

Video subject: What's Next for the USD, GBP and AUD?**Video highlights:**

- The US core CPI in Aug accelerated by 0.3% month-to-month, higher than market expectations. This report has dampened market expectations for cooling inflation. Market expectations for Fed rate hikes through the end of 2027 increased from 2 to 3. The core debate in the market has now shifted from whether the Fed would raise rates to how many total hikes will be required. As rate hike expectations intensified, the USD surged from a one-week low of 98.6 to break above the 99 level. However, the overall trend of the USD remains driven by consolidation, capped below the 100 level.
- Although rising rate hike expectations pushed the US 10-year Treasury yields sharply higher—approaching the 5% milestone—global central banks are grappling with similarly high inflation. This has led to a synchronized climb in global bond yields. The narrowing of the U.S. interest rate differential has capped the USD's gains. Furthermore, concerns over the massive U.S. debt burden continue to restrict the greenback's upward momentum. Currently, the U.S. debt-to-GDP ratio sits higher than that of most other developed nations. With the U.S. benchmark rate already elevated, further Fed hikes would drive interest expenses even higher, fueling market anxieties over U.S. fiscal sustainability and limiting further upside for the dollar.
- Alongside the Fed policy meeting, both BOE and BOJ are scheduled to announce their latest interest rate decisions and monetary policy statements this week. Forex market volatility is expected to heighten as central banks unveil their decisions alongside their rhetoric on inflation and economic growth. While the UK's CPI in July rebounded due to rising energy costs, a decline in service CPI potentially signals a softening labor market. This has sparked divisions among BOE officials regarding the policy outlook. The market currently expects rates to hold steady in the Sept meeting. However, attention should be paid to the upcoming UK employment and inflation data due ahead of the BOE meeting.
- Over the past month, the GBPUSD pulled back from the 1.3670 level but is temporarily holding above its 200-day moving average at 1.3455 level. Major support can be referenced at the 100-week moving average of 1.3238 level, while the previous high of 1.3680 serves as a key resistance level.
- Market expects the RBA will also hold its policy meeting later in Sept. Given the RBA's recent hawkish rhetoric, the market anticipates that the central bank may deliver another 50bps hike before the end of the year, potentially pushing the policy rate to 4.85%. These elevated interest rate expectations are expected to anchor the AUD over the medium term.
- Overall, investors should remain vigilant regarding the USD's impact on the AUD, and USD's recent rebound has capped the gains of the AUDUSD. However, the medium-term bullish structure of the AUD remains intact. As long as it holds above key moving averages, the current phase is viewed as a consolidation within an uptrend. Short-term support for the AUDUSD can be referenced at its 50-day moving average of 0.7074.

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