

# Macro Insights

## Currency dynamics beyond a commodity shock

April 13, 2026



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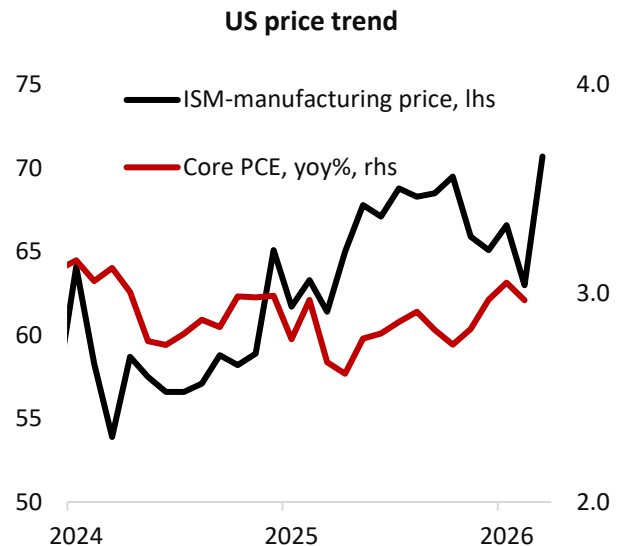
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- *In the G-10 space, the dollar has weakened over the past 16 months and largely strengthened over the past 2. For Asian FX, the narrative against the USD is not that neat.*
- *Since the beginning of 2025, region currencies have essentially split up into three groups.*
- *First, the ascendant exporters, benefitting from a strong electronics and commodity cycle.*
- *Second, the ones under US pull. Despite strong exports, they face myriad challenges from the US.*
- *Third, the three under pressure, with numerous headwinds.*
- *These groupings may inform these currencies performance ahead.*

### Chart of the Week: Inflation expectations

Short-term inflation expectations have begun to climb due to the ongoing conflict in the Middle East. Oil futures pricing still reflects expectations of a short-term resolution to the crisis, but some damage is already done. Even under the best-case scenario, energy supplies will take several months to come back to normal levels, hence a period of elevated inflation pressure looks unavoidable. Both consumer (Michigan) and business (ISM) survey readings point to a jump in inflation rates in March and beyond.



Source: CEIC, DBS.

**Commentary: Currency dynamics beyond a commodity shock**

Risk aversion around the March/April war in the Middle East has led to the broad dollar index strengthening by about 2% over the January/February period, reversing the preceding 12 months’ depreciation trend. But the development is hardly a general one.

Against G-10 currencies, except for the Japanese yen, the USD has depreciated substantially since the beginning of Donald Trump’s presidency last year. The trend turned mixed during March/April, with the likes of the Kiwi Dollar and Swiss Franc weakening a tad, and oil rich Norwegian Krona sustaining its appreciation trend against the USD.

The narrative is far more differentiated in Asia. Since the beginning of 2025, the region has essentially split up into three groups.

**Group 1: The ascendant exporters**

The AI wave has lifted the entire electronics ecosystem, with the exporters of China, Malaysia, and Singapore reporting record demand despite all the uncertainties with trade wars. The resulting bump in trade surpluses and the strong outlook for investments in electronics lifted these currencies. They have shown not much weakness since March either.

Thai baht’s outperformance story rests more on surging gold exports than electronics demand. That also explains why it has sold off lately, following the correction of gold price in the last couple of months.

**Group 2: The ones under US pull**

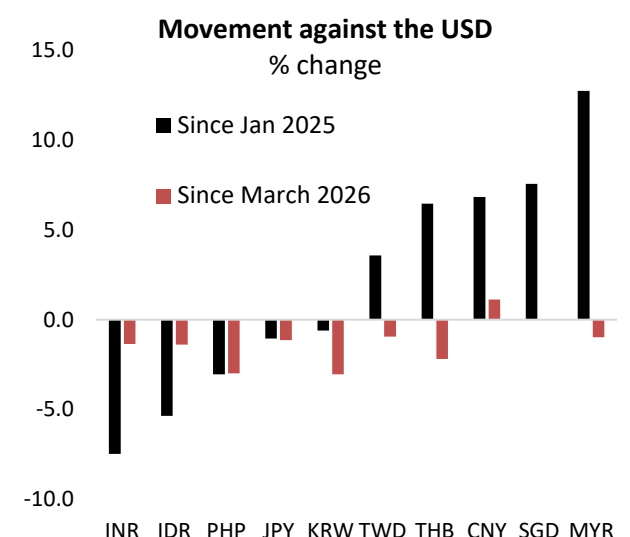
Japan, South Korea, and Taiwan are also exports stalwarts, but they faced a great deal of pressure from the US last year, while lacking the

heft of China to push back. Pledges were made by their governments to move some of their supply chain to the US, to invest hundreds of billions of dollars there, and to be subject to monitoring that such commitments are being honoured. Torn between dynamic exports and challenges from the US, the currencies of these economics have been largely flat.

**Group 3: The three under pressure**

Indian rupee, Indonesian rupiah, and the Philippines peso have had idiosyncratic drivers of underperformance. While the latest bout of selloff may be attributable to exposure to potentially soaring energy import bills, there are other reasons too. A late cycle capital market dynamic (India), fiscal and governance concerns (Indonesia), and tech and political disruption (Philippines) have played their parts as well, in varying degrees.

With commodity prices and geopolitical turbulence likely to remain high, these currencies may well continue to behave as per their groupings in this analysis.



Source: Bloomberg, DBS

Taimur Baig

## FX: USD is back as a haven

After a week in which global markets clung to the hope of a de-escalation in the US-Iran conflict, market volatility will likely return following the failure of Sunday's Islamabad Summit between US Vice President J.D. Vance and Iranian Speaker Mohammad Bagher Ghalibaf. US President Donald Trump announced a drastic policy shift by ordering the US Navy to start blockading the Strait of Hormuz by interdicting every vessel in international waters that paid a toll to Iran for safe passage in the Strait.

Trump's Hormuz blockade also appears to be a **maritime compellence campaign that directly rebukes US allies** who refused to support the US conflict against Tehran. Trump's March 17 address characterized NATO and Asian security partners as "free riders" who agreed with the mission but refused to "share the burden." Following the US Supreme Court's ruling that stripped President Trump of his ability to use the International Emergency Economic Powers Act (IEEPA) for broad-based tariffs, the administration also appears to be weaponizing physical energy security to achieve the same mercantilist ends against its primary trade deficit partners in Europe and Asia.

Hence, **expect stagflation to dominate discussions at this week's International Monetary Fund and World Bank Spring Meetings** in Washington, D.C. IMF Managing Director Kristalina Georgieva warned that it would take some time for global prices to come down to levels seen before Operation Epic Fury began on February 27. The IMF World Economic Outlook (WEO), to be released on April 14, will likely include a downgrade to global growth, flagging Asia as the most exposed region due to

its high dependency on the Strait of Hormuz for industrial inputs. **The divergence between Australia's two rate hikes this year and New Zealand's wait-and-see stance reflects how stagflation affects different economies.** Australia is operating from a position of resource-backed strength and prioritizing inflation, while New Zealand is struggling with structural fragility and prioritizing growth.

Against this challenging landscape, we expect the **Monetary Authority of Singapore to normalize its SGD NEER policy band** by reversing the two slope reductions in January and April 2025. We see the MAS raising its core inflation forecast to 1.5-2.5% (from 1-2%) and the CPI-All Items projection to a higher level to reflect the current energy shock. While our model shows the SGD NEER positioned around 1.8% above its mid-point, USD/SGD remains tied to the direction of the global USD, which is currently reprising its haven role on President Trump's blockade decision.

**The Singapore government takes the long-term view that the global order is being challenged by a fundamental shift from a rules-based system to one defined by raw power and zero-sum rivalry.** The decades-long post-WW2 global order that prioritized economic efficiency and integrated markets is being aggressively reworked into one that puts security and resilience first. Deputy Prime Minister Gan Kim Yong has framed the Hormuz chokepoint as the worst since the 1973 oil embargo, signalling that Singapore treats this as an existential supply shock, not a standard price fluctuation.

*Philip Wee*

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**Sources:** Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)

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