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Central banks at the helm

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Key takeaways

- The ECB entered the interest rate cut cycle three months earlier than the Fed. However, since late summer the FX markets have been focusing on the Fed, which then made a bold first interest rate cut. The respective future interest rate paths are likely to have a decisive influence on the price of the currency pair.
- After another interest rate hike by the BoJ and a massive unwinding of "carry trades", the yen was by far the strongest G10 currency in Q3. Further monetary policy action by the Fed and the BoJ is likely to remain price-determining.
- In the wake of the JPY appreciation and the announcement of massive stimulus by the central bank and the government of China, the CNY also appreciated noticeably. The U.S. elections remain an extremely important factor.

EUR/USD: Fed cuts could be overpriced

USD and EUR: If we start by looking at the first half of this year, the EUR/USD exchange rate traded in its narrowest range for a six-month period since the introduction of the single currency. Broadly speaking, the currency pair has moved between EUR/USD 1.1047 – which marked the EUR's high at the beginning of the year – and EUR/USD 1.0601 in mid-April.

Short-term market movements were usually triggered by either inflation data, the search for so-called "safe havens" during (geo)political conflicts or changed expectations regarding the respective monetary policy of the Fed and the ECB.

With the ECB's interest rate reversal in June, the cards had been laid on the table. The comments of several ECB governors indicated quite strongly that interest rate cuts should be made on a quarterly basis. On September 12, the ECB acted again, and another interest rate cut on December 12 seems almost certain. For the meeting on October 17, the swap markets were still divided for a while.

Leading indicators such as the PMI data currently point to continued weakness in the Eurozone economy, especially in the industrial sector. However, persistently high core and service inflation data are likely to serve as a warning to the ECB to exercise caution. Nevertheless, following some rather dovish statements by ECB President Lagarde, the swap markets are now pricing in an interest rate cut in mid-October with a 95% probability at the time of writing these lines.

Looking at Fed monetary policy, for much of Q2 many market participants had heavily priced out interest rate cuts by the Fed.

At the beginning of Q3, this changed relatively quickly. Some U.S. labour market data indicated the first signs of weakness. The July report in particular was interpreted by many market participants as another setback for the U.S. economy, as the unemployment rate rose from 4.1% to 4.3%. In combination with the key interest rate hike in Japan, this resulted in major market turbulence for a short time.

Many market participants may have been somewhat surprised that the USD did not assume its usual role as a "safe haven" during the market turbulence. The biggest driver behind recent USD weakness has been the sharp repricing of Fed expectations, which were more consistent with U.S. recessionary dynamics than the soft landing indicated by the data. Of course, no one can rule out a U.S. recession in good conscience, but the data simply does not support such a scenario – for now, at least.

Nevertheless, on September 18, the Fed entered the interest rate cut cycle with a step of 50 basis points (bps), which many had not been expecting. Jerome Powell's Jackson Hole speech on August 23 had opened up the possibility of an alternative path to aggressive easing: a Fed that is convinced that the inflation target has been achieved, so it pivots to sizeable, pre-emptive reflationary cuts this year to protect the labour market, even without a recession. It should not be forgotten that the Fed has a dual mandate to keep inflation in check and to support the labour market.

The labour market data for August published at the beginning of September did not necessarily suggest the eventual decision to implement a jumbo interest rate hike of 50 bps. However, the speeches of FOMC members had focused more and more on developments in the labour market. It seems as if the Fed wants to avoid being held responsible for a further weakening of the labour market.

With the Fed now having entered the rate cut cycle robustly, there are several possible implications:

a) It led to a drop in U.S. real rates and a steepening of the U.S. Treasury yield curve, which put pressure on the USD.

b) The Fed's easing cycle at a faster pace and ahead of other central banks could lead to a material tightening in front-end interest rate differentials – not against all, but at least many currencies.

c) It could encourage the market to price even lower terminal rates because it would imply the Fed views terminal rates as being a long way away from current levels. However, this effect is not entirely clear. The early, significant interest rate cut is likely to support the economy, which in the medium term means that the Fed does not have to cut key interest rates as much for economic reasons as it would have had to do with a first interest rate hike of 25 bps.

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At the time of writing, following the very strong U.S. labour market report for September, roughly 50 bps of interest rate cuts by the end of 2024 are priced in, for both the Fed and the ECB. The U.S. payrolls release on November 1 is likely to determine the expectations for the Fed's monetary policy, and the short-term path of the EUR/USD currency pair.

However, there are some reasons why the USD could be valued higher against the EUR by the end of the year and into our forecast period to September 2025 than it is now.

- We are not yet convinced the Fed intends to go down such an aggressive rate cut path as currently priced in the Fed funds futures, but we expect it to be gradual and measured instead. The baseline scenario is 25 bps steps in the context of upcoming Fed meetings. And fewer cuts than priced in by Fed Funds Futures.
- And, compared to the Eurozone, U.S. growth exceptionalism remains intact. It therefore seems very unlikely that the Fed will need to cut key interest rates aggressively to support the labour market.
- The "Trump 2.0 Trade" priced in July (corporate tax cuts and higher import tariffs create upward pressure on inflation and prevent more aggressive Fed rate cuts) seems to be fully priced out currently. However, a return to the White House for Donald Trump cannot be ruled out. Also, hardly any geopolitical risks seem to be priced in on the markets (e.g. a further escalation in the Middle East). A change in geopolitical conditions or election forecasts in the U.S. could provide a tailwind for the USD again.

And, another U.S. labour market report that is better than expected by analysts could revive the expectation of a no landing scenario. The labour market in the Eurozone remains tense, but the leading indicators and hard economic data tend to point to a stagnating economy in contrast to the U.S. We therefore suspect that the ECB's future monetary policy decisions are priced in relatively fairly in swap markets, but are likely to be too aggressive for the Fed.

So it seems – still – premature to sing a swansong to the USD. If the U.S. labour market weakens much more than expected, then the picture could quickly change again. However, currently we do not expect this to happen.

Our 12-month target for EUR/USD is 1.08.

JPY: Gradual appreciation

JPY: The JPY has seen notable fluctuations against the USD in 2024. Between the beginning of the year and early July, it had plunged to over USD/JPY 160, marking a drop of around 15%. However, by early August it bounced back to around 144 and further in mid-September to 140.6.

This rebound was driven not just by the Bank of Japan (BoJ) rate hike, but mainly by the aggressive repricing of a Fed rate cut in August and a larger 50 bps cut by the Fed in September. Moreover, the JPY's rise sparked the unwinding of long-standing JPY carry trades. In essence, the potential fluctuations of the USD/JPY pair may be linked to the BoJ's policy moves, Japan's economic developments, and expectations of Fed policy action.

In terms of monetary policy moves, the Bank of Japan (BoJ) kept the short-term interest rate steady at 0.25% in September, after raising it twice this year, in March (10 bps) and July (15 bps). Governor Ueda continues to emphasise a gradual approach to future hikes. He noted that private consumption is slowly increasing and highlighted two key points: the risk of inflation from a weaker JPY has decreased, and the BoJ can take its time with policy decisions. Ueda also expressed concern over the downside risks to overseas economies, especially the U.S. So to predict the BoJ's next moves, we need to watch U.S. economic indicators closely, along with Japan's own economic growth, labour market and inflation trends.

In a remarkable turn of economic events, Japan witnessed the sharpest wage growth in three decades, with base pay hikes significantly boosting service prices and setting the stage for policy normalisation. In August, Japan's annual inflation accelerated to 3%, its highest level in the last 10 months. Core inflation, which excludes food but includes energy costs, rose 2.8% – accelerating from 2.7% in July. Both inflation rates have surpassed the Bank of Japan's 2% target for 29 months.

Looking at growth, Japan's economy expanded by an annualised 2.9% in Q2, a strong rebound from the previous quarter's -2.4%, however at a slightly slower pace than the preliminary estimate of 3.1%. Private consumption, which accounts for more than half of the Japanese economy, increased 0.9%. Additionally, retail spending remained positive for the 28th consecutive month, as higher wages continued to bolster consumer spending.

Looking ahead to the first half of 2025, we forecast that the Bank of Japan will continue its journey towards normalising interest rates, with two more hikes expected within the next twelve months, potentially raising the key rate to 0.75%.

Following the financial market's jitters over U.S. growth concerns, the Bank of Japan's Governor has shown a more measured approach to monetary policy, balancing market stability with domestic economic indicators. The pace at which the Fed reduces interest rates will play a crucial role in the JPY's potential appreciation. We anticipate that the Fed will implement five more rate cuts – of 25 bps each – by September 2025.

However, due to significant yield differentials and Japan's negative real rates, we predict only modest JPY appreciation. In addition, contrary to previous statements, the newly elected LDP chairman Ishiba no longer showed himself to be a friend of a very restrictive monetary policy. Consequently, we expect the USD/JPY exchange rate to move gradually lower only.

Our 12-month target for USD/JPY is 140.

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CHF: As strong as ever

CHF: The Swiss National Bank (SNB) was the first G10 central bank to have implemented an interest rate reversal, with – for many market players – an unexpected reduction in its policy rate from 1.75% to 1.50% in March. Many other central banks have since followed suit, most recently the U.S. Federal Reserve with a bold 50 basis point move. Some market players therefore suspected that the SNB would cut interest rates in September by the same amount.

Two factors could have supported such a decision: on the one hand, the continued strength of the Swiss franc (CHF), which is a headwind for the Swiss export industry. At the beginning of August, the CHF was trading at a level of around EUR/CHF 0.921, its highest level for nine years.

On the other hand, after a temporary increase in the spring, inflation rates were again on the decline. Both headline and core inflation were down to just 1.1% in August. According to the SNB, imported goods and services contributed to the decline, as indicated by the strength of the CHF.

The central bank lowered its inflation forecasts significantly and now expects inflation to remain in the price stability range (0-2%) over the entire forecast period. The reduction in the forecasts compared with the June meeting is significant, from 1.1% in 2025 to 0.6% now, and from 1.0% to 0.7% in 2026. For the 2027 kick-off quarters, the SNB forecasts an inflation rate of only 0.6%.

Nevertheless, the SNB refrained from taking a bold interest rate step of 50 bps, but did issue the following statement: "Further cuts in in the SNB policy rate may become necessary in the coming quarters to ensure price stability in the medium term." The central bank emphasised again that it could intervene on the currency markets by buying up foreign currencies in the event of the CHF appreciating too much.

The rate cut did not mark the end of the interest rate cut cycle, as indicated by a marked reduction in inflation forecasts over the coming quarters. The statement that "further cuts in the SNB policy rate may become necessary in the coming quarters to ensure price stability over the medium term" opens the door to further rate cuts in subsequent quarters.

The swap markets are therefore pricing in 25 bps of interest rate cuts in both December 2024 and March 2025. That seems relatively plausible.

The strength of the CHF may also necessitate further SNB action. Just recently, the Confederation of the Swiss Watch Industry had noted an eroding competitiveness and called on the SNB to curb the strength of the franc. So far, however, the SNB has been very reluctant to intervene in the currency markets. The central bank apparently does not want to inflate the balance sheet unnecessarily. However, if the EUR/CHF exchange rate approaches 0.90, a rethink could take place. In the period under review, we expect a slight depreciation of the CHF.

Our 12-month target for EUR/CHF is 0.96.

GBP: High interest rates, robust economy

GBP: The British pound was by far the strongest G10 currency this year at the end of September. Against the USD, the GBP has gained around 5% since the beginning of the year. Against the EUR, the GBP climbed to its highest level since April 2022.

Over the past two years, no G10 region has seen its data outperform expectations as much as the UK. The summer has continued this pattern, with the UK a positive outlier in manufacturing and construction. And, while the recent narrative points to a weak fiscal impulse, on balance some of the pessimism over tax hikes may be overdone, potentially further bolstering the case for a more gradual cutting cycle in the UK.

Furthermore, the external balance remains stable, with lower energy prices a support for the current account.

Let's have a look at some recent data: The UK economy was quite robust, with GDP growth of 0.6% and 0.5% quarter-on-quarter respectively in the first two quarters. At 52.8 points, the services PMI remained in expansionary territory for the eleventh month in a row in September, and the industrial PMI also remained above the expansion threshold at 51.5 points despite a slight decline.

Annual inflation remained at 2.2% in August, but core inflation rose from 3.3% to 3.6% and services inflation from 5.2% to 5.6%. Despite this short-term increase on the services front, inflation will continue to fall, but for now remains sticky enough that the UK terminal rate has repriced far less than other high-yielding peers over the summer.

Since its first interest rate cut in August, the Bank of England has paused. Due to the persistently high core and services inflation, the Bank of England's Monetary Policy Committee voted by a large majority in mid-September in favour of unchanged key interest rates of 5.0%. By the end of the year, the futures markets are still expecting less than 40 bps of interest rate cuts, i.e. less than by the Fed and ECB. For September 2025, key interest rates will continue to be priced in noticeably above 3.50% via OIS, i.e. a relatively long-lasting high key interest rate level (even if, in our opinion, the Fed is priced too low at 3.0% for September 2025).

Markets continue to expect a loosening of fiscal policy at the Autumn Budget, driven by higher borrowing for investment. However, some analysts expect only a modest shift in net spending, with maybe GBP10bn in additional investment funded by extra borrowing. Chancellor Reeves' decision to target winter fuel payments also signals a strong intention from Labour to trim borrowing costs.

To sum up, the GBP is likely to continue to receive tailwinds from robust economic development and a high key interest rate level. The fact that the PMI data for industry, services and construction are all in expansionary territory is an exception to the rule, especially in Europe. We therefore expect the GBP to trade comparatively strongly against many other currencies and see potential to defend its recent gains against the EUR. The GBP may weaken slightly against the USD, primarily due to the strength of the U.S. economy and ongoing inflationary pressures in the U.S.

Our 12-month target for GBP/USD is 1.29.

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AUD: RBA’s firm hold and commodity tailwind favour AUD

AUD: Australia’s economic growth remained sluggish in the June quarter, with GDP rising by 0.2%, unchanged for the third consecutive quarter. The annual growth rate rose 1%, the lowest in 32 years (excluding the pandemic years). The leading economic indicator suggests a softening mood in the private sector – particularly the manufacturing purchasing managers index (PMI) remained in the contractionary zone for the eighth consecutive month. This tepid economic activity is largely due to high interest rates and persistent inflation, which continue to dampen consumer demand.

Annual inflation fell from 3.5% to 2.7% in August, returning to the Reserve Bank of Australia’s (RBA) target range of 2-3% for the first time since October 2021. However, as projected by the RBA, headline inflation is expected to continue falling due to federal and state cost of living relief, such as rebates on electricity. Underlying inflation, represented by the trimmed mean, is more indicative of inflation momentum. In this regard, the trimmed mean CPI remains above 3%, despite easing by 40 bps in August. Moreover, inflation expectations remain well above that level – at an outsize 4.4% in September.

The slowly fading price pressure is also a consequence of the resilient labour market. Wage growth remained at 4.1% for Q2, while employment growth was higher than analysts' expectations for the fifth consecutive month in August. The unemployment rate stayed at 4.2%, as the participation rate remains at a record high of 67.1%. In August, 47,500 new jobs were added, mostly part-time, which was much higher than the 26,000 predicted.

This is another reason why the RBA, as generally expected, left its key interest rate unchanged at 4.35% in September for the seventh year in a row. The forward guidance remains hawkish, while the board reiterated upside inflation risks and a data-dependent approach. In view of the sluggish disinflation process and resilient labour market, there appears to be no urgency to ease policy by RBA.

Conversely, the Fed is on track to ease policy rates, which could give the AUD a boost. Lastly, the Aussie dollar is often referred to as a ‘commodity currency’ because base metals like iron ore, natural gas, copper, precious metals (gold), and coal make up a significant portion of Australia’s exports. Currently, higher commodity prices, driven by China’s stimulus measures as the world’s largest consumer, are providing a tailwind for the currency.

Our 12-month target for AUD/USD is 0.68.

NOK: Continued to disappoint

NOK: The poor global backdrop – and particularly the weak current state of the domestic European economy – has continued to weigh on the NOK. In addition, the fall in oil prices during the summer months weighed on NOK's quotations. Long NOK had been a popular trade throughout the year but one could assume the towel has largely been thrown in, probably making re-entering the trade more appealing now.

Nevertheless, NOK performance continues to hinge on the external environment in large part. NOK has the highest beta to VIX across all G10 currencies over the past few months. Nevertheless, the high key interest rate level and some good fundamentals could not support the krone.

The Norges Bank is still in a quandary: Both headline and core inflation continue to track several tenths below the central bank's forecasts. On the growth side, the weakening in the construction sector outlook suggests rate hikes are biting too. But at the same time, the weaker NOK appears to be preventing Norges from joining peers and starting the cutting cycle. Over recent quarters, the central bank has leaned on the expectation that keeping rates on hold for longer than peers would (re)open a positive carry gap and lead to a stronger NOK. This has, however, failed to materialise.

The continued disinflationary backdrop suggests that Norges will make dovish changes to its rate path projections, which currently only forecast the first full cut by Q2 next year. The rates market appears already primed for a pivot, with a cut fully priced by this year-end (Norges meeting scheduled for December 19).

But outside of hoping for a more constructive external environment (i.e. higher oil and global asset prices), an outright reversal in the weaker NOK trend could nevertheless require more creativity, were the policy rate to become more synchronised with peers. On this front, the governor reiterated that the bar for FX intervention is extremely high. An alternative would be starting to hedge a portion of the enormous sovereign wealth fund.

We see upside potential for NOK over the next 12 months due to the strong fundamentals.

Our 12-month target for EUR/NOK is 11.40.

SEK: Defies Interest rate cuts

SEK: With house prices stabilising, the financial markets have stopped speculating on a significant depreciation of the SEK. This also eased the situation for Riksbank, which had been concerned about the external value of the SEK. After its colleagues in Switzerland made a start in March, the Riksbank was the second G10 central bank to commence its interest rate cut cycle at the beginning of May.

Although this put the SEK under temporary pressure, it did not last long, as the ECB also initiated the interest rate turnaround in June. After a strong first quarter with GDP rising by 0.8% compared to the previous quarter, economic momentum also slowed in Sweden in the second quarter (-0.3% qoq). However, this does not distinguish it from the Eurozone.

Inflation is also clearly receding in Sweden: a further noticeable decline from the headline rate of 1.9% in August and the core rate of 1.2% is expected for September. Recently, the SEK has therefore faced some headwinds as swap markets price in further interest rate cuts totalling 75 bps for the two remaining Riksbank meetings this year, i.e. more than for the ECB. In the end, however, this only means that the markets assume that the Riksbank will cut interest rates faster than the ECB, but that both central banks may end this cycle at the same level.

However, the SEK remains vulnerable to phases of risk-averse sentiment in the markets – next to the NOK, the SEK has the highest "beta". This could – as was recently the case – lead to the SEK losing momentum in the period under review.

Our 12-month target for EUR/SEK is 11.80.

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EMs: Strongly divergent exchange rate development

CNY: Change of direction in the third quarter: Since the beginning of the year, the People's Bank of China (PBoC) has had to combat the devaluation of the renminbi.

As recently as July 24, the USD/CNY exchange rate was trading at 7.2775, the lowest level of the renminbi this year. This all changed abruptly at the beginning of August, after the Bank of Japan raised key interest rates (which had a strong pull effect on Asian currencies in general, the four strongest currencies in Q3 were all Asian currencies) and the U.S. Federal Reserve verbally paved the way for its first interest rate cuts.

Following the announcement of monetary and fiscal stimulus from the PBoC and Chinese government agencies, the renminbi received further strong tailwinds at the end of the third quarter, causing it to appreciate towards USD/CNY 7.00 (USD/CNH even traded below this threshold).

According to the assumptions of many market observers, unusually strong price increases in China's leading stock indices are likely to ensure that capital outflows from foreign investors could turn into capital inflows again in the future, which should support the renminbi. The PBoC's cuts in various interest rates were unable to stop the renminbi's advance, nor did the short-term fall in the yield on ten-year Chinese government bonds to a record low of 2.0%.

With the stimulus, the central bank and the government reacted to persistently mediocre economic data. When looking at the macro data for August, it is noticeable that all data was worse than analysts expected in advance. In particular, retail sales rose by only 2.1% compared to the same month last year. This is another indication that Chinese consumers are keeping their wallets closed due to uncertainty about what the future may hold.

The data on industrial production and fixed asset investment (FAI), also missed the forecasts, while the unemployment rate rose unexpectedly. The deep misery of the housing market is illustrated by two data points: Real estate investments fell by 10.2% from January to the end of August compared to the same period last year, while sales of residential properties fell by 25.0% in the same period.

With the recently announced measures, China's economic condition may improve during the next quarters, however their full impact is more likely to materialise in the medium term.

We should also not forget that the U.S. elections on November 5 are likely to have a significant impact on the renminbi's price. Should Trump return to the White House and implement the drastic increase in tariffs on imports from China he has threatened, we consider it likely that the CNY would depreciate at least moderately against the USD, as foreign investors may fear increased tensions between Washington and Beijing, potentially leading to rising capital outflows from China again.

Overall, this could cause the current tailwinds for the CNY to ease somewhat.

Our 12-month target for USD/CNY is 7.15.

ZAR: An absolute game changer in South Africa was the general election in May. After the ANC fell short of an absolute majority for the first time in decades and had to form a coalition with the Democratic Alliance and some other parties, this advent of this new government has driven major gains in the financial markets. These gains reflect market hopes that urgently needed reforms will now actually be initiated.

While the rand had traded near a yearly low of USD/ZAR 19.80 at the end of April, it climbed to a 27-month high of around USD/ZAR 17.03 by the end of September.

The ZAR is also receiving support from the macro data: after zero growth in Q1, the economy grew by 0.4% in Q2. The planned power shutdowns ("load shedding") have been greatly reduced. And the inflation rate recently fell unexpectedly significantly to 4.4% (headline) and 4.1% (core) and thus into the lower half of the South African Reserve Bank target zone. Consequently, the central bank was able to cautiously initiate the interest rate turnaround in September by lowering the key interest rate from 8.25% to 8.00%.

However, one risk for the ZAR is a more risk-averse mood in the markets, possibly caused by geopolitical tensions. In addition, the new government must really deliver reforms.

Our 12-month target for USD/ZAR is 18.80.

BRL: Latin America's largest economy, Brazil, witnessed a stalled economy for the last two quarters in 2023. This changed noticeably in 2024 – despite persistently high key interest rates, which we will come to in a moment. In both Q1 (+1.0%) and Q2 (+1.4%), the economy grew more strongly than expected by the market consensus.

Compared to Q2 2023 Brazil's economy grew by 3.3% in Q2 2024. Robust data on industrial production and retail sales in particular were helpful in this regard. Both the industrial and services PMI remain significantly above the 50-point mark and thus in the expansion zone.

On the inflation front, Brazil maintains a benign picture. The annual inflation rate eased in August from 4.50% to 4.24%, which aligns with the upper bound of the central bank's inflation target (3.0% + 1.5%). However, core service inflation, closely monitored by the central bank, remains elevated, as the labour market remains tight and wage growth continues to outpace inflation.

Not least for this reason – albeit among a few others – the Brazilian Central Bank (BCB) changed course: After a total of seven interest rate cuts had brought the key interest rate down to 10.50%, the BCB pivoted in September with an increase to 10.75%.

The depreciation of the BRL, which weakened about 10% against the USD between the beginning of the year to the end of September, is also likely to play a role here.

We expect that the BRL may find a bottom at the current level and should therefore also be close in the medium term.

Our 12-month target for USD/BRL is 5.50.

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MXN: In 2023, the Mexican peso claimed the title of the best-performing currency, appreciating by nearly 15% against the formidable USD. However, in 2024, the MXN had depreciated by 13% by the end of Q3.

One of the reasons for the devaluation of the MXN is political. The significant gains made by the ruling party Morena in the general election, which would theoretically make changes to the constitution relatively easy, was met with fears in the financial markets that these could lead to changes that could be disadvantageous for financial markets.

Claudia Sheinbaum has now been sworn in as president of Mexico. The next few months are likely to be challenging: On the one hand, there is a need to tighten the budget of her predecessor Andrés Manuel López Obrador. The previously estimated deficit ratio of 4.9% is unlikely to help regain the confidence of international investors. In addition to measures to increase the efficiency of Mexican state-owned enterprises, it is also important to strengthen the framework conditions for the private sector.

Last year's strong performance by the currency was driven by a significant interest rate hike of 725 bps by the central bank, aimed at combating high inflation, which had reached 8.7% – exceeding the central bank's target range of 3.0% ± 1.0 ppt by a long way.

The inflation rate remained a brake on the Mexican economy. However, after reaching a 14-month high of 5.6% in July, it fell to 5.0% in August. It is also encouraging that domestic price pressure has returned to the central bank Banxico's target range of 2-4 % for the first time since February 2021 at 4.0%.

Against the backdrop of the expected gradual easing of the Fed, Banxico lowered the key interest rate from 10.75% to 10.50% in September. The still high level of key interest rates could strengthen the MXN somewhat following its recent significant depreciation.

However, the U.S. elections could remain a sword of Damocles hanging over the MXN. Mexico surpassed China to become the top trading partner of the U.S. for the first time in over 20 years. Nearly 80% of Mexican exports now find their way to their northern neighbour, the U.S.

The upcoming electoral race in the U.S., along with potential tariff discussions, may exert renewed pressure on the MXN.

However, this risk should already be largely priced into current exchange rates, which is why we do not see the MXN moving far from the current level in the medium term.

Our 12-month target for USD/MXN is 19.20.

IDR: Indonesia's economy showcased resilience in Q2, with growth holding steady just above 5%, aligning with expectations. Since June 2023, inflation has remained comfortably within Bank Indonesia's (BI) target range, creating scope to monetary policy easing and supporting growth.

However, BI has been keen on maintaining the stability of the IDR, especially after it plunged over 6.8% against the USD between the start of the year and the end of June. The Federal Reserve's pivot and projected series of U.S. rate cuts provided BI with an opportunity to cut rates with less concern about currency depreciation. Consequently, BI cut its policy rate by 25 bps in September, earlier than anticipated.

The central bank stated that this decision was aligned with the stable IDR (which has recouped its initial losses from June lows and the need to support economic growth, while keeping its macroeconomic forecasts unchanged from the previous meeting.

Despite Indonesia's real rates being at their highest in recent history, the rate differential to the Fed funds rate is relatively lower around 100bps from above 200bps before covid. It is likely that BI will prioritise restoring a wider rate differential during this easing cycle to maintain IDR stability and continue attracting capital inflows, rather than matching the Fed's rate cuts in depth.

Our 12-month target for USD/IDR is 15,500.

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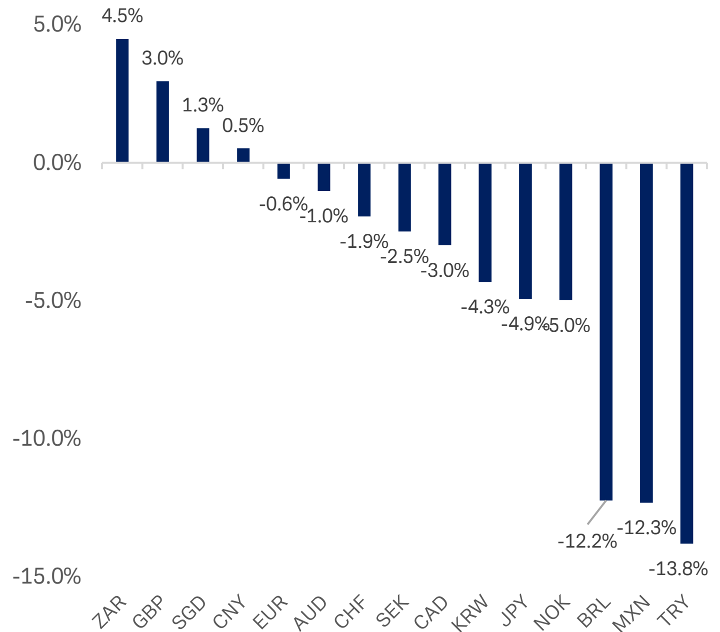
Figure 1: EUR/USD vs. spread on 10yr government bonds Germany-U.S.

Source: Refinitiv Datastream, Deutsche Bank AG.
Data as of October 08, 2024.

Figure 2: Performance vs. USD YTD (%)



Source: Bloomberg Finance L.P., Deutsche Bank AG.
Data as of October 08, 2024.

Figure 3: End-September 2025 forecasts

Currencies	End-September 2025
EUR vs. USD	1.08
USD vs. JPY	140
EUR vs. JPY	151
EUR vs. GBP	0.84
GBP vs. USD	1.29
EUR vs. CHF	0.96
AUD vs. USD	0.68
USD vs. CAD	1.31
EUR vs. NOK	11.40
EUR vs. SEK	11.80
USD vs. CNY	7.15
USD vs. IDR	15,500
NZD vs. USD	0.63
USD vs. ZAR	18.80
USD vs. MXN	19.20
USD vs. BRL	5.50

Source: Bloomberg Finance L.P., Deutsche Bank AG. Data as of September 5, 2024.

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Glossary

AUD is the currency code for the Australian dollar.

The Bank of Japan (BoJ) is the central bank of Japan.

BRL is the currency code for the Brazilian real.

CAD is the currency code for the Canadian dollar.

CHF is the currency code for the Swiss franc.

CNY is the currency code for the Chinese yuan.

The consumer price index (CPI) measures the price of a basket of products and services that is based on the typical consumption of a private household.

An emerging market (EM) is a country that has some characteristics of a developed market in terms of market efficiency, liquidity and other factors, but does not meet all developed market criteria.

EUR is the currency code for the euro, the currency of the Eurozone.

The European Central Bank (ECB) is the central bank for the Eurozone.

The Eurozone is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

Federal Reserve (Fed) is the central bank of the United States. Its Federal Open Market Committee (FOMC) meets to determine interest rate policy.

The G10 comprises of Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States.

GBP is the currency code for the British pound/sterling.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

IDR is the currency code for the Indonesia Rupiah.

JPY is the currency code for the Japanese yen, the Japanese currency.

KRW is the currency code for the Korean won.

LNG stands for Liquefied natural gas.

MXN is the currency code for the Mexican peso.

NOK is the currency code for the Norwegian Krone.

Purchasing manager indices (PMI) provide an indicator of the economic health of the manufacturing sector and are based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. The composite PMI includes both manufacturing and services sectors. They can be published by public sector or private agencies (e.g. Caixin, Nikkei).

Producer price inflation (PPI) measures the change in prices received by producers (e.g. firms) for their output.

The Reserve Bank of Australia (RBA) is the central bank of Australia.

The Riksbank is the central bank of Sweden.

The S&P 500 Index includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

SEK is the currency code for the Swedish krona.

The Swiss National Bank (SNB) is the central bank of Switzerland.

SGD is the currency code for the Singapore dollar.

Treasuries are bonds issued by the U.S. government.

TRY is the currency code for the Turkish lira.

U.S. is the United States.

USD is the currency code for the U.S. Dollar.

ZAR is the currency code for the South African rand.

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