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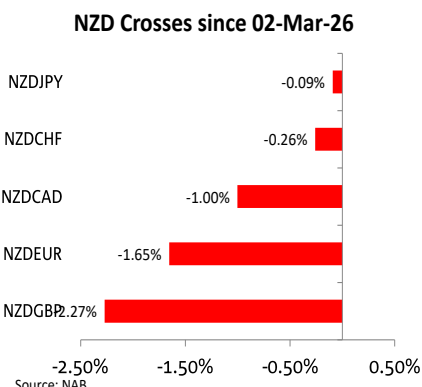
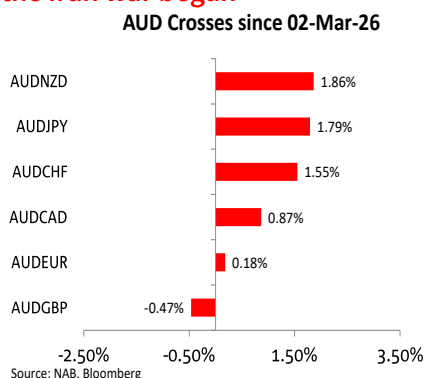
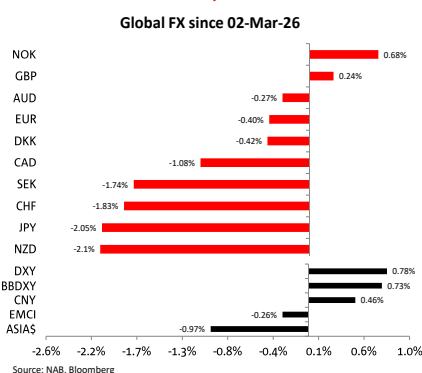
Key Currency Themes

- The USD has performed well since March considering the limited VIX spikes to date and USD-negative yield spread movements. Weaker levels later in 2026 depend on an end to the war, lower oil prices, and Fed easing
- Small revisions see our Q2 AUD/USD forecast lowered by a cent to 0.71, end-2026 unchanged at 0.73 and small uplifts for 2027. Near term AUD risks are skewed to the downside
- We've nudged down our short-term NZD/USD projections but leave our year-end target at 0.63
- EUR is trying to shake off Iran war blues but it's just another unwanted hit in a series of crises. We modestly lower our forecasts out to mid-2027
- GBP's bounce from late March lows sees it out-perform some peers. We don't see this lasting and have revised forecasts a few cents lower to 2027
- Our revised USD/JPY forecast still see the pair in a 150-160 range through 2026 even with the BoJ lifting rates by a further 50bps this year
- USD/CNY forecasts are unchanged, consistent with a gradual pace of CNY appreciation over the course of 2026.

FX views in a tweet

Near term view (next few weeks)		Longer term view (6-12 months)	
USD Index	➔ Still subject to headline driven ping pong, showing its vulnerability to positive war/Strait re-open omens and haven support from bad news/risk negative developments	⬇️	For the USD to resume weakening, the war will need to end, oil prices come meaningfully lower and the Fed to recommence easing later in the year
AUD/USD	➔ Risk-off episodes since the war began have so far not been large enough intra-day to prompt bigger sell-offs. On the plus side interest rate support still evident	⬆️	Our 'pre-war' view of AUD/USD moving more comfortably into a 0.70-0.75 range as the year progresses is only valid if the war ends and energy flows resume before Q2 is out
NZD/USD	➔ The NZD is in a bottoming out phase, assuming the SoH can reopen within a few weeks. RBNZ's more hawkish tinge at the April MPR is a supporting factor	⬆️	Our year-end target is 0.63, assuming the SoH reopens soon, which limits damage to the global and domestic economy. NZ rate hikes would be supportive
EUR/USD	➔ Essentially rangebound (1.14-1.18) pending either a significant easing in energy prices or further worsening in the prevailing EZ terms of trade shock	⬆️	A sustained move back above 1.20 requires an end to the war, significant retracement in energy prices and resumption of USD depreciation
GBP/USD	➔ May 5 local elections in the fray as a potential negative if it means leadership challenge (heightening fiscal concerns) but could at least be delayed while war continues	⬆️	Vulnerable to a UK leadership challenge later in year if not soon, and too removal of rate hike risks even if this reduces downside growth fears. Gains contingent on softer USD
USD/JPY	➔ BoJ will need to come to the party with a rate hike on 28 April if a move above 160 is to be avoided; far from a done deal on latest Ueda comments .	⬇️	Price action over remainder of 2026 seen contained mostly in ¥150-160 range. Topside breaks capped by intervention risk, move to 150 contingent on at least two BoJ hikes
USD/CNY	➔ PBoC still content to see USD/CNY fall (gradually) proving USD is not racing away to the upside	⬇️	Export growth concerns while the energy price shock risk to global growth persists, likely to keep the PBoC very gradual in its approach CNY appreciation

Stocktake: G10 FX, AUD & NZD since the Iran war began



USD – Not really underperforming

- The USD has performed well since March relative to the VIX and yield spread movements. Weaker levels later in 2026 depend on end to the war, lower oil prices, and Fed easing

At the peak on 30 March the DXY USD index was up 3% since the start of the war, gains since pared by 9 April to around 1% in the immediate wake of an agreement to a 14-day US-Iran ceasefire, albeit one during which the Strait of Hormuz failed to re-open to traffic. The failure so far of negotiations to produce any agreement, or for the Strait to re-open, introduces fresh near term upside risk for the USD. We make some modest revisions to our FX forecasts, as per p.10, principally confined to downward adjustments to EUR/USD and GBP/USD and upwards for USD/JPY. We do so based on the assumptions set out below, but where risks are skewed towards the USD proving ‘stronger for longer’ against most, if not all, G10 currencies on worse outcomes regarding the Iran conflict.

The assumptions are that: we are already past ‘peak conflict’ regarding military strikes; that the Strait of Hormuz reopens to traffic within a matter of weeks (and where President Trump’s involvement of the US navy could be the much-needed circuit breaker); that oil and petroleum product prices are lower than today albeit with a semi-permanent oil price premium (e.g. Brent crude in a \$70-90 range versus \$60-70 pre-war); and that global growth takes only a modest hit, as per our most recent [Forward View Global](#).

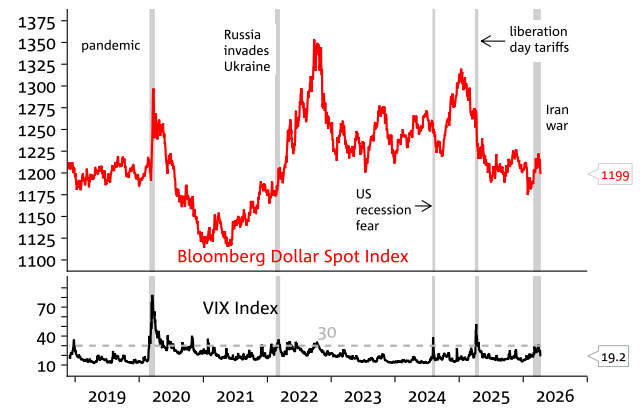
Throughout the US-Israel-Iran war to date, USD naysayers have been quick to suggest that if the USD was still a true haven it should have risen by much more than it has given the enormity of the geopolitical shock to which the global economy and markets are being subjected. Our counterargument is that risk sentiment has not to date suffered to nearly the same extent as other shock in recent years. The VIX index, for example, has only closed above 30 twice – levels historically associated with much deeper equity market sell-offs – and then only briefly and by small margins (Chart 1).

Another counterargument is that yield differentials between the US and DXY counterparts have fallen since the war began driven in large part by more aggressive re-pricing for near term central bank policy outside the US (most notably for the ECB and BoE). Bond yield spread movements since the start of the war have moved decisively against the USD and yet it has risen (Chart 2).

One factor not lost on markets since March has been terms of trade relativities, contrasting the US’s small net energy exporter status and so reduced growth vulnerability to an oil shock compared to Europe and the Asia Pacific region. The USD has benefited by default from currency losses amongst those countries potentially hardest hit (e.g. Japan, Germany and the UK). See Chart 3 from NAB’s latest research note: [Oil price shocks: quantifying the macroeconomic risks](#)

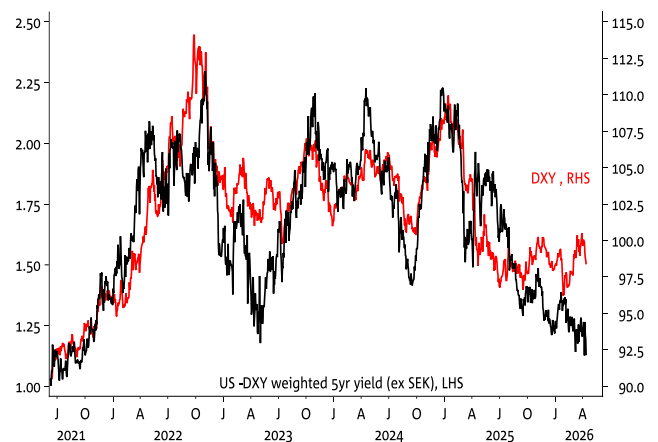
In maintaining our FX forecast for a resumption of USD weakness later in the year and now extending into H1 2027, one key assumption is that after an extended period of stability the Fed does resume interest rates cuts justified by a softening in the labour market (not currently on display) which then takes priority over above-target inflation but which by then is assumed to be falling. We currently maintain our forecasts for 50bps of easing, in Q4 2026/Q1 2027. Failure to materialise carries upside risks to our updated USD forecasts.

Chart 1: USD vs risk sentiment (VIX)



Source: National Australia Bank, Macrobond

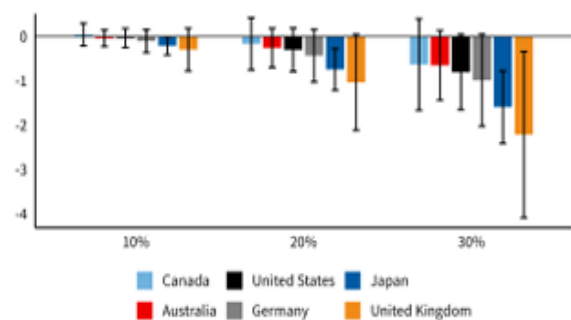
Chart 2: USD strong vs yield spread movements



Source: National Australia Bank, Macrobond

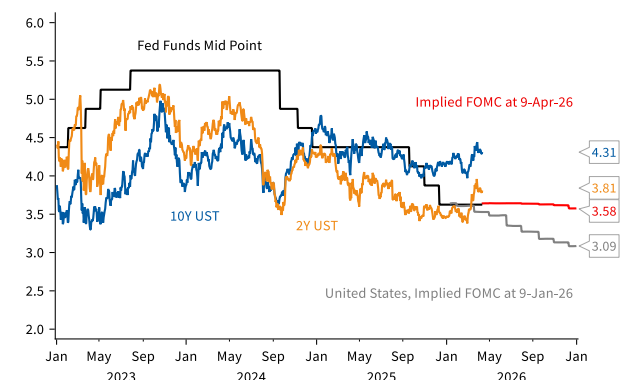
Chart 3: US less vulnerable than most to oil shock

Cumulative GDP impact by oil price scenario (ppts)



Source: National Australia Bank, Macrobond
Note: Error bars show 68% Newey-West confidence bands

Fed policy pricing now vs 3-months ago



Source: National Australia Bank, Federal Reserve, U.S. Department of Treasury, Account in-house, Bloomberg, Macrobond

AUD – Tug of war continues

- Small revisions see our Q2 forecast lowered by a cent to 0.71, end-2026 unchanged at 0.73 and small uplifts for 2027. Near term AUD risks are skewed to the downside

Superficially, it may seem surprising that since the US-Israel-Iran war commenced at the end of February, AUD/USD has recorded a trading range little more than half that witnessed in January (2.6 cents vs 4.3 cents). January, recall, was a month in which the S&P500 posted record highs with risk sentiment generally buoyant, the USD was on the skids in the latter half of the month, and local money markets were busily discounting rising prospects of the RBA raising the cash rate in February.

Since the war started, the AUD has been caught between the support from money markets pricing in further RBA rate hikes, a generally firmer USD and significant pull back in global equity markets, in all cases stemming from the implications of the energy price spike for inflation in the short term and potentially lower global growth a little further out.

That the AUD/USD has not suffered more than it has since March owes much to the fact that the significant pull back in equity markets has not been associated with any outsized one-day or multi-day sell-offs. The VIX index has closed above the 30 level only twice since the war started, and in both cases failed to sustain the jump. As we continue to note, bad days for the AUD (e.g. 2-plus cent drops) have only tended to occur in conjunction with spikes in the VIX to well above 30. During the April 2025 tariff-related selloffs, VIX spent four days above 50 and closed either side of 50 on two successive days (Chart 2).

Sell-offs in risk assets since March remain consistent with a relatively 'short war' scenario and where the Strait of Hormuz re-opens to something resembling normal traffic in reasonably short order. As a result, we have not yet seen economists, whether in the private sector or supranational organisations such as the IMF and OECD, taking a carving knife to global growth forecasts. The IMF's Spring forecasts, due any day, may paint a gloomier picture, and the private sector's 2026 growth consensus has started to move lower (Chart 3). Yet markets are still very far off pricing in a true stagflation outlook bordering on global recession. If they do, as is likely if the current US-Iran stalemate holds for several more weeks and US efforts to re-open the Strait come to nothing, AUD/USD becomes immediately vulnerable to a deeper sell-off.

In today's refreshed FX forecasts, we have made very little change to the AUD/USD numbers: a one cent cut to Q2, from 0.72 to 0.71, a one cent average lift to 2027 numbers and end-2026 unchanged at 0.73. This still leaves us characterising AUD/USD as essentially a 0.70-0.75 cent currency as far as the eye can see, but with the risks to this range very much skewed to the downside. If the Strait is not open to traffic in the coming month or so, global recession fears will likely become prominent and AUD/USD in the 0.65 cents area becomes a realistic prospect, the positive terms of trade implications of a sustained lift in energy prices notwithstanding.

Outside of this 'worst nightmare' scenario, market positioning continues to highlight AUD's vulnerability to a more extreme risk-off episode. Leveraged AUD longs have been pared back in recent weeks, but overall speculative (non-commercial) net long positions remain close to their post 2017 highs (Chart 4).

Chart 1: Caught between a war and RBA policy

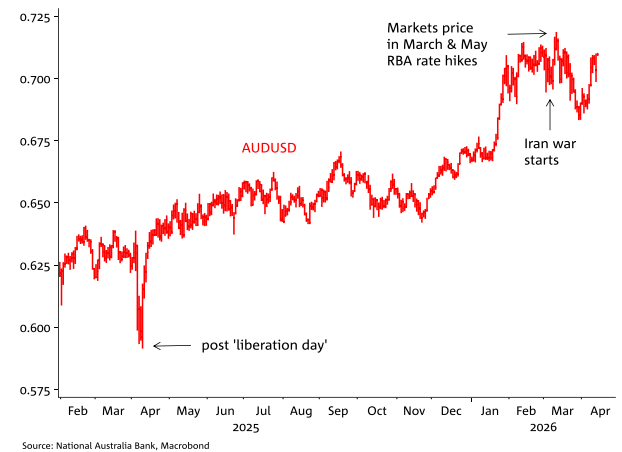


Chart 2: VIX spikes STILL not big enough to hurt AUD

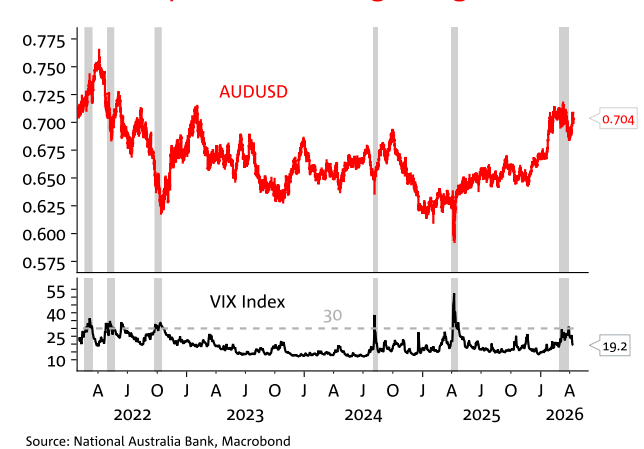


Chart 3: Global growth downgrades small (so far)

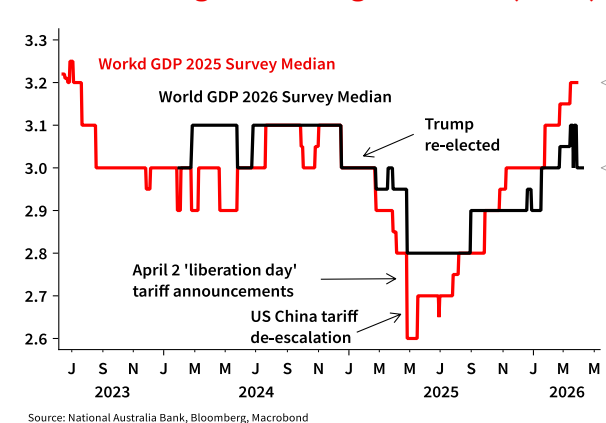
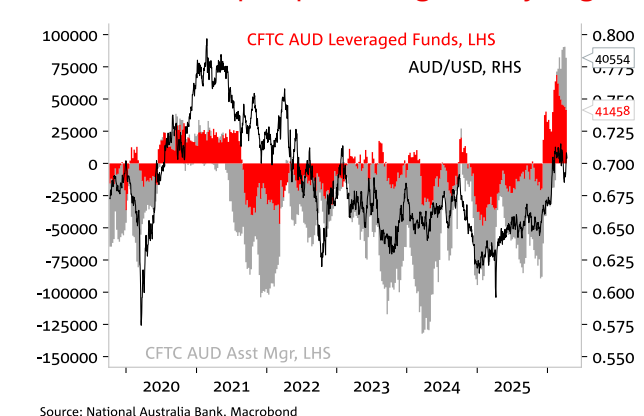


Chart 4: AUD IMM spec. positioning still very long



NZD – The beginning of the end?

- We've nudged down our short-term NZD/USD projections but leave our year-end target at 0.63

In the early stages of the Iran conflict, we suspended our FX projections and noted skewed risks to the downside for the NZD. We subsequently produced a scenario showing a likely declining path for the NZD for each week the Strait of Hormuz remained closed, with key support of 0.55 under threat.

The NZD has had a brief foray below 0.57 (with a near-0.5680 low), before recovering in the wake of the US-Iran "ceasefire" deal. The ceasefire remains fragile and could easily unravel, but we'd suggest that the period of peak conflict regarding military strikes is over, providing some hope that the 0.55 level won't be reached, and we'd even suggest that the 0.5680 low might not be revisited either. All this hinges, of course, on our assumption that the Strait of Hormuz can reopen within a few weeks.

At its Monetary Policy Review, the RBNZ noted how events in the Middle East had materially altered the economic outlook. We see RBNZ policy – namely substantial easing last year that took the policy rate well below the Fed, RBA and BoE – as being a source of downside pressure for the NZD for some time. It was therefore pleasing to see the Bank take its inflation mandate more seriously and tilt towards more hawkish language to describe the policy outlook from here.

A more vigilant central bank ready to act decisive and timely with OCR increases in response to any broadening in inflation pressure removes a hitherto headwind for the NZD and RBNZ policy should eventually morph into a tailwind.

We have tweaked our near-term NZD projections lower as a result of the Middle East conflict but leave our end-Q4 target unchanged at 0.63. Our end-Q2 target of 0.59 implies a trading range for the NZD of about 0.57-0.61, which should cover the immediate threat of escalation in order to de-escalate. But as the quarter progresses and if the Strait of Hormuz gradually reopens, we see the NZD as having plenty of scope to recover.

In our previous report, we indicated that the AUD/NZD cross rate was nearing the end of its prolonged uptrend. The rate reached a peak just above 1.22 but subsequently declined following the RBNZ's policy update. We think the cross rate is likely entering a topping-out phase, with the next significant movement more likely to be downward rather than upward. Our projections suggest that the RBA will raise rates by only one further 25bps hike, while the RBNZ appears set to embark on an extended tightening cycle.

We continue to expect the RBNZ to begin tightening from September, though we acknowledge the possibility of an earlier start to the cycle. Importantly, with the OCR starting from a low of 2.25%, well below neutral estimates centred around 3%, there is significant room for rates to rise once tightening begins. This should lead to a rapid narrowing of the gap between the RBA and RBNZ policy rates. The current positive spread of 185bps between AU and NZ policy rates is expected to turn negative next year. While these expectations are partly priced in, shifts in policy settings are still likely to influence currency movements, and we conservatively forecast the cross rate to fall to 1.16 by year-end.

Chart 1: Conflict/ceasefire drives NZD volatility

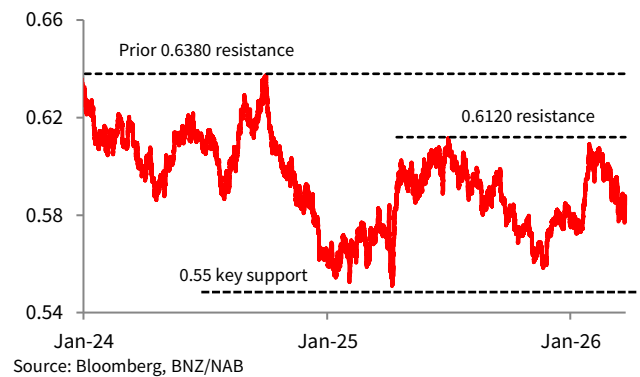


Chart 2: NZ headline CPI inflation set to rise and stay above 3% for the next year

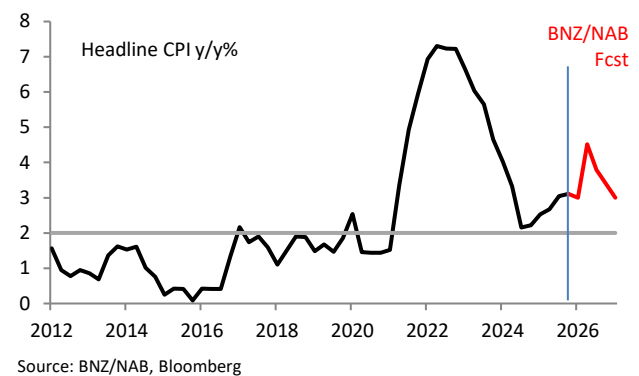


Chart 3: Turnaround in AU/NZ rate spreads should ultimately drive AUD/NZD lower

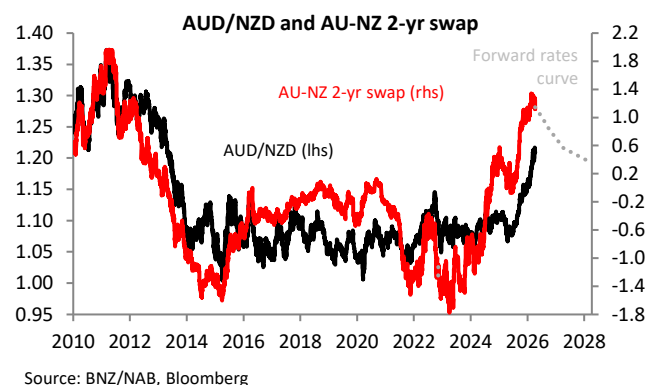
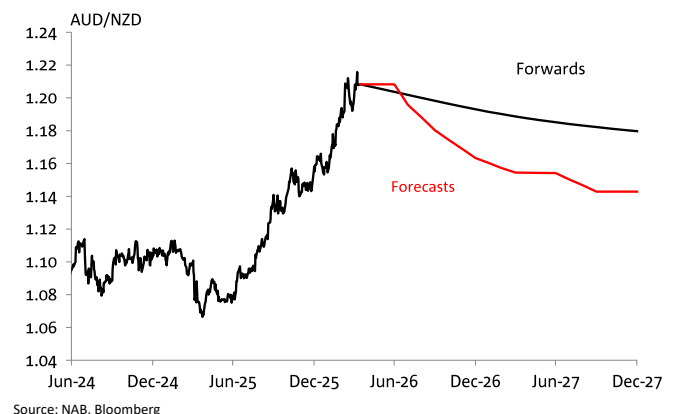


Chart 4: AUD/NZD forecasts vs forwards



EUR – A more modest recovery from here

• EUR/USD forecasts modestly eased to end H1, 2027

Even as US-Iran peace negotiations break down, financial markets sense ‘peak conflict,’ holding on to a belief a deal may be coming. Whether that proves correct or not will be known in due course, but as we note on page 1, FX markets have reduced the USD’s gains since the US-Israel invasion on Iran to 1%. The EUR has fared a little better of late and at 1.1730 sits around 0.75% below its pre-war levels just atop 1.18.

That isn’t as good as some other currencies, such as the AUD, which we continue to see outperforming the EUR (see below), or the closely correlated CNY, but better than the JPY and even the commodity-backed CAD. Some of the EUR relative outperformance will be via higher (ECB) rate pricing as a result of perceived inflation threats (as opposed to downside growth fears). This is supported by the fact GBP/USD sits around 0.65% below its pre-war levels, despite the UK being one of the likely most negatively affected economies from events in the Middle East (see page 6).

However, we would not want to push the rate prop argument too far. While we do not think 25bps, even 50bps of ECB rate hikes would cause too much of a dent to the EZ economy given rates at 2% are at the lower end of neutral and where the EZ has been experiencing reasonable domestic demand, supported by a healthy labour market and strong household balance sheets, any rate hikes would clearly not be coming from a position of strength and won’t help growth. More likely they will need to be unwound as soon as the inflation coast is clear.

Indeed, the likely hit to EZ growth from higher energy prices and where, despite all the opportunities from the many Draghi-inspired reforms being introduced, the fact is progress continues to be too slow here, and opportunities continue to be missed. While we hope the Hungarian election result will clear some of the blocks to EU reforms, proof is required. With the Middle East war and EU terms of trade knock just another unwanted development in a series of crises over the last six years, we are taking this opportunity to modestly shave our EUR/USD forecasts from now to end H1, 2027, but where they are little changed further out.

Our previous profile of nudging above 1.20 and trading 1.20-1.23 in H2, but being unable to break the key 1.25/1.26 resistance is now replaced with levels that can still see modest gains from the current 1.17 or so, but will unlikely be able to forge a decisive break above 1.20 until next year and even then, continue to resist the allure of the 1.25/1.26 2018 range tops (more likely high teens to low 1.20s) We have already noted the prospect of ECB rate hikes in April or June but await comments from no less than 15 ECB officials in the week ahead, for clues on if and when. We’ll update then.

AUD/EUR to build on gains through 2026

After rising to 0.62 in the week after the US and Israel invaded Iran aided by upwards repricing of RBA policy, the AUD/EUR cross fell back to 0.5975 as negative if modest risk aversion and rapid repricing of ECB rate-hike risks came to dominate. Our updated forecast sees AUD/EUR holding the recapture of 0.60 and extending to 0.61 in H2 (risk of higher), assuming the RBA hikes again in May while the ECB holds fire for now, and that risk sentiment does not take a dramatic turn for the worse.

Chart 1: EUR/USD recovering most of Iran invasion losses as markets sense a deal

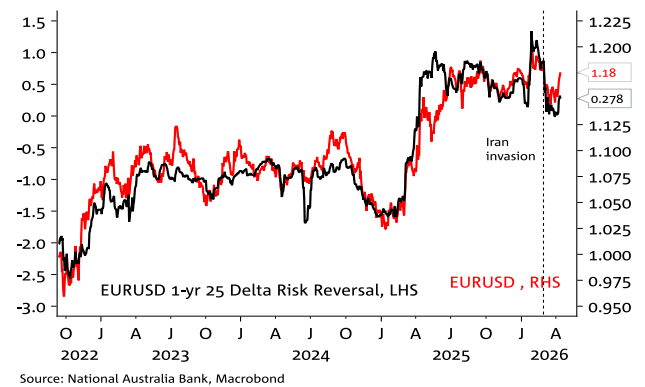


Chart 2: 10yr (and 2yr) EZ-US nominal spread consistent with a higher EUR

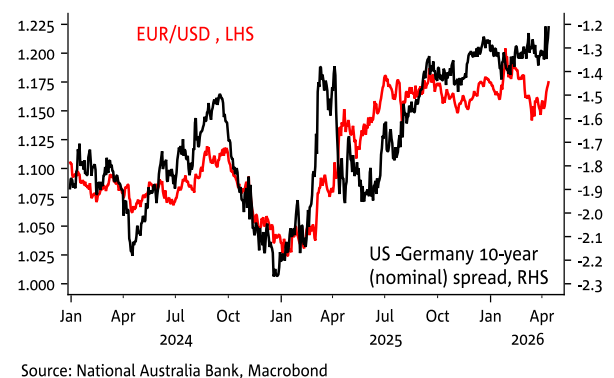


Chart 3: US GDP forecasts may be lowered, but EZ more so

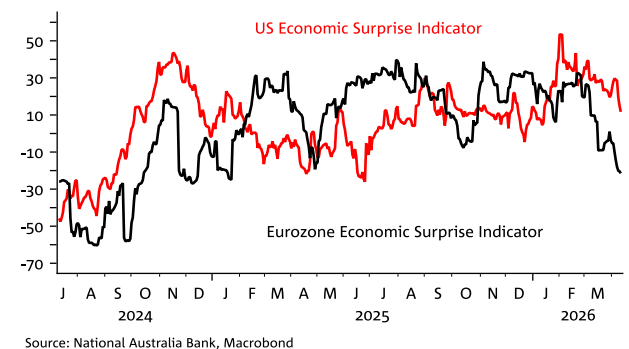
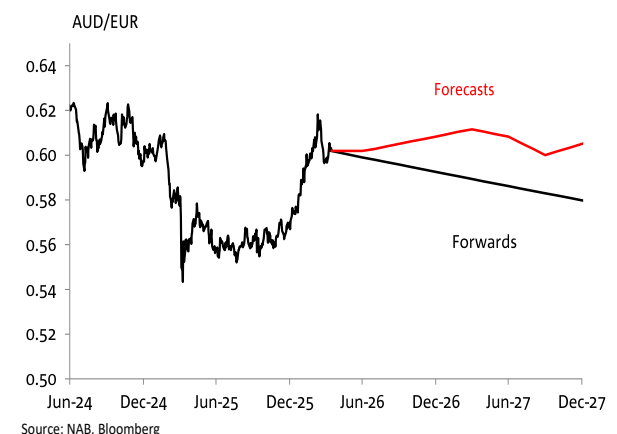


Chart 4: AUD/EUR – Forecasts vs forwards



GBP – Will struggle to hold recent gains

• GBP forecasts lowered a few cents through forecast horizon

That the UK saw the most aggressive interest re-pricing as the war in Iran unfolded is well known. From the two rate cuts that were priced by the end of 2026 just prior to the war, investors swiftly switched to pricing – at one stage – 85bps of hikes this year. The prospects of a Middle East peace agreement have seen that BoE hike pricing slump back to just 30bps at the end of last week into the Pakistan-brokered US-Iran weekend talks. As noted elsewhere in this publication, markets are reluctant to let go of the idea of some sort of US-Iran deal, despite the talks ending at the weekend without agreement.

The 40bps or so pullback from the most aggressive BoE hikes by year end is a larger shift than seen for the ECB. Indeed, for the next 30 April meeting date – when both the BoE and ECB meet to discuss policy – the ECB is priced 11bps to hike, a little more than double the BoE. In the June meetings, the ECB is more than fully priced versus the BoE's 72%. Against that backdrop GBP's recovery against the USD has outperformed that of the EUR, with EUR/GBP easing a little in the last couple of weeks. If the BoE is seen hiking less than the ECB and where the consensus view is hikes in the UK would inflict more damage to the economy than in the EZ, why GBP's relative outperformance?

The absolute level of rates might be one aspect, with UK Bank Rate at 3.75%, against the ECB's 2% Deposit Rate. But the already weaker UK growth trajectory and the fact UK sovereign bond markets continue to sell-off harder than those in Europe (and elsewhere) in such bouts makes GBP's rise more perplexing. Short positioning may be a factor, with IMM shorts at lows last seen in 2022 (Truss) and 2020 (pandemic, when the UK was slow to react initially) and not far short of levels seen post the 2016 EU referendum.

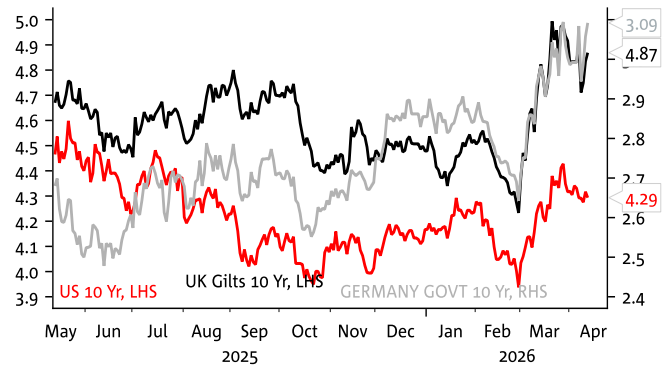
It's possible the GBP rebound reflects the broader market optimism of a US-Iran deal at some stage (price action does nod to 'peak conflict') and thereby, the 'hit' to those economies seen most in the firing line, will be mitigated. The UK is seen as very badly positioned given its energy import dependence, weak fiscal position, already stuttering economic growth (see the collapse in services PMI chart 3) and where there is much anticipation domestic politics is soon to turn more negative. The upcoming 7 May local elections (England), plus Scottish and Welsh Assembly elections will not go well for the government, according to opinion polls and the media.

A move from within the Labour Party to try and unseat the PM and Chancellor, has been widely debated for some time, with the fear that what follows would be higher levels of fiscal irresponsibility. The current geopolitical chaos is one reason such manoeuvres could be delayed, with PM Starmer arguably better placed to represent Britain during these key moments. Prediction markets reflect this possibility. Still, that GBP positioning to our mind is well-placed, given the risks. We have lowered our GBP forecasts by a few cents through to H1, 2027

Rapid BoE repricing drives AUD/GBP back down – for now

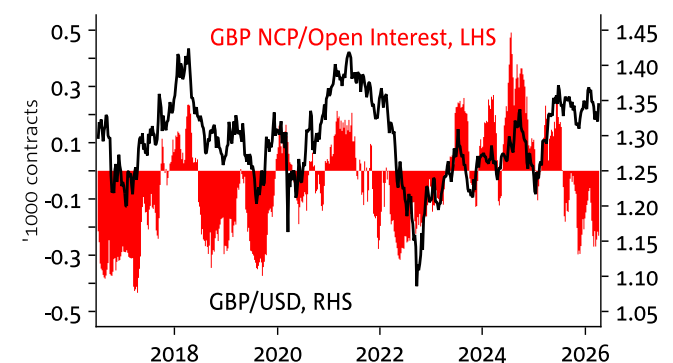
Our view of AUD/GBP rising from its year start of 0.50 to 0.53 by Q3, was briefly met in early March. Higher UK rate pricing gave GBP some support, which we see as temporary. We remain of the view the BoE is highly unlikely to fire the rate hike gun, which could push the UK into recession. Our new AUD/GBP profile foresees a late-2026 peak of 0.55, easing to 0.54 in 2027.

Chart 1: UK yields remain hypersensitive to broader bond market sell offs despite higher absolute yields



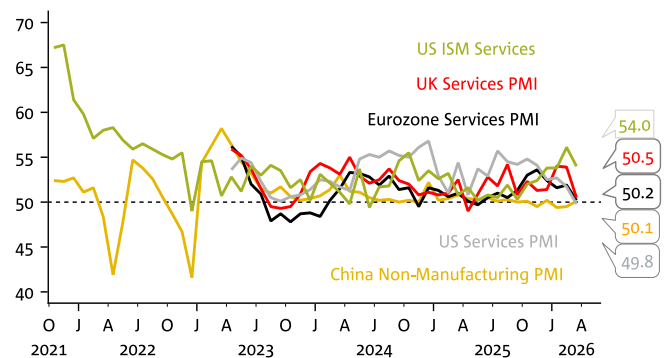
Source: National Australia Bank, Macrobond

Chart 2: IMM positioning may be a factor helping GBP's current bounce



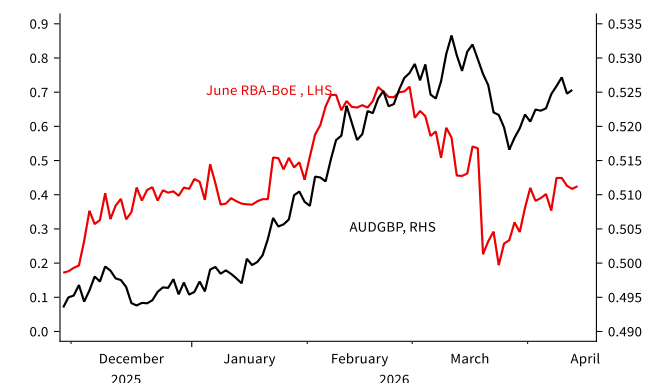
Source: National Australia Bank, Macrobond

Chart 3: Key UK Services PMI activity fell hard in March



Source: National Australia Bank, Macrobond

Chart 4: AUD/GBP vs. June BoE-RBA pricing



Source: National Australia Bank, Bloomberg

JPY – Still 150 to 160

- Our new USD/JPY numbers still reflect an expectation for the pair to remain in a 150 to 160 range over 2026, but now spending more time on the upper half of this range

Development in the Middle East have also forced us to reassess our outlook for JPY. Japan is an energy importing economy with the Iran conflict effectively delivering a negative terms of trade shock – in itself a JPY-negative event.

Our base case assumes a reopening of the Strait of Hormuz over the next two to four weeks. The implication being that the conflict is limited to an inflationary shock and not a big growth shock for the Japanese economy. Admittedly, the growth risks to our base case are to the downside, but for now we retain our view that USD/JPY is essentially a 150 to 160 currency over the remainder of 2026, with upside risk near term and downside risk towards the end of the year.

One key assumption behind our outlook is that the BoJ will deliver two hikes this year. Our base case is for the Bank to hike at the end of April supported by recent data showing inflation remaining well above target with leading indicators suggesting more of the same ahead, favouring the need for the Bank to continue with its slow process of policy normalisation.

The Q1-26 Tankan Survey not only suggests Japanese companies are showing resilience amid the current energy crisis, but worryingly for the BoJ expectations for higher prices over coming years continues to trend higher (Chart 1). Similarly, Rengo wage negotiations suggest another year of (headline) wages growth close to 5% looks like a good bet.

Prior to the Iran conflict, the market was pricing 44bps of BoJ tightening by the end of 2026. Remarkably this pricing has not changed meaningfully in recent weeks. The market is now pricing 49bps of tightening by year end, although the probability for an April 28 hike (28th of the month) has fluctuated from a high of 73% earlier in the month down to 35% currently.

The BoJ has form for being uber cautious, always wary of downside risks to growth and the state of the consumer. Here is where one could make the case for the BoJ to wait for its June or July meeting before hiking again. Consumer confidence collapsed in March (Chart 3) and with the Strait of Hormuz still effectively closed, the case for the BoJ to sit on the sidelines near term is growing.

This plays to the risk that USD/JPY can trade above 160 over coming weeks, but at the same time this also increases the risk of intervention. Verbal intervention has been a theme of MoF officials so far in 2026. Moves to near 161 will likely see a string re-emergence of intervention rhetoric, effectively capping the ability of USD/JPY to trade above 162 on a sustained basis.

As for the cross, we now see AUD/JPY trading around a pivot level of 110/111 in what looks like an effective range of 108 to 114 for the remainder of 2026. In addition to our BoJ outlook, the cross is finding support from a positive energy terms of trade shock for Australia and an RBA that is expected to remain hawkish. The main risk to this view is a severe global growth downturn, for now the RBA remains focused on the risk to inflation, but this could quickly shift toward growth concern if the Iran conflict turns into a drawn out affair with the Strait of Hormuz close for an extended period.

Chart 1: Tankan 5y ahead inflation continues to rise

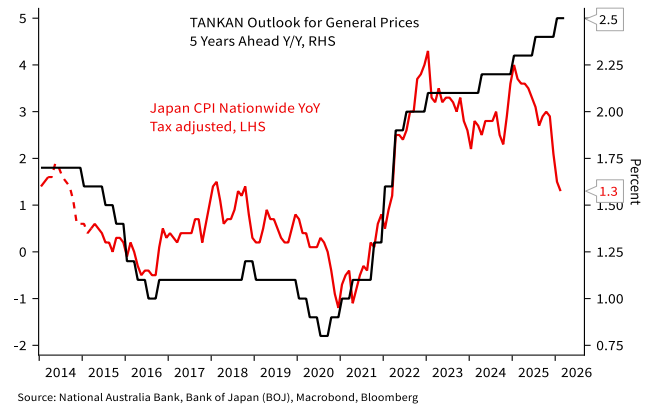


Chart 2: Early Rengo outcomes support wages growth

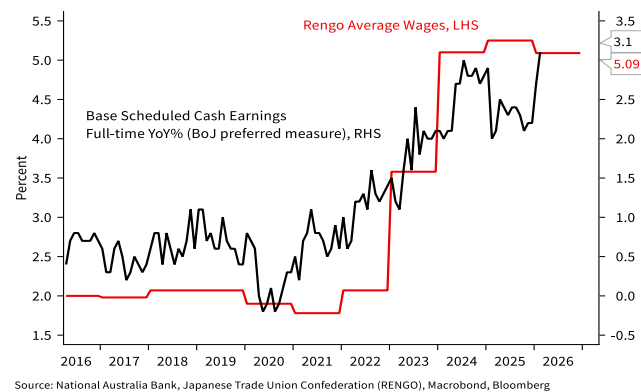


Chart 3: JN Household confidence collapsing

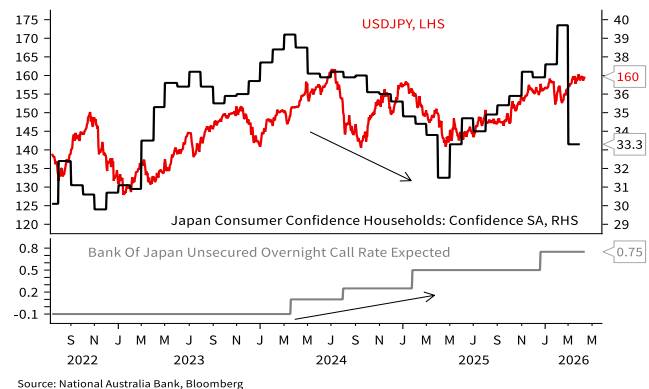
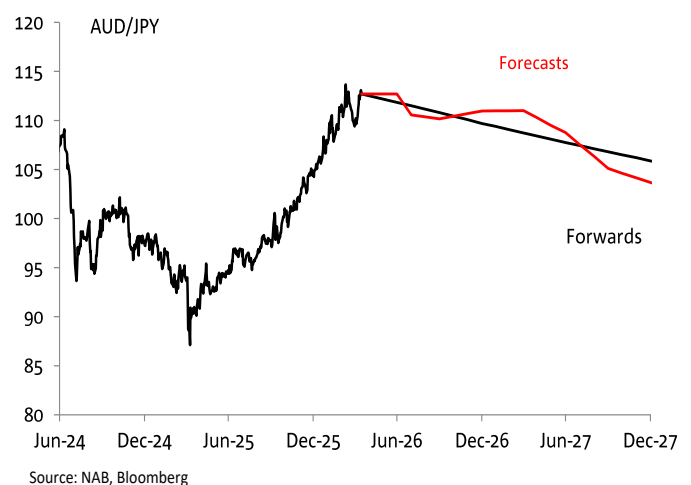


Chart 4: AUDJPY – Forecasts vs forwards



CNY – As you were

- We keep our CNY forecast unchanged and only see a gradual CNY appreciation over 2026. Higher oil prices are more of China growth concern than an inflationary one

Notwithstanding the fact that China is the world largest oil importer, Beijing policymakers have managed to cushion the oil price shock from the Iran conflict thanks to a combination of measures including the use of reserves, ability to cap prices and an increase in oil supply from alternatives outside of the Middle East.

Last week we learned that China's CPI slowed to 1.0% y/y, dragged down by food and services, while PPI rose 0.5% y/y, ending a 41-month deflation run with higher oil and metals prices feeding through at the factory gate. The Iran related energy shock is reflating input costs, but weak domestic demand (dragged down by a perennial house price declines) and intense price competition continue to block meaningful pass through to consumers.

Indeed, is worth stressing that the PBoC is in a very different position relative to others. While many Central Banks around the world are facing a challenging time with their inflation target mandate questioned (essentially caught between the need to hike in order to rein in the spike in prices versus the concern of triggering a severe economic downturn), the PBoC is still more concern over domestic deflationary forces.

Indeed, our base case for the PBoC is to retain an easing bias over 2026 with the Bank more worried over the domestic outlook rather than an inflation overshoot. Higher oil prices is an inflation shock, but we think the Bank will want to see how this shock reverberates through the economy. Effectively we would need to see pricing power by firms to pass on the higher cost, while at the same time workers ability to negotiate higher wages. This still looks like a big ask, indeed our assessment is that the PBoC will still deliver 20bps of easing in the second half of this year given anaemic domestic demand. China still has an overcapacity problem that could potentially worsen if the global economy is facing a downturn from the Iran conflict.

We have not changed our USD/CNY forecasts. We think CNY's appreciation over the past 6 month is moving towards a consolidation face with further gains over the remainder of 2026 largely defined by USD fortunes. Our base case is that we will see a reopening of the Strait of Hormuz before the end of Q2, this should result in the USD losing some of its safe haven appeal with the USD/CNY gradually heading towards 6.60 by year end. This outlook may prove to be too optimistic, but our sense is that the longer the Strait remains effectively closed, the bigger the urgency from most parties, including China, to find a resolution.

For AUD/CNY a move above 4.90 is yet again proving hard to achieve. Our forecast effectively imply AUD/CNY is in a 4.50 to 4.90 range over the next twelve months. Near term the cross has upside risk from wider AU-CH rates spreads given our expectations for the RBA not only to hike in May but also to retain a hawkish bias. Early next year, the expected negative growth impact on both Australia and the global economy, from higher energy prices and tighter monetary policy, are likely to be a bigger AUD than CNY headwind with our forecast projecting levels in the 4.60s rather than 4.90s by mid-2027.

Chart 1: PPI comes out of deflation

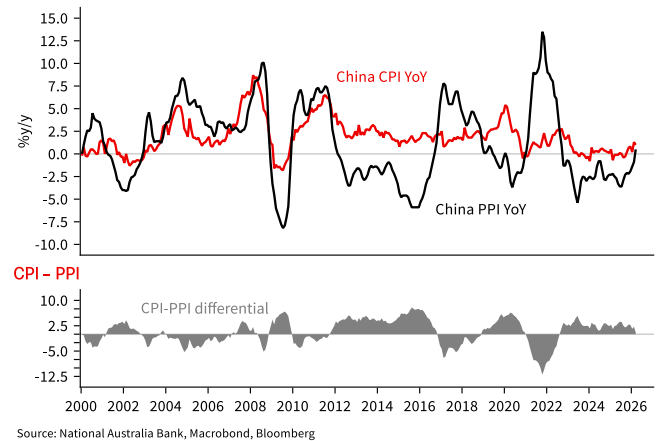


Chart 2: China's inflation expectation still subdued

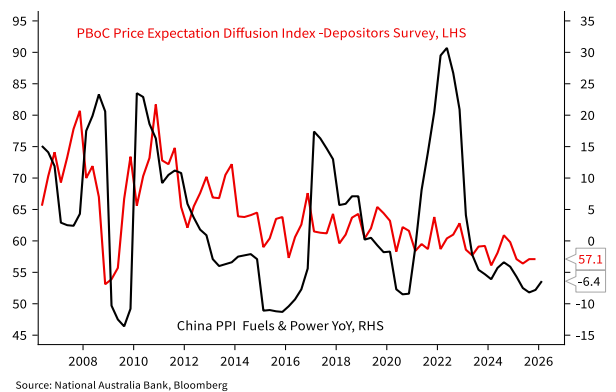


Chart 3: CNY gains set to be more gradual from here

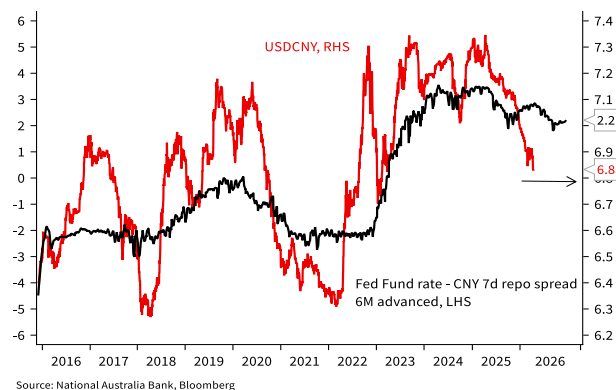
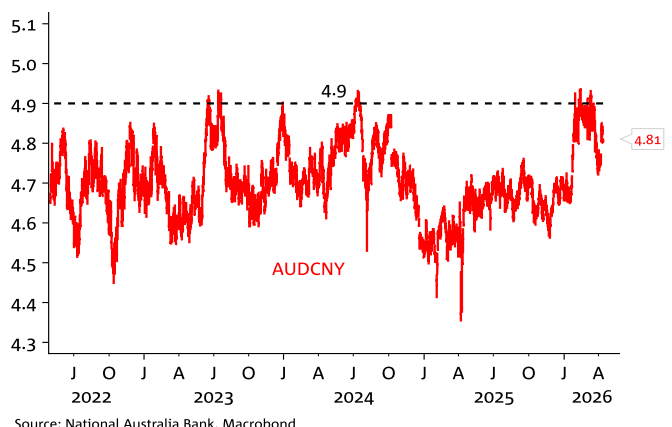
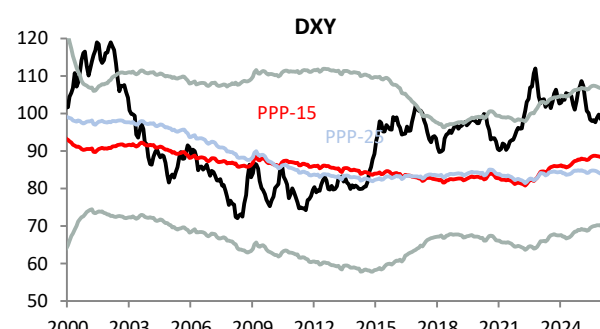
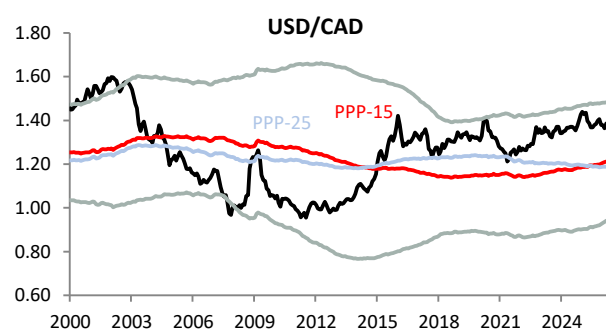
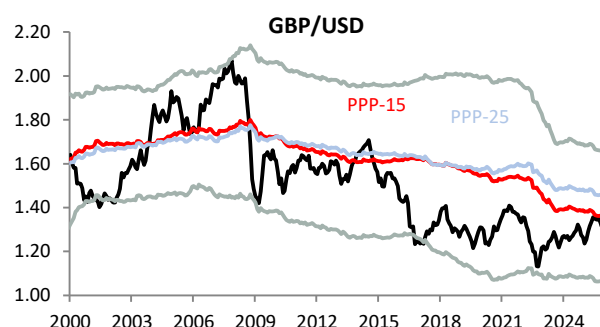
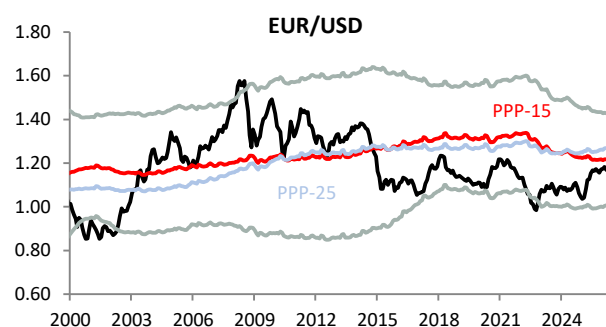
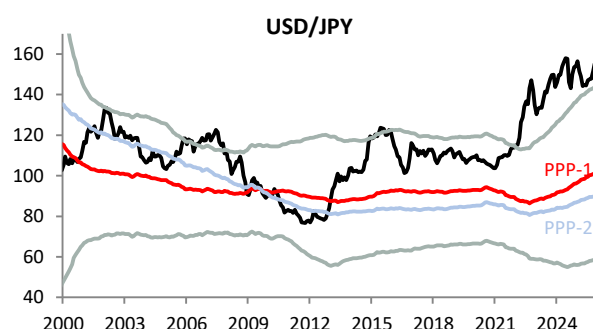
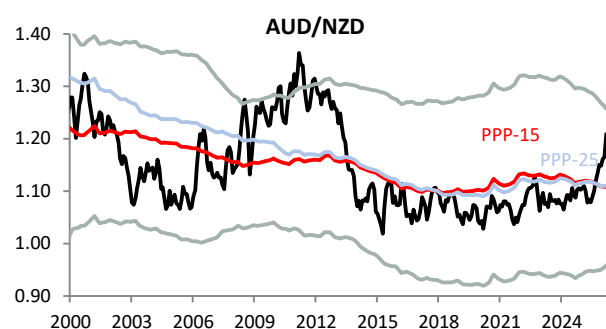
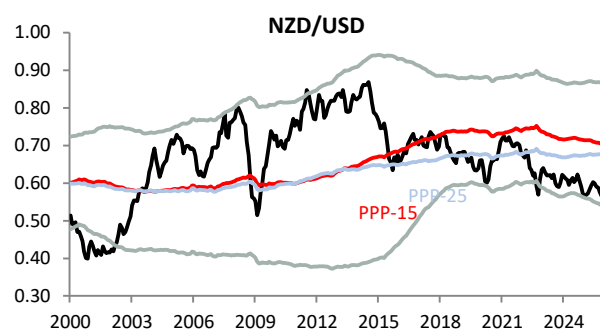
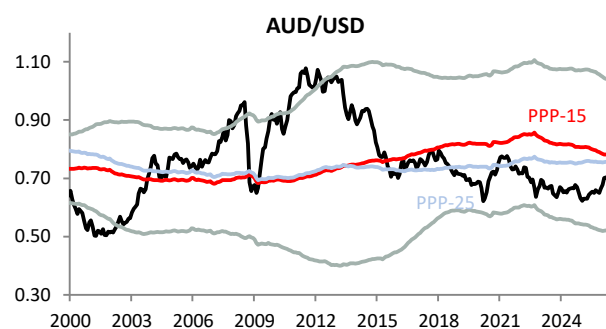


Chart 4: AUD/CNY – The 4.90 resistance level



PPP Estimates



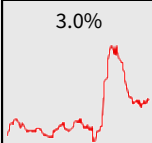
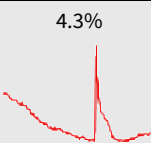
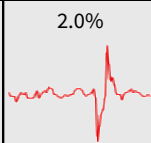
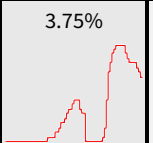
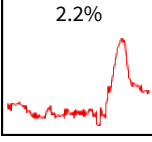
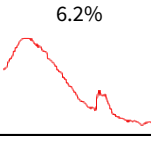
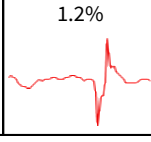
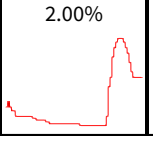
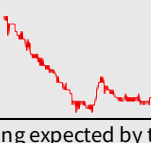
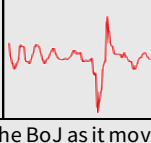
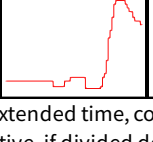
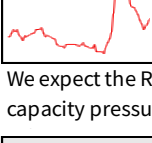
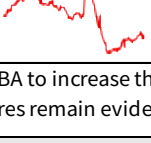
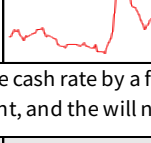
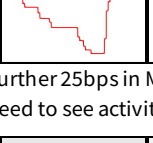
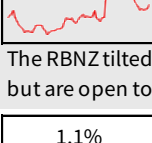
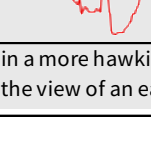
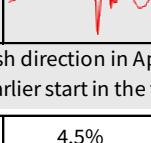
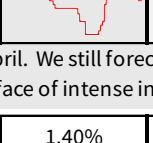
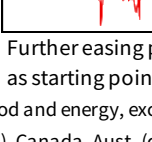
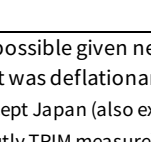
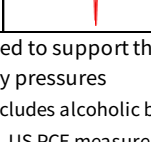
	AUD/USD	NZD/USD	AUD/NZD	USD/JPY	EUR/USD	GBP/USD	USD/CAD	DXY
Actual	0.7040	0.5820	1.2090	159.70	1.1690	1.3410	1.3860	99.0
PPP-15year	0.7820	0.7000	1.1090	102.80	1.2180	1.3660	1.2090	88.7
% Deviation	-10.0	-16.8	9.0	55.3	-4.0	-1.8	14.6	11.7
z-score	-0.6	-1.5	1.2	2.8	-0.4	-0.2	1.2	1.2
PPP-25year	0.7550	0.6770	1.1100	90.80	1.2670	1.4650	1.1890	84.0

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

NAB Spot FX Forecasts

Majors		Current	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
AUD/USD	New	0.713	0.71	0.72	0.73	0.74	0.73	0.72	0.72	0.72	0.71
	Old		0.72	0.73	0.73	0.72	0.71	0.71	0.70	0.70	0.70
NZD/USD	New	0.590	0.59	0.61	0.63	0.64	0.63	0.63	0.63	0.63	0.62
	Old		0.62	0.63	0.63	0.63	0.63	0.63	0.62	0.62	0.62
USD/JPY	New	158.8	156	153	152	150	149	146	144	142	140
	Old		152	150	148	146	145	143	142	140	140
EUR/USD	New	1.180	1.18	1.19	1.20	1.21	1.20	1.20	1.19	1.18	1.18
	Old		1.22	1.20	1.23	1.23	1.22	1.21	1.19	1.18	1.18
GBP/USD	New	1.357	1.33	1.34	1.33	1.36	1.35	1.35	1.35	1.36	1.36
	Old		1.38	1.38	1.38	1.36	1.35	1.34	1.34	1.33	1.33
USD/CHF	New	0.781	0.78	0.78	0.77	0.76	0.77	0.77	0.78	0.78	0.78
	Old		0.76	0.75	0.75	0.75	0.75	0.76	0.77	0.78	0.78
USD/CAD	New	1.38	1.37	1.36	1.35	1.34	1.35	1.37	1.37	1.36	1.36
	Old		1.34	1.33	1.33	1.35	1.37	1.37	1.37	1.36	1.36
USD/CNY	New	6.816	6.75	6.70	6.60	6.50	6.40	6.40	6.40	6.43	6.45
	Old		6.75	6.70	6.60	6.50	6.40	6.40	6.40	6.43	6.45
USD (DXY)	New	98.12	96.0	95.0	94.5	93.5	94.0	93.9	94.2	94.4	94.3
	Old		94.6	92.7	93.4	93.9	94.5	93.3	93.1	92.9	92.7
AUD Cross Rates											
AUD/NZD	New	1.208	1.20	1.18	1.16	1.15	1.15	1.14	1.14	1.14	1.14
	Old		1.16	1.16	1.15	1.15	1.13	1.13	1.13	1.13	1.13
AUD/JPY	New	113.2	111	110	111	111	109	105	104	102	99
	Old		109	110	108	105	103	102	99	98	98
AUD/EUR	New	0.604	0.60	0.61	0.61	0.61	0.61	0.60	0.61	0.61	0.60
	Old		0.59	0.61	0.59	0.59	0.58	0.59	0.59	0.59	0.59
AUD/GBP	New	0.525	0.53	0.54	0.55	0.54	0.54	0.53	0.53	0.53	0.52
	Old		0.52	0.53	0.53	0.53	0.53	0.53	0.52	0.53	0.53
AUD/CHF	New	0.556	0.56	0.56	0.56	0.57	0.56	0.56	0.56	0.56	0.56
	Old		0.55	0.55	0.55	0.54	0.53	0.54	0.54	0.55	0.55
AUD/CAD	New	0.981	0.97	0.98	0.99	0.99	0.99	0.99	0.99	0.98	0.97
	Old		0.96	0.97	0.97	0.97	0.97	0.97	0.96	0.95	0.95
AUD/CNY	New	4.86	4.79	4.82	4.82	4.81	4.67	4.61	4.61	4.63	4.58
	Old		4.86	4.89	4.82	4.68	4.54	4.54	4.48	4.50	4.52
NZD Cross Rates											
NZD/AUD	New	0.828	0.83	0.85	0.86	0.87	0.87	0.88	0.88	0.88	0.88
	Old		0.86	0.86	0.87	0.87	0.89	0.89	0.89	0.89	0.89
NZD/JPY	New	93.7	92	93	95	96	94	92	91	89	87
	Old		94	95	94	91	91	90	88	87	87
NZD/EUR	New	0.500	0.50	0.51	0.52	0.53	0.53	0.53	0.53	0.53	0.53
	Old		0.51	0.53	0.51	0.51	0.52	0.52	0.52	0.53	0.53
NZD/GBP	New	0.435	0.44	0.46	0.47	0.47	0.47	0.47	0.47	0.46	0.46
	Old		0.45	0.46	0.46	0.46	0.47	0.47	0.46	0.47	0.47
NZD/CHF	New	0.461	0.46	0.47	0.48	0.49	0.49	0.49	0.49	0.49	0.49
	Old		0.47	0.48	0.48	0.47	0.47	0.48	0.48	0.48	0.48
NZD/CAD	New	0.812	0.81	0.83	0.85	0.86	0.85	0.86	0.86	0.86	0.85
	Old		0.83	0.84	0.84	0.84	0.86	0.86	0.85	0.84	0.84
NZD/CNY	New	4.02	3.98	4.09	4.14	4.17	4.05	4.03	4.03	4.05	4.02
	Old		4.19	4.22	4.17	4.06	4.03	4.03	3.97	3.99	4.00

Central Bank Monitor

	Inflation and output gap indicators			Central bank rates			
				NAB forecasts			
	Core inflation*	Unemployment	GDP	Policy rate**	bias	next meetings***	year-end forecast
US Federal Reserve	3.0% 	4.3% 	2.0% 	3.75% 	easing	29 Apr 3.75 17 Jun 3.75	end 2026 3.50 end 2027 3.25
We expect 50bps of rate cuts, but now not starting before Q4, given recent high core PCE inflation prints and as the Fed will require time to be comfortable that the rise in oil prices does not impact inflation expectations							
European Central Bank	2.2% 	6.2% 	1.2% 	2.00% 	hold	30 Apr 2.00 11 Jun 2.00	end 2026 2.00 end 2027
On hold - ECB in a good place to look through energy driven increase in inflation as inflation had been projected to be below target. There is no longer an easing bias							
Bank of Japan	1.4% 	2.6% 	0.5% 	0.75% 	tightening	28 Apr 1.00 16 Jun 1.00	end 2026 1.25 end 2027
Further tightening expected by the BoJ as it moves the policy rate towards a more neutral level, albeit only gradually							
Bank of England	3.2% 	5.2% 	1.0% 	3.75% 	hold	30 Apr 3.75 18 Jun 3.75	end 2026 3.50 end 2027 3.25
With inflation now set to be above target for an extended time, concerns over inflation scarring and 2nd round impacts, the BoE has paused rate cuts amid an active, if divided debate. We pushed rate cuts out to Q4 and Q1 2027							
Bank of Canada	2.3% 	6.7% 	0.7% 	2.25% 	hold	29 Apr 2.25 10 Jun 2.25	end 2026 2.25 end 2027
A weak labour market and growth concerns from trade, will keep the BoC on hold for now even as energy prices push up headline inflation up							
Reserve Bank of Australia	3.4% 	4.3% 	2.6% 	4.10% 	tightening	5 May 4.35 16 Jun 4.35	end 2026 4.35 end 2027 3.85
We expect the RBA to increase the cash rate by a further 25bps in May (to 4.35%) before going on hold. Inflation and capacity pressures remain evident, and the will need to see activity slow to build comfort on inflation							
Reserve Bank of New Zealand	2.6% 	5.4% 	1.3% 	2.25% 	tightening	27 May 2.25 8 Jul 2.25	end 2026 2.75 end 2027 4.00
The RBNZ tilted in a more hawkish direction in April. We still forecast an extended tightening cycle from September but are open to the view of an earlier start in the face of intense inflation pressure and sub-neutral start point							
People's Bank of China	1.1% 		4.5% 	1.40% 	easing	na	end 2026 1.20 end 2027
Further easing possible given need to support the economy; rise in inflation post-Iran war less of an issue for PBoC as starting point was deflationary pressures							

* Core based headline ex food and energy, except Japan (also excludes alcoholic beverages), UK (also excludes alcoholic beverages & tobacco), NZ (RBNZ's factorial model), Canada, Aust. (qtrly TRIM measure). US PCE measure used, CPI for all others

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

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

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