

DBS FX Quarterly 3Q 25

Bearish USD, bullish JPY under Fed's shadow

Group Research

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Publication features

Full set of FX forecasts, going out to 2030
 Tactical trading ideas
 Fundamental-based FX valuations
 Technical analysis
 Forecast return analysis
 Flow of funds

Summary

USD is not out of the woods

- Fed is resuming rate cuts with US President Trump threatening its independence
- A US-China trade deal could portend more currency adjustments to address imbalances
- Stay vigilant to Mar-a-Lago risks

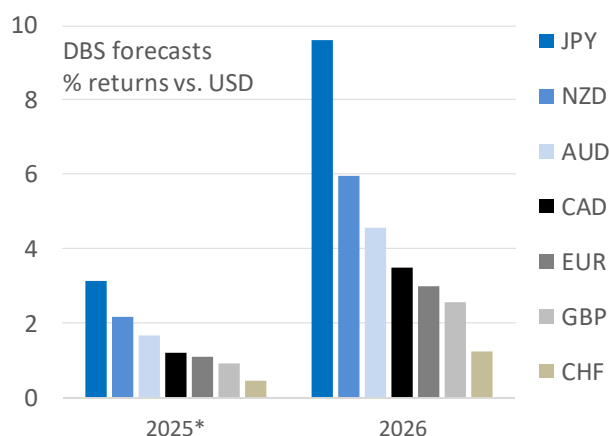
FX strategic trade ideas

1. Short USD vs. JPY on Fed-BOJ divergence
2. Long EUR vs. CHF as a stable carry strategy

Valuations and flows analysis

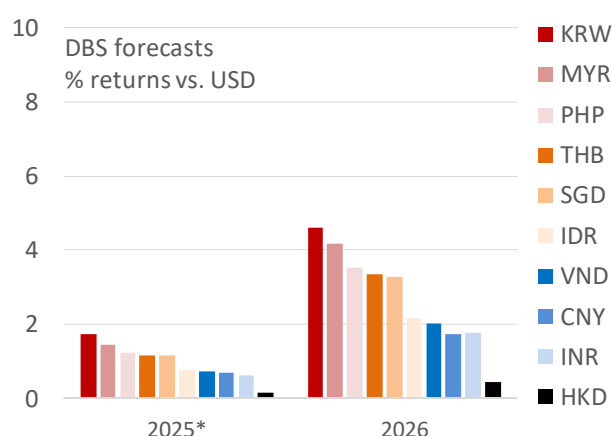
- USD is the most overvalued, and is at risk from coming Fed rate cuts
- JPY is still the most undervalued, which could be addressed by narrowing rate differentials
- CNY's undervaluation looks deep, but its appreciation will remain gradual

Developed Market currencies



Sources: DBS, Bloomberg. * Aug 22 to Dec 31, 2025

Asia ex Japan currencies



Sources: DBS, Bloomberg. * Aug 22 to Dec 31, 2025

FX Forecasts

FX pair / eop	22-Aug	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	2027	2028	2029	2030
USD/CNY	7.17	7.16	7.12	7.10	7.06	7.04	7.00	7.06	7.00	6.95	6.90
USD/HKD	7.82	7.81	7.80	7.80	7.79	7.78	7.77	7.80	7.78	7.77	7.75
USD/INR	87.5	87.4	87.0	86.6	86.3	85.9	85.5	88.0	87.7	87.3	87.0
USD/IDR	16351	16320	16230	16150	16060	15980	15890	16060	15870	15690	15500
USD/MYR	4.23	4.21	4.17	4.13	4.08	4.04	4.00	4.08	4.06	4.03	4.00
USD/PHP	56.9	56.7	56.3	55.8	55.3	54.8	54.4	55.3	55.0	54.5	54.0
USD/SGD	1.28	1.28	1.27	1.26	1.25	1.24	1.23	1.25	1.23	1.22	1.20
USD/KRW	1384	1375	1360	1345	1330	1315	1300	1330	1315	1300	1280
USD/THB	32.4	32.3	32.0	31.8	31.5	31.3	31.0	31.5	31.0	30.5	30.0
USD/VND	26358	26300	26170	26040	25910	25780	25650	26260	26170	26090	26000
AUD/USD	0.65	0.65	0.66	0.67	0.67	0.68	0.69	0.67	0.69	0.70	0.72
USD/CAD	1.38	1.38	1.37	1.35	1.34	1.33	1.32	1.34	1.33	1.31	1.30
EUR/USD	1.17	1.18	1.18	1.19	1.20	1.21	1.22	1.20	1.21	1.22	1.23
USD/JPY	147	146	142	139	136	133	130	133	131	130	128
NZD/USD	0.59	0.59	0.60	0.61	0.62	0.63	0.64	0.62	0.63	0.65	0.66
USD/CHF	0.80	0.80	0.80	0.80	0.79	0.79	0.79	0.81	0.80	0.80	0.80
GBP/USD	1.35	1.36	1.37	1.37	1.38	1.39	1.40	1.38	1.40	1.41	1.42
DXI Index	97.7	97.1	95.7	94.3	92.9	91.4	90.0	93.0	91.7	90.3	89.0

Australia, Eurozone, New Zealand and United Kingdom are direct quotes

Lessons from the Plaza Accord

Sources: DBS Research, Bloomberg data

Mar-a-Lago Accord?

Sources: DBS Research, Bloomberg data

Central theme: More alert to USD weakness

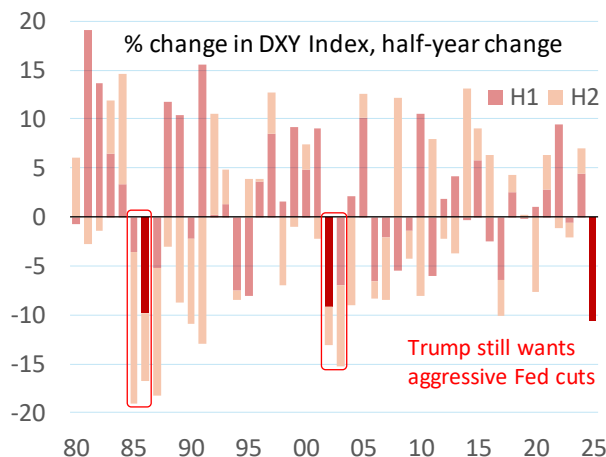
After suffering its worst first-half decline since 1973, the USD's depreciation in 2H 2025 is likely to keep moderating. Following Liberation Day, the DXY index has been trading in a descending price channel, underscoring an ongoing bias toward USD weakness. The channel captures the push-and-pull of US President Donald Trump's shifting tariff rates and trade deals, his peace efforts in Europe and the Middle East, and his tussle with Fed Chair Jerome Powell over interest rates. If intact, the channel projects the DXY ending 2025 within a 93-97 range.

Following the DXY's 3.2% correction higher in July, markets have begun to reassess the USD's downtrend. The July recovery had been supported by record highs in US equities and stronger-than-expected US GDP growth in 2Q25, which revived the US exceptionalism narrative and reinforced Powell's cautious data-dependent stance on rate cuts. Others became cautious regarding Trump's second round of reciprocal tariffs in July and August, which resulted in a global slowdown due to ongoing uncertainties and kept the Fed alert to the potential for tariff-induced inflation.

However, given the event risks ahead, we cannot lower our guard on the USD's downside risks for the rest of 2025.

First, we saw the weaker-than-expected US jobs data in June and July, resulting in four Fed cuts totalling 100 bps between September and mid-2026. Meanwhile, other global central banks, such as the European Central Bank and the Swiss National Bank, are approaching the end of their easing cycles. Trump's push for aggressive US rate cuts to 1% implies a preference for USD weakness to address trade imbalances.

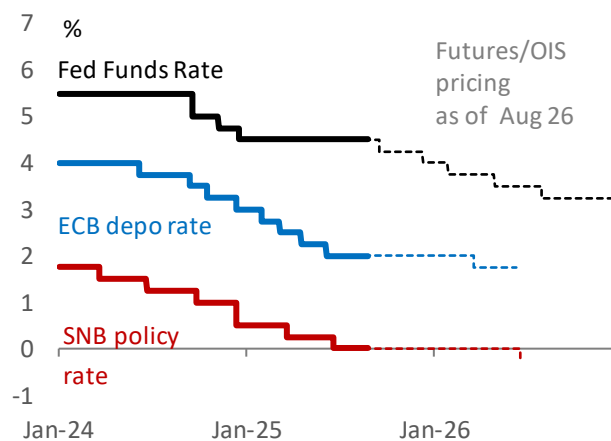
USD had the worst H1 collapse in decades



DXY Index's decline moderated into a channel



Wide policy differentials against CHF

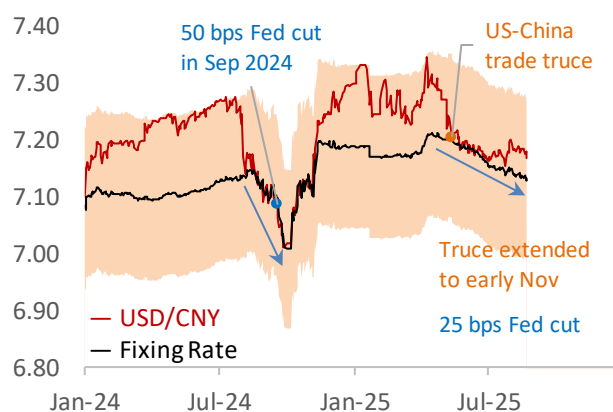


More importantly, **Trump is pressing ahead to reshape the seven-member Fed's Board of Governors to align with his easing agenda.** Two of his appointees, Michelle Bowman and Christopher Waller, already voted for a rate cut on July 30. Having nominated Stephen Miran to replace Adriana Kugler, who resigned on August 8, Trump has called for Lisa Cook's resignation over allegations of mortgage fraud. Trump is intensifying pressure on Powell to resign, undermining him through criticism of the Fed's costly renovations and his handling of Cook, while simultaneously moving ahead with interviews for potential successors ahead of Powell's term expiration in May 2026.

Second, having extended the US-China trade truce by another 90 days, President **Trump appears keen to close the current chapter of his tariff policy** by the November 9-10 deadline. He has **conditioned a potential Trump-Xi summit on a trade deal being in hand.** To foster a more favourable environment for a grand bargain, US Treasury Secretary Scott Bessent has adopted a softer and more pragmatic approach that aligns with China's request for "mutual respect" in bilateral talks. Trump appears incentivised to clear away political flashpoints by championing a Ukraine-Russia peace deal and reverting to strategic ambiguity over Taiwan.

Hence, it was **likely no coincidence that China guided the USD/CNY fixing down from above 7.20 to 7.13 after the May trade truce.** Bessent and Miran are two of the architects of the "Mar-a-Lago" economic blueprint, which promoted using tariffs to make US imports costlier and utilizing US market access and security commitments as negotiation tools to compel compliance.

USD/CNY fixing trending steadily lower after the trade truce in May



Sources: DBS Research, Bloomberg data

They also advocated pressuring foreign holders of US Treasuries to swap them for ultra-long debt and targeted devaluation to make US exports more competitive. Hence, Bessent's remark about the Bank of Japan being behind the curve on rate hikes likely reflected Trump's longstanding complaint about the JPY's weakness.

Trump repeatedly called weak JPY a problem



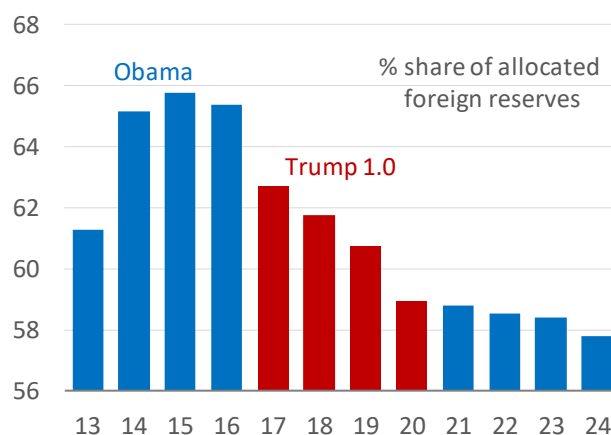
Sources: DBS Research, Bloomberg data

Based on past experiences, such as the mid-1980s and early 2000s, the USD's weakness in 2025 may persist into 2026.

The second round of reciprocal tariffs and a flurry of one-sided trade deals has strained ties with allies by highlighting the cost of access to US markets, while reinforcing strategic distrust with rivals. The result will likely be a stronger push among trade partners to diversify supply chains, reduce reliance on US buyers, and explore non-USD trade, leaving markets alert to longer-term shifts in trade flows and currency demand.

On July 18, President Trump signed the GENIUS Act into law, recognising stablecoins as legitimate settlement instruments for cross-border trade and financial contracts. Geopolitically, some view the US as attempting to reassert the USD's dominance digitally – countering China's push with the digital yuan and curbing the de-dollarisation narrative. With the Act requiring issuers to back stablecoins with Treasury bills, it would help create a captive buyer base to absorb the increase in the national debt driven by the One Big Beautiful Bill. Bessent projected that the stablecoin market could grow from about USD250bn today to USD2 trln.

Will the USD's share in global reserves fall again in Trump 2.0?



Sources: IMF COFER data

However, critics argue that the GENIUS Act turns stablecoins into rate-sensitive “digital REITs” on Treasury bills. Against this backdrop, Trump's efforts to bend the Fed to his will appear less like a personal vendetta against Powell and more like a structural move to align monetary policy with his broader fiscal agenda, which balloons the national debt. Hence, we should not be confused by the difference between Bessent's argument about stablecoins upholding the USD's dominance and safeguarding the USD's status as a reserve currency.

Developed Markets FX – highlights

EUR – maintaining its anti-USD mantle

For the rest of 2025, the EUR's appreciation will likely be shaped by competing forces. Within the European Central Bank, several officials flagged concerns over the EUR's exceptional strength this year. They pointed to 1.20 as a pain threshold for exporters facing higher US tariffs and disinflation via tighter financial conditions. In contrast, ECB President Christine Lagarde is championing a greater global role for the EUR, signalling a tolerance for strength.

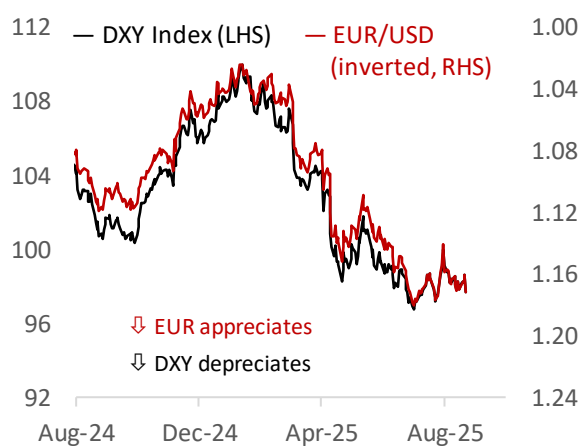
A Trump-brokered Ukraine-Russia peace deal will unlikely hurt the EUR. The odds of success remain low given Russia's red lines on occupied territories in Ukraine. Even if a deal materializes, Europe remains structurally committed to defence spending and reconstruction, sustaining the EUR-positive fiscal impulse. EUR is also underpinned by a narrowing policy gap between restrictive US rates and neutral EU rates. Trump's push for US rates to decline from 4.5% to 1%, below the ECB's 2% level, represents an implicit preference for USD weakness to address trade imbalances.

GBP – stronger than it appears

GBP's post-Liberation Day appreciation has been uneven but remains underpinned by the USD's broader weak bias. We project GBP/USD to climb towards 1.40 in 2026, consistent with our forecast for the DXY Index to depreciate to 92.

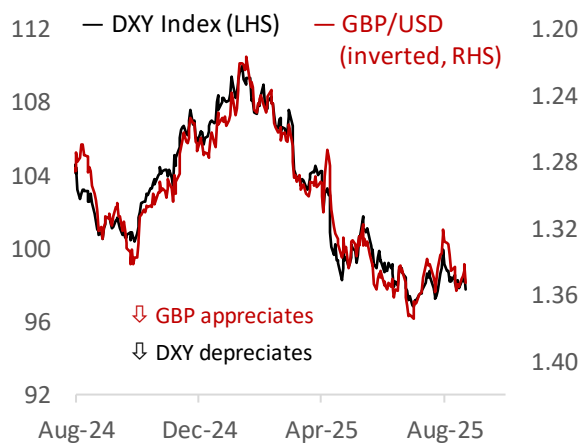
The Bank of England's rate-cutting path mirrors the Fed's most in both pace and scale, as per market pricing. Yet, unlike the US, the BOE's institutional independence reinforces market confidence that the rate decisions will remain anchored to the UK's economic fundamentals rather than political pressures. While the Gilt market has seen occasional fiscal jitters, none approached the severity of the 2022 mini-budget crisis – underscored by the FTSE 100 Index's rally to record highs. The BOE has reassured investors by slowing the pace of quantitative tightening sales, reinforcing the liquidity backstops, and pledging not to exacerbate yield spikes. Chancellor Rachel Reeves will need to strike a similar balance at the Autumn Budget expected in late October or early November, especially with signs of recovery in the UK economy.

EUR is an anti-USD story



Sources: DBS Research, Bloomberg data

GBP is an anti-USD story too



Sources: DBS Research, Bloomberg data

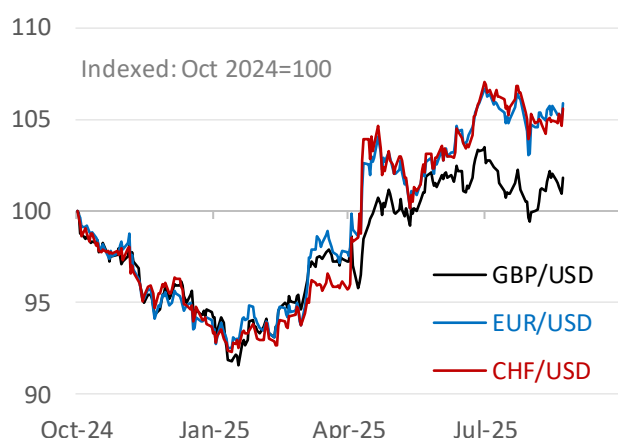
CHF – haven strength and policy constraints

USD/CHF broke lower into a 0.78-0.84 range from its pre-Liberation Day band of 0.84-0.92. It remains vulnerable to further USD weakness.

Remarkably, the CHF has remained one of the world's strongest currencies despite US President Donald Trump's steep 39% tariffs on Swiss goods – among the highest globally. This resilience reflects the **CHF's entrenched haven role** amid tariff-driven global uncertainty. Broad **USD weakness has also overshadowed the CHF's traditional role as a funding currency for carry trades**, with the CHF moving essentially in tandem with the EUR as an anti-USD proxy.

For the Swiss National Bank, the **policy toolkit to lean against CHF strength has been more limited than in past cycles**. With the policy rate already cut to 0% in June, a return to negative territory would risk squeezing bank profitability, provoking political backlash, and worsening housing market imbalances. Hence, SNB is left with few credible levers to counter renewed CHF appreciation in the coming months, as markets anticipate more USD pressure from the Fed resuming its rate-cutting cycle in September.

CHF & EUR are very aligned with each other



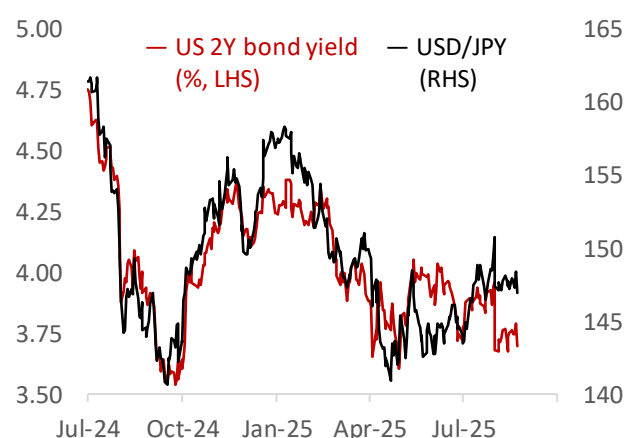
Sources: DBS Research, Bloomberg data

JPY – reversing its depreciation

In August, USD/JPY may begin a renewed decline toward the year's low of 140, unwinding the drivers that pushed it to 151 over the previous three months.

At its July meeting, the **Bank of Japan signalled that a rate hike could be on the table in October or December**. Tariff uncertainty has eased following the July US-Japan trade deal, which is pending finalization. **GDP growth dispelled technical recession fears** – 2Q25 growth was stronger, and 1Q25's earlier contraction was revised to an expansion. National inflation excluding food held above 3% for the eighth month in July, surpassing the 2% target. After losing its majority in the July Upper House elections, the **LDP-led coalition moved to address voter frustration over high inflation by signalling the need for higher interest rates and fiscal discipline** and stepping in verbally when the JPY slipped past 150 per USD. US Treasury Secretary Scott Bessent's remark that the BOJ was behind the curve on hikes **underscored the White House's preference for a stronger JPY** to narrow the trade imbalances, especially with the Fed moving to cut rates in September.

Fed cut bets to drag USD/JPY lower again



Sources: DBS Research, Bloomberg data

AUD – a CNY proxy for US-China trade talks

AUD/USD has been **consolidating in a 0.64-0.66 range** after rebounding from its post-Liberation Day low of 0.5950.

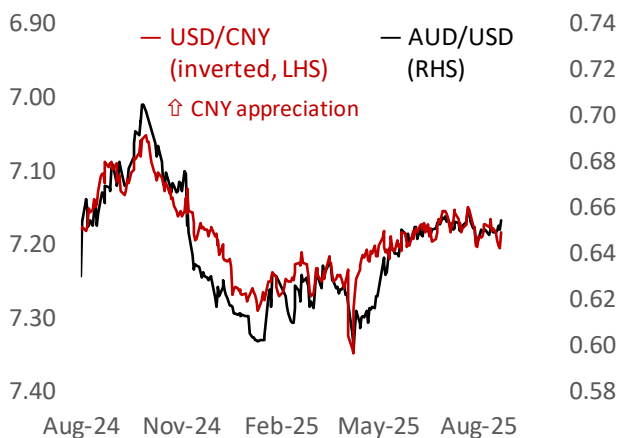
The **AUD is increasingly trading as a liquid proxy for the CNY**, reflecting China’s status as Australia’s dominant trading partner. CNY gains would reinforce the broader USD downtrend, currently backed by Fed rate cut prospects. We estimate that a decline in USD/CNY toward 7.00 could lift AUD/USD toward the 0.70 handle.

Over the coming months, **US-China trade talks could provide further upside for the risk-sensitive AUD**, already underpinned by record-high Australian and US equities. For investors, a breakthrough deal between the world’s two largest economies – particularly if sealed at a Trump-Xi summit by the end of the second truce in early November – would mark the closure of the current worldwide chapter on tariffs.

That said, **investors should also prepare for heightened volatility**, given Trump’s history of retaliating sharply when negotiations fail to move in his favour.

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AUD could benefit from a US-China trade deal

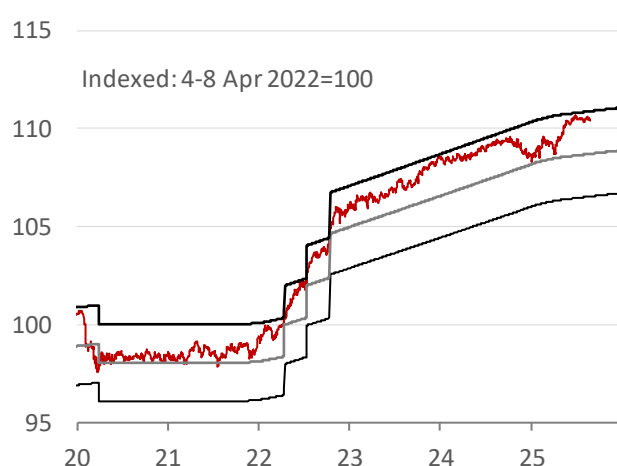


Sources: DBS Research, Bloomberg data

South & Southeast Asian FX - highlights**SGD – weak USD vs. 2H slowdown outlook**

We expect USD/SGD to remain biased lower in a 1.25-1.30 range into year-end, anchored by a weaker USD driven by the US Fed's resumption of rate cuts in September and hopes for a successful US-China trade deal by early November. In early August, the Singapore government launched a comprehensive **Economic Strategy Review, evoking parallels to the 1980s response to the Plaza Accord**, to adapt to a shifting global order shaped by US protectionism to address trade imbalances.

However, a possible reduction in the slope of the **SGD NEER policy band at the Monetary Authority of Singapore's policy review in October could balance the SGD's appreciation**. This outcome will depend on whether the government's base scenario for a second-half slowdown pulls down the next GDP prints below the medium-term potential growth rates of 2-3%, and CPI and core inflation beneath their official 0.5-1.5% forecast range. Until this situation becomes imminent, the SGD NEER will be patient in drifting below 1% above the mid-point of the band.

DBS SGD NEER and policy band

Source: DBS Research

IDR – a compelling carry trade in Asia

The IDR was remarkably stable within its four-month range of 16150-16520 per USD during US President Donald Trump's second reciprocal tariff rollout in July. There was no repeat of the IDR sell-off to a record low of 17224 after the April 2 Liberation Day announcement. Following a trade deal on July 22, the US reduced Indonesia's tariff rate to 19% from 39% in April, which was lower than those in many ASEAN countries. Chinese producers pivoted to Indonesia, which in turn increased demand for industrial real estate and warehouses.

Bank Indonesia contained currency volatility through interventions and calibrated monetary easings that balanced support for domestic demand and credit with inflation control and exchange rate stability. **To achieve a zero fiscal deficit by 2027-2028**, President **Prabowo** targeted focused stronger tax enforcement, improved integrity in the resource sector, asset monetization through Danantara (the country's second sovereign wealth fund), and leaner public operations. With this drive for **fiscal discipline and internal reforms**, earlier concerns about wider deficits tied to election pledges, such as free meals, subsidies, and defence upgrades, have eased.

We estimated the IDR's fair value to be between 15540 and 16360, reflecting the USD's weakness, bond yield differentials favouring Indonesia, a resilient stock market, and low credit default spreads for government debt. Against this backdrop, investors will continue to be attracted to Indonesia's attractive carry profile. With the Fed expected to resume rate cuts, a wider yield gap will make the IDR a more compelling currency for carry trades in Asia.

INR – stabilizing at the top of an 84-88 range

We see **USD/INR is retreating from the ceiling of its 84-88 range** established in October 2024. Despite the Reserve Bank of India's currency interventions, foreign reserves increased due to foreign investor inflows into Indian stocks and bonds. **We estimated the currency pair's fair value at 85-86**, based on a weaker USD, the negative US-India 10Y bond yield differential, India's still-buoyant stock market, and the significantly narrower credit default spread for Indian government debt.

We expect the following factors to support the INR. First, Standard & Poor's upgraded India's sovereign debt rating by a notch to BBB for the first time in 18 years. The decision was significant, shifting the investor narrative away from the shocking deterioration in bilateral trade relations with the US towards India's structural strengths – strong growth, credible fiscal consolidation, and effective inflation management. Second, the RBI shifted to a neutral stance after its larger 50 bps rate cut to 5.50% on June 6. In contrast, we expect the US Fed to resume its rate-cutting in September from 5.25-5.50%, which should widen the policy rate differential in RBI's favour.

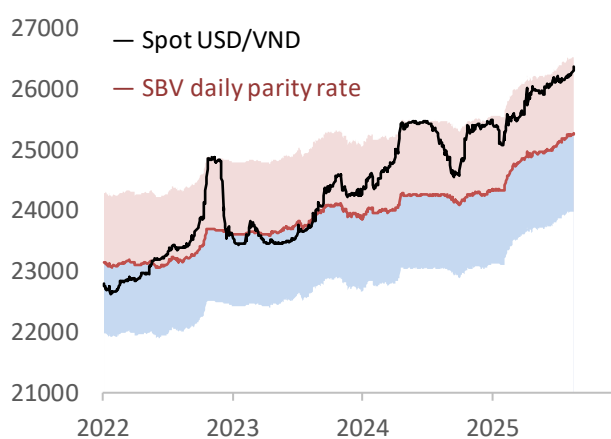
USD/INR at the top of 84-88 range

Sources: DBS Research, Bloomberg data

VND – controlled depreciation

Throughout 2025, VND depreciated steadily, even as the USD weakened globally. The **State Bank of Vietnam tolerated a gradual “policy-guided crawl”** to safeguard growth and competitiveness amid tariff headwinds. To maintain a flexible policy, SBV guided the daily parity rate higher and tolerated a spot rate near the top of its trading band. Following heavy interventions in 2024 and the ongoing cleanup of Saigon Commercial Bank, **authorities prioritized conserving foreign reserves, aiming to smooth volatility rather than defend a specific level.**

While Vietnam initially benefitted from China's companies shifting production to avoid US tariffs, US President **Trump's recent clampdown on transshipment forced Vietnam to import more components from China, South Korea, and ASEAN, widening the bilateral trade deficits** with these countries, and adding pressure on the VND. With Vietnam's rates near those of the US, the VND offers limited carry compared to some regional peers, reducing speculative inflows that might otherwise add to appreciation pressures when the USD softens. That said, we do see USD/VND correcting lower when Trump pushes for a more competitive USD backed by Fed cuts.

USD/VND stays near the top of ±5% band

Sources: DBS Research, Bloomberg data

North Asian currencies

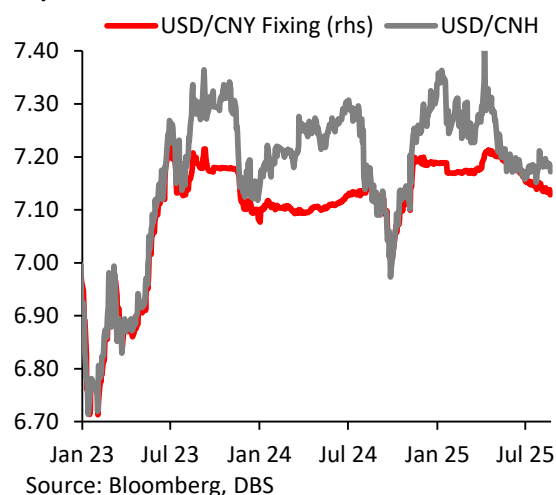
Given US trade deals with Japan and Korea, and US-China trade negotiations looking on track for an agreement, we see scope for optimism and gains across North Asian currencies.

RMB is strikingly undervalued. A few policy commentators (including former Treasury official Sobel) are calling for China to allow RMB appreciation. We see merit in this, which could assuage concerns over spillovers from China's excess manufacturing capacity and help trade negotiations. Indeed, USD/CNY daily fixings have been gradually ratcheted lower below 7.15 despite a relatively flat USD/CNH, underscoring **an emerging policy preference for RMB strength**. Finance Minister Lan has said that the central government would accelerate fiscal spending in 2H, which is also supportive for the RMB. USD/CNY could be calibrated towards 7.12.

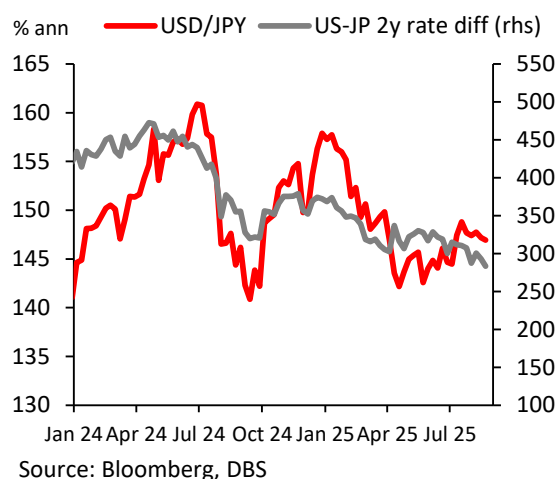
JPY has softened amid uncertainty from the LDP's loss of its Upper House majority, but risks to fiscal policy are overstated—the Upper House cannot overrule the Lower House on the Budget or the selection of Prime Minister, and LDP remains the largest party in both chambers amid a divided opposition. After the political dust settles, we **expect coming Fed rate cuts and a resumption of BOJ rate hikes to be the bigger driver for an easing in USD/JPY towards 142**.

The undervalued KRW could recover on positivity stemming from exemptions from coming US semiconductor tariffs, and Korea's better growth outlook with the passage of a KRW31.8trn (or 1.3% of GDP) supplementary budget. Domestic equity outflows, which were a major driver of KRW weakness previously, had also slowed. **Given trade clarity and RMB's guided appreciation, USD/KRW could ease towards 1360 in Q4.**

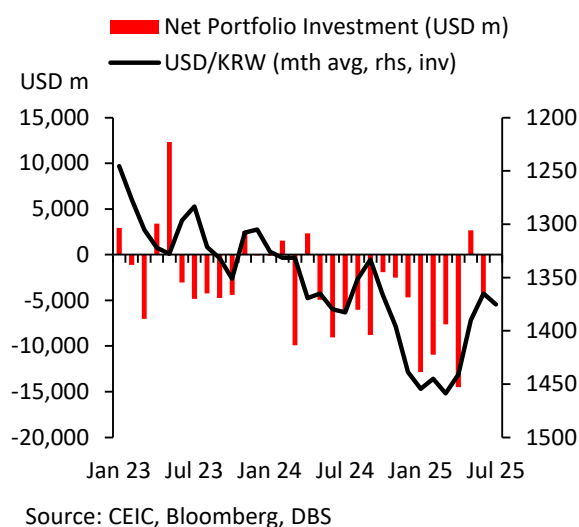
USD/CNY fixings are tracking lower below spot USD/CNH



USD/JPY vs short-end UST-JGB yield differentials



Korea: Net portfolio investment vs USD/KRW



Buy-side strategies/ideas

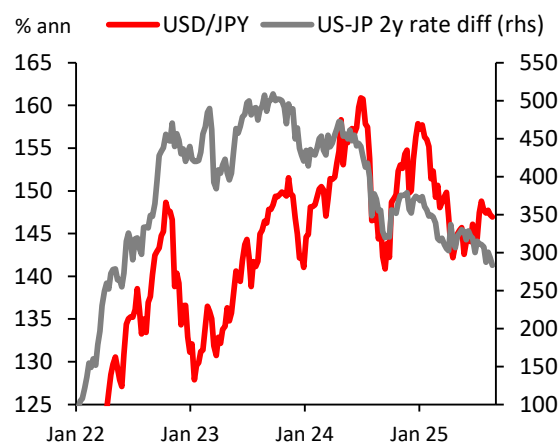
1. Short USD/JPY

We think the time has come for a USD/JPY short, with the Fed poised to resume rate cuts, and with trade certainty reassuring the BOJ to continue gradual policy normalization.

USD/JPY has always been sensitive to short-term US-JP rate differentials, due to JPY being a funding currency. Our sensitivity analysis found that a 100bps narrowing in the rate differential could trigger a 4.5% to 5.7% decline in USD/JPY. Indeed, an unexpected BOJ rate hike earlier this year triggered a slide in USD/JPY from 155 to 150. If the Fed cuts and BOJ hikes later this year as we expect, markets could see a repeat move lower in USD/JPY. Japan's inflation outlook is certainly moving in the right direction to support a rate hike—the BOJ has lifted its CPI forecasts in its July Outlook, while core-core inflation is sticky above 3%. Japanese corporates are also able to tolerate rate hikes, with profitability and ROEs having risen to multi-decade highs, supported by a cheap JPY.

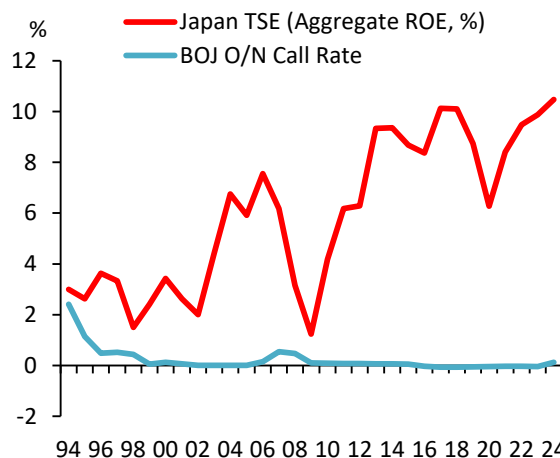
Importantly, JGB super long yields have shot up significantly, with the 20y yield now hovering at 2.60%, its highest since 1999. Such a high yield is unusual based on historical correlations. While reduced insurer demand from regulatory change is a major factor, it could also be underpinned by inflation risks, with US Treasury Bessent having recently opined that the BOJ is behind the curve on rate hikes. As BOJ considers rate hikes, and as investors rebalance towards higher yielding JGBs, the JPY could see renewed strength going into Q4, with USD/JPY easing towards 142.

USD/JPY vs short-end UST-JGB yield differentials



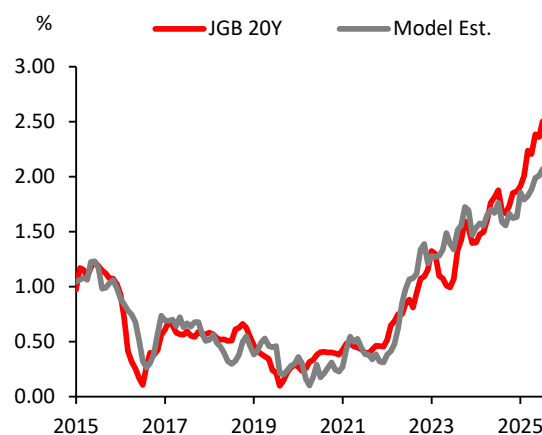
Source: Bloomberg, DBS

Japan: Corporate profitability has soared to record highs amid cheap JPY



Source: CEIC, DBS

JGB super long bonds offer high yields relative to historical behaviour



Source: Bloomberg, DBS

2. Long EUR vs. CHF

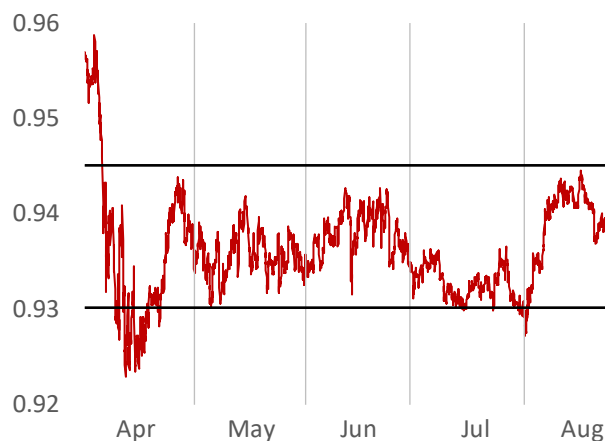
We view a “long EUR/short CHF” strategy as a compelling opportunity for investors seeking stability rather than volatility in their carry allocations amid heightened uncertainties.

Following Liberation Day, EUR/CHF has been confined mainly within a narrow 2%-wide trading band between 0.9300 and 0.9450, which aligns with the 2% policy rate gap between the European Central Bank and the Swiss National Bank. With their policy rates around neutral, both central banks are either at or approaching the end of their easing cycles.

With US President Donald Trump imposing some of the harshest tariffs globally on Swiss goods, Bern has every incentive to intervene in the foreign exchange market to keep the CHF aligned with the EUR rather than the USD. Approximately half of Switzerland's exports head to Europe compared with only 17% to the US. Given that Switzerland accounts for less than 10% of EU exports, the SNB is under greater pressure to limit CHF appreciation to keep its export-dependent economy competitive.

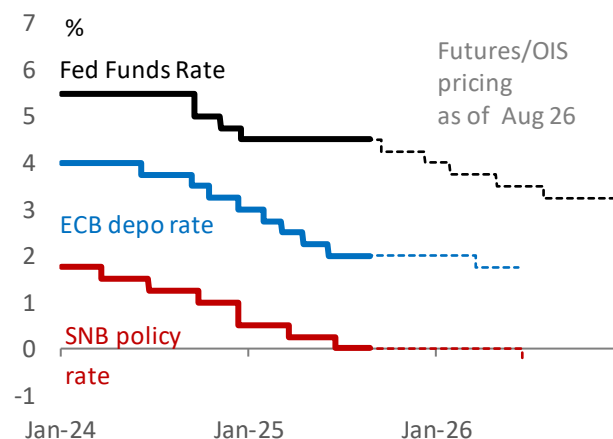
ECB President Christine Lagarde believed that the Eurozone economy was well-positioned to handle higher US tariffs and maintain its recovery. She has explicitly encouraged a greater international role for the EUR. Bundesbank President Joachim Nagel was cautiously optimistic about a German recovery in 2026 and considered the EUR fairly valued near its long-term average. Freeing the “debt brake” rule in March effectively marked a significant shift from fiscal restraint towards a “whatever it takes” stimulus in infrastructure, defence, and the green transition.

EUR/CHF's narrow range: 0.93 to 0.9450



Sources: DBS Research, Bloomberg data

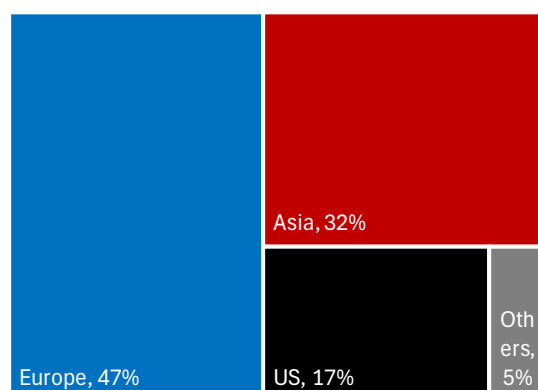
Wide policy differentials against CHF



Sources: DBS Research, Bloomberg data

Switzerland's major export destinations

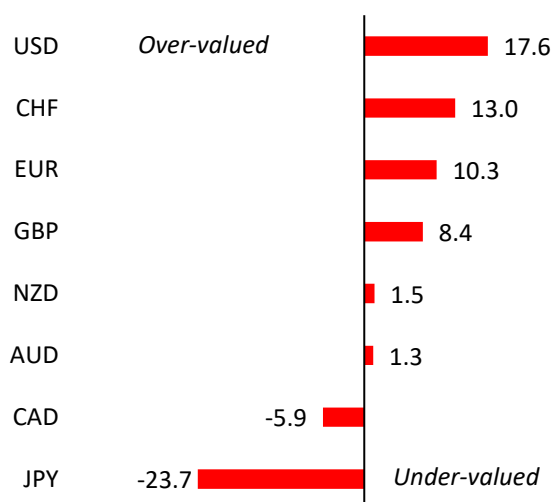
% share of total exports in 2024



Sources: DBS, Swiss Federal Statistical Office

DBS Equilibrium Exchange Rates (DEER)

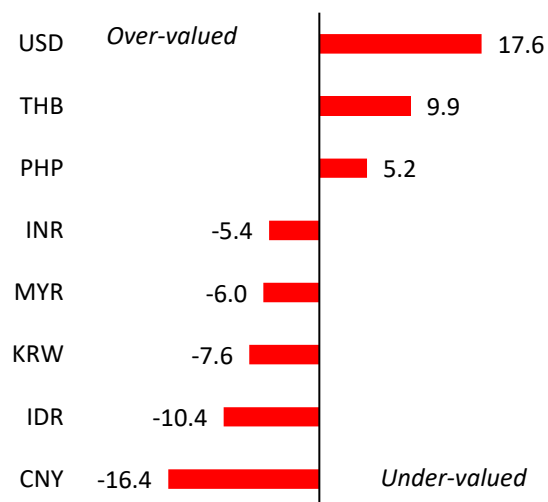
G10 FX: DEER valuations



Source: IMF, CEIC, DBS

As of 25 Aug

Asian FX: DEER valuations



Source: IMF, CEIC, DBS

As of 25 Aug

Our DEER metric indicates current deviations from a currency's modelled long-term fair value.

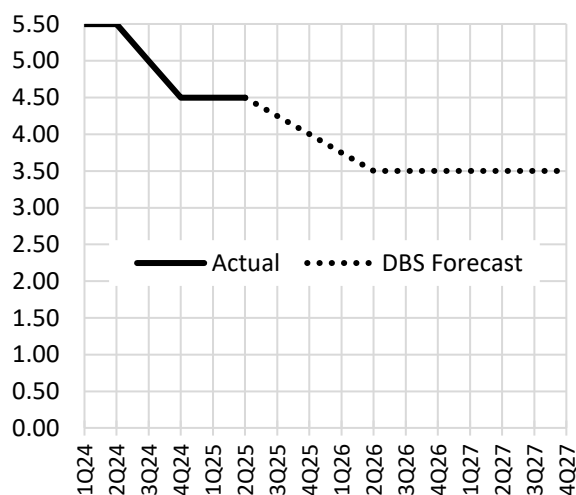
Within G10, the **USD, CHF, and EUR look over-valued**. However, the USD's valuation should be read with caution as broad-based US tariffs of at least 10% should have a pronounced impact on trade and relative prices. While the US real exchange rate should rise due to tariffs, portfolio outflows on the economic hit from trade dislocations could also offset. Broadly, the USD is still expected to ease with the Fed looking to resume rate cuts in Sep. CHF stands as the second most over-valued, and headwinds from a high US reciprocal tariff rate of 39% could weigh on CHF, even if much of Swiss pharmaceutical exports to the US are still exempted pending the announcement of sectoral tariffs. On the other end, **JPY is still the most undervalued**. Rate differentials could soon narrow in favour of the JPY, as the BOJ considers rate hikes. CAD is also undervalued. Despite a high headline tariff, over 85% of Canada-US trade is free of tariffs due to the USMCA, so the economic impact to Canada looks manageable.

In Asia, the RMB and IDR remain most under-valued, while THB and PHP are most over-valued.

RMB's undervaluation looks deep, as the RMB had been a laggard compared to other currencies such as the EUR. The striking undervaluation may be a factor for the PBOC to set lower and lower USD/CNY fixings, indirectly guiding the market towards gradual RMB appreciation. Trade negotiations with the US could also be smoothed through a stronger RMB, given previous tensions under the first Trump presidency when China was labelled a currency manipulator. That said, RMB appreciation will be more gradual than sharp, as Chinese policymakers are still biased towards easing and rate cuts. Meanwhile, **THB's over-valuation has narrowed slightly but remains high**. Despite border tensions, the suspension of Thai PM Paetongtarn, and the worst Asian equity market performance this year, THB has been resilient on the back of a wider current account surplus. Still, with BOT being concerned about softer growth and cutting rates to 1.50% in Aug, the over-valued THB may soon be pressured lower.

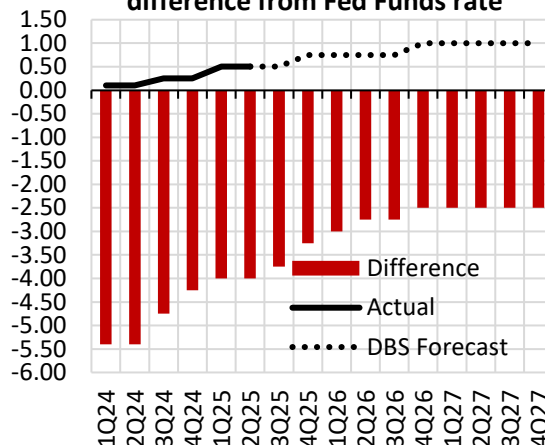
Policy rate forecasts and differentials

USA: Fed Funds Rate



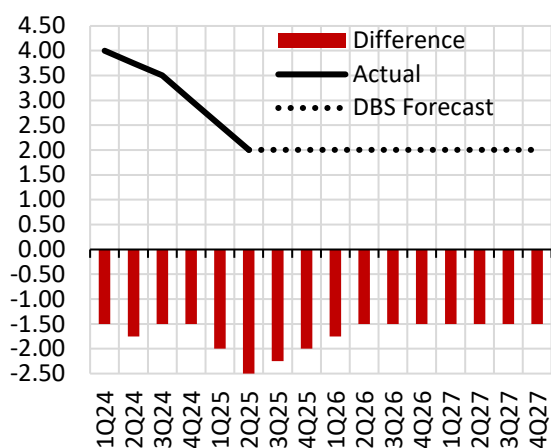
Source: Bloomberg, DBS

Japan: Overnight Call Rate and difference from Fed Funds rate



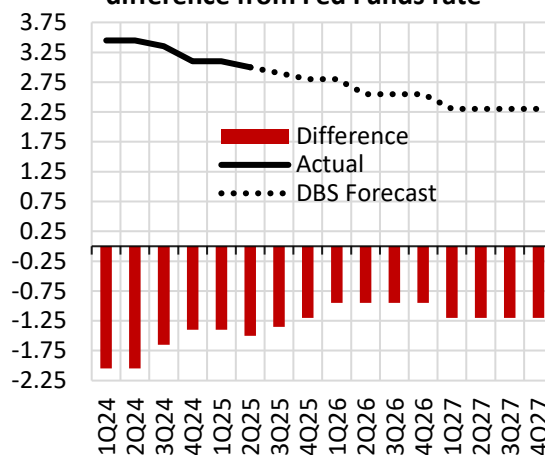
Source: Bloomberg, DBS

Eurozone: Deposit Facility Rate and difference from Fed Funds rate



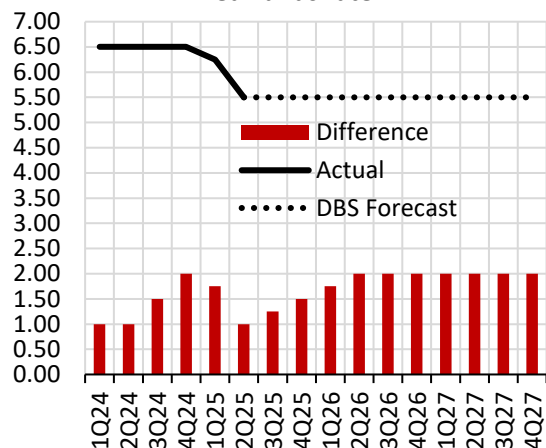
Source: Bloomberg, DBS

China: 1-Yr Loan Prime Rate and difference from Fed Funds rate



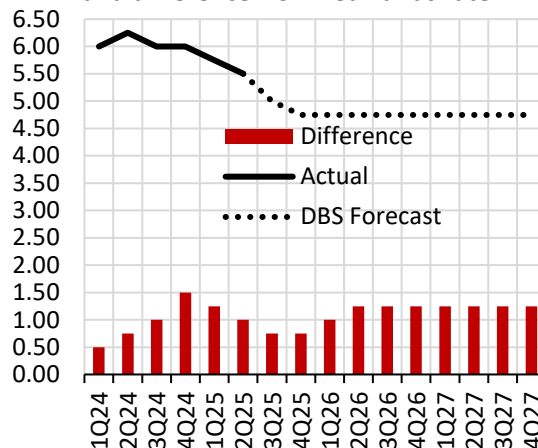
Source: Bloomberg, DBS

India: Repo Rate and difference from Fed Funds rate



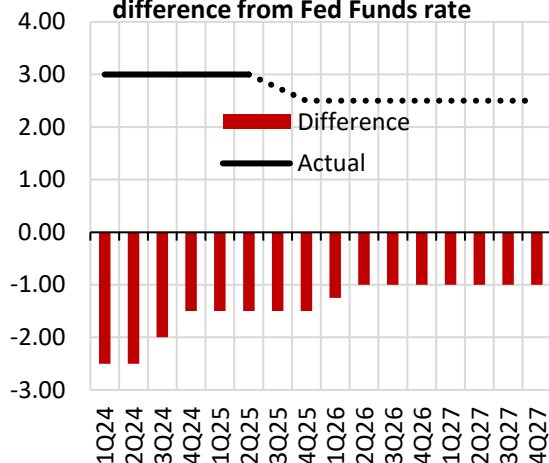
Source: Bloomberg, DBS

Indonesia: 7- Day Reverse Repo Rate and difference from Fed Funds rate



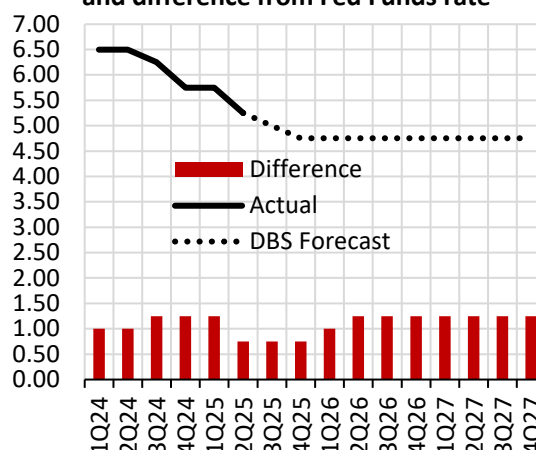
Source: Bloomberg, DBS

Malaysia: Overnight Policy Rate and difference from Fed Funds rate



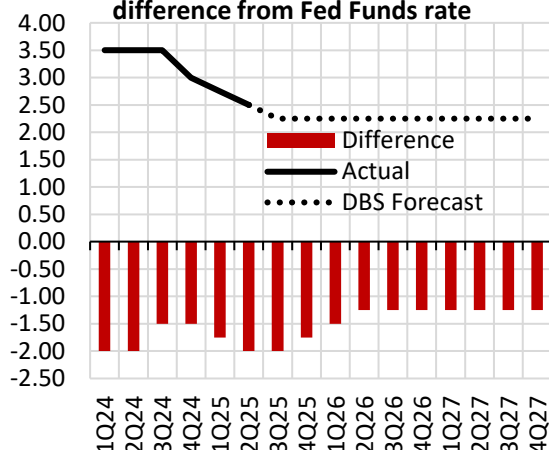
Source: Bloomberg, DBS

Philippines: Reverse Repurchase Rate and difference from Fed Funds rate



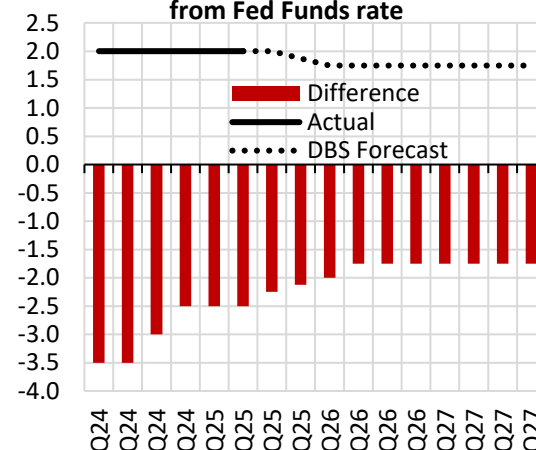
Source: Bloomberg, DBS

South Korea: 7-Day Repo Rate and difference from Fed Funds rate



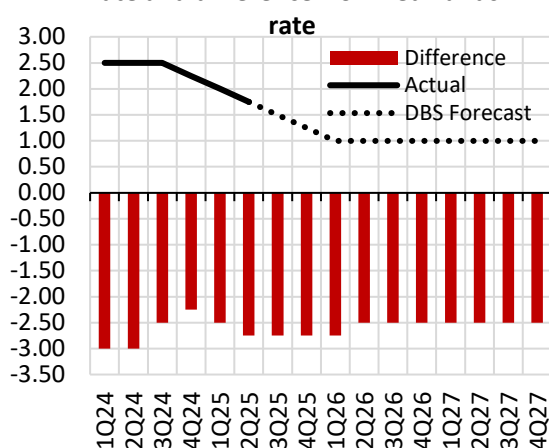
Source: Bloomberg, DBS

Taiwan: Discount Rate and difference from Fed Funds rate



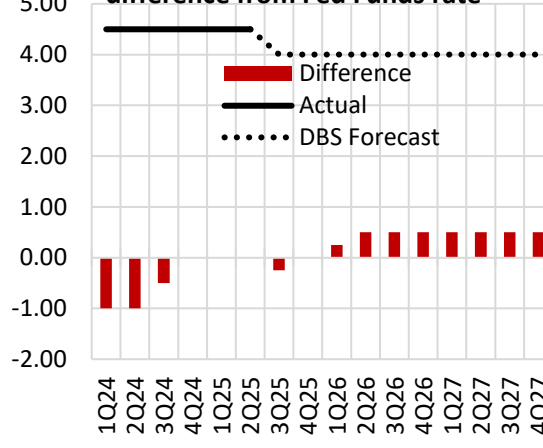
Source: Bloomberg, DBS

Thailand: 1-day Bilateral Repurchase Rate and difference from Fed Funds rate



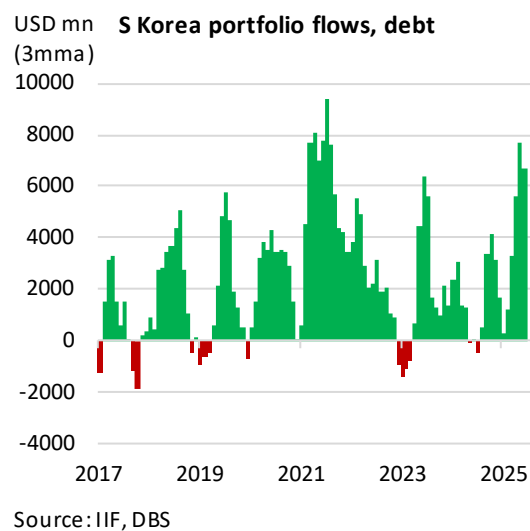
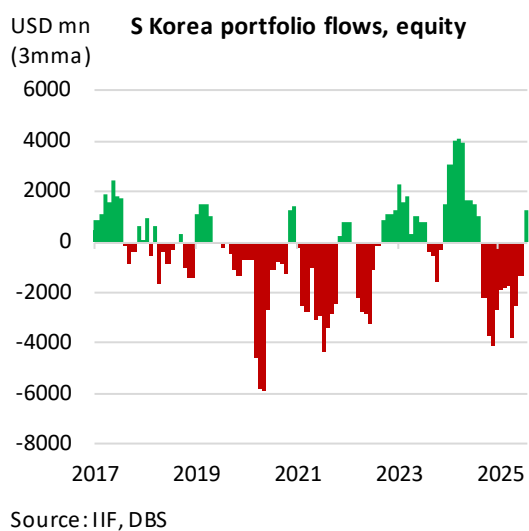
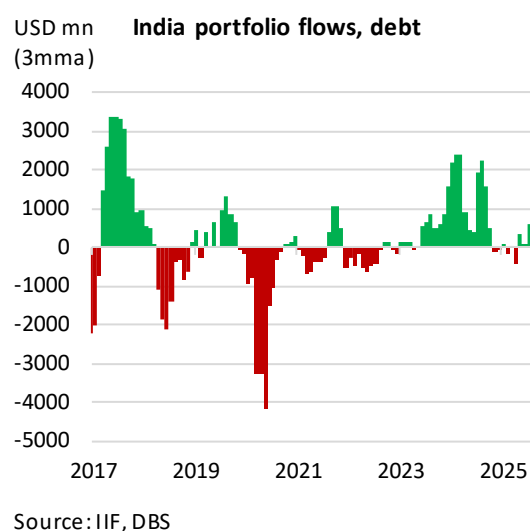
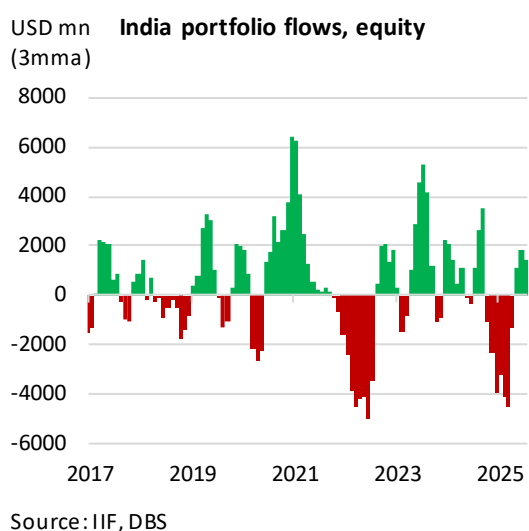
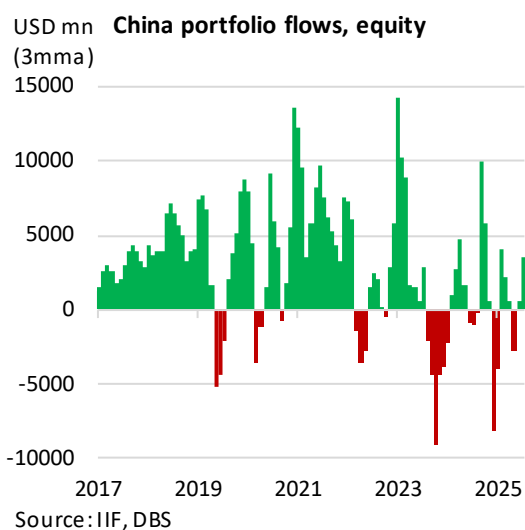
Source: Bloomberg, DBS

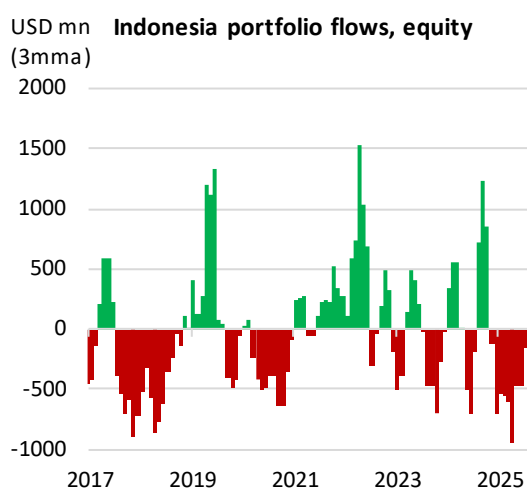
Vietnam: Refinancing Rate and difference from Fed Funds rate



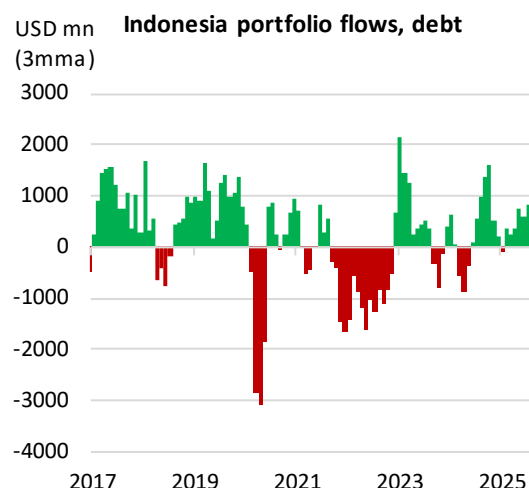
Source: Bloomberg, DBS

Non-Resident Portfolio Inflows into EM Asia

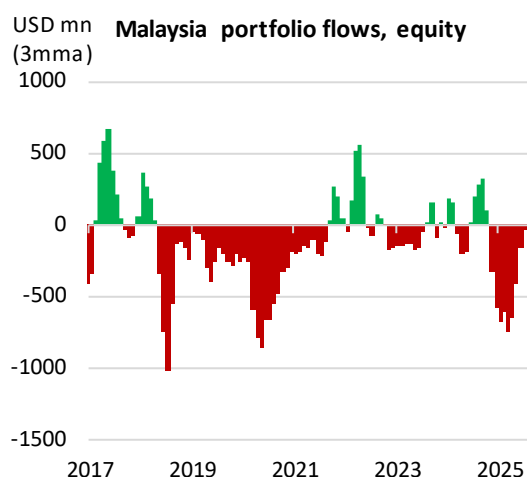




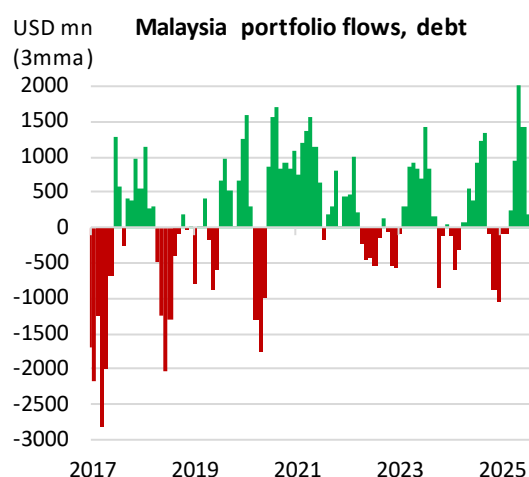
Source: IIF, DBS



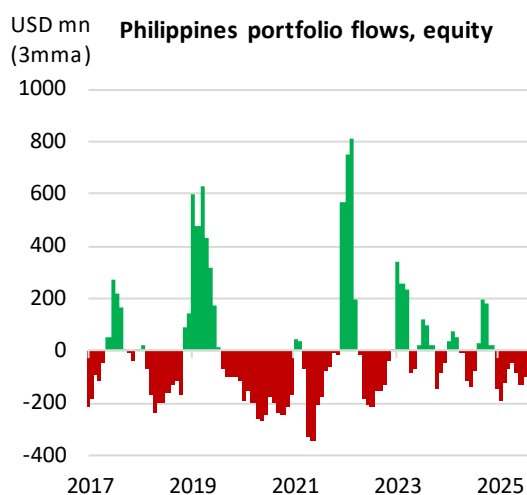
Source: IIF, DBS



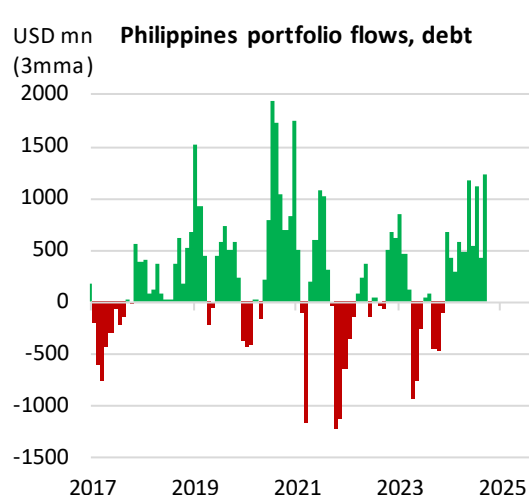
Source: IIF, DBS



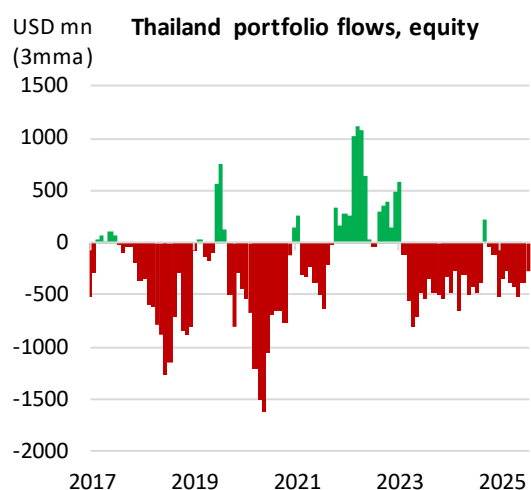
Source: IIF, DBS



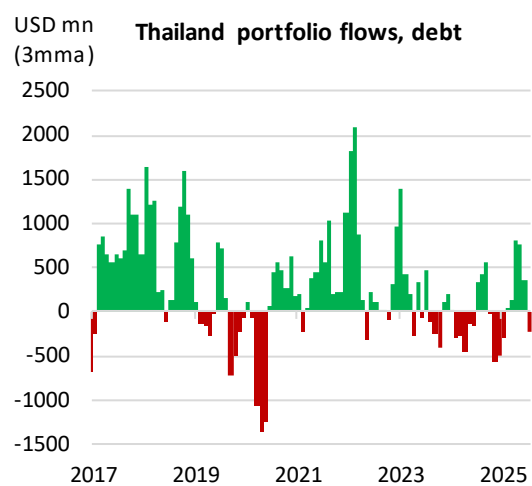
Source: IIF, DBS



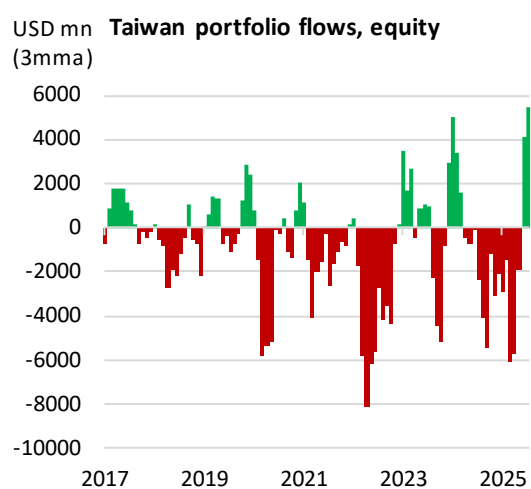
Source: IIF, DBS



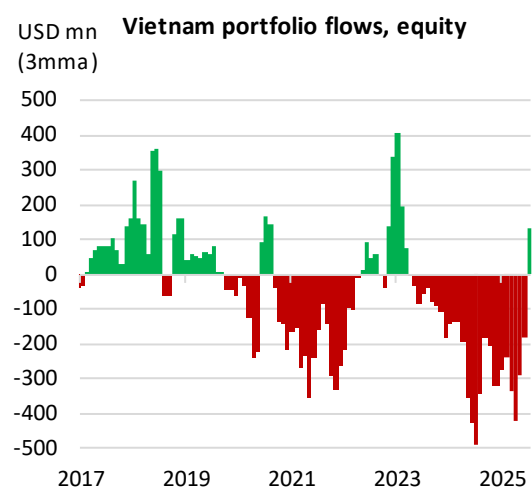
Source: IIF, DBS



Source: IIF, DBS



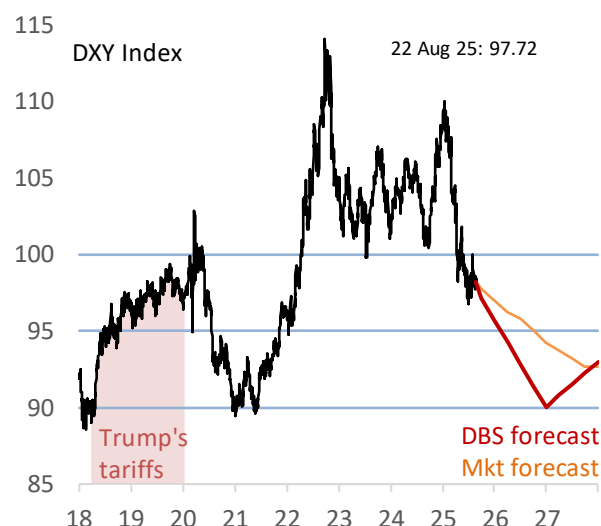
Source: IIF, DBS



Source: IIF, DBS

US dollar

DXY Index in a decline below 100



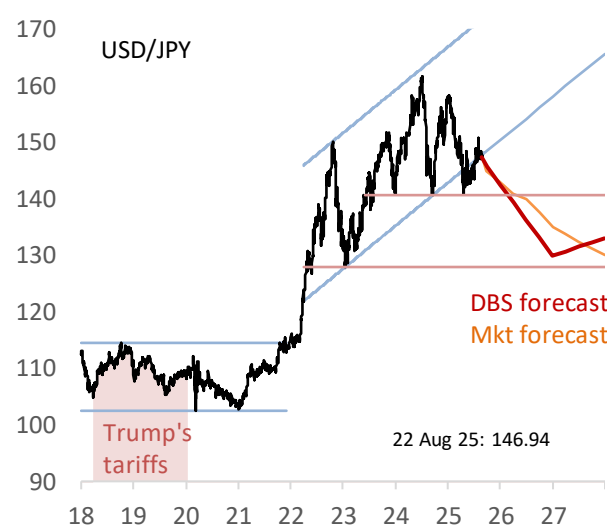
DBS forecasts

DXY	1Q	2Q	3Q	4Q
2025	104.2	96.9	97.1	95.7
2026	94.3	92.9	91.4	90.0
2027	90.8	91.5	92.3	93.0

Econ indicator	2024	2025	2026
GDP growth, % yoy	2.8	1.5	1.5
CPI inflation, % yoy	3.0	3.0	2.8
Current ac, % GDP	-3.3	-3.1	-2.7
Budget bal, % GDP	-7.6	-7.3	-7.0

Japanese yen

Trump finds the JPY too weak

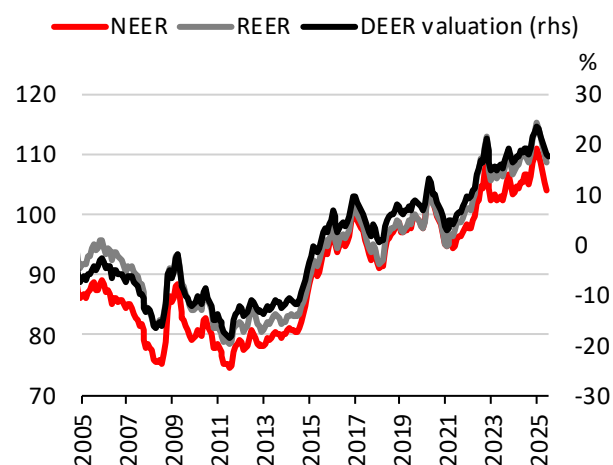


DBS forecasts

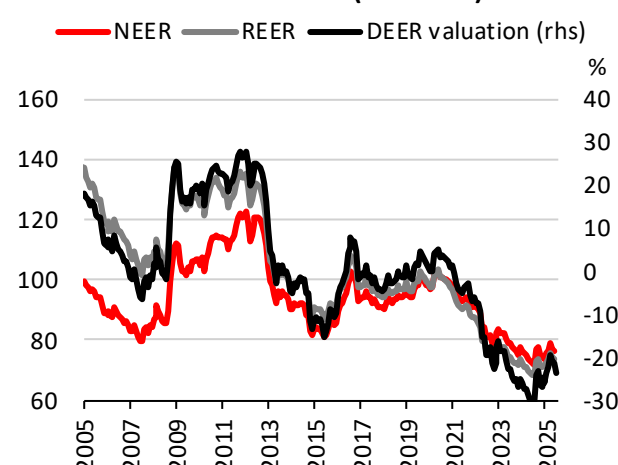
USDJPY	1Q	2Q	3Q	4Q
2025	150	144	146	142
2026	139	136	133	130
2027	131	132	132	133

Econ indicator	2024	2025	2026
GDP growth, % yoy	0.1	0.7	0.4
CPI inflation, % yoy	2.7	2.7	1.8
Current ac, % GDP	5.2	4.6	4.3
Budget bal, % GDP	-3.5	-3.3	-3.1

USD: Effective Exchange Rates and DEER valuations (2020=100)

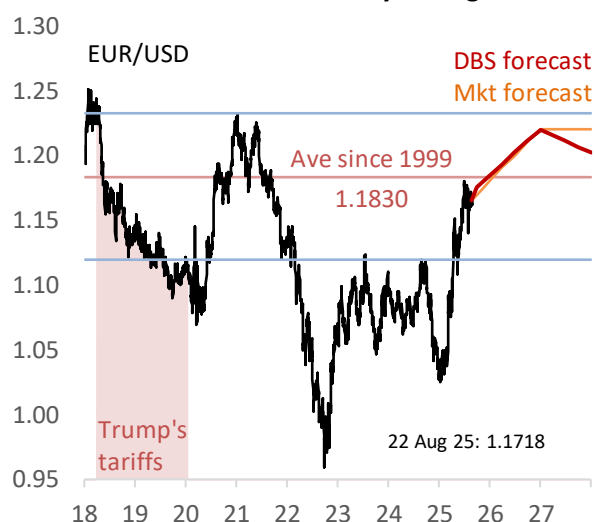


JPY: Effective Exchange Rates and DEER valuations (2020=100)



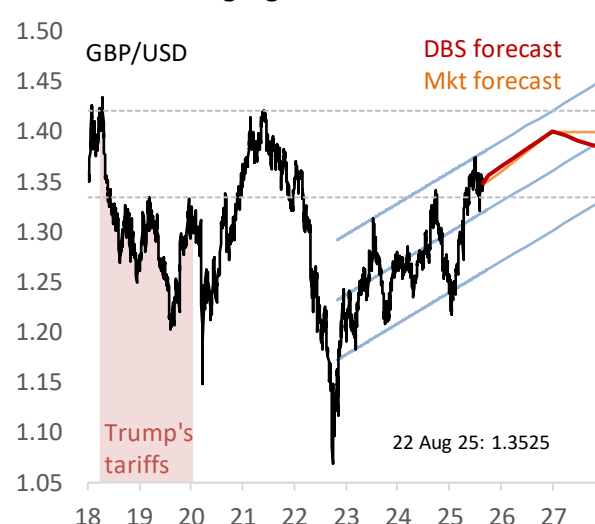
Euro

EUR is not excessively strong



British pound

Grinding higher towards 1.40



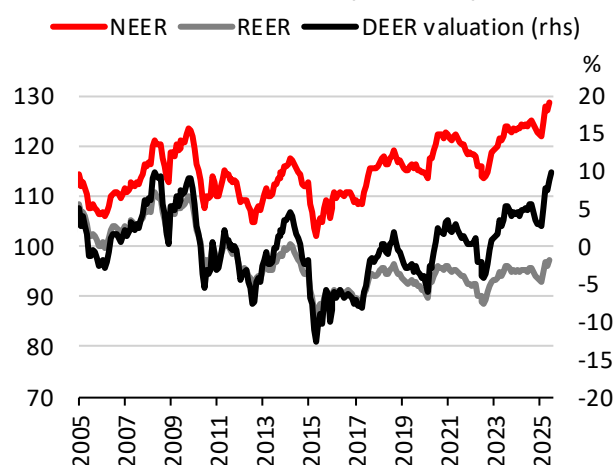
DBS forecasts

EURUSD	1Q	2Q	3Q	4Q
2025	1.08	1.18	1.18	1.18
2026	1.19	1.20	1.21	1.22
2027	1.22	1.21	1.21	1.20
Econ indicator	2024	2025	2026	
GDP growth, % yoy	0.7	0.8	1.2	
CPI inflation, % yoy	2.3	2.0	1.7	
Current ac, % GDP	1.3	1.2	1.2	
Budget bal, % GDP	-3.3	-3.1	-3.1	

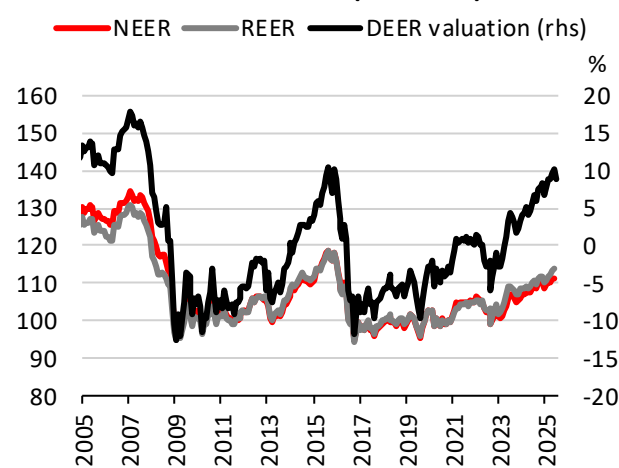
Economic & market forecasts

GBPUSD	1Q	2Q	3Q	4Q
2025	1.29	1.37	1.36	1.37
2026	1.37	1.38	1.39	1.40
2027	1.40	1.39	1.39	1.38
Consensus	2024	2025	2026	
GDP growth, % yoy	0.8	1.2	1.1	
CPI inflation, % yoy	2.5	3.3	2.5	
Current ac, % GDP	-2.6	-2.8	-2.7	
Budget bal, % GDP	-4.5	-4.3	-3.7	

EUR: Effective Exchange Rates and DEER valuations (2020=100)

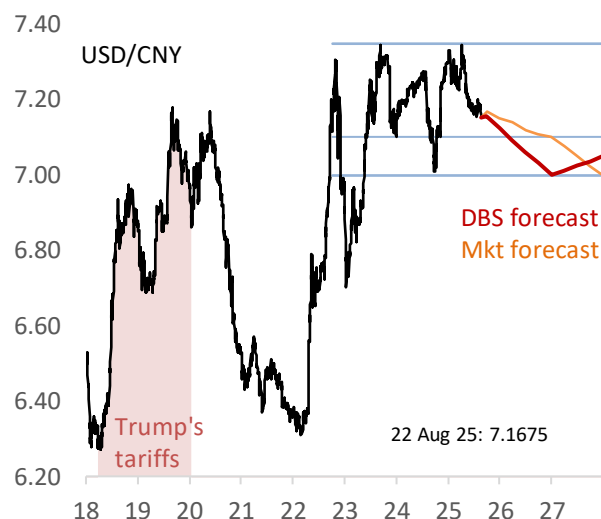


GBP: Effective Exchange Rates and DEER valuations (2020=100)



Chinese yuan

Declining in a 7.00-7.35 range

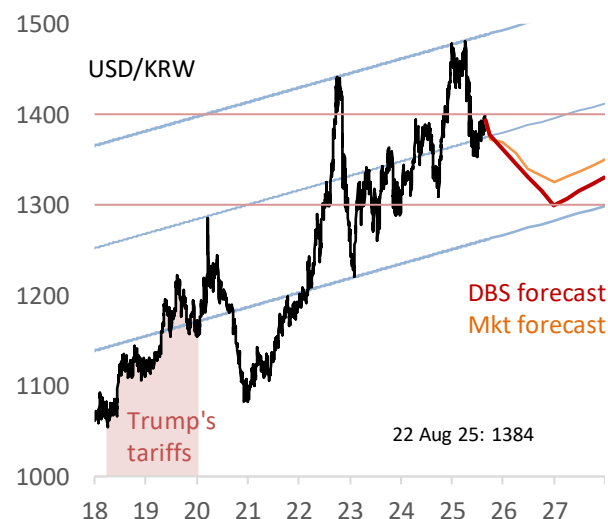


DBS forecasts

USDCNY	1Q	2Q	3Q	4Q
2025	7.26	7.16	7.16	7.12
2026	7.10	7.06	7.04	7.00
2026	7.02	7.02	7.04	7.06
Econ indicator	2024	2025	2026	
GDP growth, % yoy	5.0	5.0	4.5	
CPI inflation, % yoy	0.6	1.0	1.5	
Current ac, % GDP	1.4	2.2	1.8	
Budget bal, % GDP	-4.8	-5.0	-5.0	

South Korean won

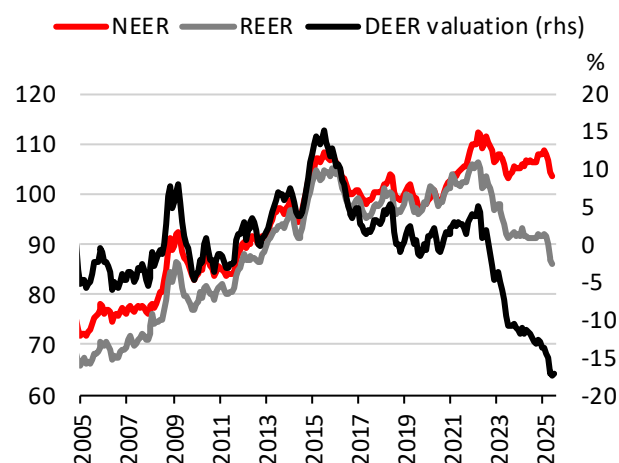
Breaking below 1400 towards 1300



DBS forecasts

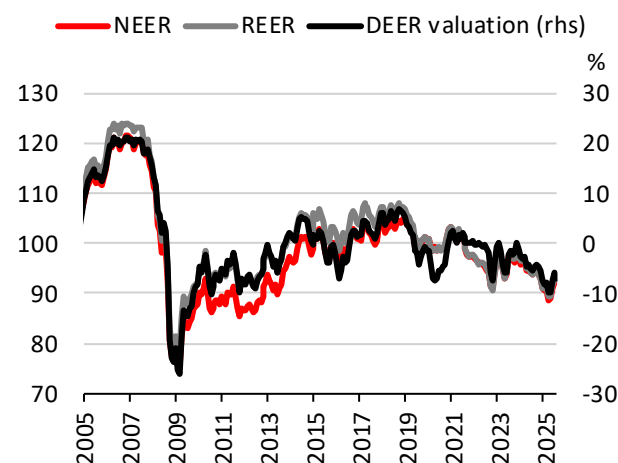
USDKRW	1Q	2Q	3Q	4Q
2025	1474	1355	1375	1360
2026	1345	1330	1315	1300
2027	1310	1315	1325	1330
Econ indicator	2024	2025	2026	
GDP growth, % yoy	2.0	1.0	1.9	
CPI inflation, % yoy	2.3	2.0	2.0	
Current ac, % GDP	5.3	3.9	3.7	
Budget bal, % GDP	-3.2	-4.0	-3.2	

CNY: Effective Exchange Rates and DEER valuations (2020=100)



Source: BIS, DBS

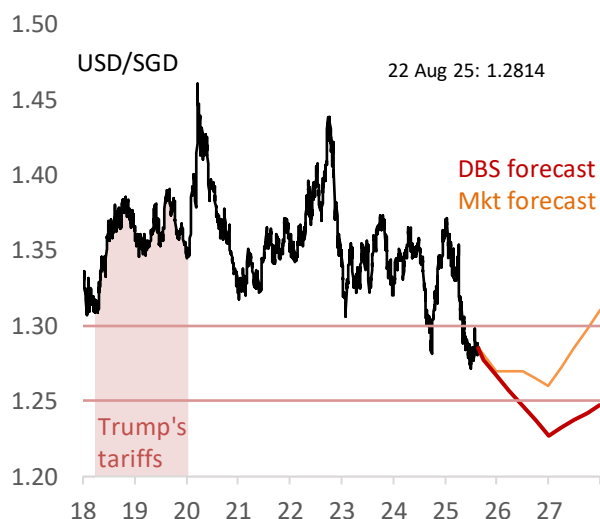
KRW: Effective Exchange Rates and DEER valuations (2020=100)



Source: BIS, DBS

Singapore dollar

A price-taker of downside USD risks

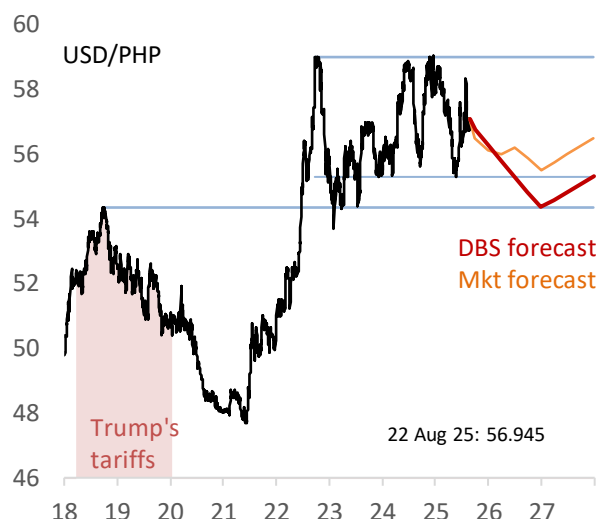


DBS forecasts

USDSGD	1Q	2Q	3Q	4Q
2025	1.34	1.27	1.28	1.27
2026	1.26	1.25	1.24	1.23
2026	1.23	1.24	1.24	1.25
Econ indicator	2024	2025	2026	
GDP growth, % yoy	4.4	2.0	1.8	
CPI inflation, % yoy	2.4	1.0	1.5	
Current ac, % GDP	17.5	17.0	16.5	
Budget bal, % GDP	0.9	0.9	0.3	

Philippine peso

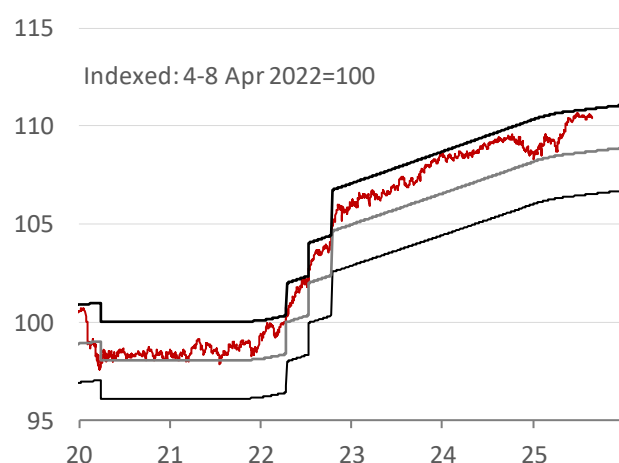
Risks tilted to the downside again



DBS forecasts

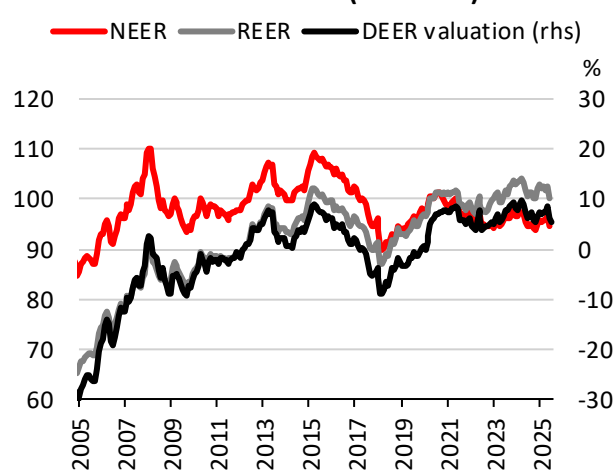
USDPHP	1Q	2Q	3Q	4Q
2025	57.3	56.3	56.7	56.3
2026	55.8	55.3	54.8	54.4
2027	54.6	54.8	55.1	55.3
Econ indicator	2024	2025	2026	
GDP growth, % yoy	5.6	5.6	5.5	
CPI inflation, % yoy	3.2	1.7	2.5	
Current ac, % GDP	-2.7	-2.3	-2.5	
Budget bal, % GDP	-5.4	-5.3	-5.3	

DBS SGD NEER and policy band



Source: DBS Research

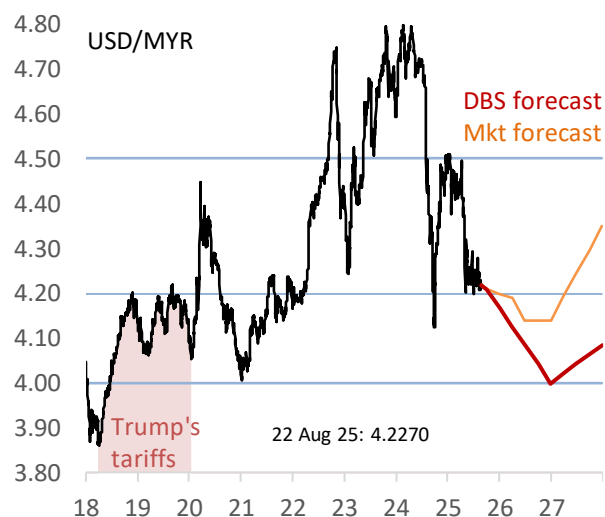
PHP: Effective Exchange Rates and DEER valuations (2020=100)



Source: BIS, DBS

Malaysian ringgit

Eyeing a lower 4.00-4.20 range

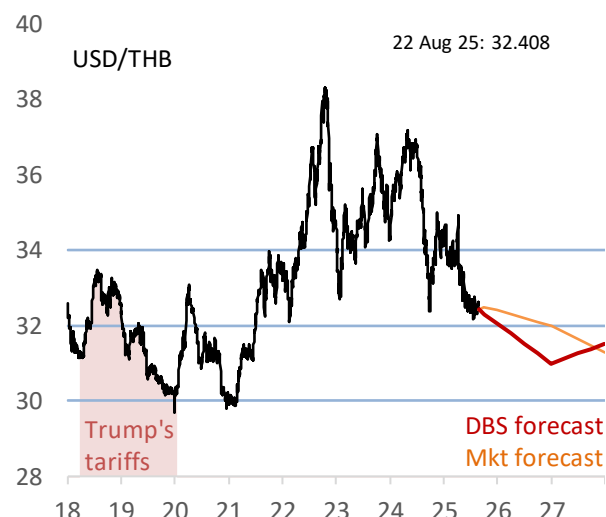


DBS forecasts

USDMYR	1Q	2Q	3Q	4Q
2025	4.43	4.21	4.21	4.17
2026	4.13	4.08	4.04	4.00
2027	4.02	4.04	4.06	4.08
Econ indicator	2024	2025	2026	
GDP growth, % yoy	5.1	4.0	3.8	
CPI inflation, % yoy	1.8	1.8	2.3	
Current ac, % GDP	1.7	2.0	2.5	
Budget bal, % GDP	-4.3	-3.8	-3.3	

Thai baht

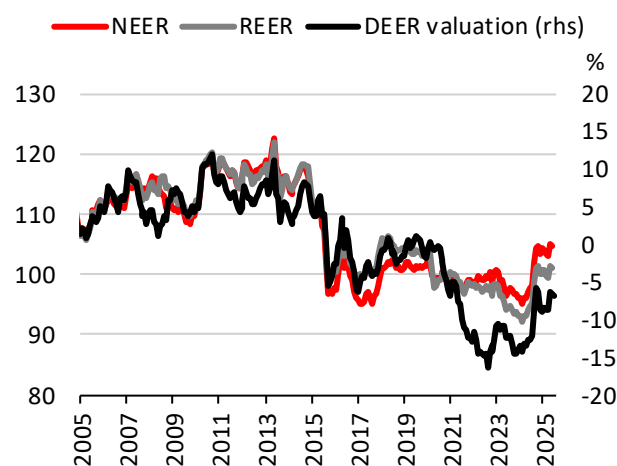
Eyeing a lower 30-32 range



DBS forecasts

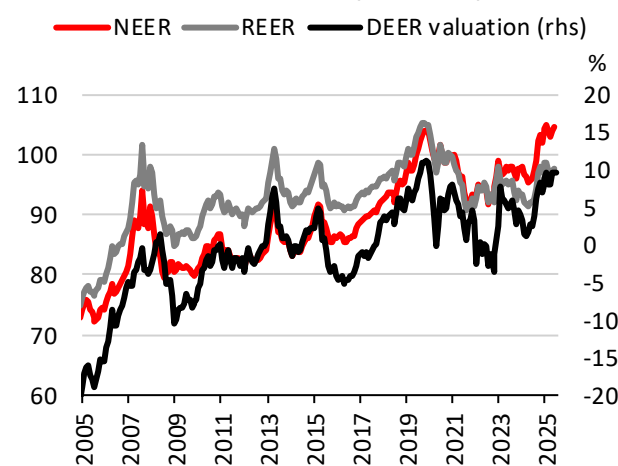
USDTHB	1Q	2Q	3Q	4Q
2025	34.0	32.5	32.3	32.0
2026	31.8	31.5	31.3	31.0
2027	31.1	31.3	31.4	31.5
Econ indicator	2024	2025	2026	
GDP growth, % yoy	2.5	2.1	1.6	
CPI inflation, % yoy	0.4	0.4	0.7	
Current ac, % GDP	2.3	2.8	3.2	
Budget bal, % GDP	-3.3	-4.0	-3.5	

MYR: Effective Exchange Rates and DEER valuations (2020=100)



Source: BIS, DBS

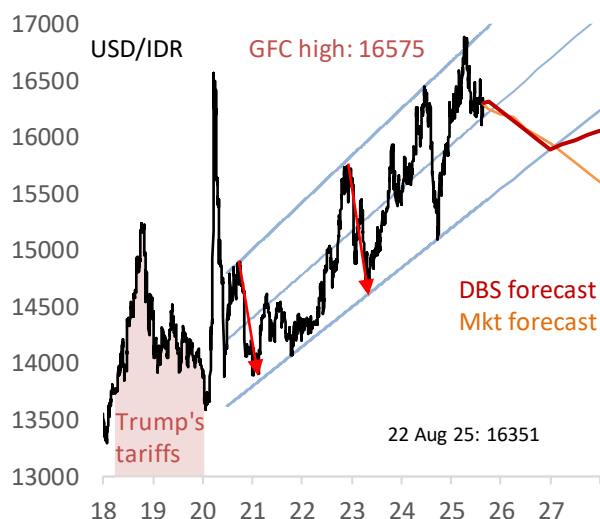
THB: Effective Exchange Rates and DEER valuations (2020=100)



Source: BIS, DBS

Indonesian rupiah

Wary of more pullback

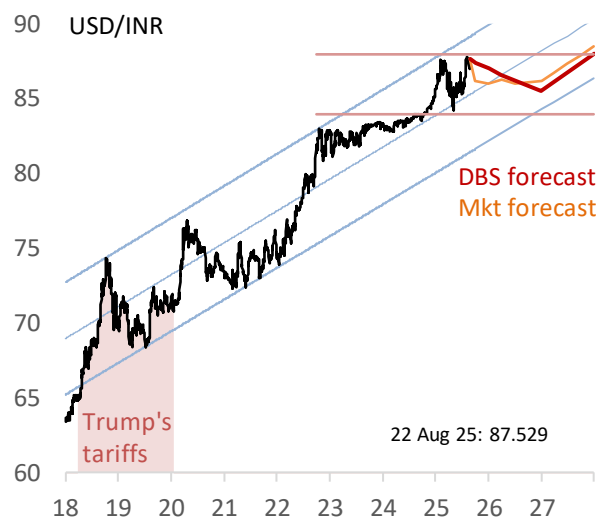


DBS forecasts

USDIDR	1Q	2Q	3Q	4Q
2025	16580	16240	16320	16230
2026	16150	16060	15980	15890
2027	15940	15980	16020	16060
Econ indicator	2024	2025	2026	
GDP growth, % yoy	5.0	4.8	4.8	
CPI inflation, % yoy	2.3	2.2	2.5	
Current ac, % GDP	-0.6	-0.6	-0.8	
Budget bal, % GDP	-2.3	-2.9	-2.9	

Indian rupee

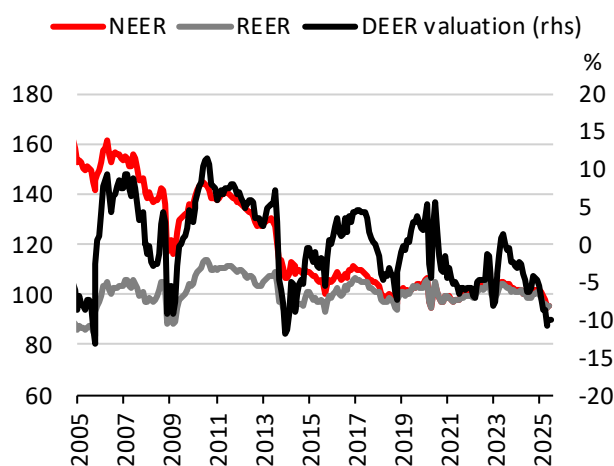
May consolidate again, in a 84-88 range



DBS forecasts

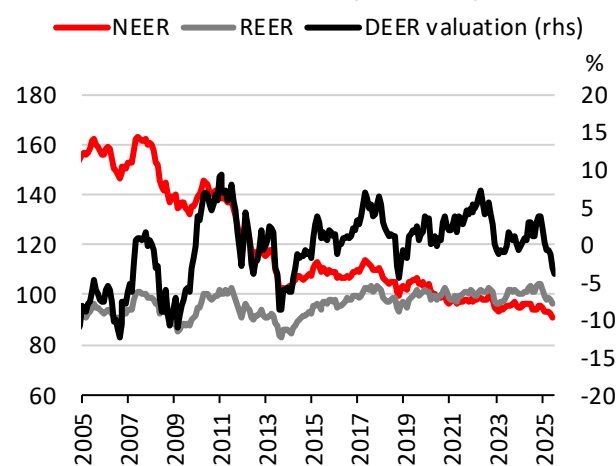
USDINR	1Q	2Q	3Q	4Q
2025	85.5	85.8	87.4	87.0
2026	86.6	86.3	85.9	85.5
2027	86.1	86.8	87.4	88.0
Econ indicator	FY24-25	FY25-26	FY26-27	
GDP growth, % yoy	6.5	6.3	6.1	
CPI inflation, % yoy	4.6	2.8	4.3	
Current ac, % GDP	-0.7	-0.9	-1.0	
Budget bal, % GDP	-7.9	-7.5	-7.5	

IDR: Effective Exchange Rates and DEER valuations (2020=100)



Source: BIS, DBS

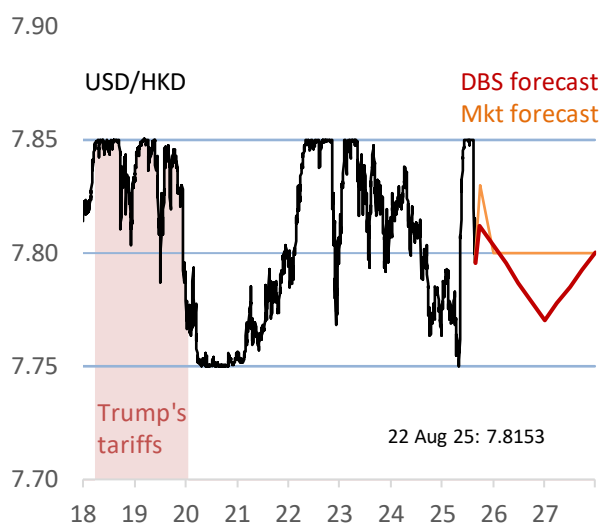
INR: Effective Exchange Rates and DEER valuations (2020=100)



Source: BIS, DBS

Hong Kong dollar

Dovish Fed brings downside risks

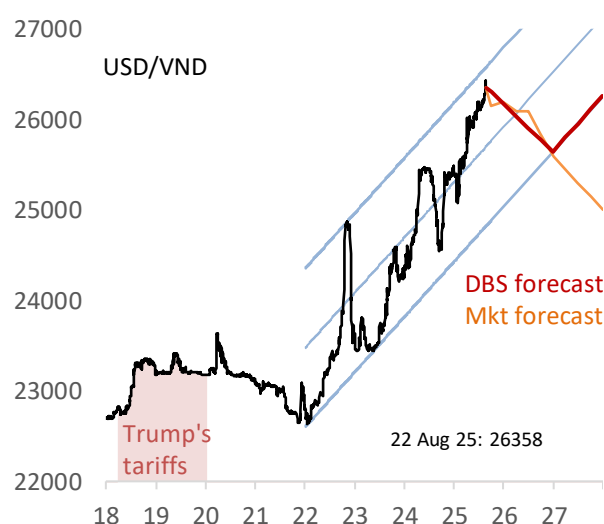


DBS forecasts

USDHKD	1Q	2Q	3Q	4Q
2025	7.78	7.85	7.81	7.80
2026	7.80	7.79	7.78	7.77
2027	7.78	7.79	7.79	7.80
Econ indicator	2024	2025	2026	
GDP growth, % yoy	2.5	3.0	2.8	
CPI inflation, % yoy	1.5	1.5	1.5	
Current ac, % GDP	9.5	9.5	9.5	
Budget bal, % GDP	-3.2	-3.0	-2.5	

Vietnamese dong

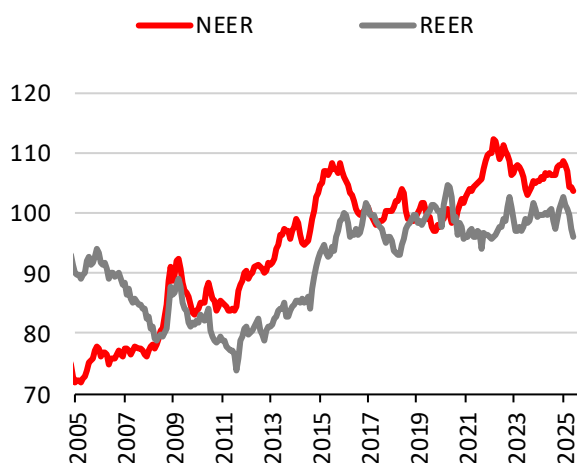
Approaching a peak and correction



DBS forecasts

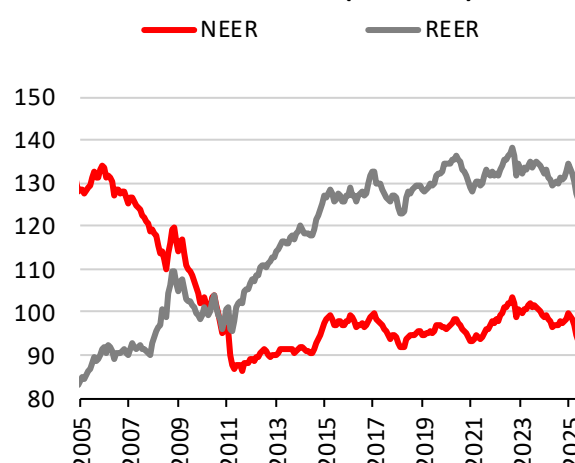
USDVND	1Q	2Q	3Q	4Q
2025	25577	26120	26300	26170
2026	26040	25910	25780	25650
2027	25800	25960	26110	26260
Econ indicator	2024	2025	2026	
GDP growth, % yoy	7.1	6.5	6.0	
CPI inflation, % yoy	3.6	3.2	3.3	
Current ac, % GDP	4.5	4.0	3.0	
Budget bal, % GDP	-3.5	-4.0	-3.5	

HKD: Effective Exchange Rates and DEER valuations (2020=100)



Source: BIS, DBS

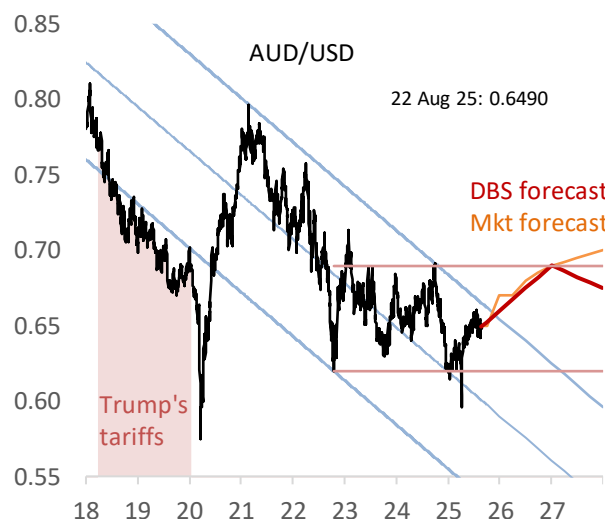
VND: Effective Exchange Rates and DEER valuations (2020=100)



Source: BIS, DBS

Australian dollar

Uptrend intact in a 0.62-0.69 range

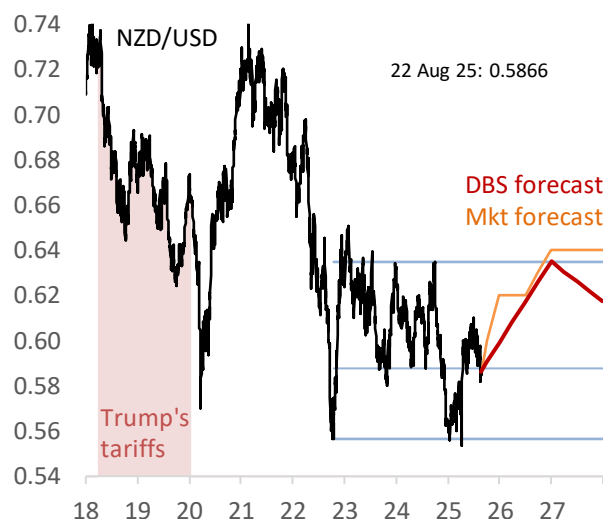


Economic & market forecasts

AUDUSD	1Q	2Q	3Q	4Q
2025	0.62	0.66	0.65	0.66
2026	0.67	0.67	0.68	0.69
2026	0.69	0.68	0.68	0.67
Consensus	2024	2025	2026	
GDP growth, % yoy	1.0	1.6	2.2	
CPI inflation, % yoy	3.2	2.5	2.7	
Current ac, % GDP	-1.7	-2.1	-2.5	
Budget bal, % GDP	-1.4	-1.0	-1.5	

New Zealand dollar

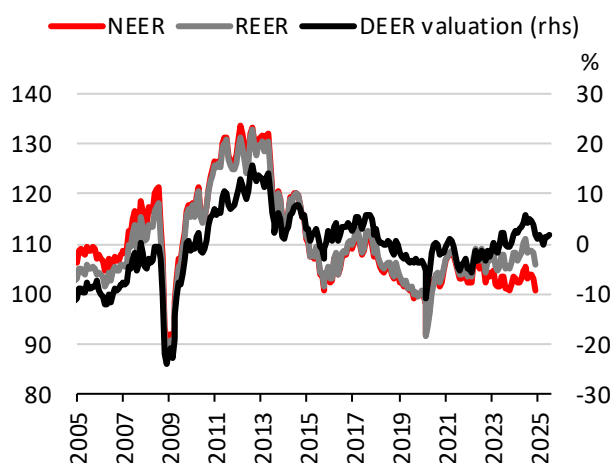
Recovering in a 0.59-0.64 range



Economic & market forecasts

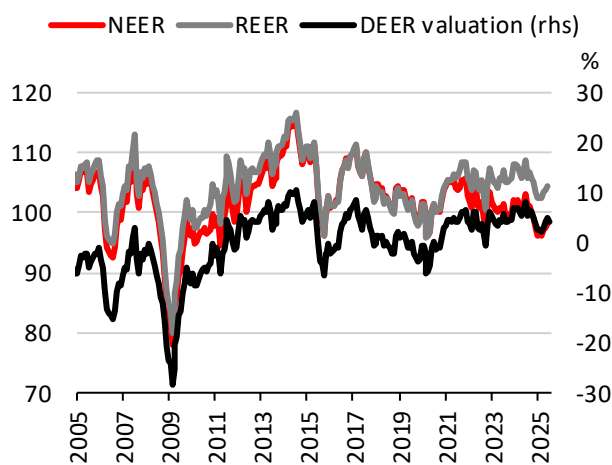
NZDUSD	1Q	2Q	3Q	4Q
2025	0.57	0.61	0.59	0.60
2026	0.61	0.62	0.63	0.64
2027	0.63	0.63	0.62	0.62
Consensus	2024	2025	2026	
GDP growth, % yoy	-0.4	1.2	2.4	
CPI inflation, % yoy	2.9	2.5	2.0	
Current ac, % GDP	-6.3	-5.0	-4.0	
Budget bal, % GDP	-1.9	-3.4	-2.8	

AUD: Effective Exchange Rates and DEER valuations (2020=100)



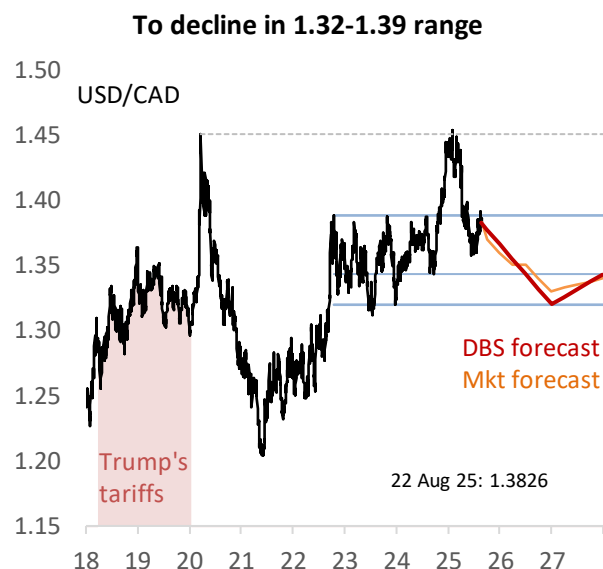
Source: BIS, DBS

NZD: Effective Exchange Rates and DEER valuations (2020=100)



Source: BIS, DBS

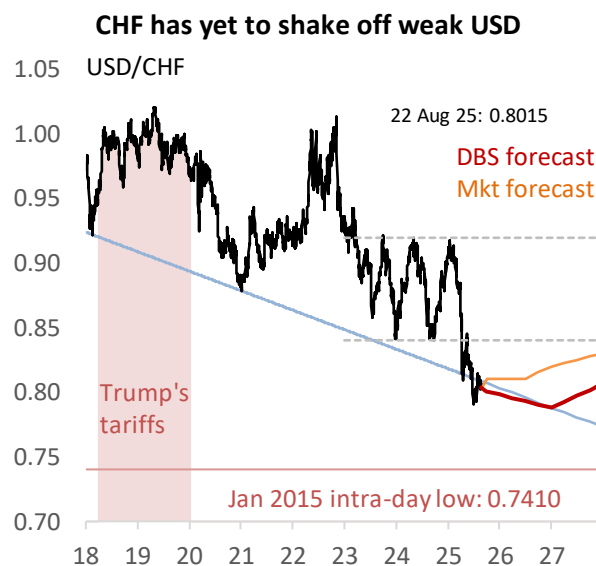
Canadian dollar



Economic & market forecasts

USDCAD	1Q	2Q	3Q	4Q
2025	1.44	1.36	1.38	1.37
2026	1.35	1.34	1.33	1.32
2026	1.33	1.33	1.34	1.34
Consensus	2024	2025	2026	
GDP growth, % yoy	1.3	1.4	1.3	
CPI inflation, % yoy	2.4	2.1	2.1	
Current ac, % GDP	-0.5	-0.8	-1.0	
Budget bal, % GDP	-1.6	-1.7	-1.9	

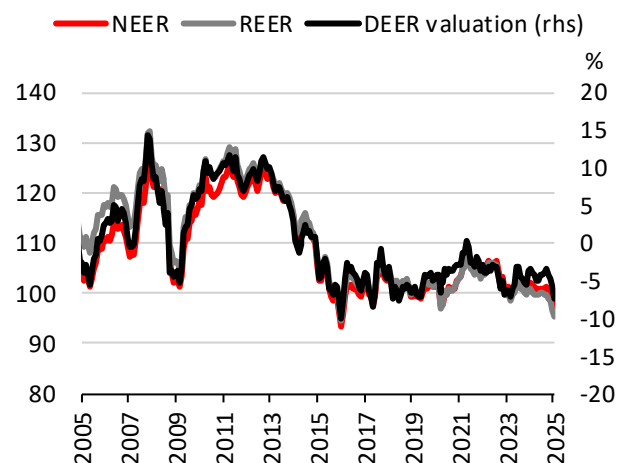
Swiss franc



Economic & market forecasts

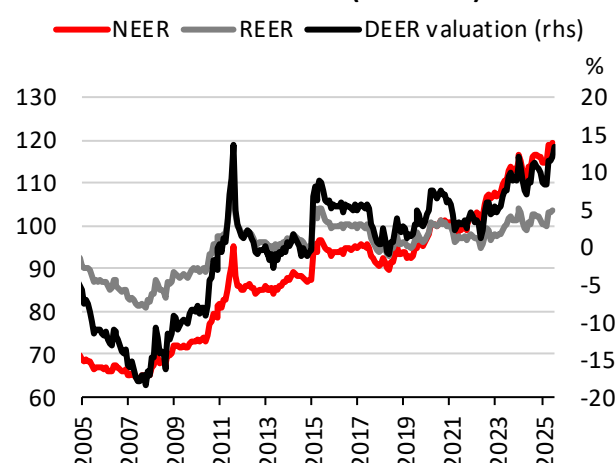
USDCHF	1Q	2Q	3Q	4Q
2025	0.88	0.79	0.80	0.80
2026	0.80	0.79	0.79	0.79
2027	0.79	0.80	0.80	0.81
Consensus	2024	2025	2026	
GDP growth, % yoy	1.3	1.1	1.4	
CPI inflation, % yoy	1.1	0.2	0.6	
Current ac, % GDP	7.9	5.0	5.2	
Budget bal, % GDP	0.5	0.3	0.2	

CAD: Effective Exchange Rates and DEER valuations (2020=100)



Source: BIS, DBS

CHF: Effective Exchange Rates and DEER valuations (2020=100)



Source: BIS, DBS

Macro Forecasts

	GDP growth, % YoY						CPI inflation, % YoY, ave					
	2021	2022	2023	2024	2025f	2026f	2021	2022	2023	2024	2025f	2026f
China	8.1	3.0	5.2	5.0	5.0	4.5	0.9	2.2	0.2	0.6	1.0	1.5
Hong Kong SAR	6.3	-3.5	3.3	2.5	3.0	2.8	1.6	1.9	2.0	1.5	1.5	1.5
India	10.3	7.2	8.7	6.5	6.2	6.0	5.1	6.7	5.7	5.0	2.6	4.7
India (FY basis)*	9.7	7.6	9.2	6.5	6.3	6.1	5.5	6.7	5.4	4.6	2.8	4.3
Indonesia	3.7	5.3	5.1	5.0	4.8	4.8	1.6	4.2	3.7	2.3	2.2	2.5
Malaysia	3.3	8.9	3.6	5.1	4.0	3.8	2.5	3.4	2.5	1.8	1.8	2.3
Philippines	5.7	7.6	5.6	5.6	5.6	5.5	3.9	5.8	6.0	3.2	1.7	2.5
Singapore	9.8	4.1	1.8	4.4	2.0	1.8	2.3	6.1	4.8	2.4	1.0	1.5
South Korea	4.6	2.7	1.4	2.0	1.0	1.9	2.5	5.1	3.6	2.3	2.0	2.0
Taiwan	6.7	2.7	1.1	4.8	4.0	2.0	2.0	2.9	2.5	2.2	1.7	1.5
Thailand	1.6	2.6	2.0	2.5	2.1	1.6	1.2	6.1	1.2	0.4	0.4	0.7
Vietnam	2.6	8.0	5.0	7.1	6.5	6.0	1.8	3.2	3.3	3.6	3.2	3.3
Eurozone	5.3	3.5	0.5	0.7	0.8	1.2	2.6	8.4	5.5	2.3	2.0	1.7
Japan	2.7	0.9	1.5	0.1	0.7	0.4	-0.3	2.5	3.3	2.7	2.7	1.8
United States	6.1	2.5	2.9	2.8	1.5	1.5	4.7	8.0	4.1	3.0	3.0	2.8

*2020 represents Fiscal 21; ending Mar 21

	Policy interest rates, eop							
	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
China*	3.10	3.00	2.90	2.80	2.80	2.55	2.55	2.55
India	6.25	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Indonesia	5.75	5.50	5.00	4.75	4.75	4.75	4.75	4.75
Malaysia	3.00	3.00	2.75	2.50	2.50	2.50	2.50	2.50
Philippines	5.75	5.25	5.00	4.75	4.75	4.75	4.75	4.75
Singapore**	2.36	2.10	1.70	1.65	1.60	1.95	1.95	1.95
South Korea	2.75	2.50	2.50	2.25	2.25	2.25	2.25	2.25
Taiwan	2.00	2.00	2.00	1.88	1.75	1.75	1.75	1.75
Thailand	2.00	1.75	1.50	1.25	1.00	1.00	1.00	1.00
Vietnam***	4.50	4.50	4.00	4.00	4.00	4.00	4.00	4.00
Eurozone^	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Japan	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00
United States	4.50	4.50	4.25	4.00	3.75	3.50	3.50	3.50

* 1-yr Loan Prime Rate; ** 3M SORA OIS ; *** refinancing rate; ^ deposit facility rate

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