FX Forecast Outlook

Currencies
Global

September 2023

- As monetary tightening starts to bite, a faltering global growth outlook should further benefit the counter-cyclical USD
- We change our view on the broad USD and now see it strengthening into and through end-2024
- We update our FX forecasts to become more USD-positive

Summary

EUR: We see the EUR weakening against the USD into 2024 amid narrowing yield differentials and weaker external sentiment, while the cyclical upswing has faded.

GBP: The GBP is likely to weaken against the USD into 2024 on a combination of challenging domestic profile and weaker external sentiment.

JPY: USD-JPY may have overshot recently; however, until we see some domestic developments (such as a less dovish BoJ and FX intervention), or external catalysts (like lower US yields), the currency pair may remain at lofty levels.

CHF: The CHF is likely to strengthen against the EUR but move largely sideways against the USD in the months ahead.

AUD: A convergence of the rate cut outlook, a slow recovery in China, and our view of further USD strength mean that we expect AUD-USD to weaken before stabilising in 2Q24.

NZD: The NZD's trajectory is likely to be quite similar to that of the AUD, with similar headwinds. What could be worse is that the NZD may also be weighed down by New Zealand's wide current account deficit during periods of risk aversion.

RMB (CNY): Cyclical weakness, balance sheet problems, and structural questions about the growth model are not easy to overcome. We now see USD-RMB fluctuating around 7.30 for the next few months before falling modestly in 2024 when recent measures with more fiscal support work themselves through the system.

SGD: We expect the SGD to be an underperformer among Asian currencies in 2024.

INR: The RBI's tightened FX and monetary policies could help alleviate upward pressures on USD-INR stemming from the broad USD strength, thereby having a stable profile.

MYR: The challenging local developments continue to weigh on the MYR; however, if there is a stronger tech exports outlook in 2024, the MYR may benefit. That said, its upside could be diluted by a more consistent correlation with the RMB.

Key upcoming events

Date	Event
14 September	The European Central Bank's rate announcement
19-20 September	The Federal Reserve's rate announcement
21 September	The Swiss National Bank's rate announcement
21 September	The Bank of England's rate announcement
22 September	The Bank of Japan's rate announcement
4 October	The Reserve Bank of New Zealand's rate announcement

Source: HSBC

HSBC FX forecasts

	Spot	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24
DXY	104.85	106.4	107.9	108.5	108.3	108.1
EUR-USD	1.0727	1.05	1.03	1.02	1.02	1.02
GBP-USD	1.2500	1.23	1.20	1.18	1.18	1.18
USD-JPY	147.62	150	148	146	144	142
USD-CHF	0.8914	0.90	0.91	0.92	0.92	0.92
AUD-USD	0.6373	0.63	0.62	0.62	0.62	0.62
NZD-USD	0.5869	0.56	0.55	0.55	0.55	0.55
USD-CAD	1.3645	1.33	1.32	1.30	1.30	1.30
USD-CNY	7.3226	7.30	7.28	7.25	7.22	7.20
USD-SGD	1.3641	1.37	1.38	1.38	1.38	1.38
USD-INR	83.136	83.0	83.0	83.0	83.0	83.0
USD-MYR	4.6772	4.70	4.68	4.65	4.62	4.60

Source: HSBC forecasts, Bloomberg as at 11:27 HKT on 07/09/2023

Central Bank policy rate forecasts (%)

	Current	Q4 2023(f)	Q4 2024(f)
USD	5.25-5.50	5.25-5.50	4.50-4.75
EUR	4.25/3.75	4.50/4.00	4.50/4.00
JPY	-0.10	-0.10	-0.10
GBP	5.25	5.50	5.50

Source: HSBC forecasts for Fed funds, Refi rate/Deposit rate, Overnight Call rate and Base rate

Real GDP forecasts (%)

	2022e	2023(f)	2024(f)
US	2.1	1.6	0.7
China	3.0	5.3	4.9
Japan	1.0	1.1	0.7
Eurozone	3.5	0.4	0.7
UK	4.0	0.6	0.8

Source: HSBC forecasts

HSBC

USD: Making a comeback

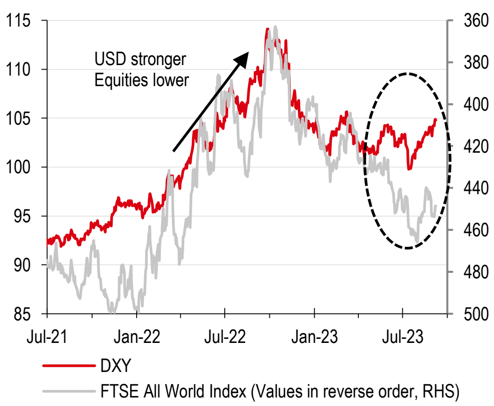
- The USD has already been making a comeback, but its strength can last longer than some may think
- As monetary tightening begins to bite, a faltering global growth outlook should further benefit the counter-cyclical USD
- We change our view on the broad USD and now see it strengthening through 2024

We change our view on the broad USD and now see it strengthening through the end of this year and come end-2024.

After calling its peak in early November 2022, we believed the broad USD would have two phases this year: the chop (i.e., a period of consolidation) and the flop (i.e., a period of weakness). In the second phase, we thought that the combination of the Federal Reserve (Fed) ending its rate hikes, a soft landing of the US economy, and Europe and China's growth improving would bode well for risk appetite and open the door for the USD to resume its descent, albeit to a point.

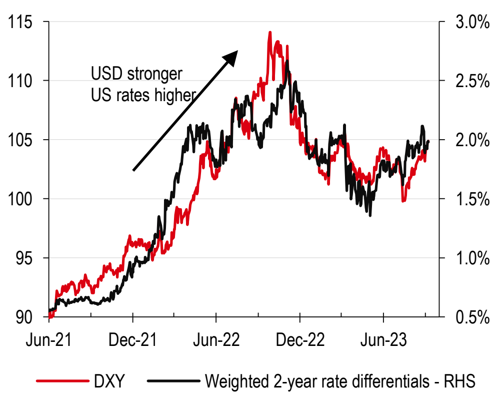
Some of these conditions have materialised, namely the Fed rate hikes are likely over, the US economy looks set for a softer landing than many assumed only a few months ago, and risk appetite has held up well (using a global equity index as a proxy, Chart 1). What stood out, however, is that **the divergence between risk appetite and the USD has persisted, especially versus global equity performance**. This is different to most of last year. This stands in contrast to the USD's closer relationship with rate differentials (Chart 2). This is where some conditions for a weaker USD have not materialised. The USD's high yields relative to others have been competing with the risk appetite factor, if not dominating at times.

1. The inverse relationship with global equities and the USD has diverged



Source: Bloomberg, HSBC

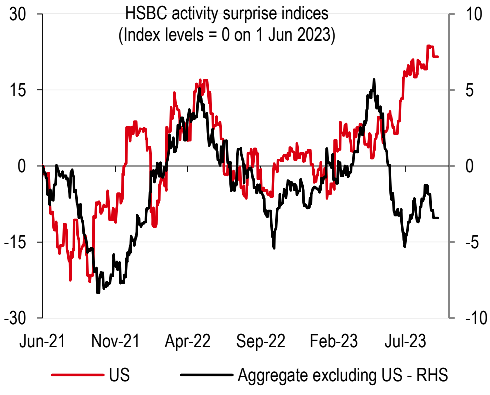
2. The USD's broad relationship with yields is stronger



Source: Bloomberg, HSBC

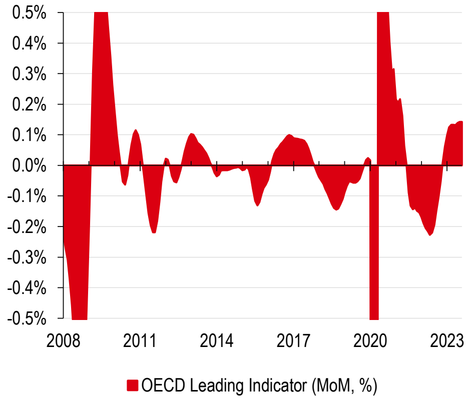
The other feature related to the USD's yield support is activity surprises. It is well recognised that US growth data have been consistently better than expected and much more so than elsewhere (Chart 3). However, if US growth surprises slow and there is not much improvement for other economies, it may support the thinking that **the global economy is peaking and set to slow** (Chart 4). Indeed, the tightening by major central banks increasingly takes a toll, with Europe, China and other economies facing a challenging economic outlook. All this could point to downside risks to global growth. **Typically, the USD performs better in that environment**, given its counter-cyclical properties.

3. US activity surprises have diverged meaningfully from other economies



Note: Aggregate excluding US includes the Eurozone, China, Pan Asia, the UK, Australia, Canada and Japan.
Source: Bloomberg, HSBC

4. The OECD global leading indicator has struggled to advance further so far this year



Source: Bloomberg, OCED, HSBC

Finally, US yields are likely to fall, but further rate cuts could be discounted more elsewhere. Markets expect that the Fed will reduce its policy rate by nearly 100bp by the end of 2024, in contrast to more conservative rate cuts pricing for other central banks (*Bloomberg*, 6 September 2023). **If there is a shift in market expectations – be it rate cuts being priced out by the Fed, or more being priced in for other central banks, this can bolster the USD as well**.

Against this backdrop, we now see more USD upside ahead.

HSBC FX forecasts		Q3 2023f	Q4 2023f	Q1 2024f	Q2 2024f	Q3 2024f	Q4 2024f
G10							
EUR-USD	New	1.07	**1.05**	1.03	1.02	1.02	**1.02**
	Old	*1.13*	*1.15*	*1.15*	*1.15*		
GBP-USD	New	1.26	**1.23**	1.20	1.18	1.18	**1.18**
	Old	*1.30*	*1.30*	*1.30*	*1.30*		
USD-JPY	New	150	**150**	148	146	144	**142**
	Old	*138*	*135*	*132*	*128*		
AUD-USD	New	0.64	**0.63**	0.62	0.62	0.62	**0.62**
	Old	*0.70*	*0.72*	*0.72*	*0.72*		
NZD-USD	New	0.58	**0.56**	0.55	0.55	0.55	**0.55**
	Old	*0.63*	*0.66*	*0.66*	*0.66*		
USD-CAD	*New*	1.34	**1.33**	1.32	1.30	1.30	**1.30**
	Old	*1.28*	*1.27*	*1.27*	*1.27*		
USD-CHF	New	0.89	**0.90**	0.91	0.92	0.92	**0.92**
	Old	*0.89*	*0.92*	*0.92*	*0.92*		
Asia							
USD-RMB	New	7.30	**7.30**	7.28	7.25	7.22	**7.20**
	Old	*7.15*	*7.10*	*7.05*	*7.00*		
USD-INR	New	83.0	**83.0**	83.0	83.0	83.0	**83.0**
	Old	*81.5*	*80.5*	*80.0*	*79.5*		
USD-MYR	New	4.70	**4.70**	4.68	4.65	4.62	**4.60**
	Old	*4.55*	*4.50*	*4.45*	*4.40*		
USD-SGD	New	1.36	**1.37**	1.38	1.38	1.38	**1.38**
	Old	*1.33*	*1.31*	*1.30*	*1.29*		

Source: HSBC forecasts

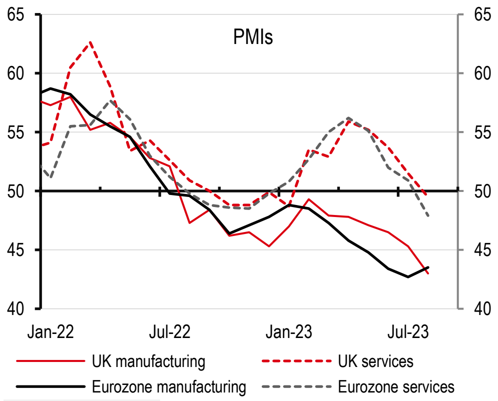
EUR & GBP: End of the road

- We now see both the EUR and the GBP weakening into 2024…
- …because the cyclical upswing of early 2023 has faded
- Narrowing yield differentials and weaker external sentiment will likely weigh on both currencies against the USD in the year ahead

We think the rally in both the EUR and the GBP has played out, and we look for a reversion lower in the months ahead. A number of factors have shifted – admittedly a little earlier than we expected – relating to the domestic cyclical picture, as well as global sentiment.

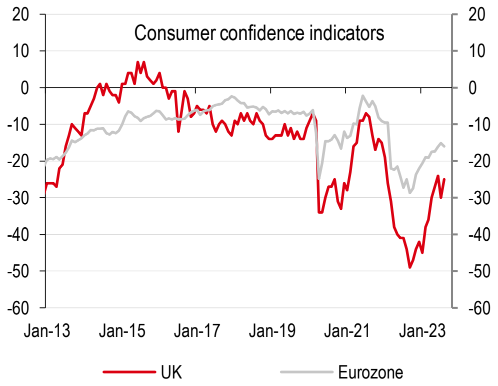
In both the Eurozone and the UK, short-term cyclical indicators, such as PMIs and consumer confidence, have **started to turn for the worse again** (Charts 1-2). Manufacturing PMIs have been much worse for some time; however, even services PMIs have recently dropped into contraction territory, so there is little reason to be optimistic about an imminent rebound. **Three key forces that propped up consumer sentiment earlier in 2023 are fading**. First, the big decline in wholesale energy prices has run out of steam. Second, tight labour markets are showing signs of loosening, with rising unemployment rates. Finally, the impact of higher interest rates is biting harder and harder.

1. Business surveys have turned markedly lower in recent months



Source: Bloomberg, HSBC

2. Consumer sentiment rebound has stalled in both economies



Source: Bloomberg, GFK NOP, HSBC

Considering the growth-inflation profiles in the US, the Eurozone and the UK, we think that risks are skewed towards a narrowing in favour of the US (cuts being priced out) and away from the Eurozone and the UK (cuts being priced in), which should be USD-positive.

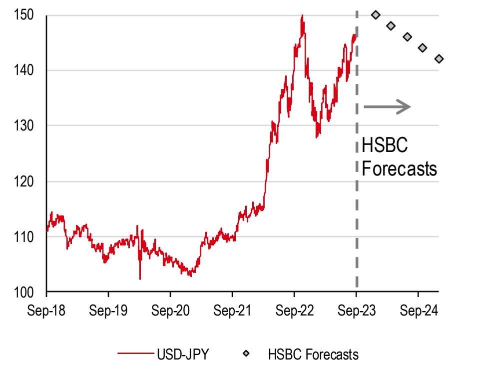
Meanwhile, **the external environment does not appear to offer much solace**, with ongoing signs of global growth deceleration, amid the impact of monetary tightening. Unless and until the global outlook starts to improve again, it is unlikely that a powerful surge in risk appetite can offset the challenging domestic forces that are becoming increasingly dominant for the EUR and the GBP. **We, therefore, see EUR-USD moving to 1.02** (from 1.15 previously) **by the middle of 2024 and GBP-USD falling to 1.18** (from 1.30 previously) **over the same period**.

JPY: Sun's out, shorts out

- We raised our USD-JPY forecasts after the Bank of Japan's (BoJ) shift to a flexible conduct of yield curve control (YCC) policy on 28 July, as USD-JPY barely fell in the immediate aftermath. **We are raising our forecasts again**.
- USD-JPY may have overshot recently, but we think the currency pair can remain at such lofty levels until one of the following things happen:

  (i) Japan's Ministry of Finance shows its determination to curb short JPY positioning; (ii) the BoJ turns less dovish in both its actions (allowing Japanese government bond yields to rise faster) and rhetoric (to revive market expectations about another policy tweak in the coming months); (iii) US yields fall materially; or (iv) there is a spike in risk aversion, which is not due to fears of a more hawkish Fed.
- **For 2024, we maintain a view that USD-JPY will decline modestly**, amid our expectations of narrowing (but still large) yield differentials. We also think the **ongoing improvement in Japan's current account balance** will provide some fundamental support for the JPY.

USD-JPY



Source: HSBC, Bloomberg

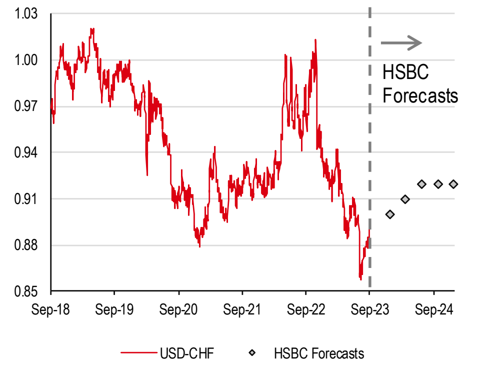
FX	L-T view*	Spot	Past performance 1mth	3mth	6mth	Forecasts Q4 23	Q1 24	Q2 24	Q3 24	Q4 24
USD-JPY	↘	147.62	3.59%	5.35%	7.63%	150	148	146	144	142

Source: HSBC forecasts, Bloomberg as at 11:27 HKT on 07/09/2023
*L-T = long-term

CHF: Steadily grinding stronger against the EUR

- **The CHF has performed a lot better than we envisaged against the EUR this year**, despite relatively positive risk sentiment, falling Swiss inflation, a softening domestic growth backdrop, and less impetus for Swiss National Bank (SNB) tightening. FX policy has no doubt played a part with the SNB appearing to keep selling FX reserves through 2Q and, therefore, encouraging CHF strength.
- It may well be that **the SNB is choosing to try to limit any potential inflationary pick-up through the FX channel**, as monetary policy tightening has already seen real rates move back into positive territory, dampening domestic growth dynamics.
- With the external backdrop now shifting, especially in terms of a worsening European growth outlook, **there could be increasing "safe haven" demand for the CHF**. We expect USD-CHF to move largely sideways in the months ahead.

USD-CHF



Source: HSBC, Bloomberg

FX	L-T view*	Spot	Past performance 1mth	3mth	6mth	Forecasts Q4 23	Q1 24	Q2 24	Q3 24	Q4 24
USD-CHF	↗	0.8914	2.13%	-2.05%	-5.35%	0.90	0.91	0.92	0.92	0.92

Source: HSBC forecasts, Bloomberg as at 11:27 HKT on 07/09/2023
*L-T = long-term

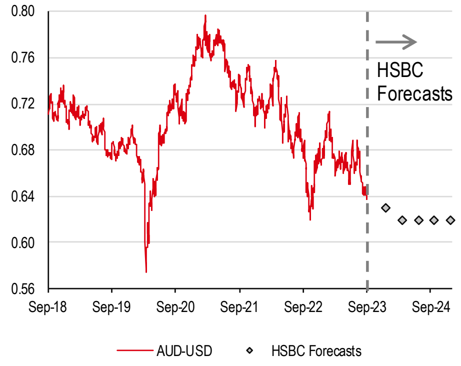
AUD: A longer and tougher fight

- **We now expect a further decline in AUD-USD before finding stabilisation in 2Q24**, based on the following three key factors:

  1. We expect **a convergence in the rate cut outlook between the Reserve Bank of Australia and the Fed to become a headwind for the AUD over 4Q23 and 1Q24** when Australia's growth bottoms and the pace of disinflation surprises markets.
  2. **China's import demand for Australia's iron ore and steel may see limited improvement in sight**, as transmission from stabilising property sales in China to its import demand for Australia's iron ore is likely to be slow, and China's steel market remains oversupplied as shown by elevated inventory levels at major mills (MySteel, 5 September 2023).
  3. **We expect further strength in the broad USD** on the back of US growth outperformance, widening yield advantage in the US, and periodical risk aversion.

- All in all, we see AUD-NZD at 0.62 by end-1H24 (from 0.72 previously).

AUD-USD



Source: HSBC, Bloomberg

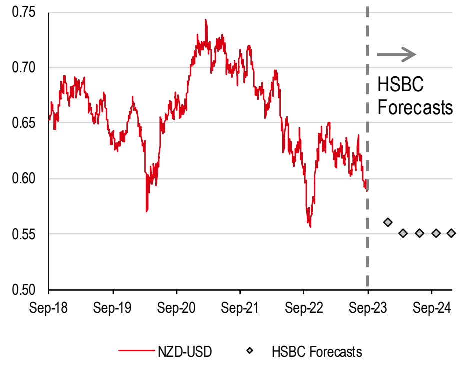
			Past performance			Forecasts				
FX	L-T view*	Spot	1mth	3mth	6mth	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24
AUD-USD	↘	0.6373	-3.04%	-4.19%	-3.20%	0.63	0.62	0.62	0.62	0.62

Source: HSBC forecasts, Bloomberg as at 11:27 HKT on 07/09/2023
*L-T = long-term

NZD: Flightless

- A convergence of the rate cut outlook in favour of the US (cuts being priced out) and away from New Zealand (cuts being priced in), a slow recovery in China, and our view of further USD strength mean that we expect NZD-USD downside before finding stabilisation in 2Q24. **We revise our forecasts, seeing NZD-USD at 0.55 by end-1H24** (from 0.66 previously).
- With a greater focus on domestic production, China's import demand for New Zealand's dairy products has been largely stagnant. **As dairy products being New Zealand's major goods exports, a challenging outlook could have strong ripple effects for the broader economy**, including lower spending and investments, faster disinflation, and weaker growth overall. This could pose risks of larger adjustments in rate cut pricing in New Zealand, given the Reserve Bank of New Zealand was at the forefront of the global post-pandemic tightening campaign.
- **The NZD faces an additional headwind in the form of an asymmetrical sensitivity to risk appetite**, given **New Zealand's wide current account deficit** means that it is prone to a stall of external funding; however, foreign appetite for New Zealand's debt instruments has been strong so far.

NZD-USD



Source: HSBC, Bloomberg

			Past performance			Forecasts				
FX	L-T view*	Spot	1mth	3mth	6mth	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24
NZD-USD	↘	0.5869	-3.88%	-2.78%	-3.90%	0.56	0.55	0.55	0.55	0.55

Source: HSBC forecasts, Bloomberg as at 11:27 HKT on 07/09/2023
*L-T = long-term

China (CNY): A desire for stability

- There are upward pressures on USD-RMB, but we expect the pair to **fluctuate around 7.30 for the coming months**, based on the following reasons:

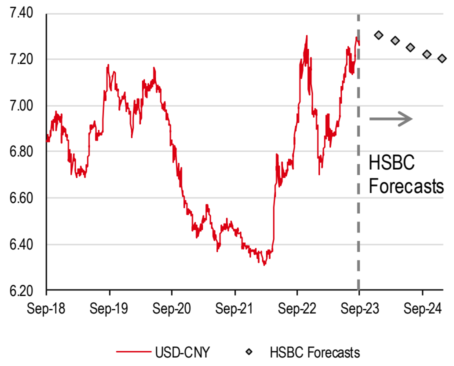
  1) The People's Bank of China (PBoC) has shown a strong desire for FX stability lately. CNH funding conditions have been prone to a periodic squeeze, and more window guidance on local outflows may follow.

  2) A fresh round of nationwide property stimulus was rolled out recently. Our economists expect more fiscal support, which will likely stabilise growth later.

  3) Portfolio outflows may exert less pressure, as foreign investors are already underweight Chinese assets.

- **For 2024, we maintain a view of a modest decline in USD-RMB** on the back of our house view that the Fed will start to gradually cut rates in 2Q24. Upside risks to USD-RMB stem from a failure in China's growth stabilisation and more aggressive PBoC easing. Conversely, the RMB may find a stronger footing, if the upcoming third plenum can offer more comprehensive solutions to structural challenges and, as such, boost risk sentiment.

USD-CNY



Source: HSBC, Bloomberg

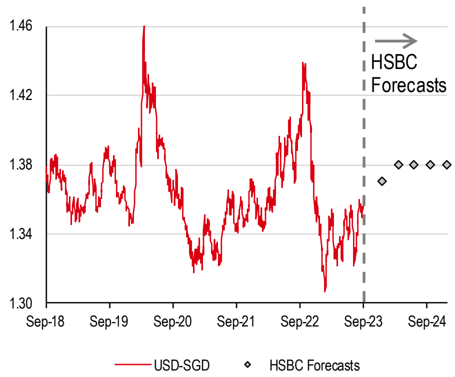
			Past performance			Forecasts				
FX	L-T view*	Spot	1mth	3mth	6mth	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24
USD-CNY	→	7.3226	1.80%	2.63%	5.12%	7.30	7.28	7.25	7.22	7.20

Source: HSBC forecasts, Bloomberg as at 11:27 HKT on 07/09/2023
*L-T = long-term

SGD: Change of fortunes

- Among USD-Asia pairs, USD-SGD consistently has the highest correlation and beta to the US Dollar Index (DXY). This is a function of the Monetary Authority of Singapore's (MAS) policy focus on the SGD nominal effective exchange rate (NEER) and also reflects Singapore's status as a global trade and financial hub. Therefore, **given our latest view related to the broad USD strength, we now see USD-SGD rising as well**.
- That said, in the near term, the upward trajectory of USD-SGD should be tempered by the positive slope of the SGD NEER policy band – **the MAS still has a trend SGD appreciation policy**. Our economists see no change to any policy parameters at the policy announcement in mid-October. **If disinflation proceeds as per its expectations, the MAS may start reducing the policy slope in April 2024**.
- All in all, **we see the SGD as an underperformer in Asia going forward**. This is appropriate, considering how much it has outperformed in the past two years since 2H21.

USD-SGD



Source: HSBC, Bloomberg

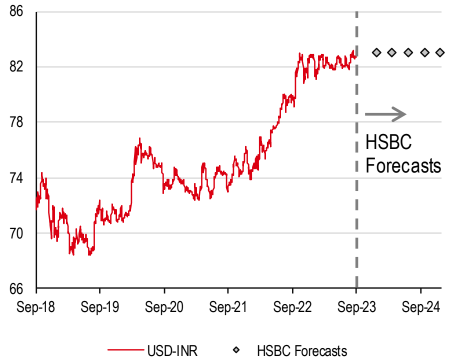
			Past performance			Forecasts				
FX	L-T view*	Spot	1mth	3mth	6mth	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24
USD-SGD	→	1.3641	1.72%	1.13%	0.72%	1.37	1.38	1.38	1.38	1.38

Source: HSBC forecasts, Bloomberg as at 11:27 HKT on 07/09/2023
*L-T = long-term

INR: Valour is stability

- USD-INR has been testing the 83 level since mid-August, as equity inflows dwindle amid subdued risk appetite globally and considering that there were already USD20bn of inflows in earlier months.
- However, **the Reserve Bank of India (RBI) seems keen to prevent excessive INR weakness**. On 23 August, Reuters reported that some banks have been asked by the RBI to stop taking new arbitrage positions in the non-deliverable forwards (NDF) market, similar to the communication made in October-November 2022. We also note that **the RBI's FX reserves fell sharply in the week ending 18 August**.
- Our base case is that **the RBI's tightened FX and monetary (liquidity) policies** can help alleviate upward pressures on USD-INR stemming from the broad USD strength. **India's combined goods and services trade deficit has stabilised** recently, which will provide some support for the INR.

USD-INR



Source: HSBC, Bloomberg

FX	L-T view*	Spot	Past performance 1mth	3mth	6mth	Forecasts Q4 23	Q1 24	Q2 24	Q3 24	Q4 24
USD-INR	→	83.136	0.47%	0.64%	1.49%	83.0	83.0	83.0	83.0	83.0

Source: HSBC forecasts, Bloomberg as at 11:27 HKT on 07/09/2023
*L-T = long-term

MYR: Not out of the woods yet

- The MYR is the worst performing Asian currency so far this year, losing 5.7% against the USD year-to-date (6 September 2023, *Bloomberg*).
- Local developments are of no help. Looking at annualised 1H23 data, **Malaysia's current account surplus has halved** from 2022, while **residents' capital outflows have doubled** and more than outstrip foreigners' bond inflows. **Malaysia's basic balance of payments sank into its worst deficit since 1995** (30 August 2023, *Bloomberg*).
- We raise our USD-MYR forecasts once again, given our expectation of the broad USD strength. However, **if there is a stronger tech exports outlook in 2024, the MYR may benefit**, but its upside could be diluted by a more consistent correlation with the RMB.

USD-MYR

Source: HSBC, Bloomberg

FX	L-T view*	Spot	Past performance 1mth	3mth	6mth	Forecasts Q4 23	Q1 24	Q2 24	Q3 24	Q4 24
USD-MYR	→	4.6772	2.57%	1.73%	4.59%	4.70	4.68	4.65	4.62	4.60

Source: HSBC forecasts, Bloomberg as at 11:27 HKT on 07/09/2023
*L-T = long-term

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.
RMB CFETS Index	This index refers to the currency basket accepted by China Foreign Exchange Trade System (CFETS) comprising 24 currencies vs. RMB.
Curve	Refers to the yield curve for the respective country's sovereign bonds.
2's-30's curve	Refers to the difference in yield between 2-year and 30-year sovereign bonds for the specified country.
NEER	Nominal effective exchange rate.
PMI	Purchasing Managers Index – an indicator of economic health of the manufacturing sector (>50 represents expansion vs. previous month).
FDI	Foreign direct investment is an investment made by a company or entity based in one country, into a company or entity based in another country. It typically involves the investor having a significant degree of influence and control over the company in which the investment is made.

Fed	Federal Reserve System (US's Central Bank)
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)
PBoC	People's Bank of China (China'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)
MAS	Monetary Authority of Singapore (Singapore's Central Bank)
BNM	Bank Negara Malaysia (Malaysia's Central Bank)

Explanation of terms

Meaning of the arrows:

As per HSBC Global Research, an upward sloping (↗) / downward sloping (↘) arrow indicates that the first currency quoted in the pair is expected to appreciate/depreciate against the second currency quoted by the end of the last forecast period shown in the report. For example, an upward sloping arrow for EUR-USD means that the EUR is expected to appreciate against the USD by the end of the last forecast period.

A sideways arrow (→) indicates that the currency is expected to be at a similar level to the spot price stated in the report by the end of the last forecast period.

Note: The direction of the arrow is dictated by the difference between the spot price and the furthest forecast stated in the forecast table. Within that timeframe, it is quite possible that the currency is expected to move in an opposing direction. This is depicted both by the forecast 'dots' shown on the charts as well as in the forecast table.

Disclosure appendix

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