

Markets Research

Global FX Strategist

In this issue

USD – Still buying the (Fed) fact	2
AUD – Air thinning above 0.66	3
NZD – Low NZ rates headwind persists	4
EUR – Maintaining a range	5
GBP – Underperforming - as expected	6
JPY – Emerging from the fog?	7
CNY – Breaking down is hard.....	8
PPP Estimates	9
NAB Spot FX Forecasts.....	10
Central Bank Monitor	11

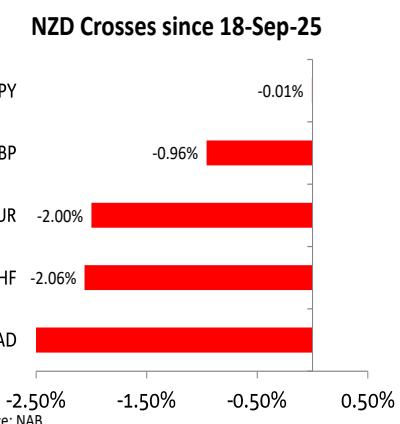
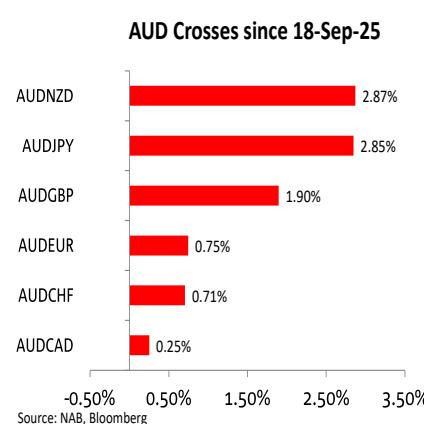
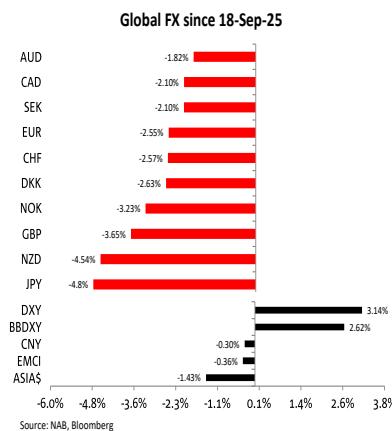
Key Currency Themes

- The Aug 1 through mid-September USD downtrend has fully retraced despite 50bps of Fed easing since then. Discuss!
- The succession of 'higher highs' characterising AUD/USD between May and September is not in sight thus far in Q4
- Low NZ-global rate spreads remain a headwind for the NZD but the end of the RBNZ easing cycle is nigh
- EZ data improvement should ensure EUR holds its ground
- GBP underperformance continues as expected, EUR/GBP rising into our 0.87-0.89 target range
- JPY set to test above ¥155, but elevated inflation and political stability still favour a turn-of-the year BoJ hike
- PBoC remains supportive of CNY appreciation with US-China truce also supportive, but a sustained move towards 7 also needs more Fed easing

FX views in a tweet

Near term view (next few weeks)		Longer term view (6-12 months)
USD Index	➡ Official US data, as and when it resumes, will need to make the case for a December rate cut (and beyond) as one precondition for the USD turning back down	⬇ Secular forces aside, a materially lower USD requires harder evidence of an 'unexceptional' US economy and further compression in the USD's yield advantage
AUD/USD	➡ Post successive 'higher highs' to >0.67 in mid-Sep, now struggling for air above 0.66. Highlights imperative of renewed USD downswing for higher levels into year-end	⬆ 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	➡ Weak NZ labour market data due Wed., but Q3 should be the peak in the unemployment rate; we see limited NZD downside risk from current depressed level	⬆ Year-end target of 0.59 and expected gains through 0.60 next year require the USD downturn to resume, supported by further easing in Fed policy
EUR/USD	➡ USD price action putting pressure on EUR/USD, but not expecting the 1.14/1.15 area to break amid EZ data showing some signs of improvement	⬆ 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	⬇ A BoE rate cut in November (or failing that December, post Budget) can compound existing downward pressure on GBP	⬆ Amid anticipated additional cross-rate underperformance, push toward \$1.40 on cable is entirely in the hands of a materially weaker USD
USD/JPY	⬆ At risk of breaking 155, but move not seen as a precursor for a test of 160. Risk of intervention set to rise too	⬇ BoJ seen reinitiating policy normalisation around turn of the year with the Fed easing in December and twice more in 2026. If so, USD/JPY should head towards 145 in 2026
USD/CNY	➡ Break below 7.10 proving tricky. Likely to do some work around the 7.10-7.14 area, before USD heads down again	⬇ 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

G10 FX, AUD & NZD since the Sep 16-17 FOMC meeting outcome



USD – Still buying the (Fed) fact

- The Aug 1 through mid-September USD downtrend has fully retraced despite 50bps of Fed easing since then. Discuss!

The ‘buy the fact’ USD response to the 29 October FOMC outcome at which rates were cut 25bps was explicable by not only being fully discounted ahead of time, but also by virtue of the comment from Fed chair Powell that a December follow-up cut was ‘not a foregone conclusion, far from it’. These comments, since echoed by other FOMC members and testament to a now divided Fed, were made in the context of the October (and September) cuts being seen as ‘insurance’ reductions. The insinuation was that from here on, further reductions would only be justified by evidence of a weakening labour market in an environment where ex-tariff related inflation is seen to be contained.

That we had a similar ‘buy the fact’ response to the earlier, September 18, cut, is less explicable, though as per Chart 1, the scale of the sell-off in the lead up to the meeting plays to the view speculative FX market players got a little over their skis ahead of the decisions.

Whatever the nature of the flows driving USD price action into and out of the last two Fed meetings, there can be no denying there was, and still is, a lot of Fed easing priced into US money markets (Chart 2). This begs the question of why, in the absence of these expectations being exceeded, the USD should go down at all?

One answer is couched in terms of hedging related FX flows. This is that while the eventual landing spot for the Fed’s terminal rate during easing cycles may be well anticipated by markets, increased FX flows related to the hedging of USD assets by international investors only occur when the cost of hedging meaningfully changes. Since most hedging (of financial assets) occurs at the 1–3 months tenors, the argument is that this will only occur following meaningful compression in US short end rate spreads versus an investor’s home currency. This, in turn, helps explain why the troughs in the USD historically only occur when Fed policy cycles are complete and front-end US rates are no longer falling.

It’s fair to say in this respect that 50bs of Fed rate cuts since mid-September hasn’t made a sufficient dent in hedging costs to warrant a meaningful pick up in USD selling from this source, but that another 50-100bps of reduction could, assuming rates in other countries are little changed. In the meantime, as per Chart 3, the DXY index continues to closely follow the volatility – down and up – in US versus DXY-weighted yield differentials.

As for the US economic exceptionalism – or lack thereof – argument for a stronger or weaker USD, the paucity of US data while the government shutdown persists means economists, and markets, are currently flying blind. As and when the official data flow resumes we could therefore see some strong FX market reactions, including from how this feeds the December (and beyond) Fed policy narrative.

Three event risks we are currently focussed on, and which may be resolved one side or other of year end are: 1) The Supreme Court rulings on Lisa Cook; 2) The legality of the county specific/reciprocal tariffs – the former much more significant than the latter; and 3) President Trump’s pick for next Fed chair. Of the five shortlisted candidates, we’d judge Waller to be the most credible/USD supportive, Kevin Hassett the least.

Chart 1: DXY rallies out of last two FOMC meets

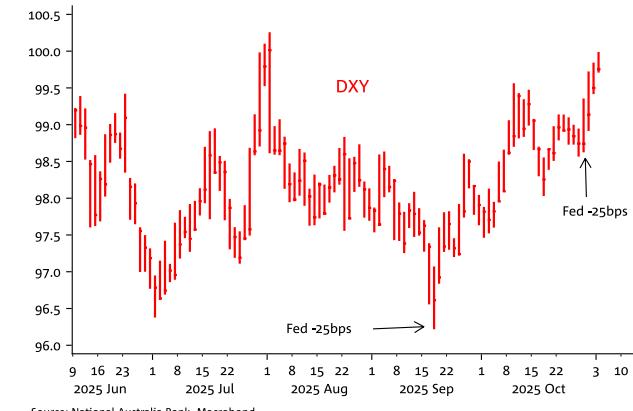


Chart 2: Labour market key for Fed policy

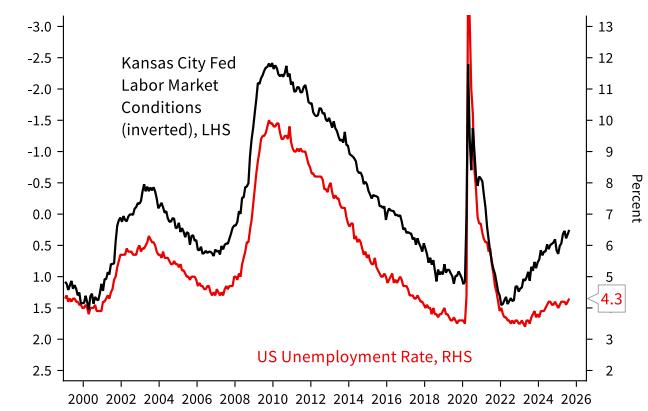


Chart 3: Terminal Fed Funds still prices sub-3.0%

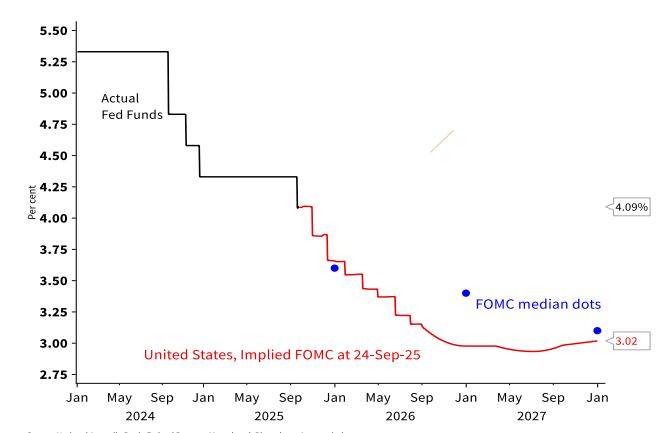


Chart 4: USD still doing as it should vs. yield spreads



AUD – Air thins above 0.66

- The succession of 'higher highs' characterising AUD/USD between May and September not in sight thus far in Q4

Proof-positive that AUD/USD's fortunes are still made largely in the USA comes from the observation that today, it is roughly at the same level it was prior to the October 29 Q3 CPI shock and related evaporation of most of the pricing for another RBA rate cut at either the November or December 2025 meetings.

AUD/USD price performance since CPI masks AUD appreciation against all other G10 currencies over the same period. RBA rate expectations – and central bank policy relativities - therefore remain of utmost importance for the performance of AUD crosses. Yet when it comes to AUD/USD, it is the absolute level of US interest rate levels that seems to matter more, even if it is the case that forward looking Fed versus RBA pricing is having some bearing on the pair (Chart 2). Indeed, and as noted in the USD section on p.2, if we do see a meaningful reduction in short-dated US rates relative to Australia, meaning in the 1-3 months tenors where most hedging of USD asset back into AUD occurs, this can encourage increased (AUD/USD positive) hedging flows.

For anyone thriving on currency volatility, AUD/USD price action continues to underwhelm, October marking the sixth successive month where the high-to-low trading range has been less than two cents. Moreover, the succession of 'higher highs' we noted in May through September has been absent since the Sep 17, 0.6707 year-to-date high. And as shown in Chart 1, AUD/USD reached technical overbought levels last week at 0.66, not 0.67 as was the case in September, and from which in both instances the pair quickly retreated.

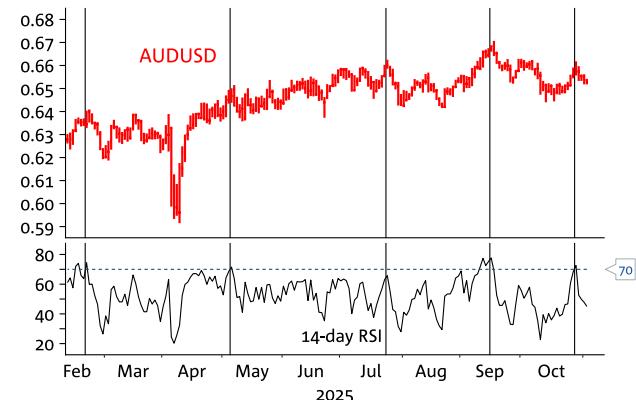
In our 17 October [FX Strategy Forecast Update](#) we shaved a cent of our end 2025 AUD/USD forecast, to 0.67 from 0.68, and said that while we still expected to see 0.70 next year, we no longer forecast it reaching as high as 0.75 in this cycle. Pivotal to this updated view is that the Fed does cut rates again out of the 9-10 December FOMC meeting and that USD weakens as a result. Otherwise, highs for AUD/USD this year may well have already been seen. Ditto, further rates cuts will almost certainly be required of the Fed in 2026 if AUD is to see 0.70.

Post-RBA, AUD crosses can remain in the ascendency

As noted, since last week's CPI report AUD has strengthened against every G10 currency bar USD. NAB's RBA view change made after the strong August monthly CPI print - that there would now likely be no change in RBA policy at least until Q2 2026 - was fully vindicated by the CPI report and where dwelling costs and market services inflation drove the strong outcome. The forecast inflation profile in the SoMP accompanying today's RBA no-change, together with seemingly heightened uncertainty as to whether policy remains 'a little restrictive' plays in favour of a prolonged period of RBA inaction.

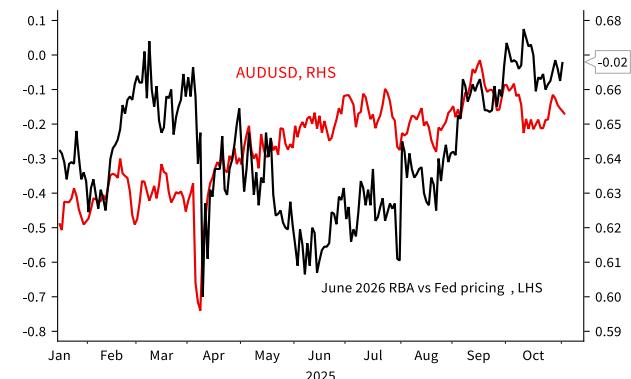
A steady as she goes RBA policy outlook plays to most AUD crosses having the potential to improve on recent gains, most notably AUD/GBP and AUD/EUR given we expect further BoE policy easing and at least one ECB cut before the end of this cycle. Exceptions would be AUD/NZD, as per our [note](#) from 22 October which argues for the cross to trade essentially sideways, and AUD/JPY, where a negative view is heavily contingent on the BoJ raising rates this year (see JPY on p.7)

Chart 1: AUD/USD – running out of puff faster



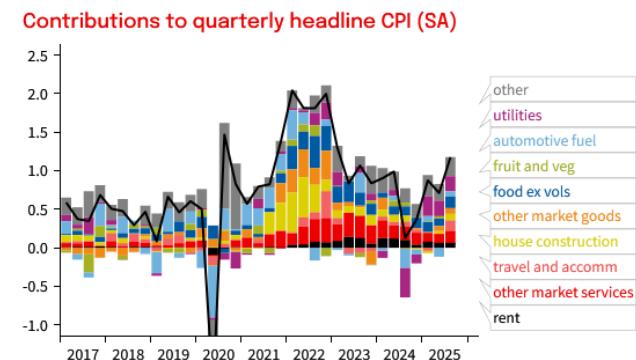
Source: National Australia Bank, Macrobond

Chart 2: AUD/USD v June 2026 RBA – Fed pricing



Source: National Australia Bank, Bloomberg

Chart 3: Contributions to quarterly AU CPI



Source: National Australia Bank, ABS

Chart 4: AUD/NZD vs 1yr swap rate differential



Source: National Australia Bank, Macrobond

NZD – Low NZ rates headwind persists

- Low NZ-global rate spreads remain a headwind for the NZD but the end of the RBNZ easing cycle is nigh

The NZD remains in the doldrums, reflecting evident USD support through the second half and low NZ-global rate spreads.

As we head into year-end, we are hopeful that the downturn in NZD/USD since the middle of the year draws to a close, and usual positive seasonal factors through November/December start to kick-in. Our year-end target – revised lower at our forecast update last month – is 0.59.

In addition to a broadly stronger USD of late, domestic factors have been a persistent headwind for the NZD. For sure, the 0.9% q/q contraction in Q2 GDP is well overstated, and we've highlighted that previously, but evidence that the NZ economy is on a much stronger footing remains lacking. The best we can say is that growth momentum is probably positive but any economic recovery that might be underway still looks tepid. NZ activity data released during October indicated sluggish growth. Both the PMI and PSI recorded higher Q3 averages compared to Q2 but still signalled that economic growth was struggling to gather momentum.

Labour market data due Wednesday are expected to show soft employment in Q3 and the unemployment rate ticking up to 5.3%, a nine-year high. However, there is hope that this will be the peak in unemployment. Timely job ads data suggest that the prolonged downturn has been arrested, and some green shoots are now showing.

The export sector remains an ongoing bright spot in the economy, supported by strong terms of trade. Next year we expect other sectors to make a more meaningful contribution to growth, as the lagged impact of lower interest rates filters through.

NZD weakness stemming from the RBNZ's 50bps rate cut last month proved temporary. We have been encouraged by NZD price action since that meeting. While low NZ-global rate spreads remain an ongoing headwind for the NZD, there is a strong consensus that a 25bps rate cut this month will prove to be the last one for the cycle.

With CPI inflation having risen to 3.0% and core inflation measures solidifying in the top half of the target range, we think the RBNZ needs to adopt a more cautious stance toward any further easing. A new Governor takes the reins from 1 December. By the February meeting, the first policy meeting under her command, inflation will still be near the top end of the target range and there should be more signs of positive economic momentum, supporting a no change decision.

We see NZ-global rate spreads stabilising from here, with scope to increase through next year against the US and UK, where policy easing through 2025 has been less forthcoming. From its current depressed level, we see limited downside risk for the NZD. A key hurdle for our year-end target of 0.59 being met is the Fed, following Powell's warning about not taking a December rate cut as a foregone conclusion. A more hawkish Fed could yet delay the prospect of any NZD recovery.

Chart 1: NZD still in a downtrend, hopefully it ends soon

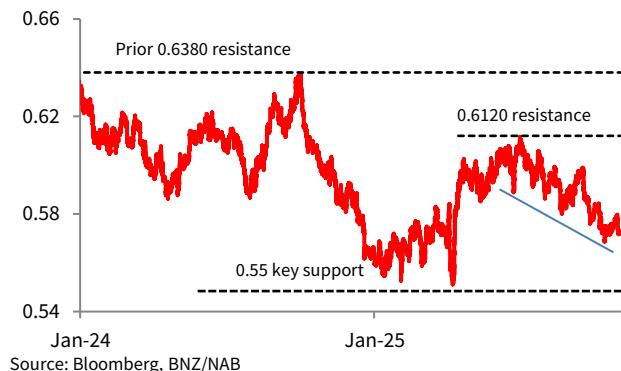


Chart 2: Green shoots showing in job ads

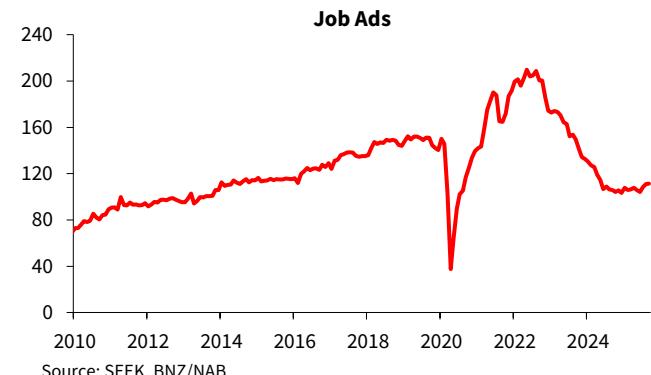


Chart 3: NZ unemployment rate likely at a peak

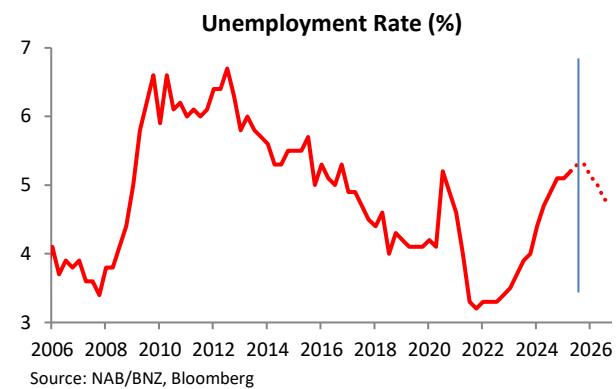
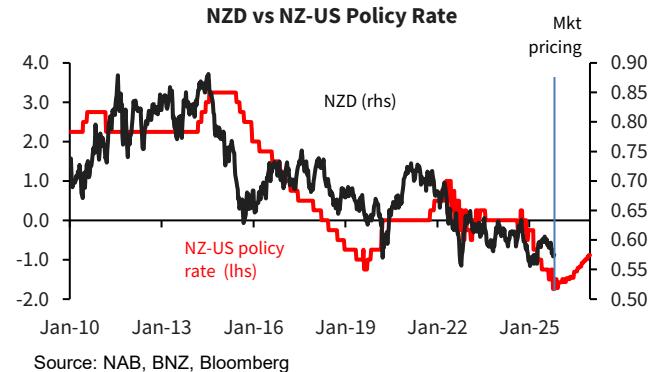


Chart 4: NZ-US negative rate spread should soon turnaround



EUR – Maintaining a range

- EZ data improvement should ensure EUR holds its ground

As we discuss on page 2, the USD has been on the rise since a low in mid-September. The DXY is up 3.75% in that time; from the bottom to near the top of a narrow range that has held since May. There is little doubt investors side with the economic dynamism and policy activism on display in the US, but a range of ongoing uncertainties currently continue to act as upside barriers to the USD. As yet, we don't have evidence of a clear upside break. From the 'sum of the parts' side, there is independent JPY, GBP (and NZD) weakness supporting overall USD strength.

We note 1-year option skews that have favoured EUR calls since April's sharp move higher in EUR/USD, have recently pulled back to lows seen on several occasions since April. They continue to favour EUR calls and current price-action does not suggest a break lower. That gels with the price-action seen in the EUR TWI (Chart 2) which reveals more of a sideways pattern rather than the top-heavy looking EUR/USD in the same chart.

Most recently the USD has benefitted from shifting debate on Fed rate hikes. After an extended period in which the real 10-year rate differential moved against the USD, with moves down in US real yields and up in German equivalents, of late the move has been in the opposite direction (Chart 1). It fits well with EUR/USD's pullback to a 1.15 handle, if less obvious in nominal yield spreads.

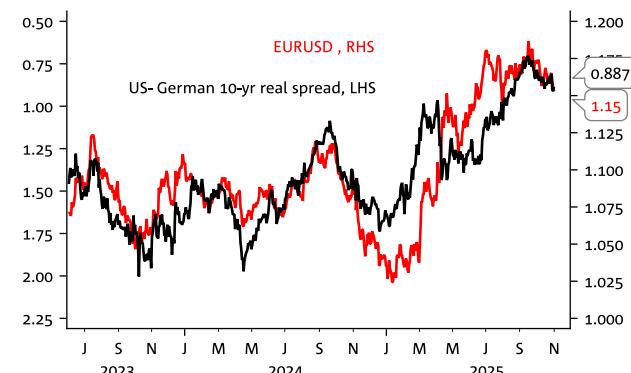
It's not clear of course what the Fed will do with rates in December or in 2026. The US labour market will be the arbiter of that but market pricing for December remains around 70% and NAB's view is for a cut. The ECB in contrast, looks set to leave rates on hold at least into the end of Q1, 2026.

We think ECB risks are asymmetric in that if the ECB is to move again it will 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 EZ countries can underpin growth through 2026 and beyond.

The ECB recently noted a notable pick-up in digital services and according to surveys many firms have stepped up efforts to modernise their IT infrastructure and integrate AI into their operations. The latest PMI activity surveys have shown a recovery in EZ manufacturing activity to the 50 breakeven, while services have powered above 52, led by Germany on 54 (Chart 3). Q3 GDP growth came in a tenth above forecast at 0.2% q/q, which keeps things on track for 1.3%/1.4% y/y, an outturn that compares with the Fed's latest US forecast of 1.6%.

These data outturns support the recent jump in EZ economic surprises (Chart 4). It is true, we continue to live through a US official data vacuum, which is denying a proper US data surprise update, but the above does offer a compelling reason for a change in the EUR/USD status quo. We continue to look for EUR/USD to hold its ground, while not able to make a decisive break above 1.20 until 2026 conditional on the resumption of USD weakness.

Chart 1: Yield differentials have crimped EUR/USD



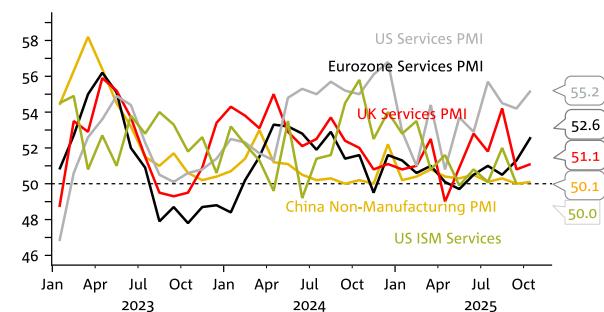
Source: National Australia Bank, Macrobond

Chart 2: EUR TWI holding up better than EUR/USD



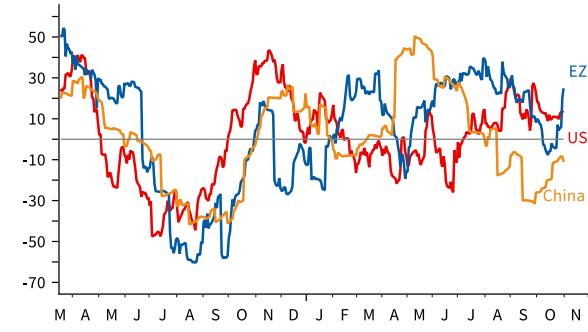
Source: National Australia Bank, Macrobond

Chart 3: EZ services activity has been making the running recently



Source: National Australia Bank, Macrobond

Chart 4: EZ data has surprised to the better of late



Source: National Australia Bank, Macrobond

GBP – Underperforming – as expected

- EUR/GBP rises into our 0.87-0.89 target range.

GBP is on the slide. Against a basket of trading partner currencies, GBP has lost 3.5% from the summer, with the decline picking up pace in the last couple of weeks (Chart 1). Over the past month only the JPY has fared worse, though in the last two weeks GBP and the JPY have fallen in lockstep.

While both have underperformed against a stronger USD, the JPY's fate has been more tied to domestic politics and what that might mean for the BoJ (see next page). Much of GBP's decline is also tied to domestic politics, with the all-consuming UK Budget nearing on 26 November and where the UK Treasury has little choice but to deliver bad news in the form of higher taxes and lower government spending in some areas.

That presages potentially bad news for already sputtering economic growth. After 0.5% in H1, 2025, July and August underwhelmed with -0.1% and +0.1% respectively. Negative media headlines of what taxes may or may not rise, think tank reports of this or that policy prescription have been wide-ranging and soured business and consumer confidence.

The late 2024 Budget shock of significant increases in costs for business and employers was met with much criticism of the shift in policy. Employers have since cut back on hiring and crimped expansion plans, as well as – where they can – raised prices to help recoup costs that in turn has helped double headline inflation from a year ago.

This time around there is a broad view companies will be spared, with households and consumers instead taking the bulk of the hit and where the tax burden is already at multi-decade highs. The extent of necessary revenue raising is sizeable – estimated at £30bn to £50bn per year, with a chunk of that due to a productivity downgrade as well as tepid economic growth.

With spending cuts a tough sell to the governing Labour Party despite its large parliamentary majority given the sheer size of additional revenues needed, Chancellor Reeves is increasingly being forced to look at changes to the main tax revenue generators, even though the government had pledged not to touch these in its election manifesto.

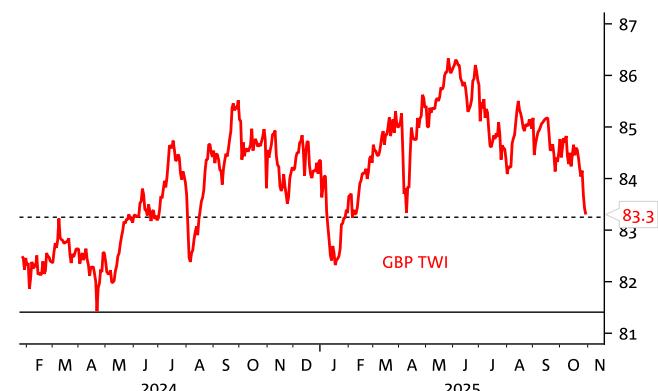
These include Income Tax, VAT, Employee National Insurance and Capital Gains tax, as well as raising the Council taxes (paid by homeowners and renters for local services). Doubling Council Tax for the two higher (property price) bands will mean for those affected, a many thousands of pounds per year increase.

Businesses may escape this time around, but the impact on them from lower household spending won't make it any easier. The UK savings ratio has risen since the pandemic (Chart 2).

For the Gilt market there is good news with additional borrowing not an option this time around. That, alongside the BoE's recent decision to slow the pace of QT, lower inflation and thoughts of further economic weakness have all helped UK bonds to outperform in October (Chart 3). Latest wage data shows ongoing moderation to levels just below BoE forecasts, while inflation at 3.8% appears to have peaked lower than the BoE thought.

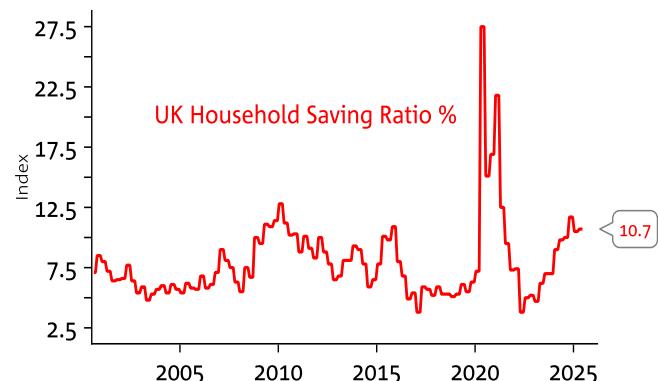
These last two developments leave us continuing to look for the BoE to cut rates this week to 3.75%. We recognise it's a very close call, but if we're wrong then it's a December cut. GBP to trade 0.87-0.89 as per forecasts, GBP/USD 1.30-1.35.

Chart 1: GBP's broad weakness has accelerated



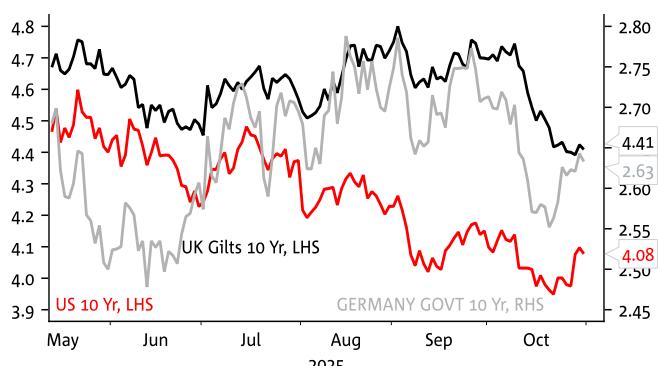
Source: National Australia Bank, Macrobond

Chart 2: UK savings: Rising ahead of bad times



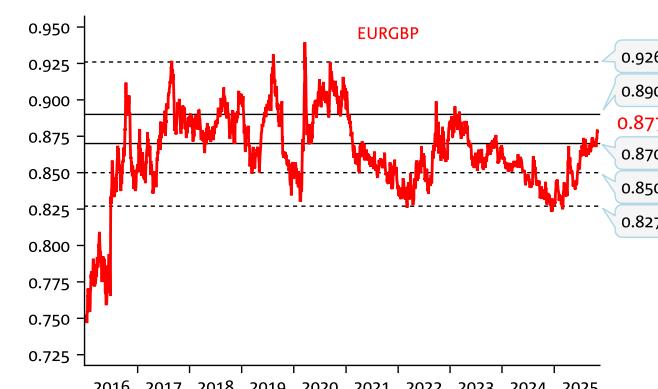
Source: National Australia Bank, Macrobond

Chart 3: UK 10-year bonds outperformed in October



Source: National Australia Bank, Macrobond

GBP falling vs the EUR; Now in our 0.87-0.89 range



Source: National Australia Bank, Macrobond

JPY – Emerging from the fog?

- Set to test levels above ¥155, but elevated inflation and political stability still favour a BoJ hike by turn of the year

JPY has been the weakest G10 FX pair since the start of October, falling over 4% in just over a month. A combination of factors has contributed to its decline while the technical picture is suggesting further weakness remains possible with USD/JPY not facing a great deal of resistance to break above 155.

One factor contributing to JPY depreciation has been Japan domestic political uncertainty, but now some of this uncertainty should begin to dissipate following Sanae Takaichi's election as Japan's first female prime minister on 21 October.

Takaichi's policy platform ranges from social security plans to a 'second capital' initiative, but for markets her focus on tackling Japan's rising cost of living through expansionary fiscal measures and structural reforms are more relevant. She also plans to accelerate the increase in defence spending to 2% of GDP 2% of gross domestic product (GDP) in the current fiscal year through March, ahead of the original target of fiscal 2027, while maintaining fiscal sustainability via a declining debt/GDP ratio. This all sounds fiscally responsible, but given her minority government, what remains to be seen is how much she can get done and whether she can maintain "fiscal sustainability".

Takaichi is also on record noting the BoJ is responsible for setting monetary policy, but that any decision it makes must align with the government's goal. The paradox is that the BoJ needs to fight the cost-of-living crisis by helping to bring inflation down, but without hampering the economy's ability to grow and/or triggering a big JPY appreciation. A big ask.

Linked to the above, and another factor contributing to recent JPY weakness was the BoJ decision to stand pat at its October 30 meeting. Two board members dissented in favour of a hike, in line with the September meeting while CPI and GDP forecasts were little changed, but the lack of a clear steer for a December hike saw the yen underperform.

Arguably the BoJ is at a new crossroads. Inflation has been tracking above the Bank's 2% target for some time with CPI readings distorted by recurring subsidies and price controls. The latest Tokyo CPI is a point in case with the core reading jumping to 0.7% mom in October after falling to 0.3% in September (yoY reading running at 2.8%). The BoJ's latest estimate of potential growth is 0.7% (which is also its growth forecast for FY25 and FY26), and its latest estimate of the output gap was -0.32%. On their projections inflation is set to stay above the 2% target, the case for waiting much longer is wearing thin, with JPY weakness an undesirable consequence.

Politics matter for the BoJ, so looking ahead we need to see whether PM Takaichi can coalesce support for her policies while at the same time more JPY weakness runs the risk of triggering angst from the US. Speaking in Japan, last week US Secretary Scott Bessent urged the government to give the BoJ scope to raise interest rates. Political stability at home will allow the BoJ to hike, supporting political stability with the US.

USD/JPY looks vulnerable to test levels above 155, but at this stage such moves don't look sustainable. Governor Ueda cited global uncertainty and need for evidence of higher wages at home. US China trade truce and positive wage negotiations should open the door for a BoJ hike in December or January, helping USD/JPY head back below 150 over coming months.

Chart 1: USD/JPY post Fed and BoJ

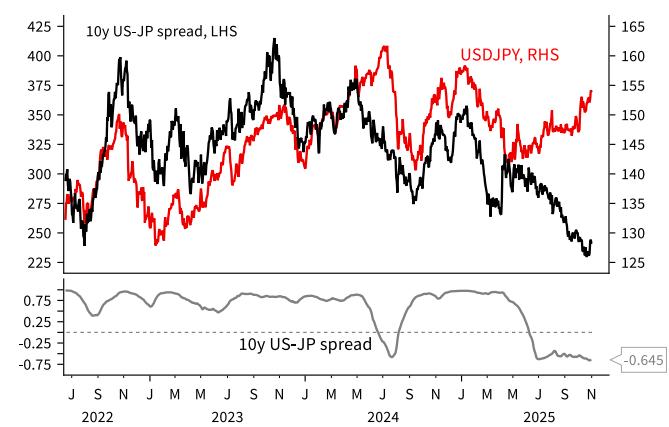


Chart 2: Perceptions matter

Global FX since 01-Oct-25

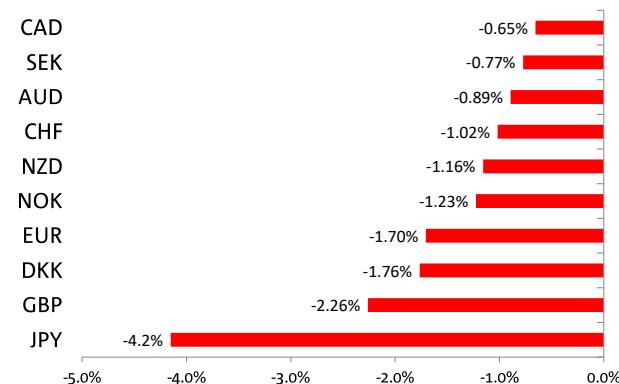


Chart 3: BoJ Output gap and inflation

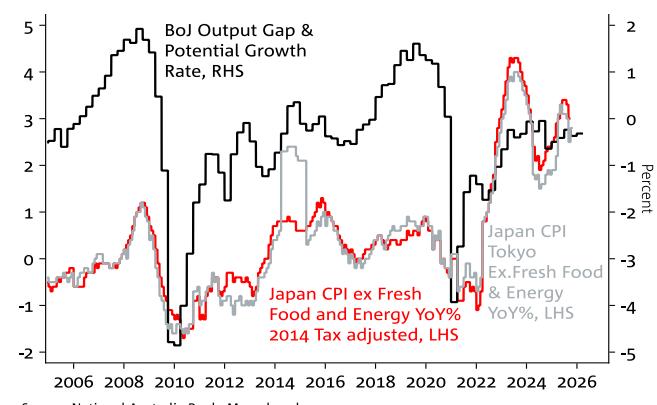
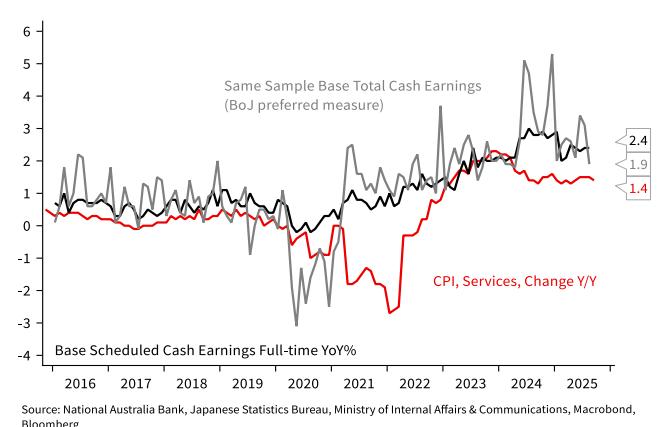


Chart 4: Watching wages



CNY – Breaking down is hard

- PBoC remains supportive of CNY appreciation with US-China truce also supportive, but a sustained move towards 7 also needs a stronger easing signal from the Fed

October was an eventful month in terms of the US-China relationship and China's domestic policy planning, yet the remarkable thing is that USD/CNY is essentially unchanged relative to levels recorded at the end of September. One take away is that the signalling from the PBoC remains supportive of steady CNY appreciation ahead, the other is that a move towards 7 still needs a Fed more committed to further easing.

The China-US trade truce agreed between Presidents Trump and Xi is a positive for global risk appetite. It provides a degree of certainty, at least in terms of what to expect over the next 12 months, although it leaves many critical issues unresolved.

China and the US will remain uncomfortable bed fellows, but they are still fellows. The deal rolls back export controls and reduces other trade barriers. Importantly too, it confirmed a retreat from an escalation in the trade tensions. Fentanyl-related tariffs on China have been reduced from 20 to 10%, China will resume soybean purchases and pause its rare earth licensing regime. In another positive sign, Trump will visit China next April, with Xi planning to head to the US afterward.

Meanwhile on China's domestic front, Q3 GDP data and activity readings for October show GDP growth slowed to 4.8% yoy from 5.2% in 2Q with leading indicators suggesting an additional slowdown should be expected in Q4. Details from the GDP print were not encouragingly either, amid evidence of an additional widening in the imbalance between supply and demand. Industrial production expanded while domestic consumption and FIA slowed further with the latter contracting by 0.5%.

The latest PMIs suggest China's economic activity lost further momentum in October with slower growth across manufacturing and construction. The average of the official and RatingDog manufacturing PMIs fell from 50.5 to a three-month low of 49.8. Holidays and heightened US-China trade tensions during October certainly didn't help, but weakness in export sub-indices has been corroborated by a pullback in Chinese port activity while a decline in construction activity is also explained by disappointing house prices and sales readings.

Against this underwhelming backdrop, China's 15th Five-Year Plan outlines a strategic pivot toward technological self-reliance and domestic demand stimulation. The plan reinforces traditional industrial strengths—such as textiles and shipbuilding—while accelerating the development of emerging sectors, particularly in technology. Although boosting consumption remains a stated objective, there is no detail on how this objective will be achieved. Structural challenges such as demographics and a meagre welfare system alongside other policy objectives, including industrial and defence investments, suggest this will not be an easy thing to do.

Still, the fact that officially now Beijing sees the need of domestic demand stimulation as an imperative is a positive step. China needs stable and balanced economic growth for the PBoC to continue to support gradual CNY appreciation. For now, we remain encouraged by the gradual decline in the daily fixes (sub 7.09 - Chart 3). The other challenge is that CNY appreciation is more likely to come alongside a Fed more willing to ease again, something which is no longer a given before year end.

Chart 1: China growth is slowing



Chart 2: PMIs suggest further slowdown ahead

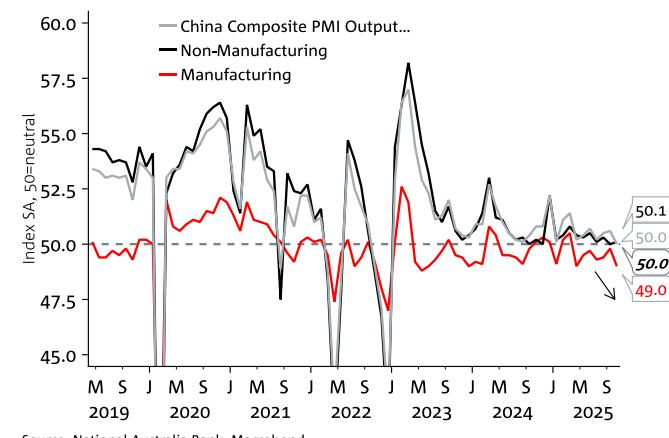


Chart 3: PBoC still guiding USD/CNY lower

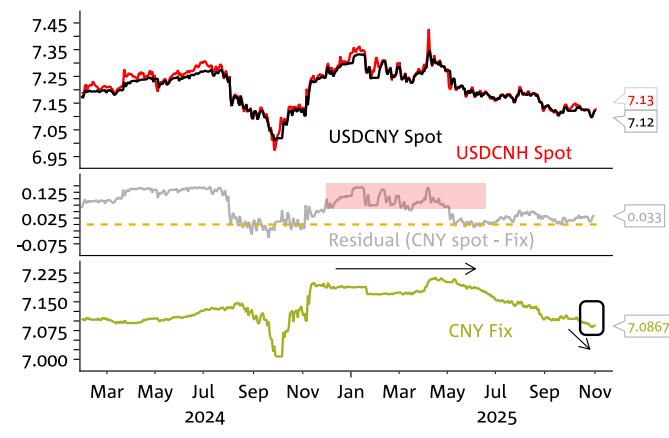
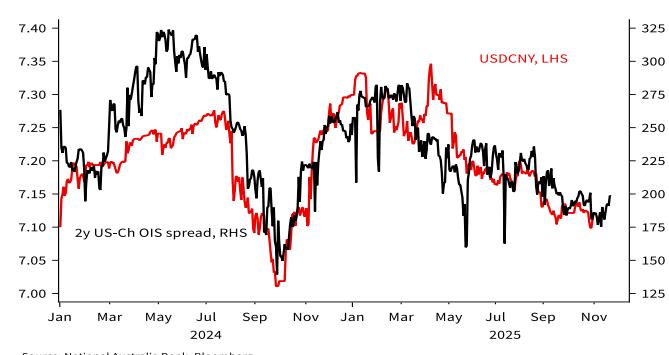
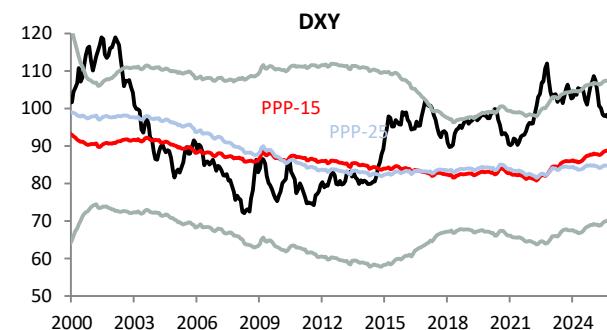
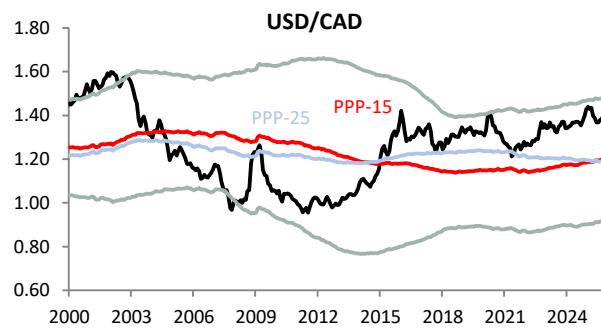
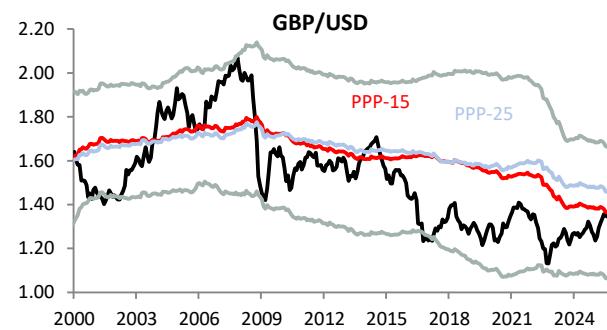
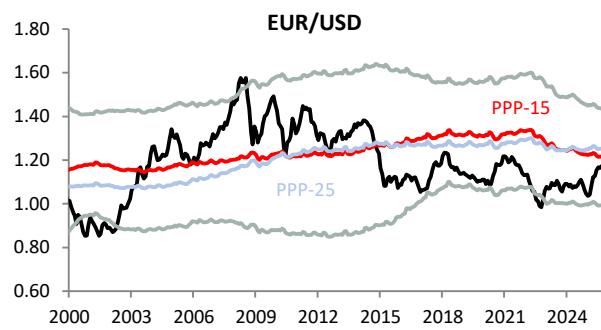
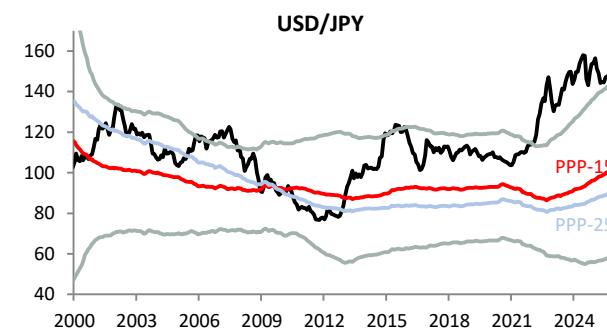
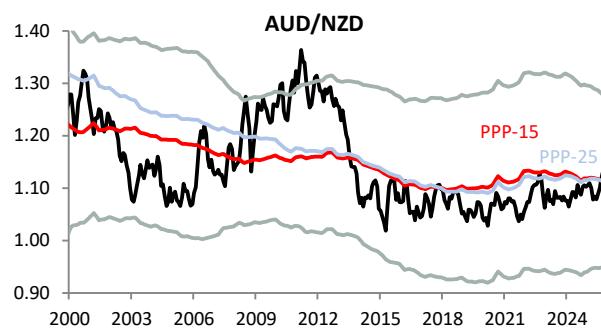
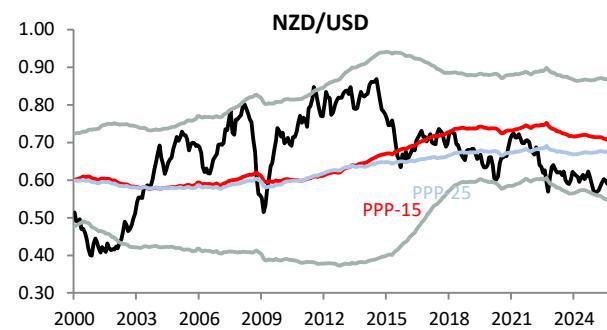
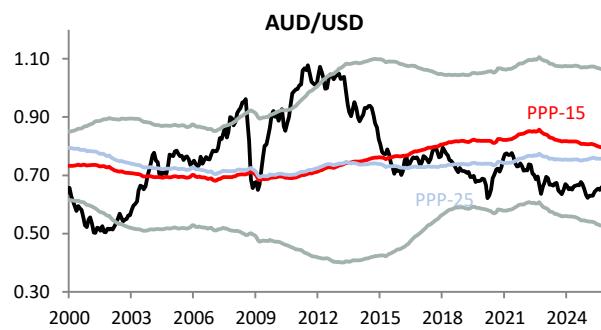


Chart 4: But Fed cautiousness a new headwind



PPP Estimates



	AUD/USD	NZD/USD	AUD/NZD	USD/JPY	EUR/USD	GBP/USD	USD/CAD	DXY
Actual	0.6550	0.5730	1.1430	154.00	1.1530	1.3130	1.4010	99.8
PPP-15year	0.7920	0.7060	1.1120	100.80	1.2150	1.3620	1.1990	89.6
% Deviation	-17.3	-18.9	2.8	52.8	-5.1	-3.6	16.8	11.4
z-score	-1.0	-1.7	0.4	2.6	-0.5	-0.3	1.4	1.1
PPP-25year	0.7560	0.6770	1.1120	89.70	1.2560	1.4580	1.1880	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

		4-Nov-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
Majors									
Australian Dollar	AUD/USD	0.6533	0.67	0.69	0.71	0.72	0.71	0.70	0.69
New Zealand Dollar	NZD/USD	0.5694	0.59	0.60	0.62	0.63	0.63	0.63	0.62
Japanese yen	USD/JPY	153.96	146	144	140	135	135	135	135
Euro	EUR/USD	1.1512	1.19	1.20	1.21	1.23	1.22	1.21	1.20
British Pound	GBP/USD	1.3126	1.35	1.35	1.36	1.38	1.37	1.36	1.35
Swiss Franc	USD/CHF	0.8093	0.78	0.77	0.76	0.75	0.76	0.76	0.77
Canadian Dollar	USD/CAD	1.4065	1.37	1.36	1.32	1.28	1.30	1.29	1.28
Chinese New Yuan	USD/CNY	7.1255	7.08	7.05	6.95	6.90	6.85	6.85	6.85
Cross Rates									
	AUD/NZD	1.1473	1.14	1.15	1.15	1.14	1.13	1.11	1.11
	AUD/JPY	100.58	98	99	99	97	96	95	93
	AUD/EUR	0.5675	0.56	0.58	0.59	0.59	0.58	0.58	0.58
	AUD/GBP	0.4977	0.50	0.51	0.52	0.52	0.52	0.51	0.51
	AUD/CHF	0.5287	0.52	0.53	0.54	0.54	0.54	0.53	0.53
	AUD/CAD	0.9189	0.92	0.94	0.94	0.92	0.92	0.90	0.88
	AUD/CNY	4.6551	4.74	4.86	4.93	4.97	4.86	4.80	4.73
	USD (DXY)	99.9	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
Australia RBA	3.60%	12 Aug 2025	Easing	9-10 Dec 2-3 Feb	unchanged unchanged	3.60%
Official Cash Rate		-25bps				
In a unanimous decision, the RBA Monetary Policy Board left the cash rate unchanged at 3.6% as expected in November. There were meaningful upward revisions to the RBA's trimmed mean forecasts in the quarterly SoMP; other forecast revisions were minimal. NAB expects the RBA to be firmly on hold before a final cut in May 2026, but risks are skewed to a 3.6% terminal cash rate for the cycle.						
New Zealand RBNZ	2.5%	8 Oct 2025 -50bps	Easing	26-Nov 18-Feb	-25bps unchanged	2.25%
Official Cash Rate						
We expect a final 25bps cut for the cycle at the November meeting, taking the OCR down to a terminal rate of 2.25% and this is well priced. The new RBNZ Governor, ex First Deputy Governor Breman from the Riksbank, takes over from 1 December. By the February meeting, inflation will still be near the top end of the target range and there should be more signs of positive economic momentum, supporting a no change decision.						
US Federal Reserve	4.00-3.75%	16 Sep 2025 -25bps	Easing	9-10 Dec 27-28 Jan		3.75-3.50%
Fed Funds Rate						
Fed chair Powell's comment out of the October FOMC meeting, at which rates were cut 25bps, that a December follow up cut was 'not a foregone conclusion, far from it' has since been echoed by several FOMC members, yet markets continue to think it more likely than not the Fed will cut on 10 December (as does NAB). More evidence of a weakening labour market will need to be to hand for this to happen, and if sufficient official data is still lacking by then, it adds to the risk of inaction. Assuming a December cut, risk is then for an extended pause (though Q1 2026 at least) but ultimately, we expect a weaker labour market will dominate the FOMC discussion to see a further 50bps or so of cuts in 2026.						
Eurozone ECB	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.						
UK BoE	4.00%	7 Aug 2025	Easing	6 Nov	-25bps	3.75%
Bank Rate		-25bps		18 Dec	Unchanged	
Latest wage data shows ongoing moderation to levels just below BoE forecasts, while inflation at 3.8% appears to have peaked lower than the BoE thought. These developments leave us continuing to look for the BoE to cut rates this week to 3.75%. We recognise it's a very close call, but if we're wrong then a December cut, post the November 26 Budget and anticipated significant fiscal tightening, is highly likely. We then expect one more cut to 3.50% (just above estimated neutral) sometime over 2026.						
Japan BoJ	0.50%	24 Jan 2025	Tightening	18-19 Dec	+0.25%	0.75%
Uncollateralized call rate		+0.25%		22-23 Jan	Unchanged	
As widely expected, the BoJ stood pat at its meeting in September, but the surprise was two dissenters, the first in Ueda's rein. The economic data flow continues to make the case for the Bank to restart its policy normalisation process. Core-core inflation in August remained well above the ~2% target while leading activity indicators suggest an uptick in domestic consumption should be expected. Speaking at the post meeting press conference Governor Ueda stuck to the old script noting "price trend is still below goal" while noting some downside risk from higher US tariffs. The Tankan survey is the release to watch in October while LDP elections is the other potential block for a hike in Oct., if not in Dec.						
Switzerland SNB	0.00%	19 Jun 2025	Easing	11 Dec	Unch	0.0%
3mth SARON Target range		-25bps		2 Mar	Unch	
Unexpected weakness in CPI in October reported this week has inevitably aroused speculation the SNB could yet be forced back into negative rates to deter demand for the CHF as one source of disinflation/deflation pressure. CPI fell to 0.1% from 0.2% against an expected rise to 0.3% with core CPI down to 0.5% from 0.7%. We haven't heard from the SNB since the inflation report but would expect they will reiterate the view that the hurdle for returning to negative rates is high and that they would hope it can be avoided.						
Canada BoC	2.25%	17 Sep 2025	Easing	10 Dec	Unchanged	2.25%
Overnight Lending Rate		-25bps		28 Jan	Unchanged	
The Bank of Canada, cut its overnight rate by 25bps to 2.25% in October as expected by most analysts, and signalled that rates are now at 'about the right level'. The key phrase in the statement was: "If inflation and economic activity evolve broadly in line with the October projection, Governing Council sees the current policy rate at about the right level to keep inflation close to 2% while helping the economy through this period of structural adjustment". The Canadian economy is going through a structural change, and risk is that they will see fit to ease further in 2026.						
China PBoC	1.40%	24 Sep 2024	Easing	n/a	n/a	1.1%
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. At this stage, unless we see a more severe economic slowdown, our expectation for the repo rate to end 2025 at 1.1% looks challenged given the PBoC focus on liquidity rather than the cash rate level.						

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.