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Key currencies at a glance

What to watch in August

The key FX market drivers in August could be:

- Data around economic growth, such as manufacturing and services data or consumer and business sentiment, that could escalate concerns that the global economy will tip into recession.
- Inflation data (CPI), as an indication of future pace of rate hike cycles.
- Commentary from US Federal Reserve policymakers at the Jackson Hole Symposium.
- Shifting risk sentiment, as recession and geopolitical risks heighten or recede.

EUR Euro →

In July, EURUSD dropped to parity for the first time in 20 years due to high demand for the US dollar, and worries over the Eurozone economy.

Data releases indicated an economy that is potentially slipping into recession. In Germany, the powerhouse of the Eurozone economy, manufacturing PMI data showed a contraction in the sector for the first time since June 2020.

On July 21, the European Central Bank announced its first rate hike in 11 years in response to persistently high inflation, which came in above expectations at 8.9% by month end. As this hike was expected by markets, it had little bearing on euro direction. The expectation is for the ECB to confirm another 25 or 50 basis point hike in September, however future policy moves will likely depend on how economic data is interpreted by the central bank.

The energy crisis and its potential impact on economic growth as Europe heads into winter will be a key driver for future policy decisions. There are concerns over the reduction in flow of gas via Nord Stream 1, and the possible closure of it. The ECB are in a difficult position given the urgent need to hike rates to stem inflationary pressures, against a backdrop of an economy that is, at best, flatlining. Raising the cost of borrowing would certainly put the Eurozone at a higher risk of recession.

With no policy decision in August, and a quiet calendar for economic data, the euro could be in a holding pattern, with its value likely dictated by energy prices and supply concerns. After hitting parity against USD in July, the euro has pared losses, but is still very much under pressure.

Any recovery would likely be limited by the 1.05 USD level, however heading into the month, losses towards 0.95 USD look more likely. Against the pound, the euro could trade between 0.8200-0.8550 GBP.

NZD New Zealand Dollar ↑

In July, NZD broke below 0.61 USD in a decidedly risk-off environment. By the end of the month, a downturn in US economic data cooled demand for the US dollar, and allowed other currencies like the NZD to regain some recent losses.

The Reserve Bank of New Zealand met on July 13 and announced another aggressive hike of 0.50%. Inflation data released the next day was 7.3%, steeper than forecasted, suggested the bank's aggressive pace of rate adjustments should continue. The RBNZ meets again on 17 August, another hike is expected, although this will unlikely have any impact as markets are expecting future rate hikes and their attentions are shifting towards recession fears.

The market continues to ignore New Zealand's domestic economic indicators, with direction stemming from broader global risks and headwinds and USD performance.

In August, risk appetite is unlikely to improve. Should the US continue to see weakening economic data, this could lessen demand for USD and allow gains to continue for NZD. Alternatively, if investor risk continues to drive the market and commodity prices continue to fall, the NZD could retrace losses and fall back below 0.62 USD.

USD United States Dollar →

In July, two consecutive quarters of negative growth and a string of weak US economic data, signaling a contracting economy, heightened investor concerns of a US recession.

In the second half of the month the US dollar strength saw a slight correction, after hitting 20-year highs in June. This was partly due to long-term inflation expectations decreasing.

Decreasing bond yields show that investors are trading on the expectation that the Fed will pivot to a less aggressive phase of monetary policy tightening, with some expecting interest rate cuts next year. Cuts to interest rates mean that the US dollar would reduce the yield advantage that drives demand for the currency.

Should the US CPI reading on August 10 come in higher than expected, this could confirm to markets that the Fed is not done with interest rate hikes. Further, more rate hikes to control inflation will compound cost-of-living pressures, increasing the likelihood of recession. This scenario would likely result in elevated fear in financial markets and more demand for the US dollar as a safe haven.

Though there's no Fed policy meeting in August, officials will gather in Jackson Hole, Wyoming for their annual retreat on August 25. This is a key event for markets, any commentary on future monetary policy will have the potential to create volatility.

There are indicators that the US dollar might trade sideways or to the upside for the month. The US Dollar Index could trade between 105.00-107.00.

HKD Hong Kong Dollar →

The Hong Kong dollar was trading under pressure in July, prompting the Hong Kong Monetary Authority (HKMA) to buy HKD at a record pace in order to prevent the currency from crossing the weak end of its trading band.

The HKMA intervention helped the currency in the second half of July, yet HKD was still trading very close to the upper bound of the peg (7.85). The release of Hong Kong's June economic indicators did not support the local currency despite a lowered unemployment rate and a higher-than-expected inflation figure (1.8% actual vs 1.6% expected).

Although HKMA increased its base rate by 0.75% in July to catch up with the US interest rate rise, the HKD is likely to continue to be under pressure should the global rate hike cycle continue.

USDHKD may trade between 7.8400-7.8500 HKD in August.

GBP Sterling ↑

In July, inflation continued to climb, reaching 9.4%. Economic data is showing sluggish, but not backward growth, however, the fears of falling into a recession are very real heading towards 2023.

Despite these conditions, Services PMI, an important indicator of economic output, beat expectations in late July.

The resignation of Prime Minister Boris Johnson saw some modest gains for the pound, which could be attributed to the end of his unpredictable tenure. Conservative party members will now hold a vote to decide his successor, former Chancellor of Exchequer Rishi Sunak or Foreign Secretary Liz Truss. Despite the change in leadership, it's unlikely there will be volatility from the result.

In early August, the Bank of England raised interest rates by 50 basis points, its biggest hike in 27 years. The Bank of England's accompanying Monetary Policy Report painted a very gloomy outlook for the UK economy with the latest forecasts showing they expect inflation to peak at 13.3% by October which would be a 42 year high as well as predicting five consecutive quarters of economic contraction.

With the BoE meeting in the rear view, August could be a quiet month, with CPI data on August 17 the event of note.

The outlook for the pound looks challenging in the economy's current precarious environment. The pound could trade against the euro between 1.16-1.21 and 1.17-1.22 against the dollar.

AUD Australian Dollar ↑

Heading into July, AUD was falling along with investor risk appetite as recession fears and global geopolitical tensions escalated. It continued to decline until mid-month when it plummeted to lows around 0.67 USD, not seen since 2019.

In the second half of the month it was able to recoup some losses, and by month end was able to break above 0.70 again. The catalyst behind the modest recovery was a correction in US dollar strength, as a string of weakening US economic data escalated fears of recession in the world's largest economy.

In early August, RBA announced a 50 basis point rate hike, taking the cash rate to 1.85%, the highest level since 2016. This was expected, so had little impact on the Australian dollar, as risk appetite prevailed as the key driver for the currency.

While risk appetite is unlikely to improve in August, there is scope for more AUD upside on the heels of a deeper US dollar downturn. A continued decline in US key economic data sets will heighten fears for recession through H2 and likely force investors away from the US dollar.

Drivers to watch for the AUD are the evolving global geopolitical climate, rising inflation pressures and China's economic performance.

The outlook for the AUD remains uncertain. An easing in recent headwinds and further deterioration in the US economic outlook could propel the AUD back towards 0.73 USD. Alternatively, should investor risk appetite control direction and commodity prices continue to fall, the AUD could slip back into recent ranges below 0.70 USD.

JPY Japanese Yen →

The yen strengthened at the end of July and the start of August to touch 130 JPY, a 2-month high against the US dollar. This is a 6.5% recovery from the multi-decade low (close to 140) around mid-July.

The rise in JPY value is partly due to investors reassessing their USDJPY positions and selling USD against a backdrop of inflation risk, recession fears and intensifying market volatility globally.

Continued concerns around global recession continue to erode investor risk sentiment, likely to continue to drive volatility and safe-haven demand for US dollars. There is also emerging geopolitical risk stemming from US Speaker of the House Nancy Pelosi's early-August visit to Taiwan, which triggered anger from China.

Investors are looking toward September's Bank of Japan rate decision to see if Japan will follow suit and start hiking rates, which would be good news for JPY. Until then, USDJPY is likely to remain rangebound and could trade between 128-136 against the US dollar in August.

CAD Canadian Dollar →

The Canadian dollar was in the middle of the pack against other G10 currencies in July, beating the euro, pound, New Zealand and US dollar.

This flat performance was despite the Bank of Canada hiking interest rates by an entire percentage point from 1.5% to 2.5% to keep inflation expectations in check. If the inflation data on August 16 comes in higher than expected, this could put pressure on the Canadian dollar.

There are fears of a slowdown in the Canadian economy, and financial markets are trading based on this. One key piece of information is home-sales data in Canada, which might show the early stages of a correction. Prices fell by ~2% in June, the steepest loss in at least 17 years, and housing prices have now dropped for three straight months since 2019. CAD could trade between 1.2600-1.2900 against USD in August.

SGD Singapore Dollar →

The Singapore dollar had a good month in July, broadly off the back of a weaker USD.

A surprise tightening of monetary policy from the Monetary Authority of Singapore (MAS) saw SGD make gains against USD by almost 1% on July 14 before slowly tracing back intraday. Overall, SGD strengthened by 0.7% against the USD in July.

In August, it's possible for SGD to keep its current strength should the pressure from a higher US yields keep easing. However, gains are likely to be contained by still-weak risk sentiment considering ongoing geopolitical tensions, as well as an emerging China-Taiwan situation.

USDSGD may trade between 1.3750-1.4000 SGD in August.