Moving money globally

Key currencies at a glance

What to watch in June

The key drivers of currency direction through June are likely to be:

- Employment data, especially in the US
- Surging commodity prices and inflation, which are areas of concern for G10 central banks. The currency market could respond to any commentary that suggests rising inflation is more than just a phase, as this would likely require intervention from central banks
- Any commentary from the US Federal Reserve or other central banks around tapering of bond-buying programs
- The direction of the US dollar and whether the DXY index can sustain a move off 3-year lows, particularly given the strength across GBP and EUR.

Euro | EUR

The euro has been gaining on the USD since April and continued to enjoy gains in May, breaking above 1.22 USD for the first time since February.

The currency was lifted by the Eurozone's emergence out of recession and its member states accelerating their coronavirus vaccine rollouts.

Continued positive news around vaccination campaigns and the reopening of EU economies, along with extended risk-on sentiment in FX markets, could continue to support the euro, particularly against safe havens such as the US dollar and the Japanese yen. However, if the US Federal Reserve indicates any change to its current loose monetary policy, this could unwind recent euro gains.

Economic data coming out of the EU looks set to reinforce the ongoing economic recovery narrative however at its monetary policy decision on June 10, European Central Bank officials are likely to maintain the status quo and forego any imminent tightening of monetary policy.

The euro could trade within a range of 1.1950 —1.2400 USD against the US dollar in June and against the pound between 0.8475—0.8775GBP.

Australian dollar | AUD

The Australian dollar remained range bound against the USD throughout May but tracked downwards against EUR, NZD and GBP.

We see limited scope for the currency to break above 0.78 USD without a significant improvement in risk appetite. In the short term, moderation in commodity prices, a slow domestic vaccine rollout and lingering global inflation concerns continue to weigh on the AUD. Leading inflation indicators and ongoing US Federal Reserve commentary will be potential catalysts to drive direction for AUD in June.

A recent shift in global central bank commentary has contributed to the AUD falling against key counterparts including NZD, we will look to see if the Reserve Bank of Australia will follow with any hints of tightening monetary policy in the coming months, especially given the stability of the domestic economy.

With elevated commodity prices already priced into AUD, any rising tensions with Australia's key trading partner, China, could force the AUD toward the lower end of its current trading range in June.

The AUD could range between 0.7550 and 0.8100 USD in June

New Zealand dollar | NZD

In May, the Reserve Bank of New Zealand maintained the current interest rate but surprised the market in its transparency around future plans, projecting a rate hike in Q2 2022.

In the current low-yield environment, this helped lift the NZD to three-month highs. Attentions now turn to any signal that the RBNZ will continue to lead major central banks in tapering accommodative monetary policy.

In June, the NZD could continue to meet resistance on moves approaching 0.7315 USD, but a break toward year-to-date highs of 0.74 USD is not out of the question. That said, the same near-term headwinds remain in play, in particular the risks to the global vaccine rollout, ongoing pandemic-led uncertainty and lingering inflation concerns.

NZD could range between 0.6950 and 0.7500 USD in June.

Hong Kong dollar | HKD

HKD slowly strengthened against the USD through May and managed to hit levels around the 7.7612 range towards the end of the month.

There has been increasingly positive sentiment across Hong Kong as low COVID cases and further relaxation of restrictions have contributed to the city's economic resurgence over the last month. The HK government also reiterated its annual GDP forecast to fall within the 3.5-5.5% range and cited continued pandemic uncertainty as the main hinderance, however remains hopeful this figure will be much higher once local businesses reach full operating capacity.

Hong Kong is poised to see further economic activity across both local and international businesses heading into the second half of the year – HKD will likely continue strengthening in June.

HKD could range between 7.7550 –7.7670HKD against the USD in June.

Singapore dollar | SGD

SGD continued to strengthen through May, reaching levels of 1.3215, the strongest levels seen since the end of February.

Since then, Singapore has been marred by a resurgence of COVID cases, clouding recovery efforts and the positive economic outlook that was enjoyed earlier in the year. The recent outbreak has threatened to disrupt economic activity, particularly businesses in the manufacturing sector on which the country has heavily relied for its recovery efforts. This will almost certainly lead to a decline in second quarter GDP growth, a disappointing outcome for the region given the recent positive sentiment which had pinned economic growth at close to 6%.

As Singapore continues to navigate its current conditions, we anticipate SGD will likely fluctuate over the coming month. SGD could range from 1.3185 –1.3310 SGD against the USD in June.

Sterling | GBP

In May, the Bank of England had begun to taper its bond-buying program as the economy partially reopened, this allowed the pound to hold on to gains seen earlier in the month.

However, heading into June, doubt is being cast over whether the UK can continue its strong economic rebound, as concerns heighten around increasing cases of the Indian variant of COVID-19. The lifting of restrictions on June 21 is now in doubt, with a final decision expected to be announced on June 14. The pound's direction will be determined by any positive or negative headlines around the potential full reopening of the economy in England.

Should the reopening go ahead as planned on the June 21, this could lead to a more optimistic outlook from the Bank of England on the economy for the rest of the year, which should boost the pound's prospects. Should inflation continue on its upward trajectory when the latest data is released on June 16, this should also support the pound.

The pound could range between 1.3900 and 1.4350 USD in June and against the euro between 1.14 —1.18 EUR.

US dollar | USD

The US dollar experienced weakness in May, with the DXY index (which measures USD against a basket of major currencies) trading at close to 3-year lows.

May commentary from the Federal Reserve around tapering asset purchases caused the USD to bounce, but the gains didn't last. We could expect more of the same in June, with financial markets highly attuned to any signals from the central bank.

Despite May inflation data far exceeding expectations, the Fed continues to maintain that inflation increases are transitory only. However, the FOMC rate decision on June 16 could shed some light on how the Fed is monitoring inflation and employment. Strong employment data and consistent inflation data could ultimately translate into monetary policy changes, i.e. tapering of the bond-buying program, from the Fed which would push the US dollar higher. However, unless the Fed indicates more aggressive tightening of monetary policy including interest rate rises, any rebound episodes are likely to be short-lived.

We expect DXY to trade between 89.50 and 90.50 in June.

Japanese yen | JPY

In line with a positive risk environment the JPY underperformed against other major currencies in May, including the USD.

Coming into June, the Japanese yen has been trading around 110 against the USD, after being pressured upwards towards the end of May due to a rebound in the USD and further risks related to the pandemic.

Market participants will continue to keep an eye on the difference between US and Japan interest rates for any insight into potential USDJPY movements. Japan, as the rest of the world, is also being impacted by higher commodity prices, their Producer Price Index (PPI) spiked to 3.6% in April. May PPI will be released on June 10, and is expected at 4.4%, which would be the highest level since 2014. Unfortunately for Japan, consumption has been pressured down and the state of emergency has been extended until June 20.

The Bank of Japan meeting is scheduled for June 17 and we expect the currency to continue trading against USD relatively stable between 108.50 and 110.50 JPY.

Canadian dollar | CAD

Positive economic data continued to underpin Canadian dollar momentum in May. Rising export prices such as crude oil traded close to the highest level in more than two years. It also continued to ride the wave of hawkish commentary from the Bank of Canada in April.

As of May 28, CAD had outperformed its G10 peers this year with a 5.2% rise against the USD, an almost 11% gain against the Japanese yen, 4.7% increase versus the Australian dollar, and a 5.1% gain versus the euro.

However, given its current strength, the CAD might be the most susceptible to losses among G10 currencies if the US dollar bounces in June as part of a likely recovery. Many market participants are heavily favouring the CAD over the USD, so any unwinding of these positions will leave the CAD vulnerable to a sell-off, reducing demand and decreasing its value.

The CAD could trade between 1.1900 (stronger CAD) and 1.2300 (weaker CAD) in June. As CAD is already trading at the higher end of this range, it has more scope to lose value.

Any questions?

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