

# FX Viewpoint

Currencies  
Global

## G8 currencies under three oil-price scenarios

- ◆ Geopolitical developments in the Middle East remain the key FX driver
- ◆ Since the conflict escalated, the USD-oil relationship has strengthened
- ◆ If that relationship weakens, FX fundamentals may regain influence

Middle East geopolitics remain the primary driver of FX markets, but the headlines are difficult to interpret as tensions can escalate and ease quickly. We believe market direction may hinge on a few practical indicators, notably **the extent of shipping disruption through the Strait of Hormuz and the resulting path for oil prices**. As geopolitical risk rises and falls, oil can move sharply, shifting market sentiment between “risk-off” and “risk-on”. The table below summarises potential G8 currency performance across three oil-price scenarios.

**Middle East geopolitics remain the key FX driver**

### G8 currencies under three oil-price scenarios

Scenario: oil prices	USD view	Out- performer	Under- performer	Key rationale
<b>USD 80 per barrel</b>	Broad-based softness	EUR, GBP, CHF, JPY	AUD	Lower oil should support net importers and may improve risk appetite, with “risk-on” currencies likely outperforming “safe-haven” currencies; JPY may lag, though intervention risk rises around USD-JPY 158-162.
<b>USD 100 per barrel</b>	Modest positive bias	EUR, GBP, CHF	AUD	Oil stabilising at this level may ease temporary pressure on net importers; global recession risk remains limited, but fiscal concerns could increase; FX likely range-bound with a mild USD tilt.
<b>USD 150 per barrel</b>	Broad-based strength	CHF, JPY	EUR, GBP, AUD	A prolonged disruption to oil/gas flows via the Strait of Hormuz is likely to weaken market sentiment, lift “safe-haven” demand, and hurt net energy importers via terms-of-trade effects.

Source: HSBC

Since the conflict intensified, **the USD and oil prices have moved more closely together**, unlike in prior months. This appears to reflect both an energy supply shock and increased “safe haven” demand for the USD.

Beyond energy, **second-order effects, particularly potential upside pressure on food prices, are also relevant**. Disruptions to nitrogen and phosphate fertiliser exports matter because the Middle East represents c36% of global nitrogen trade and c23% of global phosphate exports (*S&P Global*, 19 March 2026), both essential inputs for food production. This dynamic **could leave several Asian and European currencies more vulnerable**.

Nonetheless, if the positive oil and USD relationship began to show signs of weakening, then it could be an early indication (like ships cross the Strait of Hormuz) of pre-conflict FX behaviours returning. For example, FX fundamentals may regain influence relative to simple energy-price tracking when assessing relative currency preferences. Additionally, **as the Federal Reserve (Fed) is neither in a rate-hiking cycle nor has turned outright hawkish, there are underlying factors that may continue to limit broad-based USD strength**.

**The USD-oil link has strengthened due to supply shock and “safe-haven” demand**

**Fertiliser disruptions may lift food prices and pressure several Asian and European currencies**

**A weaker USD-oil link could refocus markets on FX fundamentals**

# Disclosure appendix

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