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Daily Market Outlook

Crude Down, AI Angst

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- ***Crude Down, AI Angst***: *Falling oil prices and lower yields have supported risk sentiment and reversed some recent FX moves. AI concerns remain contained within equities for now. Unresolved tensions around the Strait of Hormuz continue to pose a significant upside risk to energy prices.*

- ***Mind the Message***: *A Fed hold looks most likely, but the message matters more than the decision. Hawkish communication should underpin the USD, while a lack of policy clarity risks undermining confidence and weighing on the currency.*

- ***Corporate USD supply may keep USDKRW under pressure*** *in the near term, but a more durable decline requires Fed hike expectations to fade, lower oil prices and stabilising risk sentiment.*

- ***USDSGD consolidated post-MAS.*** *The pair may stay rangebound into FOMC, though two-way volatility could spike around the decision and press conference.*

Crude Down, AI Angst: Global yields extended their decline as crude oil fell further, with markets positioning for potential progress towards peace negotiations in the Middle East. Broad US equity indices, including the S&P 500, closed modestly higher despite another sell-off in technology stocks. Investors remain concerned about the funding of AI-related capital expenditure, while reports of improving Chinese semiconductor capabilities also weighed on sentiment.

The FX impact from energy prices has been more muted this month than during the March-April episode, but it remains evident. Energy exporters such as NOK have given back some gains, while energy importers including ZAR, INR, SEK and EUR have either recovered part of their earlier losses or stabilised as oil prices retreated from the start of the week.

The latest pullback in oil prices moves markets closer to our base case of Brent crude gradually easing towards USD75/bbl by year-end. That said, geopolitical risks remain elevated. Key issues surrounding control of the Strait of Hormuz remain unresolved and could reignite price spikes. Efforts to reopen the waterway have stalled after Iran rejected an Omani compromise proposal. Iran continues to insist on full control of inbound traffic along the northern route and partial joint management of outbound traffic with Oman on the southern route.

AI-related concerns continue to influence markets, although the transmission to FX remains indirect and largely operates through broader risk sentiment. Despite persistent AI angst, overall risk appetite has held up relatively well. The relationship between tech-heavy Asian equity markets and their currencies has also weakened, particularly for KRW relative to TWD. Notably, KRW outperformed despite a sharp decline in the KOSPI during the Asian trading session.

Mind the Message: We expect the Fed to keep rates unchanged, although uncertainty around this FOMC meeting is unusually high and risks appear skewed to the hawkish side. Markets are pricing around 8bp of tightening, equivalent to roughly a one-in-three chance of a rate hike, with around 40bp priced in by year-end.

Uncertainty is elevated because Fed Chair Warsh is expected to avoid providing meaningful forward guidance. As a result, the meeting may offer limited clarity on the policy path ahead.

If the Fed remains on hold, market reaction will hinge on the accompanying communication. A hawkish hold would likely push expectations for future rate hikes further out the curve without materially changing the roughly 40bp of cumulative tightening priced through end-2026. In this scenario, the USD should remain supported.

Confidence in the Fed's commitment to controlling inflation has helped lift long-end Treasury yields, driven mainly by higher real yields amid rising energy prices, while inflation expectations have remained well anchored. Notably, 10-year breakeven inflation rates have fallen below levels seen before the US-Iran conflict.

However, an unchanged policy decision with little explanation could be interpreted as dovish and raise questions about the Fed's reaction function. That could lift long-end inflation breakevens, a development that would likely weigh on the USD.

KRW. Flows-driven. USDKRW fell further overnight to around lows of 1450 even as the KOSPI slumped almost 11%, foreign investors sold USD3.3bn of local equities and broader markets remain concerned of Fed tightening. This outlier gains continued to point to exceptional USD supply driving the move rather than other factors or risk sentiments. USD sell-flows linked to the repatriation of SK Hynix's ADR proceeds was the initial trigger, reinforced by exporter conversions and forward sales from Korean shipbuilders. More recently, the government has openly encouraged major exporters to convert more export receipts and overseas USD holdings into KRW, while citing these corporate flows as a key reason for the recent improvement in FX supply-demand conditions.

Flows may keep the pair under pressure in the interim but when these corporate supply fades, weak equity sentiment and foreign outflows may regain influence and leave room for USDKRW to rebound. For USDKRW to remain under pressure more durably would require external environment to improve. This includes expectations for Fed tightening to fade, oil prices to ease materially lower and broader sentiment to stabilise. USDKRW last seen at 1456 levels. Bearish momentum on daily chart intact but RSI shows tentative signs of rising from around oversold conditions. Rebound risk not ruled out. Resistance at 1465, 1473/76 levels (61.8% fibo retracement of 2026 low to high, 200 DMA). Support at 1450/53 levels (76.4% fibo), 1438.

USDSGD. Likely 2-way risks into FOMC. SGD consolidated overnight post-MAS's surprise "very slight" tightening on Monday. The lack of follow-through in USDSGD to the downside overnight points to limitation to the downside (due to S$NEER near upper bound) while markets remain fixated on upcoming FOMC decision (Thu 2am SGT). The broader USD continued to hover close to a 5-week high, supported by elevated US Treasury yields and a still-live Fed decision, with markets pricing roughly 30–35% chance of a 25bp hike. Softer oil prices and easing US–Iran tensions offered some support to SGD, but markets were reluctant to add positions ahead of FOMC.

Near term, USDSGD may remain rangebound into the decision. A Fed hold could see a knee-jerk move lower in the pair, but follow-through may be limited if Fed Chair Warsh keeps the door open to a Sep hike. USDSGD last seen at 1.2925 levels. Bearish momentum on daily chart shows signs of fading while RSI rose. 2-way risks likely for now. Resistance at 1.2950/80 levels before 1.3020. Support at 1.2920 (21 DMA), 1.2880 (50 DMA), 1.2840 levels (200 DMA). Brace for the potential spikes both sides around FOMC decision/press conference.

Technical Levels Table

	EURUSD	USDJPY	GBPUSD	USDCHF	AUDUSD	NZDUSD	USDCAD	XAUUSD	USDSGD	USDPHP	USDINR
Resistance 3	1.1486	164.43	1.3365	0.8262	0.7053	0.5853	1.4193	4184	1.2980	61.92	96.24
Resistance 2	1.1434	164.12	1.3328	0.8225	0.7016	0.5817	1.4150	4113	1.2951	61.80	96.01
Resistance 1	1.1410	163.99	1.3309	0.8208	0.6996	0.5801	1.4129	4071	1.2935	61.72	95.93
Spot	1.1385	163.88	1.3285	0.8197	0.6976	0.5781	1.4108	4019	1.2925	61.63	95.86
Support 1	1.1358	163.68	1.3272	0.8171	0.6959	0.5765	1.4086	4000	1.2906	61.59	95.71
Support 2	1.1330	163.50	1.3254	0.8151	0.6942	0.5745	1.4064	3970	1.2893	61.54	95.56
Support 3	1.1278	163.19	1.3217	0.8114	0.6905	0.5709	1.4021	3899	1.2864	61.41	95.33
Bollinger Band											
Bollinger Upper	1.1465	164.31	1.3504	0.8215	0.7022	0.5882	1.4232	4181	1.2941	61.85	96.91
Bollinger Lower	1.1359	160.98	1.3250	0.8004	0.6911	0.5668	1.4007	3964	1.2894	61.41	94.83

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

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