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By: Global FX Research



Currency Outlook

Death by a thousand cuts

The broad USD has softened as risk appetite remains buoyant and rate cut expectations have increased again, but it is questionable whether there is enough strength in global activity data to justify more pronounced USD weakness. Sequential inflation and higher neutral rates suggest US policy could stay tighter than priced, but this may take time to play out

In this free to view edition, we also summarise our views on the EUR, GBP, JPY, RMB, and AUD & NZD.

For a more detailed view, please contact your HSBC representative and more...

This is a Free to View version of a report by the same title published on 14-Mar-24. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

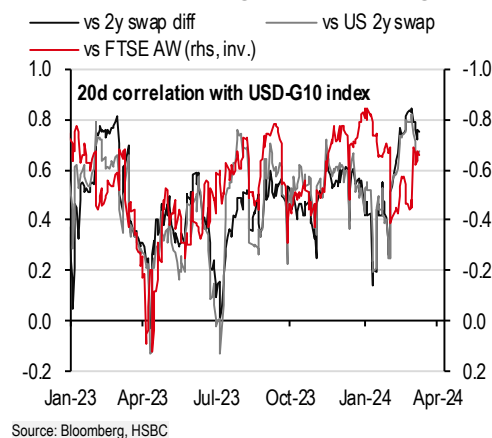
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Currency Outlook

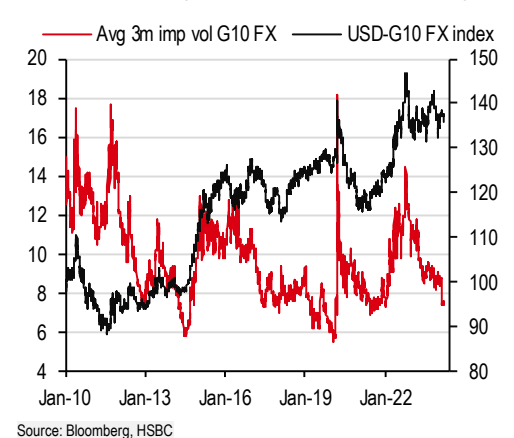
Overview: Death by a thousand cuts

The broad USD has softened as risk appetite remains buoyant and rate cut expectations have increased again but it is questionable whether there is enough strength in global activity data to justify more pronounced USD weakness. Sequential inflation and higher neutral rates suggest the US may have to keep policy tighter than priced. But it may take a few more months before more obvious divergence plays out among G10 interest rates and boosts the USD.

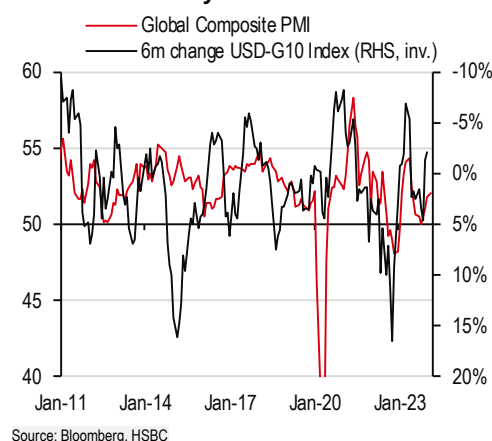
1. Equities becoming an FX driver again...



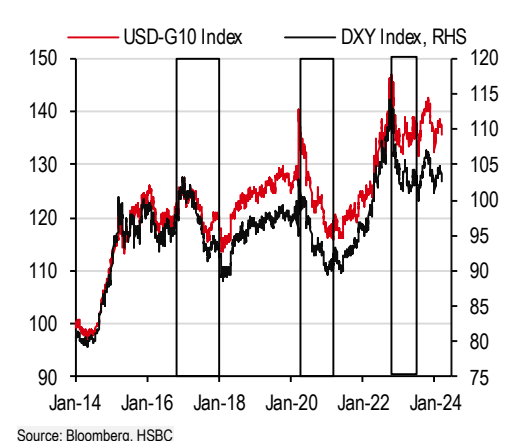
2. ...amidst very low implied FX volatility



3. PMI pick up looks priced in by the USD weakness already



4. Are we on the cusp of a significant USD decline?



EUR & GBP: Cutting crew

The ECB and BOE are likely to pivot more explicitly towards policy easing in the months ahead. Rate-cutting cycles, unsurprisingly, tend to be modestly negative for the EUR and GBP but the degree of FX weakness depends on the nature of rate cuts and the external environment.

JPY: A new era?

USD-JPY is falling as policy divergence approaches. Will this be short-lived amid carry trades and NISA outflows or will a new BoJ era, alongside undervaluation and under-hedging, inspire a shift in positioning and behaviour?

RMB: Internationalisation is not over

Foreign holdings of RMB assets have dropped since 2022, but this alone does not mean RMB internationalisation is stalling. The use of RMB in global payments and public financing is rising on the back of China's trade and financial linkages. RMB swap lines, trade agreements and the Belt and Road Initiative should support a higher level of internationalisation.

AUD & NZD: Endure the pain, wait for the gain

A bearish stance is less warranted with hawkish Fed repricing fading as a headwind, which could lead to some relief rally. However, a challenging growth outlook in China and widening front-end rate differentials in favour of the USD will maintain sticky headwinds for now, constraining room for a sustained rebound.

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The full report contains a closer look at the EUR, GBP, JPY, RMB as well as a look at the main drivers and key events that moved markets in February and more...

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