

FX Viewpoint

Currencies
Global

USD on a firm footing

- ◆ The broad USD ended 2024 on a stronger footing, supported by the December FOMC meeting
- ◆ US policy uncertainty, relatively higher yields, and sluggish global growth suggest the USD will see continued strength
- ◆ The GBP is likely to face downside risks when markets start to price in more BoE rate cuts

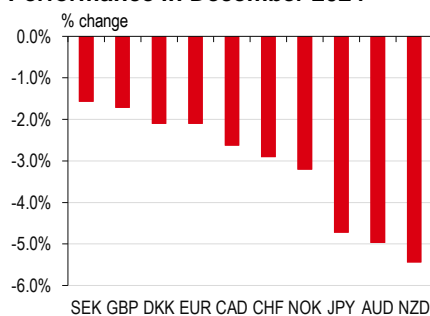
The broad USD ended 2024 on a stronger footing, gaining against all other G10 currencies last month (Chart 1). **We continue to look for a strong USD**, a stance reaffirmed by the outcome of the Federal Open Market Committee's (FOMC) 17-18 December meeting. While the FOMC's 25bp rate cut was widely expected, other aspects of the meeting were more hawkish than expected, including the new set of interest rate projections (signalling two 25bp rate cuts in 2025, down from four cuts in the September release), a new hawkish dissenter (favouring no change in rates), a tweak to the statement (implying some pauses ahead), and a press conference that revealed the December decision to cut had been a "close call". **Our economists expect the Federal Reserve (Fed) to deliver 75bp rate cuts in 2025** via three 25bp steps at 18-19 March, 17-18 June, and 16-17 September meetings.

The Fed delivered a hawkish cut in December, signalling fewer rate cuts in 2025

As USD yields may remain relatively high (Chart 2), alongside sluggish global growth and US policy uncertainty, the USD is likely to see continued strength this year. Against this strong USD backdrop, most currencies are set to struggle. **The outlook is poised to be challenging for currencies whose economies are highly linked to the US via trade, or reliant on the global trade cycle.**

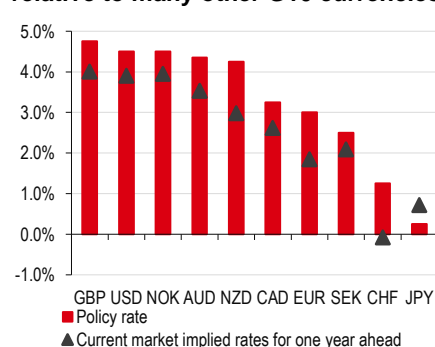
We continue to look for a strong USD

1. G10 currencies vs. USD: Performance in December 2024



Source: Bloomberg, HSBC

2. USD yields may remain high relative to many other G10 currencies



Source: Bloomberg, HSBC

Outside of trade policies, one should also keep tabs on the respective economies' fiscal, monetary and FX policies. Taking the UK as an example, **the GBP softened following the Bank of England's (BoE) dovish hold in December**. The BoE's monetary policy committee voted by 6-3 to hold interest rate at 4.75%, but with more voting for a 25bp cut than expected. It is worth noting that markets are still pricing in slightly higher rates in the UK than in the US (Chart 2), which appears at odds with economic fundamentals. **Our economists expect the BoE to deliver 150bp rate cuts in 2025**, with a faster easing pace later in the year, as inflation continues to normalise, the fiscal policy outlook becomes more restrictive and the private sector struggles to grow. With this in mind, **the GBP is likely to weaken against the USD in the months ahead.**

The GBP is likely to face downside risks

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