Monthly FX & Rates Strategy

US government shutdown clouds Fed rate cutting path

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- This latest US Federal shutdown may well have a more severe consequence to the US job market. The key difference this time round is a record number of about 750k federal workers are furloughed and the Trump administration has warned that it may well take the unprecedented move of permanently laying off some federal workers as well.

- Complicating matters further is the fact that with the shutdown, key macroeconomic data like US job market report and inflation updates are now put on hold, possibly clouding the Fed's monetary policy decision at the upcoming 28/29 Oct FOMC. On balance, we believe that the Fed may well err on the side of caution and deliver a 25-bps rate cut next.

- Amidst a steepening yield curve, the broader medium-term USD downtrend remains intact. Relative to its G-10 peers, the Fed is expected to appear increasingly dovish, especially as other central banks approach the end of their respective easing cycles. Overall, our latest DXY forecasts are 96.2 by end-2025 and 93.8 by 3Q26. We continue to see varying degrees of strength in EUR, GBP, JPY, AUD, NZD against the USD going forward.

- As for USD/Asia, we expect broad-based USD weakness to reassert itself as the Fed resumes its rate-cutting cycle, guiding USD/Asia lower. But the pace of depreciation may be gradual, as Asia's subdued growth outlook and the dovish bias of regional central banks could temper enthusiasm for Asian FX. We see further downside potential for USD/CNY to 7.11 by 4Q25 and 7.02 by 3Q26, driven by expectations of a US-China trade agreement by end-2025.

- In light of the recent resilience in Singapore's economy, we now expect the MAS to delay any further easing - via a full flattening of the S$NEER slope – until the Jan 2026 MPS instead of the upcoming Oct 2025 MPS. Nonetheless, with the prevailing downward pressure on the S$NEER, we see scope for SGD underperformance relative to regional peers. Accordingly, our latest USD/SGD forecasts are 1.29 in 4Q25 and 1.27 in 3Q26.

- For US Treasuries, we see scope for further bull steepening of the yield curve, with the 2s10s spread rising from 60 bps currently to 80 bps by 3Q26. This means back-end (10Y) yields will not come down as much compared to the front-end (2Y) in respond to Fed easing. Our updated 10Y UST yield forecasts are 4.10% for both 4Q25 and 3Q26.

- While the bias remains for Sora to be lower, several factors may limit the extent of its decline. As S$SNEER strength eases, the wide SG-US rate differential is likely to narrow, providing a firmer base for Sora. Moreover, a return to crisis-era near zero Sora levels is unlikely. Our updated forecast for 3M compounded Sora is 1.23% in 4Q25 and 1.25% in 3Q26.

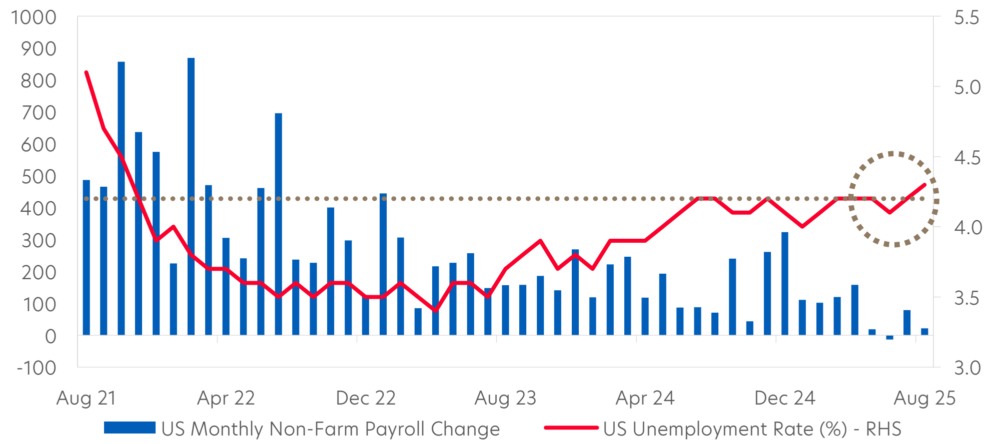
- Finally, we raise our positive gold forecast further amidst the strong surge in retail interest in gold. Our updated forecast calls for USD 3,900 / oz in 4Q25 and USD 4,200 / oz in 3Q26.

The Fed's rate cutting path was already uncertain heading into this latest US government shutdown. At the most recent FOMC in September, Fed Chair Jerome Powell conceded that "It is really risks to the labor market that were the focus of today's decision (to cut rates)". Going forward, the Fed's rate cutting path is expected to be shallow, but fraught with increasing uncertainty. It does not help that the FOMC's latest dot plot, especially for 2026 looks like a scattered can of beans. While Fed Chair Jerome Powell insisted that there is robust discussion amongst the Fed officials, the lack of a clear consensus with wide dispersion in dot plot expectations points to more volatility and uncertain Fed monetary policy decisions in the months ahead. In addition, the FOMC's latest economic projection for 2026 appears conflicted as it points to a stronger US economy (by raising GDP forecast, lowering unemployment forecast and raising core PCE forecast) and yet, expects a lower median dot plot.

Officially, this is the 10th US federal government shutdown since 1976 when the current budget process was established. The previous federal government shutdown from 22 Dec 2018 to 25 Jan 2019 was the longest on record to-date, lasting a total of 35 days. While this latest US government shutdown started on 1 Oct 2025 after the usual bipartisan budgeting dispute failed to resolve the funding gap, it may well be different this time round due to its potentially more severe impact on the US job market.

Chart 1: US job market uncertainty increases amidst shutdown

Source: White House, UOB Global Economics & Markets Research



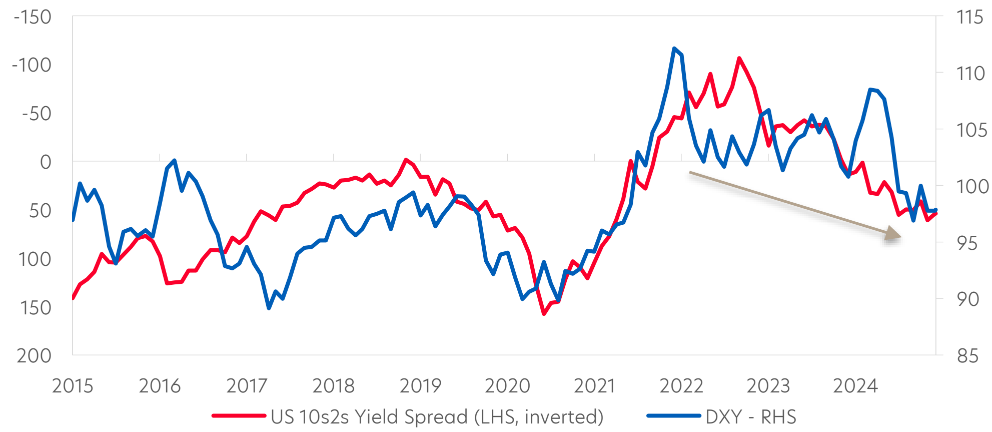
The US job market was already weakening on the sidelines heading into the shutdown. After the latest revision, US non-farm payrolls grew by just a miniscule 29k jobs on average over the past 3 months. Effectively job growth has now "stalled". And after consolidating between 4% and 4.2% over the past one year, US unemployment rate moved higher to 4.3% as well in the latest monthly reading (Aug).

Compounding the increasing weakness in the US job market, this shutdown may have a more severe impact on the US job market. Not only a record number of 750k of federal workers have been furloughed this time round, the Trump administration has also warned that it may resort to layoffs should this shutdown drag on. Some estimates suggest that as much as 300k to 500k federal workers are at risk of being laid off. If so, this will be the first instance of permanent layoffs, as previous shutdowns have not resulted in permanent layoffs.

Further clouding the outlook is that this shutdown has delayed and looks to potentially delay the release of important US macroeconomic data in the coming weeks, including non-farm payroll job market report as well as monthly CPI release, as the US Bureau of Labor Statistics (BLS) had most of its 2,000 staff furloughed. The Census Bureau and the Bureau of Economic Analysis - both under the Commerce Department – will also stop all data collection during the shutdown and will potentially delay reports on gross domestic product (GDP), consumer spending, PCE inflation and trade flows. The delay of such critical macroeconomic data may well impede the Fed's monetary policy decision at the upcoming 28/29 Oct FOMC. On balance, we believe that should this shutdown drag on and federal workers are indeed laid off, the Fed may well err on the side of caution and deliver another 25-bps rate cut.

Chart 2: DXY to stay weak on further US yield curve steepening

Source: Bloomberg, UOB Global Economics & Markets Research



While risky assets generally remain buoyant and have shrugged off the potential negative consequence of this shutdown on the US job market, safe havens like gold and US Treasuries have indeed strengthened. In particular, short term US Treasuries yield dropped from 3.6% to 3.55% upon announcement of the shutdown, while gold continued its remarkable rally to gain further strength to reach almost USD 3,900 / oz. Overall, the US yield curve has indeed steepened, reinforcing our core view of a weaker USD. Amidst this increasingly uncertain juncture for the US economy, this latest Monthly FX & Rates Strategy piece updates on our respective Majors and Asian FX and Rates views.

FX Strategy

USD stabilized towards the end of 3Q25 - is this a turning point or a brief interruption?

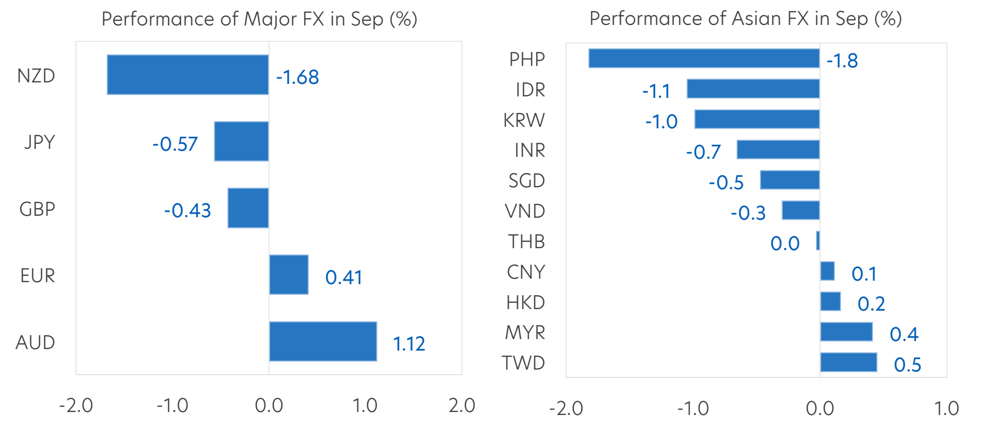
The US Dollar Index (DXY) staged a notable turnaround by the end of Sep, recovering early-month losses to end the period largely unchanged at 97.8. The inflection point came during the Sep FOMC meeting, where the Fed delivered a 25-bps rate cut. However, Chair Powell's characterization of the move as a "risk management" step – paired with a strong emphasis on data dependency going forward – helped temper dovish expectations and lent some support to the USD.

Throughout the month, a series of stronger-than-expected US data releases, including surprising strength in 2Q GDP, Aug new home sales, and durable goods orders, provided additional tailwinds for the USD. That said, gains were capped by renewed concerns over a US government shutdown, which injected a degree of economic and policy uncertainty into markets.

Looking ahead, the key question remains: will this two-way volatility persist, or is the broader downtrend in DXY still intact as the Fed's easing cycle progresses?

Chart 3: Most Major and Asian FX slipped against the USD in Sep

Source: Bloomberg, UOB Global Economics & Markets Research



Asian currencies delivered a mixed performance in Sep, closing the third quarter on a more cautious footing. Most regional currencies weakened against the USD in 3Q25, paring back part of their year-to-date gains. This came as markets reassessed the economic implications of country-specific tariffs announced in early Aug. Sentiment was further dampened by the late-Sep announcement of sector-specific tariffs – targeting items such as branded pharmaceuticals, heavy-duty trucks, and kitchen and bathroom cabinetry – which reignited concerns over renewed trade fragmentation and supply chain disruptions.

As we enter the final quarter of the year, the outlook for Asian FX hinges on whether this recent bout of weakness will extend, or if a renewed phase of broad USD softness will emerge in tandem with further Fed rate cuts.

Major FX Strategy

USD vulnerable as Fed leads in rate cuts while G-10 peers near end of easing cycle

The Sep FOMC meeting followed a familiar market pattern of "sell the rumor, buy the news." The DXY rebounded from a low of 96.22 – its weakest level since Feb 2022 – on the day of the FOMC, ultimately ending the month largely unchanged at 97.8. On a quarterly basis, the DXY rose 0.9%, reversing in a modest way the sharp 10.9% decline recorded in the first half of the year.

Despite this tentative stabilization, the broader narrative of a medium-term USD downtrend remains intact. Rate expectations continued to shift on a dovish note, with interest rate swap markets pricing in further easing following the Fed's initiation of its rate-cut cycle in Sep. As of 3 Oct, Fed-dated OIS markets have fully priced in a 25-bps cut at the upcoming 28/29 Oct FOMC meeting, with a total of 47 bps in cuts priced in by year-end.

Underlying this dovish tilt is a weakening US labor market and still limited signs of tariff-induced inflation – factors likely to substantiate the case for further Fed easing. Additionally, growing dovish sentiment within the Fed and potential political pressure from the Trump administration may introduce an asymmetric bias in interpreting incoming data, favoring further accommodation.

Chart 4: We reiterate view of lower DXY in the coming quarters

Source: Bloomberg, UOB Global Economics & Markets Research

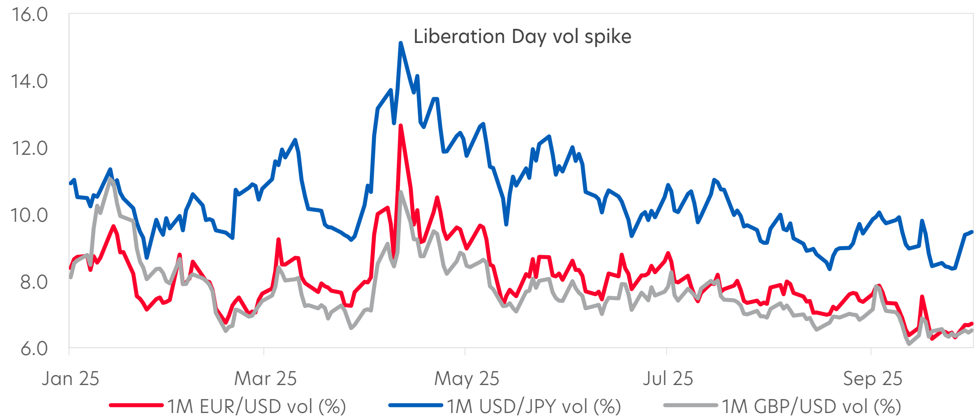
Relative to its G-10 peers, the Fed is expected to appear increasingly dovish, especially as other central banks approach the end of their respective easing cycles. Notably, our macroeconomic team has recently revised its outlook to anticipate fewer rate cuts from both the European Central Bank (ECB) and the Reserve Bank of Australia (RBA). This policy divergence is expected to narrow USD interest rate differentials further, reinforcing downward pressure on the USD.

Overall, our latest DXY forecasts are 96.2 by end-2025 and 93.8 by 3Q26, little changed from our previous quarterly review on 5 Sep. We have only marginally upgraded the AUD/USD forecast this time round while keeping that of EUR/USD, GBP/USD, USD/JPY and NZD/USD unchanged.

Beyond monetary policy, the US government shutdown which commenced on 1 Oct poses additional downside risks to the USD, especially if the shutdown drags on. In addition, delayed macroeconomic data releases and political noise could amplify FX volatility.

Chart 5: A prolonged government shutdown could reignite FX volatility which is currently nearer to YTD lows

Source: Bloomberg, UOB Global Economics & Markets Research



EUR/USD briefly surged to a four-year high of 1.1919 on the day of the Sep FOMC meeting, before retreating back into familiar territory between 1.16 and 1.18 amid a sharp USD short squeeze. While the pair's pullback reflects near-term positioning dynamics, we remain constructive on the medium-term outlook.

Political uncertainty in France continues to simmer, with President Macron's approval ratings at historic lows and public calls for his resignation gaining traction. Nonetheless, we assess the situation as largely contained within France, with limited economic and market spillover risk to broader Eurozone stability. In our view, this remains a localized political episode – a "storm in a teacup" – rather than a systemic threat to the euro.

Importantly, our conviction in a bullish EUR/USD trajectory has strengthened. We now expect only one final 25 bps rate cut from the ECB by year-end, bringing the refinancing rate to 1.90%, compared to our earlier forecast of two cuts. This adjustment supports a further narrowing in EUR-USD rate differentials, which should underpin continued gains in the currency pair. Overall, our updated forecasts for EUR/USD are at 1.19 in 4Q25, 1.20 in 1Q26, 1.21 in 2Q26 and 1.22 in 3Q26.

GBP/USD declined by 0.4% in Sep to close at 1.3446, as investor sentiment turned cautious ahead of the UK's upcoming autumn budget announcement scheduled for 26 Nov. Market participants are increasingly focused on potential tax hikes spanning pensions, property, and income as Chancellor Rachel Reeves seeks to address the government's widening fiscal gap. Historically, UK budget-related volatility tends to be short-lived, particularly when broader macro drivers dominate.

Looking ahead, we maintain the view that Fed rate-cut expectations will reassert themselves as the primary driver of GBP/USD. As the Fed's easing cycle resumes, we anticipate a renewed upward trajectory for the pair, supported by modestly positive GBP-USD rate differentials. Our latest projections for GBP/USD are 1.37 in 4Q25, 1.39 in 1Q26, and 1.40 in both 2Q26 and 3Q26.

The divergence between USD/JPY and its corresponding 10-year yield differential persisted in Sep. The JPY softened amid heightened political and fiscal uncertainty tied to the LDP leadership race. In contrast, the rate spread dropped to its lowest level in three years as Japan's 10-year government bond yield climbed to 1.67% - its highest level since 2008 – amid growing concerns over Japan's fiscal expansion.

Right By You

Going forward, we expect USD/JPY to converge lower with the falling rate spread as Fed rate cut expectations drive another leg lower in US yields together with renewed USD weakness. At the same time, our forecast for a 25-bps Bank of Japan (BOJ) rate hike in 4Q25 could ignite demand for the JPY. This came after two board members proposed a rate hike at the Sep meeting and recent hawkish remarks by a usually dovish member (Noguchi) increased the likelihood of an Oct rate hike. We maintain our view of a gradual decline in USD/JPY, with forecasts at 144 in 4Q25, 142 in 1Q26, 140 in 2Q26 and 138 in 3Q26.

The AUD outperformed in the G10 space in Sep, gaining 1.1% against the USD to close at 0.6613. Support came from an increasingly less dovish RBA stance, with the central bank cautioning that 3Q25 inflation may surprise to the upside and signaling restraint on further easing at its 30 Sep meeting.

Similarly, our macroeconomic team now expect only two additional 25 bps rate cuts (down from three), bringing the cash rate to a terminal rate of 3.10% by end-1Q26. This adjustment strengthens our bullish outlook on AUD/USD. Our updated AUD/USD forecasts are 0.67 in 4Q25, 0.68 in 1Q26, 0.69 in 2Q26 and 0.70 in 3Q26. These are 100 pips higher than our previous projections as of 5 Sep.

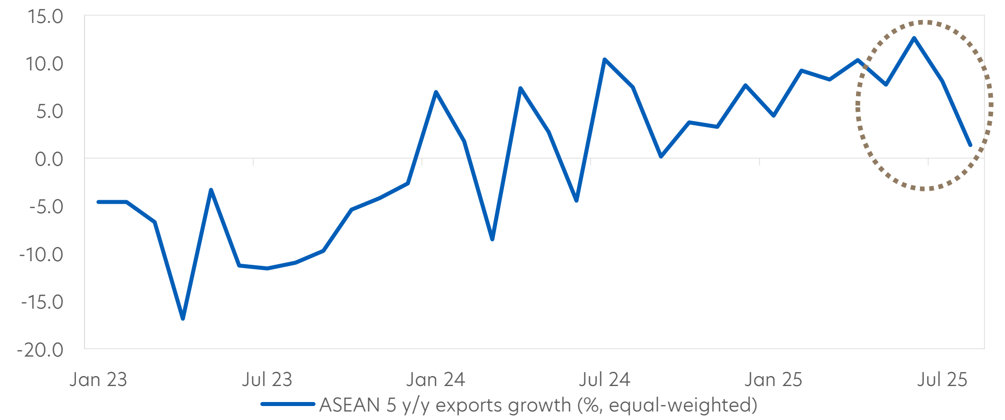
Asia FX Strategy

Trade tensions ease, but growth concerns temper USD/Asia downtrend

Asian currencies posted a mixed performance in Sep, ending the third quarter on a more cautious note. The overhang from renewed tariff risks prompted profit-taking after strong gains in Asian FX during the first half of the year. This shift in sentiment coincided with a notable pullback in regional exports, suggesting that the impact of tariffs is beginning to weigh on trade volumes, especially as earlier front-loading positive effects on growth fade..

Chart 6: Front-loading of exports has peaked in Jun and ASEAN exports growth is normalizing lower

Source: Bloomberg, UOB Global Economics & Markets Research



The implementation of sector-specific tariffs from 1 Oct – targeting products such as branded pharmaceuticals, heavy-duty trucks, and kitchen and bathroom cabinetry – has reignited concerns over trade fragmentation and potential supply chain disruptions.

Despite intermittent flare-ups in trade tensions, we believe the global trade war has likely peaked and is now on a path of gradual de-escalation. US Trade Representative Jamieson Greer recently described the current 55% tariff rate on Chinese imports as a "good status quo," while expressing interest in carving out areas for freer trade. The upcoming meeting between Presidents Trump and Xi on the sidelines of the APEC Summit in South Korea at end-Oct could provide a catalyst for trade negotiations, potentially paving the way for a broader agreement by year-end. Such progress would likely lend support to Asian currencies.

As trade tensions ease, market focus is shifting back toward monetary policy. Looking ahead, we expect broad-based USD weakness to reassert itself as the Fed resumes its rate-cutting cycle, guiding USD/Asia lower in the quarters ahead. That said, the pace of depreciation may be gradual, as Asia's subdued growth outlook and the dovish bias of regional central banks could temper investor enthusiasm for Asian FX.

CNY held steady in Sep, closing little changed at 7.12 /USD, with the PBOC maintaining a relatively firm stance through daily fixings set just above 7.10 throughout the month. Economic momentum in China moderated notably in 3Q25, as evidenced by Aug data showing a sharp deceleration in fixed asset investment, continued weakness in property prices, and a further rise in the unemployment rate. Despite the softer macro backdrop in the third quarter, we maintain our full-year 2025 GDP growth forecast at 4.9%, broadly in line with the government's target of "around 5%". This outlook is supported by a robust 5.3% y/y expansion in 1H25, which provides a solid buffer against recent headwinds.

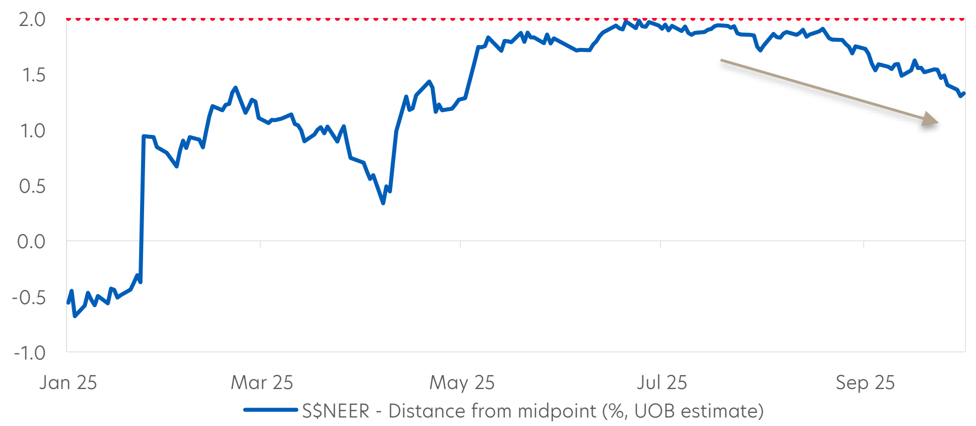
Looking ahead, we see further downside potential for USD/CNY, driven by expectations of a US-China trade agreement by end-2025 and continued USD weakness as the Fed cuts rates. However, the pace of decline may be limited by the PBOC's daily fixing rate, especially if concerns over China's growth persist and the central bank maintains its "moderately loose" monetary policy stance. Overall, our updated USD/CNY forecasts are at 7.11 in 4Q25, 7.08 in 1Q26, 7.05 in 2Q26 and 7.02 in 3Q26.

SGD weakened by 0.5% against the USD in Sep, closing at 1.29 /USD after paring back earlier gains that saw it briefly strengthening to 1.27 /USD. The move coincided with a stabilisation in the broader USD trajectory and was further underscored by a notable decline in the S$NEER, which fell from +1.7% to +1.3% above the midpoint over the month. This reinforces our view that the S$NEER likely peaked in Jun and has since entered a softening trajectory. In light of the recent resilience in Singapore's macroeconomic indicators, we have revised our policy outlook and now expect the Monetary Authority of Singapore (MAS) to delay any further easing - via a full flattening of the S$NEER slope – until the Jan 2026 MPS rather than the upcoming Oct 2025 MPS.

Given the prevailing easing bias and continued downward pressure on the S$NEER, we see scope for SGD underperformance relative to regional peers, even in an environment where the USD is expected to weaken further on the back of additional Fed rate cuts. Accordingly, our latest USD/SGD forecasts are 1.29 in 4Q25, 1.28 in 1Q26, and 1.27 in both 2Q26 and 3Q26.

Chart 7: De-facto easing in Singapore as the S$NEER peaked in Jun and has been trading lower since

Source: Macrobond, UOB Global Economics & Markets Research



USD/MYR traded in a subdued manner through Sep, with the pair confined to a narrow 4.1835 – 4.2352 trading range, the tightest monthly band since Jun 2024 amid a lack of fresh catalysts. The 4.20 level continued to act as a key support, with dips below this threshold consistently met by buying interest, mirroring the pattern observed over Jul and Aug. On the domestic front, Malaysia's macroeconomic fundamentals remain broadly resilient, underpinned by steady GDP growth, sustained foreign direct investment inflows, and a continued – albeit narrower – current account surplus.

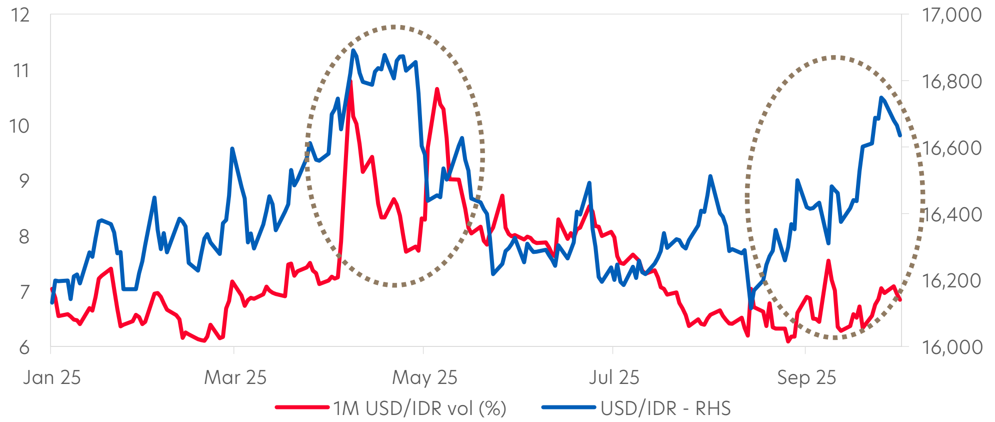
Against this constructive backdrop, we expect USD/MYR to resume its downward bias as the Fed cut rates further, likely contributing to broad-based USD softness. However, we anticipate the pace of MYR appreciation to be more measured. Overall, our USD/MYR forecasts are 4.20 in 4Q25, 4.17 in 1Q26, 4.15 in 2Q26, and 4.12 in 3Q26.

THB reversed early gains to end Sep broadly unchanged at 32.45/USD, following a brief rally to a four-year high of 31.58/USD. The Bank of Thailand (BOT) said it stepped into the market to curb excessive currency volatility, helping to spur a short-term reversal in the THB after its strong year-to-date gain. Sentiment was further dampened by Fitch Ratings' downgrade of Thailand's credit outlook to negative from stable, which added pressure to the currency.

Nonetheless, Thailand's ongoing current account surplus remains a key source of support amid elevated domestic uncertainty. Looking ahead, we expect USD/THB to continue its grind lower driven by renewed USD weakness as the Fed continues its rate-cutting cycle. However, our expectation of a cumulative 50 bps rate cut by BOT through 1Q26 may introduce two-way volatility in the pair. As such, our revised USD/THB forecasts are 32.1 for 4Q25, 31.9 for 1Q26, 31.7 for 2Q26 and 31.5 in 3Q26.

Chart 8: Implied volatility of USD/IDR stays subdued despite spot levels nearing Apr's Liberation Day's levels

Source: Bloomberg, UOB Global Economics & Markets Research



IDR remained under pressure in Sep, declining 1.1% to 16,665 /USD, following Bank Indonesia's (BI) unexpected 25-bps rate cut aimed at supporting domestic growth, and rising concerns over fiscal outlook amidst the focus on growth. The IDR was among the weakest performers in Asia, with sentiment further weighed by bond outflows totaling USD 2.2 bn – the largest monthly withdrawal since Mar 2022.

In the near term, headwinds are likely to persist for the IDR, although anticipated broad-based USD weakness driven by further Fed rate cuts may help partly cushion downside risks. BI's clear commitment to maintaining currency stability should also help limit volatility. Given recent developments, we retain a cautious stance on the IDR and revise our USD/IDR forecasts to 16,600 in 4Q25, 16,500 in 1Q26 and 16,400 in both 2Q26 and 3Q26.

VND remained close to its record low of 26,436/USD reached in Aug, as the State Bank of Vietnam (SBV) continued to guide the currency weaker through its daily fixings. Given the limited correlation between USD/VND and the broader DXY, we expect the VND to lag regional peers in benefiting from renewed USD softness, which is likely to emerge as the Fed proceeds with further rate cuts. Overall, we maintain a cautious outlook on the VND and revise our USD/VND forecasts to 26,400 in 4Q25, 26,300 in 1Q26, 26,200 in 2Q26 and 26,100 in 3Q26.

Rates Strategy

A New Phase of Divergence as Fed resumes rate cuts

US Rates: One cut done, two more to follow in 2025: Fed's easing path unfolds

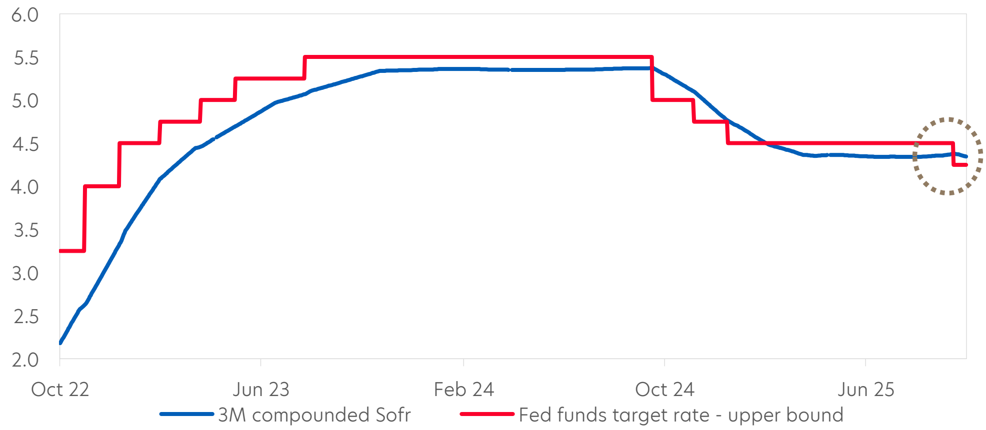
The Fed formally commenced the next phase of its monetary easing cycle at the Sep FOMC meeting, delivering a 25-bps reduction in the Fed Funds Target Rate (FFTR) to a range of 4.00%-4.25%. The decision was passed with an 11-1 vote, with newly appointed Governor Stephen Miran dissenting in favor of a more aggressive 50-bps cut.

During the post-meeting press conference, Chair Powell struck a dovish tone initially, acknowledging labor market softness by noting that the "jobs market was no longer very solid." However, the tone shifted as Powell characterized the rate cut as a "risk-management" move, reinforcing the Fed's data-dependent stance going forward.

We maintain our base case for two additional 25-bps rate cuts by year-end, likely at the Oct and Dec FOMC meetings. This projection aligns with the Fed's latest dot plot, which also signals two more cuts in 2025. After the unexpected contraction in Sep's private payrolls, the swap market has now fully priced in a 25-bps rate cut in Oct and about 47 bps of cumulative easing by year-end. Moreover, the ongoing US government shutdown, particularly if prolonged, adds downside risk to growth outlook and the job market and consequently strengthens the case for further monetary accommodation.

Chart 9: The Sofr is due to resume its downward trajectory as the Fed embarks on its next phase of rate cuts

Source: Bloomberg, UOB Global Economics & Markets Research



As the Fed rate cuts unfold, we expect the 3-month compounded in arrears Sofr to resume its downward trajectory. Our updated forecasts for 3M compounded Sofr are 3.83% in 4Q25, 3.75% in 1Q26, 3.54% in 2Q26 and 3.30% in 3Q26. Prevailing overnight Sofr is about 4.35%.

The key risk to our projected Fed rate-cut path remains the potential for tariff-driven price pressures to trigger a more persistent shift in inflation dynamics and expectations. Barring a sharp and sustained rise in inflation, the Fed will likely feel compelled to balance both sides of its dual mandate, with increasing emphasis on the weakening labour market. As such, the likelihood of the Fed reverting to a wait-and-see approach immediately after restarting rate cuts appears contained for now.

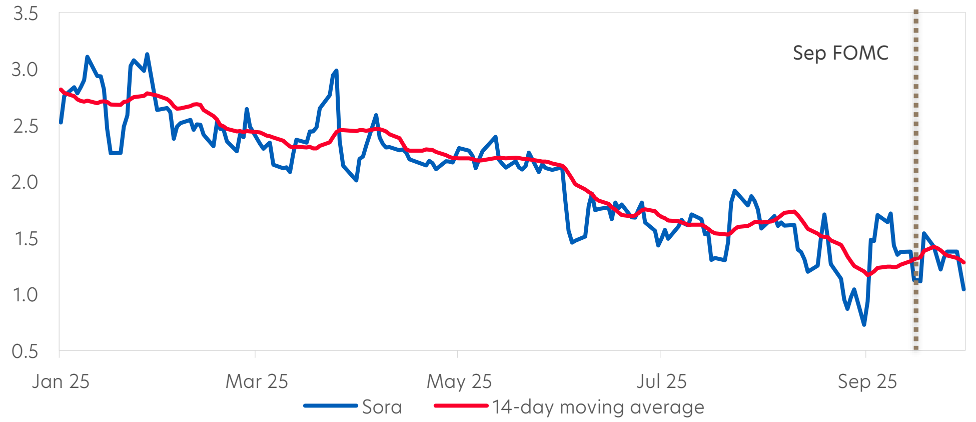
In the US Treasuries (UST) market, we see scope for further bull steepening of the yield curve as rate cuts come into clearer focus. We still expect further steepening of the 2s10s curve – from 60 bps currently to 80 bps by 3Q26. This means back-end (10Y) yields will not come down as much compared to the front-end (2Y) in respond to Fed easing. Our updated 10Y UST yield forecasts are at 4.10% in 4Q25, 4.00% in 1Q26, 4.00% in 2Q26 and 4.10% in 3Q26. Prevailing 10Y UST yield is about 4.09%.

SG Rates: Shallow ripples: Fed rate cuts and the Sora response

The immediate impact of the Fed's Sep rate cut on Sora has been muted, consistent with our earlier expectations. As previously highlighted, much of the transmission from Fed rate cut expectations to domestic rates appears to have been front-loaded. This is evidenced by the record divergence between overnight Sora and Sofr, which widened to approximately 360 bps in early Sep.

Chart 10: Limited immediate transmission from Fed rate cut to Sora

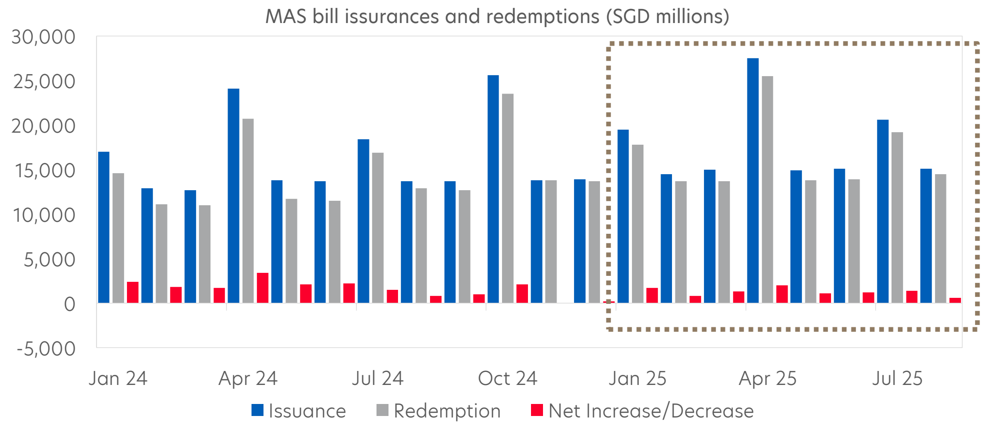
Source: Bloomberg, UOB Global Economics & Markets Research



Nonetheless, we anticipate some residual transmission to Sora in the coming months, particularly as we continue to expect an additional 50 bps of Fed rate cuts by year-end. Domestic liquidity conditions also remain supportive of lower Sora levels. Notably, the Monetary Authority of Singapore (MAS) has not significantly increased net bill issuance to absorb excess liquidity. Year-to-date MAS bill issuance remains broadly in line with last year's levels, suggesting a preference to maintain accommodative conditions.

Chart 11: Net MAS bill issuances have not gone up this year to absorb the excess liquidity

Source: Bloomberg, UOB Global Economics & Markets Research



While the bias for Sora remains lower, several factors may limit the extent of its decline. The S$NEER premium moderated further in Sep, falling from +1.7% to +1.3% above the midpoint. As SGD strength fades, the wide SG-US rate differential is likely to narrow, providing a firmer base for Sora.

Moreover, it is important to contextualize current rates levels. The near-zero Sora observed during 2020-2021 was a function of emergency pandemic-era monetary policy. With no recession expected in either the US or Singapore through 2025-2026, and a projected terminal Fed Funds Rate of 3.25% by 2026, a return to crisis-era near zero Sora levels is unlikely.

Overall, we continue to expect a gradual decline in Sora in line with the Fed's easing trajectory. Accordingly, our updated forecast for 3M compounded Sora is 1.23% in 4Q25, 1.22% in 1Q26, 1.20% in 2Q26 and 1.25% in 3Q26. Prevailing 3M compounded in arrears Sora is about 1.45%.

Similar to short-dated SGD risk-free rates, the yield discount of Singapore Government Securities (SGS) relative to UST has widened significantly this year, reaching a record 246 bps in Aug. This reflects the safe-haven status of SGS amid global uncertainty. However, as the S$NEER continues to soften, we expect this extreme one-way flow to recalibrate, leading to a gradual narrowing of the SGS-UST spread. Our updated forecast for 10Y SGS is 1.90% in 4Q25, 1.85% in 1Q26, 2.10% in 2Q26 and 2.30% in 3Q26. The prevailing 10Y SGS yield is about 1.91%.

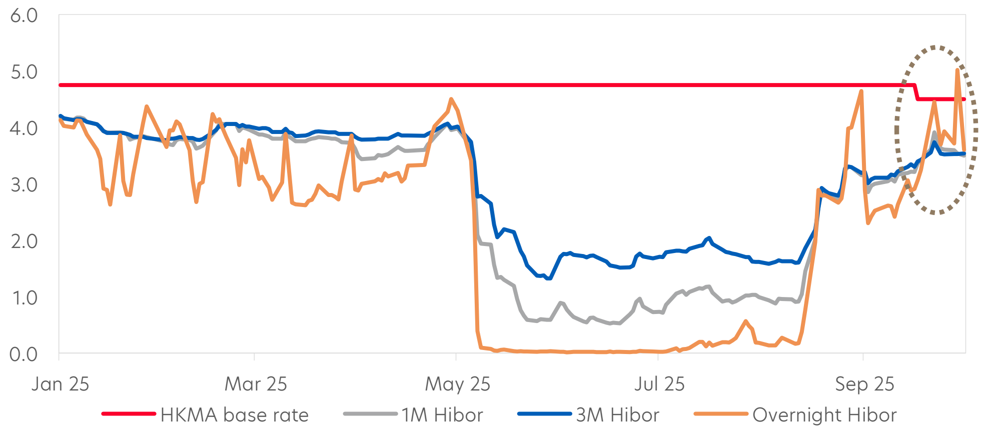
DM and Asian Rates: Hibor resilience, BI surprise cut, and BOJ tightening bias

Hibor rates in Hong Kong continued to firm for a second consecutive month in Sep and held above the 3% handle. This occurred despite the HKMA's aggregate balance remaining largely unchanged at HKD 54 bn throughout the month. Notably, the overnight Hibor rate intermittently traded above the 1M and 3M tenors – an inversion that is unlikely to persist and is expected to normalize, with overnight rates reverting to a discount relative to longer tenors.

Looking ahead, with the Fed expected to continue its rate-cutting cycle, the HK Base Rate – tied to the Fed Funds Target Rate – is likely to decline in tandem. This should exert renewed downward pressure on Hibor. Moreover, persistently elevated Hibor levels could weigh on Hong Kong's fragile economic recovery, a scenario policymakers may seek to mitigate. With the aggregate balance already near multi-year lows, the scope for further liquidity withdrawal appears limited. Overall, our updated forecast for 3M Hibor is 2.90% in 4Q25, 2.85% in 1Q26, 2.70% in 2Q26 and 2.80% in 3Q26.

Chart 12: Overnight Hibor unlikely to stay above 1M and 3M Hibor on a sustained basis

Source: Bloomberg, UOB Global Economics & Markets Research

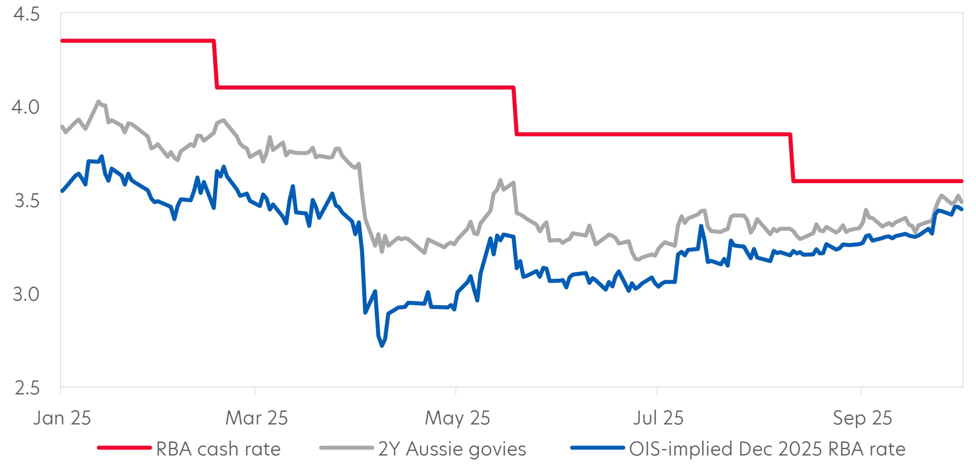


Bank Indonesia (BI) surprised markets yet again by cutting its benchmark 7-day reverse repo rate by 25 bps to 4.75% in Sep, citing "all hands-on monetary deck" to support domestic economic growth amid rising risks of a global slowdown. With BI maintaining a clear easing bias, we now expect an additional 25 bps cut in 4Q25, followed by another 25-bps reduction in 1Q26, bringing the policy rate to 4.25%, where we expect it to remain through 2026. In line with this more accommodative stance, we have revised our forecasts for Jibor and Indonesian government bond yields lower, reflecting the anticipated easing trajectory and supportive domestic policy environment.

The Central Bank of the Republic of China (Taiwan) (CBC) kept its policy rate unchanged at 2.00% in Sep for a sixth straight quarter. While inflation has moderated below the 1.5% threshold that could justify easing, stronger-than-expected GDP growth in 2Q25 (+8.01% y/y) has delayed the start of the rate-cutting cycle. Nonetheless, with growth expected to moderate in 2026 and external risks persisting, we maintain our forecast for the CBC to initiate rate cuts in 1Q26, starting with a 12.5 bps reduction to 1.875%. We now also factor in an additional 12.5 bps cut in 2Q26, bringing the policy rate to 1.75%.

Chart 13: The Australian bond and swap markets have pared their expectations of further RBA rate cuts

Source: Bloomberg, UOB Global Economics & Markets Research



In developed markets, the notable mention was a visibly hawkish Reserve Bank of Australia (RBA) tone adopted at its 30 Sep meeting, with the central bank cautioning that 3Q25 inflation may surprise to the upside and signaling restraint on further easing. In our 4Q25 quarterly report published 5 Sep, our macroeconomic team have updated our RBA view and now expect only two additional 25 bps rate cuts (down from three), bringing the cash rate to a terminal rate of 3.10% by end-1Q26. This adjustment will translate into an upward revision to our AUD bill and swap rate projections.

The Bank of Japan (BOJ) surprised markets at its Sep Monetary Policy Meeting (MPM) on two fronts. While the policy rate was left unchanged at 0.50% as expected, two board members dissented in favor of a 25-bps hike – Governor Ueda's first recorded dissent since taking office. Additionally, the BOJ announced plans to begin unwinding its ETF and J-REIT holdings, though no timeline was provided. Looking ahead, we continue to expect the BOJ to proceed with policy normalization, projecting a 25-bps rate hike to 0.75% in Dec, followed by a final increase to 1.00% much later in 3Q26. This tightening bias is likely to keep upward pressure on Japanese interest rates, with 3M Tibor projected to rise to 1.0% from the current 0.82% by end-2025, and 10Y JGB yields likely to continue their gradual ascent.

Commodities Strategy

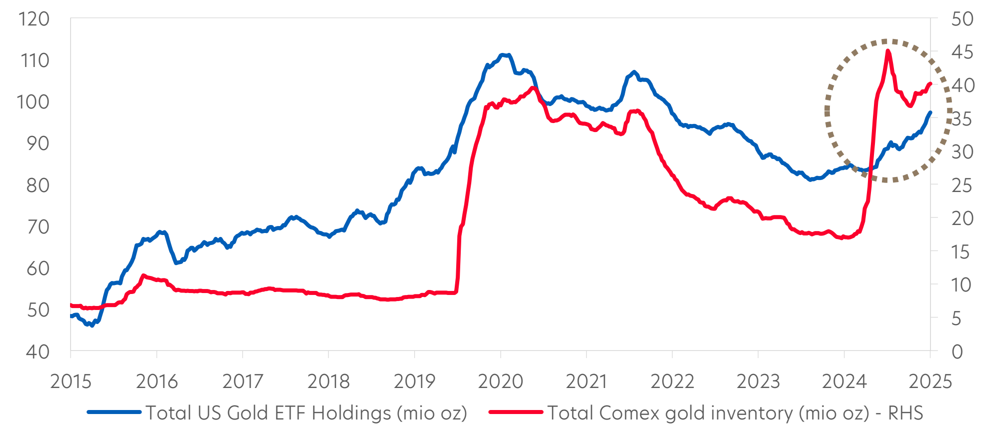
Gold: USD 4,000 / oz and above beckons as retail investment interest intensifies

In our previous Quarterly Global Outlook 4Q2025, published just a month ago on 05 Sep 2025, "we reiterate our positive long term view for gold in light of the reinforcement of key long term positive drivers and the strong technical breakout". Back then prevailing spot rate for gold was USD 3,550 / oz and we raised our positive forecast to "USD 3,700 / oz for 4Q25, USD 3,800 / oz for 1Q26, USD 3,900 / oz for 2Q26 and USD 4,000 / oz for 3Q26".

Over the past month, gold has continued its powerful and unprecedented rally, jumping to above USD 3,800 / oz, effectively surpassing our forecast for 1Q26. In particular, what has been remarkable about the rally over the past month is the surge in global retail investment demand in gold. This should come as no surprise amidst increasing safe haven demand following intensifying budget and fiscal crisis across France, UK and now the US. There is also increasing global investor worries over de-dollarization or debasement of the USD, leading to a need to diversify and allocate into USD alternatives, of which gold is one key candidate.

Chart 14: US investors load up more gold ETFs

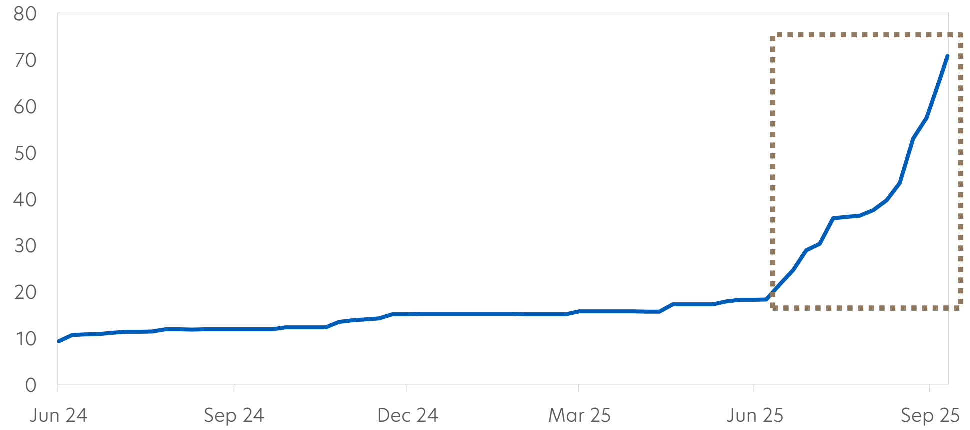
Source: Bloomberg, UOB Global Economics & Markets Research



US investors are clearly back embracing gold backed ETFS, leading to a jump in total related AUM of about 100 mio troy oz. Across other geographies like in Japan, we have also witnessed a jump in retail interest in gold backed ETFs and other investment products as well. In China, the sharp jump in gold interest on the Shanghai Futures Exchange (SHFE) has got the market's attention. Across Q3 alone, the amount of on-warrant gold inventory on the SHFE has skyrocketed from about 20 tons in Jun to current level of above 70 tons.

Chart 15: SHFE on warrant gold stock continues to sky rocket

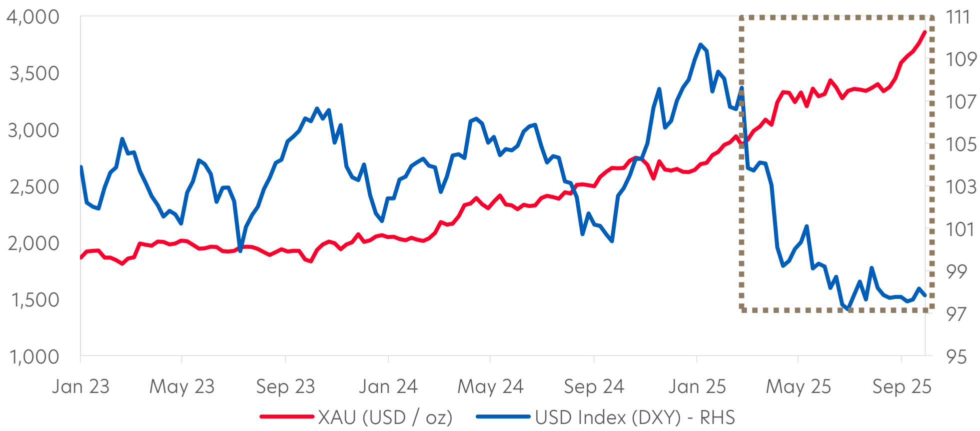
Source: Bloomberg, UOB Global Economics & Markets Research



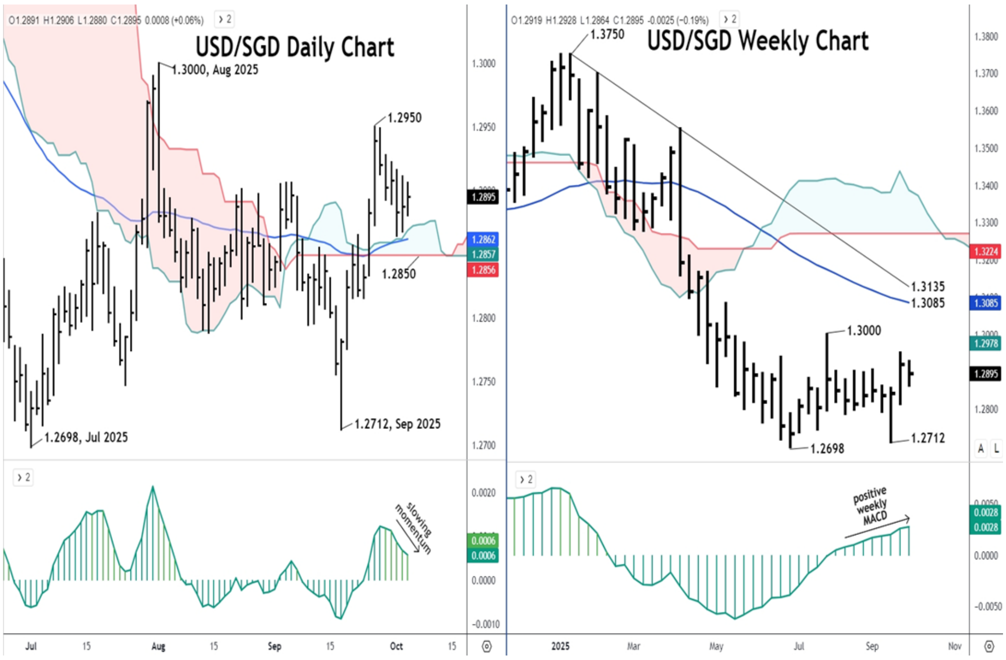
Overall, all the key long-term positive drivers, especially that of further USD weakness and on-going strong allocation into gold from central banks remain strongly in place. Coupled with the abovementioned surge in retail investment interest in gold, we maintain our positive outlook in gold and raise forecast further beyond USD 4,000 / oz across 2026. Our updated forecast now see gold at USD 3,900 / oz for 4Q25, USD 4,000 / oz for 1Q26, USD 4,100 / oz for 2Q26 and USD 4,200 / oz for 3Q26.

Chart 16: Pronounced USD weakness this year is positive for gold

Source: Bloomberg, UOB Global Economics & Markets Research



USD/SGD: 1.2895
Downtrend from January this year appears to be attempting to form base; USD/SGD must break clearly above 1.3000 before a move toward the significant resistance zone of 1.3085/1.3135 can be expected.



Source: LSEG Workspace, UOB Global Economics & Markets Research

USD/SGD fell and tested the 1.2700 level (low was 1.2698) in early July. After failing to break clearly below 1.2700, USD/SGD rebounded strongly to test the major resistance at 1.3000 in early August. USD/SGD failed to break above 1.3000 as well. USD/SGD then retreated toward 1.2700 again, reaching a low of 1.2712 in mid-September before rebounding strongly. However, upward momentum has since slowed, as USD/SGD eased off from 1.2950. Overall, the price action over the past few months highlights the significance of the 1.2700 and 1.3000 levels in the near term.

Looking at the weekly chart, the downtrend from the early-January high of 1.3750 appears to be attempting to form a base. Note that the weekly MACD remains in positive territory since early August. That said, USD/SGD must break clearly above 1.3000 before a move toward the significant resistance zone between 1.3085 (55-week EMA) and 1.3135 (descending weekly trendline) can be expected. Meanwhile, USD/SGD could continue to trade between 1.2700 and 1.3000 for a while more.

FX, INTEREST RATES & COMMODITIES

Forecasts

FX	06 Oct	4Q25F	1Q26F	2Q26F	3Q26F
USD/JPY	150	144	142	140	138
EUR/USD	1.17	1.19	1.20	1.21	1.22
GBP/USD	1.34	1.37	1.39	1.40	1.40
AUD/USD*	0.66	0.67	0.68	0.69	0.70
NZD/USD	0.58	0.59	0.60	0.61	0.61
DXY*	98.1	96.2	95.3	94.5	93.8
USD/CNY	7.12	7.11	7.08	7.05	7.02
USD/HKD	7.78	7.80	7.80	7.80	7.80
USD/TWD*	30.4	30.2	30.0	29.7	29.5
USD/KRW*	1,406	1,390	1,370	1,360	1,340
USD/PHP*	57.9	57.6	57.2	56.8	56.5
USD/MYR	4.22	4.20	4.17	4.15	4.12
USD/IDR*	16,540	16,600	16,500	16,400	16,400
USD/THB	32.4	32.1	31.9	31.7	31.5
USD/VND*	26,381	26,400	26,300	26,200	26,100
USD/INR	88.8	88.2	87.8	87.4	87.0
USD/SGD	1.29	1.29	1.28	1.27	1.27
EUR/SGD	1.51	1.54	1.54	1.54	1.55
GBP/SGD	1.74	1.77	1.78	1.78	1.78
AUD/SGD*	0.85	0.86	0.87	0.88	0.89
SGD/MYR	3.26	3.26	3.26	3.27	3.24
SGD/CNY	5.52	5.51	5.53	5.55	5.53
JPY/SGDx100	0.86	0.90	0.90	0.91	0.92

POLICY RATES	06 Oct	4Q25F	1Q26F	2Q26F	3Q26F
US Fed Funds Rate	4.25	3.75	3.75	3.50	3.25
JPY Policy Rate	0.50	0.75	0.75	0.75	1.00
EUR Refinancing Rate*	2.15	1.90	1.90	1.90	1.90
GBP Repo Rate	4.00	3.75	3.50	3.25	3.00
AUD Official Cash Rate	3.60	3.35	3.10	3.10	3.10
NZD Official Cash Rate	3.00	2.75	2.50	2.50	2.50
CNY 1Y Loan Prime Rate	3.00	2.90	2.90	2.90	2.90
HKD Base Rate	4.50	4.00	4.00	3.75	3.50
TWD Official Discount Rate*	2.00	2.00	1.88	1.75	1.75
KRW Base Rate	2.50	2.25	2.00	2.00	2.00
PHP O/N Reverse Repo	5.00	4.75	4.75	4.75	4.75
MYR O/N Policy Rate	2.75	2.50	2.50	2.50	2.50
IDR 7D Reverse Repo*	4.75	4.50	4.25	4.25	4.25
THB 1D Repo	1.50	1.25	1.00	1.00	1.00
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	5.50	5.50	5.50	5.50	5.50

INTEREST RATES	06 Oct	4Q25F	1Q26F	2Q26F	3Q26F
USD 3M SOFR (compounded)*	4.34	3.83	3.75	3.54	3.30
SGD 3M SORA (compounded)*	1.44	1.23	1.22	1.20	1.25
10Y US Treasuries Yield	4.14	4.10	4.00	4.00	4.10
SGD 10Y SGS*	1.91	1.90	1.85	2.10	2.30

COMMODITIES	06 Oct	4Q25F	1Q26F	2Q26F	3Q26F
Gold (USD/oz)*	3,902	3,900	4,000	4,100	4,200
Brent Crude Oil (USD/bbl)	65	70	65	60	60
Copper (USD/mt)	10,716	10,000	9,500	9,000	9,000

Updated as of 06 Oct 2025
* Forecasts updated as compared to previous report dated 05 Sep 2025
Source for spot rates: Bloomberg

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