Insights
Currency & Cash

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Currency Market Commentary

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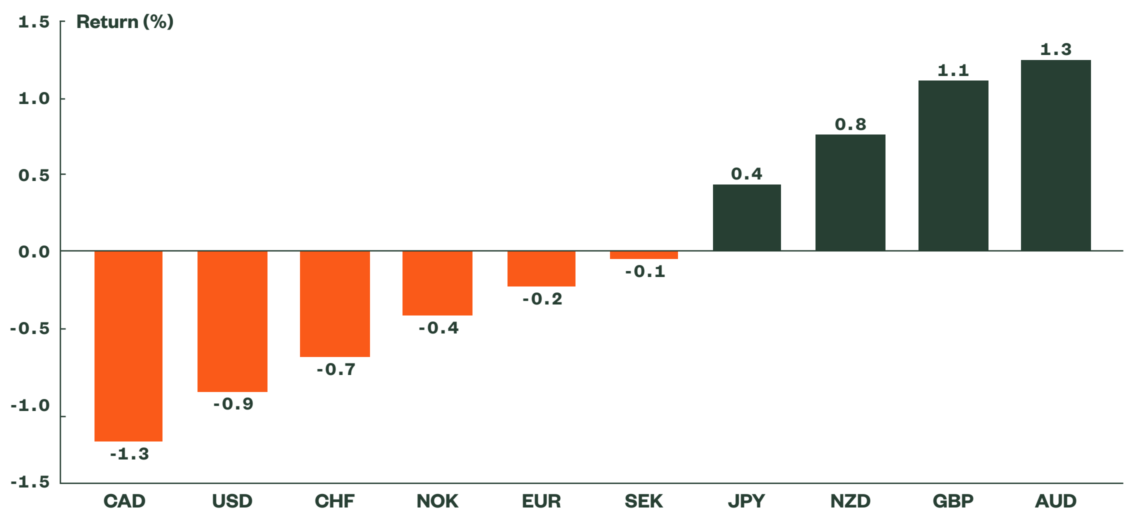
Summary of Views

September began on a pessimistic note, as investors reacted to lackluster data and a soft US employment report, raising concerns about global growth. Equities, commodities, and cyclically sensitive currencies declined, while bonds rallied (yields fell) and defensive currencies appreciated. The US dollar and Japanese yen were top performers, while the Norwegian krone, Australian dollar, and New Zealand dollar lagged. The tone changed on 12 September, following a Wall Street Journal article pointing to a higher-than-expected chance of a 0.5% rate cut by the Federal Reserve (Fed) at its upcoming meeting. Hope for lower rates to revive growth and ensure a soft landing drove a recovery in equities, commodities, and high-beta currencies. This rebound accelerated when the Fed delivered the 0.5% rate cut on 18 September, along with a dovish outlook. Additionally, a more hawkish outlook from the Norges Bank and Reserve Bank of Australia (RBA) supported higher-beta currencies. A final boost came from an aggressive stimulus package announced by Chinese authorities in the last week of the month.

One exception to the pro-risk, strong cyclical currency theme was the Canadian dollar, which weakened alongside the defensive US dollar despite its high-beta, commodity-sensitive profile. This was due to the close linkage across North American economies and the decidedly dovish Bank of Canada (BoC) policy outlook. The Norwegian krone followed the risk-on/risk-off script for most of the month but weakened in the final days due to declining oil prices and less support from the Chinese stimulus compared to currencies more directly linked to Chinese demand, such as the Australian and New Zealand dollars.

Figure 1
September 2024 Currency Return vs. G10 Average



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

Figure 2
September 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 September 2024.

As inflation continues to decline and central banks accelerate their easing cycle, we shift our focus to growth as perhaps the most crucial driver of currencies. Growth will shape how lower global yields impact currencies. Under the two scenarios — hard landing versus soft — the outcomes are very different. If central banks are easing into a recession or an uncomfortable soft landing, then the US dollar would likely strengthen against most high-beta currencies, underperform the yen and possibly the franc, while remaining flat or slightly lower against the euro. In a true soft-landing scenario, the US dollar would steadily decline against everything, with high-beta currencies — Norwegian krone, Australian dollar, New Zealand dollar — and to a lesser extent, British pound and Swedish krona leading the way higher. The euro, Canadian dollar, and yen would do well versus the US dollar, but likely underperform those higher-beta currencies. The Swiss franc may beat the US dollar in either scenario, but likely may lag most other currencies as it becomes a more attractive carry funding currency.

Our base case is for an uncomfortable soft landing: the economy avoids a recession, but employment and consumption slow enough to spur periods of recession anxiety. In this context, the US dollar will enjoy periods of safe-haven demand, but we believe the bias should be to sell into those rallies, expecting a breakdown below its two-year range. The yen appears to be the best all-weather currency, benefiting in both scenarios as it wins in a soft landing and wins big in a hard landing. Higher-beta, commodity-sensitive currencies will likely be most attractive in a soft landing, though they remain high-risk assets. They would be hard-hit by additional volatility shocks, which are increasingly probable as growth slows and election/geopolitical risks remain elevated.

The major risk to all of these scenarios is a resurgence in US growth, which would drive up US yields and the US dollar. Although this is far from our base case, if one of the major developed market countries were to enjoy resurgent growth, it would probably be the US. The Atlanta Fed's gross domestic product (GDP) nowcast is running above 3% for Q3, Q2 growth was revised higher to 3%, and personal savings rates were revised to higher, more comfortable levels. If Fed rate cuts and the resolution of election uncertainty spur a wave of business investment, a housing market rebound, and/or a consumption boost driven by higher wage growth or credit expansion — perhaps through home equity borrowing — then we could see such a resurgence. While this remains a low-risk scenario given softening labor market indicators and dwindling excess savings, it is a risk worth watching.

Review and Outlook by Currency

US Dollar (USD)

The US dollar fell 0.8% against the G10 average during September. It rose at the start of the month, finding some support after steep losses in August. Weaker-than-expected employment data brought it back to flat by 5 September, before it gained momentum in response to falling equity prices and a higher-than-expected Consumer Price Index (CPI) on 11 September. However, the uptrend was short-lived, as the dollar sold off once again in response to a Wall Street Journal article on 12 September, which raised the possibility of a 50 bps Fed rate cut later in the month. The downtrend continued leading up to the Fed meeting on 18 September, despite better-than-expected retail sales and consumer sentiment data. On 18 September, the Fed delivered that 0.5% rate cut, amplifying the dollar's decline, supercharging the equity market recovery from its early-month dip, and sending major indices to new all-time highs. The pro-risk environment, along with expectations for aggressive normalization in US monetary policy, sustained a steady US dollar downtrend through month-end, aided by the announcement of new Chinese stimulus measures.

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 revert to the G10 average, and the US grapples with high fiscal and current account deficits. For investors with a two-year or longer horizon, we have strongly recommended short US dollar positions. The transition from a bull market to a bear market has been bumpy, but we believe it is now time for tactical investors to be biased towards selling rallies rather than buying dips. In other words, we see the end of cyclical US exceptionalism clearly on the horizon and approaching fast.

That said, a dollar bear market starting now or even in the next six months is far from certain. This would require an obvious soft landing for the economy alongside a steady normalization of US interest rates. A recession — or even the fear of one — could temporarily support the dollar, as would any anxiety surrounding the upcoming US election. US rates are likely to remain relatively high compared to the G10 average, while US equities continue to outperform, and the US remains a relative safe haven as the global reserve currency.

This makes it difficult to buy more cyclically sensitive currencies against the dollar at this point, as they are vulnerable to recession risk, equity volatility, and the medium-term downtrend in commodity prices. Moreover, if any developed market economy is at risk of resurgence, it would likely be the US, as evidenced by the upward revision to Q2 growth, the increase in personal savings rates, and the Atlanta Fed's GDP nowcast for Q3 exceeding 3%. While we view this as a low-probability scenario, a resurgent US economy would slow Fed rate cuts and once again boost the dollar.

Therefore, we suggest waiting for larger selloffs in more cyclical currencies like the Norwegian krone, Australian dollar, New Zealand dollar, or Canadian dollar before buying. The yen appears to be the safer all-weather long position against the US dollar at the moment. The yen is likely to perform well in a soft landing and excel in a hard landing or recession, though it would suffer in a resurgent US growth scenario. The British pound is sensitive to equity volatility and recession risk, but the more gradual expected pace of rate cuts and more consistent growth data will likely keep it relatively well supported against the dollar for now. The euro may climb toward the 1.14 area on broad US dollar weakness, but this is highly uncertain given the recent drop in CPI, weak PMI data, and the rapidly deteriorating German labor market.

Canadian Dollar (CAD)

The Canadian dollar was the worst-performing currency among the G10 currencies during September, down 1.3%. It experienced brief surges, first following soft US employment data and again after the larger-than-expected 0.5% Fed rate cut. However, broader themes weighing on the Canadian dollar persisted. First, the weak US dollar posed a major headwind for the Canadian dollar, given its high correlation with the US dollar and deep economic linkages to the US. Additionally, at its meeting on 4 September, the BoC delivered its third consecutive 0.25% rate cut to 4.25% and signaled further easing, potentially at a faster pace. A tepid labor report a few days later reinforced this dovish outlook. The Canadian dollar did not find relief until after 17 September, when the larger-than-expected Fed rate cut, higher-than-expected Canadian core CPI, and better-than-expected Canadian retail sales data supported a mid-month recovery. However, this bounce was short-lived as China announced an aggressive set of monetary stimulus measures to support its economy. This invigorated global risk sentiment, favoring Asian and cyclically sensitive currencies, leaving the US and Canadian dollars lagging toward month-end, though it received some support from better-than-expected GDP on 27 September.

Our tactical view on the Canadian dollar shifted from mildly negative to mildly positive, though it remains largely in the neutral range. This shift was driven entirely by the rebound in commodity prices during the latter half of the month, a move that may persist if China unveils additional stimulus. Otherwise, our growth indicators remain weak, and the monetary outlook remains dovish, suggesting that a better commodity outlook may support the Canadian dollar but is insufficient to drive a significant appreciation. The outlook may improve heading into next year. Since the BoC cut rates earlier and at a faster pace than most other central banks, it is also likely to see the benefits of those cuts earlier as well, which is reflected in improved growth expectations for 2025.

Euro (EUR)

It appreciated through the first week despite poor PMI, retail sales, and Q2 GDP data. Broader concerns over global growth and falling equity markets appeared to support the currency relative to steeper losses in more procyclical G10 currencies. On 12 September, the ECB cut rates by 0.25% to 3.5%, but the euro remained largely unchanged, trading within a range through mid-month. A sharp downside surprise in services PMI on 23 September sent the euro into negative territory for September. It briefly rebounded the following day after Bundesbank President Joachim Nagel downplayed concerns over German economic weakness, but the recovery was short-lived. European Central Bank (ECB) Executive Board member Isabel Schnabel's comments the next day, highlighting a stagnating European Union (EU) economy and signs of labor market weakness, sent the euro back down, where it stayed through the month's end.

We have shifted to a modestly negative tactical view on the euro due to weaker-than-expected economic data and softer inflation. The risks appear tilted toward a more aggressive ECB rate-cutting cycle than currently priced in. Our short-term value score suggests that the recent rebound in the euro is excessive given weaker growth and poor local equity market performance, despite a slight improvement in relative yield differentials. Longer-term challenges, such as high debt levels and low potential growth, continue to cast a shadow — one that has grown darker as French and German politics become more fractured, reducing the likelihood of necessary EU-wide reforms. This is particularly concerning as the German economy heads toward recession. Moreover, our long-term fair value model indicates that the euro is expensive compared to most G10 currencies, with the exceptions of the US dollar and Swiss franc.

British Pound (GBP)

The British pound gained 1.1% against the G10 average in September, marking the second-best performance in the G10. The pound remained remarkably stable, fluctuating within a ±0.2% range through 17 September on mixed economic data. Both manufacturing and services PMIs stayed at healthy, expansionary levels. Employment surprised to the upside — 265,000 new jobs compared to the expected 123,000 — though quarter-over-quarter GDP for the period ending in July came in weaker than expected at 0.5% versus estimates of 0.6%. The large Fed rate cut on 18 September, combined with a jump in UK services inflation, broke the impasse and sent the pound higher. The following day, the Bank of England (BoE) contributed to the upside momentum by voting 8–1 to maintain rates at 5%, above the new effective Fed funds rate. On 20 September, the pound received a third consecutive boost from a strong upside surprise in retail sales — rose 1.1% month-over-month compared to the expected 0.5%. Although the pound stalled after 23 September, it held its gains through the month's end.

We shifted to a negative tactical view on the pound during September due to weakness in our economic factor model. Growth is lackluster but has held up reasonably well in absolute terms. However, more recent data has skewed toward negative surprises. While the situation is okay, it is not as strong as investors hoped. Meanwhile, the pound remains the best-performing G10 currency year-to-date by a wide margin, up more than 4% against the second-best performer, the Australian dollar. This recent strength largely stems from the relatively more hawkish stance of the BoE. The market is currently pricing the UK to have the highest policy rates in the G10 by mid-2025. Decent expected growth and relatively attractive yields suggest the pound should remain well supported, validating its year-to-date strength. However, most good news is already priced in, and with absolute growth levels being lackluster and limited potential fiscal support in the upcoming autumn budget, there is little room for further appreciation and potential for a modest pullback.

Our long-term valuation model presents a more positive outlook for the pound, as it is particularly cheap against the US dollar and Swiss franc. However, it is important to temper expectations for upside potential, as low productivity growth and sticky inflation are pushing fair value lower. The fair value against the US dollar has decreased from 1.55 to 1.40 since May 2022. Breakeven inflation expectations and recent productivity trends suggest that fair value may trend down to at least the upper 1.30s over the next few years. Nevertheless, from current levels in the low 1.30s, the pound remains moderately cheap, even if fair value trends down as expected.

Japanese Yen (JPY)

The yen gained 0.4% relative to the G10 average in September — a respectable gain but well off its intra-month high, a gain of almost 3.75% by 11 September. During the first couple of weeks, US yields fell due to weaker employment data, while Japanese yields held up following comments by Bank of Japan (BoJ) Governor Ueda, who suggested further rate hikes may be necessary. Weaker equities also boosted the yen's safe-haven appeal, driving it to its monthly peak. However, sentiment turned negative after 11 September as hopes for a deeper 50 bps Fed rate cut spurred a rally in risk assets, lifting most G10 currencies against the yen. Despite this, the yen continued to outperform the US dollar through mid-month. On 20 September, the BoJ kept the policy rate unchanged at 0.25%, as expected, but Governor Ueda indicated that the recent yen strength may be taking pressure off inflation. As a result, the yen's downtrend persisted, extending to underperformance against the US dollar. This downtrend was further reinforced by concern that Sanae Takaichi would win the upcoming 27 September LDP leadership election and become the next prime minister. She has advocated for a continuation of Abenomics which would discourage further BoJ rate hikes, thereby weakening the yen. Ms. Takaichi did win the first round of the leadership vote but ultimately lost in the run-off to Shigeru Ishiba who is viewed as more amenable to gradual monetary tightening. In response, the yen rebounded to closed the month in positive territory.

The yen has moved a long way since its July low and is likely to consolidate its gains and experience periods of weakness over the very near term. Going forward, we see further upside in the yen, with 140 against the US dollar in sight by year-end and 130–135 by the end of 2025. This outlook is consistent with another 25–50 bps increase in Japanese policy rates and 200 bps in cuts from the Fed — even in a soft-landing scenario. If recession risks intensify, the yen could easily trade well down 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, particularly against the US dollar and Swiss franc. The yen is likely to outperform both the US dollar and Swiss franc in either a soft or hard landing, though its gains against the franc are expected to be more limited in a hard-landing scenario. On the flip side, in the event of a global reacceleration in growth and inflation — with monetary easing cycles cut short or even partly reversed — the yen may still outperform the franc, though it would likely lose ground against the US dollar and most other G10 currencies.

Swiss Franc (CHF)

The franc fell 0.7% against the G10 average in September. The story is straightforward: through 11 September, lower global yields and weaker equity markets supported defensive, low-interest-rate currencies such as the franc, sending it up to an intra-month gain of 0.8%. After that, markets began to anticipate a 0.5% Fed rate cut, shifting global risk sentiment positive and sending defensive currencies steadily lower through month's end. The franc was particularly sensitive to rising expectations of a large Fed cut, as investors viewed it as opening the door to a similar 50 bps cut from the Swiss National Bank (SNB) at its meeting on 25 September. In the week following the dovish Wall Street Journal report pointing to the risk of a 50 bps Fed move, the markets shifted to price a 40% chance of a 50 bps SNB cut. In the end, the SNB only delivered 25 bps but did so with a dovish outlook, suggesting another cut in December and potentially March, bringing the policy rate down to 0.5%. Local Swiss economic data was mixed and had little impact on the franc. CPI surprised lower, supporting the more dovish SNB outlook, but that was offset by better-than-expected GDP growth, suggesting resilient growth that may hinder disinflation, particularly in the service sector.

Our models shifted to neutral from a slightly positive tactical franc outlook, mostly due to the positive shift in the commodity factor, which favors higher-beta currencies. We caution that this sanguine view is likely temporary; our medium- to long-term view is decidedly negative. The franc remains the most expensive G10 currency, per our estimates of long-run fair value; it has the second-lowest yields in the G10, and core inflation is the lowest in the G10. All this while the real trade-weighted franc is at the upper end of its 30-year range, and the SNB is cutting rates. We expect them to become more amenable to intervention to prevent excessive franc strength once the policy rate gets down to 0.5%. In fact, given that a major source of the undershoot in inflation is directly related to franc strength via import prices, we think it makes sense for the SNB to shift focus away from rate cuts and toward a weak franc policy. Overall, we see the franc in transition to a prolonged reversion back down toward our estimate of its long-term fair value. Any near-term strength should prove to be temporary support from the increased political and market risk premium being priced into more cyclically sensitive currencies.

Norwegian Krone (NOK)

The krone fell 0.4% versus the G10 average for the month, after recovering from a sharp drawdown of nearly 2% by 11 September. The krone's path through the month is very similar to other higher-beta currencies, such as Australian dollar, New Zealand dollar and Swedish krona. As commodity prices, equities, and global yields fell early in the month, riskier currencies sold off. On 12 September, following the Fed's dovish outlook published in the Wall Street Journal, risk sentiment recovered, sending those cyclically sensitive currencies — including the krone — higher. The Norges Bank met on 19 September and held rates steady, with a fairly hawkish outlook, emphasizing that rates would likely remain unchanged a 4.5% through year's end. The krone continued to grind higher in response over the following days.

That changed following a sell-off in oil prices and the announcement of Chinese monetary stimulus and hints at fiscal stimulus. The krone gave up its gains after 24 September, finishing down for the month. The fall in oil had a direct negative impact on the krone. Although the Chinese stimulus was not unfavorable, the benefits were more concentrated in the Australian and New Zealand dollars, given their closer trade ties to China and exposure to industrial metals, which bounced on the news.

Our tactical model signals remain negative on the krone, though slightly less so than last month due to the rebound in commodity prices. Our growth indicators are positive but not strong enough to offset poor local equity performance and our broader risk regime indicator, which points to a fragile global macro environment—a negative for the krone. On a more positive note, the krone is historically cheap relative to our estimates of fair value and is supported by steady long-term potential growth and a strong balance sheet. For now, however, we believe it is likely to remain volatile in the near term, as political risk rises, oil markets struggle with the risks of increased OPEC+ production, and investors appear quicker to price in hard-landing risks on any negative growth surprises.

Swedish Krona (SEK)

The krona lost 0.1% in September relative to the G10 average. The outcome was better than that of the krone, but the underlying pattern was not. Aside from a rapid jump following the dovish Fed article on 12 September, the krona either trended lower or remained flat for the rest of the month. This negative bias was well justified by local data flow. PMIs held up well, but GDP for July was well below consensus forecasts: –0.8% MoM versus the expected +0.1%. This leaves the aggregated year-to-date monthly growth at a meager 0.1% through July. Inflation also surprised lower at 1.9% YoY versus the expected 2.1%. With slow growth and weaker inflation, the Riksbank cut rates for a third consecutive time to 3.25%. More importantly, the accompanying statement pointed to two additional cuts this year, with the risk that one could be a 0.5% cut, depending on the data. Overall, broadly positive risk sentiment and its year-to-date underperformance helped support the krona, limiting the loss in a month when fundamentals otherwise pointed to additional weakness.

Our tactical krona signal remains near neutral but shifted slightly weaker due to disappointing economic data. Weak equity markets, lower yields, and signs that the currency is overbought relative to recent deterioration in fundamentals all point to further downside. The economy remains near recession, with inflation effectively at target, justifying the dovish Riksbank outlook. If investors price a greater chance of a global recession, it should heighten equity market volatility, which would also weigh on the currency. Thus, we stress that the risks to our current neutral model signal are to the downside. We expect the krona to continue struggling over the coming months.

Looking further ahead, consensus expectations for an economic recovery in 2025 — partly due to the aggressive easing by the Riksbank — anchor a more solid medium-term outlook. The currency is very cheap relative to its long-run fair value and cyclically depressed. Once growth begins to turn higher and global yields move lower as the Fed and other central banks ramp up monetary easing, the krona has ample room to recover. This more optimistic medium-term outlook offsets the near-term risks, resulting in a neutral tactical model signal.

Australian Dollar (AUD)

The Australian dollar led the G10 for the month with a 1.3% gain versus the average. The month began on a rocky note, as poor global risk sentiment — stemming from concerns over slower growth and ongoing weakness in both Chinese growth and inflation data — pushed equities, commodities, and cyclically sensitive currencies lower, including the Australian dollar. That weakness reversed sharply when markets began to price in the chance of a 50-basis-point Fed rate cut following 12 September. The Australian dollar-positive risk rally continued through mid-month, despite a disappointing composite PMI, weaker consumer sentiment, and a tepid employment report. Headline job gains exceeded expectations, but this was entirely due to part-time job gains, as full-time employment fell by 3,000 jobs. The Reserve Bank of Australia's (RBA) decision to keep rates on hold with a moderately hawkish outlook on the 24th, along with news of Chinese stimulus, triggered a strong rally in industrial metals, providing a final push to maintain the dollar's uptrend through the end of the month.

We describe the RBA outlook as moderately hawkish because, while it pointed to steady rates through year's end — which is hawkish — this was offset by the dovish news that the policy committee did not explicitly discuss a rate hike, as they had in recent meetings. Nevertheless, in the context of an aggressive Fed rate cut, the RBA outlook was clearly supportive of the currency.

Our tactical models remain negative on the Australian dollar due to weak local equity market performance and a fragile global macroeconomic and geopolitical environment. That said, the pickup in commodity prices makes us less negative than last month. We also see emerging factors that run counter to our negative signal. RBA policy is likely to be tighter for longer, with US rates falling to or below Australian policy rates over the next six months. While the economy is sluggish, growth remains positive, and decent fiscal spending should slow the deterioration in domestic demand. We expect external demand to receive some support from the Chinese stimulus, though it is too early to credibly gauge its efficacy. Thus, while we remain negative on the currency, we do not expect substantial downside and eventually see a more positive shift on the horizon in 2025.

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

New Zealand Dollar (NZD)

The New Zealand dollar gained 0.8% versus the G10 average in September. The pattern throughout the month was nearly identical to that of the Australian dollar: weakness early in the month due to falling equities and commodity prices, followed by a steady recovery. That recovery was triggered by a rebound in global risk sentiment and commodity prices as investors began to anticipate a 50 bps Fed rate cut; it was further extended through the end of the month by news of strong monetary — and potentially strong fiscal — support from China. Locally, however, data was less supportive. The Chinese stimulus points to better export demand which, in conjunction with higher milk prices since early August, is a marginal positive for the New Zealand dollar. Otherwise, the economic environment remains poor. The economy is teetering on the brink of recession, with seven consecutive monthly declines in home prices, PMI data pointing to a manufacturing recession, weak consumer credit card spending, and a negative Q2 GDP print — though at –0.2% quarter-over-quarter, GDP was less negative than the expected -0.4%. Altogether, the strong performance of the New Zealand dollar seems far less justified than that of the Australian dollar.

Our tactical model remains negative on the New Zealand dollar. In fact, our model ranks it as the weakest in the G10. The benefit of New Zealand's high yields is rapidly evaporating as the Reserve Bank of New Zealand eases policy in response to disinflation and near-recessionary conditions. To the extent that current short-term yields remain high, any benefit is fully offset by ongoing challenges to growth and a weak external balance—the current account stands at –6.8% of GDP. Heightened geopolitical risks related to the Israeli conflict and lingering concerns that the US and EU economies may slow more than expected introduce higher equity market volatility, creating another headwind for the New Zealand dollar. We agree with the market's apparent reaction that rate cuts are necessary and beneficial, but their effects will take time to materialize.

In the long term, our outlook is mixed. Our estimates of long-run fair value suggest that the New Zealand dollar is cheap relative to the US dollar and Swiss franc, with ample room for appreciation, but it is 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 June 30, 2024 and includes ETF AUM of $1,393.92 billion USD of which approximately $69.35 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.

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Marketing communication

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