HSBC

18 November 2024

FX Forecast Outlook

Currencies
Global

November 2024

- We have believed in the strong USD for some time but there is more to come
- The combination of cyclical, fiscal and US political forces is making the USD even greater again
- We update our FX forecasts to reflect our USD bullish view

Summary

EUR: The EUR is likely face downside risks against the backdrop of struggling regional economy amid tariff risks and ongoing political uncertainties.

GBP: We are slightly more constructive on the GBP relative to the EUR, but against the USD, we also see the GBP faltering in the months ahead.

JPY: The JPY is likely to weaken further against the USD in the months ahead, but a significant overshoot of USD-JPY from fundamentals will be met with FX intervention and a possible BoJ rate hike.

AUD: The AUD is likely to weaken against the USD over 2025 amid external headwinds, such as rising US terminal rate, potential tariff concerns, and portfolio outflows.

NZD: Like the AUD, the NZD is likely to face similar external headwinds next year, in addition to downside risks via rate channel.

CAD: USD-CAD is likely to move largely sideways in 2025, in our view.

RMB (CNY): Downside risks to the RMB include the likely higher US terminal rate and tariff concerns, but the possibility of more fiscal stimulus domestically and the PBoC's FX guidance could provide some support.

SGD: The MAS is now more focused on downside risks to growth, and so if policy easing looks likely, USD-SGD will probably increase.

INR: We think the INR's depreciation will probably be modest, compared to other Asian currencies, since it is higher-yielding and less exposed to US tariff risks.

MYR: We now look for a modest MYR depreciation next year, amid the currency's low-yielding profile and tariff risks, but Malaysia is still a favoured foreign direct investment destination for diversification of supply chains.

Key upcoming events

Date	Event
27 November	The Reserve Bank of New Zealand's rate announcement
10 December	The Reserve Bank of Australia's rate announcement
11 December	The Bank of Canada's rate announcement
12 December	The European Central Bank's rate announcement
12 December	The Swiss National Bank's rate announcement
19 December (03:00 HKT)	The Federal Reserve's rate announcement
19 December	The Bank of Japan's rate announcement
19 December	The Bank of England's rate announcement

Source: HSBC

HSBC FX forecasts

	Spot	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25
EUR-USD	1.0566	1.05	1.03	1.01	0.99	0.99
GBP-USD	1.2623	1.26	1.25	1.24	1.23	1.23
USD-JPY	154.70	155	158	160	160	160
USD-CHF	0.8859	0.90	0.91	0.93	0.96	0.96
AUD-USD	0.6460	0.65	0.64	0.63	0.62	0.62
NZD-USD	0.5849	0.59	0.58	0.57	0.56	0.56
USD-CAD	1.4087	1.40	1.41	1.41	1.42	1.42
USD-CNY	7.2403	7.25	7.30	7.35	7.40	7.40
USD-SGD	1.3435	1.35	1.36	1.37	1.38	1.38
USD-INR	84.398	84.5	85.0	85.5	85.8	86.0
USD-MYR	4.4792	4.45	4.50	4.55	4.60	4.60

Source: HSBC forecasts, Bloomberg as at 17:33 HKT on 18/11/2024

Central Bank policy rate forecasts (%)

	Current	Q4 2024(f)	Q4 2025(f)
USD	4.50-4.75	4.25-4.50	3.25-3.50
EUR	3.40/3.25	3.15/3.00	2.40/2.25
JPY	0.25	0.25	0.75
GBP	4.75	4.75	3.25

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

Real GDP forecasts (%)

	2024(f)	2025(f)	2026(f)
US	2.7	1.9	1.8
China	4.9	4.5	4.4
Japan	0.1	1.3	0.8
Eurozone	0.7	1.0	1.3
UK	0.9	1.7	1.9

Source: HSBC forecasts

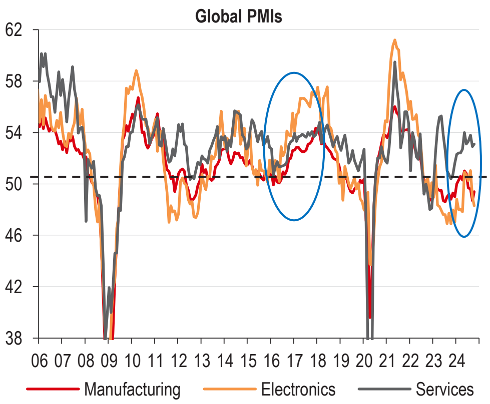
Making the USD even greater again

- We have believed in the strong USD for some time but there is more to come
- The combination of cyclical, fiscal and US political forces are making the USD even greater again
- We update our USD bullish views further; the USD bubble is re-inflating, which means weakness ahead for many other currencies

We have believed in the strong USD since September 2023. This view has not changed, and we see it continuing through next year. However, in light of the outcome from the US elections, we are upgrading our broad USD stance further, which **we have made FX forecast changes** (see the table overleaf).

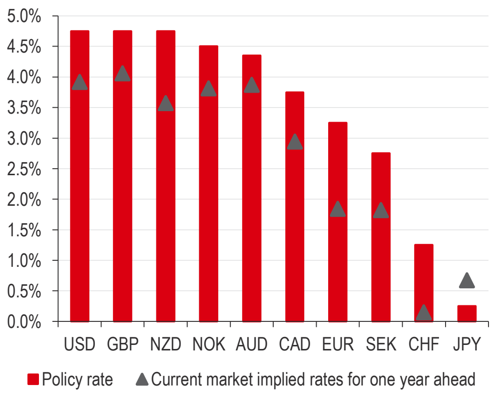
Our long-held framework for thinking about the USD's direction of travel boils down to the 'circle of trust' – global growth dynamics, US yields relative to others, and risk appetite. On this note, **global growth has been lacklustre** (Chart 1), and the risks are skewed more towards a decline, in our view, given mounting concerns around protectionism. The latter could introduce inflationary pressures in the already-resilient US economy, maintaining **the USD's high yields relative to other currencies** (Chart 2). **Both of these could also bear down on risk appetite in FX markets**, which would play to the USD's advantage.

1. The global growth cycle is not as positive when compared to 2016



Source: Bloomberg, HSBC

2. The USD's yields stay relatively high relative to other G10 currencies



Source: Bloomberg, HSBC

Of course, **there could be moments when the USD could face a significant squeeze lower**. For instance, newly elected President Trump could seek to talk the USD lower, but the downside risks to the USD from such a strategy would be small and transitory, in our view. In his first term as president, Donald Trump's use of social media to share sometimes provocative thoughts on many topics was a new tactic that financial markets had to get attuned to. Our study showed the impact of Trump tweets on the USD between 2016 and 2020 was modest. It is possible that the impact will be even smaller were a similar approach to be adopted in his second term. The shock value in terms of the market reaction has likely declined.

By and large, the Asian and European currencies may face the greatest challenges. **Pro-cyclical Asian currencies would stand to face greater challenges amid tariff risks and the associated growth implication**. A noteworthy example is the RMB, which could find itself pressured by the potential hefty tariffs (of up to 60%) that President-elect Trump has previously proposed. The implications of a weaker RMB should also ripple across the rest of the Asian currencies.

In the G10 space, **European currencies look to struggle further**. In particular, **the balance of risks has shifted sharply to the downside for the EUR**, in our view. The Eurozone economy has already been sluggish, and the implementation of 10-20% of tariffs on its exports to the US (as Trump has also pledged) would weigh more heavily on the Eurozone's growth outlook. To aggravate matters, fiscal policy looks unlikely to pick up the slack with some member countries already sporting relatively wide budget deficits, and ongoing political uncertainties as seen by the recent announcement of snap elections in Germany.

Conclusion

The USD bubble is reinflating again, which could be less prone to popping unlike late 2022. This means weakness ahead for many other currencies.

HSBC FX forecasts		Q4 2024f	Q1 2025f	Q2 2025f	Q3 2025f	Q4 2025f
G10						
EUR-USD	New	**1.05**	1.03	1.01	0.99	**0.99**
	Old	***1.08***	*1.07*	*1.06*	*1.05*	
GBP-USD	New	**1.26**	1.25	1.24	1.23	**1.23**
	Old	***1.28***	*1.27*	*1.26*	*1.25*	
USD-JPY	New	**155**	158	160	160	**160**
	Old	***142***	*140*	*138*	*138*	
AUD-USD	New	**0.65**	0.64	0.63	0.62	**0.62**
	Old	***0.68***	*0.68*	*0.69*	*0.69*	
NZD-USD	New	**0.59**	0.58	0.57	0.56	**0.56**
	Old	***unchanged***	*0.60*	*0.61*	*0.62*	
USD-CAD	New	**1.40**	1.41	1.41	1.42	**1.42**
	Old	***1.35***	*1.35*	*1.35*	*1.35*	
USD-CHF	New	**0.90**	0.91	0.93	0.96	**0.96**
	Old	***0.88***	*0.89*	*0.91*	*0.91*	
Asia						
USD-CNY	New	**7.25**	7.30	7.35	7.40	**7.40**
	Old	***7.20***	*7.25*	*7.30*	*7.30*	
USD-INR	New	**84.5**	85.0	85.5	85.8	**86.0**
	Old	***84.0***	*83.5*	*83.5*	*83.5*	
USD-SGD	New	**1.35**	1.36	1.37	1.38	**1.38**
	Old	***1.31***	*1.30*	*1.30*	*1.30*	
USD-MYR	New	**4.45**	4.50	4.55	4.60	**4.60**
	Old	***4.40***	*4.35*	*4.30*	*4.28*	

Source: HSBC forecasts

GBP: The wrong incentive

- The recent UK budget raises taxes on businesses and risks denting international competitiveness
- Without attracting foreign flows, the UK's external vulnerabilities leave GBP-USD exposed
- As such, we lower our GBP-USD forecast to 1.23 by 3Q25 from 1.25 previously

Markets continue to view the Bank of England (BoE) in a relatively hawkish light, when compared with the Federal Reserve (Fed). This strikes us as at odds, given the fiscal direction of both economies, with the policy impulse arguably greater in the US than that of the UK's which should keep the Fed on a more cautious footing.

In the US, pro-growth policies, such as corporate tax cuts and deregulation, if implemented, under the incoming new administration, are likely to raise return on capital. In contrast, **the recent UK budget may not improve the UK's expected return on capital or strengthen its external vulnerability.**

While the BoE expects a 0.5ppt higher growth for 2025 based on the budget measures, the UK central bank notes the risks to growth are to the downside. A 1.2ppt rise in employers' National Insurance Contributions to 15% and a 6.7% hike in the minimum wage and tighter employment regulations may prove to be a headwind for UK companies. **Weaker profitability could dent the expected return on capital, disincentivising business investment in the UK.**

Looking at the UK's external balance, we think that the persistent current account deficit (averaged 3.3% of GDP since 2008), fuelled by a widening oil deficit, may partly explain the deterioration in net international investment position. Meanwhile, the number of foreign direct investment projects in the UK has dropped to a near 12-year in the fiscal year that ended in March 2024, down 6% on the previous fiscal year and 31% below the peak in 2016-17, the year of the Brexit referendum (*FT*, 27 June 2024). In its place, the UK has been forced to rely mostly on highly liquid deposits and short-term loans, leaving it vulnerable to sudden shifts in investor sentiment.

As such, GBP-USD is likely to weaken further to 1.23 by 3Q 2025 from 1.25 previously, as investor sentiment deteriorates. That being said, we are slightly more constructive on the GBP relative to the EUR, as the European Central Bank (ECB) is likely to loosen monetary policy more rapidly than its UK peer.

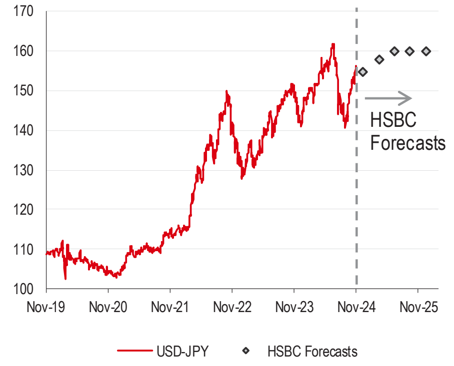
			Past performance			Forecasts				
FX	L-T view*	Spot	1mth	3mth	6mth	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25
GBP-USD	↘	1.2623	-3.29%	-2.83%	-0.65%	1.26	1.25	1.24	1.23	1.23

Source: HSBC forecasts, Bloomberg as at 17:33 HKT on 18/11/2024
*L-T = long-term

JPY: Recovery, interrupted

- USD-JPY has rebounded, with the market's hawkish repricing of the Federal Reserve (Fed), fuelled by positive US data surprises and the US election results. **The USD's strength looks likely to extend if Trump's policy proposals** (for example, tax cuts and tariff hikes) **materialise.**
- But **amid high uncertainty over US policy priorities and timeframes, the USD should have an upper hand over the JPY**, given the former's much higher yields and more robust growth. Japan's basic balance deficit is likely to weigh on the JPY. As such, we raise our USD-JPY forecasts, **expecting further JPY weakness, before consolidating later in 2025.**
- However, if USD-JPY overshoots fundamentals, we think that **Japan's Ministry of Finance could intervene FX markets**, **and potentially the Bank of Japan (BoJ) could consider rate hikes**. The latest BoJ surveys suggest the public does not favour a weak JPY.

USD-JPY



Source: HSBC, Bloomberg

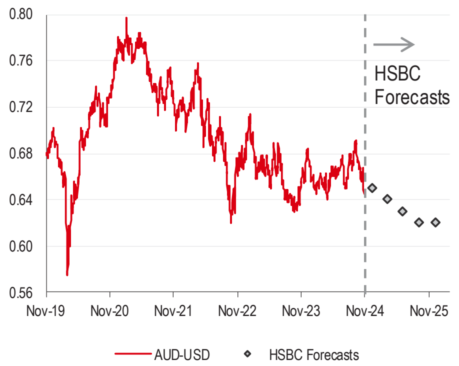
			Past performance			Forecasts				
FX	L-T view*	Spot	1mth	3mth	6mth	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25
USD-JPY	↗	154.70	3.46%	5.53%	-1.00%	155	158	160	160	160

Source: HSBC forecasts, Bloomberg as at 17:33 HKT on 18/11/2024
*L-T = long-term

AUD: Hard to find a positive driver

- **We revise our AUD-USD forecasts, expecting a downtrend into the end of 2025**, but the near-term decline in the AUD should be gradual.
- **When looking at the main drivers for AUD-USD, we can hardly find much support.** First, we expect emerging Asian currencies to remain under downward pressure from rising US terminal rate, potential tariff concerns, and portfolio outflows. Second, the new US administration's policy agenda may widen the growth differential between the US and the rest of the world, leaving global ex-US equities underperforming US equities, with the former a key driver for AUD-USD. Third, the Reserve Bank of Australia's restrictive-for-longer stance is well subscribed by markets. This leaves risks asymmetrically skewed towards a narrower AU-US shorter-term rate differential. Fourth, our commodity analysts expect Australia's terms of trade to decline further.
- **More forceful fiscal policy support from China could help**, but it may have limited spillover effect through the commodity demand channel. **Structurally, China's importance to the AUD may be declining.**

AUD-USD



Source: HSBC, Bloomberg

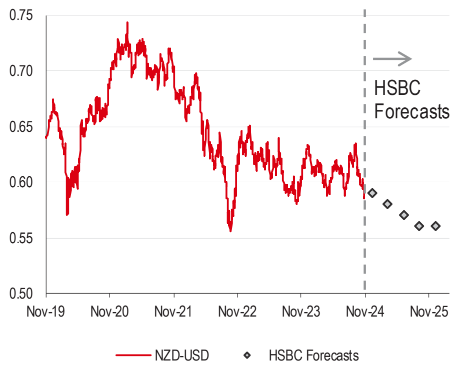
			Past performance			Forecasts				
FX	L-T view*	Spot	1mth	3mth	6mth	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25
AUD-USD	↘	0.6460	-3.67%	-4.03%	-3.10%	0.65	0.64	0.63	0.62	0.62

Source: HSBC forecasts, Bloomberg as at 17:33 HKT on 18/11/2024
*L-T = long-term

NZD: Downtrend

- The NZD is the worst performing G10 currency so far this quarter, dropping c7.6% against the USD (*Bloomberg,* 15 November 2024). While the near-term weakness appears to be limited, **we expect NZD-USD to follow a similar downtrend of AUD-USD over 2025, facing similar external headwinds.**
- Domestically, price pressures eased in Q3 with the annual headline inflation rate of 2.2% falling inside the Reserve Bank of New Zealand's (RBNZ) 1% to 3% target band for the first time since 1Q21. The RBNZ delivered a 50bp rate cut at the October meeting, and **both markets and our economists expect another 50bp rate cut, bringing the policy rate to 4.25% at its 27 November meeting** (also the last policy meeting in 2024).
- Looking beyond 2024, our economists expect the RBNZ to deliver a further 125bp of easing, taking the key policy rate to 3% by 1Q26. Markets are now pricing in a further 75bp of cuts in 2025 (*Bloomberg*, 18 November 2024). As such, **the NZD could face downside risks via rate channel.**

NZD-USD



Source: HSBC, Bloomberg

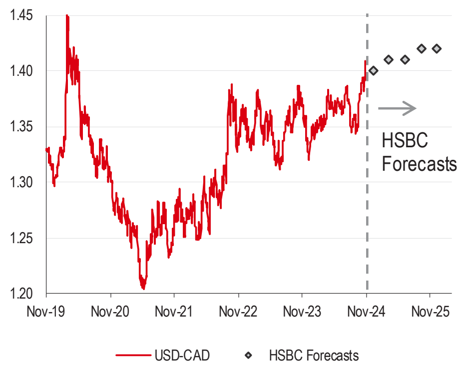
FX	L-T view*	Spot	1mth	3mth	6mth	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25
			__Past performance__			__Forecasts__				
NZD-USD	↘	0.5849	-3.66%	-4.32%	-4.19%	0.59	0.58	0.57	0.56	0.56

Source: HSBC forecasts, Bloomberg as at 17:33 HKT on 18/11/2024
*L-T = long-term

CAD: No more gains

- We have revised up our profile for USD-CAD materially to reflect **the shift in US-Canada yield differentials driven by the outcome of the US election.** Our new forecast of 1.42 for year-end 2025 (from 1.35 previously) captures the surge in US 2-year yields and the associated rally in USD against most of G10 FX. **We do not look for further gains in USD-CAD this year**.
- Interestingly, since US election day, the CAD has actually been the top performer in G10 apart from the USD. This may reflect the prospect of a still resilient US economy, aided by the prospect of further fiscal stimulus. However, **markets may also need to factor in greater uncertainty over the United States-Mexico-Canada Agreement (USMCA).**
- On the monetary policy front, markets are now torn between **whether the Bank of Canada (BoC) delivers 25bp or 50bp at the 11 December meeting.** This may have some bearing on the near-term path for USD-CAD, but the bigger picture now is what happens in 2025. The market is priced for 100bp of easing from here, and our economists have 125bp. But our economists also expect US policy rate to be lower than is currently priced by markets, so the impact is something of a 'wash' for USD-CAD.

USD-CAD



Source: HSBC, Bloomberg

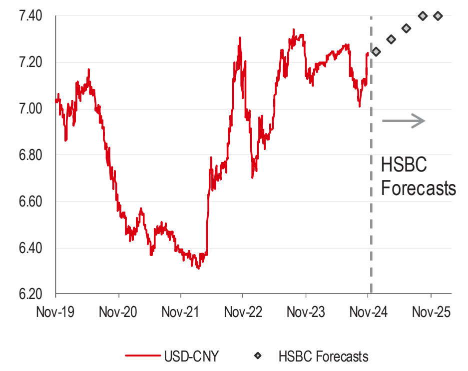
FX	L-T view*	Spot	1mth	3mth	6mth	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25
			__Past performance__			__Forecasts__				
USD-CAD	→	1.4087	2.09%	3.32%	3.39%	1.40	1.41	1.41	1.42	1.42

Source: HSBC forecasts, Bloomberg as at 17:33 HKT on 18/11/2024
*L-T = long-term

China (CNY): Waiting for a Trump card

- **We raise our USD-CNY forecasts.** The likely higher "terminal rate" in the US and tariffs under the next US administration means the RMB will be more susceptible to: 1) being used as a funding currency for carry trades (i.e., selling the CNY to fund the purchase of higher-yielding currencies or assets), 2) a reversal of the large equity inflows from earlier (between end-September and early October); and 3) resumption of FX demand-supply imbalance onshore – whereby corporates may hoard USD again as seen in January-July.
- We expect the USD-RMB to exceed the previous highs of 7.30-7.35 in the last two years. The People's Bank of China (PBoC) is likely to show slightly more tolerance of RMB weakness in view of mounting external risks. We estimate that **fully offsetting 60% US tariffs on Chinese products would require a 7% drop in the China Foreign Exchange Trade System (CFETS) RMB Index** (i.e., a currency basket with international trade weight).
- **But the depreciation may not be fully realised if China chooses to counter part of the economic impact with more forceful fiscal stimulus.** The latest National People's Congress and the Ministry of Finance briefing provided encouraging forward guidance, but we still await concrete details.

USD-CNY



Source: HSBC, Bloomberg

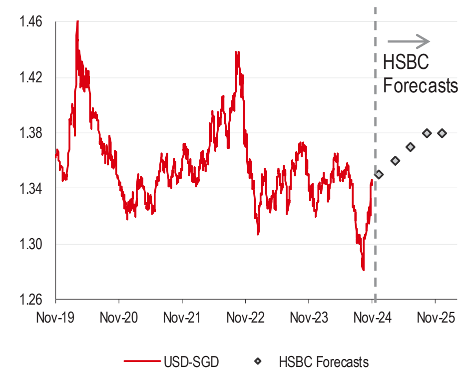
			Past performance			Forecasts				
FX	**L-T view***	**Spot**	**1mth**	**3mth**	**6mth**	**Q4 24**	**Q1 25**	**Q2 25**	**Q3 25**	**Q4 25**
USD-CNY	↗	7.2403	1.94%	1.41%	0.07%	7.25	7.30	7.35	7.40	7.40

Source: HSBC forecasts, Bloomberg as at 17:33 HKT on 18/11/2024
*L-T = long-term

SGD: MAS eyes growth

- The nominal effective exchange rate (NEER) of the SGD has fallen within the target band, based on our analysts, mainly because **the Monetary Authority of Singapore's (MAS) October policy statement had already suggested reduced commitment to the current policy stance** (of 1.5% appreciation per annum, by our estimates).
- **The MAS is now more focused on downside risks to growth,** since disinflation is progressing well. Potential trade policy changes by the next US administration could weigh on Singapore's economic growth.
- **If policy easing from the MAS looks likely, the SGD NEER should fall further.** In general, the SGD NEER averages 1.1% above the midpoint when the MAS is not easing policy, falls temporarily below the midpoint when easing looks imminent; and averages 0.3% above the midpoint during times when there is 0% slope. **We now expect USD-SGD to increase moderately over 2025.**

USD-SGD



Source: HSBC, Bloomberg

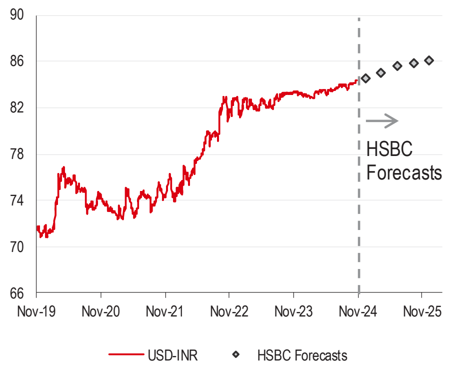
			Past performance			Forecasts				
FX	**L-T view***	**Spot**	**1mth**	**3mth**	**6mth**	**Q4 24**	**Q1 25**	**Q2 25**	**Q3 25**	**Q4 25**
USD-SGD	↗	1.3435	2.55%	2.70%	-0.30%	1.35	1.36	1.37	1.38	1.38

Source: HSBC forecasts, Bloomberg as at 17:33 HKT on 18/11/2024
*L-T = long-term

INR: Controlled drift

- We raise our USD-INR forecasts to look for **gradual INR depreciation through 2025**. But we think **the INR's depreciation will be modest compared to other Asian currencies**, since it is higher-yielding and less exposed to US tariff risks.
- The INR was already weakening even before the US elections on its own reasons. On 9 October, the Reserve Bank of India (RBI) changed its monetary policy stance from "withdrawal of accommodation" to "neutral". Shortly after, USD-INR broke above the closely watched 84 level. It kept drifting higher thereafter as **large equity outflows and bond outflows compound a current account deficit.** Inflation also surprised on the upside.
- Markets will be next focusing on: 1) **whether RBI Governor Shaktikanta Das's second term is extended or not** in December; and 2) **when the RBI will cut rates.** The RBI appears to become more focused on curbing USD-INR volatility, managing the real effective exchange rate (REER) of the INR, and accumulating FX reserves under Governor Das's watch in recent years. It has also tended to err on the side of hawkishness.

USD-INR



Source: HSBC, Bloomberg

FX	L-T view*	Spot	Past performance 1mth	3mth	6mth	Forecasts Q4 24	Q1 25	Q2 25	Q3 25	Q4 25
USD-INR	→	84.398	0.39%	0.63%	1.28%	84.50	85.00	85.50	85.80	86.00

Source: HSBC forecasts, Bloomberg as at 17:33 HKT on 18/11/2024
*L-T = long-term

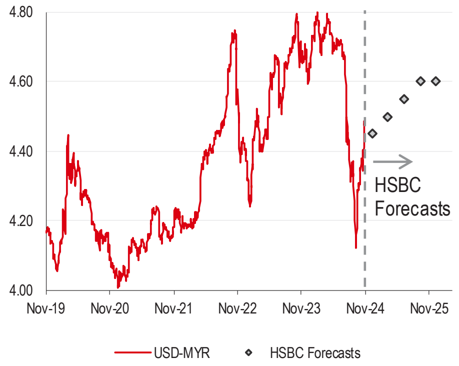
MYR: Modest depreciation

- The MYR has been the worst-performing Asian currency so far in 4Q, weakening c7.9% against the USD (*Bloomberg*, 15 November 2024).
- We see **the balance of risk for the MYR tilted to further weakness** going forward for two reasons:

  1. **The MYR has a lower yield than the USD**, is therefore sensitive to the market's reassessment of how potential policy changes by the incoming US administration may raise the "terminal rate"

  2. **The MYR is fundamentally correlated with the RMB so it may depreciate as well if tariff risks materialise**.
- But the offsetting factors for the MYR are: (i) Malaysia's authorities have been encouraging government-linked companies (GLCs) and government-linked investment companies (GLICs) to convert their foreign income, which is still taking effect; and (ii) Malaysia is a favoured foreign direct investment destination for diversification of supply chains. With this in mind, we raise our USD-MYR forecasts, but only look for **a modest MYR depreciation over 2025**.

USD-MYR



Source: HSBC, Bloomberg

FX	L-T view*	Spot	Past performance 1mth	3mth	6mth	Forecasts Q4 24	Q1 25	Q2 25	Q3 25	Q4 25
USD-MYR	↗	4.4792	4.02%	2.20%	-4.42%	4.45	4.50	4.55	4.60	4.60

Source: HSBC forecasts, Bloomberg as at 17:33 HKT on 18/11/2024
*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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