

The below key drivers are likely to impact investor risk sentiment and FX markets in March:

- February's unexpectedly strong US Jobs Report sees US dollar soar against the major currencies.
- Global GDP's have shown only sluggish or flat growth amid an inflation climate, so attention is on the next interest rate statement.
- China improved economy after relaxation of strict COVID-zero policy and projected reopening of its economy.

€ EUR Euro ↓

Euro down after blowout US Jobs report but ECB has a dovish message as economy shows slight growth in spite of uncertainty.

As we enter 2023, the euro has staged a remarkable comeback after a 20-year low, with EUR/USD rallying towards the 1.10 level from the previous 0.95 low of last September. This uptick shows positive market sentiment as the eurozone's economic outlook improves around energy supply and subsequent impacts to the manufacturing sector. Thankfully, a mild winter has helped allay fears that gas supplies will need to be rationed, with gas reserves remaining near capacity.

The euro further benefited from a slowed pace of interest hikes from the US Federal Reserve. The latest increase being just 25 basis points, after the February 2nd meeting.

The recent Purchasing Manager' Index (PMI) data shows improving confidence and German ZEW Economic Sentiment survey posted its first positive reading in almost a year. Adding buoyancy to EUR/USD consumer confidence is the Consumer Price Index (CPI), falling from an all-time high of 10.7% to its current level of 9.2%.

The European Central Bank (ECB) hiked rates by 50 basis points, and the markets are expecting another 50-bps hike in March. Beyond this, the ECB has only said they will need to "evaluate the subsequent path of its monetary policy". EUR/USD saw a modest boost near 1.10 after the hike before downtrending for the rest of the day to land near 1.0890.

EUR/USD could trade between 1.0638-1.1121 over the next 21 days. •

🇺🇸 AUD Australian Dollar ↓

AUD collapses under shift in narrative and elevated central bank rate expectations.

There's renewed optimism of global growth following China's shift in COVID policy and the move to re-open its domestic economy, coupled with a broad expectation that global inflationary pressures have peaked, has helped fuel demand for risk assets, key commodities and the AUD. A series of higher highs and lower lows through the start of the year suggests momentum remains behind the Australian dollar. The AUD peaked at US\$0.7160 following the Federal Reserve's latest monetary policy meeting and rate statement in early February. However, a robust US non-farm payroll print and a stunning Institute of Supply Management (ISM) services update, has markets questioning whether the Fed really is nearing the end of its 'monetary policy tightening' cycle. The AUD corrected back below US\$0.70 following the February 3 macroeconomic update giving up much of the hard-won gains to track below US\$0.6900

While we remain optimistic, the AUD should enjoy sustained support through the near term as our focus shifts away from inflation and toward growth indicators. An extension in US policy expectations and looming fears of global recession will likely shape policy expectations and currency direction, particularly as inflation stresses are expected to correct sharply through the year.

A downturn in the global growth outlook and the promise of more Fed rate hikes could weigh on the AUD, capping gains through February.

We maintain that resistance on moves that are approaching and above US\$0.7140/50 are intact and will need to see a definitive consolidation and close above this threshold if we are to extend expectations toward US\$0.72/73 while support on moves south of US\$0.6880 and approaching US\$0.68 should hold. •

🇺🇸 USD United States Dollar ↓

US dollar outperformed G10 currencies as Federal Reserve increases hawkish stance ahead of possible "no landing" or "soft landing" future.

In February, the US dollar was the best performer in the G10 currencies group, due to uncertainty around the soft landing vs recession debate. Of course, the negative correlation between the US dollar and the stock market did not disappoint; the US dollar index increased by 3%, and the S&P 500 fell by 3%. The biggest loser was the Australian dollar (-4.62%) and the British Pound lost the least (-2.42%) last week.

At the beginning of February, complacency about inflation and a slight 25 bps increase in the Federal Reserve rate drove the US dollar index to an almost ten-month low. Inflation came in above expected again; US stock volatility increased, and US stocks fell. Furthermore, US interest rates showed the most inverted level since 1981, suggesting market fears of an economic recession and pushing the US dollar higher as a haven.

The uncertainty continued as the Federal Reserve was increasingly hawkish as economic data came in stronger than expected, implying the Fed will have to fight inflation by tightening faster than expected.

March has a "no landing" sentiment because the labour market is still tight, and disinflation is happening slowly, but it's not a straight line. If inflation numbers keep falling, and leading economic indicators (e.g. ISM and Manufacturing PMI) don't deteriorate dramatically, we may have higher probabilities of "no landing" or "soft landing" scenarios for the rest of the year.

The USD's depreciation trend may resume in March if Fed officials lighten their hawkish narrative slightly. •

🇺🇸 CAD Canadian Dollar ↑

A stronger US dollar kept the Canadian dollar above other G10 currencies in February but could hit a downturn this year as economic growth slows below expectations.

In Canada, the good news is fading along with the interest rates, following the Bank of Canada's (BoC) tightening cycle of 425 basis point increases from 0.25% to 4.50%. A sharp increase indeed, which happened in just ten months. . The BoC rate increases back in January foreshadowed the FOMC announcement a week later, slowing rate hikes in both markets. The BoC's hike was a dovish one, meaning that it may be the peak of the tightening cycle. While this might alert a pause in rate increases, it is likely only to assess the impacts of higher borrowing costs on the economy. Governor Tiff Macklem noted that this pause is "conditional" and it is too early to discuss rate cuts.

Due to a more dovish BoC than the Fed, and a weaker Canadian economy in 2023 than in 2022, the Canadian dollar is weakening compared to other G7 currencies. The CAD was down 1.66% against the AUD in January. This drop marks the third month of poor CAD performance, falling from 11.64%, 7.68%, 7.36%, and 4.91% vs. the Japanese Yen, Australian dollar, Euro, and British Pound, respectively. It only beat a battered USD by 2.33%, in January.

The Canadian dollar is expected to continue its poor performance if the US dollar is weak this month. The Canadian dollar to US dollar trade is anticipated to be between 1.32-1.35 in February. •

🇬🇧 GBP Sterling ↓

Despite narrowly avoiding a technical recession and subdued UK growth, the pound is slightly down after the impressive US Jobs Report boosts the US dollar value.

GBP/USD traded in a relatively narrow range throughout most of Feb, since it dropped from close to US\$1.24 on the back of Feb 2nd's strong US jobs data. In February, the UK and EU finally managed to resolve the Northern Ireland protocol, with the "Windsor Framework" replacing it. Despite this good news, the reaction to the pound was relatively muted. Hopefully, it sorts the last major legislative hangover from Brexit. GBP/USD traded around US\$1.20 for most of the month.

February saw the release of Q4 2022's GDP reading, which came in flat, meaning the UK narrowly dodged a technical recession. Like the Eurozone, growth for the year is expected to be subdued and will likely dip as a whole. However, five quarters of contraction predicted by Bank of England (BoE) Governor, Andrew Bailey late last year, thankfully seems not to be coming to fruition. Better than expected Purchasing Manager's Index (PMI's) for both the manufacturing and services sector saw services hitting 53.3, well into expansionary territory, as well as a strong retail sales number. Just like the services PMI, it was predicted to show contraction but expanded 0.5%, month on month.

Recent comments from Bailey seemed to cast further rate hikes from the BoE, into doubt. However, this could be positive for the economy, especially if data continues to the upside and inflation numbers to the downside. Markets are expecting another hike on March 23rd. This could be the last and only 25bp, with a lot riding on the release of the latest CPI data the day before. GBP/EUR traded between US\$1.1150 and US\$1.1420 throughout the month.

GBP/USD could trade between 1.1845-1.2400 this month, and GBP/EUR could trade between 1.1120-1.1500. •

🇳🇿 NZD New Zealand Dollar ↓

A stronger US dollar and continued economic impacts from natural disasters has the NZ dollar in a downturn.

The New Zealand dollar suffered a remarkable reversal in fortunes through February, giving up 6-month highs above US\$0.65 and tumbling back below US\$0.62. The narrative surrounding inflation and central bank policy expectations flipped through the latter half of the month forcing investors to re-adjust near-term expectations and NZD value. In January it appeared we may be nearing the end of the Fed's tightening cycle and with investors pricing in just 1-2 more rate hikes the US dollar was well entrenched within a bearish channel and the NZD appeared set to test new highs approaching US\$0.66. Again, robust US labour market data and stubbornly sticky inflation pressures, coupled with a string of positive US economic data sets forced investors to re-price interest rate expectations. With commentary from key Federal Bank policy-makers supporting tighter monetary policy, markets rushed to adjust near-term rates which fuelled a rapid rise in US dollar value.

Having tested a break below US\$0.6150 we anticipate the NZD will face sustained downward pressure through March. While a rapid rebound in Chinese economic activity following the removal of Covid restrictions will help underpin demand for commodities but inflation and near-term rate hikes remain the primary drivers. New Zealand's domestic economic outlook remains weak and with the country devastated by back-to-back natural disasters (floods in Auckland and Cyclone Gabrielle), it is unlikely that domestic activity and inflation pressures will ease in the short term. Without a correction in the current narrative, we can expect key support points at US\$0.6150 and \$US0.61 to be tested. We anticipate the NZD will trade between US\$0.60 and US\$0.64 through March. •

🇯🇵 JPY Japanese Yen ↓

The yen was down against the US dollar but showed modest strength in early March. With no 'magical' solution to Japan's inflation woes, all eyes are on the BoJ interest rate statement.

The yen finished January fairly flat, overall – USD/JPY opened at 131.01 and closed at 130.09. However, USD/JPY fluctuated from a high of around 134.80 to a low of around 127.20 – a 5.6% swing between extremes.

Core inflation hit a 41-year high in both Tokyo and the rest of Japan. This has led to increased pressure on the Bank of Japan (BOJ) to address their policy of maintaining low interest rates. This paired with moderate USD weakness has led to an increase in the yen's value.

However, the International Monetary Fund (IMF) has warned that a sudden change in the BoJ's policy could have "meaningful spill over" effects on global financial markets. They have stated that the BoJ needs to be flexible and upfront regarding their monetary policy moving forward.

Both Credit Suisse and United Overseas Bank (UOB) Group believe that USD/JPY could trade higher in the near term back towards 131.50 levels temporarily before retreating. Credit Suisse has also forecast a testing of support levels done at around 127.27 with a potential break below for the pair.

USD/JPY could trade between 124.26 and 133.54 in February. •

🇸🇬 SGD Singapore Dollar ↓

Markets are getting mixed messages as stronger-than-expected local economic data clashed with slowed GDP and CPI growth, weakening the SGD

The Singapore dollar initially rallied to an 8-year high on March 2, yet the gain was fully erased in the same week after a stronger-than-expected US non-farm payroll figure bolstered the US dollar.

Last month, local economic data gave mixed messages to the market where December retail sales came in stronger than expected (7.4% actual vs 5.8% forecast) while Q4 2022 GDP was on the softer side (2.1% actual vs 2.3% expected). Singapore's January core Consumer Performance Index (CPI) also slowed down (5.5% actual vs 5.7% expected), bringing more weakness to the SGD.

In March, any new involvement in domestic and global conditions would be highly likely to impact the policy decision in the Monetary Authority of Singapore(MAS)'s April meeting, so it will be worth watching any movement in inflation numbers and global growth outlook.

USDSGD could trade between 1.3200-1.3700 in March. •

🇭🇰 HKD Hong Kong Dollar →

Strong US dollar and elevated inflation levels deliver another disappointing month for the HKD, despite Hong Kong Monetary Authority (HKMA) efforts.

After a good month in December, the Hong Kong dollar has lost ground to the USD and ended January 5% lower – USD/HKD closed at 7.8405, getting close to the upper bound of the Price/Earnings-to-Growth Ratio (PEG) once again.

The weakness in HKD was mainly due to a slump of its local yield. On Jan 31, the 3-month Hong Kong Interbank Offered Rate (HIBOR) was about 1.14% lower than the US equivalent rate (3.67256% vs 4.81357%), the widest gap since 2008. The equity inflows may have helped with the easing of funding pressure in HKD and contributed to the HIBOR drop, therefore the revival of carry trade. Some market participants are now betting on a break of the current PEG system, the Hong Kong Monetary Authority (HKMA) has repeatedly said that there are no plans to change it.

In February, the HKD has continued its decline in the first week and the momentum seems to be that USD/HKD will get to 7.85 very soon. Should that happen, the market will probably see the HKMA intervene again to defend the PEG.

USDHKD could trade between 7.8400-7.8500 in February. •



Any questions?

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