Insights
Currency & Cash

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Currency Market Commentary

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Summary of Views

The currency markets in October were very easy to understand. Strong growth and upcoming election risks drove US yields and the US dollar significantly higher. The most rate-sensitive G10 currency, the Japanese yen, was hit hardest, followed by the China-sensitive Australian and New Zealand dollars. Australia and New Zealand are both sensitive to the risk of higher tariffs on China if Trump wins the US election; they are also affected by disappointment over the recently announced Chinese fiscal stimulus. The Swedish krona underperformed on dovish monetary policy expectations, as core inflation is back to target and the economy faces recession — now three consecutive quarters of negative GDP growth. The British pound, Swiss franc, Canadian dollar, and euro all returned between 0.9% and 1.1% versus the G10 average; this was more a function of weakness in the interest-rate- and China-sensitive currencies rather than positive local fundamentals.

We continue to view relative growth as a primary driver of currency markets, and this was evident in October. With the broad resurgence of US growth and upside surprises in inflation, we are moderating our call for an uncomfortably soft landing in the US. While we still expect US growth to gradually slow, leading to lower rates, recent data suggests that the slowdown will be more gradual. As a result, the US growth advantage over the rest of the G10 is likely to persist for longer. This biases the dollar higher, although much of this has already been priced in over the past six weeks.

Figure 1
October 2024 Currency Return vs. G10 Average

Source: Bloomberg and State Street Global Advisors, as of 31 October 2024. **Past performance is not a reliable indicator of future performance.**

Figure 2
October 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 31 October 2024.

Outside the US, growth remains much softer, with issues such as greater fiscal consolidation, a more rapid easing in monetary policy, and greater exposure to weak Chinese growth likely to weigh on most currencies relative to the US dollar. Above-target inflation and more resilient growth should help support the British pound and Australian dollar. In contrast, we see limited upside for the euro, krona, and franc due to the likelihood of a steadier pace of rate cuts from the European Central Bank (ECB), a prolonged recession in Sweden, and the risk of Swiss policy rates returning to zero or even below. Similarly, the Canadian dollar is likely to remain weak due to soft growth, ample slack in the labor market, falling inflation, and increasingly aggressive easing from the Bank of Canada (BoC). However, one difference for Canada is that investors are already extremely bearish on the Canadian dollar, with short positioning elevated.

The US elections, scheduled three days from the time of writing, are the big wild card and may drive market volatility over the next 1–3 months. Betting markets clearly favor a Trump victory, while polling data suggests it's a coin toss. In the event of a Trump win, we expect higher US interest rates and a stronger US dollar compared to a Harris win. This expectation is largely due to concerns over increased fiscal spending and high tariffs outlined in Trump's platform, with the biggest impact occurring if Trump wins and the Republicans secure both the House and Senate. A Harris/Democratic sweep seems highly unlikely, but if it does happen, we would anticipate a smaller fiscal stimulus, a bias toward higher corporate taxes, and increased regulation — or at least no reduction in regulation. This could make the US a less attractive destination for equity capital, weighing on the dollar.

In the short term, the impact of the elections on currency markets is extremely hard to predict. Not only is it difficult to foresee the winner, but it may also take weeks to determine the outcome of the House. Even once the results are clear, we cannot be certain of what the winning candidate will do once in office. The more dramatic scenario in terms of market volatility appears to be a Trump victory, and we believe some of that risk has already been priced into both the US dollar and rates during October. As a result, even in the case of a Trump win, the immediate reaction may be an unwinding of those positions or hedges, leading to a temporary drop in the US dollar and US rates. We advise investors to focus on a 4–6 month view, paying close attention to the likelihood of actual policy measures once the new government takes office, though this will only gradually become clear after the election.

Review and Outlook by Currency

US Dollar (USD)

The US dollar trended steadily higher through October, finishing with a 3.9% gain versus the G10 average, nearly erasing its 4% loss from Q3. For most of the month, it was driven by a simple US exceptionalism trade. During the first week, JOLTS job openings, ADP employment data, ISM services, and the official non-farm payrolls all surprised to the upside, suggesting that US growth was accelerating. Mid-month, a higher-than-expected core consumer price index (CPI) — +0.3% MoM versus +0.2% expected — and stronger-than-expected retail sales further reinforced the positive US outlook. The trend continued with upside surprises in consumer sentiment and core durable goods orders later in the month. Although Q3 gross domestic product (GDP), released on 30 October, came in slightly lower than expected at 2.9%, this is still well above the long-term trend, with almost all of the weakness stemming from a more negative-than-expected inventory number. Final domestic sales remained strong, around a 3.5% annualized growth rate. In addition to this steady stream of positive data, we believe the US dollar and US rates were further supported late in the month by an election risk premium, as the probability of a Trump victory and a Republican sweep rose significantly in betting markets.

Relative to our view over the past two months, we now think that the US dollar will remain higher for longer. The transition from a bull market to a bear market has been bumpy, and dollar strength looks set to extend for a longer period as the US economy refuses to slow down. Tariff and fiscal risks, should Trump win, may prolong US dollar strength even if the US economy begins to slow again. As a result, we are positively shifting our view on the dollar.

Last month, we suggested that the US dollar should rebound from Q3 weakness, but that investors should sell rallies based on a weaker labor market and the start of the Federal Reserve (Fed) rate-cutting cycle. Now, despite the dollar's rally, we are backing away from our recommendation to sell that rally due to the material positive shift in the fundamentals underpinning this dollar rebound. To sell dollars, we need clarity on the policies of the new US government and clearer signs that US growth is slowing, at least back to the long-run trend. We expect these conditions to materialize over the course of 2025, but it may take longer, and the dollar may climb higher than previously expected.

In the long term, our views have not changed. We have long held the view that the US dollar is likely to fall by 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 over two years, we strongly recommend short US dollar positions.

Canadian Dollar (CAD)

The Canadian dollar gained 0.9% versus the G10 average despite a downside surprise in headline inflation, an aggressive 0.5% rate cut from the BoC, and weaker-than-expected retail sales. One bright spot was a stronger-than-expected labor report with 46.7 thousand new jobs (+27 thousand expected) and a slight drop in the unemployment rate to 6.5%. However, this was offset by weaker-than-expected wage growth of 4.5% YoY, compared to the expected 4.7%. Much of the strength in the Canadian dollar appears to have been more a function of strength in the US dollar — the Canadian dollar is highly correlated with the US dollar relative to the rest of the G10. Less exposure to US election risk may have also helped. Canada is clearly at risk from US tariffs if Trump wins and implements his tariff agenda. However, investors may also be less worried due to the existing United States-Mexico-Canada Agreement, which is due to be reviewed in 2026. That may diminish — or at least delay — any tariff actions against Canada.

More importantly, perhaps, is the fact that the more aggressive monetary easing cycle in Canada and poor growth have already made investors very bearish on the currency, something we see in positioning data. This pessimism makes it easier for the Canadian dollar to hold up in the face of weak data and US election risk.

Our tactical view on the Canadian dollar remains mildly positive, though it is still largely in the neutral range. The signal still lags the US dollar and Japanese yen, but the Canadian dollar is looking better against other G10 currencies. Current growth indicators are weak, and the monetary outlook dovish, suggesting further downside. Offsetting that is an improved 2025 outlook, as we expect the monetary easing to help support a growth recovery. Because the BoC cut earlier and at a faster pace than most other central banks, it is also likely to see the benefits of those cuts sooner. The positive shift in our US dollar view and pessimistic investor positioning on the Canadian dollar also likely help support the currency on non-US dollar crosses over the next several months. Against the US dollar, we see USD/CAD biased to the upside, above 1.40 — though a Harris victory should trigger a short-term rally.

Euro (EUR)

The euro rose 1.1% versus the G10 average in October, thanks to a late-month rally. For the first three weeks of the month, the euro traded in a tight but slightly positive range against the G10. October opened with weaker-than-expected the Eurozone CPI, which weighed slightly on the currency. From there, it tracked higher as the surge in US growth and interest rates, along with disappointment over the details of Chinese fiscal stimulus, weighed heavily on the yen and more China-sensitive currencies. However, the upside was limited as investors worried about the risk of a German recession and the generally poor European Union (EU) growth outlook. ECB President Lagarde expressed similar concerns following the ECB's 0.25% rate cut to a 3.25% policy rate on 17 October. On 24 October, better-than-expected composite Eurozone purchasing managers' index (PMI) for the month, with positive surprises in both Germany and France, helped the euro hold its gains. A stronger-than-expected Q3 GDP reading on 30 October — up 0.4% QoQ versus the 0.2% expected — gave the euro a final push, closing the month at its high.

Despite the positive GDP and PMI data, we remain modestly negative, near neutral on the euro over the next 1–2 months. Strong labor markets and the upside surprise in growth will likely prevent the ECB from implementing a 0.5% rate cut in December. However, a steady pace of 0.25% cuts at each meeting seems probable as inflation normalizes and risks to growth remain negative in the near term. Longer-term challenges, such as high debt levels and low potential growth, continue to cast a shadow — one that has deepened as French and German politics become more fractured, reducing the likelihood of necessary EU-wide reforms. We expect that the increasing chances of an early German election in 2025 and the risks of a Trump victory will focus investor attention on these structural growth headwinds. While a Harris win may offer some relief, the extent of the rebound will likely be limited given stronger US growth and yields. Beyond these near-term headwinds and uncertainties, our long-term fair value model suggests that the euro remains overvalued against most of the G10, except for the US dollar and Swiss franc.

British Pound (GBP)

The British pound gained 0.9% against the G10 average in October and remains the best-performing G10 currency year-to-date. However, while a 0.9% gain seems decent, the pound was weak for most of the month, declining toward the month's end. Data was mixed but skewed negatively compared to expectations, while Bank of England (BoE) Governor Bailey struck a dovish tone. Employment data, manufacturing production, retail sales, and construction PMI all indicated stronger growth. In contrast, weaker-than-expected services PMI, 3M/3M GDP growth, and — most importantly — CPI all surprised to the downside. With lower inflation and moderate, non-accelerating growth, Governor Bailey signaled a bias toward further monetary easing; this makes sense as lower inflation increases real policy rates. The pound, having already traded with a very optimistic tilt this year, struggled throughout the month.

The budget released by the new Labour government on 30 October provided moderate stimulus and was accompanied by higher growth and inflation estimates through 2026, which should have been modestly positive for GBP. However, the necessary increase in government borrowing — new taxes financed only about half of the spending program — reminded investors of the volatility surrounding the Truss budget in 2022. This triggered some rate volatility and pressured the pound into the month's end, as did concerns over potential tariff risks should Trump win the US election.

We retain a negative tactical view on the pound due to weaknesses in our economic factor model and poor relative local equity market returns. The pound's strong performance this year, combined with a deceleration in economic data — especially relative to expectations — suggests most of the good news is already priced in. While absolute growth levels are adequate, they remain lackluster. The autumn budget may help limit downside risks to growth and could slow the pace of disinflation; however, higher business taxes to finance the NHS may weigh on hiring and investment.

We believe the market is correct in assuming the Bank of England has less flexibility to cut rates quickly compared to other G10 currencies, but this is well priced into the rates markets. As a result, we see a skew toward larger-than-expected BOE rate cuts. Moreover, while investor attention has been focused on better-than-expected economic data this year, next year may bring a shift toward the UK's structurally low productivity growth.

Our long-term valuation model offers a more positive outlook for the pound, which appears particularly undervalued against the US dollar and Swiss franc. However, it's essential to temper upside expectations as low productivity growth and persistent inflation continue to push fair value lower. The fair value relative to the US dollar has dropped from 1.55 to 1.40 since May 2022. Breakeven inflation expectations and recent productivity trends suggest that fair value will decline further, likely trending to the upper-1.30s over the next few years. Even so, with the pound currently in the high 1.20s, it remains moderately undervalued, even if fair value trends lower as expected.

Japanese Yen (JPY)

The yen lost 3.1% against the G10 average in October and fell 7.0% versus the US dollar. This decline was driven almost entirely by upside surprises in US growth and inflation, which led to higher US yields. In fact, USD/JPY and US 10-year yields have moved almost in lockstep. The yen remains the most interest rate-sensitive currency among the G10.

Domestically, Japan's growth remains weak, with the Bank of Japan (BoJ) forecasting 0.6% growth this year and only 1.1% for next year. Inflation appears more robust, with CPI ex-fresh food and ex-energy rising to 2.1%YoY, slightly above expectations of 2.0%. However, real cash wages remain negative, which could dampen future inflation prospects.

The elections on 27 October cost the Liberal Democratic Party (LDP) its majority in parliament for the first time in over a decade, creating political uncertainty and threatening Prime Minister Ishiba's leadership before it even began. Yen volatility increased as investors grew concerned that new leadership, or the pressure of forming a coalition or minority government, might lead to delays in BoJ policy tightening. While the BoJ held rates steady at its 30 October meeting, it maintained a bias toward policy normalization and potential rate increases.

Overall, we see the Japanese election outcome as a secondary concern for the yen, which is more likely to be driven by global interest rates than by the BoJ's outlook. Even if political pressure or the need to establish the new government's policy direction delays BoJ action, the likelihood of greater fiscal stimulus from the coalition government supports inflation and strengthens the case for eventual BoJ tightening. Therefore, we believe the BoJ will raise rates by at least 25–50 bps through 2025, even if there is an initial delay.

We maintain a positive view on the yen, though to a lesser extent against the US dollar. A range of 145–155 on USD/JPY appears likely for the remainder of the year, driven by the uptick in US rates and growth. Where we trade within that range will likely depend heavily on the outcome of the US election. Beyond that, we expect further upside for the yen, with USD/JPY moving toward 135 by the end of 2025. This aligns with a 25–50 bp increase in Japanese policy rates and a 150 bp cut from the Fed through next year, assuming a soft-landing scenario. If recession risks become more pronounced, we could easily see the yen trade well into the 120s against the dollar, with even greater gains against higher-beta, commodity-sensitive currencies. Altogether, this makes the yen one of the most attractive currencies in the G10 — if not the most attractive — over the next 12–18 months. The primary risk to this view is a broad reacceleration in US and global growth and inflation.

Swiss Franc (CHF)

The franc rose 0.9% against the G10 average in October. Its strength appears to be entirely related to geopolitical risks and, to some extent, concerns over weaker EU growth and faster ECB rate cuts. Local fundamentals, however, suggest a weaker franc. Swiss inflation has consistently surprised to the downside, with September at 1.0% (versus 1.1% expected) and October at 0.8% (versus 1.0% expected). Early in October, the new Swiss National Bank (SNB) Chairman, Martin Schlegel, commented that they cannot rule out a return to negative rates. August retail sales data, released on 1 October, rose from 2.7% YoY the prior month to 3.2%. However, manufacturing and services PMI point to stagnation, while exports are in decline. Soft growth — albeit better than EU growth — combined with consistent downside inflation surprises, points to further SNB easing, with a terminal rate of 0.0–0.25% by mid-2025. Despite weak Swiss fundamentals, the franc has remained resilient due to risks in the Middle East, EU political uncertainty through 2025, and the potential for protectionist or stagflationary policies from the US should Trump win the election.

Our models have shifted to a negative tactical outlook on the franc, though it may see some upside from safe-haven demand in the event of a Trump win or further escalation between Iran and Israel. Otherwise, the franc remains the most expensive G10 currency according to our long-term fair value estimates. It also has the second-lowest yields in the G10 (likely the lowest by June 2025), and core inflation is the weakest in the G10. Additionally, the real trade-weighted franc is at the upper end of its 30-year range, while the SNB is cutting rates. We expect the SNB to become more willing to intervene directly to prevent excessive franc strength once the policy rate reaches 0.50%. In fact, since a significant portion of the inflation undershoot is tied to franc strength — especially through import prices — we believe it would make sense for the SNB to shift focus from rate cuts to a weak franc policy. Overall, we anticipate the franc will experience a prolonged reversion toward our estimate of its long-term fair value.

Norwegian Krone (NOK)

The krone gained 0.1% against the G10 average for the month. Oil was the most important driver of the krone's performance, with a correlation of 0.43 between NOK/EUR and Brent crude prices. As oil prices rallied in early October, the krone followed suit, reaching its intramonth high on the 7th. However, when oil reversed lower, the krone did the same. Despite oil finishing the month lower, the krone remained nearly flat against the G10 average, benefiting from the relative weakness of the rate-sensitive yen and the China-sensitive antipodean currencies.

Local economic data was mixed. Manufacturing PMI remained in expansionary territory, but core inflation surprised to the downside — 3.1% YoY versus 3.2% expected — and both retail sales and industrial production were negative. However, the sluggish inflation impulse was partly offset by the fact that it remains above target, and Norges Bank Governor Ida Wolden reaffirmed market expectations that policy rates would remain unchanged this year.

Our tactical model signals remain negative on the krone, driven by weak local equity market performance and a negative growth signal. On a more positive note, the krone is historically cheap relative to our estimates of fair value, supported by steady long-term growth potential and a strong balance sheet. However, we expect it to remain volatile in the near term due to rising political risk, oil market concerns over increased OPEC+ production and Israel-Iran tensions, and more volatile global risk sentiment amid geopolitical uncertainty.

Swedish Krona (SEK)

The krona lost 1.3% in October relative to the G10 average. Weaker equity markets, a decline in Swedish services PMI, negative retail sales growth, higher unemployment, and a downside surprise in Q3 GDP all weighed on the currency. The GDP surprise — -0.1% QoQ versus +0.3% expected — marked the third consecutive quarter of negative growth. While core inflation came in higher than expected — 2.0% YoY versus 1.9% expected — it does little to dissuade the Riksbank from continuing its easing cycle or to support the krona, especially given the weak growth data.

Our tactical krona signal remains neutral. Weak equity markets and the rapid easing of monetary policy suggest further downside for the currency. Potential volatility in equity markets following the US election may also add to downside pressure. While we highlighted weak economic data as a key factor for October's weakness, we are more optimistic looking ahead. Consensus expectations for an economic recovery in 2025, partly driven by aggressive easing from the Riksbank, support a more solid outlook for next year. The currency is very cheap relative to long-run fair value and cyclically depressed. Once growth picks up and global yields decline as the Fed and other central banks ramp up monetary easing, the krona has significant room for recovery. This more optimistic medium-term outlook offsets near-term risks, resulting in a neutral tactical model signal.

Australian Dollar (AUD)

The Australian dollar fell 1.3% against the G10 in October, giving up all of its September gains. Australian dollar sold off during the opening week of the month due to lower equity markets and increasing doubts about the effectiveness of recent Chinese stimulus measures. Additionally, composite PMI dipped below 50, signaling contraction, and August household spending surprised to the downside — 0.0% MoM versus +0.5% expected. Mid-month, the currency stabilized as equity markets recovered and employment data surprised significantly to the upside — +64.1 thousand new jobs versus +25 thousand expected. However, later in the month, the Australian dollar fell steadily amid concerns about the upcoming US election, and slightly softer-than-expected Q3 CPI — +0.2% QoQ versus +0.3% expected — weighed on the currency.

Our tactical models are neutral on the Australian dollar. The currency is quite sensitive to the outcome of the US election, given the importance of trade with China and the possibility of significant US tariffs on China if Trump wins. However, there seems to be a Trump risk premium priced into the Australian dollar, which could snap back on a Harris victory. Chinese fiscal stimulus is also a wildcard. Although few details have been released, most suggest relief for local government debt and bank recapitalization — both of which are needed but will do little to bolster demand for Australian exports. We expect to learn more about the Chinese stimulus plans in November, which could support the currency.

The Reserve Bank of Australia (RBA) is not easing policy, and inflation remains above target, but inflation is moderating. The RBA may shift to an easing stance in Q1, which could weigh on the currency. That said, our economic signals point to stable growth, and consensus expectations call for a rebound in 2025 — both of which support the Australian dollar strength.

In the long term, the Australian dollar outlook is mixed. It is cheap against the US dollar, British pound, euro, and Swiss franc, and has room to appreciate, but it is expensive against the yen and Scandinavian currencies.

New Zealand Dollar (NZD)

The New Zealand dollar lost 2.1% against the G10 average in October, with the entire loss occurring by 9 October. This drop was driven by a sell-off in equities at the start of the month, waning enthusiasm regarding Chinese stimulus, and market expectations of a possible 50 bps rate cut from the Reserve Bank of New Zealand (RBNZ) on 8 October. The RBNZ delivered the anticipated 50 bp cut along with a dovish outlook, citing disinflation and increased slack in the economy. This pushed the New Zealand dollar to its October low the following day.

From there, a rebound in global equity markets and likely some profit-taking on short New Zealand dollar positions helped the currency recover about a quarter of its early-month losses. The mid-month CPI print came in slightly softer than expected — 0.6% QoQ versus 0.7% expected — but had little impact on the currency. Later in the month, investor focus shifted to the upcoming US election, with market participants pricing in some risk of a Trump victory and high US tariffs on China. This led the New Zealand dollar to return to its low for the month due to New Zealand's close trade ties with China.

Our tactical model remains negative on the New Zealand dollar, ranking it as the weakest in the G10. The benefit of New Zealand's high yields is rapidly diminishing as the RBNZ eases policy in response to disinflation and near recessionary conditions. While current short-end yields remain high, any potential benefit is fully offset by ongoing growth challenges and a weak external balance, with the current account at -6.7% of GDP. Heightened geopolitical risks related to the US election further weigh on the dollar. While we believe the RBNZ's rate cuts are necessary and beneficial, the positive effects will take time to materialize. Until then, the New Zealand dollar outlook is likely to remain challenging.

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

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* Pensions & Investments Research Center, as of December 31, 2023.
†This figure is presented as of September 30, 2024 and includes ETF AUM of $1,515.67 billion USD of which approximately $82.59 billion USD 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.

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Marketing communication

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