Quarterly Market Outlook 2Q2025

Global Markets

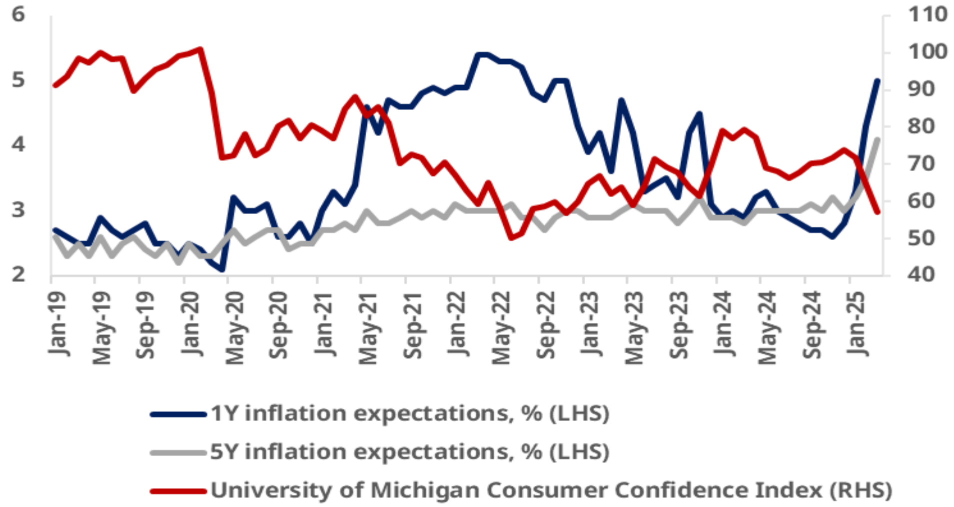
April 2025

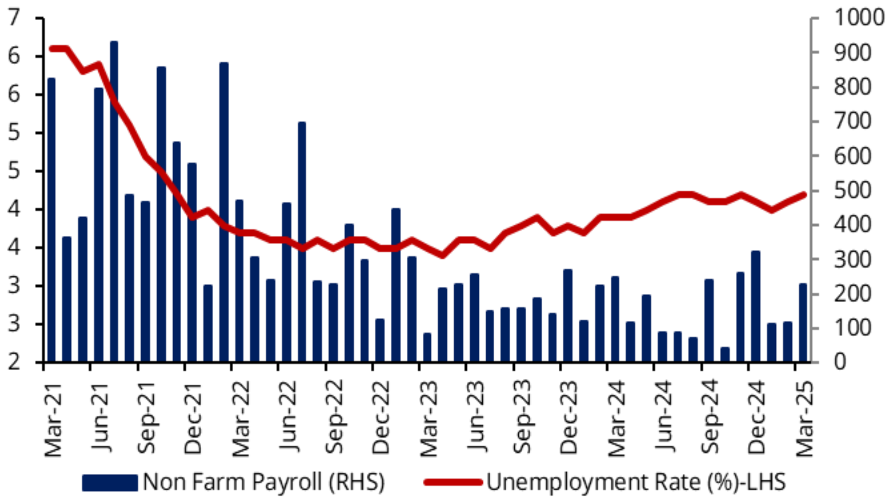
Global Central Banks Policy Rates Outlook

	Current	2Q25	3Q25	4Q25	1Q26	Remarks (total change for rest of 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)	-75bps
Eurozone European Central Bank *Deposit Rate*	2.50	2.25 (-25bps)	2.00 (-25bps)	2.00	2.00	-50bps
United Kingdom Bank of England *Bank Rate*	4.50	4.25 (-25bps)	4.00 (-25bps)	3.75 (-25bps)	3.50 (-25bps)	-75bps
Japan Bank of Japan *Policy Balance Rate*	0.25	0.50	0.50	0.75 (+25bps)	0.75	+25bps
Australia Reserve Bank of Australia *Cash Rate*	4.10	3.85 (-25bps)	3.60 (-25bps)	3.35 (-25bps)	3.10 (-25bps)	-75bps
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	3.50	3.25 (-50bps)	3.00 (-25ps)	2.75 (-25bps)	2.50 (-25bps)	-75bps
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	3.00	3.00	2.75 (-25bps)	2.75	2.75	-25bps
Thailand The Bank of Thailand *1-Day Repurchase Rate*	2.00	1.75 (-25bps)	1.50 (-25bps)	1.50	1.50	-50bps
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	5.75	5.50 (-25bps)	5.25 (-25bps)	5.00 (-25bps)	5.00	-75bps

Source: Bloomberg, HLBB Global Markets Research

US – Constant shocks does not bode well for the economy



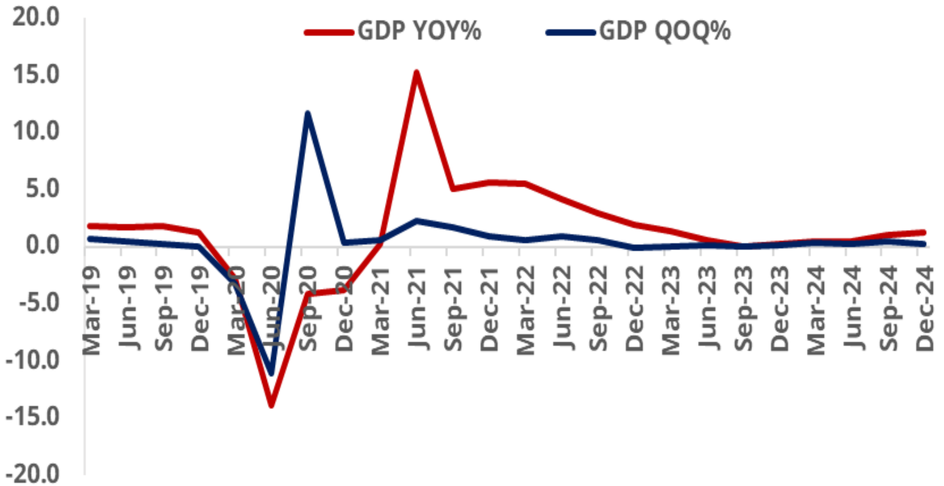


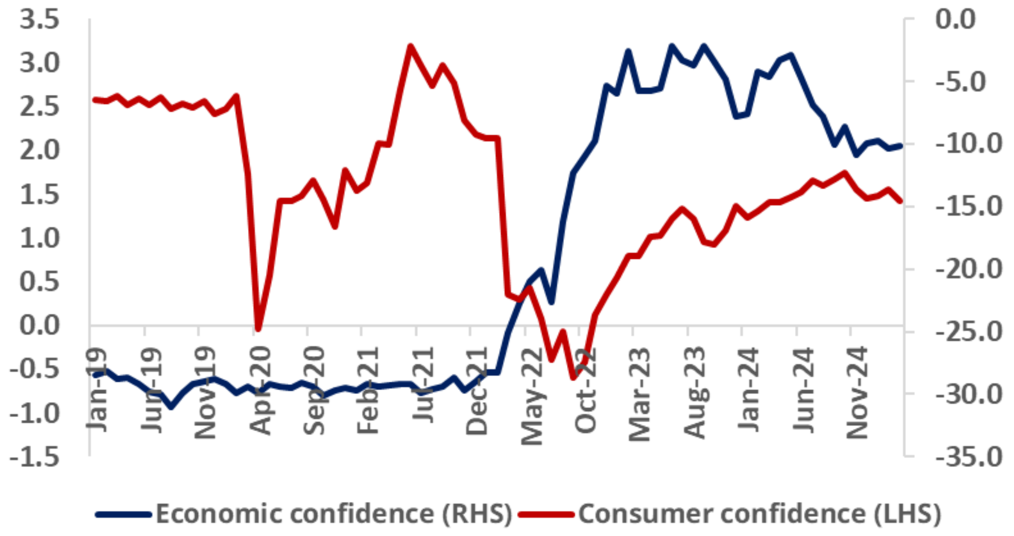
	2023	2024	2025F
GDP (%)	2.9	2.8	1.7
Core PCE Inflation (%)	4.2	2.8	2.8
Fed Funds Rate (%)	5.25-5.50	4.25-4.50	3.50-3.75%
Dollar Index (End of period)	101.33	108.48	97.01

Source: Fed, Bloomberg, HLBB Global Markets Research

- **Risk of a US recession has risen** from 25% to 30% amid escalating trade tensions – but recession is not our case base yet.
- **Impact from higher tariffs will likely be felt on growth first, inflation later** - US goods trade deficit unlikely to see significant improvement, potentially due to reduced demand for US exports because of higher tariffs and stronger USD. Every 1ppts increase in tariff could shave GDP by 0.1-0.2ppts.
- ***Timing of the next rate cut is highly dependent on the strength of the labour market.*** A more resilient labour market, hence growth outlook, could see the next rate cut being pushed back to 3Q and/or scaled down to 2 quarter points for 2025 to contain inflation, from our current base case of 3 cuts.

Eurozone – Balanced growth risk for now



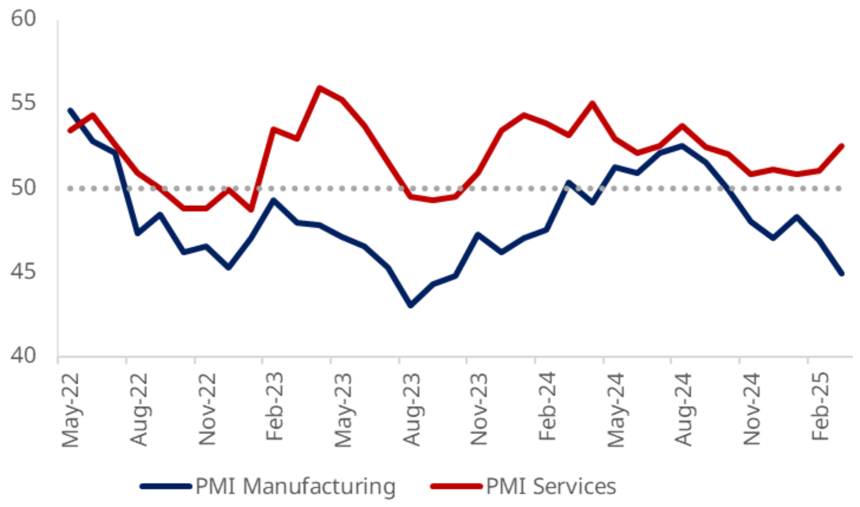


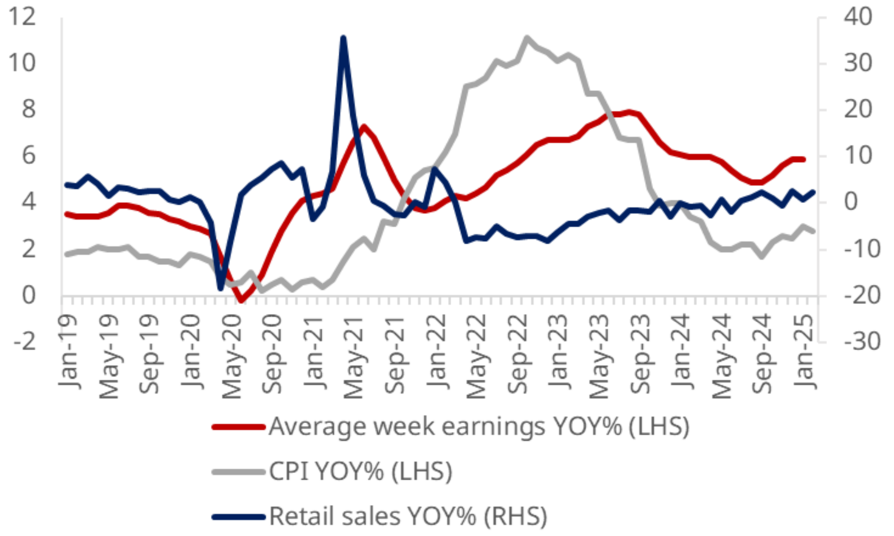
	2023	2024	2025F
GDP (%)	0.4	0.9	0.9
Inflation (%)	5.5	2.4	2.3
Deposit Facility Rate (%)	4.00	3.00	2.00
EUR/USD (End of period)	1.1039	1.0354	1.17

Source: ECB, Bloomberg, HLBB Global Markets Research

- The US accounts for 20% of EU's exports; ***a 10% tariff is expected to shave GDP by 0.2-0.4 ppts***; This comes after ECB has marked down its growth projections on exports and ongoing weakness in investment; consumer spending has remained sluggish for now
- Growth has stagnated, but we expect **balanced risks going forward – downside from the aggressive trade war; upside from landmark €500bn fiscal spending** (0.4% of GDP) – relatively muted dent on sentiment indices
- Monetary policy has become meaningfully less restrictive, suggesting that the **easing path may be more gradual** compared to its peers

UK – Triple hit from higher insurance contribution, minimum wage and tariffs



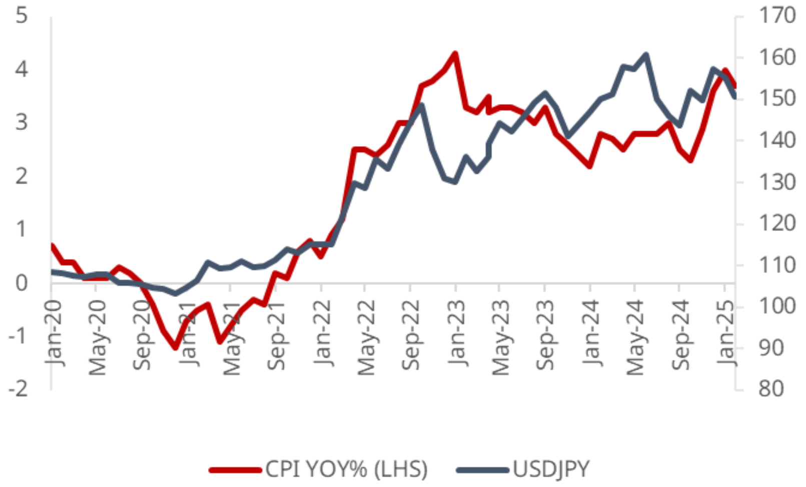


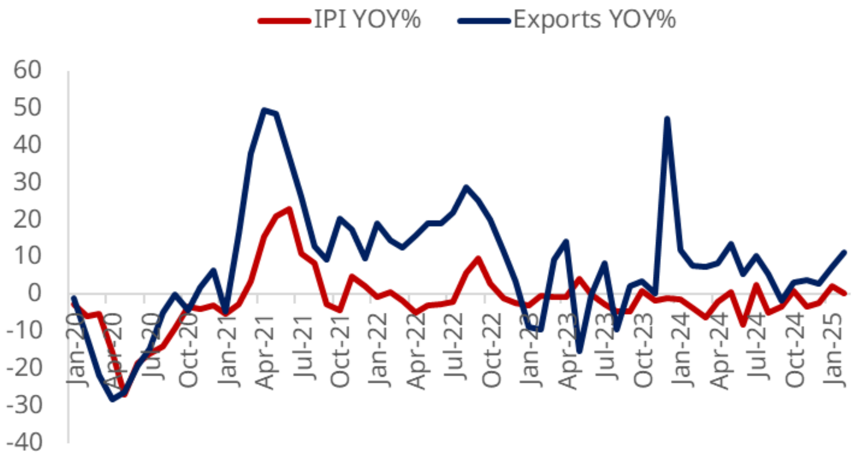
	2023	2024	2025F
GDP (%)	0.4	0.9	0.8
Inflation (%)	7.4	2.5	3.5
Bank Rate (%)	5.25	4.75	3.75
GBP/USD (End of Period)	1.2731	1.2516	1.33

Source: BOE, Bloomberg, HLBB Global Markets Research

- **The economy has been stronger than BOE's expectations**, but business surveys continue to suggest weakness in growth and employment ahead of the higher minimum wage and national insurance contribution (NIC) in April, even before the trade fall-out although ***US exports accounts for 2-3% of UK's GDP.***
- BOE expects GDP growth of 0.25% in 1Q; likely to be achieved as this suggests an average growth of 0.25% for March (Jan: 0.0%, Feb: +0.5%)
- Domestic price and wage pressures are moderating, but remain elevated. BOE expects **CPI inflation to accelerate to around 3.75% in 3Q** (Feb: 2.8%), **capping rapid rate cut bets.**

Japan – Trade war likely to push back next BOJ rate hike





	2023	2024	2025F
GDP (%)	1.5	0.1	1.1
Core Inflation (%)	2.8	2.7	2.4
Policy Balance Rate	-0.1	0.25	0.75
USD/JPY	141.04	157.20	136

Source: BOJ, Bloomberg, HLBB Global Markets Research

- Trade has but can't fuel growth forever; net exports could turn negative especially since US and China are Japan's largest trading partner (US exports contribute to 4% of Japan's GDP)
- Tax breaks, energy subsidies and wage growth (5.5% for 2025 vs 5.3% in 2024) will also help cushion trade fallout; a strong JPY is crucial to drive inflation down to further support spending
- Ever cautious approach to monetary policy – **BOJ is likely to delay the next rate hike to 4Q** to assess the impact from trade war

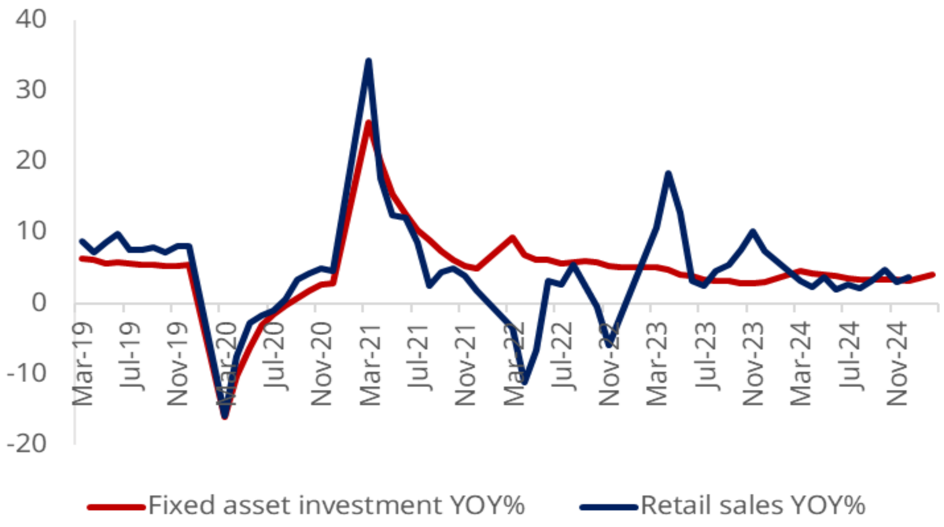
Australia – Growth will take precedence over inflation in policy decision

	2023	2024	2025F
GDP (%)	2.1	1.1	2.1
Inflation (%)	5.6	3.2	3.7
Cash Rate (%)	4.35	4.35	3.35
AUD/USD	0.6812	0.6188	0.63

Source: RBA, Bloomberg, HLBB Global Markets Research

- Growth will face repercussion from lower commodity prices and headwinds from China, being one of its largest trading partners. ***Exports to the US accounts for 5% of total exports from Australia, and 1% of Australia's GDP.***
- Labour market is not expected to ease materially going forward, supporting household spending.
- Underlying inflation has broadly moderated to RBA's target of 2-3%, but any AUD relative underperformance versus other currencies could result in imported inflation trending up
- RBA has largely maintained a hawkish stance, but we opine the RBA will shift in the event of a material slowdown in the labour market and growth.

China – Growth target of 5.0% at risk amid escalating trade war

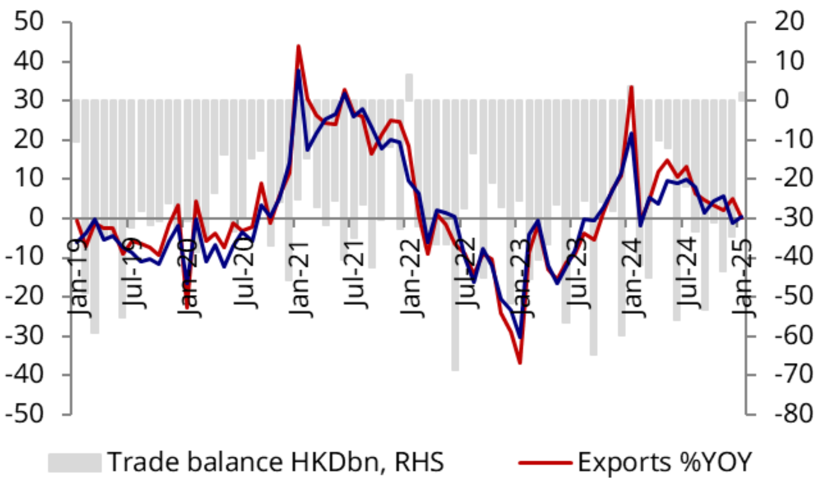


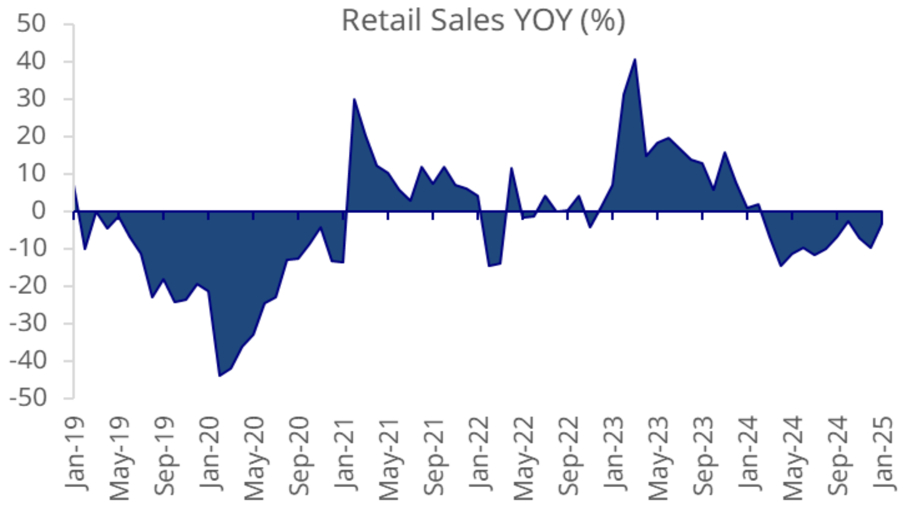
	2023	2024	2025F
GDP (%)	5.2	5.0	5.0
Inflation (%)	0.2	0.2	2.0
1Y LPR (%)	3.45	3.10	2.85
USD/CNY	7.1000	7.2993	7.28

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

- Growth in the China economy will be at risk given heightened and still escalating trade tensions with the US. **Exports to the US accounts for 15% of total China exports and 3% of GDP - i**mpact will depend on availability and access to substitution and if China will use FX as a tool.
- The negative tariff impact could potentially be cushioned by pro-consumption measures, and lowering the interest rates on housing provident fund loans, and timely interest rate cuts.
- ***Significant increase for fiscal spending from 3% to 4% of GDP***, coupled with carry over from fiscal package announced in November 2024, should help to cushion impact from trade fallout and real estate woes.

Hong Kong – High exposure to China and the US



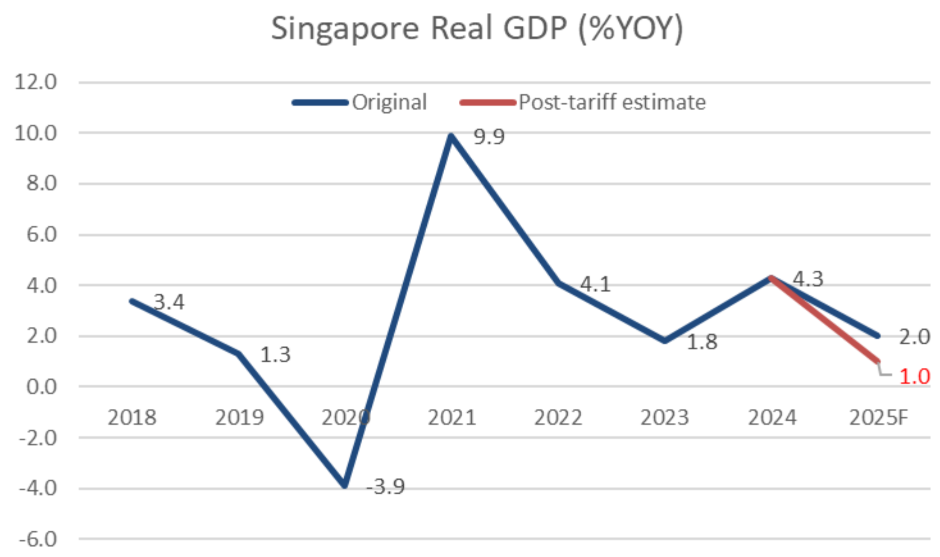


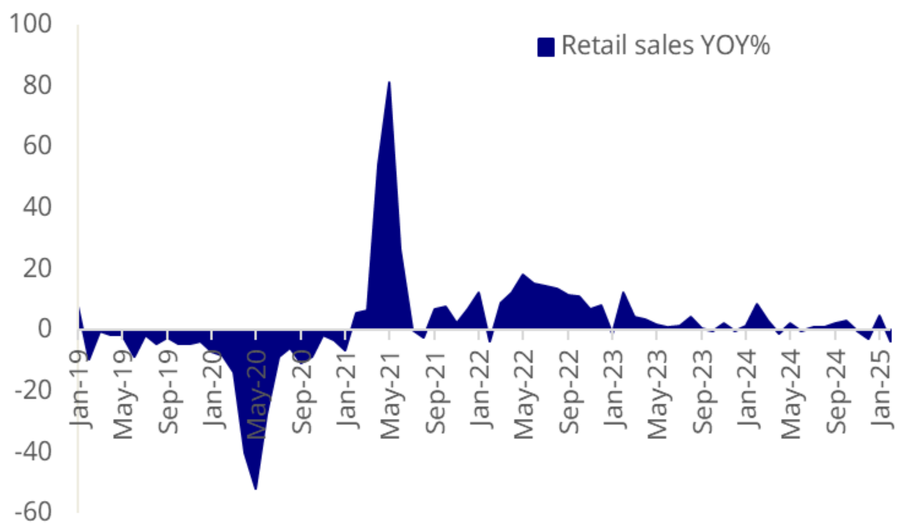
	2023	2024	2025F
GDP (%)	3.3	2.5	2.5
Inflation (%)	2.1	1.8	1.8
3-month Hibor	5.15	4.37	3.39
USD/HKD	7.8115	7.7686	7.79

Source: HK Economy, Bloomberg, HLBB Global Markets Research

- **At risk from a sharper-than-expected slowdown in the China economy** due to escalation of trade conflict and/or deeper and more protracted slump in the property market.
- **Hong Kong also has rather high exposure to the US** - its exports to the US accounts for 9% of GDP.
- A meaningful and sustained improvement of consumer and business confidence in China is crucial to support stronger growth for Hong Kong; further supported by targeted policy measures at selected industries, like AI in Budget 2025.

Singapore – Likely face greater indirect impact from slower global trade



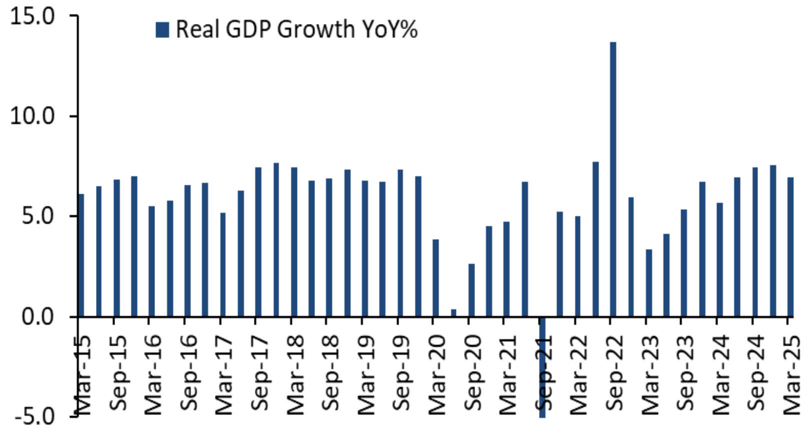


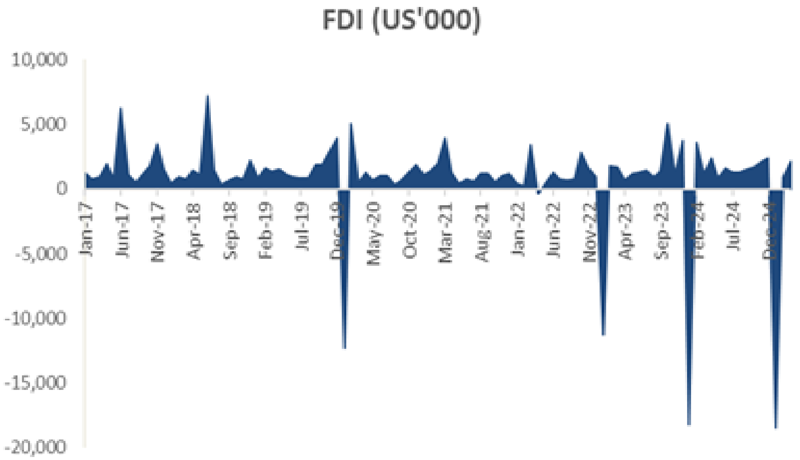
	2023	2024	2025F
GDP (%)	1.1	4.3	1.0-3.0
Inflation (%)	4.9	2.4	1.5-2.5
3m SIBOR (%)	4.06	3.30	2.55
USD/SGD	1.3203	1.3657	1.31

Source: MTI, Bloomberg, HLBB Global Markets Research

- Relative low tariff rate as compared to regional peers @10%, exemptions on pharma and semiconductors for now should reduce the blow for Singapore.
- Singapore will likely face greater indirect impact through its trade partners and slower trade growth (WTO expects world trade to fall 1.0%), being a highly open economy and regional transshipment hub.
- Cash transfer to households and election-related spending as announced under the expansionary Budget 2025 will likely keep domestic demand supported, and we think the government still have ample room for fiscal policy manoeuvre should the need arise.
- Rising odds of continuous policy easing; MAS already prepared to curb excessive forex moves

Vietnam – Manufacturing and FDI to be impacted as a "China+1"



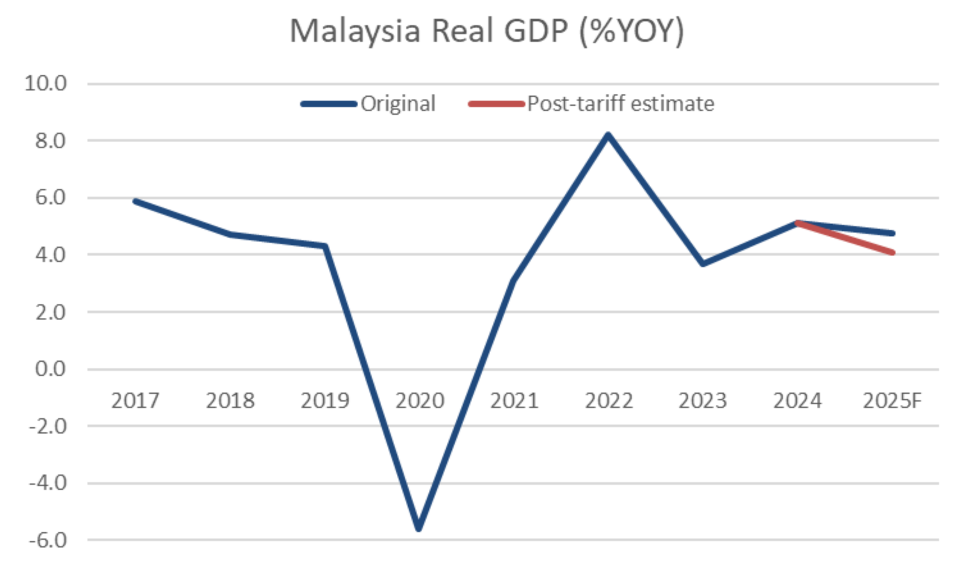


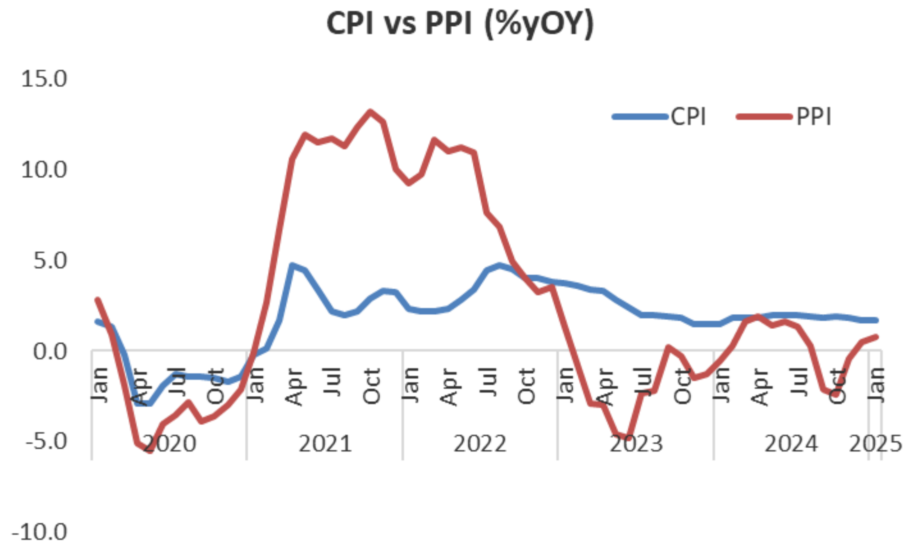
	2023	2024	2025F
GDP (%)	5.1	7.1	6.5-7.5
Inflation (%)	3.3	3.6	4.0-4.5
SBV Refinancing Rate (%)	4.50	4.50	4.50
USD/VND	24,269	25,485	25,700

Source: Bloomberg, HLBB Global Markets Research

- Expect a miss to the GDP and credit growth target of 6.5-7.5% and 16%; Growth slowed to 6.9% y/y in 1Q (4Q: +7.6% y/y).
- **A 10% drop in shipments to the US could cut GDP growth by 0.84ppt;** Hardest hit would be the textiles and apparels, footwear, electronics and wood sectors.
- Tariff risks may be cushioned by expansionary fiscal policies on infrastructure investment announced earlier
- Room for SBV to lower policy rates that current inflation rate (3.1% @ March) is way below the government's 4.0-4.5% target.

Malaysia – Rising growth risks is expected to open the door for OPR cut





	2023	2024	2025F
GDP (%)	3.7	5.1	3.8-4.3
Inflation (%)	2.5	1.8	1.9
OPR (%)	3.00	3.00	2.75
USD/MYR	4.5940	4.4722	4.47

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

- **We estimate GDP growth could be slashed by 0.2-0.3 ppts (based on 10% base tariff) and 0.6-0.7 ppts (based on 24% tariff).** An estimated 10% of Malaysia's total exports will be impacted by the tariff from the US directly (US accounts for about 13% of total exports from Malaysia, ~4% are semiconductors that are not subjected to the tariff, yet).
- We are hopeful that continued moderate growth in the China economy and trade diversion will limit the pullback in demand for Malaysia's exports.
- Room for OPR cut given mounting growth risks; inflation to take a backseat for now

Markets Outlook - FX

FX – USD to decline on slowdown in growth and bumpy inflation and inflation expectations; EUR and JPY likely to outperform; MYR to strengthen gradually

12-month Outlook	
+	**EUR:** Growth surprised on the upside of late and the region is likely to see benefits from increased government spending and as the impact of previous aggressive rate cuts continues to filter through **JPY:** Reduced policy rate differential will be positive for the JPY with BoJ to continue normalizing policy, with the currency likely to also benefit from safe haven flows **GBP:** Economy likely to benefit from previous and continued rate cuts, but currency seen underperforming versus the EUR **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 property and export sectors **MYR**: Continued resilient domestic demand and strong investment environment to cushion export sector weakness, and a further improvement in the government finances to be a positive on the currency **SGD:** To appreciate gradually along with Asian peers, with inflation continuing to remain soft. **AUD:** Economy should benefit from previous and future monetary easing by the RBA; softening commodity prices may result in relative underperformance versus other majors
-	**USD:** To weaken as economic growth takes a hit from tariff-related issues, with currency also likely to come under pressure on narrowing interest rate differentials as the Fed continues to reduce rates to shore up the economy

FX Forecasts

	10-Apr	Q2-25F	Q3-25F	Q4-25F	Q1-26F
DXY	100.87	99.70	98.35	97.01	95.70
USD/CAD	1.40	1.41	1.41	1.40	1.39
EUR/USD	1.12	1.14	1.15	1.17	1.19
GBP/USD	1.30	1.31	1.32	1.33	1.34
USD/CHF	0.82	0.81	0.80	0.79	0.78
AUD/USD	0.62	0.62	0.62	0.63	0.64
NZD/USD	0.57	0.57	0.57	0.58	0.58
USD/JPY	144	142	139	136	133
USD/MYR	4.47	4.54	4.50	4.47	4.40
USD/SGD	1.33	1.34	1.33	1.31	1.30
USD/CNY	7.32	7.43	7.35	7.28	7.21

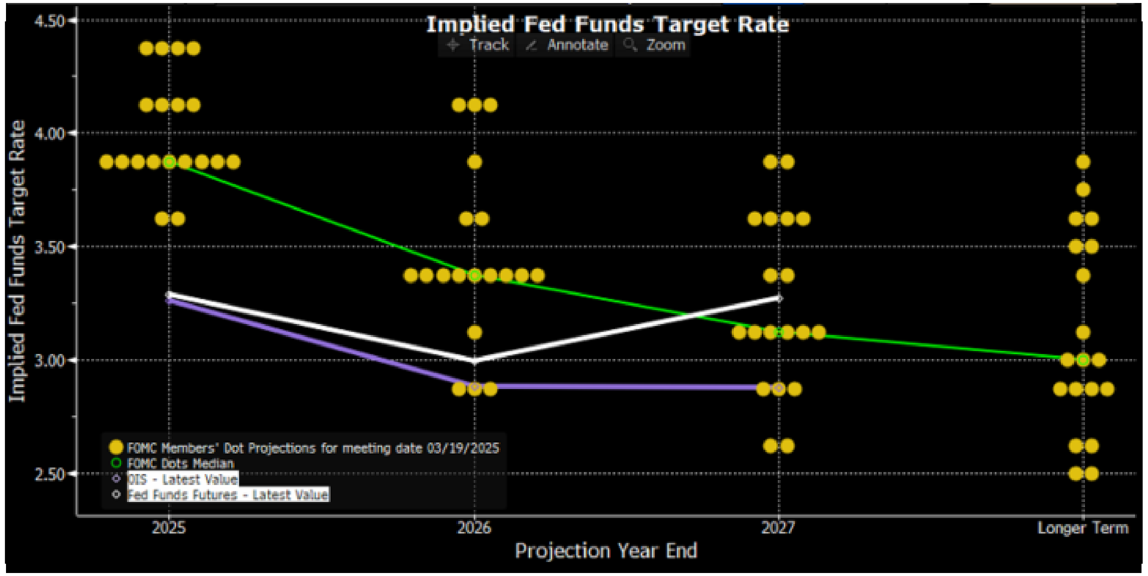
Markets Outlook – Fixed Income

	CURRENT	2Q2025	3Q2025	4Q2025	1Q2026
UST 10Y	4.42%	4.20%	4.00%	3.80%	3.70%
MGS 10Y	3.71%	3.60%	3.45%	3.40%	3.35%
SGS 10Y	2.66%	2.55%	2.45%	2.35%	2.30%

Sovereigns – Constructive outlook for bonds for 2Q2025 and the remainder of the year as global growth moderates. Bumpy inflation and inflation expectations are expected to steepen the UST yield curve

UST	Bond yields to head lower in 2Q and throughout 2025. The FOMC is likely to resume the process of easing policy gradually given a likely bumpy inflation path and heightened inflation expectations, with a 25bps reduction seen in each of the remaining 3 quarters of 2025. Risks – the trade/tariff war between the US and China continues to escalate further and poised to disrupt supply chains significantly; longer-term inflation expectations continue to rise
MGS	Moderating growth and muted price pressures may see BNM edge their OPR lower this year. Constructive on MGS/GII in 2Q and for the remainder of the year. Risks – a resumption of foreign outflows in bonds seen in 4Q25; further subsidy removals result in an entrenched rise in inflation
SGS	SGS yields seen declining in line with the expected constructive tone in global fixed income. MAS is likely to ease further at its quarterly meeting in April with inflation undershooting expectations, by flattening the slope of the curve Risks – Rise in trade tensions/tariffs escalate further and hit the export sector

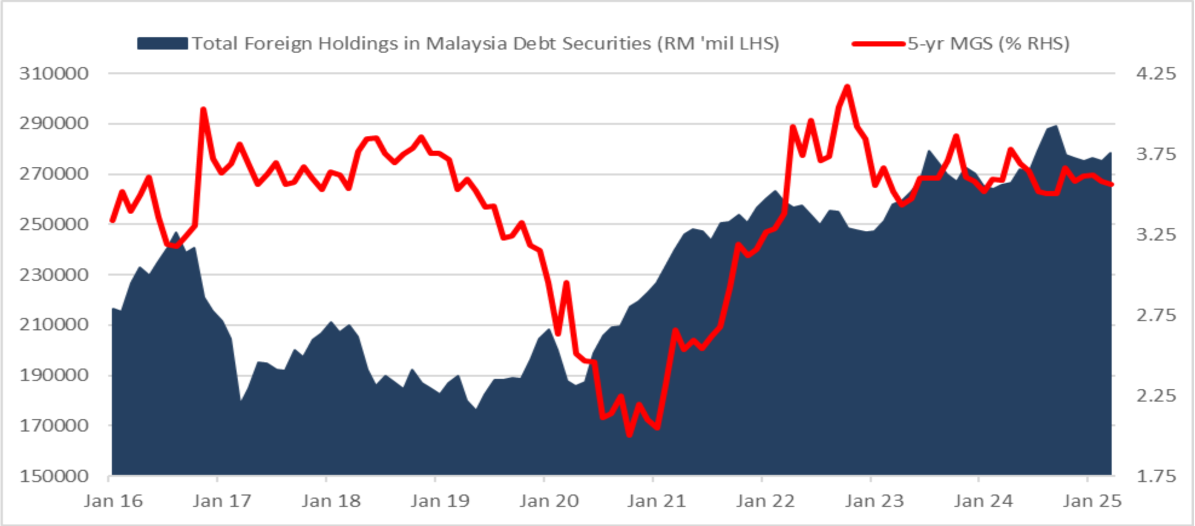
US Fixed Income – Yields to head lower; yield curve to steepen as inflation remains bumpy



Source: Bloomberg, HLBB Global Markets Research

- UST -- USTs traded higher in 1Q, driven by moderating economic data domestically, and fears that an escalation in trade tensions would depress growth in the US and have far reaching consequences globally.
- Benchmark yields declined by 13-43bps for the quarter (4Q24: 14-83bps higher) as the market built in greater expectations of future cuts, with Fed Fund Futures pointing to 76bps of cuts for 2025 at the end of 1Q, versus the 43bps priced for 2025 as at end of 4Q.
- The shape of the yield curve remained stable for the quarter, with the UST 2s10s curve ending 1Q at +32bps (4Q24: +33bps)
- The Fed left its policy rate unchanged at the two FOMC meetings in 1Q, and the Fed's Dot plot median projection during the March FOMC continued to point to a further 50bps reduction in the Fed Funds Rate for 2025.
- **We expect the FOMC to restart the process of reducing its Fed Funds Rate after the pause in 1Q, by 25bps per quarter for the remainder of 2025.**
- Economic data during the quarter was less positive, with the ISM indices continuing to moderate, a mixed picture for personal spending, and consumer confidence plunging sharply. The unemployment rate held inched higher to 4.2% in Mar (Dec: 4.1%), and inflation continued to inch lower, with core PCE and core CPI for February coming in at 2.8% and 3.1% y/y respectively (Dec: 2.9% and 3.2%)
- **Looking ahead, we see USTs heading higher in 2Q, and expect the 10Y UST yield to fall to around 4.20% by the end of 2Q25** from the current level of 4.42%, with the yield curve likely to steepen. The reciprocal tariffs on Apr 02 that caused massive dislocation across markets has been put on hold for 90 days, but the uncertainty will continue to linger with China seemingly being singled out and threats of more sectoral tariffs to come.
- Corporates –Corporate bonds were firmer for the quarter with the Bloomberg US Corporate Bond Index posting an advance of 2.3% in 1Q25 (4Q24: -3.0%). USD Corporate issuance surged in 1Q25, with issuance of IG bonds for the quarter advancing to USD577bn (4Q24: USD246bn).

Malaysia Fixed Income – MGS/GII yields to head lower in 2Q25; BNM to hold steady but signal easing bias

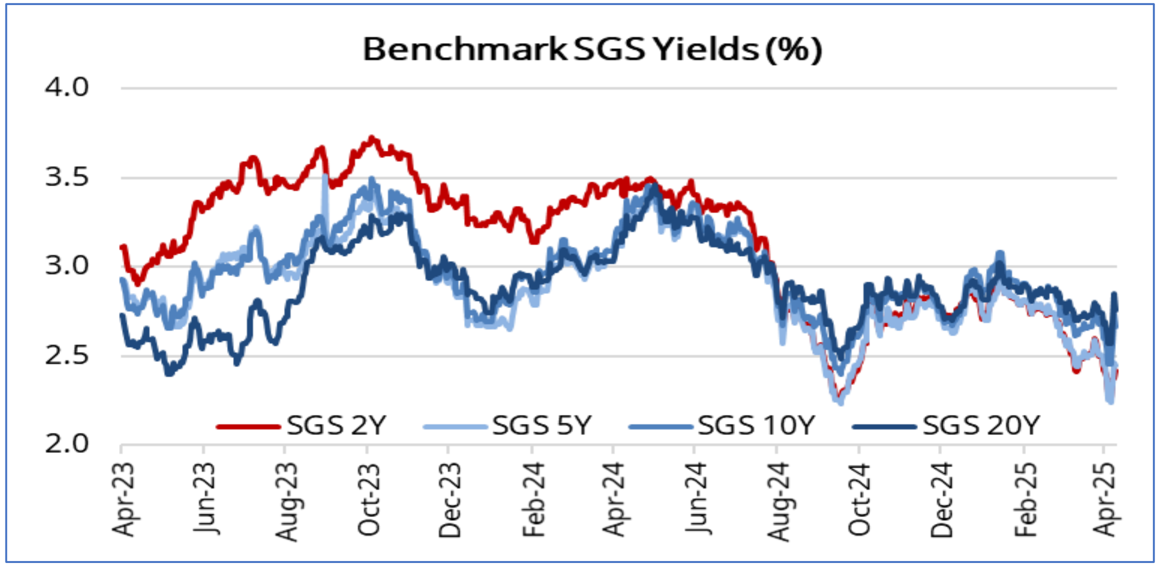


Source: Bloomberg, BNM, HLBB Global Markets Research

- **Government Bonds** – MGS and GII were slightly firmer in 1Q25 as overall benchmark yields closed lower between 3 and 9bps q/q (4Q24: -1 to +15bps) save for the 3Y GII which had a significant benchmark switch.
- Foreign holdings of MYR bonds rebounded by RM3.3b during the quarter to RM278.5bn as at end 1Q25, from the RM275.2bn seen at the end of 4Q24.
- Government bond auctions in 1Q25 saw stronger bidding metrics despite higher gross issuance of RM48.0bn during the quarter, with the average BTC surging to 2.83x across 10 auctions (4Q24: 7 auctions; average BTC 1.95x; gross issuances RM26.5bn).
- BNM left interest rates unchanged during their policy meet on Mar 06 and continued to strike a neutral tone in the monetary policy statement; **we expect BNM to signal a possible cut in H2 during the May MPC.**
- Economic growth in 4Q24 came in slightly north of expectations at 5.0% y/y, leading to full year 2024 growth coming in at a solid 5.1%. Inflation continued to moderate further during the quarter, with the latest CPI number for February at 1.5% y/y, suggesting a continued absence of significant price pressures domestically.
- Bonds are expected to trade higher in 2Q25, with the continuing tariff and trade war and resulting uncertainty on economic conditions likely to begin to translate into a moderation in the hard data, which should trigger a change of bias for monetary policy and lead to an eventual cut in the policy rate. **We expect the 10Y MGS yield to head lower in 2Q25 to 3.60%.**

- **Corporate Bonds/Sukuk** – Corporate spreads inched lower in 1Q25, with AAA and AA2 spreads in the 10Y space closing at 23 and 41bps respectively (4Q24: 25 and 42bps) amidst a slight reduction in supply with corporate issuance (including GG bonds) receding to RM30.7bn in 1Q25 (4Q24: RM34.5bn). We expect issuance to pickup substantially in 2Q25, and for corporate spreads to widen out slightly.

Singapore Fixed Income – SGS yields expected to edge lower



Source: Bloomberg, HLBB Global Markets Research

- SGS – Singapore Government Securities were stronger for the quarter, taking cue from the rally in USTs and other major government bond markets, as overall benchmark yields falling between 8 to 23bps (4Q24: higher by 17 to 29bps), with the shorter end of the yield curve seeing the larger yield declines.

- The SGS yield curve bull-steepened marginally during the quarter, with SGS 2s10s slope closing the quarter at +18bps at the end of 1Q25 (4Q24: +14bps)

- The Bloomberg Global Singapore Bond Total Return Index recorded a return of 1.8% for 1Q25 (4Q24: -2.2%), reflecting the advance in bonds for the quarter.

- There were SGD8.9bn of SGS issuances for 1Q25 (4Q24: Nil) after the lull in the previous quarter.

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

- **We expect SGS yields to head lower in 2Q25, in line with UST yields, with the SGS 10Y expected to end the quarter around the 2.55% level.**

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