

With Rising Inflation expectation, what is the outlook for USD, AUD and JPY?

Video highlights:

- Recent market attention has centered on escalating tensions in the Middle East, which have disrupted operations in the Strait of Hormuz shipping channel. This has triggered stagflation concerns and is likely to influence global central banks' monetary policies to some extent.
- The Fed kept interest rates unchanged at 3.5%-3.75% for the second consecutive meeting. It revised upward its forecasts for GDP growth and core inflation, while unemployment rate and median interest rate projections remained consistent with December estimates. Overall, the Fed maintained a relatively optimistic view on economic resilience but stayed vigilant about inflation risks stemming from higher oil prices due to the Middle East conflict.
- Investors are increasingly worried that prolonged disruption to the Strait of Hormuz could lead to a global economic recession. The US Dollar Index briefly broke above the 100 level, reflecting heightened risk aversion. However, expectations that other central banks may hike rates to combat inflation have capped the dollar's upside. Resistance for the Dollar Index is seen around 102, with short-term support at the 200-day moving average of 98.40.
- The RBA raised its cash rate from 3.85% to 4.1%, marking the second consecutive hike following February. The bank stated that higher borrowing costs are needed to curb inflation, which is expected to remain above target into 2026 if fuel prices stay elevated due to the Middle East conflict. Governor Bullock emphasized that failing to restrain excess demand would allow businesses to pass on costs, leading to more persistent inflation.
- Despite the RBA being the most hawkish among major central banks, the AUD has pulled back recently after strong gains earlier in the year. It is sensitive to risk sentiment and fell toward the 0.69 level amid rising risk aversion. On the positive side, Australia's tight labor market, the highest official rate among major currencies, and market expectations of another possible hike in May should provide support for the AUD. Short-term support for AUD/USD is at 0.69, with further support near the 100-day moving average around 0.68.
- The BOJ held rates steady at 0.75% for the second consecutive meeting (8-1 vote). It noted that year-on-year CPI may ease below 2%, though rising oil prices could accelerate inflation again. The BOJ will adjust policy with the aim of sustainably achieving 2% inflation. Due to the cautious pace of rate hikes, the JPY has remained relatively weak.
- Japan's spring wage negotiations ("Shunto") showed large firms offering a 5.26% pay rise — the highest in 35 years — which could provide important support for the BOJ's monetary policy normalization. Market pricing indicates around 60% probability of a rate hike at the April meeting.
- The 160 level is widely viewed as a key resistance for USD/JPY. A strong dollar could lead to a breakout, but which may trigger intervention. On the downside, if the dollar weakens, USD/JPY may test the 155 level.

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