

## FX Thoughts

### AXJs – Cautious bias

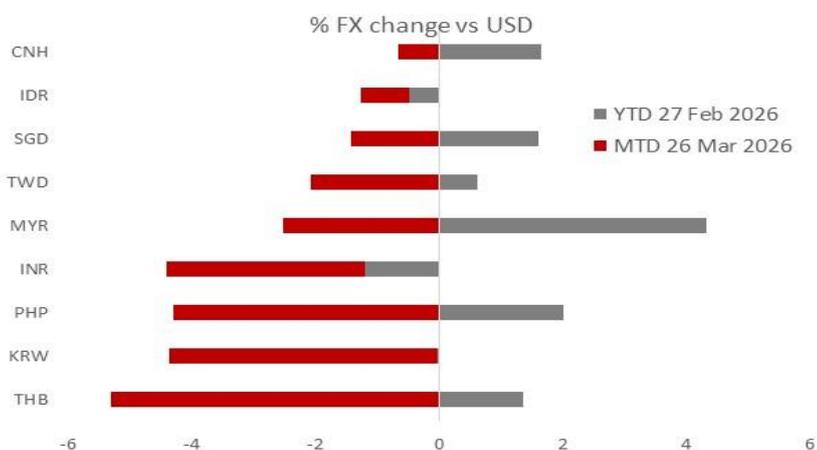
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- AXJ FX remains under pressure, with the Bloomberg Asia Dollar Index down ~2% since early March. Tentative hopes of de-escalation is giving way to renewed escalation risks.
- Macro strain is beginning to surface, with policy responses in the region signalling a more prolonged shock; spillovers are broadening beyond oil into food, fertiliser, shipping and tourism, reinforcing concerns to inflation and growth.
- Bias remains for further weakness, with rebounds likely to be headline-driven and short-lived; high-beta, oil-sensitive currencies such as KRW, PHP and THB remain particularly exposed absent a clear and sustained resolution in Iran.

#### AXJs remain under pressure MTD

AXJ FX continued to trade on a softer footing, with Bloomberg Asia Dollar index down nearly 2% since the onset of Iran conflict in early Mar. Underlying tone remains largely fragile. Tentative hopes of de-escalation in early week appear to give way to risk of renewed escalation as the weekend approaches. In particular, Iran had rejected US fifteen-point ceasefire proposal and instead tabled a five-point counter plan. US has reportedly sent troops from the 82<sup>nd</sup> Airborne division unit while NYT reported that Iran continued its missile and drone launches toward Persian Gulf nations.

#### Quick negative turn-around for AXJ FX



#### Bloomberg FX Forecast Ranking (4Q 2025)

By Region:  
No. 1 for Asia FX

By Currency:  
No. 1 for HKD  
No. 2 for SGD, THB, CNH  
No. 3 for PHP  
No. 4 for MYR

#### (3Q 2025)

By Region:  
No. 2 for Asia FX

By Currency:  
No. 1 for THB, CNH  
No. 2 for CNY, MYR  
No. 3 for PHP, HKD  
No. 4 for SGD, TWD

Note: FX sorted in order of cumulative performance MTD as of 26 Mar 2026, in order from strong to weak

Source: Bloomberg, OCBC Group Research

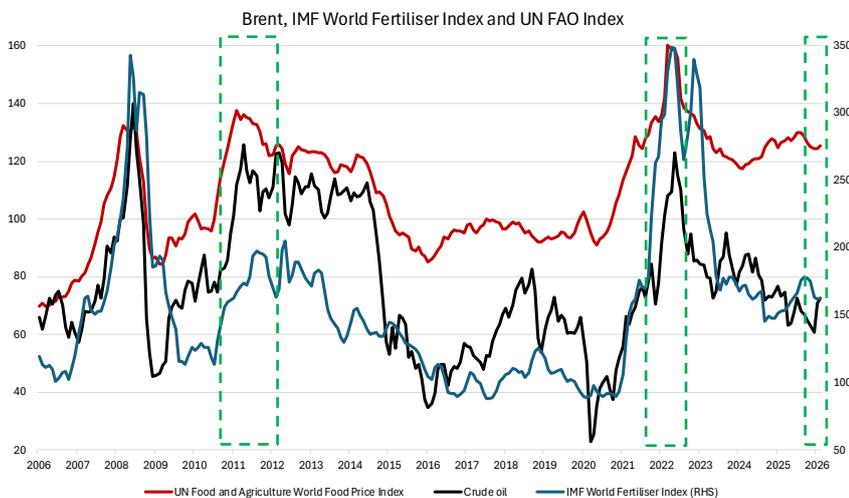
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## Macro strains emerging...

Beneath the fighting, macro strain may already start to show up across the Asian region. Energy vulnerability is no longer a theoretical risk as policy responses are becoming more visible. The Philippines' emergency measures and Korea's formation of an energy task force suggest authorities are preparing for a more prolonged shock rather than a short-lived disruption. This can matter for FX sentiment as it signals that the terms-of-trade deterioration is potentially feeding into real economic adjustments.

The transmission channels are also broadening. Beyond oil, a sustained disruption through the Strait of Hormuz risks lifting costs across food, fertilisers and shipping which in turn feeds into inflation. Tourism, a key external buffer for many ASEAN countries could also soften if higher travel costs, reduced flights and weaker sentiment persist. These second-round effects tend to be slower-moving but more persistent and can continue to weigh on AXJ FX.

## Food and fertiliser prices in focus after the spike in oil



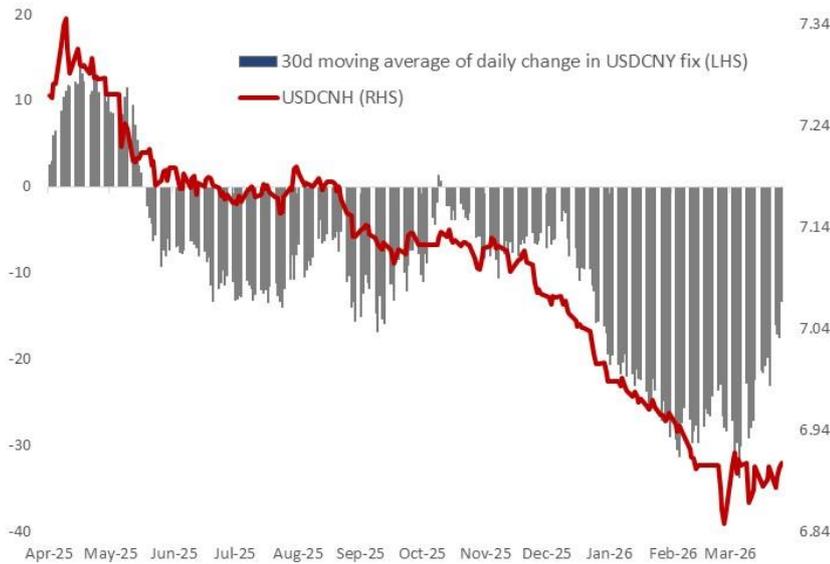
Source: Bloomberg, OCBC Group Research

## ... can weigh on AXJ FX

Against this backdrop, the near-term outlook for AXJ FX remains skewed to the downside. While episodic rebounds are not ruled out, especially on headlines hinting at de-escalation, the absence of a clear resolution means most AXJ FX is likely to trade under pressure with policy responses only partially cushioning the downside rather than reversing it. High-beta, growth and oil-sensitive currencies such as KRW, PHP and THB remain particularly exposed, both to the direct terms-of-trade shock and the broader tightening in global financial conditions.

On relative terms, SGD and RMB may be less affected but not immune. This likely reflects the more managed nature of the exchange rate regime, where policy guidance can dampen volatility. That said, on RMB we observed that the fixing pattern has started to shift. The 30d rolling average of daily fixing change has started to narrow to -13pips vs. -33pips in early Mar. And the moderation in the pace of fixing has also resulted in USDRMB trading rangebound around 6.88-6.91. This requires further monitoring to if there may be a slight shift in policymakers' preference for a more moderated path of RMB appreciation. If true, then further slippage in RMB may further undermine AXJs, including MYR that closely correlates with.

### RMB fixing pace moderates



Source: Bloomberg, OCBC Group Research

MYR losses played catch-up this week (-1.4% vs USD) after holding up (on relative terms) in the first 3 weeks of March. This reinforced our view that even as Malaysia's position as a net commodity exporter can support the MYR, the currency may still soften in broader risk-off environments given its exposure to global sentiment and portfolio flows (See [FX Focus: Oil Shocks and AXJ FX: Framing the impact of escalation](#), 6 Mar 2026).

## Oil-led inflation fears push yields higher



Source: Bloomberg, OCBC Group Research

During the 2022 episode, AXJ FX weakness was initially driven by the oil shock, as the Russia–Ukraine conflict pushed energy prices sharply higher and worsened the region’s terms of trade. This was subsequently reinforced by the Fed’s aggressive tightening cycle, which lifted yields and strengthened the USD, amplifying depreciation pressures across Asian currencies. The combination of an external cost shock and tighter global financial conditions resulted in a more sustained and pronounced decline in AXJ FX.

## Higher oil drove USD/ASIA FX higher



Note: USD/ASIA FX – inverse of Bloomberg Asia Dollar index\*100

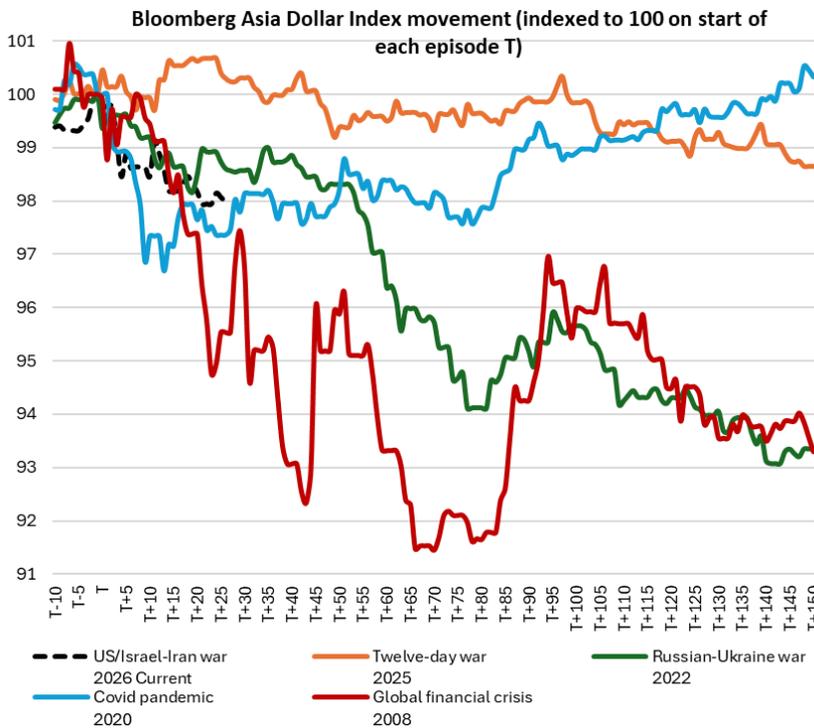
Source: Bloomberg, OCBC Group Research

## Need a resolution for sentiment to reverse

Looking out, a resolution may require more patience than markets are currently pricing. Geopolitical development remains fluid and negotiations remain complex, with limited signs of meaningful concessions, while continued military positioning suggests escalation risks have not fully receded.

We had earlier revised our FX forecasts (see *FX Focus: Oil Resets USD*, 22 Mar 2026) to reflect the upward shift in oil prices and the increased likelihood that geopolitical tensions persist for longer than initially expected. While part of the depreciation in Asia FX has already played out, a sustained period of elevated crude prices, could continue to weigh on regional currencies through a combination of higher energy import costs, firmer USD and softer risk sentiment.

## AXJ decline broadly in line with past supply-driven shocks, but risk of further selloff not ruled out if shock persist or broaden



Source: Bloomberg, OCBC Group Research

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