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August 2025

Currency Outlook

An OFXpert guide to key currencies and events to watch

The below key drivers are likely to impact investor risk sentiment and FX markets in August:

Strong US data, like rising inflation and solid consumer sentiment, has boosted the USD. However, weaker job numbers are now adding to speculation about near-term Fed rate cuts.

Central banks are driving volatility, with the RBA and BoC holding rates steady due to sticky inflation, but cuts are expected from the RBNZ, and possibly the Fed.

Trade tensions weigh on sentiment as new US tariffs on Japan, Canada, and the EU add to the pressure, while temporary trade deals are creating short-lived market rallies.

EUR Euro

The US–EU trade deal eased market tension and boosted the US dollar, but weak US jobs data shook confidence. Markets now look to Jackson Hole for comments from ECB Chief, Christine Lagarde.

The big news in the Eurozone was the US/EU trade deal, announced on July 27. After being threatened with a 25% levy on virtually all EU goods being exported to the US, the bloc managed to negotiate the tariff down to 15%. When the deal was unveiled, EURUSD dropped from US$1.1750 to end the month around US$1.14 as the positive impact on the US economy of the lower tariffs saw the US dollar rally. The unpredictable nature of Donald Trump's presidency may contribute to continued support for the euro, especially with this recent soft labour data indicating the US economy is losing steam.

August is traditionally a very quiet month for the eurozone with no European Central Bank (ECB) interest rate decision until September. The biggest event of note is the annual Jackson Hole Symposium on August 21, where central bankers from around the world gather for a conference. So markets will be listening for any comments about the recent trade deal and health of the eurozone from ECB Chief Christine Lagarde.

Expected ranges:

- **EURUSD 1.1375–1.1800**
- **EURGBP 0.8600–0.8800**

GBP Sterling

The pound slipped as UK growth stalled, and US trade news lifted the US dollar. All eyes are now on the Bank of England's next move and inflation data.

The pound lost ground versus the euro and the US dollar throughout July as US President Trump's tariff agenda and evidence of a slowing UK economy weighed on sterling.

GBPUSD started July just under US$1.38, however, the pair ended the month around US$1.32 as the US dollar was aided by positive developments regarding trade deals

Domestically, it appears the economy is slowing after months of better-than-expected performance. Growth data released in July saw the economy contract for a second consecutive month, instead of a small rebound, which was expected back in May. With recent Purchasing Managers' Index (PMI) data for June showing the dominant service sector was growing at a glacial pace, it looks like Q2 GDP could show flat growth when announced August 14.

The upcoming Bank of England interest rate decision, on August 7, is widely predicted to be a rate cut from 4.25% to 4%. The accompanying commentary about the economic health of the UK and interest rate outlook will be the main areas of focus. With inflation currently well above target at 3.6% y/y, interest rates might only be cut once or twice more this year. However, any large undershoot in the latest inflation data could lead to some further pound depreciation.

Expected ranges:

- **GBPUSD 1.30–1.3575**
- **GBPEUR 1.1365–1.1625**

AUD Australian dollar

Although the Australian dollar fluctuated in July, the RBA maintained interest rates. Market expectations now point to a potential rate cut in August due to rising unemployment and easing inflation.

Over the past month, the Australian dollar has seen notable volatility against the US dollar. Starting July at around US$0.6580, the AUD strengthened mid-month to a high of US$0.6625, supported by improved global risk sentiment and resilient domestic economic data. However, this rally was short-lived, with the AUDUSD pair declining to approximately US$0.6450 by July 30 as the US dollar gained strength following robust US macroeconomic data, and ahead of the Federal Reserve's monetary policy announcement. Despite these fluctuations, the Australian dollar remains close to its 2025 peak, reflecting sustained investor confidence amid a resilient global economic outlook.

At its July 8, 2025, meeting, the Reserve Bank of Australia (RBA) held the cash rate steady at 3.85%, defying market expectations for a cut. RBA Governor, Michele Bullock, highlighted that monetary policy had successfully eased inflation over the past 18 months, with inflation continuing to moderate. The RBA reiterated its cautious stance, prioritising predictability, and economic stability. Nonetheless, recent inflation data shows a decline in the annual trimmed mean inflation rate to 2.7% and a rise in unemployment to 4.3%, sparking speculation about a possible rate cut in August. RBA Deputy Governor, Andrew Hauser, described the inflation figures as "very welcome" and suggested further easing could be considered if conditions warrant. Market sentiment now suggests a 95% chance of a 25-basis point cut in August. Economists argue that prompt action may be needed to ease pressure on households facing high mortgage costs, even as inflation remains within the target range.

Expected ranges:

- **AUDUSD 0.6419–0.6493**
- **AUDEUR 0.5560–0.5658**
- **AUDGBP 0.48550–0.48888**
- **AUDNZD 1.0895–1.0971**

NZD New Zealand dollar

The New Zealand dollar weakened in July as strong US data lifted the US dollar. With inflation rising slightly, future rate cuts from the RBNZ remain a possibility.

In July, the New Zealand dollar experienced a notable decline, weakening by approximately 3% against the US dollar. This depreciation mirrored a broader trend affecting both the NZD and the Australian dollar, driven by a strengthening USD amid the Federal Reserve's stance to target inflation rather than rates, and resilient US economic data. The NZDUSD exchange rate fell to US$0.5957 on July 29, marking a 2.20% decline over the month. Despite this setback, the NZD has appreciated 6.52% year-to-date.

At its July 9 meeting, the Reserve Bank of New Zealand (RBNZ) opted to keep the Official Cash Rate (OCR) steady at 3.25%. The decision reflected a cautious stance amid easing inflation pressures. The RBNZ also highlighted global economic uncertainties, may temper inflation risks but could also dampen investment and consumer spending. While rates remained unchanged in July, the RBNZ indicated that further cuts might be considered if inflation continues to ease as expected.

The latest Consumer Price Index (CPI) data showed the annual inflation rate rose slightly to 2.7% for the year, up from 2.5% in the previous quarter. This increase was mainly driven by rising housing costs, including a 12.2% surge in local authority rates and payments, contributing 0.3 percentage points to overall inflation. Food prices also rose by 4.6%, adding 0.5 percentage points to the annual CPI.

Looking ahead, the NZD's performance is expected to remain sensitive to global economic factors, including US monetary policy and commodity price fluctuations.

Expected ranges:

- **NZDUSD 0.5857–0.5937**
- **NZDEUR 0.5090–0.5186**
- **NZDGBP 0.4435–0.4472**
- **NZDAUD 0.9115–0.9178**

USD United States dollar

The US dollar surged in early July on strong data and tariff-driven inflation, but mixed jobs numbers and trade tensions are now adding to uncertainty around future Fed policy.

In July, the US dollar had its strongest two-week gain of 2025, rising 1.3% since July 7, driven by robust economic data and inflationary concerns linked to tariffs. However, the US Dollar Index (DXY) slipped slightly on Friday, closing at 90.46, as traders reassessed the likelihood of near-term Federal Reserve (Fed) rate cuts.

US inflation data has been mixed. Core CPI rose 0.2% in June, whilst headline CPI increased 2.7% year-over-year, up from 2.4% in May-largely due to tariff pass-through effects. Producer Price Index (PPI) data showed easing wholesale inflation, with core PPI flat month-over-month and annual growth slowing to 2.3%.

Consumer sentiment improved, with the University of Michigan's preliminary July reading rising to 61.8, the highest since February, reflecting cautious optimism. Meanwhile, President Trump has escalated trade tensions, announcing new tariffs of 20% to 50% on imports from countries including Japan, South Korea, Brazil, and the EU, and a separate 35% tariff on select Canadian goods.

With tariff uncertainty in mind, the Fed remains cautious, keeping rates steady . The labour market data was mixed, with initial jobless claims falling to a 7-week low of 227,000, but hiring has slowed amid trade policy uncertainty, and nearly 100 companies have reportedly announced layoffs. The non-farm payroll data, published on August 1, showed only 73,000 jobs were added, significantly short of expectations.

With the dollar now vulnerable, markets are focused on upcoming CPI data, ISM manufacturing and Fed Chair, Jerome Powell's testimony for further policy direction over August.

Expected range:

- **DXY 98.585–100.257**

JPY Japanese yen

The yen struggled in July amid political turmoil, weak wages, and US trade tensions. Despite mixed economic signals, rate hike hopes remain as inflation stays above target.

Over the last month, USDJPY has been highly volatile, driven by shifts in the US–Japan yield spread, weak Japanese wage growth, political uncertainty, and renewed trade tensions from US tariffs on Japanese steel and shipbuilding. The pair fluctuated between 143.32 and 150.92, supported by rising US 10-year yields near 4.43% and Japan's 10-year JGB yields hitting a 2007 high of 1.51%.

In Japan's upper house elections held on July 20, the ruling Liberal Democratic Party (LDP) and its coalition partner Kōmeitō lost their majority, facing voter backlash over corruption scandals, inflation, and US tariffs. Political instability following the election, including pressure on Prime Minister Shigeru Ishiba to resign, weighed on yen sentiment. Though the yen briefly strengthened post-election, it weakened to 4-month lows as the US dollar regained momentum.

Japan's economy showed mixed signals. Manufacturing contracted as the PMI fell to 48.9, while core Tokyo inflation eased to 2.9%. With inflation remaining above the Bank of Japan's (BoJ) 2% target, market participants expect a possible rate hike later this year.

Business sentiment improved on hopes of stronger demand and reduced trade tensions after a Japan/US tariff deal lowered tariffs from 25% to 15%. In a unanimous decision, the BOJ kept interest rates steady at 0.5% for the fourth consecutive meeting since its 25 basis-point hike in January.

Concerns about weakening external demand and tighter US. monetary policy continued to pressure the yen.

Expected range:

- **USDJPY 134–154**

CAD Canadian dollar

The Canadian dollar stayed steady as inflation and trade tensions kept the Bank of Canada cautious. Mixed economic data and oil prices balanced the outlook amid ongoing uncertainty.

The Canadian dollar held steady against the US dollar, finishing around 1.3722 USDCAD. Early on, the CAD dipped after stronger-than-expected inflation numbers saw the Bank of Canada (BoC) choose to hold interest rates, instead of cutting. Strong US economic data, pushed the US dollar higher, nudging the CAD to a 3-week low.

Trade tensions continued to cloud the outlook. Canada added tariffs on steel imports to counter US measures, adding friction to already strained relations. The trade talks deadline passed without a deal, and political leaders on both sides are debating next steps. Meanwhile, the BoC held rates steady at 2.75%, citing stubborn inflation and a tight labour market.

Domestic economic data showed mixed signals. Modest gains in wholesale trade balanced out a flat labour market and low job openings. Oil prices recovered somewhat, lending support to the Canadian dollar.

With ongoing trade uncertainty and inflation pressures, CAD is expected to remain range bound for now. Market watchers are closely watching upcoming US inflation data and Federal Reserve signals for clues on direction in the weeks ahead.

Expected range:

- **CADUSD 0.7241-0.7266**

HKD Hong Kong dollar

The Hong Kong dollar stayed steady in July, pressured by carry trades and rising US demand. The central bank stepped in to defend the peg, keeping volatility low.

USDHKD stayed near the upper end of its trading band throughout July, with minimal movement. The Hong Kong dollar remained under pressure from carry trades, as investors borrowed low-yielding HKD to invest in higher-yielding USD assets.

A wider interest rate gap and stronger demand for USD liquidity, driven by shifting rate expectations and seasonal flows like dividend repatriation, added to the pressure. This kept the pair hovering just below the 7.85 level. While volatility was low, the Hong Kong Monetary Authority (HKMA) intervened multiple times to defend the peg.

On July 1, it sold USD 2.55 billion, followed by another USD 3.775 billion on July 7, absorbing HKD from the system to stem speculative pressure. As a result, the Aggregate Balance dropped sharply, from over HKD 170 billion earlier in the year to around HKD 86 billion by end-July. This tightening of liquidity drove 1-month HIBOR up from near 0.1% to over 1.03%, as the HKMA sought to discourage carry trades that had been weighing on the HKD.

Economic indicators remained stable. Q2 GDP grew 3.1% y/y, inflation eased to 1.4% in June, and the jobless rate held steady at 3.5%. The base rate was left unchanged, tracking the US Federal Reserve's steady stance.

Looking ahead, USDHKD is expected to stay near 7.85 through August, with the HKMA ready to intervene further if needed.

Expected range:

- **USDHKD 7.84–7.85**

SGD Singapore dollar

The Singapore dollar held steady in July, supported by solid local data. But US trade news and jobs figures shifted momentum, keeping USDSGD range-bound heading into August.

July saw the USDSGD trading in a similar range as June, before rebounding later in the month to touch a multi-month high near 1.3 on August 1.

Earlier in the month, the pair had dipped slightly as improved risk sentiment and upbeat local equity market developments, such as the Monetary Authority of Singapore's (MAS) support for small-cap stocks, briefly boosted the SGD. However, sentiment shifted in favour of the USD after the White House confirmed tariffs would proceed, but at revised and generally lower rates for selected trade partners.

The US dollar eased on August 1, closing after a weaker-than-expected non-farm payrolls report raised concerns over the labour market and tempered recent gains.

Singapore's economic backdrop in early July provided a strong foundation for the central bank's steady stance. The MAS kept its policy settings unchanged on July 30, maintaining the current slope and width of the SGD NEER band. This followed stronger-than-expected Q2 GDP growth of 1.4% q/q and improving sentiment in the manufacturing sector. The labour market remained stable, with job growth of 8,400 in Q2, though hiring slowed in export sectors. Core inflation held at 0.6% in June, indicating price pressures are contained. The MAS noted risks to growth remain and expects economic momentum to moderate in H2.

Looking ahead, USDSGD is expected to stay relatively stable in August, with a slight bias toward SGD strength if expectations for US rate cuts resurface, or global risk sentiment improves.

Expected range:

- **USDSGD 1.2720–1.30**