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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 May:

1. European inflation remains steady at 2.4%, adding further strength to the market predictions the European Central Bank could start cutting rates in June.
2. The Federal Reserve looks to hold interest rates higher for longer, as pushing out timelines for US interest rate cuts has supported the US dollar.
3. There is strong speculation the Bank of Japan intervened twice between late April and early May, allowing for the yen's recovery.

€ EUR Euro

The euro might remain weaker in May but European inflation looks to be holding steady. Markets are hopeful the European Central Bank will start cutting rates in June. CPI data will be key.

Eurozone inflation remained steady at 2.4% in April, leading markets to almost fully price in a June interest rate cut from the European Central Bank (ECB). ECB President, Christine Lagarde commented earlier in the month that the bank was on target to start cutting rates in "reasonably short order" and this combined with some broad US dollar strength saw EURUSD hit a low of 1.06. EURUSD did pick up by month end as some green shoots of recovery in the bloc's economy were seen.

Growth for the first quarter came in better than expected at 0.3% q/q however business surveys released painted a mixed picture.

There is no interest rate decision from the ECB until June 6th so May's main event will likely be May 31st Consumer Pricing Index (CPI) inflation data. If this falls or at least remains steady, it should be enough for the ECB to decide they are finally at an appropriate time to start cutting rates from their current 4%. Should this come to fruition, it should lead to some euro weakness, especially in EURUSD.

Expected ranges:

- **EURUSD 1.06–1.0880**
- **EURGBP 0.8550–0.8700**

$ AUD Australian dollar

April was predictable for the AUD and May is likely to be the same. Without clarity on interest rate cuts from the Fed and geopolitical tensions, markets are focused on inflation data for direction.

The Australian dollar remained within a narrow trading band for April and started May in much the same position.

Global bond markets and equities faced an extended risk-off shift through the middle of April. US treasury yields extended gains and marked new 4-month highs following stronger-than-expected US domestic inflation and renewed calls for the Fed to hike rates one last time to bring price pressures back to target.

The AUD slipped below US$0.64 to mark a year-to-date low of US$0.6373. The Aussie dollar faced added pressures following a People's Bank of China policy shift, wherein officials set a lower fixed value for the yuan, allowing greater flexibility for depreciation in line with other regional currencies. Market sentiment shifted through the end of April as a string of softer data sets and tempered Federal Reserve (Fed) commentary dampened calls for a more cautious FOMC policy.

With the Fed all but quashing calls for a rate hike in its May meeting, the AUD climbed above US$0.66 marking fresh 4-week highs at US$0.6640 before meeting resistance. With the RBA pushing back on calls for one more rate hike, domestic yield support for the AUD has faltered through early May capping gains.

We expect the AUD will continue to track within ranges established through May.

Expected ranges:

- **AUDUSD 0.6380–0.6700**
- **AUDGBP 0.5100–0.53**
- **AUDNZD 1.0900–1.1100**
- **AUDEUR 0.5980–0.6200**

$ USD United States dollar

The USD had a strong April and May could be the same if CPI data remains high. Unfortunately, high CPI could push rate cuts until September. Markets are focused on May's CPI data for direction.

The US dollar soared in early April as inflation ticked higher for the second month in a row. The April 10 Consumer Price Index (CPI) which measures inflation, showed a rise from 3.2% to 3.5%. It was higher than expected, indicating that the US Federal Reserve (Fed) still has more work to do to bring price rises back to their 2% target.

That rise led markets to push back the expected date of the first interest rate cut from the Federal Reserve from June to September. EURUSD hit a low of 1.06 by the middle of the month, however, the dollar gave up some of these gains by end of April.

GDP data for Q1, released on April 25, showed lower-than-expected growth and the following week saw the monthly jobs data also fall short of expectations with unemployment rising to 3.9% from 3.8%.

The Fed left rates unchanged at its May 1 interest rate decision, acknowledging that the recent inflation data made it difficult to cut anytime soon.

As we look ahead, a huge amount of focus will be on the May 15 CPI data. Should this come in hot for a third successive month, the chance of any rate cuts from the Fed may be pushed back until 2025 and another dollar rally could be on the cards. Eyes will also be drawn to May 31 Personal Consumption Expenditure data, another gauge of inflation the Fed pays particular attention to.

Expected range:

- **DXY 104.522-106.490**

$ SGD Singapore dollar

The SGD started May poorly, reaching a 5-month low against the USD due to rising US treasury yields and sticky US inflation. To combat this downward pressure, the MAS is holding its monetary course.

In early May, the Singapore dollar hit a five-month low against the US dollar, driven by the continual elevation of treasury yields and persistent inflationary pressures in the US. The forthcoming release of the US inflation data and comments from members of the Federal Reserve (Fed) will continue to exert influence on the pair's movement.

At the April meeting, the Monetary Authority of Singapore (MAS) kept its monetary policy steady for the fourth time, anticipating around 3% core inflation in the near term before declining in late 2024. Singapore's GDP is projected to grow between 1% and 3%, backed by a 2.7% y/y increase in Q1 2024.

Additionally, rates for MAS Treasury Bills and Singapore Government Securities have stayed steady, mirroring movements in US treasury yields and both have been consistently oversubscribed. This may indicate that volatility in the currency pair could stay within a predictable range in the near term if geopolitical risks are under control and US inflation remains in range.

In May, the pair is likely to find support if US inflation remains sticky. All eyes will be on the Federal Open Market Committee (FOMC) minutes and keeping tabs on the Middle East plot twists. On the flip side, the resilient fundamentals of Singapore's economy are likely to provide resistance to the pair.

Expected ranges:

- **USDSGD 1.3450–1.3650**

$ HKD Hong Kong dollar

April saw the Hong Kong dollar hit a 6-month low before bouncing back in May. An increase in the Hang Seng Index and a weaker US Non-Farm Payrolls (NFP) has helped to support the HKD.

The USDHKD pair went on a bit of a rollercoaster ride, moving from a high of 7.8387 after a stronger-than-expected US Consumer Pricing Index (CPI) in mid-April to a low of 7.8046 in early May following the release of US NFP and swiftly climbing back to 7.81 handle by May 7.

Locally, the Hong Kong Composite CPI increased by 2.0% y/y in March (2.1% prior). Hong Kong's economy grew by 2.7% in Q1 (4.3% prior), while retail sales fell by 7% y/y (1.9% prior). On May 2, the Hong Kong Monetary Authority maintained its 5.75% interest rates, aligning with the Fed. They anticipated that interbank rates might remain high, and the exchange rate would remain stable.

The Hang Seng Index (HSI) rose by 15.87% from April's low, surpassing US indices and indicating a potential upward trend. This surge is driven by increased investments from Chinese and global funds, drawn by attractive valuations, supportive Beijing policies, and Hong Kong's USD peg. Additionally, a stronger dollar is boosting Hong Kong's appeal, seen in a doubling of real estate transactions in April, reaching a three-year peak due to government efforts. This trend could support the stability of the HKD.

In May, amid modest developments in Hong Kong's economy, the pair will continue to be supported by US persistent inflation. The positive momentum of the HSI could help soften any downward pressure if there are no unforeseen headwinds. Developments in the Middle East will also sway sentiment.

Expected range:

- **USDHKD 7.8120-7.8320**

£ GBP Sterling

The pound lost ground in April largely due to the Bank of England signalling inflation was slowly coming under control. With encouraging economic data and lower inflation, June could see the first cut to rates.

May 9 saw the latest interest rate decision from the Bank of England (BoE) confirming no change in policy. It appears the BoE is nearing the point where it thinks a reduction in borrowing costs from their 16-year high will be warranted. The messaging from the Bank weighed on the pound, pushing GBPUSD back under 1.25 and GBPEUR close to 1.16. Two members of the Bank's Monetary Policy Committee voted for a cut and with a sharp drop in inflation expected later this month, it seems a cut in rates at its June 20 meeting is now a very real possibility.

Data from the UK showed more encouraging signs from the dominant services sector with the latest monthly Purchasing Managers Index (PMI) reading reaching 55.0, its highest level in nearly a year. Consumer spending remained subdued however with Retail Sales showing no change from the month before.

As we head deeper into May, inflation data will bring a huge amount of attention. The Consumer Pricing Index (CPI), to be released on May 22, is predicted to drop from 3.2% to close to 2%. A lot of this expected fall could be attributed to an annual change in the energy price cap implemented by the government. Should the CPI print as low as 2%, some pound weakness will likely follow.

Expected ranges:

- **GBPUSD 1.2350–1.2675**
- **GBPEUR 1.15–1.17**

$ NZD New Zealand dollar

Stronger-than-expected US data meant a disappointing April for the NZD. Thankfully, sticky US inflation and no clarity on interest rates let the NZD mark 4-week highs in early May, before settling into established ranges.

The New Zealand dollar underperformed through April, amid ongoing uncertainty surrounding the timing and trajectory of global central bank policy change.

Global bond markets and equities faced an extended risk-off shift through the middle of April as US treasury yields extended gains and marked new 4-month highs following stronger-than-expected US domestic inflation and renewed calls for the Fed to hike rates one last time in a bid to bring price pressures back to target.

Having slipped below US$0.60, the NZD marked fresh 2024 lows of US$0.5862 by mid-month. In a risk-off environment, the NZD faced added pressures following the People's Bank of China officials setting a lower fixed value for the yuan that would allow greater flexibility for depreciation, in line with other regional currencies.

The NZD clawed its way back above US$0.59 and US$0.60, extending on gains through early May after the Bank of Japan and the Japanese Ministry of Finance stepped in to defend the yen, forcing the USD lower.

With the Fed all but quashing calls for a rate hike in its May meeting, the NZD marked fresh 4-week highs at US$0.6020 before meeting resistance.

Markets are focused on global inflation and its impact on rate expectations and yield performance. Until a clear path to rate cuts emerges, we expect the NZD will continue to track within established ranges.

Expected ranges:

- **NZDUSD 0.5850–0.6150**
- **NZDGBP 0.4750–0.4920**
- **NZDAUD 0.9020–0.9200**
- **NZDEUR 0.5500–0.57**

¥ JPY Japanese yen

In April, the yen weakened against the USD due to strong US data. The Bank of Japan kept rates steady, hinting at future hikes despite yen intervention concerns.

The yen experienced weakness throughout April, amid hawkish US data, which resulted in increased yields and USD strength.

JPY inflation rate, ex-food and energy was 2.9%. This is the first time since November 2022 that the index has fallen below 3%. The Core CPI increased 1.6% YoY in April instead of the expected 2.2%, slowing from a 2.4% gain in the previous month.

The Bank of Japan (BoJ) kept interest rates unchanged and expects inflation to stay near its 2% target in the coming years, signalling its readiness to hike later this year. In the following press conference, BoJ Governor, Ueda Kazuo commented that the weaker yen has not had a major impact on Japan's inflation rate and was not overly concerned.

After weeks of discussion, BoJ reportedly intervened on April 29 to support the weakening yen. Subsequently, the USDJPY tumbled to a low of 154.40 in the initial move after breaching 160. It was also widely suggested that the Bank of Japan carried out another round of intervention, shortly after the Federal Reserve concluded its monetary policy meeting, which saw USDJPY plummet from 157.55 to 153. Officials have not confirmed any action so far and we're unlikely to know for certain until the Ministry of Finance discloses its foreign exchange intervention operations statistics on May 31.

Intervention may only provide temporary relief. Despite the prospect of the BOJ raising interest rates later this year, the interest rate differential between Japan and the US will remain wide for some time.

Expected range:

- **USDJPY 152.00–158.00**

$ CAD Canadian dollar

April saw the CAD mark fresh 2024 lows. Falling oil prices from geopolitical tensions and an unclear path for rate cuts from the Fed are adding pressure to the CAD.

US treasury yields, falling oil prices and sluggish domestic economic activity. After testing a break above US$0.735 through early April, the CAD shifted sharply lower through the middle of the month as the US treasury marked 2024 highs and central bank policy expectations diverged.

The Bank of Canada (BoC) left rates on hold through its April policy meeting and proffered a dovish bias when assessing the near-term economic outlook.

In contrast, while US data is pointing toward a slow-down in activity, there was resilience across the labour market and stubbornly sticky price pressures elevated calls for the Federal Reserve (Fed) to hike rates to bring inflation back to target.

With oil prices down $10 through April, support from key commodities was lacking and the CAD lost strength against other majors through the end of the month.

Our attention remains affixed to the global inflation narrative and its impact on rate expectations and yield performance. Geopolitical tensions in the Middle East continue to add pressure on oil prices, a key Canadian export. Without a clear path to cut interest rates, the Canadian dollar will remain under pressure. The Bank of Canada looks set to lead the Fed in easing conditions.

Expected ranges:

- **CADUSD 0.6380–0.6700**
- **CADGBP 0.5100–0.53**
- **CADNZD 1.0900–1.1100**
- **CADEUR 0.5980–0.6200**

Any questions?

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

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OzForex Limited t/a OFX. AFSL 226484 PDS & TMD at OFX.com