20 November 2026

# FX Viewpoint

**Currencies**
Global

## Strong USD outlook; cautious on GBP, EUR and AUD

- USD strength is likely to continue into 2027 supported by resilient US growth and a hawkish Federal Reserve
- We remain cautious on the EUR and GBP amid fiscal, growth and inflation concerns
- We see a weaker AUD as the market prices interest rate cuts

We have favoured a strong USD for several months and **continue to do so as we look towards 2027**. This view is supported by resilient US economic growth, a relatively hawkish Federal Reserve (Fed) and reduced US policy uncertainty.

**We still see a strong USD heading into 2027**

The current environment has some similarities with 2022, when rising interest rates, geopolitical tensions and energy-market disruption supported the USD. However, the backdrop now is less extreme. Inflation is rising more gradually, interest rates are already at a higher level and labour-market pressures are less tight. This suggests that the USD could remain strong, **although a sharp rally may be less likely**.

**A sharp USD rally appears less likely**

HSBC Economics expects one further Fed rate hike, compared with roughly 80bp of tightening currently priced in by the market through January 2028. A slower pace of rate hikes could moderate, **rather than reverse, USD strength**, particularly if other central banks tighten less than expected. With the two-year Treasury yield potentially near its peak, the overall level of US yields may matter more than further increases.

**Fed policy and US yields remain key drivers**

We remain **cautious on certain European currencies, including the EUR and GBP**. Concerns about France's public finances could weigh on the EUR, while the growth-inflation balance has worsened and potential gas-supply shortages pose an additional challenge. For the GBP, UK economic growth is likely to slow next year as inflation picks up, creating further challenges for the currency.

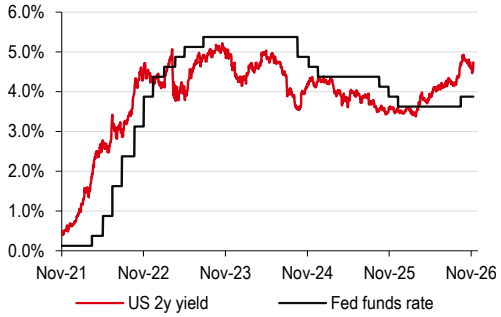
**We remain cautious on the EUR and GBP**

We have also **recently turned cautious on the AUD**. This reflects more aggressive market pricing of Reserve Bank of Australia (RBA) rate cuts, which has become a more important driver for the currency. Markets may still be under-pricing an RBA easing cycle next year: around 35bp is currently priced in, compared with 50bp expected by HSBC Economics.

**We now see a weaker AUD as RBA rate cuts are priced in**

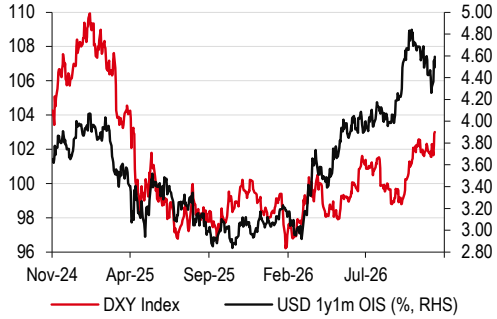
Overall, **the outlook remains positive for a strong USD into 2027**, supported by resilient US growth, a relatively hawkish Fed and reduced policy uncertainty.

**1. Higher US 2-year Treasury yields lead the Fed this year**




Source: Bloomberg, HSBC

**2. The gap between the USD Index and short-term USD rates is starting to narrow**




Source: Bloomberg, HSBC

HSBC

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