# Currency Overview

CURRENCIES
GLOBAL

## September 2018

- We see the USD rally continuing and look at three scenarios for the US economy; two are bullish and one is bearish
- GBP-USD may hover around 1.30 until there is more clarity on Brexit outcomes
- Further weakness is expected in NZD, the worst performing G10 currency over the last 6 months


## Summary

**GBP:** We see GBP-USD trading around 1.30 until there is more clarity on a potential Brexit outcome.

**CHF:** We forecast the CHF to weaken to 1.02 against the USD by year end.

**NZD:** Further NZD weakness is expected with our year-end NZD-USD forecast at 0.65, supported by a seemingly dovish central bank.

**CAD:** We expect the CAD to weaken to 1.35 by year end versus the USD with NAFTA negotiations to be a key determinant of currency moves.

**RMB (CNY):** Trade war concerns have been the main RMB driver in recent months. Our year-end USD-RMB forecast is 6.70.

**SGD:** We forecast a weaker SGD against the USD as the Monetary Authority of Singapore sees slower Singapore expansion from global trade frictions.

**INR:** Further INR weakness is expected against the USD, in part due to higher USD funding costs. We forecast USD-INR at 73 by year end.


**Key upcoming events**

| Date | Event |
|---|---|
| 19 September | BoJ rate announcement |
| 20 September | SNB rate announcement |
| 26 September | FOMC rate announcement |
| 26 September | RBNZ rate announcement |
| 2 October | RBA rate announcement |

Source: HSBC

**HSBC currency forecasts**

| | Spot | Q3 18 | Q4 18 | Q1 19 | Q2 19 |
|---|---|---|---|---|---|
| **EUR-USD** | 1.1697 | 1.15 | 1.13 | 1.13 | 1.10 |
| **GBP-USD** | 1.3121 | 1.32 | 1.30 | 1.30 | 1.30 |
| **USD-JPY** | 111.83 | 110 | 110 | 110 | 108 |
| **USD-CHF** | 0.9644 | 1.02 | 1.02 | 1.02 | 0.98 |
| **AUD-USD** | 0.7193 | 0.72 | 0.70 | 0.69 | 0.68 |
| **NZD-USD** | 0.6587 | 0.67 | 0.65 | 0.63 | 0.62 |
| **USD-CAD** | 1.2987 | 1.32 | 1.35 | 1.35 | 1.37 |
| **USD-CNY** | 6.8497 | 6.65 | 6.70 | 6.70 | 6.70 |
| **USD-SGD** | 1.3695 | 1.37 | 1.38 | 1.38 | 1.38 |
| **USD-INR** | 71.745 | 72.0 | 73.0 | 73.5 | 73.5 |
| **USD-MYR** | 4.1400 | 4.05 | 4.10 | 4.10 | 4.10 |

Source: HSBC, Thomson Reuters Eikon as at 11:35 HKT on the 14/09/2018

**Central Bank policy rate forecasts (%)**

| | Current | Q4 2018(f) | Q2 2019(f) |
|---|---|---|---|
| **USD** | 1.75-2.00 | 2.25-2.50 | 2.75-3.00 |
| **EUR** | 0.00/-0.40 | 0.00/-0.40 | 0.00/-0.40 |
| **JPY** | -0.10 | -0.10 | -0.10 |
| **GBP** | 0.75 | 0.75 | 0.75 |

Source: HSBC forecasts for Fed funds, Refi rate/ Deposit rate, Overnight Call rate and Base rate

**Real GDP forecasts (%)**

| | 2017 | 2018(f) | 2019(f) |
|---|---|---|---|
| **US** | 2.3 | 3.0 | 2.5 |
| **China** | 6.9 | 6.6 | 6.8 |
| **Japan** | 1.7 | 0.9 | 0.9 |
| **Eurozone** | 2.6 | 2.0 | 1.7 |
| **UK** | 1.7 | 1.3 | 1.5 |

Source: HSBC forecasts

HSBC

# USD: Rally to continue

- We believe USD will strengthen on the current economic framework where the Fed seems determined to stick to its "dots"
- USD would also likely outperform in a scenario where we see a global economic downturn
- The window for USD weakness is if the market becomes confident the Fed's tightening cycle is ending early

## Further USD strength expected

We expect the USD to strengthen further over the coming year and return to the themes which have underpinned our USD bullishness since April. They suggest the rally is not complete. We consider three possible pathways for the US economy and associated policy, and ask whether we think the USD will continue to strengthen. In two instances, the answer is "yes", and in only one is it "no". So from a risk reward basis we are still positive on the USD.

**I) USD: ☑The current environment, Fed keeps hiking**

**Here the Fed continues to deliver on the "dots" projections as the US economy prospers.** Meanwhile, many other G10 central banks would continue to struggle to begin tightening, while those that might hike would do so very slowly. Policy divergence would push the USD higher.

**II) USD: ☒ Bearish USD scenario**

**In this USD bearish scenario the Fed calls an early end to the tightening cycle.** This would likely bring relief to emerging markets (EM) FX as USD funding costs would be less than feared, reducing the USD's safe haven allure. Policy divergence could weaken the USD.

**III) USD: ☑ Dollar's dominance in a downturn**

**The US economy slows materially, forcing a possible policy reversal by the Fed.** If the US economy were to slow it could prompt the Fed to cut rates. But after years of tightening, US policy is better placed to cope with a downturn than other G10 economies. The lack of room to ease outside of the US suggests their currencies would weaken to act as the shock-absorber. The USD would be the safe haven because easing policy could act to support growth. In such a risk-off scenario the USD will fare well but perhaps not against the JPY and the CHF.

## Conclusion

We believe there is an asymmetry regarding the risk reward surrounding the USD, with two of the three scenarios pointing to an extension higher in the USD rally, scenarios which we believe are also more likely.

# GBP: Simplifying Brexit

### The hard and the soft

In deciphering the influence of politics on GBP, we have long argued that it makes sense to look at the currency's level as a blend of possible Brexit outcomes. For simplicity, we can distil this down to two such outcomes: 'no deal', and a soft Brexit.

**(1) 'No deal': GBP-USD to 1.10, EUR-GBP towards parity**

The UK government has argued that "no deal is better than a bad deal", but we would expect no deal to be a very bad deal for GBP. The uncertainty unleashed regarding every aspect of the UK's relationship with the EU would be enormous. We would expect GBP-USD to fall to around 1.10 under this 'no-deal' scenario, below the lows seen during the flash crash of October 2016.

The interesting aspect of a 'no-deal' outcome is that it would not just adversely impact GBP but the EUR too. The trade and economic linkages mean that the marked economic disruption that this scenario would imply would also hit Eurozone activity and investment sentiment. What is bad for GBP would likely be bad for the EUR, though less so.

**(2) Soft Brexit: GBP-USD at 1.45**

The softest Brexit outcome would imply a minimum of disruption to the UK's economic ties with the EU and a recovery in economic growth back to the pace seen ahead of the referendum.

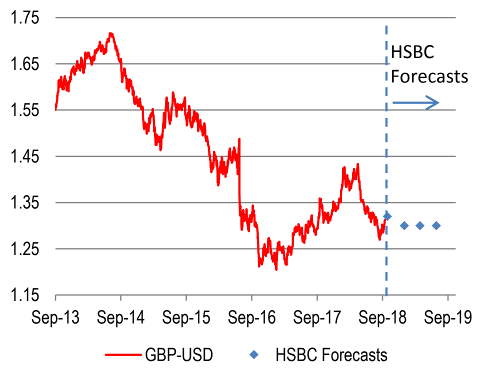
GBP-USD would enjoy a considerable relief rally, having avoided the potentially more damaging alternatives. Political risk would remain in the background and the cyclicality of the economy take centre stage. As such, we would not expect GBP to recover all of the ground lost after the June 2016 Brexit vote when GBP-USD was trading above 1.50. The 'soft Brexit' relationship, while close to full EU membership, would not be identical.

Hence we would expect GBP-USD to rise to around 1.45, still slightly undervalued relative to long-term estimates.

### Conclusion

We do not make an explicit forecast of the political outcome, but we see a strong possibility that the process continues to drag on, and GBP-USD remains a weighted probability of potential outcomes. **As such we see GBP-USD trading around the 1.30 area for the coming months, until we get more clarity in either direction on the political outcome.**

**GBP-USD**




Source: HSBC, Bloomberg

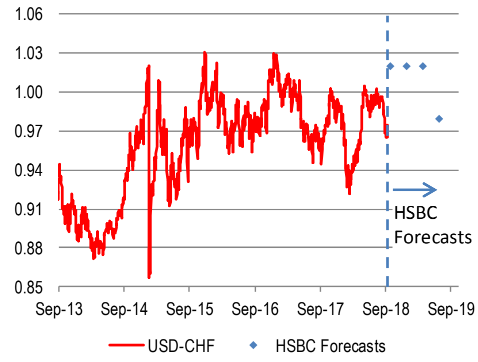
| FX | L-T view* | Spot | Support | Resistance | Past performance 1mth | 3mth | 6mth | Forecasts Q3 18 | Q4 18 | Q1 19 | Q2 19 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| GBP-USD | → | 1.3121 | 1.2786 | 1.3363 | 3.13% | -1.06% | -6.00% | 1.32 | 1.30 | 1.30 | 1.30 |

Source: HSBC, Thomson Reuters Eikon as at 11:35 HKT on the 14/09/2018
*L-T = long-term

## CHF: Safe haven status back in vogue

- **We expect the CHF to weaken against the USD to 1.02 by year end.** The CHF has been the best performing G10 currency since August as global financial market sentiment soured and the CHF regained its allure as a safe-haven currency.
- **The key characteristics of the CHF – its large net external surplus and deep liquidity – suggest this strength is justified.** That said, we had not expected the CHF to perform as well as it did, due to its negative interest rates, the risk of looser Swiss National Bank (SNB) policy, and the prominence of the USD as an alternative safe haven.
- Domestic fundamentals have improved with inflation rising above 1% and growth coming in better than expected. **But further CHF strength will likely be driven by a significant deterioration in global sentiment accompanied by a lack of response by the SNB, in our view.**

**USD-CHF**




Source: HSBC, Thomson Reuters Eikon

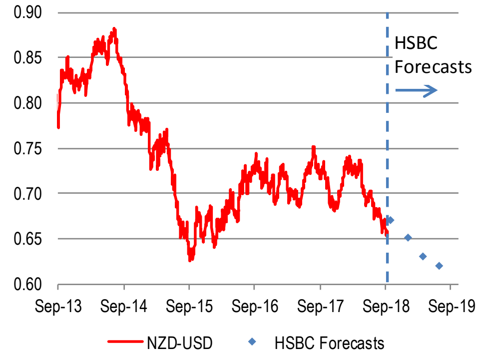
| | | | | | Past performance | | | Forecasts | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FX | L-T view* | Spot | Support | Resistance | 1mth | 3mth | 6mth | Q3 18 | Q4 18 | Q1 19 | Q2 19 |
| USD-CHF | → | 0.9652 | 0.9433 | 0.9741 | -2.90% | -3.17% | 2.16% | 1.02 | 1.02 | 1.02 | 0.98 |

Source: HSBC, Thomson Reuters Eikon as at 11:35 HKT on the 14/09/2018
*L-T = long-term

## NZD: Further downside ahead

- **We forecast NZD-USD to weaken to 0.65 by year-end 2018.** The NZD has been the worst performing G10 currency over the last six months while rates now price in some probability of central bank rate cuts.
- Locally, there are a number of ways to rationalise the NZD's descent. **Surveys of business confidence have fallen to ten-year lows and the Reserve Bank of New Zealand (RBNZ) has shifted in a more dovish direction since Adrian Orr joined as Governor in March**.
- The near-term outlook for the NZD hinges somewhat on the Q2 GDP print (released 20 September) and **the RBNZ has signalled it may cut interest rates by as much as 100bps if growth remains slow**.

**NZD-USD**




Source: HSBC, Thomson Reuters Eikon

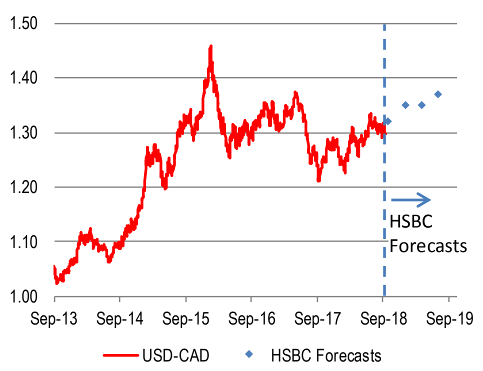
| | | | | | Past performance | | | Forecasts | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FX | L-T view* | Spot | Support | Resistance | 1mth | 3mth | 6mth | Q3 18 | Q4 18 | Q1 19 | Q2 19 |
| NZD-USD | ↘ | 0.6582 | 0.613 | 0.6662 | 0.17% | -5.63% | -10.20% | 0.67 | 0.65 | 0.63 | 0.62 |

Source: HSBC, Thomson Reuters Eikon as at 11:35 HKT on the 14/09/2018
*L-T = long-term

## CAD: NAFTA uncertainty

- **We expect USD-CAD to finish the year at 1.35, in part reflecting our bullish USD view but also some caution regarding the CAD**. A key determinant will be the outcome of ongoing NAFTA negotiations. The bilateral deal between the US and Mexico has introduced a 30 September deadline into proceedings if Canada is to be woven into the agreement.
- The market is 85% priced for a rate hike by the Bank of Canada at the October meeting. **This may overstate the likelihood of a move if trade talks should fail to deliver by the end of the month.**
- Even if an October hike is delivered, we believe it is largely priced in and the market is already priced for an additional 25bp by April. **The balance of risks is for a more dovish tone than implied by the market, and for CAD weakness.**

**USD-CAD**




Source: HSBC, Thomson Reuters Eikon

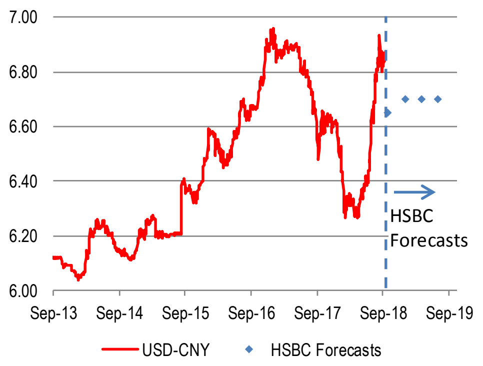
| | | | | | Past performance | | | Forecasts | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FX | L-T view* | Spot | Support | Resistance | 1mth | 3mth | 6mth | Q3 18 | Q4 18 | Q1 19 | Q2 19 |
| USD-CAD | ↗ | 1.2987 | 1.2865 | 1.3226 | -0.51% | -0.87% | 0.26% | 1.32 | 1.35 | 1.35 | 1.37 |

Source: HSBC, Thomson Reuters Eikon as at 11:35 HKT on the 14/09/2018
*L-T = long-term

## China (CNY): Trade concerns back on radar

- **We forecast CNY to strengthen against the USD to 6.70 by the end of the year.** Trade war concerns have been the main driver behind the CNY's weakness over the past couple of months.
- **The trade war is putting downward pressure on the CNY in several ways**: 1) It could reduce China's goods trade surplus. 2) It could narrow China's yield advantage over the US. 3) Some market participants may speculate that RMB depreciation could be used as a form of retaliation, since China does not import enough from the US to implement tit-for-tat tariffs.
- That said, we believe China is not going to purposefully weaken its currency as retaliation. **We also think there is room for a modest RMB recovery, if there is no breakout of a trade war**.

**USD-CNY**




Source: HSBC, Thomson Reuters Eikon

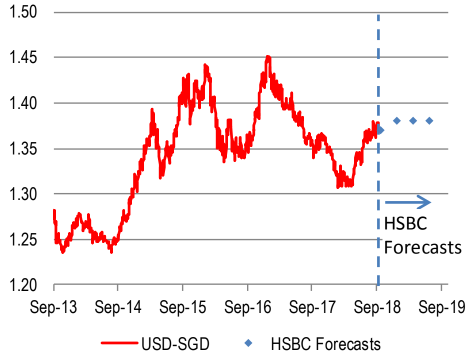
| | | | | | Past performance | | | Forecasts | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FX | L-T view* | Spot | Support | Resistance | 1mth | 3mth | 6mth | Q3 18 | Q4 18 | Q1 19 | Q2 19 |
| USD-CNY | ↘ | 6.8477 | 6.8049 | 6.8831 | -0.48% | 7.03% | 8.45% | 6.65 | 6.70 | 6.70 | 6.70 |

Source: HSBC, Thomson Reuters Eikon as at 11:35 HKT on the 14/09/2018
*L-T = long-term

## SGD: More dovish and more hawkish

- **We forecast the SGD to weaken slightly against the USD to 1.38 by year-end 2018.** We believe market expectations for a move from the Monetary Authority of Singapore (MAS) for another slope increase in October have been pared back.
- **A recent report from the MAS suggests it is acknowledging some of the downside risks to growth.** It is forecasting a slower expansion for Singapore for H2 due to "negative spill overs from global trade frictions".
- **That said, the MAS was not totally dovish**, as the labour market recovery and rising wage growth were unchanged from past reports. Moreover, the MAS explicitly mentioned that "core inflation is expected to trend towards 2%" in 2H, which is more hawkish than past comments about inflation "rising gradually".

**USD-SGD**




Source: HSBC, Thomson Reuters Eikon

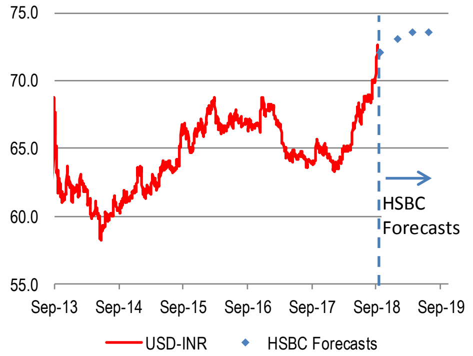
| FX | L-T view* | Spot | Support | Resistance | Past performance 1mth | 3mth | 6mth | Forecasts Q3 18 | Q4 18 | Q1 19 | Q2 19 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| USD-SGD | ↗ | 1.3698 | 1.3566 | 1.3815 | -0.57% | 1.86% | 4.65% | 1.37 | 1.38 | 1.38 | 1.38 |

Source: HSBC, Thomson Reuters Eikon as at 11:35 HKT on the 14/09/2018
*L-T = long-term

## INR: So where will the Rupee settle?

- **We now see USD-INR at 73 by end-2018**, bearing in mind 1) Higher USD funding costs, 2) EM contagion pressures, 3) A widening current account deficit, 4) Rising oil prices, and 5) Investors' concerns about India's fiscal consolidation/reforms as the election cycle goes into full swing.
- **Our view is that the Reserve Bank of India (RBI) does not intervene to strongly defend specific levels in USD-INR.** Instead, we found that its intervention has always been more strongly correlated with foreigners' portfolio flows.
- That said, as long as there is credibility on the monetary policy front (to anchor inflation expectations) and ample FX reserves, **residents should retain some basic level of confidence in the INR as a long-term store of value and the risk of capital flight is low**.

**USD-INR**




Source: HSBC, Thomson Reuters Eikon

| FX | L-T view* | Spot | Support | Resistance | Past performance 1mth | 3mth | 6mth | Forecasts Q3 18 | Q4 18 | Q1 19 | Q2 19 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| USD-INR | ↗ | 71.745 | 70.725 | 72.915 | 2.57% | 6.01% | 10.67% | 72.0 | 73.0 | 73.5 | 73.5 |

Source: HSBC, Thomson Reuters Eikon as at 11:35 HKT on the 14/09/2018
*L-T = long-term

**Glossary**

| | |
|---|---|
| **Dovish** | Dovish refers to an economic outlook which generally supports low interest rates as a means of encouraging growth within the economy |
| **Hawkish** | Hawkish is typically used to describe monetary policy which favours higher interest rates, and tighter monetary controls to keep inflation in check |
| **MoM, YoY** | Month on month, Year on year |
| **RMB CFETS Index** | This index refers to the currency basket accepted by China Foreign Exchange Trade System (CFETS) comprising 13 currencies vs. RMB |
| **Libor** | A benchmark rate that some of the world's leading banks charge each other for short-term loans |
| **Curve** | Refers to the yield curve for the respective country's sovereign bonds |
| **2's-30's curve** | Refers to the difference in yield between 2yr and 30yr sovereign bonds for the specified country |
| **NEER** | Nominal Effective Exchange rate |
| **PMI** | Purchasing Managers Index – an indicator of economic health of the manufacturing sector (>50 represents expansion vs. previous month) |
| **QFII** | Qualified Foreign Institutional Investor (QFII) is a program that permits certain licensed international investors to participate in China's mainland stock exchange. Quotas determine the amount that licensed foreign investors can invest in China's capital markets and these can be adjusted to reflect and respond to China's economic and financial situation |
| **FDI** | Foreign Direct Investment is an investment made by a company or entity based in one country, into a company or entity based in another country. It typically involves the investor having a significant degree of influence and control over the company in which the investment is made. |

| | |
|---|---|
| **Fed** | Federal Reserve System (US Central Bank) |
| **ECB** | European Central Bank (Eurozone Central Bank) |
| **BoE** | Bank of England (UK Central Bank) |
| **BoJ** | Bank of Japan (Japanese Central Bank) |
| **BoC** | Bank of Canada |
| **PBoC** | People's Bank of China (China Central Bank) |
| **RBA** | Reserve Bank of Australia |
| **RBNZ** | Reserve Bank of New Zealand |
| **SNB** | Swiss National Bank, the central bank of Switzerland |
| **MAS** | Monetary Authority of Singapore |
| **BNM** | Bank Negara Malaysia (Malaysia's Central Bank) |
| **Mario/Draghi** | Mario Draghi, President of the European Central Bank (ECB) |
| **Powell** | Jerome Powell, Chair of the Board of Governors of the Federal Reserve System (Fed) |
| **Carney** | Mark Carney, Governor of the Bank of England |
| **Abe** | Shinzo Abe, Prime Minister of Japan |
| **Kuroda** | Haruhiko Kuroda, Governor of the Bank of Japan |

Explanation of terms

**Support (S), Resistance (R):** Significant previous lows and highs plus retracement levels.

**Meaning of the arrows:**

As per HSBC Global Research, an upward sloping (↗) / downward sloping (↘) arrow indicates that the first currency quoted in the pair is expected to appreciate/depreciate against the second currency quoted by the end of the last forecast period shown in the report. For example, an upward sloping arrow for EUR-USD means that the EUR is expected to appreciate against the USD by the end of the last forecast period.

A sideways arrow (→) indicates that the currency is expected to be at a similar level to the spot price stated in the report by the end of the last forecast period.

**Note:** The direction of the arrow is dictated by the difference between the spot price and the furthest forecast stated in the forecast table. Within that timeframe, it is quite possible that the currency is expected to move in an opposing direction. This is depicted both by the forecast 'dots' shown on the charts as well as in the forecast table.

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Miscellaneous

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