

# Markets Research Global FX Strategist



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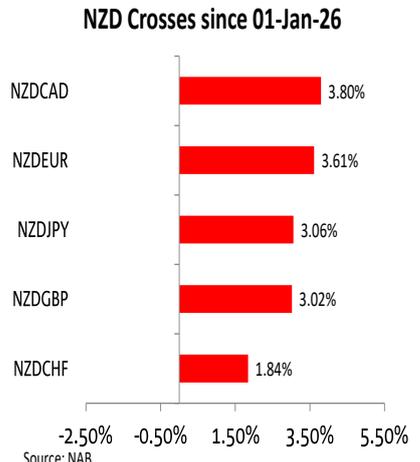
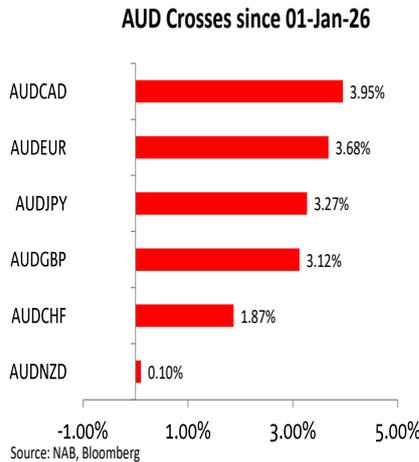
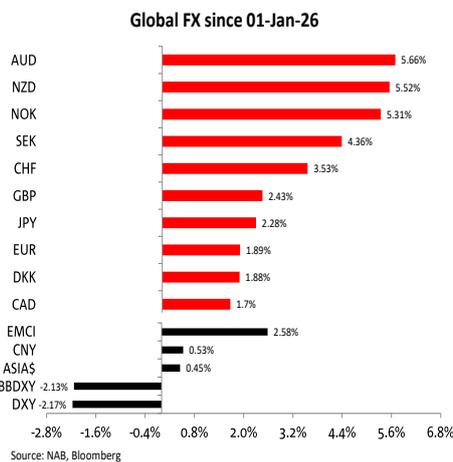
## Key Currency Themes

- We expect further USD weakness, but our updated forecasts fall well short of what the current ‘dollar debasement’ hysteria wants you to believe.
- Expect a pull back before long, but AUD can sustain the break above 0.70 through 2026. We nudge forecasts up, including most AUD crosses.
- We have not changed our NZD projections for this year, which see further recovery to 0.63.
- EUR/USD rises closer to our range top, choppy from here.
- GBP gains limited as political uncertainty set to undermine.
- Revised JPY forecasts see USD/JPY mostly contained in ¥145-155 range in 2026. AUD/JPY has shifted into a higher trading range.
- PBoC set to guide a stronger CNY in 2026, USD/CNY heading towards 6.80 and AUD/CNY to below 5.0 by year end.
- We now include cross rate updates for AUD/NZD, AUD/EUR, AUD/GBP, AUD/JPY and AUD/CNY, replacing our prior monthly AUD crosses/AUD Corporate FX update

## FX views in a tweet

Near term view (next few weeks)		Longer term view (6-12 months)	
USD Index	➔ Has come a long way quickly and susceptible to a modest rebound if upcoming Fed related decisions (SCOTUS) offer reassurance re ongoing Fed independence	⬇️	Any additional secular USD slippage can be aided by some loss of (relative) US exceptionalism and resumption of Fed easing expected from mid-year
AUD/USD	➔ Move up to above 0.70 justified on multiple fronts but very stretched technically so a modest pull-back due, though shouldn't run down far if RBA hikes Feb 3	⬆️	January run up leaves us comfortable with view we are moving into 0.70-75 type range for 2026 with scope for further cross rate gains if RBA lifts rates as we expect in H1
NZD/USD	➔ After a sharp rally to a six-month high the NZD is due to consolidate; key labour market data next week; RBNZ should be more hawkish in 18-Feb update	⬆️	Year-end target of 0.63 but open to stretching to 0.65 if the evident USD downturn significantly extends; domestic forces much more positive than last year
EUR/USD	➔ Momentum has been with USD weakness, but this can ease very short-term. ECB to both play down current EUR level impact, but keep the issue live	⬆️	EUR will find the going tough from here, with 1.25/1.26 capping the range. Visible progress on EZ reforms would help. Still, it's too early to call time of the USD slide
GBP/USD	➔ The better growth/data dynamic can sustain short-term but will fade. BoE forecast to hold 6:3 on 5 Feb	⬇️	Political instability will build in Q2 towards the May local elections. Same time inflation will drop more meaningfully.
USD/JPY	➔ JPY appreciation triggered by signs of intervention, but unless they are backed by improvements in fundamentals gains unlikely to be sustained	⬇️	2026 price action mostly contained within a 145-155 range. Topside breaks to be capped by intervention risk while move towards 145 contingent on BoJ delivering on normalisation
USD/CNY	➔ China's economic activity is slowing and the PBoC has been gradually guiding USD/CNY lower. Time for a pause	⬇️	Expectations for a broadly weaker USD, provide room for PBoC to guide USD/CNY towards 6.80 area

## G10 FX, AUD & NZD year to date – Aussie and Kiwi on top of the world



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## USD – Hold your horses (for now)

- We expect further USD weakness, but our updated forecasts fall well short of what the current ‘dollar debasement’ hysteria wants you to believe

We don’t dismiss out of hand the ‘dollar debasement’ thesis popular since President Trump assumed office for a second time and which reached fever pitch after the ‘liberation day’ tariff announcements. But to date, we have been reluctant to look much beyond marginal (new) asset allocation decisions away from US markets. This is on the basis that investors see US markets as continuing to offer the best risk-adjusted returns. This includes central banks/reserve managers, in which respect ongoing strong demand for gold is evidently not at the expense of the USD. IMF COFER data, in FX adjusted terms, shows no change in the share of USD, as of Q3 2025 at least. And while the scope to increase hedging of US assets as a USD negative force is palpable, Fed chair Powell this week said, “We don’t see data suggesting investors are hedging USD risk”.

Alongside these potential USD negative factor, our forecast for further Fed rate cuts have justified our prior forecasts for further USD depreciation through 2026. These forecasts still hold, with only modest revisions, the main change to our FX forecast track through 2026 being JPY (see p.7 and forecast table on p.10).

Recent events, most pointedly President Trump’s overtures towards Greenland and threats to countries who oppose him, plus events in Minnesota, have certainly challenged the above view, further undermining as they have confidence in US adherence to the rule of law, respect for national sovereignty and so the separation of powers which represent the ‘operating system’ of the US Constitution. Yet with that ‘TACO’ acronym back on display vis-à-vis Greenland, so too in efforts to diffuse the situation in Minnesota, we are still inclined to see recent US administration actions as more noise than signal, notwithstanding genuine concerns regarding the sanctity of the US security umbrella as one source of the USD’s preminent reserve currency status.

The biggest threat to USD hegemony resides in a loss of Fed independence via an effective takeover by Trump-devotees willing to do his bidding on interest rates. To avoid a USD collapse, these fears will need to recede. Next week we should learn who Trump wants as next Fed chair, so the market’s view of his/her credibility will be important, but more pertinent is the impending SCOTUS rulings on the Lisa Cook case and the status of the Fed vis-vis other Federal Agencies. Restoration of confidence that Fed independence will be preserved has the potential to drive at least a partial reversal of recent USD moves.

Beyond what is shaping up to be a continued very strong US economy in early 2026, with fresh tailwinds soon to come from OBBBA tax cuts -including hefty 2025 tax refunds - we still anticipate some loss of US exceptionalism by mid-year, if more in relative than absolute terms. Some softening in the labour market and easing in inflation would bring (credible) rate cuts back to the table, if so applying additional pressure on the USD. Further Fed easing in this cycle is not assured though, with USD-supportive connotations if it doesn’t happen.

Looking beyond 2026, on which we’ll elaborate in later notes, a modest upturn in the USD as per forecasts is predicated on evidence the Fed easing cycle is complete and a potentially heroic assumption of a more benign, or less unpredictable, US administration policy backdrop post the November mid-terms.

Chart 1: USD making fresh four year lows

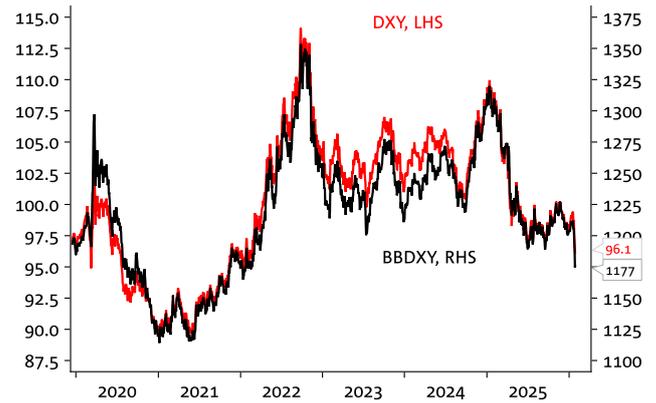


Chart 2: Yield spreads not currently where it’s at for USD

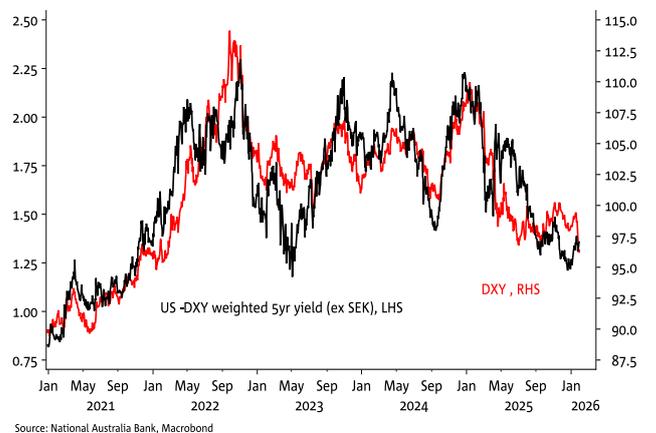


Chart 3: No loss of foreign love for US assets

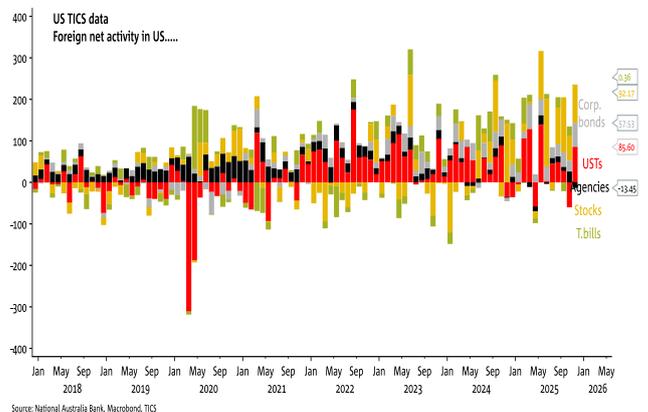
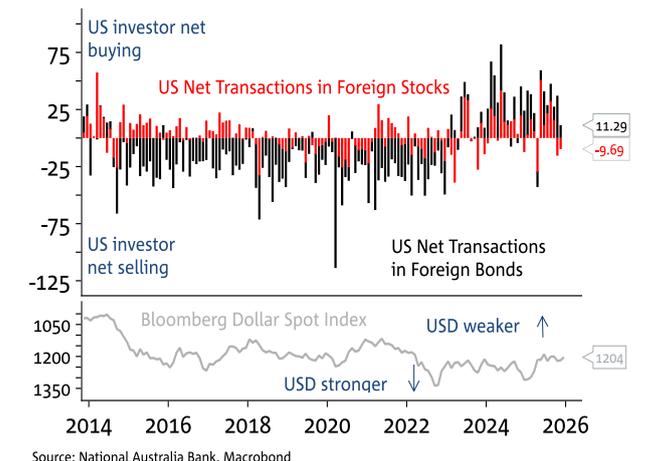


Chart 4: US investors pull back a little from o/seas



## AUD – The new found love affair has legs

- Expect a pull back before long, but AUD can sustain the break above 0.70 through 2026. We nudge forecasts up

The former head of NAB’s global markets research team often quipped that the secret to career longevity as a market strategist was to ‘not give them a rate *and* a date at the same time’. The adage has resonated this month, the AUD/USD rise to above 0.70 from near 0.67 at the start of the year taking it to three-year highs and levels that we had been forecasting to be achieved only in Q2.

Notwithstanding the speed and magnitude of the January moves, we are adjusting our AUD/USD forecast only modestly, adding 1-2 cents to the prior forecast profile through mid-2027. To 0.72 by mid-year, and 0.73 in H2, before falling slightly in 2027 on an assumption that by then the USD starts finding its feet. These point, or period-end, forecasts allow for AUD/USD trading up to the 0.75 area at some stage during the year, but if so not levels we’d expect to be readily sustained.

While USD depreciation is inevitably a big part of the stronger AUD/USD story, AUD is the strongest G10 currency year to date with gains of +/- 3% against GBP, JPY, EUR and CAD. See Chart on p.1. AUD outperformance has multiple drivers. First and foremost, is the repricing of RBA cash rate prospects. Indeed we can date the run up in AUD from the low 0.64’s in late November last year to the release of October monthly CPI data, which first put markets on notice that CPI in Q4 was apt to run above the 2-3% RBA target and the Bank’s November SoMP projection, with potential implications for RBA policy. So it proved. Given the current state of market pricing, AUD is therefore susceptible to a meaningful correction if the RBA fails to deliver a rate hike on February 3 (though NAB expects it will).

Second is rapidly rising commodity prices. Australia’s terms of trade improved by 2.3 percentage points in Q4 and has risen further in January. Gold is part of the story here (6.3% weight in RBA commodity price index) and while traditionally negatively correlated with the AUD as far as gold price strength has been associated with global market risk aversion, of late it has been synonymous with USD weakness, hence an AUD positive. Industrial metals, iron ore especially, have also been lifting the terms of trade.

Third, risk sentiment has generally been positive. Our NAB/BNZ risk appetite index has consistently been in the upper quartile of its (0-100%) range since late November. And fourthly, the PBoC has, again since late November, been guiding USD/CNY lower, providing a tailwind for the AUD. Based on correlations since the start of the Trump 1.0 era US-China trade war, AUD/USD is, even with this latest run up through 0.70, still (just) inside its ‘fair value’ tram lines (Chart 4).

After a 6% January to date AUD surge it is reasonable to expect that a pull back or at least consolidation of these gains, which have put AUD into technically overbought terrain. Any pull back through 0.70 is, though, to be seen as a pause that refreshes the current rally. History is not much of a guide to ‘what happens’ next, with 5%+ monthly gains since 2010 followed half the time by a loss the following month and half the time further gains.

**Footnote: On pp.4-8 we now include AUD cross rate updates in each section, for AUD/NZD, AUD/EUR, AUD/GBP, AUD/JPY and AUD/CNY, replacing our monthly AUD crosses/AUD Corporate FX update. Your feedback is welcome.**

Chart 1: AUD/USD punches to a new 3-year high

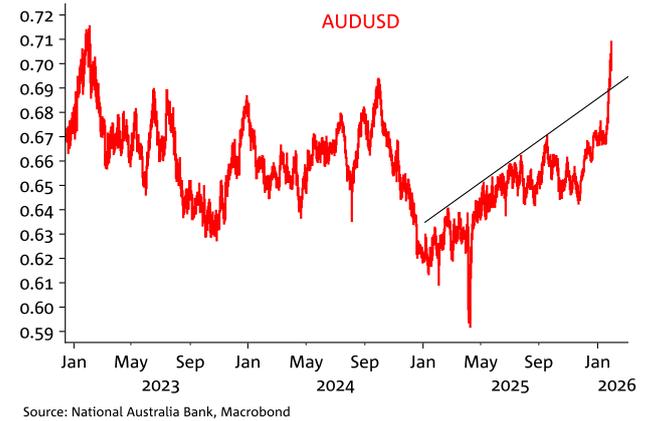


Chart 2: RBA repricing a key AUD driver

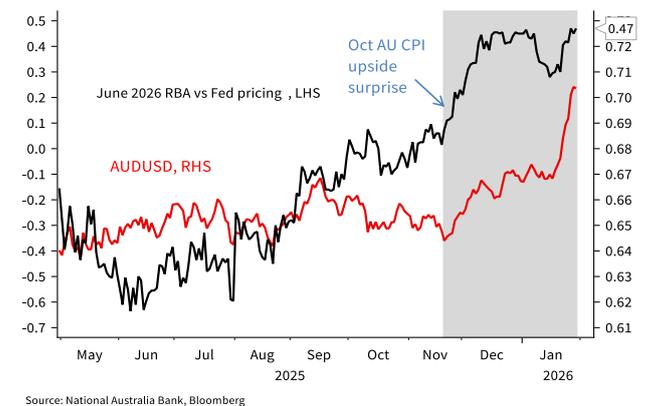


Chart 3: Risk sentiment supported AUD revival

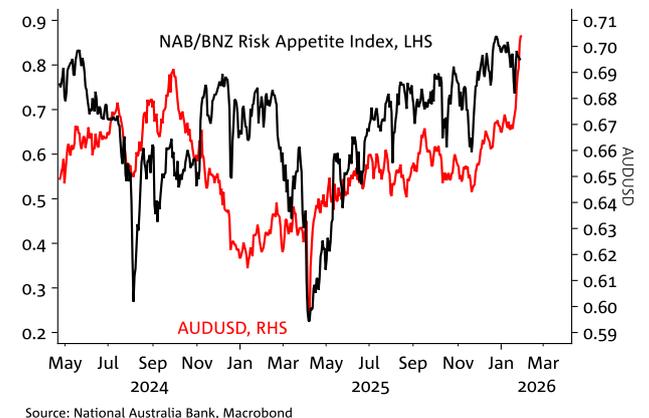
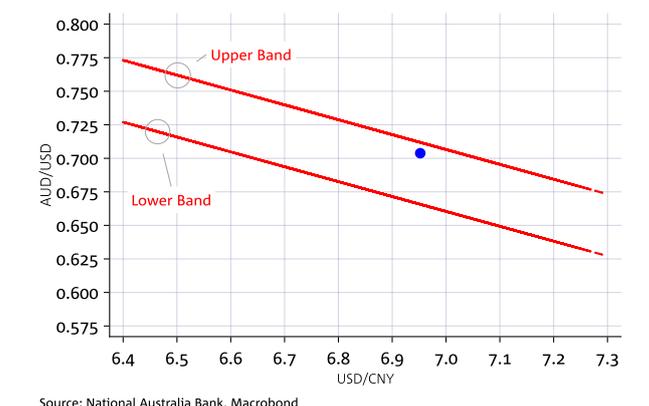


Chart 4: AUD now caught up with CNY appreciation



## NZD – Recovery well underway

- We have not changed our NZD projections for this year, which see further recovery to 0.63

A strong turnround in the NZD from late-November was only temporarily interrupted late-Dec/early-Jan and further gains have seen it trade up to a six-month high around 0.6070. Fair to say, a recovery is well underway with both global and domestic factors contributing.

On the domestic side, there are clear signs of economic recovery and economic growth is proving to be stronger than the RBNZ estimated at the November MPS. Inflation is also proving to be sticky at 3% around the top end of the target range. Seasonally adjusted quarterly CPI data provide no evidence of any disinflationary forces last year, at any time, even when the economy was struggling. The RBNZ will need to account for this in its next forecast update. The market is appropriately building in the prospect of tighter monetary policy from Q3 this year. Domestic forces, which were a drag on the NZD at times last year, now support further NZD appreciation.

NZ-US short-end rate spreads have plenty of scope to narrow further, particularly if the US Fed eases monetary policy again later in the year. Negative short-end rate spreads still represent a bit of a headwind for NZD performance, but this will fade over time.

The global backdrop is encouraging. The lagged impact of easier global monetary policy last year and easy fiscal policy settings support reflationary trades, as already evident in stronger global commodity prices. Over the past six months or so, consensus forecasts for world growth on a rolling 12-month basis have been steadily revised higher, even if moderately. The NZD tends to perform better under these conditions.

As noted in the USD section, early 2026 has seen a return of the US dollar debasement trade. How long this trade plays out will be a key determinant of NZD/USD performance over coming months/quarters.

The NZD has already hit our prevailing end-Q1 target of 0.60 and our (unchanged) projections show further appreciation to 0.63 this year. The case for stronger gains, to 0.65+, would rest on the USD entering a more protracted downturn. In addition, any further gains in the yuan and yen would have positive spillover risks for the NZD. After strong gains over a short space of time, the NZD is due for some consolidation, before the next leg higher.

### AUD/NZD flat with upside risk

Our AUD/NZD projections are flat through much of 2026, implying a trading range of 1.14-1.18. The cross rate has been on a significant upswing since the middle of last year and the short-term risk is that the peak has not been reached. Given relative interest rate, commodity prices, and unemployment rate considerations, our models suggest fair value is just over 1.20, although we think a move to this sort of level would be a stretch. The RBA raising rates ahead of the RBNZ should limit downside potential for the cross over coming months, but later in 2026 the risk morphs into one of a lower cross rate as the RBNZ tightening cycle gets underway.

Chart 1: A sharp recovery; some technical resistance

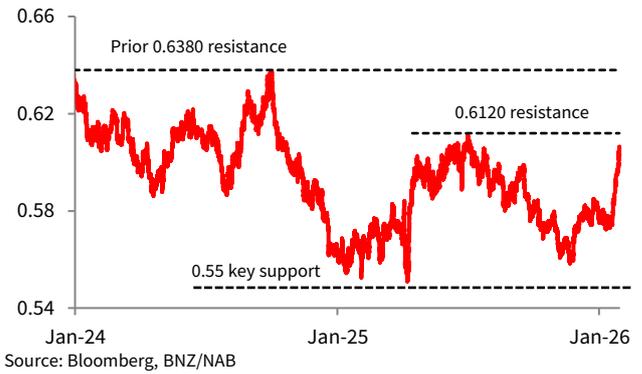


Chart 2: NZ economy showing some meaningful positive momentum

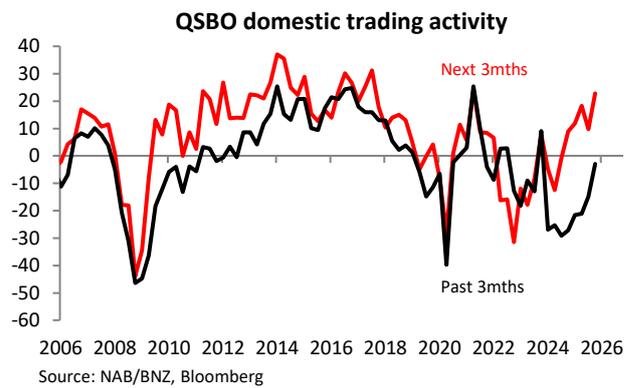


Chart 3: Quarterly inflation has only spent one quarter below 0.5% (annual 2% target midpoint) since 2020

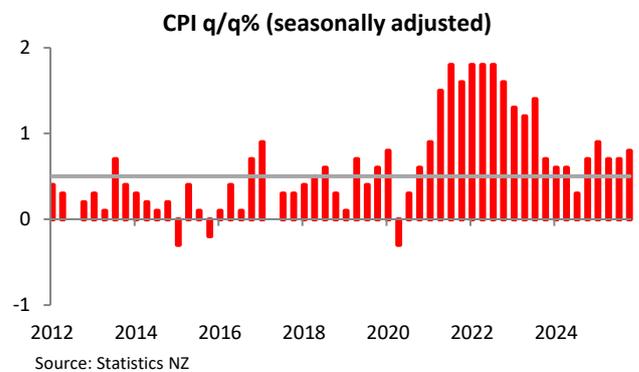
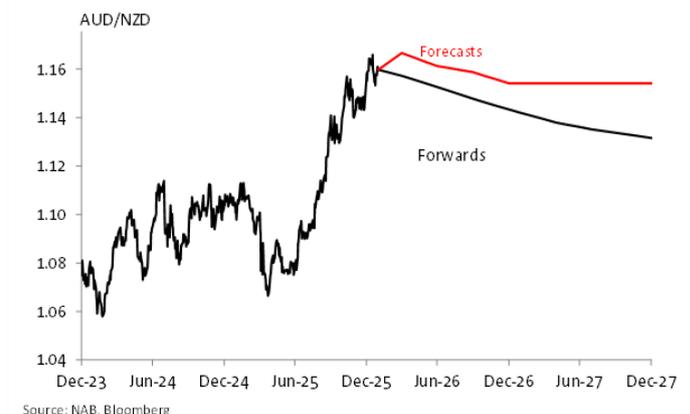


Chart 4: AUD/NZD forecasts vs forwards



## EUR – Breaking up is hard to do

- EUR/USD rises closer to our range top, choppy from here

At first glance, with EUR/USD up 4% from just two weeks ago, in one of its best runs higher since the post-April Liberation Day gains, forging new cycle and near five-year highs in the process, our title might seem counter intuitive. Our reasoning however is two-fold. First, we've been looking for a climb above 1.20 since we updated our forecasts just after President Trump unleashed his tariff program some nine months ago.

The initial run higher from 1.08 in April found a 1.1911 high reasonably quickly. It then got harder with a six-month period where the USD broadly flatlined against most major currencies, while old and equities continued to rise; moves that saw us pushing further into the future our higher EUR forecast.

Part of the reason why the USD was able to stabilise its slide in H2, 2025 was the fading of worse-case scenario tariff damage, much improved US economic growth, with slightly less concern over the US fiscal position thanks to the pledged tariff-derived inflows and coerced foreign investment. Investor frustration at Europe's inability to get to grips with reforms has continued. A reluctance to buy other currencies hasn't been unique to the EUR, with geopolitics fuelling the anti-fiat money rush for Gold.

However, not standing still and pushing the boundaries of policy and Executive orders is central to the US President's playbook. In that sense we maintained confidence there would be more policy uncertainty to come that would provide one source of downward USD pressure aiding the EUR. The late 2025 release of the National Security Strategy gave added impetus to the bevy of fresh policy initiatives in January setting off a broader aversion to fresh allocations toward USD assets.

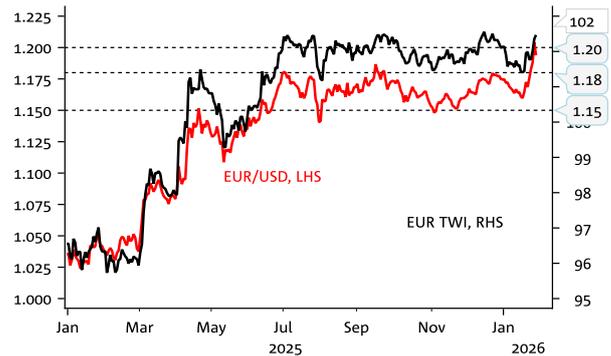
It is true Trump has for now backed away from his most extreme position on Greenland but much of the free world is still processing the fact a US President was prepared to threaten economic coercion over allies and a NATO member in order to get control of that member's land. That leaves investors with little choice but to skew investment away from the US and/or lift hedges, albeit the hard evidence of either is limited.

As we close in on our 1.20 end Q1, 2026 EUR/USD target then, the break up (higher) has indeed been hard. We continue to think the 1.25/1.26 area is the extreme range top and unlikely to spend much if any time there. More likely, it trades 1.18-1.23 within a broader 1.16-1.26 2026 range. ECB commentary on the higher EUR level will in the main downplay current levels as needing policy action. With the rough rule of thumb being a 10% EUR rise results in 0.3% or so off inflation over time (and where the TWI EUR is up a more modest 6%), no policy action is needed yet. Only a sustained drop below 1.8% HICP would necessitate a rate cut.

### Modestly higher AUD forecasts underpin AUR/EUR gains

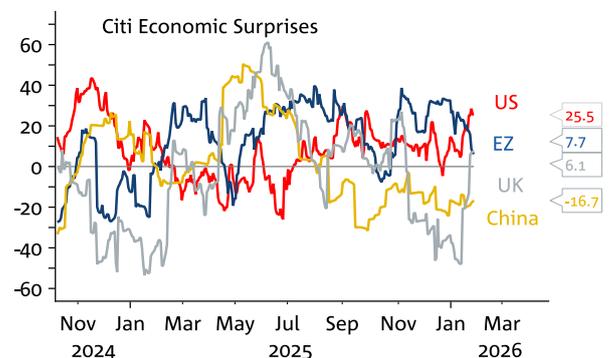
The AUD stands out to benefit better than many in a weaker USD environment, as argued on P.3. The coming pivot to slightly higher RBA rates predicated on solid fundamentals and political stability stands in stark contrast to the challenges facing Europe. We now see AUD/EUR rising from 0.5850 up towards 0.61 by Q3, aided by possible (but short-lived) German political pressure. The cross eases to 0.59 thereafter, but where the risks remain towards higher AUD/EUR levels in 2026.

Chart 1: EUR finally moves to 1.20. We see choppy trading and 1.25/1.26 holding the upside



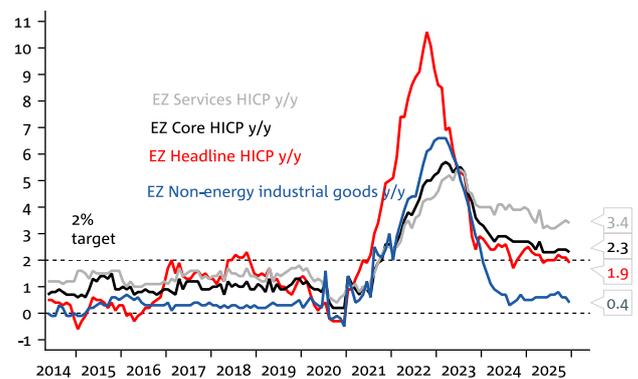
Source: National Australia Bank, Macrobond

Chart 2: US data is surprising higher, underpinning a gaining view on better US growth to come



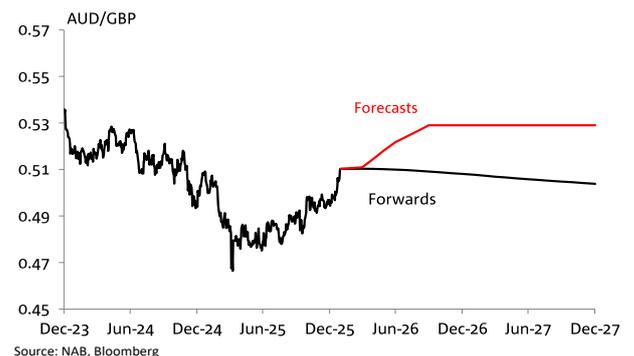
Source: National Australia Bank, Macrobond

Chart 3: ECB's 'good place' is more likely be jolted by HICP on the downside than upside in H1,2026



Source: National Australia Bank, Macrobond

Chart 4: AUR/EUR Forecasts vs forwards



Source: NAB, Bloomberg

## GBP – Looking through UK’s data bounce

- **GBP gains limited as political uncertainty set to undermine**

GBP has rebounded in recent weeks. GBP/USD has risen to its best level since 2021, mainly reflecting the weaker USD, but the trade-weighted GBP has added around 1% in two weeks. That brings TWI gains to around 3% since the November lows around the time of the UK Budget.

The rebound reflects a number of factors. Passage of that November Budget, after all the months of negative press over where the higher tax burden may fall, now in the rear-view mirror, provided businesses and households some respite. Few may like the Budget announcements, but its eventual passing does underpin just how damaging the media doom and gloom had been on sentiment and thereby economic activity.

Indeed, the latest monthly GDP data showed growth rising by 0.3% m/m, in November, 0.1% above consensus estimates and where the 3M/3M outturn rose 0.1%, above a -0.2% forecast. Government spending has been a factor. The production return at Jaguar Land Rover has aided manufacturing. Services activity has also picked up, with Black Friday activity helping, which may detract from December. However, retail sales data for December was reasonably strong.

In recent weeks the UK has also delivered less bleak December public finances data, improved CBI industrial trends output and optimism, while the PMIs recorded sizeable rises in both manufacturing and especially services activity. The jump in the services PMI to 54.3 from 51.4, placing it even above the US, has us scratching our heads. We expect downward revisions from what we see as an unsustainable move.

There remain significant questions over the UK growth trajectory as the overall tax burden continues to rise, hitting household budgets, while the costs on business continue to mount. For all the above outlined most recent shifts in the data, we see little evidence of a sustainable shift in confidence and crucially investment. The labour market continues to weaken, with unemployment at multi-year highs and an ongoing decline in the number of payrolled employees, as budget measures deter employers from hiring, especially younger workers.

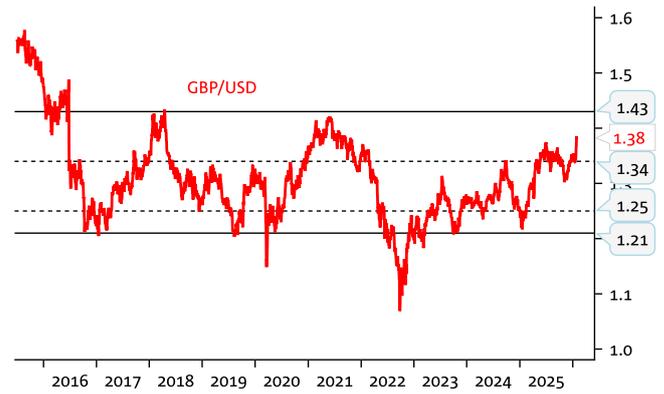
One positive factor just emerging is signs of a productivity pick-up. However, the cutting of low paid jobs, such as retail and hospitality is seen as the main driver. While in some sectors there may be a shift to mechanisation and AI, which may well lift productivity the slim evidence so far points instead to higher unemployment and a larger fiscal bill with any productivity gain being short-lived. Still, it is a situation to watch.

We have two BoE rate cuts in our 2026 forecast, but the later December 2025 cut (instead of sticking to the November pattern) means our preferred 5 February cut call won't be realised. We look for a 6-3 vote for unchanged. While we think the 19 March meeting is more live than the market thinks, a 30 April cut (alongside new forecasts) is more likely, followed by 30 July after CPI has plunged to below 2.5%.

### UK political instability and rate cuts to send AUD/GBP higher

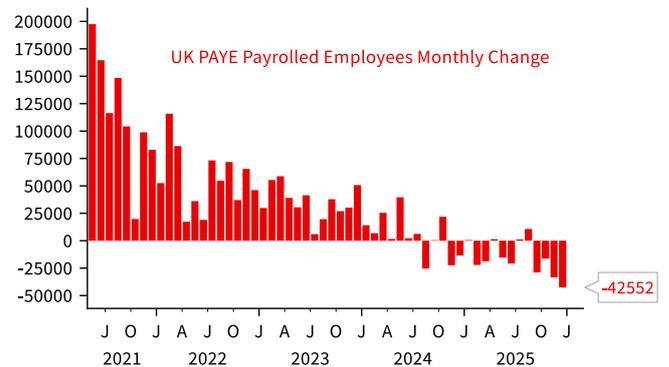
We've long held the view UK political turbulence will sharply pick up around the May local/regional elections, increasing upward pressure on longer-term UK yields. Same time UK CPI will plunge from May to below 2.5%, encouraging rate cuts, allowing AUD/GBP to rise from 0.51 to 0.53 in H2 and beyond.

Chart 1: GBP's side has been (briefly) arrested



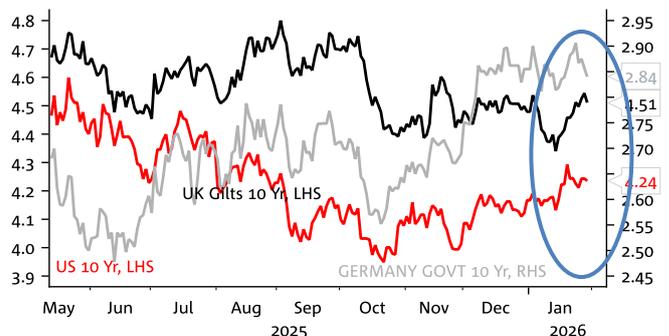
Source: National Australia Bank, Macrobond

Chart 2: There is no helping the labour market, with businesses shunning younger workers



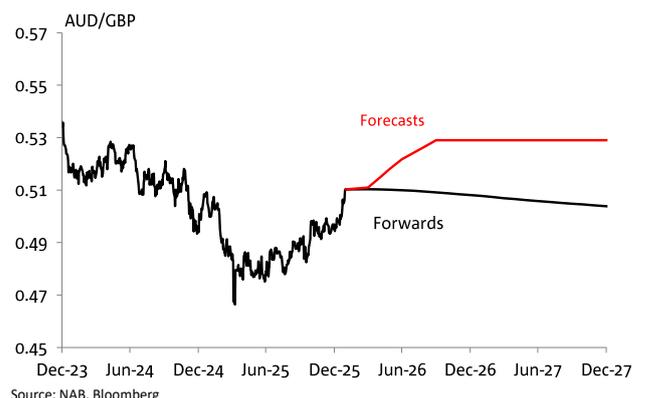
Source: National Australia Bank, BoE Decision Makers' Panel, Macrobond. (\*) Very high, High - low, Very Low.

Chart 3: UK Gilt yields rise has been greater than peers as political risks start to pick up



Source: National Australia Bank, Macrobond

Chart 4: AUD/GBP Forecasts vs. forwards



Source: NAB, Bloomberg

## JPY – Coordinated or uncoordinated?

- We see USD/JPY mostly contained in a ¥145-155 range in 2026, risk of intervention limiting sustain moves towards ¥160. AUD/JPY has shifted into a higher trading range

USD/JPY has endured a roller coaster ride over the past month, initially rising from just above ¥156 at the start of the year, then twice testing levels above ¥159, before enjoying (or enduring depending on your perspective) a big decline from ¥159.21 to currently just above ¥153.

Ahead of the BoJ meeting last week, we published a [note](#) observing the recent price action in the JGB market, the BoJ and JPY. The second half of 2025 was characterised by a breakdown in the relationship between USD/JPY and US-Japan bond yield differentials where the long held positive relationship between the rate spread and USD/JPY flipped from positive to negative (Chart 1). At the same time a new positive relationship emerged between USD/JPY and the 30y JGB yield (Chart 3).

Prior to PM Takaichi’s ascendency to power (October 21, 2025), rising risk premia on Japan bonds came about not from heightened fiscal sustainability concerns, rather inflation risk. A dynamic that was also exacerbated by a lack of BoJ urgency to normalise policy notwithstanding persistently high inflation.

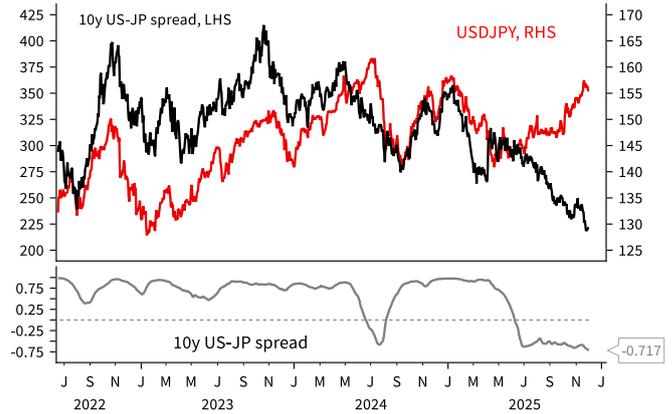
Confirming prior media reports, on January 19, Takaichi announced dissolution of the Diet’s lower house (on January 23), to be followed by a snap election on February 8 with key policy promises including 1) Major tax cuts focused on food 2) Higher defence spending (2% of GDP up from 1%) 3) a ¥20+ trn (~\$135 bn) stimulus package to support households and counter rising living costs 4) Commitment to end “fiscal austerity” and launch a new era of expansionary economic and fiscal policies.

Bearing the above in mind, the rise in USD/JPY towards ¥159 can be explained by fundamentals where rate spreads take a back seat amid a necessary repricing in JGB risk premia due to concerns over the fiscal sustainability and inflation. JPY weakness has also been exacerbated by the fact the BoJ is still suppressing longer dated JGB yields through its bond buying programme currently at ~¥4tn per month, due to taper to ¥3tn by April 2026 (Chart 3).

In our new forecasts we retain our core view that in the absence of a sea-change in attitudes from the BoJ and government regarding BoJ policy normalisation, including allowing JGB yields to trade at levels which adequately price inflation and debt sustainability risks, a meaningful recovery in JPY exchange rates is not in prospect, AUD/JPY included. We have pencilled in at least two 25bps BoJ hikes in 2026 with more over 2027.

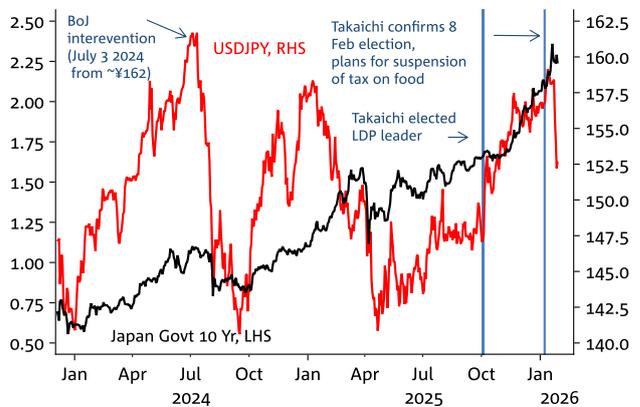
We see USD/JPY price action in 2026 mostly contained within a ¥145- ¥155 range ending 2026 closer to ¥145 while AUDJPY is seen mostly within a 105-110 range with levels sub 100 a story for early 2027 . We wouldn’t be surprised if the USD/JPY heads back towards 159 (AUDJPY testing levels above 110), but the risk of renewed intervention (actual or verbal) suggest such moves are unlikely to be sustained. In addition to our assumption of a credible policy normalisation as a prerequisite for sustained JPY appreciation, another important assumption is that intervention will remain a ‘MoF only affair’, but if we are wrong, and evidence shows an explicit US involvement, then this would play into the recent [narrative](#) the Trump Administration is prepared to back a view of a weaker USD. If so, this would triggering a wholesale revision to all our forecasts including JPY.

Chart 1: USD/JPY vs 10y US-JN spread. Fundamental?



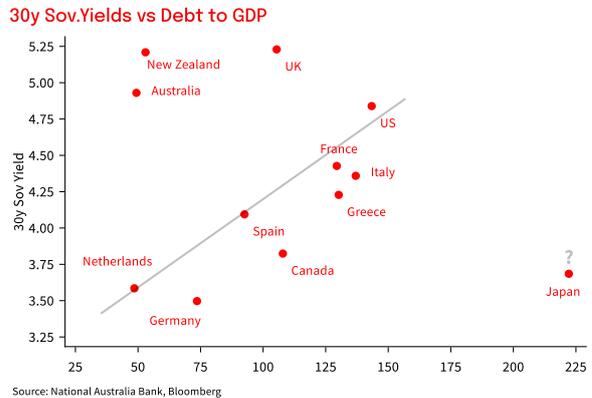
Source: National Australia Bank, Bloomberg, Account-in-house

Chart 2: Longer dated JGB’s rise. Fundamental?



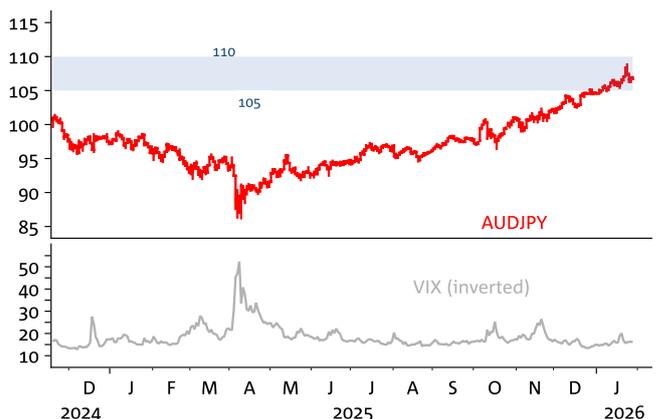
Source: National Australia Bank, Macrobond

Chart 3: Spot the odd one out?



Source: National Australia Bank, Bloomberg

Chart 4: AUDJPY in a new higher trading range



Source: National Australia Bank, Macrobond

## CNY – More where that came from

- PBoC set to guide a stronger CNY in 2026, we see USD/CNY heading towards 6.80. AUD has a bigger negative beta to USD compared to CNY, AUD/CNY to head below 5 by year end

Since April 2025 Liberation Day, USD/CNY has been on a steady decline, but in Q4-25 and then early in the new year we saw an acceleration in this trend with the pair heading from ~7.12 to 7.0 and more recently testing levels sub-6.95.

The PBoC has a managed CNY float regime which in practice means the Bank sets a daily reference rate (midpoint fixing) and then allows the currency to trade within a +/-2% band around the midpoint. The midpoint fix is a policy signal, and the Bank sets the fix based on global FX trends, domestic data, and sentiment.

Post Liberation Day, CNY was under depreciating pressures but at the time the PBoC’s signalling (resisting higher USD/CNY fixes) was a clear push back on market participants attempt to weaken CNY (Chart 1). This market dynamic eased around the middle of the year and then once the Fed embarked on a new round of easing, the PBoC signalled greater degree of tolerance for a stronger CNY, this time the market embraced the move with the recent broad USD accelerating the move.

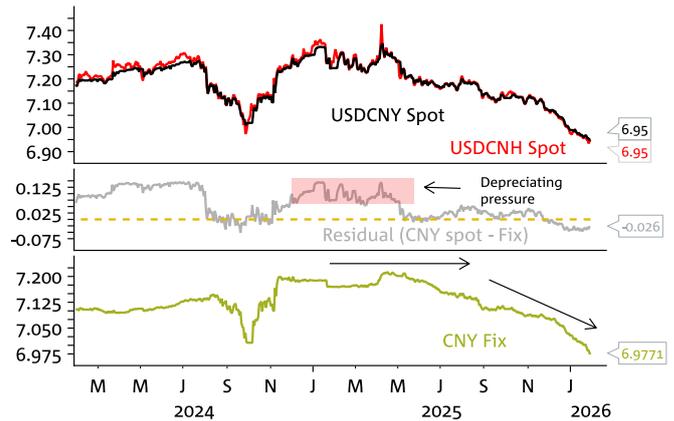
Where to from here? In our new forecasts we assume the PBoC will allow for further gradual CNY appreciation. There are CNY supporting signs that favour this view, foreign equity flows are supportive (Chart 2), the pace of foreign settlements also slowed in January from December, suggesting an increase in corporate demand for CNY.

But not everything is rosy in China. Q4-25 data released in January, revealed a sharp slowdown in GDP growth, even though the economy still managed to meet the 5% target for 2025. The big imbalance between anaemic consumers and overproduction remains acute. Beijing is aware of this issue and has vowed to boost domestic demand and crack down on involution (i.e. get tough on price wars and excessive competition). Policies to date have been ineffective, a perennial house price decline is not helpful for household desire to spend (Chart 3) while the goal of global domination in technology, manufacturing reinforces a desire to over produce.

Meanwhile the recent stimulus rollout has been encouraging but modest. China still needs to do more to arrest the house price decline, improve the social safety net and increase incentives for household to reduce their levels of savings - Chinese households save around 1/3 of their income compared to ~5% in the US and 6.4% in Australia. Against this backdrop a stronger CNY can be reflationary for the Chinese economy, via a transfer of purchasing power from producers to consumers, favouring the PBoC’s gradually stronger strategy.

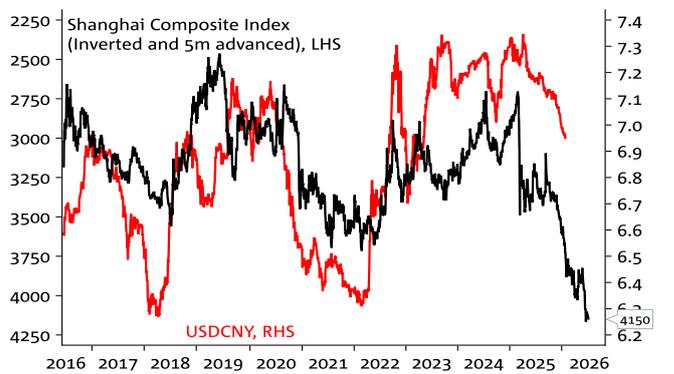
Our new USD/CNY forecast projects the currency heading towards 6.80 by the end of 2026, maintaining a low beta to broad USD moves. Of note and as Chart 4 illustrates, AUD/CNY tends to appreciate in a weaker USD environment, consistent with the AUD having a bigger negative beta to USD compared to CNY. Our AUD/CNY forecasts project the cross appreciating over the course of 2026 ending the year below 5.

Chart 1: PBoC driving USD/CNY lower



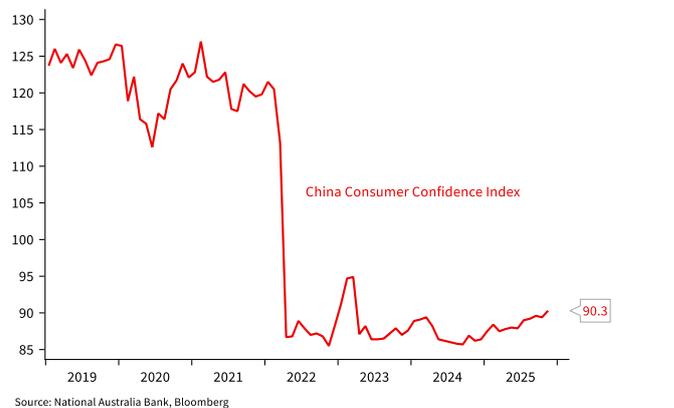
Source: National Australia Bank, Macrobond

Chart 2: Equity backdrop supportive



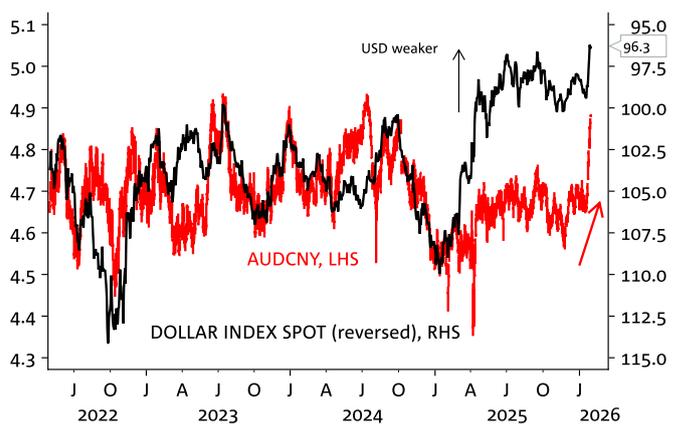
Source: National Australia Bank, Macrobond

Chart 3: Imbalance economy – more work to do



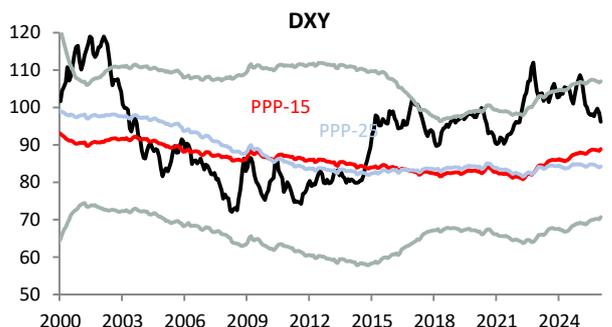
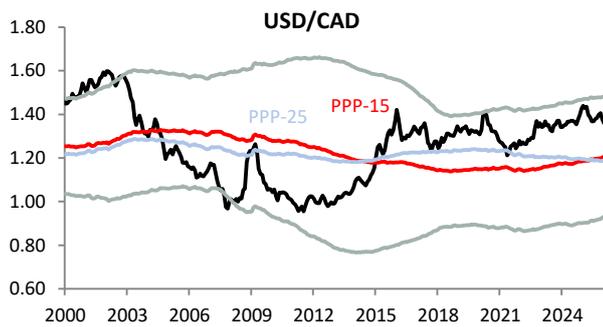
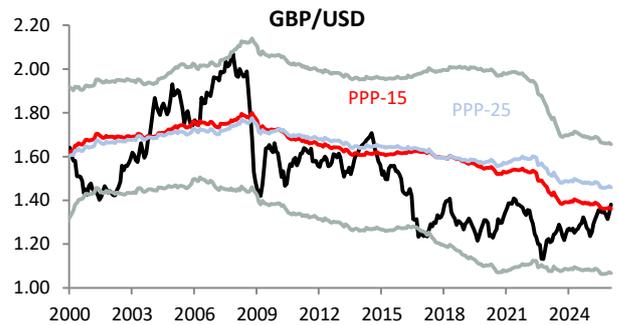
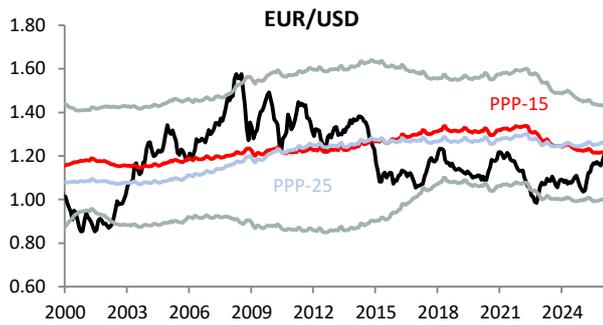
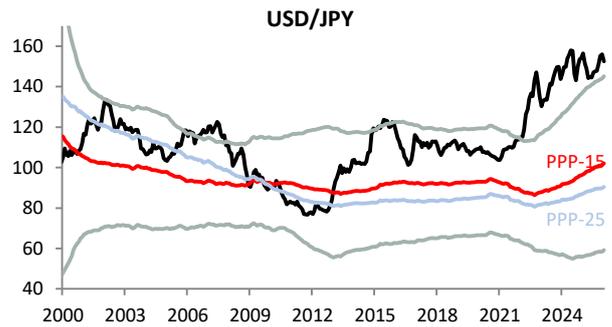
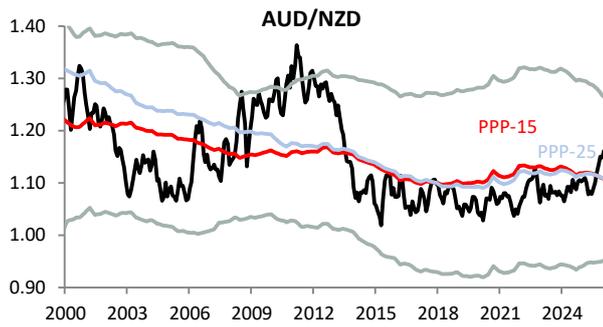
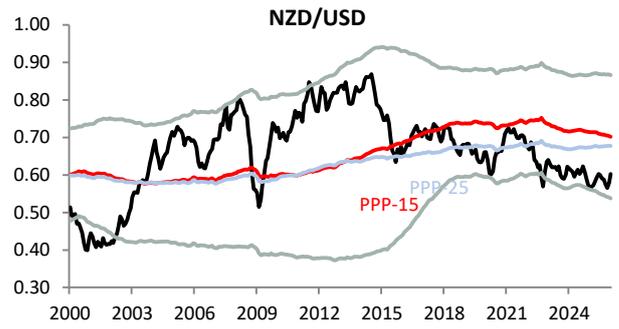
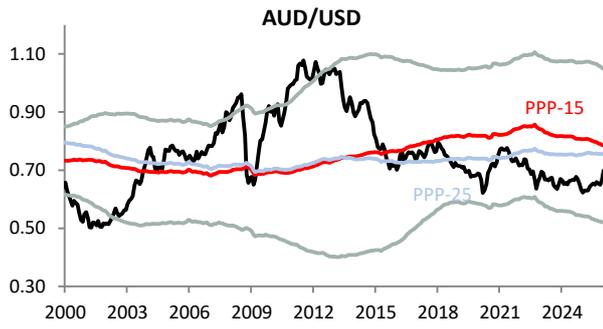
Source: National Australia Bank, Bloomberg

Chart 4: AUD has a higher USD (-ve) beta than CNY



Source: National Australia Bank, Macrobond

PPP Estimates



	AUD/USD	NZD/USD	AUD/NZD	USD/JPY	EUR/USD	GBP/USD	USD/CAD	DXY
Actual	0.7040	0.6060	1.1620	152.90	1.1980	1.3830	1.3520	96.3
PPP-15year	0.7870	0.7040	1.1090	101.30	1.2170	1.3670	1.2020	88.8
% Deviation	-10.6	-13.9	4.8	51.0	-1.5	1.2	12.5	8.4
z-score	-0.6	-1.3	0.7	2.5	-0.2	0.1	1.1	0.8
PPP-25year	0.7560	0.6780	1.1100	89.80	1.2630	1.4640	1.1870	84.0

Methodology: PPP estimates use 15-year moving average data based on CPI's and monthly average exchange rates. Bands are +/- 2 standard deviations. Charts include a (less-preferred) 25-year PPP estimate as well. CPI estimates exclude GST for NZ, Australia and Japan. z-scores measure current exchange rate from PPP in terms of number of standard deviations. Source: NAB/BNZ

## NAB Spot FX Forecasts

Majors		Current	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
AUD/USD	New	0.705	0.70	0.72	0.73	0.73	0.72	0.71	0.71	0.70	0.70	0.70
	Old		0.69	0.71	0.72	0.71	0.70	0.69				
NZD/USD	New	0.608	0.60	0.62	0.63	0.63	0.63	0.63	0.63	0.62	0.62	0.62
	Old		0.60	0.62	0.63	0.63	0.63	0.62				
USD/JPY	New	153.2	154	152	150	148	146	145	143	142	140	140
	Old		144	140	135	135	135	135				
EUR/USD	New	1.197	1.20	1.22	1.20	1.23	1.22	1.22	1.21	1.19	1.18	1.18
	Old		1.20	1.21	1.23	1.22	1.21	1.20				
GBP/USD	New	1.381	1.37	1.38	1.38	1.38	1.36	1.35	1.34	1.34	1.33	1.33
	Old		1.35	1.36	1.38	1.37	1.36	1.35				
USD/CHF	New	0.765	0.77	0.76	0.75	0.75	0.75	0.75	0.76	0.77	0.78	0.78
	Old		0.77	0.76	0.75	0.76	0.76	0.77				
USD/CAD	New	1.35	1.36	1.34	1.33	1.33	1.35	1.37	1.37	1.37	1.36	1.36
	Old		1.36	1.32	1.28	1.30	1.29	1.28				
USD/CNY	New	6.952	6.93	6.90	6.85	6.80	6.80	6.85	6.85	6.85	6.85	6.85
	Old		7.05	6.95	6.90	6.85	6.85	6.85				
USD (DXY)	New	96.20	96.6	95.2	95.9	94.3	94.4	95.0	95.4	96.4	96.8	96.8
	Old		95.8	94.6	92.7	93.4	93.9	94.5				

## AUD Cross Rates

AUD/NZD	New	1.159	1.17	1.16	1.16	1.15	1.15	1.13	1.13	1.13	1.13	1.13
	Old		1.15	1.15	1.14	1.13	1.11	1.11				
AUD/JPY	New	108.0	108	109	110	108	105	103	102	99	98	98
	Old		99	99	97	96	95	93				
AUD/EUR	New	0.589	0.58	0.59	0.61	0.59	0.59	0.58	0.59	0.59	0.59	0.59
	Old		0.58	0.59	0.59	0.58	0.58	0.58				
AUD/GBP	New	0.510	0.51	0.52	0.53	0.53	0.53	0.53	0.53	0.52	0.53	0.53
	Old		0.51	0.52	0.52	0.52	0.51	0.51				
AUD/CHF	New	0.539	0.54	0.55	0.55	0.55	0.54	0.53	0.54	0.54	0.55	0.55
	Old		0.53	0.54	0.54	0.54	0.53	0.53				
AUD/CAD	New	0.951	0.95	0.96	0.97	0.97	0.97	0.97	0.97	0.96	0.95	0.95
	Old		0.94	0.94	0.92	0.92	0.90	0.88				
AUD/CNY	New	4.90	4.85	4.97	5.00	4.96	4.90	4.86	4.86	4.80	4.80	4.80
	Old		4.86	4.93	4.97	4.86	4.80	4.73				

## NZD Cross Rates

NZD/AUD	New	0.863	0.86	0.86	0.86	0.87	0.87	0.89	0.89	0.89	0.89	0.89
	Old		0.87	0.87	0.88	0.89	0.90	0.90	0.90	0.90	0.89	0.89
NZD/JPY	New	93.1	92	94	95	94	91	91	90	88	87	87
	Old		86	87	85	85	85	84	82	81	80	78
NZD/EUR	New	0.508	0.50	0.51	0.53	0.51	0.51	0.52	0.52	0.52	0.53	0.53
	Old		0.50	0.51	0.51	0.52	0.52	0.52	0.51	0.51	0.50	0.50
NZD/GBP	New	0.440	0.44	0.45	0.46	0.46	0.46	0.47	0.47	0.46	0.47	0.47
	Old		0.44	0.46	0.46	0.46	0.46	0.46	0.46	0.45	0.45	0.44
NZD/CHF	New	0.465	0.46	0.47	0.48	0.48	0.47	0.47	0.48	0.48	0.48	0.48
	Old		0.46	0.47	0.47	0.48	0.48	0.48	0.48	0.47	0.47	0.47
NZD/CAD	New	0.820	0.82	0.83	0.84	0.84	0.84	0.86	0.86	0.85	0.84	0.84
	Old		0.82	0.82	0.81	0.82	0.81	0.79	0.77	0.76	0.74	0.72
NZD/CNY	New	4.23	4.16	4.28	4.32	4.30	4.25	4.32	4.32	4.25	4.25	4.25
	Old		4.23	4.31	4.35	4.32	4.32	4.25	4.18	4.11	4.04	3.97

## Central Bank Monitor

	Current Rate	Last Change	Official Bias	Next Meeting	NAB Forecast	Forecast Rate End 2026
<b>Australia RBA</b>	3.60%	12 Aug 2025	Neutral	2-3 Feb 16-17 Mar	+25bps unchanged	4.10%
<b>Official Cash Rate</b>		-25bps				
Recent data flow shows that Australia has: 1) growth stronger in H2 than expected 2) inflation stronger than expected in H2 3) capacity constraints binding and 4) tentative evidence the labour market might be tightening. It should be hard, after the hawkish positioning in December, for the RBA to argue this is all something to be looked through. Hence we expect a 25bps cash rate hike on Feb 3 and again in May, if so such moves should be regarded as a recalibration of policy, not a new tightening cycle.						
<b>New Zealand RBNZ</b>	2.25%	26 Nov 2025 -25bps	Neutral	18-Feb 8-Apr	unchanged unchanged	2.75%
<b>Official Cash Rate</b>						
Both growth and Inflation are running well ahead of what the RBNZ thought at the November MPS. At the February update, the RBNZ will need to incorporate a stronger economy and inflation into its projections, and this will likely see projected rate hikes brought forward into 2026. We now see the RBNZ hiking at least twice this year, beginning in September.						
<b>US Federal Reserve</b>	3.75-3.50%	10-Dec 2025 -25bps	Easing	17-18 Mar 28-29 Apr	unchanged unchanged	3.25-3.00%
<b>Fed Funds Rate</b>						
January's post-FOMC statement suggested the committee has become somewhat less worried about the labor market with the unemployment rate deemed to have "...shown some signs of stabilization", though in the ensuing press conference, chair Powell noted the Conference Board measure indicated a softening labour market and that labour demand looked to be declining slightly more than supply. Firm evidence of a softening labour market will likely be necessary to get the Fed back to the easing table this year (as NAB expects) even under a new Fed chair with a more dovish disposition than Powell, assuming, as we do, that Fed independence will be preserved by impending SCOTUS rulings.						
<b>Eurozone ECB</b>	2.0%	5 Jun -25bps	Neutral	4-5 Feb 18-19 Mar	Unchanged Unchanged	2.0%
<b>Deposit Rate</b>						
Having achieved its 2% inflation target the ECB talks of being in a 'good place'. Our view has long been of asymmetric risks where any rate moves in 2026 will be down rather than up. Below trend economic growth, the deflationary threat of Chinese exports being rerouted to Europe and exchange rate strength would be the drivers. On the other side the economy is experiencing a cyclical uplift and financial conditions are easing. We do not see a rate cut unless EZ headline HICP drops sustainably below 1.8%.						
<b>UK BoE</b>	3.75%	18 Dec 2025	Easing	5 Feb 19 Mar	unchanged unchanged	3.25%
<b>Bank Rate</b>		-25bps				
Latest wage data shows ongoing moderation to levels consistent with BoE forecasts that all else equal can help deliver rate cuts. Stronger growth right now and still above 3% inflation will see the BoE remain on hold in early February. We think a cut on 19 March is more live than market pricing, but late April will see new forecasts and a coming plunge in inflation to 2.5% or below, setting the scene for more easing.						
<b>Japan BoJ</b>	0.75%	19 Dec 2025	Tightening	18-19 Mar 27-28 Apr	unchanged unchanged	1.25%
<b>Uncollateralized call rate</b>		+0.25%				
As expected, the BoJ left its policy rate unchanged in January after hiking at the previous meeting in December 2025. The Bank released a new set of forecasts revealing an upgrade to the inflation outlook. The median for core-core CPI rose by two-tenths to +3.0% in fiscal 2025, whilst the fiscal 2026 forecast was also lifted two-tenths to +2.2%, with fiscal 2027 up a tenth to +2.1%. Of note, the outlook report reiterated their bias to continue with policy normalisation, saying that "real interest rates are at significantly low levels", and that if the forecast were realised then they would "continue to raise the policy interest rate". We see two more rate hikes in 2026 lifting the policy rate to 1.25% by year end.						
<b>Switzerland SNB</b>	0.00%	19 Jun 2025	Neutral	2 Mar 18 Jun	Unch Unch	0.0%
<b>3mth SARON Target range</b>		-25bps				
The bar to the SNB going back into negative territory continues to be high even with the Swiss Franc finding fresh safe haven support. SNB President Martin Schlegel in Davos noted that the real CHF exchange rate hadn't risen much in recent months, that a few months of negative inflation could be looked through and that negative rates wouldn't necessarily curb CHF strength. Also helpful, core CPI edged up in December to 0.5% from 0.4%. We continue to expect the policy rate to be held at zero throughout this year.						
<b>Canada BoC</b>	2.25%	29 Oct 2025	Neutral	18 Mar 29 Apr	Unchanged Unchanged	2.25%
<b>Overnight Lending Rate</b>		-25bps				
In January, the Bank of Canada held its policy rate unchanged at 2.25% for a second consecutive meeting, in line with expectations. The economic outlook was little changed (Canada's economy is seen growing at 1.1% this year and 1.5% in 2027) and the Bank retained a neutral policy bias, noting the outlook was vulnerable to unpredictable US trade policies and geopolitical risks. In addition, BoC Governor Tiff Macklem noted that the Canadian economy was facing considerable uncertainty and played down recent strength in employment data and the tax-related lift in inflation. We retain our view that the BoC will remain on hold through 2026.						
<b>China PBoC</b>	1.40%	24 Sep 2024	Easing	n/a n/a	n/a n/a	1.20%
<b>7-day Repo</b>		-20bps				
A softer end to 2025 in terms of economic activity alongside a subdued start to 2026 suggest China's fiscal and monetary side need to deliver more support over coming quarters. On January 16, the PBoC announced a 25bps rate cut to interest rates on its re-lending facilities targeting rural areas and smaller businesses, such action typically prelude a broad based cut in the key policy rate. On the one hand the Bank is trying to improve commercial banks' net interest while also creating the space for a lower lending rates. We think the PBoC will retain its gradual approach with a 10bps reduction to the 7-day repo rate in February followed by another 10bps cut later in 2026.						

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