

FX Viewpoint

Currencies
Global

The Fed, ECB, and BoE: Divided on easing pace

- ◆ The Fed, ECB, and BoE are all in rate-cutting cycles, but are divided when it comes to deciding the appropriate easing pace
- ◆ FX market is likely to be sensitive to any upcoming data releases and perhaps also US elections
- ◆ With global growth and political uncertainty ahead, a sustained decline in the USD seems less likely, in our view

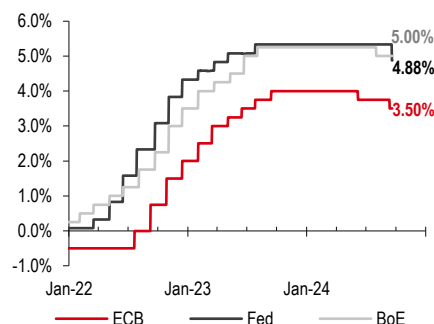
In September, the European Central Bank (ECB) delivered its second 25bp cut and the Federal Reserve (Fed) began its easing cycle with a large 50bp reduction (see "[FX Viewpoint - EUR: The ECB delivers its second rate cut](#)" and "FX Viewpoint Flash - Mixed signals for the USD after the Fed's 50bp cut" for details). In contrast, **the Bank of England (BoE)** – started its easing cycle last month in a tight 5-4 vote – **voted by 8 to 1 to keep its key rate steady at 5.00% on 19 September**, with one dissenting vote for a followed-up 25bp cut (Chart 1). While the decision was in line with market expectations, the GBP moved briefly above 1.33 for the first time since March 2022 (*Bloomberg*, 19 September 2024).

It is worth noting that divided opinions about the appropriate pace of easing are evident. Like the BoE, the Fed's decision in September was not unanimous, with one dissenting vote for a 25bp cut. And for the **ECB**, while the September decision was unanimous, **recent rhetoric among governing council members appeared to be on different policy paths**. For example, Joachim Nagel called for patience to fully reach the 2% inflation target (*Bloomberg*, 18 September 2024), but Mario Centeno argued that the ECB may need to speed up the easing pace or risk coming in below the inflation target (*Politico*, 19 September 2024). Meanwhile, Klaas Knot hid in the middle ground, arguing that he is comfortable with the market's pricing (*Bloomberg*, 19 September 2024). For reference, **current market pricing reflected c150bp of ECB easing by the end of 2025** (*Bloomberg*, 19 September 2024), while **our economists expect 100bp of rate cuts in the same period**. The EUR stayed steady against the USD at around 1.11 (*Bloomberg*, 19 September 2024).

In September, the ECB cut rates again and the Fed delivered a big half-point cut, but the BoE kept rates steady

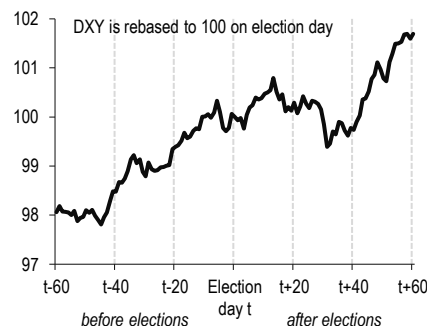
Divided opinions about the appropriate pace of easing are evident at these major central banks

1. Policy rates: US, UK, and Eurozone



Note: This chart shows US effective federal funds rate, ECB's deposit facility rate, and BoE's bank rate.
Source: Bloomberg, HSBC

2. Average DXY performance around US presidential elections since 1980



Source: Bloomberg, HSBC

The USD has tended to strengthen into previous US elections

With this in mind, the FX market is likely to remain sensitive to upcoming data releases to find clues for future policy paths and global growth outlook. But beyond this, **risk appetite has become a more dominant FX driver**. As US election uncertainty is set to loom large over the coming weeks, the USD may find some support (Chart 2).

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