FX, Fixed income, Econ, Facts & Fallacies

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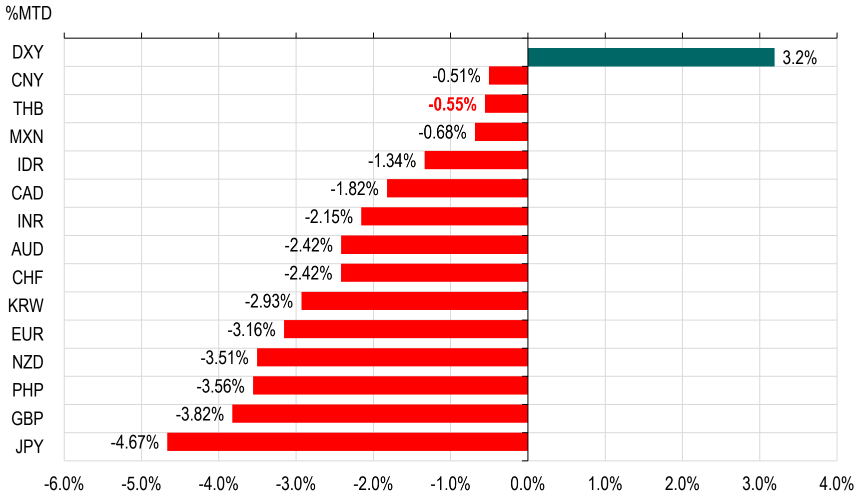
Capital markets recap, July 2025

- **The US dollar strengthened in July 2025 on strong economic data and reduced Fed rate cut expectations.** New US tariffs also supported the dollar, though Thailand negotiated a 19% rate, in line with ASEAN peers. In contrast, the euro, yen, yuan, and baht weakened due to economic and geopolitical concerns, with the baht under pressure from border tensions and US trade uncertainty.
- **US Treasury yields rose across the curve as markets priced in fewer Fed cuts and reacted to tax cut plans**. European yields moved little with inflation under control and easing cycles near completion. Japanese yields rose on political uncertainty, despite a dovish BoJ. Thai yields fell as markets expect further BoT rate cuts amid rising domestic and external risks.

FX Markets

Figure 1 Monthly exchange rate changes of major currencies against USD (July 2025)



Source: Bloomberg, KBank

In July 2025, the US dollar reversed its six-month weakening trend and closed the month stronger for the first time this year. This rebound was driven by robust economic data and a decreased likelihood of a near-term Fed rate cut. Throughout the month, the dollar faced volatility due to trade tensions and political uncertainty, including ongoing tariff negotiations with multiple trading partners and pressure from former President Trump and the White House for the Fed to ease policy. However, stronger-than-expected data on GDP, inflation, labor market, retail sales, housing, and consumer confidence reinforced the Fed’s cautious stance and boosted investor confidence in the dollar.

Late in the month, the US announced a new round of import tariffs. Thailand and Cambodia managed to negotiate reduced rates at the last minute, with Thailand’s tariff cut from 36% to 19%, and Cambodia’s from 40% to 19% —

matching the rates for ASEAN nations that had earlier reached deals, such as Vietnam (20%), Indonesia (19%), and the Philippines (19%). Meanwhile, India, often criticized for high tariffs, saw only a slight reduction to 25% from 26%, and Taiwan's rate was lowered from 32% to 20%. Countries with large trade surpluses with the US that had not reached agreements, such as Canada and Switzerland, faced tariff hikes — Canada's rising from 25% to 35% (excluding USMCA-covered goods), and Switzerland's from 31% to 39%.

Figure 2 Retaliatory tariff rates to be imposed by the United States

Country	Prior % (9 April)	Latest % (1 Aug)	Change
Laos	48	40	-8
Myanmar	44	40	-4
Switzerland	31	39	8
Serbia	37	35	-2
Bangladesh	37	35	-2
Canada	25	35	10
South Africa	30	30	-
Bosnia & Herzegovina	35	30	-5
Mexico	25	30	5
Kazakhstan	27	25	-2
Tunisia	28	25	-3
Brunei	24	25	1
India	26	25	-1
Vietnam	46	20	-26
Taiwan	32	20	-12
Malaysia	24	19	-5
Cambodia	49	19	-30
Thailand	***36***	***19***	***-17***
Philippines	17	19	2
Indonesia	32	19	-13
Japan	24	15	-9
South Korea	26	15	-11
EU	20	15	-5
New Zealand	10	15	5
UK	25	10	-15

Source: Bloomberg,White House, KBank

Major Currencies

Most major currencies weakened in July. The euro fluctuated, initially strengthening to its highest level against the dollar since 2021 on optimism over trade negotiations and the ECB's signal that inflation had reached the 2% target, suggesting the rate cut cycle may be ending. However, it weakened by month's end as the dollar gained and the US announced new tariffs, including a 15% rate on eurozone goods. Weak eurozone data, including contracting retail sales and low inflation in France and Germany, outweighed the slight GDP growth in Q2.

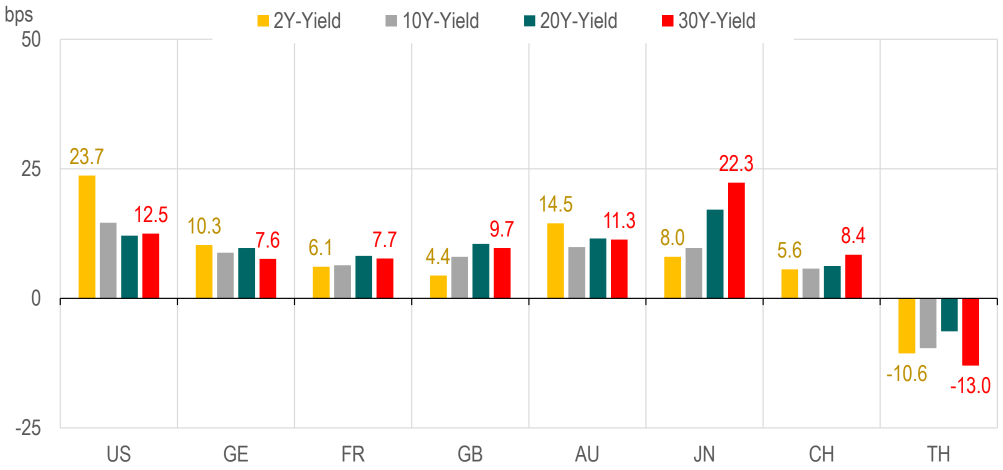
The Japanese yen continued to depreciate, breaking 150 yen per dollar — its weakest level in nearly four months — amid both domestic and external pressures. Markets grew concerned about the Bank of Japan's reluctance to raise rates despite ongoing inflationary pressures and wage negotiations. Additionally, rumors of Prime Minister Ishiba's resignation fueled political uncertainty. A stronger US dollar also contributed to the yen's weakness, with analysts expecting no Japanese intervention until the rate crosses 155 yen per dollar.

The Chinese yuan was volatile, strengthening to 7.15 per dollar early in the month due to recovery hopes and PBoC support for the daily fixing rate, before weakening to 7.20 as concerns over domestic economic fragility resurfaced and stronger US dollar. Weak manufacturing and services PMIs, slower Q2 GDP growth, and disappointing retail sales offset a brief recovery in exports. Trade tensions with the West persisted despite some US tariff relief for China.

The Thai baht fluctuated, strengthening to near a four-year high at 32.11 per dollar, supported by a weaker dollar and rising gold prices, **before weakening to 32.68 by month-end amid** renewed border tensions with Cambodia and trade negotiation uncertainty with the US — with a deal only reached at the last minute before the August 1 deadline.

Bond Market

Figure 3 Monthly changes in government yields across major economies



Source: Bloomberg, KBank

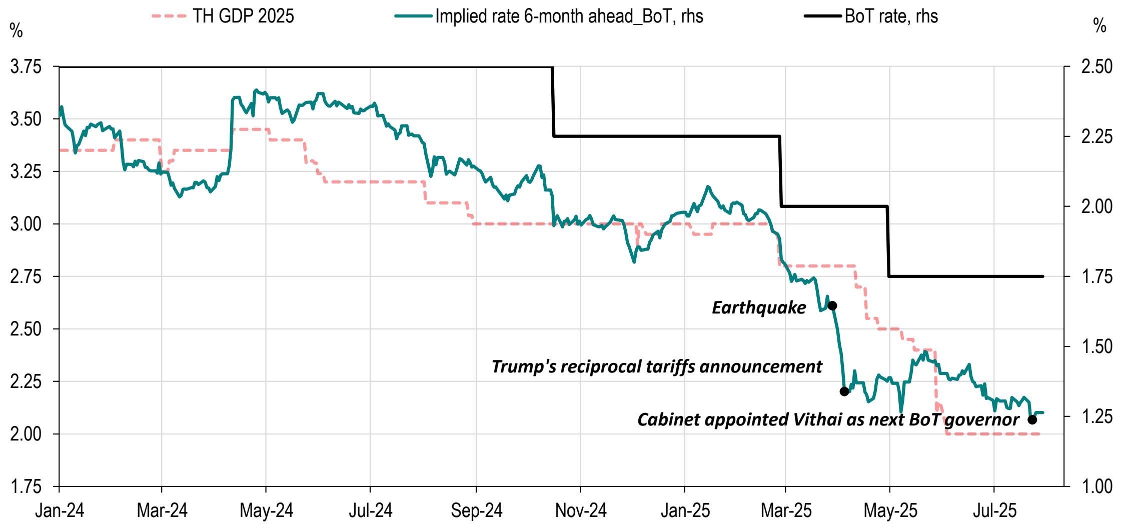
Global government bond yields rose across most maturities in July. US 2-year Treasury yields climbed nearly 24 basis points amid expectations that the Fed would delay rate cuts — possibly until October instead of the previously expected September. Long-term US yields (10+ years) also rose 12–15 bps, driven by concerns over the proposed “One Big Beautiful Bill Act” (OBBBA), which could increase the fiscal deficit and trigger more bond issuance.

European bond yields moved within a narrow range, as inflation remained below expectations and within the ECB’s target, reinforcing the view that rates will remain steady this year. UK short-term yields rose modestly, with markets still expecting 1–2 BoE rate cuts in 2025. Debt issuance by Germany and the UK had limited impact on yields, as markets had already priced in these developments.

Japanese Government Bond (JGB) yields rose across the curve in July, reflecting political uncertainty ahead of the mid-month election. Investors were concerned about potential fiscal stimulus and debt expansion. Despite keeping rates unchanged and raising its inflation forecast due to food prices, the BoJ maintained a dovish tone, suggesting no imminent hikes. A partial easing of uncertainty from a trade deal with the US had limited impact on JGBs.

In contrast, Thai bond yields declined, diverging from the global trend, as markets anticipated possible rate cuts by the Bank of Thailand. Rising political tensions with Cambodia and late clarity on US import tariffs added pressure to Thailand’s already fragile economic recovery. Markets now expect at least two policy rate cuts within the next year, potentially lowering rates to around 1.25% by mid-2026.

Figure 4 Thailand's economic outlook and policy interest rate forecast



Source: Bloomberg, KBank

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