

Liquid Insight

Kickoff for the new year in G10 FX

Key takeaways

- As 2024 kicks off, we continue to look for a modestly weaker USD for G10 FX, led by our end-year EUR-USD forecast of 1.15.
- Since our year-aheads, we have revised our USD-JPY profile, although our end-year forecast is unchanged at 142.
- Elsewhere our other G10 FX forecasts remain unchanged, as we continue to expect disinflation to be crucial for the outlook.

By John Shin, Athanasios Vamvakidis and Alex Cohen

Chart of the day: USD to go lower over the longer term

We continue to expect modest downside for USD over our forecast horizons



Source: Federal Reserve Board, Bloomberg and BofA Global Research

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USD downside for 2024

Markets have been eventful since we published our year-aheads, such as a noisy US payroll report to kick off the year data-wise, but our core fundamental FX outlook remains the same, as we continue to expect a modestly weaker dollar. As the outlook remains disinflationary with central banks such as the Federal Reserve cutting rates this year, we hold our view that EUR-USD will be at 1.15 for the end of the year. And despite near-term volatility, we generally look for USD to fall over the longer-term as well ([See World at a Glance, "Kickoff for the new year", 4 Jan 2024](#), and also see the Chart of the Day).

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USD: Disinflation=Depreciation

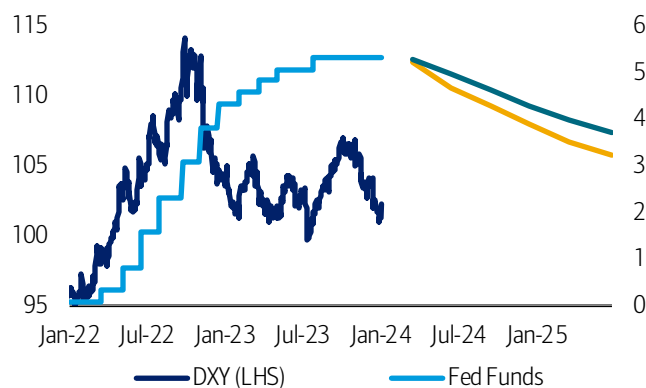
The US dollar ended 2023 well on the back foot, driven in large part by ongoing signs of disinflation in the US and a notably “dovish” outcome from the December FOMC.

(Exhibit 1) While US growth data has still shown signs of ongoing resilience (retail sales, consumer confidence, ISM services, and softening but still solid labor market indicators), key inflation readings suggest the return to target may be closer than many had thought just a few months ago. The most recently US employment report, albeit noisy, did not alter the growth picture. (See US Watch, [“December employment: Simmering not boiling”](#), 05 January 2024.)

This mix of waning inflation in the absence of significant growth deterioration has further propagated the US “soft landing” outlook for 2024. We see this scenario as mainly USD-negative, all else equal. If achieved, a US soft landing will result in a gradually lower funds rate— not to boost a faltering economy, but rather to prevent the passive tightening of real rates as inflation falls. This should further support risk appetite, boosting most currencies vis-à-vis the USD.

Exhibit 1: DXY and Fed Funds Futures Curve (Nov 30 vs. current)

USD's recent depreciation occurred amidst repricing of Fed expectations

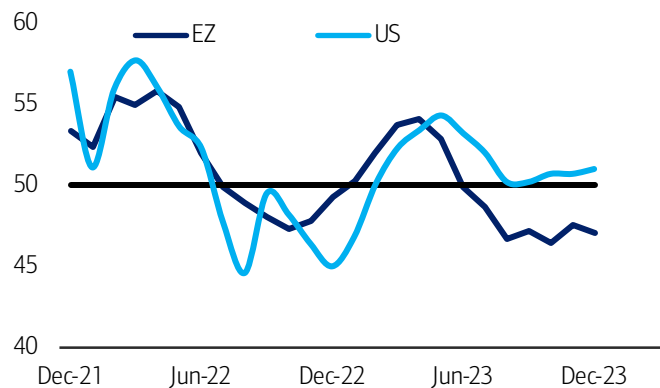


Source: New York Fed, Bloomberg and BofA Global Research

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Exhibit 2: Composite PMI index

US-EZ recoupling key assumption for further EURUSD strength



Source: Bloomberg and BofA Global Research

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EUR: halfway there already; still USD-driven

The EUR ended 2023 somewhere in the middle of G10 FX. However, the EUR remains strong in nominal effective terms (NEER) and particularly against JPY, the Scandies and GBP. Our view for 2024 is that the EUR will see further appreciation against the USD but will remain somewhere in the middle vs. the rest of G10 (see [EUR Year Ahead: Pyrrhic Victory 15 December 2023](#)). This outlook is primarily based on our baseline of lower global inflation, central bank rate cuts, risk-on in soft landing and US recoupling (Exhibit 2) from very strong growth vs. the rest of the world and particularly Europe last year.

However, we also note that the EUR was the second worst performer in G10 during this time. This is once again consistent with our view that weak growth in the Eurozone makes it hard to be bullish on the EUR on its own merits and that EURUSD will strengthen further this year only if the USD weakens. Moreover, a market already priced-to-perfection suggests to us some downside EUR risks early in the year if central banks cut later and slower and if risk sentiment suffers as a result.

EURUSD at 1.15 by end-2024

The USD's moves since mid-November has brought it closer to our year-end G-10 forecasts sooner than anticipated. Nevertheless, our call for further dollar downside remains intact. We continue to forecast EURUSD at 1.15 by the end of 2024—which has been our forecast since a year ago. The consensus has increased from 1.10 in November to 1.12 currently, still below our forecast. With EURUSD already fluctuating near 1.10, from 1.05 in October, we are already halfway there.

...revisions to USD-JPY, but remainder of G10 FX outlook remains the same

Since our year-ahead publications, we have made revisions to our USD-JPY forecast, lowering our profile for much of 2024. The likelihood of earlier Fed rate cuts along with USD-JPY's apparent peak implies a relatively lower-USD JPY. (See [World at a Glance, "Kickoff for the new year", 4 Jan 2024](#)) However, we do keep our end-of year 2024 forecast for USD-JPY at 142, and do not make longer-term changes in the outlook.

Elsewhere we do not make any other changes in our G10 FX outlook. For example, we continue to look for modest upside in the Dollar Bloc against USD, including our USD-CAD forecast for the end of the year of 1.30. In Europe, we also look for end-year GBP-USD of 1.31. (Exhibit 3)

Risks: are we priced to perfection?

The market could be ripe for disappointment should growth substantially reaccelerate or recent disinflation trends wane. Some Fed officials have attempted to temper the overall dovish message to no avail, and ultimately the evolution of data will continue to pose 2-way risks for the FX market. Moreover, should growth start to falter more meaningfully, the USD could be supported for a time on risk aversion, particularly vis-à-vis higher beta currencies.

Other risks are related to global growth, as well as commodity prices. Indeed, our Commodities team has lowered their outlook for oil prices, including 2024 Brent from \$90 to \$80/bbl (see the [Global Energy Weekly, "Can \(geo\)politics Trump fundamentals?", 07 Jan 2024](#)). And while the US election lingers in the background for now, politics remains a focal point for global risks.

Later and slower central bank rate cuts vs. the aggressive market pricing could lead to a weaker EUR in the short term. Risk valuations look stretched and a correction could weigh on the EUR. Conversely, if Eurozone growth surprises to the upside, particularly compared with very low expectations, or if the ECB cuts rates much later/slower than the Fed, vs. market pricing broadly the same for both, the EUR could strengthen even more than we expect.

Exhibit 3: G10 FX Forecasts

Our end-year EUR-USD forecast is 1.15, and USD-JPY forecast is 142

	Spot	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
G3									
EUR-USD	1.10	1.07	1.10	1.15	1.15	1.16	1.17	1.18	1.20
USD-JPY	145	145	143	142	142	140	138	136	136
EUR-JPY	158	155	157	163	163	162	161	160	163
Dollar Bloc									
USD-CAD	1.33	1.35	1.34	1.32	1.30	1.30	1.30	1.30	1.30
AUD-USD	0.67	0.66	0.68	0.71	0.71	0.71	0.71	0.71	0.71
NZD-USD	0.63	0.60	0.62	0.63	0.63	0.63	0.63	0.63	0.63
Europe									
EUR-GBP	0.86	0.87	0.87	0.88	0.88	0.87	0.87	0.86	0.86
GBP-USD	1.27	1.23	1.26	1.31	1.31	1.33	1.34	1.37	1.40
EUR-CHF	0.93	0.96	0.96	0.97	0.97	0.98	0.98	0.99	1.00
USD-CHF	0.85	0.90	0.87	0.84	0.84	0.84	0.84	0.84	0.83
EUR-SEK	11.21	11.70	11.40	11.20	11.10	11.10	11.00	10.90	10.80
USD-SEK	10.23	10.93	10.36	9.74	9.65	9.57	9.40	9.24	9.00
EUR-NOK	11.27	11.60	11.30	11.00	10.90	10.90	10.80	10.70	10.60
USD-NOK	10.28	10.84	10.27	9.57	9.48	9.40	9.23	9.07	8.83

Forecast as of Jan-05-2024. Spot exchange rate as of Jan-05-2024. The left of the currency pair is the denominator of the exchange rate. Source: BofA Global Research

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Notable Rates and FX Research

- **Global Macro Year Ahead 2024** - [Hope for the best, prepare for the worst](#), 19 Nov 2023
- **Global Rates Year Ahead 2024** – [Cloudy with a chance of landing](#), 19 Nov 2023
- **G10 FX Year Ahead** - [The year of the landing](#), 20 Nov 2023
- [Into a busy year-end](#), **Liquid Cross Border Flows**, 11 Dec 2023

Rates, FX & EM trades for 2023

For a complete list of our open trade recommendations, as well as our trade recommendations closed over the past 12 months, see the reports below:

[Global FX weekly: Ending the year with a bang 15 December 2023](#)

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