

FX Focus

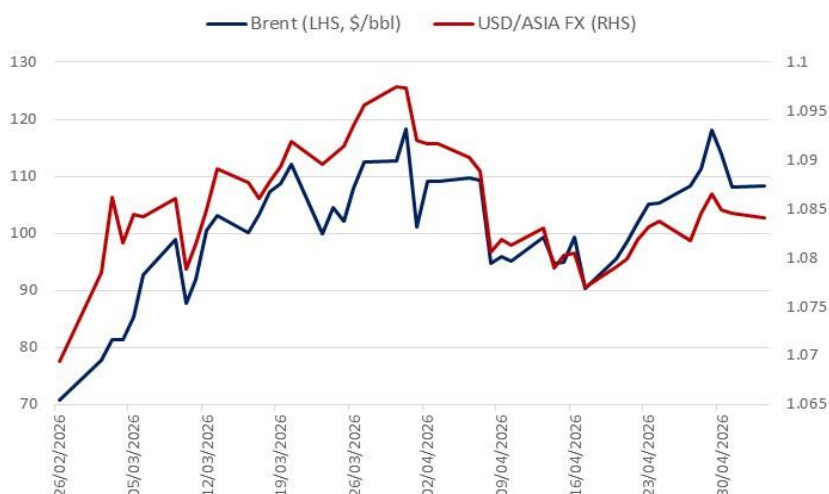
AXJs – Uneven Momentum as Oil Risks Linger

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- *AXJ FX momentum remains uneven. PHP, IDR, INR and THB led losses as oil risks built, while the pullback in oil prices helped KRW and TWD to recover some ground.*
- *US-Iran ceasefire appears to be holding and US Secretary of State Marco Rubio declared Operation Epic Fury has concluded, helping Brent ease under US\$110/bbl while USD soften at the margin. That said, normalisation of energy flows through the Strait of Hormuz remains a key stick point.*
- *Not a uniformly negative AXJ story. The key distinction is between oil sensitive FX and currencies with policy, external balance or thematic support. PHP, THB, IDR and INR may remain soft, while SGD, MYR, RMB, KRW and TWD could hold up better. We had calibrated our AXJ FX forecasts to reflect this differentiation.*

AXJs affected by swings in oil prices

AXJ FX continued to trade on a softer footing, with losses led by PHP, IDR, INR and THB, as the earlier relief rally into mid-Apr lost momentum. The renewed rise in oil prices became a key headwind, with Brent pushing above USD125/bbl at one point on 30 Apr, amid concerns that the US-Iran standoff may persist for longer, keeping oil markets tight and forcing a higher risk premium into energy prices.



Note: Asia FX refers to Bloomberg's ASIADOL index.

Source: Bloomberg, OCBC Group Research

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The longer the standoff drags on, the more markets may shift from treating this as a temporary geopolitical shock to a more durable terms-of-trade and inflation shock.

That said, some AXJ FX, including KRW and TWD, managed to rebound into the start of May as oil prices fell sharply at one point (30Apr-1May), helping to ease pressure from the oil-led inflation and Fed repricing narrative. The move also tempered near-term upside risks to UST yields and the USD, while the sharp pullback in USDJPY (30Apr-1May) added to broader AXJ relief.

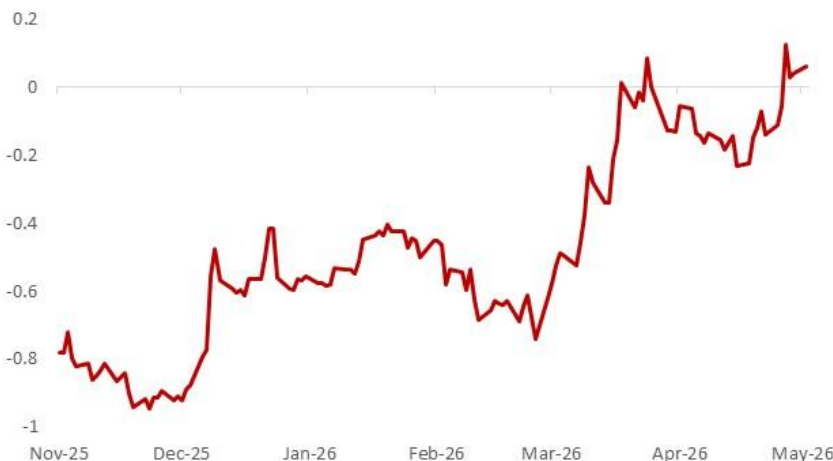
At time of publication, the US-Iran ceasefire appears to be holding up in the interim, despite the earlier exchange of fire and tensions around UAE and Strait of Hormuz. US Secretary of State Rubio said that Operation Epic Fury is concluded, 66 days after the US and Israel began operations against Iran. That was enough to calm sentiment at the margin, with Brent easing under \$110/bbl and the USD a touch softer.

Still, this should be seen more as a relief move than a full reversal, unless geopolitical tensions de-escalate more meaningfully. US-Iran developments and the normalisation of energy flows through the Strait of Hormuz remain key sticking points.

Markets paring back Fed cut expectations

Adding to AXJ headwinds, the recent FOMC meeting on 29 Apr underscored a more divided Fed, while rising oil prices revived concerns over inflation persistence. The combination triggered a hawkish repricing, with Fed funds futures no longer pricing in a cut through mid-2027. This keeps USD support selectively intact and limits the scope for AXJ relief rallies.

Implied Fed fund rate cut (%) - Jun 2027 futures

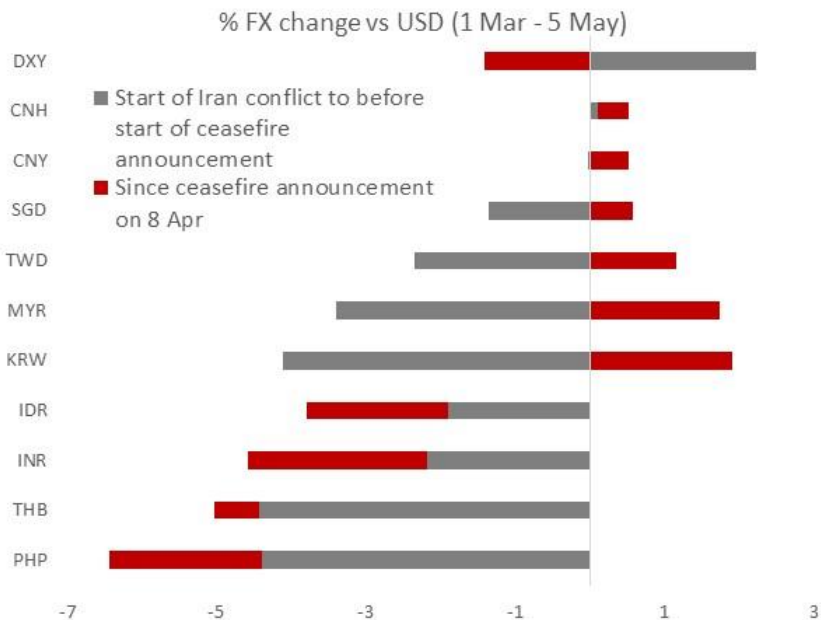


Source: Bloomberg, OCBC Group Research

Calibrating AXJ forecasts to reflect the mix

The key distinction remains between oil-sensitive FX and currencies with policy, external-balance or thematic support. PHP, THB, IDR and INR may remain more vulnerable via terms-of-trade, inflation and growth channels. Higher oil prices can also complicate central bank reaction functions, particularly where growth is already soft or where policymakers are balancing FX stability against domestic demand.

PHP, INR, IDR, THB stay under pressure



Note: FX sorted in order of cumulative performance since onset of Iran conflict from 28 Feb to 5 May 2026, in order from strong to weak. Ceasefire first announced on 8 Apr 2026. Operation Epic Fury concluded 5 May as announced by US Secretary of State Rubio. Last data as of 5 May 2026

Source: Bloomberg, OCBC Group Research

But the AXJ story is unlikely to be uniformly negative. SGD and MYR may retain relative resilience, albeit for different reasons. SGD should continue to benefit from its lower-beta characteristics and the effects of a tighter MAS policy stance, especially while geopolitical uncertainty remains elevated. MYR, while not immune to risk-off episodes, may fare relatively better than most regional peers given Malaysia's energy-linked buffers.

Meanwhile, RMB, KRW and TWD could hold up relatively better, with KRW and TWD still supported by the AI/export cycle, although this support may be tested if the oil shock morphs into a broader risk-off move.

We calibrated AXJ FX forecasts to reflect this differentiated backdrop.

Revised AXJ Forecasts

USD-AXJ FX	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
USD-SGD	1.28	1.27	1.26	1.26	1.25
USD-CNY	6.81	6.80	6.78	6.76	6.74
USD-CNH	6.81	6.80	6.78	6.76	6.74
USD-THB	32.80	32.50	32.10	31.80	31.60
USD-IDR	17150	17100	17000	16900	16800
USD-MYR	3.95	3.92	3.86	3.83	3.81
USD-KRW	1470	1460	1450	1430	1410
USD-TWD	31.60	31.50	31.40	31.20	31.10
USD-HKD	7.82	7.80	7.78	7.78	7.78
USD-PHP	61	61	60	60	60
USD-INR	95	95	96	96	97
USD-VND	26200	26000	26000	25800	25900

Source: OCBC Group Research (Forecast update 4 May 2026)

Overall, we see scope for selective AXJ stabilisation, but not a clean broad-based rebound. Even the stronger AXJ FX may struggle to extend gains if higher oil prices trigger a firmer USD, weaker risk appetite, demand destruction concerns and tighter financial conditions.

SGD has retained relative resilience within AXJ, consistent with its lower-beta characteristics during episodes of geopolitical stress and oil-led volatility. While SGD is not immune to a firmer USD, higher UST yields or weaker regional risk sentiment, the effects of a tighter MAS policy stance should continue to provide some support, especially as higher oil prices raise imported inflation risks. Relative to oil-sensitive AXJ FX, SGD also benefits from Singapore's stronger external position and policy flexibility. That said, upside momentum in SGD may still be capped if oil prices stay elevated for longer, the Fed repricing turns more hawkish, or RMB sentiment weakens. (See [FX Thoughts: SGD – Defensive premium](#), published 23 Apr 2026)

MYR: There may be some focus on fiscal risks, given reports that the monthly fuel subsidy bill has risen nearly tenfold to around MYR7bn since the onset of the US-Iran conflict. Fiscal consolidation has been one of several anchors for foreign investor confidence and MYR sentiment, with officials still guiding for the fiscal deficit to narrow to 3.5% of GDP this year and closer to 3% over the next two to three years. Any signs of fiscal slippage could temporarily weigh on MYR momentum. That said, these pressures should fade if oil prices ease. Beyond near-term fiscal noise, MYR should remain relatively supported by foreign inflows, the electronics and AI-related investment pipeline, supportive commodity prices, resilient growth and a steady RMB.

IDR weakness largely reflects external uncertainty tied to the risk of a prolonged US-Iran conflict and higher oil prices. Sentiment was also weighed by S&P’s earlier report which noted that Indonesia could be more vulnerable to weakening credit metrics if the conflict persists and energy prices remain elevated, although the report did not constitute a rating action. While near-term concerns may persist, we see room for IDR to recover when geopolitical tensions de-escalate more meaningfully and oil prices ease. BI’s accompanying policy statement (22 Apr) has continued to put an emphasis on IDR stability, inflation management and the use of its triple-intervention strategy, while keeping macroprudential settings supportive of domestic growth. BI also indicated that it is prepared to further strengthen monetary policy measures, as required, to maintain IDR stability and ensure inflation in 2026 and 2027 remains within the 2.5% ± 1% target corridor. BI has also recently (5 May) tightened rules on cash purchases of foreign currency (without support documents), lowering the cap to \$25,000 from \$50,000. This is in support of rupiah stabilization measures while Governor Perry said that the IDR is undervalued and should strengthen.

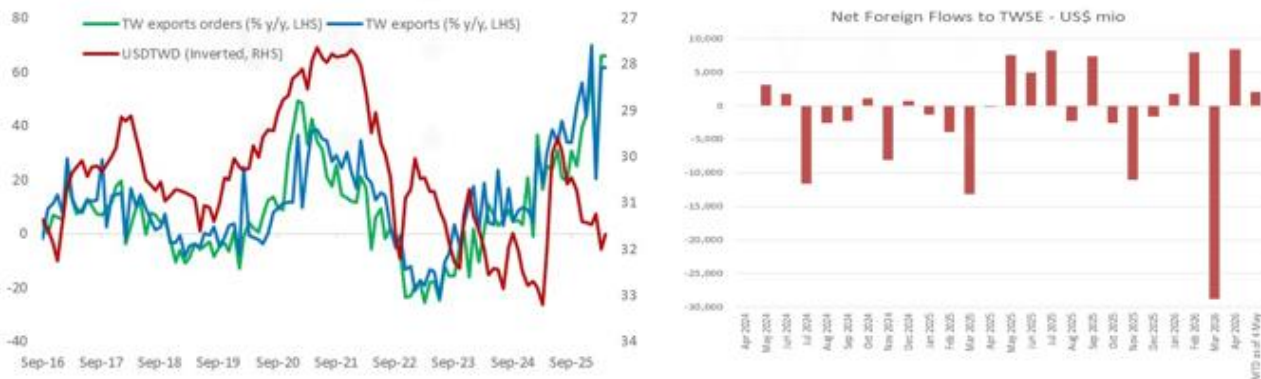
RMB continues to trade with relative resilience, but we would watch the fixing momentum closely. While the USDCNY fix is near a fresh 3 year low, the pace of adjustment still looks measured. The 30-day moving average of daily fix changes was last around -11pips as of 6 May, a rather contained magnitude compared with the broader moves seen in April. This suggests policymakers may be guiding for a steady RMB in the interim, rather than pushing for another fresh round of appreciation, especially with the RMB CFETS index already near its recent high. That said, the RMB CFETS index is still some distance away from its previous peaks. Also, the fix remains a key signal to watch. Any pick-up in the pace of lower USDCNY fixes would point to a stronger RMB bias and could provide a firmer anchor for AXJ sentiment.

RMB CFETS index may be near recent high but still below past peaks



Source: Bloomberg, OCBC Group Research

TWD may continue to find support from the AI and tech export cycle, with Taiwan’s March export orders up 65.9% y/y and exports up 61.8% y/y, underscoring still strong electronics and AI-related demand. Net foreign inflows into Taiwan equities were sizeable at USD8.4bn in April, one of the strongest monthly inflows in about two years. The 30d TWD-TWSE correlation coefficient also picked up to around 0.9, suggesting that tech-led equity sentiment and foreign inflows are again becoming more relevant drivers for the currency. That said, TWD is not immune to broader swings in USD and risk sentiment. If higher oil prices revive inflation concerns, trigger more hawkish Fed repricing or weigh on global risk appetite, then TWD’s support from the tech cycle may be tested.



Source: Bloomberg, OCBC Group Research

Taiwan’s CBC kept policy rates unchanged at its Mar meeting, but the tone was not outright dovish. The central bank acknowledged stronger growth momentum, underpinned by robust exports, private investment and AI-related demand, while inflation forecasts were revised higher to 1.8% but still kept below the 2% threshold. Board discussions showed some concern over oil pass-through, inflation expectations and FX-driven imported inflation, while Governor Yang also signalled that policy could move in a tighter direction if Middle East tensions and elevated energy prices persist. While CBC is on hold for now, the risk of tightening cannot be ruled out if oil prices stay elevated for longer and begin to threaten inflation expectations.

KRW may also benefit from the AI and semiconductor upcycle, particularly as the global tech cycle continues to lend support to Korean exports and portfolio inflows. Semiconductor export was up 173.5% y/y in Apr. This thematic support may help KRW hold up better than more oil-sensitive regional FX in periods of selective AXJ recovery. WGBI inclusion should also draw passive benchmark-related demand into KTBs, and inflows should also add to support for KRW. In addition, BOK may already have turned less dovish. Our house view expects BOK hike in 3Q 2026. Recent comments from BoK Senior Deputy Governor Ryoo

Sang-dai suggest policymakers may be shifting away from rate-cut considerations toward the possibility of hikes later this year, especially if growth holds up and oil-led inflation risks persist. This may provide some support to KRW at the margin, although the currency remains highly sensitive and is still exposed to swings in global risk appetite, oil prices and USD direction. If geopolitical risks intensify or higher oil prices feed into demand destruction concerns, then KRW may remain vulnerable despite the positive tech/export backdrop.

Room for KRW gains to play catch-up



Source: Bloomberg, OCBC Group Research

KOSPI riding the tech wave



Source: Bloomberg, OCBC Group Research

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