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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 August:

1. Bank of Japan raising interest rates helped drive a major drop in USDJPY as well as creating major volatility in stock markets.

2. Experts are hopeful the US Federal Reserve will cut interest rates in September after the recent poor labour market reading.

3. A softer-than-expected US Non-Farms report has experts wary of a possible US recession. Data releases towards the end of August will hopefully provide clarity on US economic health.

€ EUR Euro

July saw the euro dip as the ECB held interest rates. It briefly recovered due to US dollar weakness but faces uncertainty after August with upcoming Eurozone data releases being key to predicting direction.

The European Central Bank (ECB) held rates as expected, deciding a second consecutive rate cut wasn't warranted given that inflation remains above target. The hold at 4.25% was widely expected, however, the messaging from ECB President, Christine Lagarde highlighting downside risks to the economy contributed to the EURUSD to fall from around US$1.09. It slowly descended for the rest of the month before touching a low of US$1.0777 on August 1.

Over the course of the next week, there were some steep gains for the shared currency, which was attributed to US dollar weakness, as concerns over the health of the US economy sent shockwaves through markets. EURUSD rallied up to above US$1.10 for the first time since the start of the year however it pared these gains as some market calm was restored.

Looking ahead, there is little of note in terms of data from the Eurozone until the monthly PMI numbers due on August 22. There's some hope that the closely watched German Manufacturing reading will show some improvement after some better-than-expected Factory Orders and Industrial Production data seen early in the month. The latest inflation figures for the bloc are due August 30, with the previous month's reading unexpectedly showing a slight rise to 2.6% y/y.

Expected ranges:

- **EURGBP 0.8425–0.8650**
- **EURUSD 1.0670–1.1040**

$ AUD Australian dollar

The AUD rose in early July but fell sharply amid global market turmoil. Its recovery through August largely depends on how the US navigates their possible recession and if the Fed cuts rates in September.

Volatility surged across financial markets in July and early August and the Australian dollar has been caught in the crosshairs of a broader market rebalancing.

The AUD enjoyed a strong start to July, extending toward US$0.68 as markets priced in a September interest rate cut from the US Federal Reserve (Fed). A string of softer US data sets coupled with easing inflation pressures allowed the AUD to reach US$0.68 on July 11. It then had a swift and aggressive retracement.

The USDJPY sell off accelerated after the Bank of Japan announced it would increase its benchmark interest rate and work to unwind its quantitative easing program. The long-awaited move sparked a surge in the value of the Japanese yen and the AUD was caught in the crossfire as investors rushed to unwind carry trades.

With Australian rates expected to remain higher for longer, the AUD and USD had been key targets for those seeking higher returns, at the expense of the yen. The AUD sell off culminated in a flash collapse across equities and commodity currencies on Monday August 5. Additionally, a softer-than-expected US Non-Farm payroll figures sparked concern the US is heading toward recession.

As we move closer to a predicted Fed rate cut in September, the AUD could recover back toward the highs seen in early July but markets will need to reinstate risk appetite and assuage fears the Fed has not held onto tighter conditions for too long. Fear of recession in the US and global risk appetite will prove key in shaping AUD direction through the near term.

Expected ranges:

- **AUDUSD 0.6300–0.6700**
- **AUDGBP 0.5000–0.5300**
- **AUDNZD 1.0800–1.1200**
- **AUDEUR 0.5800–0.6200**

$ USD United States dollar

Markets panicked after a weak US jobs report fuelled recession fears and triggered volatility. USD could remain down through August. Experts are now focused on the upcoming Jackson Hole Symposium for insights.

Panic enveloped financial markets on August 2 when the latest US jobs data came out worse than expected. The Non-Farm Payroll's figure came in at 114k for July, well under the estimate of 176k and the lowest number since January 2021. The unemployment rate also unexpectedly rose to 4.3%, its highest since October 2021.

This combined with some other soft data earlier in the week and the decision by the Bank of Japan to raise interest rates sent markets into turmoil over the next few days. With many banks and institutional investors growing concerned that the poor data could be a warning that the US was heading for a recession, markets began to recalculate how many interest rate cuts the Federal Reserve might implement for the rest of the year.

As a result, there were some dramatic moves in EURUSD which briefly traded above 1.10 for the first time since January before some calm was restored.

Looking ahead, there will now be huge attention drawn to the annual Jackson Hole Symposium in Wyoming which is due to kick off August 22. Fed Chair, Jerome Powell will speak at the 3-day event and his comments on the state of the US economy and what we could expect in relation to changes in monetary policy will be pored over by markets.

Expected range:

- **DXY 102–106**

$ SGD Singapore dollar

The Singapore dollar edged up in July, boosted by rate cut expectations and Trump's trade rhetoric. It gained further strength following weak U.S. job data, which sparked US economic concerns.

In July, the Singapore dollar gained slightly against the US dollar, spurred by higher likelihood of a rate cut.

Comments by Presidential candidate Donald Trump saying the strength of USD is hurting the competitiveness of US exports also added further downward pressure. Investors in external-led Asian economies considered a second Trump presidency damaging for global trade. Trump has pledged to impose a 60% tariff on all Chinese imports if re-elected.

The Monetary Authority of Singapore (MAS) also released its quarterly review of the SGD on July 26, keeping its monetary policy unchanged and in line with expectations.

The softer-than-expected US Non-farms payroll data of Aug 2 triggered concerns the US Federal Reserve (Fed) has kept the brakes on the economy for too long, undermining the chances of a soft-landing and raising expectations that the Fed will cut interest rates by 50bp in September as the economy sours. This caused the SGD to strengthen against USD to levels not seen since the turn of this year.

Looking ahead, the Singapore economy is expected to strengthen over 2024, with the slightly negative output gap closing by year-end. Barring renewed shocks to costs, core inflation should step down more discernibly in Q4 and fall further to around 2% in 2025.

Expected ranges:

- **USDSGD 1.3100–1.3400**

$ HKD Hong Kong dollar

Despite economic challenges like a weak property market and declining domestic consumption, the Hong Kong dollar remains stable, largely due to its peg to the U.S. dollar and Fed policy decisions.

The Hong Kong dollar was range-bound in July, trading around the 7.8100 handle.

Hong Kong's GDP growth accelerated to 3.3% y/y in Q2 from 2.8% y/y in Q1. Gross domestic fixed capital formation, exports and government consumption registered growth while private consumption contracted.

Housing prices have down trended since April, cancelling out any gains since the announcement of removing all additional stamp duties. Domestic consumption is also weak, as the retail sales volume has been declining in the past three months. The weak property market and elevated interest rates have continued to hamper local economic growth.

On July 31, the Hong Kong Monetary Authority (HKMA) released a press statement after the Federal Open Market Committee (FOMC) meeting of the Federal Reserve (Fed). Based on the Fed's public communication, a rate cut might happen as soon as the meeting in September. Yet, it remains uncertain whether the pace of easing will follow market expectation. The Hong Kong dollar exchange rate remains stable.

Looking ahead, the US election later this year could influence US-China relations

Despite their shared stance on the necessity of reducing trade with China, the Democrat and Republican agendas differ in their strategy for achieving bipartisan goals. The current Biden administration supports trade restrictions but seeks areas of cooperation, while a potential Trump administration likely favors harsher trade measures and increased tariffs, impacting Hong Kong's economy. The HKD will likely remain stable due to its peg to the USD, meaning Hong Kong's monetary policy is effectively set by the Fed.

Expected range:

- **USDHKD 7.7880–7.8250**

£ GBP Sterling

The pound briefly surged but lost ground as the Bank of England cut rates. With no rate decisions until September, upcoming data will be crucial for the pound's outlook.

GBPUSD touched its highest level in close to a year on July 17, reaching US$1.3044 as UK inflation held steady at 2%.

With markets expecting a fall to 1.9%, the pound pushed higher, however, the move was short-lived and the pound slowly lost ground as we head into August. Growing market conviction that the Bank of England (BoE) was going to cut rates was the reason the pound fell and they were proved right on August 1 when the BoE unveiled its first interest rate cut since March 2020 taking them from 5.25% to 5%. GBPUSD eventually dropped under US$1.27 on August 6 as stock market turmoil saw the pound shunned in favour of the dollar and the euro. GBPEUR which touched a near-two year high of €1.1929 on July 17 also fell away over the same period eventually bottoming out around €1.16.

With no Bank of England interest rate decision due until September 19, it will be data that will be the main area of focus for the rest of August. On August 14 we have the latest inflation numbers due followed by the first estimate of Q2 growth a day later. UK growth has exceeded expectations for much of the year so holders of the pound will be hoping this trend continues.

Expected ranges:

- **GBPUSD 1.2500–1.2940**
- **GBPEUR 1.1560–1.1870**

$ NZD New Zealand dollar

The NZD declined amid recession fears and global market volatility. While the NZ dollar remains vulnerable, a potential Fed rate cut in September could provide some relief.

The NZD continued to track lower, extending June's correction to slide below US$0.60. The domestic economy remains in recession and key macro indicators point to rising unemployment and a stagnant growth outlook.

A few events impacted the NZD. Softness in China macroeconomic markers and fiscal policy, tensions in the Middle East and growing fears for a recession in the US edged investors toward safe haven assets and sapped market risk appetite. Furthermore, The NZD was caught in the crossfire as investors rushed to unwind carry trades after the Bank of Japan announced it would increase its benchmark interest rate.

The NZD touched year to date lows of US$0.5860 before recovering back above US$0.59 and has since tracked between US$0.5920 and US$0.6020.

Risk aversion remains elevated as the VIX index, a measure of volatility, sits near a 3-year high. The near-term outlook for the domestic economy is bleak and we expect officials may be forced to unwind monetary policy in a bid to stimulate growth and stem the tide of rising unemployment.

The NZD remains vulnerable to elevated near term risk aversion and an RBNZ rate cut. We expect to see an extended correction in NZDJPY while the promise of a Fed rate cut in September could afford the NZD some support on moves below US$0.59.

Expected ranges:

- **NZDUSD 0.5850–0.6200**
- **NZDGBP 0.4550–0.4750**
- **NZDAUD 0.8950–0.9250**
- **NZDEUR 0.5350–0.5600**

¥ JPY Japanese yen

The Bank of Japan (BoJ) hiked rates at the July meeting and tapered JGB purchases. A further BoJ hike and a cut from the Fed in September could help to support the yen.

The yen surged following the Bank of Japan's decision to raise interest rates by 15bp to 0.25% and announced details of the reduction in Japanese Government Bonds (JGB) purchases. The Bank of Japan will taper its JGB purchases by JPY400bln each quarter from JPY5.7trn and reduce to JPY2.9trn by Q1 of 2026.

In the press conference following the BoJ decision to hike rates, the Bank also expressed its willingness for further hikes if the economy and inflation continue to follow its projections.

The recent strength of the yen has also been attributed to the sharp selloff in global equity markets, decline in US yields, unwinding of yen carry trades, leveraged funds closing out short yen positions, and the appeal in yen as a safe haven currency. Japanese authorities also confirmed they spent JPY5.53trn in July on currency intervention to support the yen after it plummeted to a 38-year low against the USD.

Additional rate hikes from the Bank of Japan and further cuts from the US Federal Reserve (Fed) could narrow the interest rate differential, helping to support the yen.

A disappointing July US jobs data print also sparked concerns of a possible recession and fears that the Fed has fallen being in cutting rates. The market has also moved to price in more aggressive cuts and with 50 bps cut priced in for the FOMC meeting in September.

Expected range:

- **USDJPY 140.50–149.40**

$ CAD Canadian dollar

The CAD saw a sharp decline due to US recession fears and political uncertainty. It rebounded after the Bank of Canada cut rates but future direction depends on global risk sentiment and US inflation data.

After touching a 2-month high just above US$0.7350 on July 11, the CAD suffered a swift and sharp correction amid rising fears of a US recession. After trending higher through the first 10 days of the month, this larger-than-anticipated downward correction in US inflation pressures sparked fears the Federal Reserve (Fed) may have left rates at restrictive levels for too long, as evidenced by the labour market softness.

Risk aversion lifted with markets demand for haven assets rising following the attempted Assassination of Former President, Donald Trump and the withdrawal of President Joe Biden from the 2024 election race.

Uncertainty surrounding US politics coupled with escalating tensions in the Middle East further lifted demand for the USD, JPY and CHF. Further, a depreciation in oil prices where WTI and Brent Crude both gave up new $10 a barrel added additional pressure to the embattled CAD.

Having slipped below US$0.73 and US$0.7250 the Canadian Dollar extended its decline on July 24, after the Bank of Canada (BoC) elected to cut its benchmark interest rate to 4.5%. In its statement, the BoC suggested policy may have been too restrictive and there was work to do to restore growth and confidence.

With US data through early August and commentary from Fed officials helping to assuage fears that risk sentiment has improved, the CAD has tracked back above US$0.7250.

Our attention remains affixed to global risk trends and the evolution of JPY carry trades. Risk sentiment, US inflation and US employment data will be critical markers guiding near term direction.

Expected ranges:

- **USD: 0.7180–0.7350**
- **GBP: 0.5600–0.5800**
- **NZD: 1.1950–1.2250**
- **EUR: 0.6550–0.6750**

Any questions?

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