DBS Flash

FX: DEER recommendations (Aug 2026)

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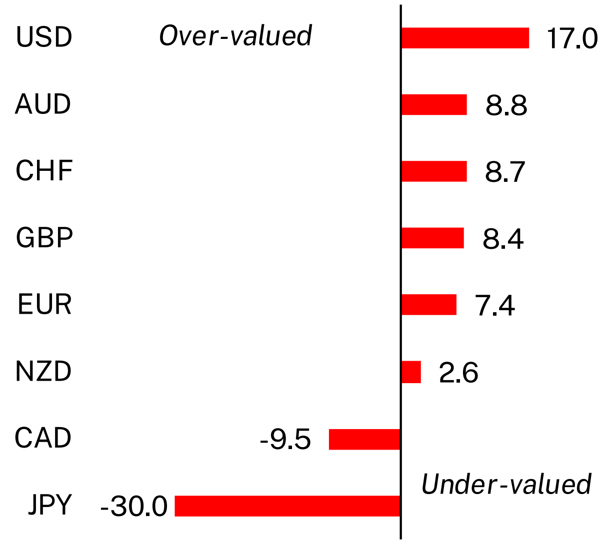
- *The DEER Strategy recommends long positions in JPY, CAD, and AUD, and short positions in USD, CHF, and EUR.*
- *The Strategy has been flat since May despite a stronger USD.*
- *JPY longs have seen losses narrow on the back of joint US-Japan FX interventions, with the Treasury's JPY buying signalling expectations of gains by Bessent.*
- *Both EUR and CHF shorts delivered positive returns, with EUR and CHF weighed by higher energy prices and a dovish SNB, respectively.*
- *The Strategy will rebalance from NZD to AUD going forward, as relative valuations changed with an easing in AUD/NZD.*
- *In Asia ex-Japan, IDR, RMB, and INR are the most undervalued, while THB remains the most overvalued.*

LATEST G10 DEER VALUATIONS

G10 FX: DEER valuations



Source: IMF, CEIC, DBS *As of 4 August*

Across major G10 currencies, JPY and CAD rank as the most undervalued. JPY's undervaluation reached its lowest on record, before reversing on joint FX market interventions by the Japanese government and US Treasury. CAD's undervaluation has deepened to the most since 2016, given uncertainty over the future of USMCA and new Trump tariffs.

USD, AUD, CHF, GBP, and EUR are all overvalued. The USD's valuation has risen again following a rebound in oil prices and the resumption of hostilities between the US and Iran. AUD has been supported by RBA vigilance over inflation. Meanwhile, EUR and CHF overvaluations have eased somewhat, with European industry weighed by higher energy prices. GBP's valuation has expanded after a smooth PM transition from Starmer to Burnham.

DEER STRATEGY RECOMMENDATIONS

DEER Strategy Recommendations

	AUD	CAD	NZD	CHF	GBP	EUR	JPY	USD
04-Aug-26	+	+		-		-	+	-

+' implies currency is a long and '-' implies that currency is a short

Source: DBS

Our DEER strategy continues to hold longs in JPY and CAD, but will rebalance from NZD to AUD long.

Given tariff and trade barriers by the US under President Trump, relative price differentials could be more persistent than under the previous regime of relatively free trade. As such, caution is needed in interpreting currency valuations based on historical data, as mean reversion towards fair values may be slower.

JPY depreciation after the conclusion of FX market interventions by the Japanese government in April-May has again triggered a second wave of interventions from Japan, but now with additional help from the US. Two consecutive days of interventions, alongside the US Treasury selling EUR and buying JPY, had resulted in USD/JPY falling from 163 to around 156. Unlike Argentina (which also benefited from US help to defend the peso), Japan has enough FX reserves to mount an effective currency defence on its own. The involvement of the US Treasury to bolster the JPY could be to defer Japanese selling of US Treasuries to fund JPY buying. More importantly, it is expected to **give financial benefits to the US**, which Trump has alluded to when asked about the reasons for US involvement.

As a rule, economists are wary of government interventions in markets. This is because public officials do not necessarily know more than the market, and their interventions could thus disrupt economic efficiency. For JPY, one could argue that its large undervaluation is substantially misaligned from economic fundamentals, and so an adjustment that pre-empts a disruptive unwind of JPY carry trades is in the interest of the global economy. Still, the possibility of financial loss is a deterrent for FX market interventions, particularly for foreign governments. Intervention can possibly be justified only if the cost-benefit calculus changes, such as the government having superior information that is not known to markets.

US Treasury Secretary Bessent arguably has just such an information advantage. Japan's top currency official Mimura has said that he exchanges calls and emails with the US Treasury regularly, so Bessent can be expected to know Japanese FX policy thinking well. Bessent's decision to join Japan's interventions in the JPY market could be both an expression of support for Japan and a shrewd financial move, which arises from his read of his Japanese counterparts' commitment and planned policy shifts in the works. If so, and if the BOJ continues with its rate hikes, **USD/JPY may have now peaked for this cycle**. The US's decision to express this via short EUR/JPY rather than USD/JPY has a more prosaic explanation — such a move will not be seen as an expansion of the US balance sheet or a manipulation of the USD exchange rate (which the US has been nudging many countries on), but a simple reallocation of the FX reserves.

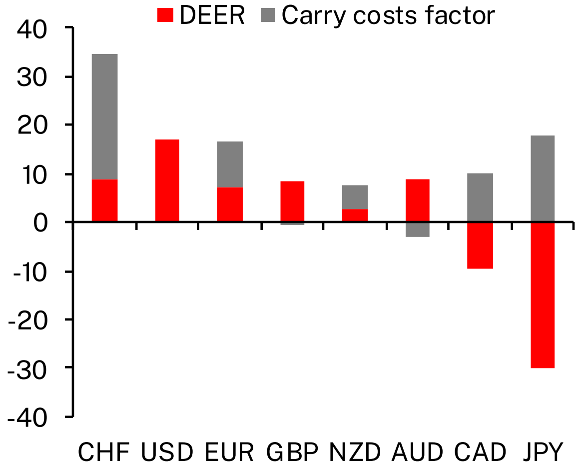
USD/CAD has risen above 1.40 given high trade uncertainties. The US has declined a full 16-year extension for the USMCA in July, which shifts the trade treaty to an annual review until 2036 and raises uncertainties for investment. Moreover, Trump is imposing an additional 50% tariffs on selected Canadian imports amounting to USD20bn (~5.2% of US imports from Canada in 2025). Despite elevated trade uncertainty, CAD may benefit from increased energy demand

and structurally higher energy prices, as firms diversify away from Middle East energy sources due to geopolitical risks.

The strategy's shift from NZD long back to AUD long reflects relative valuation shifts, as AUD/NZD eased from 1.22 in May to trade below 1.20 recently. While both AUD and NZD are modestly overvalued, AUD has a larger yield advantage compared to the NZD, being the highest yielding currency in G10. The RBA remains vigilant on inflation as it assesses the impact of previous rate hikes. While Australia's headline inflation has eased somewhat to 3.8% y/y in June, it still overshot the RBA's target range of 2-3%. Upside risks to inflation due to capacity constraints could still warrant tight monetary policy settings that support AUD.

NZD's valuation is no longer as compelling in contrast to the carry advantage of AUD. The DEER strategy will exit its current NZD long over time in line with its holding period guidance, eventually rebalancing to AUD long unless the DEER strategy recommends further changes going forward.

Major FX: DEER valuations and carry costs



Source: Bloomberg, DBS

The DEER Strategy retains shorts in USD, CHF, and EUR. The USD's valuation has risen, with the US being a beneficiary of elevated oil prices arising from the Middle East conflict. The USD may also soften if Fed rate hikes are not forthcoming. Fed Chair Warsh has voted to keep rates unchanged, though three of his FOMC members voted for a rate hike in the July policy meeting. Indeed, Fed rate hikes may be less certain than markets think, especially with Warsh suggesting that there could be other monetary policy tools to achieve stable prices, particularly on the balance sheet front. Meanwhile, negotiations for a Strait of Hormuz deal between US and Iran may also help lower oil prices, which should lead to a softer USD.

EUR and CHF have continued to depreciate, with Europe still vulnerable to elevated energy prices (and Switzerland less so). While the ECB has hiked rates by 25bps in June to stem energy-driven inflation, any guidance for further rate hikes has been downplayed by ECB President Lagarde in her policy speech at Sintra. Indeed, the ECB has paused in July to assess incoming data amid high volatility in oil prices, underscoring a meeting-by-meeting approach that will temper EUR gains. Meanwhile, the CHF has depreciated against both USD and EUR as the SNB continues to hold rates at zero, with Swiss inflation easing further to a four-month low of 0.4% y/y in July. Given SNB's dovish policy settings, the CHF is likely to replace the JPY as a favoured funding currency for carry trades, especially if the BOJ continues to hike rates.

RECENT DEER RETURN BREAKDOWN AND ANALYSIS

We review the returns of our previous DEER recommendations made on 7 May 2026 (see here). The returns are calculated based on prices on 3 August 2026 against forward prices on 7 May 2026.

DEER constituents' returns (7 May - 3 Aug)

FX	Recommendation	Return (%)
USD	Short	-
CHF	Short	1.7%
EUR	Short	0.9%
JPY	Long	-0.3%
NZD	Long	-0.5%
AUD	Long	-0.8%
CAD	Long	-0.9%
Net		**0.0%**

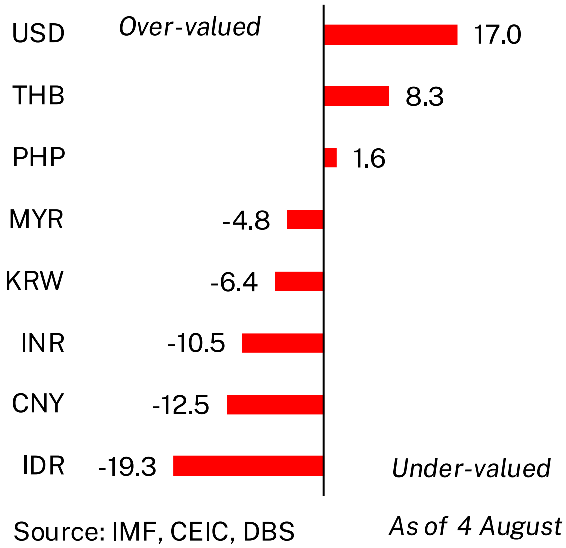
Source: Bloomberg, DBS

Given broad USD strength, our CHF and EUR shorts saw positive gains, while longs in JPY, NZD, AUD, and CAD saw small losses between -0.3% to -0.9%. Our CHF short recorded the highest return of 1.7%, with a dovish SNB encouraging CHF carry trades. EUR short also gave a positive return of 0.9%, with the EUR weighed by high energy prices. Our JPY long sees a small loss of -0.3%, with the loss narrowing significantly given ongoing US and Japan FX market intervention to buy JPY. Both AUD and NZD underperformed against a strong USD, though NZD eased to a lesser extent. NZD was helped by the RBNZ initiating a rate hike cycle in July, raising its policy rate by 25bps to 2.50%. Our CAD long saw the worst return of -0.9%, as CAD was buffeted by trade uncertainties amid fraught negotiations over the USMCA with Trump.

Combined, our DEER strategy was flat from 7 May 2026 to 3 August 2026, with shorts hedging losses from a stronger USD.

LATEST ASIAN EX-JAPAN DEER VALUATIONS

Asian FX: DEER valuations



Source: IMF, CEIC, DBS

Withing Asia ex-Japan, the IDR, RMB, INR remains the most undervalued. Both IDR and INR are being weighed by elevated oil prices since the start of the US-Iran conflict. Higher oil prices bring increased fiscal strain to Indonesia, with the fiscal deficit near the statutory limit of 3% of GDP. Meanwhile, the resignation of BI Governor Warjiyo after hiking rates by 100bps since May raises questions over monetary policy, which could keep IDR on the backfoot. INR could also face pressures from an ongoing AI-led transformation of the IT services industry. The RMB's undervaluation is attraction consternation from European trading partners, with German Chancellor Merz now pushing China to have currency talks with the EU. Meanwhile, KRW's undervaluation has narrowed significantly, helped by repatriation flows from Korean semiconductor firms. THB stands out as being modest over-valued, though its valuation has been gradually easing with Thailand being more vulnerable to higher oil prices.

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