

# FX Viewpoint Flash

Currencies  
Global

## USD: Middle East conflict

- ◆ Geopolitical events can give confusing signals for currencies, beyond the USD
- ◆ Tensions in the Middle East may bolster the USD over the near term, especially if oil prices and market volatility increase
- ◆ But easing tensions could prompt USD weakness, given unchanged underlying fundamentals

The conflict in the Middle East is likely to support the USD over the near term, marking a departure from its performance last June when heightened tensions between the US, Iran, and Israel led to only a brief period of USD strength. At that time, ongoing US policy uncertainty quickly eroded the currency’s gains, prompting debate over the USD’s status as a “safe haven” asset. In our assessment, such discussions could be misleading, as **geopolitical events often generate mixed signals for currencies, and the impact on the USD is highly dependent on the broader context of uncertainty.**

Recent market positioning data indicates that **speculative investors are significantly short on the USD**, with the latest Commodity Futures Trading Commission (CFTC) figures showing some of the most extreme net short USD positions in recent years. **Should oil prices rise sharply and cross-asset volatility increase, the USD could benefit, particularly if there is widespread risk reduction in financial markets.** These conditions are typically required for the USD’s “safe haven” characteristics to become more pronounced.

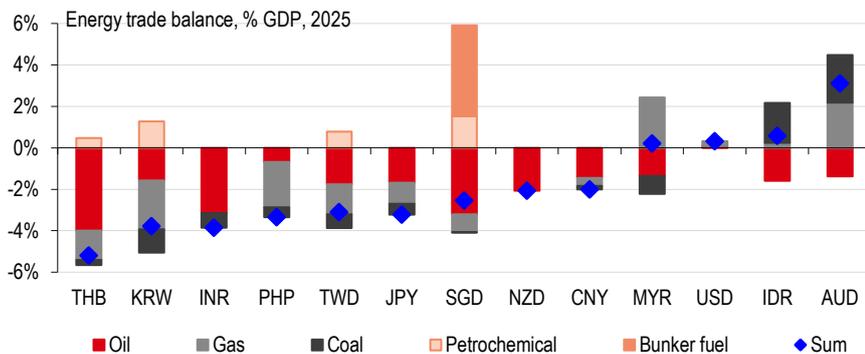
Ultimately, **oil price movements will play a critical role in determining currency direction.** The Strait of Hormuz, which handles approximately 19% of global oil shipments, represents a key point of sensitivity. Any disruption could have a substantial impact on FX markets, especially for major net oil importers (see the chart below). Conversely, a de-escalation of geopolitical tensions would likely see the USD relinquish recent gains, as **the underlying factors supporting a softer USD outlook remain unchanged.**

The USD is likely to remain strong amid ongoing Middle East tensions, in our view

Rising oil prices and volatility could support the USD’s “safe haven” appeal

De-escalation of tensions would likely weaken the USD, as fundamental drivers remain unchanged

### Energy trade balances: Which currencies are exposed to a higher oil price?



Source: Bloomberg, HSBC



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