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Riding the crosscurrents with currencies and commodities

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Financial markets have been quite nonplussed about the threat of additional tariffs being imposed by the US on imports from key trading partners and product groups. With the deadline for negotiations being pushed back to 1 August, uncertainty and volatility are likely to remain elevated, at least for the next few weeks. Investors should stay alert to opportunities, generated by the volatility, to better position portfolios and boost portfolio yields. We think the erosion of confidence in the USD will benefit the EUR, JPY, and AUD; investors can use structures to boost portfolio yields and diversify excess USD exposure.

Financial markets have largely taken the recent tariff escalation in their stride. The S&P 500 is still up about 26% from its April trough, hitting a second all-time high last week. The USD index (DXY), meanwhile, has risen around 1% over the past two weeks after falling around 10% since the start of the year. This suggests that financial markets are fairly sanguine about the risk of severe disruption to the US economy from aggressive tariffs.

But with the Trump administration escalating tariff tensions, investors should note that we are likely early in the current round of escalation. In the past week or so, US tariffs on both imports from certain trade partners and certain specific goods have been raised with effect from 1 August, pending trade agreements being agreed before that. So far, only deals with the UK and Vietnam have been confirmed, while tariff hikes are pending on around 25 trading partners including key ones like the EU, Canada, and Mexico.

The implications of tariff tensions are likely to be felt most keenly in the FX space, with de-dollarization expected to remain in place over the medium term. Investors might thus want to consider the following suggestions for navigating the uncertainty of the coming weeks, and possibly beyond.

Watch for dips in key beneficiaries of de-dollarization. The EUR—the most liquid alternative to the USD—is still likely to be the main beneficiary of broad USD weakness. We also expect fiscal measures in Germany and increased European defense spending to support the EUR. After a bout of near-term softness, we see the EURUSD eventually resuming its climb to 1.20 around June 2026. The AUD should also be another key beneficiary—we expect the AUDUSD to climb toward 0.68 by end-2025 and 0.70 in 1H26, supported by a narrowing of the USD's interest rate premium over the AUD over the coming quarters. Lastly, we would also sell the USDJPY on rallies and we see the pair falling to 136 in 2Q26.

Near-term USD strength likely to be contained. A complementary approach to riding out the potential near-term volatility might be to sell the risks of certain FX movements, and do so in line with our medium-term expectations. This approach should help contribute a boost to portfolio yield, as well as potentially provide better entry levels to position for medium-term trends. For starters, while we see some near-term downside in the EURUSD, we expect this will prove limited, and we would thus sell downside risks below 1.15 for the next month. For the AUDUSD, we would sell downside risks to 0.65 and below. In the same vein, we would also sell USDJPY upside risks to 148.

Use commodities to gird portfolios. Gold, silver, and copper, in our view, are the avenues to riding out the tariff turbulence in the commodity space. Gold continues to be an important portfolio hedge against a broad range of risks, and we recommend maintaining a 5% allocation in balanced diversified portfolios. World Gold Council data indicates that demand from central banks and ETFs remains strong, which should limit the near-term downside in the gold price, largely from USD appreciation. We would thus add gold around USD 3,300/oz, with the price likely to gravitate toward USD 3,500/oz over the next few quarters. For silver, we expect the market to be undersupplied this year, with falling interest rates, medium-term USD weakness, and a modest pickup in industrial activity later this year keeping the price of silver supported around USD 38/oz for the coming 12 months. We favor selling downside risks in the price of silver.

The just-announced 50% tariff on US copper imports (effective 1 August) potentially opens up another opportunity to benefit from the near-term volatility. Although the tariff might generate some near-term softness in the copper price, we see supply challenges limiting the downside to USD 9,000-9,500 per metric ton (mt). Over the next 12 months, we see the price of copper rising to USD 10,750/mt in 2Q26, and we would sell downside risks below USD 9,000/mt for yield pickup over 2H25.

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