

FX Focus

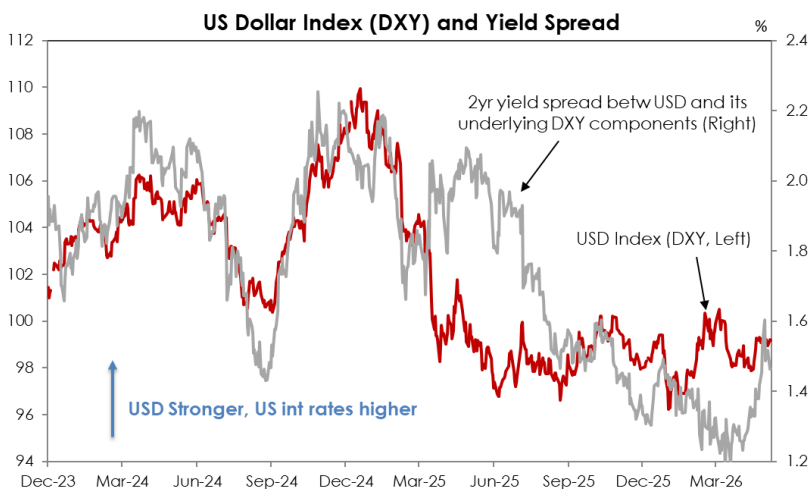
Resilient USD story

- USD firm but capped as Fed shifts to neutral stance and oil-driven hawkish Fed repricing eases, with US growth resilience limiting downside.
- US exceptionalism re-emerges via AI-led capex and positive data surprises, while Europe and China lag, keeping EUR and CHF under pressure.
- Prefer carry and commodity FX like AUD, NOK and BRL. Near-term upside for risk-sensitive oil importers if prices ease, while GBP supported by carry despite political risks.

Sim Moh Siong
FX Strategist

We remain neutral on the USD, expecting a firm but rangebound path. The Federal Reserve (Fed) is shifting away from an easing bias as growth holds up and inflation remains sticky. May saw a belated Fed hawkish repricing versus other central banks amid persistent energy shocks. The USD ground higher, but momentum has softened as lower oil prices on US-Iran deal hopes trimmed hawkish expectations. Still, recent Fed speak points to a move toward neutral bias at Chair Warsh’s first FOMC meeting on 18 June.

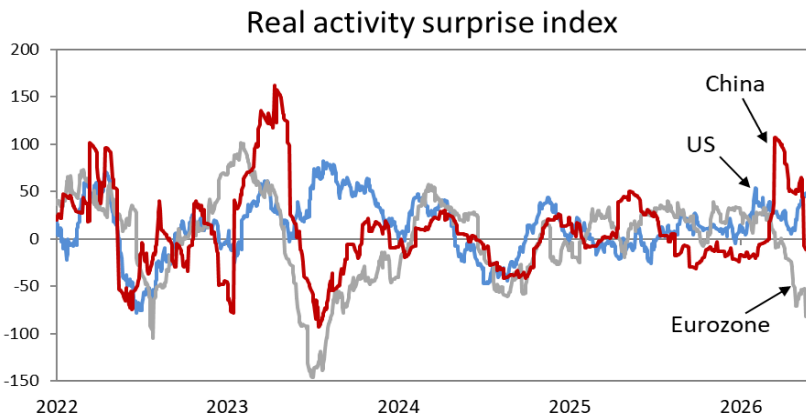
The USD is gaining support from Fed speak that is increasingly leaning more hawkish



Source: Bloomberg, OCBC Group Research

Elevated energy prices, still well above pre-war sub-USD70/bbl levels, continue to weigh on global growth unevenly. US growth resilience stands out, supported by AI-driven capex, while Europe and China lag. US data surprises have turned positive, in contrast to weaker trends in the eurozone and China. The CNY remains stable on tight management and strong exports, but risks of a more significant European downturn could pressure the EUR.

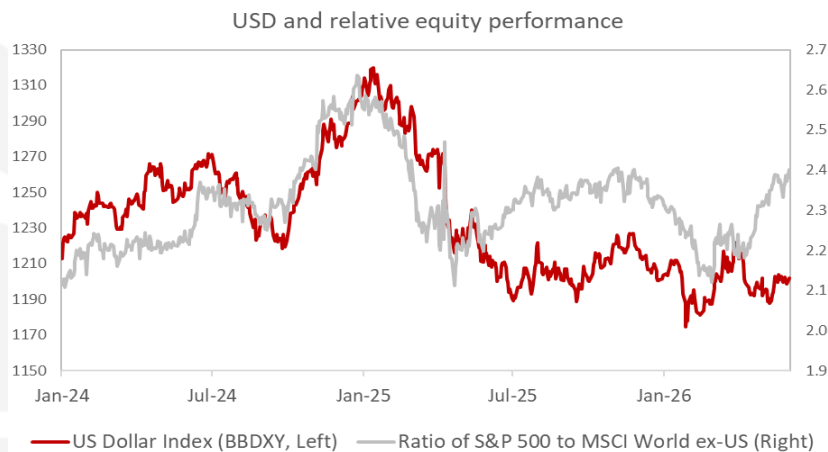
US resilience relative to Europe and China stands out as AI boom offsets energy drag



Source: Bloomberg, Citigroup, OCBC Group Research

The AI infrastructure cycle is also lifting US equities relative to global peers, reviving foreign demand for USD assets after last year's depreciation. A potential US-Iran deal that reopens Hormuz would likely lower oil prices and weigh on USD, though US growth outperformance should limit downside.

US equity outperformance is consistent with a return of portfolio inflow and a firm USD



Source: Bloomberg, OCBC Group Research

Follow our podcasts by searching 'OCBC Research Insights' on Telegram!

We remain in a challenging circular loop. Supply shocks have yet to sustain oil price spikes, but a sharper oil move may be needed to decisively shift current brinkmanship between US and Iran toward a ceasefire. Our base case assumes higher Middle East oil flows beyond mid-year, with prices easing into 2H26. Still, infrastructure damage, renewed strategic restocking and a higher risk premium should keep oil sticky. Tehran's ability to disrupt Hormuz remains the key constraint. We expect Brent near USD80/bbl by year-end with upside risks, meaning USD terms-of-trade support fades only gradually.

There is no strong case for a bearish USD. We remain neutral and prefer relative value in FX crosses. Risk-sensitive oil importers such as NZD, SEK, GBP and KRW may benefit near term if energy prices ease. That said, we still favour carry and commodity FX including AUD, NOK and BRL. EUR and CHF should lag, especially if oil declines only slowly.

We have moved GBP to neutral from bearish, revising our end-year EURGBP forecast to 0.87 from 0.89. UK politics are back in focus ahead of the 18 June by-election, where Andrew Burnham is a key Labour candidate. A win could trigger a leadership contest later in the year. Despite soft data and political noise, GBP has held up and should be supported by easing fiscal concerns and attractive carry.

Disclaimers

This report is solely for information purposes and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein or to participate in any particular trading or investment strategy. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this report is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this report may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This report may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, it should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. In the event that you choose not to seek advice from a financial adviser, you should consider whether the investment product mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OCBC Securities Private Limited ("OSPL") and their respective related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future, interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial or securities related services to such issuers as well as other parties generally. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, BOS, OSPL or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.

Co.Reg.no.: 193200032W

Additional disclosures and disclaimers applicable only to clients of Bank of Singapore Limited

This material is being made available to you through an arrangement between Bank of Singapore Limited (Co Reg. No.: 197700866R) ("BOS") and Oversea-Chinese Banking Corporation Limited ("OCBC Bank") (Co Reg. No.: 193200032W). BOS and OCBC Bank shall not be responsible or liable for any loss (whether direct, indirect or consequential) that may arise from, or in connection with, any use of or reliance on any information contained in or derived from this material, or any omission from this material, other than where such loss is caused solely by BOS' or OCBC Bank's wilful default or gross negligence.

The DIFC Branch of BOS has not conducted or produced any research contained in this material and is acting solely as a conduit in forwarding it to you.

For BOS clients in the United Kingdom:

This research has been prepared by OCBC Bank and made available to BOS. It is intended solely for informational purposes and does not constitute investment advice, a personal recommendation, or an offer or solicitation to buy or sell any financial instruments. Any payments or non-monetary benefits received or paid will be fully disclosed in accordance with applicable regulations, promptly and transparently, and will not influence the advice or services offered to you. If you would like more information about any inducements received, please contact your Relationship Manager.

Cross Border Disclaimer and Disclosures

Please refer to https://www.bankofsingapore.com/Disclaimers_and_Disclosures.html for cross-border marketing disclaimers and disclosures.