CURRENCY OUTLOOK
December 2024

IN BRIEF

What Happened

- The Buck climbed another 1.0% in November managing to reach its highest value in two years
- Q4 has been a USD-rally period thus far with an improvement of 4.0% since the start of October
- Financial troubles in France causing political havoc helped bring Euro down by 2.4% and to a two-year low
- Talk about potential tariffs and changes to the USMCA trade agreement brought Canadian Dollar and Mexican Peso down to their weakest point since Summer 2020
- Japanese Yen was an exception, rising by over 2.0% as the Bank of Japan could deliver a third rate-hike

Monex USA's View

- End of year will test Dollar strength as volatility remains high following the U.S. election
- Proposals to add to trade costs will keep CAD and MXN sensitive to headlines, room for new lows
- Possible change of the guard in France and worries about stagnation will keep pressure on the Euro
- Sterling could fall further if Bank of England sounds or acts more "dovish" than predicted
- We foresee wild swings ahead as plans for 2025 cope with challenges to the status quo

IN FOCUS

CAD: A slow-paced economy has frustrated our neighbor up north and weakened the "Loonie"

(Bloomberg chart showing how CAD has declined gradually back to its weakest value since the pandemic)

November's downward revisions to data add to doubts about progress for next year

- Canada is going through a slowdown after it was revealed that Q3 growth came in at half the level seen in Q2 at 1.0% vs. 2.1% respectively
- Employment has also dwindled, with the lowest amount of jobs added in a month since May
- [Incoming U.S. President Trump said he will add 25.0% tariffs to all goods coming from Canada as well as Mexico, fueling FX panic]
- Canada's Prime Minister Justin Trudeau said he had a 'good call' with his U.S. counterpart. The dynamics of this relationship will keep us busy guessing

THE VIEW — Economy in "No landing" mode makes for dominant USD

Struggles elsewhere are keeping the Buck buoyant for now

Without hesitation, the Buck is back at multi-year highs. November added fuel to the narrative that has uplifted the Dollar for two months with further evidence of good economic times being experienced domestically. While the global situation is worrisome, characterized by conflict and negative developments on the other side of the Atlantic, the U.S. is witnessing solid indicators to close out 2024.

A smooth election free from delay over its results was accompanied by a major rally across markets and treasury yields that also boosted dollar strengthening. While guidance is all over the place and uncertainty regarding policy changes impacting commercial trade has everyone pondering outlooks, we take a look at what has driven the greenback's resurgence and where it could be contested.

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The U.S. Dollar has managed to rise by 4.3% in value thus far this year per the Bloomberg Dollar Spot Index. The move has indeed been merited, with economic growth at a pace of 2.8% throughout the third quarter of 2024.

Although not seeing an expansion in the Manufacturing sector, those figures have been improving lately as recent Purchasing Managers Index surveys have shown. When it comes to the PMI Composite that includes Services, November registered an even stronger expansionary reading than October. It is presently at its best level since April 2022.

While inflation has been kept under control following the end of a long tightening cycle by the Federal Reserve, consumers seem to be feeling confident about economic conditions with the University of Michigan Consumer Sentiment survey usually coming in higher than estimated.

Consumption has also remained part of the economic momentum with Retail Sales not only increasing by more than expected, but also being upwardly revised in prior months as was the case between the end of Q3 and beginning of Q4. October came in at 0.4% vs. the 0.3% estimate, while September's original numbers were doubled in the correction from 0.4% to 0.8%.

Regardless of how established it is that America is holding up better than the gloomy scenarios that were anticipated at the start of the year, the Federal Reserve went ahead with lowering borrowing costs and slashing the interest rate by 25 basis points. Standing at 4.75% now, the FOMC is likely going to be holding back from further contraction if they deem that inflationary pressures may be back on the table for the upcoming year.

Fed Chairman Jerome Powell was questioned about his thoughts on what a second Trump term would bring at his press conference for the meeting that followed election results. He has no control of fiscal spending and his tenure is coming to an end middle of 2025.

According to campaign promises, there is a lot of spending to come and tax breaks to be granted, which could exacerbate price growth. December will only add to the speculation as many concepts are being thrown around. What we do know is that Trump's first reign finished with a 14.8% drop for the Dollar Index (DXY). We shall see if something similar develops for more competitive exports.

Over in Europe, France is navigating a political crisis that emanated from renewed concerns about the stability of its finances. Debt that seems way out of control is making for major headaches that are weighing on the country's ability to claim that it can take care of future bills. Public debt represents 113.0% of the nation's GDP.

Budgetary cohesion has been a major problem in the Euro-zone's largest economies as Germany has also faced difficulty in finding consensus on how to go about expenditures while also scrambling for ways to stimulate the economy out of stagnation. Years of playing it too safe and carefully managing credit has prevented investment and now the economy seems stuck.

The dire situation is forcing a re-think of the welfare state and what ought to be prioritized. It is likely going to mean the arrival of new leadership as public opinion seems eager for toppling the incumbents. Regardless, the International Monetary Fund foresees growth for the continent in the next two years as it predicts that current stimulus-driven measures will translate into economic advancement down the line. Perhaps the Euro is not doomed to dive towards parity.

Meanwhile in Japan, enough items have improved that it makes the Bank of Japan comfortable with the idea of continuing on its "hawkish" path when it comes to monetary policy. There is a 57.0% probability that BOJ officials exercise a third-interest rate hike for the year at their December 19th meeting. BOJ Governor Kazuo Ueda already made history by hiking for the first time in 17 years and this could mark the first year with three rate increments done since 1989. USD headwinds are not out of the picture.