

A Second Wind

Tailwinds and Headwinds



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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A Second Wind

Soft economic data, political pressure on the US Federal Reserve [Fed], resilient corporate earnings and potential Russia-Ukraine ceasefire dominated market headlines in August, but global risk assets continued to make gains as forward expectations of monetary easing supported liquidity in markets. August began with a disappointing labour market report for the US along with significant negative revisions to the numbers in previous months. This reinforced the narrative that US labour market is cooling and increased market conviction that the Fed could cut rates as early as September. In his last speech as the Fed Chair in Jackson Hole, Chair Powell acknowledged the rising downside risks in the labour market, further cementing the possibility of a rate cut at the upcoming Federal Open Market Committee [FOMC] meeting.

Equity markets in China and Japan staged a strong rally in the past month, reflecting positive sentiments after trade pacts with the US, improvement in broad liquidity conditions and corporate performance. Other markets in Asia also benefitted from the relative cooling in trade risks, and strong outlook for continued earnings growth in the technology and artificial intelligence [AI] space. Nevertheless, investors should continue to pursue active diversification as current valuations are high and imposition of additional sectoral tariffs remain a potential risk to the positive risk-reward for selected equities.

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 US Treasury [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, as the outlook on USD remains weak.



GLOBAL OUTLOOK

ELI LEE

Chief Investment Strategist, Bank of Singapore

Tailwinds and Headwinds

“The global economy has proved resilient so far despite US trade wars, but steep US tariffs are likely to slow growth globally in the second half of 2025.”

- Financial markets face significant upside and downside risks as summer ends.
- First, the global economy has proved resilient despite the shocks of US trade wars and the wars in the Middle East. We expect the US will suffer stagflation as steep tariffs are a supply shock to its economy. US growth has slowed sharply this year and core inflation has rebounded near 3%. But activity in the Eurozone, UK, China and Japan has been stronger than expected.
- Second, major central banks have continued to cut interest rates. The European Central Bank (ECB), the People's Bank of China (PBoC), the Bank of England (BoE) and the Swiss National Bank (SNB) have lowered interest rates to 2.00%, 1.40%, 4.00% and 0.00% respectively.
- Third, financial conditions have loosened with the Fed set to resume rate cuts. US Treasury (UST) yields have fallen, and the US Dollar has stayed weak.
- Given the weak US labour market

data recently and dovish comments from US Federal Reserve (Fed) Chairman Jerome Powell at Jackson Hole last month, we see three Fed rate cuts occurring this year - in September, October and December.

- Resilient activity, falling interest rates and lower UST yields have been important tailwinds for risk assets this year. But investors need to be aware of downside risks to the economic outlook.
- Steep US tariffs are set to slow global growth in the second half of 2025. Inflation is proving sticky, making it unlikely the ECB will cut rates anymore. And the Trump administration's campaign to curb Fed independence may have immense long-term implications including higher inflation, steeper yields and a much weaker US Dollar.
- Investors should thus continue to maintain diversified, resilient portfolios given the upside and downside risks to the outlook this year.

US – The Fed is leaning towards resuming rate cuts

- The US August employment report was weak again, cementing the case for the Fed to cut its Fed funds rate by 25 basis points [bps] from 4.25-4.50% at the next Federal Open Market Committee (FOMC) meeting on September 16-17.
- Last month payrolls only rose 22,000. Prior data was also revised to show June's fell 13,000, the first monthly decline since the pandemic in 2020. Payrolls have only increased by 27,000 on average over the last four months, a clear step down from the average gains of 123,000 in the first four months of 2025 and 168,000 in 2024.
- At the same time, unemployment also rose from 4.24% to 4.32%, still low historically but likely reflecting falling demand for labour. In contrast, labour force participation edged up from 62.2% to 62.3% as the supply of labour firmed in August.

- With Powell indicating at Jackson Hole last month that the Fed would cut interest rates if the US labour market kept slowing, we bring forward our view of one 25bps cut in 2025 and two in 2026 to all three cuts occurring this year now in September, October and December. We thus see the Fed funds rate ending 2025 at 3.50-3.75%.
- For 2026, a new Fed Chair will lead June's FOMC meeting. We do not rule out further rate cuts from next summer if President Trump's candidate is dovish. It is not our base case as inflation is set to stay sticky but is clearly a risk to the outlook.

China – A game of two halves this year for GDP growth

- China's economy was surprisingly resilient in the first half of 2025 as exporters' frontloading to beat US tariffs caused GDP to grow solidly above 5.0% year-on-year (YoY) in 1Q25 and 2Q25. In contrast, the second half of the year has started much slower with July's activity data all missing forecasts as subdued consumers, cautious companies, a weak property market and higher trade barriers curb demand.

- First, new loans for households and corporates have contracted for the first time since 2005 as families and firms remain cautious after the pandemic. Second, July's retail sales slowed from a 4.8% YoY growth to 3.7% YoY as consumers seem reluctant to spend despite official subsidy schemes. Third, fixed asset investment in July declined to just 1.6% YoY, its weakest rate since the height of the pandemic in 2020.
- The slowdown in activity should not be surprising given the economy's strong first half. We expect full year GDP to only dip from 5.0% in 2024 to 4.6% in 2025. But July's data shows overall demand remains lacklustre, keeping GDP growth subdued.
- We continue to think stronger broad-based growth to lift the economy away from deflation will require fresh fiscal stimulus. Beijing may not act while growth is still only slowing. But China's financial markets are likely to stay supported as investors expect officials will provide more stimulus in future if growth slides more rapidly.

Europe – Rate cuts are ending as growth stays resilient

- This year, European growth has

been surprisingly resilient in the face of much higher US tariffs. The ECB has reduced interest rates from 4.00% last year to 2.00% and the BoE has cut its Bank Rate from 5.25% in 2024 to 4.00% now, helping support activity.

- But with Eurozone inflation back at the ECB's 2% target, we expect the ECB will not make any more rate cuts now.
- In the UK, inflation has rebounded uncomfortably to 3.8%. The BOE forecasts inflation to peak well above its 2% target before falling as the labour market slows. The BOE has cut interest rates gradually by 25bps each quarter since August 2024.
- We expect the BOE to ease once more in November by 25bps, but with four out of nine of its policymakers already voting against further cuts, we think the BOE's easing cycle is close to ending with its Bank Rate likely to settle at 3.75%.

Japan – Very gradual interest rate hikes are set to restart

- Like the UK, inflation in Japan remains well above the Bank of Japan's (BOJ) 2% target with core inflation, excluding fresh food and energy costs, at 3.4%. The

very weak Japanese Yen (JPY) which is near 150 against the US Dollar (at the time this was written), is driving import costs higher and keeping goods inflation elevated at 4.5%. In contrast, services inflation remains much lower at 1.5%.

- Moderate services costs have

allowed the BOJ to only slowly lift interest rates from -0.10% in March 2024 to 0.50% now. But with a new US-Japan trade deal signed and core inflation over 2% for three years now, we expect the BOJ will resume rate hikes in October with a 25bps increase to 0.75%.

- Importantly, the resumption of very gradual rate hikes in Japan, once every six months or so, while the Fed prepares to resume rate cuts, will allow the JPY to start rebounding from its current low levels against the USD.

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	1.4	1.4
Japan	0.9	1.2	0.1	1.1	1.1
Asia-4	2.4	1.8	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	4.4	4.4
World	3.5	3.4	3.3	3.0	2.9

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

EQUITIES

ELI LEE

Chief Investment Strategist, Bank of Singapore

Balance Opportunity With Protection

“Within equities, we continue to see positive risk-reward in European and Asia ex-Japan equities given valuations and fundamentals. In particular, we remain constructive on Hong Kong and China equities and believe that the year-to-date rally has further legs.”

- Global equities have performed well so far this year, with the MSCI All Country World Index up about 13% YTD as of 26 Aug 2025. The performances of non-US equity regions have also been further boosted by the weaker US Dollar. Many central banks have already been cutting rates in 2025 and the Fed could follow suit soon. This reflects a broader shift towards supporting growth and should contribute to improved sentiment. Liquidity is also helping to drive China's A-share market where a re-rating is taking place especially in the Healthcare, Materials, Financials and Technology sectors. Currently, valuations of the CSI 300 Index and MSCI China Index are still meaningfully below their historical peaks.
- We maintain our Overweight positions in Asia ex-Japan and Europe equities given their more favourable risk-reward profiles, but caution that downside risks remain amid ongoing geopolitical

tensions and uncertainties relating to earnings growth due to the impact of tariffs.

US – Constructive earnings and hopes of rate cut trump tariff fears

- The S&P 500 Index hit another new high in August as tariff impact fears largely eased with a relatively sanguine set of 2Q2025 earnings and guidance. Importantly, the mega-cap Technology companies continued to deliver exceptional growth and beat consensus forecasts significantly, while CAPEX by hyperscalers remained upbeat. Generally, earnings strength was broad-based with the S&P 500 companies' profit margins more resilient to tariffs than feared, with a weaker US Dollar providing additional tailwinds. Management guidance was positive with a significantly higher percentage raising their full year earnings guidance than in 1Q2025.
- Rising hopes of Fed rate cuts also

fuelled animal spirits, particularly after a dovish speech by Fed Chairman Jerome Powell at Jackson Hole. Looking ahead, the pro-growth “One Big Beautiful Bill Act” [OBBBA] would provide some tailwinds, especially to the companies' free cash flows.

Europe – Enduring potential amid episodic uncertainties

- We had pointed out some obstacles for a further Eurozone run, such as German stimulus news as well as mixed headlines in relation to trade negotiations. Tariff uncertainty is now lower but French political uncertainty has come to the fore again. Working through these risks and the current mixed European reporting season would be hurdles to clear before equities can start performing again.
- Over the longer term, Europe has a supportive fiscal backdrop while the European Central Bank [ECB] will leave its deposit rate

at 2% for the rest of 2025. Equity valuations also remain undemanding with the MSCI Europe Index trading at about 15x forward price-to-earnings (P/E), slightly above its 10Y historical average. 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 in general are well-positioned to benefit from the positive spillover effects of higher fiscal spending.

Japan – Softening earnings as expected

- During the 1QFY2025 earnings season, revenue and earnings year-on-year (YoY) declines were broadly in-line with consensus expectations mainly on the back of tariff impact and Japanese Yen (JPY) appreciation. Despite

uncertainties relating to US tariffs gradually easing, potential risks regarding the impact of tariffs on companies and the economy cannot be ignored. We will look for further evidence of a bottoming in earnings forecasts in the upcoming 1HFY2025 results.

- Japanese equities have been resilient with the MSCI Japan Index rising 4% last month on the back of ongoing capital inflows and easing concerns relating to tariffs. The MSCI Japan Index is trading at 16.1x forward P/E, which is close to +1 standard deviation above the historical average. From a medium-term perspective, positive catalysts entail increasing inflation expectation and ongoing corporate reforms.
- We maintain our Neutral position on Japanese equities.

Asia ex-Japan – Favourable trajectory but risk of an air pocket

- Improved policy clarity from trade agreements, potential monetary policy accommodation and solid fundamentals support our positive view on Asia ex-Japan equities. Lower US short-term rates and a weaker US Dollar are historically associated with positive Asian

equity performance, with studies indicating that South Korea, Philippines, Taiwan and Hong Kong show the most favourable sensitivity to these factors, while Thailand, China A-shares and Indonesia have the lowest sensitivity. By sector, capital goods, chemicals, transportation, healthcare and property tend to outperform energy, retail, mining, banks and utilities.

- We maintain our Overweight position on Asia ex-Japan equities, and within the region, we reiterate our Overweight positions on China, Hong Kong, Singapore and the Philippines. That said, the MSCI Asia ex-Japan Index has already delivered stellar total returns year-to-date, and we are also entering the seasonally weaker period for Asian equities. Nevertheless, investors can subsequently look forward to some potentially positive events in 4Q25, including China's 15th 5-year plan and South Korea's corporate governance legislation. Our least preferred equity market is Thailand given continued political uncertainties and a subdued macroeconomic outlook amidst muted tourist arrivals and a

potential reversal of some of its front-loading of exports.

Global Sectors – Technology stocks powering ahead

- Technology stocks have gained ground lately with the MSCI ACWI Communication Services Index, in which heavyweights Meta and Alphabet constitute about 50% of the index weight, has become the leading sector so far this year. The AI super trend continues to be a major driver for the US internet space. AI-driven demand is accelerating growth across all major cloud providers, with overall industry growth reaching 27% YoY in 2Q25, which is the fastest pace since 4Q22. Despite some near-term margin pressure, a rebound over the medium term seems likely as new capacity comes online and silicon efficiency improves. Within the US Internet space, we prefer the cloud subsegment, followed by advertising, e-commerce, travel and finally ride hailing/food delivery.

Value emerging in certain Healthcare subsectors

- In comparison, the Healthcare

sector continues to be the underperformer due to tariff concerns, policy reform and idiosyncratic factors impacting certain sub-sectors. Managed Care, for instance, has been rocked by major missteps and policy headwinds, but sentiment may pick up alongside entry from high profile investors. There are clear impediments to the fundamental outlook but factors such as 1) declining insurance membership and 2) higher costs and utilisation are largely known “knowns”. Any improvement in policy, judicial overhang, and a rightsizing of medical outlays to premiums could put the industry back into growth mode. We expect volatility to persist, but there are opportunities for patient investors.

Style tilt: Smaller caps performing in selected international markets

- After small caps’ prolonged poor performance in 2024, the group is showing some life in certain areas this year, especially in the Eurozone and Japan. International small caps are more shielded

versus large caps with respect to adverse tariff impacts, and small caps are a relative beneficiary if the US Dollar resumes its weakening. This is because international small caps are traditionally more domestically oriented compared to large caps which tend to have a greater exporting share. That said, investors are advised to be selective, as the emergence of risks such as French political uncertainty may impact French domestically exposed stocks more than those with a larger international footprint. In the US, small caps may begin to trade better should there be more aggressive Fed easing. They are also typically supported by increased corporate activity, as they tend to be M&A targets. Other potential supports include the positive impact of the Trump’s recent tax bill, as certain provisions could offer meaningful cashflow support to smaller companies.

HONG KONG / CHINA MARKET OUTLOOK

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Earnings Revision Momentum in Focus

“The MSCI China Index may continue to see downward earnings revisions in the near term due to stronger- and longer-than expected food delivery and quick e-commerce competition.”

- Chinese equities have risen 5-8% last month, outperforming the broad regional market by 3-6 percentage points (ppt) in USD terms. Improving retail investor sentiment and liquidity conditions, incremental rotation to equities allocation, and incremental policy delivery are the likely forces driving the diverging trend between a softening macro and the liquidity-driven onshore A-share market rebound.
- Earnings revision momentum is one of the key indicators to monitor. The MSCI China Index may continue to see downward earnings revisions in the near term due to stronger- and longer-than expected food delivery and quick e-commerce competition. From a medium- and long-term perspective, incremental policy delivery and potential policy support with the Fourth Plenum approaching would be positive catalysts.
- We remain constructive on HK and Chinese equities with our Hang Seng Index target of 27,500 / 29,200 / 22,500 for base / bull / bear cases. Despite the recent re-rating, the MSCI China Index is trading at 11.9x forward P/E and is still at a 7-8% valuation discount to the MSCI Emerging Market Index. The onshore CSI 300 Index is trading at 13.9x forward P/E, which is +1.25s.d. to historical average. While valuations could overshoot close to +2s.d., in a liquiditydriven rally, a key indicator to watch for potential regulatory intervention is the margin financing balance as a percentage of the free-float market cap.



BONDS

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Rate Cut Optimism

“We remain Neutral on duration. Long-end rates are vulnerable to fiscal, inflationary concerns and political noise while front-end yields are biased downwards in the near term on rate cut expectations.”

- Inflows into fixed income products remain strong, reflecting optimism about rate cuts by US Federal Reserve. Credit spreads continued to compress along with easing volatility and returns for the asset class has been positive. As risk premiums 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

- Over the past month, yields on US Treasuries (UST) displayed a divergent pattern across the curve, reflecting a shifting mix of monetary policy expectations and political developments. The front-end of the yield curve rallied meaningfully, while the long end remained elevated, underscoring a re-emergence of curve

steepening pressures.

- 2Y UST yields fell to 3.6% by late August, down from levels closer to 4% a month earlier. The rally was driven by a growing conviction that the Fed may deliver its first rate cut as early as September 2025. Fed Chair Powell's speech at Jackson Hole marked a pivotal point. While acknowledging the progress on inflation, he emphasised rising downside risks to employment, which markets interpreted as opening the door to policy easing. A string of softer labour market data releases reinforced this narrative, pushing front-end yields lower as markets priced in a more dovish path for the Fed.
- In contrast, long-end yields remained elevated, reflecting persistent term premium demands by investors. Several structural concerns kept longer maturities under pressure, including fiscal deficits and the inflationary implications of newly installed

tariffs. Political noise also influenced market sentiment. Efforts by the administration to pressure the Fed - including attempts to remove Fed Governor Cook - added to investor uncertainty about central bank independence. While this fuelled dovish bets on near-term policy, it simultaneously reinforced concerns about longer-term inflation expectations and the credibility of the policy framework.

- As we look ahead, with political pressure on the Fed persisting and the risks that inflation expectations are picking up – these could drive investors to seek higher term premiums.
- For this reason, we remain Neutral on duration. We remain cautious on long-end (30Y) nominal 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

- Credit spreads tightened this month in a risk-on move, generating broad based excess and total return gains. Credit spreads are now near all-time tights, reflecting strong investor demand amidst expectations of rate cuts ahead. With the outlook complicated by rising stagflation risks, we remain cautious on DM credits.
- Recent releases of macroeconomic data show that the US economy has started to slow. Labour market data in particular are weakening, along with consumer spending and home prices. Meanwhile, default rates have started to pick up within the HY segment. We expect US tariffs to impact credit metrics going forward and US companies will be disproportionately exposed. Companies in the cyclical industries are likely to face margin pressure while high overall interest rates remain a challenge for the highly leveraged issuer.
- In France, Prime Minister Bayrou submitted his government to a vote of confidence on 8 September, with the possibility that he will be ousted. This follows a disapproval of Bayrou's plans to

curb government spending considering the country's relatively high debt levels. While the French banks under our coverage have strong market positions, well-capitalised balance sheets, broadly stable asset quality and good geographic diversification, we remain cautious of continued political and economic uncertainty for the sector.

- We are positioned Neutral on DM Investment Grade (IG) bonds and Underweight on DM High Yield (HY) bonds. We see risks skewed to wider spreads after the recent strong performance.

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

- Asia credits posted total returns of 1.24% for August, supported by both spread compression and lower UST yields. Hopes of Fed rate cuts have supported long-end

performance during the month, although the segment still trailed the intermediate part of the curve year-to-date (YTD).

- Compared to most EM peers, Asia credits remain a relatively lower beta play for investors, as reflected by relatively benign spread widening in Asia IG during the recent episodes of market de-risking after "Liberation Day" and July's non-farm payroll (NFP) data. Having said that, we do expect occasional market volatility arising from political turbulence, geopolitics and tariff concerns. However, fiscal and monetary easing could help to partially alleviate economic headwinds.
- In August, S&P upgraded India's sovereign rating to "BBB" from "BBB-", citing the government's commitment to deliver sustainable public finances as a reason for the upgrade. S&P states that it believes the effect of US tariffs on the Indian economy will be manageable. While we are cautious of the trade talks between the US and India and given the currently steep tariffs rate on India, we view the upgrade by S&P as positive for sentiment. We continue to monitor trade developments between

India and its trading partners including the US.

Emerging Markets Sovereigns

- Hard currency EM sovereign bonds returned 1.6% in August, lifting YTD performance to 8.7%. HY again outperformed IG, returning 1.9% vs 1.3%. HY sovereigns have returned 10.3% YTD compared to 7.1% for IG sovereigns. Local currency sovereign bonds posted a strong 2.3% monthly gain, bringing their YTD return to 14%.
- The month's rally was underpinned by improved global investor sentiment towards the EM universe. EM local currency bonds also remained attractive, buoyed by historically high real

yields and residual foreign investor interest. Countries like Colombia and South Africa continue to offer compelling nominal yields above 9%, reinforcing the appeal of local rates.

- EM sovereign debt faces both tailwinds and headwinds: While a short-term consolidation in EM currencies is possible, the cyclical downturn of the US Dollar and contained inflation, support continued strength in EM debt. The anticipated Fed rate cut in 4Q25 could further support EM flows, while ongoing tariff negotiations and geopolitical tensions – particularly in Eastern Europe and the Middle East – may inject volatility. In mitigation, improving fiscal discipline, rising

currency reserves, and a more favourable global liquidity backdrop suggest EM sovereigns rated “BB” and above remain well-positioned.

- Investors are advised to remain selective with respect to frontier markets and distressed issuers such as Lebanon and Venezuela, where apparent tactical opportunities are fraught with downside risks, following significant YTD price gains.
- Strong technicals, improving credit metrics, and attractive yields offer a compelling case for continued exposure to EM sovereign bonds — albeit with a need to keep a watchful eye on global trade developments and US monetary policy.

FX & COMMODITIES

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Gold's Bullish Outlook Remains Intact

"We continue to favour gold as a hedge against inflation and US fiscal sustainability concerns, and a beneficiary of safe haven flows, as the outlook for the US Dollar remains weak."

Oil

- Oil prices fell ahead of the Trump-Putin summit in Alaska on expectations that sanctions on Russian crude could be eased. But oil prices firmed back as early optimism for a Ukraine peace deal was curtailed following the inconclusive Trump-Putin summit. There has been little progress on the sticky territorial and security guarantee issues for now. Ukrainian strikes on Russian energy infrastructure also contributed to firmer oil prices. Ukraine's attacks in response to Russia's advances in the conflict and its pounding of Ukrainian gas and power facilities, have disrupted Moscow's oil processing and exports and created gasoline shortages in parts of Russia. Meanwhile, the US implemented the additional 25% Russian penalty on Indian imports from 27 August, as planned, taking the announced tariff rate to 50%. India's oil

purchases have increased significantly over the last three years, with Russia accounting for 35% of its total imports.

- We expect a moderate decline in oil prices ahead and stick to our 12-month Brent forecast of US\$65/barrel. The oil market is likely to remain well supplied. OPEC+ has decided to bring back 547,000 barrel per day of oil in September, completing the unwinding of its 2.2 million barrel per day in output cut. The focus will be whether there will be a pause in bringing back additional barrels in 4Q2025. Oil demand appears mixed, with strong refinery margins supporting robust processing. However, China's oil demand could decelerate as the payback from front-loading exports ahead of US tariffs materialise.

Precious metals

- Gold had consolidated in the

US\$3,200-3,450/ounce range since April. Price gains that were earlier built on stretched speculative longs have given way to renewed gains from ETF inflows. We forecast gold to be at US\$3,600/ounce by end-2025 and US\$3,900/ounce in a year's time.

- Focus has shifted from tariff uncertainty to watching macroeconomic data. Fed Chair Jerome Powell's remarks at Jackson Hole were more dovish than expected. The key message was that continued weakness in payrolls would be enough to resume cutting rates. We expect the Fed to cut rates in the coming months after the recent weak US jobs data. Non-yielding assets such as gold would benefit from lower interest rates and a subsequent weaker USD.
- Political suasion on US monetary policy is reaching new levels and may be a positive for gold if it is

seen as influential. Following President Trump's announcement of the decision to fire Fed Governor Lisa Cook, she has indicated that she will challenge the decision in court and seek judicial review. Challenges to Fed independence pose downside risks to the US Dollar, and by implication upside risks to gold, in our view. This is due to both concerns around US institutions, and to the read-through to lower front-end US yields and higher inflation expectations.

Currency

- The US Dollar index (DXY) closed softer in August after appreciating in July. US Federal Reserve (Fed) Chairman Jerome Powell's speech at Jackson Hole and US President Donald Trump's dismissal of Fed Governor Lisa Cook were some of the factors that weighed on US Dollar (USD). On the former, Powell's expression of an openness to cut rates and his acknowledgement of downside risks to the labour market, suggest that a September rate cut is more likely than not, even though he was non-committal in his speech. Nevertheless, given the recent weak US jobs data we expect the Fed to cut rates in

September, October and December this year. While it remains unclear if Cook will remain on the Fed's Board of Governors, the latest move by Trump reflects concerns over Fed independence and how the composition of the Fed may result in the US central bank becoming more dovish going forward. We continue to expect the USD to trade softer as the Fed potentially resumes easing while US exceptionalism fades. The USD has room to fall as long as the broader risk-on sentiment stays intact and growth conditions outside US remains supported. Nonetheless, we believe the USD's decline is not linear and likely to be bumpy, driven by data surprises, market expectations of Fed rate cuts and tariff risks. USD re-allocation momentum can pick up when the USD's decline accelerates. More broadly, US policy unpredictability, and concerns of about the rising trajectory of US debt and deficits in the medium term, should continue to underpin the broad (and likely bumpy) decline in the USD.

- The Euro (EUR) managed to trade firmer for the month of August despite a pickup in political risk. While Dutch caretaker Prime

Minister (PM) Dick Schoof and his cabinet survived a no-confidence vote on 27 August, the Dutch government is still holding early General Elections on 29 October. At the time this was written, the French PM François René Jean Lucien Bayrou has called for a confidence vote on his government's budget on 8 September, saying that he needs backing from parliament for austerity measures to reduce the public debt. He has proposed to freeze most public spending, introduced new tax on high income earners, scrap two public holidays (Easter Monday and end of WW2 in Europe) and plans to increase defence spending. Recall that last year, a no-confidence vote gamble (although not on the budget) saw the exit of former PM Michel Barnier. Political risks in France and Netherlands deserve monitoring as they may have short term implication for the EUR although broader fundamentals should still support the EUR. On tariffs, there are signs that the EU and US are potentially getting closer to a better deal. On 21 August, the US and EU issued a joint statement outlining their new trade framework. The deal

confirms a 15% tariff ceiling on most EU goods, with a non-stackable clause that prevents additional duties being layered on top. Recent reports suggest that the EU is willing to waive all tariffs on industrial imports from the US in exchange for lower duties on its automobile exports to the country. The US had earlier indicated that its blanket 15% tariff rate would apply to auto and auto parts imported into the US from the EU, back-dating to 1 August, if the EU passes legislation removing all tariffs on US imports by the end of this month. Overall, we remain constructive on the EUR's outlook.

- The exchange rate between the USD and Japanese Yen (USDJPY) closed softer in August, tracking the decline in the USD. At Jackson Hole, BOJ Governor Kazuo Ueda spoke about wage growth spreading from large enterprises to SMEs, and barring a major negative demand shock, he expects the labour market in Japan to remain tight and to continue to exert upward pressure on wages. We believe that BOJ is set to normalise policy. A divergence in Fed-BOJ monetary

policy should underpin the broader direction of travel for the USDJPY. Elsewhere, we are on the lookout for the release of the election review report, which should be ready by early-September. This report is to inform the LDP party on who will take responsibility for the upper house election setback in July. Some clarity on the political outlook may also be supportive of the JPY.

- The exchange rate between the USD and the Chinese Renminbi (RMB) traded in the offshore market USDCNH fell nearly 1% in August and it is now trading at its weakest level since November 2024. The move reflects a confluence of drivers including persistent strength in the daily CNY fix, renewed foreign inflows into Chinese equities in recent weeks, and a softer USD backdrop as the Fed prepares to cut rates. There appears to be a consistent and deliberate trend of setting the daily CNY fixing rate slightly stronger, but at a measured pace. Since mid-April 2025, the USDCNY fixing rate has declined by approximately 1070 pips [a pip is one-hundredth of 1%], averaging about 11 pips per

fix. This is a marked departure from 2023–2024 and the early part of 2025, when the fix was used defensively to cap RMB depreciation pressure. Today, the spot–fix gap is being driven by a stronger fix rather than RMB weakness, potentially signalling policymakers' intent to guide USDCNY spot lower but in a measured manner. A gradual appreciation in the RMB and continued gains in the domestic equity markets can help to restore investor confidence and further encourage a return of foreign capital inflows. Over the past few weeks, there was net foreign equity inflow into China. These factors, alongside the possibility of the Fed resuming rate cut should continue to be positive for the RMB. There could be further room for the RMB to appreciate should China's economy see more sustained stabilisation.

- The exchange rate between the USD and the Singapore Dollar (USDSGD) fell about 1% in August, largely tracking the renewed softness in the USD while gains in the RMB have also resulted in positive spillover effects onto SGD. The recent Singapore July

inflation report saw core inflation easing to 0.5% YoY (versus 0.6% YoY previously). On the inflation outlook, the MAS continued to flag both upside and downside risks while core inflation forecast is projected to average 0.5 – 1.5% in 2025 (unchanged from the previous forecast). We believe

that the door to ease policy remains open if the growth-inflation dynamics worsens more than expected, but for now, there is no hurry to ease or jump the gun. The Singapore Dollar Nominal Effective Exchange Rate (\$NEER) remains largely steady, which implies limited room for the SGD

to strengthen unless its peers appreciate significantly more. For the month ahead, expect external drivers, including Fed policy, USD volatility and moves in the RMB to have a greater bearing in influencing the USDSGD.

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