

FX View

Forecast Update



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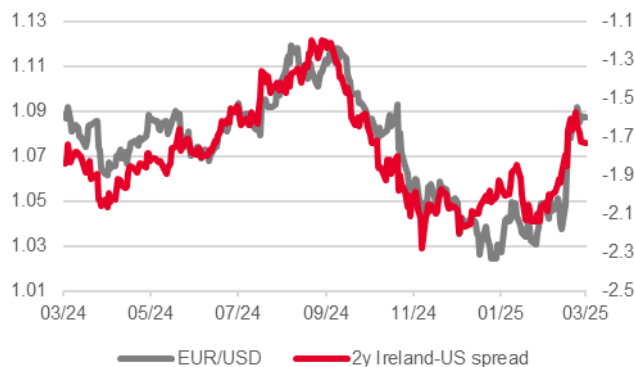


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The times are changing, and not only in Newcastle

We have updated G10 FX forecasts to reflect Germany's planned fiscal changes, the US economy's self-inflicted (relative) fragility, and Japan's escape from deflation. The updated table is below. We expect to see lower Treasury yields and narrower US/European spreads in the coming year, and unless relative rates/yields stop being the dominant drivers of FX trends, the dollar is likely to weaken. Of the 3 main themes in FX, we are most confident of Japanese reflation, and the yen is simply too cheap under those circumstances; it's only a question of how fast or slowly it rallies, in our view. The US slowdown has resulted in a small fall in consensus growth forecasts, and those will need to fall further to justify rate/FX pricing. Today's retail sales will be a focus for the market. As for the change to the German debt brake, it hasn't happened yet but this is such an important moment in Europe's history that surely, it will confirm that 2022's EUR/USD low isn't seen again for at least a decade (or two).

EUR/USD might take a St Patrick's Day pause.

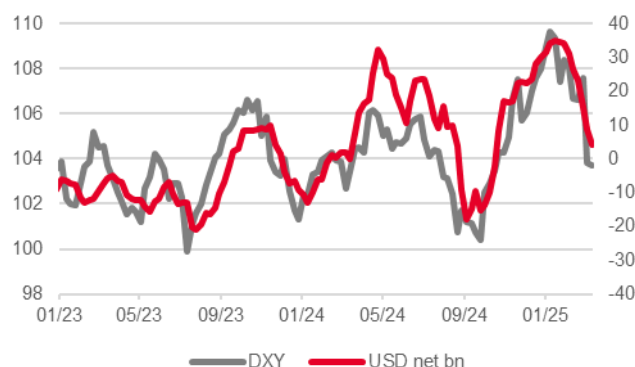


Source: SG Cross Asset Research/Forex

Slower US growth and lower US yields will help the yen

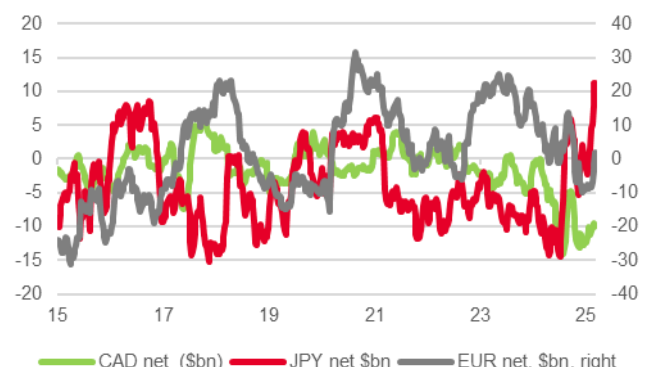


CFTC positioning shows the dollar long shrinking fast.



Source: SG Cross Asset Research/Forex, CFTC

The futures market is flattish EUR. Short CAD and long JPY



Forecast update

We think slower US growth, lower Treasury yields and German fiscal easing are enough to get EUR/USD to the top of its recent range, at 1.13, this year. We think there's a chance it breaks higher in H1 2026, too. Within Europe, SEK and NOK are the high-flyers, GBP and CHF the laggards. AUD, NZD and CAD are all unloved, but lower US rates/yields will help in due course. As for JPY, the authorities in Japan will ensure the recovery is slow, but gravity says USD/JPY is headline much lower eventually.

G10FX Forecasts

	14 Mar	2Q25	3Q25	4Q25	1Q26
EUR/USD	1.09	1.10	1.12	1.13	1.15
USD/JPY	148.5	145	142	139	138
GBP/USD	1.29	1.31	1.32	1.32	1.34
USD/CHF	0.89	0.88	0.88	0.88	0.87
USD/CAD	1.44	1.45	1.43	1.40	1.40
AUD/USD	0.63	0.63	0.65	0.67	0.67
NZD/USD	0.57	0.58	0.60	0.62	0.62
AUD/NZD	1.10	1.09	1.08	1.08	1.08
USD/NOK	10.65	10.55	10.27	10.09	9.83
USD/SEK	10.12	9.91	9.64	9.56	9.30
NOK/SEK	0.95	0.94	0.94	0.95	0.95
EUR/JPY	161.6	159.5	159.0	157.1	158.7
EUR/GBP	0.84	0.84	0.85	0.86	0.86
EUR/CHF	0.96	0.97	0.98	0.99	1.00
EUR/CAD	1.57	1.60	1.60	1.58	1.61
EUR/AUD	1.72	1.75	1.72	1.69	1.72
EUR/NZD	1.90	1.90	1.87	1.82	1.85
EUR/NOK	11.59	11.60	11.50	11.40	11.30
EUR/SEK	11.02	10.90	10.80	10.80	10.70
DXY	103.8	102.5	100.9	99.8	98.4

Source: SG Cross Asset Research/Forex

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