WORLDFIRST

Monthly Currency Update

October 2021

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Editor's note

Markets were starting to be optimistic at the beginning of September with economies recovering and countries coming out of lockdown. However, a range of market dampening events and outlooks have left risk-based currencies on the backfoot and led to the USD to grow in strength. Some of September's influential events were Evergrande developments, inflation, the debt ceiling and more lockdowns.

Read on below to find out more about the activities in September and what could be due in October.

I will be signing off this month's update as this will be my last one with WorldFirst. It has been a pleasure to be able to provide these market updates and hopefully they have aided some decisions when purchasing foreign currency. The update will be transitioning to a quarterly review and will next be released to line up with the start of the new year, 2022. All the best with the remaining 3 months of the year.

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Currency Specialist

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AUD – What impact will Evergrande have on the Australian economy?

The AUD has had a tumultuous month with high levels of volatility on the back of influential global events. The month began with the AUDUSD firmly in the tight trading range at 0.73 before appreciating towards 0.7450 on the back of the rising market sentiment and the increasing likelihood of lockdown ending in parts of Australia. However, this optimism was short-lived, as markets became increasingly aware of the developing situation with Evergrande in China and the pressures that were rising on central banks around the globe. As a result, the AUD tumbled against all majors and is sitting closer to 0.7200 against the USD.

On the data front, GDP fell to 0.7% for Q2 but, this was better than forecasted so the AUD benefited. As the month progressed, investors saw that the Australian labour market was weakening with 146,300 jobs lost in August. The RBA remained cautious but didn't pull back on QE tapering which is a good sign for the Australian economy. For October, investors will be keeping a close eye on the USD Fed, Evergrande and the RBA to understand how the back end of the year will play out for foreign exchange markets and sentiment.

USD – Markets look to certainty on tapering plans

The USD continued to find strength throughout September despite concerns about debt levels and QE tapering. The Fed has started to put a more concrete plan for tapering but still unknown remains in the market with key economic indicators yet to be reached. Initial jobless claims continue to improve but, non-farm payrolls failed to provide support to the USD. The back end of the month saw treasury yields and as a result, the USD improved its position against all currencies.

Looking to October, close attention will remain on Jerome Powell and the Federal Reserve as they transition into QE tapering and potentially look to increase interest rates. Economic data hasn't necessarily suggested that the US is recovering as excepted, so the market will be looking to see this improve. If treasury yields continue to rise the USD could be in for another month of gains.

GBP – The pound trades tight in September

The pound started the month with some key PMI data highlighting a slowdown in manufacturing and services sectors and this left the pound fighting to maintain its position against the AUD. A switch in market sentiment allowed the pound to improve its position throughout the middle period of the month, but this might have masked some UK concern with GDP slipping to 0.1% from 1% and retail sales missing expectations. The positive for the UK throughout this period was that the claimant count reduced by 58,600 and the unemployment rate remained steady.

As the month progressed, the pressure being placed on the Bank of England by inflation continued to grow and this has left the BoE members with the tough decision on when to hike interest rates and taper QE. These will be the key decisions that investors will want to find out in October and if the rising COVID cases impact society. Currently, the AUDGBP pair is trading in a tight range and is waiting for a larger market catalyst to push the pair higher or lower.

EUR – Is the free trade agreement at risk?

The AUDEUR pair has traded within a tighter range than most currencies throughout September with neither wanting to give away too much ground. Europe is in a tough position at the moment with limited room to move with interest rates at the 0% level and consumer sentiment falling. For the majority of the month, the Euro was on the back foot but the late switch in market sentiment caused the currency to improve.

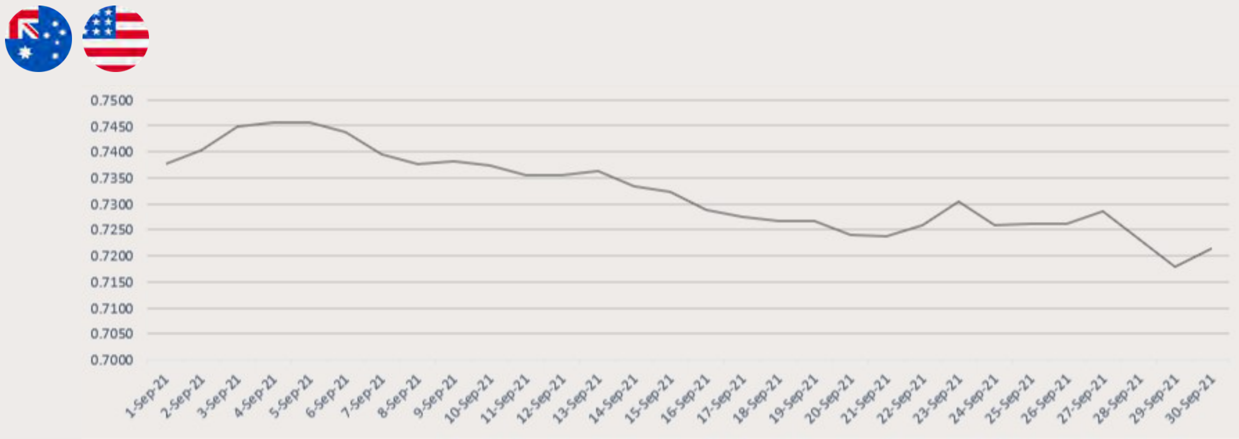
Investors will be wanting to see if the tensions between Europe and Australia escalates as the submarine deal which has been scrapped has left the EU wanting answers. If this decision puts at risk the free trade agreement between the pair then the AUDEUR could be open to lots more volatility. Market participants will also be wanting some guidance from the ECB on tapering and interest rates.

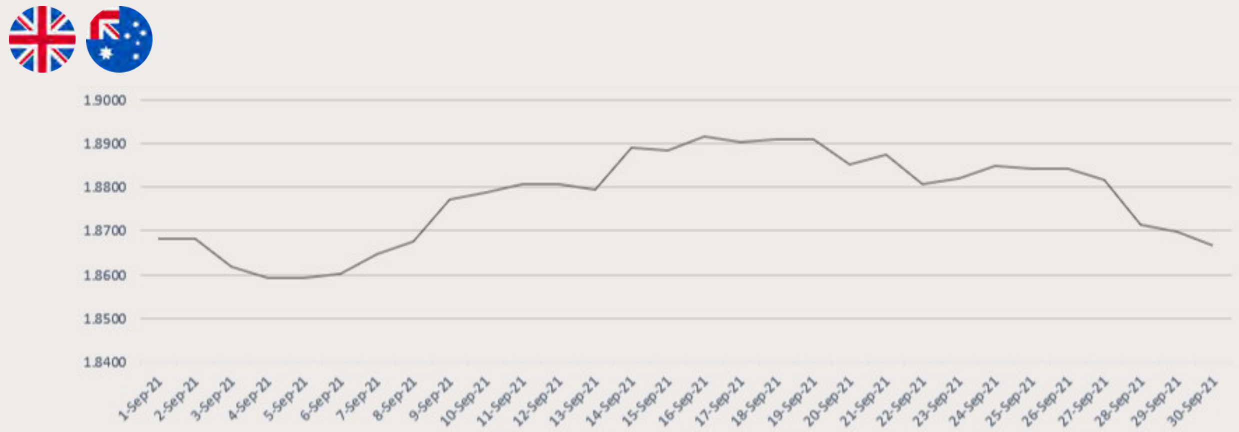
NZD – Will the RBNZ raise interest rates?

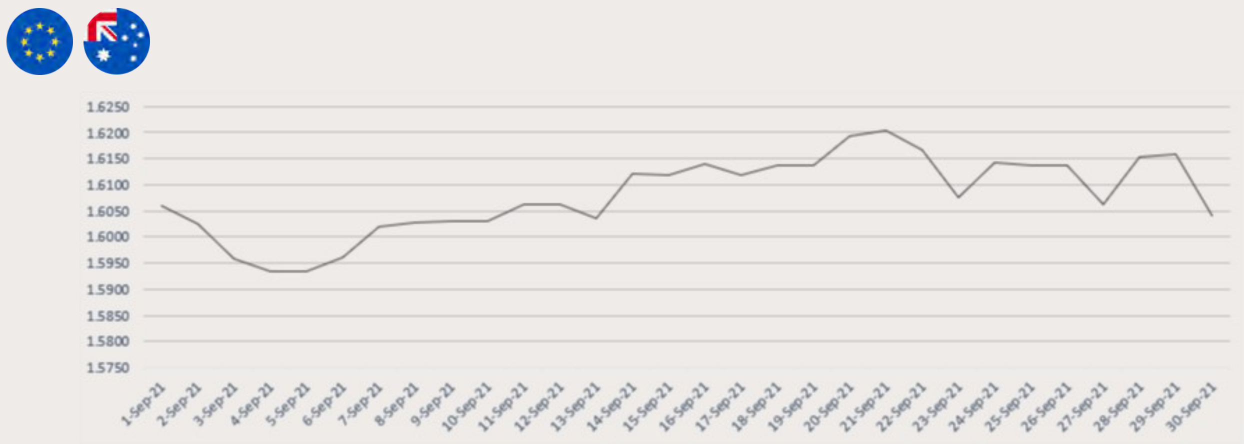
Comparatively to Australia, New Zealand was in a much better position handling COVID, and as a result, the market was expecting the RBNZ to increase interest rates before the year concluded. However, a snap lockdown has left the central bank unsure of future movements and now an interest rate hike is looking more unlikely. Overall, the NZD remains in a strong position against AUD with improvements in GDP and terms of trade boosting the currency.

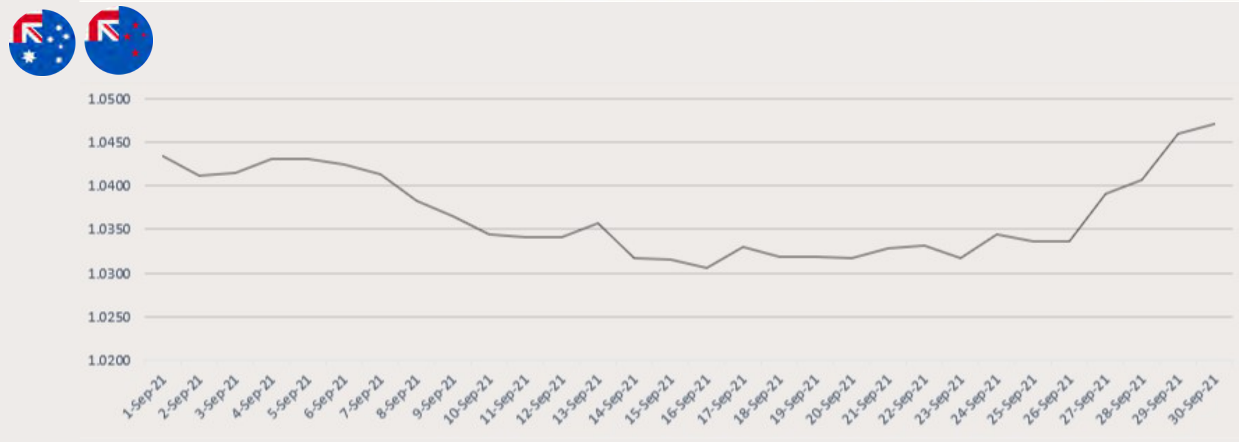
Looking to October, the market will be waiting to see if COVID further impacts the recovery of the New Zealand economy and the plans for increasing interest rates. Many economic indicators are lagging in nature and the data scheduled in October is likely to show the impact of lockdown, which could put downward pressure on the NZD. Alongside this, the sentiment based on global events, particularly surrounding inflation, could impact the success of the NZD.

September Rate Movements









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