Global
Currency Outlook

July 2024

Key insights

A number of global central banks have begun cutting interest rates. The different global interest rate policies of the world's major central banks have impacted relative exchange rate performance.

USD has lifted since early June on signs of a stronger U.S. economy. The FOMC signaled that there would most likely be only one interest rate cut by the end of the year, down from an earlier forecast of three interest rate cuts. **The USD is likely to remain stronger-for-longer**.

The European Central Bank cut interest rates 25bp to 3.75%. Meanwhile **French political developments have raised the 'risk premium' on French bond yields and lowered EUR.**

The Bank of England signaled it may be ready to begin cutting interest rates as soon as its August meeting. GBP is now under some downward pressure which could see it decline to the 200-day moving average of 1.2558 over coming months.

The Bank of Canada began its interest rate cutting cycle on June 5, moving well ahead of the U.S. Federal Reserve**. The Canadian dollar has shown solid resilience.**

JPY is likely to stay weak near 35-year lows because of wide U.S.-Japan interest rate differentials. But by year-end, if the Fed cuts interest rates, and the BoJ ceases monthly bond purchases, USD/JPY could be trading as low 145.00.

China's economy is struggling with a property crisis that is set to last a long time. Lower Chinese interest rates and a weak Chinese economy will lead to further depreciation in CNY. We are likely to see USD/CNY trend up to 7.2800 over the next month or so despite efforts by the Peoples Bank of China to stem the rate of depreciation in CNY.

AUD is strengthening on a relative trade-weighted basis because the RBA have chosen a "narrow path" to not lift interest rates too high in order to not have the unemployment rate move up too much. **Australia's interest rates will remain higher-for-longer.**

With New Zealand's inflation high, the RBNZ is forced to leave **interest rates at a relatively high 5.50%, generating support for NZD.**

Key takeaways

- There are a number of major central banks cutting interest rates (ECB, SNB, BoC, Riksbank, PBoC).
- But a number of central banks have said they are not yet ready (Fed, RBA, RBNZ). While one central bank is getting close to rate cuts (BoE).
- USD is likely to remain well supported as the Fed delays cuts.
- EUR is under some downward pressure due to French politics.
- GBP is likely to depreciate as the BoE gets ready to cut interest rates.
- CAD has shown resilience despite BoC rate cuts.
- JPY is set to remain weak and volatile.
- CNY is set to further modestly depreciate on a weak economy.
- AUD will continue to rise against most major trading partner currencies.
- NZD should remain well supported.
- MXN and ZAR are volatile on political developments. CZK will remain relatively firm.

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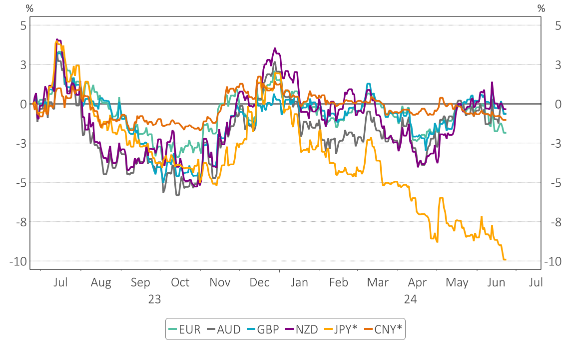
Major Exchange Rates vs USD

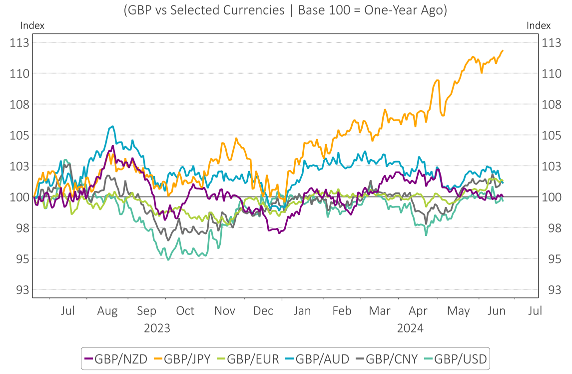
(% Change in Selected Currencies v USD | Base Zero = One-Year Ago)



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

GBP Exchange Rate Performance

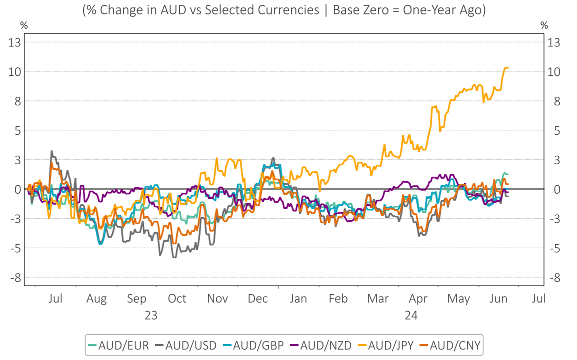
(GBP vs Selected Currencies | Base 100 = One-Year Ago)



Source: PinPoint Macro Analytics, Macrobond, BoE

AUD Exchange Rate Performance

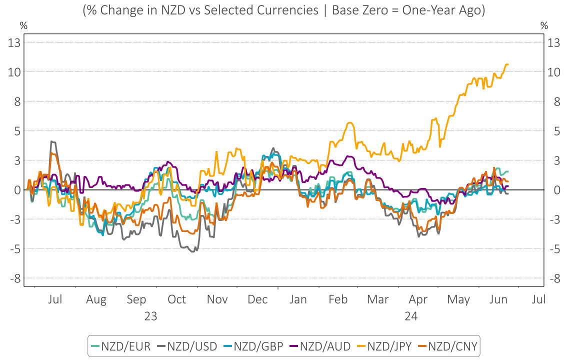
(% Change in AUD vs Selected Currencies | Base Zero = One-Year Ago)



* 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	0.6641	0.6650	0.6750	0.6900
EUR/USD	1.0693	1.0650	1.0600	1.0850
GBP/USD	1.2645	1.2550	1.2450	1.2700
USD/JPY	159.80	160.00	158.00	140.00
USD/CNY	7.2610	7.2800	7.3200	7.2500
NZD/USD	0.6119	0.6100	0.6200	0.6300
USD/CAD	1.3692	1.3650	1.3600	1.3400
USD/CHF	0.8939	0.8900	0.8800	0.8500
USD/SEK	10.509	10.500	10.400	10.000

Emerging Markets	Current	1-Month	3-Month	6-Month
USD/MXN	18.1130	17.7000	17.5000	17.0000
USD/ZAR	17.9691	18.2500	18.5000	18.4000
USD/CZK	23.3156	23.4100	23.5000	23.0000

GBP Crosses	Current	1-Month	3-Month	6-Month
GBP/EUR	1.1825	1.1784	1.1745	1.1705
GBP/CHF	1.1303	1.1170	1.0956	1.0795
GBP/SEK	13.288	13.178	12.948	12.700
GBP/AUD	1.9041	1.8872	1.8444	1.8406
GBP/NZD	2.0665	2.0574	2.0081	2.0159
GBP/ZAR	22.7219	22.9038	23.0325	23.3680
GBP/CZK	29.4826	29.3796	29.2575	29.2100

EUR Crosses	Current	1-Month	3-Month	6-Month
EUR/GBP	0.8456	0.8486	0.8514	0.8543
EUR/CAD	1.4641	1.4537	1.4416	1.4539
EUR/AUD	1.6101	1.6015	1.5704	1.5725
EUR/NZD	1.7475	1.7459	1.7097	1.7222

AUD Crosses	Current	1-Month	3-Month	6-Month
AUD/EUR	0.6212	0.6244	0.6368	0.6359
AUD/GBP	0.5252	0.5299	0.5422	0.5433
AUD/JPY	106.14	106.40	106.65	96.60
AUD/CNY	4.8419	4.8412	4.9410	5.0025
AUD/NZD	1.0855	1.0902	1.0887	1.0952
AUD/CAD	0.9094	0.9077	0.9180	0.9246
AUD/CHF	0.5938	0.5919	0.5940	0.5865

NZD Crosses	Current	1-Month	3-Month	6-Month
NZD/EUR	0.5721	0.5728	0.5849	0.5806
NZD/GBP	0.4839	0.4861	0.4980	0.4961
NZD/JPY	97.80	97.60	97.96	88.20
NZD/CNY	4.4606	4.4408	4.5384	4.5675
NZD/AUD	0.9214	0.9173	0.9185	0.9130
NZD/CAD	0.8378	0.8327	0.8432	0.8442
NZD/CHF	0.5472	0.5429	0.5456	0.5355

The outlook for the US dollar

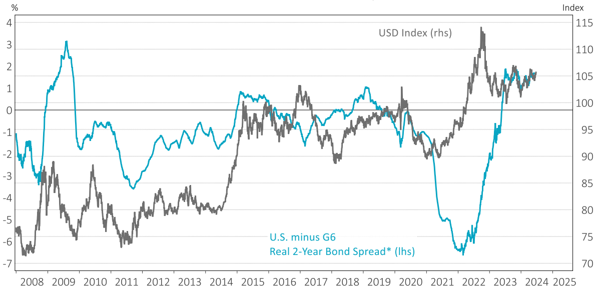
USD has lifted since early June on signs of a stronger U.S. economy. The decision-making body on U.S. interest rates, the Federal Open Market Committee (FOMC), left interest rates on hold at 5.50% (upper-bound) at their June 12 meeting. But the FOMC signaled that were would most likely be only one interest rate cut by the end of the year, down from an earlier forecast of three interest rate cuts.

The revised outlook for 2024 interest rate reductions generated an immediate strengthening of the USD. Higher for longer U.S. interest rate settings also mean the USD will remain stronger-for longer.

The chart below illustrates U.S. real (inflation-adjusted) interest rates compared with equivalent interest rate setting for the six next largest economies (G6). The longer the U.S.-G6 real 2-year bond differential (or spread) remains high, the longer the USD will remain relatively high.

U.S. minus G6 Real 2 Year Bond Spread

(U.S. minus G6 Real Two-Year Bond Spread*)



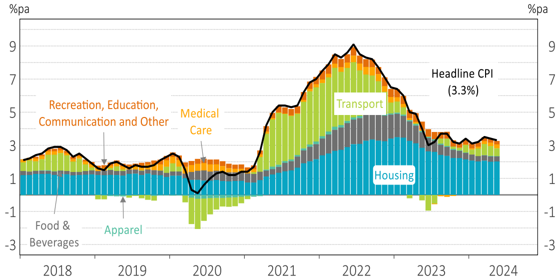
* G6 refers to the countries comprised in the DXY USD index, and weighted accordingly.
Source: PinPoint Macro Analytics, Macrobond

The FOMC revised interest rate forecasts were based on their higher inflation forecasts. The FOMC lifted their 2024 and 2025 inflation forecasts by 0.2% and 0.1% respectively to 2.6% and 2.3%. Core PCE inflation forecasts lifted by a similar margin to 2.8% in 2024 and to 2.3% in 2025.

The chart below illustrates U.S. inflation has been slow to come down over the last 12-months. The “last mile” in getting inflation down to the 2.0% inflation target, is proving challenging, largely because of persistent high housing and services inflation.

U.S. Inflation

(Contributions to Headline U.S. Inflation)



Source: PinPoint Macro Analytics, Macrobond, BLS

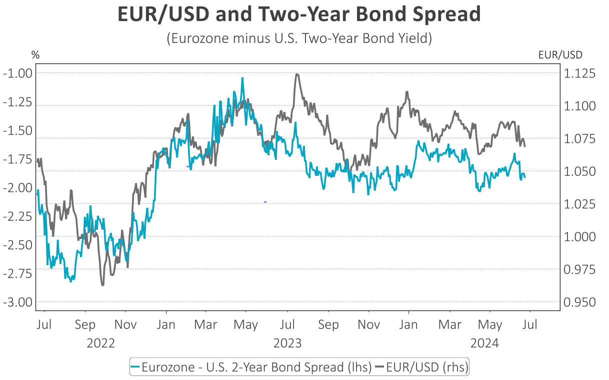
Over the next few months, the USD will likely remain relatively firm, and above its 5-year average (of 99.3 on the DXY measure).

However, as we move closer to year-end, if U.S. inflation trends lower, the pricing for future interest rate reductions will lift, and the USD will begin to depreciate.

The extent of USD depreciation, when it occurs will not be large. This is because U.S. interest rate reductions are unlikely to be large, unless a shock hits the U.S. economy. Barring an economic shock, U.S. interest rates are not set to return to 2020-2021 pandemic level lows, and neither, therefore, is the broader USD.

The outlook for the EUR / USD

The month of June has been an eventful month for EUR/USD. The ECB cut interest rates 25bp to 3.75% (deposit rate) as expected on June 6. But the near 2% depreciation in EUR since the ECB's meeting has been largely driven by U.S. events. A stronger than expected U.S. May non-farm payrolls report followed by the FOMC's decision to reduce the forecast from three Fed rate cuts this year to just one Fed rate cut this year, has given the USD a boost, and helped EUR/USD move lower.



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

French politics has however, also played a part in sending EUR lower. French President Emmanuel Macron unexpectedly called a snap French election following the results of the EU Parliamentary elections that showed a large victory to the French far-right National Rally (RN) party. French opinion polls released over the weekend of 15-16 June that indicate National Rally (RN) will have a sounding victory over Macron's centrist-left Renaissance party over the scheduled two rounds of voting on June 30 and July 7. Risk premium has risen in financial markets, driven by the political uncertainty. French bond spreads have widened over their German counterparts.

Given the large fall in Eurozone inflation from its October 2021 peak of 10.5% to less than 3.0%, the ECB had pre-committed themselves to a cut in interest rates well before their 6 June meeting. The ECB went out of their way to ensure the pre-commitment doesn't happen again, saying the outlook for further interest rate cuts will remain "data dependent".

Despite the cut in interest rates, the ECB lifted their inflation forecasts by 0.2% for both 2024 and 2025, indicating they will not be in a hurry to deliver the next cut in interest rates. From its current level of 2.6%, the ECB is forecasting headline inflation to ease to 2.5% in 2024, then 2.2% in 2025, and 1.9% in 2026. Inflation reaches the ECB's 2.0% target one-quarter later than projected at their March meeting.

The ECB remains concerned that wages growth remains at elevated levels. The ECB's indicator of negotiated wages at 4.7% is more than 2.7% above the ECB's 2.0% inflation target. With Eurozone economic activity also having improved slightly, the likelihood a July rate cut is very slim. Overnight Index Swap (OIS) markets have a 14.4% (-3.5bp) chance of July rate cut and 79.6% (-19.9bp) of a September rate cut.

EUR/USD will remain under some mild downward pressure and risks moving toward 1.0600 over the next month, the lower-end of its 18-month trading range. The Eurozone-U.S. two-year bond spread is guiding EUR/USD lower as the Eurozone-U.S. interest rate differential undergoes a period of widening.

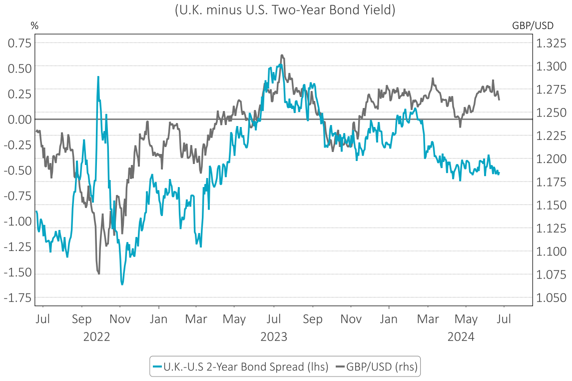
The outlook for the GBP / USD

GBP/USD lifted above 1.2800 earlier this month before dropping lower to the 100-day moving average of 1.2641. Over the six times in the last 12-months GBP/USD has risen above 1.2800 it has struggled to stay there.

The Bank of England (BoE) is now seriously considering following in the footsteps of the European Central Bank, the Swiss National Bank, Sweden's Riksbank, and the Bank of Canada, and cutting interest rates as early as August.

If the BoE cut interest rates, it is likely to apply downward pressure to GBP/USD. Particularly given the USD is stronger after the U.S FOMC delayed cutting interest rates because of a firm economy and persistent U.S. inflation. A further fall in the U.K.-U.S. two-year bond differential will continue to apply downward pressure to GBP/USD.

GBP/USD and Two-Year Bond Spread
(U.K. minus U.S. Two-Year Bond Yield)



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

The Bank of England at its June 19 meeting voted by a majority of 7–2 to maintain the Bank Rate at 5.25%. Two members voted to reduce the Bank Rate by 0.25% to 5.00%.

The BoE stated "as part of the August forecast round, members of the Committee will consider all of the information available and how this affects the assessment that the risks from inflation persistence are receding. On that basis, the Committee will keep under review for how long Bank Rate should be maintained at its current level."

The BoE noted that CPI inflation fell to 2.0% in May from 3.2% in March, close to the BoE's projection, and that indicators of short-term inflation expectations have also continued to moderate, particularly for households. While services inflation was 5.7% in May, it was down from 6.0% in March, and the strength in part reflected volatile components and prices that are index-linked or regulated, which are typically changed only annually.

U.K. GDP appears to have grown more strongly than the BoE expected during the first half of this year, but the economy is only likely to grow around 1.0% in 2024.

The Overnight Index Swap (OIS) market is pricing -15.5bp of interest rate cuts for the August meeting, equating to a 62% chance of a -25bp rate cut. GBP/USD may well depreciate as low as the 200-day moving average of 1.2557 if the BoE deliver the August interest rate cut and provide forward guidance that further interest rate cuts are likely to be forthcoming.

The outlook for the USD / CAD

USD/CAD has lifted around 4.0% so far this year. The main driver has been a stronger USD. But there has also been some depreciation in the CAD, as the Canadian economy slowed to 0.6% YoY and Canada's unemployment rate lifted to 6.2% from a low of 4.8% in July 2022. Further depreciation on the CAD mounted as the Bank of Canada (BoC) cut interest rates on June 5.

With headline CPI inflation easing to 2.7% and further evidence of underlying inflation falling, the BoC agreed that "monetary policy no longer needs to be as restrictive" and reduced the policy interest rate by 25bp to 4.75%, adding that "recent data has increased our confidence that inflation will continue to move towards the 2% target".

The BoC stated that it will remain guided by the economic data, and it will make decisions on a meeting-by-meeting basis. Future reductions in interest rates are likely to be gradual.

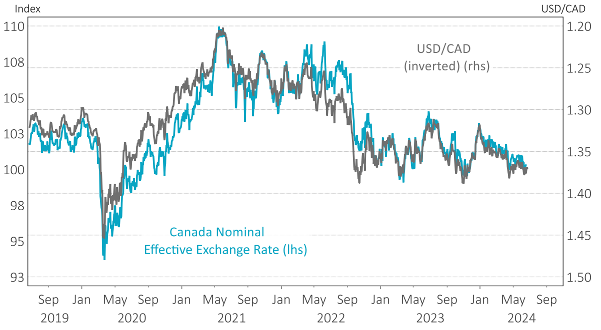
The BoC appear to have little concern about cutting interest rates ahead of the Fed. That is probably because Canada's 5.00% peak in interest rates has already been below the Fed's 5.50% (upper-bound) for the last 18-months. So, a slight reduction in the U.S.-Canada interest rate differential is unlikely to cause a large depreciation in CAD. BoC Governor Tiff Macklem did however say there are limits to how far we can diverge from U.S. but we are not there yet.

From the Canadian dollar's perspective, movements in the USD and the performance of the Canadian economy will be more important in guiding the USD/CAD exchange rate, than will a relatively modest widening in the U.S.-Canadian interest rate differential from 50bp to 75bp.

Because 75.4% of Canada's exports are to the U.S. economy, the performance of the U.S. economy, and the strength of the USD, has a dominant impact on USD/CAD and Canada's trade-weighted index.

Canada Nominal Exchange Rate Index

(USD/CAD and Trade-Weighted Index)



Source: PinPoint Macro Analytics, BIS, Macrobond

Regarding the future performance of the Canadian economy, the BoC has taken out 'some insurance' by cutting interest rates early to improve the likelihood the slowing in Canada's economy will be a soft landing. However, it is important to recognize that Canada's interest rates still remain in restrictive territory for the economy, and the BoC has pointed out that a restrictive monetary policy stance is still needed.

Over the next month of so, USD/CAD will likely remain relatively elevated between the 100-day moving average of 1.3612 and 1.3800. This is because the USD is likely to remain relatively firm, and Canada's economy has not yet improved significantly enough to challenge a change in direction of this year's upward trend in USD/CAD. Elevated oil prices following OPEC+ extended supply cuts in early June will assist in preventing the CAD from depreciating too far.

The outlook for the USD / JPY

The Bank of Japan (BoJ) and Japan's Ministry of Finance (MoF) have intervened in the foreign exchange market no less than three times since the beginning of 2022, to stem the extent of depreciation in the JPY exchange rate. Their most recent bout of FX intervention came in May 2024. But despite spending a collective ¥18.98 trillion (US$126.8bn) the JPY continues to remain near a 35-year low to the USD, at around 159.80.

In the short-term USD/JPY is likely to go higher and test the previous high of 160.17. Over the medium-term, the risk is now growing we see JPY reverse course and modestly strengthen because the U.S.-Japan 10-year bond differential is beginning to narrow.

The BoJ left interest rates unchanged at 0.0% to 0.1% at their June 14 policy meeting. However, in an effort to proceed with the next stage of 'interest rate normalization', the BoJ announced the creation of a "Bond Market Group" containing participants from commercial banks, securities firms and buy-side firms, that will take part in a "Bond Market Survey". The results of the survey will be presented at the BoJ's next July meeting, where the BoJ "will decide on a detailed plan for the reduction of its (bond) purchase amount during the next one to two years or so."

The BoJ is looking to slowly exit the monetary policy that has restrained the upside in Japanese government bond (JGB) yields due to their monthly bond purchases. Reduced or zero bond purchases should allow a modest narrowing of the U.S.-Japan 10-year bond differential (spread) currently 3.28%, which should theoretically take some depreciation pressure off the JPY.

However, Japan's economy is cyclically weak at present. So, there will be little to drive 10-year JGB yields materially higher even after the bond purchases (currently around ¥1.2 trillion per month) slow or cease.

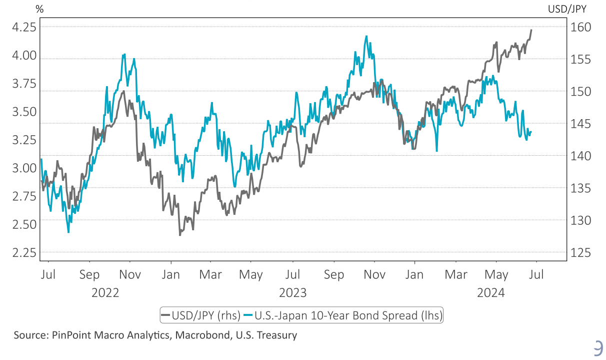
Nevertheless, over coming months, Japan's recent wage increases granted through the annual Spring "Shunto" wage rounds should begin to feed into the official Japanese wage data. The BoJ believe that higher wage growth will eventually lead to an increase in Japan's CPI inflation, a lift in 10-year JGB yields, and enable a further increase in Japan's short-term interest rates.

The expected narrowing in the U.S.-Japan 10-year bond differential from movements in the 10-year JGB side of the equation is likely to be small, compared to the typically larger movements in the U.S. 10-year bond yield (currently 4.25%), driven by changes to U.S. inflation.

In the future, expected lower readings in U.S. inflation, are likely to generate some downward pressure on U.S. 10-year bond yields. The combination of these two factors should place some downward pressure on USD/JPY. We may see USD/JPY trade below 145.00 by year-end if the Fed cuts rates.

USD/JPY and Ten-Year Bond Spread

(U.S. minus Japan Ten-Year Bond Differential)



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

The outlook for the USD / CNY

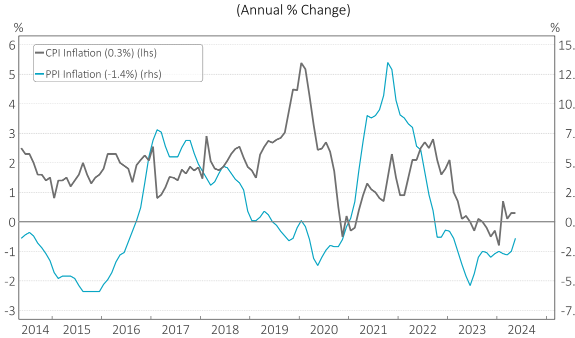
USD/CNY has been trending higher all year. CNY is set to remain relatively weak because China's economy is struggling with a property crisis that is set to last a long time. If history is any guide, the ramifications of China's property crisis will last years.

China's new and existing house prices are still falling, and over the three months to May, the monthly declines in house prices actually accelerated.

China's household consumption and business sector is weak. Deflationary pressures have crept into the economy. China's CPI inflation, currently 0.3% YoY has averaged 0.0% YoY for the last 14-months. Producer price inflation is even weaker at -1.4% YoY.

China CPI and PPI Inflation

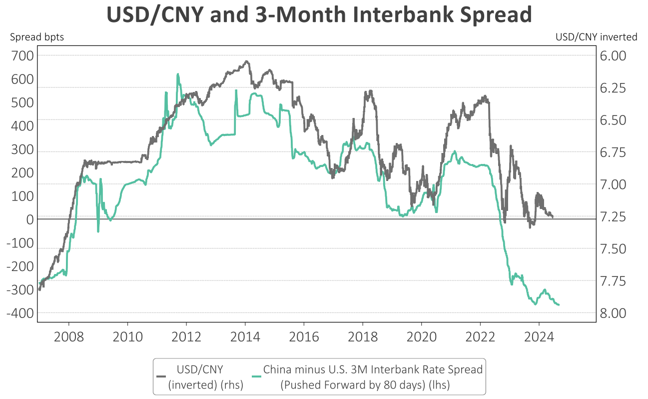
(Annual % Change)



Source: PinPoint Macro Analytics, Macrobond, NBS

The Chinese authorities will be forced to provide further stimulus measures to support the economy. This may include further lowering the bank's reserve requirement ratio (RRR), a cut in the PBoC's 7-day reverse repo rate, and another reduction in the PBoC's medium-term lending rate, currently 2.50%. We are likely to see a further widening in the U.S.-China 3-month interbank interest rate differential, which will also help guide USD/CNY higher.

USD/CNY and 3-Month Interbank Spread



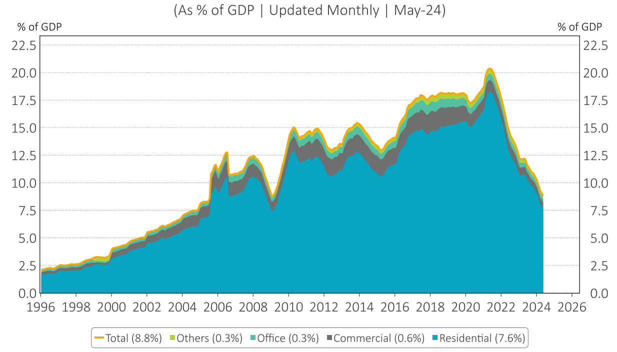
Source: PinPoint Macro Analytics, CFETS, ICE, Macrobond

Despite China's weak economy and property sector challenges, the PBoC will continue to heavily manage the exchange rate on a daily basis so as not to let a large-scale depreciation occur in the CNY. Like many of the Asian central banks, the PBoC have a fear of a "floating exchange rate".

Nevertheless, lower Chinese interest rates and a weak Chinese economy will lead to further depreciation in CNY. We are likely to see USD/CNY trend up to 7.2800 over the next month or so.

Chinese Property Sector

(As % of GDP | Updated Monthly | May-24)



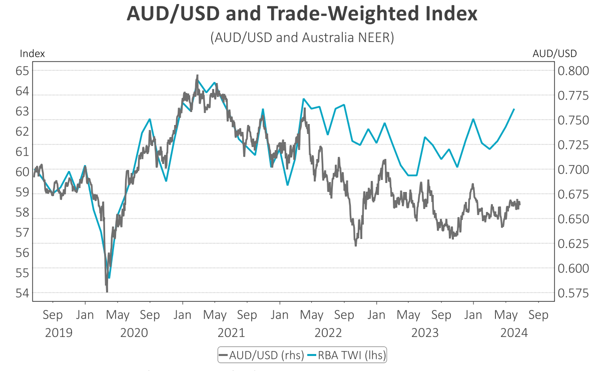
Source: PinPoint Macro Analytics, Macrobond, NBS

The outlook for the AUD / USD

The RBA left interest rates unchanged at 4.35% at their June 18 meeting. The RBA's accompanying statement was more balanced than the quite hawkish May statement. But the message was the same. "While recent data have been mixed, they have reinforced the need to remain vigilant to upside risks to inflation." The RBA left their forward guidance unchanged that "the path of interest rates that will best ensure that inflation returns to target in a reasonable timeframe remains uncertain and the Board is not ruling anything in or out."

The RBA have chosen a "narrow path" to not lift interest rates too high in order to not have the unemployment rate move up too much. But the RBA know that this means it will take longer for inflation to come down. So, Australia's interest rates will remain higher-for-longer.

The RBA's chosen "narrow path" of higher-for-longer interest rates has different implications for AUD against the major cross rates, than it does for AUD against the USD. Please see chart below.



Source: PinPoint Macro Analytics, RBA, Macrobond

This is because a number of global central banks have already begun cutting interest rates, include the ECB, the Bank of Canada, Swiss national Bank, Sweden's Riksbank, and the Peoples Bank of China. Hence, the AUD is appreciating against these exchange rates, assisted also by above-average global economic growth (at 3.2% in 2024) and a trend rise in commodity prices. As this pattern continues, the Australia dollar will continue appreciating on a trade-weighted index (TWI) basis.

However, the RBA's chosen "narrow path" of higher-for-longer interest rates has different implications for AUD/USD while the Fed maintains a similar policy of higher-for-longer interest rates. AUD/USD has subsequently remained largely range-bound for the last two-years.

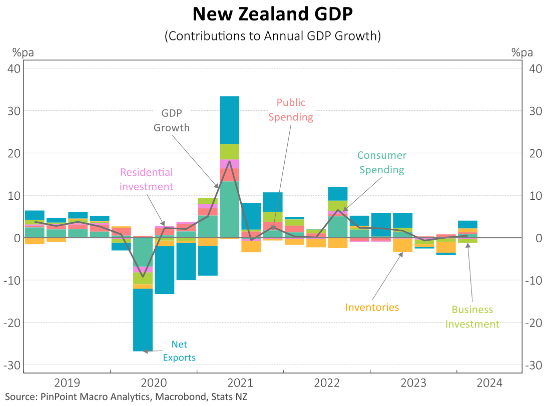
AUD is likely to continue to remain in a range for a number of months, until it becomes clearer that either the Fed or the RBA are ready to cut interest rates. At this stage, it would appear the Fed are closer to that outcome, than are the RBA. This is because of Australia's higher domestic inflation (particularly in the services sector) and the Australian economy's much weaker productivity growth (zero grow in the last year). Both of these factors will make it more difficult for the RBA to achieve their 2% to 3.0% inflation target, than it will for the Fed to achieve their 2.0% target.

If the Fed cuts first, we will see AUD/USD higher by year-end. Current interest rate pricing measured through the Overnight Index Swap (OIS) market has -42bp of cuts priced for the Fed by year-end, and -6.9bpt of cuts by the RBA.

The outlook for the NZD / USD

New Zealand exited their second recession in the last 18-months when the economy recorded a better-than-expected lift of 0.2% QoQ in Q1, to take the annual rate of GDP growth to 0.3% YoY.

Despite the double-dip recession, NZD/USD is currently trading around the same level (0.6120) it was a couple of weeks before the New Zealand economy first entered recession in Q4 2022.



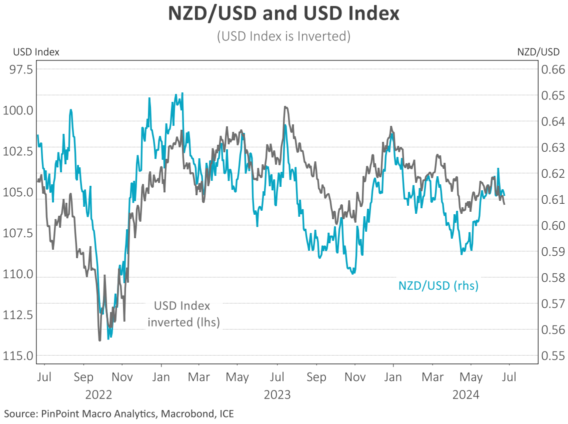
The main reason NZD didn't collapse over the last 18-months, and the main reasons why NZD/USD hasn't rallied hard when finally exiting the double-dip recession is because real GDP growth is less of a currency market focus in New Zealand's small volatile economy. Assuming there is financial stability, the RBNZ have a sole mandate of maintaining inflation in the 1% to 3% target, with a focus on the 2.5% mid-point. If there is high inflation, the RBNZ will leave interest rates at elevated levels despite a technical, or GDP per capita, recession. New Zealand's high interest rates, currently 5.50% provide investors with a solid 'risk free' return. Foreigners own a relatively high 61.5% of New Zealand government bonds. A much higher level of foreign bond ownership than most other economies.

With New Zealand's headline inflation at 4.0%, and non-tradeables (domestic) inflation at an even higher 5.8%, the RBNZ is forced to leave interest rates at relatively high levels, generating support for NZD.

At their May 22 monetary policy meeting, the RBNZ discussed lifting interest rates because "members agreed that persistence in non-tradable (domestic) inflation remains a significant upside risk." The RBNZ added "monetary policy may need to tighten and/or remain restrictive for longer if wage and price setters do not align with weaker productivity growth rates."

The OIS market has just 1bp of rate rises priced (equating to a 4% chance of a 25bp rate rise) for the RBNZ's July meeting. There hasn't been enough economic data released since the last RBNZ meeting for the RBNZ to consider lifting interest rates.

With the USD also supported by relatively high interest rates, as well as the U.S. economy's hegemony and USD's world reserve currency status, NZD/USD movements will remain dominated by USD movements (especially between now and July 10).



The outlook for the USD / MXN

USD/MXN appears to be correcting lower after the 12.4% surge to a near five-year high of 18.9929. The lift in USD/MXN was driven by political developments surrounding Claudia Sheinbaum, Mexico's incoming, and first female, President, voted in with a record approval rating.

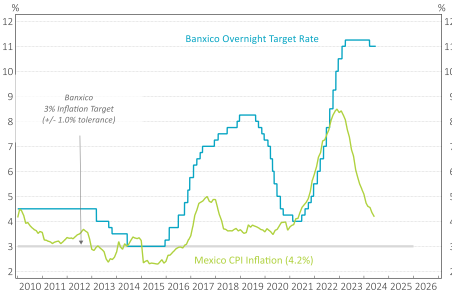
Sheinbaum announced surveys commissioned by her political party (MORENA) indicating broad support for proposed constitutional reforms, including the removal of existing, and then subsequent popular election of, Supreme Court judges. Critics arguing that they could politicize the judiciary and undermine its independence.

Experience shows that political concerns that impact exchange rates are typically temporary. Hence, USD/MXN is likely to fall further, possibly retracing 76% of the move higher, which would eventually bring USD/MXN back to 17.40.

However, while the proposed political reforms are still on the agenda, heightened volatility in the exchange rate should be expected. But, at some point, economic fundamentals will return to become the main driver of the USD/MXN exchange rate. On that score, there are some market fears that the new Administration may pass legislation that could trigger a backlash on trade with its USMCA US and Canadian trading partners. The recent influx of cheap Chinese electric vehicles into Mexico has put a number of strains into worker & trade relations.

The Central Bank of Mexico (Banxico) meets on Thursday June 27. The wide consensus is Banxico will keep the Overnight Rate unchanged at 11.00%. There seems to be little scope for the Banxico to do anything but stand pat at this meeting and allow the political dust to settle and for more data to roll in before contemplating another cut in interest rates.

Mexico Consumer Price Index
(Annual % Change)

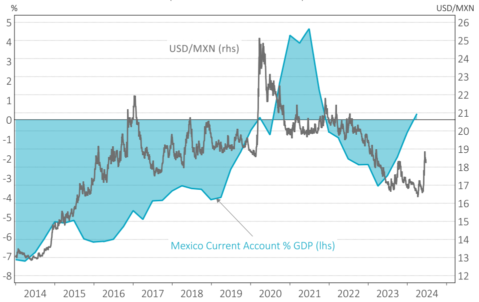


Source: PinPoint Macro Analytics, Macrobond, BANXICO, INEGI

USD/MXN and Unemployment Differentials
(Mexico minus U.S. Unemployment Rate)

Source: PinPoint Macro Analytics, BLS, Macrobond, INEGI

Mexico Current Account Balance
(Current Account % of GDP)

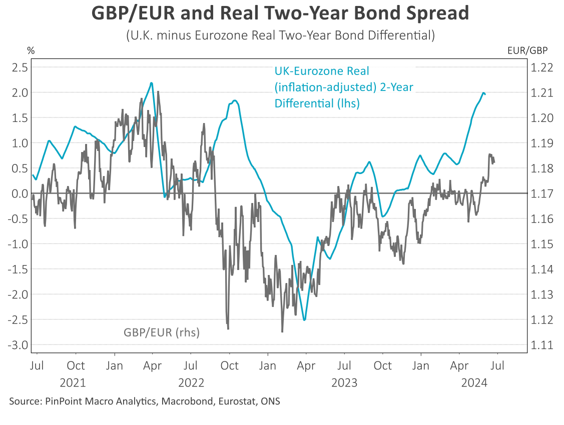


Source: PinPoint Macro Analytics, BANXICO, INEGI, Macrobond

The outlook for the GBP / EUR

GBP/EUR has appreciated around 3.0% since the beginning of the year. Four major factors have driven this appreciation.

First, the U.K. economy improved from a recession in the second half of 2023, helping to lift GBP on a trade-weighted basis. Second, U.K. inflation decreased rapidly causing the U.K.-Eurozone real two-year bond spread began to lift, guiding GBP/EUR higher.



Third, the ECB cut interest rates by 25 basis points to 3.75% (deposit rate) on June 6, generating further appreciation in GBP/EUR.

Fourth, French President Emmanuel Macron unexpectedly called a snap French election on June 10 following the EU Parliamentary elections, which showed a significant victory for the French far-right National Rally (RN) party. Opinion polls released over the weekend of June 15-16 indicated that the RN would have a resounding victory over Macron's centrist-left Renaissance party in the two rounds of voting on June 30 and July 7. This political uncertainty has increased the risk premium in financial markets, causing French bond spreads to widen over their German counterparts and GBP/EUR to appreciate.

Going forward, GBP/EUR is likely to consolidate recent gains and drift lower because the Bank of England (BoE) may well begin its interest rate cutting cycle before the ECB delivers its next interest rate cut. Once the BoE begins its interest rate cutting cycle, it is likely to involve a series of interest rate cuts in order to improve growth in the UK economy, which would weigh on GBP/EUR.

At the BoE meeting on June 20, the BoE downplayed the strength of services inflation, currently at 5.7% for the twelve months to May, and stated, "as part of the August forecast round, members of the Committee will consider all of the information available."

The ECB, on the other hand, emphasized that the outlook for further interest rate cuts will remain "data dependent" and avoided any pre-commitment similar to the one the ECB Governing Council members made for the June 6 rate cut.

In emphasizing their reluctance to again pre-commit to a rate cut, the ECB raised their inflation forecasts by 0.2% for both 2024 and 2025, leaving no doubt they are not in a hurry to deliver the next interest rate cut.

The ECB is likely to wait until at least September before considering their next rate cut. By which time, the French political uncertainty will be out of the way, the BoE may have cut interest rates, and GBP/EUR should be somewhat lower.

The outlook for the GBP / CHF

Since the start of the year, GBP/CHF lifted 9.0%, peaking at a high of 1.1678 on May 27. After its strong appreciation, GBP/CHF has subsequently eased back to 1.1290 to be just above this year's 1.1247 average. Technically, one may argue that the 'head-and-shoulders' which GBP/CHF carved out between late April and mid-June, has run its course, and GBP/CHF has (temporarily) corrected into 'neutral' territory.

On June 20, both the Swiss National Bank (SNB) and the Bank of England (BoE) both met to decide upon monetary policy. The SNB unexpectedly lowered their policy rate by -25bp to 1.25%, generating an intra-day lift in GBP/CHF.

It was the second consecutive cut by the SNB this cycle, and this year. The SNB provided no forward guidance that interest rates will be cut further. Rather the SNB lowered their inflation forecasts by 0.1% for each of the next three years, to 1.3% (2024) 1.1% (2025) and 1.0% for 2026 respectively. The SNB added that "the forecast is based on the assumption that the SNB policy rate is 1.25% over the entire forecast horizon". This implies, at least for now, that the SNB don't intend to further cut interest rates.

Does this mean GBP/CHF is set to appreciate again? Not necessarily. Downward pressure on GBP/CHF (as well as on EUR/CHF) has occurred since the Overnight Index Swap (OIS) interest rate market began to price significant chances of a BoE (and ECB) interest rate cut in mid-to-late May.

At its June 20 meeting, the BoE stated "as part of the August forecast round, members of the Committee will consider all of the information available and how this affects the assessment that the risks from inflation persistence are receding. On that basis, the Committee will keep under review for how long Bank Rate should be maintained at its current level."

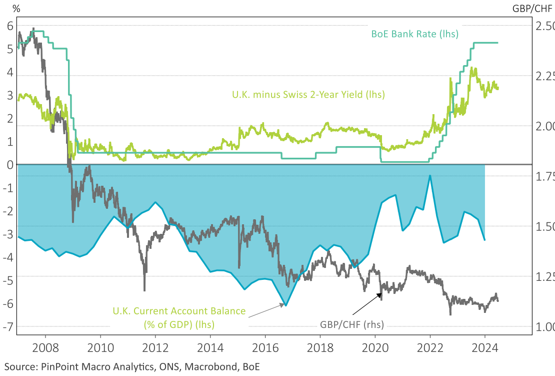
The increased chances of a BoE rate cutting cycle getting underway in August, is likely to keep GBP/CHF heavy. Its helpful to remember that Switzerland runs an extraordinarily large current account surplus equal to 7.6% of GDP. If the UK's interest rate advantage is narrowed while the U.K. economy runs a current account deficit (currently equal to 3.3% of GDP), that usually leads to depreciation pressures in GBP and GBP/CHF because of the reduced ability for the U.K. to fund the current account deficit.

It is worth noting that GBP/CHF largely trended lower over the BoE's most recent December 2022-to-present rate lifting cycle. It is difficult to see a BoE rate cutting cycle cause GBP/CHF to appreciate. Each one of the BoE's rate cutting cycles since the 2001 have resulted in GBP/CHF moving lower.

The CHF is also likely to be receiving some safe-haven inflows from the Eurozone while French political uncertainty prevails.

GBP/CHF, Rates, and U.K. Current Account

(Multiple Drivers of Exchange Rates)



Source: PinPoint Macro Analytics, ONS, Macrobond, BoE

The outlook for the GBP / SEK

GBP/SEK lifted 8.8% between the start of the year and early May. The main driver was an improving U.K. economy accompanied by upward revisions to U.K. GDP growth.

However, in early May, the SEK exchange rate began to appreciate, and GBP/SEK began to trend lower. Sweden's inflation continued to fall, and Sweden's economy grew a much stronger 0.7% QoQ in Q1, compared to initial estimates of a 0.1% contraction. It was the strongest quarterly growth since Q2 of 2022, driven by a surge in business investment, net exports, and inventories.

SEK was appreciating on signs of a healthier Swedish economy and, ironically, a cut in interest rates by the Riksbank on 8 May. In cutting the policy rate -25bp to 3.75%, the Riksbank added "the policy rate is expected to be cut two more times during the second half of the year".

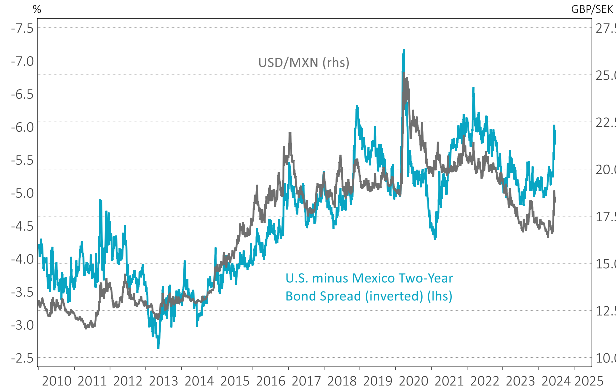
Although Sweden's CPIF inflation rose slightly to 2.3% in April, its was below expectations and SEK further strengthened on the likelihood the Riksbank would follow though with further cuts in interest rates to support growth.

Meanwhile further falls in U.K. inflation began to lift the odds of an interest rate cut by the Bank of England (BoE) and weigh on GBP. With the U.K. economy running a large current account deficit (equal to 3.3%) of GDP, a reduction in U.K. interest rates tends to weigh more on GBP than does a reduction in Swedish interest rates on SEK because Sweden has a large current account surplus (equal to 6.6% of GDP).

In assessing the outlook for interest rates, the BoE stated "as part of the August forecast round, members of the Committee will consider all of the information available".

USD/MXN and Two-Year Bond Spread

(U.S. minus Mexico Two-Year Bond Differential)



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

The Overnight Index Swap (OIS) market is pricing -15.5bp of interest rate cuts for the BoE's August meeting, equating to a 62% chance of a -25bp rate cut. Meanwhile, the OIS market has -18bp of rate cuts priced for the Riksbank's August meeting, equating to a 72% chance of a -25bp rate cut.

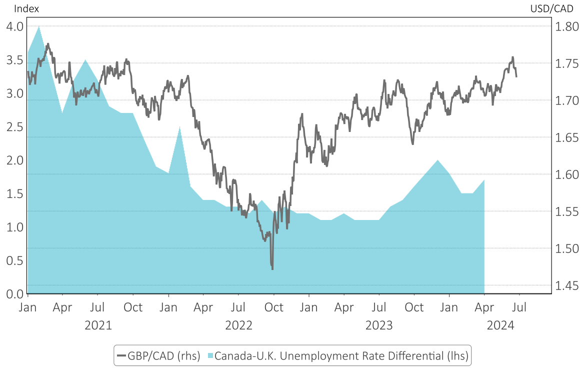
The U.K.-Sweden two-year bond spread has essentially traded in a narrow range, consolidating the recent decline in GBP/SEK.

GBP/SEK is likely to further consolidate for now. But risks moving lower because GBP is likely to come under more downward pressure than SEK during the rate cutting cycles of the two central banks.

The outlook for the GBP / CAD

GBP/CAD lifted more than 5.0% over the first six-months of this year as the U.K. economy recovered from its H2 2023 recession. A series of upward revisions to U.K. GDP growth over H1 2024 guided GBP higher, while Canada's economy weakened, and Canada's unemployment rate lifted to 6.2%, much more than it did in the U.K.

GBP/CAD Unemployment Rate Differentials
(Canadian Unemployment Rate minus U.K. Unemployment Rate)



Source: PinPoint Macro Analytics, Macrobond, ICE, ONS, StatCan

Further appreciation in GBP/CAD occurred as the Bank of Canada (BoC) moved closer to cutting interest rates on June 5. With Canadian headline CPI inflation easing to 2.7% and further evidence of underlying inflation falling, the BoC agreed that "monetary policy no longer needs to be as restrictive" and reduced the policy interest rate by 25bp to 4.75%, adding that "recent data has increased our confidence that inflation will continue to move towards the 2% target".

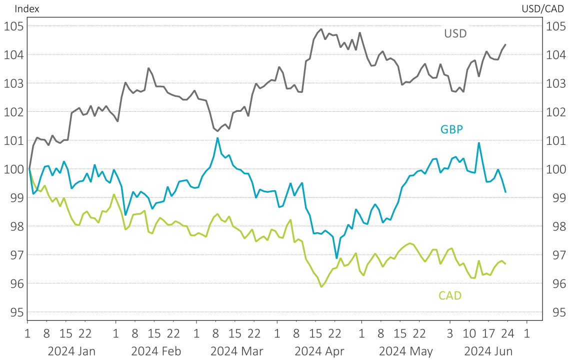
GBP/CAD may now be in for a modest period of depreciation as the Bank of England (BoE) gets ready to cut interest rates as early as August. At the BoE meeting on June 20, the BoE downplayed the strength of U.K. services inflation, currently at 5.7% for the twelve months to May. The BoE stated, "as part of the August forecast round, members of the Committee will consider all of the information available and how this affects the assessment that the risks from inflation persistence are receding. On that basis, the Committee will keep under review for how long Bank Rate should be maintained at its current level". The Overnight Index Swap (OIS) market is currently pricing -13.9bp (equating to a 55.6% chance) of a -25bp BoE rate cut in August.

Just how much downward pressure GBP comes under will be determined by the likely speed in which the BoE is willing to cut interest rates. This will be determined by the BoE's forward guidance.

Meanwhile the BoC stated that it will continue to watch the economic data, and it will make decisions on a meeting-by-meeting basis. Future reductions in interest rates are likely to be gradual.

The May reading of Canadian inflation is due on June 25 and this will be an important determinant for the BoC's monetary policy deliberations. The OIS market is currently pricing -14.8bp (equating to a 59.2% chance) for the next BoC meeting in July.

GBP, CAD and the USD Index
(Base 100 = 1 Jan 2024)



Source: PinPoint Macro Analytics, Macrobond, ICE

The outlook for the GBP / ZAR

GBP/ZAR has been quite volatile over June, and South African politics has been the primary driver.

South Africa’s partial election results were released on May 30, showing the African National Congress (ANC) likely losing its parliamentary majority for the first time in 30 years.

The final results, announced on June 2 confirmed that the ANC had indeed lost its majority. The political uncertainty caused large downward pressure on ZAR, with GBP/ZAR lifting by more than 4.0% in a matter of days.

In the weeks that followed, the ANC has formed a coalition government with other parties, including the Democratic Alliance (DA), Inkatha Freedom Party (IFP), and uMkhonto we Sizwe (MK), led by former president Jacob Zuma. South African President Cyril Ramaphosa was then reelected for a second term on June 15. GBP/ZAR gave up all of its late-May early-June gains and continued to depreciate.

Investor confidence returned to South Africa as the market digested the fact that the formation of a multi-party government could bring new opportunities for the country, as the different parties work together to address South Africa's complex social, economic, and political issues.

GBP/ZAR came under further downward pressure following the outcome of the Bank of England’s (BoE) monetary policy meeting on June 20. The BoE downplayed the recent strength in services inflation, currently 5.7%, saying “the risks from inflation persistence are receding. On that basis, the Committee will keep under review for how long Bank Rate should be maintained at its current level”. The BoE signaled that a rate cut is possible in August.

GBP/ZAR has now moved to the lower-end of its three-year trading range. The likelihood is a period of consolidation in GBP/ZAR following the volatility over the last few weeks.

Just how much downward pressure GBP comes under will be determined by the likely speed in which the BoE is willing to cut interest rates. The BoE’s forward guidance at its August meeting will be important. But the larger driver for GBP/ZAR will come from the market’s perception of how the new South African coalition government is settling in and bringing about improvements in the economy.

In the meantime, South Africa’s government owned electricity provider Eskom, is set to ask SA’s energy regulator (NERSA) for an electricity tariff increase of 36.15% in 2025 for customers it directly charges and supplies, and a 43.55% increase for customers relying on supply via local authorities. It appears there are coming upside risks to South Africa’s inflation rate, currently 5.2% in May.

An approval by the energy regulator to the electricity price increases would likely see the South African Reserve Bank (SARB) lift their 2025 inflation forecasts, just after they were was revised down to 4.5% (vs 4.6% in March) at their recent May 30 meeting. It would appear that the SARB may have difficulty achieving their 4.5% inflation target and, at least for now, maintain the key repo rate at 8.25%.

The outlook for the GBP / CZK

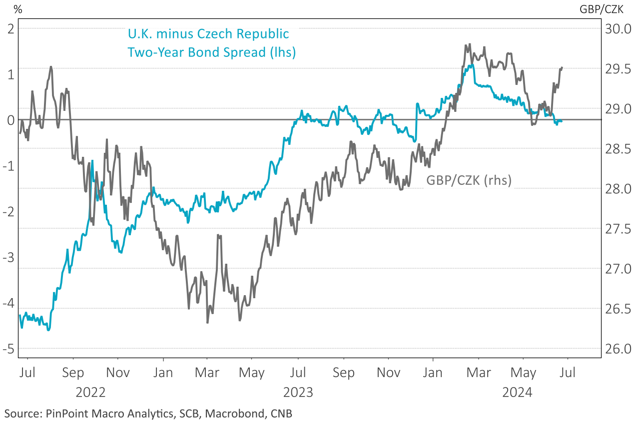
At the end of 2022, GBP/CZK briefly touched to a record low of 25.42. During March and April of 2023, GBP/CZK was carving out a bottom, before beginning to appreciate driven by two main factors.

First, CZK began to depreciate as Czech inflation began to decline from its secondary peak of 17.6% and the market began to price the eventual reduction in interest rates from the higher-for-longer monetary policy strategy of the Czech National Bank (CNB). The U.K.-Czech Republic two-year bond differential began its second leg high, getting above -2.0%.

Second, GBP began to edge higher as the USD eased from its late-September 2022 peak, and as GBP began to recover from the October 2022 Truss political crisis.

GBP/CZK and Two-Year Bond Spread

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



Source: PinPoint Macro Analytics, SCB, Macrobond, CNB

Looking ahead, on June 27, the CNB holds its regular monetary policy meeting. CNB Governor Ales Michl has stated that he sees both -50bp or -25bp as rate cut options. A -25bp rate cut would moderate the pace from the three consecutive -50bp delivered at the last three meetings.

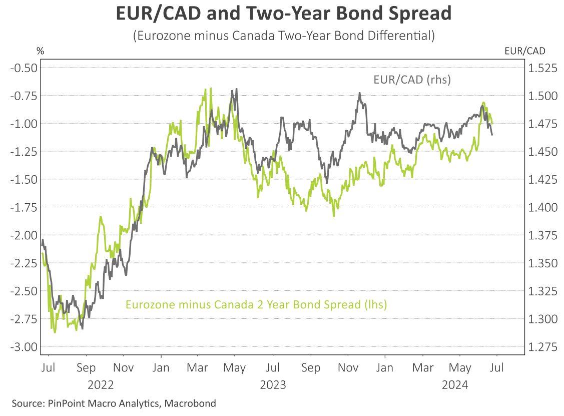
In both cases, the policy interest rate, currently 5.25%, would still be in restrictive territory. Governor Michl added “then we will be very cautious about future rate cuts … we will assess new data at each meeting and decide accordingly”. The CNB’s hypothetical/model-based nominal neutral rate is 3.0% to 3.5%.

Given how clear the CNB has been about the near-term direction of interest rates, GBP/CNZ is unlikely to react too much. However, over coming months, the beginning of the Bank of England’s (BoE) rate cutting cycle may well take GBP/CZH lower.

Technically, GBP/CZK has good support at the 200-day moving average of 28.89. The Overnight Index Swap (OIS) market is currently pricing -13.9bp (equating to a 55.6% chance) of a -25bp rate cut by the BoE in August.

The outlook for the EUR / CAD

EUR/CAD has declined some 2.1% since hitting a recent peak of 1.4929 on June 5. A day either side of this date, both the European Central Bank (ECB) and the Bank of Canda (BoC) began their interest rate cutting cycle. Both central banks reduced interest rates by -25bp to 3.75% and 4.75% respectively.



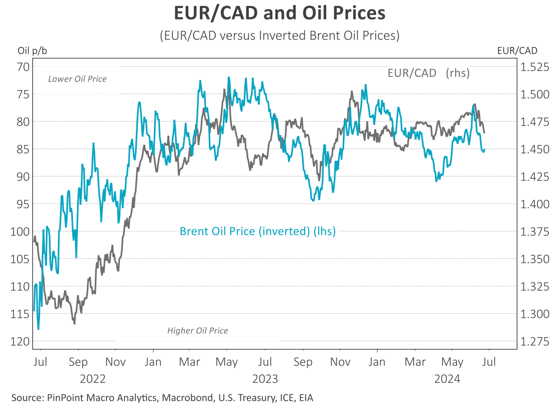
The fact that EUR/CAD has depreciated since June 5 shows there are other factors at play driving the fall in the EUR/CAD exchange rate.

French President Emmanuel Macron unexpectedly called for a snap election on June 10, following the EU Parliamentary elections that saw a significant victory for the French far-right National Rally (RN) party. Opinion polls released during the weekend of June 15-16 suggested that the RN would secure a resounding victory over Macron's centrist-left Renaissance Party in the two election rounds scheduled for June 30 and July 7. This political uncertainty led to an increased risk premium in financial markets, causing French bond spreads to widen compared to their German counterparts, and contributing to the depreciation of the EUR/CAD exchange rate.

Although the ECB lowered interest rates, it raised its inflation forecasts by 0.2% for both 2024 and 2025, signaling that it would not rush to implement the next rate cut. The ECB remains cautious about the elevated level of wage growth, as its indicator of negotiated wages stands at 4.7%, significantly higher than the 2.0% inflation target. The Overnight Index Swap (OIS) market currently assigns a 14.4% probability (-3.5 basis points) to a July ECB rate cut and a 79.6% probability (-19.9 basis points) to a September rate cut.

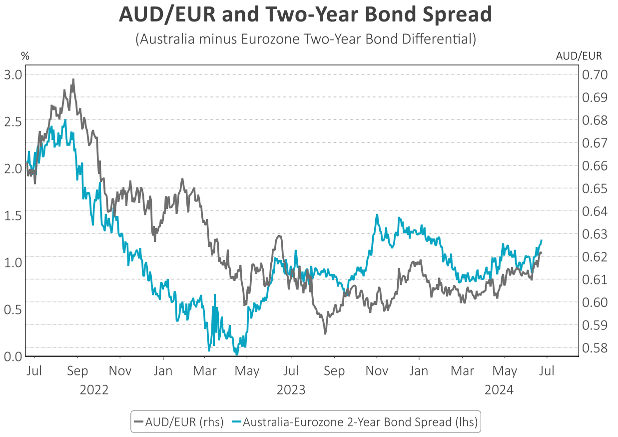
The BoC emphasized that its monetary policy decisions will be guided by economic data on a meeting-by-meeting basis, with future interest rate reductions likely to be gradual. Over the next month, the Canadian dollar is expected to remain relatively stable, thanks in part to a firm US economy, where 75% of Canada's exports are sold. But also because of elevated oil prices, resulting from OPEC+'s decision to extend supply cuts in early June.

Because Canada is a net energy export, and the Eurozone is a net energy importer, higher oil prices tend to weigh on the EUR/CAD exchange rate. It would appear that EUR/CAD is in for some further mild depreciation, possibly down to 1.4550.



The outlook for the AUD / EUR

AUD/EUR has lifted to close the week above 0.6200, its highest level since June 2023. The prospect of Australia's higher-for-longer interest rate, as the RBA walks along its "narrow path" compared to the European Central Bank's (ECB) decision to start cutting interest rates in early June, has helped guide AUD/EUR higher.



Source: PinPoint Macro Analytics, Macrobond

French President Emmanuel Macron's decision to call a snap French election on June 10, following the EU Parliamentary elections, which showed a significant victory for the French far-right National Rally (RN) party, has weighed on EUR, and help lift AUD/EUR, because exchange rate markets do not like political uncertainty.

French opinion polls released over the weekend of June 15-16 indicated that the RN would have a resounding victory over Macron's centrist-left Renaissance party in the two election rounds on June 30 and July 7. This political uncertainty has also increased the risk premium in bond markets, causing French bond spreads to widen over their German counterparts, as the "risk premium" gets priced into broader financial markets.

The RBA left interest rates unchanged at 4.35% at their June 18 meeting. But emphasized they have chosen a "narrow path" to not lift interest rates too high, in order not to have the unemployment rate move up too much. The RBA know that this means it will take longer for inflation to come down. So, Australia's interest rates will remain higher-for-longer.

The RBA's chosen "narrow path" of higher-for-longer interest rates means AUD is likely to keep appreciating against EUR, assisted also by above-average global economic growth (3.2% in 2024 and 2025) which is driving a a trend rise in commodity prices.

Despite the cut in interest rates, the ECB lifted their inflation forecasts by 0.2% for both 2024 and 2025, indicating they will not be in a hurry to deliver the next cut in interest rates. The ECB remain concerned that wages growth, currently 4.7%, remains at elevated levels. With Eurozone economic activity also having improved slightly, the likelihood a near-term July ECB rate cut is very slim.

AUD/EUR will therefore endure a bumpy ride as ECB rate cut expectations wax and wane, and once the French political uncertainty tones down. But AUD/EUR should nevertheless trend modestly higher over coming months.

The outlook for the AUD / GBP

AUD/GBP has lifted to a five-week high and closed the week ending June 21 above 0.5250.

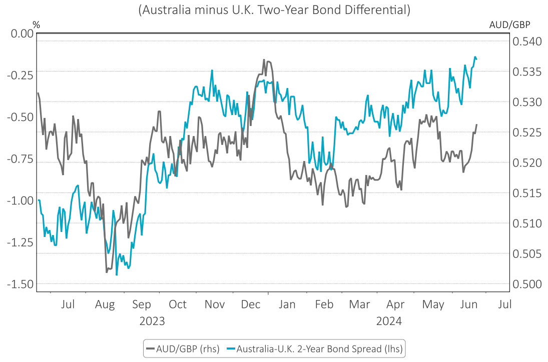
The Bank of England (BoE) has indicated it is seriously considering following in the footsteps of a number of other central banks and begin cutting interest rates, as early as August. If the BoE cut interest rates, it is likely to apply downward pressure to GBP/USD, and some upward pressure to AUD/GBP.

The Bank of England at its June 19 meeting voted by a majority of 7–2 to maintain the Bank Rate at 5.25%. Two members voted to reduce the Bank Rate by 0.25% to 5.00%. The BoE stated "as part of the August forecast round, members of the Committee will consider all of the information available and how this affects the assessment that the risks from inflation persistence are receding. On that basis, the Committee will keep under review for how long Bank Rate should be maintained at its current level."

In contrast to the Bank of England (BoE) who discussed cutting interest rates at their June 19 meeting, the RBA discussed lifting interest rates at their June 18 meeting.

AUD/GBP and Two-Year Bond Spread

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



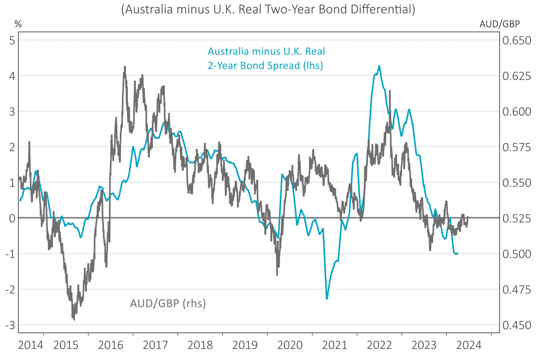
Source: PinPoint Macro Analytics, Macrobond, RBA

In the end, the RBA left interest rates unchanged at 4.35%. But emphasized they have chosen a "narrow path" to not lift interest rates too high in order to not have the unemployment rate move up too much. The RBA know that this means it will take longer for inflation to come down. So, Australia's interest rates will remain higher-for-longer.

The RBA's chosen "narrow path" of higher-for-longer interest rates means AUD is likely to keep appreciating against GBP, assisted also by above-average global economic growth (at 3.2% in 2024 and 2025) which is driving a trend rise in commodity prices. AUD/GBP may lift to 0.5300 in coming months.

AUD/GBP and Real Two-Year Bond Spread

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



Source: PinPoint Macro Analytics, Macrobond, RBA, ABS, ONS

The outlook for the AUD / CNY

CNY is set to remain relatively weak because China's economy is struggling with a property crisis that is set to last years. The ramification of the downturn in China's property sector have generated deflation in producer price inflation (-1.4% YoY in May). Consumer price inflation, at 0.3% YoY in May, has averaged 0.0% YoY for the last 14-months.

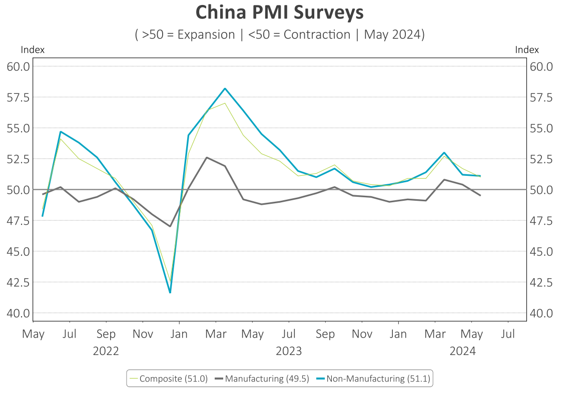
The PBoC are likely to implement more targeted easing measures to support economic growth. This may include lowering the reserve requirement ratio (RRR) to free up the local Chinese bank's ability to lend more money, and a cut in the PBoC's benchmark medium-term lending rate, or lowering of the 7-day repo rate.

Despite China's weak economy and property sector challenges, and the benefits to China's economy from a lower exchange rate, the PBoC will continue to heavily manage the exchange rate on a daily basis so as not to let a large-scale depreciation occur in the CNY. Like many of the Asian central banks, the PBoC have a fear of a "floating exchange rate" and do not want to see CNY depreciate too rapidly.

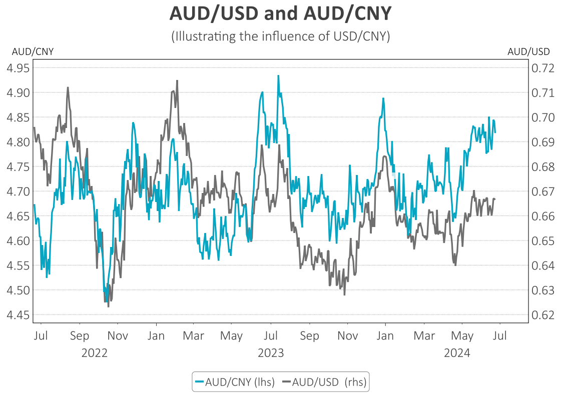
The RBA left interest rates unchanged at 4.35% at their June 18 meeting. But emphasized they have chosen a "narrow path" to not lift interest rates too high in order to not have the unemployment rate move up too much. The RBA know that this means it will take longer for inflation to come down. So, Australia's interest rates will remain higher-for-longer.

The RBA's chosen "narrow path" of higher-for-longer interest rates means AUD is likely to keep appreciating against CNY, particularly if the PBoC further reduce interest rates over coming months.

Despite China's relative weak economy, global economic growth is forecast by the IMF and OECD to be above-average in 2024 and 2025 at 3.2% for both years. Firmer commodity prices should will generate support for AUD. AND/CNY should edge higher over coming months.



Source: PinPoint Macro Analytics, Macrobond, CFLP



Source: PinPoint Macro Analytics, RBA, Macrobond

The outlook for the AUD / JPY

AUD/JPY closed above 106.00 in the week ending June 21. Its highest level since the end of 2007. AUD is not particularly strong at present. JPY is however, cyclically very weak, at a 35-year low versus the USD.

The main reason for a weak JPY is because U.S. interest rates are relatively high, and Japan's interest rates are very low. Japan's economy is also cyclically weak at present.

In an effort to support the weak JPY, the Bank of Japan (BoJ) and Japan's Ministry of Finance (MoF) have intervened in the foreign exchange market no less than three times since the beginning of 2022. Despite spending a collective ¥18.98 trillion (US$126.8bn) trying to strengthen the JPY, it has come to no avail.

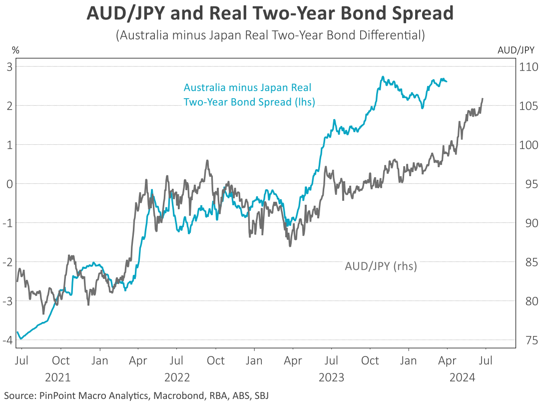
Over coming months, Japan's recent wage increases granted through the annual Spring "Shunto" wage rounds should begin to feed into the official Japanese wage data. The BoJ believe that higher wage growth will eventually lead to an increase in Japan's CPI inflation, a lift in 10-year JGB yields, and enable a further increase in Japan's short-term interest rates. This fundamental change in Japan's economy may work to engineer some strength back into the JPY over coming months.

However, the major catalyst to strengthen the JPY (and bring AUD/JPY lower) will be a cut in interest rates by the U.S. Federal reserve. However, at their June 12 meeting, the FOMC signaled a delay to interest rate cuts, and signaled that there may only be one interest rate cut by the end of the year. Previously in March, the FOMC had forecast of three interest rate cuts by year-end.

The RBA's chosen "narrow path" of higher-for-longer interest rates means AUD is likely to remain well-supported against JPY at relatively high levels, until the catalyst arrives to weaken the JPY.

Relatively high real (inflation-adjusted) Australia interest rates, as shown in the Australia-Japan real two-year bond differential, has been a source of support for AUD/JPY.

Despite the fundamental support AUD/JPY has right now. AUD/JPY is likely to be volatile. The BoJ may again intervene in the FX market to try and strengthen the JPY.



The outlook for the AUD / NZD

AUD/NZD is currently trading at 1.0855, above its 200-day moving average of 1.0802. This is because at its June 11 meeting, the RBA discussed raising interest rates.

The persistently strong Australian non-tradables and services inflation, as well as the very solid Australian labour market data, combined with zero productivity growth over the last year, has meant the RBA remain ready to lift interest rates if the June quarter inflation data remains strong, when it is released on 31 July. In the RBA's own words, the RBA board is "not ruling anything in or out". AUD/NZD is reflecting this upside risk.

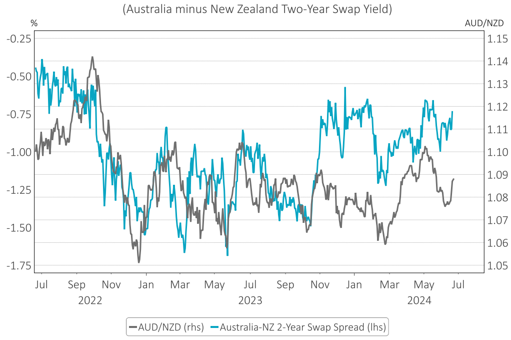
In New Zealand, while inflation also remains high, New Zealand's economy remains much weaker than Australia's economy. Hence, there is much less likelihood the RBNZ will lift interest rates compared to the RBA.

New Zealand exited their second recession in the last 18-months when the economy recorded a better-than-expected lift of 0.2% QoQ in Q1, to take the annual rate of GDP growth to 0.3% YoY. AUD/NZD has not traded significantly higher over the period in which New Zealand's economy was in recession because relative interest rate differentials have a stronger influence on the AUD/NZD exchange rate than does relative GBP growth rates. Australia-New Zealand's two-year swap spread suggests AUD/NZD should trade a little higher. But the interest rate differential remains negative, constraining significant AUD/NZD upside.

Having said that, AUD/NZD still risks lifting and testing the May 7 high of 1.1031 because of the upside risk to Australia's interest rates, and because of stronger than average global economic growth. The upward revision to global economic growth by both the IMF and OECD to 3.2% for 2024 and 2025, is also likely to see AUD outperform relative to NZD, partly because Australia's base metal export prices continue to remain elevated, despite their modest correction from their recent high.

AUD/NZD and Two-Year Swap Spread

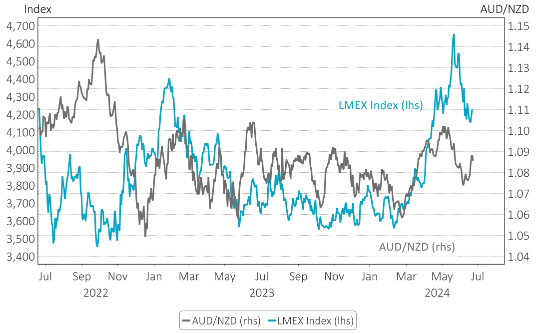
(Australia minus New Zealand Two-Year Swap Yield)



Source: PinPoint Macro Analytics, Macrobond, RBNZ, RBA

AUD/NZD and Base Metal Prices

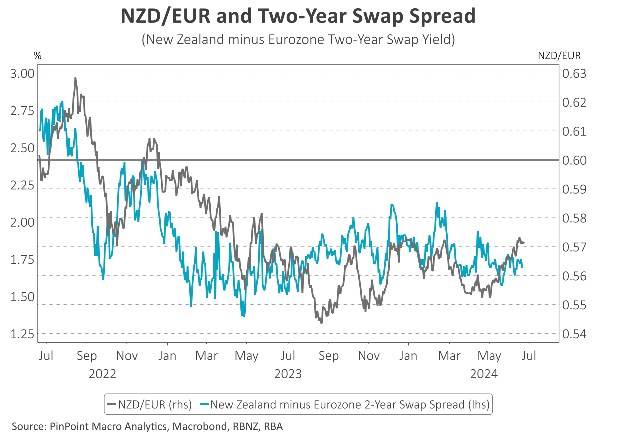
(Base Metal Commodity Prices - London Metals Exchange Index)



Source: PinPoint Macro Analytics, Macrobond, RBA, LME

The outlook for the NZD / EUR

NZD/EUR has trended higher since the beginning of May. The prospect of New Zealand's higher-for-longer interest rate, as the RBNZ waits for inflation to come down, compared to the European Central Bank's (ECB) decision to start cutting interest rates in early June, has helped guide NZD/EUR higher.



French President Emmanuel Macron's decision to call a snap French election on June 10, following the EU Parliamentary elections, which showed a significant victory for the French far-right National Rally (RN) party, has weighed on EUR, and help lift NZD/EUR, because exchange rate markets do not like political uncertainty.

French opinion polls released over the weekend of June 15-16 indicated that the RN would have a resounding victory over Macron's centrist-left Renaissance party in the two rounds of voting on June 30 and July 7. This political uncertainty has also increased the risk premium in bond markets, causing French bond spreads to widen over their German counterparts, as the "risk premium" gets priced into broader financial markets.

With New Zealand's headline inflation at 4.0%, and non-tradeables (domestic) inflation at an even higher 5.8%, the RBNZ is forced to leave interest rates at relatively high levels, generating support for NZD.

At their May 22 monetary policy meeting, the RBNZ discussed lifting interest rates because "members agreed that persistence in non-tradable (domestic) inflation remains a significant upside risk." The RBNZ added "monetary policy may need to tighten and/or remain restrictive for longer if wage and price setters do not align with weaker productivity growth rates." The prospect of higher-for-longer interest rates will keep NZD supported against the EUR while the ECB is cutting rates.

Despite the reduction in interest rates, the ECB lifted their inflation forecasts by 0.2% for both 2024 and 2025, indicating they will not be in a hurry to deliver the next cut in interest rates. The ECB remain concerned that wages growth, currently 4.7%, remains at elevated levels. With Eurozone economic activity also having improved slightly, the likelihood a near-term July ECB rate cut is very slim.

NZD/EUR will therefore endure a bumpy ride as ECB rate cut expectations wax and wane, and once the French political uncertainty tones down. But NZD/EUR should nevertheless continue to trend modestly higher over coming months.

The outlook for the NZD / GBP

NZD/GBP has lifted to be just shy of a four-month high, closing the the week ending June 21 at 0.4839.

The Bank of England (BoE) has indicated it is seriously considering following in the footsteps of a number of other central banks and begin cutting interest rates, as early as August. If the BoE cut interest rates, it is likely to apply downward pressure to GBP/USD, and some upward pressure to NZD/GBP.

The Bank of England at its June 19 meeting voted by a majority of 7–2 to maintain the Bank Rate at 5.25%. Two members voted to reduce the Bank Rate by 0.25% to 5.00%. The BoE stated "as part of the August forecast round, members of the Committee will consider all of the information available and how this affects the assessment that the risks from inflation persistence are receding. On that basis, the Committee will keep under review for how long Bank Rate should be maintained at its current level."

In contrast to the Bank of England (BoE) who discussed cutting interest rates at their June 19 meeting, the RBNZ discussed lifting interest rates at their May 22 meeting.

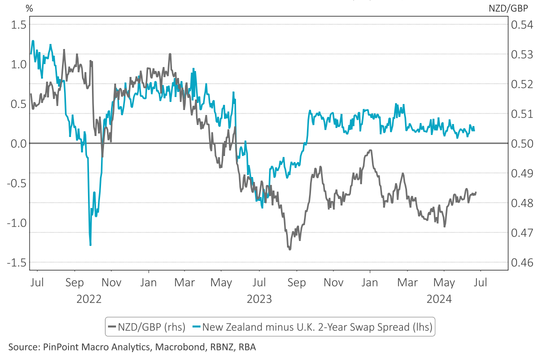
In the end, the RBNZ left interest rates unchanged at 5.50%. But stated "members agreed that persistence in non-tradable (domestic) inflation remains a significant upside risk." The RBNZ added "monetary policy may need to tighten and/or remain restrictive for longer if wage and price setters do not align with weaker productivity growth rates." New Zealand's interest rates are likely to remain higher-for-longer.

New Zealand exited their second recession in the last 18-months when the economy recorded a better-than-expected lift of 0.2% QoQ in Q1, to take the annual rate of GDP growth to 0.3% YoY. The economy however appears to have since turned notably softer as consumer and business confidence slow.

Nevertheless, NZD/GBP may lift towards 0.4900 in the next month or so as the BoE cuts interest rates, and as New Zealand's terms of trade begin to lift again on improving commodity prices. New Zealand's terms of trade are beginning to rise again after falling for the last two years to end-2023.

NZD/GBP and Two-Year Swap Spread

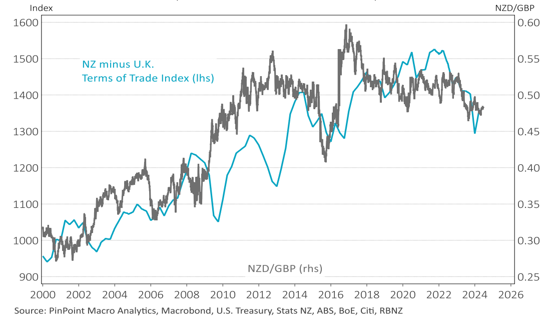
(New Zealand minus U.K. Two-Year Swap Spread)



Source: PinPoint Macro Analytics, Macrobond, RBNZ, RBA

NZD/GBP and Terms of Trade Differentials

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



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

The outlook for the NZD / CNY

CNY is set to remain relatively weak because China's economy is struggling with a property crisis that is set to last years. The ramification of the downturn in China's property sector have generated deflation in producer price inflation (-1.4% YoY in May). Consumer price inflation, at 0.3% YoY in May, has averaged 0.0% YoY for the last 14-months.

The PBoC are likely to implement more targeted easing measures to support economic growth. This may include lowering the reserve requirement ratio (RRR) to free up the local Chinese bank's ability to lend more money, and a cut in the PBoC's benchmark medium-term lending rate, or lowering of the 7-day repo rate.

Despite China's weak economy and property sector challenges, and the benefits to China's economy from a lower exchange rate, the PBoC will continue to heavily manage the exchange rate on a daily basis so as not to let a large-scale depreciation occur in the CNY. Like many of the Asian central banks, the PBoC have a fear of a "floating exchange rate" and do not want to see CNY depreciate too rapidly.

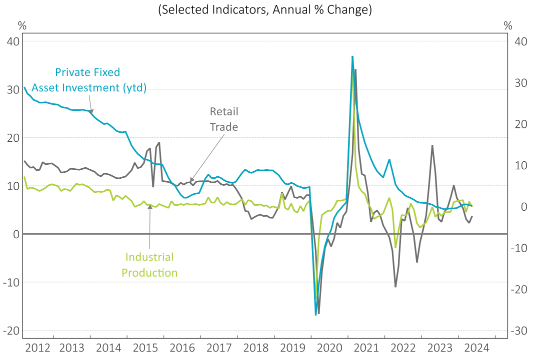
The RBNZ left interest rates unchanged at 5.50%. But stated "members agreed that persistence in non-tradable (domestic) inflation remains a significant upside risk." The RBNZ added "monetary policy may need to tighten and/or remain restrictive for longer if wage and price setters do not align with weaker productivity growth rates." New Zealand's interest rates are likely to remain higher-for-longer.

The RBNZ's resilience to keep interest rates high means NZD is likely to keep appreciating against CNY, particularly if the PBoC further reduce interest rates over coming months.

Despite China's relative weak economy, global economic growth is forecast by the IMF and OECD to be above-average in 2024 and 2025 at 3.2% for both years. New Zealand's dairy prices are lifting, and New Zealand's terms of trade are rising again after two-years of declines to end-2023. A lift in NZ's terms of trade should support NZD. NZD/CNY should edge higher over coming months.

China Domestic Demand

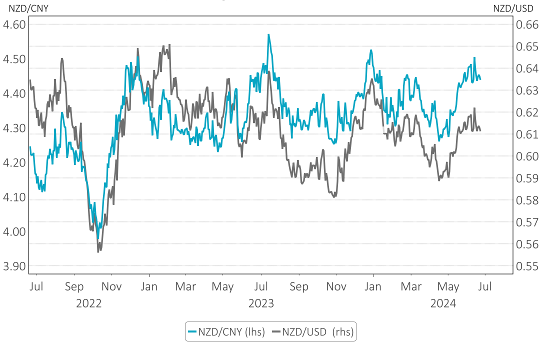
(Selected Indicators, Annual % Change)



Source: PinPoint Macro Analytics, Macrobond, NBS, MOT

NZD/USD and NZD/CNY

(Illustrating the influence of USD/CNY)



Source: PinPoint Macro Analytics, Macrobond, RBA

The outlook for the NZD / JPY

NZD/JPY closed at 97.79 in the week ending June 21. Its highest level since mid-1986. NZD is not particularly strong at present. JPY is however, cyclically very weak, at a 35-year low versus the USD.

The main reason for a weak JPY is because U.S. interest rates are relatively high, and Japan's interest rates are very low. Japan's economy is also cyclically weak at present.

In an effort to support the weak JPY, the Bank of Japan (BoJ) and Japan's Ministry of Finance (MoF) have intervened in the foreign exchange market no less than three times since the beginning of 2022. Despite spending a collective ¥18.98 trillion (US$126.8bn) trying to strengthen the JPY, it has come to no avail.

Over coming months, Japan's recent wage increases granted through the annual Spring "Shunto" wage rounds should begin to feed into the official Japanese wage data. The BoJ believe that higher wage growth will eventually lead to an increase in Japan's CPI inflation, a lift in 10-year JGB yields, and enable a further increase in Japan's short-term interest rates. This fundamental change in Japan's economy may work to engineer some strength back into the JPY over coming months.

However, the major catalyst to strengthen the JPY (and bring NZD/JPY lower) will be a cut in interest rates by the U.S. Federal reserve. However, at their June 12 meeting, the FOMC signaled a delay to interest rate cuts, and signaled that there may only be one interest rate cut by the end of the year. Previously in March, the FOMC had forecast of three interest rate cuts by year-end.

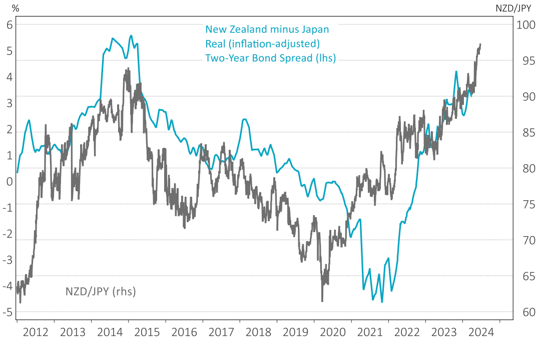
The RBNZ higher-for-longer interest rates means NZD is likely to remain well-supported against JPY at relatively high levels, until the catalyst arrives to weaken the JPY.

Relatively high real (inflation-adjusted) New Zealand interest rates, as shown in the New Zealand-Japan real two-year bond differential, has been a source of support for NZD/JPY.

Despite the fundamental support NZD/JPY has right now. NZD/JPY is likely to be volatile. The BoJ may again intervene in the FX market to try and strengthen the JPY.

NZD/JPY and Real Two-Year Bond Spread

(New Zealand minus Japan Real Two-Year Bond Differential)



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

The outlook for the NZD / AUD

NZD/AUD is currently trading at 0.9214, below its 200-day moving average of 0.9259. This is because at its June 11 meeting, the RBA discussed raising interest rates.

The persistently strong Australian non-tradables and services inflation, as well as the very solid Australian labour market data, combined with zero productivity growth over the last year, has meant the RBA remain ready to lift interest rates if the June quarter inflation data remains strong, when it is released on 31 July. In the RBA's own words, the RBA board is "not ruling anything in or out". NZD/AUD is reflecting this downside risk.

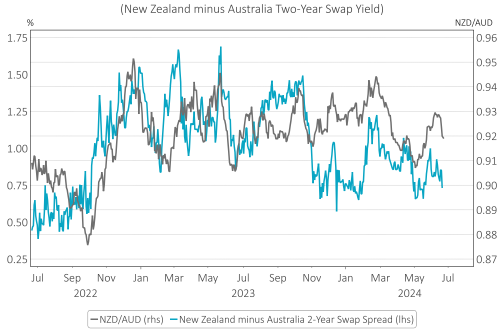
In New Zealand, while inflation also remains high, New Zealand's economy remains much weaker than Australia's economy. Hence, there is much less likelihood the RBNZ will lift interest rates compared to the RBA.

New Zealand exited their second recession in the last 18-months when the economy recorded a better-than-expected lift of 0.2% QoQ in Q1, to take the annual rate of GDP growth to 0.3% YoY. NZD/AUD has not traded significantly lower over the period in which New Zealand's economy was in recession because relative interest rate differentials have a stronger influence on the NZD/AUD exchange rate than does relative GBP growth rates. New Zealand-Australia's two-year swap spread suggests NZD/AUD should trade a little lower. But the positive interest rate differential constraining significant NZD/AUD downside.

Having said that, NZD/AUD still risks declining and testing the May 7 low of 0.9066 because of the upside risk to Australia's interest rates, and because of stronger than average global economic growth. The upward revision to global economic growth by both the IMF and OECD to 3.2% for 2024 and 2025, is also likely to see AUD outperform relative to NZD, partly because Australia's base metal export prices continue to remain elevated, despite their modest correction from their recent high.

NZD/AUD and Two-Year Swap Spread

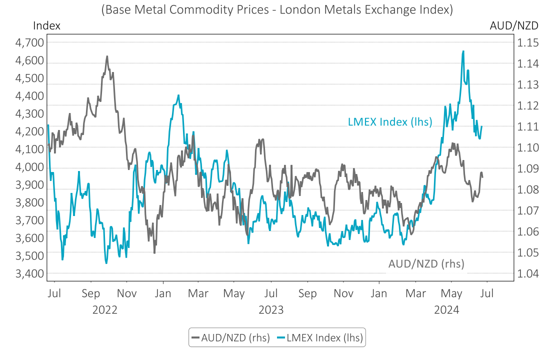
(New Zealand minus Australia Two-Year Swap Yield)



Source: PinPoint Macro Analytics, Macrobond, RBNZ, RBA

AUD/NZD and Base Metal Prices

(Base Metal Commodity Prices - London Metals Exchange Index)



Source: PinPoint Macro Analytics, Macrobond, RBA, LME

Central Bank
Forward Market Interest Rates

U.S. Federal Reserve (Fed)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.50**	
31 Jul 24	5.32	-1
18 Sep 24	5.17	-16
07 Nov 24	5.07	-26
18 Dec 24	4.89	-44
29 Jan 25	4.73	-60
20 Mar 25	4.56	-77
01 May 25	4.43	-90
12 Jun 25	4.29	-104

European Central Bank (ECB)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**3.75**	
18 Jul 24	3.65	-1
12 Sep 24	3.48	-18
17 Oct 24	3.41	-25
12 Dec 24	3.22	-44
24 Jan 25	3.13	-54
07 Mar 25	2.99	-67
11 Apr 25	2.91	-75
06 Jun 25	2.79	-88

Reserve Bank of Australia (RBA)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**4.35**	
06 Aug 24	4.37	+4
24 Sep 24	4.37	+4
05 Nov 24	4.34	+1
10 Dec 24	4.30	-3
18 Feb 25	4.21	-12
01 Apr 25	4.13	-20
20 May 25	4.07	-26
08 Jul 25	4.03	-30
12 Aug 25	3.99	-34

Bank of England (BoE)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.25**	
01 Aug 24	5.06	-14
19 Sep 24	4.99	-21
07 Nov 24	4.83	-37
19 Dec 24	4.73	-47
06 Feb 25	4.59	-61
20 Mar 25	4.48	-72
08 May 25	4.36	-84
19 Jun 25	4.26	-94
07 Aug 25	4.16	-104

Reserve Bank of New Zealand (RBNZ)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.50**	
10 Jul 24	5.51	+1
14 Aug 24	5.48	-2
09 Oct 24	5.40	-10
27 Nov 24	5.21	-29
19 Feb 25	4.98	-52
09 Apr 25	4.82	-68
28 May 25	4.65	-85
09 Jul 25	4.52	-98
16 Sep 25	4.36	-114
17 Dec 25	4.18	-132

Bank of Japan (BoJ)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**0.05**	
23 Jun 24	0.13	+5
31 Jul 24	0.18	+10
20 Sep 24	0.24	+16
31 Oct 24	0.27	+20
19 Dec 24	0.31	+23
22 Jan 25	0.35	+27
19 Mar 25	0.36	+29
26 Apr 25	0.41	+33
16 Jun 25	0.48	+40
16 Sep 25	0.53	+45

Bank of Canada (BoC)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**0.00**	
24 Jul 24	4.63	-15
04 Sep 24	4.50	-28
23 Oct 24	4.37	-41
11 Dec 24	4.23	-55
23 Jan 25	4.11	-67
06 Mar 25	3.99	-79
10 Apr 25	3.87	-91
05 Jun 25	3.74	-104
24 Jul 25	3.57	-121
04 Sep 25	3.45	-133

Swedish Riksbank

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**3.75**	
27 Jun 24	3.78	+4
20 Aug 24	3.57	-18
25 Sep 24	3.46	-28
07 Nov 24	3.40	-34
19 Dec 24	3.23	-52
31 Jan 25	3.01	-73
27 Mar 25	2.92	-82
08 May 25	2.86	-89
27 Jun 25	2.77	-98
20 Aug 25	2.66	-109

* All prices reflect actual Overnight Index Swap (OIS) interest rate markets, which are the ‘purest’ form of expectations for future central bank interest rate movements.

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 green).

Central Bank Policy Rates Dashboard

(Hikes in Blue | Cuts in Grey)

	5/2024	4/2024	3/2024	2/2024	1/2024	12/2023	11/2023	10/2023	9/2023	8/2023	7/2023	6/2023	5/2023
United States	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.13	5.13
Euro Area	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.25	4.00	4.00	3.75
United Kingdom	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.00	5.00	4.50
Japan	0.05	0.05	0.05	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	
Argentina	40.00	60.00	80.00	100.00	100.00	100.00	133.00	133.00	118.00	118.00	97.00	97.00	
Australia	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.10	4.10	4.10	4.10	4.10	3.85
Brazil	10.50	10.75	10.75	11.25	11.75	11.75	12.25	12.75	12.75	13.25	13.75	13.75	13.75
Canada	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.50
Switzerland	1.50	1.50	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.50
Chile	6.00	6.50	7.25	7.25	8.25	8.25	9.00	9.00	9.50	10.25	10.25	11.25	
China	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.55	3.55	
Colombia	11.75	12.25	12.25	12.75	13.00	13.00	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Czech Republic	5.25	5.75	5.75	6.25	6.75	6.75	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Denmark	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.35	3.35	3.10	2.85
Hong Kong	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.50	5.50
Hungary	7.25	7.75	8.25	9.00	10.00	10.75	11.50	12.25	13.00	13.00	13.00	13.00	13.00
Indonesia	6.25	6.25	6.00	6.00	6.00	6.00	6.00	6.00	5.75	5.75	5.75	5.75	5.75
Israel	4.50	4.50	4.50	4.50	4.50	4.75	4.75	4.75	4.75	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	6.50
Iceland	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	8.75	8.75	8.75
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	3.50
North Macedonia	6.30	6.30	6.30	6.30	6.30	6.30	6.30	6.30	6.30	6.15	6.00	6.00	5.75
Mexico	11.00	11.00	11.00	11.25	11.25	11.25	11.25	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	4.25	4.25	4.25	4.00	3.75	3.75	3.25
New Zealand	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Peru	5.75	6.00	6.25	6.25	6.50	6.75	7.00	7.25	7.50	7.75	7.75	7.75	
Philippines	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.25	6.25	6.25	
Poland	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	6.00	6.75	6.75	6.75	6.75
Romania	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Serbia	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.00
Russia	16.00	16.00	16.00	16.00	16.00	16.00	15.00	15.00	13.00	12.00	8.50	7.50	7.50
Saudi Arabia	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.75	5.75
Sweden	3.75	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.75	3.75	3.50	3.50
Thailand	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.25	2.00	2.00	1.75
Turkey	50.00	50.00	50.00	45.00	45.00	42.50	40.00	35.00	30.00	25.00	17.50	15.00	8.50
South Africa	8.25	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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