Quarterly Market Outlook 3Q2025

Global Markets

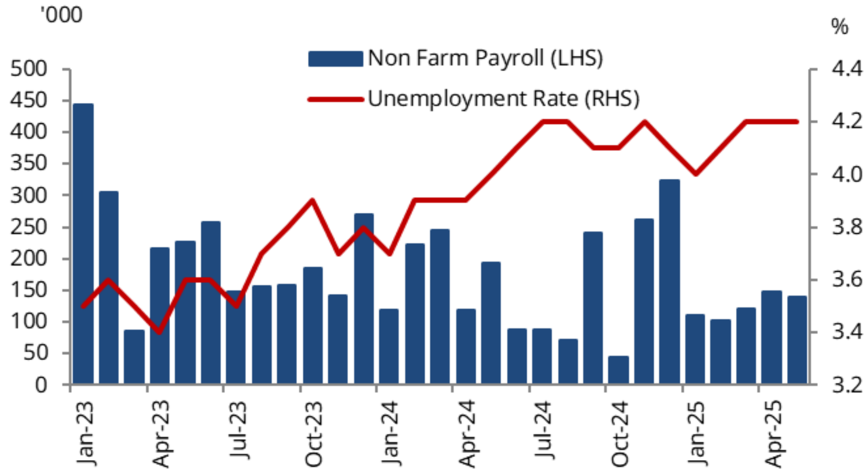
July 2025

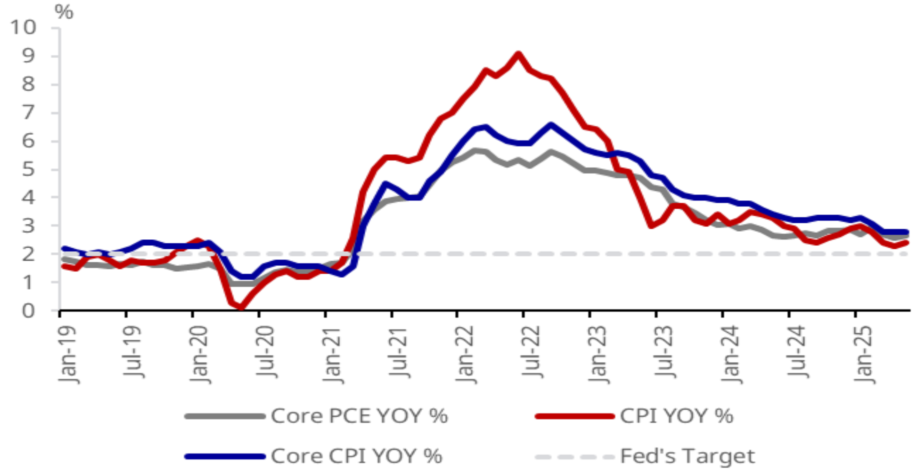
Global Central Banks Policy Rates Outlook

	Current	3Q25	4Q25	1Q26	2Q26	Remarks (total change for the rest of 2H 2025)
United States Federal Reserve *Fed Funds Rate*	4.25-4.50	4.00-4.25 (-25bps)	3.75-4.00 (-25bps)	3.50-3.75 (-25bps)	3.25-3.50 (-25bps)	**-50bps**
Eurozone European Central Bank *Deposit Rate*	2.00	2.00	2.00	2.00	2.00	**No change**
United Kingdom Bank of England *Bank Rate*	4.25	4.00 (-25bps)	3.75 (-25bps)	3.50 (-25bps)	3.50	**-50bps**
Japan Bank of Japan *Policy Balance Rate*	0.50	0.50	0.50	0.75 **(+25bps)**	0.75	**No change**
Australia Reserve Bank of Australia *Cash Rate*	3.85	3.60 (-25bps)	3.35 (-25bps)	3.10 (-25bps)	3.10	**-50bps**
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	3.25	3.00 (-25ps)	2.75 (-25bps)	2.75	2.75	**-50bps**
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	2.75	2.75	2.75	2.75	2.75	**No change**
Thailand The Bank of Thailand *1-Day Repurchase Rate*	1.75	1.50 (-25bps)	1.50	1.25 (-25bps)	1.25	**-25bps**
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	5.50	5.25 (-25bps)	5.00 (-25bps)	5.00	5.00	**-50bps**

Source: Bloomberg, Global Markets Research

US – Data dependent the best description for the FOMC



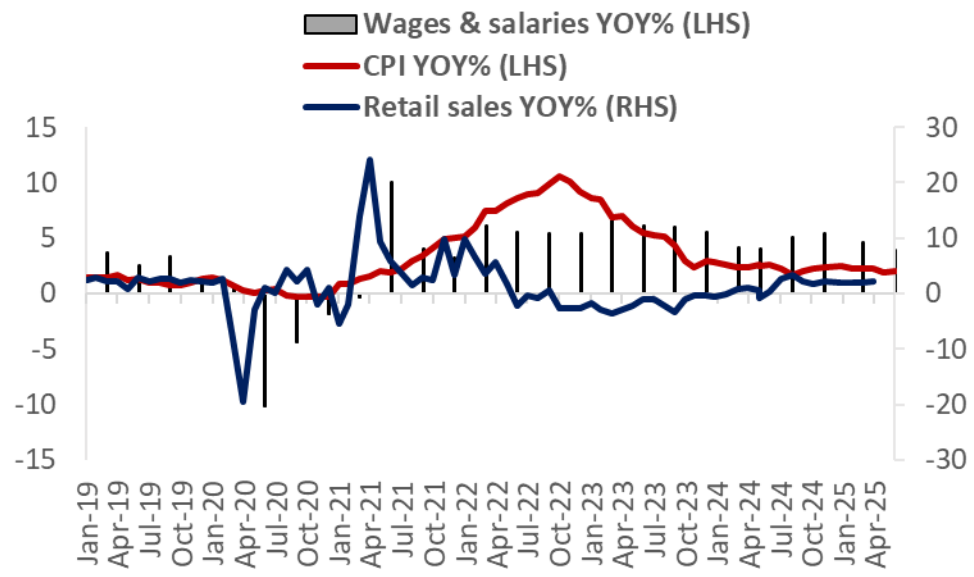


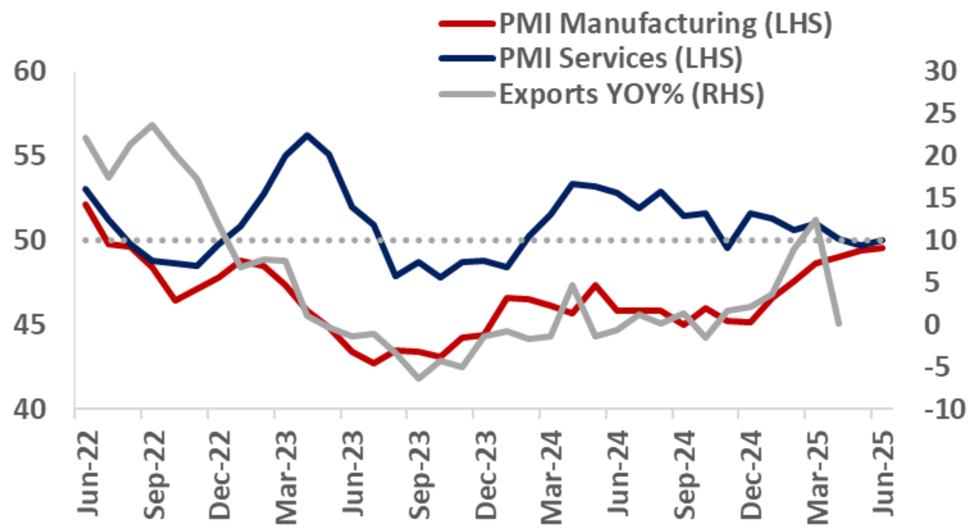
	2023	2024	2025F
GDP (%)	2.9	2.8	1.4
Core PCE Inflation (%)	4.2	2.8	3.1
Fed Funds Rate (%)	5.25-5.50	4.25-4.50	3.75-4.00
Dollar Index (End of period)	101.33	108.48	96.29

Source: Fed, Bloomberg, HLBB Global Markets Research

- Trump's tariff expected to shave GDP by 0.9ppts, increase inflation by 1.1ppts – Impact remains debatable at this juncture given the still evolving tariff rates
- Recent labour market indicators have cooled but remains resilient; economic data has weakened– leading index, retail sales and industrial output has declined, ISMs below 50
- Atlanta Fed GDPNow model estimates real GDP growth to rebound to 2.6% in 2Q from -0.5% previously, due to less negative exports contributions to GDP
- FOMC members believe that the current policy is well positioned, allowing policy makers to adopt a wait-and-see approach for more clarity on the outlook; FOME members were divided on easing path given differing view on inflation at this juncture.

Eurozone – Defense & infrastructure spending to cushion impact from the tariff



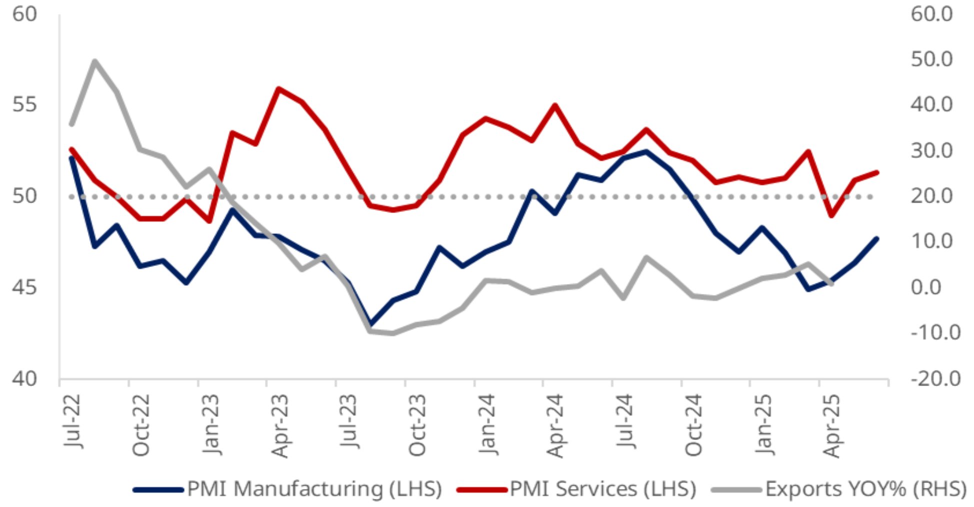


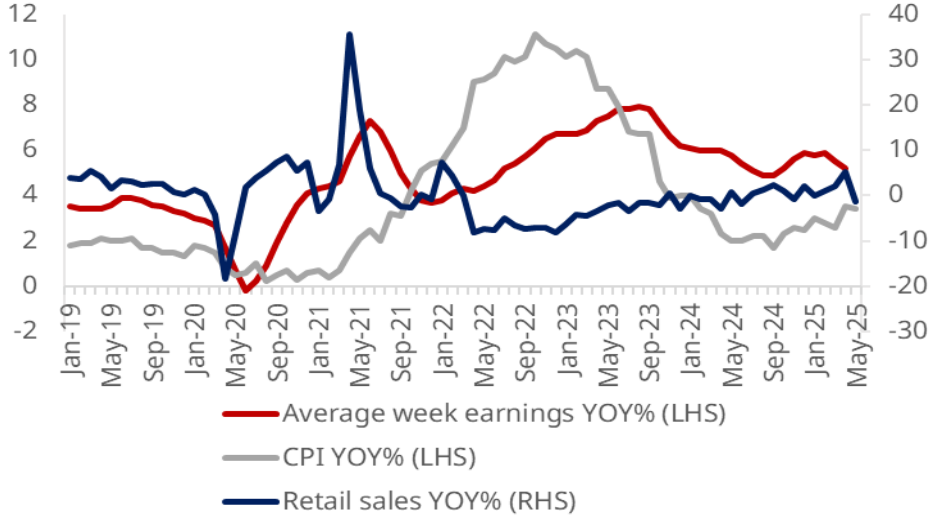
	2023	2024	2025F
GDP (%)	0.4	0.9	0.9
Inflation (%)	5.5	2.4	2.0
Deposit Facility Rate (%)	4.00	3.00	2.00
EUR/USD (End of period)	1.1039	1.0354	1.1900

- Improved real wage growth, still sturdy labour market and new defense & infrastructure spending (estimated to add 0.25ppts to GDP) is expected to offset the 0.2ppts estimated loss in GDP due to the 10% baseline tariff
- Exports decelerated sharply in April post tariff, growing 0.1% y/y as compared to 12.3% y/y in March
- Risks of inflation undershooting ECB’s forecasts have increased in view of the stronger EUR, and lower oil prices
- The ECB is in a good position to navigate the uncertain conditions ahead with the current level of interest rates

Source: ECB, Bloomberg, HLBB Global Markets Research

UK – Double whammy from the unwinding of tariff & Autumn Budget front-loading



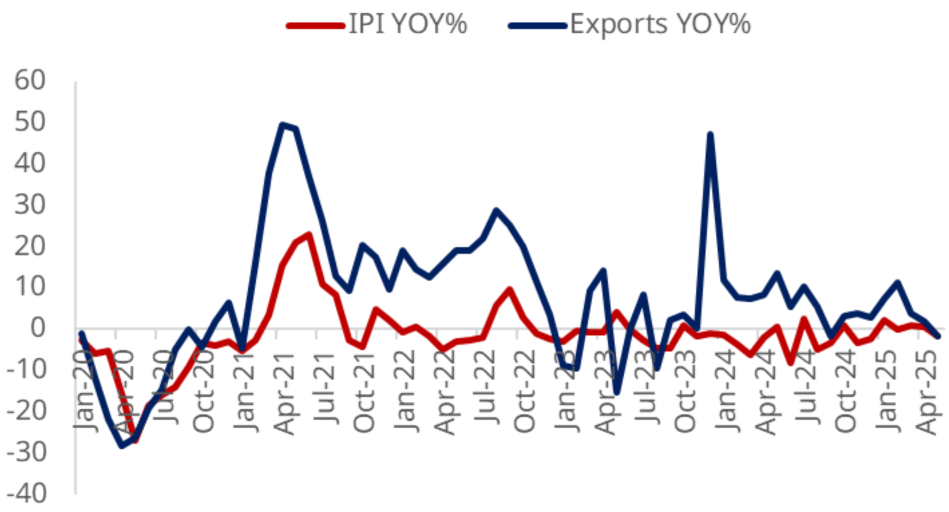


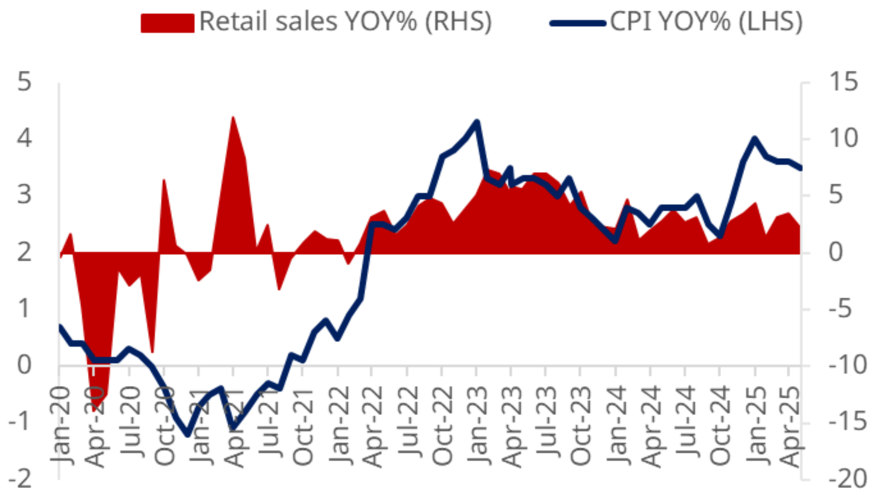
	2023	2024	2025F
GDP (%)	0.4	0.9	1.0
Inflation (%)	7.4	2.5	3.3
Bank Rate (%)	5.25	4.75	3.75
GBP/USD (End of Period)	1.2731	1.2516	1.3800

Source: Bloomberg, HLBB Global Markets Research

- 10% tariff on UK goods save aluminum & steel products under the new trade agreement – expected to lower GDP growth by 0.3ppts by 2026; global concerns is expected to play a larger negative role on the economy rather than domestic factors
- On a quarterly basis, BOE expects headline GDP growth to slow sharply to 0.3% in 2Q (1Q: +0.7%) - Business surveys reaffirm weak underlying GDP, and exports has fallen 3.4% m/m in April
- Inflation is expected to remain under 3.5% for the remainder of 2025 – softer pay growth (3-4%) & looser labour indicators should help to keep a lid on inflation

Japan – Trade-related data has faltered



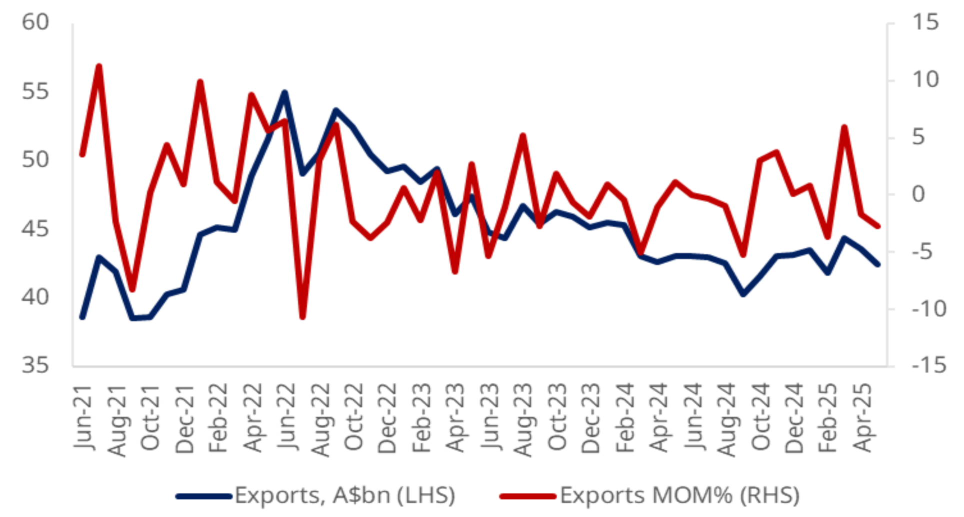


	2023	2024	2025F
GDP (%)	1.4	0.2	0.5
Core Inflation (%)	2.8	2.7	2.2
Policy Balance Rate	-0.1	0.25	0.50
USD/JPY	141.04	157.20	144.00

Source: BOJ, Bloomberg, HLBB Global Markets Research

- A 25% tariff could shave GDP growth by 0.5ppts - Exports, production and corporate profits has started to show some weakness in May
- Moderate growth in consumption despite higher inflationary pressure, supported by tax breaks and handouts, as well as sustained negotiated wage growth for the year; although latest indicator is pointing to slower wage growth in May
- Significantly low real interest rates suggest more rate hikes to come, but high uncertainties regarding future trade suggests that BOJ will carefully monitor the developments and risks before taking the next course of action

Australia – Expect continued gradual policy easing

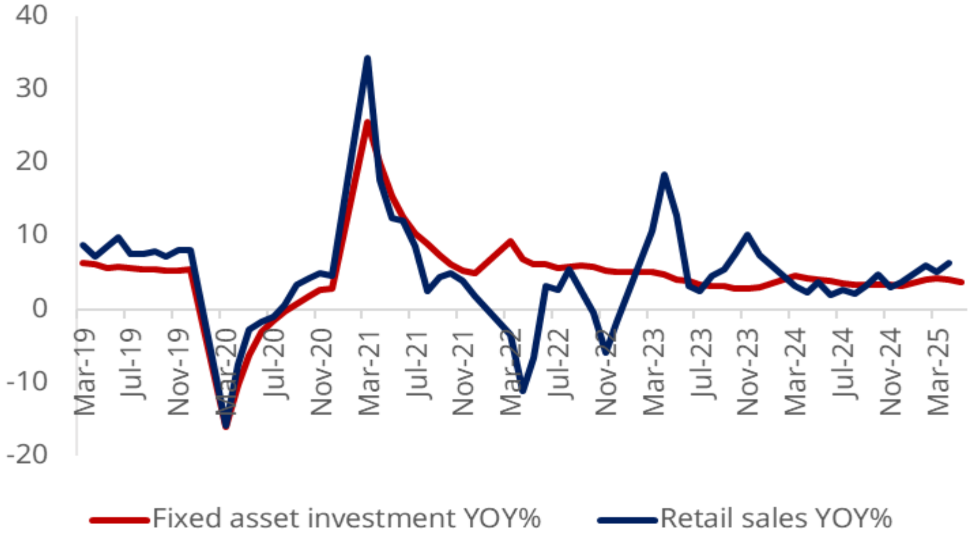


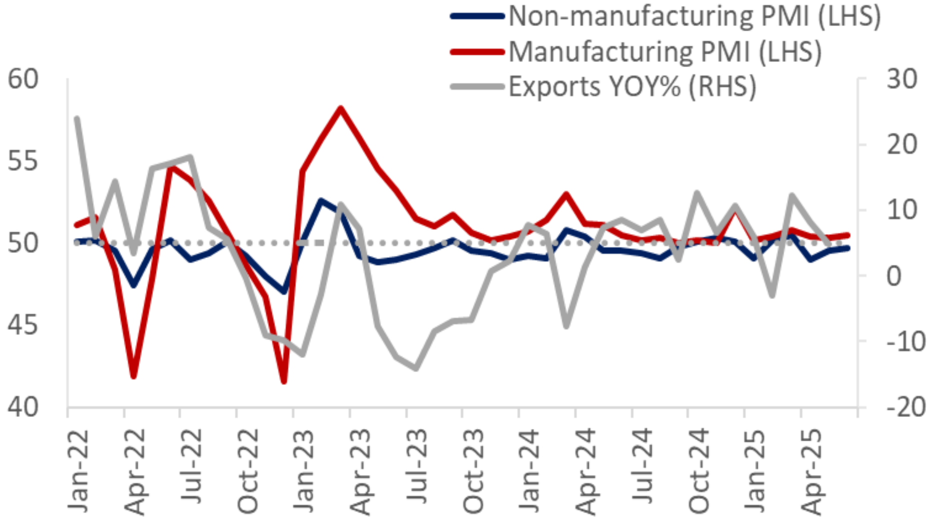
	2023	2024	2025F
GDP (%)	2.1	1.1	1.9
Inflation (%)	5.6	3.2	3.0
Cash Rate (%)	4.35	4.35	3.35
AUD/USD	0.6812	0.6188	0.65

Source: RBA, Bloomberg, HLBB Global Markets Research

- Recent trade developments has had little impact on domestic activity - Business and consumer sentiment had been little changed. RBA expects trade deal to lower export prices but not volume substantially, partially thanks to China (exports contracted m/m in Apr-May)
- RBA discussed a 50bps rate cut as a greater insurance against more adverse scenarios, decided to continue with its gradual rate reduction to ensure that monetary policy settings remained predictable
- While the current policy rate is somewhat restrictive, RBA said that it was not time to move the monetary policy to an expansionary stance, given inflation yet to return sustainably to the midpoint target range, labour market was still tight but wage growth has moderated for the private sector

China – 5% growth target is achievable despite looming downside risk



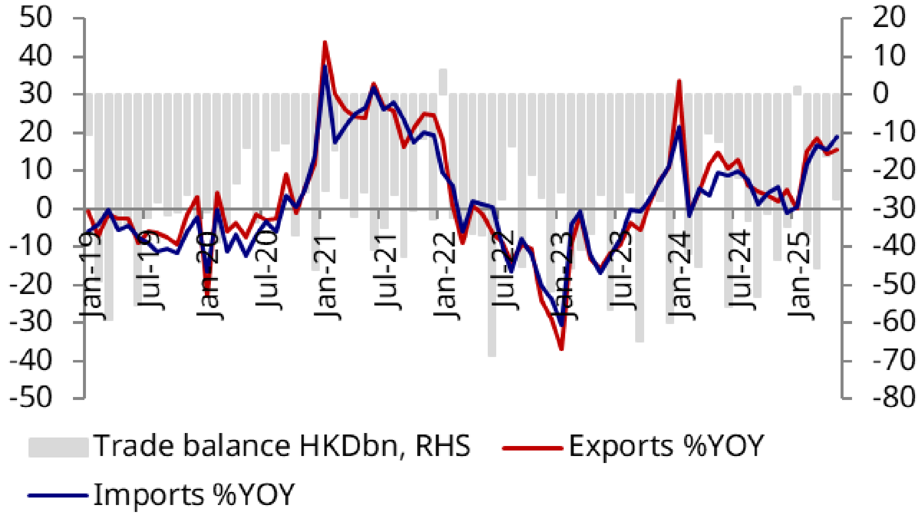


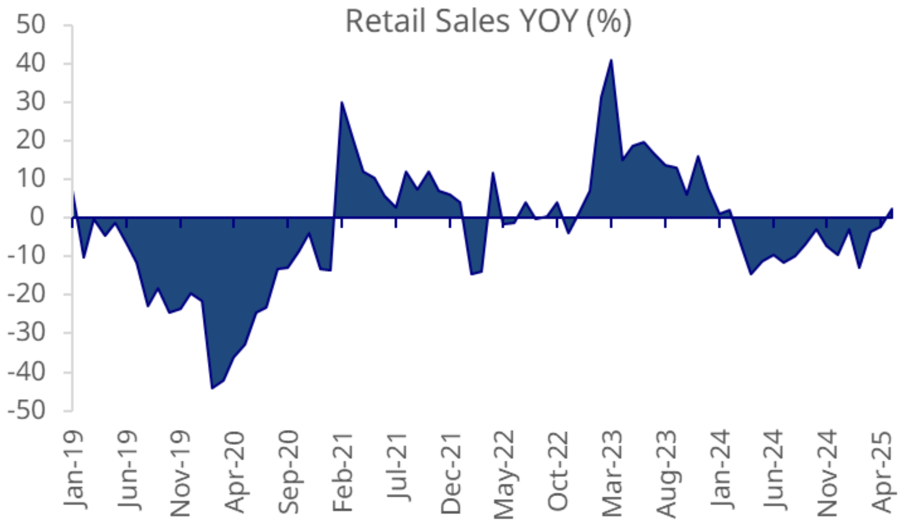
	2023	2024	2025F
GDP (%)	5.2	5.0	5.0
Inflation (%)	0.2	0.2	2.0
1Y LPR (%)	3.45	3.10	2.90
USD/CNY	7.1000	7.2993	7.1600

Source: National People's Congress, Bloomberg, HLBB Global Markets Research

- No details on China's trade deal yet, currently subjected to 55% tariff rates across the board. Exports remained expansionary in April-May, and is expected to continue growing going forward, albeit at a slower pace
- PMIs have also been slowly inching up from the low seen in April, indicating firming traction from the initial sharp pullback from tariff angst and further adding to expectations that the China economy will be able to weather the trade policy uncertainties
- Domestic demand is being dampened by still high precautionary savings and real estate correction, but will be buttressed by the continuing trade-in programme & sizeable stimulus for fiscal investment (3-4% of GDP)

Hong Kong – Supported by China's economic resilience and tourism



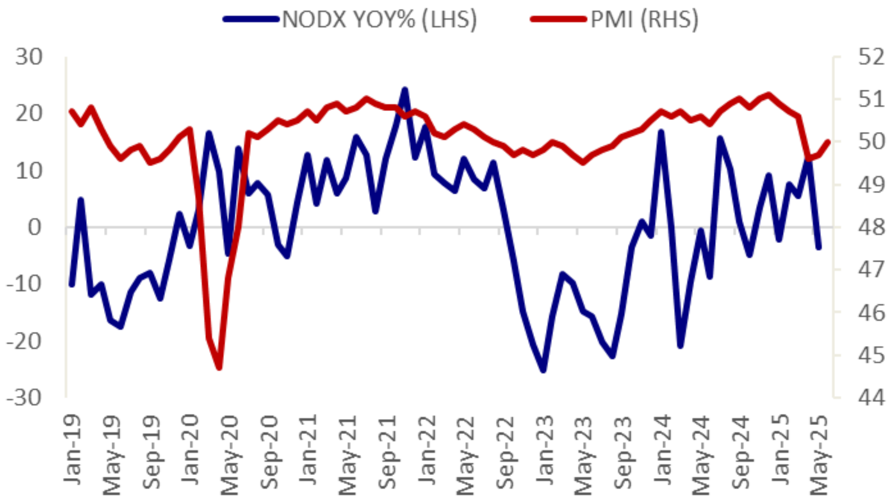


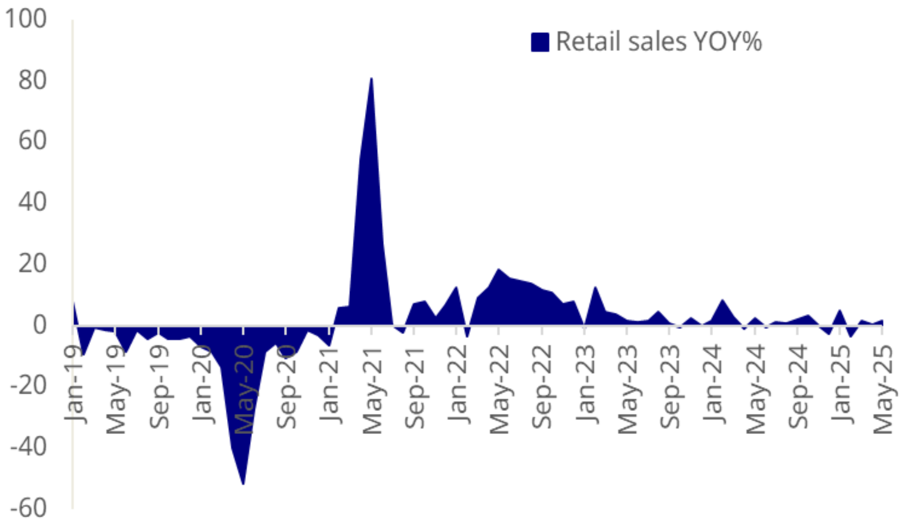
	2023	2024	2025F
GDP (%)	3.3	2.5	2.5
Inflation (%)	2.1	1.8	1.8
3-month Hibor	5.15	4.37	2.85
USD/HKD	7.8115	7.7686	7.8100

Source: HK Economy, Bloomberg, HLBB Global Markets Research

- 10% tariff likely to shave1.5ppts off GDP calculation. Exports continue to enjoy double-digit growth in 2Q, and is expected to be buttressed by China's economic resiliency
- A meaningful and sustained improvement of consumer and business confidence in China is crucial to support stronger growth for Hong Kong, further supported by higher tourist arrivals and targeted policy measures at selected industries like AI (under Budget 2025)
- Tourist arrivals have picked up partially thanks to a weaker HKD, but we remained skeptical of a sustained pick-up in retail sales for now

Singapore – Silence is golden



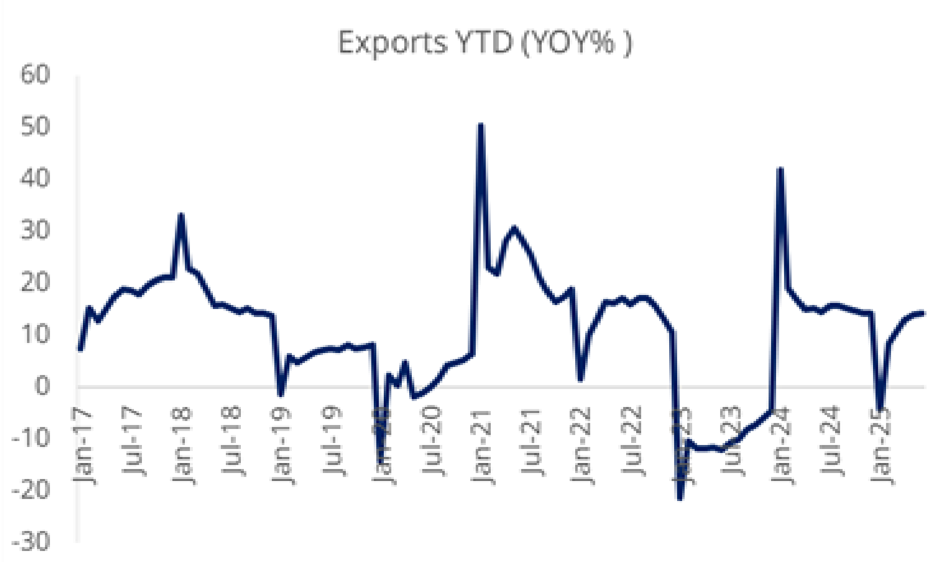


	2023	2024	2025F
GDP (%)	1.1	4.3	0-2.0
Inflation (%)	4.9	2.4	0.5-1.5
3m SIBOR (%)	4.06	3.30	2.12
USD/SGD	1.3203	1.3657	1.2600

Source: MTI, Bloomberg, HLBB Global Markets Research

- No new tariff update yet and existing baseline levy at a low 10% is in favour for Singapore – pharma (10% of exports to the US) and semiconductors remained exempted FOR NOW, expected to shave GDP growth between 0.5-1.0ppts
- Official PMI has rebounded to expansion territory in June (after 2 consecutive months of contraction), as business confidence has stabilised somewhat; However, NODX contracted, due to the payback in pre-tariff front loading shipments.
- Consumer spending expanded for the third consecutive month. Cash transfer to households under the expansionary Budget 2025 and mega events will likely keep domestic retail sales supported in the coming year

Vietnam – Hefty tariff reduction a big positive: official GDP growth target achievable

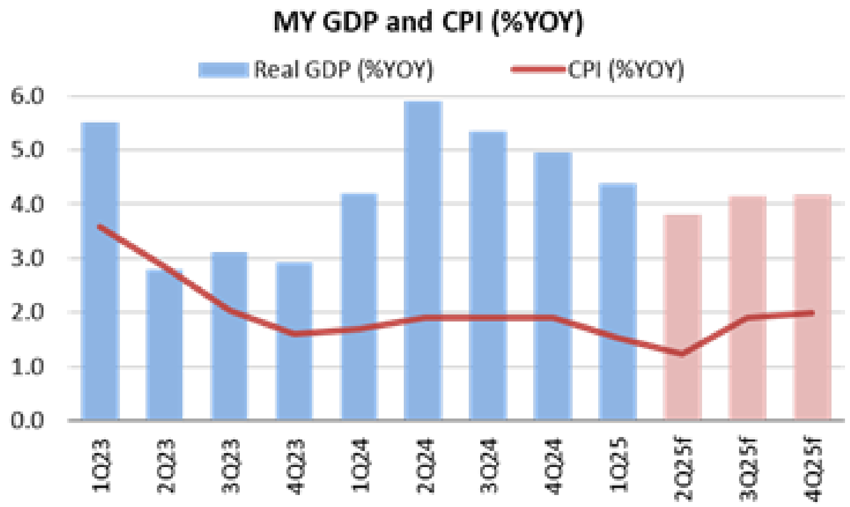


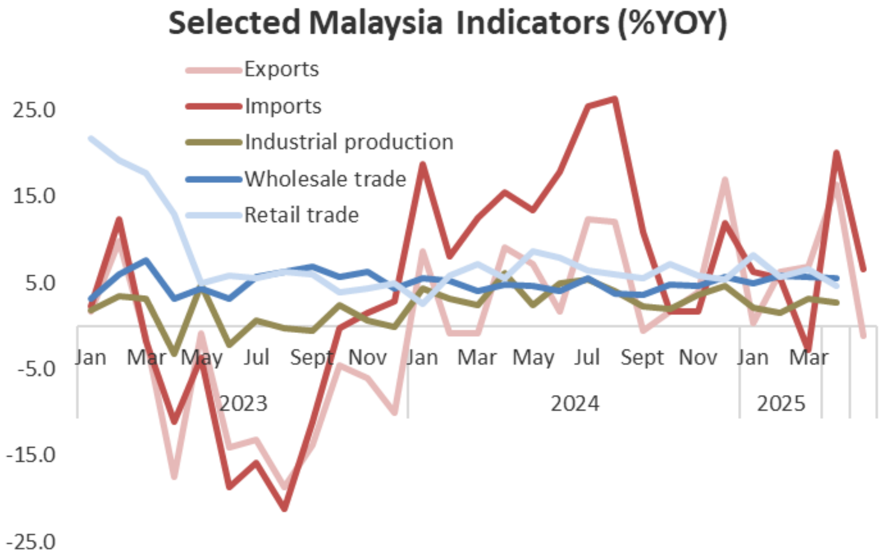
	2023	2024	2025F
GDP (%)	5.1	7.1	6.5-7.5
Inflation (%)	3.3	3.6	4.0-4.5
SBV Refinancing Rate (%)	4.50	4.50	4.50
USD/VND	24,269	25,485	26,200

Source: Bloomberg, HLBB Global Markets Research

- Neutral-to-slightly bullish view on US-Vietnam trade deal for now (20% US tariff on Vietnamese goods, 40% “transshipment” tariff) – a 10% drop in the country's shipments to the US could cut Vietnam’s GDP growth by 0.84ppt
- Watching out for any favourable/unfavourable tariff differentials on supply chain shift after August 1st, but opine that positive momentum for FDI to persist given Vietnam’s relative cost competitiveness and as a “China+1”.
- Domestic demand has/is expected to remain robust supported by tourism and ramped up infrastructure investment

Malaysia – OPR likely stay unchanged for the rest of 2025 after the 25bps preemptive cut in July





	2023	2024	2025F
GDP (%)	3.7	5.1	3.8-4.3
Inflation (%)	2.5	1.8	1.8
OPR (%)	3.00	3.00	2.75
USD/MYR	4.5940	4.4722	4.2500

Source: Bloomberg, BNM, DOS, HLBB Global Markets Research

- 25% tariff effective 1 Aug less favourable than the current 10% and earlier announced 24% - 10% of Malaysia's exports directly impacted by the tariffs from the US for now, and is estimated to negatively impact Malaysia's GDP growth by 0.6-0.7ppts; Already, exports has turned red in May despite the tariff pause
- BNM made tweaks to inflation outlook to "moderate", possibly due to upcoming domestic policy reforms like subsidy rationalization
- Latest policy move was an insurance measure to "secure" the economy in a prolonged environment of uncertainty; less dovish than expected statement suggests likelihood of a pause for the rest of 2025.

Markets Outlook - FX

FX – USD to bounce in 3Q25 before resuming downtrend further out; depreciation over the coming year likely to benefit majors more than EM/Asian currencies

	12-month Outlook
+	**EUR:** Increased defense and infrastructure spending likely to cushion growth impact from tariffs, with lagged impact of previous rate cuts continuing to filter through. Likely to be a key beneficiary of a structural decline in the USD **GBP:** Economic momentum looks likely to slow sharply, partly as a result of the unwinding of tariff front loading, but a continuation of rate cuts could ease the blow **JPY:** Labour wage indicators have surprised on the downside of late, throwing a spanner into the Bank of Japan's plans for further policy normalization in the short term. **CNY**: Near term weakness likely from tariff situation, but increased fiscal stimulus likely to boost domestic demand, with continued easing on monetary policy to soften negative impact from trade and property sectors **MYR**: Continued resilient domestic demand and strong investment environment to cushion export sector weakness, with the recent rate cut by BNM likely to help shore up growth **SGD:** To continue to benefit from USD weakness further out, but like the other Asian peers, may underperform G10 currencies. MAS likely to ease further **AUD:** Near-term hit from softening commodity prices, but rates moving into expansionary stance in the second half of the year would help to support growth
-	**USD:** Near term bounce expected in 3Q before resuming structural downtrend further out as growth begins to falter from the prolonged tariff uncertainty. Likely to depreciate more versus majors compared to EM/Asian currencies

FX Forecasts

	30-Jun	Q3-25F	Q4-25F	Q1-26F	Q2-26F
DXY	96.88	98.32	96.29	94.99	93.77
USD/CAD	1.36	1.38	1.37	1.35	1.34
EUR/USD	1.18	1.16	1.19	1.20	1.22
GBP/USD	1.37	1.36	1.38	1.39	1.40
USD/CHF	0.79	0.80	0.80	0.79	0.78
AUD/USD	0.66	0.63	0.65	0.67	0.68
NZD/USD	0.61	0.59	0.60	0.61	0.61
USD/JPY	144	147	144	140	137
USD/MYR	4.21	4.28	4.25	4.22	4.18
USD/SGD	1.27	1.29	1.26	1.24	1.22
USD/CNY	7.16	7.20	7.16	7.12	7.10

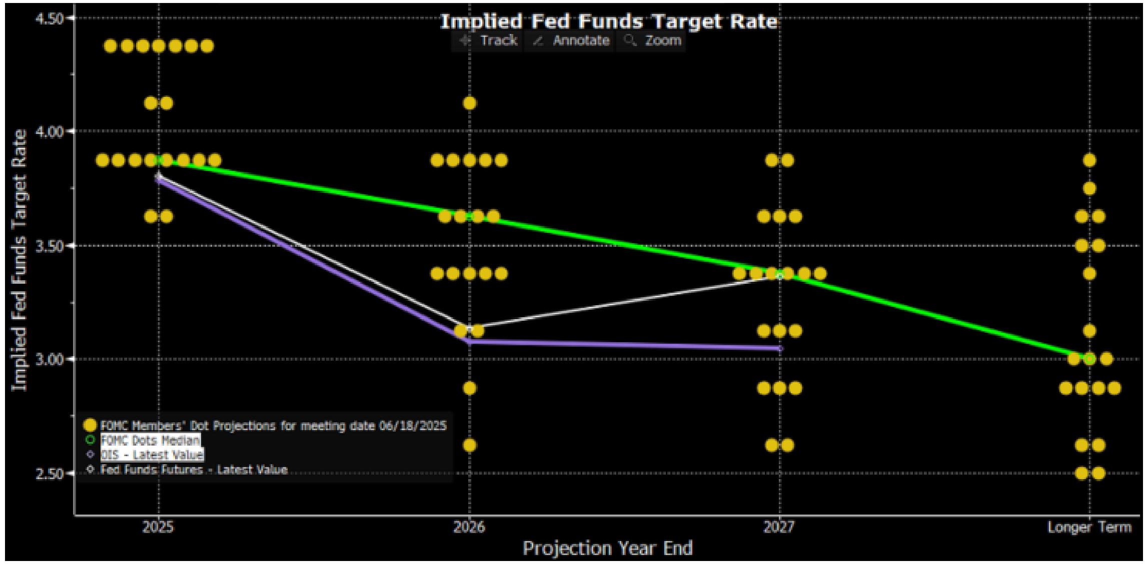
Markets Outlook – Fixed Income

	CURRENT	3Q2025	4Q2025	1Q2026	2Q2026
UST 10Y	4.33%	4.15%	4.00%	3.85%	3.70%
MGS 10Y	3.44%	3.35%	3.30%	3.25%	3.25%
SGS 10Y	2.11%	2.05%	2.00%	1.95%	1.90%

Sovereigns – Constructive outlook for bonds for 3Q2025 and the remainder of the horizon period as global growth moderates from a prolonged environment of tariff-related uncertainty

UST	Bond yields to head lower in 3Q25 and beyond The FOMC is likely to resume the process of easing policy gradually in the face of uncertain impact of tariffs on inflation, with a 25bps reduction seen in each of the next 4 quarters UST curve likely to steepen as longer-dated maturities underperform on continued longer-term fiscal concerns
MGS	Constructive on MGS/GII in 3Q and for the remainder of the horizon period BNM likely to remain on hold after the pre-emptive insurance cut in the OPR on Jul 09 Consumption and investment likely to continue to demonstrate resilience to cushion the expected negative blow from the external sector
SGS	SGS yields seen declining in line with the expected constructive tone in global fixed income MAS is likely to ease further at its two remaining quarterly meeting in July and October, with low core inflation and external sector weakness

US Fixed Income – UST yields to head lower; yield curve to steepen as long-end underperforms

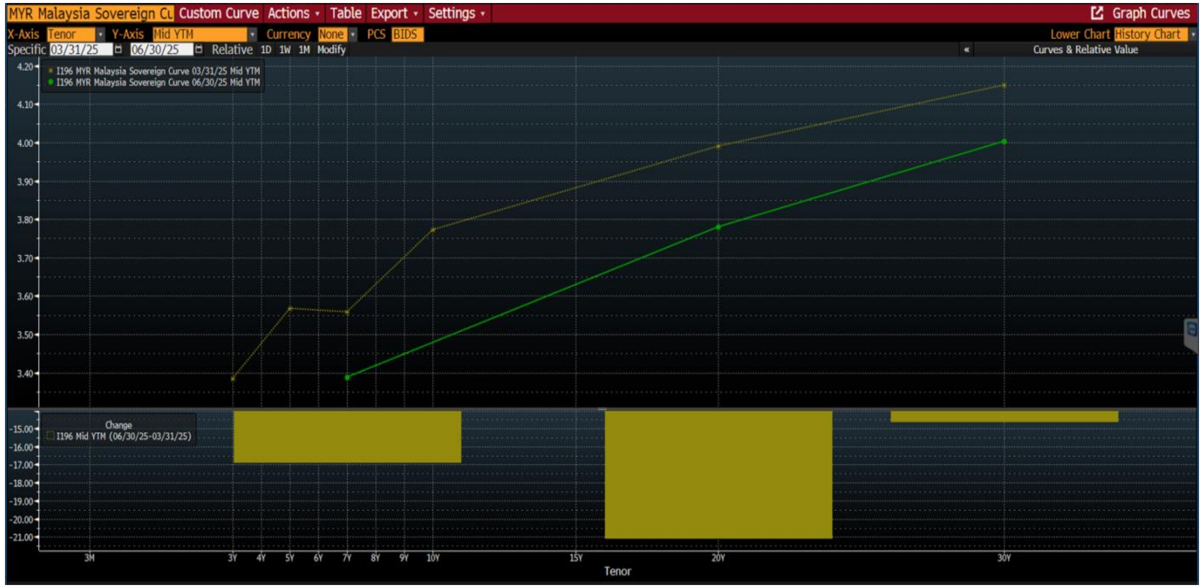


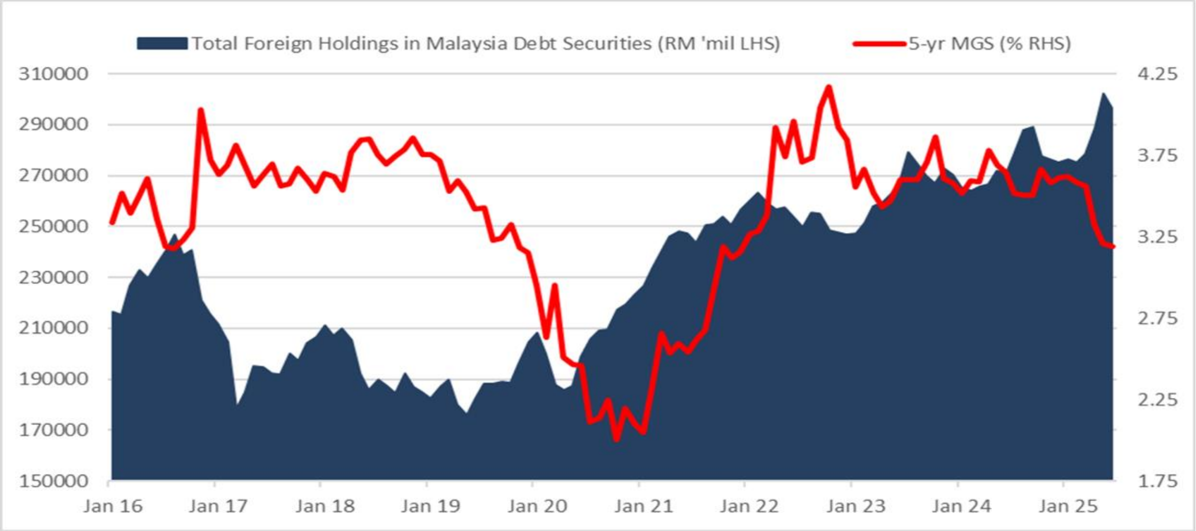
Source: Bloomberg, HLBB Global Markets Research

- **UST** -- USTs were mixed in 2Q25, with gains seen in shorted-dated maturities up till 7 years, while the longer-dated bonds witness declines which drove yields higher.
- Benchmark yields were mixed by -19 to +20bps for the quarter (1Q25: 13-43bps lower) as the market pared back expectation of future cuts slightly, with Fed Fund Futures pointing to 67bps of cuts for 2025 at the end of 2Q25, versus the 76bps priced for 2025 as at end of 1Q25.
- The yield curve steepened during the quarter, with the UST 2s10s curve ending 2Q25 at +51bps (1Q25: +32bps) as the long-end underperformed due to growing fiscal concerns after President Trump moved to extend the tax cuts which were originally scheduled to expire this year.
- The Fed left its policy rate unchanged at the two FOMC meetings in 2Q on May 8 and June 19, and the Fed's Dot plot median projection during the June FOMC continued to point to a further 50bps reduction in the Fed Funds Rate for 2025.
- **We expect the FOMC to resume easing its Fed Funds Rate in 3Q25 after the pause in 1H25, by 25bps per quarter for the remainder of 2025.**
- Economic data during the quarter was weaker in general, with the ISM indices continuing to moderate, and personal spending numbers suggesting slower consumer spending. The labour market continues to hold up though, with the unemployment rate inching lower to 4.1% in June (Mar: 4.2%) and job gains surpassing expectations.
- Inflation was largely unchanged during the quarter, with core PCE and core CPI for May coming in at 2.7% and 2.9% y/y respectively (Mar: 2.7% and 2.9%)
- **Looking ahead, we see USTs trading higher in 3Q, and expect the 10Y UST yield to decline to around 4.15% by the end of 3Q25** from the current level of 4.33% as the prolonged tariff situation starts to impact growth adversely, with the yield curve likely to steepen as fiscal fears cause the longer-end to underperform

- **Corporates** –Corporate bonds were firmer for the quarter with the Bloomberg US Corporate Bond Index posting an advance of 1.8% in 2Q25 (1Q25: +2.3%)

Malaysia Fixed Income – MGS/GII yields to head lower in 3Q25; BNM to hold rates after insurance cut



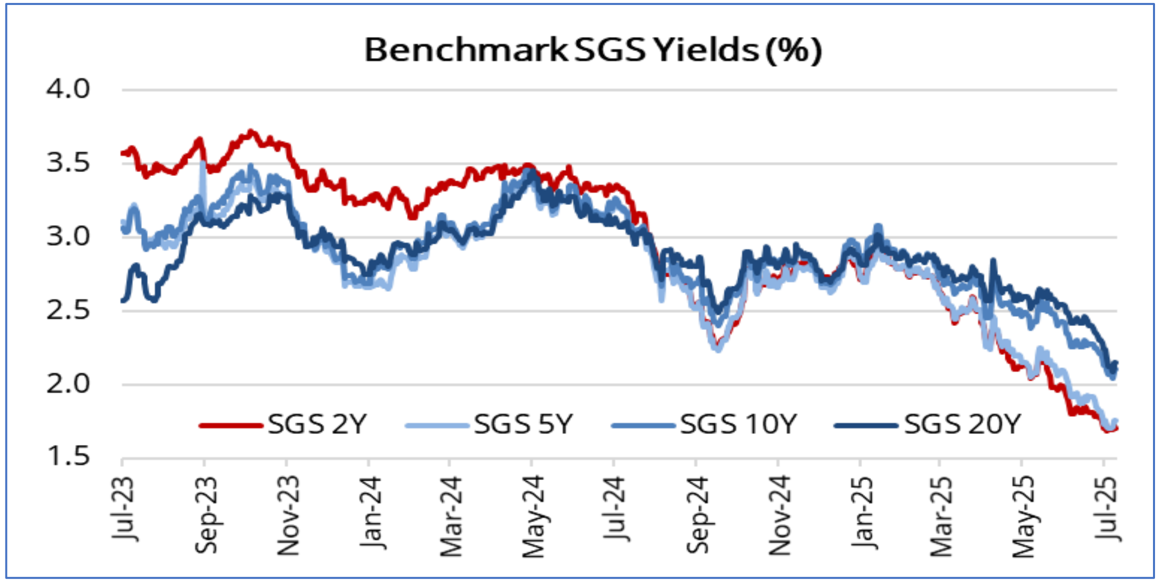


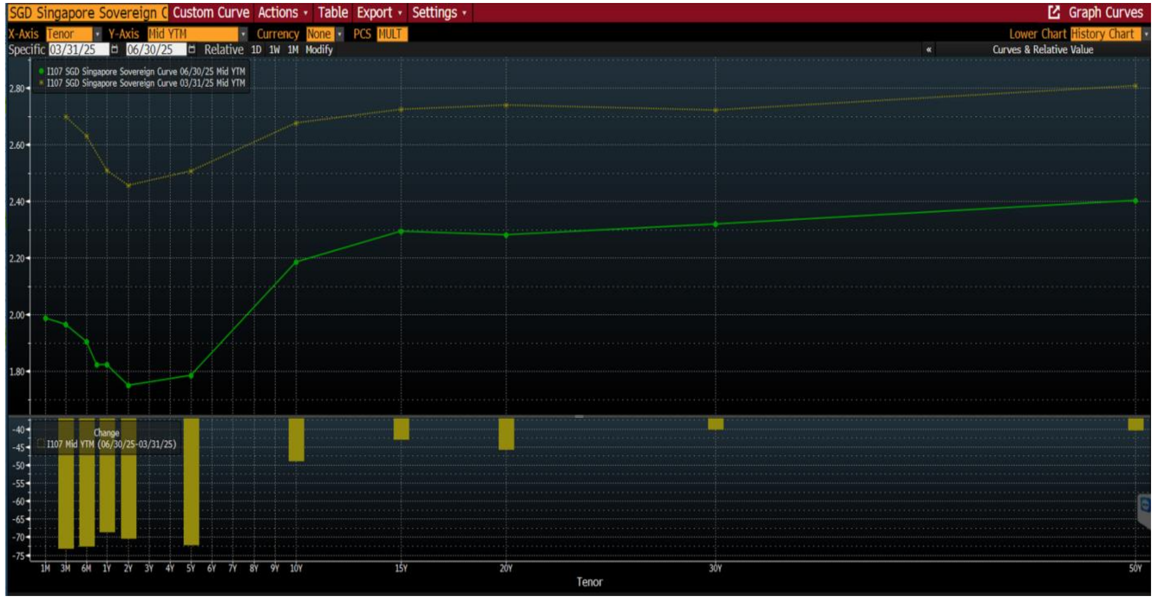
Source: Bloomberg, BNM, HLBB Global Markets Research

- **Government Bonds** – MGS and GII staged a decent rally in 2Q25 as overall benchmark yields closed lower between 13 and 37bps q/q (1Q25: 3 to 9bps lower) as the tariff situation took an ugly turn with the imposition of reciprocal tariffs by the US.
- Foreign holdings of MYR bonds surged by RM18.1bn during the quarter to RM296.6bn as at end 2Q25, from the RM278.5bn seen at the end of 1Q25.
- Government bond auctions in 2Q25 saw similar bidding metrics despite lower gross issuance of RM38.0bn during the quarter, with the average BTC holding steady at 2.83x across 8 auctions (1Q25: 10 auctions; average BTC 2.83x; gross issuance of RM48.0bn).
- BNM undertook a pre-emptive insurance cut in the OPR to 2.75% on Jul 09; **we expect BNM to hold rates steady during the September MPC meeting.**
- Economic growth in 1Q25 moderated to 4.4% y/y (4Q24: 5.0%). Inflation continued to moderate further during the quarter, with the latest CPI number for May at 1.2% y/y, suggesting a continued absence of significant price pressures domestically.
- Bonds are expected to trade on a constructive note in 3Q25, with the continuing tariff situation resulting in a prolonged period of uncertainty on global economic prospects and lead to a moderation in growth and bullish environment for global government bonds. **We expect the 10Y MGS yield to head lower in 3Q25 to 3.35%.**

- **Corporate Bonds/Sukuk** – Corporate spreads widened marginally in 2Q25 as government bonds rallied, with AAA and AA2 spreads in the 10Y space closing at 35 and 51bps respectively (1Q25: 23 and 41bps) amidst a slight reduction in supply with corporate issuance (including GG bonds) inching lower to RM30.3bn in 2Q25 (1Q25: RM30.7bn). We expect issuance to pickup in 3Q25, and for corporate spreads to widen further slightly.

Singapore Fixed Income – SGS yields expected to grind lower in 3Q25





Source: Bloomberg, HLBB Global Markets Research

- **SGS** – Singapore Government Securities rallied sharply for the quarter, as overall benchmark yields plunged between 46 to 75bps (1Q25: 8 to 23bps lower), with the shorter end of the yield curve outperforming as MAS eased again in April and core inflation tumbled.

- The SGS yield curve bull-steepened during the quarter, with SGS 2s10s spread closing the quarter at +44bps at the end of 2Q25 (1Q25: +18bps)

- The Bloomberg Global Singapore Bond Total Return Index recorded a return of 4.6% for 2Q25 (1Q25: +1.8%), reflecting the significant rally in bonds for the quarter

- There were SGD6.9bn of SGS issuances for 2Q25, a reduction from the previous quarter (1Q25: SGD8.9bn)

- The Monetary Authority of Singapore (MAS) is expected to ease further at its upcoming quarterly meeting in July, with a likely continued flattening out of the SGD NEER curve in response to the negative impact of the prolonged tariff-related turmoil and muted core inflation domestically.

- **We expect SGS yields to grind lower in 3Q25, with the SGS 10Y expected to end the quarter around the 2.05% level**.

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