Insights
Currency & Cash

April 2024

Currency Market Commentary

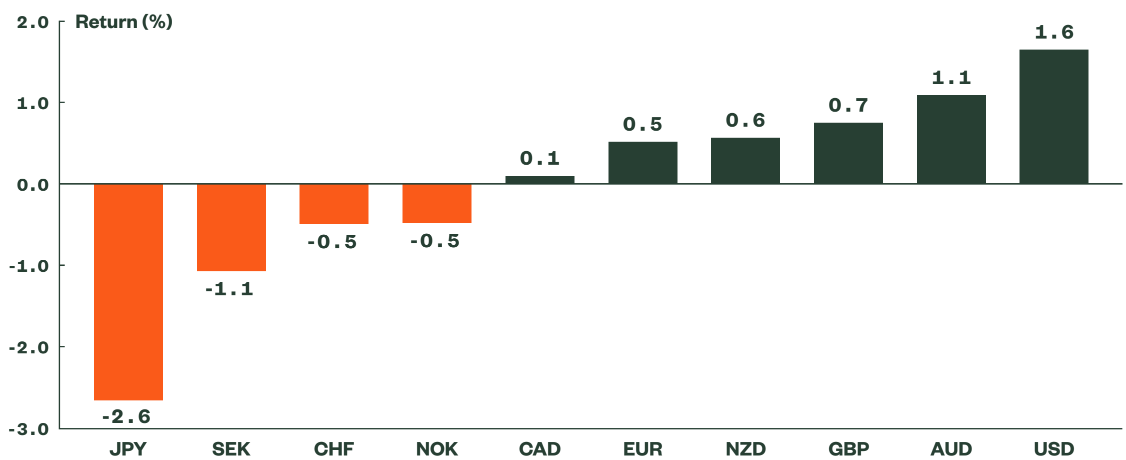
Aaron R Hurd, FRM
Senior Portfolio Manager

Summary of Views

Yet another round of positive employment and inflation surprises in the US pushed yields higher. The pickup in US data, released in February, was easy to dismiss as a seasonal fluke; the March upside surprise looked more suspicious, and the third consecutive surprise in April looked like a trend — this changed psychology. The prospect of the Federal Reserve (Fed) remaining on hold through year-end and perhaps having to raise policy rates again spooked investors; higher yields were once again considered bad for risky assets. April also brought geopolitical risk back to the fore after a series of attacks between Iran and Israel. Equities corrected lower as the VIX equity volatility index and oil prices spiked.

The US-led strength and deterioration in risk sentiment proved a double positive for the US dollar, while low-yielding (funding) currencies such as the Japanese yen, Scandinavian currencies, and the Swiss franc sold off — though the yen received some help from an apparent Ministry of Finance–directed intervention to buy the yen on 29 April and again on 1 May. The usually high-beta Australian dollar was spared thanks to strong positive surprises in employment and inflation, which also helped to elevate the New Zealand dollar. The euro and the British pound gained on better-than-expected Q1 gross domestic product (GDP) and signs that strength may carry over into Q2, though expectations were for Bank of England (BoE) and European Central Bank (ECB) to cut policy rates before the Fed limited gains.

Figure 1
April 2024 Currency Return vs. G10 Average



Source: Bloomberg and State Street Global Advisors, as of 30 April 2024. **Past performance is not a reliable indicator of future performance.**

Figure 2
April 2024
Directional Outlook

	Tactical Outlook	Strategic Outlook
USD	↑	↓
CAD	↑	—
EUR	—	—
GBP	↓	—
JPY	—	↑
CHF	↓	↓
NOK	—	↑
SEK	↓	↑
AUD	—	—
NZD	—	—

Note: All individual currency views in the table above are relative to the G-10 average.
Source: State Street Global Advisors, as of 30 April 2024.

We expect US employment and inflation data to continue to set the tone for currency markets, as well as most other asset classes. To that end, we came into April expecting the US dollar to become ever more sensitive to downside US data surprises as it approaches the top end of its 52-week range.

We did not get negative surprises, but the response to the positive surprises was moderate. We believe that as expectations reset higher, it will become increasingly difficult for the economy to deliver the upside surprises needed to extend the rise in US yields and the dollar. Fed Chair Jerome Powell's dismissal of risks of another policy rate hike raises the bar even further. Thus, we believe that the US dollar is set to trade back down in its range over the next 1–2 months, though we do not expect a sustained dollar downtrend. It remains the top-ranked currency in our tactical/cyclical model, though the signal strength is half of its level over recent months. Against that weaker US dollar, we expect the higher-beta currencies such as the Australian dollar and the Norwegian krone to perform well, the yen to stabilize and outperform the Swiss franc, and the euro and the British pound to lag as markets digest the upside growth surprises and focus more on upcoming rate cuts.

Review and Outlook by Currency

US Dollar (USD)

The US dollar appreciated by 1.6% versus the G10 average in April, bringing its year-to-date return to +6.1% and marking an increase of more than 12% against the Japanese yen. Another strong employment report—characterized by both job creation and wage growth—at the start of the month, followed by a third consecutive upside inflation surprise the following week, pushed the US dollar higher. The consistent string of positive US data surprises reached a tipping point in April; higher yields once again began to weigh on equity market sentiment. A series of military strikes between Iran and Israel further added to dollar strength, exacerbating the already shaky risk sentiment, driving oil higher and equity markets lower.

We have long held the view that the US dollar is likely to fall at least 10–15% over the coming years as US yields and growth fall back toward the G10 average, and the US grapples with high fiscal and current account deficits. For investors with a horizon of two years or more, we strongly recommend short US dollar positions; just look though this highly uncertain transition period.

For those with a shorter horizon, we believe the US dollar is nearing the top of its range and is due for a pullback. However, the dollar remains the top-ranked currency in our models over the tactical horizon. The G10-leading US growth, interest rates, and equity market performance provide strong near-term support, further underpinned by the tendency of the dollar to rise in times of stress — a nice insurance policy should an unforeseen shock derail the current soft or no-landing scenario.

However, despite that positive tactical backdrop, we believe the dollar is a bit ahead of itself following its four-month rally. We believe that as expectations reset higher, it will become increasingly difficult for the economy to deliver the upside surprises needed to extend the rise in US yields and the dollar. Fed Chair Powell's dismissal of risks for another policy rate hike raises the bar even further. Thus, we believe that the US dollar is set to trade back down in its range over the next 1–2 months.

Canadian Dollar (CAD)

The Canadian dollar appreciated by 0.1% against the G10 average in April. The dollar trended lower, losing 1% through 10 April before turning higher and trending up for the remainder of the month. The early-month weakness is explained by tepid March Purchasing Managers Index (PMI) data, a much weaker-than-expected employment report on 5 April, and a relatively dovish Bank of Canada (BoC) meeting on the 10 April, after which Governor Tiff Macklem entertained the possibility of a June rate cut. After that, the Canadian dollar recovered, likely thanks to some catch-up to the strong commodity performance in early April, but mostly positive spillover from the strong US dollar.

In isolation, the economic data from Canada through the latter two-thirds of the month pointed to even greater currency depreciation rather than the recovery it enjoyed. On 16 April, core Consumer Price Index (CPI) surprised lower — 3.1% YoY compared to the expected 3.2% — while retail sales and GDP data both disappointed expectations during the final week of the month. It would make sense if data across the G10 was even worse, but it was not. Growth and/or inflation data outside of Canada generally beat expectations through the second half of April.

Our model signal turned positive on the Canadian dollar thanks to a stronger, more broad-based rally in commodity prices, although we continue to expect the currency to struggle against the US dollar. The weakness in Canadian employment and inflation will likely lead the BoC to cut rates before the Fed. Against non-US dollar members of the G10, Canadian fundamentals look better, despite lagging behind the recent uptick in commodity markets. However, a significant risk to the strength of the Canadian dollar against the rest of the G10 is a potential downward correction in the US dollar following its strong year-to-date rally. Just as US dollar strength helped the Canadian dollar against the rest of the G10, any weakness in US dollar, even if temporary, is historically a major headwind.

In the long term, the Canadian dollar looks more stably attractive against a number of currencies. It is cheap in our estimates of fair value relative to the euro, the Swiss franc, and the US dollar, and its long-term struggles with weak productivity growth should at least be partially offset by the steady immigration.

Euro (EUR)

The euro gained 0.5% against the G10 average in April. The euro struggled during the first half of the month as strong US employment and inflation data contrasted starkly with the weaker-than expected European Union (EU) March inflation and ECB President Lagarde hinted at a likely rate cut in June. The second half of the month brought a much better tone, sending the euro back into positive territory for April. On 16 April, the ZEW economic survey surprised higher. The following day, Lagarde commented that the level of the euro would be considered in setting policy (weaker euro = lower probability of a policy rate cuts). Through the remainder of the month, growth data showed signs of life, with April composite PMI and Q1 GDP both coming in stronger than expected. Reduced concerns over the Iran–Israel conflict and a decline in oil prices also alleviated the risk of a stagflationary shock to the EU economy, thereby adding support for the currency.

We maintain a neutral view on the euro against the G10 average and a negative view against the US dollar. On the positive side, we have seen better-than-expected economic data and a larger improvement in year-ahead growth forecasts for the EU, as well as improved short-run relative equity market performance. On the negative side, continued disinflationary trends suggest a potential rate cut from the ECB in June, contrasting with the expectations for the US, Australia, and Norway to maintain higher rates for longer. While currency markets have been mostly focused on relative monetary policy outlooks, the expectation of structurally low growth driven by high levels of EU regulation, low productivity, and a difficult outlook for the German growth model is likely to limit enthusiasm to drive the euro higher.

British Pound (GBP)

The British pound rose by 0.7% against the G10 average in April, marking its fourth consecutive monthly gain. Sterling was relatively flat through mid-month on mixed data. Manufacturing and construction PMI for March surprised to the upside, both in expansionary territory. Services PMI remained strong but was a touch soft versus expectations, while industrial production surprised sharply to the upside on 12 April.

The week of 16 April was difficult for the currency as data brought a hint of stagflation, and geopolitical risks furthered that worry. The employment report showed stronger-than-expected wage gains, while the inflation report surprised to the upside, with services inflation failing to break below 6% YoY. Simultaneously, there was a decrease of 156,000 jobs in net job creation over the past three months compared to the previous three months, contrary to expectations for a gain of 75,000 and retail sales were much weaker than anticipated. This esstentially indicates slower economic growth and stubbornly high inflation, occuring alongside escalating oil prices and growing investors concerns about the spiraling conflict between Iran and Israel. The pound fell almost 1% versus the G10 average between 16–22 April. From there, things looked up as tensions deescalated in the Middle East, the US dollar and US yields stabilized, and preliminary UK April PMI convincingly beat expectations. This set off a near 1.5% rally in the pound through month-end — not enough to recover the month-to-date loss versus the US dollar, but was enough to propel the pound to be the third-best performer in the G10 for the month.

Our factor models have shifted decisively negative on the near-term pound outlook. The positive UK growth surprises relative to weak expectations and presumed BoE caution to cut rates may have been enough to lift the pound from deeply discounted territory in Q1, but more recent economic data is no longer consistently surprising in a positive direction. We see risks to the pound from the near-stagnant economy, disinflation (transition to monetary easing), and the growth constraints from high fiscal and current account deficits. At the same time, improved growth and higher commodity prices have lifted the signals for a number of currencies, including the Norwegian krone, and the Australian and New Zealand dollars.

Our long-term valuation model has a more positive pound outlook. It is particularly cheap against the US dollar and the Swiss franc. But it is important to temper upside expectations as low productivity growth and high inflation are pushing fair value lower. The fair value to the US dollar has fallen from 1.55 to 1.41 since May 2022. Breakeven inflation expectations and the recent trend productivity differentials suggest that fair value will trend down to at least the mid-1.30s over the next few years. Despite this trend, the pound, currently trading in the mid 1.20s, remain materially cheap, even if fair value trends down as expected.

Japanese Yen (JPY)

The yen fell by 2.6% in April relative to the G10 average, bringing its year-to-date loss to 6.4%. As usual, the story was mostly related to global yields. The ongoing positive inflation and employment surprises in the US sent rates to new year-to-date highs and weighed heavily on the near 0%-yielding yen. After an already difficult month, Bank of Japan (BoJ) Governor Ueda added to yen weakness by deemphasizing the impact of yen weakness in comments following the central bank's 26 April meeting. Over the next few days, the yen sank to 160 against the US dollar, a level not seen since the early '90s. The swift nature of the movement and apparent buildup of short yen positions in the marketplace appear to have prompted the Ministry of Finance to intervene in support of the yen on 29 April. The result was a rapid 3.5–4% yen rally during the middle of the Japanese day, though the currency retraced about two-thirds of that move by the end of the following day.

Our model signal for near-term yen performance deteriorated relative to the G10 average over the course of the month, driven mostly by improvements in the commodity currency signals. But our longer-term view on the yen itself has not changed. We expect global interest rates, particularly US interest rates, to be the primary driver of the yen. Because we believe that US disinflation will resume and US growth will slow back to or slightly below trend, we see a rally in the yen of around 20% over the next 2–3 years versus the US dollar (a fall in the USD/JPY exchange rate). This move is consistent with an anticipated compression in USD/JPY interest rate differential by 200–250 basis points, potentially bringing the USD/JPY down to 125–130 compared to its current level of 153. We expect Fed rate cuts to deliver 1.50–2.00% of this interest rate differential reduction, while BoJ rate hikes to account for an additional 0.5% between now and mid-2026. A hard landing in the US would send US rates and USD/JPY even lower (and an increase in the yen).

The recent strength in US inflation and growth makes the timing of Fed rate cuts and sustained yen appreciation highly uncertain. So, as long as US growth and inflation keep the Fed on the sideline, we expect yen to remain weak and weaken further if US yields break to new highs. That said, ongoing intervention in support of the yen, our expectation of limited additional upside in US yields, and large short yen positions in the marketplace should limit further yen downside over coming months.

Swiss Franc (CHF)

The franc depreciated by 0.5% in April versus the G10. Early in the month, March core CPI surprised lower — 1.0% YoY versus the expected 1.2%. Growth also disappointed — with services PMI dropping sharply from 53.0 in February to 47.6 — well into contractionary territory. Manufacturing PMI improved slightly but also signals contraction at 45.2. Low inflation, low growth, and low yields stood out against high and rising global yields and improving growth. The franc understandably struggled in April. It would have been far worse if not for a strong mid-month rally as geopolitical tensions from the Middle East shocked investor sentiment and helped the usual safe-haven franc.

The franc ranks the lowest in both our tactical and strategic modes, as it has for most of the past few years, though we have seen an unusual few months of stronger signals this year. It remains the most expensive G10 currency per our estimates of long-run fair value, has the second-lowest yields in the G10, and inflation is falling faster than expected. With the real trade-weighted franc still at the upper end of its 30–year range and the Swiss National Bank (SNB) cutting rates and amenable to intervention to prevent franc strength, we believe we are in the early stages of a prolonged reversion back down toward our estimate of its long-term fair value.

Norwegian Krone (NOK)

The krone lost 0.5% versus the G10 average on the month. After a shaky 1 April, the krone enjoyed a strong 1.05% rally through 9 April alongside surging oil prices. As oil markets peaked and began to fall back and equity markets remained weak, the krone gradually forfeited those gains. Local data also contributed significantly to the krone's lackluster month.

March Core CPI, released on 10 April, rose only 0.2% MoM versus 0.4% expected. The next day, the February GDP report showed an unexpected contraction — 0.2% MoM versus an anticipated gain of 0.1%. Late in the month, retail sales met expectations — at a respectable 0.3% MoM — but did little to help the currency. At month-end, the Norges Bank announced plans to increase daily sales from 350 million in April to 550 million in May, sending the krone near its low to close out April.

Despite lackluster growth data and lower inflation, our models substantially upgraded the krone outlook as it lags the rebound in oil prices over the past few months — year-to-date Brent crude is up 14%, and the krone is down 2.6% against the G10 average. The signal is fairly weak; technically, we are neutral, but it is now the third strongest behind the US and Canada. Inflation may have surprised to the downside last month, but it is uncomfortably high at 4.5% YoY. At that level, we expect the Norges Bank to remain hawkish longer than the ECB, BoE, Riksbank, and BoC.

Our economic growth-based models remain pessimistic on the krone, but from the perspective of both short-term valuation relative to commodities and expected yields, it is more of a buy than sell against most G10 currencies. In the long-term, the outlook is more convincingly positive. The krone is historically cheap relative to our estimates of fair value and is supported by steady long-run potential growth.

Swedish Krona (SEK)

The krona was the second worst-performing G10 currency in April, down 1.1% versus the average. The krona has been stuck in a rut as the Swedish economy struggles to exit recession, and disinflation has reached a point which justifies a Riksbank policy rate cut as early as May. The start of April brought a touch of relief in the form of better PMI data and a positive surprise in February MoM GDP — +0.1% versus –0.2% expected. The krona rallied for a week until strong US inflation data and weaker-than-expected Swedish inflation data — core cost-plus-incentive fee at 2.9% YoY versus 3.2% expected — refocused markets on the risk of earlier and steeper monetary easing in Sweden. The krona began to trend lower. That downtrend was reinforced as the month progressed by a rising unemployment rate and weaker growth data, seen in a return to negative GDP growth for March and disappointing retail sales. The currency finished April at its low.

Our models shifted negatively on the krona in April. Despite depressed expectations, growth continues to disappoint, while the relative policy monetary outlook favors sustained krona weakness. We believe that the Riksbank will cut sooner and faster than the ECB, the BoE, and the Fed — something that would be very welcome news to the heavily indebted household and property sectors, but not great for the currency over the short run. The currency is very cheap relative to long-run fair value and cyclically depressed, but we struggle to see a catalyst for sustained relief at this point.

Australian Dollar (AUD)

The Australian dollar was the second-best performing G10 currency during April — rising by 1.1% versus the G10 average. The dollar began the month on a positive note following the better-than-expected composite and services PMI. Around mid-month, the currency sacrificed its entire early-month gain in response to stronger US employment and inflation data, as well as a challenging environment for global risk sentiment spurred by higher yields and geopolitical risk. The durable rally in the Australian dollar did not come until after the unexpectedly strong Q1 CPI report on 22 April — with headline and trimmed mean core at 1.0% QoQ versus forecasts for 0.8%. This surprise, along with a modest late-month recovery in equity markets, supported the dollar through month-end, though the final day of April was weak following poor retail sales and a month-end drop in commodity prices.

Our models remain in the neutral range for the Australian dollar but improved from a slight negative to a positive bias in April due to high-for-longer yields and rising commodity prices. The energy-led commodity rally did not translate well to Australia due to weakness in other key export prices such as iron ore. In April, that commodity rally broadened as iron ore prices rallied near 15%. We also see scope for support from a stabilizing to slightly improved Chinese economy and pledges from Chinese officials to maintain a steady level of stimulus.

In long-term, the Australian dollar outlook is mixed. It is cheap versus the US dollar, the British pound, the euro, and the Swiss franc and has room to appreciate, but is expensive against the yen and the Scandinavian currencies. Here, the Chinese story is less positive as we see a structural downtrend in Chinese growth as well as a rotation toward domestic consumption and higher value-added industries, which is likely to gradually reduce the growth rate of Australian commodity export demand.

New Zealand Dollar (NZD)

The New Zealand dollar gained 0.6% versus the G10 average in April. The New Zealand dollar largely followed the Australian dollar with daily returns of the two currencies 84.2% correlated through the month. Inflation surprised to the upside in New Zealand as it did in Australia — with non-tradable CPI QoQ of 1.6% versus 1.3% expected. Headline CPI met expectations, but the market also takes the non-tradable component seriously as it represents the set of prices most sensitive to monetary policy. Outside of inflation, growth-related data failed to keep up with Australia. March manufacturing PMI, Q1 employment, and April consumer and business confidence all disappointed expectations. Aside from the high-for-longer monetary policy expectations and potential positive spillover from the Australian dollar, there was little to cheer. It makes sense that the New Zealand dollar underperformed the Australian dollar.

We are neutral to negative on the New Zealand dollar over the near term, though less negative compared to last month due to improved commodity prices. Ongoing challenges to growth and the weak external balance — the current account is –6.9% of GDP — more than offset the benefit of New Zealand's high yields. We also see some support from stabilization in China.

In the long-term, our New Zealand dollar outlook is mixed. Our estimates of long-run fair value suggest that it is cheap versus the US dollar and the Swiss franc and has ample room to appreciate, but is expensive against the yen and the Scandinavian currencies.

About State Street Global Advisors

Our clients are the world's governments, institutions and financial advisors. To help them achieve their financial goals we live our guiding principles each and every day:

- Start with rigor
- Build from breadth
- Invest as stewards
- Invent the future

For four decades, these principles have helped us be the quiet power in a tumultuous investing world and help millions of people secure their financial futures. This takes each of our employees in 28 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's fourth-largest asset manager* with US $4.34 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2022.
† This figure is presented as of March 31, 2024 and includes ETF AUM of $1,360.89 billion USD of which approximately $65.87 billion USD is in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

ssga.com

Marketing communication

State Street Global Advisors Worldwide Entities

Investing involves risk including the risk of loss of principal. All material has been obtained from sources believed to be reliable.

There is no representation or warranty as to the accuracy of the information and State Street shall have no liability for decisions based on such information.

Currency Risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

The views expressed in this material are the views of the Aaron Hurd through the period ended 04/30/2024 and are subject to change based on market and other conditions. This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

This document may contain certain statements deemed to be forward-looking statements. All statements, other than historical facts, contained within this document that address activities, events or developments that SSGA expects, believes or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analyses made by SSGA in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances, many of which are detailed herein. Such statements are subject to a number of assumptions, risks, uncertainties, many of which are beyond SSGA's control. Please note that any such statements are not guarantees of any future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This communication is directed at professional clients (this includes eligible counterparties as defined by the "appropriate EU regulator") who are deemed both knowledgeable and experienced in matters relating to investments. The products and services to which this communication relates are only available to such persons and persons of any other description (including retail clients) should not rely on this communication.

All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information, and it should not be relied on as such.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

 Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

Past performance is not a reliable indicator of future performance. Assets may be considered "safe havens" based on investor perception that an asset's value will hold steady or climb even as the value of other investments drops during times of economic stress. Perceived safe-haven assets are not guaranteed to maintain value at any time.

ID2155785-4948703.22.1.GBL.RTL 0524
Exp. Date: 05/31/2025