FX Outlook

Investment Strategy ♦ August 06, 2026

Summer breeze, FX please

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- **Carry remains the hero of the summer, with improving global growth momentum keeping high-yielding FX firmly in the driver's seat while low-yielding DM currencies function as natural funders.**
- **USD stays neutral but sun-shielded, supported by resilient US data and sticky inflation, yet lacking the catalyst for a sustained rally; strength likely against low-yielders such as CHF and JPY.**
- **We implement key view changes: upgrade both GBP and INR to Neutral, downgrade both JPY and CHF to Negative, reflecting shifting macro dynamics, policy signals, and evolving risk premia across G10 and EM FX.**

Global FX landscape

Carry continues to deliver as pro-cyclical environment endures.

The global FX landscape continues to operate in a regime where carry, relative growth momentum, and terms of trade dynamics dominate, rather than strong directional macro impulses. The macro environment will neither be decisively risk-on nor risk-off over the summer months; instead, it is characterised by slow-grind US resilience, incremental improvement in growth outside the US, and a meaningful dispersion in yields across both DM and EM.

Carry has delivered 5-10% YTD and can continue to deliver – especially as conditions look better on margin for the beta as growth and equity momentum improve outside the US. This is reinforced by the fact that manufacturing PMIs remain robust globally, and growth revisions in Europe and EM have turned higher as energy prices fall. Any potential decline in oil prices should materially improved terms of trade for high-yielding importers such as INR, HUF, TWD, and ZAR, while exporters like NOK, CAD, and BRL should see their currencies weaken.

Having said that, resilient US data and sticky inflation keep the dollar supported, but the absence of a rapid Fed hiking cycle removes the catalyst for a sharp USD rally. In addition, FX volatility remains low and conditions for a significant break-out in vol appear absent – implying that currencies will trade in ranges until clearer evidence of growth divergence or policy surprises emerges. Further, we do not see USD as the sole driver of global FX; instead, FX is increasingly shaped by regional growth dynamics and yield differentials, creating a more diversified opportunity set.

Taken together, the macro environment supports carry-driven FX allocation, relative value, with selective directional opportunities where structural stories are shifting. High yielding EM FX should outperform, while low yielding DM currencies (JPY and CHF) will remain natural funders.

Exhibit 01: Our views on key currencies

			View		
Asset Class	**--**	**-**	**N**	**+**	**++**
FX					
USD (DXY)			●		
EUR				●	
GBP		● →	●		
JPY		● ←	●		
CHF		● ←	●		
CNY				●	
INR		● →	●		

Sources: ADCB Asset Management

Changes in our views reflect our thinking of the broader macro environment facing the FX.

We present outlook for individual currencies on the following pages

- USD on page 3
- EUR on page 4
- GBP on page 5
- JPY on page 6
- CHF on page 7
- CNY on page 8
- INR on page 9

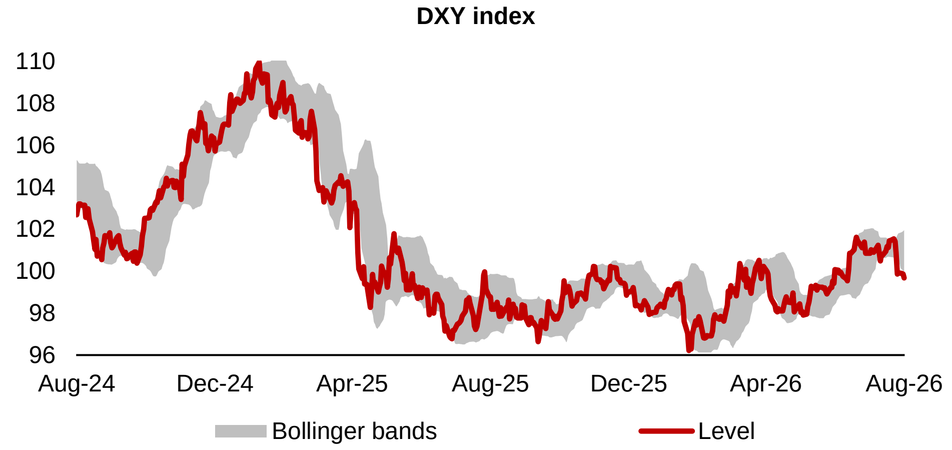
USD (Neutral): but with a mild upward bias against low-yielders

Resilient US data offsets any weakness that could arise from a pro-cyclical environment.

We maintain a neutral stance on the USD, reflecting a balance between resilient US data and the absence of a clear catalyst for sustained dollar strength. The US labour market remains firm, inflation is sticky, and the Fed's reaction function remains uncertain. While the USD strength could pause for now, the data remain firm enough to prevent substantive weakness. However, the USD should strengthen against several majors, but the ingredients for a sharper rally are missing. While any US-Iran deal can be negative for the USD, we are unlikely to see material weakness for the DXY as we expect the USD to gain against low-yielders. This nuance is important – while the USD lacks the conditions for a broad rally, it retains a mild upward bias versus low-yielders such as CHF, and JPY. Against high-yielders, however, the USD is more likely to consolidate.

In short: neutral overall, but with tactical strength against low-carry currencies. For the near-term we think the USD is best used as an anchor currency for relative-value trades rather than as a directional conviction.

Exhibit 02: USD lacks catalyst for sustained strength, but resilient US data puts the floor



Sources: LSEG Workspace, and ADCB Asset Management

EUR (Positive): with higher conviction in the medium term

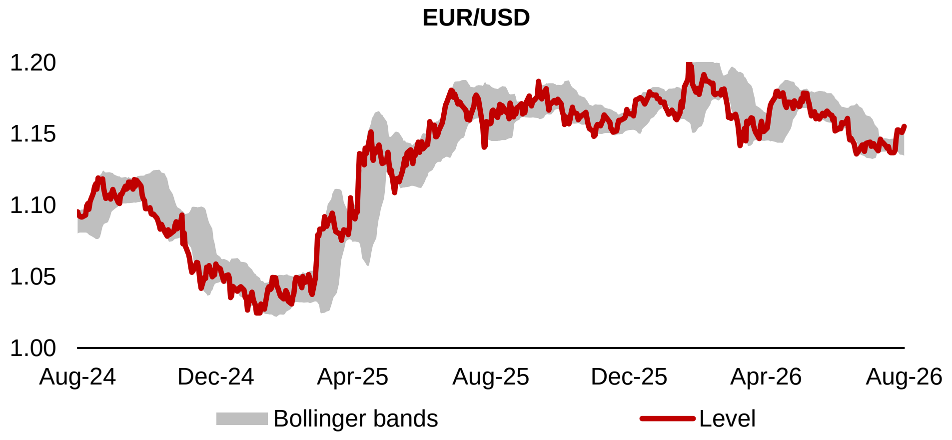
We hold a positive view on the EUR, but our conviction is meaningfully higher in the medium term than in the short term. Eurozone growth momentum is not only stabilizing but also improving: growth revisions have turned a corner, and that the eurozone outlook has bottomed as energy prices fall. Cooling inflation and improving PMIs, pose upside risks to EUR. These developments support a constructive medium-term EUR stance, particularly as the Eurozone moves past the worst of its stagflation fears.

However, near-term EUR/USD performance remains constrained by rate differentials. EUR/USD could trade heavier as markets refocus on the widening policy gap versus the US. The EUR remains on the wrong side of the terms-of-trade shock and the high-yield vs low-yield divide, limiting short-term upside. Further, any escalation in US trade and tariffs front could cause immediate weakness in the EUR.

EUR is vulnerable to tariff risks.

Thus, while we are positive on the EUR, we acknowledge that near-term softness is likely, and our conviction is stronger over a medium-term horizon where stabilising growth, fading energy risks, and improving relative momentum become more dominant drivers. EUR is best expressed in crosses versus low-yielders (CHF, and JPY) and in medium-term baskets rather than as a short-term trade against the USD.

Exhibit 03: Our conviction of stronger EUR is higher for the medium-term



Sources: LSEG Workspace, and ADCB Asset Management

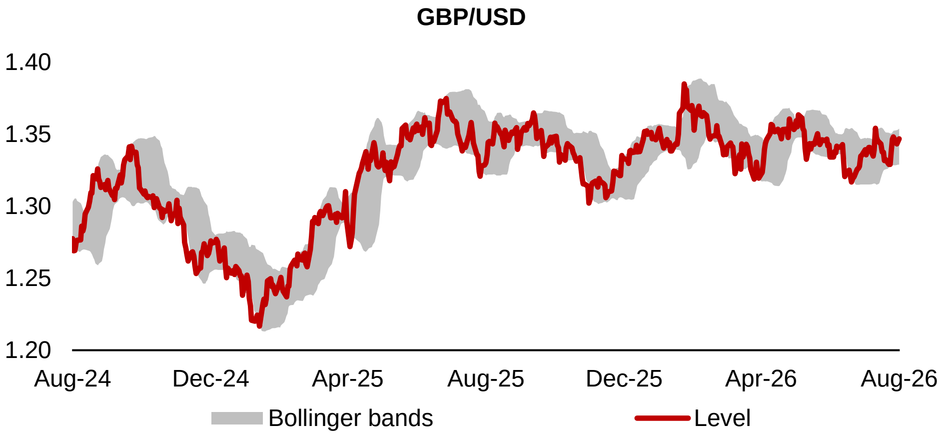
GBP (upgrade to Neutral from Negative): but sensitive to noise

Positive tail risks – associated with policy shifts under the new PM – have risen.

We upgrade the outlook on GBP to Neutral from Negative – reflecting a currency caught between improving political communication and persistent structural vulnerabilities. All else being equal, the positive tail risks – associated with policy shifts under the new PM toward unlocking private sector growth – have risen. Near-term risks are more balanced, and calls for closing our negative view, but medium-term underperformance driven by bouts of fiscal premium and an eventual unwind of BoE hike pricing cannot be ruled out.

Risk premia could reemerge closer to the Labour party conference (late September) and then into the Autum budget (late October). Worth bearing in mind that GBP remains extremely sensitive to political and fiscal developments and can swing sharply as risk premia are added or removed. UK growth remains tepid, inflation is easing, and the BoE is constrained. Carry is decent, but not decisive. As such, GBP is best treated as a tactical currency, not a structural allocation. We prefer GBP in relative-value expressions rather than outright directional trades (GBP vs. CHF, and GBP vs. JPY).

Exhibit 04: GBP faces material event risks



Sources: LSEG Workspace, and ADCB Asset Management

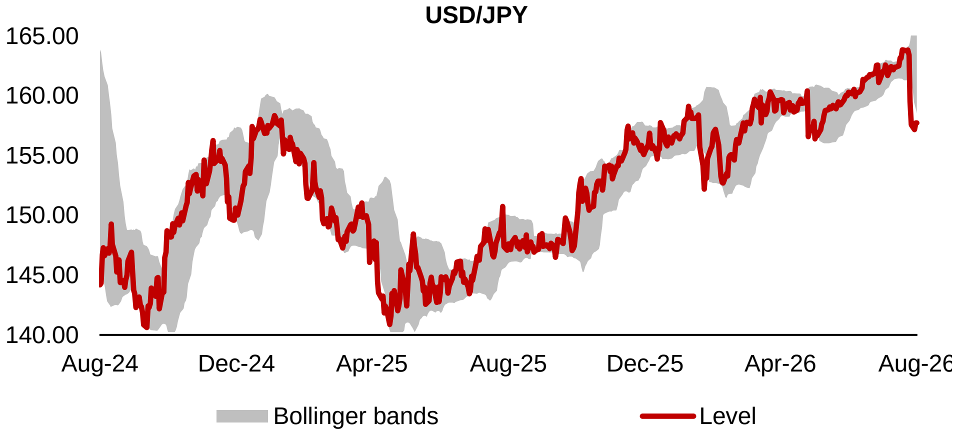
JPY (downgrade to Negative from Neutral): further intervention possible?

We now take a negative stance on JPY, reflecting structural weakness driven by negative real rates, persistent yield differentials, and portfolio outflows. While a coordinated intervention by US and Japanese authorities has taken markets by surprise, we think that authorities have limited ability to arrest further gains in USD/JPY, and that intervention capacity is constrained. Even further interventions are unlikely to sustainably strengthen the Yen, and Japan's portfolio flows keep JPY cheap to fair value. We would sell JPY into any intervention-driven rallies.

Biggest risk to our negative view on JPY is a surprise rate hike from the BoJ.

The risk to our negative view could come in the form of a surprise rate hike from the Bank of Japan – and we see the probability of this being low at least over the next two months. JPY remains a structural funder, but entry points matter. The medium-term trajectory remains one of gradual yen depreciation, with occasional volatility around policy actions.

Exhibit 05: After the latest bout of strength that followed the intervention, we expect JPY to weaken once again



Sources: LSEG Workspace, and ADCB Asset Management

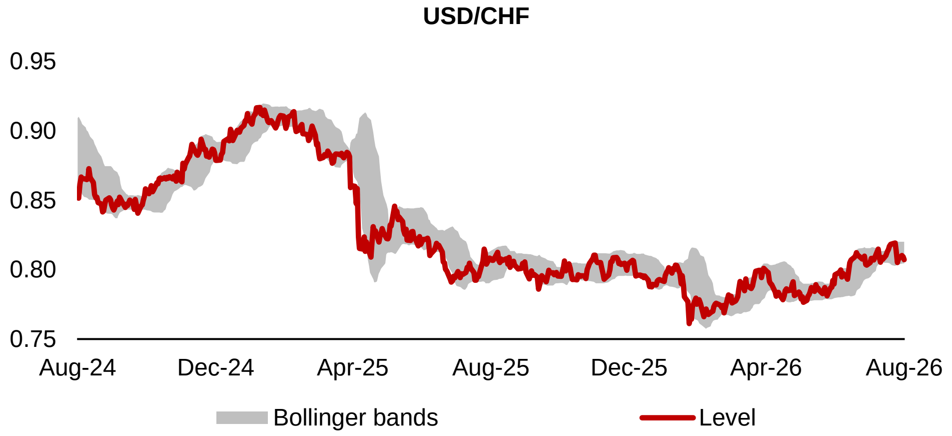
CHF (downgrade to Negative from Neutral): occasional safe-haven spikes

In the current environment, CHF acts as the best funding currency.

We change our view on CHF from Neutral to Negative. The SNB's stance is explicitly CHF-negative: Any potential SNB intervention places a cap on CHF strength, making CHF an attractive funder. As a low-carry importer of energy, Swiss currency can be unattractive in carry terms and structurally weak in a pro-cyclical environment.

The nuance is that CHF can still experience short-lived safe-haven spikes, particularly during risk off episodes or geopolitical shocks. These should be viewed as opportunities to sell CHF rather than as trend reversals. CHF is best used as a funding currency in both G10 and selective EM carry baskets.

Exhibit 06: CHF can act as the best-choice funding currency in a pro-cyclical environment



Sources: LSEG Workspace, and ADCB Asset Management

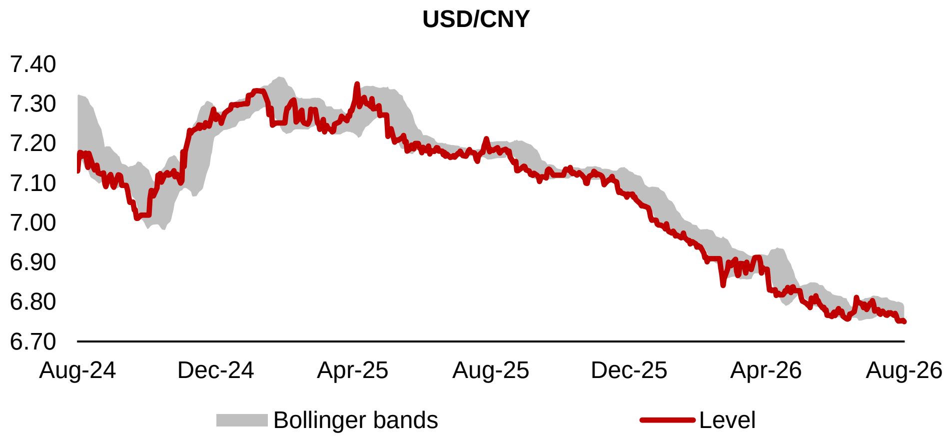
CNY (Positive): with gradual appreciation rather than sharp moves

Gradual CNY appreciation might mean that other high-yielding energy importers outperform – particularly in case the geopolitical concerns begin to fade.

We retain our positive view on CNY, supported by structural anchors such as productivity growth, RMB internationalisation, and strong external balances. Broad RMB strength remains intact due to structural factors, even if the pace of appreciation versus USD moderates. USD/CNY fixings have made new lows, breaking below 6.80, and the scenario of a gradual grind stronger toward 6.50 over 12 months cannot be ruled out.

The nuance is that CNY appreciation will be gradual, not sharp, and cross-selection matters: CNY is stronger versus USD, JPY, and KRW, but has lagged versus EUR. We prefer expressing CNY strength against low-yielders and in Asia FX baskets where structural support is strongest.

Exhibit 07: Further CNY appreciation should be as gradual as it has been over the past year



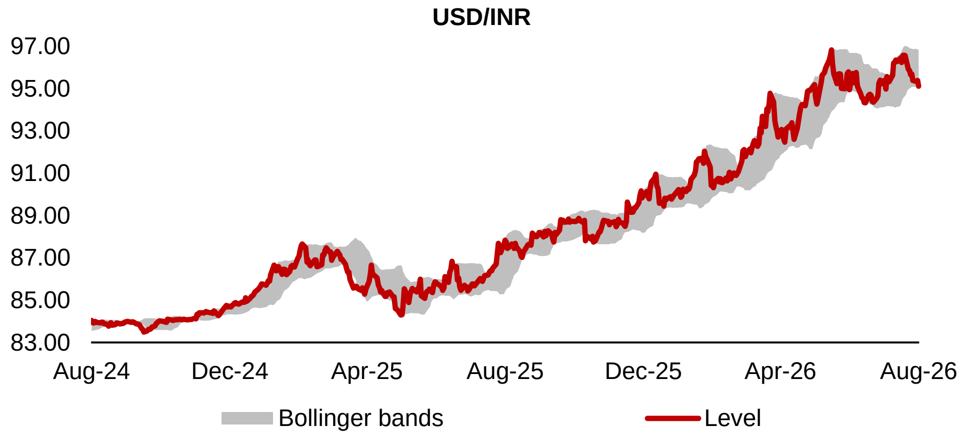
Sources: LSEG Workspace, and ADCB Asset Management

INR (upgrading to Neutral from Negative): policy support

We see a range-bound INR and not a break-out INR.

We now turn Neutral on INR (we were Negative previously), reflecting a balance between strong carry and vulnerability to oil and global risk. Since the 5 June FX package announcement, bond inflows have returned. USD/INR should fluctuate in its recent range or slightly lower as inflows continue. Being a high-carry energy importer, INR screens well in the scenario where the oil prices fall further as geopolitical tensions ease. Furthermore, our conviction on RBI cutting rates has weakened now and this less dovish stance means INR stability.

Exhibit 08: Policy is turning more supportive for INR, at least in the near-term



Sources: LSEG Workspace, and ADCB Asset Management

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