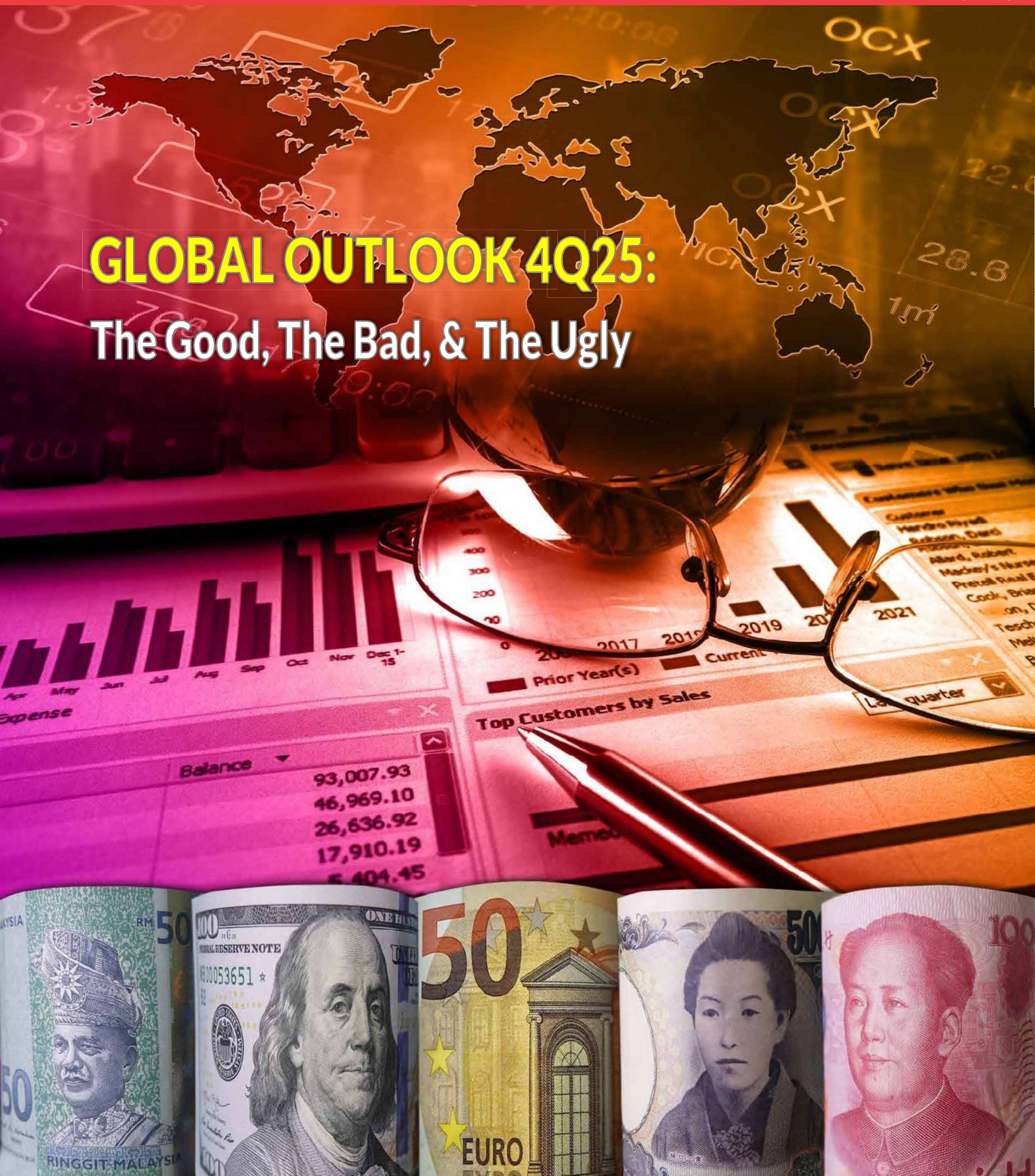


GLOBAL OUTLOOK 4Q25: The Good, The Bad, & The Ugly



30 September 2025

Path Finder – Separate the Noise from Reality

Global Outlook 4Q25: The Good, The Bad, & The Ugly

- ◆ Despite softer growth in the US and China, global markets have shown surprising resilience, supported by easing inflation, dovish central banks, and persistent risk-on sentiment. However, underlying structural weaknesses suggest this optimism may be vulnerable.
- ◆ Malaysia remains a relative outperformer within ASEAN, buoyed by strong export fundamentals, semiconductor integration, and supportive policy. We maintain our 2025 GDP forecast at 4.2%, with upside potential to 4.4% depending on external conditions.
- ◆ While the outlook for 2026 is cautiously optimistic, elevated geopolitical risks and rising black swan events call for nimble asset allocation, positioning for lower global rates, and alignment with government-led structural priorities in renewable energy, rare earths, and Islamic finance.

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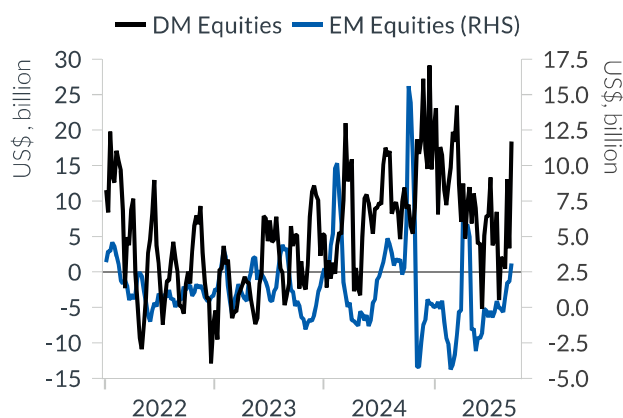
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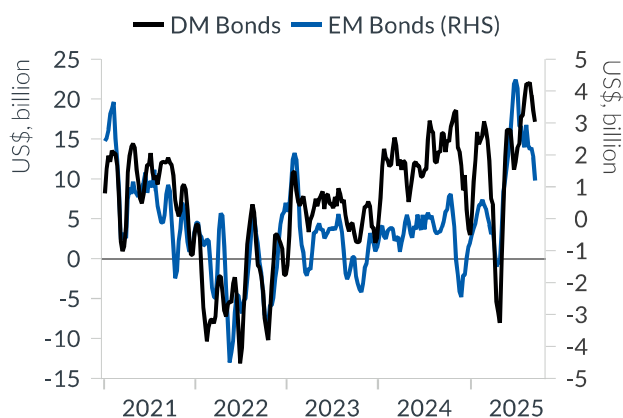
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Figure 1: Investors have moved decisively into DM equities...



Source: Macrobond, EPFR, RHB Economics and Market Strategy

Figure 2: ... while inflows into both DM & EM bonds consolidated lower as risk appetite improves



Source: Macrobond, EPFR, RHB Economics and Market Strategy

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

RHB Government Bond Yield Forecasts					Bloomberg Consensus				
10YR Government Bond	1H25	2H25F	1H26F	2H26F	10YR Government Bond	1H25	2H25F	1H26F	2H26F
United States	4.23	3.92	3.87	3.79	United States	4.10	4.20	4.15	4.09
Malaysia	3.49	3.41	3.43	3.39	Malaysia	3.68	3.48	3.47	3.42
Singapore	2.20	1.74	1.63	1.50	Singapore	3.08	2.07	2.07	2.12
Indonesia	6.62	6.27	5.98	5.97	Indonesia	6.19	6.21	6.21	5.89
Thailand	1.62	1.29	1.04	1.01	Thailand	2.53	1.45	1.42	1.40

Source: Bloomberg, RHB Economics & Market Strategy

Figure 4: RHB FX forecasts versus Bloomberg consensus forecasts

RHB Forecasts							Bloomberg Forecasts				
G10 FX	3Q25A*	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
DXY	97.9	97.0	96.5	96.0	95.5	95.0	96.3	95.9	95.4	94.8	94.0
EUR-USD	1.172	1.182	1.188	1.194	1.201	1.207	1.190	1.200	1.200	1.220	1.220
USD-JPY	148.6	147.5	146.5	145.5	144.4	143.4	143.0	140.0	140.0	138.0	136.0
GBP-USD	1.344	1.356	1.364	1.372	1.379	1.383	1.370	1.370	1.380	1.390	1.400
AUD-USD	0.659	0.665	0.670	0.675	0.680	0.685	0.670	0.670	0.680	0.690	0.680
NZD-USD	0.579	0.588	0.593	0.597	0.601	0.605	0.610	0.610	0.620	0.620	0.620
AXJ FX	3Q25A*	4Q25F	1Q26F	2Q26F	3Q25F	4Q26F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
USD-CNH	7.132	7.115	7.095	7.074	7.054	7.033	7.110	7.090	7.060	7.050	7.000
USD-IDR	16,693	16,700	16,692	16,683	16,674	16,665	16,200	16,200	16,120	16,150	16,100
USD-MYR	4.216	4.200	4.178	4.157	4.136	4.120	4.200	4.170	4.140	4.140	4.100
USD-SGD	1.291	1.281	1.278	1.274	1.270	1.267	1.270	1.270	1.270	1.260	1.260
USD-THB	32.34	32.00	31.93	31.85	31.78	31.70	32.30	32.30	32.20	32.00	32.00

Source: Bloomberg, RHB Economics & Market Strategy

Note: The above forecasts are indicative for the end of the quarter.

A*: As of afternoon Asia session

Figure 5: RHB GDP growth forecasts versus Bloomberg consensus forecasts

RHB Real GDP Growth Forecasts					Bloomberg Consensus				
% YoY	2023	2024	2025F	2026F	% YoY	2023	2024	2025F	2026F
US	2.9	2.8	1.5	2.0	US	2.9	2.8	1.6	1.7
Western Europe	0.5	1.0	1.2	1.5	Western Europe	0.5	1.0	1.2	1.2
Japan	1.2	0.1	1.1	1.0	Japan	1.2	0.1	1.1	0.7
China	5.4	5.0	4.8	4.5	China	5.4	5.0	4.8	4.2
ASEAN					ASEAN				
Indonesia	5.1	5.0	4.8	5.0	Indonesia	5.1	5.0	4.9	4.9
Malaysia	3.7	5.1	4.2	4.7	Malaysia	3.7	5.1	4.2	4.2
Singapore	1.8	4.4	2.0	2.6	Singapore	1.8	4.4	2.4	1.8
Thailand	2.0	2.5	1.8	2.0	Thailand	2.0	2.5	2.1	1.9

Source: Bloomberg, RHB Economics & Market Strategy

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Figure 6: RHB CPI inflation forecasts versus Bloomberg consensus forecasts

RHB CPI Inflation Forecasts					Bloomberg Consensus				
% YoY	2023	2024	2025F	2026F	% YoY	2023	2024	2025F	2026F
US	4.1	3.0	2.8	2.5	US	4.1	3.0	2.8	2.8
Western Europe	5.7	2.3	2.2	2.0	Western Europe	5.7	2.3	2.2	1.9
Japan	3.3	2.7	3.0	2.0	Japan	3.3	2.7	3.0	1.8
China	0.2	0.2	0.1	1.0	China	0.2	0.2	0.1	0.8
ASEAN					ASEAN				
Indonesia	3.7	2.3	2.0	2.5	Indonesia	3.7	2.3	1.9	2.6
Malaysia	2.5	1.8	1.6	2.3	Malaysia	2.5	1.8	1.8	2.1
Singapore	4.8	2.4	1.2	1.8	Singapore	4.8	2.4	0.9	1.6
Thailand	1.3	0.4	-0.1	1.0	Thailand	1.3	0.4	0.2	0.8

Source: Bloomberg, RHB Economics & Market Strategy

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

RHB Policy Rate Forecasts					Bloomberg Consensus				
%	2023	2024	2025F	2026F	%	2023	2024	2025F	2026F
US	5.50	4.25 - 4.50	3.75 - 4.00	3.25 - 3.50	US	5.50	4.50	3.91	3.36
Western Europe	4.50	3.15	2.00	2.00	Western Europe	4.50	3.15	2.34	2.25
Japan	-0.10	0.25	0.75	1.00	Japan	-0.10	0.25	0.68	0.94
China	3.45	3.10	2.80	2.60	China	3.45	3.10	2.80	2.60
ASEAN					ASEAN				
Indonesia	6.00	6.00	4.50	4.00	Indonesia	6.00	6.00	4.44	4.32
Malaysia	3.00	3.00	2.75	2.75	Malaysia	3.00	3.00	2.63	2.57
Thailand	2.50	2.25	1.25	1.00	Thailand	2.50	2.25	1.18	1.07

Source: Bloomberg, RHB Economics & Market Strategy

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Reckon Mr Wolf May Not Show Itself

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As we look toward 2026, the global economic landscape is best described through the lens of “The Good, the Bad, and the Ugly.” Amid mounting geopolitical tensions, divergent central bank paths, and the looming spectre of black swan risks, market dynamics have remained surprisingly resilient. Investor sentiment, particularly across risk assets, has continued to defy earlier caution, setting the stage for a cautiously optimistic yet highly dynamic macroeconomic outlook.

The Good: Resilience Amid Risk

Despite a notable downshift in global growth expectations, certain bright spots have emerged. We currently forecast ASEAN-6 GDP growth to moderate to 4.4% in 2025 from 4.9% in 2024, before edging up to 4.6% in 2026. While the deceleration is reflective of external headwinds, ASEAN's economic resilience is underpinned by strong domestic demand, favourable policy stances, and improving trade dynamics in certain pockets.

Global investor sentiment has shown notable improvement in recent months. The implementation of the latest tariff measures on 1 August has not dampened market confidence as initially feared. Global equity indices, such as the MSCI World, and global investment-grade bond markets have both posted gains, suggesting that recession fears that dominated the early part of 2025 are now fading. Our proprietary RHB Risk Sentiment Index—typically a two-week lead indicator for the S&P 500—remains in risk-on territory, indicating that markets are continuing to lean toward optimism, albeit with signs of moderation due to recent geopolitical tensions and potential profit-taking at equity market highs.

Inflation, once the dominant theme of macroeconomic volatility, is now softening in key segments. Tamer price trends in major CPI components such as food and crude oil have given central banks more breathing room. Should further monetary accommodation be needed, the inflation backdrop will likely be supportive. This dovish tilt has already materialised in rate cuts by the Federal Reserve and Bank Indonesia. We expect this trajectory to continue well into 2026, and maintain our call for Malaysia's Overnight Policy Rate to remain at 2.75%, with the possibility of a 25bps cut as early as 1Q26.

Global fund flows have also confirmed this turn in sentiment. Inflows into equities remain robust, and though fixed income may see some consolidation given improved risk appetite, we interpret this as a healthy strategic rotation rather than a deterioration in fixed income fundamentals. With geopolitical risks temporarily taking a back seat, market participants have increasingly priced in a benign macroeconomic environment for 2026.

From a policy standpoint, developments in the US could offer additional tailwinds. Two key events warrant monitoring: first, the US Supreme Court's review of the legality of Trump-era tariffs on 14 October, which, if ruled against, could mark a reversal of protectionist trade policy. Second, looming risks—especially from the US-China trade negotiations scheduled for 10 November—could pose a real threat to market confidence, and any renewed friction could tip our upside case into downside territory.

Closer to home, Malaysia remains one of the more compelling stories in ASEAN. We maintain our GDP growth forecast at 4.2% for 2025 and 4.7% for 2026, with potential upside towards 4.4% for 2025, driven by a resilient export sector, particularly semiconductors. Malaysia's deep integration into the US supply chain—where 65% of semiconductor exports to the US come from American firms operating locally—offers insulation from punitive trade measures. Recent data on industrial production and exports have also surprised to the upside, bolstering our confidence in Malaysia's near-term economic prospects.

Fund flows into Malaysian equities have improved in recent weeks, while bond inflows remain stable. FX conditions, too, are constructive. With the ringgit stabilising around 4.19 per USD, and signs of FX reserve accumulation and reduced BNM market intervention, we believe the MYR could strengthen further into year-end, supported by a weaker dollar outlook.

The Bad: Structural Softness in the Giants

Nevertheless, not all is well beneath the surface. Signs of macroeconomic strain are increasingly evident in both the US and China—the two anchors of global demand. Our in-house risk indicators suggest rising fragility in both economies. In the US, the labour market is flashing early warning signs: jobless claims have increased, wage growth is moderating, and the unemployed-to-job openings ratio is widening. These trends are consistent with softening consumer confidence and weaker-than-expected non-farm payrolls data, pushing the unemployment rate to 4.3%—a marked deterioration heading into 3Q25.

China, meanwhile, remains a story of sluggish recovery, with full-year GDP growth expected to be around 4.8%. While seasonal factors may offer a lift in 4Q25, current high-frequency data paints a tepid picture. Export growth is soft, retail sales are flatlining, and property prices continue to decline—an ominous sign for household wealth and consumption. Credit growth,

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business confidence, and labour market indicators remain subdued. Together, these conditions suggest that China's structural slowdown may persist longer than previously anticipated, with global ramifications.

In ASEAN, these external challenges are beginning to impact the macroeconomic data. Exports to the US and China have weakened, and manufacturing activity has followed suit. Notably, electronics exports—previously bolstered by front-loading behaviour—have seen a sharp drop in recent readings. The interconnectedness of ASEAN's export-oriented economies means that any prolonged downturn in the US or China could result in spillover effects, particularly in Singapore, Malaysia, and Thailand.

Malaysia, while relatively insulated, is not immune. Our proprietary GDP model now forecasts a slower second half in 2025, with growth easing to 4.0% in 2H25, largely due to external drag. Sector-specific risks are also rising, particularly around potential new tariffs on semiconductors and pharmaceuticals. While Malaysia is somewhat shielded due to the nature of its semiconductor exports, any sectoral tariffs could disproportionately impact its pharma trade, which has been the fastest-growing in ASEAN over the past two years.

The Ugly: Black Swan Risks and Unquantifiable Shocks

Beyond the known risks, the “ugly” lies in the unknowns—black swan events that elude traditional economic modelling. Over the past month, global newsflow has seen at least four high-impact geopolitical and non-economic developments that could upend market stability.

While markets have so far shrugged off these risks—evidenced by equity rallies and narrowing credit spreads—complacency could prove to be a dangerous mistake. Should any of these risks materialise in a meaningful way, defensive market trends could reassert themselves: UST yields may fall, gold prices could rally, and oil prices could spike, derailing the base case of a mild recovery into 2026.

ASEAN: Resilient Growth Expected, But Watch Policy Developments

We maintain our 2025 GDP growth forecast for Malaysia at 4.2%. Growth is expected to hold at 4.0% in 2H25 (versus 4.4% in 1H25), supported by robust consumer spending, a healthy labour market, steady investment activity, and accommodative domestic policies. The domestic economy continues to show resilience, driven by investment growth in both the private and public sectors, the realisation of approved investments, and the rollout of catalytic initiatives under national master plans, such as the National Energy Transition Roadmap and the New Industrial Master Plan 2030. While the domestic outlook remains optimistic, external risks warrant caution. Trade performance is likely to soften as front-loading fades and tariff impacts gradually emerge, weighing on export-oriented sectors, including electronics and electrical (E&E), raw materials, and machinery. Even so, several factors could support exports in 2H25: the reduction of US reciprocal tariffs on Malaysia (from 25% to 19%), the extension of the US-China trade truce to 10 November, and the broad alignment of US tariff rates across ASEAN, which should bolster manufacturing sentiment and sustain Malaysia's competitiveness.

We maintain our 2025 inflation forecast at 1.6%, within the official forecasted range of 1.5%–2.3%. Inflation averaged 1.4% in the first half of 2025 and is projected to be 1.8% in the second half of 2025, reflecting moderate demand and cost conditions. Domestic policies—such as SST expansion, wage adjustments, and electricity tariff reforms—may add some price pressures, but their impact should remain contained given gradual implementation. The SST broadening is estimated to lift inflation by only 0.1%–0.2%, while tariff adjustments under the new Automatic Fuel Adjustment mechanism may cause minor monthly fluctuations. Transport inflation is expected to ease following the reduction of RON95 prices to RM1.99 per litre for 16 million eligible motorists (from RM2.05), with preliminary estimates suggesting a 0.1%–0.2% drag on annual inflation. However, the 2025 effect is anticipated to be smaller (0.03%–0.04%), due to the late-September rollout. We expect the OPR to remain at 2.75% at the November MPC meeting, as robust domestic demand and contained inflation do not warrant further easing. Monetary policy in 2026 is likely to stay data-dependent, shaped by tariff developments, trade performance, and domestic consumption trends.

We remain cautious on Singapore's GDP outlook and keep our full-year 2025 growth forecast at 2.0%. However, should trade tensions ease or external demand stabilise faster than anticipated in 2H25, growth could surprise on the upside, potentially reaching 3.0%. Our cautious stance at this juncture is underpinned by three factors: (1) unresolved US-China tariff developments, (2) uncertainty surrounding US trade policies, including sector-specific tariffs on pharmaceuticals and semiconductors, and (3) the risk of a 2H25 drag from fading export frontloading and potential payback effects following the strength in 1H25. We expect growth momentum to soften in the coming months, particularly in outward-oriented sectors such as manufacturing, amid weaker global demand and the impact of US tariffs. Accordingly, we maintain our full-year forecasts for NODX and IP at 2.0% each.

We maintain our full-year 2025 forecasts for headline and core inflation at 1.2% and 0.9%, respectively. Nonetheless, downside risks persist, with headline inflation potentially averaging 0.9% YoY and core inflation 0.8% YoY. As the year progresses, both headline and core inflation are expected to ease further. Key factors behind this moderation include: (1) softer demand-pull pressures amid a possible economic slowdown in 2H25, (2) volatility in global commodity prices, and (3)

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reduced electricity and gas inflation following tariff adjustments. Ahead of the October MAS policy review, we expect policy settings to remain unchanged through year-end, though risks tilt toward a flatter S\$NEER slope. MAS has signalled vigilance over supply chain shifts and stands ready to adjust policy if growth weakens further. With slowing inflation and potential downside risks to GDP in 2H25, further easing cannot be ruled out, but our base case remains no change in policy parameters.

We maintain our 2025 GDP growth projection for Indonesia at 4.8%, shaped by three key factors: (1) subdued domestic demand, as reflected in recent high-frequency indicators; (2) the effectiveness of government fiscal execution; and (3) external trade prospects, which could soften as the impact of new US tariffs takes effect. On the external front, recent tariff-related developments have provided a marginal lift to Indonesia's trade outlook. The reduction in US tariffs on Indonesian exports—from 32% to 19%—along with a potential 90-day extension of the US-China trade negotiation deadline, has temporarily supported export performance. However, risks remain as front-loaded demand is likely to fade from September onward, potentially marking a turning point for the strong YoY export growth to both the US and China.

We maintain our 2025 inflation forecasts at 2.0% for the headline and 2.4% for the core, reflecting a benign price environment with limited upside pressures. Three factors underpin this outlook. First, demand-side pressures remain subdued, as economic activity softens and post-protest consumption proves cautious, moderating price momentum. Second, food prices—typically the largest contributor to headline volatility—are likely to stay anchored by consistent rice production and ample reserve levels. Third, global commodity prices have shown signs of stabilisation amid easing geopolitical tensions, which should temper energy costs and mitigate cost-push pressures. With slower growth and muted inflation, we expect Bank Indonesia to deliver one additional 25-basis-point rate cut in 4Q25 to 4.50%, with a risk bias toward a further 25-basis-point easing to 4.25%.

We upgrade Thailand's GDP growth forecast for 2025 to 1.8%, from the previous estimate of 1.5%, reflecting a stronger-than-expected outturn in 1H25 and an improvement in external trade sentiment. The upward revision is primarily driven by the above-consensus 2Q25 GDP growth of 2.8% YoY, underpinned by a continued surge in merchandise exports and an expansion in private investment. While our GDP revision implies numerical upside to the growth figure, we maintain a cautious view that momentum is likely to slow in the second half of the year as front-loaded demand fades and global demand normalises. Recent trade statistics already show signs of deceleration: in August 2025, export growth slowed to 5.8% YoY, well below the 1H25 average of 14.9%. Domestic demand also faces significant headwinds in 2H25, driven by the following risk factors: political uncertainty, Thailand-Cambodia border tensions, and persistently subdued private consumption.

We revise our 2025 headline inflation forecast down to -0.1% from 0.3%, while lowering core inflation projection to 0.9% from 1.0%. Looking ahead, we expect price dynamics to remain subdued in the coming quarter, underpinned by sustained downward pressures from the supply side. First, government measures to ease cost-of-living pressures are set to continue, including the reduction of electricity tariffs by 0.1572 Baht per unit for September–December 2025, lowering the rate to 3.94 Baht per unit. Second, food inflation is likely to moderate further as favourable weather conditions boost agricultural output and improve supply. Third, large-scale businesses are intensifying promotional campaigns to align with weak household demand and heightened competition. As such, we expect the Bank of Thailand (BoT) to deliver one additional policy rate cut in 4Q25, bringing the benchmark rate to 1.25%. This is underpinned by persistently soft inflation readings and rising downside risks to growth, particularly from subdued domestic demand, which in our view warrants a more accommodative stance to cushion the economy.

Strategic Positioning: Navigating with Caution and Conviction

In the face of this uncertain backdrop, we advocate a stance of cautious optimism. Our key strategic calls are threefold: first, remain nimble in asset allocation. While we maintain an overweight on global equities, we encourage preparedness to pivot toward defensives—such as fixed income—should risk aversion intensify. Second, a position for a structurally lower rate environment. With the Federal Reserve expected to continue its easing cycle into 2026, duration extension and exposure to investment-grade credits remain attractive. FX strategy should tilt towards high-beta currencies, including the AUD, NZD, and selective ASEAN currencies such as MYR and SGD, on the back of a weaker dollar trajectory.

Lastly, align portfolios with structural tailwinds from public investment priorities. Malaysia's 13th Malaysia Plan (13MP) outlines targeted investment in three promising sectors over the next five years: (1) rare earths and related upstream manufacturing in resource-rich states, (2) ESG-aligned sectors such as renewable energy with a national target of 35% RE contribution to energy supply, and (3) Islamic finance, where Malaysia aims to double its global market contribution.

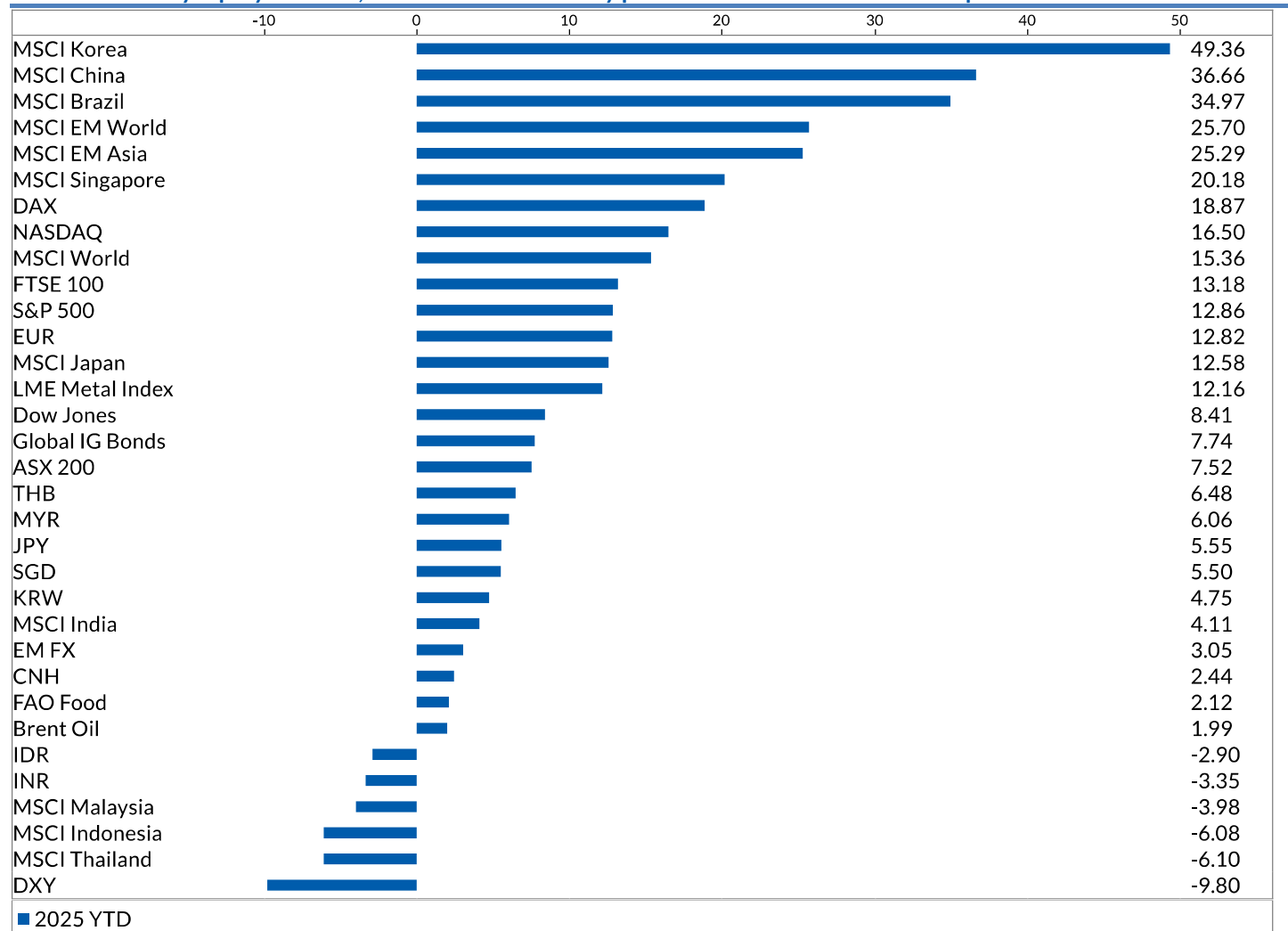
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Conclusion: Hoping the Wolf Doesn't Show

Despite persistent headwinds and latent downside risks, global economic momentum appears more resilient than expected. While the outlook is not without its challenges—especially with mounting uncertainty in the US and China—the ASEAN region, and Malaysia in particular, appear well-positioned to weather the storm. If black swan risks remain dormant and Trump's tariff rhetoric proves to be more bark than bite, then the groundwork may be laid for a more constructive economic backdrop into 2026.

Much like the tale of the boy who cried wolf, we hope the loudest threats of protectionism and geopolitical rupture remain unrealised. Should that be the case, 2026 may yet offer markets and policymakers alike a chance to pivot towards sustainable growth and deeper structural reform.

Figure 8: YTD 2025 total return – RHB Asset Allocation Strategy of Overweight Equities materialised nicely; note year-to-date rallies in key equity markets, while lower commodity prices have led inflation backdrop



Source: Bloomberg, RHB Economics & Market Strategy

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Figure 9: DXY's Structural Weakness May Persist into 2026 – More FFR Cuts Incoming

FX Rates % Change						
	YTD 2025 (%)	Since 4Q24 (%)	QTD 2025 (%)	Close (2025)	High 2024	Low 2024
INR per USD	3.47	5.94	3.48	88.76	85.79	82.69
IDR per USD	2.99	10.05	3.06	16706	16494	15114
PHP per USD	-1.00	2.59	2.12	57.61	59.09	55.37
CNH per USD	-2.38	1.98	-0.32	7.139	7.317	6.981
KRW per USD	-4.54	6.82	3.60	1403	1475	1295
SGD per USD	-5.22	0.48	1.15	1.289	1.364	1.281
JPY per USD	-5.26	3.93	3.02	148.7	161.7	140.5
AUD per USD	-5.63	5.27	-0.60	1.518	1.610	1.442
MYR per USD	-5.71	2.10	-0.05	4.210	4.799	4.124
THB per USD	-6.09	-0.68	-1.16	32.08	37.15	32.30
GBP per USD	-6.70	-0.27	1.86	0.744	0.811	0.746
TWD per USD	-7.55	-4.35	3.85	30.35	32.89	30.68
DXY	-9.79	-2.89	1.02	97.9	108.5	100.2
EUR per USD	-11.36	-4.93	-0.02	0.852	0.964	0.895
CHF per USD	-12.00	-5.76	-0.14	0.795	0.919	0.842

Source: Bloomberg, RHB Economics & Market Strategy

Figure 10: Government 2YR yields are broadly lower (ex-China)...

Govt 2Y Yields	YTD 2025	QTD 2025	Last 2025	High 2024	Low 2024
China	35.6	8.4	1.45	2.26	1.04
Germany	-5.4	16.6	2.02	3.10	1.89
S. Korea*	-5.7	8.3	2.53	3.54	2.51
Malaysia*	-40.9	-6.7	3.07	3.63	3.28
United Kingdom	-42.9	13.4	3.95	4.68	3.55
United States	-63.1	-10.9	3.61	5.04	3.54
Thailand	-84.6	-25.1	1.15	2.40	1.97
India	-102.1	-7.2	5.70	7.15	6.62
Singapore	-127.5	-31.5	1.44	3.50	2.25
Indonesia	-196.2	-102.4	4.94	6.93	6.10

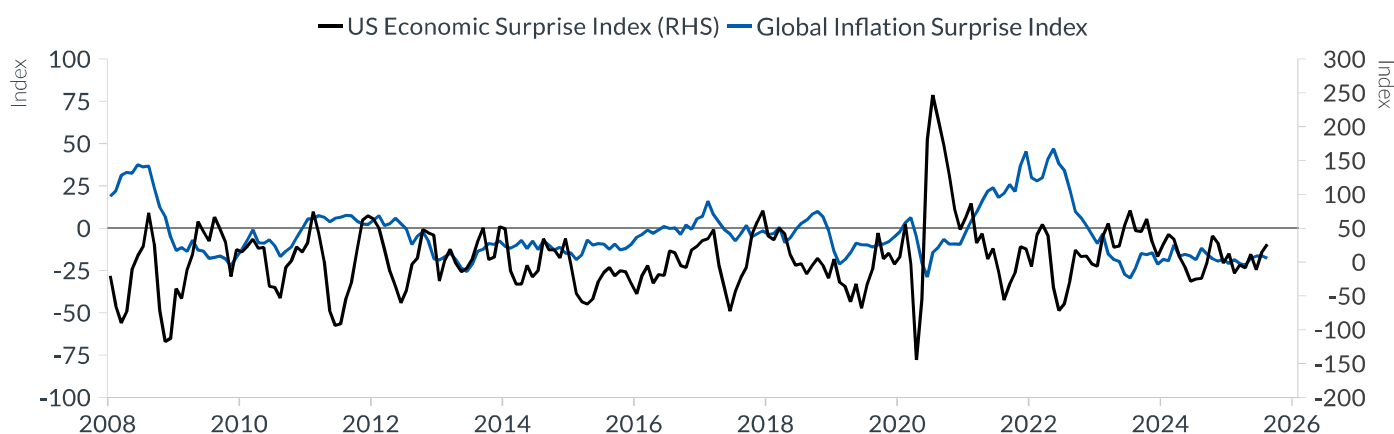
Source: Bloomberg, RHB Economics & Market Strategy

Figure 11: ... similar to 10YR yields, with downside pressure likely as US FFR sees further reduction into 2026

Govt 10Y Yields	YTD 2025	QTD 2025	Last 2025	High 2024	Low 2024
Germany	39.4	15.3	2.76	2.69	2.02
China	23.7	25.6	1.90	2.56	1.67
United Kingdom	10.3	18.0	4.67	4.63	3.53
S. Korea	3.0	8.0	2.88	3.71	2.63
India	-26.7	17.4	6.49	7.23	6.68
Malaysia	-37.5	-7.3	3.44	4.00	3.69
United States	-41.9	-7.8	4.15	4.70	3.62
Indonesia	-56.6	-21.4	6.40	7.22	6.42
Thailand	-89.9	-25.0	1.35	2.82	2.22
Singapore	-104.2	-37.6	1.81	3.46	2.40

Source: Bloomberg, RHB Economics & Market Strategy

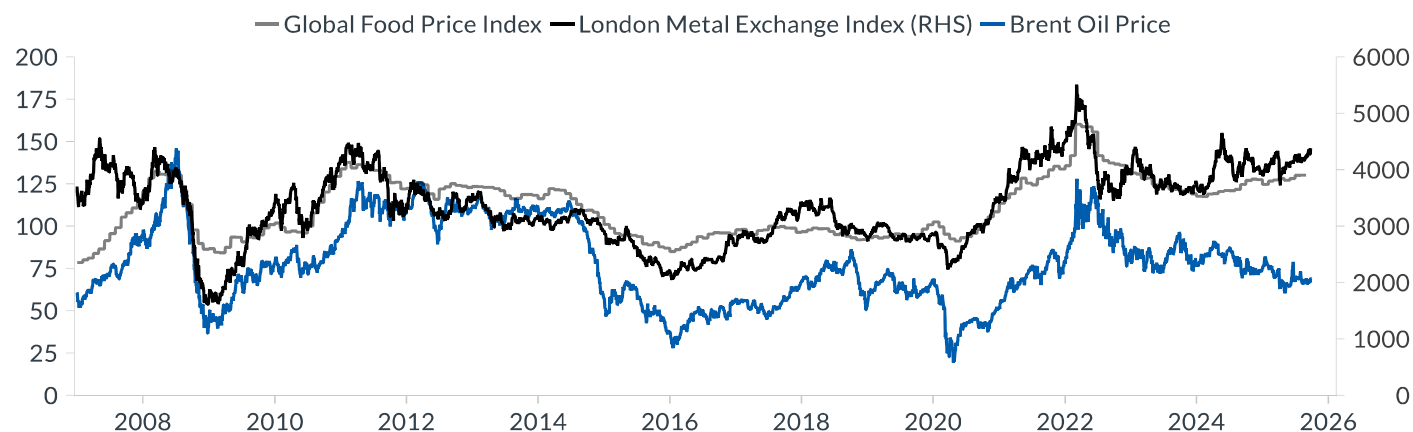
Figure 12: US growth and inflation data are surprising on the downside year-to-date



Source: Macrobond, RHB Economics & Market Strategy

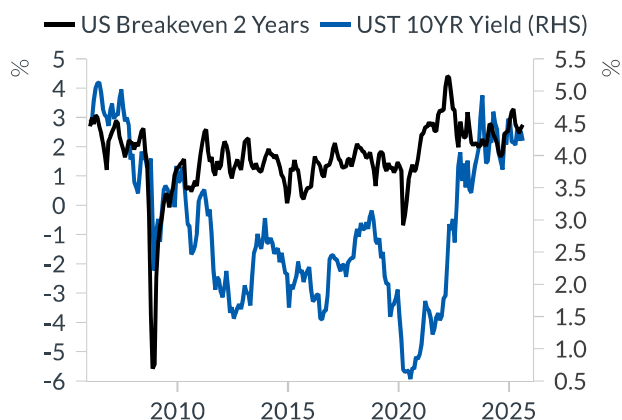
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Figure 13: Global commodity prices appear supported, but growth risks may weigh on energy and base metal prices



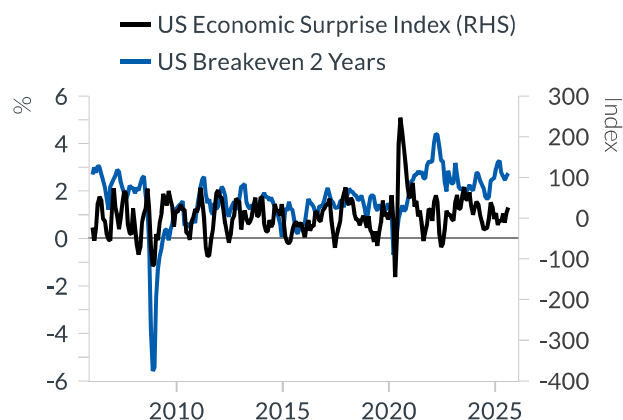
Source: Macrobond, RHB Economics & Market Strategy

Figure 14: US 10Y yields may fall to 3.8% by the end of 2026...



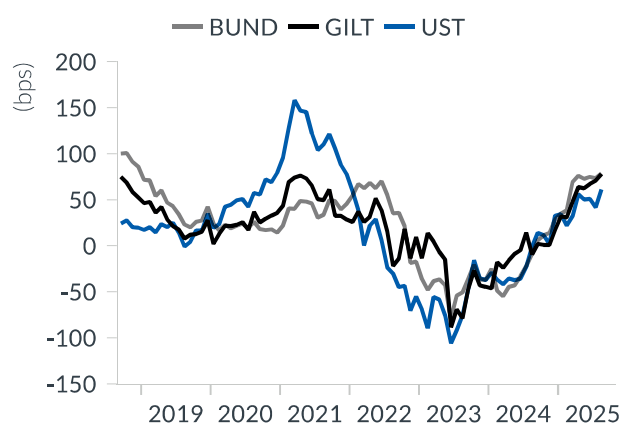
Source: Macrobond, RHB Economics & Market Strategy

Figure 15: ... on the back of another 50bps FFR cut in 2026, which may also lead to 2Y breakeven lower



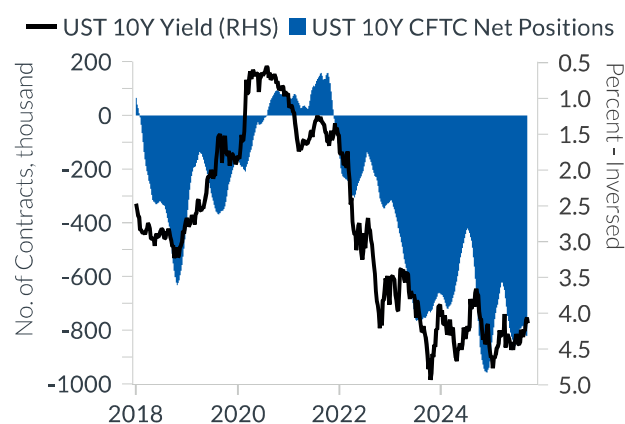
Source: Macrobond, RHB Economics & Market Strategy

Figure 16: DM yield curves have moved materially higher in 1H25



Source: Macrobond, RHB Economics & Market Strategy

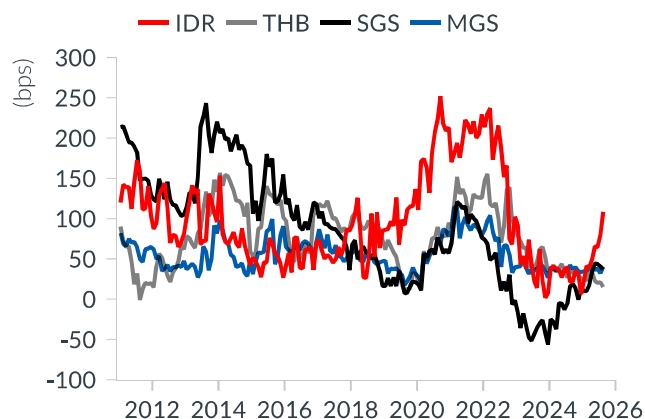
Figure 17: US 10Y CFTC positioning shorts have widened, but lower FFR may continue to depress yields



Source: Macrobond, RHB Economics & Market Strategy

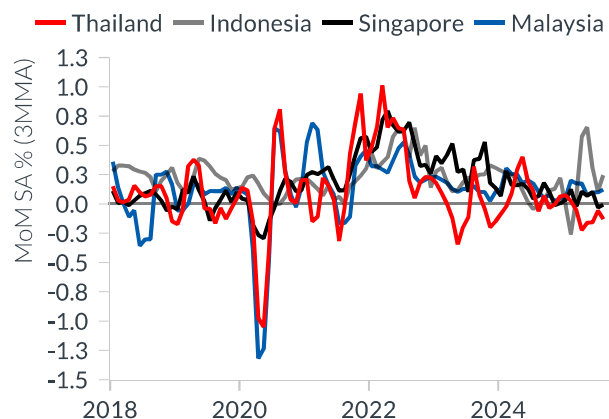
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Figure 18: ASEAN 2-10YR yield curves are also normalising higher year-to-date...



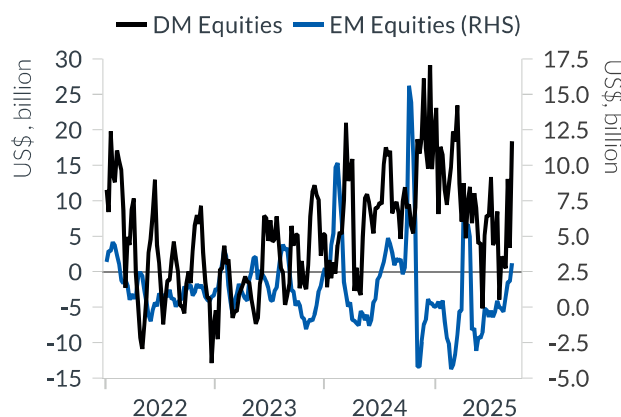
Source: Macrobond, RHB Economics & Market Strategy

Figure 19: ... while headline inflation momentum softened into year-end



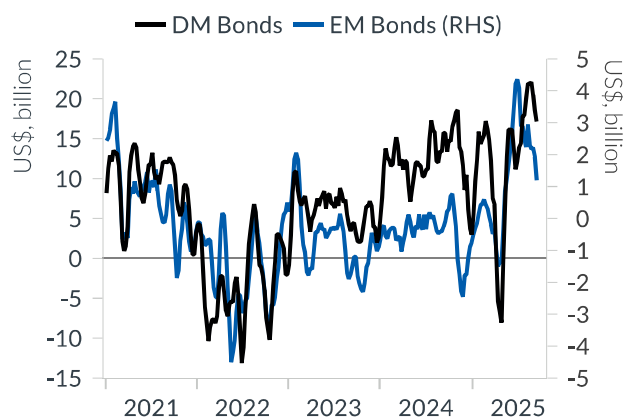
Source: Macrobond, RHB Economics & Market Strategy

Figure 20: Investors continue to prefer DM equities...



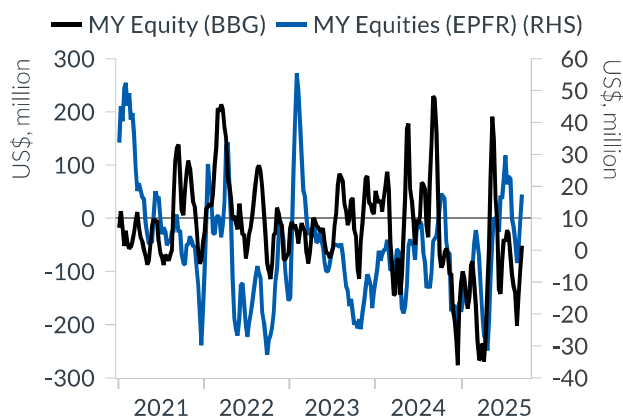
Source: Macrobond, EPFR, RHB Economics & Market Strategy

Figure 21: ... and DM bonds, but some selloff is seen



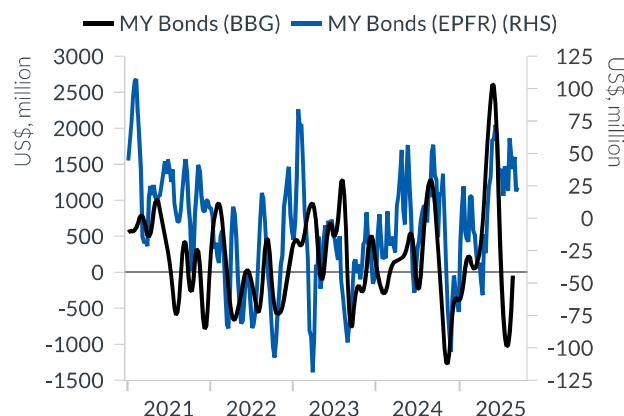
Source: Macrobond, EPFR RHB Economics & Market Strategy

Figure 22: Malaysia's net equity flows moved higher quarter-to-date...



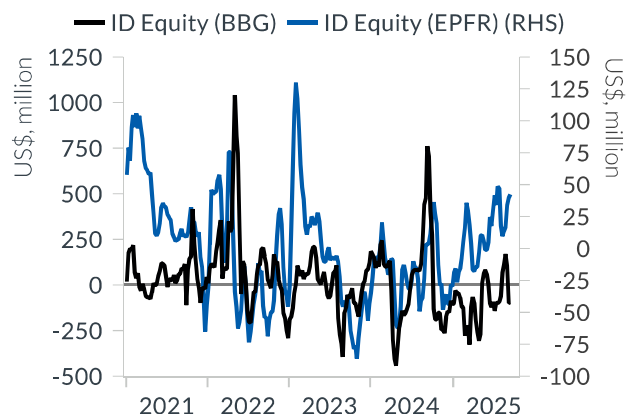
Source: Macrobond, RHB Economics & Market Strategy

Figure 23: ... ditto for net bond flows as the macroeconomic backdrop improved year-to-date

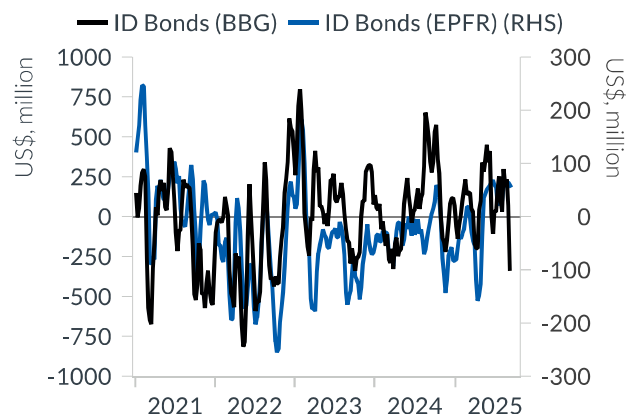


Source: Macrobond, RHB Economics & Market Strategy

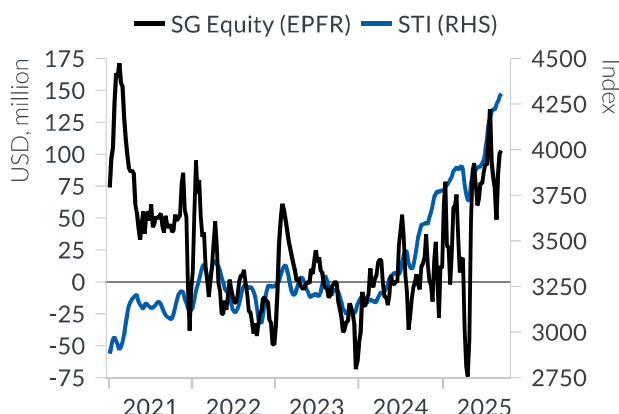
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Figure 24: Indonesia equities seen net outflows given uncertainties...

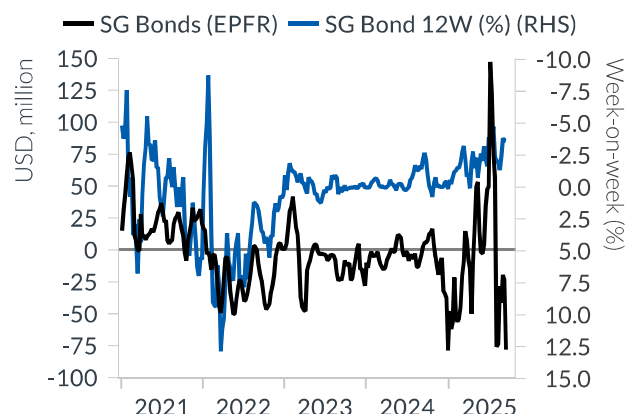
Source: Macrobond, RHB Economics & Market Strategy

Figure 25: ... with bond flows down sharply as a result

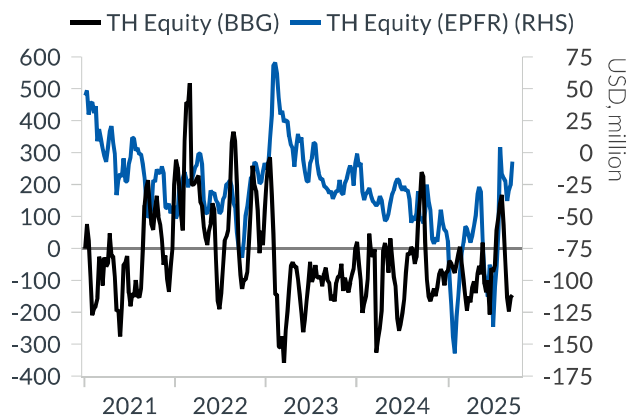
Source: Macrobond, RHB Economics & Market Strategy

Figure 26: Singapore equity inflows turn north as investors account for a favourable economic backdrop...

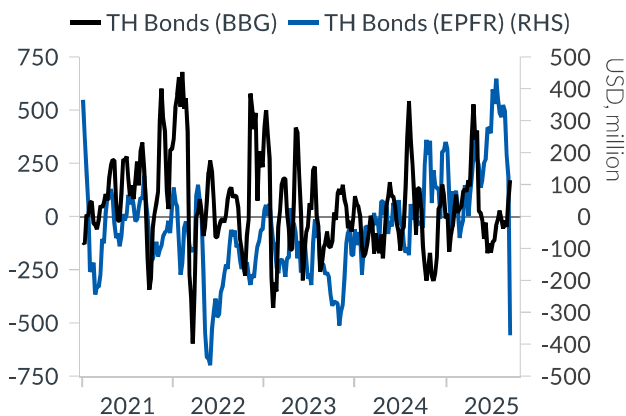
Source: Macrobond, RHB Economics & Market Strategy

Figure 27: ... while bonds stay tame, which may see some inflows back as SG-US yield spreads are narrowing

Source: Macrobond, RHB Economics & Market Strategy

Figure 28: Equity flows in Thailand continue to stay soft, but a floor may have been seen...

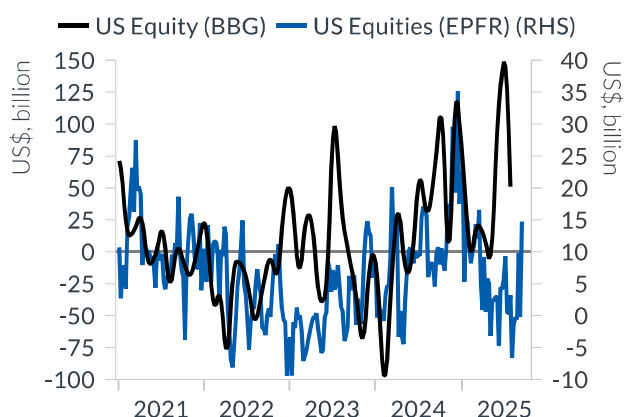
Source: Macrobond, RHB Economics & Market Strategy

Figure 29: ... while bond flows see some support, but watch potential BOT rate cuts in 4Q25

Source: Macrobond, RHB Economics & Market Strategy

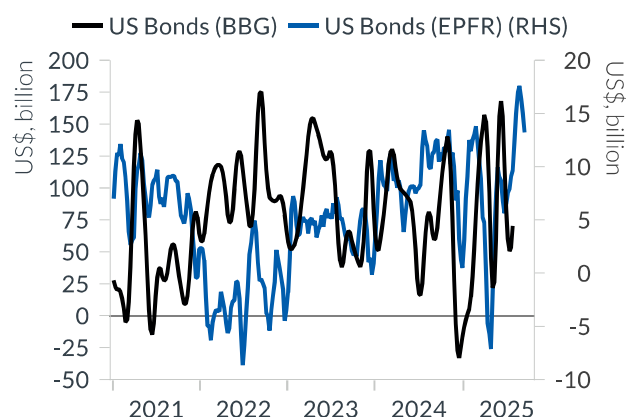
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Figure 30: US equities (EPFR) improved sharply...



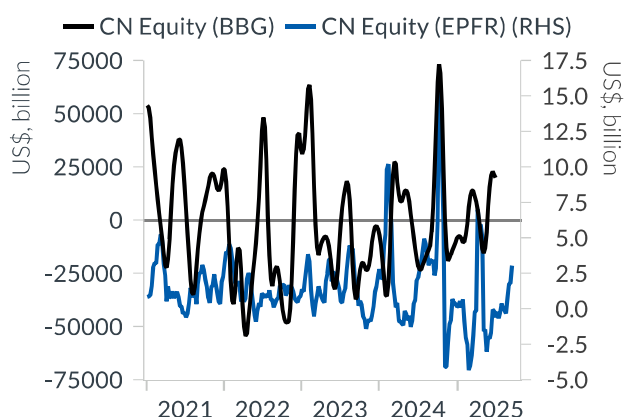
Source: Macrobond, RHB Economics & Market Strategy

Figure 31: ... similar to bonds, which could depress yields



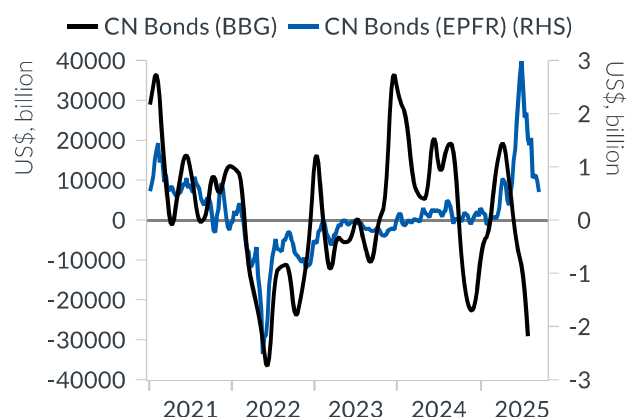
Source: Macrobond, RHB Economics & Market Strategy

Figure 32: Equity net flows into China accelerated...



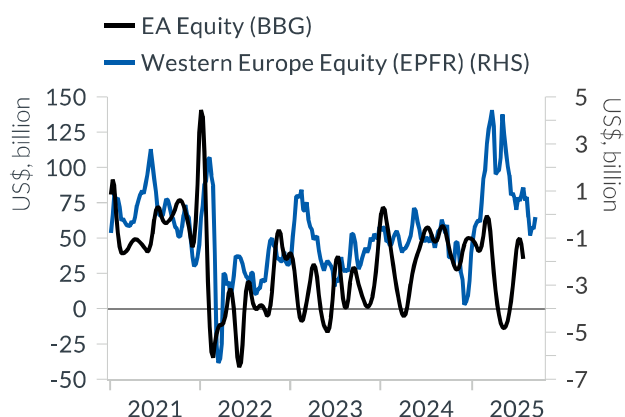
Source: Macrobond, RHB Economics & Market Strategy

Figure 33: ... albeit bond flows turned south



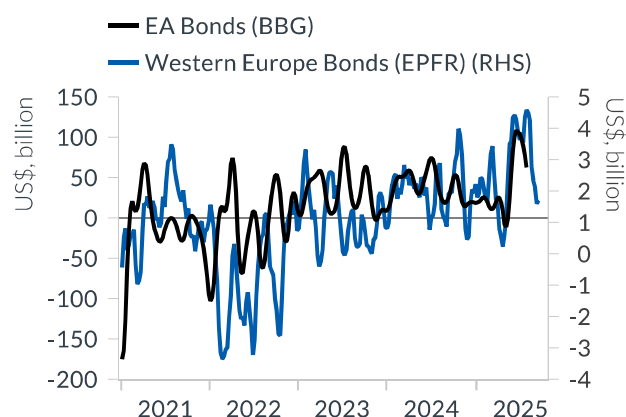
Source: Macrobond, RHB Economics & Market Strategy

Figure 34: Euro Area equities turn to net outflows...



Source: Macrobond, RHB Economics & Market Strategy

Figure 35: ... with bond flows softening as well



Source: Macrobond, RHB Economics & Market Strategy

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Positioning for the Fed's Next Move

Appended with edits from our [thematic report](#)

- **Rate Cut Outlook & Yield Curve Steepening:** The Fed is expected to cut rates by another 25bps through 2025 and another 50bps in 2026, with the UST 2s10s curve to steepen as global growth stabilises and front-end yields decline.
- **Fixed Income Strategy:** Traders are advised to go long on short-end instruments (e.g., 2Y futures), extend duration into long-dated Treasuries and IG credit, and rotate into lower-rated IG bonds to capture spread compression and duration upside.
- **FX Strategy:** Position for USD weakness by going long high-beta G10 currencies (AUD, NZD, EUR) and selected ASEAN FX (MYR, SGD), while maintaining a neutral stance on safe havens and a cautiously bullish view on gold.

Our base case anticipates one additional 25-basis-point cut in the Fed Funds Rate (FFR) before the end of 2025, bringing the Fed Funds target range to 3.75–4.00%. By 2026, we anticipate an additional 50 basis points of easing, resulting in a target range of 3.25–3.50% by year-end. This outlook aligns with Federal Reserve Chair Jerome Powell's recent comments at the Jackson Hole Symposium, where he reiterated the Fed's data-dependent approach and clearly left the door open to additional monetary accommodation. Market pricing has responded accordingly, with OIS and swap curves already reflecting expectations for at least one cut in the near term. These expectations are further validated by softening trends in the U.S. labour market and moderating inflationary pressures, reinforcing the case for a gradual but sustained easing cycle.

One of the key macro themes emerging from this policy shift is the anticipated steepening of the U.S. Treasury yield curve, particularly between the 2-year and 10-year tenors. The 2s10s curve is currently at a spread of 62 basis points and is forecasted to steepen further to 72 basis points by the end of 2025 and 77 basis points by the end of 2026. This steepening trend is driven by a combination of falling short-end yields, stabilising global economic indicators, and a more constructive long-term growth outlook. In this environment, fixed income markets offer several tactical opportunities for investors and traders to capitalise on both rate and spread movements.

The first fixed income strategy focuses on going long the front end of the yield curve—particularly through 2-year Treasury futures and SOFR futures. These instruments are historically sensitive to monetary policy expectations, and as the Fed begins its rate-cutting cycle, front-end yields are likely to decline. Past precedents support this strategy: in 2019, for example, 2Y yields dropped from above 2.6% to below 1.6% following three rate cuts, resulting in strong capital gains for long positions. In the current cycle, we expect 2-year yields to decline from 3.64% (as of early September 2025) to 3.43% by year-end and to 3.21% by year-end 2026, offering attractive total return prospects.

The second strategy centres on extending portfolio duration by rotating into longer-dated Treasuries—specifically 10-year and 30-year bonds. With inflation expectations stabilising and global economic growth normalising, real yields at the long end are likely to fall, creating a favourable environment for duration plays. A comparable scenario played out in 2019, when the Fed began easing and 10-year yields fell from 2.7% to 1.5% in less than a year. Despite short-term volatility due to geopolitical concerns, the underlying trend in long-end yields remains downward—our forecasts project 10-year yields at 4.15% by year-end 2025 and 3.98% by year-end 2026.

The third strategy in fixed income involves rotating from investment-grade (IG) into high-quality high-yield (HY) credit. As the economic outlook becomes more constructive and policy rates begin to decline, HY credit—especially among BBB-rated names—tends to outperform. Historical evidence from 2019 and early 2023 shows spread compression and relative outperformance of BBBs over higher-rated IG bonds during early phases of Fed easing. In 2025, USD HY bonds have already returned 6.4% year-to-date, outperforming IG bonds by around 100 basis points. Following July's clarity around U.S. trade policy and growing confidence in rate cuts, we expect HY bonds to generate total returns of 9–10% in 2025, with outperformance over IG widening to 150 basis points.

On the currency front, the outlook for the U.S. dollar is broadly bearish, particularly against high-beta G10 currencies. We see notable upside in the Australian dollar (AUD), the New Zealand dollar (NZD), and the euro (EUR), all of which are poised to benefit from improving global risk sentiment and increased commodity demand. The last time the Fed signalled a dovish shift—during the second half of 2020—the AUD/USD climbed from 0.68 to over 0.77, while EUR/USD rose from 1.12 to 1.23. Today, similar dynamics are emerging, with a >10% YTD drop in the dollar index (DXY) already signalling weaker USD demand. We project the EUR/USD to reach 1.21 by the end of 2026, AUD/USD to reach 0.685, and NZD/USD to rise to 0.605 over the same period.

In contrast, we maintain a neutral stance on safe-haven currencies like the Swiss franc (CHF), as a broadly stabilising global economy limits the need for defensive capital flows. Meanwhile, the JPY could rally on the back of more rate hikes by the Bank of Japan. That said, gold remains an exception within this category. Supported by rising official-sector demand and its role as a hedge against fiscal instability and potential inflation, gold prices could plausibly reach USD 3,600 per ounce by the

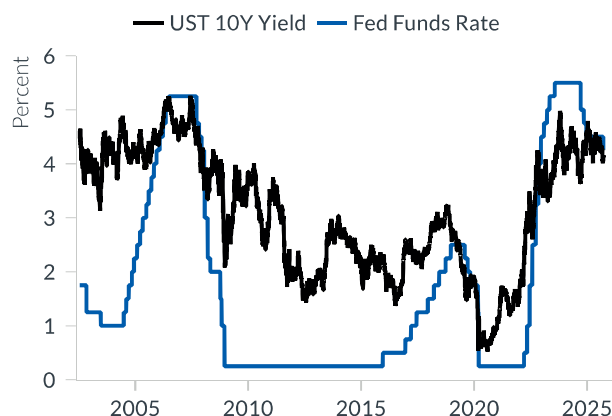
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end of 2026. For the JPY, a meaningful narrowing of front-end rate differentials or a clearer Bank of Japan (BOJ) tightening cycle could lift the currency to 147.5 by year-end 2025 and 144.5 by mid-2026. As for the CHF, the Swiss National Bank's current rate of 0.0% leaves little room for further interest rate adjustments. If downside risks from trade tensions or slowing growth materialise, the franc could weaken to 0.83 per USD.

Within ASEAN, the Malaysian ringgit (MYR) and Singapore dollar (SGD) stand out as the most attractive currencies. The MYR benefits from a relatively stable domestic yield curve, a central bank likely to remain on hold through 2025, and favourable trade linkages. We project USDMYR to fall below 4.20 by 1H26. Meanwhile, the SGD is supported by the Monetary Authority of Singapore's cautious approach to the S\$NEER band and strong demand for Singapore Government Securities. With tariffs on Singapore reduced to 10% and macro indicators improving, we expect USDSGD to strengthen to 1.26–1.27 by 1H26. The Indonesian rupiah (IDR) and Thai baht (THB) are less compelling. Fiscal risks and expected rate cuts by Bank Indonesia could weigh on the IDR, keeping the USIDR near 16,700 by the end of 2025–2026. The baht faces headwinds from deflation and weak growth, though it may strengthen modestly to 31.85 per USD by mid-2026.

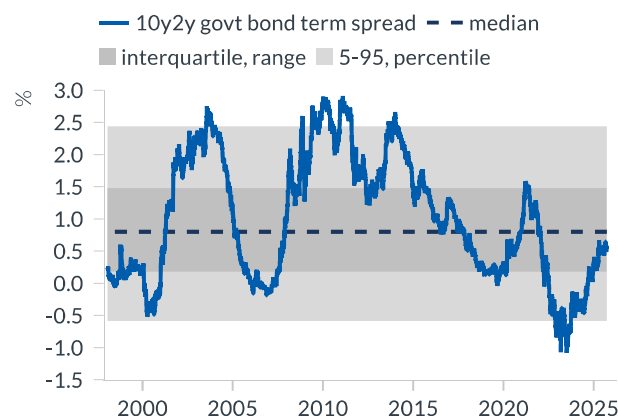
Despite this constructive base case, risks remain. A resurgence in U.S. inflation—driven by labour costs, housing, or commodities—could delay or reverse Fed cuts, sending short-end yields higher and flattening the curve. This would hurt front-end and duration strategies, as well as HY credit trades. A deterioration in global sentiment or trade tensions could also cause safe-haven flows to surge, flattening the curve and reversing credit spread gains. Similarly, a hawkish re-pricing of the Fed's path could strengthen the USD and erode carry trade returns in high-beta and ASEAN currencies.

Figure 36: We forecast US FFR to be reduced by a total of 50bps in 2H25, and another 50bps in 2026...



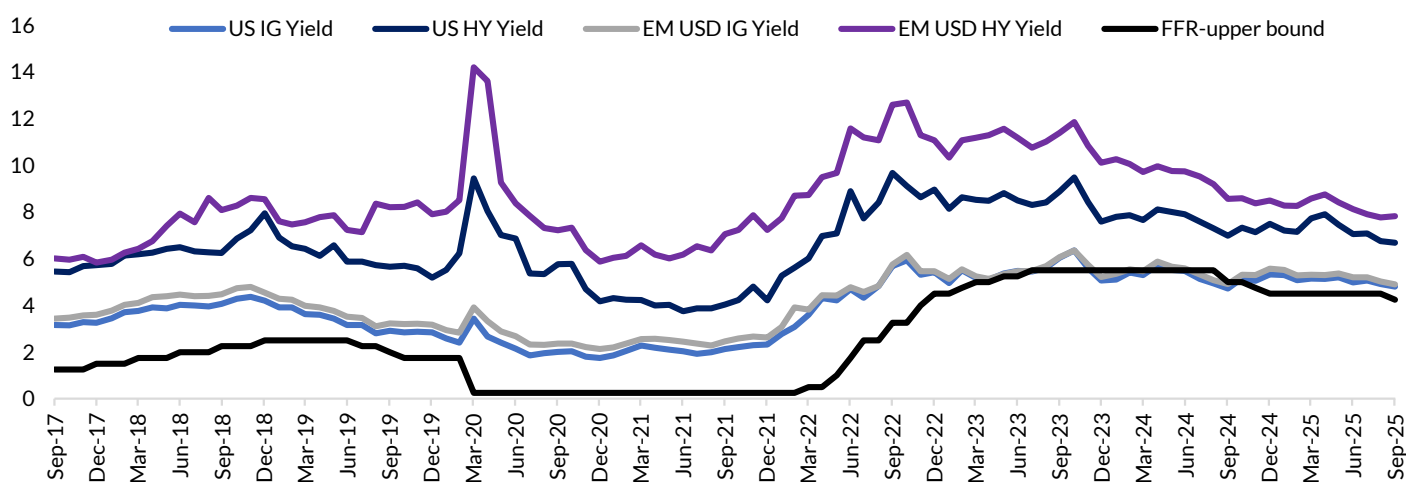
Source: Macrobond, RHB Economics & Market Strategy

Figure 37: ... while UST 2-10Y spread is expected to widen further into 2026 as global growth persists



Source: Macrobond, RHB Economics & Market Strategy

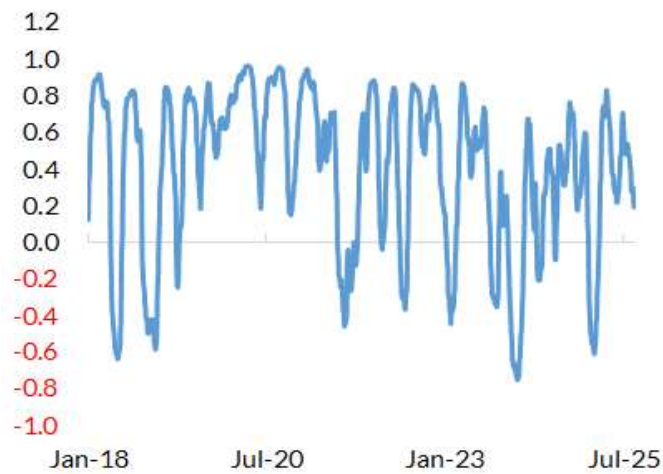
Figure 38: Bias for stronger returns from HY bonds (%)



Source: Macrobond, RHB Economics & Market Strategy

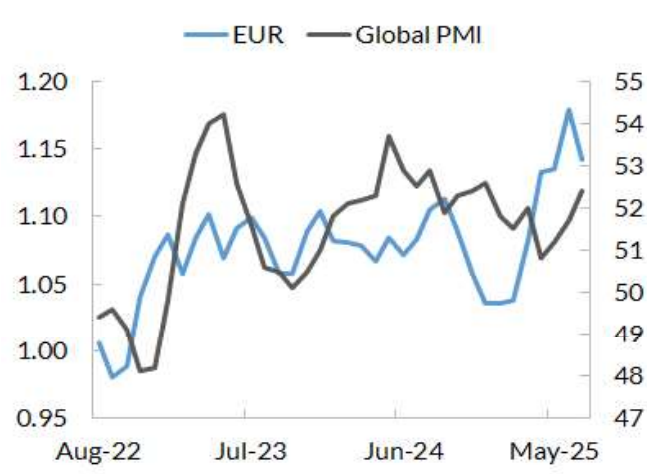
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Figure 39: Roll. Correlation of the AUDUSD spot return vs. the Bloomberg Commodity Index Total Return



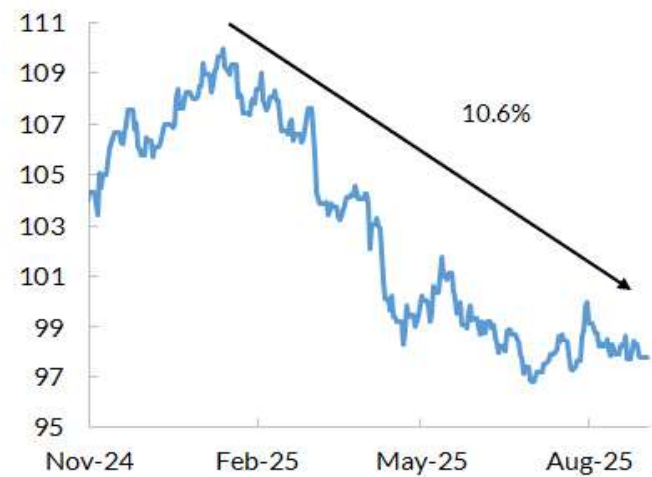
Source: Bloomberg, RHB Economics & Market Strategy

Figure 40: EURUSD vs. Global Composite PMI looks supported



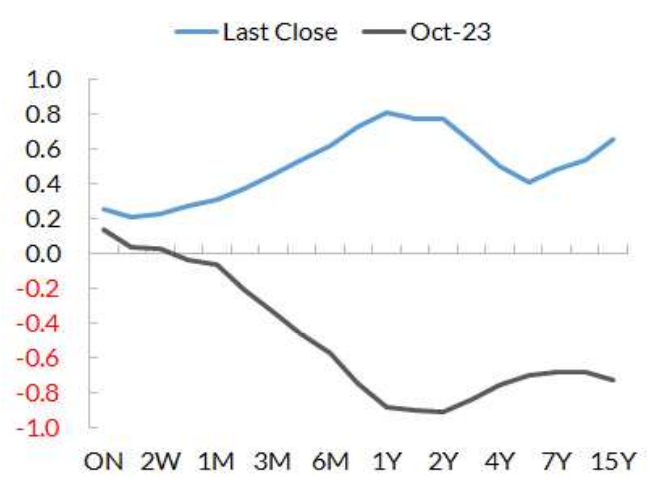
Source: Bloomberg, RHB Economics & Market Strategy

Figure 41: DXY Index year-to-date performances (%)



Source: Bloomberg, RHB Economics & Market Strategy

Figure 42: EURUSD Risk Reversal curve (ppt)



Source: Bloomberg, RHB Economics & Market Strategy

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ASEAN: Regional Trade to be Key, Tariff-led Inflation Limited

Appended with edits from our [thematic report](#)

- ◆ We derived the function for US core PCE inflation, which suggests it is a function of US import price and US retail demand. Our model suggests that a one per cent increase in US import price, while keeping retail sales constant, will lead to a 0.2% increase in US core PCE inflation.
- ◆ Our regression suggests ASEAN's inflation to be a function of domestic pressures and China's export price. Higher US import tariffs, which may lead to elevated US-centric inflation, are likely to have a minimal impact on ASEAN's price pressures.
- ◆ Still, we note that the imposition of US-led tariffs is reshaping global trade flows. ASEAN, with its competitive price pressures, strategic location, and improving infrastructure, is becoming an increasingly central player in this evolving landscape.

We remain cautious of rising stagflation risks in the US for 2025–2026, with GDP growth projected at just 1.5%. Compared to the previous Trump administration, the [economic impact](#) of the current proposed tariff measures appears far more severe. Using past Federal Reserve estimates as a reference, the expanded scope of tariffs could reduce GDP growth by up to 2.0 percentage points. This suggests that a renewed turn toward protectionism could significantly weigh on US economic output, particularly amid already slowing demand and persistent inflation.

Our view that higher US-centric inflation risks have been reinforced by the latest US FOMC economic projections, which pencilled in higher US Core PCE inflation at 2.6% in 2026, up from a prior forecast of 2.4%. Regardless, officials remain cautiously optimistic, to the point of upgrading real GDP growth to 1.6% (from 1.4%) and 1.8% (from 1.6%) in 2025 and 2026, respectively, while citing lower unemployment levels at 4.4% (from 4.5%) and 4.3% (from 4.4%) in 2026 and 2027, respectively. According to the policy statement, officials also cited upside risks to inflation, thereby requiring a cautious stance on the pace of future rate cuts.

Thus, a relatively stronger US growth trajectory, which naturally translates to a tighter labour market, coupled with inflationary pressures, may dissuade from large ticket cuts into 4Q25. Our key conviction is that there will be one more Fed Funds Rate cut in 2025, with the balance of risks leaning towards one or no cuts. The catalyst is from (1) inflation risks may be transitory as it is policy-driven, while (2) a softening labour market prognosis may be a structural one as US tariffs reshape global trade flows. Given that the US inflation prognosis may be the leading driver behind the pace of FFR cuts, we have derived the function of US core PCE inflation in our thematic report.

Our regression suggests that ASEAN's inflation is a function of domestic pressures and China's export prices. Higher US import tariffs, which may lead to elevated US-centric inflation, are likely to have a minimal impact on ASEAN's price pressures. Higher US import tariffs, which may lead to elevated US-centric inflation, may have a minimal effect on ASEAN's price pressures. Inflation pressures have been largely muted across key ASEAN economies – in our latest reports, we have swiftly downgraded inflation forecasts for Malaysia (1.6%, from 2.0%) and Thailand (-0.1%, from 0.3%), while maintaining relatively benign outlooks for Indonesia (2.0%) and Singapore (1.2%). We note that inflation momentum on a YoY perspective has softened markedly, except for Indonesia, as key commodity prices such as food and energy have declined.

The imposition of US-led tariffs is significantly altering global trade flows, positioning ASEAN as a crucial player in the evolving economic landscape. With its competitive labour markets, strategic geographic location, and steadily improving infrastructure, ASEAN countries—particularly Malaysia—are becoming key beneficiaries of shifting trade dynamics. This trend is especially evident in the electrical and electronics (E&E) and machinery sectors, where trade dependencies between the US and ASEAN are deepening. The region's integration into global supply chains, its cost competitiveness, and Malaysia's strong semiconductor presence all point to ASEAN's growing role in international trade.

One of the central arguments supporting ASEAN's prominence is the unique nature of E&E and machinery trade between different global regions. US imports from China and Hong Kong are typically dominated by products such as telephone equipment and data processing machines. At the same time, ASEAN's exports to the US are more focused on printing machines and electrical integrated circuits. In particular, Malaysia has become a vital supplier of semiconductors, telephones, and media storage devices. The US heavily relies on ASEAN—especially Malaysia—for imports of electrical integrated circuits, which are essential components in consumer electronics and industrial applications. This underscores ASEAN's role as a non-substitutable source of critical components in US supply chains.

In addition to product differentiation, ASEAN's competitiveness is reinforced by its favourable tariff positioning and low production costs. While the US imposes tariffs of 19–20% on most ASEAN countries, this remains lower than the heightened 55% tariffs currently applied to Chinese imports. Compared to the EU and the UK, facing 15% and 10% tariffs, respectively, ASEAN may seem slightly disadvantaged. However, this is offset by the region's significantly lower producer price indexes

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(PPI), particularly in Malaysia, Singapore, and Thailand. These lower costs give ASEAN manufacturers a pricing advantage in global markets, enabling them to remain competitive with US importers despite the pressures of tariffs.

Malaysia, in particular, holds a dominant position in global semiconductor production and exports. As the sixth-largest semiconductor exporter globally, Malaysia contributes 13% of the world's semiconductor assembly, testing, and packaging capacity. Notably, over 95% of its semiconductor exports to the US are produced by American firms with operations in Malaysia, such as Intel and Texas Instruments. This deep-rooted integration makes any major disruption to trade between the two countries economically unfeasible. Moreover, Malaysia's E&E exports are well diversified, with large trade surpluses not only with the US, but also with China, Hong Kong, the EU, and fellow ASEAN nations. This broad-based demand further enhances Malaysia's resilience in a volatile trade environment.

Despite increasing trade protectionism from the US, ASEAN's interconnectedness and competitive strengths suggest that it will remain a key player in global trade. The US is still expected to dominate high-tech and aerospace exports, with products such as aircraft parts and laboratory equipment facing minimal international competition. At the same time, ASEAN imports vital mid-value electronics from China and Europe, such as printed circuits and telecommunication devices. In contrast, intra-ASEAN trade—like Malaysia's import of transformers and telephones from neighbouring countries—continues to strengthen. These trade flows underscore ASEAN's pivotal role in both the upstream and downstream segments of global supply chains.

However, the possibility of a global trade system without US centrality is worth considering. A retreat of the US from its dominant trade position would lead to major realignments in global supply chains. Other major exporters—such as Brazil and Argentina in agriculture or China and the EU in electronics and pharmaceuticals—would step in to fill the void. In such a scenario, trade would likely become increasingly regionalised. For instance, ASEAN's trade with China is expected to intensify, supported by agreements such as the Regional Comprehensive Economic Partnership (RCEP). Similarly, the EU would deepen intra-regional trade and develop stronger links with neighbouring regions, while Africa's AfCFTA would spur greater intra-continental trade.

Figure 43: US core PCE inflation is a function of import Prices and Retail Demand

Regression report

In: US Core PCE

Estimation sample range	1992 Jan	2025 Jun
Observations	402	
Degrees of freedom	399	
R2	0.96349	
Adjusted R2	0.96321	
F	5264.47200	
P-value (F)	0.00000	
Sum of squared errors	0.46690	
Standard error of regression	0.03421	
Durbin-Watson	1.10015	
AIC	-3.90528	
HQ	-3.89348	
Schwarz	-3.87546	

	Coefficient	Standard error	t	P-value
intercept	-6.27443	0.13593	-46.15836	0.00000
x1	0.19203	0.02038	9.42048	0.00000
x2	0.36995	0.00778	47.57197	0.00000
Legend				
x1	In: US Import Price		3.392	3.392
x2	In: US Retail Sales			

Source: Macrobond, RHB Economics & Market Strategy

Figure 44: US export prices are determined largely by US import prices, a proxy of producer prices

Regression report

US Export Price

Estimation sample range	1983 Sep	2025 Jun
Observations	502	
Degrees of freedom	500	
R2	0.93592	
Adjusted R2	0.93566	
F	7302.49671	
P-value (F)	0.00000	
Sum of squared errors	12122.60331	
Standard error of regression	4.92394	
Durbin-Watson	0.03676	
AIC	6.03007	
HQ	6.03667	
Schwarz	6.04688	

	Coefficient	Standard error	t	P-value
intercept	12.39612	1.18717	10.44177	0.00000
x1	0.90179	0.01055	85.45465	0.00000
Legend				
x1	US Import Price			

Source: Macrobond, RHB Economics & Market Strategy

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Figure 45: Granger causality analysis suggests that ASEAN-6 inflation is caused by a lag of the US export price

Y1 = ASEAN-6 CPI YoY

Y2 = US Export Price YoY

Y1 is caused by Y2, based on granger

Time period 1Q2016 – 1Q2025 (10 years)

	Dependent variable:	
	(1)	(2)
y1.l1	0.954*** (0.028)	-0.083 (0.192)
y2.l1	0.036*** (0.012)	0.886*** (0.082)
Observations	36	36
R2	0.974	0.783
Adjusted R2	0.973	0.770
Residual Std. Error (df = 34)	0.518	3.540
F Statistic (df = 2; 34)	639.000***	61.420***

Note: *p<0.1; **p<0.05; ***p<0.01

Granger causality H0: y2 do not Granger-cause y1

data: VAR object estim

F-Test = 8.9, df1 = 1, df2 = 68, p-value = 0.004

Source: Macrobond, RHB Economics & Market Strategy

Figure 47: Granger causality analysis suggests that ASEAN-6 inflation is caused by a lag of Brent Prices

Y1 = ASEAN-6 CPI YoY

Y2 = Brent YoY

Y1 is caused by Y2, based on granger

Time period 1Q2016 – 1Q2025 (10 years)

	Dependent variable:	
	(1)	(2)
y1.l1	0.956*** (0.029)	-0.172 (1.316)
y2.l1	0.007** (0.002)	0.751*** (0.114)
Observations	36	36
R2	0.973	0.573
Adjusted R2	0.971	0.548
Residual Std. Error (df = 34)	0.528	24.280
F Statistic (df = 2; 34)	614.500***	22.840***

Note: *p<0.1; **p<0.05; ***p<0.01

Granger causality H0: y2 do not Granger-cause y1

data: VAR object estim

F-Test = 7.3, df1 = 1, df2 = 68, p-value = 0.009

Source: Macrobond, RHB Economics & Market Strategy

Figure 46: ASEAN-6 inflation function is dependent on China export prices and labour cost**Regression report**

ASEAN-6 CPI SA YoY %

Estimation sample range	2016 Q1	2025 Q1
Observations	37	
Degrees of freedom	33	
R2	0.63722	
Adjusted R2	0.59188	
F	19.32174	
P-value (F)	0.00000	
Sum of squared errors	10.64310	
Standard error of regression	0.56791	
Durbin-Watson	0.65481	
AIC	1.80809	
HQ	1.86948	
Schwarz	1.98224	
		> print(vif_values)
		x[, 1] x[, 2] x[, 3]
		1.496 1.517 1.098

	Coefficient	Standard error	t	P-value
intercept	2.92224	0.11920	24.51640	0.00000
x1	7.20677	1.77190	4.06725	0.00028
x2	-0.08657	0.01442	-6.00398	0.00000
x3	0.10097	0.04099	2.46343	0.01915

Legend	
x1	China Export Price YoY%
x2	US Export Price YoY % (Lead 1 Period)
x3	ASEAN-3 Labour Cost YoY %

Source: Macrobond, RHB Economics & Market Strategy

Figure 48: Granger causality analysis suggests ASEAN-6 inflation is caused by a lag of FAO Food Prices

Y1 = ASEAN-6 CPI YoY

Y2 = FAO Food YoY

Y1 is caused by Y2, based on granger

Time period 1Q2016 – 1Q2025 (10 years)

	Dependent variable:	
	(1)	(2)
y1.l1	0.962*** (0.028)	-0.085 (0.359)
y2.l1	0.018** (0.007)	0.867*** (0.085)
Observations	36	36
R2	0.973	0.759
Adjusted R2	0.972	0.745
Residual Std. Error (df = 34)	0.528	6.724
F Statistic (df = 2; 34)	616.100***	53.620***

Note: *p<0.1; **p<0.05; ***p<0.01

Granger causality H0: y2 do not Granger-cause y1

data: VAR object estim

F-Test = 7.4, df1 = 1, df2 = 68, p-value = 0.008

Source: Macrobond, RHB Economics & Market Strategy

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Budget 2026 Preview: Fiscal Sustainability and Inclusive Development

Appended with edits from our [Budget 2026 Preview report](#)

- ◆ In our view, Budget 2026 will focus on five key prongs: (1) fiscal sustainability, (2) economic stimulus and infrastructure development, (3) social welfare and inclusivity, (4) strengthening the business and investment climate, and (5) advancing Environmental, Social, and Governance (ESG) priorities.
- ◆ We forecast the fiscal deficit target at 3.5% of GDP for 2026, potentially followed by 3.2% of GDP set for the following year. We expect MYR86 billion to MYR89 billion to be allocated for development expenditure. The central priority will be to strengthen regional mobility and promote more balanced development across states.
- ◆ Budget 2026 is poised to be a pivotal instrument in steering Malaysia towards sustained and inclusive growth amid a complex global environment. Anchored firmly within the framework of the 13th Malaysia Plan (13MP) and the MADANI Economy, it will serve to balance immediate fiscal prudence with long-term strategic investments.

Prong 1: Fiscal Sustainability. We expect no major new tax measures or subsidy rationalisation initiatives, with the focus instead on refining existing policies to ensure smoother execution and stronger fiscal impact. Several fiscal measures may be introduced in Budget 2026. First, further revisions to the Sales and Service Tax (SST) are possible, particularly by raising the rate for food & beverage, as well as telecommunications services, from 6% to 8%, in line with efforts to strengthen revenue collection while exempting essential items. Second, taxes on unhealthy goods—such as sugary drinks, tobacco, and alcohol—could be increased, with proposals under the 13MP to expand pro-health taxation. Third, the government is likely to introduce a carbon tax in 2026, targeting high-emission and trade-exposed sectors such as iron, steel, and energy. Fourth, refinements to the RON95 subsidy rationalisation cannot be ruled out. The current usage cap of 300 litres per month applies to all Malaysians, but future adjustments may limit subsidies by income group. Projected savings are up to MYR 4 billion, lower than earlier estimates of MYR 8 billion, partly due to lower oil prices and additional subsidy disbursements. Finally, the rollout of e-invoicing will continue in 2026, covering businesses with a turnover of RM1–5 million from January 1 and extending to those with a turnover below RM1 million from July 1, with full implementation expected by the end of 2026.

Prong 2: Economic Stimulus and Infrastructure Development. We project MYR86–89 billion in development expenditure under Budget 2026, with a focus on regional mobility, connectivity, and equitable growth across states. Allocations are likely to cover highway upgrades, rural roads (including 2,800 km slated by 2030), enhanced air and rail links, flood mitigation in high-risk states, and continued works on major projects such as the Pan Borneo and Trans Borneo Highways, PLUS upgrades, and the Central Spine Road. Digital development will also be a priority, with funding expected for broadband expansion, smart city infrastructure, and AI capabilities. Collectively, these measures are designed to boost investment, employment, and resilience, while positioning Malaysia for inclusive, future-ready, and regionally balanced growth.

Prong 3: Social Welfare and Inclusivity. Reducing living costs and addressing inequality will remain top priorities, with continued support for vulnerable groups and key measures spanning healthcare and education. Housing affordability will be supported through expanded state-linked schemes, Rent-to-Own programmes, tax reliefs, and the continuation of the Housing Credit Guarantee Scheme for first-time buyers with irregular incomes. Targeted cash aid and subsidies, including STR and SARA, are expected to receive higher allocations of MYR 16–17 billion, with a possible additional SARA handout of MYR 100 per eligible Malaysian. Continued support for public transport subsidies will further ease household burdens. Civil servants are also set to benefit from salary adjustments under the Public Service Remuneration System (SSPA), with Phase 2 scheduled for January 2026, granting a 7% increase for implementers, managers, and professionals, and 3% for top management, following Phase 1's respective 8% and 4% hikes in December 2024.

Prong 4: Strengthening the Business and Investment Climate. Enhancing competitiveness, quality FDI, and MSME development through innovation, regulatory efficiency, and ease of doing business will remain a priority. Targeted incentives are likely to be offered to sectors such as renewable energy, digitalisation, E&E, advanced manufacturing, agriculture, and Islamic finance, with rare earth, E&E, and Islamic finance set to draw particular attention given their growth potential under the 13MP. MSMEs—which make up 97% of businesses and contribute significantly to GDP and jobs—will remain central beneficiaries, with expected measures including grants, soft loans, preferential tax rates, digitalisation support, and expanded loan guarantees to enhance resilience amid global uncertainties. The tourism sector will also benefit from Visit Malaysia 2026 allocations for infrastructure and promotion.

Prong 5: Advancing ESG Priorities. Budget 2026 will further the 13MP's green agenda through a phased carbon tax on high-emission sectors, expanded incentives for renewables, and stricter ESG requirements. Support for SMEs, enhanced green financing tools, and continued funding for the National Energy Transition Facility (NETF) will mobilise private investment and position Malaysia as a regional hub for sustainable growth.

Foreign Exchange Outlook

Floor found, ceiling lower: More USD weaknesses into 2026

Foreign Exchange Outlook

Floor found, ceiling lower: More USD weaknesses into 2026

- ◆ We continue to hold to a structurally bearish view on the USD over the longer term, even as recent developments suggest the greenback may still enjoy bouts of support in the near term. We expect DXY to reach 95.0 by the end of 2026.
- ◆ Both the long-cycle technical and the seasonality profile are pointing to a potential structural shift in favour of MYR strength, with downside pressure on USDMYR likely to persist into 4Q25. We target the pair to reach to below 4.15 by the end of 2H26.
- ◆ We expect bullish bias to help support ASEAN FXs, but we prefer to be selective on them. Long on SGD, MYR, and THB but cautious on IDR.

FX Strategist

Muhamad Farid Anas bin Johari

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Figure 1: RHB Revised FX Forecast 4Q25 – 4Q26

RHB Forecasts							Bloomberg Forecasts				
G10 FX	3Q25A*	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
DXY	97.9	97.0	96.5	96.0	95.5	95.0	96.3	95.9	95.4	94.8	94.0
EUR-USD	1.172	1.182	1.188	1.194	1.201	1.207	1.190	1.200	1.200	1.220	1.220
USD-JPY	148.6	147.5	146.5	145.5	144.4	143.4	143.0	140.0	140.0	138.0	136.0
GBP-USD	1.344	1.356	1.364	1.372	1.379	1.383	1.370	1.370	1.380	1.390	1.400
AUD-USD	0.659	0.665	0.670	0.675	0.680	0.685	0.670	0.670	0.680	0.690	0.680
NZD-USD	0.579	0.588	0.593	0.597	0.601	0.605	0.610	0.610	0.620	0.620	0.620
AXJ FX	3Q25A*	4Q25F	1Q26F	2Q26F	3Q25F	4Q26F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
USD-CNH	7.132	7.115	7.095	7.074	7.054	7.033	7.110	7.090	7.060	7.050	7.000
USD-IDR	16,693	16,700	16,692	16,683	16,674	16,665	16,200	16,200	16,120	16,150	16,100
USD-MYR	4.216	4.200	4.178	4.157	4.136	4.120	4.200	4.170	4.140	4.140	4.100
USD-SGD	1.291	1.281	1.278	1.274	1.270	1.267	1.270	1.270	1.270	1.260	1.260
USD-THB	32.34	32.00	31.93	31.85	31.78	31.70	32.30	32.30	32.20	32.00	32.00

Source: RHB Economics & Market Strategy

Note: The above forecasts are indicative for the end of the quarter.

A*: Actual as of afternoon Asia session

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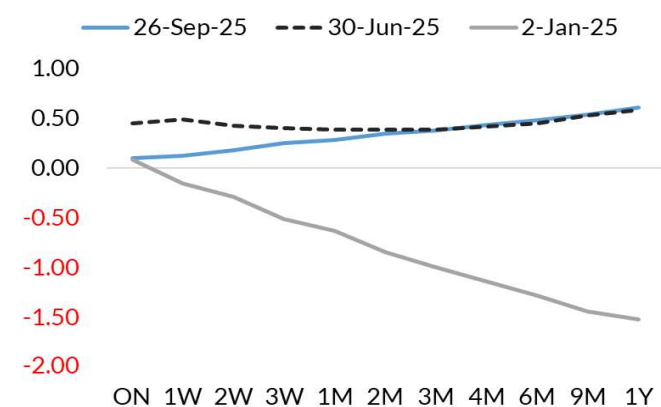
Majors: USD Bears to Dominate into 2026

- ◆ **Markets kept the dollar afloat in 3Q25 despite an ongoing bearish bias.** After two straight quarters of declines, the dollar index finally found a floor, holding within the 96–100 range through 3Q25 as markets reassessed USD weakness. A softer July jobs report shifted sentiment toward a more constructive global outlook, while expectations of Fed easing, which is two cuts by end-2025 and over four in 2026 versus the Fed's median projection of only three in total, highlighted the disconnect between market pricing and policymakers. This tug-of-war created volatility but also helped prevent deeper losses in the DXY. At the same time, investors seemed to grow desensitised to the noise from US trade and fiscal headlines, focusing instead on fundamentals such as growth trends and policy outlook, meaning it may take more severe “bad news” to trigger renewed dollar selling. On the external front, the euro's rally was capped by French political turbulence, Japan faced leadership uncertainty after PM Shigeru Ishiba's resignation, China's downturn deepened, and the UK contended with fiscal strains. Collectively, these mixed developments across other economies supported the greenback's resilience, limiting downside risks below the 96-level.
- ◆ **Macro drivers dominate FX while political noise fades.** We expect FX developments to remain anchored by shifts in interest rate expectations, the Fed's policy stance, and broader US economic conditions, with secondary influence from external political events from outside of the US and, to a lesser degree, US trade and fiscal headlines. As flagged in our 3Q25 Path Finder, markets' attention has indeed gravitated toward macro drivers rather than political turbulence. This is reflected in calmer market conditions — DXY implied volatility across tenors eased below or just above 7% by late September, while broader risk gauges such as the VIX and MOVE indices have also softened considerably since April. Moreover, the DXY has shown a tighter alignment with the 2Y UST yield, underlining its sensitivity to rate narratives. However, the correlation has moderated to below 75%, compared with highs above 90% in the past. Still, we remain cautious, as any severe fiscal or trade headlines could quickly reignite volatility and disrupt the prevailing calm.
- ◆ **We continue to hold to a structurally bearish view on the USD over the longer term, even as recent developments suggest the greenback may still enjoy bouts of support in the near term. We expect DXY to reach 95.0 by the end of 2026.** Upside surprises in August retail sales (0.6% MoM vs. 0.2% expected), a sharp retreat in initial jobless claims, and upward revisions to 2Q25 GDP on the back of robust consumer spending all point to an economy that remains more resilient than markets had anticipated. These factors, coupled with the likelihood that investors may have over-priced the extent of Fed rate cuts, suggest some near-term tailwinds for the dollar as future interest rate pricing is readjusted. Our baseline remains for one final cut in 4Q25, followed by another 50bps of easing in 2026, which should cap USD strength and eventually re-anchor the longer-term downtrend. In this context, we see the DXY finishing 2025 around 97, with a more pronounced bearish leg materialising in 2026, targeting 95 by year-end. On the downside, year-end corporate flows and early repositioning by traders for 2026 are expected to add to pressure in 4Q25, amplifying the impact of the Fed's resumption of easing. Our longer-term bearish conviction ultimately rests on three anchors: (1) a Fed easing path that extends well beyond 2025, which would ultimately make the USD yields less attractive, (2) a steady build-up of USD-bearish positioning across markets (3) headlines of Fed vs. White House drama take the centre stage. Taken together, these dynamics underscore our view that while the dollar may remain supported in the immediate horizon, the broader tide is turning against it.
- ◆ **Market signals increasingly tilt toward a bearish USD bias.** To frame the picture more clearly, we turn to selective indicators that underscore the build-up of USD-bearish sentiment so far. Flows into exchange-traded funds illustrate a notable shift in positioning: the UUP (Invesco DB US Dollar Index Bullish Fund) saw its 4-week average flows turn negative starting in August 2025. By contrast, using the same calculation the UDN (Invesco DB US Dollar Index Bearish Fund) recorded an inflows of +USD1.5mn, with hedging demand surfaced in September (+USD3.76mn inflows on both 15 and 22 September). Options markets tell a similar story: EUR-USD risk reversals shifted from deeply negative on 2 January 2025 (–0.5% to –1.8% across tenors, implying heavy demand for USD calls) to slightly positive by 30 June and 26 September (0.0–0.6%), reflecting increased appetite for EUR calls (USD puts) as investors sought protection against a weaker dollar. Positioning data reinforces this tilt. CFTC reports show leveraged funds shifting from roughly 10k USD in net longs in February 2025 to below 10k net shorts by August. This suggests that while fast-money selling has moderated and some short-covering has occurred, the broader balance of evidence indicates persistent bearish undertones in USD sentiment.
- ◆ **Key risks remain that could derail our bearish USD view.** That said, we continue to flag several risks that could temper or even reverse the bearish dollar narrative. First, suppose the recent stronger US data evolves into a sustained trend rather than a temporary blip. In that case, markets may recalibrate towards fewer Fed rate cuts — potentially down to just one, or even less than what Fed officials themselves are projecting. Second, the much-discussed shift away from the USD's dominance in the global system is progressing at a “glacial” pace; should this stickiness persist, investors may eventually revert to the dollar as the reserve of choice. Lastly, although not our base case, the probability of President Trump reversing course and rolling back trade barriers to square one cannot be ruled out entirely — and such a pivot would carry meaningful implications for USD demand.

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- ◆ **EUR outlook: conviction grows as Fed turns dovish while ECB holds steady.** The balance of risks for the euro has shifted more decisively in its favour over the past month. Softer US employment data and the absence of tariff-driven inflation pressures have prompted the Fed to adopt an easing path. The yield spreads have swung against the dollar as the ECB has drawn a line under its easing cycle at 2.00% and adopted a neutral stance, reinforcing stability in euro rates. Apart from this, our call for a EUR-USD bullish trajectory rests primarily on the dollar's decline. At the same time, additional tailwinds may come from European fiscal initiatives tied to NATO and German policy. That said, uneven participation across member states could dilute the growth boost.
- ◆ **GBP outlook: mild bullish bias sustained.** Sterling's YTD rally stalled in Q3, with GBP-USD consolidating in a broad 1.35 range. Nonetheless, the pound's fundamental backdrop remains supportive, as the BoE has signalled relatively less easing than the Fed, with rate differentials at an elevated level providing an important tailwind. The BoE's August decision to maintain rates at 4.00% with a 7-2 vote, underscoring its hawkish stance amid inflation still near 4%. Political uncertainty has also eased, improving sentiment, though elevated public debt keeps fiscal risks on the radar. The upcoming budget may alleviate some investors' fiscal concerns through additional tax measures, but the current policy mix may not bode well for growth. Nonetheless, the broader USD downtrend should allow the British pound to grind higher into 2026. We remain mildly bullish, targeting 1.36 by Q4 2025 and 1.38 by Q4 2026.
- ◆ **JPY outlook: Will hinge on BoJ tightening prospects and political dynamics.** The upcoming LDP leadership contest on 4 October is pivotal: Shinjiro Koizumi is seen as favouring reform and stricter fiscal discipline, which could accelerate a BoJ rate hike, while Sanae Takaichi is more likely to extend Abe-style accommodative policies, implying a later rate hike move by the central bank. Our base case remains for the BoJ to raise rates by 25bps before year-end. Officials have repeatedly signalled a desire to continue normalisation and have dismissed speculation of a prolonged pause, even as politics adds near-term uncertainty. Narrowing yield spreads and improving domestic fundamentals reinforce the case for yen appreciation. We expect USD-JPY to break lower from its current range, with targets of 147.5 by Q4 2025 and 143.4 by Q4 2026.
- ◆ **AUD & NZD outlook: a selective approach is warranted.** The Australian dollar retains solid upside potential, aided by a relatively measured Fed easing cycle and a calmer backdrop in US-China trade relations. Inflation uptick, lower unemployment rate, and both GDP and wage growth in Q2 outperformed expectations, all of which strengthen the case for the RBA to limit its easing to just one more cut this year. From a market perspective, only about 1.27x 25bps of cuts are priced in by end-2025, highlighting Australia's relative yield advantage versus the Fed's deeper expected easing. We maintain a bullish view on the currency, targeting AUD-USD at 0.665 by Q4 2025 and 0.685 by Q4 2026. For the NZD, upcoming meetings in October and November are in focus. Markets are currently pricing in roughly 2.41x 25bp cuts by the end of 2025 and about 3.01x by July 2026, leaving the NZD less compelling than its Australian counterpart. Leadership continuity at the central bank also anchors near-term expectations: Dr Anna Breman, currently First Deputy Governor at Sweden's Riksbank, will assume the role of RBNZ Governor on 1 December 2025. We expect no abrupt shift in direction. Instead, policy is set to remain gradual and data-dependent, with the inflation trajectory dictating the pace of cuts.

Figure 2: EUR-USD risk reversal indicators still skewed towards euro bullish from 1M and beyond



Source: Bloomberg, RHB Economics & Market Strategy

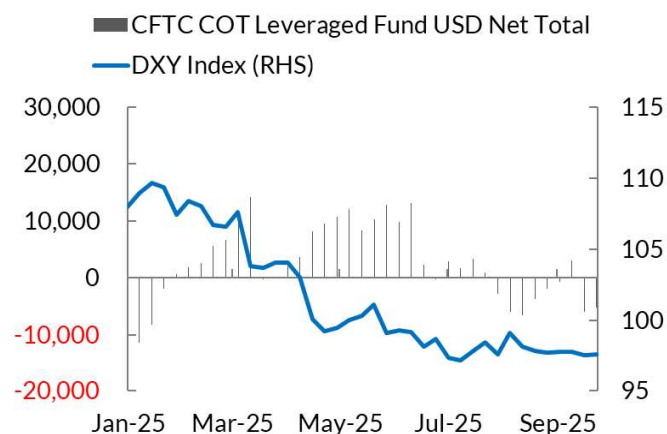
Figure 3: DXY historical seasonal trend suggests bearish trend is still possible for 4Q25

	1Q	2Q	3Q	4Q
5Y Avg.	2.3	1.1	0.8	-1.5
2025	-3.9	-7.0	1.1	
2024	3.1	1.3	-4.8	7.7
2023	-1.0	0.4	3.2	-4.6
2022	2.8	6.5	7.1	-7.7
2021	3.7	-0.9	1.9	1.5
2020	2.8	-1.7	-3.6	-4.2

Source: Bloomberg, RHB Economics & Market Strategy

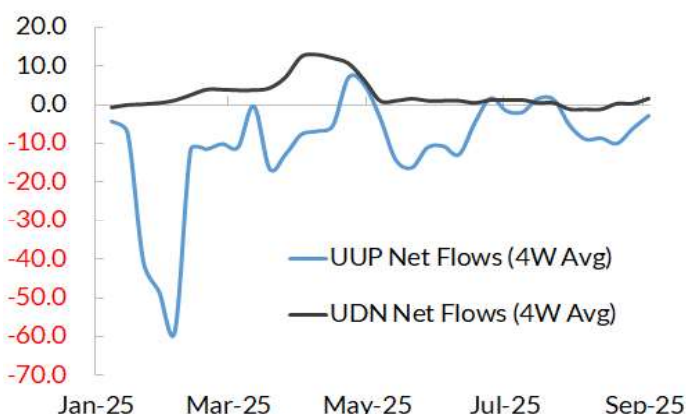
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Figure 4: Leveraged Funds positioning on USD remains on net-short



Source: Bloomberg, RHB Economics & Market Strategy

Figure 5: Flows into exchange-traded funds (USD'mn)



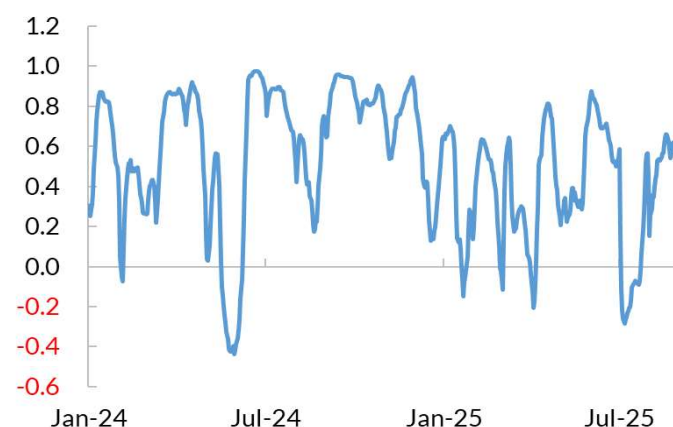
Source: etf.com, RHB Economics & Market Strategy

Figure 6: Bloomberg ECO US Surprise Index underpins the recent upside surprises on US data



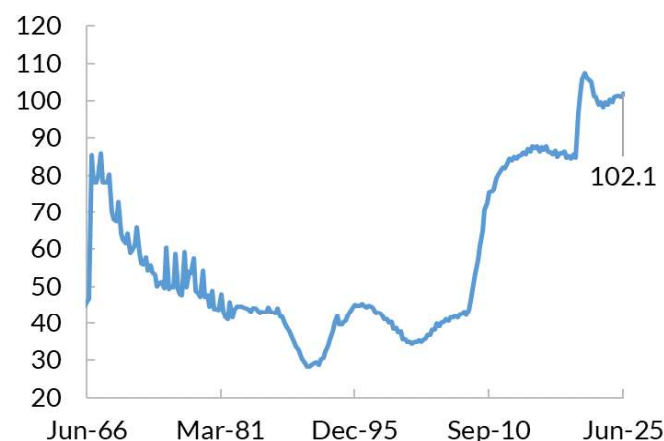
Source: Bloomberg, RHB Economics & Market Strategy

Figure 7: 1M rolling correlation between the DXY and UST2Y yield



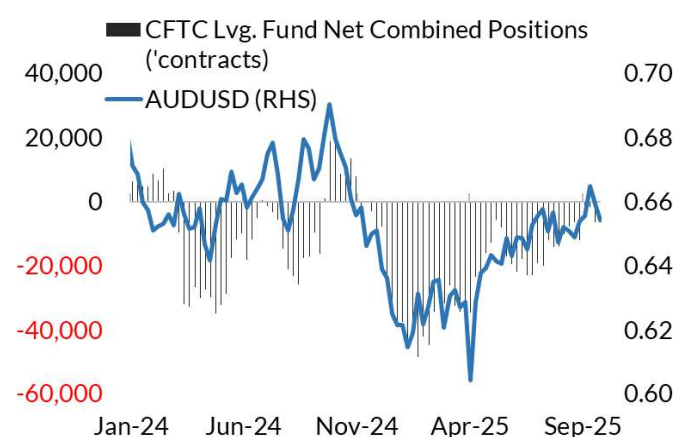
Source: Bloomberg, RHB Economics & Market Strategy

Figure 8: UK's 2Q25 gov. debt over GDP (%) stands at 102.1%, hovering near the highest on record



Source: CEIC, RHB Economics & Market Strategy

Figure 9: Leveraged Funds continue to reduce their net short positioning on AUD



Source: Bloomberg, RHB Economics & Market Strategy

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USD-MYR: Lower is the Path of Least Resistance

- ◆ **Fundamental valuation models indicate that the ringgit remains structurally undervalued. At the same time, near-term signals point to limited scope for further gains,** based on our proprietary Relative-PPP framework and the Behavioural Equilibrium Exchange Rate (BEER) model. The Relative-PPP model, constructed from a matched CPI basket of Food & Beverages, Clothing, Rent, and Transport, rebased to a common anchor, provides a mixed signal: August's spot of 4.2248 is modestly overvalued against the short-term tactical fair value (1Y anchor) of 4.304, but undervalued against the longer-term fair value (5Y anchor) of 4.150, suggesting that the MYR remains structurally undervalued over a longer horizon. Meanwhile, our BEER model is showing an overvaluation of almost 5.0% (4.419 fair value vs. 4.210 spot), which is explained partly by the softness of the USD itself during the quarter. To learn more about our methodology and the fair value method, please click [here](#).
- ◆ **On the monetary policy front, a steady BNM whilst the Fed resumes easing cycle should be supportive for the ringgit.** Following the surprise 25bps cut that the BNM did back in July, we think the OPR level at 2.75% is sufficient enough in "preserving" Malaysia's growth prospects. Thus, we do not see a need for the BNM to ease its policy further for the remainder of 2025 and into 2026. However, we do not entirely discount the possibility of another 25bps cut in 2026, especially if the domestic growth rate dips below 4.0%. At the same time, we are seeing the Fed continue its easing path as cracks in the US labour market become apparent. Market pricing indicates another 4.42x 25bps cut by the end of 2026, while Fed officials, through their dot plot median projections, are signalling a possible 3x more cuts by the end of 2026. Taken together, this narrowing interest rate differential between the OPR-FFR should bode well for the ringgit. For now, the ringgit may be contained around the key psychological level of 4.20 per USD, but it will soon breach that level, with our end-2026 target for the ringgit to be at 4.12 per USD.
- ◆ **While the ringgit enjoys structural support over the medium term, several external and domestic risks leave room for renewed weakness.** On the supportive side, Malaysia's healthy sovereign credit profile and commitment to fiscal consolidation continue to bolster investor confidence. The potential for further improvements in trade relations with the US may lend additional backing through stronger export performance. Stabilising the oil price may also keep the ringgit supported amidst the ongoing global trade turbulences. At the same time, the narrowing of MY-US rate differentials should provide some medium-term stability. We also note that corporates and exporters have not fully repatriated their earnings back to the ringgit, which suggests that the bullet for further MYR gains could come into effect soon if those dollar proceeds are converted into ringgit. However, risks remain. Any escalation in US trade protectionism could weigh on sentiment. At the same time, a sharper-than-expected slowdown in Malaysia's growth trajectory might prompt BNM to ease further beyond its 9 July cut, undermining the currency. In addition, a global shift toward safe-haven flows would likely divert capital away from emerging markets, Malaysia included. Taking these factors together, we judge risks to be balanced but note that the ringgit could slip back toward the 4.30–4.35 region if the downside scenarios materialise.
- ◆ **Both the long-cycle technical and the seasonality profile are pointing to a potential structural shift in favour of MYR strength, with downside pressure on USDMYR likely to persist into 4Q25. We target the pair to reach to below 4.15 by the end of 2H26.** On the technical front, the quarterly chart highlights a notable break, as the pair now trades below the 7-, 15-, and 25-quarter SMAs (4.414, 4.461, and 4.345, respectively), a development that has historically preceded multi-year MYR appreciation cycles, such as those seen in 2006–2011. The 7-quarter SMA has already crossed beneath the 15. If it extends below the 25 while the 15 follows in subsequent quarters, this would establish a full bearish stack (7 < 15 < 25), providing strong confirmation of a regime change and signalling that the long USD uptrend that began in 2013–2014 is losing steam. This structural picture syncs with the seasonality chart, which shows that while the five-year average tends to see MYR weakness through the middle of the year before a modest recovery in Q4, 2025 has already diverged from this historical pattern, with USD-MYR registering persistent declines in Q1–Q3, particularly in April and May. The unusual early-year MYR resilience in 2025 reinforces the technical case that the currency is transitioning into a stronger cycle, and seasonality adds weight to the view that this trend could extend into year-end. Combining both perspectives, the probability is high that in 4Q25 USD-MYR will remain capped below the 4.25–4.30 region, with technical momentum favouring a gradual grind lower toward 4.10 and scope to retest the 4.00 psychological threshold if USD sentiment stays subdued, underscoring the broader bearish bias that is taking shape across both cyclical and structural lenses.

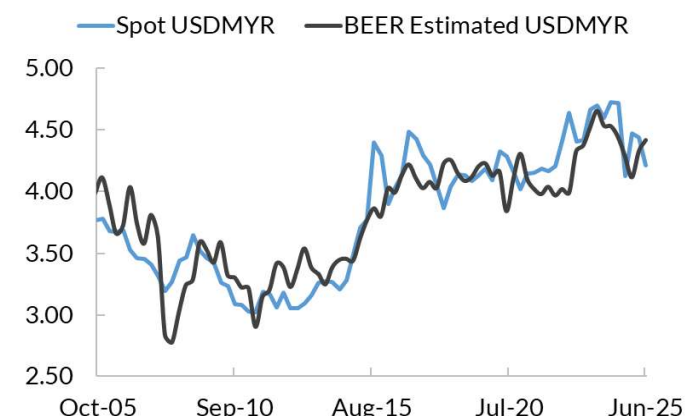
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Figure 10: USD-MYR is driven by five key variables

Dependent Variable: USD/MYR				
	Coeff.	Std. Error	t Stat	P-value
Intercept	0.85	0.05	16.31	0.00
Depo Rate 3M MY-US	-0.02	0.00	-9.83	0.00
FABoP/GDP (%)	0.00	0.00	-3.13	0.00
CABoP/GDP (%)	-0.01	0.00	-7.39	0.00
Log ToT MY-US	-0.56	0.17	-3.25	0.00
Log Brent	-0.09	0.03	-2.90	0.00
R-Square	0.783			

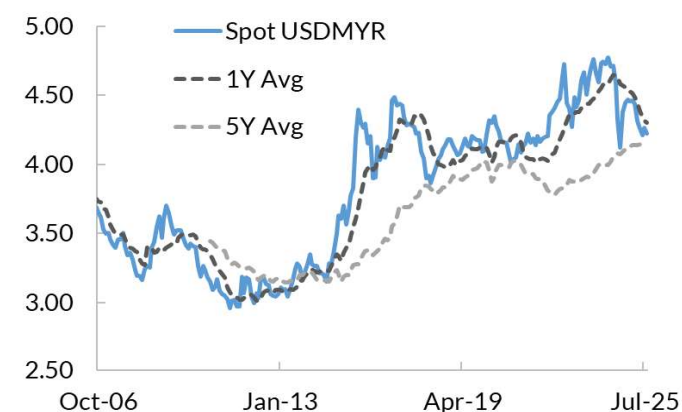
Source: RHB Economics & Market Strategy.

Figure 11: Spot USD-MYR vs. RHB BEER Estimated USD-MYR



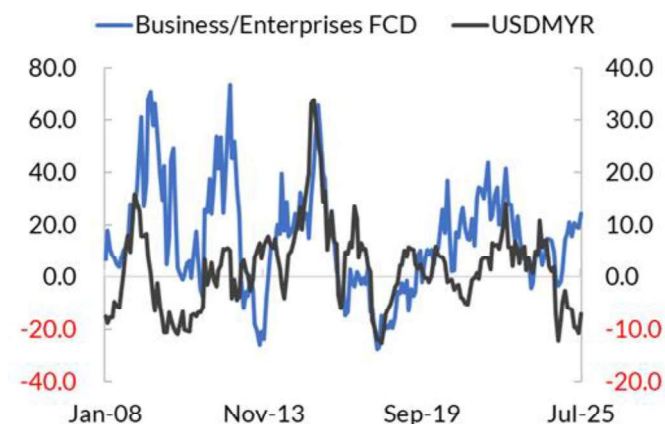
Source: CEIC, RHB Economics & Market Strategy.

Figure 12: Spot USD-MYR vs. fair value through relative-PPP on different timeline anchors



Source: CEIC, RHB Economics & Market Strategy.

Figure 13: YoY growth of corporates Foreign Currency Deposits (FCD) and USD-MYR (%)



Source: Bloomberg, RHB Economics & Market Strategy.

Figure 14: Historical seasonality suggests that the MYR could stand out in 4Q25

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
5 Yr Avg	.24	1.73	.60	.77	.89	.26	-.90	-1.14	.17	1.69	-1.39	-.81
2025	-.27	.05	-.54	-2.76	-1.37	-1.09	1.30	-.94	-.31			
2024	3.03	.21	-.38	1.01	-1.38	.23	-2.69	-5.88	-4.56	6.17	1.59	.56
2023	-2.95	4.99	-1.61	1.06	3.38	1.16	-3.42	2.92	1.22	1.45	-2.11	-1.47
2022	.47	.33	.10	3.58	.53	.72	.96	.57	3.61	1.92	-5.97	-.91
2021	.49	.24	2.35	-1.38	.91	.58	1.72	-1.55	.75	-1.10	1.53	-.90
2020	.17	2.86	2.52	-.44	1.03	-1.39	-1.10	-1.78	-.18	-.02	-1.97	-1.31

Source: Bloomberg, RHB Economics & Market Strategy

30 September 2025

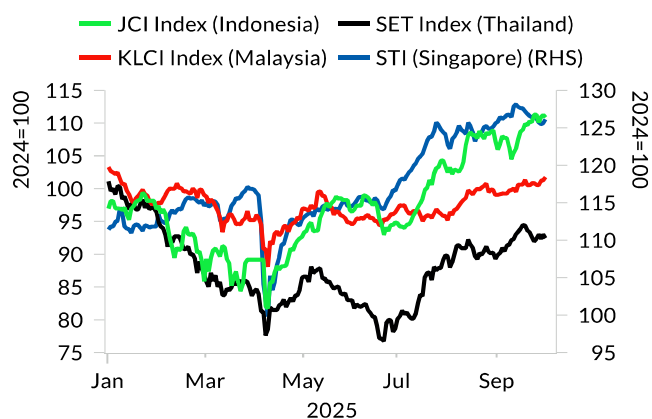
ASEAN FX: Bullish Bias is Expected, but Exercise Caution

- ◆ **We see the rupiah strengthening only marginally in line with a softer USD, with USD-IDR projected at 16,700 by end-2025 and 16,665 by end-2026.** While global dollar softness provides a supportive backdrop, the IDR's relative underperformance reflects lingering concerns over Indonesia's fiscal discipline and Bank Indonesia's aggressive pro-growth tilt following consecutive rate cuts. The recent slump in the IDR highlights how quickly markets incorporate risk premiums when fiscal credibility is questioned or domestic shocks emerge. Despite structural undervaluation, the rupiah's trajectory hinges more on how investors price political uncertainty, fiscal execution, and Indonesia's ability to maintain external buffers. The latest reserves data underscore this point: while headline official reserve assets have rebounded to above USD150bn, the sharp deterioration in FCA forwards and futures into deep negative territory around USD20bn in 2025 highlights BI's reliance on short-term derivative intervention. This divergence suggests that the true cushion is thinner than headline reserves imply, which adds to the risk premia markets attach to the rupiah.
- ◆ On the macro front, we maintain 2025 GDP growth at 4.8%, but risks skew lower. Domestic demand is subdued, with high-frequency indicators pointing to labour market stress and weak consumer sentiment since the Lebaran holiday. Manufacturing remains under pressure, with PMIs stuck below 50 aside from a brief August bounce, while civil unrest in late August threatens to deepen the drag on confidence. Externally, the one-off boost from US tariff cuts (32% → 19%) has faded, leaving exports vulnerable to softer demand from both the US and China. Inflation is projected at 2.0% for the headline and 2.4% for the core in 2025, kept benign by soft demand, stable food supplies, and moderating energy prices, giving BI room to ease further. The current account deficit is forecast at 1.0% of GDP, while the fiscal deficit remains at 2.85% of GDP, above the government's 2.78% target, with implementation delays affecting its effectiveness. Fair value models highlight the disconnect between fundamentals and pricing: our BEER model ($R^2 = 0.868$) suggests a USD-IDR rate near 14,400–14,500, while relative PPP anchors indicate 2–18% undervaluation, depending on the horizon. Yet in practice, risk premia tied to fiscal execution, protests, and external funding costs dominate, meaning the rupiah is unlikely to converge to fair value until domestic confidence improves fully. Instead, it should trade rangebound with shallow appreciation, lagging its peers but still grinding firmer as the USD eases. Please click [here](#) to read more about our IDR fair value model.
- ◆ **SGD should benefit when USD bears kick in. We anticipate USD-SGD to ease to 1.281 by the end of 2025 and 1.267 by the end of 2026.** We remain constructive on the Singapore dollar, expecting USD-SGD to decline to 1.281 by end-2025 and 1.267 by end-2026, underpinned by broad USD weakness and the SGD's status as a regional safe-haven. Beyond sentiment, the S\$NEER framework continues to guide the upside: our latest RHB policy model places the trade-weighted index at ~1.52% above the midpoint, with the spot rate at 1.2902. This implies that at +2.0% above the midpoint, USD-SGD would be capped near 1.2658, limiting the scope for sharp SGD depreciation in the current policy setting. MAS is expected to keep parameters unchanged through year-end, though a flatter slope cannot be ruled out if growth and inflation slow further. This policy mix creates a steady appreciation bias, with dips cushioned by Singapore's strong balance-of-payments position and persistent current account surplus (around 17% of GDP).
- ◆ Macro drivers complement the FX view. Growth momentum is cooling after a strong first half of 2025 (4.3% YoY), with forecasts for 2.0–3.0% GDP in 2025, driven by fading front-loaded exports, weaker global demand, and tariff-related headwinds in the semiconductor and pharmaceutical sectors. NODX and IP are already contracting, reflecting a payback effect from earlier trade gains. Inflation remains tame, with the headline rate around 1.2% and the core rate below 1.0%, leaving the MAS little urgency to tighten monetary policy. Fiscal policy remains modestly supportive, cushioning households and SMEs without undermining budgetary discipline. Taken together, SGD's resilience is less about domestic growth strength and more about its policy credibility and defensive role in the region. This explains why, even in a softer external environment, we expect the SGD to appreciate gradually on a trade-weighted basis, outperforming regional peers in a broad USD down-cycle.
- ◆ **We see scope for the Thai baht to strengthen alongside broad USD weakness, with forecasts of 32.0 per USD by end-2025 and 31.7 by end-2026.** One of the key tailwinds is the baht's close correlation with gold prices, which historically reinforces its safe-haven profile apart from the SGD. However, this relationship may face challenges as Thai authorities have signalled intentions to curb volatility, including the possibility of taxes on gold trading or encouraging trades to be settled in USD rather than baht. These measures would limit the baht's sensitivity to swings in gold and smooth its trading profile. Meanwhile, the BoT's expected 25bp cut in 4Q25 to 1.25% will add a dovish tilt, but we see the move as consistent with efforts to manage household headwinds while still containing baht fluctuations within a stable range. A 25-basis-point cut in 2026, compared with more cuts by the Fed, should also provide some tailwinds for the THB.
- ◆ On the macro backdrop, growth dynamics offer only modest support. We revised the 2025 GDP forecast to 1.8% from 1.5% on stronger first-half exports and US tariff relief (cut to 19% from 36%), though momentum is set to ease as front-loaded demand fades. Domestic fragilities persist: political uncertainty ahead of 2026 elections, border tensions with Cambodia, weak household spending, and a patchy tourism recovery weighed down by fewer Chinese arrivals and travel

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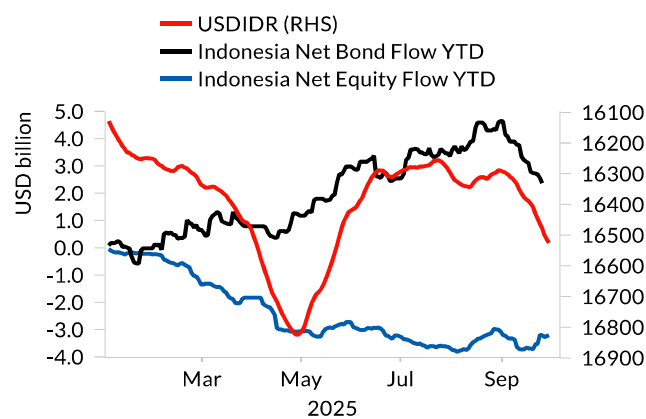
advisories. Inflation risks are muted, with 2025 CPI revised to -0.1% headline and 0.9% core, reflecting deflationary pressures from food, energy, tariff relief, and subdued demand. The external surplus remains (2.5% of GDP in 2025, 2.0% in 2026), though capped by softer tourism and exports. This means the baht should still appreciate in line with USD softness, but at a more gradual pace than peers, as authorities balance its role as a quasi-gold proxy with efforts to contain volatility and protect competitiveness.

Figure 15: Healthy developments for regional equity markets mean global sentiment have improved...



Source: Macrobond, RHB Economics & Market Strategy.

Figure 16: ... but local IDR bond foreign flow took a hit due to recent volatile headlines.



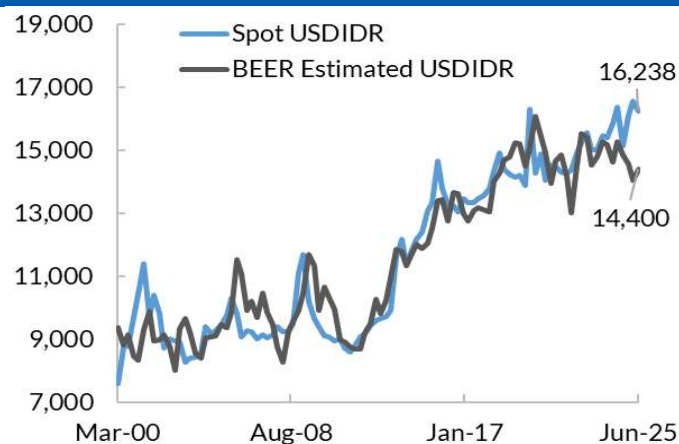
Source: Macrobond, RHB Economics & Market Strategy.

Figure 17: IDR is driven by five key variables

Dependent Variable:	Log USD/IDR			
	Coeff.	Std. Error	t Stat	P-value
Intercept	5.66	0.11	49.76	0.00
FB/GDP % x100	-0.20	0.00	-1.92	0.06
GFCF/GDP% x100	-0.01	0.00	-18.09	0.00
ID3M Depo-US3M Depo % -1Lag x100	-0.41	0.00	-2.71	0.01
ORA/EDO (Log) -1Lag	-0.65	0.07	-9.53	0.00
CPO (USD-Log)	-0.11	0.04	-3.05	0.00
R-Square	0.868			

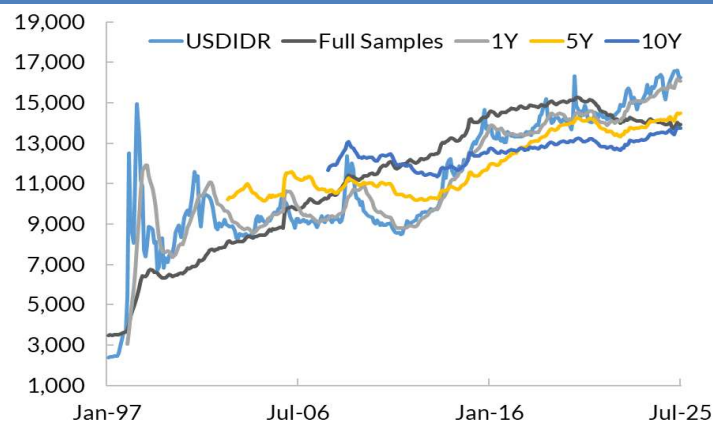
Source: RHB Economics & Market Strategy.

Figure 18: Spot USD-IDR vs. BEER Estimated USD-IDR



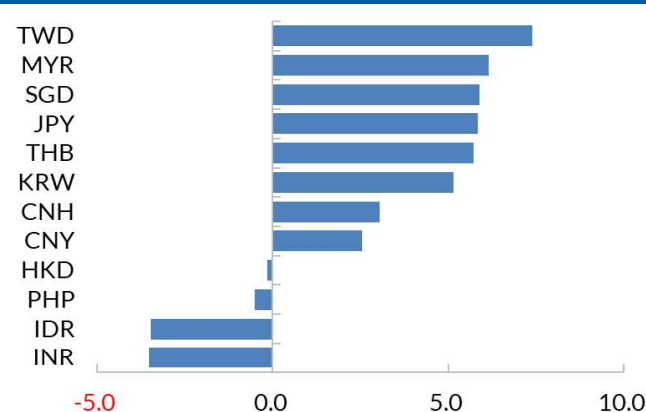
Source: Bloomberg, RHB Economics & Market Strategy.

Figure 19: USD-IDR fair value through the relative-PPP model on different anchors



Source: Bloomberg, RHB Economics & Market Strategy.

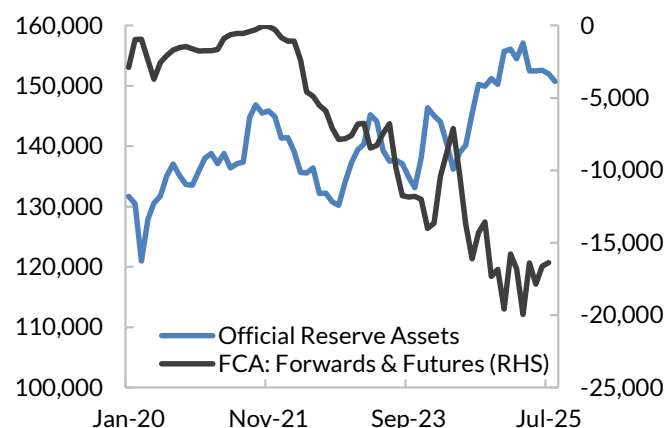
Figure 20: IDR is among the lowest-performing currencies in Asia



Source: Bloomberg, RHB Economics & Market Strategy.

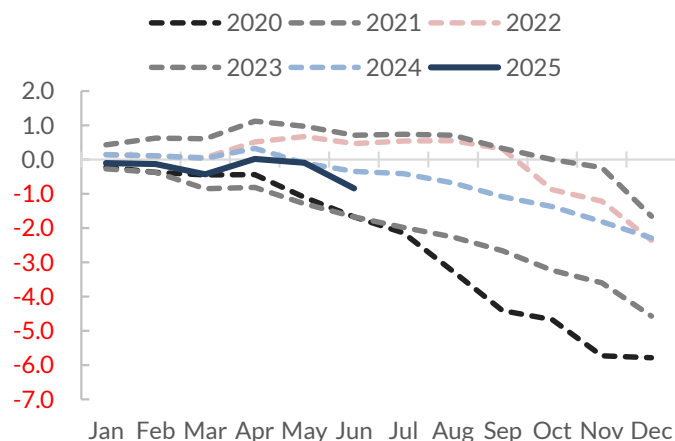
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Figure 21: BI's official reserve assets vs. forwards & futures (USD'mn)



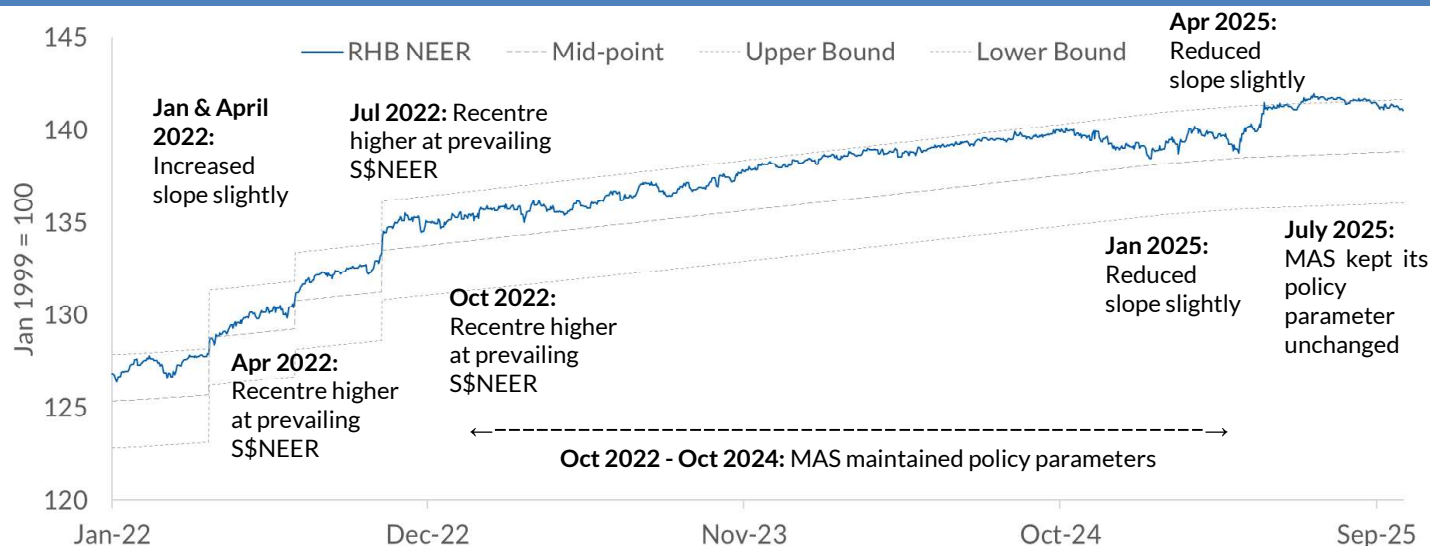
Source: CEIC, RHB Economics & Market Strategy

Figure 22: YTD monthly realisation of gov. surplus (deficit) to GDP (%)



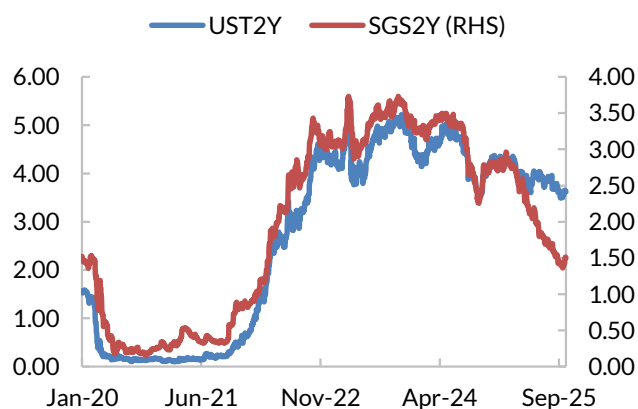
Source: CEIC, RHB Economics & Market Strategy

Figure 23: RHB S\$NEER suggests there is further room for SGD to gain against the USD



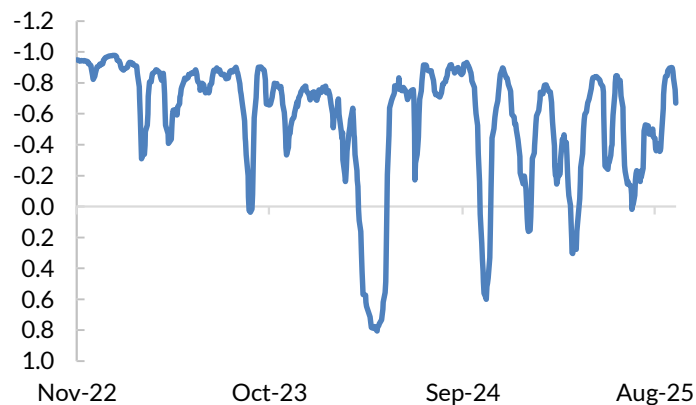
Source: RHB Economics & Market Strategy

Figure 24: SGS2Y yield is lower than UST2Y, in a sign of regional "safe-haven" status



Source: Bloomberg, RHB Economics & Market Strategy

Figure 25: 1M rolling correlation between USD-THB and gold price (USD/oz)



Source: Bloomberg, RHB Economics & Market Strategy

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MAS Meeting Decisions Summary Table

Date	Slope %	Width %	Slope	Width	Centre	Rationale
13-Apr-18	0.5%	2.0%	Increase slightly	No change	No change	Steady expansion. Upward pressure on core CPI to persist as labour market improves.
12-Oct-18	1.0%	2.0%	Increase slightly	No change	No change	Steady expansion, output gap slightly above potential. Core inflation to stay just below 2.0%.
12-Apr-19	1.0%	2.0%	No change	No change	No change	Growth has eased, output closer to underlying potential. Inflation is mild and contained.
14-Oct-19	0.5%	2.0%	Reduce slightly	No change	No change	Growth to pick up modestly, but level of output to remain below potential. Inflation is muted.
30-Mar-20	0.0%	2.0%	Flatten to zero	No change	Recentre lower at prevailing S\$NEER	GDP to contract in 2020, core inflation to remain below historical average.
14-Oct-20	0.0%	2.0%	No change	No change	No change	Recovery expected in 2021, disinflation risk to recede. Growth will still be weak and negative output gap will narrow slowly. Core CPI to stay below LT average.
14-Apr-21	0.0%	2.0%	No change	No change	No change	GDP to expand above trend in 2021, negative output gap to narrow. Core CPI to rise gradually but remain below LT average.
14-Oct-21	0.5%	2.0%	Increase slightly	No change	No change	GDP growth to remain above trend, output to return to around potential. CPI pressures are accumulating.
25-Jan-22	1.0%	2.0%	Increase slightly	No change	No change	GDP to expand 3 - 5% in 2022; Output gap to turn slightly positive. CPI to be higher, but core to moderate in 2H22.
14-Apr-22	1.5%	2.0%	Increase slightly	No change	Recentre higher at prevailing S\$NEER	GDP to expand above trend in 2022, output gap to turn slightly positive. CPI pressures are accumulating, and core CPI maybe higher vs historical average in 2022.
14-Jul-22	1.5%	2.0%	No change	No change	Recentre higher at prevailing S\$NEER	Global economic expansion broadly intact for the year. Slowing external growth momentum will weigh on Singapore's trade-related sectors. Inflation elevated.
14-Oct-22	1.5%	2.0%	No change	No change	Recentre higher at prevailing S\$NEER	SG manufacturing and some trade related services outlook have dimmed. Drag on economic activity led by policy tightening globally. Inflation elevated.
14-Apr-23	1.5%	2.0%	No change	No change	No change	GDP growth to be below trend in 2023. Effects of past tightening moves (5 straight) are still working through the economy and should dampen inflation further. Imported inflation is negative, core inflation to ease materially by end 2023.
13-Oct-23	1.5%	2.0%	No change	No change	No change	Singapore's GDP growth is expected to improve gradually over 2024. However, the global economic outlook remains uncertain and the domestic recovery could be weaker than expected. MAS schedule announced to change to Jan, Apr, Jul, Oct.
29-Jan-24	1.5%	2.0%	No change	No change	No change	Barring any further global shocks, the economy is expected to strengthen in 2024, with growth becoming more broad-based. MAS Core Inflation is likely to remain elevated in the earlier part of the year, but should decline gradually and step down by Q4, before falling further next year.
12-Apr-24	1.5%	2.0%	No change	No change	No change	Growth is expected to strengthen over 2024, with growth becoming more broad-based. The slightly negative output gap is projected to narrow further in H2 2024, even as underlying inflationary pressures gradually dissipate.
26-Jul-24	1.5%	2.0%	No change	No change	No change	Growth expected to strengthen over the rest of 2024, with the slightly negative output gap closing by year-end.
14-Oct-24	1.5%	2.0%	No change	No change	No change	Growth momentum has picked up and the negative output gap is projected to close in H2 2024.
24-Jan-25	1.0%	2.0%	Reduced slightly	No change	No change	Growth momentum is expected to slow over this year, after outperforming in H2 2024. The level of output is projected to come in close to the economy's potential for 2025 as a whole.
14-Apr-25	0.5%	2.0%	Reduced slightly	No change	No change	Amid the weakening external outlook, output gap will turn negative. Consequently, imported and domestic cost pressures will remain low and MAS Core Inflation is forecast to stay well below 2%.
17-Apr-25	0.5%	2.0%	No change	No change	No change	GDP growth in Singapore is expected to slow in H2, with the level of output falling slightly below potential. However, for 2025 as a whole, the output gap is projected to average around zero percent while underlying inflationary pressures should remain contained in the near term.



Economic Outlook

Indonesia

Subdued Domestic Demand Weighs on Growth Outlook

- ◆ We maintain our 2025 GDP growth projection for Indonesia at 4.8%, shaped by three key factors: (1) subdued domestic demand; (2) the effectiveness of government fiscal execution; and (3) external trade prospects.
- ◆ We keep our 2025 inflation forecasts at 2.0% for headline and 2.4% for core, reflecting a benign price environment with limited upside pressures.
- ◆ We expect Bank Indonesia to deliver one additional 25-bps rate cut in 4Q25 to 4.50%, with a risk bias toward a further 25-bps easing to 4.25%.

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Figure 1: Key Economic Forecasts

	2024	2025F	2026F	1H25	2H25F	1H26F	2H26F
Real GDP Growth (% YoY)	5.0	4.8	5.0	5.0	4.6	5.0	5.0
Contribution to real GDP Growth (%)							
Private Consumption	2.6	2.6	2.6	2.6	2.5	2.6	2.5
Investment	1.4	1.4	1.7	1.4	1.3	1.7	1.8
Government Consumption	0.7	0.3	0.3	-0.1	0.4	0.3	0.4
Net Exports	0.0	0.3	0.3	0.5	0.1	0.2	0.3
CPI	2.3	2.0	2.5	1.2	2.7	2.6	2.4
Policy Interest Rate	6.00	4.50	4.00	5.50	4.50	4.00	4.00
Current Account Balance (% of GDP)	-0.6	-1.0	-1.4	-0.5	-1.5	-1.3	-1.5
Fiscal Balance (% of GDP)	-2.30	-2.85	-2.70	-0.80	-4.90	-0.6	-4.80

Source: CEIC, RHB Economics & Market Strategy

30 September 2025

We maintain our 2025 GDP growth projection for Indonesia at 4.8%, shaped by three key factors: (1) subdued domestic demand, as reflected in recent high-frequency indicators; (2) the effectiveness of government fiscal execution; and (3) external trade prospects, which could soften as the impact of new US tariffs takes effect. The late-August outbreak of nationwide civil unrest adds further downside risk to the growth outlook, weighing on investor sentiment, eroding consumer confidence, and limiting business activity. Our [analysis](#) suggests that the economic impact of protests is highly state-dependent: episodes of unrest typically exacerbate weakness when households are already cautious on spending, pointing to a more protracted drag on sentiment and demand.

On the domestic front, the latest heatmap ([1](#), [2](#)) highlights broad-based weakness across key economic pillars: (1) **Employment:** reported layoffs have gained traction since 1H25. In contrast, the share of employment in the informal sector has risen, highlighting deteriorating labour market conditions. (2) **Production:** manufacturing activity remains sluggish, with vehicle production and capacity utilisation staying below historical averages. The S&P Global Manufacturing PMI has consistently remained below the expansion threshold, apart from a one-off improvement in August, which requires further sustained gains to confirm signs of recovery. (3) **Consumption:** consumer confidence has persistently posted negative YoY growth since the *Lebaran* festive season, with declines recorded across all income levels, underscoring broad-based weakness in household sentiment.

On the external front, recent tariff-related developments have provided a marginal lift to Indonesia's trade outlook. The reduction in US tariffs on Indonesian exports—from 32% to 19%—along with a potential 90-day extension of the US–China trade negotiation deadline, has temporarily supported export performance. However, risks remain as front-loaded demand is likely to fade from September onward, potentially marking a turning point for the strong YoY export growth to both the US and China. This could be particularly significant as the US is a key driver of Indonesia's trade surplus, while China remains its largest source of imports.

A more structural positive development is the substantive conclusion of the Comprehensive Economic Partnership Agreement (CEPA) and the Investment Protection Agreement (IPA) between the EU and Indonesia, marking a major milestone in bilateral trade relations. Under the deal, tariffs will be eliminated on approximately 80% of Indonesia's exports to the EU, including palm oil, fisheries, and textiles. Meanwhile, European exporters are expected to benefit from tariff savings of roughly EUR 600 million annually. With bilateral trade valued at USD 30.1 billion in 2024, both sides anticipate trade to nearly double within five years of the agreement's entry into force, which is targeted for 1 January 2027. Beyond goods trade, the agreements are also expected to boost EU investment in Indonesia, particularly in critical minerals and manufacturing supply chains.

We maintain our 2025 inflation forecasts at 2.0% for the headline and 2.4% for the core, reflecting a benign price environment with limited upside pressures. Three factors underpin this outlook. First, demand-side pressures remain subdued, as economic activity softens and post-protest consumption proves cautious, moderating price momentum. Second, food prices—typically the largest contributor to headline volatility—are likely to stay anchored by consistent rice production and ample reserve levels. Third, global commodity prices have shown signs of stabilisation amid easing geopolitical tensions, which should temper energy costs and mitigate cost-push pressures. Against this backdrop, we expect Indonesia's inflation to remain well-contained through 2025, with limited upside risks to the inflation trajectory.

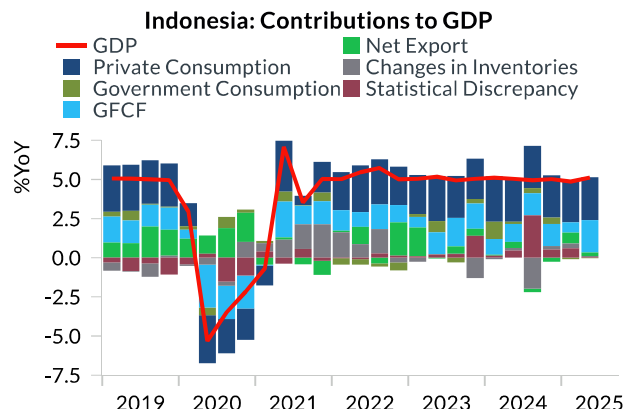
We expect Bank Indonesia (BI) to deliver one additional 25-bps rate cut in 4Q25 to 4.50%, with a risk bias toward a further 25-bps easing to 4.25%. The latest policy statement carried a distinctly more dovish tone, signalling a clear pivot in priority toward growth-supportive measures. BI reiterated that additional scope for easing remains, anchored by contained inflation, while reaffirming its commitment to maintaining rupiah stability. From a timing perspective, BI has already delivered five cumulative rate cuts this year, suggesting the central bank may pause in October to assess the transmission of earlier moves. We anticipate a final 25-bps cut in December, in tandem with the Federal Reserve's expected easing. Such synchronised policy adjustments would allow BI to ease without materially undermining the carry appeal of Indonesian assets or triggering destabilising capital outflows, while helping to contain IDR volatility. Nevertheless, as a balance of risk, an earlier cut remains probable should renewed shocks emerge—such as tariff clarity in July or the civil unrest in September—prompting BI to act more pre-emptively.

We maintain our forecast for Indonesia's current account deficit at 1.0% of nominal GDP in 2025, slightly above the midpoint of Bank Indonesia's target range of 0.5%–1.3%. The latest data show a notable widening in the current account deficit, from 0.1% of GDP in 1Q25 to 0.8% in 2Q25. This shift was primarily driven by a narrower non-oil and gas trade surplus amid subdued global growth and weaker commodity prices, partly offset by an improvement in the oil and gas trade deficit as global crude prices eased. Looking ahead, we expect the current account position to deteriorate further over the coming quarters, as export momentum softens in line with moderating global commodity demand and weaker prices. This aligns with our view that Indonesia's exports will face additional headwinds once the impact of US tariffs comes into effect from September onwards.

We maintain our 2025 fiscal deficit forecast at 2.85% of GDP, which is above the revised official target of 2.78%. This projection remains unchanged despite the growth-supporting package unveiled by newly appointed Finance Minister Purbaya Yudhi Sadewa, which aims to cushion household sentiment and sustain momentum into year-end. The initiatives are directionally supportive and relatively well-targeted, with potential to ease pressure on vulnerable households and support activity in the informal sector. However, at roughly IDR 16 trillion, the package remains modest in relation to Indonesia's economy and the extent of household stress. While the measures may help dampen downside risks and avert a sharper slowdown, they are unlikely, on their own, to restore stronger momentum or lift growth beyond current projections. Execution capacity is critical, with the slow rollout of the free meal programme highlighting delays and deferred fiscal absorption, underscoring the risk of implementation bottlenecks. To maximise impact, the measures must be complemented by timely delivery, continued fiscal discipline to preserve investor confidence, and structural reforms to lift productivity and support a transition beyond sub-5% growth.

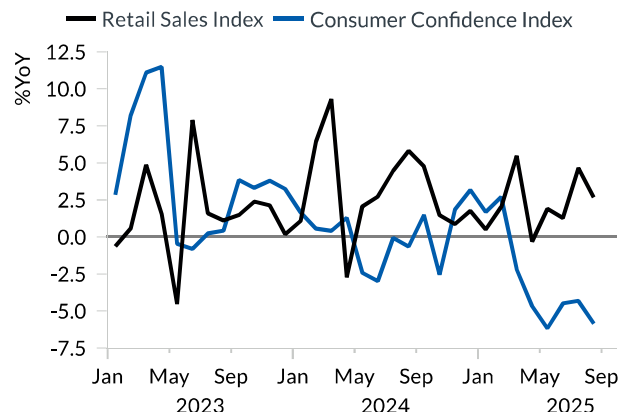
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Figure 2: We maintain Indonesia's GDP growth at 4.8% for 2025, with household consumption expected to remain subdued...



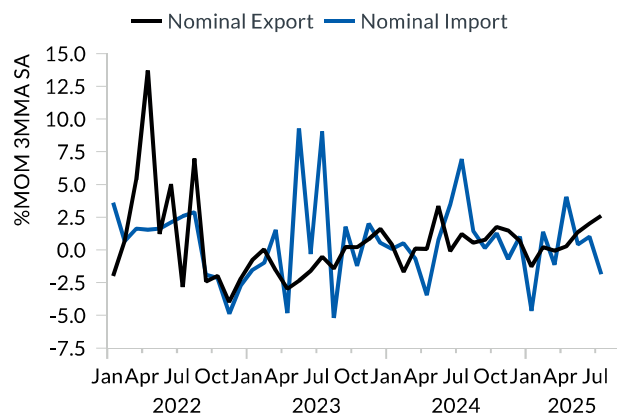
Source: Macrobond, RHB Economics & Market Research

Figure 3: ...given the Consumer Confidence Index has persistently posted negative YoY growth since the Lebaran festival in March



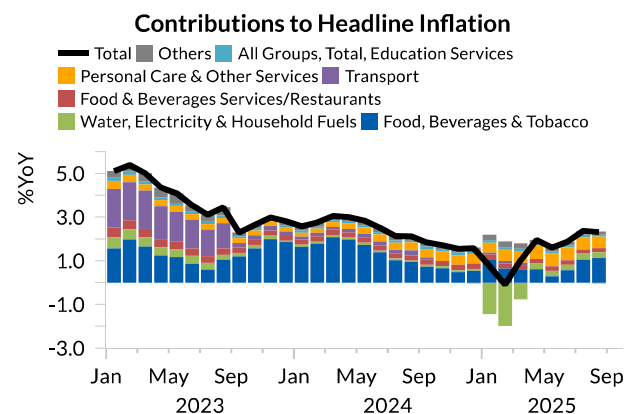
Source: Macrobond, RHB Economics & Market Research

Figure 4: We see marginal improvement in trade sentiment, but remain cautious as the front-loaded demand is likely to fade from September onward



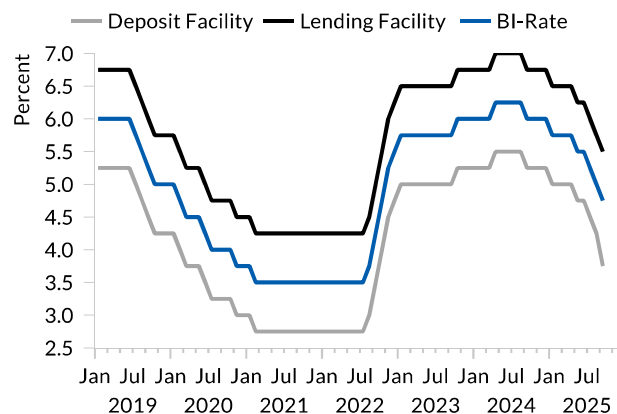
Source: Macrobond, RHB Economics & Market Research

Figure 5: We expect no significant upside on the headline inflation trajectory, given muted demand-driven inflation amid sluggish growth and stabilised food prices



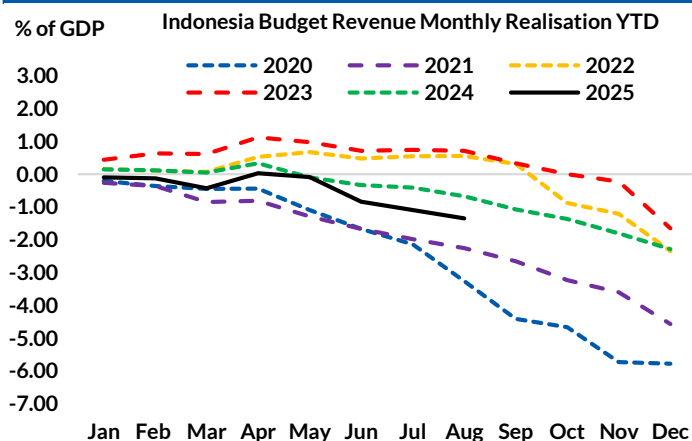
Source: Macrobond, RHB Economics & Market Research

Figure 6: We keep our forecast that BI will implement one additional 25-bps rate cut in 4Q25 to support the economy



Source: Macrobond, RHB Economics & Market Research

Figure 7: We maintain our projection for fiscal deficit at 2.85% for 2025, above the revised official target of 2.78%, given that expenditure outpaced revenue growth



Source: CEIC, RHB Economics & Market Research

Malaysia

Growth Anchored by Domestic Demand Amid External Headwinds

- ◆ We maintain our 2025 GDP growth forecast for Malaysia at 4.2%, underpinned by a robust domestic economy. However, we remain cautious of external risks, as trade is expected to soften with the fading of front-loading activities and the gradual impact of tariffs.
- ◆ We maintain our 2025 inflation forecast at 1.6%, within the official range of 1.5%–2.3%. Inflation averaged 1.4% in the first half of 2025 and is projected to remain manageable at 1.8% in the second half of 2025, supported by moderate demand and cost conditions.
- ◆ We expect the Overnight Policy Rate (OPR) to remain at 2.75% at the November MPC meeting, supported by robust domestic demand and manageable inflation. Current developments, including signs of easing global tariff and trade tensions alongside solid domestic demand, do not suggest another OPR cut in 2025.

Senior Economist

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Figure 1: Key Economic Forecasts

	2024	2025F	2026F	1H25	2H25F	1H26F	2H26F
Real GDP Growth (% YoY)	5.1	4.2	4.7	4.4	4.0	4.5	4.9
Contribution to real GDP Growth (%)							
Private Consumption	3.1	3.0	3.0	3.2	3.0	2.9	2.9
Investment	0.6	0.6	0.5	0.6	0.5	0.5	0.4
Government Consumption	2.4	1.9	1.4	2.4	1.5	1.5	1.3
Net Exports	0.1	-0.7	0.0	-0.9	-0.8	-0.1	0.1
CPI	1.8	1.6	2.3	1.4	1.8	2.1	2.4
Policy Interest Rate	3.00	2.75	2.75	3.00	2.75	2.75	2.75
Current Account Balance (% of GDP)	1.7	1.8	2.1	1.8	1.8	1.9	2.2
Fiscal balance (% of GDP)	4.1	3.8	3.5	4.2	3.4	3.5	3.5

Source: CEIC, RHB Economics & Market Strategy

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We maintain our 2025 GDP growth forecast for Malaysia at 4.2%. The economy is expected to sustain growth at 4.0% in 2H25 (versus 4.4% in 1H25), underpinned by robust consumer spending, a healthy labour market, steady investment activity, and supportive domestic policies. Malaysia's domestic economy continues to demonstrate resilience, driven by solid consumer spending and steady investment activity. The expansion in investment will be supported by the progress of multi-year projects in both the private and public sectors, the continued realisation of approved investments, as well as the ongoing implementation of catalytic initiatives under national master plans—including the National Energy Transition Roadmap and the New Industrial Master Plan 2030. Investment spending was robust in the first half of 2025, recording double-digit growth of 10.5%. This momentum is expected to extend into 2H25, amid sustained strength in structural investment, as well as machinery and equipment spending.

Private consumption is expected to be buoyed by favourable labour market conditions and rising household incomes. The gradual and orderly rollout of fiscal measures—such as the expansion of the Sales and Services Tax (SST) and the retargeting of RON95 subsidies—is expected to have only a limited impact on consumption and inflation. In addition, the MYR 2.0 billion Merdeka cash handouts are expected to provide a modest boost to consumption, contributing an estimated 0.2 percentage points to 2025 GDP, assuming a 0.5 marginal propensity to consume and SST rates of 5–10%. The reduction in OPR earlier in July 2025 is expected to ease financial pressure on households and stimulate domestic spending as well.

Several domestically oriented industries remain relatively insulated from global uncertainties and are expected to stay resilient. Retail and consumer goods, construction, healthcare, education, and utilities will continue to benefit from strong local demand. The retail sector is expected to benefit from a firm labour market and rising household incomes. At the same time, construction is poised to gain from continued activity in the non-residential, special trade, and residential segments.

Despite our optimistic view of the domestic economy, we remain cautious about potential external weaknesses, as slower trade performance is expected in the months ahead with the dissipation of front-loading activities and the gradual impact of tariffs. Export-oriented sectors such as electronics and electrical (E&E), raw materials, and machinery are likely to be most affected. Even so, several factors could support export performance in 2H25. The recent reduction of US reciprocal tariffs on Malaysia—from 25% to 19%—and the extension of the US–China trade truce to 10 November should provide short-term relief and improve manufacturing sentiment. In addition, broadly aligned US tariff rates across ASEAN are expected to continue supporting Malaysia's competitiveness.

We maintain our 2025 inflation forecast at 1.6%, within the official range of 1.5%–2.3%. Inflation averaged 1.4% in the first half of 2025 and is projected to remain manageable at 1.8% in the second half of 2025, supported by moderate demand and cost conditions. While domestic policies—such as SST expansion, wage adjustments, and electricity tariff reforms—may add some price pressures, their overall impact is expected to remain contained given gradual and prudent implementation. The SST broadening is estimated to raise inflation by only 0.1%–0.2%, while electricity tariff adjustments under the new Automatic Fuel Adjustment (AFA) mechanism may cause some monthly fluctuations. Transport inflation is likely to stay soft following the reduction of RON95 retail prices to RM1.99 per litre for eligible motorists—around 16 million Malaysians—from the current RM2.05 per litre. Preliminary analysis suggests that the 3% price cut could lower annual inflation by 0.1%–0.2%, although the immediate effect in 2025 will be smaller, at 0.03%–0.04%, given the late-September rollout.

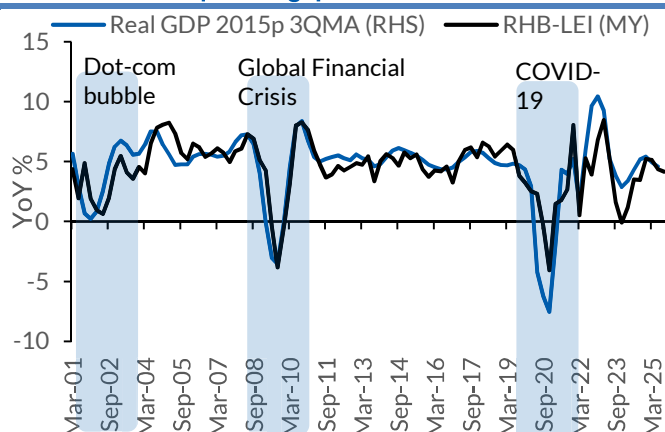
We expect the Overnight Policy Rate (OPR) to remain at 2.75% at the November MPC meeting, supported by robust domestic demand and manageable inflation. Current developments, including signs of easing global tariff and trade tensions alongside solid domestic demand, do not suggest another OPR cut in 2025. Looking ahead to 2026, we expect monetary policy to remain data-dependent, with outcomes contingent upon factors such as the impact of tariff policies on Malaysia's trade performance and the momentum of domestic consumption.

We expect the current account surplus to average 1.8% of GDP in 2025. A narrower trade surplus is expected in the coming months amid slower export growth. Meanwhile, the services account is expected to be buoyed by tourism arrivals and receipts, supported by major events such as Malaysia's 2025 ASEAN Chairmanship and preparations for Visit Malaysia 2026 (VM 2026).

We believe the 2025 fiscal deficit target of 3.8% of GDP is attainable, supported by the expansion of the SST and subsidy reforms. Tax revenue will remain the primary source of income, underpinned by sustained growth and the phased rollout of e-invoicing. The expanded SST is expected to generate approximately MYR 5 billion in additional revenue over July–December 2025, while the RON95 subsidy retargeting, effective 30 September, could save up to MYR 4 billion annually. For the Budget 2026 announcement on 10 October, we forecast a narrower deficit of 3.5% of GDP, with MYR 86–89 billion allocated for development expenditure. The central priority will be to promote sustained and inclusive growth amid a complex global environment. For more details, please refer to [Budget 2026 Preview: Fiscal Sustainability and Inclusive Development](#).

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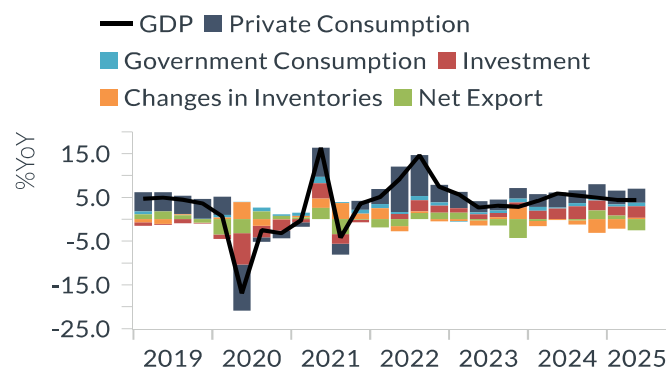
Figure 2: RHB-LEI (MY) suggests a softening economic momentum for upcoming quarters...



Source: CEIC, RHB Economics & Market Strategy

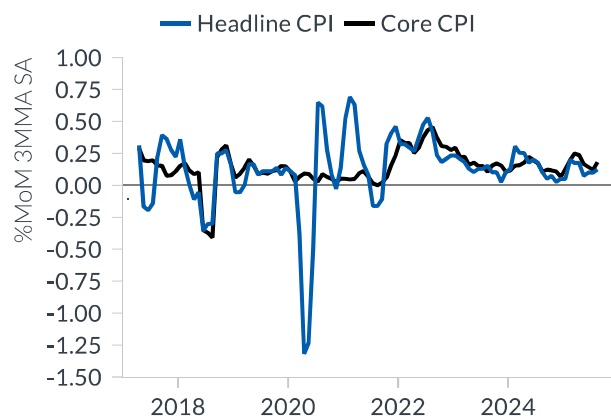
Figure 3: Malaysia's GDP growth is to be supported by robust domestic demand amid external uncertainties

Contribution to GDP



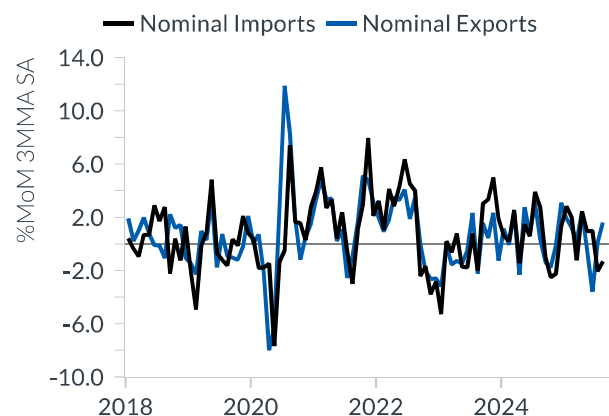
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: Inflation pressure to remain manageable



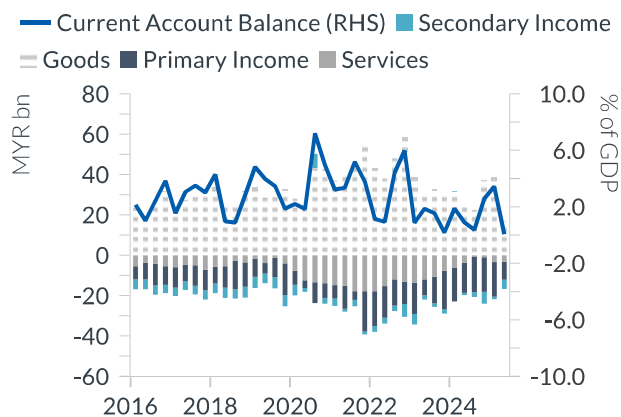
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: Overall trade momentum has shown signs of easing



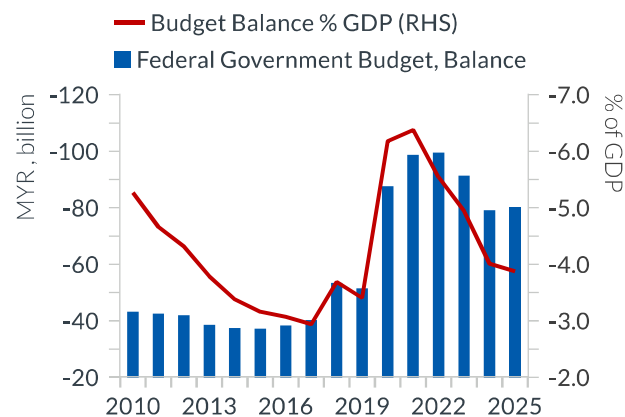
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: Current account surplus at 1.8% of GDP in 2025



Source: Macrobond, RHB Economics & Market Strategy

Figure 7: The fiscal deficit target of 3.8% of GDP is attainable for 2025



Source: Macrobond, RHB Economics & Market Strategy

Singapore

External Headwinds Point to Softer GDP Growth into 4Q25

- ◆ We maintain Singapore's full-year GDP growth forecast at 2.0% with potential upside risk magnified towards 3.0% in 2025.
- ◆ We keep our 2025 full-year inflation forecasts at 1.2% for headline and 0.9% for core. Our auto-regression model indicates that Singapore's inflation continues to stay tame at 1.0% YoY in 4Q25.
- ◆ We expect Monetary Authority of Singapore (MAS) to maintain its current policy stance in the upcoming MPC meeting. However, we do not rule out the possibility of MAS flattening the S\$NEER slope amid slowing inflation and potential GDP softness in 2H25.

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Figure 1: Key Economic Forecasts

	2024	2025F	2026F	1H25	2H25F	1H26F	2H26F
Real GDP Growth (% YoY)	4.4	2.0	2.6	4.3	2.4	2.6	2.6
Contribution to real GDP Growth (%)							
Private Consumption	1.7	1.2	1.3	1.3	1.0	1.5	1.4
Government Consumption	0.9	0.6	0.3	-0.2	1.4	0.6	0.3
Gross Fixed Capital Formation	0.7	1.1	1.0	1.3	0.8	0.8	1.0
Net Exports	-0.3	0.8	0.0	2.5	-1.0	-0.4	0.0
CPI	2.4	1.2	1.8	0.9	1.2	1.8	1.8
Current Account Balance (% of GDP)	17.5	17.0	17.5	17.2	17.0	17.5	17.5
Fiscal balance (% of GDP)	0.3	-0.8	0.4	-0.8	-0.8	0.4	0.4

Source: Bloomberg & CEIC, RHB Economics & Market Strategy

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We maintain Singapore's full-year GDP growth forecast at 2.0% with potential upside risk magnified towards 3.0% in 2025. Our GDP Leading Index Model, which incorporates six independent variables, currently points to a full-year growth estimate of around 3.0%. However, the model also indicates that growth momentum will ease, with GDP expected to moderate to 2.8% YoY in 3Q25 before slowing further to 2.0% YoY in 4Q25. On average, we expect economic growth to come in at 2.4% YoY in 2H25, a sharp deceleration from the stronger-than-expected 4.3% YoY in 1H25. The moderation is largely driven by softer external demand—particularly due to US tariff policies—and continued weakness in Singapore's manufacturing sector, which is expected to weigh on overall growth into year-end.

We remain cautious on Singapore's trade outlook due to several factors: (1) unresolved US-China tariff disputes, (2) uncertainty over US trade policies, particularly sector-specific tariffs on semiconductors and pharmaceuticals, and (3) the risk of a 2H25 drag from fading front-loaded exports and potential payback effects after the strong 1H25 performance. While global trade tensions have eased somewhat with the temporary suspension of certain reciprocal tariffs, overall dynamics remain fluid. The US has extended its pause on broad-based tariffs against China by 90 days (to 10 November), but uncertainty remains high regarding the timing and scope of sectoral tariffs. While the 10% baseline reciprocal tariff on Singaporean shipments is likely to remain unchanged through the year, the bigger risk lies in potential sector-specific tariffs on high-value exports such as semiconductors and pharmaceuticals. At the same time, the sharp boost from front-loaded trade in 1H25 is fading, leaving room for a "payback" effect in 2H25 as inventories normalise and external demand softens. This reversal not only unwinds earlier gains but also underscores the fragility of underlying trade momentum, suggesting that the strong first-half performance will be difficult to sustain through the rest of the year.

We expect further weakness in Singapore's externally oriented sectors in the coming months. The sharper-than-expected NODX and IP contraction in August, underscores that front-loading effects are fading as US tariffs bite. The drop in exports highlights that earlier gains from advance orders ahead of tariff deadlines have now dissipated. While Singapore's Economic [Heatmap](#) reflected solid growth in 1H25, momentum has softened in 2H25, mainly due to external sector weakness. NODX was relatively weak in mid-to-late 2024 but saw some recovery in early 2025, supported by front-loaded orders and stronger shipments. However, risks persist as external demand weakens and business sentiment softens. From the domestic demand side, retail sales briefly rebounded in mid-2024 but turned negative again in early 2025. A sharp drop in consumer confidence and still-weak tourism are weighing on household spending, leaving overall consumption signals subdued. Given these conditions, we maintain our full-year IP and GDP growth forecasts at 2.0%, with external headwinds expected to weigh heavily in 2H25. Our full-year NODX forecast is unchanged at 2.0%, but with risks skewed lower toward 1.0%, compared to the official 1%-3% range.

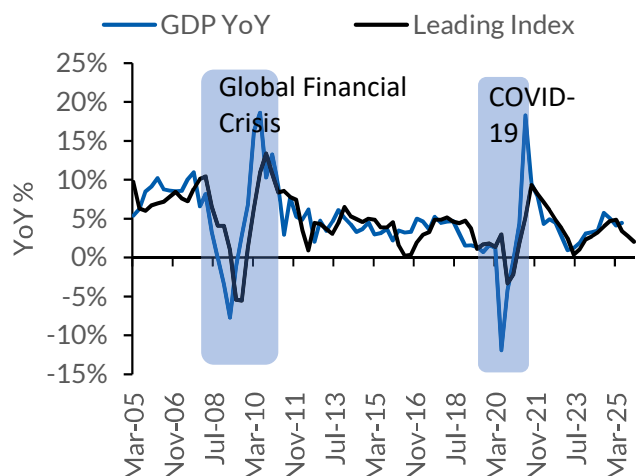
We keep our 2025 full-year inflation forecasts at 1.2% for headline and 0.9% for core. However, risks are tilted to the downside, with headline inflation possibly averaging 0.9% YoY and core at 0.8% YoY. Our auto-regression model indicates that Singapore's inflation continues to stay tame at 1.0% YoY in 4Q25. Looking ahead, key factors that could further ease Singapore's price pressures include: (1) weaker demand-pull inflation amid a possible 2H25 economic slowdown, (2) global commodity price volatility, and (3) lower electricity and gas costs from tariff cuts. Slower US-driven external demand, due to tariffs, should help contain commodity price increases and keep inflationary pressures low across ASEAN.

Ahead of the October MAS policy review, we expect policy settings to stay unchanged through year-end, though risks are tilted toward a flatter S\$NEER slope. The Monetary Authority of Singapore [kept](#) its policy parameters unchanged in its July MPC meeting. In its recent remarks, the MAS highlighted the need for vigilance over supply chain shifts that could affect growth and inflation, and stressed that any unexpected cyclical weakness would prompt timely policy adjustments, supported by financial sector measures. This suggests that further easing may remain possible amid slowing inflation and potential softness in GDP in 2H25. Our base case remains no change in policy parameters, but a flatter S\$NEER slope cannot be ruled out.

We keep Singapore's current account (CA) surplus projection at 17.0% of GDP in 2025, slightly lower than the 17.5% recorded in 2024. The CA balance is expected to stay healthy for the year. However, risks remain tilted to the downside, particularly if global trade flows weaken further. A sharper or more prolonged slowdown in external demand could weigh on Singapore's export performance and services trade, amplifying pressures on the CA balance despite the strong trade base seen in 2024.

On the fiscal front, we maintain our projection for Singapore to run a modest deficit of 0.8% of GDP in FY2025. The FY2025 Budget continues to provide short-term support for the economy, with measures aimed at easing cost-of-living pressures and sustaining business competitiveness. For households, initiatives such as CDC vouchers, SG\$60 vouchers, U-Save rebates, and enhanced ComCare assistance continue to buffer inflationary pressures and provide targeted relief for lower-income groups while businesses benefit from tax rebates and schemes to boost productivity and market diversification. Overall, while external uncertainties and global headwinds persist, Singapore's FY2025 Budget strikes a balance between near-term support and longer-term competitiveness, underpinning resilience in growth.

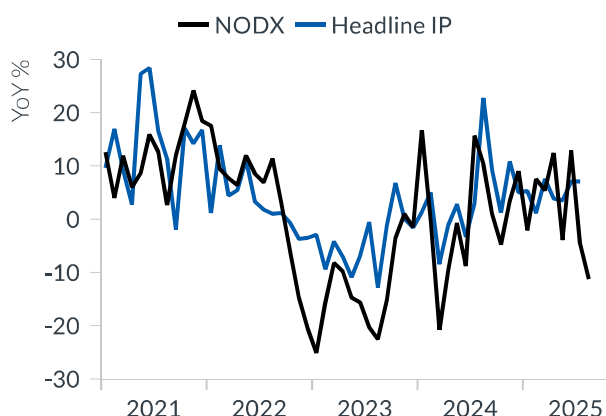
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Figure 2: RHB SG GDP-LEI suggest growth momentum to slow into the year end

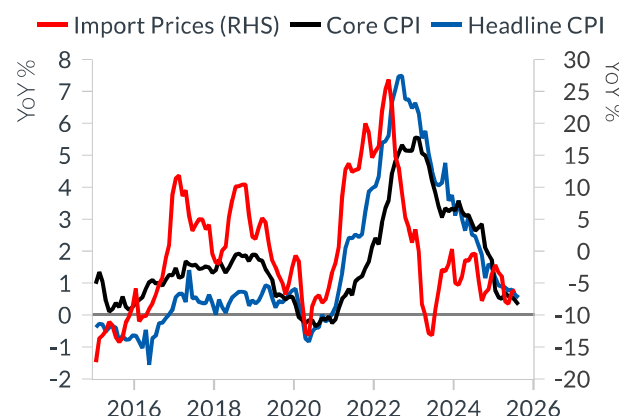
Source: CEIC, RHB Economics & Market Strategy

Figure 3: Stronger-than-expected YTD growth in 1H25 will likely not be sustained into 2H25

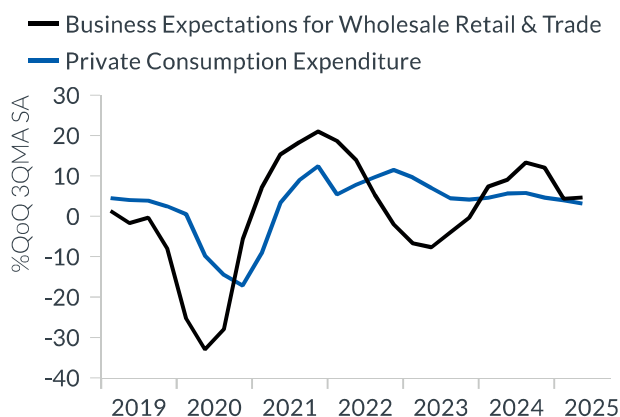
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: NODX and IP to weaken further signalling, easing front-loading activities in the upcoming months

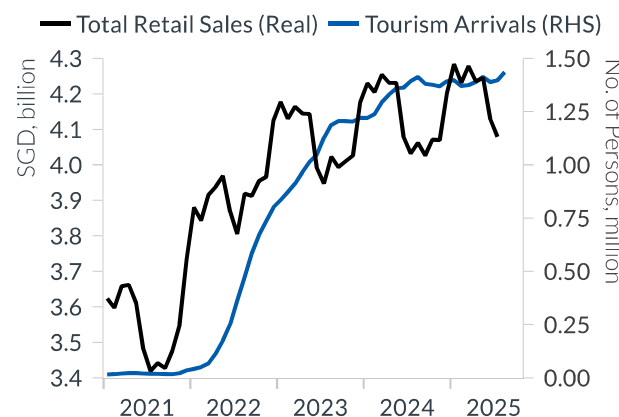
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: Headline and core prices continue to remain tame throughout the year

Source: Macrobond, RHB Economics & Market Strategy

Figure 6: Business sentiment might turn softer, due to increased economic uncertainties in 2H25...

Source: Macrobond, RHB Economics & Market Strategy

Figure 7... while retail sales continue to weaken amid slower domestic demand

Source: Macrobond, RHB Economics & Market Strategy

Thailand

Growth Momentum Ease as Front-Loaded Demand Dissipates

- ◆ We upgrade Thailand's GDP growth forecast for 2025 to 1.8%, from the previous estimate of 1.5%, reflecting a stronger-than-expected outturn in 1H25 and an improvement in external trade sentiment.
- ◆ We revise our 2025 headline inflation forecast down to -0.1% from 0.3%, while lowering core inflation projection to 0.9% from 1.0%.
- ◆ We expect the Bank of Thailand (BoT) to deliver one additional policy rate cut in the 4Q25, bringing the benchmark rate to 1.25%.

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Figure 1: Key Economic Forecasts

	2024	2025F	2026F	1H25	2H25F	1H26F	2H26F
Real GDP Growth (% YoY)	2.5	1.8	2.0	3.0	0.6	1.6	2.4
Contribution to real GDP Growth (%)							
Private Consumption	2.6	1.2	1.9	1.4	1.0	1.5	2.2
Gross Fixed Capital Formation	0.0	0.1	0.2	1.2	-1.0	0.2	0.3
Government Consumption	0.4	0.4	0.4	0.4	0.3	0.5	0.4
Net Exports	1.3	0.8	0.6	4.5	-2.9	0.5	0.7
CPI	0.4	-0.1	1.0	0.4	-0.6	0.8	1.2
Policy Interest Rate	2.25	1.25	1.00	1.75	1.25	1.00	1.00
Current Account Balance (% of GDP)	2.1	2.5	2.0	4.1	0.9	1.8	2.2
Fiscal balance (% of GDP)	-3.1	-4.4	-4.5	-4.4	-4.3	-4.4	-4.5

Source: Bloomberg & CEIC, RHB Economics & Market Strategy

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We upgrade Thailand's GDP growth forecast for 2025 to 1.8%, from the previous estimate of 1.5%, reflecting a stronger-than-expected outturn in 1H25 and an improvement in external trade sentiment. The upward revision is primarily driven by the above-consensus 2Q25 GDP growth of 2.8% YoY, underpinned by a continued surge in merchandise exports and an expansion in private investment. Export performance was particularly robust in the first half, with shipments to both the US and China recording double-digit growth. At the same time, private investment rose 4.1% YoY in 2Q25, supported by a low base in 2024 and improved production linked to front-loaded exports. The improvement in trade sentiment was reinforced by the US decision to lower tariffs on Thai exports from 36% to 19%, bringing them more in line with ASEAN peers. Our revised quantitative assessment incorporates this adjustment, suggesting that the tariff-related drag on GDP is now closer to -0.7 percentage points, compared with -1.0 percentage points under the previous regime.

While our GDP revision implies numerical upside to the growth figure, we maintain a cautious view that momentum is likely to slow in the second half of the year as front-loaded demand fades and global demand normalises. Recent trade statistics already show signs of deceleration: in August 2025, export growth slowed to 5.8% YoY, well below the 1H25 average of 14.9%, while imports rose more strongly (15.8% vs. 11.5% in 1H25), resulting in an unexpected USD 1.96 billion trade deficit for the month. This reflects the fading front-loading effect, as the US tariff measures took effect from August onward.

Domestic demand also faces significant headwinds in 2H25, driven by the following risk factors: political uncertainty, Thailand-Cambodia border tensions, and persistently subdued private consumption. Thailand's political landscape remains fluid after parliament elected Bhumjaithai Party leader Anutin Charnvirakul as prime minister earlier this month, leading a minority government dependent on conditional support from the People's Party. As part of the coalition arrangement, parliament is set to dissolve by January 2026, with fresh elections due by April—leaving the administration limited time to deliver long-term growth-supportive measures to restore investor confidence. At the same time, border tensions with Cambodia remain a significant risk: while a ceasefire was agreed in late July, sporadic exchanges of fire and landmine incidents keep the situation volatile. While a full-scale escalation is less likely, the prospect of renewed localised clashes and prolonged trade disruptions along the border remains elevated, adding another layer of uncertainty to Thailand's already fragile political and economic outlook.

Household consumption expenditure remains weak as elevated household debt continues to constrain discretionary spending, particularly among lower to middle-income segments. The government's near-term capacity for fiscal stimulus is limited amid a transition between administrations, which could lead to delays in budget disbursement and further weaken public support for aggregate demand. Tourism, which historically accounted for 10–12% of GDP, was expected to anchor Thailand's post-COVID recovery; however, the rebound has been patchy and remains vulnerable to external shocks and reputational risks. In 2025, foreign tourist arrival projections have been revised downward, with the government now expecting around 33 million visitors, compared to earlier hopes of more than 37 million. Hotel and flight booking cancellations have also surged, particularly in border provinces affected by conflict, as travel advisories from India, the UK, and others highlight safety concerns. Arrivals from China—Thailand's largest source market—have also declined sharply, with nearly 1.7 million fewer visitors year-to-date compared to 2024. Combined with stronger regional competition, a stronger baht, and ongoing geopolitical jitters, these factors have dampened Thailand's tourism recovery and reduced its contribution to growth.

We revise our 2025 headline inflation forecast down to -0.1% from 0.3%, while lowering core inflation projection to 0.9% from 1.0%. Thailand's consumer prices remain in a deflationary trend, with CPI posting five consecutive months of negative YoY growth, bringing the year-to-date average close to 0% as of the August print. Looking ahead, we expect price dynamics to remain subdued in the coming quarter, underpinned by sustained downward pressures from the supply side. First, government measures to ease cost-of-living pressures are set to continue, including the reduction of electricity tariffs by 0.1572 Baht per unit for September–December 2025, lowering the rate to 3.94 Baht per unit. Second, food inflation is likely to moderate further as favourable weather conditions boost agricultural output and improve supply. Third, large-scale businesses are intensifying promotional campaigns to align with weak household demand and heightened competition. On the external front, global commodity prices, particularly crude oil, are expected to remain soft amid weakening demand growth, rising inventories, and increased OPEC+ supply.

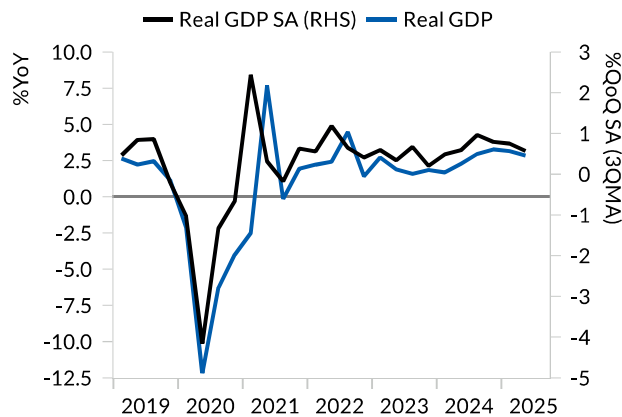
We expect the Bank of Thailand (BoT) to deliver one additional policy rate cut in 4Q25, bringing the benchmark rate to 1.25%. This outlook is underpinned by persistently soft inflation readings and rising downside risks to growth, particularly from subdued domestic demand, which in our view warrants a more accommodative stance to cushion the economy. Given the recent exceptional strength of the Thai baht, a rate cut would also align with the BoT's objective of stabilising currency volatility. Against this backdrop, we maintain our call for a 25-basis-point cut at the October meeting, aimed at offsetting weak household spending and subdued private investment, while preserving policy space should global conditions deteriorate further.

We maintain our current account surplus forecast at 2.5% of GDP for 2025 and 2.0% for 2026. The outlook reflects weaker external trade performance and slower tourism receipts in the coming quarters. As mentioned above, export momentum has already shown signs of deceleration since August, following the fade of front-loaded demand, and global trade activity is likely to remain muted ahead. At the same time, softer tourism earnings—driven by lower-than-expected arrivals this year compared with 2024—will compound external balance vulnerabilities.

On the fiscal side, we maintain our deficit forecast at 4.4% of GDP for 2025 and 4.5% for 2026, 0.2 percentage points above the government's official target of 4.3%. With the FY25 budget ending in September, we see limited near-term deviation. However, our higher FY2026 projection reflects the likelihood of additional stimulus needs, as the current budget does not fully account for the economic impact of elevated US tariffs and a weaker consumption outlook. In this context, fiscal flexibility will be crucial to buffer the economy against sustained external shocks and subdued domestic demand.

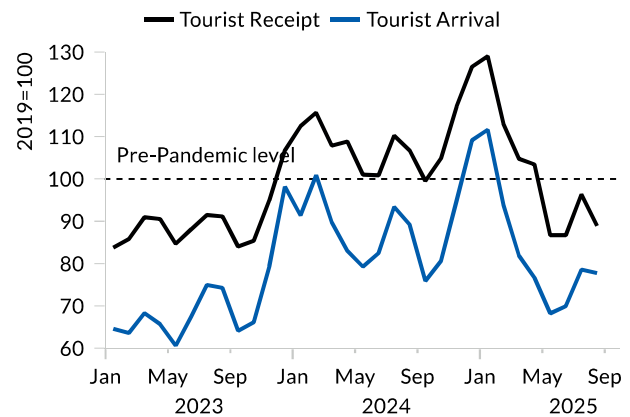
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Figure 2: We revised Thailand's GDP forecast to 1.8%, reflecting stronger-than-expected growth in 1H25 and a downward revision in US tariffs ...



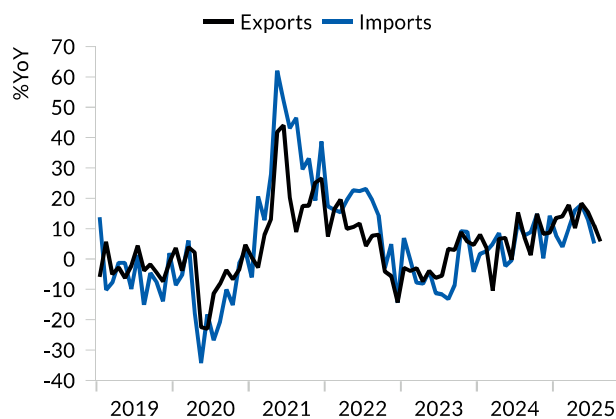
Source: Macrobond, RHB Economics & Market Strategy

Figure 3: ... However, risks persist as political conditions remain fluid and the tourism sector stays subdued amid weak Chinese demand



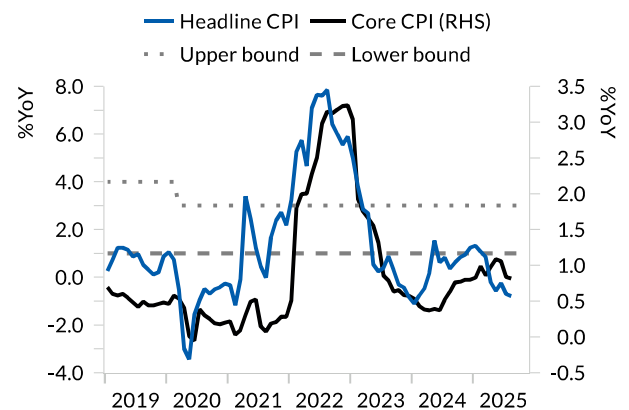
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: Export performance in 1H25 remained resilient due to front-loaded demand, but signs of slower growth were already evident in the August data



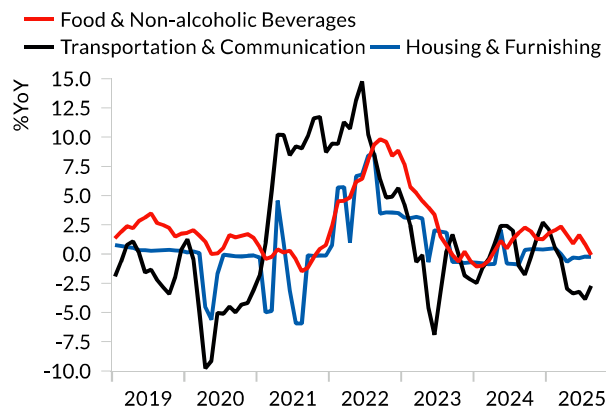
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: We revised our headline and core inflation forecasts lower to -0.1% and 0.9%, respectively...



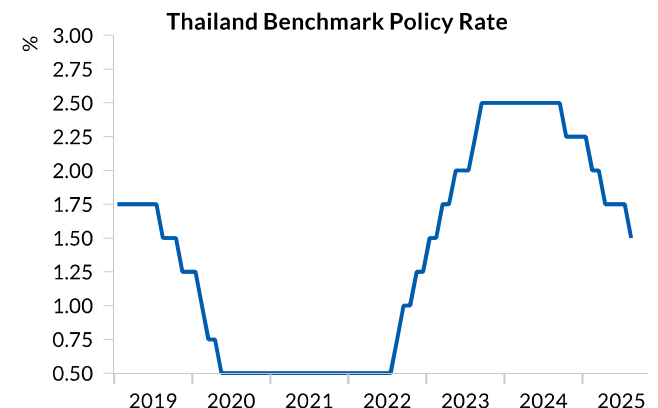
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: ... reflecting sustained supply-side pressures from electricity, fresh food, and energy prices



Source: Macrobond, RHB Economics & Market Strategy

Figure 7: We expect further easing in 2H25, bringing the end-year policy rate to 1.25%



Source: Macrobond, RHB Economics & Market Strategy

30 September 2025

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