

## FX Outlook: FX Outlook in 2026

### Video highlights:

- The Fed cut interest rates by a total of 75 bps in 2025, bringing the Fed fund rate down to 3.5%-3.75%. Coupled with the Fed's rate cuts and a slowdown in the labor market, the US dollar fell by more than 9% year-to-date. The Fed started with \$40 billion in securities purchases in Dec 2025, with a gradual reduction in 2026, but the chairman emphasized that this was not quantitative easing and mentioned that future meetings would not necessarily result in rate cuts. Current Fed Chair's leadership term ends in May, and the market is focused on the impact of the successor on the USD. If a dovish candidate is chosen, future rate cuts may be even larger.
- However, US tax deductions, infrastructure spending, and the lagged effects of the Fed interest rate cuts could all support the US economic recovery, this may boost the USD. Overall, USD is expected to fluctuate between 95 and 105 level in 2026.
- In Dec 2025, the BOJ raised interest rates to 0.75%. However, despite continued verbal intervention by Japanese officials, JPY fell instead of rising after the meeting as Japan's massive government debt and the lack of a clear timetable for further rate hikes. Japan's core inflation remains above the BOJ's target level, and the market anticipates further increases in wage negotiations in the spring. These factors provide justification for a rate hike by the BOJ, supporting the JPY. The short-term resistance for USD/JPY is around 157.90 level.
- The RBA kept interest rates unchanged at 3.6% in Dec 2025. The RBA mentioned considering a rate hike in 2026, mainly due to concerns about rising inflation, indicating a hawkish stance. Coupled with recent increases in commodity prices, has supported the AUD/USD. The market expects the RBA's rate-cutting cycle to have ended, with a possible rate hike in 2026. However, Australian employment data has been volatile, with an unexpected decrease of 21.3K jobs in Nov 2025. Also, the pace of China's economic recovery will also influence the AUD's performance. The weekly chart shows that the AUD/USD has successfully broken through the 200-week moving average, and there is a possibility of testing the 0.68 level in the medium term. Short-term support can be referenced at the 0.6650 level.
- The Chinese financial market is benefited by the strengthening of the RMB. However, a rapid appreciation of the RMB could put pressure on labor-intensive export industries. At a time when China is focusing on boosting domestic demand, stable exports remain a crucial pillar for economic growth. Overall, RMB appreciation can prevent capital outflows and asset price volatility, and can also help companies expanding overseas improve their bargaining power. However, a rapid appreciation could drag down exports, so the expected appreciation of the RMB will be relatively moderate.

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