FX Trends April 2024

Currencies
Global

USD to extend rally, but…

- The USD is leading other G10 currencies so far in 2024, supported by a big shift in the pricing of Fed cuts
- For the USD to stay ahead, other support would probably be needed, including the existing level of USD yields, dovish moves outside the US, and possible bouts of risk aversion
- We see the GBP, the AUD, and NZD facing near-term downside risks against the USD

Our tactical view

		Short-term direction	Current	Previous
USD	**We look for the USD to extend its rally over the near term, though gains from here may be hard to come by**. There has already been a substantial re-pricing of the likely extent of rate cuts by the Federal Reserve (Fed). With three consecutive hawkish surprises on US CPI, Fed rhetoric has shifted to a "high for longer" narrative. Having started the year expecting the Fed policy rate to fall to 3.90% by the end of 2024, market expectations now stand at 4.94% (*Bloomberg*, 19 April 2024). For **the Fed's upcoming policy meeting on 30 April-1 May**, it is widely expected to see a status quo on policy rate. **The current high US yields can foster a grind higher in the USD. Geopolitical tensions and "risk off" elsewhere** could further add to USD strength (given the currency's "safe haven" status), although the relationship is less reliable.	**DXY^**	↑	→
EUR	**1.06 looks like the new support level for EUR-USD for now, but we believe a grind lower towards 1.05 is likely over the coming weeks**, barring material dovish data surprises in the US. **The European Central Bank seems to have a high chance to deliver a 25bp rate cut at its 6 June meeting**, with the market focus on the pace of easing thereafter. But there is still a road to travel before we even get to the June ECB meeting, one which will offer the full range of economic data releases on **CPI (30 April)**, PMIs (**manufacturing PMI on 2 May and services and composite PMIs on 6 May**), and the first stab at **1Q GDP (15 May)**. For now, **energy prices are back in focus once again**.	**EUR-USD**	→	→
GBP	The UK faces sticky services inflation and wages growth, discouraging market doves. However, the Bank of England (BoE) rhetoric still points to a near-term rate cut. **The 9 May BoE meeting could be an important stage-setter** for a possible 20 June easing where only 13bp are priced in (*Bloomberg*, 19 April 2024). **On 10 May, we will see the first stab at UK 1Q24 GDP**. Our economists expect a 0.4% q-o-q expansion, but this would still leave growth down 0.1% y-o-y. We also see scope for rate cuts to be deeper by year-end than is currently priced into the market (about 50bp), which opens up **an opportunity for further GBP weakness.**	**GBP-USD**	↓	↓
JPY	The rationale around the JPY remains much the same as last month, undermined by its low yield but supported by the intervention threat. For USD-JPY, the grind higher has continued alongside rising US yields, but further Fed re-pricing may be more difficult. **With the intervention threat still in play, we look for USD-JPY to move sideways over the coming weeks.**	**USD-JPY**	→	→
CHF	The CHF continues to face several headwinds. Softer-than-expected March inflation data would likely encourage further dovishness from the Swiss National Bank. In addition, the FX reserves data have suggested that the SNB may be buying FX (and thus selling the CHF). Nonetheless, we think these challenges could be less prominent in the coming weeks. The CHF's resilience is likely due to geopolitical tensions. With these uncertainties lingering, we think that **the CHF can stay supported on its 'safe haven' status against the EUR**, while it is likely to move sidesway against the USD over the near term.	**USD-CHF**	→	↑
CAD	The rising dominance of 2-year rates is a shift which has seen USD-CAD break out of its trading range over the past few weeks. **We believe that USD-CAD will remain trapped**, barring a big shift in rate differentials, which we do not expect. **Markets have 15bp of easing priced in for the 5 June Bank of Canada (BoC) meeting** (*Bloomberg*, 19 April 2024), which looks roughly appropriate, in our view. Recent inflation data is providing reassurance to the BoC that price pressures are easing.	**USD-CAD**	→	→
AUD	**We expect the AUD to weaken further over the near term**, with Australia's commodity exporter status not aiding the currency. Rising commodity prices will not help exporter currencies much if they are supply driven and damaging global growth and risk appetite (e.g., between June 2021 and September 2022). In addition, the high level of foreign ownership among Australia's mining companies means Australia's trade surplus will be partially offset by large primary income outflows.	**AUD-USD**	↓	→
NZD	**The NZD is even more vulnerable when comparing with the AUD over the near term**. Aside from common headwinds, the NZD has a higher sensitivity to its shorter-term rates. Reduced portfolio inflows may leave New Zealand's significant current account deficit underfunded, weighing on the NZD. A substantial rise in oil prices could lead to New Zealand's deteriorated trade balance, and by extension a weaker NZD.	**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

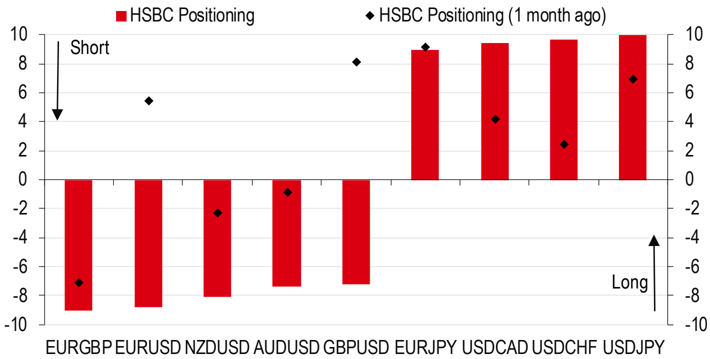
FX Data Snapshot

(from close on 23 March to 22 April*)

FX	Spot	200 dma	1-month % change*	Support	Resistance
DXY	106.06	103.99	1.56%	104.88	106.68
EUR-USD	1.0664	1.0815	-1.33%	1.0580	1.0760
GBP-USD	1.2379	1.2566	-1.76%	1.2256	1.2545
USD-JPY	154.66	147.74	2.15%	153.20	154.70
USD-CHF	0.9108	0.8836	1.49%	0.9049	0.9172
USD CAD	1.3724	1.3531	0.88%	1.3681	1.3891
AUD-USD	0.6432	0.6532	-1.27%	0.6359	0.6535
NZD-USD	0.5909	0.6053	-1.39%	0.5814	0.5926

Note: *As at 15:15 HKT on 22 April 2024.
Source: HSBC, Bloomberg

HSBC Positioning Indices



Note: Priced as of market close 15 April 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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