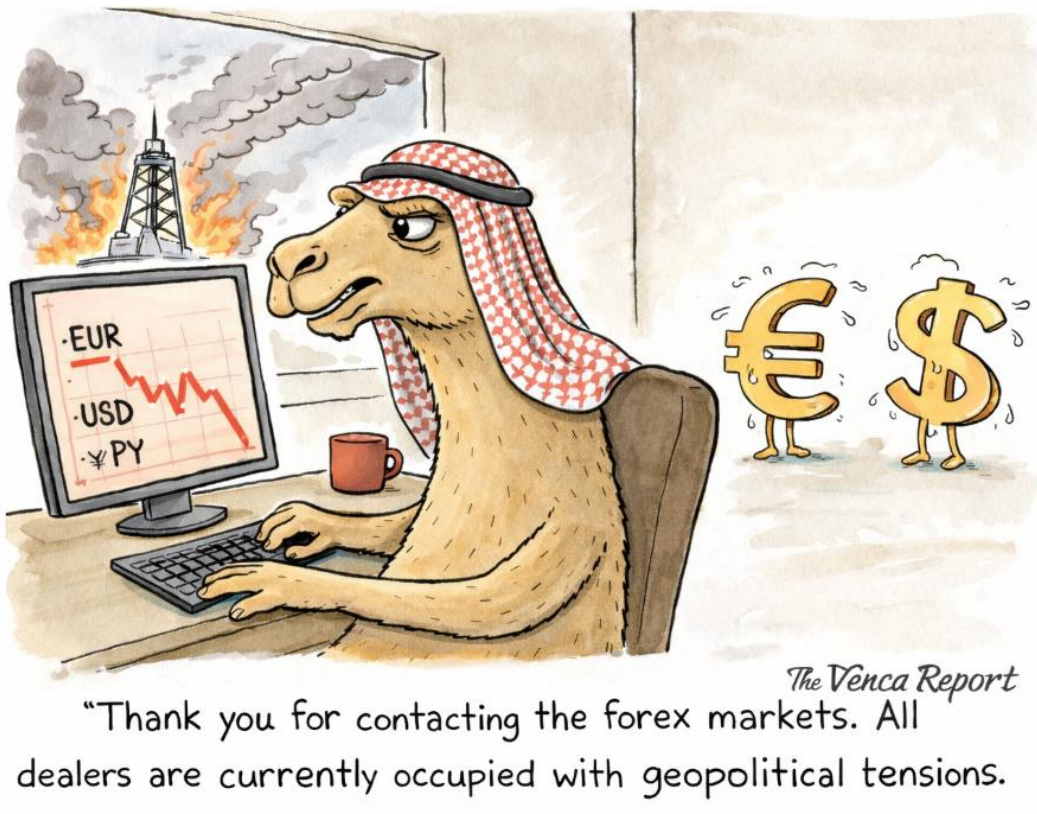
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Certain sections have been removed, and it does not include access to the full range of tools and features available to members.

THE VENCA REPORT

The Market Now Runs Through The Middle East

Why FX Has Become a Geopolitical Market Again



If you'd stepped away from the screens over recent months and come back in March, you'd probably be surprised at what's actually driving markets.

At the start of the year, the story felt relatively straightforward. Inflation was easing, central banks were inching closer to cutting, and the focus was on whether global growth could stabilise without rolling over.

FX was trading like you'd expect in that environment – rate differentials mattered, relative growth mattered, and most moves made sense within that framework.

That was the plan, anyway.

Then the Middle East conflict moved front and centre – and it hasn't really left since.

What's interesting isn't just the headlines themselves, but how the market has *chosen* to react to them. Early on, there was a tendency to fade the risk. We actually touched on this in a piece earlier in the quarter, where we said that geopolitical developments were starting to creep back into the macro picture, but hadn't yet been fully respected by markets.

That's changed.

Not in a dramatic, everything-must-reprice kind of way – but in a slower, more subtle shift. The kind that shows up in correlations breaking down, in trades not quite behaving as they "should", and in currencies responding to things that weren't really on the radar a few months ago. Energy has been the obvious transmission channel.

Oil hasn't just been moving on demand expectations anymore – it's picked up a risk premium again. Shipping disruptions, supply concerns, and the broader uncertainty around the region have all fed into that.

And while we're not back in a full-blown energy crisis environment, it doesn't take much for higher prices to start feeding back into inflation expectations.

That's where things get a bit more complicated.

Because just as central banks were getting comfortable with the idea that inflation was heading in the right direction, this introduces a new layer of uncertainty. Not enough to completely change the path – at least not yet – but enough to make the outlook less clean than it looked in January. And the forex market has started to reflect that.

Earlier this quarter, we spent a bit of time talking about how currencies like the NZD were no longer trading as simple "risk-on, risk-off" proxies. Instead, they were being priced more through relative growth and structural factors. That's played out pretty well.

Even when broader sentiment has stabilised, there hasn't been a huge amount of appetite to chase those currencies higher. They've felt heavy – and for good reason.

Higher energy costs, patchy demand, and a general lack of domestic momentum don't make for a particularly compelling story in this kind of environment.

That contrast has been especially clear against the US, where the economy has held up better and yields have remained supportive. Which brings us to the dollar.

Yes, it's still benefiting from safe-haven flows when things flare up. But that's only part of the story.

The more important point is that it doesn't *need* a full-blown risk-off move to stay supported. Relative strength is doing a lot of the work.

That's a different dynamic to what we've seen in previous cycles.

What all of this adds up to is a market that feels... a bit unsettled. Not chaotic, not panicked, but not entirely comfortable either. Moves have lacked conviction at times. Themes have worked, but not always cleanly. And there's been a sense that positioning has mattered just as much as the underlying story.

That usually tells you one thing – the market is still trying to figure out *what matters most.*

For now, though, one thing is pretty clear;

Whether it's through oil, inflation expectations, or broader risk sentiment, developments in the Middle East are no longer sitting on the sidelines. They're feeding directly into the macro framework – and by extension, into FX.

And until that changes, everything else is, to some degree, reacting to it.

Or at the very least, ***being filtered through it.***

How The Shock Travels

Oil, inflation, shipping, and FX implications

One of the mistakes markets tend to make with geopolitical shocks is treating them as temporary noise. A headline hits, oil jumps, risk sentiment wobbles – and then attention shifts straight back to central banks and rate cuts.

But that's not really how this works.

The real impact isn't the headline itself. It's how that shock feeds into the broader system – into energy prices, into inflation expectations, into growth, and eventually into how currencies are priced relative to each other. That's the part the market has been adjusting to over the past few months.

Earlier this quarter, we wrote about how FX was becoming less about simple "risk-on, risk-off" moves and more about relative exposure – which economies are strong, which are vulnerable, and how those differences are priced. What's changed since then is that geopolitics has started feeding directly into that framework.

The first place that shows up is energy.

This isn't just about oil ticking higher on bad headlines. It's about where that oil flows from, and how sensitive the system is to disruption. The Middle East sits at the centre of that. Key routes like the Strait of Hormuz handle a significant share of global crude and LNG flows, so even the risk of disruption is enough to push a premium into prices.

We saw that develop through the quarter.

Moves in oil were no longer purely tied to demand expectations or positioning – they started to reflect uncertainty around supply. Not a full-blown crisis, but enough to shift how markets think about the outlook.

And once energy starts doing that, it doesn't stay contained for long.

It feeds directly into inflation.

Just as markets were getting comfortable with the idea that inflation was moving lower, energy reintroduced an element of uncertainty. Not enough to completely derail that trend, but enough to make the path less straightforward than it looked in January.

That creates a more complicated backdrop for central banks.

Instead of a clean transition toward easing, policymakers are faced with a scenario where inflation risks haven't fully disappeared, even as growth remains uneven. That tension has been building quietly in the background – and it's one of the reasons price action has felt less consistent than expected.

It also explains why some of the cleaner macro relationships haven't held as well as they normally would.



Figure 1 - Crude Oil Futures YTD

The conflict becomes a macro event when it stops being political noise and starts repricing energy.

The next step is growth.

Higher input costs, tighter financial conditions, and increased uncertainty all start to weigh on activity – particularly in economies that were already lacking momentum. That's where the differentiation begins to matter.

Earlier in the quarter, we highlighted that some currencies were already trading as weaker growth stories. That hasn't changed – if anything, it's become more visible. The geopolitical backdrop hasn't created that weakness, but it has exposed it. And that's an important distinction.

Because it means FX isn't reacting to a single driver – it's reacting to how multiple pressures interact.

This is where things get more interesting for FX.

Not all currencies experience this environment in the same way. Net energy importers face a more direct hit. Economies with softer growth have less room to absorb it. And central banks that were closer to easing now have a slightly more complicated decision to make.

The US dollar continues to hold up, not just as a safe haven, but because it still offers relative strength. That's been a consistent theme throughout the quarter (**Figure 2**). Even when broader sentiment has stabilised, the dollar hasn't really needed a full risk-off move to stay supported. That tells you this isn't a classic risk cycle. It's a relative one.

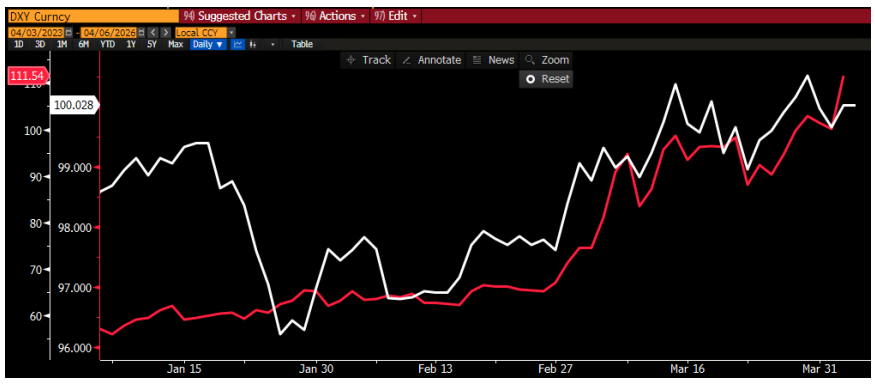


Figure 2 - US Dollar Futures (White) vs Crude Oil Futures (Red)

The Signals Beneath the Noise

Markets haven't moved in a straight line this quarter.

At times, price action has looked messy – inconsistent, lacking follow-through, and often driven by short-term positioning rather than conviction. But underneath that, a few clear signals have been building across asset classes.

They're just not showing up in the way people might expect.

Commodities: A split story

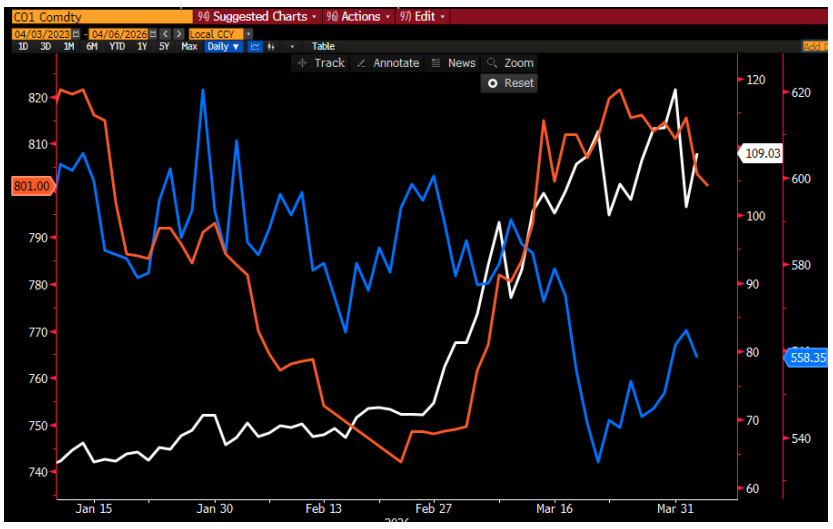


Figure 3 - Brent Oil Futures (White) vs Copper Futures (Blue) vs Iron Ore Futures (Orange)

Commodity markets haven't moved in sync this quarter.

- Oil (white line) has moved higher, driven by geopolitical risk and supply concerns.
- Iron ore (orange line) has recovered, reflecting a partial stabilisation in China-linked demand.
- Copper (blue line) has lagged, pointing to weaker underlying industrial momentum.

Rates: Still driving the bus

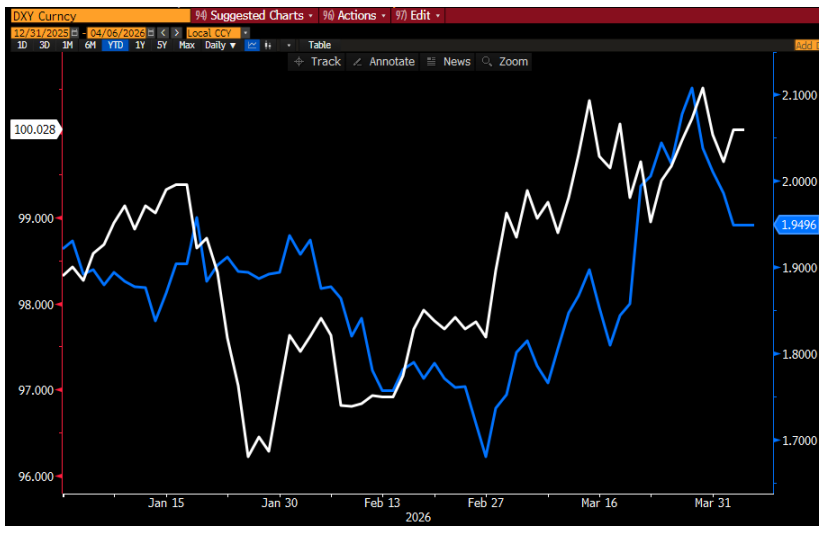


Figure 4 - US Dollar Index (white) vs US 10yr Real Yields (blue)

Real yields have remained elevated through the quarter, continuing to provide a steady underlying support for the US dollar.

- US real yields (blue line) have held firm despite a more uncertain macro setting.
- The relationship between yields and FX has remained intact.
- Policy divergence continues to favour the dollar at the margin.

USD: Strong, but not for usual reasons

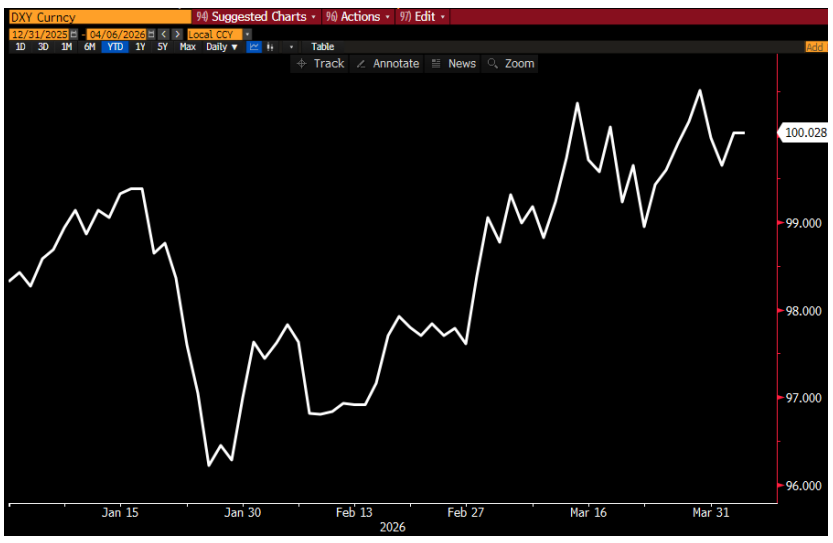


Figure 5 - US Dollar Index, daily chart

The dollar has remained firm through the quarter, even without a sustained risk-off environment.

- USD strength hasn't required a broad risk-off move.
- Relative growth and yield continue to do most of the work.
- Safe haven demand has supported – but not driven – the move.

Trade routes feeling the pain



Figure 6 - Daily Freight Rate Red Sea to South East Asia Dirty Route 80

Shipping costs along key Red Sea routes surged sharply during the quarter, highlighting how quickly geopolitical tensions can disrupt global trade flows.

- Freight rates spiked aggressively as disruptions intensified through the Red Sea.
- The move reflects rerouting, delays, and rising risk premia in global shipping.
- Trade is becoming increasingly sensitive to geopolitical developments.

Valuation: Where Price and Reality Diverge

The Big Picture

Valuation in FX is rarely a timing tool, but it remains one of the most useful ways to frame where markets may be stretched.

Currencies can and do deviate from fair value for extended periods, particularly when driven by strong macro themes. But those deviations tend to matter eventually – either through mean reversion, or through the macro backdrop shifting to justify the move. What we've seen this quarter is not a wholesale break from valuation, but a widening of dispersion. Some currencies are trading well away from longer-term averages, while others remain more anchored. That creates a more selective opportunity set.

FX Valuation Table

Rather than focusing on absolute levels, the more useful approach is to look at where spot sits relative to its longer-term averages. This helps frame:

- which currencies are rich vs history.
- which are cheap vs history.
- and where expectations may already be priced in.

The key is not that these levels must revert immediately – but that they highlight where positioning and narrative may already be stretched.

Pair	Spot	Avg 3yr	Spot vs 3yr	Avg 5yr	Spot vs 5yr	Signal
EURUSD	1.15250	1.10607	+4.20%	1.10429	+4.37%	Rich
GBPUSD	1.32086	1.29134	+2.29%	1.28903	+2.47%	Neutral
AUDUSD	0.68719	0.65740	+4.53%	0.67931	+1.16%	Neutral
NZDUSD	0.57081	0.59697	-4.38%	0.62250	-8.30%	Cheap
USDJPY	159.600	149.320	+6.88%	139.112	+14.73%	Rich
USDCHF	0.79939	0.85815	-6.85%	0.88987	-10.17%	Cheap
USDCAD	1.39090	1.37417	+1.22%	1.33973	+3.82%	Neutral
USDSEK	9.49930	10.22439	-7.09%	9.97570	-4.78%	Cheap
USDNOK	9.74270	10.52410	-7.42%	10.04115	-2.97%	Neutral
USDMXN	17.93930	18.33395	-2.15%	18.99996	-5.58%	Neutral
USDSGD	1.28710	1.32393	-2.78%	1.33903	-3.88%	Neutral

Where The Opportunities Are

A few areas stand out based on current valuation metrics and how they align with the broader macro setting.

1. USD strength remains extended, but supported

The dollar screens as rich against some counterparts, but not uniformly so. Valuation signals are mixed across pairs, with USD appearing extended in certain areas while remaining relatively cheap in others. This reinforces the idea that FX is being driven more by relative dynamics than a single directional theme.

- USD appears extended against some currencies, but not across the board.
- Valuation signals are mixed, reflecting divergence rather than uniform strength.

2. NZD remains structurally weak

NZD continues to trade at the softer end of its historical range, reflecting both domestic weakness and its exposure to the current global environment.

Earlier this quarter, we highlighted that NZD was increasingly being priced as a weaker growth story rather than a simple risk proxy – and that dynamic remains in place.

- NZD screens cheap vs historical averages
- Weak domestic fundamentals continue to weigh

External pressures (energy, global growth) reinforce that positioning.

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3. EUR sitting in the middle, but vulnerable

EUR is less extreme from a valuation perspective, but that doesn't make it neutral.

The currency remains exposed to energy dynamics, trade sensitivity, and relatively soft growth momentum – all of which leave it vulnerable even without appearing outright "cheap".

- EUR sits closer to fair value on longer-term metrics.
- But macro risks are skewed to the downside.
- Valuation alone doesn't capture that vulnerability.

FX Forecasts

Forecasts are not about precision – they're about direction, bias, and how the macro backdrop is likely to evolve over time.

The ranges below should be read as expected trading environments, not targets. They reflect how current dynamics – growth, inflation, policy, and geopolitical risk – are likely to interact, rather than any single outcome the market must reach.

What matters is not whether price touches a specific level, but whether the broader narrative continues to move in that direction.

Pair	Q2 2026	Q3 2026	Q4 2026	Notes
DXY	99.20 – 101.00	97.00 – 98.76	95.56 – 97.30	Holds up near term, then softens into H2.
AUDNZD	1.19416 – 1.21585	1.19217 – 1.21383	1.18920 – 1.21080	Broadly range-bound; modest AUD edge fades.
AUDUSD	0.69370 – 0.70630	0.70361 – 0.71639	0.71352 – 0.72648	Gradual recovery as USD strength eases.
EURGBP	0.87208 – 0.88792	0.87704 – 0.89297	0.88199 – 0.89801	Mild EUR outperformance vs GBP later.
EURJPY	179.520 – 183.880	181.891 – 186.309	182.582 – 187.018	EUR firmer, but lower USDJPY caps upside.
EURNZD	1.96515 – 2.00085	1.98200 – 2.01800	1.98200 – 2.01800	EUR should stay ahead of NZD overall.
EURUSD	1.13965 – 1.16035	1.16938 – 1.19062	1.18920 – 1.21080	Softer USD story resumes in H2.
GBPUSD	1.29524 – 1.31876	1.32100 – 1.34500	1.33587 – 1.36013	GBP recovers, but less cleanly than EUR.
NZDUSD	0.57478 – 0.58522	0.58469 – 0.59531	0.59460 – 0.60540	Gradual lift if global risk tone improves.
USDCAD	1.35767 – 1.38233	1.34776 – 1.37224	1.33785 – 1.36215	Lower as USD fades and CAD benefits later.
USDCHF	0.77992 – 0.79408	0.76406 – 0.77794	0.75613 – 0.76987	Lower through H2 on softer USD.
USDCNY	6.78835 – 6.91165	6.76853 – 6.89147	6.73880 – 6.86120	Managed lower rather than sharply weaker.
USDJPY	156.104 – 159.896	154.128 – 157.872	152.152 – 155.848	Lower on narrowing differentials / intervention risk.
XAGUSD	71.352 – 72.648	75.316 – 76.684	79.280 – 80.720	Still structurally strong, but volatile.
XAUAUD	7,220.42600 – 7,351.57400	7,606.91600 – 7,745.08400	7,983.49600 – 8,128.50400	Derived from XAUUSD and AUDUSD.
XAUEUR	4,395.08500 – 4,474.91500	4,577.42900 – 4,660.57100	4,789.50300 – 4,876.49700	Derived from XAUUSD and EURUSD.
XAUUSD	5,054.10 – 5,145.90	5,400.95 – 5,499.05	5,747.80 – 5,852.20	Bullish central path, but below top-end bank calls.

Can the Machines Win?

We've made a few changes to our quant and AI models. We retired the Swing-Catcher model and have improved the QuantumAlpha AI model, which coincidently has performed surprisingly well as a result.

Model & Description	3m Perf	1y Perf	Notes
QuantumAlpha This is our first AI model. After a lengthy development stage, it has full discretion over trade decisions, technical and fundamental analysis. This model has no human input whatsoever. We get it to tell us the trade(s) it wants to take, including stop and profit levels. The ultimate test of who can outperform!	**+5.55%**	**+10.4%**	What an absolute turn-around from the QuantumAlpha model! We changed the criteria and allowed the model to look at real yields and the stock market in addition to any fundamental research. The result has been promising! From consistently losing to bringing in over 6% in two trades! We're still testing it on simulated funds at this stage. To move to live funds, we want to see consistency over a longer period.
RevertX This model uses a combination of different momentum-based indicators and mathematical probabilities. We use discretionary entries as this model is prone to false signals – we aim to have it fully automated at some stage. It runs no stop-loss and has specific exit criteria to exit a trade.	**+2.59%**	**+9.9%**	The RevertX model is still performing consistently well. Currently the model still uses discretionary entries, but we plan on having this fully-automated at some stage. One thing that's interesting to point out is that it did not cope very well with extreme volatility from the conflict in the Middle East/Trump announcements. It's still profitable and on live funds, but multiple headline 'shocks' did result in the model producing consecutive losses.
Discretionary In order to accurately test these models, we use our discretionary macro-strategy as the benchmark. Our macro-model is not a trading model – we take tactical positions based on fundamental research, using technicals to assist with entries.	**+5.16%**	**+13.0%**	At this stage it appears that our discretionary model still outperforms the QuantumAlpha and RevertX models. However, with the turnaround in performance of the QuantumAlpha model, perhaps we will be knocked off the top of the podium this next quarter.. stay tuned to find out!

Performance Comparison



Technical View: Structure, Not Signals

Technical analysis, in this context, is less about identifying precise patterns and more about understanding how price is behaving around key levels. What matters is not whether a textbook formation is present, but whether the market is accepting or rejecting higher or lower prices. Across charts, the focus is on structure – trends, ranges, and how price responds to areas of support and resistance. This helps frame direction and risk, rather than predict exact outcomes. In an environment where macro and geopolitics are driving the broader narrative, technicals provide a way to interpret how that narrative is being expressed through price.

DXY (US Dollar Index)

The USD is looking bullish from a technical perspective, as it appears to be completing a Wyckoff pattern – a pattern that typically signals a change of direction in trend.

We're currently in the 'Last Point of Supply' stage so the questions are; are we going higher? And, if so, how far?



AUDUSD

On the back of a stronger USD, the Aussie has rejected the 0.71c handle and is retreating toward 0.67-0.675c, which appears to be an area of confluence.

We would recommend observing price action in this zone for potential buying opportunities if the USD-appreciation fails.



EURUSD

The Euro appears to have a clear floor against the USD around the 1.14 handle. Should this floor break, we could expect to see the next area of support around 1.12.



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