By Global Markets | 12 January 2026

FX Weekly

Metals Over Oil

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- ***Metals over oil****: Geopolitics grabbed headlines, but markets stayed focused on commodities. A subdued oil outlook contrasts with rising industrial metals, reinforcing a pro-cyclical FX backdrop—pressuring oil exporters while favouring metal-linked currencies, notably AUD and ZAR.*
- ***USD squeeze risks****: The USD stayed firm as resilient US labour data raised the risk of a delayed Fed cut. With markets short USD, a firm US CPI print could trigger further USD upside, while tariff risks remain only a mild downside.*
- ***Funding tightrope****: The choice of funding currency between the CHF and JPY is finely balanced. CHF's funding appeal has improved post BoJ-tightening. But Japan's fiscal concerns remain a drag on the JPY although shorting JPY at current levels is unattractive given rising intervention risks.*
- ***Disinflation clips EUR****: EUR weakened after softer French and German inflation and easing Eurozone PMIs dampened ECB tightening hopes. While recent ECB rhetoric was hawkish, data point to policy on hold through 2026, leaving EURUSD upside reliant on Fed dovish risks.*
- ***Quiet FX masks big signals:*** *USD downside looks limited amid resilient US data and buildup in short USD positioning. JPY remains conflicted by fiscal noise, AUD rides rate-hike optimism, and low volatility favours carry – until it doesn't.*
- ***Oil and gold:*** *We see Brent bottoming near USD59/bbl by year-end, with OPEC's quota pause anchoring prices in the high-USD50s. Heightened global order risks underscore gold's value as a hedge and diversifier. Our end-2026 gold forecast is USD4,800.*
- ***CNY:*** *USDRMB continues to trade below 7-figure last week. Markets will continue to keep a lookout for signs if policymakers start to slow the pace of RMB appreciation via the daily fix or continue with a similar trajectory. The latter should continue to add to downward pressure for USDCNY, with next key support at 6.97.*
- ***MYR:*** *Markets are taking stock after the sharp sell-off in broad USD and USDMYR in 2025. While the macro conditions have not changed materially, the lack of fresh USD-negative drivers and push back on timing of next Fed cut post-US payroll may point to some upside risks for USDMYR.*

Metals Over Oil: The year has begun amid a flurry of geopolitical headlines, yet FX markets have remained largely unfazed. The US removal of Nicolás Maduro as Venezuela's president failed to trigger meaningful market volatility. As with Russia's invasion of Ukraine, global spillovers were assessed primarily through the prism of oil. Oil prices ended the week higher amid renewed tensions in Iran. However, ample global oil supply and early signals that Venezuela's new regime may cooperate with the US—potentially restoring significant output—should cap upside risks. Against this backdrop, the oil outlook remains subdued.

A more underappreciated, yet arguably more important, signal has been the rise in industrial metal prices. This points to a firmer, more pro-cyclical market environment. Persistently soft oil prices would continue to weigh on oil exporters such as CAD, while offering support to oil-importing Asian currencies. In contrast, metal exporters—including AUD and ZAR—appear better positioned to outperform. The AUD has lagged recently following a downside inflation surprise that dampened near-term rate-hike expectations. Nonetheless, inflation remains above the Reserve Bank of Australia's 2–3% target range, which is too high for comfort. We see scope for further AUD upside.

USD Squeeze Risks: The USD remained firm as a "glass-half-full" December payrolls report increased the risk that the Fed delays the rate cuts we currently expect in 1Q26. The unemployment rate fell to 4.4% in December, with November revised lower, which should ease concerns within the Fed over a rapid build-up of labour market slack. Focus now turns to this week's December CPI report. With several Fed officials signalling discomfort over still-elevated inflation, a firm print would reinforce the case for policy patience. Positioning and consensus remain short USD, leaving the currency vulnerable to a further short squeeze if inflation surprises to the upside. On trade policy, the US Supreme Court did not issue a ruling on IEEPA-related tariffs on Friday, pushing the decision to a later date. While a negative ruling could weaken the USD, any downside is likely to be limited. We expect much of the Trump 2.0 tariff framework could be re-implemented under alternative legal justifications.

Funding tightrope: Between the two G10 low-yielders, CHF and JPY, the choice of funding currency is finely balanced. CHF now enjoys a relative funding edge following the Bank of Japan's December 25bp hike to 0.75%. Shorting JPY at current levels is unattractive given rising intervention risks. While the exact threshold is uncertain, Japan's Ministry of Finance last intervened around the 159–162 USDJPY zone in July 2024. That said, Japan's fiscal concerns remain a drag on JPY and arguably outweigh Switzerland's challenge of managing excessive CHF strength. Japan PM Takaichi is potentially set to call for snap elections for the Lower House to be held in February. The news could add fuel to the ongoing 'Takaichi trade': weaker JPY and higher JGB yields.

For CHF, attention has shifted to the Swiss National Bank's (SNB) second policy lever – FX intervention – given the high bar for further rate cuts now that rates sit at zero. December Swiss inflation was broadly in line with expectations, with headline CPI at 0.1% YoY and core CPI slightly firmer at 0.5% YoY. The data reinforce the SNB's view that no near-term policy adjustment is required.

Disinflation clips EUR: The EUR softened after weaker-than-expected inflation data from France and Germany dampened hopes of early European Central Bank (ECB) tightening. French inflation eased by 0.1ppt to 0.8% YoY in December, while German inflation fell to 1.8% from 2.3%. Final December Eurozone PMIs also confirmed a loss of momentum into year-end. While the composite PMI remained in expansionary territory, it slipped from November levels. Recent hawkish ECB rhetoric suggests the bar for reopening discussions on rate cuts remains high. That said, the data backdrop is broadly consistent with an on-hold ECB through 2026. Our expectation for modest EURUSD upside in 1H26 hinges more on dovish Fed risks than a more hawkish ECB, though improving US growth dynamics could lend support to the USD later in the year.

Quiet FX, Loud Signals: The USD outlook turns more balanced in 2026 after a turbulent year. The buildup in short USD positioning could clash with resilient US data, suggesting further USD downside should be limited despite lingering policy noise. Buying USDJPY looks unattractive at current levels, yet the JPY story remains conflicted. Fiscal concerns under new political leadership continue to distort the usual relationship with rate differentials. The AUD is riding renewed rate-hike optimism. Australia's economic resilience and a US–China trade truce leave scope for further upside, even as markets debate how far RBA rate repricing can run. FX volatility: Current calm in FX supports carry trades—for now—but also sends a loud signal to insure against abrupt risk-asset weakness when suppressed volatility eventually reawakens. Read *FX Focus: Quiet FX, Loud Signals, 8 January 2026* for more details.

Oil and gold: US strike triggers political transition in Venezuela, raising prospects for sanctions relief and oil sector revival. This could add to downside pressure to global oil prices in the medium-term. We maintain our forecast for Brent to bottom near USD59/bbl by year-end, pending clarity on Venezuela's new government and resource policy. OPEC's pause in quota hikes supports soft floor for Brent in high-USD50s. Recent events underscore risks to global order and reinforce the role of gold as a strategic hedge and portfolio diversifier. We maintain a constructive outlook on gold amid Fed still biased toward easing, persistent central bank demand and geopolitical uncertainty.

We project gold at USD4,800 for end-2026. Read *Commodity Compass: Venezuela – Oil and gold stirred, not shaken, 5 January 2026* for more details.

USDCNH. 6.97 in focus. RMB continues to trade with a bid tone, with both CNY and CNY staying sub-7 versus USD over the last few sessions. Stronger CNY fix has been a key factor, in guiding RMB on an appreciation path. Last Friday, the fix was set at 7.0128 (vs. 7.0197 on Thursday). Markets continue to keep a lookout for signs if policymakers start to slow the pace of RMB appreciation via the daily fix or continue with a similar trajectory. The latter or a scenario of setting the USDCNY fix below 7.00 should continue to add to downward pressure for USDCNY. USDCNH last seen at 6.9760. Daily momentum is flat but rise in RSI moderated. Sideways trading likely in the interim. Resistance at 7.0060 (21 DMA), 7.03 levels. Support at 6.97 (double bottom). Decisive break may accelerate the decline, with next support closer to 6.9460/6.95.

We see room for policymakers to temporarily slow the pace of setting the RMB stronger for now. At a meeting held on 5-6 January, PBOC said it would deploy a mix of monetary policy tools — including reserve requirement ratio and interest rate cuts — to ensure ample liquidity and encourage reasonable credit expansion, though the timeline was not specifically mentioned. PBOC emphasised its commitment to aligning the growth of money supply and total social financing with broader targets for economic growth and inflation. PBOC also reiterated its commitment to keeping the renminbi exchange rate generally stable and guarding against overshooting. This is consistent with our view for a measured pace of RMB appreciation while maintaining market stability. This approach aims to prevent markets from rushing to offload USD in a disorderly manner, thereby avoiding abrupt price fluctuations and ensuring orderly market dynamics.

USDMYR. Sell rallies. Markets are taking stock after the sharp sell-off in broad USD and USDMYR in 2025. While the macro conditions have not changed materially, the lack of fresh USD-negative drivers and push back on timing of next Fed cut post-US payrolls allows for USD bears to take a breather. Probability of January cut dipped to 5% from 17% (2 Jan). USDMYR traded higher last week, tracking USD's mild rebound. The next few weeks may see USDMYR trade modestly firmer unless US data (such as CPI, PPI) underwhelms in a way that nudges market expectations for Fed to cut sooner rather than later/ to cut more than what has been priced or if Trump's choice of Fed chair nominee (announcement soon but still pending senate confirmation) gives the perception that Fed's easing bias stays prolonged.

Notwithstanding the potential of near-term bounce in USDMYR, our bias for firmer MYR stays intact on the back of both domestic and external factors. Domestically, Malaysia's fundamentals remain encouraging, supported by quality FDI inflows, upbeat growth, a wider trade surplus, renewed AI optimism while clear commitment to follow through with fiscal consolidation should help to enhance foreign investor confidence and improve prospects for portfolio inflows. To add, external conditions are similarly supportive. A more resilient RMB continues to anchor stability in MYR, while the Fed amid its easing cycle provides for a softer USD backdrop. On a technical note, USDMYR was last at 4.0725 levels. Daily momentum turned bullish while RSI rose. Near term risks skewed to the upside. Respect the momentum while we look to fade rallies. Resistance at 4.08 (23.6% fibo retracement of Oct high to Dec low), 4.1085 (38.2% fibo). Support at 4.05, 4.0320 (recent low).

USDTHB. 2-way trades. USDTHB was a touch firmer last Friday as gold prices consolidated lower amid commodity index rebalancing (led to sell-gold flows) while USD bounced. PM Anutin instructed authorities to step up efforts, with particular focus on gold trading and digital assets to strengthen Thailand's economic and financial integrity. The Anti-Money Laundering Office (AMLO) will act as central authority for gold trade data, including the consideration of reducing the current reporting threshold of THB2mio per transaction to AMLO or Revenue department. Online gold trading service providers will be required to submit transaction data to the Revenue Department and SEC has been tasked with implementing the "Travel Rule" for digital assets. BOT Governor Vitai also told reporters that government may limit individual's daily online gold trading to between THB100mn – 200mn while a cap on the amount of foreign currencies individuals can transact with money changers at THB800,000 a day may also be considered. Spot last seen at 31.32 levels. Recent price action suggests tentative stabilisation around the 31.00–31.20 area but the bounce so far has also been shallow. Key resistance around 32.20/50 levels. Near term area of support at 31.00/20 levels. 2-way trades likely for now.

USDSGD. Upside risks. USDSGD rebounded, tracking the upticks in USD and Treasury yields. We expect the pair to remain driven by USD moves, suggesting that upcoming US data releases – CPI (Tue), PPI (Wed) may potentially influence price action. This week, markets will also monitor the Supreme Court ruling on the legality of Trump's tariffs (14 January). There are expectations that even if Trump's tariffs are not deemed legal, the administration may still find ways to achieve the outcome they like, though this may take time. That said, the initial reaction on scenario of tariff relief should be supportive of Asian FX, including SGD. Pair was last seen at 1.2870. Daily momentum is turning mild bullish while RSI rose. Risks are skewed to the upside in the interim. Resistance at 1.2920 levels (100, 200 DMAs), 1.2950 levels (50 DMA, 23.6% fibo retracement of 2025 high to low). Support at 1.2830, 1.2790 levels (Jan low).

FX Forecast

Currency Pair	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
USD-JPY	153.00	151.00	150.00	149.00	147.00
EUR-USD	1.19	1.20	1.20	1.20	1.18
GBP-USD	1.34	1.36	1.37	1.38	1.38
AUD-USD	0.67	0.69	0.69	0.69	0.69
NZD-USD	0.58	0.59	0.59	0.59	0.58
USD-CAD	1.38	1.37	1.37	1.36	1.37
USD-CHF	0.78	0.78	0.78	0.78	0.80
DXY	97.33	96.38	96.18	95.98	96.93
USD-SGD	1.29	1.29	1.28	1.28	1.28
USD-CNY	6.97	6.95	6.94	6.92	6.92
USD-CNH	6.97	6.95	6.94	6.92	6.92
USD-THB	31.50	31.40	31.30	31.10	31.00
USD-IDR	16680.00	16620.00	16500.00	16420.00	16300.00
USD-MYR	4.06	4.04	4.02	4.00	4.00
USD-KRW	1450.00	1430.00	1430.00	1410.00	1410.00
USD-TWD	31.20	31.10	31.00	30.90	30.00
USD-HKD	7.77	7.76	7.76	7.76	7.76
USD-PHP	58.30	58.00	57.40	57.20	57.00
USD-INR	89.50	89.30	89.10	89.00	88.70
USD-VND	26300.00	26250.00	26200.00	26200.00	26200.00
EUR-JPY	182.07	181.20	180.00	178.80	173.46
EUR-GBP	0.89	0.88	0.88	0.87	0.86
EUR-CHF	0.93	0.94	0.94	0.94	0.94
EUR-AUD	1.78	1.74	1.74	1.74	1.71
EUR-NOK	11.70	11.60	11.50	11.40	11.30
AUD-NZD	1.16	1.17	1.17	1.17	1.18
EUR-SGD	1.53	1.54	1.54	1.54	1.51
GBP-SGD	1.72	1.75	1.76	1.77	1.76
AUD-SGD	0.86	0.89	0.89	0.88	0.88
NZD-SGD	0.74	0.76	0.76	0.75	0.75
CHF-SGD	1.65	1.64	1.64	1.63	1.60
CAD-SGD	0.93	0.94	0.94	0.94	0.93
JPY-SGD	0.84	0.85	0.86	0.86	0.87
SGD-MYR	3.16	3.14	3.13	3.13	3.13
SGD-CNY	5.42	5.41	5.41	5.41	5.41
SGD-IDR	12970.45	12933.85	12860.48	12828.13	12754.30
SGD-THB	24.49	24.44	24.40	24.30	24.26
SGD-PHP	45.33	45.14	44.74	44.69	44.60
SGD-VND	20451.01	20428.02	20420.89	20468.75	20500.78
SGD-CNH	5.42	5.41	5.41	5.41	5.41
SGD-TWD	24.26	24.20	24.16	24.14	23.47
SGD-KRW	1127.53	1112.84	1114.58	1101.56	1103.29
SGD-HKD	6.04	6.04	6.05	6.06	6.07
SGD-JPY	118.97	117.51	116.91	116.41	115.02
Gold $/oz	4500	4600	4650	4800	4850
Silver $/oz	76.27	77.97	78.81	81.36	82.20
Platinum $/oz	2500.00	2555.56	2583.33	2666.67	2694.44
Palladium $/oz	1851.85	1893.00	1913.58	1975.31	1995.88
ICE Brent $/bbl	64.00	63.00	61.00	59.00	59.00
NYMEX WTI $/bbl	61.00	60.00	58.00	56.00	56.00

Source: OCBC Group Research

Note: These are not meant to serve as point forecast for the quarter-end but meant as trajectory bias of the currency pair

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