From the Desk of the
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U.S.-IRAN PEACE DEAL: CURRENCY MARKET REACTION AND USD DOMINANCE

- **Global currency markets opened higher as risk sentiments improved after U.S. and Iran officially confirmed that they have reached an agreement**
- **The USD dipped slightly amid repricing of safe-haven flows, other currencies gained grounds**
- **Energy prices declined sharply, with both Brent and WTI falling below USD80 per barrel**
- **FOMC Policy Decision: USD rebounded above 100.00 amid hawkish Fed signals**
- **U.S. and Iran signed the MoU ahead of schedule**

- This week saw heightened volatility in global currency markets against a backdrop of major geopolitical developments and major central banks policy decisions. Sentiment improved at the start of the week following the finalization of a U.S.-Iran agreement, marking a potential turning point after months of conflict, negotiations, and a fragile ceasefire. Pakistan's Prime Minister confirmed that both parties had reached an accord, with formal signing scheduled for 19 June in Switzerland, supporting cautious optimism for a near-term resolution. Markets reacted swiftly, with a broad-based improvement in risk appetite. The USD came under renewed pressure amid a rotation out of safe-haven assets, though it remained underpinned by Federal Reserve (Fed) policy expectations. Meanwhile, traditional safe havens such as gold, the Japanese yen, and the Swiss franc initially benefited from portfolio rebalancing. Energy prices declined on expectations of the Strait of Hormuz reopening. Brent crude fell below USD85/barrel, while West Texas Intermediate (WTI) dropped under USD80/barrel, reflecting anticipated easing of supply disruptions and improved shipping conditions.

- Nonetheless, momentum shifted mid-week as the Fed unanimously held its Federal Funds Rate (FFR) at 3.50–3.75%, in line with expectations. Market attention, however, centered on the notably more hawkish tone from policymakers and the upward revisions in the Fed's Summary of Economic Projections, reinforcing expectations of further tightening this year. In response, the USD regained bullish momentum, breaking above the key psychological resistance level of 100.00. The rebound in the USD curtailed earlier gains in other currencies, prompting a broad retracement across FX markets.

- U.S. and Iran formally signed the Memorandum of Understanding (MoU) ahead of schedule, although the impact on currency market were largely muted. Following the signing, the release of detailed terms granted greater clarity on the terms and scope of the agreement. Most notably, the MoU stipulates the immediate cessation of all military operations and the lifting of all related maritime restrictions. These measures are expected to facilitate the gradual normalization of shipping activity through the Strait of Hormuz, thereby supporting the gradual restoration of disrupted supply chains and easing the earlier oil supply shock. As a result, energy prices continued to ease with Brent crude falling to around USD79 while WTI eased to USD76. On the currency market front, while the USD would naturally lose safe-haven support amid easing geopolitical tensions, the dollar remained supported by hawkish Fed policy expectations. It continued to rise on the back of its underlying bullish momentum, outperforming major currencies as they remain overshadowed by the USD's relative yield advantage.

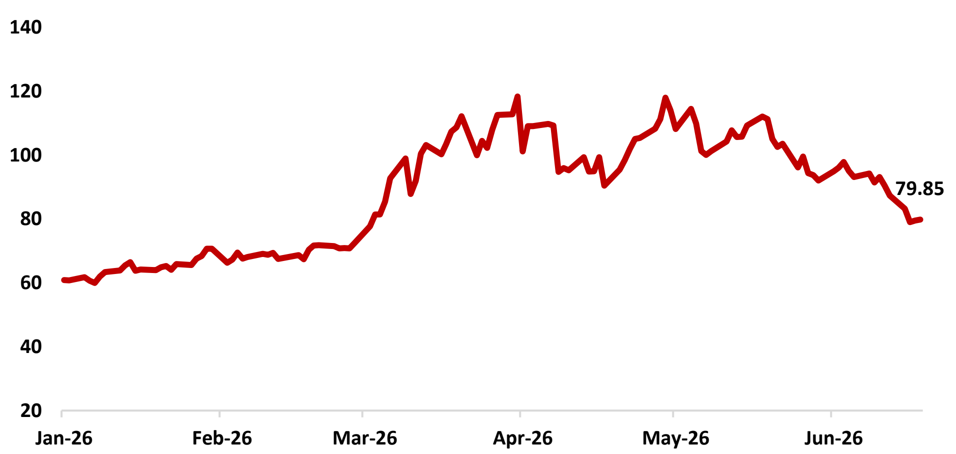
Announcement of the U.S.-Iran Peace Agreement

- Earlier this week, Pakistan's Prime Minister Shehbaz Sharif announced that U.S. and Iran have finalized a peace agreement to end the current conflict. The announcement was delivered by the official mediator in negotiations, providing a degree of credibility that reassured investor uncertainty, contrary to earlier mixed signals both parties. The confirmation of a formal signing date further strengthened investor confidence, reinforcing expectations that a near-term resolution to the conflict is within reach.

- Shortly thereafter, U.S. President Donald Trump confirmed that the agreement with Iran had been finalized. In a statement on his official account, he outlined key elements of the deal, including the toll-free reopening of the Strait of Hormuz and the lifting of the U.S. naval blockade on Iran. Iran, through its Supreme National Security Council, also acknowledged the development, marking a rare alignment in official communication from both sides. The agreement signals a tentative conclusion to the 110-day conflict, transitioning into a period of relative calm as both countries enter a 60-day negotiation window aimed at securing a more durable peace arrangement.

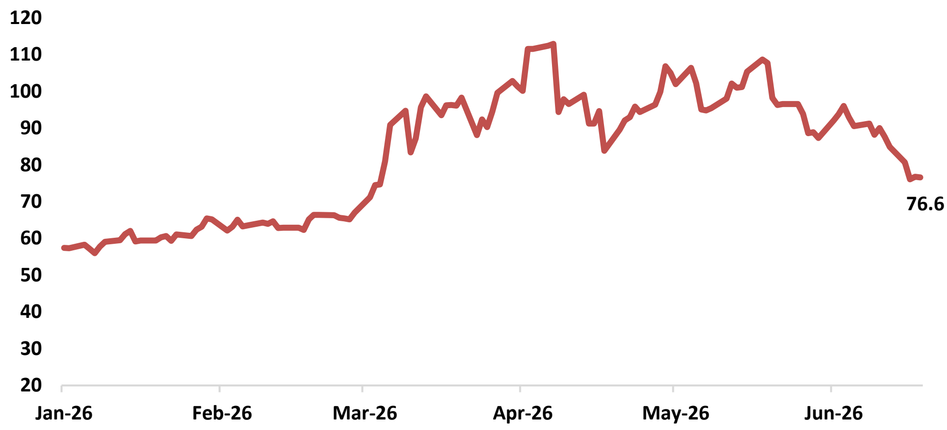
- The renewed optimism triggered swift reactions across global markets. Energy prices declined sharply as the anticipated resumption of traffic through the Strait of Hormuz is expected to ease supply constraints and normalize trade flows. Brent crude fell to USD83/bbl on Monday from the USD90–USD95 range in the previous week, before easing further to around USD78–USD79/bbl over the week. Meanwhile, WTI dropped to USD80.75/bbl on Monday and declined further to approximately USD76/bbl. Similarly, Oman crude trended lower, easing to around USD71–USD74/bbl.

Chart 1: Brent Crude, USD/bbl



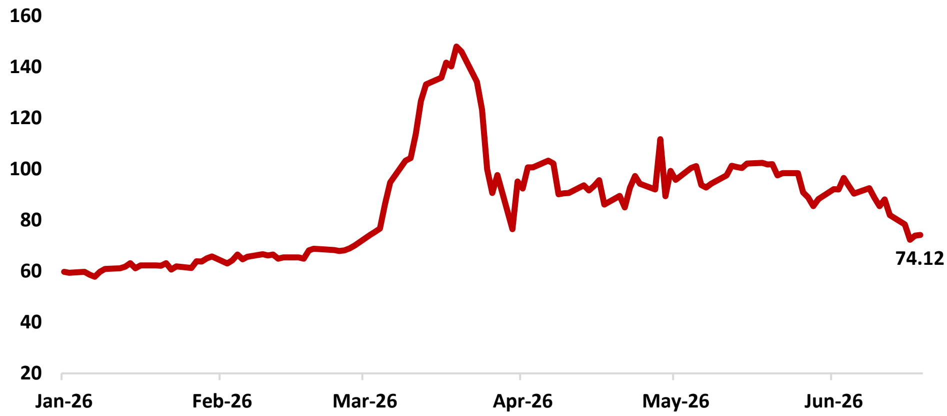
Sources: Bloomberg, Bank Islam

Chart 2: West Texas Intermediate, USD/bbl



Sources: Bloomberg, Bank Islam

Chart 3: Oman crude, USD/bbl



Sources: Bloomberg, Bank Islam

- The reaction across currency markets was broad-based. The USD came under renewed pressure at the start of the week amid an initial unwinding of safe-haven flows, prompting rebounds across major currencies. As of 16 June, several currencies had appreciated against the USD, including the euro (+0.6%), Swiss franc (+0.6%), and British pound (+0.3%). In precious metals, both gold (XAU) and silver (XAG) posted gains, rising by 1.7% w-o-w and 7.1% w-o-w, respectively.

Federal Reserve (Fed) Maintained the Federal Funds Rate at 3.50-3.75%; Sends Hawkish Signals

- While the initial currency market reaction was broad-based, gains in non-USD currencies proved short-lived as the dollar regained momentum following the Federal Open Market Committee (FOMC) meeting. Consequently, major currencies came under renewed pressure against the USD. The Fed's decision to hold the FFR steady at 3.50–3.75%, alongside signals of a more hawkish policy trajectory, continued to underpin strength in the dollar.

- According to the June Summary of Economic Projections, nine out of nineteen Board officials foresee at least one rate hike this year, with six of those expecting the FFR to be raised to at least 4.00-4.25%. Eight other officials expect the FFR to be maintained at current levels while only one Board member projected a 25-bp cut. This was considerably more hawkish than expected, prompting investors to reprice their policy expectations. According to the CME FedWatch tool, markets have fully priced out the likelihood of a cut in 2026 while the probability of the Fed hiking its FFR by 25-bp by December has climbed to 36.0%.

- Additionally, upside risks to inflation remain pronounced despite the U.S.-Iran peace deal. While the resumption of traffic in Persian Gulf is expected to ease supply disruptions and exert pressure on energy prices, cost pressures have increasingly broadened across domestic price dynamics. Evidently, U.S. headline inflation jumped sharply to 4.2% y-o-y in May, underscoring how the geopolitical-related energy price shock had compounded an already elevated inflation backdrop.

- While direct energy and transportation costs may ease, the pass-through of energy-driven costs will likely remain persistent. At the current juncture, core inflation has climbed to an 8-month high of 2.9% in May, while producer prices rose sharply to 6.5%, the highest since November 2022. This suggests that underlying inflationary pressures are becoming more entrenched, increasing the likelihood that elevated costs will continue to feed through into consumer prices and necessitate tighter monetary conditions.

- Consistent with this narrative, the Fed's projections were also revised to reflect a more acute inflationary environment. Headline PCE inflation is revised up to 3.6% in 2026, up from 2.7% previously, while core PCE inflation is projected to rise to 3.3%, well above 2.7% expected earlier. These upward revisions signal growing concerns among policymakers over persistent inflationary pressures, which are increasingly likely to overshoot the 2.0% target. The SEP projection also indicates at least one hike this year. As such, the likelihood of additional policy tightening remains on the table.

Table 1: June Summary of Economic Projections, %

	2026	2027	2028
Change in real GDP	2.2	2.3	2.2
March projection	2.4	2.3	2.1
Unemployment rate	4.3	4.3	4.2
March projection	4.4	4.3	4.2
PCE inflation	3.6	2.3	2
March projection	2.7	2.2	2
Core PCE inflation	3.3	2.5	2.1
March projection	2.7	2.2	2
Federal funds rate	3.8	3.6	3.4
March projection	3.4	3.1	3.1

Sources: Federal Reserve, Bank Islam

U.S. and Iran Formally Inked the Memorandum of Understanding

- While the signing was scheduled for Friday, U.S. and Iran brought forward the formalisation of the Memorandum of Understanding (MoU) to 17 June, signaling strong commitments from both parties. This had further reinforced confidence in the durability of the agreement, marking a shift from the prior sporadic clashes and threats of escalation into a relatively more stable phase. The formal inking also provided greater transparency, as the release of the agreement's details offered clearer insight into the immediate policy shifts. Notably, the agreement seemed closely aligned with Iran's earlier negotiating framework; that the end to immediate hostilities and lifting of respective maritime restrictions should be prioritized over discussions of Iran's nuclear programme and control over the Strait of Hormuz.

- According to the New York Times, the document outlined several provisions set to take immediate effect, including;

    - Termination of all military operations on all fronts, including Lebanon, and commitment to not initiate military operations against each other

    - Removal of the U.S. naval blockade on Iran, with the full removal to be achieved within 30 days

    - Toll-free and safe passage for vessels from the Persian Gulf to the Sea of Oman, and vice versa, for 60 days

    - U.S. Department of Treasury will issue waivers for the Export of Iranian oil products and all associated services pending the termination of U.S. sanctions (which will be discussed as part of the final deal)

    - Release of Iran's frozen or restricted funds and assets

- These terms address the bulk of investor concerns, namely heightened market volatility stemming from the escalation of military operations in the Middle East and fears of a broader regional conflict. Supply-side pressures, including supply bottlenecks, elevated commodity prices and delayed shipping times stemming from the closure of the Strait of Hormuz, are also expected to improve materially within the next month. As such, the deal offered near-term relief to investors, prompting the rapid unwinding of geopolitical risk premium across markets, particularly energy prices as they remain highly sensitive to the conflict.

- However, long-standing sticking points were largely deferred to the 60-day negotiation period, posing second-round concerns to investors. These complex and unresolved issues account for the most likely sources of friction which could potentially stall, or even derail, progress towards lasting peace. The MoU highlighted that the final deal must be negotiated and finalized within 60 days, with possible extensions subject to mutual agreement. Among the points to be negotiated in the final deal, as agreed in the MoU, includes:

    - The removal of U.S. forces from the proximity of Iran within 30 days of the final deal

- Development of a plan by the U.S. and regional partners with at least USD300 billion for the reconstruction and economic development of Iran

- Termination of all primary and secondary U.S. sanctions against Iran in an agreed upon schedule

- Iran's nuclear needs and the issue of enrichment. Notably, the mechanism to handle Iran's stockpiled enriched materials, with the minimum to be down-blending, rather than the earlier proposal of disposition of these materials

- Notably, while the status quo for Iran's nuclear programme is maintained during the negotiation window, the future of its enrichment capacity and the exact verification protocols for nuclear sites remain unresolved. This warrants heightened caution, particularly given the firm and opposing stances of U.S. and Iran. Washington is likely to push for a more durable moratorium on Iran's nuclear development or firmer commitments against the development or procurement of nuclear weapons, while Iran may resist such constraints. As a result, negotiations on this front carry a meaningful risk of breaking down or prolonging discussions beyond the stipulated period, drawing intense scrutiny from investors.

- Meanwhile, the MoU also outlined the development of a USD300 billion plan for the reconstruction and economic development of Iran. However, this term appears to be contrary to U.S. President Trump's stance. Trump has indicated that the U.S. will not contribute direct financial contributions while reports suggest that the plan will be funded by Iran itself or regional stakeholders. This aligns with Trump's earlier political rhetoric, particularly his criticisms of former President Barack Obama for his nuclear deal with Iran which he claimed effectively gave Iran USD1.7 billion in cash. The U.S. administration may be reluctant to agree to financial compensation to Iran, unless some significant leeway is made by Iran. In his earlier criticism, Trump stated that Obama had offered financial relief without a guarantee that Iran will never obtain nuclear weapons. Thus, the financing structure of the plan may emerge as a point of contention in upcoming negotiations.

- Similarly, the provision that the U.S. will "terminate sanctions against Iran on an agreed schedule" may also face resistance as it effectively constitutes as a form of financial relief. As such, Washington may likely push for more concrete and verifiable commitments from Iran, particularly on nuclear related issues. In contrast, Iran has previously maintained that financial compensation or reparations should be part of any comprehensive agreement. This divergence in expectations further underscores the fragility of the negotiation process.

- Furthermore, while the MoU provides for the toll-free reopening of the Strait of Hormuz, this arrangement is limited to a 60-day period. The status beyond this window remains subject to negotiation, adding another layer of uncertainty over the durability of a longer-term peace agreement. Based on Iran's prior proposed framework which sought for control over the Strait of Hormuz, Iran could potentially reassert this proposal, potentially prolonging negotiations, especially as the U.S. continues to advocate for unrestricted and free passage through the Strait.

- Against this backdrop, while initial recalibration of safe-haven flows have led to rebounds across FX markets, the boost proved temporary. The improvement in sentiments proved short-lived as investor positioning remained cautious amid lingering uncertainties as they digested the available details of the agreement. Thus, when the USD index breached the 100.00-resistance following the Fed policy decision on Wednesday, it exerted renewed pressure on non-USD currencies. Consequently, currency markets closed the week on a downbeat note, pressured by a policy-driven stronger USD and re-emerging geopolitical caution.

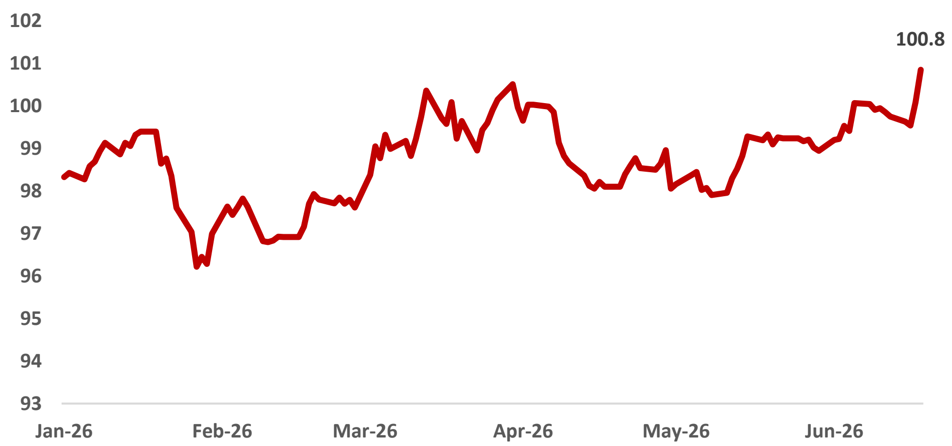
Currency Market Technical Review

- Between 8–12 June, the USD Index traded within a narrow range of 99.50–100.30, as investors remained cautious amid ongoing geopolitical tensions and sporadic clashes between the U.S. and Iran. The USD came under renewed pressure on Monday following the announcement of the U.S.-Iran peace deal, triggering a broad-based repricing across asset classes. Nonetheless, the USD continued to draw structural support from expectations of a more hawkish Fed amid intensifying domestic price pressures, keeping it anchored above the key 99.00 support level.

- Following the FOMC meeting, where policymakers signaled a more hawkish policy stance, the USD gained strong upward momentum and broke decisively above the 100.00 resistance level. This marked a bullish shift in the dollar's trajectory, with gains extending towards the end of the week. The USD Index was last seen approaching the next resistance at 101.00, reaching its highest level since May 2025 at 100.92 on 18 June. A sustained break above this level would further reinforce the dollar's bullish outlook.

- As markets continued to assess the details of the peace agreement, concerns over the durability of the ceasefire and the outcome of upcoming negotiations began to weigh on sentiment. Given the early stage of developments, investors are likely to remain cautious while closely monitoring geopolitical risks. This backdrop is expected to sustain safe-haven demand for the USD, further supported by the Fed's "higher-for-longer" policy stance.

Chart 4: USD Index (DXY)

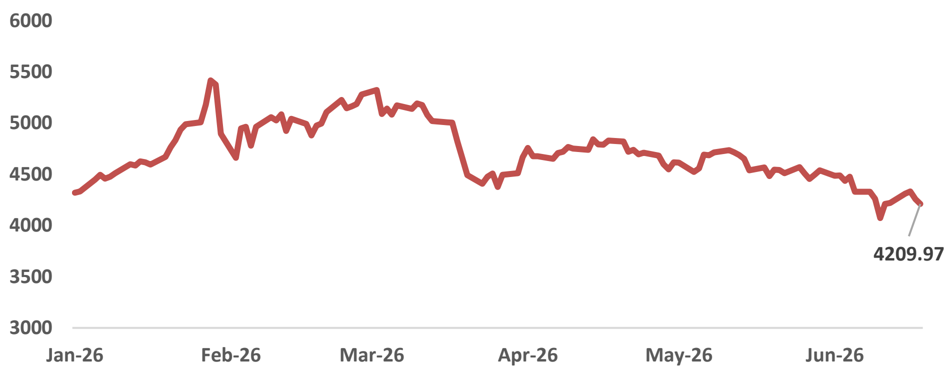


Sources: Bloomberg, Bank Islam

- Across precious metals, gold initially rallied following the announcement of the U.S.-Iran peace deal, which prompted a reversal in safe-haven flows. At the market open on Monday, XAU broke above immediate resistance at 4,300.00 to close at USD4,311.69, with momentum carrying into Tuesday and resulting in a 1.7% weekly gain.

- However, gold came under renewed pressure against a strengthening USD mid-week, retracing below the 4,300 level to close at USD4,256.93. The bearish bias persisted towards the end of the week, with XAU breaking decisively below the 4,200 supports on Friday to trade around USD4,176. This reinforces a weaker near-term outlook as investors adopt a more cautious stance, reassessing the peace deal and broader geopolitical developments.

Chart 5: Gold (XAUUSD)

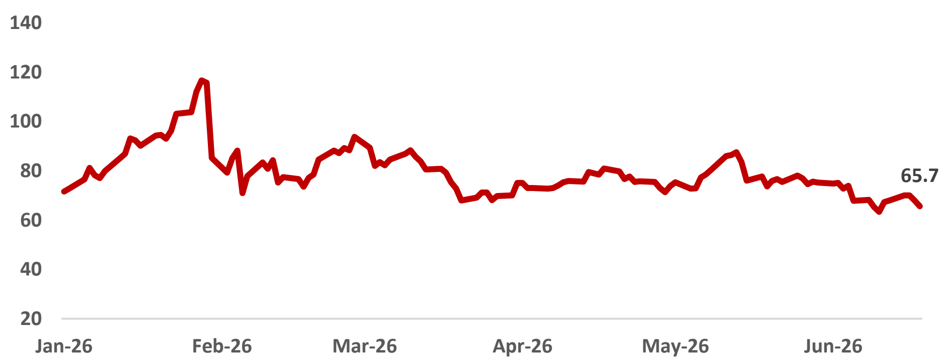


Sources: Bloomberg, Bank Islam

- Similar to gold, silver (XAG) opened the week on a stronger footing, trading around USD68. It attempted to break above the 70.00 resistance level and briefly succeeded on 16 June, marking a notable 7.1% weekly gain at that point.

- However, the rally proved short-lived, with losses mirroring the earlier surge. XAG subsequently reversed course, falling to an intraday low of 66.8 and closing at 67.9 on 17 June. The bearish momentum intensified thereafter, with silver breaking below the 66.00 support on 18 June and extending its decline below 65.00 by 19 June.

Chart 6: Silver (XAGUSD)



Sources: Bloomberg, Bank Islam

- The euro (EUR) has been on an uptrend between the week of 8-12 June, supported by expectations of a European Central Bank (ECB) rate hike. Momentum carried into the following week, further supported by improvement across risk sentiments, and the EUR broke above the immediate resistance around 1.16 by mid-week.

- Nevertheless, the euro subsequently underperformed against a strengthening dollar, as the Fed's hawkish signals reinforced expectations of further policy tightening and outweighed support from the ECB's stance. The EUR reversed its earlier gains, falling below the 1.16 level and testing support at 1.15. By 18 June, it broke decisively below this support and was last observed trading in the 1.14 region, signaling a clear loss of bullish momentum and a shift towards a more bearish trajectory.

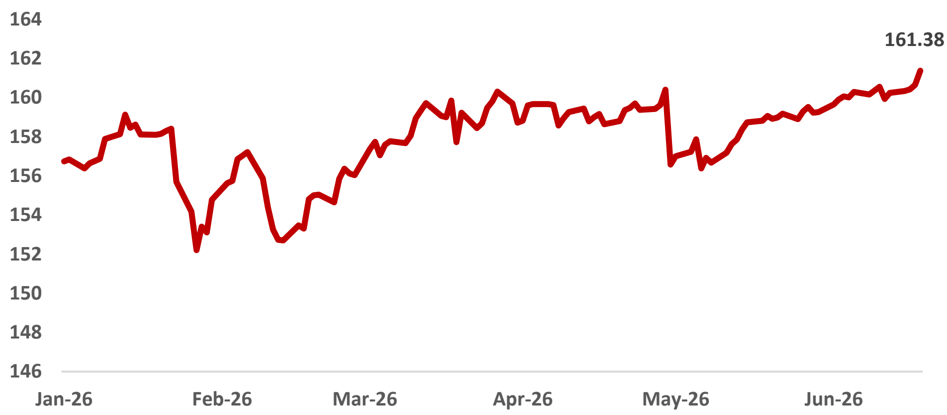
Chart 7: EURUSD

Sources: Bloomberg, Bank Islam

- Similarly, traditional safe-haven currencies such as the Swiss franc (CHF) and Japanese yen (JPY) exhibited similar trajectories. Both currencies strengthened against the USD in the early part of the week, supported by initial safe-haven demand. However, the resurgence of USD strength soon outweighed their appeal. In the case of the JPY, persistent structural weakness continued to act as a drag. Despite a 25-bp rate hike by the Bank of Japan (BoJ), upside momentum remained limited, with the currency trading within a narrow range of 160.20–160.65.

- As of 18 June, the JPY touched a multi-year low of 161.8, underscoring sustained weakness and reinforcing expectations for further policy normalization by the BoJ to support the currency. On a year-to-date basis, the CHF and JPY have depreciated by 1.5% and 3.0%, respectively.

Chart 8: USDJPY

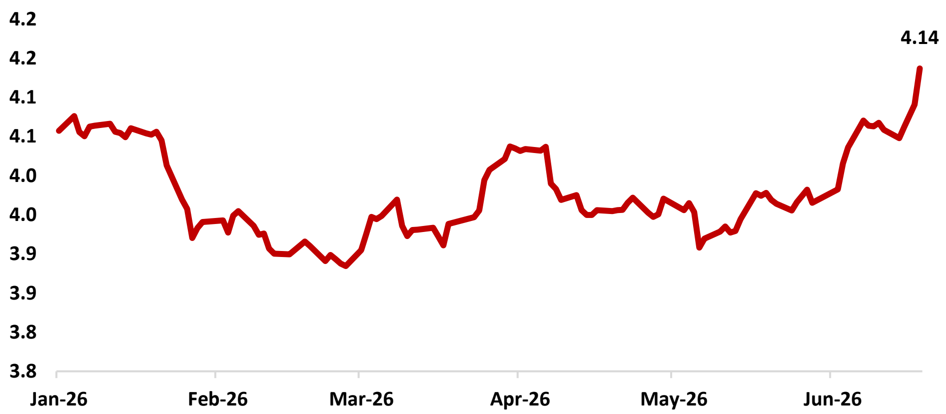


Sources: Bloomberg, Bank Islam

- The Ringgit (MYR) has faced sustained pressure against the USD in recent weeks, largely driven by policy divergence between the U.S. Fed and Bank Negara Malaysia (BNM). Expectations of a more hawkish Fed, relative to BNM's steady policy stance, have fueled anticipation of widening interest rate differentials, favoring the USD over the MYR. Over the week of 8–12 June, the USD/MYR pair traded within a narrow range of 4.05–4.075.

- At the start of the week, the MYR briefly strengthened, with USD/MYR touching an intraday low of 4.0415 on Monday, supported by improved global risk sentiment. However, the gains proved short-lived, with the pair reversing to close at 4.0695 on Tuesday amid continued capital flows into higher-yielding assets. Bullish momentum in USD/MYR subsequently intensified, with the pair breaking decisively above the 4.08 resistance on 18 June, marking a notable shift towards a stronger USD bias. The upward trend persisted, with the pair advancing through successive resistance levels to trade above 4.14 by Friday.

Chart 9: USDMYR



Sources: Bloomberg, Bank Islam

Outlook

- Looking ahead, financial markets are expected to navigate a challenging environment as investors continue to monitor evolving geopolitical risks. While the U.S.–Iran agreement provides near-term relief, the durability of the ceasefire and the success of follow-up negotiations will remain key determinants of investor sentiment.

- Thus far, several complex and sensitive issues have been deferred to the 60-day negotiation window, including Iran's nuclear programme and enriched material stockpiles, as well as plans for reconstruction and financial relief. These unresolved areas represent key sources of potential friction that could derail progress towards a lasting peace agreement and prolong geopolitical uncertainty.

- In the near term, the removal of maritime restrictions and the resumption of shipping through the Strait of Hormuz are likely to continue exerting downward pressure on energy prices. This would alleviate global inflationary pressures, particularly across energy and transportation costs. Nevertheless, with price pressures broadening into the production level, the global inflation outlook remains firmly tilted to the upside. The pass-through effects from earlier price shocks are expected to persist, suggesting that inflation may remain elevated even as commodity prices moderate.

- As such, elevated global inflationary pressures are expected to reinforce a tighter monetary policy outlook across major central banks. Investors are increasingly pricing in the likelihood for at least one additional rate hike by the Fed, the Bank of Japan and the European Central Bank. In contrast, the Bank of England and the Reserve Bank of Australia are expected to maintain an extended pause, adopting a cautious policy stance as they reassess geopolitical risks and their implications for domestic economic conditions.

- The Federal Reserve's hawkish stance is expected to provide structural support to the USD in the near term. Nevertheless, sustained easing in geopolitical tensions or positive developments in U.S.-Iran talks may trigger an unwinding of safe-haven positioning, exerting pressure on the USD. Meanwhile, traditional safe-haven currencies may continue to gather structural support during periods of heightened risk aversion, although they will likely underperform against the USD. Asian currencies are expected to remain under pressure against the USD, reflecting capital flow dynamics in favour of the USD's stronger yield appeal.

- Overall, investors are expected to remain cautiously positioned, with the USD maintaining a bullish bias. Currency markets are likely to stay highly sensitive to geopolitical developments, with volatility elevated in response to incoming headlines. While the agreement represents a constructive step towards lasting peace, the transition from a temporary ceasefire to a durable resolution remains uncertain, underscoring the need for continued vigilance.