

Investment Strategy

FX Indicator Chartpack

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Stay positive on CNY and EUR; downgrade CHF to neutral tactically.

CNY (Positive) | Short USD/CNH

- CNY has started 2026 strongly, with the yuan appreciating faster than expected and trading below 7.0. While the move looks stretched relative to rate-differential models, structural forces – especially large excess dollar savings held by Chinese corporates – continue to support medium-term appreciation. Recent dollar selling by exporters and favorable seasonality have been key drivers, offsetting dividend-related outflows. The PBoC is allowing a controlled strengthening while preventing disorderly moves through calibrated fixings and smoothing flows. With USD/CNY now expected by the consensus to reach 6.85 by year-end, the appreciation path may be uneven, but policy, corporate flows, and structural FX reforms all argue for further gradual CNY strength.

EUR (Positive) | Long EUR/USD

- EUR/USD has a moderately bullish 2026 outlook supported by Eurozone growth and German fiscal expansion. Gains are expected to be modest unless US data softens or Fed independence concerns rise. EUR/USD's asymmetric profile offers limited downside and potential upside on dovish US developments. Regional cyclical currencies like SEK, NOK, and ZAR are preferred for expressing European growth. The euro remains more compelling on crosses than vs. USD, but global and regional dynamics still support a constructive EUR/USD stance.

CHF (Neutral; downgraded from Positive)

- EUR/CHF is expected to drift modestly higher, supported by improving European growth prospects and anticipated German fiscal spending, though the pair has remained range-bound. CHF still benefits from long-run anchors such as strong external balances, fiscal discipline, and PPP valuation, even as its low carry makes it less attractive in a solid global-growth, low-volatility environment. Recent data have been mixed, but German orders and equity performance point to a gradual recovery. While CHF may underperform high-beta currencies tactically, safe-haven demand, gold linkage, and geopolitical risks continue to provide structural support, keeping the overall outlook balanced rather than decisively bearish.

Stay neutral USD and negative on JPY; move GBP to Neutral.

USD (Neutral)

- US policy developments present a mix of risks and supports for the dollar, leaving the overall outlook balanced. A potential Supreme Court ruling against IEEPA tariffs could modestly steepen yields and slightly weaken the USD, though alternative tariff tools may limit the impact. Recent nomination of Kevin Warsh to the Fed chair might provide the USD with some near-term support. Legal proceedings around the Cook case and fiscal debates, including proposals for higher defense spending, add further two-way risks. While these factors create pockets of downside pressure, strong US growth and policy flexibility continue to offer offsetting support for the USD.

GBP (Neutral; upgraded from Negative) | Short GBP/EUR

- GBP is supported by a mix of improving global cyclical conditions, reduced UK fiscal risk premium, firmer PMIs, and a more stable political backdrop. GBP/USD and GBP/CHF remain more tied to global growth trends, with equity rotation and broader pro-cyclical forces offering support. However, sterling screens rich versus some fundamentals, and risks from UK inflation, BoE easing, and politics remain relevant. Improving balance-of-payments trends provide an offset, leaving the overall GBP outlook balanced and tactical rather than strongly directional.

JPY (Negative) | Long CHF/JPY

- USD/JPY remains biased higher as the yen's structural weaknesses persist despite BoJ tightening and government efforts to slow depreciation. The BoJ's December hike failed to support the currency, highlighting diminishing policy effectiveness and rising fears the central bank will fall further behind the curve. Intervention risk may rise before 162, but with no large JPY short base to unwind, its impact would likely be weaker than in past episodes. Fiscal uncertainty, rising JGB yields, and growing NISA-related outflows add further pressure. With ample room for fresh JPY shorts to build, the yen remains vulnerable to renewed depreciation.

Source: ADCB Asset Management

Stay negative on INR for now.

INR (Negative; on upgrade watch) | Long USD/INR

- INR faces growing downside risks despite seasonal improvement in flows. Foreign investors sold USD2.6bn of equities into year-end, unnerved by rupee volatility and the RBI's reduced intervention, leaving reserves unnecessarily depleted and confidence weakened. This policy uncertainty remains a structural drag on INR carry. While the trade balance has improved and gold imports collapsed post-Diwali, these seasonal supports fade by fiscal year-end. The recent India–EU trade deal may add long-term benefits but offers little near-term FX support, while the absence of a US trade deal limits export momentum and keeps INR vulnerable.

FX consensus forecasts

FX consensus signals modest EUR, and JPY gains and GBP weakness from the current levels.

(End of period)	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26f	Q1 27f	Q2 27f
EURUSD	1.17	1.18	1.20	1.20	1.21	1.20	1.20
GBPUSD	1.35	1.35	1.35	1.36	1.36	-	-
USDJPY	156.71	153.50	152.00	150.00	148.00	140.00	140.00
USDCHF	0.79	0.80	0.79	0.79	0.80	-	-

Note: Numbers in blue are Bloomberg consensus forecasts | Source: Bloomberg, and ADCB Asset Management

Performance

Performance heat map

USD softened further in January, extending broad-based weakness against major peers.

	EURUSD	GBPUSD	USDJPY	USDCHF
Jan-24	-2.00	-0.34	4.17	2.38
Feb-24	-0.12	-0.50	2.08	2.68
Mar-24	-0.14	-0.02	0.91	1.91
Apr-24	-1.15	-1.04	4.26	2.00
May-24	1.71	2.00	-0.31	-1.86
Jun-24	-1.24	-0.76	2.27	-0.39
Jul-24	1.05	1.67	-6.78	-2.31
Aug-24	2.05	2.11	-2.54	-3.23
Sep-24	0.79	1.89	-1.74	-0.47
Oct-24	-2.25	-3.56	5.85	2.19
Nov-24	-2.82	-1.27	-1.49	1.96
Dec-24	-2.11	-1.72	4.96	3.00
Jan-25	0.08	-0.97	-1.28	0.39
Feb-25	0.13	1.47	-2.94	-0.86
Mar-25	4.25	2.71	-0.44	-2.08
Apr-25	4.73	3.18	-4.59	-6.62
May-25	0.17	0.98	0.66	-0.41
Jun-25	3.88	2.03	0.01	-3.56
Jul-25	-3.16	-3.82	4.67	2.42
Aug-25	2.37	2.25	-2.45	-1.45
Sep-25	0.41	-0.43	0.58	-0.51
Oct-25	-1.68	-2.19	4.12	1.03
Nov-25	0.53	0.63	1.42	-0.07
Dec-25	1.28	1.81	0.34	-1.42
Jan-26	0.89	1.57	-1.23	-2.47

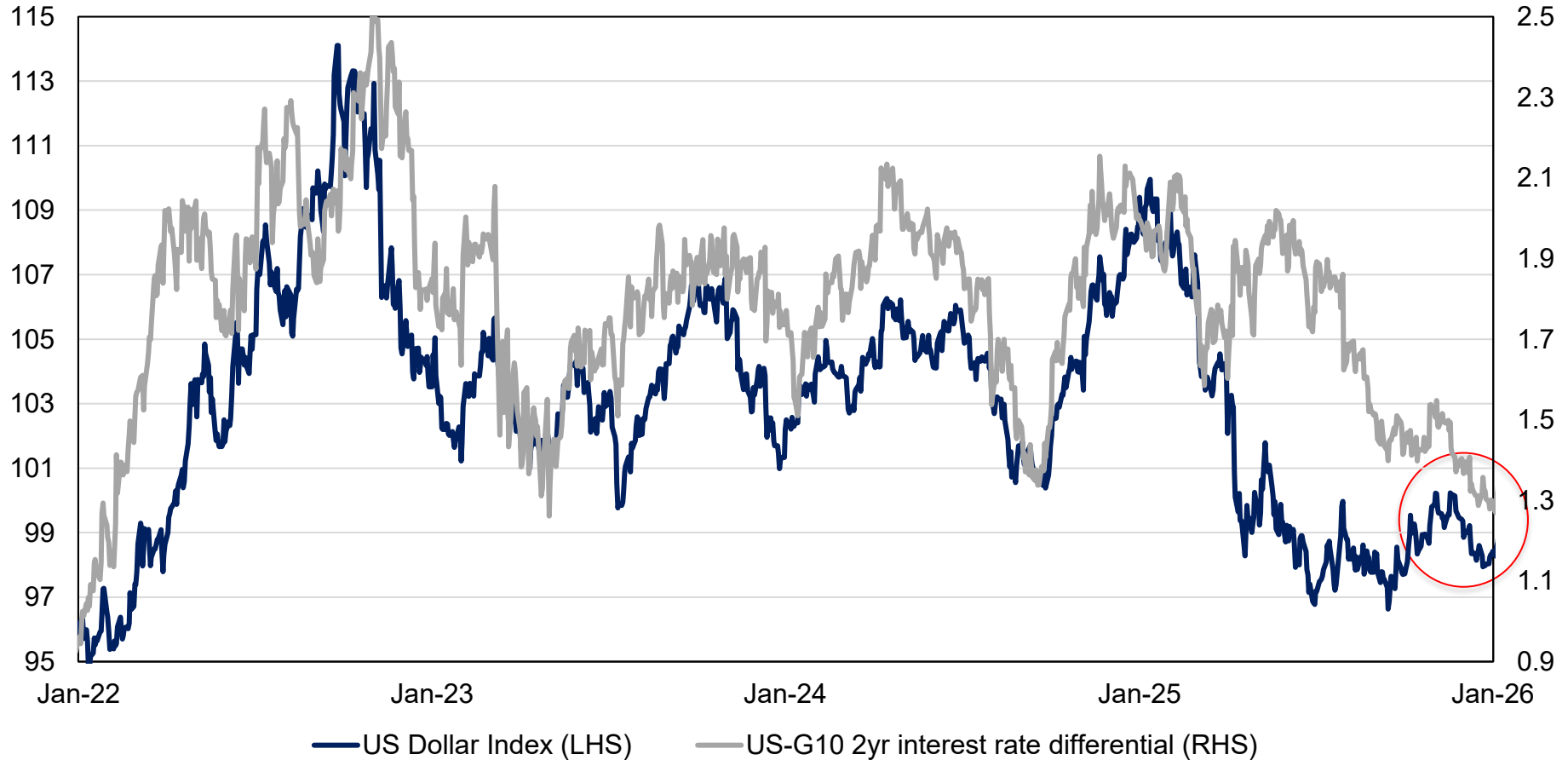
Source: Bloomberg and ADCB Asset Management

Macro

DXY index vs interest rate differentials

Divergence between USD index and interest-rate differentials has narrowed.

DXY vs Interest rate differentials

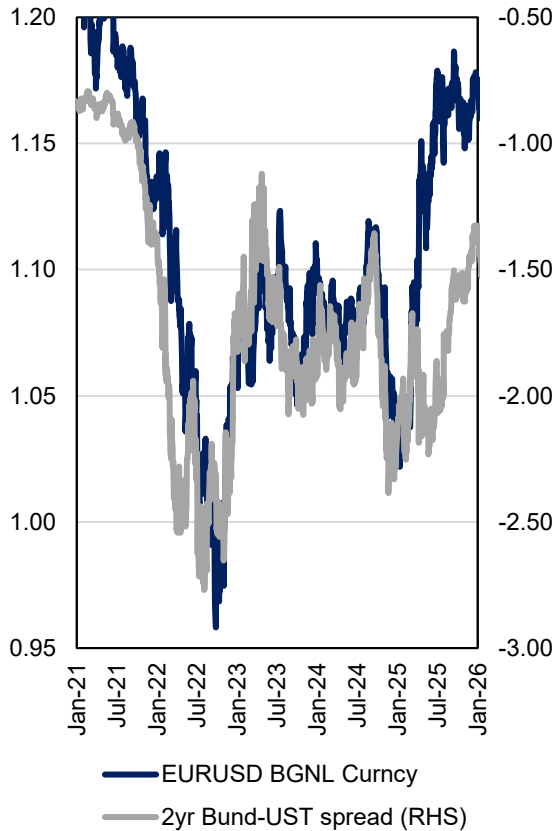


Source: Bloomberg and ADCB Asset Management

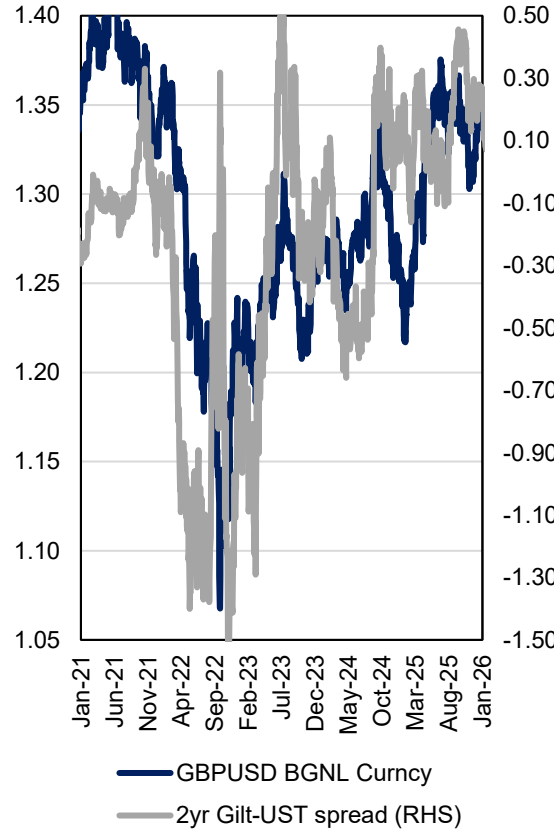
Currency pairs vs 2yr interest-rate differentials

FX pairs increasingly decouple from 2-year interest-rate differentials .

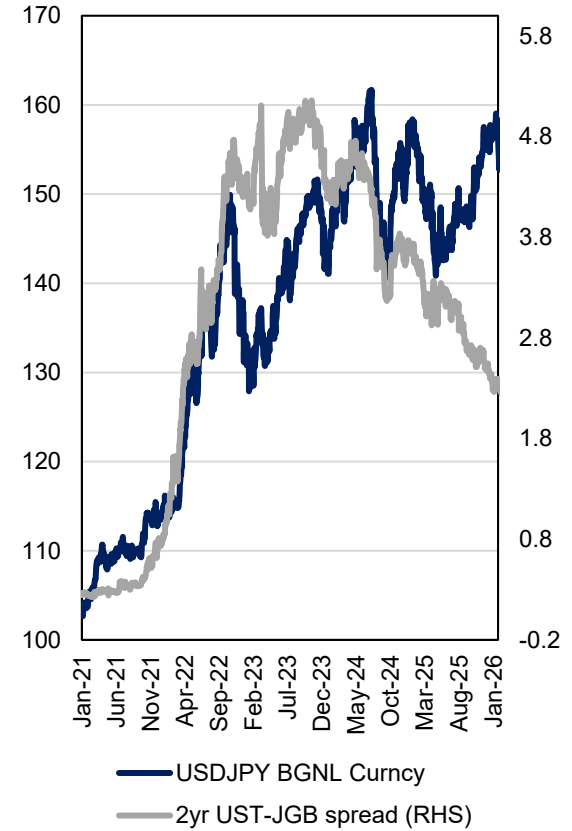
EURUSD Curncy vs 2yr Bund-UST spread



GBPUSD Curncy vs 2yr Gilt-UST spread



USDJPY Curncy vs 2yr UST-JGB spread

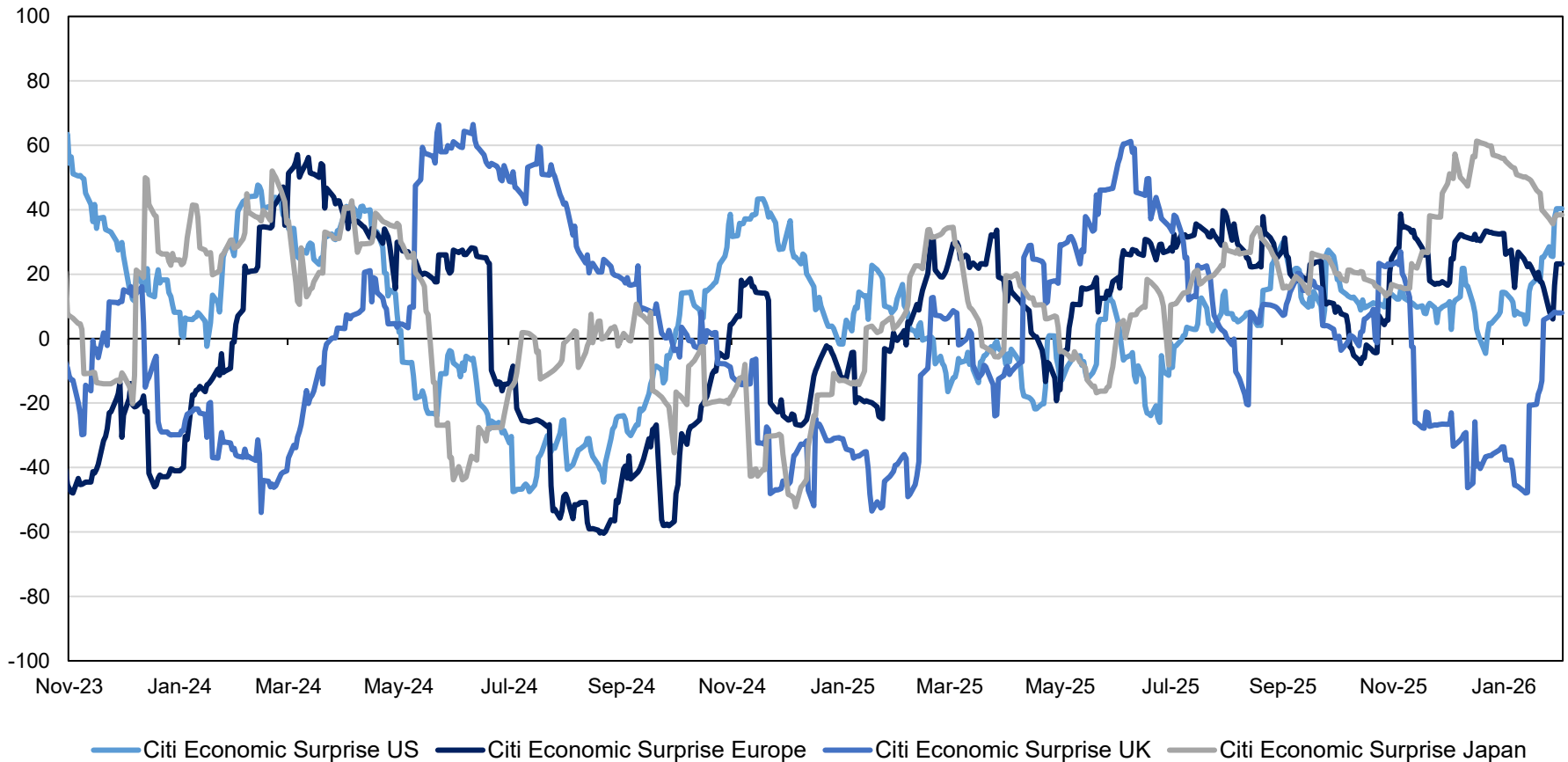


Source: Bloomberg and ADCB Asset Management

Economic surprises

Supported by broad-based strength, global economic surprises index hit a three-year high in January.

Economic surprises



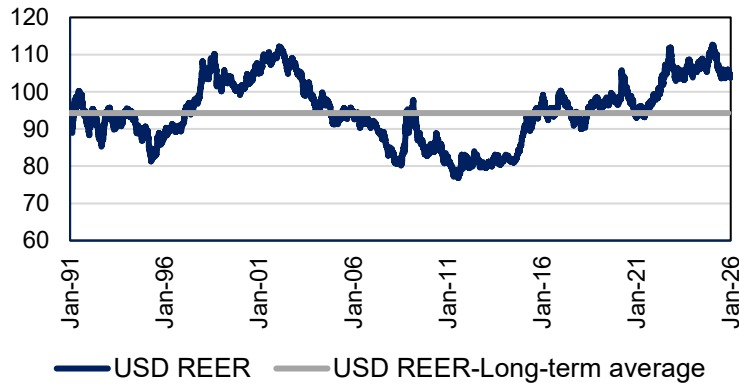
Source: Citi, Bloomberg and ADCB Asset Management

Valuations

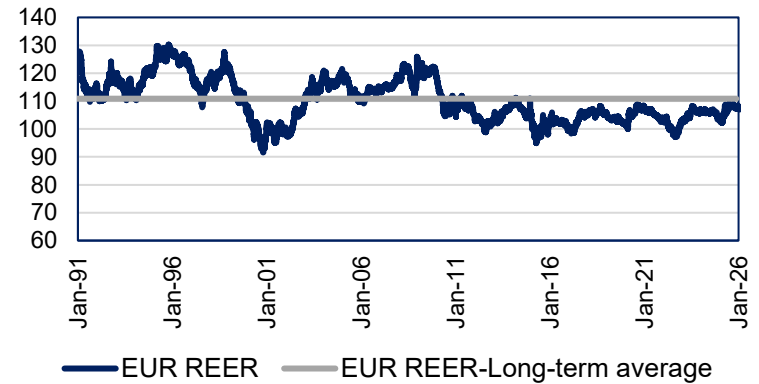
Real currency valuations

Dollar's valuation premium has narrowed further, while the Yen remained deeply undervalued.

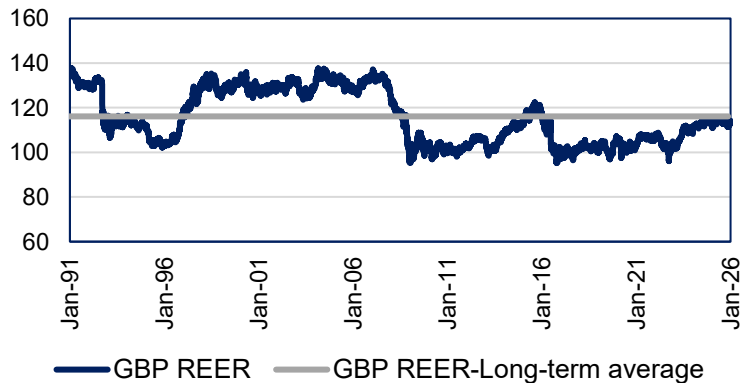
USD real effective exchange rate



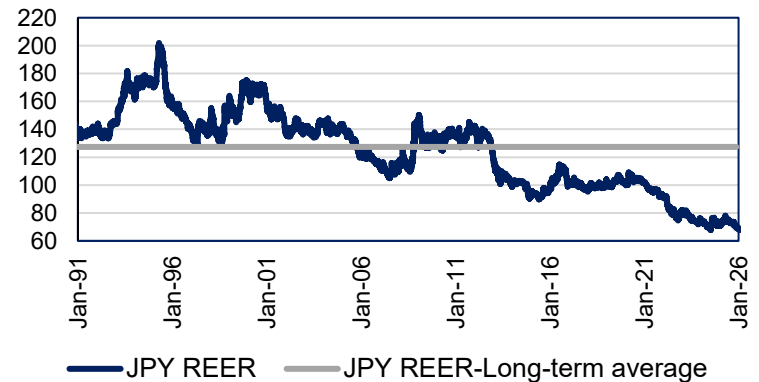
EUR real effective exchange rate



GBP real effective exchange rate



JPY real effective exchange rate

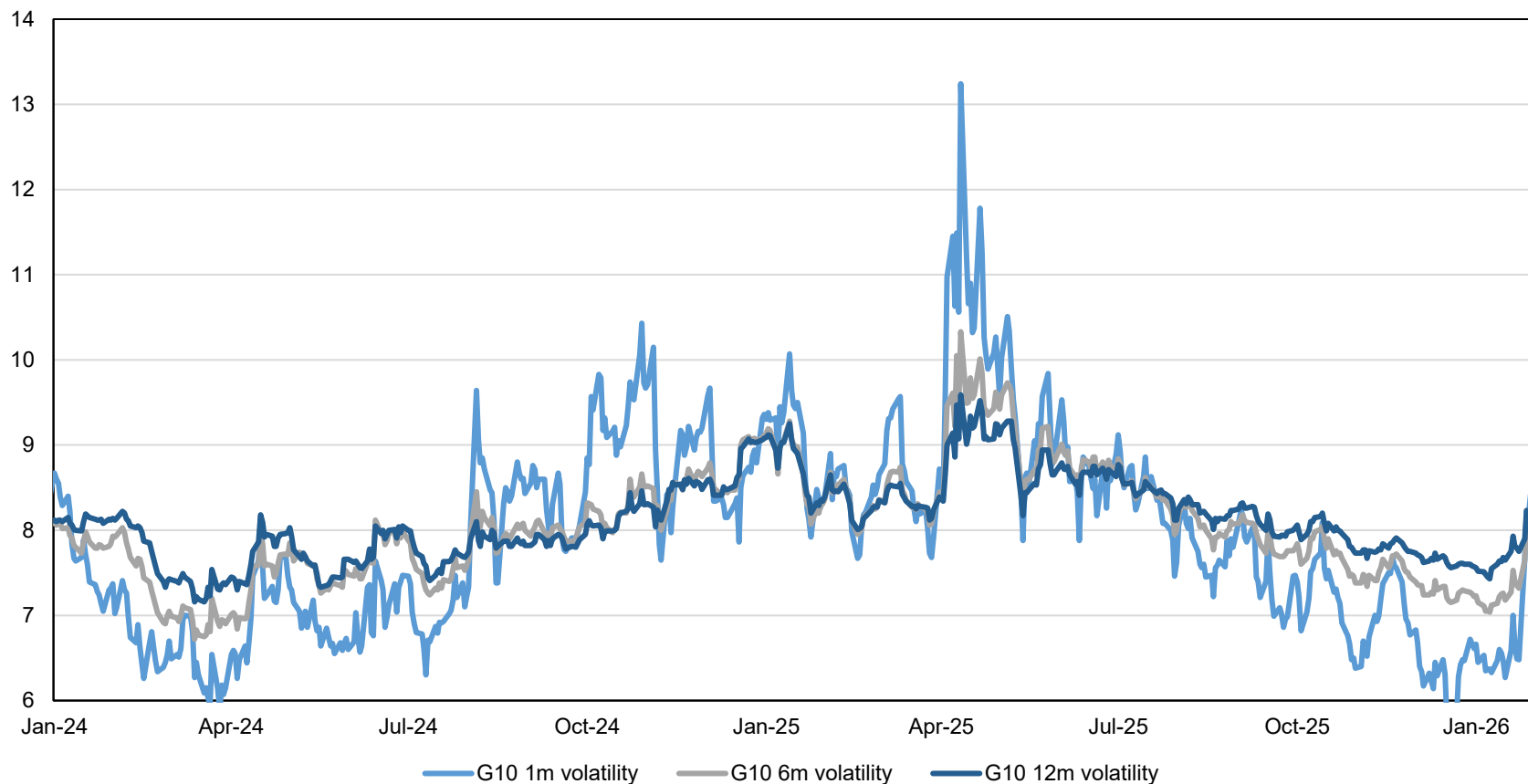


Source: Bloomberg and ADCB Asset Management

Volatility

G10 FX volatility remains subdued despite a mild uptick at the start of 2026

G10 volatility

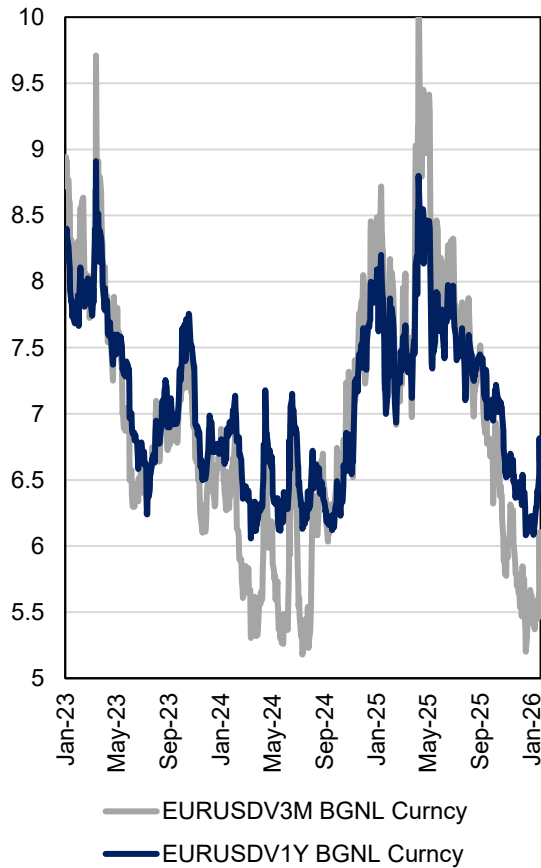


Source: Bloomberg and ADCB Asset Management

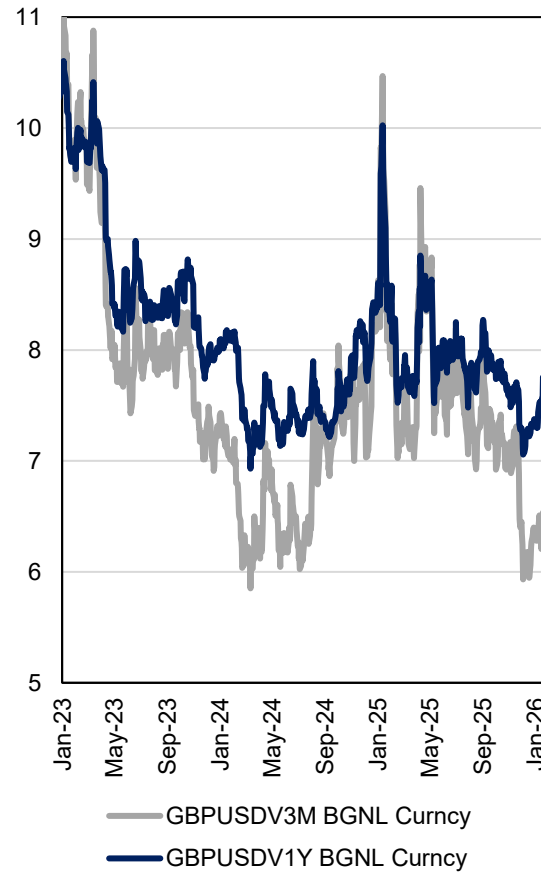
FX volatility

3-month volatility edged lower across EURUSD, GBPUSD and USDJPY over the past month.

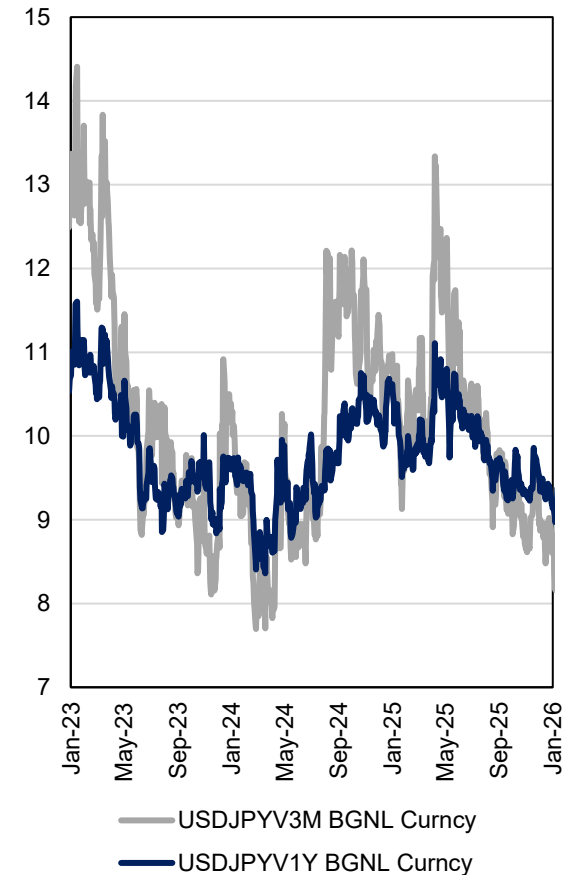
EURUSD



GBPUSD



USDJPY

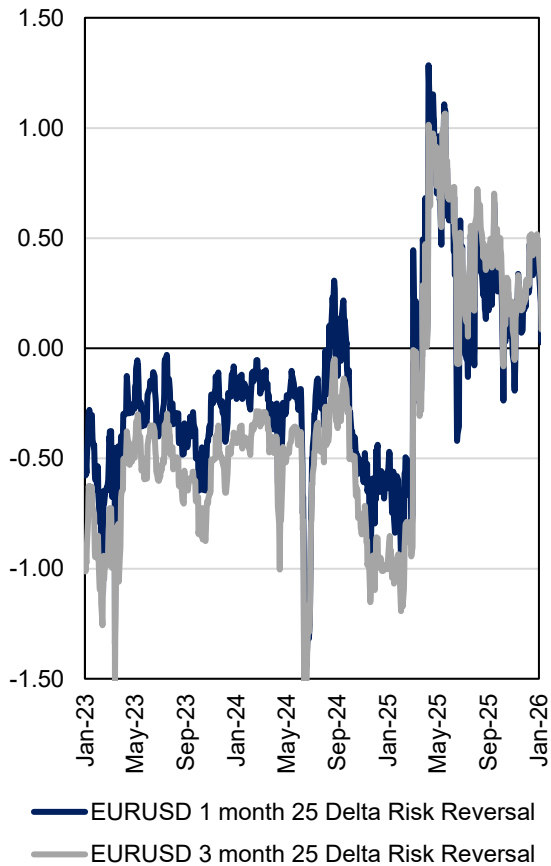


Source: Bloomberg and ADCB Asset Management

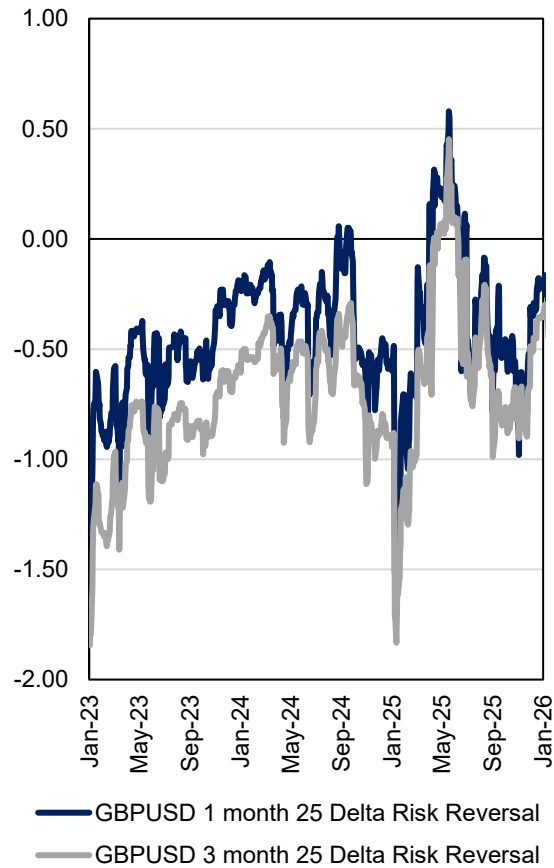
Risk Reversal

Option markets signals have remained largely unchanged.

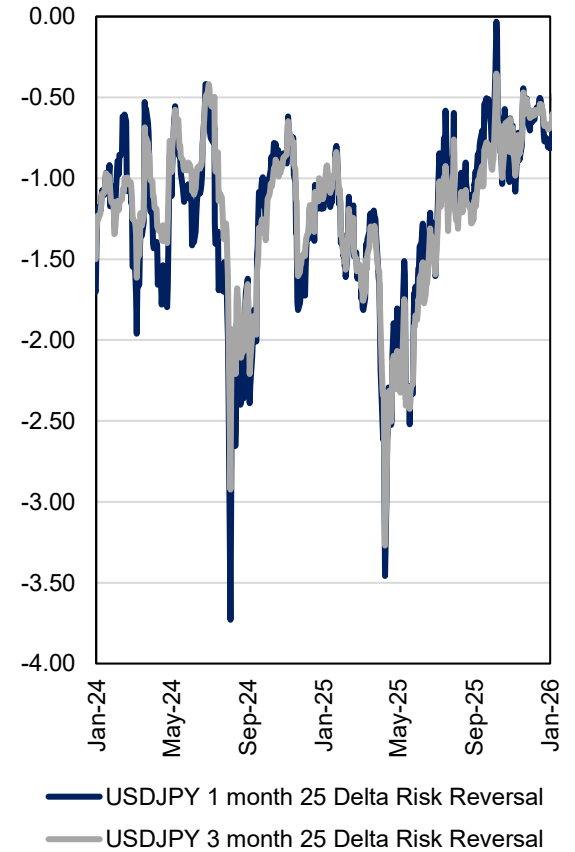
EURUSD



GBPUSD



USDJPY



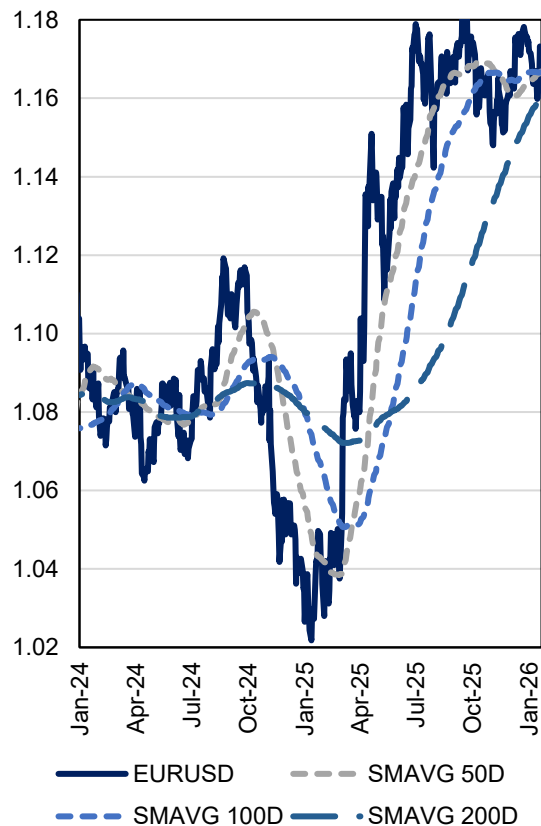
Source: Bloomberg and ADCB Asset Management

Technical

Moving average

EURUSD remained supported, GBPUSD weakened, USDJPY showed bullish momentum.

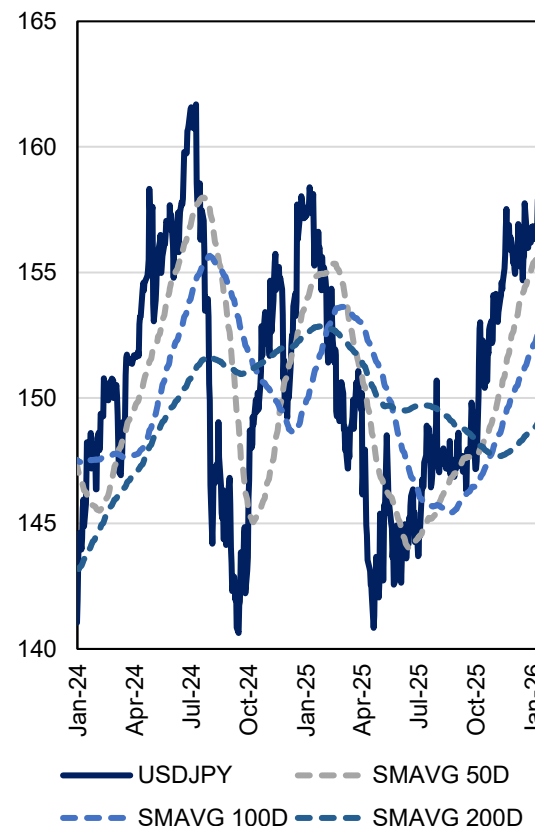
EURUSD moving average



GBPUSD moving average



USDJPY moving average

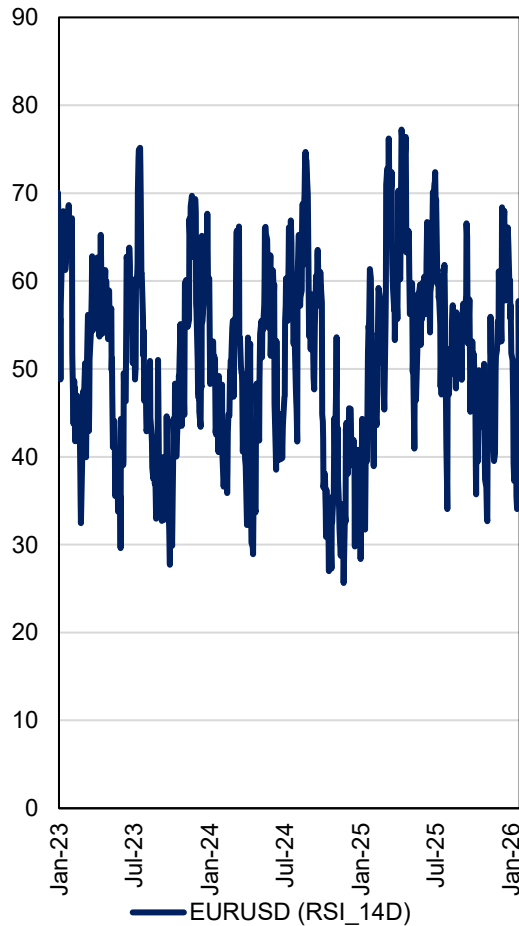


Source: Bloomberg and ADCB Asset Management

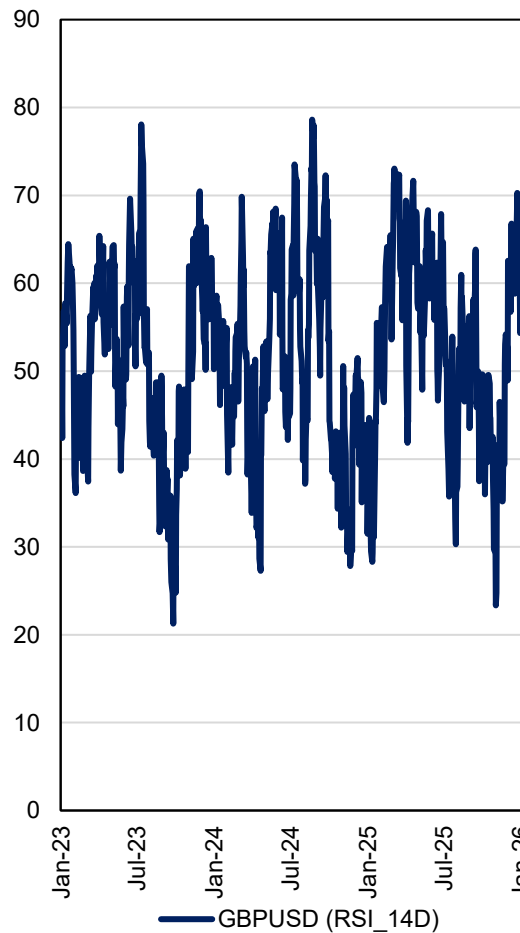
Relative strength index indicator

RSI signals broadly neutral momentum across major FX pairs, with USDJPY having retreated from overbought levels.

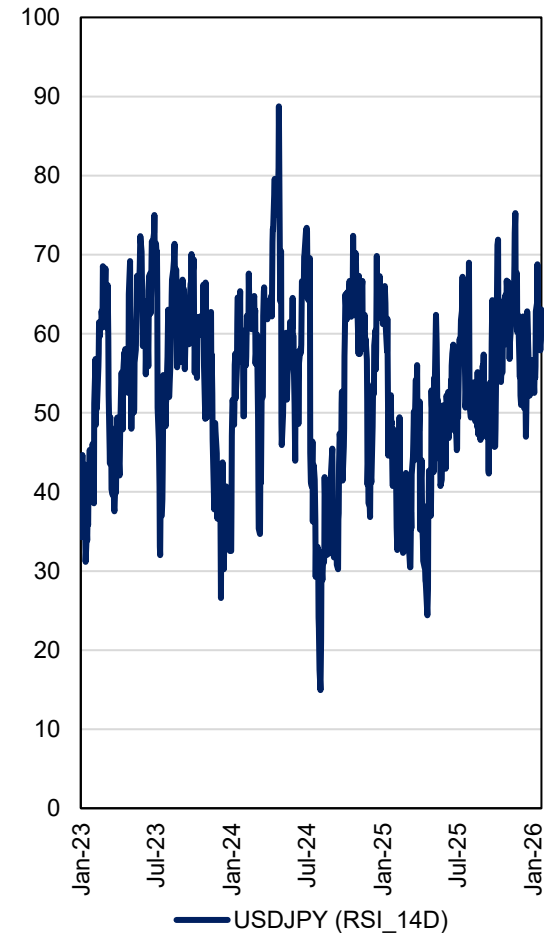
EURUSD (RSI_14D)



GBPUSD (RSI_14D)



USDJPY (RSI_14D)

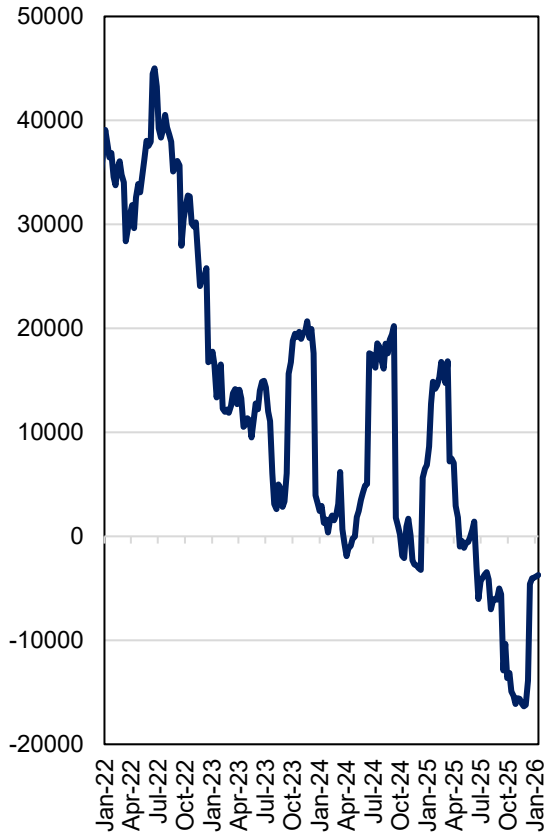


Positioning

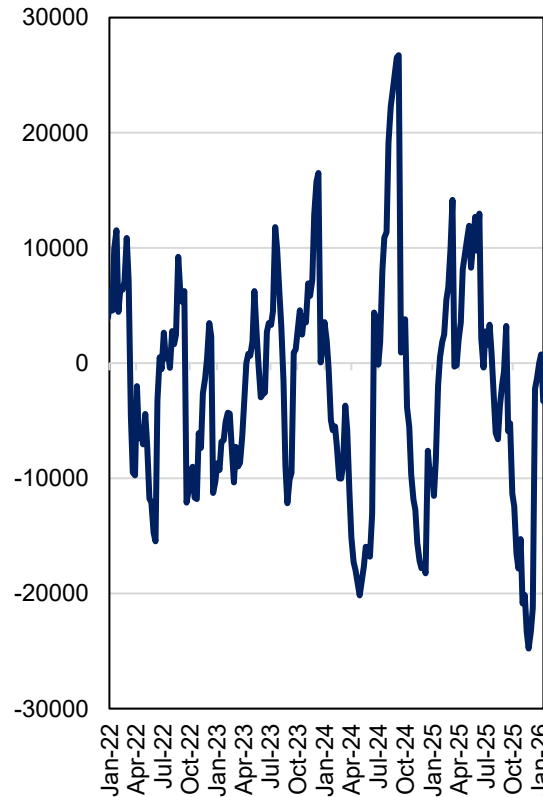
FX positioning- USD

USD speculative positioning remains net short and broadly stable.

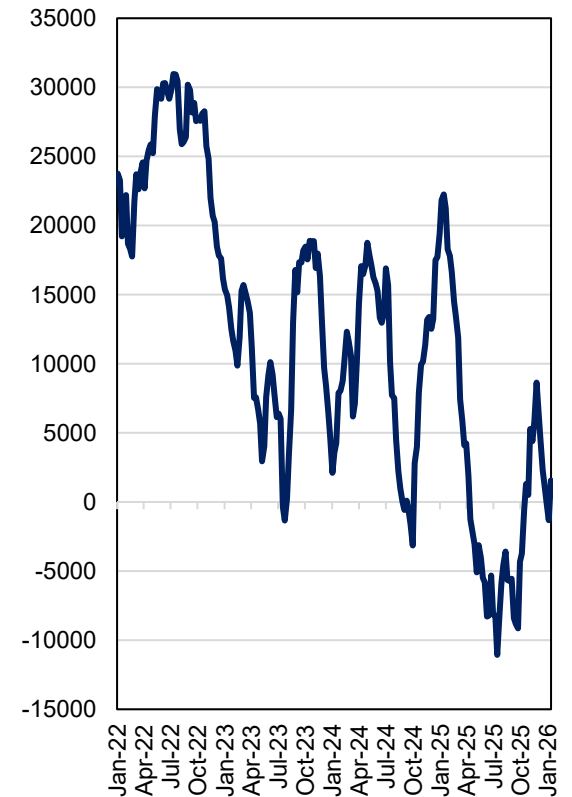
Non-commercial Net futures position for USD Index



Leveraged Funds Net futures position for USD Index



Asset Manager Institutional Net futures position for USD index

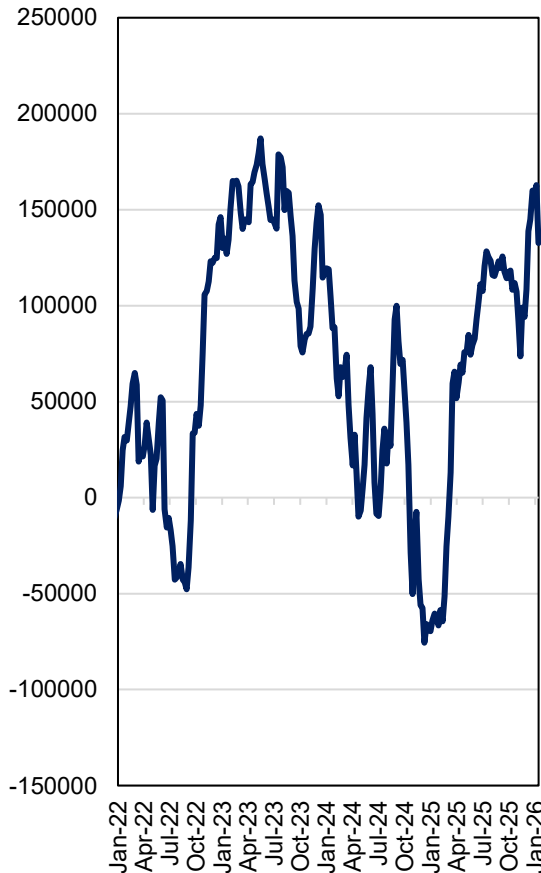


Source: Bloomberg and ADCB Asset Management

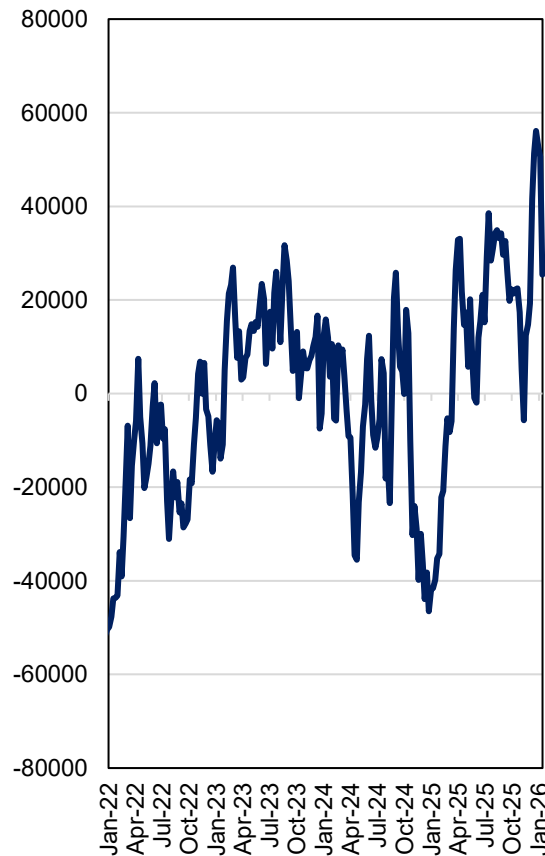
FX positioning- EUR

EUR positioning diverges as leveraged funds cut exposure while asset managers add.

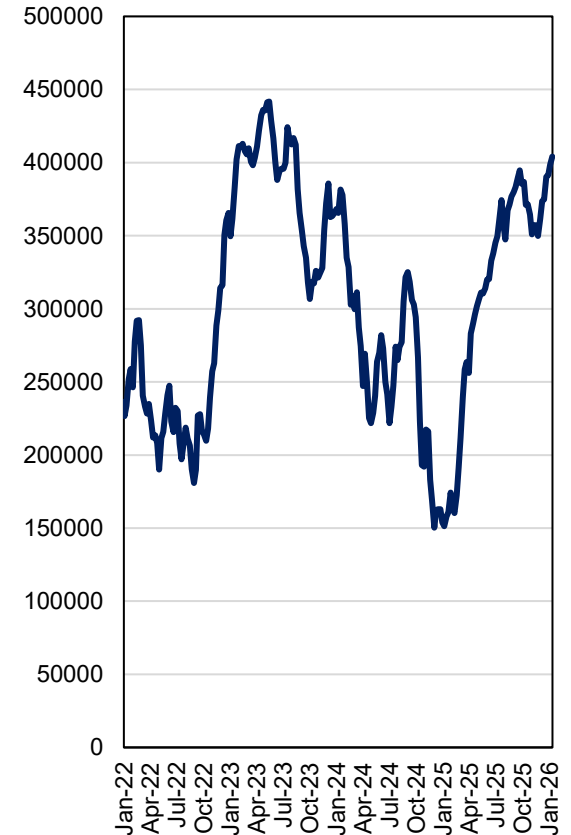
Non-commercial net futures position in Euro FX



Leveraged funds net futures position in Euro FX



Asset Manager Institutional net futures position in Euro FX

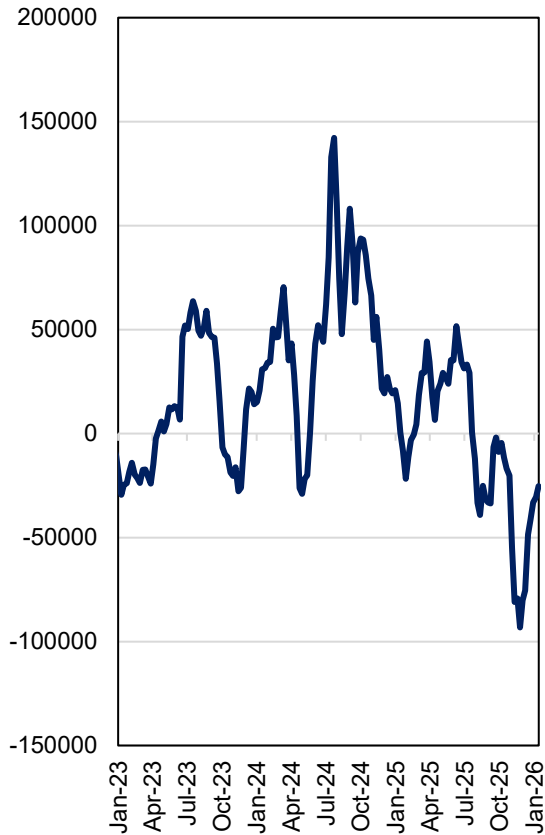


Source: Bloomberg and ADCB Asset Management

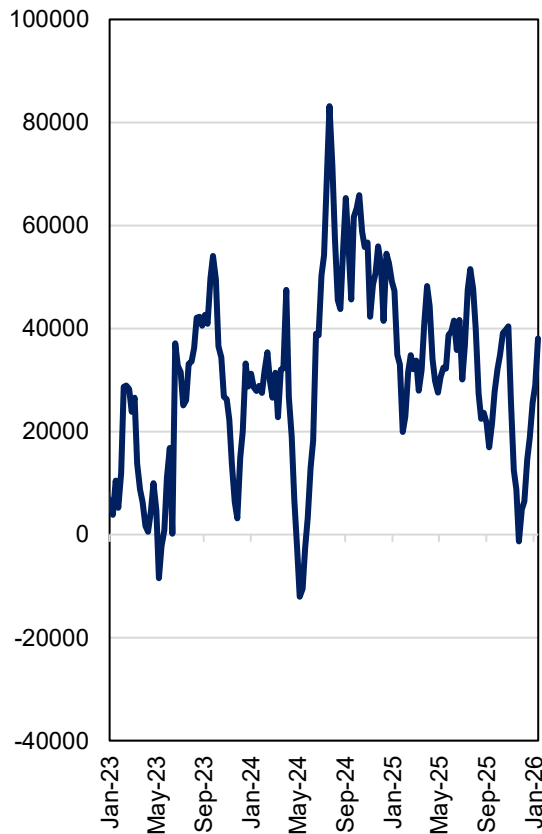
FX positioning- GBP

GBP positioning tilts towards institutional investor despite mixed speculative flows.

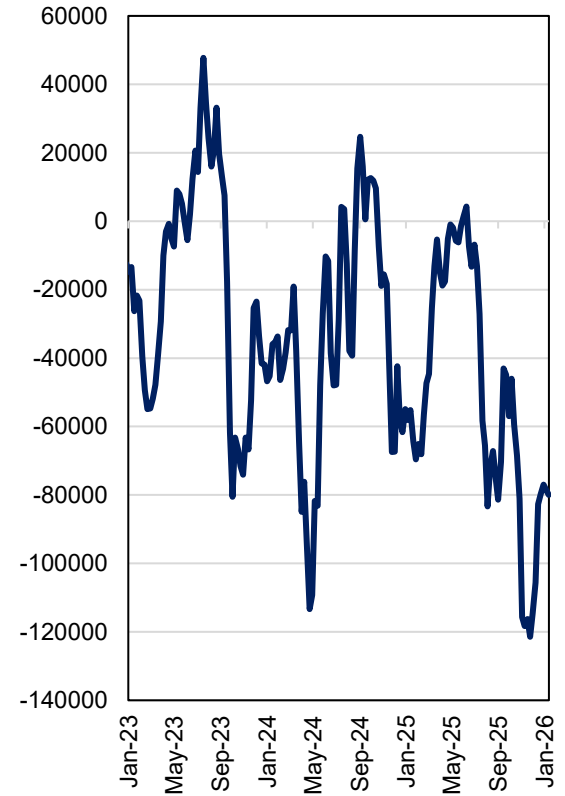
Non-commercial net futures position in Pound Sterling



Leveraged funds net futures position in Pound Sterling



Asset Manager Institutional net futures position in Pound Sterling

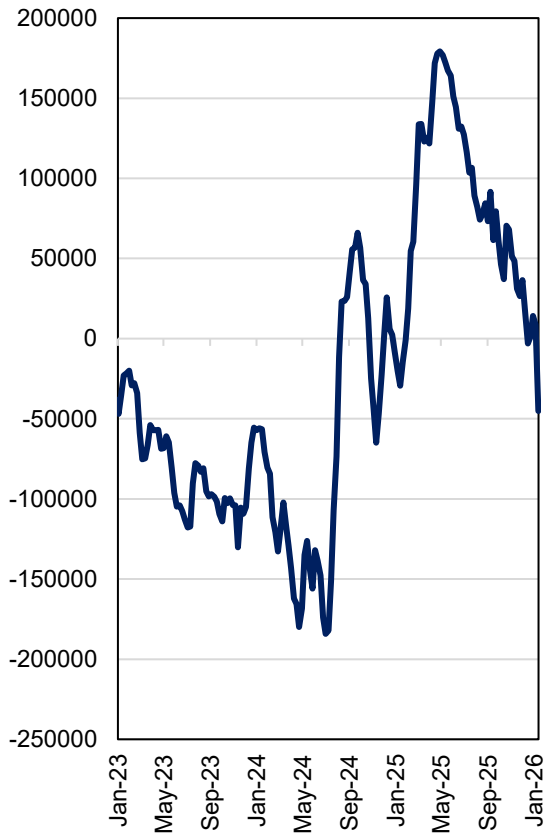


Source: Bloomberg and ADCB Asset Management

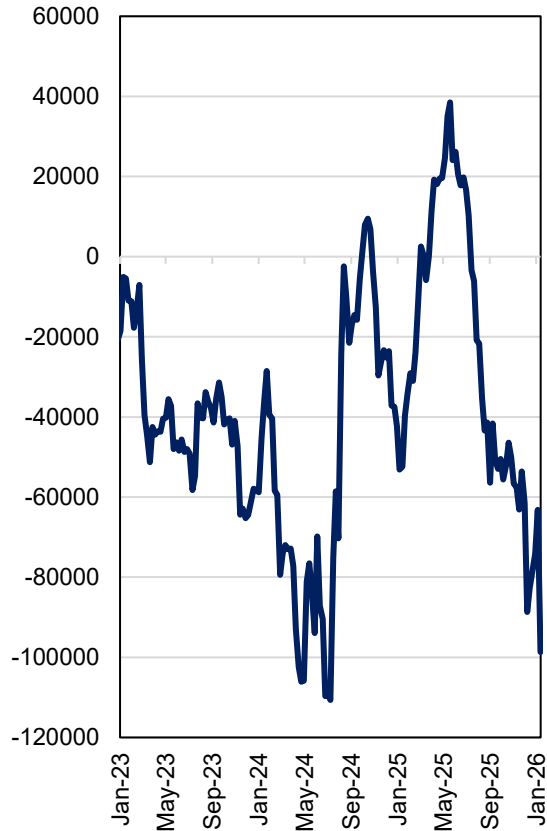
FX positioning- JPY

JPY shorts rebuilt as leveraged funds reinforced bearish positioning.

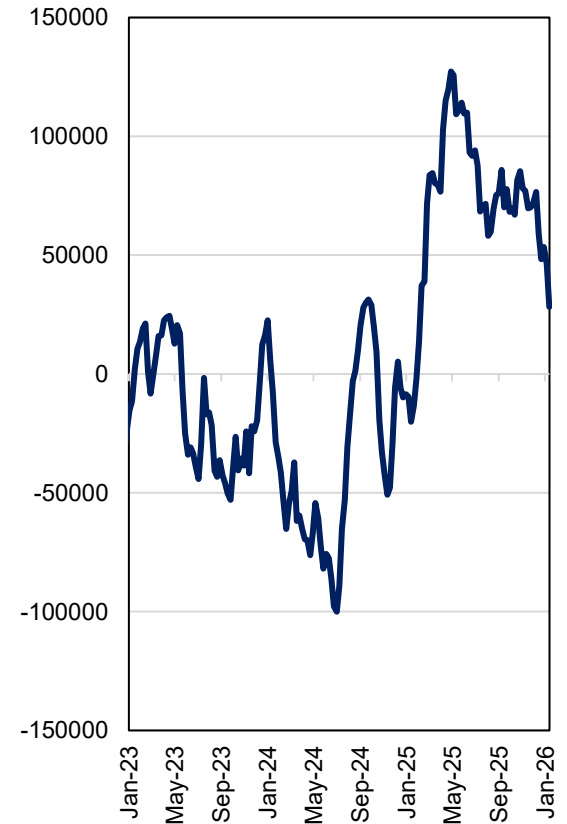
Non-commercial net futures position in JPY



Leveraged funds net futures position in JPY



Asset Manager Institutional net futures position in JPY



Source: Bloomberg and ADCB Asset Management

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