FX Trends May 2024

Currencies
Global

The USD's double whammy

- Renewed dovish hopes for the Fed and associated gains in risk appetite have hit the USD…
- …but USD weakness looks excessive relative to US inflation data, and could stall or reverse
- USD gains could also be fostered by dovish developments elsewhere, notably ahead of ECB and BoE meetings

Our tactical view

		Short-term direction	Current	Previous
USD	US growth disappointments, rising equity markets, and FX intervention in Asia, have seen the USD weaken lately. **The key to the USD remains the outlook for the Federal Reserve (Fed) policy, in particular Fed rhetoric in the run-up to the 11-12 June meeting**. US inflation data (with April data being in line with market expectations after three months of upside surprises) do not yet guarantee two Fed cuts this year, **and our economists only expect one cut in 2024.** If we are correct in assuming Fed expectations and the level of yields will prove bullish for the USD, the currency will enjoy support or at least stabilisation. But a return to year-to-date highs for the US Dollar Index (DXY) may also rely on dovish developments outside the US, notably ahead of the European Central Bank (ECB) and the Bank of England (BoE) June meetings.	**DXY^**	↑	↑
EUR	**EUR-USD has surged higher since mid-April, which may leave it vulnerable heading towards the likely start of ECB easing. A 25bp cut at the 6 June meeting** is fully priced in, but the question for the EUR is how the ECB guidance is laid out for the likely pace of easing thereafter. Any signal that a cut at the 18 July meeting is more likely than markets suggest would see the EUR weaken. Conversely, concerns about wages growth in the Eurozone remains a hawkish support to the EUR, in our view.	**EUR-USD**	↓	→
GBP	**Our economists expect the BoE to cut rates by 25bp at the 20 June meeting**, while markets are currently priced for 15bp of easing, suggesting the outcome is very balanced (*Bloomberg*, 16 May 2024). From now to the June's meeting, there will be two UK CPI releases for the BoE to digest, with the April print on 22 May and the May print on 19 June. With inflation likely to fall below the BoE's target soon, the GBP looks vulnerable. High yields may provide the GBP with some insulation against some of its G10 peers, but **the recent bounce in GBP-USD creates downside risks in the weeks ahead**.	**GBP-USD**	↓	↓
JPY	The story for USD-JPY is little changed, with **a battle between support from US-Japan yield differentials and the threat of FX intervention**. It is not guaranteed that 160 on USD-JPY would be an intervention trigger, were it to be reached again. A decisive turn lower in USD-JPY will likely need a clear Fed easing cycle, so for now, any intervention dips are likely to be brief, in our view. The Bank of Japan's (BoJ) monetary policy can also have some influence, especially when the BoJ is focusing more on the inflationary implications of the weak JPY, and how this could impact the timing of future tightening at its **14 June meeting**.	**USD-JPY**	↑	→
CHF	**EUR-CHF is likely to decline in the weeks ahead,** as rate differentials begin to narrow in favour of the CHF, when the ECB is likely to start easing in June. Meanwhile, signs of stickier inflationary momentum have evoked more cautious rhetoric from the Swiss National Bank (SNB). But for USD-CHF, we still expect it to move largely sideways.	**USD-CHF**	→	→
CAD	**Canadian inflation data will be released on 21 May**, which is likely to shape market expectations for the outcome of **the 5 June Bank of Canada's (BoC) meeting**. Markets are currently priced for 12bp of easing (*Bloomberg*, 16 May 2024). A dovish CPI surprise would boost June cut hopes, but an immediate follow-up in July seems unlikely. Conversely, a hawkish CPI print would make July the more likely starting point. But either way, we likely end up with rates 25bp lower in Canada by end-July, an outcome fully priced by markets. As such, **USD-CAD is mostly an echo of USD sentiment in the weeks ahead**.	**USD-CAD**	→	→
AUD	**We are reluctant to chase AUD-USD higher from here**, as market dovishness over the Fed has become excessive relative to US inflation data, which may leave the AUD vulnerable on both the rates and risk front. Besides, market pricing for the Reserve Bank of Australia (RBA) is mostly flat for 2024, a profile we agree with, but not one which offers a great deal more near-term upside for the AUD. **The RBA will meet on 18 June.** Overall, **a consolidation seems the most likely outcome for AUD-USD in the weeks ahead.**	**AUD-USD**	→	↓
NZD	The recent NZD gains have been built mostly on surging risk appetite, buoyed by renewed hopes of Fed easing. But **it is not clear what gets the NZD even higher from here**. The 'risk on' mood could be vulnerable, should the Fed continue to argue for more patience. **The 23 May Reserve Bank of New Zealand meeting** may sound like a hawkish hold, but there may be enough dovish elements for markets to maintain its expectation for close to two cuts this year.	**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

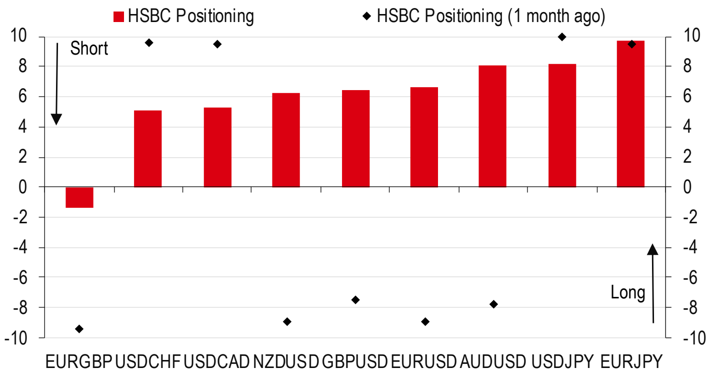
FX Data Snapshot

(from close on 17 April to 17 May*)

FX	Spot	200 dma	1-month % change*	Support	Resistance
DXY	104.54	104.36	-1.33%	102.78	104.91
EUR-USD	1.0864	1.0789	1.79%	1.0760	1.0950
GBP-USD	1.2664	1.2541	1.69%	1.2602	1.2744
USD-JPY	155.70	149.02	0.84%	152.90	156.47
USD-CHF	0.9067	0.8874	-0.44%	0.8940	0.9171
USD CAD	1.3620	1.3568	-1.10%	1.3487	1.3690
AUD-USD	0.6673	0.6525	3.70%	0.6589	0.6772
NZD-USD	0.6122	0.6039	3.46%	0.6004	0.6155

Note: * as at 15:51 HKT on 17 May 2024
Source: HSBC, Bloomberg

HSBC Positioning Indices



Note: Priced as of market close 15 May 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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