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Real Resilience in an Artificial Age

Growth Likely To Remain Resilient

Monthly Outlook

by OCBC Wealth Panel

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For **now**, and **beyond**

IN THIS ISSUE

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Real Resilience in an Artificial Age

As we cross into the second half of 2026, financial markets continued to demonstrate remarkable resilience powered by the continuous investments into artificial intelligence's (AI) supply chain and infrastructure, and the ongoing effects of looser fiscal and monetary policies in stabilising demand. The end of the impasse between US and Iran has also contributed to the removal of a significant source of uncertainty in the latter part of the year with oil prices falling by ~20% in June. Meanwhile, the demonstrable gains shown by the AI industry continue to power capital investments and revenue growth in the tech hardware value chain, providing strong fundamentals that have supported not just the equity markets, but also the bond markets.

The strength of the labour market and capital investments have, however, created a dilemma for global central banks as inflation looks likely to persist. Major central banks' rhetoric, including from Federal Reserve (Fed), European Central Bank (ECB) and Bank of Japan (BoJ) have recently turned more hawkish, increasing the risks to market valuations in the event of a pivot to tighter financial conditions. The shift in rates expectations has had a significant impact on the long-end of US Treasuries (UST), as well as the outlook for USD and precious metals like gold. We continue to view the recent bull equity market as fundamentals-led, but the sharp gains in share prices of AI-driven companies and concentration of investor positioning in these names inevitably increase market fragility. Periodic market swings and wide dispersion in asset price moves that we have witnessed this year are likely to persist, and investors should take advantage of the gains to-date to improve their portfolio health through increasing diversification, reducing concentration, monitoring leverage and duration exposures etc.

In our tactical asset allocation strategy, we are maintaining a moderately constructive overall stance in equities with an Overweight position in US equities, Neutral position in Asia ex-Japan and Japan, and an Underweight position in Europe. In fixed income, we maintain a modest overall Underweight position and stay Neutral on portfolio duration amidst market volatility. In Developed Markets (DM), we prefer Investment Grade (IG) over High Yield (HY) while in Emerging Markets (EM), we are Neutral on corporates and Underweight on sovereigns.

GLOBAL OUTLOOK

SELENA LING
Chief Economist & Head, OCBC Group

Growth Likely To Remain Resilient

"US growth has remained surprisingly resilient, supported by strong AI-related investment and the unwinding of Liberation Day tariffs."

- Geopolitical risk premiums have eased following the US-Iran MOU, helping lower crude oil prices as maritime traffic through the Strait of Hormuz gradually normalises. However, negotiations remain fragile, and risks persist.
- Elsewhere, markets have been shaped by hawkish Fed repricing, with futures now fully pricing in a 25bp rate hike by year-end as Fed Chair Warsh retreats from forward guidance.
- Concerns over AI valuations and capex sustainability have also added to volatility. Despite this, US equities recorded their strongest quarterly gain in six years.
- Meanwhile, USDJPY touched a four-decade high as interest-rate differentials became a less reliable driver of the exchange rate, keeping intervention risks in focus. Longer term, reserve managers are expected to gradually diversify away from the US dollar towards the Euro, Yuan and Gold, according to the Official Monetary and Financial Institutions Forum (OMFIF).
- It remains unclear whether policymakers will look through the 2Q26 energy-price shock, which is still feeding through to a broader range of goods and services. Inflation may not peak until 3Q26. At the same time, growth has remained surprisingly resilient, supported by strong AI-related investment and the unwinding of Liberation Day tariffs.

United States

- We maintain our 2026 growth forecast at 2.2%, with growth expected to rebound to above 3% QoQ in 2Q26 from 2.1% in 1Q26, driven by a recovery in net exports.
- We expect inflation to peak in 2Q26 before moderating in 2H26, supported by fading energy-related effects and a decline in the oil risk premium. Our 2026 inflation forecast remains at 3.5% YoY, up from 2.7% in 2025.
- Following the FOMC meeting, markets briefly priced in earlier rate hikes, pushing Treasury yields higher. However, a sharp decline in oil prices to pre-war levels by end-June eased inflation concerns, leading investors to partially reverse the move.
- New Fed Chair Warsh has also launched a strategic review of the Federal Reserve's operating framework, covering communications, balance sheet policy, data methodology, the inflation framework, and labour-market assessment, with completion targeted for end-2026. Reduced reliance on forward guidance could increase market uncertainty.

Euro-Area

- The euro area outlook has weakened following the Middle East conflict, with growth expected to slow to 0.9% YoY in 2026 from 1.4% in 2025. Our forecast, unchanged for some time, is now aligned with the European Commission's Spring Economic Forecast after its

downward revision in May.
- The impact on the labour market has been limited so far, with unemployment holding steady at 6.3% in April 2026. However, inflation remains the ECB's primary concern as policymakers continue to highlight persistent pipeline price pressures. Headline CPI rose to 3.2% YoY in May from 3.0% in April, prompting us to raise our 2026 inflation forecast to 3.1% from 2.8%, mainly due to higher energy prices.
- Following the 25bp rate hike in June, we expect the ECB to deliver one additional 25bp hike in September, taking the deposit rate to 2.5%.

Japan

- The BOJ raised its policy rate from 0.75% to 1.00% at its June meeting, in line with expectations. Inflation continued to firm, with Tokyo core CPI rising to 1.6% YoY in June from 1.3% in May, although it remained below the BOJ's 2% target for a fifth straight month. Core-core inflation (excluding fresh food and energy) increased to 1.9% YoY from 1.6%, pointing to a broader pass-through of higher energy costs.
- Domestic demand remains resilient. Retail sales grew 5.3% YoY in May, up from a revised 2.8% in April and well above expectations, supported by strong wage growth and government subsidies.
- Against this backdrop, we maintain our 2026 GDP growth forecast at 0.8% and headline CPI forecast at 2.5%.

China

- Recent data point to a further slowdown in China's growth momentum. While high-tech manufacturing and AI-related sectors continue to support activity, weakness in consumption, the property sector, manufacturing investment, and infrastructure spending suggests the broader economy remains under pressure.
- We expect GDP growth to moderate to around 4.5% YoY in 2Q26, reflecting China's ongoing K-shaped recovery. Nevertheless, the economy remains broadly on track to meet the official 4.5–5.0% growth target, and we maintain our 2026 growth forecast at 4.7%.

Rates

- Fed funds futures turned more hawkish following the June dot plot, with nine FOMC members signalling at least one rate hike before year-end. Market pricing has remained hawkish despite lower oil prices and benign May PCE inflation data. We continue to expect the Fed to keep rates unchanged at 3.50 - 3.75% through 2026, although the risk of a hike remains. This tightening risk is likely to keep short-dated Treasury yields relatively elevated, even if any additional hike is eventually followed by rate cuts in 2027.
- We expect the BOE to keep its Bank Rate unchanged at 3.75% through 2026, given its already restrictive stance and soft growth outlook. Governor Bailey struck a balanced tone at the June MPC meeting, noting that bringing inflation back to target too quickly could create unnecessary volatility in growth. While two MPC members voted for a rate hike as a risk-management measure, their stance appeared cautious rather than conviction-driven. Meanwhile, weakening demand and labour market conditions should help limit second-round inflation pressures. Reflecting this backdrop, market expectations for further tightening have eased significantly.
- We expect the ECB to deliver one additional 25bp rate hike in 3Q26,

as inflation is likely to remain above target through most of 2027. However, we do not foresee a more aggressive tightening cycle. The ECB has signalled that the current inflation shock is significant but not persistent enough to warrant a stronger policy response, supporting a measured and gradual approach to further rate increases.

- The June RBA meeting minutes and current economic conditions support our view that the cash rate will remain at 4.35% through 2026. The RBA continues to adopt a wait-and-see approach, noting that it will take time to assess the full impact of past policy tightening on the economy. Consistent with this cautious stance, markets are pricing in only a modest chance of a further hike, with cash rate futures implying around 11bps of tightening by year-end.

GDP Growth Rates Forecast

% Change YoY	2025	2026F	2027F
United States	2.1	2.2	2.0
Euro Area	1.4	0.9	1.1
Japan	1.1	0.7	1.0
United Kingdom	1.4	1.0	1.1
Australia	2.0	2.0	1.9
New Zealand	0.2	1.2	2.0
China	5.0	4.7	4.5
Hong Kong	3.6	3.4	2.8
Macau	4.7	4.2	3.3
Taiwan	8.8	8.1	4.2
South Korea	1.1	2.2	2.0
India	7.1	7.7	6.5
Indonesia	5.1	5.0	5.0
Malaysia	5.2	4.4	4.2
Philippines	4.4	3.8	4.8
Singapore	5.0	3.5	2.8
Thailand	2.4	1.5	2.0
Vietnam	8.0	7.3	8.0

Source: OCBC Group Research, 1 July 2026

Inflation Rates Forecast

% Change YoY	2025	2026F	2027F
United States	2.7	3.5	2.2
Euro Area	2.1	3.1	2.5
Japan	3.2	2.1	2.0
United Kingdom	3.4	3.1	2.3
Australia	2.8	4.4	2.9
New Zealand	2.8	4.0	2.0
China	0.1	1.5	2.0
Hong Kong	1.4	1.9	2.2
Macau	0.3	1.1	1.1
Taiwan	1.7	2.1	1.9
South Korea	2.1	2.6	2.2
India	4.6	2.0	5.0
Indonesia	1.9	3.0	2.5
Malaysia	1.4	2.0	2.1
Philippines	1.7	5.8	4.5
Singapore	0.9	2.2	2.1
Thailand	-0.1	3.8	2.0
Vietnam	3.3	4.5	4.5

Source: OCBC Group Research, 1 July 2026

US Interest Rate Forecasts

	3Q2026	4Q2026	1Q2027	2Q2027	3Q2027
Federal Funds Rate*	3.75	3.75	3.75	3.75	3.75
2Y US Treasury Yield	4.15	4.05	4.00	4.00	3.95
5Y US Treasury Yield	4.25	4.20	4.15	4.15	4.15
10Y US Treasury Yield	4.55	4.45	4.45	4.45	4.40
30Y US Treasury Yield	5.10	5.10	5.15	5.15	5.15

* Upper Limit of Target Range

Source: OCBC Group Research, 1 July 2026

EQUITIES

ELI LEE
Managing Director, Chief Investment Strategist,
Bank of Singapore

Moderately Constructive Stance For Equities

"For the second half of 2026, we advocate a moderately constructive stance in equities, with anoverweight position on US, underweight position on Europe and neutral stance for the remaining regions."

- Equities ended 1H2026 on a strong note despite geopolitical uncertainty, higher oil prices, and inflation concerns. The AI investment theme remained the key driver of performance, supporting gains in US, Japan, Korea, and Taiwan equities.
- Looking ahead, the economic outlook remains broadly constructive. Combined with resilient corporate earnings, this continues to support a positive environment for risk assets. While AI remains a core structural growth theme, investor focus is increasingly shifting toward companies' ability to monetise AI investments and deliver sustainable earnings growth. Firms with strong earnings visibility, supported by ongoing investment and revenue expansion, are likely to remain favoured.
- As the AI investment landscape becomes more crowded and concentrated in mega-cap stocks, markets may be more vulnerable to geopolitical shocks, earnings disappointments, or other unforeseen events.
- Key market drivers in 2H2026 include the US midterm elections and the Federal Reserve's policy and interest-rate outlook. Historically, midterm elections often result in losses for the incumbent party and increase the likelihood of a divided government. For markets, policy implications matter more than politics, as legislative gridlock can reduce uncertainty and often prove supportive for equities. Against a backdrop of persistent inflation, rising fiscal deficits, and geopolitical tensions, investors will closely monitor the elections for their potential impact on fiscal, trade, and industrial policies.
- Within our tactical asset allocation strategy, we maintain a moderately constructive stance on equities, with an overweight position in US equities, neutral positions in Japan and Asia ex-Japan, and an Underweight position in Europe.
- While equities may experience periods of consolidation following the strong rally, we view any pullbacks as opportunities to add to strategic positions. Sector-wise, we favour Information Technology, Communication Services, Materials, and Utilities, which stand to benefit from continued capital expenditure growth and long-term themes such as AI and Security and Resilience (S.E.C.U.R.E.).

US – Climbing the wall of AI concerns

- Investor concerns about the sustainability of the AI CAPEX cycle remain, particularly as some US hyperscalers face declining or even negative free cash flow due to significant AI-related investments. However, despite fluctuations in sentiment over the past two years, hyperscaler CAPEX trends have remained broadly intact, supported by resilient demand. This should continue to underpin earnings growth and investment across the technology value chain. Micron's recent earnings results also highlight the strong growth trajectory of AI infrastructure spending.

- More broadly, earnings revisions across the S&P 500 remain positive across most sectors, providing a supportive backdrop for the upcoming earnings season. Encouraging developments in US-Iran negotiations related to the Strait of Hormuz have also helped ease geopolitical risks and reduce market risk premia.
- We remain constructive on US equities. Our forecast assumes 2027 earnings-per-share growth of 15%, below the current consensus expectation of 18%, providing room for potential upside.

Europe – Challenging macro backdrop

- The European macroeconomic backdrop remains challenging, with growth slowing and inflation staying elevated. In the UK, ongoing political uncertainty continues to weigh on sentiment, while across the region, progress toward reopening the Strait of Hormuz could help ease energy costs, although inflation and consumer confidence may take longer to recover.
- Against this backdrop, we favour sectors that offer inflation protection, such as Materials and Energy, alongside defensive areas including Telecommunications and Utilities. Within cyclical sectors, we remain selective and prefer companies exposed to the long-term structural themes of AI adoption and enablement, as well as Security & Resilience (S.E.C.U.R.E.).
- Germany's fiscal stimulus measures could support a cyclical growth recovery, but it may be premature to expect a return to the outperformance seen in the previous decade. Structural challenges - including an ageing population, increased competition from China, and elevated energy costs - are likely to remain headwinds. While easing geopolitical tensions may provide near-term support, we continue to focus on companies with strong fundamentals, pricing power, and resilient earnings within European equities.

Japan – Favour structural investment themes

- Japanese equities have been volatile, initially declining before rebounding on news of progress toward reopening the Strait of Hormuz. Valuations are currently at the upper end of their historical range, reflecting improved investor sentiment and strong earnings expectations.
- The Bank of Japan recently raised its policy rate by 25 basis points to 1.0%, in line with market expectations. Meanwhile, the government has unveiled a long-term growth strategy centred on public-private investment across key strategic sectors, with further details expected in the coming months.
- We continue to favour structural investment themes, particularly AI-related opportunities across the semiconductor ecosystem, including equipment, components, parts, and materials manufacturers. A further easing of geopolitical tensions could support cyclical sectors such as banks, construction, defence, and real estate.
- However, the Bank of Japan has highlighted upside inflation risks, which could weigh on real household incomes and private

consumption. As such, while the medium-term outlook remains constructive, we remain selective and focused on companies with strong earnings visibility and exposure to long-term growth themes.

Asia ex-Japan – Selectivity is key

- We maintain our neutral stance on Asia ex-Japan equities, as performance across the region remains highly divergent. The AI theme has driven strong gains in South Korea and Taiwan, but market performance has become increasingly concentrated, with a handful of stocks accounting for a significant share of index returns. Investor enthusiasm, particularly in South Korea, has also raised concerns about elevated market positioning.
- In contrast, Indonesia has been a notable underperformer. We remain Underweight given continued macroeconomic challenges and uncertainty surrounding its Emerging Markets status, which may continue to weigh on investor sentiment.
- Within the region, we continue to see more attractive opportunities in Hong Kong, China, and Singapore equities, where valuations remain reasonable and market fundamentals appear more compelling. Overall, while the regional outlook remains mixed, selective positioning remains key.

Singapore – Attractive valuations, strong dividends and structural market support

- We remain positive on Singapore equities, supported by attractive valuations, strong dividend yields, and ongoing market development initiatives. Despite geopolitical tensions and inflation concerns linked to higher oil prices, Singapore continues to attract safe-haven inflows due to its strong governance, stable economy, and resilient Singapore dollar.
- The Straits Times Index (STI) remains reasonably valued, trading at around 15.1x earnings while offering an attractive dividend yield of approximately 4.2%. Historically, the STI has delivered annualised returns of 6.2% over the past decade, rising to about 10.3% when dividends are included.
- A key catalyst is the Equity Market Development Programme (EQDP), which has significantly improved market liquidity and investor participation since its launch in 2025. Trading activity has risen sharply; while growing interest in small- and mid-cap stocks has supported broader market re-rating. Additional support is expected as more asset managers join the programme and initiatives such as the SGX-Nasdaq dual-listing framework and Global Listing Board encourage new listings.
- Sector-wise, banks remain attractive due to strong earnings, dividend payouts and share buybacks. Opportunities also exist in REITs and quality real estate companies, while Singapore's construction sector is benefiting from a robust pipeline of infrastructure projects, including Changi Airport Terminal 5.
- Overall, Singapore offers investors a compelling combination of stability, income, and long-term growth potential.

Global Sectors - Constructive on structural investment themes

- At the start of 2026, our preferred sectors were Information Technology, Communication Services, Materials and Utilities, while we maintained an Underweight position in Consumer Discretionary. This positioning has proven effective, with IT leading global sector performance year-to-date, while Consumer Discretionary has lagged amid softer consumer spending trends.

- Looking ahead, we remain constructive on sectors that benefit from structural investment themes, including technological sovereignty, supply-chain localisation and infrastructure modernisation. These trends continue to support earnings growth in IT, Communication Services, Materials and Utilities through sustained capital expenditure across the global economy.
- While Energy has performed strongly and remains an effective geopolitical hedge, easing tensions suggest near-term upside may be more limited. We also see improving opportunities in selected Healthcare segments, particularly Life Sciences and Medical Equipment, where investor interest is increasing.
- From an investment style perspective, we favour a barbell strategy combining Quality Growth and Low Volatility stocks. Quality Growth companies, particularly those linked to AI, continue to benefit from strong earnings growth, healthy balance sheets and attractive shareholder returns. Low Volatility stocks, meanwhile, provide attractive diversification and portfolio protection at reasonable valuations.
- Importantly, the AI investment cycle remains intact. Rising capital commitments from hyperscalers and increasing demand for AI computing capacity continue to support opportunities across semiconductors, internet platforms, storage and networking infrastructure. We remain positive on these areas, while maintaining a more selective view on software. Cybersecurity is also emerging as a beneficiary of broader AI adoption and digital transformation trends.

HONG KONG / CHINA MARKET OUTLOOK

ELI LEE
Managing Director, Chief Investment Strategist,
Bank of Singapore

Diverging Performance Between Onshore And Offshore Markets

"We maintain our preference for the onshore A-share market and continue to advocate a barbell strategy, combining quality yield-generating companies with selective exposure to AI-related beneficiaries. "

- The performance gap between onshore and offshore Chinese equities continues to widen, and we expect this trend to persist. The onshore A-share market remains better positioned, benefiting from greater exposure to technology, innovation, and industrial upgrading themes, stronger earnings growth prospects, and relatively low correlation with US equities, making it more resilient to external shocks.
- In contrast, offshore Chinese equities have been weighed down by softer economic data, particularly retail sales, as well as concerns over new regulatory requirements affecting outbound investment activity. However, the upcoming 2Q26 earnings season could prove to be an important catalyst. Large internet and platform companies may be nearing the end of intense subsidy-driven competition in areas such as food delivery and quick commerce, potentially supporting stronger profitability and positive earnings revisions.
- We maintain our preference for the onshore A-share market and continue to advocate a barbell strategy, combining quality yield-generating companies with selective exposure to AI-related beneficiaries. Favoured areas include power equipment, energy storage, and other sectors supported by policy initiatives and the ongoing AI investment cycle.

BONDS

ELI LEE
Managing Director, Chief Investment Strategist,
Bank of Singapore

A Game Of Carry

"Rates volatility and dispersion should continue to be key themes in the second half of 2026. We continue to favour high-quality credits and stay neutral on portfolio duration."

- Credit markets demonstrated resilience in the first half of 2026 despite geopolitical tensions in the Middle East, interest-rate volatility and strong primary market activity. Spread compression and carry supported returns, with all major credit segments delivering positive performance. High Yield (HY) and Emerging Markets (EM) credits generally outperformed Investment Grade (IG) and Developed Markets (DM) credits.
- Looking ahead, market volatility is likely to remain elevated as investors navigate the Federal Reserve's policy path, inflation trends and the US midterm elections. While the economic backdrop remains broadly supportive, uncertainty surrounding growth, labour markets and interest rates could lead to periods of spread widening and market dispersion.
- In this environment, carry should remain an important driver of returns, reinforcing the need for disciplined credit selection. We continue to favour high-quality issuers and maintain a neutral duration stance. Within DM, we prefer IG over HY, given the late-stage credit cycle and relatively less attractive valuations in the HY segment.
- Across EM, we remain neutral on both Asia and Latin America, where valuations appear broadly reasonable. Within EM sovereigns, we see selective opportunities in Africa and continue to favour Latin America relative to other regions. By contrast, we remain Underweight Central and Eastern Europe, the Middle East and Africa (CEEMEA) credits, where valuations do not adequately compensate for emerging risks and deteriorating fundamentals in certain markets.
- Overall, a focus on quality, carry and selective opportunities remains key for navigating credit markets in the second half of 2026.

Rates and US Treasuries

- The US Treasury yield curve flattened during the first half of 2026 as markets reassessed the Federal Reserve's policy outlook. A more hawkish tone from the Fed, including higher projections for future rates, has reduced expectations for near-term rate cuts and increased uncertainty around the path of monetary policy.
- While the Fed's stance raises the possibility of further rate increases, we expect policymakers to remain data dependent, particularly as they balance inflation risks against economic growth considerations. At the same time, limited forward guidance under the new Fed leadership could contribute to greater interest rate volatility in the months ahead.
- Against this backdrop, we maintain a neutral duration stance. A portfolio duration of approximately three to seven years provides flexibility to navigate changing

market conditions while balancing potential risks and opportunities arising from shifts in interest rates and bond yields. As volatility persists, diversification and active duration management will remain important components of portfolio positioning.

Developed Markets

- DM corporate credit has remained resilient, although performance has lagged EM peers. Within the US, IG fundamentals remain broadly stable, while HY credit metrics have weakened, with leverage rising and interest coverage declining. Despite some widening, US HY valuations remain relatively rich compared with historical averages.
- In the Asia-Pacific, Japan has overtaken China as the largest offshore bond issuer in 2026, supported by BOJ policy normalisation and rising corporate capital expenditure. While increased issuance may create occasional spread pressure, the market continues to benefit from a steady pipeline of high-quality issuers and attractive yields. Australia has also seen record bond issuance, although strong investor demand has helped keep spread widening contained.
- Looking ahead, we expect higher issuance levels, ongoing AI-related capital expenditure, M&A activity and interest-rate volatility to drive greater performance dispersion across credit markets. While DM HY spreads have widened modestly relative to IG, valuations remain less compelling than historical norms.
- As such, we maintain a neutral stance on DM IG credit, supported by relatively stable fundamentals and attractive carry, while remaining underweight on DM HY due to richer valuations and late-cycle credit risks.

Emerging Market Corporates

- Robust global growth, elevated commodity prices, and attractive carry have supported the outperformance of EM corporates relative to their DM peers. Although spread buffers have narrowed, EM US Dollar corporate bonds remain comparatively less sensitive to rising interest rates, albeit with notable differences across sectors and regions.
- Selective exposure to high-quality EM bonds can enhance long-term portfolio diversification; however, near-term US Dollar strength may present a headwind to EM fund flows, given the historically negative correlation between the US dollar and EM asset performance.

Asia

- Asian credit markets lagged most EM peers in the first half of 2026, reflecting their lower-yielding and more defensive characteristics. Performance was mixed across the region, with Hong Kong, India and Malaysia among the stronger performers, while Indonesia and the Philippines underperformed.
- Despite the relative underperformance, we maintain a neutral stance on Asian corporate credit. The asset class continues to benefit from shorter duration profiles, strong domestic funding support and favourable market technicals. With corporate fundamentals remaining broadly stable, carry is expected to be the primary driver of returns in the second half of the year. We see attractive opportunities in higher-quality BB-rated credits and selected subordinated bonds of stable IG issuers, which offer additional yield without materially increasing credit risk.
- Looking ahead, bond issuance is expected to increase in markets

such as South Korea, Indonesia and India. India's primary market could become more active as a key Reserve Bank of India USD-INR swap facility expires at year-end. Given relatively low issuance levels over the past year and supportive underlying market conditions, new issues coming to market at wider spreads may present attractive entry points for investors.

- Overall, Asian corporate bonds continue to offer a compelling combination of quality, income and diversification, with carry remaining a key source of returns amid a more volatile global interest-rate environment.

Emerging Market Sovereigns

- Looking ahead, we maintain an Underweight stance on EM sovereigns while continuing to favour a broadly defensive positioning. Encouragingly, carry remains attractive, and overall EM fundamentals are stronger than during previous periods of global market stress.
- We remain neutral on duration, with a preference for reform-oriented sovereigns and higher-quality high-yield credits rated BB- and above, particularly where external financing requirements remain manageable.

FX & COMMODITIES

CHRISTOPHER WONG
Executive Director, OCBC Group Research

Gold Forecast Lowered

"We lower our gold and silver forecasts to reflect a tougher near-term macro setup, while keeping a mild upward-sloping path as the medium-term case remains intact. "

Oil

- Shipping activity - and, by extension, oil flows - through the Strait of Hormuz has recovered following the US-Iran memorandum of understanding. Vessel transits have rebounded to around 30% of normal levels, although the pace of recovery slowed after a container ship incident off the coast of Oman on 25 June. Much of the increase in traffic appears to reflect the release of floating storage that had previously been stranded in the Gulf. Meanwhile, weaker inbound traffic suggests shipowners remain cautious, implying that flows could moderate once the backlog of cargo has been cleared.
- Expectations of a normalisation in oil flow have swiftly pushed crude prices back to pre-conflict levels, reviving the oversupply narrative. Physical market indicators also remain soft. Dated Brent continues to trade at a discount to futures prices, while the front end of the Brent curve has flattened. These signals point to a relatively loose near-term market, even as balances further along the curve remain tighter.
- Against this backdrop, we lower our end-2026 Brent forecast to US$75/barrel from US$80/barrel and modestly reduce our 2027 outlook. Nevertheless, we expect the pace of further price declines to be limited, as markets may be overly optimistic about both the speed and durability of the supply recovery. De-mining operations in the Strait of Hormuz remain a key operational risk for shippers, while investors may also be underestimating the risk of renewed disruptions if the US–Iran ceasefire proves less durable than currently assumed.
- In addition, strong US exports and weak Chinese imports helped contain the initial price spike but did so at the cost of lower inventories. As inventories are rebuilt, restocking demand from both economies should help absorb returning Middle East supplies and provide a degree of support to prices, even as the market adjusts to improved supply conditions.

Precious metals

Gold

- Gold came under renewed pressure in June as the macro backdrop turned less supportive. Real yields moved higher, the US Dollar (USD) strengthened, and Fed expectations shifted in a more hawkish direction. At the same time, ETF inflows eased following the strong buying seen earlier in the year. Together, these factors have made rallies more difficult to sustain, even though the medium-term investment case for gold remains intact.
- In the near term, gold is likely to require at least one of three catalysts to regain momentum: lower real yields, a weaker USD, or a clearer unwinding of hawkish Fed expectations. Absent these developments, price action could

- remain choppy, with a period of consolidation below recent highs remaining a distinct possibility.
- That said, we are not turning structurally bearish on gold. Ongoing central-bank reserve diversification, concerns over fiscal sustainability, geopolitical uncertainty, and continued demand for portfolio hedges should provide an important medium-term anchor for prices. However, these supportive factors may not fully insulate gold from further valuation adjustments if real yields and the USD remain elevated.
- We have revised our gold price forecasts lower to reflect the more challenging near-term macro environment, while retaining an expectation of gradual gains over the medium term.

Silver

- Silver also softened as the same macro headwinds facing gold, weighed more heavily on its higher-beta profile. Rising real yields, a stronger USD, weaker momentum in gold, and slower ETF inflows have reduced the marginal support that helped drive earlier gains.
- The medium-term supply-deficit story remains intact, underpinned by demand from solar power, electrification, electronics, and the broader energy transition. However, the market appears less willing to reward these structural positives while the macro backdrop remains challenging. Silver's greater industrial exposure and more volatile investor base also mean that price corrections can be more pronounced when risk sentiment deteriorates or investor demand weakens.
- In the near term, silver is likely to retain a softer bias until gold stabilises, real yields begin to ease, or ETF demand shows clearer signs of recovery. Until then, macro factors are likely to continue dominating the narrative over longer-term fundamentals.
- We have revised our silver price forecasts lower to reflect this less favourable tactical environment, while continuing to expect a gradual recovery once macro conditions become more supportive.

Currency

US Dollar (USD)

- Brent has retraced to pre-Iran conflict levels, reviving the pre-war oversupply narrative. Despite the deterioration in terms of trade from lower oil prices, the USD has strengthened. Support for the dollar has shifted from elevated oil prices to a more hawkish Fed and a flatter yield curve. With the Fed back in focus, the USD is realigning with interest rate differentials after the temporary dislocation caused by the energy shock.
- Rising hawkish Fed risks have led us to shift our outlook from a rangebound USD to one of modest appreciation. At the same time, strong AI-driven equity performance is attracting capital back into US markets. We now forecast 2–3% USD appreciation by end-2026, revising our end-2026 EURUSD target to 1.11 (from 1.18) and USDJPY to 163 (from 155).
- A move beyond 5% remains a tail risk and would likely require either oil prices rising above US$100/barrel or a re-acceleration of US growth rather than the soft-landing scenario currently expected. Carry trades should remain attractive as long as risk sentiment stays supportive, although funding currency selection will be increasingly important.

Japanese Yen (JPY)

- Intervention risk is likely to limit

USDJPY upside relative to other USD pairs, particularly in a stronger-dollar environment. Following approximately US$74bn of intervention between April and May, Japan's Ministry of Finance data show that the country still holds around US$1.3trn in FX reserves, highlighting its substantial capacity to intervene if needed. That said, intervention threats alone are unlikely to generate a sustained decline in the USDJPY.

- The relationship between USDJPY and the US-Japan interest rate differential has weakened in recent years. Higher Japanese yields have not translated into a stronger yen, as rising JPY rates largely reflect an inflation risk premium driven by fiscal concerns and perceptions that monetary policy remains behind the curve. As a result, Japan's real yields remain insufficiently attractive relative to rising US real yields.
- We would need to see the BOJ tighten policy beyond what is already priced into markets before becoming more constructive on the yen. Until then, yield differentials and relative real-rate dynamics are likely to continue favouring the USDJPY, even if intervention risk acts as a constraint on further upside.

Asia ex-Japan (AXJ) currencies

- The backdrop for AXJ currencies in 2H2026 remains cautious. Hawkish Fed rhetoric and periods of USD strength are likely to keep regional currencies on the defensive in the near term. The decline in oil prices to below US$80/barrel is supportive, particularly for net oil importers, but it does not fully alleviate underlying pressures.
- Market sentiment is also likely to remain somewhat fragile, with geopolitical flare-ups posing a key risk that could quickly reverse the recent improvement in the oil outlook. Against this backdrop, we do not view the outlook for AXJ currencies as uniformly bearish, but neither do we believe the region is fully out of the woods.
- Performance across Asian currencies is likely to remain highly differentiated, reflecting varying degrees of sensitivity to oil prices, differences in external balances and domestic policy credibility, as well as the extent of equity-flow support and exposure to USD and interest-rate dynamics.

Renminbi (RMB)

- The offshore Chinese yuan (CNH) is likely to remain guided by the PBOC's fixing bias, with policymakers still appearing comfortable with a gradual pace of RMB appreciation. In the near term, however, the CNH may have lost some of its earlier appreciation momentum, with USDCNH rebounding toward the 6.80 area as renewed USD strength and hawkish Fed repricing weigh on regional currencies.
- We view this as a short-term adjustment to broader market dynamics and an effort to moderate the pace of appreciation, rather than a reversal of the underlying trend. Nonetheless, if China's growth momentum continues to soften, investors may increasingly question whether the RMB's relative outperformance remains fundamentally justified. In that scenario, maintaining RMB strength could become more challenging, particularly if domestic economic concerns begin to outweigh external drivers.

Singapore Dollar (SGD)

- The SGD should continue to outperform many regional peers, supported by its lower-beta characteristics and the MAS's relatively tighter policy stance. That said, it is not insulated from broader USD strength, rising US Treasury yields, or weaker regional risk sentiment. As such, there may be scope for USDSGD to move higher in the near term if the USD remains firm and US yields continue to rise.

- The upcoming MAS policy decision later this month will be a key focus. We see room for the MAS to remain on hold. Core CPI readings for April and May came in softer than expected, while the sharp decline in energy prices has further eased inflationary pressures. In addition, the pre-emptive tightening undertaken in April may already be sufficient to keep inflation on a moderating path, reducing the need for further policy action unless price pressures re-accelerate materially.

Malaysian Ringgit (MYR)

- We have turned neutral to slightly cautious on the MYR. While the macroeconomic story remains intact, much of the earlier fundamental re-rating now appears to be reflected in valuations. Domestic political developments, including state election-related noise, could introduce a modest risk premium in the near term. At the same time, the MYR is not immune to a stronger USD and a higher-for-longer US rate environment.
- That said, downside risks should be partly mitigated by Bank Negara Malaysia's efforts to encourage currency inflows and support onshore market liquidity. These measures should help cushion the MYR against bouts of external volatility, even as global factors remain the primary driver of near-term price action.

Forecast table for Precious Metals Prices

USD/ounce	Sep 2026	Dec 2026	Mar 2027	Jun 2027	Sep 2027
Gold	4180	4360	4520	4680	4820
Silver	64	67	70	72	74

Source: OCBC Group Research as of 2 July 2026; the figures are end-period prices

Forecast table for Oil Prices

USD/barrel	Sep 2026	Dec 2026	Mar 2027	Jun 2027	Sep 2027
Brent	75	75	73	71	69
WTI	71	71	69	67	65

Source: OCBC Group Research as of 2 July 2026; the figures are end-period prices

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