

Art Of the Deal

Stagflation Risk



Monthly Outlook

by OCBC Wealth Panel

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For **now**,
and **beyond**

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ABOUT THE OCBC WEALTH PANEL



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Art Of the Deal

August has kicked off with heightened uncertainty for the global economic outlook for the rest of 2025. The Trump administration's announcement of new "reciprocal tariffs" that are broadly higher than the 10% baseline since April has raised the overall US effective tariff rate at an estimated 18.3% [according to Yale Budget Lab]. China's remains 30% but the highest tariffs for Mexico and Canada rise to 25% and 35% while India's, Taiwan's and Switzerland's rates are 25%, 20% and 39% respectively. Higher tariff levels exacerbate uncertainty over US inflation and further weaken the US labour market, which has already shown signs of stalling. July's non-farm payroll numbers came in at 73k, below consensus estimate of 104k, in addition to a significant downward revision in May and June's numbers by 258k, signalling a clear downtrend from the >100k monthly levels in the six months prior. Stagflation risks and fiscal sustainability concerns will weigh on the USD outlook and drive further steepening of the US Treasury (UST) yield curve, with the short end anchored by expectations of Fed rate cuts and volatility in the long end. The risk of Fed chair Jerome Powell being replaced also adds to market uncertainty.

This follows a strong performance for risk assets in July, marked by new highs in the S&P 500 Index, compression in credit spreads, buoyant IPOs and a moderate appreciation of the USD. The Trump administration's "One Big Beautiful Bill Act" (OBBBA) was passed into law with the removal of the punitive Section 899, cementing the tax breaks from 2016 and rolling out new ones. The White House's one-month extension of the suspension of tariffs and trade deals with key trading partners provided respite for global equities.

China's growth has remained resilient year-to-date, expanding sequentially in the first two quarters of 2025. Growth in the Euro area has remained stable while the US saw growth rebound in the second quarter as unemployment stayed largely unchanged since the start of the year. Risk assets are likely to remain supported in the near term, but the latest trade deals that point to a significant rise in US effective tariff rate could pose a substantial supply-side shock to the global economy. Diversification, portfolio hedging and focus on quality in security selection will help buttress portfolios against fresh volatility in financial markets.

We remain pro-risk in our tactical asset allocation. We are overall Overweight equities via our Overweight position in European and Asia ex-Japan equities, reflecting the policy support in these regions, undemanding valuations and an improved earnings outlook in selected markets. In fixed income, we hold an Underweight position on High Yield (HY) and Emerging Markets (EM) Sovereign bonds and remain cautious of duration risk as we continue to expect long-end UST yields to remain volatile ahead. We continue to favour gold as a hedge against inflation and US fiscal sustainability concerns, and a beneficiary of safe haven flows.



GLOBAL OUTLOOK

ELI LEE

Chief Investment Strategist, Bank of Singapore

Stagflation Risk

“We forecast global growth will fall below 3.0% this year and next after expanding by a firm 3.3% in 2024. US GDP growth is likely to almost halve after last year’s strong 2.8% expansion and China’s growth looks set to slow from 5.0% to 4.6% in 2025.”

- We see four main threats for the rest of 2025.
 - First, the trade war is set to cause stagflation in the US from the supply shock of steep tariffs on all imports, and subdued growth in the rest of the world from the demand shock of lower exports to the US. We forecast global growth will fall below 3.0% this year and next after expanding by a firm 3.3% in 2024. US GDP growth is likely to almost halve after last year’s strong 2.8% expansion and China’s growth to slow from 5.0% to 4.6% in 2025.
 - Second, US tariffs will keep inflation above the Fed’s 2% target, delaying the resumption of interest rate cuts. We expect the Fed may only cut its fed funds rate once from 4.25-4.50% this year. We also think the European Central Bank (ECB) will not lower its deposit rate anymore from 2.00%.
 - Third, fears over rising public debts across the major economies are likely to keep government bond yields volatile. Concerns over the Trump administration’s “One Big Beautiful Bill Act” (OBBBA) leaving the US budget deficit high at 6-7% of GDP, the fragile fiscal outlook in the UK and risks that a new prime minister in Japan may cut taxes, are all keeping upward pressure on long-term bond yields.
 - Last, the risk of Fed Chair Powell being replaced by a more pliant successor in 2026 is set to keep the US Dollar weak and demand for safe haven assets including gold strong.
 - Thus, we think the economic outlook suggests investors should still hedge against the risks of fresh volatility.
- US – The Fed remains unwilling to resume rate cuts yet**
- The Fed kept its fed funds rate unchanged at 4.25-4.50% in July for the fifth meeting as officials wait to see if steep US tariffs will push inflation further above its 2% target.
 - Fed Governors Waller and Bowman, candidates to replace Chairman Powell when his term as Fed Chair ends in May 2026, voted to cut interest rates by 25 basis points (bps) - the first time since 1993 that two of the Fed’s seven Board of Governors have dissented on the Federal Open Market Committee. But the meeting overall was in line with our view that the Fed will make only one rate cut this year while inflation stays above 2%.
 - First, despite strong pressure from the White House, the FOMC maintained its view that the economy does not need rate cuts yet, noting: “the unemployment rate remains low, and labour market conditions remain solid. Inflation remains somewhat elevated.”
 - Second, Powell said interest rates currently were not restraining growth: “the economy is not

performing as though restrictive policy is holding it back inappropriately.”

- Third, the Fed Chair warned tariffs may have a longer impact, thus requiring interest rates to stay elevated: “it is also possible that the inflationary effects could instead be more persistent - and that is a risk to be assessed and managed.”
- Last, Powell gave no signal the Fed would start cutting interest rates at its next meeting: “in coming months we will receive a good amount of data that will help inform our assessment of the balance of risks and the appropriate setting of the federal funds rate. We have made no decisions about September.”
- There are still two US inflation reports and one employment report before the FOMC meets on 16-17 September. Unless unemployment jumps sharply above 4%, we think the Fed will keep interest rates on hold until tariff-driven inflation has peaked.
- We thus expect the Fed’s first cut only towards the end of the year. Headline and core US inflation are still above the Fed’s 2% target more than three years after the pandemic ended.

China – Upgrading growth forecasts but risks remain

- So far in the first half of 2025, China’s growth has been surprisingly resilient despite US major tariff hikes on Chinese exports. China’s GDP expanded by 5.4% YoY in 1Q25 and 5.2% YoY in 2Q25 - above the 5.0% annual growth rate recorded in 2024 - as exporters rushed to beat US tariff rises.
- Growth was also supported by the National People’s Congress (NPC) agreeing in March to lift the central government’s budget deficit target for 2025 from 3% to 4% of GDP, a rare move, to help fund more infrastructure spending and subsidies for consumption. Furthermore, in May, the People’s Bank of China (PBOC) announced its first interest rate cut since September, lowering its 7-day reverse repo rate 10bps to 1.40%.
- For the second half of 2025, however, we expect growth will slow to 4.0% YoY as US tariffs curb exports, inflation stays low, the property market remains weak, and consumers stay cautious.
- The government’s new “anti-involution” drive to reduce excess capacity in key sectors including solar and electric vehicles will help rebalance supply and demand

over time in the economy. But the stronger growth in 1H25 has reduced the chances of further fiscal stimulus in 1H25. We thus upgrade our 2025 growth GDP forecast from 4.2% to 4.6% but still think further measures are needed to stimulate consumption and real estate to ease deflationary pressures in China’s economy.

Europe – Broader trade war averted with the US

- This year, European growth is set to stay subdued near 1% in the Eurozone and the UK but with the European Union and Britain signing trade deals with the US, the risks to the outlook for the rest of 2025 and 2026 have diminished significantly.
- For interest rates, we think that firmer growth prospects and the likelihood of inflation settling around 2% will allow the ECB to stop easing monetary policy any further now.
- In July, the ECB kept its deposit rate unchanged at 2.00%, the first time in a year that interest rates have not been reduced after being lowered at each meeting from 4.00% last year. We see no more ECB rate cuts now as less uncertainty over EU exports to the

US reduces the need for further monetary easing to support growth.

- In contrast, we think the Bank of England (BOE) will continue to gradually cut interest rates each quarter as the UK labour market slows. The BOE has already reduced its Bank Rate from 5.25% to 4.25% over the last four quarters and we see two further 25bps cuts this year to 3.75%.

Japan – US deal, less political risk improves the outlook

- Like Europe, Japan's trade deal

with the US reduces uncertainty and improves the outlook. Though firms will face a 15% tariff when exporting to the US, the deal ends months of confusion over how high US tariffs would be under the Trump administration. At the same time, the ruling Liberal Democratic Party's losses in July's upper house elections were less than feared, enabling the government to continue with its path of consolidating Japan's high public debts.

- We think less uncertainty over Japan's trade and fiscal outlooks

will allow the Bank of Japan (BOJ) to resume its gradual pace of interest rate hikes. We expect the BOJ to lift its overnight rate again by 25bps from 0.50% to 0.75% before the end of the year, providing support to the weak Japanese Yen.

Global growth outlook

%	2022	2023	2024	2025	2026
Developed Markets	2.9	1.7	1.8	1.4	1.4
US	2.5	2.9	2.8	1.6	1.6
Eurozone	3.6	0.7	0.9	1.1	1.2
UK	4.8	0.4	1.1	1.1	1.2
Japan	0.9	1.4	0.2	0.6	0.8
Asia-4	2.4	1.5	3.3	2.4	2.2
Emerging Markets	4.0	4.6	4.3	4.0	3.9
China	3.1	5.4	5.0	4.6	4.0
India	7.0	8.8	6.7	6.2	6.3
ASEAN-4	4.4	4.3	4.7	4.3	4.4
World	3.5	3.4	3.3	2.9	2.9

Asia-4 covers Hong Kong, Singapore, South Korea and Taiwan.
 ASEAN-4 includes Indonesia, Malaysia, Philippines and Thailand.
 Source: Bank of Singapore

Interest rates forecasts

%	3M	6M	12M
Forecast for US interest rates			
Fed Funds Rate	4.00-4.25	4.00-4.25	4.00-4.25
2-Year US Treasury	3.50	4.00	4.50
5-Year US Treasury	3.65	4.25	4.75
10-Year US Treasury	4.00	4.50	5.00
30-Year US Treasury	4.40	5.00	5.50
Forecast for US SOFR swap rates			
2-Year Rate	3.40	3.90	4.40
5-Year Rate	3.40	4.00	4.50
10-Year Rate	3.50	4.00	4.50
30-Year Rate	3.55	4.25	5.00

Source: Bank of Singapore

EQUITIES

ELI LEE

Chief Investment Strategist, Bank of Singapore

Overweight Equities

“Over the longer term, we maintain our Overweight positions in Asia ex-Japan and Europe equities given their more favourable risk-reward profiles. We continue to favour a mix of quality growth and defensives in our sector strategy.”

- After a V-shaped rebound post jitters over “Liberation Day” tariffs, US and Asia ex-Japan equity markets have continued to gain ground, especially the latter, which is currently trading at levels meaningfully higher than at the start of the year. As of the time of writing, trade deals between the US and other countries are being announced. Although the final tariff rates are lower than earlier levels, there will still be meaningful headwinds for both US and international companies via some combination of margin compression and reduced demand. In non-US developed markets such as Japan and Europe, domestically focused firms are better positioned to weather these challenges compared to those that rely heavily on exports or global supply chains. Domestically oriented companies in Europe are also better positioned to benefit from positive spillover effects from higher fiscal spending in

the future.

- We maintain our Overweight positions in Asia ex-Japan and Europe equities given their more favourable risk-reward profiles. The direction of the US Dollar is also a noteworthy factor for the relative performance of non-US equities, and we continue to expect US Dollar weakness over the longer term.

US – Transition to pro-growth policies and trade deals

- The S&P 500 Index reached a new all-time high driven by optimism on trade deals and pro-growth policies, while hard data such as unemployment rates continued to hold up. Tariff rates on Japan and Europe were set at 15%, including the sectoral tariffs on autos which signals that Section 232 tariffs can be altered through bilateral negotiations. Although Trump threatened at least 15% reciprocal tariff rates on other countries following the 1 Aug

deadline, which is higher than the universal 10% rate, investors have mostly looked past the marginally negative news.

- The passing of the “One Big Beautiful Bill Act” with its tax cuts and investment incentives represents a shift in focus by the Trump administration to the pro-growth components of his political agenda as the US mid-term election nears. That said, the bill poses some headwinds for the clean energy and healthcare sectors. Fiscal sustainability concerns would continue to drive a bearish outlook for the US Dollar and partially support earnings, albeit offset by any increase in long-end yields.

Europe – Thoughtful positioning required

- Europe and the US have struck a deal on trade, with a 15% tariff rate for most EU exports, along with other conditions such as investments in the US and

purchases of US energy. While the deal reduces uncertainty and the risk of an escalation, it cements a marked deterioration in European firms' export conditions to the US and will likely drive further divergence in the share price performance between goods/exporters and domestic/service providers.

- On the other hand, Europe has a supportive fiscal backdrop while the European Central Bank (ECB) will likely leave its deposit rate at 2% for the rest of 2025. Equity valuations also remain undemanding. Shifting perceptions around the predictability of US economic policy have stoked a desire to diversify from US assets, and should this trend continue, European equities are one of the beneficiaries over the longer term. We maintain our Overweight position on European equities. We see positive structural tailwinds for regime change beneficiaries such as defence, infrastructure and energy efficiency/transition, while domestically focused companies are well positioned to benefit from the positive spillover effects of higher fiscal spending.

Japan – Boost from US-Japan trade deal outweighs concerns following Upper House election

- Following a better-than-expected US-Japan trade deal, the MSCI Japan Index in US Dollar terms hit a new high while the index in Yen terms is hovering near its previous peak. US tariff rates on Japan were lowered from 25% to 15%, including the sectoral tariffs on autos that effectively gives Japanese automakers a relative advantage over global peers and surprised markets. Meanwhile, Japan's Liberal Democratic Party (LDP) suffered a historic electoral setback as its coalition lost its majority in the Upper House, marking the first time its coalition lost its majority in both houses since the party's formation. We see risks that the ruling coalition would need to cooperate with opposition parties and adopt their proposed expansionary fiscal policies e.g. consumption tax cuts, increases in social security.
- We maintain our Neutral position on Japanese equities, preferring domestically oriented sectors and artificial intelligence (AI) supply chain players amid wage reflation, fiscal direction and US OBBBA that

could accelerate near-term AI CAPEX. Banks could also benefit from yield curve steepening on fiscal concerns.

Asia ex-Japan – Steadfast momentum amid uncertainties

- The MSCI Asia ex-Japan Index eked out a fourth consecutive month of gains in July. This has been partly supported by a quicker cadence of new trade deals being announced, with the tariff rates on exports into the US coming in mostly lower than the rates that were announced during "Liberation Day" on 2 Apr. One exception was the Philippines, which will incur a tariff rate of 19%, versus the 17% set in Apr. However, we believe renegotiations remain on the table. Clarity on the trade deals will provide Asian-based exporters a firmer basis for corporate planning and guidance to the street.
- Within the region, we prefer companies with exposure to economies that are relatively more domestically oriented. We reiterate our Overweight positions on China, Hong Kong, Singapore and the Philippines. Despite some negatives on the tariffs front for

the Philippines, we note that the MSCI Philippines Index has low sales exposure to the US, while declining inflation, anticipated policy rate cuts and the strengthening Peso would provide support to domestic consumption.

- Thematically, capital market and corporate reforms are in focus. We believe the Singapore equities market stands to be invigorated from the various initiatives by the government.

Global Sectors – Industrials leading, Healthcare lagging

- We are well past the halfway point in 2025 with the Global Industrials sector leading the pack, driven by the Aerospace & Defence (A&D) sub-sector as well as names leveraged to the energy efficiency/transition theme. On the other hand, the Global Healthcare sector has lagged, dragged by the Pharmaceuticals and Managed Healthcare sub-sectors over tariff concerns, policy headwinds and other idiosyncratic factors.

Cyclicals have been outperforming in both the US and Europe...

- Cyclicals have outperformed defensives since May for both the US and Europe, and while this is part of a recovery from the earlier downward move from January to April, part of it is also due to sector-specific reasons, such as the rally in A&D names under Industrials, recovery in Materials, and challenges in the Healthcare sector which has a more defensive tilt.

... while smaller cap stocks in Europe have been in the spotlight

- In Europe, smaller cap stocks have outperformed large cap stocks since March this year, but the trend is less clear for the US after an earlier outperformance of large cap stocks from the March to May period. This divergence is due to: (i) expectations of greater fiscal spending favouring more domestically exposed firms, which tend to be smaller; and (ii) large caps in the US tend to be MNCs that are more diversified,

and investors could have favoured the relative stability of large caps when there were heightened concerns on geopolitical tensions and uncertainty earlier on. In non-US developed markets, we expect further divergence in the share price performance between goods/exporters and domestic/service providers.

Mixed US tech earnings season thus far

- The US reporting season thus far has seen mixed results for the tech sector. Cloud and AI continue to be a tailwind for several large tech firms such as TSMC and Alphabet, while analog/industrial chip players appear to be facing lofty investor expectations as well as tariff-related uncertainties. In China, the “anti-involution” drive against excessive competition is likely to be a net positive for e-commerce and food delivery platforms, while the resumption of AI chip sales into China should bode well for marquee AI players.

HONG KONG / CHINA MARKET OUTLOOK

ELI LEE

Chief Investment Strategist, Bank of Singapore

Lower Urgency for Additional Stimulus

“In the near term, equities may stay rangebound on the back of limited stimulus and a potential lacklustre 2Q25 earnings season.”

- HK and Chinese equities have risen 5.5-7.4% over the past month, outperforming the broad regional market by 2-4ppt in USD terms. The de-escalation of US-China geopolitical tensions, resumption of H20 chips to China, expectation of an extension in the trade truce that will expire in August, follow-up policies to address “anti-involution” and the revival of Hong Kong’s capital markets supported the outperformance.
- The July Politburo Meeting signalled lower urgency to roll out additional stimulus given a solid 1H25 GDP and expected trade truce extension, focusing instead on accelerating the implementation of existing measures. “Anti-involution” was also a major theme.
- We remain constructive on HK and Chinese equities with an updated Hang Seng Index target of 27,500/29,400/22,500 for the base/bull/bear case. Despite recent re-rating, Chinese offshore equities are trading at 11.4x forward price-to-earnings (P/E), which is still at 8-9% valuation discount to the MSCI Emerging Market Index.
- In the near term, equities may stay rangebound on the back of limited stimulus and a potential lacklustre 2Q25 earnings season. The food delivery and quick commerce competition has triggered earnings downwards revision in this index-heavy industry. Any signs of peaking in subsidies by the internet and platform industry, together with a potential US-China trade resolution, and further follow up policy on “anti-involution” and continued Southbound inflow would support market performance in 2H25.



BONDS

VASU MENON

Managing Director, Global Wealth Management, OCBC Bank

Neutral on Duration

“In fixed income, we remain Neutral on duration as we expect long-end US Treasury yields to move higher towards 5%. Within Developed Markets fixed income, we hold Neutral and Underweight positions in Investment Grade and High Yield bonds respectively, and within Emerging Markets fixed income, we are Neutral on corporates and Underweight on sovereigns.”

- Credit spreads continued to compress as the resilient macro backdrop and a slate of brokered trade deals drove a strong rally. Returns were positive despite higher rates. As risk premium have mostly been priced out, we continue to retain a defensive posture across Developed Markets (DM) and Emerging Markets (EM), given little buffer against downside surprises. We continue to be neutral on duration.

Rates and US Treasuries

- In recent weeks, there are several factors driving US inflation, including the re-escalation of trade war, fears over the erosion of the US Federal Reserve's (Fed) independence and concerns over the fiscal trajectory. Breakeven spreads have widened across the curve, most noticeably at the

front and intermediate sectors. Meanwhile, long-end (30Y) nominal US Treasuries (UST) remain high, driven by higher inflation and term premium.

- Fed Chair Powell highlighted the stagflationary risks from tariffs, which could raise inflation while dampening economic growth. The June consumer price index (CPI) met expectations but showed early signs of tariff pass-throughs in goods prices. We continue to see tariff-related price pressures in the coming months.
- Elsewhere, there has been more focus on the Fed Chair transition when Powell's term ends in May 2026. The new leadership is widely expected to favour lower rates, prompting markets to anticipate a more accommodative stance. This could lead to investors demanding higher yields to

compensate for inflation and term premium risks.

- On the fiscal side, the recently passed “One Big Beautiful Bill Act” (OBBBA) is projected to add approximately US\$3.4 trillion to the fiscal deficit over ten years, driving higher issuance and term premiums. Focus has shifted to the Treasury's issuance composition with an aim of gradually reducing the weighted-average maturity (WAM) of outstanding debt. We think the composition of future UST issuances could favour front and intermediate maturities.
- We remain Neutral on duration. We remain cautious on long-end USTs but would keep a close watch on the Treasury's funding strategies and supplementary leverage ratio (SLR) reform in reducing term premium.

Developed Markets

- Spreads tightened in the past month amidst trade deals between the US and Japan/EU which eased concerns over prolonged tariff uncertainty that could keep sentiment tentative. However, UST yields rose on inflation/fiscal concerns, dragging overall returns.
- Over the near-term, we expect spreads to be rangebound, muddling through US tariff headlines and a data-dependent Fed. However, with Investment Grade (IG) and High Yield (HY) spreads back to year-to-date (YTD) tight levels, we see little room for further spread compression from here. In fact, credit spreads are currently priced to perfection, with little cushion for any potential downside surprises – as we expect tariff implementation to show a reacceleration of inflation and as growth falters in the coming months.
- As such, we continue to recommend a cautious positioning in DM credits. We believe additional premiums are necessary as the US economy heads into a stagflationary environment. We continue to recommend positioning in defensive sectors in

IG (utilities, pharma, banks) and in HY ('BB'-rated credits).

- We are positioned Neutral on DM IG bonds and Underweight on DM HY bonds. We see risks skewed to wider spreads after the recent strong performance. Yet the outlook for growth remains on the downside.

Emerging Markets Corporates

- With a wide range of variables and uncertainties in 2025, we remain Neutral on EM credits. The weaker global growth outlook and currency volatility could translate into wider EM spreads over the next 12 months, but supportive technical factors could be important mitigating considerations.

Asia

- Month-to-date, Asia credits posted total returns of 0.48% as of 25 July 2025, driven mainly by carry and spread compression, which partially offsets negative contribution from higher UST yields. This brought YTD total returns to 4.4%; still lagging other EM regional peers but better than the US.
- Trade deals and better economic data from China have supported

market sentiment. As of late July, several Asian countries such as Vietnam, Indonesia, Philippines, and South Korea, have reached tariff deals with US. Despite averting the worst-case scenario, major Asian economies will still face higher tariffs on a year-on-year (YoY) basis for exports to US that could potentially weigh on growth in 2H2025. Additionally, there remains a lack of clarity on details of the trade deals while the compounding impact via the supply chain is still unknown. Developments in sectoral tariffs also warrant close monitoring.

- Strong 2Q2025 GDP data from China implies that immediate growth concerns have eased. However, the persistent structural imbalance between domestic demand and supply remains a significant challenge to policymakers. As expected, no additional major policy stimulus measures were rolled out at the July Politburo meeting. Policy priorities could shift towards structural rebalancing, with more discussions about “anti-involution” on the supply side and encouraging consumption on the demand side. The lingering property market overhang

remains a concern. Although large scale easing appears unlikely, new moderate policy support in 4Q2025 cannot be ruled out if sales remain weak.

Emerging Markets Sovereigns

- Hard currency EM sovereign bonds returned 1.2% in July, or 6.7% YTD. HY continued to outperform IG for the month (~1.7% vs ~0.7%) as risk sentiment recovered, after the imposition of

US tariffs in April and geopolitical headlines in June. Local currency sovereign bonds posted monthly losses of 0.6%, driving their YTD return to a still strong 11.6% at the end July.

- Hard currency sovereign bonds benefitted from further spread tightening in July, whereas local currency bond returns were hurt by a strong US Dollar [USD], which gained about 3.0% in July, following weak returns in June.

YTD, local currency bond returns remain strong overall, owing to pronounced USD weakness [-7.0% YTD] and falling EM local rates in several key EM countries (e.g. India, Indonesia, Mexico, South Africa, Türkiye). EM hard currency sovereign bonds also continue to outperform their corporate counterparts on a YTD basis, with a total return of 6.9%, compared to 5.0%.

FX & COMMODITIES

VASU MENON

Managing Director, Global Wealth Management, OCBC Bank

Gold to Consolidate Before Further Gains

“Gold could continue to consolidate over the next few months, caught between two competing economic narratives of US soft landing and stagflation. However, for the medium term, we continue to favour gold as a hedge against inflation and US fiscal sustainability concerns, and a beneficiary of safe haven flows.”

Oil

- Risks to Russian oil supply has been in focus recently given sanctions as an economic penalty against Russia for its war with Ukraine. The European Union for one has announced a sanctions package against Russia, including a lower price cap on the country's crude oil (effective 3 September) and on imported refined products made from Russian oil by other countries (effective around March 2026).
- On the flipside, production hikes by OPEC+ could limit the risk of higher oil prices. On 3 August, the oil cartel announced a further boost in its oil production to 547,000 per barrel from 411,000 per barrel previously. This is the latest in a series of accelerated output hikes to regain market share, as concerns mount over potential supply disruptions linked to Russia.

- We expect oil prices to consolidate and maintain our 12-month Brent forecast of US\$65/barrel.

Precious metals

- Gold struggled to make new highs despite peak geopolitical risks in June. Gold made another dash up in July but failed to sustain above US\$3,400 / ounce, as concerns over US Federal Reserve independence eased after President Trump reiterated that he has no plans to fire Fed Chair Powell. Gold could continue to consolidate over the next few months, caught between two competing economic narratives of US soft landing and stagflation.
- US soft landing refers to a situation of benign inflation and steady growth. This drives gold lower as growth resilience keeps the Fed patient about resuming rate cuts. Such a situation, which tends to benefit precious metals with a

stronger industrial component, has also encouraged rotation from gold to silver. On the other hand, US stagflation refers to a situation of rising inflation and slower growth. Stagflation risk should help to limit gold's downside. For now, we think risks on either side of this equation remains balanced. However, our view remains that stagflation risk will dominate over time as the drag to growth from US tariffs build up. This should eventually drive Exchange Traded Fund (ETF) flows higher alongside an upside break in gold prices.

Currency

- The US Dollar (USD) index (DXY) closed higher in July – its first monthly gain since December 2024. Upside surprise to US economic data has led to chatter of a return of US exceptionalism while markets partially pared

back Fed rate cut expectations following the July Fed policy meeting. From a currency point of view, markets had anticipated that Fed Chairman Jerome Powell would make a soft pivot or hint of a rate cut soon. However, there was no such signalling from Powell. Further unwinding of stretched USD shorts may see USD strength persists for a little longer. Over the forecast horizon, we still expect the USD to trade on the back foot amidst the USD diversification/re-allocation trend and as a potential Fed rate-cut cycle comes into focus. However, the USD is not likely to see a repeat of another 10% decline for 2H 2025. The magnitude of decline should moderate and hence the view that the USD's decline will not be one way and is likely to be bumpy going forward.

- In July, the Euro [EUR] posted its first monthly decline in six months against the USD, after a more than 13% gain in 1H 2025. The slippage was due to a few factors including [1] a broad USD rebound from multi-month lows; [2] comments from some ECB officials on the pace of EUR appreciation (although these officials remain

comfortable with regards to the level of the EUR); [3] a trade deal with US that has come with plenty of confusion. While the US and EU broadly agree on a 15% tariff on most EU imports to US, there were contradictory statements from both side – whether the 15% tariff excludes pharmaceuticals and metals. This ongoing ambiguity over pharmaceutical tariffs raises broader questions about sector-specific tariffs, particularly with regards to pharmaceuticals and semiconductors — areas that Trump previously highlighted but has yet to clarify in detail. A slight slippage in the EUR after an outsized run-up is assessed to be a healthy correction. Overall, we remain constructive on the EUR's outlook for the following reasons: [1] ECB nearing the end of its rate-cut cycle; [2] German and European spending boosting growth, in turn lending support to the EUR; [3] China's economic growth showing tentative signs of stabilisation. A stable to stronger Renminbi [RMB] can result in a positive spillover to the EUR; [4] signs of portfolio flows and reserve diversification that may favour alternative reserve currencies

such as the EUR.

- The exchange rate between the US Dollar and the Japanese yen [USDJPY] closed higher for the month of July. Tokyo CPI data surprised to the upside while the Japanese cabinet's approval rating fell to 29% in an Asahi poll. Political uncertainty (referring to Prime Minister Ishiba's political career and LDP leadership), credit rating concerns (which is dependent on Japan's fiscal health) and the carry allure remains supportive of USDJPY while the "sell USD" trade momentum takes a back seat for now. With tariff uncertainty out of the way for Japan, we keep our eyes peeled on two risks going forward for USDJPY: [1] political risks – If Ishiba resigns and the LDP sees a leadership transition; [2] if there is any change to Japan's credit rating (which is dependent on its fiscal health). More broadly, we look for the USDJPY to trend lower at some point, after political/rating uncertainty clears. Fed-BOJ policy divergence and the USD diversification theme should still support the USDJPY's broader direction of movement to the downside.

- The exchange rate between the US Dollar and the Singapore Dollar (USDSGD) posted a monthly gain in July for the first time in six months, after a decline of more than 6% in 1H 2025. The Monetary Authority of Singapore (MAS) left its monetary policy settings unchanged in July. Its latest Monetary Policy Statement (MPS) on 30 July indicated that its policy is in an appropriate position to

respond to medium-term risks to price stability. Our read is that the door to easing monetary policy remains open should the growth-inflation dynamics worsen more than expected, but there is no hurry to ease or jump the gun. A wait-and-hold strategy is the preferred stance for now as new data comes in, even as tariff development continue to evolve. The Singapore Dollar Nominal

Effective Exchange Rate Index (S\$NEER) remains largely steady at about 1.90% above our model-implied midpoint. We expect the S\$NEER to stay near the upper bound of the band, but that also implies limited room for the SGD to appreciate on a basket basis. USDSGD will revert to tracking the USD, given the significant correlation between the USDSGD and DXY.

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