Global
Currency Outlook

August 2024

Key insights

The sudden strengthening in the JPY was a major factor in foreign exchange market volatility during early August. Volatility is likely to settle down for the JPY's next bought of strength.

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 in September.**

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**.**

The Bank of England cut interest rates on August 1 laying the groundwork for some downward pressure on GBP over coming months.

The Canadian dollar may be in for a period of under-performance because the Canadian economy has weakened. **Canada's June unemployment rate lifting to a cyclical high of 6.4%.** The Bank of Canada is set to further cut interest rates.

China's economy continues to struggle with the effects of a property crisis. But **CNY may strengthen as it attempts to keep pace with the firming JPY, and as the USD depreciates**.

Expect AUD to strengthen over coming months because the RBA have made it clear they remain "vigilant" to upside risks to inflation**. AUD will further out-perform on a relative trade-weighted basis.**

The RBNZ is likely to begin cutting interest rates generating some downward pressure on NZD.

Key takeaways

- USD is likely to depreciate as the Fed cuts interest rates in September.
- EUR will modestly appreciate as a major outlet to a weaker USD.
- GBP is likely to depreciate as the BoE further cuts interest rates.
- CAD will likely under-perform on a relatively weak economy and BoC rate cuts.
- JPY volatility should subside, but the strengthening trend should remain.
- CNY is set to strengthen in line with a firmer JPY and a weaker USD.
- AUD will continue to strengthen on as the RBA remains hawkish.
- NZD is set to fall as the RBNZ lowers interest rates.
- MXN and ZAR have begun to re-strengthen now that political developments have subsided.

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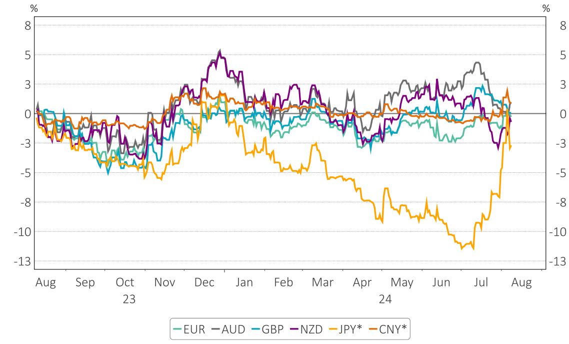
Major Exchange Rates vs USD

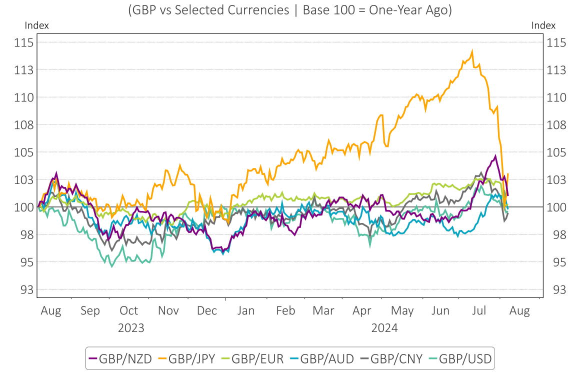
(% Change in Selected Currencies v USD | Base Zero = One-Year Ago)



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

GBP Exchange Rate Performance

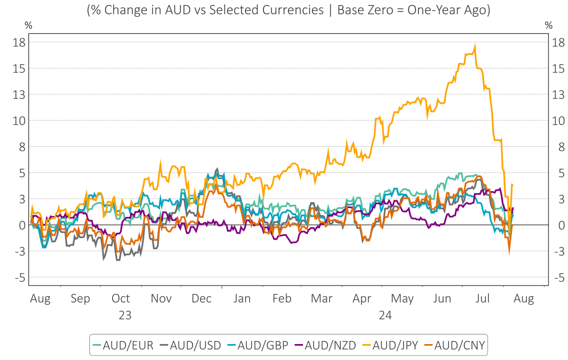
(GBP vs Selected Currencies | Base 100 = One-Year Ago)



Source: PinPoint Macro Analytics, Macrobond, BoE

AUD Exchange Rate Performance

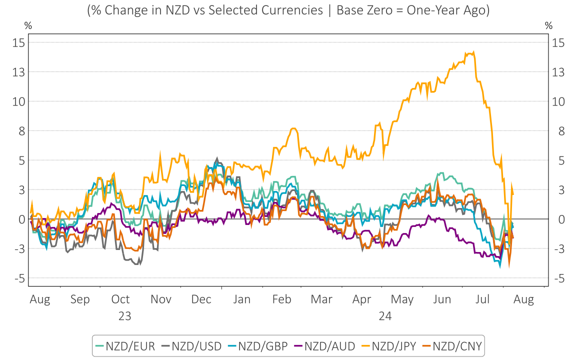
(% Change in AUD vs Selected Currencies | Base Zero = One-Year Ago)



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

NZD Exchange Rate Performance

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



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

Currency Estimates

Majors	Current	1-Month	3-Month	6-Month
AUD/USD	0.6551	0.6600	0.6700	0.6900
EUR/USD	1.0931	1.0950	1.1000	1.1200
GBP/USD	1.2685	1.2650	1.2600	1.2600
USD/JPY	146.30	145.00	138.00	130.00
USD/CNY	7.1677	7.1550	7.1500	7.1000
NZD/USD	0.5991	0.6000	0.6050	0.6200
USD/CAD	1.3744	1.3650	1.3600	1.3400
USD/CHF	0.8580	0.8600	0.8500	0.8300
USD/SEK	10.485	10.400	10.200	10.000

Emerging Markets	Current	1-Month	3-Month	6-Month
USD/MXN	19.2769	18.7000	18.2500	17.5000
USD/ZAR	18.4199	18.5000	18.2000	18.0000
USD/CZK	23.1028	22.9000	22.5000	22.0000

GBP Crosses	Current	1-Month	3-Month	6-Month
GBP/EUR	1.1601	1.1553	1.1455	1.1250
GBP/CHF	1.0879	1.0879	1.0710	1.0458
GBP/SEK	13.302	13.156	12.852	12.600
GBP/AUD	1.9360	1.9167	1.8806	1.8261
GBP/NZD	2.1170	2.1083	2.0826	2.0323
GBP/ZAR	23.3612	23.4025	22.9320	22.6800
GBP/CZK	29.2969	28.9685	28.3500	27.7200

EUR Crosses	Current	1-Month	3-Month	6-Month
EUR/GBP	0.8620	0.8656	0.8730	0.8889
EUR/CAD	1.5027	1.4947	1.4960	1.5008
EUR/AUD	1.6689	1.6591	1.6418	1.6232
EUR/NZD	1.8249	1.8250	1.8182	1.8065

AUD Crosses	Current	1-Month	3-Month	6-Month
AUD/EUR	0.5993	0.6027	0.6091	0.6161
AUD/GBP	0.5165	0.5217	0.5317	0.5476
AUD/JPY	95.80	95.70	92.46	89.70
AUD/CNY	4.6954	4.7223	4.7905	4.8990
AUD/NZD	1.0934	1.1000	1.1074	1.1129
AUD/CAD	0.9004	0.9009	0.9112	0.9246
AUD/CHF	0.5621	0.5676	0.5695	0.5727

NZD Crosses	Current	1-Month	3-Month	6-Month
NZD/EUR	0.5481	0.5479	0.5500	0.5536
NZD/GBP	0.4724	0.4743	0.4802	0.4921
NZD/JPY	87.60	87.00	83.49	80.60
NZD/CNY	4.2941	4.2930	4.3258	4.4020
NZD/AUD	0.9146	0.9091	0.9030	0.8986
NZD/CAD	0.8235	0.8190	0.8228	0.8308
NZD/CHF	0.5141	0.5160	0.5143	0.5146

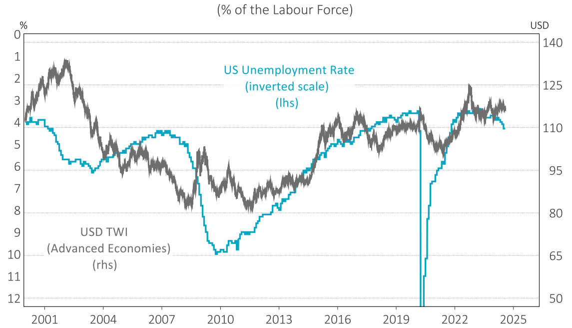
The outlook for the US dollar

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 in September.

The U.S. economic data has suddenly turned soft, led by the July ISM manufacturing survey and its key components, and the U.S. equity market has lost some confidence in the outlook for the U.S. economy. The July U.S. non-farm payrolls report was the second major economic data point that delivered on the soft side, with an unexpected 0.2% lift in the unemployment rate to 4.3%, a notable feature of a broad-based soft labor market report.

USD and U.S. Unemployment Rate

(% of the Labour Force)



Source: PinPoint Macro Analytics, Macrobond, BLS, Fed, ICE

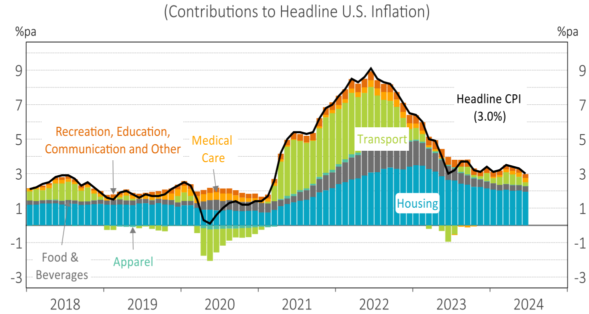
The U.S. 10-year bond yield has declined more than 100bpt to 3.67% in a little over three-months, signaling the coming cut in interest rates. The U.S. 10-year yield will often lead the U.S. 2-year yield, and the Fed's subsequent change to the Fed funds rate.

The Fed's 31 July FOMC meeting laid the groundwork for a more forceful decline in the USD over coming months. Fed Chair Jerome Powell indicated that there was a "nice discussion" about lower interests at the July 31 FOMC meeting, and an interest rate cut at the Fed's next 19 September FOMC meeting will "be on the table". Overnight index swap (OIS) markets are now pricing an 86% chance of a -50bp cut at the September meeting.

Powell made it clear that lower interest rates will become more appropriate now that inflation has moved closer to the 2.0% target and there has been a softening in the US labour market. Powell added the Fed will now focus more on its legislated dual mandate of low inflation and full employment. Lower interest rates will be aimed at helping Fed successfully engineer a soft landing of the US economy. The risk is the economy lands a little harder. But for now, the USD will depreciate as it adjusts to a slowing U.S. economy and lower U.S. interest rates.

U.S. Inflation

(Contributions to Headline U.S. Inflation)



Source: PinPoint Macro Analytics, Macrobond, BLS

U.S. Federal Reserve (Fed)

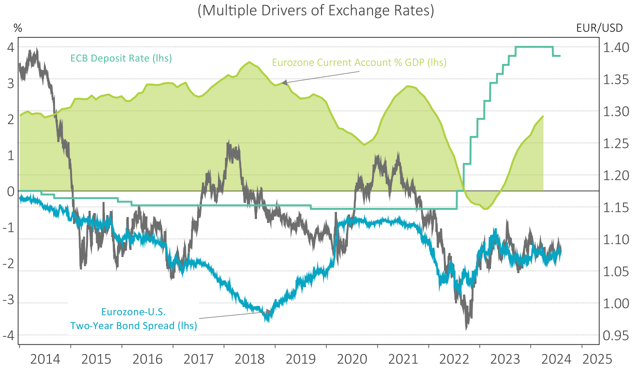
Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.50**	
18 Sep 24	4.90	-43
07 Nov 24	4.53	-80
18 Dec 24	4.20	-113
29 Jan 25	3.98	-135
20 Mar 25	3.73	-160
01 May 25	3.57	-176
12 Jun 25	3.43	-190
31 Jul 25	3.32	-201

The outlook for the EUR / USD

EUR/USD will lift over coming months as a major outlet in response to a depreciating USD. Adding some modest fuel to an appreciation in EUR, Eurozone economic growth rose 0.3% QoQ in Q2 lifting the annual rate of GDP growth from 0.4% to 0.6% YoY.

The rebound in the Eurozone current account surplus from a deficit of 0.3% of GDP in December 2022, to a healthy 2.1% of GDP in 2024 is also supporting an appreciation in EUR/USD. The EUR exchange rate has for many years had a strong correlation to the Eurozone current account balance.

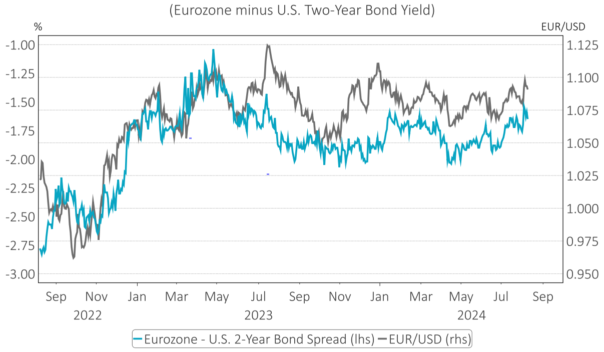
EUR/USD, Rates, and Current Account
(Multiple Drivers of Exchange Rates)



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

In response to declining inflation and lower inflation forecasts, the European Central Bank (ECB) cut interest rates in early June, lowering the benchmark ECB deposit rate to 3.75%. Since early 2024, Eurozone CPI inflation has ranged between 2.4% and 2.6%. The ECB is likely to further cut interest rates as early as their next September 12 meeting.

EUR/USD and Two-Year Bond Spread
(Eurozone minus U.S. Two-Year Bond Yield)



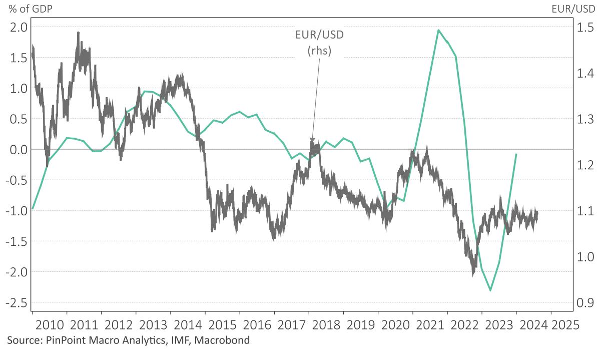
Source: PinPoint Macro Analytics, MSCI, Macrobond, U.S. Treasury

It is important to recognize that just because the ECB is cutting interest rates, it does not necessarily mean the EUR will depreciate. There are three reasons for this.

First, because the ECB is operating in tandem with a chorus of central banks lowering interest rates. Second, because ECB interest rate cuts will help provide some growth insurance to the Eurozone economy.

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 1.1000 may well have lifted above 1.1100.

EUR/USD and Current Account Balances
(Annual Change in Current Account Differential | as % of GDP)



Source: PinPoint Macro Analytics, IMF, Macrobond

The outlook for the GBP / USD

After briefly lifting to a twelve-month high of 1.3044 on July 17, GBP began to depreciate as the USD firmed over most of the second half of July. GBP further depreciated after the Bank of England (BoE) cut interest rates 25bp to 5.00% on 1 August following a close 5-4 vote by the BoE's monetary policy committee. The main reason GBP declined after the BoE cut interest rates was because the market was not fully expecting the interest rate cut to come at the 1 August meeting.

The finely balanced decision was accompanied by a message the BoE intends not to cut rates too much or too quickly because there is a risk that inflationary pressures from second-round effects in the economy may persist. Despite U.K. headline inflation declining to 2.0% for two consecutive months, services inflation has remained high at 5.7% for two consecutive months. In fact, the BoE noted that services inflation may rise again in August before easing for the remainder of 2024. The BoE added that future decisions on whether the BoE will cut interest rates again will be decided on a meeting-by-meeting basis.

The current overnight index swap (OIS) interest rate pricing for the remaining three BoE meetings scheduled this year is for a further -25bp interest rate cut at the BoE's November meeting, with a 90% chance priced the BoE do a third -25bp interest rate cut in the cycle at the December meeting.

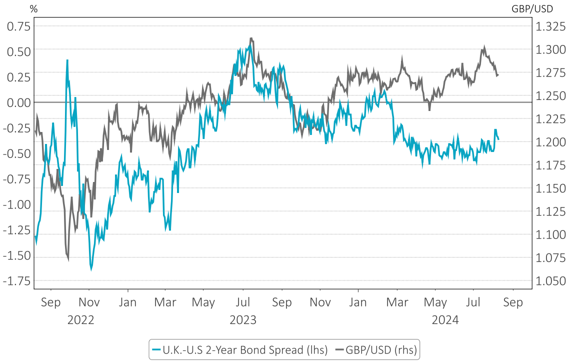
Bank of England (BoE)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.00**	
19 Sep 24	4.85	-10
07 Nov 24	4.64	-31
19 Dec 24	4.50	-45
06 Feb 25	4.31	-64
20 Mar 25	4.17	-78
08 May 25	4.00	-95
19 Jun 25	3.91	-104
07 Aug 25	3.81	-114
18 Sep 25	3.73	-122

GBP will be under some downward pressure on the prospects of further interest rate cuts, but the USD will also be under some downward pressure for the same reason. GBPUSD is likely to be somewhat volatile as the tag team between the BoE and Fed result in a net lowering of interest rates between the two central banks.

GBP/USD and Two-Year Bond Spread

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



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

GBP has endured some further short-term downward pressure down to the 200-day moving average of 1.2663, but then recovered. A further recovery up to 1.2800 appears possible.

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 more than the U.K. economy. The Fed is likely to take out some larger 'growth insurance' in an effort to achieve its dual mandate of full employment and low inflation. The USD depreciation is likely to dominate the direction of the GBP/USD exchange rate.

The outlook for the USD / CAD

USD/CAD has lifted to 1.3946 during the panic of Monday August 5, above the upper-end of its recent two-year range. The Canadian economy has weakened, with Canada's June unemployment rate lifting to a cyclical high of 6.4%. The Bank of Canada's (BoC) business outlook survey also moved lower, declining to -2.9 in July and back towards its recent -3.4 September 2023 low.

Canada's June CPI inflation declined to 2.7%, its lowest level since inflation reached its recent peak of 8.1% in June 2022. The decline in Canada's inflation and softening in the Canadian, as well as U.S. economy, where 75% of Canada's exports are sent, opened the door to an interest rate reduction by the BoC at their 24 July meeting, where the BoC cut interest rates -25bp to 4.50%.

After their second interest rate cut in the cycle, overnight index swap (OIS) markets are fully pricing another -25bp interest rate cut at the BoC's next meeting on September 4, as well as a follow-up -25bp interest rate cuts at the subsequent October 23 meeting and December 11 meeting. The BoC meeting minutes note that the "ingredients for price stability are in place". Downside risks to inflation now as prominent as upside risks.

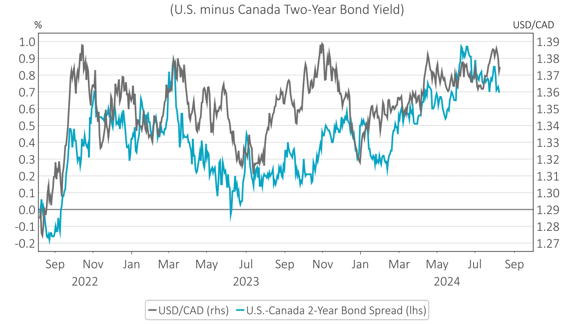
Bank of Canada (BoC)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**4.50**	
04 Sep 24	4.25	-28
23 Oct 24	3.99	-54
11 Dec 24	3.77	-76
23 Jan 25	3.57	-96
06 Mar 25	3.42	-111
10 Apr 25	3.19	-134
05 Jun 25	3.12	-141
24 Jul 25	3.00	-153
04 Sep 25	2.91	-162
23 Oct 25	2.83	-170

USD/CAD is likely to move somewhat lower under the weigh of a depreciating USD as the Fed gets ready to cut interest rates in September. Gauging levels in the U.S-Canada two-year bond spread, USD/CAD is unlikely to move significantly lower immediately after the Fed reduces interest rates, but the direction should be down as the USD depreciates in line with lower US interest rates.

USD/CAD and Two-Year Bond Spread

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

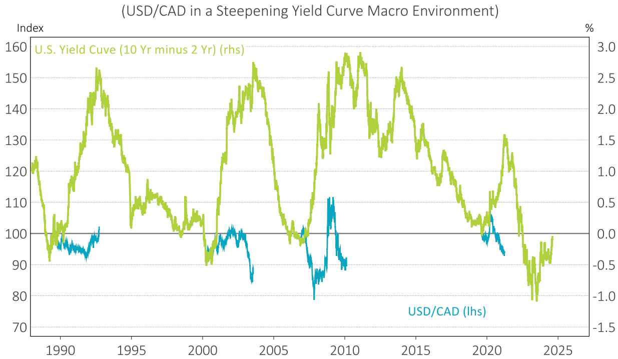


Source: PinPoint Macro Analytics, Macrobond, U.S. Treasury

The accompanying chart illustrates the typical pattern of USD/CAD when the Fed begins its interest rate cutting cycle. The subsequent move in the US yield curve (10-year minus 2-year bond yield) from an inverted yield curve to a steepening yield curve (normalized) usually sees USD/CAD adjust lower.

USD/CAD in a Steepening Yield Curve

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



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

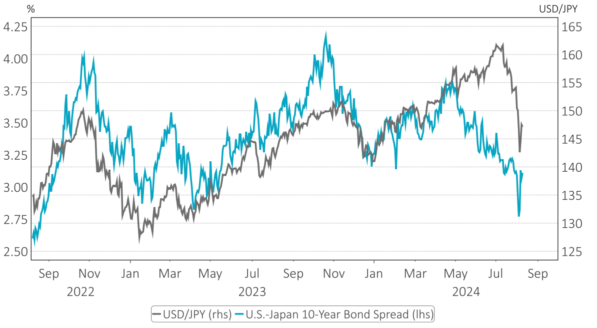
The outlook for the USD / JPY

USD/JPY declined some 12.5% to 141.70 after reaching its recent peak of 161.95 on July 3rd. The extremely large decline in USDJPY over a short period of time was due to a number of factors.

First, the BoJ unexpectedly lifted interest rates 15bp to 0.25% at its July 31 policy meeting and signaled further increases in interest rates were likely. Secondly, only a number of hours after the BoJ unexpectedly lifted interest rates, Fed Chair Jay Powell said the Fed would be willing to discuss a rate cut at its next meeting in September. Adding that some policy members wanted to discuss a rate cut at the 31 July meeting. Thirdly, there was a large unwind of 'carry positions' in USDJPY as the fundamental factors driving USD/JPY higher over since early 2021 began to reverse.

USD/JPY and Ten-Year Bond Spread

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



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

USD/JPY is likely to remain under downward pressure over coming months as the BoJ lifts interest rates and the Fed (most likely) cuts interest rates. However, short-term price action over August may be a little volatile as USD/JPY consolidates its relatively large 8% monthly percentage decline. It is difficult to be confident, but USD/JPY may lift back to the 200-day moving average of 151.60 as part of a normal course of consolidation price action.

We would then expect USD/JPY to continue to decline. 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.

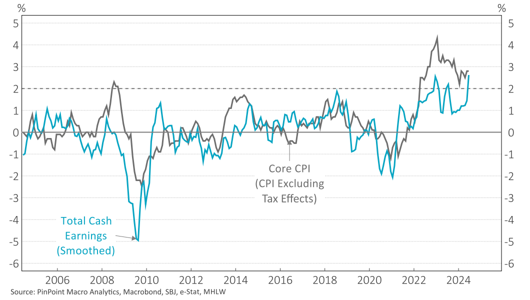
Japan's economic activity and prices have been developing generally in line with the BoJ's outlook. Wages increases have been spreading across Japan's corporate and public sector. The year-on-year rate of change in import prices has turned positive again, and the BoJ views that this upside risk will "require attention".

Japan's real interest rates are expected to remain significantly negative, and accommodative financial conditions will continue to firmly support economic activity. If the outlook presented in the BoJ's July Outlook Report is realized, the BoJ "will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation". The JPY is set to strengthen against most currencies over coming months.

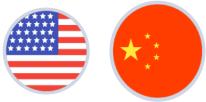
The BoJ also announced plans to reduce its quantitative easing program, with monthly purchases of JGBs set to be reduced by about ¥400 billion each quarter. The BoJ is aiming to roughly halve the purchases of JGBs from ¥5.7 trillion per month in July 2024, to around ¥3 trillion per month by January-March 2026.

Japan Prices and Wages

(Annual % Change)



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



The outlook for the USD / CNY

After depreciating steadily for the last eight months, CNY has begun to strengthen. Two developments have triggered the recent strength in CNY.

First, following Fed Chair Powell's indication that a Fed rate cut in September is "on the table", Chinese participants holding long-term USD deposits at Chinese banks have been noted sellers of USD deposits into local CNY deposits. The likelihood of reduced interest rates on USD deposits, as well as possible USD deprecation as the Fed cuts interest rates has triggered an early response by Chinese participants in the USD-CNY deposit market.

Second, the Chinese Ministry of Commerce announced on August 2 that there will be no restrictions on foreign investment in the manufacturing sector, as part of efforts to further expand the country's opening up. The Commerce Ministry added, China will take additional steps to relax market access in the fields of telecom, internet, education, culture, and medical care. Revised rules will also be published to further support long-term foreign investment in the Chinese capital market.

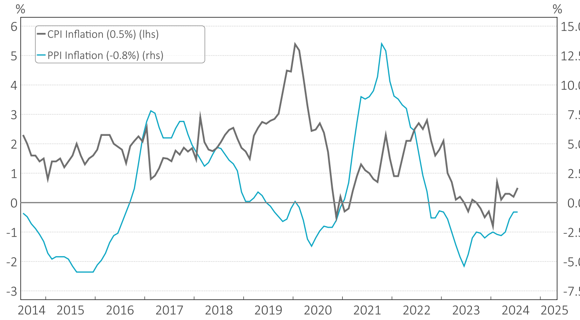
The prospect of increased capital inflows into China, as well as a possible pick-up in Chinese economic growth emanating from additional foreign investment into China, has set the stage for some possible CNY out-performance after a long two-and-a-half-year period of trending CNY depreciation. At present, China's net capital flows remain negative (outflow). A possible reversal of those flows would generate CNY strength.

However, it is worth remembering that China's economy is still struggling from the effects of the property sector collapse, and these economic effects normally last a very long time.

China's economy is still grappling with relatively weak growth, generating bouts of deflation in China's economy. China's July CPI rose 0.5% YoY up from 0.3% in June. But China's PPI inflation remained in deflation at -0.8% YoY.

China CPI and PPI Inflation

(Annual % Change)

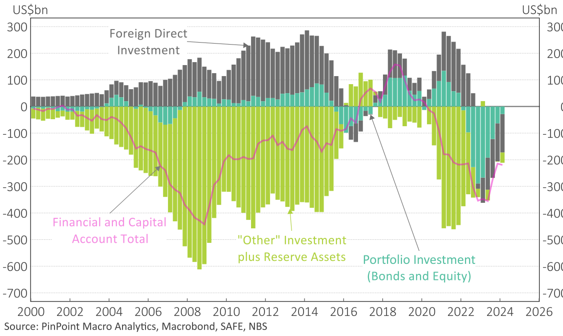


Source: PinPoint Macro Analytics, Macrobond, NBS

China's interest rates are set to remain low for some time. Consequently, the path toward a stronger CNY will be bumpy and take time. Expect some volatility despite the PBoC's regular efforts to smooth FX volatility.

China Net Capital Flows

(Financial plus Capital Account | Annual Sum)



Source: PinPoint Macro Analytics, Macrobond, SAFE, NBS

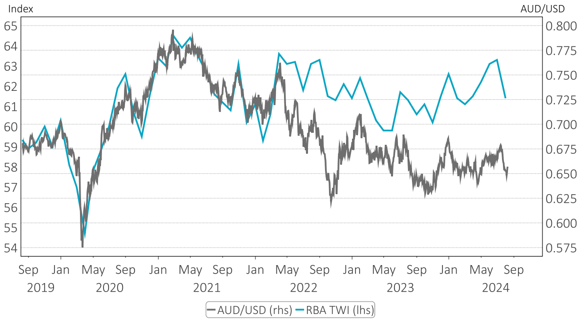
The outlook for the AUD / USD

The RBA left interest rates unchanged at their August 6 meeting but lifted their 2025 and 2026 inflation forecasts and noted that it will take longer to return inflation to the 2% to 3% target.

This essentially means that the RBA will not be reducing interest rates anytime soon, and this should feed into some resilience and appreciation in AUD, particularly against the currencies whose central banks are cutting interest rates, which includes the Fed and the USD. AUD is set to appreciate not just against the USD, but also on a trade-weighted basis too.

AUD/USD and Trade-Weighted Index

(AUD/USD and Australia NEER)



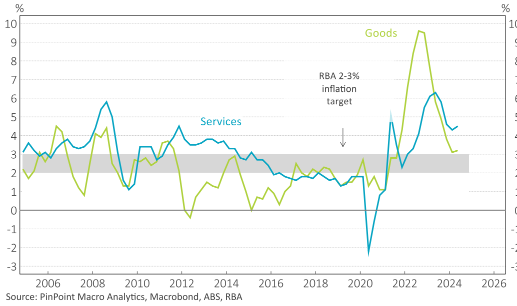
Source: PinPoint Macro Analytics, RBA, Macrobond

The hawkish RBA effectively moved from being "uncertain" about the future path of inflation to "vigilant" about the upside risks to inflation. As well as lifting their 2025 and 2026 inflation forecasts, the RBA also lifted their 2024 and 2025 GDP growth forecasts. Both of these factors are supportive for AUD in the current environment.

AUD/USD has endured some volatility since declining from its recent mid-July peak of 0.6800. But AUD is likely to gain some strength now that the market has interpreted the RBA's hawkish comments to be serious. Over coming months, AUD/USD is likely to lift back to 0.6800.

Australia Key CPI Measures

(Annual % Change)



Source: PinPoint Macro Analytics, Macrobond, ABS, RBA

Helping drive AUD/USD appreciation is fact that the Fed will be lowering interest rates from 5.50% (upper-bound) while the RBA maintains interest rates at current levels of 4.35%. By early next year, the RBA's cash rate is likely to be above the Fed funds rate, which should drive AUD/USD higher and up to 0.6900 by Q2 2025.

Lower global interest rates should lead to good support for global economic activity, and lead to a lift in commodity prices, providing AUD with additional support.

In the short-term, one of the bigger risks to the degree of AUD/USD appreciation will come from reductions in interest rates by the Reserve Bank of New Zealand (RBNZ). Both the AUD and NZD exchange rate tend to move broadly in tandem because they are both classified as 'commodity currencies'. While AUD/NZD should appreciate as the RBNZ cuts interest rates, relative downward pressure on NZD may restrain AUD upside at the margin.

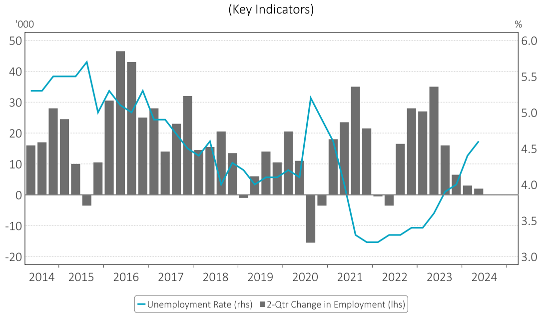
The outlook for the NZD / USD

NZD/USD has recovered close to the 100-day moving average of 0.6039 after coming under large downward pressure over late July-early August.

New Zealand Q2 employment grew a stronger-than-expected 0.4% QoQ, lifting from last quarter's -0.3% decline. The unemployment rate lifted 0.2%pts to 4.6%, not as high as expected, but nevertheless the highest since March 2021. The RBNZ will take some confidence that the economy has returned to show some strength, after its recent weakness. However, the RBNZ would be somewhat concerned by the very strong levels of wage growth, that lifted to 5.2% YoY.

New Zealand Labour Market

(Key Indicators)



Source: PinPoint Macro Analytics, Macrobond, Stats NZ

The biggest near-term risk to NZD is the strong possibility the Reserve Bank of New Zealand (RBNZ) could cut interest rates -25bp at its Wednesday 14 August meeting.

OIS markets are pricing a -17bp (68% chance) of a -25bp rate cut at the August meeting and a total of -90.5bp of interest rate cuts by the final November RBNZ meeting of 2024. The recent increase in market pricing for rate cuts occurred after the RBNZ's Q3 inflation expectations survey showed the sixth consecutive quarterly decline in inflation expectations, with the 2-year measure declining to 2.03%.

For a number of months, the RBNZ has consistently published economic forecasts that forecast the RBNZ cutting interest rates in H2 2024, predicated on New Zealand's inflation falling to the 1% to 3% inflation target.

At its previous July meeting, the RBNZ "agreed that monetary policy will need to remain restrictive" and noted that "some domestically generated price pressures remain strong". The RBNZ is essentially saying that interest rates may come down, but not to extraordinary low levels.

NZD/USD is likely to come under some downward pressure when the RBNZ cuts interest rates. But the important factor for NZD will be the timing of the RBNZ's interest rate cut. If the RBNZ cuts rates at the August 14 meeting at the same time it is due to publish the RBNZ's updated economic forecasts, then NZD/USD will come under some relatively strong downward pressure. NZD/USD may decline some 1.0% of more over the subsequent days.

However, if the RBNZ waits (at least) until their October 9 meeting, which would be after the Fed cuts interest rates in September, then the dampening impact on NZD/USD would not be so great. NZD/USD is set to receive some good support when the Fed cuts interest rates, because Fed rate cuts will weigh quite significantly on the USD.

Reserve Bank of New Zealand (RBNZ)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.50**	
14 Aug 24	5.33	-17
09 Oct 24	5.00	-51
27 Nov 24	4.60	-90
19 Feb 25	4.17	-133
09 Apr 25	3.90	-160
28 May 25	3.64	-186
09 Jul 25	3.51	-199
16 Sep 25	3.39	-211
17 Dec 25	3.29	-221
17 Mar 26	3.25	-225

The outlook for the USD / MXN

USD/MXN surged above 20.00 on August 5, driven by an unwinding of JPY carry trades. Participants who had previously sold JPY and bought MXN to pick up the interest rate yield differential (carry), have been forced to liquidate their positions, cause some notable buying of JPY and heavy selling of the peso. MXN/JPY fell -21% from its recent July high and -24% from its earlier May peak.

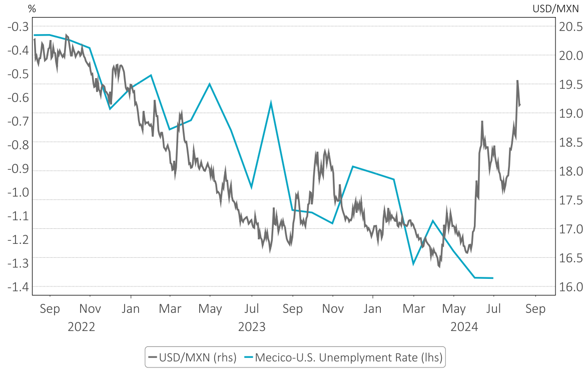
The fact the US economy appears to have slowed down has some ramifications for MXN. A slower US economy will filter through to a slower Mexican economy. USDMXN had some upward pressure behind it due to this fact alone.

Approximately 80% of Mexico's exports go to the US. The high proportion reflects the strong trade relationship, originally boosted by the North American Free Trade Agreement (NAFTA) and more recently, its successor, the United States-Mexico-Canada Agreement (USMCA).

With market volatility settling down now that there are reduced concerns about the strength of the US and global economy, USD/MXN is likely to grind lower.

USD/MXN and Unemployment Differentials

(Mexico minus U.S. Unemployment Rate)

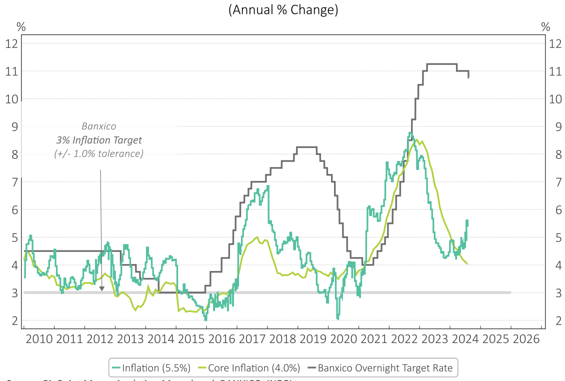


Source: PinPoint Macro Analytics, BLS, Macrobond, INEGI

Central Bank of Mexico governor Rodriguez said Mexico's inflation is expected to resume its downward trend. With headline inflation affected by short-term shocks, core inflation is a better medium-term indicator. Core inflation has declined to 4.0% in July. A Fed rate cut in September is may see USD/MXN move under 18.50

Mexico Consumer Price Index

(Annual % Change)



Source: PinPoint Macro Analytics, Macrobond, BANXICO, INEGI

The outlook for the GBP / EUR

GBP/EUR declined some 2.8% to 1.1595 from its July 17 two-year high of 1.1929. While both EUR and GBP have fallen since mid July, the larger depreciation in GBP, accompanied by the Bank of England's (BoE) 1 August 25bp interest rate cut, has been the major catalyst for the depreciation in GBP/EUR.

The ECB left interest rates unchanged in line with expectations at its 18 July meeting. The ECB said in its statement that it was not pre-committing to a rate path and President Lagarde declined to proved forward guidance. Lagarde said she expects wage growth will moderate over the course of the next year and that economic risks were tilted to the downside. Lagarde concluded that the September decision was 'wide open'.

Justifying the ECB's cautious stance, the Eurozone July CPI inflation report showed slightly higher inflation than expected, at 2.6% YoY. Eurozone Q2 GDP growth was also stronger than expected at 0.6% YoY, up from 0.4% in Q1. Both of these data releases helped GBPEUR move lower.

However, looking ahead, GBP/EUR may well exhibit a tendency to hold levels around and above its twelve-month average of 1.1664, rather than continue to decline. The BoE is likely to be more cautious in making its next cut in interest rates than is the ECB because of persistent UK services inflation, currently 5.7% YoY.

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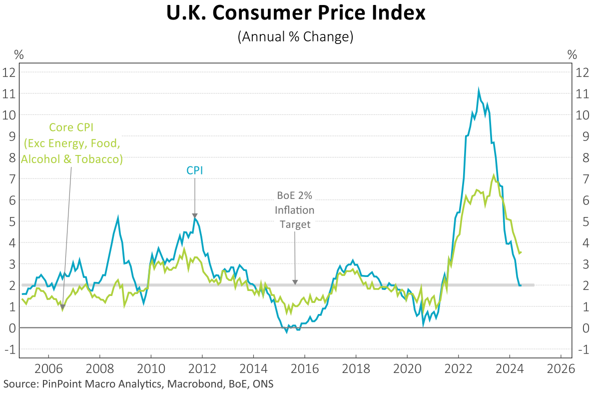
The timing of the September BoE and ECB central bank meetings is also set to have a directional impact on GBP/EUR. The ECB meets first out of the two central banks, on September 12 and overnight index swap (OIS) markets are fully pricing a 25bp rate cut by the ECB.



Current OIS market pricing for the BoE meeting a week later on 19 September, is indicating a 40% chance of a 25bp rate cut. An earlier rate cut by the ECB should offer GBPEUR some support. The key events to look out for to provide an early indication of central bank rate moves will be the UK's CPI inflation reports on 14 August and 18 September respectively.

European Central Bank (ECB)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**3.75**	
12 Sep 24	3.41	-26
17 Oct 24	3.24	-42
12 Dec 24	2.97	-70
24 Jan 25	2.79	-88
07 Mar 25	2.58	-108
11 Apr 25	2.47	-119
06 Jun 25	2.31	-135
18 Jul 25	2.25	-142

The outlook for the GBP / CHF

The Swiss franc has shown dominate strength over July and into early August underpinned by strong economic fundamentals and the fact that CHF acts as a major outlet to USD depreciation.

This trend is likely to continue as the Fed and the Bank of England cut interest rates over coming months, resulting in further depreciation of the GBP/CHF exchange rate.

Low Swiss inflation and a strong Swiss current account surplus, equivalent to 7.6% of GDP, are the two major factors that generate long-term dominate strength in the Swiss franc.

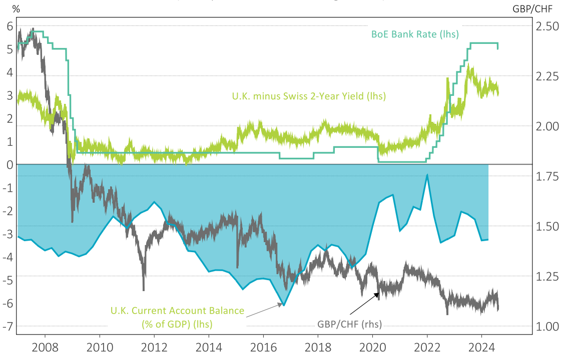
Swiss inflation remained at 1.3% in July for the second consecutive month. The Swiss National Bank (SNB) has forecast a further decline in inflation to 1.1% in 2025. In response to low inflation, the SNB lowered the policy rate to 1.25% on 20 June for the second time in the rate cutting cycle. This has brought the SNB's real policy rate to a modest -0.05% which is mildly stimulative for the Swiss economy, and appropriate for a low inflation environment.

At their 20 June meeting, the SNB added "the (inflation) forecast is based on the assumption that the SNB policy rate is 1.25% over the entire forecast horizon".

As the Bank of England (BoE) further cuts interest rates over coming months and quarters, GBP/CHF is set to further depreciate. 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.

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

(Multiple Drivers of Exchange Rates)



Source: PinPoint Macro Analytics, ONS, Macrobond, BoE

In the very short-term, we may see some normal consolidation in GBP/CHF over the month of August. GBP/CHF endured a large 5.6% decline after its touching its mid-July high of 1.1633.

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. The risk is GBP/CHF is unable to lift this high in the short term.

The outlook for the GBP / SEK

GBP/SEK has declined more than 3.0% since its July 25 high of 13.9852. The 25bp cut in interest rates by the Bank of England to 5.00% has added to the depreciation in GBP/SEK. The likelihood is we will see further declines in GBP/SEK as the BoE further cuts interest rates over coming months.

GBP/SEK is trading above the guidance provided by the levels in the U.K.-Sweden two-year bond differential. A decline in GBP/SEK to the 200-day moving average of 13.3409 would be consistent with the current level implied by the forward-looking U.K.-Sweden two-year bond spread.

A larger decline in GBP/SEK appears unlikely at this stage. Sweden's economy is recovering from a relatively weak period of growth, and the Swedish Riksbank indicated at their June 27 meeting that if the inflation outlook remains the same, the current 3.75% policy rate "can be cut two or three times during the second half of the year". Since then, Sweden's inflation rate fell more than expected to 2.6% in June, and Sweden's unemployment rate lifted to a cyclical high of 9.4% in June, after the economy recorded a technical recession over H1 2024.

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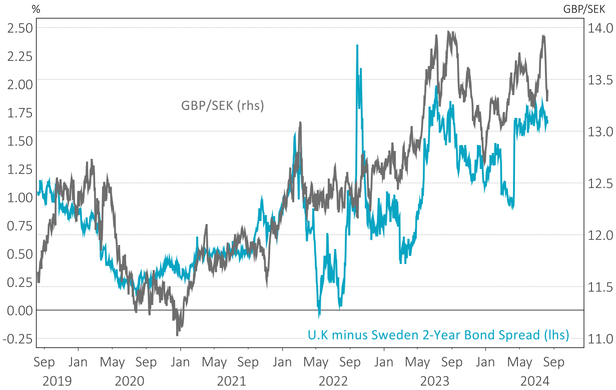
GBP/SEK and Two-Year Bond Spread

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



Source: PinPoint Macro Analytics, Macrobond

The Overnight Index Swap (OIS) market is pricing -21bp (84% chance) of a 25bp interest rate cut at the Riksbank's August 20 policy meeting. Sweden's relatively low inflation and weak economy suggest the Riksbank is likely to cut interest rates at this policy meeting.

The Bank of England are not meeting again until September 19. The OIS market is pricing a lessor 40% chance of a 25bp rate cut at the BoE's September meeting, largely because UK services inflation remains so high at 5.7%. GBP/SEK is likely to receive some support over the next month or so.

Swedish Riksbank

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**3.75**	
20 Aug 24	3.54	-21
25 Sep 24	3.35	-40
07 Nov 24	3.01	-73
19 Dec 24	2.82	-92
31 Jan 25	2.65	-110
27 Mar 25	2.48	-127
08 May 25	2.27	-147
27 Jun 25	2.09	-166
20 Aug 25	2.01	-174
25 Sep 25	1.96	-179

The outlook for the GBP / CAD

The Bank of England (BoE) and the Bank of Canada (BoC) are both in the midst of an interest rate cutting cycle.

GBP/CAD moved higher after the BoC's first -25bp rate cut in June, and to a lesser extent after the BoC's second -25bp rate cut in July. But the BoE's first -25bp rate cut on 1 August has taken some shine off GBP/CAD's appreciation.

GBP/CAD has moved lower. But still remains in the upward trend that has been in place all year (and since GBP/CAD hit a low of 1.4094 in September 2022).

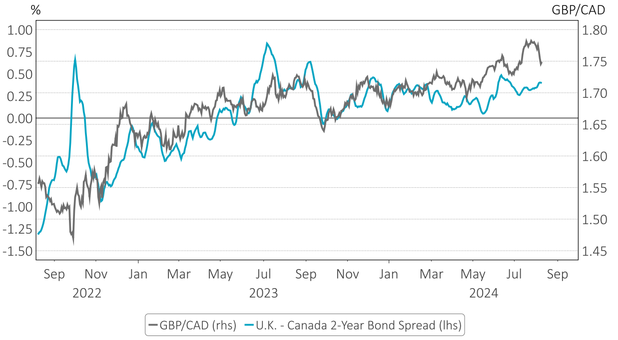
GBP/CAD is likely to further ease and depreciate under the weight of coming BoE interest rate cuts. GBP is more sensitive to BoE interest rate cuts than is CAD to BoC interest rate cuts. This is because the U.K. runs a current account deficit equal to some 3.3% of GDP, while Canada's runs a much smaller current account deficit, equivalent to 0.8% of GDP (and notably ran a current account surplus over 2002-2023).

CAD is likely to receive some support from firm oil prices. Middle East tensions continue to remain concerning, and supportive for oil prices. CAD is also likely to receive some economic support as the Fed cuts interest rates, essentially providing some 'growth insurance' to the U.S. economy. We anticipate the U.S. economy to slow, but remain relatively firm. A modest expansion in the U.S. economy will still benefit Canada's economy because Canada sends some 75% of their exports to the U.S.

Over coming months, we could see GBP/CAD depreciate down to the 200-day moving average of 1.7360. Since the beginning of the year, GBP/CAD has received good support at various levels along the 200-day moving average.

GBP/CAD and Two-Year Bond Spread

(Smoothed over One-Week)



Source: PinPoint Macro Analytics, Macrobond

Bank of Canada (BoC)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**4.50**	
04 Sep 24	4.25	-28
23 Oct 24	3.99	-54
11 Dec 24	3.77	-76
23 Jan 25	3.57	-96
06 Mar 25	3.42	-111
10 Apr 25	3.19	-134
05 Jun 25	3.12	-141
24 Jul 25	3.00	-153
04 Sep 25	2.91	-162
23 Oct 25	2.83	-170

The outlook for the GBP / ZAR

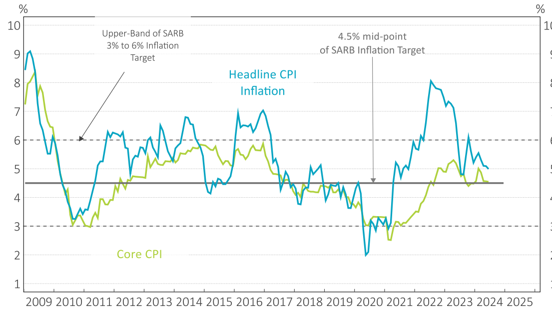
After a somewhat volatile July and early-August period, GBP/ZAR has moved back to the 200-day moving average of 23.57. The 200-day moving average has been relatively stable for most of the year, and certainly since February 2024.

The reduction in S. Africa's political uncertainty after the formation of a Government of National Unity (GNU) has helped stabilize the immediate outlook for the rand. The GNU comprises of the ANC, Democratic Alliance (DA), Inkatha Freedom Party (IFP), and some other smaller parties.

While S. Africa's economic performance in the first half of the year was weak, recent economic data suggests second quarter and second half GDP growth will be much firmer. GDP growth is set to be supported by a more reliable electricity supply, improving logistics, and a further decline in inflation, currently 5.1% according to the June measure. 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, as well as a modestly firmer ZAR over the course of this year.

South Africa CPI Inflation

(Annual % Change)



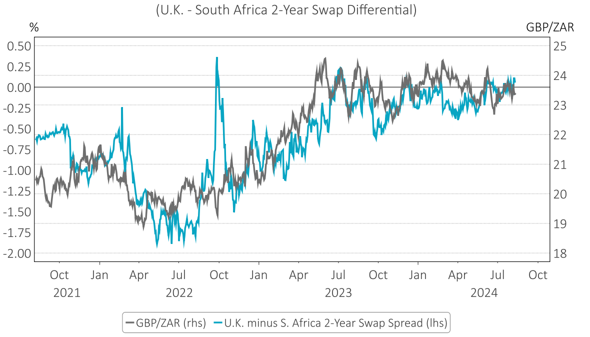
Source: PinPoint Macro Analytics, Macrobond, Stat SA, SARB

The SARB kept the policy repo rate unchanged at 8.25% at their recent July meeting. The SARB continues to see interest rates easing into more neutral territory by next year, implying more interest rate cuts are coming, which should help to shore up S. Africa's economy.

With interest rate reductions coming from both the Bank of England and the SARB over coming months, volatility in GBP/ZAR may be slightly more elevated. GBP/ZAR is likely to continue to oscillate around the 200-day moving average of 23.57, perhaps with a slight bias to move lower as GBP under-performs during the interest rate cutting cycle, because of its higher current account deficit (-3.3% of GDP) compared to S. Africa (-1.7% of GDP).

GBP/ZAR and Two-Year Swap Spread

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



Source: PinPoint Macro Analytics, Macrobond

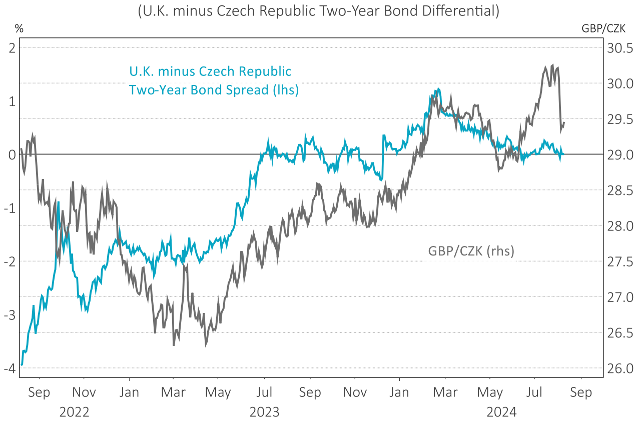
The outlook for the GBP / CZK

On August 1st, the same day the Bank of England (BoE) cut the official Bank Rate interest rate 25bp to 5.00%, the Czech central bank also lowered official interest rates, cutting the two-week policy repo rate by 0.25% to 4.50%. GBP/CZK subsequently declined more than 2.0%.

The main reason for the depreciation in GBP/CZK was because the market was not fully expecting the BoE to cut interest rates. Arguably technical factors also contributed to the sharp decline in GBP/CZK. From a pure technical perspective, GBP/CZK completed the last down-leg of a classic 'head and shoulders' move, declining to 29.64.

GBP/CZK and Two-Year Bond Spread

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



Source: PinPoint Macro Analytics, SCB, Macrobond, CNB

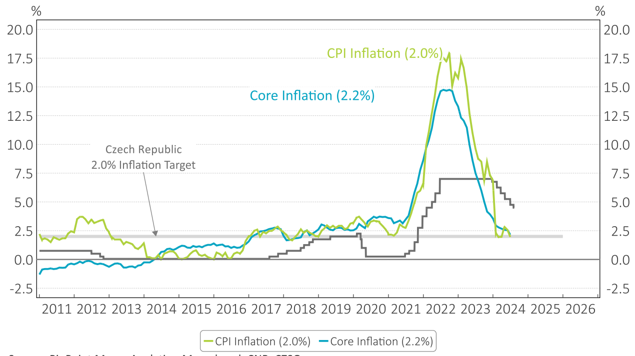
GBP/CZK is likely to further depreciate towards the 200-day moving average of 29.13 over coming months. At this stage a larger depreciation is not likely. Czeck inflation has declined to 2.0%, but the economy is relatively weak, recording just 0.4% YoY growth in Q2.

It is likely the Czech central bank will further reduce interest rates over coming months to support the Czech economy. Czech real interest rates remain positive and monetary policy is still restrictive. However, a similar scenario exists in the U.K. with GDP growth running around a modest 0.9% YoY and monetary policy restraining growth.

Interest rate cuts by the Bank of England will tend to weigh on GBP more than interest rate cuts by the Czech central bank will weigh on CZK. This is because the U.K. has a relatively large current account deficit, equivalent to 3.3% of GDP. While the Czech republic is running a current account surplus equivalent to 1.4% of GDP. Hence, all other things being equal, lower Czech interest rates will generate less downward pressure on CZK.

Czech Republic Consumer Price Index

(Annual % Change)



Source: PinPoint Macro Analytics, Macrobond, CNB, CZSO

The outlook for the EUR / CAD

EUR/CAD has declined some 1.6% since hitting a recent peak of 1.5230 on August 5. The spike higher in EUR/CAD reflected a combination of factors:

First, the Canadian dollar began to depreciate against EUR because of the concerns the market had about the strength of the U.S. economy, which by implication, affected the outlook for the Canadian economy because 75% of Canada's exports go the U.S. economy.

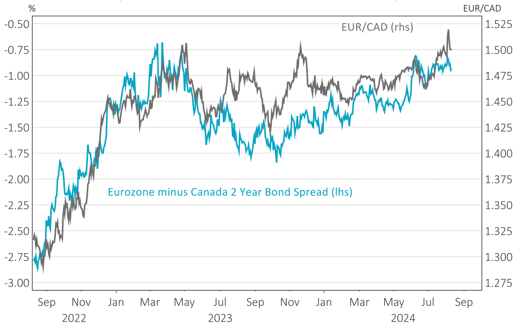
Second, EUR acts as a major outlet to USD weakness. The large Eurozone current account surplus, equivalent to 2.1% of GDP, generates strength in EUR during a time of market panic, because market participants do not have to consider external sources of funding the current account if the current account is in surplus.

Thirdly, the Eurozone economy is showing good signs of traction, with GDP growth lifting 0.3% QoQ in Q2 resulting in the annual rate of GDP growth rising from 0.4% to 0.6% YoY.

Both the European Central Bank (ECB) and the Bank of Canada (BoC) are in the midst of interest rate cutting cycles. The overnight index swap markets (OIS) are pricing around -100bp of interest rate cuts by both central banks by March next year.

EUR/CAD and Two-Year Bond Spread

(Eurozone minus Canada Two-Year Bond Differential)



Source: PinPoint Macro Analytics, Macrobond

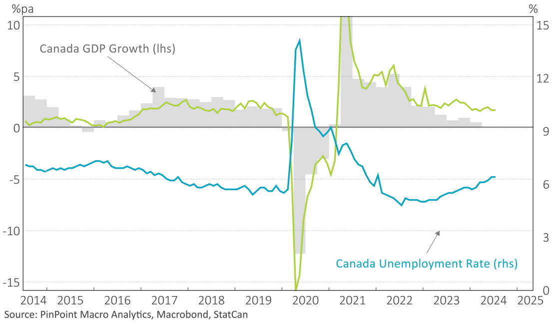
This is leaving the Eurozone-Canadian two-year bond spread little changed and suggests there is unlikely to be a large level change in the EUR/CAD exchange rate.

Over coming months, EUR/CAD is likely to remain somewhat elevated because of the key support the EUR receives during periods of USD depreciation. The recent improvement in Eurozone GDP growth and recent weakness in Canada's economy tends to support this outlook.

The Canadian economy has weakened recently, with Canada's June unemployment rate lifting to a cyclical high of 6.4%. The BoC's business outlook survey also moved lower, declining to -2.9 in July and back towards its recent -3.4 September 2023 low. The risk is the BoC cuts interest rates more than the ECB, leading to further medium-term support for EUR/CAD.

Canada Labour Market

(Selected Indicators)



Source: PinPoint Macro Analytics, Macrobond, StatCan

The outlook for the AUD / EUR

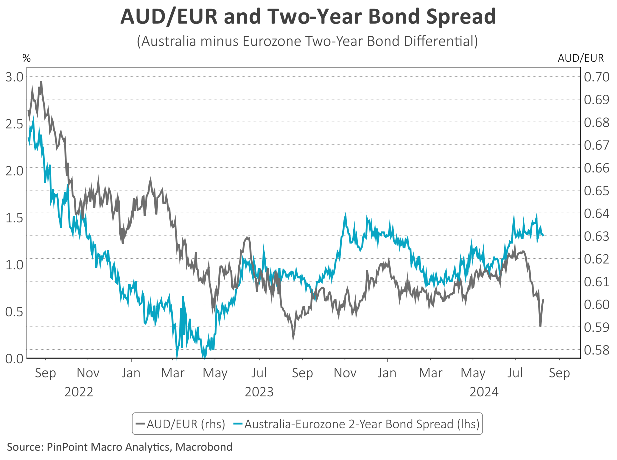
AUD/EUR has come under large downward pressure since lifting to its recent June 26 peak of 0.6251. In the global equity market sell off that occurred in late-July early-August, AUD/EUR declined 6.8% to 0.5825. The main driver of this relatively large downside overshoot was an unwinding of long AUD/JPY positions, that put extreme downward pressure on AUD, causing it to fall against EUR.

AUD often acts a barometer of global market sentiment, and so tends to come under large downward pressure when there is panic selling in global equity markets. AUD/EUR is likely to adjust higher after the recent intense selling. A 50% retracement of the above-mentioned recent peak-to-trough decline would see AUD/EUR lift to 0.6037 over the next month or so. This level would be close to its current twelve-month average of 0.6067.

The RBA made it quite clear at their August 6 meeting that they remain "vigilant" to the upside risks to inflation at the same time as lifting 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 appreciation in AUD, particularly against the currencies whose central banks are cutting interest rates, which includes the European Central Bank (ECB) and the EUR.

Looking further ahead, another interest rate cut by the ECB in September, and an unchanged level of interest rates by the RBA should help generate a further modest rise in AUD/EUR into year-end. AUD/EUR is well-below the fundamental value illustrated by the Australia-Eurozone two-year bond spread.



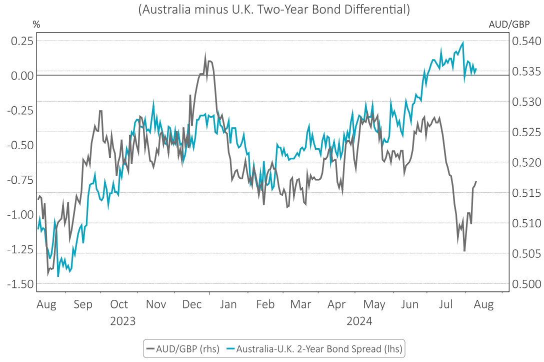
There are three main risks that may discourage further AUD/EUR appreciation. First, if there is a further sell off in global equity markets AUD/EUR will come under further downward pressure. Second, because the EUR can act as a major outlet to USD depreciation, EUR may out-perform AUD as the USD modestly 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.

The outlook for the AUD / GBP

AUD/GBP is likely to grind higher over coming months and lift to the 200-day moving average of 0.5210. The driving factor for AUD/GBP appreciation will be a steady level of relatively high interest rates by the Reserve Bank of Australia (RBA) while the Bank of England (BoE) cuts interest rates. The current level of the Australia-U.K. two-year bond spread suggests that AUD/GBP could lift quite a margin to get back to its fundamental value.

AUD/GBP and Two-Year Bond Spread

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



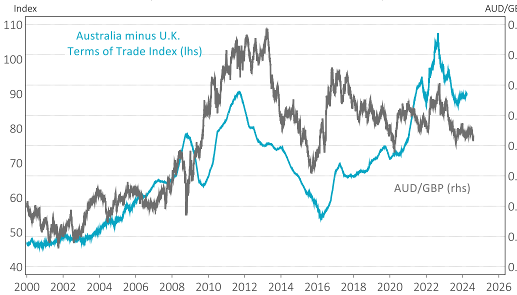
Source: PinPoint Macro Analytics, Macrobond, RBA

The RBA left interest rates unchanged at their August 6 meeting but lifted their 2025 and 2026 inflation forecasts and noted that it will take longer to return inflation to the 2% to 3% target. This essentially means that the RBA will not be reducing interest rates anytime soon, and this should feed into some resilience and appreciation in AUD, particularly against GBP, which is a relatively interest rate sensitive currency.

GBP is quite sensitive to interest rate reductions by the Bank of England (BoE) because the U.K. runs a current account deficit equal to some 3.3% of GDP. Lower U.K. interest rates reduce the risk premium the U.K. offers for running its current account deficit. Australia's relatively high-interest rate environment combined with a current account balance equal to 0.0% of GDP, argues for relative exchange rate appreciation at a time when Australia's commodity export prices are relatively firm, and Australia's terms of trade is relatively high.

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

The current overnight index swap (OIS) interest rate pricing for the remaining three Bank of England (BoE) meetings scheduled this year is for at least one further -25bp interest rate cut in November, with a 90% risk of another -25bp rate cut in December. GBP will be under some downward pressure on the prospects of further interest rate cuts, and this should further lift AUD/GBP.

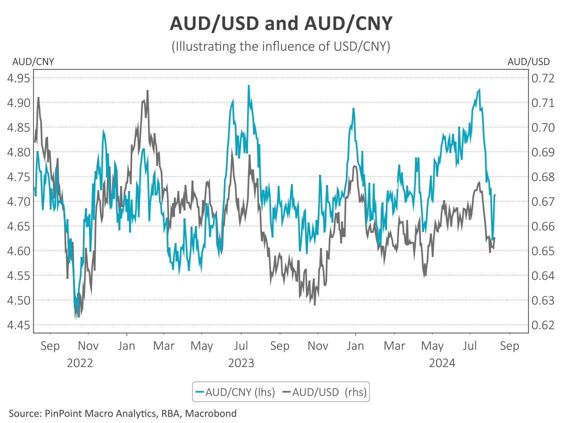
Bank of England (BoE)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.00**	
19 Sep 24	4.85	-10
07 Nov 24	4.64	-31
19 Dec 24	4.50	-45
06 Feb 25	4.31	-64
20 Mar 25	4.17	-78
08 May 25	4.00	-95
19 Jun 25	3.91	-104
07 Aug 25	3.81	-114
18 Sep 25	3.73	-122

The outlook for the AUD / CNY

After reaching a twelve-month high of 4.9340 on July 11, AUD/CNY declined 8.2% to touch its August 5 low of 4.5273. The depreciation in AUD/CNY was the largest and most rapid since the 2020-21 pandemic period.

The catalyst for the large decline in AUD/CNY is related to the large 12.4% strengthening in the JPY, and the subsequent 17.6% fall in AUD/JPY over the same period (please see the section on AUD/JPY). The large scale selling in AUD as the unwinding of AUD/JPY 'carry trades' took place, spilled over into AUD depreciating against CNY.

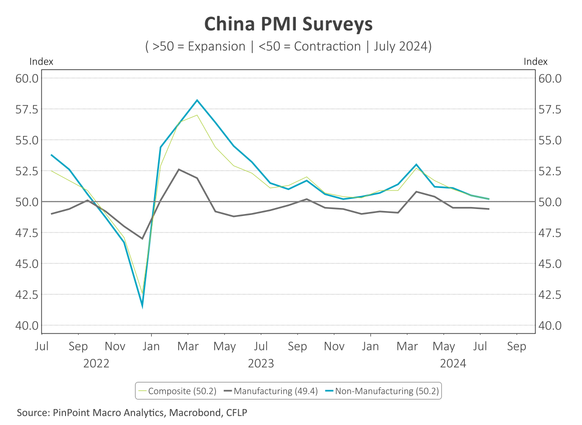


However, what also occurred was some 'competitive strengthening' in CNY as the JPY appreciated. China and Japan are major trade competitors, and so a strengthening in the JPY flowed through to a strengthening in CNY. The Peoples Bank of China (PBoC) has all year been trying to stem the depreciation in CNY. And so, the PBoC relaxed their level of daily intervention enough to allow CNY to strengthen somewhat in line with the movements in JPY.

Nevertheless, this relative strength in CNY 'aggravated' the decline in AUD/CNY before it managed to stabilize just below its 12-month average of 4.7364.

Over coming months, AUD/CNY is likely to lift and return to the 12-month average of 4.7364 and possible the 200-day moving average of 4.7566 encouraged by some relative strength in AUD, and the prevailing headwinds on CNY.

China's economy is still struggling from the effects of the property sector collapse, and these economic effects normally last a very long time. China's economy remains challenged by relatively weak economic growth, generating bouts of deflation in China's economy. China's Purchasing Managers Index (PMI) survey for July illustrates a very weak economic growth outlook in China's economy.



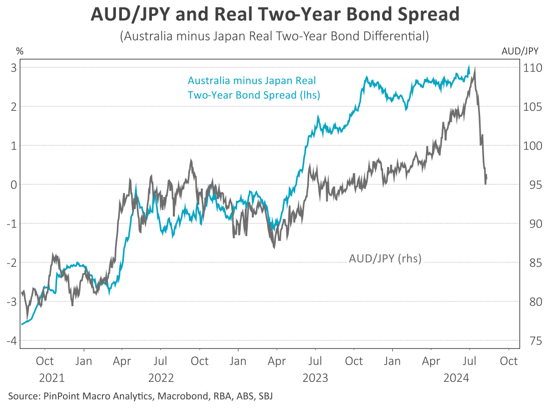
However, it is worth noting, China's Ministry of Commerce announced on August 2 that they will lift restrictions on foreign investment into China. The prospect of increased capital inflows into China may slow the rate of appreciation in AUD/CNY.

The outlook for the AUD / JPY

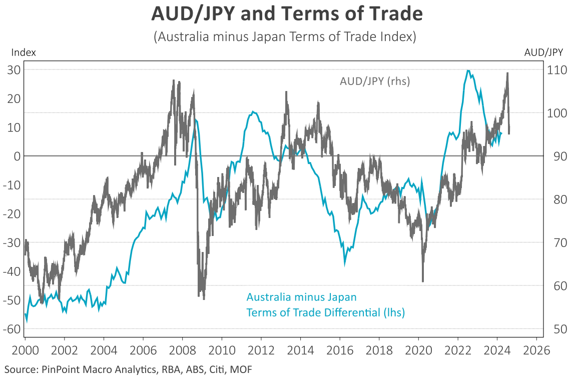
AUD/JPY has endured significant volatility over the last month. After reaching a high of 109.37 on July 11, AUD/JPY fell 17.6% to a low of 90.15 on August 5, before recovering to 95.60 at the time of writing. We had been warning for a number of months, that there was a risk of a sudden drop in AUD/JPY. The timing of the fall was the big unknown.

The catalyst for the extraordinary large decline in AUD/JPY was due to a large unwinding of the AUD/JPY 'carry trades'. 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 pick up the interest rate differential contained in the currency pair.

The size of currency positions that are built up over time can be quite large. And so, a catalyst or series of catalysts that cause these positions to be liquidated and/or reversed can have quite a dramatic effect on the exchange rate as participants rush for the exit door at the same time.



The unwinding of the 'carry positions' was triggered by two major factors. First, the BoJ unexpectedly lifted interest rates 15bp to 0.25% at its July 31 policy meeting and signaled further increases in interest rates were likely.



Secondly, only a number of hours after the BoJ lifted interest rates, Fed Chair Jay Powell said the Fed would be willing to discuss a rate cut at its next meeting in September. Powell added some policy members wanted to discuss a rate cut at the 31 July meeting. Essentially, the fundamental factors driving a weaker JPY since early 2021 began to reverse.

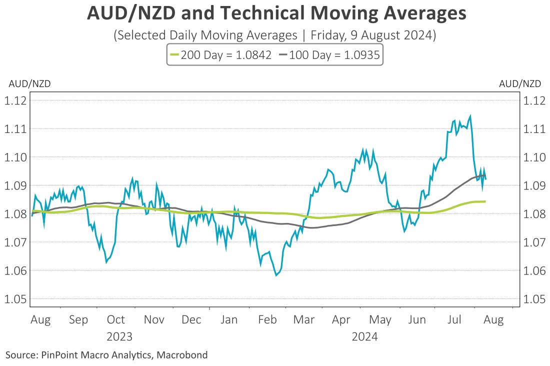
AUD/JPY is likely to consolidate its recent decline. At the time of writing AUD/JPY has already lifted some 6.0% from its August 5 low of 90.15. Over the next month or so, the trading range in AUD/JPY is likely to be quite large and difficult to forecast. We anticipate AUD/JPY may trade in a range between 92.00 and 99.00. 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

We have maintained the view for most of this year, that large movements in AUD/NZD away from the 200-day moving average of 1.0841 will be relatively short lived. And that participants should hedge or take advantage of large deviations away from the relatively stable 200-day moving average around 1.0841 because AUD/NZD will have a tendency to mean-revert and gravitate back to its average level of the last twelve months, a level close to the 200-day moving average.

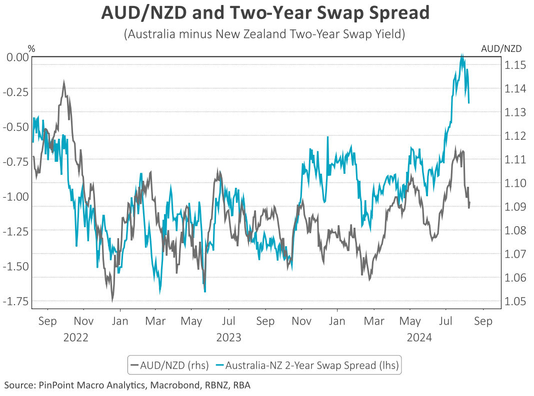
In mid-June AUD/NZD lifted 3.2% above the 200-day moving average to reach a near two-year high of 1.1152 before mean-reverting back close to the 200-day moving average at the time of writing. A number of factors have driven the move. But most of them have been related to the outlook for Australian interest rates guided by the Australian Q2 CPI inflation data and the Reserve Bank of Australia (RBA)'s updated outlook for inflation and interest rates, as well as pricing for New Zealand interest rates responding to the release of key New Zealand economic data.

Looking ahead, the risk is AUD/NZD lifts again over coming months back above 1.0950, as Australia's negative official interest rate differential to New Zealand, currently -1.15%, narrows as the RBNZ reduces interest rates well before the RBA.



The Australia-New Zealand two-year bond spread is partially reflecting this outlook.

The RBA made it quite clear at their August 6 meeting that they remain "vigilant" to the upside risks to inflation at the same time as lifting 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.

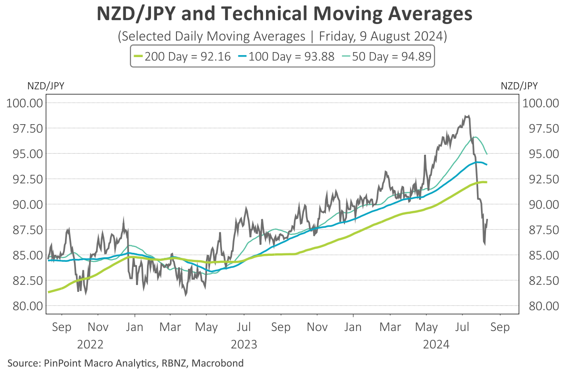


The RBNZ has indicated it is more comfortable with a lower future interest rate outlook. The RBNZ has consistently published economic forecasts that involved the RBNZ cutting interest rates in H2 2024, predicated on New Zealand's inflation falling close to the RBNZ's 1% to 3% target zone. The RBNZ are likely to maintain, even after cutting rates, that interest rate levels remain at restrictive levels.

New Zealand's overnight index swap (OIS) markets are pricing a -17bp (68% chance of a rate cut at the RBNZ's August 14 meeting) and a total of -90bp of interest rate cuts by the final November RBNZ meeting of 2024.

The outlook for the NZD / EUR

NZD/EUR has come under large downward pressure since lifting to its recent June 13 peak of 0.5750. In the global equity market sell off that occurred in late-July early-August, NZD/EUR declined 6.8% to 0.5362. The main driver of this relatively large downside overshoot was an unwinding of long AUD/JPY and NZD/JPY positions, that put extreme downward pressure on NZD, causing it to fall against EUR (please see NZD/JPY section).



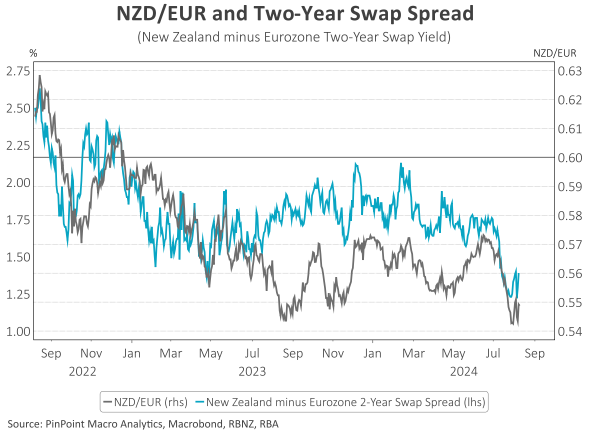
NZD often acts a barometer of global market sentiment, and so tends to come under large downward pressure when there is panic selling in global equity markets.

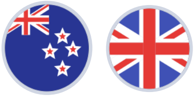
NZD/EUR is likely to adjust higher after the recent intense selling. A 50% retracement of the above-mentioned recent peak-to-trough decline would see NZD/EUR lift to 0.5556 over the next month or so.

However, the risk is that NZD/EUR does not get this high because the Reserve Bank of New Zealand (RNBZ) is getting ready to cut interest rates. New Zealand's overnight index swap (OIS) markets are pricing a -17bp (68% chance) of a rate cut at the RBNZ's August 14 meeting) and a total of -90bp of interest rate cuts by the final November RBNZ meeting of 2024.

Because the European Central Bank (ECB) are also likely to cut interest rates again, possibly as early as September, the dampening effects from an interest rate cut by the RBNZ may not be as significant on NZD/EUR than if the ECB were not cutting interest rates.

The most likely outcome is that NZD/EUR will remain relatively heavy, and closer to the lower-end of its recent twelve-month range. Over the next three-to-six months, NZD/EUR may struggle to lift back above 0.5600.





The outlook for the NZD / GBP

NZD/GBP is likely to grind higher over the coming month and lift to the 200-day moving average of 0.4761. The driving factor for NZD/GBP will be some recovery after the late-July to early-August market sell-off which lowered NZD/GBP.

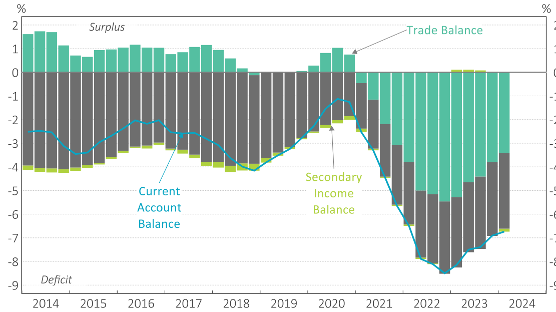
However, the path for NZD/GBP over the next six-months will be quite volatile and likely lower, as both the Reserve Bank of New Zealand (RBNZ) and the Bank of England (BoE) cut interest rates. We are likely to see NZD/GBP depreciate over this time frame.

New Zealand's overnight index swap (OIS) markets are pricing a -17bp (68% chance of a rate cut at the RBNZ's August 14 meeting) and a total of -90bp of interest rate cuts by the final November RBNZ meeting of 2024. NZD is likely to be quite sensitive to interest rate reductions because New Zealand runs a current account deficit equal to -6.8% of GDP.

GBP is also likely to be quite sensitive to interest rate reductions by the BoE because the U.K. also runs a current account deficit, but equal to a smaller 3.3% of GDP.

New Zealand Current Account

(% of GDP)



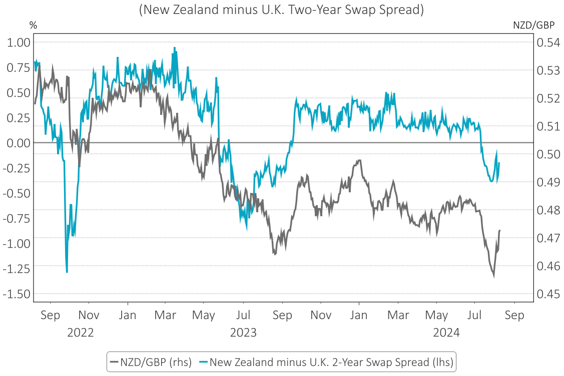
Source: PinPoint Macro Analytics, Macrobond, Stats NZ

The current overnight index swap (OIS) interest rate pricing for the remaining three Bank of England (BoE) meetings scheduled this year is for at least one further -25bp interest rate cut in November, with a 90% risk of another -25bp rate cut in December. GBP will be under some downward pressure on the prospects of further interest rate cuts, and this should further lift NZD/GBP.

Over the next six-months, NZD/GBP may average levels closer to 0.4690 as the dampening impact of RBNZ rate cuts dominates trading activity in NZD/GBP.

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

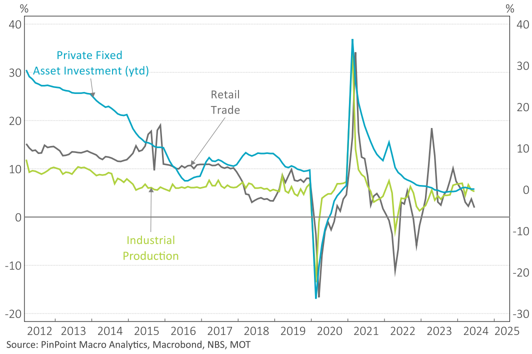
On August 5, NZD/CNY depreciated to a near two-year low of 4.1712. The catalyst for the decline in NZD/CNY is related to the large 12.4% strengthening in the JPY, and the subsequent 16.1% fall in NZD/JPY over the same period (please see the section on NZD/JPY). The large scale selling in NZD as the unwinding of JPY 'carry trades' took place, spilled over into NZD depreciating against CNY.

However, what also occurred was some 'competitive strengthening' in CNY as the JPY appreciated. China and Japan are major trade competitors, and so a strengthening in the JPY flowed through to a strengthening in CNY. The Peoples Bank of China (PBoC) has all year been trying to stem the depreciation in CNY. And so, the PBoC relaxed their level of daily intervention enough to allow CNY to strengthen somewhat in line with the movements in JPY.

The relative strength in CNY 'aggravated' the decline in NZD/CNY before it managed to stabilize around 4.3000. Over coming months, NZD/CNY may lift as high as 4.3500 encouraged by some relative strength in NZD, and the prevailing headwinds on CNY. China's economy is still struggling from the effects of the property sector collapse, and these economic effects normally last a very long time.

China Domestic Demand

(Selected Indicators, Annual % Change)



Source: PinPoint Macro Analytics, Macrobond, NBS, MOT

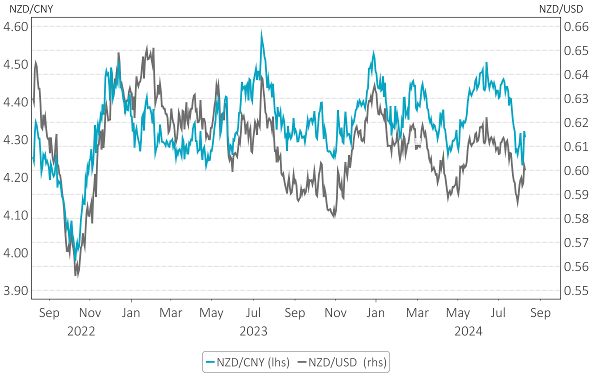
China's economy remains challenged by relatively weak economic growth, generating bouts of deflation in China's economy.

However, the risk is NZD/NZD does lift as much as this. New Zealand's overnight index swap (OIS) markets are pricing a -17bp (68% chance of a rate cut at the RBNZ's August 14 meeting) and a total of -90bp of interest rate cuts by the final November RBNZ meeting of 2024.

Interest rate reductions by the RBNZ mean that NZD/CNY may not appreciate as high as expected in the short-term and increase the likelihood that NZD/CNY will trade more around levels associated with the lower-end of its recent twelve-month range, around 4.2500.

NZD/USD and NZD/CNY

(Illustrating the influence of USD/CNY)



Source: PinPoint Macro Analytics, Macrobond, RBA

The outlook for the NZD / JPY

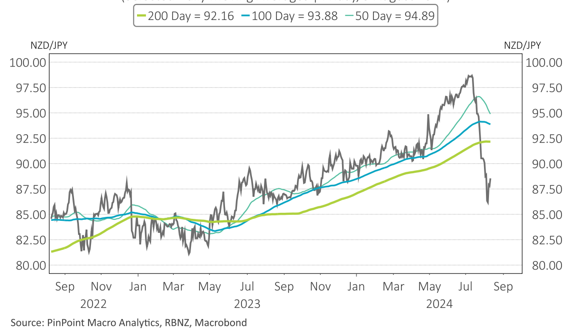
NZD/JPY has endured significant volatility over the last month. After reaching a high of 99.03 on July 8, NZD/JPY fell 13.1% to a low of 83.07 on August 5, before recovering to 87.88 at the time of writing. We had been warning for a number of months, that there was a risk of a sudden drop in NZD/JPY. The timing of the fall was the big unknown.

The catalyst for the extraordinary large decline in NZD/JPY was due to a large unwinding of the AUD/JPY and NZD/JPY 'carry trades'. 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 pick up the interest rate differential contained in the currency pair.

The size of currency positions that are built up over time can be quite large. And so, a catalyst or series of catalysts that cause these positions to be liquidated and/or reversed can have quite a dramatic effect on the exchange rate as participants rush for the exit door at the same time.

NZD/JPY and Technical Moving Averages

(Selected Daily Moving Averages | Friday, 9 August 2024)

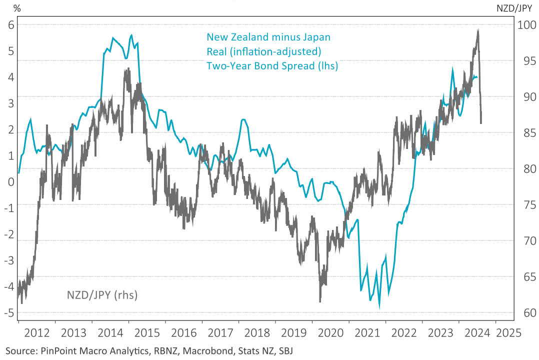


Source: PinPoint Macro Analytics, RBNZ, Macrobond

The unwinding of the 'carry positions' was triggered by two major factors. First, the BoJ unexpectedly lifted interest rates 15bp to 0.25% at its July 31 policy meeting and signaled further increases in interest rates were likely.

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

Secondly, only a number of hours after the BoJ lifted interest rates, Fed Chair Jay Powell said the Fed would be willing to discuss a rate cut at its next meeting in September. Powell added some policy members wanted to discuss a rate cut at the 31 July meeting. Essentially, the fundamental factors driving a weaker JPY since early 2021 began to reverse.

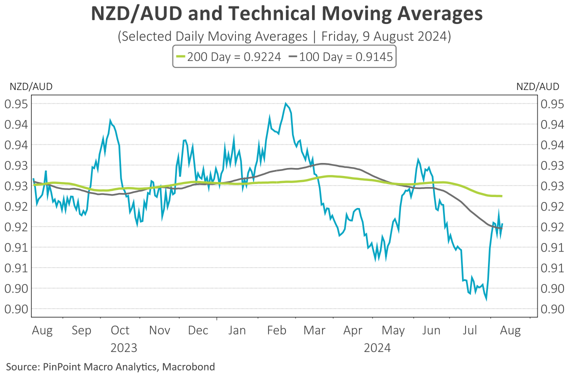
NZD/JPY is likely to consolidate its recent decline. At the time of writing NZD/JPY has already lifted some 6.0% from its August 5 low of 83.07. Over the next month or so, the trading range in NZD/JPY is likely to be quite large and difficult to forecast.

New Zealand's overnight index swap (OIS) markets are pricing a -17bp (68% chance of a rate cut at the RBNZ's August 14 meeting) and a total of -90bp of interest rate cuts by the final November RBNZ meeting of 2024. An interest rate cuts by the RBNZ will apply some downward pressure to NZD/JPY.

We anticipate NZD/JPY may trade in a range between 86.00 and 92.15. Over the medium term, we are likely to see NZD/JPY trade below this range, and closer to its 5-year average of 80.02 as the RBNZ cuts interest rates.

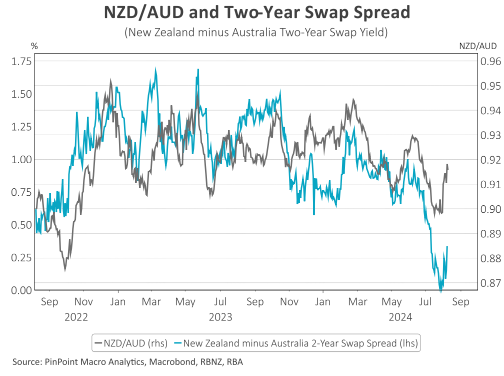
The outlook for the NZD / AUD

We have maintained the view for most of this year, that large movements in NZD/AUD away from the 200-day moving average of 0.9226 will be relatively short lived. And that participants should hedge or take advantage of large deviations away from the relatively stable 200-day moving average around 0.9226 because AUD/NZD will have a tendency to mean-revert and gravitate back to its average level of the last twelve months, a level close to the 200-day moving average.



In mid-June NZD/AUD decline almost 4.0% below the 200-day moving average to reach a near two-low of 0.8947 before mean-reverting back close to the 200-day moving average at the time of writing. A number of factors have driven the move. But most of them have been related to the outlook for Australian interest rates guided by the Australian Q2 CPI inflation data and the Reserve Bank of Australia (RBA)'s updated outlook for inflation and interest rates, as well as pricing for New Zealand interest rates responding to the release of key New Zealand economic data.

Looking ahead, the risk is NZD/AUD declines again over coming months back below 0.9132, as New Zealand's positive official interest rate differential, currently 1.15%, narrows as the RBNZ reduces interest rates well before the RBA.



The RBNZ has indicated it is more comfortable with a lower future interest rate outlook. The RBNZ has consistently published economic forecasts that involved the RBNZ cutting interest rates in H2 2024, predicated on New Zealand's inflation falling close to the RBNZ's 1% to 3% target zone. The RBNZ are likely to maintain, even after cutting rates, that interest rate levels remain at restrictive levels.

New Zealand's overnight index swap (OIS) markets are pricing a -17bp (68% chance of a rate cut at the RBNZ's August 14 meeting) and a total of -90bp of interest rate cuts by the final November RBNZ meeting of 2024.

The RBA made it quite clear at their August 6 meeting that they remain "vigilant" to the upside risks to inflation at the same time as lifting 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.

Central Bank
Forward Market Interest Rates

U.S. Federal Reserve (Fed)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.50**	
18 Sep 24	4.90	-43
07 Nov 24	4.53	-80
18 Dec 24	4.20	-113
29 Jan 25	3.98	-135
20 Mar 25	3.73	-160
01 May 25	3.57	-176
12 Jun 25	3.43	-190
31 Jul 25	3.32	-201

European Central Bank (ECB)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**3.75**	
12 Sep 24	3.41	-26
17 Oct 24	3.24	-42
12 Dec 24	2.97	-70
24 Jan 25	2.79	-88
07 Mar 25	2.58	-108
11 Apr 25	2.47	-119
06 Jun 25	2.31	-135
18 Jul 25	2.25	-142

Reserve Bank of Australia (RBA)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**4.35**	
24 Sep 24	4.29	-5
05 Nov 24	4.20	-14
10 Dec 24	4.10	-24
18 Feb 25	3.96	-38
01 Apr 25	3.84	-50
20 May 25	3.70	-64
08 Jul 25	3.66	-68
12 Aug 25	3.60	-75
30 Sep 25	3.54	-80

Bank of England (BoE)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.00**	
19 Sep 24	4.85	-10
07 Nov 24	4.64	-31
19 Dec 24	4.50	-45
06 Feb 25	4.31	-64
20 Mar 25	4.17	-78
08 May 25	4.00	-95
19 Jun 25	3.91	-104
07 Aug 25	3.81	-114
18 Sep 25	3.73	-122

Reserve Bank of New Zealand (RBNZ)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**5.50**	
14 Aug 24	5.33	-17
09 Oct 24	5.00	-51
27 Nov 24	4.60	-90
19 Feb 25	4.17	-133
09 Apr 25	3.90	-160
28 May 25	3.64	-186
09 Jul 25	3.51	-199
16 Sep 25	3.39	-211
17 Dec 25	3.29	-221
17 Mar 26	3.25	-225

Bank of Japan (BoJ)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**0.22**	
20 Sep 24	0.26	+3
31 Oct 24	0.30	+7
19 Dec 24	0.34	+11
22 Jan 25	0.37	+14
19 Mar 25	0.37	+15
26 Apr 25	0.44	+21
14 Jun 25	0.43	+21
16 Sep 25	0.48	+25
17 Dec 25	0.49	+26
17 Mar 26	0.50	+27

Bank of Canada (BoC)

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**4.50**	
04 Sep 24	4.25	-28
23 Oct 24	3.99	-54
11 Dec 24	3.77	-76
23 Jan 25	3.57	-96
06 Mar 25	3.42	-111
10 Apr 25	3.19	-134
05 Jun 25	3.12	-141
24 Jul 25	3.00	-153
04 Sep 25	2.91	-162
23 Oct 25	2.83	-170

Swedish Riksbank

Upcoming Meetings	Market Impied (OIS)	Basis Points (Priced In)
Current	**3.75**	
20 Aug 24	3.54	-21
25 Sep 24	3.35	-40
07 Nov 24	3.01	-73
19 Dec 24	2.82	-92
31 Jan 25	2.65	-110
27 Mar 25	2.48	-127
08 May 25	2.27	-147
27 Jun 25	2.09	-166
20 Aug 25	2.01	-174
25 Sep 25	1.96	-179

* 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 blue).

Central Bank Policy Rates Dashboard

(Hikes in Blue | Cuts in Grey)

	7/2024	6/2024	5/2024	4/2024	3/2024	2/2024	1/2024	12/2023	11/2023	10/2023	9/2023	8/2023	7/2023
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	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.25	4.00
United Kingdom	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.00
Japan	0.05	0.05	0.05	0.05	0.05	-0.10	-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	118.00	
Australia	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.10	4.10	4.10	4.10
Brazil	10.50	10.50	10.50	10.75	10.75	11.25	11.75	11.75	12.25	12.75	12.75	13.25	13.75
Canada	4.50	4.75	5.00	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	1.50	1.50	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Chile	5.75	5.75	6.00	6.50	7.25	7.25	8.25	8.25	9.00	9.00	9.50	10.25	
China	3.35	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	
Colombia	11.25	11.75	11.75	12.25	12.25	12.75	13.00	13.00	13.25	13.25	13.25	13.25	13.25
Czech Republic	4.75	4.75	5.25	5.75	5.75	6.25	6.75	6.75	7.00	7.00	7.00	7.00	7.00
Denmark	3.35	3.35	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.35	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	13.00
Indonesia		6.25	6.25	6.25	6.00	6.00	6.00	6.00	6.00	6.00	5.75	5.75	5.75
Israel	4.50	4.50	4.50	4.50	4.50	4.50	4.50	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	9.25	9.25	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
North Macedonia	6.30	6.30	6.30	6.30	6.30	6.30	6.30	6.30	6.30	6.30	6.30	6.15	6.00
Mexico	11.00	11.00	11.00	11.00	11.00	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	4.50	4.50	4.25	4.25	4.25	4.00	3.75
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	5.75	5.75	6.00	6.25	6.25	6.50	6.75	7.00	7.25	7.50	7.75	
Philippines	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.25	
Poland	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	6.00	6.75	6.75
Romania	6.75	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	6.00	6.25	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Russia		16.00	16.00	16.00	16.00	16.00	16.00	16.00	15.00	15.00	13.00	12.00	8.50
Saudi Arabia		6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Sweden	3.75	3.75	3.75	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.75	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	2.00
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	17.50
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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