FX Outlook: USD, Yen, GBP & NZD

Video highlights:

- Following the US government's resumption of operations, the released economic data has shown weakness. Coupled with dovish statements from individual Federal Reserve members, expectations for a Fed rate cut in December are rising.

- High government debt and weakening US employment data have all led the market to overwhelmingly bearish views on USD. However, investors should also be cautious about a potential phase-specific rebound in USD, especially as the US core PCE remains at the 2.9% level in Aug. In fact, affected by the Russia-Ukraine conflict and trade protectionism, it is estimated that US inflation will struggle to return to the pre-pandemic level of 1% to 2% in the short term. Furthermore, the Fed resuming rate cuts will also support the US economy, which is currently showing a certain degree of resilience. Simultaneously, the 'One Big Beautiful Bill' passed in the middle of this year, with its associated tax incentives, will help stimulate consumption and may even push up inflation expectations. This may provide upside for the USD. However, the recent increase in expectations for a Fed rate cut has limited the USD' performance.

- Market expectation on Bank of Japan to raise interest rates in Dec is increasing. In Nov, Tokyo's core CPI year-on-year remained at 2.8%, higher than the expected 2.7%, and industrial production unexpectedly recorded a 1.5% increase. The Bank of Japan Governor stated that interest rates might be raised soon. Interest rate futures show the probability of a BoJ rate hike in Dec has increased to 80%.

- Some measures within the UK budget help increase the disposable income of low-income families, providing a slight boost to consumption. The policy related to the fuel duty freeze will directly suppress the CPI, causing inflation expectations to decrease and providing the Bank of England with room to cut interest rates. Rate cuts will lower borrowing costs for businesses and households, which is positive for the economy. However, some tax increases will only be carried out after 2028, close to the next general election, meaning there will be uncertainty in policy implementation. In fact, persistently low productivity growth is the fundamental problem of the UK economy, and this budget did not propose concrete suggestions to address this issue. However, this budget proposal has gained market acceptance in the short run and triggered GBP to rise.

- The Reserve Bank of New Zealand voted 5:1 in Nov to cut interest rates by 25 bps, lowering the rate to 2.25%. RBNZ's forward guidance indicated the Official Cash Rate would fall to 2.2% by the 2Q26, implying limited scope for further cuts. The market immediately expected the RBNZ to tend towards keeping rates unchanged in February next year. Since the RBNZ began cutting rates in Aug last year, it has lowered rates by a total of 325 bps, but the aggressive cutting policy has not led to a significant improvement in the local economy. 3Q unemployment rate rose to 5.3%, the highest since March 2020, and the trade balance also recorded a persistent deficit. Although NZD rebounded significantly after the RBNZ's meeting, the longer term outlook depends on the economic recovery trajectory and the upcoming new central bank governor's stance on monetary policy.

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