

# FX Viewpoint

Currencies  
Global

## JPY and NZD: Time for a turnaround?

- ◆ The NZD leads as the weakest G10 currency so far in 2H, closely followed by the JPY
- ◆ But downward pressure on the JPY may ease with cautious fiscal expansion and potential shifts in BoJ
- ◆ Rising risk appetite and broader USD weakness could counter domestic challenges, fostering NZD consolidation

As of the second half of 2025, the NZD is the worst-performing G10 currency, with the JPY following closely behind (*Bloomberg*, 23 October 2025). This situation prompts the question of whether this trend will persist or if a reversal is imminent.

We believe the downward pressure on the JPY, arising from market concerns about fiscal loosening and the Bank of Japan's (BoJ) dovish stance, may not be long-lasting. The heightened political sensitivity to cost-of-living issues in Japan suggests that the new Finance Minister, Satsuki Katayama, is likely to adopt a cautious approach to fiscal expansion. **Some degree of fiscal loosening could support the JPY by fostering a more optimistic growth outlook.**

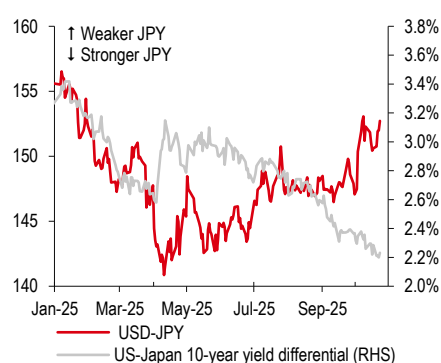
Despite market scepticism about a BoJ rate hike on 30 October, there is a possibility that policymakers might signal a greater willingness to consider tightening on 18 December than currently anticipated by markets. This could present upside risks for the JPY. Additionally, with the Federal Reserve's easing on the horizon, **narrowing interest rate differentials could lead to a decline in USD-JPY over time** (Chart 1). Overall, **we expect the JPY to strengthen in the months ahead.**

**In late 2025, the NZD is the worst-performing G10 currency, with the JPY not far behind**

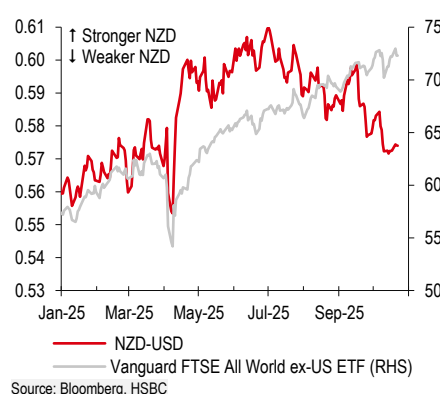
**In our view, the downward pressure on the JPY may ease with cautious fiscal expansion...**

**...and potential BoJ policy shifts**

### 1. USD-JPY and its yield differential



### 2. NZD-USD and risk appetite



As for the NZD, it has been facing significant domestic challenges. After the 50bp easing by the Reserve Bank of New Zealand (RBNZ) on 8 October, **markets are fully priced for a further 25bp cut on 26 November** (*Bloomberg*, 23 October). Our economists also expect this, given the combination of weak economic activity, easing underlying inflation, and a still-weak jobs market, which leaves little to prevent further RBNZ easing. But with a lot of domestic issues already in the price, alongside **rising risk appetite** (Chart 2), and if our expectation of broader USD weakness holds true, **the NZD appears poised for consolidation in the coming weeks.**

**The NZD faces domestic challenges, but external backdrop remains favourable**

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