

# Global Currency Commentary

Q2 2024



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### Record Currency Management

**\$102.2bn**

AuME\*  
as of March 2024

**94**

Employees

**41**

Years' experience  
managing currency

**25**

Members of the  
Investment Team

**\$700bn**

Annual Trading  
Volume

### Valuations

	Start	End	% Change	High	Low	Valuation*
EUR	1.08	1.07	-0.76%	1.09	1.06	-29.5%
JPY	151.35	160.86	-6.29%	151.35	160.86	-41.1%
GBP	1.26	1.26	0.07%	1.28	1.23	-15.6%
CAD	1.35	1.37	-1.12%	1.35	1.38	-14.5%
CHF	0.90	0.90	0.23%	0.88	0.92	7.5%
AUD	0.65	0.67	2.37%	0.67	0.64	-7.1%

\*over/under valuation of foreign currency vs USD based on PPP

### 3m Annualised Carry (Hedging to USD)

EUR	JPY	GBP	CAD	CHF	AUD	Total
1.8%	5.6%	0.3%	0.9%	4.4%	0.9%	2.3%

### G10 Currency Moves

<p><b>USD</b> <b>Appreciated</b> given pronounced weakness in the yen and French political risk, but further evidence of disinflation weighed on the dollar against other currencies</p>	<p><b>CHF</b> <b>Appreciated</b> despite a second SNB interest rate cut in June, as European election risks drove a flight to the safety of the risk-off franc</p>
<p><b>EUR</b> <b>Depreciated</b> with weakness concentrated in June due to political instability from EU elections, and the resulting snap election in France</p>	<p><b>CAD</b> <b>Depreciated</b> after the BoC initiated its easing cycle in June following a large uptick in unemployment and five consecutive quarters of slowing core CPI inflation</p>
<p><b>JPY</b> <b>Depreciated</b> as Bank of Japan played down the impact of the exchange rate on inflation, with only temporary relief from yen interventions</p>	<p><b>AUD</b> <b>Appreciated</b> with policymakers maintaining a hawkish stance and refusing to rule out further tightening</p>
<p><b>GBP</b> <b>Flat</b> as general election called in May and an anticipated victory for Labour in the general election was viewed positively by the market</p>	<p><b>SEK</b> <b>Appreciated</b> despite initiating its easing cycle in May, with Q1 GDP growth jumping after a protracted period of poor performance</p>

*Appreciation/depreciation is against the USD, with USD versus G10 average*

**Source:** Record. Data as at June 28, 2024, unless stated otherwise. \*AuME = Assets under management equivalent and includes the total notional exposure of Passive Hedging, Currency for Return, Dynamic Hedging (maximum hedgeable exposure).



*Markets react to FOMC minutes and narratives*

## US dollar

Equity (S&P 500) & US 10y Gov Yield: The S&P 500 index gained c. 3.9% after initially declining around 2.5% in April, as markets priced in higher-for-longer interest rates and considered the possibility of further hikes if inflation remained sticky. US government bond yields rose through April and then fell through May and June but were slightly higher in both the 2-year and 10-year by the end of the quarter.

Supported by higher yields, the US dollar was stronger through April as a "higher for longer" narrative was further priced by the market following another above expectation inflation release. The US dollar lost some momentum in early May as FOMC Chair Powell pushed back against the prospect of another rate hike, and as non-farm payroll growth moderated on top of a downward revision to GDP growth in the first quarter of 2024. Although the June FOMC meeting came with a more hawkish set of projections that showed just one cut for 2024, another below-consensus inflation print released in June for the month of May showed a further reduction in price pressures from the stickier components of inflation (i.e. other core services). US short-term yields were lower in May and June, leading to a risk-on environment and pressure on the US dollar.

## Euro

EUR depreciated vs. USD. The euro was weaker in Q2, with weakness concentrated in June. First there were EU elections which as expected saw a strengthening of the right-wing parties within the European Parliament. However, the result in France came as a major surprise as Marine Le Pen's Reassemblement National won twice as many votes as French president Macron's party (32% vs 15%). As a result, Macron called for snap parliamentary elections which set the tone for euro weakness as investors prepared for the possibility of a majority right-wing government. The ECB also conducted its first rate cut at the June meeting, but with the cut well-telegraphed, the market impact was limited.

## Japanese yen

JPY depreciated vs. USD. Downward pressure on the yen continued as the BoJ appeared to downplay the impact of inflation. The yen depreciated notably into the close on Friday 26th April, by several big figures. The MoF intervened to the amount of \$62bn utilising thin liquidity in Asian hours on Sunday, and again mid-week on the tail of some US dollar weakness following the FOMC meeting. After some comparative stability in May, the yen resumed its decline in June as the BoJ again disappointed at its policy meeting by not announcing a plan to reduce JGB holdings. The threat of intervention was salient into quarter end as the yen declined despite limited pressure from US yields. However, in contrast to April's fall, the depreciation was apparently gradual enough to escape any action from the MoF beyond verbal intervention.



*Macron's election gamble prompted EUR weakness*

## British pound

GBP was flat vs USD. Throughout the second quarter of 2024, the UK economy experienced positive signals on the inflation front, which led to a 2% yoy headline print for the month of May. Despite a marginally higher inflation rate than expected in April, dovish tones from the BoE signalled potential rate cuts, with market pricing reflecting a 90% chance of a cut by September and an above 50% chance in August. However, the general election announcement by Prime Minister Rishi Sunak, followed by Labour's substantial victory, introduced some political uncertainties that may delay monetary policy adjustments. The BoE maintained cautious optimism, noting improved GDP forecasts but emphasizing the need to closely monitor inflation and political developments before proceeding with any rate cuts.



*CHF appreciated despite SNB rate cuts*

## Swiss franc

CHF appreciated vs. USD. Over the past quarter, the Swiss National Bank (SNB) has lowered interest rates for a second time in its cutting cycle, defying market expectations and diverging from other central banks. This aggressive easing is in response to lower-than-anticipated inflation and concerns over the Swiss franc's high real trade-weighted value, which poses downside risks to inflation forecasts. First quarter GDP came in at 0.5% after two consecutive 0.3% prints. The market is pricing that the SNB will cut one more time by year end. The Swiss franc was also supported in June by its safe-haven characteristics in the run up to the first round of the French elections.

## Canadian dollar

CAD depreciated vs. USD. The Bank of Canada (BoC) cut rates by 25bp in June, which is the first cut in its cycle. This comes after unemployment increased from 4.9% in July 2022 to 6.4% in June 2024. On the positive side first quarter GDP came in at 0.4% after no growth in the prior two quarters. The BoC justified its decision to cut rates, believing that five consecutive months of slowing core CPI inflation warranted the move, but emphasized that future rate cuts would be gradual and data-dependent. Policymakers highlighted concerns about potential inflationary pressures and the need to monitor core inflation, wage growth, and economic dynamics closely. The market is pricing at least two more cuts by year end.

## Australian dollar

AUD appreciated vs. USD. The Reserve Bank of Australia (RBA) remained vigilant to inflation risks, keeping interest rates at a 12-year high of 4.35% in June as recent data hadn't significantly changed its outlook. The minutes of the RBA revealed that while further tightening was considered, the board found a stronger case for maintaining the current rate, though future policy moves couldn't be ruled out. The RBA reiterated its commitment to a 2%-3% inflation target, with discussions on whether current policy is restrictive enough. Financial markets suggest a 50% chance of a rate hike this year. The RBA's cautious approach mirrors global trends, where central banks are moving cautiously on rate adjustments amid persistent price pressures.

## Swedish krona

SEK appreciated vs. USD. The Riksbank initiated its easing cycle at its May meeting, cutting its policy rate 25 bps to 3.75% followed by a hold in June. The May cut was accompanied by dovish-leaning forward guidance, suggesting that if inflation continues to approach the 2% target, then policymakers expect to deliver two more rate cuts in the second half of 2024. Market pricing is currently split between two or three additional cuts by the end of year. Sweden's economy enjoyed a turnaround as first quarter GDP jumped after several quarters of poor economic performance.

## Key EM Themes

Political events dominating the information space was a major theme of the quarter. Elections in India, Mexico, and South Africa all delivered major changes to the status quo domestically, with knock-on effects on markets and exchange rates. Global geopolitical risks remain high, with ongoing wars in Russia-Ukraine and Israel-Palestine. How the Fed decides to react to a changing economic picture in the US, and what that will mean for the USD's value, will be one of the most important drivers of EM performance in the coming quarter. The politics of the US will contribute as well, with the November election edging closer.

EM FX depreciated against the USD in Q2 2024, with the US economy remaining comparatively strong despite some weaker releases and downwards revisions towards the end of the quarter.

### CEEMEA

The **South African rand (ZAR)** was one of the best EM performers. The June election saw the ruling ANC lose its majority for the first time in history, but the party chose to enter a coalition with a centrist, pro-business party rather than the more radical alternatives. The **Hungarian forint (HUF)** depreciated slightly in Q2 on the back of concerns over central bank independence, and continued rate-cutting.

### LatAm

LatAm FX saw large swings amid significant political volatility. The **Brazilian real (BRL)** was the worst performer among the EM currencies covered, driven by concerns around the government's fiscal policies and a public spat between leadership and the central bank, bringing into question its ability to maintain its independence. The **Mexican peso (MXN)** was a close second, after the incumbent Morena party won the June election and secured the presidency for Sheinbaum. Victory was expected, but markets did not expect the scale of the win – with a supermajority in the lower house of Congress, and two votes shy in the upper house, there are lingering fears of Morena pushing through major constitutional forms. The **Chilean peso (CLP)** was by comparison a safe harbour for the region and one of the best-performing EM currencies, bolstered by rising copper prices, rising 3.5% against the USD in Q2.

### Asia

Asian FX broadly declined against the USD. The **Philippine peso (PHP)** led the decline, weakened by a widening current account deficit and the Bangko Sentral adopting a wait-and-see approach to FX intervention. The **Thai baht**

**(THB)** continued to depreciate from Q1, driven by underwhelming economic growth and concerns over the fiscal outlook. Similar economic challenges coupled with continued political concerns drove declines in the **Indonesian rupiah (IDR)**. The **Indian rupee (INR)** was flat with this relative outperformance likely influenced by robust economic fundamentals and an election which saw the ruling BJP forced to form a coalition government. The market is seeing this as an opportunity for the BJP to push ahead with economic reforms on the agenda, while also being prevented from pursuing further, divisive Hindu-nationalist policies.

### China

**CNH** depreciated against the dollar. China's economic imbalances continue to weigh on output and place downward pressure on the yuan. China's deteriorating real estate sector is at the centre of the weaker growth environment. Subdued consumer spending, partially the result of flagging real estate values and the absence of local inflation, is also contributing to lower growth. The PBoC reiterated its accommodative stance at its June meeting, but was cautious regarding the exchange rate, stating that it would work to prevent FX overshooting and "keep the exchange rate broadly stable at reasonable levels."



*Brazil's Lula has escalated his attack on the central bank*

## Currency upside considerations

## Currency downside considerations



- **Economy resilient** into Q2, prompting fewer rate cuts from the FOMC
- **Inflation reaccelerates** from tight labour market and rising commodity prices
- **Rising odds of a Trump presidency** and new geopolitical / industrial policy
- **Geopolitical risks rise** in Middle-East, Russia-Ukraine war, and Sino-US relations

- **Disinflation trend sustained as** higher rates lead to a weaker labor market
- **"US exceptionalism" fades** from shrinking pool of excess household savings
- **Institutional and monetary stability** risks under a Trump presidency



- **UK and EU work on relations** under a Labour government
- **Growing wage demands and tight labor market** add to BoE hawkishness

- **Labour pursue a fiscal expansion** under alternative budget strategy
- **Inflation moderate further**, increasing the probability of rate cuts
- **Risk sentiment worsens** and weighs on the pound as a risk-sensitive currency



- **Improving Chinese growth** from government stimulus
- **Conflict de-escalation** in the Russia / Ukraine war

- **Economic challenges in China** weigh on European export growth outlook
- **Peripheral spreads widen** under a divided French government



- Yen weakness and or volatile moves drive **intervention by Ministry of Finance**
- **BoJ adjusts bond buying program** to tighten policy outside of interest rates
- **Political pressure** leads to a more assertive stance at the Bank of Japan
- **Risk-off events** (e.g. China/US/Taiwan) and lower commodity prices

- **US interest rates rise further**, widening the fundamental gap with Japan
- **Output gap falls below zero** as an impediment to policy normalization
- **Inflation falls below 2%**, reducing the BoJ's confidence in raising rates further

## Key Event Risks

Events in **blue** text deemed the most significant

Date	Currency	Event	Potential Implication
Ongoing	JPY	<b>Intervention risks</b>	Sharp short-term appreciation in JPY
July 5	USD	<b>US Non-farm payrolls</b>	A weak employment number might force the Fed to cut sooner and weaken the USD.
July 7	EUR	<b>French parliamentary elections (2<sup>nd</sup> round)</b>	Deadlocked parliament increases uncertainty, could weaken the EUR.
July 11	USD	<b>US CPI</b>	If headline CPI (mom) prints again below 20bp, the door for rate cuts could be wide open and weaken the dollar.
July 12	EUR	Eurozone inflation	
July 16	USD	US Retail Sales	
July 17	GBP	UK inflation	
July 18	EUR	ECB interest rate decision	
July 19	JPY	Japan inflation	
July 24	JPY, GBP, EUR, USD	S&P PMI	
July 25	USD	<b>US GDP (first estimate for Q2 2024)</b>	Expectations for a rebound could create downside risk for the US dollar if GDP disappoints
July 30	EUR	Eurozone GDP (Q2 2024)	
July 31	USD, JPY	<b>Fed interest rate decision, BoJ interest rate decision</b>	If Bank of Japan raise rates, it would be a hawkish surprise
Aug 1	GBP	BoE interest rate decision	

## Risk Warnings

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