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# FX positioning to buffer against tariff turbulence

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**As we approach April and its potential tariff-related developments, markets seem to be fairly sanguine about the events to come. While we urge investors to be wary, they should avail themselves of opportunities in FX markets to position appropriately.**

**These include selling GBPUSD and USDJPY upside risk, AUDUSD downside risk, and staying long gold.**

Ahead of the 2 April deadline for the US Trade Representative (USTR) to report on the justification for tariffs on the US's trade partners, and the disruptions that might ensue, the USD has enjoyed a rebound. The USD index (DXY) has climbed 1.1% since 18 March, while the EURUSD fell 1.3% during that time. On the flip side, during this time, the VIX also fell from 21.7 to 17.5 and the S&P 500 rose 2.7%, suggesting an improvement in risk appetite. Markets seem to have partially—but not fully—priced in the incoming tariff turbulence. Should investors take cover in the run-up to April's likely trade war escalation?

Investors should be mindful of risks, but at the same time also take the opportunities that such volatility will likely present themselves. One way to position is to use the FX market to play the differing levels of tariff damage that is likely to be placed on various US trade partners. We suggest some options below.

**Sell EURGBP and GBPUSD upside.** The pair has climbed on the back of optimism over an expansionary German fiscal budget. However, coalition talks in Germany remain incomplete and could still cause policy uncertainty. As a result, we expect some profit-taking in the EURUSD. The likely upcoming tranche of reciprocal tariffs though will probably target Europe in particular—at the very least more severely than the United Kingdom (UK), which has a more balanced trade relationship with the US. From the current elevated levels, we like strategies that sell the upside in the pair above 0.8490 over one month.

The GBPUSD was also pushed higher by a broader sentiment boost for European assets in recent days. We think the pair is only likely to convincingly break through the 1.30 level later in the year but over the next month, we see upside risks as limited and like selling the upside in GBPUSD above 1.32. On the flip side, we like using dips toward 1.26 in GBPUSD to decrease USD exposure in light of an expected moderation later in the year.

**Sell AUDUSD downside and USDJPY upside.** The pair weakened recently, partly thanks to the strength of Australia's labor market in February being somewhat obscured by seasonal factors. However, the pair's longer-term drivers of the terms of trade (particularly commodity prices), the continuation of Chinese policy accommodation, and Australia-US interest rate spreads all signal a fair value of around 0.68. Moreover, the market's net-short positioning in the AUD is stretched. We believe the pair will rise over the next 12 months toward the fair value target, and so we like selling downside in the pair at or below 0.62.

The near-term risks seem to be skewed toward a higher USDJPY given significant long-JPY positioning ahead of April tariff announcements. As trade uncertainties ease over the coming months, this may shift the BoJ's focus back to domestic inflation, and prompt it to reconsider rate hikes earlier than our forecasted 25-bps hike in July. We see the USDJPY falling steadily to 142 by end-1Q2026, and favor selling USDJPY upside risk to or above 153 for yield pickup.

**Go long AUDCHF and gold.** The optimism over potential German fiscal spending had boosted most European currencies in the recent weeks. But we think the improving European fundamentals are not sufficient to justify the strength of European exchange rates relative to the AUD. A big part of this stems from the impending imposition of import tariffs by the US on European exports. We think that the CHF is the best proxy to channel the negative impact of US tariffs on Europe as it is likely to benefit the least from both positive German fiscal news and a resolution in Ukraine. Moreover, the yield differential between the AUD and CHF—at nearly 4%—is currently the widest compared to other European currencies. We therefore like going long AUDCHF at 0.556, targeting 0.580, and we see a stop-loss at 0.545 as a prudent safeguard.

We recently lifted our gold price target to the level of our previous upside scenario of USD 3,200/oz (from USD 3,000/oz) across all tenors. In the near term, we acknowledge that the market has drifted into technical overbought territory, but the prevailing mood among investors remains one of caution about US equities, and confidence in gold. We thus reiterate our Attractive view on gold, and stay long in our global asset allocation. We would make use of any pullbacks to build fresh long positions in gold.

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