Global Currency Commentary

Q3 2024

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Record Currency Management

$102.7bn	94	41	25	$700bn
AuME* as of June 2024	Employees	Years' experience managing currency	Members of the Investment Team	Annual Trading Volume

Valuations

	Start	End	% Change	High	Low	Valuation†
EUR	1.07	1.12	4.02%	1.12	1.07	-26.6%
JPY	161.67	143.04	11.52%	140.44	161.67	-33.8%
GBP	1.26	1.34	6.08%	1.34	1.26	-10.5%
CAD	1.37	1.35	1.62%	1.35	1.39	-13.4%
CHF	0.90	0.84	6.69%	0.84	0.90	14.5%
AUD	0.67	0.69	4.32%	0.69	0.65	-3.5%
SEK	10.63	10.14	4.68%	10.08	10.83	-16.1%

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

3m Annualised Carry (Hedging to USD)

EUR	JPY	GBP	CAD	CHF	AUD	SEK	Total
1.5%	5.1%	-0.1%	1.0%	4.1%	0.3%	1.8%	2.0%

Total = MSCI World ex-US

G10 Currency Moves

USD – **Depreciated** as a surprise slowdown in the US labor market led to fears of a hard landing and expectations for more aggressive Fed easing

EUR – **Appreciated** as markets anticipated a less aggressive easing cycle by the ECB vs. the Fed, although poor economic data limited Euro strength

JPY – **Appreciated** due to a surprise rate hike by the Bank of Japan and the yen benefited from its safe-haven status as US recession fears mounted

GBP – **Appreciated** as Labour's election victory was viewed positively by the market and the sterling benefitted from Eurozone political instability

CHF – **Appreciated** as US recession fears and political uncertainty in the Eurozone drove a flight to safety to the risk-off franc

CAD – **Appreciated** mainly due to markets pricing less aggressive easing from the BoC compared to the Fed rather than due to Canada's macroeconomic state

AUD – **Appreciated** due to RBA policymakers maintaining a hawkish stance and positive impact from China's fiscal and monetary stimulus announcement

SEK – **Appreciated** despite the Riksbank lowering rates twice during the quarter and accompanying those cuts with dovish forward guidance

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

Source: Record. Data as of September 30, 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).

Developed Markets

Election swings contributed to FX volatility

US dollar

Equity (S&P 500) & US 10yr Gov Yield: The S&P 500 index gained c. 5.5% over the quarter. Following the July NFP report in the beginning of August, the index experienced a short-lived larger drawdown due to recession fears, but it took the index less than seven trading days to recover to the pre-NFP level. Government bond yields fell through the quarter with the 10-year yield falling less than the 2-year yield (higher sensitivity to policy rate). The 10yr/2yr spread uninverted at the end of August and broke out in the beginning of September but moderating by the month end.

The US dollar depreciated against all other G10 currencies during the quarter. The key underlying event was a rapid repricing of Fed Funds futures in the early days of August after a surprise slowdown in US job creation prompted investors to anticipate a hard landing. Investors, extrapolating the weaker jobs numbers, began to expect a more aggressive easing response from the Fed to prevent a recession. More resilient economic data in subsequent weeks helped quell recession fears, but expectations for imminent Fed easing weighed on the dollar. The Fed ultimately voted to cut its policy rate by 50bps at its September meeting, citing cooling labor market conditions and progress on inflation, and the updated dot plot signalled a more aggressive cutting path than previously projected.

Other G10 currencies appreciated vs. the dollar due to their more benign cutting path as measured by OIS swaps pricing. The move lower in the dollar in September despite resilient US data demonstrates the more policy-driven nature of the greenback now as the Fed's policy path is measured against other G10 banks. Although the updated dot plot provided greater clarity for monetary policy, uncertainty was a commonly held sentiment in Q3 surveys, particularly regarding the upcoming presidential election. Major headlines (e.g. Biden dropping out, Trump assassination attempt) and polling swings in the race helped to contribute to FX volatility over Q3. The election's currency impact has been hard to discern amongst the noise, but it will be felt more strongly in Q4 once a winner is decided.

Euro

EUR appreciated vs. USD. The euro strengthened over the quarter, largely due to anticipation of a less aggressive cutting cycle by the ECB compared to the Fed. That said, poor economic data served to cap euro strength over the period. The ECB held interest rates steady at the July meeting, citing elevated domestic price pressures. That said, the ECB increasingly indicated in policy announcements over the period that risks to economic growth were tilted to the downside. That message was reinforced by a miss in the September Purchasing Manager's Index which showed deteriorating sentiment across the Eurozone. The ECB cut rates at the September meeting, as expected, but President Lagarde used the opportunity to deliver more dovish comments, suggesting a willingness to quicken the pace of easing given deteriorating economic data and evidence of subsiding price pressures. The German economy remained the biggest drag on European growth, and political developments in France generated uncertainty. The Eurozone's open, trade-dependent economy is also more vulnerable to a slowdown in global growth, with disappointing economic data from China this quarter heightening these concerns.

Japanese yen

JPY appreciated vs. USD. The yen enjoyed the strongest run of the G10 currencies over the quarter, rebounding from a near 40-year low against the dollar. The rally was largely owed to the combination of a surprise Bank of Japan (BoJ) interest rate hike in July and heightened recession fears in the US. Expectations for policy convergence between the BoJ and the Fed underpinned the resulting global unwinding of the yen carry trade. The yen's status as a safe-haven currency further contributed to the yen rally as the US outlook weakened. However, with the yen at the epicentre of the global carry unwind and resulting market volatility, the BoJ signalled that its normalization path will be conditional on the smooth functioning of markets in addition to economic considerations. Further dovish comments from Governor Ueda and stronger US data helped put a pause on the yen rally near the end of the quarter. The BoJ has pledged to pursue further rate increases, but recent messaging has persuaded markets to push expectations for the next hike out to December or January.

British pound

GBP appreciated vs. USD. The UK has emerged as an unlikely source of stability in Europe, and the Sterling benefited from a confluence of supportive monetary policy and favorable political developments over the quarter. The Bank of England's (BoE) cautious approach to rate cuts, in response to persistent core inflation, enhanced the pounds appeal. If the BoE continues its slow but steady easing cycle, the pound will likely benefit from a widening rate advantage over peer currencies. On the political front, the Labour Party's strong general election performance and relative political stability compared to its European peers further supported the pound.

Swiss franc

CHF appreciated vs. USD. As a safe-haven currency, the franc benefitted from the US recession worries in the beginning of August as well as political uncertainty in the Eurozone. Strong economic growth, disinflation over the quarter and improving real yield also contributed to CHF appreciation. The franc's strength came even as the Swiss National Bank (SNB) continued to ease policy in an effort to weaken the currency. The SNB views the strength of the Swiss franc as a drag on overall growth. Although the SNB has signalled that it has reached its terminal policy rate of 1.00%, the OIS market is pricing in two more 25bps cuts.

Canadian dollar

CAD appreciated vs. USD. Over the quarter, CAD strengthened vs. the dollar mainly due to a less aggressively priced cutting cycle rather than due to its macroeconomic state. The Bank of Canada (BoC) cut rates twice during the quarter as inflation continued to trend down. Economic growth picked up in Q2, coming in stronger than expected, however the labor market continued to slow in August with the unemployment rate rising to 6.6%, 1.7% above its cycle low in July 2022. Markets expect a faster pace of easing from the BoC compared to the Fed which suggests current CAD strength may be fleeting. That said, wage growth remained elevated relative to productivity, and the BoC emphasized future rate cuts would be data dependent.

Australian dollar

AUD appreciated vs. USD. The Australian dollar appreciated over the quarter partly due to China's fiscal and monetary stimulus measures aimed at boosting its economy, which positively impacted commodity currencies like the AUD. China's actions, such as cutting reserve requirement ratios and lowering interest rates, improved investor confidence and increased demand for commodities, benefiting Australia's export-driven economy. The Reserve Bank of Australia (RBA) also resisted market expectations for rate cuts, maintaining its current policy stance and supporting the AUD relative to currencies where central banks were easing. Strong domestic economic data, including a healthy labor market report in July, reinforced the RBA's position and underpinned the currency's strength. Improved global risk sentiment and a recovery in demand for risk assets also contributed to the appreciation of the AUD over the quarter.

Swedish krona

SEK appreciated vs. USD. The Riksbank cut rates by 25bps twice during the quarter as the central bank expressed confidence that long-term inflation has moved closer to target. Officials also noted how they have shifted their concern from primarily price pressures to economic activity, stating that the economy has been recovering at a slower pace than previously expected. The announcement also included more dovish updated forward guidance, and the Riksbank expects low and stable inflation together with easier monetary policy to contribute to the recovery of the Swedish economy.

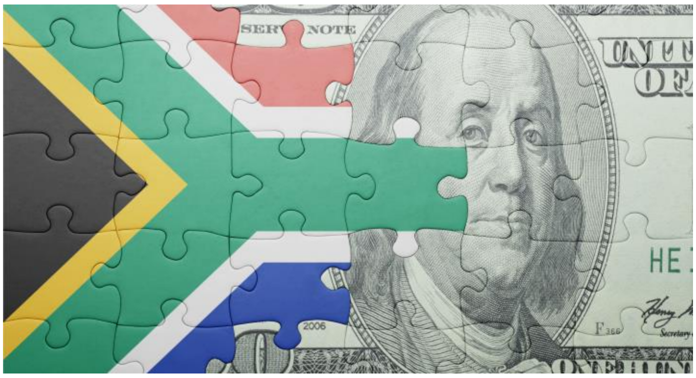
Emerging Markets

Key EM Themes

EM currencies were most affected by the strengthening of the Japanese yen. This led to the unwind of popular carry trades, which affected many higher yielding EM currencies. US recession fears placed additional pressure on the carry trade, especially involving LatAm EM currencies. Global geopolitical risks increased, as the conflict between Israel and Gaza spread over to Lebanon and Iran. The ongoing war between Russia and Ukraine still has no end in sight. The Fed cutting two more times by 25bps (as indicated by the updated dot plots) or cutting by less should the economy and labor market remain resilient will be a primary factor for EM performance over the near term. So too will the risks presented by the US election.

Overall, EM FX appreciated against the USD due to the expected start of the US easing cycle. The size of the initial rate cut fuelled the rally further although only reaching approximately a half of the move in the DM currency universe where JPY dominated.

CEEMEA



Lower inflation gave the SARB room for maneuver

The **South African rand (ZAR)** was one of the best performers within EM FX. The South African Reserve Bank (SARB) kept rates at 8.25% and only started cutting rates one day after the Fed, but by a smaller 25bps. Inflation came down to the lower range of its inflation target, which gave the SARB the green light to begin easing.

LatAm

The **Brazilian real (BRL)** experienced a volatile Q3. BRL depreciated on the back of fiscal worries and US recession fears but rebounded after the central bank pivoted to tightening policy in the face of rising inflation. The real was buoyed further by the fiscal stimulus news from China, which benefited the commodity exporting nation. The **Mexican peso (MXN)** had a tough quarter due to President AMLO bringing forward his controversial judicial reform plans to parliament. Interestingly, the peso appreciated after those reform plans were passed as markets hoped that the new president Sheinbaum would prove more moderate than her predecessor. Similar to the BRL, the **Chilean peso (CLP)** also appreciated on the back of fiscal stimulus news from China.

Asia

Asian FX broadly appreciated against the USD. The **Thai baht (THB)** appreciated strongly in Q3 on the back of strong tourism, exports and anticipation of Fed cutting rates. However, the strength of THB also led to calls from the export industry to weaken the currency. **The Indonesian rupiah (IDR)** appreciated on the back of strong growth data and inflation coming in below Bank Indonesia's (BI) midpoint target. BI cut its policy rate on the same day as the Fed, but the size of the cut was only 25bps and the current 6.00% policy rate still offers attractive real yields.

China

CNH appreciated against the dollar due, in part, to an expectations of Fed easing. The CNH also benefitted from improved capital flows. In September, China cut its reserve requirement ratio (RRR) by 0.5% and lowered the seven-day reverse repurchase rate to 1.5% as part of a stimulus package to meet its growth target of around 5%. These measures were aimed at stimulating the economy and boosting investor confidence amidst slowing growth.

PBOC stimulus aims to kickstart growth

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Looking Ahead: G4

Q3 2024

	Currency upside considerations	Currency downside considerations
$	▪ **Labor market** consolidates, stabilizing rate cut expectations at the Fed ▪ **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** still relatively high 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 build on relations** under a Labour government ▪ **Growing wage demands and tight labor market** add to BoE hawkishness ▪ **Stubborn core services prices** lead to a slower and less shallow cutting path	▪ **Labor 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 ▪ **French political instability** and prolonged gridlock in the legislature
¥	▪ Yen weakness and or volatile moves drive **intervention by Ministry of Finance** ▪ political pressure following the Japanese election leads to a **more assertive stance at the Bank of Japan** ▪ **Risk-off events** (e.g. China/US/Taiwan) and lower commodity prices	▪ **Real yield difference** between the US and Japan stay high ▪ **Output gap falls below zero** as an impediment to policy normalization ▪ **Inflation falls below 2%**, reducing the BoJ's confidence in raising rates further ▪ New PM Ishida moves away from "Abenomics", embracing **fiscal austerity**

Key Event Risks

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

Date	Currency	Event	Potential Implication
Oct 24	EUR	Manufacturing and Services PMI	
Oct 25	JPY, EUR	Tokyo CPI, German IFO Business Climate survey	
Oct 30	USD	US Q3 GDP advance estimate	
Oct 31	**JPY**, EUR	**BoJ interest rate decision**, European inflation	The BoJ will likely hold rates, but forward guidance could clarify whether the next hike is expected in December or January.
Nov 1	**USD**	**US Nonfarm Payrolls and Unemployment**	Potential downside risks stemming from Hurricane Helene impact and East Coast/Gulf port workers' strike.
Nov 5	**USD**	**US presidential election**	A Trump victory however might be more USD positive due to the tariffs and expansionary tax policy proposals.
Nov 7	GBP	Bank of England decision	A 25bps cut is widely expected, a second consecutive hold would surprise
Nov 7	**USD**	**Fed interest rate decision**	Market pricing split on 25bps or 50bps, but Powell has pushed back against dovish market expectations.
Nov 12	**USD**	**US CPI**	After two months of core CPI (mom) surprising to the upside, the Fed will pay attention if this mom print is in line with the 2% target.
Nov 15	USD	US Retail Sales	

Risk Warnings

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