

# Markets Research

# Global FX Strategist

## In this issue

USD – Holding our (weaker) nerve for now ...	2
AUD – drivers currently want at least 0.67 ....	3
NZD – One downward force extinguished .....	4
EUR – Still holding its own as the risks build.	5
GBP – Awaiting a worsening of data .....	6
JPY – On a gathering mission .....	7
CNY – CNY strength not an economic thing ...	8
PPP Estimates .....	9
NAB Spot FX Forecasts.....	10
Central Bank Monitor .....	11

## Key Currency Themes

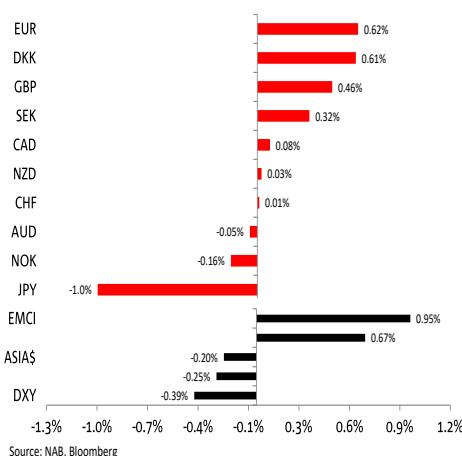
- Conviction in the extent of our forecast USD decline in 2026 has been eroded but we hold our nerve for the time being
- The stars look aligned for better AUD levels into year end, though recent disappointments are fresh in the memory
- The end of the RBNZ easing cycle removes a downward force for the NZD, and could signal a more positive outlook
- EUR/USD's next move from US data or Ukraine?
- GBP to continue under-performing; EUR/GBP upside risks
- The BoJ December meeting remains live, but JPY weakness is a function of both loose fiscal and monetary policies
- China's activity slowdown is accelerating, yet the PBoC keeps pushing for CNY strength. We continue to target a move sub 7

## FX views in a tweet

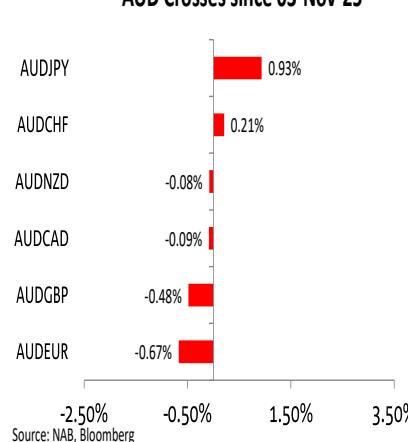
Near term view (next few weeks)		Longer term view (6-12 months)
USD Index	➡ Assuming a 25bps Fed cut on Dec 10, the payrolls data the week after the FOMC, and Trump's pick for next Fed chair, promise to determine USD performance into year-end	⬇ A materially lower in H1 2026 likely requires evidence of a loss of US economic exceptionalism - not currently to hand - and expectations of a more dovish post-Powell FOMC
AUD/USD	⬆ AUD supportive move in rates spreads together with lower USD/CNY argues for level at/above 0.67, though importer bids risk adding upside resistance much above 0.66	⬆ Move from mid 0.60s into a 0.65-0.70 range predicated on resumption of USD downtrend. Evidence global economy is weathering US tariffs/improving, would also help
NZD/USD	➡ The hawkish RBNZ November MPS was a key circuit-breaker for the NZD, extinguishing hitherto downward pressure; Q3 GDP data looking positive	⬆ Expected gains through 0.60 next year require the USD downturn to resume, supported by further easing in Fed policy, while focus turns to timing of the first RBNZ hike
EUR/USD	➡ Sideways trading remains, with the next directional move perhaps to come from US data (better or worse) or definitive news on Ukraine	⬆ Fed policy induced USD weakness can carry us to 1.20 but gains much beyond that will need outright EUR-positive EU economic/reform developments
GBP/USD	⬇ The relief for GBP (and Gilts) is likely to be limited. We look for growth to continue to disappoint as confidence remains absent	⬆ Amid anticipated additional cross-rate underperformance, push toward \$1.40 on cable is entirely in the hands of a materially weaker USD
USD/JPY	➡ Gov. Ueda has set the scene for a Dec hike, USD/JPY can head into the low 150's, but the BoJ will need to deliver in December and retain a hawkish guidance for 2026	⬇ BoJ seen reinitiating policy normalisation in 2026 with the Fed easing in December and twice more next year. If so, USD/JPY should head towards 145
USD/CNY	⬇ China economic activity is slowing but the PBoC continues to signal a gradual move lower in the CNY fix	⬇ The strategy of CNY stability goes beyond the USD. CNY has to retain its low beta sensitivity to USD moves in order to keep stability versus other FX pairs, targeting a move sub 7

## G10 FX, AUD & NZD since the start of November

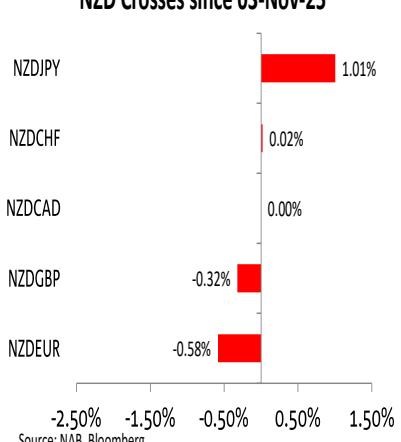
Global FX since 03-Nov-25



AUD Crosses since 03-Nov-25



NZD Crosses since 03-Nov-25



## USD – Holding our (weaker) nerve for now

- Conviction in the extent of our forecast USD decline in 2026 has been eroded but we hold our nerve for the time being

Against a backdrop where: 1) The ‘loss of US economic exceptionalism’ argument for a weaker USD has been wearing increasingly thin; 2) The resumption of the Fed easing cycle has seen the USD rise not fall out of both the September and October rate cuts; and 3) Negative perceptions regarding the direction of US policy, including diminished confidence in the US commitment to the rule of law, free trade, legal immigration, etc. have, a few weeks in April aside, done nothing to alter international investor behaviour, the arguments for throwing in the towel on expectations for a resumption of USD depreciation have been mounting as the second half of 2025 has progressed. As discussed in individual currency sections, there are ‘sum of the parts’ arguments threatening to work against USD declines, JPY and GBP in particular but also EUR/USD unless or until Germany and other EU governments are seen to be accelerating infrastructure and defence spending and delivering more on reforms, hopes for which drove EU equity market outperformance and EUR/USD gains earlier in the year.

Yet having contemplated pulling the trigger on a wholesale upward revision to our USD forecasts we choose, for the time being, not to do so for several reasons. One is the fog of uncertainty surrounding the current state of the US economy, the labour market in particular, with hard data since September not yet to hand. A couple of tenths rise in the US unemployment rate between October and December could quickly change perceptions regarding US exceptionalism, even if it is the case that AI capex spending, mildly expansionary fiscal policy in 2026, etc, supports decent GDP performance.

Second, we are just a week away from the next FOMC meeting, one which will include new Fed forecasts alongside a now expected 25bps rate cut and whatever guidance the Fed chair chooses to bestow on markets. Thirdly, as per Chart 2, the past fortnight has seen a significant narrowing in yield differentials between (DXY) USD index component countries, consistent with a DXY fall of several percentage points. Currency movements tend to lag not lead changes in yield differentials.

To the list we’d note that while international investors have, beyond April, displayed no loss of enthusiasm for adding to their ownership of US financial assets (Chart 3) – alongside which there is scant evidence of increased FX hedging of these assets – US investors have, also beyond April, remained enthusiastic buyers of non-US assets (Chart 4). The latter has historically been a key (negative) USD driver, often with significant lags.

As well as the fog surrounding the true state of the US economy, we are also weeks away from learning who is Trump’s pick for next Fed chair, in which respect market may judge current front runner, Kevin Hassett, to be the least credible of the short-listed candidates, with USD negative implications. We might also know in January if not before, what SCOTUS decides in the Lisa Cook case, and also the broader question of whether the Fed is no different from other government agencies for whom the President has the right to fire its heads on a whim.

This is not to deny that our conviction in weaker USD forecast profile through 2026 (or at least to the extent forecast) is quite low. Rather, we will be in a position to make forecast revisions – if any – with more conviction early in the new year.

Chart 1: USD and Dec. FOMC – three times a charm?



Chart 2: USD suddenly looking rich on yield grounds

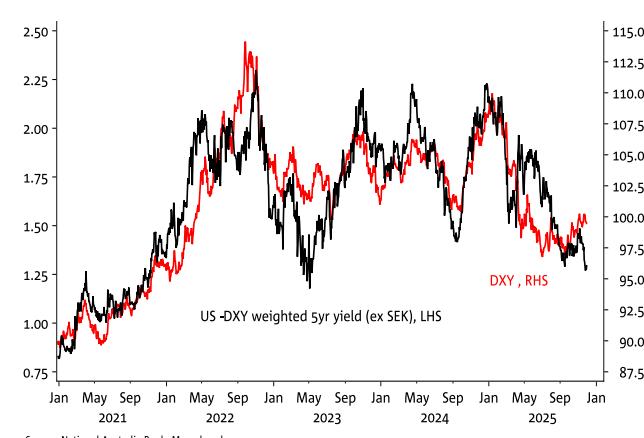


Chart 3: Foreigners still in love with US stocks...

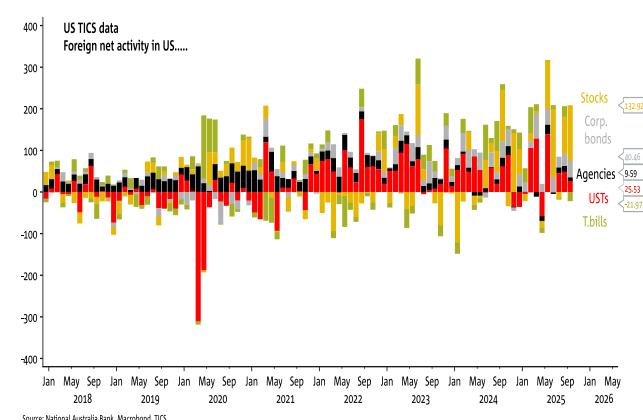
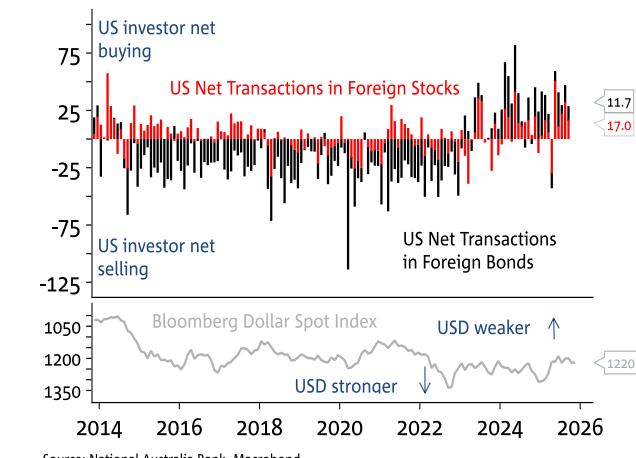


Chart 4: ...but US investors put more cash overseas



## AUD – Drivers currently want at least 0.67

- The stars look aligned for better AUD levels into year end, though recent disappointments are fresh in the memory

In the context of how much interest rate differentials have moved in favour of the AUD in recent weeks, dating from the release of the Q3 local CPI data in late October, AUD/USD performance has been disappointing, merely recovering its mid-month swoon to the low 0.64s to finish November exactly where it started, near 0.6550.

The interest rate argument for further AUD/USD gains in the run up to year end is compelling. This is the case whether looking simply at the shift in expectations for the Fed funds rate relative to the RBA cash rate between now and later in 2026 (June pricing shown in Chart 2) or the whole term structure/relative curvature of Australia versus US rates (Chart 3). Both are currently consistent with AUD/USD being a couple of cents higher than current spot, above 0.67. Note that Chart 3 incorporates a one-month lag between relative moves in curves and AUD/USD, supportive of the prospect of further AUD gains without any further AUD-supportive move in rates.

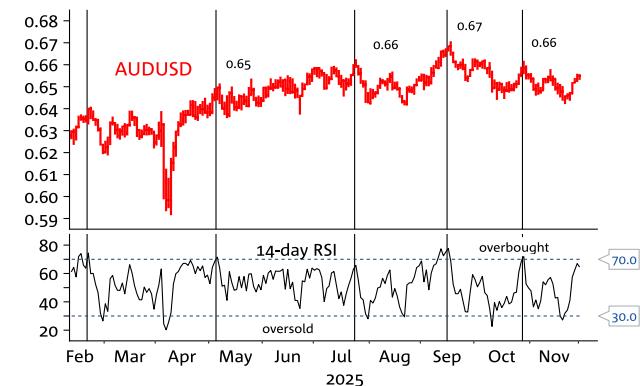
Absent a material shift in Fed policy pricing out of the December 10 FOMC meeting, risk is skewed to rates moving further in favour of AUD if incoming economic news amplifies current concerns about the economy bumping up against capacity constraints, to further erode confidence that inflation will be headed back below 3% and to nearer the 2.5% target mid-point over the RBA's forecast horizon on current policy settings.

If the interest rate argument for AUD rising to at least 0.67 is strong, the same could also be said of recent USD/CNY performance. In the face of further evidence of China growth struggling thus far in Q4, the Chinese authorities have blessed a move in USD/CNY to below 7.10 and which until mid-September had looked to be a quite firm line in the sand. The direct read-through from USD/CNY to AUD/USD, at least based on historical correlations, is closer to 0.67 than 0.65 (Chart 4).

In questioning why AUD/USD is not already stronger, we got another reminder last month that whenever risk sentiment sours, AUD is the G10 currency that typically suffers the most, in the latest instance when the US technology sector took a hit when talk of an AI bubble and excessive valuations reached a new peak, taking global stocks lower in their slipstream. Perhaps the November sell-off, in stocks and the AUD, is still a little too fresh in the memory to be ignored. Also worth a reminder is that from a technical perspective and as per Chart 1, whenever AUD/USD has become technically overbought following its recovery off the post-liberation day lows, it has invariably corrected lower, and most recently having failed to first make a new high. We suspect too that many Australian importers will be minded to top-up short term hedges if levels above 0.66 are seen in coming weeks, in turn applying some additional resistance to an easy push above this level.

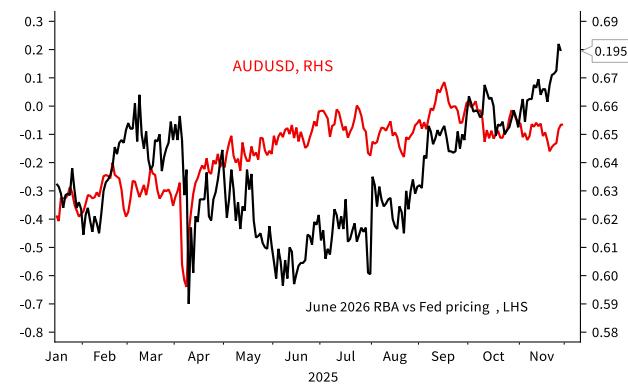
Beyond price action between now and year end, our forecasts for AUD/USD getting above 0.70 next year remain heavily contingent on a fresh downturn in the USD, and where risks currently look skewed to not materialising as quickly, or to the same extent, as currently forecast. Yet even if this is the case, it should not stand in the way of further gains on key AUD crosses, justified in large part on relative interest rate ground.

Chart 1: AUD/USD – running to stand still



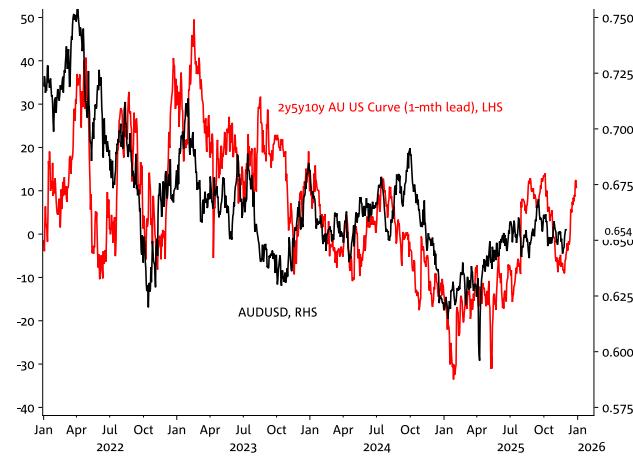
Source: National Australia Bank, Macrobond

Chart 2: RBA vs Fed pricing shift wants >0.67



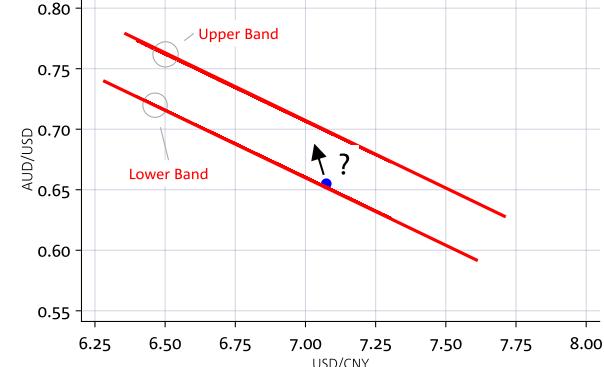
Source: National Australia Bank, Bloomberg

Chart 3: As does relative AU-US term structures



Source: National Australia Bank, Macrobond

Chart 4: CNY strengthens; AUD fails to follow



Source: National Australia Bank, Macrobond

## NZD – One downward force extinguished

- The end of the RBNZ easing cycle removes a downward force for the NZD, and could signal a more positive outlook

We see the RBNZ's November Monetary Policy Statement as a significant circuit breaker for the NZD. Lower NZ-global rate spreads have been a dominant downward force on the NZD through the second half of the year, driven by RBNZ policy and not helped by the rogue Q2 GDP figure which "sucked" the RBNZ into upscaling the easing process with a chunky 50bps cut in October.

The downward force on the NZD by RBNZ policy has finally been extinguished. At the November Monetary Policy Statement, the RBNZ cut the OCR by the widely anticipated 25 basis points to 2.25%. The policy update was more hawkish than expected, with the decision put to a vote, resulting in a 5-1 majority, the sole dissenter preferring to keep rates steady. There was no explicit policy bias, and the projected rate track indicated only a slim chance of an additional cut. Governor Hawkesby signalled a high bar for further rate cuts and expressed no surprise at the market's reaction, which included a sharp rise in short-term swap rates and a stronger NZD.

Last week, the NZD received additional support from data showing a 1.9% q/q surge in real retail sales in Q3 and from the ANZ survey, which indicated business confidence at its highest level in 11 years. The data add to growing evidence that the NZ economy is on a path to recovery, even if it is patchy.

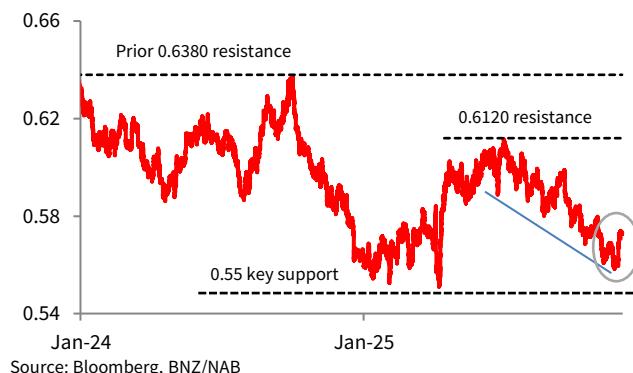
It is far too early to consider the timing of the first RBNZ rate hike, but as 2026 progresses, this will become an increasing focus for the market. The market prices the first-rate hike for December 2026, which seems fair at this juncture. If CPI inflation doesn't fall as quickly as the RBNZ expects – to 2.3% by March 2026 from the current 3.0% rate – then the market will be itching to bring forward rate hikes.

After recently believing that the NZD meeting our year-end target of 0.59 was a bit of a stretch, the hawkish RBNZ update and rising likelihood of a December Fed rate cut, keep that forecast alive.

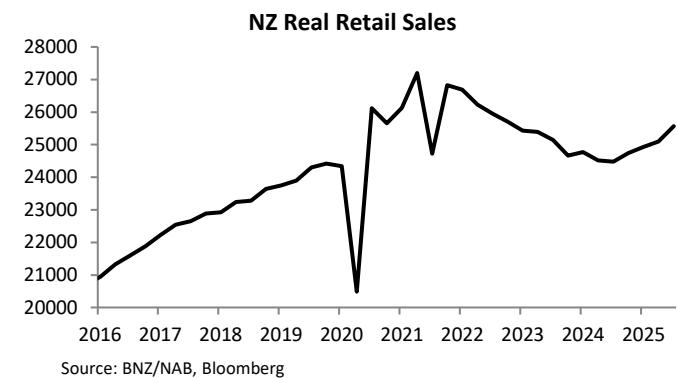
Seasonally, December is typically the best month for the NZD, as the USD generally weakens toward year-end. Therefore, there is still an opportunity for NZD/USD to reach 0.59. A dovish RBNZ and lower NZ-global rate spreads have been major downward forces on the NZD in recent months. While that pressure has now been extinguished, we acknowledge that persistently low NZ-global rate spreads continue to pose a headwind to any NZD recovery.

Some may be tempted to believe that the end of the RBNZ easing cycle means that AUD/NZD has passed its peak. But the short-lived RBA easing cycle has also likely ended, put to bed by stronger Australian labour market and inflation data. As NAB economics notes, the RBA may be forced to raise rates as soon as the first half of next year. NZ-Australian short-end rate spreads remain deeply negative, a hurdle for the NZD to outperform the AUD. Should expectations firm that the RBA will tighten policy ahead of the RBNZ, the cross rate could retest its recent high above 1.16 sometime in 2026.

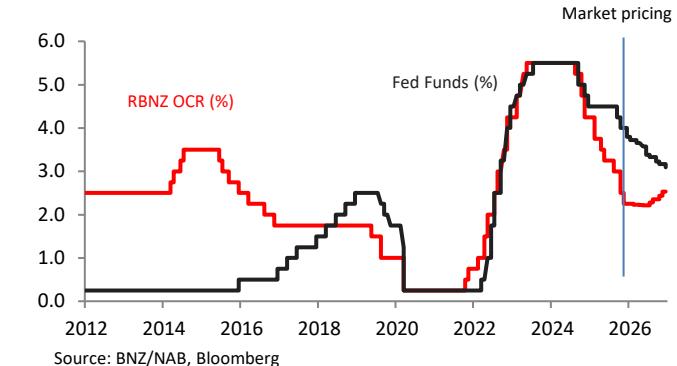
### Chart 1: Finally, a decisive break higher in the NZD?



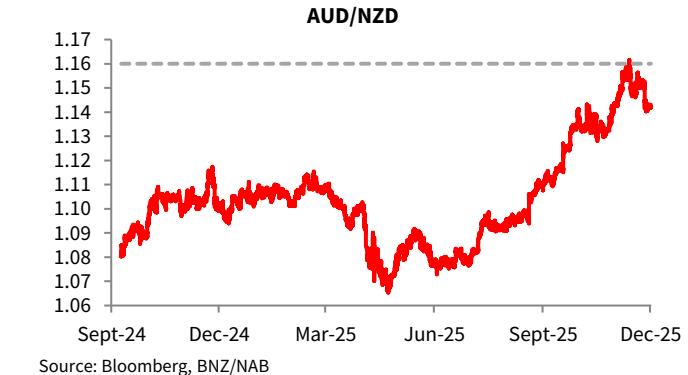
### Chart 2: NZ real retail sales swinging upwards



### Chart 3: Next RBNZ action likely to be a hike



### Chart 4: AUD/NZD off its peak, but too early to declare upward run over



## EUR – Still holding its own as the risks build

- EUR/USD's next move from US data or Ukraine?

As we reflect on 2025 and peer into 2026, uncertainty is high. While the return of US exceptionalism remains an open question amid a lack of official hard data, the broader market narrative is one where US peers such as Europe and China cannot hold a light to the US with its run-it-hot combination of coming tax cuts, deregulation and easier monetary policy.

The firing up of US animal spirits, an Administration that continues to shape-shift in the name of generating economic growth, revenues from tariffs and huge FDI or pledges for US military hardware and Big Tech AI points to the US potentially being on the cusp of once again extending its lead over its challengers. Europe has talked up its defence and infrastructure spending, as it has the Draghi-led 'Competitiveness Compass' that aims to reignite Europe's economy.

However, at its one-year anniversary in September, Draghi found that while Europe had begun to respond, its challenges had grown more acute. Europe's citizens and companies, Draghi observed, value the diagnosis of the situation, the clear priorities and action plans, but had become more frustrated and disappointed by how slowly the EU moves. It is true that 'this is how Europe is built' and agreement between 27 sovereign nations takes time, but in the newly emerging and uncertain world we find ourselves in, other actors such as the US are moving at an accelerated pace.

The contrasts here are marked. It looks easy to pick winners and losers, with an eye on relative growth and rate differentials. And yet major currencies against the USD have been stuck in narrow ranges since the northern hemisphere summer (JPY notwithstanding). While the USD nudged up to the top of its narrow range in a move from September through late November, it has recently dropped back, with some of that slide coming even as rate differentials moved in its favour.

One observation has been the uncertainty over the trajectory of the US economy given the government shutdown and early signs that as of September at least, the labour market looked soft. Changes to Fed personnel in the coming months could threaten price stability and Fed independence, which while no sure thing and may even reveal a determination by other FOMC voters to protect the Fed's reputation, are one potential risk that prevents a sustainable USD rebound.

A Supreme Court judgement against the legitimacy of tariffs under IEEPA would likely herald more business headwinds via the introduction of myriad trade sanctions are another risk that could sour a US economic advantage. We have noted for all Europe's malaise on economic reform, Q3 GDP was reasonable. For all the pessimism, investors know the Draghi reforms will continue to make headway, while stimulatory and stable monetary policy will be joined by increasing fiscal stimulus in 2026, with growth from Germany possibly in Q4 GDP data. These 'overs and unders' prevent major currencies from making sustainable range breaks.

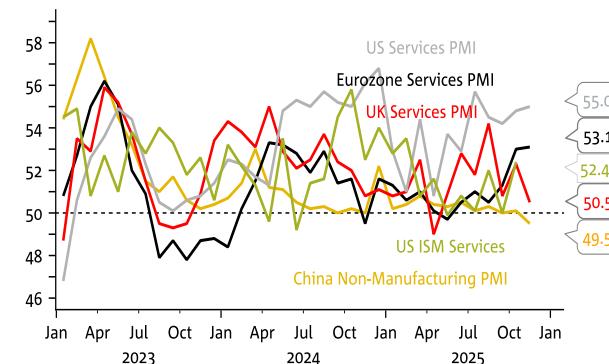
More likely, the next directional shift will come from something like a data shift in the US (in either direction), or perhaps as a result of a deal on the Ukraine war, that could be hugely problematic for Europe, if Russia gets her way.

### Chart 1: EUR – like other currencies – is ranging



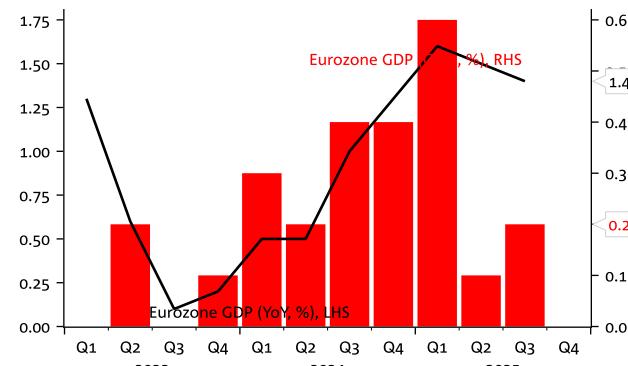
Source: National Australia Bank, Macrobond

### Chart 2: Despite the pro-US narrative, there's a lack of data evidence to propel the USD higher



Source: National Australia Bank, Macrobond

### Chart 3: Q3 EZ GDP was better than forecast



Source: National Australia Bank, Macrobond

### Chart 4: Relative spreads have moved against the USD



Source: National Australia Bank, Macrobond

## GBP – Awaiting a worsening of data

- GBP to continue under-performing; EUR/GBP upside risks

In the event the UK Budget on 26 November brought some relief to UK financial markets in the way of a small rebound in GBP (chart 1) and a decline in 10-year Gilt yields (chart 2). While the Gilt rally has been partially unwound on global bond moves, investors are about to test the government's fiscal projections as the economy eyes protracted weakness.

The Chancellor's budget announcement of cuts to a portion of rail fares and energy prices is seen as assisting the BoE in its delivery of more rate cuts in December and then in 2026. We agree that the BoE will cut in December to 3.75% and deliver two more 25bp cuts in 2026. But we see risks from another rise in the National Living Wage, which will add to employer's costs.

The UK economy shrank by 0.1% in July, flatlined at zero in August, before shrinking again by 0.1% in September. This as months of pre-budget negative commentary and policy kite-flying from the government and think tanks sapped confidence, spending and investment.

An unhelpfully timed medium-term review of UK productivity by the independent Office of Budget Responsibility (OBR) knocked 0.3pts off productivity that added around several billion £s to the bill. While the government has expressed its dissatisfaction at the timing of this, which was mainly related to longer-term issues before Labour came to power, the fact is, the OBR's over-optimistic forecast has long been known, and the government should have prepared sufficient headroom for when the inevitable downgrade came.

As we saw in last year's budget that was not the case. In the current budget the government has sought to (i) please the bond markets with the larger fiscal headroom and (ii) please its back-bench MPs with tax rises to fund more, traditionally Labour spending on things like welfare and to pay for the additional headroom. Here tax rises fall disproportionately on higher earners.

Contrary to popular belief the UK has a very progressive tax system. As the FT recently pointed out, those workers on 'average' earnings pay 29% of income to taxes and government subsidies, while those on above-average earnings pay 45% of earnings to the government. The 16% difference is the largest among major economies and where the US difference is just 7%.

This matters because for all the government's well-meaning intentions to promote economic growth with myriad schemes such as reforming planning laws to aid mass house building and to re-right the economy that has been starved of investment with off balance sheet long-term capital investment, the animal spirits of entrepreneurship, risk-taking and private investment are being snuffed out by an unseemly scrabble for tax revenue.

The budget is front-loaded in terms of spending, especially in areas of welfare that have ballooned by some 39% since 2018-19 to £313bn and are on course to rise to over £400bn. Back bench MPs seen to be immune to public irritation over this. Within the fiscal arithmetic, there are several £bn of cuts built in and yet thus far the government has been unable to deliver on any cuts.

On the other side, tax hikes are back loaded and some come after the next election. Worsening economic data will lead to higher yields, while Labour MPs plot over Reeves' position. We see little upside for GBP with upside risks to the 0.87-0.89 range.

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

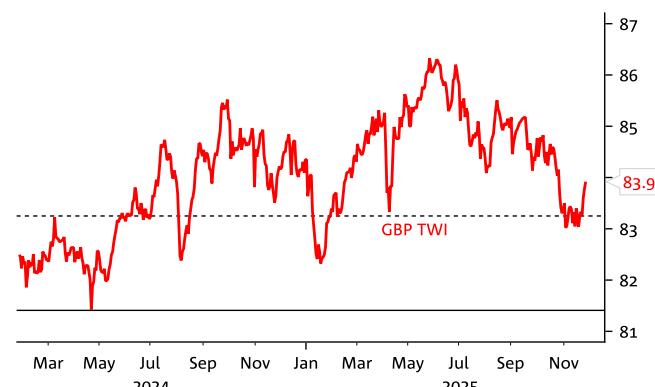


Chart 2: UK 10-yr bonds out-perform post the Budget

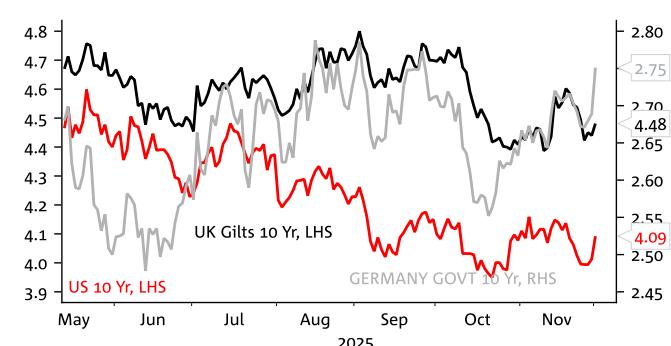
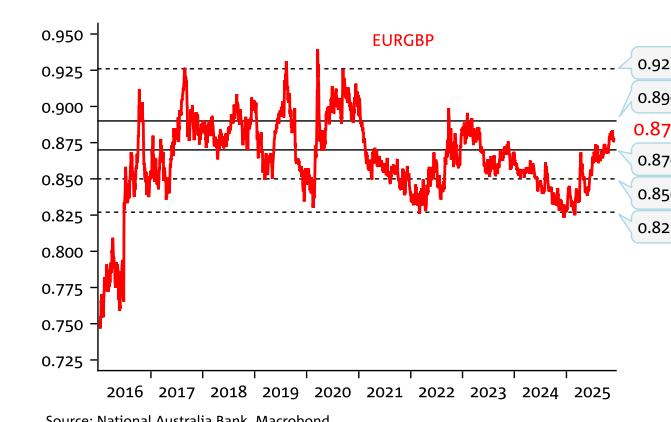


Chart 3: The UK longer-term yield premium remains over its peers



GBP weaker vs the EUR and into our 0.87-0.89 range. The risk is skewed to more GBP weakness



## JPY – On a gathering mission

- The BoJ December meeting remains live, but JPY weakness is a function of both loose fiscal and monetary policies

USD/JPY extended its October ascendancy for most of November, reaching a peak of ¥157.89 on the 20<sup>th</sup> day of the month following news on PM Takaichi's economic package.

The Japanese Government approved a ¥21.3trn economic package (3.5% of GDP) with around half of that figure aimed at inflation control and childcare support. Energy subsidies: ¥7,000 per household for electricity/gas (over Jan-March next year) are expected to reduce inflation by 0.7% in Q1-26. The package also includes a cash handout per child (ages 0-18) alongside rice vouchers worth ¥3,000 per person. Income and other tax reductions were also part of the package which also contained a focus on defense (spending increased to 2% of GDP by FY 2027) and industrialisation investment.

In terms of funding, last week we learned that the package has ¥18.3tr of new spending. Funding this new spending will come from stronger-than-expected tax revenue and non-tax income with a shortfall of ¥11.7 coming from JGB issuance, far larger than last year's additional bond issuance of about ¥6.7 trillion. To ease concerns over rising long dated JGB yields (see Chart 1), the Government will aim to increase the sale of short and medium-term bonds with no increase in issuance of long- and super-long bonds.

The increase in long dated JGB yields has not gone unnoticed, and indeed it has been one factor for the breakdown in the correlation between USD/JPY and US-JN rate spreads (Chart 2).

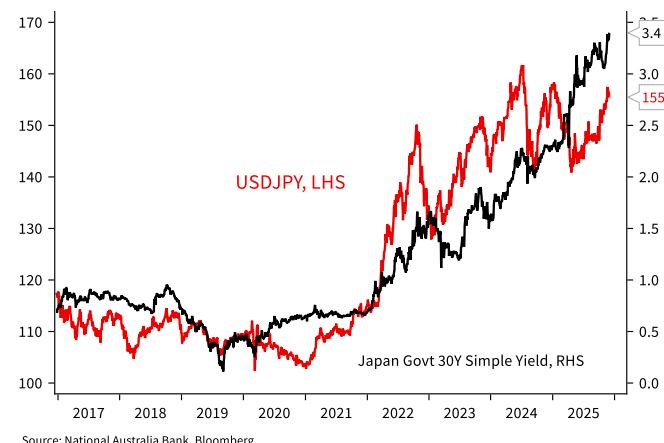
BoJ policy remains uber accommodative and is also important to remember that the Bank remains a buyer of JGBs. Indeed, as Robin Brooks noted in an [FT article](#), JPY depreciation is the natural result of the fact that JGB yields remain too low relative to the level of government debt. For instance, 10y JGBs trade at 1.86% while 10y German Bunds trade at 2.69%, yet Germany's debt to GDP ratio stands ~67% while Japan sits at ~236%.

Another uncertainty has been the ability/desire for the BoJ to continue with its policy normalisation process. Inflation is running well above the BoJ target (Oct CPI released late in November revealed inflation at 3% for both headline and ex fresh food an energy, the 43rd month above 2% - Chart 3), yet the Bank remains a reluctant hiker.

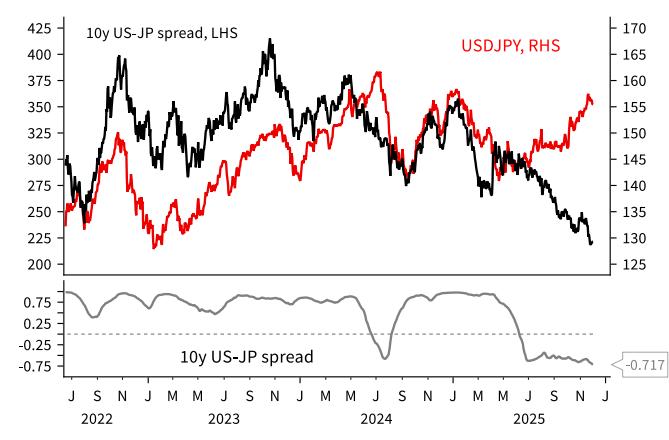
Speaking on Monday, Governor Ueda's [speech](#) made the case for a hike noting inflation and JPY weakness, but then he also talked about the need "to confirm the momentum of initial moves toward next year's annual spring labor-management wage negotiations". The latter implies that the December meeting may be too soon to have a good understanding of the wage momentum for next year.

The market is now pricing ~ 80% for a 25bps BoJ hike at its December 18-19 meeting, after bottoming at 17% before PM Takaichi's package announcement. Over this period USD/JPY declined from just below ¥158 to just above ¥155, this price action implies that a break below ¥150 is going to need more than a December BoJ hike. Our forecast for USD/JPY to head towards ¥145 in Q1-26 are too optimistic. Much will depend on the BoJ retaining a credible normalisation strategy over 2026 and on whether the Fed cuts again in December and retains an easing bias.

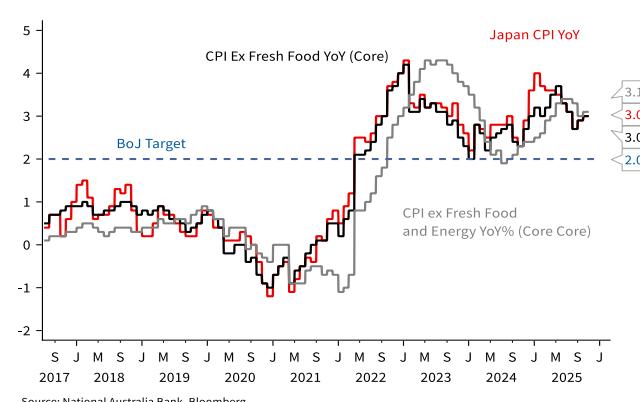
### Chart 1: USD/JPY vs 30yJGB



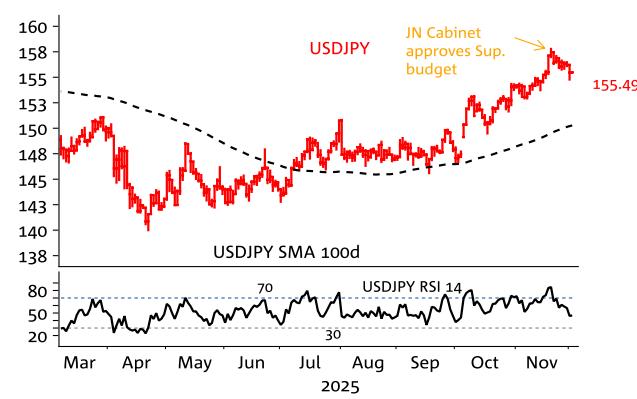
### Chart 2: Correlation breakdown: USDJPY vs US-JN diff,



### Chart 3: Inflation above 2% for 43 months now



### Chart 4: Break below 150 needs more than Dec BoJ hike



## CNY – CNY strength not an economic thing

- China's activity slowdown is accelerating, yet the PBoC keeps pushing for CNY strength. We continue to target move sub 7

The end of October was marked by the US-China trade truce, the question now is whether this truce will be a catalyst for a new upswing in China's economic activity or whether headwinds are intensifying signalling a material economic downturn ahead. The data flow over recent weeks suggests the latter is looking more likely while our assessment of the trade truce is that the worst-case scenario has been avoided but China's export outlook is not only facing US's trade restrictions but also growing frictions from other trading partners.

China's November PMIs revealed broad economic weakness with domestic consumption showing signs of further weakness. The official manufacturing PMI remained in contraction, edging up 0.2pts to 49.2 but shy of the 49.4 consensus while the non-manufacturing PMI fell to 49.5 from 50.1 against 50.0 expected. Then on Monday we learned that the RatingDog PMI (concentrated on small export-orientated firms) was weaker than expected and also fell into contractionary territory.

Worryingly details within both official PMIs point to an acceleration in consumer demand weakness. The consumer-goods PMI contracted to 49.4 from 50.1 while services activity led the downturn in the non-manufacturing PMI, falling below 50 (49.5) for the first time since September last year. The construction sub-index stayed in contractionary mode, although it did show an improvement from its October reading at 49.1 to 49.6.

Meanwhile, the housing market remains in crisis with an acceleration in house price declines alongside a reduction in sales volumes. The construction PMI is not signalling an improvement ahead while news that two of China's private data agencies (China Real Estate Information Corp. and China Index Academy) withheld monthly home sales figures at the government's behest are doing little to alleviate concerns over the struggling sector. The latest data release in October showed new home sales for the country's top 100 builders slumped 41.9% from a year earlier. Then adding to the woes, last week we had news that China Vanke (considered amongst one of the healthiest real estate developers) is postponing payments on a local bond, yet another example of the stress level within the industry.

China's economic slowdown is real and broad based. From a policy perspective the momentum from H1 suggest the objective to reach GDP growth close to 5% this year should still be achieved, but with a marked slowdown in Q4. Furthermore, this slowdown is also shining a light into the severity of China's economic imbalances, strong on supply side support (with over capacity) alongside weak domestic demand that is unlikely to improve until we see evidence of a sustainable end to house prices decline. The PBoC remains stuck between a rock and a hard place. Deflationary pressures alongside anaemic demand point to the need for a big decline in interest rates, but overcapacity, concerns over capital outflows and the strategic desire for a stable CNY suggest otherwise. For now, and in line with our core view, the PBoC continues to guide the CNY fix lower. Fed easing in December along with our expectations of more Fed easing next year, keeps us confident that USD/CNY will head towards 7 in H1-26.

Chart 1: China activity slowdown accelerates in Nov

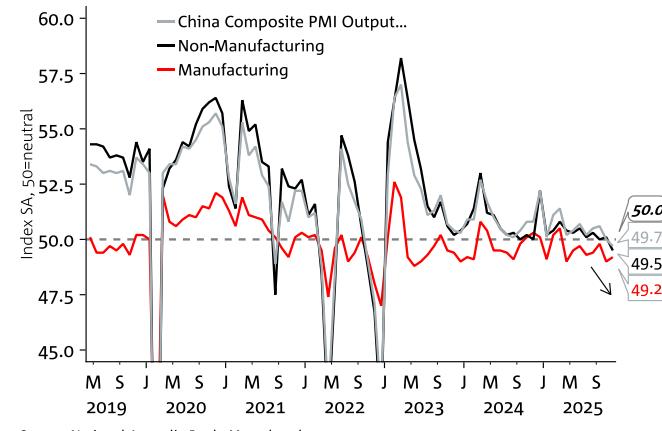


Chart 2: Housing market remains a major concern

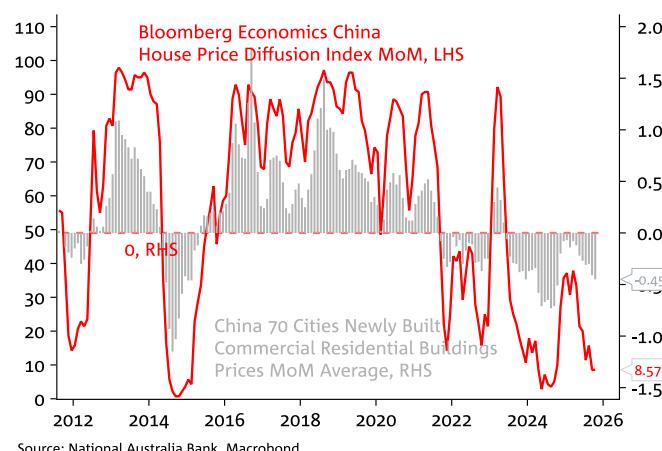


Chart 3: Lower US yields allowing for CNY strength

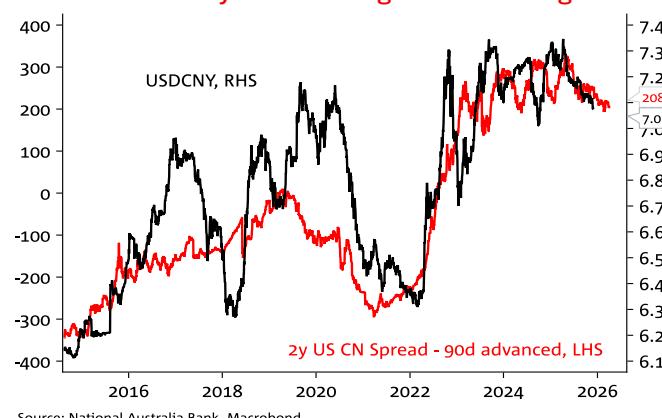
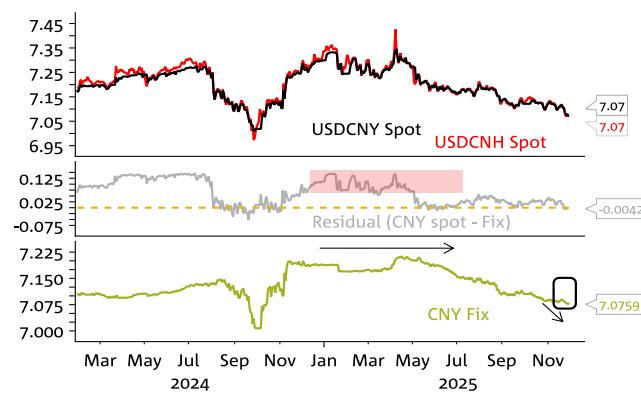
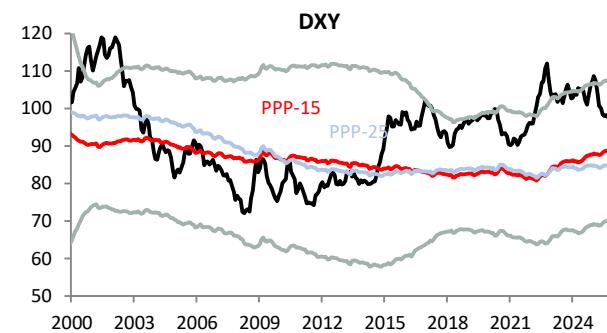
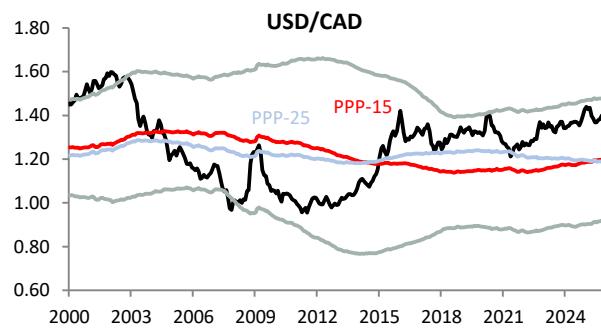
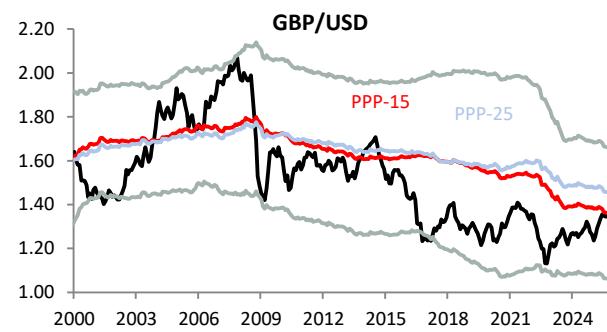
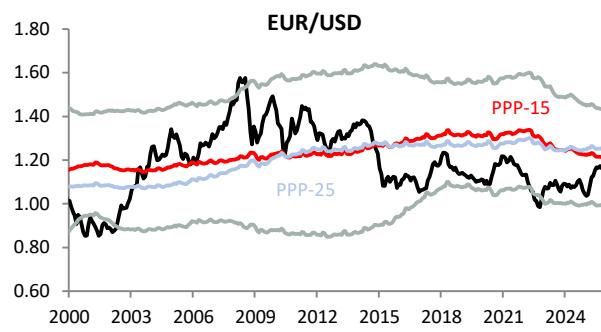
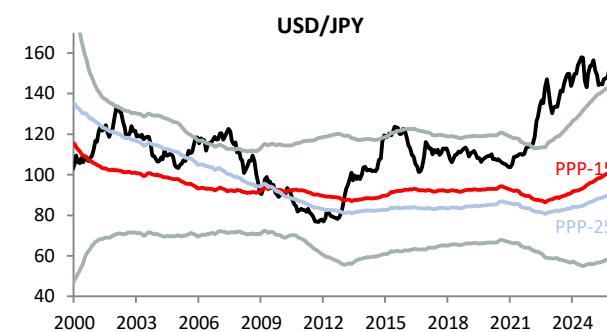
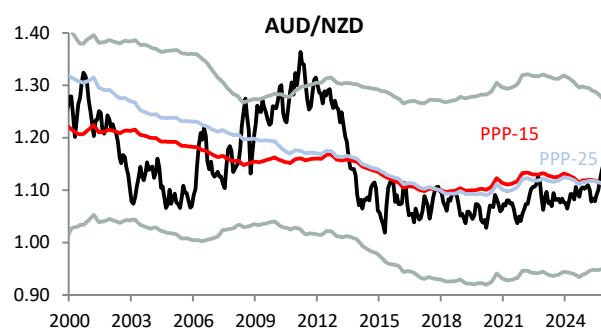
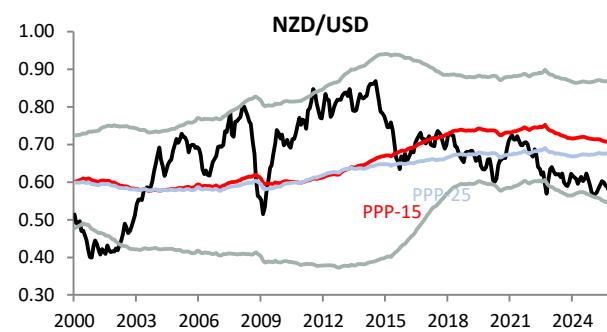
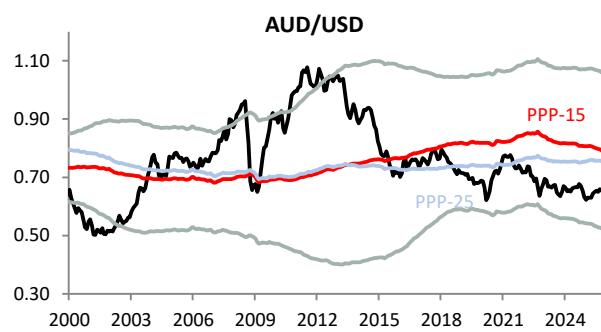


Chart 4: PBoC fix below 7.08, strongest in a year



## PPP Estimates



	AUD/USD	NZD/USD	AUD/NZD	USD/JPY	EUR/USD	GBP/USD	USD/CAD	DXY
Actual	0.6550	0.5730	1.1420	156.10	1.1600	1.3230	1.3970	99.5
<b>PPP-15year</b>	<b>0.7900</b>	<b>0.7050</b>	<b>1.1110</b>	<b>101.00</b>	<b>1.2160</b>	<b>1.3640</b>	<b>1.1990</b>	<b>89.3</b>
% Deviation	-17.1	-18.7	2.8	54.6	-4.6	-3.0	16.5	11.4
z-score	-1.0	-1.7	0.4	2.7	-0.5	-0.3	1.4	1.1
PPP-25year	0.7560	0.6770	1.1110	89.70	1.2590	1.4600	1.1860	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

		2-Dec-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
<b>Majors</b>									
Australian Dollar	AUD/USD	0.6543	0.67	0.69	0.71	0.72	0.71	0.70	0.69
New Zealand Dollar	NZD/USD	0.5727	0.59	0.60	0.62	0.63	0.63	0.63	0.62
Japanese yen	USD/JPY	155.49	146	144	140	135	135	135	135
Euro	EUR/USD	1.1609	1.19	1.20	1.21	1.23	1.22	1.21	1.20
British Pound	GBP/USD	1.3212	1.35	1.35	1.36	1.38	1.37	1.36	1.35
Swiss Franc	USD/CHF	0.8047	0.78	0.77	0.76	0.75	0.76	0.76	0.77
Canadian Dollar	USD/CAD	1.4000	1.37	1.36	1.32	1.28	1.30	1.29	1.28
Chinese New Yuan	USD/CNY	7.0720	7.08	7.05	6.95	6.90	6.85	6.85	6.85
<b>Cross Rates</b>									
	AUD/NZD	1.1425	1.14	1.15	1.15	1.14	1.13	1.11	1.11
	AUD/JPY	101.74	98	99	99	97	96	95	93
	AUD/EUR	0.5636	0.56	0.58	0.59	0.59	0.58	0.58	0.58
	AUD/GBP	0.4952	0.50	0.51	0.52	0.52	0.52	0.51	0.51
	AUD/CHF	0.5265	0.52	0.53	0.54	0.54	0.54	0.53	0.53
	AUD/CAD	0.9160	0.92	0.94	0.94	0.92	0.92	0.90	0.88
	AUD/CNY	4.6272	4.74	4.86	4.93	4.97	4.86	4.80	4.73
	USD (DXY)	99.4	96.6	95.8	94.6	92.7	93.4	93.9	94.5

## Central Bank Monitor

	Current Rate	Last Change	Official Bias	Next Meeting	NAB Forecast	Forecast Rate End 2025
<b>Australia RBA</b>	3.60%	12 Aug 2025	Neutral	9-10 Dec 2-3 Feb	unchanged unchanged	3.60%
Official Cash Rate	-25bps					
The combination of inflation exceeding RBA forecast and moving back above the 2-3% target range in Q3 and thus far in Q4, together with concerns that the economy is operating with no spare capacity, has brought the risk of the RBA having to tighten policy in 2026 to the fore. Having abandoned its forecast for a final rate cut in this cycle post the Q3 CPI release, NAB sees the risk that if incoming data shows that a return to restrictive (or more restrictive) policy is required, this could materialise as early as H1 2026.						
<b>New Zealand RBNZ</b>	2.5%	26 Nov 2025 -25bps		18-Feb 8-Apr	unchanged unchanged	2.25%
Official Cash Rate	-25bps					
The combination of inflation exceeding RBA forecast and moving back above the 2-3% target range in Q3 and thus far in Q4, together with concerns that the economy is operating with no spare capacity, has brought the risk of the RBA having to tighten policy in 2026 to the fore. Having abandoned its forecast for a final rate cut in this cycle post the Q3 CPI release, NAB sees the risk that if incoming data shows that a return to restrictive (or more restrictive) policy is required, this could materialise as early as H1 2026.						
<b>US Federal Reserve</b>	4.00-3.75%	28-29 Oct 2025 -25bps	Easing	9-10 Dec 27-28 Jan	-25bps unchanged	3.75-3.50%
Fed Funds Rate	-25bps					
After Fed chair Powell and various FOMC officials went out of their way to undermine prior confidence in a December 10 follow-up rate cut to the one delivered on October 29, subsequent comments from NY Fed President John Williams that there was room for a near term cut have seen markets rapidly re-price a December cut. Assuming a cut, markets will be looking for fresh rates guidance out of the December meeting, including via the new 'dot plot', though the waters are soon to be muddied by the announcement of Trump's pick as next Fed chair, and also SCOTUS rulings on the Lisa Cook case and whether the Fed is no different from other agencies in terms of the president's ability to fire officials on a whim.						
<b>Eurozone ECB</b>	2.0%	5 Jun	Easing	18 Dec	Unchanged	2.0%
Deposit Rate	-25bps			4-5 Feb	Unchanged	2.0%
The ECB remained on hold in October at 2.0% as universally expected. We think from here ECB risks are asymmetric, with any further move being for one or two 25bp cuts later in 2026, when there is great clarity on the impact of US tariffs and Chinese export rerouting into Europe. For now, the 200bps of ECB rate cuts to date are aiding a steady increase in borrowing for mortgages. Current high household savings could assist an increase in consumption, while substantial government expenditure in defence and infrastructure by some countries can help underpin growth.						
<b>UK BoE</b>	4.00%	7 Aug 2025	Easing	18 Dec	-25bps	3.75%
Bank Rate	-25bps			5 Feb	-25bps	3.50%
Latest wage data shows ongoing moderation to levels just below BoE forecasts, while inflation at 3.6% peaked lower than the BoE thought. These developments leave us continuing to look for the BoE to cut rates to 3.75% in Dec. We then expect two more cut to 3.25% (around estimated neutral) in H1, 2026.						
<b>Japan BoJ</b>	0.50%	24 Jan 2025	Tightening	18-19 Dec	+0.25%	0.75%
Uncollateralized call rate	+0.25%			22-23 Jan	Unchanged	
Ahead of the BoJ meeting on December 18-19, Governor Ueda gave a speech to early this week and as it is often the case, the Governor noted pros and cons of raising the policy rate. The market was left with a sense that a December hike is now strong possibility. The Governor made the case for a hike noting inflation and JPY weakness, but then he also talked about the need "to confirm the momentum of initial moves toward next year's annual spring labor-management wage negotiations". The latter implies that the December meeting may be too soon to have a good understanding of the wage momentum for next year. We have held the view that the Bank will hike either in Dec or Jan, if the Bank hikes in December, guidance for 2026 will be important as the market remains nervous on fiscal profligacy while inflation remains too elevated.						
<b>Switzerland SNB</b>	0.00%	19 Jun 2025	Easing	11 Dec	Unch	0.0%
3mth SARON Target range	-25bps			2 Mar	Unch	
Ahead of November CPI data due on December 3, SNB President Martin Schlegel has lately described inflation as being in the 'lower range of price stability' but expected to rise in coming months on current SNB forecasts. He reiterates that the bar to going back to negative rates is high, but also that 'we are ready to go negative again if needed'. The December 11 meeting should see rates kept at zero but if inflation defies SNB forecasts in H1 2026, the prospect of negative rates would come closer to the centre of the SNB radar.						
<b>Canada BoC</b>	2.25%	29 Oct 2025	Neutral	10 Dec	Unchanged	2.25%
Overnight Lending Rate	-25bps			28 Jan	Unchanged	
Canada's much stronger than expected Q3 GDP data, annualising at 2.6% against just 0.5% expected was impressive and led by a 12.2% rise in government investment and 6.7% rise in residential investment. Meanwhile Canada's unemployment rate declined in October but remains elevated at 6.9% while core inflation readings remain elevated (~3%) but are expected to decline over coming quarters. For now, we see the BoC comfortably on the sidelines over coming quarters, but recent strong economic activity is a theme to watch for 2026.						
<b>China PBoC</b>	1.40%	24 Sep 2024	Easing	n/a	n/a	1.4%
7-day Repo	-20bps			n/a	n/a	
The US-China trade truce provides a level of certainty for the PBoC to focus on its objectives to support and reflate the economy while keeping liquidity ample and CNY stable. After halting bond purchases, early in the year, a resumption of government debt purchases is seen as a way of improving cash conditions while also facilitating an increase in government borrowing. Sourced media suggest focus will be on buying the front end of the curve, increasing liquidity without pressuring the CNY. The slowdown in economic activity during November suggests a move to lower the repo rate could be on the cards, but at this stage our sense is that this is a story for early 2026.						

# Contacts

## Markets Research

### Skye Masters

Head of Research, Markets  
+61 2 9295 1196  
skye.masters@nab.com.au

## Markets Economics

### Taylor Nugent

Senior Economist  
  
+61 2 9237 2190  
taylor.nugent@nab.com.au

## Foreign Exchange

### Ray Attrill

Head of FX Strategy  
+61 2 9293 7170  
ray.attrill@nab.com.au

### Rodrigo Catril

Senior FX Strategist  
+61 2 9293 7109  
rodrigo.h.catril@nab.com.au

## Fixed Income

### Kenneth Crompton

Head of Rates Strategy  
+61 2 9293 7132  
Kenneth.crompton@nab.com.au

### Gregorius Steven

Senior Associate, Interest Rate Strategy

### Michael Bush

Head of Credit Research  
+61 3 8641 0575  
michael.d.bush@nab.com.au

### Evy Noble

Senior Associate, Credit Research  
+61 2 7226 7336  
evy.noble@nab.com.au

## London/Europe

### Gavin Friend

Senior Markets Strategist  
+44 207 710 1588  
gavin.friend@eu.nabgroup.com

## Group Economics

### Sally Auld

Group Chief Economist  
+61 2 7227 1997  
sally.auld@nab.com.au

### Gareth Spence

Head of Australian Economics  
+61 436 606 175  
gareth.spence@nab.com.au

### Tony Kelly

Senior International Economist  
+61 477 746 237  
antony.kelly@nab.com.au

## Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please [click here](#) to view our disclaimer and terms of use.