

Investment Strategy

FX Indicator Chartpack

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Mohammed Al Hemeiri

Senior Specialist

Tel: +971 (0)2 8126450

mohammed.alhemeiri@adcb.com

Kishore Muktinutalapati

Head - Investment Strategy

Tel: +971 (0)2 8126457

kishore.muktinutalapati@adcb.com

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Index (with links to navigate)

- ▶ [Slides 3-5: Tactical view \(3M-6M\) on currencies](#)
- ▶ [Slide 6: Currency consensus forecasts](#)
- ▶ [Slide 7: Performance](#)
- ▶ [Slide 9: Seasonality](#)
- ▶ [Slide 11: Macro](#)
- ▶ [Slide 15: Valuations](#)
- ▶ [Slide 17: Volatility](#)
- ▶ [Slide 21: Technical](#)
- ▶ [Slide 24: Positioning](#)

Tactical view (3M-6M) on currencies (1/3)

We are now positive on Euro, Swiss franc, and Chinese yuan.

EUR (Positive; upgraded from Neutral)

Long EUR/USD

Defence spending has increased, regional growth momentum is improving, and the ECB is approaching the end of its easing cycle. US labour market is weakening and the Federal Reserve's risk approach is asymmetrical. Current French political developments are assessed as not posing significant risk. Flare up in Russia-Ukraine conflict is a key risk to our positive EUR view.

CNY (Positive)

Short USD/CNH

Strong equity performance should continue to help CNY with inflows. Light foreign positioning should limit negative effects in case of short-term Chinese stock consolidation. With REER/NEER values still low, PBoC is likely to maintain efforts to strengthen CNY, though the pace may slow amid trade talks.

CHF (Positive)

Short USD/CHF

The currency benefits from a robust fiscal position and defensive foreign exchange characteristics in an environment characterised by a search for alternative reserve assets, yield compression, and favourable market positioning. Meanwhile, the Swiss National Bank maintains a hawkish stance with only limited intervention. CHF could shine as haven in case Russia-Ukraine conflict escalates. Nevertheless, unexpected improvements in global and regional economic growth present potential upside risks to the EUR/CHF exchange rate.

Tactical view (3M-6M) on currencies (2/3)

We move neutral on the US dollar tactically; and also neutral on Japanese yen.

USD (Neutral; upgraded from Negative)

While the USD could depreciate further in the medium term, we think the greenback is likely to be resilient in the near-term. In our view, USD levels are reflecting more dovish outcomes than what is reasonable to expect from the US Fed. Seasonality now turns a bit more supportive of USD strength. However, capping a massive USD strength are concerns surrounding attacks on Fed independence and US Government shutdown risks.

JPY (Neutral; downgraded from Positive)

Long CHF/JPY

The narrowing policy rate gap continues to influence a downward-sloping forecast trajectory. However, factors such as domestic political events, including the LDP leadership election, fiscal sustainability considerations, and potential delays in a Bank of Japan rate hike introduce uncertainty in the near term. In addition, the recovery of NISA outflows and the typical trend of foreign investors selling Japanese equities into autumn months may contribute to near-term challenges for the yen.

Tactical view (3M-6M) on currencies (3/3)

We turn cautious on British pound sterling and are negative on Indian rupee.

GBP (Negative; downgraded from Neutral)

Short GBP/EUR

Fiscal constraints and labour market data that is now starting to soften, which should eat into sterling's attractiveness on carry. The upcoming Autumn budget (Nov'26) will provide a catalyst given growth-fiscal feedback loop. While hawkish BoE should provide support, we think GBP levels are to some degree reflecting this. However, positioning remains light.

INR (Negative)

Long USD/INR

Rupee performance has been affected by 50% tariffs and increased energy imports. Although trade dependence remains relatively low and the current account is stable, financing flows through FDI and FPI have decreased, and the RBI, under new leadership, has shown reduced intervention compared to the previous year. Current account seasonality is expected to become less favourable in the second half of the calendar year as festive season imports may impact the core trade balance.

FX consensus forecasts

Consensus expects higher EURUSD, GBPUSD and stable USDCHF levels but lower USDJPY levels by end-2025.

(End of period)	Q4 24	Q1 25	Q2 25	Q3 25f	Q4 25f	Q1 26f	Q2 26f
EURUSD	1.04	1.08	1.18	1.17	1.19	1.20	1.20
GBPUSD	1.25	1.29	1.37	1.35	1.37	1.37	1.38
USDJPY	157.20	149.96	144.03	145.00	143.00	140.00	139.50
USDCHF	0.91	0.88	0.79	0.81	0.80	0.80	0.80

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

Performance

Performance heat map

After strengthening in July, USD broadly weakened subsequently.

	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

Source: Bloomberg and ADCB Asset Management

Seasonality

Seasonality heat map

USD tends to strengthen during October and November.

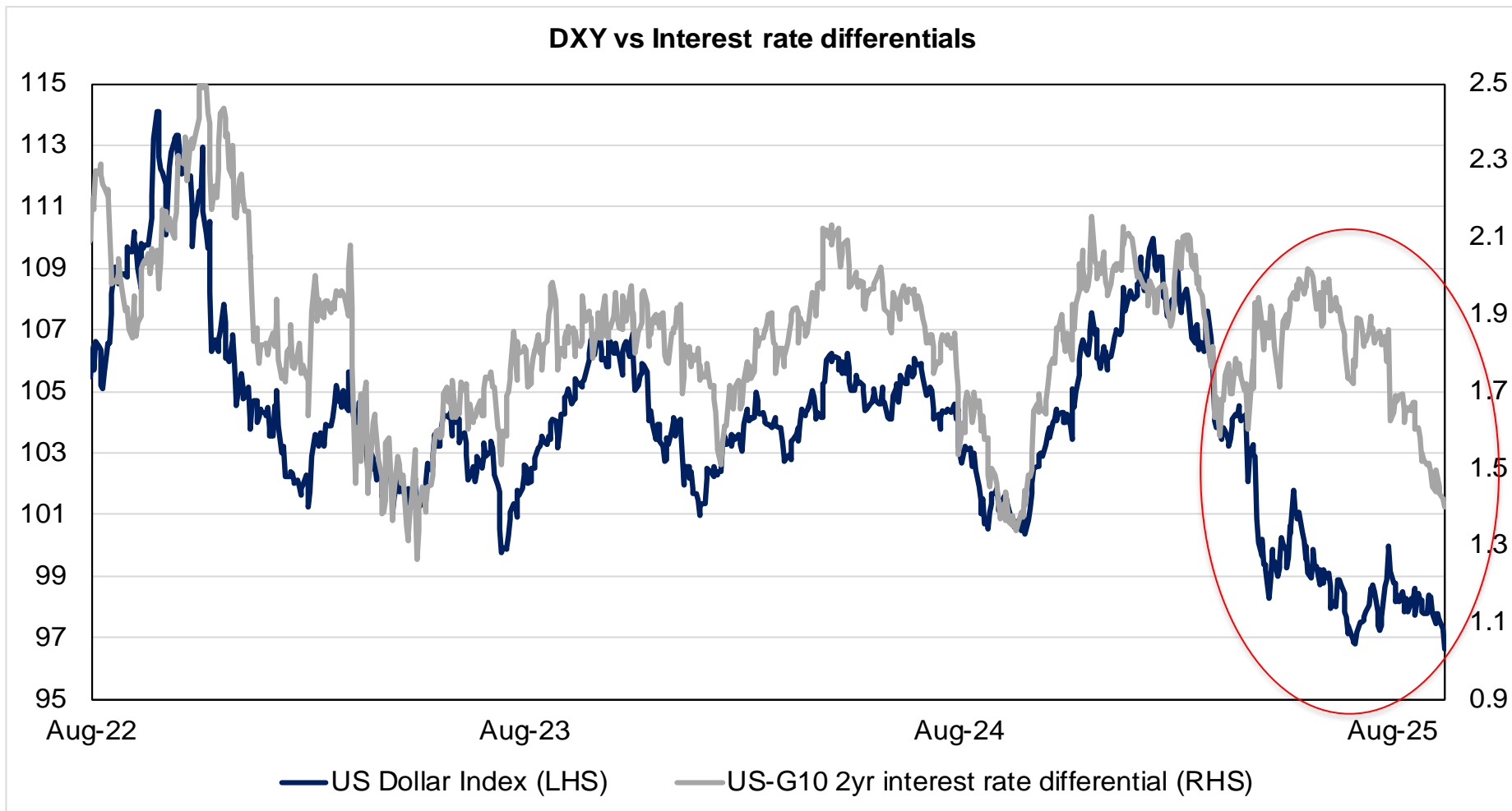
Seasonality heat map (average for period 1990-2024)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Dollar Index spot	0.81%	0.43%	0.23%	-0.33%	0.29%	-0.08%	-0.37%	0.20%	-0.23%	0.24%	0.47%	-0.87%
EUR/USD	-1.00%	-0.45%	-0.10%	0.33%	-0.25%	0.10%	0.44%	-0.15%	0.43%	-0.31%	-0.37%	1.28%
GBP/USD	-0.21%	-0.77%	-0.25%	0.79%	-0.34%	0.17%	0.57%	-0.65%	-0.07%	0.04%	-0.21%	0.47%
USD/JPY	0.09%	0.31%	0.71%	0.13%	-0.19%	-0.03%	-0.30%	-0.40%	0.10%	-0.33%	0.73%	-0.02%

Source: Bloomberg and ADCB Asset Management

Macro

DXY index vs interest rate differentials

DXY index decline reflects more than just the narrowing interest rate differentials.

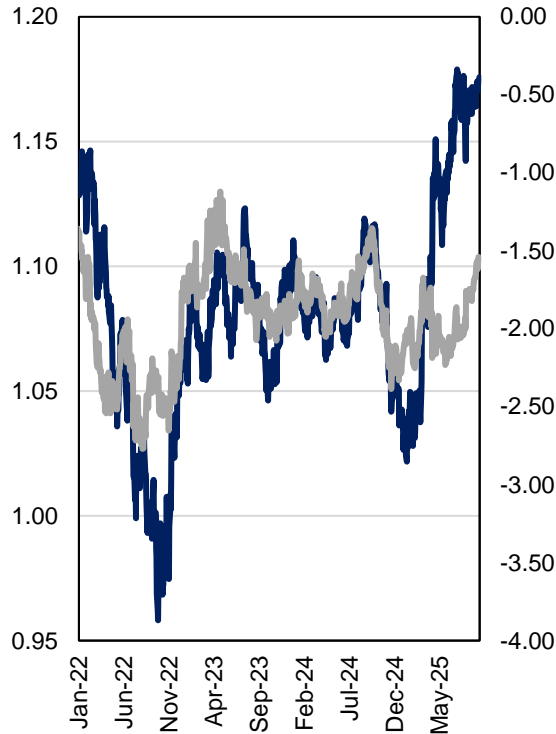


Source: Bloomberg and ADCB Asset Management

Currency pairs vs 2yr interest-rate differentials

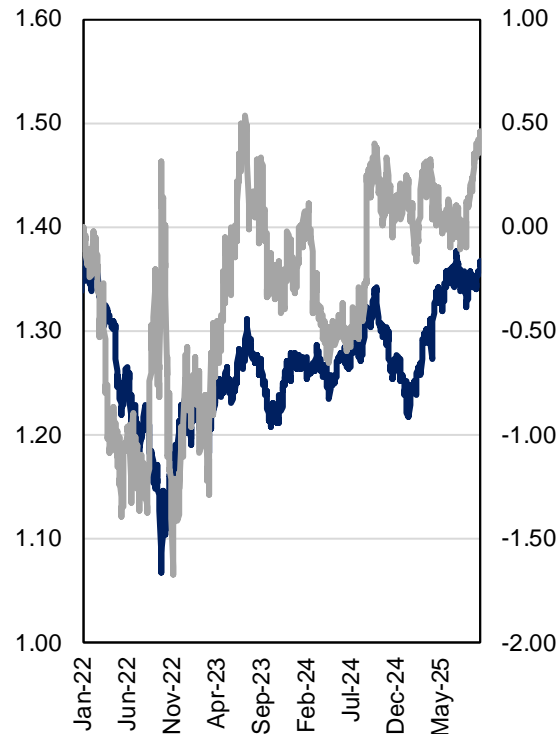
EURUSD advanced more than what short-term bond yield differentials would suggest.

EURUSD Curncy vs 2yr Bund-UST spread



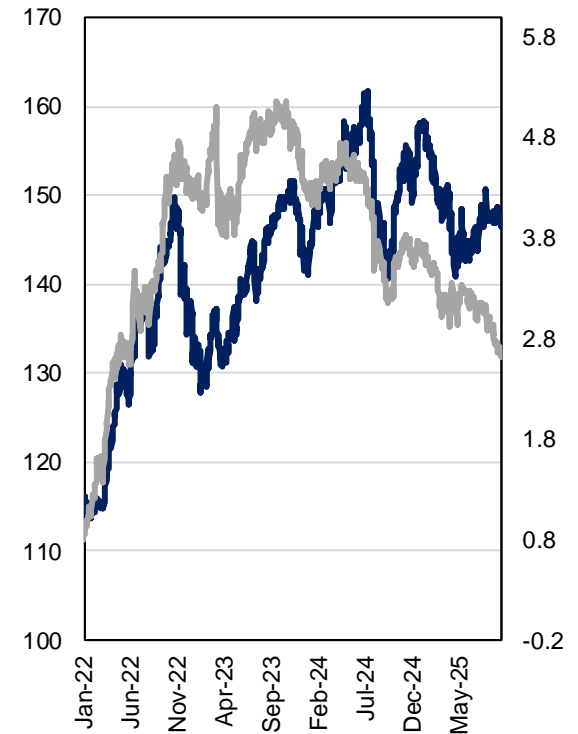
— EURUSD BGNL Curncy
 — 2yr Bund-UST spread (RHS)

GBPUSD Curncy vs 2yr Gilt-UST spread



— GBPUSD Curncy
 — 2yr Gilt-UST spread (RHS)

USDJPY Curncy vs 2yr UST-JGB spread



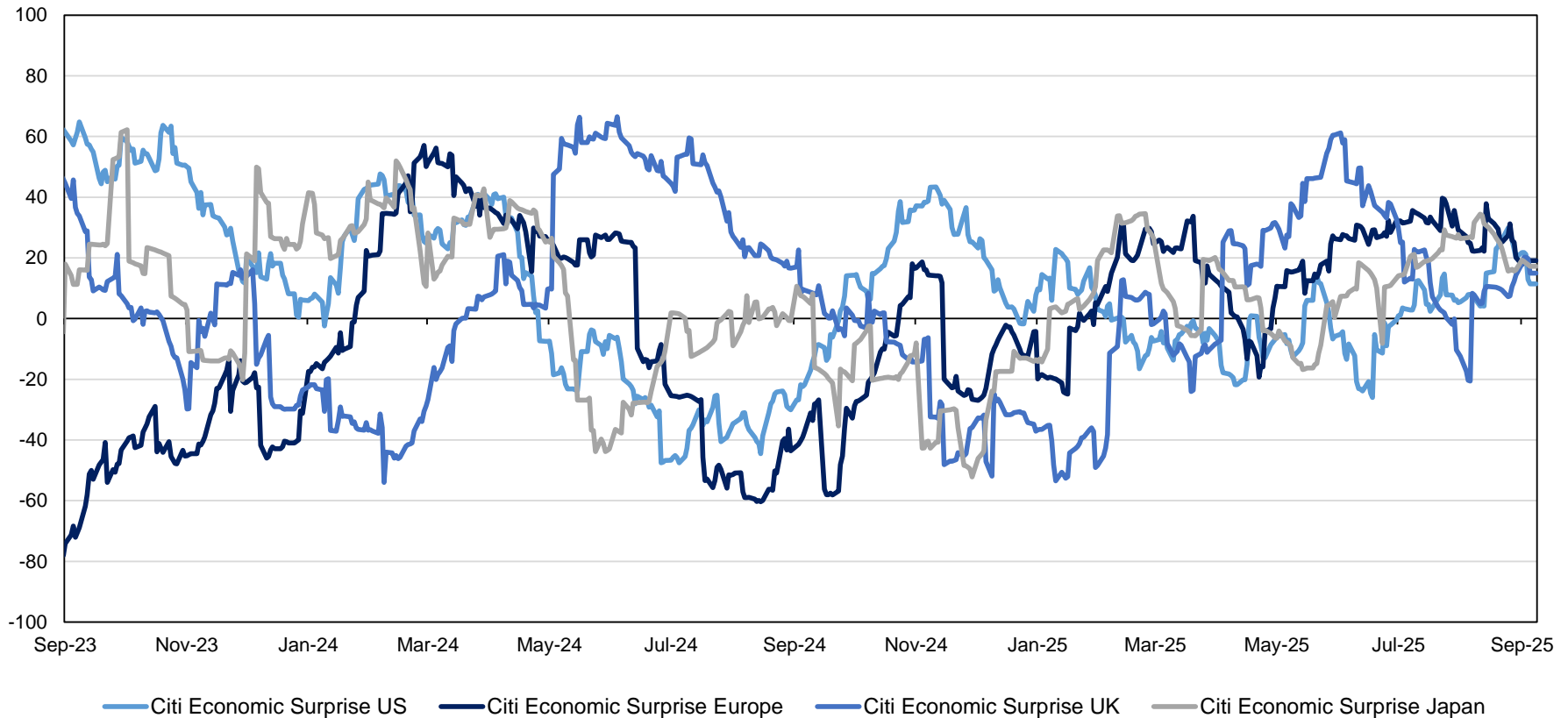
— USDJPY Curncy
 — 2yr UST-JGB spread (RHS)

Source: Bloomberg and ADCB Asset Management

Economic surprises

Economic surprises are at similar levels across major markets.

Economic surprises



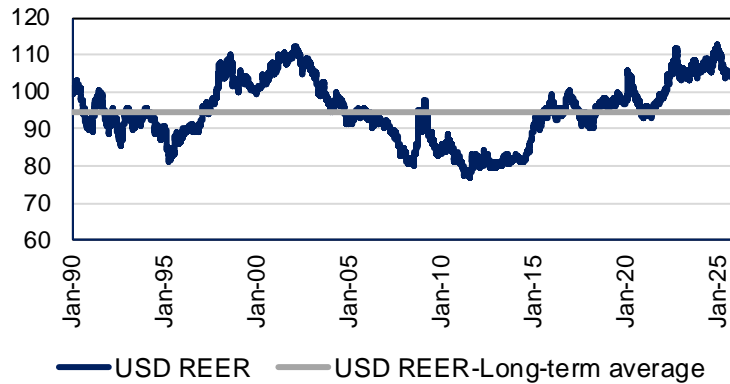
Source: Citi, Bloomberg and ADCB Asset Management

Valuations

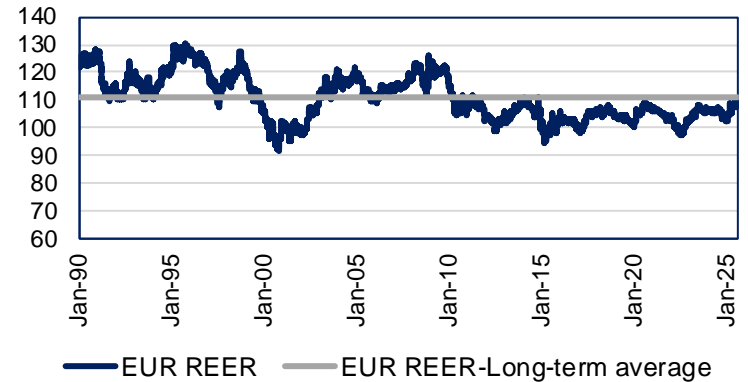
Real currency valuations

Dollar's valuation premium has fallen recently but JPY continues to look cheap on REER basis.

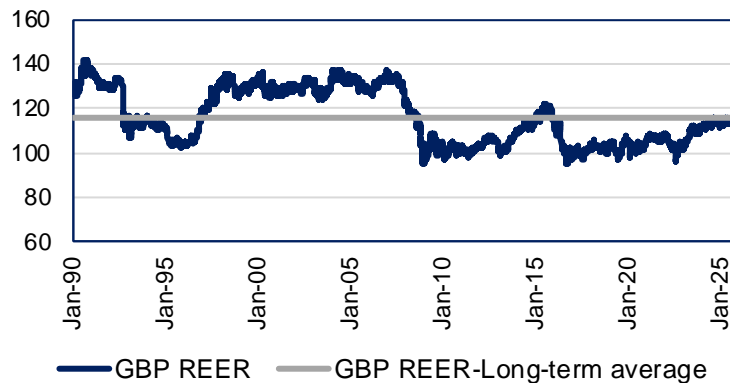
USD real effective exchange rate



EUR real effective exchange rate



GBP real effective exchange rate



JPY real effective exchange rate

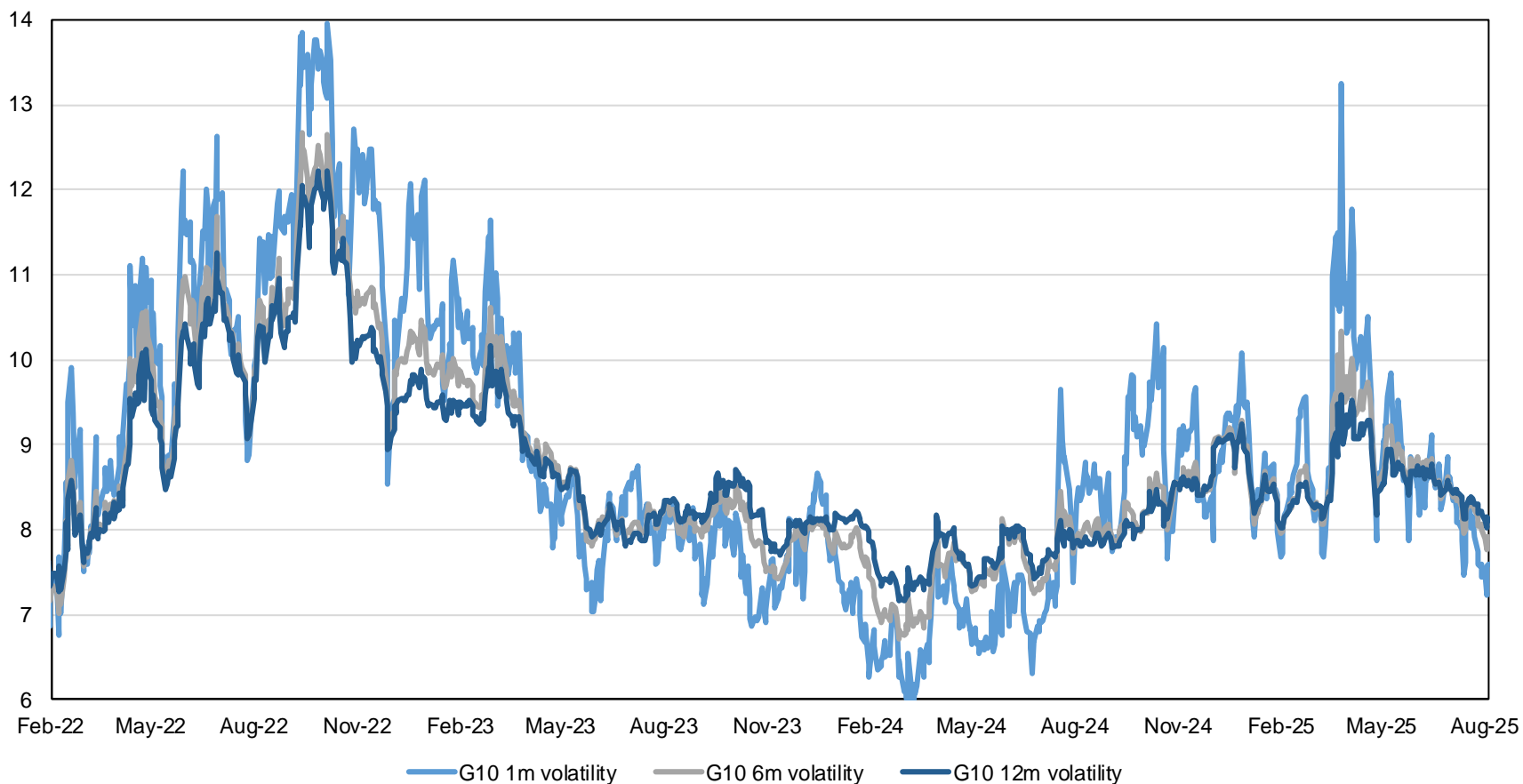


Source: Bloomberg and ADCB Asset Management

Volatility

G10 FX volatility across all horizons dropped to lowest level in one year

G10 volatility

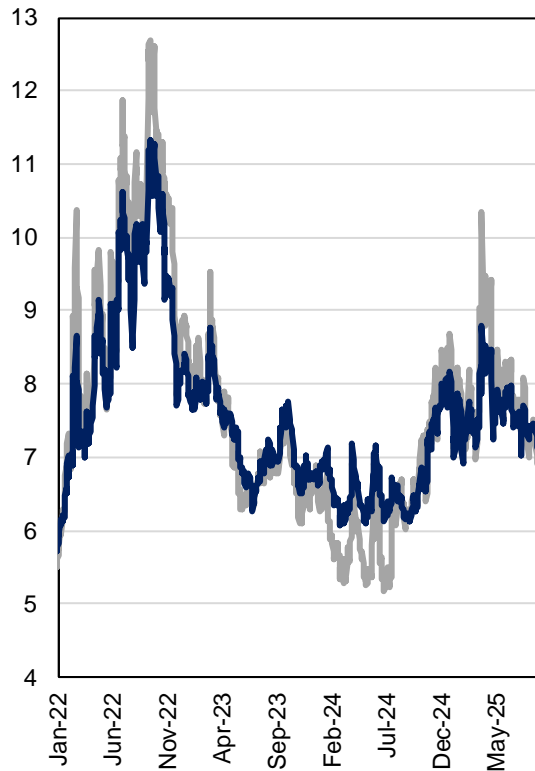


Source: Bloomberg and ADCB Asset Management

FX volatility

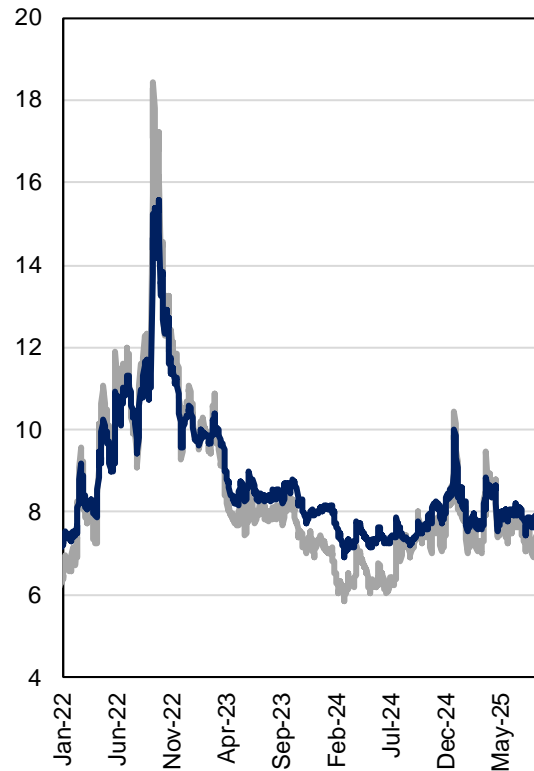
3-month volatility eased further in EURUSD and USDFJPY.

EURUSD



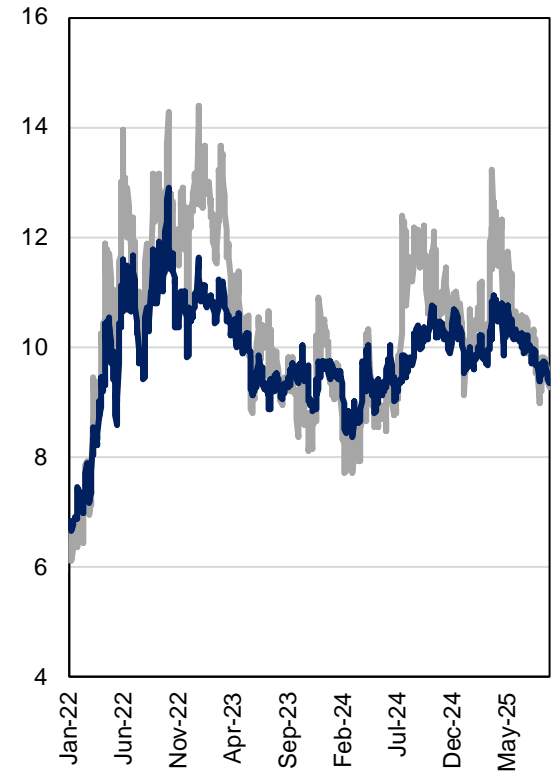
— EURUSDV3M Curncy
 — EURUSDV1Y Curncy

GBPUSD



— GBPUSDV3M Curncy
 — GBPUSDV1Y Curncy

USDJPY



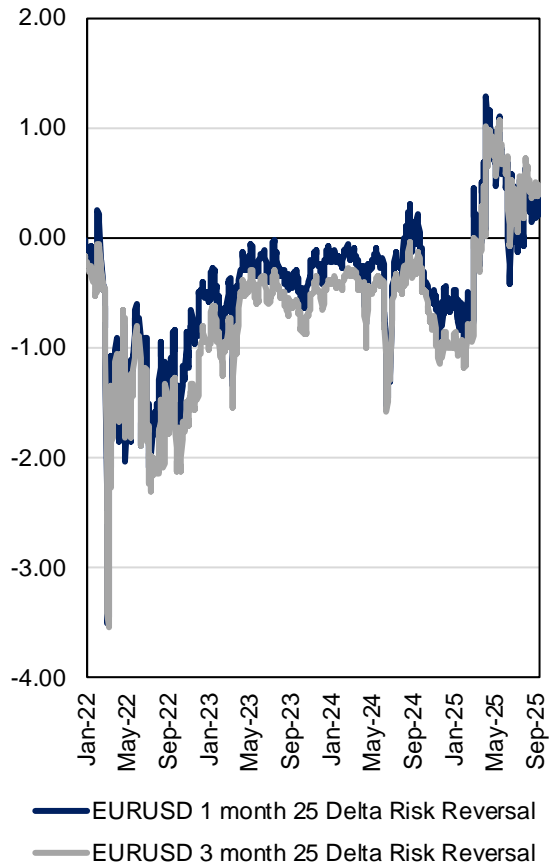
— USDJPYV3M Curncy
 — USDJPYV1Y Curncy

Source: Bloomberg and ADCB Asset Management

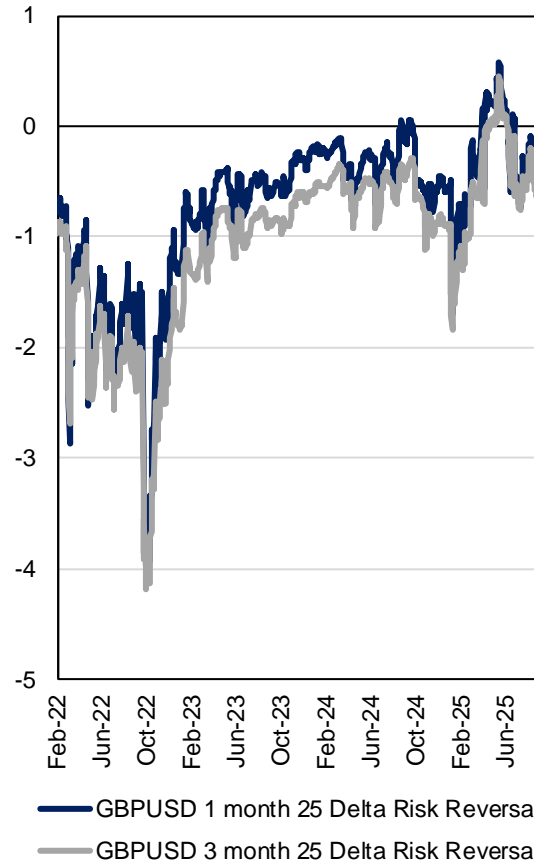
Risk Reversal

Option markets show reduced downside bias for EURUSD.

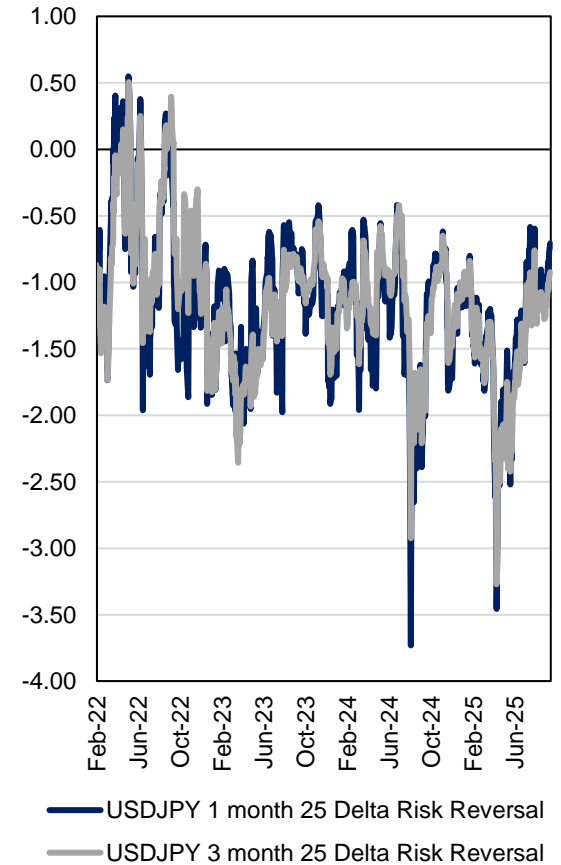
EURUSD



GBPUSD



USDJPY



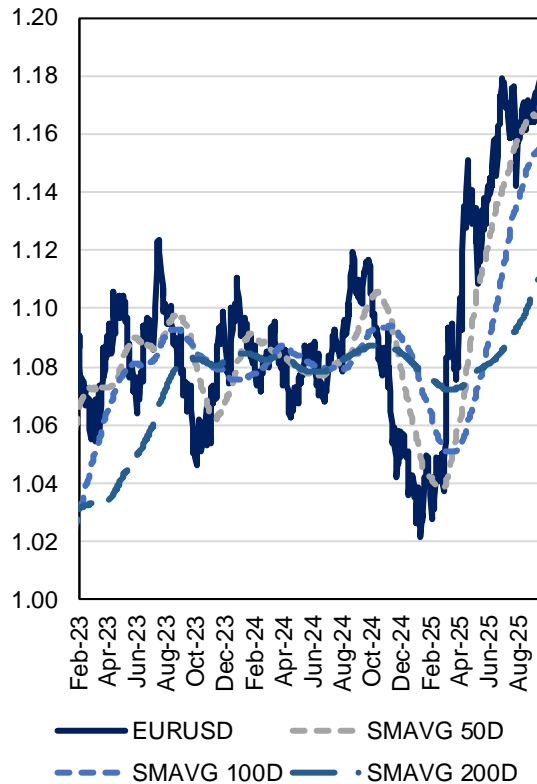
Source: Bloomberg and ADCB Asset Management

Technical

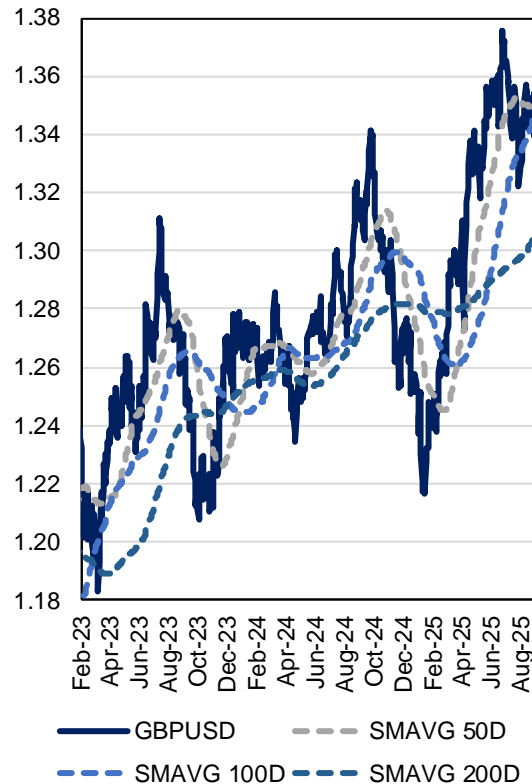
Moving average

EURUSD and GBPUSD trade above key moving averages, while USDJPY remains range-bound.

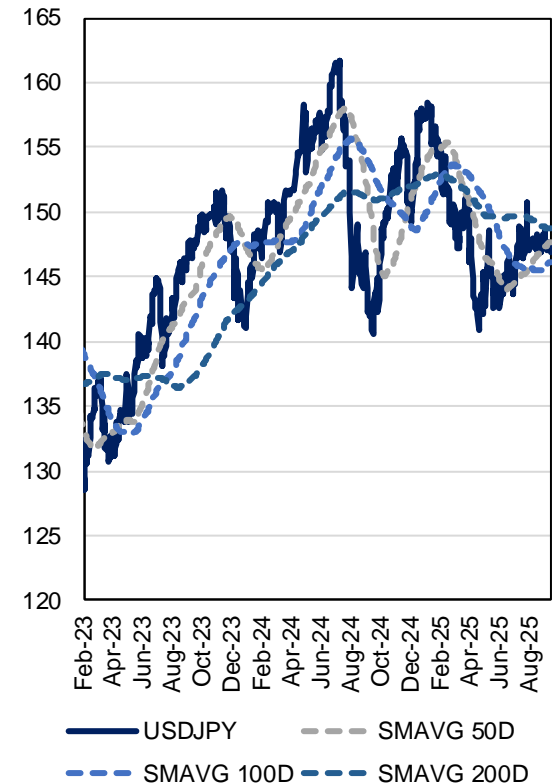
EURUSD moving average



GBPUSD moving average



USDJPY moving average

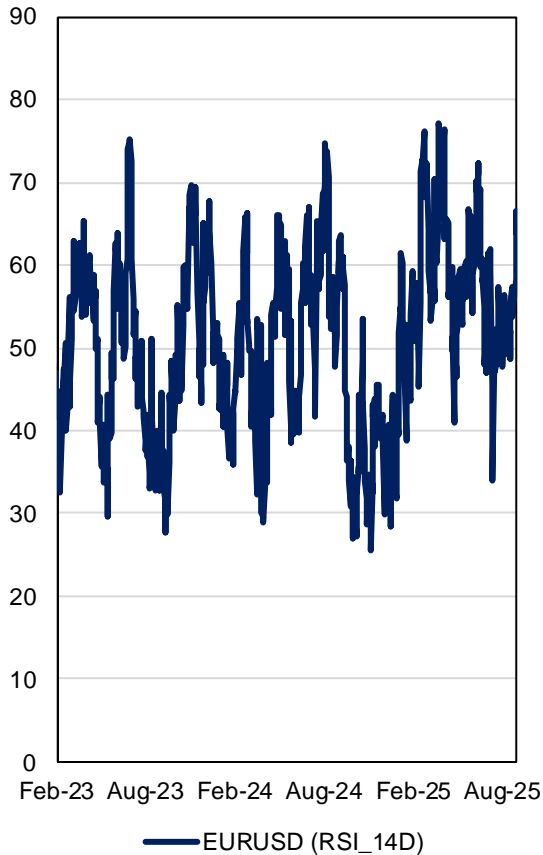


Source: Bloomberg and ADCB Asset Management

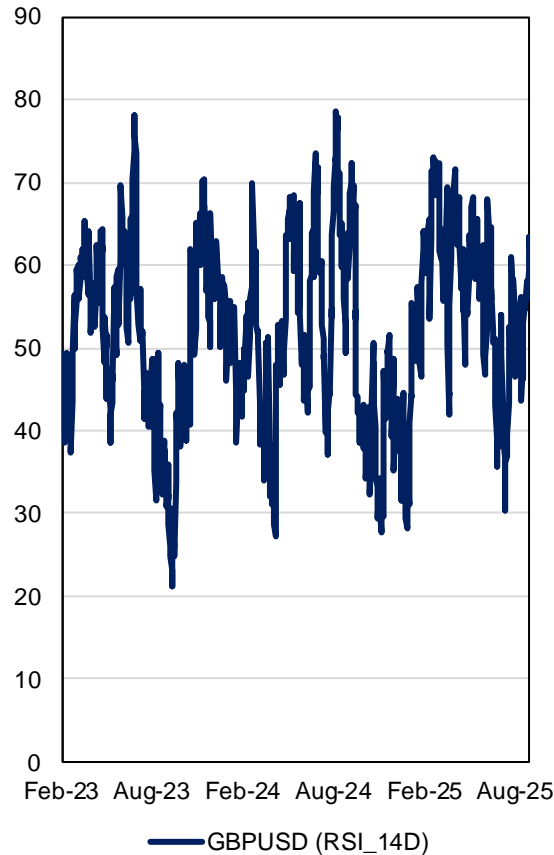
Relative strength index indicator

RSI indicator signals neutral momentum across major FX pairs. EURUSD is edging towards an overbought territory.

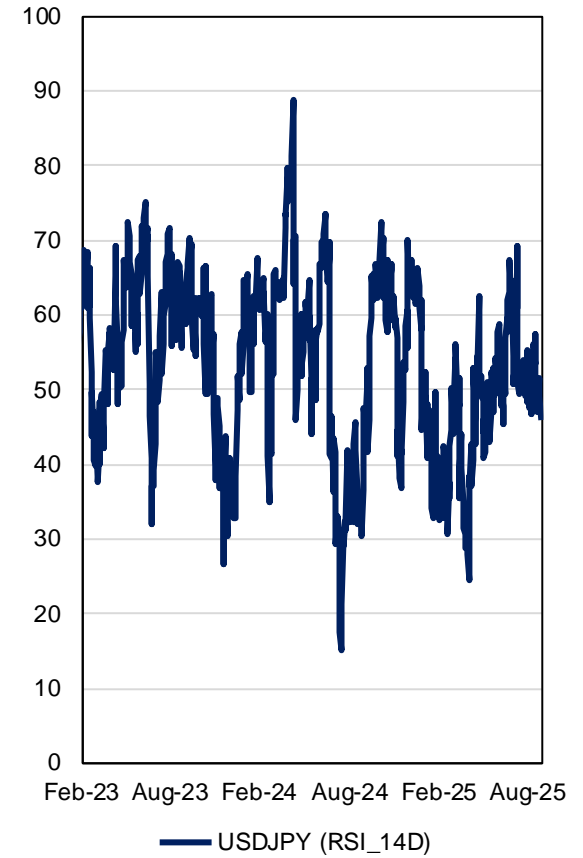
EURUSD (RSI_14D)



GBPUSD (RSI_14D)



USDJPY (RSI_14D)



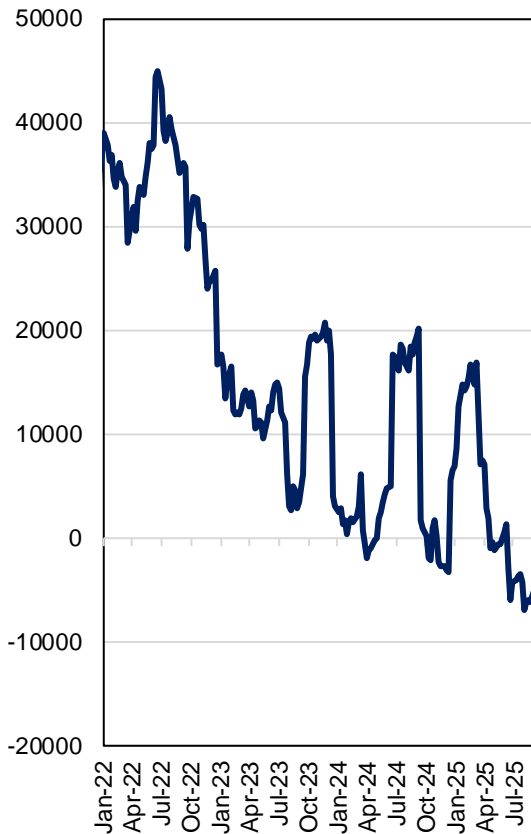
Source: Bloomberg and ADCB Asset Management

Positioning

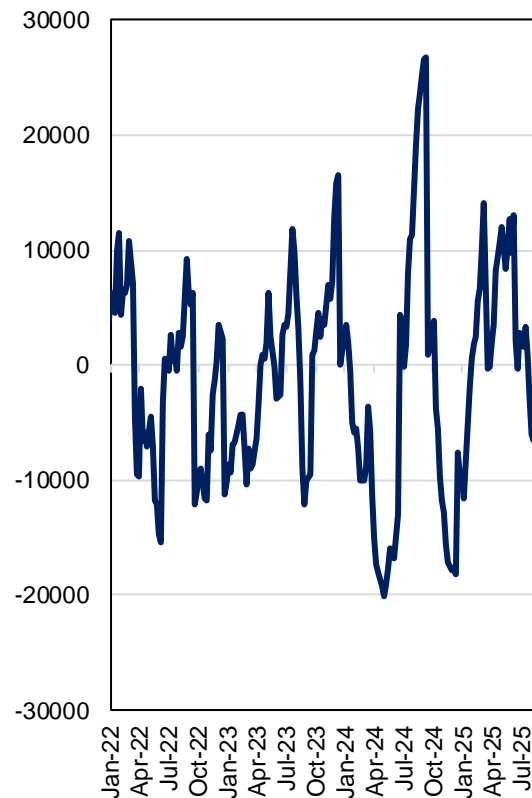
FX positioning- USD

Short positions in the USD have not increased in recent weeks.

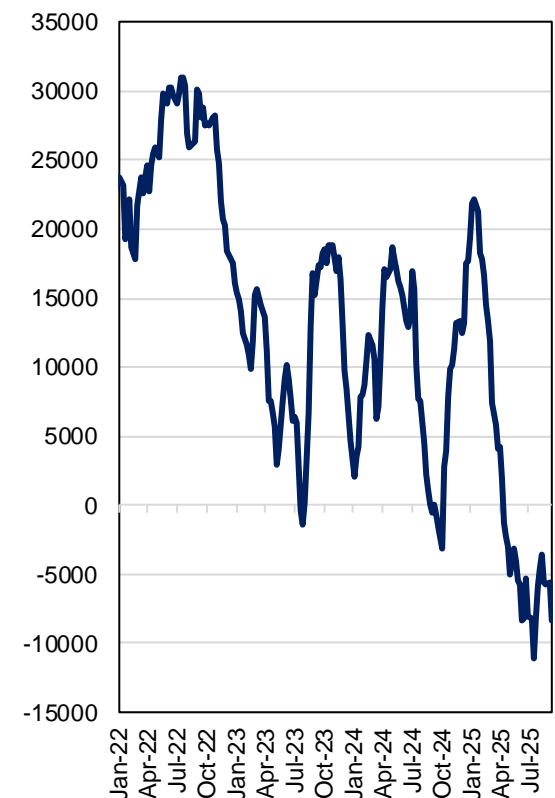
Non-commercial Net futures position for USD Index



Leveraged Funds Net futures position for USD Index



Asset Manager Institutional Net futures position for USD index

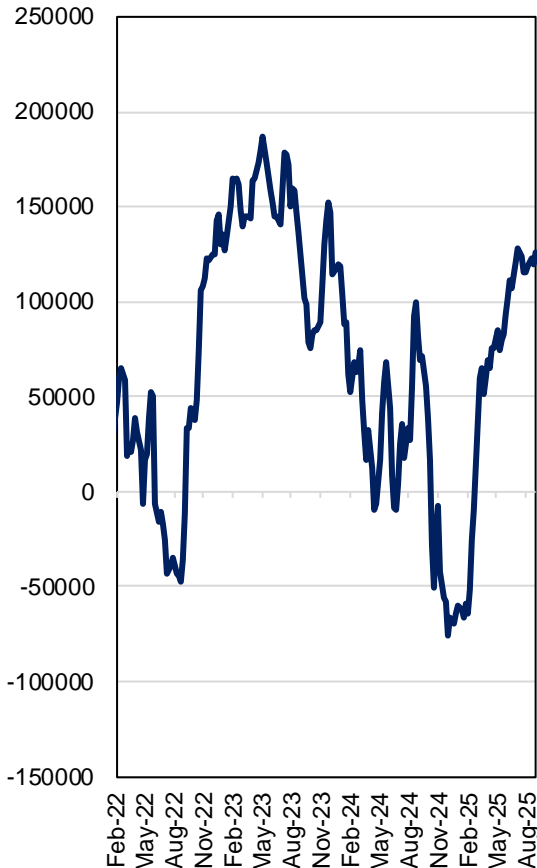


Source: Bloomberg and ADCB Asset Management

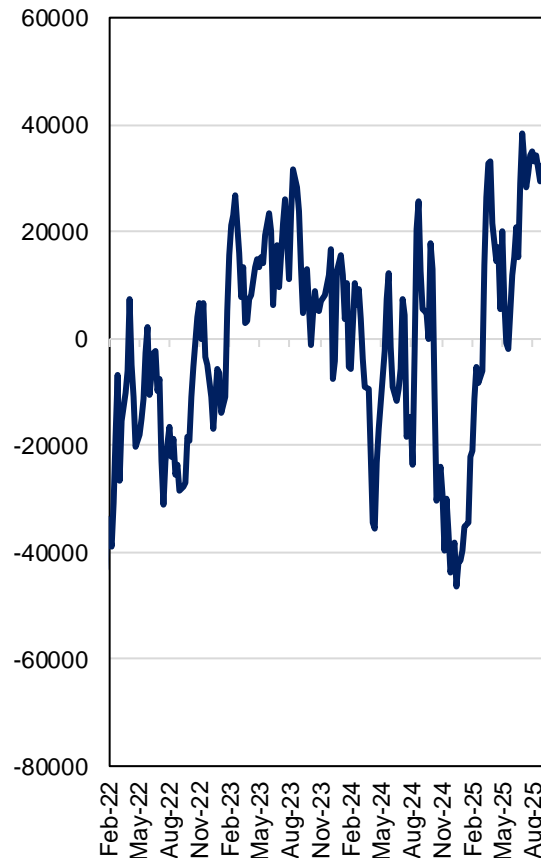
FX positioning- EUR

Long positions in EUR continue to build, but have not reached extreme levels yet.

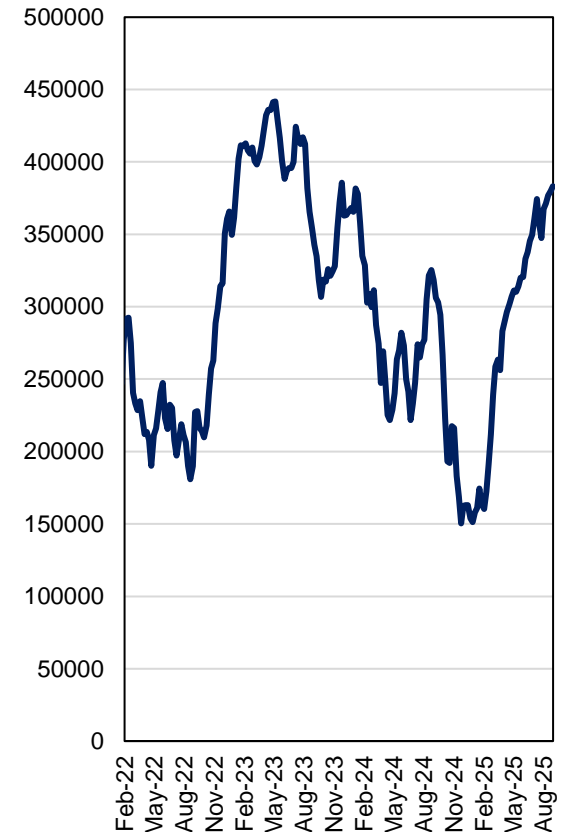
Non-commercial net futures position in Euro FX



Leveraged funds net futures position in Euro FX



Asset Manager Institutional net futures position in Euro FX

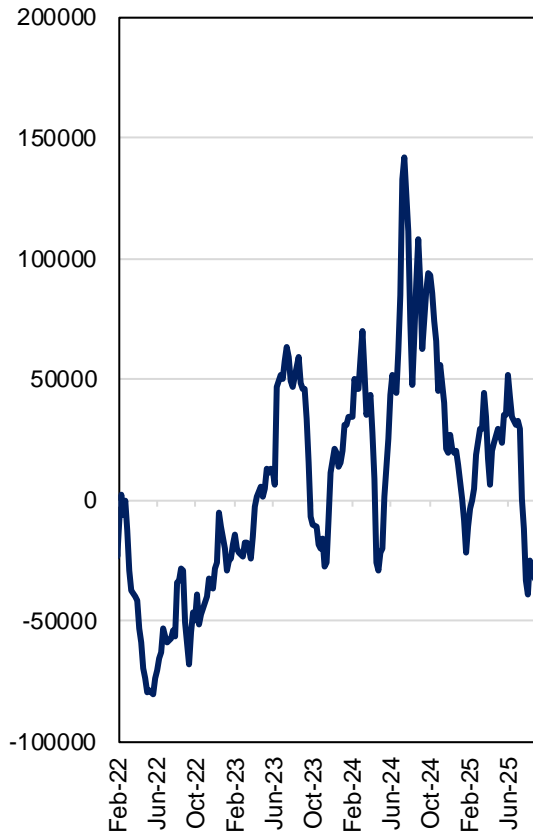


Source: Bloomberg and ADCB Asset Management

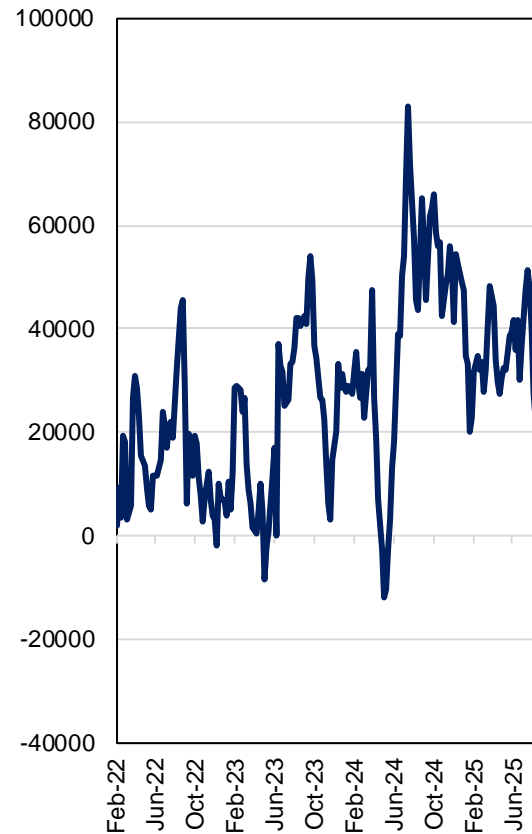
FX positioning- GBP

Institutional investors added to their net short position on the GBP.

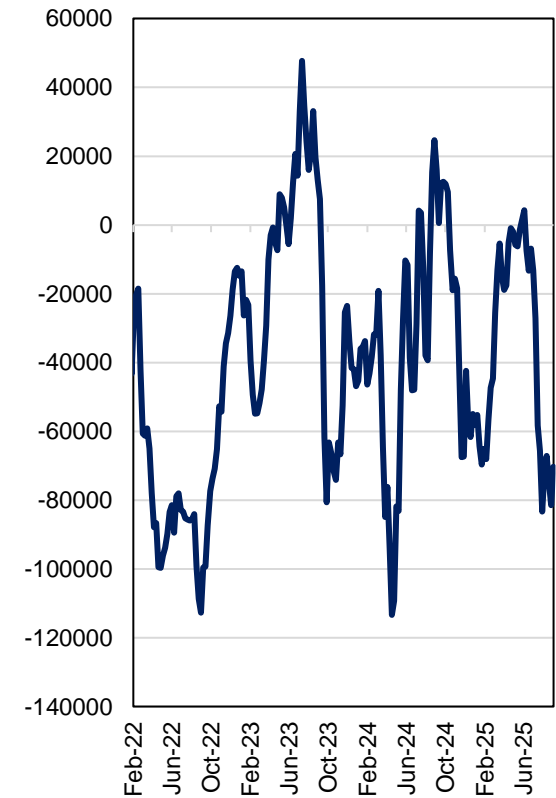
Non-commercial net futures position in Pound Sterling



Leveraged funds net futures position in Pound Sterling



Asset Manager Institutional net futures position in Pound Sterling

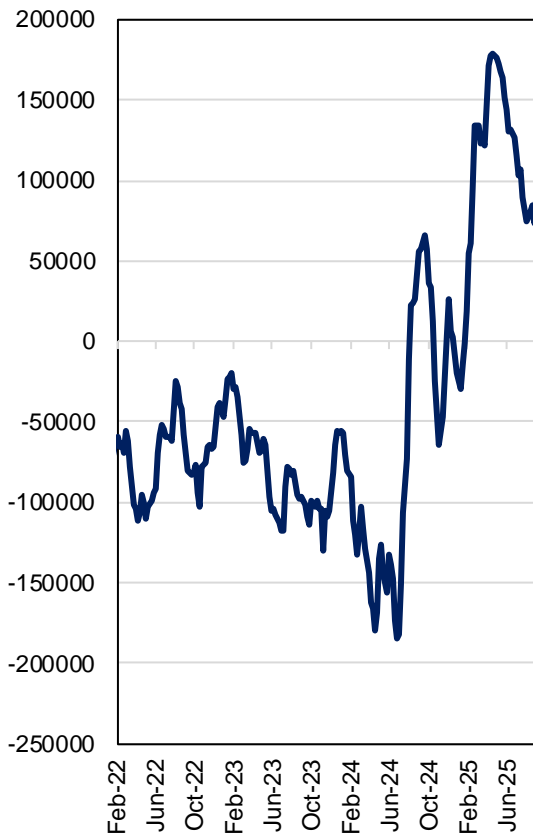


Source: Bloomberg and ADCB Asset Management

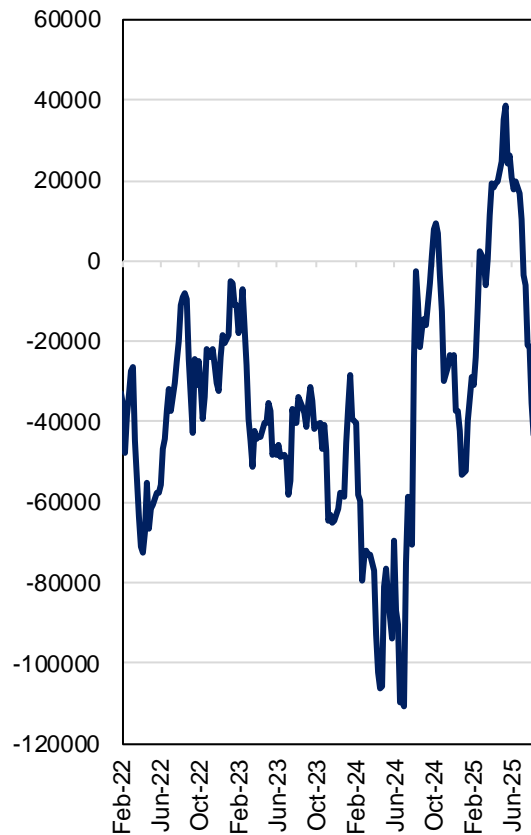
FX positioning- JPY

Leveraged funds turned more short on JPY position.

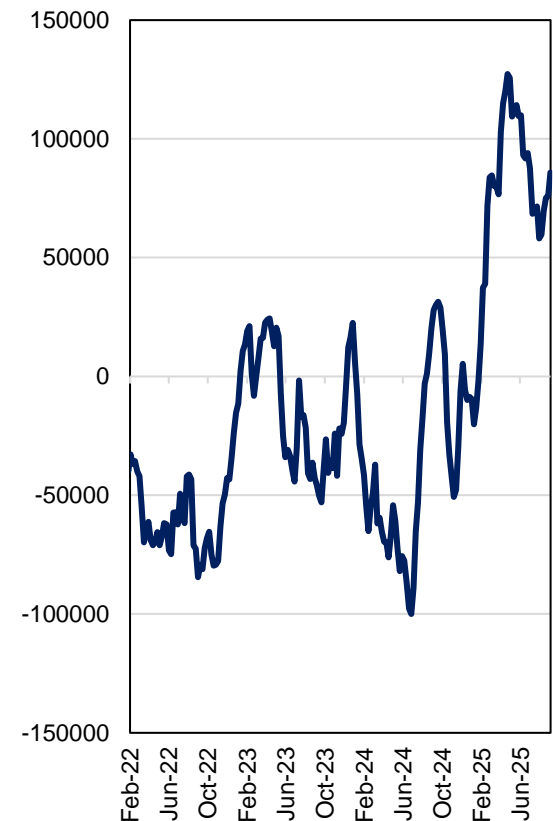
Non-commercial net futures position in JPY



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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