

# Monex Macro Outlook 2026

---

## AUTHORS

**NICK REES**

Head of Macro Research

+44 (0) 203 650 3736

Nicholas.Rees@monexeurope.com

**BARRY VAN DER LAAN**

Senior FX Market Strategist

+31 208 08 5450

Barry.vanderLaan@monexeurope.eu

**MONEX**

# SUMMARY

---

The year just gone was a tumultuous one in plenty of respects. And yet, implied FX volatility ends 2025 near all time lows on many measures. The return of Donald Trump to the White House and the escalation of trade tensions set the tone for a volatile first half. “Liberation Day” tariffs, the longest US government shutdown on record, and political crises across Europe triggered brief bouts of market turbulence. But as 2025 progressed, the world’s major central banks largely completed their easing cycles and fiscal policies took centre stage. By Christmas, investors were once again selling volatility and rotating into carry trades; the broad dollar fell more than 9% and global equity markets recovered after the April panic. In our end November update, we noted that, absent an unforeseen geopolitical shock, subdued FX volatility looked set to extend into the festive season. That proved accurate: implied vol across major pairs closed the year near decade lows as attention shifted toward 2026.



# CONTENTS

## 02 Summary

### 04 2025 in review

- 04 Trump takes over
- 04 Liberation Day let down
- 04 The dollar loses (some) of its shine
- 05 Monetary policy fades as a theme
- 05 Eurozone spending excitement and disappointment
- 06 Political spillovers top of mind into Christmas

### 07 Themes for 2026

#### 07 The “Donroe” Doctrine

- 07 *Venezuela crisis reshapes regional dynamics*
- 07 *Taiwan Strait tensions elevate Asian FX risk*
- 07 *Attention deficits*
- 08 *US policy challenges the dollar, even as it boosts valuations*

#### 08 Tariffs and trade remain a key policy pillar

- 08 *Fiscal not yet out of fashion, despite growing risks*

#### 09 Fiscal takes centre stage as central banks hit pause

- 09 *Fiscal not yet out of fashion, despite growing risks*
- 09 *Global growth on the up*

#### 10 Some valuations look frothy, and that makes us nervous

- 10 *Strategic assets in a fragmented world*

### 11 How low can vols go?

### 12 FX Outlooks

- 12 USD
- 13 EUR
- 14 GBP
- 14 CAD
- 15 JPY
- 15 AUD
- 16 NZD
- 16 CHF
- 16 NOK
- 16 SEK
- 17 CNY
- 17 INR
- 18 SGD
- 18 ZAR
- 19 PLN
- 19 CZK
- 19 HUF
- 20 MXN
- 20 BRL

### 21 January 2026 FX Forecasts

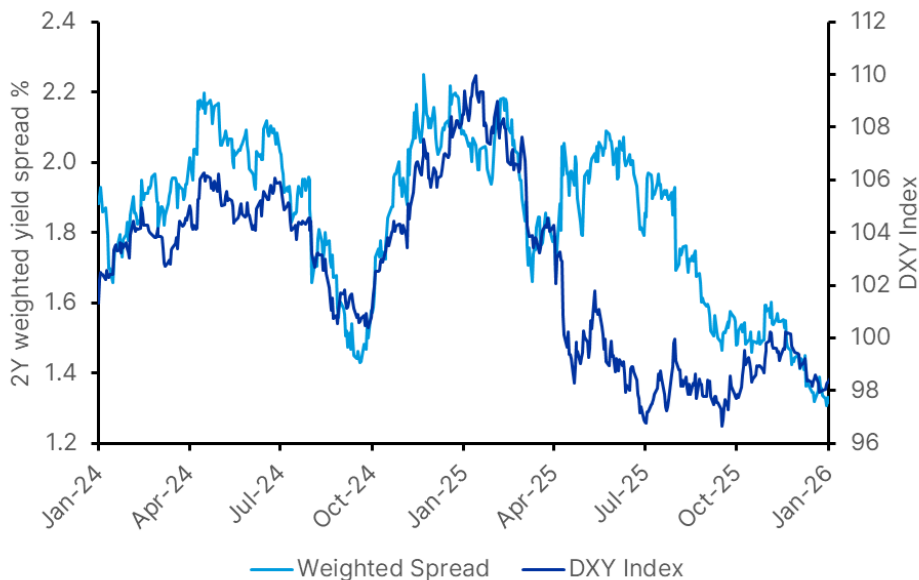


# 2025 IN REVIEW

## Trump takes over

Looking back, Donald Trump's inauguration on January 20th marked the beginning of a year in which US policy risk dominated currency markets. During his campaign, Trump promised sweeping tariffs, immigration crackdowns, a trimming back of federal government spending, and a repeat of the tax giveaways seen during his first term in office. Investors therefore entered the year-long dollars and short risk, even as we argued in our early 2025 FX forecasts that markets were under pricing tariff concerns. Indeed, though the immediate post inauguration period was calmer than many feared, the new administration quickly introduced a 25% levy on imports from Canada and Mexico and a 10% tariff on Chinese goods, signalling a willingness to weaponise trade. These early moves propelled the DXY Index to three month highs and kept high beta currencies under pressure. By March, risk assets were already gyrating on rumours of an April "Liberation Day" announcement. All told, 2025 began with a surge in volatility and a stronger dollar, but cracks soon appeared in the administration's strategy.

The Trump administration's policy approach sparked concern amongst traders in 2025, opening up a gap between yield implied valuations and the dollar



Source: Bloomberg, Monex Europe

## Liberation Day let down

In fact, these flaws became apparent almost immediately post-Liberation Day, with the event seeing Trump impose a universal 10% tariff on most imports and pledging country specific duties as high as 50%. The overall size of these levies matched our base case. Yet, the methodology used to assign bespoke rates shocked markets. Uninhabited islands and close allies were slapped with punitive duties, while some large economies were spared. Equity markets globally suffered their steepest falls since the pandemic; USDJPY briefly fell through 142, and EURUSD surged above 1.15 as investors unwound carry trades and looked for safety outside the US dollar.

**“Faced with a bond market revolt, Trump paused the targeted tariffs just hours after they took effect, granting a 90 day reprieve to all partners except China.”**

Although the blanket 10% duty remained, the delay allowed global supply chains to adjust, and risk assets gradually recovered. The episode nevertheless inflicted lasting damage: global trade volumes contracted, US GDP shrank in Q2, and cross border investment stalled. For now, it seems that Liberation Day proved to be a high water mark for tariff aggression rather than the start of a new regime for international trade.

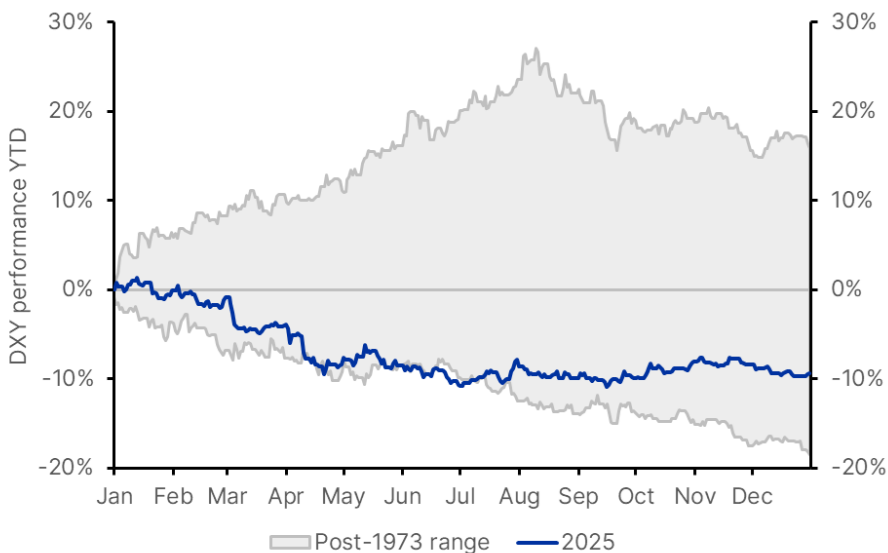
## The dollar loses (some) of its shine

Even so, these trade policy shocks, combined with narrowing growth differentials and political dysfunction, saw the dollar's appeal eroded in 2025. After the Liberation Day fiasco, investors increasingly doubted whether aggressive tariffs would bolster growth or reduce the trade deficit. Moreover, President Trump's public threats to fire Federal Reserve Chair Jerome Powell and Governor Lisa Cook after the April panic raised fears about the Fed's independence. That left the dollar to trade with a persistent discount to yields through much of spring and into summer, with the index shedding 10.7% in the first half of the year to deliver the worst YTD performance in the post-Bretton Woods era.

That said, this set the stage for a stronger end to the year for the buck, with the DXY largely moving sideways through H2 as traders closed the gap between dollar valuations and yield implied levels. Perversely, this process

was assisted by a 43 day government shutdown from October 1st to November 13th - the longest on record, which halted federal services, delayed about US\$50 billion of spending, and which we estimate could have cut Q4 GDP by roughly 1½ percentage points. The stalemate underscored deep fiscal and political divisions. Yet, the resulting dearth of data helped to limit US volatility, focusing minds on concerns elsewhere to the benefit of the buck into year-end. So, while alternative safe haven flows and carry trades into high yielding emerging market currencies weighed heavily on the dollar in H1, the second half of the year proved a period of stabilisation for the greenback, limiting broader FX price action.

**H1 2025 delivered the worst DXY performance in the post-Bretton Woods era, a stark contrast to the stabilisation seen in the second half of the year**



Source: Bloomberg, Monex Europe

**Monetary policy fades as a theme**

Supporting the more muted trading conditions post-summer, by late 2025, monetary policy had largely run its course, having previously been the dominant catalyst for currency markets in 2023–24. Granted, the Federal Reserve cut three times, from September on, but this period saw most major central banks bring their easing cycles to a close, with only the BoE and Fed still expected to ease policy in the year ahead.

In our November outlook, we argued that, with rates approaching neutral and inflation normalising, FX volatility would stay subdued unless fiscal policy delivered large surprises. That proved prescient. Through the fourth quarter,

economic data had a limited impact on currencies, and traders instead responded to spending headlines and political drama. This pivot from monetary to fiscal drivers sets the stage for 2026 and the ramp-up in scrutiny for government spending plans.

**Eurozone spending excitement and disappointment**

Nowhere is that more relevant, we think, than in Europe. Early in 2025, optimism about European fiscal expansion was one of the few themes challenging US exceptionalism. Germany’s coalition pledged to overhaul the constitutional debt brake, creating a €500 billion infrastructure and climate fund, and exempting defence spending from fiscal limits. France also outlined plans to preserve social spending while raising military outlays to meet NATO commitments, while the EU also pledged to help finance plans for increased defence spending.

**“Positive sentiment stemming from these proposals helped to supercharge the euro through March and April, with the single currency briefly emerging as a safe haven alternative to a dollar challenged by Liberation Day concerns.”**

Ultimately, though, reality disappointed. As we warned last year, promises are one thing, delivery is another. The track record of many European countries when it comes to spending similarly large sums suggested that this process would take time to play out, hampered by bureaucratic hurdles and political wrangling. That assumption proved accurate again last year. So, while we remain constructive on the medium term outlook, implementation risks clearly delayed the euro’s ascent in 2025.



## Political spillovers top of mind into Christmas

Indeed, political risk returned with a vengeance in the second half of 2025, particularly in relation to government spending proposals. Moreover, it was not just the US that saw difficulties agreeing a budget to end 2025. In France, Prime Minister François Bayrou was ousted on September 8th after parliament rejected his deficit reduction plan, leaving President Macron searching for his fifth premier in less than two years.

**“The upheaval raised fears of fresh elections and jeopardised passage of the 2026 budget, prompting Fitch to warn of a downgrade.”**

Across the Channel, meanwhile, sterling volatility found support from fiscal worries ahead of the Autumn Budget. While the OBR ultimately proved more generous than expected, sparking a GBP relief rally into Christmas, this only moves back spending concerns in our view, with these likely to resurface in the new year. In contrast, Canada saw new PM Mark Carney deliver a federal budget of his own in early November, which should have been broadly constructive for the loonie. Markets largely overlooked this at the time, but we think fiscal measures are likely to be a tailwind for CAD in 2026.

Finally, in Japan, Sanae Takaichi became prime minister on October 21st, promising stimulus, tax breaks, and continued low rates that propelled the Nikkei to record highs. But her platform also sparked fears of a weaker yen, triggering policy flip flops within her coalition, even as the Bank of Japan’s two 2025 rate hikes underscored divergence from other G10 economies.

**“This raft of fiscal shifts toward the end of last year, combined with a dearth of data-related catalysts and the fading of monetary policy uncertainty, left politics top of mind over the Christmas holidays and into the start of 2026.”**

# THEMES FOR 2026

## The “Donroe” Doctrine

As the new year begins, foreign exchange markets face an unprecedented confluence of geopolitical risks that will shape currency flows. Most significantly, the Trump administration continues to pursue a highly transactional approach to international relationships - a break with traditional US foreign policy - emphasizing the aggressive use of American power to reshape global dynamics. While we think this plays out with some differences, depending on context, geopolitical friction is likely to be a hard-to-ignore theme for currency traders while Trump is in the White House.

## *Venezuela crisis reshapes regional dynamics*

Underscoring our view that geopolitical risk should be top of mind in the coming year, the US capture of Venezuelan President Nicolás Maduro on January 4th, 2026, represents arguably the most direct American intervention in Latin America since the 1989 Panama invasion. This action, coupled with Trump’s stated intention to run Venezuela indefinitely until a “safe, proper and judicious transition” occurs, represents an unexpected willingness to break international norms. The immediate market reaction has been a modest flight to quality, with the Swiss franc briefly hitting a near seven-week high and gold gaining on safe-haven demand, even as the euro softened in the face of Trump threats to annex Greenland.

**“That said, much of the market impact stemmed from the supposed implications for global oil supply, rather than from international norm-busting.”**

We are sceptical that it is possible to ramp up Venezuelan production in the short term, given the parlous state of the country’s oil infrastructure, which limits some of the implications. Nevertheless, the pursuit of resources appears to be a feature of US decision-making in this instance, and should add volatility for commodity-linked currencies, especially in Latin America. Trump’s signalled willingness to use military force against drug cartels remains a convenient excuse to maintain a confrontational approach toward the region.

## *Taiwan Strait tensions elevate Asian FX risk*

Latin America aside, the consequences of recent US actions will be felt most acutely in Asia. China conducted its most expansive military exercises in decades around Taiwan in late December 2025, with live-fire drills simulating blockades of key ports and assaults on maritime targets. The People’s Liberation Army deployed dozens of fighter aircraft and naval vessels in what the EU called actions that “endanger international peace and stability.” These drills followed major US weapons sales to Taiwan and occurred as President Trump downplayed the tensions.

**“For FX markets, escalating Taiwan Strait tensions pose systemic risk to Asian currencies, particularly the Taiwan dollar, Korean won, and Japanese yen.”**

Japan’s Prime Minister Sanae Takaichi suggested her country could mobilize a military response if China tried to seize Taiwan, prompting angry statements and warplane sorties from Beijing. Any disruption to Taiwan’s semiconductor supply would reverberate through global trade flows and currency markets. That said, we are inclined to see Trump’s approach as weighing against invasion risks. We suspect US breaches of international norms are of little interest to Chinese decision makers, but the effectiveness with which the US was able to project power likely shifts the calculus in favour of caution.

## *Attention deficits*

Even as markets assess the implications of US policy for the Americas and Asia, conflict between Russia and Ukraine rumbles on. A peace deal is slowly coming into focus, though sticking points remain. If realised, such an agreement would likely mean an unwind of haven flows into the dollar and Swiss franc, boosting the euro and Eastern European currencies. That said, the speed and timing of any agreement is likely to be sensitive to the attention paid by easily distracted policymakers in Washington, posing further uncertainties for FX markets.

Similarly, a series of conflicts continues to play out in the Middle East, with varying interest from the White House. As we see it, shifting US focus to other priorities increases the risks of flare-ups. These dynamics create persistent upside risk for oil prices, with the potential to strengthen commodity currencies like the Canadian dollar and Norwegian krone, while pressuring oil-importing nations' currencies, particularly in Asia.

### **US policy challenges the dollar, even as it boosts valuations**

All told, we think the dollar faces increasing structural headwinds that threaten its hegemony. While these include mounting US fiscal deficits, policy uncertainty, and the rise of digital assets, the reliability of the US as an international partner is also highly relevant. In isolation, Trump's shift in favour of aggressive self-interest might favour diversifying away from the buck longer term, even as the resulting geopolitical instability paradoxically supports more immediate dollar strength through safe-haven flows.

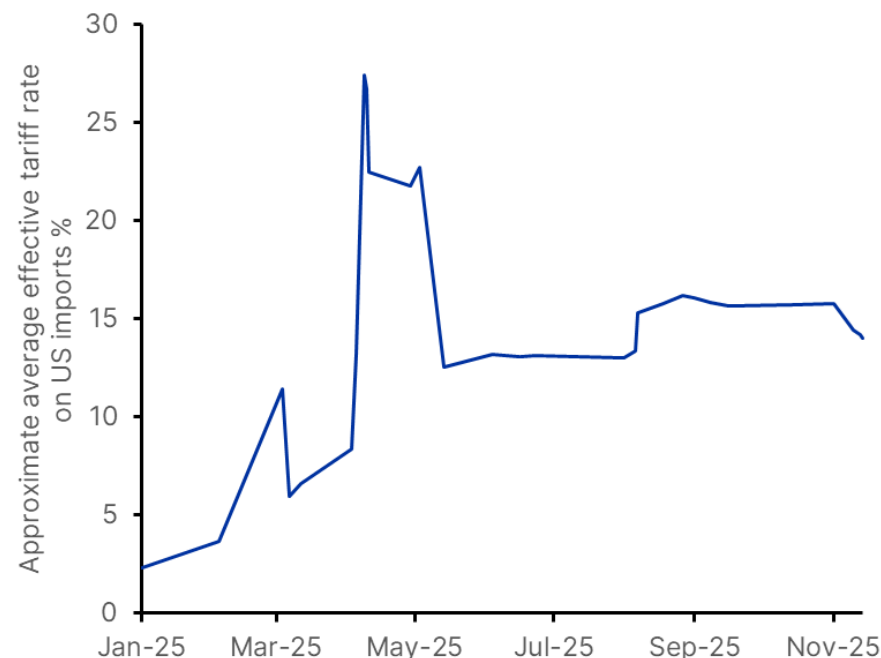
### **Tariffs and trade remain a key policy pillar**

While geopolitical conflict might have dominated headlines to start 2026, we expect trade policy to remain a theme for currency markets, albeit to a lesser extent than in the past year. Our sense is that a Liberation Day repeat is unlikely, with Trump administration officials having lost that face-off with bond markets. But as we noted in our outlook last year, tariffs are a central pillar of US policy, not simply a bargaining chip.

**“To us, that points toward a more selective approach moving forward, with the US attention thus likely to be concentrated on a smaller number of targets where the greatest gains can be made.”**

Granted, a Supreme Court ruling on the legality of tariffs imposed under the International Emergency Economic Powers Act (IEEPA) could prove a temporary complication. However, even if that ruling curbs some tariffs, the administration has already demonstrated that alternative legal paths exist to maintain levies around 15%, and fresh threats of 100% duties on some Chinese goods underline a willingness to use trade as a lever. Indeed, we think China is at the top of the list of countries that will be on the receiving end of US tariff attention in 2026. Despite a partial trade truce in late 2025, average US tariff rates are significantly higher than when Donald Trump returned to the White House. That said, given the experience of last year, we are less confident that a renewed trade conflict would be obviously USDCNY positive.

**While US tariffs rose substantially over 2025, the second half of the year saw greater stability for import levies, a theme we expect to continue in the coming year**



Source: Bloomberg

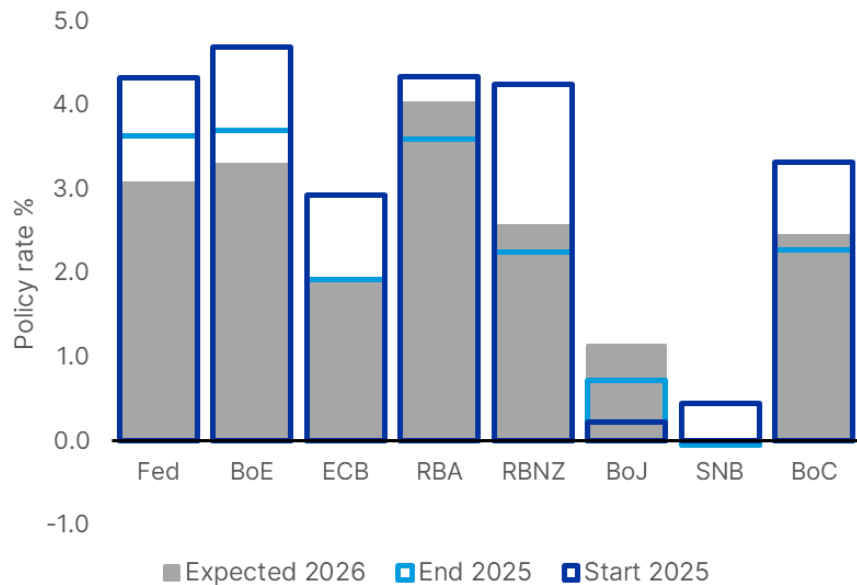
### **USMCA renegotiation looms for trade in North America**

The other major focus of US trade policy in 2026 will almost certainly be renegotiation of USMCA. By July 1st, the United States, Mexico, and Canada must decide whether to extend the agreement, which has delivered a highly integrated North American economy, supported more than 17 million jobs, and ensured that more than 85% of cross border trade remains duty free despite this year's surge in US tariffs. We suspect Washington will use the forum to seek concessions on issues beyond trade—including migration, fentanyl flows, and defence cooperation. Nevertheless, the threat of termination or annual reviews means negotiations could be acrimonious. Tariff barriers imposed in 2025 have already prompted Canada and Mexico to accept stricter rules of origin and increased monitoring to prevent circumvention, and we expect such enforcement provisions to be a focus of 2026 talks. For currency markets, the USMCA review adds another layer of political risk to the Canadian dollar and Mexican peso. Uncertainty over the outcome is likely to cap rallies in those currencies until the second half of the year, even as their structural undervaluation is attractive.

### Fiscal takes centre stage as central banks hit pause

Not likely to be content with coercing other countries in the coming year, our expectation is that the Fed will once again remain a subject of administration ire. The FOMC lowered the range of the Fed funds rate to 3.50-3.75% in December, but an extended pause looks increasingly likely to start in 2026 based on recent commentary. Admittedly, Chair Powell’s replacement in May will likely keep rates alive as a theme for traders, and our base case looks for marginally more easing than is presently priced into markets. Still, with monetary policy approaching terminal, we expect this to fade as a market catalyst as the year progresses unless the White House can push the Fed to cut rates into outright accommodative territory – a risk, but not our base case, though clearly one with downside dollar implications.

Most G10 central banks have now terminated their easing cycles, limiting the impact of monetary policy on FX markets in 2026, GBP and USD excepted



Source: Bloomberg

Similar to the Fed, we also look for the BoE to continue cutting rates in 2026, with the MPC easing by more than markets expect under our central forecast. Those two examples aside, we see all other G10 central banks standing pat through the early part of the new year, delivering one rate hike by the end of 2026 at most. That lack of movement for rates should ensure that the emphasis for markets shifts from monetary to fiscal policy as the year goes on, with plenty more action to be found on the government spending front.

### Fiscal not yet out of fashion, despite growing risks

For the US, a government shutdown in late 2025 delayed billions of dollars of spending, and the One Big Beautiful Bill Act (OBBBA) front loaded large tax rebates for the first half of 2026. Those factors will boost annualised GDP growth by an estimated 2.3 percentage points in the first quarter. After the backlog clears, however, we expect fiscal policy to turn more restrictive: state and local governments face tight budgets, elevated borrowing costs discourage infrastructure projects, and the federal deficit—already near 7% of GDP—limits scope for additional stimulus.

In contrast, we anticipate another round of stimulus in China to support anaemic domestic demand. While we doubt this will work, in keeping with similar recent efforts, it should ensure that Chinese fiscal support remains a tailwind for global growth conditions in 2026. So too in Europe, where Germany’s supplemental spending packages and ambitious green investment plans will support activity in 2026, while we expect a French budget to alleviate some fiscal worries.

“Accompanied by increased EU spending, we look for the eurozone to finally deliver on last year’s promise of improved growth as government support finally arrives.”

Elsewhere, Britain faces fiscal contraction following an austere autumn budget, even if the eventual package was not as bad as feared, while the opposite proved true for Canada to end last year, with PM Carney unveiling a broadly constructive fiscal policy agenda. For currencies, early 2026 fiscal stimulus could briefly support growth sensitive pairs such as GBPUSD and AUDUSD, but we anticipate that eroding fiscal credibility will ultimately weigh on sovereign creditworthiness. Currencies of countries with more sustainable fiscal trajectories—such as the Norwegian krone and Swedish krona—should benefit as investors discriminate more sharply if bond vigilantes begin to challenge highly indebted governments.

### Global growth on the up

Assuming, for now, bond market concerns remain contained, then increased fiscal support should entail solid global growth in 2026. The International Monetary Fund projects world GDP of 3.1%, with advanced economies expanding about 1.6% and emerging markets by 4%. Our own forecasts are slightly more optimistic, stemming from expectations for activity growth in both the eurozone and China, though this is married to risks of US underperformance. If correct, then emerging markets will benefit from resilient commodity demand alongside structural reforms, with India and parts of Africa already showing strong momentum. For currencies,

this mixed growth landscape favours diversification: the US dollar is likely to lose ground across the board, with havens like the franc, and those challenged by fiscal concerns, such as sterling, also likely to be relative underperformers.

### Some valuations look frothy, and that makes us nervous

There has been much written on the implications of the ongoing AI boom. And while we are cautious of calling a top, we see growing evidence that the present run-up is running out of momentum. Markets have crowded into a single trade, pricing AI as a near-term, economy-wide growth engine capable of sustaining US exceptionalism on its own. That bet has become too large relative to what AI is currently delivering. The result in 2026 is not likely to be systemic stress, but disappointment.

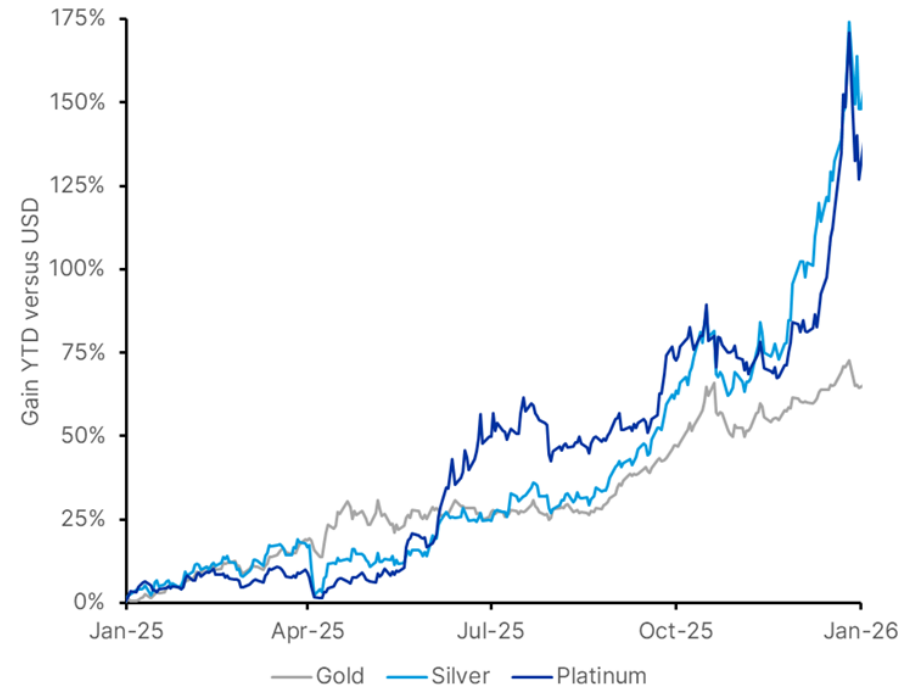
The problem is not the technology, but expectations. Over the past two years, companies have invested aggressively in AI infrastructure on the assumption that scale would quickly translate into revenues. In practice, spending has run far ahead of monetisation. Many projects are early, inefficient, or poorly targeted. The gap between capital deployed and value created is now visible, and boards are responding accordingly. Investment is not stopping, but it should become more selective. For FX, this means the US growth and productivity premium that has supported dollar valuations should begin to erode.

### Strategic assets in a fragmented world

One place we do see greater risks for a crash in 2026 is in commodities, specifically precious metals. Granted, gold remains structurally supported. Central bank demand has shifted from a cyclical variable, driven by reserve diversification, sanctions risk, and concerns around long-term monetary credibility, embedding a durable bid beneath prices, even during periods of correction. Moreover, gold's role is reinforced by persistent geopolitical uncertainty rather than reliance on a single shock event. Even without acute escalation, elevated uncertainty and financial fragmentation could justify a

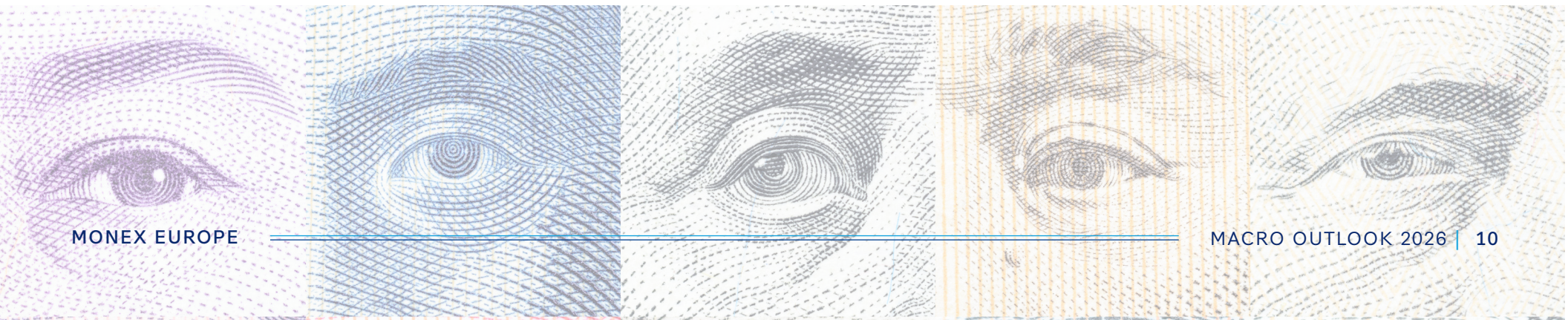
higher structural allocation. But silver remains more volatile, as are other precious metals, and is less supported by fundamental factors. Given the run-up seen in recent months, we are inclined to look for a reversal, posing downside risks to ZAR specifically in the coming year.

While all precious metals delivered strong returns in 2025, the run-up seen for silver and platinum makes us wary regarding the durability of this move



Source: Bloomberg

The case for industrial metals seems stronger in our eyes. AI-related investment, electrification, and grid expansion support demand for copper and related inputs, even as China's ongoing rebalancing toward services,



efficiency, and greener production tempers upside. But if our growth expectations are correct, then supply constraints should ensure higher industrial metals prices over 2026. AUD, CLP, and IDR are well-positioned to benefit in this scenario.

Typically, we would expect such an upswing for metals to be accompanied by a pickup for energy prices too. However, production growth from Brazil, Guyana, and Canada, alongside persistent efficiency gains in US shale, points to a market that appears oversupplied on balance sheets. In a friction-free world, this supply wave would compress prices and anchor energy markets, even as the rapid expansion of AI infrastructure has created a non-negotiable floor for baseload power demand, disproportionately supporting natural gas, grid capacity, and power generation.

**“All told, that leaves us looking for oil to remain around \$60 per barrel through 2026.”**

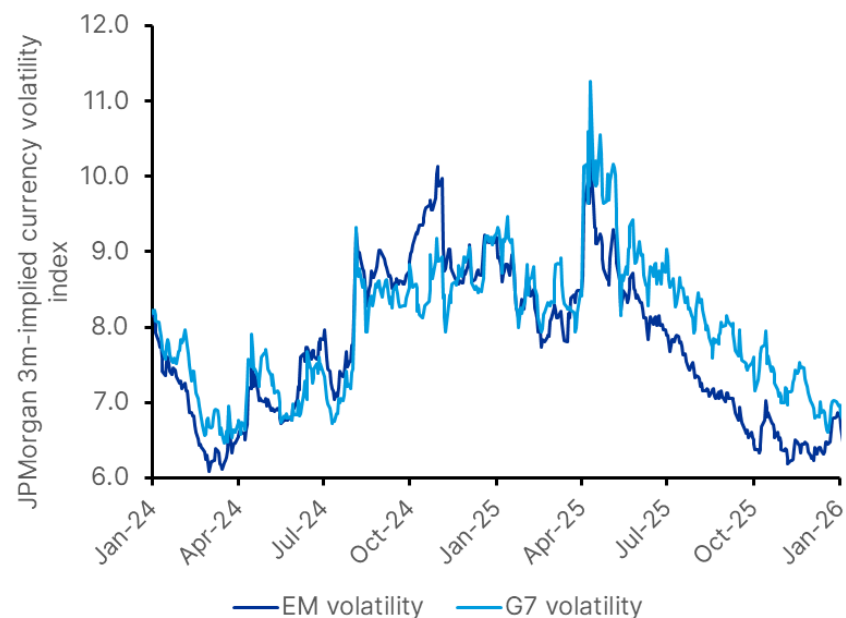
Finally, agricultural commodities markets enter 2026 with comparatively stable pricing, reflecting improved supply conditions and resilient production across key regions. But stability shouldn't be mistaken for immunity. Agriculture remains highly sensitive to global unrest, trade disruption, and policy intervention, and with Trump in the White House, that remains a persistent risk. For now, we expect agricultural prices to remain range-bound, but with elevated odds that geopolitical shocks produce sharp swings for agricultural commodities.

**How low can vols go?**

Rounding out our key themes for 2026, it is curious that currency volatility ends the year near all-time lows, despite the Trump-related uncertainty that markets are contending with. That leaves us wondering how long this can last, and what the consequences could be for FX carry trades in particular. Carry trades thrive when interest rate differentials are wide and volatility is low, and both conditions remain in place. Indeed, low volatility in FX markets through much of 2025 encouraged a shift from G10 carry into high yielding emerging market currencies. We expect this search for yield to continue in early 2026, benefitting EM high yielders once more. However, investors should be mindful of changing dynamics ahead.

Specifically, a steeper US yield curve combined with high real interest rates could also induce risk off episodes, increasing volatility. We therefore caution that carry trades may prosper early in the year but are vulnerable to sudden reversals caused by geopolitical shocks, market selloffs, or concerns around Fed independence. In a similar vein, narrowing of the US-Japan yield gap as the Bank of Japan normalises policy could trigger bouts of yen strength and an unwinding of yen-funded carry trades, even if we are sceptical about the durability of such moves given the expected policy approach of Sanae Takaichi.

**Currency volatility slumped through the second half of 2025, favouring carry trades but leaving markets at risk of a reversal higher**



Source: Bloomberg

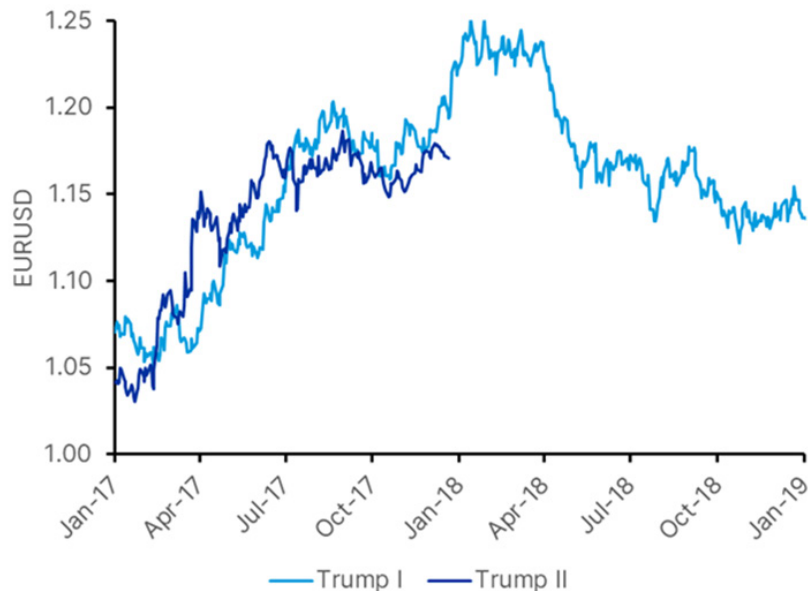
# FX OUTLOOKS

## USD

### *A weaker buck with elevated uncertainty*

Entering 2026, many of the same themes that buffeted the dollar last year remain in play. That is perhaps unsurprising, with Donald Trump and his administration at the heart of many of the major dynamics impacting global markets. Indeed, it is interesting to note that the first full year of Trump's second presidency has so far seen EURUSD closely retrace the path taken during his first term in office. We do not see this as entirely coincidental, with implications for our dollar forecasts.

Trump's second term has so far seen EURUSD tracking a remarkably similar path to his first stint in office



Source: Bloomberg

Looking back at 2017, much of the dollar's slide came as Trump failed to deliver on his promised tax cut agenda. As a result, GDP undershot expectations, with dovish implications for Fed policy, leaving both interest rate and expected growth differentials weighing on the dollar. This time around, Trump has again failed to deliver on his spending agenda, at least so far, while tariffs are also seen hampering growth.

Together, this leaves underlying activity tracking a little softer than many predicted at the start of 2025, albeit with the readthrough muddied by data quality issues.

Yet despite the parallels, there are key differences between 2017 and 2025 that leave us cautious about overextending this narrative. Tariffs are now broadly viewed as dollar negative, while many of the concerns over Fed dovishness stem from White House meddling, rather than slowing GDP and CPI growth. Moreover, notwithstanding an ongoing stock market boom, we remain sceptical that fiscal policy will provide the kind of tailwind that eventually emerged in Trump's first term. As such, we do not expect this year to see a dollar recovery akin to 2018. Instead, we look for an extension of 2025 themes to continue to weigh on the buck.

On growth, our central forecast sees activity expanding at a rate in line with long-run potential, with modestly expansionary fiscal policy offset by a confidence drag from erratic administration policymaking. But we see this taking place against a backdrop of increased fiscal support outside the US, notably in the eurozone and China.

**“That leaves growth differentials to narrow against the greenback under our base case, with the buck largely trading the middle of its smile as a result.”**

Meanwhile, further Fed rate cuts look set to contrast with little policy movement elsewhere in the world. We look for another three Fed rate cuts in 2026, slightly more than the 60bps that swaps presently imply, but with risks skewed toward more cuts, and with Chair Powell set to be replaced in May, raising the prospect of a dovish turn at the Fed toward the end of H1. In any case, we expect monetary policy to also be a source of modest dollar depreciation as the year progresses, with rate differentials continuing to fall as the FOMC cuts rates.

That all being said, uncertainty remains elevated, particularly toward the end of our forecast horizon, and not just due to Jerome Powell's replacement as Fed Chair. Trump's second administration has taken a much more active, and much more erratic, approach to geopolitics and trade in addition to domestic policy. This helped to undermine the dollar's typical haven traits at times in 2025, and we expect this will continue to be a source of volatility in 2026,

particularly in relation to China, USMCA renegotiation, and continued military adventurism. While the events of 2025 suggest this is unlikely to result in permanent dollar scarring, sustained deviations from fundamentals are a notable possibility.

All told then, our 2026 forecasts project the dollar slipping lower in the coming year, in contrast to 2018, but with the magnitude and timing of this decline still highly uncertain, and vulnerable to policy shocks. As such, our base case sees the DXY index falling to 94.7 over the coming year, roughly 3.5% below spot levels as of writing, albeit with this forecast subject to elevated uncertainty given the current resident of the White House.

## EUR

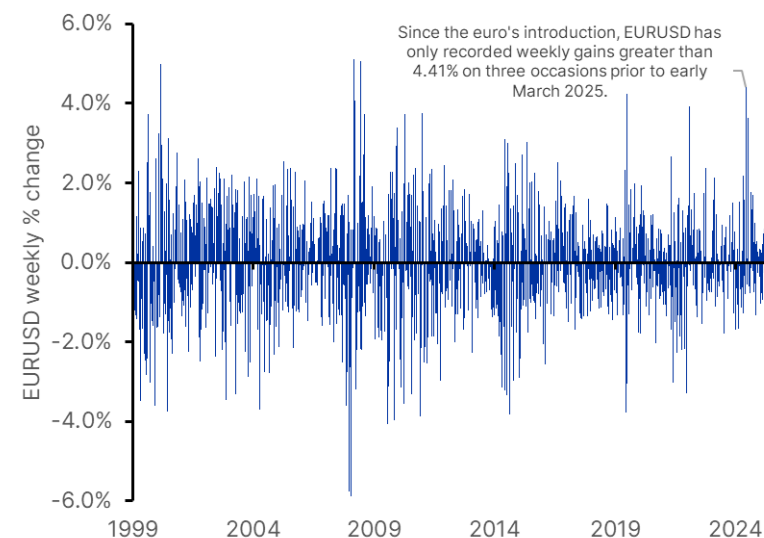
### *Fiscal support should start to bear fruit*

While 2025 was ultimately a year of disappointment for hopes of greater eurozone government spending, we still look for 2026 to deliver on the promise of increased fiscal support from policymakers on the continent. The ECB is likely to be on hold throughout the year, leaving fiscal policy as the key macro dynamic underpinning activity and the euro. Contrasted against further economic normalisation in the US, we see government-fuelled growth pushing EURUSD to 1.24 by the end of 2026 in our latest set of forecasts.

Admittedly, for those who read our outlooks regularly, this is not a new call. We noted in early 2025 that traders appeared to overreact to initial announcements of greater government spending from both the EU and Germany, and so were likely to be disappointed by the speed of delivery. Indeed, we pointed out that the accompanying rise in yields would likely slow growth from the summer onwards, at least until increased spending materialised, in keeping with the recent academic literature. That dynamic played out as expected, with underwhelming activity readings seeing the euro's rally stall out in late May, leaving EURUSD to move sideways for the remainder of the year, largely stuck in the 1.15-1.18 range.

Even so, we expect the euro to make further gains in 2026, with a decisive breakout likely in the first half of the year. After much wrangling, Germany's Bundestag approved a 2026 budget on November 28, entailing spending of roughly €525bn, borrowing €98bn, with the deficit projected to widen to about 4% of GDP by 2027. Now that this spending has cleared the political hurdles, we expect it to turn into real activity, ending a period of German economic underperformance. Accompanying this, we look for the French Parliament to finally agree on its own budget in the coming weeks, meaning an improved outlook for both the eurozone's main growth engines in early 2026. Assuming no unexpected shocks emanating from the US, then we expect such a dynamic to translate into EURUSD gains as stronger growth starts to become apparent in the data.

**A sharp EURUSD jump in early 2025 is indicative of the potential impact fiscal support can have on the pair, just as soon as markets reengage with expectations for spending to materialise**



Source: Bloomberg, Monex Europe

## GBP

### *The shine is coming off sterling*

While we began 2025 bullish on the pound, the case for sterling weakened significantly over the course of the year. US tariffs were not as disruptive as expected, while growth conditions elsewhere improved, stemming from more supportive fiscal policy. Meanwhile, in the UK, the domestic political backdrop deteriorated, undermining the central pillar of our prior thesis. Namely, that while the economy faces challenges, these are well identified, and a new Labour government with a large majority should be ideally placed to tackle them, boosting growth, asset prices, and sterling.

This now looks unlikely, however, with the government's inability to rein in benefits spending triggering a bearish turn in our sterling forecasts last year. Taking the evolution of policy over the prior 12 months as indicative of the direction of travel, we think Labour will fail to deliver on commitments to tackle other difficult choices, a view that remains unchanged entering 2026.

Granted, the Autumn Budget was not as painful for sterling as we had feared, though we think this is a story of pain delayed, not avoided. Specifically, we have big quibbles with the OBR's Budget forecasts, which rescued the Chancellor from having to announce sharp tax rises in November. In our view, inflation and wage growth projections remain too high in the near term, while a magical fall in the savings rate and a significant rotation from capital to labour income both look suspicious as well. Recent data also points to a sharp fall in net immigration, further complicating fiscal sums.

***“Accordingly, we begin 2026 expecting a repeat of many of the domestic dynamics that led sterling to underperform in 2025.”***

Our base case looks for renewed speculation around the public finances to continue weighing on confidence and activity, assisted by the lagged impacts of mortgage resets and lower immigration. That results in our expectation for slower growth and more subdued inflation than consensus forecasts. Against this backdrop, we see the Bank of England cutting rates somewhat faster and further than markets have priced in. If correct, then expected interest rate and relative growth differentials will both offer headwinds to the pound in 2026.

All told, this outlook leaves us looking for the pound to underperform once again in 2026, especially against the euro, though we have moved up our short-run expectations marginally, marking to market against

recent spot moves. As such, our updated forecasts for GBPEUR are little changed relative to end-2025, projecting the pair at 1.14, 1.12, 1.09, and 1.08 over 1m, 3m, 6m, and 12-month time horizons. Versus the dollar, we now see the pound trading at 1.35, 1.33, 1.31, and 1.34 over the same periods.

## CAD

### *USMCA re-negotiation looms large*

The end of 2025 saw Canadian macro data broadly exceed expectations, underpinning a year-end rally for the loonie, in keeping with our own house call. We expect USDCAD will continue to slip lower in 2026, underpinned by a narrowing in growth and interest rate differentials with the US, and despite USMCA renegotiations looming increasingly large. All told, we project the pair trading at 1.35, 1.33, and 1.30 over 3-, 6-, and 12-month time horizons.

Looking at the data, annualised Q3 growth exceeded consensus by a distance, landing at 2.6% YoY against expectations for a 0.5% print. Granted, timelier October data saw activity fall by -0.3% MoM, but this slowdown had been predicted. The labour market, meanwhile, has proven much more resilient than anticipated. Unemployment was recorded at 6.5% in the November release, down from a peak of 7.1% in September, while the three most recent net employment readings have exceeded expectations by 178k combined.

***“In short, the economy is holding up better than markets thought it would only a few months ago, with momentum and an expansionary federal budget set to support GDP growth into the new year.”***

For the loonie, it is relevant that this surprise resilience also has knock-on impacts. Underlying inflation remains notably sticky, and while we still expect price growth to cool, the strength of macro data suggests that this process will be gradual. That view is shared at the BoC, with the Governing Council seemingly terminating its easing cycle at the end of 2025. We expect monetary policy to remain on hold throughout 2026, in contrast to continued easing at the Fed. That should leave rate differentials to narrow in the loonie's favour, even as building economic momentum in Canada helps to reframe perceptions of growth relative to the US. That is a macro backdrop that we expect to support slow and steady CAD upside versus the buck over the course of the next year.

Granted, our call for a stronger loonie is not without some risks. Oil prices remain subdued, though this is offset by a continued equity rally under our base case projection. The most troubling risk event on the horizon, though, stems from USMCA renegotiation. The agreement faces a mandatory sunset review by July 1st, 2026, and given the Trump administration's willingness to weaponize trade relations in 2025, we would be surprised if this did not result in some further trade tensions. For now, our forecasts assume that an agreement is ultimately reached, largely extending existing terms. But the possibility of a less favourable deal skews risks to the downside relative to our present USDCAD forecast.

## JPY

### *Normalisation without conviction*

The Japanese yen defined 2025 through extreme volatility rather than directional conviction. While the currency ended the year modestly stronger—appreciating roughly 1% against the dollar to close near 156—price action was dominated by a violent tug-of-war between historic monetary normalisation and structural headwinds. The Bank of Japan raised rates to 0.75%, the highest in three decades, yet this proved insufficient to overcome wide US–Japan yield differentials and the fiscal drag of Prime Minister Sanae Takaichi's expansionary agenda. The yen remains trapped by negative real rates, oscillating wildly rather than embarking on a sustained appreciation cycle.

Indeed, we think it is notable that neither BoJ rate hikes, safe-haven flows, nor a broad decline in the dollar have managed to place the yen on a sustained appreciation path. With fiscal policy turning expansionary and growth softening due to external demand shocks, the yen closed out the year structurally vulnerable and detached from rate differentials as a driver. Absent reengagement with yield differentials, the yen's weakness is likely to persist into 2026, leaving USDJPY biased higher rather than reversing despite ongoing policy normalisation, even as sharp gains are likely to be capped by that threat of intervention in FX markets.

USDJPY detached from rate differentials as a driver through H2 2025, pointing to risks of further yen depreciation entering 2026



Source: Bloomberg, Monex Europe

## AUD

### *Top of the pack beginning 2026*

The aussie enters 2026 as one of our preferred long expressions, in light of solid domestic fundamentals and exposure to Chinese growth. The RBA paused its easing cycle in summer 2025, prompted by signs of renewed inflation pressure. Since then, growth and unemployment have stabilised, while price pressures remain resilient. Assuming Chinese stimulus materialises in the coming months, then the aussie's sensitivity to base metals prices should support an uptick. Similarly, rising demand pressure more broadly would help to validate current swap pricing that sees a credible risk that the RBA hikes rates in 2026. All told then, we look for AUD outperformance as 2026 wears on, relative to both the US dollar and to the kiwi, where weaker domestic fundamentals and reduced exposure to China leave the prospects for NZD modestly more subdued.

## NZD

### *Hanging on the coattails of the aussie*

While growth numbers posted a rebound into the end of 2025, underlying activity in New Zealand remains soft relative to its Antipodean neighbour in Australia. Better regional growth should provide a boost to activity, and to the kiwi as 2026 wears on, helped by the lagged effects of RBNZ easing toward the end of last year. Still, we see this backdrop as more supportive of AUD on a relative basis, with NZD benefiting from spillovers until domestic demand shows more sustained signs of improvement. As such, we look for NZD gains versus the dollar in 2026, but less so than for AUD, given relatively weaker fundamentals at present.

## CHF

### *Credibility in a world that no longer trusts itself*

The Swiss franc defied active central bank intervention in 2025. It strengthened against the euro even as the Swiss National Bank cut rates to zero, even as EURCHF fell about 1% to close out the year near the 0.93 mark. This move was driven by a fundamental repricing of safe-haven assets. While the SNB delivered two cuts totalling 50 basis points to deter inflows, the franc's appeal as a "resilience hedge" overwhelmed the yield penalty. Institutional stability and fiscal discipline set Switzerland apart from a more volatile eurozone, pushing the cross to levels not seen since the removal of the exchange rate floor in 2015.

As we see it, the franc's performance signals a shift in the global risk hierarchy. The currency has cemented its status as the de facto haven of choice, displacing traditional dollar-denominated assets during periods of stress, perhaps unsurprisingly given the volatility of the Trump administration. The SNB's failure to weaken the currency despite reaching the zero lower bound suggests that Switzerland's institutional premium is now a structural feature of the market.

**"With the cross closing near 0.93 and inflation subdued at zero, the market has effectively signalled willingness to pay a negative real yield for Swiss safety."**

That said, with risk premia normalising and relative rate dynamics reasserting themselves, this exceptional phase of franc strength is unlikely to persist, leaving EURCHF biased higher over 2026 despite Switzerland's enduring institutional appeal, meaning our forecasts look for CHF underperformance in 2025, even as the franc makes gains versus the greenback under our base case forecast.

## NOK

### *Violent equilibrium, fragile resolution*

The Norwegian krone experienced significant volatility in 2025 that ultimately led nowhere. Despite sharp intra-year swings that saw EURNOK surge above 12.00 and dip below 11.40, the pair ended the year virtually unchanged, closing near 11.82 after opening at 11.80. The year was defined by violent equilibrium: persistent inflation provided a theoretical floor for the currency, but Norges Bank's determination to cut rates to protect growth capped any upside. The result was a currency trapped in a wide, choppy range, unable to establish a trend as the market struggled to price a central bank that eased policy even while missing its inflation target for the 57th consecutive month.

**"While 2025 was a year of mean reversion, we view the current stalemate as a base for renewed strength rather than further stagnation."**

Norway's superior carry profile and fiscal stability are positioned to reassert themselves as primary drivers. As policy clarity improves and relative rate support returns, this consolidation phase is likely to give way to sustained krone appreciation, with EURNOK biased lower towards 11.0 in 2026 in line with Norway's superior carry and fiscal fundamentals.

## SEK

### *A growth pivot that worked*

The Swedish krona defied conventional wisdom to emerge as the best-performing G10 currency of 2025. EURSEK declined roughly 6% from a yearly open of 11.46 to close near 10.79. This appreciation was driven by a successful "growth pivot": aggressive monetary easing by the Riksbank and expansionary fiscal policy revived domestic demand without unanchoring inflation. While the Riksbank cut rates by 75 basis points to 1.75%, the currency strengthened as markets rewarded the improvement in Sweden's economic trajectory rather than penalising the narrowing yield differential.

The krona's 2025 performance proves that in a low-growth world, capital flows to economies capable of generating their own momentum. Sweden successfully leveraged its fiscal capacity and monetary flexibility to engineer a turnaround. Interestingly, the widening budget deficit was interpreted by the market as a growth engine rather than a solvency risk, running counter to the experience of some other major economies.

strength, the SEK enters 2026 supported by a verified recovery, distinguishing it sharply from the stagnation affecting much of the eurozone. That said, after a year of exceptional repricing, further krona gains are likely to be more incremental. Our base case sees EURSEK biased modestly lower into 2026 rather than repeating the pace of appreciation seen in 2025, projecting the cross at 10.5 over a 12-month time horizon.

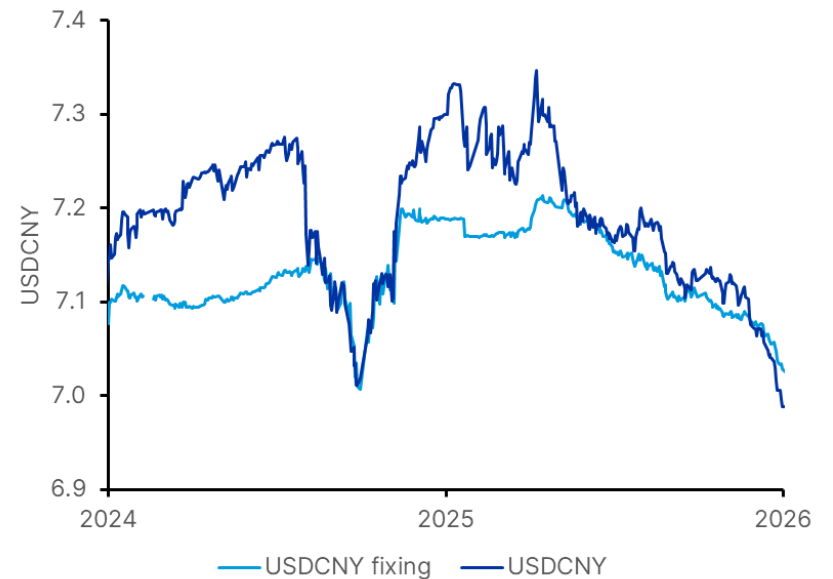
**CNY**  
*Still in control*

The pattern of late 2025 saw slow but steady declines in the USDCNY rate, with policymakers carefully controlling the speed at which the yuan was permitted to appreciate against a weakening buck. This is in keeping with the official preference for exchange rate stability, and not a surprise to us. Chinese policymakers have been clear on the importance of preventing excessive currency moves as part of efforts to internationalise the yuan, alongside supporting domestic confidence and investor inflows. We expect that policy to remain in place through 2026, underpinning our USDCNY forecasts.

*“Importantly, recent announcements have pointed to a switch in focus away from USDCNY levels, in favour of stabilising the broader trade-weighted yuan.”*

This has been an assumption of our own base case for some time; nevertheless, it gives us increased confidence in projecting USDCNY to 6.8 over the coming 12 months, extending our prior forecasts. If realised, this would entail the yuan underperforming most other major currencies, while still appreciating against the dollar. It would also reduce the extent to which pushback is needed against appreciation moves, with the fixing error having notably flipped to weigh against yuan upside in recent weeks, suggesting a growing desire to slow the present USDCNY selloff.

A sign reversal for the USDCNY fixing error points to officials attempting to slow the rate of yuan appreciation



Source: Bloomberg

**INR**  
*Stabilisation, not reversal*

The Indian rupee enters 2026 from a position of pronounced weakness, having been Asia’s worst-performing currency in 2025 and trading just above 90 per dollar at year-end. That starting point matters. Much of the bad news is already priced in, and we see limited scope for further sustained depreciation unless trade risks escalate materially. Our base case, therefore, looks for stabilisation against the dollar over the coming year.



As we see it, the core issue isn't domestic macro fragility. India remains the fastest-growing large economy in the region. Inflation is contained below 5%, fiscal slippage risks are limited, and medium-term capital expenditure and supply-chain diversification trends remain supportive. The problem in 2025 was capital flow dynamics: heavy foreign portfolio outflows, trade uncertainty linked to the US, and a resilient dollar environment through H2 combined to overwhelm those fundamentals.

Going into 2026, we expect those pressures to ease, but not disappear entirely. The Reserve Bank of India has clearly shifted toward tolerating gradual depreciation rather than defending specific levels, constrained in part by its sizeable short-USD forward position. This implies that INR downside is set to prove sticky. The RBI is likely to prioritise volatility control and liquidity conditions over outright FX levels, allowing the rupee to adjust in line with broader balance-of-payments forces.

Asymmetry is key. At current levels, concerns around idiosyncratic devaluation risk look overstated. The rupee has already cheapened meaningfully in real effective terms, portfolio positioning has been flushed out, and recent trade data suggest some improvement in the external balance.

**“This argues against a renewed, disorderly leg weaker unless oil prices spike or trade talks with the US deteriorate sharply.”**

At the same time, we're not building a bullish INR story against the dollar. Even if trade uncertainty fades, Fed easing is likely to be gradual, keeping USD support intact for longer than many EM-FX optimists expect. Meanwhile, the RBI is expected to cut rates modestly in 2026, narrowing rate differentials and limiting carry-driven inflows. With that in mind, our forecasts see USDINR remaining broadly range-bound but with a mild upward bias through 2026, ending the year closer to 91, modestly above present spot levels.

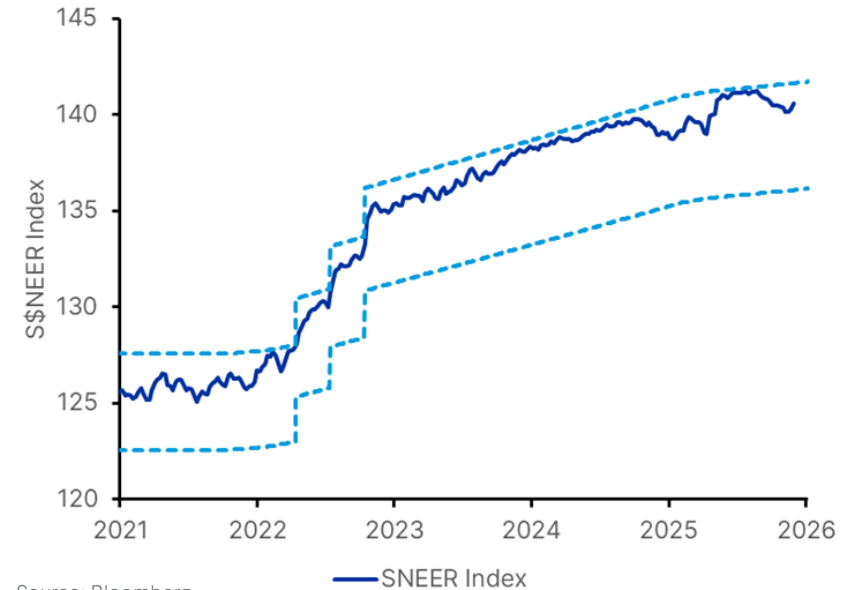
## SGD

### *A middle of the road approach*

We see the Singapore dollar continuing to rally against the buck in 2026, but underperforming high-beta Asian currencies, which are better positioned to benefit from Chinese stimulus and domestic carry. At 1.2% YoY in November, domestic inflation remains soft, and could potentially warrant a further reduction in the slope of SNEER appreciation by MAS in the coming months, especially with trade and tariffs concerns still lurking in the background. But for now, our base case is for the present rate to

be maintained with plenty of room for the SNEER to drift slowly toward the middle of the policy band, as we think it should. As such, we see USDSGD fall modestly to 1.24 over a 12-month time period under our latest projections.

**For now, we expect the MAS to leave policy settings unchanged, allowing USDSGD to fall modestly over our forecast horizon**



Source: Bloomberg

## ZAR

### *When politics stepped aside, carry and commodities took over*

The South African rand delivered its strongest annual performance since 2009, appreciating roughly 11% against the US dollar to close near 16.70. This rally defied a tumultuous first half defined by coalition instability and US trade threats. The turnaround was driven by a decisive shift in sentiment, underpinned by renewed political stability and a sharp upturn in precious metals. Overseas investors purchased a net ZAR 72.4 billion in local-currency bonds, up from just ZAR 15.6 billion the prior year. While the South African Reserve Bank cut rates by 100 basis points to 6.75%, the currency benefited from the government's adoption of a lower inflation target, which markets interpreted as a signal that real rates would remain attractive relative to developed markets.

In our view, the rand's 2025 marked a significant repricing of South African risk, with markets increasingly willing to look through weak near-term growth in favour of institutional resilience. The adoption of a lower inflation target remains the key forward anchor, reinforcing the SARB's credibility and supporting a high real yield environment even as policy eases. With inflation near 3.2% and the repo rate at 6.75%, a carry buffer remains. That said, after a year of exceptional repricing, the balance of risks into 2026 points to consolidation rather than extension, especially given our concerns over precious metals. Under our forecasts, we see USDZAR retracing marginally higher in 2026, albeit with risks of outperformance for as long as metals continue to rally.

## PLN

### *Real rates, real strength*

The Polish zloty delivered a solid performance in 2025, appreciating roughly 1% against the euro, underpinned by a "Goldilocks" macroeconomic backdrop: inflation collapsed faster than interest rates were cut, maintaining a highly attractive real yield.

**"Despite the National Bank of Poland slashing the benchmark rate from 5.75% to 4.25%, the zloty was insulated by robust GDP growth exceeding 3% and a flood of EU-funded investment."**

The zloty's 2025 performance shows that real rates matter more than nominal cuts. By maintaining a restrictive policy relative to plummeting inflation, Poland offered a protective yield buffer that weathered both political shocks and a global slowdown. The consensus forecast for 2.6% inflation through 2026 suggests this stability is durable. As the economy ignores global headwinds to accelerate toward 3.4% growth next year, the zloty enters 2026 not as a volatile emerging market play, but as a high-growth, high-yield anchor in Europe. That said, after a year of real-rate driven outperformance, further gains are likely to be more selective, with PLN strength persisting primarily against the dollar, while EURPLN drifts higher into 2026 as policy differentials narrow.

## CZK

### *Turning neutral on the koruna*

2025 saw the Czech koruna gaining roughly 3.7% against the euro to close near 24.26. This strength was structural, driven by a widening policy divergence: the Czech National Bank effectively halted its easing cycle at

3.50% in May, while the ECB cut aggressively toward 2.00%. With domestic demand accelerating and service inflation remaining elevated, the CNB's restrictive stance locked in a yield advantage that insulated the currency from German economic weakness.

That all being said, the inflation mix entering 2026 is shifting. Declining energy and food prices are increasingly offsetting service-sector pressures, pushing headline inflation below target and setting the stage for a gradual cooling in core inflation over the year ahead. With real interest rates becoming increasingly restrictive and inflation projected to settle close to target over the medium term, monetary conditions are likely to ease again. While 2025 marked a year of pronounced CZK outperformance driven by policy divergence, the balance of risks into 2026 points toward rate cuts resuming and EURCZK drifting higher, with the koruna transitioning from a yield-driven outperformer to a more neutral regional currency.

## HUF

### *Yield over reality*

The Hungarian forint defied gravity in 2025, a standout performer among emerging-market currencies. It rallied roughly 21% against the US dollar and gained about 7% versus the euro to trade at 385.20 by mid-December. This performance wasn't driven by economic health, but by a relentless "carry-at-all-costs" monetary defense. The National Bank of Hungary maintained the EU's joint-highest base rate at 6.5% throughout the entire year, effectively decoupling the currency from a stagnating economy and deteriorating fiscal metrics. But as the year closed, the forint cooled, signaling that the tension between high yields and weak fundamentals is reaching a breaking point.

**"In our view, the currency is now squeezed between a recessionary economy and a negative sovereign outlook."**

Indeed, December saw the NBH signalling a shift to "meeting-by-meeting" decisions, causing the forint to reverse earlier gains. With the budget deficit widening and growth non-existent, the high-rate shield is thinning. The market enters 2026 wary that the forint's yield advantage may no longer be sufficient compensation for the mounting political and fiscal risks. As monetary rigidity gives way to policy fatigue and fiscal risks remain unresolved, this sets the stage for gradual forint underperformance into 2026, with EURHUF biased higher despite residual carry support.

## MXN

### *Carry and USMCA, growth optional*

The Mexican peso's strength through 2025 and into 2026 shows an instance where yield, policy credibility, and trade architecture outweighed weak domestic growth. Political uncertainty remained, yet MXN retained its appeal as a carry currency, anchored by disciplined monetary policy and institutional continuity, despite near-stagnant economic activity, ongoing manufacturing contraction, and concerns around governance and external dependence.

Banxico could normalise policy gradually as inflation fell back into target. This preserved a real yield advantage, even as it eased ahead of the Federal Reserve. That sequencing was critical. It allowed the peso to benefit from global monetary divergence without triggering a loss of confidence. At the same time, Mexico's role in North American supply chains acted as a structural stabiliser. The United States-Mexico-Canada Agreement insulated exports from the worst of renewed US protectionism. Paradoxically, it positioned Mexico as a relative beneficiary as trade frictions with other economies intensified. Markets treated USMCA as a quasi-policy anchor. This compensated for weak growth, deteriorating manufacturing momentum, and rising external imbalances.

**“Entering 2026, the peso remains supported by this combination of residual carry and trade-framework credibility, but that support is inherently conditional.”**

The upcoming USMCA review represents a binary risk that could reshape investment flows, supply-chain confidence, and the peso's valuation regime. As in 2025, MXN's resilience is less a reflection of economic strength than of the market's willingness to prioritise yield and institutional protection. Should either be undermined, the tolerance that sustained the currency is likely to fade quickly. As a result, while carry and trade architecture may delay adjustment, the balance of risks into 2026 remains skewed toward gradual peso depreciation in our view, with MXN expected to underperform both USD and EUR on a twelve-month horizon.

## BRL

### *Credibility as the foundation for resilience*

The Brazilian real's performance across 2025 and into 2026 tells a straightforward story: credibility matters more than everything else. After starting 2025 under a cloud of doubt, Brazil regained its status as a high-conviction carry trade by showing that monetary policy independence would be protected—even while fiscal discipline remained far from perfect. The Banco Central do Brasil's decisive approach, which explicitly runs counter to the global easing trend led by the Federal Reserve, has reset market expectations around inflation control and policy commitment.

**“Investors responded by reassessing Brazil: less as a vulnerable emerging market story, more as a yield-driven currency where central bank credibility can temporarily outweigh fiscal and external vulnerabilities.”**

That tolerance, though, comes with conditions—it's not built to last. External accounts remain vulnerable, public debt dynamics are challenging, and fiscal restraint relies more on short-term measures than on lasting structural reforms. Moving into 2026, the real stays supported not because fundamentals are improving, but because the central bank continues to prioritise inflation credibility over political pressure. As the electoral cycle intensifies, whether that stance can be sustained becomes the key question for the currency. We suspect it won't be, leading us to forecast USDBRL rising to 5.60 by the middle of the year.

## Monex's January 2026 Forecasts

Currency Pair	1-month (31 <sup>st</sup> January 2026)	3-month (31 <sup>st</sup> March 2026)	6-month (30 <sup>th</sup> June 2026)	12-month (31 <sup>st</sup> December 2026)
<b>G10</b>				
EUR/USD	1.18	1.19	1.21	1.24
USD/JPY	157	158	160	160
GBP/USD	1.35	1.33	1.31	1.34
USD/CHF	0.80	0.79	0.79	0.77
USD/CAD	1.37	1.35	1.33	1.30
AUD/USD	0.67	0.68	0.70	0.72
NZD/USD	0.57	0.57	0.58	0.60
USD/SEK	9.2	9.1	8.8	8.5
USD/NOK	9.8	9.7	9.4	8.9
DXY	98.0	97.6	96.7	94.7
<b>Emerging Markets</b>				
USD/CNY	6.97	6.94	6.90	6.80
USD/INR	90.0	90.5	91.0	91.0
USD/SGD	1.28	1.27	1.26	1.24
USD/ZAR	16.5	16.7	16.8	16.9
USD/TRY	43.4	44.0	44.9	46.0
USD/PLN	3.59	3.59	3.54	3.47
USD/HUF	326	328	326	323
USD/CZK	20.7	20.7	20.5	20.2
USD/BRL	5.40	5.50	5.60	5.65
USD/MXN	18.0	18.2	18.4	18.6
<b>Euro Crosses</b>				
EUR/GBP	0.87	0.89	0.92	0.93
GBP/EUR	1.14	1.12	1.09	1.08
EUR/CHF	0.94	0.94	0.95	0.96
EUR/CAD	1.62	1.61	1.61	1.61
EUR/SEK	10.9	10.8	10.7	10.5
EUR/NOK	11.6	11.5	11.4	11.0
EUR/TRY	51.2	52.4	54.3	57.0
EUR/PLN	4.24	4.27	4.28	4.30
EUR/HUF	385	390	395	400
EUR/CZK	24.4	24.6	24.8	25.0
EUR/BRL	6.37	6.55	6.78	7.01
EUR/MXN	21.2	21.7	22.3	23.1

## General disclosure

This material, including, any statistical information, is provided for informational purposes only. It does not constitute advice and you should seek independent advice if necessary.

The material is based upon information which we consider reliable, but may not be accurate or complete, and therefore should not be relied upon. Any estimates, forward-looking statements or forecasts do not represent a guarantee of future performance. No reliance shall be placed for any purposes whatsoever on the information, opinions, forecasts, and assumptions contained in the document or on its completeness, accuracy, or fairness. No representation or warranty, express or implied, is given by or on behalf of Monex International Markets plc as to the accuracy or completeness of the information contained in this document and no liability is accepted for any loss arising, directly or indirectly, from any use of such information. The views and opinions expressed herein may be subject to change at any given time. No permission is granted to reprint, sell, copy, distribute, or modify this material, in any form or by any means except with the written permission of Monex International Markets plc.

Monex International Markets plc is part of the wider financial services group, Monex S.A.P.I. de C.V. ("Monex"), an investment grade institution. The group's principal activity is the provision of foreign exchange services to corporate and institutional clients.

Monex International Markets plc operates various subsidiaries in the FX industry, comprising of Monex Europe Limited, Monex Europe Markets Limited, Monex Europa S.L., Monex Europe Markets S.V., Monex Canada Inc., and MonFX Pte Ltd.; with offices in the UK, Spain, the Netherlands, Canada and Singapore.

All entities under Monex International Markets plc are regulated for different products and services within the jurisdictions in which they operate. Details of the different entities can be found at [www.monexeurope.com/contact-us](http://www.monexeurope.com/contact-us). Details of the respective entities' regulatory status and available products and services can then be found on the relevant links to the individual jurisdictions' website.

## Market specific disclosures

**United Kingdom:** This document is distributed in the UK by Monex Europe Limited ("Monex Europe") and Monex Europe Markets Limited ("Monex Europe Markets"). Monex Europe Limited is authorised and regulated by the Financial Conduct Authority (FCA) as an Authorised Electronic Money Institution, with permission to issue electronic money (e-money) and provide payment services - firm registration number 998114. Monex Europe Markets Limited is an authorised and regulated investment firm, FCA reference number 596146. Monex Europe Markets only transacts business with clients who have been categorised as Professional or Eligible Counterparties. Foreign exchange options and other derivative products are not suitable for everyone and may present a high level of risk to your capital. You should seek independent advice if necessary. This communication has not been reviewed by the Financial Conduct Authority. It is for informational purposes only, is not an offer or solicitation to buy or sell an investment product or service and should not be relied upon to make any investment decisions.

**European Economic Area (EEA):** This document is distributed in the EEA by Monex Europa S.L. ("MESL") and Monex Europe Markets S.V., S.A.U. ("MEMSV"). MESL a company incorporated in Spain with identification number B56461320 and whose registered office is located at Torre Picasso, Plaza Pablo Ruiz Picasso, 1, 28020 Madrid. MESL is authorised and regulated by the Bank of Spain as a payment institution with official registration number 6936. The services provided by Monex Europa S.L. are limited to money remittance, unregulated FX Spot transactions and Forwards excluded from MiFID regulation on the basis that they are entered into for the purposes of payment facilitation and treated in the same way as spot FX. These forwards are not subject to MiFID II or EMIR or Spanish Securities Law.

MEMSV is a company registered in Spain (with a Company Registration Number: A16789208) authorised and regulated by the CNMV (with a Firm Licence Number: 321) as an Authorised Investment Firm with permissions to execute FX Derivatives, over the counter ("OTC") on a matched principal, execution only basis with professional clients/eligible counterparties. The services provided by MEMSV are regulated financial instruments for "Professional Clients" only. Foreign Exchange transactions can place your capital at significant risk. . This document is for informational purposes only, is not an offer or solicitation to buy or sell an investment product or service and should not be relied upon to make any investment decisions.

**Canada:** This document is distributed in Canada by Monex Canada Inc. ("Monex Canada"). Monex Canada inc. is a registered extra-provincial company under the Canada Business Corporations Act. Corporation number: 884479-8. Registered address: 199 Bay Street, Suite 4000, Toronto, Ontario, M5L 1A9. Monex Canada is registered with both the Financial Transactions and Reports Analysis Centre of Canada ("FINTRAC") and Revenu Quebec. In Toronto, Ontario, Monex Canada is registered as a MSB with FINTRAC and holds registration number M17698932. Additionally, Monex Canada holds a license from Revenu Quebec with license number 11642. The entity delivers services to clients across Canada. This communication has not been reviewed by FINTRAC. It is for informational purposes only, is not an offer or solicitation to buy or sell an investment product or service and should not be relied upon to make any investment decisions.

**Singapore:** This document is distributed in Singapore by MonFX Pte Ltd ("MonFX"). MonFX Pte Ltd is licensed and regulated by the Monetary Authority of Singapore as a Major Payment Institution under the Payment Services Act 2019 and as a Capital Markets Services Licence holder under the Securities and Futures Act 2001. MonFX Pte Ltd is a company registered in Singapore with registration number 201611101E and has its trading address as One George Street, #20 - 06A, Singapore 049145. The entity delivers services to clients across Singapore and other APAC countries. This communication has not been reviewed by the Monetary Authority of Singapore. It is for informational purposes only, is not an offer or solicitation to buy or sell an investment product or service and should not be relied upon to make any investment decisions.

© 2026 Monex International Markets plc/or its affiliates. All rights reserved.