Insights
Currency & Cash

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Currency Market Commentary

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Summary of Views

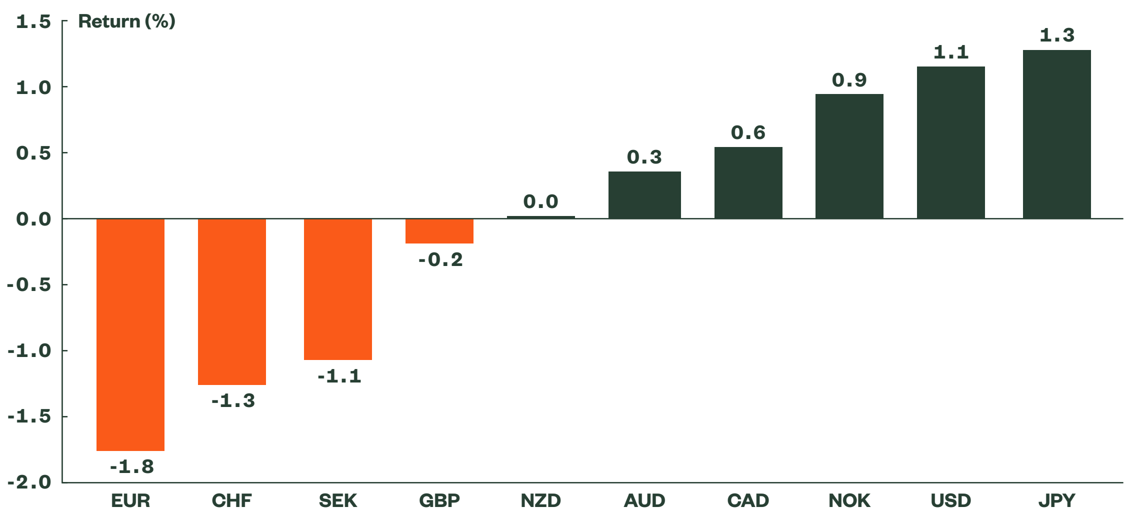
It was another strong month for the US dollar, buoyed by attractive relative growth, rising yields, and tariff risks associated with the incoming Trump administration. Donald Trump's victory bolstered investor expectations of superior US growth and higher yields, given his emphasis on fiscal stimulus and deregulation; additionally, tariff threats supported yields and the US dollar through risks of higher inflation and a safe-haven bid.

However, the Japanese yen edged out the dollar, thanks to a late-month rally triggered by a modest pullback in US yields and increased hopes for a December rate hike from the Bank of Japan (BoJ). The Norwegian krone also outperformed, benefiting from a relatively hawkish monetary policy outlook, positive global risk sentiment, and stable oil prices.

Europe was the focus of currency weakness, led by the falling euro, which suffered from poor economic data, concerns over potential US tariffs, and ongoing political risks in France and Germany. The Swiss franc also underperformed due to continued downside inflation surprises and sluggish growth — both of which raised the specter of a return to negative (or at least zero) interest rates.

We continue to see relative growth and yields as primary drivers of currency markets. Of the two, growth is likely more significant, as it serves as the primary determinant of monetary policy and yields now that inflation is under control.

Figure 1
November 2024 Currency Return vs. G10 Average



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

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Figure 2
November 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 November 2024.

However, the narrative is less straightforward than in recent months, as the risks of high tariffs and a potential trade war — imposed by the incoming Trump administration — are likely to have a greater impact on currency markets going forward. We expect a more modest and gradual approach than President-elect Trump promised on the campaign trail.

The net result is prolonged US dollar strength, supported by superior growth, higher yields, and its appeal as a safe haven. Broad dollar indices have already tested — and briefly surpassed — the October 2023 high and could approach the 2022 high if aggressive tariff policies or substantial fiscal stimulus through tax cuts materialize.

In Europe, ongoing growth struggles, lower short-term yields, and regional political risks weigh on the euro, Swiss franc, Swedish krona, and, to a lesser extent, the British pound, which benefits from greater yield support. The Australian dollar appears more attractive, with the Reserve Bank of Australia (RBA) likely to hold rates at appealing levels well into 2025, supported by stable — albeit lackluster — growth and sticky inflation. However, it is difficult to see an Australian dollar rally amid disappointing Chinese stimulus and the threat of substantial US tariffs on China.

The yen is perhaps better positioned for outperformance, especially against European currencies, as the Bank of Japan (BoJ) gradually raises rates while maintaining some safe-haven appeal. That said, a significant yen rally against the US dollar is likely delayed due to higher US yields and a stronger growth outlook. We prefer expressing a long position in the yen versus the franc. By April of next year, the expected yield differential between the two is projected to collapse from nearly 2% in the franc's favor to nearly zero. The last time the differential was at this level, CHF/JPY traded near 120; it is currently over 170 — a massive misalignment.

Review and Outlook by Currency

US Dollar (USD)

The US dollar rose steadily through November, finishing with a 1.1% gain versus the G10 average, building on its 3.9% rally in October. The dollar is now the top-performing G10 currency year to date. The month began on a bumpy note following a disappointing employment report — addition of 12,000 new jobs versus the 100,000 expected — and a weaker ISM manufacturing survey. The Republican sweep in 6 November election initially drove the dollar higher, but gains quickly reversed, partly due to profit-taking and the Federal Reserve's (Fed) decision to cut rates by 0.25% on 7 November. However, the correction was short-lived; the dollar resumed its uptrend on 8 November, buoyed by US equity market outperformance and rising yields.

Investors appeared to downplay tariff risks as a negotiating tactic, instead focusing on the positive growth implications of the new administration's promised fiscal stimulus and deregulation. Inflation metrics, including both core CPI and core PCE, also exceeded targets with a 0.3% month-on-month increase for the second consecutive month. This bolstered the case for a slower monetary easing cycle, providing additional support for the US dollar.

On 25 November, the dollar rally lost momentum, selling off after Scott Bessent was announced as the nominee for Treasury secretary. Bessent, a veteran of financial markets, was viewed as a responsible pick who would likely advocate for a gradual approach to tariffs and a more modest fiscal path. This announcement triggered a correction in US yields and the dollar through month-end, with the yield-sensitive yen emerging as the primary beneficiary.

The US dollar remains the top-ranked currency in our model, supported by strong growth, high yields, and its appeal as a safe haven. This theme has buoyed the dollar since mid-September, when US growth began to steadily exceed expectations, driving US yields higher. Trump's victory reinforces this dynamic in the eyes of investors due to his focus on deregulation and tax cuts — including the extension of prior tax cuts and the potential for additional reductions. Meanwhile, growth in the United Kingdom (UK), European Union (EU), and China continues to soften.

The risk of the Trump administration implementing aggressive tariffs also supports the dollar, though for less favorable reasons. While the dollar already reflects a fairly optimistic outlook — and we anticipate periodic corrections, as observed in late November — we believe the dollar will remain resilient with an upward bias. Given the strong fundamental outlook, it remains a challenging prospect to sell the dollar.

Our longer-term views remain unchanged. We have consistently maintained that the US dollar is likely to decline by at least 10–15% over the coming years as US yields and growth revert toward the G10 average and the country grapples with high fiscal and current account deficits. Trump's plans to cut spending and implement broad, effective deregulation — triggering a productivity renaissance without a significant increase in fiscal debt — seem unlikely, given the track record of his first administration and Republican administrations over the past 30–40 years. If historical patterns hold, any Trump-led stimulus is likely to accelerate the build-up of US debt, which could result in a more challenging long-term outlook for the US economy, corporate earnings, and the dollar. For investors with a horizon of two or more years, we strongly recommend short US dollar positions.

Canadian Dollar (CAD)

The Canadian dollar gained 0.6% against the G10 average in November. While it weakened versus the US dollar following Donald Trump's victory, it outperformed the G10 average — alongside the US dollar — through 22 November. This uptrend was supported by more resilient Canadian economic data and the Canadian dollar's usual high correlation with the US dollar.

Services and manufacturing Purchasing Managers Index (PMI) data for October returned to expansionary territory (albeit barely) after weak readings in September. Employment data missed expectations, with addition of 14,500 new jobs versus the anticipated 27,200; however, the composition was favorable with strong full-time job gains and a better-than-expected unemployment rate. Consumer Price Index (CPI) and core retail sales also surprised to the upside. While overall growth remains weak, it appears stable, as reflected in Q3 gross domestic product (GDP) figures, which came in at 1.0% QoQ annualized compared to the 1.1% expectation.

Despite this stabilization, the US dollar's correction during the final week of November, coupled with threats of a 25% tariff from President-elect Trump, pressured the Canadian dollar lower. By month's end, it had surrendered nearly 75% of its intramonth gains relative to the G10 average.

Our tactical view on the Canadian dollar remains mildly positive. While we expect the currency to underperform against the US dollar, it appears stronger relative to other G10 currencies. Current growth indicators are weak but stabilizing, and the dovish monetary policy outlook is well priced into interest rates and foreign exchange markets. Notably, we anticipate the Bank of Canada's (BoC) more aggressive pace of rate cuts to support a growth recovery in second half of 2025. Because the BoC cut rates earlier and faster than most other central banks, it is likely to see the benefits of those cuts sooner.

Ongoing threats of US tariffs remain a concern but seem avoidable, as they are linked to demands for better control of illegal border crossings — a matter the Canadian government can address. The positive shift in our US dollar outlook should keep USD/CAD at or above 1.40 in the near term. Against non-US dollar crosses, which are also struggling to improve growth, the Canadian policy and growth outlook appears more favorable. Additionally, pessimistic investor positioning on the Canadian dollar could provide further support against non-US dollar currencies over the next several months.

Euro (EUR)

The euro fell 1.8% against the G10 average in November, driven by weak growth, vulnerability to tariffs, escalation in the Russia-Ukraine conflict, and growing political risks in France and Germany. After a quiet start to the month, the euro sold off following the US election, spurred by fears that US tariffs could worsen the already weak growth outlook. On the same day, German Chancellor Olaf Scholz dismissed his Finance Minister, Christian Lindner, effectively guaranteeing a vote of no confidence and an early snap election, scheduled for February 2025. This election adds to uncertainty in Germany, stifling consumer and business confidence and creating additional headwinds to growth.

In addition, the rise in US yields drew attention to the relatively dovish outlook for the European Central Bank (ECB), prompting speculation of a 50 bps rate cut in December. Mid-month, the US decision to allow Ukraine to conduct missile strikes deep into Russian territory, along with an escalation of missile attacks by Russia, further weighed on the currency.

The euro reached its low for the month on 22 November, following a downside surprise in November PMI data, coinciding with the US dollar's high for the month. From there, the euro experienced a minor recovery as the US dollar corrected lower and investors shifted focus to President-elect Trump's threats of 25% tariffs on Mexico and Canada and an additional 10% tariff on China.

We remain negative on the euro both in the tactical and long-term horizons. Despite decent Q3 GDP growth of 0.4% QoQ, economic data has softened to start Q4, with weaker-than-expected consumer activity in Germany and downside surprises in both manufacturing and services PMIs. Household balance sheets are strong, and unemployment remains historically low, which is positive; however, consumer confidence is poor, and layoffs in Germany appear to be trending higher.

Political uncertainty, with a snap election scheduled in Germany and budget disagreements in France, is likely to further undermine the government, damaging both consumer and business confidence. Trump's victory in the US presidential election adds another layer of political risk, given his threats of 10–20% tariffs and questions about his commitment to NATO. While a more rapid resolution to the Russia-Ukraine conflict under a Trump administration could be positive for the region and the euro, it remains uncertain whether such an arrangement can be reached with sufficient assurances of future security for Ukraine and the EU. In the short run, the prospect of a settlement appears to be intensifying the conflict, as both sides position for maximum negotiating leverage in the coming year.

As inflation falls, growth falters, and political risks loom large, the euro is in a very tough spot. Not only do we see near-term headwinds, but our long-term fair value model also suggests that the euro is expensive relative to most G10 currencies, except the US dollar and Swiss franc.

British Pound (GBP)

The British pound dropped 0.2% against the G10 average in November, weighed down by poor economic data, broader US dollar strength, and concerns over the near-term impact of the NIH payroll tax increase on employment. That said, the month began on a positive note, with the pound receiving a boost from the modestly expansionary budget announced on 30 October. Sterling held its gains against the G10 average, even amid the US dollar surge following the election and the Bank of England (BoE) rate cut on 7 November.

The BoE's patient policy outlook and upgraded forecasts for both growth and inflation in response to the budget likely helped mute any negative impact of the rate cut. Additionally, the fact that the Fed also cut rates by 25 bps that day provided further support.

The tone for the pound turned negative on 12 November, following a large upside surprise in unemployment — 4.3% versus the 3.9% expected. The following 10 days brought a string of weak economic data, with industrial production, Q3 GDP (only 0.1% QoQ growth), retail sales, and services and manufacturing PMIs all coming in below expectations. While CPI surprised to the upside, which in isolation suggests tighter monetary policy, the context of weaker employment and growth limits the BoE's ability to respond to higher inflation, thereby dragging down the currency.

The pound retraced a small portion of its monthly loss after 22 November, though not in response to any positive domestic factors in the UK. Instead, the pound bounced due to the broad correction in the US dollar rally and the recovery in the euro.

We retain a negative tactical view on the pound in response to weakness 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 that a fair amount of good news is already priced in, at least relative to the dismal expectations at the end of 2023. While absolute growth levels have been acceptable, they are lackluster and trending lower. The autumn budget was expansionary over the medium term, but the higher payroll taxes to finance the National Health Service may weigh on hiring and investment in the near term.

The BoE is likely to remain on hold in December; however, we see a skew toward larger-than-expected BoE rate cuts over the next six months due to the potential near-term tax drag, in addition to the recent deterioration in growth data.

Our long-term valuation model presents a more positive outlook for the pound. It is particularly cheap against the US dollar and Swiss franc. However, it is important to temper upside expectations, as low productivity growth and sticky inflation are pushing fair value lower. The fair value to the US dollar has fallen from 1.55 to 1.40 since May 2022. Breakeven inflation expectations and recent productivity differentials suggest that fair value will trend down to at least the upper 1.30s over the next few years. Even so, from current levels in the high 1.20s, the pound remains moderately cheap, even if fair value trends down as expected.

Japanese Yen (JPY)

The yen was the best-performing currency in the G10 during November, gaining 1.3% against the average. Once again, the yen closely tracked US yields. As US yields rose following the election, the yen lagged; however, on 25 November, when US yields corrected lower alongside the US dollar, the yen surged, finishing the month with a solid gain.

Within the context of its yield sensitivity, several notable factors influenced the yen's behavior during the month. First, despite the steady uptrend in US yields for two weeks after the election, the yen initially sold off by 1% but then moved sideways rather than trending steadily lower. This suggests that the rise in US yields had already been largely priced into the yen. Second, warnings against excessive yen weakness from Japan's finance minister likely tempered further declines, given the history of market interventions to strengthen the yen during this cycle. Finally, later in the month, the US dollar's correction lower coincided with stronger-than-expected Japanese CPI data and comments from the Bank of Japan (BoJ) governor suggesting that the next rate hike was approaching.

Overall, the yen's sharp sell-off prior to November, combined with the prospects of a BoJ rate hike as early as December, created conditions that limited its intramonth weakness and set the stage for a strong rally when US yields experienced even a minor correction lower.

We maintain a positive outlook on the yen, albeit less strongly against the US dollar. A 145–155 range for USD/JPY appears likely for the remainder of the year, driven by the uptick in US rates and growth. Where the exchange rate trades within this range will largely depend on US employment and inflation data in early December, as well as the Federal Reserve's economic projections in its December update.

Looking beyond the short term, we anticipate further yen strength, with USD/JPY moving toward 135–140 by the end of 2025. This projection aligns with an expected 25–50 basis point increase in Japanese policy rates and approximately 100 basis points of rate cuts from the Federal Reserve throughout the next year, assuming a soft-landing scenario. In the event of a recession, the yen could easily trade well into the 120s against the dollar, with even greater gains against higher-beta, commodity-sensitive currencies. Altogether, these factors position the yen as one of the most attractive currencies in the G10 over the next 12–18 months.

The primary risk to this outlook is a broad reacceleration of US and global growth and inflation. Even under such circumstances, while the yen may face challenges against the US dollar, it is likely to outperform currencies from regions with weaker growth, particularly in Europe.

Swiss Franc (CHF)

The franc fell 1.3% against the G10 average in November. The entire loss for the month occurred by 7 November, beginning with a sharp selloff following another downside inflation surprise. Core CPI for October came in at 0.8% YoY, compared to the 1.0% expected, with headline CPI falling to 0.6%, well below the forecasted 0.8% and the mid-point of the Swiss National Bank's (SNB) 0–2% target range. The ongoing trend of disinflation, alongside below-trend growth, points to further easing by the SNB at its December meeting, which weighed on the franc.

The outcome of the US election and its impact on US interest rates amplified the effect of lower rate expectations in Switzerland, pushing the franc to its low on 7 November. From there, the currency traded sideways for the rest of the month. Political uncertainty in Germany and France, the intensification of fighting between Russia and Ukraine, and weaker EU growth data provided support for the franc. However, this support was offset by negative factors such as higher US yields and an improved outlook for de-escalation between Israel and Hezbollah. The net result was a choppy, sideways pattern for the currency after 7 November.

Our models remain negative on the franc over both the tactical and strategic horizons. The CHF is the most expensive G10 currency according to our estimates of long-term fair value, has the second-lowest yields in the G10 (likely the lowest by June 2025), and core inflation is the lowest in the G10. Meanwhile, the real trade-weighted franc remains at the upper end of its 30-year range, and the Swiss National Bank (SNB) is cutting rates.

We expect the SNB to become more amenable to direct currency market intervention to weaken the franc once the policy rate reaches 0.50%, likely by March 2025. Given that a significant portion of the inflation undershoot is directly linked to franc strength via import prices, we believe it makes sense for the SNB to shift its focus from rate cuts to a weaker currency policy. Overall, we see the franc transitioning toward a prolonged reversion down to our estimate of its long-term fair value.

Norwegian Krone (NOK)

The krone rose 0.9% against the G10 average in November. Historically sensitive to equity and oil prices, the krone saw little impact from oil, which traded sideways, contributing only to intramonth volatility. In contrast, a rally in equities provided a tailwind that pushed the currency higher.

Domestically, the Norges Bank's decision to hold policy rates at 4.5%, reinforced by higher-than-expected inflation (2.6% YoY vs. 2.4% expected), offered additional support for the krone. A notable spike occurred on the policy announcement date, November 7, though it dissipated the following day. Nonetheless, the decision bolstered the krone throughout the month as investors rewarded currencies supported by hawkish central banks. The krone also received a minor boost from announced changes in the central bank reserve policy, which could prompt NOK purchases. However, Norges Bank's Ole Christian Bech-Moen cautioned markets against overstating the potential impact.

Our tactical model signals have shifted to neutral relative to the G10 average, reflecting improved local equity market performance. The krone remains historically undervalued compared to our fair value estimates and is supported by steady long-term growth potential and a strong balance sheet. In the near term, however, we expect NOK to remain volatile and directionless as oil markets grapple with declining tensions in the Middle East, potential increases in OPEC+ production, and ongoing policy uncertainty in Europe and the US.

Swedish Krona (SEK)

The krona declined 1.1% against the G10 average in November. Early in the month, domestic data was robust, with PMI figures significantly exceeding expectations and core CPI surprising to the upside at 2.1% YoY versus 2.0% expected. Despite this strong start, the krona weakened steadily during the first three weeks of November.

Much of the decline was driven by the Riksbank's decision to cut policy rates by 50 basis points, from 3.25% to 2.75%, accompanied by warnings of further cuts if growth and inflation align with expectations. Rising US yields, fueled by stronger growth and a more hawkish Federal Reserve outlook, further pressured the krona, as investors favored currencies backed by less dovish central banks. Additionally, the deteriorating EU growth outlook and a weaker euro compounded the krona's persistent decline. Late in the month, however, the currency recovered some of its losses as the US dollar rally stalled and the euro began to rebound.

Our tactical signal for the krona turned slightly negative during November, largely due to underperformance in Swedish equity markets. Weak equities, rapid monetary easing, and a deteriorating EU growth and political outlook suggest further downside risks for the currency.

On a brighter note, Sweden's economic outlook has improved, supported by stronger retail sales and better-than-expected Q3 GDP growth. Moreover, the Riksbank's aggressive easing measures lay the foundation for a more robust growth trajectory next year as monetary stimulus takes effect. The krona remains significantly undervalued relative to its long-term fair value and cyclically depressed. As global growth stabilizes and yields decline with the Federal Reserve and other central banks ramping up easing efforts, the krona has substantial room to recover. Consequently, while we remain slightly negative on the krona for now, we anticipate a more optimistic outlook later in 2025.

Australian Dollar (AUD)

The Australian dollar gained 0.3% against the G10 currencies in November. The month started strong, buoyed by higher-than-expected inflation data on 1 November, a rebound in the composite PMI on 4 November, and a relatively hawkish hold by the Reserve Bank of Australia (RBA) on the same day. The RBA maintained rates at 4.35%, stating they were sufficiently restrictive and would need to remain so for some time. This backdrop propelled the Australian dollar to a peak of 1.4% above the G10 average on 7 November.

However, the currency surrendered most of these gains by mid-month due to several headwinds. A disappointing fiscal stimulus outlook from China's National People's Congress (NPC) meeting, concerns about tariffs following Trump's victory in the US presidential election, and a string of softer economic data contributed to the decline. Notably, employment growth missed expectations — addition of 15,900 new jobs versus 25,000 expected — as did wage growth (+3.5% YoY vs. 3.6% expected) on 13 November. After a brief rebound, the Australian dollar weakened again toward the end of the month, driven by President-elect Trump's threat of a 10% tariff increase on China and lower-than-expected CPI data (2.1% YoY vs. 2.3% forecast).

Our tactical models remain neutral on the Australian dollar. Growth challenges in China, the absence of concrete fiscal stimulus from Chinese policymakers, and the potential for significant US tariffs on China pose barriers to sustained currency strength. On the positive side, while growth remains lackluster, it is stable, supported largely by robust government expenditures. The RBA's decision to hold rates and the fact that inflation remains above target provide yield support, particularly relative to the more dovish policies of the ECB, Riksbank, and Bank of Canada.

The Australian dollar's depressed valuation offers a cushion, likely reflecting growth risks and tariff concerns, which should help limit further downside. Longer-term prospects are mixed. The currency is undervalued relative to the US dollar, British pound, euro, and Swiss franc, offering room for appreciation. However, it remains expensive against the yen and Scandinavian currencies.

New Zealand Dollar (NZD)

The New Zealand dollar was flat against the G10 average in November. It rallied alongside the Australian dollar early in the month, supported by a better-than-expected Q3 employment report on the 5th, which showed an unemployment rate of 4.8% versus the expected 5.0%. Average hourly earnings rose by 1.2% quarter-over-quarter, significantly outpacing inflation — a welcome development for an economy teetering on the edge of recession.

However, following the US election and a disappointing fiscal stimulus announcement from China, the New Zealand dollar steadily declined, reaching its lowest point after the Reserve Bank of New Zealand (RBNZ) cut policy rates by 0.5% on the 26th. From there, the currency rebounded to end the month flat, aided by a broad correction lower in the US dollar and a more positive market reaction to the RBNZ's balanced statement. While the central bank maintained a dovish tone, it also revised its forecasts for economic activity upward, bolstering sentiment.

Our tactical model remains negative on the New Zealand dollar, though the signal has improved from being the weakest in the G10 last month to the fifth weakest, largely due to better local equity market performance. The benefits of New Zealand's traditionally high yields are rapidly eroding as the RBNZ continues easing monetary policy amid disinflationary pressures and near-recessionary conditions. Any residual yield advantage is likely to be offset by persistent growth challenges and a weak external balance, with the current account deficit at -6.7% of GDP. Additionally, risks of a US-China trade war pose a headwind for the currency, given China's significance as a key trading partner.

While we believe the RBNZ's rate cuts are necessary and beneficial in the long term, the positive effects will take time to materialize. Until then, the outlook for the New Zealand dollar remains challenging. Longer-term prospects are mixed. Our estimates of long-run fair value suggest the currency is undervalued against the US dollar and Swiss franc, offering potential for appreciation. However, it remains overvalued relative to 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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