ofx.com

April 2024

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 April:

1

The US Federal Reserve pushed out the already extended timeline for cutting interest rates to possibly November. Experts aren't optimistic about the decision direction at the May meeting.

2

Bank of England Governor, Andrew Bailey says interest rate cuts were now 'in play' after a fifth month of positive economic data and lower inflation for the UK.

3

Global reflation narrative and commodity prices will continue to influence direction with sentiment driven by improving global growth outlook and escalating tensions in the Middle East

€ EUR Euro

The euro is down this month thanks to continuing disappointment for the eurozone with Germany's economy still underperforming but lower inflation in April could edge closer to an interest rate cut.

The European Central Bank (ECB) held rates, as expected, at its March 7th policy decision and the US saw an underwhelming February jobs report. A day later, EURUSD came close to touching 1.10 for the first time since January but fell short of the big number and slowly descended for the rest of the month.

The economic health of Germany continues to be an area of concern with its dominant manufacturing sector continuing to underperform, as evidenced by a disappointing PMI figure of just 41.6, dashing hopes the worst was over for the Eurozone powerhouse.

Eurozone Consumer Pricing Index (CPI), released on April 1st, dropped further than expected to 2.5%, possibly edging closer to an interest rate cut from the European Central Bank.

The ECB's April 11th policy decision saw no cut in rates but Christine Lagarde seems to have primed markets for a reduction in borrowing costs at its June 6th meeting.

EURUSD has been driven lower over recent weeks, mainly by the two successive upticks in CPI from the US. The EURUSD currency pair was trading around 1.07 after the ECB rate decision and a move towards 1.05 (or even lower) looks like a distinct possibility in the near term.

Expected ranges:

- **EURUSD 1.0450–1.0850**
- **EURGBP 0.8475–0.8635**

£ GBP Sterling

Despite GBP slipping in March, April could be stable, supported by a UK economy that has likely returned to growth. Further good news for UK consumers, BoE Governor confirmed interest rate cuts now 'in play'.

After rallying in early March, the GBPUSD currency pair fell back throughout the month as the US dollar strengthened. GBPUSD came close to 1.29 on March 8th, in the aftermath of the release of the February US jobs data but ended the month around three cents lower near 1.2550.

UK economic data pointed to an economy that had likely returned to growth in the first quarter of this year with March's Services PMI finishing on a revised 53.1, its fifth successive reading above the 50 level that divides contraction and expansion.

UK inflation undershot slightly on March 20th, with Consumer Pricing Index (CPI) falling from 4% to 3.4% year-on-year and there are expectations that we will see a sharp drop when the next figure is released on April 17th. Because of this, it appears the Bank of England (BoE) is nearing the point where it believes a cut in interest rates from their current 5.25% will be warranted.

The March 21st BoE policy decision saw no change in borrowing costs however Governor Andrew Bailey said that cuts were now "in play" at future meetings. Currently August 1st is favoured among financial markets as to when we will see rates cut. However, should inflation fall dramatically, we could see its first move brought forward to June 20th.

Expected ranges:

- **GBPUSD 1.2275–1.2700**
- **GBPEUR 1.1580–1.1800**

$ AUD Australian dollar

After a volatile March, April and May could see the AUD trade steadily in established ranges. Sticky inflation doesn't bode well for a Fed rate cut. Eyes are on international data for direction.

The Australian dollar bounced between established support and resistance levels in March, as markets remain reluctant to extend bets as to the timing and trajectory of monetary policy change.

Domestic and US inflation is not coming down as quickly as expected given the improvements in price pressures enjoyed through the back half of 2023, forcing markets to correct yield and rate expectations.

US treasury yields marked record highs in March and have extended the rally through early April as investors push back the timing and trajectory of Federal Reserve rate cuts. March inflation data showed prices remain elevated, all but eliminating hopes of a rate adjustment in June, forcing analysts to price in only 2 cuts for 2024, rather than the three predicted in February.

Improvements in the global growth outlook helped to support key commodity prices underpinning the AUD. While Iron ore and lithium prices retreat, copper prices have risen and a greater correlation between the copper price and AUD value has emerged. Copper prices tend to be a barometer of global risk demand and sentiment with prices rising in line with the global growth outlook. A correction in key metal prices could be a catalyst that drives the AUD below-existing supports.

We expect ranges will be well contained through April and May and we continue to monitor global inflation metrics and the growth narrative as key markers of AUD direction.

Expected ranges:

- **AUDUSD 0.6400–0.6700**
- **AUDGBP 0.5100–0.5280**
- **AUDNZD 1.0800–1.1000**
- **AUDEUR 0.5980–0.6150**

$ NZD New Zealand dollar

March was uneventful for NZD, trading in a fairly narrow range. April and May could see more of the same as RBNZ commits to lowering inflation and the Fed pushes out timelines for rate cuts.

The New Zealand dollar tracked within a familiar range through March, as markets remain reluctant to extend bets on the timing and trajectory of monetary policy change.

Markets have been forced to correct yield and rate expectations due to domestic and US inflation not coming down as quickly as expected, despite the improvements in price pressures enjoyed through the back half of 2023.

US treasury yields marked record highs in March that extended through early April as investors pushed back the timing and trajectory of Federal Reserve rate cuts. In December 2023, markets expected the Federal Open Market Committee (FOMC) would be in a position to cut rates as early as March but price pressures and an annual rate of inflation well above target have forced markets to correct, dashing hopes of a rate cut in June.

Higher US yields continue to dampen demand for the NZD and ensure gains are capped, with resistance on moves above US$0.6050 firmly in play.

In its April meeting, the RBNZ voiced its commitment to bringing inflation back to target by the end of 2024 suggesting maintenance of the current OCR cash rate at 5.5% remains crucial to achieving that goal.

We expect ranges will be well contained through April and May and we continue to monitor global inflation metrics and the growth narrative as key markers of NZD direction.

Expected ranges:

- **NZDUSD 0.5900–0.6200**
- **NZDGBP 0.4750–0.4920**
- **NZDAUD 0.9100–0.9300**
- **NZDEUR 0.5580–0.5750**

$ USD United States dollar

In April, the USD continued to strengthen after its March advance. Attention is on the Fed but expectations are low for an interest rate cut in the near future.

The US dollar advanced in March, a contrast to most of the major currencies as markets began to pare back how many interest rate cuts were expected from the US Federal Reserve throughout 2024.

EURUSD got close to 1.10 at the start of the month after February's US jobs data saw the dollar weaken. It recovered throughout the month as the US economy showed ongoing resilience to above-target inflation.

Despite the March 12th Consumer Pricing Index (CPI) figure unexpectedly pushing up to 3.2% from 3.1% year-on-year, other data such as Industrial Production, Manufacturing and Service PMI and Consumer Sentiment readings released since then, have produced solid numbers.

In April, EURUSD dropped further as CPI pushed even higher on April 10, to 3.5% year-on-year. This uptick led markets to push back the expected date of the first interest rate cut to November, whereas, before the release, June was favoured. The next interest rate decision from the Federal Reserve is due on May 1st, so any comments from Federal Reserve Chairman Jerome Powell about the future path of policy will be the main area of interest, ahead of this meeting.

Data-wise, April 25th brings the first estimate of Q1 GDP for 2025. April 26th sees more inflation data, this time in the form of the Personal Consumer Expenditure numbers.

Expected range:

- **DXY 103.880-106.245**

¥ JPY Japanese yen

April could see the yen struggle to unwind losses against the USD. As the USJPY pair traded to a 34-year high, tensions in the Middle East and the Fed rate cuts could affect yen strength.

The Japanese yen rallied against the US dollar in the first half of March but lost all gains in the second half with the USDJPY pair trading back to 151 territory.

The yen's sharp fall surprised many, especially after the Bank of Japan (BoJ) raised the interest rate, the first hike since 2007.

The USDJPY jumped higher from 149 to 150 after the March 19 BoJ announcement, indicating the market is still convinced that the interest rate gap will not be narrowed any time soon.

BoJ Governor, Kazuo Ueda's comments may have also been a factor, stating that inflation in Japan is still "in the process of accelerating towards 2%" from a medium-term and long-term perspective.

On the data front, Japan's GDP grew 0.1% quarter-on-quarter in the last quarter of 2023, weaker than expected but rebounded from the previous -0.8%.

In April, the market will have Japan's March inflation data out, which will be a good indicator to track trends, given that BoJ's view on inflation may change after the biggest wage increase in 33 years has been agreed by Japan's major firms in March 2024. The USDJPY has already reached a 34-year high of 153 in early April, without change from the current interest rate differential between the US and Japan, it would be hard for the yen to bounce back sustainably.

Expected range:

- **USDJPY 147-153**

$ SGD Singapore dollar

In March, the Singapore dollar saw a slight decline against the USD amidst market speculation on the Fed's actions. Despite domestic inflation and industrial production rises, the MAS may maintain its current policy.

The Singapore dollar finished the month of March marginally lower against the USD with more volatility compared with the previous two months.

The FX market fluctuation was mainly dominated by speculations on the Federal Reserve (Fed)'s next move. The SGD initially rallied against the USD due to dollar weakness off the back of a dovish stance from the Fed's Powell, but as the market grew more reserved on the US rate cuts bet, the SGD lost its momentum and gave up all gains later in March.

Domestically, the inflation rate in February came out hotter than expected – 1.0% m/m (-0.7% prior) and 3.4% y/y (2.9% prior). Core inflation was also up, rising to 3.6% from the previous 3.1%. The SGD jumped on the data release. Meanwhile, February industrial production recovered from a 3 consecutive negative growth m/m, and bounced back to 14.2%, bringing the y/y output growth to 3.8%.

The elevated inflation level would hinder the Monetary Authority of Singapore (MAS) from easing its monetary policy. It's widely expected the MAS could keep the Singapore dollar nominal effective exchange rate (S$NEER)'s slope, width, and level unchanged in the next meeting on 12th April.

Expected ranges:

- **USDSGD 1.3250-1.3550**

$ CAD Canadian dollar

April could be another disappointing month after the CAD dropped to new lows against the USD in March. Increasing expectations for a rate cut by the BoC, oil prices and inflation could influence CAD performance.

The Canadian dollar maintained a bearish bias throughout March, marking fresh 2024 lows and slipping below US$0.73.

Improvements in both inflation signals and wage growth elevated calls for the Bank of Canada (BoC) to cut rates as early as June, prompting markets to price in an 80% probability policymakers will make that move.

Markets extended bets on the timing and trajectory of US monetary policy change as labour market strength and stubborn inflationary pressures force the Federal Reserve (Fed) to maintain a restrictive framework for longer.

The divergence in monetary policy expectations weighed on the CAD, forcing moves off monthly highs just short of US$0.7430, towards fresh year-to-date lows at US$0.7298.

Improvements in oil prices and other key commodities have helped to add a floor beneath the CAD. Comments from BoC Governor, Tiff Macklem forced investors to temper bets for a June rate cut but said it was within the "realm of possibilities". The likelihood of a June rate cut fell from 80% to 60% in the hours following the meeting helping offset losses suffered in the wake of stronger-than-anticipated US inflation through March.

CAD performance through April and into May will hinge on US activity, domestic labour market performance and inflation data. If the global reflation narrative can gather steam and oil prices continue to improve, the CAD may test the upper end of recent ranges.

Expected ranges:

- **CADUSD: 0.7200 – 0.7450**
- **CADGBP: 0.5700 – 0.6100**
- **CADAUD: 1.0950 – 1.1250**
- **CADEUR: 0.6750 – 0.6900**

$ HKD Hong Kong dollar

In March, the Hong Kong dollar traded steady against the USD, showing a slight upward trend for the year. HKMA kept rates unchanged and they could stay high 'for some time'.

The Hong Kong dollar traded relatively sideways in March, trading between 7.82 and 7.83, and closed marginally higher against the USD.

So far this year, the USDHKD pair is showing an upward trend, albeit a slow one. One of the reasons is that Hong Kong's Interbank Offered Rate (HIBOR) is trading lower from January to March. For example, the past 3 month's HIBOR has edged from 4.68% to 4.73% in late March but it's still below the equivalent benchmark rate in the US.

The Hong Kong Monetary Authority (HKMA) kept its policy rate unchanged at 5.75% and stated the rate "might remain high for some time". The HKMA's decision to hold was not surprising considering the soft domestic economic conditions.

Hong Kong's February S&P global PMI edged lower from 49.9 to 49.7, retail sales in January fell by 1.2% vs a 3.2% forecast, and its industrial production moved lower as well, down from 4.3% to 4.1%, much weaker than the expected 5.6%. However, the inflation rate m/m in February picked up 0.4%, up from the previous -0.1%.

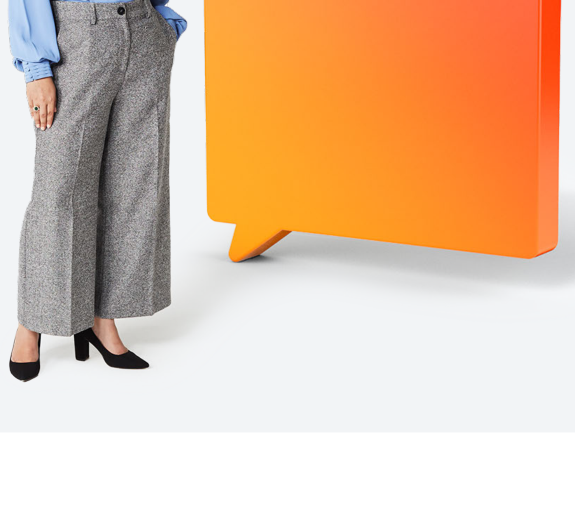
In April, the HKD dollar is likely to maintain its current trading level should the Federal Reserve maintain its view of no imminent change to interest rates.

Expected range:

- **USDHKD 7.8000-7.8300**

› Any questions?

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



Find us on social media @OFX