GLOBAL MARKETS RESEARCH

FX Weekly

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Consolidation

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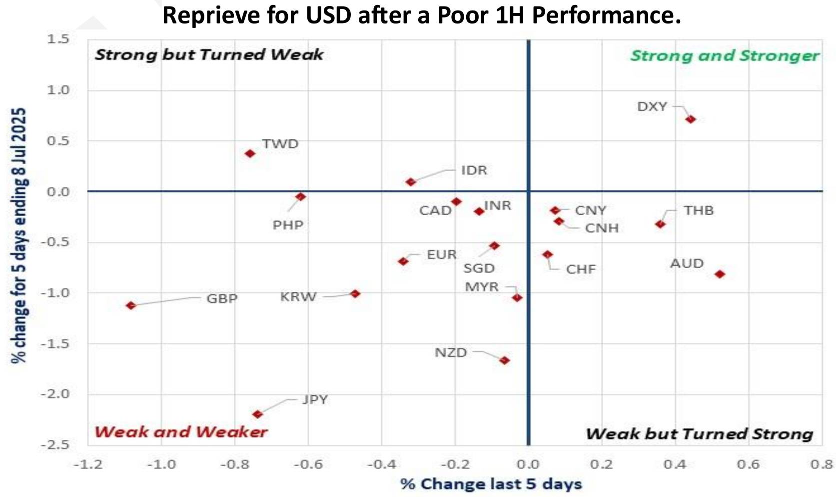
Tariffs Uncertainty Lingers. FX markets have entered a period of consolidation over the past two weeks, following the sharpest first-half decline in the USD (~10%) since 1973. The pause reflects a reassessment of recent upside surprises in US data, upcoming catalysts like the US CPI (15 Jul), and renewed geopolitical and policy risks. On tariff developments, Trump has over the weekend threatened to impose a 30% tariff on imports from Mexico and Europe, with other countries including Japan, Korea, and Malaysia facing 25%, and Brazil at 50%. Importantly, the tariffs are only scheduled to take effect on 1 August—signalling room for negotiation, and the possibility of adjustments (both higher or lower) in the interim.

Fiscal concerns are Resurfacing—not just in the US but also across developed markets. Japan, Germany, France, and the UK are grappling with widening deficits. Long-end bonds have sold off, with 30Y yields in many markets touching one-month highs. Germany's 30Y yield hit a 14-year peak as the government plans to ramp up borrowing for infrastructure and defence. France also announced plans to accelerate military spending. In Japan, upper house election challenges are prompting pledges of tax cuts and fiscal giveaways. Moody's has warned that post-election fiscal slippage could pose risks to Japan's credit profile. Unsurprisingly, FX underperformance this month has been led by the JPY, EUR, and GBP—all from regions facing fiscal scrutiny. In Asia, high-beta currencies like KRW, MYR have also weakened somewhat amid tariff uncertainties. Nevertheless, it is important to recognize that fiscal matters can be a double-edged sword: while concerns over debt servicing and sustainability may pressure a currency, proactive fiscal spending aligned with stronger growth prospects can, conversely, provide support for EUR. On data, we watch US CPI (Tue), PPI (Wed); retail sales (Thu); Uni of Michigan sentiment (Fri).

Reprieve for USD after a Poor 1H Performance.



Source: Bloomberg, OCBC Research

Bloomberg FX Forecast Ranking (2Q 2025)

By Region:
No. 1 for Asia FX
No. 4 for 13 Major FX

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

(1Q 2025)

By Currency:
No. 2 for THB
No. 3 for SGD
No. 9 for CHF

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	Key Themes and Trades
DXY	***CPI Binary Risk for USD.*** USD held on to mild gains, amid rise in UST yields. Better than expected US data – payrolls, ISM services, new orders, Trump tariffs threats were some triggers ahead of US CPI tonight. Timing of next Fed cut was also pushed back to Oct, from Sep and markets now implied about 48bps cut for the year (vs. 65bps cut the day before payrolls report was released). Fear of tariffs hitting inflation also prompted a reduction of USD shorts ahead of CPI (Tue); PPI (Wed); retail sales (Thu); Uni of Michigan sentiment (Fri). 30d rolling correlation between DXY and UST yields also saw some re-coupling. This suggests rates are reasserting influence on FX; yield differentials may become a risk for USD in the near term. Nevertheless, focus remains on US CPI tonight (830pm SGT). Any slippage in data may serve as a good entry point to fade the recent USD bounce but we caution that a hotter CPI may see USD extend its move higher. Elsewhere on geopolitics, President Trump announced plans to arm Ukraine and also threatened to impose secondary tariffs or more sanctions if Russia fails to reach a peace deal with Ukraine by early Sep. DXY was last at 98 levels. Bullish momentum on daily chart intact but rise in RSI moderated. Resistance at 98.50, 98.80 (50 DMA). Support at 97.80 (21 DMA), 97.20 levels. We look for rally to fade into. Over the forecast horizon, we continue to expect USD to trade weaker as USD diversification/ re-allocation trend and Fed cut cycle potentially comes into focus in 2H 2025. US policy unpredictability, and concerns of about the rising trajectory of debt and deficits in the medium term should continue to underpin the broad (and likely, bumpy) decline in the USD.
EURUSD	***Near Term Fate Hinges on USD.*** EUR fell about 1.3% for the month of Jul, after a stellar performance (+13.9% vs USD) seen in 1H 2025. Trump's announcement of 30% tariff on all imports from EU over the weekend and recent ECB comments on EUR weighed on sentiments. We had noted that comments from ECB officials earlier this month likely marked the first hint of concern or slight discomfort around the EUR's pace of appreciation (though the level is not the concern). We noted that several ECB officials made remarks on currency this week. ECB Vice President Guindos said that a rise in the euro beyond $1.20 could make things "much more complicated", though he sees current levels as no cause for concern. ECB's Simkus also commented that the speed at which the EUR is rising is something the ECB must monitor particularly carefully. That said, there are also ECB officials who do not seem overly concerned. ECB's Centeno said, "we need to think about the current exchange rate as reflecting the strength of the euro, what's going on globally," He also said "we're also pushing a lot to increase the international role of the euro debt. It will bring more investors to Europe. It will increase interest in the euro so that's good". Muller signalled he is less concerned about the latest movements in EUR while Nagel said that EUR has averaged 1.1829 since it was introduced in 1999... and policymakers "are taking into account all the factors that are leading to higher and lower inflation and this is the relevant way we should see it." Recent ECB minutes highlighted concerns of EUR's appreciation and higher tariff that may affect exports. It made some specific comments – "Since the April tariff shock, the EUR/USD exchange rate had decoupled from interest rate differentials, partly owing to a change in hedging behaviour. Historically, the euro had depreciated against the US dollar when volatility in foreign exchange markets increased. Over the past three months, however, it had appreciated against the dollar when volatility had risen, suggesting that the euro – rather than the dollar – had recently served as a safe-haven currency." It also noted that "Despite comparable funding costs on the two sides of the Atlantic, when taking into account currency risk-hedging costs, US companies had increasingly turned to euro funding. This underlined the increased attractiveness of the euro". Statement also noted that latest projection saw inflation cooling to 1.6% in 2026 before returning to 2% in 2027, with economy perking up thanks to higher public spending in Germany. ECB also indicated that "while energy prices and exchange rates were likely to lead to headline inflation undershooting the target for some time, inflation dynamics would over the medium term increasingly be driven by the effects of fiscal policy".

EUR was last at 1.1690. Bearish momentum on daily chart intact while the decline in RSI moderated. Two-way risks for now. Next support at 1.1660 levels (21 DMA), 1.1620. If these levels break, then more downside may play out. Next big support at 1.1470 levels (50 DMA). But if the area of support holds, EUR may find new momentum to go higher. Resistance at 1.1710, 1.1830 levels. US CPI today would be of interest for EUR, as markets watch for potential tariff-related implications. We also noted that some fiscal concerns may have weigh on EUR. Over the weekend, France also announced plans to accelerate military spending from EUR32bn to EUR64bn and is looking to expedite defence spending by 2027 (3 years earlier than initially planned) in response to geopolitical situation. It is important to recognize that fiscal matters can be a double-edged sword: while concerns over debt servicing and sustainability may pressure a currency, proactive fiscal spending aligned with stronger growth prospects can, conversely, provide support for EUR.

We remain constructive on EUR's outlook due to factors including: 1/ German/European defence spending plans can lend a boost to growth; 2/ prospects of ECB cut cycle nearing its end while there is room for Fed to resume easing cycle; 3/ a Ukraine peace deal at some point (can lead to supply chain normalisation, lower energy costs, reduce existing burden on corporates and households, improve sentiments and growth outlook); 4/ China's economic growth showing tentative signs of stabilisation (stable to stronger RMB can see positive spillover to EUR); 5/ signs of portfolio flows and reserve diversification that may favour alternative reserve currencies such as the EUR. Also, the main factors that previously constrained reserve managers' allocation to EUR was the European sovereign debt crisis/fears on Euro breakup in 2011/12, the era of negative rates in EU, and limited availability of EUR-denominated bond papers. Today, these issues are no longer a hurdle. The EUR today is in a better position to benefit from a potential reduction in USD dominance in trade flows, international payments, reserve diversification and FX turnover.

USDJPY

Upper House Election Uncertainty. USDJPY rose sharply higher over the last week amid rise in UST yields, tariff implications, sell-off in longer-dated JGBs and upper house election uncertainty (20 Jul). The upper house election challenges are prompting pledges of tax cuts and fiscal giveaways, in attempt to shore up votes. Moody's has warned that post-election fiscal slippage could pose risks to Japan's credit profile.

USDJPY was last at 147.65 levels. Bullish momentum on daily chart intact while rise in RSI shows tentative signs of turning near overbought conditions. Next resistance at 148.20, 149.40/70 levels (200 DMA, 50% fibo retracement of 2025 high to low). Support at 147.15 (38.2% fibo), 146.20 levels. US CPI tonight may also have influence over USDJPY, with hotter print likely to see the pair extend its move while a softer than expected print may slow the recent rally.

More broadly, we look for USDJPY to trend lower, premised on the USD sell-off story and Fed-BoJ policy divergence at some point (Fed rate cut cycle to resume while the BoJ has room to further pursue policy normalisation). Some Fed officials have recently tilted somewhat dovish, and Powell is open to earlier rate cuts if inflation pressure is contained. Wage growth, broadening services inflation and upbeat economic activities in Japan should continue to support BoJ policy normalisation although tariff uncertainty may temporarily delay policy normalisation in the near term. While the timing of BoJ policy normalisation may be deferred, policy normalisation is not derailed. Fed-BoJ policy divergence and USD diversification theme should still support USDJPY's broader direction of movement to the downside.

USDCAD

Double Bottom Formation. Despite Canada's efforts to revoke digital services to advance trade negotiations with the US, markets stumbled following the US president Trump threatened to impose a 35% tariff on Canadian goods. Adding to the pressure, the 35% tariffs will be separate from all the sectoral tariffs and Canada will face additional levies starting August 1: 50% on steel and aluminum imports, 25% on autos, and 50% on copper shipments. The Canadian dollar (CAD) fell upon Trump's announcement, as the trade war escalated sharply.

On the domestic front, Canada's June employment data delivered a strong beat: full-time jobs surged by 83.1k, while the unemployment rate ticked down marginally from 7.1% to 6.9%. Hourly wage growth moderated slightly to 3.2% year-over-year. CAD OIS pared mildly on the rate cut expectation from 28bps to 23 bps of cut by the end of this year.

As the "sell USD" narrative continues to lose momentum, unwinding of short USD positions could push USD/CAD higher. While the primary trend for USD/CAD remains bearish, momentum is softening amid the formation of a double bottom. Uncertainty on the trade policy front may poses a downside risk to the CAD too. Looking ahead to the week, we anticipate USD/CAD to trade within the 1.3560–1.3800 range. Key data releases for Canada include June's Consumer Price Index (CPI) and May's manufacturing sales, both due on Tuesday.

AUDUSD

Slow Grind Higher. AUD was modestly firmer as RBA surprised with hold decision last week. That said, AUD still trade in subdued range. Last at 0.6565. Daily momentum is not showing a clear bias while RSI shows signs of turning higher. Two-way risks likely. Resistance at 0.66, 0.6640 levels. Support at 0.6530 (21 DMA), 0.6490 (50 DMA) and 0.6420 (50% fibo retracement of 2024 high to 2025 low).

Despite RBA on hold, our rates strategist shared that the overall outcome turned out to be less hawkish – with a split vote of 6-3. The statement commented "June quarter inflation…were, at the margin, slightly stronger than expected. With the cash rate 50 basis points lower than five months ago… could wait for a little more information to confirm that inflation remains on track to reach 2.5 per cent on a sustainable basis". While we had expected a cut on Tuesday, our overall forecast profile has been less dovish than market pricings – we expect additional 50bps of cuts for the rest of the year versus previous market pricing of 75bps or more cuts. Governor Bullock during the press conference said the Bank decided to wait a few weeks, when it has more data. This "a few weeks" has reinforced market expectation for an August cut. The information that the RBA is waiting for is likely Q2 CPI to be released on 30 July, as they see the monthly gauge as volatile.

Australia growth remains intact, but pace of recovery is expected to moderate, due to weaker global demand, trade related uncertainties and softer domestic consumption momentum. Slowing CPI into RBA's target range and a less tight labour market allows for RBA to continue its gradual path of easing monetary policy. This calibration should be perceived as one of the means of supporting growth. AUD, a high-beta FX, can be exposed to geopolitical shocks, swings in RMB, equity sentiments, and global growth prospects. The interplay of dovish RBA, tariff uncertainty are factors that restrain AUD from breaching higher but on the other hand, softer USD trend cushions the impact. Bias remains for AUD to trend gradually higher as USD softness returns and markets re-focus on potential Fed cut in the months ahead.

USDSGD

Sticky Downside. USDSGD consolidated around 1.28-handle over the last few sessions as markets wait for US CPI data tonight. It is likely to be a binary event and may influence USDSGD. Slippage in US data may weigh on USDSGD while a hotter print may see the pair extend its move higher. Pair was last at 1.2810 levels. Daily momentum is mild bullish while rise in RSI moderated. Consolidation still likely though bias to fade rallies. Resistance at 1.2860 (50 DMA), 1.2910 levels. Support at 1.28, 1.2750 levels.

S$NEER was steady near upper bound; last at ~1.94% above our model-implied mid. From a trade weighted point of view, there may be limited room for SGD to appreciate against trade peers, but due to SGD's safe haven characteristics, S$NEER may still stay near upper bound for now.

On upcoming MAS MPC in July, we reiterate our view that we believe MAS can afford to wait and monitor, rather than ease for a 3rd consecutive time after 2 back-to-back easing in first half this year. The last time in the last 10y when MAS did back-to-back easing to reduce to zero appreciation was during COVID in Mar-2020 and Apr-2016 global growth slowdown. But this time SG growth had surprised to the upside. That said, there may still be room for further easing at later MPCs in Oct or Jan-2026 should growth and inflation dynamics worsen more materially. Taking stock, YTD core inflation averaged 0.65%. Vs. MAS projection for 0.5 - 1.5%. MAS-MTI joint statement noted that imported inflation should remain moderate. Domestically, enhanced government subsidies for essential services are likely to dampen services inflation.

For the remainder of the year, we continue to project a mild degree of USDSGD downside over the forecast trajectory, premised on 1/ tariff de-escalation with tariff impact on regional growth largely manageable (i.e. no sharp recession); 2/ softer USD trend to continue and Fed resumes easing cycle in due course. We continue to pay close attention to 1/ tariff developments – whether the de-escalation optimism has momentum to carry on; 2/ broad USD trend – if the weakness continues; 3/ RMB movements – in particular China's economic recovery and RMB fixing trend; 4/ the extent of EUR's recovery – in light of defence spending plans impact on growth, ECB cut cycle nearing its end and Ukraine peace dividend (if any). More positive developments on these fronts (i.e. stronger recovery in EUR, RMB and weaker USD) can pose risks to our USDSGD forecasts.

USDMYR

Signs of Turning Lower. For 1H, MYR has appreciated about 6.2% vs. USD. The broad USD sell-off, steady RMB were some of the key drivers. The recent underperformance (-1% MTD as of15 Jul) thus far was due to renewed tariff uncertainties, hawkish repricing of Fed expectations, USD's corrective rebound and BNM's dovish tilt. To add, some retracement after a relatively sizeable move seen in MYR (>6% gain 1H) and in DXY (>10% down for 1H) is also not unexpected.

We reckon MYR's underperformance is likely to be temporary and continue to project a firmer MYR, taking into consideration both domestic and external factors. On the domestic front, supportive drivers include robust FDI inflows, prospects of continued foreign fund inflows, current account surplus while commitment to follow through fiscal consolidation also provides reassurance to investors. In terms of external factors, soft USD trend is likely to resume (premised on US policy unpredictability, concerns of fiscal/ debt) while relative stabilisation in RMB, and recovery in sentiment and confidence in Chinese assets, including RMB can have positive spillover effects onto MYR from investment, trade and sentiments channels.

Some risks to our view include: 1) USD trend – if bullish trend resumes; 2) global growth conditions – any sharp weakening could undermine sentiments. We also acknowledge our economists' expectations for growth momentum to slow in Malaysia and that BNM may cut rate again at the Sep or Nov-2025 MPC. While Malaysia goods to US was imposed a 25% tariff, negotiators are still working for a better deal. If tariffs are reduced, and growth turns out to be better than feared, then MYR appreciation bias can continue. However, a bad outcome on tariffs can prove to be volatile for MYR.

USDMYR was last at 4.2420 levels. Mild bullish momentum shows tentative signs of waning while RSI fell. Risks somewhat skewed to the downside. Support at 4.24 (21 DMA), 4.2240 levels. Resistance at 4.2590 (61.8% fibo retracement of 2024 low to 2025 high).

Medium Term FX Forecasts

Currency Pair	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
USD-JPY	145.00	143.00	142.00	141.00	140.00
EUR-USD	1.1850	1.2000	1.2000	1.2050	1.2100
GBP-USD	1.3600	1.3800	1.3800	1.3850	1.3900
AUD-USD	0.6600	0.6650	0.6650	0.6700	0.6750
NZD-USD	0.6100	0.6150	0.6150	0.6200	0.6250
USD-CAD	1.3600	1.3550	1.3550	1.3500	1.3480
USD-CHF	0.8000	0.8000	0.7900	0.7900	0.7850
USD-SEK	9.40	9.27	9.16	9.07	8.90
DXY	96.68	95.55	95.37	94.93	94.47
USD-SGD	1.2720	1.2650	1.2650	1.2640	1.2620
USD-CNY	7.1400	7.1200	7.1200	7.1100	7.1000
USD-CNH	7.1400	7.1200	7.1200	7.1100	7.1000
USD-THB	32.50	32.30	32.30	32.20	32.20
USD-IDR	16150	16100	16050	16050	16000
USD-MYR	4.2000	4.1600	4.1500	4.1400	4.1200
USD-KRW	1340	1310	1300	1290	1280
USD-TWD	29.40	29.30	29.30	29.20	29.00
USD-HKD	7.8000	7.7800	7.7500	7.7500	7.7600
USD-PHP	56.20	56.00	55.60	55.60	55.50
USD-INR	85.50	85.20	85.00	84.80	84.50
USD-VND	26000	25900	25950	25800	25700
EUR-JPY	171.83	171.60	170.40	169.91	169.40
EUR-GBP	0.8713	0.8696	0.8696	0.8700	0.8705
EUR-CHF	0.9480	0.9600	0.9480	0.9520	0.9499
EUR-AUD	1.7955	1.8045	1.8045	1.7985	1.7926
EUR-SGD	1.5073	1.5180	1.5180	1.5231	1.5270
GBP-SGD	1.7299	1.7457	1.7457	1.7506	1.7542
AUD-SGD	0.8395	0.8412	0.8412	0.8469	0.8519
AUD-NZD	1.0820	1.0813	1.0813	1.0806	1.0800
NZD-SGD	0.7759	0.7780	0.7780	0.7837	0.7888
CHF-SGD	1.5900	1.5813	1.6013	1.6000	1.6076
JPY-SGD	0.8772	0.8846	0.8908	0.8965	0.9014
SGD-MYR	3.3019	3.2885	3.2806	3.2753	3.2647
SGD-CNY	5.6132	5.6285	5.6285	5.6250	5.6260
SGD-IDR	12697	12727	12688	12698	12678
SGD-THB	25.55	25.53	25.53	25.47	25.52
SGD-PHP	44.18	44.27	43.95	43.99	43.98
SGD-VND	20440	20474	20514	20411	20365
SGD-CNH	5.6132	5.6285	5.6285	5.6250	5.6260
SGD-TWD	23.11	23.16	23.16	23.10	22.98
SGD-KRW	1053.46	1035.57	1027.67	1020.57	1014.26
SGD-HKD	6.1321	6.1502	6.1265	6.1313	6.1490
SGD-JPY	113.99	113.04	112.25	111.55	110.94
Gold $/oz	3460	3570	3670	3750	3800
Silver $/oz	38.44	39.67	40.78	42.13	43.18

Source: OCBC Research *(Latest Forecast Updated: 15 July 2025)*
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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