

FX Viewpoint

Currencies
Global

Strong USD but AUD and NZD may outperform

- ◆ USD is likely to grind higher against many currencies on Fed policy divergence; AUD and NZD may be exceptions
- ◆ AUD-USD has upside from “carry” profile and sensitivity to global growth momentum
- ◆ NZD-USD is underpinned by potentially aggressive central bank rate hikes

We expect the **USD to grind steadily higher** against several major and emerging markets currencies in the coming months, supported by monetary policy divergence, with the Federal Reserve (Fed) likely to hold rates higher for longer than many peers. That said, we see **two notable G10 exceptions** that can buck this trend and outperform the USD in the near term: **the AUD and NZD**.

AUD-USD: poised to rebound

We continue to see scope for AUD-USD upside into 2027, supported by Australia’s **relatively high absolute yield levels** – across both cash rate and government bond yields – which leave the AUD screening favourably on a carry basis within G10 FX (i.e., borrowing in a lower-yielding currency to invest in a higher-yielding one).

We also see reasons to believe AUD-USD may have bottomed out, given the AUD’s strong ties to global growth momentum. Resilient US activity has supported that backdrop and can benefit growth-sensitive G10 currencies, with the **AUD typically performing well in this environment** – particularly when the Fed is on hold.

AUD-USD and NZD-USD have scope to move higher



Source: Bloomberg, HSBC

NZD-USD: supported by monetary policy

New Zealand’s growth upswing appears to be gaining traction, with retail sales rebounding, consumer sentiment improving and the PMI rising to 59.7 in June. The Reserve Bank of New Zealand (RBNZ) delivered its first hike in July, lifting its cash rate by 25bp to 2.50%. HSBC Economics expects **25bp of tightening per quarter, taking the cash rate to 3.50% in Q3 2027**, while markets are pricing a faster path.

We see **the RBNZ’s stance as NZD-positive**: it is priced to hike the most in G10 over the next year yet remains comfortably below the upper end of estimates for the neutral rate. Key risks stem from NZD’s high sensitivity to global growth, particularly if spillovers from the Middle East conflict weigh on activity, an exposure amplified by New Zealand’s high oil-to-GDP intensity among G10 net energy importers.

USD is set to remain strong, but AUD and NZD could lead

AUD should benefit from relatively high yields...

...and support from a firmer global growth backdrop

The RBNZ may lift rates the most in G10 in the next year...

...which should support the NZD, although risks remain

Disclosure appendix

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