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July 2023

Event Radar - July 2023



FX Views In A Nutshell

Near-term bias (next ~1 month)		Longer-term thoughts (~6-12 months ahead)	
USD	 Elevated inflation and a resilient labour market has seen US rate expectations re-price higher, supporting the USD. A <i>'higher for longer'</i> interest rate view now looks more appropriately priced. The strong USD could struggle to add to its gains.	 Once the global economy stabilises, inflation turns down, and the US FOMC shifts to a definitive easing bias, which we think could occur towards early-2024, we see the <i>'overvalued'</i> USD's downturn accelerating and broadening out.	
AUD/USD	 AUD volatility has picked up as domestic and global cross-currents push and pull the currency. This is likely to continue over July. External AUD pressures remain, but Australia's current account position (~1.4% of GDP) is a downside support.	 As the worst of the global slump passes and lower inflation provides scope for central banks to pivot to an easing cycle to assist growth, we expect risk appetite to improve, and growth-linked cyclical currencies like the AUD to benefit.	
AUD/EUR	 High Eurozone inflation points to further ECB rate rises, in our opinion, which should help cap AUD/EUR rebounds. Also, softer industrial activity is a relative negative for commodity demand and cyclical currencies like the AUD.	 Once global growth turns the corner, we are forecasting a weaker USD to drive both the AUD and EUR higher. However, in our judgement, other relative fundamentals should counteract each other holding AUD/EUR in the low-0.60's.	
AUD/NZD	 AUD/NZD has rebounded, inline with the shift in yield differentials after the RBNZ suggested its late-May hike could be it's last. RBNZ meets in mid-July. We think this trend can continue as markets continue to factor in additional RBA tightening.	 As tightening cycles end, we foresee the AUD outperforming the NZD as relative interest rates give way to other factors such as growth and trade flows. We believe the RBNZ's more aggressive steps should be quite negative for the NZ economy.	
AUD/GBP	 We expect AUD/GBP to remain heavy as high/sticky UK inflation and tight labour market conditions keep Bank of England interest rate hiking expectations elevated. Relative yield spreads point to further AUD/GBP downside, in our view.	 We are forecasting AUD/GBP to rebound over the medium-term on the back of Australia's high terms-of-trade, a global recovery, the UK's relatively weaker growth prospects, and as Brexit impacts generate structural GBP headwinds.	
AUD/JPY	 JPY has weakened since the BoJ disappointed markets by maintaining its accommodative stance in late-April. We think risks of an AUD/JPY reversal are rising given the global slowdown and possibility of renewed market volatility.	 The upswing in Japanese inflation continues to support the case for BoJ policy normalisation at some point. This, the improvement in Japan's terms-of-trade, and shift in its capital flow dynamics should help the weak JPY rebound, in our opinion.	
AUD/CNH	 We are looking for AUD/CNH to remain range bound. China's post COVID recovery is faltering. Measures to boost activity may support CNH, but this could take time to occur. Concurrently, slower world growth is an AUD headwind.	 We expect China's post COVID expansion to re-accelerate once policymakers inject fresh stimulus. We think China's <i>'outperformance'</i> should encourage capital inflows, with the CNH boost more than offsetting the AUD's projected rebound.	
USD/SGD	 We think USD/SGD can remain supported, while EUR/SGD can edge higher. Slower world growth, coupled with high US yields and further ECB tightening should benefit USD and EUR over the SGD which is leveraged to the global cycle.	 Longer-term, as the global cycle turns, we are looking for EUR and JPY strength. The resultant USD weakness should push USD/SGD lower, though an anticipated <i>'dovish'</i> tilt by the MAS down the track is likely to slow/limit USD/SGD's fall.	

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Thank You!

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