Economics and Markets Research

Global FX Strategist

national australia bank

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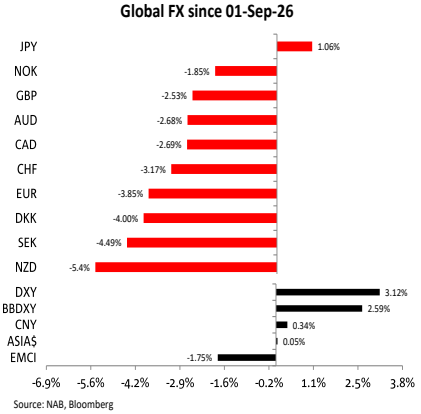
Key Currency Themes

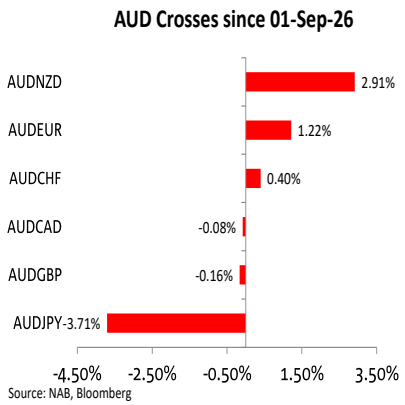
- Bond yield spreads and Fed expectations have returned as key USD drivers, and should remain so, though generalised EUR slippage is giving an added lift.
- Subdued ranges persist. AUD still seen lower in 2027.
- While downside risks feel limited, with the NZD already trading at a depessed level, there are still near term hurdles to clear
- Until the energy price hit and the focus on France fade, EUR will struggle to get back near 1.15 with 1.10 a suitable initial range low. US rate debate a key swing factor.
- GBP's relative performance has a lot of good news priced in.
- Our Term Premium estimate suggest the market remains unconvinced on Japan's fiscal and BoJ policies, signalling USD/JPY upside risk. We are also watching bond auctions.
- PBoC's defence of RMB regime has merits and omissions. We continue to expect gradual CNY appreciation.
- 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.

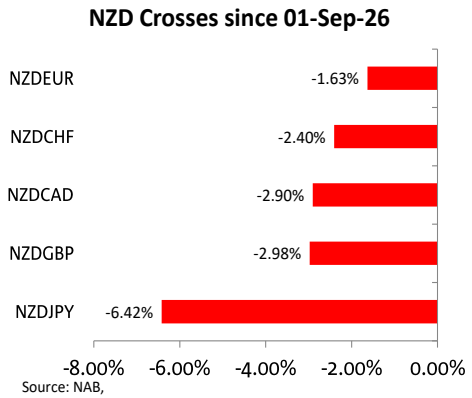
FX views in a tweet

	Near term view (next few weeks)		Longer term view (6-12 months)
USD Index	Fed policy considerations and bond yield differentials to remain key drivers, and in current circumstances (post-Sep core CPI) hard to see USD coming to any harm	↓	Modestly lower levels we project will require a substantial fall back in oil prices and (related) confidence that the Fed tightening cycle is complete early in 2027
AUD/USD	Volatility in end-2026 RBA versus Fed pricing to be a major determinant of which side of 0.70 AUD/USD trades in coming weeks	↓	If economic and inflation circumstances justify RBA easing in 2027 well ahead of the Fed/others, AUD seen returning into a 0.65-0.70 type range
NZD/USD	Due to consolidate following the 6% slump since late-August but RBNZ MPR and general election event risks still ahead; some support around 0.5580	↑	NZ's low cash rate backdrop remains a formidable headwind, but rate differential with the US should gradually narrow; only see modest upside potential
EUR/USD	Alongside drawn-out French 2027 budget negotiations, latest upside US CPI surprise further limits chances of an early move back above the prior 1.12 range floor	↑	As well as need to assuage concerns over what a Le Pen presidency could mean, lower oil prices that reverses the terms of trade shock also needed for higher levels
GBP/USD	5 November 25bps rate hike now too fully priced to benefit GBP, with support reliant on resilience in UK data and (post-Budget) confidence fiscal rules will be adhered to	→	With 100bps of BoE rate hikes priced, not hard to see GBP underperforming, assuming (as we do) that BoE is more likely to be 'one and done' by year end
USD/JPY	Intervention risk caps the topside ~¥160 while expectations of further BoJ hikes favour lower levels. Price action likely to be mostly contained in a ¥155-¥160 range	↓	PM Takaichi fiscal credibility and a BoJ committed to policy normalisation are necessary conditions for USD/JPY to head towards ¥150 over 2027 as per our forecast
USD/CNY	PBoC defence of RMB regime is part of Beijing's trade negotiation strategy. Export strength favours further gradual appreciation, we still target 6.60 by year end	↓	Gradual appreciation is a policy objective supported by strong export growth alongside PBoC motivated corporate FX settlements. 6.40 is our end H1-2027 target

G10 FX, AUD & NZD – Broad USD strength since September, but JPY is the outperformer







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USD – Mostly but not only a US rates story

- **Bond yield spreads and Fed expectations have returned as key USD drivers, and should remain so, though generalised EUR slippage is giving an added lift**

Gains for the DXY USD index in October to date have pushed it through the top of a range prevailing since April 2025, the latest kicker being the upside core US CPI surprise. While to some extent a EUR/USD led affair, there are gains against most DXY-component currencies bar the Swiss Franc, itself a significant beneficiary of EUR outflows linked to French fiscal woes.

The USD run up from its 9 September lows had, until the past few days, started to run a little ahead of what a straight read through from global benchmark bond yield differentials (Chart 2) or Fed Funds pricing (Chart 3) would imply. This can be viewed as testament to the impact of generalised EUR weakness since the start of October when French's parlous fiscal situation burst to the forefront of global bond market narratives. This though doesn't obscure the fact that bond yield differentials – and Fed policy considerations - are back as a key USD driver after a period when US yield rises driven by higher 'bad' US bond term premia temporarily upset the correlation.

Developments on the US rates front are set to remain a key source of USD volatility. On the Fed policy side, assuming a no change on 28 October (a closer call post-CPI) we continue to anticipate one or at most two additional Fed hikes from here, less than the 80bps+ priced by markets. This leaves us hesitant to extrapolate current USD strength well into 2027 (leaving aside potential ramifications of next year's French elections).

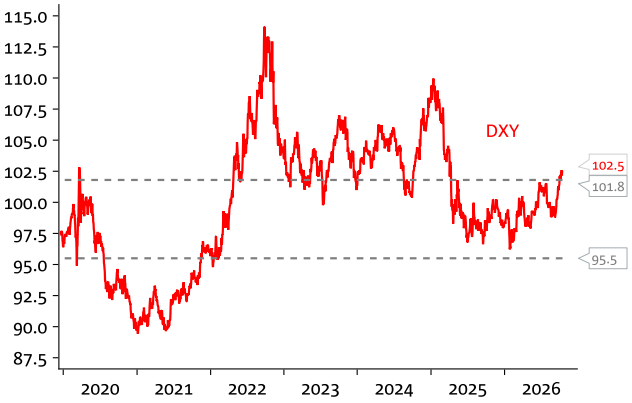
If (a big if) we can arrive at a state not too long after the November mid-terms where oil flows out of the Middle-East return to near pre-conflict levels, the US inflation implications could see Fed rate expectations quickly pared back to soften the USD, at the same time the currency-negative terms of trade shock being suffered by the big energy import regions (Europe and Japan in particular) partly reverses. It then becomes possible to think of the USD losing some altitude in 2027.

In the meantime, it is hard to envisage the circumstances under which the USD comes to much, if any harm in the next couple of months. This is unless cracks start appearing in the US economy – the labour market especially - after what looks like being a stellar Q3. Advance GDP is due on 29 October, for which the latest Atlanta Fed GDPNow estimate is 3.6%. The IMF, incidentally, left its 2026 US GDP forecast unchanged at 2.3% this week, and upped its 2027 forecast also to 2.3% from 2.1%.

As for the 3 November mid-terms, betting markets see a sweep of Congress by the Democrats as likely (Polymarket odds shown in Chart 4). Coincidentally or otherwise, in the Senate race the Democrats started pulling ahead of the Republicans soon after oil prices started rising again off their early August local lows.

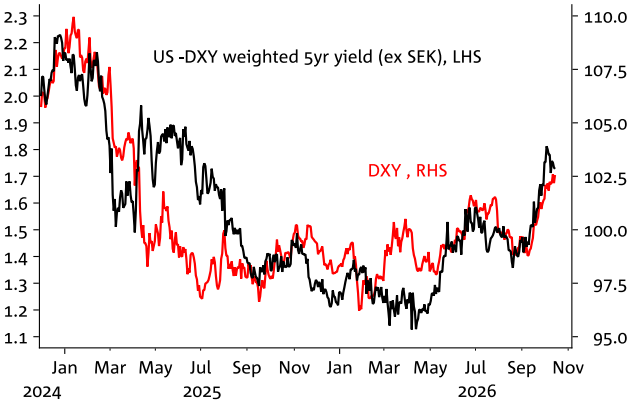
We tend to concur with the consensus of political analysts that a sweep for the Democrats in the mid-terms will mean very little for policy or markets, President Trump having the ability, and having already declared his intend, to veto any legislation he doesn't like coming out of Congress. And while a very strong showing by Democrats will inevitably have analysts rushing to extrapolate what this could mean for the 2028 elections, even for a forward-looking FX market, two years from now is just too far in the future to turn contemplation into market price action.

Chart 1: DXY pokes above 16-month range



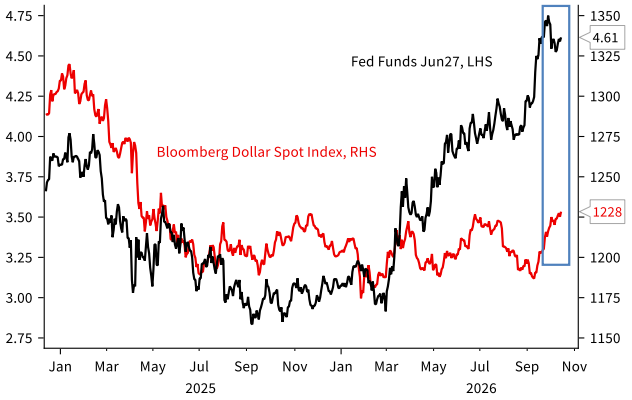
Source: National Australia Bank, Macrobond

Chart 2 USD running ahead of yield spreads...



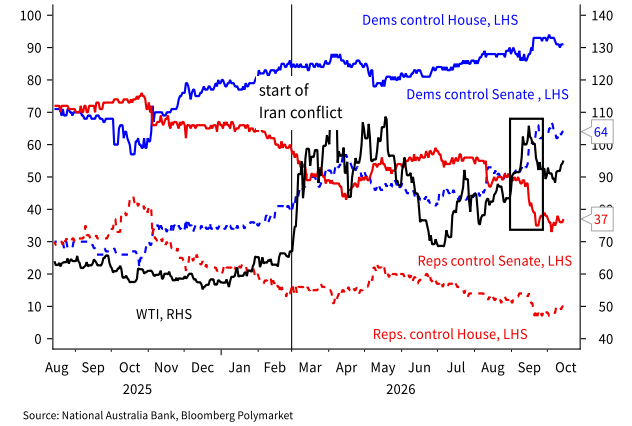
Source: National Australia Bank, Macrobond

Chart 3 ..and lately ahead of Fed policy expectations



Source: National Australia Bank, Bloomberg

Chart 4: Dems. seen winning House and Senate



Source: National Australia Bank, Bloomberg Polymarket

AUD – Who cares? The RBA for one

- **Subdued ranges persist. AUD still seen lower in 2027**

If AUD/USD continues to trade inside the year-to-date range of 0.6663 to 0.7278 through year end, it will be the smallest annual trading range since 1991 and the second smallest since the float (Chart 1). It not quite a black swan event, it will take something quite dramatic to see this range broken by year end. It is not in our forecast. Having (temporarily) clawed back on to the 0.70 handle for the first time this month, we are happy to re-iterate the updated forecast track published on 22 Sep, pinning AUD/USD at 0.71 by year end before falling more deeply into a 0.65-0.70 type range next year.

AUD forecasts remain predicated on local economic and inflation circumstances justifying the RBA cutting rates starting in H2 2027 ahead of other central banks, including the Fed. The near term (year-end forecast) is at risk of proving a little too optimistic if the Fed raises rates again before year end and with the prospect of more to come next year, while the RBA stands pat, though current market pricing is not so far from this scenario. Plus, a cent or two here or there on non-interest rate factors is entirely possible.

The RBA weighs in on the currency

In recent years, we have been used to seeing the AUD as a 'price taker' from the RBA, meaning hardly factoring into their decision making, though a couple of entries in the September RBA Minutes are worthy of mention. First, they note "...the real trade-weighted index of the Australian dollar (was) somewhat above the range of estimates of its longer run equilibrium level, potentially adding a little to the restriction coming from prevailing interest rates alone". This is the first time in a long while the RBA has suggested anything other than that the real (or nominal) exchange rate was in line with fundamentals.

Certainly, it is the case, as per Chart 2, that the real AUD trade weighted index (RTWI) has risen faster than the nominal TWI in recent years, due to higher Australian inflation than trading partners (China especially, with its 30% CNY ATWI weight) though we don't pass judgement here on how rich it is relative to fundamentals (on RBA methodology, largely a function of commodity prices and real interest rate differentials). This comment about RTWI overvaluation was not expressed by way of concern, rather it is seen as working with the grain of monetary policy in tightening overall financial conditions and hence bearing down on inflation. Recall that of late the Governor, and deputy Governor Hauser before her, have stressed the role of the exchange rate as a key monetary policy transmission mechanism (indeed the main mechanism).

The Minutes went on to say, "Future trends in interest rates in Australia relative to other countries would also have a bearing on the exchange rate, with implications for domestic inflation". So, rather than a perceived overvalued real exchange rate being problematic, the RBA seems more concerned with the nominal (and hence real) exchange rate suffering if others are raising rates, but the RBA is not. This is notwithstanding the fact the RBA regards its policy tightening cycle as more advanced than others. As such, what the RBA going forward should not be completely divorced from what the Fed does, just as in covid times, there was concern that if the RBA didn't follow unconventional policy trends elsewhere, the currency would be undesirably strong. The RBA is being nothing if not consistent!

Chart 1: Annual AUD/USD ranges since the 1983 float

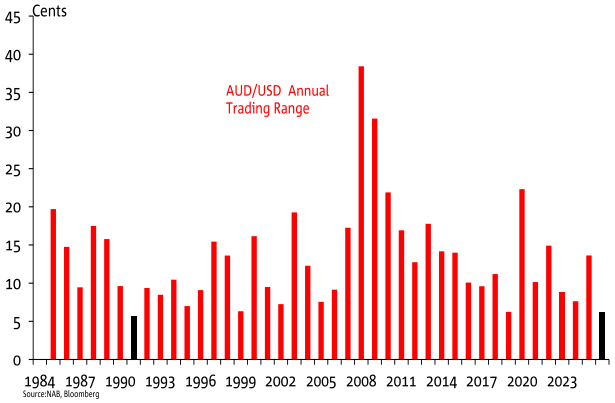
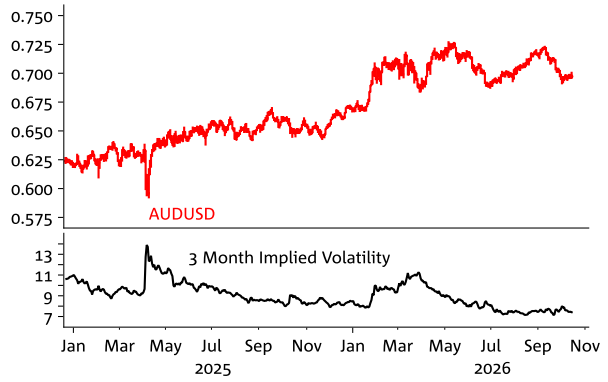
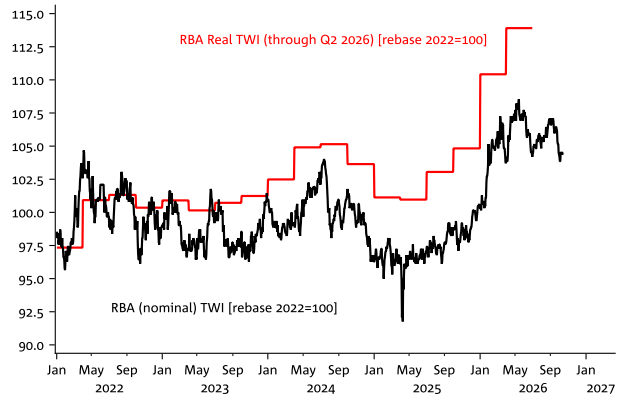


Chart 2: AUD/USD range stays tight, volatility low



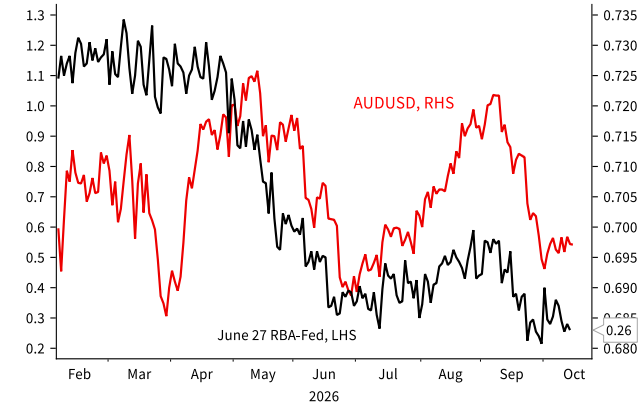
Source: National Australia Bank, Macrobond

Chart 3 AUD real TWI rises more than nominal



Source: National Australia Bank, Macrobond

Chart 4: AUD/USD vs June 2027 RBA – Fed pricing



Source: National Australia Bank, Bloomberg

NZD – Languishing, headwinds still evident

- **While downside risks feel limited, with the NZD already trading at a depessed level, there are still near term hurdles to clear**

The NZD is languishing near its lowest levels in a year, weighed down by the RBNZ's easy monetary policy stance, with its policy rate of 2.75% set well below those in the US, Australia and the UK. The NZ TWI recently fell to a 15-year low, while the currency has also traded at multi-year milestone lows against the AUD, CNY and GBP.

Trading in October to date is consistent with support close to 0.5580, with only a temporary breach of that overnight after the US CPI report. This support closely aligns with the November 2025 low of 0.5581, which is no coincidence. We are watching the level closely, although we continue to regard 0.5500 as stronger support. The NZD has not traded below 0.5500 since the GFC, apart from two trading days—one during the peak of COVID fear in March 2020 and the other in the aftermath of the 2025 Liberation Day debacle.

The RBNZ's policy outlook will be a key driver of the NZD's path. The next Monetary Policy Review is on 28 October, when we expect a third successive 25bps increase in the OCR, taking it to 3.0%. Interestingly, the market does not see this as a done deal, with only 15bps currently priced. A 25bps hike could strengthen the case for NZD support around recent lows, while a pause could trigger a downside break.

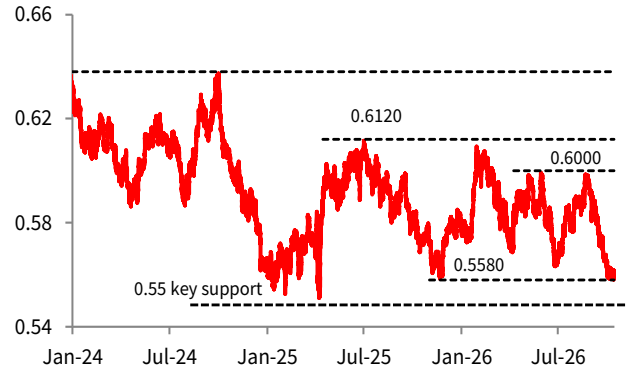
Since the September MPS, New Zealand's inflation pulse has strengthened, reflecting higher oil prices and the fall in the NZD. Based on the usual lags, the latter alone adds 0.5% to the inflation path over the next 12–18 months. Notably, the Cotality Cordell Construction Cost Index has accelerated over recent quarters and rose 4.8% y/y in Q3, with the report noting that higher fuel and freight costs were being passed through the supply chain. Our CPI forecasts show annual inflation rising to 4.3% y/y in Q4, with some core measures moving above 3%.

Our projection that the NZD will find its footing and end the year at 0.5750 relies on the RBNZ hiking not only later this month, but again in December, while signalling that further tightening will be required in 2027. Put simply, we do not see the current policy rate as fit for purpose in addressing New Zealand's inflation outlook. Arguably, even a 3% OCR is at the lower end of neutral, and the backdrop of much higher rates elsewhere needs to be factored into the RBNZ's thinking, lest the currency channel remain an ongoing source of inflationary pressure.

The 7 November general election, which remains too close to call, is another event overhanging the NZD outlook. We do not necessarily see a possible change of government as a negative driver for the NZD next year, but election-related uncertainty could be a short-term headwind.

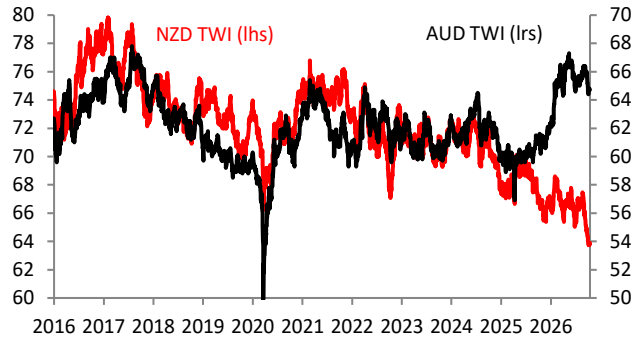
For **AUD/NZD**, resistance just under 1.25 has held, but we are not confident that the cycle peak has been reached, given the ongoing near-term headwinds facing the NZD. However, further upside should be limited, and we do not anticipate a sustained move higher, even if 1.25 is ultimately breached. The cross should eventually turn lower, based on our outlook for macro drivers through 2027, including New Zealand's economic outperformance relative to Australia and further RBNZ hikes against an unchanged RBA rate outlook.

Chart 1: NZD finding support near 0.5580



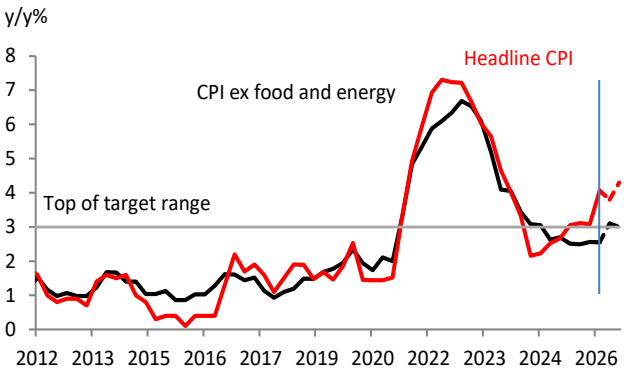
Source: Bloomberg, BNZ/NAB

Chart 2: Contrasting NZD and AUD TWI fortunes due to monetary policy settings



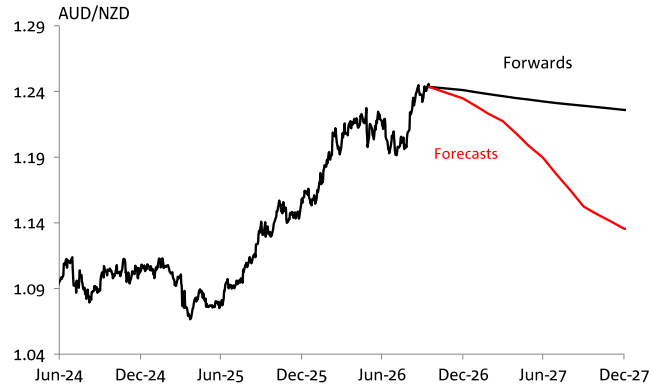
Source: BNZ/NAB, Bloomberg

Chart 3: NZ inflation heading in the wrong direction



Source: NAB/BNZ, Bloomberg

Chart 4: AUD/NZD forecasts vs forwards



Source: NAB, Bloomberg

EUR – Kick it while it's down

- **Until the energy price hit and the focus on France fade, EUR will struggle to get back near 1.15 with 1.10 a suitable initial range low. US rate debate a key swing factor**

Our 1.12-1.18 anticipated EUR/USD range from June had held relatively well through the last almost 4-months as shifting US Fed and yield spreads has seen the big USD gyrate between those boundaries. Even as the EUR has taken on idiosyncratic weakness in the last month as French public finances become a focus, EUR/USD had – until this week – not managed to sustain forays below 1.12, repeatedly regaining the 1.12 level.

While the furore over the French lack of fiscal discipline has come off its recent peak as Marine Le Pen's National Rally (RN) has decided its best course of action is to lay out plans (realistic details or not) to address the situation, a hotter than forecast US CPI report for September, which has jolted the market into thinking the Fed might after all, have to crack on with rate hikes, has been the catalyst to dump the EUR suitably below the 1.12 level. With a decline to almost 1.11, it has done so in a manner that suggests we should be prepared for lower still levels all the while a dynamic of a potentially 'more urgent' Fed survives. Thereby we should be eyeing a lower EUR range.

Here we are reasonably comfortable with a cap around 1.15 all the while the US is growing strongly and the aforementioned jury is out on a more aggressive Fed. (Note NAB's forecast is for one more hike in December, but where further tightening isn't ruled out). A 1.15 EUR/USD upper range is also likely in an environment where Europe (alongside other more energy import-dependent countries) are under pressure from higher costs and potentially more unwanted central bank hikes.

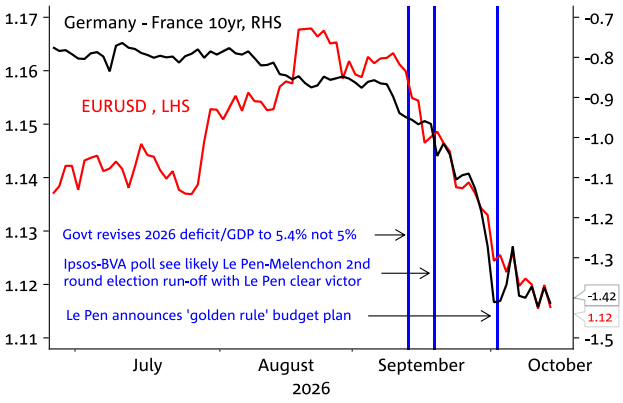
We are now shifting our forecast to an additional ECB 25bps hike to 2.75% on 17 December, which will take monetary policy into restrictive territory and thereby be unhelpful to growth. At this stage we do not see the ECB needing to hike further given (a) the officially recognised lack of second-round effects and (b) tighter financial conditions stemming from higher bond yield.

To this we can now also add the nascent focus on French and to a less extent Belgian public finances. The likely extended process of France approving a 2027 budget that could last into early 2027, with a number of parliamentary votes, including on the government's survival are sufficient to keep investors wary, including on the EUR.

Our base case is Le Pen, as the most likely next French President given her party's poll lead, has nothing to benefit in allowing the budget process (and yields) to spiral. In practice that means that after some negotiations RN doesn't object to the budget, or the government forces the budget through by decree (article 49.3) and RN chooses not to trigger a no confidence vote. If we are correct and such a strategy is seen to be in play, EUR/USD should find range support at 1.10, recovering in time.

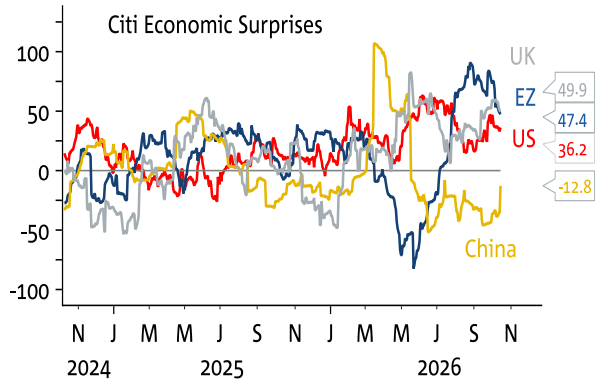
For AUD/EUR, near term risks remain skewed to still higher levels, with the June 2023 high of 0.6310 now within reach, above which there is little by way of technical resistance this side of 0.6400. For our prevailing forecasts for AUDEUR falling back below 0.60 as we go through 2027 to be realised, then as well as needing an RBA easing cycle to commence well ahead of the ECB, current fears over the potential EUR implications of a Le Pen French presidency will need to be assuaged.

Chart 1: Down with a bump: EUR/USD's abrupt drop



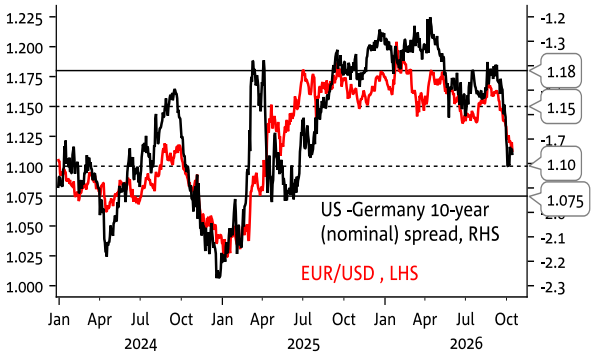
Source: National Australia Bank, Macrobond

Chart 2: EUR decline comes despite not so bad data



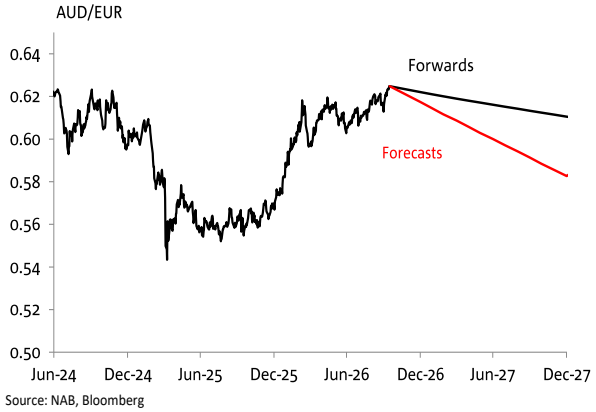
Source: National Australia Bank, Macrobond

Chart 3: EUR range now 1.10-1.15, with wider range outside. Rate spreads (2-yr and 10-yr) a driver too



Source: National Australia Bank, Macrobond

Chart 4: AUD/EUR Forecasts vs forwards



Source: NAB, Bloomberg

GBP – Will Budget shake GBP stability?

- **GBP's relative performance has a lot of good news priced in**

GBP has lost some ground against a generally firmer USD of late, falling to range support just beneath 1.32 (chart 1, grey line), but as the red line shows it has held up on a broader trade-weighted basis. One factor in that relative out-performance against peers ex-USD, is better than expected GDP that puts the UK in a good spot versus other major nations, even including the US.

Another is, thanks to PM Burnham and Chancellor Healey's 'ming vase' strategy of remaining staunchly committed to fiscal responsibility and not providing any specifics or giving rise to speculation on what may be in the coming 28 October Budget, the UK looks unusually 'stable' on the fiscal front compared to some others like France. While Gilt yields remain eye-wateringly high and haven't eased off as much recently as the US and Germany, the UK is not in the market's crosshairs like France.

On the growth front and after revisions, GDP in Q1 was 0.6%, slowing only moderately to 0.5% in Q2. The IMF said this week it thought the UK could manage to eke out 1.3% GDP in 2026, a 0.5ppt upgrade from its April forecast. The story until now has been the UK's pattern of stronger growth in H1, slowing sharply in H2. Monthly GDP for August is due today and following an unexpected 0.4% m/m outturn in July, is seen falling by -0.1%.

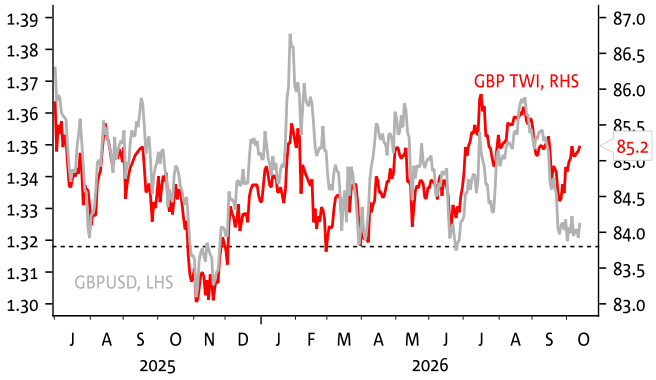
While that might suggest a coming H2 slowdown, we know that recent ONS GDP data has reported growth coming in three particular service sector sub-categories: 'Professional, scientific & technical activities,' Information & communication,' and 'Administrative & support services.' Alongside a pick-up in business investment in software, hardware and data centres, the conclusion according to the IMF is AI is driving a UK data spurt. Moreover, it believes the UK is emerging as one of the tech boom winners, which if so, would lessen its long-run dependence on consumption.

One question that follows is, is such growth the result of an investment in AI splurge that will continue and will it result at some point down the road in higher productivity? It is unlikely we will get an answer on productivity for some time, but what we do know is the coming Budget will have to find additional monies and cannot rely on additional borrowing given the level of public borrowing and financial market's sensitivity of such after the last two record-breaking Budgets borrowed £66bn.

Media reports have the government pushing back on pernicious business taxes and raising CGT to equal Income Tax rates. Media reports also suggest the Budget may leave a lower fiscal headroom and not fully find other liabilities such as defence until the 2027 Spending Review and Budget. If seen that won't play well with markets. We remain unconvinced about the growth outlook but a change to our BoE rate call for a 25bp hike to 4% on 5 November, won't necessarily hurt GBP all the while growth holds up. The 1.30-1.3150 area of support looks sustainable for now, with gains capped around 1.35.

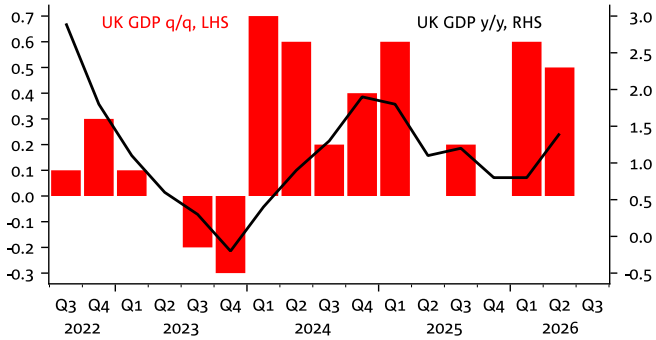
For AUD/GBP, the near term (through year-end) outlook is heavily dependent on RBA and BoE policy relativities. With a 5 November 25bps BoE rate hike well priced (and 37bps by December), there is more upside for AUD/GBP from the BoE falling short than downside on a hike. From the RBA side, with 15bps of hikes prices through year end, risks are fairly symmetric depending on whether there is none, or one, hike.

Chart 1: GBP has slipped to range lows vs a stronger USD, but has performed well against other peers



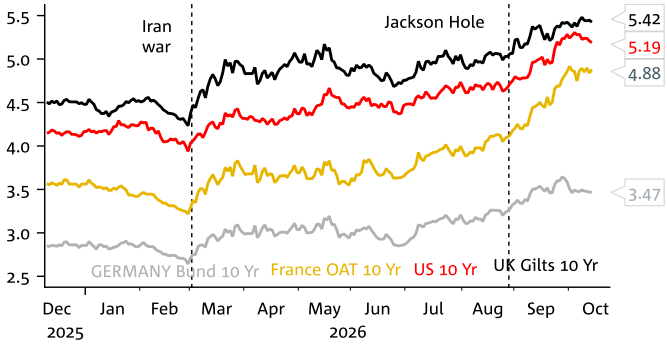
Source: National Australia Bank, Macrobond

Chart 2: UK GDP growth has surprisingly held up – so far



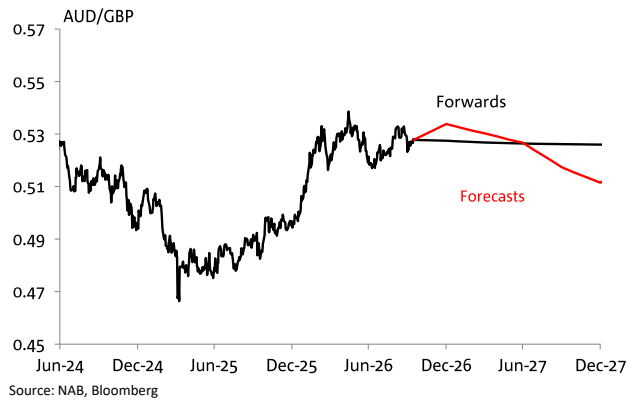
Source: National Australia Bank, Macrobond

Chart 3: UK yields haven't risen as much as France recently



Source: National Australia Bank, Macrobond

Chart 4: AUD/GBP Forecast vs forwards



Source: NAB, Bloomberg

JPY – Is the tide turning?

- **Our Term Premium estimate suggest the market remains unconvinced on Japan's fiscal and BoJ policies, signalling USD/JPY upside risk. We are also watching bond auctions**

DXY is up ~3% over the past five weeks, while USD/JPY has risen 2.6%, from ¥155 to ~¥158.5. The threat of coordinated US-Japan currency intervention, alongside expectations for additional BoJ hikes, is capping USD/JPY upside just below ¥160. Intervention risk should rise sharply as the pair approaches its YTD high of ¥163.99.

In our analysis of term premia and FX, we noted that the rise in the JGB term premium has been driven by concerns over inflation and fiscal indiscipline and should therefore be JPY negative. On the fiscal side, the Takaichi government has begun putting formal structure around its "responsible and proactive" fiscal policy. Most importantly, the cabinet has approved plans for a two-year cut in the consumption tax on food from 8% to 1% from April 2027, while the government is also adding detail to its long-term growth target of ~¥370tn in public-private investment through FY2040 across 17 strategic sectors.

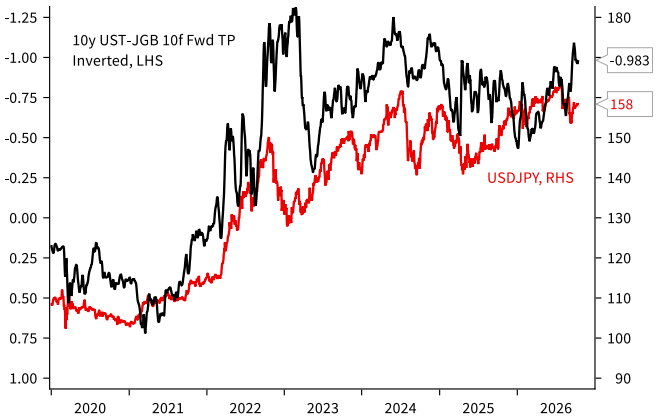
There is no doubt Takaichi has an expansionary strategy; the question is whether it can deliver on the "responsibility" part of the commitment. Early in October, the PM formally committed to controlling annual JGB issuance, with spending priorities to be funded partly through reviews of existing tax breaks and subsidies. Spending more without borrowing more sounds great on paper but delivering it in practice is much harder. Our forward term premium estimate suggests the market is not yet convinced (Chart 1). A key test will come in December, when the government finalises its first FY2027 budget under the new "responsible and proactive" fiscal framework.

JGB demand is another variable to watch. The 6 October 10y auction recorded a 3.76 bid-to-cover ratio, up from 3.29 in September, while the 8 October 30y auction recorded a ratio of 3.88, its highest since 2019 (Chart 2). Early days, but a sustained rise in bid-to-cover ratios could signal higher yields are drawing domestic investors back to JGBs, which would be JPY positive.

Another uncertainty is the BoJ's commitment to step up the pace of policy normalisation. Late in September, Governor Ueda asserted that "the stage for policy conduct has changed". External price pressures (read: higher energy prices), corporate pricing power (the Tankan survey remains buoyant) and wage growth (Shunto negotiations become increasingly important around the turn of the year) support the view that trend inflation can remain around 2%. Upside risks come from a weaker yen and higher energy prices. We think Japan faces a ramp-up in inflationary pressures over the coming quarters (see Chart 3), yet BoJ board dissenters suggest there are still reflationists reluctant to support further hikes. We expect the BoJ to hike in December, March and potentially once more later in 2027. We see USD/JPY contained within a ¥155–160 range in the near term, but BoJ hikes are a necessary condition for our USD/JPY expectations to head towards the low ¥150s by Q1-27.

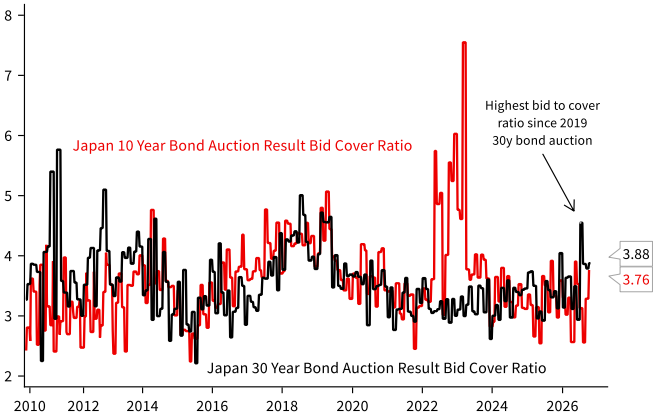
AUD/JPY: We see the cross shifting into a lower ¥100–¥110 trading range over 2027. Our ¥110 Dec-26 target is now within sight, increasing the risk of a sustained move below this year's low of ¥108.79. Much, however, will depend on Takaichi and the BoJ delivering on expectations in December, namely fiscal discipline and another BoJ hike.

Chart 1: What is our term-premium measure telling us?



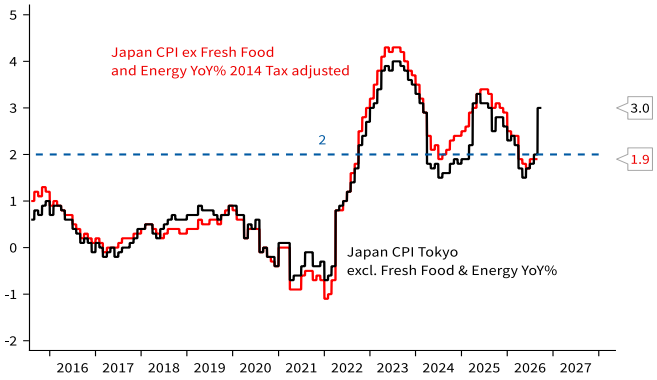
Source: National Australia Bank, Bloomberg

Chart 2: JGB auction not yet signalling a regime change



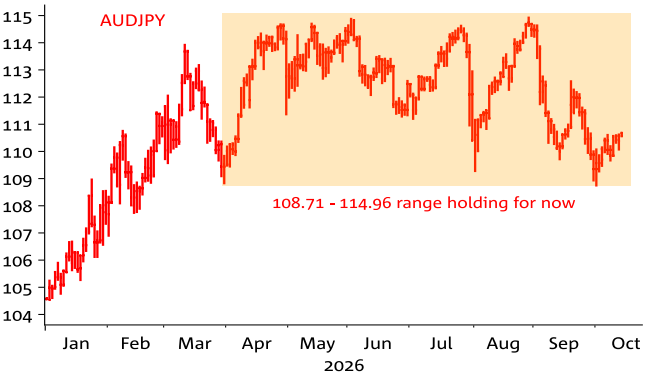
Source: National Australia Bank, Bloomberg

Chart 3: Get ready for more inflation!



Source: National Australia Bank, Bloomberg, Macrobond

Chart 4: AUDJPY ¥115 expected range top at risk



Source: National Australia Bank, Macrobond

CNY – Reading between the lines

- **The PBoC's defence of RMB regime has merits and omissions. We continue to expect gradual CNY appreciation**

Recent data releases reinforce China's ongoing imbalances, particularly exceptional export strength alongside weak domestic demand. Exports surged 36.3% y/y in September, from 25.0% in August, with high-tech shipments rising 64% and accounting for around half of export growth. Strength was geographically broad, including a 40% rise in exports to the US and 25% to Europe, while imports increased 31%. The result was another enormous $133.5bn monthly trade surplus, taking the ytd surplus to $939bn.

The inflation data tell a similar story. CPI edged up to just 0.9% y/y, while PPI jumped from 3.8% to 5.0%, its fastest pace since 2022, reflecting higher energy prices and strong demand for inputs linked to the global AI and data-centre boom. Outside energy and technology, property weakness and subdued household demand continue to generate disinflationary pressure. Higher input costs are also squeezing manufacturers, industrial profits recently disappointed at 4.8% y/y versus 8% expected, although some adjustment is occurring through export prices, which have risen ~ 20% since February. Export strength suggests there is little macroeconomic justification for resisting further CNY appreciation.

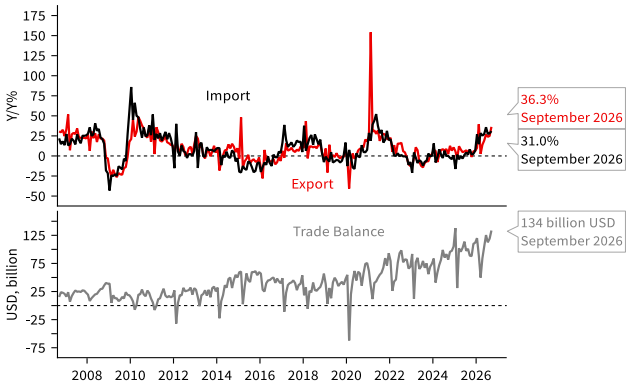
That brings us to the PBoC's unusual and forceful defence of the RMB. On 8 October, it argued that market forces play a decisive role under China's "managed floating" regime, rejected claims that China seeks competitive advantage through depreciation and maintained that export success primarily reflects industrial competitiveness. It also challenged attempts to infer currency undervaluation mechanically from its current-account surplus.

There is merit to parts of that defence but also glaring omissions. The discussion gives insufficient weight to the daily fixing and role of state-owned banks in the FX market. CNY is not freely floating, and with the currency already exceptionally cheap against long-run valuation measures such as PPP, authorities have room to manage a gradual appreciation.

The timing is also significant. CNY appreciation since late 2025 initially coincided with the US-China trade truce, but Europe now provides another reason to tolerate further gains. EU-China talks have begun constructively, yet European pressure remains, Brussels is considering additional safeguards with Germany calling for import caps to extend beyond autos into sectors including chemicals, mechanical engineering and potentially pharmaceuticals.

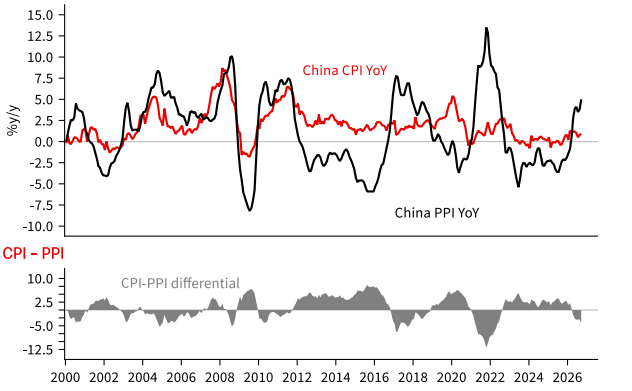
Our assessment is that Beijing has used, and will continue to use, CNY as part of its trade negotiations. Allowing gradual appreciation can help appease trading partners while supporting China's stated objective of rebalancing towards domestic consumption by lifting household purchasing power, albeit at the expense of exporters. CNY has already appreciated just over 7% since the Trump-Xi truce, and our USD/CNY forecasts of 6.60 at end-2026 and 6.40 at end-2027 imply roughly another 5% appreciation. Given the trade backdrop, the risk may be that we are underestimating how low USD/CNY ultimately goes. Combined with our expected decline in AUD/USD in 2027, this leaves AUD/CNY at 4.43 by mid-2027 and 4.29 by year-end.

Chart 1: Sky is the limit, China's booming trade



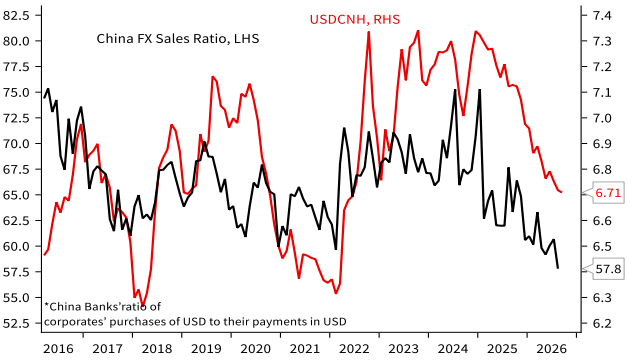
Source: National Australia Bank, China General Administration of Customs (GAC), Macrobond

Chart 2: PPI rise not a domestic demand story



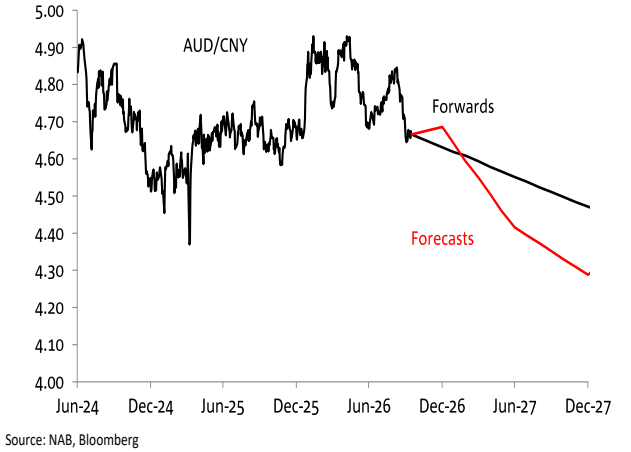
Source: National Australia Bank, Macrobond, Bloomberg

Chart 3: How low or high should CNY be?



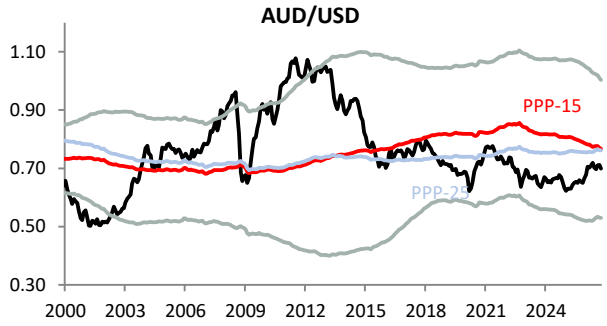
Source: National Australia Bank, Bloomberg

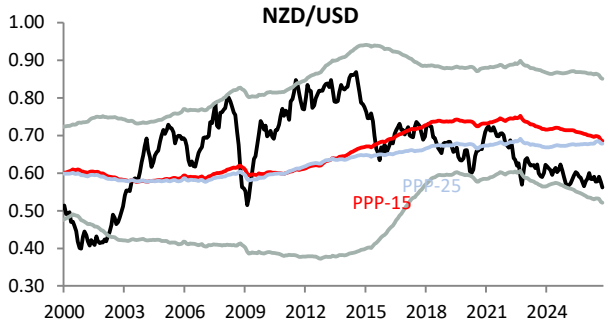
Chart 4: AUD/CNY resilience challenging our forecast

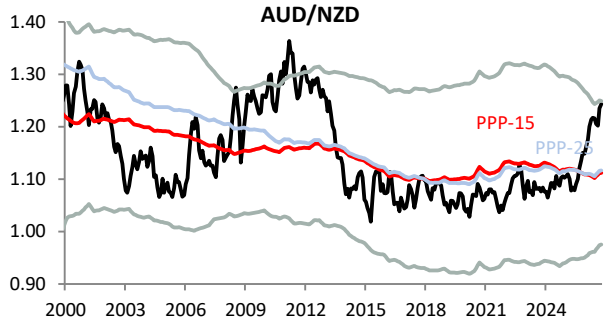


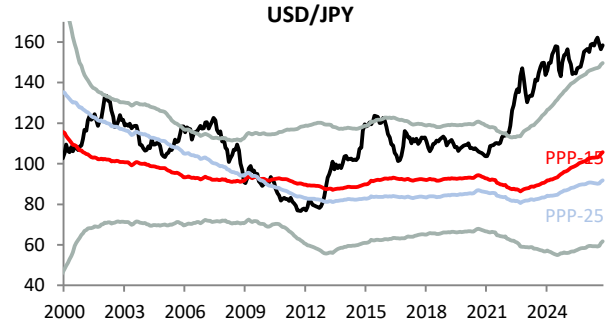
Source: NAB, Bloomberg

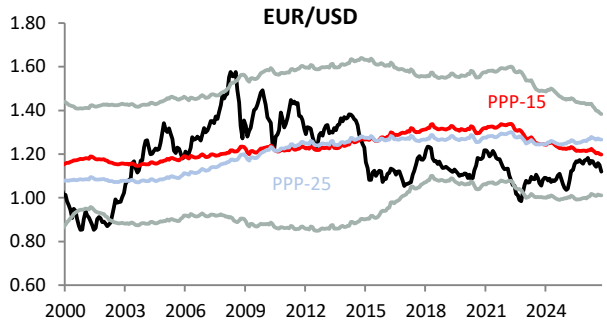
PPP Estimates

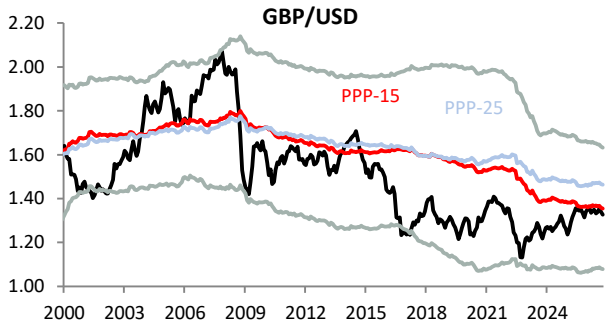


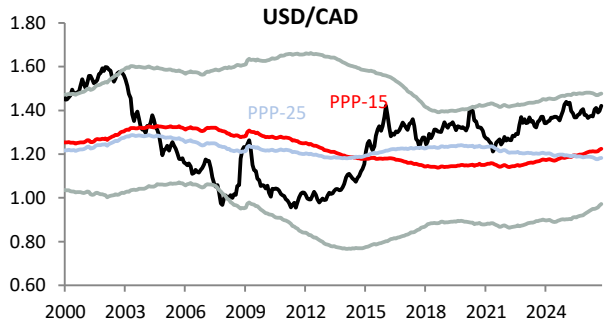


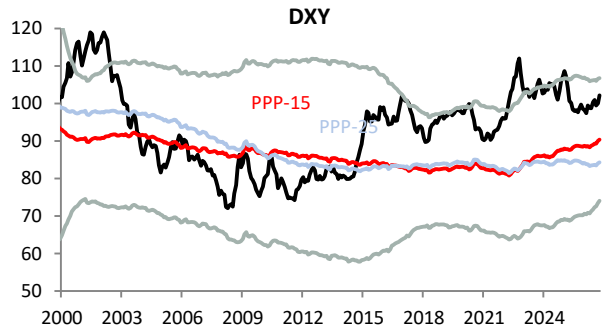










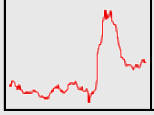
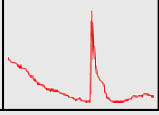
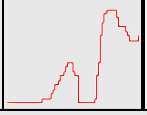
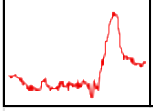
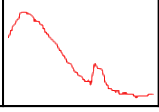
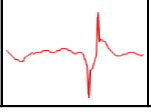
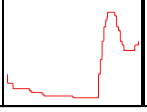
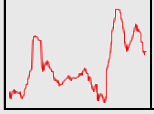
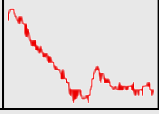
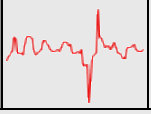
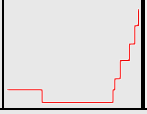
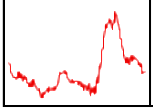
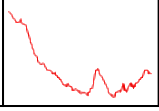
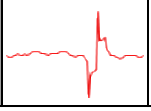
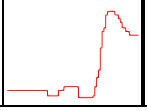
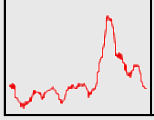
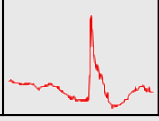
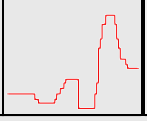
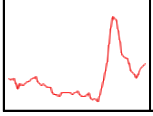
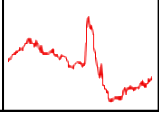
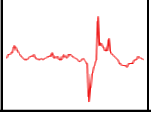
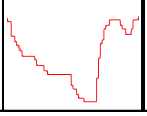
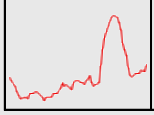
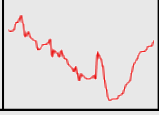
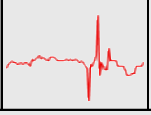
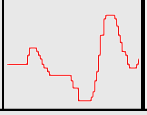
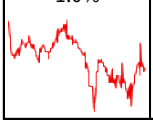
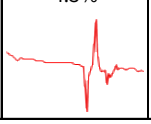
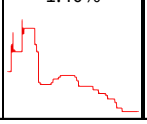


	AUD/USD	NZD/USD	AUD/NZD	USD/JPY	EUR/USD	GBP/USD	USD/CAD	DXY
Actual	0.6990	0.5620	1.2430	158.40	1.1200	1.3260	1.4210	102.2
PPP-15year	0.7700	0.6890	1.1120	104.90	1.2010	1.3590	1.2200	90.4
% Deviation	-9.2	-18.4	11.8	51.0	-6.7	-2.4	16.5	13.0
z-score	-0.5	-1.6	1.6	2.6	-0.7	-0.2	1.4	1.4
PPP-25year	0.7620	0.6790	1.1160	91.20	1.2680	1.4660	1.1810	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

		15-Oct-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28
	Majors										
Australian Dollar	AUD/USD	0.6971	0.71	0.70	0.69	0.68	0.67	0.68	0.69	0.70	0.70
New Zealand Dollar	NZD/USD	0.5594	0.58	0.58	0.58	0.59	0.59	0.60	0.61	0.62	0.62
Japanese yen	USD/JPY	158.32	155	153	151	150	149	148	147	146	145
Euro	EUR/USD	1.1156	1.15	1.15	1.15	1.15	1.15	1.14	1.14	1.14	1.14
British Pound	GBP/USD	1.3192	1.33	1.32	1.31	1.31	1.31	1.30	1.30	1.30	1.30
Swiss Franc	USD/CHF	0.8350	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83
Canadian Dollar	USD/CAD	1.4238	1.38	1.39	1.38	1.38	1.39	1.36	1.35	1.34	1.34
Chinese New Yuan	USD/CNY	6.6963	6.60	6.50	6.40	6.40	6.40	6.43	6.45	6.45	6.45
	Cross Rates										
	AUD/NZD	1.2462	1.23	1.22	1.19	1.15	1.14	1.13	1.13	1.13	1.13
	AUD/JPY	110.36	110	107	104	102	100	101	101	102	102
	AUD/EUR	0.6249	0.62	0.61	0.60	0.59	0.58	0.60	0.61	0.61	0.61
	AUD/GBP	0.5284	0.53	0.53	0.53	0.52	0.51	0.52	0.53	0.54	0.54
	AUD/CHF	0.5821	0.59	0.58	0.57	0.56	0.55	0.57	0.58	0.58	0.58
	AUD/CAD	0.9925	0.98	0.97	0.95	0.94	0.93	0.92	0.93	0.94	0.94
	AUD/CNY	4.6680	4.69	4.55	4.42	4.35	4.29	4.37	4.45	4.52	4.52
	USD (DXY)	102.5	100.3	100.2	100.1	100.0	100.0	100.3	100.2	100.0	99.9

Central Bank Monitor

	Inflation and output gap indicators			Central bank rates			
				NAB forecasts			
	Core inflation*	Unemployment	GDP	Policy rate**	bias	next meetings***	year-end forecast
US Federal Reserve	3.0% 	4.2% 	2.2% 	4.00% 	tightening	28 Oct 4.00 9 Dec 4.25	end 2026 4.25 end 2027 4.25
	We expect a follow up move in Q4 (most likely Dec.), with a risk of another in Q1. Progress on inflation coming down, and anchored inflation expectations, are needed for this modest recalibration to be sufficient.						
European Central Bank	2.5% 	6.4% 	1.2% 	2.50% 	tightening	29 Oct 2.50 17 Dec 2.75	end 2026 2.75 end 2027 2.75
	We see the ECB hiking 25bps to a 2.75% Deposit Rate in Dec; considered entering restrictive territory. The risk of a move to 3% in Q1, 2027 can't be ruled out if the energy hit continues, but the lack of 2nd-round effects says no.						
Bank of Japan	1.9% 	2.5% 	0.7% 	1.25% 	tightening	30 Oct 1.25 18 Dec 1.50	end 2026 1.50 end 2027 1.75
	The BoJ is flagging further rate rises, given still accommodative policy settings, a postive output gap and ongoing inflationary pressures. An Oct. move is possible but we expect the next hike in Dec.						
Bank of England	2.6% 	4.9% 	1.4% 	3.75% 	tightening	5 Nov 4.00 17 Dec 4.00	end 2026 4.00 end 2027 3.75
	We see the BoE hiking to 4% in Nov, despite a lack of 2nd-round effects. Restrictive policy, combined with more fiscal tightening will cool inflation. BoE to cut back to 3.75% in Q4, 2027.						
Bank of Canada	1.9% 	6.5% 	1.1% 	2.25% 	hold	28 Oct 2.25 9 Dec 2.25	end 2026 2.25 end 2027 2.50
	Persistent oil-driven input cost pressures risk unsettling core inflation from its well behaved streak. Given policymakers' strong commitment to price stability, we expect one hike next year with the risk of another.						
Reserve Bank of Australia	3.6% 	4.6% 	2.1% 	4.60% 	hold	3 Nov 4.60 8 Dec 4.60	end 2026 4.60 end 2027 4.10
	With the cash rate now more clearly in restrictive territory and the economy showing signs of slowing, we expect the RBA is on hold, but the risk of further near term tightening remains given still elevated cost pressures.						
Reserve Bank of New Zealand	3.1% 	5.6% 	2.6% 	2.75% 	tightening	28 Oct 3.00 9 Dec 3.25	end 2026 3.25 end 2027 3.75
	We expect the RBNZ to raise its cash rate by 25 bp at each meeting until it reaches 3.75%.						
pre publications							
People's Bank of China	1.0% 		4.3% 	1.40% 	easing	na	end 2026 1.40 end 2027
	We now expect the PBoC's policy rate to be on hold through to the end of the year as authorities pursure more targeted support to the economy.						

* Core is excl. food and energy, except Japan (ex fresh food, energy & alcoholic beverages), UK (also ex alcoholic beverages & tobacco), NZ(RBNZ's factoral model), Canada, Aust. (qtly TRIM measure). US PCE measure used, CPI for all others

For federal funds rate the top of the target range is shown * For meetings spanning two days, the final day is shown

Note: number at top of each chart is latest obvservation (yoy change for GDP and inflation, level for unemploy. rate and policy rate). 15yrs of data shown.

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