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FX Weekly

Market surprises and outlook

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Major surprises, and lessons for 2026. Reviewing the major surprises of 2025 offers valuable lessons for navigating markets in 2026. While history rarely repeats exactly, it often rhymes – making the ever-evolving market both challenging and rewarding to follow.

We will publish the FX forecasts in the DMO (6 Jan 2026)

Key unexpected developments last year included:

1) The USD sharply declined in the first half of 2025, but its weakness stalled as the AI investment boom and tariffs rollback supported resilient US growth.
2) The JPY weakened relative to G10 peers despite the Bank of Japan (BoJ) being the sole major central bank to hike rates.
3) Precious metals rallied strongly even as the USD's decline lost momentum.
4) The AUD and NZD started to gain as market focus shifted from rate cuts to early rate hikes.
5) FX volatility hovered near multi-year lows, reflecting expectations of a benign global outlook.

These surprises highlight the importance of staying adaptable and attentive to evolving market dynamics!

USD outlook: More balanced in 2026 after a tumultuous year. The USD (i.e. DXY) should enter 2026 on steadier footing after a 9.4% slide in 2025—the sharpest drop since 2017—driven by tariff shocks, Fed uncertainty, and Germany's fiscal pivot. We see only modest USD weakness in 1H26, with the DXY likely finding a floor near 97 in 2H26 and risks broadly balanced.

The year opens with three pivotal US decisions:

1. President Trump's nomination for the next Federal Reserve (Fed) Chair.
2. Supreme Court rulings on the legality of Trump's tariffs.
3. Whether Fed Governor Cook remains in office amid a mortgage probe.

These outcomes could prolong concerns over a more dovish Fed and weigh on the USD early in the year. Tariff revenue risks and potential upward revisions to the fiscal deficit could add to downside USD pressure. Still, the scale of USD weakness should be far smaller than in 2025. Looking ahead, US growth prospects may improve on strong AI-driven investment, fading tariff drag, and tax cuts. This could temper expectations for further Fed easing beyond one final 25bp cut we anticipate in 1Q26, offering some support to the USD later in the year. The labour market is key to the Fed call. A 4.7% unemployment rate would technically trigger the Sahm rule recession indicator. But the resilience in private payrolls in October and November suggests the US economy remains in a good shape.

JPY: Policy trade-offs limit upside. Our initial view anticipated a strong JPY in 2025, driven by the BoJ bucking the global rate cut trend. While narrowing U.S.-Japan rate differentials should have supported lower USDJPY, the JPY has lagged due to renewed fiscal concerns under new political leadership. The Takaichi administration's focus on looser fiscal policy requires increased JGB issuance, reinforcing the need to keep BoJ rates low. But a weak JPY could be problematic to the extent that it raises inflation risk, which is unpopular with the public. There are signs the BoJ and Ministry of Finance may act to curb excessive yen weakness. However, tolerating modest rate hikes or FX intervention is not the same as committing to sustained forward-beating JPY strength.

AUD: Riding rate-hike hopes. Markets have shifted from rate-cut expectations in 2025 to pricing in renewed hikes amid stronger growth and persistent inflation. Australia and New Zealand now have more than one full hike priced in, while Sweden and Canada see partial hikes. We remain cautious about chasing this repricing too far but believe rate-hike optimism can keep AUD supported. AUD also benefits from easing US-China trade tensions, Australia's loose fiscal/tight monetary mix, and its strong fiscal standing among G10 peers. The Bank of Canada (BoC) may have finished cutting rates, but CAD faces headwinds from heightened trade policy uncertainty around USMCA negotiations, which could keep the BoC more cautious than other central banks.

FX volatility: Stillness in FX – for now. Implied FX vol sits at multi-year lows, signalling markets see low odds of outsized moves. From such depressed vol levels, downside looks limited, while the risk of a reversion higher looms—though timing a vol spike remains tricky. Our base case: subdued FX vol persists into early 2026, supporting carry trade performance. Still, unexpected shocks can trigger sharp swings.

Key risks to watch (list not exhaustive):

- AI-driven risk-off correction
- US-China trade war reignites
- New Fed leadership overstimulates economy, leading to overheating
- US labour market weakness deepens, fuelling recession fears
- Geopolitical flashpoints: China-Taiwan tensions or Russia-Ukraine peace negotiation breakdown

USDSGD: Data support MAS to keep policy on hold. USDSGD consolidated near recent lows last week. Recent release of data reinforced the view that Monetary Authority of Singapore (MAS) can continue to keep policy stance on hold (i.e. maintaining modest appreciation) at the upcoming policy meeting in January 2026. November core inflation print marked a back-to-back increase of 1.2% YoY, after staying subdued below the 1% YoY handle for most of 2025. This was driven by higher services inflation (namely attributable to point-to-point transport services and health insurance) which more than offset lower retail and other goods inflation as well as cheaper electricity and gas prices. Singapore's economy also ended 2025 on a stronger footing with 4Q25 GDP growth accelerating to 5.7% YoY, up from 4.3% in 3Q25. The late momentum lifted full-year 2025 growth to 4.8%, exceeding official forecasts and marking the strongest performance since 2021. The primary engine of this expansion was the manufacturing sector, which jumped 15% in 4Q25, fuelled by robust global demand for AI-related semiconductors and a sharp recovery in biomedical manufacturing. Construction growth moderated slightly to 4.2% in the final quarter but remained a steady contributor through the year while all services sectors recorded expansion over the quarter.

S$NEER has also firmed slightly to 1.67% above model-implied mid-point (from a 1.2% average in Nov), suggesting that markets have largely priced out near-term MAS easing, with nascent expectations emerging that policy bias may even tilt tighter at some point down the road. On a technical note, USDSGD spot was last seen at 1.2880 levels. Bearish momentum indicators on daily chart shows signs of fading while RSI rose. Risks are somewhat skewed to the upside in the near term. Resistance at 1.2890 levels (21 DMA), 1.2940/60 levels (50, 200 DMA, 23.6% fibo retracement of 2025 high to low). Support at 1.2820 levels (December low), 1.2710 (Sep low). Day ahead brings Singapore retail sales data.

USDCNY: Guided by fixing. USDCNY closed below 7.0 for the second consecutive session. This is also the lowest level the pair had traded in over 30 months. Lower USDCNY daily fix has been one of the main factors guiding the RMB stronger while Fed resuming its easing bias and a nuanced USD profile were other factors that allowed for the pair to trade lower. The fixing pattern of lower USDCNY on a measured tone has remained consistent since April 2025, reflecting a deliberate policy to guide the RMB along a gradual appreciation path while maintaining market stability. This approach helps prevent markets from rushing to offload USD in a disorderly manner, thereby avoiding abrupt price fluctuations and ensuring orderly market dynamics. That said, we observed that the daily fix has seen an increase in magnitude, with 30d rolling average of daily change at -19.4pips (vs. -7.1 pips a month ago). This change in fixing was also the sharpest in over a year.

We will continue to monitor if policymakers start to slow the pace in setting the fix lower or continue with a similar trajectory. The latter may continue to add to downward pressure for USDCNY. On a technical note, onshore spot was seen at 6.9880. Bearish momentum on daily chart intact while RSI is in oversold conditions. Bias remains skewed to the downside for the pair. Next support at 6.9740/50 levels before 6.9430 (61.8% fibo retracement of 2023 low to double top in 2023 and 2025). Resistance at 7.0050/60 levels, 7.02 (50% fibo).

USDTHB: Supported. USDTHB rebounded last week following reports that Thai authorities are tightening measures to curb persistent appreciation pressure on the THB. The Bank of Thailand (BoT) has instructed commercial banks to step up verification of supporting documentation for foreign-currency transactions of USD200,000 or above, including cases where foreign currency is sold for THB or transferred into foreign-currency deposit accounts (with some exceptions). In addition, transactions involving foreign currency proceeds from overseas gold sales will now require full documentation on a transaction-by-transaction basis, alongside stricter scrutiny on the import of large amounts of foreign banknotes. Separately, the Thailand Ministry of Finance is reportedly exploring the introduction of a special business tax on online gold trading, aimed at curbing speculative activity and reducing THB volatility. Taken together, tighter checks on FX inflows and heightened scrutiny of gold-related THB inflows may potentially restrain excessive THB strength in coming weeks, especially when combined with softer domestic fundamentals (notably weak growth momentum) and continued scope for the BoT to ease monetary policy.

Elsewhere, Thailand is expected to enter an election-related period in early February, and as campaigning approaches, domestic developments could begin to play a larger role in driving THB performance, depending on how the situation evolves. On a technical note, USDTHB was last seen at 31.50 levels. Daily momentum shows signs of turning mild bullish but rise in RSI moderated. Risks somewhat skewed to the upside in the interim. Resistance at 31.57 (21 DMA), 31.73 (38.2% fibo retracement of Oct high to Dec low). Support at 31.45 (23.6% fibo), 31.20 levels.

Gold: Consolidation. Gold's rally into late December saw prices briefly peaking near USD4,550 before momentum faded. The surge was underpinned by safe haven demand, sustained central bank buying, and expectations of central banks still on an easing bias. However, the rise ran into resistance after higher margin requirements on gold futures prompted leveraged participants to trim exposure, triggering a pullback that dragged prices back toward the USD4,200–4,400 zone. From a tactical standpoint, the retracement appears healthy following an overstretched rally than a reversal of trend. We maintain a constructive outlook on gold on a mix of structural shifts and macro factors, including Fed still on an easing cycle while geopolitical tensions remain.

On structural shifts, gold is a portfolio diversifier and hedge against geopolitical stresses, policy uncertainty and stagflation risk — that role has not changed. What has evolved is the degree of portfolio allocation to gold, which is likely to be structurally higher than in past cycles. Participation has also broadened beyond the dominant anchors of demand from official and institutional buyers. Retail participation has risen notably, reflecting both accessibility through digital platforms and growing awareness of gold's resilience and store of value. Over the weekend, developments in Venezuela pointed to a relatively quick closure rather than a prolonged military conflict, limiting immediate geopolitical tail risk but the episode still reinforced a backdrop of geopolitical uncertainty, helping to keep the safe-haven bid for gold intact. On a technical note, gold was last seen at USD4,370 levels. Daily momentum is mild bearish but RSI shows signs of turning higher. Bias to buy on dips. Support at USD4,275, USD4,180 (50 DMA). Resistance at USD4,393 (23.6% fibo retracement of Oct low to Dec high), USD4,550 (recent high).

Silver: Near term consolidation. Silver saw dramatic price action in the final two weeks of December, briefly surging to an all-time high of around USD84/oz before a sharp same-day reversal on 29 December. The rally was supported by year-end momentum and thin holiday liquidity, but the key narrative catalyst was China's shift to a tighter silver export-licensing regime effective 1 January 2026, alongside robust industrial demand expectations and signs of physical tightness, including a record Shanghai premium of over USD8/oz. Under the new framework, China replaces its quota-style system with a stricter licensing regime, limiting exports to 44 approved companies that meet scale, production, and track-record requirements. While not an outright ban, the change has implications for global availability and pricing. The subsequent sharp corrective decline — with prices falling to around USD70.50/oz intraday — was triggered by the CME's margin requirement increase effective 29 December, which forced position unwinds by over-leveraged traders in already illiquid holiday markets following a parabolic run-up.

Despite the volatility, the medium-term outlook remains constructive. Silver continues to benefit from its dual role as both a precious and industrial metal: it's safe-haven appeal aligns with gold's macro drivers, while firm demand from the solar, electric vehicles, and electronics sectors underpins real consumption. With global growth holding up and Fed easing expectations intact, silver remains well positioned within the commodities complex, supported by tight supply conditions, resilient industrial demand, ETF inflows, and favourable macro tailwinds. On a technical note, silver was last seen at USD74.30 levels. Bullish momentum on daily chart faded but RSI shows signs of turning higher. Price action suggests a potential shift from momentum-chase to a consolidation phase in the near term. That said, the uptrend remains intact, with prices still holding above moving averages despite the sharp correction. Support at USD70.40 (38.2% fibo retracement of November run-up to December high), USD66.20/90 levels (21 DMA, 50% fibo). Resistance at USD75.60 (23.6% fibo), USD84 (all-time high). Bias remains to buy on dips.