

FX Trends September 2024

Currencies
Global

As the Fed finally started cutting rates...

- ◆ As the Fed began its easing cycle with a 50bp cut, local factors may gain more traction in FX, with the JPY possibly being vulnerable to a delayed BoJ tightening or political developments
- ◆ Weaker fundamentals could weigh on the EUR and GBP, but perhaps not immediately
- ◆ With US election risks looming large, the USD may see some support

Our tactical view

		Short-term direction	Current	Previous
USD	The overall message of the 17-18 September Federal Open Market Committee's (FOMC) meeting showed the Federal Reserve (Fed) prefers gradualism, despite the 50bp cut, a view that should put a floor under the USD, in our view. The pace of cuts remains data-dependent, but it will take more dovish data to sustain the 50bp pace at its 6-7 November meeting. There are several releases of note, including two non-farm payroll reports (4 October and 1 November) , two PCE deflators (27 September and 31 October) , although consensus for the next release is for a nudge higher to 2.7% y-o-y in the core rate in August from 2.6% in July), and one CPI release (10 October) . Another upcoming date of note is the US elections on 5 November , with opinion polls still finely balanced. History shows the USD has fared well in the run-up to election day and in the weeks afterwards.	DXY ^A	↑	↑
EUR	The EUR is facing a mixed bag of drivers that could keep it capped over the coming weeks. The European Central Bank (ECB), like the Fed, is in no rush, which both markets and our economists expect the ECB to keep rates steady on 17 October . However, the EUR faces a far less appealing growth/inflation mix than the USD. With US election-related headlines also likely gaining more traction, EUR-USD may face downward pressures over the coming weeks , unless there is provocatively poor US data.	EUR-USD	↓	→
GBP	On 19 September, the Bank of England (BoE) kept policy rates unchanged at 5.00%, supporting the GBP's near 30-month high of 1.33. GBP strength is likely to be limited over the near term unless the US economy weakens materially. On the domestic front, fading inflation pressures and growing labour market slack will eventually weigh on the GBP in the months ahead, but perhaps not immediately. One near-term focus is the autumn Budget on 30 October , the first from the new Labour government.	GBP-USD	→	↓
JPY	Barring US data shocks, a US market recalibrating to a gradualist Fed, and a Bank of Japan (BoJ) probably tightening again only in 2025 , might mean that it is less likely for USD-JPY to break below 140 over the coming weeks. Japanese political risk may also feature and could make for a weaker JPY. The first round of the Liberal Democratic Party (LDP) leadership contest (effectively to be Japan's new Prime Minister) will be on 27 September . That being said, we still expect a JPY recovery over the medium term.	USD-JPY	↑	↑
CHF	Markets are divided between a 25bp and 50bp cut at the upcoming Swiss National Bank (SNB) meeting on 26 September. But regardless of the size of the cut, we think what matters more for the CHF's outlook is the SNB's FX stance. The possibility of a ramp-up in FX intervention should not be neglected, and 2Q FX transactions data will be published on 30 September . With this in mind, the CHF is likely to weaken against both the USD and EUR in the weeks ahead.	USD-CHF	↑	↑
CAD	Recent rhetoric from the Bank of Canada (BoC), including from Governor Macklem, has revealed a shift in tone reminiscent of the Fed's recent pivot. Markets see a c50% chance of a 50bp cut at the BoC meeting on 23 October (Bloomberg, 20 September 2024) . There are a few data points to arrive ahead of the meeting, including the employment report on 11 October , the BoC's Quarterly Outlook survey also on 11 October , and CPI on 15 October . If market pricing for accelerated easing proves premature, the CAD will probably strengthen modestly against the USD in the weeks ahead.	USD-CAD	↓	↑
AUD	AUD-USD is largely driven by global macro factors . Market expectations for a US soft-landing or any improvement in global growth outlook could support the AUD over the coming weeks, but if risk aversion arises going into US elections, the AUD may face downside risks. The prospect of a "restrictive-for-longer" Reserve Bank of Australia (RBA) is still not overly subscribed, with markets pricing in 18bp of easing by end-2024, while our economists expect the RBA to start easing in 2Q25 .	AUD-USD	↑	↑
NZD	Like AUD-USD, NZD-USD is also closely driven by global macro factors. On the domestic front, New Zealand's terms of trade have improved on the back of rising dairy prices. The outcome of the Reserve Bank of New Zealand's (RBNZ) 9 October meeting is debatable. Markets are currently pricing in a c60% chance of a 50bp cut (<i>Bloomberg, 20 September 2024</i>), while our economists expect the RBNZ to deliver a dovish 25bp cut. A 25bp cut should support the NZD from the rate differential perspective, in our view. The 3Q CPI release on 16 October could be critical to the last RBNZ meeting of the year on 27 November.	NZD-USD	↑	→

Note: ^ADXY = 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

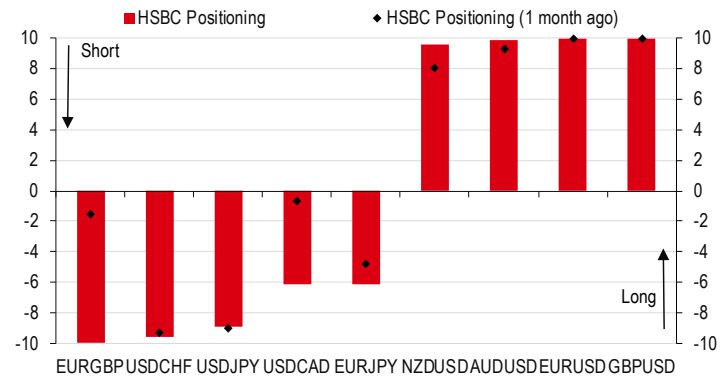
FX Data Snapshot

(from close on 24 August to 23 September*)

FX	Spot	200 dma	1-month % change*	Support	Resistance
DXY	100.77	103.78	0.05%	100.00	101.66
EUR-USD	1.1159	1.0871	-0.29%	1.1012	1.1200
GBP-USD	1.3315	1.2753	0.76%	1.3043	1.3500
USD-JPY	143.89	150.94	-0.35%	140.00	144.45
USD-CHF	0.8502	0.8811	0.26%	0.8364	0.8504
USD-CAD	1.3562	1.359	0.39%	1.3400	1.3590
AUD-USD	0.6825	0.6624	0.44%	0.6652	0.6847
NZD-USD	0.6246	0.6101	0.21%	0.6200	0.6258

Note: *As at 14:50 HKT on 23 September 2024.
Source: HSBC, Bloomberg

HSBC Positioning Indices



Note: Priced as of market close 20 September 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	<p>Spot: Spot refers to the current market price of a currency pair that is important for immediate transactions.</p> <p>200 dma: 200-day simple moving average number represents the average price of an index or a currency pair over the past 200 days.</p> <p>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.</p> <p>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).</p> <p>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.</p>
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Disclosure appendix

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