GLOBAL MARKETS RESEARCH

FX Weekly

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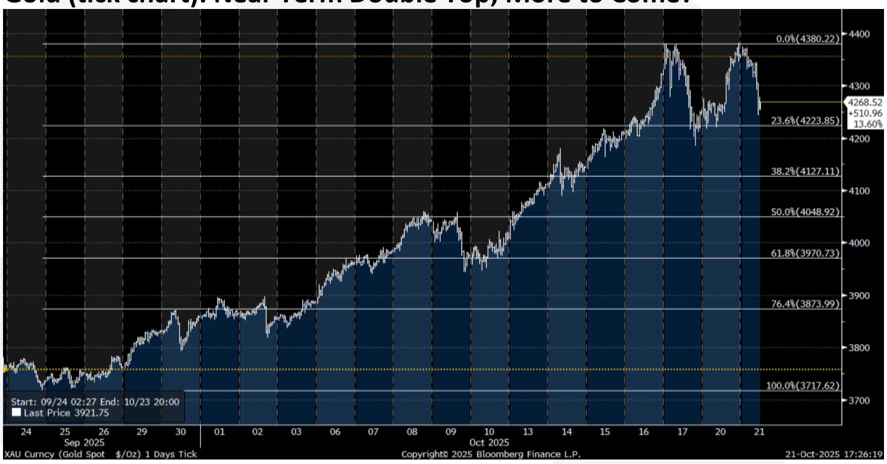
Cautious of Stretched Trades

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

RMB-proxy FX May Stay Under Pressure. Weekend chatter of signs of truce after Trump said that high tariffs on Chinese goods is unsustainable though it can stay. US Treasury secretary Bessent and China vice premier He Lifeng are expected to hold talks in Malaysia during the ASEAN summit (26-28 Oct). If talks go smoothly, this may pave the way for Trump and Xi to meet in Gyeongju next week (31 Oct). US-China tensions may still keep RMB-proxy currencies such as KRW, TWD under pressure but there are signs that that tensions may de-escalate, and some of these pressured proxy trades may unwind on favourable outcome.

Can Gold Correct Deeper? Gold's attempt to hit above 4380 appeared to have run into some roadblocks for now. On technical charts, momentum remains bullish but RSI shows signs of easing lower from overbought conditions. On the tick chart, we observed a double-top formation, which can typically be associated with a bearish reversal though one can argue that it remains early to concur. Support at 4200, 4120 (23.6% fibo retracement of Aug run-up to Oct high) and 4001 (21 DMA). Resistance at 4380 levels (recent high). We had flagged on Fri that gold's surge to record highs of over $4,300 and in record pace (up >15% MTD and over 30% since mid-Aug) may have stretched short-term valuations and risk-reward. Sentiment and speculative positioning are starting to look elevated, and there is a risk that gold may potentially be vulnerable to consolidation if geopolitical tensions stabilise or yields rebound. Nevertheless, our medium-term view stays constructive. Nominal rates are likely to trend lower as the Fed eases, while central-bank and institutional demand remain solid. The diversification or hedge argument for gold — against geopolitical, fiscal, and currency risks — stays intact. The constructive outlook on gold still supports a buy-on-dips approach.

Gold (tick chart): Near Term Double Top; More to Come?



Bloomberg FX Forecast Ranking (3Q 2025)
By Region:
No. 2 for Asia FX
No. 8 for 13 Major FX

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

(2Q 2025)
By Region:
No. 2 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

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Key Themes and Trades

DXY

Still in Range. DXY was a touch softer last week owing to dovish remarks from Fed officials, surprise turn lower in Philadelphia business outlook and falling UST yields. On Fedspeaks, Fed Chair Powell sounded dovish in his speech, warning about sharp slowdown in job creation. He also spoke about putting a stop to reducing the size of Fed balance sheet soon. Waller said he supports another 25bp cut at the Oct FOMC but rate outlook after October depends on labour market. Miran reiterated that recent trade tensions have increased uncertainty in the outlook for growth, making it more important for policymakers to lower interest rates quickly. Elsewhere, EUR's rebound owing to relief that the French PM survived both no confidence votes as well as lower USDCNY fix were other factors weighing broadly on the USD. This week, USD saw some rebound on signs that US-China relations may improve while White House economic advisor Kevin Hassett indicated that US government shutdown may be lifted soon. On net, the moves remain within recent range and was subdued.

DXY last at 98.75 levels. Bullish momentum on daily chart faded while RSI rose. 2-way trades likely in absence of fresh catalyst. Resistance at 99.10 levels (50% fibo retracement of May high to Sep low), 99.80 (61.8% fibo), 100.80 levels (200 DMA). Support at 98.40 (38.2% fibo, 21 DMA) and 98 levels (50, 100 DMAs) and 97.60 (23.6% fibo). Markets are likely to be looking forward to CPI release this Fri (initially scheduled for release on 15 Oct).

Over the forecast horizon into 2026, we continue to expect USD to trade moderately softer as Fed resumes easing while US exceptionalism fade. Our house view looks for 2 more Fed cuts for 2025, following the last 25bp cut at Sep FOMC. USD has room to fall as long as broader risk-on sentiment stays intact, growth conditions outside US remains supported and the Fed stays on easing path. USD's decline is not a linear extrapolation and will likely be a bumpy path, driven by data surprises, market expectations of Fed cut and tariff risks. In the near term, Fed's "risk management cut" at Sep FOMC and divided comments from Fed officials may not be sufficiently dovish to see USD break fresh year low at this point, especially when Fed cut expectations are more or less priced. At some point, USD bears can return with more conviction but that would require US data to come in softer (when data gets released), alongside Fed easing rates more decisively. USD re-allocation momentum can pick up when USD decline accelerates, and this may result in feedback loop for further USD weakness. More broadly, US policy unpredictability, and concerns of about the rising trajectory of US debt and deficits in the medium term should continue to underpin the broad (and likely, bumpy) decline in the USD.

EURUSD

Lingering Political Uncertainties. EUR traded 2-way, driven by political uncertainties in France and S&P downgrade in French credit rating. To be fair, EUR rose for most of last week as political uncertainties found relief. French PM Lecornu survived 2 rounds of no confidence motions after pledging to suspend President's Macron pension reforms, and importantly, he reversed the proposed increase in retirement age from 62 to 64. Socialist party (PS) agreed to not join opposition efforts to topple the government. But EUR started the week on a softer footing, in reaction to surprise rating downgrade from S&P. The agency had cut its rating for France to A+ from AA-, citing risks that the government would fail to significantly reduce its deficit next year.

Finance Minister Roland Lescure said the government "reaffirms its determination to meet the deficit target of 5.4 percent of GDP for 2025". Separately, the Finance ministry said that the government had submitted a draft budget for 2026 "which aims to accelerate the reduction of the public deficit to 4.7 percent of GDP while preserving growth". Elsewhere, the Netherlands will hold General Elections on October 29. These political developments may still pose downward pressure on the EUR in the near term. However, the broader fundamental outlook remains supportive of the euro, suggesting a bias for buy-on-dips approach.

EUR last seen at 1.1620 levels. Bearish momentum on daily chart faded but RSI turned lower. 2-way risks likely. Support at 1.1550, 1.1460 (38.2% fibo retracement of Apr low to Sep high). Resistance at 1.1650 (100 DMA, 23.6% fibo), 1.1690 (50 DMA).

Political uncertainties may temporarily weigh on EUR but we maintain our broadly constructive outlook on EUR. (1) ECB cut cycle likely nearing its end cycle while there is room for Fed to continue with it easing cycle. This helps to narrow EU-UST yield differentials. (2) Germany to boost growth plan with EUR400bn investment plan while European defence spending plans can lend a boost to growth. (3) China's economic growth showing tentative signs of stabilisation (stable to stronger RMB can see positive spillover to EUR) and (4) 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 less of 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. There may also be indirect benefits for EUR in the medium term, should there be a peace deal and that Europe participates in Ukraine's reconstruction efforts. A peace deal at some point can lead to supply chain normalisation, lower energy costs, in turn reducing existing burden on corporates and households, improving sentiments and growth outlook.

USDJPY

Buy Rumour, Sell Fact. USDJPY traded a touch firmer post-confirmation of LDP leader Takaichi as PM. To recap, LDP has found a coalition partner, Japan Innovation Party (JIP) making the coalition just 2 seats short of a simple majority of 233. JIP is seen as a center-right political party that champions regulatory reform and decentralisation of government power. The party previously spoke about achieving primary balance surplus within a realistic target period. Fiscal prudence should be reassuring for markets and JPY. Impact on USDJPY this episode will likely not be similar to the move seen post-LDP election as Takaichi's previous pro-stimulus stance may have to be compromised. Also, one less political uncertainty may potentially pave the way for BoJ to hike on 30 Oct, given that macro conditions allow for policy normalisation. Barring any policy surprises or sharp USD rebound, we do expect USDJPY to return back to pre-LDP election levels of below 148 over time.

Pair was last at 151.50 levels. Broader thematics of USD, UST yields, risk sentiments, expectations of BoJ policy and Japanese policies (in particular relating to spending and debt) will continue to drive the pair. Bullish momentum on daily chart faded but RSI rose. 2-way risks likely in the interim. Resistance here at 151.90 (23.6% fibo retracement of the run-up), 152.50 levels. Support at 150.35 (50% fibo), 149.67 (61.8% fibo), 148.50 (50 DMA).

Our view for USDJPY to trend lower is premised on the USD sell-off story and Fed-BoJ policy divergence (Fed rate cut cycle to resume while the BoJ to continue its policy normalisation). Wage growth, broadening services inflation and upbeat economic activities in Japan should continue to support BoJ policy normalisation although tariff and political 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.

USDSGD

Slight Skew to the Upside. USDSGD traded in subdued range in absence of clear catalyst. Pair last seen at 1.2970 levels. Mild bullish momentum on daily chart faded but RSI shows signs of turning higher. 2-way trades likely, with slight skew to the upside in the interim. Support at 1.2920 (21 DMA), 1.2870 (50 DMA). Resistance at 1.2950 (23.6% fibo retracement of 2025 high to low), 1.3010 levels.

At the last MPC (14 Oct), MAS maintained policy on hold – prevailing rate of appreciation of the S$NEER policy band, width and center of currency band. In accompanying statement, MAS indicated that core inflation should trough in the near term and rise gradually over the course of 2026 as temporary factors dampening inflation fade. Other highlights of the MPS include: (1) Growth surpassed expectations, underpinned by resilient activity in the manufacturing and domestic consumer-facing sectors. Growth is expected to moderate from this above-trend pace in the upcoming quarters as activity normalises in the trade-related sectors. (2) While core inflation could edge down further in the near term, some of the factors dampening inflation are expected to diminish in the quarters ahead. Imported costs should exert a smaller drag on inflation in 2026, given projections for a more gradual decline in global crude oil prices, as well as a modest pickup in regional inflation from the easing this year. On the domestic front, services unit labour costs growth is projected to rise in 2026 as productivity growth normalises. The net drags on inflation associated with administrative price changes and their base effects should also unwind more discernibly from Q4 this year. All in, MAS Core Inflation is forecast to trough in the near term and rise gradually thereafter. (3) MAS is in an appropriate position to respond effectively to any risk to medium-term price stability and will continue to closely monitor economic developments amid uncertainties in the external environment.

S$NEER remains largely steady around 1.4 – 1.5% above model-implied mid post-decision. We reiterate that even with a MAS hold, this does not necessarily imply that the S$NEER must return to its upper bound. Keep in mind that the MAS's current policy stance aims for only a mild appreciation. Therefore, there is still potential for the S$NEER to remain near its current level or even decline moderately. To some extent, the S$NEER arguably should not have been that strong, considering the 2 rounds of easing in the first half of the year, if not for safe-haven inflows. Implication of MAS policy on USDSGD is only one aspect as USD trend, broader market thematics, such as Fed policy, moves in RMB, growth-inflation dynamics, risk sentiments, etc. also matter. If the broader USD trend is a bullish one, then with MAS keeping policy on hold, USDSGD can still take cues from the bullish USD trend to drift higher.

For the forecast horizon into 2026, we continue to project a mild degree of USDSGD downside, premised on (1) moderately softer, albeit bumpy USD trend to continue amid Fed cuts underway; (2) still-resilient RMB; (3) while tariff impact on regional, Singapore growth to be largely manageable (i.e. no sharp recession). We continue to pay close attention to a few key risks that may impact SGD: (1) how sectoral tariff may play out – if Singapore growth, exports will ultimately be impacted by higher tariffs on pharmaceuticals while monitoring tariff developments on semiconductor goods; (2) broad USD trend given that USDSGD and DXY is highly correlated – if USD sees an extended bounce, then USDSGD may even be exposed to upside risks; (3) moves in EUR, JPY, can also affect SGD, given relative strong correlation and weights in S$NEER basket; (4) trends in RMB is also another development to watch – in particular China's economic recovery, RMB fixing trend and sentiments. While economic fundamentals, including real estate sector in China still appear soft for now, financial markets have diverged. Domestic equities and RMB fixing have been strong. These factors can have spillover effects onto SGD. For example, more positive developments on these fronts (i.e. Weaker USD, stronger recovery in EUR, RMB) can imply downside risks to our USDSGD forecasts. On the contrary, direct hit on SG growth owing to tariff implications or MAS easing can weigh on SGD.

USDCNH

Lower Fix; Watch US-China Tensions. 4th plenum is underway and the CCP will focus on outlining next 5-year plan from 2026-2030. Earlier in Apr, President Xi outlined 5 key areas including: national economic development, security, innovation, education & talent for development of new quality productive forces and the improvement of people's livelihoods. A communiqué is expected to be published on 23rd Oct, followed by the publication of the proposal of the 5-year plan a week later. CEWC will work on key policy targets in mid-Dec before the NPC meeting in Mar 2026.

In terms of RMB, the fix is one aspect to guide the spot, but US-China tensions is another factor to watch. Weekend chatter of signs of truce after Trump said *that high tariffs on Chinese goods is unsustainable though it can stay.* US Treasury secretary Bessent and China vice premier He Lifeng are expected to hold talks in Malaysia during the ASEAN summit (26-28 Oct). If talks go smoothly, this may pave the way for Trump and Xi to meet in Gyeongju next week (31 Oct). US-China tensions may still keep RMB-proxy currencies such as KRW, TWD under pressure but there are signs that that tensions may de-escalate, and some of these pressured proxy trades may unwind on favourable outcome.

On the fix, USDCNY fix came in at 7.0930 (21 Oct), lowest in a year. This demonstrated policymakers' intent to guide RMB on an appreciation path, albeit at a measured pace. Taking a step back, the pattern of setting the fix stronger looks like a continuation of PBOC's "measured" pace of appreciation since Apr, via the fix to influence the path of RMB. This is also consistent with PBOC goal of RMB internationalisation. A gradual pace of RMB appreciation can serve as a wealth-effect and confidence repair function. On wealth channel, it can stabilise domestic asset prices - equities, household wealth etc.

Resilient RMB can also help encourage return of flows into RMB-denominated assets. From an optics perspective, firmer RMB and higher equity prices tend to go hand in hand. In a way, this helps to repair confidence and strengthen momentum, sentiments.

USDCNH last seen at 7.1210 levels. Bullish momentum on daily chart is fading while RSI fell. Risks somewhat skewed to the downside. Support at 7.1150, and 7.08 (76.4% fibo retracement of 2024 low to 2025 high). Resistance at 7.1330 (21 DMA), 7.1420/60 levels (50 DMA, 61.8% fibo).

Trade Ideas

Entry Date	Trade	Entry	Close	Profit/ Loss (%)	Remarks	Exit Date
05-May-25	Short SGDKRW	1072.2			An expression of short S$NEER, riding on tariff de-escalation narrative. High-beta KRW may have more room to catch-up on gains while much gentler slope in S$NEER policy band implies that SGD may appreciate less than trade peers. A proxy trade for short S$NEER. Target move towards 1015. SL: 1105 [LIVE]	
13-May-25	Short USDJPY	148	147.22	0.52	90d trade truce may be a surprise turnaround but devil is in the details during negotiations. Some degree of caution remains warranted. Separately, Finance Minister Kato said he will seek an opportunity to discuss currency matters with US Treasury secretary Scott Bessent without offering specifics. Target move towards 141. SL: 147.22. [TP]	25-Jul-25
05-Aug-25	Short CHFJPY	182.1	187	-2.69	Entered into short at 182.10 (5 Aug), looking for a move towards 170.10. SL at 187. The 12% run-up this year may also provide an opportunity to re-enter short, from a risk-reward perspective. 39% tariff on Swiss imports to US can hurt Swiss economy and lead to SNB cutting rates into negative. SNB-BOJ policy divergence play could return, and this can underpin the direction of travel to the downside. [SL]	19-Sep-25

Note: TP refers to take profit; SL refers to stop-loss. Trade can take profit or stopped earlier than indicated levels, depending on market conditions.

Medium Term FX Forecasts

Currency Pair	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
USD-JPY	149.00	145.00	144.00	143.00	141.00
EUR-USD	1.1800	1.1900	1.2000	1.2050	1.2100
GBP-USD	1.3600	1.3600	1.3650	1.3700	1.3750
AUD-USD	0.6700	0.6700	0.6750	0.6800	0.6850
NZD-USD	0.5800	0.5900	0.6000	0.6050	0.6100
USD-CAD	1.3900	1.3800	1.3700	1.3600	1.3600
USD-CHF	0.7980	0.7900	0.7900	0.7850	0.7800
USD-SEK	9.27	9.16	9.07	8.90	8.83
DXY	97.40	96.43	95.73	95.21	94.70
USD-SGD	1.2820	1.2750	1.2700	1.2680	1.2650
USD-CNY	7.1000	7.0700	7.0600	7.0500	7.0000
USD-CNH	7.1000	7.0700	7.0600	7.0500	7.0000
USD-THB	32.50	32.30	32.20	32.20	32.00
USD-IDR	16400	16350	16300	16250	16200
USD-MYR	4.1600	4.1500	4.1400	4.1200	4.1000
USD-KRW	1390	1370	1350	1340	1320
USD-TWD	30.30	30.30	30.20	30.00	29.80
USD-HKD	7.7800	7.7500	7.7500	7.7600	7.7600
USD-PHP	57.80	57.40	57.40	56.90	56.90
USD-INR	88.40	88.20	88.50	88.20	88.00
USD-VND	26500	26600	26700	26800	26800
EUR-JPY	175.82	172.55	172.80	172.32	170.61
EUR-GBP	0.8676	0.8750	0.8791	0.8796	0.8800
EUR-CHF	0.9416	0.9401	0.9480	0.9459	0.9438
EUR-AUD	1.7612	1.7761	1.7778	1.7721	1.7664
EUR-SGD	1.5128	1.5173	1.5240	1.5279	1.5307
GBP-SGD	1.7435	1.7340	1.7336	1.7372	1.7394
AUD-SGD	0.8589	0.8543	0.8573	0.8622	0.8665
AUD-NZD	1.1552	1.1356	1.1250	1.1240	1.1230
NZD-SGD	0.7436	0.7523	0.7620	0.7671	0.7717
CHF-SGD	1.6065	1.6139	1.6076	1.6153	1.6218
JPY-SGD	0.8604	0.8793	0.8819	0.8867	0.8972
SGD-MYR	3.2449	3.2549	3.2598	3.2492	3.2411
SGD-CNY	5.5382	5.5451	5.5591	5.5599	5.5336
SGD-IDR	12793	12824	12835	12815	12806
SGD-THB	25.35	25.33	25.35	25.39	25.30
SGD-PHP	45.09	45.02	45.20	44.87	44.98
SGD-VND	20671	20863	21024	21136	21186
SGD-CNH	5.5382	5.5451	5.5591	5.5599	5.5336
SGD-TWD	23.63	23.76	23.78	23.66	23.56
SGD-KRW	1084.24	1074.51	1062.99	1056.78	1043.48
SGD-HKD	6.0686	6.0784	6.1024	6.1199	6.1344
SGD-JPY	116.22	113.73	113.39	112.78	111.46
Gold $/oz	4060	4110	4170	4210	4230
Silver $/oz	50.75	51.38	52.13	53.29	53.54

Source: OCBC Research

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

GLOBAL MARKETS RESEARCH

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com