Global
Currency Outlook

October 2024

Key insights

Geopolitical tensions **and higher oil prices should see the USD move temporarily higher against EUR, JPY and CNY**, because these economies are net energy importers.

While the USD is set to trend lower and depreciate into year-end, **at present, the U.S. economy is proving more resilient than expected.** USD strength could persist for longer despite the Fed cutting rates again in November.

The Eurozone and Chinese economies are weaker than expected. **It is possible we could see EUR/USD decline to a level as low as 1.0850** while the Eurozone economy slows, and the USD reflects a firm U.S. economy.

The Peoples Bank of China (PBoC) has implemented an extraordinarily large stimulus package. **This has given CNY a boost and encouraged some out-performance in AUD.**

Volatility in USD/JPY has simmered, but it is still elevated. **There is some uncertainty what a Japanese new Prime Minister may mean for the BoJ's pace of rate increases.**

The RBNZ is set to cut interest rates by as much as -50bp on October 9 **which could result in a temporary spike lower in NZD.**

AUD/NZD has lifted to reflect the changing rate differentials, and a positive 2-year bond spread for the first time this cycle.

GBP has become more volatile since Bank of England Governor Bailey said the bank could be "a bit more activist" despite earlier saying a "gradual approach" to monetary easing remains appropriate.

The Canadian economy is relatively weak, and the Bank of Canada is worried it may soften too much. There is a similar sense in Sweden, with the Riksbank saying they will cut rates by -50bp at one of their future meetings. **USD/CAD may lift to again trade at 1.3650.**

Key takeaways

- USD is showing some resurgent strength because of a stronger-than-expected U.S. economy.
- Geopolitical tensions and higher oil prices will also keep the USD temporarily firm against EUR, JPY, and CNY.
- GBP volatility has picked up because the Bank of England is now indicating it may cut rates more often.
- CAD will likely under-perform on a relatively weak economy and BoC rate cuts.
- AUD should benefit from the PBoC's large stimulus package and an RBA determined to keep rates steady until inflation pressures ease.
- NZD risks a spike lower if the RBNZ moves to cutting rates by -50bp. AUD/NZD will remain well-supported.
- The market is welcoming the Riksbank's decision to cut interest rates by larger increments to improve the economy. SEK may stay relatively firm.
- MXN and ZAR have begun to re-strengthen now that political developments have subsided.

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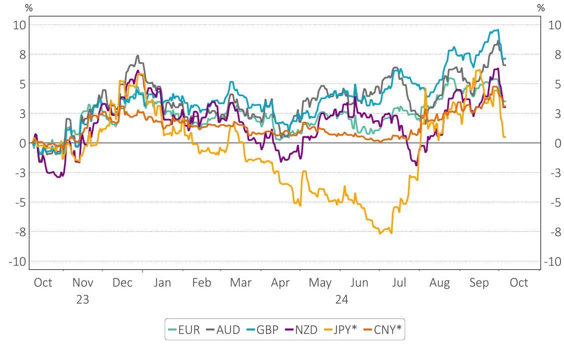
Major Exchange Rates vs USD

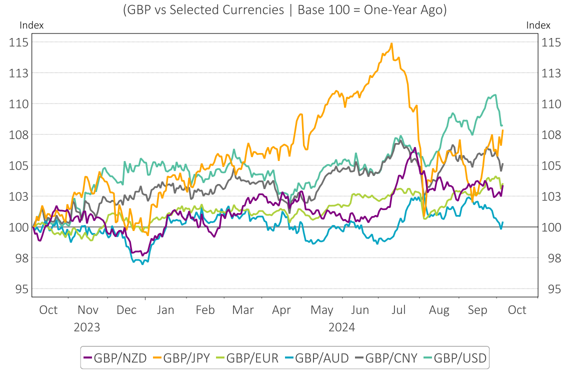
(% Change in Selected Currencies v USD | Base Zero = One-Year Ago)



* JPY and CNY deliberately quoted the unconventional way to demonstrate performance against the USD

GBP Exchange Rate Performance

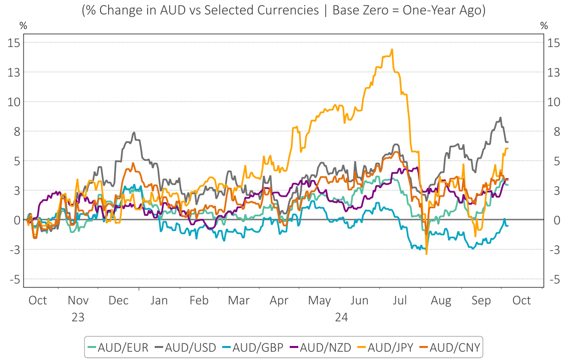
(GBP vs Selected Currencies | Base 100 = One-Year Ago)



Source: PinPoint Macro Analytics, Macrobond, BoE

AUD Exchange Rate Performance

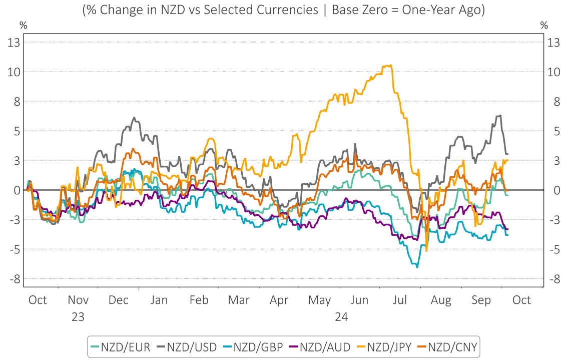
(% Change in AUD vs Selected Currencies | Base Zero = One-Year Ago)



* JPY and CNY deliberately quoted the unconventional way to demonstrate performance against the USD
Source: PinPoint Macro Analytics, Macrobond

NZD Exchange Rate Performance

(% Change in NZD vs Selected Currencies | Base Zero = One-Year Ago)



* JPY and CNY deliberately quoted the unconventional way to demonstrate performance against the USD
Source: PinPoint Macro Analytics, Macrobond

Currency Estimates

Majors	Current	1-Month	3-Month	6-Month
AUD/USD	0.6791	0.6800	0.6900	0.7000
EUR/USD	1.0975	1.0950	1.1000	1.1100
GBP/USD	1.3126	1.3100	1.3200	1.3300
USD/JPY	148.70	143.00	140.00	138.00
USD/CNY	7.0970	7.0800	7.0400	7.0000
NZD/USD	0.6158	0.6150	0.6200	0.6350
USD/CAD	1.3572	1.3550	1.3450	1.3300
USD/CHF	0.8581	0.8550	0.8400	0.8300
USD/SEK	10.340	10.350	10.200	10.000

Emerging Markets	Current	1-Month	3-Month	6-Month
USD/MXN	19.2600	19.0000	19.0000	18.5000
USD/ZAR	17.4600	17.5000	17.2500	17.0000
USD/CZK	23.0500	23.0000	22.5000	22.0000

GBP Crosses	Current	1-Month	3-Month	6-Month
GBP/EUR	1.1960	1.1963	1.2000	1.1982
GBP/CHF	1.1263	1.1201	1.1088	1.1039
GBP/SEK	13.572	13.559	13.464	13.300
GBP/AUD	1.9329	1.9265	1.9130	1.9000
GBP/NZD	2.1315	2.1301	2.1290	2.0945
GBP/ZAR	22.9180	22.9250	22.7700	22.6100
GBP/CZK	30.2554	30.1300	29.7000	29.2600

EUR Crosses	Current	1-Month	3-Month	6-Month
EUR/GBP	0.8361	0.8359	0.8333	0.8346
EUR/CAD	1.4895	1.4837	1.4795	1.4763
EUR/AUD	1.6161	1.6103	1.5942	1.5857
EUR/NZD	1.7822	1.7805	1.7742	1.7480

AUD Crosses	Current	1-Month	3-Month	6-Month
AUD/EUR	0.6196	0.6210	0.6273	0.6306
AUD/GBP	0.5181	0.5191	0.5227	0.5263
AUD/JPY	101.12	97.24	96.60	96.60
AUD/CNY	4.8260	4.8144	4.8576	4.9000
AUD/NZD	1.1028	1.1057	1.1129	1.1024
AUD/CAD	0.9229	0.9214	0.9281	0.9310
AUD/CHF	0.5835	0.5814	0.5796	0.5810

NZD Crosses	Current	1-Month	3-Month	6-Month
NZD/EUR	0.5611	0.5616	0.5636	0.5721
NZD/GBP	0.4685	0.4695	0.4697	0.4774
NZD/JPY	91.57	87.95	86.80	87.63
NZD/CNY	4.3647	4.3542	4.3648	4.4450
NZD/AUD	0.9056	0.9044	0.8986	0.9071
NZD/CAD	0.8347	0.8333	0.8339	0.8446
NZD/CHF	0.5277	0.5258	0.5208	0.5271

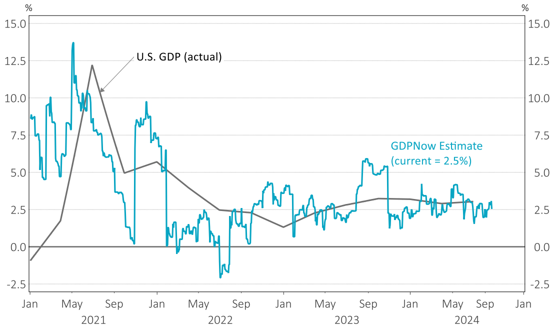
The outlook for the US dollar

Economy

- The final estimate of Q2 U.S. GDP was revised up to 3.0% vs 2.9% previously. The Bureau of Economic Analysis found an additional $800 billion in gross domestic in their annual revisions, suggesting the economy may firmer than expected. The very strong U.S. September non-farm payrolls report confirmed this firmer re-assessment of the U.S. economy, with the unemployment rate falling 0.1% to 4.1%.
- A more resilient U.S. economy will encourage the Fed to proceed at the more modest pace of -25bp interest rate reductions, in line with current interest rate market pricing.

U.S. GDP & GDPNow Estimate

(Atlanta Fed GDPNow Estimate | As at 1 October)



Source: PinPoint Macro Analytics, Macrobond, BEA, Atlanta Fed

Interest Rates

- The next Federal Open Committee (FOMC) meeting is scheduled for November 7. Current interest rate pricing has -33bp of rate cuts prices, equivalent to a 66% chance of a -50bp interest rate cut. The pricing for Fed interest rate cuts is down from a much higher percentage a month ago.

U.S. Federal Reserve (Fed)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.00**	
07 Nov 24	4.49	-33
18 Dec 24	4.13	-70
29 Jan 25	3.82	-101
20 Mar 25	3.53	-129
01 May 25	3.33	-149
12 Jun 25	3.18	-165
30 Jul 25	3.05	-177
17 Sep 25	2.97	-185

Other

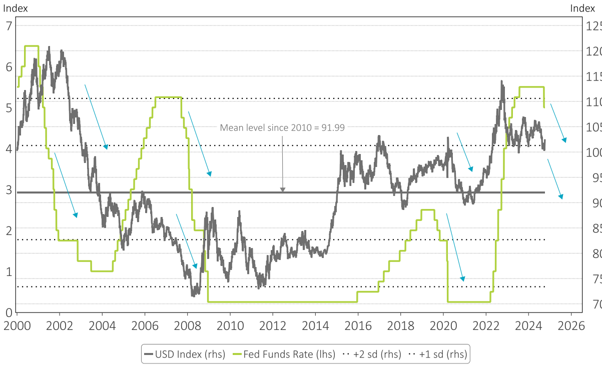
- Following a period of political uncertainty during much of September, Congress passed a bill to fund the government until 20 December, avoiding a government shutdown.

Exchange Rate Outlook

- In late September, the USD fell to its lowest point since July 2023. The USD then lifted over early October, consistent with growing evidence that the U.S. economy is relatively firm, and not rapidly slowing. The Atlanta Fed's GDPNow estimate has the economy expanding at a rosy 2.5% YoY.
- The scaling back of the extent of pricing for Fed interest rate cuts closer to -25bp over the next couple of meetings, has helped the USD move higher, interrupting the likely downward trend in the USD, as the Fed cuts interest rates.
- The USD has also received some good support from the escalation in Middle East tensions. During such episodes, the USD embraces a 'safe haven' status because of the USD's vast liquidity.

USD Index and Fed Funds Rate

(Standard Deviation on the Mean Post 2008-09 Crisis)



Source: PinPoint Macro Analytics, Macrobond, ICE, Fed

The outlook for the EUR / USD

Economy

- The Eurozone economy appears to have lost some momentum in Q3. European Central Bank (ECB) Executive Board member Isabel Schnabel, said on October 2 that “over the past 18 months, the recovery has repeatedly been weaker than anticipated”.
- Eurozone CPI inflation came in less than expected in September, falling to 1.8%, and beneath the ECB’s 2.0% inflation target for the first time since mid-2021.

Interest Rates

- Interest rate markets are almost fully pricing a -25bp interest rate cut at the ECB’s October 17 meeting. A number of governing council members have indicated an increased probability of ECB interest rate cuts earlier, rather than waiting for the ECB’s December meeting.
- Almost -175bp of interest rate cuts are currently priced into the ECB interest rate curve over the next 12-months.

Other

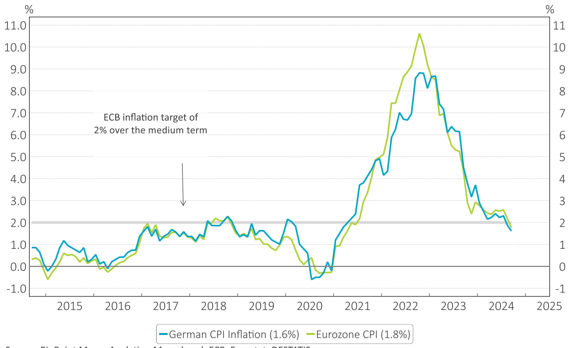
- Germany’s economy appears to be one of the weaker economies in Europe at present. Since early 2022, the slowing in Germany’s capital goods production has been more pronounced than in other major Eurozone countries.
- Middle East tension are lifting oil and energy prices. This is not encouraging for EUR/USD because the Eurozone is a net energy importing region and the U.S. is a major net energy exporter.

Exchange Rate Outlook

- Since mid-to-late August, EUR/USD has had a number of unsuccessful attempts to lift and close above 1.1200.
- It is possible we could see EUR/USD temporarily decline to a level as low as 1.0850 while the Eurozone economy slows, and the USD firms as U.S economy shows resilience.
- Near-term price action in EUR will depend on whether the ECB cut interest rates at the upcoming ECB meeting on October 17, and what is said by the Eurozone officials.

Eurozone Consumer Price Index

(Annual % Change)



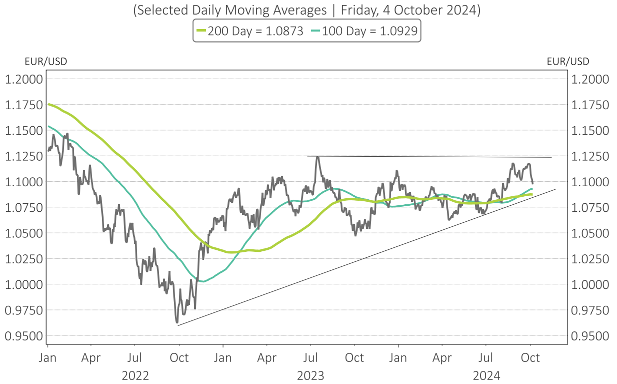
Source: PinPoint Macro Analytics, Macrobond, ECB, Eurostat, DESTATIS

European Central Bank (ECB)

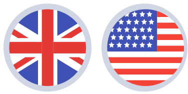
Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**3.75**	
17 Oct 24	3.18	-22
12 Dec 24	2.86	-54
30 Jan 25	2.59	-82
06 Mar 25	2.28	-113
17 Apr 25	2.06	-134
05 Jun 25	1.87	-153
24 Jul 25	1.77	-163
11 Sep 25	1.69	-172

EUR/USD and Technical Moving Averages

(Selected Daily Moving Averages | Friday, 4 October 2024)



Source: PinPoint Macro Analytics, Macrobond



The outlook for the GBP / USD

Economy

- The U.K. economy continues to improve. But U.K. services inflation remains elevated at 6.0%.

Interest Rates

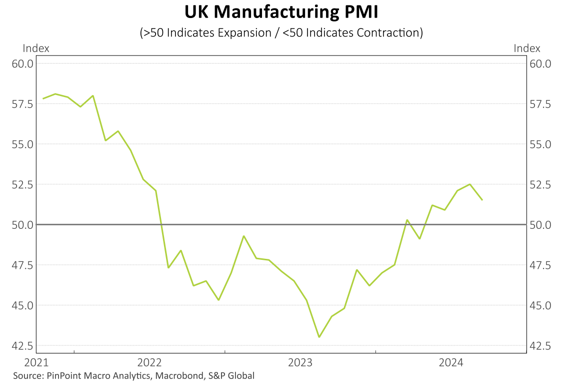
- The Bank of England (BoE) Governor Andrew Bailey said in early October that the BoE could become more aligned with other peer central banks in being “a bit more activist” in conducting its easing cycle. Bailey added it would facilitate “if news on inflation continued to be good.”
- Bailey’s comments come after the BoE left rates unchanged at 5% as expected at their September 19 meeting and gave guidance that a “gradual approach” to monetary easing remains appropriate with services inflation at 6.0%.
- The early-October comments by Governor Bailey have put fresh downward pressure on GBP, with interest rate markets virtually fully pricing a -25bp of rate cut for the BoE’s November 7 meeting.
- The U.S. Fed is set to continue lowering interest rates over November and December. Fed Chair Jay Powell stated the ‘full employment’ part of the Fed’s dual mandate is now dominating the ‘low inflation’ part of the mandate.

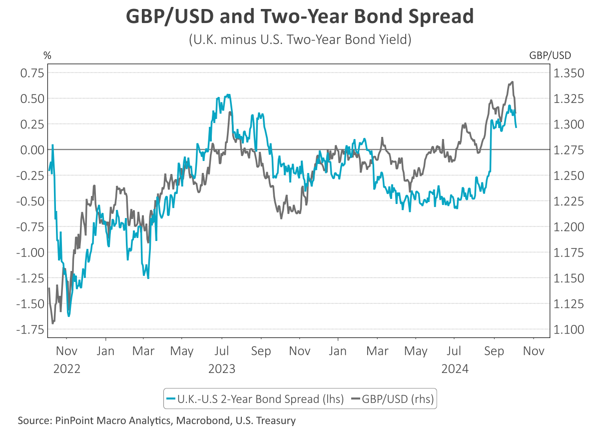
Other

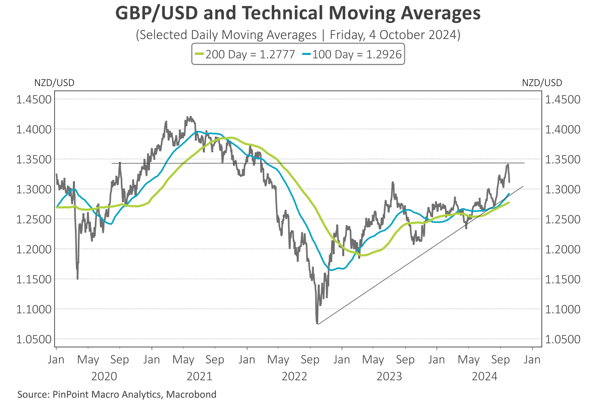
- The U.S economic data continues to show resilience. A stronger than expected September U.S. non-farm labour market report has given the USD some solid strength.

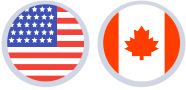
Exchange Rate Outlook

- The recent lift in GBP/USD found strong resistance above 1.3400. BoE Governor Bailey’s comments suggest that this will continue to be the case if the BoE accelerates its rate cutting cycle. Particularly at a time when the USD is beginning to re-strengthen because of a better-than-expected U.S. economy.
- However, BoE rate cuts should help the U.K. economy continue to improve, eventually guiding GBP/USD higher.









The outlook for the USD / CAD

Economy

- Canada's economy has notably slowed. Most of the recent economic data has been weaker than expected. However, the Canadian manufacturing PMI lifted to 50.9 and into expansionary territory in September, for the first time since April 2023. There is some hope that Canada's recent slowing in economic activity may be coming to an end.
- Bank of Canda (BoC) Governor Tiff Macklem made the comment in mid-September that "growth is needed to strengthen further to keep CPI inflation close to 2%".

Interest Rates

- BoC Governor Macklem stated that it was reasonable to expect further interest rate cuts over coming months. Adding the timing and pace of interest rate cuts will be determined by the data. Current interest rate pricing has -38bp priced in for the BoC's October 23 meeting, implying a 76% chance of a -50bp cut in interest rates.
- The relatively firm U.S. economy is likely to mean the Fed lowers interest rates -25bp at each of the Fed's November and December meetings. Risks of a -50bp cut are not negligible.

Other

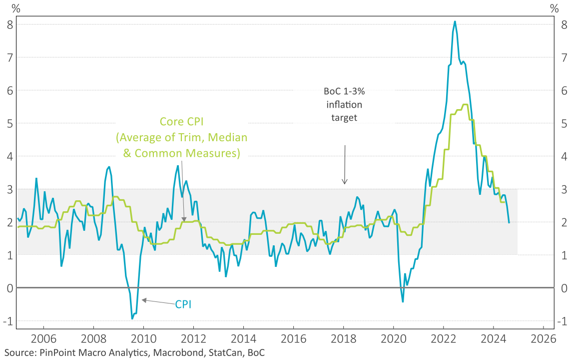
- Middle Eastern tension have lifted oil prices resulting in an increase in both the Canadian and U.S. terms of trade. The U.S. is now the world's largest exporter of gas after its LNG exports surged following the implementation of the EU's Russian sanctions. This implies a relatively reduced positive effect on CAD vis-à-vis the USD following a lift in oil prices.

Exchange Rate Outlook

- While the USD is under some downward pressure as the Fed cuts interest rates, recent strength in the U.S. economy is supporting the USD. Canada's relatively weak economy and BoC rate cuts, suggest downward pressure on USD/CAD is unlikely to be extreme. USD/CAD may lift to again trade at 1.3650.

Canada Consumer Price Index

(Annual % Change)



Source: PinPoint Macro Analytics, Macrobond, StatCan, BoC

Bank of Canada (BoC)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**4.25**	
23 Oct 24	3.91	-38
11 Dec 24	3.56	-73
29 Jan 25	3.25	-104
12 Mar 25	3.00	-128
16 Apr 25	2.80	-149
04 Jun 25	2.66	-163
30 Jul 25	2.58	-171
17 Sep 25	2.53	-176
29 Oct 25	2.38	-191

USD/CAD and Technical Moving Averages

(Selected Daily Moving Averages | Friday, 4 October 2024)

Source: PinPoint Macro Analytics, Macrobond

The outlook for the USD / JPY

Economy

- Japanese data continues to show a two-speed economy, with firm growth in the services sector but weak growth in the goods sector.
- There remains upward pressure on Japanese wages, with Japan's CPI inflation at 3.0% in August, and showing little inclination of declining back towards deflationary territory.
- The US economy remains relatively firm despite some slowing in the labour market. The Atlanta Fed's latest U.S. GDPNow figure has the U.S. economy travelling at 2.5%.

Interest Rates

- The Bank of Japan (BoJ) is likely to continue its policy of slowly lifting interest rates in an effort to combat inflation and normalize interest rate settings.
- The Fed is set to further lower interest rates by -25bp at the November and December meetings.

Other

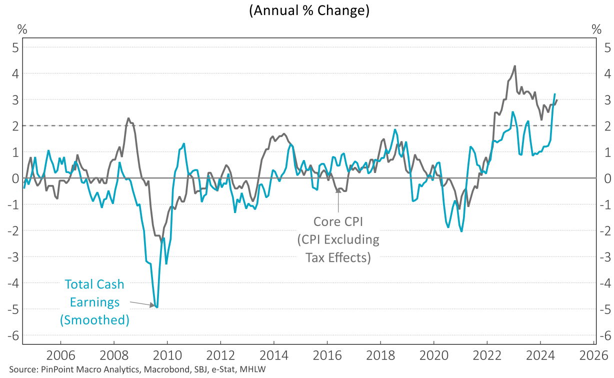
- There has been a change of government in Japan, with Shigeru Ishiba replacing Kishida as Japan's Prime Minister. JPY strengthened following the announcement because Ishiba is not opposed to further BoJ interest rate increases.

Exchange Rate Outlook

- Volatility in USD/JPY has eased. But it remains elevated because there is uncertainty how Japan's new Prime Minister may influence the pace of BoJ rate increases.
- USD/JPY is receiving support because the U.S. economy is proving stronger than expected. Over the course of the rate cycle, the Fed is only likely to lower interest rates to the Fed's neutral interest rate of around 3.0% to 3.5%.
- Higher oil prices should see USD/JPY move higher because Japan remains a net energy importer, and the U.S. a major energy exporter. Geopolitical tensions in the Middle East should be USD supportive as long as the war doesn't get extreme.

Japan Prices and Wages

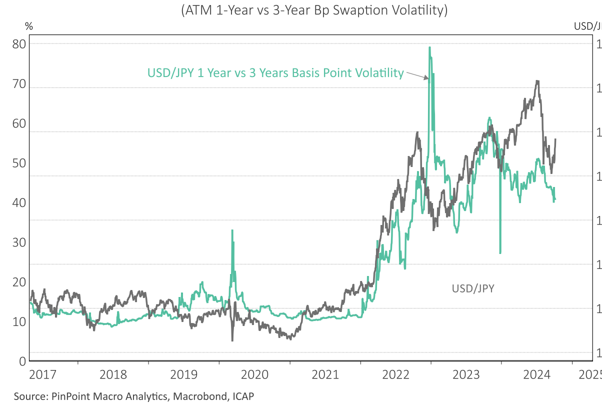
(Annual % Change)



Source: PinPoint Macro Analytics, Macrobond, SBJ, e-Stat, MHLW

USD/JPY and JPY Volatility Measures

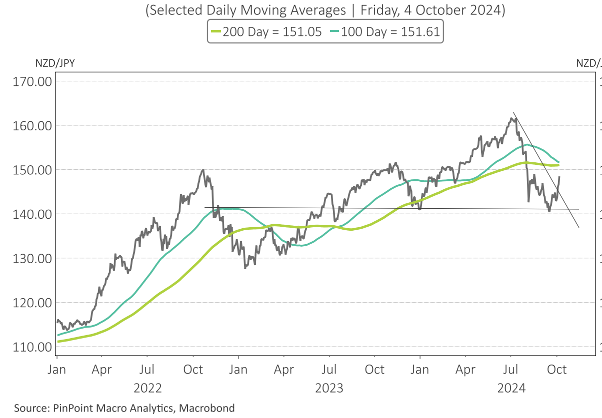
(ATM 1-Year vs 3-Year Bp Swaption Volatility)



Source: PinPoint Macro Analytics, Macrobond, ICAP

USD/JPY and Technical Moving Averages

(Selected Daily Moving Averages | Friday, 4 October 2024)



Source: PinPoint Macro Analytics, Macrobond

The outlook for the USD / CNY

Economy

- In late September, the Peoples Bank of China (PBoC) launched the most extensive stimulatory policy measures in years, in an effort to revive economic growth and assist the State Council's goal of achieving the 5% of GDP annual growth target. China cut a number of its key benchmark interest rates and introduced a series of additional stimulus actions aimed at boosting the struggling housing sector. Part of the stimulus measures including removing major home buying curbs in order to boost demand. China's main stockmarket, the CSI 300 lifted 20% over a matter of days.

Interest Rates

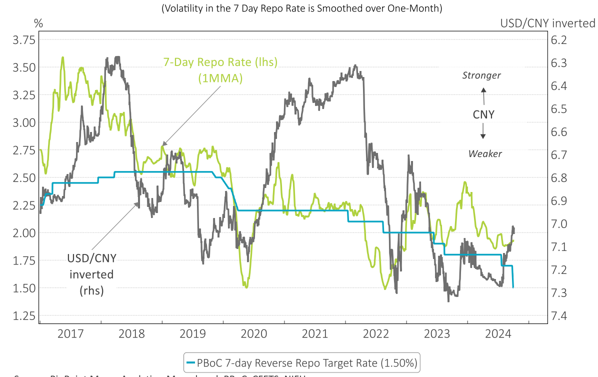
- The PBoC cut the 7-day reverse repo policy rate by -20bps to 1.5% and the 1-year medium-term lending facility rate by -30bp to 2.0%. The PBoC also cut the commercial bank's Reserve Requirement Ratio (RRR) by -0.5% to 10.75%, effectively freeing up ¥1 trillion (US$141.8bn) of long-term cash that banks can now use to lend into the economy.
- These interest rate adjustments lowered interest rates at the short, medium, and long-term points along the interest rate curve, to provide a maximum stimulus affect.

Exchange Rate Outlook

- USD/CNY fell some 2.5% over the days following the announcement of the PBoC's stimulus measures. USD/CNY fell below 7.0000 for the first time since May 2023.
- The reason for the strength in CNY was because the market believes the stimulus measures are large enough to generate an improvement in China's economic outlook.
- USD/CNY is likely to trend lower as the USD trends lower. Over the next six months, we may see USD/CNY decline to 6.9800 on a combination of USD weakness and some CNY strength. It will however take some time for China's stimulus measures to work their way through the economy, and it is possible the stimulus measure are not enough. The USD may also remain firmer than expected because of a resilience U.S. economy.

USD/CNY and China 7 Day Repo Rate

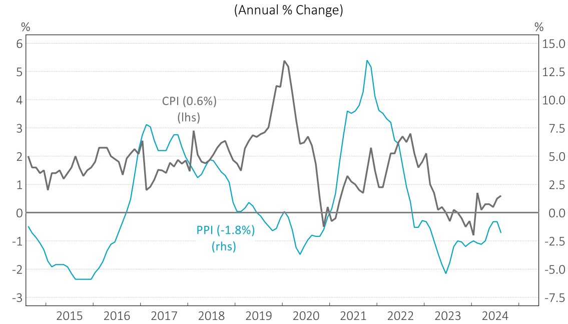
(Volatility in the 7 Day Repo Rate is Smoothed over One-Month)



Source: PinPoint Macro Analytics, Macrobond, PBoC, CFETS, NIFH

China CPI and PPI Inflation

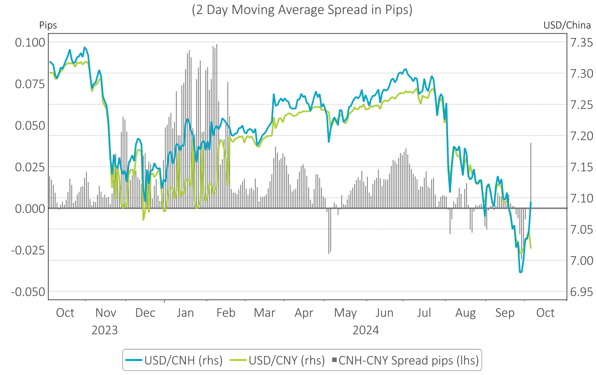
(Annual % Change)



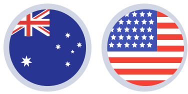
Source: PinPoint Macro Analytics, Macrobond, NBS

USD/CNH and USD/CNY Spread

(2 Day Moving Average Spread in Pips)



Source: PinPoint Macro Analytics, Macrobond



The outlook for the AUD / USD

Economy

- The Australian economy remains sluggish, with government spending and net exports the sole drivers of Australia's GDP growth in Q2. Australia's economy has been in a GDP per capita recession for six consecutive quarters of growth.
- Australia's labour market continues to slow. But the extent of slowing has been relatively modest, with Australia's unemployment rate only at 4.2%.

Interest Rates

- The major concern for Australia's economy continues to be inflation. Although the August monthly inflation indicator has declined to 2.7% YoY, there are two reasons why the recent decline in inflation is not significant enough for the RBA to consider joining the global easing cycle and begin cutting interest rates in 2024.
- First, the RBA have made it clear that they pay more attention to the quarterly CPI (due October 30). Second, the RBA have also made it clear that the current decline in inflation has been driven by the government's energy subsidies ($300bn Energy Relief Bill) and they will "look through" the current temporary fall in inflation.

Other

- China's decision to cut a number of its key benchmark interest rates and introduce a series of additional stimulus actions aimed at boosting the struggling economy has generated a significant amount of upside support for AUD.

Exchange Rate Outlook

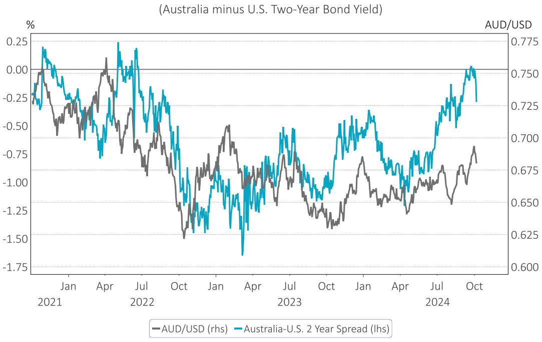
- AUD/USD will continue to appreciate for three reasons. First, the depreciation in the USD as the Fed cuts interest rates; Second, the decision by the RBA to leave interest rates at cyclical high levels in response to persistent inflation; Third, the stimulus coming from China's September economic package. AUD/USD faces some challenges of a resilient USD. But should lift above 0.7000 over coming months.

Reserve Bank of Australia (RBA)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**4.35**	
24 Sep 24	4.33	-1
05 Nov 24	4.26	-8
10 Dec 24	4.15	-19
18 Feb 25	3.96	-38
01 Apr 25	3.78	-56
20 May 25	3.59	-75
08 Jul 25	3.50	-85
12 Aug 25	3.41	-93
30 Sep 25	3.36	-98

AUD/USD and Two-Year Bond Spread

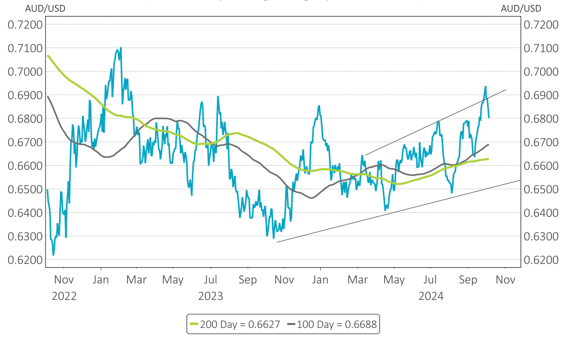
(Australia minus U.S. Two-Year Bond Yield)



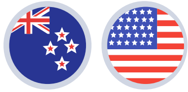
Source: PinPoint Macro Analytics, Macrobond, U.S. Treasury

AUD/USD and Technical Moving Averages

(Selected Daily Moving Averages | As at 4 October)



Source: PinPoint Macro Analytics, Macrobond



The outlook for the NZD / USD

Economy

- New Zealand's economy contracted -0.2% QoQ in Q2 after modest growth of +0.1% QoQ in Q1, indicating no net growth in NZ's economy over the first half of 2024.
- However, both the ANZ business confidence survey and the New Zealand Institute of Economic Research's (NZEIR) Q3 quarterly Survey of Business Opinion (QSBO) have shown significant increases in business confidence now that interest rates are coming down.
- Nevertheless, survey details indicate the manufacturing and construction sectors remain very weak. But the QSBO pricing indicator showed decreased inflation pressures. Only 3% of firms raised prices in Q3, down from 23% in Q2.

Interest Rates

- Interest rate market pricing for the RBNZ's October 9 meeting is fully pricing a -25bp interest rate cut, with a reasonable chance of a -50bp interest rate cut.
- The combination of declining inflation and a weak state economy might warrant the RBNZ bringing forward larger interest rate cuts to early in the easing cycle.

Other

- China's decision to cut a number of its key benchmark interest rates and introduce a series of additional stimulus actions aimed at boosting the struggling economy has generated a significant amount of upside support for NZD.

Exchange Rate Outlook

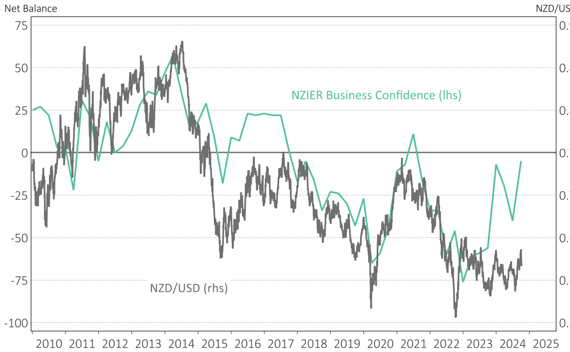
- NZD/USD has broken above key technical resistance suggesting a trend of more appreciation. The decline in the USD has been a major catalyst for NZD strength. But the USD is also showing resilience. There is optimism from the forward-looking market that RBNZ interest rate cuts will help stimulate the economy. But a -50bp rate cut by the RBNZ at the October 9 policy meeting would see NZD/USD move lower, most likely below 0.6100.

Reserve Bank of New Zealand (RBNZ)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.25**	
09 Oct 24	4.91	-35
27 Nov 24	4.48	-77
19 Feb 25	4.09	-116
09 Apr 25	3.83	-143
28 May 25	3.57	-168
09 Jul 25	3.43	-182
16 Sep 25	3.30	-195
17 Dec 25	3.16	-209
17 Mar 26	3.08	-217
16 Jun 26	2.98	-227

NZD/USD and Business Confidence

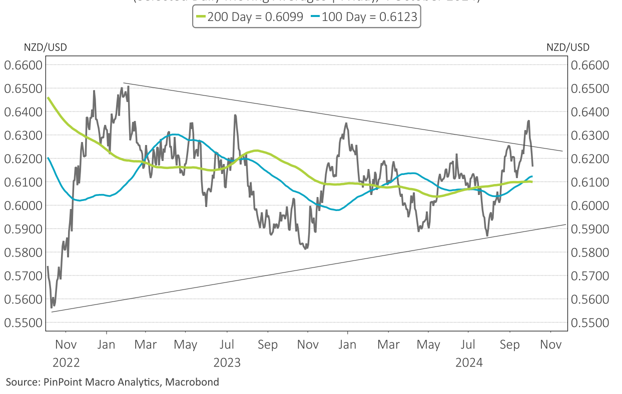
(NZIER General Business Situation)



Source: PinPoint Macro Analytics, NZIER, Macrobond

NZD/USD and Technical Moving Averages

(Selected Daily Moving Averages | Friday, 4 October 2024)



Source: PinPoint Macro Analytics, Macrobond

The outlook for the USD / MXN

Economy

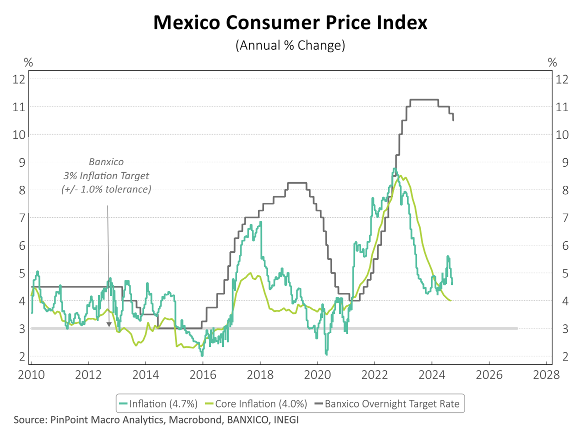
- Mexico's rose 0.2% (QoQ) in Q2, up from a downwardly revised 0.1% (QoQ) the previous quarter, to be 2.1% YoY. The main contributions to GDP growth came from the industrial and services sectors.
- Mexico's central bank, Banxico stated that the risks to Mexico's economy are for GDP growth to be weaker.
- Mexico's headline inflation slowed more than expected to 4.99% YoY, with the mid-month core CPI inflation measure easing to 3.95% YoY, its lowest level since February 2021.
- U.S. GDP growth continues to show strong resilience, encouraging Mexico's export growth.

Banco de Mexico

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**10.50**	
Q3/24	8.00	-2.50
Q4/24	7.50	-3.00
Q1/25	6.50	-4.00
Q2/25	6.50	-4.00

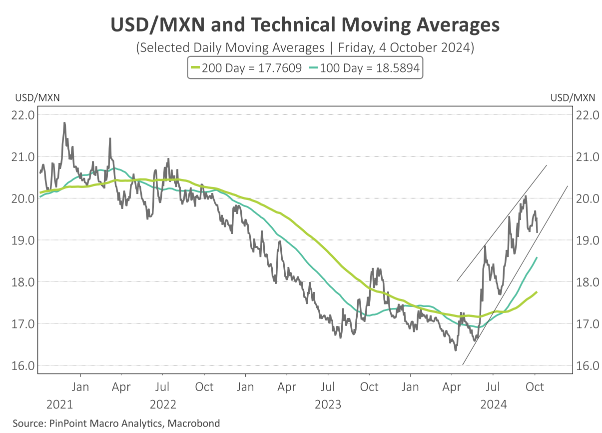
Interest Rates

- Banxico cut interest rate rates -25bps to 10.5% on September 26 as expected. Banxico said that lower inflation may allow a future discussion favoring further interest rate cuts. In downgrading the inflation forecasts, Banxico stated it will consider economic weakness and fading global shocks as well as easing supply shocks.



Other

- Moody's international credit rating agency said that Mexico's court reforms to elect federal judges by popular vote could undermine institutions and directly affect Mexico's credit rating. Should there be a sovereign downgrade, USD/MXN would face upside pressure.



Exchange Rate Outlook

- USD/MXN has been quite volatile since Banxico's previous policy meeting on August 8. USD/MXN temporarily lifted above 20.00 during early September, but it has since eased towards 19.20 despite more evidence of a strong U.S. economy, and a resurgent USD.
- On-going political uncertainty surrounding Mexico's judicial reforms, and a relatively firm U.S. economy are likely to see USD/MXN remain relatively high. But with a medium-term bias to move lower.

The outlook for the GBP / EUR

Economy

- The U.K. economy continues to improve, while the Eurozone economy has shown clear signs of slowing in Q3. Germany's economy looks particularly weak.
- The differences in GBP growth momentum is showing up in differences in the manufacturing PMI's, guiding GBP/EUR higher.

Interest Rates

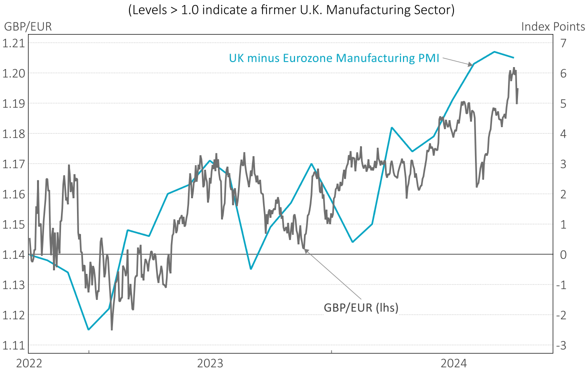
- Both the Bank of England (BoE) and the European Central Bank (ECB) appear more open to a faster pace of monetary easing if recent comments by central bank officials are any guide. While comments about willingness to cut interest rates sooner can influence the exchange rate, actual policy decisions are made at central bank policy meetings.
- BoE Governor Bailey said in early October that the central bank could become "a bit more activist" in conducting its easing cycle, despite stating at the BoE's September meeting that a "gradual approach" remains appropriate.
- A number of ECB Governing Council members have indicated an increased probability of ECB interest rate cuts earlier, rather than waiting for the ECB's quarterly December meeting.

Exchange Rate Outlook

- Volatility in GBP/EUR has picked up since both the BoE and the ECB began cutting interest rates. This increase in volatility shouldn't be unexpected. GBP/EUR will continue to be influenced by comments from central bank officials expressing their opinions outside of policy meetings.
- The timing of central bank policy meetings will have an effect on near-term direction in GBP/EUR. The ECB's next policy meeting is on October 7, but the BoE doesn't meet until November 7. The near-term risk is GBP/EUR lifts back toward recent highs around 1.2000.
- While the current pattern of an improving U.K. economy and a slowing Eurozone economy remains present, the upward trend in GBP/EUR will persist.

GBP/EUR and Manufacturing PMI Differentials

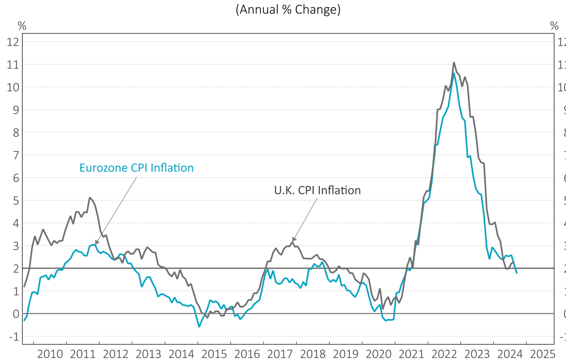
(Levels > 1.0 indicate a firmer U.K. Manufacturing Sector)



Source: PinPoint Macro Analytics, S&P Global, Macrobond

U.K. and Eurozone Consumer Price Index

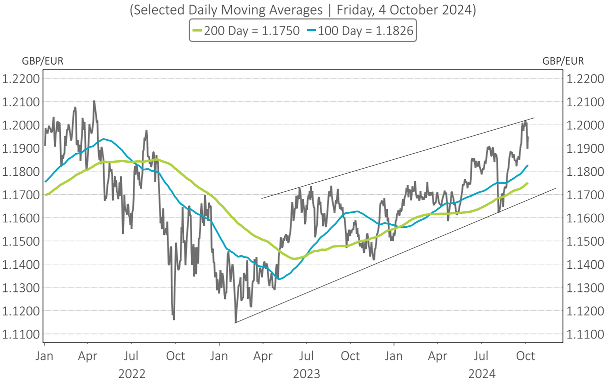
(Annual % Change)



Source: PinPoint Macro Analytics, Macrobond, ECB, Eurostat, ONS

GBP/EUR and Technical Moving Averages

(Selected Daily Moving Averages | Friday, 4 October 2024)



Source: PinPoint Macro Analytics, Macrobond

The outlook for the GBP / CHF

Economy

- Swiss inflation fell more than expected in August to 1.1% and further declined to 0.8% in September. Low inflation is partly due to the appreciation of the Swiss franc.
- Switzerland's decline in inflation comes despite Swiss quarterly growth accelerating for the second consecutive quarter by 0.7% (QoQ) to be 1.8% YoY.
- Economic growth in the U.K. has picked up, with the latest September manufacturing PMI's pointing to further expansion ahead.

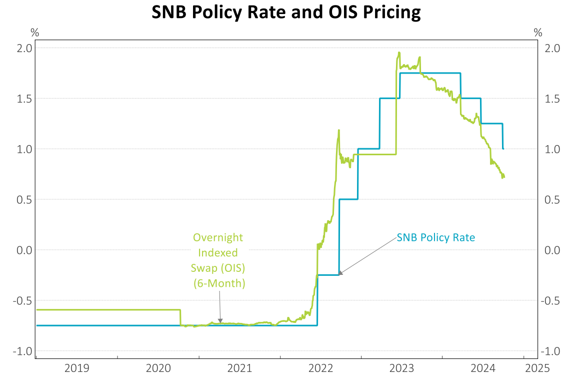
Interest Rates

- The Swiss National Bank (SNB) lowered the policy rate -25bp to 1.00% on September 26. The SNB stated that inflationary pressures has again decreased significantly compared to the previous quarter. The SNB revised down their inflation forecasts for 2024 (to 1.0%), 2025 (to 0.5%), and 2026 (to 0.7%). Adding that "further cuts in the SNB policy rate may become necessary in the coming quarters to ensure price stability over the medium term".
- BoE Governor Bailey said in early October that the central bank could become "a bit more activist" in conducting its easing cycle, despite stating at the BoE's September meeting that a "gradual approach" was appropriate.

Exchange Rate Outlook

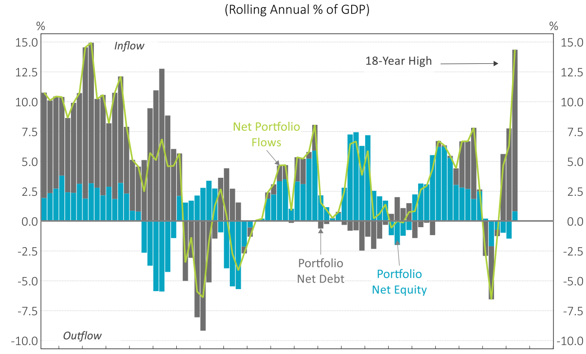
- Over the last 2-years GBP/CHF has tended to gravitate towards the 1.1250 level.
- Three factors assisted the decline of GBP/CHF back to the 1.1250 level. Firstly, CHF strengthened after the SNB "prudently" cut interest rates. Secondly, BoE Governor Bailey that the central bank could become "a bit more activist" in conducting its easing cycle. Thirdly, an escalation in Middle Eastern tensions have generated significant 'safe haven' capital inflows into Switzerland, with bond inflows lifting to an 18-year high.
- GBP/CHF will remain heavy while Middle East geopolitical tensions remain elevated.

SNB Policy Rate and OIS Pricing



Source: PinPoint Macro Analytics, SNB, Macrobond

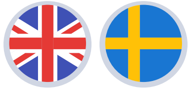
Switzerland Net Portfolio Capital Flows
(Rolling Annual % of GDP)



Source: PinPoint Macro Analytics, Macrobond, SNB, SECO

GBP/CHF and Technical Moving Averages
(Selected Daily Moving Averages | Friday, 4 October 2024)

Source: PinPoint Macro Analytics, Macrobond



The outlook for the GBP / SEK

Economy

- Sweden's real GDP growth rate fell -0.3% QoQ in Q2 to be a modest 0.5%. The Riksbank in its latest September 24 policy meeting noted that the economy "appears to be proceeding somewhat more slowly than expected" and downgraded their GDP forecasts for 2024 and 2025 to 0.8% and 1.9% respectively. Forecasts for next year's unemployment rate were also revised up 0.1% to 8.4%.
- Sweden's annual inflation rate fell to 1.9% in August, down from 2.6% the previous month, to be at its lowest level since July 2021. The Riksbank also noted that "inflationary pressures have fallen and are now assessed to be compatible with an inflation rate of around 2%."
- The U.K. economy continues to show a trend improvement.

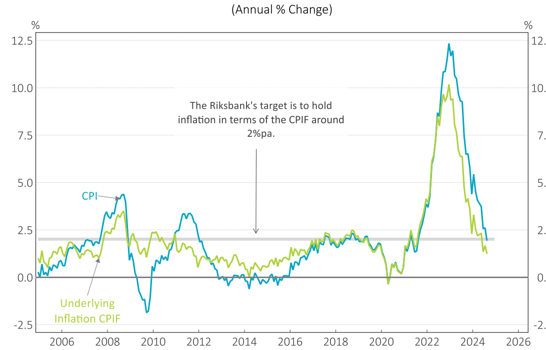
Interest Rates

- The Riksbank cut the policy interest rate by -25bp to 3.25% on September 24. The Riksbank added that if the inflation outlook remains unchanged, interest rates can also be cut in November and December this year, and "a cut of -0.5% is possible at one of these meetings" ... "a faster pace than was previously communicated".
- Current market interest rate pricing now has two -50bp reductions in interest rates for the final two meetings of this year, which would take the policy rate to 2.25%.
- Bank of England (BoE) Governor Bailey said in early October that the central bank could become "a bit more activist" despite stating at the BoE's September meeting that a "gradual approach" was appropriate.

Exchange Rate Outlook

- Despite the Riksbank's surprise announcement that Sweden's interest rates would be lowered at a faster pace than was previously indicated, SEK appreciated. The forward-looking FX market considers the rate policy prudent. GBP/SEK is likely to remain in a tight range around 13.50 as both the Riksbank and the BoE look to lower interest rates at a faster pace to shore up growth.

Sweden Consumer Price Index
(Annual % Change)



Source: PinPoint Macro Analytics, Macrobond, Riksbanken, SCB

Swedish Riksbank

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**3.25**	
07 Nov 24	2.77	-48
19 Dec 24	2.14	-111
28 Jan 25	1.92	-132
19 Mar 25	1.67	-158
07 May 25	1.54	-171
17 Jun 25	1.60	-165
19 Aug 25	1.60	-165
22 Sep 25	1.58	-167
04 Nov 25	1.61	-164

GBP/SEK and Technical Moving Averages
(Selected Daily Moving Averages | Friday, 4 October 2024)

Source: PinPoint Macro Analytics, Macrobond

The outlook for the GBP / CAD

Economy

- While the U.K. economy continues to improve, Canada's economy has notably slowed driving GBP/CAD higher.
- Most of the recent Canadian economic data has been weaker than expected. However, the Canadian manufacturing PMI lifted to 50.9 and into expansionary territory in September, for the first time since April 2023. There is some hope that Canada's recent slowing in economic activity may be coming to an end.
- Bank of Canda (BoC) Governor Tiff Macklem made the comment in mid-September that "growth is needed to strengthen further to keep CPI inflation close to 2%".

Interest Rates

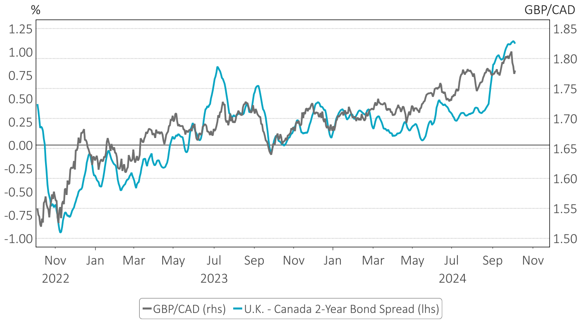
- BoC Governor Macklem stated that it was reasonable to expect further interest rate cuts over coming months. Adding the timing and pace of interest rate cuts will be determined by the data. Current interest rate pricing has -38bp priced in for the BoC's October 9 meeting, implying a 76% chance of a -50bp cut in interest rates.
- Bank of England (BoE) Governor Bailey said in early October that the central bank could become "a bit more activist" despite stating at the BoE's September meeting that a "gradual approach" was appropriate.
- Current interest rate pricing for the BoE's November 7 meeting -25bp almost fully priced.

Exchange Rate Outlook

- GBP/CAD has been on an upward trend since October 2022. The combination of a weakening Canadian economy and an improving U.K. economy has been one of the more dominate drivers in recent months.
- With Canada's manufacturing PMI lifting into expansionary territory for the first time since April 2023, it is possible we will see GBP/CAD ease back towards 1.7710 assisted by a November BoE rate cut. The recent 4.5% lift in GBP/CAD above 1.8000, may have been a little extreme in the current environment.

GBP/CAD and Two-Year Bond Spread

(Smoothed over One-Week)



Source: PinPoint Macro Analytics, Macrobond

Bank of Canada (BoC)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**4.25**	
23 Oct 24	3.91	-38
11 Dec 24	3.56	-73
29 Jan 25	3.25	-104
12 Mar 25	3.00	-128
16 Apr 25	2.80	-149
04 Jun 25	2.66	-163
30 Jul 25	2.58	-171
17 Sep 25	2.53	-176
29 Oct 25	2.38	-191

GBP/CAD and Technical Moving Averages

(Selected Daily Moving Averages | Friday, 4 October 2024)

Source: PinPoint Macro Analytics, Macrobond

The outlook for the GBP / ZAR

Economy

- South Africa's economy has improved recently, with the manufacturing PMI lifting to 52.8 in August and its highest level since April. The lift in economic growth comes at the same time as a fall in inflation below the 4.5% mid-point of the Reserve Bank of South Africa (SARB)'s inflation target. Headline CPI fell to a three-year low of 4.4% in August, with core inflation further falling to 4.1%.
- The SARB expect South Africa's economy to continue to improve over the remainder of 2024 in part due to stability in the supply of electricity and a further fall in inflation.
- The U.K. economy continues to show a trend improvement.

Interest Rates

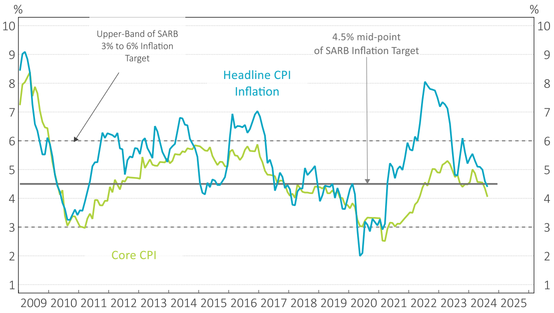
- In response to the decline in inflation and a reduction in the 2024 and 2025 inflation forecasts, the SARB cut rates -25bps to 8% on September 19. The reduction in rates comes after holding interest rates at a 15-year high of 8.25% for seven consecutive policy meetings.
- SARB Governor Kganyago said it was a consensus and prudent decision after discussing a -50bps cut as well as not changing interest rates. The SARB seed interest rates declining towards neutral in 2025.
- Bank of England (BoE) Governor Bailey said in early October that the central bank could become "a bit more activist" in conducting its easing cycle, despite stating at the BoE's September meeting that a "gradual approach" was appropriate.

Exchange Rate Outlook

- The combination of a simmering in contentious South African politics, as well as a lift in gold prices to a record high has assisted the rand move to a stronger footing.
- Relatively tight ranges in the U.K. – South African 2-year swap spread has likely helped the relatively narrow range of 24.50 to 22.50 in GBP/ZAR over the last 18-months, despite the politics. A further modest decline in GBP/ZAR is anticipated.

South Africa CPI Inflation

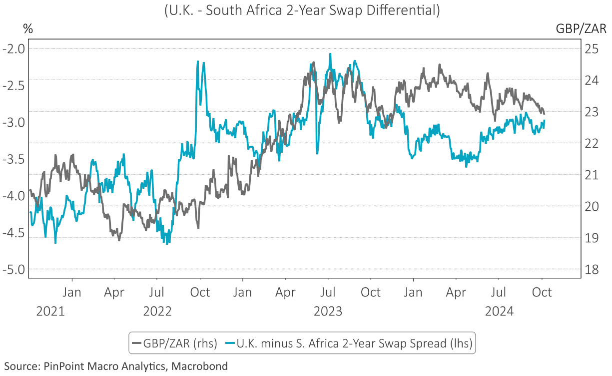
(Annual % Change)



Source: PinPoint Macro Analytics, Macrobond, Stat SA, SARB

GBP/ZAR and Two-Year Swap Spread

(U.K. - South Africa 2-Year Swap Differential)



Source: PinPoint Macro Analytics, Macrobond

GBP/ZAR and Technical Moving Averages

(Selected Daily Moving Averages | Friday, 4 October 2024)

Source: PinPoint Macro Analytics, Macrobond

The outlook for the GBP / CZK

Economy

- Real GDP in the Czech economy slowed to 0.3% QoQ in Q2 to be a modest 0.6% YoY. Economic growth remains below potential and is expected to recovery only slowly.
- Export growth has moderated, and in line with a weaker Eurozone economy over Q3, will remain sluggish.
- Inflation currently at 2.2% in the year to August, has been close to the 2.0% target since the beginning of the year.
- However, the Czech National Bank (CNB) said it still sees some inflationary pressures in the economy. Nevertheless, the results of the CNB's inflation expectations survey on October 2 showed that inflation expectations remain largely contained.
- The U.K. economy continues to show a trend improvement.

Interest Rates

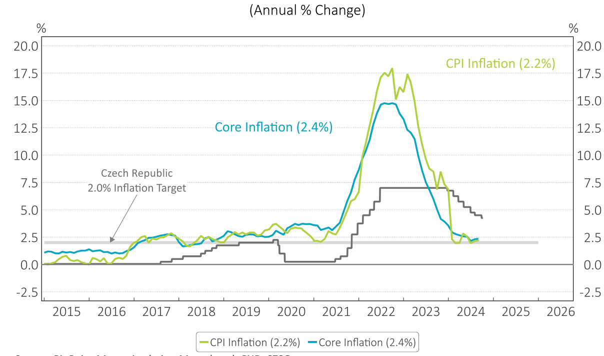
- The Czech National Bank (CNB) lowered the policy two-week repo rate by -25 bps to 4.25% as expected on September 25. The CNB said it will carefully consider further interest cuts because core CPI inflation remains higher than forecast. CNB Governor Michl declined to offer forward guidance on future interest rate movements.
- Bank of England (BoE) Governor Bailey said in early October that the central bank could become "a bit more activist" in conducting its easing cycle, despite stating at the BoE's September meeting that a "gradual approach" was appropriate.

Exchange Rate Outlook

- Over the last 5-years GBP/CZK appears to run into a lot of technical resistance each time it lifts above the 30.30 level. Recent comments by BoE Governor Bailey that the central bank could become "a bit more activist" are likely to mean that further short-term upside in GBP/CZK is limited.
- A modest retracement in GBP/CZK back to 29.50 is possible. But given the fact the Czech economy is expected to recover only slowly from its current period of sluggish growth, a larger decline in GBP/CZK is not expected.

Czech Republic Consumer Price Index

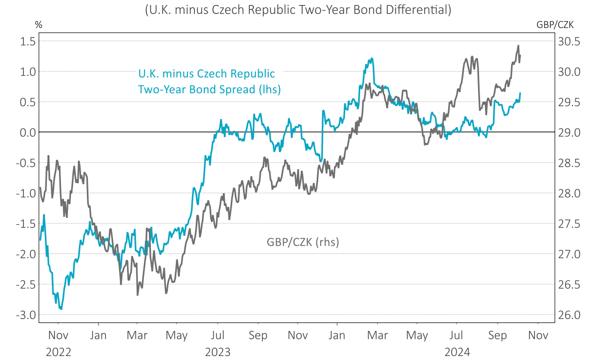
(Annual % Change)



Source: PinPoint Macro Analytics, Macrobond, CNB, CZSO

GBP/CZK and Two-Year Bond Spread

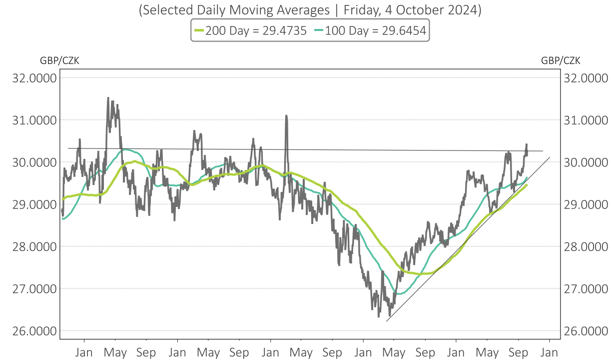
(U.K. minus Czech Republic Two-Year Bond Differential)



Source: PinPoint Macro Analytics, SCB, Macrobond, CNB

GBP/CZK and Technical Moving Averages

(Selected Daily Moving Averages | Friday, 4 October 2024)



Source: PinPoint Macro Analytics, Macrobond

The outlook for the EUR / CAD

Economy

- The Eurozone economy appears to have lost some momentum in Q3. Eurozone CPI inflation came in less than expected in September, falling to 1.8%, and beneath the ECB's 2.0% inflation target for the first time since mid-2021.
- Most of the recent Canadian economic data has been weaker than expected. However, the Canadian manufacturing PMI lifted to 50.9 and into expansionary territory in September, for the first time since April 2023. There is some hope that Canada's recent slowing in economic activity may be coming to an end.
- Bank of Canda (BoC) Governor Tiff Macklem made the comment in mid-September that "growth is needed to strengthen further to keep CPI inflation close to 2%".

Interest Rates

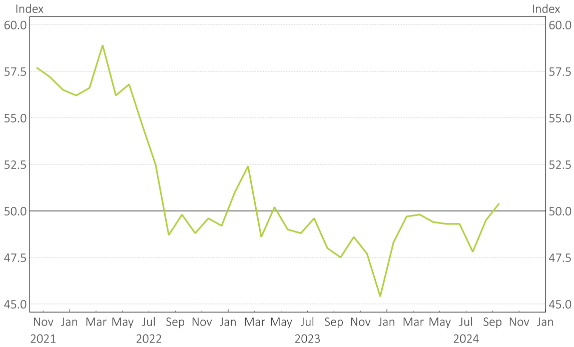
- BoC Governor Macklem stated that it was reasonable to expect further interest rate cuts over coming months. Adding the timing and pace of interest rate cuts will be determined by the data. Current interest rate pricing has -38bp priced in for the BoC's October 23 meeting, implying a 76% chance of a -50bp cut in interest rates.
- The European Central Bank's (ECB) October 17 meeting has taken on new significance with softening Eurozone economic data and lower than expected inflation. Interest rate markets are almost fully pricing a -25bp cut in rates.

Exchange Rate Outlook

- The Eurozone-Canadian two-year bond spread has been a relatively good guide for the EUR/CAD exchange rate.
- The Eurozone economy has recently lost some momentum at a time when Canada's economy is showing the first signs of a possible acceleration, with the lift in the September PMI into expansionary territory.
- Both the BoC and the ECB meet within a week of each other in October. Both central banks are likely to cut rates. EUR/CAD may decline down to the 200-day moving average of 1.4788 if the current economic trend continues.

Canada Manufacturing PMI

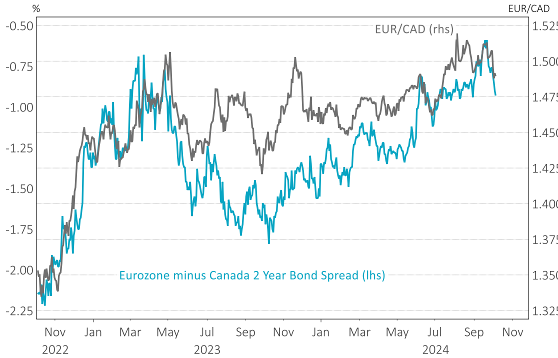
(>50 Indicates Expansion / <50 Indicates Contraction)



Source: PinPoint Macro Analytics, Macrobond, S&P Global

EUR/CAD and Two-Year Bond Spread

(Eurozone minus Canada Two-Year Bond Differential)



Source: PinPoint Macro Analytics, Macrobond

EUR/CAD and Technical Moving Averages

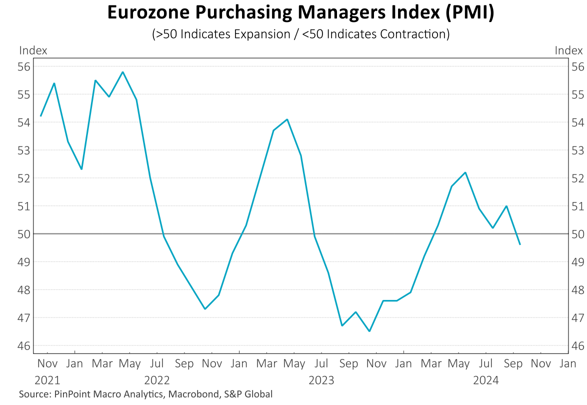
(Selected Daily Moving Averages | Friday, 4 October 2024)

Source: PinPoint Macro Analytics, Macrobond

The outlook for the AUD / EUR

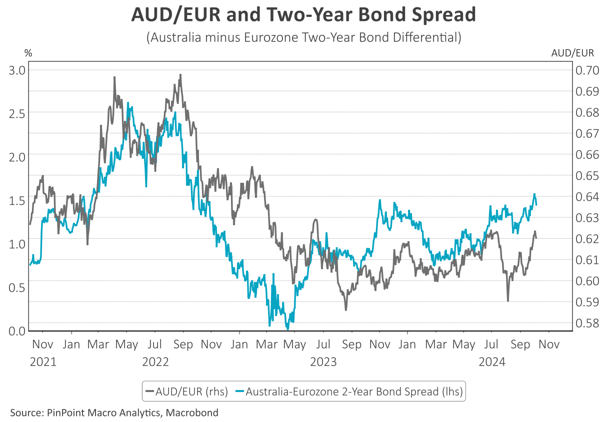
Economy

- The Eurozone economy has shown visible signs of slowing in Q3, despite a rosier Q2. European purchasing manager indices (PMIs) have declined, and inflation is easing. The recent slowdown in the Eurozone economy has slowed the pace of EUR appreciation in response to USD depreciation.
- Australia's economy remains weak, but not weak enough to significantly drive the unemployment rate higher. Net exports (and government spending) were the main drivers of Australia's GDP growth in Q2. China's late-September stimulus package is likely to lift Australia's net export contribution to GDP growth over coming quarters.



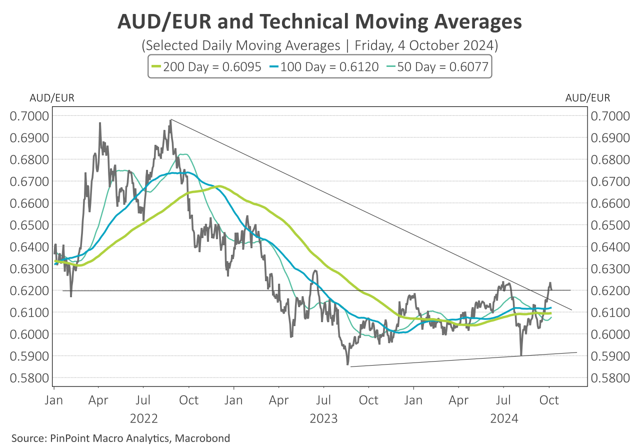
Interest Rates

- The European Central Bank (ECB) may further cut interest rates at their October 17 meeting, rather than wait a full quarter between interest rate cuts, which was the pattern between the ECB's June and September rate cuts.
- The RBA is set to leave interest rates unchanged over the remainder of 2024 because of persistent domestic inflation pressures. The next piece of key inflation data is the Q3 CPI which is released on October 30.



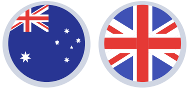
Other

- China's decision to introduce a large stimulus package during late September in response to a sluggish local economy will support AUD and is likely to increase demand for Australia's iron ore and coal exports.



Exchange Rate Outlook

- AUD/EUR has traded above 0.6170 and lifted to 0.6200 opening the door to further exchange rate appreciation.
- Relative interest rate differentials suggest upside risks to AUD/EUR over the next month or so.
- AUD/EUR may lift and test the late-June high of 0.6250.
- AUD is set to benefit more than EUR from China's recent stimulus package because China is a relatively larger export partner to Australia than it is to the Eurozone.



The outlook for the AUD / GBP

Economy

- Australia's economy remains weak, but not weak enough to significantly drive the unemployment rate higher.
- The U.K. economy continues to improve. But U.K. services inflation continues to remain elevated inflation at 6.0%.

Interest Rates

- Bank of England (BoE) Governor Bailey said in early October that the central bank could become "a bit more activist" despite leaving rates unchanged at the BoE's September meeting and stating that a "gradual approach" was appropriate.
- The RBA is set to leave interest rates unchanged over the remainder of 2024 because of persistent domestic inflation pressures.

Other

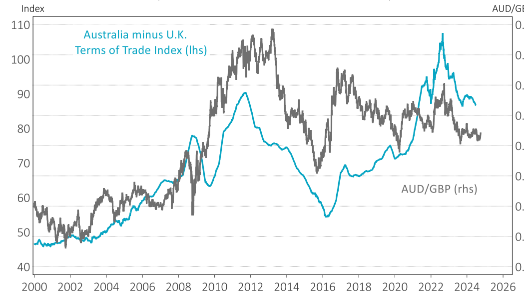
- When the economy of a country's major export partner strengthens or slows down, it typically has an impact on the exporting country's exchange rate.
- China's decision to introduce a large stimulus package in response to a sluggish local economy will support AUD. Meanwhile the Eurozone economy has slowed down over Q3 after a reasonably firm Q2, somewhat restraining GBP.

Exchange Rate Outlook

- AUD/GBP is likely to continue to lift as commodity prices and Australia's terms of trade (export prices/import prices) rise and inject income into Australia's economy. China's recent stimulus package has given AUD a good level of support.
- AUD/GBP is also likely to receive some appreciative tail winds as the BoE further lowers interest rates over coming months in a more "activist' approach, while the RBA leaves interest rates steady over the remainder of 2024.
- AUD/GBP may temporarily stall just over 0.5200 but it should continue to lift to around 0.5272 over coming months.

AUD/GBP and Terms of Trade Differentials

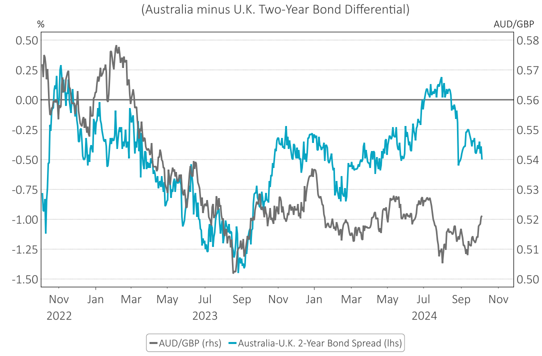
(Australia minus U.K. Terms of Trade Index)



Source: PinPoint Macro Analytics, Macrobond, U.S. Treasury, ABS, BoE, Citi

AUD/GBP and Two-Year Bond Spread

(Australia minus U.K. Two-Year Bond Differential)



Source: PinPoint Macro Analytics, Macrobond, RBA

AUD/GBP and Technical Moving Averages

(Selected Daily Moving Averages | Friday, 4 October 2024)

Source: PinPoint Macro Analytics, Macrobond

The outlook for the AUD / CNY

Economy

- The Chinese authorities introduced a major stimulus package on September 24 to boost China's struggling economy.
- Both China and Australia's economy will benefit from China's stimulus measures. China's economy will gain the most direct benefit, but Australia's economy will indirectly benefit from a pick-up in China's economy via an increase in Australia's exports to China.

Interest Rates

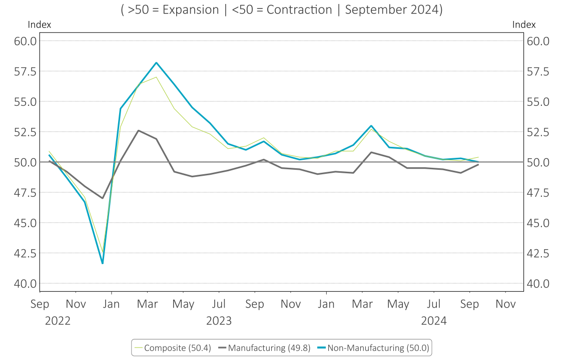
- On September 24, the Peoples Bank of China (PBoC) introduced interest rate cuts across all three sections of the interest rate curve. (1) The PBoC cut the 7-day reverse repo policy rate by -20bps to 1.5%; (2) Lowered the 1-year medium-term lending facility rate by -30bp to 2.0%; and (3) cut the Reserve Requirement Ratio (RRR) by -0.5% to 10.75%.
- The Reserve Bank of Australia (RBA) provided updated guidance at its September 24 policy meeting that interest rates will remain on hold at least until 2025 because of persistent inflation.

Exchange Rate Outlook

- China's decision to cut a number of its key benchmark interest rates and introduced a series of additional stimulus actions aimed at boosting the struggling economy has generated a significant amount of short-term volatility in AUD/CNY.
- Both China and Australia's economy will benefit from China's stimulus measures. But the likelihood is AUD/CNY will appreciate if the PBoC continues to intervene in the FX market to slow the pace of CNY strength.
- The RBA's on-going battle with high inflation stands in direct contrast to extremely low inflation in China. A lift in the Australia-China two-year bond spread is also likely to provide an additional level of support to AUD/CNY. We may AUD/CNY lift to 4.85 over coming months.

China PMI Surveys

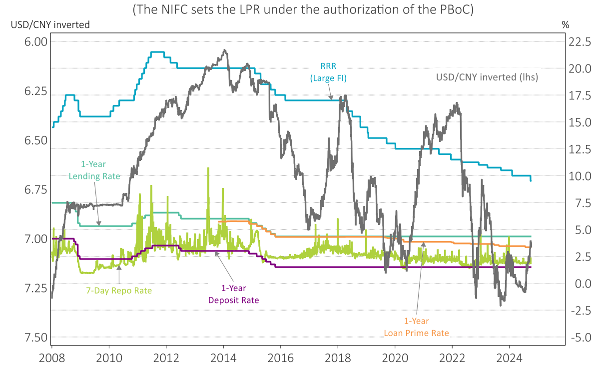
(>50 = Expansion | <50 = Contraction | September 2024)



Source: PinPoint Macro Analytics, Macrobond, CFLP

USD/CNY and PBoC Policy Indicators

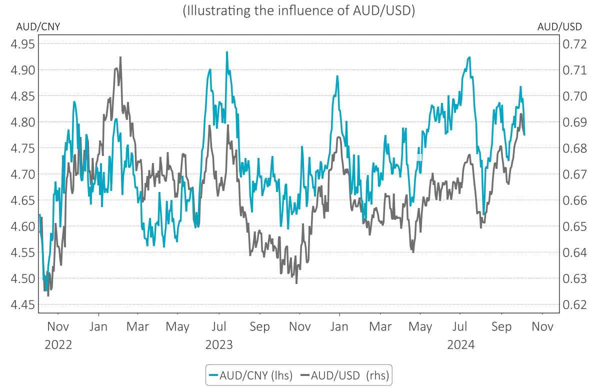
(The NIFC sets the LPR under the authorization of the PBoC)



Source: PinPoint Macro Analytics, Macrobond, PBoC

AUD/USD and AUD/CNY

(Illustrating the influence of AUD/USD)



Source: PinPoint Macro Analytics, RBA, Macrobond

The outlook for the AUD / JPY

Economy

- Japanese data continues to show a two-speed economy, with firm growth in the services sector but weak growth in the goods sector.
- There remains upward pressure on Japanese wages, with Japan's CPI inflation at 3.0% in August, and showing little inclination of declining back towards deflationary territory.
- Although Australia's economy remains weak, Australia's export commodity prices have lifted in response to China's large stimulus package handed down in late September. This in turn has generated a level of support for AUD.

Interest Rates

- The Bank of Japan (BoJ) is likely to continue its policy of slowly lifting interest rates in an effort to combat inflation and normalize interest rate settings.
- The RBA is set to keep interest rate setting unchanged this year in response to persistent domestic inflation pressures.

Other

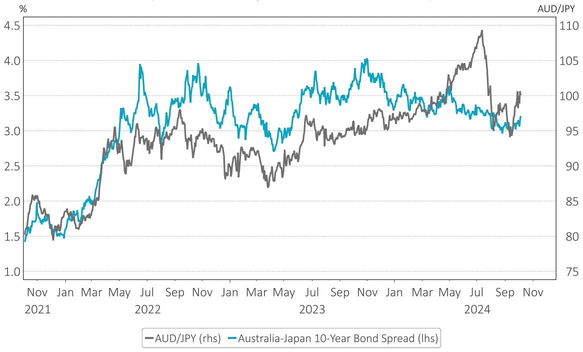
- There has been a change of government in Japan, with Shigeru Ishiba replacing Kishida as Japan's Prime Minister. JPY strengthened following the announcement because Ishiba is not opposed to further BoJ interest rate increases.

Exchange Rate Outlook

- Volatility in AUD/JPY has eased. But uncertainty remains as the JPY adjusts to the BoJ's decision to normalize (lift) interest rates after decades of ultra-low or negative rates.
- AUD/JPY will remain somewhat supported as commodity prices lift in response to China's large stimulus package.
- Both AUD and JPY will also find some support as the USD depreciates in response to Fed interest rate decreases. But equally, a resilient USD will see AUD/JPY lift.
- AUD/JPY is likely to be in a wide range over coming months between 98.50 and 101.38.

AUD/JPY and Ten-Year Bond Spread

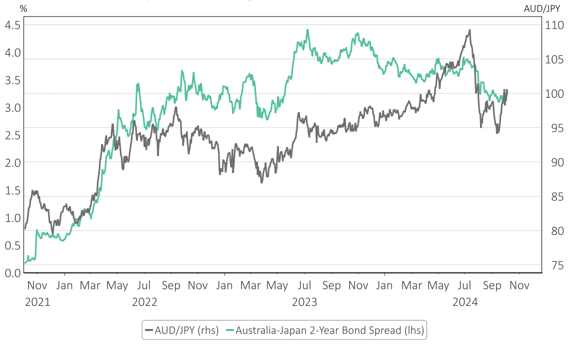
(Australia minus Japan Ten-Year Bond Differential)



Source: PinPoint Macro Analytics, Macrobond, RBA

AUD/JPY and Two-Year Bond Spread

(Australia minus Japan Two-Year Bond Differential)



Source: PinPoint Macro Analytics, Macrobond, RBA

AUD/JPY and Technical Moving Averages

(Selected Daily Moving Averages | Friday, 4 October 2024)

200 Day = 100.08 100 Day = 101.38

Source: PinPoint Macro Analytics, Macrobond

The outlook for the AUD / NZD

Economy

- The Australian economy remains sluggish with the unemployment rate lifting to 4.2%. However, New Zealand's economy is much weaker, with the unemployment rate lifting to 4.6%. Nevertheless, New Zealand business confidence has improved since the first rate cut, and NZD has strengthened as markets look forward to firmer growth.

Interest Rates

- The major concern for Australia's economy continues to be inflation. Although Australia's August monthly inflation indicator has declined to 2.7% YoY, the fall in inflation is not significant enough for the RBA to consider joining the global easing cycle and begin cutting interest rates in 2024.
- The RBNZ started cutting interest rates on August 14 and will almost certainly reduce interest rates by -25bp or -50bp at their October 9 meeting. The risk is -50bp.

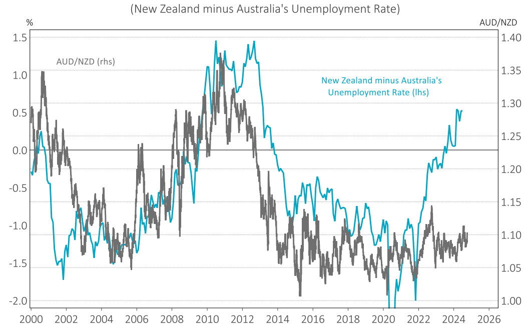
Other

- China's decision to cut a number of its key benchmark interest rates and introduce a series of additional stimulus actions aimed at boosting the struggling economy in late September, has generated a significant amount of support for both AUD and NZD, with AUD/NZD marginally higher since China's announced stimulus package.

Exchange Rate Outlook

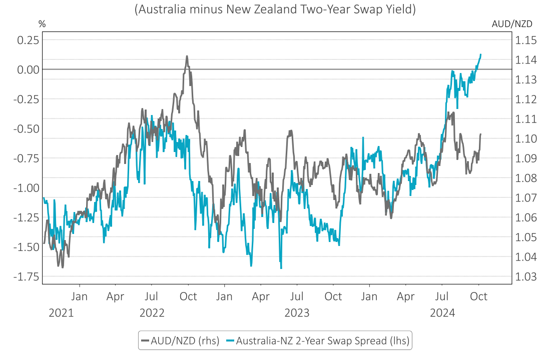
- The Australia-New Zealand two-year bond spread lifted into positive terror for the first time this cycle giving a strong lift to the AUD/NZD exchange rate back up to 1.1050.
- The risk is the RBNZ cuts interest rates -50bp at the October 9 meeting and provides some dovish guidance, taking AUD/NZD higher again. We anticipate AUD/NZD to lift slightly as Australia-New Zealand interest rate differentials widen further into positive territory.

AUD/NZD and Unemployment Differentials
(New Zealand minus Australia's Unemployment Rate)



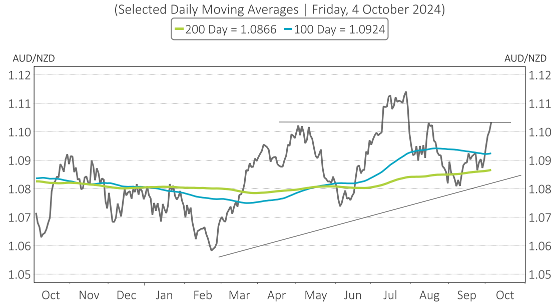
Source: PinPoint Macro Analytics, Macrobond, ABS, Stats NZ, RBNZ

AUD/NZD and Two-Year Swap Spread
(Australia minus New Zealand Two-Year Swap Yield)



Source: PinPoint Macro Analytics, Macrobond, RBNZ, RBA

AUD/NZD and Technical Moving Averages
(Selected Daily Moving Averages | Friday, 4 October 2024)



Source: PinPoint Macro Analytics, Macrobond

The outlook for the NZD / EUR

Economy

- The Eurozone economy has shown visible signs of slowing in Q3, despite a rosier Q2. European purchasing manager indices (PMIs) have declined, and inflation is easing.
- New Zealand' economy remains weak contracting 0.2% QoQ in Q2, bringing the annual growth rate to -0.5%. As a result, NZ's unemployment rate lifted to 4.6% in Q2.
- Yet, there are now signs of improving business confidence following the RBNZ's cut in interest rates. The forward-looking FX market is pricing in this optimism, along with the positive impacts of China's stimulus package.

Interest Rates

- The European Central Bank (ECB) may further cut interest rates at their October 17 meeting, rather than wait a full quarter between interest rate cuts, which was the pattern between the ECB's June and September rate cuts.
- The RBNZ is set to further lower interest rates and provide updated guidance at its October 9 policy meeting. Interest rate markets are pricing a -25bp interest rate cut, with a reasonable chance of a -50bp interest rate cut.

Other

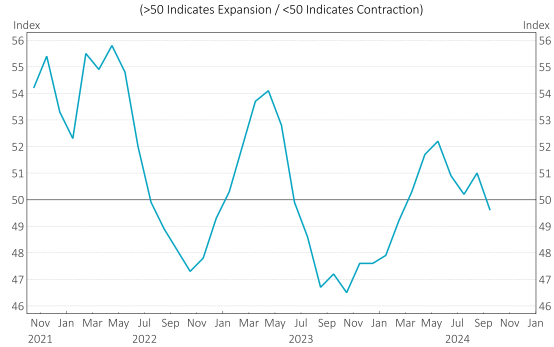
- China's decision to introduce a large stimulus package during late September in response to a sluggish local economy will support NZD and is likely to increase demand for New Zealand's dairy exports.

Exchange Rate Outlook

- NZD/EUR has lifted above some technical resistance, opening up the door to further exchange rate appreciation.
- NZD/EUR is set to proportionally benefit from China's recent stimulus package. More so than EUR.
- A lift in dairy prices and NZ's terms of trade (export/import prices) should inject income into NZ's economy, giving NZD a good level of support.
- A lift in NZD/EUR to 0.5749 is possible over coming months but if the RBNZ cuts rate -50bp then 0.5500 is more likely.

Eurozone Purchasing Managers Index (PMI)

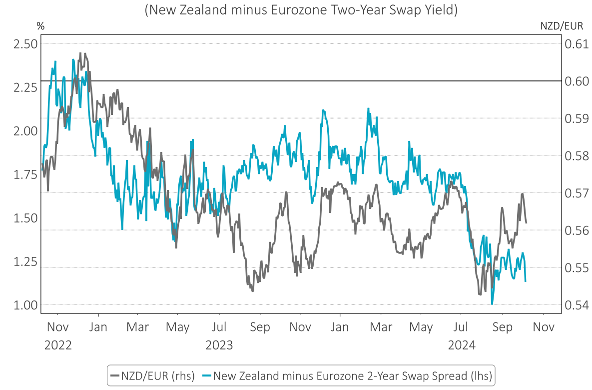
(>50 Indicates Expansion / <50 Indicates Contraction)



Source: PinPoint Macro Analytics, Macrobond, S&P Global

NZD/EUR and Two-Year Swap Spread

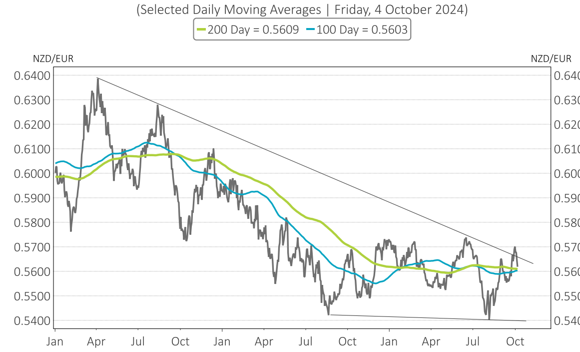
(New Zealand minus Eurozone Two-Year Swap Yield)



Source: PinPoint Macro Analytics, Macrobond, RBNZ, RBA

NZD/EUR and Technical Moving Averages

(Selected Daily Moving Averages | Friday, 4 October 2024)



Source: PinPoint Macro Analytics, Macrobond

The outlook for the NZD / GBP

Economy

- New Zealand' economy remains weak contracting 0.2% QoQ in Q2, bringing the annual growth rate to -0.5%. As a result, NZ's unemployment rate lifted to 4.6% in Q2. Yet, there are now signs of improving business confidence following the reduction in interest rates by the RBNZ.
- The U.K. economy continues to improve. But U.K. services inflation continues to remain elevated inflation at 6.0%.

Interest Rates

- Bank of England (BoE) Governor Bailey said in early October that the central bank could become "a bit more activist" despite leaving rates unchanged at the BoE's September meeting and stating that a "gradual approach" was appropriate.
- The RBNZ is set to further lower interest rates and provide updated guidance at its October 9 policy meeting. A -25bp cut in the official cash rate (OCR) to lower the OCR to 5.00% is likely to occur, with a further -25bp cut at the RBNZ's November meeting.

Other

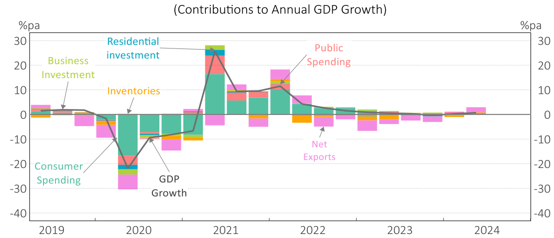
- When the economy of a country's major export partner strengthens or slows down, it typically has an impact on the exporting country's exchange rate.
- China's decision to introduce a large stimulus package in response to a sluggish local economy will support NZD. Meanwhile the Eurozone economy has slowed down over Q3 after a reasonably firm Q2, somewhat restraining GBP.

Exchange Rate Outlook

- NZD/GBP is likely to continue to lift as dairy commodity prices and NZ's terms of trade (export/import prices) rise and inject income into NZ's economy. China's recent stimulus package has given NZD a good level of support.
- However, risk of -50bp cuts at the RBNZ's next policy meeting on October 9 may see NZD/GBP move below 0.4650 before recovering.

U.K. GDP

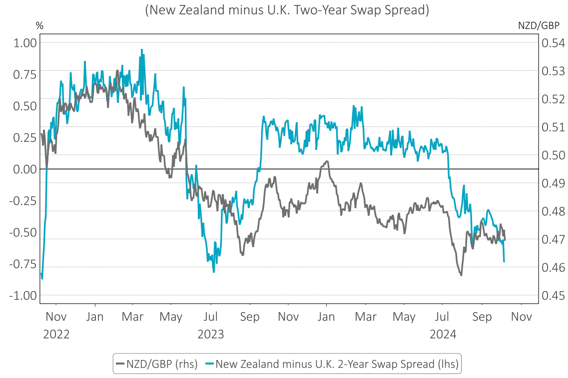
(Contributions to Annual GDP Growth)



Source: PinPoint Macro Analytics, Macrobond, ONS

NZD/GBP and Two-Year Swap Spread

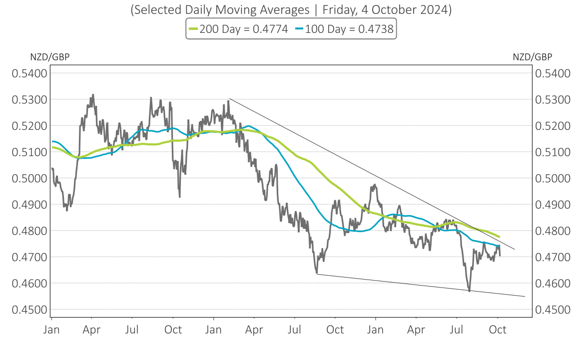
(New Zealand minus U.K. Two-Year Swap Spread)



Source: PinPoint Macro Analytics, Macrobond, RBNZ, RBA

NZD/GBP and Technical Moving Averages

(Selected Daily Moving Averages | Friday, 4 October 2024)



Source: PinPoint Macro Analytics, Macrobond

The outlook for the NZD / CNY

Economy

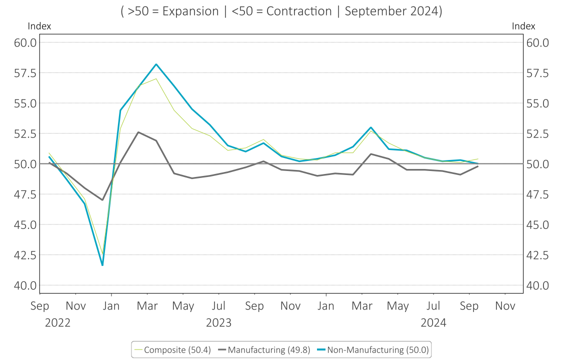
- The Chinese authorities introduced a major stimulus package on September 24 to boost China's struggling economy.
- Both China and New Zealand's economy will benefit from China's stimulus measures. China's economy will gain the most direct benefit, but New Zealand's economy will indirectly benefit from a pick-up in China's economy via an increase in New Zealand's exports to China.

Interest Rates

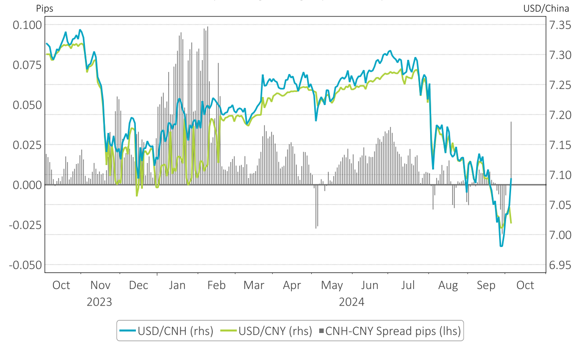
- On September 24, the Peoples Bank of China (PBoC) introduced interest rate cuts across all three sections of the interest rate curve. (1) The PBoC cut the 7-day reverse repo policy rate by -20bps to 1.5%; (2) Lowered the 1-year medium-term lending facility rate by -30bp to 2.0%; and (3) cut the Reserve Requirement Ratio (RRR) by -0.5% to 10.75%.
- The RBNZ is set to further lower interest rates and provide updated guidance at its October 9 policy meeting. Interest rate markets are uncertain whether the RBNZ will cut rates -25bp or -50bp at the October 9 policy meeting.

Exchange Rate Outlook

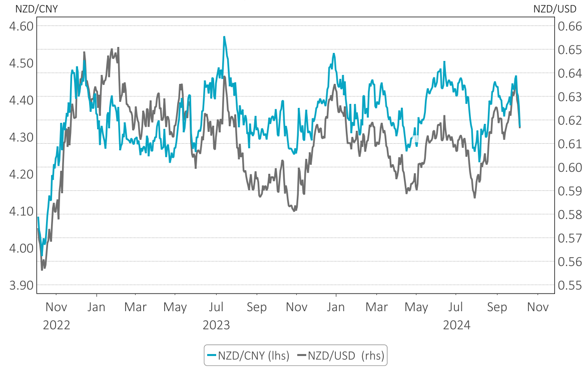
- China's decision to cut several of its key benchmark interest rates and introduced a series of additional stimulus actions aimed at boosting the struggling economy has generated a significant amount of short-term volatility in NZD/CNY.
- Both China and NZ's economy will benefit from China's stimulus measures. But the likelihood is NZD/CNY will appreciate if the PBoC continues to intervene in the FX market to slow the pace of CNY strength.
- We may NZD/CNY lift to 4.45 over coming months, unless the RBNZ moves to cutting interest rates in -50bp increments.



Source: PinPoint Macro Analytics, Macrobond, CFLP



Source: PinPoint Macro Analytics, Macrobond



Source: PinPoint Macro Analytics, Macrobond, RBA

The outlook for the NZD / JPY

Economy

- Japanese data continues to show a two-speed economy, with firm growth in the services sector but weak growth in the goods sector.
- There remains upward pressure on Japanese wages, with Japan's CPI inflation at 3.0%, and showing little inclination of declining back towards deflationary territory.
- New Zealand's economy remains very weak, with the economy contracting -0.2% QoQ in Q2. There has been no net growth in NZ's economy over the first half of 2024.

Interest Rates

- The RBNZ is set to further lower interest rates and provide updated guidance at its October 9 policy meeting. Interest rate markets are pricing a -25bp interest rate cut, with a reasonable chance of a -50bp interest rate cut.
- The Bank of Japan (BoJ) is likely to continue its policy of slowly lifting interest rates in an effort to combat inflation and normalize interest rate settings.

Other

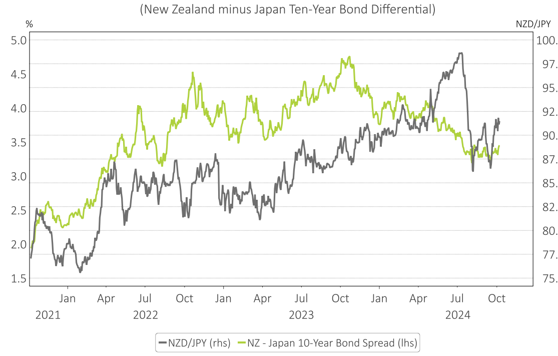
- There has been a change of government in Japan, with Shigeru Ishiba replacing Kishida as Japan's Prime Minister. JPY strengthened following the announcement because Ishiba is not opposed to further BoJ interest rate increases.

Exchange Rate Outlook

- Volatility in NZD/JPY has eased. But uncertainty remains as the JPY adjusts to the BoJ's decision to normalize (lift) interest rates after decades of ultra-low or negative rates.
- Both NZD and JPY will find some support as the USD depreciates in response to Fed interest rate decreases. But with the BoJ lifting interest rates and the RBNZ lowering interest rates, NZD/JPY is likely to remain heavy particularly of the RBNZ decides to cut interest rates -50bp at the October 9 meeting.
- NZD/JPY may continue to find short-term resistance above 92.00 in the current economic environment.

NZD/JPY and Ten-Year Bond Spread

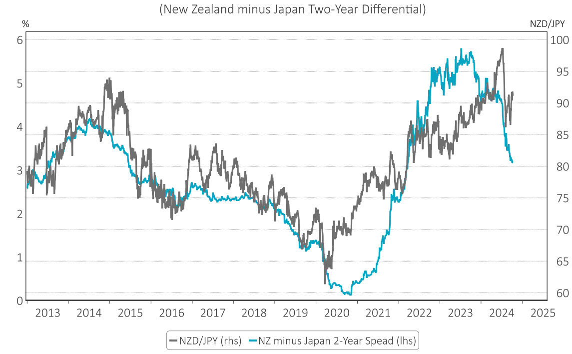
(New Zealand minus Japan Ten-Year Bond Differential)



Source: PinPoint Macro Analytics, RBNZ, Macrobond

NZD/JPY and Two-Year Spread

(New Zealand minus Japan Two-Year Differential)



Source: PinPoint Macro Analytics, RBNZ, Macrobond

NZD/JPY and Technical Moving Averages

(Selected Daily Moving Averages | Monday, 7 October 2024)

Source: PinPoint Macro Analytics, RBNZ, Macrobond

The outlook for the NZD / AUD

Economy

- New Zealand's economy is very weaker, with the unemployment rate lifting to 4.6%. Nevertheless, New Zealand business confidence has improved since the first rate cut, and NZD has strengthened as markets look forward to firmer growth.
- The Australian economy remains sluggish with the unemployment rate lifting to 4.2%.

Interest Rates

- The will almost certainly reduce interest rates by -25bp at their October 9 meeting, but with a strong risk the RBNZ lowers rates by -50bp.
- The major concern for Australia's economy continues to be inflation. Although Australia's August monthly inflation indicator has declined to 2.7% YoY, the fall in inflation is not significant enough for the RBA to consider joining the global easing cycle and begin cutting interest rates in 2024.
- The New Zealand-Australia two-year bond spread has declined into negative territory for the first time this cycle, reflecting the different central bank interest rate cycles.

Other

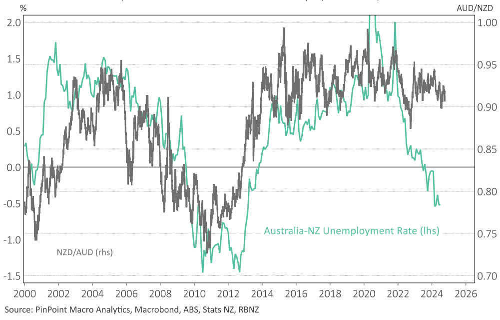
- China's decision to cut a number of its key benchmark interest rates and introduce a series of additional stimulus actions aimed at boosting the struggling economy in late September, has generated a significant amount of support for both AUD and NZD, with AUD/NZD marginally higher since China's announced stimulus package.

Exchange Rate Outlook

- The New Zealand-Australia two-year bond spread fell into negative territory for the first time this cycle, sending NZD/AUD below 0.9050. The risk is the RBNZ cuts interest rates -50bp at the October 9 meeting and provides some dovish guidance, taking NZD/AUD lower again. We anticipate NZD/AUD to fall as New Zealand-Australia interest rate differentials further widen.

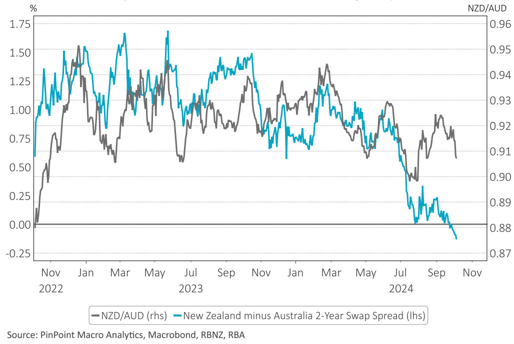
NZD/AUD and Unemployment Differentials

(Australia minus New Zealand's Unemployment Rate)



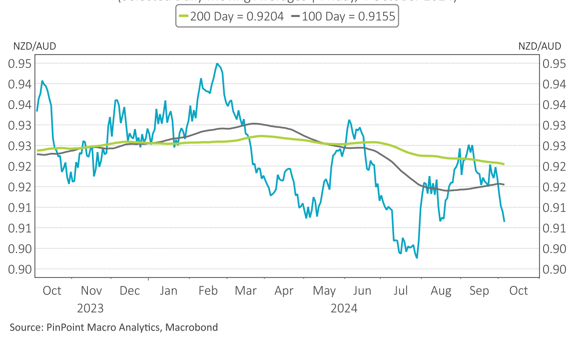
NZD/AUD and Two-Year Swap Spread

(New Zealand minus Australia Two-Year Swap Yield)



NZD/AUD and Technical Moving Averages

(Selected Daily Moving Averages | Friday, 4 October 2024)



Central Bank
Forward Market Interest Rates

U.S. Federal Reserve (Fed)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.00**	
07 Nov 24	4.49	-33
18 Dec 24	4.13	-70
29 Jan 25	3.82	-101
20 Mar 25	3.53	-129
01 May 25	3.33	-149
12 Jun 25	3.18	-165
30 Jul 25	3.05	-177
17 Sep 25	2.97	-185

European Central Bank (ECB)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**3.75**	
17 Oct 24	3.18	-22
12 Dec 24	2.86	-54
30 Jan 25	2.59	-82
06 Mar 25	2.28	-113
17 Apr 25	2.06	-134
05 Jun 25	1.87	-153
24 Jul 25	1.77	-163
11 Sep 25	1.69	-172

Reserve Bank of New Zealand (RBNZ)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.25**	
09 Oct 24	4.81	-44
27 Nov 24	4.33	-92
19 Feb 25	3.87	-137
09 Apr 25	3.53	-172
28 May 25	3.29	-196
09 Jul 25	2.88	-236
16 Sep 25	2.92	-233
17 Dec 25	2.98	-227
17 Mar 26	3.00	-225

Reserve Bank of Australia (RBA)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**4.35**	
05 Nov 24	4.30	-3
10 Dec 24	4.19	-15
18 Feb 25	3.98	-35
01 Apr 25	3.79	-54
20 May 25	3.60	-74
08 Jul 25	3.49	-84
12 Aug 25	3.40	-93
30 Sep 25	3.32	-102

Bank of England (BoE)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.00**	
07 Nov 24	4.71	-24
19 Dec 24	4.57	-38
06 Feb 25	4.32	-62
20 Mar 25	4.11	-84
08 May 25	3.87	-107
19 Jun 25	3.75	-120
07 Aug 25	3.60	-135
18 Sep 25	3.53	-142

Bank of Canada (BoC)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**4.25**	
23 Oct 24	3.91	-38
11 Dec 24	3.56	-73
29 Jan 25	3.25	-104
12 Mar 25	3.00	-128
16 Apr 25	2.80	-149
04 Jun 25	2.66	-163
30 Jul 25	2.58	-171
17 Sep 25	2.53	-176
29 Oct 25	2.38	-191

Swedish Riksbank

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**3.25**	
07 Nov 24	2.77	-48
19 Dec 24	2.14	-111
28 Jan 25	1.92	-132
19 Mar 25	1.67	-158
07 May 25	1.54	-171
17 Jun 25	1.60	-165
19 Aug 25	1.60	-165
22 Sep 25	1.58	-167
04 Nov 25	1.61	-164

SNB Dated OIS Pricing

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**1.00**	
12 Dec 24	0.65	-3
20 Mar 25	0.44	-51
19 Jun 25	0.42	-54
25 Sep 25	0.31	-64
11 Dec 25	0.25	-71

Bank of Japan (BoJ)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**0.25**	
31 Oct 24	0.24	+1
19 Dec 24	0.28	+6
22 Jan 25	0.34	+12
19 Mar 25	0.36	+14
26 Apr 25	0.37	+15
14 Jun 25	0.41	+19
31 Jul 25	0.50	+27
16 Sep 25	0.53	+31
17 Dec 25	0.54	+32

South African Reserve Bank

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**8.00**	
Q3/24	7.75	-0.25
Q4/24	7.50	-0.50
Q1/25	7.25	-0.75
Q2/25	7.25	-0.75

Czech Republic National Bank

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**3.25**	
Q3/24	3.00	-0.35
Q4/24	2.75	-0.60
Q1/25	2.50	-0.85
Q2/25	2.50	-0.85

Banco de Mexico

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**10.50**	
Q3/24	8.00	-2.50
Q4/24	7.50	-3.00
Q1/25	6.50	-4.00
Q2/25	6.50	-4.00

* All prices reflect current market pricing of forward interest rate markets.

Central bank interest rates – historical movements

A number of central banks around the world are currently cutting interest rates (in grey).
This has surpassed the number of central banks lifting interest rates (in blue).

Central Bank Policy Rates Dashboard

(Hikes in Blue | Cuts in Grey)

	9/2024	8/2024	7/2024	6/2024	5/2024	4/2024	3/2024	2/2024	1/2024	12/2023	11/2023	10/2023	9/2023
United States	4.88	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38
Euro Area	3.50	4.25	4.25	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
United Kingdom	5.00	5.00	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
Japan	0.25	0.25	0.05	0.05	0.05	0.05	0.05	-0.10	-0.10	-0.10	-0.10	-0.10	
Argentina		40.00	40.00	40.00	40.00	60.00	80.00	100.00	100.00	100.00	133.00	133.00	
Australia		4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.10	4.10
Brazil	10.75	10.50	10.50	10.50	10.50	10.75	10.75	11.25	11.75	11.75	12.25	12.75	12.75
Canada	4.25	4.50	4.50	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Switzerland	1.00	1.25	1.25	1.25	1.50	1.50	1.50	1.75	1.75	1.75	1.75	1.75	1.75
Chile	5.50	5.75	5.75	5.75	6.00	6.50	7.25	7.25	8.25	8.25	9.00	9.00	
China	3.35	3.35	3.35	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	
Colombia	10.75	10.75	11.25	11.75	11.75	12.25	12.25	12.75	13.00	13.00	13.25	13.25	13.25
Czech Republic	4.25	4.50	4.75	4.75	5.25	5.75	5.75	6.25	6.75	6.75	7.00	7.00	7.00
Denmark		3.35	3.35	3.35	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
Hong Kong		5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75
Hungary		6.75	6.75	7.00	7.25	7.75	8.25	9.00	10.00	10.75	11.50	12.25	13.00
Indonesia		6.25	6.25	6.25	6.25	6.25	6.00	6.00	6.00	6.00	6.00	6.00	5.75
Israel	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.75	4.75	4.75	4.75
India			6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Iceland	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
South Korea		3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
North Macedonia		6.30	6.30	6.30	6.30	6.30	6.30	6.30	6.30	6.30	6.30	6.30	6.30
Mexico	10.50	10.75	11.00	11.00	11.00	11.00	11.00	11.25	11.25	11.25	11.25	11.25	11.25
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Norway		4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.25	4.25	4.25
New Zealand		5.25	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Peru	5.25	5.50	5.75	5.75	5.75	6.00	6.25	6.25	6.50	6.75	7.00	7.25	
Philippines		6.25	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	
Poland	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	6.00
Romania	6.50	6.50	6.75	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Serbia		6.00	6.00	6.25	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Russia	19.00	18.00	18.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	15.00	15.00	13.00
Saudi Arabia	5.50	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Sweden	3.50	3.50	3.75	3.75	3.75	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Thailand		2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Turkey		50.00	50.00	50.00	50.00	50.00	50.00	45.00	45.00	42.50	40.00	35.00	30.00
South Africa	8.00	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25

Source: PinPoint Macro Analytics, Macrobond, BIS (The Bank for International Settlements)

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