

FX Focus

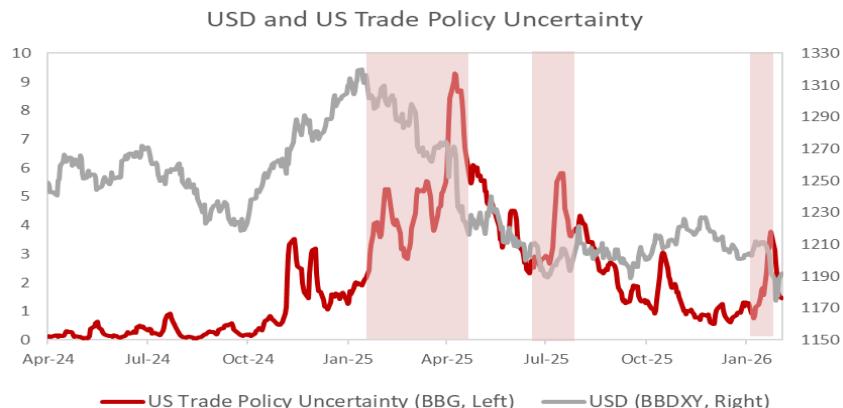
USD Caught Off Balance

- *USD volatility reflects the “Greenland shock,” shifting Washington signals, and ongoing JPY intervention speculation. Kevin Warsh’s nomination for Fed Chair reduces – but does not fully remove – Fed-independence concerns.*
- *Multiple USD downside risks have already materialised, and markets remain unsure that “maximum US policy uncertainty” is behind us. We raise our end-2026 EURUSD forecast to 1.23 (from 1.20) to reflect a higher USD risk premium.*
- *But USD downside is limited by US resilience – the FOMC is signaling no rush for further easing.*
- *In our base case, the USD has more room to weaken against commodity FX. A stronger global cyclical backdrop and firmer industrial metals underpin our upgraded end-2026 AUDUSD forecast of 0.73 (from 0.69).*

Sim Moh Siong
FX Strategist

Recent USD volatility reflects hedging against erratic US policymaking following the “Greenland shock.” President Trump first threatened to take Greenland—potentially by force—then flew to Davos and changed his mind. The USD was also buffeted by speculation over coordinated USD-selling to support the JPY and shifting signals out of Washington. Treasury Secretary Bessent has pushed back against outright USD sales against the JPY – for now. We see the administration’s preference for a firmer JPY as aimed more at stabilising Japan Government Bond demand and containing spillovers to US long-end yields than engineering USD weakness.

Surge in US policy uncertainty once again coincided with a weaker USD



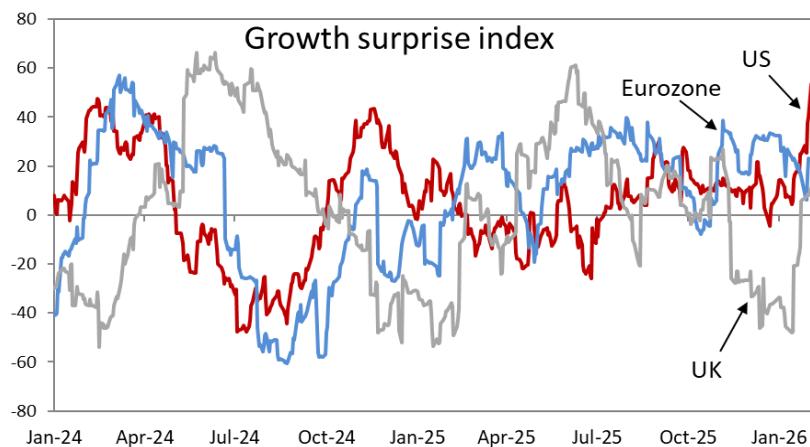
Source: Bloomberg, OCBC Group Research

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Concerns over Fed independence had weighed on the USD after the Department of Justice opened an investigation into Fed Chair Powell. However, Trump's nomination of Kevin Warsh to succeed Powell on 15 May helped the USD recover by easing those concerns. Warsh is known for his hawkish leanings, but his optimism around AI-driven productivity still allows room for rate cuts even alongside stronger US growth. His confirmation is not assured, with Senator Tillis signalling he may delay proceedings until Powell's legal issues are resolved.

Several USD downside risks we previously highlighted – particularly policy volatility – have now materialised. More weakness is possible if markets remain unconvinced that "maximum US policy uncertainty" has passed. Reflecting this, we raise our end-2026 EURUSD forecast to 1.23 (from 1.20) to account for higher USD risk premia. Still, a repeat of 2025's tariff-recession-driven USD slide is unlikely: US data remain resilient, limiting greenback's downside. The FOMC kept rates at 3.50–3.75% in January and signalled no urgency for deeper cuts after 75bp of easing since September 2025. We continue to expect no more than one additional cut this year.

US growth surprises are at highest since late 2024, limiting greenback's downside



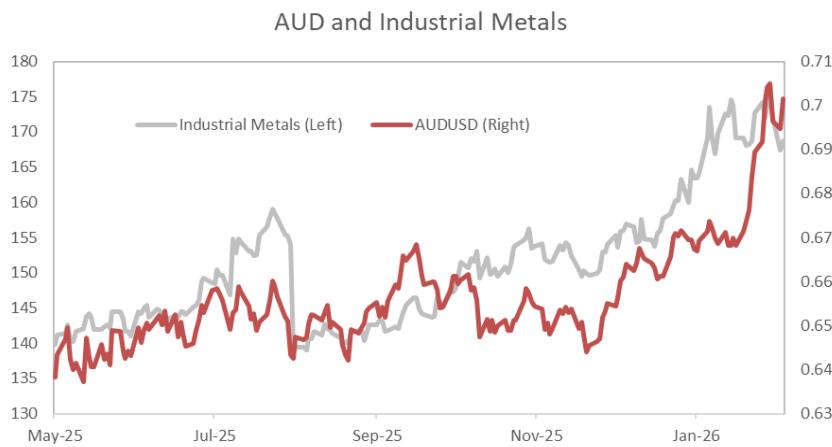
Source: Bloomberg, Citi, OCBC Group Research

Further USD downside also depends on the European Central Bank's (ECB) tolerance for EUR strength. A stronger EUR amplifies disinflation, increasing the likelihood of ECB cuts—naturally limiting EUR upside.

From a valuation perspective, the JPY and CNY still screen as more undervalued than the EUR, though their upside remains uncertain. Japan's intervention threat caps JPY downside, but a durable recovery requires stronger inflows, a more hawkish Bank of Japan, and fiscal restraint. We maintain our end-2026 USDJPY forecast at 149, expecting spot to track its forward curve rather than outperform it. Meanwhile, despite USDCNY fixings below 7.0, authorities have historically leaned

against rapid CNY appreciation whenever speculation around CNY strength intensifies.

AUD's sensitivity to rising metals prices has supported FX outperformance



Source: Bloomberg, OCBC Group Research

In our base case, the USD has more room to weaken against commodity currencies such as AUD and NZD as non-tech global growth improves and commodity prices rise. Terms-of-trade shifts remain a meaningful driver of FX performance. A constructive global pro-cyclical backdrop—reflected in stronger industrial metals—supports AUD strength. The Reserve Bank of Australia delivered a hawkish 25bp hike to 3.85%, reinforcing its position as an early hiker and providing support for the AUD. We raise our end-2026 AUDUSD forecast to 0.73 (from 0.69).

FX Forecast

	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
USDJPY	153	151	150	149	147
EURUSD	1.21	1.22	1.23	1.23	1.21
GBPUSD	1.39	1.42	1.44	1.45	1.41
AUDUSD	0.71	0.73	0.73	0.73	0.73
NZDUSD	0.61	0.62	0.62	0.62	0.62
USDCAD	1.35	1.34	1.34	1.33	1.33
USDCHF	0.77	0.76	0.76	0.76	0.78
DXY	95.5	94.5	93.9	93.6	94.7
EURGBP	0.87	0.86	0.85	0.85	0.86
EURNOK	11.70	11.60	11.50	11.40	11.30

Source: OCBC Group Research

By Global Markets | 3 February 2026

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