Currency Market Commentary

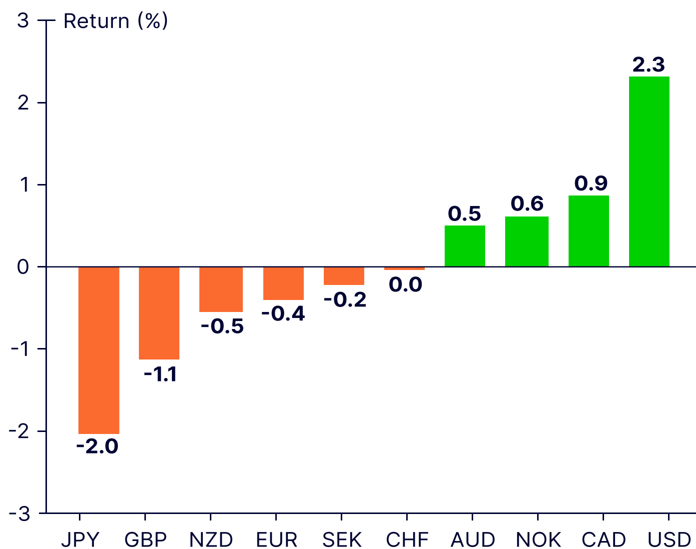
Insights
July 2025

Summary

Most currencies moved in a choppy, sideways pattern throughout July, with the exception of the Japanese yen, British pound and US dollar. The yen and pound struggled as the dollar rebounded from its steep first-half 2025 sell-off. The yen was pressured by concerns over Japan's upper house election, the absence of a catalyst for another Bank of Japan rate hike, and a widening yield spread with the US. The pound weakened on softer growth and employment data. Meanwhile, the dollar trended higher in the first half of the month, supported by resilient economic indicators, relief after President Trump postponed the tariff deadline from July 09 to August 01, and late-July trade agreements with Japan and the European Union.

The trade deals capped tariffs at 15% and, more significantly, prevented retaliatory measures against the US. The Canadian dollar posted a 0.9% gain, largely tracking the US dollar's strength. The rest of the G10 currencies fluctuated within a narrow range of plus or minus 0.6% throughout the month.

Figure 1: July 2025 Currency Return vs. G10 Average



Source: Bloomberg and State Street Investment Management, as of 31 July 2025. Past performance is not a reliable indicator of future performance.

A US dollar relief rally had been anticipated—and it arrived. With US growth and employment holding firm, tariffs exceeding 15% on major trading partners unlikely to trigger retaliation, high US yields, a strong earnings season, and lingering bearish sentiment from the first half of the year, the dollar found support. Investors began to entertain the idea that US growth and inflation might not be materially affected by the tariffs, as economic data remained solid despite the dire predictions made in April. Covering short positions in the dollar made sense under these conditions. However, this rally does not alter our medium-term view that the dollar remains in a bear market.

If asked on July 31, we would have said that, barring any surprises, the dollar's rebound could continue for a few more weeks, assuming the August 01 jobs report passed without incident. But on August 01, a sharp downside surprise emerged: a two-month revision to May and June employment data showed a net loss of 258,000 jobs. That revision dragged the three-month average down to just 35,000 new jobs per month. The dollar reversed course sharply, and with the growth outlook now uncertain, it's difficult to see investors reembracing the dollar rebound narrative.

Figure 2: July 2025 Directional Outlook

	Tactical Outlook	Strategic Outlook
USD	∧	∨
CAD	—	—
EUR	—	—
GBP	∨	—
JPY	∧	∧
CHF	—	∨
NOK	∨	∧
SEK	—	∧
AUD	∨	—
NZD	∨	—

Note: All individual currency views in the table above are relative to the G-10 average.Source: State Street Investment Management, as of July 31, 2025.

That said, this doesn't mean a return to aggressive dollar bearishness. Some short positions were likely covered in late July, but medium-term dollar bears remain numerous. Unlike the ultra-bullish long-dollar environment at the start of the year, investors are now more neutral to short. While the jobs report casts doubt on growth, earnings season has been strong and the US consumer remains resilient. It's unlikely that global investors will quickly abandon US equities. With average tariffs expected to settle slightly above 15% and no meaningful retaliation, the six- to nine-month impact is likely more negative for growth outside the United States. As a result, we believe the disappointing jobs report halts the July dollar rally but does not reverse it. Instead, the dollar is likely to trade slightly heavy but mostly range-bound, as it has since late April.

The global economy appears headed for a period of sluggish growth, driven by weaker US performance and a more pronounced tariff drag outside the US. This environment is likely to pose a significant headwind for equity markets, which remain just below all-time highs. In turn, elevated equity volatility is expected to fuel greater currency volatility and downside pressure on risk-sensitive currencies such as the Australian dollar, Norwegian krone and British pound. While the pound has the lowest equity beta among the three, it remains more vulnerable to declines due to weak labor market conditions, a stalling economy and fiscal constraints. Over the next four to six weeks, we see value in taking a more cautious approach and favoring traditional safe-haven currencies. While it's difficult to be enthusiastic about the growth outlooks in Japan, the European Union and Switzerland, these currencies tend to perform well amid heightened equity market volatility. Additionally, the European Central Bank (ECB) and Swiss National Bank (SNB) are nearing the end of their monetary easing cycles, while the Bank of Japan's (BoJ) next move is likely to be a rate hike. In contrast, the Federal Reserve (Fed) has ample room to cut rates later this year and into next. Of the three, we favor the yen most, it is the cheapest and stands to benefit the most from lower global yields. The Swiss franc has been a reliable safe haven, but we view it less favorably due to its high valuation and ongoing struggle to avoid deflation.

Over the medium to long term, we remain bearish on the US dollar. The case for US exceptionalism is likely to weaken over the next five to 10 years due to unsustainably high debt levels, gradually rising interest expenses, and the fading tailwind from globalization and offshoring. Despite our negative outlook, current US dollar valuations, elevated US equity prices, and the high concentration of unhedged foreign investment in US assets are all consistent with continued strong US outperformance. As a result, we expect the broad dollar to decline by at least 15% over the next several years.

Over the longer term, we favor currencies with positive net international investment positions, as they offer the greatest potential for repatriation out of US assets, either through outright sales or increased currency hedge ratios, the latter being the path of least resistance. We also favor countries with strong fiscal and monetary flexibility, as they are best positioned to manage significant structural shifts and invest in domestic growth during this period. Additionally, currencies that are historically undervalued against the US dollar tend to reflect deep pessimism and offer the most room for recovery and normalization.

Based on these criteria, the Japanese yen, Swedish krona and Norwegian krone stand out as likely top performers. The Australian dollar, euro, Canadian dollar and British pound should also see meaningful gains against the dollar, in that order. The Swiss franc, however, is most at risk of underperforming the dollar, particularly on a total return basis, given its negative interest rate carry. To offset losses from its ultralow yield, the franc would need to appreciate by an average of roughly 3.5% per year over the next five years, a tall order for a currency already trading near the upper end of its long-term valuation range.

Review and Outlook by Currency

US Dollar (USD)

The US dollar led the G10 currencies in July, rising 2.3% against the average. The trend was steadily higher through July 17, supported by stronger employment data and President Trump's announcement that the July 09 tariff deadline would be postponed until August 01. A mid-month correction followed reports that the president was considering firing Fed Chair Jerome Powell. However, trade agreements—most notably with

Japan and the European Union—pushed the dollar to its monthly highs heading into month's end.

There was a subtle but important shift in the dollar's relationship to tariffs during the month. Initially, the delayed tariff deadline was seen as supportive for the dollar, consistent with its behavior since April: higher tariffs were viewed as negative, while lower or delayed tariffs were positive. Late in the month, the finalized trade deals pointed to an average tariff level slightly above 15%, higher than many had hoped. Yet this was treated as good news for the dollar, as it avoided worst-case scenarios and ruled out retaliatory tariffs. In effect, the agreements prevented a tariff spiral similar to those seen earlier this year with China and historically during the 1930s under the Smoot-Hawley Act. With the major tail risk of an escalating trade war off the table, investors shifted focus to the likelihood that tariffs would weigh more heavily on non-US growth than on US growth over the next six to nine months—sending the dollar higher.

We entered July with the US dollar in an oversold position. Stable to better-than-expected economic data and tariff relief delivered the rally we anticipated. However, on August 01, a sharp downside surprise emerged: a downward revision of 258,000 jobs to May and June employment figures, leaving the three-month average at just 35,000 new jobs per month. This halted both the dollar and equity rallies, casting doubt on the emerging narrative that tariffs might have little impact on the US economy.

While we never fully subscribed to that narrative, we saw potential for benign US data to persist for another month or two, allowing the dollar rally to extend before reality set in. That scenario is no longer viable. The employment revision highlights the potential damage from tariffs, and it's difficult to envision investors reembracing the dollar recovery story. As a result, we expect the dollar to trade flat to weaker against the G10 average through the remainder of the month.

We hesitate to call for a sharp decline in the US dollar similar to the drop seen between February and April. Growth outside the US remains subdued, and the initial impact of tariffs over the next six to nine months is likely to be more negative for non-US economies.

The shadow cast by the August 01 jobs report is also expected to limit the upside for equities and broader risk assets. As a result, cyclically sensitive currencies within the G10 are likely to struggle to post meaningful gains. This is particularly evident in the British pound, as the United Kingdom contends with stagnating growth and weak labor market conditions.

Instead, we see ample room for US dollar depreciation against the Japanese yen. The yen declined sharply in July as interest rates and growth expectations shifted in favor of the US. With that dynamic likely to reverse following the disappointing employment report, the yen appears well-positioned to outperform in August and September. The euro should also hold up relatively well, as it has during periods of heightened equity market volatility this year. While the ECB may consider another rate cut, the bulk of its easing cycle seems to be behind it. In contrast, slower US growth supports a more dovish policy stance from the Fed.

Over the long term, we maintain our call for a multi-year US dollar bear market, with expectations that the currency will decline by at least 15% over the next two to four years. While innovative companies and the dynamic, flexible nature of US labor and capital markets continue to make the US an attractive destination for investment, we anticipate that the degree of US economic outperformance will be significantly lower and the reliability of the dollar as a safe haven materially weaker, over the next 10 to 15 years compared to the previous decade.

The US is likely to lose several key tailwinds that have supported relative earnings, gross domestic product (GDP) growth and, by extension, the elevated valuations of US equities and the dollar. Much of this stems from the fading boost provided by high fiscal deficits, extensive offshoring and globalization, and a prolonged period of ultra-low interest rates. Additionally, the shift toward a more insular "America First" global policy stance has made the US appear less reliable as a financial, trade, military and political partner in the eyes of the international community.

For years, investors have focused on the low-productivity regimes affecting the EU, UK, Canada and Australia, as well as the significant growth headwinds

in China that have weighed on valuations. Now, we anticipate marginal improvement outside the United States, driven in part by a shift in US policy that may encourage greater free trade, global cooperation and fiscal investment.

Based on these expectations, both the return and risk profile of holding US assets should deteriorate relative to the rest of the world. This shift strongly incentivizes investors to rotate toward a more balanced global portfolio. According to the Bureau of Economic Analysis, non-US investors hold more than $33 trillion in US portfolio investments and over $62 trillion in total US investments, excluding financial derivatives. Even a modest 10% to 15% reallocation from US assets—or a 10% increase in average US dollar hedge ratios—could result in over $3 trillion in dollar sales. That volume is more than sufficient to fuel a prolonged US dollar bear market, even if the US remains among the top-performing economies. Should more extreme policy proposals gain traction, the flight from the dollar could be deeper and more rapid.

Canadian Dollar (CAD)

The Canadian dollar was the second-best performing G10 currency in July, rising 0.9% against the group average. For the most part, the Canadian dollar tracked the US dollar's path relative to the G10: a strong first half, a mid-month correction, and a rebound into month-end.

Local economic data was mixed. The July 11 employment report surprised to the upside, with 83,100 new jobs and a drop in the unemployment rate to 6.9%, compared to 7.1% expected. Inflation data released on July 15 was in line or slightly above expectations, with median core CPI rising 3.1% versus 3% expected, and headline inflation steady at 1.9%. These figures support the Bank of Canada's (BoC) decision to hold rates at 2.75% for now. On the downside, both services and manufacturing PMIs remained in contractionary territory below 50, and May GDP declined 0.1% month-over-month—marking a second consecutive monthly drop.

President Trump raised tariffs to 35%, but the impact on Canada was minimal, as United States-Mexico-Canada Agreement (USMCA)-compliant goods are exempt. An estimated 70% to 80% of Canadian exports are likely eligible for USMCA compliance, limiting the fallout.

As of month-end, our signals indicate that the Canadian dollar is the most attractive G10 currency over the tactical horizon. While we see signs of stabilization, we remain cautious about the strength of this model signal following the negative US jobs report. Historically, the Canadian dollar tends to follow the US dollar against the broader G10, and we expect the greenback to trade flat to modestly weaker over the next four to six weeks, particularly against safe-haven currencies like the yen, euro and Swiss franc.

Support from stronger commodity prices identified by our models is likely to be short-lived as global demand softens. Additionally, the Canadian economy may struggle to rebound until there is greater clarity on tariff policy, which may hinge on upcoming USMCA negotiations. All things considered, despite its top ranking on our model scorecard, we believe the Canadian dollar is likely to perform in the middle of the pack. It should remain well supported against the US dollar, other commodity-sensitive currencies and the British pound, but may lag behind the euro and yen in the near term.

We are more constructive on the Canadian dollar over the medium term. It remains undervalued based on our long-run fair value metrics. We expect the North American tariff dispute to ultimately lead to a renegotiated USMCA that preserves regional advantages, albeit on slightly less favorable terms. Canada also has more room for swift monetary and fiscal stimulus than the United States, along with potential for deregulation and expanded trade outside North America.

In the second half of the year, we expect USD/CAD to continue falling, reaching the low 1.30s as tariff clarity improves, the Fed resumes rate cuts, and Canada begins to benefit from aggressive BoC easing and fiscal stimulus. Ultimately, given our US dollar bear market thesis, we see USD/CAD trading below 1.20 in the coming years. However, the Canadian dollar is likely to remain sluggish against G10 currencies excluding the dollar, as broad US dollar weakness acts as a headwind.

Euro (EUR)

The euro held up well for most of July before falling sharply following the announcement of the EU-US

trade deal on July 28, ending the month down 0.4% against the G10 average. The month began with modest gains and in-line consumer price index data, which rose 0.3% month-over-month as expected. On July 07, the euro dipped after the US announced a delay in its tariff decision, which supported the dollar. That move quickly reversed after Bloomberg reported that US-EU negotiations were trending toward a 10% across-the-board tariff rate, which was better than anticipated.

The euro regained positive territory and held those gains through mid-month, buoyed by stronger-than-expected industrial production. The currency peaked on July 25 following upbeat services purchasing managers' index (PMI) data and the ECB's decision to keep the deposit rate steady at 2%. ECB President Christine Lagarde acknowledged downside risks to growth but struck a relatively calm tone regarding further rate cuts.

However, everything unraveled on July 28 when the final EU-US trade deal was announced, featuring a 15% across-the-board tariff, additional EU investments in the US and no EU retaliatory tariffs. While the outcome was less severe than initially feared, it is still expected to dampen growth and inflation, increasing pressure on the ECB to deliver additional rate cuts in the second half of 2025 or early 2026.

Our model signals turned negative on the euro at month's end, largely due to recent underperformance in EU equities. However, we see the currency better supported following the disappointing US employment report on August 01. The negative model signal is heavily influenced by equity trends, while the medium-term economic outlook remains relatively stable. The US shock is likely to weigh on relative US equity performance, boosting the euro's appeal, while heightened equity volatility may increase safe-haven demand for the euro.

On the downside, we expect the EU economy to slow in the second half of the year due to weaker US demand stemming from higher tariffs and slower growth. Ultimately, we believe the spillover effects from weaker US growth will hit pro-cyclical and current account deficit currencies—such as the dollar—harder than the euro.

In the medium term, we remain constructive on the euro. Household balance sheets are strong, unemployment is low, real wage growth is positive, defense spending is rising, and the proposed €500 billion German infrastructure fund is a supportive factor. The case for EU investors to reduce their concentrated exposure to US assets, or at least increase average currency hedge ratios is compelling, especially as the US becomes a less reliable trade and security partner. These factors are likely to support the euro against the dollar over the longer term. We see scope for EUR/USD to rise toward 1.35 over the next three or more years.

The medium- to long-term outlook for the euro against other G10 currencies is less optimistic. It remains expensive relative to the Japanese yen, Norwegian krone, Swedish krona and Australian dollar, and is likely to underperform those currencies in the coming years once tariff-related growth risks and elevated equity market volatility subside.

British Pound (GBP)

The British pound struggled in July, finishing down 1.1% against the G10 average and 3.4% lower versus the US dollar. The month began with a steep drop amid fiscal sustainability concerns following rumors that Chancellor of the Exchequer Rachel Reeves might be forced out of the cabinet. Better-than-expected services PMI data on July 03 provided some support, as did the US decision to extend the tariff deadline to August 01.

The pound's negative trend resumed with weaker-than-expected May GDP data, which fell 0.1% month-over-month—marking a second consecutive monthly decline. A brief bounce followed higher-than-expected consumer price index (CPI) data on July 16, but gains were quickly reversed due to disappointing industrial production figures and a higher-than-expected unemployment rate. The currency hit its monthly low on July 25 after weaker June retail sales and remained subdued through month-end.

We remain tactically bearish on the pound relative to the G10 average. Its strong appreciation earlier this year has outpaced the UK's relative interest rate and growth outlook. Softer economic and labor market data, combined with limited capacity for near-term

monetary and fiscal stimulus, present downside risks. Policymakers may struggle to counteract the negative effects of a global slowdown driven by US tariffs. The Bank of England (BoE) is easing rates, but with inflation still well above target, a rapid pace of cuts is unlikely. This poor outlook suggests the potential for slower growth and faster rate reductions later in 2025 and into 2026, which does not bode well for the pound's medium-term performance against G10 currencies excluding the dollar.

That said, while the pound appears challenged versus most of the G10, we expect it to stabilize against the US dollar in the low to mid-1.30s this year and potentially rise toward 1.45–1.50 over the next three to five years. We also expect the pound to outperform the expensive, low-yielding Swiss franc over the coming years on a total return basis.

Japanese Yen (JPY)

The Japanese yen was the worst-performing G10 currency in July, falling 2% against the group average and 4.3% versus the US dollar. The entire decline occurred during the first two weeks of the month. The US decision to delay its tariff deadline bolstered risk sentiment and lifted interest rates, both of which weighed on the yen. Sentiment was further dampened when President Trump sent a letter to Japan threatening a 25% tariff on the same day the delay was announced.

At the same time, anticipation that the Liberal Democratic Party (LDP) would lose its majority in the upper house election on July 20 pressured the yen, as investors feared the BoJ might delay its next rate hike. There were also concerns that Prime Minister Ishiba could be forced to resign, potentially ushering in a new administration favoring looser fiscal and monetary policy. While the LDP did lose its majority, the yen had already priced in the outcome and remained relatively stable.

The yen found modest relief following the announcement of the US-Japan trade deal, which set tariffs at 15%—including for the critical auto sector, previously subject to 25% tariffs. Still, with global risk sentiment supporting equities and the US dollar, and BoJ Governor Kazuo Ueda sounding notably patient at the July 30 meeting, the yen remained near its lows through month-end.

Our models turned increasingly positive on the yen in July, and we believe the disappointing US employment data sets the stage for yen outperformance in August. Japanese inflation remains well above target, while retail sales and PMI data point to resilient domestic growth. The 15% tariff appears manageable, and the prospect of increased fiscal spending following the LDP's loss of its majority could further support the economy. In this context, the case for a late 2025 or early 2026 rate hike by the BoJ is strong.

In the short term, the weak US jobs report and sluggish growth across the G10 suggest that interest rate differentials should begin to favor Japan. Additionally, heightened volatility in risk assets is likely to attract safe-haven flows. This creates a constructive backdrop for the yen, particularly after its recent selloff, which likely cleared out many bullish positions.

Swiss Franc (CHF)

The Swiss franc was flat against the G10 average in July, following a similar trajectory to the euro—gaining early in the month before falling sharply into month-end. Better-than-expected manufacturing PMI data and a slight uptick in core CPI to 0.6% year-over-year provided a supportive backdrop early on. However, the US decision to delay its tariff deadline to August 01 weighed on the franc, favoring the dollar and higher-yielding, more cyclically sensitive currencies. That move reversed the following day on reports suggesting US-EU tariffs might be set at 10%. From there, the franc traded sideways but managed to hold its gains until the final announcement of the US-EU trade deal. The 15% across-the-board tariff was disappointing and spilled over into pessimism about a potential US-Swiss agreement, pushing the franc lower into month-end. Unlike the euro, however, the franc did not finish the month with a loss versus the G10 average.

On August 01, the US announced a 39% tariff on Switzerland—among the highest globally. While pharmaceuticals, a major Swiss export sector, were excluded, the franc still sold off in response. It rebounded later that day following the negative

US employment surprise, gaining against the dollar. We could see further upside in August as investors grow concerned about the U.S. economic outlook and potential equity market volatility. Even so, the franc's high valuation, elevated U.S. tariff rate and risk of future pharmaceutical sector tariffs are likely to keep it under pressure relative to the euro and yen.

Looking ahead, we expect the Swiss franc to materially underperform all other G10 currencies. It is the most expensive G10 currency based on our long-run fair value estimates and has the lowest yields and inflation in the group. The newly imposed tariffs are likely to be an additional deflationary shock, even if partially reversed through negotiation. In response, we expect the SNB to become more open to direct currency market intervention to weaken the franc in the second half of the year and may be forced to return to negative policy rates.

On a total return basis, the increasingly negative interest rate carry on long franc positions makes it difficult to envision franc outperformance. Even against the US dollar, the franc would need to appreciate by 10% to 15% over the next three to five years just to offset the drag from its ultralow yield.

Additionally, we do not expect portfolio rebalancing away from the dollar over the next one to three years to benefit the franc as much as other currencies. Swiss investors already hedge a large portion of their foreign exchange exposure, leaving limited room for increased dollar hedge ratios. In simpler terms, we see less scope for US dollar selling and franc buying.

Norwegian Krone (NOK)

The Norwegian krone gained 0.6% in July against the G10 average in choppy trading. Stronger oil prices and positive equity markets helped push the krone into positive territory early in the month. Domestic data was mixed: core CPI came in slightly above expectations at 3.1% year-over-year versus 3% expected, while industrial production and retail sales disappointed. Aside from a brief mid-month dip, triggered by a surge in the US dollar and a drop in oil prices from the top to the bottom of its $68–$70 range. Hence, the krone spent most of the month oscillating between +0.2% and +0.6%, largely ignoring tariff developments.

The US announced a 15% across-the-board tariff on Norway, which may present some economic headwinds. However, the impact is expected to be limited, as the US is Norway's sixth-largest export destination, accounting for only about one-tenth the combined exports to Germany and the UK—Norway's top two trading partners.

Our models were positive on the krone at month-end, though we see risks ahead. Norway's national balance sheet remains pristine, a significant advantage amid global fiscal concerns and rising term premiums. Yields are also likely to remain among the highest in the G10, even if Norges Bank cuts rates two to three times by year-end. However, two key issues temper our optimism: first, pressure on oil markets from increased OPEC+ production amid sluggish global demand; second, the risk of renewed equity market volatility as policy and economic uncertainty persists. These factors suggest the potential for periods of substantial volatility in the krone, despite our generally constructive outlook.

Over the long term, the krone remains historically undervalued relative to our fair value estimates and is supported by steady potential growth and a strong fiscal position. Norway also has significant monetary and fiscal flexibility to mitigate long-term damage from the current tariff shock. We believe the krone is setting up for solid gains once tariffs peak, risky assets and oil markets reprice, and attention shifts toward tariff reductions and renewed fiscal and monetary stimulus.

Swedish Krona (SEK)

The Swedish krona ended July with a 0.2% loss against the G10 average, marking its fourth consecutive month of sideways trading as it continued to digest its strong first-quarter gains. The currency fell in the opening days of the month following weak retail sales data from late June, softer manufacturing PMI on July 01 and a broad rebound in the US dollar. That move reversed sharply on July 07 after CPI surprised to the upside, rising 0.5% month-over-month versus 0.1% expected. President Trump's decision on the same day to delay the tariff deadline also supported the krona relative to more defensive currencies such as the euro, yen and Swiss franc.

Mid-month, a correction in equity markets combined with weak May GDP and household consumption data offset the bullish impulse from inflation, sending the krona back to its lows. Improved global risk sentiment and a strong recovery in equities helped lift the currency again, but it fell into month-end in line with the steep drop in the euro following the EU-U.S. trade deal.

Our near-term outlook for the krona has shifted from neutral to slightly negative due to weaker growth data. The upside inflation surprise may limit the scope for rate cuts from the Riksbank, but that's not necessarily constructive in the context of soft economic performance. At the very least, it is likely to prompt the central bank to maintain a dovish bias, even if rates remain on hold in the near term. The risk of a global slowdown as markets adjust to the new tariff regime also presents a headwind. As a small, open economy with a less liquid currency, Sweden is likely to experience greater downside volatility in the near term due to the drag on regional growth.

Over the medium to long term, we remain constructive on the krona. It is historically undervalued on a real effective exchange rate basis. Sweden also benefits from strong fiscal and monetary flexibility, and the potential for gradual portfolio rebalancing away from US assets. Even modest increases in US dollar hedge ratios among Swedish and broader EU investors could provide a meaningful tailwind for the currency. Additionally, increased EU defense spending is likely to support Swedish growth over the coming years, given the country's well-established defense production sector..

Australian Dollar (AUD)

The Australian dollar rose 0.5% against the G10 average in July. Tariff concerns, anticipation of an August 08 rate cut from the Reserve Bank of Australia (RBA), and a strong US dollar overshadowed positive surprises in services PMI and household spending, sending the currency lower through the first week of the month. On July 8, the RBA surprised markets by holding its policy rate steady at 3.85%, citing the need for more evidence that inflation would durably converge to its 2.5% target. The Australian dollar rallied sharply through July 10 before trending lower mid-month amid renewed tariff fears and weaker equity markets.

A disappointing employment report, with the unemployment rate rising to 4.3% versus 4.1% expected, added to the pressure. The US-Japan trade deal later in the month revived optimism, lifting both equities and the Australian dollar on hopes that the worst-case scenario of ultra-high tariffs and retaliatory escalation could be avoided. The currency softened slightly following a weaker-than-expected CPI print on July 29, core CPI rose 0.6% quarter-over-quarter for Q2 compared to 0.7% expected, but largely held its gains through month-end.

Our tactical models remain neutral on the Australian dollar, though we see elevated risk of further drawdowns amid ongoing uncertainty. A durable US-China trade deal remains elusive, and the RBA is expected to ease policy more aggressively than most G10 central banks over the next year. Export prices have been sluggish, and Australia faces structural challenges including weak business investment, high household debt service burdens and a long-term downshift in productivity growth. These factors limit our conviction on the currency in the near term.

Over the medium to long term, however, we are more constructive. The Australian dollar is significantly undervalued relative to our fair value estimates. While growth has been lackluster, it remains resilient, as evidenced by stronger household consumption and solid services PMI data. Australia also has ample room for fiscal and monetary stimulus to mitigate long-term damage from elevated tariffs. Additionally, Australian investors appear to hold substantial unhedged US dollar asset exposure, which we expect to be subject to higher hedge ratios or a rotation into more diversified global portfolios. Once markets adjust to the new tariff regime, the Australian dollar has room for a meaningful long-term rally.

New Zealand Dollar (NZD)

The New Zealand dollar fell 0.5% against the G10 average in July. Losses were front-loaded, with the currency down nearly 0.9% by July 08 amid tariff concerns and a strong rebound in the US dollar following the delay of its tariff deadline to August 01. The Reserve Bank of New Zealand (RBNZ) met on July 09 and held rates steady at 3.25%, having cut 225 basis points since July 2024. While the market reaction was muted, the New Zealand dollar rallied the following day alongside the Australian dollar on improved global risk sentiment and hopes that the tariff delay might lead to more favorable trade negotiations.

Still, the rally only retraced about one-third of the early-month losses and failed to hold, as the New Zealand dollar tracked risk sentiment and equity markets lower through mid-month. A slightly weaker-than-expected Q2 CPI reading on July 20—0.5% quarter-over-quarter versus 0.6% expected—added to the currency's weakness. The New Zealand dollar saw a more meaningful bounce following the US-Japan trade deal on July 22, which lifted risk sentiment and equity markets. That rally erased more than half of the month-to-date losses before the New Zealand dollar slid again into month-end as the US dollar rally accelerated.

Our tactical model is neutral to slightly positive on the New Zealand dollar versus the G10 average. Growth indicators suggest a continued gradual recovery, and we expect the RBNZ to slow its pace of easing following last year's aggressive rate cuts. New Zealand is largely insulated from direct US tariffs, though it will likely face some drag from broader growth headwinds across Asia as tariffs take effect. While our near-term outlook is slightly constructive, we caution that the New Zealand dollar may remain volatile due to its historically high sensitivity to global risk sentiment, which is likely to be unstable amid ongoing economic and policy uncertainty.

Over the longer term, our outlook is mixed. The New Zealand dollar is undervalued relative to the US dollar and Swiss franc based on our long-run fair value estimates, suggesting room for appreciation. However, it remains expensive compared to the Japanese yen and Scandinavian currencies, which may limit its relative performance over the coming years.

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* This figure is presented as of June 30, 2025 and includes ETF AUM of $1,689.83 billion USD of which approximately $116.05 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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