MONEX | USA

# CURRENCY OUTLOOK

## November 2024

## IN BRIEF

### What Happened

- Per the Bloomberg Dollar Spot Index, the Buck climbed by 2.6% in October, rising to its strongest level since July and marking a comeback after Q3 losses
- An American economy that remains strong all around is contrasting with global uncertainty and downgraded outlooks, which bode well for a recovering U.S. Dollar
- The Euro fell 1.6%, down to its weakest point since July after an interest-rate cut and France budget troubles
- Sterling saw a 3.0% drop last month with concerns over spending plans and likelihood of more stimulus to come
- Regardless of solid economic numbers, the Mexican Peso reached its lowest value since October 2022

### Monex USA's View

- U.S. Dollar strengthening could continue if Fed sees reason to delay further rate cuts into next year
- As predicted, the MSCI Emerging Market Currency Index has room to fall deeper with pessimism over impact China can have with economic aid
- Euro fortunes can change if economic indicators stay on the upside as sign that ECB cuts are working while inflation is under control
- Anxiety over the potential of tariffs and trade barriers could subside and give MXN a boost post U.S. vote
- Volatility will dictate market moves as key events materialize and traders react and plan for 2025

## IN FOCUS

### *MXN: Political concerns, both domestic and foreign, have derailed Peso in the second half of 2024*


***(Bloomberg chart showing since the start of 2024, MXN has lost over 15.0% of its value; 10.0% alone since July)***

### *Mexico's strong economic performance has been overshadowed by worries over leadership*

- Mexico's Gross Domestic Product has grown at an annual average of 1.5% and Q3 growth surprised coming in at 1.0% versus just 0.6% expected
- Regardless, worries over a one-party system giving new president Claudia Sheinbaum a mandate to amend the constitution spooked wary investors
- Recent weeks have seen growing concern over how renewable energy may clash with other industries
- Mexico will play a major role in global trade going forward as bridge between Asia and the Americas, but could run into friction with U.S. decisionmakers

## THE VIEW — USD gains merited until economy reveals downturn

### *Although economists are looking for weaknesses, America has defied expectations*

Doubting the Dollar has proven fruitless this year. While we have been fortunate to be amongst the Top ranked forecasters for G-10 currencies per Bloomberg, there is no denying how difficult it has been to maintain a cohesive narrative while coping with the turbulence of an election year that has so many implications on the future of trade. October served as a reminder of just how resilient the American economy happens to be ahead of a crucial moment in its domestic history. Talks of potential added costs in the forms of tariffs have made for scary headlines, but what has been clear is that the Fed was able to end a tightening cycle while witnessing "no landing" for growth.


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According to the Bloomberg Dollar Spot Index, the U.S. Dollar has risen by 3.7% since the year began with the third quarter challenging the good times, representing major losses in a 4.0% slide. October served as a time to counter the story of the Fed slashing interest rates and instead reminded traders that the Buck has enviable fundamentals behind it.

While GDP for Q2 came in at 3.0%, the initial reading for Q3 is not far from it at 2.8%. The bigger surprise has been in the power of the consumer despite stubborn inflation with third-quarter Personal Consumption coming in at 3.7% over the 3.3% expected.

This all has been accompanied by a reduction in price growth for both suppliers as well as consumers. The Producer Price Index is now flat at 0.0%, while the Consumer Price Index numbers are low combined with Personal Consumption Expenditures also showing readings below estimates in the ranges of 0.1%-0.2%.

Defying predictions of a slowdown, consumers have gone out shopping with Retail Sales now at 0.4% and denying economists of a (-0.2%) contraction that had been foreshadowed for August. Meanwhile, managers are still making investments in their production with the S&P Global U.S. Composite Purchasing Managers Index coming in higher than expected in the last two months.

With so much going right, it is reasonable to then ask ourselves where could there be a dent in the mighty U.S. economy that could put downward pressure on the Buck? As addressed in the October Currency Outlook, the fourth quarter of the year was being welcomed with terrible news that the nation's key ports would be suffering shutdowns as a result of labor strikes over a dispute regarding a new union labor contract for dock workers and others. Along with this disturbance to commerce, the U.S. got rocked by natural disasters in the form of floods from disastrous storms.

These developments certainly influenced October's employment situation with Non-Farm Payrolls for the month registering at only 12.0K jobs added when 100.0K were expected. The Unemployment Rate stayed at 4.1%, but we did read some data across the industrial sector that could add to worry over potential for reductions in hires down the line.

When it comes to production, there is a bit of a regression taking place per recent data points. Industrial Production contracted more than expected in September coming in at (-0.3%) vs. (-0.2%). In similar fashion, Durable Goods Orders have been dwindling, flattening in August and dropping by almost a percent for September. Factory Orders are also showing weakness, gradually deteriorating to a half percent loss to close out the summer.

We think the Fed has played its cards right and may be able to reduce interest rates by another 25 basis points at their meeting on Thursday while announcing in their decision that there is likely no need for very aggressive cuts unless the indicators truly falter going forward. The Buck will indeed be challenged as we enter a tumultuous time.

While much has been said and speculated about economic plans and the likelihood of changes if a new administration brings along protectionism, we must first have clarity about how the year ends to have any guidance. It is often the case that campaign talk does not always manifest into actual policy, so it is wise to also temper expectations.

Looking ahead, the Euro has room for improvement after the Euro-zone demonstrated that recessionary fears can be put behind them for now after even Germany has overcome contractions in the pace of growth. The third quarter saw the regional economy grow twice as fast in Q3 as it did in Q2. Furthermore, the Industrial Production average now stands above negative territory. If France can cope with issues over its credit rating and debt while issuing a workable budget, we foresee better times for the shared currency as deserved as the Buck's reason for its dominance.

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