

G7 FX: Rate hike trajectories across major central banks

- Relative central bank dynamics has been a key driver for a firmer USD since the hawkish tilt at the June FOMC. The underlying Fed expectations still lean hawkish compared to pre-June FOMC, but have failed to extend meaningfully since Aug. This has led to the broad USD staying supported, but perhaps not having sufficient tailwind to push through to a new year-to-date high.
- Ahead of the FOMC and BOE decisions, we take a quick look at the implied rate hike trajectories across the major central banks and attempt to glean further directional bias within the FX space. A few observations caught our attention:
 - BOE expectations have moved most markedly in the hawkish direction since Jun, so much so that the rate hikes are priced in earlier in 2022 than the other major central banks under study. Interestingly, there has been a divergence in BOE expectations and GBP performance during this period. Question remains over the sustainability of this divergence.
 - RBA expectations have mostly gone the other way, underlying our dovish view on the AUD both in the tactical and structural horizon.
 - Fed expectations across the 2024 timeframe currently stands at less than 2 hikes. This is perhaps due to the market imputing a lower terminal rate compared to the dot plot. Regardless, there is potential for the market to be caught by surprise if the upcoming dot plot is more aggressive in 2024. This leaves the possibility of a USD-positive move post-FOMC.

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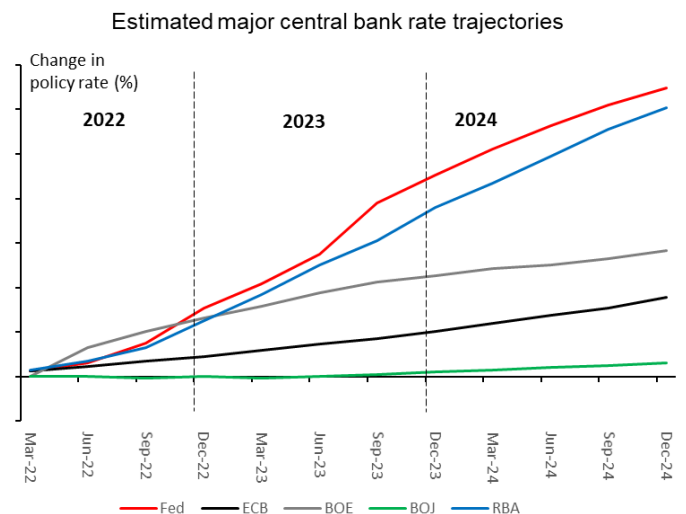
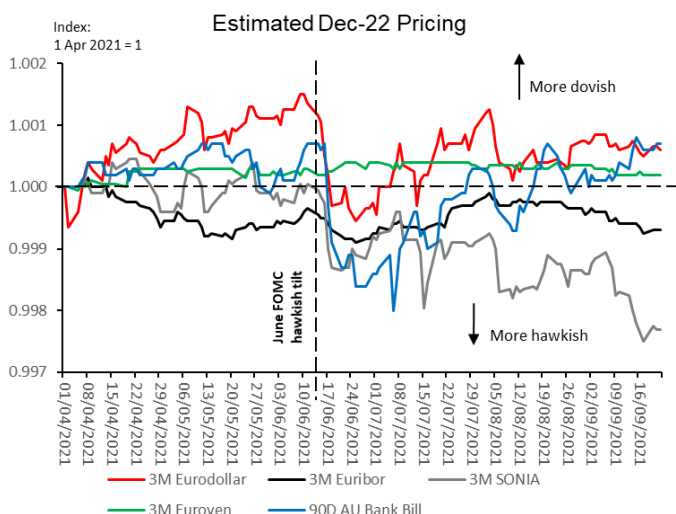
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