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Key currencies at a glance

What to watch in June

The key drivers for major currencies in June could be:

- Any economic data adding to concerns of economies going into stagflation (high inflation and low growth).
- Central bank announcements. As recession concerns grow, policymakers might slow the pace of monetary policy tightening (e.g. Bank of England) while others could make moves to catch up to the US Federal Reserve (e.g. European Central Bank).
- The continuing conflict in Ukraine will likely keep commodity prices elevated, adding to inflationary pressures while also helping to support commodity currencies.

EUR Euro ↑

After months of poor performance due to economic vulnerability and a very conservative European Central Bank, the euro saw a turnaround in May.

The currency was one of the month's best performers, as the European Central bank shifted its monetary policy rhetoric in response to surging inflation. As such, the ECB meeting on June 9th will be highly anticipated. At the very least it is expected policymakers will announce the end to their bond-buying program and plans for July interest rate hikes.

A surprise announcement of an immediate rate hike in the June meeting would likely elevate the euro above 1.08 USD and trigger further USD weakness and broader FX market volatility.

Inflation data at the end of the month will be key in determining the size and speed of rate adjustments. High readings could help push the euro even higher based on market expectation of more aggressive rate hikes.

Although there is opportunity for more gains for the euro in June, the Eurozone economy remains vulnerable to the fallout of the continued conflict in Ukraine. This could mean policymakers maintain a cautious approach and fail to meet market expectations, which would be bad news for the euro.

The euro could trade between 0.84-0.86 GBP against the pound in June. Against the dollar, the currency might trade between 1.05-1.09 USD.

NZD New Zealand Dollar ↑

The NZD recovered some recent losses throughout the second half of May, as US growth and inflation concerns muted Fed rate hike expectations and decreased demand for USD.

Having pushed back above 0.645 USD, the NZD found added support in the Reserve Bank of New Zealand's hawkish policy update. Their commitment to front loading interest rate hikes and an upward adjustment in the target interest rate, helped propel NZD above 0.65 USD. Since then, NZD has tested moves above 0.6550 USD off the back of sustained strength across commodities and improved risk sentiment. Breaks above this level have met resistance, as fears of domestic stagflation (high inflation and low growth) have grown.

New Zealand consumer and business confidence have deteriorated, as has broader economic activity, and as inflation continues to rise there is a fear the economy may be headed towards recession, weighing on the NZD.

With little domestic data available in June, the NZD will again be at the mercy of broader global trends. We're keenly watching for a break below 0.6450 USD or moves above 0.6550 USD as a key indicator of sentiment and future demand. Rising stagflation fears could see NZD test the lower bounds of ranges against major counterparts besides the USD. We're watching 0.9020 as a key threshold against the AUD for June.

JPY Japanese Yen →

In May, the Japanese yen regained some losses after hitting 20-year lows against the USD (131.35 JPY on May 9) off the back of the continuing policy divergence between Japan and other developed countries.

Heading into the last week of May, the yen went on a rally versus the USD to reach 126.40 JPY due to a weaker dollar. However, the gains did not last, and heading into June the yen was again losing to the USD. A risk-off mood and strengthening US treasury yields helped the USD trade higher and reclaim three-week highs above 130.00 JPY.

Although the yen continues to be at a disadvantage due to Japan's low interest rates and dovish monetary policy, there is an opportunity for the currency to appreciate should geopolitical uncertainty and concerns around the global economy spook investors. JPY could trade between 126.00-134.00 JPY in June.

HKD Hong Kong Dollar ↑

HKD continued to weaken in May and traded very close to the upper bound of the peg (7.85) for almost the whole month.

May saw the release of some soft economic data. Hong Kong's Q1 GDP was -4% year on year, and the April unemployment rate went up to 5.4% (higher than the expected 5%).

The HKD was briefly higher due to the further easing of COVID-19 restrictions, yet it erased the gains towards month end after lower-than-expected April CPI data.

In June, HKD will likely see support should risk sentiment continue to improve, however it may experience headwinds if the US Federal Reserve's plans become more aggressive, or should global geopolitics deteriorate. HKD may trade between 7.83-7.85 HKD against USD in June.

SGD Singapore Dollar ↑

Off the back of the less hawkish Fed stance, the Singapore dollar advanced alongside all G10 currencies in early May, however, by mid-month it had dropped to a 24-month low mid-month due to a deteriorated risk sentiment.

The second half of May saw SGD slowly recover, largely based on the hope of Shanghai lifting its restrictions and speculations that China will ease COVID-19 curbs to help support domestic economy.

In June, should sentiment continue to ease, SGD will likely continue to rally slowly. However, this could quickly turn around if the US Federal Reserve starts to resume more aggressive commentary. USDSGD may trade between 1.3510-1.4030 in June.

GBP Sterling ↓

May was a volatile month for the pound. Early May saw the currency's steepest declines against the USD since 2020 off the back of recession fears. By late May, the currency was able to recoup losses and climb to 1.26 USD, as the USD was sold off based on lowered expectations for US rate hikes and a shift to risk-on investor sentiment.

Economic data for the UK continues to show signs of a sluggish economy. April PMI data, a measure of the activity level of purchasing in the manufacturing sector, came in weaker than expected, and the April annual inflation reading came in at 9%, a 40-year high, as the rising cost of gas and electricity pushed household energy bills to record levels. In response to the rising cost of living, UK's chancellor unveiled a £15 billion support package for UK households.

With some additional support in place for households, this could help give the Bank of England a little breathing room to increase the pace of interest rate hikes. However, raising interest rates too quickly, and by extension the cost of borrowing, still presents a risk for the economy to fall into stagflation (high inflation and low growth).

The outlook for the currency looks challenging in its precarious economic environment. In June, the pound could trade against the euro between 1.19-1.16 EUR and against the USD between 1.21-1.27 USD in June.

AUD Australian Dollar ↑

After continuing the risk-off trend in early May, the AUD bounced off lows of 0.68 USD, moving back through 0.71 USD as growth and inflation concerns in the US forced markets to temper US interest rate expectations.

The changes in expectations for US interest rates, coupled with strong performance across Australian dollar bonds and sustained strength across key commodities, has allowed the AUD to outperform most major counterparts.

Strong Q1 GDP data helped to bolster expectations for a second Reserve Bank of Australia rate rise at the next meeting on June 7. Another rate hike, continued improvement in risk appetite led by the reopening of the Chinese economy, and soft US economic data, should keep the Australian dollar supported in June, with possible gains towards 0.74 USD.

That said, despite AUD resiliency heading into June, the same headwinds that weighed on the currency through April and early May remain. The AUD's exposure to risk leaves it vulnerable to a broader correction. With this in mind, we'll be watching US data and Fed commentary (June 15) and China's continued COVID-19 response. A complete risk-off mood could see a shift back to 0.70 USD.

USD United States Dollar →

After a strong April, the USD plunged against all G10 currencies in May due to revised expectations of rate hikes from the US Federal Reserve and a shift to risk-on investor sentiment.

Employment data that exceeded expectations in early June helped the US dollar erase some losses.

The US Federal Reserve meeting on June 15 is likely to see policymakers stick to their plans of continued rate hikes. If this is the case, and with few other events on the calendar, the USD could be up for a quiet month in June after its consolidation period in May. The drivers for the US dollar will likely be risk sentiment and inflation unpredictability and the DXY might trade between 101-103 in June.

CAD Canadian Dollar →

The Bank of Canada's rhetoric around monetary policy tightening has become even more aggressive.

In comments saying it could 'act more forcefully if needed', the bank surprised the market and drove demand for CAD, which gained 1.6% against USD in May.

Canada's solid economic data suggests its aggressive path of monetary tightening should continue in the coming months after another rate hike in early June.

Bank of Canada's continued path to monetary policy tightening, and demand for crude oil, which continues to rise in price, should support CAD in June. The Canadian dollar might trade between 1.2400-1.2600 CAD against USD in June. However, if there is a shift to a risk-off environment in the financial markets, the range could be higher (weaker CAD).