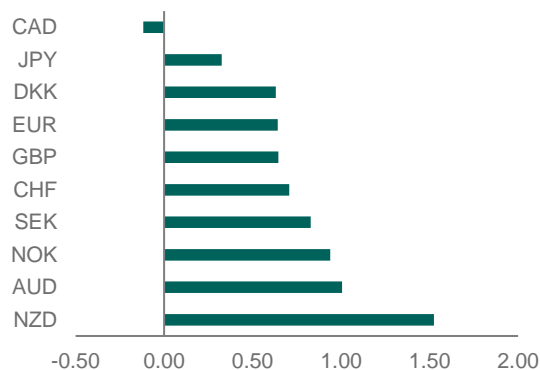


The Week Ahead FX

- UK local election results have obliterated the political centre, leaving GBP with further potential short-term weakness.
- USD – NFP results show that the US labour market has stabilised – giving no clear short-term directional trend.
- CNY has further appreciation risks in the near term, ahead of the US-China leaders summit.

Chart 1: Risk on last week
FX move Vs. USD, 4 - 8 May, %



Sources: Bloomberg L.P., as at May 2026

Chart 2: DXY has reversed all post March gains
DXY Index



Sources: Bloomberg L.P., ICE, as at May 2026

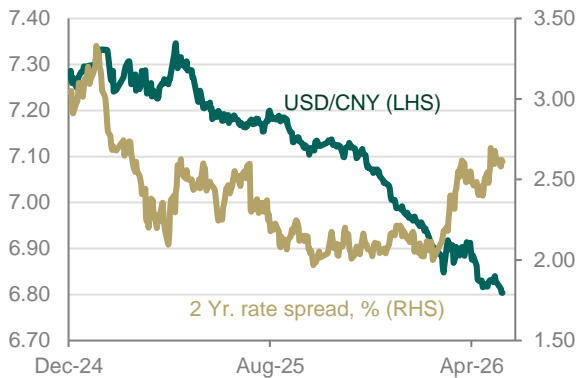
USD – Stabilisation in data

Last week, the US Dollar Index (DXY) weakened once again, wiping out its gains since the beginning of the Iran – US war. The modest weakening reflects US and Iranian negotiations, designed to bring an end to the war. Such an outcome would reduce inflation expectations on an assumption of a resumption of oil production and transits through the Straits of Hormuz.

US economic data were generally constructive, and labour market data showed signs of stabilisation, with both ADP and NFP data showing a resumption of job growth – and a still muted level of layoffs. The data are consistent with the Fed's narrative that the US labour market is showing signs of stabilisation. The lack of aggressive weakening in the labour market allows the Fed to take its time on the wider inflation outlook, and we note that front-end spreads did not move to any significant extent following the release of the data.

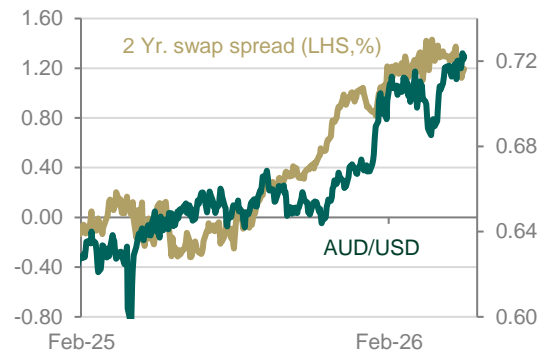
The main data releases next week are the publication of US CPI and PPI data for April. The data should show a headline CPI print of 3.7% y/y and 2.7% y/y (core). This is well above the Fed's 2% target, giving little scope for a resumption of rate cuts in the near term. Overall, there is little in the data that should give a catalyst towards a more directional move over the coming week, and we prefer short USD exposures against CNY (see paragraph below) and AUD.

Chart 3: CNY continues to appreciate
USD/CNY spot, 2 Yr. rate spread, %



Sources: Bloomberg L.P., as at May 2026

Chart 4: AUD spreads did not rise
AUD/USD spot, 2 Yr. swap spread, %



Sources: Bloomberg L.P., as at May 2026

GBP – The centre cannot hold

“Things fall apart; the centre cannot hold” – W.B. Yeats

Last week’s UK local elections were widely anticipated to result in a drubbing for the governing UK Labour Party, and this is exactly what has transpired. Both Labour and the Conservatives have lost hundreds of local council seats, showing that the traditional centrist parties hold little appeal to the electorate. The local election results are likely to have several short and long-term consequences. In the short term, the UK Labour Party is likely question UK Prime Minister Starmer’s leadership, and there is a dearth of credible candidates to replace him. This has already been priced in by the bond market to a limited extent, with two and ten-year gilt yields rising by around 60 bps in the last month. Higher yields have are unlikely to benefit GBP, given fragile debt sustainability dynamics and higher inflation expectations.

The main data releases over the coming week are the publication of Q1 GDP data – expected to print at 0.6%, and industrial production data. Overall, we anticipate that GBP will struggle to perform in the short to medium term, giving continued upside risks for EUR/GBP to levels of 0.90 by year-end.

CNY - CPI in focus

Last week, USD/CNY fell to levels of around 6.80. The down move has continued despite rate spreads pointing to higher levels – signalling that PBoC continues to allow CNY to appreciate. We note that USD/CNY trades at levels which prevailed in late 2019, and the cumulative inflation differential between the US and China since then is around 20% - indicating that CNY remains extremely undervalued. This week’s Chinese CPI and PPI data are likely to show that China has definitively exited deflation, justifying PBoC’s decision to allow modest CNY appreciation since November 2025. Overall, we maintain a highly constructive stance on CNY, expecting a continued down move to levels of at least 6.70 by year-end.

The Trump – Xi summit (14-15 May) should be constructive for CNY in our view, and the mood music ahead of the summit is favourable, with both sides taking a positive stance. The summit is likely to focus on a wider set of policies and issues than the currency alone, and CNY’s recent appreciation trend should deflect serious attention from currency imbalances in our view.

AUD – One last hike

Last week, AUD/USD rose to levels of just above 0.7200. The up move followed the Reserve Bank of Australia’s (RBA) 25 bp rate hike, which took the base rate to 4.35%. This was already priced in with a 75% probability ahead of the MPC meeting. Market pricing on terminal rates was unchanged, giving no

reason for front-end rate spreads to favour AUD more than they had already done. The RBA's MPC statement gave no reason for a more hawkish market interpretation and the upshot of this is that AUD failed to benefit from the RBA rate hike. In the near term there are few market moving domestic data releases, meaning that any AUD appreciation should result from generally improving external risk sentiment. We favour further upside in AUD/USD over time towards levels of 0.76, and AUD should fare well in the crosses, against both GBP and JPY.

MXN – Banxico's last cut

Last week, Banxico cut rates by 25 bps, taking the overnight rate to 6.50%. Although core inflation remains slightly above target, the MPC based the decision on weak economic activity and a strong currency into May and it deems policy to be well placed to handle the challenges posed by the fallout from the Iran war. The bank now forecasts inflation reaching 3% by 2027. The cut had been priced into MXN and Mexico's bond market, with negligible price action around the decision. Data releases over the coming week are limited, with the main event risk being the publication of March industrial output figures. Shocks here are unlikely to materially affect MXN and price action will reflect headline driven USD moves in the near term.

Real yields remain positive and Banxico's explicitly firm stance against future cuts should be MXN supportive in the medium term. Mexican swap markets, fearing adverse inflation effects from the energy crisis, price in a 25bps hike by December and this will be adjusted accordingly with the coming months' inflation data.

JPY – Fade the move

Last week, USD/JPY traded lower again to levels of around 156, following concerns of a second round of BoJ / MoF interventions. The coming week has several event risks for JPY, with US Treasury Secretary Scott Bessent's visit to Japan in focus. Bessent is likely to reiterate his support for BoJ interventions, and this should limit upside risks for USD/JPY over the coming weeks. Our view is that sustained JPY appreciation is unlikely to manifest itself in the short term, given still low BoJ terminal rate expectations and higher external front-end yields – which raises the cost of shorting JPY.

The BoJ will also publish its summary of opinions (minutes) from its last MPC meeting, where it kept rates on hold at 0.75%. Markets will look to see if there is further support for rate hikes, beyond the members who voted in favour of a rate hike at the April meeting.

Overall, we anticipate that JPY can resume a modest weakening trend in the near term, though this is more likely to be seen against the likes of CHF and AUD, rather than the USD.

ILS – Why so strong?

Last week, USD/ILS fell to levels of around 2.90- the lowest levels on record. ILS outperformance reflects several factors in our view. First, the Bank of Israel (BoI) has continued to maintain a tight monetary policy, and we note that markets have priced in only 30 bps in rate cuts over the coming year, with terminal rates of around 3.65% priced in by year-end. This gives ILS a significant carry advantage over many G10 currencies. Second, we note that BoI has adopted a relaxed stance on ILS appreciation – which likely reflects a desire to reduce imported inflation effects. We suspect that once oil prices stabilise on any concrete settlement to the conflict in the Middle East, it could give BoI an impetus to alter its stance. We note that two-year rate spreads have started to rise – indicating a less favourable environment for ILS. Consequently, we do not anticipate significant ILS outperformance from current levels.

Our FX Forecasts

	EUR/USD	GBP/USD	EUR/GBP	USD/JPY	USD/CHF	EUR/CHF	USD/CNY	AUD/USD	NZD/USD	USD/CAD	EUR/SEK	EUR/NOK
Jun -26	1.16	1.32	0.88	160	0.78	0.91	6.80	0.72	0.59	1.40	11.00	10.80
Sep -26	1.18	1.34	0.88	160	0.77	0.91	6.75	0.73	0.60	1.38	10.80	10.80
Dec-26	1.20	1.33	0.90	158	0.75	0.90	6.70	0.74	0.62	1.36	10.60	10.60
Mar-27	1.20	1.33	0.90	156	0.74	0.89	6.65	0.76	0.64	1.36	10.20	10.40

Sources: UBP SA, as at May 2026

	USD/TRY	USD/ZAR	USD/RUB	USD/ILS	USD/MXN	USD/BRL	USD/INR	USD/KRW	USD/TWD	USD/HKD	USD/SGD
Jun -26	48.00	16.50	85	3.15	17.50	5.15	92.50	1450	30.50	7.85	1.27
Sep -26	50.00	16.65	85	3.20	17.25	5.25	93.00	1425	30.00	7.85	1.26
Dec-26	52.00	16.80	85	3.25	17.00	5.35	93.50	1400	30.00	7.85	1.25
Mar-27	54.00	17.00	85	3.25	16.75	5.50	94.00	1400	29.50	7.85	1.24

Sources: UBP SA, as at May 2026

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