

FX Viewpoint

Currencies
Global

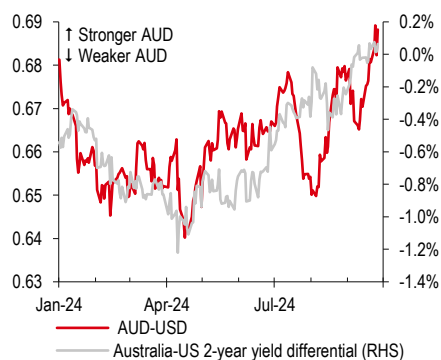
AUD and CHF: RBA on hold but SNB cut again

- ◆ AUD-USD climbed higher on positive risk sentiment and a hawkish RBA...
- ◆ ...but US election risks may add near-term volatility
- ◆ The outlook for the CHF may hinge on the SNB's FX stance; policy rate cut makes it one of the world's lowest rates

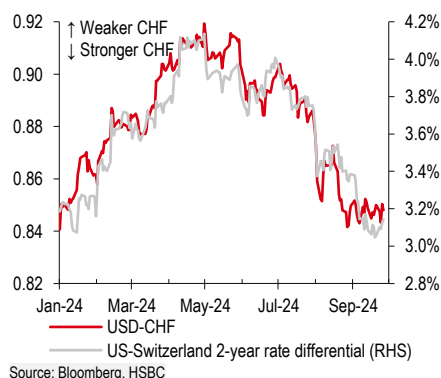
Recently, **market sentiment has been bolstered by developments in China**. On 24 September, China unveiled an outsized easing package, including rate cuts and a 50bp reduction in banks' reserve requirement ratios (RRR), in addition to measures to support the property sector and capital market (see "[FX Viewpoint Flash – RMB: China's big monetary stimulus](#)" for details). This was followed by the read-out of the Politburo meeting on 26 September, indicating that China would implement "forceful" rate cuts, promote the stabilisation and recovery of the housing market, and that China would ensure necessary fiscal spending (*Bloomberg*, 26 September 2024). Unsurprisingly, **the G10 outperformers have been the AUD and NZD**, both gaining more than 1% against the USD over the past 5 days (*Bloomberg* 26, September 2024).

Meanwhile, monetary policy divergence between the Reserve Bank of Australia (RBA) and the Federal Reserve (Fed) have been supporting AUD strength against the USD (Chart 1). On 24 September, **the RBA held its policy rate unchanged at 4.35%, as widely expected**, noting that the central bank did not rule "anything in, or out", but that "near-term" cuts are not likely. **Our economists expect the RBA to start its rate-cutting cycle in 2Q25**. In contrast, the Fed began its easing cycle with a large 50bp cut in September (see "[FX Viewpoint Flash – Mixed signals for the USD after the Fed's 50bp cut](#)" for details). With this in mind, we expect the AUD to strengthen moderately against the USD in the months ahead. That being said, **US election risks may lead to near-term volatility**.

1. AUD-USD and its yield differential



2. USD-CHF and its yield differential



Unlike the RBA, **the Swiss National Bank (SNB) lowered its policy rate by 25bp to 1.00%** on 26 September. This was the third rate cut this year. The SNB also signalled explicitly that further rate cuts may be necessary. **Our economists expect the SNB to lower its policy rate to 0.50% by next March**. USD-CHF has been tracking its rate differentials (Chart 2). But with one of the world's lowest rates and Swiss exporters' discontent with the strong currency (*Bloomberg*, 17 September 2024), **the SNB may consider shifting to a stronger FX stance** amidst the disinflationary backdrop. Thus, we continue to look for the CHF to weaken against both the USD and EUR in the months ahead.

The AUD and NZD have outperformed other G10 currencies amid positive risk sentiment

Relative rates should support AUD-USD in the months ahead, but the growing importance of risk appetite on the AUD may mean a bumpier upward path

What may matter more for the CHF's outlook is the SNB's FX stance, in our view

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