中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

FX Outlook: USD, Yen & British Pound

Video highlights:

- During the Jackson Hole Meeting on August 22, Fed Chairman Powell reiterated the need to be wary of the impact of tariffs on inflation. He also expressed that the price increases caused by tariffs might be a one-time event. The Fed has adjusted its monetary policy framework and abandoned the average inflation target, meaning future adjustments to monetary policy will be more flexible. Powell emphasized the risks in the U.S. labor market, pointing out that the current balance is due to a slowdown in both supply and demand, which could potentially lead to a sharp rise in unemployment. Overall, while Powell noted the risks of rising inflation, he seems more concerned about the risks of a slowing labor market. His comments have again raised expectations for a rate cut, with futures markets indicating over an 80% chance of a 25 basis point cut in September.

- Attention should be paid to the U.S. PCE inflation data to be released on August 29, as this data could affect the Fed's rate cut expectations, and investors should be cautious of any potential reversal. Before the Fed's meeting on September 17, the U.S. will also release a series of important economic data, including labor market, consumer confidence, and CPI.

- Although expectations for a rate cut have risen, the trend of the U.S. dollar index is currently consolidating, reflecting a cautious attitude among investors regarding the Fed's rate cut expectations. The U.S. dollar index is currently constrained by the 100-day moving average, with short-term support around the 97 level.

- With the U.S. dollar showing signs of consolidation, the Japanese yen has also been relatively stable recently. Japan released its national CPI data for July, showing that the overall year-on-year CPI dropped from 3.3% in June to 3.1%. However, the super core CPI, which excludes fresh food and energy, remained at 3.4%, aligning with expectations.

- Bank of Japan Governor Kazuo Ueda mentioned that a tight labor market will continue to push wages higher, creating inflationary pressures for Japan and increasing the chances of further rate hikes by the Bank of Japan. Recently, Japanese government bond yields have risen, reflecting this expectation to some extent.

- The yield spread between U.S. and Japanese government bond yields is narrowing, and historically, this situation tends to lead to a decline in the USD/JPY, meaning the JPY appreciates. However, the recent consolidation of the dollar has affected this correlation. In the medium term, with the U.S. cutting rates and Japan raising rates, the USD/JPY should have room to decline. In the short term, the USD/JPY may test the 145.50 level, with a longer-term target of 142, while short-term resistance is around 149.

- On the other hand, the UK's CPI in July has risen to 3.8%, mainly influenced by rising airfares. Airfare price volatility is generally significant, which may not fully reflect the overall inflation situation in the UK. Conversely, a weakening local labor market may support further rate cuts by the Bank of England. Futures markets currently show that the chances of the Bank of England cutting rates in September and November are only 2% and 20%, respectively, providing support for the GBP. The GBP/USD has found support near the

100-day moving average, with resistance around the 1.36 level. If it breaks above, it may test the 1.3790 level.

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