Insights

2Q2023 Currency Commentary

US dollar finishes middle of pack

USD snuck into the upper half of the G10 this quarter. While delivering only 25bps of rate hikes over 2Q23, the FOMC dot plot was hawkish in nature, pointing towards two more hikes this year as Chair Powell's tone at the press conference was more balanced, sticking to the higher-for-longer narrative.

FIGURE 1: DXY – 2Q2023
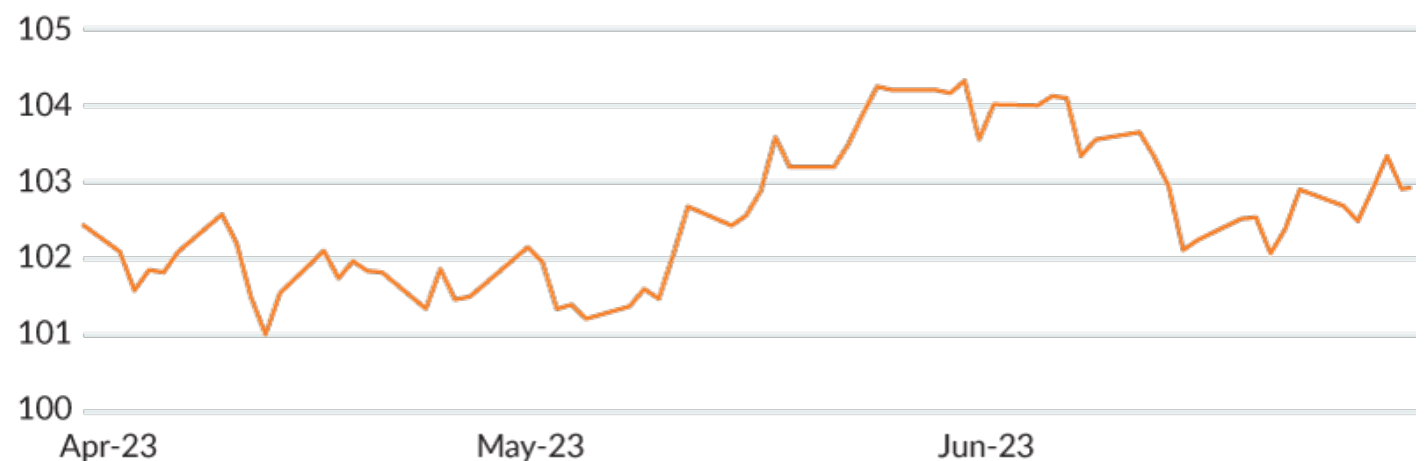
Source: Bloomberg

EUR | Euro landed in the upper half of the G10, with strong performance against US dollar last month resulting in a relatively stronger quarter. Although economic data surprised to the downside (1Q23 GDP revised downward into a technical recession) and headline inflation decelerated further (flash rate at 5.5% YoY in June), a hawkish ECB supported Euro with two 25bps hikes in 2Q23, bringing rates to 3.5%.

GBP | Sterling was broadly higher, outperforming its G10 peers this quarter. Inflation surprised higher again, with headline CPI at 8.7% YoY vs. 8.4% consensus. The BoE responded by hiking the bank rate by 50bps to 5.0% at its June meeting, following a 25bps hike earlier in the quarter.

JPY | Yen was the worst performer in the G10 this quarter as the BoJ stood pat on rates and continued its YCC program. Although economic growth registered at positive 2.7% in 1Q, BoJ Governor Kazuo stated he did not see the need to change the YCC, dampening any speculation towards interest rate changes.

AUD | Australian dollar was middling, dropping into the lower half of the G10. The RBA surprised the market by hiking 25bps in May and June, raising rates to 4.1%. Unemployment fell a tic to 3.6% in May and employment beat expectations with a 75.9K print, showing a tight labor market.

CAD | Canadian dollar outperformed the G10, save a robust Sterling, with CAD supported by BoC action and strong data. The BoC hiked rates by 25bps in June, up to 4.75%, surprising markets as the central bank justified its stance by stating that monetary policy was not restrictive enough to combat the excess demand in the economy.

CHF | Swiss franc performed well, trailing only Sterling and Canadian dollar in the G10. CHF was supported early on as Parliament approved the Credit Suisse rescue package. While the SNB hiked rates by 25bps in June, many expected a higher increase.

TABLE 1: USD-BASED AS OF JUNE 30, 2023

		FX Rate	Change 3M %	Change YTD %
	EUR-USD	1.0910	0.42%	2.23%
	GBP-USD	1.2714	2.82%	5.69%
	USD-JPY	144.5350	-7.92%	-8.71%
	AUD-USD	0.6657	-0.61%	-1.84%
	USD-CAD	1.3233	2.27%	2.40%
	USD-CHF	0.8947	2.11%	3.41%

Source: WM/Reuters

Currency for return

Currency Alpha STRATEGIES

Overall, Mesirow Currency Management's (MCM) Currency for Return strategies had a positive second quarter. Our Emerging Markets Currency Alpha Strategy was, like last quarter, the star performer amongst our alpha strategies. Our Asian Markets Currency Alpha and Systematic Macro strategies also had positive performance, while our Extended Markets Currency Alpha Strategy encountered losses this quarter.

MCM's alpha strategies perform well in varying market conditions and remain uncorrelated to bonds, stocks, and other market activity (Table 2).

TABLE 2: CORRELATION – STRATEGY INCEPTION TO 2Q20231

	Barclays Aggregate Global Bond Index	HFRX Global Hedge Fund Index	MSCI ACWI Index	S&P 500 Index	Consumer Price Index
Extended Markets Currency Alpha	0.07	0.12	0.04	0.04	-0.04
Asian Markets Currency Alpha	-0.10	-0.08	-0.18	-0.17	0.06
Emerging Markets Currency Alpha	-0.03	-0.04	-0.14	-0.13	-0.14
Systematic Macro	-0.07	0.10	-0.06	0.00	-0.05

Source: Mesirow

Mesirow Currency Management's (MCM) neural network models (found in the Technical component of the alpha strategies) produced exceptional performance, possibly owing to an increased presence of repeated patterns in market behaviour. With governmental interventions becoming more predictable in this post-pandemic wartime era, financial markets have shown greater stability and discernible trends. This predictability allows the deep neural network models to effectively capture and learn from historical data and enables more accurate predictions and informed decision-making.

Notably this quarter, the neural network models correctly predicted a USD appreciation against the South African rand (Figure 2), and our long USDZAR position produced excellent returns in our Emerging Markets Currency Alpha Strategy. South Africa's power crisis, economic instability and rate hikes have led to a depreciating rand, and the currency reached an all-time low in June of 2023 after a US ambassador accused the country of providing aid to Russia.

TABLE 3: USD–ZAR AS OF JUNE 30, 2023

	FX Rate	Change 3M %	Change YTD %
USD-ZAR	18.8913	-6.08%	-9.93%

Source: WM/Reuters

FIGURE 2: USD–ZAR | JANUARY 1, 2003 – JUNE 30, 2023

Source: Bloomberg

Intelligent Multi-Strategy Currency Factor STRATEGY

MCM's [Intelligent Multi-Strategy Currency Factor](#) recorded a positive quarter on the back of a strong June, as short positions against a weaker US dollar prevailed. The Carry factor was the main contributor to outperformance over the quarter, along with additional added value from the Momentum factor partially offset by the underperforming Value factor.

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To learn more about Mesirow's custom currency solutions, please contact Joe Hoffman, CEO Currency Management at joseph.hoffman@mesirow.com.

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1. Source: Mesirow, Bloomberg, U.S. Bureau of Labor Statistics. The above performance information is