2024 Currency Outlook

MONEX
Simplifying Global Payments

IN BRIEF

2023 Review & What's Ahead

What Happened

- After strengthening 12.0% in two years, the **U.S. Dollar (USD)** declined by 3.5% overall in 2023 per the **Bloomberg Dollar Spot Index (BDXY)**
- Much like the year prior, the fourth quarter **(Q4)** of 2023 resulted in major depreciation for the buck, marking a 5.0% downfall
- A major beneficiary in Q4 was the **Euro (EUR**), which recovered almost all it had lost the year before, climbing by 4.6% in value
- The United Kingdom managed economic pain and kept up with the Fed, helping to revive **Pound Sterling (GBP)**, as it rose by 6.4%
- Emerging-market **(EM)** currencies recaptured the interest of investors and had their best yearly performance since 2017
- The **Swiss Franc (CHF)** was the most attractive safe-haven asset, rising by 11.2% and hitting its 2015 zenith
- For the second year in a row, the **Mexican Peso (MXN)** was the best performer among the Majors, reaching its best levels since 2015 after climbing 14.4% for the year
- The **Bank of Japan (BOJ)** never joined other central banks in raising interest rates, causing the **Japanese Yen (JPY)** to plummet by 7.6%
- Equities mounted a significant comeback, with the S&P 500 growing 24.0% while NASDAQ 100 experienced its best year since 1999
- Russia and Ukraine continued their conflict without much sign of chance for peace
- The end of the year was characterized by turmoil in trade as the geopolitical picture only worsened with Middle East chaos and discord

Monex USA's View

- The Federal Reserve was proven right as a resilient economy withstood higher borrowing costs while seeing disinflation
- We foresaw the weakening of the Dollar throughout the year as the Fed also telegraphed the end of its tightening cycle
- A year of expansion that avoided outlooks featuring recession and other headwinds may be followed by a moderate one that also defies gloomy expectations
- Although the Federal Reserve is expected to pivot, we think they will find it difficult to reason cuts to interest rates unless there is evidence of economic deterioration
- Europe has hopes for an economic resurgence after surviving energy concerns and adjusting to a less globalized system of commerce
- The **European Central Bank's (ECB)** commitment to contractionary policy in fighting inflation could remain a source for the shared currency to see higher levels
- **Bank of England (BOE)** officials also made it clear that they are not interested in rate cuts, but recessionary pressures could change their minds and hurt Sterling
- Geopolitical realigning will continue as the BRIC group of commodity-wealthy nations (Brazil, Russia, India, China, South Africa) look to challenge the dollar's dominance in the financial system
- Nevertheless, doubts over the sustainability of the global growth narrative that carried other currencies could slow down the Dollar's downward trend

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IN FOCUS

BBDXY: The Buck's progress was stalled, and eventually it collapsed

(The Bloomberg Dollar Spot Index saw many swings until the buck finally caved in to close)

USD done with its post-pandemic run as the Fed also takes its foot off the gas

- After two years of gains, the buck finally lost momentum, and various currencies are experiencing multi-year highs (MXN, CHF)
- Fighting inflation took a long period of hiking interest rates thus, we doubt there will be a quick resolve to cut into them right away
- U.S. economic strength may moderate a bit, but we doubt the system requires any stimulus via looser monetary policies in the first half of 2024
- The economic advancement of China and other countries will also be key in preventing the buck from resurgence

THE VIEW – Dollar fortunes will depend on stability elsewhere after a troubled Q4

New turbulence could derail the global recovery and prevent central banks from staying hawkish

It was not easy, but it worked. After the record price growth that followed the shock of the pandemic and subsequent shutdowns, the Federal Reserve and other major central banks managed to cause disinflation by implementing higher borrowing costs. Naturally, markets figured there would be recessionary pressures, but at least in the U.S., expansion accompanied the alleviation of prices for both suppliers and consumers.

Much like we wrote in the outlook for 2023, the year was indeed a tale of two halves in which the first was characterized by determined interest-rate hiking, and the second witnessed a pause in Fed action altogether. Ever since their decision to raise by 25 basis points at their end-of-July meeting, the Fed kept its rate unchanged at 5.5%

A main catalyst for the change in mentality was evidence of price levels significantly slowing down by June, with Consumer Price Index (CPI) readings coming in at their lowest level since 2021. Producer Price Index (PPI) figures also helped as they kept dwindling throughout and eventually reached their lowest point since the end of 2020.

While some economists figured a major dent in economic demand from contractionary monetary measures, this phenomenon never materialized. Instead, the economy kept surprising us, staying above 2.0% quarterly growth on average for Q1 as well as Q2. Furthermore, markets were astonished by Q3 Gross Domestic (GDP) growth coming in at a 5.2% pace.

Although most of the year went fine, it is easy to forget that there was a banking crisis. First Republic, Silicon Valley Bank, Signature, and Silvergate fell in March, resulting in rounds of emergency lending that maintained solvency and faith in the banking system despite a downgrade in the U.S.'s credit rating.

Salvaging economic progress while successfully deterring prices was considered the "soft landing" scenario possibility if all went according to the Fed's plans. Now that we seem to be living it, it seems natural to question what could deviate the economy from flourishing further.

One big source of concern is the Housing sector, where lack of affordability has been a main cause of consumer dissatisfaction with the economic situation. In October, data uncovered the fewest number of mortgage applications since 1995. Additionally, Building Permits had also dropped by 4.4%, only worsening the already limited supply of available real estate for purchase. The country is particularly low on single-family units.

Many construction and materials companies saw declining confidence, pointing to rapidly escalating credit costs to initiate projects. It is possible they see relief in expectations of lowered interest rates after the Fed plotted the likelihood of three or more cuts this year. The body had no consensus over what was to come, with eight officials halfheartedly estimating barely two reductions for all of 2024.

When it comes to labor, things may finally be cooling down. It seemed like applying contractionary monetary policy was not affecting the demand for workers, and different industries, like hospitality, struggled to keep many from quitting in early 2023. November employment figures revealed this trend stopped, with hirings easing dramatically from October, the number of quits falling, and the pace of layoffs staying steady.

However, a December survey did reveal that perhaps the Services Sector is no longer seeing growth in its ranks. Although gauges such as Non-Farm Payrolls showed more jobs added in general, the Institute of Supply Management's Services PMI Report came in worse than expected, with a contractionary reading of 43.3 instead of the 51.0 expansion estimate.

Making an impact immediately, the odds of cutting rates by the time the Fed meets in March increased to 66.0%. Additionally, the greenback was subdued after days in which traders had started to lower their expectations of a dovish pivot based on commentary by officials who felt rates could stick around for long.

One person to share that thought is Richmond Fed Chief Tom Barkin, who explained that there are some risks to the economy's ability to sustain its steadiness. One issue is that maybe the U.S. reality runs afoul of detrimental effects from high borrowing costs manifesting themselves in 2024. A second concern is having to expect the unexpected, such as another banking crisis or flare of international drama that prevents efficiency in trade. A third possibility is that the Fed is aiming at the wrong ideal target for inflationary growth and should not be shooting for 2.0%. Finally, if labor and inflation are not contained and have room to expand, chances are the Fed will need to halt its pause, but rather than lower interest rates, go back to a round of increments.

We believe that moderation will be the theme for 2024, with no attention to gloom and doom forecasts. After having to unload tons of stimulus both monetarily and fiscally, the U.S. seems to have achieved a pre-pandemic balance in job creation. Unlike most other regions, the economy looks healthy, and we feel it would need to reveal a lot of damage going forward for the Fed to consider moving the needle.

Consumers are also spending more on all sorts of products and activities despite demonstrating dissatisfaction in sentiment and confidence surveys. The Fed did its job, but we shall see if other developments can cause a shift in this new era of "wait-and-see." As elections get nearer, expect scrutiny over statements and its independence as political parties use economic statistics to point fingers at the Fed if things go sour in any way.

Meanwhile, the American consumer can gain in the near term as the global reality also improves. In China, export data revealed the first advancement in six months. Indeed, the world's second-largest economy managed a tough year in which it witnessed havoc across all sectors while officially falling to Mexico as the U.S.'s top trading partner in July.

While globalization is going through a transformation, with countries choosing to trade with others that are more politically aligned, there has been a worrisome escalation in international violence. October was marred by a terrorist attack that provoked Israel's invasion of Palestine's Gaza Strip to counter the culprits and rescue kidnapped nationals. The havoc has only revived the worst of the historic rivalry and has expanded to other arenas like the Red Sea.

Other than troubles around the Suez Canal and Russian oil revenues that have grown despite sanction efforts, BRIC could pose a sterner challenge to USD by teaming up with Saudi Arabia.

€ Our vision of a stronger Euro arrived as the ECB remained hawkish

Higher interest rates managed to take hold of price growth, but economic progress is lacking

We finally overcame the hump. After being bullish on Euro prospects for appreciation and coming up short for some time, our predictions for the shared currency were accurate. As a result, we are honored to be ranked as the second most precise EUR/USD forecast, along with being number one for EUR/GBP pair per Bloomberg FX Rankings for Q4.

Although the items plaguing the Euro-zone seem insurmountable, a return to risk appetite uplifted confidence in the area. Equity exchanges found themselves back in the green territory following an investment retreat in 2022. By the close of 2023, the Euro Stoxx 50 climbed by 16.5%.

Nevertheless, it was really the determination by the European Central Bank to stick to its tightening mandate that proved the right approach to help in reducing the pace of prices and debunk the U.S. Dollar after it had even reached its best record against the Euro since its inception.

Such was the commitment to combatting inflation that the ECB hiked interest rates until September in contrast with the Fed, which chose to end the contractionary era by mid-summer. The course taken worked, with the Consumer Price Index average for the year falling below 3.0% and coming closer to the 2.0% target, something often cited by ECB officials as attainable.

However, the Eurozone as a whole seems to be too slow for comfort when it comes to activity and productivity. In comparison to the U.S., the European continent is being more severely and directly impacted by the negative repercussions of war along with the displacement of people. While oil prices have certainly dwindled, energy concerns have not entirely gone away.

In trying to make the Russian war chest smaller, Europeans have implemented all types of restrictions and sanctions reprimanding the flow of that nation's fossil fuels. However, the Russians have been helped by others like China in finding their way to markets. As 2023 came to a close, Russia renewed its assault on the Ukrainian capital, Kiev.

Ukrainian President Volodymyr Zelenskyy has pleaded with European leaders to foment more of a sense of urgency about the Russian invasion. His diplomacy has Ukraine on a path to join the European Union bloc, but his calls for further funding to aid the defense campaign have started to fall on deaf ears. There is a sense of fatigue with financing military operations, not just on the Eastern front but now across the Mideast and its crucial ports.

Shipping lines could further damage a fragile economic picture as the chaos ensuing in the Suez Canal continues. Iran-backed Houthi Rebels are attacking ships and causing havoc following the heated situation taking place in the Levant. According to a report from international freighter "Freightos," the costs of shipments from Asia to Northern Europe have surged by 173.0% since.

It must be noted that we believe the Eurozone has the potential to get out of its hole and see better times ahead. The Gross Domestic Product for the Eurozone is faltering, though, and some economists are already hitting the recessionary alarm. The final reading of Q3 GDP growth revealed a contraction (-0.1%), making the annual average flat.

Likewise, December readings of the Purchasing Managers Index (PMI) fueled worries with a contractionary 47.6, remaining below 50.0 for the seventh consecutive month. In Germany, where recession has been narrowly avoided, factory orders dropped unexpectedly in October. If Euro is to sustain its gains, there needs to be a turnaround.

It is possible for the Euro to stay afloat based on the fact that inflation has returned after seven months of consistent drop. Subsequently, this reduces the chances of a pivot by the ECB and maintains them under those for the Fed by the end of Q1. At the time of writing, the odds of a cut to rates by the ECB for March are under 45.0%, while the Fed hovers around 66.0%.

We believe that while the spike in value was merited, the Euro will be tested as the European Union looks for improvement. There is interest in expanding budgets and fostering more technological independence, but each nation may not agree on how to get there. The battle over Ukraine seemed to be a moment for revamping integration, but national sovereignty seems to be taking hold of the politics in major economies.

In the Netherlands, Geert Wilders became prime minister after failing to reach office in his previous attempt. While less controversial of a candidate this time around, his ascension came as the Dutch entered a recession.

His former calls for a Netherlands exit from the EU have diminished, so his administration and economic goals may be more in line with Italy's Giorgia Meloni, who rules with a right-of-center coalition. Immigration and foreign policy is where he may collide with others, such as France's President Emmanuel Macron.

Meloni, who has been credited for keeping Italy stable, has also been the only European leader to keep an open-arms relationship with China. The EU realizes that its €400.0BN trade deficit with China will be tackled if the economy wishes to get some relief from the deepened interdependence. The two have clashed on positions over Russia's claims and invasion, as well as aggressive attitudes aimed at Taiwan, causing less cooperation and sharing.

While the EU wants to work by China's side in all it can, it will stay vigilant and recalibrate its strategy. The euro will likely improve, but indicators need to aid it.

(2023 served as a year to recover almost all the value Euro lost through 2022)

£ Sterling surprised and defied the bearish outlooks it had in early 2023

Steadier leadership and a hawkish Bank of England helped GBP overcome the worst fall in its history

2022 had us a bit traumatized. Not only did "Cable" collapse to its weakest point ever in September of that year, but the tumultuous post-pandemic reality of the United Kingdom was characterized by a vacuum in leadership.

Most definitely, Conservatives have not lost the majority in Parliament for quite some time, allowing the Tory Party to choose a Prime Minister of their liking. However, several scandals brought their administrations down in what looked like an unprecedented fashion. Without enough opposition to counter their agenda, they simply needed to choose someone to moderate tensions all around.

Following a budget plan that literally scared markets, Liz Truss was replaced with Rishi Sunak, who has managed to stay in Downing Street during a delicate time for both domestic and foreign politics. Sunak has navigated through a sea of changes to geopolitical interconnectedness, including post-Brexit nagging effects.

In this regard, his success has to be credited with reaching an agreement with EU counterparts to establish a more robust Northern Ireland protocol. Since October, goods have been traded under the Windsor Framework, established with the aid of EU President Ursula von der Leyen and eventually approved by the respective legislative bodies. Setting a de-facto border, easing customs checks, and, more importantly, information-sharing were the main fixes as it was recognized that Northern Ireland would remain a member of the EU single market for goods.

Much like the Fed and the ECB, the Bank of England stayed on a tightening course and brought inflationary pressures drastically down. It needed to after experiencing the highest level of inflation for food items since 1977.

BOE Governor Andrew Bailey led the charge in rolling with the punches and bringing the benchmark interest all the way up to 5.25% despite a persistent threat of recession. Currently, the yearly CPI stands at 3.9%. Thus, it has proven to be more stubborn than in the U.S. or Europe, slashing chances for any cuts any time soon.

As the financial environment adapts to the BOE keeping rates higher for longer, Pound will face challenges if a recession does present itself. The final revision for GDP in Q3 revealed that instead of things staying stagnant, the economy fell (-0.1%), so Q4 could produce the dire outcome many have kept in their vision for the country.

There is some hope that 2024 will turn out rosier than some seem to believe, especially with the end of last year showing some advancement instead of regression. October, November, and December Purchasing Managers Index Composite figures came in higher than estimated, with readings in expansionary territory. The December Services data was the highest jump in activity in six months.

In our view, risk appetite was a factor in aiding Sterling, even carrying along good times for the FTSE 100, which rose 2.4%. At some point, though, the U.K. must make the transition from being stuck in a state of “stagflation’ to finding steady growth.

Sunak has provided a solid hand, but he has to survive calls for an election before January next year. Per a poll conducted by data company Statista in December, 45.0% of British adults said they would vote for the Labour Party in a general election, while only 22.0% would rather go with the Conservatives. We think that if 2024 follows the trend, the U.K. can accomplish more than it did last year as it also engineers a reversal of some of the obstacles self-inflicted by Brexit. Ultimately, this should bode well for Pound's prospects for growth. Per Bloomberg FX Forecast Rankings, we had Sterling pinned at the right level and made number one on the list.

(Just like the Euro, the GBP found support from hawkish monetary policy and overcame all-time lows)

¥ A banner year for equities and central bank divergence subdued Yen

JPY continues to be clouded by a slow recovery from shutdowns during the pandemic and ultra-loose policy

Not a ton has changed for Japanese tender from the last time we tried to envision if it could start making headway toward appreciation. It is easy to forget that the Japanese Yen has deteriorated since the pandemic began, crumbling by 27.0%. At the end of September, it fell to its weakest point since mid-1990.

As dismayed as markets may be about it, the Bank of Japan did not deviate from its expansionary monetary easing and kept the last remaining interest rate in negative territory at (-0.10%). After avoiding the hawkish action its peers undertook with rounds of interest rate increments in the past two years, is it ultimately ready to get out of its dovish bubble?

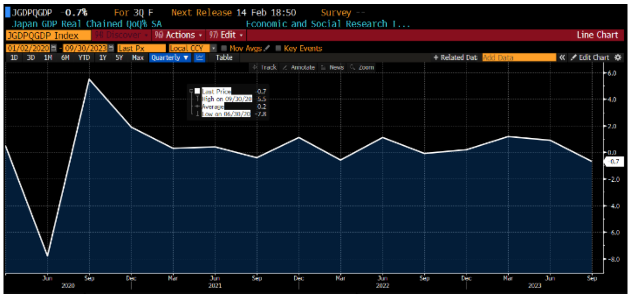
Early into the year, there have been some signs that BOJ could certainly pivot. Word has come directly from financial authorities themselves that a shift may be appropriate under the right economic conditions as the year progresses. The central bank wants to achieve the target of 2.0% inflation and is close to getting it, with November CPI figures showing that the yearly average decreased to 2.6% below the 3.0% estimated.

Towards the end of the year, BOJ Governor Kazuo Ueda explained that leaving behind their accommodative negative borrowing costs would be under consideration, especially if the probability of reaching the 2.0% inflationary goal improves with time. He said that he will be closely monitoring the continuation of wage increases.

Ueda's comments were echoed by his Deputy Governor Himi Norazo in December when he emphasized throughout a speech the "good results" that could come as a consequence of exiting current large-scale easing. As of now, chances that the BOJ will move the needle to 0.0% or higher by their April 26th meeting stand at 38.1%.

Other than the possible end to the ultra-loose era in Japan, JPY has the opportunity of being boosted by investment instead of being a safe-haven asset when struggles overcast the globe. Last year also saw the NIKKEI equity index go up by 30.0%, and the country reopened fully to all tourists, seeing travel come back to pre-pandemic levels.

As 2024 started, Japan suffered an earthquake that triggered some tsunami warnings. Already, it has taken a toll on the Yen, declining by 2.4% thus far into the year. While assessment of casualties and reconstruction takes place, expect high volatility and ongoing doubts that BOJ members are ready to act on their words. On our end, we stand with Japan as they navigate through storms and see 2024 as the opportunity for Yen to finally eek out a win over the dollar by the time 2024 is done if not all throughout.



(Japan's GDP has struggled to stay above water ever since 2020 brought COVID-19 to the island)

CAD: "Loonie" gains in 2023 came without impressing economically

Keeping in line with Fed measures, the Bank of Canada's telegraphed path supported the Canadian Dollar

The U.S. Dollar rally was merciless in 2022 as drama ensued, but the "loonie" was among those who picked up steam without much to show in progress this year. Following a surprisingly expanding American economy, Canada benefitted, but the growth of our northern neighbor has been sluggish.

The yearly GDP average currently sits at 0.9%, falling below 1.0% after monthly figures for September and October disappointed. Instead of seeing even tiny upticks of 0.1%-0.2% as forecast, both months registered no growth whatsoever, flat at 0.0%. Add to it the fact that CPI registered an unexpected gain per November data, and Canada is now being bogged down by "stagflation."

Positivity in markets defied the pessimistic calls for recession, and we believe 2024 will be another year the Canadian economy will get by. Obstacles will emerge if outside disturbance holds back shipments and make for delays that bring back even stronger inflationary pressures. On the other hand, anything that makes oil more expensive may aid CAD if the correlation between it and oil prices returns.

At their last meeting on December 6th, BOC Governor Tiff Macklem and his board left rates untouched, but they reiterated the goal of lowering inflation and kept a tightening bias. Macklem believes that inflation threats have not gone away entirely, and the BOC is better off prepared.

Overall, we think Canada has plenty of room to grow as it normalizes its labor sector growth, allows more immigration, and the BOC stays away from tightening the financial environment. Furthermore, the latest survey of Purchasing Managers showed confidence in expansion. While Macklem has been adamant about still watching for price growth going out of control, he has admitted that they have put a chokehold on spending. A change to that slowdown could spell a serious resurgence for CAD.

(CAD is still 4.0% off from where it was at the start of 2022, even though it recovered 3.2% in 2023)

MXN: Super-Peso may stay buoyant if the upward economic trend remains

A closer relationship with the U.S. has endowed an already surgent Peso to its 2015 highs

For two years in a row, Peso has outdone all of the damage brought on by the coronavirus. In comparison, 2023 marked the worst annual loss for the buck since 2020, while MXN was only outperformed by the Colombian Peso. In general, Latin American currencies had a stellar year that complemented EM-assets having their best time since 2017. Almost in tandem, central banks across the hemisphere were able to push interest rates further upward, consequentially saw reductions to price growth, and witnessed growth in all indicators, becoming envied by other regions.

As conflicts have broken out around the globe, our hemisphere has not felt the direct impact of those disruptions and maintained positive levels of growth. In Mexico, GDP for the third quarter was impressive, coming in at 3.3% and beating expectations like other previous releases. This has become common, with Industrial Production as well as PMIs also going beyond what is foreseen time and time again.

A lot of the economic jolt is due to recent developments that have forced the U.S. to approach China differently. As written about before, COVID made nations more sensitive to supply-chain dependency issues, resulting in “Near-shoring” as well as a realignment of geopolitical power-sharing.

Although heavily scrutinized, the overhauled version of the NAFTA Trade Pact made it possible for the U.S. to switch manufacturing hubs quickly. Tech promises to reinforce it. Planned or not, this ultimately led to Mexico becoming America’s largest trading partner. China held that special status since 2014, when it rose above Canada. Undeniably, keeping ties with Putin and Russia has cost Beijing dearly in the world arena.

In regard to monetary policy, Banxico seems ready to consider cutting into interest rates if economic data forces its hand. Officials have a 3.0% yearly inflation goal, and some statements in the first week of 2024 suggested that shooting for this is a priority over exuding a need for any stimulus. As of November, CPI annually registered at 4.3%.

The peso’s momentum could go on if there is no economic upheaval ahead or after the Presidential elections are held in June. As AMLO leaves us, we must admit his tenure enlightened us a bit and turned out to be opposite to ominous expectations. The peso could experience a year of two halves as it also sees if it can continue to be held up by a growing economy. While there is a chance for further appreciation, we feel it will be more subtle.

(MXN has jumped by 17.6% since 2021, with new trading dynamics making Mexico a winner)

(The MSCI World Index, representing companies in 23 countries, recovered all that was lost in 2022)

CHF: Switzerland remains a beacon of security as a refuge from an ailing globe

Despite risk-aversion saying 'Verabschiedung' in 2023, conflicts keep CHF as a go-to for safekeeping.

Swiss Franc performed astoundingly during 2023, finding support from both the resurgence in global investment earlier in the year as well as the desperate search for protection in the last quarter. Historically, it has been the U.S. dollar that has seen a major jump when something violent and chaotic reaches the wire.

However, that was not the case when the war between Israel and Hamas intensified in October. According to Q4 movements, the Swiss Franc has played a bigger role as a safe-haven asset since then, rising by over 9.0% during those months. It is possible that any opportunities for a ceasefire will keep the trusted currency more subdued and cool its run.

The well-being of European nations will also influence the Swiss Franc's direction, as any signs of expansionary developments will impact it positively. Once again, CHF could be a major beneficiary of a divided world that seeks its market for safeguarding its wealth as well as its participation in fomenting a global growth narrative when possible.

Domestically, GDP has been stagnant, but traders hope a revival in pharmaceuticals as well as tourism will propel the economy forward more rapidly. Companies will also need to watch out how to digest the introduction of a new minimum corporate tax of 15.0%, which came about from a global deal run by the Organization for Economic Cooperation and Development (OECD) and is being honored by some G-20 members.

After reaching its best levels since 2015, CHF could still find room for appreciation. It could be derailed if the merger between UBS and Credit Suisse is botched in any way. We think European prosperity can counter any internal mishaps.

(Among the major traded currencies, the Swiss Franc was only toppled by the Brazilian Real (BRL) and MXN)