OFX Moving money globally

Key currencies
at a glance

What to watch in May

Overall, economic data coming out of the G10 countries looks set to reinforce the ongoing global economic recovery, fuelling optimism across financial markets, despite ongoing pandemic-driven headwinds.

The key drivers of currency direction through May:

- Inflation (CPI) data, particularly in the US where fiscal stimulus has prompted fears of an increase in interest rates
- Increasing volatility in equity and bond markets, which could spill over into currency markets and weigh on risk currencies
- Commentary from central banks, any moves away from current accommodative policy could trigger volatility

Euro | EUR

After a poor first quarter, April saw the euro make gains against the US dollar.

This was based on the US Federal Reserve maintaining that current above-target inflation is only temporary (therefore dampening expectation of interest rate rises), as well as the EU's vaccination program accelerating. The euro rallied against the US dollar from 1.17 to above 1.21 USD by month end.

Despite ongoing partial lockdowns, Eurozone consumer and business confidence indicators released in early May suggested renewed optimism in Europe. There is also hope that the vaccination campaign will allow Europe's vital tourism industry to reopen in time for the peak season, which would provide a welcome boost to the economy.

Any positive news around the recent acceleration of vaccine roll-outs, lockdowns easing, or progress on the EU Recovery Fund could drive the euro higher in the coming months. In the short term, the euro's performance might begin to echo that of the pound's earlier this year, when it outperformed G10 currencies based on the vaccine trade and the UK's vastly improved economic outlook. A strong performance for the USD could present downside risk for the euro in May.

The euro could trade within a range of 1.17–1.22 USD against the US dollar, and against the pound between 0.8510–0.8735 GBP.

New Zealand dollar | NZD

Having enjoyed upside through April the NZD could be vulnerable to losses across risk assets and elevated US treasury yields.

If NZ domestic bond yields fail to keep pace with the ongoing US upswing there could be some softness for the NZD through May.

Improvements in quarterly unemployment continued through Q1, underpinning the strong recovery narrative. Elevated prices of soft commodities and foods also supported the NZD.

The New Zealand budget release on May 13 may provide a catalyst for currency moves for the NZD should it outline any fiscal stimulus that could impact recovery expectations. That said, we expect few surprises.

We expect the Reserve Bank of New Zealand will maintain its current policy-setting through May, with a change to interest rates on May 26 looking unlikely.

While we expect the NZD will remain well-supported through the medium to long term, in the short term the currency could see appreciation slow as it maintains its conservative monetary policy and lags behind peers such as Canada. The NZD could range between 0.6950–0.7300 USD.

Japanese yen | JPY

As a low-yielding currency, the Japanese yen continues to see decreased investor demand, touching 3-year lows against major currencies in early May.

Japan has been experiencing continued challenges containing the virus with rising COVID-19 cases and a slow vaccine rollout.

Inflation is still a concern, continuing to undershoot expectations.

The Bank of Japan has indicated it will maintain current monetary policy for the foreseeable future and that it's prepared to extend relief past September. As such, the market is heavily positioned against the JPY, which makes the currency vulnerable to a short squeeze (short-term demand) if market sentiment changes abruptly, sparking safe haven demand.

COVID-19 is weighing on the JPY but the 110 level could act as a strong resistance (ceiling on the upper end of trading range) against USD in the short term. JPY could trade within a range of 108–110 JPY against the USD.

Watch out for GDP data release on May 18.

Hong Kong dollar | HKD

HKD experienced some volatility in April against the USD, trading as high as 7.7849 HKD during the start of the month and dropping as low as 7.7595 before recovering to levels of 7.7680 to begin May.

Much of this movement stems from differing perspectives towards the city's vaccine rollout, which has seen slower adoption amongst residents than anticipated. While selloffs across the tech sector have continued to weaken the HKD, recently released economic data was largely positive as Hong Kong's GDP sawan increase of 7.8% in the first quarter, beating overall expectations and brightening the city's economic outlook.

HKD will most likely continue fluctuating over the coming weeks as the city continues its recovery efforts into the summer. HKD could range between 7.7615–7.7730 HKD against the USD in May.

Singapore dollar | SGD

SGD strengthened against the USD in April, with rates then dropping as low as 1.3250 SGD (stronger SGD) towards the end of the month. Since then, it retraced back to 1.3350 levels (weaker SGD) to begin May.

Economic recovery has been a bright spot and is expected to grow faster this year than previously anticipated, likely exceeding 6% barring any setbacks to both local and global economies.

While both the tourism and aviation industry continue to suffer, overall unemployment rates are down and almost $50 billion from the country's reserves have been utilised to support local businesses and workers, this should continue if it aids recovery efforts.

Watch out for the USD to start weakening against SGD through May as Singapore continues the right path forward. SGD could range from 1.3200 to 1.3325 SGD against the USD in May.

Sterling | GBP

After outperforming in the first quarter, April saw the pound consolidate versus the euro and the US dollar.

The pound typically struggles through May, it has contracted through the month for each of the last 11 years.

April retail results saw much stronger than expected retail sales (growing 4.5%), with service and manufacturing data also exceeding results.

On May 6 The Bank of England held low interest rates but announced it will slightly tighten monetary policy by slowing the rate of bond buying.

Having started May on a positive note amid easing restrictions and an ongoing vaccine rollout there is potential for the pound to grind higher, however a lot of this optimism is already priced into the pound meaning positive news won't necessarily trigger gains. Watch out for UK retail sales results on May 18, which are expected to show continued growth in consumer spending based on improved sentiment after lockdowns eased.

One potential risk going forward is any news emerging around virus strains resistant to the current vaccines. The pound could trade against the USD in a range between 1.37 –1.40 USD and against the euro 1.1450–1.1750 EUR.

Australian dollar | AUD

Volatility across currency markets remained muted through April, which ensured the AUD struggled to break outside recent ranges.

Despite broader USD softness, the AUD was unable to extend outside 0.7680–0.7830 USD.

Economic results coming out of Australia have been mixed. Increasing exports and elevated key commodity prices continued to support the AUD however a softer-than-anticipated Q1 inflation report added little pressure for the Reserve Bank to change monetary policy.

Upcoming unemployment data released on May 20 will be the first monthly release since rollback of government benefits. A marginal slowdown in recovery will likely have limited impact on AUD value, a stronger result could help the AUD extend towards the top end of recent ranges.

While we expect the AUD will remain well-supported through the medium to long term, seasonal sell-off trends across equity markets could extend to risk currencies. This, coupled with rising US treasury yields, could put short-term downside pressure on the AUD in May, particularly if domestic bond yields fail to keep pace.

The AUD could range between 0.75–0.78 USD in May.

US dollar | USD

April saw the US dollar index (DXY) drop 2.8% but in May the USD is beginning to erase losses.

On the whole, recent economic data out of the US continues to point towards a solid recovery. GDP outperformed economists' expectations and marked the quickest growth since 1984. The stimulus package from the Biden administration is also indicating strength, as well as the successful vaccination program throughout the US which has seen the US fully vaccinate 32% of its total population.

Markets will be watching if data released continues to suggest economic recovery, prompting questions around how long the Federal Reserve will maintain its accommodative policy. The Fed maintained its stance in their last meeting, and made comments to suggest interest rates will remain near zero and its bond-buying programs will be maintained. It also reiterated that rising inflation will be temporary.

Comments from the US Treasury Secretary in early May expressed fears that an explosion in fiscal stimulus could lead to interest rate hikes, which pushed the US dollar higher. However, she quickly made an about-turn on comments which then calmed the markets. Any further indication of tightening monetary policy could trigger the USD to increase and global equity markets to fall in a move to risk-off investor sentiment.

US inflation (CPI) data on May 12 will be important. If it goes higher, it could drive the US dollar higher based on market speculation that interest rates will be raised to slow an overheated economy.

In May, we expect DXY could range between 90.82–93.59.

Canadian dollar | CAD

CAD outperformed G10 counterparts at the end of April. The rally started from April 21, when the Bank of Canada announced its latest monetary policy, indicating it might increase rates in the second half of 2022.

Canada could be a leader for G10 peers, being the first Central Bank from developed economies to make such a statement on moving away from COVID-19 loose monetary policy. Also supported by elevated oil prices, the CAD hit 3-year highs of 1.2254 CAD versus the US dollar in early May.

We're seeing indications that the COVID-19 emergency in Canada is starting to ease. Canada has continued to ramp up its vaccine roll-out, now vaccinating as many people as the UK and US (per-capita) every day. This continues to add fuel to the strong recovery story in the Canadian economy, with restrictions expected to be lifted earlier than anticipated.

In the medium term, the comments from the Bank of Canada (and the unchanged stance from the US Federal Reserve) along with a still solid domestic recovery narrative in Canada all point at further downside risk (stronger CAD) against USD. The CAD could range between 1.2200–1.2500CAD in May.

Any questions?

You can contact our OFXperts 24/7
Email customer.service@ofx.com
or visit OFX.COM