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Currency Outlook

An OFXpert guide to key currencies and events to watch

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

1. The US Federal Reserve and European Central Bank interest rate cuts caused volatility across most of the major currencies.
2. Markets are more optimistic and less risk-averse following China's economic stimulus measures and easing in monetary policy.

€ EUR Euro

The euro weakened in September due to ECB rate cuts and strong US economic data but is expected to remain stable in October with cautious ECB policies supporting key strength levels.

The euro had a volatile September as the European Central Bank's (ECB) cut interest rates by 25bps.

Inflation in the Eurozone eased slightly during the month, contributing to the euro being weaker against major global currencies, particularly the US dollar.

Strong US economic data and the US Federal Reserve's (Fed) cautious stance on interest rates bolstered the US dollar, putting pressure on the euro. A stronger-than-expected US Non-Farm Payroll had a significant impact on EURUSD. It meant the US dollar strengthened, pushing the pair to the US$1.10 level. Additional pressure on the EURUSD pair came from inflation failing to meet the 2% global target.

Looking ahead to October, the euro is expected to remain fairly stable. The European Central Bank is likely to continue its cautious approach to monetary policy. This approach will hopefully see the euro hold above the key support level of US$1.10, a crucial level to retain its strength.

With another interest rate cut expected from the Fed in November, we could see future volatility in the EURUSD pair.

Expected ranges:

- **EURGBP 1.0790–1.1215**

$ AUD Australian dollar

The Australian dollar rose in September, supported by steady interest rates, strong retail sales, and optimism over China's economic stimulus measures, boosting confidence in commodities and risk assets.

The Australian dollar continued to climb in September, after the US Federal Reserve cut interest rates by 50bps, kicking off what is expected to be a steady easing of monetary policy.

Policymakers expect the Fed's benchmark rate to fall by another 50bps by the end of this year, another full percentage point in 2025 and a final half of a percentage point in 2026 to end in a range of 2.75% to 3%.

The Australian dollar found support as the Reserve Bank of Australia (RBA) remained wary that inflation is too high. Earlier this month, the Retail Sales data was better than expected, justifying the RBA's stance to hold rates higher. As expected, the RBA decided to keep rates steady at 4.35% at its September 24 meeting.

The unemployment rate held steady at 4.2% in July, while monthly inflation fell from 3.5% to 2.7% in August. The next RBA Board meeting and Official Cash Rate announcement will be on November 5, 2024.

There's call for optimism as China's stimulus measures and monetary easing by the People's Bank of China (PBOC), provided support to the Australian dollar which neared a 9-month high, driven by strengthened trade ties and policy stability. The Aussie dollar's uptick is boosting confidence in commodities and other risk assets.

Expected ranges:

- **AUDUSD 0.6450–0.6950**

$ USD United States dollar

The USD weakened in September after the Fed cut rates, making it less attractive to investors. October could see further weakness due to another rate cut but strong economic data could provide support.

September saw a significant weakening of the US dollar due to the Federal Reserve's (Fed) decision to cut interest rates, marking its first interest rate reduction since 2020.

This policy shift was aimed at countering signs of economic slowdown, including slow economic growth and moderating inflation. The Fed's rate cut made the USD less attractive to investors, particularly in comparison to currencies like the pound and the euro, both of which gained strength.

In October, the US dollar is expected to show signs of some weakness due to a variety of factors. The consensus for the US dollar is that there will be a general decline overall. This is due to experts anticipating another rate cut by the Federal Reserve in aim to improve the U.S. economy. If this is achieved, it will decrease the demand for the US dollar. It is predicted that rate cuts will continue across the year, with expected monetary policy easing as well. In addition, geopolitical factors such as increasing political tensions have caused a shift away from reliance on the dollar. Despite all these factors, markets are not expecting a sharp depreciation. Stronger than expected Non-Farms Payroll data strengthened the dollar, causing the EURUSD to fall.

The dollar is expected to continue to stabilise against some major currencies, but this will depend heavily on economic performance.

Expected range:

- **DXY 100.64–105.14**

$ SGD Singapore dollar

The SGD hit a 10-year high in September, driven by the Fed rate cut and a surprise rise in local inflation. SGD is expected to remain strong, with inflation moderating and a stable labour market.

The Singapore dollar saw slight gains against the US dollar in September, rallying to a fresh 10-year high. The SGD strength was on the back of the US Federal Reserve (Fed) cutting rates by 50 basis points on September 18, its first reduction since the COVID-19 pandemic.

On September 23, the Singapore Monetary of Singapore (MAS) and the Ministry of Trade and Industry (MTI) released August's core inflation data, showing it rose to 2.7% year-on-year, the first time it has increased since February and just exceeding a Reuters forecasted poll of 2.6%. The increase in August was largely due to a rise in services inflation. Overall inflation in August eased to 2.2% year-on-year, as a fall in private transport prices more than offset the increase in core inflation. According to the MAS and MTI, Singapore's core inflation is expected to stay on a "gradual moderating trend" for the short term, then step down further in Q4 of 2024.

Domestically, stronger-than-expected labour market conditions could lead to a re-acceleration of wage growth. The August inflation data has markets paring back expectations for the MAS to loosen policy setting at its October meeting.

Expected ranges:

- **USDSGD 1.2750–1.3200**

$ HKD Hong Kong dollar

In September, the HKD stayed stable after a rate cut by the HKMA. Despite modest inflation and a stable unemployment rate, high interest rates are expected to limit home demand and retail sales growth.

HKD traded in a narrow range in September.

Following the Fed's interest rate cut on September 18, the Hong Kong Monetary Authority (HKMA) announced on September 19 that the base rate has been set at 5.25% with immediate effect according to a pre-set formula. Hong Kong SAR moved in lock-step under its Linked Exchange Rate regime.

Following the base rate cut, Hong Kong's leading banks lowered the prime rate by 25bps in an effort to lower mortgage financing costs. However, given the rate level remains high and HKD is still relatively stronger than regional currencies, the impact of lifting home purchase demand and boosting domestic retail sales will still be relatively minor.

Hong Kong's headline Consumer Price Index (CPI) grew a modest 2.5% in August, no change from July's figure. Major drivers have been housing, utilities and food as the government reduced or phased out some utilities subsidy and rates concession arrangement. Hong Kong also published its August unemployment rate data today, which stood unchanged at 3.0%, in line with expectations.

Looking ahead, despite a continued upturn in CPI inflation in recent months, the city's inflation is not accelerating. The underlying demand recovery is expected to be mild, with the city's inflation staying moderate, averaging 2.3% before year-end. The upcoming US election in November could be pivotal to HKD direction.

Expected range:

- **USDHKD 7.7680 – 7.8100**

£ GBP Sterling

In September, the pound strengthened against the USD and EUR, boosted by US rate cuts and UK economic stability. GBP is expected to remain strong, with a potential Bank of England rate cut in November.

In September, the pound exhibited notable strength, particularly against the USD and the EUR. This performance was primarily driven by external factors, especially the Federal Reserve's decision to cut interest rates in response to weaker U.S. economic indicators.

The interest rate cuts weakened the USD, making the GBP more attractive to investors. At the same time, the EUR faced challenges from political instability in Europe, which further benefited the pound. After the US Non-Farms Payroll data showed the US economy had created more jobs than expected in September, the GBPUSD breached US$1.3100.

Domestically, UK GDP grew by 0.5% in the second quarter, inflation eased to target levels, and political stability under Prime Minister Keir Starmer added to investor confidence. This combination of external and internal factors kept the pound strong against both the USD and EUR.

Looking ahead to early November, the Bank of England is likely to cut interest rates by 25bps after holding steady at September's meeting. With inflation under control and positive economic momentum, further interest rate cuts may be considered to stimulate growth. However, any drastic policy changes will depend on global market conditions and inflation dynamics. The first budget from Labour will be the focus of attention by the end of this month.

Expected ranges:

- **GBPUSD 1.30–1.35**
- **GBPEUR 1.1740–1.2120**

$ NZD New Zealand dollar

The New Zealand dollar bounced back after rate cuts from both the US Fed and RBNZ, but further cuts are expected, putting pressure on the NZD. Eyes will be on October's RBNZ interest rate meeting.

In late September, the New Zealand dollar found support against the US dollar, recovering from its September 11 low after the US Federal Reserve (Fed) cut interest rates by 50bps, kicking off what is expected to be a steady easing of monetary policy with a larger-than-usual reduction in borrowing costs.

Looking ahead, the Federal Reserve policy meeting could shape near term direction. Despite the US non-farm payrolls showing further deterioration in labour market conditions, the market still expects a further interest rate cut in 2025.

The Reserve Bank of New Zealand (RBNZ) lowered its cash rate by 25 basis points to 5.25% at its September meeting. A move that surprised economists who were expecting the central bank to hold rates unchanged at 5.5%. This is the first time the RBNZ has cut the official cash rate since March 2020. The RBNZ also lowered its benchmark rate forecast to 4.92% by December, implying that the central bank could cut rates again before the end of the year.

The outlook for the New Zealand dollar is that the NZD may decrease due to continued 'selling pressure' from markets expecting a more aggressive rate reduction from the Reserve Bank of New Zealand at its upcoming meeting in October. Currently, markets believe there's an 87% chance of a 50bps rate cut.

Expected ranges:

- **NZDUSD - 0.5800–0.6300**

¥ JPY Japanese yen

The Bank of Japan kept interest rates unchanged in September, with no urgency for hikes. Political uncertainty and US labour data are pressuring the yen, leading to gains in USDJPY.

The Bank of Japan (BoJ) decided to maintain its current monetary policy rate at 0.25%, in line with market expectations.

During the post-meeting press conference, Governor Kazuo Ueda expressed that the BoJ is prepared to adjust its policy if the price stability outlook is met and the economy improves in line with their forecasts. However, he noted no immediate urgency for further rate hikes. Following Governor Ueda's remarks, the yen dropped 1.2% and the market started factoring in rate hikes of less than 10bps for Q4.

Newly appointed Prime Minister, Shigeru Ishiba was announced on September 27. Following a meeting with the BoJ Governor, Prime Minister Shigeru Ishiba said it was too soon for additional rate hikes. He said that current economic conditions don't require further rate increases. These remarks triggered significant yen sell off, with USDJPY rising more than 2% to ¥146.51.

The BoJ is scheduled to hold its next policy meeting on October 31 and is widely expected that rates will remain unchanged given its recent cautious signals and the timing of a general election called by Ishiba.

Political uncertainty surrounding the snap election is adding pressure on the yen, while recent upbeat US labour data has led markets to reduce bets on a large Fed rate cut in November.

Expected range:

- **USDJPY 144.80–151.0**

$ CAD Canadian dollar

The Canadian dollar struggled in early October despite strong retail sales and manufacturing activity, with further rate cuts expected from the Bank of Canada due to slowing economic growth.

The Canadian dollar struggled to find direction from September into the first week of October and showed a return of bearish momentum against the US dollar after hitting a 7-month low of CA$1.3420. It slipped further on Friday due to better-than-expected US NFP numbers. In terms of North American session closing rates, the USDCAD pair rose from CA$1.3551 to CA$1.3576, losing 0.18%.

The Bank of Canada (BoC) cut the key policy rate by 25 basis points to 4.25% at its September meeting, marking the third consecutive cut. The BoC is expected to cut rates by at least 25 basis points at each of the two remaining meetings of the year, after Canada's headline inflation decelerated to 2% in August.

On the economic front, Canada's August labour survey showed more weakness, as the jobless rate rose to 6.6% (expectation was 6.5%) and total employment increased by 220,100 in August, slightly below the consensus estimate of 25,000. July's retail sales data came in at +0.9% month-over-month, indicating a solid rebound after two consecutive quarters of shrinking sales. Canadian manufacturing business activity rose for the first time in 17 months and Canada's PMI increased from 49.5 to 50.4 in September, indicating expansion.

The Canadian dollar is expected to remain relatively stable in the upcoming quarters despite potential disruptions from the conflict between Iran and Israel and negative rate differentials.

Expected ranges:

- **USDCAD 1.3420–1.3650**

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Any questions?

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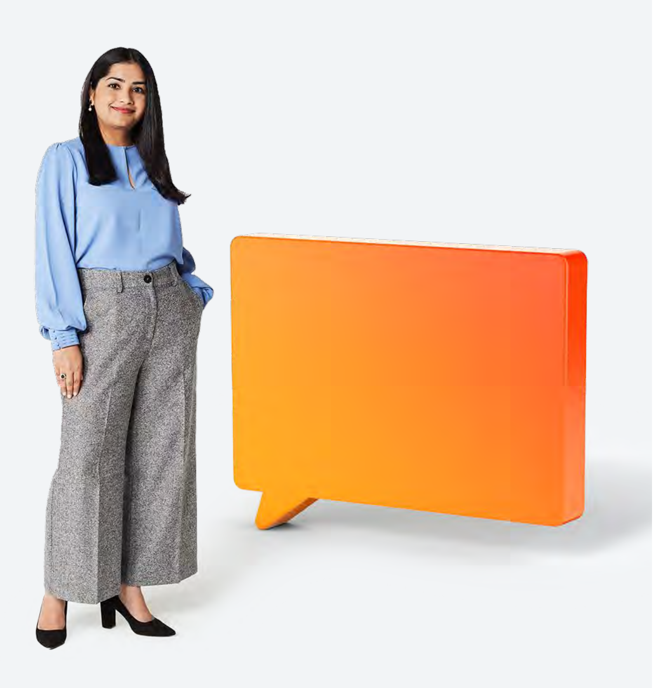

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