Currency Outlook

An OFXpert guide to key currencies and events to watch

The below key drivers are likely to impact investor risk sentiment and FX markets in February:

1

Central banks diverge on monetary policy approaches, causing uncertainty in the market. Not surprising when the US economy is thriving but the Eurozone faces challenges. Any change will be data-dependent.

2

Continued geopolitical tensions in the Middle East and Ukraine impact currencies, as well as trade friction between China and the US could add to the uncertainty.

€ EUR Euro

Financial markets speculate when the ECBwhen ECB will cut interest rates from an all-time high. There are hintsThere's hints of an easing of policy in the summer but sluggish growth and falling inflation may force the ECB to act sooner.

Like with the Bank of England (BoE) and US Federal Reserve (Fed), financial markets are trying to guess when the European Central Bank (ECB) will decide enough has been done to bring inflation under control and start cutting interest rates from their current all time high of 4.5%.

If comments from ECB President Christine Lagarde at the recent World Economic Forum in Davos are to be believed, then we will be waiting until the summer. However, the usual caveat that any decision would be data-dependent was included in her speech.

Given that Consumer Pricing Index (CPI) in the Eurozone is currently 2.8% (year-on-year), lower than the US or UK, it seems like the ECB will be first to loosen monetary policy with April pencilled in for its first 25bp cut.

With the Eurozone's economic growth flatlining at best and its biggest economy, Germany likely in recession, it seems the need for Lagarde to act first is the more pressing of the three There was little change in language at the ECB's January 25th policy decision, with the 'wait and see' stance being continued for the time being.

The poor performance of the European bloc's manufacturing sector improved somewhat in January, however, services readings feel further below the 50 level that divides expansion and contraction. We get the latest PMI data on February 22nd with Germany being the main focus.

Expected ranges:

- **DXY 1.05–1.09**
- **EURGBP 0.8475–0.8620**

$ AUD Australian dollar

February may be another disappointing month for the AUD. Strong US data and geopolitical struggles drove AUD weakness, so eyes are firmly on central bank updates and economic data for signs of change.

Having enjoyed a robust end to 2023, the Australian dollar underperformed through January, giving up hard fought gains and shifting off highs near US$0.69.

The AUD benefited from a USD repositioning through December as markets priced in a potential rate cut in March. Pricing for a rate cut peaked above 80% through December, however a string of stronger US data points, geopolitical uncertainty across the Middle East and China worries coalesced to help drive a USD rebound through January.

A scorching hot US non-farm payroll print for January and a direct rejection by Federal Reserve (Fed) officials to calls for an early reduction in the cash rate, ensured the AUD correction would extend into February and below US$0.65. With implied monetary policy expectations key in shaping direction and a shift in policy, unlikely before May, we expect the AUD will be range bound and struggle to extend gains beyond US$0.67.

We expect little support from domestic data as key updates indicate inflation is falling faster than anticipated, alleviating pressure on the Reserve Bank of Australia (RBA) to raise rates again.

While the RBA February meeting dampened calls for a June rate adjustment, markets are still pricing in a 50-point correction through H2.

We are keenly attuned to central bank updates, labour market performance and inflation drivers as key markers moving direction through February.

Expected ranges:

- **AUDUSD 0.6400–0.6600**
- **AUDGBP 0.5100–0.5280**
- **AUDNZD 1.0600–1.0800**
- **AUDEUR 0.5980–0.6200**

$ USD United States dollar

The US dollar strengthened in January as doubts over Fed rate cuts grew. Positive economic indicators suggest rate cuts might wait until May. Geopolitical tensions could further bolster the USD.

January saw the US dollar unwind much of the losses seen in December as investors began to push back on the idea that the Federal Reserve will begin to cut interest rates in March.

January 5th's monthly jobs report beat estimates with the headline Non-Farm Payrolls figure coming in at 216k, comfortably above the 168k expected. The February 2nd Jobs report had a blowout reading of 353k. This was roughly double estimates and the highest in 12 months.

January's Consumer Pricing Index (CPI) reading also came in hot with 3.4%, a year-on-year uptick from previous.. Other economic indicators such as GDP, Retail Sales and Service and Manufacturing PMI were all positive, so it seems we will be waiting until at least May 1st before Federal Reserve Chairman Jerome Powell decides it's time to take interest rates down a notch.

EURUSD began the year around 1.10, however, it has been on the slide ever since and finished January around 1.08. It got close to 1.07 after the aforementioned February jobs print and it looks like further gains could be on the cards in February should US economic overperformance continue.

With no monetary policy decision this month, experts will be focused on data such as the February 13th CPI print, February 15th Retail Sales data and February 22nds PMI reports.

Geopolitical tensions in the Ukraine and Middle East, as well as concerns over China's economic health will also help support the US dollar.

Expected range:

- **EURUSD 1.05–1.09**

$ SGD Singapore dollar

The Singapore dollar had a disappointing January but February could see a more stable SGD in light of the Monetary Authority of Singapore (MAS) opting for an unchanged monetary policy.

In the first month of 2024, the Singapore dollar unwound all the gains from December last year and hit a 3-month low in mid-January as USDSGD traded to 1.3469.

On the data front, Singapore's inflation in December 2023 surprised to the upside – headline inflation rose from 3.6% to 3.7% and core inflation edged up from 3.2% to 3.3%. Retail sales in November rebounded to 0.5% mom from the previous -0.9%.

As for the first central bank meeting of the year, the Monetary Authority of Singapore (MAS) kept its monetary policy unchanged. The decision was considered slightly hawkish by the market as the statement seemed more confident and assured about Singapore's domestic economy and its "sustained appreciation of the policy band".

In February, the Singapore dollar is likely to continue its current trading range should there be no other global shocks.

Expected ranges:

- **USDSGD 1.3200-1.3500**

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£ GBP Sterling

The pound was steady in January and February and could continue to be more of the same due to uncertainty over interest rate cuts. UK economic data gave mixed signals, so upcoming data will be key for future direction.

Throughout October, the GBPUSD currency pair traded in a narrow range, with it dipping as low as US$1.2035 on October 4 and remaining between US$1.21 and US$1.23 for most of the month.

At the November 2 policy decision, the Bank of England (BoE) held interest rates at 5.25%, their highest level in over 15 years. Those households remortgaging and hoping for a cut in rates early next year may be left disappointed as BoE Governor Andrew Bailey and other members of the Monetary Policy Committee seem to favour an extended period at 5.25% before any cuts are considered. This extended period of elevated rates may help support the pound's value unless there is a considerable downturn in UK economic health.

October's monthly GDP saw 0.2% growth compared to the previous reading of -0.6%. Retail Sales fell back by -0.9% when a more modest drop was eyed and the closely followed Services PMI came in at 49.2 showing that the sector that makes up around 80% of the UK economy is contracting slightly. Combined this paints a picture of an economy that will likely flatline at best for several months, however, it should be said that the economy has outperformed what many were predicting this time last year.

Expected ranges:

- **GBPUSD 1.2050-1.2425**
- **GBPEUR 1.13-1.16**

$ NZD New Zealand dollar

February could be another unfortunate month for the NZD but it's not all bad news, it outperformed the Aussie dollar and the yen. Sustained labour strength and possible interest rate increase could drive future NZD gains.

The NZD underperformed through January, giving up hard fought gains and shifting off highs near US$0.6350.

Investors and analysts have been forced to reposition expectations for a US rate cut, pushing back the timing and trajectory of monetary policy change. A scorching hot US non-farm payroll print for January and a direct rejection by Federal Reserve (Fed) officials to calls for an early reduction in the cash rate ensured the NZD correction would extend into February and below US$0.61.

While near-term NZD direction is being driven by US rate expectations, domestic central bank policy should help add a floor under the currency and firm support on moves approaching US$.6050 and US$0.60.

Sustained strength across the labour market, sticky domestic inflation and an increasingly hawkish Reserve Bank of New Zealand (RBNZ) has elevated calls for the RBNZ to lift rates one more time. While the market is only pricing a 20% probability of a February rate hike at this stage, the prospect of additional tightening in an environment where other major banks are looking to loosen policy should bolster NZD yield and carry trade demand. While down against the USD, the NZ has enjoyed strong gains against the AUD and JPY, while trading flat against the GBP and Euro.

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Expected ranges:

- **NZDUSD 0.6000–0.6300**
- **NZDGBP 0.4750–0.4920**
- **NZDAUD 0.9250–0.9420**
- **NZDEUR 0.5580–0.5750**

¥ JPY Japanese yen

The yen could still be under pressure in February, after cooling inflation and slight economic recovery in January. Experts are betting on a monetary policy change but uncertainty regarding the BoJregarding BoJ stance remains as a key factor.

The Japanese yen fell from the 140 level to 146 in the first month of 2024, a 4.3% drop against the US dollar. Although the USDJPY pair went up to 148.80 on the 19th of January, it did not trade through to or above 149.

The yen weakness in January was mainly due to the Bank of Japan's (BoJ's) unchanged policy stance from its January meeting. USDJPY had a short-lived drop from 148 to 147 handle during the press conference on 23rd of January, when BoJ Governor, Kazuo Ueda signalled possible rate policy normalisation, but it bounced back to 148 intraday.

From an economic condition's point of view, the local economy showed little worry. Where the labour market remained tight in December, inflation cooled down marginally, and preliminary results of industrial production in December recovered from previous months' decline.

At the time of writing, market participants are adding their bets on a BoJ monetary policy change in the first half of 2024. Depending on how the Federal Reserve and BoJ would react to their own domestic economic conditions and evolving global geopolitical situations, the JPY may find itself a short breather in February.

Expected ranges:

- **USDJPY 143-150**

$ CAD Canadian dollar

The Canadian dollar retreated in January due to shifting Federal Reserve interest rate expectations. Despite oil price gains, weak domestic data and USD strength weighed on the CAD.

The Canadian dollar has started 2024 on the backfoot, giving up December's hard-won gains as markets reposition US Federal Reserve (Fed) policy expectations.

Having marked fresh 5-month highs near the end of 2023, the CAD shifted sharply lower through early January following stronger than anticipated US macro data and a stagnant domestic labour market.

Despite an uptick in oil prices, the CAD fell and continued shifting lower through January as domestic trade balance and retail sales data missed the mark. Investors were forced to rebalance expectations for Fed rates. A string of stronger US data points, geo-political uncertainty across the Middle East and worries about China coalesced to help drive a USD rebound through January.

Investors and analysts have been forced to reposition expectations for a US rate cut, pushing back the timing and trajectory of monetary policy change. A scorching hot US non-farm payroll print for January and a direct rejection by Fed officials of an early reduction in the cash rate, ensured the CAD correction would extend into February and below US$0.74.

Having marked a low at US$0.7380, the CAD found support in stronger than anticipated January employment data and a repositioning in Bank of Canada (BoC) policy expectations. With the labour market showing signs of life after December's stagnant print, investors have pushed back expectations surrounding the timing and trajectory of BoC rate cuts.

Having pushed back above US$0.74 we expect the CAD will remain range bound through the coming weeks bouncing between US$0.73 and US$0.75 as implied monetary policy expectations continue to dominate direction.

Expected ranges:

- **CADUSD 0.73-.75**

$ HKD Hong Kong dollar

February is likely to be a relatively stable month for the HKD. The Hong Kong Monetary Authority (HKMA) remains unchanged on monetary policy and announced a hold on interest rates.

The Hong Kong dollar finished January only slightly lower against the USD and held its strength relatively well compared with other major Asian currencies.

Data wise, the economic condition in Hong Kong was unlikely to be the contributor to HKD's strength as the year-on-year inflation figures for December 2023 edged lower from 2.6% to 2.4% and the preliminary Q4 GDP showed a weaker sign.

A higher HKD interbank rate synced with the HKD rally in the beginning of January, creating a 'perfect storm' that increased its value. The HKD was not able to hold the gain though, in the first half of last month as the overnight Hong Kong Interbank Offered Rate (HIBOR) fell from 4.92% to 3.76%.

In February, the Hong Kong Monetary Authority (HKMA) responded to the Federal Reserve's (Fed) rate decision with the same rate on hold announcement and no change in the language of their own policy stance. The statement did change views on the Fed's future moves, mentioning rate cuts and an uncertain interest rate path.

Expected range:

- **USDHKD 7.8000-7.8300**