NOMURA

Asia Special Report

Global Markets Research
2 June 2025

Asia H2 outlook: A controlled descent

Gliding lower, but avoiding a crash. We present key macro themes, our high-conviction, out-of-consensus calls and top trade recommendations.

- **Economics**: We expect below-trend growth and below-target inflation, due to payback after export frontloading, weak capex and the China shock. That said, the region should glide-not-dive, due to stronger fundamentals. We see India, Taiwan and Malaysia as the leaders, and Thailand and Indonesia as the laggards.
- **High-conviction, out-of-consensus calls:** A notable China slowdown in H2, BOJ not hiking rates until 2026, higher terminal rate in Korea, resilient AI-driven growth in Taiwan, deeper rate cuts in India, entrenched deflation in Thailand and BNM on hold.
- **FX & rates strategy:** Into H2, we hold a short USD view, with our high-convictions trades in short USD/TWD and short USD/KRW. We also hold high convictions in short CNH against EUR, AUD and KRW (equally weighted basket). On rates, we recommend pay Korea Jun-IMM 5Y NDIRS and long India 5Y IGB.
- **Equity strategy**: Uncertainty remains elevated, and stocks will likely be choppy. With limited upside potential at MSCI AeJ level, we recommend investors focus on stock selection. Overweight: India, China. Neutral: Korea. Underweight: Taiwan. In Japan, our target for TOPIX is 2850 for end-2025 and 3000 for end-2026.

Research Analysts

Asia Economics

Sonal Varma - NSL

Ting Lu - NIHK

Euben Paracuelles - NSL

Charnon Boonnuch - NSL

Aurodeep Nandi - NFASL

Jeong Woo Park - NSL

Japan Economics

Kyohei Morita - NSC

Asia FX Strategy

Craig Chan - NSL

Wee Choon Teo - NSL

Albert Leung - NIHK

Andrew Ticehurst - NAL

Nathan Sribalasundaram - NSL

Asia ex-Japan Equity Strategy

Chetan Seth, CFA - NSL

Macro strategy

Tomochika Kitaoka - NSC

Production Complete: 2025-06-01 23:01 UTC

Fig. 1: A controlled descent

Asia in H2 2025

A CONTROLLED DESCENT

Key macro themes

1. **Below-trend growth, below-target inflation**
2. **Trade negotiation frontrunners:** India, Korea, Taiwan
3. **Payback after US frontloading, China trade-in program:** Weak exports, weak China
4. **The AI theme rides on:** Overweight semi/AI stocks in China, Korea, Taiwan
5. **China's overcapacity:** Disinflation in Asia, deflation in Thailand
6. **North Asia currency appreciation:** Korea, Taiwan, Japan
7. **More accommodative monetary policy:** India, Thailand, Philippines
8. **Fiscal policy to step up:** Korea, Singapore, Thailand, Japan, China

	High-conviction, out-of-consensus calls	Top trade recommendations:
China	Slower growth in H2, ramp-up in policy support	Short CNH vs. EUR, AUD, KRW (equal-weighted)
Taiwan	Resilient AI-driven demand, above-consensus growth	Short USD/TWD
Korea	Risk of a higher terminal rate amid rising housing prices	Short USD/KRW Pay Korea June-IMM 5Y NDIRS
India	100bp more in policy easing on the cards	Long India 5Y IGB Short INR vs EUR Overweight India equities
Japan	Extended hold in H2 2025, hike only in January 2026	Bullish on JPY
Thailand	More entrenched deflation, additional 75bp in cuts	THB underperformance

NOMURA

Contents

Executive summary

Economics: On a descending glide path

Asian economies have been whipsawed by Trump tariffs, but frontloading has boosted exports. In H2 2025, we expect a period of below-trend growth and below-target inflation, due to payback after export frontloading and China's trade-in program, and disinflation from China's overcapacity. In contrast to past export downturns, Asian currencies are unlikely to be the shock absorber, which means more monetary policy easing, and a step-up in fiscal easing in North Asia. Despite our forecast for sub-par growth, we expect economies to glide, not dive, on stronger fundamentals, low inflation, accommodative policies and support from AI demand. Uncertainty remains high, but we see ample opportunities across the region. We see India, Taiwan and Malaysia as the leaders, and Thailand and Indonesia as the laggards in the region.

Our high-conviction/out-of-consensus calls

- **China**: We expect GDP growth to slow by a notable ~1.0pp from H1 to 4.0% y-o-y in H2, which might prompt Beijing to ramp up policy support again.
- **India**: Below-trend growth and below-target inflation suggest a lower terminal repo rate of 5.0% (Consensus: 5.5%).
- **Japan**: A recession is unlikely, but the BOJ's rate hike will likely be delayed to January 2026 to entrench a wage-inflation cycle (Consensus: one more hike in 2025).
- **Taiwan**: We are above consensus on growth (Nomura: 3.4%, Consensus: 2.9%), as sustained AI-led demand should partly offset headwinds to export growth.
- **Korea**: Amid rising housing prices, we expect a slower pace of rate cuts, with a pause in Q3 and only one 25bp cut in Q4 (Consensus: 50bp in H2).
- **Thailand**: We see a risk of deflation becoming entrenched, CPI inflation at -0.3% in 2025 (Consensus: 0.7%) and 75bp of additional cuts (market pricing: 44bp).
- **Indonesia**: We forecast a wider 2025 fiscal deficit of 2.9% of GDP (Consensus: 2.7%), and another 50bp of BI rate cuts to 5.0% (Consensus: 5.25%).
- **Malaysia**: Robust domestic demand should support 2025 GDP growth at 4.4% (Consensus: 4.0%), with BNM leaving policy rates at 3% (market pricing: 37.5bp cut)
- **Philippines**: We forecast below-consensus GDP growth, inflation at 1.8% (target: 2-4%) and another 75bp of BSP rate cuts to a below-neutral 4.75% (Consensus: 5.0%).
- **Singapore**: We forecast 2025 core inflation at 0.7% (MAS: 0.5-1.5%; Consensus: 1.5%) and a small fiscal deficit of 0.1% of GDP in FY25 (Budget: 0.9% surplus).

FX and rates strategy: Trade recommendations

Fading US exceptionalism is ongoing, and we expect it to continue through H2 2025. We believe the implications of US fiscal and current account concerns, *asset re-allocation* /FX hedging, USD *overvaluation* and uncertainty from Trump's tariff/non-tariff policies all support a further softening of USD and poses some risk of *higher* long-end US yields. The combination of trade deals in Asia that could encompass *appreciation* of undervalued currencies, potential repatriation of foreign investments and FX hedging support our higher-conviction views of short USD/KRW and short USD/TWD. We also hold higher-conviction views in short CNH against a basket of EUR, AUD and KRW (equally weighted) on the risk of an H2 slowdown in China, the US's targeting of China and relatively strong onshore FX demand. In Asia rates, we expect the front end to push lower, as the softer USD theme and a likely peak in China-US trade tensions will likely prompt central bank easing. However, long-end Asia rates could come under some pressure from US rates and in some countries facing higher fiscal deficits. Our key high-conviction trades include pay Korea Jun-IMM 5Y NDIRS and long India 5Y IGB.

Equity strategy: Expect choppy markets through the summer

We expect choppy equity markets, as several risk events are on the calendar. Our year-end target for MSCI AeJ index implies limited upside potential, and we thus recommend a focus on stock selection instead. We think the worst outcome for stocks has likely been avoided, and thus investors should also avoid excessive pessimism, as there remains the likelihood of a backpedaling on policies that prove to be highly disruptive. Overweight: India, China. Neutral: Korea. Underweight: Taiwan. In Japan, our top-down forecasts put FY25 TOPIX EPS down 3%, but we expect earnings to normalize from FY26. Our target for TOPIX is 2850 for December 2025 and 3000 for December 2026.

Research Analysts

Asia Economics

Sonal Varma - NSL
sonal.varma@nomura.com

Ting Lu - NIHK
ting.lu@nomura.com

Euben Paracuelles - NSL
euben.paracuelles@nomura.com

Charnon Boonnuch - NSL
charnon.boonnuch@nomura.com

Aurodeep Nandi - NFASL
aurodeep.nandi@nomura.com

Andrew Ticehurst - NAL
andrew.ticehurst@nomura.com

Jeong Woo Park - NSL
jeongwoo.park@nomura.com

Jing Wang - NIHK
jing.wang@nomura.com

Harrington Zhang - NIHK
harrington.zhang@nomura.com

Nabila Amani - NSL
nabila.amani@nomura.com

Hannah Liu - NIHK
hannah.liu@nomura.com

Si Ying Toh - NSL
siying.toh@nomura.com

Yiru Chen - NSL
yiru.chen1@nomura.com

Japan Economics

Kyohei Morita - NSC
kyohei.morita@nomura.com

Asia FX Strategy

Craig Chan - NSL
craig.chan@nomura.com

Wee Choon Teo - NSL
weechoon.teo@nomura.com

Vicky Chen - NSL
vicky.chen1@nomura.com

Japan FX Strategy

Yujiro Goto - NSC
yujiro.goto@nomura.com

Yusuke Miyairi, CFA - NIplc
yusuke.miyairi@nomura.com

Asia Rates Strategy

Albert Leung - NIHK
albert.leung1@nomura.com

Nathan Sribalasundaram - NSL
nathan.sribalasundaram@nomura.com

Clair Gao, CFA - NIHK
clair.gao@nomura.com

Asia ex-Japan Equity Strategy

Chetan Seth, CFA - NSL
chetan.seth1@nomura.com

Macro strategy

Tomochika Kitaoka - NSC
tomochika.kitaoka@nomura.com

Asia: On a descending glide path

We expect below-trend growth and below-target inflation to usher in more monetary policy easing than consensus. Fiscal policy will also be on tap, especially for North Asia.

Research Analysts

Asia Economics

Sonal Varma - NSL
sonal.varma@nomura.com
+65 6433 6527

Si Ying Toh - NSL
siying.toh@nomura.com
+65 6433 6666

Below-trend growth, below-target inflation

In H1 2025, Asian economies have been whipsawed by Trump tariffs; growth and inflation have moderated, even as export frontloading has provided some offset. Our 2025 outlook title '*Navigating the rapids*' appears accurate so far. In H2 2025, we expect the economic impact of US tariffs (negative demand shock) and China overcapacity (positive supply shock) to materialize, resulting in below-trend GDP growth and below-target inflation.

On growth, a sharper decline in export growth is likely, due to the *end of US frontloading*, a moderation in US consumer demand and a weaker China. Uncertainty and weak exports will likely delay fixed investments, while softening labour markets will ease consumer demand. That said, we do not expect a recession in Asia, just below-trend growth, due to stronger fundamentals, low inflation, accommodative policies and support from AI demand.

Unlike the US, where we expect *higher inflation*, disinflationary forces are likely to permeate across Asia, and unlike past export downturns, this is likely to be compounded by Asian currency strength against USD. This means Asian central banks will likely continue to decouple from the Fed and deliver more policy easing, with fiscal easing also likely to be stepped up in North Asia. With multiple crosscurrents at play, we see ample opportunities across the region and the following as the key investment themes.

Top themes for Asia

Trade deals and tariffs: The immediate focus is the 9 July deadline on reciprocal tariffs for Asia and 12 August for China. Negotiations between the US and Asian countries are progressing at varying speeds, given the complexity of issues at hand. In our view, India is ahead of the pack and should seal an early deal, while negotiations with Japan, Korea and Taiwan are also progressing well. Transshipment is a thorny issue for ASEAN, which some but not all economies will manage to address. For China, our US economics team expects the *current 30% tariff* to stay, but we note that the effective US tariff rate on *China* remains high at ~42%. This means that a tariff arbitrage between countries and more trade diversion will continue: we expect India, Vietnam and Malaysia to benefit. Finally, sectoral tariffs on *semiconductors and electronics* are pending, which could have a more detrimental impact on the region.

Double payback: We expect payback from both US frontloading and China's consumer trade-in program in H2. US imports have skyrocketed so far in 2025, benefiting Asian economies across tech and consumer products. This should sustain into Q2, but the trouble with frontloading is the aftereffects. Our US economics team expects US real import growth to plunge from an annualized rate of 42.6% in Q1 2025 to -35% in Q2, -16% in Q3 and -5.0% in Q4. We also expect a notable slowdown in China's retail sales growth from an estimated 4.2% y-o-y in Q2 to 2.9% in Q4, as the one-off boost from subsidies fades. Both will weigh on Asian growth.

The AI theme continues: We expect the strength in AI demand to sustain, due to rapid demand for AI infrastructure, commercialization of GenAI and strategic competition between countries to dominate the AI race. Despite the tariff uncertainty, capex spending by US cloud service providers has remained strong, as they seek to maintain their competitive edge. We expect a significant ramp-up of Blackwell GB200 shipments through Q3, followed by a roll-out of GB300 racks sometime in H2. Tariffs on semiconductors and tech restrictions are a risk, but Taiwan should continue to benefit from its dominance in high-end chips and the price inelasticity of US demand for AI chips.

China shock: Even before Trump tariffs, Asian economies have suffered from *China's overcapacity* and its impact on local manufacturing production (lower) and inflation (lower). Given still-high US tariffs on China and weak China demand, we expect this China shock to accelerate in coming months, in the form of more dumping and rerouting of Chinese exports via third countries. Already, Asia's imports from China are up over 16% y-o-y in March and April, a significant step up from the 7.6% gain in 2024. More Asian economies are likely to implement safeguard duties against Chinese imports and stricter enforcement of rules of origin to prevent transshipment. However, such rules are typically porous, and some ASEAN economies will be hard-pressed to choose between US and China. Deflation is likely. We expect PPI deflation in China for the third year in a row and see Thailand as the most exposed to the China shock.

Currency appreciation: Currency policy appears to be a component of the US trade negotiations with several Asian countries. Additionally, our *FX strategy* team expects the theme of a softer USD (stronger Asia FX) to be supported by a more challenging US macro outlook (stagflation, policy uncertainty and fiscal risks), a gradual shift in allocations away from US assets and an overvalued USD. They expect FX appreciation to be most visible in Northeast Asia, namely JPY (6.3% between 30 May and end-2025), TWD (5.4%), and KRW (5.8%), with some spillover on the rest of the region as well. In past cycles, local currency weakness served as an important shock absorber during periods where exports were weak, but this cushion may not be available this time.

Below-target inflation: Disinflationary pressures are likely to be reinforced across the region, due to a negative output gap, slowing wage growth, lower oil prices, forecasts of ENSO-neutral conditions (favourable for food disinflation), China dumping and local currency appreciation. We forecast continued deflationary pressures in Thailand and China and below-target inflation in India, Indonesia and the Philippines. We also expect core inflation in Singapore to surprise at the lower end of the MAS forecast range.

Accommodative monetary policy: Emerging growth risks, below-target inflation and currency appreciation set the stage for further rate cuts in Asia, despite the Fed holding rates steady. Between June and December, we expect additional rate cuts worth 100bp in India, 75bp in each of the Philippines and Thailand, 50bp in each of Australia and Indonesia, and 25bp in Korea. We are more dovish than consensus on India, the Philippines, Thailand and Indonesia. We also expect the BOJ to be slow to normalize – an extended pause in H2 2025 and a final 25bp hike in January 2026 – due to the economic slowdown induced by Trump tariffs and slower inflation and wage growth in 2026.

Fiscal policies are set to be stepped up across North Asia: Fiscal policies have been dormant so far, but we expect them to play a more active role ahead in economies where there is fiscal space, due to weaker growth and constraints on monetary policy (e.g., rising housing prices). This includes Korea, Japan, China, Singapore, Thailand and Taiwan. After the presidential election, we expect Korea to announce a second supplementary budget worth KRW20-25trn (~1% of GDP). In Japan, the government plans to submit additional economic stimulus measures before the July Upper House elections, leading to a supplementary budget for FY25 during the extraordinary session of the Diet this autumn. China's fiscal policy has been frontloaded and expansionary, and we expect the pace of fiscal spending and government bond issuance to remain robust through Q3. We also expect Singapore to announce fiscal support measures worth ~1% of GDP in coming months, focusing on the labour market. In Thailand, we forecast a widening of the FY25 fiscal deficit to 5.6% of GDP from 3.3% in FY24, reflecting 1.1% of GDP in new budget spending. In Taiwan, the Cabinet has approved a TWD410bn special budget that will be allocated over 33 months, from 12 March until end-2027, to help tackle economic and security challenges. Higher Asian defense spending is also likely over the medium term, as the Trump administration pressures its Asian allies to bear a larger cost of the US defense umbrella and given the region faces more pressing security threats.

Leaders and laggards

We see India, Taiwan and Malaysia as the leaders, and Thailand and Indonesia as the laggards in the region. Despite our view of slower growth in coming quarters, India should remain a relative outperformer, due to its lower export exposure and as it benefits from a faster US trade deal, supply chain shifts, low inflation and deeper rate cuts. Given its dominance in high-end chips, Taiwan's economy is likely to continue to benefit from the AI theme, with resilient tech exports and investment. Growth should also hold up in Malaysia, due to stronger domestic demand, led by public infrastructure projects and resilient labor market-led private consumption.

On the other end, we expect a sharper growth downturn in Thailand and see a risk of technical recession, due to tariffs, a weaker tourism recovery and tight financial conditions. We also remain cautious on Indonesia; while bouts of strength are possible when FX is stable, we expect fiscal concerns to rise around July, and the economy remains vulnerable to external volatility.

Our high-conviction, out-of-consensus calls

- **China:** We expect GDP growth to slow by a notable ~1.0pp from H1 to 4.0% y-o-y in H2, which might prompt Beijing to ramp up policy support again.
- **India:** Below-trend growth and below-target inflation suggest a lower terminal repo rate of 5.0% (Consensus: 5.5%).
- **Japan:** A recession is unlikely, but the BOJ's rate hike will likely be delayed to January 2026 to entrench a wage-inflation cycle (Consensus: one more hike in 2025).
- **Taiwan:** We are above consensus on growth (Nomura: 3.4%, Consensus: 2.9%), as sustained AI-led demand should partly offset headwinds to export growth.
- **Korea**: Amid rising housing prices, we expect a slower pace of rate cuts, with a pause in Q3 and only one 25bp cut in Q4 (Consensus: 50bp in H2).
- **Indonesia:** We forecast a wider 2025 fiscal deficit of 2.9% of GDP (Consensus: 2.7%), and another 50bp of BI rate cuts to 5.0% (Consensus: 5.25%).
- **Malaysia:** Robust domestic demand should support 2025 GDP growth at 4.4% (Consensus: 4.0%), with BNM leaving policy rates at 3% (market pricing: 37.5bp cut)
- **Philippines:** We forecast below-consensus GDP growth, inflation at 1.8% (target: 2-4%) and another 75bp of BSP rate cuts to a below-neutral 4.75% (Consensus: 5.0%).
- **Singapore:** We forecast 2025 core inflation at 0.7% (MAS: 0.5-1.5%; Consensus: 1.5%) and a small fiscal *deficit* of 0.1% of GDP in FY25 (Budget: 0.9% surplus).
- **Thailand:** We see a risk of deflation becoming entrenched, CPI inflation at -0.3% in 2025 (Consensus: 0.7%) and 75bp of additional cuts (market pricing: 44bp).
- **Australia**: We are modestly below consensus on both growth and inflation, and highly alert to downside regional and global risks.

Fig. 2: Nomura versus consensus forecasts (2025)

	Real GDP, 2025 (% y-o-y)		CPI inflation, 2025 (% y-o-y)		Policy rate, end-2025 (%)	
	Nomura	Consensus	Nomura	Consensus	Nomura	Consensus
Japan	0.9	0.8	2.7	2.8	0.50	0.75
Australia	1.7	1.8	2.3	2.5	3.35	3.35
China	4.5	4.3	0.0	0.3	1.30	-
Hong Kong	2.9	2.0	1.7	1.6	4.50	-
India	6.6	6.5	3.0	3.5	5.00	5.50
Indonesia	4.7	4.8	1.4	1.9	5.00	5.25
Malaysia	4.4	4.0	1.8	2.1	3.00	2.75
Philippines	5.3	5.6	1.8	2.5	4.75	5.00
Singapore*	2.0	1.6	0.7	1.5	1.88	-
South Korea	1.0	0.8	2.0	1.9	2.25	2.00
Taiwan	3.4	2.9	1.9	1.8	2.00	2.00
Thailand	1.8	1.8	-0.3	0.7	1.00	1.50
AEJ (excl. Australia)	**3.6**	**3.4**	**1.4**	**1.7**		

Note: *We show core CPI inflation forecasts for Singapore. Policy rate refers to the 7d reverse repo rate for China, the HKMA base rate for Hong Kong and the SORA 3-month compounded average for Singapore. Real GDP and CPI inflation consensus estimates are obtained from the Asia Pacific Consensus Economics forecast survey (May 2025 edition), except for India where consensus estimates are sourced from Bloomberg, and Singapore where consensus estimates for core CPI inflation are obtained from MAS. Policy rate consensus estimates are from Bloomberg (where available). In the last row, real GDP growth and CPI inflation for AEJ (excluding Australia) are aggregated using simple average. For consistency, CPI inflation for AEJ (excluding Australia) refers to the simple average of headline CPI inflation forecasts, including for Singapore (where we estimate headline CPI inflation to be 0.7% y-o-y in 2025).

Source: Consensus Economics, Bloomberg and Nomura Global Economics.

China: H2 outlook

We expect an inevitable slowdown to 4.0% y-o-y in H2, mainly on payback effects from exports and consumption, which might prompt Beijing to ramp up policy support again.

China's economy is on course for a steady expansion in the first half of this year. Growth of major activity data in the first four months exceeded that in Q4 last year, when GDP growth rebounded to 5.4% y-o-y, partially on the *bazooka stimulus*. Despite higher US tariffs, exports have *fared quite well* on frontloading and shipment re-routing, while the 90-day truce might spur a new round of frontloading. The boost from the trade-in program on consumption has been more sustained than we expected.

We have *revised up* our Q2 and 2025 annual GDP growth forecasts to 4.8% y-o-y and 4.5%, respectively, from 3.7% and 4.0%, thanks mainly to the *US-China de-escalation*. However, we are quite concerned about a slowdown to 4.0% y-o-y in H2, due to the payback of export and consumption frontloading, a high base, the still-ailing property sector, and the strategic decoupling between the US and China. In the near term, the tariff truce could reduce the urgency for Beijing to roll out a sizable stimulus package and start some necessary structural reforms, but Beijing might be compelled to ramp up policy support in H2, as it tries to achieve its "around 5%" growth target.

A brief review of activity data so far this year

In the first four months of 2025, growth of industrial production, retail sales and fixed asset investment improved to 6.4%, 4.7% and 4.0% y-o-y, respectively, from 5.6%, 3.8% and 2.7% in Q4, when real GDP growth was 5.4% y-o-y. Exports and consumption have been the two major growth drivers, thanks to frontloading, transshipment and the trade-in program backed by the fiscal stimulus introduced since mid-2024. Growth is likely to remain largely robust in the next few months on the 90-day tariff truce, which could trigger a new round of export frontloading. That said, this steady growth momentum failed to alleviate deflationary pressures. CPI and PPI inflation were both negative in the first four months of 2025, at -0.1% and -2.4%, respectively (Q4 2024: 0.2% and -2.6%).

The outlook for US-China trade talks

The US-China trade negotiations during the 90-day truce period will likely focus on reciprocal and fentanyl-led tariffs, as sectoral tariffs are imposed on all countries and tariffs on de minimis exports will likely be long-lasting. The 10% baseline reciprocal tariff could be raised by 24% if the trade talks falter during the 90-day pause period. In the meantime, the 20% tariffs related to fentanyl are very likely to be adjusted down, in our view. Our US economics team views the current 30% tariff as the baseline scenario. As generalized tariff hikes reach their limits, we expect the Trump administration's focus to shift to more targeted sectoral tariffs and non-tariff measures to contain China's access to advanced technology and address national security concerns. In response, China might tighten its export controls on rare earth minerals to the US.

The strategic decoupling will likely intensify

The Geneva mechanism was established to avoid a full-blown trade embargo between the US and China, while the US is still pursuing a strategic decoupling from China, which somehow resonates with the "small yard, high fence" strategy adopted by the Biden administration in 2022 to safeguard critical technologies while maintaining broader economic connections with China. This is in line with the views expressed in our recent special report, in which we argued that the Trump administration, by treating China as the most potent near-peer adversary, would make the yard bigger and fence higher. US Treasury Secretary Scott Bessent explicitly stated that the US is seeking a strategic decoupling from China in items related to national security, including semiconductors, medicines and steel. The most recent conflict over Huawei's most advanced chips, right after the Geneva de-escalation, underscores the inevitable clash between the two countries in certain strategic sectors.

We expect a sharp slowdown in exports and retail sales in H2

The tariff truce is poised to trigger significant frontloading and some payback will likely follow after the 90-day pause. We estimate that, even with no further tariff hikes, average US tariffs on China remain hefty at about 42%, which could still inflict material damage on Chinese exporters. We expect a sharp drop in export growth from an estimated 6.0% y-o-y in Q2 to -2.0% in Q3 and -8.6% in Q4. We also expect notable payback to slow retail sales growth from an estimated 4.2% y-o-y in Q2 to 3.3% in Q3 and 2.9% in Q4.

Research Analysts

Asia Economics

Ting Lu - NIHK
ting.lu@nomura.com
+852 2252 1306

Jing Wang - NIHK
jing.wang@nomura.com
+852 2252 1011

Harrington Zhang - NIHK
harrington.zhang@nomura.com
+852 2252 2057

Hannah Liu - NIHK
hannah.liu@nomura.com
+852 2252 1082

Asia FX Strategy

Craig Chan - NSL
craig.chan@nomura.com
+65 6433 6106

Wee Choon Teo - NSL
weechoon.teo@nomura.com
+65 6433 6107

Vicky Chen - NSL
vicky.chen1@nomura.com
+65 6433 6540

Manthan Shingala - NSL
manthan.shingala1@nomura.com
+65 6433 6427

Asia Rates Strategy

Albert Leung - NIHK
albert.leung1@nomura.com
+852 2252 1401

Clair Gao, CFA - NIHK
clair.gao@nomura.com
+852 2252 1081

Deflationary pressures are set to persist through 2025

Weak domestic demand, declining external demand, and robust production activity will likely sustain deflationary pressures in China for the rest of 2025. We forecast headline CPI inflation of 0.0% and PPI inflation of -2.0% for 2025. CPI inflation is likely to stay flat at 0% through Q2 and the second half of the year, while PPI deflation is likely to deepen to -3.0% in Q2 before easing to -1.5% in H2.

Policy outlook in H2

One week before the tariff truce, the PBoC announced *a new round of monetary stimulus measures* , including RRR/rate cuts. At the March NPC meeting, Beijing already announced *a record high fiscal deficit ratio* . Fiscal spending has accelerated of late on a significant frontloading of government bond issuance. Amid the improved outlook on the tariff ceasefire, we have decided to fine-tune our rate cut forecast in Q4 to 10bp from 15bp, while retaining our forecast for a 50bp RRR cut in Q4. Also, we see limited urgency for additional fiscal stimulus in the near term. However, we believe Beijing might be compelled to ramp up policy support again in H2, as payback effects materialise and the risk of a double whammy intensifies. RMB devaluation is unlikely to take place to mitigate the headwinds in the export sector, in our view. To cope with the mounting challenges, we believe Beijing needs to take bolder actions to clean up the mess in the property sector, support consumption in a more sustainable way by reforming the pension system, fix the fiscal system to better protect business owners and improve its relationships with other economies.

Fig. 3: China: Details of the forecast

% y-o-y growth unless otherwise stated	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	2024	2025	2026
Real GDP (% q-o-q, sa)	**1.4**	**1.6**	**1.2**	0.5	0.6	1.2	0.8	0.9	0.8	1.2			
Real GDP	**4.6**	**5.4**	**5.4**	4.8	4.0	4.0	4.2	3.9	3.8	4.0	**5.0**	4.5	4.0
Contributions to GDP (pp):													
Final consumption	**1.4**	**1.6**	**2.8**								**2.2**	3.1	3.0
Gross capital formation	**2.3**	**2.3**	**0.5**								**1.7**	1.3	0.8
Net exports (goods & services)	**1.0**	**1.5**	**2.1**								**1.1**	0.1	0.2
CPI	**0.5**	**0.2**	**-0.1**	0.0	-0.4	0.4	0.6	0.4	0.5	0.5	**0.2**	0.0	0.5
Core CPI	**0.3**	**0.3**	**0.3**	0.4	0.6	0.7	0.5	0.4	0.4	0.4	**0.5**	0.5	0.4
PPI	**-1.8**	**-2.6**	**-2.3**	-2.9	-1.8	-1.0	-0.3	0.3	-0.3	-0.3	**-2.2**	-2.0	-0.2
GDP deflator	**-0.5**	**-0.8**	**-0.8**	-1.5	-1.1	-0.3	0.2	0.4	0.1	0.1	**-0.8**	-1.0	0.2
Retail sales (nominal)	**2.7**	**3.8**	**4.6**	4.2	3.3	2.9	3.3	3.2	3.4	3.4	**3.5**	3.7	3.3
Fixed-asset investment (nominal, ytd)	**3.4**	**3.2**	**4.2**	3.3	3.7	3.9	3.1	3.9	4.0	4.2	**3.2**	3.9	4.2
Industrial production (real)	**5.0**	**5.6**	**6.6**	5.5	3.2	3.0	3.5	4.0	4.3	4.3	**5.8**	4.5	4.0
Exports (USD bn)	**5.9**	**9.9**	**5.8**	6.0	-2.0	-8.6	-0.5	-1.0	2.5	3.0	**5.9**	0.0	1.0
Imports (USD bn)	**2.2**	**-1.8**	**-7.0**	-1.4	-1.5	-0.5	4.0	2.0	0.0	2.0	**1.1**	-2.5	2.0
Trade balance (USD bn)	**259**	**298**	**273**	315	250	219	245	293	272	232	**992**	1,057	1,042
Current account balance (% of GDP)	**3.3**	**3.1**	**3.7**	2.9	1.9	1.6	2.4	2.4	2.4	0.9	**2.2**	2.5	2.0
Fiscal balance (narrow; % of GDP)											**-4.8**	-6.0	-5.6
Fiscal balance (broad; % of GDP)											**-7.8**	-10.2	-9.8
Outstanding RMB loans	**8.1**	**7.6**	**7.4**	7.2	7.2	7.0	7.0	7.0	7.0	7.0	**7.6**	7.0	7.0
Outstanding aggregate financing (AF)	**8.0**	**8.0**	**8.4**	8.3	8.2	8.2	8.4	8.3	8.2	8.2	**8.0**	8.2	8.2
Money supply M2	**6.8**	**7.3**	**7.0**	7.3	7.2	7.0	7.0	7.0	7.0	7.0	**7.3**	7.0	7.0
7-day PBoC's reverse repo rate (% pa)	**1.50**	**1.50**	**1.50**	1.40	1.40	1.30	1.30	1.30	1.30	1.30	**1.50**	1.30	1.30
1-yr LPR (% pa)	**3.35**	**3.10**	**3.10**	3.00	3.00	2.90	2.90	2.90	2.90	2.90	**3.10**	2.90	2.90
5-yr LPR (% pa)	**3.85**	**3.60**	**3.60**	3.50	3.50	3.40	3.40	3.40	3.40	3.40	**3.60**	3.40	3.40
Reserve requirement ratio (large banks; %)	**9.50**	**9.50**	**9.50**	9.00	9.00	8.50	8.50	8.50	8.50	8.50	**9.50**	8.50	8.50

Note: Numbers in bold are actual values; others are forecasts. Interest rate forecasts are end of period; other measures are period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Table reflects data available as of 23 May 2025.
Source: Wind, Nomura Global Economics.

RMB: We expect RMB to underperform its trade partner basket in a softer USD environment

Despite the *larger-than-expected* tariff *reduction* between the US and China, which was announced over the weekend of 10 May, we still expect RMB to underperform its trade partner currency basket into H2 2025. We currently express the view via a *short CNH against an equal weighted basket* **(EUR, AUD and KRW)**:

1. **Our view for a *softer broad USD environment*** tends to support CNH underperformance against its trade partner currency basket, owing to the USD/CNY fixing mechanism that may **limit the pass-through of USD weakness**.
2. **With some signs of US pressure on some of its Asian trading partners** to

appreciate their local FX, some components of the trade partner currency basket may appreciate strongly (e.g., KRW), especially against CNH. However, we believe China is unlikely to cave to potential US pressure to appreciate RMB.

3. On the other hand, **we expect any CNH appreciation pressures to be limited by onshore USD demand**. The onshore FX deposits of financial institutions were one source of USD supply during periods of RMB deprecation pressure. With the drainage of FX in the financial sector, the current softer USD backdrop should provide opportunities for the financial sector (state banks) to re-accumulate FX deposits aggressively.
4. **Upcoming trade negotiations between the US and China are likely to be fraught and prolonged**, with risks that Trump may escalate tensions, similar to previous experiences. Our economists expect no substantial tariff rollback from the 90-day negotiation period, with the current 30% tariff the baseline scenario. Even if the Trump administration loses its appeals and the Court of International Trade's ruling stands, Trump could still quickly reestablish tariffs at roughly the same levels as the current IEEPA tariffs. There are already signs of brewing trade tensions, even after this de-escalation, with the US Commerce Department warning industries about "the risks of using PRC advanced-computing ICs, including specific Huawei Ascend chips" (US BIS, 13 May); China's Commerce Ministry responded by indicating that the Trump administration's actions undermined the recent trade talks in Geneva.
5. **China's economy faces a potential slowdown in H2 2025.** Our economists expect export growth to fall sharply (to -2.0% in Q3 and -8.6% in Q4), along with a slowdown in retail sales growth (see China: H2 outlook). We believe macro weakness and consistent US tariff and non-tariff policies against China will also sustain negative BoP pressures on China.

China rates: Steeper curve in the making

We see room for the China rates curve to steepen in H2 2025 on a combination of accommodative monetary and fiscal policy and with the China swap curve (2s5s steepener; conviction level: 3/5) very flat still at close to 0. We target a move back to 15-20bp, close to the 5y historical average.

On the front end, the PBoC has been guiding money market rates lower since February. With real rates still high (inflation close to 0%) and our economists forecasting another 10bp OMO rate cut in H2 2025, front-end rates should be somewhat capped. The decline in the 7d repo fixing to an average of 1.6-1.7% from close to 2% in February means steepeners are subject to less negative carry than before. On the long end, despite the US-China trade de-escalation, we feel Beijing will need to provide further stimulus to come close to achieving its 5% GDP growth target. Potential stimulus measures we are looking for, in addition to property sector measures, include those on AI and consumption. Bond supply is another supportive factor, and on that we expect net CGB and LGB supply to stay elevated at ~RMB1.4trn per month until September.

One risk to our steepener view stems from a seasonal tightening of short-dated money market rates into half year-end, and over next few weeks, there is a decent amount of bank NCD maturing (June: RMB4.2trn, January-May average: RMB2.3trn), with the latest deposit rate cut in May by large banks potentially leading to short-term deposit outflows. That said, we believe any tightening in short-term money market rates should be short-lived, so long as the PBoC maintains an overall accommodative monetary policy stance. Thus, any flattening in the swap curve over the next few weeks should be treated as an opportunity to add to steepener positions into H2.

Finally, in terms of our views on the outright, while we expect China rates to exhibit lower volatility than most other Asia rates, we are looking more to paying the 5y on dips towards 1.40%, on the assumption that Beijing will step up policy stimulus in H2 2025.

Japan: The economy should avoid a recession despite two-stage uncertainty

We expect Japan's economy to slow in H2 but avoid a recession. We see actual inflation below 2% and underlying inflation edging up, leading to a rate hike in January 2026.

Research Analysts

Japan Economics

Kyohei Morita - NSC
kyohei.morita@nomura.com
+81 3 6703 1395

Kengo Tanahashi - NSC
kengo.tanahashi@nomura.com
+81 3 6703 1295

Uichiro Nozaki - NSC
uichiro.nozaki@nomura.com
+81 3 6703 1284

Yuki Ito - NSC
yuki.ito@nomura.com
+81 3 6703 3867

Japan FX Strategy

Yujiro Goto - NSC
yujiro.goto@nomura.com
+81 3 6703 1120

Yusuke Miyairi, CFA - NIplc
yusuke.miyairi@nomura.com
+44 (0) 20 7102 4145

Economy: Likely to avoid a recession even under the Trump tariffs

We note the two-stage nature of uncertainty when considering the impact of US tariffs on Japan's economy. The first stage of this uncertainty is how the tariffs themselves pan out, and this appears to be gradually receding, as evidenced by the US-China agreement. The second is the impact of US tariffs on Japan's economy and inflation, which has greater implications for monetary policy and continues to cast a pall over our latest revisions.

That said, assuming a 10% reciprocal tariff rate (i.e., the add-on rate of 14% not applied) and the 25% tariff rate for such items as autos and auto parts, we believe US tariffs will exert downward pressure on Japan's FY25 real GDP of 0.3%, with the strongest negative impact on quarter-on-quarter real GDP growth materializing in Q3 2025.

However, we do not believe Japan's economy will enter a recession for several reasons. First, the ongoing recovery phase of Japan's economy is being driven by the services sector. Tariffs generally depress manufacturing. The fact that the service industry has been driving the current recovery points to a degree of risk dispersal with respect to tariffs.

Second, Japan's government plans to submit additional economic stimulus measures before the July Upper House elections, leading to a supplementary budget for FY25 during the extraordinary session of the Diet this autumn.

Third, the structural issues facing the Japanese economy have encouraged companies to engage in structural spending. One prime example is software investment (about 10% of capex, or about ¥10trn a year) to reduce labor dependence under a severe labor shortage.

Fourth, we think the US economy will also be able to avoid recession.

Inflation: Actual inflation will slow, underlying inflation will edge up to 2%

We expect core CPI inflation (all items less fresh food) to start to fall around this June, due mainly to (1) a decline in imported energy prices, (2) the introduction of subsidies for the households' use of energy by the government, and (3) a surge in year-on-year, rice price-driven food inflation running its course, leading to lower inflation in a range of around 1.5-1.9% y-o-y from June 2025 onwards.

This evolution of the CPI could lead to a case in which the BOJ faces difficulty in hiking interest rates when it is targeting 2% inflation. However, the key point here is underlying inflation. We focus on the composite index for five year-ahead inflation expectations (*) as one of the measures of underlying inflation that the BOJ focuses on in its policy management.

(*) An extraction of common components using principal component analysis for inflation forecasts taken from households (Opinion Survey on the General Public's Views and Behavior), companies (BOJ Tankan), and experts (consensus forecasts, QUICK survey, inflation swap rates).

As with core CPI inflation, this composite index for five-year ahead inflation expectations has been rising since around end-2020. However, the pace of increase has varied appreciably. Core CPI inflation reached nearly 4% at end-2022 and has been in the 2.5-4.0% range since then, and while the five-year ahead composite inflation expectations index has been edging higher, it has yet to reach 2%. The heart of the BOJ's communications about prices during this period was that, while the actual inflation rate was much higher than 2%, underlying inflation was still in the process of rising toward 2%. In other words, the actual inflation rate exceeded the underlying inflation rate.

We expect this message to reverse ahead. In other words, with the actual inflation rate likely to fall below 2%, the BOJ will have to convey to the market that the underlying inflation rate is likely to rise toward 2%. In this case, the relationship would reverse, with the underlying inflation rate exceeding the actual inflation rate. Through 2026, the challenge facing the BOJ will be to communicate with market participants about this reversal of the relationship between actual inflation and underlying inflation.

BOJ: Next rate hike in January 2026, then in wait-and-see mode through 2026

Given the uncertainty regarding both (1) the level at which US tariffs will end up and (2) their impact on Japan's economy and inflation, we have drawn up a main scenario and two risk scenarios for the BOJ.

• Main scenario (50% probability)
In our main scenario, the BOJ hikes its policy interest rate to 0.75% in January 2026 and then leaves it unchanged at that level through March 2027.

We think the obstacles to raising rates in 2025 are high, given the aforementioned second uncertainty (the impact of US tariffs on Japan's economy and inflation), the government's economic stimulus measures, and the drafting of the budget for FY26. Furthermore, wage hikes from March-April 2026 onwards (after FY26 spring wage negotiations) might be lower than expected because of US tariffs. In that case, there is a risk that the increase in underlying inflation might temporarily slow from March-April 2026.

That said, we think the worst of the impact of US tariffs on Japan's economy (in terms of quarter-on-quarter real GDP growth) will be over by January 2026 (i.e., between 2025 and March-April 2026), and that the government will embark on economic stimulus measures. This should raise the prospect of an economic upturn. We also expect inflation based on the BOJ's version of the core-core CPI (all items less fresh food and energy) to exceed 2% y-o-y at that point. Accordingly, we view January 2026 as a window of opportunity for a rate hike, and expect the BOJ to hike the policy rate in January 2026 and then leave it unchanged thereafter.

• Risk scenario A (30% probability)
In this scenario, the BOJ hikes its policy rate in October 2025 and then again in April 2026, for instance if the economic impact of US tariffs turns out to be less than feared or if the tariffs themselves are scaled back.

• Risk scenario B (20% probability)
In this scenario, the BOJ does not make any further rate hikes, which could happen if US tariffs end up dealing a heavier blow to the economy than is currently expected.

Fig. 4: Japan: Details of the forecast

%	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	2024	2025	2026
Real GDP (% q-o-q, annualized)	**1.0**	**2.4**	**-0.7**	1.2	-0.5	0.8	1.4	1.0	0.4	0.4			
Real GDP (% q-o-q)	**0.2**	**0.6**	**-0.2**	0.3	-0.1	0.2	0.3	0.3	0.1	0.1	**0.2**	0.9	0.8
Private consumption	**0.7**	**0.1**	**0.0**	0.2	0.2	0.2	0.2	0.2	0.2	0.2	**0.0**	0.9	0.8
Private non res fixed invest	**0.1**	**0.8**	**1.4**	0.1	-0.5	0.1	0.6	0.4	0.3	0.2	**1.3**	2.4	0.9
Residential fixed invest	**0.7**	**-0.2**	**1.2**	1.4	-9.7	2.2	0.1	-0.8	-0.9	-1.0	**-2.5**	-1.9	-4.3
Government consumption	**0.1**	**0.3**	**0.0**	0.4	0.4	0.3	0.3	0.3	0.3	0.3	**0.9**	1.1	1.2
Public investment	**-1.1**	**-0.7**	**-0.4**	0.7	1.0	-1.4	2.6	3.2	-1.7	-1.4	**-1.1**	0.4	3.3
Exports	**1.2**	**1.7**	**-0.6**	0.2	-0.9	0.4	0.6	0.4	0.4	0.4	**1.1**	1.4	1.2
Imports	**2.2**	**-1.4**	**2.9**	-0.5	-1.2	0.3	0.9	1.0	0.6	0.4	**1.0**	2.6	1.5
Contributions to GDP: (ppt, q-o-q)													
Domestic final sales	**0.4**	**0.2**	**0.3**	0.4	-0.2	0.2	0.4	0.4	0.1	0.1	**0.3**	1.1	0.9
Inventories	**0.1**	**-0.3**	**0.3**	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	**-0.1**	0.0	-0.1
Net trade	**-0.3**	**0.7**	**-0.8**	0.1	0.1	0.0	0.0	-0.1	0.0	0.0	**0.0**	-0.2	-0.1
Industrial production (% q-o-q)	**0.3**	**0.4**	**-0.3**	0.6	-0.4	0.4	0.7	0.4	0.3	0.2	**-2.6**	0.6	1.5
Unemployment rate	**2.5**	**2.5**	**2.5**	2.5	2.5	2.4	2.4	2.4	2.4	2.3	**2.5**	2.5	2.4
Consumer prices (% y-o-y)	**2.8**	**2.9**	**3.8**	3.1	2.3	1.7	1.1	1.3	1.9	1.9	**2.8**	2.7	1.5
Core CPI	**2.6**	**2.6**	**3.1**	3.1	2.2	1.8	1.5	1.2	1.8	1.8	**2.5**	2.5	1.5
CPI less foods (ex. alcoholicbeverages) and energy	**1.7**	**1.6**	**1.5**	1.6	1.8	1.9	1.9	1.8	1.8	1.8	**1.9**	1.7	1.8
Fiscal balance (fiscal yr, % GDP)											-7.1	-5.2	-5.2
Current account balance (% GDP)	**5.9**	**4.4**	**4.8**	4.5	5.8	3.8	4.5	4.3	5.5	3.4	**4.8**	4.7	4.4
Policy rate	**0.25**	**0.25**	**0.50**	0.50	0.50	0.50	0.75	0.75	0.75	0.75	**0.25**	0.50	0.75
JGB 5-year yield	**0.51**	**0.74**	**1.10**	1.05	1.10	1.10	1.10	1.10	1.10	1.10	**0.74**	1.10	1.10
JGB 10-year yield	**0.86**	**1.09**	**1.49**	1.60	1.65	1.65	1.65	1.65	1.65	1.65	**1.09**	1.65	1.65
JPY/USD	**143.6**	**157.2**	**150.0**	140.0	137.5	135.0	132.5	130.0	130.0	130.0	**157.2**	135.0	130.0

Note: Unemployment rate is as a percentage of the labour force. Inflation measures and CY GDP are year-on-year percent changes. Interest rate forecasts are end of period. Fiscal balances are for fiscal year and based on general account. Economic forecasts as of 16 May, interest rate forecasts as of 23 May, forex forecasts as of 29 May 2025.
Source: Cabinet Office, Ministry of Finance, Statistics Bureau, BOJ and Nomura Global Economics.

FX strategy: Global and domestic forces should drive a lower USD/JPY

USD/JPY once breached below 140 on 22 April in response to the Trump tariff shock. We see further downside risks for USD/JPY in H2 2025, as we forecast 135.0 by end-December. As de-dollarization emerges as a key theme in the FX market, we expect JPY to benefit from the trend. In addition to *a capital shift from the US to Japan by medium- to long-term investors* , we see concerns regarding the US economy stemming from Trump's tariffs supporting appreciation pressure on JPY through several channels: 1) increased demand for JPY as a relative safe-haven currency due to deteriorating risk sentiment, 2) a likely resumption of Fed rate cuts, and 3) improvements in Japan's terms of trade and trade balance owing to declining oil prices.

The timing of the next BOJ rate hike is likely to be pushed back in light of the tariff shock, with our economics team expecting no additional rate hikes in 2025. However, the Bank is likely to maintain its stance for continued rate hikes, positioning itself as hawkish relative to other major central banks. *The shrinking of interest rate differentials is also likely to support JPY* .

As a risk event, attention must be paid to the potential for fiscal easing around the time of the Upper House election in July. While the ruling LDP does not favour a consumption tax cut, all major opposition parties are advocating for some form of reduction. The Democratic Party for the People (DPP), in particular, claims that a 5% consumption tax cut would be funded through JGB issuance, which could heighten instability in the market. The DPP also holds a negative stance toward the BOJ rate hikes; hence, if the risk of these parties joining a coalition government increases, there could be steepening pressure on the JGB yield curve and a subsequent risk of JPY depreciation. Unlike the US and the UK, Japan is a current account surplus country with a low proportion of foreign investors in its JGB holdings. Therefore, the risk of simultaneous bond selling and currency depreciation is low; however, vigilance regarding political developments in Japan is necessary as we approach summer.

Korea: Green shoots of recovery amid easing political uncertainty

As we expect growth to recover in H2, led by more fiscal spending, the BOK is likely to turn more hawkish than the market expects amid higher housing prices.

Research Analysts

Asia Economics

Jeong Woo Park - NSL
jeongwoo.park@nomura.com
+65 6433 6197

Asia FX Strategy

Craig Chan - NSL
craig.chan@nomura.com
+65 6433 6106

Wee Choon Teo - NSL
weechoon.teo@nomura.com
+65 6433 6107

Vicky Chen - NSL
vicky.chen1@nomura.com
+65 6433 6540

Manthan Shingala - NSL
manthan.shingala1@nomura.com
+65 6433 6427

Asia Rates Strategy

Albert Leung - NIHK
albert.leung1@nomura.com
+852 2252 1401

Clair Gao, CFA - NIHK
clair.gao@nomura.com
+852 2252 1081

A modest recovery in domestic demand amid easing political uncertainty

Easing political uncertainty and improving consumer sentiment

We expect political uncertainty to ease following an early presidential election (3 June), which can improve consumer sentiment and, in turn, support a recovery in consumption in H2. As political events in recent months have weighed on consumer sentiment, an early presidential election is scheduled on 3 June, which would mark a pivotal shift towards an easing of political uncertainty, in our view.

Indeed, the BOK's consumer survey index jumped to above 100 in May after five months of weak readings below 100, which suggests the domestic political landscape is shifting towards the end of the political turmoil that substantially weakened domestic consumption and amplified the economic downturn.

More active fiscal policy

In the months following the presidential election, we expect a more active fiscal policy to drive a consumption recovery. For example, in addition to the already-announced extra budget worth KRW13.8trn, we expect the new government to step up its efforts to lift domestic consumption, regardless of the election outcome (see *Korea: Presidential Election #1 – Economic policy platforms* , 16 May 2025). We expect the new government to implement another extra budget (our expectation is KRW20-25trn, ~1% of GDP), although the size would depend on the election outcome.

Thus, we expect easing political uncertainty to support an increase in consumer spending on discretionary items (i.e., clothing and shoes; Figure 5), although structural headwinds (i.e., population ageing and income inequality) to domestic consumption will continue to limit the strength of a consumption recovery.

Diverging trends in chip and non-chip exports

Amid the US-China tension easing, and as the risk of a global recession appears to be receding, we expect the chip-led export recovery to continue in H2.

We expect chip exports to pick up on rising legacy chip prices (NAND, DDR4 and DDR5), as inventory restocking for chips gains momentum. Moreover, stronger shipments of NVIDIA's GPUs are a tailwind for HBM, which can help sustain the recovery in H2.

That said, we remain cautious on non-chip sectors, as they remain under pressure from weak demand (chemicals and oil products) and the tariff shock (auto vehicles and auto parts), which suggest diverging chip and non-chip export trends should continue through H2.

Overall, we expect GDP growth to rise to an average of 1.9% y-o-y in H2 from 0.1% in H1, reflecting improving domestic demand and a pickup in chip cycles.

Sticky inflation and elevated inflation expectations

Amid falling oil prices and KRW appreciation, we expect inflation to remain well under control at around 2%. However, despite weakening pressures from goods prices, service price inflation likely remains sticky reflecting price increases across service fees (i.e., school fee, insurance premium, and public bus fare, etc.,). Given the persistently high inflation expectations in the mid-2% range, we expect the BOK to maintain its cautious stance and vigilance on inflationary pressures.

Monetary policy: The BOK is turning more hawkish

We expect the BOK to remain patient on rate cuts despite the tariff-induced growth shock, as rising housing prices in Seoul are worsening the policy trade-off between growth and financial stability. Indeed, increasing household debt is likely to rekindle financial stability concerns and likely prompt the BOK to make a hawkish shift.

Following the May cut, we expect the BOK to pause in Q3 to monitor the impact of the tighter DSR rule on the housing market. If the BOK can increase its confidence in stabilizing the housing market via tighter macroprudential policy, we would expect rate cuts to resume in Q4, which would take down the policy rate to 2.25% by end-2025. We expect one final rate cut in February 2026, for an end-2026 policy rate of 2.00%.

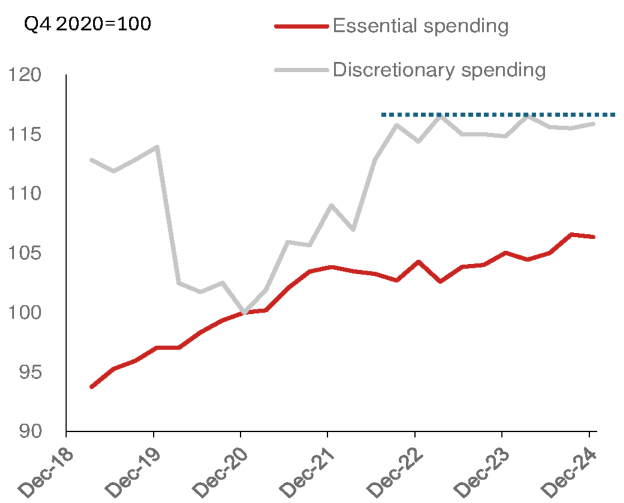
Presidential elections and economic policy

A presidential election is scheduled on 3 June, and the result will be announced early in the morning of 4 June. The main political parties have started their presidential election campaigns, and opposition party (Democratic Party) leader Lee Jae-myung appears to have a steady lead against Kim Moon-su of the ruling party (People Power Party), although latest polling shows a marginally narrowing of Lee's lead.

As long-term growth prospects deteriorate, *we expect both parties to focus on revitalizing the economy* via policy reforms. While we would expect a Lee victory to increase the role of the government in reforming Korea's economic structures, a Kim victory would likely lead to a strengthening of the market's role in revitalizing industry.

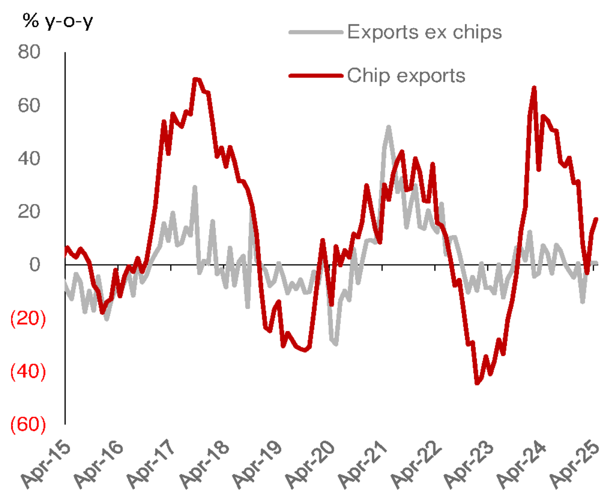
Regardless of outcome, the election will have a substantial impact on fiscal policy. While a victory by the ruling party's candidate, Kim Moon-su, will likely support fiscal restraint, we would expect a Lee victory to result in a shift towards more expansionary fiscal stance, as he sets out tackling the depressed domestic economy as his top priority.

Fig. 5: Weak spending on discretionary items



Note: Discretionary spending includes items excluding food & non alcoholic beverages, housing & utility, health, information & communication. Breakdown of consumption data is available until Q4 2024.
Source: CEIC, Nomura Global Economics

Fig. 6: Chip and non-chip exports



Source: CEIC, Nomura Global Economics

Fig. 7: Korea: Details of the forecast

% y-o-y growth unless otherwise stated	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	2024	2025	2026
Real GDP (sa, % q-o-q, annualized)	**0.4**	**0.3**	**-1.0**	1.4	5.3	3.2	0.3	0.6	1.7	1.7			
Real GDP (sa, % q-o-q)	**0.1**	**0.1**	**-0.2**	0.3	1.3	0.8	0.1	0.2	0.4	0.4			
Real GDP	**1.5**	**1.2**	**-0.1**	0.3	1.5	2.2	2.5	2.3	1.4	1.1	**2.0**	1.0	1.8
Private consumption	**1.4**	**1.2**	**0.5**	1.4	1.8	2.4	2.5	2.2	1.6	1.3	**1.1**	1.5	1.9
Government consumption	**2.6**	**2.8**	**1.9**	3.1	4.2	4.3	2.2	2.2	2.3	2.3	**1.8**	3.4	2.3
Construction investment	**-5.7**	**-6.6**	**-12.2**	-8.9	-2.1	3.1	2.5	2.8	2.2	2.9	**-2.8**	-5.0	2.6
Facilities investment	**5.9**	**4.5**	**4.2**	5.9	2.2	-1.2	0.5	2.3	-1.5	-3.2	**1.7**	2.8	-0.5
R & D investment	**-0.2**	**0.2**	**-0.3**	4.2	6.2	4.3	3.1	3.1	3.1	3.1	**0.7**	3.6	3.1
Exports (goods & services)	**6.8**	**3.6**	**0.6**	0.9	2.1	2.9	2.2	2.6	2.2	-1.2	**7.1**	1.6	1.5
Imports (goods & services)	**4.4**	**2.9**	**1.2**	1.9	4.1	4.6	3.5	3.1	2.4	-1.1	**2.5**	3.0	2.0
Contributions to GDP growth (% points)													
Domestic final sales	**1.2**	**0.7**	**0.2**	0.6	1.8	2.3	2.7	2.3	1.5	1.3	**1.3**	1.2	1.9
Inventories	**-0.8**	**0.1**	**-0.1**	-0.1	0.2	0.3	0.1	0.1	-0.1	-0.1	**-1.1**	0.1	0.0
Net trade (goods & services)	**1.1**	**0.4**	**-0.2**	-0.3	-0.6	-0.4	-0.3	0.0	0.0	-0.1	**1.9**	-0.4	-0.1
Unemployment rate (sa, %)	**2.5**	**3.0**	**2.8**	2.9	2.8	2.8	2.7	2.7	2.8	2.9	**2.8**	2.8	2.8
Consumer prices	**2.1**	**1.6**	**2.1**	2.0	2.0	1.9	1.9	1.9	1.9	1.9	**2.3**	2.0	1.9
Current account balance (USDbn)	**27.1**	**31.8**	**16.0**	22.5	16.7	25.3	11.2	19.2	11.0	24.6	**99.0**	80.4	66.0
Current account balance (% of GDP)	**5.7**	**6.7**	**3.8**	4.8	3.3	4.7	2.2	3.6	2.0	4.3	**5.3**	4.2	3.0
Fiscal balance (% of GDP)											**-1.1**	-2.5	-1.0
Fiscal balance ex-social security (% of GDP)											**-3.6**	-4.2	-2.7
BOK official base rate (%)	**3.50**	**3.00**	**2.75**	2.50	2.50	2.25	2.00	2.00	2.00	2.00	**3.00**	2.25	2.00
10-year government bond	**3.00**	**2.85**	**2.77**	2.75	2.75	2.75	2.75	2.75	2.75	2.75	**2.85**	2.75	2.70
Exchange rate (USD/KRW)	**1315**	**1472**	**1473**	1350	1310	1300	1293	1285	1278	1270	**1472**	1300	1270

Note: Numbers in bold are actual values; others forecasts. The "Inventories" component in growth contributions also includes statistical discrepancy. Interest rate, currency are end of period; other measures are period average. All forecasts are modal forecasts (i.e. the single most likely outcome). Table reflects data as of 30 May 2025.
Source: CEIC, Bloomberg, Nomura Global Economics,

KRW: We see scope for KRW appreciation, amid broad USD weakness and local FX discussions, and see USD/KRW moving towards 1,300 in coming months

Considering our medium-term view of *USD weakness* and recent market discussions on KRW appreciation in trade negotiations with US, we believe KRW could appreciate significantly towards 1,300 in coming months.

1. **KRW appreciation as part of a trade deal (implicitly or explicitly) with the US.** There have been several indications on this front including: a) unnamed Korean officials indicating that the US believes a relatively weak won is a fundamental cause of Korea's trade surplus (*Bloomberg*, 21 May); b) *BOK Governor Rhee* (*Korea Times*, 6 May) stating there was US pressure on Asia to appreciate currencies. He reiterated that Asian nations had currency talks with the US after the May BOK policy decision (*Bloomberg*, 29 May); c) UST Bessent's statement that, "some countries are manipulating their currencies" (18 May). The recent *US Court of International Trade's ruling* may slow trade deal negotiations, but is still unlikely to derail the process, given Trump's resolve to impose tariffs. A focus for KRW ahead will be the **release of the US Treasury semi-annual FX report**.
2. KRW is **~12% undervalued based on the average of our four *FX valuation* metrics**, and it is also one of the most undervalued among EM and G10 FX.
3. **Potential repatriation of foreign investments and FX hedging.** Korea retail investors have shown some *signs* of selling US assets (especially US equities in May 2025), while real money investors may increase FX hedges if USD weakness continues. We estimate Korea's retail overseas investment totaled ~USD140bn as of 28 May 2025.
4. **Korea National Pension Service (NPS) may increase its FX hedging**. The NPS can easily step up its strategic FX hedging on up to 10% of its overseas investment assets. As of February 2025, with foreign investment of ~USD503bn, which equates to around USD50.3bn of potential FX sales. This is large relative to South Korea's average monthly current account surplus (average USD8.5bn over the past 12 months to March 2025) and average of monthly foreign portfolio flows (PI liabilities average USD1.0bn in the past 12 months to March 2025).

Korea rates: Some upside as macro and political uncertainty recede

We see potential upside to Korea rates in H2 2025, as macro and political uncertainty has receded slightly, while the BOK remains alert to property prices and household credit trends, which have experienced a revival of late.

We maintain pay a Jun-IMM 5y NDIRS with a moderate conviction level of 3/5, on our view that Korea's export outlook in H2 since China-US de-escalation looks slightly better than it did a few months ago. We see room for the market to reprice the end-2025 policy rate to ~2.25% from what is currently still close to 2.00%. Also, there is room for a further supplementary budget in H2 after the June presidential election. As was mentioned in *the economics section above*, a more active fiscal policy could drive a consumption recovery in coming months, while modest recovery in chip exports can continue into H2. There are also some tentative signs of consumer sentiment picking up in recent consumer and business confidence surveys.

On a relative basis, we see the pay 5y as better than the 10y, since the 5s10s NDIRS spread (at 16bp) is already historically somewhat wide. Also, the long end may be more affected by lifers, alongside offshore buying in H2, if offshore investors see KTBs as an option to replace some of their UST holdings. One risk to our pay Korea rates view is KRW appreciation. When KRW was depreciating, BOK Governor Rhee made regular comments that KRW is one factor affecting the monetary policy outlook; further KRW strength in H2 could tilt the BOK towards a more accommodative policy stance, all else equal.

Taiwan: Robust under pressure

We are above consensus on 2025 GDP growth at 3.4% (Consensus: 2.9%) as AI-led demand should partly offset the tariff shock, supporting an extended CBC rate hold.

Research Analysts

Asia Economics

Jeong Woo Park - NSL
jeongwoo.park@nomura.com
+65 6433 6197

Si Ying Toh - NSL
siying.toh@nomura.com
+65 6433 6666

Asia FX Strategy

Craig Chan - NSL
craig.chan@nomura.com
+65 6433 6106

Wee Choon Teo - NSL
weechoon.teo@nomura.com
+65 6433 6107

Vicky Chen - NSL
vicky.chen1@nomura.com
+65 6433 6540

Manthan Shingala - NSL
manthan.shingala1@nomura.com
+65 6433 6427

Asia Rates Strategy

Albert Leung - NIHK
albert.leung1@nomura.com
+852 2252 1401

Clair Gao, CFA - NIHK
clair.gao@nomura.com
+852 2252 1081

Frontloaded growth in H1

Taiwan had a strong Q1, with GDP growth rising to an above-consensus 5.4% y-o-y, mainly driven by strong exports that had been boosted by frontloading demand ahead of US tariffs. This continued into April, with exports registering 29.9% y-o-y growth, higher than the Q1 average of 18.1% y-o-y (Figure 8). However, this reflected not only frontloading demand, but also a significant *ramp-up* of Blackwell GB200 shipments, while positive tariff developments between the US and China also provided some relief. As such, we *revised up* our Q2 GDP growth forecast to 3.0% y-o-y from 1.8%.

Payback from frontloading in H2, albeit tempered by sustained AI-led demand

We expect to see some payback in the second half of the year from frontloaded shipments in H1, as well as indirect macro effects from US tariff policy. Our US economics team expects higher tariffs to exert substantial inflationary pressures in H2, with core PCE rising to 3.3% by Q4, which could erode purchasing power and weaken US consumer demand, thereby indirectly denting Taiwan's export growth.

Moreover, a strong TWD could squeeze firms' profit margins and reduce export competitiveness at the margin, though the demand impact on products that compete on quality rather than price, such as high-end chips, should be limited.

On a positive note, the significant ramp-up of Blackwell GB200 shipments is expected to continue through Q3, followed by the roll-out of GB300 racks sometime in H2. In our base case, electronic tariffs are constrained in scope or implemented with significant carve-outs. Moreover, as Taiwan produces over 90% of the world's most advanced chips, there is little substitutability for its products, which implies price inelasticity of US demand for AI chips and servers produced by industry heavyweights like TSMC and Foxconn. Thus, the extent of export growth moderation owing to payback effects, indirect macro effects from weaker US consumer demand and a strong TWD will likely be tempered by sustained AI-led demand, evidenced by the ramp-up in Blackwell shipments.

Elevated uncertainty should weigh on business investment and consumer sentiment

On the investment side, there have been no cutbacks in capex spending by US CSPs and large Taiwanese tech players thus far, which suggests the narrative of a strong investment AI cycle remains intact. That said, elevated uncertainty due to Trump's tariff policy should lead to lower capex spending by firms in other industries, resulting in softer gross capital formation growth in H2.

While consumer sentiment could be dampened by tariff uncertainty, we do not think this would translate into a material decline in private consumption growth, as labour market fundamentals remain healthy, evidenced by a low unemployment rate and positive real wage growth. Fiscal programs aimed at providing employment support should also help stabilize labour market conditions. We therefore expect private consumption growth near the trend rate of 2.7% y-o-y in H2.

Risks to our growth outlook

The risks to our above-consensus 2025 GDP growth forecast of 3.4% (Consensus: 2.9%) are skewed to the downside, in our view. Elevated global economic uncertainty and potentially sharp fluctuations in the financial market could further dampen consumer sentiment and generate negative wealth effects, which could drive a moderation in private consumption growth (versus our forecast of trend growth). A harsh implementation of chip/electronic tariffs without any major carve-outs would pose downside risks to both exports and investment. As the US administration works out how to best implement chip/electronic tariffs, these tariffs risk being delayed, in which case the growth impact would be mostly felt in 2026.

We forecast full-year CPI inflation at 1.9%

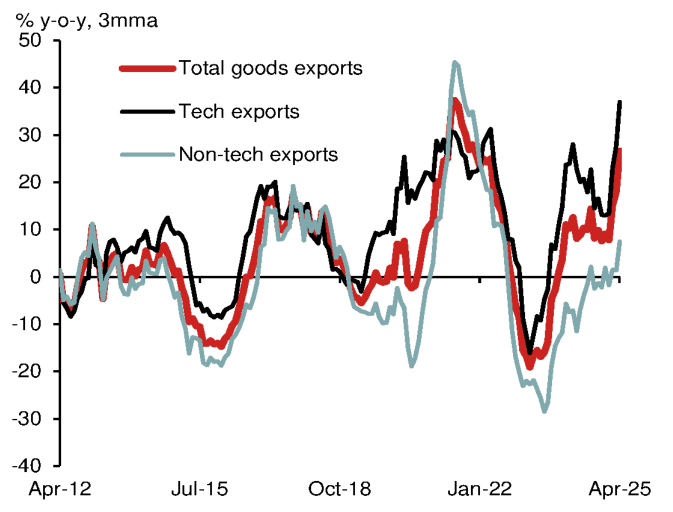
We expect a stronger TWD to lead to reduced imported price pressures. Based on our FX strategy team's USD/TWD forecasts, we estimate a stronger TWD would shave off around 0.12pp from our full-year 2025 inflation forecast. We now forecast 2025 CPI inflation at 1.9% (was 2.0%), within the CBC's target of 2%. Despite potential food price volatility, we expect lower energy prices and only a mild recovery in consumption, in addition to a strong TWD, to keep inflation contained.

Fiscal policy in focus, while monetary policy should remain unchanged

Taiwan has plenty of fiscal space, with government debt at only around 30% of GDP. Amid heightened tariff uncertainty, higher fiscal spending by the government could help mitigate the adverse growth impact on the external sector. The government has approved a TWD410bn special budget that will be allocated over 33 months, from 12 March until end-2027, to help local businesses tackle US tariffs and ensure stable employment, and strengthen national defense capabilities.

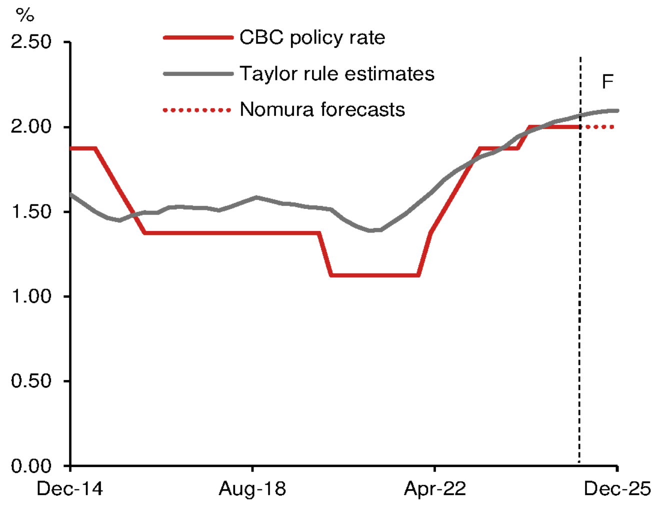
On monetary policy, we expect the CBC to remain cautious on the growth outlook, as the impact of US tariff policy will become more pronounced in H2. However, with inflation unlikely to fall below 1.5% this year (a threshold *previously flagged* for the possibility of rate cuts), lingering concerns about inflation evidenced in the March policy meeting minutes, and real policy rates near zero, we believe the CBC will stay on an extended pause this year, rather than pursuing rate cuts, which is also corroborated by our Taylor rule model (Figure 9). We also do not think the central bank will cut the RRR, as banking liquidity remains sufficient. While there has been good progress in curbing housing speculation and cooling housing transactions, the CBC recently said there is still excessive flow of credit into the real estate sector. This supports our view that selective credit controls are likely to remain intact to ensure the real estate market is well contained, and to make certain that housing market expectations are well anchored.

Fig. 8: Taiwan export growth



Source: CEIC and Nomura Global Economics.

Fig. 9: CBC policy rate and Taylor rule estimates



Note: We estimate our Taylor rule using the following equation: Policy rate = a1*R(-1) + a2*Output gap + a3*inflation gap, where R = policy rate; output gap = our estimates; inflation gap = CPI - 2%.
Source: CEIC and Nomura Global Economics.

Fig. 10: Taiwan: Details of the forecast

% y-o-y growth unless otherwise stated	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	2024	2025	2026
Real GDP (sa, % q-o-q)	**1.1**	**1.7**	**1.8**	-1.5	0.9	1.3	0.0	1.6	1.1	-0.4			
Real GDP	**4.2**	**3.8**	**5.5**	3.0	2.8	2.4	0.7	3.8	4.0	2.3	**4.8**	3.4	2.7
Private consumption	**1.8**	**2.1**	**1.4**	2.2	2.8	2.6	2.9	2.4	2.7	3.1	**2.7**	2.2	2.8
Government	**4.0**	**2.4**	**0.4**	1.6	2.1	3.6	3.1	1.8	1.9	2.8	**2.5**	2.0	2.4
Gross capital formation	**17.1**	**23.8**	**16.0**	6.5	5.9	2.2	0.9	0.2	4.5	1.5	**13.6**	7.3	1.7
Exports	**8.9**	**8.9**	**20.3**	9.0	6.1	5.2	-5.5	5.5	4.6	5.1	**8.7**	9.8	2.4
Imports	**13.9**	**18.3**	**24.4**	11.2	8.2	6.3	-4.2	2.1	3.2	6.2	**11.4**	12.0	1.8
Contributions to GDP growth (pp)													
Domestic demand	**5.3**	**6.0**	**4.5**	3.1	3.0	2.3	2.1	1.4	2.7	2.3	**4.7**	3.2	2.1
Net trade (goods & services)	**-1.1**	**-3.1**	**1.0**	-0.1	-0.2	0.1	-1.4	2.4	1.3	0.0	**0.0**	0.2	0.6
Unemployment rate (sa, %)	**3.4**	**3.4**	**3.4**	3.5	3.4	3.4	3.4	3.4	3.5	3.5	**3.4**	3.4	3.5
Consumer prices	**2.2**	**2.0**	**2.2**	2.0	1.8	1.7	1.7	1.9	2.1	2.0	**2.2**	1.9	1.9
Current account balance (USDbn)	**25.2**	**33.8**	**30.2**	24.4	26.7	31.2	30.0	30.7	29.4	33.3	**112.6**	112.5	123.3
Current account balance (% of GDP)	**12.6**	**16.1**	**15.0**	10.9	11.3	12.5	12.4	12.5	11.5	12.5	**14.1**	12.4	12.2
Fiscal balance (% of GDP)											**0.4**	-0.8	-0.8
CBC discount rate (%)	**2.000**	**2.000**	**2.000**	2.000	2.000	2.000	2.000	2.000	2.000	2.000	**2.000**	2.000	2.000
10-year government bond	**1.48**	**1.61**	**1.64**	1.55	1.50	1.50	1.50	1.50	1.50	1.50	**1.61**	1.50	1.50
Exchange rate (USD/TWD)	**31.7**	**32.8**	**33.2**	29.4	28.6	28.3	28.2	28.1	28.0	27.8	**32.8**	28.3	27.8

Note: Numbers in bold are actual values; others are forecasts. The contribution to GDP from the "inventories" component also includes statistical discrepancies. Interest rate and currency forecasts are end of period; other measures are period average. Table reflects data as of 30 May 2025.
Source: CEIC, Bloomberg and Nomura Global Economics.

TWD: We see a multitude of factors driving TWD outperformance

We see a multitude of factors driving TWD to outperform in H2 and hold a short USD/TWD position. We expect a move towards 28.2 in coming months (~6%).

1. **Taiwanese lifers and exporters are likely to further increase their FX hedge ratios and reduce their USD hoarding in H2 on local FX appreciation**. We estimate lifers have been consistently increasing their FX hedge ratios from less than 50% in March to around 60% in April and 70% today. FX hedge ratios hit a high of around 80% in H2 2017 and into 2018, and a further 10% increase in the FX hedge ratio would equate to ~USD72bn of FX selling (lifers' total AUM stood at ~USD720bn as of 2024). Given the significant risks around USD weakness, there remains a risk of a new high in lifer FX hedge ratios.
2. **Heightened market expectations for TWD strength, with discussions on *FX appreciation* as part of a potential US trade deal,** especially considering recent developments on KRW and news reports that Korean officials confirmed there were discussions on FX during talks with the US. We believe TWD appreciation may also be a demand from the US as part of a trade deal.
3. **Notable *FX undervaluation* of TWD, at an average 16.5%.** Although TWD NEER has appreciated by ~6% since the start of May, we believe it remains extremely undervalued based on the average of our four FX valuation models (FEER, PPP, REER and REER adjusted for productivity).
4. **Flow dynamics remain positive for TWD, amid a pick up in foreign equity inflows.** Since the start of May, there have been USD7.6bn of inflows (to 29 May). We believe there is significant space for a recovery in inflows, with year-to-date outflows reaching a peak of USD20.1bn as of 22 April 2025.
5. **Relatively robust local fundamentals,** with both Q1 GDP growth and April industrial production growth surprising to the upside; our economics team has also revised up its 2025 GDP forecast for Taiwan to 3.4% (was 3.1%). April exports also *surprised significantly to the upside* , driven by frontloading effects and sustained demand for high-tech/AI servers.

Taiwan rates: The front end appears to be marginally below fair value; on the long end, watch for windfarm flows

We see some upside to Taiwan front-end rates in H2 2025, given our house view that AI-led demand should partly offset the tariff shock. The CBC is also unlikely to pivot, as it remains concerned about the housing market/rental strength, while Taiwan real policy rates remain the lowest in the region, as inflation is still near 2%. With 1y1y NDIRS at 1.39%, the market is essentially pricing two full 12.5bp rate cuts. In our base case, the CBC leaves policy rates unchanged, and thus we maintain a moderate pay stance on front-end Taiwan rates.

On longer tenors, while the global trend argues for a steeper curve, we think the Taiwan 5s10s NDIRS at close to 40bp is already fairly priced. In H2, we look for signs of Taiwan lifers increasing participation in long-end TGBs, even if absolute yield levels remain too low, as part of a diversification away from USTs after the sharp drawdown from bond ETF funds in early May. The other factor potentially affecting long-end Taiwan swap rates is windfarm flows. So far in Q2, green bond issuance has slowed from the pace in Q1. If global growth uncertainty persists, windfarm projects could also moderate, resulting in less pay flows in the long end of curve. As such, we see less value in Taiwan steepeners than in other markets such as Korea and China.

India: Relatively resilient

We expect below-trend GDP growth (FY26: 6.2%) and below-target CPI inflation (3.3%) to prompt 100bp of further rate cuts (Consensus: 50bp) and India to outperform Asian peers.

Research Analysts

Asia Economics

Sonal Varma - NSL
sonal.varma@nomura.com
+65 6433 6527

Aurodeep Nandi - NFASL
aurodeep.nandi@nomura.com
+91 22 4037 4087

Asia FX Strategy

Craig Chan - NSL
craig.chan@nomura.com
+65 6433 6106

Wee Choon Teo - NSL
weechoon.teo@nomura.com
+65 6433 6107

Vicky Chen - NSL
vicky.chen1@nomura.com
+65 6433 6540

Manthan Shingala - NSL
manthan.shingala1@nomura.com
+65 6433 6427

Asia Rates Strategy

Nathan Sribalasundaram - NSL
nathan.sribalasundaram@nomura.com
+65 6433 9707

An early trade deal and China+1 beneficiary

We expect India to be among the first countries to sign an "interim" trade deal with the US, enabling it to lower its reciprocal tariff rate to 10%, below the US tariff rate on China. This should provide India with a tariff advantage over its competitors, leading to benefits from *trade diversion* and supply-chain shifts. Trump's threat of 25% tariffs against Apple and other manufacturers is a concern, but given the higher cost of production in the US, India's large market size and its focus on ease of doing business, we expect low- and mid-tech manufacturing to shift to India. We remain positive on India's medium-term growth, due to strong fundamentals, and we see it as a key beneficiary of the ongoing *supply-chain shifts* .

The growth cycle has yet to bottom out

Despite the *pickup in headline GDP growth* to 7.4% y-o-y in Q1 2025 from 6.4% in Q4 2024, details show moderations in both private consumption and private capex growth. Our proprietary *Nomura India Composite Leading Index (NICLI)* , which has a one-quarter lead on non-agricultural GDP growth, has been steadily moderating (slowing momentum) and has been below the 100 threshold since Q4 2024, which points to below-trend growth (Figure 11).

We see a few reasons behind this cyclical weakness. First, urban consumption demand remains weak, credit growth is moderating and real income growth has been tepid amid higher *household balance sheet stress* . Even as rural consumption has improved, the pace has been uneven, with conflicting signs among rural growth indicators, while farming *terms of trade* have declined over the past few months. Second, increased global uncertainty, lackluster domestic demand and the deluge of Chinese imports limit the likelihood of a private capex recovery. Third, a slowdown in global growth is also likely to weigh on merchandise export growth, especially after the ongoing frontloading fades.

That said, there are positive offsets, from lower commodity prices, lower inflation, accommodative monetary policy, benefits from trade diversion and resilience of services.

On net, we expect policy transmission to take more time, and pencil in a moderation of GDP growth to 6.2% y-o-y in FY26 from 6.5% in FY25, below RBI's forecast (6.5%).

Our latest forecast is slightly higher than our erstwhile forecast of 5.8%, reflecting the latest thaw in US-China trade tensions. We expect India to outperform its more open Asian peers during the current cycle, given its more domestic demand-driven economy.

The inflation nosedive

Disinflation and below-target inflation lie ahead. Inflation year-to-date (January-April) is already tracking at only 3.6%, primarily due to lower food prices, but also reflecting tepid core inflation momentum. Looking forward, a strong winter crop harvest, a continued deceleration in the price inflation of pulses due to higher supply, lower agricultural input costs and potentially favourable monsoons should lower food inflation. A negative output gap, lower manufacturing input costs and moderating wage growth are likely to keep core inflation capped (Figure 12). We expect headline CPI inflation to moderate to below 3.0% over the next six months from 3.2% y-o-y in April, averaging a subdued 3.3% in FY26, below both the RBI's midpoint target (4%) and consensus (4%). Our latest forecast is lower than our previous forecast of 3.9%, reflecting the fall in food prices. Given the predominance of food prices in determining overall inflation, climate disruptions remain a risk, although we think the inflation trajectory should prove relatively resilient.

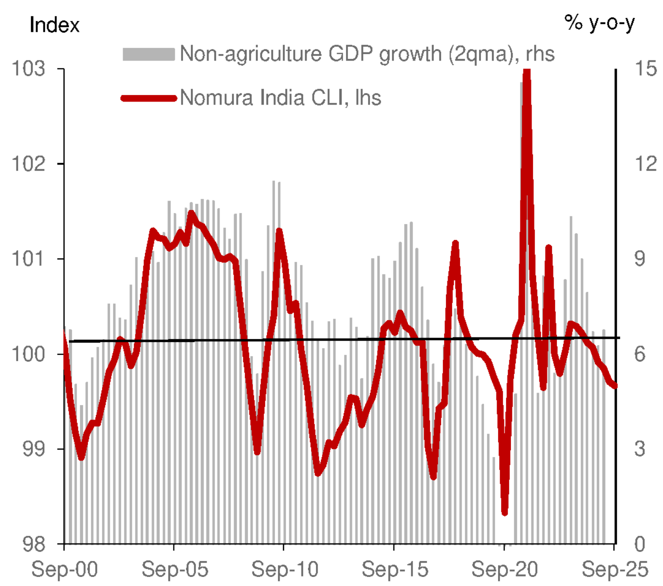
Monetary policy is set to do the heavy lifting

The RBI lowered the policy repo rate to 6.0%, having delivered 50bp of cumulative cuts so far. We see room for more rate cuts ahead, with our forecast pointing to an undershoot on both GDP growth (at 6.2% in FY26 versus RBI's forecast of 6.5%) and inflation (3.3% versus the target of 4.0%). Moreover, with growth below trend and inflation below target, we believe policy rates will need to move into the accommodative zone rather than neutral. As such, we expect an additional 100bp of rate cuts to a terminal rate of 5.00%, with 25bp cuts in each of June, August, October and December. To enable faster transmission, banking system liquidity is likely to be kept in a surplus (~1% of NDTL), which suggests overall monetary conditions are likely to be accommodative. Despite our US team's forecast for unchanged Fed policy rates until Q4, we expect the RBI to cut rates, given diverging macro conditions and a well-behaved currency. India's current account deficit is likely to remain contained at ~0.6% of GDP in FY26, which means BOP funding should not prove challenging. Our forecast for 100bp of further cuts is more than consensus (50bp), and we see risks as skewed towards more cuts in 2026.

Fiscal prudence remains intact

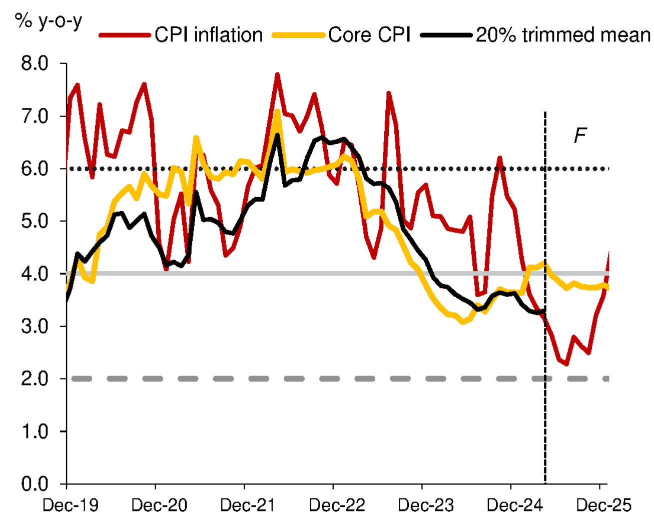
We expect the government to stick to fiscal prudence, while monetary policy does the heavy lifting. This is due to India's relatively high debt-to-GDP ratio and the government's commitment to maintain fiscal credibility. In the *Union Budget*, the FY26 fiscal deficit target was set at 4.4% of GDP, down from 4.8% of GDP in FY25. Unlike last year, when elections led to delayed spending, we expect the timely execution of capex projects and spending. On the revenue front, a shortfall in tax revenues due to slower nominal GDP growth is likely to be offset by *record high RBI dividends* and the recent hike in excise duties on petrol and diesel. Overall, unless there is a major global growth shock, the government should deliver on its fiscal deficit target, ensuring that India's fiscal risk premia remain low.

Fig. 11: Nomura India Composite Leading Index (NICLI) for India and non-agriculture GDP growth



Source: CEIC and Nomura Global Economics.

Fig. 12: CPI Inflation projections



Source: CEIC and Nomura Global Economics

Fig. 13: India - Details of the forecast

% y-o-y growth unless otherwise stated	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	2024	2025	2026	FY24	FY25	FY26
Real GDP	**5.6**	**6.4**	**7.4**	6.5	6.4	6.0	6.0	6.7	6.8	6.5	**6.7**	6.6	6.5	**9.2**	**6.5**	6.2
Private consumption	**6.4**	**8.1**	**6.0**	6.0	6.2	6.2	6.5	6.5	6.8	6.8	**7.3**	6.1	6.7	**5.6**	**7.2**	6.2
Government consumption	**4.3**	**9.3**	**-1.8**	12.0	5.5	2.0	10.0	5.0	8.0	10.0	**4.8**	4.1	8.2	**8.1**	**2.3**	7.7
Fixed investment	**6.7**	**5.2**	**9.4**	8.0	7.0	8.5	6.5	8.5	9.0	7.1	**6.2**	8.2	7.8	**8.8**	**7.1**	7.5
Exports (goods & services)	**3.0**	**10.8**	**3.9**	6.0	6.5	5.7	8.0	8.0	10.0	9.5	**7.4**	5.5	8.9	**2.2**	**6.3**	6.6
Imports (goods & services)	**1.0**	**-2.1**	**-12.7**	8.0	9.0	8.5	13.0	9.0	6.0	12.0	**1.9**	3.4	9.7	**13.8**	**-3.7**	9.5
Contributions to GDP (pp)																
Domestic final sales	**6.3**	**7.2**	**6.1**	7.3	6.4	6.6	6.6	7.2	7.7	7.2	**6.6**	6.6	7.1			
Net trade (goods & services)	**0.4**	**2.8**	**3.7**	-0.7	-0.9	-0.6	-0.6	-0.6	0.6	-0.6	**1.1**	0.4	-0.3			
Consumer price index	**4.2**	**5.6**	**3.7**	2.8	2.6	3.1	5.0	5.4	5.3	3.7	**4.9**	3.0	4.8	**5.4**	**4.6**	3.3
Current account balance (% GDP)	**-1.8**	**-1.1**	1.0	-0.8	-1.0	-0.6	0.0	-0.3	-0.8	-0.9	**-0.8**	-0.4	-0.7	**-0.7**	-0.7	-0.8
Fiscal balance (% GDP)														**-5.6**	**-4.8**	-4.4
Repo rate (%)	**6.50**	**6.50**	**6.25**	5.75	5.50	5.00	5.00	5.00	5.00	5.00	**6.50**	5.00	5.00	**6.50**	**6.25**	5.00
Standing Deposit Facility (SDF) rate (%)	**6.25**	**6.25**	**6.00**	5.50	5.25	4.75	4.75	4.75	4.75	4.75	**6.25**	4.75	4.75	**6.25**	**6.00**	4.75
Cash reserve ratio (%)	**4.50**	**4.00**	**4.00**	4.00	4.00	4.00	4.00	4.00	4.00	4.00	**4.00**	4.00	4.00	**4.50**	**4.00**	4.00
10-year bond yield (%)	**6.75**	**6.76**	**6.58**	6.25	6.00	5.75	5.63	5.63	5.63	5.63	**6.76**	5.75	5.63	**7.06**	**6.58**	5.63
Exchange rate (USD/INR)	**83.8**	**85.6**	**85.5**	84.8	84.0	83.5	83.1	82.8	82.4	82.0	**85.6**	83.5	82.0	**83.4**	**85.5**	83.1

Note: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. For fiscal balance, calendar year refers to the forthcoming fiscal year. Table reflects data available as of 30 May 2025.
Source: CEIC and Nomura Global Economics

FX strategy: We expect INR to underperform against a softer USD backdrop, with the RBI likely to accumulate reserves; we maintain long EUR/INR

In the current softer USD environment, we believe INR will underperform on a basket basis. While there have been some positive factors for India in the form of trade talks and an easing of India-Pakistan tensions, we believe INR will underperform, in part from RBI FX purchases. We continue to recommend a long EUR/INR position for a few reasons:

1. **India-Pakistan tensions remain despite the ceasefire.** India continues to suspend the Indus-water treaty, and diplomatic relations between the two countries remain strained. India Prime Minister Modi has ruled out any talks with Pakistan, stating that "There will be no trade or talks with Pakistan" (*Bloomberg*, 22 May).
2. **The RBI is likely to allow for FX flexibility on the topside in USD/INR, while limiting the downside**. We estimate the *RBI has drained USD100.9bn in FX reserves* since the peak in September 2024, of which USD40.2bn were in spot reserves (to 16 May 2025), and USD69.7bn (to March 2025) were via forwards. Given the significant drainage, the RBI is likely to accumulate reserves on a softer USD, capping INR appreciation. However, to limit further FX reserve losses, we expect the RBI to allow for more topside flexibility.
3. **Simmering tensions in India-US trade talks**. While India appears to have made significant progress in trade talks with the US, some underlying tensions are beginning to show. India has threatened to impose retaliatory tariffs on the US in response to Trump's higher duties on steel and aluminum (*Bloomberg*, 14 May). Trump targeting investment into India (*Bloomberg*, 15 May) poses an additional risk, considering his recent threats of tariffs on Apple products (*Truth Social*, 23 May).
4. **India's domestic growth remains fragile, the RBI is set to cut and the basic balance remains in deficit.** We believe India's GDP growth is likely to face cyclical weakness, with our economists forecasting growth of 6.2% in FY26, below the RBI's estimate of 6.5%. We continue to *expect four additional cuts by end-2025*, which would take the repo rate to 5.00% (Consensus: 5.50%). A marginal widening of India's current account deficit in H2 to ~0.8% of GDP. Net FDI has been negative since Q3 2024 and, if this continues, would further drag on INR.

Rates strategy: INR rates to continue to move lower, with the curve steepening, but trading in H2 will need to be more tactical.

We continue to expect INR rates to outperform, despite the large move we have already seen. We maintain our long 5y IGB position (conviction level: 3/5; target 5.75%) and our receive 2y NDOIS position (conviction level: 3/5; target 5.25%). Reasons for these trades include:

1. Terminal rate pricing risk remains skewed to the downside. Our economists (see above) continue to expect a terminal rate of 5.00% from the RBI in 2025, below current market pricing of 5.50%. While we believe the market may continue to trade around 5.50% in the near term, risks appear skewed towards a lower terminal rate, especially if growth data disappoint. India CPI data are likely to provide some support for a lower terminal rate, especially if food inflation remains benign over the summer months, further supporting the view that real policy rates are too high.
2. Liquidity has been in surplus over the past few months, given the RBI's proactive stance on the liquidity situation (see *Asia Insights - INR rates: Liquidity update – a sustained banking surplus is on the horizon*, 18 March 2025). Over the coming weeks, we still expect more liquidity measures from the RBI, and given the weak policy transmission, RBI will likely err on the side of over injecting, although FX swaps seem more likely than OMO auctions. Finally, the recent RBI dividend of INR2.7trn will eventually feed into the banking system and support banking liquidity (see *Asia Insights - India: RBI declares record high dividends*, 24 May 2025). We believe the market will move to price the MIBOR-Repo rate spread at -20bp (current: -10bp).
3. SLR supply remains low in the coming months. While we expect a pick up in SDL supply, supply from the central government (IGB/ITBs) is likely to remain low. Credit growth remains weak and bank holdings of SLR paper is on the low side following the INR5trn of OMO purchases from the RBI. We continue to believe the front end of the curve will remain well supported from bank buying, as the RBI on behalf of the government will continue to conduct large switch operations.

ASEAN: H2 outlook

Research Analysts

Asia Economics

Euben Paracuelles - NSL
euben.paracuelles@nomura.com
+65 6433 6956

Charnon Boonnuch - NSL
charnon.boonnuch@nomura.com
+65 6433 6189

Nabila Amani - NSL
nabila.amani@nomura.com
+65 6433 6409

Yiru Chen - NSL
yiru.chen1@nomura.com
+65 6433 6405

Asia FX Strategy

Craig Chan - NSL
craig.chan@nomura.com
+65 6433 6106

Wee Choon Teo - NSL
weechoon.teo@nomura.com
+65 6433 6107

Vicky Chen - NSL
vicky.chen1@nomura.com
+65 6433 6540

Manthan Shingala - NSL
manthan.shingala1@nomura.com
+65 6433 6427

Asia Rates Strategy

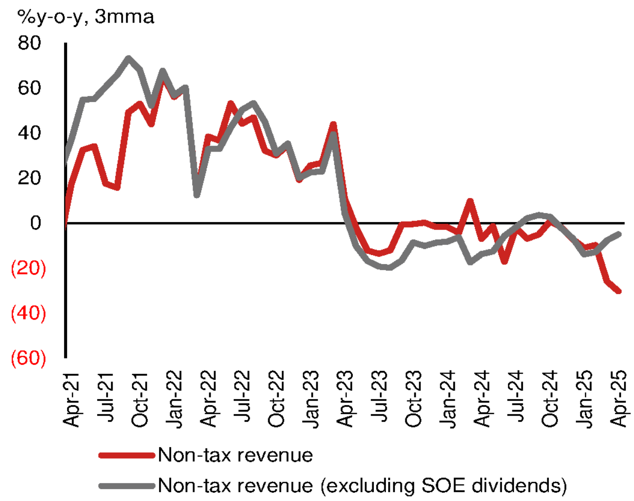
Nathan Sribalasundaram - NSL
nathan.sribalasundaram@nomura.com
+65 6433 9707

Indonesia: Fiscal concerns are likely to linger

We continue to expect *GDP growth* to slow to 4.7% in 2025 (Consensus: 4.8%) from 5.0% in 2024, reflecting weak domestic demand and high policy uncertainty, which is exacerbating external risks. We expect private consumption to remain constrained by still-weak household sentiment amid concerns over continuing layoffs in labor-intensive sectors (e.g., textiles), which could face even more competition from Chinese imports. While government underspending should reverse in H2, we still forecast relatively slow investment spending, considering the uncertainty in the operating environment and the low priority of infrastructure projects. Partly due to weakening domestic demand and taking into account the Q1 outturn, we revised our 2025 *current account deficit* (CAD) forecast down to 0.8% of GDP from 1.5%, but still pencil in a widening trajectory in H2 due to soft external demand, China's industrial overcapacity and negative terms-of-trade effects from low commodity prices.

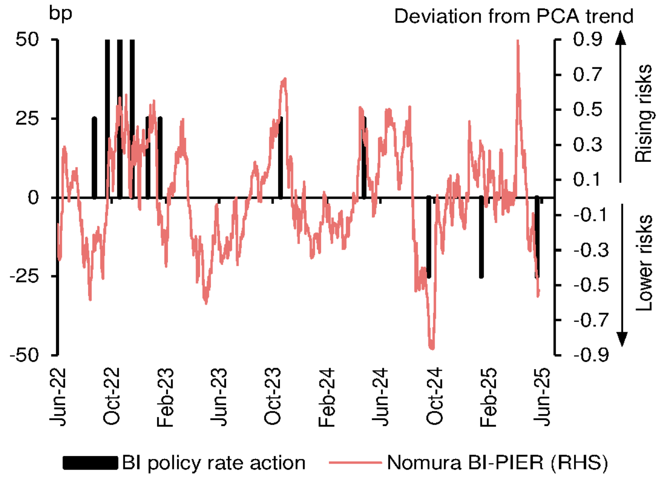
We continue to forecast a *widening of the 2025 fiscal deficit* to 2.9% of GDP, above the budget projection of 2.5% (Consensus: 2.7%) and close to the 3% ceiling, with risks remaining skewed to the upside (i.e., the deficit widens further). With no new fiscal reforms, a weak start to tax collections, and a soft domestic economy, we think revenue collections will continue to undershoot the budget. Non-tax revenues have been contracting, not only reflecting the loss from SOE dividends transferred to Danantara, but also the impact of lower commodity prices (Figure 14). We estimate that, in order for the government to meet its full-year 2025 target, MOF will need to exceed revenue collections by about 14.5% of last year's monthly average for the rest of the year, which looks fairly ambitious. The slump in expenditures is, in our view, unsustainable, as a weaker GDP growth amid declining budget disbursement will likely be deemed unacceptable by President Prabowo, prompting him to push his populist programs and to reverse his budget cut directives. Indeed, the government already unveiled another stimulus package that includes discounts on transport fares, toll fees and electricity rates, as well as wage subsidy assistance. We expect the government to revise the fiscal deficit higher around July, similar to last year, which could revive market concerns over fiscal risks.

Fig. 14: Indonesia - Non tax revenues (with and without SOE dividends)



Source: MOF, CEIC, Nomura Global Economics

Fig. 15: Indonesia - Nomura BI Policy Indicator of External Risks (BI-PIER)



Note: Latest data point as of 26 May 2025.
Source: Bloomberg, Nomura Global Economics

We expect *BI to cut its policy rate* by an additional 50bp this year, after resuming its cutting cycle in May and reiterating its forward guidance to monitor room to support growth. However, we emphasize that the timing of the cuts will be highly uncertain, as BI still prioritizes FX stability, which requires a supportive external backdrop. For now, we pencil in September and December as plausible windows for BI to deliver these measured cuts (25bp each), which would represent a more backloaded trajectory, given the near-term uncertainty on US tariffs, as well as, domestically, the return of fiscal concerns. Our US team also expects the Fed's cutting cycle to resume only in December. We will rely on our daily indicator, the *Nomura BI-PIER* , which has so far proven useful in sending reliable signals of BI's short-run policy rate decisions (Figure 15). We revise down our 2025 average inflation forecast to 1.4% from 1.8%, taking into account the stimulus measures, especially the 50% discount on electricity tariffs for eligible households over the next two months (i.e., June and July).

Fig. 16: Indonesia: Details of the forecast

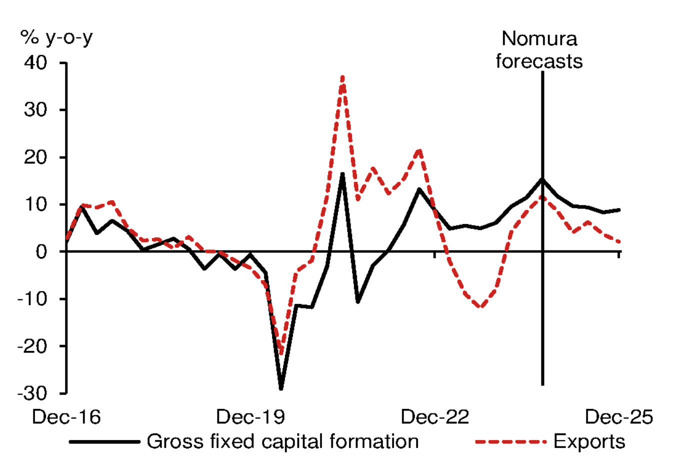
% y-o-y growth unless otherwise stated	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	2024	2025	2026
Real GDP (sa, % q-o-q)	**1.1**	**1.2**	**1.2**	1.2	1.0	1.1	1.3	1.2	1.2	1.3			
Real GDP	**4.9**	**5.0**	**4.9**	4.8	4.7	4.6	4.7	4.7	5.0	5.2	**5.0**	4.7	4.9
Private consumption	**5.1**	**5.0**	**4.8**	4.8	4.9	4.9	5.0	5.0	5.1	5.3	**5.1**	4.9	5.1
Government consumption	**4.6**	**4.2**	**-1.4**	4.6	7.0	7.8	8.1	6.6	5.6	5.9	**6.6**	5.0	6.4
Gross fixed capital formation	**5.2**	**5.0**	**2.1**	2.1	2.3	2.8	5.2	4.8	4.1	4.3	**4.6**	2.4	4.6
Exports (goods & services)	**8.8**	**7.6**	**6.8**	6.4	4.2	3.0	4.8	5.8	7.4	7.1	**6.5**	5.0	6.3
Imports (goods & services)	**11.9**	**10.4**	**4.0**	3.8	5.3	6.4	8.6	7.6	6.3	5.3	**7.9**	4.9	6.9
Contributions to GDP (% points)													
Domestic final sales	**4.6**	**4.7**	**3.2**	3.6	3.8	4.3	4.7	4.6	4.4	4.8	**4.7**	3.7	4.6
Inventories	**0.5**	**0.5**	**0.8**	0.5	0.9	0.9	0.5	0.3	0.1	-0.2	**0.4**	0.8	0.1
Net trade (goods & services)	**-0.2**	**-0.2**	**0.8**	0.7	-0.1	-0.6	-0.5	-0.1	0.5	0.6	**0.0**	0.2	0.1
Unemployment rate (% nsa)	**4.9**	**4.8**	**4.8**	4.8	4.8	4.8	4.8	4.8	4.8	4.8	**4.9**	4.8	4.8
Consumer prices	**2.0**	**1.6**	**0.6**	1.5	1.3	2.1	3.2	2.0	2.9	2.4	**2.3**	1.4	2.6
Exports (BOP basis)	**5.8**	**7.7**	**6.0**	4.4	3.9	2.6	5.5	7.2	7.6	7.3	**1.6**	4.1	6.9
Imports (BOP basis)	**8.6**	**9.4**	**-0.2**	2.7	4.4	6.3	11.1	7.6	4.1	5.5	**5.0**	3.4	6.9
Trade balance (US$bn, BOP basis)	**9.3**	**11.3**	**13.1**	11.3	9.4	9.4	10.8	11.9	12.1	11.2	**39.9**	43.1	46.1
Current account balance (US$bn)	**-1.9**	**-1.1**	**-0.2**	-2.9	-4.5	-4.6	-3.6	-4.6	-4.4	-4.4	**-8.5**	-12.1	-16.9
Current account balance (% of GDP)	**-0.6**	**-0.6**	**-0.4**	-0.4	-0.6	-0.8	-1.0	-1.1	-1.1	-1.1	**-0.6**	-0.8	-1.1
Fiscal Balance (% of GDP)											**-2.3**	-2.9	-2.9
Policy rate, BI rate (%)	**6.00**	**6.00**	**5.75**	5.50	5.25	5.00	5.00	5.00	5.00	5.00	**6.00**	5.00	5.00
10-year government bond yield (%)	**6.45**	**7.00**	**7.00**	6.75	6.50	6.25	6.00	6.00	6.00	6.00	**7.00**	6.25	6.00
Exchange rate (USD/IDR)	**15820**	**15780**	**16352**	16200	16000	15900	15838	15775	15713	15650	**15780**	15900	15650

Note: Numbers in bold are actual values; others forecast and inventories under the GDP components also includes statistical discrepancies. Interest rate and currency forecasts are end of period; other measures are period average. Quarterly current account balance (% of GDP) numbers are four-quarters rolling sum. All forecasts are modal forecasts (i.e., the single most likely outcome). Table reflects data available as of 30 May 2025.
Source: CEIC, Nomura Global Economics.

Malaysia: Holding its own... for now

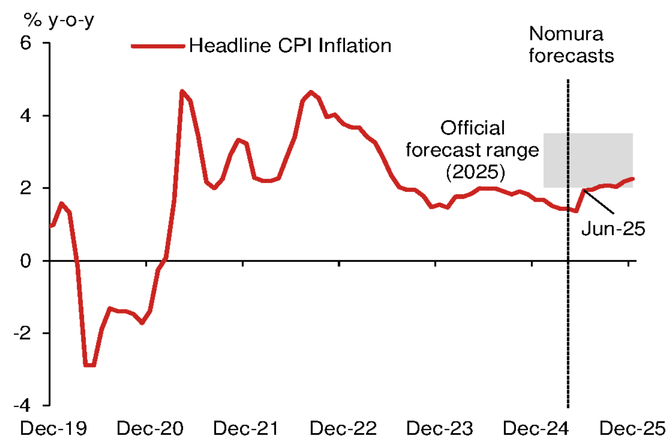
We maintain our 2025 GDP growth forecast of 4.4% (Consensus: 4.0%), underpinned by our view of domestic demand remaining robust. In particular, we expect strong investment spending to sustain in both private and public sectors (Figure 17), owing to the consistent implementation of structural reforms and public infrastructure projects. The *Johor-Singapore Special Economic Zone* (JS-SEZ) will likely provide an additional boost and will prove to be an FDI magnet amid supply-chain shifts, with investment commitments starting to materialize towards the end of the year. Approved investments in Johor in Q1 reached MYR27.4bn (1.4% of GDP), and an additional MYR23bn (1.2%) are in the pipeline for Q2 [1]. Private consumption will also likely remain supported by a still-resilient labor market. We expect the unemployment rate to rise modestly to 3.3% in Q4 from 3.1% in Q1. Electronics export growth should hold up through Q2, owing to some frontloading (as evident in in April), but will face significant headwinds in H2, given the US tariffs and payback effects from the *front-loading boost* .

Fig. 17: Malaysia: GFCF versus export growth and forecasts



Source: CEIC, Nomura Global Economics.

Fig. 18: Malaysia - Headline inflation and Nomura forecasts



Source: CEIC, Nomura Global Economics

We continue to expect BNM to leave its overnight policy rate (OPR) unchanged at 3% this year (versus the market pricing in 37.5bp of cuts as of 27 May). BNM will likely remain patient rather than be pre-emptive in shifting to an accommodative stance, given our view of resilient domestic demand, which is in line with BNM's assessment. Unlike other regional central banks with still-restrictive monetary policy, BNM's stance is already neutral, adding to the rationale that it does not need to rush into cutting rates. We also see scope for further cuts in the SRR ratio towards 0%. Taking into account the softer-than-expected outturns ytd (averaging 1.5%), we lower our 2025 headline CPI inflation forecast to 1.8% from 2.4% (Consensus: 2.1%). However, our new forecast still pencils in an upward trajectory to above 2% in H2 (Figure 18), due to the Ron95 petrol subsidy rationalization, which remains on track for implementation around June.

Fig. 19: Malaysia: Details of the forecast

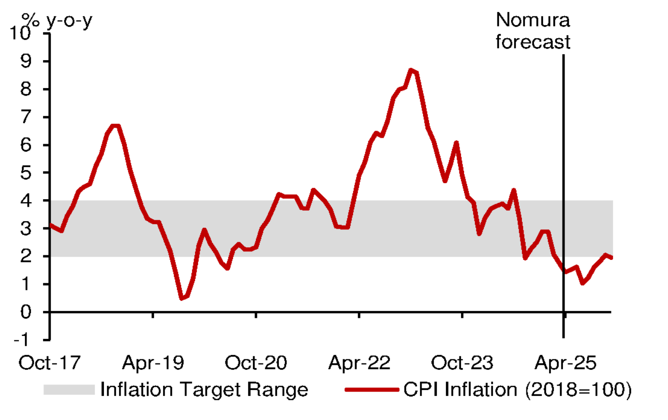
% y-o-y growth unless otherwise stated	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	2024	2025	2026
Real GDP (sa, % q-o-q)	**1.6**	**-0.2**	**0.7**	2.3	1.5	-0.2	0.5	1.8	1.9	0.2			
Real GDP	**5.4**	**4.9**	**4.4**	4.5	4.4	4.3	4.1	3.6	4.0	4.4	**5.1**	4.4	4.0
Private consumption	**4.7**	**5.3**	**5.0**	5.2	4.8	4.7	4.3	4.6	4.9	4.6	**5.1**	4.9	4.6
Government consumption	**6.0**	**4.0**	**4.3**	5.8	3.8	4.0	3.9	3.9	4.0	4.2	**4.7**	4.4	4.0
Gross fixed capital formation	**15.3**	**11.8**	**9.7**	9.4	8.3	8.9	8.3	7.9	7.4	7.3	**12.0**	9.1	7.7
Exports (goods & services)	**11.7**	**8.7**	**4.1**	6.3	3.7	2.2	1.5	0.1	1.9	4.4	**8.3**	4.1	2.0
Imports (goods & services)	**13.0**	**5.9**	**3.1**	6.4	4.6	3.9	3.4	1.6	1.9	4.5	**8.2**	4.5	2.8
Contributions to GDP (% points)													
Domestic final sales	**6.7**	**6.0**	**5.7**	5.9	5.2	5.2	5.0	5.1	5.1	5.0	**6.1**	5.5	5.1
Inventories	**-1.0**	**-3.1**	**-2.2**	-1.6	-0.5	0.1	0.2	-0.5	-1.3	-0.7	**-1.4**	-1.0	-0.6
Net trade (goods & services)	**-0.2**	**2.0**	**0.8**	0.2	-0.4	-1.0	-1.1	-0.9	0.1	0.1	**0.4**	-0.1	-0.4
Unemployment rate (% sa)	**3.2**	**3.2**	**3.1**	3.1	3.2	3.3	3.3	3.3	3.3	3.3	**3.2**	3.2	3.3
Consumer prices	**1.9**	**1.8**	**1.5**	1.6	2.0	2.2	2.4	2.4	2.3	2.6	**1.8**	1.8	2.5
Exports (BOP basis)	**15.0**	**14.4**	**10.3**	17.2	9.5	7.2	7.8	2.4	3.6	7.2	**7.2**	10.9	5.2
Imports (BOP basis)	**21.3**	**12.1**	**7.6**	17.9	10.0	7.5	9.7	3.9	2.7	7.1	**10.1**	10.7	5.7
Trade balance (US$bn, BOP basis)	**5.0**	**8.4**	**8.6**	5.6	5.2	8.8	8.3	4.8	6.0	9.6	**25.1**	28.3	28.6
Current account balance (US$bn)	**0.4**	**2.9**	**3.8**	0.9	0.4	3.2	4.3	0.7	1.3	4.0	**6.1**	8.2	10.3
Current account balance (% of GDP)	**0.8**	**1.4**	**1.8**	1.8	1.7	1.7	1.8	1.7	1.9	2.0	**1.4**	1.7	2.0
Fiscal Balance (% of GDP)											**-4.1**	-3.8	-3.4
Overnight policy rate (%)	**3.00**	**3.00**	**3.00**	3.00	3.00	3.00	3.00	3.00	3.00	3.00	**3.00**	3.00	3.00
Exchange rate (USD/MYR)	**4.11**	**4.47**	**4.43**	4.23	4.21	4.20	4.19	4.17	4.16	4.15	**4.47**	4.20	4.15

Note: Numbers in bold are actual values; others are forecasts, and inventories under the GDP components also includes statistical discrepancies. Interest rate and currency forecasts are end of period; other measures are period average. Table reflects data as of 30 May 2025.
Source: CEIC, Nomura Global Economics.

Philippines: Steady shift to more policy accommodation

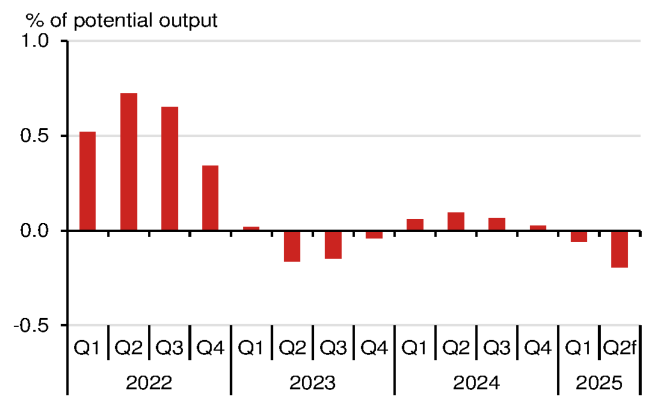
We expect headline inflation to average 1.8% in 2025, below BSP's 2-4% target (Consensus: 2.5%). Our forecast pencils in a trajectory in which CPI inflation declines to 1.3% in Q3 from 2.0% ytd, before edging back up to around 2% by year-end (Figure 20). This benign inflation outlook is underpinned by various factors which are already materializing, such as a negative output gap, low crude oil prices and the government maintaining supply-side measures (to keep rice prices low, in particular). As a result, we continue to believe BSP has scope to shift to an accommodative stance, as inflation expectations remain well-anchored and domestic demand subdued. We reiterate our call for BSP to deliver an additional 75bp of rate cuts this year, taking the policy rate to a below-neutral 4.75% (Consensus: 5.0%) with improving transmission effects.

Fig. 20: Philippines - CPI inflation and Nomura forecasts vs BSP's target



Source: CEIC, Nomura Global Economics

Fig. 21: Philippines - Output gap estimates



Source: CEIC, Nomura Global Economics

We forecast 2025 GDP growth at a sub-par 5.3% (Consensus: 5.6%), well below the official projection of 6-8% which we also expect to be eventually revised lower by the cabinet's economic team in the near-term. The Q1 outturn of 5.4% y-o-y was *disappointing* despite election-related spending, reflecting soft private investment spending growth which in turn suggests businesses have already turned cautious amid surging global trade uncertainty, even in a less trade-oriented economy. The output gap has turned negative (Figure 21). We continue to expect business sentiment to weigh on investment spending, and export growth to weaken from the impact of the US tariffs, including via indirect effects. Further out, we expect a moderate pickup in real GDP growth in 2026 to 5.6% (Consensus: 5.7%), still driven by the government's strong push for more progress on infrastructure projects.

As such, we forecast only a slight narrowing of the fiscal deficit to 5.5% of GDP in 2025 from 5.6% in 2024, above the government's medium-term fiscal framework (MTFF) target of 5.3% (and well above pre-Covid average: 2.4%). We think MTFF targets, which include reducing the fiscal deficit to 3% of GDP by 2028, are challenging to meet due to spending priorities, such as flagship infrastructure projects, as well as dimming prospects of further tax reforms after the mid-term *election,* which was marked by strong wins by opposition candidates. Political uncertainty could also increase in H2 2025, given the infighting between President Marcos and Vice-President Duterte, the impending impeachment trial of Duterte in July, and new appointments after Marcos' recent call for courtesy resignations of his entire cabinet, except the economic team which was largely retained.

Fig. 22: Philippines: Details of the forecast

% y-o-y growth unless otherwise stated	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	2024	2025	2026
Real GDP (% q-o-q, sa)	**1.1**	**1.5**	**1.2**	1.3	1.2	1.1	1.2	1.4	2.0	1.7			
Real GDP	**5.2**	**5.3**	**5.4**	5.3	5.4	5.0	4.9	5.0	5.9	6.5	**5.7**	5.3	5.6
Private consumption	**5.2**	**4.7**	**5.3**	5.2	5.9	6.5	5.7	5.6	5.4	5.4	**4.9**	5.7	5.5
Government consumption	**5.0**	**9.0**	**18.7**	13.5	12.9	11.1	0.4	4.2	7.2	10.3	**7.3**	14.0	5.5
Gross fixed capital formation	**7.7**	**5.0**	**5.9**	3.9	5.3	4.8	3.7	1.9	14.5	9.9	**6.3**	4.9	7.3
Exports (goods & services)	**-1.3**	**3.2**	**6.2**	5.3	3.0	1.5	0.8	3.7	4.9	4.8	**3.3**	4.0	3.5
Imports (goods & services)	**6.5**	**2.7**	**9.9**	7.8	4.1	8.1	0.6	6.2	9.7	7.2	**4.2**	7.4	5.9
Contribution to GDP growth (% points)													
Domestic final sales	**6.2**	**5.8**	**7.9**	6.8	7.4	7.3	5.1	5.1	8.4	7.6	**6.1**	7.3	6.6
Inventories	**1.0**	**0.1**	**-0.4**	-0.4	-0.6	0.1	-0.4	1.3	-0.1	0.2	**0.3**	-0.3	0.3
Net trade (goods & services)	**-3.0**	**-0.1**	**-2.1**	-1.6	-0.8	-2.3	0.0	-1.4	-2.5	-1.4	**-0.7**	-1.7	-1.3
Unemployment rate (sa, %)	**4.7**	**3.9**	4.3	4.3	4.3	4.5	5.0	5.4	5.1	5.3	**4.3**	4.3	5.2
Consumer prices (2018=100)	**3.2**	**2.6**	**2.2**	1.5	1.3	2.0	1.9	2.8	3.3	3.0	**3.2**	1.8	2.8
Exports (BOP basis)	**-2.7**	**-10.3**	-4.6	-5.7	-4.8	2.2	2.3	3.6	5.1	6.5	**-0.4**	-3.3	4.3
Imports (BOP basis)	**3.8**	**4.4**	7.1	4.0	1.6	0.9	4.5	6.7	8.5	9.1	**2.0**	3.3	7.2
Trade balance (US$bn, BOP basis)	**-18.5**	**-18.6**	-17.4	-19.0	-19.6	-18.6	-18.5	-20.6	-21.8	-20.7	**-68.7**	-74.7	-81.6
Current account balance (US$bn)	**-5.1**	**-4.6**	-3.8	-6.0	-5.6	-5.4	-4.9	-6.6	-6.7	-6.3	**-17.5**	-20.7	-24.5
Current account balance (% of GDP)	**-3.1**	**-3.8**	-4.1	-4.1	-4.1	-4.1	-4.3	-4.3	-4.4	-4.4	**-3.8**	-4.1	-4.4
Fiscal balance (% of GDP)											**-5.6**	-5.5	-5.0
Reverse repo rate (%)	**6.25**	**5.75**	**5.75**	5.25	5.00	4.75	4.75	4.75	4.75	4.75	**5.75**	4.75	4.75
Exchange rate (USD/PHP)	**55.9**	**58.0**	**57.4**	55.3	54.7	54.3	54.1	53.9	54.4	53.5	**58.0**	54.3	53.5

Note: Numbers in bold are actual values; others forecast. "Inventories" component contribution to GDP also includes statistical discrepancies. Interest rate and currency forecasts are end of period; other measures are period average. Quarterly current account balance (% of GDP) numbers are four-quarters rolling sum. All forecasts are modal forecasts (i.e., the single most likely outcome). Table reflects data available as of 30 May 2025.
Source: CEIC, Nomura Global Economics.

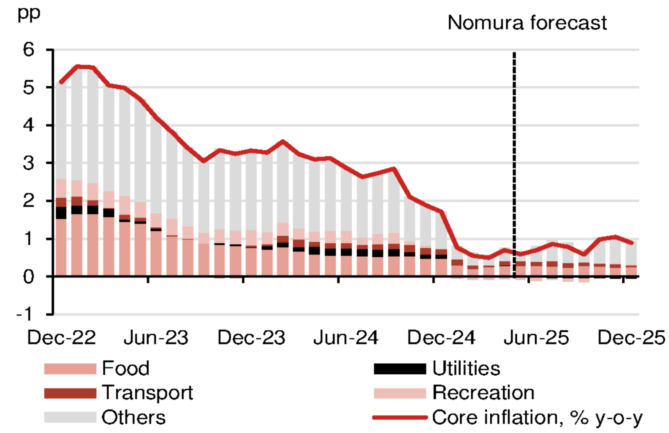
Singapore: Avoiding recession

We maintain our 2025 GDP growth forecast of 2.0%, at the upper end of the official forecast range of 0.0-2.0% (Consensus: 1.6%). After *the contraction in Q1* GDP, we still think the economy will avoid a technical recession, supported further by the sharp rise in total export growth in April (Figure 23), due to *front-loading and re-routing,* which could continue in the near term given the uncertainty of sectoral tariffs, particularly for electronics. However, we continue to expect a significant export slowdown in H2, partly due to payback from these front-loading effects. Fiscal support measures implemented in coming months, which we expect to be worth around 1% of GDP, will help provide some cushion. As a result, we expect the FY25 fiscal balance to run a small *deficit* of 0.1% of GDP but against the budgetted *surplus* of 0.9%. The focus of these measures is likely labor markets to avert *job losses*, supporting our forecast for the unemployment rate to rise gradually to 2.4% at end-2025 from 2.1% in Q1.

Fig. 23: Singapore – Real GDP versus real export growth

Note: Total export growth in Q2 is based on the latest available data for April.
Source: CEIC, Nomura Global Economics.

Fig. 24: Singapore – Core inflation versus output gap



Source: CEIC, Nomura Global Economics.

We recently lowered our 2025 core inflation forecast to 0.7% from 0.9%, closer to the lower bound of the Monetary Authority of Singapore's (MAS) forecast range of 0.5-1.5% (Consensus: 1.5%) and pointing to a very benign inflation outlook in coming months (the long-term pre-Covid core inflation average was 1.5%). Our new forecast takes into account weaker-than-expected year-to-date outturns, which show muted underlying price pressures, and more recently, *broadening disinflation* despite the impact of recent administrative adjustments like the hikes in water tariffs and health insurance costs. We also expect falling import price pressures, easing labour market conditions and a negative output gap to keep core inflation low. Our forecast trajectory pencils in an average core inflation of 0.8% in the remaining months, up slightly from 0.6% year-to-date, partly on base effects (Figure 24).

Fig. 25: Singapore: Details of the forecast

% y-o-y growth unless otherwise stated	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	2024	2025	2026
Real GDP (sa, % q-o-q)	**3.0**	**0.6**	**-0.7**	0.6	0.2	0.1	0.5	0.5	0.6	0.6			
Real GDP	**5.7**	**5.0**	**3.9**	3.5	0.7	0.2	1.4	1.3	1.7	2.2	**4.4**	2.0	1.7
Private consumption	**6.4**	**2.2**	**3.4**	3.2	2.9	3.9	2.6	2.4	2.2	2.0	**4.8**	3.3	2.3
Government consumption	**8.3**	**16.2**	**-8.3**	3.6	0.8	-1.7	12.5	3.3	1.7	1.9	**8.3**	-1.8	5.0
Gross fixed capital formation	**4.7**	**4.9**	**6.3**	2.2	0.5	-0.8	-0.2	0.5	0.1	-0.1	**2.9**	1.9	0.0
Exports (goods & services)	**4.4**	**3.2**	**5.5**	4.6	0.3	-5.1	-3.7	-3.7	-1.7	-0.6	**5.4**	1.1	-2.4
Imports (goods & services)	**4.2**	**3.8**	**5.3**	4.2	0.3	-5.9	-4.4	-4.4	-2.0	-0.7	**6.6**	0.8	-2.9
Contributions to GDP (% points)													
Domestic final sales	**3.8**	**3.3**	**1.3**	1.8	1.1	0.9	2.3	1.2	0.9	0.8	**3.3**	1.4	1.4
Inventories	**0.0**	**1.3**	**0.4**	-0.6	-0.5	0.0	-0.7	0.6	1.0	1.5	**1.3**	-0.3	0.3
Net trade (goods & services)	**1.9**	**0.4**	**2.2**	2.3	0.0	-0.6	-0.2	-0.5	-0.1	-0.1	**-0.2**	0.9	0.0
Unemployment rate (sa, %)	**1.9**	**1.9**	**2.1**	2.2	2.3	2.4	2.4	2.4	2.5	2.5	**2.0**	2.2	2.4
Headline CPI inflation	**2.2**	**1.4**	**1.0**	0.9	0.6	0.4	0.8	0.8	1.1	1.5	**2.4**	0.7	1.1
MAS core inflation	**2.7**	**1.9**	**0.6**	0.7	0.7	1.0	1.4	1.4	1.4	1.4	**2.8**	0.7	1.4
Exports (BOP basis)	**4.1**	**4.7**	**2.6**	2.6	-1.2	-6.0	0.6	-4.6	-0.8	-0.3	**4.2**	-0.6	-1.3
Imports (BOP basis)	**6.9**	**10.6**	**4.3**	8.2	-0.7	-7.5	-1.7	-6.1	-1.5	-0.2	**8.2**	0.9	-2.4
Trade balance (US$bn, BOP basis)	**36.5**	**36.5**	**33.3**	36.1	35.4	36.1	36.1	36.1	35.9	35.8	**148.1**	140.9	143.8
Current account balance (% of GDP)	**17.4**	**17.5**	**17.5**	17.5	17.5	17.6	17.5	17.5	17.5	17.5	**17.5**	17.6	17.5
Fiscal Balance (% of GDP)											**0.9**	-0.1	-0.5
SORA 3m compounded average (%)	**3.49**	**3.03**	**2.55**	2.13	2.00	1.88	1.75	1.50	1.50	1.50	**3.03**	1.88	1.50
Exchange rate (USD/SGD)	**1.28**	**1.36**	**1.34**	1.28	1.27	1.26	1.26	1.25	1.25	1.24	**1.36**	1.26	1.24

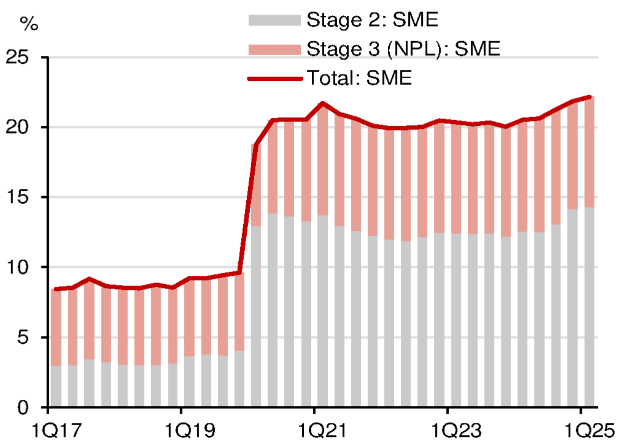
Note: Numbers in bold are actual values; others forecast. The contribution to GDP from the "inventories" also includes statistical discrepancies. Interest rate and currency forecasts are end of period; other measures are period average. MAS core inflation excludes accommodation and private road transport costs. Our current account balance forecast as a % of GDP is based on a four-quarter rolling sum basis. Table reflects data as of 30 May 2025.
Source: CEIC, Nomura Global Economics.

Thailand: Risk of deflation becoming entrenched

We maintain our 2025 GDP growth forecast of 1.8% (Consensus: 1.8%), penciling in a sharp decline in H2 and a risk of a technical recession, mainly reflecting our view of the significant vulnerability to *universal tariffs* . The decline in external demand for both goods exports and tourism, also owing to safety concerns, will likely exacerbate domestic vulnerability, especially from the *negative feedback loop* between a weakening economy and tightening financial conditions. Owing to the worsening credit quality, banks are increasingly reluctant to approve new loans, which constrains overall economic activity and, in turn, contributes to a risk of rising non-performing loan (NPL) ratios. NPLs of

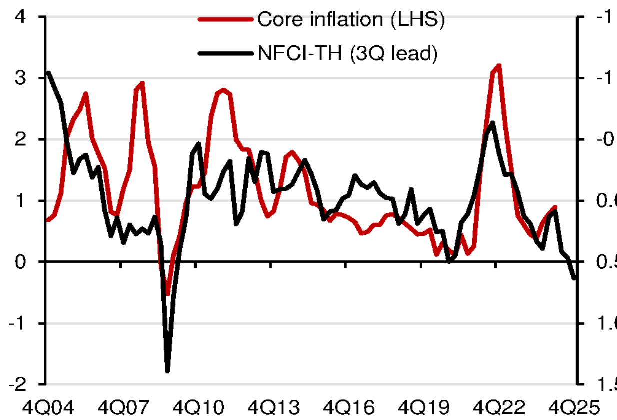
SMEs increased further to 7.9% in Q1 from 7.7% in Q4 (Figure 26), on a broad basis across all sectors. Stage 2 loan ratios also rose to 14.3% in Q1 from 14.2%, indicating a risk of a further rise in NPLs. The government plans to introduce a THB500bn (2.7% of GDP) fiscal stimulus package, but we think this will include soft loans and existing budget, hence implying only THB200bn (1.1% of GDP) in new spending and financing needs. We forecast a widening of the FY25 fiscal deficit to 5.6% of GDP from 3.3% in FY24.

Fig. 26: Thailand – NPL ratios by the size of portfolio



Source: CEIC, Nomura Global Economics.

Fig. 27: Thailand – Core inflation versus NFCI-TH



Source: CEIC, Nomura Global Economics.

We are revising our CPI inflation forecast to -0.3% for 2025 from 0.0%, which was already below the consensus' 0.7%, and to -0.3% from 0.4% for 2026 (Consensus: 1.0%). This takes into account *weakening private consumption* and *broadening negative inflation*. Our forecasts also reflects tight financial conditions, which, based on our *Nomura Financial Conditions Index* (NFCI-TH), tend to portend a decline in core inflation with about a three-quarter lead (Figure 27). Despite the food-driven rise in Q1, we maintain our 2025 core inflation forecast at 0.6%, as *muted core-core inflation* (excluding food) indicates weakening demand-pull pressures. We also lower our 2026 forecast significantly to 0.1% from 0.5% for 2026. Our forecast trajectory pencils in a sharp drop in core inflation from 1.0% in Q1 to 0.5% in Q2 before turning negative in mid-2026. Despite all these factors, the BOT continued to brush off deflation concerns, citing still well-anchored inflation expectations. We think the complacency poses a risk of deflation becoming entrenched, if the monetary stance remains too tight.

We reiterate our forecast for an additional 75bp of policy rate cuts by the BOT this year to 1.0% (versus the market pricing in 44bp of cuts as of 27 May), with the next cuts likely delivered in June, October and December. Our view is further supported by rising deflation risks. The BOT acknowledged the need for an *accommodative stance* after the April cut, but the current policy level at 1.75% is still above our neutral policy rate estimate of 1.5%, taking into account *intensifying structural constraints* that have resulted in lower potential growth. The BOT's minutes of the April MPC meeting indicated the MPC's increased emphasis on "credit risks and macro-financial linkages" as a key factor in monetary policy deliberation, along with the global trade and tariffs developments. Furthermore, the *new BOT governor* in October is also likely to be more pro-growth, supporting our forecast for more cuts.

Fig. 28: Thailand: Details of the forecast

% y-o-y growth unless otherwise stated	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	2024	2025	2026
Real GDP (sa, % q-o-q)	**1.1**	**0.4**	**0.7**	0.1	0.0	-0.2	0.6	0.7	0.8	0.8			
Real GDP	**3.0**	**3.3**	**3.1**	2.3	1.2	0.6	0.5	1.1	1.9	2.9	**2.5**	1.8	1.6
Private consumption	**3.3**	**3.4**	**2.6**	2.0	1.5	1.0	0.5	0.7	0.9	1.2	**4.4**	1.8	0.8
Government consumption	**6.1**	**5.4**	**3.4**	2.0	-1.3	-2.4	2.2	2.1	2.2	2.4	**2.5**	0.3	2.2
Gross fixed capital formation	**5.0**	**5.1**	**4.7**	8.4	-2.2	-2.1	-1.5	0.9	0.6	2.9	**0.0**	1.9	0.7
Exports (goods & services)	**9.9**	**11.5**	**12.3**	5.6	0.1	-6.5	-8.3	-5.8	-2.2	1.2	**7.8**	2.7	-3.9
Imports (goods & services)	**10.3**	**8.2**	**2.1**	7.7	0.1	-5.8	-4.2	-5.5	-3.1	-0.6	**6.3**	0.9	-3.4
Contributions to GDP (% points)													
Domestic final sales	**4.2**	**3.9**	**3.0**	3.3	0.2	-0.3	0.3	1.0	1.1	1.7	**2.9**	1.5	1.0
Inventories	**-1.3**	**-2.9**	**-6.9**	0.4	1.1	1.7	3.5	0.5	0.2	0.1	**-1.8**	-0.9	1.3
Net trade (goods & services)	**0.1**	**2.3**	**7.0**	-1.3	0.0	-0.7	-3.3	-0.3	0.6	1.1	**1.4**	1.2	-0.7
Unemployment rate (% nsa)	**1.0**	**0.9**	**0.9**	1.0	1.0	1.0	1.0	1.0	1.0	1.0	**1.0**	1.0	1.0
Headline CPI inflation	**0.6**	**1.0**	**1.1**	-0.6	-0.9	-0.8	-0.9	-0.3	-0.2	0.1	**0.4**	-0.3	-0.3
Core CPI inflation	**0.6**	**0.8**	**0.9**	1.0	0.5	0.2	0.1	-0.1	0.0	0.1	**0.6**	0.6	0.0
Exports (BOP basis)	**8.9**	**10.6**	**15.0**	7.7	-2.7	-10.9	-12.7	-10.6	-5.5	-0.1	**5.8**	1.9	-7.5
Imports (BOP basis)	**11.3**	**10.7**	**7.1**	8.4	-0.5	-6.3	-6.0	-6.8	-4.0	-1.0	**6.3**	2.0	-4.5
Trade balance (US$bn, BOP basis)	**5.8**	**5.4**	**8.2**	5.6	4.0	1.5	2.3	2.2	2.7	2.2	**19.3**	19.3	9.4
Current account balance (US$bn)	**2.3**	**4.2**	**10.5**	1.5	2.3	3.4	7.0	1.2	3.0	4.5	**11.1**	17.7	15.7
Current account balance (% of GDP)	**2.0**	**2.1**	**3.3**	3.4	3.4	3.2	2.6	2.5	2.6	2.7	**2.1**	3.2	2.7
Fiscal balance (% of GDP, fiscal year)											**-3.3**	-5.6	-4.5
Overnight repo rate (%)	**2.50**	**2.25**	**2.00**	1.50	1.50	1.00	1.00	1.00	1.00	1.00	**2.25**	1.00	1.00
10-year government bond yield	**2.48**	**2.30**	**1.99**	1.75	1.75	1.68	1.50	1.50	1.50	1.50	**2.30**	1.68	1.50
Exchange rate (USD/THB)	**32.3**	**34.0**	**33.9**	32.5	32.1	31.6	31.4	31.1	31.0	30.9	**34.0**	31.6	30.9

Note: Numbers in bold are actual values; others forecast. The contribution to GDP from the "inventories" component also includes statistical discrepancies. Fiscal balance refers to overall cash balance plus the disbursement of off-budget borrowing decrees. Interest rate and currency forecasts are end of period; other measures period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Our current account balance forecast as a % of GDP is based on a four-quarter rolling sum basis. Table reflects data available as of 30 May 2025.

Source: CEIC, Nomura Global Economics.

FX strategy

IDR: We remain neutral on IDR, as near-term depreciation pressures persist, but we see some alleviating factors

IDR has underperformed most Asian currencies on domestic fiscal and political concerns. We expect IDR underperformance to continue in the short run. However, if the recent selloff in US treasuries is contained and fiscal concerns over Indonesia ease, IDR has room to appreciate in H2.

1. **Fiscal concerns over the budget deficit persist**. While Indonesian debt issuance has received strong demand recently (Indonesia's sovereign debt recently received bids at over four times the amount offered; *Bloomberg*, 21 May), fiscal deficit concerns remain. Nomura forecasts a 2025 fiscal deficit at 2.9% of GDP (versus the budget projection of 2.5%).
2. **Selloff in US Treasuries.** The recent downgrade of the US sovereign credit rating by Moody's and the fading of the US exceptionalism theme have led to a selloff in US assets. On 22 May, 30-year US yields hit a multi-year high of 5.15%. Having a high beta to US rates, IDR faces significant headwinds from the rise in US rates. We believe there are measures the US could implement to stabilise long-end US yields, but these are only likely to emerge only on a break higher and in a scenario of a broader negative financial market impact.
3. **Foreign flows could turn positive.** Indonesia is likely to receive its first monthly foreign equity net inflow in May after seven consecutive months of outflows, which would indicate a shift in risk sentiment towards local equities. If US yields also stabilise, this could lead to a further improvement in foreign bond inflows and a change in real money weightings to neutral or even overweight on Indonesia bonds.

PHP: USD/PHP is likely to fall due to a softer USD; however, local factors suggest PHP underperformance

USD/PHP has declined by ~4.2% since the start of the year, although the move has mostly been in line with the softer USD theme. It has underperformed some Asian currencies, as BoP pressures, local political risks and risks of a higher fiscal deficit continue to weigh on PHP.

- **A wide current account deficit,** at 4.1% of GDP through H2 of 2025, should act as a drag on PHP, owing to higher infrastructure spending and weaker exports (i.e., US tariffs), despite the steady growth in both overseas worker remittances and the business processing outsourcing sector.
- **Slowing growth and BSP rate cuts**. Our economics forecasts 2025 GDP growth at only 5.3%, significantly below the government's projection of 6-8% growth (see *Philippines: Steady shift to more policy accommodation*). This is why we project an

additional 75bp of BSP rate cuts this year to a terminal rate of 4.75%, below the 5.0% estimate of the neutral rate. This represents another potential drag on PHP. Furthermore, BSP Governor Remolona suggested (*Bloomberg* , 11 April) that the central bank was not too concerned with PHP volatility and had not been intervening much in the FX market.

- **Fiscal deficit concerns**. With global investors also focusing on Philippine fiscal deficits, which we project to be large at 5.5% of GDP in 2025, this represents another likely drag on PHP's performance.
- **Local political uncertainty**. On 22 May, Philippine president Ferdinand Marcos Jr. asked his entire cabinet to resign following an underwhelming performance in senate election (*Bloomberg* , 22 May). That said, President Marcos decided to largely retain his economic team the following day, including Finance Secretary Ralph Recto (*Bloomberg* , 23 May). Other political flashpoints include the impending impeachment trial of Vice President Duterte in July.
- **Tensions in South China Sea:** Tensions between China and the Philippines in South China sea have been simmering, and this will likely weigh on investor sentiment on local financial assets.

SGD: MAS FX policy easing on growth and inflation considerations should result in SGD underperformance, but there is support from relative safe-haven flows

Recent SGD strength has been supported by the risk-positive and softer USD environment, following the *90-day pause* on imposing the second-layer reciprocal tariffs on trade partners and Moody's *downgrade* of the US sovereign credit rating (i.e., theme of fading US exceptionalism). **Through H2 2025**, we expect SGD to appreciate mildly against the USD owing to our *weaker USD view* , but it may **underperform its trade-partner currencies** (i.e., weaker S$NEER) on weak local fundamentals. As such, we remain **short S$NEER**. We highlight reasons for SGD underperformance.

1. **We believe MAS is likely to further ease its FX policy at its upcoming meeting** (no later than 31 July) by **reducing the S$NEER slope to zero** from our current estimate of 0.5% annualised, owing to a *weakening labor market* , easing inflationary pressures and a weaker growth outlook (see *Singapore: Avoiding recession*).
2. We also see a **risk (currently not our base case) of a more substantive MAS FX policy easing,** by both reducing the S$NEER appreciation slope to zero and shifting lower the mid-point of the S$NEER policy band. This could be triggered by a severe deterioration in US hard economic data, a "more abrupt or persistent weakening in global trade" (MAS, 14 April), and/or a severe tightening of global financial conditions.
3. Beyond the baseline reciprocal tariffs of 10%, Singapore's open economy is also **highly vulnerable to Trump's sectoral tariffs**, particularly on semiconductor and pharmaceutical sectors. We note that the Section 232 National Security Investigations on these two sectors are set to be concluded by 27 December 2025 (270 days from initiation of investigation on 1 April 2025).

Risks to our view include Singapore's strong basic balance (35.8% of GDP; Q2 2024 to Q1 2025) and SGD's appeal as a relative safe-haven currency. Without a significant deterioration in Singapore's domestic and external outlook, SGD and S$NEER may remain supported.

THB: THB should remain under pressure from macro concerns and BOT's policy stance through H2 2025

We expect THB to remain under pressure from macro concerns and BOT's policy stance through H2 2025, although potential seasonal positivity in foreign tourist arrivals may help mitigate some depreciation pressures as we move through H2 2025.

1. **We expect a gradual improvement in foreign tourist arrivals through H2 2025, but any improvement in the repatriation of dividends by foreign firms** will likely be limited in Q3; we expect the improvement to be more significant in Q4.
2. **Thailand's government is looking to keep THB competitive**. Thai Commerce Minister Pichai continues to pressure BOT to adopt weak THB policies to boost exports (latest on 22 May, *Bloomberg*) and support the economy. USD/THB at 36-37

has been noted as an appropriate level for USD/THB (last ~32.50).

3. **There are already signs of BOT leaning against THB appreciation within the softer USD backdrop**. We *estimate* BOT accumulated around USD5.8bn in spot and forwards in April (THB appreciated by 1.5% against USD during the period).
4. **A weak macro outlook, with BOT potentially making faster and deeper rate cuts than markets expect**. Potential growth in Thailand has likely declined,owing to *structural constraints,* such as deteriorating demographics, declining labour productivity, falling export competitiveness, high household debt and ongoing political uncertainty. With these considerations, our economics team forecasts an additional 75bp of BOT policy rate cuts this year to 1.0% (see *Thailand: Risk of deflation becoming entrenched*).
5. **Demand for FX and social security fund outflows.** Owing to our forecasts for aggressive BOT rate cuts and weak macro/pro expansionary monetary policy, we expect **locals to continue shifting into foreign currency deposits** (FCDs). Since March 2022, Thai locals (especially corporates) *accumulated* USD11.8bn of FCDs, taking total FCDs to a record high of USD26.3bn in February 2025. Thailand's Social Security Fund is also likely investing in overseas assets (AUM: ~USD77bn), with a planned USD15bn over 30 months to mid-2027 (i.e., ~USD500mn per month).

Rates strategy: For ASEAN rates, we remain positive on the front of the curves, and look to increase our steepening exposure or add front-end receive positions.

The ASEAN markets have benefitted in this softer DXY environment, with many FX pairs now back to levels last seen before the Fed commenced its hiking cycle in 2022. This suggests ASEAN central bank policy can look to address domestic demand conditions rather than defend FX to support inflows.

1. Thailand: We maintain our June-IMM 2s10s steepener (conviction level: 3/5; target: 60bp). Our economists continue to expect a BOT terminal rate of 1.00%, compared to market pricing of approximately 1.25%. Though we see back-end rates as too low for the following reasons:
   a. the recent improvement in growth expectations (US-China tariff de-escalation),
   b. higher global back-end rates (both US and Japan long-end rates have pushed significantly higher),
   c. fiscal headlines in Thailand are likely to pick up in coming months,
   d. bond supply is set to be elevated over the next few weeks.
2. Singapore: We continue looking to receive in the front end of the SORA curve. The SORA fix has been averaging around 2.25% over the past few weeks, and we think this will eventually move lower to below 2%. Fed pricing is also less extreme now, with the market currently pricing in just 45bp of cuts over the rest of 2025. While the SORA curve looks steep, we see few fundamental reasons for the curve to flatten, given the lack of back-end receiving flow.
3. Indonesia has been somewhat of a laggard, given the political and fiscal risks that have lingered over previous months. While fiscal risks remain, we believe these are likely to have little impact on the bond curve. That said, it remains difficult to have conviction in a view that BI will remain on an easing cycle, given the global risks. However, we do see the front end of the bond curve as attractive, given the 5y is still trading at 6.45%, and we maintain our view that around 75bp is a fair spread for the 5y policy rate. Therefore, with our economists new terminal rate forecast of 5%, the 5y does have space to move lower, and we would therefore look to add on any weakness.

---

1. "Johor eyes over RM50bil in FDI in 1H 2025, driven by JS-SEZ momentum", *New Straits Times* , 19 May 2025.

Australia: Moderate growth, downside risk

Research Analysts
Australia/New Zealand Rates Strategy
Andrew Ticehurst - NAL
andrew.ticehurst@nomura.com
+61 2 8062 8611

We expect modestly sub-trend growth, moderating inflation and two more rate cuts over H2. The global backdrop presents downside risk, especially if AUD holds up.

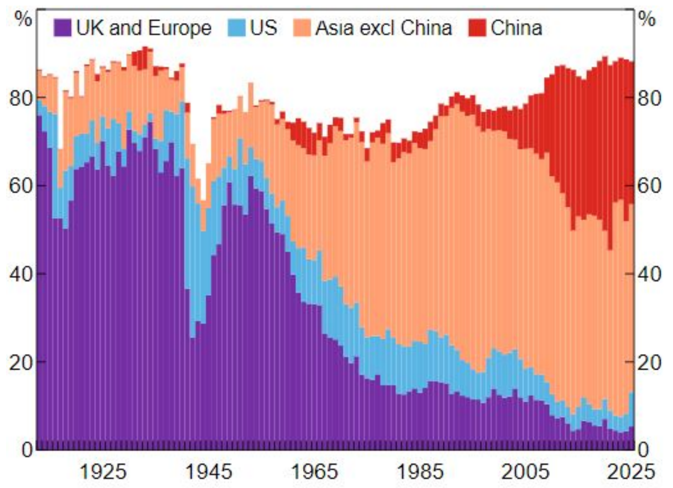
Big picture drivers

Our outlook continues to be shaped by our view on big-picture drivers: still expansionary fiscal policy and assistance from a low-ish AUD (relative to commodity prices) against headwinds from decelerating migration growth and from monetary policy, which will assist in time but remains moderately restrictive for now. Heightened global growth and market uncertainty presents downside risk.

External risks

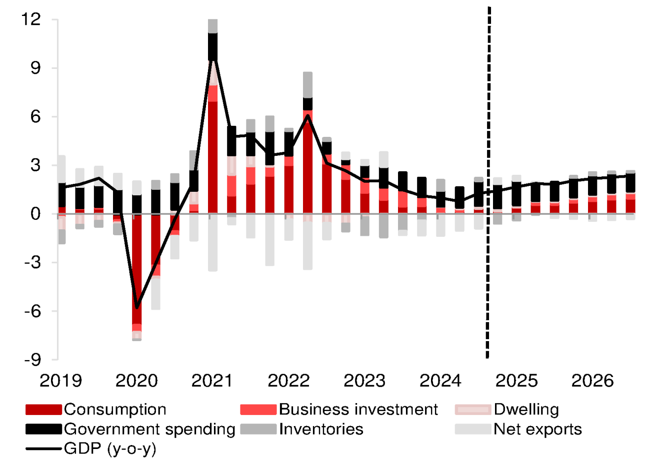
Australia faces minimal direct impacts from US tariffs but moderate second-round impacts via weaker regional growth. Goods exports to the US represent only 4% of total exports, but Australia is highly exposed to China and regional growth (Figure 29). Reflecting global developments in April, we trimmed our 2025 GDP growth forecast by 0.3pp to a slightly below consensus 1.7%. Our house view, that China growth momentum will ease by around 1ppt over the course of the year, also weighs on our thinking.

Fig. 29: Australia's goods exports
Proportion by geography



Source: RBA

Fig. 30: GDP: a gradual recovery with lower rates
Rolling annual contributions to growth



Source: ABS, Nomura

Our base case

Australia was moving beyond its weakest point in the growth cycle late last year, assisted by expansionary fiscal policy and declining inflation. Growth momentum has likely been set back, due to recent global developments, but in our base case, the recovery is slowed but not cut off. On the upside, cash rates have already been lowered twice (February and May) and we anticipate two more 25bp rate cuts (August and November). The vast majority of home loans are floating rate, which should lend relatively quick assistance to indebted consumers. Global uncertainty could restrain capex plans, but our investment forecasts were already modest (low single-digit). Our base case anticipates stonger growth in interest rate-sensitive sectors of the economy (Figure 30) over our forecast horizon to end-2026. Government spending (federal and state) has been contributing to economic and employment growth, and government budgets suggest continuing contributions to growth from this sector.

Labour market and inflation

Jobs data have been volatile, and lead indicators are sending mixed signals. The unemployment and underemployment rates remain low, a significant portion of firms continue to report difficulty in hiring staff, and firing rates remain low. Elsewhere, however, job ads, employment intentions and hiring rates have cooled, and we see similar softer signals from "gross flows" data, which suggest a slower pace of hiring this year, and unemployed people remaining unemployed for longer. With these (latter) signals, and recent subtrend growth, we expect the underlying pace of job growth to ease, sending the unemployment rate modestly higher over H2.

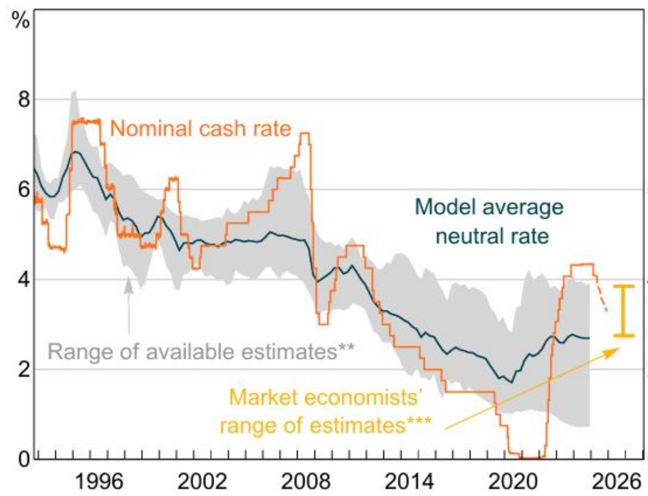
Q1 trimmed mean CPI rose by 0.7% q-o-q and 2.9% y-o-y, roughly in line with RBA expectations and now back inside the 2-3% target band for the first time in several years. Details of the data showed a pleasing, albeit modest, further moderation in the breadth of inflation pressures and in service prices. We expect that trend to continue this year, given our expectation for sub-trend growth and the potential for China to export deflation. However, we retain some sympathy with "last mile" inflation challenges, amid various structural forces (such as greenflation and deglobalisation), and, combined with overall policy settings, we do not expect core inflation to sustainably remain at the precise mid-point (2.5%) of the inflation target band.

The RBA: More cuts coming, and on the lookout for possible changes to QT policy

The RBA delivered a second 25bp rate cut in May, as expected, but this came with a surprisingly dovish shift in tone. In particular, it appears to have become much more concerned about the global backdrop, lowering its forecasts for major trading partner growth and slashing its US growth forecasts. Moreover, RBA staff appear to have come to a view that the neutral nominal cash rate is likely lower than was previously estimated, perhaps ~3.0% (Figure 31) rather than ~3.5%. This would suggest that monetary policy is tighter than earlier thought, for any given cash rate. Following this development, we added an another 25bp rate cut to our profile (in November) in addition to August, and we judge that risk likely still tilts to the downside, around this central case.

The RBA's April meeting minutes noted that the monetary policy board was seeking a view from the governance board as to risk/return considerations arising from the banks' still sizable holdings of government bonds (Commonwealth and state). The option flagged was to consider a faster pace of run-off than has been occurring under the current passive QT approach, which is allowing bonds to mature without replacement. Figure 32 highlight that the RBA's bond holdings have been declining more slowly than for peer economies, and this appears to be capturing the attention of board members.

Fig. 31: RBA nominal neutral rate* modelling

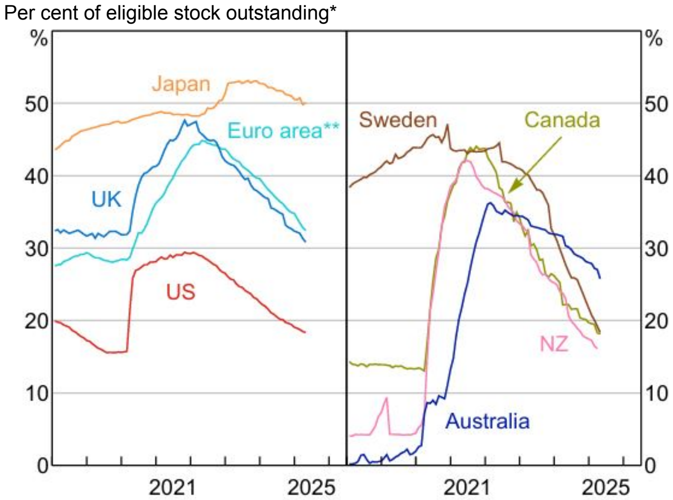


Note: * Nominal neutral rates are defined using trend inflation expectations. Dashed lines show cash rate expectations implied by OIS as at 14 May 2025. ** Range of central estimates corresponding to available models; this range does not reflect considerable uncertainty around the central estimates. *** The range of market economists' estimates has been adjusted by excluding the two highest and lowest observations.

Source: RBA, Bloomberg, LSEG.

Fig. 32: Central bank government bond holdings

Per cent of eligible stock outstanding*



Note: * Data include nominal and inflation-linked bonds issued by central governments that are eligible for purchase in the secondary market under central banks' government bond purchase programs (for Australia, this is nominal Australian Government Securities only); data for euro area also include eligible bonds issued by local and regional governments. ** Holdings data for euro area only include bonds held as part of asset purchase programs; holdings data for other central banks also include bonds held for operational or liquidity purposes.

Source: RBA (central banks, debt management offices; LSEG).

Fig. 33: Australia: Details of the forecast

% q-o-q	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	2024	2025	2026
Real GDP (% y-o-y)	**1.1**	**1.0**	**0.8**	**1.3**	1.4	1.7	1.9	1.8	2.0	2.2	2.3	2.3	**1.0**	1.7	2.2
Real GDP (% q-o-q)	**0.2**	**0.2**	**0.3**	**0.6**	0.3	0.4	0.5	0.5	0.6	0.6	0.6	0.6			
Personal consumption	**0.5**	**-0.2**	**-0.1**	**0.4**	0.2	0.3	0.3	0.4	0.4	0.5	0.5	0.5	**0.6**	0.9	1.7
Private investment	**0.1**	**0.4**	**-0.2**	**0.3**	0.3	0.2	0.5	0.5	0.6	0.7	0.7	0.7	**1.3**	1.1	2.4
- Business investment	**-0.1**	**0.2**	**-0.9**	**0.7**	0.2	0.2	0.6	0.6	0.6	0.7	0.7	0.7	**2.1**	0.9	2.5
- Dwelling investment	**0.7**	**0.6**	**1.5**	**-0.4**	0.5	0.3	0.4	0.5	0.6	0.6	0.6	0.6	**-0.4**	1.7	2.2
Government expenditure	**1.0**	**1.0**	**2.7**	**0.9**	0.8	1.1	1.1	1.1	1.0	1.0	1.0	1.0	**4.5**	4.7	4.2
Exports	**0.2**	**0.6**	**0.2**	**0.7**	0.1	0.1	0.1	0.1	0.2	0.4	0.6	0.7	**0.9**	1.0	1.1
Imports	**5.6**	**0.4**	**-0.2**	**0.1**	0.2	0.0	0.5	0.6	0.7	0.8	0.9	1.0	**5.5**	0.7	2.7
Unemployment rate	**3.9**	**4.1**	**4.1**	**4.0**	**4.1**	4.2	4.3	4.4	4.4	4.4	4.3	4.3	**4.0**	4.2	4.3
Employment, 000	**118**	**78**	**125**	**92**	**15**	84	60	60	65	65	65	65	**344**	274	258
Consumer prices	**3.6**	**3.8**	**2.8**	**2.4**	**2.4**	1.9	2.3	2.8	2.9	3.1	3.1	3.2	**3.2**	2.3	2.5
Trimmed mean	**4.0**	**4.0**	**3.6**	**3.3**	**2.9**	2.7	2.5	2.7	2.6	2.6	2.7	2.7	**3.7**	2.7	2.6
Weighted median	**4.5**	**4.2**	**3.8**	**3.5**	**3.0**	2.8	2.6	2.6	2.6	2.6	2.7	2.7	**4.0**	2.7	2.6
Fiscal balance (% GDP)													**0.6**	-1.0	-2.0
Current account balance (% GDP)													**-1.9**	-2.0	-3.0
RBA cash rate target	**4.35**	**4.35**	**4.35**	**4.35**	**4.10**	3.85	3.60	3.35	3.35	3.35	3.35	3.35	**4.35**	3.35	3.35
3-month bank bill	**4.34**	**4.45**	**4.43**	**4.42**	**4.13**	3.80	3.55	3.30	3.35	3.40	3.45	3.50	**4.42**	3.30	3.50
2-year government bond	**3.76**	**4.16**	**3.64**	**3.86**	**3.68**	3.35	3.40	3.35	3.40	3.45	3.50	3.55	**3.86**	3.35	3.55
5-year government bond	**3.61**	**4.07**	**3.58**	**3.92**	**3.86**	3.60	3.60	3.55	3.60	3.65	3.70	3.75	**3.92**	3.55	3.75
10-year government bond	**3.96**	**4.31**	**3.97**	**4.36**	**4.38**	4.30	4.30	4.20	4.20	4.25	4.25	4.25	**4.36**	4.20	4.25
AUD/USD	**0.65**	**0.67**	**0.69**	**0.62**	**0.62**	0.65	0.66	0.67	0.68	0.69	0.70	0.70	**0.62**	0.67	0.70

Note: Numbers in bold are actual values; others forecasts. Interest rate and currency forecasts are end of period; other measures are period average. Fiscal balance forecasts are financial year forecasts, ie 2025 is the 2024-25 financial year ending 30 June 2025. All forecasts are modal forecasts (i.e., the single most likely outcome). Table reflects data available as of 22 May 2025.
Source: Nomura.

Market strategy

Rates: Heading into the second half of the year, our strongest views are that the 10 year ACGB can continue to outperform the US 10 year, while the 5 year remains our favourite part of the curve.

We think unconventional and unpredictable policy from the US administration will keep the "sell America" theme alive, while the recent Moody's downgrade and Big Beautiful Bill will continue to shine a light on poor US deficit and debt metrics. We think Australia could receive a modest but still notable share of any investor deallocation from the US, including from reserve managers, noting Australia's stable politics, modest budget deficit and strong debt metrics. A key risk to our view would be any shift by the RBA away from passive QT, by running down its bond holdings at a faster pace.

In terms of the curve, we favour the belly (5 year) over the 2 year or 10 year point. At the short end, our base case is that the RBA may ease rates by a little less than is being priced, and we note negative roll associated with the inversion of the front end. At the longer end, while we think the 10 year ACGB can outperform the US 10 year, the correlation is likely to remain positive, so higher US yields could still weigh. Meanwhile, forward rates, examining the 1y1y to 5y1y part of the curve, remain quite steep and are pricing a too-high terminal cash rate, in our view. We have been expressing these thoughts via a *received 2s5s10s fly* position and note that this fly also looks attractive, relative to the US fly.

FX: We think AUD remains somewhat undervalued, relative to key historic drivers such as commodity prices. AUD could also gain some support from a continuing US deallocation theme. In particular, with the US emerging as the source of risk and uncertainty, rather than a safe haven from it, historic correlations have been shifting, such that we have witnessed simultaneous weakness in USD, UST and US equities. If this continues, USD should remain under pressure and AUD could be seen as a relative safe haven, rather than as a pure risk proxy. We think that local superannuation funds have begun to ponder such issues, and consistent with a potential increase in hedge ratios, in Japan, Taiwan and Korea, they could come to consider a similar shift in Australia. At a minimum, they may allow hedge ratios to drift up to the top of existing allowable ranges. We regard the RBA outlook as a relative neutral factor for AUD: the market is currently pricing a little more easing than in our base case, but we concede that risk around that base case tilts towards a lower cash rate.

Asia equity strategy: Expect choppy markets

We expect choppy equity markets over the summer, as several risk events are on the calendar. Our end-2025 target for the MSCI AeJ index implies limited potential upside and thus we recommend investors focus on stock selection.

Research Analysts

Asia ex-Japan Equity Strategy

Chetan Seth, CFA - NSL
chetan.seth1@nomura.com
+65 6433 6986

Research Associates

Asia ex-Japan Equity Strategy

Ankit Yadav - NSFSPL
ankit.yadav@nomura.com
+91 22 405 22757

Anshuman Agarwal - NSFSPL
anshuman.agarwal@nomura.com
+91 22 67234388

As noted in our outlook report (see *Asia ex-Japan Equity Strategy - Strategy update: Into the swirl of summer moves*, 27 May 2025), we expect choppy equity markets into/during the summer in the wake of still-elevated US tariffs/trade policy uncertainty and as the market focuses on the end of the 90-day pause on tariffs for China (12 August) and non-China trade partners (9 July). As we have been commenting (*here*, *here*), there will also be increased focus on hard economic data from the US and China, as the effect of tariffs will likely start to weigh on US inflation data (likely *from June*), possibly in labor market indicators and consumption, as the impact from the frontloading of goods fades. President Trump's latest comments last Friday (during US market hours) *threatening 50% tariffs on EU goods* and *25% tariffs on Apple and other device makers including Samsung* also raise uncertainty for markets, in our view.

Following the pause on the 2 April "reciprocal" tariffs, most Asian markets have fully recovered, with the MSCI Asia-ex Japan index (MXASJ) and global equities (ex-US) close to their highest levels since President Trump's re-election. Our base case end-2025 fair-value estimate for the MXASJ is 772 (versus spot levels of 756 as of the 27 May close), which implies limited potential upside from current levels. Indices could overshoot, but for that to occur, incremental newsflow would need to be positive on trade/policy and/or the geopolitical and/or AI developments front. Our view remains that the worst outcome for stocks has likely been avoided, and thus investors should avoid excessive pessimism, as there appears to be a pain threshold at which the US could backpedal on its more disruptive policies. However, bouts of volatility are still very likely, given elevated uncertainty.

We think nimble investors should look to trade market "extremes" with disciplined risk/reward levels, while investors with slightly longer-term time horizons should focus on the margin of safety, stock selection and idiosyncratic themes that have little to do with the trade policy outlook. In our view, this should be the strategy at least until greater clarity on trade policy emerges.

Main themes of focus for the rest of 2025

We think the following major investment themes will likely determine the outlook for Asian equities for the rest of 2025.

(1) The US trade policy outlook: The market's main focus in H2 will be on US-China trade relations and the outlook beyond the 90-day pause (12 August). Our US *team's baseline view* is that tariffs on China (reciprocal plus fentanyl) will settle at 30% (under Trump 2.0), while for other countries, the base rate is likely to be 10%. The team also expects other sector-specific tariffs, including semiconductors/electronics tariffs. However, we note that there is significant uncertainty attached to this base case. If there is any grand deal between the US and China, we think it would have significant implications for allocation strategy, where a grand deal might reduce the geopolitical risk premia attached to Chinese equities. Market focus is also likely to be directed at US-EU trade relations and – given the size of the two trading blocks – tariff headlines could once again be a source of volatility. Lastly, there will also be some focus on trade talks and deals between the US and its key trading partners in Asia, such as India, Korea, Japan, Taiwan, Vietnam, and other ASEAN markets.

(2) The US inflation/growth outlook: Our US team expects US inflation to start appearing in the May data (reported in June). This could add more pressure on US bond markets, which are already reeling from concerns over high fiscal deficits. A rapid rise in US long-end bond yields is a risk for stocks, and the indirect impact of such a scenario could be felt in AeJ equities as well. On growth, our working base case has the US avoiding an outright recession, but growth will be slower (including in Asia, as discussed in the sections above). The silver lining for Asian equities is that any continued fading of the "US exceptionalism" theme could help Asian equities in two ways. First is a softer USD (we note the softer USD has boosted returns for the MSCI AeJ index by 3.4% since the high point of DXY in the middle of January). Our FX strategy team *continues to expect a softer USD over a multi-month period*. This should, in our view, create room for some Asian central banks to embark on more aggressive rate cuts to support their local economies. Second is the scope for some allocation flows into Asian equities. We note that, over the past five weeks, foreign investors have net bought USD15.6bn in EM Asia-ex-China equities. Japanese equities have received seven straight weeks of net inflows. On our assessment, we think India (within EM) and Japan (within DM) appear best positioned to capture any reallocation flows, should investors diversify away from the US. While China emerges as the theoretical No. 1 candidate in our quantitative framework, this comes with a significant caveat that our framework does not adequately capture global investors' prevailing beliefs in and views around investability, considering the geopolitical risks emanating from ongoing US-China tensions. These three markets all rank high, given the depth (liquidity) and breadth (diverse and extensive investment universe of listed stocks) of their local equity markets (for details refer to *Asia ex-Japan Equity Strategy - Who might benefit from the fading of US exceptionalism?*, 1 May 2025).

(3) AI/tech developments: In general, we view AI as a structural long-term theme. However, in that construct, ups and downs in market expectations are likely. Consensus expectations for US cloud service provider (CSP) capex for 2025-26 is still being revised up. After the earlier "shock" from DeepSeek developments, there has been increased scrutiny on monetization of massive AI capex, which – among other factors –also reset expectations, in our view. More recently, there have been positive takeaways for the AI theme, particularly for *Hon Hai* and *Quanta*, which cited improving visibility on AI, and the capex outlooks from both *Alibaba* and *Tencent*, which also called for increased investment. In addition, there were some multi-billion dollar commitments to build AI data centers during President Trump's Middle East trip, while the US administration also rescinded the Biden-era AI diffusion rules that restricted supply of AI chips to certain countries (the new regime is likely to lean towards country-to-country investment/purchase commitment deals, according to *Bloomberg*). Net-net, our Greater China Semi team *sees* some fundamental earnings downside risks in H2 2025, driven by both trade/tariff-driven macro risks, AI-related medium-term risks around CoWoS capacity/order cuts into 2026, and a potential end of China subsidies. However, with many negative developments on the AI supply chain confirmed (e.g., 2025 CoWoS order cuts and overall CoWoS capacity plan expectation reset), and AI share prices correcting substantially in April, the team recommends gradually adding back AI exposure on improving risk/reward. After meaningful share price rebounds from the April bottoms, a sustainable AI demand recovery – measured by GB200 rack volume delivery status in H2 2025 and hyperscalers capex in 2026 – would become the critical factor to monitor (refer to the full report *here*).

(4) China policy outlook: Our China economics team *expects* a sharp slowdown in exports and retail sales in H2 2025 on significant frontloading, driven by the tariffs pause leading to some payback later. Thus, they expect China to ramp-up policy support again in H2. Overall, they look for 4.5% y-o-y GDP growth in 2025. Worsening economic data in China might present a challenge for China equities, in our view, but would also trigger hopes of stimulus. Overall, we think China equities will likely remain a trading market, so long as the overhang from US-China tensions persists. At current valuations, we have a tactically overweight stance. An escalation of US-China tensions is a key downside risk to our tactical overweight call, but any grand deal that reduces the geopolitical risk premia would be a significant positive, in our view.

Key allocation calls: Structurally overweight India, tactically overweight China, neutral on Korea and tactically underweight Taiwan

In the region, as highlighted in detail in Figure 17 of our report *here*, we **remain structurally positive on India equities** (relatively safe in the wake of trade/tariff risks as it is largely a domestically oriented economy with limited trade links, likely a beneficiary of the China+1 theme, possesses relatively strong EPSg prospects in 2025-26E even assuming some earnings cuts, strong fund-flow trends both from domestic and foreign investors, and one of the best positioned in the EM universe to the fading of US exceptionalism theme, while the market also offers a number of long-term investment themes).

We upgraded **China equities to a tactical overweight** *recently on the announcement of the US-China trade agreement*. Our main thesis is that this development reduces the geopolitical risk premium that has been attached to China equities. Our sense is that, in a scenario where more progress is made on US-China relations, investors are likely to reassess the "fair value" multiple for China stocks. Our thesis is largely premised on a potential re-assessment of risk premium as opposed to expectations of any material fundamental improvement in corporate earnings. Other supportive factors include attractive relative valuations in a regional context (MSCI China forward P/E at 11.3x with potential to reach 13x versus AeJ ex-HK/China at 15.3x), resilient earnings revisions, underweight investor positioning and therefore scope for some allocation flows, while policy support from monetary, financial and fiscal measures remains in place. An escalation in US-China tensions is a key downside risk to our tactical overweight call, but any grand deal that reduces the geopolitical risk premia would be a significant positive, in our view.

We are **overall neutral on Korea equities**; however, we see a number of sectoral opportunities in the market. In contrast, we have recently downgraded our stance on **Taiwanese equities to a 'tactical underweight'.** We have used the recent strength following the pause on US tariffs as an opportunity to trim exposure and use Taiwan as the larger funding market for our overweights on India and China. Fundamentally, we see some risks to earnings (from an economic slowdown, likely FX strength and margin erosion from capacity plans), which are likely to emerge in the quarter(s) ahead as the effect of pull-in demand reverses. We think valuations present a better margin of safety in other major markets, while foreign ownership both in percentage and USD-value terms is relatively high. However, we feel there are many positives as well, with the main one that Taiwan remains the largest beneficiary of the AI/DC theme, with a plethora of stocks to chose from, and consensus expects them to deliver high EPSg in 2025-26E. This largely explains our 'tactical' underweight stance, as we would look to turn more positive when the opportunity emerges.

As for ASEAN markets, we think, in general, there is a lot of *apparent* value in ASEAN-4 markets, but we think investors need to be selective. Our favored market is Malaysia. We are neutral on Indonesia, Singapore and the Philippines, while Thailand is our funding underweight. Figures 17 and 19 of *our report* shows allocation considerations and key investment themes for each of the markets.

Sector strategy: Focus on stock selection and certain idiosyncratic themes

In general, for investors who wish to avoid trade-driven volatility, domestic-oriented stocks look better over trade-exposed equities, as the former cohort could also benefit from a more visible growth outlook and likely stronger domestic FX. However, more nimble investors may look for trading opportunities on market 'extremes' in trade-exposed equities, based on newsflow.

Sectorally, we remain overweight Semi/AI related areas (such as in China, Korea and Taiwan), but have cut back exposure to traditional tech-hardware names, India IT software/services and Korea autos. We have instead added Korea healthcare. We are overweight Battery/EV names in China but underweight in Korea. For domestic exposure, we continue to like select Banks/Financial names in India, Malaysia, Indonesia, the Philippines and Hong Kong (e.g., exchanges). We also favor select names leveraged to certain idiosyncratic themes such as defense, rising EV adoption in India, K-medical/beauty, beaten-down indirect beneficiaries of Thai tourism and "Value-up" in Korea.

Our current model portfolio of stocks for AeJ stocks can be found *here* in Figure 18.

Japan Equity Strategy: H2 preview

Research Analysts
Macro Strategy
Tomochika Kitaoka - NSC
tomochika.kitaoka@nomura.com
+81 3 6703 1815
Masaki Motomura - NSC
masaki.motomura@nomura.com
+81 3 6703 1119
Naoya Fuji - NSC
naoya.fuji@nomura.com
+81 3 6703 1245

Markets are searching for a more stable track after a roller coaster ride. We raise our forecasts for equity indices slightly and widen our forecast range.

External environment

It now looks possible that the US economy will be able to avoid a punishing recession as global stock indices settle down from the roller coaster ride caused by US tariffs and recover to the levels seen in March or earlier. A slowdown in the US economy appears highly likely, though, and the relevant data are not yet available. Interest in ways to pull back from exposure to the US could therefore remain high.

Supply-demand: Futures investors generating noise by buying overvalued stocks versus longer-term investors selling overvalued stocks

From the perspective of short-term supply and demand, we think it is important to be aware of the potential for noise generated by futures investors. It looks as though long-only investors have increasingly been locking in profits since early May.

Outlook for earnings at Japanese companies and share price indices

Our top-down forecasts put FY25 TOPIX EPS down 3%, with analysts lowering their forecasts, but we expect earnings to normalize from FY26. In addition to the recent rise in the NT ratio, we factor in an earlier-than-expected normalization of the economy and earnings, and raise our end-2025 forecasts for the TOPIX to 2,850 and for the Nikkei 225 to 39,500. We retain our end-2026 TOPIX forecast of 3,000 but raise our Nikkei 225 forecast to 41,500 (*Figure 34*). The lower end of our forecast range is a scenario premised on an economic recession, and we are particularly concerned about the risk of Apr-Jun earnings results disappointing markets and macroeconomic policy action coming "too little too late". On the other hand, we also take into account the potential for upward revisions to the outlook for the economy and earnings if there is a substantive withdrawal of tariffs or large-scale tax cuts that surpass the tariff impact.

Fig. 34: Overview of our TOPIX forecasts

		Jun 2025	Dec 2025	Jun 2026	Dec 2026	Jun 2027
Main scenario: Profits decline in FY25 but Japan and US avoid recession; "reciprocal" tariffs of 10% (automotive tariffs of 25%); rise in EPS from FY26	TOPIX	2,750	2,850	2,950	3,000	3,050
	Nikkei 225	38,000	39,500	40,750	41,500	42,000
Upside scenario: Upward revisions to outlook for economy and earnings or effective removal of tariffs or major tax cuts that surpass tariff impact	TOPIX	2,900	3,000	3,100	3,200	3,300
	Nikkei 225	39,750	41,000	42,500	43,750	45,000
Downside scenario: US goes into recession, policy response fails to keep up	TOPIX	2,200	2,200	2,300	2,300	2,400
	Nikkei 225	30,000	30,000	31,500	31,500	33,000
Previous main scenario (see our 8 May 2025 report *Japanese equity outlook: We expect near-term pause, year-end rally*)	TOPIX	2,650	2,800	2,900	3,000	3,050
	Nikkei 225	36,500	38,000	39,250	40,500	41,000

Source: Nomura

Sector and stock selection: Focus on when "honest" companies will be favored

Among external demand sectors, along with the electrical machinery & precision equipment sector, we recommend the nonferrous metals (particularly wire & cable) and machinery sectors. Among domestic demand sectors, we continue to focus on construction, real estate, land transportation (particularly railways), and banks. We now take a more cautious stance on the iron & steel sector, and remain bearish on the transportation equipment (autos) and retail trade sectors. We think investors could take a favorable view of companies that have been honestly forthcoming about the impact they expect from tariffs, and a less favorable view of companies that have not. From the perspective of longer-term investment, we continue to focus on time frame diversification, resilience, and transformability (for more details, *see Japan equities investment strategy (May)*, 16 May 2025).

Recent Asia Special Reports

Date	***Report Title***
24-Apr-25	*Asia Special Report - China: The double whammy and Beijing's policy roadmap*
23-Apr-25	*Special Report - Evidence of how the flood of cheap China imports was impacting economies even before Trump 2.0*
27-Feb-25	*Asia Special Report - US-China tensions: Calm masks growing risks*
24-Jan-25	*Asia Special Report - Stuck in the middle-income trap*
15-Jan-25	*Asia Special Report - The Johor-Singapore Special Economic Zone*
3-Dec-24	*Asia Macro Outlook 2025 - Navigating the rapids*
5-Sep-24	*Asia Special Report - China: The second wave of shocks*
3-Sep-24	*Anchor Report: What if Trump wins*
2-Sep-24	*Asia Special Report - India: From low inflation to low rates; the RBI is set to pivot*
13-Aug-24	*Asia Special Report - China: Aging population, extremely uneven pension benefits, and low consumption*
1-Jul-24	*Asia Special Report - Asia H2 outlook: Fight or flight?*
28-May-24	*Anchor Report: Asia’s new flying geese*
17-May-24	*Asia Special Report - Thailand: Weighed down by structural forces*
3-May-24	*Special Report - The great reshuffle in global supply chains*
23-Apr-24	*Asia Special Report - China: Dark clouds and silver linings*
11-Dec-23	*2024 Global Macro Outlook - Forging a new path*
6-Dec-23	*Asia Macro Outlook 2024 - Positioned for outperformance*
11-Oct-23	*Asia Special Report - China: Balance sheet damage is not the major drag, and Beijing's fiscal stimulus is no panacea*
19-Sep-23	*Asia Special Report - China: The absence of inbound travellers and its implications*
18-Aug-23	*Special Report - Damocles: Our early warning indicator of EM exchange rate crises*
5-Jun-23	*Anchor Report: Asia’s time to shine - The stage is set for Asia’s medium-term outperformance.*
28-Apr-23	*Asia Special Report - China: The outbound tourism revival will likely remain sluggish*
20-Feb-23	*Asia Special Report - China: Estimating households’ excess savings during the pandemic years*
9-Dec-22	*2023 Global Economic Outlook - Tough choices*
7-Dec-22	*Asia Macro Outlook 2023 - Rolling with the punches*
21-Nov-22	*Special Report - Damocles: Our early warning indicator of EM exchange rate crises*
4-Oct-22	*Asia Special Report - Korea: The looming housing recession*
1-Jul-22	*Anchor Report: Downgrading global growth*
5-May-22	*Special Report - Damocles: Our early warning indicator of EM exchange rate crises*
14-Apr-22	*Asia Special Report - ASEAN: Border reopening 2.0 - Spring in its step*
14-Mar-22	*Anchor Report: The global economic impact of the Russia-Ukraine war*
10-Dec-21	*2022 Global Economic Outlook - The heat is on… for now*
8-Dec-21	*Asia Macro Outlook 2022 - As the tide turns*
17-Nov-21	*Special Report - Damocles: Our early warning indicator of EM exchange rate crises*
2-Nov-21	*Anchor Report: The Covid-19 endgame*
25-Oct-21	*Asia Special Report - Indonesia: Getting there on tax reforms*
20-Oct-21	*Asia Special Report - Korea: Japanification risks strike again*
24-Aug-21	*Asia Special Report - China: Beijing's Volcker moment*
30-Jul-21	*Asia Special Report - Demystifying China's monetary policy framework*
26-Jul-21	*Asia Special Report - Indonesia: A worrying wave hits hard*
6-Jul-21	*Asia Special Report - Thailand: The long road to a tourism recovery*

Appendix A-1

Analyst Certification

Each research analyst identified herein certifies that all of the views expressed in this report by such analyst accurately reflect his or her personal views about the subject securities and issuers. In addition, each research analyst identified in this report hereby certifies that no part of his or her compensation was, is, or will be, directly or indirectly related to the specific recommendations or views that he or she has expressed in this research report, nor is it tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Important Disclosures

Online availability of research and conflict-of-interest disclosures

Nomura Group research is available on www.nomuranow.com/research, Bloomberg, Capital IQ, Factset, LSEG.
Important disclosures may be read at http://go.nomuranow.com/research/m/Disclosures or requested from Nomura Securities International, Inc.
If you have any difficulties with the website, please email grpsupport@nomura.com for help.

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by Investment Banking activities. Unless otherwise noted, the non-US analysts listed at the front of this report are not registered/qualified as research analysts under FINRA rules, may not be associated persons of NSI, and may not be subject to FINRA Rule 2241 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Nomura Global Financial Products Inc. (NGFP) Nomura Derivative Products Inc. (NDP) and Nomura International plc. (NIplc) are registered with the Commodities Futures Trading Commission and the National Futures Association (NFA) as swap dealers. NGFP, NDPI, and NIplc are generally engaged in the trading of swaps and other derivative products, any of which may be the subject of this report.

Distribution of ratings (Nomura Group)

The distribution of all ratings published by Nomura Group Global Equity Research is as follows:
53% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 37% of companies with this rating are investment banking clients of the Nomura Group*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services** by the Nomura Group.
44% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 57% of companies with this rating are investment banking clients of the Nomura Group*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services by the Nomura Group
3% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 3% of companies with this rating are investment banking clients of the Nomura Group*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services by the Nomura Group.
As at 31 March 2025.
**The Nomura Group as defined in the Disclaimer section at the end of this report.*
*** As defined by the EU Market Abuse Regulation*

Definition of Nomura Group's equity research rating system and sectors

The rating system is a relative system, indicating expected performance against a specific benchmark identified for each individual stock, subject to limited management discretion. An analyst's target price is an assessment of the current intrinsic fair value of the stock based on an appropriate valuation methodology determined by the analyst. Valuation methodologies include, but are not limited to, discounted cash flow analysis, expected return on equity and multiple analysis. Analysts may also indicate expected absolute upside/downside relative to the stated target price, defined as (target price - current price)/current price.

STOCKS

A rating of **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of **'Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of **'Suspended'**, indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as **'Not rated'** or shown as **'No rating'** are not in regular research coverage. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies. Benchmarks are as follows: **United States/Europe/Asia ex-Japan:** please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at: http://go.nomuranow.com/research/m/Disclosures; **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology; **Japan:** Russell/Nomura Large Cap.

SECTORS

A **'Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A **'Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months. Sectors that are labelled as **'Not rated'** or shown as **'N/A'** are not assigned ratings. Benchmarks are as follows: **United States:** S&P 500; **Europe:** Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia. **Japan/Asia ex-Japan:** Sector ratings are not assigned.

Target Price

A Target Price, if discussed, indicates the analyst's forecast for the share price with a 12-month time horizon, reflecting in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

ADDITIONAL DISCLOSURES REQUIRED IN THE U.S.
Principal Trading: Nomura Securities International, Inc and its affiliates will usually trade as principal in the fixed income securities (or in related derivatives) that are the subject of this research report. Analyst Interactions with other Nomura Securities International, Inc. Personnel: The fixed income research analysts of Nomura Securities International, Inc and its affiliates regularly interact with sales and trading desk personnel in connection with obtaining liquidity and pricing information for their respective coverage universe.

Valuation methodology - Fixed Income
Nomura's Fixed Income Strategists express views on the price of securities and financial markets by providing trade recommendations. These can be relative value recommendations, directional trade recommendations, asset allocation recommendations, or a mixture of all three.
The analysis which is embedded in a trade recommendation would include, but not be limited to:
• Fundamental analysis regarding whether a security's price deviates from its underlying macro- or micro-economic fundamentals.
• Quantitative analysis of price variations.
• Technical factors such as regulatory changes, changes to risk appetite in the market, unexpected rating actions, primary market activity and supply/ demand considerations.
The timeframe for a trade recommendation is variable. Tactical ideas have a short timeframe, typically less than three months. Strategic trade ideas have a longer timeframe of typically more than three months.

For the purposes of the EU Market Abuse Regulation, the distribution of ratings published by Nomura Global Fixed Income Research is as follows:
52% have been assigned a Buy (or equivalent) rating; 50% of issuers with this rating were supplied material services by the Nomura Group**.*
0% have been assigned a Neutral (or equivalent) rating.
48% have been assigned a Sell (or equivalent) rating; 50% of issuers with this rating were supplied material services by the Nomura Group.
As at 2 April 2025.
**As defined by the EU Market Abuse Regulation*
***The Nomura Group as defined in the Disclaimer section at the end of this report*

Disclaimers

This publication contains material that has been prepared by the Nomura Group entity identified on page 1 and, if applicable, with the contributions of one or more Nomura Group entities whose employees and their respective affiliations are specified on page 1 or identified elsewhere in this publication. The term "Nomura Group" used herein refers to Nomura Holdings, Inc. and its affiliates and subsidiaries including: (a) Nomura Securities Co., Ltd. ('NSC') Tokyo, Japan, (b) Nomura Financial Products Europe GmbH ('NFPE'), Germany, (c) Nomura International plc ('NIplc'), UK, (d) Nomura Securities International, Inc. ('NSI'), New York, US, (e) Nomura International (Hong Kong) Ltd. ('NIHK'), Hong Kong, (f) Nomura Financial Investment (Korea) Co., Ltd. ('NFIK'), Korea (Information on Nomura analysts registered with the Korea Financial Investment Association ('KOFIA') can be found on the KOFIA Intranet at http://dis.kofia.or.kr, (g) Nomura Singapore Ltd. ('NSL'), Singapore (Registration number 197201440E, regulated by the Monetary Authority of Singapore) (h) Nomura Australia Ltd. ('NAL'), Australia (ABN 48 003 032 513), regulated by the Australian Securities and Investment Commission ('ASIC') and holder of an Australian financial services licence number 246412, (i) Nomura Securities Malaysia Sdn. Bhd. ('NSM'), Malaysia, (j) NIHK, Taipei Branch ('NITB'), Taiwan, (k) Nomura Financial Advisory and Securities (India) Private Limited ('NFASL'), Mumbai, India (Registered Address: Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai- 400 018, India; Tel: 91 22 4037 4037, Fax: 91 22 4037 4111; CIN No: U74140MH2007PTC169116, SEBI Registration No. for Stock Broking activities : INZ000255633; SEBI Registration No. for Merchant Banking : INM000011419; SEBI Registration No. for Research: INH000001014 - Compliance Officer: Ms. Pratiksha Tondwalkar, 91 22 40374904, grievance email: india.compliance-in@nomura.com.

For reports with respect to Indian public companies or authored by India-based NFASL research analysts: (i) Investment in securities markets is subject to market risks. Read all the related documents carefully before investing. (ii) Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

(l) Nomura Fiduciary Research & Consulting Co., Ltd. ('NFRC') Tokyo, Japan. 'NSFSPL' next to an employee's name on the front page of a research report indicates that the individual is employed by Nomura Structured Finance Services Private Limited to provide assistance to certain Nomura entities under inter-company agreements. 'Verdhana' next to an individual's name on the front page of a research report indicates that the individual is employed by PT Verdhana Sekuritas Indonesia ('Verdhana') to provide research assistance to NIHK under a research partnership agreement and neither Verdhana nor such individual is licensed outside of Indonesia. For the avoidance of doubt and for the purpose of disclosure, Nomura Orient International Securities Co., Ltd (“NOI”), a joint venture amongst Nomura Group, Orient International (Holding) Co., Ltd and Shanghai Huangpu Investment Holding (Group) Co., Ltd is excluded from the definition of Nomura Group. An individual name printed next to NOI on the front page of a research report indicates that individual is employed by NOI to provide research assistance to NIHK under a research partnership agreement and neither NOI or such individual is licensed outside of Mainland China, PRC.

THIS MATERIAL IS: (I) FOR YOUR PRIVATE INFORMATION, AND WE ARE NOT SOLICITING ANY ACTION BASED UPON IT; (II) NOT TO BE CONSTRUED AS AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION WHERE SUCH OFFER OR SOLICITATION WOULD BE ILLEGAL; AND (III) OTHER THAN DISCLOSURES RELATING TO THE NOMURA GROUP, BASED UPON INFORMATION FROM SOURCES THAT WE CONSIDER RELIABLE, BUT HAS NOT BEEN INDEPENDENTLY VERIFIED BY NOMURA GROUP.

Other than disclosures relating to the Nomura Group, the Nomura Group does not warrant, represent or undertake, express or implied, that the document is fair, accurate, complete, correct, reliable or fit for any particular purpose or merchantable, and to the maximum extent permissible by law and/or regulation, does not accept liability (in negligence or otherwise, and in whole or in part) for any act (or decision not to act) resulting from use of this document and related data. To the maximum extent permissible by law and/or regulation, all warranties and other assurances by the Nomura Group are hereby excluded and the Nomura Group shall have no liability (in negligence or otherwise, and in whole or in part) for any loss howsoever arising from the use, misuse, or distribution of this material or the information contained in this material or otherwise arising in connection therewith.

Opinions or estimates expressed are current opinions as of the original publication date appearing on this material and the information, including the opinions and estimates contained herein, are subject to change without notice. The Nomura Group, however, expressly disclaims any obligation, and therefore is under no duty, to update or revise this document. Any comments or statements made herein are those of the author(s) and may differ from views held by other parties within Nomura Group. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The Nomura Group does not provide tax advice.

The Nomura Group, and/or its officers, directors, employees and affiliates, may, to the extent permitted by applicable law and/or regulation, deal as principal, agent, or otherwise, or have long or short positions in, or buy or sell, the securities, commodities or instruments, or options or other derivative instruments based thereon, of issuers or securities mentioned herein. The Nomura Group companies may also act as market maker or liquidity provider (within the meaning of applicable regulations in the UK) in the financial instruments of the issuer. Where the activity of market maker is carried out in accordance with the definition given to it by specific laws and regulations of the US or other jurisdictions, this will be separately disclosed within the specific issuer disclosures.

This document may contain information obtained from third parties, including, but not limited to, ratings from credit ratings agencies such as Standard & Poor’s. The Nomura Group hereby expressly disclaims all representations, warranties or undertakings of originality, fairness, accuracy, completeness, correctness, merchantability or fitness for a particular purpose with respect to any of the information obtained from third parties contained in this material or otherwise arising in connection therewith, and shall not be liable (in negligence or otherwise, and in whole or in part) for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use or misuse of any of the information obtained from third parties contained in this material or otherwise arising in connection therewith. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third-party. Third-party content providers do not, express or implied, guarantee the fairness, accuracy, completeness, correctness, timeliness or availability of any information, including ratings, and are not in any way responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use or misuse of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third-party content providers shall not be liable (in negligence or otherwise, and in whole or in part) for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use or misuse of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Any MSCI sourced information in this document is the exclusive property of MSCI Inc. (‘MSCI’). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be duplicated, reproduced, re-disseminated, redistributed or used, in whole or in part, for any purpose whatsoever, including creating any financial products and any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all representations, warranties or undertakings of originality, fairness, accuracy, completeness, correctness, merchantability or fitness for a particular purpose with respect to any of this material or the information contained in this material or otherwise arising in connection therewith. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability (in negligence or otherwise, and in whole or in part) for any damages of any kind. MSCI and the MSCI indexes are services marks of MSCI and its affiliates.

The intellectual property rights and any other rights, in Russell/Nomura Japan Equity Index belong to Nomura Fiduciary Research & Consulting Co., Ltd. ("NFRC") and FTSE Russell ("Russell"). NFRC and Russell do not guarantee fairness, accuracy, completeness, correctness, reliability, usefulness, marketability, merchantability or fitness of the Index, and do not account for business activities or services that any index user and/or its affiliates undertakes with the use of the Index.

Investors should consider this document as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Nomura Group produces a number of different types of research product including, among others, fundamental analysis and quantitative analysis; recommendations contained in one type of research product may differ from recommendations contained in other types of research product, whether as a result of differing time horizons, methodologies or otherwise. The Nomura Group publishes research product in a number of different ways including the posting of product on the Nomura Group portals and/or distribution directly to clients. Different groups of clients may receive different products and services from the research department depending on their individual requirements.

Figures presented herein may refer to past performance or simulations based on past performance which are not reliable indicators of future or likely performance. Where the information contains an expectation, projection or indication of future performance and business prospects, such forecasts may not be a reliable indicator of future or likely performance. Moreover, simulations are based on models and simplifying assumptions which may oversimplify and not reflect the future distribution of returns. Any figure, strategy or index created and published for illustrative purposes within this document is not intended for “use” as a “benchmark” as defined by the European Benchmark Regulation.

Certain securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from, the investment.

With respect to Fixed Income Research: Recommendations fall into two categories: tactical, which typically last up to three months; or strategic, which typically last from 6-12 months. However, trade recommendations may be reviewed at any time as circumstances change. ‘Stop loss’ levels for trades are also provided; which, if hit, closes the trade recommendation automatically. Prices and yields shown in recommendations are taken at the time of submission for publication and are based on either indicative Bloomberg, LSEG or Nomura prices and yields at that time. The prices and yields shown are not necessarily those at which the trade recommendation can be implemented.

The securities described herein may not have been registered under the US Securities Act of 1933 (the ‘1933 Act’), and, in such case, may not be offered or sold in the US or to US persons unless they have been registered under the 1933 Act, or except in compliance with an exemption from the registration requirements of the 1933 Act. Unless governing law permits otherwise, any transaction should be executed via a Nomura entity in your home jurisdiction.

This document has been approved for distribution in the UK as investment research by NIplc. NIplc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. NIplc is a member of the London Stock Exchange. This document does not constitute a personal recommendation within the meaning of applicable regulations in the UK, or take into account the particular investment objectives, financial situations, or needs of individual investors. This document is intended only for investors who are 'eligible counterparties' or 'professional clients' for the purposes of applicable regulations in the UK, and may not, therefore, be redistributed to persons who are 'retail clients' for such purposes.

This document has been approved for distribution in the European Economic Area as investment research by Nomura Financial Products Europe GmbH (“NFPE”). NFPE is a company organized as a limited liability company under German law registered in the Commercial Register of the Court of Frankfurt/Main under HRB 110223. NFPE is authorized and regulated by the German Federal Financial Supervisory Authority (BaFin).

This document has been approved by NIHK, which is regulated by the Hong Kong Securities and Futures Commission, for distribution in Hong Kong by NIHK. This document is intended only for investors who are 'professional investors' for the purposes of applicable regulations in Hong Kong and may not, therefore, be redistributed to persons who are not 'professional investors' for such purposes.

This document has been approved for distribution in Australia by NAL, which is authorized and regulated in Australia by the ASIC.

This document has also been approved for distribution in Malaysia by NSM.

In Singapore, this document has been distributed by NSL, an exempt financial adviser as defined under the Financial Advisers Act (Chapter 110), among other things, and regulated by the Monetary Authority of Singapore. NSL may distribute this document produced by its foreign affiliates pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the recipient of this document is not an accredited, expert or institutional investor as defined by the Securities and Futures Act (Chapter 289), NSL accepts legal responsibility for the contents of this document in respect of such recipient only to the extent required by law. Recipients of this document in Singapore should contact NSL in respect of matters arising from, or in connection with, this document. THIS DOCUMENT IS INTENDED FOR GENERAL CIRCULATION. IT DOES NOT TAKE INTO ACCOUNT THE SPECIFIC INVESTMENT OBJECTIVES, FINANCIAL SITUATION OR PARTICULAR NEEDS OF ANY PARTICULAR PERSON. RECIPIENTS SHOULD TAKE INTO ACCOUNT THEIR SPECIFIC INVESTMENT OBJECTIVES, FINANCIAL SITUATION OR PARTICULAR NEEDS BEFORE MAKING A COMMITMENT TO PURCHASE ANY SECURITIES, INCLUDING SEEKING ADVICE FROM AN INDEPENDENT FINANCIAL ADVISER REGARDING THE SUITABILITY OF THE INVESTMENT, UNDER A SEPARATE ENGAGEMENT, AS THE RECIPIENT DEEMS FIT.

Unless prohibited by the provisions of Regulation S of the 1933 Act, this material is distributed in the US, by NSI, a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934.

The entity that prepared this document permits its separately operated affiliates within the Nomura Group to make copies of such documents available to their clients.

This document has not been approved for distribution to persons other than ‘Authorised Persons’, ‘Exempt Persons’ or ‘Institutions’ (as defined by the Capital Markets Authority) in the Kingdom of Saudi Arabia (‘Saudi Arabia’) or a ’Market Counterparty’ or a 'Professional Client' (as defined by the Dubai Financial Services Authority) in the United Arab Emirates (‘UAE’) or a ‘Market Counterparty’ or a ‘Business Customer’ (as defined by the Qatar Financial Centre Regulatory Authority) in the State of Qatar (‘Qatar’) by Nomura Saudi Arabia, NIplc or any other member of the Nomura Group, as the case may be. Neither this document nor any copy thereof may be taken or transmitted or distributed, directly or indirectly, by any person other than those authorised to do so into Saudi Arabia or in the UAE or in Qatar or to any person other than ‘Authorised Persons’, ‘Exempt Persons’ or ‘Institutions’ located in Saudi Arabia or a ’Market Counterparty’ or a 'Professional Client' in the UAE or a ‘Market Counterparty’ or a ‘Business Customer’ in Qatar. Any failure to comply with these restrictions may constitute a violation of the laws of the UAE or Saudi Arabia or Qatar.

For report with reference of TAIWAN public companies or authored by Taiwan based research analyst:

THIS DOCUMENT IS SOLELY FOR REFERENCE ONLY. You should independently evaluate the investment risks and are solely responsible for your investment decisions. NO PORTION OF THE REPORT MAY BE REPRODUCED OR QUOTED BY THE PRESS OR ANY OTHER PERSON WITHOUT WRITTEN AUTHORIZATION FROM NOMURA GROUP. Pursuant to Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers and/or other applicable laws or regulations in Taiwan, you are prohibited to provide the reports to others (including but not limited to related parties, affiliated companies and any other third parties) or engage in any activities in connection with the reports which may involve conflicts of interests. INFORMATION ON SECURITIES / INSTRUMENTS NOT EXECUTABLE