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Investing Through Uncertainty

Uncertain Macro And Geopolitical Backdrop

Monthly Outlook

by OCBC Wealth Panel

Bringing the best thinking from OCBC Group Research and Bank of Singapore CIO Investment Institute

9/2026 ISSUE

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

IN THIS ISSUE

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Investing Through Uncertainty

August saw markets climb the proverbial wall of worry. After a largely positioning-led correction in July, risk sentiment rebounded particularly across US technology and the artificial intelligence (AI) complex, as investors looked beyond renewed geopolitical tensions and uncertainty over the near-term interest rate outlook. Brent crude prices continued to ascend this month as US-Iran exchanges at the Strait of Hormuz remain tense, rising towards USD90/bbl. Strong corporate earnings provided a reassuring counterweight, with robust 2Q26 earnings growth reported not just in the techheavy US and North Asia markets, but also Europe and Japan as well. Softer labour market conditions, moderating inflation and expectations of a patient Federal Reserve (Fed), supported market valuations and allowed the benchmark S&P 500 Index to remain close to the record highs.

Beneath the surface, however, investors are contending with a complex and structural shift in outlook for rates and long-term borrowing costs. Long-end yields have been rising gradually as the immense demand for capital to support the AI infrastructure competes for funding with governments and other corporate borrowers. Short-term interest rates are under the spotlight after Fed Chair Warsh's hawkish tilt in his speech at the annual Jackson Hole Symposium where he emphasised that further rate increases remain possible if inflation does not move towards the Fed's 2% target. The outlook for markets in coming months is expected to be a tug-of-war between resilient growth and strong corporate earnings outlook, and a less predictable monetary policy reaction and higher long-term yields that could challenge bond returns and equity valuations. Investors need to look beyond the near-term volatility and focus on building a more diversified portfolio that balances growth exposures with quality and income, with flexibility to respond when market expectations move too far in either direction.

In our tactical asset allocation strategy, we are maintaining a moderately constructive overall stance in equities underpinned by our continued confidence in the ongoing tech investment cycle with an Overweight position in US, Neutral position in Japan and Asia ex-Japan and an Underweight position in Europe. In fixed income, we are maintaining 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
Selena Ling, Chief Economist & Head, OCBC Group Research

Uncertain Macro And Geopolitical Backdrop

"Overall, the balance of risks appears skewed to the downside. Any further escalation in geopolitical, trade, or tariff tensions could weigh on sentiment, while markets may also become vulnerable if Warsh's hawkish rhetoric is not ultimately matched by policy action."

- August was once again marked by a widening disconnect between relatively resilient financial markets and an increasingly uncertain macroeconomic and geopolitical backdrop. Neither the continuing US-Iran stalemate, escalating tensions between the US and both Canada and China, nor a series of US policy surprises, including the doubling of Treasury buybacks and Federal Reserve Chairman Kevin Warsh's notably hawkish remarks at Jackson Hole, were enough to derail the rally in US equities. The S&P 500 continued to advance, led by technology and AI-related stocks, as strong earnings from Nvidia reinforced confidence that AI investment and adoption remain powerful structural growth drivers.
- Fixed income markets, however, struck a more cautious tone. Treasury yields moved higher as investors reassessed the likelihood and timing of further Fed tightening, despite the Treasury's announcement of expanded bond repurchases. Yield curves in several other major markets also steepened, although largely for country-specific reasons. Meanwhile, geopolitical risks remain elevated as markets navigate a more assertive US policy stance ahead of the mid-term elections. Trade tensions are also building, with Washington increasing pressure on key trading partners over issues ranging from forced labour to excess industrial capacity. This bears close monitoring, particularly given the hawkish policy shift articulated by Warsh.
- Against this backdrop, global financial markets enter September at a critical juncture. A packed calendar of event risks is likely to shape market direction through quarter-end.
- Overall, the balance of risks appears skewed to the downside. Any further escalation in geopolitical, trade, or tariff tensions could weigh on sentiment, while markets may also become vulnerable if Warsh's hawkish rhetoric is not ultimately matched by policy action.

United States

- We maintain our 2026 GDP growth forecast at 2.2% YoY, although the weaker start to the third quarter has introduced some downside risk. The second estimate of 2Q26 GDP growth was unchanged at 1.5% QoQ seasonally adjusted annual rate (SAAR), moderating from 2.1% in the first quarter. Meanwhile, nonfarm payrolls declined by 23,000 in July, though the unemployment rate remained relatively low at 4.1%.
- We also retain our 2026 headline inflation forecast at 3.5% YoY. July CPI data were relatively benign, with headline and core prices rising by 0.1% and 0.2% MoM, respectively. However, inflationary pressures remain elevated, with headline and core PCE inflation at 3.7% and 3.3% YoY in July.

- Against this backdrop, we continue to expect the FOMC to leave the federal funds target range unchanged at 3.50%-3.75% in September. That said, we believe the risk of a rate hike has increased following the hawkish remarks delivered by Fed Chair Kevin Warsh at the recent Jackson Hole symposium.
- Warsh's speech reinforced the Fed's focus on inflation. He characterised the labour market as stable and broadly consistent with full employment, while arguing that financial conditions were not meaningfully restrictive. More importantly, he emphasised that the Fed's "predominant focus" should currently be on price stability. However, he stopped short of signalling a definitive policy decision for September, stressing that policy should remain data-dependent rather than guided by predetermined forward guidance.
- As a result, we view the September FOMC decision as finely balanced. While our base case remains for rates to be left unchanged, we acknowledge that the likelihood of a rate hike has increased.

Euro-Area

- We maintain our 2026 euro-area GDP growth forecast at 0.9% YoY. Economic data released during August remained mixed but generally subdued. Retail trade fell 0.3% MoM in June, while industrial production was unchanged and consumer confidence remained weak at -15.5. In contrast, the flash composite PMI rose to 52.1 in August, its highest level since November, pointing to some improvement in business activity.
- We also retain our 2026 headline inflation forecast at 3.1% YoY for now. Inflation indicators released during the month were somewhat more encouraging. Producer prices declined 0.3% MoM in June, although they remained 4.6% higher than a year earlier, while the August PMI survey pointed to a further easing in both input and output price pressures. Nevertheless, the ECB continues to view inflation risks as tilted to the upside, particularly given ongoing vulnerabilities related to energy, supply chains and food prices.
- As a result, we continue to expect the ECB to raise the deposit rate by 25bps to 2.50% in September, followed by a pause as policymakers assess the lagged effects of higher energy prices and production costs on inflation and economic activity.
- The most encouraging development during August was the broadening improvement in business sentiment, with the composite PMI reaching a nine-month high. However, the recovery remains uneven. Household confidence is still depressed, retail trade contracted in June, and industrial output remained stagnant. The minutes of the ECB's July meeting also provided an important policy signal. Policymakers assessed the economy as somewhat more resilient than previously anticipated and judged downside risks to growth to have diminished.
- On inflation, however, the message remained more cautious. The ECB noted that the full effects of the energy shock had yet to be fully reflected in consumer prices, while pipeline pressures persisted through elevated producer prices and transportation costs. As a result, policymakers continued to see the balance of inflation risks as skewed to the upside. At the same time, wage growth and other measures of underlying inflation have shown signs of moderation, with little evidence thus far of a wage-price spiral.
- Taken together, these developments

strengthen the case for one additional insurance hike in September, while arguing against signalling a prolonged tightening cycle. Further rate increases are likely to depend on whether higher energy and input costs begin to feed more persistently into broader inflation dynamics.

Japan

- We maintain our 2026 Japan GDP growth forecast at 0.7% YoY. Real GDP expanded by 0.3% QoQ, or 1.1% annualised, in 2Q26, leaving output 0.7% higher than a year earlier. However, the composition of growth was less encouraging. Domestic demand subtracted 0.2ppt from quarterly growth as private consumption was broadly unchanged and business investment declined 1.2% QoQ. In contrast, net exports contributed 0.5ppt.
- More recent indicators paint a somewhat firmer picture. Retail sales rose 4.0% YoY in July, exceeding expectations, while industrial production unexpectedly increased 0.1% MoM, marking a fourth consecutive monthly gain. Against this backdrop, we maintain our 2026 headline CPI forecast at 2.1% YoY, although the balance of risks is increasingly tilted to the upside. Nationwide headline CPI rose 1.9% YoY in July, while core and core-core inflation stood at 1.8% and 1.9%, respectively. More recent Tokyo data showed core inflation accelerating to 1.8% in August and core-core inflation reaching 2.0%. Taken together, these developments strengthen the case for further policy normalisation.
- We now expect the BOJ to raise its policy rate by 25bps in September, bringing it to 1.25%. The Bank's communication turned noticeably more hawkish in August. The Summary of Opinions showed several policymakers arguing that, with underlying inflation approaching the 2% target and financial conditions still accommodative, further rate increases were warranted. Some members also suggested that the pace of tightening may need to be faster than markets currently anticipate and that policymakers should respond more proactively to upside inflation risks.
- Deputy Governor Himino reinforced this message on 27 August, arguing that the BoJ should continue raising rates as economic conditions evolve. He also warned that exchange-rate pass-through to prices has strengthened and projected CPI inflation above 2% in the second half of FY2026. Against this backdrop, a September rate hike appears more likely than waiting until October or December.
- While monetary policy is not explicitly targeted at the exchange rate, yen weakness can have important implications for inflation. The BOJ has argued that the pass-through from the exchange rate to domestic prices appears to be strengthening, providing another justification for further policy tightening. The key question is whether the BOJ will deliver a third rate hike this year, accelerating the pace of normalisation from one increase every six months. Real interest rates remain negative, suggesting that monetary policy is still accommodative and that there is further scope for normalisation.

China

- China's economy slowed more than expected in 2Q26, with GDP growth easing to 4.3% YoY (0.9% QoQ SA) from 5.0% in 1Q26. Even so, growth averaged 4.7% YoY in the first half of 2026, remaining within the government's 4.5%-5.0% target range. We believe the second quarter is likely to mark the cyclical trough. As policy support increasingly shifts towards service consumption and "Six Networks" infrastructure investment, growth should gradually regain momentum in the second half of the year. We therefore continue to expect China to achieve its official growth target, although we have lowered our full-year growth forecast slightly to 4.6% from 4.7% to reflect the softer-than-expected second-quarter outturn.

- The slowdown is not broad-based. Instead, China's economy continues to exhibit an increasingly pronounced K-shaped divergence. The AI sector and advanced manufacturing remain key sources of resilience, helping to offset weakness in more traditional parts of the economy.

More broadly, China remains in the midst of a challenging transition from old to new growth drivers. The issue is not a lack of emerging engines of growth, but rather that they have not yet reached sufficient scale to fully compensate for the slowdown in legacy sectors.

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	1.9	2.4
China	5.0	4.6	4.5
Hong Kong	3.6	3.8	2.8
Macau	4.7	4.0	3.3
Taiwan	8.8	12.1	7.5
South Korea	1.1	2.8	2.6
India	7.2	7.8	7.2
Indonesia	5.1	5.2	5.0
Malaysia	5.2	5.2	4.8
Philippines	4.4	3.2	4.6
Singapore	5.0	5.2	3.4
Thailand	2.4	2.3	2.5
Vietnam	8.0	8.2	8.3

Source: Bloomberg, OCBC Group Research, 1 September 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	3.8	2.8
New Zealand	2.8	3.6	2.3
China	0.1	1.1	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	2.7	2.3
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	2.9	1.8
Vietnam	3.3	4.5	4.5

Source: Bloomberg, OCBC Group Research, 1 September 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	4.20	4.05	4.00	4.00	3.95
5Y US Treasury Yield	4.30	4.20	4.15	4.15	4.15
10Y US Treasury Yield	4.65	4.55	4.45	4.45	4.40
30Y US Treasury Yield	5.20	5.15	5.15	5.15	5.15

*Upper limit of target range.
Source: OCBC Group Research, 1 September 2026.

EQUITIES

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

Charting Through Crosscurrents

"Equities remain underpinned by solid earnings, but face potential risks from rising macro volatility, geopolitical uncertainties, and seasonality ahead of the US mid-term elections. Despite potential volatility in the near-term, we maintain a balanced outlook with a modest pro-risk tilt."

- Investors are navigating a complex and structural shift in the outlook for interest rates and long-term borrowing costs. Long-end bond yields have been gradually rising as massive capital requirements for AI infrastructure compete with governments and corporates for funding. Meanwhile, short-term rates remain in focus following Fed Chair Kevin Warsh's hawkish remarks at Jackson Hole, where he reiterated that further rate hikes remain possible if inflation does not move sustainably toward the Fed's 2% target.
- In the months ahead, markets are likely to be caught between resilient economic growth and strong corporate earnings on one hand, and a less predictable monetary policy path coupled with higher long-term yields on the other. These factors could weigh on both bond returns and equity valuations. Investors should look beyond near-term volatility and focus on building diversified portfolios that balance growth, quality and income, while retaining flexibility to respond to shifts in market expectations.
- We maintain a moderately constructive view on equities, supported by our confidence in the ongoing technology investment cycle. Regionally, we are Overweight the US, Neutral on Japan and Asia ex-Japan, and Underweight Europe. Within Asia ex-Japan, we favour China, Hong Kong, Taiwan and Singapore.
- At the sector level, our preferred exposures remain Information Technology, Communication Services, Healthcare and Materials. From a style perspective, we favour a barbell approach combining Quality Growth and Low Volatility stocks.

US – Looking through the rise in yields

- As the 2Q26 earnings season draws to a close, consensus FY26 earnings per share (EPS) growth estimates for the S&P 500 have been revised up from about 25% a month ago to 33%, supported by continued improvements in earnings revision breadth. While hyperscalers and AI infrastructure beneficiaries were key drivers of earnings growth during the quarter, strength was also broadly distributed across other sectors.
- We remain mindful of the upward pressure on bond yields, as a sharp or disorderly rise could threaten the equity rally. That said, we cannot rule out the possibility of the US Treasury taking steps to cap long-term yields, which could provide a significant boost to US equities.
- Technology remains a core conviction. Recent developments have reinforced our positive view, with hyperscalers demonstrating a clearer path to generating returns on their capital expenditure

investments. In addition, Jevons paradox suggests that greater efficiency and lower costs of AI models could drive even broader adoption, ultimately supporting higher aggregate AI spending.

Europe – Useful in the balancing of an AI-heavy portfolio

- European equities have benefited from investor rotation away from technology-heavy markets, supported by their limited exposure to mega-cap technology stocks and more value-oriented sector composition. While we remain cautious on Europe due to stagflation risks, geopolitical uncertainties and longer-term structural challenges, we believe the region continues to play an important role in global portfolios.
- The composition of European equity markets provides a natural diversification benefit, with significant exposure to financials, industrials, materials and consumer staples. Europe is also home to many high-quality global leaders that generate substantial revenues outside the region. In addition, its relatively attractive dividend yields can help cushion portfolios during periods of market volatility.
- We therefore view Europe less as a source of structural growth and more as a source of diversification and income within a global equity allocation. Within the region, we continue to favour companies with strong fundamentals, pricing power and resilient earnings.

Japan – Solid earnings growth

- Japanese equities have slightly lagged global markets since the coordinated US-Japan currency intervention in late July. Looking ahead, investor focus will be on the Extraordinary Diet Session, where a proposed consumption tax cut estimated at around 0.8% of GDP will be debated, as well as the upcoming Bank of Japan (BOJ) policy meeting. Markets are currently pricing in a high probability of a rate hike.
- Corporate earnings remain supportive. TOPIX companies delivered strong 1QFY27 (April-June 2026) results, with revenue and recurring profit rising 15% and 51% year-on-year, respectively. Earnings growth has broadened beyond AI-related sectors, with non-manufacturing industries reporting a healthy 27% increase in recurring profits. Around 17% of companies raised their profit guidance, led primarily by AI-linked sectors such as electrical equipment and machinery.
- While currency intervention may weigh on export-driven sectors and high-momentum cyclicals, we believe structural growth themes supported by strong fundamentals will remain the key drivers of performance. We continue to favour companies exposed to Japan's long-term investment priorities, including the 17 strategic industries identified by the Takaichi administration.

Asia ex-Japan – Importance of selectivity amid rising concentration

- The MSCI Asia ex-Japan Index has become increasingly concentrated, with what was once a diversified representation of emerging Asian economies now more closely tied to the global technology cycle. Despite having nearly twice as many constituents as the MSCI US Index (996 versus 527 as of end-July 2026), concentration levels are higher. The top 10 holdings account for 42% of the index, compared with 37% for both the MSCI US Index and the S&P 500, with technology-related companies making up around 40% of that weighting.

- In this environment, active market and stock selection become increasingly important for identifying opportunities and managing concentration risk.
- Within the region, we continue to favour China, Hong Kong, Taiwan and Singapore.

Singapore – Readying Singapore for the next 50 years

- In his National Day Rally 2026 speech, Prime Minister Lawrence Wong unveiled several major infrastructure and development initiatives aimed at supporting Singapore's growth over the next 50 years. These long-term projects are expected to require substantial investment and create opportunities across multiple sectors.
- Key beneficiaries are likely to include infrastructure, construction, utilities and power companies, while related initiatives should also support tourism, hospitality, aviation, entertainment, food and beverage, and transport businesses. Financial institutions may benefit from stronger credit demand as investment activity accelerates.
- Given the positive implications of these initiatives and the significant investments planned to strengthen Singapore's long-term growth prospects, we maintain our Overweight view on Singapore equities.

Global Sectors –Tech earnings point to resilient AI fundamentals

- While the AI trade has experienced periods of volatility and rotation away from previous market leaders, we believe the long-term structural investment case remains intact. The AI landscape continues to evolve broadly as expected under our proprietary CHIP-EP framework. As the industry transitions into Phase 3, "Enabled Revenue", competition among large language models (LLMs) is intensifying as purpose-built models gain traction, contributing to declining token prices.
- Despite this, we expect the build-out of AI infrastructure to continue, supported by growing demand for inference computing. The 2Q26 earnings season has reinforced this view, highlighting a growing backlog of compute demand, rising AI-related capital expenditure and continued earnings outperformance across the sector.
- We also see tactical opportunities in semiconductor stocks and leading internet platforms. Historically, 20% corrections in the Philadelphia Semiconductor Index, including the current pullback, have often presented attractive entry points. At the same time, valuations of major internet companies and hyperscalers have retreated to support levels that have remained intact for more than a decade.

HONG KONG / CHINA MARKET OUTLOOK

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

Diverging Performance

"We continue to favour the onshore A-share market, supported by stronger earnings growth, broader exposure to industrial, technology and services sectors, and lower sensitivity to global volatility arising from higher US bond yields."

- In line with our expectation that offshore China equities would catch up with onshore markets, they have outperformed in USD terms over the past month, driven primarily by the Healthcare and Materials sectors.
- The 2Q26 earnings season has seen encouraging upward earnings revisions across both offshore and onshore markets, particularly in the Healthcare and Information Technology sectors, highlighting China's strengthening innovation capabilities. However, index-heavy internet and platform companies have yet to deliver meaningful earnings upgrades amid concerns over rising capital expenditure. Earnings revisions have remained modest, with only limited improvement in profitability within food delivery and quick-commerce businesses.
- Looking ahead, we continue to favour the onshore A-share market, supported by stronger earnings growth, broader exposure to industrial, technology and services sectors, and lower sensitivity to global volatility arising from higher US bond yields.
- President Xi's reported state visit to the US in September, could represent another important milestone following the US-China Presidential Summit in May.

BONDS

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

Neutral On Duration

"Higher US Treasury yields support carry and forward returns, but long-end bond buybacks and a hawkish Federal Reserve backdrop could weigh on performance, reinforcing the need for disciplined duration management and credit selection."

- In fixed income, we maintain a modest Underweight position overall and remain Neutral on duration given ongoing market volatility. Within Developed Markets (DM), we prefer Investment Grade (IG) credit over High Yield (HY). In Emerging Markets (EM), we remain Neutral on corporate bonds and Underweight sovereign debt.
- We remain Neutral on portfolio duration and currently favour positioning near the midpoint of our strategic 3–7-year duration range while awaiting greater clarity on the interest rate outlook.

Rates and US Treasuries

- Rates volatility persisted through August amid several market-moving developments. The US Treasury announced plans to increase long-end bond buybacks after 30-year Treasury yields reached two-decade highs, while hawkish remarks by Kevin Warsh at the Jackson Hole Symposium contributed to a bear flattening of the US Treasury yield curve. Markets are now pricing in more than a 50% probability of a 25bps Fed rate hike at the next meeting.
- Bond markets are likely to remain volatile as upcoming inflation and labour market data shape expectations for the September FOMC meeting. Importantly, the increase in nominal yields has been driven primarily by higher real yields rather than inflation expectations. This suggests investors are demanding greater compensation for duration and fiscal risks, reflecting concerns over elevated deficits and debt sustainability rather than a simple repricing of inflation prospects.

Developed Markets

- DM corporate credit generated positive returns despite heightened rates volatility, with both IG and HY spreads remaining relatively resilient. However, credit dispersion has become more pronounced. Within IG, Basic Industry and Energy outperformed, while TMT and Retail lagged. Lower-rated BBB issuers and shorter-dated bonds generally performed better, whereas higher-rated AAA and AA issuers and longer maturities saw spread widening, reflecting AI-related financing demand and ongoing supply pressures.
- A similar trend is evident in HY markets, where lower-rated CCC issuers continue to underperform higher-quality credits. Sector performance has been mixed, with Energy benefiting from higher oil prices and geopolitical developments, while Insurance, Consumer Goods and Technology have generally experienced spread widening.

- The key takeaway is that a passive, index-based approach is becoming less effective. As credit dispersion increases, disciplined credit selection and active curve positioning are playing a more important role in driving returns.

Emerging Market Corporates

- EM corporate bonds outperformed their DM peers in August but trailed EM sovereigns. Despite offering a smaller spread cushion, USD-denominated EM corporates are generally less sensitive to rising interest rates, although performance varies across sectors and regions. Selective exposure to high-quality EM credits can provide diversification benefits, though any spillover from spread widening in US IG markets may create near-term technical headwinds.

Asia

- Asian credit underperformed most EM peers on both a month-to-date and year-to-date basis as of 28 August 2026, with the exception of the Middle East.
- We remain Neutral on Asian corporate bonds, supported by their shorter duration profile, strong domestic funding base and favourable market technicals. Stable fundamentals should continue to support carry returns, while high-quality BB-rated credits and selected subordinated IG securities offer attractive yield opportunities.
- In China, the latest housing reform package aims to restore homebuyer confidence and reduce project completion risks by promoting a completed-sales model. Measures include targeted financing support for homebuyers and developers, such as longer mortgage tenors, payment extensions and funding for urban renewal projects. While the reforms should provide meaningful long-term benefits, their near-term impact is likely to be tempered by financial pressures among private developers and unresolved debt challenges in the property sector.

Emerging Market Sovereigns

- Hard-currency EM sovereign bonds came under pressure in August as higher US Treasury yields offset carry. Despite this, the asset class delivered a positive return for the month.
- Performance was mixed, with shorter-duration and higher-yielding sovereigns outperforming higher-duration IG bonds. Geopolitical risks and oil price volatility remained key market drivers.
- We remain cautiously constructive on EM sovereign debt but continue to favour carry over duration. We prefer short- to intermediate-duration bonds, reform-oriented sovereigns and selected higher-yielding credits, while remaining cautious on long-duration IG sovereigns and vulnerable oil-importing economies.

FX & COMMODITIES

CHRISTOPHER WONG
Executive Director, OCBC Group Research

Gold Short-Term Headwinds But Medium-Term Outlook Still Positive

"Fed Chair Kevin Warsh made clear at Jackson Hole that policy need not remain on hold if price pressures prove persistent. While Warsh's comments may temper near-term upside for gold, the broader medium-term backdrop remains constructive."

Oil

- More than five months into the Middle East conflict, oil prices continue to be shaped primarily by geopolitical developments. We have raised our end-2026 Brent forecast to USD80/barrel from USD75/barrel, reflecting our expectation that the recovery in Middle East supply will be slower than previously anticipated, as US-Iran negotiations over the reopening of the Strait of Hormuz remain stalled.
- So far, the global oil market has adapted sufficiently to avoid a significant crude shortage. Gulf producers have redirected exports through alternative routes, while the expanded use of "dark" shipping networks has helped maintain flows through the Strait of Hormuz.
- However, this resilience is coming at an increasing cost. Inventories are being drawn down, freight costs continue to rise, and refined fuel markets are coming under growing pressure. As a result, the market's overall buffer is steadily eroding.
- Strategic reserves provide less protection than they once did. Drawdowns from the US Strategic Petroleum Reserve have slowed as stockpiles approach operational minimum levels, leaving inventories near historic lows. China remains a key swing factor. Its sharp decline in oil imports has helped prevent a tighter global market, but this has also been accompanied by falling domestic inventories, reducing another potential source of flexibility.
- The most visible signs of stress are now emerging in refined products rather than crude itself. US diesel crack spreads have surged towards USD100/barrel, highlighting severe shortages in middle distillates. Refineries in both the US and China are operating at high utilisation rates, yet inventories remain thin and strategic reserves continue to play an important role in supporting supply.
- In short, the oil market has largely adjusted to disruptions in crude supply, but only through the progressive depletion of existing buffers. The key constraint is no longer crude availability. It is diesel.

Precious metals

Gold

- Gold recovered strongly in August as the macro backdrop turned more supportive. Softer US economic data, easing pressure on yields, and a less consistently firm US dollar helped revive demand. Investor participation also improved alongside the price recovery, with gold ETF holdings edging higher and managed-money net long positions rebuilding from earlier lows.

- The Jackson Hole outcome, however, introduced a more cautious note. Federal Reserve Chairman Kevin Warsh made it clear that policy does not necessarily need to remain on hold if inflationary pressures prove persistent. This suggests that gold's path higher is unlikely to be linear. Following August's strong rebound, the next leg of the rally will likely require a fresh macro catalyst rather than simply an extension of the recent supportive trends.
- Looking ahead, the focus shifts back to incoming US economic data. Further signs of economic softness, renewed ETF accumulation, and any moderation in yields or the US dollar could provide the next catalyst for gold. At the same time, central bank purchases, reserve diversification, and concerns over fiscal credibility continue to offer important structural support. Against this backdrop, we have revised our gold price forecasts higher, while still expecting periods of consolidation following the recent rebound.

Silver

- Silver outperformed gold in August, benefiting from the same improvement in yields and the US dollar backdrop, but with a stronger response due to its higher-beta characteristics. Investment participation also strengthened, with both ETF holdings and futures positioning recovering from relatively subdued levels. This suggests there is still scope for further investor engagement should the precious metals rally continue.
- The outlook remains constructive, although silver is likely to remain more sensitive than gold to fluctuations in US interest rates and the US dollar. A more supportive macro environment could allow silver to continue outperforming, while renewed upward pressure on real yields would likely result in a sharper correction.
- Over the longer term, structural supply constraints and demand driven by electrification, grid investment, and technology-related applications remain supportive. That said, higher prices are encouraging some degree of thrifting and substitution across industrial uses. Reflecting the stronger starting point and improving investment backdrop, we have revised our silver price forecasts higher. However, given the strength of the recent rally, we remain more measured on the scope for additional near-term upside.

Currency

US Dollar (USD)

- We have updated our forecasts to reflect recent market moves following USD weakness driven by policy uncertainty. Sentiment was unsettled by the Treasury's surprise EURJPY (Euro-Japanese Yen) intervention and expanded Treasury buyback plans. However, we maintain a modestly bullish USD outlook into early 2027.
- Concerns over currency debasement have eased following Federal Reserve Chairman Warsh's Jackson Hole speech, which helped reinforce confidence in the Fed's commitment to controlling inflation. His remarks were notably more

hawkish than those delivered at the July FOMC press conference. Market reactions also resembled the post-June FOMC pattern, with investors refocusing on inflation risks and policy credibility. A resilient labour market, persistent inflation, and the Fed's determination to preserve its anti-inflation credentials should keep policy biased towards tightness and continue to support the USD.

Japanese Yen (JPY)

- The BOJ appears increasingly open to raising rates again in September, although it may struggle to exceed already aggressive market expectations. Japan's rates market is pricing roughly a 90% probability of a September hike, followed by a faster pace of policy normalisation thereafter. Current market pricing implies the policy rate rising from 1.00% to 1.75% by June 2027.
- Given the constraints on how quickly and how far the BOJ can tighten, additional rate hikes alone may not be sufficient to counter persistent depreciation pressures on the JPY. Further policy measures may eventually be required, including initiatives aimed at encouraging the repatriation of overseas assets.

Australian Dollar (AUD)

- Our base case remains that the RBA has reached the end of its tightening cycle. Nevertheless, stronger-than-expected inflation and resilient household spending have kept the possibility of another rate hike alive.
- We remain constructive on the AUD over the next one to two quarters, supported by attractive carry and the prospect of additional policy stimulus from China. While we continue to expect the RBA to remain on hold, sticky inflation means another rate increase cannot be ruled out. Over the medium term, however, we expect the AUD to surrender some of its gains as inflation moves closer to target and the RBA gradually shifts away from a restrictive policy stance.

Asia ex-Japan Currencies (AXJ FX)

- Asia ex-Japan currencies traded mixed in August, with domestic policy developments, growth dynamics, and capital flows at times offsetting the influence of the USD and US rates. Jackson Hole introduced a modest headwind but did not fundamentally alter this picture.
- Fed Chair Warsh reinforcing the Fed's anti-inflation credibility and keeping the door open to further tightening if inflation fails to ease meaningfully may keep the USD supported. A firmer USD may create headwinds for AXJ FX, but it is unlikely to eliminate the differentiated opportunities across the region. At the same time, USD pullbacks may prove shallower unless softer US data revive expectations of a less hawkish Fed trajectory. Consequently, upcoming US labour market and inflation data will be key focal points ahead of the September FOMC meeting.

Renminbi (RMB)

- The RMB strengthened further in August, supported by exporter conversions, still-solid external balances, and periods of broader USD weakness. The domestic backdrop remains uneven, however, with economic momentum still soft and property-sector support remaining targeted rather than broad-based.
- We continue to expect a gradual

appreciation bias rather than a sharp RMB rally. While a firmer USD may slow the pace of gains in the near term, policymakers' preference for exchange-rate stability should help limit downside risks. We will continue to monitor the daily fixing closely for signals regarding policy intent.

Singapore Dollar (SGD)

- The Singapore dollar remained relatively resilient in August, supported by robust domestic fundamentals and the modestly tighter S$NEER (Singapore Dollar Nominal Effective Exchange Rate) policy stance adopted in July.
- For now, external factors are likely to remain the primary drivers, particularly RMB direction, broad USD trends, and US interest-rate developments. We continue to see scope for the SGD to outperform many regional peers, although sustained downside in USDSGD may be more difficult to achieve unless softer US data trigger a more dovish reassessment of the Fed outlook.

Malaysian Ringgit (MYR)

- The Malaysian ringgit strengthened in August as domestic growth remained firm and export performance continued to hold up well. Political uncertainty has also eased somewhat, with the prospect of an early general election appearing less immediate.
- We believe the MYR can remain relatively resilient into September, supported by solid domestic fundamentals. However, a firmer USD and higher US yields could limit the pace of appreciation, while Bank Negara Malaysia's September policy meeting represents the next key near-term catalyst.

Indonesian Rupiah (IDR)

- The Indonesian rupiah stabilised in August as lower oil prices reduced a key external headwind, while policy continuity at Bank Indonesia helped support investor sentiment.
- We continue to see scope for a selective recovery should oil prices remain contained and US yields stabilise. However, the post-Jackson Hole backdrop argues against expecting a straightforward extension of recent gains. The IDR is likely to remain sensitive to movements in the USD, global interest rates, and portfolio flows, with currency stability remaining a near-term policy priority.

Forecast table for Oil Prices

USD/barrel	Sep 2026	Dec 2026	Mar 2027	Jun 2027	Sep 2027
Brent	85	80	78	76	74
WTI	81	76	74	72	70

Source: OCBC Group Research; the figures are end-period prices

Forecast table for Precious Metals Prices

USD/ounce	Sep 2026	Dec 2026	Mar 2027	Jun 2027	Sep 2027
Gold	4,400	4,600	4,720	4,850	4,960
Silver	67	70	72	73	75

Source: OCBC Group Research; the figures are end-period prices

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