Global

Currency Outlook

September 2024

Key insights

Over much of August and into early September, there have been growing concerns about the strength of U.S. and global economic activity, and this has impacted global financial markets.

The USD is set to trend lower and depreciate into year-end as the U.S. economy shows definitive signs of slowing, and **the Fed begins cutting interest rates on September 18.**

EUR/USD will lift over coming months as a major outlet in response to a depreciating USD, some improving strength in the Eurozone economy, and because the Eurozone current account surplus has lifted to a relatively large 2.2% of GDP.

GBP has out-performed the major currencies over the last month because of upward revisions to the U.K. economy. Further bank of England interest rate cuts will only mildly restrain GBP while the USD depreciates.

The Canadian economy has weakened, and the Bank of Canada is worried it may soften too much. The Bank of Canada is set to further cut interest rates. But CAD will strengthen on a weakening USD.

China's economy continues to struggle with the effects of a property crisis. But **CNY will strengthen as the USD depreciates**.

AUD will remain volatile as perceptions over the strength of the global economy impact financial markets. The RBA is set to maintain high interest rates despite other central banks cutting interest rates.

NZD will also remain volatile on perceptions over the strength of the global economy. **The RBNZ will continue cutting interest rates. But it won't necessarily lead to downward pressure on NZD because of a depreciating USD.**

Key takeaways

- USD is likely to depreciate as the Fed cuts interest rates on September 18.
- EUR will modestly appreciate as a major outlet to a weaker USD.
- GBP is lifting on upward revisions to the U.K. economy.
- CAD will likely under-perform on a relatively weak economy and BoC rate cuts. But USD/CAD will edge lower as the USD depreciates.
- JPY strength and volatility should remain in place as the BoJ looks to further lift interest rates.
- CNY is set to strengthen in line with a lower USD despite a weak Chinese economy.
- AUD and NZD will remain volatile on concerns over the strength of the global economy.
- NZD will not necessarily fall despite more RBNZ interest rate cuts because of a weakening USD.
- MXN and ZAR have begun to re-strengthen now that political developments have subsided.

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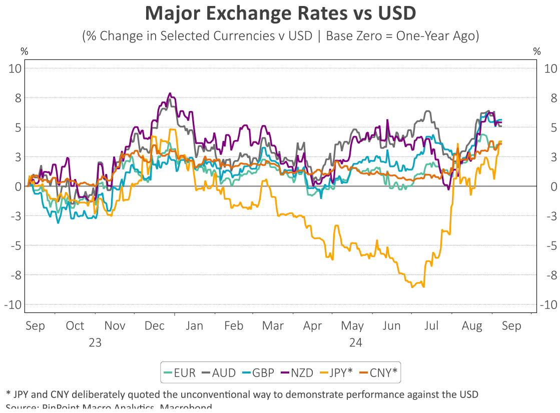
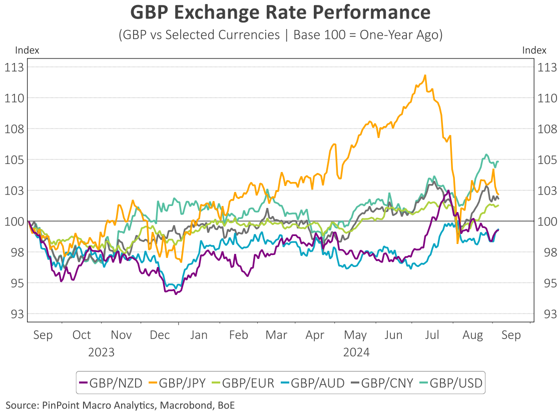
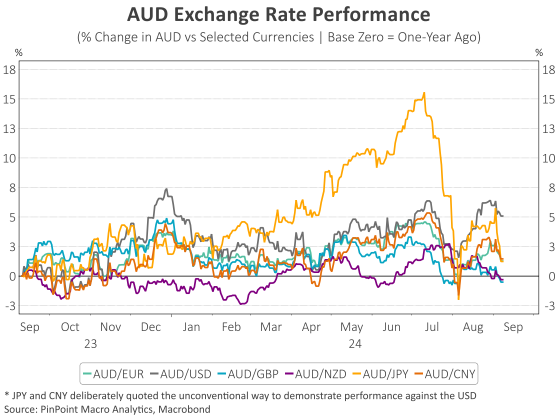
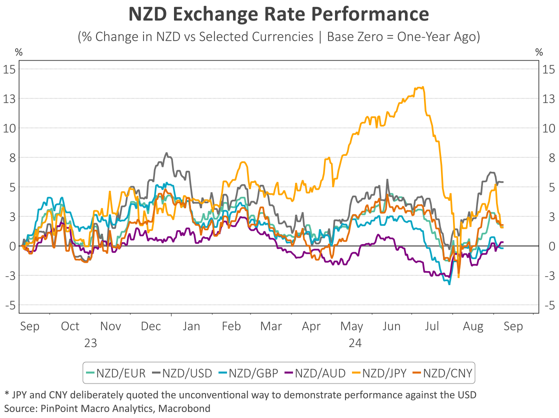








Currency Estimates

Majors	Current	1-Month	3-Month	6-Month
AUD/USD	*0.6670*	0.6600	0.6800	0.6900
EUR/USD	*1.1085*	1.0950	1.1000	1.1200
GBP/USD	*1.3127*	1.3100	1.3200	1.3200
USD/JPY	*142.23*	140.00	138.00	135.00
USD/CNY	*7.0926*	7.0800	7.0400	6.9500
NZD/USD	*0.6173*	0.6100	0.6200	0.6250
USD/CAD	*1.3572*	1.3450	1.3350	1.3200
USD/CHF	*0.8431*	0.8500	0.8400	0.8300
USD/SEK	*10.296*	*10.350*	*10.200*	*10.000*

Emerging Markets	Current	1-Month	3-Month	6-Month
USD/MXN	*19.9727*	*20.0000*	*20.5000*	*19.5000*
USD/ZAR	*17.8500*	*18.0000*	*17.5000*	*17.2500*
USD/CZK	*22.5700*	*22.6000*	*22.2500*	*22.0000*

GBP Crosses	Current	1-Month	3-Month	6-Month
GBP/EUR	*1.1842*	*1.1963*	*1.2000*	*1.1786*
GBP/CHF	*1.1067*	*1.1135*	*1.1088*	*1.0956*
GBP/SEK	*13.516*	*13.559*	*13.464*	*13.200*
GBP/AUD	*1.9681*	*1.9848*	*1.9412*	*1.9130*
GBP/NZD	*2.1265*	*2.1475*	*2.1290*	*2.1120*
GBP/ZAR	*23.4317*	*23.5800*	*23.1000*	*22.7700*
GBP/CZK	*29.6276*	*29.6060*	*29.3700*	*29.0400*

EUR Crosses	Current	1-Month	3-Month	6-Month
EUR/GBP	*0.8444*	*0.8359*	*0.8333*	*0.8485*
EUR/CAD	*1.5045*	*1.4728*	*1.4685*	*1.4784*
EUR/AUD	*1.6619*	*1.6591*	*1.6176*	*1.6232*
EUR/NZD	*1.7957*	*1.7951*	*1.7742*	*1.7920*

AUD Crosses	Current	1-Month	3-Month	6-Month
AUD/EUR	0.5954	0.6027	0.6182	0.6161
AUD/GBP	0.5028	0.5038	0.5152	0.5227
AUD/JPY	93.87	92.40	93.84	93.15
AUD/CNY	4.6811	4.6728	4.7872	4.7955
AUD/NZD	1.0805	1.0820	1.0968	1.1040
AUD/CAD	0.8958	0.8877	0.9078	0.9108
AUD/CHF	0.5564	0.5610	0.5712	0.5727

NZD Crosses	Current	1-Month	3-Month	6-Month
NZD/EUR	0.5569	0.5571	0.5636	0.5580
NZD/GBP	0.4647	0.4656	0.4697	0.4735
NZD/JPY	87.80	85.40	85.56	84.38
NZD/CNY	4.3265	4.3188	4.3648	4.3438
NZD/AUD	0.9145	0.9242	0.9118	0.9058
NZD/CAD	0.8279	0.8205	0.8277	0.8250
NZD/CHF	0.5143	0.5185	0.5208	0.5188

The outlook for the US dollar

The USD spent the majority of August depreciating, with a slight recovery higher in the USD over early September. A partial recovery higher in the exchange rate is quite normal, before a resumption of the downward trend continues. The USD is quite sensitive to U.S. interest rate levels.

As detailed in last month's previous August FX monthly, we expected the USD to depreciate. However, the speed of the depreciation has caught us a bit by surprise. But the downward direction of the USD is not a surprise. We believe the downward direction in the USD is likely to continue, on a trend basis, at least into year-end.

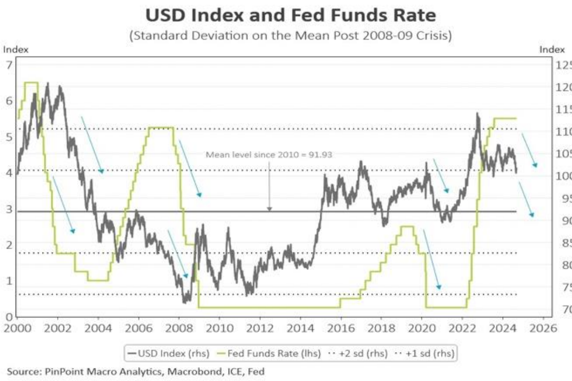
Over August-September, the U.S. economic data continued to soften. The Bureau of Labor Statistics published it annual revisions to U.S. employment growth. The revisions showed that some -818,000 people (0.5% of the workforce) that were thought to be employed, were not employed.

The U.S. unemployment rate, currently 4.2% in August, risks lifting higher, at a time that inflation continues to slowly come down. The Fed is now more worried about meeting their objective of full employment than meeting their objective of low inflation.

The Fed's latest September 5 Beige Book, which is a summary of economic conditions the Fed takes with them to discuss in the FOMC meetings, stated "two-thirds of Fed districts reported flat or declining activity".

On August 21, the minutes of the Federal Open Market Committee (FOMC)'s previous July meeting contained a key sentence that 'almost guarantees' the Fed will begin cutting interest rates at their next September 18 meeting. That sentence was "the vast majority observed that, if the data continued to come in about as expected, it would likely be appropriate to ease policy at the next meeting."

The Fed is likely to reduce interest rates three-times by the end of the year. Interest rate markets are undecided as to whether the Fed will cut -25bp or -50bp at this month's September 18 FOMC meeting, with around -33bp priced in. The USD is likely to further fall on a broad-based basis. Notably against the major G10 currencies but also against the major Asian currencies. While it won't decline in a straight line, it is possible we will see the broad USD index fall another 2.0% from its current level around 101.3 by year-end to below 100.00 on the USD DXY measure.



U.S. Federal Reserve (Fed)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.50**	
18 Sep 24	5.00	-33
07 Nov 24	4.63	-70
18 Dec 24	4.26	-108
29 Jan 25	3.93	-140
20 Mar 25	3.63	-170
01 May 25	3.40	-193
12 Jun 25	3.25	-208
31 Jul 25	3.13	-220

The outlook for the EUR / USD

EUR/USD has lifted in response to a depreciating USD. However, the Eurozone economy has also continued to expand, with real GDP growth rising 0.3% QoQ in Q2 lifting the annual rate of GDP growth from 0.4% to 0.6% YoY. The improvements in the Eurozone economy help lift EUR/USD.

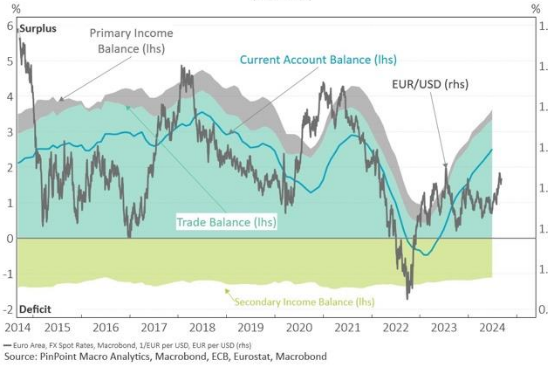
The ECB minutes published on 22 August noted that Eurozone headline inflation is expected to fluctuate for the rest of 2024. The signals from different measures of underlying inflation remain mixed, and so it's becoming harder to determine if the slower decline in inflation over recent months signaled a genuine stalling of the disinflation process or not. Eurozone services inflation continues to remain high at 4.0% YoY.

Regarding the Eurozone's wage impacts on inflation, they appear to be coming down. The ECB's Q2 Negotiated Wage Growth measure eased to 3.55% YoY from 4.72% in Q1. The minutes also noted that by the ECB's September meeting, extensive new data will be available, "and this would be a good time to re-evaluate the level of monetary policy restriction".

The rebound in the Eurozone current account balance from a deficit of -0.3% of GDP in December 2022, to a healthy 2.1% of GDP in 2024, is also supporting EUR appreciation.

Eurozone Current Account

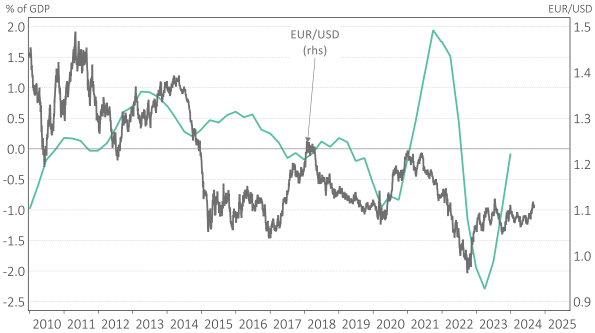
(% of GDP)



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

EUR/USD and Current Account Balances

(Annual Change in Current Account Differential | as % of GDP)



Source: PinPoint Macro Analytics, IMF, Macrobond

The EUR exchange rate has for many years had a strong correlation to the Eurozone current account balance. It is helpful to recognize that despite the ECB cutting interest rates, it does not necessarily mean the EUR will depreciate. There are three reasons for this.

First, because the ECB is lowering interest rates as part of a global interest rate cycle, meaning that there is nothing unusual in the ECB cutting interest rates to cause a significant depreciation in EUR/USD. Second, because ECB interest rate cuts will help provide some growth insurance to the Eurozone economy, it will support EUR. The ECB is expected to lower interest rates -25bp at its September 12 meeting.

Third, because the Fed is about to embark on its interest rate cutting cycle, and this will weigh more on the USD than an ECB interest rate cut will on EUR. By end-September, EUR/USD should have traded above 1.1150 and may well have lifted above 1.1200.

The outlook for the GBP / USD

GBP/USD has out-performed most of the major currencies since the beginning of August. Much of the GBP outperformance can be put down to the fact the U.K. economy continues to be revised up.

U.K. real GDP bounced back in H2 of 2024, with a 0.6% QoQ growth rate in Q2 and a 0.7% (QoQ) growth rate in Q1. The firm quarters of growth so far in 2024 have come after last year's H2 recession.

Further encouragement about the outlook for U.K. GDP growth has come from the latest August U.K. PMI readings for both manufacturing (52.5) and services (53.3). Both measures have lifted for the last two consecutive months. Both PMI indices remain firmly in expansionary territory.

Bank of England (BoE) Governor Bailey said on Friday August 25 that "the economic costs of bringing down persistent inflation – costs in terms of lower output and higher unemployment – could be less than in the past. This is consistent with a process of disinflation which is steady and more in keeping with a soft landing than a recession induced process. For the UK, this is consistent with how we have revised (up) our outlook for growth, and the numbers themselves so far this year".

With headline U.K. inflation declining to remain at or close to 2.0% for two consecutive months, the economic environment for U.K. business and consumers has improved as cost-of-living pressures subside. Bailey also added that he was "cautiously optimistic that inflation expectations are better anchored".

GBP/USD has acted as one of the major outlets for USD depreciation as the Fed moves closer to cutting interest rates on September 18.

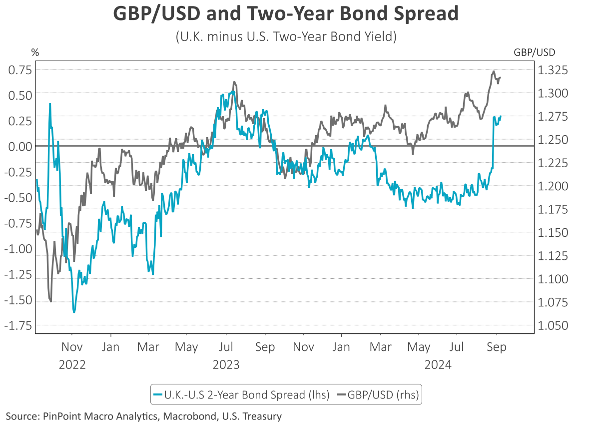
GBP has not only been assisted by the appreciation in EUR it has also outperformed EUR.

Overnight index swap (OIS) interest rate markets are not pricing a BoE rate cut at the next September 19 meeting. Instead, OIS markets are fully-pricing a -25bp cut at the BoE's November 7 meeting.

The Fed is likely to cut interest rates more than the BoE because U.K. services inflation remains high at 5.7% and because the U.S. economy is slowing. The Fed also has a dual objective which will encourage it to lower interest rates more than the BoE because the Fed's remit includes both a low 2.0% inflation target and an objective of 'full employment'.

The Fed is likely to take out some 'growth insurance' in an effort to achieve its full employment objective, which is now believes is more important because inflation has come back closer to the 2.0% target.

USD depreciation is likely to dominate the direction of the GBP/USD exchange rate, and so we may well see GBP/USD temporarily lift to 1.3500 by year-end.



The outlook for the USD / CAD

USD/CAD has declined around 3.0% since early August to currently trade around 1.3570. The depreciation in the USD has been the major driver of the decline in USD/CAD.

Neither lower oil prices (WTI oil prices are -5.3% over the last month), a relatively weak Canadian economy, or Bank of Canada interest rate cuts would normally be considered appreciative for the CAD exchange rate. But the CAD has steadily strengthened vis-à-vis the USD since early August as the Fed prepares the market for interest rate cuts.

It could be argued that the decline in Canada's inflation rate closer to the BoC's 2.0% inflation target has improved the economic environment, but it is really the weaker USD that is driving USD/CAD. All measures of Canada's inflation now reside within the control range of 1% to 3% after Canada's CPI inflation eased to 2.5% in July from 2.7% the month before. The two core measures of inflation also declined to 2.4% (weighted median measure) and 2.7% (trimmed mean measure) respectively.

The Bank of Canada (BoC) cut interest rates by -25bp to 4.25% at their meeting on September 4 meeting. BoC Governor Macklem said the BOC needed to guard against the risk that the economy is too weak.

There are a further two -25bp BoC rate cuts priced into the interest rate market for the follow-up October 23 and December 11 BoC meetings. The forecast BoC interest rate cuts by the OIS market are of a same magnitude as the Fed is likely to deliver over the same time frame.

The risk is the Fed delivers slightly more rate cuts than the BoC. Either way, the dominance of the USD will guide USD/CAD. At this stage, the least path of resistance is for USD/CAD to further decline into year-end.

USD/CAD is likely to move significantly lower immediately after the Fed reduces interest rates on September 18.

Canada Consumer Price Index

(Annual % Change)

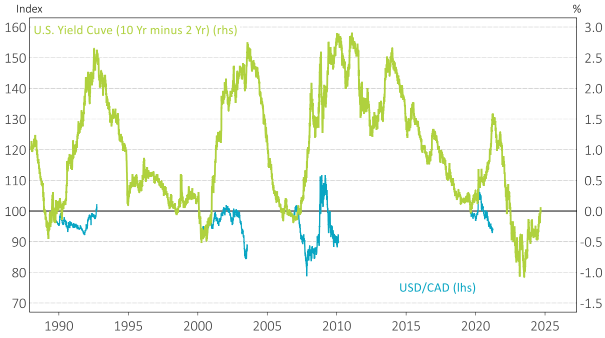
Source: PinPoint Macro Analytics, Macrobond, StatCan, BoC

The U.S. yield curve (10-year minus 2-year bond yield) has begun to move from an inverted position to a normal upward-sloping position.

The shift in the U.S. yield curve from an inverted yield curve shape to a normal upward-sloping steepening yield curve typically sees USD/CAD move lower. The accompanying chart illustrates the historical pattern USD/CAD has taken when the Fed begins its interest rate cutting cycle.

USD/CAD in a Steepening Yield Curve

(USD/CAD in a Steepening Yield Curve Macro Environment)



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

The outlook for the USD / JPY

Since late July, USD/JPY is down more than -7.0%. USD/JPY is set to further decline as the Fed cuts interest rates on September 18, and as the Bank of Japan prepares the market for further interest rate increases.

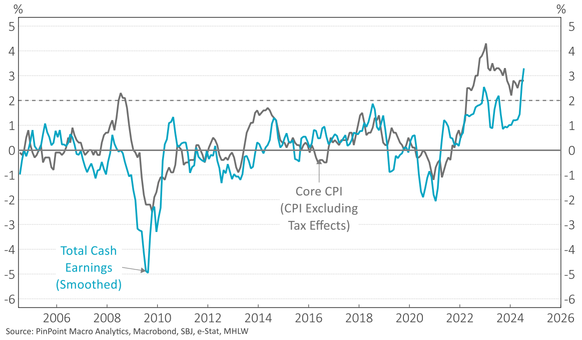
Adding to the case for higher Japanese interest rates, Japan's wage measures (labour cash earnings) rose by 3.6% YoY in July, above the consensus estimate of 2.9% YoY.

Japan's national CPI inflation however remained at 2.8% in July. But the core CPI number rose to 2.7% and hit its highest level since November 2023. The core-core number (ex-food and energy) is nevertheless below 2% at 1.9% for the first time since September 2022.

Interest rate pricing for higher Japanese interest rates remains very uncertain. Bank of Japan Governor Ueda spoke to the Japanese Parliament on August 23 saying that "there is a lot of uncertainty about the path toward a (higher) neutral rate of interest". But the BoJ's Takata said on September 5 that "the BoJ will implement more rate hikes if economic and inflation data align with projections."

Japan Prices and Wages

(Annual % Change)



The BoJ are not in a hurry to lift interest rates, but they are nevertheless likely to lift rates higher over the next twelve months, at a time when U.S. interest rates are moving lower. USD/JPY is set to further decline.

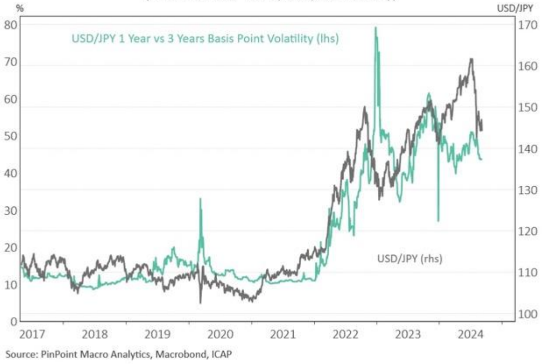
As stated in the August FX Monthly, "it is possible USD/JPY could be another 10% lower by year-end and trade around the 135.00 mark, if the BoJ delivers another series of interest rates rises and the Fed delivers a number of interest rate cuts before year-end."

The JPY is also set to strengthen against most currencies over coming months because of the on-going unwind of years of built-up of 'short JPY' positions.

This will ensure both USD/JPY and the major exchange rates will remain volatile against the JPY over coming months. The implied volatility in the JPY exchange rate remains elevated on both a short-term and medium-term basis.

USD/JPY and JPY Volatility Measures

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



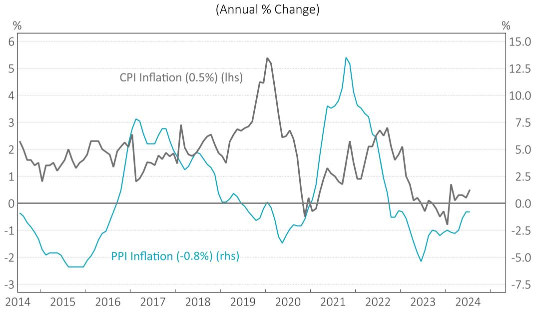
The outlook for the USD / CNY

USD/CNY fell to 7.0825 and to its lowest level since June 2023. The decline in USD/CNY has been essentially driven by the depreciation in the USD. There has been very little changed in the Chinese economy, to alter the view that the Chinese economy remains very weak.

Confirming the state of the sluggish Chinese economy, China's fiscal revenue between January and July this year fell 2.6% YoY, with fiscal spending rising 2.5% YoY. The data illustrates the Chinese government is not collecting as much tax revenue because of a weak economy. It is also having to increase spending to support a weak economy. The fiscal numbers will result in a wider government budget deficit for the Chinese economy.

With inflation extremely low in China's economy at 0.5% YoY, and producer price inflation (PPI) still falling at -0.8% YoY in July, the government does not appear to be spending too much. The low inflation in China indicates the Chinese economy remains weak. Typical of an economy recovering from a property sector collapse.

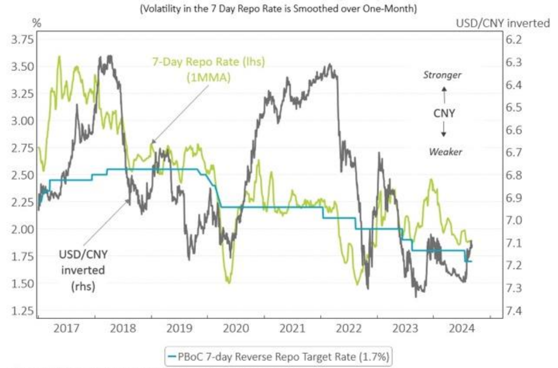
China CPI and PPI Inflation
(Annual % Change)



Source: PinPoint Macro Analytics, Macrobond, NBS

The following chart illustrates the downward pressure on China's short-term policy interest rate (the 7-day reverse repo rate) because of the weak Chinese economy. The market-determined 7-day repo rate continues to come under some downward pressure as it moves lower towards the benchmark PBoC's 7-day reverse repo interest rate.

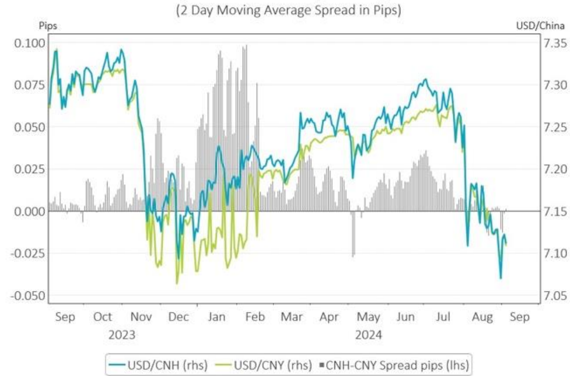
USD/CNY and China 7 Day Repo Rate
(Volatility in the 7 Day Repo Rate is Smoothed over One-Month)



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

It is helpful to know the FX market no longer anticipates USD/CNY to move significantly higher. The positive differential between the freely-traded CNH and the PBoC-influenced CNY exchange rate, has been eliminated over the course of August and early September for the first time since May. This implies the market believes CNY will strengthen against the USD. Anticipate further downside in USD/CNY as it tests a key support level of 7.0800.

USD/CNH and USD/CNY Spread
(2 Day Moving Average Spread in Pips)



Source: PinPoint Macro Analytics, Macrobond

The outlook for the AUD / USD

AUD/USD lifted above 0.6800 in late August and to its highest level since early January. It was notably that AUD lifted above the previous technical July high of 0.6799. However, it was equally notable that AUD/USD could not close the day’s New York trading above 0.6800 despite numerous attempts.

Some current concerns by global financial markets over the strength of the global economy, as pushed AUD some -2.5% lower to 0.6670. It will take some time before AUD/USD is able to lift above 0.6800, and AUD is likely to be in a period of consolidation and downward pressure while there remain these concerns over the strength of the U.S. and global economy.

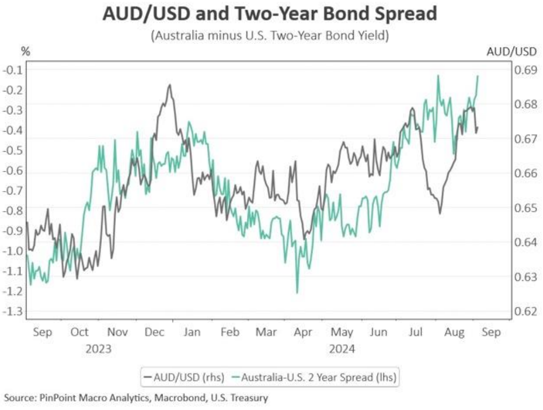
Weaker than expected Australian Q2 GDP growth added to the downside pressure on AUD over early September. The Australian economy rose a modest 0.2% QoQ to be 1.5% YoY. Australia’s financial year economic growth was the lowest annual growth since 1991-92 (excluding the COVID-19 pandemic period).

AUD/USD is however unlikely to depreciate too much. The two main factors supporting AUD/USD are a depreciating USD and persistently high Australian services inflation, leading the RBA to state they are not even considering interest rate cuts (unlike many other central banks).

Australia's annual monthly inflation eased by less-than-expected to 3.5% YoY in July, down modestly from 3.8% in June. The monthly CPI numbers show the government’s 1 July Energy Relief Bill has temporarily lowered energy prices. Without the government subsidy, inflation would have been higher. However, the RBA have said they will look through the $3.5bn government subsidy temporarily lowering energy prices, because energy prices will simply go straight back up when the relief measures expire.

The RBA have said they will pay more attention to the quarterly CPI inflation numbers than the monthly CPI inflation numbers. With the interest rate market pricing a at least three -25bp interest rate cuts by the Fed before year-end, the Australia-U.S. two-year bond spread has lifted to trade at -13bp, up from -120bp in April.

AUD/USD should begin to appreciate again when the Fed cuts interest rates on September 18. It may take a month or so, but at some point, AUD/USD should lift high enough again to re-test the upside at 0.6800.



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

The outlook for the NZD / USD

NZD/USD, currently trading at 0.6174, has more than recovered from its decline to 0.5975 following the Reserve Bank of New Zealand (RBNZ)'s August 14 interest rate cut of -25bp. Current market pricing indicates further interest rate cuts by the RBNZ are forthcoming on October 9 and November 27.

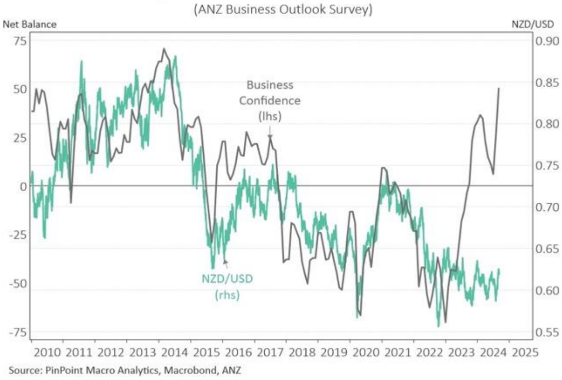
The evidence from previous RBNZ cutting cycles indicates that NZD can often lift during the early-to-mid stages of the RBNZ's easing cycles. This is typically of the NZD because the Fed is usually cutting interest rates around the same time and the USD is consequently under more downward pressure, allowing NZD to lift.

New Zealand's small open economy, where exports account for around 28% of GDP, usually leaves the New Zealand economy exposed to the major global economic cycles, which are often driven the U.S. economy.

The lift in NZD/USD has also been partly assisted by some improvements in New Zealand's economy. A higher-than-expected jump in NZ's August business confidence, with the measure of firm's own activity lifting to a 10-year high, indicating some optimism is returning to the NZ economy should also support NZD over coming months.

NZD/USD and Business Confidence

(ANZ Business Outlook Survey)



Source: PinPoint Macro Analytics, Macrobond, ANZ

The prices of NZ's largest export, dairy, has continued to lift and has risen to its highest level since late 2021. This implies a rise in New Zealand's terms of trade, and a corresponding income injection into new Zealand's economy from the rest of the world. The trend in NZD and New Zealand's terms of trade are usually not separated for long periods of time.

There are however some current concerns by global financial markets over the strength of the global economy. These concerns have taken the shine off the NZD's rally, and seen NZD correct -2.0% since reaching its recent 0.6300 high.

A lift in NZD/USD back up to 0.6300 over coming months is possible as the Fed cuts interest rates on September 18 and the USD depreciates. The current concerns over the strength of the global economy do however present any subsequent NZD/USD rally will some challenging headwinds.

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

The outlook for the USD / MXN

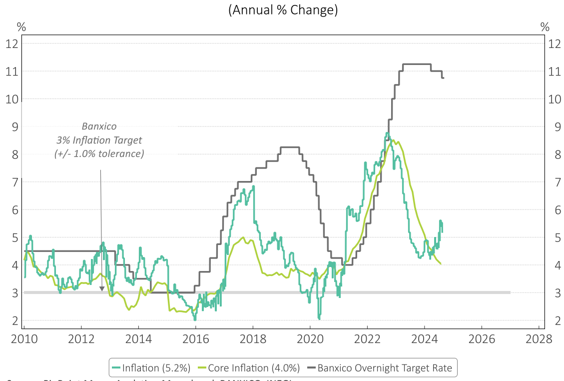
USD/MXN has remained under upward pressure, trading more than 12% above the 200-day moving average and temporarily lifting above 20.00 despite broad-based USD depreciation. One of the key reasons for the decline in MXN is the proposed Judicial reforms have generated significant controversy inside Mexico.

News that the Mexican lower house of parliament has advanced the judicial reforms may lead to further volatility in USD/MXN. Thousands of judicial workers and judges have recently gone on strike as President Andres Manuel Lopez Obrador (AMLO) seeks to advance a massive overhaul of the country's courts. President-elect Claudia Sheinbaum has already publicly declared her intention to adopt the reform package as her own.

At the core of the proposed reforms is a controversial plan to elect federal judges, including those in the Supreme Court, by popular vote. Lopez Obrador has said the change is needed to root out corruption. While the political uncertainty over the judicial reform process continues, USD/MXN is likely to remain well supported.

Mexico Consumer Price Index

(Annual % Change)



Source: PinPoint Macro Analytics, Macrobond, BANXICO, INEGI

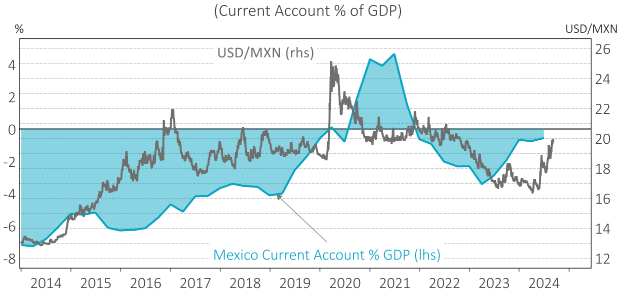
Mexico's annual CPI inflation edged higher again in July to 5.57% as a result of a significant increase in the non-core component of inflation. Core inflation came in at 4.05%. The Mexican central bank's decision to cut interest rates -25bp to 10.75% on August 8 came despite an upward revision in the bank's inflation forecasts for 2024 inflation to 4.4% from 4.0% previously. The 2025 inflation forecast was left unchanged at 3.0%.

The increase in the rate of inflation and the near-term inflation forecast comes after the final estimate of Q2 GDP confirmed the economy slowed to -0.6% YoY. This particular macroeconomic combination of rising inflation and low (contracting) GDP growth is not very conducive to MXN currency appreciation.

Anticipate USD/MXN to remain volatile while the political process surrounding judicial reforms plays out. Despite data from the Tokyo Financial Exchange (TFE) that shows investors have been dipping their toes back into the carry trade, buying MXN vs JPY.

Mexico Current Account Balance

(Current Account % of GDP)



Source: PinPoint Macro Analytics, BANXICO, INEGI, Macrobond

Banco de Mexico

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**10.75**	
Q3/24	9.50	-1.25
Q4/24	8.00	-2.75
Q1/25	7.50	-3.25
Q2/25	6.50	-4.25

The outlook for the GBP / EUR

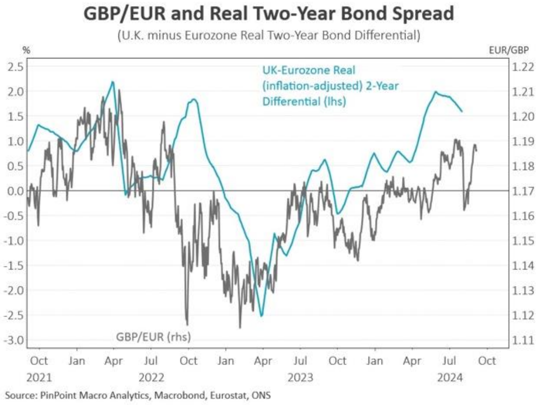
After depreciating in early August to as low as 1.1592, GBP/EUR fully recovered and lifted back up to 1.1900 by early September. The upward trend in GBP/EUR over the last 12-months appears set to remain in place as we move through the month of September.

There are two main reason why GBP should continue to outperform EUR, driving GBP/EUR higher. Firstly, outlook for the U.K. economy continues to be revised up, which is not so much of the case for the Eurozone.

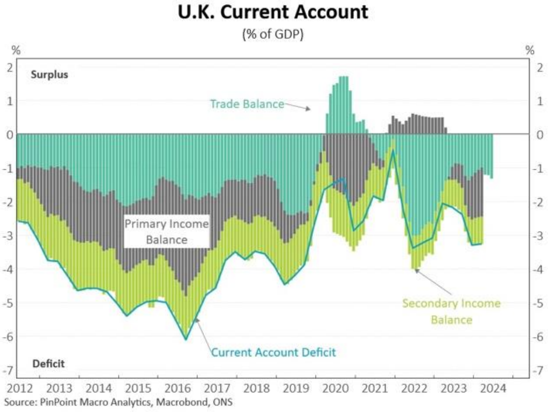
U.K. Real GDP bounced back in H2 of 2024, with a 0.6% QoQ growth rate in Q2 and a 0.7% (QoQ) growth rate in Q1. The firm quarters of growth so far in 2024 have come after last year's H2 recession and represent a solid reason for GBP appreciation. The final reading of the U.K. August PMI was revised up, while the final reading of Eurozone August PMI was revised down. Eurozone retail sales are running at -0.1% YoY in July.

Secondly, interest rates markets are not pricing a Bank of England (BoE) rate cut at this month's September 19 meeting. (Interest rate markets are instead fully-pricing a -25bp cut at the BoE's November 7 meeting). But interest rates markets are fully-pricing a -25bp cut for the European Central Bank (ECB)'s September 12 meeting. The timing of the ECB's interest rate cut is set to have a directional impact on GBP/EUR, lifting it higher.

After adjusting for inflation, the level of real U.K. minus Eurozone two-year bond spread suggests GBP/EUR should continue to appreciate. In 2025, we expect GBP/EUR will have lifted above 1.2000 and may test the March 2022 high of 1.2180.



Somewhat restraining the upside in GBP/EUR remains the underlying support EUR is receiving from the rebound in the Eurozone current account surplus. The Eurozone current account has moved from a deficit of 0.3% of GDP in December 2022, to a healthy 2.1% of GDP in 2024; it is supporting an appreciation in EUR/USD. The U.K. current account deficit remains wide at more than 3.0% of GDP, and a background headwind for GBP appreciation when the BoE further lowers the Bank Rate.



The outlook for the GBP / CHF

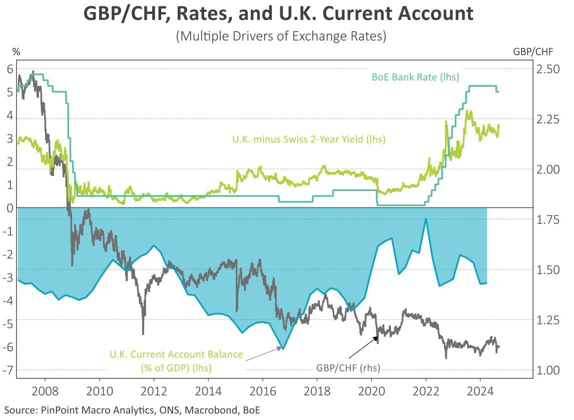
GBP/CHF has remained in a tight range since mid-August. The economic data coming out of the U.K. and Switzerland has been impressive, and this largely explains the tug of war between the currencies in the tight range.

Strength in GBP has been driven by the upward revisions to the U.K. economy. Strength in CHF has been driven by a better-than-expected recovery in Switzerland's economy, with support and capital inflows into Switzerland waxing and waning according to the geopolitical tensions in the Middle East.

Swiss GDP expanded by 0.7% (QoQ) in the second quarter of 2024, surpassing market expectations and the previous quarter's growth of 0.5%. Switzerland's annual rate of growth lifted to 1.8% YoY. Switzerland's recorded its fastest pace of quarterly economic growth since the second quarter of 2022. Economic growth was driven by a 2.6% increase in the Swiss manufacturing sector, and an uptick in the services sector.

Switzerland's inflation rate also eased to 1.1% YoY in August, from 1.3% the month before. A combination of lower inflation and faster GDP growth is very supportive for the Swiss franc, as is Switzerland's large current account surplus equivalent to 7.6% of GDP.

The Swiss National Bank (SNB) forecast inflation to eased to 1.1% in 2025 at their June policy meeting. The decline in Swiss inflation to 1.1% has come earlier than expected. In response to low inflation, the SNB may again lower the policy rate at this month's September 26 meeting from its currently level of 1.25%, particularly given the relative strength of the Swiss Franc against the EUR and against the USD. Current market interest rate pricing suggest a -25bp rate cut by SNB is possible.



The Bank of England (BoE) is unlikely to cut interest rates in September. But more likely to consider a rate cut at their November 7 meeting.

Despite the prospect of a rate cut by the SNB and a delay to a rate cut until November by the BoE, GBP/CHF is more likely to depreciate once the current tight trading range between 1.1238 and 1.1089 breaks. Since 2001, each of the BoE's rate cutting cycles has resulted in GBP/CHF depreciation. We are likely to see the same depreciation in GBP/CHF over the BoE's 2024-25 rate cutting cycle.

In the August FX monthly, we said "while it is difficult to forecast how much GBP/CHF may correct higher before it resumes its depreciation, a lift to 1.1222 is possible. The 1.1222 level coincides with the 200-day moving average and the 38.2% retracement of the GBP/CHF 1.1633 mid-July high and the 1.0976 August 2 low". Now that GBP/CHF has lifted to reach that level, the least path of resistance is for GBP/CHF to depreciate again.

The outlook for the GBP / SEK

SEK initially weakened after the Riksbank cut interest rates -25bp to 3.50% on August 20 as expected. But then SEK proceeded to strengthen once an assessment of the Riksbank's monetary policy statement was absorbed. The lower policy rate adjustment appears prudent given the low inflation outlook, and the weak Swedish economy.

Notably, a significant part of SEK strength after the announcements was because the USD was under downward pressure at the time. However, SEK also strengthened against EUR and GBP after the policy statement, with SEK/EUR moving to a one-month high and SEK/GBP lifting to a near two-week high.

The Riksbank's updated assessment of the Swedish economy at its August meeting noted that inflation has continued to fall, with CPIF at 1.7% YoY in July, and the prospects for inflation remaining in line with the inflation target are considered "good". Long-term inflation expectations have declined and are signaling "strong confidence" in low inflation. Wage increases are also moderate at around 3.8% according to the latest May figure.

However, Swedish economic activity is "weak" with GDP more or less unchanged since the end of 2021. Labour market indicators also point to a relatively weak labour market, although the unemployment is not expected to rise much further from its 8.3% in Q2.

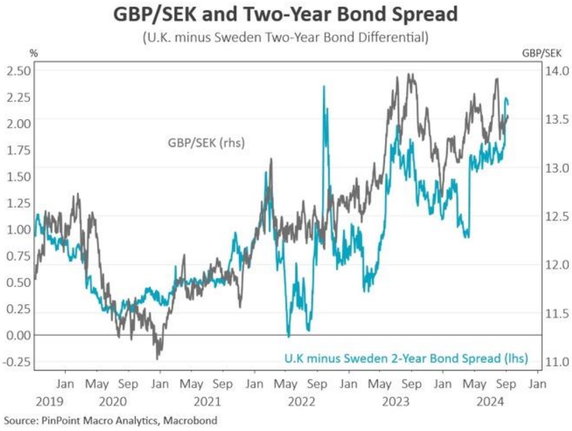
The Riksbank added "if the inflation outlook remains the same, the rate can be cut two or three more times this year, which is faster than what was the assessed in June". Market participants appear to warm to the appropriate policy adjustment.

The overnight index swap (OIS) interest rate market is pricing a -25bp interest rate cut at the Riksbank's September 25 policy meeting, with the risk of a -50bp rate cut.

OIS markets are not pricing a BoE rate cut at the September 19 meeting. Instead, OIS markets are fully-pricing a -25bp cut at the BoE's November 7 meeting. This largely because UK services inflation remains so high at 5.7%. GBP/SEK is likely to edge higher over the next month or so but only marginally so.

Swedish Riksbank

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**3.50**	
25 Sep 24	3.17	-33
07 Nov 24	2.90	-61
19 Dec 24	2.63	-87
31 Jan 25	2.47	-103
27 Mar 25	2.32	-118
08 May 25	1.95	-155
27 Jun 25	1.86	-164
20 Aug 25	1.84	-166
25 Sep 25	1.84	-166
07 Nov 25	1.86	-164



The outlook for the GBP / CAD

GBP/CAD continues to trend higher, and we expect this upward trend to continue. While the Bank of England (BoE) and the Bank of Canada (BoC) are both in the midst of an interest rate cutting cycle, the U.K. economy continues to be revised up, while the Canadian economy is looking much weaker.

GBP has strengthened because the outlook for the U.K. economy continues to be revised up. U.K. Real GDP bounced back in H2 of 2024 after last year's economic recession. The U.K. economy recorded a 0.6% QoQ growth rate in Q2 and a 0.7% (QoQ) growth rate in Q1.

U.K. interest rates markets are not pricing a Bank of England (BoE) rate cut at this month's September 19 meeting. Interest rate markets are instead fully-pricing a -25bp cut at the BoE's November 7 meeting.

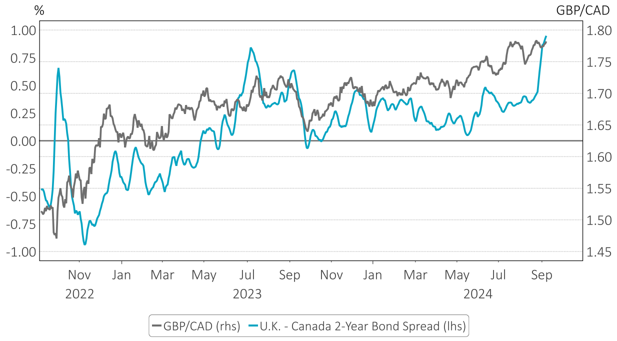
All measures of Canada's inflation now reside within the control range of 1% to 3% after Canada's CPI inflation eased to 2.5% in July from 2.7% the month before. The two core measures of Canada's inflation also declined to 2.4% (weighted median measure) and 2.7% (trimmed mean measure) respectively.

The Bank of Canada (BoC) cut interest rates by -25bp to 4.25% at their meeting on September 4 meeting. BoC Governor Tiff Macklem said the BoC needed to guard against the risk that the economy is too weak.

The guidance from Governor Macklem has seen the U.K.-Canadian two-year bond spread lift higher, encouraging a further appreciation in GBP/CAD. There are a further two -25bp BoC rate cuts priced into the interest rate market for the follow-up October and December BoC meetings. While much less is priced into the Bank of England's interest rate market because of persistently high U.K. services inflation.

GBP/CAD and Two-Year Bond Spread

(Smoothed over One-Week)



Source: PinPoint Macro Analytics, Macrobond

Bank of England (BoE)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.00**	
19 Sep 24	4.90	-5
07 Nov 24	4.67	-28
19 Dec 24	4.51	-44
06 Feb 25	4.28	-67
20 Mar 25	4.12	-83
08 May 25	3.94	-101
19 Jun 25	3.84	-111
07 Aug 25	3.72	-123
18 Sep 25	3.65	-130

The outlook for the GBP / ZAR

GBP/ZAR has traded marginally lower since the August FX Monthly, oscillating around 23.50. There has been strength in both ZAR and GBP over the last month.

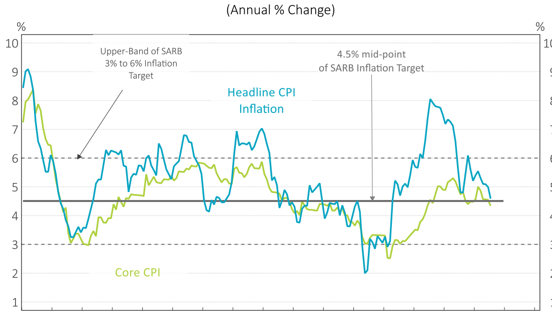
USD/ZAR has declined towards its lowest levels in more than 12-months. The combination of a less uncertain political landscape after the May elections, an improving South African economy, and a depreciating USD has seen the ZAR strengthen.

South Africa's real GDP rose by 0.4% in Q2, marking an improvement from the flat 0.0% growth seen in the first quarter. The key contributors to the second-quarter economic upturn were household consumption, financial services, real estate, electricity, gas, and water supply. The economy experienced a significant boost due to the absence of power outages, which had previously hindered economic performance.

There was also improvements in South Africa's inflation outlook, with the July CPI inflation measure rising a less-than-expected 4.6% YoY, down from 5.1% in July. The South African Reserve Bank (SARB) is forecasting headline inflation to dip below the 4.5% midpoint of the 3% to 6% inflation target, mainly because of lower fuel and food prices.

South Africa CPI Inflation

(Annual % Change)



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

While lower inflation may result in lower South African interest rates, it does not necessarily mean a weaker ZAR. Lower inflation is a healthy outcome for an economy, and the depreciating USD is helping ZAR move higher.

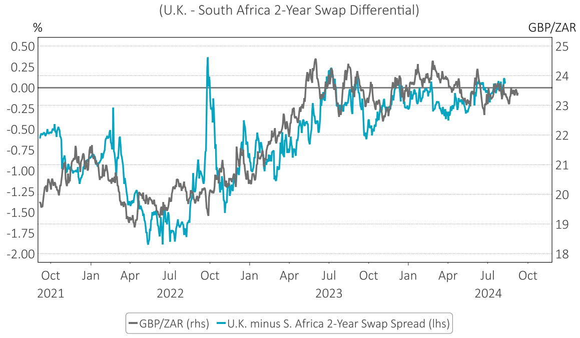
GBP/USD has also strengthened. The outlook for the U.K. economy continues to be revised up. U.K. Real GDP bounced back in H2 of 2024 after last year's economic recession. The U.K. economy recorded a 0.6% QoQ growth rate in Q2 and a 0.7% (QoQ) growth rate in Q1.

U.K. interest rates markets are not pricing a Bank of England (BoE) rate cut at this month's September 19 meeting. Interest rate markets are instead fully-pricing a -25bp cut at the BoE's November 7 meeting.

With both the BoE and SARB likely to deliver interest rate cuts again before the end of the year, the U.K.-South Africa two-year bond spread remains very stable, consistent with the current narrow trading range in GBP/ZAR. Over the month of September, GBP/ZAR is likely to maintain a similar trading range, oscillating around 23.50.

GBP/ZAR and Two-Year Swap Spread

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



Source: PinPoint Macro Analytics, Macrobond

South African Reserve Bank

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	8.25	
Q3/24	8.00	-0.25
Q4/24	7.75	-0.50
Q1/25	7.50	-0.75
Q2/25	7.25	-1.00

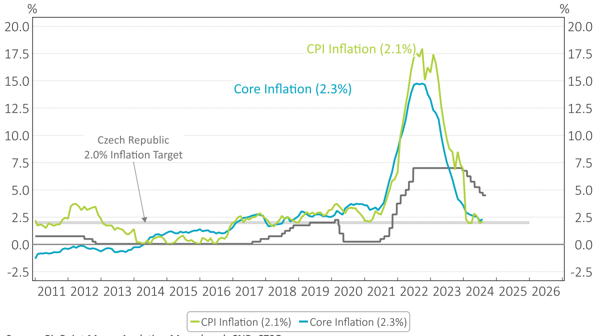
The outlook for the GBP / CZK

Over the month of August, CZK showed strength against both the depreciating USD as well as against EUR. But GBP/CZK after declining in early August, has managed to find a good level of support around the 100-day moving average of 29.45 and recovered to show some strength driven by the upward revisions to the U.K. economy following last year's U.K. recession.

The Czech economy also continues to improve despite growing below potential. Czech inflation fell to 2.0% in June and remained close to that level in July, at 2.2%. Recent interest rate reductions from the Czech National Bank will support GDP growth going forward.

Czech Republic Consumer Price Index

(Annual % Change)



Source: PinPoint Macro Analytics, Macrobond, CNB, CZSO

The Czech National Bank (CNB) lowered the two-week repo rate by 0.25% to 4.5% at their August meeting. But noted that they consider it "necessary to persist with tight monetary policy and carefully consider any further rate cuts". This is largely because Czech services inflation remains elevated (a similar situation in the U.K. economy).

It would appear that both the CNB and the Bank of England remained very cautious about lowering interest rates again in quick succession.

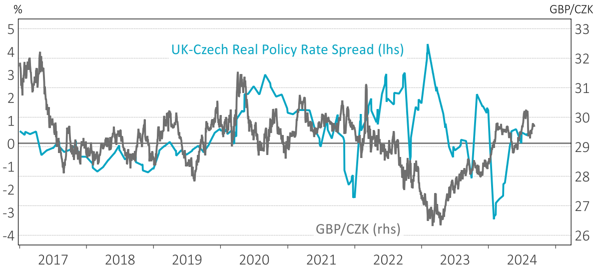
The U.K. overnight index interest rate swap market is not pricing a BoE rate cut at the BoE's upcoming September 19 meeting. But it is fully pricing a -25bp rate cut at the BoE's November 7 meeting. This suggests that GBP/CZK may be in for an extended period of range trading.

The U.K.'s marginally higher real interest rates are likely to see GBP/CZK well-supported. The U.K minus Czech real (inflation-adjusted) central bank policy rate differential remains slightly positive because of the higher nominal interest rate environment in the UK, with a similar inflation rate in the U.K. to the Czech Republic.

It is worth mentioning that GBP/CKZ is unlikely to appreciate significantly. CZK continues to find support from the improvement in the Czech current account, which has lifted from a recent deficit to a healthy current account surplus of more than 1.0% of GDP. A slowdown in the German economy may nevertheless impact Czech exports going forward. A near-term trading range between 29.25 to 29.75 in GBP/CZK appears likely over the next month.

GBP/CZK and Real Cash Rate

(U.K. minus Czech Republic Real Policy Rate Differential)



Source: PinPoint Macro Analytics, CZSO, ONS, Macrobond, CNB, BoE

The outlook for the EUR / CAD

EUR/CAD is likely to grind higher over September mainly because the Canadian economy has slowed right down, and the Bank of Canada (BoC) has indicated that the BoC needed to guard against the risk that the economy is too weak.

While both the European Central Bank (ECB) and the BoC are in the midst of interest rate cutting cycles, it's possible we could see GBP/CAD lift to the 1.5160 level over coming months (re-testing its August highs) due to the relatively weak Canadian economy.

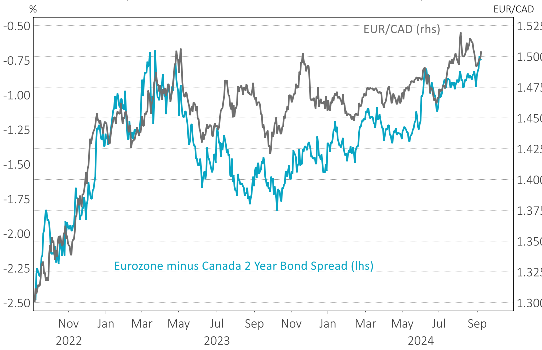
Reflecting Canada's relatively weak economy, the unemployment rate lifted to 6.6% in August. All measures of Canada's inflation are within the control range of 1% to 3% after Canada's CPI inflation eased to 2.5% in July from 2.7% the month before. The two core measures of Canada's inflation also declined to 2.4% (weighted median measure) and 2.7% (trimmed mean measure) respectively.

The Bank of Canada (BoC) cut interest rates by -25bp to 4.25% at their meeting on September 4 meeting. BoC Governor Tiff Macklem said the BoC needed to guard against the risk that the economy is too weak. The U.K.-Eurozone two-year bond spread has shifted higher, encouraging a further appreciation in EUR/CAD.

Meanwhile the Eurozone economy has continued to expand, with the Eurozone's annual rate of GDP growth lifting from 0.4% YoY in Q1 to 0.6% YoY in Q2. The stronger Eurozone economy helped lift employment in the Eurozone by 0.8% YoY in Q2. The improvements in the Eurozone economy are helping to lift EUR, particularly vis-à-vis CAD.

EUR/CAD and Two-Year Bond Spread

(Eurozone minus Canada Two-Year Bond Differential)

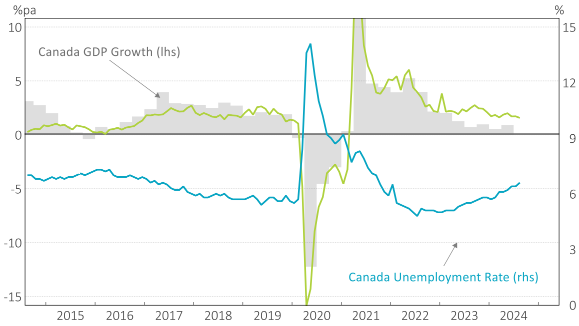


Source: PinPoint Macro Analytics, Macrobond

The ECB is expected to lower interest rates -25bp at its September 12 meeting, which should further support growth in the Eurozone economy. Similar to the impact of Bank of Canada rate cuts on CAD/USD, ECB rate cuts are not expected to dampen EUR/USD because of the dominance of the USD movement as the Fed begins the interest rate cutting cycle.

Canada Labour Market

(Selected Indicators)



Source: PinPoint Macro Analytics, Macrobond, StatCan

The outlook for the AUD / EUR

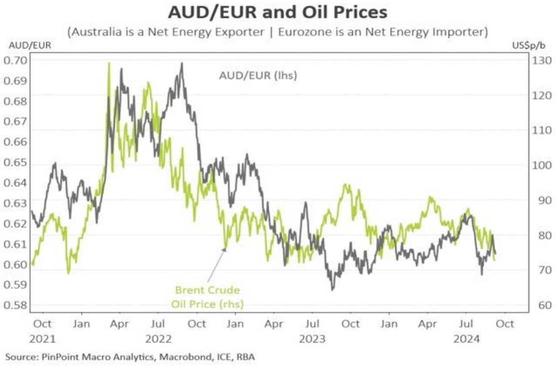
AUD/EUR had an extremely volatile August and early September, moving in a 5% range between 0.5820 & 0.6150.

AUD/USD and AUD/EUR can often act a barometer of global financial market sentiment. Over much of August and into early September, there have been growing concerns about the strength of U.S. and global economic activity, and this has impacted global financial markets.

Global equity markets have endured some selling pressure. Oil prices have notably come under downward pressure as concerns over the strength of oil demand have increased, despite geopolitical tensions in the Middle East.

AUD/EUR is quite sensitive to the perceived strength of the global economy, and oil prices. Australia is also a net energy exporter, while the Eurozone is a net energy importer. Hence, there remains a medium-term correlation between global oil prices and AUD/EUR.

Weaker than expected Australian Q2 GDP growth added to the downside pressure on AUD/EUR over early September. The Australian economy rose a modest 0.2% QoQ to be 1.5% YoY. Annual financial year economic growth was the lowest annual growth since 1991-92 (excluding the COVID-19 pandemic period).



The Reserve Bank of Australia (RBA) have made it quite clear they remain "vigilant" to the upside risks to Australia inflation. At the RBA's recent quarterly August forecasting round, the RBA lifted their inflation forecasts for 2025 and 2026. The RBA stated it will take longer than expected for inflation to return to the mid-point of the RBA's 2% to 3% inflation target.

This essentially means that the RBA will not be reducing interest rates anytime soon, and this should feed into some resilience and eventual appreciation in AUD/EUR once the current concerns over the strength of the global economy have subsided. Another interest rate cut by the ECB on September 12, and possibly December 12, should also help generate a lift in AUD/EUR into year-end.

However, as stated in the August FX Monthly, "there are three main risks that may discourage further AUD/EUR appreciation. First, if there is a further sell off in global equity markets AUD/EUR will come under further downward pressure. Second, because the EUR can act as a major outlet to USD depreciation, EUR may out-perform AUD as the USD modestly depreciates. Third, the Eurozone's large current account surplus, equivalent to 2.2% of GDP, will continue to generate strong demand and currency appreciation for EUR."

European Central Bank (ECB)

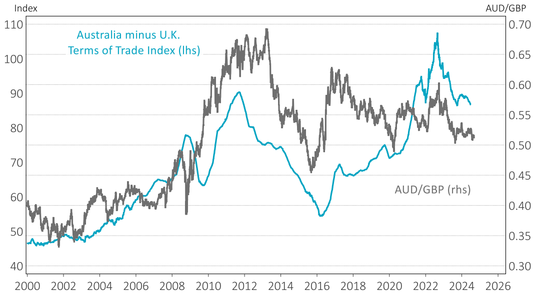
Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**3.75**	
12 Sep 24	3.42	-25
17 Oct 24	3.32	-35
12 Dec 24	3.04	-63
24 Jan 25	2.83	-83
07 Mar 25	2.56	-111
11 Apr 25	2.39	-128
15 May 25	2.20	-146
26 Jun 25	2.11	-155

The outlook for the AUD / GBP

AUD/GBP remained largely range-bound around 0.5150 over early-to-mid August, before declining to around 0.5080 in early September.

There have been growing concerns about the strength of U.S. and global economic activity, and this has impacted global financial markets. Global equity markets and oil prices have come under downward pressure. AUD/USD and AUD/GBP are much more sensitive to these concerns than is GBP. This is partly because Australia is a net energy exporter and is sensitive to movements in Australia's terms of trade.

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

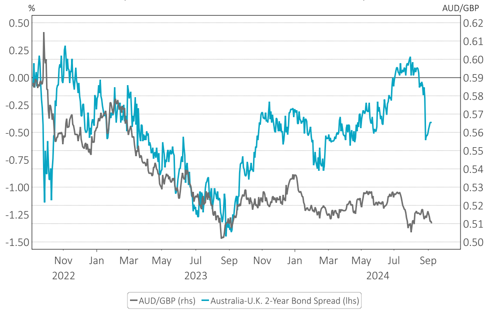
GBP/USD has out-performed most of the major currencies since the beginning of August. The outlook for the U.K. economy continues to be revised up, providing support for the GBP exchange rate despite the BoE commencing their interest rate cutting cycle. Real U.K. GDP rose 0.6% QoQ in Q2 and 0.7% QoQ in Q1. In the second half of last year, the U.K. economy was in recession.

GBP is usually quite sensitive to interest rate reductions by the BoE because the U.K. runs a current account deficit equal to some 3.3% of GDP. However, the improving U.K. economy is currently over-riding this typical pattern of behaviour in GBP.

When the USD depreciates, it must do so against a host of currencies. GBP/USD has acted as one of the major outlets for USD depreciation as the Fed moves closer to cutting interest rates on September 18. GBP has not only been assisted by the appreciation in EUR it has outperformed EUR.

It is difficult to be certain, but AUD/GBP is likely to receive a lot of support around 0.5080. The Reserve Bank of Australia (RBA) won't cut interest rates this year. The Bank of England (BoE) are set to further reduce interest rates despite the improvements in the U.K economy because U.K. inflation has stabilized around 2.0%, lifting slightly to 2.2% in July.

AUD/GBP and Two-Year Bond Spread
(Australia minus U.K. Two-Year Bond Differential)



Source: PinPoint Macro Analytics, Macrobond, RBA

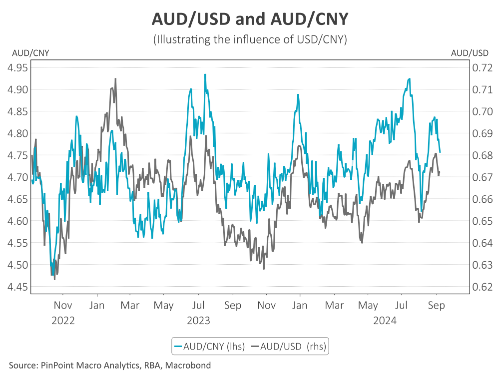
Bank of England (BoE)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.00**	
19 Sep 24	4.90	-5
07 Nov 24	4.67	-28
19 Dec 24	4.51	-44
06 Feb 25	4.28	-67
20 Mar 25	4.12	-83
08 May 25	3.94	-101
19 Jun 25	3.84	-111
07 Aug 25	3.72	-123
18 Sep 25	3.65	-130

The outlook for the AUD / CNY

AUD/CNY has been through a volatile August and early September period. CNY has steadily strengthened as the USD has depreciated. While AUD has endured much volatility courtesy of the changing perceptions around the outlook for global economic growth.

Despite China's weak economy, future direction in AUD/CNY will largely be determined by direction in AUD/USD. This is because USD/CNY will largely remain USD driven.

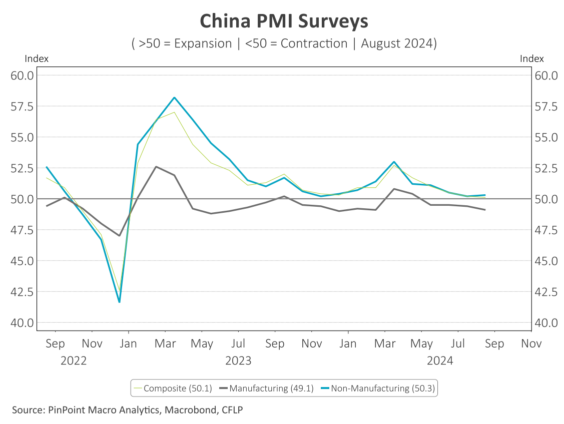


There has been very little changed in the Chinese economy, to alter the view that the Chinese economy remains very weak.

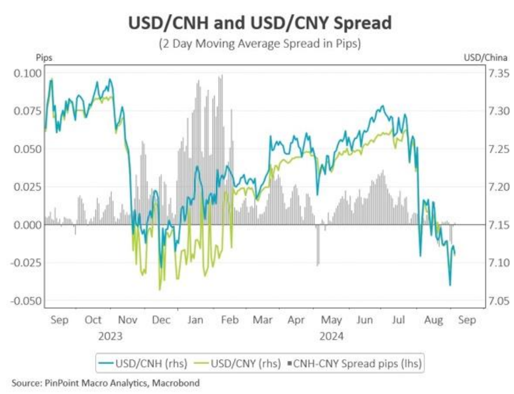
China's July inflation reading remained extremely low at 0.5% YoY. Producer price inflation is still falling at -0.8% YoY. The low inflation in China confirms the Chinese economy remains weak.

It is typical for an economy recovering from a property sector collapse to remain weak for a long period of time.

China's manufacturing sector remains in contractionary territory below an index reading of 50.0, with an August index reading of 49.1.



It is helpful to know the FX market no longer anticipates USD/CNY to move significantly higher. The positive difference differential between the freely-traded CNH and the PBoC-influenced CNY exchange rate, has been eliminated over the course of August and early September for the first time since May. This implies the market believes CNY will strengthen against the USD. Albeit CNY may not necessarily strengthen against AUD. AUD/CNY should lift over coming months.



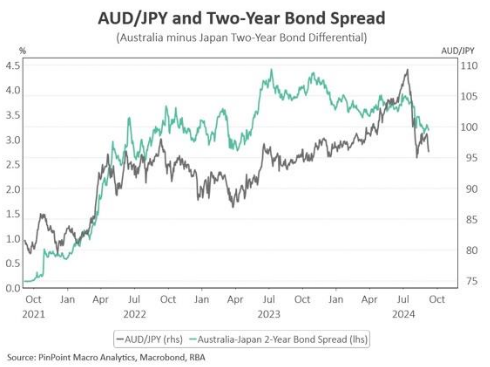
The outlook for the AUD / JPY

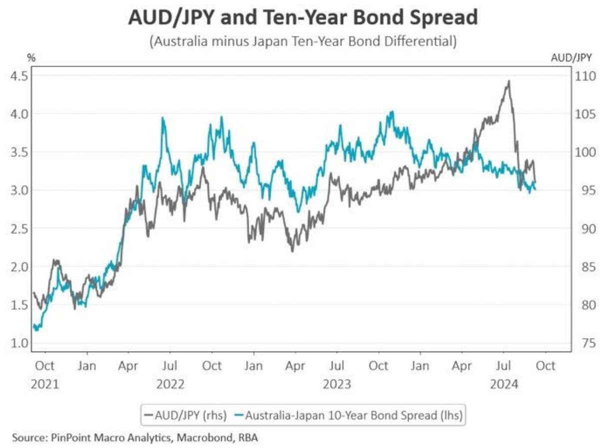
AUD/JPY has endured significant volatility over the month of August and into early September. There are a number of reasons for the extreme volatility in AUD/JPY.

First, USD/JPY has been extremely volatile as the Fed prepares to cut interest rates on September 18, and as the Bank of Japan prepares for further interest rate increases. This is complete reversal of the macro interest rate trends that were driving USD/JPY over much of 2023-2024.

Second, there has been a large unwinding of the AUD/JPY 'carry trades' that reflect the reversal of the 2023-2024 macro interest rate trends described above. The carry trade involves market participants buying the high interest rate yielding currency (AUD) at the same time as selling the low interest rate yielding currency (JPY) and holding it for long periods of time to receive the interest rate differential contained in the currency pair.

Third, volatility in AUD has occurred because there remain some concerns over the strength of the U.S. and global economy. Weaker than expected Australian Q2 GDP growth added to some of the downside pressure on AUD over early September. These factors helped drive a narrowing in the Australia-Japan two-year bond spread and apply downward pressure to AUD/JPY.





Adding to the case for higher Japanese interest rates, Japan's wage measures (labour cash earnings) rose by 3.6% YoY in July, above the consensus estimate of 2.9% YoY.

Bank of Japan Governor Ueda spoke to the Japanese Parliament on August 23 saying that there is a lot of uncertainty about the path toward a (higher) neutral rate of interest. BoJ's Takata said on September 5 that the BoJ will implement more rate hikes if economic and inflation data align with projections.

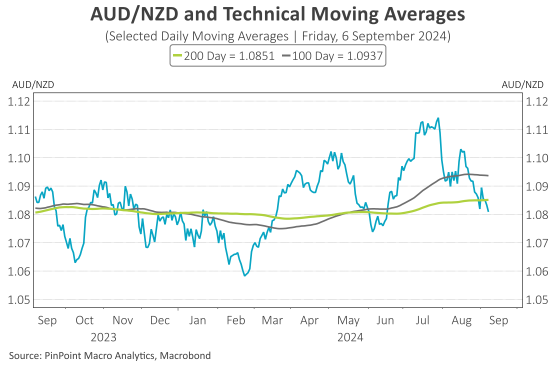
Despite the RBA maintaining high interest rates, the volatility in AUD/JPY is likely to continue. The pressure is towards a stronger JPY and a weaker AUD/JPY. The likely trading range in AUD/JPY over coming months is likely to be quite large and difficult to forecast.

We anticipate AUD/JPY may trade in a range between 92.00 and 98.00. Over the medium term, we are likely to see AUD/JPY trade below this range, and closer to its 5-year average of 86.13.

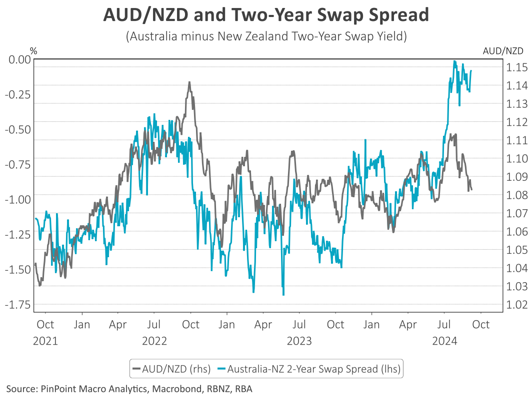
The outlook for the AUD / NZD

AUD/NZD currently at 1.0802, has declined to return to and then and fall below, the 200-day moving average of 1.0849. A little over a month ago, AUD/NZD lifted to reach a high of 1.1152. We have repeatedly pointed out that despite AUD/NZD's interest rate sensitivity, AUDNZD is currently a mean-reverting currency.

This can be illustrated by: (1) the stability of the 200-day moving average, residing just above 1.0800 for the last 12-months; and (2) the fact that AUD/NZD has oscillated by large margins either side of the 200-day moving average multiple times over the last 12-months. But on each occasion has returned to the 200-day moving average. NZD/USD has more than recovered from the decline following the RBNZ's August 14 interest rate cut of -25bp.



The evidence from previous RBNZ cutting cycles indicates that NZD can often lift during the early-to-mid stages of the RBNZ's easing cycles. This is usually because the Fed is cutting rates around the same time and the USD is under downward pressure. New Zealand's small open economy, where exports account for around 28% of GDP, typically leaves the New Zealand economy exposed to the major global economic cycles, which are often driven the U.S. economy.



The recovery and rally in NZD/USD, partly assisted by the higher-than-expected jump in NZ's August business confidence, has lowered AUD/NZD despite the contrasting monetary policies between the RBA (with rates firmly on hold) and the RBNZ (in their rate cutting cycle).

The Australia-NZ one-year overnight index swap interest rate spread has narrowed to -18bp from -1.06bp in mid-April. The hawkish RBA suggests that AUD/NZD will again lift as the RBNZ cuts rate, while the RBA remains (at the very least) on hold. The current dip in AUD/NZD is likely to be shallow.

We anticipate AUD/NZD will be higher by year-end above 1.0900 as the RBNZ continues to lower interest rates, while the RBA keeps interest rates on hold, while considering the possibility of lifting them in response to persistently high Australian domestic services inflation.

The outlook for the NZD / EUR

NZD/EUR had an extremely volatile August and early September, moving in a 4.5% range between 0.5360 and 0.5673.

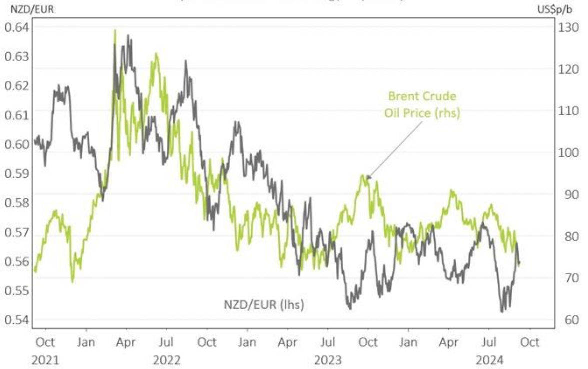
NZD/USD and NZD/EUR can often act a barometer of global financial market sentiment. Over much of August and into early September, there have been growing concerns about the strength of U.S. and global economic activity, and this has impacted global financial markets.

Global equity markets have endured some selling pressure. Oil prices have notably come under downward pressure as concerns over the strength of oil demand have increased, despite geopolitical tensions in the Middle East.

NZD/EUR is quite sensitive to the perceived strength of the global economy, and oil prices. There remains a medium-term correlation between global oil prices and NZD/EUR.

New Zealand's small open economy, where exports account for around 28% of GDP, usually leaves the New Zealand economy exposed to the major global economic cycles and changing market perceptions of those cycles.

NZD/EUR and Oil Prices
(Eurozone is an Net Energy Importer)

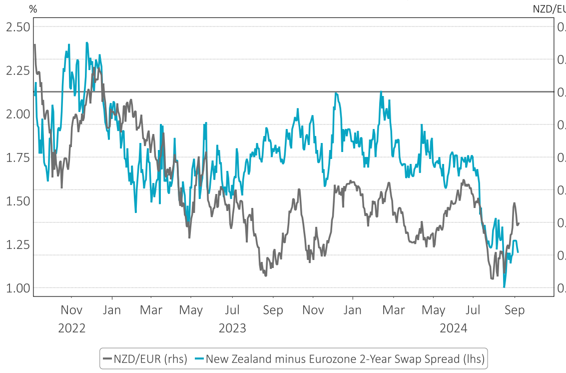


Source: PinPoint Macro Analytics, Macrobond, ICE, RBNZ

Both the Reserve Bank of New Zealand (RBNZ) and the European Central Bank (ECB) have begun their interest rate cutting cycles. The timing of the central bank interest rate meetings, and the forward guidance provided by each respective central bank will impact short-term direction on NZD/EUR.

The ECB is likely to cut interest rates -25bp again on September 12 but the RBNZ don't meet again until October 9, where a -25bp interest rate cut is also expected. The most likely outcome is that NZD/EUR will range-trade between 0.5520 and 0.5660 over the next couple of months.

NZD/EUR and Two-Year Swap Spread
(New Zealand minus Eurozone Two-Year Swap Yield)



Source: PinPoint Macro Analytics, Macrobond, RBNZ, RBA

European Central Bank (ECB)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**3.75**	
12 Sep 24	3.42	-25
17 Oct 24	3.32	-35
12 Dec 24	3.04	-63
24 Jan 25	2.83	-83
07 Mar 25	2.56	-111
11 Apr 25	2.39	-128
15 May 25	2.20	-146
26 Jun 25	2.11	-155

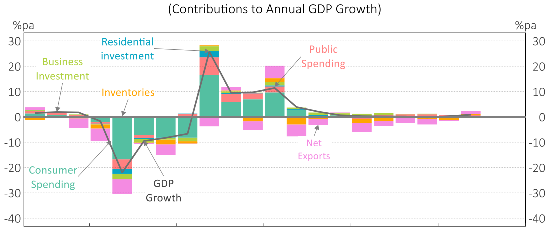
The outlook for the NZD / GBP

NZD/GBP has remained largely range-bound around 0.4700 since early-to-mid August. The main reasons for the range-trading is because both the Reserve Bank of New Zealand (RBNZ) and the Bank of England (BoE) are both cutting interest rates. The additional reason for the range-trading is because GBP is acting as a major outlet for USD depreciation, closely followed by NZD, AUD and EUR.

GBP/USD has out-performed most of the major currencies since the beginning of August. The outlook for the U.K. economy continues to be revised up, providing support for the GBP exchange rate despite the BoE commencing their interest rate cutting cycle. Real U.K. GDP rose 0.6% QoQ in Q2 and 0.7% QoQ in Q1. In the second half of last year, the U.K. economy was in recession.

U.K. GDP

(Contributions to Annual GDP Growth)

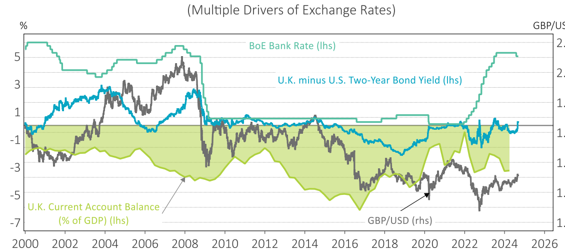


Source: PinPoint Macro Analytics, Macrobond, ONS

GBP is usually quite sensitive to interest rate reductions by the BoE because the U.K. runs a current account deficit equal to some 3.3% of GDP. However, the improving U.K. economy is currently over-riding this typical pattern of behaviour in GBP.

GBP/USD, Rates, and Current Account

(Multiple Drivers of Exchange Rates)



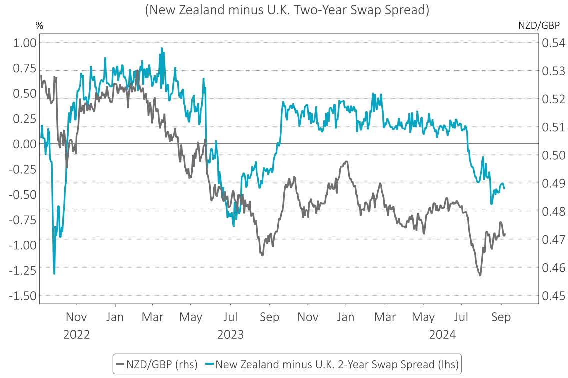
Source: PinPoint Macro Analytics, ONS, Macrobond, U.S. Treasury, BoE

When the USD depreciates, it must do so against a host of currencies. GBP/USD has acted as one of the major outlets for USD depreciation as the Fed moves closer to cutting interest rates on September 18. Interest rate markets are not anticipating the BoE will reduce interest rates again until November 7.

It is difficult to be certain, but there is a reasonable chance NZD/GBP will spend the majority of the next month range-trading around 0.4700 similar to the majority of August. With a risk NZD/GBP moves lower.

NZD/GBP and Two-Year Swap Spread

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

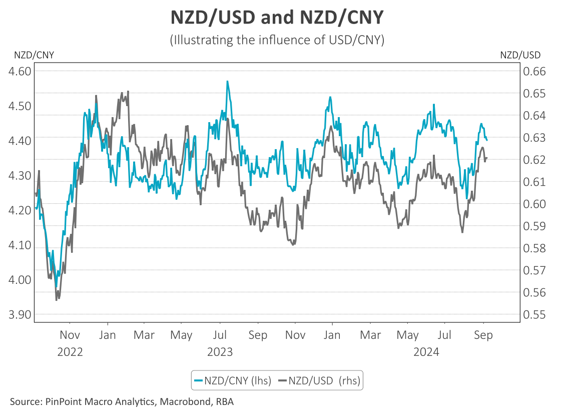


Source: PinPoint Macro Analytics, Macrobond, RBNZ, RBA

The outlook for the NZD / CNY

NZD/CNY has been through a volatile August and early September period. CNY has steadily strengthened as the USD has depreciated. While NZD has endured much volatility courtesy of the changing perceptions around the outlook for global economic growth.

Despite China's weak economy, future direction in NZD/CNY will largely be determined by direction in NZD/USD. This is because USD/CNY will largely remain USD driven.



There has been very little changed in the Chinese economy, to alter the view that the Chinese economy remains very weak.

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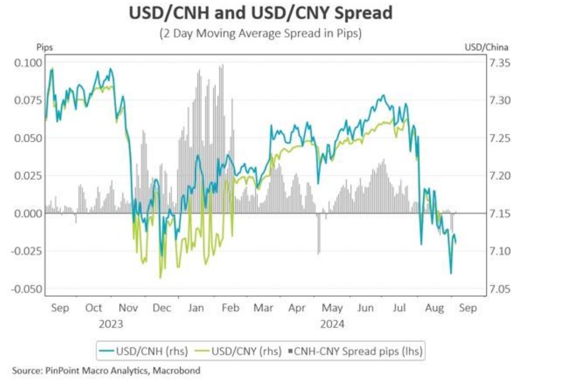


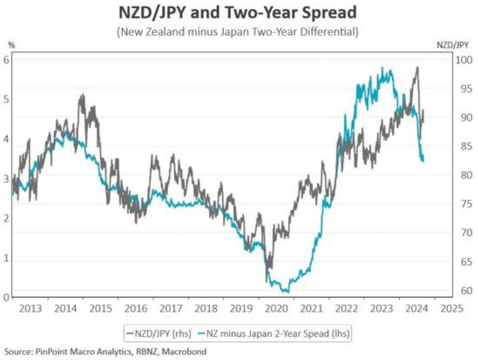
The outlook for the NZD / JPY

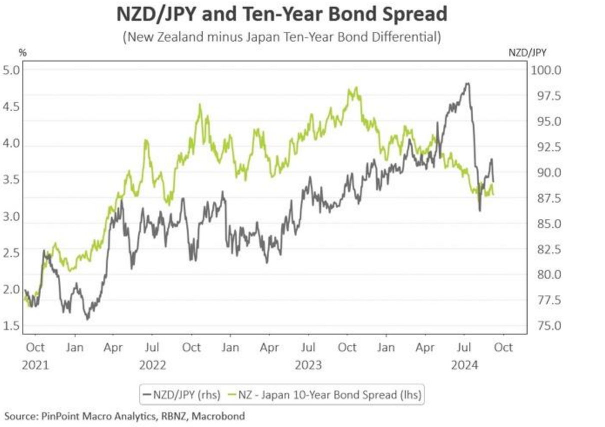
NZD/JPY has endured significant volatility over the month of August and into early September. There are a number of reasons for the extreme volatility in NZD/JPY.

First, USD/JPY has been extremely volatile as the Fed prepares to cut interest rates on September 18, and as the Bank of Japan prepares for further interest rate increases. This is complete reversal of the macro interest rate trends that were driving USD/JPY over much of 2023-2024.

Second, there has been a large unwinding of the NZD/JPY 'carry trades' that reflect the reversal of the 2023-2024 macro interest rate trends described above. The carry trade involves market participants buying the high interest rate yielding currency (NZD) at the same time as selling the low interest rate yielding currency (JPY) and holding it for long periods of time to receive the interest rate differential contained in the currency pair. The decision by the Reserve Bank of New Zealand (RBNZ) to begin cutting interest rates in August has added to the motivation to sell NZD/JPY.

Third, volatility in NZD has occurred because there remain some concerns over the strength of the U.S. and global economy. These above factors helped drive a narrowing in the New Zealand-Japan two-year bond spread and apply downward pressure to NZD/JPY.





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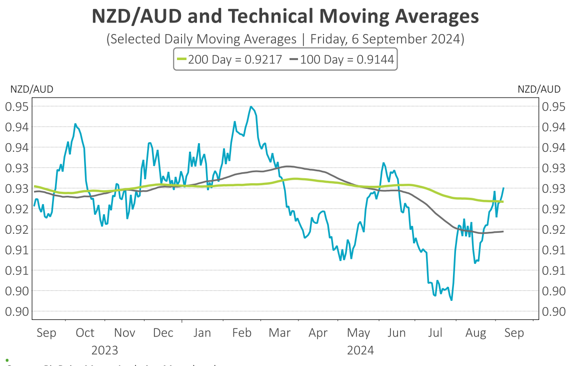
The volatility in NZD/JPY is likely to continue. The pressure is towards a stronger JPY and a weaker NZD/JPY. The likely trading range in NZD/JPY over coming months is likely to be quite large and difficult to forecast.

We anticipate NZD/JPY may trade in a range between 85.00 and 90.50. Over the medium term, we are likely to see NZD/JPY trade below this range, and closer to its 5-year average of 86.13.

The outlook for the NZD / AUD

NZD/AUD currently at 0.9257, has lifted to return to and rise above the 200-day moving average of 0.9219. A little over a month ago, NZD/AUD declined to reach a low of 0.8947. We have repeatedly pointed out that despite NZD/AUD's interest rate sensitivity, NZD/AUD is currently a mean-reverting currency.

This can be illustrated by: (1) the stability of the 200-day moving average, residing just above 0.9220 for the last 12-months; and (2) the fact that NZD/AUD has oscillated by large margins either side of the 200-day moving average multiple times over the last 12-months. But on each occasion has returned to the 200-day moving average. NZD/USD has more than recovered from the decline following the RBNZ's August 14 interest rate cut of -25bp.



Source: PinPoint Macro Analytics, Macrobond

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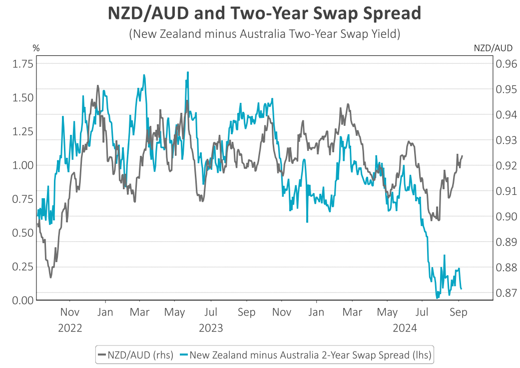

Source: PinPoint Macro Analytics, Macrobond, RBNZ, RBA

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The NZ- Australia one-year OIS spread has narrowed to 18bp from 1.06bp in mid-April. The hawkish RBA suggests that NZD/AUD will again decline as the RBNZ cuts rate, while the RBA remains (at the very least) on hold.

The current lift in NZD/AUD is likely to be limited. We anticipate NZD/AUD will be lower by year-end below 0.9174 as the RBNZ continues to lower interest rates, while the RBA keeps interest rates on hold, while considering the possibility of lifting them in response to persistently high Australian domestic services inflation.

Central Bank
Forward Market Interest Rates

U.S. Federal Reserve

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**5.50**	
Q3/24	5.00	-0.50
Q4/24	4.50	-1.00
Q1/25	4.25	-1.25
Q2/25	4.00	-1.50

European Central Bank

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**4.25**	
Q3/24	4.00	-0.25
Q4/24	3.75	-0.50
Q1/25	3.50	-0.75
Q2/25	3.25	-1.00

Bank of England

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**5.00**	
Q3/24	5.00	0.00
Q4/24	4.75	-0.25
Q1/25	4.50	-0.50
Q2/25	4.25	-0.75

Reserve Bank of Australia

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**4.35**	
Q3/24	4.35	0.00
Q4/24	4.10	-0.25
Q1/25	3.85	-0.50
Q2/25	3.60	-0.75

Reserve Bank of New Zealand

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**5.25**	
Q3/24	5.36	0.11
Q4/24	5.15	-0.10
Q1/25	4.91	-0.34
Q2/25	4.67	-0.58

Bank of Canada

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**4.25**	
Q3/24	4.25	0.00
Q4/24	4.00	-0.25
Q1/25	3.50	-0.75
Q2/25	3.00	-1.25

Bank of Japan

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**0.25**	
Q3/24	0.25	0.00
Q4/24	0.25	0.00
Q1/25	0.40	0.15
Q2/25	0.40	0.15

People Bank of China

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**3.35**	
Q3/24	3.30	-0.05
Q4/24	3.15	-0.20
Q1/25	3.15	-0.20
Q2/25	3.15	-0.20

Swedish RiksBank

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**3.50**	
Q3/24	3.25	-0.25
Q4/24	3.00	-0.50
Q1/25	2.75	-0.75
Q2/25	2.50	-1.00

Swiss National Bank

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**1.25**	
Q3/24	1.00	-0.25
Q4/24	1.00	-0.25
Q1/25	1.00	-0.25
Q2/25	1.00	-0.25

Czech Republic National Bank

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**3.50**	
Q3/24	3.25	-0.10
Q4/24	3.00	-0.35
Q1/25	2.75	-0.60
Q2/25	2.50	-0.85

South African Reserve Bank

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**8.25**	
Q3/24	8.00	-0.25
Q4/24	7.75	-0.50
Q1/25	7.50	-0.75
Q2/25	7.25	-1.00

Banco de Mexico

Upcoming Meetings	Market Implied Interest Rate	Basis Points (Priced In)
Current	**10.75**	
Q3/24	9.50	-1.25
Q4/24	8.00	-2.75
Q1/25	7.50	-3.25
Q2/25	6.50	-4.25

Source: PinPoint Macro Analytics and Various Sources

* 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)

	8/2024	7/2024	6/2024	5/2024	4/2024	3/2024	2/2024	1/2024	12/2023	11/2023	10/2023	9/2023	8/2023
United States	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38
Euro Area	4.25	4.25	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.25
United Kingdom	5.00	5.25	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	0.05	0.05	0.05	0.05	0.05	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	
Argentina		40.00	40.00	40.00	60.00	80.00	100.00	100.00	100.00	133.00	133.00	118.00	
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	4.10
Brazil	10.50	10.50	10.50	10.50	10.75	10.75	11.25	11.75	11.75	12.25	12.75	12.75	13.25
Canada	4.50	4.50	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Switzerland	1.25	1.25	1.25	1.50	1.50	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Chile	5.75	5.75	5.75	6.00	6.50	7.25	7.25	8.25	8.25	9.00	9.00	9.50	
China	3.35	3.35	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	
Colombia	10.75	11.25	11.75	11.75	12.25	12.25	12.75	13.00	13.00	13.25	13.25	13.25	13.25
Czech Republic	4.50	4.75	4.75	5.25	5.75	5.75	6.25	6.75	6.75	7.00	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	3.35
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	7.00	7.25	7.75	8.25	9.00	10.00	10.75	11.50	12.25	13.00	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	5.75
Israel	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	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	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	6.15
Mexico	10.75	11.00	11.00	11.00	11.00	11.00	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	4.50	4.50	4.25	4.25	4.25	4.00
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	5.50
Peru	5.50	5.75	5.75	5.75	6.00	6.25	6.25	6.50	6.75	7.00	7.25	7.50	
Philippines	6.25	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	
Poland	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	6.00	6.75
Romania	6.50	6.75	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Serbia		6.00	6.25	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Russia	18.00	18.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	15.00	15.00	13.00	12.00
Saudi Arabia		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	3.75	3.75	3.75	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.75
Thailand		2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.25
Turkey		50.00	50.00	50.00	50.00	50.00	45.00	45.00	42.50	40.00	35.00	30.00	25.00
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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