March 2024

Market Commentary
Key Themes Driving Currency Markets

G10 Currency Moves:

USD — **Appreciated** given slightly stronger than expected inflation and the Federal Reserve keeping rates on hold

EUR — **Appreciated** as the ECB kept rates on hold awaiting further reassurance from wage and inflation data

JPY — **Depreciated** as BoJ exited negative interest rate policy and removed its yield curve control

GBP — **Appreciated** as risk sentiment remained supportive and policy guidance from BoE remained relatively unchanged

CHF — **Depreciated** as the SNB implemented a surprise rate cut and revised inflation forecasts downwards

CAD — **Appreciated** as rates remained unchanged but Bank of Canada remains cautious of upside inflation risks

AUD — **Appreciated** as employment data far exceeded expectations

SEK — **Depreciated** as the Riksbank opened the door to a May rate cut should disinflation continue

NZD — **Depreciated** as Q4 growth fell below expectations and RBNZ signalled preparations to normalise policy

Appreciation/depreciation is average against G10 universe

Central Banks: SNB is the first mover of the rate cut cycle

Overall, G10 central banks have largely removed their tightening bias with cuts widely anticipated this year, with the SNB leading the cycle with its first cut. The speed and depth of the rate cutting cycle remains data dependent, with the majority of central banks monitoring inflation and wage data very closely to avoid second-round inflation shocks.

The **Federal Reserve** kept rates unchanged and maintained their dot plot forecasts for three 25bps cuts this year. The market had been anticipating a potential scaling back to two rate cuts expected, however, the Fed kept their bias in place such that there is now a very close alignment of the market with the Fed. Nevertheless, longer term rate expectations were revised up with the longer-term rate now predicted at 2.6%, core PCE forecasts revised up for 2024 to 2.6% YoY, and GDP forecasts upwardly revised across the forecast horizon. This follows some stickier inflation readings recently which means that the Fed still requires continued reassurance of disinflationary momentum continuing, especially given the labour market remains resilient. However, despite a headline NFP outperformance of 275K versus 200K consensus for February, average hourly earnings have slowed to 4.3% YoY and sharp revisions of -167K were made to the previous two NFP releases.

The **Bank of Japan** exited its negative interest rate policy and removed its yield curve control policy. The central bank signalled that they will be continuing their Japanese Government Bond purchases at roughly the same pace, but discontinue the purchase of ETF's/REIT's. The key drivers of the decision to implement these changes have been a gradual rise in wage pressures, culminating in an average wage hike for the largest companies of 5.28% at the March Shunto wage negotiations. This is expected to filter down to SME's and the rest of the economy gradually throughout the year, leading to confidence in the central bank that price stability is in sight. However, the markets were more concerned about the forward guidance signalling that this was not the start of consistent rate hikes, as they anticipate to 'maintain accommodative financial conditions for the time being'.

Target federal fund rate projections vs. FOMC dot plot

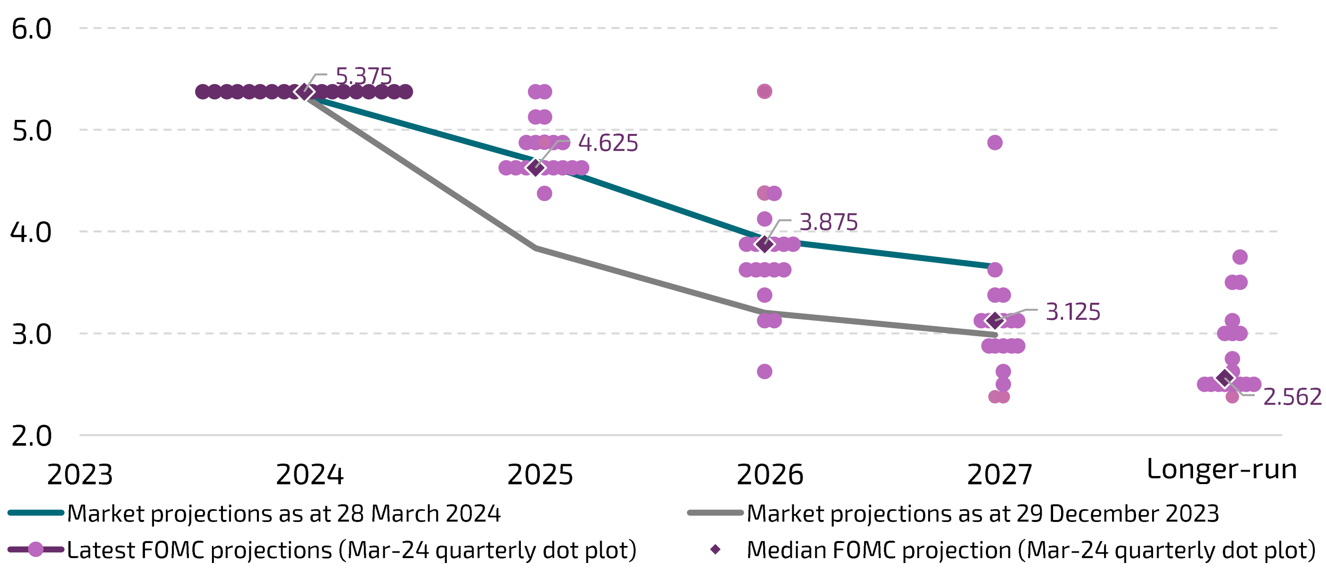

Figure 1: Record, Bloomberg. Data as of 29th March 2024.

The **Bank of England** kept rates on hold but this time with an 8-1 committee split, meaning the previous two hawkish dissenters have moved in line with consensus. The core guidance remained unchanged around inflation persistence and keeping policy rates at restrictive levels. However, the meeting minutes have stated that the rates can still remain restrictive even if rates are cut, which could potentially be taken as a signal that the Bank won't necessarily lag the Fed or ECB. In addition, inflation eased below expectations to 3.4% YoY versus 3.5% consensus, and wage growth at 5.6% YoY versus 5.7% expected showing signs of continued disinflation.

The **ECB** kept rates on hold and made downward revisions to their inflation projections, with 2024 now expected at 2.3% YoY versus 2.7% previously. They noted that although most inflation measures are easing, domestic price pressures remain elevated which are keeping policymakers wary of pre-emptive cuts. This was reinforced by February inflation printing 2.6% YoY versus 2.5% consensus, with services inflation remaining elevated. Forward guidance was therefore unchanged with the committee signalling that they require further reassurance of wage pressures cooling and disinflation continuing towards target.

The **SNB** implemented a surprise 25bps cut to 1.5%, in contrast to market expectations where only 8bps of cuts were priced going into the meeting. The statement characterised the cut as 'taking into account the reduced inflationary pressure as well as the appreciation of the franc in real terms, and to also support economic activity'. There has been a significant downward revision to the inflation forecasts based on faster imported goods disinflation, and an expectation for unemployment continuing to rise while utilisation of production capacity declines. However, little guidance was offered over the future for the policy path, and FX intervention guidance remains in neutral territory.

The **Reserve Bank of Australia** kept rates on hold and dropped its tightening bias, moving to a more neutral footing on future policy guidance by indicating 'the Board is not ruling anything in or out'. This was expected given recent data which has signalled that the economy is slowing according to recent GDP data, and some labor market data was softening. However, February employment figures subsequently far exceeded expectations, printing 116.5K versus 40K consensus and the unemployment rate fell to 3.7% which led to an upward revision in rate expectations.

The **Bank of Canada** left its policy rate unchanged and maintained its cautious approach to forward guidance. The accompanying statement signalled that Q4 GDP grew more than expected but also that more labor market slack is emerging which should dampen wage pressures. This has been continually feeding through into the disinflationary trend as headline declined to 2.8% YoY versus 3.1% consensus. However, the Governing Council signalled that they need to see further and sustained easing in core inflation, so given this current backdrop it's 'too early to consider easing the policy interest rate'.

The **Riksbank** kept rates on hold but made substantial tweaks to its forward guidance, with projections indicating a high probability of a rate cut in May. The anticipated rate for the end of 2024 is now at 2.75% which is a full percentage point below the November projections, in light of the jobs market weakening more appreciably than in the Eurozone. The statement also stated that 'it is likely that the policy rate can be cut in May or June if inflation prospects remain favourable'. This was reaffirmed by the February inflation release which printed 4.5% YoY versus 4.7% expected.

Additional Information

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