

DBS FX Quarterly 1Q 26

The USD's war-driven haven trap

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 finds a temporary geopolitical floor

- Markets have been on the defensive following Operation Epic Fury
- There is a reluctant flight to the USD, which has lost much of its haven appeal, but is seen as better insulated against oil shocks
- An eventual resumption of oil flows in Hormuz should shift capital to currencies with better structural fundamentals

FX strategic trade ideas

- Awaiting conflict clarity amid heightened volatility and unpredictability

Asian FX vulnerability analysis

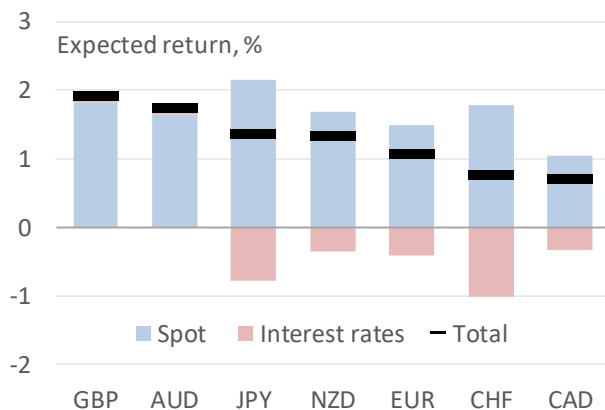
- THB and INR are vulnerable to rising oil prices, while RMB and SGD are more resilient

Valuations and flows analysis

- JPY and KRW are highly undervalued amid energy risks, while USD remains overvalued

Developed Market currencies

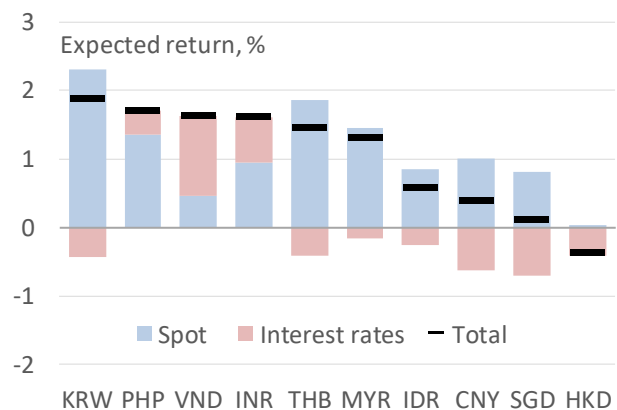
25 Mar 2026 to 30 Jun 2026



Sources: DBS Research, Bloomberg data

Asia ex-Japan currencies

25 Mar 2026 to 30 Jun 2026



Sources: DBS Research, Bloomberg data

FX Forecasts

FX pair / eop	25-Mar	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	2028	2029	2030
USD/CNY	6.8995	6.90	6.83	6.77	6.70	6.74	6.78	6.81	6.85	6.80	6.75	6.70
USD/HKD	7.8179	7.82	7.82	7.81	7.81	7.81	7.81	7.80	7.80	7.80	7.80	7.80
USD/INR	93.959	93.9	93.1	92.2	91.4	92.0	92.7	93.3	94.0	93.1	92.3	91.4
USD/IDR	16911	16900	16770	16635	16500	16500	16500	16500	16500	16370	16245	16115
USD/MYR	3.9635	3.96	3.91	3.85	3.80	3.85	3.90	3.95	4.00	3.93	3.87	3.80
USD/PHP	60.104	60.1	59.3	58.5	57.8	58.3	58.8	59.3	59.9	59.6	59.4	59.2
USD/SGD	1.2800	1.28	1.27	1.26	1.25	1.26	1.27	1.27	1.28	1.26	1.24	1.22
USD/KRW	1504.0	1500	1470	1435	1400	1415	1425	1440	1450	1420	1385	1355
USD/THB	32.735	32.7	32.1	31.6	31.0	31.4	31.8	32.1	32.5	31.7	30.8	30.0
USD/VND	26349	26340	26230	26110	26000	26130	26250	26380	26500	26170	25830	25500
AUD/USD	0.6967	0.70	0.71	0.72	0.73	0.73	0.72	0.72	0.71	0.73	0.74	0.75
USD/CAD	1.3784	1.38	1.36	1.35	1.34	1.34	1.35	1.35	1.35	1.34	1.33	1.31
EUR/USD	1.1597	1.16	1.18	1.19	1.21	1.20	1.19	1.18	1.17	1.20	1.22	1.25
USD/JPY	159.15	159	156	153	149	151	152	153	154	150	145	141
NZD/USD	0.5815	0.58	0.59	0.60	0.61	0.60	0.60	0.59	0.58	0.60	0.62	0.64
USD/CHF	0.7900	0.79	0.78	0.76	0.75	0.75	0.76	0.76	0.77	0.76	0.75	0.74
GBP/USD	1.3391	1.34	1.36	1.39	1.41	1.40	1.39	1.38	1.37	1.39	1.40	1.42
DXY Index	99.348	99.3	98.0	96.6	95.3	95.7	96.0	96.4	96.8	95.8	94.8	93.8

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

Futures/OIS pricing for central bank policy rates as of 25 Mar 2026

	Fed Funds Rate		ECB depo rate		BOE bank rate		SNB policy rate		BOJ bal rate		RBA cash rate		RBNZ cash rate		BOC o/n lend	
	Mtg	%	Mtg	%	Mtg	%	Mtg	%	Mtg	%	Mtg	%	Mtg	%	Mtg	%
2025	Dec 10	3.75	Dec 18	2.00	Nov 6	4.00	Dec 11	0.00	Dec 19	0.75	Nov 4	3.60	Nov 26	2.25	Dec 10	2.25
2026	Jan 28	3.75	Feb 5	2.00	Feb 5	3.75	Mar 19	0.00	Jan 23	0.75	Feb 3	3.85	Feb 18	2.25	Jan 28	2.25
	Mar 18	3.75	Mar 19	2.00	Mar 19	3.75	Mar 19	0.00	Mar 19	0.75	Mar 17	4.10	Mar 17	2.25	Mar 18	2.25
	Apr 29	3.75	Apr 30	2.25	Apr 30	4.00			Apr 28	1.00			Apr 8	2.25	Apr 29	2.25
	Jun 17	3.75	Jun 11	2.25	Jun 18	4.00	Jun 18	0.00	Jun 16	1.00	May 5	4.35	May 27	2.25	Jun 10	2.25
	Jul 29	3.75	Jul 23	2.50	Jul 30	4.25			Jul 31	1.00	Jun 16	4.35	Jul 8	2.50	Jul 15	2.50
	Sep 16	3.75	Sep 10	2.50	Sep 17	4.25	Sep 24	0.25	Sep 18	1.00	Aug 11	4.35	Sep 2	2.50	Sep 2	2.50
	Oct 28	3.75	Oct 29	2.75					Oct 30	1.25	Sep 29	4.60	Oct 28	2.75	Oct 28	2.75
	Dec 9	3.75	Dec 17	2.75	Nov 5	4.25	Dec 10	0.25	Dec 18	1.25	Nov 3	4.60	Dec 9	3.00	Dec 9	2.75
2025	3 cuts 75 bps		4 cuts 100 bps		4 cuts 100 bps		2 cuts 50 bps		2 hikes 50 bps		3 cuts 75 bps		6 cuts 200 bps		4 cuts 125 bps	
2026	No change		3 hikes 75 bps		2 hikes 50 bps		1 hike 25 bps		2 hikes 50 bps		4 hikes 100 bps		4 hikes 100 bps		3 hikes 75 bps	

Sources: DBS Research, Bloomberg data

Central theme: USD Mutiny delayed

We originally intended to follow up on December's FX Quarterly theme, "A Lame Duck USD," with a March sequel titled "A USD Mutiny." That thesis was tracking perfectly alongside the "Sell America" sentiment first observed during Trump's Greenland Gambit in late January 2026. Unfortunately, a month later, the shock US-Israel attacks on Iran knocked markets off the yellow brick road into a landscape of heightened and non-linear uncertainty.

DXY Index is still stable in 96-101 range



Sources: DBS Research, Bloomberg data

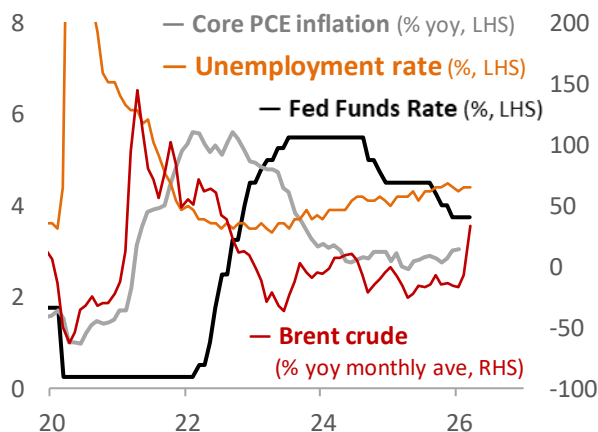
Nonetheless, the unilateral nature of the US-Israel strikes has created a rare consensus of dissent among G7 allies, notably France, Germany, and Italy, which have refused to provide naval support in a conflict they were not consulted on, signaling a de facto abandonment of the American security umbrella. This isolation, coupled with the US-inflicted global economic and inflationary pain driven by the Strait of Hormuz closure, has prompted global investors to re-evaluate the US Treasury bond as a risk-free asset. Consequently, **the "American Hubris" narrative risks transforming from just a diplomatic critique into a primary market driver**, suggesting that the era of unquestioned US

financial hegemony is being eroded by predatory US foreign and economic policies that alienate countries, including allies.

Oil price spike – this is not 2022

The current escalation in global crude prices poses a fundamentally different challenge for the Fed than the 2022 supply shock that propelled the USD significantly higher. Following Russia's invasion of Ukraine, the Fed found itself decisively behind the curve on inflation, with inflation already entrenched and rates at 0-0.25%. This necessitated an aggressive tightening cycle, including four consecutive 75-bps "jumbo" hikes, to regain control of the mandate for price stability.

Will higher oil prices lift US inflation?



Sources: DBS Research, Bloomberg data

In contrast, the **2026 landscape finds the Fed operating from a modestly restrictive monetary starting point.** With the Fed Funds Rate maintaining a real rate buffer against a three-year rise in the unemployment rate, the Fed kept a dovish bias (one hike in 2026) in the March Summary of Economic Projections. **However, this is conditional on whether the Middle East oil supply disruption is fleeting or protracted.** To look past the higher energy prices, the Fed needs

assurance that the inflation rise is a one-off and does not de-anchor inflation expectations.

2026 oil shock vs. 2025 tariff shock

The market's reaction to the current energy crisis also stands in sharp contrast to the April 2025 "Liberation Day" tariff shock. The USD's spike was fleeting, exhausted within a week on the Trump administration's rapid pivot toward a "tariff truce" to facilitate trade negotiations.

Conversely, the 2026 conflict lacks a visible "off-ramp" for now. The current premium in both crude and the USD is being driven by the fear of a perpetual war with no discernible endgame, removing the mean-reversion trade that cooled markets a year ago.

Despite this narrative of persistence, **a sudden pivot by President Trump toward de-escalation remains a potent tail risk.** The administration faces a tightening domestic vice as lawmakers and voters grow weary; the backlash against sustained military spending poses a direct threat to Republican prospects in the upcoming midterms. This internal friction is compounded by deepening international isolation, in which even traditional allies have begun distancing themselves from Washington's kinetic strategy to avoid retaliatory fallout. Furthermore, the "America First" doctrine faces a structural contradiction: the administration must eventually choose between financing a protracted stalemate or preserving the fiscal and political capital needed for its signature domestic agenda.

Given these pressures, President Trump could seek a political off-ramp that prioritizes a "mission accomplished" declaration over a traditional military victory to restore oil flows and refocus on the domestic agenda. If so, markets

could quickly shift from war-driven market volatility back to a "Sell America" trade.

USD Risk 1: Fed's independence

On January 30, President Trump officially nominated Kevin Warsh to succeed Jerome Powell as Fed Chair. Senator Thom Tillis has blocked Warsh's Senate confirmation hearing until a Justice Department probe into the Federal Reserve's building renovations is resolved.

On March 18, **Powell stated he will continue to serve as Chair past his May 15 term expiration if his successor is not confirmed**, as permitted by law. However, **Powell also intends to remain a Fed Governor until January 2028** to ensure that four of the seven members of the Board of Governors are not under Trump's influence. Powell's decision to stay as a Governor while Warsh serves as Chair would **create a potentially awkward "Two Popes" scenario.**

Warsh has campaigned on a platform of policy regime change, criticizing mission creep and calling for a return to a narrower focus on price stability. If oil prices stay high and inflation re-accelerates toward 4%, Warsh's hawkish instincts may return. He has stated that central bank independence is the solution to protect against the risk that monetary policy will be mishandled. **If Warsh chooses to hike or hold rates to fight oil-driven inflation, he will likely face the same public vitriol Trump has directed at Powell.**

USD Risk 2: Fiscal sustainability

Fiscal sustainability concerns will re-emerge over Trump's budget, as it loses tariffs as an important revenue source while increasing its war expenses.

First, the Congressional Budget Office (CBO) **estimated** on March 5 **that the termination of**

illegal tariffs would increase federal deficits by USD 2 trillion over the 2026–2036 period. On February 20, the US Supreme Court stripped the President of the power to use the International Emergency Economic Powers Act (IEEPA) to impose global tariffs. The Court of International Trade has ordered a refund of tariffs, which the Customs and Border Protection said the system to manage the refunds will be ready in April.

To bypass the Supreme Court's ruling, Trump invoked Section 122 of the Trade Act of 1974, imposing a 10% global tariff. Unlike IEEPA, Section 122 is a bridge authority that caps tariffs at a maximum 15% rate, and expires after 150 days (July 24), unless Congress approves an extension.

Second, the financial scale of US involvement in the Iran War is becoming one of the largest in modern US history. In addition to the USD 840 billion FY 2026 defense budget signed in February, the White House is requesting USD 200 billion to replenish ammunition and other supplies depleted by the Iran conflict and by previous aid to other countries. The Pentagon has briefed lawmakers that the first six days of the conflict alone cost USD 11.3 billion.

Conclusion

The "USD Mutiny" has not been cancelled; it has merely been sidelined by the acute volatility of the conflict surrounding Iran. To salvage the Republican party's midterm prospects and address a staggering war bill, President Trump may prioritize a "mission accomplished" declaration over a military victory to restore oil flows through the Strait of Hormuz. However, this necessary pivot toward de-escalation will strip away the USD's war premium, exposing it to a backdrop of weakened institutional and fiscal credibility. As the safe-haven bid evaporates, markets will pivot back to the "Two Popes" deadlock at the Fed, the budget revenue hole left by failed tariffs, and a G7 coalition that has less faith in the American security umbrella. Ultimately, the end of the Iran conflict, if it comes, would serve as the catalyst for the "Sell America" trade to resume, as global investors recognize the structural erosion of US financial hegemony has been accelerated by this display of "American Hubris."

European currencies: Anti-USD proxies

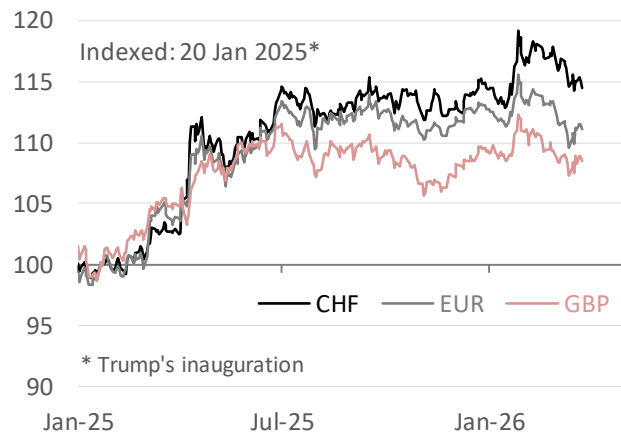
European currencies are not just holding on to their Trump 2.0 gains; they are also **the primary “Anti-USD” vanguard in the world**. The Iran War increased the market’s conviction that higher energy prices will push the central banks in Europe to hike rates before the Fed.

EUR continues to lead the pack as the premier counterweight to the USD. Investors fleeing the stagflation-prone USD are increasingly pivoting toward the Eurozone’s more credible and sustainable policy framework, anchored by the European Central Bank’s strategic push for a more internationally prominent EUR, and its unwavering commitment to price stability.

Owing to the UK’s internal political and economic struggles, **GBP is a vulnerable mirror of the EUR’s movements**, acting more as a proxy for global risk sentiment. The Starmer government is fighting a three-front war against economic stagnation, a brittle domestic social fabric, and a deteriorating relationship with the US. Given that UK interest rates are close to the US rate and above those of the EU and Switzerland, investors use GBP as a cheap way to short the USD when risk appetite improves, but they are the first to exit when volatility returns.

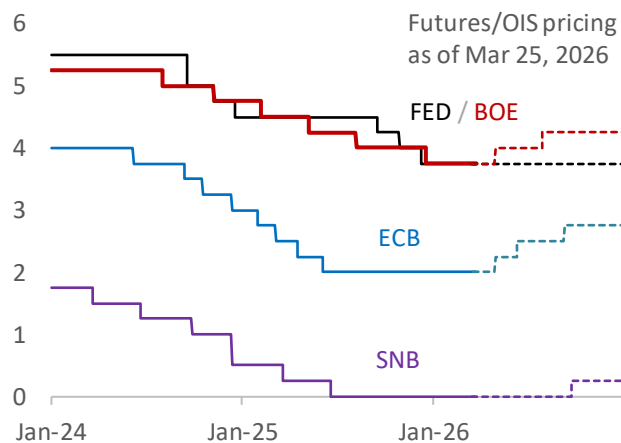
The US’s primary participation in the war with Iran should elevate the CHF’s haven status above that of the USD. Given export-led Switzerland’s near-0% GDP growth and inflation, the Swiss National Bank is explicitly more willing to intervene in the foreign exchange market to address the rapid and excessive appreciation of the CHF. The SNB has a high hurdle for negative rates, which it will likely deploy only if the Gulf crisis is prolonged and increases deflationary risks for Switzerland.

European currencies in Trump 2.0



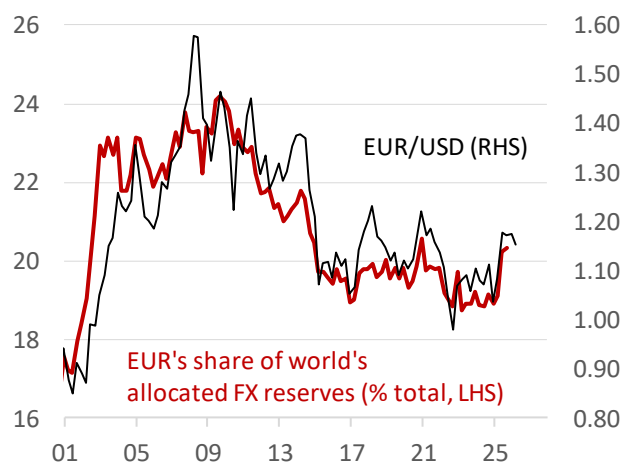
Sources: DBS Research, Bloomberg data

European central banks to hike before Fed



Sources: DBS Research, Bloomberg data

EUR may gain traction as a reserve currency



Sources: DBS Research, Bloomberg data

Commodity currencies: AUD shines

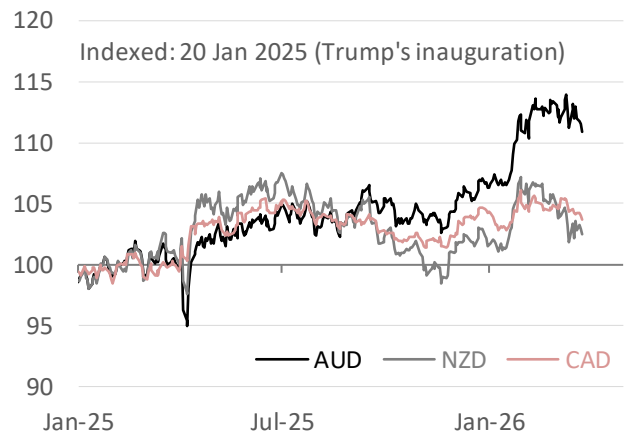
While it was hit hardest by the “Liberation Day” tariffs, **AUD eventually prevailed as the standout commodity currency over its peers, CAD and NZD, in 2026.**

Following the Reserve Bank of Australia’s two rate hikes in 1Q26, the **AUD has seized the crown as the highest yielding G10 currency.** Conversely, the Canadian and New Zealand central banks spent the latter part of last year in a race to the bottom for rates to shield their economies from trade headwinds. Looking ahead, the markets expect the RBA to keep widening its rate advantage against peers for the rest of the year.

AUD should remain the top proxy for investors betting on China. While Canada is tied to the US economy, Australia is linked to the Chinese manufacturing cycle. NZD is also a China-proxy, but it lacks the liquidity of the AUD. The Trump administration can scrap the USMCA trade agreement if Canada enters into a free trade agreement with a "non-market economy," which is widely understood to be China. AUD remains tightly correlated with the appreciating CNY, a reflection of China’s sustained appetite for Australian gold and iron ore.

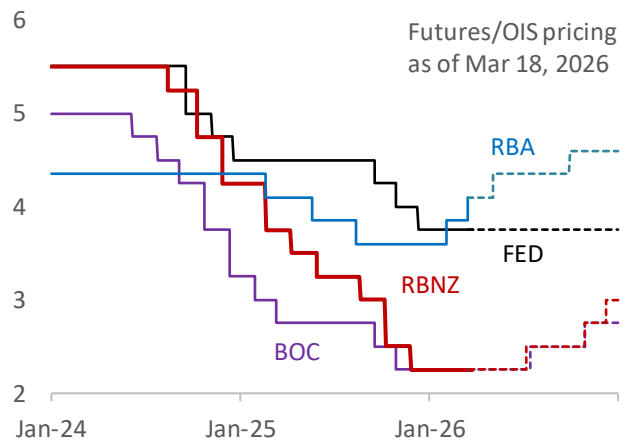
Beyond trade policy, the ongoing **conflict in the Middle East has created a geopolitical floor for the AUD that its peers cannot match.** While the 2026 Iran War and the closure of the Strait of Hormuz have triggered an energy shock for net importers like New Zealand, Australia’s position as a premier exporter of LNG and coal allows it to bypass the Middle Eastern chokepoints that are currently throttling global supply chains. In this environment, the AUD has transitioned from a high-beta risk asset to a strategic resource hedge.

Commodity currencies in Trump 2.0

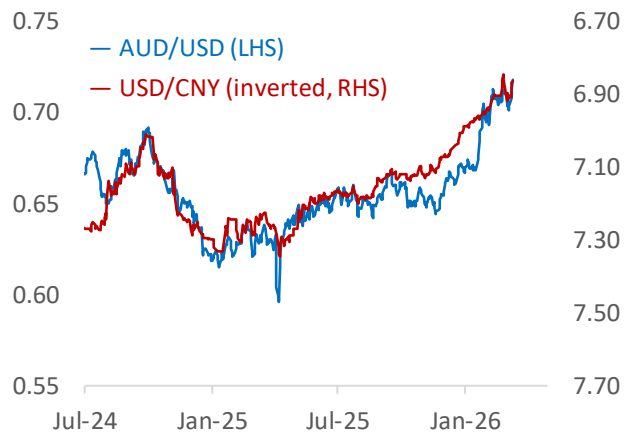


Sources: DBS Research, Bloomberg data

AUD is the highest yielding G10 currency



AUD's recent surge was also CNY-driven



Sources: DBS Research, Bloomberg data

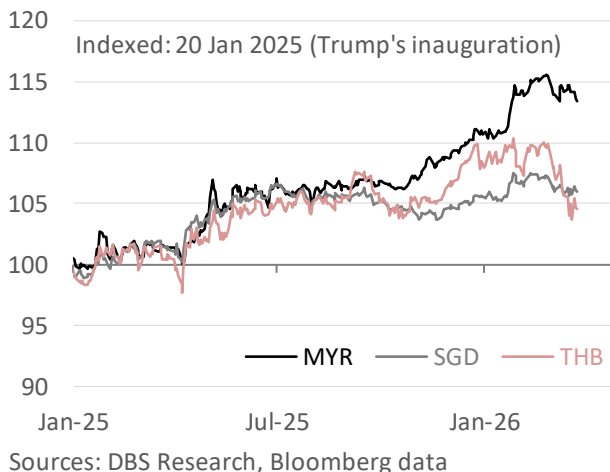
ASEAN's top 3 currencies

We expect the MYR's streak as Asia's top-performing currency to temper. Malaysia has declared the Agreement on Reciprocal Trade with the US – a significant trigger for the MYR's rally after last October's ASEAN Summit – null and void. The US Trade Representative has launched major investigations into Malaysia's manufacturing overproduction and forced labour practices. To tackle the higher energy prices from the Gulf, Malaysia will use windfall petroleum revenues and targeted subsidy reforms to maintain fiscal stability. Like the THB, the MYR will not get a boost from a delayed Fed cut.

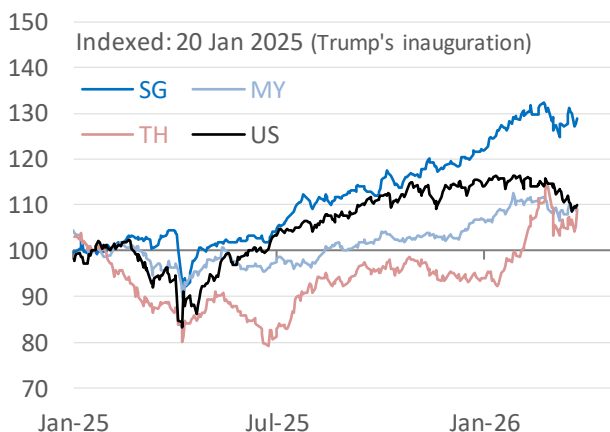
In contrast, the THB was hit hardest by the Middle East crisis due to Thailand's high oil dependency on the Gulf, fewer tourists from the Middle East and Europe, and businesses facing higher production and logistics costs. Following its surprise rate cut on February 25, the Bank of Thailand will navigate a narrower corridor as it balances between already loose monetary policy between cost-push inflation and stagnant growth. Hence, the BOT will likely be more willing to intervene to curb the THB's appreciation.

Singapore is facing higher costs across multiple sectors due to the ongoing Middle East crisis. Petrol and diesel costs have surged almost immediately after Operation Epic Fury at the end of February. Businesses are reporting increases in freight costs due to vessel detours, higher insurance premiums, and "risk" fees. The Monetary Authority of Singapore will likely normalize the SGD NEER policy band later in the year by taking back the flatter slopes last year. USD/SGD remains a price-taker of the USD Index, with SGD NEER's appreciation driven by the weakness in its basket of Asian currencies.

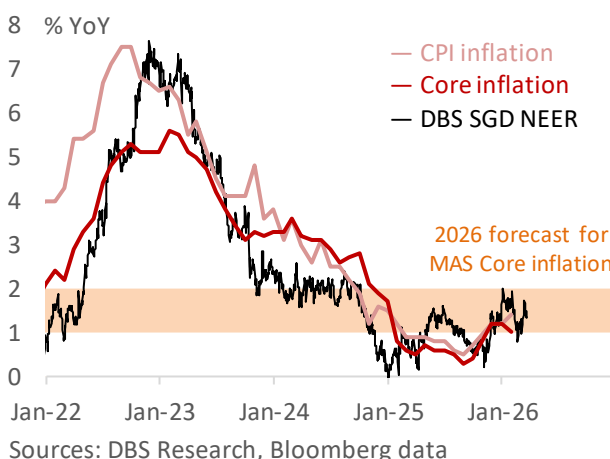
ASEAN's top performing currencies



SE Asian equities in Trump 2.0



SGD NEER has been anchoring inflation



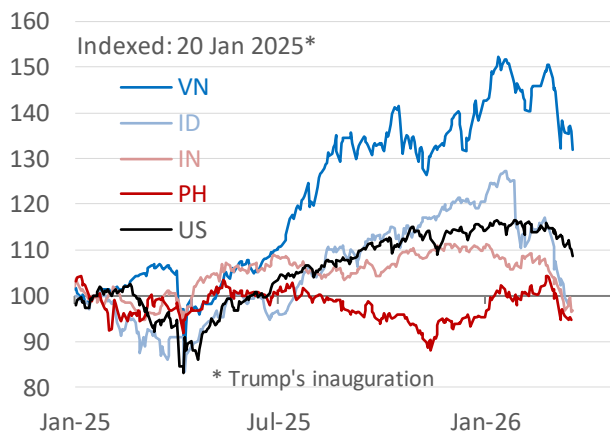
Underperforming South & SE Asian currencies

The INR will remain an underperformer in Emerging Asia. USD/INR hit a new lifetime high of 93.75 vs. the USD, driven by foreign portfolio investors pulling capital from the Indian equity and bond markets. India has delayed signing the asymmetric Strategic Interim Trade Deal with the US, which was agreed before the US Supreme Court's ruling against Trump's global tariffs. The US Trade Representative (USTR) followed up with two major Section 301 investigations involving India's manufacturing overcapacity and forced labour concerns. The oil supply disruption and high energy prices due to the Middle East crisis will widen the current account deficit, lift inflation, and slow GDP growth.

Similarly, the PHP remains highly vulnerable; USD/PHP briefly hit a new lifetime high above 60 on March 19. The Philippines is most exposed to oil price pass-through due to zero subsidies and a 90% energy reliance on Gulf energy. Unlike many of its ASEAN peers, the Philippines avoided the separate USTR probe into manufacturing overcapacity but remains part of the forced labor probe. The central bank faces a challenging task of anchoring rising inflation expectations and defending the PHP.

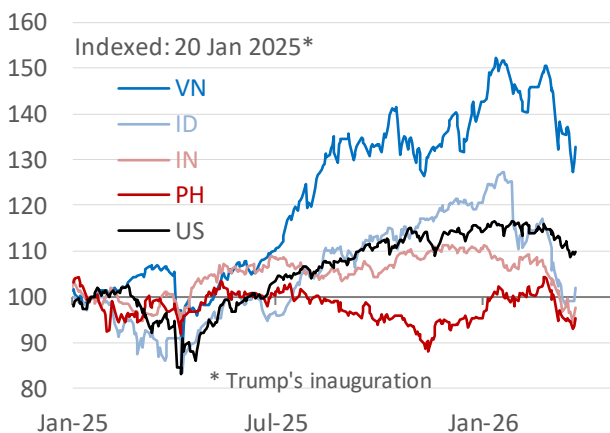
The IDR has consistently languished near lifetime lows around 17,000 per USD this year. The Middle East oil crisis will test the Prabowo government's ability to contain cost-push inflation without breaching the (3% of GDP) fiscal deficit ceiling. Worries about central bank independence also emerged after the President's nephew was appointed deputy governor. In March, Jakarta suspended the ratification of the Reciprocal Trade Agreement with the US, which had previously provided a floor for the IDR in anticipation of increased US investment and

South & SE Asia's equities in Trump 2.0



Sources: DBS Research, Bloomberg data

South & SE Asia's equities in Trump 2.0



trade stability. The USTR's Section 301 probes into industrial overcapacity and forced labour will weigh on the IDR by stoking fears of renewed 15% tariffs and prompting capital outflows.

VND to test its lifetime low around 26400 per USD again. Vietnam's high dependency on the Gulf for oil will also lead to a trade-off between preventing inflationary pass-through and wider fiscal deficits. However, the USTR's probe into manufacturing overcapacity and Vietnam's large trade surplus with the US suggests that any tactical currency depreciation to aid exporters could further antagonize US trade authorities.

North Asian currencies

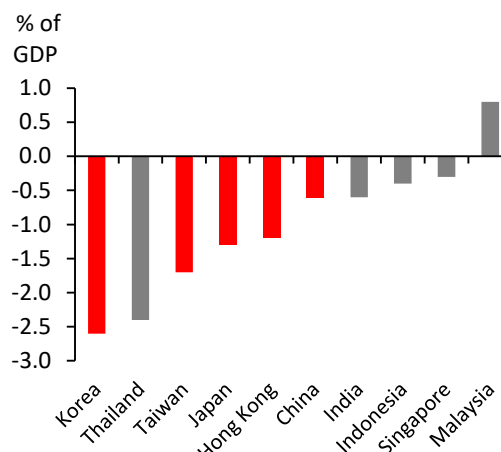
North Asia economies are some of the most vulnerable to rising oil prices stemming from the US-Iran conflict. Korea, Taiwan, Japan, and Hong Kong will all see a significant deterioration in their current account positions (>1% of GDP), if oil prices are to average USD100 for a full year. Unsurprisingly, KRW, TWD, and JPY have all seen 2%-5% depreciation since the start of the conflict.

RMB sentiment has turned positive following the US-China trade deal in November, which not only cut US tariffs but also encouraged Western leaders from UK, Canada, and Germany to deepen economic relations with China. While the Trump-Xi summit is deferred due to the war, US-China relations are clearly on a stable footing. High oil prices are also not expected to weigh too much on Chinese growth, compared to Asian peers. As such, the PBOC could stay comfortable with gradual RMB gains, with USD/CNY possibly easing towards 6.70 by Q4.

JPY is not immune to rising oil prices and supply risks, even after accounting for Japan's ample oil reserves amounting to 250 days of consumption. Tehran may allow safe passage for Japanese vessels, but markets do not like the lack of certainty. Fiscal risks have also eased with the proposed FY26 budget setting new bond issuance at JPY29.6trn, marking a small increase. Barring a sustained oil shock, USD/JPY could be kept in check at around 160 amid intervention risks.

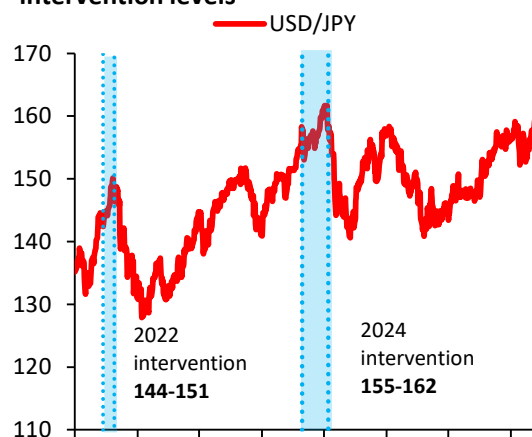
An undervalued KRW is at odds with Korea's large current account surplus, with KRW selling being driven by large outward equity investment flows. While KRW faces terms of trade pressures from rising oil prices, a semiconductor boom and elevated chip prices should offset somewhat. Policy measures to dampen portfolio outflows and a stable JPY could support a KRW recovery.

Asia: Impact on current account from \$100 oil for a full year



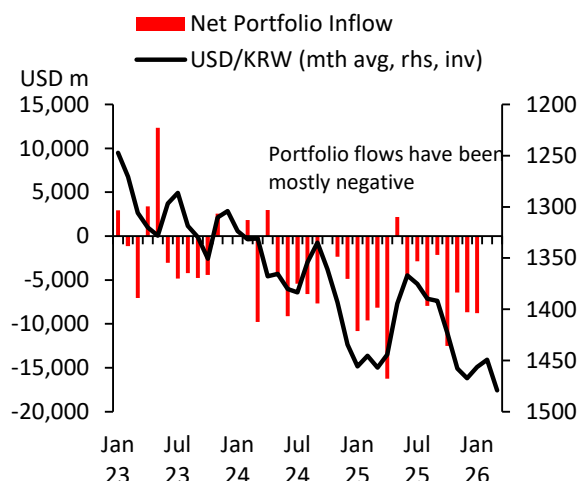
Source: Bloomberg, DBS

USD/JPY: Likely restrained nearing 2024 intervention levels



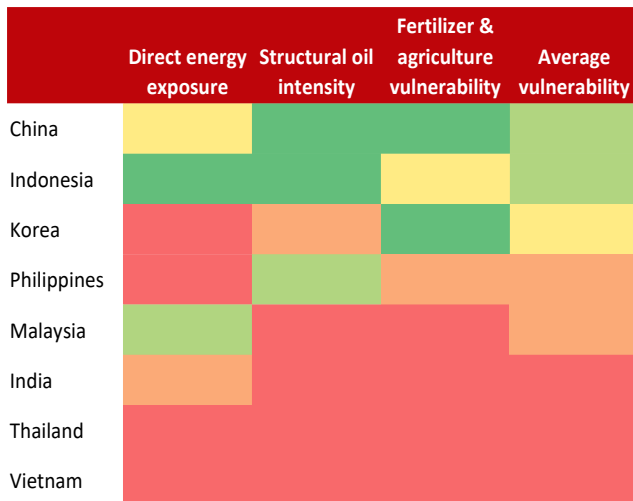
Source: Bloomberg, DBS

Korea: Net portfolio flows vs USD/KRW



Source: CEIC, Bloomberg, DBS

Asian FX vulnerabilities to an oil shock

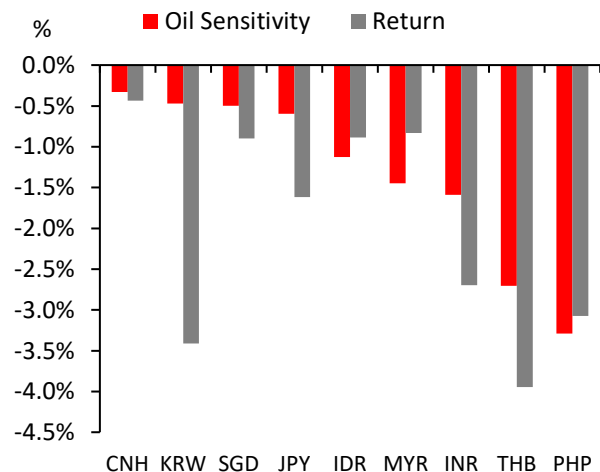


Sources: IIF, DBS

With the US-Iran conflict entering its fourth week, tail risks of a more extended conflict, accompanied by an effective closure of the Strait of Hormuz and further attacks on Gulf energy production, warrant a deeper look. **We perform a vulnerability analysis to draw the implications of a large and sustained oil price shock for Emerging Asian currencies.**

The US-Iran conflict and associated oil supply disruptions could affect EM economies through three channels: 1/ trade exposure via more costly oil imports, 2/ growth impact from oil usage intensity, and 3/ indirect effects arising from supply shocks to fertilizer supply and agricultural prices. Drawing on these three metrics from an IIF study, we assess that China and Indonesia are least vulnerable, Korea, Philippines, and Malaysia are somewhat vulnerable, while **India, Thailand and Vietnam are most vulnerable to oil market shocks.** Interestingly, while China and Korea are large net oil importers, their overall vulnerability is not particularly high given a lower oil usage intensity per unit of GDP. In contrast, Thailand and India are significantly more vulnerable, given their higher oil consumption to support growth, and greater agricultural dependence.

Sensitivity to Brent prices vs returns since US-Israel strikes on 27 Feb



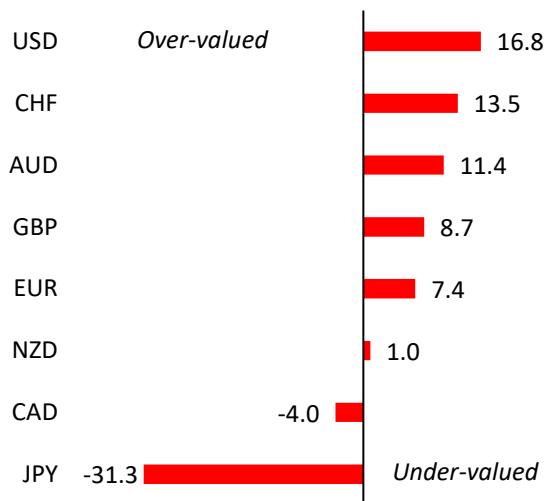
Source: Bloomberg, DBS

Asian FX moves since the start of the conflict have been consistent with our assessment of Asia's differentiated vulnerabilities to oil. Our oil sensitivity estimates for regional currencies, based on intraday price moves, show that THB and INR are indeed more sensitive to oil prices. Both have recorded moderate losses of 3%-5% since the conflict began, driven by higher oil prices and a stronger USD. In contrast, RMB and KRW have shown much lower sensitivities to oil prices, in line with their lower structural vulnerabilities. Nonetheless, the KRW's sharp loss stands out, reflecting a mix of heavy foreign equity outflows amid extreme KOSPI volatility, and a high sensitivity to USD strength. Finally, SGD, JPY, IDR, and MYR are moderately sensitive to higher oil prices.

By and large, our vulnerability analysis found that all Asian currencies are negatively impacted by rising oil prices, which is amplified by a rising USD. Given a 30% surge in oil prices due to the conflict, Asian currencies have already seen losses averaging 2.5%. In a prolonged conflict, Asian currency underperformance could extend. THB and INR could see relatively worse returns, while RMB and SGD may be better buffered.

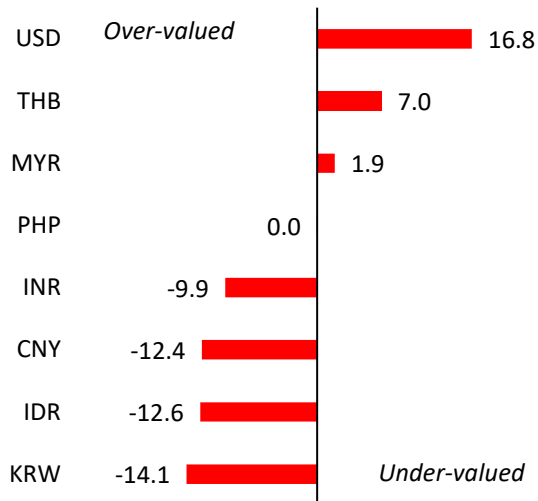
DBS Equilibrium Exchange Rates (DEER)

G10 FX: DEER valuations



Source: IMF, CEIC, DBS As of 20 Mar

Asian FX: DEER valuations



Source: IMF, CEIC, DBS As of 20 Mar

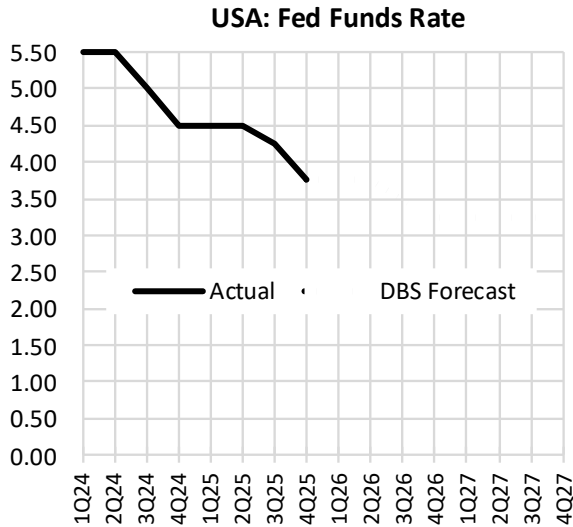
Our DEER metric indicates market deviations from a currency's modelled long-term fair value.

Within G10, the **USD, CHF, and AUD** are amongst the most over-valued. The USD's valuation has remained high due to a surge in oil prices following the US-Iran conflict. The US is seen as particularly sheltered, given its net oil exporter status. CHF has also benefited from Switzerland's haven status, as the economy is also insulated from high energy prices due to domestic hydropower generation. But a high CHF is also a concern for the SNB, which said this poses a risk to price stability and hence its willingness to intervene has increased. AUD has become the third most overvalued, having appreciated the most across G10 FX this year, supported by a hawkish RBA that has now hiked rates twice in Q1 to combat inflation. On the other end, **JPY undervaluation has deepened to a record**, with high oil prices seen as weighing on Japan's current account due to its high energy imports. Meanwhile, the CAD is turning less undervalued, with Canada seen as a beneficiary of rising oil prices given that it is a net oil exporter.

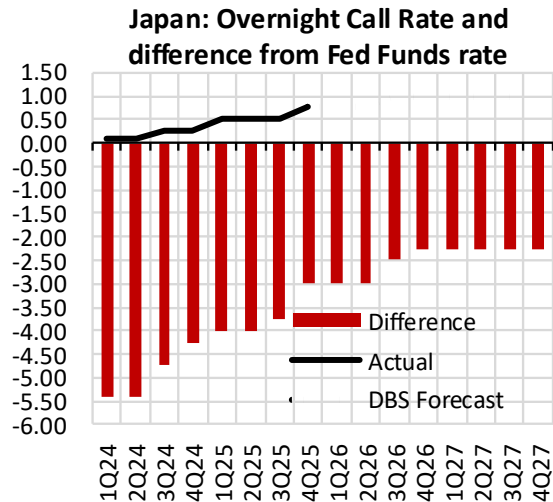
In Asia ex-Japan, KRW, IDR, and CNY remain most under-valued, while THB is most over-valued.

KRW has displaced RMB as the most undervalued Emerging Asian currency. KRW selling has been driven by USD55bn of outward equity investment since Oct, and KRW weakness has deepened further after oil prices leapt in the wake of the US-Iran conflict. Given sharp undervaluation, the authorities have said that they will take FX steps if divergence from fundamentals persist, while also making an announcement with Japan stating joint concerns over the sharp depreciation of the KRW and JPY. IDR has slipped to be the second most undervalued in Emerging Asia, with markets worried about a fiscal deficit that is close to 3% of GDP, and the government mulling a lifting of the 3% deficit cap amid high oil prices. RMB's undervaluation has narrowed substantially since December, with sentiment improving on better US-China trade relations, and increased capital markets activity. THB is still most overvalued in Asia, but its valuation has started to narrow in tandem with concerns over high oil prices.

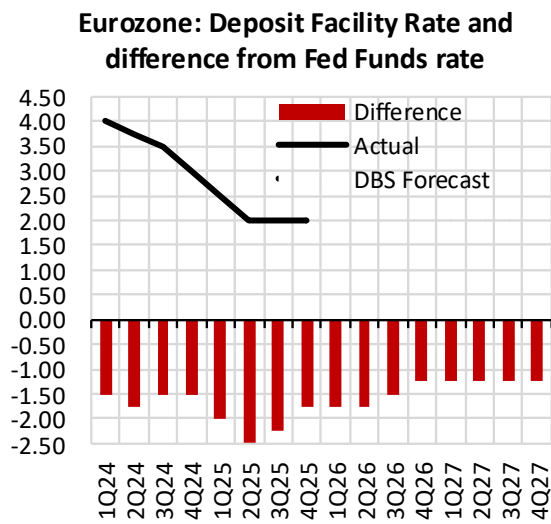
Policy rate forecasts and differentials



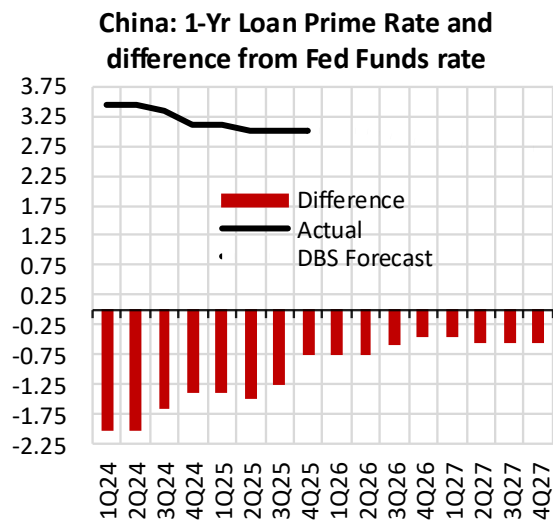
Source: Bloomberg, DBS



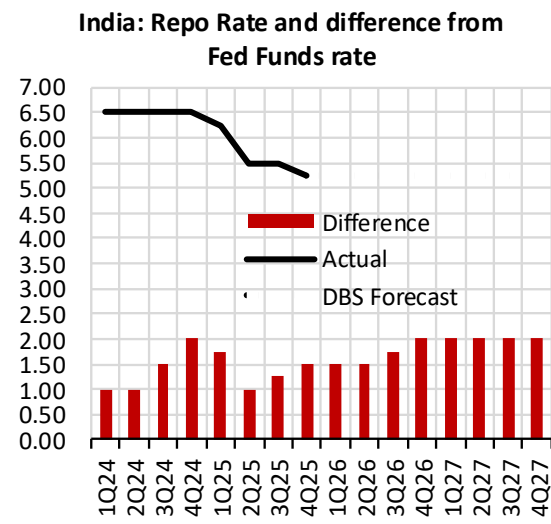
Source: Bloomberg, DBS



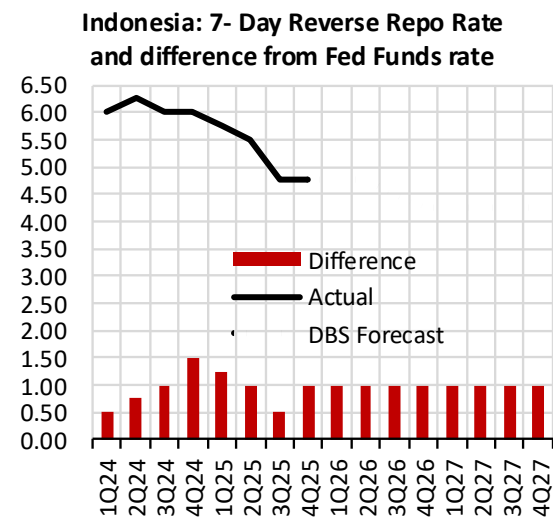
Source: Bloomberg, DBS



Source: Bloomberg, DBS

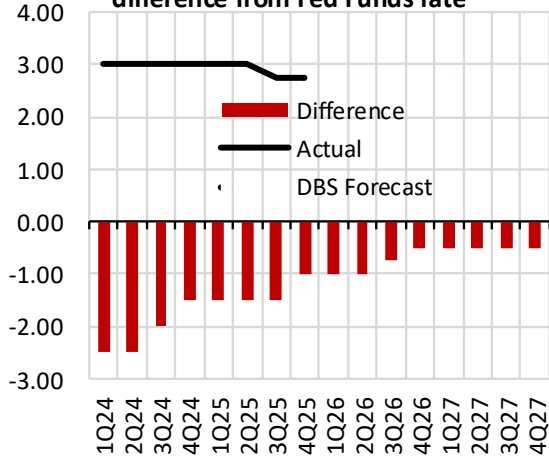


Source: Bloomberg, DBS



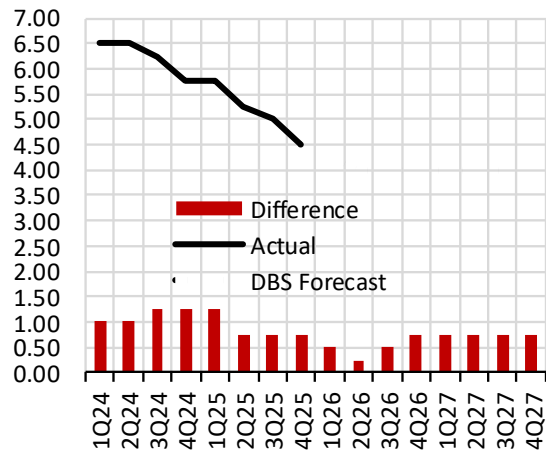
Source: Bloomberg, DBS

Malaysia: Overnight Policy Rate and difference from Fed Funds rate



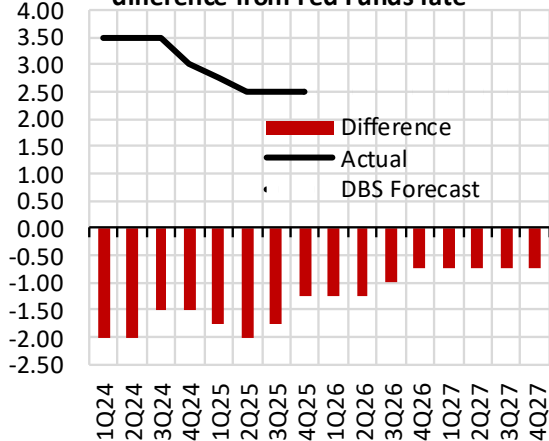
Source: Bloomberg, DBS

Philippines: Reverse Repurchase Rate and difference from Fed Funds rate



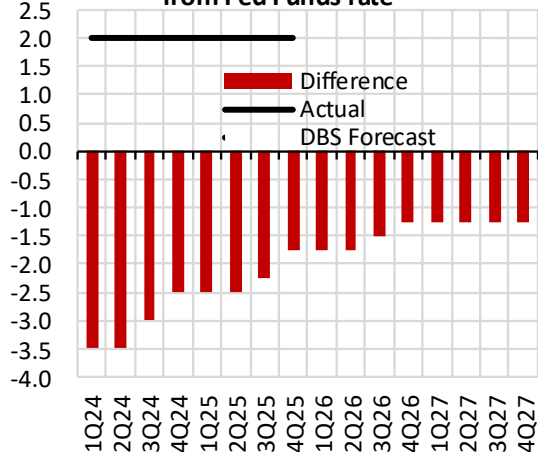
Source: Bloomberg, DBS

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



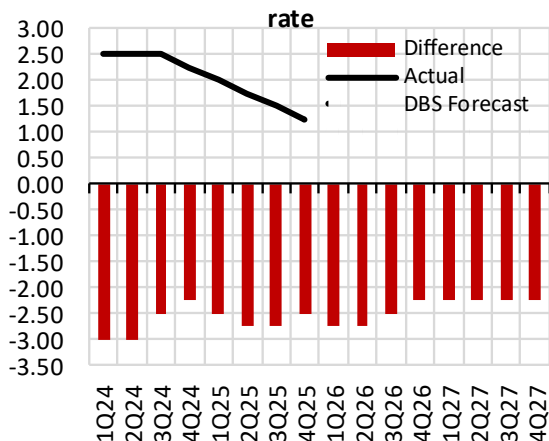
Source: Bloomberg, DBS

Taiwan: Discount Rate and difference from Fed Funds rate



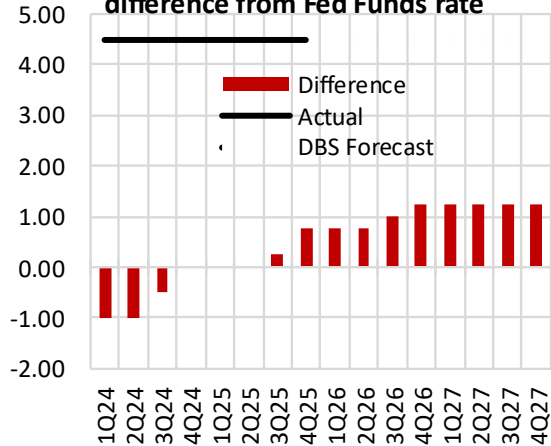
Source: Bloomberg, DBS

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



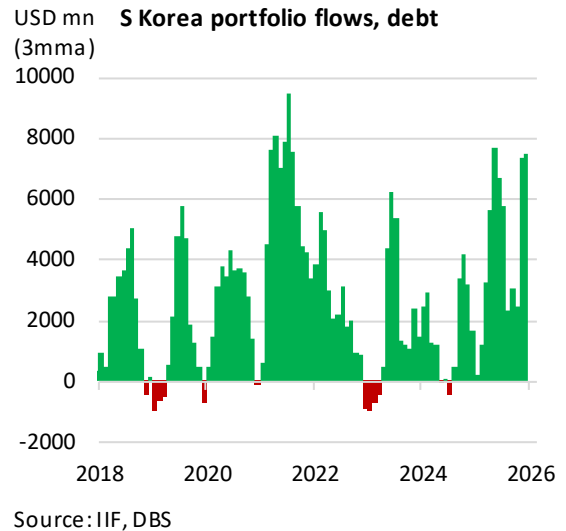
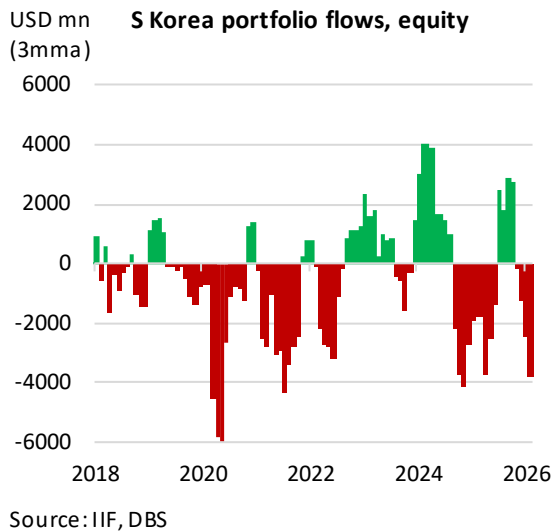
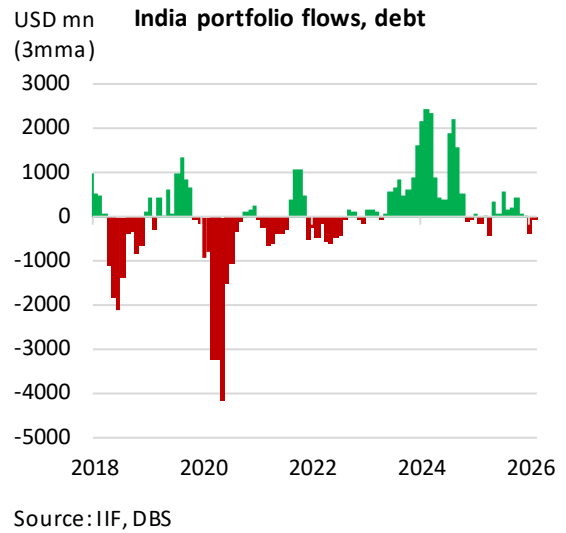
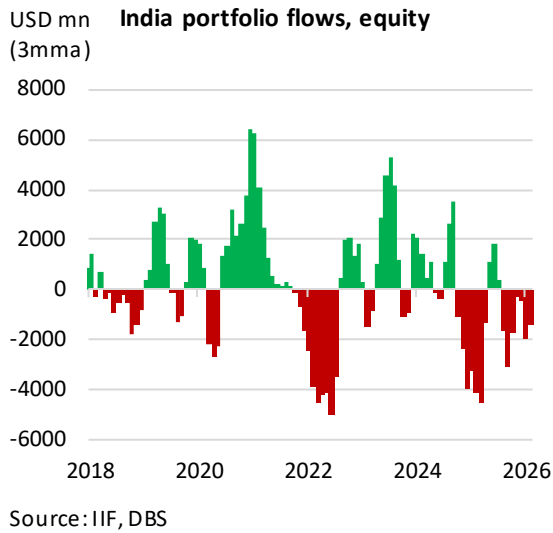
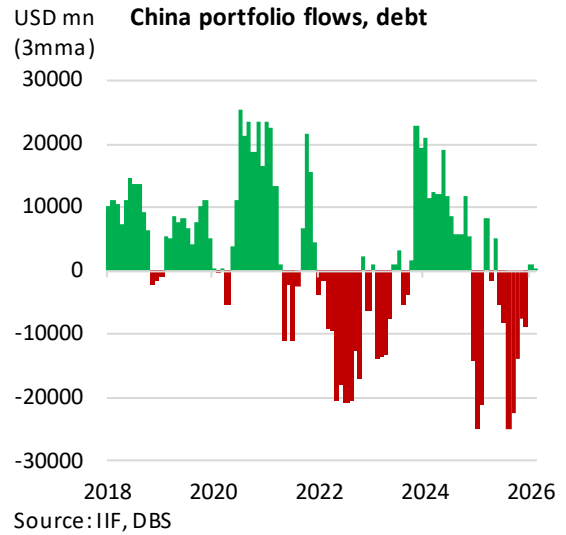
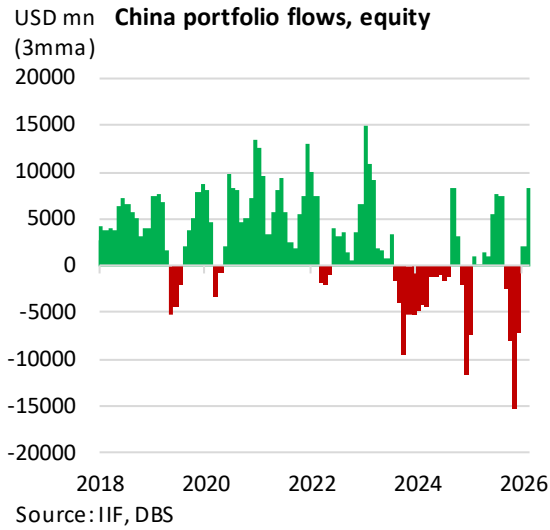
Source: Bloomberg, DBS

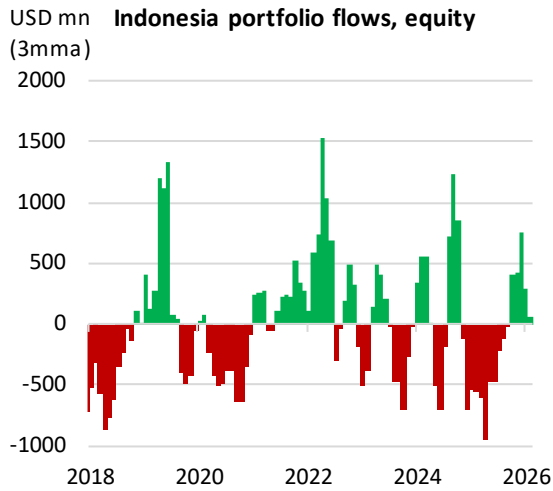
Vietnam: Refinancing Rate and difference from Fed Funds rate



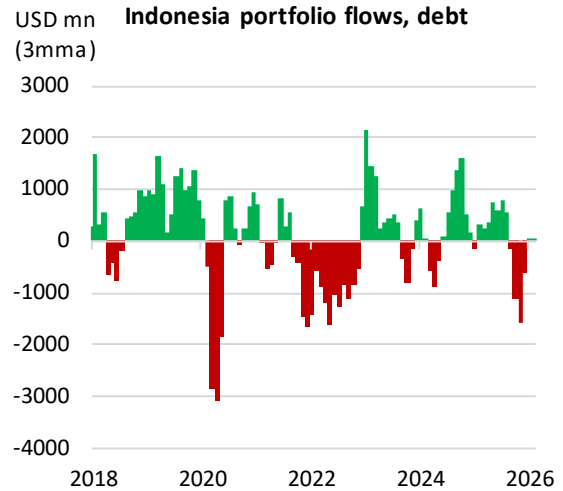
Source: Bloomberg, DBS

Non-Resident Portfolio Inflows into EM Asia

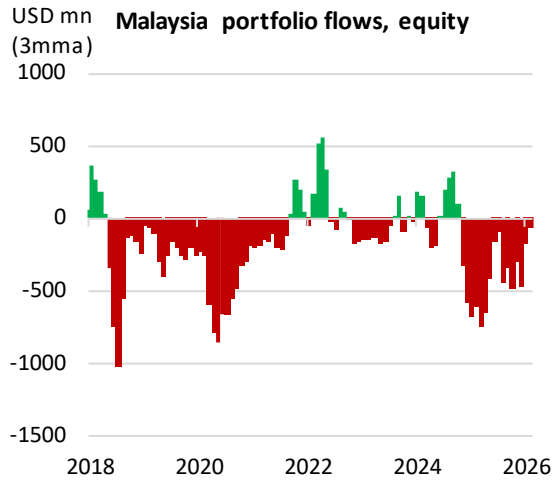




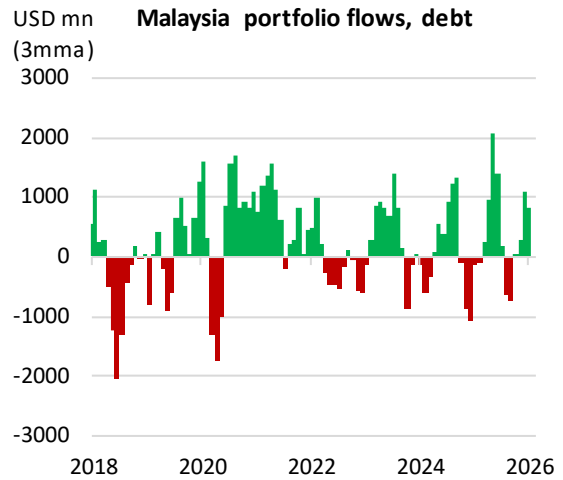
Source: IIF, DBS



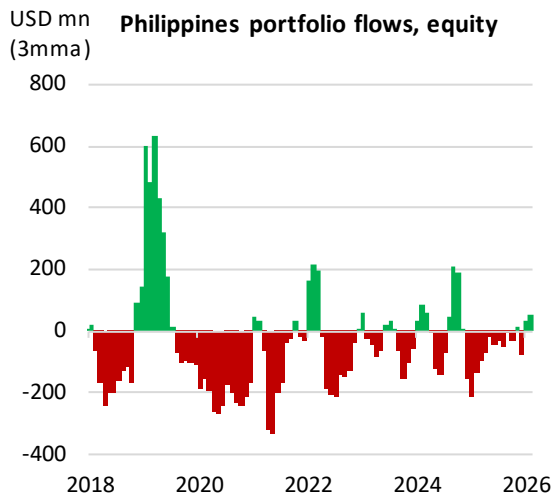
Source: IIF, DBS



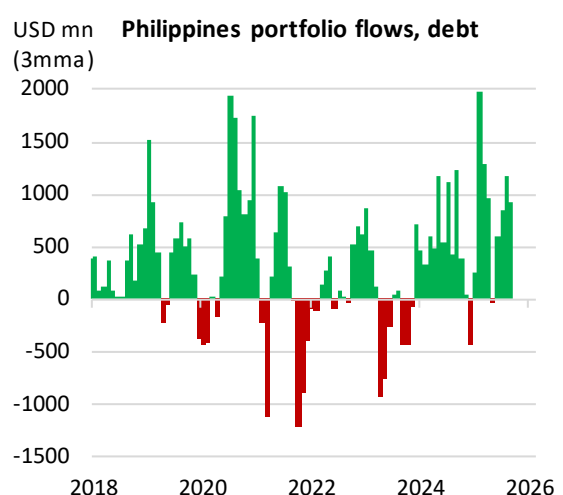
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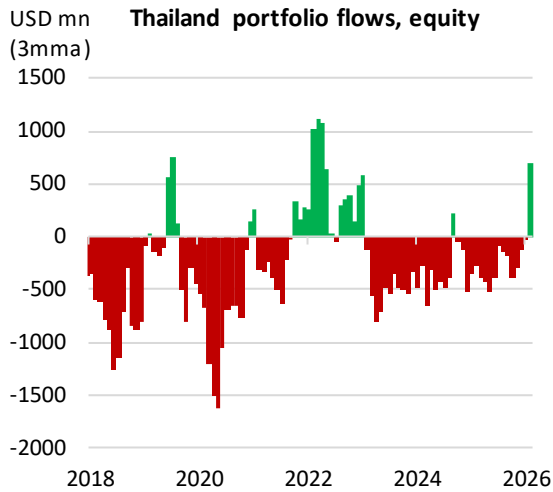
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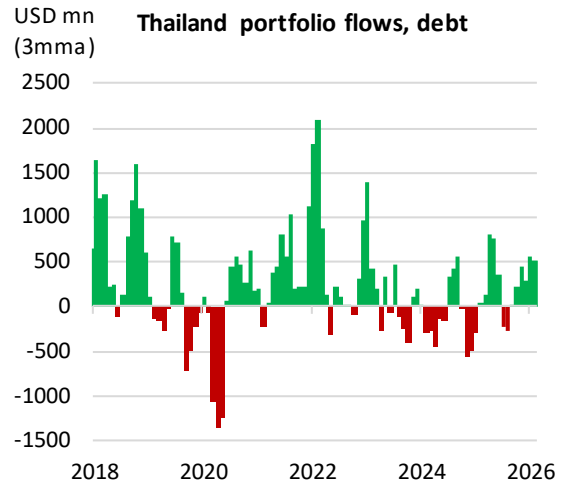
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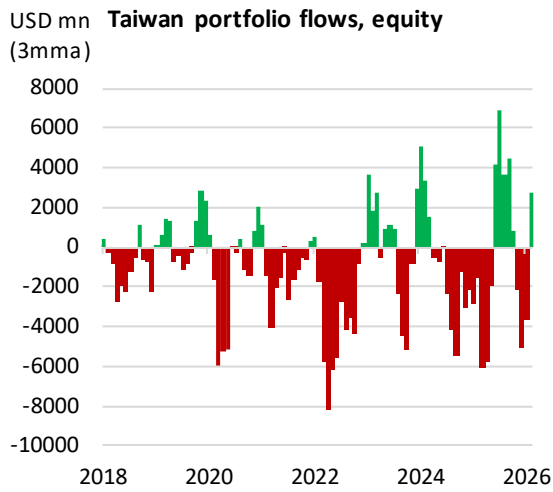
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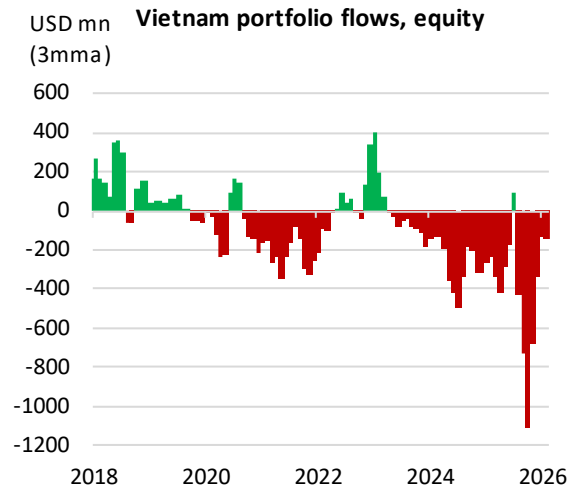
Source: IIF, DBS



Source: IIF, DBS



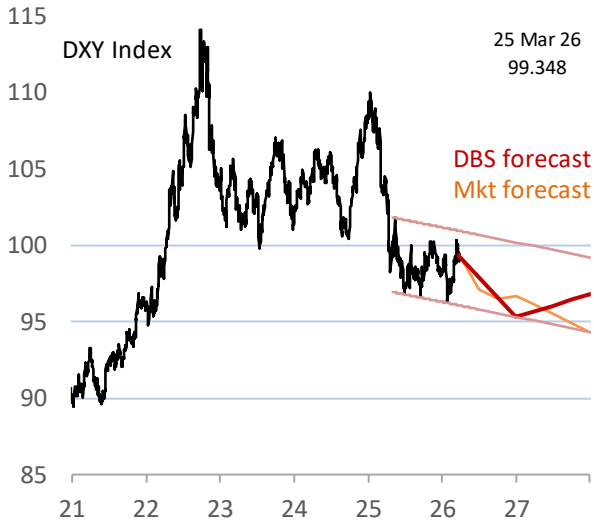
Source: IIF, DBS



Source: IIF, DBS

US dollar

Modest decline below the pivotal 100 level



Japanese yen

Weak JPY faces intervention risks



DBS forecasts

DXY	1Q	2Q	3Q	4Q
2025	104.2	96.9	97.8	98.3
2026	99.3	98.0	96.6	95.3
2027	95.7	96.0	96.4	96.8

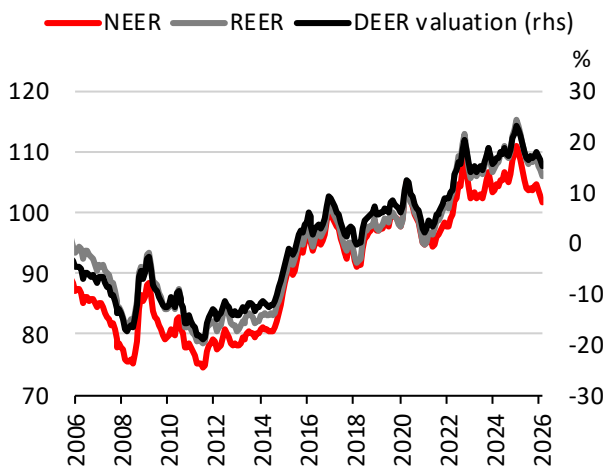
Econ indicator	2025	2026	2027
GDP growth, % yoy	2.0	1.5	1.7
CPI inflation, % yoy	2.7	2.5	2.5
Current ac, % GDP	-3.9	-3.5	-3.3
Budget bal, % GDP	-7.4	-7.9	-8.0

DBS forecasts

USDJPY	1Q	2Q	3Q	4Q
2025	150	144	148	157
2026	159	156	153	149
2027	151	152	153	154

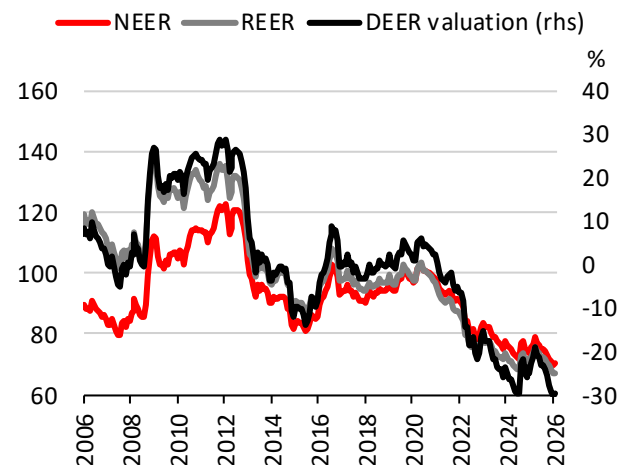
Econ indicator	2025	2026	2027
GDP growth, % yoy	1.2	0.5	0.5
CPI inflation, % yoy	3.2	1.8	1.8
Current ac, % GDP	4.6	4.3	3.9
Budget bal, % GDP	-3.6	-4.0	-4.3

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



Source: BIS, DBS

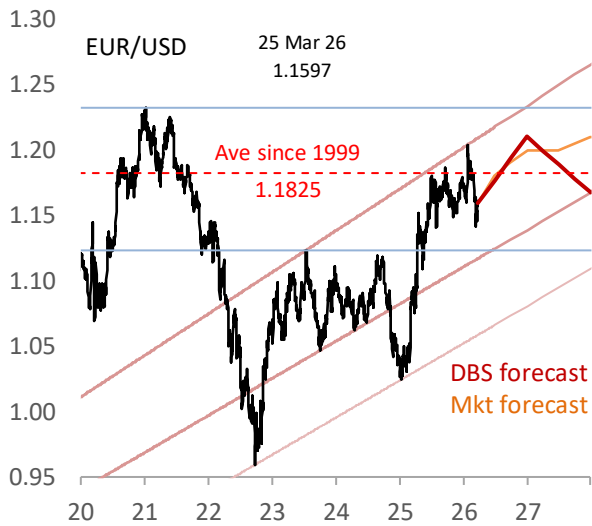
JPY: Effective Exchange Rates and DEER valuations (2020=100)



Source: BIS, DBS

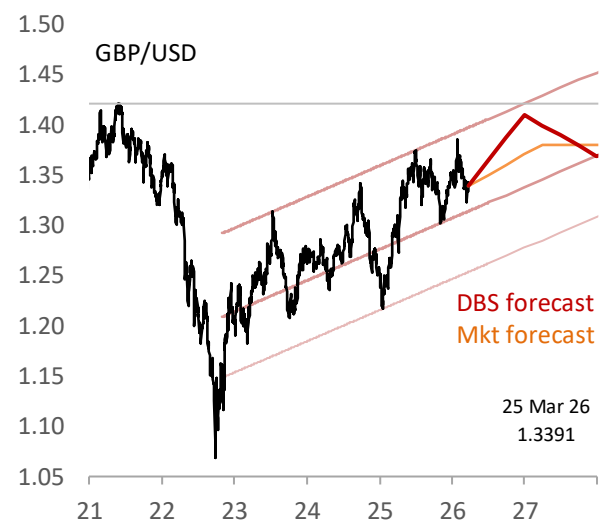
Euro

EUR is not excessively strong



British pound

Has held above 1.30 after Liberation Day



DBS forecasts

EURUSD	1Q	2Q	3Q	4Q
2025	1.08	1.18	1.17	1.17
2026	1.16	1.18	1.19	1.21
2027	1.20	1.19	1.18	1.17

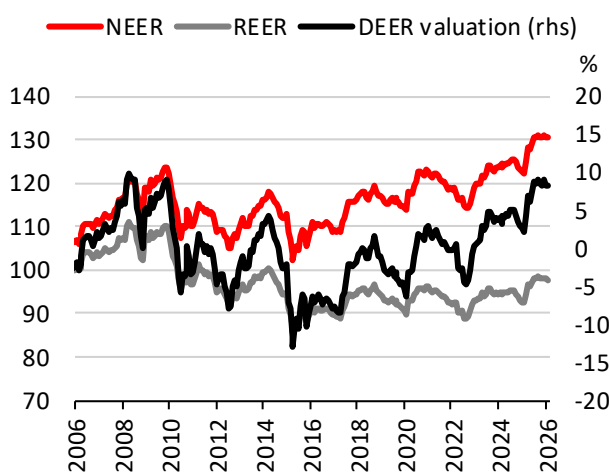
Econ indicator	2025	2026	2027
GDP growth, % yoy	1.5	1.4	1.2
CPI inflation, % yoy	2.2	2.0	2.0
Current ac, % GDP	1.2	1.2	1.2
Budget bal, % GDP	-3.1	-3.1	-3.1

DBS forecasts

GBPUSD	1Q	2Q	3Q	4Q
2025	1.29	1.37	1.34	1.35
2026	1.34	1.36	1.39	1.41
2027	1.40	1.39	1.38	1.37

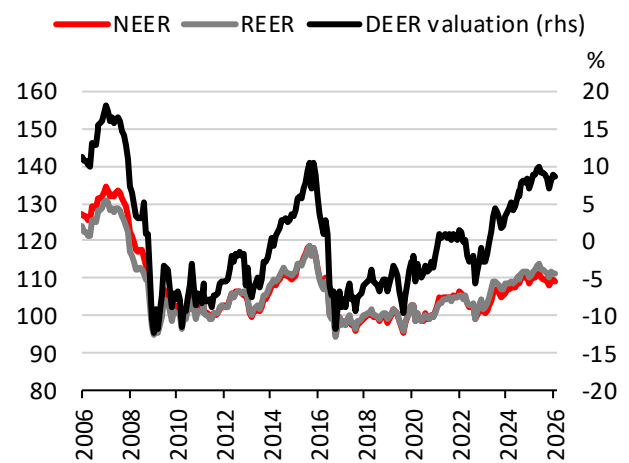
Consensus	2025	2026	2027
GDP growth, % yoy	1.4	1.0	1.4
CPI inflation, % yoy	3.4	2.5	2.2
Current ac, % GDP	-2.7	-2.9	-2.7
Budget bal, % GDP	-4.5	-3.8	-3.4

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



Source: BIS, DBS

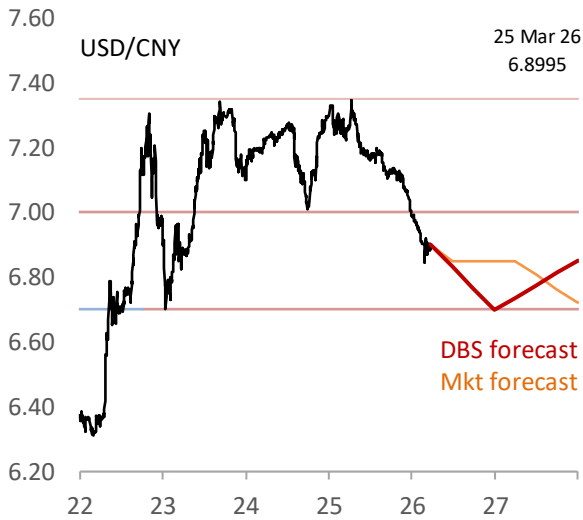
GBP: Effective Exchange Rates and DEER valuations (2020=100)



Source: BIS, DBS

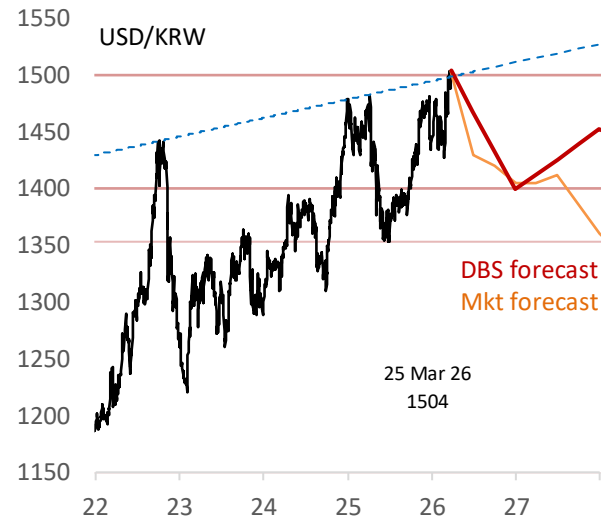
Chinese yuan

Positioning for a more global CNY



South Korean won

KRW weakness meets policy resistance



DBS forecasts

USDCNY	1Q	2Q	3Q	4Q
2025	7.26	7.16	7.12	6.99
2026	6.90	6.83	6.77	6.70
2027	6.74	6.78	6.81	6.85

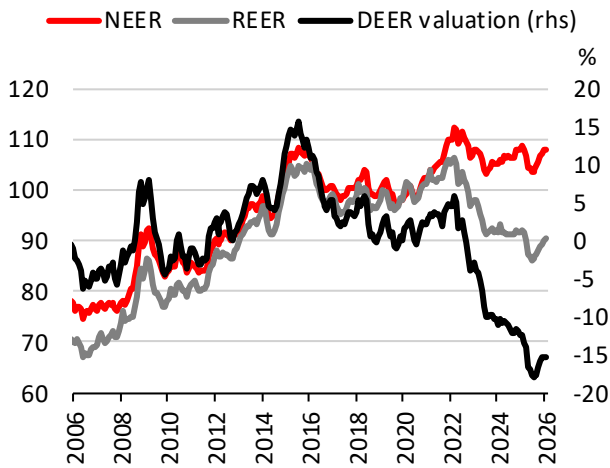
Econ indicator	2025	2026	2027
GDP growth, % yoy	5.0	4.5	4.0
CPI inflation, % yoy	0.0	0.5	0.8
Current ac, % GDP	3.7	2.3	2.2
Budget bal, % GDP	-5.1	-5.0	-5.0

DBS forecasts

USDKRW	1Q	2Q	3Q	4Q
2025	1474	1354	1404	1445
2026	1500	1470	1435	1400
2027	1415	1425	1440	1450

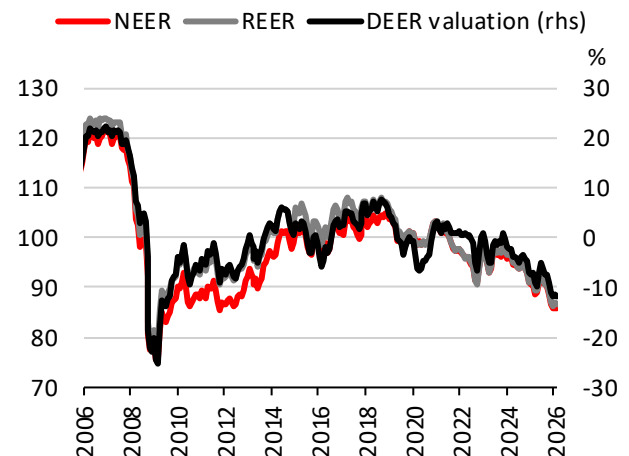
Econ indicator	2025	2026	2027
GDP growth, % yoy	1.0	2.2	2.0
CPI inflation, % yoy	2.1	1.8	1.9
Current ac, % GDP	5.5	5.0	4.2
Budget bal, % GDP	-4.0	-4.2	-4.1

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



Source: BIS, DBS

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



Source: BIS, DBS

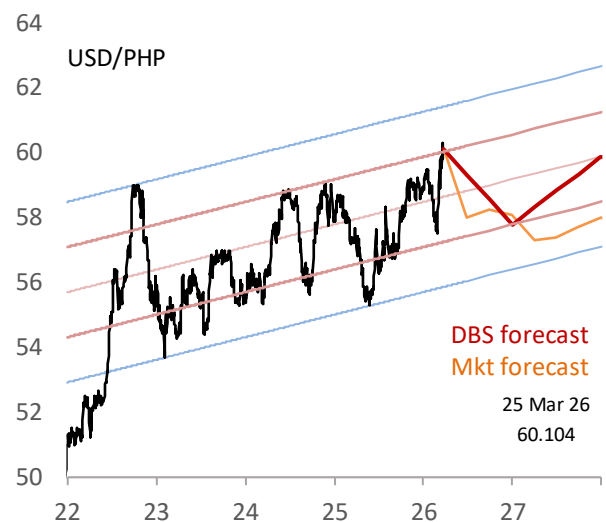
Singapore dollar

Keeping downside bias below 1.30



Philippine peso

Sustaining a modest uptrend



DBS forecasts

USD/SGD	1Q	2Q	3Q	4Q
2025	1.34	1.27	1.29	1.29
2026	1.28	1.27	1.26	1.25
2027	1.26	1.27	1.27	1.28

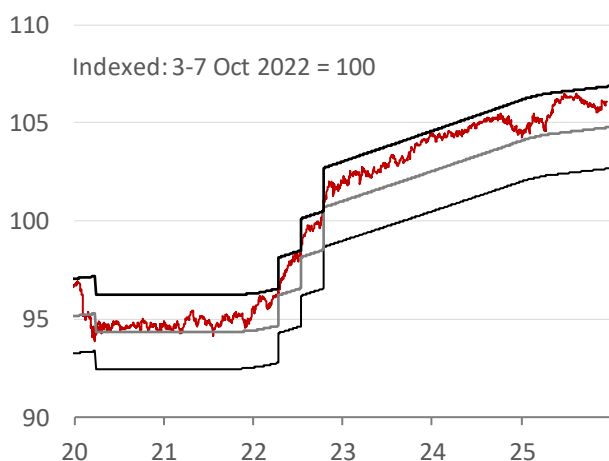
Econ indicator	2025	2026	2027
GDP growth, % yoy	5.0	2.8	2.3
CPI inflation, % yoy	0.9	1.5	1.7
Current ac, % GDP	16.7	16.4	16.0
Budget bal, % GDP	1.9	1.0	0.5

DBS forecasts

USD/PHP	1Q	2Q	3Q	4Q
2025	57.3	56.3	58.2	59.0
2026	60.1	59.3	58.5	57.8
2027	58.3	58.8	59.3	59.9

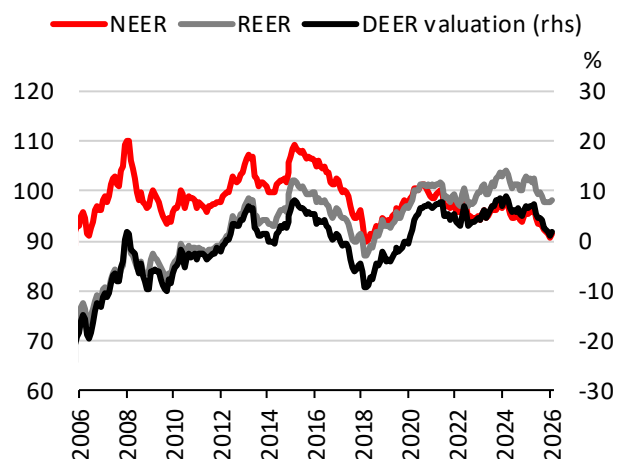
Econ indicator	2025	2026	2027
GDP growth, % yoy	4.5	5.0	5.0
CPI inflation, % yoy	1.7	2.4	2.0
Current ac, % GDP	-2.3	-2.5	-2.5
Budget bal, % GDP	-5.3	-5.3	-5.3

DBS SGD NEER and policy band



Source: DBS Research

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



Source: BIS, DBS

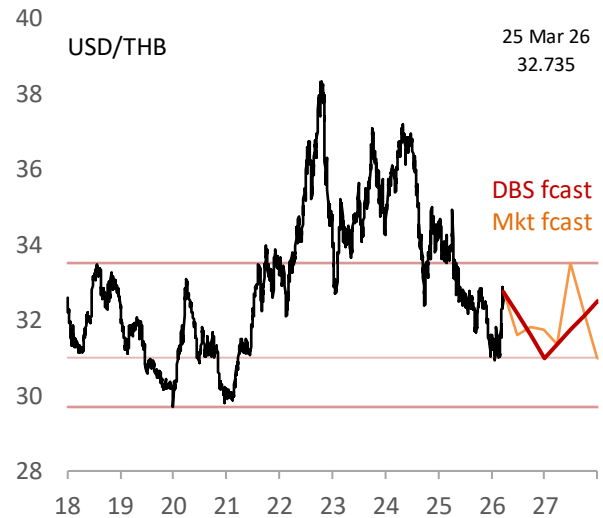
Malaysian ringgit

MYR recovery near exhaustion around 3.80



Thai baht

THB strength meets policy resistance



DBS forecasts

USDMYR	1Q	2Q	3Q	4Q
2025	4.43	4.21	4.21	4.06
2026	3.96	3.91	3.85	3.80
2027	3.85	3.90	3.95	4.00

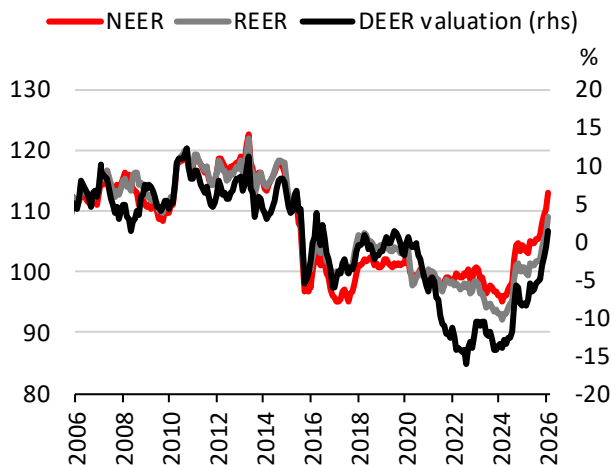
Econ indicator	2025	2026	2027
GDP growth, % yoy	5.2	4.7	4.2
CPI inflation, % yoy	1.4	2.0	2.0
Current ac, % GDP	1.6	1.4	1.2
Budget bal, % GDP	-3.6	-3.5	-3.3

DBS forecasts

USDTHB	1Q	2Q	3Q	4Q
2025	34.0	32.5	32.5	31.5
2026	32.7	32.1	31.6	31.0
2027	31.4	31.8	32.1	32.5

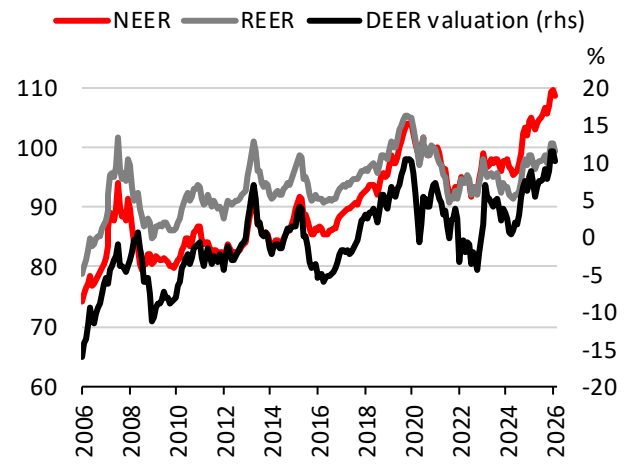
Econ indicator	2025	2026	2027
GDP growth, % yoy	2.4	1.6	2.0
CPI inflation, % yoy	-0.1	0.5	1.0
Current ac, % GDP	3.1	2.2	2.5
Budget bal, % GDP	-2.3	-2.8	-2.5

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



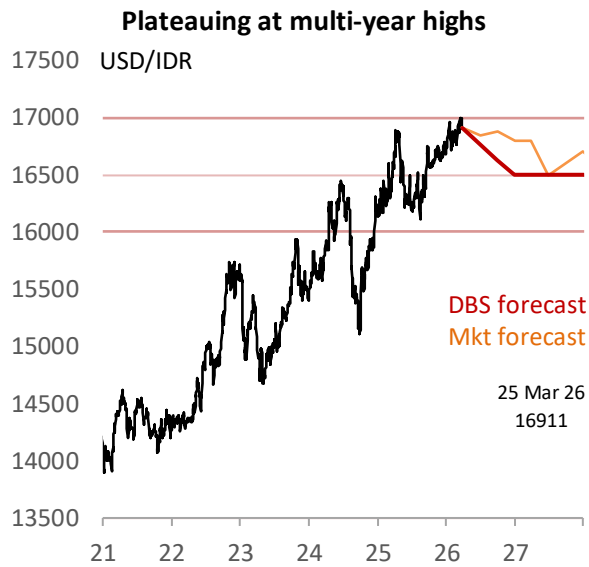
Source: BIS, DBS

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

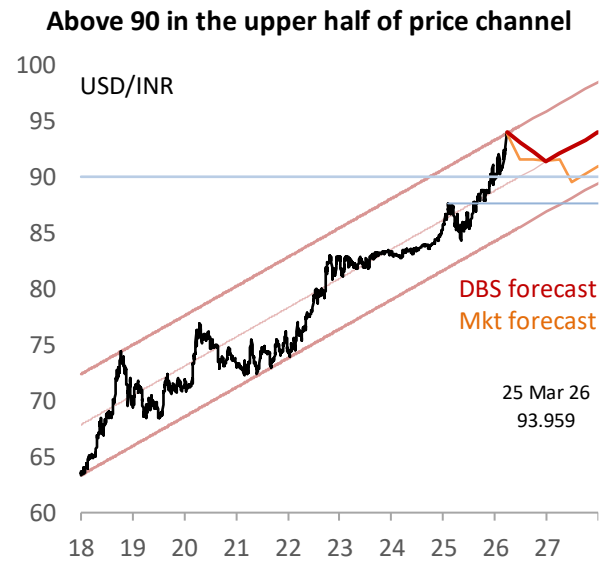


Source: BIS, DBS

Indonesian rupiah



Indian rupee



DBS forecasts

USDIDR	1Q	2Q	3Q	4Q
2025	16580	16238	16665	16680
2026	16900	16770	16635	16500
2027	16500	16500	16500	16500

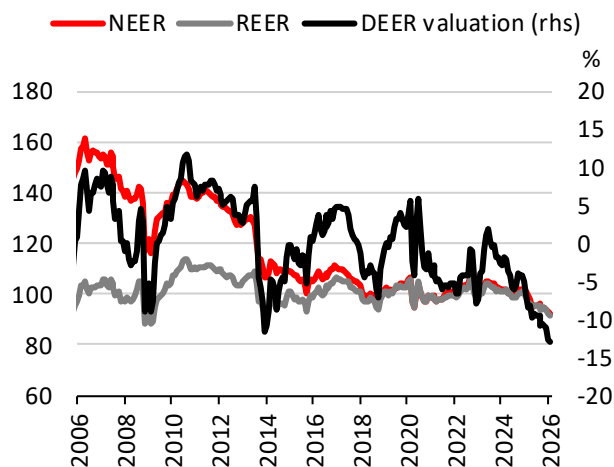
Econ indicator	2025	2026	2027
GDP growth, % yoy	5.1	5.3	5.1
CPI inflation, % yoy	1.9	2.8	2.2
Current ac, % GDP	-0.1	-0.5	-0.7
Budget bal, % GDP	-2.9	-2.9	-2.9

DBS forecasts

USDINR	1Q	2Q	3Q	4Q
2025	85.5	85.8	88.8	89.9
2026	93.9	93.1	92.2	91.4
2027	92.0	92.7	93.3	94.0

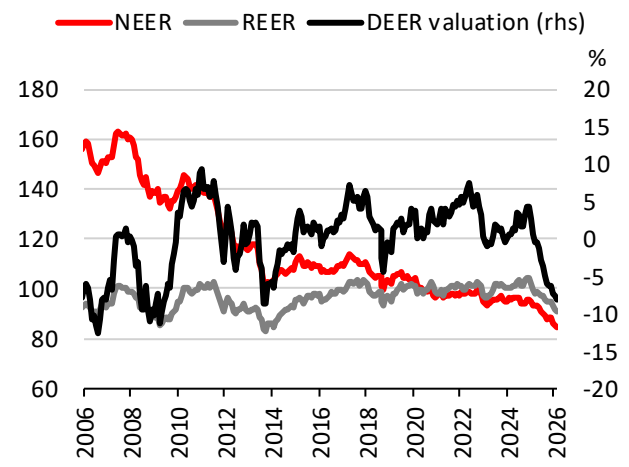
Econ indicator	FY25-26	FY26-27	FY27-28
GDP growth, % yoy	7.7	7.0	6.5
CPI inflation, % yoy	1.8	4.0	4.3
Current ac, % GDP	-1.0	-1.3	-1.5
Budget bal, % GDP	-7.5	-7.5	-7.3

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



Source: BIS, DBS

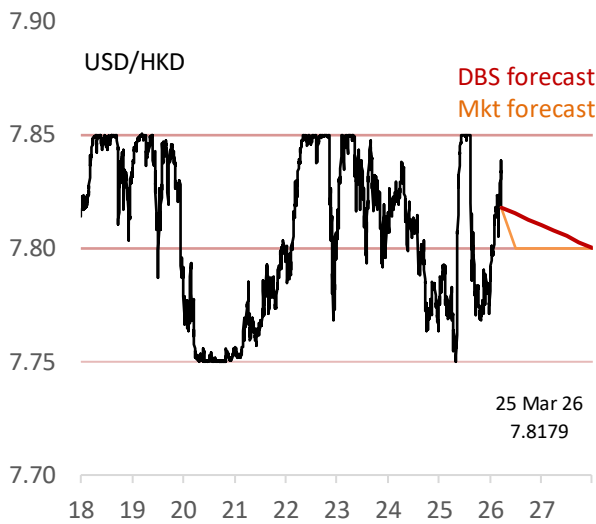
INR: Effective Exchange Rates and DEER valuations (2020=100)



Source: BIS, DBS

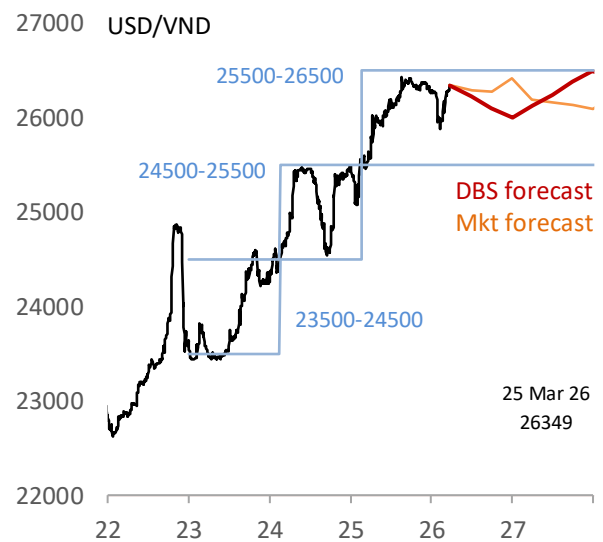
Hong Kong dollar

Fluctuating more in the past two years



Vietnamese dong

Into a higher 25500-26500 range



DBS forecasts

USDHKD	1Q	2Q	3Q	4Q
2025	7.78	7.85	7.78	7.78
2026	7.82	7.82	7.81	7.81
2027	7.81	7.81	7.80	7.80

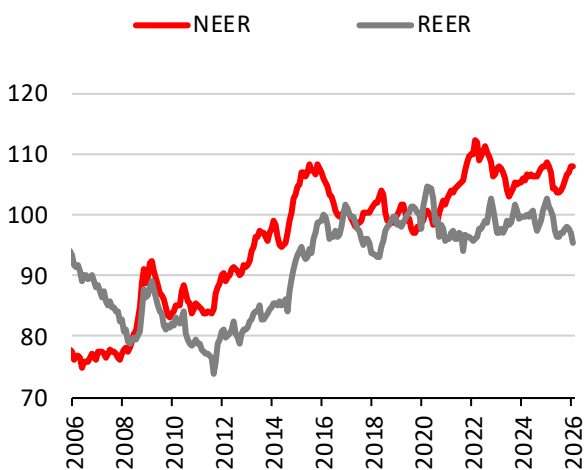
Econ indicator	2025	2026	2027
GDP growth, % yoy	3.5	3.0	2.8
CPI inflation, % yoy	1.4	1.6	1.5
Current ac, % GDP	14.0	12.0	11.5
Budget bal, % GDP	0.1	1.0	2.0

DBS forecasts

USDVND	1Q	2Q	3Q	4Q
2025	25577	26118	26424	26298
2026	26340	26230	26110	26000
2027	26130	26250	26380	26500

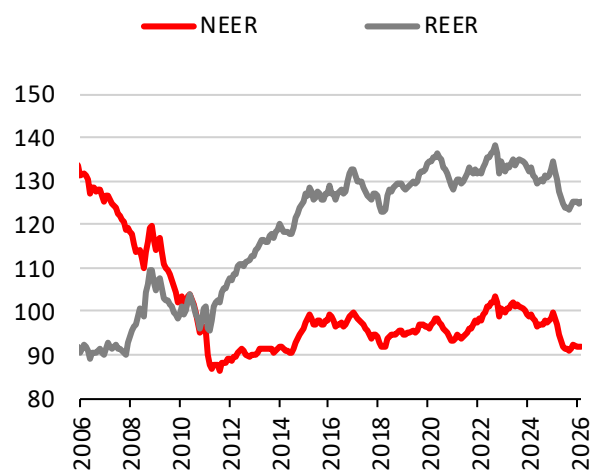
Econ indicator	2025	2026	2027
GDP growth, % yoy	8.0	6.5	6.5
CPI inflation, % yoy	3.3	3.3	3.3
Current ac, % GDP	6.7	4.5	4.5
Budget bal, % GDP	-4.5	-4.5	-4.0

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



Source: BIS, DBS

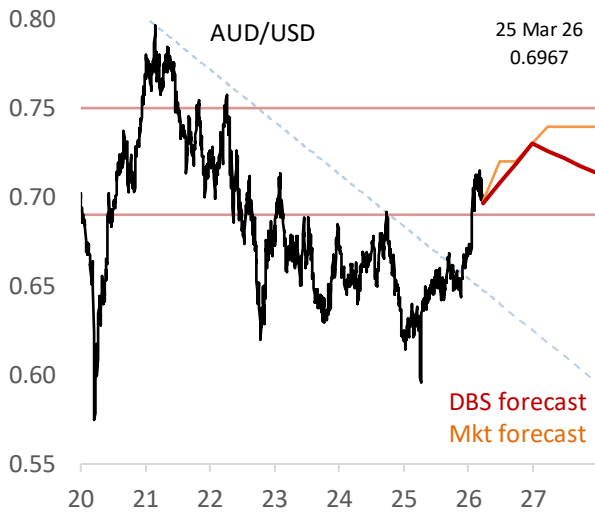
VND: Effective Exchange Rates and DEER valuations (2020=100)



Source: BIS, DBS

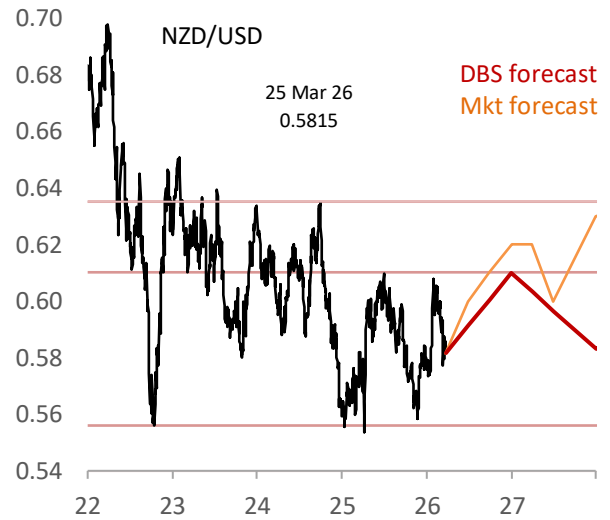
Australian dollar

AUD is highest yielding G10 currency



New Zealand dollar

No breakout of past year's range



DBS forecasts

AUDUSD	1Q	2Q	3Q	4Q
2025	0.62	0.66	0.66	0.67
2026	0.70	0.71	0.72	0.73
2027	0.73	0.72	0.72	0.71

BB consensus

	2025	2026	2027
GDP growth, % yoy	1.9	2.2	2.2
CPI inflation, % yoy	2.8	3.5	2.7
Current ac, % GDP	-2.3	-2.3	-2.3
Budget bal, % GDP	-1.0	-1.5	-1.2

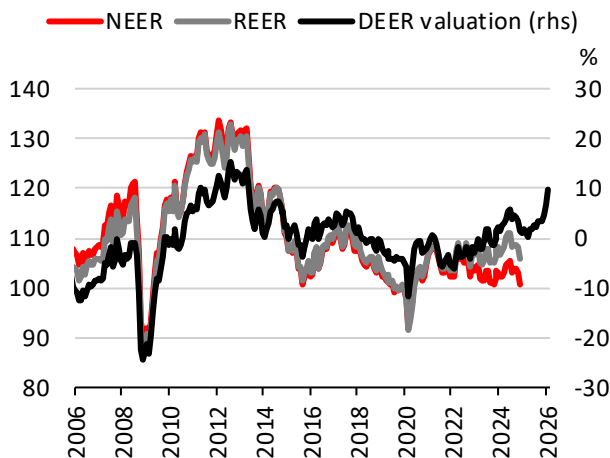
DBS forecasts

NZDUSD	1Q	2Q	3Q	4Q
2025	0.57	0.61	0.58	0.58
2026	0.60	0.59	0.60	0.61
2027	0.60	0.60	0.59	0.58

BB consensus

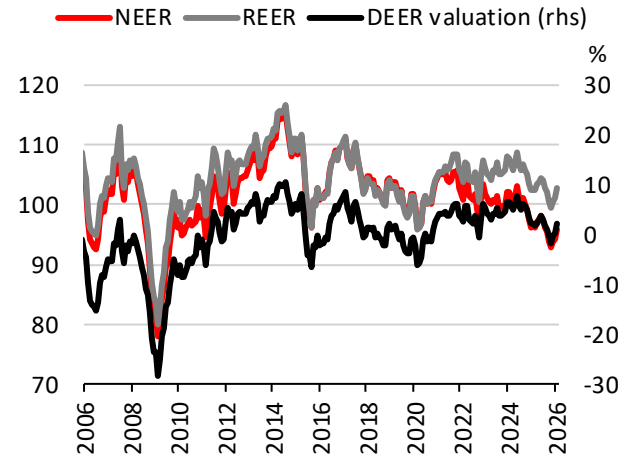
	2025	2026	2027
GDP growth, % yoy	0.4	2.4	2.6
CPI inflation, % yoy	2.8	2.3	2.1
Current ac, % GDP	-3.5	-3.4	-3.4
Budget bal, % GDP	-3.4	-2.8	-2.1

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



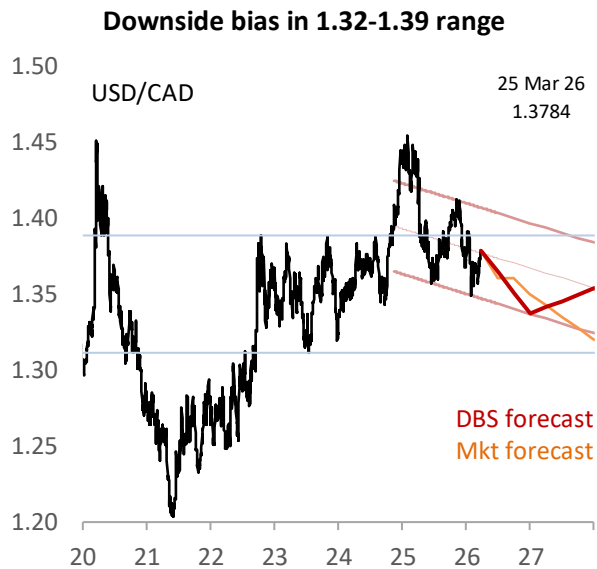
Source: BIS, DBS

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

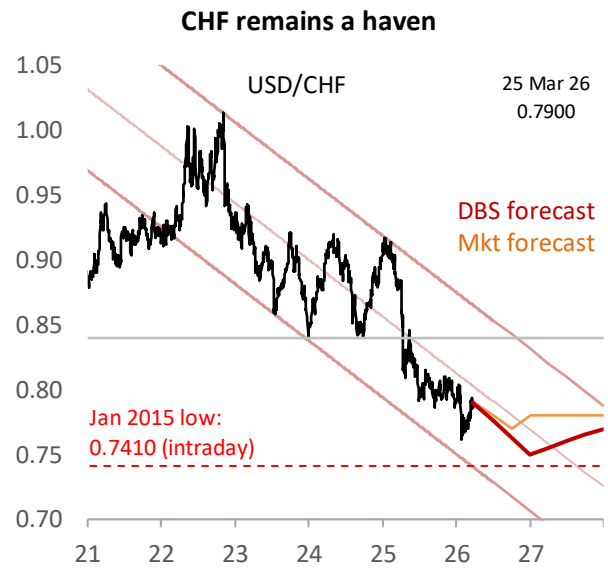


Source: BIS, DBS

Canadian dollar



Swiss franc



DBS forecasts

USDCAD	1Q	2Q	3Q	4Q
2025	1.38	1.38	1.38	1.38
2026	1.38	1.36	1.35	1.34
2027	1.34	1.35	1.35	1.35

BB consensus

	2025	2026	2027
GDP growth, % yoy	1.7	1.2	1.8
CPI inflation, % yoy	2.1	2.1	2.0
Current ac, % GDP	-1.4	-1.3	-1.2
Budget bal, % GDP	-2.3	-2.0	-2.0

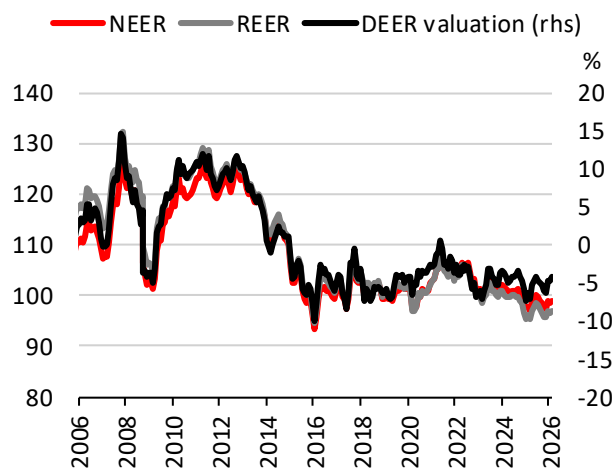
DBS forecasts

USDCHF	1Q	2Q	3Q	4Q
2025	0.88	0.79	0.80	0.79
2026	0.79	0.78	0.76	0.75
2027	0.75	0.76	0.76	0.77

BB consensus

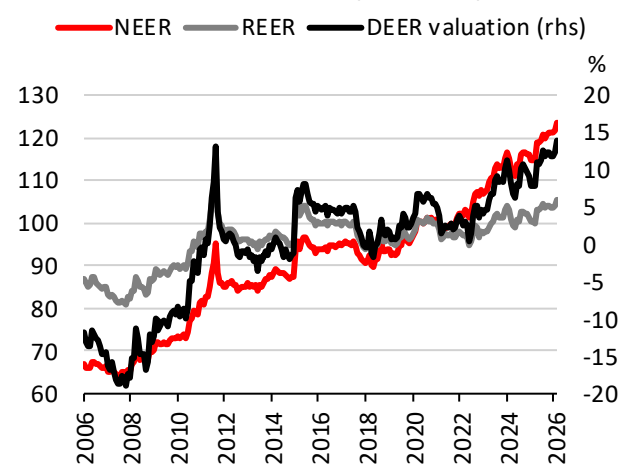
	2025	2026	2027
GDP growth, % yoy	1.2	1.2	1.5
CPI inflation, % yoy	0.2	0.5	0.7
Current ac, % GDP	6.7	5.6	5.2
Budget bal, % GDP	0.4	0.1	0.2

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	2025	2026f	2027f	2021	2022	2023	2024	2025	2026f	2027f
China	8.1	3.0	5.2	5.0	5.0	4.5	4.0	0.9	2.2	0.2	0.2	0.0	0.5	0.8
Hong Kong SAR	6.3	-3.5	3.3	2.5	3.5	3.0	2.8	1.6	1.9	2.0	1.5	1.4	1.6	1.5
India	10.3	7.2	8.7	6.7	7.8	7.0	6.4	5.1	6.7	5.7	4.9	2.2	4.1	4.5
India (FY basis)*	9.7	7.6	9.2	6.5	7.7	7.0	6.5	5.5	6.7	5.4	4.6	1.8	4.0	4.3
Indonesia	3.7	5.3	5.1	5.0	5.1	5.3	5.1	1.6	4.2	3.7	2.3	1.9	2.8	2.2
Malaysia	3.3	9.0	3.5	5.1	5.2	4.7	4.2	2.5	3.4	2.5	1.8	1.4	2.0	2.0
Philippines	5.7	7.6	5.6	5.6	4.5	5.0	5.0	3.9	5.8	6.0	3.2	1.7	2.4	2.0
Singapore	10.1	4.0	1.5	5.3	5.0	2.8	2.3	2.3	6.1	4.8	2.4	0.9	1.5	1.7
South Korea	4.6	2.7	1.6	2.0	1.0	2.2	2.0	2.5	5.1	3.6	2.3	2.1	1.8	1.9
Taiwan	6.7	2.7	1.1	5.3	8.7	7.0	3.5	2.0	2.9	2.5	2.2	1.7	1.5	1.6
Thailand	1.6	2.6	2.2	2.9	2.4	1.6	2.0	1.2	6.1	1.2	0.4	-0.1	0.5	1.0
Vietnam	2.6	8.5	5.0	7.0	8.0	6.5	6.5	1.8	3.2	3.3	3.6	3.3	3.3	3.3
Eurozone	5.3	3.5	0.5	0.7	1.5	1.4	1.2	2.6	8.4	5.5	2.3	2.2	2.0	2.0
Japan	3.6	1.3	0.7	-0.2	1.2	0.5	0.5	-0.3	2.5	3.3	2.7	3.2	1.8	1.8
United States	6.1	2.5	2.9	2.8	2.0	1.5	1.7	4.7	8.0	4.1	3.0	2.7	2.5	2.5

*2020 represents Fiscal 21; ending Mar 21

	Policy interest rates, eop									
	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	
China*	2.90	3.00	3.00	2.90	2.80	2.80	2.70	2.70	2.70	
India	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	
Indonesia	4.75	4.75	4.75	4.50	4.25	4.25	4.25	4.25	4.25	
Malaysia	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	
Philippines	4.50	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00	
Singapore**	1.33	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	
South Korea	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	
Taiwan	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	
Thailand	1.25	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
Vietnam***	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	
Eurozone^	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	
Japan	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	
United States	3.75	3.75	3.75	3.50	3.25	3.25	3.25	3.25	3.25	

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

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