FX Trends March 2024

Currencies
Global

G10 FX: Focus on "relativity"

- After a Fed fixation so far this year, the FX market is finally acknowledging that exchange rates are a relative story
- A lack of 'events' may limit the scope for FX breakouts…
- …we see downside risks to the GBP and NZD; and intervention risks around the JPY and CHF

Our tactical view

		Short-term direction	Current	Previous
USD	The 19-20 March Federal Open Market Committee (FOMC) showed that three rate cuts are likely in 2024.The USD dip post-meeting has proven justifiably fleeting, as the focus moves to other central banks which are more dovish, like a surprise 25bp rate cut by the Swiss National Bank (SNB). **We expect the USD to remain on the strong side of its range**, but the ingredients for a breakout are unlikely to materialise soon. All we are really saying is that the USD remains data dependent. The focus is likely to be on the **February deflator (29 March)**, **March non-farm payrolls (5 April)**, **March Consumer Price Index (10 April)**, and **Producer Price Index (11 April)**. With April likely to be a less eventful month than March, low volatility may continue to favour carry trades, including the USD.	**DXY^**	→	→
EUR	The consensus for Eurozone GDP growth in 2024 is 0.5%, compared to 2.1% in the US (*Bloomberg*, 21 March 2024). However, the current rates market view suggests that both the European Central Bank (ECB) and the Federal Reserve (Fed) will start to cut rates in June. **The ECB may reinforce the case for a 6 June cut at its 11 April meeting amid the recent data dynamics**, while Fed guidance remains less clear, which we may have to wait for its announcement on 1 May. But for EUR-USD, it means we may have to wait until May for this to become apparent. As such, the currency pair is likely to consolidate over the near term.	**EUR-USD**	→	↓
GBP	The GBP has kept pace with the USD, being similarly high yielding, and supported by a less dovish central bank. But the 21 March Bank of England (BoE) meeting revealed that the two hawkish dissenters of prior meetings had abandoned their calls for a hike, and the only dissenting vote was for an immediate cut. As the case for a swifter easing path in the UK is building and GBP-USD looks rich relative to its rate differentials, we think **the risks for GBP-USD remain skewed to the downside.**	**GBP-USD**	↓	→
JPY	The Bank of Japan (BoJ) tightened policy for the first time in 17 years in March, and the Fed stuck with its view that three rate cuts are more likely in 2024. USD-JPY has continued to push higher, even though it looks rich relative to rate differentials. Perhaps, further evidence of strong wage growth, or stickier inflation might help reignite a market narrative around the possibility of more BoJ tightening; however, this does not feel like an immediate prospect. **Japan March CPI will be released on 19 April** and **the BoJ will meet on 25-26 April**. **Other than direct FX intervention**, it is not clear what the trigger might be for a sudden move lower in USD-JPY, and **we look for a sideways move in USD-JPY in the coming weeks.**	**USD-JPY**	→	↓
CHF	The surge higher in EUR-CHF so far in 2024 has not relied on SNB FX policy but has instead capitalised on the dovish shift in interest rate expectations. In particular, the SNB delivered a dovish surprise on 21 March with a 25bp rate cut. **The SNB is the first G10 central bank to cut rates**, a step which markets may fund carry trades out of CHF in a world of low FX volatility. **We expect the CHF underperformance to continue.**	**USD-CHF**	↑	↑
CAD	USD-CAD has been oscillating around 1.35 and appears to be less responsive to its traditional drivers, including risk appetite, oil prices, and rates. In particular, the currency pair has not reacted much to the growing likelihood that the Bank of Canada (BoC) will be able to get its rate cutting cycle underway, following some softer inflation prints. **Markets are now priced for a 20% chance of a cut when the BoC meets on 10 April**, and an 80% chance of a cut in June, with a total of 78bp of easing this year (*Bloomberg*, 22 March 2024). **USD-CAD is likely to move sideways over the near term**.	**USD-CAD**	→	→
AUD	We see mild upside, as **hawkish Fed repricing is a less potent headwind to AUD-USD, but other factors constrain room for a sustained rebound**. Following the steep decline in Australia's terms of trade, we do not see any imminent rebound, amid lacklustre demand growth prospects for Australia's key commodity exports. Widening shorter-term rate differentials in favour of the USD means downside risks to the AUD.	**AUD-USD**	→	→
NZD	**The Reserve Bank of New Zealand (RBNZ) is unlikely to sound more hawkish at its 10 April meeting**, as the recent growth weakness may prompt a more cautious tone. As such, the balance of risks is tilted towards a more dovish outcome, compared to 28 February. While markets already adjusted RBNZ pricing lower, there are still more rate cuts priced in for the Fed in 2024 than the RBNZ. Our view remains that **shorter-term rate differentials should continue to move against the NZD over time**.	**NZD-USD**	↓	→

Note: ^DXY = US Dollar Index, is an index (or measure) of the value of the USD against major global currencies, including the EUR, JPY, GBP, CAD, SEK and CHF. Source: HSBC

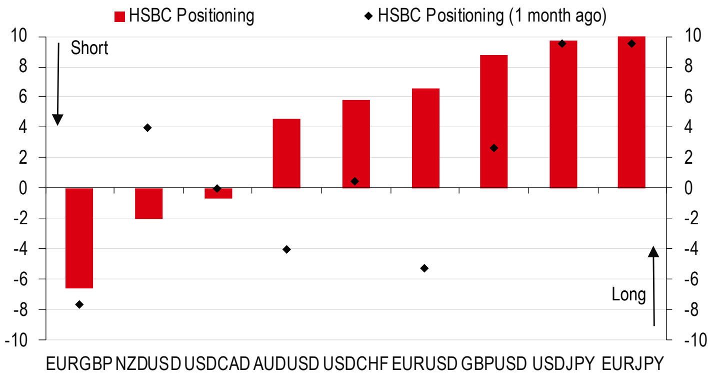
HSBC

FX Data Snapshot
(from close on 24 February to 25 March*)

FX	Spot	200 dma	1-month % change*	Support	Resistance
DXY	104.42	103.72	0.46%	102.40	105.00
EUR-USD	1.0805	1.0839	-0.42%	1.0770	1.0960
GBP-USD	1.2595	1.2592	-0.71%	1.2415	1.2809
USD-JPY	151.37	146.70	0.45%	147.94	151.72
USD-CHF	0.8980	0.8817	2.05%	0.8687	0.9052
USD CAD	1.3612	1.3489	0.79%	1.3481	1.3696
AUD-USD	0.6514	0.6552	-0.40%	0.6478	0.6635
NZD-USD	0.599	0.6076	-2.96%	0.5971	0.6195

Note: *As at 08:24 HKT on 25 March 2024.
Source: HSBC, Bloomberg

HSBC Positioning Indices



Note: Priced as of market close 21 March 2024
Source: HSBC, Bloomberg

Glossary

Dovish	Dovish refers to an economic outlook which generally supports low interest rates as a means of encouraging growth within the economy.
Hawkish	Hawkish is typically used to describe monetary policy which favours higher interest rates, and tighter monetary controls to keep inflation in check.
MoM / YoY	Month on month / Year on year
PMI	Purchasing Managers Index (PMI) is an indicator of economic health of the manufacturing sector (>50 represents expansion vs. the previous month).
IMM data	International Monetary Market (IMM) is a division of the Chicago Mercantile Exchange (CME) that deals with the trading of currencies and interest rate futures and options and the IMM data is part of the Commitments of Traders (COT) reports published by the U.S. Commodity Futures Trading Commission (CFTC). The IMM data provides a breakdown of each Tuesday's open futures positions on the IMM. Speculative positions are a trader's non-commercial positions (i.e., not for hedging purposes).
G10	G10 refers to the most heavily traded, liquid currencies in the world: USD, EUR, JPY, GBP, CHF, AUD, NZD, CAD, NOK, and SEK.
Fed / FOMC	Federal Reserve System (US's Central Bank) / Federal Open Market Committee.
ECB	European Central Bank (Eurozone's Central Bank).
BoE	Bank of England (UK's Central Bank).
BoJ	Bank of Japan (Japan's Central Bank).
BoC	Bank of Canada (Canada's Central Bank).
RBA	Reserve Bank of Australia (Australia's Central Bank).
RBNZ	Reserve Bank of New Zealand (New Zealand's Central Bank).
SNB	Swiss National Bank (Switzerland's Central Bank).

Explanation of terms	**Spot:** Spot refers to the current market price of a currency pair that is important for immediate transactions. **200 dma:** 200-day simple moving average number represents the average price of an index or a currency pair over the past 200 days. **Support (S), Resistance (R):** Support and resistance are significant previous lows and highs plus retracement levels, based on historical price patterns of an index or a currency pair. Support is a historical price level where a downtrend of a currency pair paused due to demand for the first currency quoted in the pair increasing, while resistance is a historical price level where an uptrend of a currency pair reversed amid demand for the second currency quoted in the pair increasing. **HSBC Positioning Indices:** The indicators have been devised to track the net position of momentum traders, looking at hundreds of strategies, operating over many different time horizons. It considers time horizons of 5 days up to 260 days. An indicator level of +10 would indicate that the hundreds of different strategies have all lined up and gone long (i.e., buy the first currency quoted in the pair). Similarly, an indicator level of -10 indicates that all strategies are short (i.e., sell the first currency quoted in the pair). **Table of tactical views where a currency pair is referenced** (e.g., USD/JPY): An up (🡅) / down (🡇) / sideways (➔) arrow indicates that the first currency quoted in the pair is expected by HSBC Global Research to appreciate/depreciate/track sideways against the second currency quoted over the coming weeks. For example, an up arrow against EUR/USD means that the EUR is expected to appreciate against the USD over the coming weeks. The arrows under the "current" represent our current views, while those under "previous" represent our views in the last month's report.

Disclosure appendix

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