

## Four scenarios for the Aussie dollar amid renewed trade tensions

The Aussie dollar finds itself once again tied to US-China trade developments. We discuss four scenarios for AUD/USD based on potential developments in Sino-American relationships. Further escalation will weigh on AUD, but a re-run of April's chaos could actually lead to a higher AUD/USD



AI-generated image. The Aussie dollar finds itself once again tied to US-China trade developments

We admit we didn't expect AUD/USD to be trading below 0.6550 a month ago. The USD rally – hardly [sustainable](#) in our view – and the rapid re-escalation in US-China trade tensions have both surprised. Until markets are reassured we're not heading for a repeat of April's mammoth US tariffs on China, the Aussie dollar will struggle to benefit from its otherwise constructive fundamentals.

But those fundamentals would crumble in a major trade war: the Reserve Bank of Australia (RBA) would need to cut more, growth would falter, and commodity prices would suffer. It's a sliding door moment for AUD – and here are four scenarios based on our estimated impact.

### 1 Scenario 1. De-escalation (AUD/USD at 0.68 year-end)

**Trade:** Markets' high sensitivity to China and tariffs forces the US to de-escalate. A Trump-Xi

summit in South Korea on 31 October leads to conciliatory tones, an extension of the tariff pause, and some sort of agreement on rare earths. It's not necessarily a step towards structural improvement in Sino-American trade relationships, but it takes market sentiment on the matter back to September levels.

**FX:** Aussie rallies on the de-escalation, thanks to the risk premium being lifted and some hawkish RBA repricing. The RBA proceeds with caution on easing, and can wait until December (15bp priced in), if not February (23bp priced in), to cut as some risks remain on the disinflationary path. If our call for Fed and data-led USD depreciation also materialises, 0.68 is a very reachable target by year-end.

## 2 Scenario 2. Volatile status quo (AUD/USD at 0.66 year-end)

**Trade:** No major re-escalation, but some tit-for-tat retaliation drags on into 2026. A combination of sectoral duties and curbs results in a higher tariff rate on China, but no outright increase in the tariff rate. Uncertainty becomes the new normal.

**FX:** No additional risk-premium build-up on AUD, but antipodeans will hardly shine in this scenario. That leaves idiosyncratic USD weakness doing the heavy lifting on any AUD/USD rally. The upside is significantly restrained, but seasonality can pair with Fed cuts to take the pair to 0.66 by Christmas.

## 3 Scenario 3. Escalation (AUD/USD at 0.62 year-end)

**Trade:** The US increases the tariff rate on all Chinese products and adds sectoral duties, as Beijing scales up retaliation. Global trade is significantly impacted, and both China and the US face material economic consequences. No meaningful de-escalation until the new year.

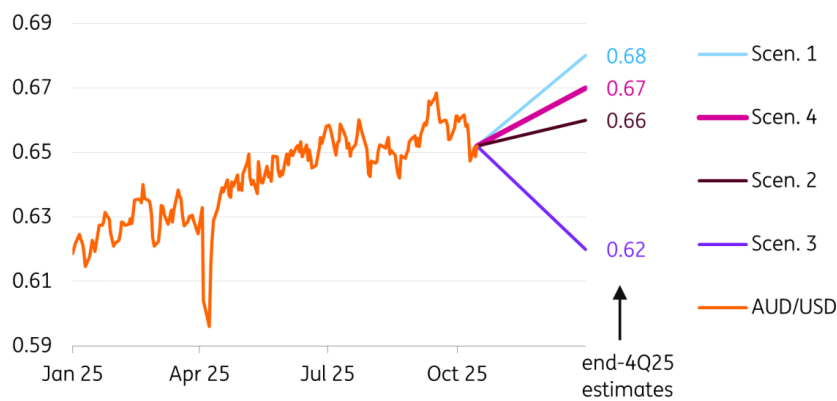
**FX:** A very negative scenario for AUD/USD. While the single announcement causes some pockets of USD sell-offs, there's no rerun of the sell-America narrative. The Fed slows easing on higher tariff-related inflation risk, offering the USD some support. Ultimately, it's the China proxies like AUD that bear most of the brunt, also because the RBA faces increased pressure to cut.

## 4 Scenario 4. April 2.0 (AUD/USD at 0.67 year-end)

**Trade:** Trump slams 100%+ tariffs on China, which turns highly aggressive on export restrictions and other retaliatory measures. This time, the de-escalation isn't quick, and multiple months of mammoth tariffs cause severe consequences for both the US and China. But the US bears most of the brunt, with risks of stagflation flaring.

**FX:** The 'sell America' trade returns in full swing, and AUD/USD follows the April script: initial drop followed by a big rebound as the dollar sells off alongside US equities and Treasuries. The Fed keeps cutting, weighing further on the dollar. AUD will probably be the worst performer in the G10 after USD. But as a net effect, AUD/USD would still end the year higher.

## Our four scenarios for AUD



Source: Refinitiv, ING

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