

FX Viewpoint

Currencies
Global

BoJ hiked but SNB cut ahead of other G10 peers

- ◆ The BoJ raised its policy rate for the first time in 17 years...
- ◆ ...but the SNB surprisingly cut its rate for the first time in nine years, getting ahead of other G10 peers
- ◆ We see upside risks to the JPY, but downside risks to the CHF; the USD is likely to remain resilient

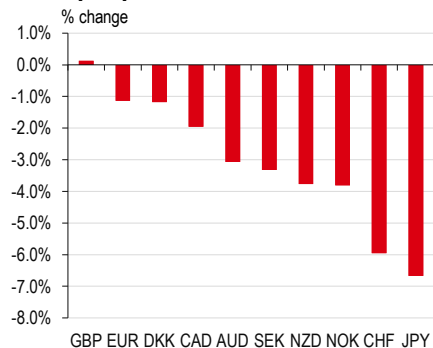
On 19 March, the **Bank of Japan (BoJ)** conducted a **sweeping policy overhaul**, ending its negative interest rate policy. However, the lack of clear hawkish forward guidance by the BoJ saw the JPY remain the worst performing G10 currency year-to-date (Chart 1). Looking beyond the near-term reaction, we think **the US-Japan yield differential is set to narrow**, this, among other factors, should provide support for the JPY (see "[JPY: The BoJ ends negative rates](#)" for details).

Meanwhile, **central banks across the developed world** have been raising borrowing costs since late 2021 (Chart 2) and **are generally looking for further evidence of falling inflation before cutting rates**. The Bank of Canada, the Bank of England (BoE), the European Central Bank, the Reserve Bank of Australia, Norges Bank, and the Federal Reserve decided to remain on hold in March.

The JPY is likely to recover in 2024, in our view

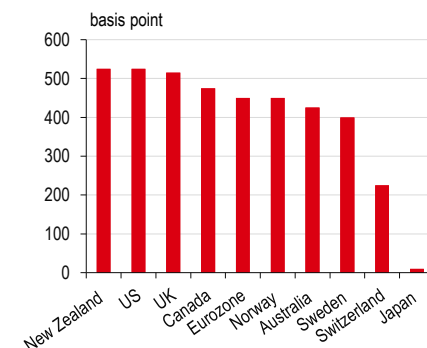
Most G10 central banks decided to remain on hold in March

1. G10 currencies vs USD: Year-to-date spot performance



Source: Bloomberg, HSBC (Last updated on 21 March 2024 at 20:30 HKT)

2. G10 policy rate change since late 2021



Source: Bloomberg, HSBC

That being said, the Swiss National Bank (SNB) delivered a dovish surprise on 21 March with a 25bp rate cut. The central bank now expects **inflation to remain in the target range of below 2% throughout the entire forecast horizon**. After the announcement, the CHF extended its year-to-date weakness. Being the first G10 central bank to cut is likely to undermine the currency, as **markets may fund carry trades¹ out of CHF in a world of low FX volatility**, in our view.

The CHF is likely to extend its year-to-date weakness, amid the SNB's surprise cut

Looking ahead, the broad USD is likely to remain determined by the interplay of risk appetite and rates. For now, **the USD appears to be able to find a floor in the recent "risk-on" environment** (as suggested by the rally in global equities). **Relative rates may offer some support to the USD**, if other central banks show more dovish momentum. The most recent example was from the BoE's 21 March decision. The two monetary policy committee (MPC) members who voted for a hike in February decided to join the majority in March to keep the policy rate unchanged at 5.25%. GBP-USD fell below 1.27 after the decision (Bloomberg, 22 March 2024 at 08:10 HKT). **With the BoE inching towards easing and cutting at least as much as its peers, the GBP is likely to face downward pressures.**

We expect the USD to remain resilient and see downside risks to the GBP in the months ahead

¹ Carry trades refer to the strategy of using borrowed lower-yield currencies to buy securities denominated in higher-yielding currencies.

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