Key focus and themes

Elevated risks on US-Iran – lowering convictions

Do you expect the US and Iran to agree to a reopening of the Strait of Hormuz in the next two weeks?

1. *Yes*
2. *No*

- We believe there is elevated uncertainty over the US-Iran war in the near-term, with risk of both an escalation and de-escalation. We have broadly held high/highest convictions on short South/Southeast Asia FX for up to five weeks, but we now lower most of these convictions – though maintaining a bias to remain short.
- **Asia FX:** We lower the conviction levels by one notch on our long SGD/IDR (to 4/5), long EUR/INR (to 3/5) and long EUR/PHP (to 3/5) on external and local considerations. We remain short USD/CNH (3/5).
- **G10 FX:** Long CHF/JPY (conviction 4/5) is our top trade, albeit with awareness of intervention risk, especially on Monday's UK and US bank holiday. We reduce conviction for EUR/GBP (to 3/5) and maintain short AUD/NZD (3/5), while we enter long USD/CAD (3/5) in light of inflation divergence and are long EUR/SEK (3/5).
- **Asia Rates:** In Korea, we close our receive Dec-1y NDIRS trade, now switch to receive in 2y2y NDIRS and also raise the conviction level to 4/5. In Hong Kong, we remain paid in Jun-10y HK IRS with a moderate conviction level of 3/5, after taking some profit earlier this week.

Fig. 1: Top five top-conviction strategy trades in order (scale 1-5)

Top 5 FX and Rates Trades

Countries	Trade	bp move from start	bp move from current	Target	Timeline	Conviction (0-5) Curr (Prev)
	Long SGD/IDR	580	280	14,200	End-Aug	4 (5)
	*NEW Receive 2y2y Korea NDIRS	0	34	3.75%	End-Jun	4
	Long CHF/JPY	110	205	206.5	End-Jun	4 (3)
	*NEW Long USD/CAD	0	340	1.425	End-Jul	3
	Pay Jun-IMM 10y HK IRS	37	13	50bp gain	End-Jun	3 (4)

Note: Conviction scale: 1 – Watch; 2 – Watch Closely; 3 - Positioned @ 1/3 desired; 4 – Positioned @ 2/3 desired; 5 – Positioned @ 100% desired.
Source: Nomura.

Near-term uncertainty over the Iran war is rising owing to comments from both sides. **On the one hand, there could be a near-term escalation**, with Trump threatening to hit Iran "big" and possibly in the coming days "…maybe Friday, Saturday, Sunday. Something maybe early next week – a limited period of time" (*Bloomberg* , 20 May). The negative comments from Iran are from the IRGC, which said that if "aggression against Iran is repeated" it will deliver blows "in places you cannot even imagine" (*NY Times* , 20 May). The other negatives that

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

suggest a possible Trump escalation is Iran discussing with Oman about setting up a permanent toll system in the Strait of Hormuz (*Bloomberg* , 21 May) and Iran's Supreme Leader Khamenei saying that the enriched uranium must stay in Iran (*Bloomberg* , 21 May). We believe if Trump strikes Iran again in the near-term this would lead to a significant rally in oil prices and feed through to a stronger USD (especially against S/SE Asia FX).

On the other side, there is potential for a further de-escalation with Trump saying (*Bloomberg* , 21 May) that talks with Iran were in the "final stages", with Secretary of State Rubio (*Bloomberg* , 21 May) also noting that "there's been a little bit of movement" with regards to Iran. This was followed through by Iran state media (*Bloomberg* , 22 May) saying that the latest proposal from the US "has narrowed the gaps to some extent." Although it is clear that some of Iran's demands (keeping the enriched uranium and claiming ownership of the Strait of Hormuz) remain intact, a US-Iran agreement on re-opening the Strait of Hormuz and discussing other key issues over the coming weeks/months is still possible (with both sides likely to be claiming victory on the war). We believe that if there is any news of a mutual agreement to re-open the Strait of Hormuz, there is likely (at least in the first instance) to be a notable softening of USD (especially against energy importer FX).

Of course, the stalemate may continue in the near-term with the US possibly believing that Iran will not be able to maintain its stance owing to the US blockade of the Strait of Hormuz, and US equity markets and overall US financial conditions holding stable. We believe the risk surrounding this scenario is still higher inflation/slower growth/BoP pressures (mainly on net energy importer countries), which will likely keep USD broadly bid. A test of higher inflation risk will be with key releases in the coming week, including **US April core PCE** (28 May release; consensus +0.3% m-o-m vs. 0.3% previous); **Australia April CPI** (consensus trimmed mean m-o-m +0.3% vs. 0.3% previous; 27 May); **Tokyo May CPI** (29 May); and **European May CPI** inflation prints (29 May).

Overall on strategy, because of the elevated uncertainty on the Iran war in the near-term, we lower our conviction level (but still keep it relatively high) on SGD/IDR to 4/5 (from the maximum of 5/5). We lower the conviction levels on our long EUR/INR and long EUR/PHP to 3/5 (from 4) with local negatives intact. We also maintain our short USD/CNH (3/5) on relatively positive flow dynamics. **In G10 FX**, we maintain a high conviction on our long CHF/JPY with no intensive FX comments despite the move up in USD/JPY to 159+ levels, while we enter a new long USD/CAD (3/5; target ~3% gains) on relative policy, macro, USMCA rationale. We lower the conviction level on our EUR/GBP to 3/5 (from 4), and maintain long EUR/SEK and short AUD/NZD (both at 3/5). **In Asia rates**, we stay receive Korea, shift from Dec-1y to 2y2y and raise the conviction level to 4/5 from 3/5 (excessive pricing into the BOK meeting on Thursday, still anchored inflation expectations and lower long-end KTB issuance in June).

Asia FX strategy

On SGD/IDR, we **lower the conviction level (today) to a still high 4/5 from the maximum of 5/5** (conviction level was raised to 4/5 on 17 April, and then to 5/5 on 12 May), targeting 14,200 (~9% total gains) by end-August, with a trailing stop-loss of 1.5%. The main reason for lowering the conviction level is mainly due to US-Iran developments, where **both sides once again appear to be bridging the gap to reach a deal** (see above). Admittedly, recent experiences suggest that the US-Iran negotiations may still fall apart, but we acknowledge that a positive deal will put significant near-term pressure on our position, as the market will reassess the negative implications of the war on Indonesia' s BoP dynamics and recent policy measures.

Nonetheless, even if the external front improves, we still see plenty of drivers for **IDR to underperform**, including: 1) **Indonesia's fiscal developments and outlook remain dire**. Indonesia's April fiscal deficit remained wide at -IDR164.4trn (USD9.3bn; March 2026: IDR240.1trn), which is the largest over the past 12 years (12y average: -IDR23.3trn). The Indonesian government remains committed to not breaching the fiscal deficit ceiling of 3.0% of GDP for now, but there are risks of a possible change in the state finance law (parliament session 12-21 May). There is also an increasing risk of *below-the-line spending* ; 2) **BI's comments were dovish despite its larger-than-expected 50bp hike on 20 May**. BI Governor Warjiyo's press briefing emphasized that **local banks can maintain their lending rates at low levels** (*CNBC Indonesia* , 20 May), and our concern is that a lack of policy transmission through bank lending rates may blunt the expected positive impact on IDR; 3) we also **question whether BI will be able to continue with its larger-sized policy rate**

hikes, and allow a transmission to local bank lending rates (if needed), owing to the shift in BI's mandate towards growth and potential push back from the government; 4) **growing concerns over BI's mandate and independence**. Speaker of the House of Representatives Puan Maharani (*CNBC Indonesia*, 12 May) said the government will continue discussions on the draft law on the Development and Strengthening of the Financial Sector (UU P2SK) during this current parliamentary session (12 May to 21 July). This includes discussions on the *expansion* of BI's mandate to include a focus on the economy, and authorizing DPR to recommend the *dismissal* of members of the BI Board of Governors; 5) **another developing concern is over President Prabowo's *announcement* to centralise exports of natural resources** (starting with palm oil, coal and iron alloys) through a state agency under Danantara (*Bloomberg*, 20 May). In our view, this policy shift comes with significant medium-term risks that include potential for foreign investors to pull out their investments from Indonesia, and have longer-term ramifications for FDI in Indonesia. The S&P rating agency has also raised concerns on this (*Bloomberg*, 21 May), and added to that is the risk that **S&P will shift its rating outlook on Indonesia** to negative in June/July; 6) **seasonality suggests a weaker current account balance in Q2**. In the next two weeks to 5 June, we estimate **~USD1.1bn worth of dividend payments by Indonesia-listed companies to foreign investors**, concentrated on 25 May (USD794mn; the largest being payments by Bank Mandiri) and 5 June (USD170mn); and 7) **Indonesia is already facing foreign portfolio outflow pressures with the deletion of certain stocks from MSCI and FTSE Russell indices**, due to shareholding concentration issues. There is also the risk that a further rise in DM yields might exacerbate foreign outflows from IndoGBs (YTD outflows at -USD2.3bn).

In **Singapore**, we continue to see scope for SGD to outperform, because: 1) **the economy remains resilient, supported by strong export growth and industrial production**. Growth in non-oil domestic exports in April surprised to the upside at 24.5% y-o-y (consensus: 10.9%; previous: 15.3%), supported by electronic exports growth of 66.7%. Notably, our economics team expects Singapore's final **Q1 GDP growth to be revised up sharply to 5.2% y-o-y** (on 25 May) from the advance estimate of 4.6%, reflecting higher-than-expected *industrial output* growth in March. This upward revision and the latest monthly activity data in April suggest strong growth momentum will remain robust in Q2. Therefore, we expect MTI to maintain its 2026 GDP growth forecast of 2-4%, in contrast with its *earlier indications* of a downgrade; 2) **rising inflationary pressures**. Our economics team also expects core inflation to rise further to 1.9% y-o-y in April from 1.7% in March, led by upward adjustments in electricity rates, as well as rising airfares and holiday expenses; and 3) **still stable US financial conditions (for now)** v bc,**and the strong Singapore macro backdrop should lead to the MAS tightening its FX policy again in July**. We expect another slight S$NEER slope increase by the MAS.

In **India,** we **lower the conviction level (today) on our long EUR/INR position to 3/5** (from 4; conviction level held since 24 April), targeting 113 (~5% gains) by end-August with a stop at 111. Besides a potential US-Iran deal, the RBI appears increasing its efforts to stabilise INR. *Bloomberg* reported (21 May) that the RBI is **considering all of its available options to stabilize INR** including a rate hike and raising USD from investors overseas. Despite a *CNBC* (21 May) news report that the RBI is not considering an emergency interest rate hike to defend INR, investor expectations remain. The RBI has also been very active in the FX market over the last two sessions (*Bloomberg*, 21 May), with spot falling from 96.8 to 95.7. The RBI also announced a 3y USD5bn FX swap scheduled for 26 May 2026, which would further shore up spot FX reserves. Owing to these factors, we lower the conviction level on the trade, but still expect INR to underperform: 1) without a definite turn in the current environment, where the **US-Iran stalemate is keeping pressure on India's fiscal and current account outlook**, we believe INR will continue to face significant negative BOP pressures. India's trade deficit *deteriorated to USD28.4bn* in April (Consensus: USD26.0bn) from USD20.7bn in March. Our economics team expects a *current account deficit for FY27 of 2.4% of GDP*; 2) **recent dips in spot USD/INR as a result of the RBI's FX actions have been quickly bought into**, suggesting strong underlying FX demand; 3) **if broad USD turns softer, we believe the RBI could opportunistically re-accumulate FX reserves**. The RBI's net short forward book rose by USD25.4bn in March 2026, bringing the overall expansion of the short forward book to USD40.7bn in 2026 YTD; and 4) **foreign portfolio outflows continue in May**, with net foreign outflows of USD1.9bn (equities and bonds) between 1 and 20 May.

In the **Philippines**, we also **lower the conviction level (today) on our long EUR/PHP**

position to 3/5 (from 4; conviction level held since 24 April), targeting 73.5 (~4% gains) by end-July with a stop at 71.5. Externally, a US-Iran deal could improve market expectations on FX remittances by Philippines' overseas workers. Locally, BSP Governor Remolona said (*Bloomberg*, 22 May) that the central bank will have to react aggressively to avoid falling behind the curve in taming inflation, and **suggested the possibility of an off-cycle hike**. He also said that BSP has been active in the FX market as usual (Bloomberg, 22 May). Indeed, USD/PHP appeared to be capped below 61.75 this week, suggesting BSP's presence in the market. Overall, we continue to favorr a PHP underperformance view: 1) **Governor Remolona also suggested (*Bloomberg*, 22 May) that USD/PHP at 63.5 may be acceptable**, as long as the move is measured and not inflationary. This suggests BSP's laissez-faire approach to FX policy remains, and recent interventions were aimed at smoothing FX volatility rather than reversing the move in spot; 2) **if the US-Iran stalemate continues, overseas worker remittances should come under further pressure**. The International Labour Organization estimated (*ILO*, 18 May) that migrant worker outflows from the Philippines to GCC countries fell by 78% y-o-y in March 2026. Between early March and late April 2026, close to 5,000 Filipino workers were also repatriated from Gulf countries; 3) **as evidenced in the case of BI, BSP rate hikes are unlike to reverse the trend of FX depreciation** amid significant BoP pressures from current account and portfolio outflows; and 4) **local political uncertainty lingers following the lower house's successful vote to impeach Vice President Sara Duterte**. The Senate trial of VP Duterte should begin on 6 July (*Bloomberg*, 21 May). We believe political uncertainties are likely to exacerbate investor concerns over the Philippines' weak economic outlook and *credit ratings pressures*.

In **China**, we *maintain* the conviction level on our **short USD/CNH** position at a modest 3/5, targeting 6.60 (~3% gains) by end-August. Recent developments continue to support our *CNH outperformance* view that: 1) **CNH has outperformed amid the ongoing US-Iran stalemate**. While there remains the risk of a stronger USD backdrop that may temporarily slow the downtrend in USD/CNH, it remains clear whether the upside in USD/CNH remains limited, and the risk is for a more significant move lower in USD/CNH if there are positive US-Iran developments. Since the start of the Iran war (28 February) to date (22 May 2026) DXY is 1.7% higher, while USD/CNH is actually 0.9% lower – leading the CNH CFETS basket 2.0% stronger over the same period. During this period, the sensitivity of USD/CNH to upward moves in DXY moves has been low at around 28%, while USD/CNH *sensitivity* is much higher at ~62% when DXY is falling; 2) **onshore corporates are likely to continue repatriating their USD holdings in the coming months**. We believe exporter FX selling activity is likely remain robust in the coming months, owing to China's continued strong export growth (net trade surplus in Q1 2026 totaled USD247bn), as well as some local expectations for RMB appreciation; 3) **USD/CNY fixing is drifting lower with some official constraint**. The daily USD/CNY fixing has on average been 8pips lower this week (18-22 May), positive model errors (actual fix minus our model projection) have remained stable at an average of +381pips; and 4) **the Xi-Trump summit created a *constructive backdrop* for US-China relations, as well as a more conducive environment for China's capital inflows**. MTD foreign inflows into these China-focused equity ETFs are relatively strong at USD1.4bn (1-21 May), supported by large daily inflows of USD811mn on 18 May (first session after the end of Xi-Trump summit).

Fig. 2: Our views on Asia FX

1	2	3	4	5
Watch	Watch Closely	Positioned @ 1/3 desired	Positioned @ 2/3 desired	Positioned @ 100% desired

Asia FX strategy view		Comments/trades
Long SGD/IDR	0 1 2 3 4 5 · Prev · Curr · 4.0	**Rationale for the trade**: Lower conviction to 4/5 from 5 on 22 May - De-escalation risk, IDR positioning **Target and timeline**: 14,200 (~9% gains) by end-August 2026 (entry: 9 January); trailing stop-loss:1.5% **Trade rationale**: Concerns on fiscal deficits, BI credibility concerns, credit rating, MSCI classification, strong SG macro **Risks to trade**: Reduced fiscal concerns, export proceeds regulations may support IDR, S$NEER trading close to top end
Long EUR/INR	0 1 2 3 4 5 · Prev · Curr · 3.0	**Rationale for the trade**: Lower conviction to 3/5 from 4 on 22 May- Increased RBI interventions/rhetoric **Target and timeline**: 113 (~5% gains) by end August 2026 (Entry: 1 April); SL:111 **Trade rationale**: INR Vulnerable to higher oil price, negative BoP pressure, RBI buy on dip; scope for EUR to reverse sell-off **Risks to trade**: RBI support INR aggressively; USD bid
Short USD/CNH	0 1 2 3 4 5 · Prev · Curr · 3.0	**Rationale for the trade**: Increase conviction to 3/5 from 2 on 8 May - Potential US-Iran agreement **Target and timeline**: 6.60 (~3.0% gain) by end-August (entry: 8 May) **Trade rationale**: Relative stability in USD/CNH; fixing drift lower; FX remittance; stable US-China relation **Risks to trade**: PBoC FX management risk
Long USD/HKD outrights	0 1 2 3 4 5 · Prev · Curr · 3.0	**Rationale for the trade**: Lowered conviction to 3/5 on 25 Jul - Softer USD, inflows to HK **Target and timeline**: 7.8 spot at expiry (entry: 23 Jan,8 May; 9M, 12M & 12M tenor respectively) **Trade rationale**: USD/HKD peg regime to hold, weak HK dynamics, Trump risks, HKMA liquidity withdrawal, Fed cuts **Risks to trade**: Substantial positive shift in China/HK macro, consistent capital inflows
Long EUR/PHP	0 1 2 3 4 5 · Prev · Curr · 3.0	**Rationale for the trade**: Lower conviction to 3/5 from 4 on 24 April - de-escalation risk, increased BSP interventions **Target and timeline**: 73.5 (~4% gains) by end-July 2026 (entry: 17 April); SL: 71.5 **Trade rationale**: PHP CA vulnerable to energy prices; residents shifting into FX deposits; weak local sentiment and portfolio flow; BSP FX stance **Risks to trade**: Quick resolution to Strait of Hormuz; USD bid
Long CNH vs 6FX abridged basket	0 1 2 3 4 5 · Prev · Curr · 2.0	**Rationale for the trade**: Lower the conviction level to 2/5 from 3 on 8 May **Target and timeline**: - **Trade rationale**: Relative outperformance amid high oil prices; FX remittance; RMB substantial undervaluation; stable US-China relation **Risks to trade**: PBoC FX management
Long USD/THB	0 1 2 3 4 5 · Prev · Curr · 1.0	**Rationale for the trade**: Lower conviction to 1/5 from 3 on 8 April - US-Iran ceasefire **Target and timeline**: **Trade rationale**: Vulnerable to oil prices, weak fundamentals, local and foreign outflows, seasonality and BOT's FX stance **Risks to trade**: USD weakness, gold rally, resolution in ME conflict.

Note: Conviction scale: 1 – Watch; 2 – Watch Closely; 3 - Positioned @ 1/3 desired; 4 – Positioned @ 2/3 desired; 5 – Positioned @ 100% desired.
Source: Nomura

G10 FX strategy

Remain long CHF/JPY: Oil price supports our trade, but wary of intervention risk

With the Middle East situation deadlocked and crude oil prices remaining elevated, this week USD/JPY continued to move narrowly around the 159 level. Concerns over intervention are capping the upside, with *Finance Minister Katayama restarting to use a strong phrase in her jawboning*; however, unless there are signs of progress toward the reopening of the Strait of Hormuz, the pair may once again test the 160 threshold. Then, market attention will continue to focus on official responses including actual JPY buying interventions. The market also appears to be concerned about the *Japanese government's supplementary budget*, but we don't think this will be a major obstacle for the JGB market, as much as the market is anticipating. Meanwhile, the BOJ's June hike has become likelier, as *policy board member Koeda, who voted for on hold in April, now appears to be leaning towards a June hike*, as she has shown more concerns about upside inflation risk. Moreover, Japanese macro data thus far do not suggest any downturn occurring at the moment that makes the BOJ have further concerns about uncertainties over the situation in the Middle East. Nevertheless, the market has already priced in an ~20bp hike for June's meeting and the 2y1y swap rate is above 2.10%. Therefore, for the BOJ to out-hawk the market, we likely need more hawkish comments from Ueda in his speech on 3 June. All in all, we maintain our JPY short recommendation against non-USD pairs, currently against CHF (target 206, conviction level 4/5), while we will revisit our conviction if USD/JPY clearly breaches 160, as this would further raise the risk of actual MOF intervention occurring. We note that Monday 25 May is a bank holiday in both the UK and US, and a sharp move higher in USD/JPY on this day might be unwelcome for the Japanese currency authorities, which have been known to use thinner liquidity environments top engage in market activity.

Long EUR/GBP: Cyclical forces may be more important than political ones for now

We lower the conviction on our long EUR/GBP trade idea after recent political volatility failed to fuel much upward momentum for the pair. A by-election has been set for 18 June, in which Manchester Mayor Andy Burnham will look to regain a seat in parliament and allow him to challenge PM Keir Starmer. Some concerns about his fiscal credentials were appeased when *a spokesman ruled out the idea that Burnham would look to change the fiscal rules* . However, we are still wary of a shift to the left during both the by-election and subsequent leadership election (should Burnham win the seat in Makerfield first). More focus may also shift to the likely divergence of central bank reaction functions ahead of the June meetings (ECB 11 June, BoE 18 June). Recent ECB speak has remained hawkish, while news for the BoE has been more dovish. An *ongoing deceleration in wage pressures* amid a softening labour market, *big downside surprises to a range of inflation measures* , *weakness in the latest PMIs* and retail sales all provide dovish signals to the MPC, who also appears to have a broad preference for holding rates steady. Indeed, even Catherine Mann, who has leaned more hawkish (and is certainly more activist) than her colleagues in the past, has warned recently that tightening into an external shock could tr igger volatility, “potentially leading to tighter domestic financial conditions than intended. (source: Bloomberg)” We will hear more from Governor Andrew Bailey next week, as well as Deputy Governor Lombardelli, both of whom are likely be seen as potential swing voters in the upcoming meetings.

Long EUR/SEK: Struggling to break higher with little local news flow

The Riksbank reiterated its wait-and-see approach last week, with both Per Jansson and Aino Bunge of the MPC making the point that low inflation meant the central bank was well-placed to deal with incoming information and data, rather than pre-emptively respond to potential inflation risks. While both flagged the risks of higher inflation, the fact that the Riksbank is likely to look through the near-term noise of the war suggests that SEK can continue to underperform. That said, upside momentum in EUR/SEK has moderated somewhat, partly as hopes have re-emerged for a more sustainable US-Iran agreement and because local dividend outflow pressures have likely peaked, based on the NASDAQ OMX dividend index. As such we hold this view with a relatively modest conviction and will look to be nimble on any signs of genuine progress in the Middle East which would likely help SEK outperform EUR in the short term.

Open long USD/CAD: Inflation may fuel rate divergence relative to market pricing; trade deal risks

We open a long USD/CAD trade with a moderate conviction (3/5), as there are increasing signs that market pricing for the BoC looks stretched to the upside on rates, while robust economic momentum and sticky inflation could see Fed hike pricing extend in the weeks ahead. USD/CAD has already undershot the recent move higher in the front-end US-Canada yield spread, suggesting a catch-up trade is possible, with further upside if the market starts to price in a greater risk of Fed hikes. Recent flow data also show persistent demand for US assets from Canadian investors. We also see the USMCA negotiations as a source of risk for CAD. While our base case is that some form of rolling agreement will be reached, we would not be surprised to see some headline volatility and robust action being taken by the US administration during negotiations. A rolling agreement would also create a source of underlying volatility, which could act as a brake on investment in the medium term. And the tail risk of “no deal” can also not be discounted which would weigh very heavily on Canada’s economy. One risk to this view is a US-Iran deal, which would boost CAD from a risk sentiment perspective, although likely lower oil prices would limit the extent of CAD outperformance even in this environment, in our view. In such an environment, long cross/CAD trades such as EUR/CAD would offer an alternative exposure to likely CAD underperformance.

AUD & NZD: Maintain short AUD/NZD, but wary of risks surrounding RBNZ meeting

We think AUD and NZD are fairly valued in broad terms, but **we have had a modest downside bias for AUD/NZD**, based on divergence from 2y swap rates and positioning. Oil has also been a risk factor – as Australia is an energy exporter and New Zealand is an importer – and the lower oil price this week should also support our view. Any clearer signs of de-escalation in the Middle East would likely pull AUD/NZD lower. Data this week have been also been helpful for our stance, *with a weaker Australia jobs report* and stronger New Zealand Q1 retail sales. However, we are *very wary of next week’s RBNZ meeting* . The market is pricing 5bp of tightening for this meeting, and ~77bp of tightening by year-end, and it may be difficult for RBNZ to out-hawk this pricing. We think the New Zealand macro recovery has been interrupted by the oil shock, and we see fewer signs of inflation pass-through compared with Australia, noting the higher unemployment rate and weaker rental market in New Zealand. In our base case, the RBNZ will not deliver a first-rate hike until December. Our forecast for Australian April CPI next week (4.7% y-o-y) also appears to be above consensus. We note that the budget next Thursday (28 May) could be another risk for NZD, as a weaker growth profile is likely to translate into a larger budget deficit and rise in bond issuance. These factors may create some near-term challenges to our view, but FX positioning data still suggest the market is skewed long AUD and short NZD, which may limit the degree to which AUD/NZD can move notably higher in the near term.

Fig. 3: Our views on G10 FX

1	2	3	4	5
Watch	Watch Closely	Positioned @ 1/3 desired	Positioned @ 2/3 desired	Positioned @ 100% desired

G10 FX strategy view		Comments/trades
Long CHF/JPY	4 (○ Prev • Curr)	**Rationale for the latest conviction change**: Raised conviction to 4/5 on 5 May 2026 after second wave of MOF intervention failed to materially strengthen **Target and timeline**: 206.50 (c3%) by end-June **Trade rationale**: JPY buying intervention from MOF expected to have short-lived impact; seasonal flows supportive of CHF in May and June **Risks to trade**: SNB intervention against CHF strength, more forceful follow through from MOF on JPY buying
Long EUR/GBP	3 (○ Prev • Curr)	**Rationale for the latest conviction change**: Lower conviction to 3/5 from 4/5 (on 22 May), in light of UK politics getting lesser market attention **Target and timeline**: Target 0.8950 by end-June (from entry a 0.8675 on 9 January 2026) **Trade rationale**: A potential challenge to the UK Prime Minsiter, asymmetric reaction to risk sentiment, our view of ECB's back-to-back hike in June and July **Risks to trade**: European inflation / activity weakens or UK stickier UK inflation prompts more hawkish BoE compared to the market pricing
Short AUD/NZD	3 (○ Prev • Curr)	**Rationale for the latest conviction change**: Open short AUD/NZD at 1.2200 on 30 April, conviction 3/5 **Target and timeline**: 1.18 (3.35%) by end-June **Trade rationale**: i) more hawkish RBNZ and rate spreads; ii) relative positioning; iii) RBA could be more dovish than current market pricing **Risks to trade**: i) another surge in oil prices; ii) a surprisingly hawkish RBA
Long EUR/SEK	3 (○ Prev • Curr)	**Rationale for the latest conviction change**: Open long EUR/SEK on 17 April, conviction 3/5 **Target and timeline**: 11.20 (c3.5%) by end-June (from entry of 10.82 on 17 April 2026) **Trade rationale**: Riksbank reaction function likely to be much less hawkish than ECB; seasonal flows on BOP worsen in Q2 for SEK **Risks to trade**: Dovish ECB, strong rsk sentiment could prompt more flows into SEK than EUR
Long USD/CAD	3 (○ Prev • Curr)	**Rationale for the latest conviction change**: Open long USD/CAD on 22 May, conviction 3/5 **Target and timeline**: 1.4250 (c3.3%) by end-July (from entry of 1.3785 on 22 May 2026) **Trade rationale**: Inflation divergence between US and Canada, BoC's rate hike pricing appears to be excessive, the USMCA negotiations as a source of risk for CAD. **Risks to trade**: De-escalation in Middle East tensions, lower crude oil, dovish Fed

Source: Nomura

Asia rates strategy

Korea: Switch receive from Dec-1y to 2y2y, raise conviction level to 4/5

We switch our receive Dec-1y NDIRS position (conviction 3/5, current 3.88%) to 2yfwd2y (current 4.09%) and raise the conviction level to 4/5 from 3/5. The key focus next week is on next Thursday's BOK meeting. The consensus is for a hawkish hold, with the median dot forecast (next 6m) moving higher to indicate some hike(s) in H2 2026. Our economics team's base case is also a hawkish hold (upward CPI revision and more dots to indicate hikes). But we expect the median dots to just about stay unchanged at 2.50% with a close 11:10 split. The combination of excessive rate hike pricing (at least 100bp next 12m), a fairly steep curve and a finance ministry official mentioning Korea will likely cut issuance of longer-dated KTB in June (source: Bloomberg) should support lower Korea rates. That said, with the recent renewed focus on front-end credit bond widening, we judge it is better to be receive slightly further out on the curve (2y2y) instead of Dec-1y. We believe even if BOK embarks on hiking, longer tenor rates like 2yfwd2y will eventually move lower, as these levels are far too high compared with Korea's neutral policy rate of not more than 3%. We target a move of 2yfwd2y to 3.75% by end-June with a reassess level of 4.25%.

China: Maintain pay Jun-3y NDIRS with a moderate conviction of 3/5

China rates rallied on Tuesday following the CGB futures, but then gradually moved higher owing to marginally tighter liquidity. After the PBoC net drained RMB1trn of medium- to long-term liquidity via 3m and 6m ORRs earlier this month, there has finally started to be a rebound in money market rates. With RMB465bn of net CGB supply over 20-22 May and a tax payment due today, DR001 and DR007 rose by 6bp and 5bp this week, respectively. Next week, net LGB supply will pick up to ~RMB280bn, the largest since early February. We continue to think liquidity is the key driver of China rates in the near term and expect higher funding cost into month-end and June (which is also supported by seasonality, see more analysis *here*). The 7d repo fixing should gradually move back to 7d OMO rate of 1.40% or slightly above that (latest 1.38%). After removing the long 30y CGB leg on Monday, we are now net **paid in Jun-3y NDIRS with a conviction level of 3/5**. On MLF, the PBoC will net inject RMB100bn of liquidity (on Monday).

Thailand: Retain outperformance view despite the recent selloff

It has been a volatile week in Thailand rates, with a significant move higher. Yet we are biased to think that Thai rates continue to look attractive owing to weak fundamentals.

While inflation is likely to increase from here, we retain our base case that the BOT will not increase policy rates owing to weak growth (growth lost significant momentum in Q1, and our *economics* team expects a further drop in coming quarter), as well as *subdued core inflation* (0.83% in April, suggesting limited second-round effects). As for fiscal risks, we believe they are already priced in the curve and continue to expect the PDMO to be slow in increasing issuance size to fund the extra spending. We remain received in Jun-5y THOR and retain our 50% US hedge on the trade due to global uncertainties.

India: Remain neutral but with a flattener bias

India rates saw a big move this week with the curve seeing a large flattening, after report that the RBI is considering rate hikes to defend the currency (source: Bloomberg). We continue to believe fading the front-end of the curve is a poor risk-reward, considering the increasing likelihood of a rate hike and the positioning. Should the RBI hike rates at its June meeting (or even before), we continue to expect the curve to flatten, as historically the curve has continued flatten from the first rate hike in the cycle. Therefore, we retain a bearish view on INR rates, and expect the curve to continue to flatten. It is light on the data front next week, but the governor's speech (28 May) will be important, and we continue to expect a heightened focus on the bond auctions.

Australia rates – take profit on received 3m1y, lower conviction to 0/5

This week brought mixed RBA communications. Chief economist Sarah Hunter noted likely inflation pass-through (from higher oil prices) and upside risk to inflation expectations, but meeting minutes noted that: i) policy was now likely somewhat restrictive; ii) there was "space" to see how the Middle East situation unfolds and how the local economy responds; iii) policy could do little about the near-term trajectory of inflation; and iv) output growth would likely be lower than potential for some time. Data was unambiguously weaker, with the composite PMI slipping to 47.8 and *the unemployment rate surprisingly jumping* to 4.5%. Combined with resilient US data, this saw Australian rates continue to outperform this week. We used the post-jobs rally in rates to opportunistically *exit our received 3m1y position* (entry: 4.88% on 1 May; exit: 4.695% on 21 May; conviction cut to 0/5), as market pricing for the RBA moved much closer to our base case for no more hikes, albeit with risk still likely tilting to one more. The key data release next week will be the April CPI report, and we are wary that this will show a further rise in annual inflation; our low conviction forecast of 4.7% y-o-y is above-consensus.

Fig. 4: Our views on Asia and AUD rates

1	2	3	4	5
Watch	Watch Closely	Positioned @ 1/3 desired	Positioned @ 2/3 desired	Positioned @ 100% desired

Asia/AU Rates strategy view		Comments/trades
Receive 2y2y Korea NDIRS	4.0 (Prev / Curr)	**Rationale for last conviction chg:** Initiated with conviction 4/5 on 22 May **Target and timeline:** 3.75% by end-June, initiated on 22 May **Trade rationale:** Excessive BOK rate hike pricing, valuation (steep curve), MOFE cut long-end KTB supply in June **Risks to trade:** Global rates selloff, very hawkish BOK / hike in May meeting
Pay Jun-10y HK IRS	3.0 (Prev / Curr)	**Rationale for last conviction chg:** Reduced conviction level to 3/5 on 20 May **Target and timeline:** 50bp gain by end-June, initiated on 6 March **Trade rationale:** Larger corp HKD bond issuances, better housing and macro sentiment, valuation **Risks to trade:** HK liquidity turn very flush
Pay Jun-3y China NDIRS	3.0 (Prev / Curr)	**Rationale for last conviction chg:** Initiated with conviction 3/5 on 14 April **Target and timeline:** 15bp gain by end-June, initiated on 14 April **Trade rationale:** Larger net medium to long term liquidity drain, tighter liquidity, larger LGB supply, valuation **Risks to trade:** Weak performance in onshore equities, no rebound in 7d repo fixing
Receive Jun-1y SORA	3.0 (Prev / Curr)	**Rationale for last conviction chg:** Initiated with conviction level of 3/5 on 15 May **Target and timeline:** 1.20% by end-June, initiated on 15 May **Trade rationale:** Lower SORA fix, flush liquidity due to Middle East uncertainties, MAS adding to reserves, valuation **Risks to trade:** Elevated crude price
Receive Jun-IMM 5y THOR (50% vs. US)	3.0 (Prev / Curr)	**Rationale for last conviction chg:** Reduced conviction level to 3/5 on 30 April **Target and timeline:** 20bp gain by end-June, initiated on 8 April **Trade rationale:** Weak macro environment and dovish growth outlook, market BOT hike pricing **Risks to trade:** Hawkish BOT, more emphasis on inflation, extra borrowing

Source: Nomura

Previously, we asked "Where do you expect US 10y yields to be in two weeks (current: 4.54%)?*",* ***36.0%*** *chose "4.6% to 4.8%",* **28.0%** chose "4.8% to 5.0%*",* **18.0%** chose *"4.4% to 4.6%"*, **12.0%** chose *"5.0% or higher"*, and **6.0%** chose "*4.4% or lower*".

Please see Strategy portfolio update (7 May 2026) for our full portfolio.

Fig. 5: Trade ideas

Trade	Target	Timeline	Conviction (0-5)	Entry Date
**NEW Long USD/CAD*	1.425	end-Jul	3	22-May-26
**NEW Receive 2y2y Korea NDIRS*	3.75%	end-Jun	4	22-May-26
Receive Jun-IMM 1y SORA	1.20%	end-Jun	3	15-May-26
Short USD/CNH	6.6	end-Aug	3	8-May-26
Long 12m USD/HKD	7.8	12-May-27	3	8-May-26
Short AUD/NZD	1.1800	end-Jun	3	30-Apr-26
Long CNH vs 6FX abridged basket	-	-	2	30-Apr-26
Long CHF/JPY	206.5	end-Jun	4	30-Apr-26
Long EUR/PHP	73.5	end-Jul	3	17-Apr-26
Long EUR/SEK	11.2	end-Jun	3	17-Apr-26
Pay Jun-3y China NDIRS	15bp gain	end-Jun	3	14-Apr-26
Receive Jun-IMM 5y THOR (50% vs. US)	20bp gain	end-Jun	3	8-Apr-26
Long EUR/INR	113	end-Aug	3	1-Apr-26
Pay Jun-IMM 10y HK IRS	50bp gain	end-Jun	3	6-Mar-26
Long USD/THB	-	-	1	2-Feb-26
Long 9m USD/HKD	7.8	27-Oct-26	3	23-Jan-26
Long 12m USD/HKD	7.8	27-Jan-27	3	23-Jan-26
Long SGD/IDR	14,200	end-Aug	4	9-Jan-26
Long EUR/GBP	0.8950	end-Jun	3	9-Jan-26

Source: Nomura

Fig. 6: Global FX forecasts

		22-May	Q2 26	Q3 26	Q4 26	Q4 27
G10						
US Dollar Index	(DXY)	*99.33*	98.70	95.80	**95.00**	**92.60**
Japanese yen	(USD/JPY)	*159.1*	157.5	155.0	**152.5**	**145.0**
Euro	(EUR/JPY)	*184.6*	183	186	**186**	**181**
	(EUR)	*1.16*	1.16	1.20	**1.22**	**1.25**
Swiss Franc	(CHF)	*0.79*	0.79	0.76	**0.74**	**0.72**
	(EUR/CHF)	*0.91*	0.92	0.91	**0.90**	**0.90**
British Pound	(GBP)	*1.34*	1.33	1.34	**1.36**	**1.38**
	(EUR/GBP)	*0.86*	0.87	0.90	**0.90**	**0.91**
Australian Dollar	(AUD)	*0.71*	0.69	0.71	**0.73**	**0.75**
Canadian Dollar	(CAD)	*1.38*	1.39	1.37	**1.35**	**1.35**
New Zealand Dollar	(NZD)	*0.59*	0.58	0.60	**0.62**	**0.65**
Norwegian Krone	(EUR/NOK)	*10.72*	11.30	11.00	**11.00**	**11.00**
Swedish Krona	(EUR/SEK)	*10.86*	10.80	10.60	**10.50**	**10.50**
Asia						
Chinese Renminbi	(CNH)	*6.80*	6.75	6.60	**6.50**	**6.30**
	(CNY)	*6.79*	6.75	6.60	**6.50**	**6.30**
Hong Kong Dollar	(HKD)	*7.835*	7.840	7.820	**7.800**	**7.790**
Indonesian Rupiah	(IDR)	*17709.0*	17150	17000	**16900**	**16600**
Indian Rupee	(INR)	*95.8*	94.5	94.0	**93.5**	**92.0**
Korean Won	(KRW)	*1517.8*	1525	1500	**1470**	**1420**
Malaysian Ringgit	(MYR)	*3.97*	4.03	4.02	**4.01**	**3.99**
Philippine Peso	(PHP)	*61.7*	60.6	60.0	**59.7**	**59.0**
Singapore Dollar	(SGD)	*1.280*	1.280	1.255	**1.240**	**1.215**
Thai Baht	(THB)	*32.7*	33.2	32.8	**32.0**	**31.3**
Taiwan Dollar	(TWD)	*31.6*	31.9	31.3	**30.8**	**30.0**
CEEMEA						
Turkish Lira	(TRY)	*45.7*	46.5	48.0	**49.5**	**56.0**

Source: Bloomberg, Nomura.

Fig. 7: Rates forecast

As of 22-May		Current	Q2 26	Q3 26	Q4 26
CNY	10y CGB yield	1.75	1.85	1.90	1.95
KRW	10y KTB yield	4.13	3.75	3.70	3.60
TWD	10y TGB yield	1.64	1.50	1.55	1.55
THB	10y ThaiGB yield	2.37	2.00	1.75	1.75
IDR	10y IndoGB yield	6.74	6.50	6.25	6.00
INR	10y IGB yield	7.09	7.00	7.00	7.00
SGD	10y SIGB yield	2.12	2.25	2.25	2.25

Source: Nomura

Appendix A-1

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