MONEX USA

CURRENCY OUTLOOK

MARCH 2024

IN BRIEF

What Happened

- The Buck climbed by almost 1.0% in February, adding to its 1.8% resurgence thus far for the year per the Bloomberg Dollar Spot Index
- Swiss Franc (CHF) and Japanese Yen (JPY) fell the most among Majors as risk-appetite took over markets
- The Mexican Peso was one of just a few currencies that managed to escape the USD rally, up by 0.1%
- Mixed indicators and commentary out of the U.K. ultimately caused Pound to lose around 1.0% in value
- FX volatility dropped to pre-pandemic levels with central banks echoing a wait-and-see approach

Monex USA's View

- March's monetary policy-heavy schedule will reveal that borrowing costs will not be lowered soon
- Bank of Japan meeting on the 19th will be closely watched for any indication that interest rates will get out of negative territory
- China's ongoing efforts to revive economic confidence likely to strengthen AUD and NZD
- "Banxico's" stance to remain firm on rates will be tested after LATAM banks cut across the region
- No cease-fire in the Mideast and escalation in Ukraine keep the U.S. economy a safe haven

IN FOCUS

MXN: For the past two years, the Peso has climbed by 20.0% against the U.S. Dollar

(Bloomberg MXN graph starting on February 1st, 2022, showing an impressive run with a few bumps)

The Mexican Peso has been the strongest major currency to counter the USD's dominance

- Unlike other countries, Mexico has managed to maintain an expanding economy post-pandemic
- After establishing itself as the U.S.'s largest bilateral trading partner, Mexico has kept a 2.5% annual Gross Domestic Product average
- Banxico, the central bank, has been able to hold interest rates high in tandem with the Fed based on confidence and growth
- Weakness for the currency is hard to foresee, but sensitivity will exacerbate closer to June elections

THE VIEW —Buck re-strengthening continues based on hot economy

Recessionary pressures elsewhere make for a safe-haven dollar

The Buck is having a moment. After a fourth quarter marked by speculation that the Fed would enter 2024 ready to start cutting interest rates, the U.S. Dollar has only risen in the past few months as those "dovish" expectations faded away. It has also helped immensely that the frustrations for investors have not translated into a jump for safety. On the contrary, equities are enjoying a historic run domestically and across the globe.

While there is some growing concern over market concentration as only a few companies seem to be leading in all of the prosperity, economic performance as a whole is making the dollar more attractive to hold onto. Evidence has revealed that the second half of last year resulted in sustained contraction for other regions, even entering into technical recessions.

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America is in good shape in comparison to most. A second revision of its fourth quarter GDP showed that the economy grew by 3.2% while others stayed flat or declined. The holiday season also proved to be a good one as Personal Consumption came in at 3.0%, over the 2.7% expected. While disinflation has not always meant a big break for consumers' pockets right away, they have not hesitated to go out and spend.

It has also helped that wages seem to be increasing with January's reading of Personal Income surprisingly robust at 1.0%, more than twice the estimate. Confidence readings have shown steady optimism, although the last reading of the University of Michigan Consumer Sentiment did come up with a lower satisfaction with potential future conditions. Some doubt the good times can last.

Meanwhile, the labor sector remains a beacon of stability with January's Non-Farm Payrolls impressing with an added 353K jobs when only 185K were forecast. Average Hourly Earnings went up to 4.5% from 4.1% for the year after January's 0.6% rise doubled the expectation. Although plenty of headlines have featured unfortunate announcements of major layoffs, Jobless Claims numbers did not deviate from modest estimates.

When it comes to price-growth, inflation seemed to be stubborn with Consumer Price Index for the year going above 3.0% after climbing 0.3% in January. Furthermore, Producer Price Index rose, making it clear that the process of disinflation will be long and bumpy until prices truly start deflating for suppliers and can be passed on as relief for consumers. Home prices have started to fall with demand down as mortgage rates remain unaffordable at high rates of interest.

The combination of solid macroeconomic fundamentals and prices not sinking is making it easy for the Fed to stay put and find it unnecessary to lower interest rates in the next couple of meetings. Already near the end of the first quarter, officials have not seen any particular piece of information that suggests the economy is going to be suffering. It is a sign of performance divergence that while the Fed can breathe and not intervene, China is coping with its fastest pace of inflationary decline in 14 years.

American exceptionalism is proving to be a factor in keeping the dollar strong for now, with other economies dealing with the effects of a troubled world more directly. While February began with hopes of a ceasefire after a proposal from Arab nations to Israel and Hamas, the violence has only turned uglier and further fueled the Buck as it commonly happens in times of chaos.

On the other side of the Atlantic, ships have been forced to re-route as a result of attacks from Houthi rebels that have disturbed commercial trade. Overall, it has meant coordination between European Union allies, the U.S. as well as the United Kingdom to actively patrol the region and launch counterattacks.

Violence has also reignited in the Eastern front, with Ukraine struggling after waiting months for aid packages in the form of finances and weapons that did not materialize. Russia's campaign has intensified, and it has caused changes to the Ukrainian military. We believe that pressure to expand its defense capabilities will start becoming a boost to the European Union economically, eventually the shared tender.

Unlike Japan and the United Kingdom, the Euro-zone avoided entering into a recession. However, Germany, its largest economy and many member nations are stagnant, and it was Italy and France that managed to pull the rest of the economic area from tumbling. Recession risks in Europe are up though following a survey by the Swiss economic Policy Institute. The chances of having two consecutive quarters of downward output this year are 38.0% for the Euro-zone while only 26.0% for it happening in the U.S.

In the U.K., indicators showed the country was coping with a recession during the second half of 2023. More worrisome, a deeper analysis of the data shows that throughout the year, GDP per Capita never advanced, registering at (-0.7%). Economic pain has been cited often recently in describing the hard time for individuals. Nevertheless, we feel that the worst has been passed and we see reasons for better times ahead. While dealing with some controversies, Rishi Sunak's administration has achieved to produce a budget surplus. Additionally, Consumer Confidence among Britons is at a 2-year high.

We think the Buck can retreat only if volatility returns and a path to peace is agreed on. An America-First economy, rallying stocks, tech dominance, and being a net energy exporter merit a strengthened dollar.