Carlsquare/Vontobel weekly trading note: Stagflation and a link to China could weaken the AUD

This week, we are focusing on the USD/AUD currency pair. We argue that the Australian dollar's dependence on exports to China's struggling real estate construction sector, particularly iron ore, could be disadvantageous in 2026. Combined with Australia's domestic economy facing stagflation, this could result in a weaker AUD against the USD. Meanwhile, investors in the global stock market are awaiting the Federal Reserve's interest rate decision on Wednesday evening. A rate cut of 25 basis points is anticipated. Therefore, the guidance provided by the Fed will be crucial for the stock market.

The USD/AUD is one of the most actively traded currency pairs on the global foreign exchange market. The Australian economy is slowing down and may enter a period of stagflation in 2026. Furthermore, around a third of Australia's net exports go to China, meaning the AUD is highly sensitive to Chinese industrial activity. Recently, there have been signs of distress in the Chinese steel sector due to slowdowns in domestic real estate construction and falling housing demand.

The highlight of the week will be this evening (Wednesday, 10 December), when the Federal Reserve is expected to announce a cut in its policy rate of 25 basis points. The Fed faces the challenging task of balancing the weak US economy and labour market with inflationary pressure. The weaker US dollar and the higher tariffs on imported goods and services are likely to have contributed to inflation in the US in 2025.

Please find out more in our weekly letter on certificates Vontobel.com: **Read the weekly newsletter here**

Link to the Swedish-translated version

Read more

About Vontobel:

As a globally operating financial expert with Swiss roots, Vontobel specializes in wealth management, active asset management and investment solutions. Structured Solutions & Treasury bundles different investment solutions for private investors either directly or via ecosystems. Read more

About Carlsquare

Carlsquare is a global research firm and financial advisor, focusing on M&A, Equity Research and Growth Equity. Carlsquare has 150 employees with deep sector knowledge in all 11 GICS sectors. The senior equity research team has extensive experience about the stock environment and several business sectors. The team produces company research reports, independent valuations and trading notes. The group have offices in Canada, Denmark, France, Germany, Poland, Sweden, United Kingdom and United States. Read more

Attachments

Carlsquare/Vontobel weekly trading note: Stagflation and a link to China could weaken the AUD