

Subject: Outlook of USD, Renminbi & AUD

Video highlights:

- The DXY index is now consolidating, investors seem to be waiting for FOMC meeting this week, with market expectations primarily leaning towards an unchanged interest rate. However, whether Fed Chair Powell will provide any hints about when to cut rates remains a focus for investors. In addition to the Fed meeting, there are many important US economic data releases coming up, including the preliminary GDP for Q2, PCE inflation, and non-farm payroll data.
- Recent US data can be described as mixed. For instance, the US economic leading indicator has continued to decline, and the manufacturing PMI for June has fallen back into contraction territory. On the other hand, weekly initial jobless claims have dropped for six consecutive weeks, indicating that the US job market still appears robust. Meanwhile, the services PMI for June exceeded market expectations, rising to 55.2.
- The Fed seems to be in a dilemma regarding monetary policy; setting aside President Trump's urging for rate cuts, the annual interest payments on debt amount to trillions. Cutting rates could alleviate the US fiscal deficit issue, but authorities are also concerned that doing so too early could reignite inflation, especially since the US CPI has shown signs of rising in the past two months.
- With new tariffs in place, it remains uncertain whether US inflation will flare up again, and more time is needed for observation. The US dollar may consolidate for a while, limiting the performance of non-USD currencies.
- Under this circumstances, some currencies are more stable. One of them is RMB. On one hand, China-US trade relations have eased, while on the other hand, markets expect China to focus on supply-side reforms. This move is anticipated to address overcapacity issues and help alleviate domestic deflationary pressures. Although the reforms will take time, this expectation has already been reflected in the Chinese stock market, with breakthroughs in the materials and industrial sectors. At the same time, it has driven a catch-up rally in the A-share market. Against this backdrop, the RMB is expected to receive support.
- Besides the RMB, the AUD has been steadily rising against the US dollar since the beginning of the year. The Reserve Bank of Australia unexpectedly kept the interest rate unchanged at 3.85% during its meeting on July 8, whereas the market had initially expected a 0.25% cut. The RBA Governor indicated that a rate cut is just a matter of time, emphasizing that the meeting involved intense debate and that more data is needed to avoid overstimulating the economy and causing inflation to rebound. The RBA's cautious monetary policy supports the AUD. However, attention should be paid to the latest inflation data released this week. If the data shows inflation cooling faster than expected, the pace of rate cuts may accelerate, putting pressure on the AUD.

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