
What did you miss last month?

Currencies
Global

A dovish Fed, UK PM race, US-China temporary trade truce

- ◆ A dovish Fed leaves the USD as the worst G10 performer
- ◆ Boris Johnson surges ahead in Prime Minister race after Theresa May resigns
- ◆ US President Trump and China's President Xi agree to a temporary trade truce at the G20 summit

Key Dates

- | | |
|----------------|---|
| June 3 | ◆ US ISM manufacturing PMI 52.1 versus 53.0 expected |
| June 4 | ◆ The Reserve Bank of Australia (RBA) cuts rates by 25bp to 1.25% as expected |
| June 6 | ◆ The European Central Bank (ECB) keeps the policy rate unchanged |
| June 7 | ◆ Theresa May steps down as leader of the Conservative Party |
| | ◆ US non-farm payrolls 75k versus 175k expected |
| June 10 | ◆ USD-CNY reaches a year-to-date high of 6.9383 |
| June 18 | ◆ ECB's Draghi states "further interest rate cuts remain part of ECB tools" |
| June 19 | ◆ The Federal Reserve (Fed) keeps rates on hold, gives dovish commentary as "dots" projections move lower |
| June 20 | ◆ Iran-US tensions escalate |
| | ◆ Boris Johnson and Jeremy Hunt reach the final stage of the Conservative Party leadership race |
| June 25 | ◆ The USD index reaches a three-month low of 95.843 |
| | ◆ Gold reaches six-year high of USD1,439.21/oz |
| June 26 | ◆ The Reserve Bank of New Zealand (RBNZ) keeps rates on hold at 1.50% |
| June 29 | ◆ US President Trump and China's President Xi agree to a temporary trade truce |

Summary – Doves dampen the USD

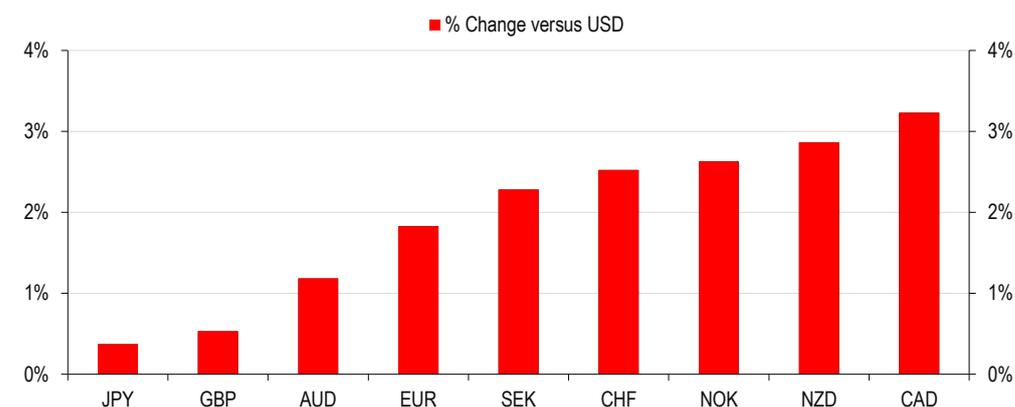
The USD was the worst G10 performer in June, weighed down by increased expectations of a Federal Reserve (Fed) rate cut, and weaker-than-expected economic data. Downside surprises came from activity data earlier on in the month, which put the USD under pressure. However, the biggest catalyst for the USD downturn came on 19 June with a dovish Fed meeting, although rates were held steady. The “dots” projections showed that seven policymakers saw 50bp of cuts as likely for 2019.

The EUR strengthened in June, despite the European Central Bank (ECB) keeping its policy rate unchanged, and extending forward guidance to indicate that this would be the case until mid-2020. Economic data out of Europe was not particularly strong, but the EUR was buoyed by soggy US data and a dovish Fed, ultimately ending the month up against the USD.

The GBP weakened versus all G10 currencies bar the USD as uncertainty on both the Brexit process and domestic politics continued. Most notably, Boris Johnson surged ahead in the race to become Prime Minister (PM) after Theresa May stepped down from her position on 7 June.

Elsewhere: As geopolitical tensions between the US and Iran heightened, gold surged to a six-year high of USD1,439.21/oz¹ on 25 June. Oil was also buoyed by the developments in the Middle East, given 20% of global crude supplies pass through the Strait of Hormuz on a daily basis. The CAD was the best G10 performer against the USD in June, appreciating 3.2%, supported by the rally in oil prices and a dovish Fed. The RMB rallied as the FX market awaited a Trump-Xi meeting at the G20 summit, where a temporary trade truce was agreed. The JPY, the AUD, and the NZD all finished the month stronger against the USD, due to a dovish Fed. The AUD and the NZD had similar stories, dovish central bank tones and no upbeat data releases but still outperformed the USD.

June G10 performance



Source: Bloomberg, HSBC

US: The worst performer

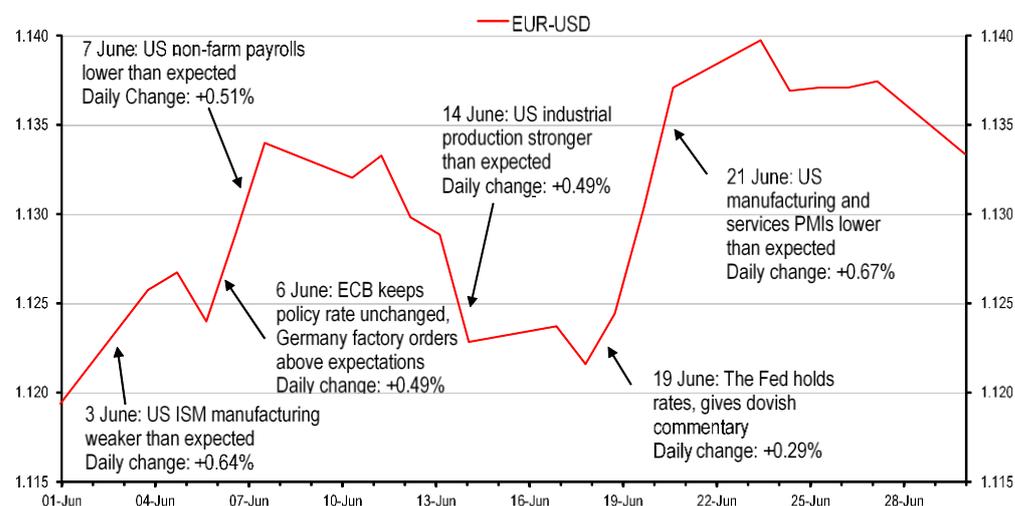
The USD weakened in June, weighed down by weaker-than-expected data and growing expectations of a Federal Reserve (Fed) rate cut. Early in the month, softer-than-expected data was the main factor dragging the currency lower. ISM manufacturing surprised to the downside on 3 June, followed by non-farm payrolls undershooting expectations at 75k on 7 June. While

¹ All prices in this report are taken from Bloomberg.

stronger-than-expected industrial production and robust retail sales on 14 June provided some support for the currency, the USD ended the month weaker due to growing expectations of a Fed rate cut towards the end of the month.

The Federal Open Market Committee (FOMC) meeting on 19 June went a long way to validate dovish rate expectations. While the policy rate was left unchanged, the USD weakened as the policy guidance was notably dovish. The “dots” projections for 2019 showed seven policymakers saw 50bp of cuts as likely, and one member anticipated a 25bp easing. The median dots for 2020 and 2021 were pulled lower, as was the long-term dot. The USD slid lower in the end of the month, weighed down by another round of soggy data. Both manufacturing and services PMIs came in softer than expected on 21 June. A dovish Fed and weaker-than-expected data saw the USD index reach a three-month low of 95.843 on 25 June and end the month 1.7% weaker.

EUR-USD



Source: Bloomberg, HSBC

Eurozone: Draghi is frank in Sintra

The EUR strengthened in June, despite a dovish European Central Bank (ECB). The FX market focused on the dovish rate guidance by the Fed instead, seeing the EUR rally 1.8% against the USD on the month. On 6 June, the ECB kept the policy rate unchanged and extended its forward guidance to indicate that rates would be kept unchanged to mid-2020. The dovish narrative continued later in the month as the ECB’s President Draghi stated on 18 June that “*further interest rate cuts remain part of ECB tools*” at a forum in Sintra, Portugal. The EUR initially weakened in reaction to President Draghi’s comment. But, a dovish policy announcement by the Fed on the next day saw the USD sell off through to the end of the month, with a stronger EUR being the flip side.

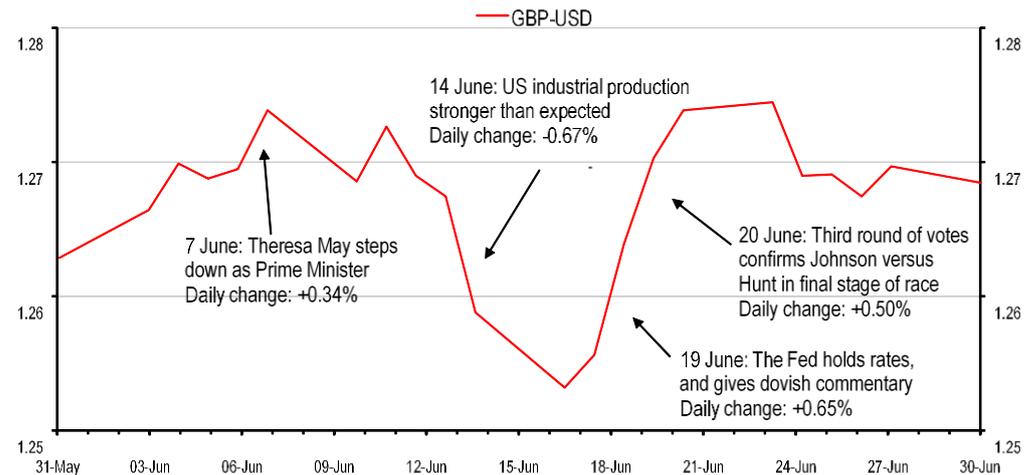
The story on the data front was similar. Eurozone data was not particularly upbeat, but soggy US data buoyed the EUR. On the bright side, French industrial production was slightly stronger than expected and June PMIs in both Germany and France beat expectations. However, the weakness in the German manufacturing sector continued. Factory orders fell 5.3% YoY and industrial production came in weaker than expected at -1.8% YoY. Nevertheless, weaker-than-expected PMIs in the US on 21 June and a dovish Fed story saw EUR-USD reach a three-month high of 1.1412 on 25 June.

UK: The race is on

Uncertainty on both the Brexit process and domestic politics continued, causing the GBP to weaken versus all G10 currencies bar the USD. In terms of domestic politics, Theresa May stepped down as Conservative Party leader on 7 June, which kick started a Tory leadership contest. As the month progressed, Boris Johnson surged ahead in the race to become the next PM. GBP-USD drifted lower as the market feared the rising risk of a no-deal Brexit. GBP-USD reached 1.2506 on 18 June, a level not seen since the 3 January flash crash. The third round of votes on 20 June confirmed Boris Johnson would face Jeremy Hunt in the final stage of the race, a result expected to be announced by the week of 22 July 2019. Both candidates said they want to leave the EU on 31 October 2019.

Amidst all the political uncertainty, developments on the data front were mixed. On the upside, labour market data beat expectations, with employment growth of 32k in the three months to April versus 4k expected. On the downside, manufacturing PMI dropped below 50 for the first time since 2016 and industrial production contracted 1.0% YoY versus a 0.9% expansion expected. Despite finishing stronger against the USD, the GBP's risks were reflected against other currencies, with EUR-GBP rising 1.3% in June.

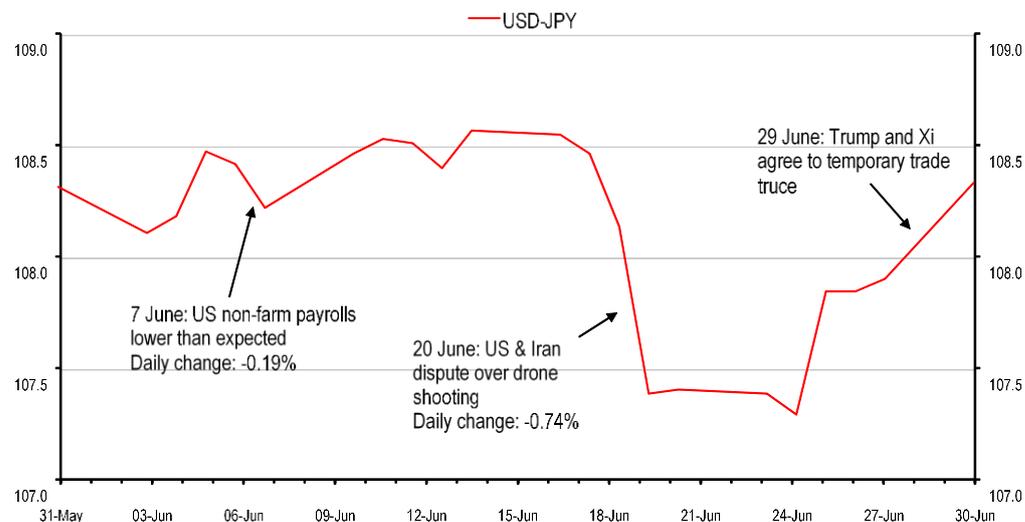
GBP-USD



Source: Bloomberg, HSBC

Japan: Geopolitics the driver

USD-JPY traded in a tight range during the first half of the month but then broke lower as an escalation of geopolitical tensions buoyed the JPY. Risk appetite dropped as the dispute between US and Iran heightened on 20 June. The Bank of Japan (BoJ) stressed that it faced significant risks associated with overseas economies, but these comments were largely overlooked. Geopolitical tensions and a dovish Fed saw USD-JPY reach a five-month low of 106.78 on 25 June. The pair bounced back from this low later in the month, as US Treasury Secretary Mnuchin commented that the US-China trade deal was about 90% done and "there is a path to complete this" (CNBC, 26 June 2019). However, the JPY still ended the month 0.4% stronger against the USD.

USD-JPY


Source: s

China: Truce, for now

The RMB strengthened against the USD in June. Most of the rally took place during the second half of the month as the FX market awaited a Trump-Xi meeting at the G20 summit, scheduled for the end of the month. The RMB did come under pressure early in the month when the People's Bank of China's (PBoC) Governor Yi commented that there was "tremendous room" for easing monetary policy, and he was not wedded to defending the RMB at a particular level. USD-CNY reached a year-to-date high of 6.9383 on 10 June. The RMB rebounded on 18 June as US President Trump confirmed that he and China's President Xi would meet at the G20 summit. At the meeting, President Trump and President Xi agreed to a temporary trade truce. A dovish Fed rate announcement on 19 June was another factor that supported the RMB. The currency ended the month 0.6% stronger against the USD.

Canada: Gets the gold

The CAD was the best G10 performer in June. Stronger-than-expected data and a bounce-back in oil prices saw the CAD finish June up 3.2% against the USD. The CAD strengthened as labour market data beat expectations on 7 June with employment rising by 27.7k versus 5.0k expected. Inflation also came in higher than expected. CPI printed at 2.4% YoY versus 2.1% expected on 19 June, seeing the CAD rally further. The broad USD weakness and a rally in oil prices also provided support for the currency. A combination of these factors saw USD-CAD reach a seven-month low of 1.3060 on 28 June.

Australia: Bad, but the USD was worse

The AUD ended the month stronger against the USD, as soggy US data and a dovish Fed weighed on the USD. The Reserve Bank of Australia (RBA) was dovish too. The RBA cut rates on 4 June by 25bp to 1.25% as expected and Governor Lowe said "*it is not unreasonable to expect a lower cash rate*". AUD-USD rallied 0.3% on 7 June, breaking above 0.70 as US non-farm payrolls undershot expectations. In terms of domestic data, Australia retail sales and consumer confidence edged lower. While employment growth beat expectations, the bulk of the

gains were in part-time hiring. A dovish rate announcement by the Fed on 19 June kept the USD under pressure, seeing the AUD finish the month 1.2% stronger against the USD.

New Zealand: Doves in the race

The NZD finished June stronger against the USD, as the bearish USD story dominated, amid soggy US data and a dovish Fed. Data from New Zealand was not particularly upbeat either, with manufacturing PMI dropping to 50.2 and Q1 GDP being in line with expectations at 0.6% QoQ. On the monetary front, a dovish rate announcement by the Fed on 19 June kept the USD under pressure in the second half of the month. The Reserve Bank of New Zealand (RBNZ) was dovish as well. The RBNZ kept rates on hold at 1.50% on 26 June but signalled another cut was likely “*over time*”. Despite the dovishness of the RBNZ, NZD-USD reached a two-month high of 0.6721 on 28 June. The NZD eventually finished the month 2.9% stronger against the USD.

Oil: A June jump

Oil prices bounced back in June as the tension between the US and Iran heightened. Brent crude rallied as Iran-US tensions escalated on 20 June. The tensions were centred around the Strait of Hormuz, through which 20% of global crude supplies pass on a daily basis. The global benchmark was also supported by evidence of a fall in oil inventories. On 26 June, the Energy Information Administration revealed US crude inventories in the previous week dropped by the largest margin since September 2016 – 12.8m barrels. Brent reached a monthly high of USD66.85 per barrel on the day and ended the month 3.2% stronger.

Gold: A six-year high

Gold reached its highest level since May 2013. Early in the month, the ‘safe haven’ metal was supported by a weaker USD. A further boost came later in the month by dovish Fed comments on 19 June, with a big jump in investor demand for gold ETFs as a result. The yellow metal picked up further momentum as the market looked towards escalating geopolitical tensions in the Middle East. Broad USD weakness and heightened geopolitical tensions saw gold reach its highest level since May 2013 on 25 June at USD1,439.21/oz, and finish the month 8.0% stronger.

Movers in June vs. USD

| | |
|-----|-------|
| CAD | +3.2% |
| NZD | +2.9% |

Upcoming key events

| Date | Event |
|---------|-------------------------------|
| 10-July | BoC rate announcement |
| 25-July | ECB rate announcement |
| 30-July | BoJ rate announcement |
| 31-July | FOMC rate announcement |

Commodities

| | |
|-----------------|-------|
| Gold | +8.0% |
| Brent Crude Oil | +3.2% |

Source: Bloomberg

Disclosure appendix

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