behaviour



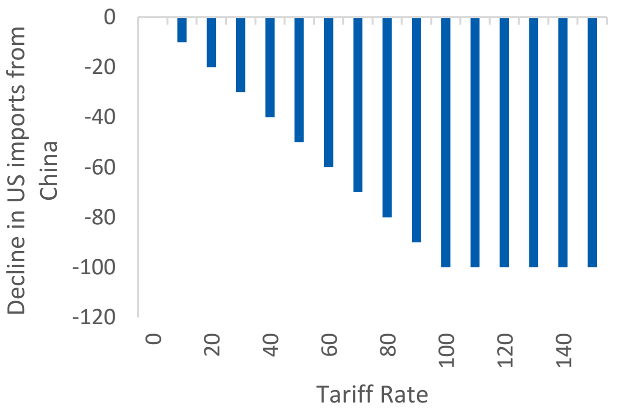
Source: RHB Economics & Market Strategy

Base case – Clean Nose

In our base case, we expect global policymakers (ex-China), especially those with trading relations with the US, to "keep their nose clean" – to behave well and stay out of trouble. Global policymakers' initial eagerness to reach an agreement with the US has us believing that the policy strategy to negotiate may be the preferred approach. Reinforcing the message, US President Donald Trump's warning – "Do not retaliate and you will be rewarded" – was met with the White House's move to remove all reciprocal tariffs, and in place of, a universal tariff of 10% against rest-of-the-world (ROW) imports while lifting tariffs on all Chinese imports to a 145% rate.

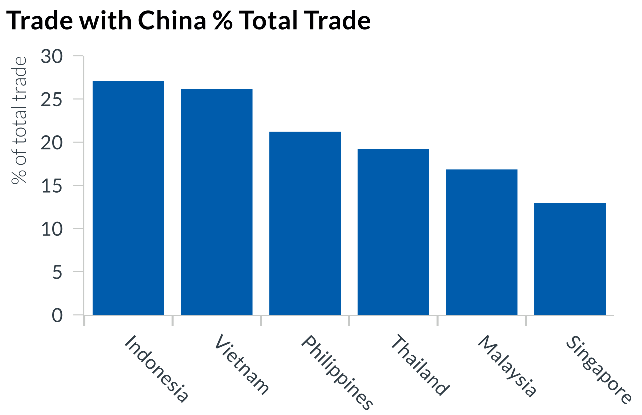
The next 90 days will be crucial. Investors will likely stay glued to their phones and anticipate the next shock. For now, recessionists will be disappointed; global recession risks have diminished sharply to our view of around 20 – 30%. Wall Street's plummet may have worried US leaders, which means further negative policy shock to take the backstage to prevent further sell-off. Some early recovery in equity valuations should then materialise, with it, a cautious step-up in global risk-taking appetite. Investors will appreciate the relative calm in the next three months – the fewer policy shocks one feels, the stronger risk appetite could recover. Separately, in China, any tariff rates above 100% make little sense to stay increasingly worried. There is a statistical limit to how much US demand for Chinese goods declines after a certain tariff rate.

Figure 10: There is a limit of declines in US imports from China against tariff rates (assuming elasticity = 1)



Source: Macrobond, RHB Economics & Market Strategy

Figure 11: Indonesia and Vietnam to be key losers, given the higher trade exposures to China % total trade



Source: Macrobond, RHB Economics & Market Strategy

We do not think the calm could persist post 90 days. Our key conviction is for universal tariffs to be lifted to 20% after the postponement duration, likely effective early July 2025. We recall President Trump's election message, which cited a 20% ROW tariff as one of his core rhetoric. Should our expectations turn to reality, it suggests that investors must act now. Hence, we continue to keep our asset allocation strategy to overweight (OW) fixed income, market-weight (MW) equities, and under-weight (UW) cash. We think a sell on rally on global equities may be prudent first steps in 2Q25 while slowly bulking up on quality fixed income and safe havens over the same period. We do not discount further downside bias for US equities of another 5 – 10% in the current quarter.

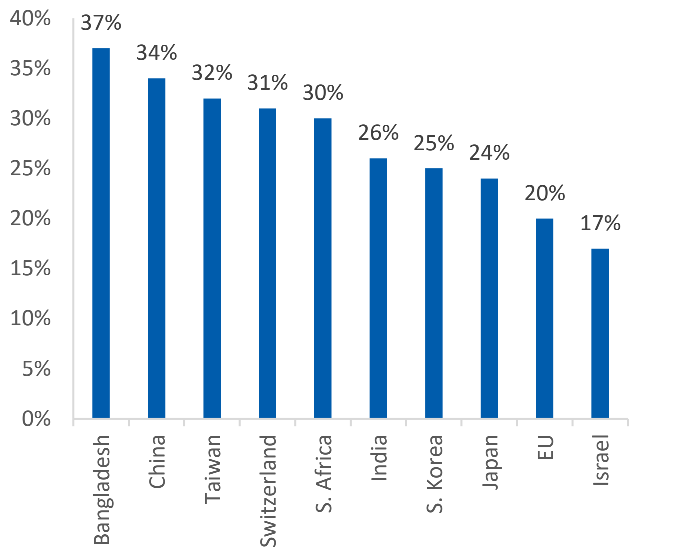
The scenario also illustrates a moderate slowdown in global economic growth, starting with the United States. With balanced risks, we view US growth to slow to 1.0 – 1.5% in 2025. Based on supportive monetary conditions, we downgrade China's growth to 4.0 – 4.5%. Across Asia, we do not see the US engaging in restrictive policies against ASEAN's trade with China – but China's growth slowdown will mean losers to be Indonesia and Vietnam based on trade exposures. US inflation will lift to around 3.5%, with the balance of risk as high as 5.0%.

For asset classes, we think safe haven assets will be keenly yearned – gold prices may continue to rise to US$3,500/oz into the year, while UST 10Y yields around 3.8 -3.9% in 4Q25. We pencil in three US Fed Funds Rate (FFR) cuts in 2025, modelled by our modified Taylor's Rule formula on the assumption that the US GDP output gap will turn negative in 2H25. The relative calm in 2Q25 may mean DXY to rally back to around 103 in 2Q25, while swap price discount towards 3 FFR cuts (currently around 4 – 5x) will mean DXY to rally towards 101.5 by year-end.

Bad case – Look Down

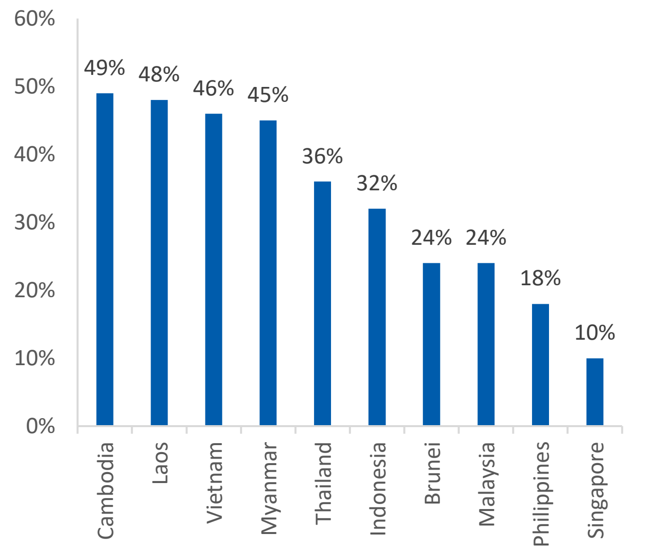
Given policy uncertainties and subsequent retaliation risks, we pencil a hefty 40% probability to our bad case scenario – we think risks are magnified at this juncture. In this scenario, we believe ASEAN leaders' move to stay in line with US demands may not mean reprieve – we pencil a revisit of reciprocal tariffs on ROW in 2H25, similar or higher to the rates introduced on US Liberation Day. Separately, China lifts import tariffs on all US imports to 145%, matching US tariff rates, with the Middle Kingdom engaging in extraordinary retaliatory measures such as threatening to dump US treasury holdings or cutting rare earth exports.

Figure 12: Reciprocal tariff rates announced on Liberation Day against Global + Asia...



Source: Macrobond, RHB Economics & Market Strategy

Figure 13: ... and ASEAN economies have injected severe risk-off sentiments in the past week



Source: Macrobond, RHB Economics & Market Strategy

This scenario suggests that there is no reprieve in risk appetite. China's threat to dump US treasuries and limit rate earth exports may spike US borrowing costs, negatively impact US defence systems, and potentially trigger a global financial recession. A total ban on rare earth materials will have crippling effects on supplies of consumer electronics as well, especially semiconductors and precision engineering, which will send global manufacturing activities to a standstill, lift global electronic prices, and perhaps, send a reality check to international leaders that stagflation leading to a recession is on the cards. Dumping US treasuries will mean UST 10Y yields to spike sharply, lift borrowing costs for the US Federal Reserve, investors, and consumers, and reinforce a recession scenario.

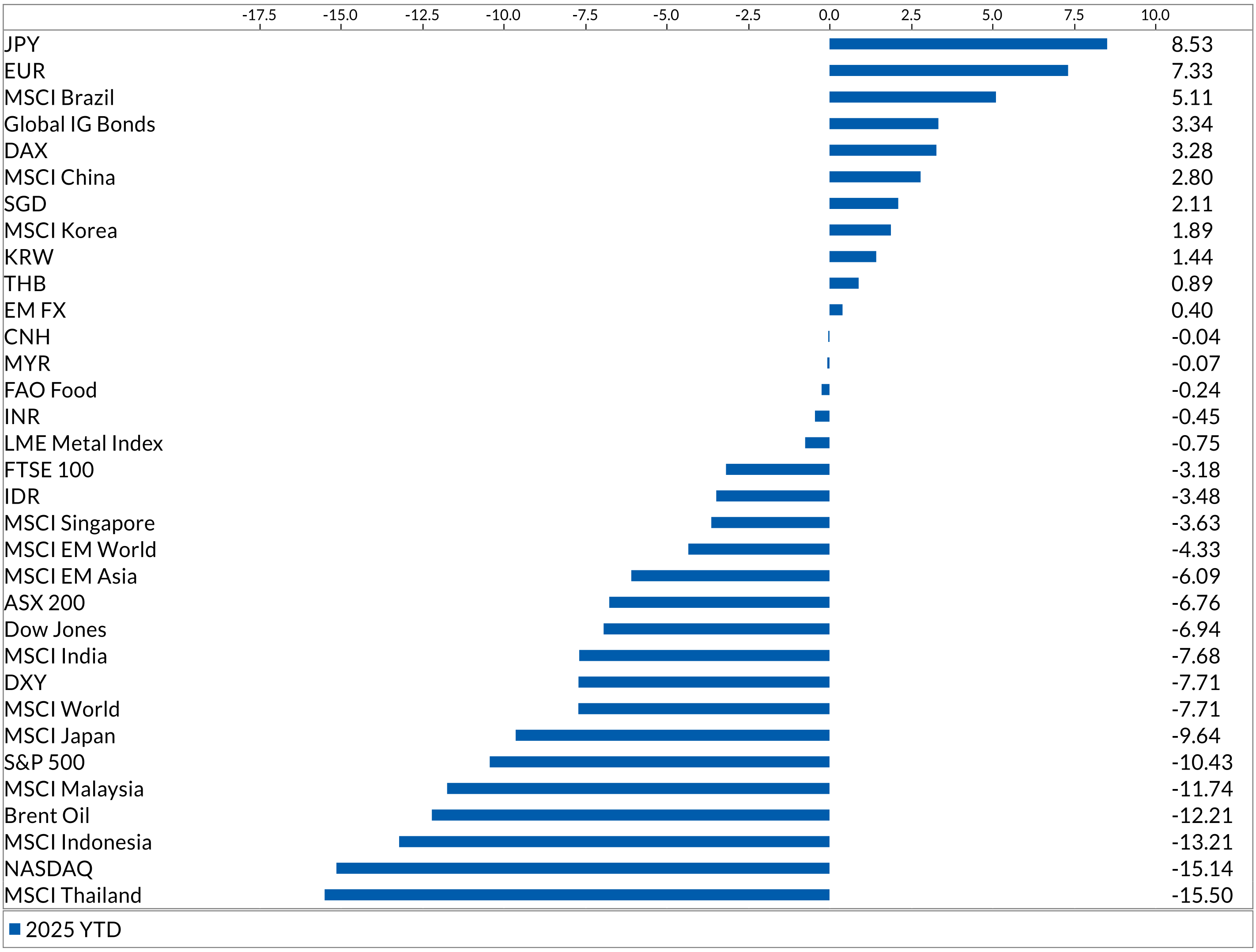
Should these materialise, we think US GDP growth will slow to a range of 0 – 1% in 2025, with the balance of risk to fall below 0%. The sell-off in US treasuries may also negatively impact China's fiscal standing – a plummet in treasury valuation means a severe erosion of China's reserves. As such, China's negative domestic conditions will intensify, especially in the higher debt levels and ailing property market, with GDP growth slowing to below 3.0%. In ASEAN, there will be no winners - to limit China's trade. The US may intensify tariffs on ROW economies, which maintain a trading relation with China, intensifying supply chain congestions and limiting growth activities. Escalation of supply chain congestions may send inflation soaring, especially on final-end goods; commodity prices may plummet due to the absence of manufacturing activities.

The asset allocation strategy for this scenario will be UW equities and bonds, cash is king. Safe haven demand will skyrocket, with gold prices rising to US$3,800/oz with an upside bias for crude oil prices to decline below US$40/bbl. UST 10Y yields will skyrocket towards 6.0%, given China's dumping. DXY will plummet towards 90 on growth risks, while the FFR will be cut by five times, amounting to a 125bps reduction.

Good Case – Thumbs Up

We pencil a very low probability of 5% for a good case. In this scenario, we craft a removal of all trade tariffs implemented since Trump 2.0. The US administration may remove all universal tariffs before the 90 days are up. Similarly, tariffs against China and the subsequent retaliation from the Middle Kingdom will also cease. Should this scenario occur, we advocate a strong risk-taking appetite to capitalise on growth – OW equities, MW fixed income and UW cash. This scenario also pencils a steady GDP growth for the US (~2.0%), ASEAN (~5.0%), and China (>5.0%). Commodity prices will recover, with Brent averaging back to US$70 – 80/bbl with upside risks. Meanwhile, US FFR will be cut by merely 50bps (two cuts), with policymakers re-engaging their goal for inflation to move "towards the path of 2.0%".

Figure 14: Year-to-date returns – US equities plummeted sharply, IG bonds outperforming MSCI World



Source: Macrobond, RHB Economics & Market Strategy

Malaysia: GDP Growth at 4.5% Amid External Headwinds

Given rising external risks and uncertainties, we have revised Malaysia's 2025 GDP growth forecast to 4.5%, down from the previous 5.0%. The balance of risks now leans towards a 3.5%-4.0% growth if trade tensions escalate further. Malaysia's economic outlook is becoming increasingly fluid, influenced by global tariffs and trade relations developments. We expect increased challenges for the trade and manufacturing sectors, particularly from 2Q25 onward, as trade tension intensifies. (For further details, please refer to our latest thematic report *– US Tariff Salvo: Market Risk Aversion to Persist into 2Q25*)

The recent 10% baseline tariff imposed on Malaysia by the United States and the possibility of a 24% tariff after a 90-day suspension place Malaysia as the direct target of US tariff policies. Compounding this is the potential spillover effect from US tariffs on China, which could further strain Malaysia's trade and manufacturing sectors. The 10% US tariff on Malaysian exports could reduce GDP by 0.1%. Additionally, the hefty US tariffs on China and a slowdown in China's GDP (to 4.0% or 3.0%) could lead to a further downside of 0.8% to 1.1% for Malaysia's GDP. In a worst-case scenario, should tariffs rise to 24% after the 90-day pause, Malaysia could face an additional 0.2% to 0.3% GDP contraction on top of the 10% downside.

The impact of slower Chinese demand due to high US tariffs on Malaysia's exports and GDP will likely be limited, with the effect capped at a certain tariff rate. We believe tariffs above 100% are unlikely to cause significant concern as their effectiveness diminishes beyond a certain point. While reduced Chinese demand could lower Malaysia's exports of intermediate and final goods to China and slow growth in export-driven sectors, the overall impact on Malaysia's GDP remains contained. This is because tariffs above 100% have diminishing returns, as there is a statistical limit to how much US demand for Chinese goods declines. Beyond a certain threshold, even with higher prices, demand stabilises as consumers and businesses struggle to find substitutes for essential goods. While high US tariffs may reduce China's exports to the US, leading to potential spillover effects on Malaysia's exports, its diversified trade relationships mitigate the impact on Malaysia. Possible shifts in demand to other markets help cushion these effects. In addition, ASEAN tariffs, including those affecting Malaysia, remain relatively lower than US tariffs on China, which could lead to trade diversions in the medium term, further helping to alleviate downside risks to trade.

We maintain our base-case OPR forecast at 3.00%, assuming GDP growth remains within the current official range of 4.5%–5.5%. The central bank has indicated it will focus on broader economic tools beyond interest rates to mitigate the impact of newly imposed US tariffs. However, if GDP growth falls below 4.0%, with spillover effects on domestic demand and the labour market, we do not rule out a 25 bps OPR cut in 2H25. Downside risks to GDP, manageable inflation, and a lower global interest rate environment strengthen the case for a rate reduction. At this juncture, authorities are reviewing the impact of US tariffs and have placed the 2025 growth forecast of 4.5%–5.5% under assessment. While the central bank is reassessing its outlook, it has stated there is no immediate need for a revision as conditions remain fluid.

Despite headwinds to the economy, we believe the fiscal deficit target of 3.8% of GDP remains attainable for 2025, assuming the orderly implementation of fiscal reforms. Expanding the SST scope, new revenue measures and ongoing subsidy reforms will help narrow Malaysia's fiscal deficit in 2025.

We have downgraded our 2025 inflation forecast to 2.2% (2024: 1.8%) from the previous projection of 2.4%, reflecting the potential slowdown in economic activity by 2H25, as cautious sentiment may weigh on business activity and private consumption. Inflation is anticipated to remain manageable this year, supported by easing global commodity prices and a lack of excessive domestic demand pressures. While local policy measures—such as the retargeting of the RON95 subsidy, the expansion of the SST, and wage-related adjustments—may exert some upward pressure on prices, their overall impact is expected to be limited, provided they are implemented gradually and in an orderly manner. The one-off RON95 fuel price adjustment will likely have a direct impact for only one year as base effects fade. Additionally, the planned SST expansion will mainly affect non-essential food and durable goods, keeping the impact on CPI contained.

Indonesia: Disappointing Retail Sales and External Risk Weigh on Growth

We further downgrade Indonesia's GDP growth forecast for 2025 to 4.5%, down from our previous estimate of 4.9%, with risks skewed to the downside—potentially toward the 3.0–3.5% range—should global trade tensions re-escalate. Three key catalysts underpin our revised growth outlook: (1) weakening external demand due to US tariff policies, (2) deteriorating domestic market sentiment, and (3) delays in the rollout of consumption-driven government initiatives. While there is a temporary pause in the rollout of higher reciprocal tariffs—from the originally proposed 32% to a baseline universal tariff of 10%—we continue to see elevated policy uncertainty under the Trump administration, as the existing plan remains vulnerable to abrupt changes. We anchor our projections to a scenario-based framework, as the global section outlines, to mitigate the need for frequent forecast revisions in response to shifting policy dynamics. This includes a base-case scenario where the universal tariff is moderately adjusted to 20% in 2H25, a worst-case scenario in which reciprocal tariffs revert to the original 32% level following the expiration of the 90-day pause, and a less probable optimistic case, which assumes a de-escalation in trade tensions.

Our rough estimates under the base case scenario suggest that the impact of US reciprocal tariffs could result in a 0.5%–0.7% downside to Indonesia's GDP. Notably, the direct effect of US tariffs on Indonesian exports is expected to be limited, given Indonesia's relatively low trade exposure to the US. In contrast, spillover effects from a slowdown in China's economy pose a significantly greater risk. China accounts for approximately 25% of Indonesia's total trade and remains the largest importer of key commodities such as coal, nickel, and ferroalloys. The newly imposed 145% US tariff on Chinese goods could jeopardise bilateral trade activity, ultimately dampening China's demand for commodity imports from Indonesia. This downside risk is further compounded by a marginal slowdown among other key trading partners as global trade tensions weigh on industrial production, weaken commodity demand and prices, and collectively contribute to a softer external outlook for Indonesia. **The impact under the worst-case scenario operates through the same mechanism as the base case but with greater severity.** This scenario assumes an escalation of tit-for-tat retaliatory tariffs between the US and China, with spillovers extending to ASEAN economies—including Indonesia—which may face higher tariffs from the US due to being labelled as alternative supply routes for China. Under this assumption, Indonesia's external outlook deteriorates sharply as global commodity demand experiences a steeper decline. A global recession, exacerbated by severe supply chain disruptions, would significantly dampen industrial activity, resulting in the most pronounced downside risk to Indonesia's export performance and overall economic growth, with the GDP potentially lowered toward the 3.0–3.5% range.

The growth outlook remains subdued on the domestic front due to deteriorating market sentiment and delays in consumption-driven government initiatives. According to the Indonesian Retailers Association (Aprindo), Fast-Moving Consumer Goods (FMCG) sales during this year's Lebaran period fell significantly short of expectations, with trade volumes 5–8% lower than last year. Aprindo Chairman Solihin attributed the decline in retail spending to unfavourable economic conditions, noting a shift in consumer behaviour toward necessities and a reduction in discretionary spending driven by increased precautionary savings. With this, we see a growing downside risk to household consumption for 2025, especially given that Lebaran typically marks the peak of annual consumer spending. With performance during this key period falling short, we expect its contribution to economic growth over the remainder of the year to be less substantial. Additionally, we maintain that the government expenditure weakened due to slower fund utilisation from the free nutritious food programme (MBG) and reduced ministerial spending following the President's Budget Efficiency decree. The fiscal multiplier effect will likely be significantly diminished and delayed with constrained fiscal support, leading to muted growth contributions from government expenditures.

Our outlook for inflation and monetary policy remains broadly unchanged. We maintain our 2025 headline and core inflation forecasts at 2.00% and 2.40% YoY, respectively. The inflation trajectory is underpinned by three key factors: (1) policy-induced deflationary pressures, (2) the absence of significant upside risks in food prices, and (3) a stable core inflation path. We expect Indonesia's consumer prices to remain broadly stable throughout the year, likely within the official target range of 1.5% to 3.5%, as recent government policy adjustments have materially reduced upside risks to headline inflation. **On the policy front, we reaffirm that Bank Indonesia (BI) will deliver three additional 25-bps rate cuts in 2025—one per quarter—bringing the benchmark interest rate to 5.00% by year-end.** While the current low inflation and slower growth environment provide room for monetary easing, we expect BI to maintain a cautious stance amid elevated external uncertainties. As such, we anticipate that rates will remain on hold through the end of 2Q25, with risks tilted toward a potential delay in the rate-cut cycle until late 3Q25, particularly as both external and domestic sentiment weigh on IDR performance.

On the fiscal front, we maintain our forecast for Indonesia's fiscal deficit in 2025 at 2.70% of nominal GDP, slightly above the official target of 2.53%. The YTD fiscal update as of March indicates a %MoM rebound in total government and tax revenues—an improvement from the sharp decline recorded in February. However, on a %YoY basis, the figures still show a double-digit decline compared to the previous year, suggesting that while there are early signs of recovery, more sustained improvement is needed. Greater clarity and closer monitoring of upcoming fiscal data will be essential to assess the overall health of public finances and the government's ability to meet its fiscal targets.

Singapore: Weakening External Demand Poses Risk to GDP Growth

We further downgrade Singapore's 2025 GDP growth projection to 2.0% from the previous forecast of 2.8%, with downside risks tilted towards a lower growth range between 0.5% - 1.0%, should trade tensions escalate further. The revision for our full-year GDP outlook is underpinned by (1) a weakening of export demand due to the ongoing trade frictions and (2) moderation in Singapore's manufacturing activity triggered by a global economic slowdown. We see further weakening in Singapore's external-oriented sectors amid potential downside tariff risks in 2Q-3Q25.

The baseline 10% tariff on Singapore's goods suggests that the city-state's export to the US on products such as machinery & transport, chemicals and manufacturing could have a direct negative impact from the US tariff. Although the US has imposed a relatively modest 10% tariff on Singapore, significantly lower than the rates faced by its ASEAN peers (Malaysia: 24%, Thailand: 36%, Indonesia: 32%), we think the spillover effects from a slowing Chinese economy could be substantial. Singapore's trade exposure to the US is smaller at 10.1% of total trade, and its trade exposure is most dependent on ASEAN (24.9% of total trade) and China (13.6% of total trade). The freshly minted 145% US tariff on China will likely negatively affect China's export demand for Singaporean goods, particularly in sectors such as chemicals, machinery & transport, and manufacturing, which are heavily represented in Singapore's trade portfolio. Furthermore, the upcoming US tariffs on pharmaceuticals and semiconductors, stacked on top of the 10% baseline tariff, will further weigh down on Singapore's manufacturing and exports, straining the overall economic growth. In the medium term, global growth is expected to be weaker, which means external demand for Singapore's goods and services will fall. Outward-oriented sectors like manufacturing, wholesale trade and transport will bear the brunt of the impact. Hence, considering the worst-case scenario where global economic growth is expected to deteriorate further, posing a downside risk to Singapore's export performance and economic growth, we project the city-state's economy towards a 0.5% - 1.0% range this year.

Despite the growth risks, we think the Monetary Authority of Singapore (MAS) may keep its policy parameters unchanged in April, but with a balance of risks for a reduction of the S$NEER policy slope to a perceived 0.5% from a prior 1.0%. The catalysts for our view are as follows: (1) global recession risks have de-escalated markedly since the postponement of US reciprocal tariffs earlier this week, (2) S$NEER has moved below the mid-point whereby a cheaper SGD is expected to support Singapore's external winds, while (3) policy parameters were only recently changed via a flattening of the slope in January 2025. Hence, more time may be needed for the easing effects to pass through to the real economy. We keep our headline and core inflation forecasts unchanged at 1.6% YoY and 1.1% YoY, respectively 2025. Slower-than-expected inflation on a YTD basis and a decline in global commodity prices are expected to weigh on overall price movements in Singapore.

On the fiscal front, maintain our expectations for Singapore to run a deficit of 0.8% of GDP in FY2025. We expect Singapore's FY2025 Budget to continue to support the economy in the short term. Policies surrounding various support measures for households and businesses might benefit Singaporeans, at least in the near term. These include CDC vouchers, SG60 vouchers and U-Save rebates that help with cost-of-living concerns, while targeted measures like increased ComCare assistance will support the more vulnerable groups. The Budget also had various measures to help businesses, including corporate income tax rebates (50%) and schemes to boost productivity and competitiveness and help pivot to new markets. In conclusion, we expect Singapore's FY2025 Budget could support Singapore's growth in the near term despite the ongoing uncertainties in the global market.

Thailand: Revising Full-Year Growth Amid External Headwinds

We revise our projection for Thailand's GDP growth further lower to 2.0% in 2025 versus our former forecast of 2.5%, with the balance of risks tilted towards a range of 0.5% - 1.0%. Thailand's economic growth drag this year stemmed from (1) heightening US tariff policy uncertainties impacting global growth and (2) structural challenges in the manufacturing sector, which could further inject downside risks into our base case assumptions. At this juncture, Trump's tariff uncertainties remain elevated, although the implementation of reciprocal tariffs has been temporarily paused from the initial 36% down to a baseline tariff of 10%.

On the external front, downside risks will still stem from the hefty US tariff imposition and their impact on Thailand's trade and investment outlook. Exports are expected to weaken as some structural headwinds and global uncertainties remain. At this juncture, US tariffs' impact on Thai exports is expected to be limited, given Thailand's relatively lower trade exposure to the US at 11.4%. However, the potential spillover from a slowdown in China's economy presents a considerably larger risk. Thailand's trade exposure to the US is smaller than China's, meaning disruptions in US-China trade relations could significantly affect the economy. Thai exports integrated into Chinese products will see lower demand, as the newly imposed 145% tariff on Chinese goods could reduce overall US imports from China, including those containing Thai components. The downside risk is amplified by a further slowdown in other major trading partners as global trade tensions dampen industrial production and reduce demand for manufactured goods, contributing to a weaker external outlook for Thailand. Industries such as electronics, automotive, auto parts, and petrochemicals are expected to face higher risks from the tariffs. According to the Joint Standing Committee for Commerce, Industry and Banking (JSCCIB), Thailand's economic growth in 2025 may fall below the forecasted 2.4%-2.9% due to the impact of US reciprocal tariffs.

The growth outlook remains muted from the domestic side due to ongoing structural challenges and intensifying competition in the manufacturing sector. The manufacturing sector, still grappling with excess inventories and sluggish domestic demand, may experience a limited recovery in 1H25, especially in industries such as automotive. Bank of Thailand (BoT) noted that Thai car production remained under pressure due to several factors: (1) competition from electric vehicles (EV); (2) weak domestic purchasing power; and (3) prudent lending policies for hire purchase loans in high-credit-risk groups by financial institutions.

We maintain our full-year headline inflation projection at 1.4% for 2025, with the inflation to move towards the lower bound of an official target range of 1%-3%. The inflationary pressures are expected to remain tame throughout the year amid softening global commodity prices and imported goods' prices. On the policy front, we expect the Bank of Thailand (BoT) to maintain its policy rate at 2.00% in its next MPC meeting end of April. Although the current environment of tame inflation and subdued economic growth creates room for policy easing, we expect the BoT to adopt a cautious approach due to heightening uncertainties in the global space. Hence, we keep our projections for the Bank of Thailand to implement two more rate cuts in 2H25 bringing the benchmark interest rate to 1.50% by the year end.

FX Outlook: Volatility Heightens in Early 2Q25

DXY:

We revise our DXY end year 2025 target lower to 101.5, pricing in the downgrade in our US GDP forecast. Our in-house projections for US GDP have been downgraded to a measly 1.5% growth in 2025. This calls for a slight revision on our DXY forecast to be lower at 103.5 in the current quarter, 102.5 in 3Q2025, and 101.5 by the end of 2025. Nonetheless, we see that the current DXY weakness is overdone. Given that the current Fed Fund Rate Futures pricing for the December 2025 contract already points towards roughly four cuts, more than our base case call of only three based on our proprietary in-house modified Taylor Rule model, there are bound to be some corrections. Also, technical cues from RSI suggest the DXY is already in oversold territory and could correct higher in the short term. However, once the dust settles and as markets gain more clarity especially relating to US foreign policies, it is possible that the DXY could reverse its weakness. There are a few premises which support this view: (1) While the downgrade of US GDP growth range of 1.0% - 1.5% is not good news, the range is quite a range away from recessionary environment, (2) Fed officials are more concerned themselves with inflation risks rather than growth which may spell narrower chance for the Fed to cut aggressively, and (3) room for negotiations between the US and its trading partners (except China) may provide some relief for the markets in the future.

We continue to see the risks for DXY in the medium term slanted towards the downside. US FFR cuts in 2025 will likely spur similar moves in key DM and EM economies, directly affecting the FX space. In the DM space, look for ECB and BOE to cut rates by 50 - 75bps in 2025. In the EM space, we forecast BI and BoT to cut rates in a similar fashion over the same period. BNM will likely stay pat at 3.0%, while the MAS could flatten its $NEER during April's decision meeting before leaving its policy parameters unchanged for the remainder of the year.

Positioning-wise, the net-long dollar contracts have dropped from the recent peak. Following Trump's winning the US election in November 2024, the number of new net long dollar contracts held by institutional players spiked higher to more than 20,000 contracts as speculators started to price in tariffs risk and seasonal dollar demand by the end of the year. But that number has dwindled as of 8 April 2025, signalling funds are flowing to other places instead of into the US.

USD-MYR:

The downside risks coming from a tit-for-tat tariff war between the US and China. China's persistence in returning the tariffs imposed on them so far by the US thus far poses downside risks to ASEAN economies, Malaysia included. In addition, an expectation that the US could raise universal tariffs to 20% may pose another headwind for the regional currencies. Therefore, we think the ringgit's path towards consolidation is slightly bumpy rather than steady.

Malaysia's fundamentals remained intact, albeit with a slight GDP decline. Despite the downgrade of our projections on GDP to 4.0% - 4.5% from 5.0%, given the elevated risks of major economies' tariff disputes and geopolitical events, we continue to see robust domestic economic conditions, fiscal reforms, and initiatives to attract capital inflows continue to underpin the ringgit's strong position. A forecast of a current account surplus of 1.8% of GDP will be supported by continued export growth, bolstered by continued tech upcycle and easing global monetary conditions. Meanwhile, the services account will benefit from higher tourism arrivals and receipts, driven by major events such as Malaysia's 2025 ASEAN Chairmanship and preparations for Visit Malaysia 2026 (VM 2026).

Concerns for rate cuts are dismissed as signalled by policymakers recently. Looking ahead to the second half of 2025, we expect the MYR to remain supported, particularly if BNM keeps the OPR unchanged. This is anticipated to narrow the rate differentials between the US and Malaysia, especially in view of possible additional FFR cuts later in the year. We maintain that the ringgit will support the MYR on the back of decent fundamentals and continued expectations for the Fed to cut its rate.

Technical indicators suggest that the USDMYR can trade sideways, but risks to the upside remain visible. After Trump paused its retaliatory tariffs, the pair returned to circa 4.44-region before those tariffs were announced. With the tariffs being negotiated away, the path of least resistance currently for the pair is sideways before it would turn lower when the Fed resumes its easing policy path. However, it is important to note that a sudden flare-up in risk-off mode in global markets could pose volatility for the dollar-ringgit.

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