FX update – USD poised for strength for a little longer, adds pressure on JPY and MYR

13 August 2026

Executive Summary

Recent FX performance suggests closer linkages from idiosyncratic central bank expectations, rather than uniform guidance of higher energy prices from the US-Iran war. The new Fed approach of avoiding forward guidance suggests greater dependence and volatility around data releases, with a Fed hike expected by end-2026. Meanwhile, Yen depreciation is likely to continue given unaddressed underlying issues, despite FX interventions. The Ringgit is also expected to face pressure amid USD strength and other downside risks ahead.

FX rhythms are only loosely in tune with the Persian Gulf duet

Traditional macroeconomic theory links fluctuations in energy prices (which are driven by real-world events) to a country's currency (FX) performance via several channels, including 1) Terms of trade (and current account) impact, 2) Inflation and interest rates (both realised and expectations), and 3) Impact on a country's productivity from energy as an input. That said, observations from the past few months (since the US-Iran war began in late-February 2026) indicate little linkage between changes in oil prices and a currency's performance (Exhibit 7), with only the AUD and MYR's (net-energy exporting countries) depreciation between May and July seemingly correlating with the decline in energy prices during the period.

Central bank expectations behind non-uniform performance

Rather, FX markets have taken more direct guidance from changes in front-end local bond yield differentials vs UST (Exhibit 8), with a mostly positive correlation observed over the past few months. During the period, developments and events in each country have varied significantly, leading to corresponding differences in responses/rhetoric from their respective central banks (with front-end government bond yields, and thereby FX, closely tied to policy interest rates). Specifically, expectations of a hawkish shift for the Fed (Exhibit 3) were decisively later vs. peers such as the ECB (Exhibit 4) and BOE (Exhibit 5), with the Fed not projected to be raising interest rates two months into the US-Iran conflict (when oil prices are around their peaks), thereby leading to a lacklustre USD performance in March-April, despite expected tailwinds from a larger energy-driven current account surplus. Nevertheless, the subsequent hawkish shift in expectations for the Fed in June (reinforced by the affirmation of price-stability commitments by the new Fed chairman, Kevin Warsh) drove broad-based USD strength, despite significant interim volatility in energy prices.

FX sensitivity heightens on data as Fed avoids forward guidance

More recently, while the recent slew of central bank meetings in late-July (Fed, ECB, BOE, and BOJ) did not result in any policy rate changes, their overall decisions (including vote breakdowns, post-meeting statements, subsequent speeches by policymakers, etc.) saw varying tunes, with the ECB decision

Exhibit 1: AmBank currency forecasts

	3Q26	4Q26	1Q27	2Q27	3Q27
USDMYR	4.12	4.15	4.14	4.10	4.07
DXY	100.2	100.0	99.7	98.8	98.1
EURUSD	1.15	1.16	1.16	1.17	1.18
GBPUSD	1.34	1.33	1.33	1.35	1.36
AUDUSD	0.70	0.71	0.71	0.70	0.69
USDJPY	161	163	162	160	160

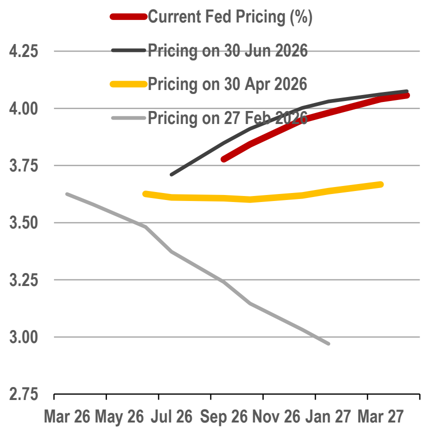
Sources: AmBank Economics, Bloomberg

Exhibit 2: AmBank interest rate forecasts

	3Q26	4Q26	1Q27	2Q27	3Q27	Current
OPR	2.75	2.75	2.75	2.75	2.75	**2.75**
US FFR (UB)	3.75	4.00	4.25	4.25	4.25	**3.75**
ECB	2.50	2.50	2.75	2.75	2.75	**2.25**
BOE	3.75	4.00	4.00	4.25	4.25	**3.75**
RBA	4.35	4.35	4.35	4.35	4.35	**4.35**
BOJ	1.00	1.25	1.50	1.50	1.50	**1.00**

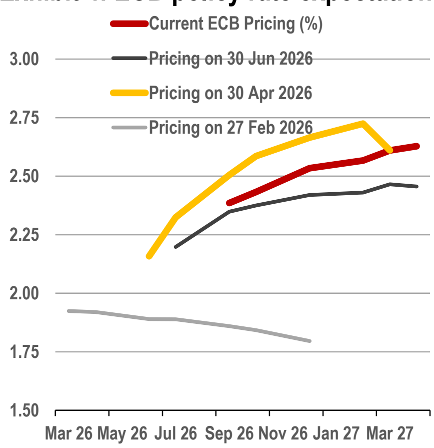
Source: AmBank Economics, Bloomberg

Exhibit 3: Fed policy rate expectations



Sources: AmBank Economics, Bloomberg

Exhibit 4: ECB policy rate expectations



Sources: AmBank Economics, Bloomberg

largely assessed as neutral on rates, while the BOE tilted hawkish as more MPC members leaned towards rate hikes to quell inflation risks ahead in the UK. Meanwhile, the continued elevated number of FOMC members dissenting rate hold decisions (in favour of a hike) suggests a 25bps rate hike ahead – especially given an acknowledgement of a solid pace of economic activity, a steady unemployment rate, and continued capital investments and productivity growth. However, Fed Chairman Warsh's new approach of not providing explicit forward guidance on the future rate path suggests greater reliance on incoming data, with USD gyrations expected to be sharp around major releases such as changes in nonfarm payrolls (NFP), CPI, and PCE inflation data. While July's NFP numbers sharply disappointed, we note it remains within recent trends, while seemingly having little impact on overall consumer spending. Alongside inflation that is expected to trend higher amid the US-Iran impasse, we pencil in a DXY fair value of around 100.0 until end-2026.

Bearish yen pathway merely deferred from recent intervention

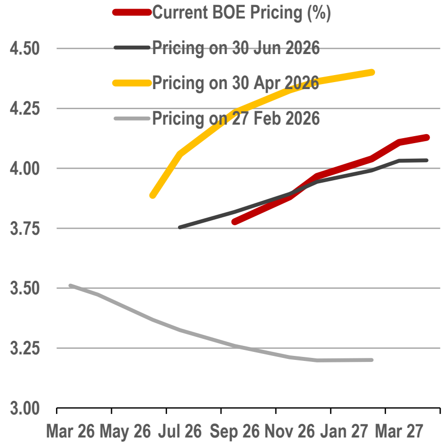
USD/JPY was seen sharply declining on 30-31 July, falling from a high of nearly 164 to 157.4 by July market close. The JPY's sizeable appreciation was driven by a joint US-Japan FX intervention, with US Treasury Secretary Scott Bessent later vowing continued support after the operation. That said, we think the Yen's rally has likely run its course. Estimates indicate that the US Treasury has limited liquid resources to sustain further joint FX intervention, with the US Treasury's Exchange Stabilisation Fund (ESF) holding only approximately USD39 billion in liquid euro/dollar assets (vs an estimated USD35-60 billion in intervention spending by Japan's MOF between 2022 and 2026). The last joint US-Japan FX intervention also occurred in mid-1998, and drew only relatively modest support from the US and occurred for one instance only (despite subsequent yen weakness), suggesting a historically limited appetite to sustain such market operations. Meanwhile, expectations of near-term Fed rate hikes are expected to solidify traders' short-yen long-dollar carry trades, which have driven persistent yen depreciation over the past year (Exhibit 9). Other structural issues weighing on the yen also remains unchanged despite the intervention, including: 1) Loose fiscal policies under PM Takaichi's government, 2) Perception and expectations of the BOJ to normalise policy rates slowly despite rebounding inflation risks (given risks to growth and financial stability), and 3) Recent signs of tensions between the MOF and BOJ, with differing set of projections ahead on the inflation and growth outlook. As such, we continue to see a mild depreciation pathway for the JPY, targeting USD/JPY at 163 by end-2026.

Recent correction in Ringgit expected to continue

Headwinds from a more hawkish Fed point to continued increases in UST-MGS yield differentials, suggesting some pressure on the Ringgit ahead, given our expectations for the OPR to remain unchanged over the next several quarters (as inflation is expected to remain anchored by fiscal policies and limited demand-pull conditions). Although external factors are likely to remain the dominant driver in Ringgit performance, looming election and political-cycle risks in Malaysia may also lead to an outflow-driven rebalancing of foreign portfolio money.

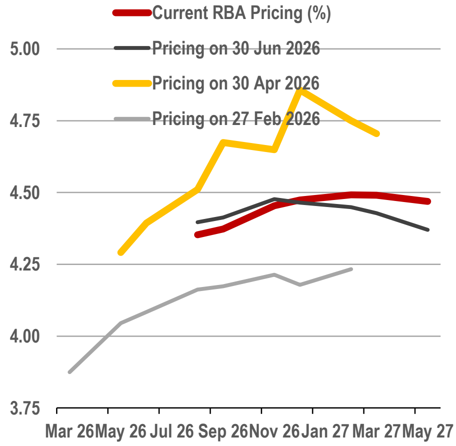
Meanwhile, external demand risks are also tilted to the downside, particularly amid the eventual moderation in global tech investments. Support for the Ringgit

Exhibit 5: BOE policy rate expectations



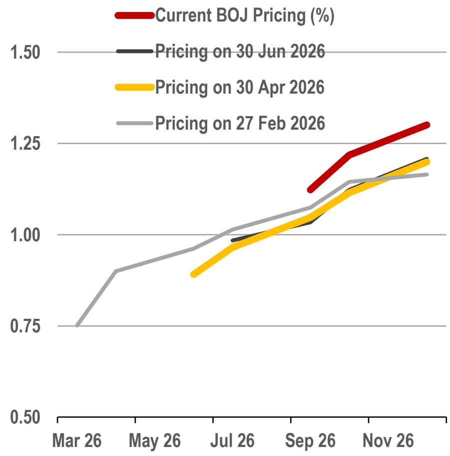
Sources: AmBank Economics, Bloomberg

Exhibit 6: RBA policy rate expectations



Sources: AmBank Economics, Bloomberg

Exhibit 7: BOJ policy rate expectations



Sources: AmBank Economics, Bloomberg

may narrow if there is a marked slowdown in global semiconductor-related demand – a significant risk for Malaysia's E&E-heavy exports. Furthermore, the recent fragility in global AI-related stocks (due to fears of excessive investment spending vis-à-vis an uncertain profitability timeline) may lead to reductions in related infrastructure spending. As such, we project USD/MYR to trend higher towards 4.15 by end-2026.

Exhibit 7: FX vs. oil price moves in 2026

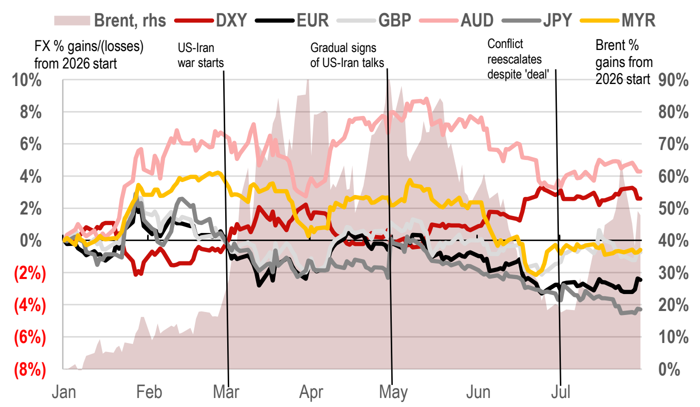


Exhibit 8: Correlation (10-day moving average) of FX vs. yield differentials

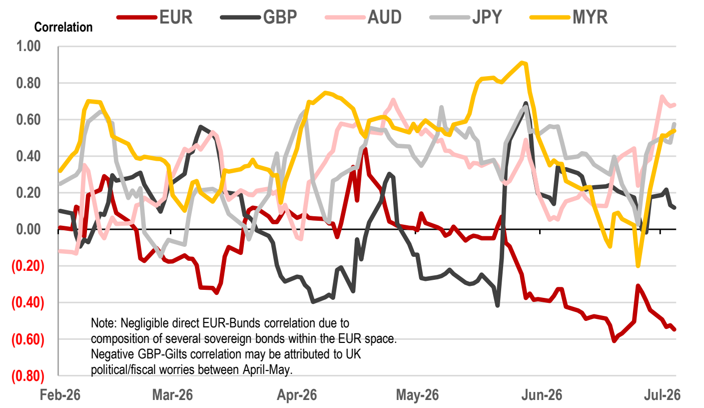


Exhibit 9: Bearish yen positioning has driven persistent pressure on the JPY for the past year

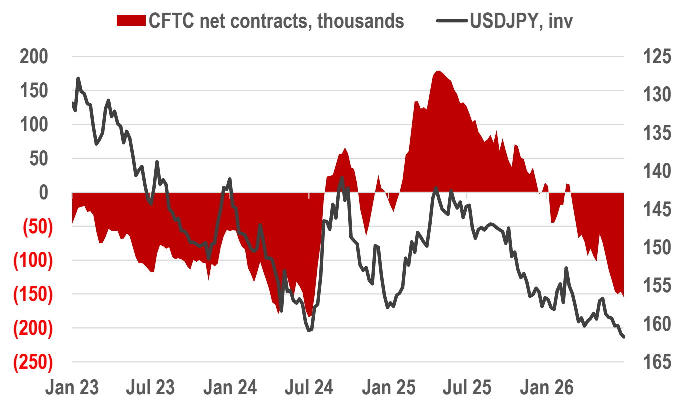
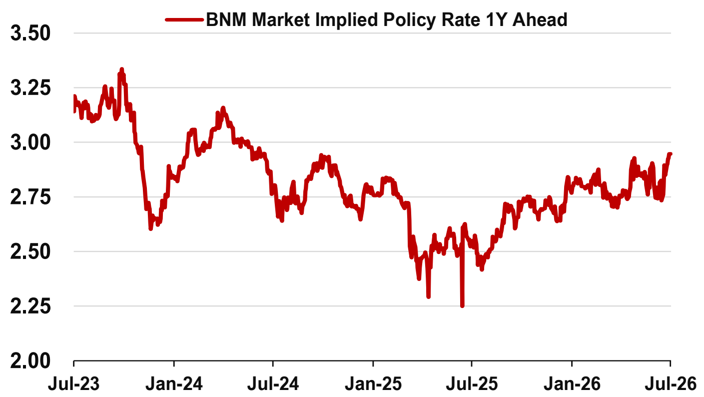


Exhibit 10: Malaysia swap expectations now lean more hawkish for the year ahead, given upbeat GDP data



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