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FX Focus

Embracing A Stronger USD

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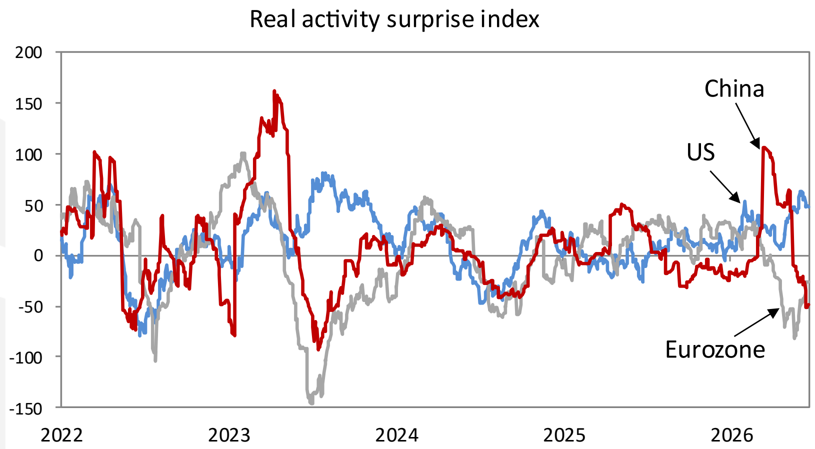
- *Hawkish Fed signals lift USD, shifts our view to modest strength from rangebound.*
- *DXY breakout targets 2 to 3 percent upside; 5 percent move requires oil surge or US overheating scenario.*
- *A firmer USD alongside widening rate differentials tends to weigh most on low-yielders such as CHF and JPY. Procyclical carry can still perform, but trade resilience will depend on selecting appropriate funding currencies.*

The recent reset toward potential near-term Fed tightening has lifted US front-end yields and the USD. Our base case remains unchanged, with the Fed on hold through 2026. However, rising hawkish risks have shifted us to a modestly stronger USD stance from our previous rangebound view.

This adjustment reinforces the divergence theme. The US continues to lead global growth, supported by AI boom via higher equity wealth as well as strong capex, widening the gap versus the rest of the world and underpinning tech-linked Asia.

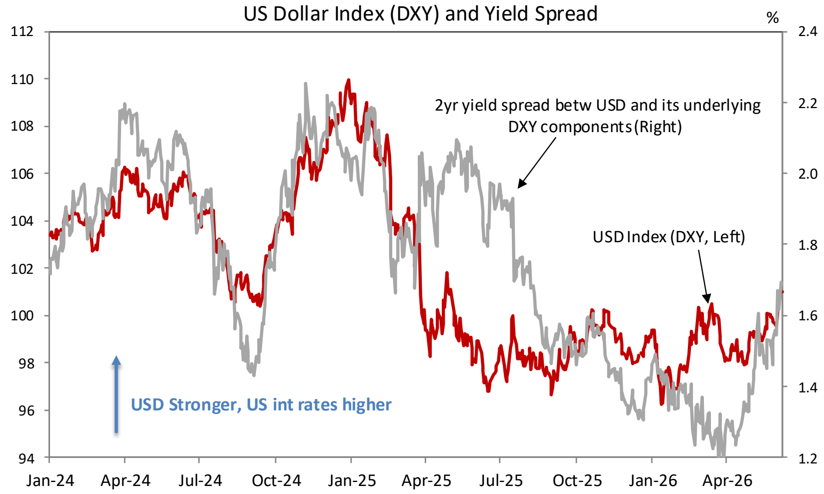
US continues to lead with the help of the AI boom, driving growth divergence versus the rest of the world



Source: Bloomberg, Citigroup, OCBC Group Research

A likely break above the DXY's 12-month range now points to a modest 2 to 3 percent upside. A larger move above 5 percent remains a tail risk, likely driven by oil rebounding above USD100 per barrel or signs of US overheating (i.e. declining unemployment rate and rising medium-term inflation expectations) rather than a soft landing.

A break above of the 12-month range for the DXY will, under our new baseline, likely deliver a modest 2 to 3 percent upside



Source: Bloomberg, OCBC Group Research

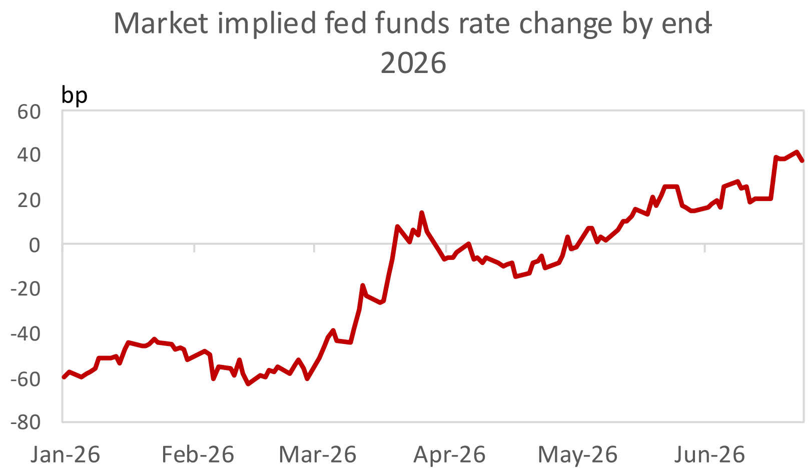
A firmer USD alongside widening rate differentials tends to weigh most on low-yielders such as CHF and JPY. Procyclical carry can still perform, but trade resilience will depend on selecting appropriate funding currencies.

Market focus has shifted from oil relief to Fed pressure. Terms-of-trade support for the USD has faded as energy prices eased following the US-Iran deal. In contrast, hawkish FOMC signals have driven repricing toward higher US front-end rates and a stronger USD. Notably, the Fed surprise outweighed the geopolitical development, with oil already down around USD30 per barrel over the past month.

Markets now price a high probability of normalised Hormuz flows despite lingering geopolitical risks. Still, factors such as mine clearance, shipping insurance reinstatement, oil production restarts and precautionary stockpiling should slow further downside in oil. Lower oil prices and hawkish Fed signals have weighed on energy exporters, with NOK, CAD and MYR underperforming over the past week.

Concerns around Fed independence have eased following a hawkish first meeting under Chair Warsh. Of 18 dot plot participants, nine signalled hikes this year and six pointed to more than one. Markets now price around 40bp of tightening by year-end, up from 20bp a week ago.

Following the June dot plot shift, markets have moved away from pricing a prolonged pause and now see meaningful tightening risk



Source: Bloomberg, OCBC Group Research

Warsh's leaner communication style and reduced forward guidance, reflected in a shorter FOMC statement, will increase the market's reliance on incoming data and likely lift FX volatility.

G10 Currency Forecasts

	Current (23 Jun 2026)	2Q26	3Q26	4Q26	1Q27	2Q27
USDJPY	162	162	163	163	163	163
EURUSD	1.14	1.13	1.12	1.11	1.10	1.10
GBPUSD	1.32	1.30	1.29	1.28	1.26	1.26
AUDUSD	0.70	0.71	0.72	0.72	0.71	0.71
NZDUSD	0.57	0.58	0.60	0.61	0.61	0.61
USDCAD	1.42	1.42	1.43	1.44	1.44	1.44
USDCHF	0.81	0.82	0.83	0.84	0.85	0.85
EURNOK	11.09	11.20	11.20	11.10	11.10	11.10
DXY	101.01	102.11	102.93	103.62	104.39	104.35

	Current (23 Jun 2026)	3M	6M	12M
USDJPY	162	163	163	163
EURUSD	1.14	1.12	1.11	1.10
GBPUSD	1.32	1.29	1.28	1.26
AUDUSD	0.70	0.72	0.72	0.71
NZDUSD	0.57	0.59	0.60	0.61
USDCAD	1.42	1.43	1.44	1.44
USDCHF	0.81	0.83	0.84	0.85
EURNOK	11.09	11.20	11.13	11.10
DXY	101.01	102.66	103.39	104.36

Source: Bloomberg, OCBC Group Research

Note: The 3-, 6-, and 12-month forecasts may vary slightly over time even when the underlying commodity outlook remains unchanged. This is because we use a single set of core forecasts anchored on quarter-end levels. From these quarter-end projections, we derive the 3-, 6-, and 12-month forecasts using straightforward methodologies, including interpolation. This approach ensures internal consistency across all forecast horizons.

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