

# What Is Driving G10 Currencies?

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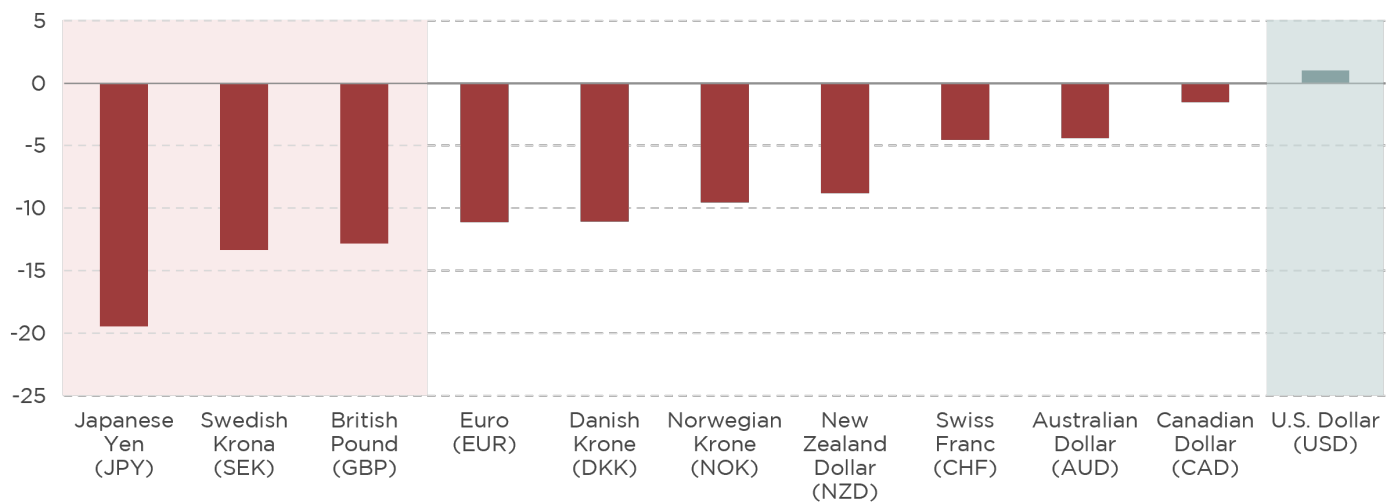
The Japanese yen, Swedish krona, and British pound have been notable underperformers compared to the other G10 currencies this year. For the Japanese yen and Swedish krona, these currencies have struggled given their relatively dovish central bank policies. This policy contrast is most apparent in Japan, where the Bank of Japan has maintained very loose monetary policy even as the U.S. Federal Reserve (Fed) has raised rates aggressively. Interest rate differentials have been one factor driving U.S. dollar strength.

Furthermore, all three countries, and particularly Japan, are net energy importers. All three have seen their trade balances deteriorate significantly from the sharp rise in energy prices.

What will it take for the yen, krona, and pound to regain strength? For these currencies to rebound, we need to see the Fed tightening cycle conclude—and even start to reverse; their respective central bank policies accelerate interest rate increases to bring them toward levels in the U.S.; and/or lower energy prices.

## Japanese Yen, Swedish Krona, and British Pound Trail G10 Currencies

% Year-to-date total return, As of 9/12/2022



Source: Bloomberg (©2022 Bloomberg Finance LP)

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