Markets Research
FX Strategy Forecast Update

In this issue

Trump 2.0 changes everything

- Having met many of our end-2024 FX forecasts at the end of Q3 we were, even before the re-election of President Trump, starting to question our view of a continuation of broad-based USD weakening into year-end and through 2025; this as evidence accumulated of ongoing US economic exceptionalism.
- Trump's re-election and alongside what is looking like a Republican clean sweep provides the opportunity to overhaul our FX forecasts. The revisions are significant, though we anticipate the need for more frequent changes to forecasts in 2025 than this year given the range of potential US (and global) policies and resulting economic outcomes.
- Under a Trump presidency, policies of higher tariffs and, further out, looser than otherwise fiscal policy via tax cuts are ostensibly USD-positive. A higher inflationary impulse would provide less scope for easier monetary policy and US rates should accordingly be higher than otherwise across the curve.
- For pro-cyclical currencies like AUD and NZD, there are no foreseeable circumstances in which increases in tariffs are anything but negative for global growth and this is a key pillar of our AUD and NZD forecast revisions. We no longer see AUD returning to above 0.67 or 0.68, or NZD to above 0.60 on a sustained basis throughout 2025.
- The so far underwhelming policy responses by China in dealing with the structural forces weighing on its economy and the underlying weakness of domestic consumer demand is a direct weight atop AUD and NZD and where their sensitivity to the CNY has increased since the Trump 1.0 era trade tariff escalation. Other currencies such as the EUR are in no sense immunised from this downforce, as well as from whatever direct hit the EZ economy takes from tariffs on European exports.

Table 1: FX Forecasts (see p.9 for full forecast table)

Majors		Current	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
AUD/USD	New	**0.658**	**0.66**	**0.65**	**0.64**	**0.66**	**0.67**	**0.69**	**0.71**	**0.72**	**0.73**	**0.74**	**0.75**
	Old		0.69	0.71	0.72	0.74	0.75	0.74	0.73	0.74	0.75	0.76	0.77
NZD/USD	New	**0.597**	**0.595**	**0.58**	**0.57**	**0.59**	**0.60**	**0.62**	**0.64**	**0.65**	**0.66**	**0.67**	**0.68**
	Old		0.62	0.64	0.65	0.66	0.67	0.66	0.65	0.66	0.67	0.68	0.70
AUD/NZD	New	**1.103**	**1.11**	**1.12**	**1.12**	**1.13**	**1.13**	**1.12**	**1.12**	**1.11**	**1.11**	**1.11**	**1.11**
	Old		1.11	1.11	1.11	1.12	1.12	1.12	1.12	1.12	1.12	1.12	1.10
EUR/USD	New	**1.071**	**1.05**	**1.04**	**1.05**	**1.06**	**1.07**	**1.08**	**1.11**	**1.13**	**1.15**	**1.17**	**1.18**
	Old		1.11	1.13	1.14	1.16	1.17	1.18	1.18	1.20	1.22	1.24	1.25
GBP/USD	New	**1.291**	**1.27**	**1.27**	**1.27**	**1.28**	**1.28**	**1.29**	**1.32**	**1.34**	**1.37**	**1.38**	**1.39**
	Old		1.30	1.31	1.32	1.34	1.35	1.36	1.36	1.38	1.40	1.42	1.43
USD/JPY	New	**153**	**153**	**155**	**155**	**153**	**150**	**144**	**140**	**135**	**133**	**130**	**127**
	Old		143	140	137	134	131	129	129	125	123	120	117
USD/CNY	New	**7.18**	**7.20**	**7.25**	**7.40**	**7.30**	**7.25**	**7.20**	**7.15**	**7.10**	**7.05**	**7.00**	**6.95**
			7.15	7.10	7.00	6.90	6.85	6.90	6.95	6.85	6.75	6.70	6.60

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USD – Trump changes everything

Our previous forecasts, unchanged since April this year, assumed a US political status quo. We have been highlighting for some time that we'd need to revise our USD outlook if Trump was re-elected President.

Our forecasts have been unrevised for one of the longest periods we can remember because FX markets have been tracking largely as expected. But even in the absence of US political considerations, the continuation of US economic exceptionalism already had us wondering about the appropriateness of our baseline view for next year – and indeed the final quarter of this year - of a broad-based USD decline.

The election of Trump and a likely Republican clean sweep provides a good opportunity to overhaul our FX projections. Under a Trump presidency, policies of higher tariffs and, further out, looser fiscal policy via tax cuts are ostensibly USD-positive. A higher inflationary impulse provides less scope for easier monetary policy and US rates should accordingly be higher than otherwise across the curve.

In reality, things are not that straightforward. Policies can change, and their timing also matters. Large scale tariffs mooted could be a negotiating tool and not actually implemented on anything like the scale promised in pre-election positioning. Other countries could retaliate against US tariffs.

For currency markets, real interest rates matter more than nominal rates. If inflation expectations rise more than nominal interest rates, then lower real rates could be USD-negative. Higher budget deficits and growth-sapping tighter immigration controls might also ultimately be considered USD-negative. If, at some point in the future, the market gets spooked by the trajectory of high deficits and ever-increasing government debt, then higher risk premia can evolve – in that case higher US rates do not necessarily lead to a stronger USD. The 2022 UK 'Liz Truss moment', which saw GBP/USD fall to its lowest ever rate, is a case in point, even if the circumstances driving the extent of the spike in gilt yields were somewhat unique to the United Kingdom.

Without getting too bogged down in policy details at this juncture, we need to put a line in the sand and propose some updated currency forecasts. We warn though that today's line in the sand is apt to get washed away on several occasions as we go through 2025 as gaps open between US policy conjecture and reality.

Our baseline assumption is that a moderate Trump 2.0 scenario evolves. This assumes a phasing in of higher tariffs but not to the full extent threatened. This might mean, from the middle of next year, increased tariffs on China but well short of the mooted 60% and 10-20% on imports from other countries (likely with various carve outs) which culminates in say a 10% increase in the average tariff rate applied to all US imports (currently around 2.4%).

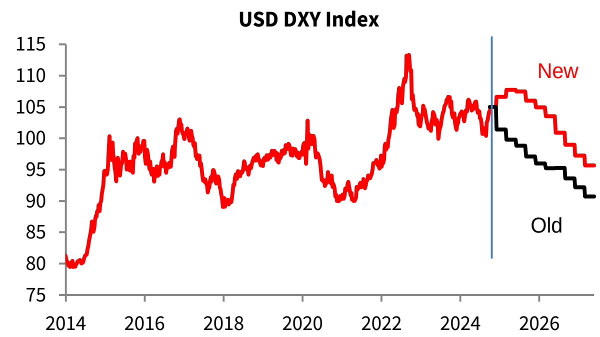
On tax policy, we should assume the corporate tax rate is nudged lower, at least for firms manufacturing in the United States and that expiring individual income tax cuts from the 2017 Tax Cuts and Jobs Act are made permanent – but make no assumptions on the taxes or spending side beyond that. In any event, any significant fiscal policy changes likely won't take effect before 2026.

On immigration, as a working assumption illegal immigrants are not rounded up en masse and sent back home, but border policies are further tightened to subdue the pace of legal and illegal immigration. If we're wrong and mass deportations eventuate, this has significant implications for both the supply side (labour shortages) and the demand side (fewer wage earners) of the US labour market which would inevitably have implications for US growth, inflation, Fed policy and hence our FX forecasts.

We assume the Fed retains its independence and acts in a business-as-usual fashion to counteract any new inflationary pressures that might come about. Were instead White House actions in 2025 force markets to take seriously threats to Fed independence, this would immediately undermine a key pillar of support for the US dollar.

On this moderate view, there is no disorderly market reaction and economic impacts are generally well contained. Nevertheless, rather than see the USD weakening from early next year as per our previous forecasts, we now see the USD extending its recent recovery through the first half of the year at least, before potentially reversing course once Trump 2.0 era polices and their likely impact become well known and more fully discounted. All key major currencies make fresh lows against the USD early next year before finding a base and starting to recover in the second half.

Chart 1: DXY USD forecast, old versus new



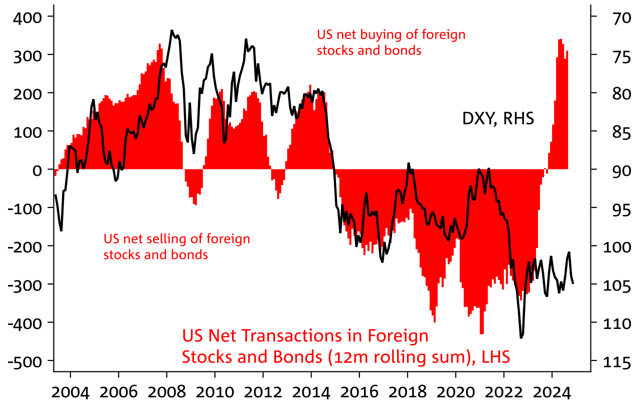
Source: BNZ/NAB, Bloomberg

Our bias remains that the USD is richly priced and the longer we look ahead the more scope we see for USD weakness to return. Yet currently, the risks seem skewed to more radical policy actions, closer to Trump's pre-election rhetoric, likely adding to domestic US inflation pressures and to downside risks to global growth. Thus, assuming the Fed remains unconstrained by political considerations, the risk is that we will need upward revisions to our USD forecasts and a longer time horizon before the USD peaks.

Unlike the prolonged period of stability in our previous FX projections, we expect that we will have to make more regular revisions, as policies evolve, and more details are released. Wider bands of uncertainty around our projections should be considered a new norm.

From a flows perspective, and as per the research note we published back in July this year (see Modelling the USD - a commodity vs flow story) the key USD driver is not capital flows into the United States from abroad, rather US investor capital outflows. Since the start of this year, there has been a consistent outflow by US investors, which with requisite lags has been historically synonymous with a weaker USD – which was starting to unfold in Q3. Under the Trump 2.0 policy landscape, there is a strong chance these capital outflows will – if they are not already – go into reverse.

Chart 2: US capital outflows vs USD set to reverse?

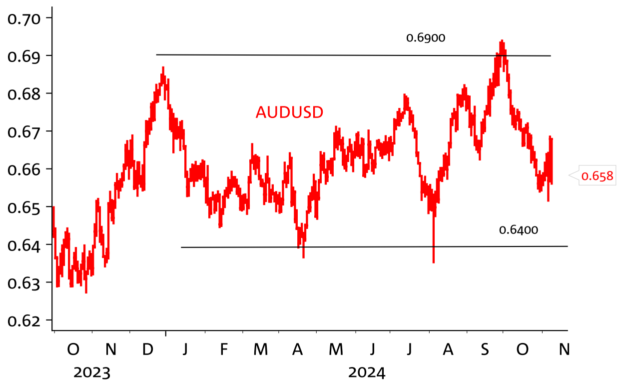


Source: National Australia Bank, Macrobond

AUD – Doomed to disappointment

One of the oldest adages in the foreign exchange market is that 'it always looks most bullish at the top'. Such was the case in late September when AUD/USD had just pierced 0.69 – a new YTD high - and the return of a 70 cents Aussie was deemed to be at most weeks away. It has been pretty much one-way traffic south ever since.

Chart 3: AUD slammed back in the range well before Trump win



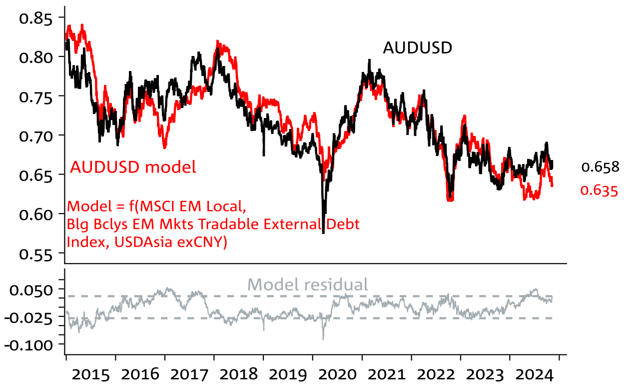
Source: National Australia Bank, Macrobond

The AUD/USD fall back from the 0.6942 Sep 30 high had, until last week, precious little to do with Trump's re-election, fully explicable by the revival in the USD's fortunes associated with evidence of ongoing US economic exceptionalism, some stalling in the US disinflation process, and associated re-pricing of Fed policy prospects. Were that to materially change through the rest of the year, (i.e., clearer evidence of labour market deterioration alongside resumption of disinflation toward the 2% Fed target) then all else equal, that would be consistent with AUD/USD recovering to close to its YTD peaks and our earlier 0.69 end-2024 target.

But all else is not equal. Other than in circumstances where President-elect Trump's pre-election tariffs threat prove to be no more than a negotiating tactic, we now need to factor into our AUD forecast some hit to global growth relative to our 'status quo' pre-election baseline which saw growth running close to trend in 2025 (circa 3%, also the pre-US election market consensus).

As we have consistently noted in our research this year, there is a more consistent relationship between global growth and the AUD than there is between Australia-relevant commodity prices and the currency, and where various supply shocks dating back to the pandemic have often driven a wedge between commodity prices and the strength of global demand. (See: Global growth matters).

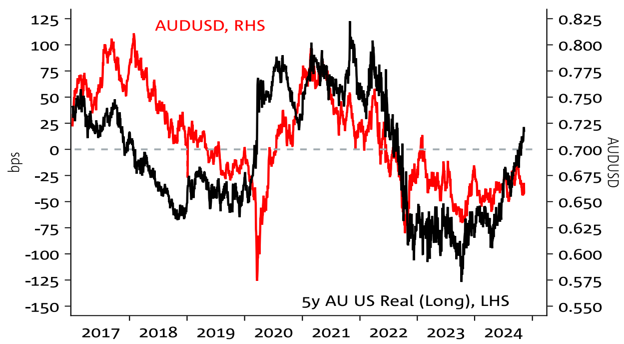
Chart 4: EM risk metrics now a clear AUD negative



Source: National Australia Bank, Macrobond

From a risk perspective, the failure of AUD since the news of Trump's election victory to key positively off the fierce rally in US equities (S&P500 up ~4%) should not be a surprise. When it comes to the AUD's risk-sensitivity, it is Emerging Market risk metrics that matter, and which have pointed AUD/USD down, not up, since news of Trump's victory (Chart 4). We struggle to see what can prompt a sustainable turnround here at least in the first few quarters of the new Trump administration and must factor this into our revised forecasts. This includes the latest fiscal announcements from Beijing, which patently fail to offer any near-term prospect for a meaningful pickup in consumer demand to counter the further deterioration in export growth prospects that the advent of the new US administration surely hails.

Chart 5: Hope for AU from (real) rate spreads?



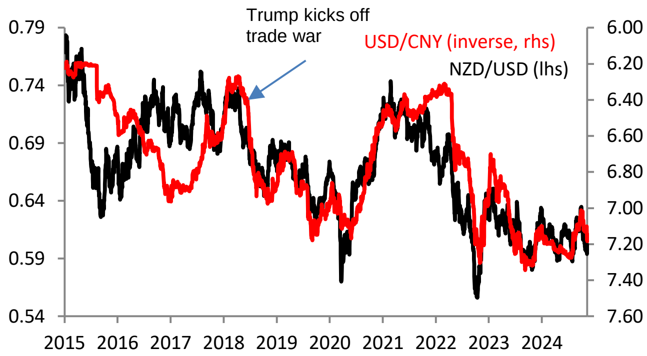
Source: National Australia Bank, Macrobond

While global growth and EM risk considerations underpin our more pessimistic view of the AUD's prospects in 2025, one bright spot of late has been a quite decisive shift in interest rate differentials in the AUD's favour. As per chart 5, the likes of 5-year real rate spreads (the rates variable used in our 'Horatio' AUD fair value model) are in isolation more consistent with AUD/USD at 0.70 than 0.65. Barring a significant reversal here this will function as something of a counterweight to the drag from weaker global demand and EM risk considerations. Yet we expect the latter two forces to be overwhelming, reflected in our new forecast for further AUD/USD slippage at least through H1 2025 and no return to levels above 0.70 at least not before 2026.

NZD – Trump 2.0 adds to headwinds

In addition to the stronger-for-longer USD profile under Trump's "America First" policies, relevant to the outlook for the NZD we must also consider the prospect of a weaker global growth backdrop, which the NZD is sensitive to, and ramifications for China. Since Trump kicked off the trade war with China in early 2018, the correlation between NZD/USD and USD/CNY has been high. Typically, a weaker yuan would be expected to drag down the NZD.

Chart 6: Trade war kicked off closer relationship between NZD, CNY



Source: BNZ/NAB, Bloomberg

Another important consideration is the starting point of currencies. Just ahead of the trade war under Trump 1.0, the DXY index was around 90, USD/CNY was around 6.30, and the NZD was around 0.73. Clearly the yuan and NZD are trading at much weaker levels compared to 2018.

In addition to the starting point issue, there are other mitigating factors that could restrain the downside potential for the NZD. Firstly, China could react with a more forceful fiscal easing to support its economy. Secondly, if risk appetite is supported by ongoing buoyancy in global equity markets, then that could act as a brake on downside pressures. We saw that in action last week, with higher risk appetite softening the blow to the NZD from the election result.

However, if Trump goes ahead with a full-blast 60% tariff on Chinese imports, then downside for the NZD could well be lower. Under Trump's first term, the real hit to the NZD came when the trade war with China stepped up to a higher level, from the spillover effect of the much weaker yuan. The higher the tariffs imposed, the greater the depreciating forces on the yuan and NZD.

Rather than aggressively factor in some considerable NZD downside from here, we have abandoned our view of a decent NZD recovery in 2025. The net result is a substantial NZD downgrade relative to our previous forecasts, but only moderate NZD downside from current levels.

Our new year-end target for 2024 is 0.5950, which includes the usual positive seasonal factors for the NZD late in the year. Consider this as a 0.5750-0.6150 trading range, suggesting that current key support of 0.5850 could well be broken before the year is out. We then have 0.57-0.58 central targets in Q1/Q2 year, implying that a low of 0.55 could be reached at some stage. A factor in our view is that in 2022, the NZD reached a low of 0.5512 on an intraday basis.

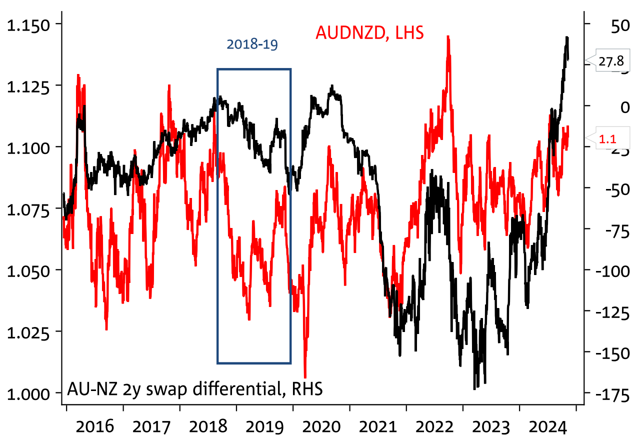
From the middle of next year, we have the NZD on a gradually appreciating path, with the same end-2025 target of 0.5950 as for end-2024. As noted earlier, these are based on working assumption of a moderate Trump 2.0 policy path and we will have to be fluid as the gaps on policy are filled in.

AUD/NZD – Push Me Pull You

Regular consumer of our FX research know that we have maintain a consistently bullish view of AUD/NZD, including questioning the relatively shallow upward trajectory of our forecasts in the face of an ever-widening valuation gap as yield differentials have moved further in favour of a higher cross rate. This view remains compelling, though we must at the same time acknowledge the 2018-19 experience, where the AUD demonstrated greater sensitivity to China/global economic fortunes than NZD.

That said, the weaker cross rate back then was supported by interest rate differentials moving decisively in the NZD's favour (Chart 7) whereas now they are at their most AUD supportive in ten years and consistent with the cross rate nearer 1.15 than 1.10. We are maintaining our forecast for modestly higher AUD/NZD levels through 2025 but which does allow for ongoing underperformance relative to model valuations to account for sensitivity to the China/global growth factor.

Chart 7: AUD/NZD vs 2-year swap differentials



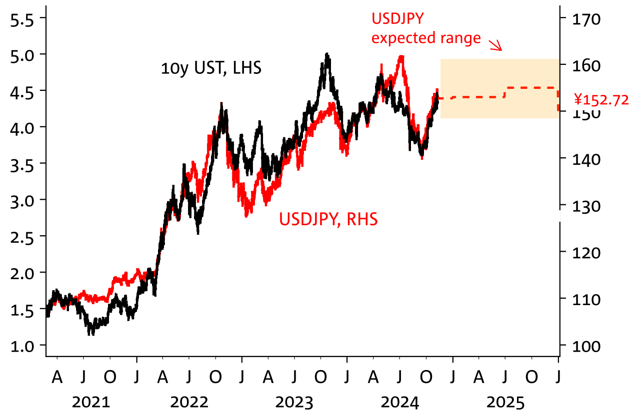
Source: National Australia Bank, Macrobond

JPY - Not just one-way risk

There are several ways the new Trump presidency is likely to affect JPY. From a fundamental perspective JPY has a high degree of sensitivity to the level and direction of US Treasury yields. All else equal we assume the Trump administration will deliver on their key policy proposals with the degree and timing of these policies the bigger uncertainty. That said, most policies (lower taxes, tariffs, immigration, deregulation, unfunded expansionary fiscal policy) can be regarded as pro- growth and or inflationary. This means higher US Treasury yields and a shallower Fed easing cycle.

Tariffs on Japanese exports to the US are likely, at least initially, to produce another JPY headwind, with a weaker JPY increasing tradeables inflation in Japan. Here is where our assumption of BoJ policy normalisation remains intact. We still expect the BoJ to lift its policy rate towards 1% by the end of 2025, with domestic inflationary pressures keeping the core and core-core CPI hovering around 2%. Shunto wage negotiations and fiscal policy are going to be important dynamics to watch early in 2025. We assume wages outcomes around 5% and an expansionary budget given the LDP's needs to regain public support.

Chart 8: ¥150-160 the new expected range?



Source: National Australia Bank, Macrobond

Against this macro-outlook, we see USD/JPY price action largely contained within a ¥150 to ¥160 range over the reminder of 2024 and through 2025. Our point forecast for Dec-24 is ¥153, implying an expected range of ¥150 to ¥156 over coming months.

The risk of trade tariffs introduced late in H1-25 lifts USD/JPY forecast to ¥155 in Q2, implying the risk ¥160 could be tested around the middle of next year, while a sustained move below ¥150 becomes a story for late 2025.

One key risk to note is that an aggressive trade war, triggering a big collapse in global equities is likely to result in JPY regaining its safe-haven attributes. We note that early in 2019, USD/JPY fell 10 big figures on the back of sharp slump in global equities led by a collapse in Chinese equities.

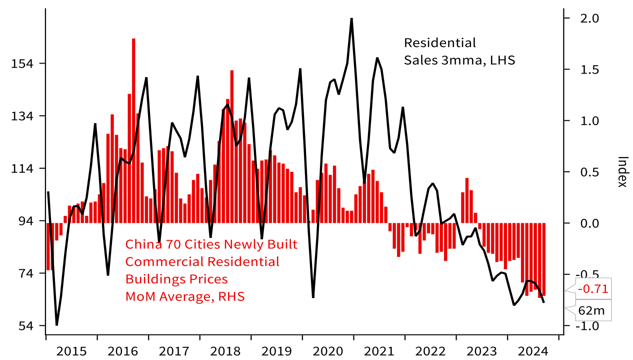
CNY – Not what it takes

The much-awaited China fiscal stimulus announced late last Friday fell well short of what one might call a 'whatever it takes' moment. Late on Friday, China announced a ¥10trn ($1.4trn) package which is not a debt relief but rather a debt swap exercise. So, the magnitude of the fiscal stimulus is not as big as the headline number may suggest. Local governments will be allowed to issue ¥6trn (4.6% GDP) in special bonds spread equally over the next 3 years to swap off-balance sheet debt with cheaper debt. Another ¥4trn of special bonds for the same purpose will be approved in tranches over the next five years.

According to the finance minister, the interest payment relief should amount to ¥600bn (0.46% GDP) over the next five years. This is an underwhelming initiative akin to bringing a knife to a gun fight and although the sum of policy measures introduced since late September do point to an improvement in activity near term, they do little to address the acute structural challenges China's economy is facing today. Deflationary forces (the latest core CPI came at a meagre 0.2%yoy in September) are symptomatic of an anaemic consumer crumbling before a reduction in wealth and job uncertainty. Meanwhile China's focus on supply side stimulus does little to arrest or reverse a decoupling process which now is likely to be supercharged under a Trump II presidency. China's export led growth policy is set to face new headwinds from higher tariffs and heightened tensions with its main trading partners.

To add to China's concerns, the deleveraging process in the housing market still has some way to go with the recent initiatives unlikely to incentives local governments to play a more meaningful role in stabilising the market. On Friday, Finance Minister Lan Fo'an did say that new measures to support state purchases of land and unsold property from developers should be forthcoming, but no details were provided other than a comment observing the budget for next year will be increased. Unless we see a stabilisation in China's housing market, a consumer led economic recovery will remain off the table. Furthermore, heightened trade and geopolitical tensions add further uncertainties to an investment rebound from both the private and foreign sector.

Chart 9: Can China arrest its house price decline?



Source: National Australia Bank, China National Bureau of Statistics (NBS), Macrobond, Bloomberg

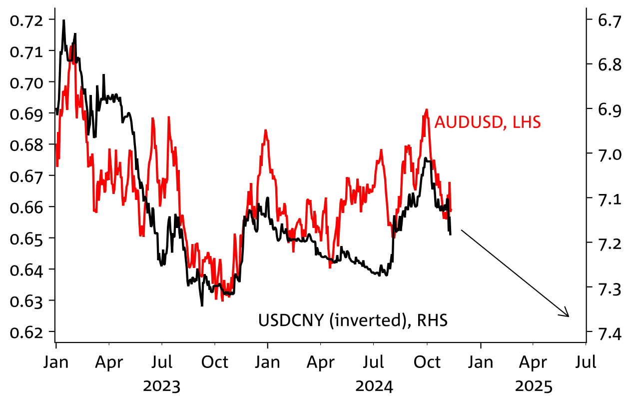
Against this backdrop, China's growth outlook over coming years looks hampered by weak credit growth weighed down by deleveraging in the housing market, demographic headwinds and low productivity from less efficient government directed – as opposed to private sector – investment.

Market reaction to Friday's fiscal package has been one of disappointment with CNH heading towards 7.20 alongside a sell-off in both onshore and offshore stock markets. The stimulatory measures since late September should help China achieve its 5% growth target for this year, but questions remain on the growth outlook for 2025. Policy makers remain reluctant to provide consumption-related stimulus (an earlier Reuters article had alluded to ¥2trn) and now one must assume that Beijing may be looking at engaging with the Trump administration first, before committing to further stimulatory measures ahead.

Our new USD/CNY forecasts reflect the new reality China faces ahead of a second Trump presidency. Whether the US looks to negotiate or impose hefty China tariff first remains a big uncertainty, but our new forecasts which see USD/CNY ending 2024 at 7.20 and then reaching 7.40 halfway through next year reflect our assumption of a phasing in of higher tariffs, if not to the full extent threatened. This might mean, from the middle of next year, the start of tariffs on China but which fall well short of the 60% oft-mentioned level during Trump's election campaign.

There is of course a scenario where China avoids tariffs with speculation Beijing will look to re- engage with the Trump administration during the US post-election transition. If China was to offer a significant amount of investment and manufacturing in the US, this may entice President Trump too make a deal, but we assign a low probability to this risk/AUD positive outcome. There is also the scenario that this time President Trump delivers on his campaign proposal to impose 60% tariffs on China. Here is where the appointment of the next US Trade Representative Secretary will be important. If for instance Trump appoints Robert Lighthizer, a known China hawk, then the risk of higher tariffs increases and with that the risk of the AUD testing levels closer to 60c if not lower, in conjunction with China allowing USD/CNY to rise to well above 7.40.

Chart 10: CNY at 7.40 next year a big AUD downside risk



Source: National Australia Bank, Macrobond

EUR – More pain before any relief

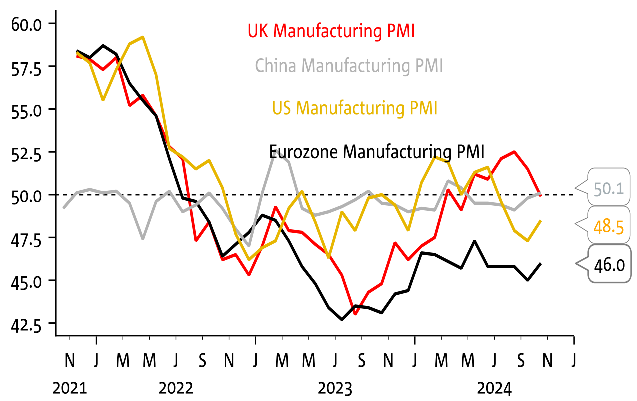
The bad news for Europe just keeps piling up. Many European economies are still feeling the fiscal pressure of the pandemic, while the cost from the Terms of Trade hit after Russia's 2022 invasion of Ukraine sent energy prices skyrocketing still reverberates as energy supply and costs remain above long-term averages. China's aggressive push into high-tech manufacturing in areas such as EVs has proved extremely problematic for Europe's manufacturing and export-dominant economies and especially Germany. Even Joe Biden's Inflation Reduction Act has been unhelpful to Europe, pulling as it has investment away to the US.

Now, just as European economies start to benefit with some green shoots of growth thanks to lower inflation and still higher nominal incomes, lower interest rates, an improvement in lending conditions - all of which is being reflected in a gentle improvement in confidence - the re-election of Donald Trump threatens more pain. Not only does Trump 2.0 likely mean a return to more turbulent US-EU relations, but likely also growth reducing and price rising trade tariffs as well as US financial and environmental deregulation that leaves Europe even more behind.

Further, Trump has previously warned he will stop the war in Ukraine, forcing 'a deal' on the basis that US foreign policy will pivot to being more isolationist and where the US will no longer be willing to pay for such excursions, especially when a number of European countries still aren't paying their way in terms of 2% of GDP into NATO. As a result, we are likely to see changes to contributions and possibly a big step up in spending. Europe has already increased its production of weaponry such as 155mm shells, but defence procurement for a world that it thought it had seen the last of nearly 80-years will need to rise meaningfully.

Additional defence spending is one way to boost European growth and as a quid pro quo some of this could be a way to head off tariffs with the US via buying US military kit as could an increase in LNG imports. We may yet see Europe's reported package of additional US goods it is said to have prepared for Trump's return - thereby easing the current EU trade surplus with the US - actually result in less tariff pain.

Chart 11: Europe's misery index



Source: National Australia Bank, Macrobond

But any such deal will be fought out over time. As with all Trump's tariff proposals there will first need to be much negotiation for the US to extract any agreeable concessions. There will therefore be no early win here for Europe and markets will likely react to this in the shorter-term.

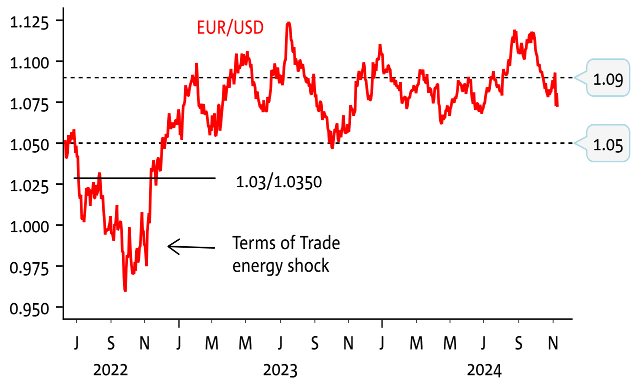
Moreover, Europe's problems are far deeper, far more structural than this. As former ECB President Mario Draghi has forcefully outlined in his 400-page 'The Future of European Competitiveness' plan that was commissioned by the EU Commission, if Europe cannot change and become more productive, Europe will be forced to choose and will not be able to finance its social model, not become a beacon of climate responsibility or an independent player on the world stage. Instead, the EU "risks failure" in this "existential challenge."

We wait to see just how and to what extent Draghi's plan is successful. The new Commission is clear in its desire for many components of the plan to be implemented. However, the plan's ambitions range from the EU becoming more competitive and productive, less fragmented, less over-regulated, improve its innovation lifecycle, complete the Capital Markets Union and move towards common Defence and Foreign policies, all of which will require more moves towards a fiscal union and joint debt issuance. If it is successful, it won't be easy or quick. However, in Germany and France's current political malaise, there is opportunity, with Europe's citizens and businesses driving change.

Over the next few months however and especially during the current period of US policy vacuum until the 20 January US inauguration, Trump policy kite-flying and personnel appointments will likely pressure Europe further, as markets price the likely economic fallout. In this period and with the ECB set to cut rates from the current 3.25% to 3% in December and 2.75% in Q1, 2025 before reassessing, the EUR will be in the crosshairs. In our last update we highlighted a drop from 1.10 to 1.05 was likely on a Trump win. We think we're essentially now in a 1.03-1.09 range and one in which investors will be tempted to sell rallies. What we do not see at this stage is a return to the below parity levels of 0.95, seen amid the immense 2022 Terms of Trade energy shock.

We do not expect much in the way of EUR relief in H1, 2025, unless either Trump policies surprise in a less negative way or the US economy proves less resilient, increasing the need for lower rates. In this environment we expect more prominent roles in Europe from the likes of Italy's Meloni, who is close to both Trump and Musk and also from Hungary's Orban, with a further gradual shift to the right in European politics. A German election should lead to the formation of new coalition government in Q1, 2025 led by the centre-right CDU, but with potential support from the SPD and one other party, this should pave the way for a stronger economy and a slightly less tough fiscal stance than the CDU would normally adhere too if governing alone.

Chart 12: EUR/USD now in a broad 1.03-1.09 range



Source: National Australia Bank, Macrobond

Necessary increased EU fiscal spending, a EUR at 1.05 or below and possible worries over higher inflation from tariffs are a potential development that will cause the ECB to be less willing to ease once rates drop to 2.75% and with neutral not far below. The aforementioned tailwinds to European growth and interest rates on a '2% handle' can all improve Europe's lot. To the extent China's still unfolding fiscal easing plans support the Chinese economy and boost confidence, Europe can benefit here too. And if Trump does follow-through in his proposal to end Biden's Inflation Reduction Act in preference for a fossil fuel splurge, this could play to Europe's advantage, at least in seeing prior EU investment in the US, return to Europe. In the bigger-picture Europe's long-term reform plans will build over time and perhaps pay greater dividends in 2026. Such a development can gel with our still long-held views of USD overvaluation, allowing the EUR to stabilise in H2, 2025 and recover through 2026.

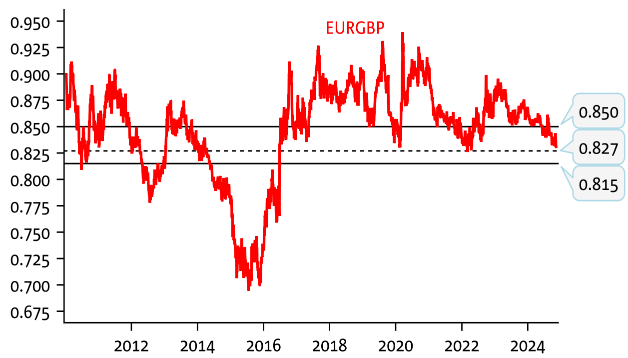
GBP – More resilent vs USD than peers

While there is huge uncertainty over the impact of US economic policy under Donald Trump and how this will impact the RoW, the prospect of the UK being less negatively affected than other nations is realistic in our view.

From the trade angle the UK does run a £72bn surplus with the US amid total £300bn of annual bilateral trade. However, around £5bn of this is in goods trade, with the bulk in services; harder to hit with tariffs. There is the threat that a global trade war will impact the UK via it being an open economy with a heavy reliance on manufacturing imports from around the world and particularly Asia for onward manufacturing.

The idea that Trump may want to 're-weight' even the UK services surplus via the goods channel is also real, with the possibility that US gets greater access to UK agriculture and foodstuffs, a longstanding talking point. However, Trump – a proponent for Brexit, having shown sympathy for 'a renegade' UK that had the courage to leave the EU, is alleged to be frustrated that the UK has yet to really make anything of its departure. Here, long-in-the-tooth talks on a UK-US trade deal could be an opportunity to 'go easy' on the UK, as some media reports have suggested. The hope is this does not come at the expense of a UK realignment with Europe.

Chart 13: EUR/GBP downside pressure to continue



Source: National Australia Bank, Macrobond

Another factor that could help GBP be less affected against a more dominant USD than its peers, is the relative interest rate profile. The recent UK Budget has seen markets remove some of the rate cuts previously priced after the UK's OBR forecast 2% GDP in 2025 (a 0.75% uplift) adding 0.5% to UK CPI. UK inflation is now not seen falling below 2% until at least Q2, 2026. Thus, from the current 4.75%, markets now see 3-4 additional cuts to the end of 2025 to 3.75%-4%.

As noted, economic growth might also be a factor in GBP's favour. Official forecasts of 1.5% to 2% in 2025 look good relative to Europe at least. However, we are concerned that at some stage in 2025, the impact of the Budget on the private sector may well see a more profound slowdown to growth and higher unemployment. We thus retain our view of four rate cuts to 3.75%, but this is a factor to monitor. With all this in mind we see GBP easing slightly less than the EUR, just fading that very slightly later in 2025. Our EUR/GBP profile probes a little lower to 0.815/0.82 initially, leaving GBP/USD at 1.27 end 2024 and 1.28 by the end of 2025.

Spot FX Forecasts

Majors		Current	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
AUD/USD	**New**	**0.658**	**0.66**	**0.65**	**0.64**	**0.66**	**0.67**	**0.69**	**0.71**	**0.72**	**0.73**	**0.74**	**0.75**
	Old		0.69	0.71	0.72	0.74	0.75	0.74	0.73	0.74	0.75	0.76	0.77
NZD/USD	**New**	**0.597**	**0.595**	**0.58**	**0.57**	**0.59**	**0.60**	**0.62**	**0.64**	**0.65**	**0.66**	**0.67**	**0.68**
	Old		0.62	0.64	0.65	0.66	0.67	0.66	0.65	0.66	0.67	0.68	0.70
USD/JPY	**New**	**152.8**	**153**	**155**	**155**	**153**	**150**	**144**	**140**	**135**	**133**	**130**	**127**
	Old		143	140	137	134	131	129	129	125	123	120	117
EUR/USD	**New**	**1.071**	**1.05**	**1.04**	**1.05**	**1.06**	**1.07**	**1.08**	**1.11**	**1.13**	**1.15**	**1.17**	**1.18**
	Old		1.11	1.13	1.14	1.16	1.17	1.18	1.18	1.20	1.22	1.24	1.25
GBP/USD	**New**	**1.291**	**1.27**	**1.27**	**1.27**	**1.28**	**1.28**	**1.29**	**1.32**	**1.34**	**1.37**	**1.38**	**1.39**
	Old		1.30	1.31	1.32	1.34	1.35	1.36	1.36	1.38	1.40	1.42	1.43
USD/CHF	**New**	**0.876**	**0.89**	**0.89**	**0.89**	**0.88**	**0.87**	**0.87**	**0.85**	**0.84**	**0.82**	**0.81**	**0.81**
	Old		0.87	0.86	0.85	0.84	0.83	0.82	0.81	0.80	0.78	0.76	0.75
USD/CAD	**New**	**1.39**	**1.39**	**1.43**	**1.44**	**1.41**	**1.39**	**1.37**	**1.35**	**1.33**	**1.31**	**1.29**	**1.27**
	Old		1.35	1.34	1.33	1.32	1.29	1.29	1.32	1.30	1.29	1.29	1.28
USD/CNY	**New**	**7.185**	**7.20**	**7.25**	**7.40**	**7.30**	**7.25**	**7.20**	**7.15**	**7.10**	**7.05**	**7.00**	**6.95**
			7.15	7.10	7.00	6.90	6.85	6.90	6.95	6.85	6.75	6.70	6.60
USD (DXY)	**New**	**105.00**	**106.57**	**107.71**	**107.11**	**105.97**	**104.91**	**103.49**	**100.85**	**98.90**	**97.18**	**95.59**	**94.55**
	Old		101.42	99.79	98.77	97.12	96.00	95.18	95.35	93.61	92.15	90.69	89.75
AUD Cross Rates													
AUD/NZD	**New**	**1.103**	**1.11**	**1.12**	**1.12**	**1.13**	**1.13**	**1.12**	**1.12**	**1.11**	**1.11**	**1.11**	**1.11**
	Old		1.11	1.11	1.11	1.12	1.12	1.12	1.12	1.12	1.12	1.12	1.10
AUD/JPY	**New**	**100.6**	**101**	**101**	**99**	**101**	**101**	**99**	**99**	**97**	**97**	**96**	**95**
	Old		99	99	99	99	98	95	94	93	92	91	90
AUD/EUR	**New**	**0.615**	**0.63**	**0.63**	**0.61**	**0.62**	**0.63**	**0.64**	**0.64**	**0.64**	**0.63**	**0.63**	**0.64**
	Old		0.62	0.62	0.63	0.64	0.64	0.63	0.62	0.62	0.61	0.61	0.62
AUD/GBP	**New**	**0.510**	**0.52**	**0.51**	**0.50**	**0.52**	**0.52**	**0.53**	**0.54**	**0.54**	**0.53**	**0.54**	**0.54**
	Old		0.53	0.54	0.55	0.55	0.56	0.54	0.54	0.54	0.54	0.54	0.54
AUD/CHF	**New**	**0.577**	**0.58**	**0.58**	**0.57**	**0.58**	**0.59**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**
	Old		0.60	0.61	0.61	0.62	0.62	0.61	0.59	0.59	0.59	0.58	0.58
AUD/CAD	New	**0.915**	**0.92**	**0.93**	**0.92**	**0.93**	**0.93**	**0.95**	**0.96**	**0.96**	**0.96**	**0.95**	**0.95**
	Old		0.96	0.96	0.98	0.99	0.98	0.98	0.98	0.98	0.98	0.98	0.98
AUD/CNY	**New**	**4.73**	**4.75**	**4.71**	**4.74**	**4.82**	**4.86**	**4.97**	**5.08**	**5.11**	**5.15**	**5.18**	**5.21**
			4.93	5.01	5.04	5.11	5.14	5.11	5.07	5.07	5.06	5.09	5.08
NZD Cross Rates													
NZD/AUD	**New**	**0.907**	**0.90**	**0.89**	**0.89**	**0.89**	**0.89**	**0.89**	**0.89**	**0.90**	**0.90**	**0.90**	**0.90**
	Old		0.90	0.90	0.90	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.91
NZD/JPY	**New**	**91.2**	**91**	**90**	**88**	**90**	**89**	**89**	**89**	**88**	**88**	**86**	**86**
	Old		89	89	89	88	88	85	84	83	82	82	82
NZD/EUR	**New**	**0.557**	**0.57**	**0.56**	**0.54**	**0.55**	**0.56**	**0.57**	**0.57**	**0.58**	**0.57**	**0.57**	**0.57**
	Old		0.56	0.56	0.57	0.57	0.57	0.56	0.55	0.55	0.55	0.55	0.56
NZD/GBP	**New**	**0.462**	**0.47**	**0.46**	**0.45**	**0.46**	**0.46**	**0.48**	**0.48**	**0.49**	**0.48**	**0.48**	**0.49**
	Old		0.48	0.48	0.49	0.49	0.50	0.49	0.48	0.48	0.48	0.48	0.49
NZD/CHF	**New**	**0.523**	**0.53**	**0.52**	**0.50**	**0.52**	**0.52**	**0.54**	**0.54**	**0.54**	**0.54**	**0.54**	**0.54**
	Old		0.54	0.55	0.55	0.55	0.56	0.54	0.53	0.53	0.52	0.52	0.53
NZD/CAD	**New**	**0.830**	**0.83**	**0.83**	**0.82**	**0.82**	**0.83**	**0.84**	**0.86**	**0.86**	**0.86**	**0.86**	**0.86**
	Old		0.84	0.85	0.86	0.87	0.86	0.85	0.86	0.86	0.86	0.88	0.90
NZD/CNY	New	**4.29**	**4.28**	**4.21**	**4.22**	**4.27**	**4.31**	**4.43**	**4.54**	**4.62**	**4.65**	**4.66**	**4.69**
	Old		4.43	4.51	4.55	4.55	4.59	4.55	4.52	4.52	4.52	4.56	4.62

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