GLOBAL FX TRADER

Deferential to the Differential

Our thoughts on USD, EM FX, GBP, JPY, MYR, and AI and the Dollar

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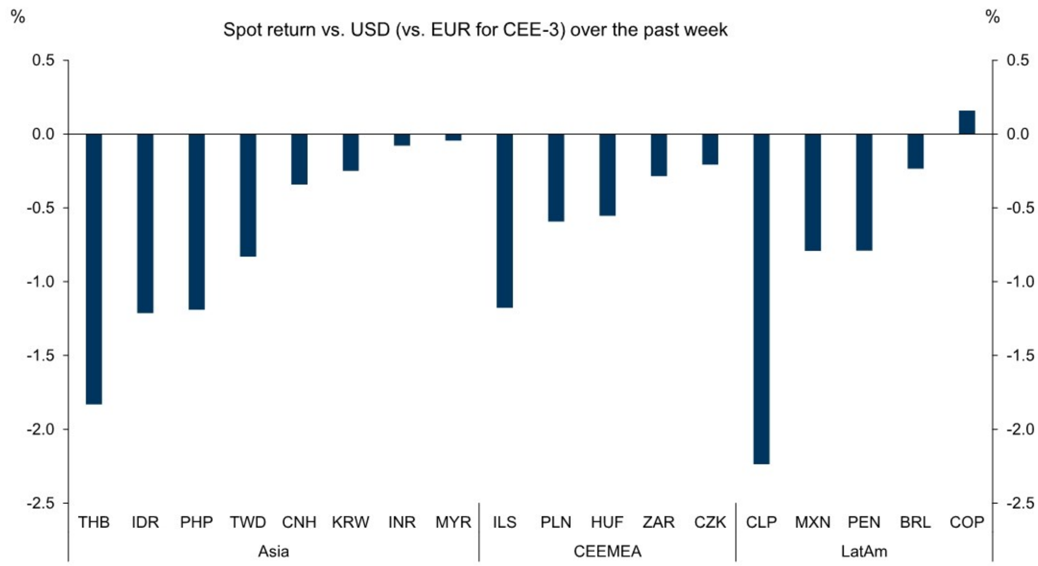
- **USD: Back to basics.** The Dollar has moved stronger in tandem with rate differentials following the hawkish reaction to last week's FOMC decision. There has been some surprise that the currency has strengthened despite the move lower in oil. But as we discussed last week, rate differentials have a more consistent and significant relationship with exchange rates, which we think accounts for the range break. We see risks for the Dollar as still skewed to the upside in the near term because we think the probability of rate hikes could move up quickly, but come out only slowly. Over the medium term, however risks remain more balanced. We see three primary routes for the Dollar to weaken over time. First, the shift in relative policy pricing has now been sufficiently large that pricing out rate hikes in the future, in line with our economists' view, would weigh on the currency enough to put us back in the previous multi-month range. Second, if institutional credibility concerns were to return—particularly through a perceived overly dovish reaction function—that would again weigh on the Dollar. And finally, our economists expect growth to slow somewhat in the second half of the year as positive economic impulses fade, so we still see a route to a weaker Dollar in response to less exceptional performance than before. But on the other hand, we increasingly see an upside case for the Dollar if Fed officials determine that policy is not sufficiently restrictive, particularly in light of strong AI-related capital expenditures. This would be especially positive for the currency if that level of restriction proves more challenging for countries in Europe and elsewhere that would import tighter financial conditions from the Fed without the commensurate demand for AI-related investment. We believe that economic developments over the last few months, and policymaker communications over the last few weeks, make this outcome increasingly likely, but not our baseline.

- **EM FX: Low-yielder lowdown.** The Thai Baht (THB), Israeli Shekel (ILS) and the Chilean Peso (CLP) were the worst performing EM currencies versus the Dollar over the past week across the major regions (Exhibit 1). The common theme here is that these are among the lowest yielding currencies in Asia, EMEA and Latam, and so the underperformance here is consistent with our view that a bear-flattening in US rates, induced by a hawkish Fed meeting in June, should put most pressure on low-yielding currencies across G10 and EM. As we discussed [last week](), funding high carry EM FX strategies by such low-yielders in EM or G10 can help neutralise the risk exposure and USD beta of carry currencies, and augment the overall carry proposition. But apart from the common low-yielding feature of these currencies, each of these funders comes with slightly different characteristics. From a valuation perspective, using our 60:40 ratio of GSDEER and GSFEER metrics, the Shekel is about 10% overvalued, the Peso is about 15% undervalued, and the Baht is about fair. The risk exposures that they neutralize are also subtly different. The ILS has one of the highest sensitivities to tech stocks, so is likely to be particularly suitable as a funder given recent volatility in tech sector equities. CLP is by far the most exposed currency to copper prices, and the broader cyclical risk betas that those mirror, so is a better hedge when broader growth concerns are more in focus. THB has a lower beta to equity risk than ILS and CLP, but is likely to be a clearer underperformer in the event that gold prices continue to slip further. Domestic considerations also point more clearly to THB and ILS weakness: in the former, structural economic challenges warrant lower rates and policymakers have welcomed currency weakness, and in the latter as well there has been a shift in policy with the BoI's decision to cut rates in May and to intervene in FX markets by buying Dollars for the first time since 2022. Taken together, within EM, THB and ILS screen as more attractive funders for carry baskets, and we continue to recommend short THB/INR as one variation of that theme.

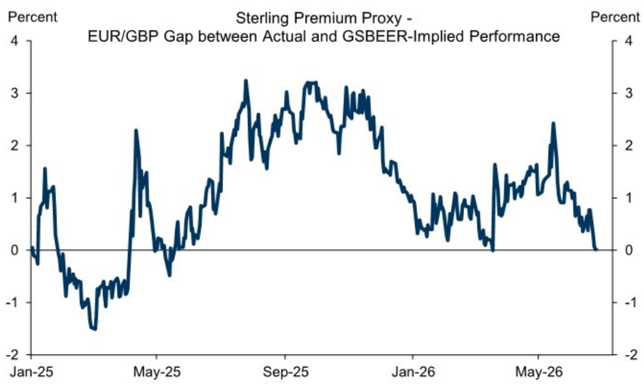
Exhibit 1: THB, ILS, and CLP were the worst performing EM currencies versus the Dollar over the past week across the major regions



Source: Bloomberg, Goldman Sachs Global Investment Research

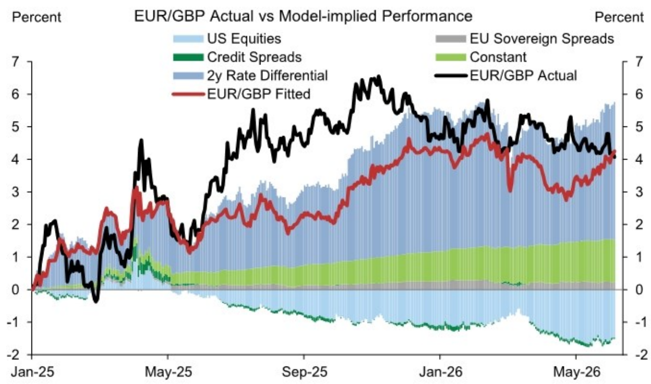
- **GBP: Transitions and positions.** We see three reasons for Sterling's performance following Andy Burnham's Makerfield by-election win. foremost, PM Starmer's resignation and Wes Streeting's announced Burnham have meaningfully narrowed the perceived range of leade reducing uncertainty around the leadership transition. Second, the between pricing of a Starmer government and premium in Sterling h tightly after Burnham's announced commitment to the fiscal rules in mid-May. And third, a Burnham-led government was already heavily priced in prediction markets ahead of the by-election (at around 80% on Polymarket). We think all three of these factors have helped form the case for Sterling relief on a compression in premium and a reduction in short-GBP positioning. But from a fundamental perspective, we see good reason to expect this relief to be fairly tactical and narrow, with fiscal and political premium in the currency already having been fully removed under our cyclical models—after recently peaking at ~2.5% in May (Exhibit 2). Underpinning that has been a widening in EU-UK rate differentials and a risk-off dynamic so far this month, both of which have pushed in a positive direction for EUR/GBP under the surface, balancing out the compression in premium (Exhibit 3). The risks of a sustained premium-driven Sterling sell-off continue to look low to us after recent events, but there are still important challenges on the fiscal front. Our economists note risks of a slower fiscal consolidation under a Burnham government on further spending pressures and limited available tax room. And even though Burnham has announced his commitment to the fiscal rules, this does not necessarily preclude a front-loaded borrowing approach that tests the limits of the Gilt market's tolerance—which will likely move into focus again ahead of this year's Autumn budget. Meanwhile, a more positive Sterling tail that could come out of recent developments is a potential reset to closer trade ties with the EU that Burnham has advocated, which could partially reverse Brexit's long-term impact on the currency, and help offset the challenging structural valuation picture.

Exhibit 2: Under our GSBEER-based proxy, premium in Sterling has now be reduced to around zero after the recent compression



Source: Goldman Sachs Global Investment Research

Exhibit 3: Steady EUR/GBP performance reflects a balance between premium compression and a Sterling-negative shift in rate differentials



Source: Goldman Sachs Global Investment Research

- **JPY: An even better funder.** This past week saw USD/JPY trade up close to 162, its highest level since July 2024, when the MoF subsequently intervened. Many view the short-lived impact of the last intervention and the lack of official operations since then as lowering the odds of an additional round. We find that argument less compelling, since the likelihood of sustained effectiveness was already low prior to the April decision. But it does seem more likely that any operations would follow any weak US data release (e.g. payrolls, CPI) or another event that weighs notably on USD/JPY to maximize its impact. That said, even with the risk of additional intervention still elevated, the risk that markets continue to press a more hawkish

Fed leaves JPY funding relatively more attractive than before. Because as long as Fed expectations are shifting, JPY should be a lower vol funder than the other low-yielders; it tends to have a more muted response when equities and yields are moving in opposite directions. But we continue to see room for further EUR downside, and we think CAD and CHF remain attractive funders as well. Overall, a backdrop of higher US yields, low recession odds, as well as lingering domestic fiscal risks alongside only gradual BoJ hikes (which reportedly will come with even greater resistance from the administration than before, given its plan to call for the BoJ to help bolster demand) means that the upward pressure on USD/JPY should persist—as long as policymakers allow it.

- **MYR: Political potholes.** MYR underperformed regional NJA FX peers early in June but rebounded over the past week. The initial weakness was, in our view, driven less by macro fundamentals but more by a rise in the domestic political risk premium, following the dissolution of the Johor and Negeri Sembilan state assemblies and prior remarks by Prime Minister Anwar Ibrahim that a snap election this year could be possible if the unity government fractures. Johor will go to polls on 11 July and Negeri Sembilan will vote on 1 August. State elections are distinct from federal elections and do not directly change the federal government but can have political repercussions on coalition unity depending on the results. Although oil prices have declined, unless a snap election is called (which would bring about greater uncertainty), we think MYR will continue its rebound as the underlying macro fundamentals remain positive. We expect real GDP to print a still solid 4.2% yoy in 2026 (from a strong 5.2% in 2025). The current account recorded a surplus of 3.0% of GDP in Q1 (well above the 5-year average of 2.3%), supported by a firm goods balance and improving services balance. In Q2, high-frequency export data so far looks favorable, and Malaysia is also now benefiting from the rollout of data center-related services. Before 2025, information, communication and technology (ICT) services were a structural drag at around -0.2% of GDP; since H2 2025, they have turned positive, contributing about 0.2% of GDP. As more data centers come online, services exports should become a growing pillar of current account support. We continue to like being long the Ringgit versus SGD, which is trading 1.4% above the mid-point of the SGD NEER and we expect the MAS to keep policy parameters unchanged in July.

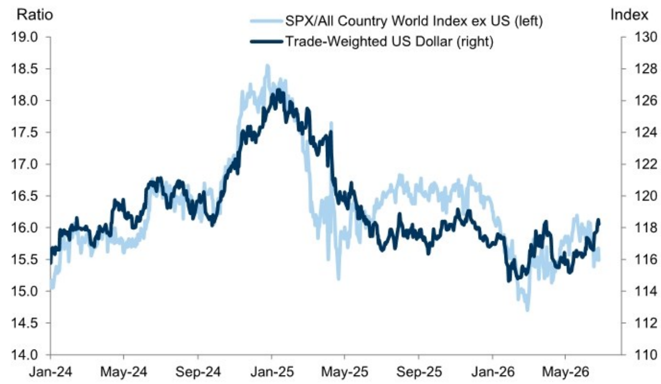
- **AI and the Dollar: Tech Support.** Coming into the year, we argued that less exceptional US performance should lead to a weaker Dollar over time. Not only has the conflict in the Middle East disrupted expectations for more notable relative underperformance, but a surge in AI momentum has also challenged that narrative. The strength of the AI trade has driven another leg of US equity outperformance; if anything, the Dollar has appeared slightly weaker than expected from this perspective alone. We see three reasons that help explain the flatter Dollar relative to clear US equity outperformance. First, US equity outperformance is less pronounced versus EMs than DMs, and flows tend to matter more for EM FX. Second, we find evidence that durability matters: sharp upgrades to near-term US earnings expectations do not generate as much Dollar demand as more sustained earnings power would (Exhibit 4). Third, narrow equity market breadth appears to limit FX spillovers. Together, these factors reinforce that relative equity returns can proxy broader balance-of-payments pressures that influence exchange rates. While they suggest that this year's tech sector strength may overstate the extent of US outperformance and demand for Dollar assets, the broader equity impulse has clearly shifted from an expected drag to a source of support for the Dollar (Exhibit 5).

Exhibit 4: Recent sharp upgrades to near-term US earnings expectations have not generated as much Dollar demand as more sustained earnings power would

Levels regression of USDTWI on log (S&P 500 / MSCI World ex-US). Sample: weekly since 2000. Expected earnings growth acceleration measures the slope of consensus forward earnings growth expectations, calculated as two-year-ahead minus one-year-ahead earnings growth estimates.

Source: Bloomberg, FactSet, Goldman Sachs Global Investment Research

Exhibit 5: The broader equity impulse has clearly shifted from an expected drag to a support for the Dollar



Source: Bloomberg, Goldman Sachs Global Investment Research

Global FX Forecasts

	Current Spot	3-Month Horizon		6-Month Horizon		12-Month Horizon	
		Forward	Forecast	Forward	Forecast	Forward	Forecast
G10							
EUR/$	1.14	1.14	1.14	1.15	1.18	1.16	1.20
£/$	1.32	1.32	1.33	1.32	1.34	1.32	1.33
AUD/$	0.69	0.69	0.72	0.69	0.73	0.69	0.74
NZD/$	0.56	0.57	0.60	0.57	0.61	0.57	0.62
$/CAD	1.42	1.41	1.40	1.41	1.38	1.40	1.38
$/CHF	0.81	0.80	0.80	0.79	0.76	0.78	0.73
$/NOK	9.86	9.88	9.30	9.89	8.98	9.91	8.75
$/SEK	9.73	9.68	9.65	9.63	9.15	9.53	8.75
$/JPY	162	161	160	159	158	157	155
EMEA							
$/CZK	21.3	21.3	21.5	21.3	20.7	21.2	20.2
$/HUF	312	313	311	313	297	314	288
$/PLN	3.77	3.77	3.77	3.77	3.60	3.76	3.54
$/RON	4.60	4.63	4.52	4.65	4.39	4.68	4.38
$/RUB	78.10	78.10	80.0	80.31	85.0	84.33	90.0
$/UAH	44.9	46.2	44.0	47.5	46.0	50.2	48.0
$/TRY	46.56	50.21	48.0	54.21	50.0	63.43	54.0
$/ILS	2.98	2.98	3.00	2.97	3.05	2.94	3.10
$/EGP	49.5	51.4	49.0	53.2	48.0	56.6	46.0
$/ZAR	16.49	16.61	16.50	16.72	16.00	16.95	15.75
$/NGN	1381	1431	1325	1474	1300	1555	1250
Americas							
$/ARS	1477	1558	1500	1647	1600	1847	1800
$/BRL	5.18	5.29	4.90	5.39	5.00	5.61	5.00
$/MXN	17.50	17.64	17.75	17.77	18.00	18.03	18.00
$/CLP	922	921	920	920	900	919	860
$/PEN	3.41	3.42	3.40	3.43	3.35	3.46	3.30
$/COP	3435	3511	3600	3589	3700	3742	3750
Asia							
$/CNY	6.80	6.76	6.80	6.71	6.70	6.62	6.50
$/HKD	7.84	7.82	7.80	7.80	7.80	7.77	7.80
$/INR	94.40	95.35	96.00	96.04	96.00	97.40	97.00
$/KRW	1543	1540	1460	1536	1440	1528	1420
$/MYR	4.12	4.11	3.90	4.09	3.80	4.07	3.70
$/SGD	1.30	1.29	1.28	1.28	1.25	1.26	1.24
$/TWD	31.8	32.0	31.5	32.1	31.0	32.2	30.5
$/THB	33.35	33.24	34.00	33.08	33.50	32.75	33.00
$/IDR	17925	18085	17000	18204	17100	18445	17200
$/PHP	61.31	61.43	62.00	61.60	61.00	61.92	61.00
Euro Crosses							
EUR/GBP	0.86	0.87	0.86	0.87	0.88	0.88	0.90
EUR/CHF	0.92	0.92	0.91	0.91	0.90	0.90	0.88
EUR/NOK	11.22	11.27	10.60	11.33	10.60	11.45	10.50
EUR/SEK	11.06	11.05	11.00	11.03	10.80	11.01	10.50
EUR/CZK	24.26	24.33	24.50	24.41	24.40	24.52	24.20
EUR/HUF	355	357	355	359	350	362	345
EUR/PLN	4.28	4.30	4.30	4.32	4.25	4.35	4.25
EUR/RON	5.23	5.28	5.15	5.32	5.18	5.41	5.25
EUR/RUB	88.8	89.1	91.2	92.0	100.3	97.4	108.0

Note: Spot values are as of Thursday's close.

See dynamic table here (or click image above): https://publishing.gs.com/content/themes/fx-forecasts.html

Source: Goldman Sachs Global Investment Research

Return Forecasts & Valuations

	Current Spot	Forecast: 12-Month Return (%) Spot	Carry	Total	NEER	GSDEER Estimate	GSDEER Misalignment Bilateral	GSDEER Misalignment Trade-Weighted	GSFEER Estimate	GSFEER Misalignment Bilateral	GSFEER Misalignment Trade-Weighted	Average Estimate	PPP*
G10													
EUR/$	1.14	5.5	-1.6	3.9	2.7	1.20	-5%	8%	1.15	-1%	1%	1.18	1.52
GBP/$	1.32	1.1	0.0	1.0	-2.6	1.22	8%	23%	1.27	4%	7%	1.24	1.50
AUD/$	0.69	7.1	0.5	7.7	2.7	0.81	-15%	8%	0.69	0%	12%	0.76	0.70
NZD/$	0.56	9.8	-1.1	8.6	5.3	0.67	-15%	2%	0.61	-7%	2%	0.64	0.67
$/CAD	1.42	2.9	-1.6	1.2	1.7	1.21	-15%	-10%	1.35	-5%	-1%	1.27	1.17
$/CHF	0.81	10.5	-4.1	6.0	7.0	0.84	4%	14%	0.810	0%	3%	0.83	0.92
$/NOK	9.86	12.7	0.5	13.3	7.9	6.38	-35%	-28%	8.92	-10%	-5%	7.40	8.87
$/SEK	9.73	11.2	-2.1	8.9	5.7	7.41	-24%	-14%	9.23	-5%	-2%	8.14	8.26
$/JPY	161.8	4.4	-3.0	1.3	0.9	93	-42%	-32%	132	-19%	-13%	109	93
EMEA													
$/CZK	21.34	5.8	-0.5	5.3	1.0	25.4	19%	29%	21.9	2%	4%	23.98	15.82
$/HUF	312	8.5	0.6	9.1	3.8	318	2%	11%	352	13%	13%	332	261
$/PLN	3.77	6.4	-0.1	6.3	2.3	3.92	4%	14%	3.86	2%	4%	3.89	2.43
$/RON	4.60	5.2	1.7	7.0	--	--	--	--	5.41	17%	16%	--	--
$/RUB	78.1	-13.2	8.0	-6.3	-16.3	76.80	-2%	15%	75.52	-3%	5%	76.29	40.15
$/UAH	44.88	-6.5	11.9	5.4	--	--	--	--	--	--	--	--	--
$/TRY	46.56	-13.8	36.2	17.5	-16.0	32.15	-31%	-27%	47.07	1%	2%	38.12	29.15
$/ILS	2.98	-3.8	-1.4	-5.1	-6.2	3.54	19%	34%	3.06	3%	7%	3.35	4.70
$/EGP	49.52	7.7	14.2	21.8	--	--		--	--	--	--	--	--
$/ZAR	16.49	4.7	2.8	7.6	1.0	12.97	-21%	-12%	16	-4%	0%	14.12	18.40
$/NGN	1381	10.4	12.6	23.1	--	--	--	--	--	--	--	--	--
Americas													
$/ARS	1477	-18.0	25.1	7.1	-20.6	--	--	--	--	--	--	--	--
$/BRL	5.18	3.5	8.4	12.2	1.6	4.22	-18%	-5%	5.31	3%	9%	4.66	5.28
$/MXN	17.50	-2.8	3.0	0.2	-4.4	19.33	10%	19%	17.49	0%	3%	18.59	20.29
$/CLP	922	7.2	-0.3	6.9	4.7	673	-27%	-13%	847	-8%	0%	743	787
$/PEN	3.41	3.3	1.3	4.7	1.2	2.75	-19%	-8%	2.91	-15%	-12%	2.81	4.24
$/COP	3435	-8.4	8.9	-0.2	-10.0	3502	2%	17%	3773	10%	8%	3610	3298
Asia													
$/CNY	6.80	4.6	-2.7	1.8	1.1	5.02	-26%	-15%	5.84	-14%	-10%	5.35	5.82
$/HKD	7.84	0.5	-0.9	-0.4	-3.6	6.93	-12%	10%	6.64	-15%	-7%	6.81	5.85
$/INR	94	-2.7	3.2	0.4	-5.5	85.85	-9%	0%	89.11	-6%	-5%	87.16	57.50
$/KRW	1543	8.7	-1.0	7.6	5.5	1169	-24%	-8%	1159	-25%	-23%	1165	929
$/MYR	4.12	11.3	-1.2	9.9	7.0	3.26	-21%	-4%	4.01	-3%	6%	3.56	1.95
$/SGD	1.30	4.5	-2.6	1.8	0.0	1.36	5%	26%	1.30	0%	7%	1.34	0.57
$/TWD	31.8	4.4	1.1	5.6	0.2	24.87	-22%	-2%	23.81	-25%	-20%	24.45	13.21
$/THB	33.35	1.1	-1.8	-0.8	-2.9	30.99	-7%	15%	33.75	1%	9%	32.10	18.82
$/IDR	17925	4.2	2.9	7.2	0.3	14113	-21%	-4%	15918	-11%	-6%	14835	10885
$/PHP	61.31	0.5	1.0	1.5	-3.5	58.94	-4%	19%	62.52	2%	12%	60.37	52.56
Euro Crosses													
EUR/GBP	0.86	-4.2	1.5	-2.7	-2.6	0.98	14%	23%	0.91	5%	7%	0.95	1.01
EUR/CHF	0.92	4.7	-2.5	2.2	7.0	1.01	10%	14%	0.93	1%	3%	0.98	1.40
EUR/NOK	11.22	6.8	2.1	8.9	7.9	7.65	-32%	-28%	10.25	-9%	-5%	8.69	13.46
EUR/SEK	11.06	5.4	-0.5	4.9	5.7	8.89	-20%	-14%	10.59	-4%	-2%	9.57	12.54
EUR/CZK	24.26	0.3	1.1	1.3	1.0	30.45	26%	29%	25.10	3%	4%	28.31	24.02
EUR/HUF	355	2.8	2.1	4.9	3.8	381	8%	11%	405	14%	13%	391	396
EUR/PLN	4.28	0.8	1.5	2.3	2.3	4.70	10%	14%	4.43	3%	4%	4.59	3.68
EUR/RON	5.23	-0.3	3.3	3.0	--	--	--	--	6.21	19%	16%	--	--
EUR/RUB	88.8	-17.8	9.5	-8.2	-16.3	92.10	4%	15%	86.7	-2%	5%	89.9	--
Addendum													
USD	--	-3.3	-1.7	-4.7	-3.4	--	--	17%	--	--	4%	--	--

Note: USD returns average of all other currencies (except ARS, NGN and UAH) with opposite sign; *EM estimates adjusted for per capita income. Spot values as of Thursday.

See dynamic table here (or click image above): https://publishing.gs.com/content/themes/table.html?criteriaKey=1k2HGqqS2h

Source: Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

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