Corpay

An Unstable Equilibrium

2026 CURRENCY MARKET OUTLOOK

Global Economy: Deceptive Resilience

Karl Schamotta, Chief Market Strategist
Karl.Schamotta@Corpay.com

Peter Dragicevich, Senior Currency Strategist, APAC
Peter.Dragicevich@Corpay.com

As 2026 gets underway, a remarkable sense of calm has settled over global markets. Economies have emerged from a year of shocks—Donald Trump's "Liberation Day" tariffs, a defence-led policy pivot in Europe, and a protracted US government shutdown—bearing far fewer scars than many had feared. Growth has held up, price pressures have remained restrained, exchange rates have settled into narrow ranges, and cross-asset volatility has fallen dramatically from the highs reached last April.

To a considerable extent, the strength on display reflects a rare synchronisation of monetary and fiscal settings across the major advanced economies. As inflation has ebbed, central banks have moved in tandem to pull rates down from their post-pandemic peaks, while governments have simultaneously stepped up spending on defence, infrastructure and artificial-intelligence initiatives. For now, this blend of easing price pressures and more accommodative policies is propping up activity—even in economies that spent much of 2025 contending with acute policy uncertainty.

Trade volumes have proven more robust than expected. Tariff front-running, a realignment of supply chains, and surging demand for AI-related hardware, from chips to servers to advanced electronics, have all buoyed cross-border flows. Europe and China, though squarely in the line of fire, have weathered the US protectionist shock with less disruption than feared, partly because external surpluses play only a limited role in driving overall growth. The United States has likewise taken the hit in stride, helped by the fact that imports represent a fairly modest share of household consumption.

Financial conditions, meanwhile, are unusually loose. Liquidity is abundant, credit spreads are compressed, and equity markets are powering higher. The S&P 500 has risen roughly 40 per cent from its 2025 trough, lifting valuations to more than 40 times cyclically adjusted earnings—levels approaching those last glimpsed during the dotcom boom. Volatility in bond and currency markets has dropped sharply, enticing speculators into cross-currency carry trades and emboldening investors to reach further out along the risk curve in search of yield.

This seemingly-benign backdrop has produced a surprising degree of consensus among economists and market strategists.

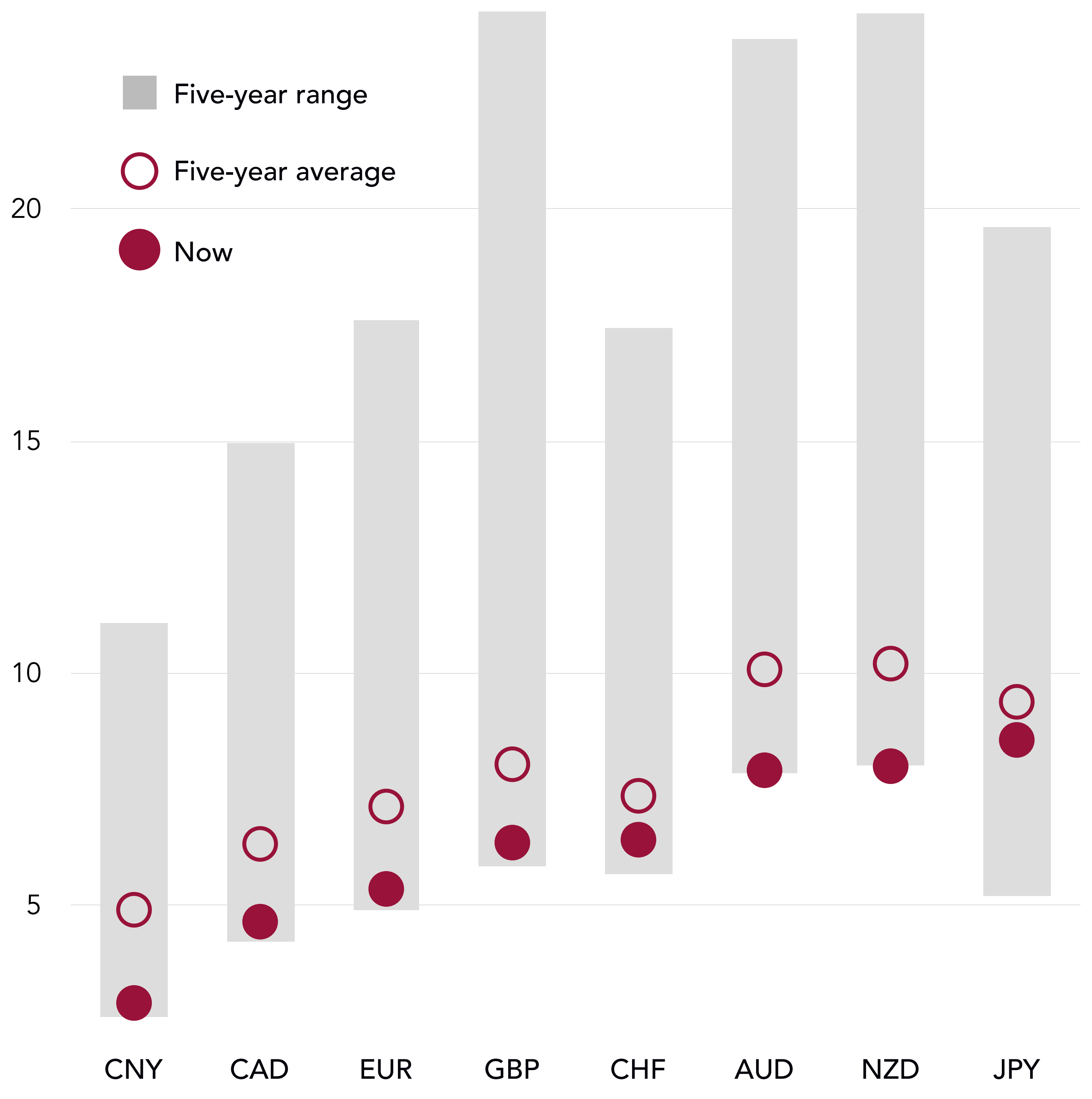
Investors believe global inflation will continue easing through 2026. In the US, growth is projected to firm as tariff uncertainty recedes, tax cuts lift household incomes, and AI-related spillovers begin to bolster productivity. The Federal Reserve is seen responding to softening labour markets and more dovish leadership with at least two more rate cuts. Germany, long mired in stagnation, is forecast to gain momentum from meaningful fiscal stimulus, helping the eurozone to expand at a modest pace and allowing the European Central Bank to hold policy steady. China extends its gradual structural slowdown as authorities adhere to their supply-side policy framework. And emerging markets, buoyed by subdued volatility and a favourable global liquidity environment, remain broadly resilient.

Foreign exchange markets are priced for an environment in which relative-value considerations supersede the sort of sweeping thematic shifts and unexpected shocks that defined recent history. Fiscal deficits remain large, but investors prove willing to absorb soaring issuance volumes. Geopolitical tensions flare intermittently but stop short of becoming systemic. No sweeping macro catalyst—no equivalent to the coronavirus pandemic, Ukraine war, US tariff shock, or Germany's fiscal awakening—is powerful enough to knock major currencies out of prevailing ranges, and those with credible policy frameworks, healthy external balances, or solid risk premiums continue to outperform the dollar.

These assumptions are reasonable and should provide a solid base case for 2026. But after years of profound political, social, technological and economic upheaval, and against a fragile structural backdrop, the risk of non-linear moves in currency markets appears underpriced.

Currency Markets: Artificially Calm

Options markets are pricing for stability
Implied volatilities, 3-month at-the-money options, Jan 2026



Sources: Bloomberg

In our view, markets are unusually serene precisely because the world beneath them is anything but. A series of temporary distortions—the bullwhip dynamics triggered by abrupt tariff shifts, the wealth effects generated by soaring asset prices, and the lingering impact of one of the most aggressive monetary cycles in modern history—are obscuring massive shifts in underlying fundamentals.

The anchors of the post-war economic order—open trade, free capital flows, geopolitical stability—are eroding. Governments are embracing more interventionist, openly neo-mercantilist policies. Structural fractures are widening: a US economy propped up by concentrated technology investment and fiscal largesse; a China contending with a grinding debt-deflation cycle; and a Europe increasingly alert to mounting risks yet unable to respond cohesively. Vast budget deficits and increasing protectionism across the advanced world point toward a future of higher and more variable inflation, leaving sovereign bond markets vulnerable to abrupt repricing.

Beyond baseline expectations, we see at least three reasonably-plausible scenarios that could upset market consensus in the months ahead:

One: the world economy's apparent resilience in 2025 proves a head fake as tariff front-running fades, trade momentum stalls, and longer-term forces—reshoring, supply-chain diversification, and heavier regulation—expose weaker underlying growth trends. Productivity gains retrace lower, business investment falters under lingering policy uncertainty, and US consumers show signs of fatigue, dragging global demand lower. Inflation, however, stays sticky as tight labour markets, lower immigration, and protectionism keep wage growth elevated, while China's rebalancing efforts offer little offset. In this environment of subdued growth and constrained policy, the US dollar outperforms not because the US is thriving, but because it remains the least unattractive haven as capital is repatriated and risk is pared back.

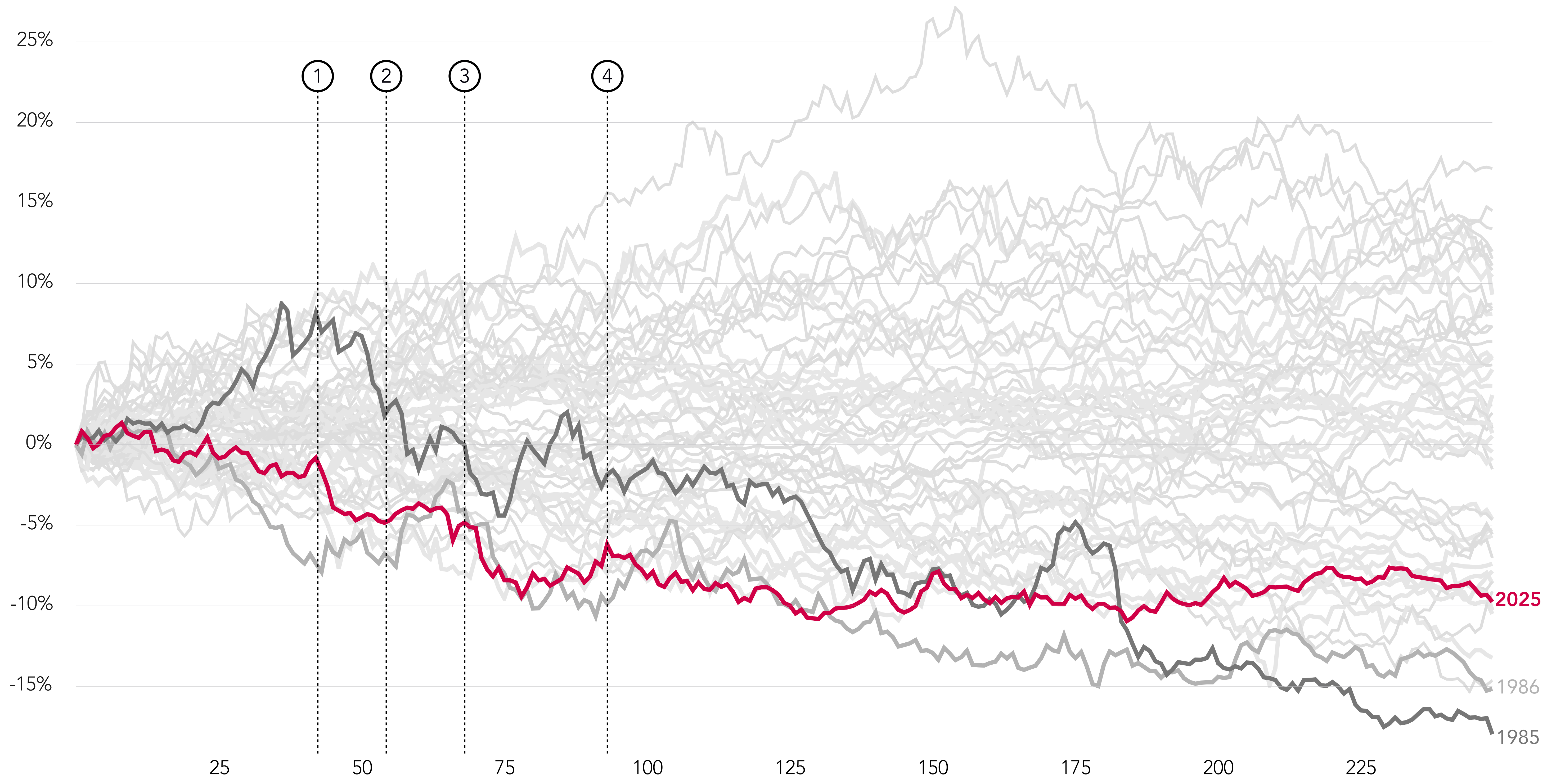
Two: what begins as a localised shock—a sharp technology downturn, a fiscal mishap, a geopolitical rupture, or a major credit event—rapidly cascades into a global tightening in financial conditions. Equity valuations deflate, wealth effects reverse, confidence evaporates, and cross-asset volatility soars. The greenback initially climbs as investors scramble for safety, but the rally is short-lived as America's own vulnerabilities—large deficits, political polarisation, and the sheer volume of Treasuries that must be absorbed—limit the dollar's ability to function as the world's shock absorber.

Three: trade uncertainty fades, supply-chain frictions ease, and a global industrial renaissance takes hold as governments across North America, Europe, and parts of Asia ramp up investment in infrastructure, energy, defence, and advanced manufacturing, with fiscal stimulus and AI spending finally translating into broader productivity gains. American consumers keep spending, inflation drifts higher, and a growth-friendly Federal Reserve fuels a surge in risk appetite, sending equity markets higher, capital into emerging economies, and carry trades back into vogue, in an echo of what Alan Greenspan called "irrational exuberance" in the late nineties. In theory, such a backdrop should weaken the US dollar as investors chase returns abroad. In practice, if US growth expectations are seen outpacing peers and capital continues to flow into American markets, the greenback could strengthen in a risk-on world, enjoying a solid recovery even as imbalances quietly accumulate.

Whether sparked by political upsets, trade tensions, fiscal missteps or widening cyclical divergences in 2026, currencies are likely to resume their familiar role as the main conduits for global shocks. Prevailing volatility assumptions look too low given the range of possible outcomes.

US Dollar: Bowed, Not Broken

The dollar fell by more in early 2025 than in previous instances of deliberate depreciation
Annual change in DXY exchange rate index, 1975 - 2025



1) Fentanyl and immigration tariffs on Canada, Mexico, China, 2) German debt brake agreement, 3) 'Liberation Day', 4) China tariff pause
Sources: Corpay, Bloomberg

The US dollar emerged as the weakest-performing major currency in 2025, but its losses were heavily front-loaded, coming in March and April as Germany unexpectedly loosened its constitutional debt brake and Donald Trump's 'Liberation Day' tariff announcements rocked confidence in the US economy. By mid-year, what began as a self-reinforcing wave of dollar selling—amplified by a jump in hedge ratios among overseas investors—gave way to more rangebound price action, as doubts emerged over the euro area's growth boost and Washington retreated from its most consequential tariff threats.

In early 2026, economists and strategists are overwhelmingly bearish on the currency, with the consensus pointing to three major factors that could provide the basis for another year of underperformance:

First, global growth differentials are forecast to narrow as governments elsewhere raise defence and infrastructure spending. The US economy is still projected to expand faster than most peers, but performance gaps have narrowed substantially from year-ago levels.

Second, the Federal Reserve is seen pushing rates well into accommodative territory, guided by a politically-motivated chair. Swaps are reflecting at least two more Fed cuts before December, while other central banks are expected to hold or tighten modestly, implying a steady compression in yield differentials that once favoured the dollar.

Third, the disruptive effects of a second Trump presidency are seen as largely priced in, compressing risk premia in exchange rates. Implied volatility across most major currencies has fallen sharply across maturities, suggesting investors expect event risk to matter less this year, and early shocks—from the US capture of Venezuela's Maduro to the administration's renewed pressure on the Federal Reserve—have been absorbed with notable calm, underlining a degree of resilience in prevailing market narratives.

US Dollar: False Dawn

The first half of 2026 may bring some discomfort for dollar bears.

Evidence of a material slowdown in the US economy is difficult to find. Consumer spending is showing clear signs of resilience, supported by strong household balance sheets and wealth effects among higher-income households. Companies, while cautious on hiring, have largely avoided layoffs, absorbing trade shocks through productivity gains. Financial conditions remain incredibly loose, with credit spreads staying tight, ample liquidity flowing through markets, and asset values marking record highs.

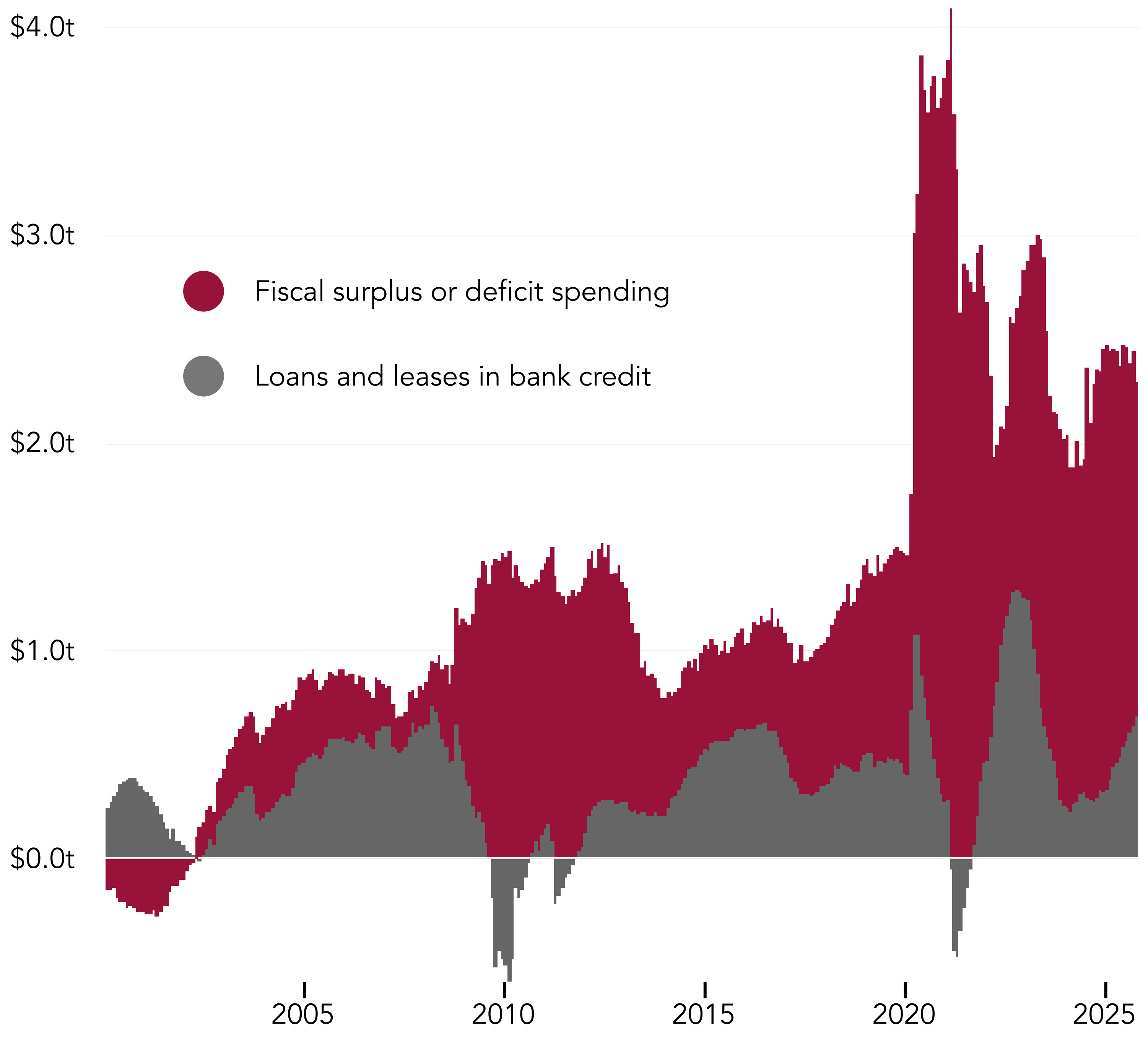
Expectations could climb in the months ahead. Activity might rebound mechanically after the government shutdown. Provisions in last year's Big Beautiful Bill may spur additional spending among higher-income households, while accelerated depreciation measures and easing trade policy uncertainty lift business investment. Labour markets may appear tighter as immigration curbs restrict worker supply, with continued real income gains offsetting falling shelter costs and adding to tariff-led price increases in keeping inflation above target.

This implies that Fed officials are unlikely to ratify market bets on aggressive easing. Even under new leadership, a majority of voting members is likely to stick to its data-dependent stance, resisting pressure to loosen policy prematurely. Fears of a wholesale erosion of Fed independence—while not unfounded—may fade as institutional inertia reasserts itself.

Against this backdrop, a hawkish repricing seems plausible, supporting a near-term dollar recovery—especially against currencies where optimism has outrun reality. Europe remains politically fragile, China is contending with a deflating property sector and weak consumer confidence, and Japan must manage rising yields without unsettling its debt dynamics. The dollar need not be flawless to outperform; it merely needs to appear less compromised than the alternatives.

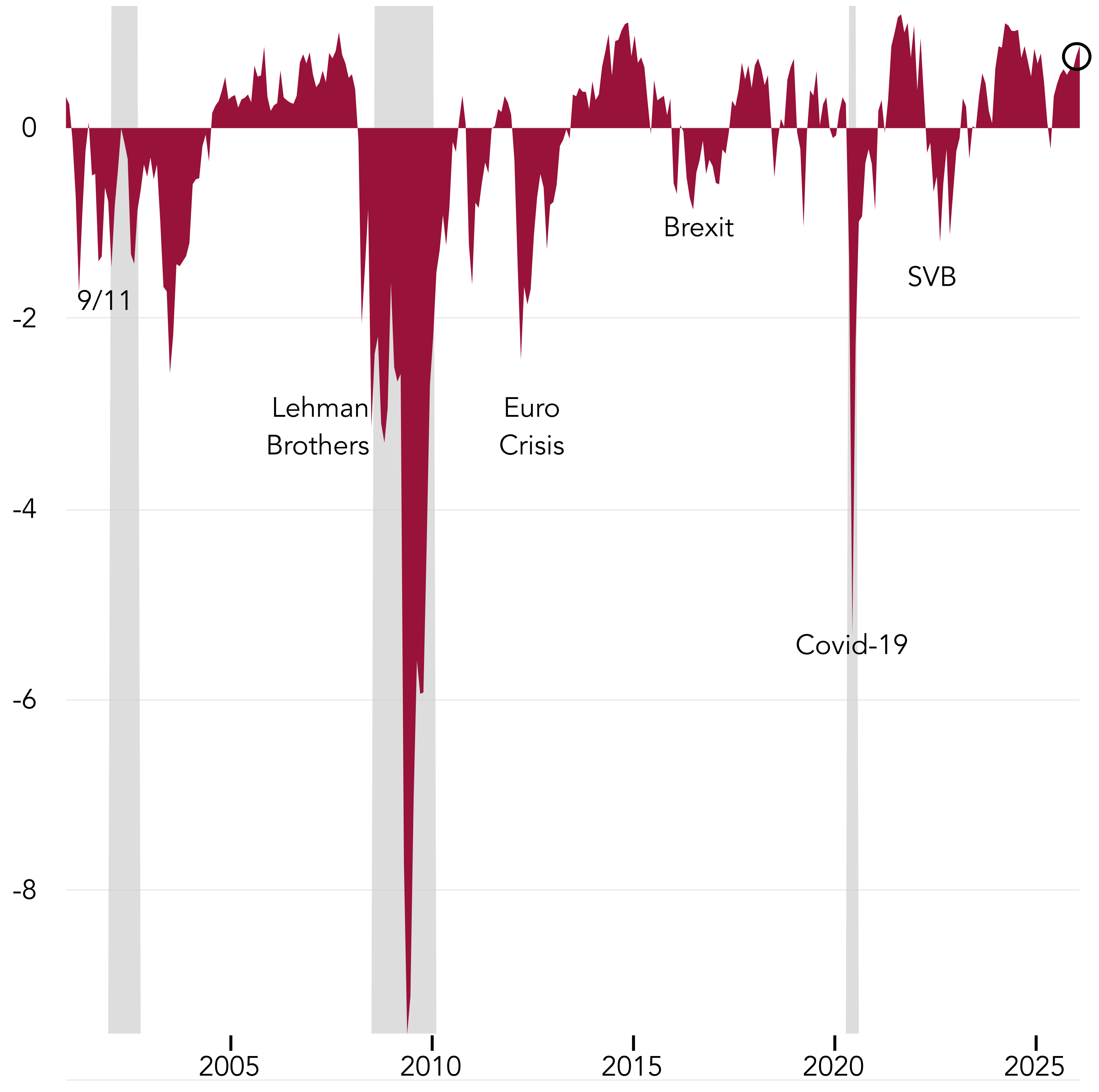
To be clear, we don't see a new cyclical bull market emerging. An early-year recovery would amount to, at best, a temporary reprieve.

The US financial impulse remains incredibly strong
Federal deficit spending + new loans and leases in bank credit, 12-month rolling sums, trillions USD, Jan 2000 - Nov 2025



Sources: US Treasury, Board of Governors of the Federal Reserve System

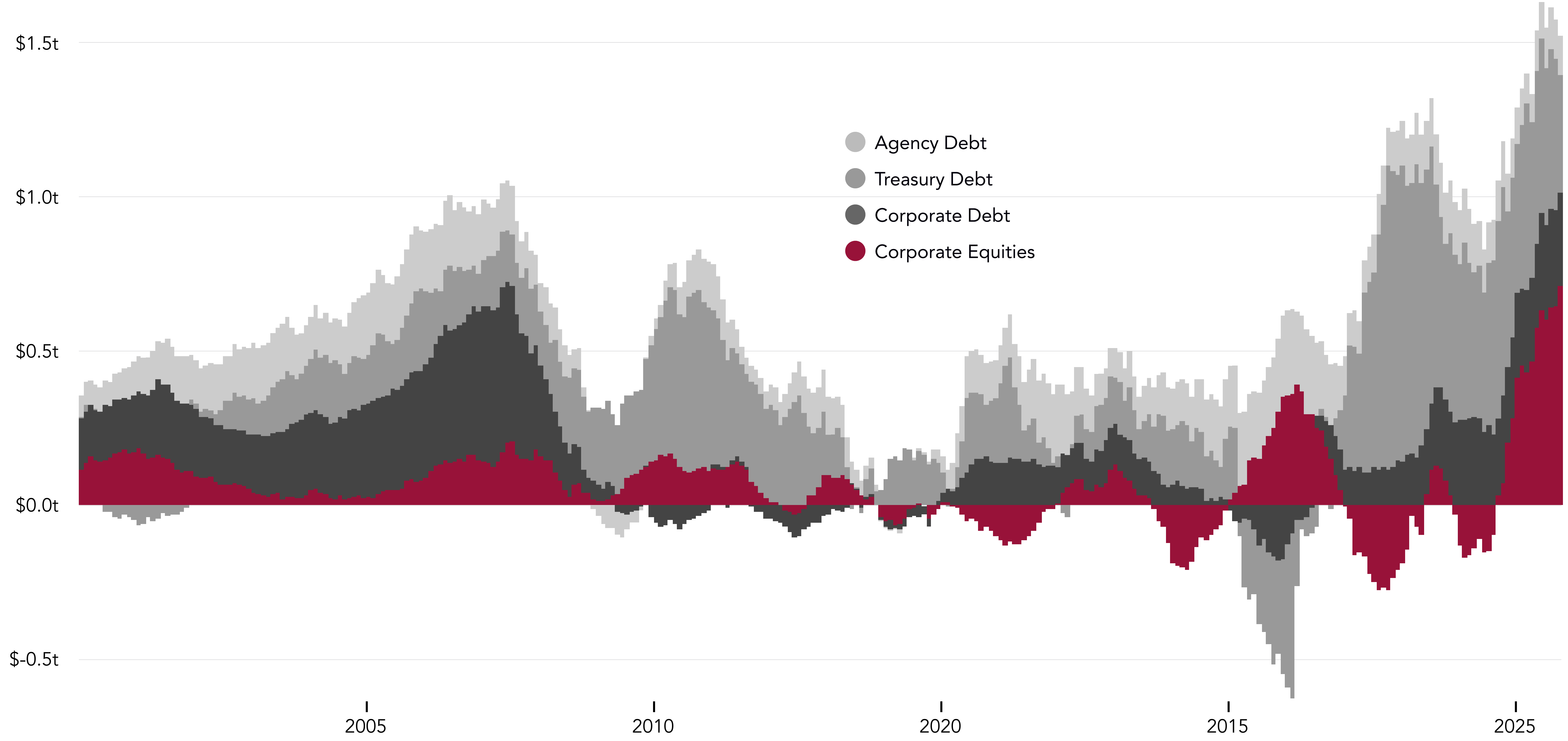
Financial conditions are still very loose
Bloomberg US Financial Condition Index, Jan 2000 - Jan 2026



Notes: Positive values indicate accommodative financial conditions, negative values indicate tighter financial conditions.
Sources: Bloomberg

US Dollar: Fragile Exceptionalism

Contrary to many headlines, the US continues to attract vast flows of foreign capital
Net foreign flows into US assets, 12-month rolling sums, trillions USD, Jan 2000 - Sep 2025



Sources: US Treasury

We expect selling pressure on the dollar to build in the second half of 2026 as the forces behind a decade of US exceptionalism lose momentum.

The first shift is fiscal. Since the pandemic, US outperformance has been driven by the scale, speed and persistence of public spending, which far exceeded other advanced economies once adjusted for cyclical conditions. Generous household transfers were followed by successive waves of infrastructure and industrial policy, sustaining demand even as interest rates rose. That impulse was amplified by flexible labour markets, deep capital markets and powerful wealth effects. But it is now fading. Pandemic-era programmes have expired, public infrastructure spending is plateauing, debt-servicing costs are rising and political constraints are tightening. At the same time, public policy elsewhere is turning more supportive, particularly in Europe and parts of Asia, narrowing expected growth differentials.

Second, economic policy uncertainty is rising. Deepening polarisation, abrupt and opaque shifts in political agendas, and growing doubts about the resilience of institutional guardrails are nudging US risk premia steadily higher. Global investors are unlikely to respond with a wave of capital withdrawals, but hedge ratios have risen, and a slow-motion diversification into alternative markets has gotten underway.

Finally, leadership in US equity markets has become increasingly narrow. Recent gains have been overwhelmingly driven by an artificial intelligence-led investment boom, with a small group of firms accounting for a disproportionate share of earnings, capital spending and returns. That concentration leaves asset values vulnerable to any normalisation in hyperscaler investment—or disappointment on productivity gains.

This is not a story of economic failure or a sudden loss of confidence, but of relative change: a gradual erosion of the advantages that once made US markets the preferred destination for global capital flows.

Canadian Dollar: Facing Transition

The Canadian dollar looks destined for another unsettled year in 2026 as the economy adapts to a changed global environment. Business investment, job creation, and economic growth have suffered since Donald Trump turned his sights on Canada last year, compounding the slowdown in real estate markets that was already underway and forcing the country into a painful structural transition.

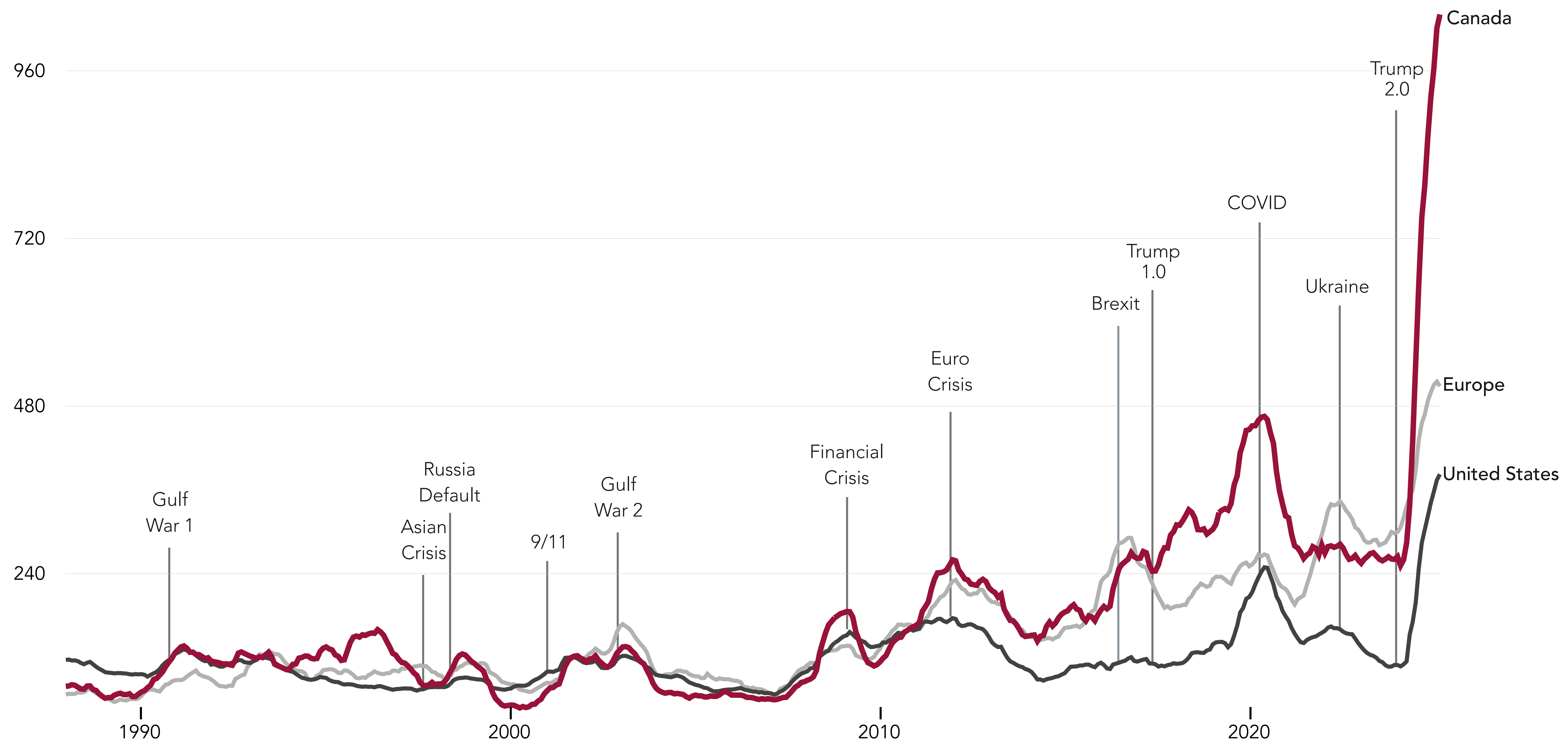
The Bank of Canada is unlikely to be the main driver. After cutting rates to the lower end of the neutral range, Canada's central bank has effectively sidelined itself, stressing that the current overnight rate is at "about the right level" if the outlook holds. Policymakers are wary of adding to still-stubborn inflation pressures or overstimulating an economy in which household leverage is among the highest in the developed world, and understand that monetary easing cannot offset the deeper challenges posed by external shocks.

A more material source of potential volatility comes from trade uncertainty. The run-up to July's USMCA joint review will leave the currency vulnerable to bouts of volatility—particularly given Trump's well-established penchant for hyperbolic rhetoric. With roughly 90 percent of Canadian exports compliant with the agreement's rules, any threat to unwind it could prove consequential.

However, downside risks may have less longevity than the headline noise suggests: actual tariff rates remain low, and Congressional support for further increasing import taxes on American households will be difficult to find ahead of the late-2026 mid-terms. There are also glimmers of resilience: real estate markets are showing signs of stabilising after a multi-year drop in interest rates, labour markets are tightening at the margins, and measures of business and consumer confidence are showing signs of improvement as government stimulus filters through the economy.

We expect some of the Canadian dollar's fundamental undervaluation to unwind over the year, but its progress will be punctuated by recurrent setbacks. The economy is not yet on firm ground—and neither, for that matter, is the exchange rate.

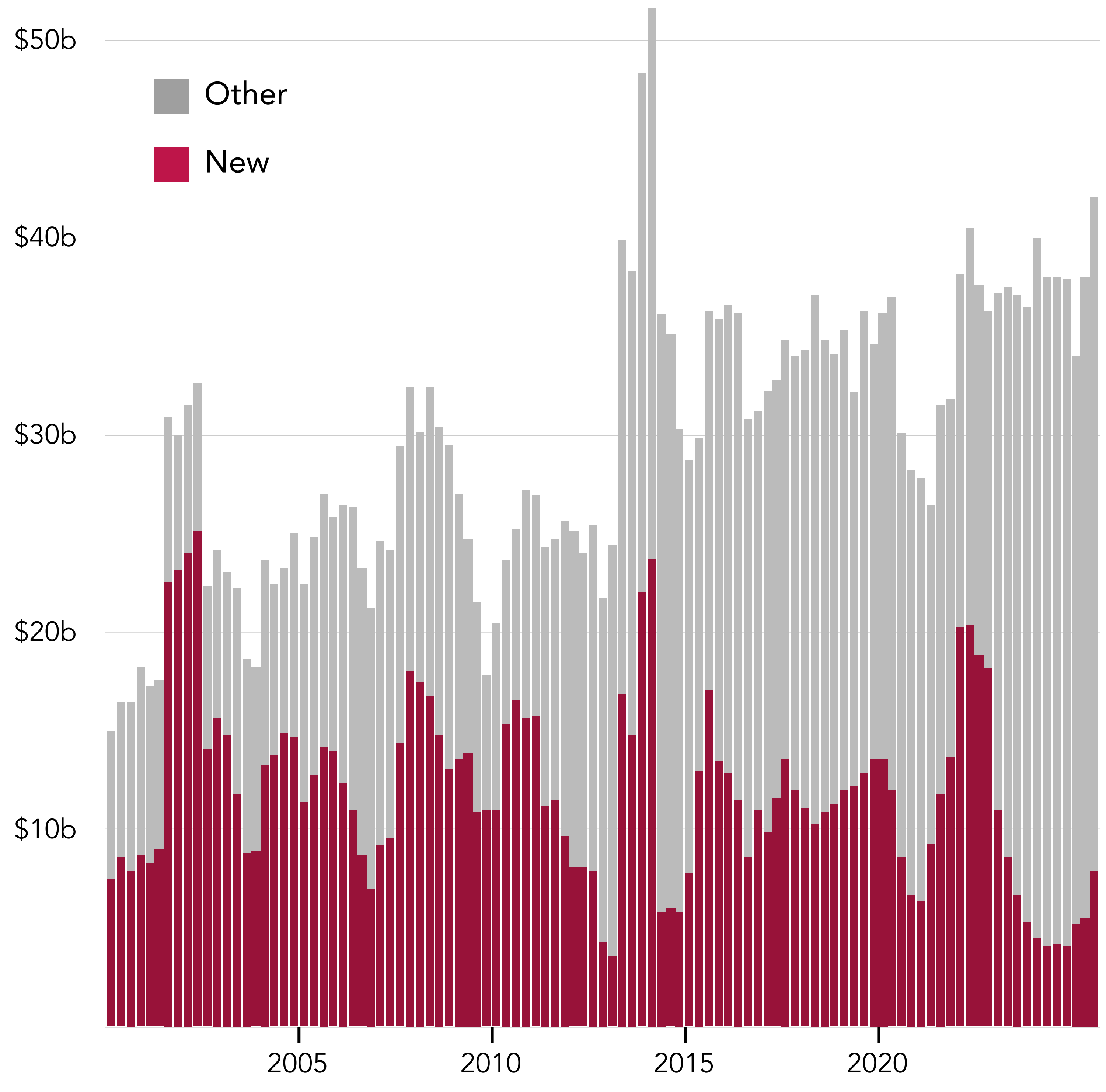
Uncertainty represents the biggest headwind to the Canadian economy
Economic Policy Uncertainty Indices, 12-month rolling averages, Jan 1988 - Nov 2025



Sources: Global Economic Policy Uncertainty Index, Baker, Bloom, Davis

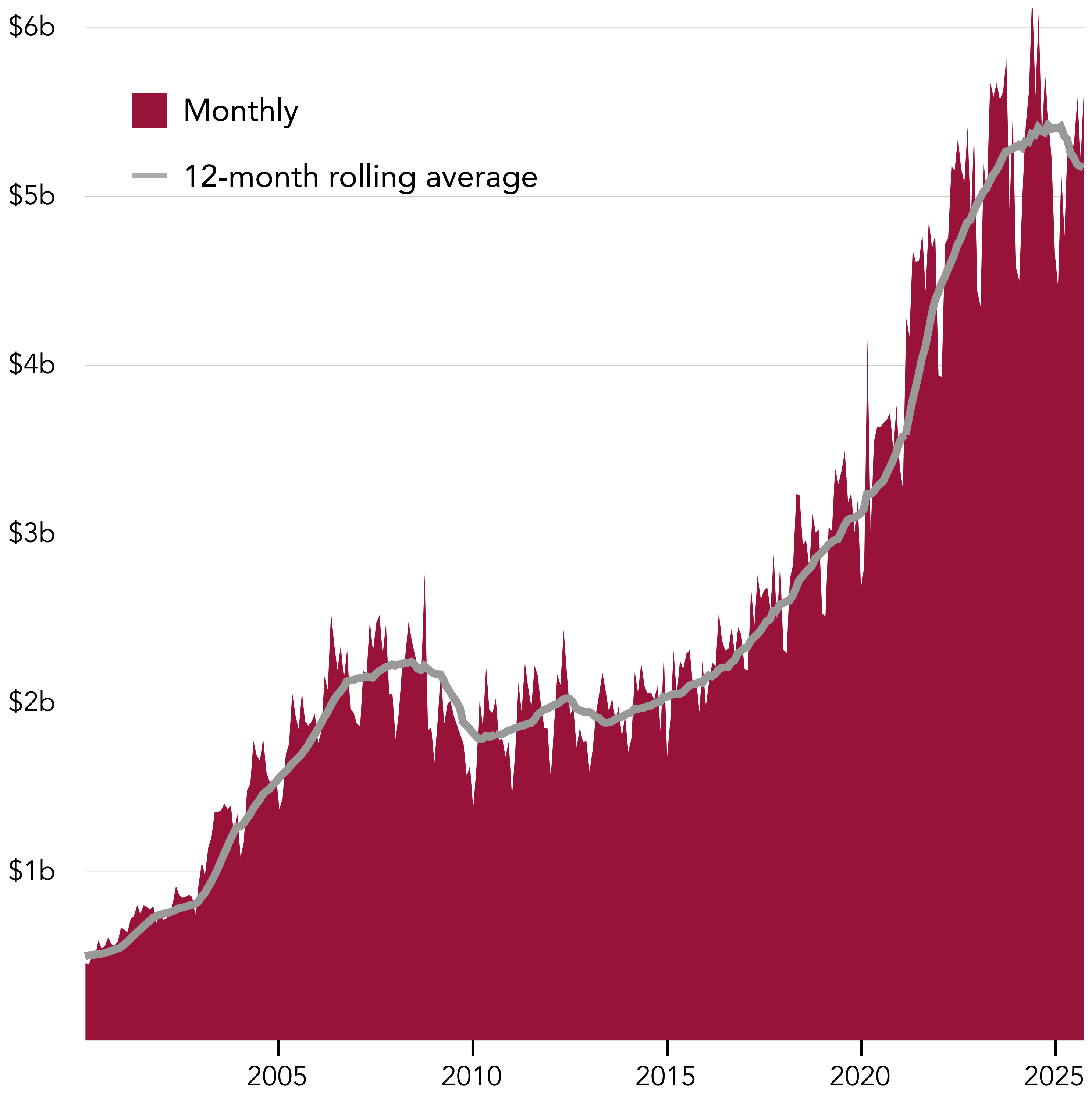
Mexican Peso: Illusory Strength

New foreign direct investment has fallen
Billions USD, 4-quarter moving sums, Q1 2000 - Q3 2025



Sources: Secretaria de Economia Mexico

Remittances have peaked and are now falling
Worker remittances, Billions USD, Jan 2000 - Oct 2025



Sources: Secretaria de Economia Mexico

The Mexican peso looks superficially strong, but the conditions that once made it the emerging world's premier carry trade are beginning to erode. For years, wide interest differentials and strong foreign demand for local assets helped propel the currency higher. That backdrop is now turning less forgiving.

To be sure, Mexico's longer-term fundamentals remain broadly constructive. The country retains solid external balances and manageable debt levels, while competitive labour costs, geographic proximity, and deep industrial integration with the United States position it well within an evolving North American manufacturing ecosystem. Under the USMCA, roughly 82–85 percent of Mexican exports are entering the US market duty-free, keeping effective tariff rates among the lowest globally and preserving a meaningful competitive edge.

But the near-term growth outlook has darkened. Private consumption is moderating alongside slowing formal job creation, particularly in the manufacturing sector. Policy uncertainty is discouraging business investment, fiscal support is fading, and remittances—an essential source of household income—appear to have peaked as immigration enforcement tightens and construction activity cools in the US. Hopes for a transformative reshoring boom have also lost steam: superficially-high investment numbers now mostly reflect reinvestment rather than greenfield expansion, and some multinationals are reassessing commitments amid shifting political signals in both Mexico City and Washington. Monetary policy is becoming less supportive as well. With inflation receding and domestic activity softening, we think the Banco de México might deliver more easing than markets currently expect, eroding the peso's once-commanding rate premium over peers in Latin America and central Europe.

Absent a fresh catalyst for investment or a trade policy breakthrough, the peso is likely to lag better-positioned emerging-market currencies in the early part of 2026 and might come under renewed selling pressure toward year end.

Euro: Reality Check

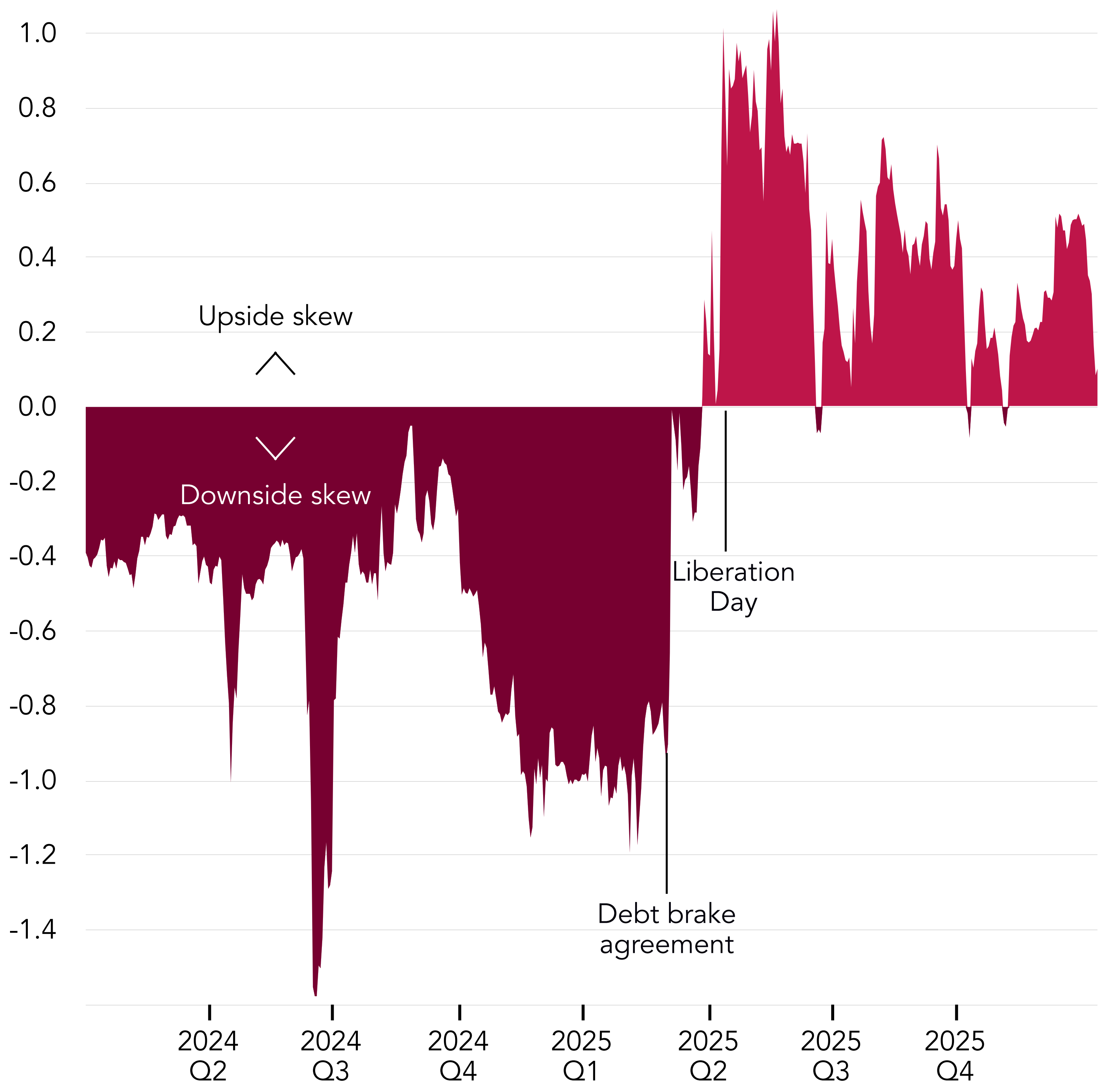
The euro is trading on a far stronger footing than almost anyone anticipated a year ago. Its unexpected appreciation—fuelled by optimism around German fiscal reforms—was a major force behind the US dollar's retreat and the broader re-ordering of currency markets in 2025, and most investors expect further gains in the year ahead. The prevailing view is that spillovers from German fiscal spending, firmer domestic demand, steady growth in the periphery, and inflation lingering above target will allow the European Central Bank to keep policy settings unchanged, narrowing the interest rate gap with the Federal Reserve.

Constructive forces should indeed grow stronger as 2026 progresses. Labour markets remain tight, household spending is recovering alongside rising real incomes, and the effects of earlier rate cuts are still working their way through the economy. In the second half, we think increased defence spending and infrastructure investment should translate into a more tangible lift in activity, reinforcing business confidence and underpinning domestic demand.

But a "trough of disillusionment" looms in the near term. Political risks in both France and Germany are non-trivial, with fiscal paralysis in Paris and strains within Berlin's governing coalition raising the possibility that ambitious spending plans become mired in bureaucracy and fail to deliver the uplift that markets have eagerly priced in. Elsewhere, market-imposed fiscal restraint may cap growth potential. At the same time, Europe's exporters are confronting a less favourable external backdrop, marked by intensifying Chinese competition, weakening global demand for luxury goods, and increasingly capricious US trade policy. If growth slips, markets could move to anticipate more easing from central bankers.

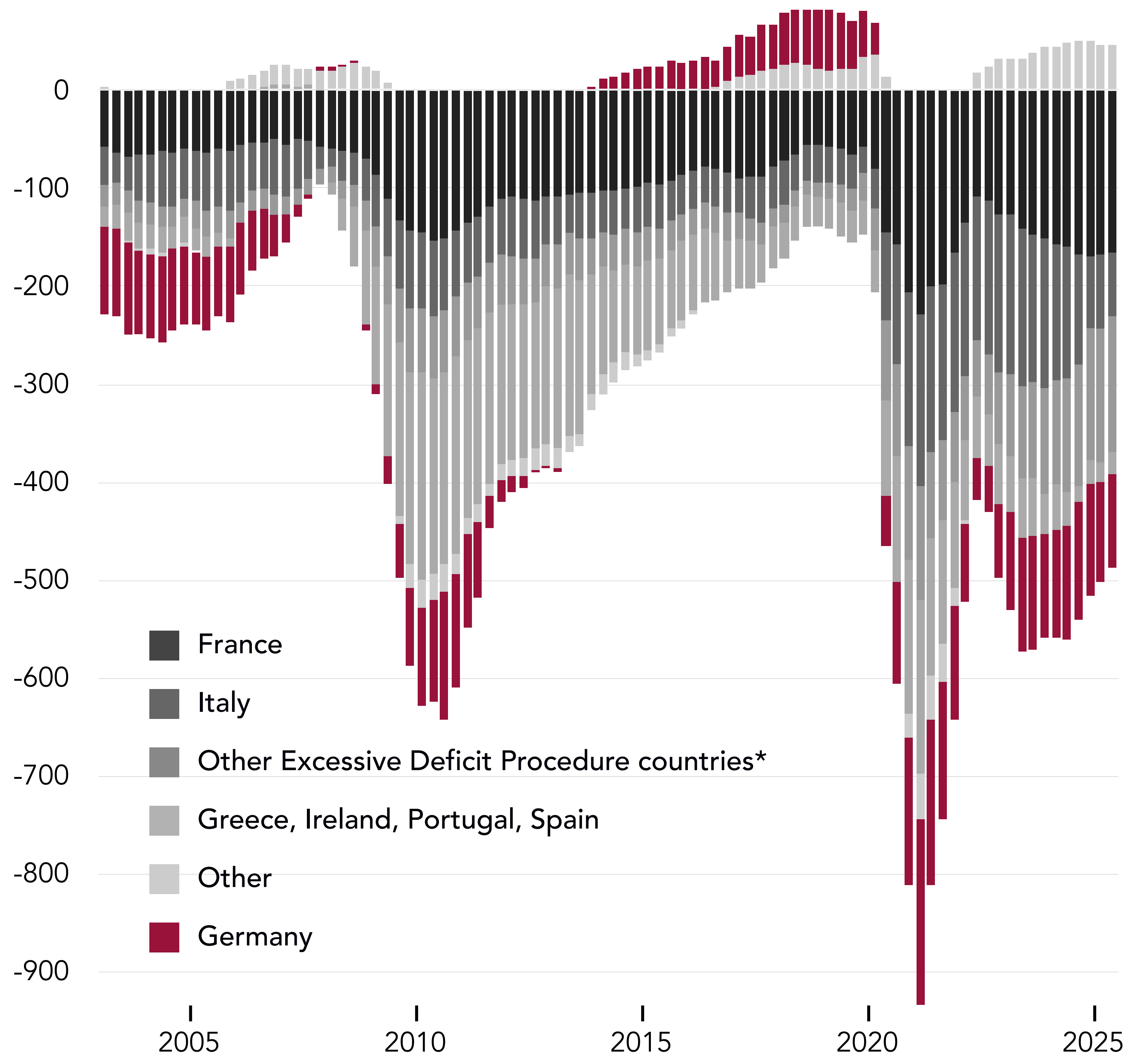
Without genuine fiscal coordination or a self-sustaining growth rebound, we believe it is reasonable to expect narrower and more fragile gains in the euro this year—and risks are more two-sided than markets currently appreciate.

The euro's reversal coincided with German debt brake reform
EURUSD 3-month risk reversal, Jan 2024 - Jan 2026



Sources: Bloomberg

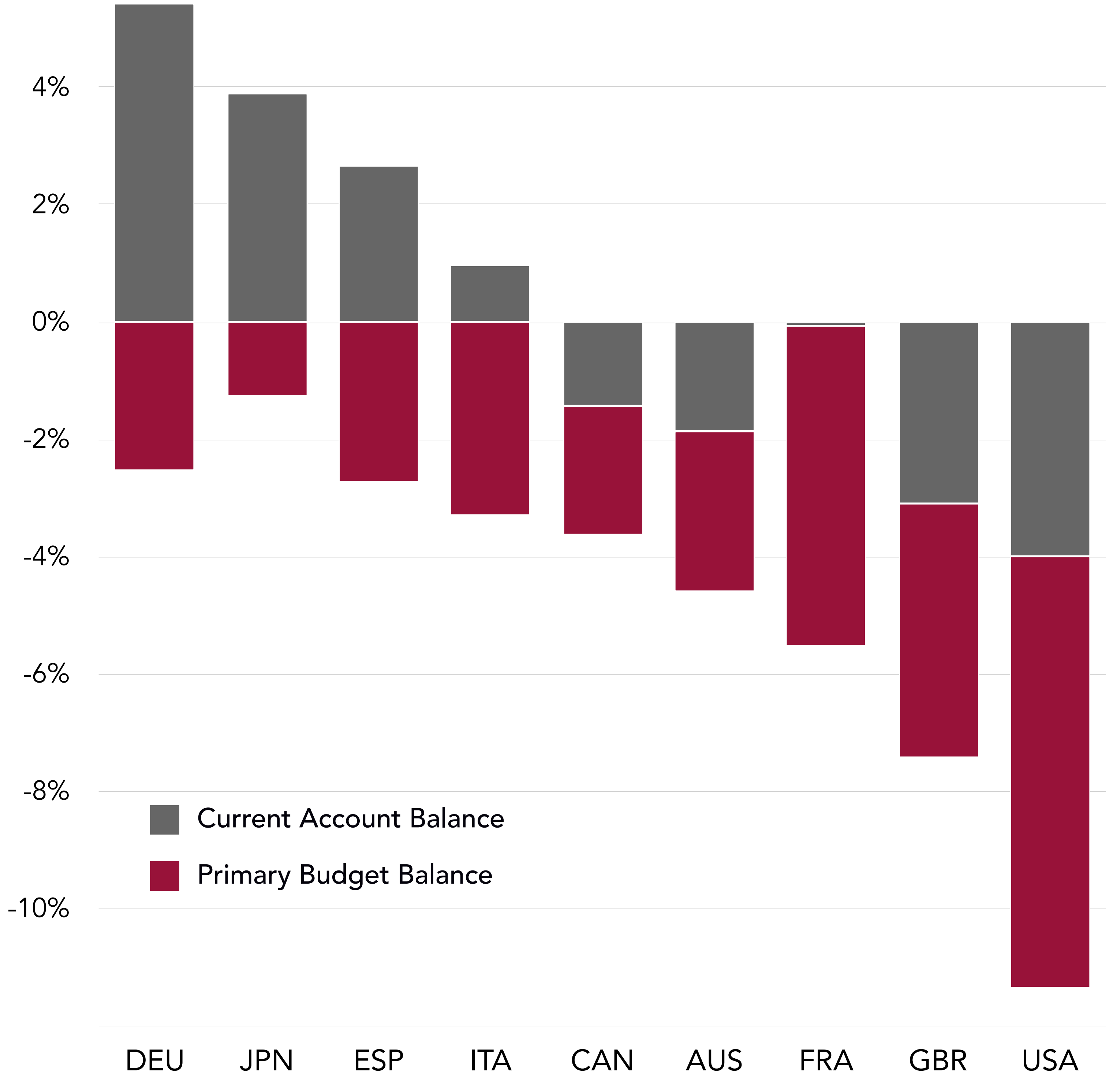
Fiscal tightening elsewhere could partially offset German stimulus
General government net lending / borrowing, 4-quarter rolling sums, billions euro, Q1 2003 - Q2 2025



Sources: Eurostat

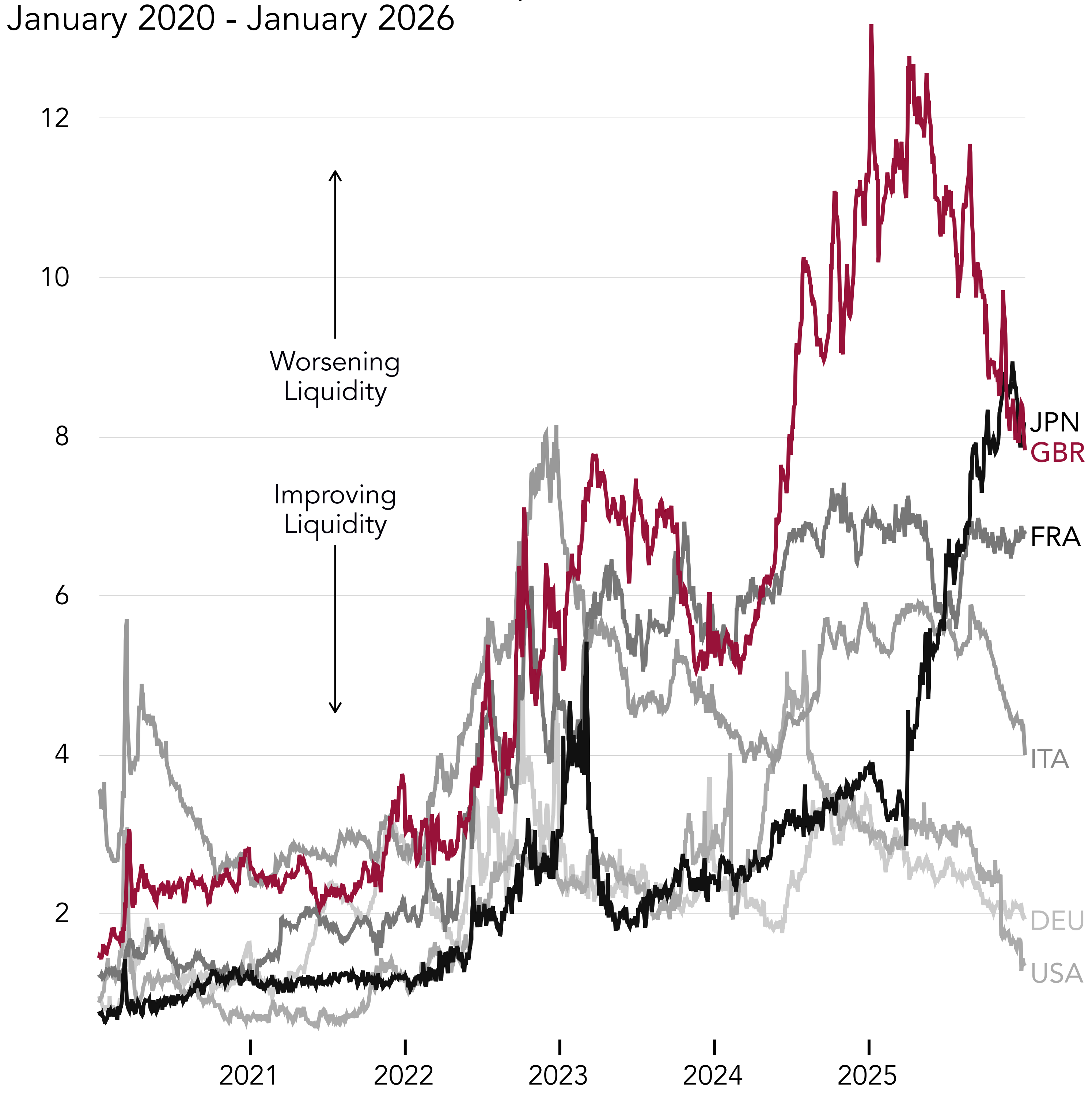
British Pound: Improving Credibility

The UK's twin deficits represent a fiscal vulnerability
Primary budget and current account balances, % of GDP, 2025



Sources: International Monetary Fund

Market liquidity is improving as credibility is re-established
Bloomberg government bond liquidity index, average yield error, January 2020 - January 2026



Sources: Bloomberg

After nearly two years confined to an exceptionally narrow trading range, sterling has finally broken free, and is gaining altitude against a beleaguered US dollar.

Its ascent may not be smooth. In the months ahead, residual shocks from last year's spike in trade and fiscal-policy uncertainty could work their way through the economy and weigh on business investment, labour-market conditions, and household spending, forcing markets to revise expectations for the Bank of England's terminal policy rate downward. Political risks could also re-emerge as a source of early-year volatility: with Labour polling below Reform and level with the Conservatives, the May 7 local elections may expose internal fractures, reopening questions around Prime Minister Starmer's authority.

The UK remains reliant on the "kindness of strangers" to fund its twin deficits, but markets are becoming less likely to face a repeat of 2022's fiscal turmoil: the government has demonstrated a clear appreciation of the need to keep investors onside, and has laid out tax and spending plans that should deliver a stabilisation in the debt-to-gross domestic product ratio over time. Liquidity conditions in gilt markets are steadily improving.

A turning point could emerge later in the year: As the effects of earlier monetary easing permeate the economy and front-loaded government spending measures kick in, activity levels are likely to bottom out and begin to recover. Hiring intentions should firm as policy uncertainty recedes and global demand edges higher. A gradual easing in term premia—driven by fading fiscal worries—would further support financial conditions. And with UK policy rates expected to remain modestly above their US counterparts, sterling should regain some of its appeal as a G10 carry destination.

Fundamentally undervalued and still carrying the burden of past shocks, the pound may stage a slow but uneven recovery in the second half of 2026 as confidence rebuilds and the dollar loses altitude.

Swiss Franc: Diminishing Returns

After an exceptional run in 2025—during which the franc appreciated sharply against the dollar—the scope for further gains looks more limited in the year ahead.

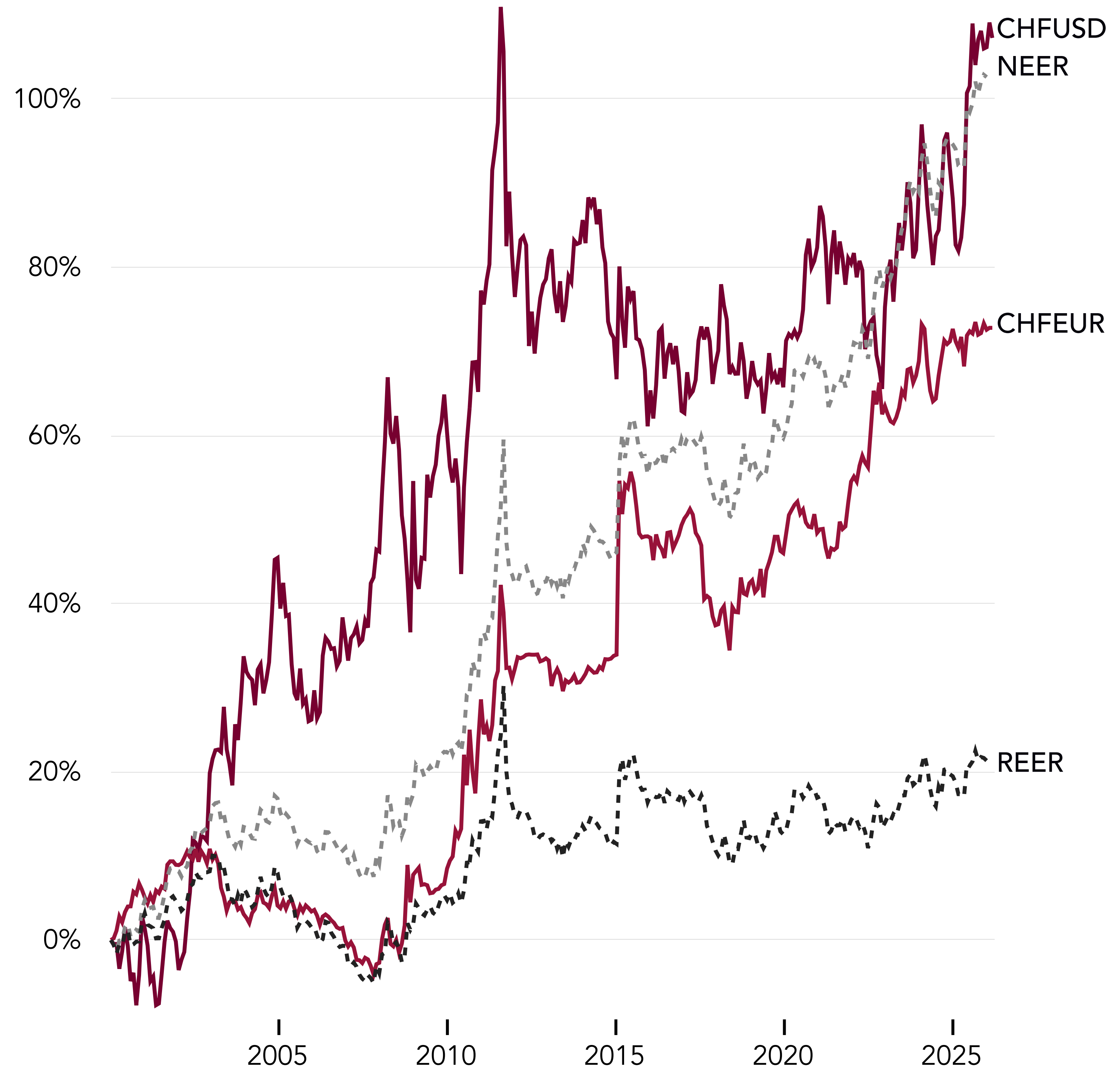
Switzerland's positive fundamentals remain firmly in place: a large trade surplus, low government debt, positive net international investment position, and strong institutional foundation make it the safe haven of choice for many international investors. The country maintains extensive economic linkages with the eurozone, and has negotiated a steep reduction in US tariff rates—from 39 percent to 15 percent—that should negate the risk of an export shock.

But with valuations already near extremes, the franc's defensive qualities are now offering diminishing returns, and the forces that propelled its recent outperformance look likely to lose some potency.

In our view, marginal demand for the gold stored in Swiss vaults is set to decline as tariff front-running efforts lose steam and entities like central banks and stablecoin operators slow their buying efforts. With inflation hovering near zero—well below the Swiss National Bank's target—and officials signalling a desire to leave policy rates unchanged for a prolonged period, light intervention risks are growing once again. And strong global demand for carry trades could weigh on the currency, particularly if—as we expect—the yen loses some of its appeal as a funding unit.

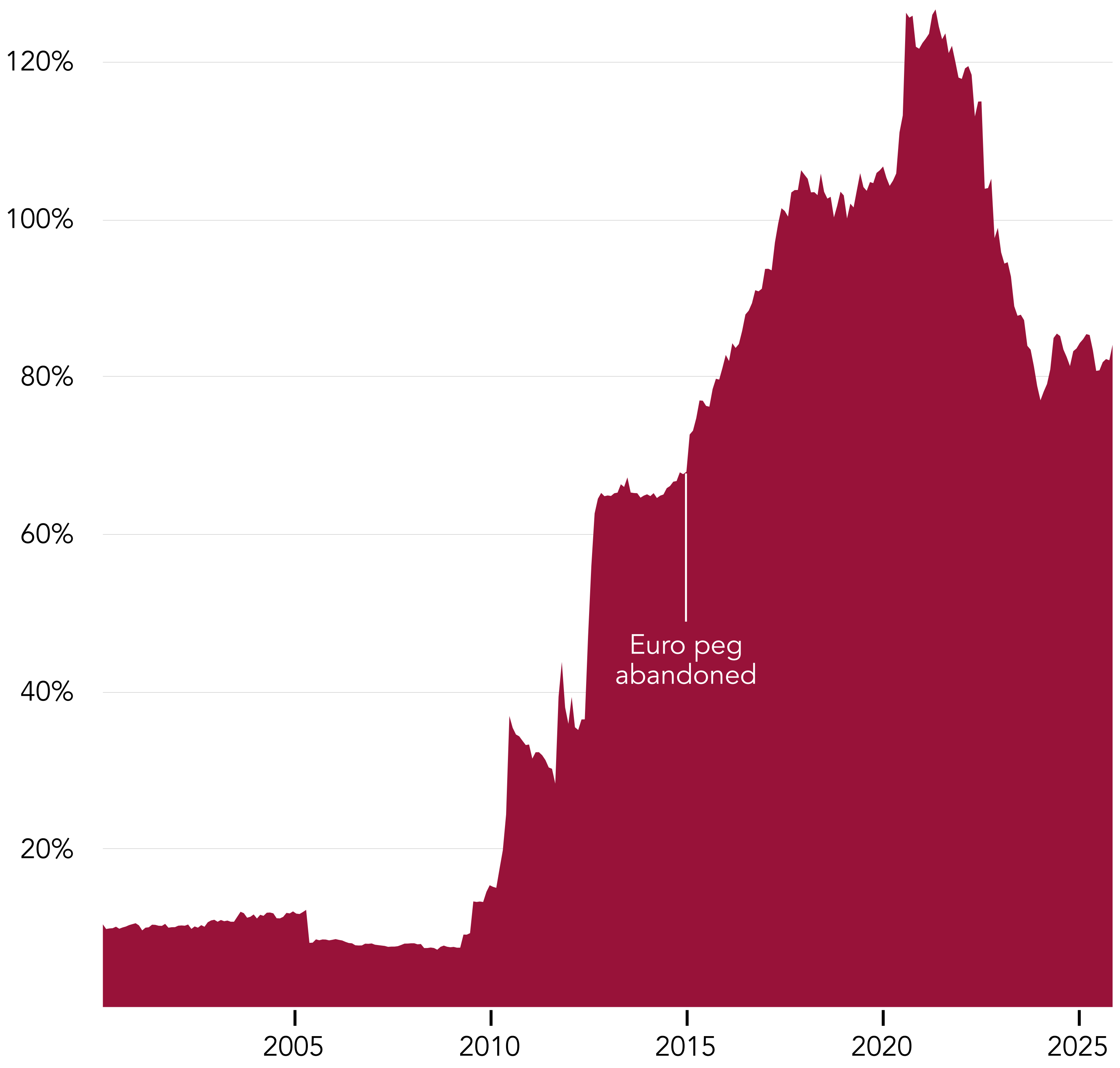
Provided a major—and sustained—flight to safety is avoided and domestic inflation doesn't accelerate, the franc should lag the euro and drift broadly sideways against the dollar over the course of the year.

The franc is well into overbought territory
Exchange rates rebased to January 2000



*NEER: Nominal effective exchange rate, REER: Real effective exchange rate
Sources: Bank for International Settlements, Bloomberg

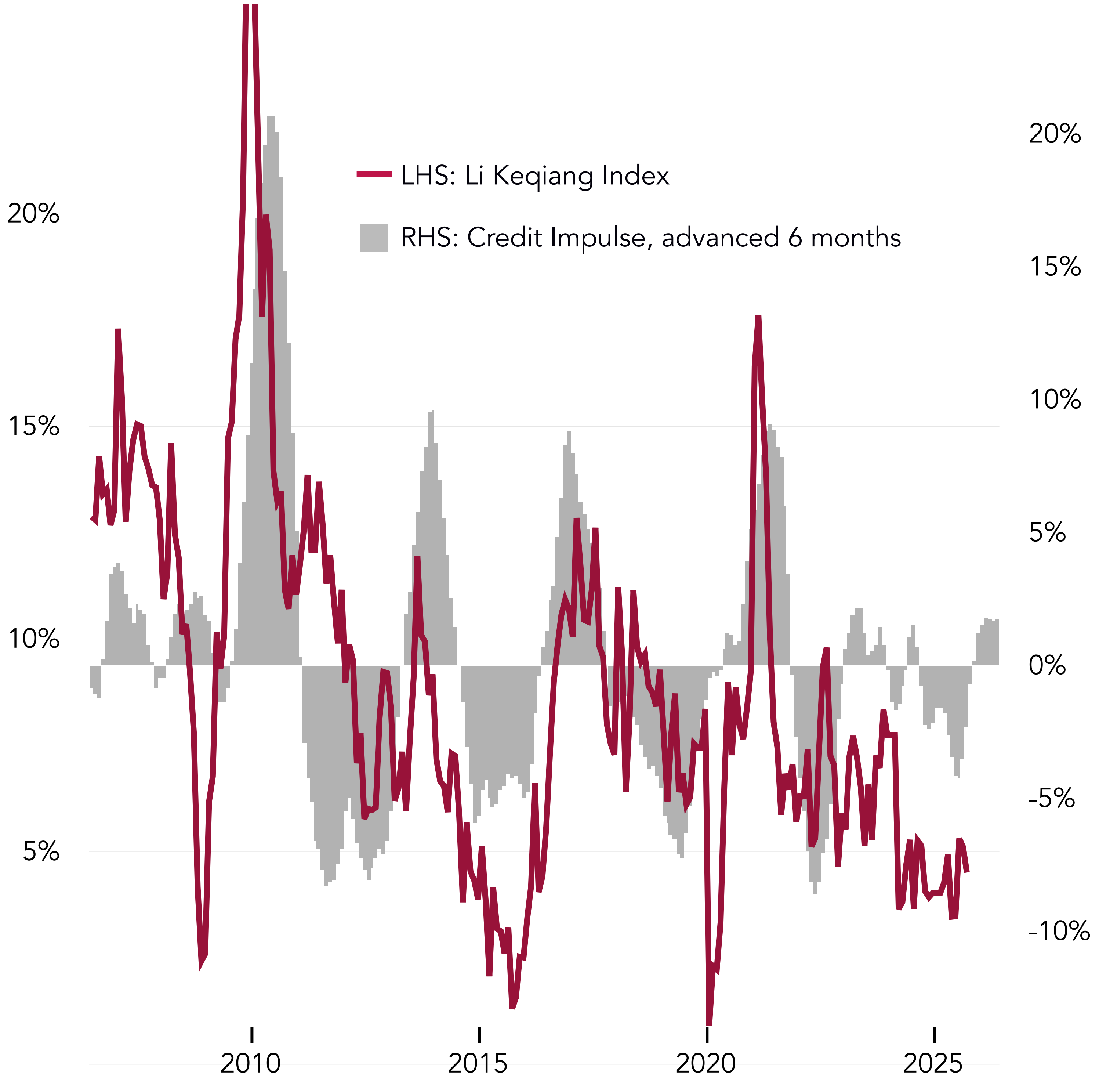
Intervention could cap further gains
SNB FX reserves, % of GDP, January 2000 - September 2025



Sources: Swiss National Bank, State Secretariat for Economic Affairs

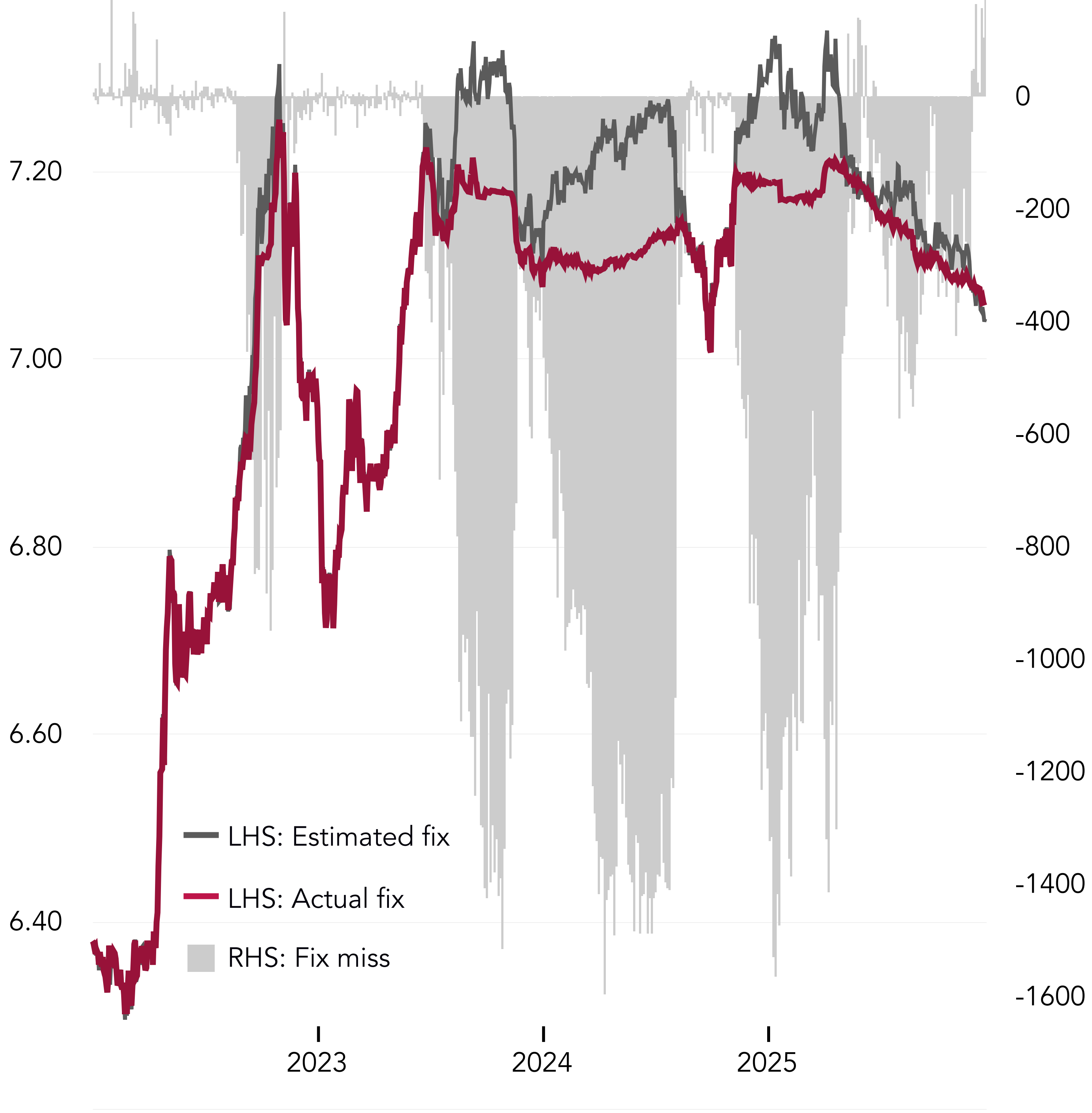
Chinese Renminbi: Mixed Performance

Upturns in credit growth often precede upturns in activity
China credit impulse and activity, June 2026 - May 2028



Sources: Bloomberg, National Bureau of Statistics

Beijing has reduced efforts to slow the renminbi's rise
USDCNY exchange rate, January 2022 - December 2025



*Fix miss = actual - estimated
Sources: Bloomberg

The renminbi enters 2026 on a firmer footing after a period of steady gains against the US dollar. Record export volumes have generated solid demand, improving trade relations with the US have reduced near-term downside risks, and an easing in Beijing's stance on currency appreciation has helped anchor expectations higher.

Looking ahead, we expect offsetting forces to dominate.

On one hand, Beijing is likely to deliver further targeted fiscal and quasi-fiscal measures in the first half of the year, with a focus on stabilising housing, supporting household incomes, and reviving private-sector confidence. This should translate into a recovery in credit growth, helping put a floor under domestic consumption levels.

On the other, underlying momentum could continue its gradual deceleration as property-sector weakness persists, demographic headwinds intensify, and advanced economies raise barriers against the country's key exports. Deflationary pressures—rooted in overcapacity and subdued household demand—may further constrain nominal growth, even as increasingly-indebted local governments prove unable to rapidly scale up stimulus efforts.

A modest re-acceleration in activity, combined with a gradual easing cycle from the Federal Reserve, should deliver incremental gains, but rapid or sustained exchange rate appreciation seems more difficult to achieve. In this environment, USDCNY could drift back into the high 6's toward year-end, retracing toward levels last seen in early 2023, but structural yield disadvantages relative to economies such as the euro area and Australia could lead to underperformance against non-US currencies.

Overall, we expect the renminbi to inch higher in 2026, but remain broadly range-bound—reflecting a delicate balance between cyclical policy support and longer-term structural constraints.

Singapore Dollar: Further Modest Gains

After outperforming a weakening US dollar and reaching levels not seen in more than a decade in the first half of 2025, the Singapore dollar relinquished some ground by the end of the year. We do not expect this corrective phase to extend materially further, but nor do we anticipate a renewed period of pronounced strength in the near term.

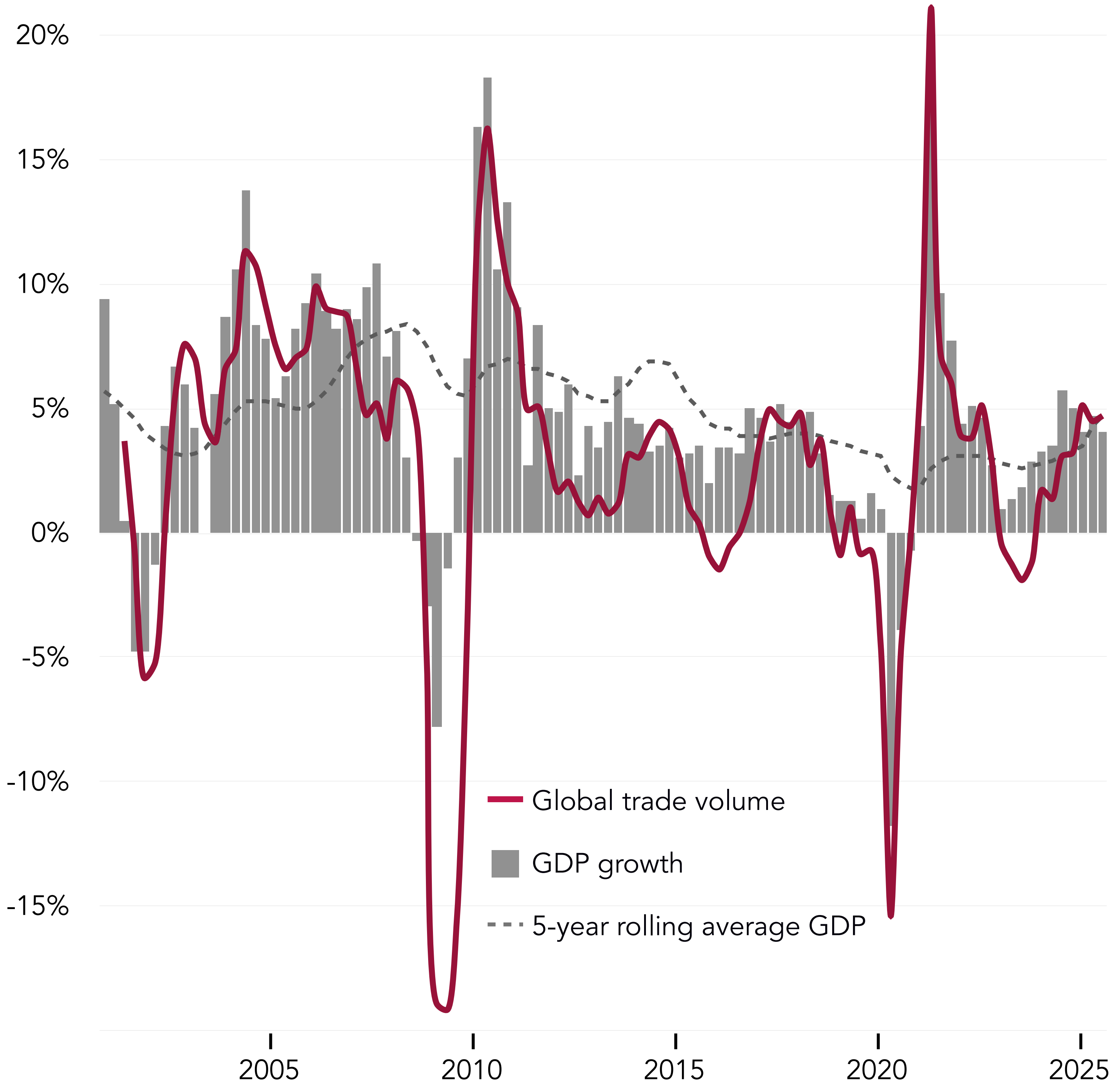
On balance, we see domestic and external crosscurrents largely offsetting one another. Our baseline expectation is for USDSGD to consolidate through the first half of 2026 before drifting modestly lower later in the year, as softer US macroeconomic conditions and an anticipated step-down in US interest rates gradually weigh on the US dollar.

From the Singaporean perspective, domestic fundamentals are more likely to provide modest support than to halt the currency's gradual climb.

The country's small, open, and technology-intensive economy stands to benefit from sustained global investment in artificial intelligence, and from a degree of resilience in broader Asian growth as Chinese authorities deliver additional policy stimulus. With the output gap remaining positive, underlying inflation pressures may prove somewhat sticky.

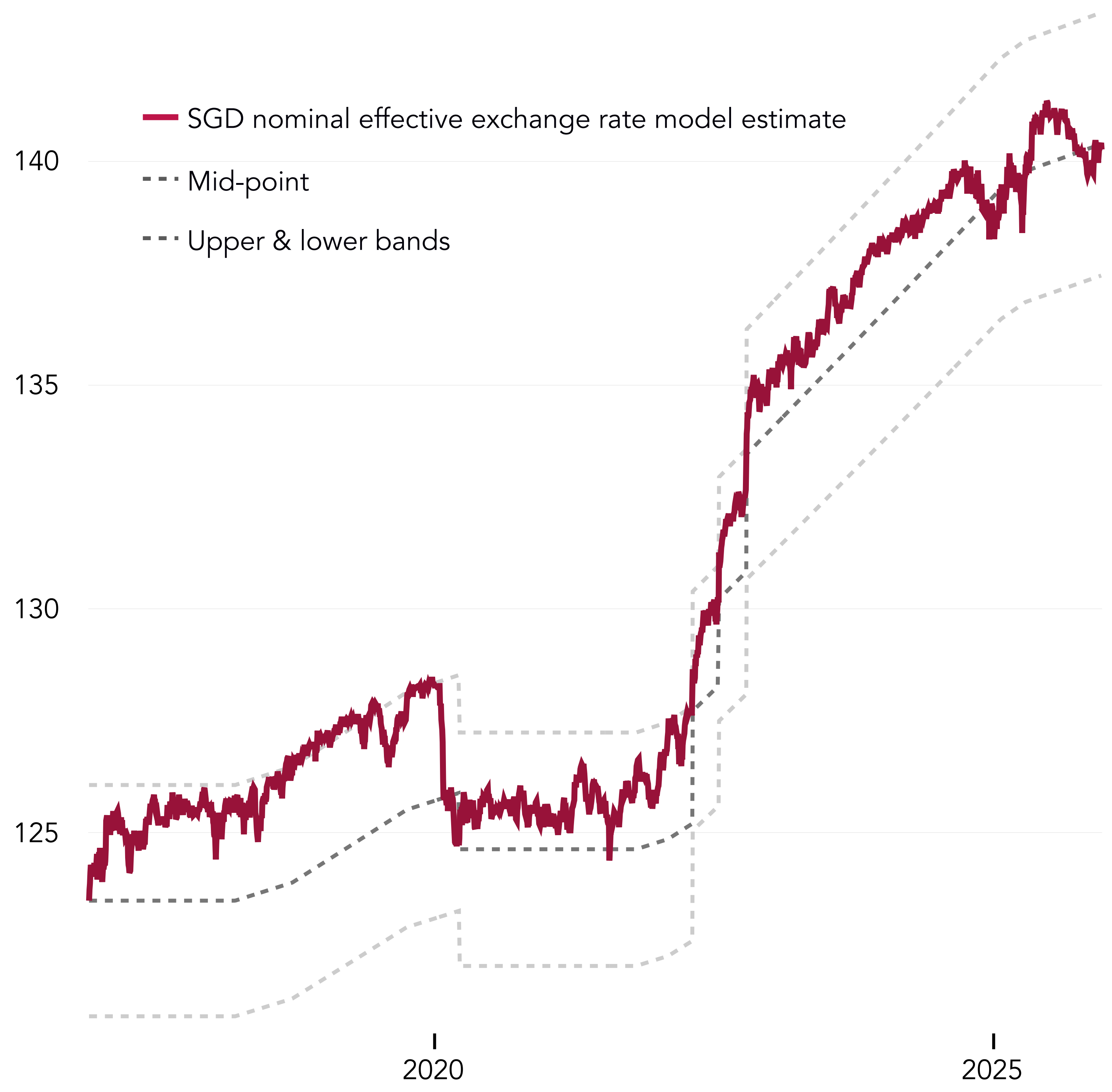
In our view, this increases the likelihood that the Monetary Authority of Singapore avoids further easing and maintains its current policy stance for an extended period, preserving the prevailing rate of appreciation in the nominal effective exchange rate.

The Singaporean economy looks well-positioned
Gross domestic product, annual % change, Q4 2000 - Q3 2025



Sources: Bloomberg, Singapore Ministry of Trade and Industry

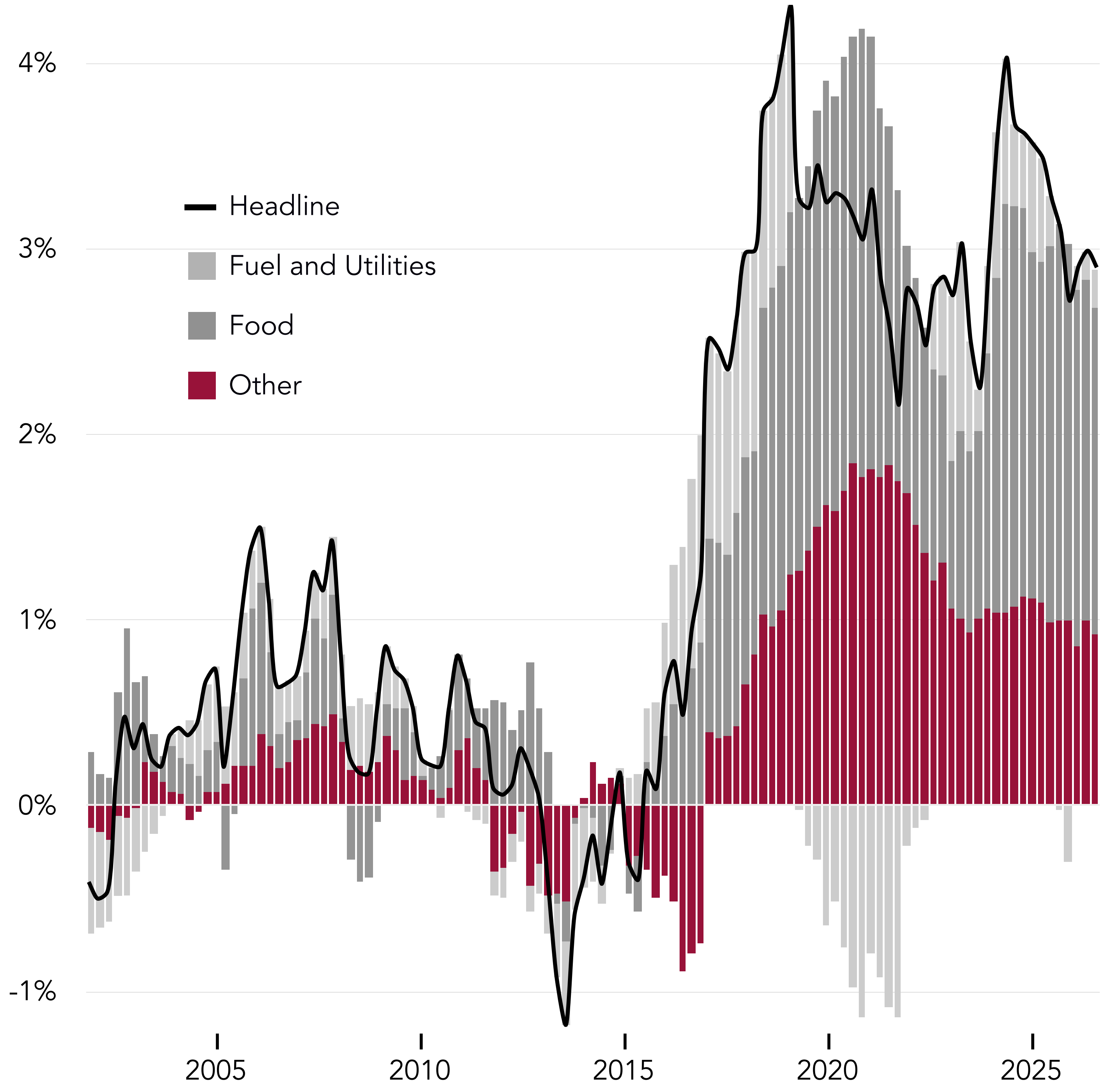
Trade-weighted currency gains could continue
SGD NEER estimate, January 2017 - December 2025



Sources: Bloomberg

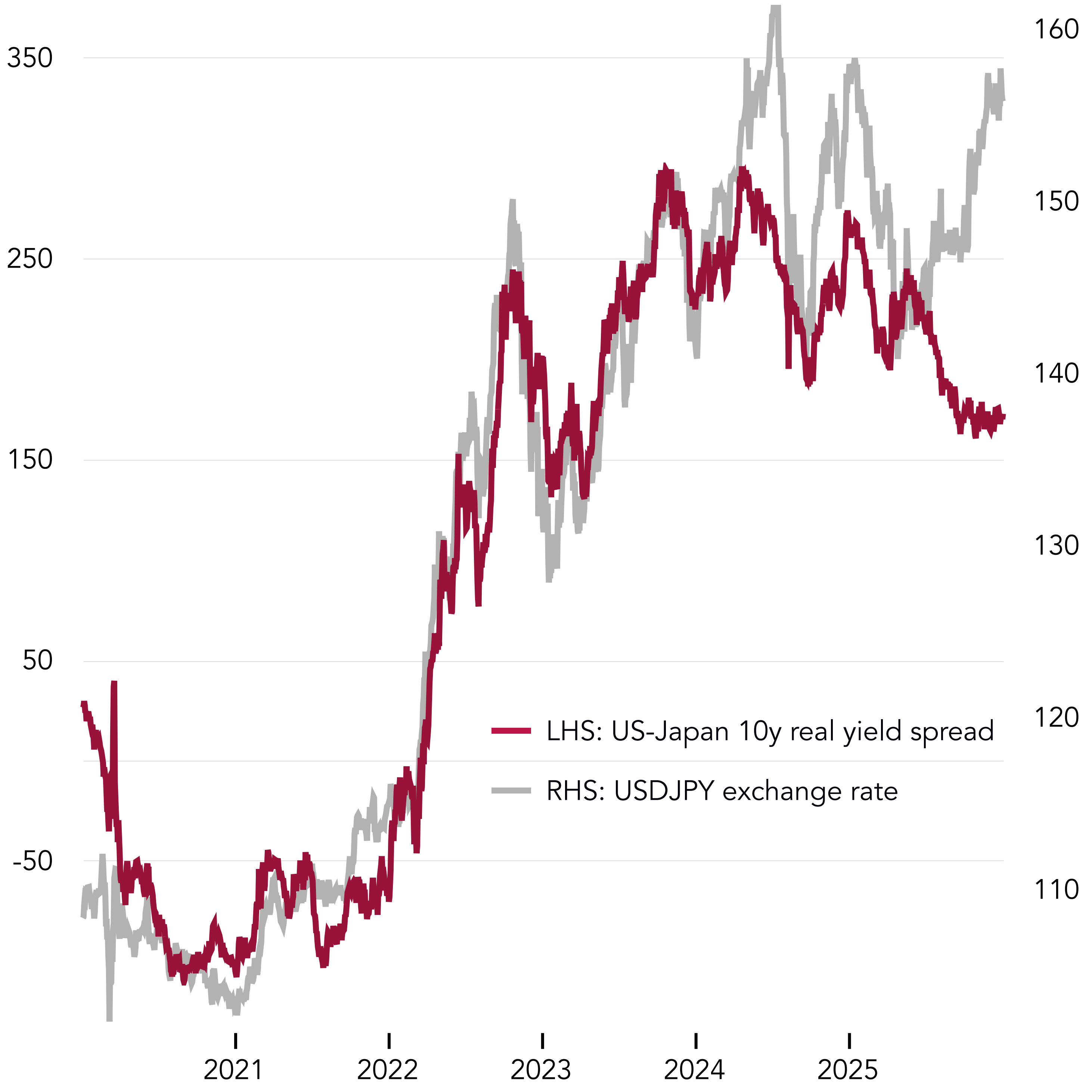
Japanese Yen: Deeply Undervalued

Price pressures remain intense
Contribution to annual CPI, July 2016 - December 2025



CPI: all-items Consumer Price Index
Sources: Ministry of Internal Affairs and Communications, Bloomberg

The yen has underperformed rate spreads
US-Japan real yield spread, January 2020 - December 2025



Sources: Bloomberg

The broad-based weakening of the Japanese yen in the final quarter of 2025 and early 2026—driven by domestic political developments and shifting expectations around fiscal and monetary policy—has, in our view, pushed the currency well below levels implied by underlying fundamentals. We expect this undervaluation to begin correcting over the course of 2026, though the prospect of a snap election being called might keep the yen on the defensive through the first quarter. From our perspective, the currency's risk profile is notably asymmetric: given current valuations, the probability of a sharp rebound appears materially higher than the risk of further sustained depreciation.

Several factors could help re-anchor the currency over the year ahead:

Further policy normalisation by the Bank of Japan looks likely. Wage growth is running hotter and labour-market conditions remain tight, and recent yen weakness—alongside a positive fiscal impulse from the latest round of stimulus measures—is also likely to add to price pressures. Over time, these dynamics should compel policymakers to reduce the degree of monetary accommodation that remains in place, even after accounting for the interest rate increases already delivered this cycle. The current underlying inflation backdrop in Japan is far different to what it was during the 'Abenomics' regime, hence we feel markets may be caught out in assuming the political changes will see the central bank sit idle. A continued narrowing in both nominal and real yield differentials between Japan and other major economies would, in our assessment, be supportive of a stronger yen.

At the same time, Japan's external position has improved markedly. The current-account surplus is running at roughly 5% of gross domestic product—nearly double its 30-year average—strengthening the underlying balance-of-payments backdrop.

Combined with reduced incentives for capital outflows as domestic yields rise, and the potential for repatriation flows during periods of global market stress, we think these forces should provide an additional and durable source of demand for the yen in 2026.

Australian Dollar: Improving Fundamentals

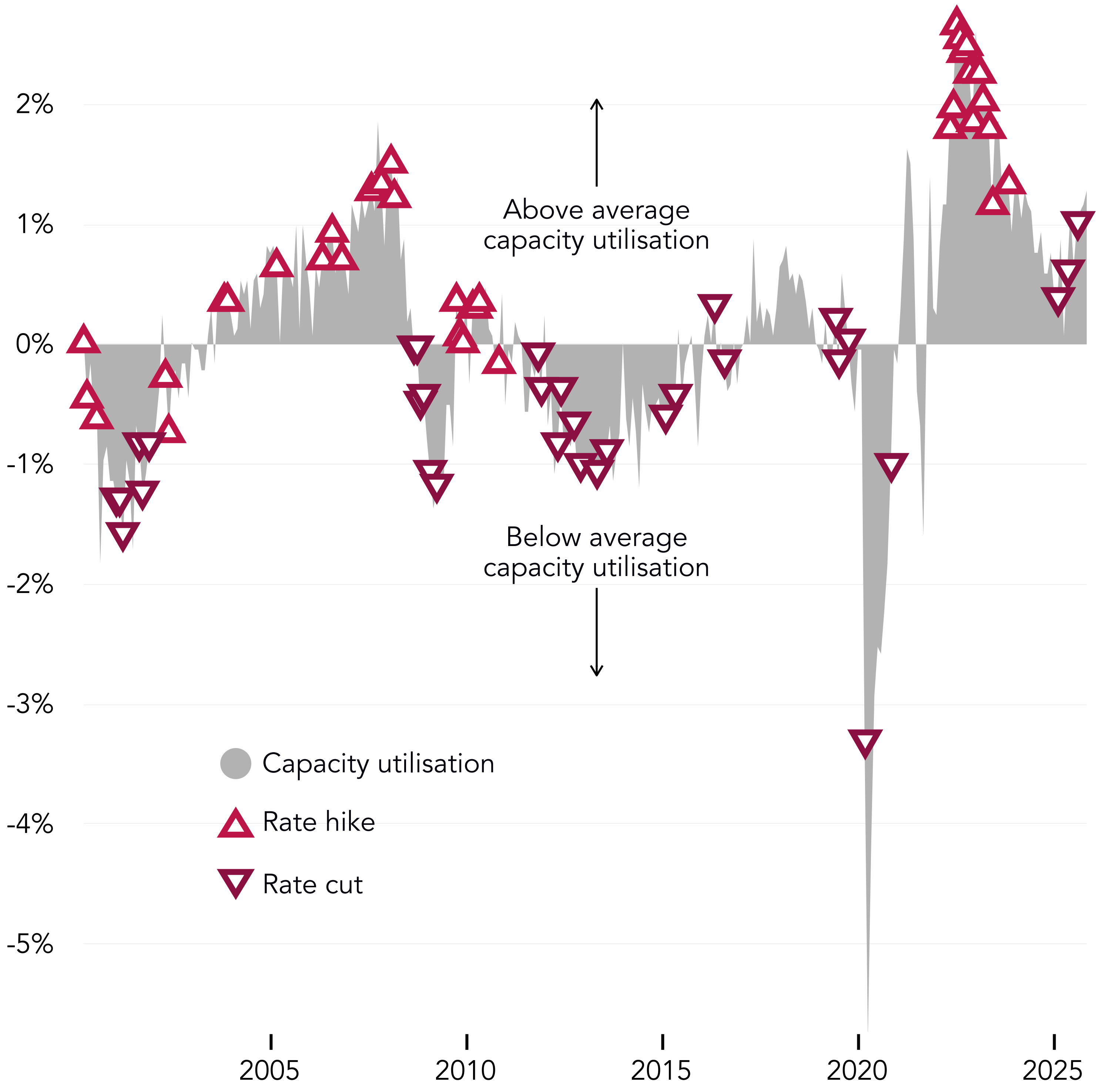
While the US dollar may prove resilient in early 2026 as US growth flatters to deceive, we expect the Australian dollar to hold its ground and gradually outperform most major peers as the year progresses. Currency markets rarely move in straight lines and episodes of volatility are likely; nonetheless, our central case is for the Australian dollar to grind higher toward roughly $0.70 by late 2026.

In our view, robust domestic conditions make further rate cuts by the Reserve Bank of Australia increasingly unlikely, and hikes are back on the agenda. Private-sector momentum appears to be strengthening at a time when labour-market conditions remain tight and capacity constraints are becoming more binding. Absent a policy shift, inflation pressures could remain elevated. Historically, periods of above-average capacity utilisation in Australia have been associated with rate increases rather than policy easing. The prospect of monetary tightening, widening policy divergence with the Federal Reserve, and improving yield differentials should, in our assessment, provide medium-term support for the Australian dollar.

Beyond domestic dynamics, an improving US–China trade backdrop, a technology-led upswing in Asian activity driven by sustained global investment in artificial intelligence, and a shift toward more internally focused policy stimulus in China might further underpin the currency.

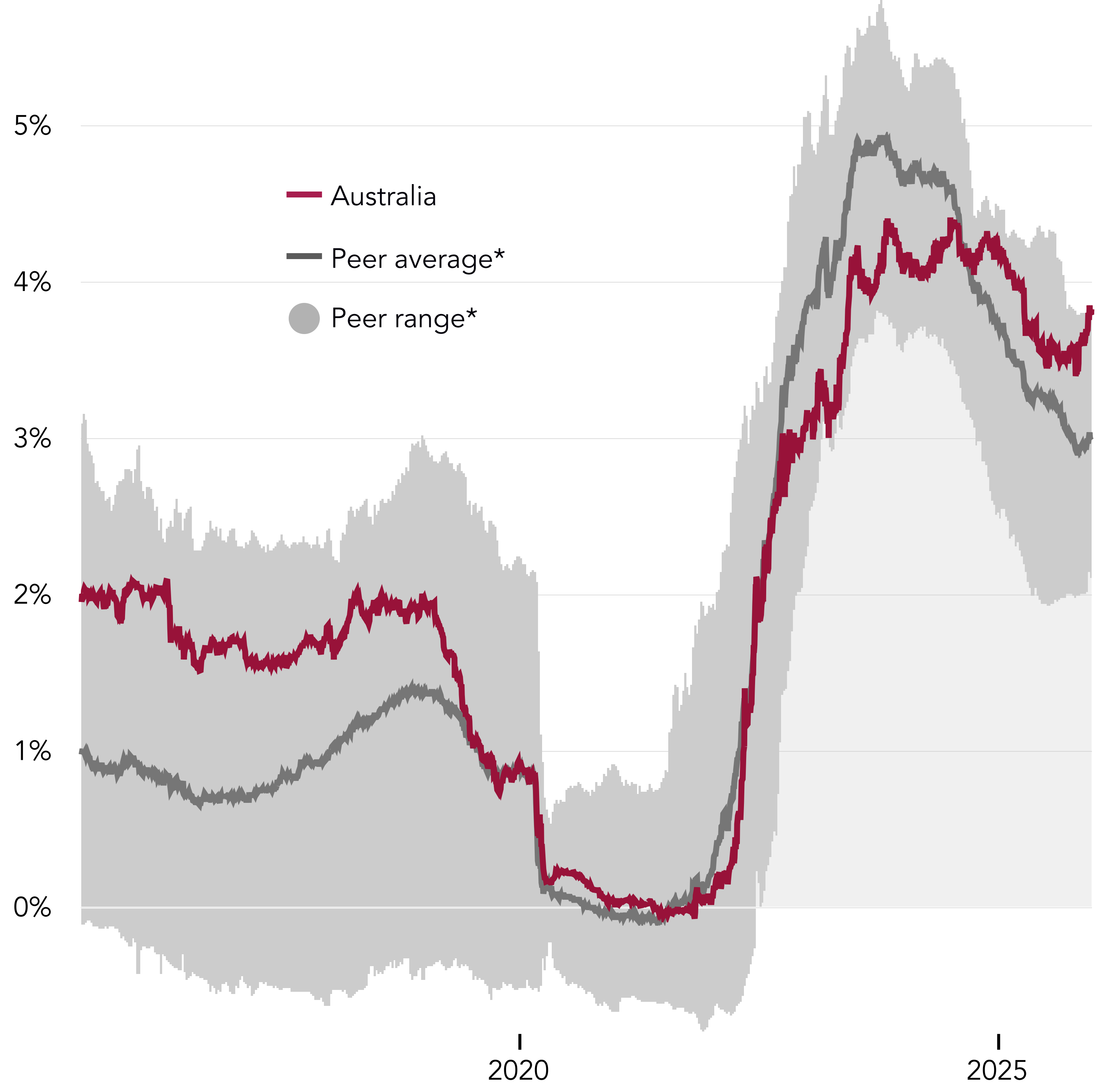
Despite its recent rebound, the Australian dollar continues to trade at a discount to our various estimates of fair value, suggesting that residual pessimism remains priced in and leaving scope for further appreciation in 2026.

Economic slack is disappearing, raising policy expectations
Australia capacity utilisation, z-score, April 2000 - November 2025



Sources: Bloomberg, Reserve Bank of Australia

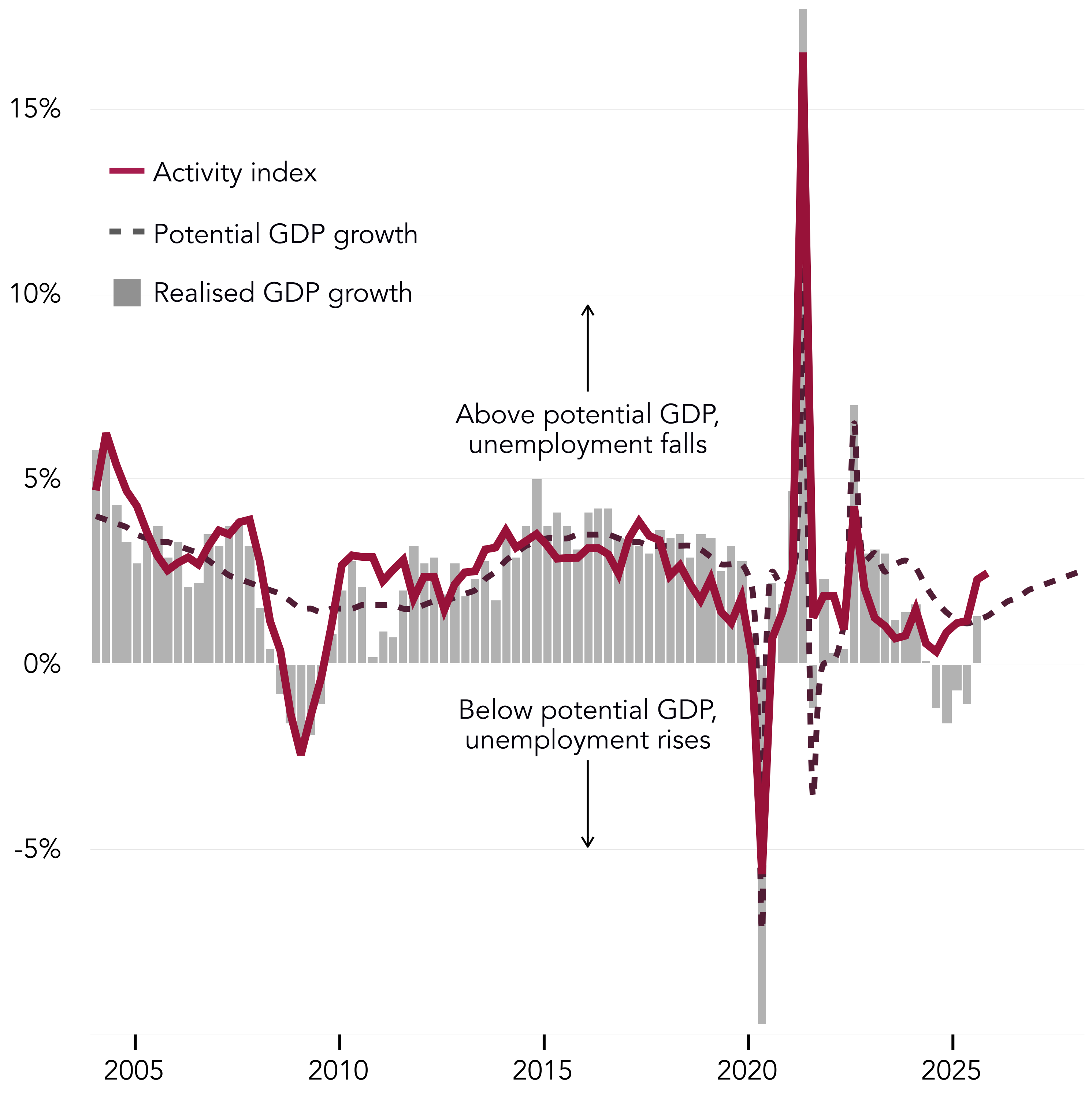
Yield differentials are moving in a supportive direction
6-month government bond yields, %, June 2015 - December 2025



Peers: United States, Canada, Euro Area, United Kingdom, New Zealand
Sources: Bloomberg

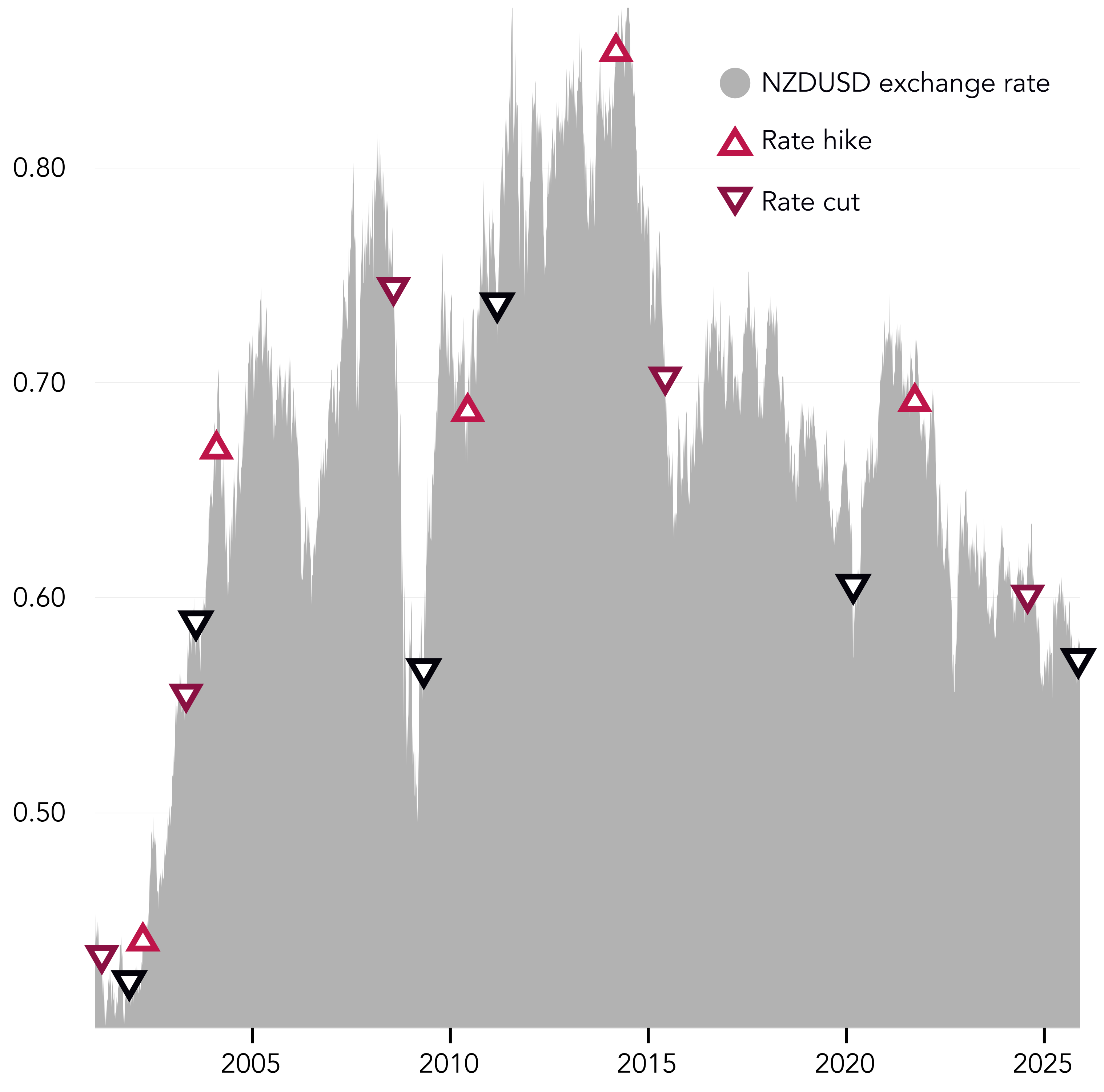
New Zealand Dollar: Regime Change

NZ economic momentum is turning upward
Gross domestic product, annual % change, Q1 2004 - Q1 2028



Sources: Bloomberg, Stats NZ

A monetary regime shift is underway
NZDUSD exchange rate, January 2001 - December 2025



Sources: Bloomberg

The headwinds facing the New Zealand dollar over the past year—including a faltering domestic economy and an aggressive easing cycle from the central bank—are beginning to recede, and signs of a reversal are slowly emerging. Progress is unlikely to be linear, but our central expectation is for the exchange rate to edge higher toward the $0.61–0.62 range by late 2026 as underlying fundamentals improve.

After a swift 325-basis-point easing campaign that pushed policy firmly into accommodative territory, both we and the broader market now think the next move from the Reserve Bank is more likely to be a rate hike than a cut—albeit not until the second half of 2026.

A broad set of sentiment and cyclical indicators suggests that household spending and housing activity are stabilising and beginning to recover, and as excess slack is gradually absorbed, these improvements should feed through to the labour market, reinforcing momentum across the wider economy.

Such regime shifts have historically mattered for the currency; in past cycles, the New Zealand dollar has tended to appreciate in the interval between the final rate cut and the first rate rise.

Taken together, an improving domestic outlook, solid growth across Asia, valuation support—with the currency trading modestly below our estimates of fair value—and an expected narrowing in yield differentials as the Federal Reserve continues to ease policy all point, in our view, to a measured recovery in the currency over the coming quarters.

Currency Forecasts

	Corpay Forecast				Consensus Forecast*			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USDCAD	1.36	1.35	1.34	1.33	1.38	1.37	1.36	1.36
USDMXN	18.5	18.70	19.10	19.20	18.27	18.35	18.45	18.35
EURUSD	1.17	1.18	1.18	1.19	1.17	1.19	1.20	1.20
GBPUSD	1.34	1.35	1.36	1.36	1.34	1.34	1.36	1.35
USDCHF	0.78	0.77	0.76	0.75	0.80	0.80	0.80	0.80
USDCNY	7.00	6.98	6.96	6.95	7.03	7.00	6.98	6.95
USDJPY	155	151	148	145	154	152	150	148
USDSGD	1.29	1.28	1.28	1.27	1.29	1.28	1.27	1.27
AUDUSD	0.68	0.69	0.69	0.70	0.67	0.68	0.69	0.69
NZDUSD	0.60	0.61	0.61	0.62	0.58	0.59	0.60	0.60

*Bloomberg forecast survey, as at January 13, 2026

Central bank decisions

	Fed	BoC	BdeM	ECB	BoE	SNB	BoJ	RBA	RBNZ
January	28	28*							
February			5	5	5*		23*	3*	18*
March	18*	18	26	19	19	2	19	17	
April	29	29*		30	30*		28*		8
May			7					5*	27*
June	17*	10	25	11	18	17	16	16	
July	29	15*		23	30*		31		8
August			6					11*	
September	16*	2	24	10	17	23	18	29	2*
October	28	28*		29			30*		28
November			5		5*			3*	
December	9*	9	17	17	17	10	18	8	9*

*Meeting associated with monetary policy report or forecast update

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