Currency Outlook

An OFXpert guide to key currencies and events to watch

Key drivers likely to impact investor risk sentiment and FX markets this March:

1. US inflation has been stickier than expected, causing global central banks to push back on timeframes for possible interest rate cuts. The European Central Bank and Federal Reserve have said rate cuts could be considered at their respective June meetings.

2. Inflation in the Eurozone is falling but not enough to offset the disappointing economic conditions. With Germany still in recession, prediction of further contraction is causing concern.

€ EUR Euro

The euro gained strength after the March US jobs report. The ECB pushed back easing rates until June. Germany's economy faces recession but the Eurozone services sector could show signs of improvement ahead of Easter.

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

The Australian dollar struggled in February due to global rate expectations and lower commodity prices. Uncertain economic outlook may lead to further pressure. Markets are watching for US economic data for guidance on rate cuts.

The Australian dollar underperformed through February amid changing global rate expectations and falling commodity prices.

the AUD track lower through early February, culminating in a break below US$0.6450 following a surprisingly robust US CPI inflation report.

US inflation through January proved stickier than analysts first estimated, forcing markets to push back the timing and trajectory of rate cuts.

The AUD stayed level amid a string of soft data sets through February, and a steep decline in key commodity prices and mediocre domestic economic outlook limited Aussie dollar strength.

The Reserve Bank of Australia (RBA) elected to leave rates on hold. With no meeting until the 19th of March, markets were forced to assess local data sets and adjust expectations. A softer-than-expected inflation print coupled with lacklustre Q4 GDP report has silenced calls for one more rate hike and instead brought forward calls for possible rate cuts.

With the economy in per capita recession, pressure for the RBA to loosen financial conditions will only grow as we move through the year.

We expect the AUD will continue to face pressure and likely fluctuate between 0.64 and 0.66 until a clearer path to US rate cuts emerges.

While domestic data and the global growth outlook will play a role in shaping direction, US and global rates will prove critical. Our attentions remain fixed to US activity, labour market and inflation data for any cues as to the timing and trajectory of Federal Reserve policy change.

Expected ranges:

- **AUDUSD 0.6450-0.6700**
- **AUDGBP 0.5100-0.5280**
- **AUDNZD 1.0600-1.0800**
- **AUDEUR 0.5980-0.6100**

$ USD United States dollar

The US economy remains strong despite inflation pressure. A blowout job report shifted expectations, delaying potential rate cuts. Markets anticipate a rate reduction in June based on recent data trends.

The US economy continues to perform better than many would have expected given the inflationary pressures it has seen over the past couple of years.

February 2nd saw a blowout Non-Farm Payrolls report showing 353k people were added to the workforce for January far exceeding estimations of around 190k. This led to EURUSD to drop from around 1.09 to around 1.0775 by the end of the day as markets pushed back the expected date of when the Federal Reserve (Fed) would start to cut interest rates further than 5.5%.

Comments made before the Senate on March 6th and 7th, Fed Chairman Jerome Powell stated that the economy was "not far" from reaching a point that justified an interest rate cut. Markets are expecting a 0.25% reduction in borrowing costs at the June meeting.

March 8th saw the much-anticipated monthly US Non-Farm Payrolls data beat expectations. Wage growth eased and the unemployment rate inched up from 3.5% to 3.7%, adding weight to the argument that a rate cut will be seen in June. There is lot of upcoming US data that could influence the date of this decision, like the US CPI and Retail Sales.

The key event this month will be the Fed's interest rate decision on March 20th with the messaging from Powell in the statement and press conference the main area of focus.

Expected range:

- **DXY 1.08-1.1130**

$ SGD Singapore dollar

In February, the Singapore dollar held steady against the US dollar, trading within a narrow range. Mixed domestic economic data and US inflation levels influenced market movements.

February was a steady month for the Singapore dollar with the USDSGD pair mainly traded in a relatively tighter range of 1.34-1.35, and the SGD finished the month only marginally lower.

The consolidation in FX market was largely due to a lack of important economic data release and central bank actions. Having said this, the SGD did drop to a 3-month low in mid-February off the back of still elevated core inflation level in the US.

In February, domestic economic condition printed a mixed picture. Q4 GDP picked up to 1.2% q/q from 1%, but slightly lower than the expected 1.4%. Meanwhile, both headline and core inflation cooled down in January, bringing the headline inflation rate y/y to 2.9%, first time below 3% since Sep 2021.

In March, signals from the Fed will be a key factor to watch as well as local inflation level in Singapore.

Expected ranges:

- **USDSGD 1.3100-1.3500**

$ HKD Hong Kong dollar

In February, the Hong Kong dollar remained stable against the USD but dipped slightly towards month-end. Government measures supported the property market amidst economic challenges. Future strength depends on local economic recovery and Fed's stance.

The Hong Kong dollar held its strength well in February, only down by less than 0.2% against the USD. It fell to a 4-month low near month end, but the USDHKD pair remained under 7.83 level.

In February, local government released some significant measures to support its property market such as scrapping additional stamp duty for non-permanent residents and easing mortgage lending rules. Against the backdrop of slowing economy where inflation has dropped to sub 2% level (from 2.4% to 1.7%), Q4 GDP q/q was only 0.4%, and PMI remained under 50, these measures were welcomed by the market.

However, the HKD did show a downward trend against the USD despite of the support from still elevated Hong Kong Interbank O Rate (HIBOR) rates and rising local stock market, hence whether the local economy can see some signs of bounce back would be one of the main factors that may affect HKD strength in March. But the HKD is unlikely to be under more pressure should the Fed deliver a relatively dovish stance for future interest rate path.

Expected range:

- **USDHKD 7.8000-7.8300**

£ GBP Sterling

A split Monetary Policy Committee (MPC) interest rate vote saw GBP briefly weaken but strong economic data helped it recover. Expectations suggest BoE to maintain policy until August.

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

In February, the New Zealand dollar weakened against the USD and other currencies due to US inflation and lower commodity prices. Uncertainty persists so markets will be focused on the next few months of US data.

The New Zealand dollar underperformed through February giving up ground to the USD and other key counterparts amid changing global rate expectations and falling commodity prices.

The NZD continued to track lower through early February, culminating in a break below US$0.6100 following a surprisingly robust US Consumer Price Index (CPI) inflation report.

Thanks to stickier US inflation than estimated, the timing and trajectory of rate cuts has been pushed back by central banks.

Lacklustre domestic data and a dovish Reserve Bank of New Zealand (RBNZ) have weighed on NZD upside and ensured the currency remains fairly flat. With hopes of another RBNZ rate hike fading, the NZD slid back below 0.94 against the AUD, below 0.57 against the Euro, 0.48 against the GBP and back toward 90 against the yen. Disappointing results after touching decade highs above 93.

We expect the NZD will continue to face near-term downside pressure and will likely fluctuate between 0.60 and 0.62 until a clearer path to US rate cuts emerges.

While domestic data and the global growth outlook will play a role in shaping direction, US and global rates will prove critical. Our attentions remain fixed to US activity, labour market and inflation data for any cues as to the timing and trajectory of Federal Reserve policy change.

Expected ranges:

- **NZDUSD 0.6050-0.6300**
- **NZDGBP 0.4750-0.4920**
- **NZDAUD 0.9250-0.9420**
- **NZDEUR 0.5580-0.5750**

¥ JPY Japanese yen

The Japanese yen weakened in February but dropped to a 3-month low, mid-month. The yen could find more support if Bank of Japan gets bullish and the Federal Reserve gets more dovish.

The Japanese yen traded lower again in February but it wasn't as bad as January. The USDJPY pair reached a 3-month high in mid-February and was comfortably above 150 in the second half of last month.

Domestically in Japan, the Nikkei 225 surged to 34-year high in February and the momentum extended into March where it surpassed 40,000 points for the first time. This was mainly thanks to soaring values from tech companies, rallying US stock market, and a bullish bet on Japan from traders.

At the time of writing, the market is pricing in a 78.9% chance for a 10-basis point rate increase from the Bank of Japan (BoJ) during its March 19 meeting.

In contrast to the booming equity market, Japan fell into recession in February after the preliminary Q4 GDP showed a shrink of 0.4% (annualised). Japan also lost its third-biggest economy status to Germany, from nominal GDP's perspective.

With such mixed market conditions and the history of BoJ going against market bets on Japan's monetary policy, it's too early to call if the yen will potentially be stronger but it is possible to see the JPY unwinding some losses accumulated since the beginning of 2024, should the Fed give more hints on rate cuts that may happen this year.

Expected ranges:

- **USDJPY 143-149**

$ CAD Canadian dollar

The Canadian dollar weakened in February due to changing central bank policies and lower commodity prices. Bank of Canada held interest rates but no insights for future predictions. Upcoming US data could shed more light.

The Canadian dollar underperformed through February amid shifting central bank policy expectations and falling commodity prices.

Stickier-than-expected US inflation prompted investors to push back the timing and trajectory of Federal reserve rate cuts. The Bank of Canada (BoC) elected to leave rates on hold, offering little to drive a change in analyst expectations.

The Loonie fell below US$0.74 and toward lows near US$0.7350 as subdued oil prices kept a cap on gains. While oil prices continue to improve and correct from December lows, they remain well short of the 2023 highs.

Uncertainty surrounding the Chinese and global economic growth outlook and tensions in the Middle East ensured that prices remain soft across key commodities.

Having touched year-to-date lows just above US$0.7350 the CAD has found some support through early March, pushing back above US$0.74 after a string of softer US data sets.

Cracks have begun to appear in the US labour market and consumer sentiment is faltering putting some pressure on the Federal Reserve's Open Market Committee (FOMC) to cut rates early and opening the door for an extended CAD rebound.

Like most regions, attentions remain affixed to US activity, labour market and inflation data for any cues as to the timing and trajectory of Federal Reserve policy change.

Expected ranges:

- **CADUSD 0.7300-0.7480**
- **CADGBP 0.5700-0.5850**
- **CADEUR 0.6700-0.6900**

Any questions?

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