



FEBRUARY 2026  
ANNUAL CURRENCY OUTLOOK

**CAXTON**

Navigating FX in 2026:  
Strategy, Risks & Opportunities

Exclusive analysis prepared by  
Caxton for clients

[caxton.io/business/currency-risk-management](https://caxton.io/business/currency-risk-management)

## FOREWORD

# Currency markets rarely move in straight lines

As 2026 unfolds, businesses are operating against a backdrop of shifting central-bank policy, heightened political risk, and an evolving global trade landscape. While this report follows our Annual Currency Outlook webinar held in January, its purpose is deliberately forward-looking: to help businesses reassess currency risk now, not simply reflect on what has already passed.

At Caxton, our role is not to predict markets with false certainty, but to provide clarity around risks, opportunities, and practical decision-making.

This report distils our latest thinking into a streamlined, accessible guide that can support financial planning, budgeting, and risk management for the year ahead.



**Rupert Lee-Browne**  
CEO & Founder, Caxton

# Executive Summary:

## The FX Landscape in 2026

2026 is shaping up to be a year defined less by outright crisis and more by persistent volatility. The era of synchronised global tightening is firmly behind us. What replaces it is divergence — between regions, between central banks, and between currencies.

### Key themes for 2026:



**Central banks are broadly easing, but at different speeds**



**Political risk is rising across the US, UK, and parts of Asia**



**The US Dollar faces structural headwinds after years of strength**



**The Euro is increasingly viewed as a credible alternative reserve currency**



**Commodity-linked currencies show selective opportunity**

For businesses exposed to foreign exchange, this environment rewards preparation over prediction. Hedging, budget rates, and scenario planning matter more than ever.



**FEBRUARY 2026  
GBP OUTLOOK**

# GBP Outlook: February 2026

The Pound has shown resilience in early 2026, trading around 1.35 against the USD amid a broader dollar pullback following the US Supreme Court's ruling on emergency tariffs. However, sterling's upside remains capped by domestic uncertainties, including persistent inflationary pressures, subdued growth, and escalating political risks. We maintain a cautious stance on GBP in the annual outlook, with potential for further downside coming mainly from the political risk of a change of Prime Minister and a more aggressive cutting campaign from the BoE.

## Economic and Inflation Backdrop

UK economic data has been mixed but generally underwhelming. Preliminary Q4 2025 GDP figures disappointed, underscoring a soft end to last year, though early 2026 indicators like the S&P Global PMI show private-sector activity expanding at its fastest pace since April 2024, driven by manufacturing and services. However, inflation has fallen to 3.00% in January, ahead of the BoE's expected time frame of March. Much of this comes from a slowing in food price inflation and energy prices, leaving the core inflation measure more resilient. Still, we anticipate this drop will lead to a lower than expected UK interest rate by year end.

## Monetary Policy: Expecting Deeper Cuts

The BoE held rates at 3.75% in its February meeting following six 25-basis-point cuts since August 2024. Market consensus anticipates a cut to 3.50% in March, with a second potentially in June or later, implying just two reductions for the year. We believe this underestimates the downside risks to growth and inflation's trajectory. With slowing activity and emerging slack in the economy, we expect four rate cuts in 2026 starting in March, followed by quarterly adjustments bringing the base rate to around 2.75% by year-end. This more aggressive easing path would pressure GBP further, as wider rate differentials against the Fed and ECB erode sterling's yield appeal.

## Political Risks: High Chance of PM Replacement

Adding to GBP headwinds is political instability surrounding Prime Minister Keir Starmer. Fallout from his 2024 appointment of Peter Mandelson as US ambassador amid revelations of Mandelson's ties to Jeffrey Epstein has intensified calls for Starmer's resignation. Labour MPs warn his days are "numbered," with betting markets pricing a 70% probability of him stepping down by June 30. Potential successors include Health Secretary Wes Streeting, former Deputy PM Angela Rayner, and Greater Manchester Mayor Andy Burnham, Rayner being the bookies favourite. This makes the chance of a leftwards lurch in UK fiscal policy much more likely, likely intensifying fears regarding the UK's fiscal health, presenting a real and serious threat to GBP.

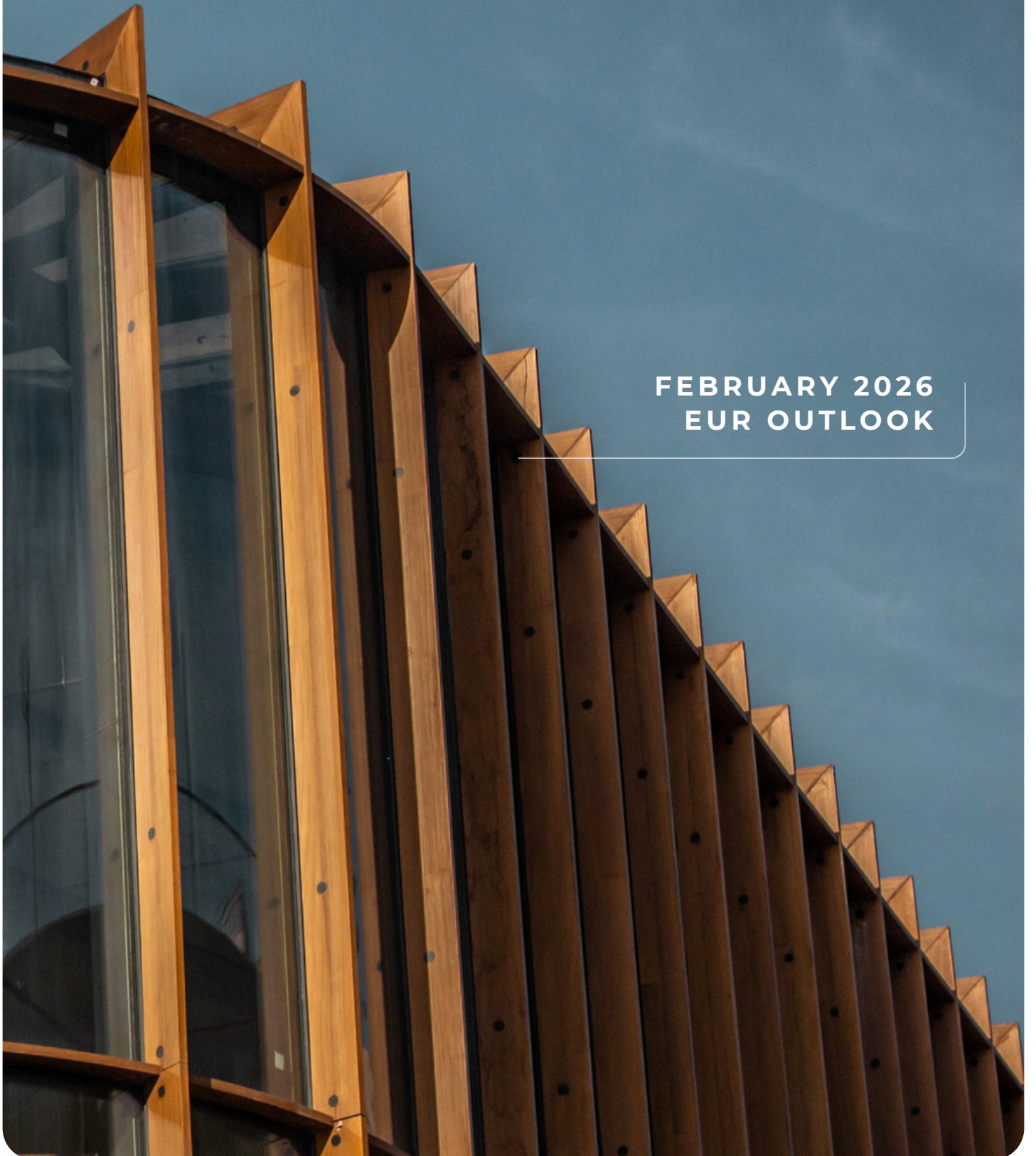
## Technical and Cross-Currency Outlook

GBP/USD has dipped over 3% from yearly highs but holds above the 200-day moving average near 1.3474, with the February open at 1.3474 acting as a key pivot. A break below could target 1.3340, while resistance at 1.3530-1.3565 caps upside. We forecast GBP/USD edging to 1.36 by end-2026, but near-term bears prevail if supports fail. Against the euro, GBP/EUR may rise toward 0.8700-0.8850 if BoE rhetoric stays hawkish relative to the ECB.

In summary, while global risk sentiment could buoy GBP, deeper-than-expected BoE cuts and a high likelihood of PM replacement introduce volatility. We advise hedging sterling exposure, favouring shorts on rallies amid these downside risks.



FEBRUARY 2026  
EUR OUTLOOK



# EUR Outlook: February 2026

The Euro has demonstrated a solid performance in early 2026, with EUR/USD trading around 1.1795, up modestly from recent sessions amid a broader softening in the US Dollar. This resilience reflects improving Eurozone fundamentals, including steady growth and controlled inflation, positioning the Euro as an increasingly appealing alternative to the USD for global investors seeking diversification. We maintain a bullish stance on EUR in the near to medium term, with potential for further upside as yield differentials narrow and global capital flows shift toward euro-denominated assets.

## Economic and Inflation Backdrop

Eurozone data has been encouraging, with Q4 2025 GDP growth confirmed at 0.3% quarter-on-quarter, contributing to an annual expansion of 1.3%. Early 2026 indicators point to continued momentum: January inflation eased to 1.7% year-on-year, comfortably near the European Central Bank's (ECB) 2% target, while unemployment held steady at 6.2%. Industrial production dipped 1.4% in December, but services activity showed resilience with a 0.6% contraction, and consumer confidence remained stable. Trade balances have improved, posting a €164.6 billion surplus in 2025, supported by robust intra-European exports. Forecasts suggest GDP growth stabilizing around 1.2-1.4% for 2026, underpinned by strengthening domestic demand and a rebound in trade. This backdrop supports a positive growth trajectory, enhancing the Euro's stability relative to peers.

## Monetary Policy: Monetary Policy: ECB Poised to Hold Steady

The ECB maintained its key rates in February, with the deposit facility at 2.00%, main refinancing operations at 2.15%, and marginal lending facility at 2.40%—unchanged for the fifth consecutive meeting. With inflation projected to hover around 1.9-2.0% through 2026 and the economy showing resilience, the ECB is

unlikely to adjust rates this year, signaling a "wait-and-see" approach without pre-committing to changes. In contrast, the Federal Reserve is expected to implement 2-3 rate cuts in 2026, potentially starting in June, narrowing the policy differential and boosting EUR's yield appeal. This divergence favors EUR appreciation, as stable ECB policy provides a reliable anchor amid global uncertainties.



## Euro as an Attractive Alternative to the USD

Shifting global dynamics are elevating the Euro's role as a viable alternative to the USD. With the US Dollar facing pressures from potential Fed easing and elevated hedging costs, investors are increasingly turning to euro-denominated assets for diversification. The Euro already holds about 20% of global reserves, second only to the USD, and initiatives like Eurobonds and the digital euro are expanding its appeal by offering high-quality, liquid assets. Capital flows are tilting toward Europe, drawn by structural strengths such as deep capital markets, rule of law, and geopolitical neutrality, making the Euro a "next best" international currency for hedging global risks. Lower oil prices and narrowing USD hedge ratios could further support EUR toward fair value around 1.20. This trend underscores the Euro's growing attractiveness for central banks and investors seeking stability beyond the Dollar.

In summary, the Euro's bullish prospects are bolstered by steady ECB policy, resilient growth, and its emerging status as a USD alternative. We recommend positioning for upside in EUR crosses, with hedges on potential volatility from external shocks.

A photograph of the Sydney Opera House, showing its iconic white, sail-like roof structure against a clear blue sky. The building's base is a modern, multi-story structure with large windows and a curved facade. In the foreground, a low wall and a railing are visible, with several people walking along the promenade. The text 'FEBRUARY 2026 AUD OUTLOOK' is overlaid on the right side of the image, enclosed in a white rectangular box with rounded corners.

**FEBRUARY 2026  
AUD OUTLOOK**

# AUD Outlook: February 2026

The Australian Dollar (AUD) enters the remainder of 2026 with strong bullish momentum, currently trading around 0.706 against the USD. In our base bullish case, resilient inflation keeps the Reserve Bank of Australia (RBA) on hold at its recently hiked 3.85% cash rate throughout the year. This stable, elevated policy stance combined with Australia's commodity strength and tightening global yield differentials positions the AUD as one of the more attractive high-yield currencies in the G10 space. We see clear upside potential, with AUD/USD targeting 0.73–0.75 by year-end (a 4–6% gain from current levels).

## Economic and Inflation Backdrop

Australia's economy continues to demonstrate resilience. Unemployment remains low at 4.1%, the labour market is still relatively tight, and private-sector demand has surprised to the upside. Headline CPI rose to 3.8% year on year in December 2025 and is expected to peak around mid-2026 before only gradually moderating. Trimmed-mean inflation (the RBA's preferred gauge) is also running above the 2–3% target band and is forecast to stay elevated for longer than previously anticipated. This persistent inflation backdrop is the cornerstone of the bullish AUD thesis: it removes any near-term incentive for the RBA to cut rates, while many other major central banks (most notably the Fed) are still expected to ease further in 2026.

## Monetary Policy: RBA Holds Steady at 3.85%

Following the 25 bp hike to 3.85% in early February 2026 the first increase since late 2023 the RBA has signalled a data-dependent but clearly cautious stance. With inflation risks tilted to the upside and downside risks to employment having eased, the central bank is in no hurry to reverse course. In our bullish scenario, resilient inflation data through the first half of the year keeps the RBA on hold at 3.85% for the remainder of 2026. Markets are currently pricing only modest further tightening (around 30–60 bp total), but even if the RBA simply maintains the current level while the Fed cuts 2–3 times, the policy divergence alone provides significant support for the AUD via carry and capital inflows.



## Why This Supports a Stronger AUD

- **Yield advantage:** A steady 3.85% cash rate in Australia versus declining rates elsewhere makes AUD assets more attractive for global investors and carry traders.
- **Commodity tailwinds:** Australia remains a major exporter of iron ore, coal, and LNG. Any stabilisation or modest recovery in Chinese demand (a key driver) would further bolster the terms of trade and AUD.
- **Diversification flows:** With ongoing concerns around US policy and the USD, the AUD benefits as a liquid, commodity-linked alternative in global portfolios.

## Technical and Cross-Currency Outlook

AUD/USD has already broken above key resistance near 0.70 and is consolidating above the 200-day moving average. A sustained move above the February 2026 high near 0.713 would open the door to 0.73–0.74 quickly, with longer-term bullish targets at 0.75 (the upper end of many bank forecasts). Key support sits at 0.695–0.700; a break below would be needed to question the bullish structure. Versus the EUR and GBP, we also see AUD strength if the RBA remains the highest-yielding major central bank.

In summary, the combination of sticky inflation keeping the RBA firmly on hold at 3.85% and a dovish global backdrop elsewhere creates a compelling bullish setup for the AUD in 2026. We recommend being long AUD on dips, particularly in AUD/USD and AUD/JPY, with a year-end target range of 0.73–0.75. Risks remain (a sharper global slowdown or unexpected Fed hawkishness), but the base case favours further AUD appreciation as the “higher for longer” narrative plays out Down Under. Position accordingly and stay tuned to the monthly CPI prints — they will be the key driver of this outlook.



**FEBRUARY 2026  
CAD OUTLOOK**

# CAD Outlook: February 2026

The Canadian Dollar (CAD) trades around 0.730–0.732 (USD/CAD  $\approx$  1.367–1.370) in late February 2026, consolidating after a volatile start to the year. We adopt a balanced to mildly constructive stance on the loonie for the remainder of 2026. While near-term trade uncertainty with the US (USMCA review and tariff risks) caps upside, resilient domestic fundamentals, stable oil prices, and a relatively hawkish Bank of Canada (BoC) compared with further Fed easing should support CAD over the course of the year. Our base-case year-end target is USD/CAD 1.34–1.36 (CAD/USD 0.735–0.746), implying modest CAD appreciation of 1–2% from current levels.

## Economic and Inflation Backdrop

Canada's economy is showing modest resilience amid external headwinds. Real GDP growth is tracking around 1.1–1.8% for 2026, supported by steady consumer spending, a still-tight labour market (unemployment  $\sim$ 4.1–4.5%), and a rebound in housing activity as lower rates filter through. Inflation remains well-anchored near the 2% target: headline CPI eased to 2.3% y/y in January 2026, with core measures stable. Excess supply in the economy continues to offset any tariff-related cost pressures, keeping inflation expectations firmly in check. Commodity prices, particularly oil (WTI hovering in the mid-to-high \$70s), provide a supportive tailwind for the terms of trade and CAD's commodity-linked profile.

## Monetary Policy: BoC Likely to Hold Steady Longer

The BoC has held its overnight rate at 2.25% since late 2025 (last confirmed January 28, 2026) and is expected to remain on hold through at least the first half of 2026. Governor Macklem has emphasised data-dependence and highlighted elevated trade uncertainty as a key risk that could tilt policy in either direction. Markets are pricing only 1–2 cuts for the full year (possibly starting in Q3), far fewer than the 2–3 cuts still expected from the Fed. This relative policy divergence — BoC “higher for longer” versus a more dovish Fed — is the primary supportive driver for CAD in our outlook. Wider rate differentials should attract carry flows and help the loonie hold ground even if global risk sentiment softens.

## Key Drivers and Risks

- **Positive for CAD:** Stable oil prices, any positive resolution or renewal of the USMCA trade deal, and continued Fed easing.
- **Headwinds for CAD:** Escalation in US tariffs or prolonged trade negotiations, a sharper global slowdown, or a surprise hawkish pivot from the Fed.
- **Commodity sensitivity:** CAD remains highly correlated with energy prices; a sustained move above \$80/bbl in WTI would be a significant booster.

## Technical and Cross-Currency Outlook

USD/CAD has found solid support near 1.3500–1.3550 multiple times this year and is now testing the upper end of its recent range (1.3700–1.3740). A sustained break above 1.3750 would open the door toward 1.3880–1.3920 (2023/2026 highs), while a decisive break below 1.3550 targets 1.3400 and potentially 1.31 longer-term. We favour CAD strength in crosses where the BoC's steady stance stands out: particularly AUD/CAD and EUR/CAD on dips. Versus the USD, the pair looks range-bound in the first half before tilting lower in H2 as policy divergence widens.

In summary 2026 shapes up as a year of modest CAD resilience. Trade uncertainty will keep volatility elevated in the first half, but a stable BoC, anchored inflation, and supportive commodity backdrop set the stage for gradual CAD appreciation in the second half. We recommend being selectively long CAD on dips (especially vs. USD and EUR) with a yearend bias toward USD/CAD 1.34–1.36. Stay alert to the March 18 BoC meeting and any USMCA headlines these will be the dominant near-term catalysts. Position accordingly and monitor oil and US data closely.



## What This Means for Businesses

The defining challenge of 2026 is uncertainty — not just about direction, but about timing.

Businesses should focus on:

Setting realistic FX budget rates



Protecting margins through structured hedging



Avoiding over-reliance on spot market moves



Reviewing currency strategy regularly, not annually

Hedging is not about beating the market. It is about protecting outcomes.

## Practical FX Tools

Depending on cash-flow needs and risk tolerance, businesses may consider:

- Spot contracts for immediate payments
- Forward contracts to lock in future certainty
- Limit orders to target favourable levels
- Flexible forwards where timing is uncertain

The right mix depends on your exposure, not on market headlines.

## FINAL THOUGHTS

2026 is not a year for complacency in FX markets. Volatility may not dominate headlines every day, but it will remain ever-present beneath the surface.

For businesses that plan ahead, this environment offers opportunity as well as risk. For those that don't, currency movements can quietly erode margins and disrupt forecasts.

At Caxton, we help businesses turn currency from an uncertainty into a manageable part of financial strategy.

The Caxton logo is displayed in a bold, white, sans-serif font. It is enclosed within a thin white rectangular border that has rounded corners on the right side. The background of the entire page is a photograph of a building's exterior, featuring a grid of dark blue and brown panels, possibly a facade or a wall, with strong geometric lines and shadows.

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