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Daily Market Outlook

Oil Risk Rising

- ***Oil Risk Rising**: Markets remain priced for contained geopolitical risks, but the margin for error is shrinking. A deeper Middle East escalation could trigger higher-for-longer oil prices again, disrupt carry trades, and drive a flight back into the USD.*
- ***GBP Rebound Limits**: Fiscal concerns are likely to resurface ahead of the UK Autumn Budget. With the BoE less likely than its European peers to raise rates and EURGBP near one-year lows, we expect the recent GBP rally to fade and EURGBP to recover.*
- ***Gold's near-term price action may remain two-way**, but a more sustained recovery is likely to require oil prices to back off, some easing in real yields and Fed tightening expectations.*
- ***IDR has stabilised modestly**, supported by S&P's rating affirmation and BI's cumulative tightening/policy support, though elevated oil prices and still-soft portfolio flows may limit further gains. BI MPC decision in focus on Wed.*

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Oil Risk Rising: Higher energy prices and UK fiscal concerns pushed global bond yields higher overnight. With a quiet data calendar and the Fed in its pre-FOMC blackout period, the USD traded largely sideways. Whether that calm persists remains uncertain as oil prices resume their climb. For now, crude has surrendered part of its gains on hopes that a diplomatic resolution remains possible.

Our base case has been for a managed escalation in the Middle East, allowing low market volatility to persist, supporting FX carry trades and limiting further USD gains ahead of next week's FOMC meeting. However, the risk of a broader conflict has risen following the deaths of three US soldiers in Iran-linked attacks.

Shipping through the Strait of Hormuz has already slowed significantly. Oil prices rose further after reports that Yemen's Iran-backed Houthi group plans to restrict Saudi-linked maritime traffic in the Red Sea. Such a move would threaten one of the few alternative routes capable of offsetting disruptions in Hormuz, potentially tightening Middle East oil supplies.

A larger escalation could revive fears of a prolonged supply shock and drive oil prices back above USD100/bbl. For perspective, Brent crude reached USD126/bbl in late April, around 40% above current levels. Such an outcome would likely trigger higher market volatility, erode the appeal of FX carry trades, and support a renewed USD rally.

The USD would be backed by the US's position as a net energy exporter, while higher oil prices could also reinforce inflation concerns. With labour market data pointing to stabilisation rather than deterioration, a fresh energy shock would leave the Fed focused on upside inflation risks, providing additional support for the USD.

GBP Rebound Limits: Andy Burnham was confirmed as UK Prime Minister, and his appointment of John Healey as the chancellor of the exchange, while unexpected, was seen as market-friendly. However, Burnham unsettled the gilt market by suggesting he would use "any flexibility" within the UK's fiscal rules.

We believe accommodating higher defence spending while reversing cuts to unprotected departments will be difficult within the current fiscal framework. This sets up a key tension ahead of the Autumn Budget and next year's Spending Review. That said, with the Budget still several months away, any near-term fiscal measures are likely to be modest and targeted.

Against this backdrop, we believe the recent EURGBP correction, which has taken the cross to its lowest level in a year, is close to running its course. We continue to expect EURGBP to recover towards 0.87 over the coming months, in line with our broader view of a range-bound GBP. Higher energy prices raise the risk of additional rate hikes in Europe, but the Bank of England still appears less likely than its regional peers to tighten policy, limiting GBP upside.

Gold. Likely more 2-way trades. Gold continued to consolidate around recent lows following the sharp pullback earlier this month. The near-term backdrop remains challenging. Higher oil prices amid re-escalation between US and Iran are keeping inflation concerns alive, while elevated real yields and renewed worries over a more hawkish Fed continue to weigh on gold. Near term, price action may remain two-way, but a more sustained recovery likely requires oil prices to back off, some easing in real yields and Fed tightening expectations. Until then, upside may remain capped.

From a more medium term and broader perspective, a large part of the valuation reset may have somewhat taken place and that the pace of decline should potentially moderate if macro conditions do not deteriorate further. Gold last at 4005 levels. Daily momentum and RSI indicators are not showing a clear bias for now. Resistance at 4061 (21

DMA), 4092 levels. Support at 3940/60 levels (recent low), 3850 levels. Technically, 3,800 and 3,600 are important support levels — a sustained break below those would materially weaken the medium-term picture and would be a bigger concern.

IDR. Tentative relief. USDIDR has eased modestly from recent highs, with the pullback appearing to be driven more by domestic-specific factors than any meaningful weakening in the broader USD. S&P's affirmation of Indonesia's BBB rating with a stable outlook helped to ease some of the near-term concerns around the sovereign credit story, while BI's prior tightening and continued willingness to support the IDR have also provided a firmer policy anchor. BI MPC (22 Jul) will be closely watched on whether policymakers tighten further. There may also be some position adjustment after the sharp rise in USDIDR earlier this month, although there is not yet strong evidence of a sustained pickup in foreign portfolio inflows. We would therefore view the recent IDR recovery more as tentative stabilisation than the start of a stronger appreciation trend. Elevated oil prices remain a key constraint, while lingering fiscal and domestic confidence concerns may still limit the extent of IDR gains.

USDIDR was last at 17940 levels. Daily momentum is mild bearish while RSI shows tentative signs of rising. 2-way trades likely for now. If the pair can stay capped under 17970/18000 (21 DMA), then downside pressure may gather momentum with next support at 17820/840 levels (50 DMA, 23.6% fibo retracement of 2026 low to high). Resistance at 18020, 18140 levels.

Technical Levels Table

	EURUSD	USDJPY	GBPUSD	USDCHF	AUDUSD	NZDUSD	USDCAD	XAUUSD	USDSGD	USDPHP	USDINR
Resistance 3	1.1516	163.18	1.3578	0.8184	0.7096	0.5919	1.4186	4126	1.2963	61.85	96.79
Resistance 2	1.1469	162.81	1.3510	0.8137	0.7044	0.5881	1.4117	4068	1.2937	61.76	96.62
Resistance 1	1.1442	162.65	1.3470	0.8119	0.7021	0.5859	1.4094	4038	1.2924	61.72	96.53
Spot	1.1414	162.51	1.3430	0.8102	0.6999	0.5849	1.4076	4007	1.2912	61.69	96.45
Support 1	1.1395	162.28	1.3402	0.8072	0.6969	0.5821	1.4025	3980	1.2898	61.63	96.36
Support 2	1.1375	162.07	1.3374	0.8043	0.6940	0.5805	1.3979	3953	1.2885	61.57	96.28
Support 3	1.1328	161.70	1.3306	0.7996	0.6888	0.5767	1.3910	3895	1.2859	61.48	96.11
Bollinger Band											
Bollinger Upper	1.1468	162.95	1.3548	0.8137	0.7018	0.5887	1.4286	4175	1.2968	61.80	96.65
Bollinger Lower	1.1361	161.28	1.3159	0.8031	0.6867	0.5586	1.4015	3943	1.2888	61.22	94.08

Source: Bloomberg, OCBC Group Research. Potential resistance and support levels are identified based on pivot points

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