

### IN BRIEF

#### What Happened

- USD slide continued with a 1.2% fall in September, marking the worst Q3 performance since 2010 as the value overall dropped by 4.0% in three months
- The Federal Reserve's decision to cut interest rates by 50 basis points caused the Bloomberg Dollar Spot Index to decline to its weakest point since end of 2023
- Euro fortunes continued despite further loose monetary policy from the European Central Bank to aid growth
- Pound Sterling strengthening to its best level since March 2022 came as a result of monetary policy hold
- Anxieties over political situation in Mexico subsided helping MXN recover by over half a percent

#### Monex USA's View

- Fed's willingness to continue on "dovish" path may be challenged by improved economic indicators
- Escalation of violent conflict globally likely to give safe-haven assets an uplift to start Q4
- MSCI Emerging Market Currency Index all-time record faces test after round of risk-appetite from China's stimulus fades in positive impact
- Mexican Peso copes with uncertainty over new government proposals, U.S. elections, and relations
- Euro and GBP could appreciate more from news of closer cooperation between U.K. and the single market

### IN FOCUS

*GBP: Pound recovered its value by 25.0% in two years after reaching the lowest level since the pandemic hit*



*(Bloomberg chart showing how GBP mounted a comeback over the Dollar as the U.K avoided doom & gloom)*

*U.K. stability countered the negative outlooks for the country and boosted Sterling significantly*

- Instead of facing recessionary pressures, U.K. Gross Domestic Product is at 0.7% annual average
- A new administration led by the Labour Party is looking to end a long period of fiscal austerity
- Bank of England officials seem satisfied with the financial environment and remained "hawkish"
- Perception of Britain has seen major improvements after the famous "Truss Budget" shock of '22 that sent markets into a frenzy about overwhelming cuts

### THE VIEW — Fed cutting borrowing costs weighing on the safe-haven Dollar for now

*After interest rates were slashed, worldwide troubles may be new focus*

The Fed reduced interest rates at last, satisfying markets after seeing enough softening in the labor sector to exercise loose policy. Regardless of an economic reality that compared to other countries can be a source of envy, officials felt it was appropriate to begin a cycle of rate cuts that exceeded the 25-basis-points we predicted. Indeed, we admit to not aligning with Fed mentality after believing

that advancement in Gross Domestic Product, which now stands at a yearly average of 3.0%, was a sign that lowering borrowing costs aggressively could be delayed further.

America's commerce and trade in general may face new headwinds though, after it was announced that thousands of workers at key ports will be going on a labor strike.

At the time of writing, headlines regarding the major issue with a labor pact expiring started hurting markets all over with growing concerns that the strike can ruin the progress made in establishing healthy supply chains post-pandemic. The arrival of COVID smacked globalization and revealed just how delicate the logistics of an interdependent globalized system can be.

Dock workers that handle the unloading of large trading ships are represented by the International Longshoremen's Association (ILA). This labor union is responsible for negotiations with the United States Maritime Alliance (USMX) and there are disagreements on extending the contract.

Although it just began, it represents the biggest disruption at the ports since 1977. More than 50.0% of all the goods that are imported into the U.S. in container ships come through East and Gulf ports expected to be affected. Meanwhile, 70.0% of containerized exports are dispatched from those places, particularly out of the Port Authority of New York and New Jersey. Already, economists foresee dwindling of data points in the next couple of months as 45,000 workers walking away may signal struggles ahead.

On the other hand, the world's second largest economy is looking for ways to combat stagnation. China has been implementing stimulus measures gradually, but in September, the government decided to directly help homeowners and put forth plans for reenergizing the property sector that has been plaguing advancement. By slashing borrowing rates and injecting liquidity into the banking system, Chinese officials are looking for the country to return to being an engine of growth for others.

While Asian stocks rejoiced and witnessed their highest point in two and a half years following China's course of action, there is worry that the decoupling of China from the United States, after losing its top trading partner status, has led to a lack of enthusiasm in foreign investment from the West. Emphasis on who controls and will dominate technological advancement has created friction along with the formation of opposing views on foreign policy as well as diplomacy.

China will most certainly need to recalibrate its strategy and prove that it can be a source of more than just fear. In Japan, recently elected leadership has entertained the idea of forming something similar to the North Atlantic Treaty Organization (NATO) in order to neutralize China's potential for military aggression whether it is against Taiwan or to intimidate in the South China seas.

Shigeru Ishiba, Japan's new Prime Minister, came into office with plans to strengthen the country's defense system and expectations of fostering contractionary monetary policy. Nevertheless, in hardened commentary that is perceived as unusual for a Japanese PM, Ishiba expressed that he does not consider further interest rate increases appropriate in the current environment.

Bank of Japan's chief, Kazuo Ueda, had to explain to the press that the Head of Government did not make any explicit policy requests, but that he wants to see progress in a sustainable manner. It is possible that this puts the brakes on the Yen's rapid rise ever since the start of Q3, which has seen JPY regain over 12.0% of its value over the Buck from July 1<sup>st</sup>.

Problems in the Middle East are likely going to incentivize a jump towards safe-haven assets, which could in fact aid the likes of Swiss Franc and Yen as well. It must be taken into account, however, that Swiss National Bank officials just explained the importance of a weaker exchange rate for CHF as they are hoping to push for an increment in Swiss exports.

This is tied to the anemic situation faced in the Euro-zone after member economies have tried their best in coping with less reliable energy sources that have led to contractionary, if not recessionary pressures, especially in Germany. It seems like good timing that inflation for the Euro-area slowed below the European Central Bank's 2.0% target for the first time since 2021. In turn, this will allow the ECB to continue their easing without hesitation.

Regarding our neighbor to the south, the inauguration of Mexico's first female president Claudia Sheinbaum was well received by markets, which found renewed love for Mexican Peso after the new leader explained she wants the country to be a major player in renewable energy. Mexico could indeed play a role as bridge between China and the U.S. while benefitting from renewable tech interest emanating from both trading partners.

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