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Key currencies
at a glance

What to watch in November

The below key drivers are likely to impact FX markets in November:

- Data around growth in major economies that could escalate concerns that the global economy will tip into recession
- Fears that a cold winter could put European energy reserves at risk
- Shifting risk sentiment, as recession and geopolitical risks heighten or recede
- Inflation data (CPI) and central bank commentary, as an indication of future pace of rate hike cycles

EUR Euro

The European Central Bank hiked interest rates on October 27. Expectations of the hike leading up to the ECB meeting allowed the euro to briefly regain parity against the US dollar. However, after ECB President Christine Lagarde's policy announcement she warned that the Eurozone is likely headed for a deep recession, which saw the euro pare its gains.

The ECB is likely to continue further hikes as the ECB responds to all-time high inflation (which recently hit 10.7%), which typically benefits a currency. However, a higher cost of borrowing combined with continuing rising prices means that the euro is likely to remain under pressure in the short term as European consumers face a worsening spending squeeze.

Countries in the bloc have stockpiled energy reserves ahead of winter in response to the weaponization of supply by Russia. This strategy is contingent on a relatively mild winter, the potential for a cold snap could lead to rationing of energy supplies which could cripple economic output. More pain to the Eurozone economic downturn would apply further downward pressure for the shared currency.

With a relatively quiet month ahead in regards to economic data, the broader geopolitical narrative should continue to drive euro value. Manufacturing, inflation and GDP data should continue to paint a picture of an economy slipping into recession.

The euro could range between 0.8550-0.8930 against the pound, and 0.95-1.01 against the US dollar.

AUD Australian Dollar

The Australian dollar remained under pressure in October, mostly tracking below 0.65 USD.

The AUD enjoyed a brief reprieve late in the month as markets adjusted expectations for US Federal Reserve monetary policy, this saw the AUD push north of US$0.65. However, gains were short lived as in early November the Fed reiterated commitment to higher interest rates for longer in the battle to tame inflation.

Although the Reserve Bank of Australia announced another interest rate hike at 25 basis points, its stance continues to lag behind the Fed's overtly hawkish outlook. This sets the tone for continued downward pressure on the AUD against the USD into 2023.

Hopes that a shift in China's COVID-zero policy would help fuel an economic recovery were dashed after President Xi Jinping reshuffled the politburo, forcing out moderates in favour of economic interventionists and COVID zero advocates. The move has forced investors away from Chinese assets and driven the CNY lower, while extending concerns around global supply chain issues. Despite signs of a decoupling between CNY value and the AUD, sustained CNY weakness will likely cap extended AUD gains.

Uncertainty surrounding the global growth outlook, Chinese economic weakness, and a divergence in Fed and RBA policy will continue to weigh on the AUD and likely limit any significant upturn. The AUD could trade towards 0.62, with any significant upside back towards 0.66 USD contingent on a substantial recovery in the risk narrative.

USD United States Dollar

After 20-year highs seen in late September due to safe-haven demand, the US dollar index saw a correction in October, dropping 0.53% to end the month at 111.53.

The New Zealand dollar, British pound, Canadian dollar and euro had the highest recovery against the dollar, 3.82%, 2.68%, 1.5% and 0.82%, respectively.

On November 2, the US Federal Reserve's rate decision was delivered with somewhat mixed messaging, with a more conservative-than-expected statement and a hawkish press conference led by Fed Chairman Jay Powell. The hawkish tone prevailed, with Powell confirming interest rates would go higher and stay higher for longer to help contain soaring inflation, which will likely support the US dollar until the Fed's December meeting, when speculation for a downshift in pace could build again.

The DXY could range between 109-113 in November.

SGD Singapore Dollar

Overall, the SGD finished just up (1.3%) against the USD in October.

Last month saw inflation continue to rise in Singapore, the release of core data for September showed a rise to 5.3% from 5.1% the month prior, while the labour market remained tight, the September unemployment rate dropped slightly to 2%.

On October 14, the Monetary Authority of Singapore (MAS) tightened their monetary policy by re-centring the mid-point of the Singapore dollar nominal effective exchange rate (S$NEER) level. Off the back of the announcement, the SGD jumped by almost 1% in a day, even though the MAS did not go to the lengths of changing the slope and the band width.

In November, a correction in high US yields could allow the SGD to keep strengthening. The USDSGD could trade between 1.3900-1.4250.

HKD Hong Kong Dollar

October was another challenging month for the Hong Kong dollar as continued demand for the US dollar, based on higher US yields, has been pushing down the value of the local currency.

The USDHKD pair traded through its upper bound of the peg (7.8500) to 7.8505 in mid-October.

Due to heavy selling pressure, the Hong Kong Monetary Authority (HKMA) intervened to defend its peg system by buying HKD seven times in October, spending a total of 23 billion HKD. On Nov 3, it also raised its base interest rate further to 4.25% after the US Federal Reserve (Fed) increased their interest rate again by 75 basis points overnight.

In November, it is highly likely that the HKMA will again need to intervene due to the hawkish signal given by Powell in the Fed's November meeting. USDHKD could trade between 7.8400 to 7.8500.

GBP Sterling

After the extreme volatility seen in September off the back of the Government's budget plans, politics continued to dominate headlines in October.

Despite Prime Minister Liz Truss back-pedaling on her disastrous economic package, she was forced from office by her party, having held office for only 44 days before announcing her resignation. Within a few days, former Chancellor of the Exchequer Rishi Sunak was elected to lead the Conservatives. This news was well received by markets and saw the pound recoup all the losses caused by Truss's seemingly ill-advised plan to grow the economy via tax cuts.

In stark contrast to Truss's plans, Sunak and the new Chancellor of the Exchequer, Jeremy Hunt, will unveil a raft of tax rises and spending cuts of about 40-50 billion pounds on November 17, in an effort to reduce the UK's spending deficit.

On Thursday November 3, the Bank of England hiked interest rates by 75bp in line with expectations however the accompanying commentary from BoE Governor, Andrew Bailey painted a gloomy picture of the UK's economic outlook. The Bank lowered its inflation expectations with a peak of around 11% expected by the end of the year, however it now expects a recession that could last up to two years and unemployment to double.

Looking ahead UK GDP and CPI data will be the main events to watch, on the November 11 and 16 respectively, otherwise the pound will continue to be remain under pressure due to the painful combination of the energy crisis, rampant inflation and rising interest rates, despite recouping some of its recent losses. A lot will also hinge on the detail of the fiscal package due to be delivered by the new Chancellor on November 17.

Given the bleak forecast the pound is likely to remain under pressure, especially against the US dollar and is likely to trade sideways at best versus the euro given the Eurozone is experiencing the same problems as the UK. The pound could range between 1.08-1.16 against the US dollar and between 1.12-1.17 against the euro.

NZD New Zealand Dollar

The New Zealand dollar outperformed in October, recouping nearly 4% against the US dollar. The commodity currency saw some demand late in the month with reports that the Federal Reserve may beginning tapering the pace of rate hikes.

The Reserve Bank of New Zealand hiked rates again in early October. The sustained hawkish undertone adopted by RBNZ, at a time when other major central banks are beginning to taper hawkish expectations, helped support the NZD through the month. Further, the addition of New Zealand sovereign bonds to the FTSE World Government Bond Index, increasing investor access to NZ bonds, has also fuel demand for the currency.

Global economic uncertainty and monetary policy guidance will continue to drive NZD direction in November. With momentum still firmly behind the US dollar, we anticipate a negative risk bias will limit any further NZD recovery. In addition, changes within the Chinese leadership structure are likely to delay any meaningful recovery Chinese economic recovery, which will weigh on the CNY, and NZD by extension.

The NZD should remain supported on levels approaching recent lows of 0.56 USD, with a recovery towards 0.59 USD hinging on an unlikely turnaround in US dollar fortunes and broader risk aversion.

CAD Canadian Dollar

Inflation data released in October came in higher than expected, fuelling market expectations for another consecutive 75 basis point hike from the Bank of Canada.

However, on October 26, the BoC unexpectedly slowed its interest-rate hikes and boosted the benchmark overnight lending rate by only 50 basis points. Coupled with the economic environment in Canada, which data suggests might be headed towards recession, the Bank of Canada's slowdown suggests it could be nearing the end of its interest-rate hiking campaign. This dampened demand for the CAD against the US dollar, and based on the Fed's recent commentary, the currency could continue to lose its yield advantage.

Consumer confidence in Canada is worsening with Nanos Research polling showing Canadians believe their personal finances haven't been this bad in more than a decade as they worry about falling real estate prices and the rising prices of goods and services. The purchasing managers' index for Canadian manufacturing also fell in October, representing the third consecutive month of contraction.

Global monetary policy guidance will be a key factor for the Canadian dollar in November. The CAD could trade between 1.39-1.35 CAD against the US dollar.

JPY Japanese Yen

The Japanese yen fell to a fresh 32-year low against the USD in October.

USDJPY traded just below 152 yen before the Japanese government intervened in the FX markets yet again to prop up the yen. It's reported that Japan spent a record 6.35tn yen ($43bn) to halt the decline in the yen's value. The government had already spent $20bn in September when they intervened for the first time since 1998.

The Bank of Japan maintained their dovish monetary policy stance by holding interest rates once again. The interest rate differential is the main cause of the yen's weakness versus other currencies like the USD, with yen weakness likely to continue until Japan start to hike rates.

The pair could retest levels of 150 in the short term and could range between 140 and 153 for November.