Monthly FX & Rates Strategy

The inconvenient Dollar strength

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Global Economics & Markets Research

- The combination of a perceived hawkish Fed pivot and a partial unwind of other G-10 central banks' hike expectations have materially impacted the rate differential argument that underpinned our medium-term bearish USD view. On balance, we retain our medium-term bearish USD bias. The thesis rests on the expectation that a Fed pause materialising in 2H26 will in time narrow US rate differentials anew, while the structural headwinds such as twin deficit deterioration and de-dollarisation trend remain intact.

- Consistent with this USD bearish view, the USD is expected to hold firm relative to G10 peers through 3Q26 before resuming a gradual weakening trend thereafter. Our updated DXY forecasts remain biased lower, at 101.4 in 3Q26, 99.8 in 4Q26, 98.2 in 1Q27, and 96.8 in 2Q27 with EUR, AUD, GBP and JPY trending stronger in the quarters ahead.

- Risks to the USD outlook remain asymmetrically skewed to the upside. The Strait of Hormuz situation remains a live and material risk. A fresh breakdown in the US-Iran interim peace deal triggering a renewed energy-driven inflation surge could compel the Fed to act more decisively. Such an outcome would represent a clear and material upside risk to the USD and would necessitate a reassessment of our baseline trajectory.

- Our cautious stance on Asia FX into 3Q26 has proven well-placed. The ongoing Fed rate repricing is likely to sustain pressure on Asia FX through 3Q26. Ultimately, we still expect disinflationary impulse from lower oil prices to be sufficient to cause the Fed to pause short of a full hike this year, which would be the primary catalyst for a resumption of Asia FX recovery later starting 4Q26.

- We expect CNY, MYR and SGD to stay resilient as they had in 1H26, supported by stronger macro buffers. Net energy importers that bore the brunt of the oil shock such as the PHP, INR and THB may see lesser downside compared to what we had previously projected, now that the oil shock has largely unwound. TWD and KRW are still expected to outperform within Asia FX due to sustained AI tailwinds. We expect IDR to continue underperforming due to idiosyncratic fiscal and MSCI downgrade concerns, though immediate downside is capped by aggressive Bank Indonesia (BI) rate hikes.

- For the Fed, our macro team maintains an extended pause through 2026 before easing anew in 2027, while acknowledging rising risks of renewed tightening. This implies a steady 3M compounded in arrears SOFR projection at 3.64% in 3Q26 through 1Q27 and 3.47% in 2Q27.

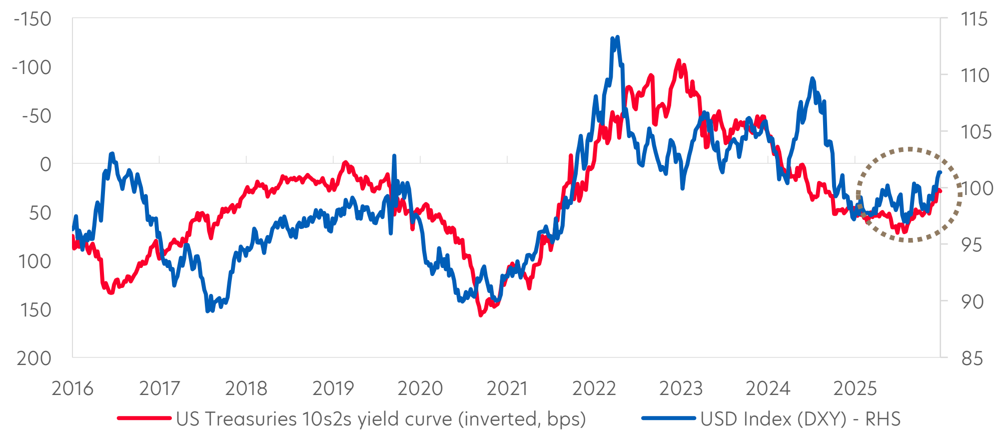
- For the Monetary Authority of Singapore (MAS), recent data paint a more benign picture for Singapore's economy with inflation coming in weaker than expected for a second consecutive month. Against this backdrop, our macro team no longer expects MAS to further steepen the S$NEER slope in October 2026 and instead expects MAS to remain on an extended pause through 2026 and into 2027.

- Overall, we expect SORA to have bottomed despite strong safe-haven inflow, and to gradually drift higher. We continue to expect gradual normalization of the SOFR-SORA spread from historically wide levels, although at a slower pace than previously anticipated. We project 3M compounded-in-arrears SORA at 1.28% in 3Q26, 1.41% in 4Q26, 1.55% in 1Q27, and 1.64% in 2Q27.

Since last Jun, the USD Index (DXY) has essentially been in a holding pattern and consolidating under the psychological level of 100. However, the DXY popped on 17 Jun, right after the latest FOMC meeting, jumping above the 100 level to the current high of about 101.50.

Chart 1: DXY strengthens above 100, in line with narrowing US 10s2s yield spread

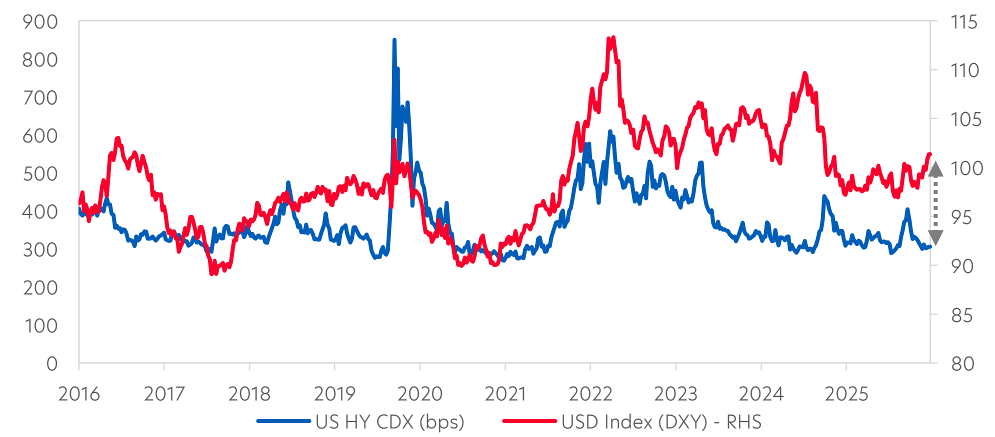
Source: Bloomberg, UOB Global Economics & Markets Research



The DXY is typically very sensitive to changes in US monetary policy outlook. As such, this recent rise in DXY above 100 coincided with the latest FOMC which was perceived to have sent out hawkish messages with dot plots being lifted higher and Fed Chairman Kevin Warsh repeatedly reiterating at the post FOMC presser that the Fed is determined "to deliver on price stability". As such, the 2Y US Treasuries yield jumped post FOMC, leading to an unmistakable narrowing of US10s2s yield spread which supported this rise in DXY above 100.

Chart 2: Latest round of DXY strength inconsistent with still benign HY CDX spread

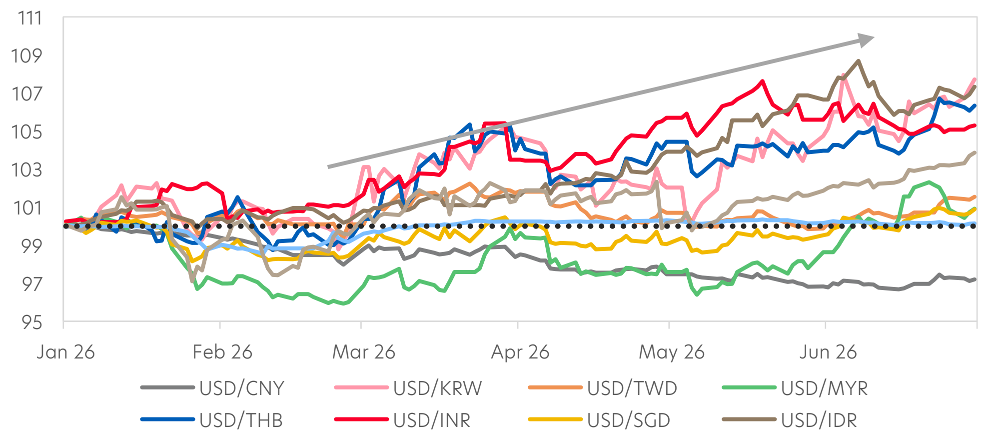
Source: Bloomberg, UOB Global Economics & Markets Research



Beyond the abovementioned obvious driver in the DXY higher, much has been debated about whether the recent rise in the DXY is just the latest example of increasing volatility in financial markets or whether the rise in the DXY signals something even more nefarious. Historically, the rise in DXY tends to coincide with periods of tightening liquidity or worse, periods of deteriorating credit conditions. Fortunately, this does not appear to be the case this time as various liquidity or credit indicators, e.g. US HY vs IG spread, US AAA vs BBB spread etc, still appear benign and remains at or near cycle / historical low.

Chart 3: USD has strengthend progressively this year against Asian FX
(% ytd normalized return in USD vs Asian FX)

Source: Bloomberg, UOB Global Economics & Markets Research



Closer home to Asia, the USD has been progressively stronger year-to-date and noticeably stronger in recent weeks as well, led by USD/JPY and USD/KRW rising to new cycle highs above 160 and 1,500 respectively. Both USD/INR and USD/IDR have also risen to new highs near 96 and 18,000. The rest of the USD/Asia complex has risen in tandem. This latest round of USD strength against the Asian currency complex is likely due to increasing fiscal stress exerted on Asian economies due to the higher energy prices across 2Q26. The only exception being the CNY which has been kept relatively stable around 6.80 to the USD by the People's Bank of China (PBOC).

Is this latest round of USD strength against Asian FX near term volatility as well or is it the start of a new round of cyclical USD strength? In this latest FX & Rates Strategy Monthly, we discuss the increasing debate around US rates outlook as well as update our USD view, both against the Majors as well as against the Asian FX complex.

FX Strategy

Will the USD strength last?

The USD's trajectory has evolved materially since our 3Q26 Quarterly report published on 5 Jun. The rangebound DXY dynamic we described (98–100 through Apr–May) has given way to a more decisive USD rally in Jun, driven by a hawkish pivot at the Fed in place of receding geopolitical risk premia as US and Iran reached a Memorandum of Understanding (MOU) to end the war.

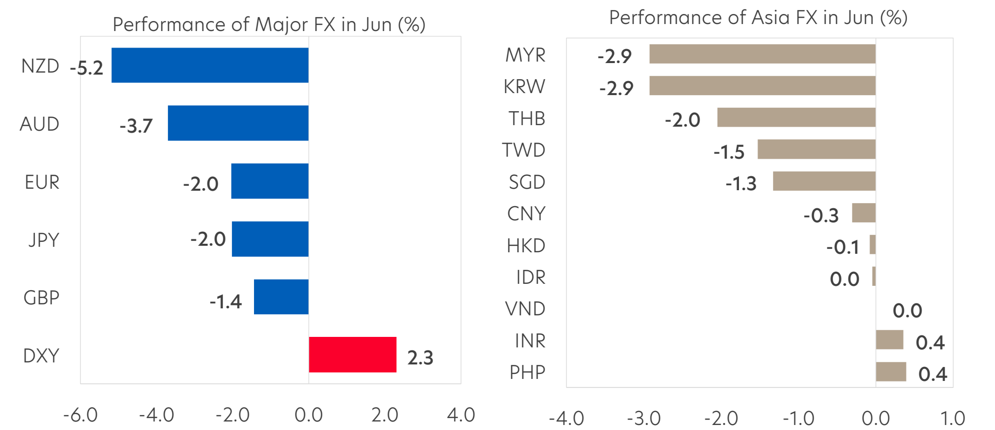
The US Dollar Index (DXY) hit 101.80, its highest level in more than a year as swap markets moved swiftly to reprice for potential Fed rate hikes in 2H26, underpinned by both an accelerating inflation and strong labour market backdrop.

Looking ahead to 2H26, while our base case — that diminishing geopolitical risk premia would erode USD support and shift focus back to monetary policy differentials — has played out, the direction of that repricing has proven more USD-constructive than anticipated. The rebound in US rate differentials has been sharper than assumed in our pre-war baseline and now poses a direct challenge to our medium-term bearish USD thesis.

The central question for the remainder of 2H26 is the durability of the Fed's hawkish posture. Should inflation moderate due to falling oil prices, the case for hikes would weaken, and the structural headwinds to the USD - twin deficit deterioration, narrowing US rate differentials versus G-10 peers, de-dollarisation trend - would reassert themselves. Conversely, if inflation proves sticky and the Fed follows through on the hike path markets are pricing, a recalibration of our medium-term bearish USD view would be warranted.

Chart 4: USD gained against most G-10 and Asia FX in Jun, underpinned by hawkish Fed pivot

Source: Bloomberg, UOB Global Economics & Markets Research



Our cautious stance on Asia FX into 3Q26 has proven well-placed, though the drivers of regional currency weakness have evolved materially since our 3Q26 Quarterly report published on 5 Jun. The energy-shock channel — which dominated the Apr–May period — has mostly unwound, replaced by a new and arguably more durable headwind against Asia FX: the hawkish repricing of Fed expectations following the Jun FOMC meeting under Chairman Kevin Warsh. The net effect is that Asia FX remains under pressure, but the composition of that pressure has shifted from geopolitical risk premia to US rate differentials.

In our latest quarterly update in early Jun, we maintained a defensive bias on Asia FX into 3Q26 and pushed back the expected timing of a more sustained recovery to 4Q26. In light of evolving geopolitical and Fed repricings, we reassess whether this baseline remains intact, or whether a more defensive positioning against Asia FX is warranted if the Fed follows through on the hike path markets are pricing.

Major FX Strategy

Maintain medium-term bearish USD bias, contingent on Fed pause materialising in 2H26

The combination of a hawkish Fed pivot and a partial unwind of other G-10 central banks' hike expectations has materially compressed the rate differential argument that underpinned our medium-term bearish USD view.

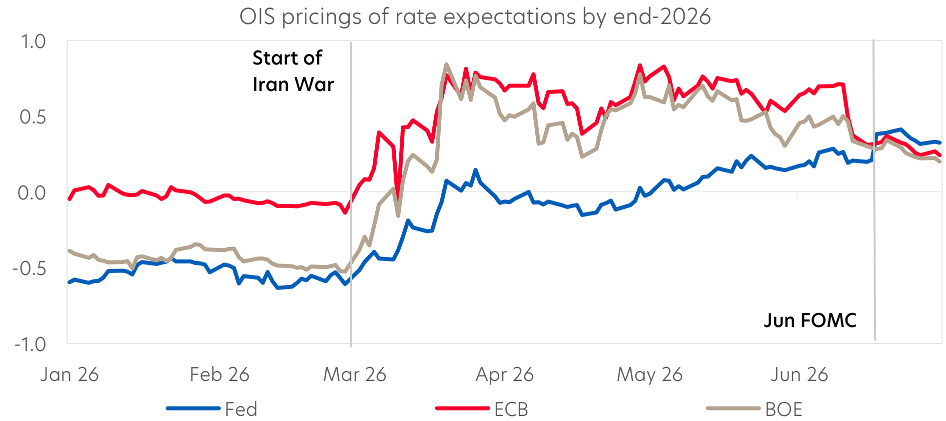
Drawing strength from the OIS markets which fully priced in a 25 bps Fed rate hike at the Oct FOMC, the DXY topped 101.80 on 24 Jun — its highest level in over a year. Speculative positioning has turned the most dollar-bullish since Jan 2025, with net long dollar wagers reaching $34.3bn in the week through 23 Jun.

Right By You

The elevated US inflation backdrop is likely to still underpin USD momentum, at least through 3Q26. May CPI printed 0.5% m/m, 4.2% y/y – the fastest y/y pace since early 2023 – though core CPI rose a more contained 0.2% m/m, 2.9% y/y. Headline May PCE came in at 4.1% YoY (the most since Apr 2023), with core PCE at 3.4% y/y and 0.3% m/m in line with expectations. Of greater concern, the PCE supercore (services ex-housing) accelerated to 0.5% m/m in May from just 0.1% in Apr, suggesting broadening price pressures beyond the energy shock.

Chart 5: Fed rate hike expectations have caught up with the ECB and BOE post Jun FOMC

Source: Bloomberg, UOB Global Economics & Markets Research

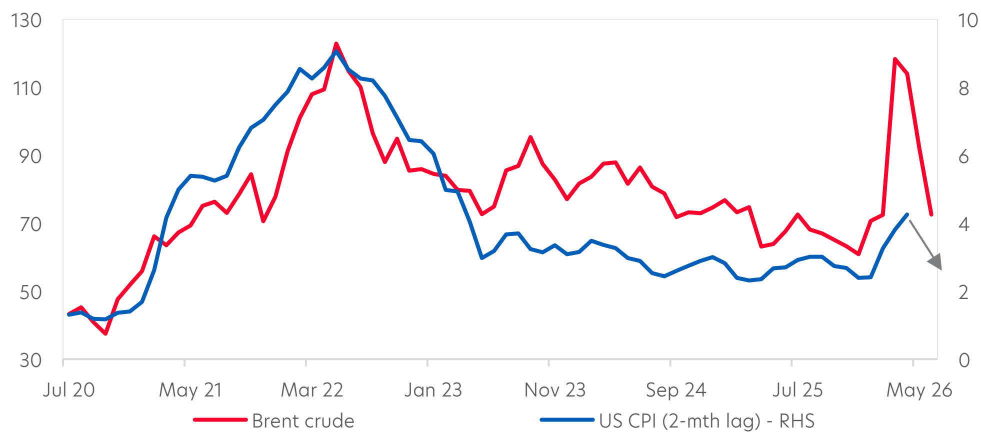


That said, there are grounds to question the durability of the near-term USD rally. The progressive normalisation of Strait of Hormuz traffic has driven Brent crude back down towards USD 70 / bbl, fully erasing its wartime gains, with the benchmark now trading slightly below pre-conflict levels. If sustained, this disinflationary impulse should reduce the urgency for Fed action and temper rate-hike expectations – a dynamic already visible in OIS markets, which have partially pared back rate hike pricing since the post-FOMC peak.

Our macro team retains the view that an extended rate pause through the remainder of 2026 remains the most likely course of action, with easing resuming in 2H27 – one 25bp cut in 2Q27 and another 25 bps cut in 4Q27 – as the transitory component of inflation fades.

Chart 6: The collapse in oil prices back to pre-war levels is likely to pull US inflation lower

Source: Bloomberg, UOB Global Economics & Markets Research



On balance, we retain our medium-term bearish USD bias. The thesis rests on the expectation that a Fed pause materialising in 2H26 will, in time narrow US rate differentials anew, while the structural headwinds to the USD such as twin deficit deterioration and de-dollarisation trend remain intact and are likely to reassert themselves as dominant medium-term forces. Consistent with this view, **the USD is expected to hold firm relative to G10 peers through 3Q26 before resuming a gradual weakening trend thereafter from 4Q26.** Our updated DXY forecasts remain biased lower, at 101.4 in 3Q26, 99.8 in 4Q26, 98.2 in 1Q27, and 96.8 in 2Q27.

Risks to the USD outlook remain asymmetrically skewed to the upside. The Strait of Hormuz situation remains a live and material risk. A fresh breakdown in the US-Iran interim deal – underscored by the resumption of tit-for-tat strikes between US and Iranian forces in late Jun – could rapidly reverse the oil price relief that is currently providing the primary disinflationary offset to the broader inflation picture.

Under such a scenario, a renewed energy-driven inflation surge could compel the Fed to act more decisively, in order to prevent a repeat of the 2022 episode whereby the Fed was widely criticised for being too slow to react to the post-pandemic surge in demand pressures and subsequently the Russia-Ukraine war shock. Such an outcome would represent a clear and material upside risk to the USD and would necessitate a full reassessment of our baseline trajectory.

Chart 7: Our DXY forecasts are lifted higher

Source: Bloomberg, UOB Global Economics & Markets Research

EUR/USD

The constructive EUR/USD bias – targeting 1.19 by end-2026 as set out in our 3Q26 Quarterly published on 5 Jun – is no longer tenable. The two pillars underpinning that view have both materialised, but with outcomes that have proven EUR/USD-negative rather than supportive.

First, the European Central Bank (ECB) delivered the rate lift-off at the 10-11 Jun meeting, as expected. However, the hike arrived fully priced by markets and was absorbed into a deteriorating euro-area growth backdrop, stripping it of any capacity to catalyse the rate differential narrowing we had envisaged. Second, the US-Iran MOU – while representing the geopolitical de-escalation we had identified as an additional EUR/USD tailwind – has operated asymmetrically on the pair. The collapse in oil prices has eroded the energy-driven inflation premium that was sustaining expectations for further ECB tightening, eclipsing the reduction of safe-haven premium supporting the USD. Compounding both dynamics, a hawkish Fed pivot in the Jun FOMC materially widened US-euro area rate differentials in favour of the USD, providing the decisive impulse behind EUR/USD's three-handle decline through Jun.

As such, we revise our EUR/USD forecasts accordingly to reflect a stronger-for-longer USD in 3Q26, followed by a gradual recovery as the Fed pauses in 2H26 and structural USD headwinds reassert themselves as medium-term forces. Our updated EUR/USD forecasts are at 1.13 in 3Q26, 1.15 in 4Q26, 1.17 in 1Q27, and 1.19 in 2Q27.

GBP/USD

The market reaction to UK PM Starmer's resignation (on 22 Jun) was notably restrained. GBP initially dipped about 0.4% to 1.3181 but quickly recovered after Andy Burnham confirmed his candidacy and former Health Secretary Streeting's endorsement effectively cleared the path to an uncontested succession. While the immediate political shock has been absorbed, the medium-term fiscal implications of a Burnham premiership warrant close monitoring.

Beyond the political dimension, a hawkish Fed pivot was the dominant driver of GBP/USD weakness in Jun which saw it dip to a 7-month low of 1.3140 on 24 Jun. The Bank of England (BOE) expectedly held the Bank Rate at 3.75% at its 18 Jun meeting in a 7-2 vote. The collapse in oil prices materially reduced the probability of near-term BOE tightening, a shift corroborated by the sharp fall in household inflation expectations – from 4.7% in May to 3.8% in Jun, returning to pre-conflict levels. As of 29 Jun, swaps imply 22 bps of BOE rate hikes for the remainder of 2026, a stark contrast to the 80 bps of tightening priced at the height of the Iran war in Mar. The confluence of rising Fed hike expectations and fading BOE hike pricing has cemented near-term pressure on GBP/USD.

Overall, we revise our GBP/USD forecasts to reflect the near-term USD strength and the additional idiosyncratic risk premium associated with the UK political transition, while retaining a gradual recovery profile as the Fed pauses in 2H26 and structural, medium-term USD headwinds reassert themselves. Our updated GBP/USD forecasts are at 1.31 in 3Q26, 1.33 in 4Q26, 1.35 in 1Q27, and 1.37 in 2Q27.

The key downside risk to GBP/USD is a disorderly gilt market reaction to Burnham's fiscal agenda. Should war bond issuance or a material relaxation of the existing fiscal rules be confirmed, the resulting renewed loss of market confidence in UK fiscal credibility could reignite dynamics reminiscent of the Sep 2022 Liz Truss episode in which both gilts and sterling were sold off simultaneously, amplifying each other's downside.

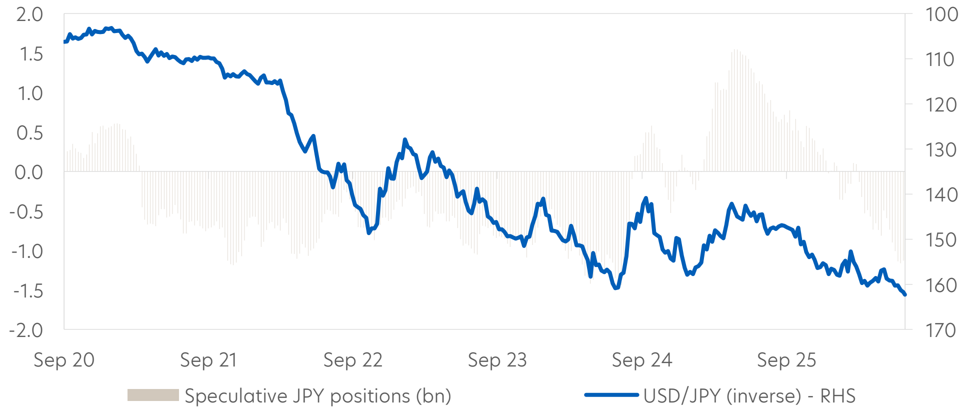
USD/JPY

The anticipated 25 bps Bank of Japan (BOJ) rate hike at the 15-16 Jun meeting – raising the policy rate to 1.00%, the highest since 1995 – failed to catalyse the JPY appreciation we had envisaged, even as the BOJ kept its tightening bias in its Jun outlook report. The subsequent hawkish pivot at the Jun FOMC overwhelmed the BOJ impulse entirely, driving USD/JPY above the key 162 level by end-Jun, the highest in 40 years. That said, intervention risk has provided a relative floor for the JPY as it fell amongst the least within G10 in Jun (-2.0%).

We keep to our view for a lower USD/JPY trajectory over the medium term. Our expectations of a further 25 bps BOJ hike in late 4Q26 to 1.25% (and a final hike in late 2Q27 to 1.50%) combined with an eventual Fed pause in 2H26 should, in time, compress rate differentials and reduce the further attractiveness of yen-funded carry trades. The full reopening of the Strait of Hormuz and the easing in oil prices to below pre-war levels also remove a key structural drag on the yen, improving Japan's terms of trade and reducing the energy import bill that had been a persistent headwind to JPY appreciation. In the near term, however, the balance of forces – a hawkish Fed and elevated carry trade demand – argues for USD/JPY remaining elevated through 3Q26 though intervention risk is expected to limit advances materially beyond the 162 level. Overall, our updated USD/JPY forecasts are at 162 in 3Q26, 159 in 4Q26, 156 in 1Q27, and 153 in 2Q27.

Chart 8: JPY fell to the lowest in four decades as speculators increased short positions

Source: Bloomberg, UOB Global Economics & Markets Research



AUD/USD

Our modestly bullish AUD/USD bias has been challenged by the same forces weighing on the broader G10 complex. The Fed's hawkish pivot at the Jun FOMC drove a broad-based USD repricing that provided the dominant headwind for AUD/USD through the month. Compounding this were two factors: 1) the fading of the Reserve Bank of Australia (RBA) hawkish premium following the Jun rate hold – the first pause after three consecutive hikes – and 2) a deterioration in global risk sentiment provided additional layers of downside pressure. The pair's breach of the psychologically significant 0.70 level has reinforced bearish momentum, and OIS markets have moved to price the RBA's hiking cycle as effectively complete – a view we now share – even as the markets are fully pricing the Fed to deliver at least one rate increase before year-end.

That said, there are several supports to our medium-term constructive thesis. The May labour market rebound and the above consensus May trimmed mean CPI print of 3.6% y/y (vs 3.5% est) kept the door open for further RBA tightening. In addition, with the RBA cash rate at 4.35%, the AUD retains its status as the highest-yielding G10 currency, which should continue to attract carry-trade demand and provide a structural floor for the pair as global risk sentiment stabilises.

On balance, we revise our AUD/USD forecasts to reflect the near-term USD strength and the compression of the RBA premium, while retaining a gradual recovery profile as the Fed pauses in 2H26 and global risk appetite normalises. Our updated AUD/USD forecasts are at 0.68 in 3Q26, 0.70 in 4Q26, 0.71 in 1Q27, and 0.72 in 2Q27.

Asia FX Strategy

Recovery in 4Q26 if Fed does not tighten

Our cautious stance on Asia FX into 3Q26 has proven well-placed, though the drivers of regional currency weakness have evolved materially since our 3Q26 Quarterly report published on 5 Jun. The energy-shock channel – which dominated the Apr–May period – has mostly unwound, replaced by a new and arguably more durable headwind for Asia FX: the hawkish repricing of Fed expectations following the Jun FOMC meeting under the new Chairman, Kevin Warsh. The net effect is that Asia FX remains under pressure, but the driver of that pressure has shifted from geopolitical risk premia to US rate differentials.

The ongoing Fed rate repricing is likely to sustain pressure on Asia FX through 3Q26, consistent with our prior defensive bias. The hawkish Fed pivot has cut short the EM bond rally that had been building on the back of US-Iran peace talks. A renewed bout of portfolio outflows — should Fed hike expectations continue to firm — would represent an additional headwind for Asia FX.

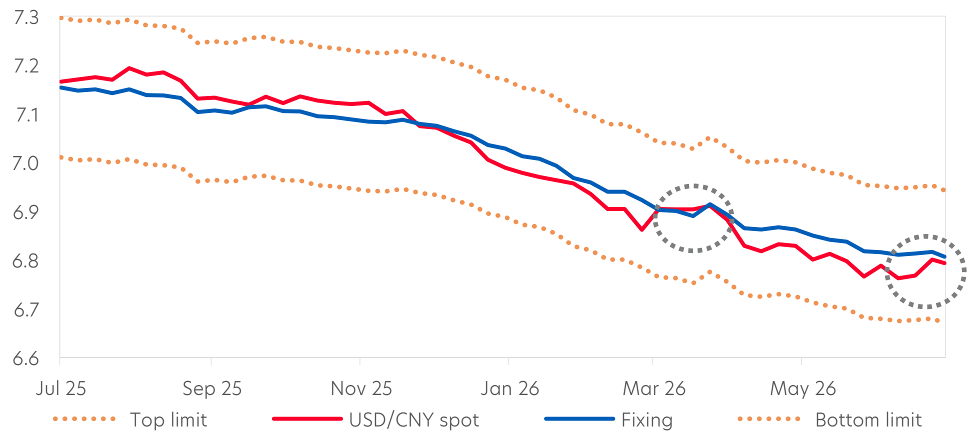
Ultimately, we still expect **disinflationary impulse from lower oil prices to be sufficient to cause the Fed to pause and stay on hold this year, which would be the primary catalyst for a resumption of Asia FX recovery starting 4Q26.**

We expect CNY, MYR and SGD to stay resilient as they had in 1H26, supported by stronger macro buffers. Net energy importers that bore the brunt of the oil shock such as the PHP, INR and THB may see lesser downside compared to what we had previously projected, now that the oil shock has largely unwound and near-term oil reserves have been built up. TWD and KRW are still expected to outperform within Asia FX due to sustained AI tailwinds, though outsized equity-driven swings in the near term may spill over, particularly for KRW. We expect IDR to continue underperforming on idiosyncratic fiscal and MSCI downgrade concerns, though immediate downside is capped by aggressive Bank Indonesia (BI) rate hikes.

The upside risk to the USD — and downside risk to Asia FX — remains a more aggressive Fed tightening cycle than currently priced, which has now crystallised from a tail risk into a live scenario requiring active monitoring.

Chart 9: The fixing rate may cap the current USD/CNY advance, as it did in Mar

Source: Bloomberg, UOB Global Economics & Markets Research



USD/CNY

The gradual appreciation path for CNY has been interrupted by the Fed repricing in Jun, with USD/CNY rebounding off 6.7557, the lowest since Feb 2023 to trade close to 6.80 as the hawkish FOMC outcome drove a broad-based dollar rally. Despite this reversal, the CNY has remained within the stronger half of its daily fixing band throughout the month, reflecting the PBOC's continued guidance for a gradually appreciating yuan. On this basis, we do not expect USD/CNY to sustain a break above the current fixing level of approximately 6.81 absent a further material escalation in Fed tightening expectations. Muted implied volatility in USD/CNY — near cycle lows — provides an additional argument for CNY resilience in the near term.

We retain the medium-term gradual appreciation path for CNY. A Fed pause in 2H26 — our base case — would reduce the rate differential headwind for the yuan, while the structural yuan internationalisation agenda and China's persistently large trade surplus continue to provide underlying support. Accordingly, our updated USD/CNY forecasts at 6.82 in 3Q26, 6.78 in 4Q26, 6.74 in 1Q27, and 6.70 in 2Q27.

USD/KRW, USD/TWD

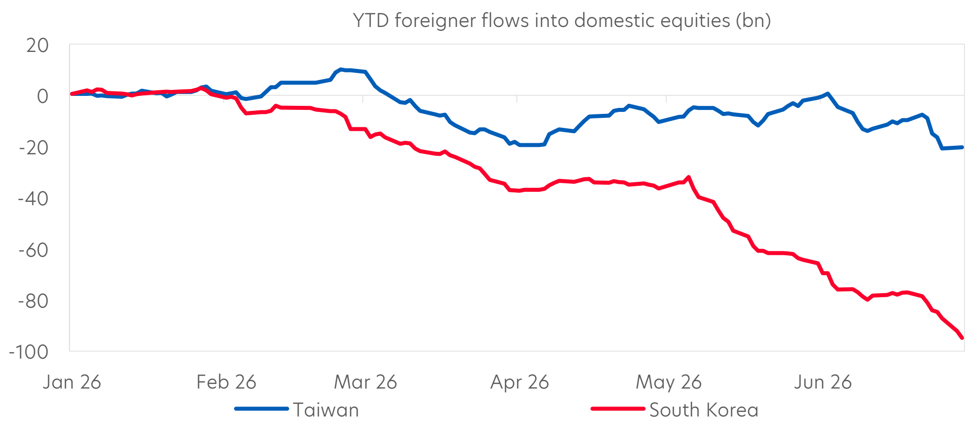
Both the KRW and TWD entered Jun as the designated outperformers within our Asia FX framework, underpinned by AI-driven semiconductor export strength. This thesis has been partially validated by the underlying macro data, but materially challenged by two developments in the past month: the global AI-linked equity selloff in late Jun, and the hawkish Fed repricing following the Jun FOMC meeting.

For the KRW, the divergence between strong fundamentals and currency performance has widened further. The KRW was the worst performing Asia FX in Jun, falling 2.9%, driven by sustained foreign equity outflows as a result of profit taking after the very strong rally in the KOSPI which rallied more than 100% year-to-date.

The won touched 1,562 /USD on 5 Jun, its lowest level since Mar 2009, prompting South Korean authorities to step up their currency defense, including the activation of FX hedging by the National Pension Service, urging major exporters to accelerate the repatriation of export proceeds to ease USD supply-demand conditions.

Chart 10: Sustained equity outflow by foreign investors weighed on TWD and KRW

Source: Bloomberg, UOB Global Economics & Markets Research



For the TWD, the picture is similar. An eye-boggling 51.7% y/y AI-driven exports growth in May was overshadowed by equity market volatility. Foreign equity outflows totaled USD 18.3 bn in Jun, making up a large proportion of the year-to-date withdrawal (USD 20.4 bn).

Beyond the near-term weakness, we continue to expect both KRW and TWD to outperform within the Asia FX complex over the medium term, driven by the sustained strong semiconductor demand and prospective central bank tightening. Our base case pencils in 50 bps of Bank of Korea (BOK) hikes in 2H26. As with other Asian peers, a Fed pause materialising in 2H26 is the critical precondition for a regional FX recovery, with both KRW and TWD positioned to lead that recovery from 4Q26. Overall, our updated USD/KRW forecasts are at 1,560 in 3Q26, 1,540 in 4Q26, 1,520 in 1Q27, and 1,500 in 2Q27, while that of USD/TWD are 32.0 in 3Q26, 31.7 in 4Q26, 31.4 in 1Q27, and 31.2 in 2Q27.

USD/SGD

The SGD has retained its status as one of the more resilient performers within the Asia FX complex, though the currency has not been immune to the broad USD strength that followed the hawkish Jun FOMC meeting. USD/SGD rose a modest 1.3% in Jun, trading within a 1.279-1.299 range over the month — a notably tighter band than most regional peers, consistent with the SGD's safe-haven characteristics and the S$NEER's continued proximity to the 2% upper bound of its estimated policy band.

This stability has been underpinned by Singapore's stronger-than-expected macroeconomic backdrop. Our macroeconomic team has upgraded Singapore's 2026 GDP to 4.0% from 3.2% previous after Apr-May industrial production recorded strong performance (14.8% y/y vs 1Q26: 8.0%) driven by sustained AI-related momentum, which could persist at least through 3Q26. Downside growth risks have also diminished materially following the normalisation of Strait of Hormuz's energy flows, although it remains a live and material risk.

As for monetary policy, we now expect the Monetary Authority of Singapore (MAS) to remain on a prolonged pause through 2026 and into 2027, maintaining the current S$NEER appreciation path of 1.0% p.a. This is on the back of subdued inflationary pressures across most CPI components and our expectations that core inflation is expected to peak around Aug-Sep 2026 at about 2.5% before gradually moderating, remaining above 2.0% through 1H27 and easing below that threshold in 2H27. In such a scenario, the MAS can afford to stay on hold after having pre-emptively tightened in Apr.

We still see the S$NEER remaining in the upper half of the band - though likely further away from the upper 2% limit - congruent with our expectations of an on-hold MAS, as long as the Fed continues to pause in 2H26. Consistent with these dynamics and our expectations for SGD to stay resilient, our updated USD/SGD forecasts are at 1.30 in 3Q26, 1.28 in 4Q26, 1.27 in 1Q27, and 1.26 in 2Q27.

USD/MYR

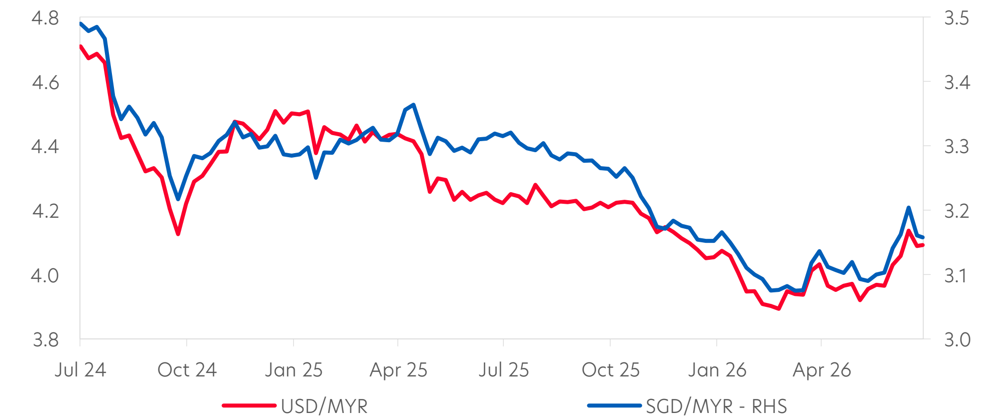
The MYR's resilience was tested in Jun, driven by two concurrent headwinds: the hawkish Fed repricing following the Jun FOMC meeting, and a resurgence of domestic political uncertainty ahead of the Johor state election on 11 Jul. Consequently, USD/MYR rose to a 7-month high of 4.156 on 22 Jun before Bank Negara Malaysia's (BNM) announcement on 24 Jun of intensified measures to encourage foreign-exchange inflows helped spur a pullback towards 4.085 by end Jun. These include stepped-up engagement with government-linked companies and corporates to accelerate repatriation of overseas earnings.

In the near-term, the Johor state election result will serve as an early read on nation-wide ruling coalition stability and the probability of an early general election. That said, an early general election remains a tail risk rather than a base case at this stage, and the direct FX impact is likely to be contained unless the result triggers a material deterioration in coalition cohesion.

Beyond the abovementioned risks, MYR's idiosyncratic fundamentals — strong export growth and GDP outlook, benign inflation, and BNM's new FX inflow measures — are likely to reassert themselves, contingent on an extended Fed pause materialising in 2H26. Residual fiscal risks — including the potential for fuel subsidy costs to cause a modest overshoot of the 2026 deficit target — warrant monitoring but are not expected to be a primary driver of MYR. Accordingly, we maintain a downward USD/MYR trajectory, with updated forecasts at 4.10 in 3Q26, 4.05 in 4Q26, 4.02 in 1Q27, and 4.00 in 2Q27.

Chart 11: USD/MYR and SGD/MYR may have bottomed across Feb - Mar

Source: Bloomberg, UOB Global Economics & Markets Research



USD/THB

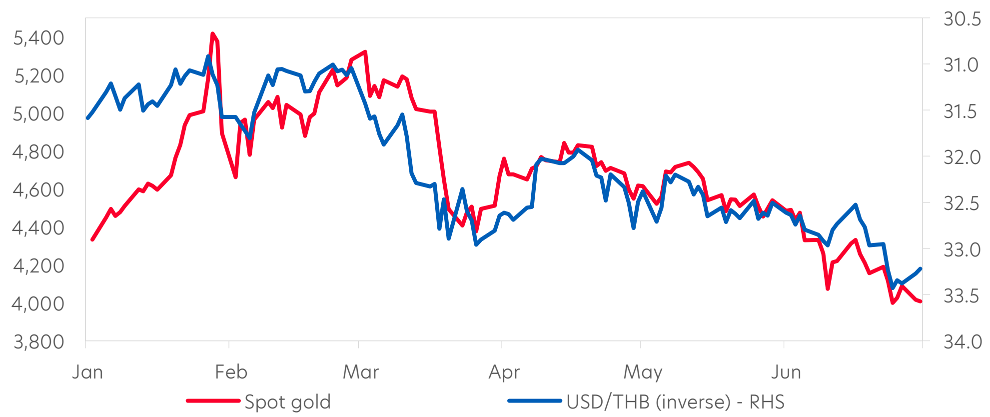
THB remained a laggard within Asia FX complex in Jun, as resurgent USD strength following the hawkish Fed pivot compounded the drag from Thailand's weak macroeconomic backdrop. Unlike other net energy importers such as INR and PHP, the collapse in oil prices did not provide sufficient offset. In all, USD/THB took out the key resistance at 33.0 -the peak reached at the height of the Iran war in Mar – and gained 2% to 33.2 in Jun.

Thailand's weakening external position remains the key stress point for the THB. The current account deficit remained an outsized USD 6.43 bn in May after a record deficit of USD7.79bn in Apr, which the Bank of Thailand (BOT) attributed to temporary energy-import dynamics. Fiscal risks are also on the rise as the government plans to issue THB 35bn of four-year promissory notes monthly from Jun to Sep, supplemented by an additional THB 35bn in term loans as a liquidity cushion in order to fund the THB 400bn emergency borrowing programme. Separately, the continued slump in gold prices is yet another headwind for the THB due to their well-documented positive correlation.

On balance, we expect the THB to remain under near-term pressure and to underperform regional peers during any tentative medium-term recovery, as long as the macroeconomic backdrop remains challenged. Accordingly, we revise our USD/THB forecasts to 33.5 in 3Q26, 33.3 in 4Q26, 33.1 in 1Q27, and 33.0 in 2Q27.

Chart 12: THB feels the weight of falling gold prices, on top of weakening external position

Source: Bloomberg, UOB Global Economics & Markets Research



USD/IDR

The IDR remained the most pressured currency in the Asia FX complex, with USD/IDR breaching the psychological 18,000 level briefly to reach a fresh record high of 18,209 on 8 Jun amid a simultaneous rout in Indonesian bonds, equities, and the rupiah. The depreciation reflected a confluence of negative domestic factors, including a drawdown in FX reserves to multi-year lows, a widening fiscal deficit, and heightened policy uncertainty surrounding Indonesia's resource nationalism.

BI's aggressive "all-out" policy response — delivering a cumulative 100bp of rate hikes since May — has since helped stabilise the currency, with USD/IDR pulling back to 17,900 as of end Jun. We expect an additonal 75 bps of BI rate hikes in 2H26 which may help to anchor the IDR further. Separately, MSCI decided on 24 Jun to retain Indonesia as an emerging market rather than downgrading it to frontier market status, averting the estimated USD 13 bn of forced outflows that a reclassification would have triggered. The review is extended until Nov when the final decision is due.

The combination of aggressive BI rate hikes and MSCI downgrade deferral helped avert a disorderly IDR depreciation in the near-term while attracting foreign inflows into BI's rupiah bills (SRBI) and government-issued debt paper, particularly for short- and medium-term tenors in Jun. However, the structural domestic headwinds remain intact and investor confidence restoration remains a key challenge. Accordingly, we revise our USD/IDR forecasts to reflect the improved near-term stabilisation while maintaining a cautious medium-term stance. Our updated USD/IDR forecasts are at 18,100 in 3Q26, 18,000 in 4Q26, 17,900 in 1Q27, and 17,800 in 2Q27.

USD/VND

The VND has demonstrated exceptional resilience in Jun, defying the broad Asia FX weakness driven by the hawkish Fed repricing. USD/VND was flat on the month at around 26,300 and traded within a remarkably tight 26,278 - 26,348 range throughout Jun. The State Bank of Vietnam's (SBV) managed exchange rate framework has continued to anchor the pair effectively, reflecting the SBV's calibrated approach to managing depreciation pressures without triggering disorderly moves.

Vietnam's macroeconomic fundamentals remain broadly supportive of our stable VND's medium-term outlook. We expect Vietnam GDP to grow at a robust 7.0% this year and the recent de-escalation of the US-Iran war has reduced near-term growth uncertainties. FDI inflows remain robust: disbursed FDI in Jan–May 2026 rose 9.6% y/y to USD 9.75bn, while pledged FDI surged 34.9% y/y to USD 24.81bn over the same period, underscoring Vietnam's continued attractiveness as a manufacturing hub. The SBV is expected to maintain its policy rate at 4.5% through 2026 as well.

Overall, the VND is likely to remain on the defensive in line with broader regional dynamics amid ongoing Fed rate hike repricing. Over the medium term, however, we maintain a broadly stable VND outlook, supported by strong fundamentals and the SBV maintaining USD/VND within its trading band. Additionally, Vietnam's potential upgrade to Emerging Market status in Sep 2026 could provide a structural tailwind for portfolio inflows. On balance, we retain a gradual depreciation bias for USD/VND, with unchanged forecasts at 26,500 in 3Q26, 26,400 in 4Q26, 26,300 in 1Q27, and 26,100 in 2Q27.

Rates Strategy

De-escalation in Middle East offers welcomed relief, but the future path will be data-dependent

US Rates: Inflation data and Warsh's true reaction function are key

In Jun, two key developments impacted US rates market:

1. De-escalation of US-Iran conflicts with the signing of Interim Peace Deal, and
2. The first FOMC under new Chairman Kevin Warsh's leadership

The de-escalation has provided much-needed relief to the market. A smooth reopening of the Strait of Hormuz and normalization of oil flows have kept oil prices in check and reduced inflationary pressures that had kept central banks on a tightening watch. As a result, front-month Brent crude futures are currently trading around $72 / bbl, close to pre-war level.

We believe that the crude market may be somewhat oversold in the near term, but we still expect a gradual moderation in oil prices toward USD 70/bbl in 1H27 (see Brent oil outlook infographics here). This should alleviate near-term inflationary pressures stemming from oil and related refined products.

Market also had its first experience of an FOMC meeting under Chairman Warsh. He delivered a solid press conference, repeatedly emphasizing the Fed's commitment to price stability. Although Warsh did not submit his own dot, the Dot Plot surprised on the hawkish side: nine officials expected at least one rate hike in 2026, of whom five expected two hikes and one expected three.

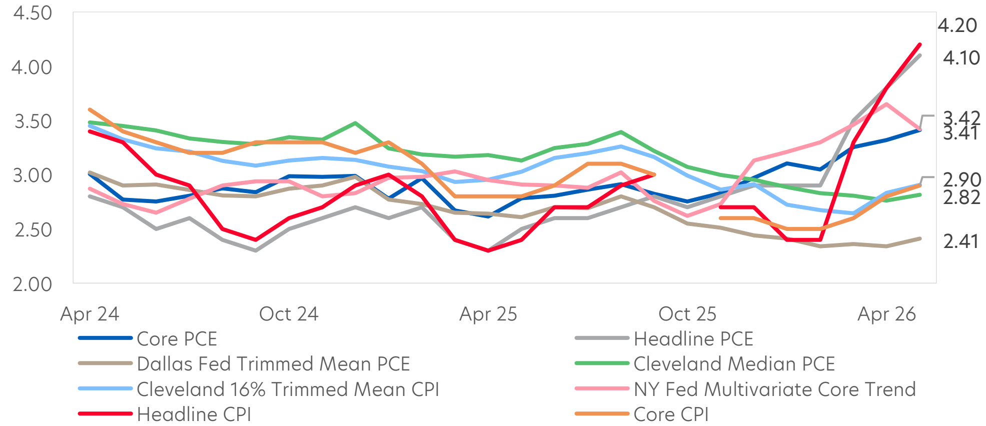
As a result, the market reacted with a sharp bear flattening on 17 Jun. The 2Y yield rose by 13bps, reflecting higher near-term rate expectations, while the benchmark 10Y yield increased by only 5bps as longer-end yields remained anchored by Warsh's credibility-building communication.

From a strategy perspective, it is still too early to determine Warsh's true policy stance. Given the sharply divided FOMC, it is reasonable for him to focus initially on building credibility rather than advancing previously dovish views. The most dovish element in the press conference was his remark that he tends to focus on the "left-hand side of the decimal point" in inflation. Taking this perceived message to the extreme, a hypothetical 2.99% inflation print would be interpreted as 2%.

Currently, headline CPI and PCE are at 4.2% and 4.1%, while core CPI and PCE are at 2.9% and 3.4%, respectively. This makes it difficult for Warsh to justify a dovish stance at present. The real test will come from upcoming CPI releases. If inflation data does come in above expectations and Warsh does not signal openness to tightening, the market may interpret his Jun press conference as largely posturing and respond by pushing long-end Treasury yields sharply higher. For more details, refer to the macro note published on 18 Jun here.

Chart 13: Most measures of inflation start with a 3 or 4 to the left of decimals

Source: Bloomberg, UOB Global Economics & Markets Research



In terms of market pricing, the Dec FOMC implies a Fed Fund Rate upper bound of 4.13%, equivalent to approximately 1.5x hikes priced in by year-end, up 24bps over the month. We note that market pricing can shift quickly with incoming data in either direction.

At present, our macroeconomics team expects the Fed to maintain an extended pause through 2026 before resuming easing in 2027, while acknowledging rising risks of renewed tightening (see discussion here) This implies a steady 3M compounded in arrears SOFR projection at 3.64% in 3Q26 through 1Q27 and 3.47% in 2Q27.

Chart 14: Market priced in 1.5 hikes by year-end after hawkish FOMC

Source: Bloomberg, UOB Global Economics & Markets Research

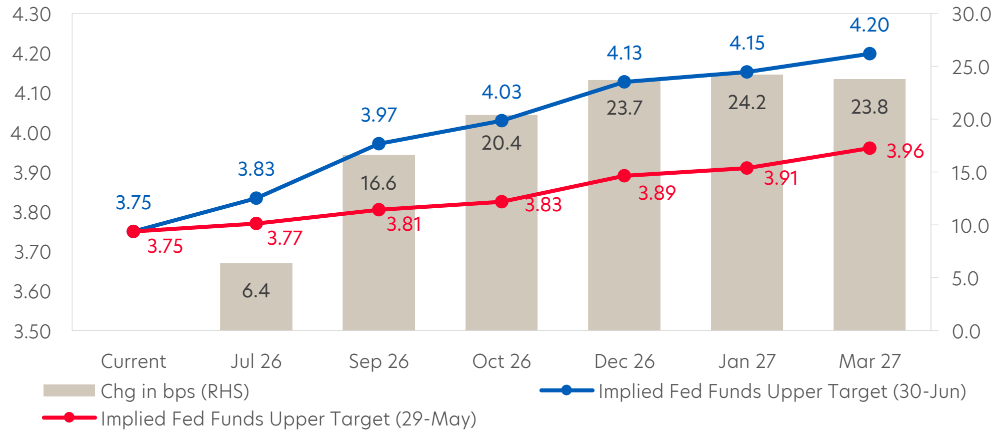
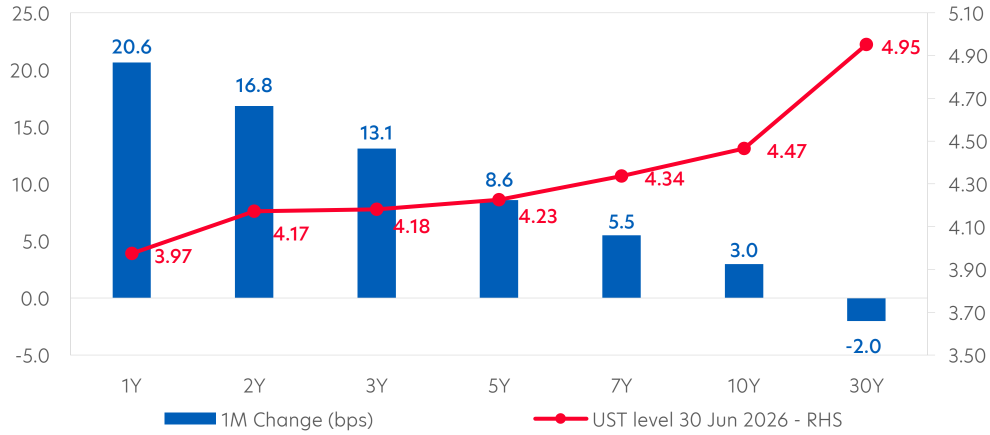


Chart 15: UST curve twist flattened in Jun

Source: Bloomberg, UOB Global Economics & Markets Research



The UST curve twist-flattened in Jun due to the developments above, with the 2Y yield rising 17bps while the 10Y rose 3bps and 30Y yields declined by and 2bps, respectively. A decomposition into real yields and breakevens illustrates how markets interpreted these events. The 2Y real yield rose by 80bps, while the 2Y breakeven fell by 61bps; the 10Y real yield increased by 19bps, while the 10Y breakeven declined by 17bps.

For the 2Y sector, the Middle East de-escalation and sharp decline in oil prices were largely reflected in breakevens (i.e., expected inflation over the next two years), while the hawkish FOMC more than offset this effect, resulting in a net rise in nominal yields.

For the 10Y sector, Warsh's press conference had a stronger impact than geopolitical developments, helping to anchor expectations of the Fed's commitment to price stability. With a more orthodox inflation-fighting Fed, the market is willing to price in lower long-term inflation expectations (closer to 2%), thereby exerting downward pressure on nominal yields.

Our updated 10Y UST forecasts are 4.55% for 3Q26, 4.60% for 4Q26, and 4.65% for 1Q27 and 2Q27, representing a 5bps downward revision from our 5 June forecast in light of recent developments.

Chart 16: Decomposition of 2Y Yield Change in Jun

Source: Bloomberg, UOB Global Economics & Markets Research

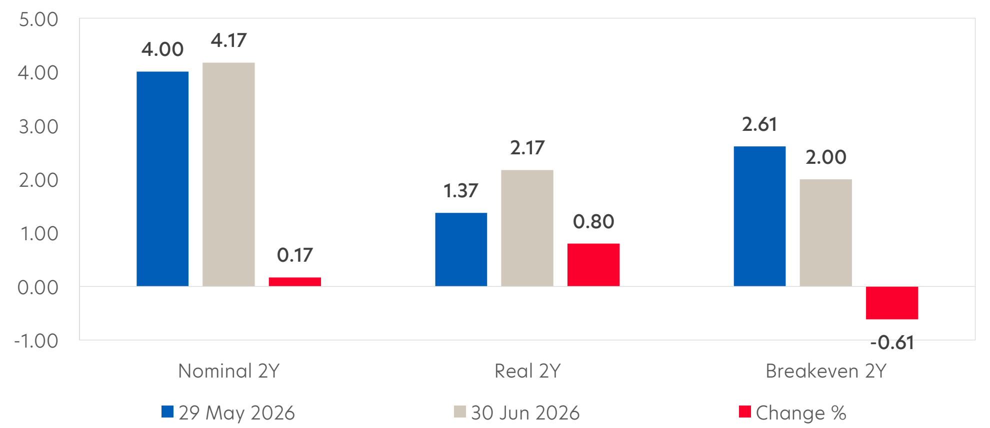
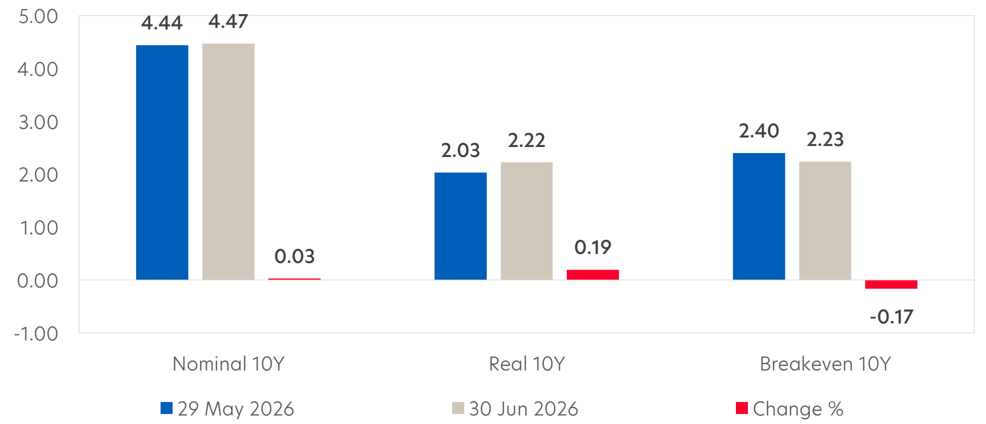


Chart 17: Decomposition of 10Y Yield Change in Jun

Source: Bloomberg, UOB Global Economics & Markets Research



Nevertheless, we continue to believe it will be difficult for yields to return meaningfully to the lower pre-war levels, as highlighted in our earlier quarterly outlook. Looking ahead, the Fed's policy path will remain data-dependent, and the market has yet to fully determine Warsh's reaction function. Key near-term events to watch include the next CPI release (14 Jul), Warsh's Jul Humphrey-Hawkins testimony, and the Jackson Hole symposium in Aug.

SG Rates: MAS is expected to remain on hold amid easing inflation pressure, softer labour market conditions and resilient growth

Recent data paint a more benign picture for Singapore: inflation has come in weaker than expected for a second consecutive month, growth remains solid, supported by AI-related tailwinds, while the 1Q26 job market suggests emerging slack.

Against this backdrop, our macroeconomics team no longer expects MAS to tighten the S$NEER slope in October 2026 and instead expects MAS to remain on an extended pause through 2026 and into 2027. We assess the probability of a 50bp slope steepening in July/October 2026—aimed at leaning against imported inflation pressures—at 30%.

The weaker-than-expected May core inflation was driven by sharp declines in information & communication (May: -1.5% m/m, NSA) and other transport services (May: -0.7%). The former reflected lower prices for internet and bundled communication services, while the latter was due to softer airfares.

Despite an expected rise in electricity tariffs of around 13–15% q/q in 3Q26, the recent decline in Brent crude oil prices suggests a subsequent 6–7% pullback in tariffs in 4Q26. As such, our macro team maintains its 2026 headline and core inflation forecasts at 2.2% (2027F: 2.2%) and 1.9% (2027F: 2.0%), respectively, while no longer seeing meaningful upside risks to the baseline. For more details, refer to the Macro Note published on 23 June 2026.

The macro team has also upgraded its 2026 GDP growth forecast to 4.0% (from 3.2% previously; 2027F: 2.7%), following resilient May Industrial Production (IP) growth of 13.0% y/y. Electronics activity remains broadly resilient, easing modestly (-0.8% m/m, SA) after a strong +10.2% surge in April, driven by infocomms, electronics, and semiconductors amid robust AI-related demand that is likely to persist into 3Q26 (see Macro Note published on 26 June 2026).

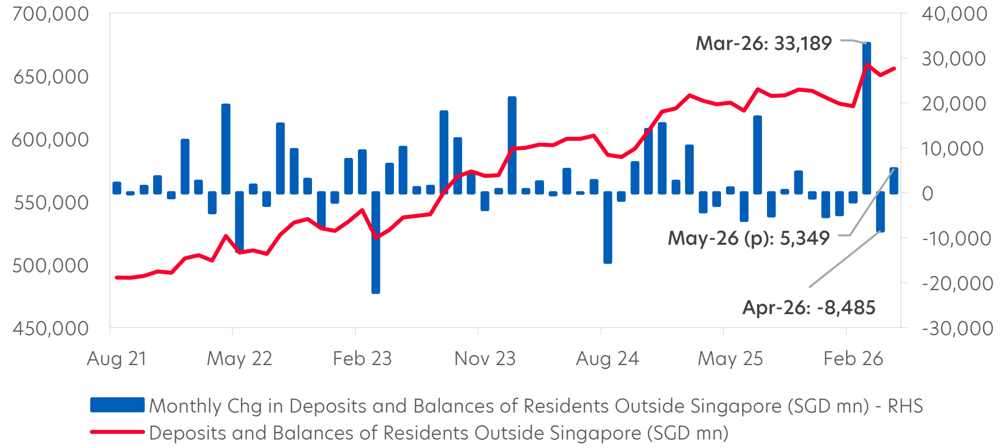
On the softer side, the labour market is showing emerging slack, reflecting cautious hiring and wage-setting by firms, as well as workers' reluctance to switch jobs amid macro uncertainty. This softening is likely to result in a more measured pass-through to core inflation (see Macro Note published on 15 June 2026).

In Jun, overnight SORA continued to trade within a 0.75-1.45% range. A less steep S$NEER appreciation path would mechanically imply higher SORA, although reduced inflationary pressures provide an offset.

MAS data show a record SGD 33bn inflow in non-resident deposits in Mar, likely reflecting safe haven flows from the Middle East (geographical breakdown not disclosed), followed by a partial unwind of SGD 8.5bn in Apr and further SGD 5.3bn inflow in May. However, this surge did not push SORA sustainably below 1.0%. In addition, MAS bill issuance has remained broadly stable, suggesting limited net liquidity injections.

Chart 18: Non-Residents record inflow in Mar on possibly safe-haven flow and partially unwound in Apr

Source: MAS, UOB Global Economics & Markets Research



Overall, we expect SORA to have bottomed despite safe-haven inflow narratives, and to gradually drift higher, supported by a relatively hawkish Fed and global central banks maintaining a cautious stance on inflation—even as pressures moderate following the Middle East de-escalation and reopening of the Strait of Hormuz. We continue to expect gradual normalization of the SOFR-SORA spread from historically wide levels, although at a slower pace than previously anticipated.

We project 3M compounded-in-arrears SORA at 1.28% in 3Q26, 1.41% in 4Q26, 1.55% in 1Q27, and 1.64% in 2Q27.

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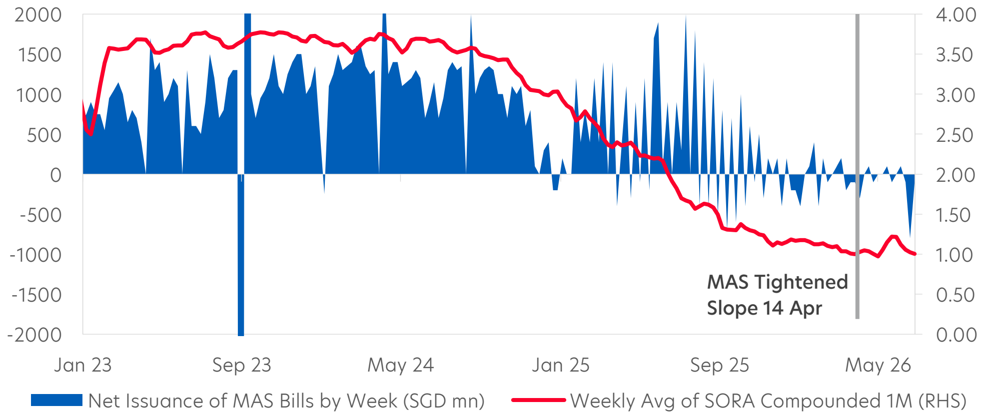
Chart 19: Net Issuance via MAS bills: 2022 - Now (SGD mn)
Stable issuance pattern this year suggests stable MMO stance

Source: MAS, UOB Global Economics & Markets Research



In our May FXRM and Jun Quarterly Outlook, we examined past MAS tightening cycles and concluded that the 2s10s SGS curve and 2s10s SORA OIS would likely flatten over time. This view continued to play out in June, with 2s10s SORA OIS flattening by 12bps and the 2s10s SGS curve by 7bps, broadly tracking moves in SOFR and the UST curve.

Table 1: SG rates curve flattened in Jun, tracking US rates

Curr.Lvl vs End May	Bonds		Curr.Lvl vs End May	SOFR OIS	SORA OIS
	USD	SGD		USD	SGD
2y	4.17 (+17)	1.56 (+5)	2y	4.02 (+16)	1.48 (+2)
5y	4.23 (+9)	1.67 (-)	5y	3.93 (+7)	1.81 (-6)
10y	4.47 (+3)	2.02 (+)	10y	4.05 (+1)	2.07 (-10)

Source: Bloomberg, UOB Global Economics & Markets Research

At the long end, 10Y Singapore Government Securities (SGS) yields were little changed in Jun, underperforming both US rates and SORA OIS. Looking ahead, we expect a gradual rise in 10Y SGS yields in line with UST yields, alongside a normalization of SGS-UST spreads.

Our updated forecasts for the 10Y SGS yield are 2.25% in 3Q26, 2.40% in 4Q26, 2.60% in 1Q27, and 2.75% in 2Q27.

DM and Asian Rates: Future path remains data-dependent while lower oil prices reduce the extent of policy tightening required

In Jun, both the ECB and BOJ delivered 25bps hikes, while the recent de-escalation in the Middle East and resumption of vessel traffic through the Strait of Hormuz thereafter helped stabilize G10 rates more broadly.

Table 2: G10 Rates Change in Jun						
End Jun Lvl vs End May	SOFR OIS USD	Euribor IRS EUR	SONIA OIS GBP	IRS AUD	IRS NZD	OIS JPY
2y	4.02 (+16)	2.71 (-2)	4.02 (-6)	4.45 (-7)	3.33 (-18)	1.42 (+5)
5y	3.93 (+7)	2.73 (-4)	4.07 (-6)	4.63 (-10)	3.65 (-21)	1.93 (-6)
10y	4.05 (+1)	2.91 (-7)	4.34 (-5)	4.86 (-9)	4.00 (-20)	2.53 (+8)

Source: Bloomberg, UOB Global Economics & Markets Research

In Japan, the BOJ raised its policy rate by 25bps to 1.00%, in a 7-1 vote. The Quantitative Tightening (QT) pace was also fine-tuned at the meeting. Our macroeconomic team now expects the BOJ to deliver two additional 25bp hikes in late 4Q26 and late 2Q27, bringing the policy rate to a terminal rate of 1.50%. For more details, please refer to Macro Note published 16 Jun 2026 here. In the near term, the focus for Japanese rates is likely to be on the details of the government's JPY370tn (USD2.3tn) public and private sector spending plan through fiscal 2040. The potential increased issuance of special deficit-financing bonds together with a presumed two-year consumption tax cut for food should keep Japan long-end rates elevated.

The ECB hiked for the first time since 2023, broadly in line with our expectations, in response to inflationary pressures stemming from external shocks. The policy path remains data-dependent, and our macroeconomics team's baseline expectation is for no further tightening unless incoming data warrant another hike. For more details, please refer to Macro Note published 12 Jun 2026. The recent de-escalation in the Middle East has been supportive for EUR rates, with 10Y EUR swaps (indexed to 6M Euribor) falling 7bps in Jun. Markets have repriced, removing approximately one hike from expectations and now pricing only one additional ECB hike by year-end.

In the UK, the BOE held rates unchanged at 3.75% on 18 Jun in a 7-2 vote. External member Megan Greene joined Chief Economist Huw Pill in voting for a 25-bps increase to 4.00%. Forward guidance is centered on maintaining optionality. The recent downside surprise in May headline CPI (2.8% y/y), below both consensus (3.0%) and the BOE's Apr MPR projection (3.3%), further reduced expectations for near-term policy tightening. For more details, please refer to Macro Note published 19 Jun 2026.

On political front, Keir Starmer announced his resignation on 22 Jun, with a plan to install a new PM by Sep. Currently, Andy Burnham is widely expected to be the next PM in Downing 10. UK rates may become increasingly sensitive to fiscal developments once Burnham formalises his fiscal stance and decides on the potential chancellor nomination. For now, lower oil prices and softer-than-expected CPI data are sufficient to cap UK yields but we continue to see upside risks.

As most Asian economies are net energy importers, the de-escalation in the Middle East and decline in crude oil prices have significantly reduced the adverse terms-of-trade shock facing the region. Consequently, rates markets in countries such as India and Thailand have repriced materially, with yields moving lower. Given reduced macro risks, country-specific factors are likely to play a larger role in determining future rate paths.

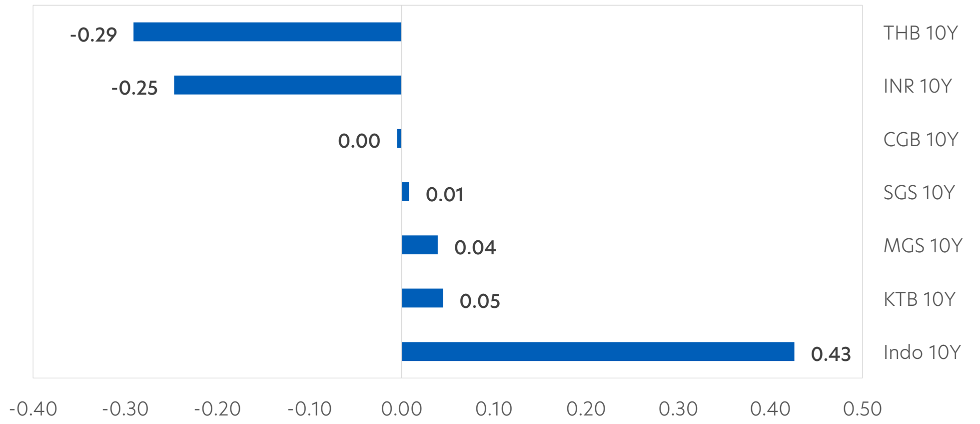
Table 3: Asia Rates change in Jun

End Jun Lvl vs End May	Onshore IRS KRW	Onshore OIS INR	SORA OIS SGD	Onshore IRS MYR	Onshore OIS THB	Onshore IRS CNY	IRS HKD	Onshore IRS TWD	Bonds IDR
2y	3.72 (-4)	5.89 (-40)	1.48 (+2)	3.46 (+2)	1.25 (-12)	1.42 (-1)	3.43 (+25)	1.90 (-6)	7.11 (+48)
5y	3.87 (-3)	6.18 (-43)	1.81 (-6)	3.51 (-1)	1.58 (-20)	1.50 (-2)	3.34 (+12)	2.09 (-6)	7.05 (+34)
10y	3.93 (-2)	6.38 (-42)	2.07 (-10)	3.69 (-6)	1.99 (-22)	1.63 (-4)	3.45 (+4)	2.33 (-12)	7.13 (+43)

Source: Bloomberg, UOB Global Economics & Markets Research

Chart 20: Asia benchmark 10Y yield change in Jun (%)

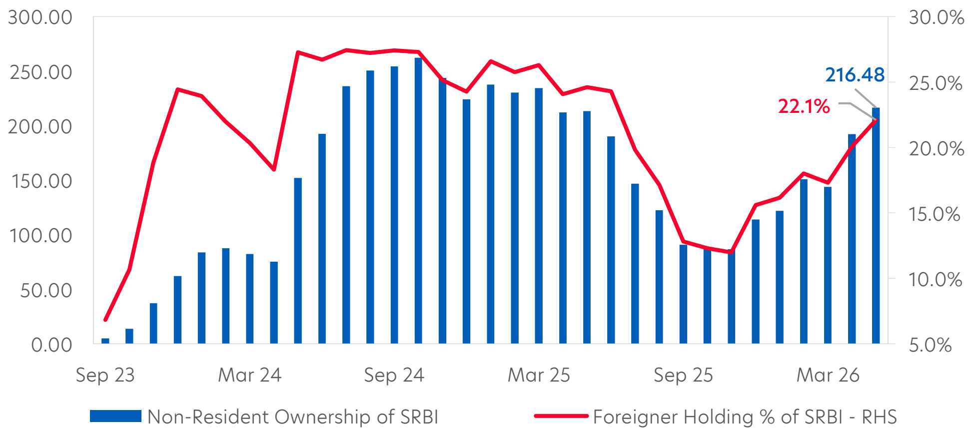
Source: Bloomberg, UOB Global Economics & Markets Research



Bank Indonesia (BI) again surprised markets in Jun by delivering a 25bp off-cycle hike on 9 Jun, followed by another 25bp hike at its scheduled meeting on 18 Jun. The hiking decisions were intended to support rupiah stability. Apart from raising policy rates, BI also introduced tighter FX regulations including lowering the threshold for USD conversion without underlying transactions to USD 10,000 a month per participant from previously USD 25,000. For more details, please refer to Macro Note published 19 Jun here and 9 Jun here.

Chart 21: Non-resident ownership of SRBI (IDR tn) picked up in recent months

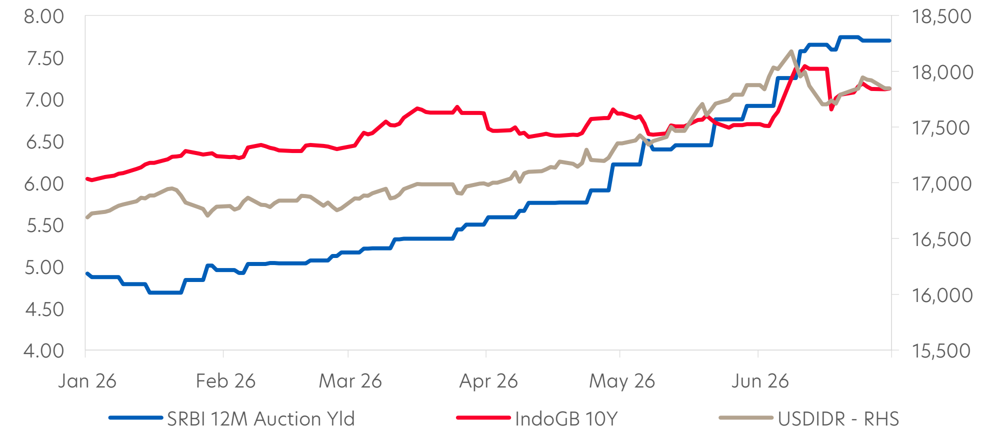
Source: Bloomberg, Bank Indonesia (BI), UOB Global Economics & Markets Research



Since the start of the US-Iran war, SRBI 12-month yield has climbed 253bps, and is currently about 60bps above 10Y Indo GB. Recent data suggests foreign investors have increased SRBI holdings given the elevated yields. However, the future rates path remains highly dependent on whether the rupiah stabilises. Various news reports suggested that Indonesia might consider IDR 50 trillion cut to its flagship free meals program, although details are not yet confirmed. Fiscal developments are likely to remain a key focus for bond investors.

Chart 22: SRBI Yield now above 10Y IndoGB

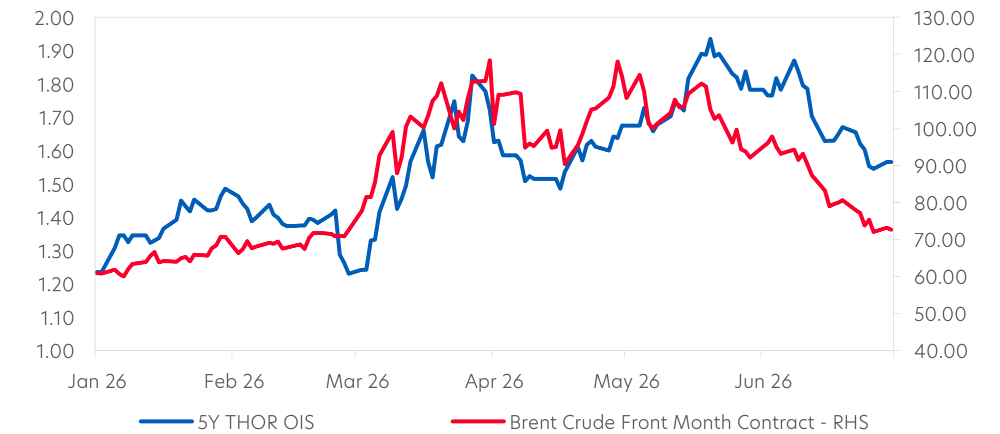
Source: Bloomberg, UOB Global Economics & Markets Research



In Thailand, yields declined meaningfully in Jun, driven by both global and domestic developments. Globally, Brent crude's decline towards pre-conflict levels has substantially reduced imported inflation pressures in Thailand. Locally, PM Anutin confirmed that the government plans to secure the funding for THB 400bn stimulus package entirely from baht-denominated loans at low interest rate of only 1.2%. This alleviated previous concerns about increased bond supply and further contributed to lower yields. Looking ahead, our macroeconomic team continues to see BOT maintaining policy rate at 1.0%, while the draft FY2027 budget suggests mild consolidation, with limited fiscal space. For more details, please refer to Macro Note published 30 Jun.

Chart 23: 5Y THOR OIS had a meaningful retracement in Jun tracking oil

Source: Bloomberg, UOB Global Economics & Markets Research



Elsewhere, we expect the Taiwan Central Bank (CBC), Bank Negara Malaysia (BNM), State Bank of Vietnam (SBV), and Reserve Bank of India (RBI) to maintain policy rates at 2.0%, 2.75%, 4.5%, and 5.25%, respectively, while China is expected to keep its 7-day reverse repo rate unchanged at 1.4%. For the Bank of Korea (BOK) we expect a 25bps rate hike in Jul, followed by another 25bps hike in either Oct or Nov. For the Bangko Sentral ng Pilipinas (BSP), we expect one final 25bps hike to 5.00% in 3Q26, after BSP delivered 25bps hike in Jun as we expected. For more details on BSP, please refer to Macro Note published 18 Jun.

Central Bank Policy Rate Changes: actual so far and UOB forecast ahead

Economy	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26F	4Q26F	1Q27F	2Q27F	3Q27F	4Q27F
US			-25bp	-50bp						-25bp		-25bp
Euro Area	-50bp	-50bp				+25bp						
UK	-25bp	-25bp	-25bp	-25bp								
Japan	+25bp			+25bp		+25bp		+25bp		+25bp		
Australia	-25bp	-25bp	-25bp		+50bp	+25bp						
New Zealand	-50bp	-50bp	-25bp	-75bp			+25bp					
Singapore*	-50bp	-50bp				+50bp						
Malaysia			-25bp									
Thailand	-25bp	-25bp	-25bp	-25bp	-25bp							
Indonesia	-25bp	-25bp	-75bp			+100bp	+50bp	+25bp				
Philippines		-50bp	-25bp	-50bp	-25bp	+50bp	+25bp					
India	-25bp	-75bp		-25bp								
China		-10bp										
Korea	-25bp	-25bp					+25bp	+25bp				
Taiwan												
Vietnam												

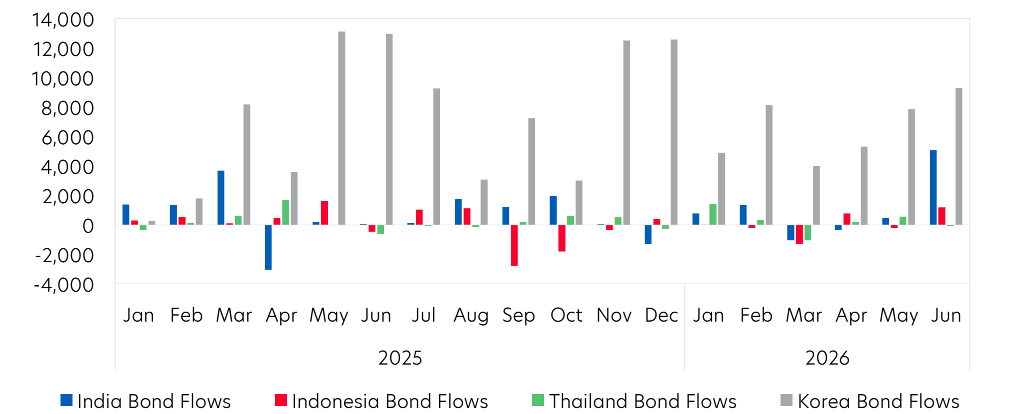
* Estimated adjustment of SGD NEER slope

Source: Global Economics & Markets Research

Finally, India recorded a notable USD5bn portfolio inflow in Jun, a record monthly inflow, following the RBI's decision to leave rates unchanged earlier in the month, but more importantly due to a slew of measures to attract foreign capital inflows and to support the INR. Among these measures, the most significant is the facility allowing banks to fully offset hedging costs until 30 Sep for Authorized Dealer banks raising fresh 3-5 year Foreign Currency Non-Recipient (FCNR) deposits. It is the same playbook that RBI adopted in Aug 2013 to support INR. During the 2013 episode, more than USD20bn was raised, helping to stabilise the currency with USD/INR dropping 6% by year-end compared to end Aug level. It is therefore unsurprising that international investors have increased allocations to Indian bonds, anticipating a similar outcome to the 2013 episode. For more details, please refer to Macro Note published 05 Jun.

Chart 24: Selected Asian countries monthly net bond flows (USD mn)

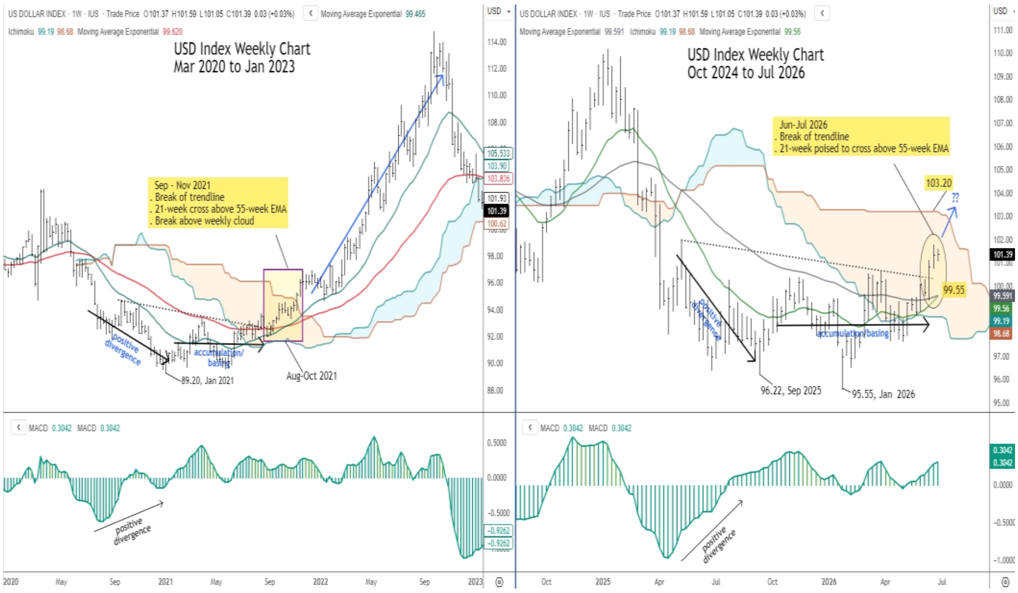
Source: Bloomberg, UOB Global Economics & Markets Research



Right By You

USD Index: 101.39

A break above the weekly Ichimoku cloud, now at 103.20, would complete the technical setup and could open up the way for further upside in the coming months.



Source: LSEG Workspace, UOB Global Economics & Markets Research

The USD index fell to a low of 89.20 in January 2021, a move that unfolded alongside a positive divergence on the weekly MACD. This was followed by a period of accumulation/basing, as the index traded broadly sideways for several months. Between August and October 2021, the index first broke above a declining trendline resistance, followed by a 21-week EMA crossover above the 55-week EMA. The index then broke decisively above the top of the weekly Ichimoku cloud. Taken together, these technical developments gave rise to a multi-month sharp rally.

In September 2025, the index fell to a low of 96.22, a decline that was also accompanied by a positive divergence on the weekly MACD. Aside from a brief dip to 95.55 in January this year, the index has also largely traded sideways, resembling another period of accumulation and basing phase. Two weeks ago, the index broke the declining trendline resistance, and currently, the 21-week EMA is poised to cross above the 55-week EMA.

While the past technical setups resembling the current one have led to a sharp rally, there is no certainty they will result in a similar move again. That said, a clear break above the weekly cloud, now at 103.20, could open the way for further upside. Note that the weekly cloud is set to move lower over the coming weeks, similar to the pattern in 2022. On the downside, a breach of 99.55/60, where the EMAs currently reside, would nullify the positive setup.

FX, INTEREST RATES & COMMODITIES

Forecasts

FX	02 Jul	3Q26F	4Q26F	1Q27F	2Q27F
USD/JPY*	163	162	159	156	153
EUR/USD*	1.14	1.13	1.15	1.17	1.19
GBP/USD*	1.33	1.31	1.33	1.35	1.37
AUD/USD*	0.69	0.68	0.70	0.71	0.72
NZD/USD*	0.57	0.56	0.57	0.58	0.59
DXY*	101.4	101.4	99.8	98.2	96.8
USD/CNY*	6.79	6.82	6.78	6.74	6.70
USD/HKD	7.84	7.83	7.80	7.80	7.80
USD/TWD*	31.9	32.0	31.7	31.4	31.2
USD/KRW*	1,555	1,560	1,540	1,520	1,500
USD/PHP*	61.6	62.0	61.6	61.3	61.0
USD/MYR*	4.09	4.10	4.05	4.02	4.00
USD/IDR*	17,948	18,100	18,000	17,900	17,800
USD/THB*	33.4	33.5	33.3	33.1	33.0
USD/VND	26,301	26,500	26,400	26,300	26,100
USD/INR*	95.2	95.5	95.0	94.5	94.0
USD/SGD*	1.30	1.30	1.28	1.27	1.26
EUR/SGD*	1.47	1.47	1.47	1.49	1.50
GBP/SGD*	1.72	1.70	1.70	1.71	1.73
AUD/SGD*	0.89	0.88	0.90	0.90	0.91
SGD/MYR*	3.15	3.15	3.16	3.17	3.17
SGD/CNY*	5.24	5.25	5.30	5.31	5.32
JPY/SGDx100*	0.80	0.80	0.81	0.81	0.82

POLICY RATES	02 Jul	3Q26F	4Q26F	1Q27F	2Q27F
US Fed Funds Rate	3.75	3.75	3.75	3.75	3.50
JPY Policy Rate*	1.00	1.00	1.25	1.25	1.50
EUR Refinancing Rate	2.40	2.40	2.40	2.40	2.40
GBP Repo Rate	3.75	3.75	3.75	3.75	3.75
AUD Official Cash Rate	4.35	4.35	4.35	4.35	4.35
NZD Official Cash Rate	2.25	2.50	2.50	2.50	2.50
CNY 7D Reverse Repo	1.40	1.40	1.40	1.40	1.40
HKD Base Rate	4.00	4.00	4.00	4.00	3.75
TWD Official Discount Rate	2.00	2.00	2.00	2.00	2.00
KRW Base Rate	2.50	2.75	3.00	3.00	3.00
PHP O/N Reverse Repo	4.75	5.00	5.00	5.00	5.00
MYR O/N Policy Rate	2.75	2.75	2.75	2.75	2.75
IDR 7D Reverse Repo*	5.75	6.25	6.50	6.50	6.50
THB 1D Repo	1.00	1.00	1.00	1.00	1.00
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	5.25	5.25	5.25	5.25	5.25

INTEREST RATES	02 Jul	3Q26F	4Q26F	1Q27F	2Q27F
USD 3M SOFR (compounded)*	3.63	3.64	3.64	3.64	3.47
SGD 3M SORA (compounded)*	1.09	1.28	1.41	1.55	1.64
10Y US Treasuries Yield*	4.48	4.55	4.60	4.65	4.65
SGD 10Y SGS*	2.06	2.25	2.40	2.60	2.75

COMMODITIES	02 Jul	3Q26F	4Q26F	1Q27F	2Q27F
Gold (USD/oz)*	4,049	3,900	4,300	4,600	4,900
Brent Crude Oil (USD/bbl)*	71	85	80	70	70
Copper (USD/mt)	13,299	13,500	13,000	12,500	12,500

Updated as of 02 Jul 2026
* Forecasts updated as compared to previous report dated 05 Jun 2026
Source for spot rates: Bloomberg

Disclaimer