Markets Research
Global FX Strategist

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Key Currency Themes

- Our revised G10 FX forecast show the DXY USD index losing more than 10% over the next 18 months or so.
- USD weakness can now carry AUD/USD up to 0.70 this year, but relief for beleaguered AUD crosses is nowhere in sight.
- NZD's expected recovery is running ahead of schedule and we lift our year-end target to 0.65.
- EUR: Right time, right place for a reset. 1.26 eyed in 2025
- Q1 UK GDP may surprise to the upside, but it will be a high-water mark. GBP to under-perform on the crosses as growth weakens.
- We now see USD/JPY heading below ¥130 before year end, even though the BoJ is unlikely to hike again this year.
- Notwithstanding China's economic headwinds, the expected USD decline should lift all currency boats including CNY.

FX VIEWS IN A TWEET

	Near term view (next few weeks)		Longer term view (6-12 months)	
USD Index	→	Signs of US enthusiasm for trade deals (incl. China) and better US equity tone - currently USD positive - conducive to consolidation of heavy March/April USD losses	↓	Rise in unemployment the likely catalyst for resumption of Fed easing and weaker USD, alongside the secular trend in capital flows away from US asset markets
AUD/USD	→	0.6450 area resistance currently proving formidable and so can probably range trade beneath here for next little while, before next USD down leg emerges	↑	Weaker USD assumed, and too policy offsets that prevent a very big global growth hit from Trump tariffs. China maintaining a broadly stable/stronger CNY will also help
NZD/USD	→	Some consolidation in order after the strong April gain, ahead of further upside potential, driven by the USD leg; usual (negative) global-growth sensitivities don't apply	↑	Likely some resistance near 0.64, but with a broad-based USD fall, the NZD can rise up through this level
EUR/USD	→	We don't see the USD's current reprieve lasting long given the backdrop. EUR should find support at 1.12, if not before	↑	We look for the EUR to have run into multi-year resistance around 1.26 and where some of the single currency's upward momentum will have faded
GBP/USD	→	May 8 BoE (-25bps universally expected) could surprise with three MPC members voting for a 50bps cut. GBP/USD should range 1.3150-1.35 for now	↑	With the USD losing further ground across-the-board GBP/USD can finally reclaim 1.40, but will lag the EUR
USD/JPY	→	As we await US trade news, the ¥140 support area likely to hold. A US-JN trade deal could be USD supportive, but the seeds for a structural USD/JPY decline have been sown	↓	BoJ is set to stand pat for the reminder of 2025, but expected Fed easing come H2-25 together with a market looking to de-risk USD exposure favour a stronger JPY
USD/CNY	→	PBoC's strategy of CNY stability should keep the pair mostly contained within a 7.25-7.30 range over coming weeks	↓	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

Old vs New Forecasts

Majors		Current	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
AUD/USD	**New**	**0.638**	**0.66**	**0.68**	**0.70**	**0.72**	**0.73**	**0.73**	**0.73**	**0.74**	**0.75**
	Old		0.65	0.66	0.67	0.69	0.71	0.72	0.73	0.74	0.75
NZD/USD	**New**	**0.590**	**0.61**	**0.63**	**0.65**	**0.67**	**0.68**	**0.68**	**0.68**	**0.69**	**0.70**
	Old		0.58	0.59	0.60	0.62	0.64	0.65	0.66	0.67	0.68
USD/JPY	**New**	**145.5**	**138**	**130**	**125**	**120**	**119**	**118**	**117**	**116**	**115**
	Old		145	142	138	134	130	128	126	126	126
EUR/USD	**New**	**1.129**	**1.18**	**1.24**	**1.23**	**1.25**	**1.26**	**1.27**	**1.28**	**1.26**	**1.25**
	Old		1.09	1.10	1.11	1.12	1.14	1.15	1.17	1.18	1.20
GBP/USD	**New**	**1.328**	**1.37**	**1.43**	**1.41**	**1.44**	**1.45**	**1.46**	**1.47**	**1.45**	**1.44**
	Old		1.29	1.29	1.30	1.31	1.32	1.34	1.36	1.37	1.38
USD/CHF	**New**	**0.829**	**0.79**	**0.74**	**0.75**	**0.74**	**0.73**	**0.72**	**0.72**	**0.73**	**0.74**
	Old		0.88	0.87	0.86	0.86	0.85	0.84	0.83	0.83	0.81
USD/CAD	**New**	**1.39**	**1.36**	**1.33**	**1.30**	**1.28**	**1.28**	**1.28**	**1.26**	**1.24**	**1.22**
	Old		1.43	1.41	1.39	1.37	1.35	1.33	1.31	1.29	1.27
USD/CNY	**New**	**7.271**	**7.25**	**7.15**	**7.00**	**6.90**	**6.80**	**6.80**	**6.80**	**6.80**	**6.80**
			7.30	7.30	7.30	7.25	7.15	7.10	7.00	6.90	6.80
USD (DXY)	**New**	**100.25**	**96.11**	**91.60**	**91.58**	**89.80**	**89.13**	**88.46**	**87.74**	**88.57**	**88.90**
	Old		103.40	102.41	101.19	100.00	98.22	97.17	95.57	94.84	93.59

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USD – Plenty more where that came from

- **Our revised G10 FX forecast show the DXY USD index losing more than 10% over the next 18 months or so**

The combination of a US economy no longer exceptional, the expected resumption of a Fed easing cycle later this year, alongside a (paradigm?) shift in global real money investor preferences away from being 'all-in' on US equity and broader asset market exposure, underpins the finalisation of forecast revisions flagged in our 16 April FX Update. They show the DXY USD index losing some 11.5% over the next 18 months.

Acute uncertainty about how the current 90-day moratorium (through July 9) on country if not sector specific tariffs in excess of 10% (ex-China) will play out, and whether the US and China land on tariff numbers that at least allow a resumption of two-way trade outside sensitive sectors from what currently amounts to a trade embargo, creates a 'start point' problem for any forecast for Q3 and beyond. Our 'best case' working assumption is that we end up with 10% US import tariffs on most countries which avoid strong retaliatory responses, and an effective US import tariff rate on China of 50-60%.

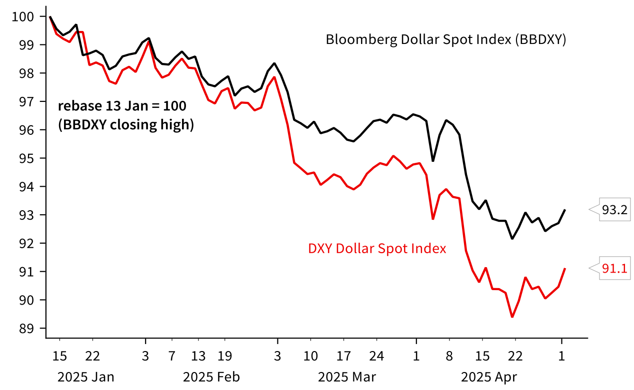
If so, any relief risk rally and which also supports the USD is seen short lived. Sub-trend US growth in H2 2025 and beyond looks baked in the cake and once unemployment starts rising as we project, the Fed is expected to prioritise its maximum employment mandate on the premise that economic weakness will take care of what will be viewed as a transitory tariff-driven rise in inflation. While there is almost 100bps of easing already priced into US money market, history shows that when the Fed is easing, the USD invariably weakens.

Overlaid against what is an essentially cyclical downturn in the US dollar linked to loss of economic exceptionalism and Fed easing, is what is shaping up to be a more secular trend whereby non-US investors pull back from extreme long US asset market exposure, which in equities at least is seen to be at most lightly hedged. This reinforces a shift in US investor behaviour – beginning almost a year before Trump 2.0 arrived - that has seen them turn consistent net buyer of overseas stocks and bonds, having been net sellers for much of the prior decade. Chart 2 shows US TICS data as of February. An exodus of foreign capital from the US is nowhere in evidence, but the US equity market correction only began in March, and the US Treasury bond sell-off not until April. Chart 3 shows that if we are moving into a regime where US equities underperform the rest of the world, then the USD should continue to weaken.

Allied to these cyclical and more secular developments is the extent of USD fundamental overvaluation, which the 7.5% fall in the Bloomberg BBDXY index since mid-January and 10% fall in DXY (Chart 1) has gone only a modest way to addressing. As per Chart 4, the USD's broad real exchange rate is still some 15% above its long term average, while the DXY index is similarly about 15% above our own PPP calculations (see p.9).

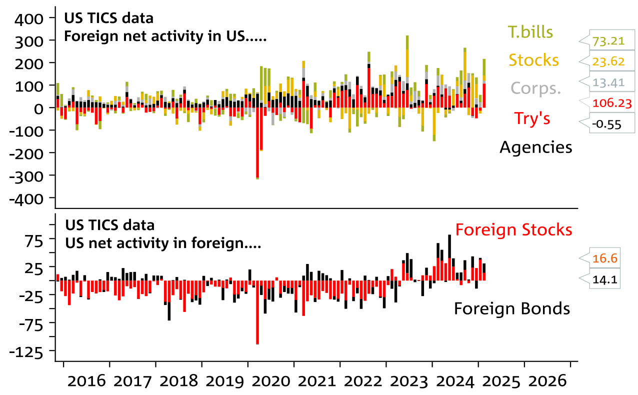
Finally, to what extent actions taken by the Trump regime to date, including apparent contempt for laws that lie at the foundation of government, plays into a loss of confidence in US assets and the USD we leave the reader to judge. We are though reminded of ex-Citibank chief Walter Writson's quip that, "Capital goes where it is welcome and stays where it is well treated". He was referring to human as well as financial capital.

Chart 1: DXY & BBDXY since 13 Jan. USD highs



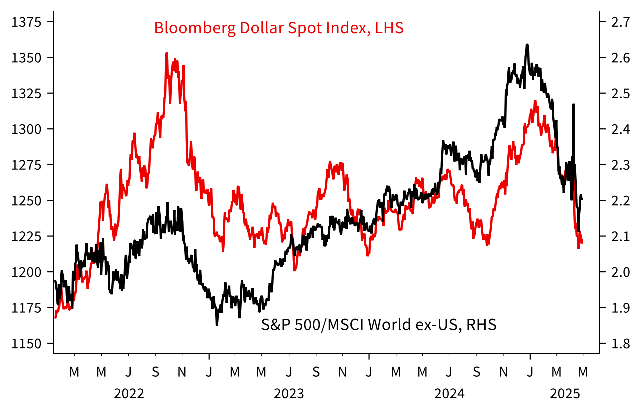
Source: National Australia Bank, Bloomberg

Chart 2: US buys into ROW before ROW sells America



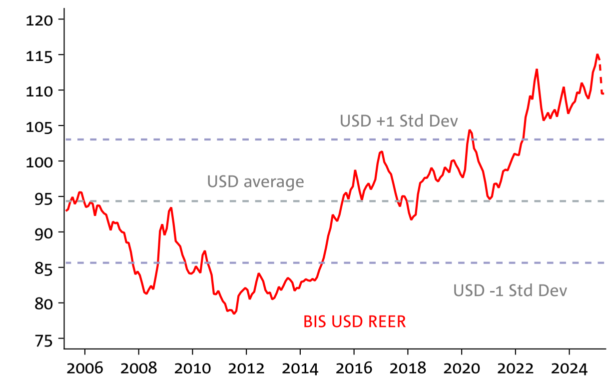
Source: National Australia Bank, Macrobond, TICS

Chart 3: S&P 500/MSCI World ex-US vs BBDXY



Source: National Australia Bank, Bloomberg

Chart 4: USD Broad REER still ~15% above l/t average



Source: National Australia Bank, Macrobond, BIS

AUD – 0.70 now seen, crosses stay down

- **USD weakness can now carry AUD/USD up to 0.70 this year, but relief for beleaguered AUD crosses is nowhere in sight**

In our 16 April FX Update flagging significant revisions to our G10 FX forecasts, we said this did not necessary imply major changes to our AUD/USD forecasts, given two opposing 'tectonic' forces operating on the pair: upside pressure from the generally weaker USD but downside risk depending on the scale of global growth downgrades necessitated by the unfolding trade war.

In the event we have lifted our AUD/USD profile, now seeing a good chances AUD/USD will hit 0.70 by year end (previously 0.67) and as high as 0.75 in 2026. At the same time, we struggle to foresee any significant relief from the big hits AUD has taken on various crosses rates during March and April much before 2026 - versus EUR, CHF, JPY and GBP. In essence, global growth concerns and related doubts as to how quickly risk sentiment (EM especially) can recover, is an ongoing weight atop AUD crosses even if, as we now expect, the extent of anticipated USD weakness this year and into 2026 can lift AUD/USD above our prior forecast iteration.

As per Chart 1, AUD/USD has been orbiting the 0.64 level in the past fortnight and struggled to meaningfully test technical resistance around 0.6450. This is a necessary first stepping-stone to our 0.66 end Q2 point forecast, yet it shouldn't take much by way of further USD slippage for this to come about. At the same time, the chart illustrates that once again, AUD/USD doesn't like spending time below 0.60. It hasn't been there for any length of time since the early 'noughties' and very quickly rejected the move below in early April when China and the US were hurling ever bigger tariff insults at each other and stock markets everywhere were under intense pressure.

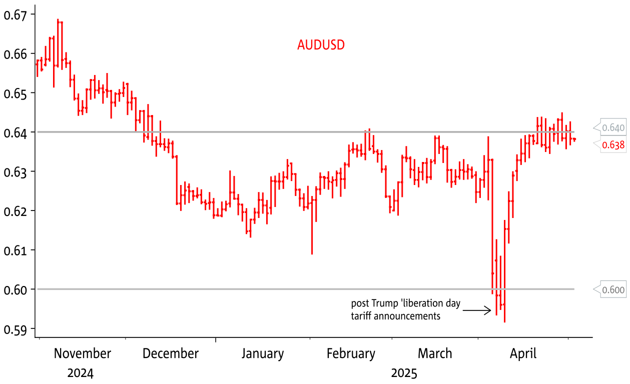
As EM related risk metrics have improved after the early April crunch so too has AUD/USD (Chart 2). Alongside which, for the second time in the past year (previously witnessed in August) sharp falls in US equities linked to US recession concerns have proven to be USD negative not positive, also helpful to AUD/USD. That said, NAB's EM risk index has barely recovered half of the late March and early April drop, and while the relatively outperformance of non-US equities (Chart 3) has been a USD-depressing factor, it has barely helped AUD/USD (and not at all on the crosses).

All his but to say, that in modelling terms EM risk metrics in absolute terms, and weakness in commodity prices as a proxy for global growth worries, have conspired to push our short-term fair value estimate of AUD/USD back down to near 0.60 (Chart 4). This highlights ongoing vulnerability to negative global growth developments beyond those already 'in the price'.

The IMF for example, last week downgraded its 2025 global growth forecast to 2.8% from 3.3% and 2026 to 3% from 3.3%. If further downgrades look necessary – say because bilateral trade negotiations with the US between now and July 9 don't bear a lot of fruit, our revised AUD forecasts stand to be challenged, including risk of deeper cross rate falls that witnessed to date.

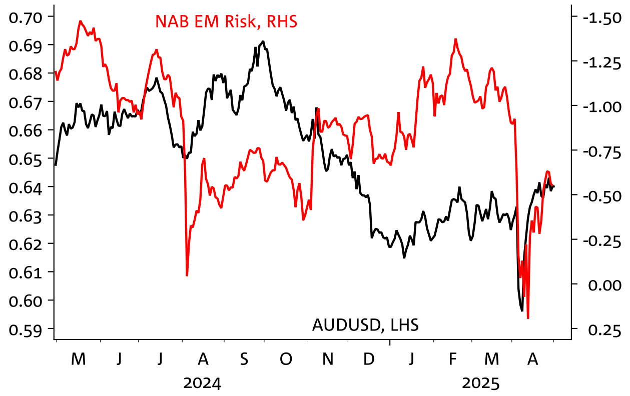
RBA policy meanwhile looks like being at best a side show for AUD given how much easing is priced in through year end (more than 100bps). What the Fed does or doesn't do is apt to be far more important.

Chart 1: AUD/USD quick to reject sub-0.60 (refrain)



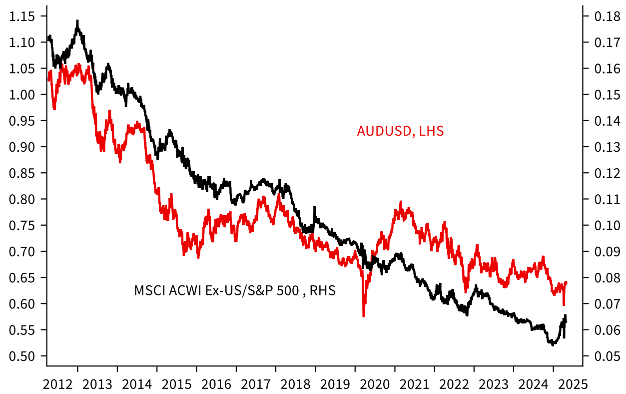
Source: National Australia Bank, Macrobond

Chart 2: AUD/USD vs EM risk metrics – still in synch.



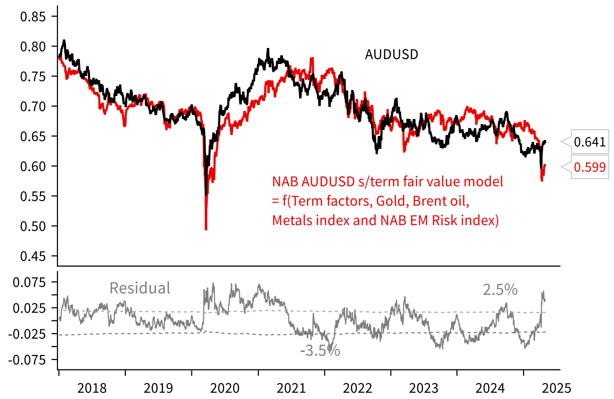
Source: Macrobond

Chart 3: AUD/USD vs relative US/World equities



Source: National Australia Bank, Bloomberg

Chart 4: NAB AUD/USD EM model wants weaker AUD



Source: National Australia Bank, Macrobond

NZD – A faster than expected recovery

- **The NZD's expected recovery is running ahead of schedule and we lift our year-end target to 0.65**

April trading conditions were remarkable, with the NZD momentarily breaking below key support of 0.55 in the aftermath of President Trump's Liberation Day announcement before staging a strong recovery to print a high under 0.6030 – a high/low swing of about 10% intra-month. It is against that backdrop we are making forecast revisions, a hazardous exercise.

Cutting through the noise, not only through April but also since Trump's inauguration day, the NZD is clearly in an upswing, driven by the weaker USD leg. Our prior forecasts, unchanged since November, had showed the NZD not reaching 0.60 until the end of this year and a rally extending to 0.66 next year. The expected recovery is clearly running ahead of schedule, and we upgrade our NZD projections against a backdrop of broad downward revisions to the USD outlook.

Our new central forecasts show the upswing in the NZD continuing this year, with a new target of 0.65 by year-end and extension of the USD downturn eventually sees 0.70 by about mid-2027. Point forecasts in the current environment are largely meaningless, but we have strong buy-in to the theme that a weaker USD will lift all currency boats. In terms of the technical picture, we see 0.64 as a key level of resistance, but ultimately we see that broken before the end of the year.

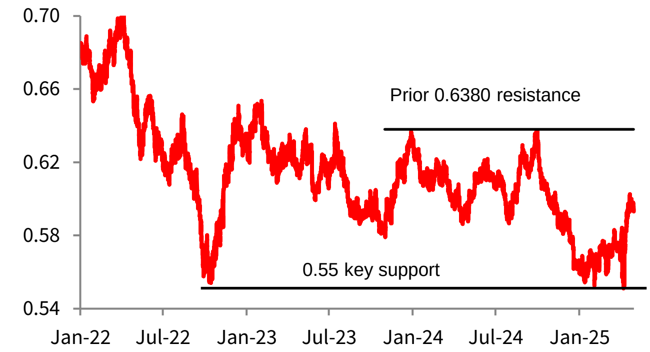
This is an unusual cycle as downward revisions to the global growth outlook – as currently underway – are usually NZD-negative. If this was a normal cycle and we saw prospects for a weaker global growth trajectory ahead, we would be downgrading the NZD, not upgrading. In the current cycle the US economy and its policy agenda is at the heart of global growth revisions, alongside deep negative structural forces we see for the USD ahead.

At the beginning of the year, we were nervous that the yuan might be used as a weapon by China in any US-China trade war. We are no longer concerned about that possibility. Firstly, the PBoC is still maintaining a tight grip on the currency and shows intent for a stable currency; and secondly, the broad USD downturn, alongside a relatively stable USD/CNY, means that China's currency basket is on a notable downward trend as the yuan weakens against other majors. This will act as a shock absorber for China's economy, negating the need for the PBoC to facilitate a higher USD/CNY path. Thus, we no longer see spillover risk of a weaker yuan for the NZD.

Domestic forces are largely a sideshow. NZ is pulling out of a long economic downturn, and we still expect an economic recovery this year, off a low base, even if the US economy enters recession. Our long-standing view has been that the RBNZ's OCR can fall to 2.75% this cycle. This is now fully priced. Against a backdrop of a stronger NZD, the RBNZ has options to take the OCR lower, should that be required. Non-tradeables inflation continues to edge lower and a stronger NZD should keep tradeables inflation well contained.

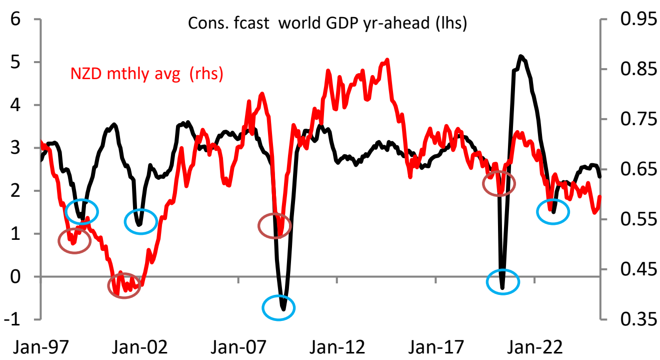
We continue to have a flat AUD/NZD profile in our projections, near the current level, as we have no strong directional view, with the NZ and Australian economies facing similar forces.

Chart 1: NZD key support at 0.55, resistance at 0.58



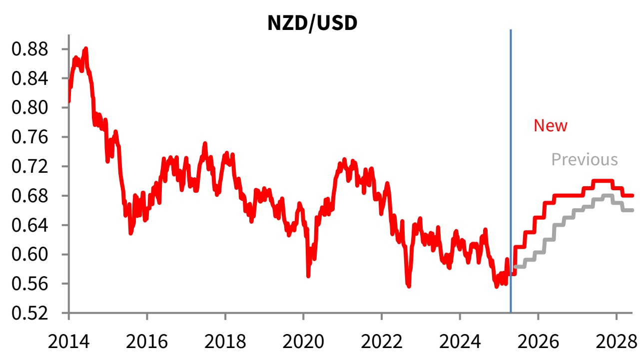
Source: Bloomberg, BNZ/NAB

Chart 2: We're ignoring the usual positive correlation between NZD and world growth downgrades



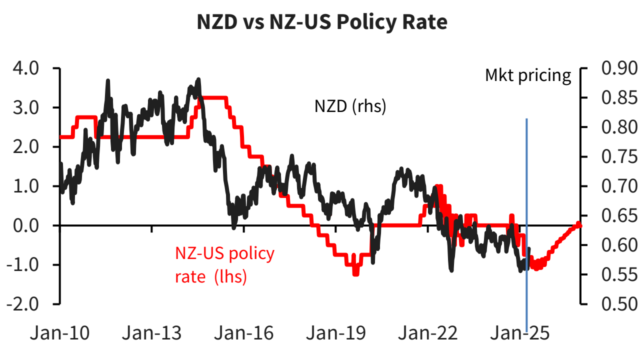
Source: BNZ/NZB, Bloomberg

Chart 3: Off a low base, onwards and upwards for the NZD



Source: BNZ/NAB, Bloomberg

Chart 4: Market pricing on policy rates consistent with stronger NZD



Source: NAB, BNZ, Bloomberg

EUR – Eu-phoria

- **Right time, right place for a reset. 1.26 eyed in 2025**

As outlined on page 2, we believe the USD is undergoing a regime shift. Perhaps a more accurate assessment is a forced revaluation thanks mostly to a bombardment of controversial policy choices by the Trump Administration. The list of US policy preferences is long and includes factors such as the rupture of the decades-old US-European defence agreement and a reassessment of global trade relationships.

Previously tabooed or no-go areas such as adopting a predatory approach to lands it believes the US needs on security or geopolitical grounds all point to there being no quick reversal to what we see as a still unfolding trend. The self-inflicted US economic slowdown that has upended the previous period of US outperformance and has opened the door to questions of policy predictability is thereby joined by a growing investor lack of trust; again, something that will take a long time to reverse.

The blowing up of the western defence architecture, which has forced Europe to confront the vexed question of how it builds its own defence capability has had the ironic effect of injecting previously missing economic focus and potential dynamism into European policymaking. Germany's game-changing decision to remove its debt brake on defence spending and the EUR500bn it will invest in general infrastructure frees up potentially almost EUR2tln of fiscal headroom, while still keeping the debt limited to 85% of GDP, from the present 63% and well below its peers.

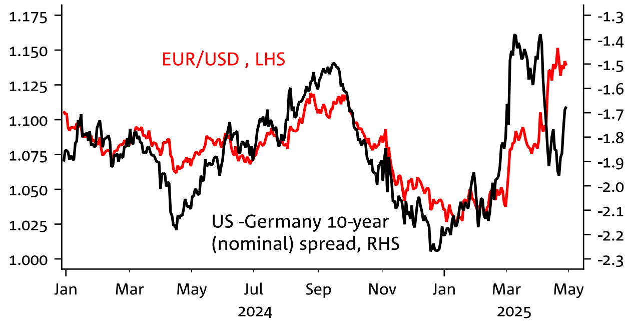
The EU Commission's 'Operation Compass' initiative that takes on board some of the suggestions of the Draghi plan that aims to make the EU more competitive, may be a slow-burner, but together with Europe's new-found purpose in re-orienting its significant auto-technology towards areas such as defence, are all convenient but helpful attractions for capital leaving the US and looking for a new home. As we have written before, the playbook here is 2017, when in President Trump's first year of his first term, Trump was unable to fulfil expectations he'd spend big on infrastructure.

In the event the US President he spent his first year spinning his wheels, while in Europe, where the expectation was political chaos ahead of myriad 2017 elections, things turned out much better than forecast. The arrival on the scene back then of Emmanuel Macron, who upended French politics was seen as the model to adopt. EUR/USD rose from 1.03 to almost 1.26 in the space of one-year and was over 1.20 in 8-months.

Arguably, this time around and with the enormity and significance of what is unfolding, the big USD has further to fall. This time around, we also have a willing participant in Trump in seeking a lower greenback. While EUR/USD has paused between 1.13-1.15 as Trump sounds more conciliatory on China tariffs and the position of Fed Chair Powell, we believe the EUR will continue to be very much at the forefront of this 'explosive' phase of a USD realignment.

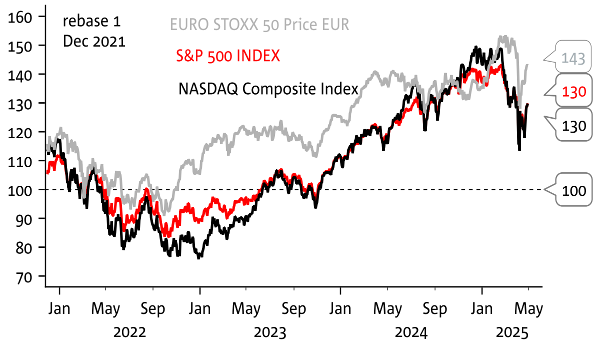
To that end we see EUR/USD rising first to 1.20 in the coming weeks and then the 1.25-1.26 2017 highs in Q3. In Q4, we think some of the momentum here fades and EUR/USD settles 1.20-1.26. In 2026 other currencies such as the JPY take over the lead, against the USD, but EUR maintains ground, edging towards 1.30 by end of next year.

Chart 1: EUR/USD is not a relative rate story



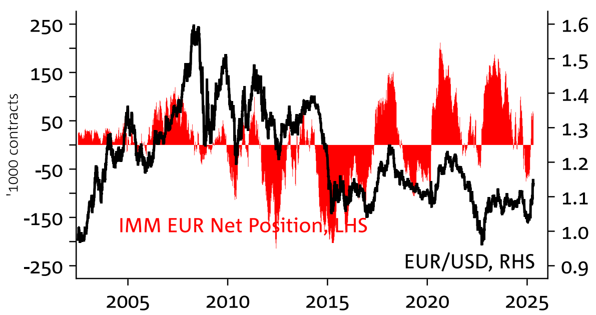
Source: National Australia Bank, Macrobond

Chart 2: Investors see value in Europe



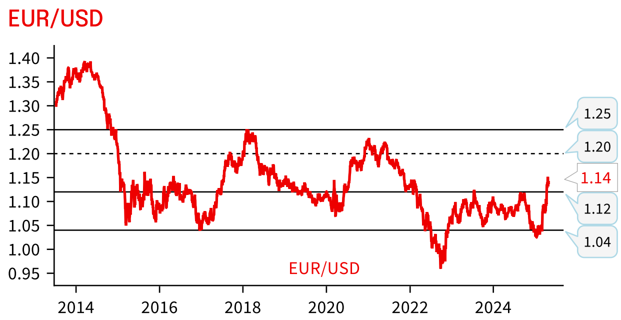
Source: National Australia Bank, Macrobond

Chart 3: EUR positioning has further to extend



Source: National Australia Bank, Macrobond

Chart 4: EUR/USD's 1.20 and 1.25/1.26 targets



Source: National Australia Bank, Bloomberg, Macrobond

GBP – A more activist BoE?

- **While Q1 UK GDP may surprise to the upside, it will be a high-water mark. GBP to under-perform on the crosses as the UK remains boxed in and growth weakens**

Our pessimistic view of the UK economy has been present for some time. We were heartened by last autumn's change to the UK fiscal rules that allowed additional borrowing for long-term capital investment (but not day-to-day spending). And the then still new Labour government's zeal for growth with deregulation of planning laws and financial services offered promise of a kick-start to the economy. But those plans have yet to bear fruit.

Meanwhile, the combination of significant tax rises for employers and steep increases in the various tiers of the National Living (minimum) Wage as well as a raft of tougher employment rights and myriad other tax changes have clobbered sentiment. While many of those changes were announced late last year, we are only just about to start to see them being implemented. As they are, households are also facing into a bevy of higher utility bills and still high borrowing costs. No wonder business and consumer sentiment indexes continue to weaken.

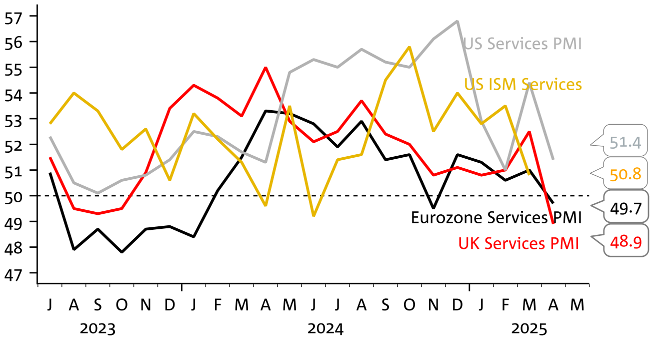
This backdrop has started to seep into UK labour market data. While wages have stayed (too) elevated and thereby via higher real incomes offers some explanation as to why aggregate UK GDP has outperformed expectations (Dec rose 0.4% m/m, with Feb +0.5%), the recent acceleration in the decline in payrolled employees seems to be frightening the horses. Those Dec and Feb GDP outturns – to the extent the data can be trusted and not revised lower– suggest Q1 GDP may well be above the BoE's 0.3% forecast.

The incoming uncertainty from tariffs – even if the UK's level of goods exposure is limited and it does well in services trade with the US – suggests Q1 growth will be a high-water mark. This is underscored by the recent tanking of the UK services and manufacturing PMIs (Charts 1 and 2). It is unclear why the UK is suffering disproportionately here, but businesses, the country feels boxed in. Taxes are historically high, and bracket creep is dragging in more people to paying tax/higher tax brackets. Meanwhile, bond markets remain mistrustful of UK governments and the threat of an economic doom loop between high debt and low growth.

The fact that disinflation in the UK seems to have ended for the moment, with higher headline, core and services due for a few months would seem to limit the chances of BoE rate cuts. But rhetoric from the Bank suggests it is increasingly aware that growth is potentially in peril (even if Q1 turns out better). There is a strong sense from MPC member comments that the threat of second-round effects from the coming higher prices is minimal and the BoE will look through this. Even hawk Megan Greene thinks US tariffs are more likely to be deflationary.

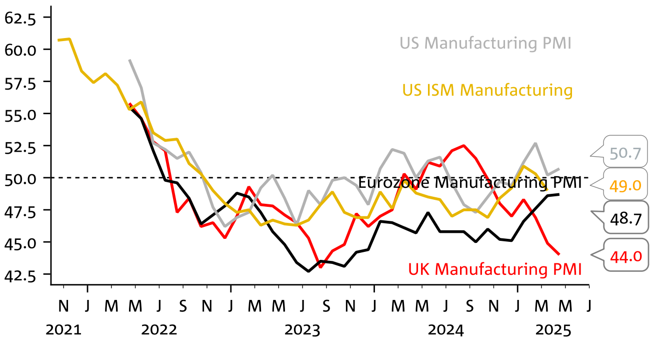
Our view of three more BoE cuts this year (May, Aug, Nov) to 3.75% and another couple in 2026 remains. But we are becoming more alert to the risk of larger cuts or a quicker pace as worthy of consideration. Expect two, perhaps three members to vote for 50bps on 8 May. Jun, Aug, Sep and Nov are live. The UK's fiscal isolation will help ensure GBP will continue to lag the EUR in a broad USD slide, with EUR/GBP pushing up to the 0.87 area. GBP/USD rises to 1.43 by Q3 and the mid-1.40s in 2026.

Chart 1: UK Services activity has dropped sharply



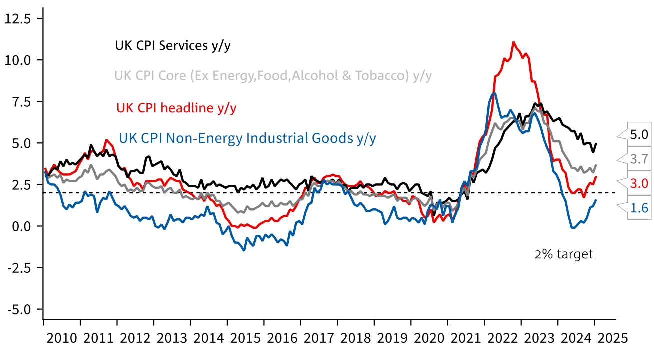
Source: National Australia Bank, Macrobond

Chart 2: UK manufacturing is in the tank



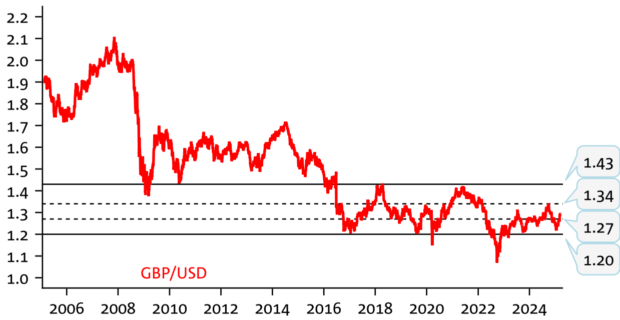
Source: National Australia Bank, Macrobond

Chart 3: UK inflation will run higher in 2025, but the BoE is looking through this



Source: National Australia Bank, Macrobond

Chart 4: GBP/USD's range; eyeing 1.43 in coming months



Source: National Australia Bank, Macrobond

national australia bank

JPY – Stonger even as BoJ stands pat

- **We now see USD/JPY heading below 130 before year end, even though the BoJ is unlikely to hike again this year**

In our previous FX update we postulated that the US decision to embark on an aggressive and worldwide trade realignment has effectively sown the seeds of further JPY appreciation vs USD, likely in the order of another 10% to 15% from current levels. Our base case is that even after the July 8 trade tariff reprieved deadline, a level of tariffs will remain in place with global growth and trade the net losers. USD's loss of safe-haven appeal alongside lower global growth are likely to favour JPY.

In the same publication we also suggested that USD/JPY is likely to do some work around the ¥140 area, before embarking on a new leg lower, heading below the ¥130 mark. We have now formally adjusted our USD/JPY forecast with USD/JPY expected to reach ¥130 by September this year, ending 2025 at ¥125. This is a 12% decline from current levels but worth noting that back in early 2021, USD/JPY rose from a low of ¥103 to ¥150 in a matter of 22 months, thus our expectations for JPY gains are not unprecedented, indeed even at ¥125,USD/JPY would still be regarded as "Cheap" relative to our calculated PPP level of ¥97 (using a 15-year look back window).

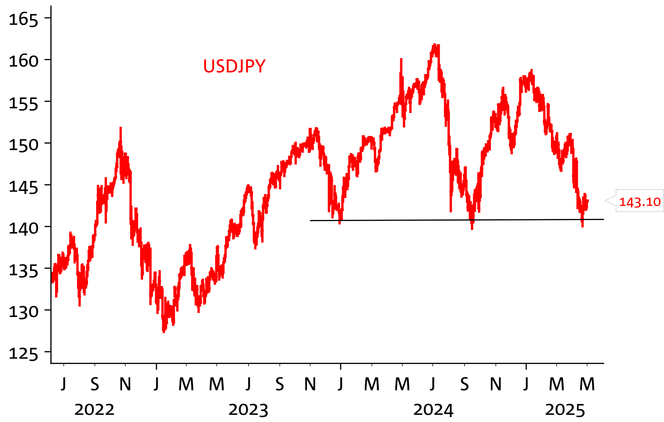
This week the BoJ left its policy rate unchanged as expected, but language in the statement had a cautions undertone with the Bank noting "risks to prices skewed to downside for FY2025, 2026.". Previously the BoJ had stated that "Risks to prices are skewed to the upside for fiscal 2024 and 2025.". In line with this cautiousness the Bank also lowered its GDP forecast with FY2025 GDP growth seen at 0.5% vs 1.1% previously while FY2026 is now expected to be 0.7% from 1.0% previously. Importantly too (but not surprising), the Bank is now at pains to stress the heightened level of uncertainty, noting that it is "extremely uncertain how trade and other policies in each jurisdiction will evolve" and how overseas economies will react.

The market is now pricing 12bps of BoJ hikes by year end, a month ago it was pricing just under 40bps, so a fair bit has been taking out amid the uncertainty cited by the BoJ. In our view current pricing looks about right, there is still a chance the BoJ could look to resume hiking by year end, domestic inflationary pressures remain elevated (see Chart 2) but given trade tariff uncertainty it is more likely that this becomes a story for 2026 rather than 2025. Oil prices are another consideration, with the recent decline in prices likely to help ease price pressures over coming quarters.

For JPY, BoJ dynamics are important, but the currency remains a solid alternative to a market looking to lower USD exposure. On this score is probably worth stressing that so far Japanese equities have shown a great deal of resilience, Bloomberg notes that about 30% of Japan's companies have released first-quarter results, and both earnings and sales have surprised to the upside. And although a weaker yen continues to benefit exporters, surveys have shown that most Japanese firms viewed yen weakness as a negative for their businesses.

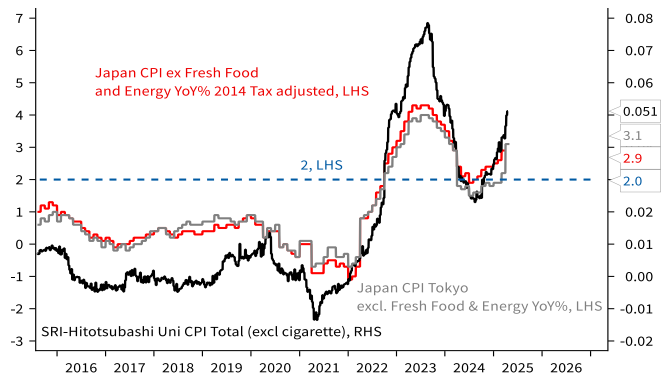
Another consideration favouring a stronger yen is the fact the currency is extremely undervalued, and we are now starting to see evidence of a move back towards fair value. Linked to this while the BoJ looks set to sit on its hand this year, relativities matter too. We still expect the Fed to reembark on an easing cycle in H2 this year. Relative US-JN (2-10s) rate slopes favour our view for a move below 130.

Chart 1: ¥140 is an important support level



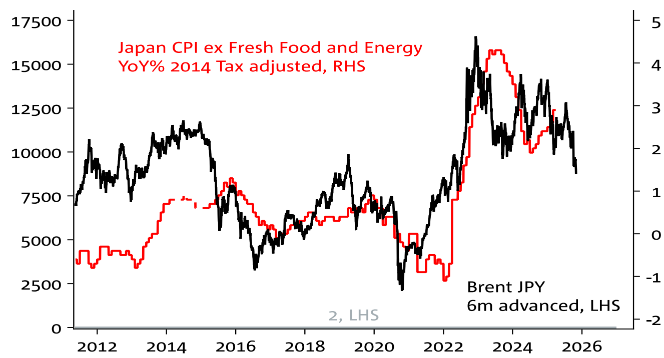
Source: National Australia Bank, Macrobond

Chart 2: Mixed CPI signals – domestic price pressures rising



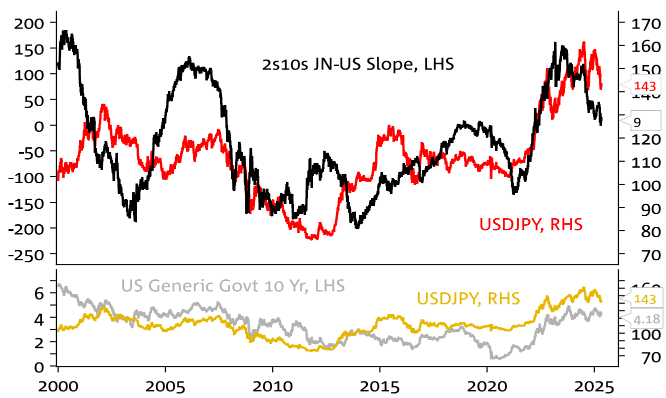
Source: National Australia Bank, Bloomberg, Macrobond

Chart 3: Mixed CPI signals - but oil prices declining



Source: National Australia Bank, Macrobond

Chart 4: Fed vs BoJ – relative rate slopes matter



Source: National Australia Bank, Macrobond

CNY – USD tide lifts all boats

- **Notwithstanding China's economic headwinds, the expected USD decline should lift all boats including CNY**

The PBoC policy of CNY stability has provided Beijing with a strong argument to present itself as one of the "adults in the room" and a reliable partner in an environment where the US administration is looking to change global trade relationships.

As noted in our USD write up (see p2), we now expect the USD to embark on a structural decline and this means that the PBoC will have to gradually change the CNY "stability" rhetoric. Here is where CNY crosses are an important consideration. If the CNY was allowed to stay stable at around 7.30 while the USD depreciates against other currencies, this effectively would result in CNY depreciating versus other currencies, not a desirable outcome when other major trading partners (Europe and Asia) have already expressed concerns China's over-capacity will be "dumped" in their markets.

Thus, as we move towards the end of 2025 and the USD endures a broad decline, our outlook sees USD/CNY heading towards 7, reflecting the CNY low beta sensitivity to USD moves (see chart 1) and a PBoC desire to keep CNY stable against other trading partners' currencies. CNY correlation to DXY has been stable around 0.5, thus we see our forecast 8% DXY fall by December translating to a 4% fall in USD/CNY.

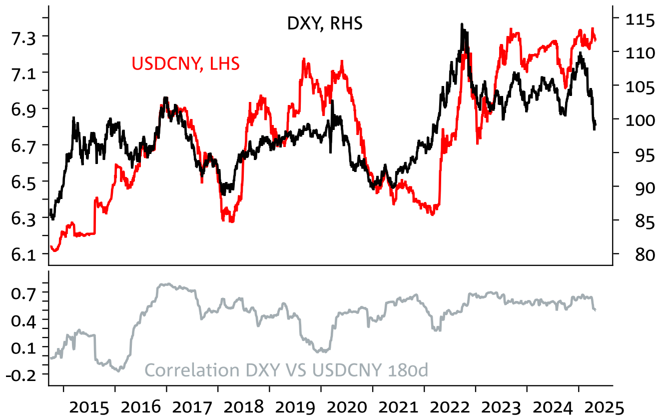
US-China trade tensions are set to hurt China's economy, but for CNY this negative dynamic will take a back sit to the overriding force of a USD structural decline. An important assumption here is that Beijing will increase its domestic economic support with the fiscal side doing most of the heavy lifting.

The official PMIs for April are a warning of what is immediately ahead. China's economy is coming under pressure as external demand cools and domestic sentiment remains sour. The official manufacturing PMI declined from 50.5 in March to a 16-month low of 49.0 in April. The Caixin manufacturing PMI also fell from 51.2 to 50.4 with the average of both PMIs falling to 49.7 from 50.9. The manufacturing sector contributed on third of the economy's growth last year and with contraction in activity expected to last from some time, is hard to argue with the consensus view that China will struggle to achieve its 5% growth target this year.

The Politburo's Q1'25 Economic Conference (which culminated last Friday) was yet again long on rhetoric and short on action. China is preparing itself for a protracted trade war, using words such as "struggle" which Observatory, a China think tank we follow, notes 'carries a heavy political and ideological weight, implying a combative stance against true enemies and difficult challenges ahead". A similar tone was evident in official newspapers social media posts.

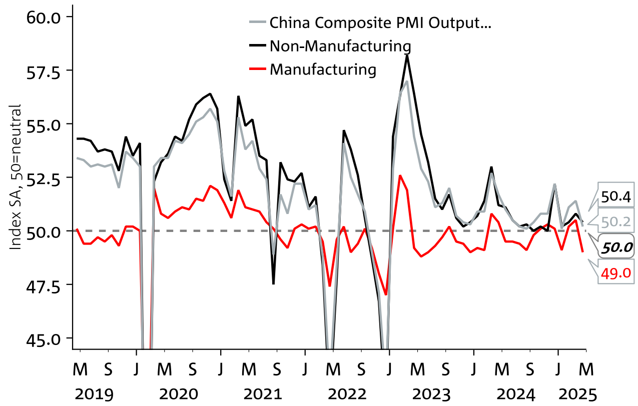
Our base case is that notwithstanding a US-China trade war that will hurt both economies, a resolution is something that will take time. A decoupling process is already in motion with tariffs probably settling around 50% to 60% while restrictions to key industries are unlikely to reverse. This means lower growth ahead, even though the Politburo has now committed to frontload some of the planned 2025 spending from H2 to Q2. The PBoC has some room to ease given rates spreads are CNY favourable while flows have also turned CNY supportive. But as the economy slows in Q2 and Q3, more will be needed from the fiscal side, otherwise a stronger CNY will be harder to come by.

Chart 1: CNY correlation with DXY



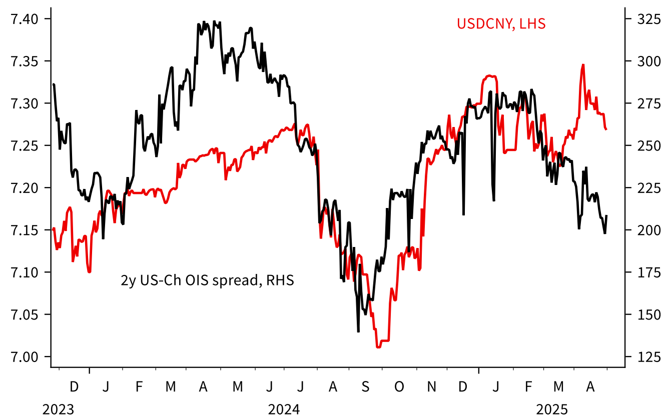
Source: National Australia Bank, Macrobond

Chart 2: PMI's heading south



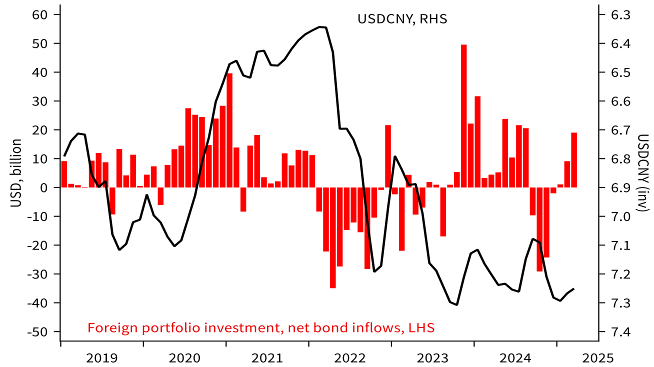
Source: National Australia Bank, Macrobond

Chart 3: US-CH spread give PBoC room to ease



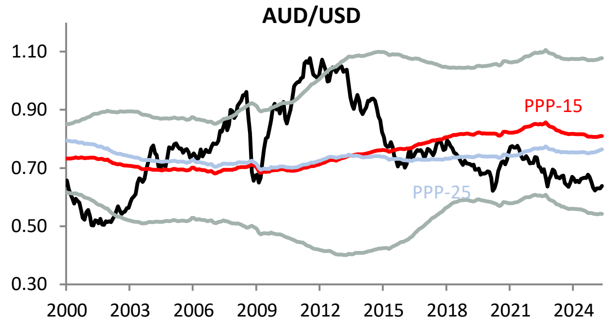
Source: National Australia Bank, Bloomberg

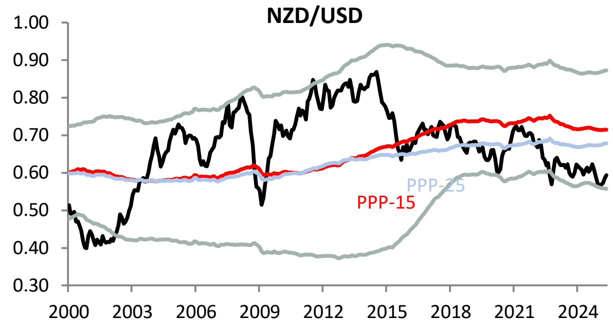
Chart 4: Bond flows now CNY supportive

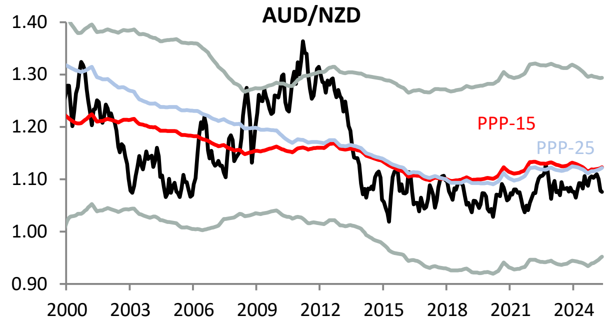


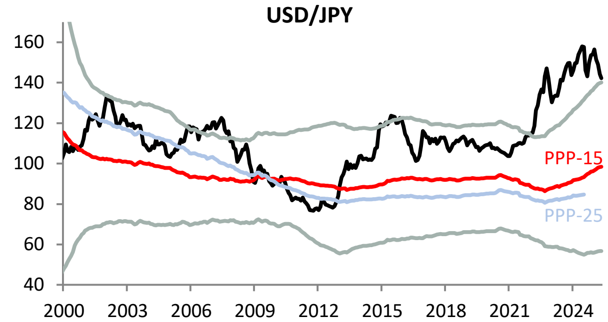
Source: National Australia Bank, Bond Connect Company Limited, Macrobond Financial AB, Macrobond, Bloomberg

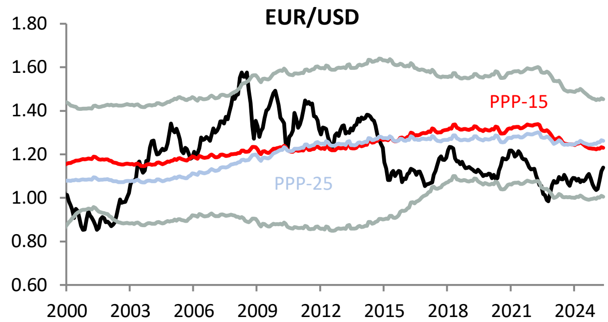
PPP Estimates

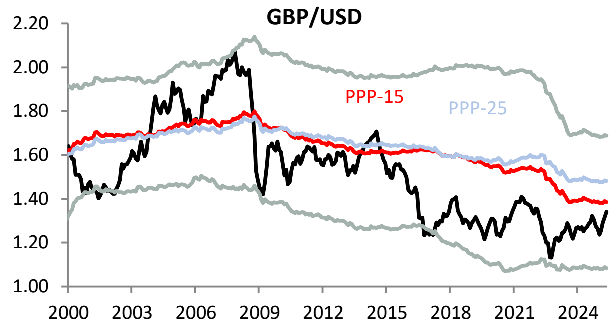


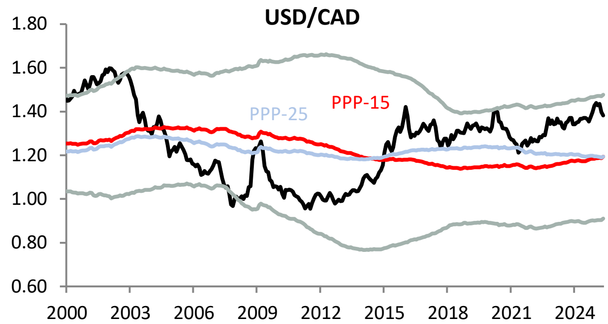


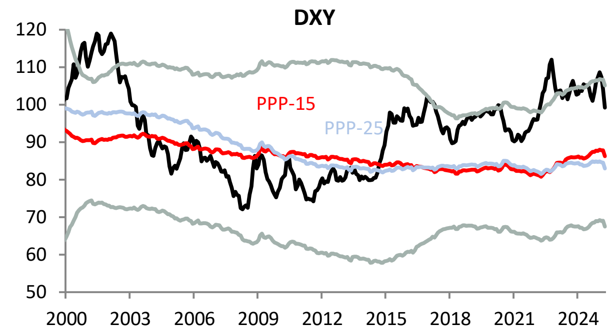












	AUD/USD	NZD/USD	AUD/NZD	USD/JPY	EUR/USD	GBP/USD	USD/CAD	DXY
Actual	0.6390	0.5940	1.0760	142.30	1.1390	1.3410	1.3830	99.2
PPP-15year	0.8100	0.7150	1.1210	98.40	1.2330	1.3890	1.1870	86.3
% Deviation	-21.1	-17.0	-4.0	44.6	-7.6	-3.5	16.5	14.9
z-score	-1.3	-1.6	-0.6	2.1	-0.8	-0.3	1.4	1.4
PPP-25year	0.7620	0.6780	1.1200	88.30	1.2650	1.4850	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 (new vs prior)

Majors		Current	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
AUD/USD	**New**	**0.638**	**0.66**	**0.68**	**0.70**	**0.72**	**0.73**	**0.73**	**0.73**	**0.74**	**0.75**
	Old		0.65	0.66	0.67	0.69	0.71	0.72	0.73	0.74	0.75
NZD/USD	**New**	**0.591**	**0.61**	**0.63**	**0.65**	**0.67**	**0.68**	**0.68**	**0.68**	**0.69**	**0.70**
	Old		0.58	0.59	0.60	0.62	0.64	0.65	0.66	0.67	0.68
USD/JPY	**New**	**145.4**	**138**	**130**	**125**	**120**	**119**	**118**	**117**	**116**	**115**
	Old		145	142	138	134	130	128	126	126	126
EUR/USD	**New**	**1.129**	**1.18**	**1.24**	**1.23**	**1.25**	**1.26**	**1.27**	**1.28**	**1.26**	**1.25**
	Old		1.09	1.10	1.11	1.12	1.14	1.15	1.17	1.18	1.20
GBP/USD	**New**	**1.328**	**1.37**	**1.43**	**1.41**	**1.44**	**1.45**	**1.46**	**1.47**	**1.45**	**1.44**
	Old		1.29	1.29	1.30	1.31	1.32	1.34	1.36	1.37	1.38
USD/CHF	**New**	**0.830**	**0.79**	**0.74**	**0.75**	**0.74**	**0.73**	**0.72**	**0.72**	**0.73**	**0.74**
	Old		0.88	0.87	0.86	0.86	0.85	0.84	0.83	0.83	0.81
USD/CAD	**New**	**1.39**	**1.36**	**1.33**	**1.30**	**1.28**	**1.28**	**1.28**	**1.26**	**1.24**	**1.22**
	Old		1.43	1.41	1.39	1.37	1.35	1.33	1.31	1.29	1.27
USD/CNY	**New**	**7.271**	**7.25**	**7.15**	**7.00**	**6.90**	**6.80**	**6.80**	**6.80**	**6.80**	**6.80**
			7.30	7.30	7.30	7.25	7.15	7.10	7.00	6.90	6.80
USD (DXY)	**New**	**100.25**	**96.11**	**91.60**	**91.58**	**89.80**	**89.13**	**88.46**	**87.74**	**88.57**	**88.90**
	Old		103.40	102.41	101.19	100.00	98.22	97.17	95.57	94.84	93.59
AUD Cross Rates											
AUD/NZD	**New**	**1.081**	**1.08**	**1.08**	**1.08**	**1.07**	**1.07**	**1.07**	**1.07**	**1.07**	**1.07**
	Old		1.11	1.11	1.12	1.11	1.11	1.11	1.11	1.11	1.11
AUD/JPY	**New**	**92.8**	**91**	**88**	**88**	**86**	**87**	**86**	**85**	**86**	**86**
	Old		94	94	92	92	92	92	92	93	95
AUD/EUR	**New**	**0.565**	**0.56**	**0.55**	**0.57**	**0.58**	**0.58**	**0.57**	**0.57**	**0.59**	**0.60**
	Old		0.60	0.60	0.60	0.62	0.62	0.63	0.62	0.63	0.63
AUD/GBP	**New**	**0.481**	**0.48**	**0.48**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.51**	**0.52**
	Old		0.50	0.51	0.52	0.53	0.54	0.54	0.54	0.54	0.54
AUD/CHF	**New**	**0.529**	**0.52**	**0.50**	**0.52**	**0.54**	**0.53**	**0.52**	**0.52**	**0.54**	**0.56**
	Old		0.57	0.58	0.58	0.59	0.60	0.61	0.61	0.61	0.61
AUD/CAD	New	**0.884**	**0.90**	**0.90**	**0.91**	**0.92**	**0.93**	**0.93**	**0.92**	**0.92**	**0.92**
	Old		0.93	0.93	0.93	0.95	0.96	0.96	0.96	0.95	0.95
AUD/CNY	**New**	**4.64**	**4.79**	**4.86**	**4.90**	**4.97**	**4.96**	**4.96**	**4.96**	**5.03**	**5.10**
			4.75	4.82	4.89	5.00	5.08	5.11	5.11	5.11	5.10
NZD Cross Rates											
NZD/AUD	**New**	**0.925**	**0.92**	**0.93**	**0.93**	**0.93**	**0.93**	**0.93**	**0.93**	**0.93**	**0.93**
	Old		0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
NZD/JPY	**New**	**85.9**	**84**	**82**	**81**	**80**	**81**	**80**	**80**	**80**	**81**
	Old		85	84	83	83	83	83	83	84	85
NZD/EUR	**New**	**0.523**	**0.52**	**0.51**	**0.53**	**0.54**	**0.54**	**0.54**	**0.53**	**0.55**	**0.56**
	Old		0.53	0.54	0.54	0.55	0.56	0.57	0.56	0.56	0.56
NZD/GBP	**New**	**0.445**	**0.45**	**0.44**	**0.46**	**0.47**	**0.47**	**0.47**	**0.46**	**0.48**	**0.49**
	Old		0.45	0.46	0.46	0.47	0.48	0.49	0.49	0.49	0.49
NZD/CHF	**New**	**0.490**	**0.48**	**0.47**	**0.49**	**0.50**	**0.50**	**0.49**	**0.49**	**0.50**	**0.52**
	Old		0.51	0.52	0.52	0.53	0.54	0.55	0.55	0.55	0.55
NZD/CAD	**New**	**0.818**	**0.83**	**0.84**	**0.85**	**0.86**	**0.87**	**0.87**	**0.86**	**0.86**	**0.85**
	Old		0.83	0.84	0.83	0.85	0.86	0.86	0.86	0.86	0.86
NZD/CNY	New	**4.29**	**4.42**	**4.50**	**4.55**	**4.62**	**4.62**	**4.62**	**4.62**	**4.69**	**4.76**
	Old		4.26	4.33	4.38	4.50	4.58	4.62	4.62	4.59	4.59

Central Bank Monitor

	Current Rate	Last Change	Official Bias	Next Meeting	NAB Forecast	Forecast Rate End 2025
Australia RBA	4.10%	18 Feb 2025	Easing	19-20 May 8 July	-50bps -25bps	2.85%
Official Cash Rate		-25bps				

The Q1 CPI outcome of 0.7% for Trimmed Mean cements confidence in a May rate cut. On the basis that inflation is tracking inside target and the external backdrop has become more unfavourable due to tariffs, the case for policy remaining restrictive is deemed very weak. Hence our argument for 100bps of cuts over the next three meets, taking policy to where we deem neutral (and later into an accommodative posture).

	Current Rate	Last Change	Official Bias	Next Meeting	NAB Forecast	Forecast Rate End 2025
New Zealand RBNZ	3.5%	9-Apr 2025 -25bps	Easing	28-May 9-Jul	-25bps -25bps	2.75%
Official Cash Rate						

The RBNZ stepped down to a 25bps cut pace in April and kept its options open regarding the pace of further easing ahead. We see another three consecutive 25bps cuts that will take the OCR down to 2.75%, close to current market pricing. A stronger NZD would ease the path towards further easing, if required after that point.

	Current Rate	Last Change	Official Bias	Next Meeting	NAB Forecast	Forecast Rate End 2025
US Federal Reserve	4.75-4.50%	7 Nov 2024 -25bps	Easing	6-7 May 17-18 Jun	Unchanged Unchanged	4.25-4.00%
Fed Funds Rate						

NAB's view, and which is even more aggressively priced into money markets than its point Fed policy forecasts, is that rising unemployment as a result of the sharp economic slowdown since the start of the year will prevail over tariff related inflation concerns, which will be deemed transitory in the context of a weak but not necessarily (and not forecast) US recession.

	Current Rate	Last Change	Official Bias	Next Meeting	NAB Forecast	Forecast Rate End 2025
Eurozone ECB	2.25%	17 Apr	Easing	05 Jun	-25bps	2.0%
Deposit Rate		-25bps		24 Jly	Unchanged	

The ECB has delivered seven rate cut in this cycle, six back-to-back to 2.25% from 4%. At its last move in April ECB President Lagarde talked of dispensing with the neutral rate concept, which she argued was not relevant right now. Nonetheless policy has moved down towards the bottom of a neutral setting. There is universal agreement the ECB will cut again to 2% in June, after which things are much less certain.

	Current Rate	Last Change	Official Bias	Next Meeting	NAB Forecast	Forecast Rate End 2025
UK BoE	4.50%	6 Feb 2025	Easing	8 May	-25bps	3.75%
Bank Rate		-25bps		19 Jun	Unchanged	

The BoE has delivered three 25bp rate cuts in this cycle to 4.5%. Guidance remains broadly the same – adding the word 'careful' to its view of a 'gradual' pace of easing. The current unfolding mix of low growth and broadly rising inflation isn't ideal. That said the BoE is signalling it will look through the current inflation rise and is more concerned with slowing growth and higher unemployment.

	Current Rate	Last Change	Official Bias	Next Meeting	NAB Forecast	Forecast Rate End 2025
Japan BoJ	"around" 0.25%	31 July	Tightening	18-19 Mar	Unchanged	0.5%
Uncollateralized call rate		Policy rate to 'around 0.25%'. Reduce JGB buys next 2yrs		30-May–1 Jun	Unchanged	

As widely expected, the BoJ left its policy rate unchanged at its May 1st meeting and unsurprisingly given heightened US led trade tensions, the Bank delivered a cautious outlook, lowering its GDP growth and inflation forecasts with the FY2027 core CPI reding seen at 1.9%yoy vs 2.0% previously. Domestic inflationary pressures remain elevated but external forces are a downside risk and while uncertainty persist it is unlikely the Bank will hike. We now expect BoJ to stand pat for the rest of 2025, resuming the process of policy normalisation in 2026.

	Current Rate	Last Change	Official Bias	Next Meeting	NAB Forecast	Forecast Rate End 2025
Switzerland SNB	0.5%	20 Mar 2025	Easing	19 Jun	-25bps	-0.25%
3mth SARON Target range		-25bps		25 Sep	-25bps	

CHF strength as its safe haven appeal has been further burnished by the fallout from Trump's tariff broadsides has tightened financial conditions, adds to risk of deflation returning, and makes a 1/4 point cut in the policy rate (to zero) in June virtually certain. 2-year yields have turned negative, consistent with a return to negative policy rates, now likely in H2 in the absence of a rapid reversal in CHF strength.

	Current Rate	Last Change	Official Bias	Next Meeting	NAB Forecast	Forecast Rate End 2025
Canada BoC	3.00%	29 Jan	Easing	06 Jun	Unch.	2.50%
Overnight Lending Rate		-25bps		30 Jul	-25bps	

Lates GDP data show Canada's economy contracted in February by 0.2%mom, after expanding 0.4% in January while the advanced estimate for March suggests a 0.1% growth in the month. The BoC stood pat in April and Minutes from the policy meeting revealed officials are ready to act if there is evidence of an economic downturn, but at the same time they are also reluctant to keep cutting without a firmer understanding of how the US trade dispute will play out. Liberals led by Mark Carney have retained power and focus should now shift towards US-Canada negotiations. BoC is likely to stand pat again in June with another two, 25bps rate cuts, likely over the course of H2-25.

	Current Rate	Last Change	Official Bias	Next Meeting	NAB Forecast	Forecast Rate End 2025
China PBoC	1.50%	24 Sep	Easing	n/a	n/a	1.1%
7-day Repo		-20bps		n/a	n/a	

Our base case on US-China trade tensions is that a resolution unlikely to be seen anytime soon and even when a resolution is reached, a tariff level of around 50% to 60% is very likely while restrictions to key industries are unlikely to reverse. This means lower growth ahead with the PBoC force to deliver further gradual easing over coming quarters. We see the Bank lowering the RRR in May with another two 0.20% rate cuts to the 7d repo rate likely over H2-2025.

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