Centtrip

Foreign Exchange Outlook

2024

Recap of 2023

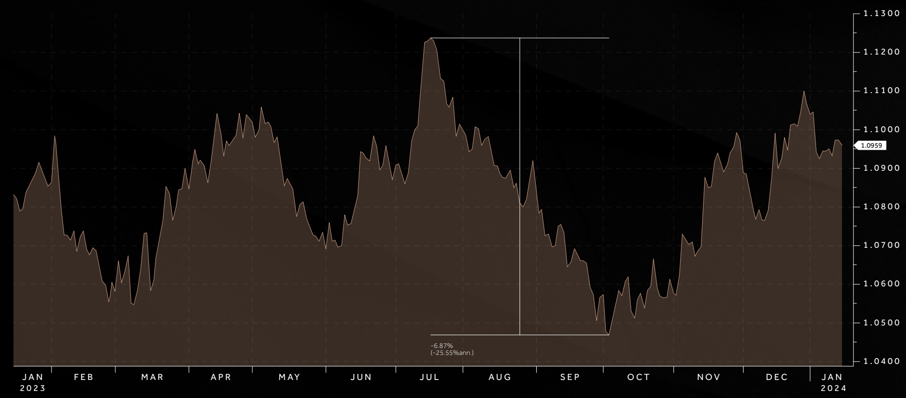
The currency market was led by the environment of rising interest rates, as central banks fought the flames of inflation that continued to flicker right up to Q4. Anticipation of interest rates rising above 6% and of imminent recession continued throughout the year. This led to some significant swings in the major currency pairs demonstrated by GBP/USD and EUR/USD which achieved ranges of 11% and circa 7% respectively.

The effect on markets shows the clear domination of the US dollar in the second half of the year, with geopolitical concerns contributing to the demand for the safe-haven currency.

Author: Ross Hammond, SVP of FX Strategic Sales, US Market, Centtrip

Note: All data and information in this document is correct at the time of writing

EUR/USD



GBP/USD

A brief summary of 2024

Policy cuts from central banks are likely to take their lead from the US in response to simmering inflation. However, the key supply and demand factors driving up inflation seem to be largely resolved. Supply-side strains, in particular, have eased through the end of 2023.

Energy and food prices have largely driven falling inflation, so far. For momentum to continue, other factors will also need to move (e.g. rents). Additionally, with the situation in the Middle East, global energy prices are unpredictable for the year ahead.

The US has led the race to increase interest rates and there's a good chance of them leading the race back down again, especially if Donald Trump is elected in November.

A positive inflation story (with levels falling towards the 2% target) sets a positive expectation for risk, equities, and thus high-beta currencies, GBP, AUD, NZD and CAD.

£

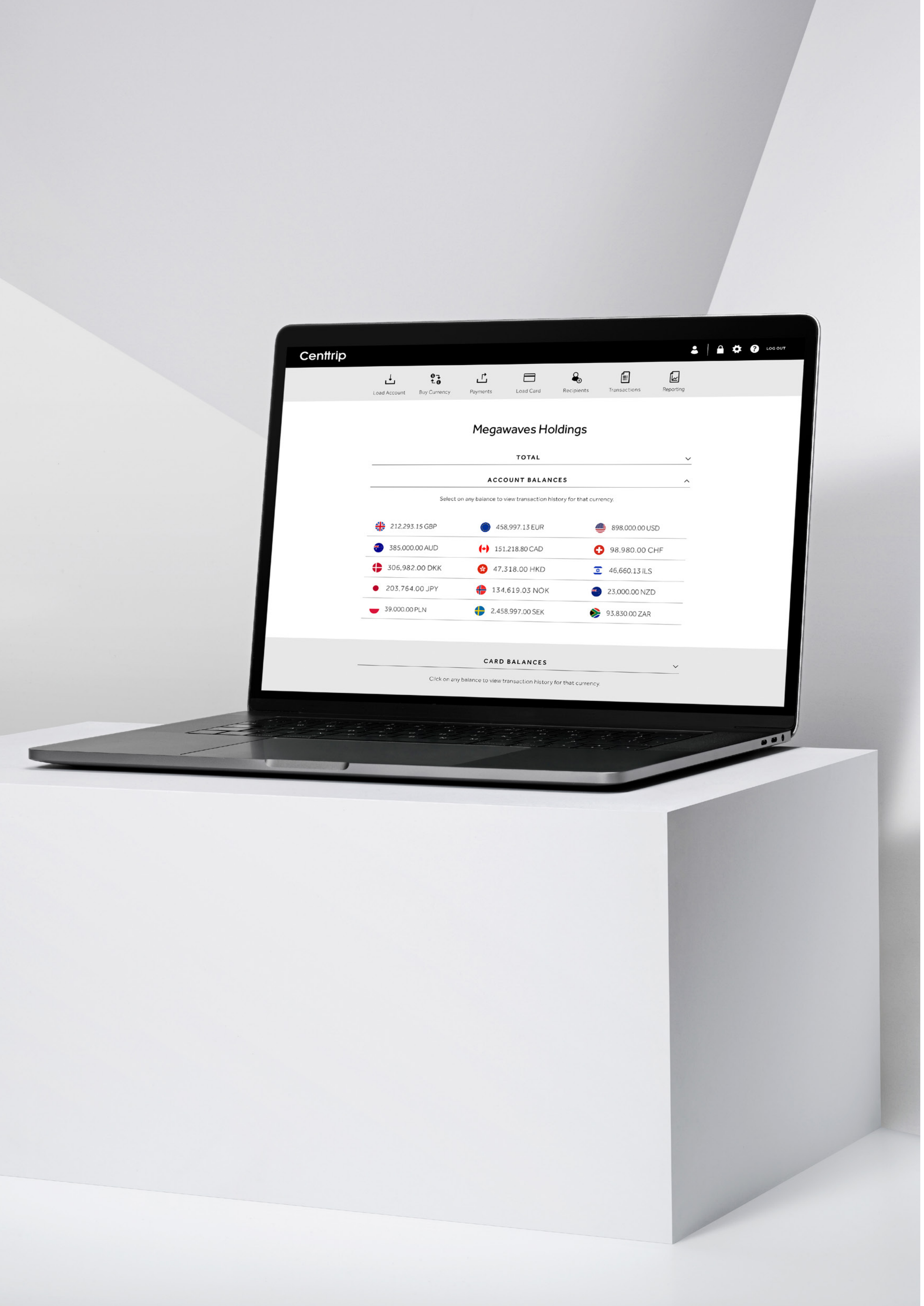
GBP

Headwinds facing GBP include a stagnating economy, a large current account deficit and a drawn-out hesitance to UK investment. The latter two points combined have been a persistent vulnerability for the currency. In 2024, political uncertainty will contribute to volatility, with the UK's election likely to coincide with the US, in the autumn.

Any radical policy updates from a newly elected Labour party (currently significantly ahead in the polls) could inject waves in GBP. However, there is a good chance that the promise of a more stable government would allow Sterling to become more attractive again.

Risks: A hung parliament would create further uncertainty around the running of the country, with a likely hit to GBP. If growth continues to suffer, and inflation proves difficult to tame, the outlook would be unfavorable for GBP.

Having avoided interest rates exceeding 6%, the way back down should be rosier, and GBP may be one of the only currencies that could net benefit from lower rates, given the implied support to the economy, and likely lag on cuts vs other major currencies (eg Q3 expectation vs Q1/2 in US).



€

EUR

The Eurozone is demonstrating well the effects of hiking rates to induce a drop in inflation, with the counterbalance being rising unemployment. Fast-changing conditions have dictated the market view for early cuts by the European Central Bank.

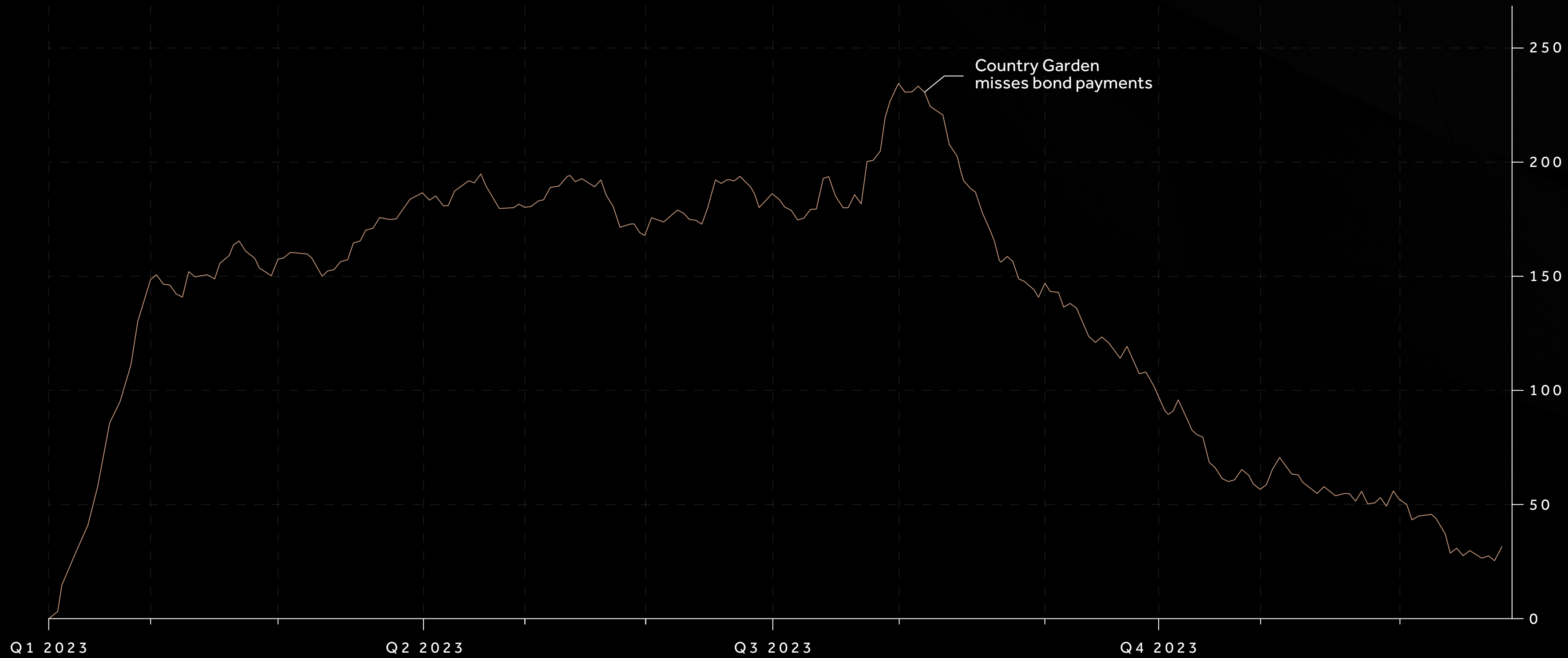
It is worth noting that bets on China returning to growth seemed to unwind at the end of 2023; 80% of the cash flow into China in 2023 has already left, showing which side the market is taking for 2024. This generally has negative implications for the EUR given the Eurozone's close proximity and trading relationship with China.

All other things being equal, a push back in EUR/USD from the 1.10 range towards 1.06/7 is foreseeable in earlier 2024.

Risks: Many different factors might affect the above. If China returns to growth with a strong fiscal solution, this could boost EUR. Additionally a lighter USD, perhaps led by a softer Biden administration or by global geopolitics, may provide an environment for the EUR to gain some ground.

Foreign Investors reverse China stock-buying spree

Net investment flows year to date with Stock Connect programme (Rmb bn)



As of December 27
Sources: FT research, Bloomberg

USD

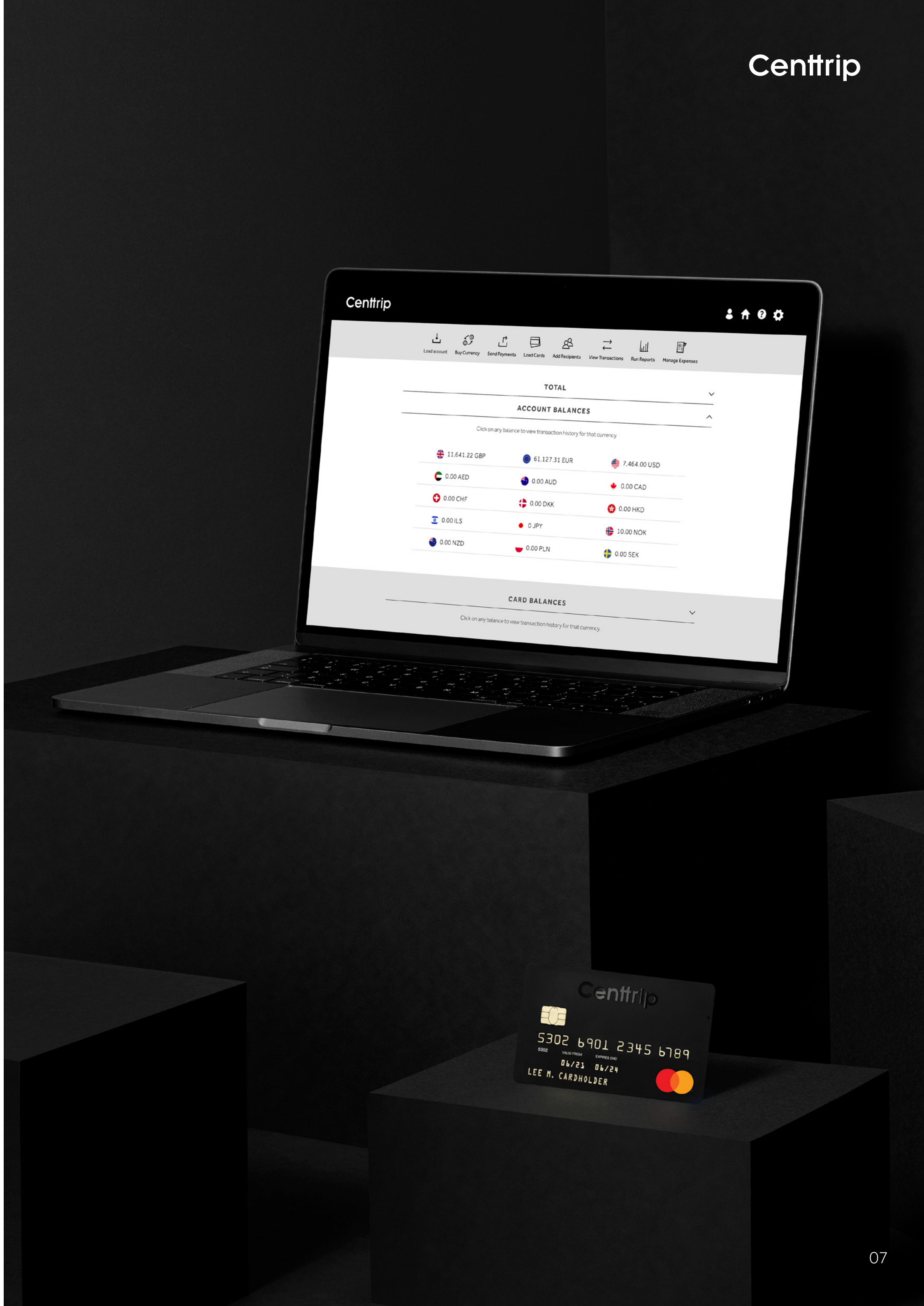
Interest rate cuts are expected possibly as early as March, although Q2 is a more likely outcome. Key determinants will naturally be CPI (inflation) results over the coming months. If inflation remains under control or comes down, the Fed can feel comfortable stepping into an easing cycle.

The natural expectation would be an easing USD against other major currencies, as interest rate divergence narrows. However, there are plenty of factors that can offset this condition.

Risks: The biggest uncertainty is, of course, the US presidential election on November 5th.

A Trump presidency may favour a strong USD given the more protectionist nature of foreign policy expected, and relative focus on US exceptionalism. However, Trump is also expected to put pressure on the Fed to cut rates aggressively, without as much care towards inflation resurgence as is probably needed. This makes the situation a binary direction risk, albeit with a larger skew to USD strength.

At the time of writing, pricing for the year sits at 137bps. We will watch this closely.



Other currencies

JPY – A consensus around the Bank of Japan exiting yield curve control in 2024 leans towards an against-the-grain appreciation for the G10's worst performing currency of 2023. The JPY is always subject to portfolio flows into US yields and, whilst 2023 demonstrated a large net outflow due to rate differentials, the year ahead is poised for potential reversal, thus supporting a stronger JPY should this occur.

CHF – A resilient haven currency throughout 2023 with the SNB favouring strength, we may see some of this unwind into the year ahead. With the ability to actively devalue the CHF, the control over the currency is likely to find it drift towards an intended fair value, which may see some downward pressure on the CHF particularly vs EUR.

CAD – Sharing more than just borders with the US, the expectation to follow rate path and pace with the US should keep the CAD fairly in line with the US, all else remaining equal. Commodity prices will naturally unsteady that ship, with stronger oil prices likely to help the CAD in relative terms vs those currencies less exposed to commodity pricing.

AUD – As a typical "high beta" currency, the AUD is positioned to benefit from a recovering global economy. It is also largely exposed to a China recovery given its key export market relationship. Paired with the expected diverging rate policies compared to, for example, G3 currencies, it is reasonable to expect the AUD finding strength throughout 2024.

NORDICS – The SEK, having entered positive rate territory for the first time since 2009, has come out of 2023 reasonably well compared to its peers (3.5% up on the year vs USD). The headwinds of a struggling and fragile housing sector, paired with slower inflation reversal may lend to a duller SEK outlook.

The NOK on the other hand, was one of the worst performing currencies of the majors, largely affected by sliding oil prices. A continued volatility in this market will likely see variation in the currency, however consensus amongst analysts leans towards a currently undervalued NOK with potential to outperform in the year ahead.

EMERGING MARKET CURRENCIES

ZAR – Another currency held tightly by election outcomes. Given the poor economic outcomes from the ANC, a convincing change towards the Democratic Alliance may spark renewed conviction in the ZAR.

MXN – Has had a particularly strong year in 2023 ranging close to 14% vs the USD. This position will probably have been helped by the optimal carry trade conditions. With policy reversing in the global economy, this may present some unwinding for the pair as trades close. However, the MXN has shown persistence to revert towards the 16.00 mark on USD/MXN, and a lighter USD ahead may help to keep this pair being pulled in favour of MXN towards the latter half of the year.

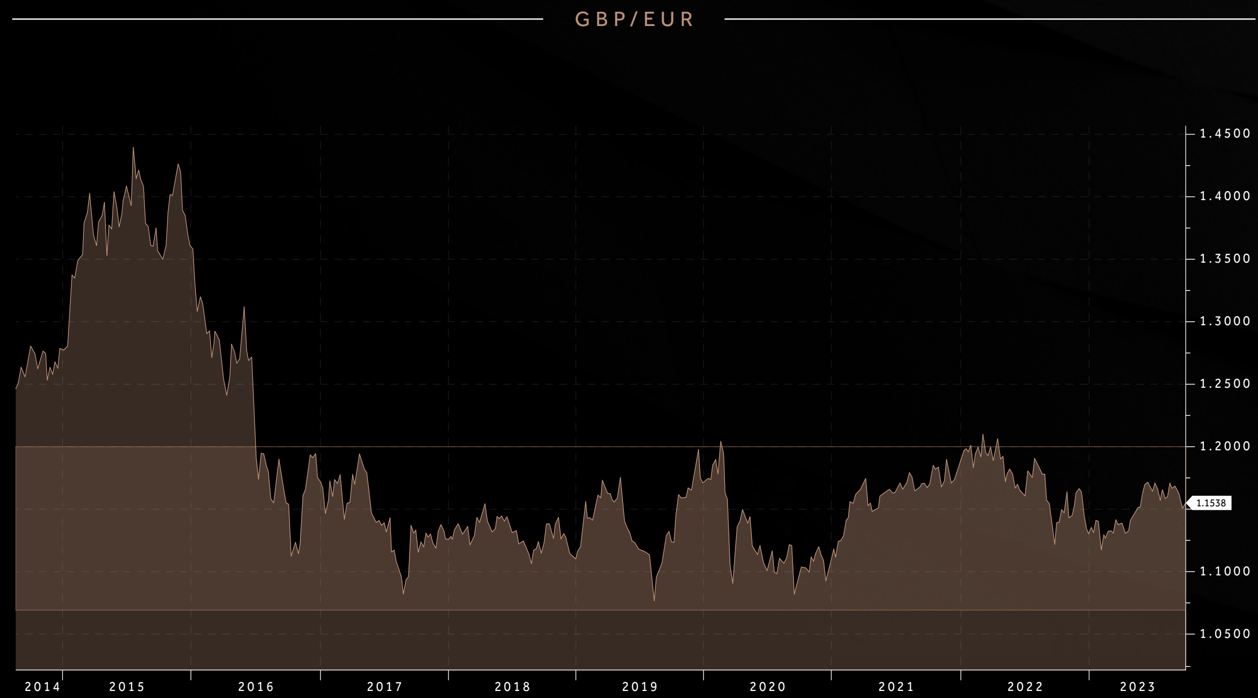
Final views on the majors

GBP/USD will likely see diverging interest rates begin to impact the pair. If markets begin to have an appetite for further risk, higher beta currencies may dominate investor demand, supporting a positive move for GBP early in the year. An early USD unwind seems reasonable given the 2023 H2 bid.

The latter half of the year may be more of a dogfight depending on which economy keeps the tighter lid on inflation.

GBP/EUR may see some support early in the year, as rates diverge, with the ECB moderating policy earlier in the year. We could then see this taper out as the effects of lower rates feed into the economy in the second half of the year. There is a strong trading channel since Brexit that would take significant pressure to breach as shown over the page, so minimal volatility in two hampered economies seems likely.

EUR/USD has a lot of uncertainty, given the implied aggressive nature of both central banks to unwind. We would expect a potentially more robust USD to start the year, if the ECB jumps first, with a neutral reaffirmation in H2 as policies take hold, and the potential impact of the presidential election gets priced in.



About Centtrip's Dealing Desk

Founded by foreign exchange entrepreneurs, Centtrip has a deep understanding of foreign currency markets.

We work with clients in all sectors including music, marine, private aviation, film & TV production and the arts, meeting their foreign exchange requirements and providing insight on currency markets to help them make informed decisions.

Centtrip is built on long-term, trusted relationships. Taking the time to understand a client's business and helping them find the best solution for their unique situation is part of our service – not a time-based, additional charge.

It means we're better placed to recommend the solution that's right for the situation, whether that's reducing currency risk in future cashflows, or helping manage international, multi-currency payments.

Meet the Team

Julian Justice

DIRECTOR OF FOREIGN EXCHANGE AND CURRENCY STRATEGY

Julian heads up the FX desk at Centtrip and is responsible for managing some of Centtrip's most valued relationships. A graduate of Business and Economics from Leeds university, Julian's career in FX has spanned over 15 years, seeing him work at some of the biggest firms in the City. A highly experienced dealer, Julian has worked with businesses in many different industries to help them get the best out of the market, whilst mitigating risk. Outside of work, Julian enjoys spending time with his family and is a keen amateur cook.

Ross Hammond

SVP OF FX STRATEGIC SALES, US MARKET

Ross has an MA in Economics and Music from the University of Glasgow and a Master's in International Management from the University of Strathclyde. He is also CFA charterholder (Chartered Financial Analyst). Ross's early career was in the music industry before being drawn into the world of foreign exchange. Today, he specializes in FX strategic outlook, macro-economic forecasting and markets. Outside of work he enjoys music and sports, and recently completed an Ironman 70.3.

Max Heale

CORPORATE DEALER

Max started his career as a junior at one of the largest and most respected brokers in the City, before being promoted to their sales desk. From this point, Max has worked with clients from a range of industries to maximise their FX requirements and implement effect hedging strategies. Outside of work, Max's passions are football and fitness.

Centtrip

“Centtrip helps us make tangible financial savings and maximise each foreign-currency transaction by providing expert market insight. It’s a game changer”

Bill Curbishley
Trinifold Management (The Who)

The Centtrip Platform

Centtrip’s award-winning solution gives you real-time, anytime visibility and control over multi-currency deposits, international payments, foreign exchange and multi-currency cards. We help you streamline payments, reduce currency and cash-carrying risk, and optimise international income flows.

With Centtrip, you can deposit and manage 15 different currencies, in unlimited value, in a single account. You can manage foreign exchange in 140 currencies at live-market rates and you can make international payments across the banking network using SWIFT, SEPA, Faster Payments and other local networks. Centtrip customers can also make instant, fee-free, transfers and payments across the Centtrip network.

The Centtrip multi-currency, prepaid Mastercard is one of the most flexible cards on the market. Designed specifically for the needs of highly mobile organisations, the card offers the highest balance and transaction limits in the industry allowing you to hold up to £350,000 in 15 different currencies on a single card, spend up to £150,000 in a single transaction and withdraw up to £4,000 from ATMs. And, you can have as many cards as your production requires.
It’s not unusual for us to issue several hundred cards for a single, relatively short-term project.

Because we’re designed for the needs of internationally-mobile business, you can control multiple, separate cost centres from a single, multi-platform interface – desktop or mobile – wherever you are.

We give you real-time reporting, reconciliation, insight and analytics, along with responsive, 24/7 support from experts who understand your world.

Recently ranked as one of the UK’s fastest growing technology companies, Centtrip is trusted by demanding clients around the globe. These include film and TV production houses, music’s biggest, global touring acts, the world’s largest superyachts, private aviation fleets and more.

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