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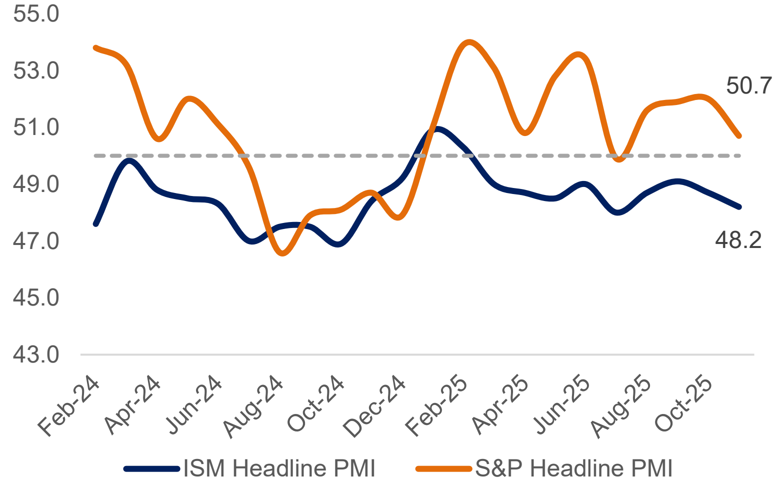
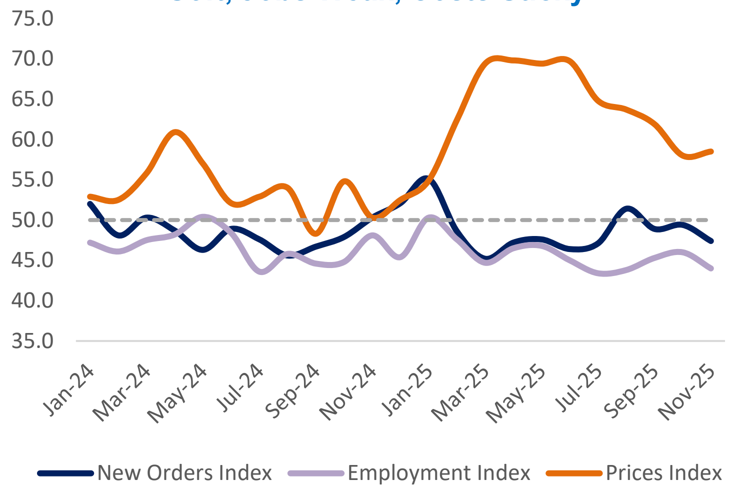
2 DECEMBER 2025

# US PMIs Flag Softening Momentum as Markets Lock In December Cut

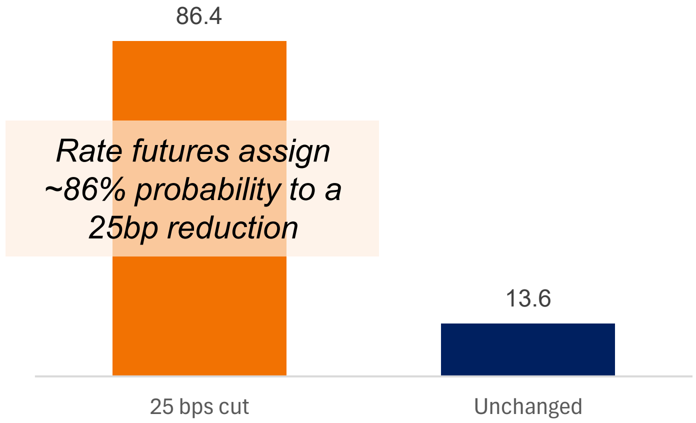
**Headline Purchasing Managers Index (PMIs)**
**Divergent Headline PMIs, Same Direction: Manufacturing Cooling**




**PMIs by Component:**
**Sub-Indices Reveal Deeper Stress: Orders Soft, Jobs Weak, Costs Sticky**




**CME FedWatch Tool: Target Rate Probabilities (10th Dec FOMC)**
**Markets Now Price a Near-Certain December Cut**




*Source: S&P, ISM, CEIC, BMMB Economics*

The November PMIs reinforced a softening in US manufacturing momentum, with mixed headline signals but a consistent underlying message of **weaker demand and mounting cost pressures**. ISM Manufacturing fell further into contraction at **48.2** (Oct: 48.7), marking its **ninth consecutive sub-50 reading**, while S&P Global's PMI eased to **50.7** (Oct: 52.0), remaining in expansion but showing slower new-order growth and rising inventories. The divergence in headline levels reflects survey composition, but both surveys point to **loss of speed across production, orders and employment**, consistent with broader global industrial softness seen through 2025.

Under the surface, ISM's sub-indices point to a **more entrenched slowdown**: firms are trimming headcount, new orders continue to decline, and elevated input-cost readings (albeit stabilizing in recent months) signal a margin squeeze that is becoming harder to absorb. The combination of softer pipelines and stickier costs reflects an industrial base that is losing flexibility.

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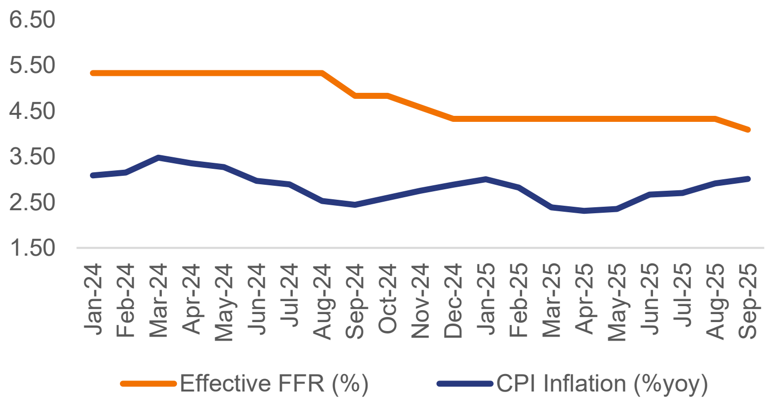
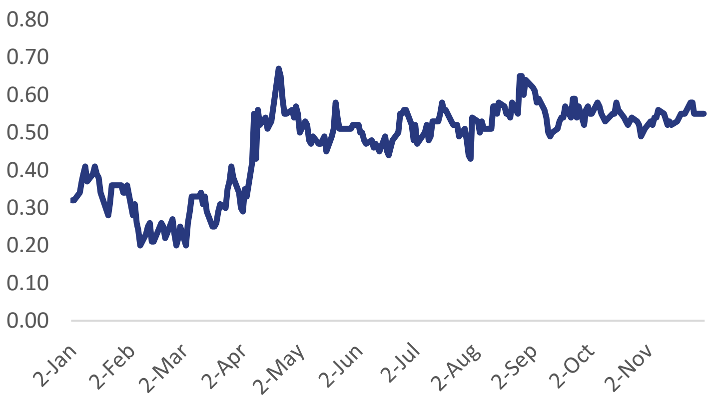
# Easier Fed Expectations Meet a More Complex Global Rates Backdrop

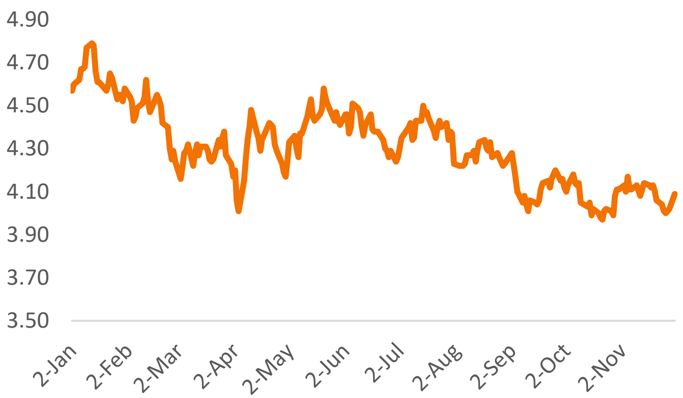
**Effective FFR vs Inflation**
**Real Rates Remain Positive, Reinforcing Fed's Room to Ease**




**UST Yield (10y vs 2y, %):**
**Front-end leads the move, with 2y down 71 bps YTD**




**UST 10y Yield (%)**
**Long-end softens as growth risks rise ahead of December FOMC**




*Source: Federal Reserve Board, CEIC, BMMB Economics*

The PMI mix strengthens the case for a December cut, but does not give the Fed a free hand on the 2026 easing path. Rate-sensitive components in ISM — particularly employment and new orders — reinforce the narrative of cooling domestic demand, while prices-paid staying elevated limits the Fed's ability to sound fully dovish. **Fed funds futures now assign ~86% probability to a 25bp move**, effectively making a cut the market's base case.

Markets have already moved ahead of the Fed. US Treasury yields drifted lower YTD, with the front end leading the move. However, there has also been a recent spike in yields — the **10Y is now hovering near 4.10% and the 2Y around 3.53% — as markets continue to balance softer data with the Fed's upcoming policy shift.** The dollar softened against major currencies as the probability of a December cut firmed, while equity markets found support from the prospect of easier financial conditions. Cross-asset signals all point in the same direction: growth risks have risen, inflation risks have moderated, and the market is leaning into continued Fed easing cycle.

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# Global Rate Shifts Create a Two-Way but Supportive Outlook for MYR

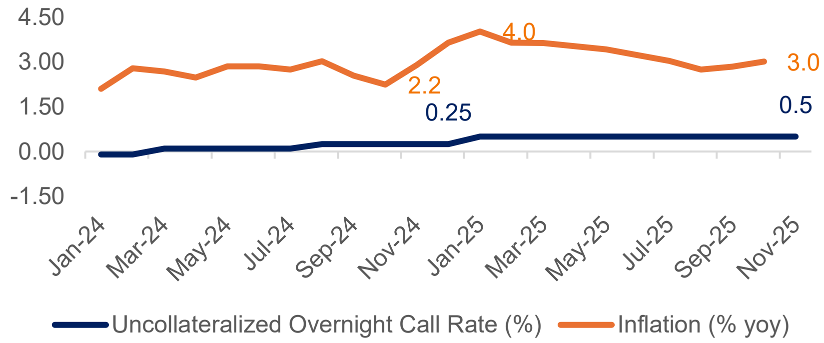
## BOJ Turns Hawkish Just as Fed Turns Dovish

Simultaneously, **BOJ's latest signal of a potential December hike** has introduced a sharp cross-current into global markets. While the US is moving toward easier policy, Japan is preparing to tighten for the first time in years, **lifting JGB yields and triggering a meaningful yen rebound**. The shift **pressures the global carry trade**, encourages partial repatriation of Japanese flows, and tightens global financial conditions at the margin — effectively offsetting some of the loosening impulse from expected Fed cuts.

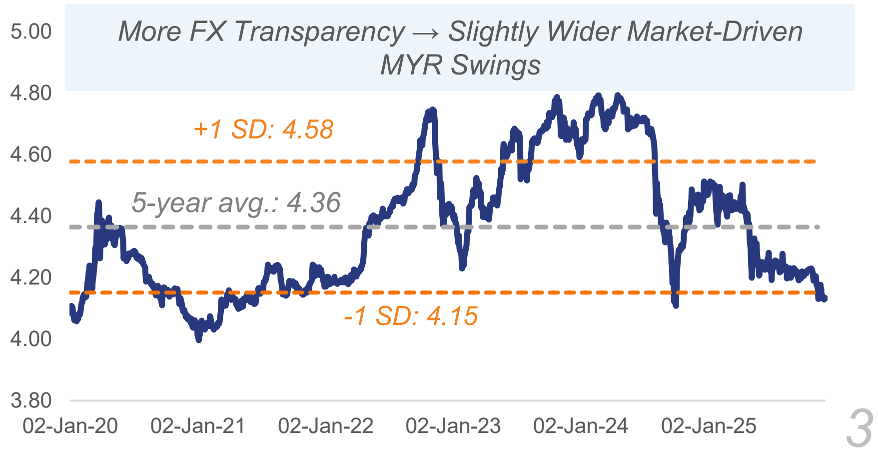
## Why This Matters for Asia and MYR

A stronger JPY and higher JGB yields typically weaken the USD through the USD/JPY channel, but the **carry unwind can simultaneously dampen demand for EM assets**. The result is a **two-way volatility regime**: MYR may benefit from a softer USD, yet face intermittent outflows as Japanese investors reprice global fixed-income portfolios. For Malaysia, the environment has turned more supportive — MYR has already strengthened YTD on a softer USD — but global policy divergence argues for two-way moves rather than a straight-line trend. **Looking ahead, the balance of risks still leans constructive**: if US data continues to soften and the Fed delivers its December cut, external pressure on MYR should ease further, though the BOJ's tightening cycle and geopolitical uncertainties imply that FX gains will likely materialise in measured, rather than rapid, steps. All in, **MYR looks set to close the year on a firmer footing (up 7.8% YTD).** For 2026, we expect MYR to **end the year in the 4.05–4.10 range**, with a wider trading band reflecting BNM's move toward more market-driven adjustments and a still-volatile global rates backdrop.

Japan's Policy Rate vs Inflation




USD/MYR






Source: BNM, CEIC, BMMB Economics