

Central banks back in the spotlight

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After several weeks during which geopolitical developments were the dominant driver of currency markets, central bank policy has once again emerged as a decisive influence on exchange rate movements.

In this report, we assess the likely direction of major currencies over the coming 12 months and discuss the key factors expected to shape their performance.

Key takeaways:

- While the USD is currently supported by expectations of a more hawkish Fed, we expect it to weaken somewhat over the medium term. Supportive factors for the EUR include the ECB's relatively restrictive policy stance and stronger-than-expected economic momentum across the euro area.
- Although the JPY has recently rebounded from its 40-year lows – helped by FX interventions and a Bank of Japan rate hike – a more restrictive monetary policy stance will likely be required to support a sustained appreciation.
- The CNY recently reached a four-year high against the USD. We see a strong case for the Chinese currency's gradual appreciation trend to continue over the next 12 months.

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