

Currencies Focus

Summary

1. The US dollar index (DXY) appreciated 1.6% in April. While the Euro index (EXY) remained flat. Currency volatility has been falling, especially in EM currencies. The market is positioning for wider swings as elections in the US approach (November 2024).
2. In the US we now see one rate cut in 2024 (3 previously) in September. We forecast 4 cuts in 2025. In the Eurozone we still anticipate 75bps in rate cuts this year, with the first one in June. We also expect 75bps in rate cuts in 2025. We also expect the Fed to cut in 2026. We maintain our 3-month EURUSD target at 1.06 and decreased our 12-month target from 1.15 to 1.12.
3. We keep the view that the end of Japan's negative interest rate policy in March should gradually increase the attractiveness of the Yen. The fact that the US Fed will cut rates over the coming years should further support the Japanese currency. We adjust our USDJPY 3-month target from 145 to 150 and our 12-month target from 134 to 140 (value of one US dollar).

Writing completed on May 10th

Guy Ertz, PhD

Chief Investment Advisor
Deputy Global CIO
BNP Paribas Wealth Management



Contents

| | |
|-----------------|---|
| USD & GBP | 2 |
| CHF & JPY | 3 |
| SEK & NOK | 4 |
| AUD & NZD | 5 |
| CAD & CNY | 6 |
| MXN & BRL | 7 |
| Forecast tables | 8 |
| Disclaimer | 9 |

OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

| | Country | Spot 09/05/2024 | Target 3 months | Target 12 months |
|----------------|----------------|--------------------|--------------------|---------------------|
| Against euro | United States | EUR / USD 1,07 | 1,06 | 1,12 |
| | United Kingdom | EUR / GBP 0,85 | 0,86 | 0,86 |
| | Switzerland | EUR / CHF 0,98 | 0,98 | 0,98 |
| | Japan | EUR / JPY 167,86 | 159 | 157 |
| | Sweden | EUR / SEK 11,71 | 11,00 | 11,00 |
| | Norway | EUR / NOK 11,78 | 11,30 | 10,80 |
| Against dollar | Japan | USD / JPY 156,69 | 150 | 140 |
| | Canada | USD / CAD 1,37 | 1,32 | 1,30 |
| | Australia | AUD / USD 0,66 | 0,68 | 0,70 |
| | New Zealand | NZD / USD 0,60 | 0,60 | 0,63 |
| | Brazil | USD / BRL 5,11 | 5,00 | 5,00 |
| | India | USD / INR 83,48 | 82,0 | 82,0 |
| | China | USD / CNY 7,25 | 7,20 | 7,20 |

Source: Refinitiv - BNP Paribas WM



USD VIEW >> TARGET 12M VS EUR: 1.12

Look for a weaker dollar

The US dollar appreciated 0.2% against the Euro in April and was trading at around 1.07 as of May 10th. Recent production and sentiment indicators in the US were worse than expected with the ISM manufacturing and non-manufacturing PMI at 49.2 and 49.4 and the overall US economic surprise index plunging from +40 in April to -18 on May 10th. This points to a loss in economic momentum on the US side. In contrast, the Eurozone surprise index remains positive at +24 and recent sentiment indicators are improving. The Eurozone Manufacturing and Service PMI both exceeded expectations at 45.7 and 53.3, respectively. Inflation dynamics are also somewhat different. In the US, headline, and core (excluding food and energy) inflation surpassed expectations at 3.8% and 3.5%. Core service inflation remains somewhat sticky and the path towards 2% remains more challenging compared to the eurozone where the normalization is on track. Looking ahead, we expect the Fed to cut rates only once this year, likely in September while the ECB is anticipated to cut three times starting in June. This could support the USD in coming months. This is why we keep our 3-month EURUSD target at 1.06 (value of one euro). Over the coming year, we expect markets to price more rate cuts in the US for 2025 and 2026. Over that period, the Fed policy rate is expected to converge to 3.75% with 175bp cuts in total. The ECB is expected to cut rates by 75bp this and next year. Also keep in mind that the USD remains overvalued compared to its long-term fair value as measured by the purchasing power parity (the value of one euro in USD that equalizes the purchasing power). Indeed, the OECD estimates that level to be at around 1.37. We thus maintain our assumption of a gradual weakening of the USD against the euro. **Our 12-month target for the EURUSD is 1.12 (value of one euro).**



Source: LSEG Datastream, 09/04/2024

GBP VIEW >> TARGET 12M VS EUR: 0.86

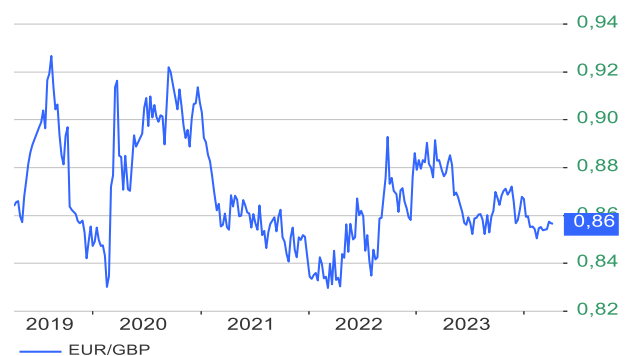
Limited upside

The EURGBP remained flat in April and was trading at around 0.86 as of May 10th. Manufacturing PMI fell below expectations at 49.7, contrasting with a higher-than-anticipated service PMI of 54.9. Retail sales outperformed, printing 0.8% higher than expected. Inflationary pressures persisted, with headline and Core inflation both exceeding expectations at 3.2% and 4.2%, respectively. The economic momentum based on the economic surprise index remains in favor of the eurozone and thus the euro.

On May 9th, the Bank of England (BoE) opted to keep rates steady at 5.25%, affirming a dovish stance. Governor Andrew Bailey's remarks during the press conference emphasized cautious optimism, suggesting the potential for sharper rate cuts than anticipated by the markets, although he maintained flexibility regarding the timing of any adjustments. In addition, the recent enactment of a 9.8% minimum wage hike by the UK government adds to inflationary pressures.

For the BoE, we expect a first cut in June with a total of 3 cuts this year and 4 next year. This slightly more than what expect for the ECB.

Looking forward, while uncertainties loom, especially regarding inflation and monetary policy, we expect similar path for rates in the two zones. The EURGBP is thus expected to maintain its relative stability. **We maintain our EURGBP 3-month and 12-month targets at 0.86 (value of one euro).**



Source: LSEG Datastream, 09/04/2024

CHF VIEW >> TARGET 12M VS EUR: 0.98

Look for a stabilization around current levels

In April, the CHF depreciated 0.5% against the Euro with the EURCHF trading at around 0.97 as of May 10th. Notably, inflationary dynamics surprised, with headline inflation coming in higher than expected at 1.4% with the full impact of rent inflation yet to materialize. The KOF business sentiment indicator suggests an improved economic outlook at 101.8, while the Manufacturing PMI held steady at 45.2. The economic surprise indices however suggest a stronger momentum in the eurozone relative to Switzerland.

The Swiss franc seems less vulnerable, especially considering the European Central Bank's greater potential for rate cuts compared to the Swiss national Bank. Markets expects about 50bp rate cuts in Switzerland with a terminal rate around 1%.

While the EURCHF's strong performance in early 2024 should stabilize temporarily. Looking ahead, a short-term consolidation is thus plausible. Therefore, **we maintain our 12-month target for the EURCHF at 0.98, reflecting the evolving policy landscape and economic outlook.**

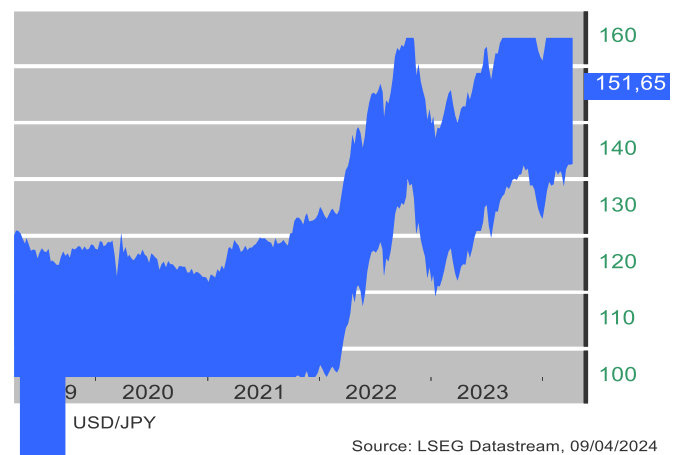
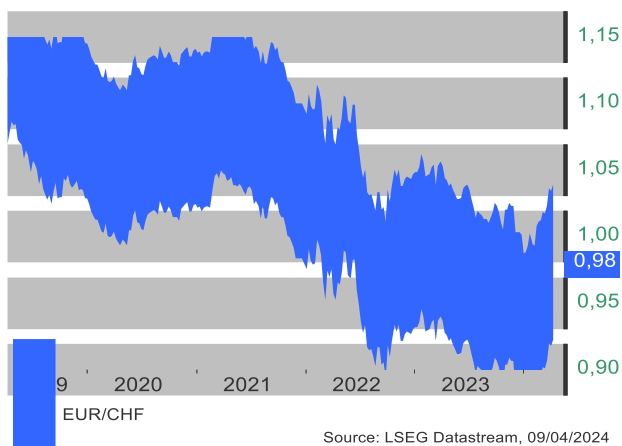
JPY VIEW >> TARGET 12M VS USD: 140

The Yen remains highly undervalued

The JPY depreciated 3% against the US dollar in April. As of May 10th, it was trading at around 155 (value of one US dollar).

The main source of weakness is the expected path of interest rates for the Bank of Japan (BoJ) relative to the US Fed. On April 26th, the BoJ maintained its short-term interest rate target at a range of 0-0.1% and maintained a relatively dovish tone. The BoJ is unlikely to move as long as consumption remains weak. Indeed, the purchasing power of Japanese households remains weak despite recent increases in wage growth as these remain lower than inflation. Another dimension is related to the so-called imported inflation. Indeed, with such a low level of the Yen, import prices have risen and add further upward pressure on headline inflation. We expect the next hike to come at the 19-20 September meeting. An earlier move could be decided if future exchange rate movements significantly raise upside risks to inflation. We also think that the BoJ probably wants to avoid hiking the policy rate at the same time as or just after dialing back its intervention in the government bond market.

We keep the view that the expected interest rate hikes in Japan and the start of the rate cut cycle in the US should gradually increase the attractiveness of the Yen. **We adjust our USDJPY 3-month target from 145 to 150 and our 12-month target from 134 to 140 (value of one US dollar).**



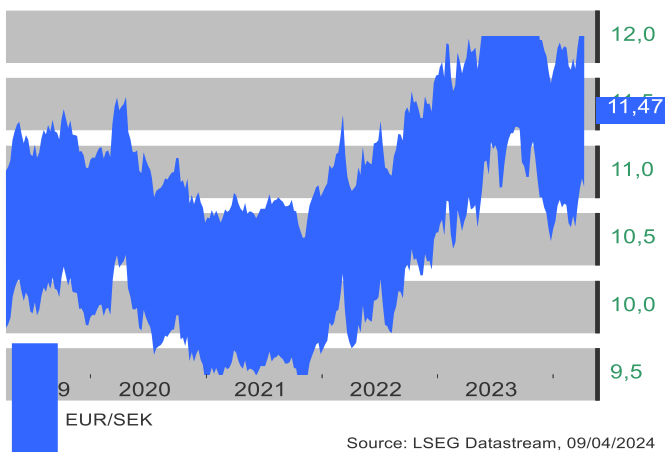
SEK VIEW >> TARGET 12M VS EUR: 11

Close to target level

The SEK depreciated 0.7% against the Euro in April and was trading at around 11.6 as of May 10th. On May 8th, the central bank (Riksbank) decreased rates by 25bp to 3.75%, aligning with expectations. That followed a larger-than-expected fall in the March inflation rate which came out at 2.2% well below consensus expectations (at 2.6%). That sharper fall was mainly linked to food and core goods inflation.

Economic indicators were positive, with headline inflation at 4.1% and Core inflation at 2.9%. The Manufacturing PMI is now in expansionary territory at 51.4. Albeit the preliminary GDP for Q1 2024 stood at -1.1%, reflecting economic challenges. These are also felt in the real estate market with House prices as well as the SEB housing price continuously increasing. The economic momentum is somewhat stronger in the eurozone.

Markets expect a similar number of rate cuts over the coming months. The fact that the Riksbank started to cut before the ECB, favored the Euro in which explains the recent depreciation of the SEK. Looking ahead, the recent euro strength relative to the SEK seems a bit overdone. The EURSEK is expected to fall back towards 11 (value of one Euro). **We maintain our 3- and 12-month targets at 11, indicating a small appreciation of the Swedish krona.**



NOK VIEW >> TARGET 12M VS EUR: 10.80

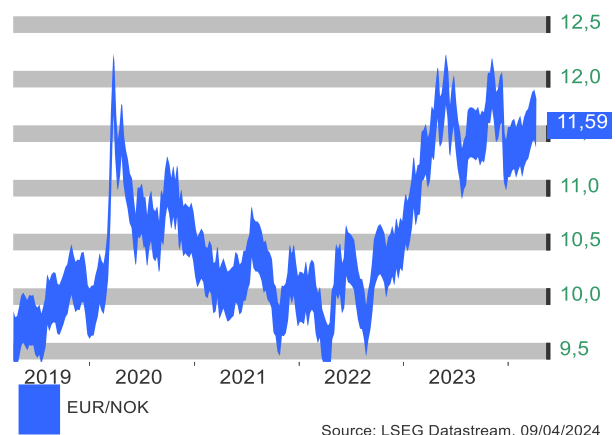
Upside potential

In April, the Norwegian Krone (NOK) was relatively stable against the Euro with the EURNOK trading at around 11.6 (value of one euro) as of May 10th.

Economic indicators were overall supportive, with headline inflation at 3.9%, lower than expected. Manufacturing PMI stood at 50.8, also lower than previously reported. The economic momentum as measure by the economic surprise index has been supporting the euro against the NOK over recent months.

On May 3rd, the Norges Bank kept its key policy rate unchanged at 4.5%. Despite positive developments such as a stable regional unemployment rate and wage agreements averting widespread strikes, the NOK has faced depreciation against major currencies like the USD and EUR.

Looking forward, expectations for fewer rate cuts from the Norges Bank compared to the ECB suggest potential for a stronger NOK and a reversal in the EURNOK trend. **Therefore, we maintain our 3-month target for the NOK at 11.3 and our 12-month target at 10.8 (value of one euro), suggesting an appreciation for the NOK in the coming months.**



AUD VIEW >>

TARGET 12M VS USD: 0.70

Further appreciation potential in 2024

In April, the Australian dollar (AUD) appreciated 1.25% against the US dollar. It was trading at around 0.66 as of May 10th. Economic indicators were mixed with producer price inflation at 4.3%, and consumer price inflation higher than expected at 3.6%. Business surveys remain supportive with Service PMI at 54.2, and Manufacturing PMI at 49.9. Despite rising inflation and strong business surveys, markets still anticipate a of the Reserve Bank of Australia's (RBA) easing cycle later this year. Market however expect much less rate cuts compared to the US. The country saw a strong population growth, driven by the post-Covid rebound in migration flows, which ultimately strengthens growth potential. Furthermore, rising commodity prices, particularly in the metals sector, are driving a significant improvement in Australia's terms of trade. However, this positive development has not yet been fully reflected in the AUD's value.

Looking ahead, despite the cautious stance of the RBA towards the economic outlook and inflation trajectory, the yield differential is expected to favor the AUD, especially with anticipated rate cuts in the US into 2025 and 2026. **We maintain our 3-month AUDUSD target at 0.68 and our 12-month forecast at 0.7. This suggests some upside for the AUD.**

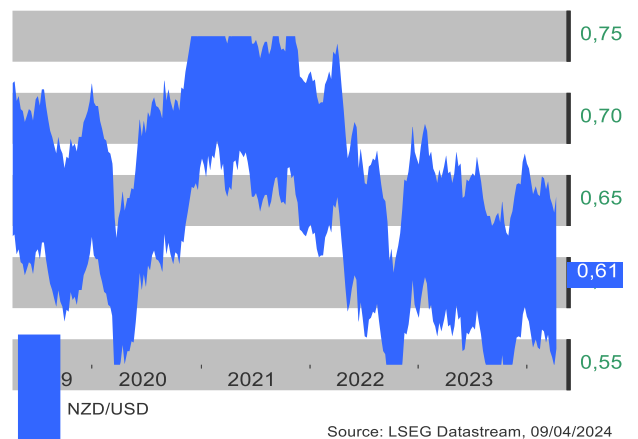
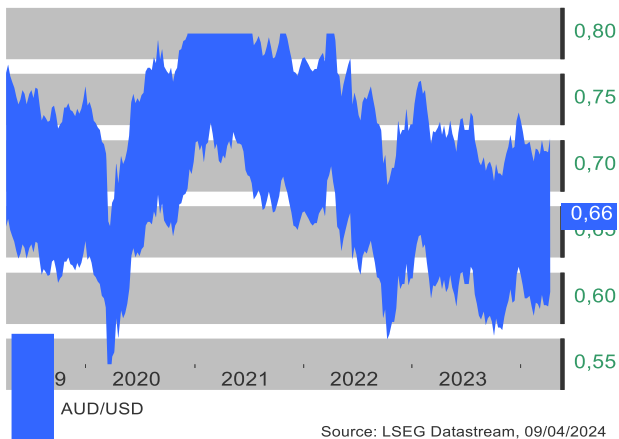
NZD VIEW >>

TARGET 12M VS USD: 0.63

The upside is more limited

In April, the New Zealand dollar (NZD) appreciated 0.5% against the US dollar. As of May 10th, it was trading at around 0.6 (value of one US dollar). Economic indicators were stable, with headline inflation for Q1 at 4%, in line with expectations, and the RBNZ maintaining rates at 5.5% as expected on April 10th. However, the Manufacturing PMI fell to 47.1, lower than previously reported, and the annual trade balance printed negative at -9.87B NZD. Relative economic momentum as measured by the economic surprise index is not favorable to the NZD but should improve. Despite the challenges posed by a negative trade balance and a decrease in economic momentum, the RBNZ is expected to be slow in transitioning to monetary easing due to the sharp rise in net immigration, which is anticipated to limit the fall in inflation.

Looking ahead, expectations of more easing by the Fed relative to the RBNZ suggest a potential for NZD appreciation against the USD over the coming year, albeit less pronounced compared to Australia. **We maintain our 3-month NZDUSD target at 0.60 and our 12-month target at 0.63. This suggests a moderate appreciation of the currency.**



CAD VIEW >> TARGET 12M VS USD: 1.30

Further moderate appreciation potential

In April, the Canadian dollar (CAD) appreciated 0.5% against the US dollar. As of May 10th, it was trading at around 1.36 (value of one US dollar). On April 10th, the Bank of Canada (BoC) maintained its interest rate at 5%, in line with expectations. The core inflation printed 2% and headline inflation 2.9%, both steadily declining and the unemployment rate was reported higher than expected at 6.1%, while the trade balance showed a positive performance at +1.39B CAD, exceeding expectations. Despite modest gains in commodity prices and solid stock performance, these factors have only had mild positive effects on the CAD.

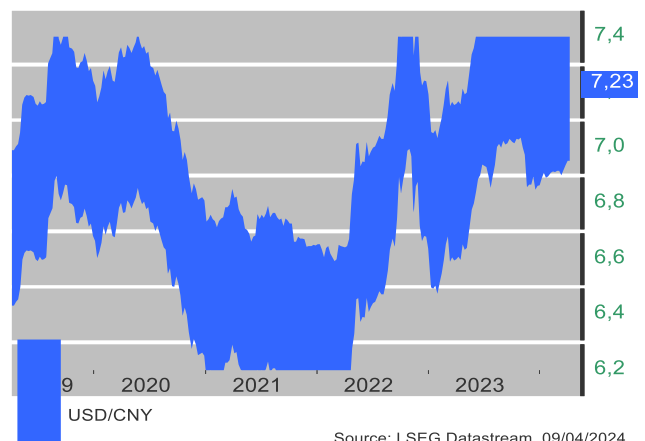
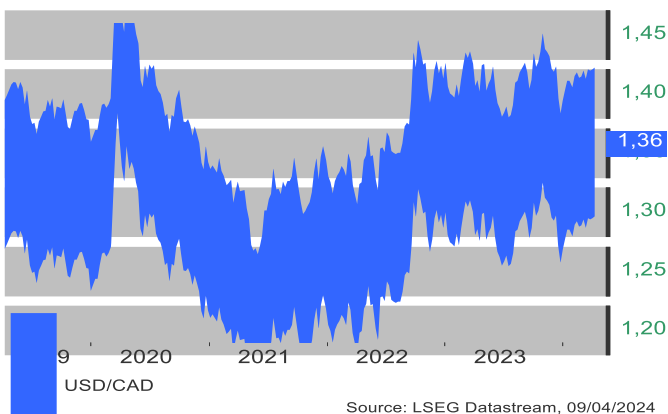
The influence of yield differentials remains significant, as the BoC is anticipated to undertake fewer rate cuts compared to the Fed. Looking ahead, these factors suggest a gradual appreciation potential for the CAD against the USD.

We maintain our 3-month target for the CAD at 1.32 and our 12-month forecast at 1.30 (value of one USD). This suggests a moderate appreciation potential for the CAD.

CNY VIEW >> TARGET 12M VS USD: 7.2

No clear trend

In April, the Chinese Yuan (CNY) remained relatively stable against the US dollar. This was consistent with recent months. As of May 10th, it was trading at around 7.2. In April GDP growth for Q1 2024 printed substantially higher than expected at 5.3%, while the headline inflation came in lower than expected at 0.1%. The loan prime rates for both 1-year and 5-year were maintained at 3.45% and 3.95%, respectively, on April 22nd. Additionally, the business surveys were supportive with the Caixin Manufacturing PMI at 51.4, and Services PMI at 52.7. However, producer price inflation remains negative at -2.8%, as expected. Despite the positive GDP growth and strong PMI figures, lower-than-expected consumer price inflation and underlying deflationary pressures suggest challenges in stimulating inflation. China's economy is showing signs of gaining a firmer footing at the start of the year but achieving the year's GDP growth target of around 5% may require further stimulus measures, especially with the real estate and construction sectors exerting a significant drag. Furthermore, gradual interest rate cuts are likely in the coming months, contributing to persistent interest rate premium of the USD over CNY. However, the PBOC's determination to cap the USD/CNY limits any depreciation potential. **We maintain our USDCNY 3-month and 12-month target at 7.2 (value of one US dollar). This suggests a flat evolution over the coming months.**



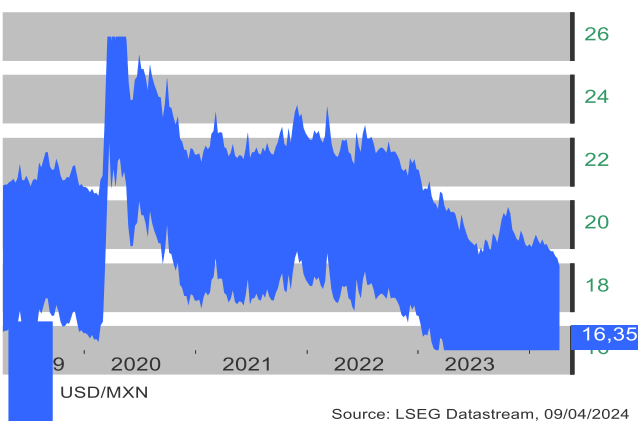
MXN VIEW >>

TARGET 12M VS USD: 18.50

Weakening ahead

In April, the Mexican Peso (MXN) depreciated 2.8% against the US dollar. As of May 10th, it was trading at around 16.7 (value of one US dollar). Inflation indicators were positive, with producer price inflation at 2% and 12-month inflation at 4.42%. This was lower than expected. Manufacturing PMI remained strong at 52.2, indicating continued expansion and resilience in the manufacturing sector. The economic momentum also remains better in Mexico. Regarding monetary policy, we now expect Banxico to pause its rate cutting cycle in Q3 2024, leading to an end-2024 policy rate of 9.75% (previously 9.50%) and an end-2025 rate of 7.75% (previously 7.50%). The expected Fed rate trajectory was also revised by the market which now projects only two cuts (July and December) this year.

While volatility increased slightly, it remained relatively low, contributing to the MXN's status as a carry currency within Emerging currencies. However, the recent escalation in Middle East tensions triggered a sell-off in risk assets, particularly impacting the MXN. Considering these factors and the reduced potential for rate cuts, we expect a moderate depreciation against the US dollar. **We maintain our USDMXN 3-month target at 17.5 and maintain our 12-month target at 18.5. This suggests a depreciation of the MXN.**



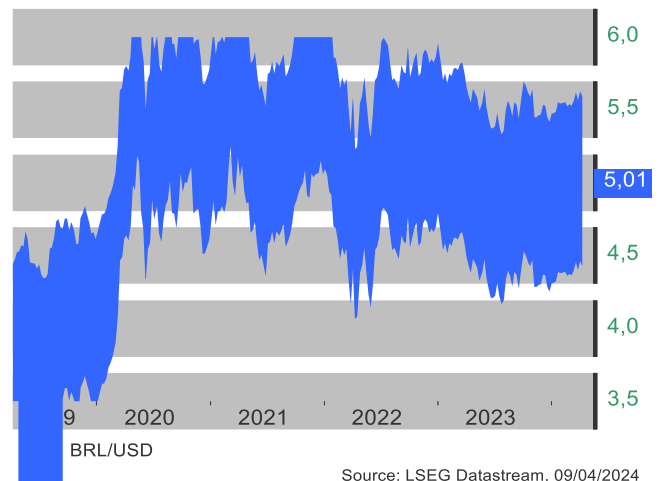
BRL VIEW >>

TARGET 12M VS USD: 5.0

Close to target

In April, the Brazilian real (BRL) depreciated 1% against the US dollar. As of May 10th, it was trading at around 5.1. The change in expectations regarding rate cuts in the US have supported the USD, impacting the BRL's performance. However, in the coming years, interest rates are expected to remain high in Brazil, supporting the yield differential.

In April, retail sale surged at 8.2% year-on-year, surpassing expectations, while the Service and Manufacturing PMI remained robust at 53.7 and 55.9. The policy interest rate was cut by 25bps to 10.5%, aligning with expectations. Despite the attractive carry and relatively low volatility of the BRL, the currency has depreciated. Brazil's central bank signaled a potential reduction in its easing pace in the next rate decision due to rising uncertainty. Concerns persist regarding wage increases, sticky services inflation, and doubts about the government's ability to reach fiscal targets. External factors such as the Fed's monetary policy, risk-off events, and China's economic activity remain headwinds for the currency. **We maintain our outlook for the USD/BRL exchange rate and keep our 3-month and 12-month exchange rate targets for the USD/BRL at 5.**



| | Country | Spot 09/05/2024 | Trend | Target 3 months (vs. EUR) | Trend | Target 12 months (vs. EUR) |
|-------|----------------|--------------------|----------|------------------------------|----------|-------------------------------|
| | United States | EUR / USD 1,07 | Neutral | 1,06 | Negative | 1,12 |
| | United Kingdom | EUR / GBP 0,85 | Neutral | 0,86 | Neutral | 0,86 |
| | Japan | EUR / JPY 167,86 | Positive | 159 | Positive | 157 |
| | Switzerland | EUR / CHF 0,98 | Neutral | 0,98 | Neutral | 0,98 |
| | Australia | EUR / AUD 1,63 | Positive | 1,56 | Positive | 1,60 |
| | New-Zealand | EUR / NZD 1,79 | Neutral | 1,77 | Neutral | 1,78 |
| | Canada | EUR / CAD 1,46 | Positive | 1,40 | Neutral | 1,46 |
| | Sweden | EUR / SEK 11,71 | Positive | 11,00 | Positive | 11,00 |
| | Norway | EUR / NOK 11,78 | Positive | 11,30 | Positive | 10,80 |
| Asia | China | EUR / CNY 7,76 | Neutral | 7,63 | Negative | 8,06 |
| | India | EUR / INR 89,43 | Positive | 86,92 | Negative | 91,84 |
| Latam | Brazil | EUR / BRL 5,48 | Positive | 5,30 | Negative | 5,60 |
| | Mexico | EUR / MXN 18,26 | Neutral | 18,55 | Negative | 20,72 |

| | Country | Spot 09/05/2024 | Trend | Target 3 months (vs. USD) | Trend | Target 12 months (vs. USD) |
|-------|----------------|--------------------|----------|------------------------------|----------|-------------------------------|
| | Eurozone | EUR / USD 1,07 | Neutral | 1,06 | Positive | 1,12 |
| | United Kingdom | GBP / USD 1,25 | Neutral | 1,23 | Positive | 1,30 |
| | Japan | USD / JPY 156,69 | Positive | 150,00 | Positive | 140,00 |
| | Switzerland | USD / CHF 0,91 | Neutral | 0,92 | Positive | 0,88 |
| | Australia | AUD / USD 0,66 | Positive | 0,68 | Positive | 0,70 |
| | New-Zealand | NZD / USD 0,60 | Neutral | 0,60 | Positive | 0,63 |
| | Canada | USD / CAD 1,37 | Positive | 1,32 | Positive | 1,30 |
| Asia | China | USD / CNY 7,25 | Neutral | 7,20 | Neutral | 7,20 |
| | India | USD / INR 83,48 | Neutral | 82,00 | Neutral | 82,00 |
| Latam | Brazil | USD / BRL 5,11 | Positive | 5,00 | Positive | 5,00 |
| | Mexico | USD / MXN 17,04 | Negative | 17,50 | Negative | 18,50 |
| EMEA | South Africa | USD / ZAR 18,64 | Positive | 18,00 | Positive | 17,50 |
| | USD Index | DXY 105,58 | Neutral | 105,49 | Negative | 100,01 |

Source: Refinitiv - BNP Paribas WM

THE INVESTMENT STRATEGY TEAM

FRANCE

Edmund SHING

Global Chief Investment Officer

ASIA

Prashant BHAYANI

Chief Investment Officer, Asia

Grace TAM

Chief Investment Advisor, Asia

BELGIUM

Philippe GIJSELS

Chief Investment Advisor

Alain GERARD

Senior Investment Advisor, Equities

Xavier TIMMERMANS

Senior Investment Strategy, PRB

LUXEMBOURG

Guy ERTZ

Chief Investment Advisor - Deputy Global CIO

Edouard DESBONNETS

Investment Advisor, Fixed Income

GERMANY

Stephan KEMPER

Chief Investment Strategist



CONNECT WITH US



[wealthmanagement.bnpparibas](https://www.wealthmanagement.bnpparibas)

DISCLAIMER

This marketing document is communicated by the Wealth Management Métier of BNP Paribas, a French Société Anonyme, Head Office 16 boulevard des Italiens, 75009 Paris, France, registered under number 662 042 449 RCS Paris, registered in France as a bank with the French Autorité de Contrôle Prudentiel et de résolution (ACPR) and regulated by the French Autorité des Marchés Financiers (AMF). As marketing material, it has not been prepared in accordance with legal and regulatory requirements aimed at ensuring the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It has not been submitted to the AMF or any other market authority.

This document is confidential and intended solely for the use of BNP Paribas SA, BNP Paribas Wealth Management SA or their affiliates ("BNP Paribas") and the persons to whom this document has been delivered. It may not be distributed, published, reproduced or disclosed by any recipient to any other person, nor may it be quoted or referred to in any document, without the prior consent of BNP Paribas.

This document is provided solely for information and shall not constitute an offer or solicitation in any state or jurisdiction in which such an offer or solicitation is not authorized, or to any person to whom it is unlawful to make such offer, solicitation or sale. It is not, and under no circumstances is it to be construed as, a prospectus.

Although the information provided herein may have been obtained from published or unpublished sources considered to be reliable and while all reasonable care has been taken in the preparation of this document, BNP Paribas does not make any representation or warranty, express or implied, as to its accuracy or completeness and does not accept responsibility for any inaccuracy, error or omission. BNP Paribas gives no warranty, guarantee or representation as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (either legal, regulatory, tax, financial, accounting or otherwise) of any product or transaction. Investors should not place undue reliance on any theoretical historical information regarding such theoretical historical performance. This document may contain or refer to past performance; past performance is no guarantee for future performance.

The information contained in this document has been drafted without prior knowledge of your personal circumstances, including your financial position, risk profile and investment objectives.

Prior to entering into a transaction each investor should fully understand the financial risks, including any market risk associated with the issuer, the merits and the suitability of investing in any product and consult with his or her own legal, tax, financial and accounting advisors before making his or her investment. Investors should be in a position to fully understand the features of the transaction and, in the absence of any provision to the contrary, be financially able to bear a loss of their investment and willing to accept such risk. Investors should always keep in mind that the value of investments and any income from them may go down as well as up and that past performance should not be seen as an indication of future performance. Any investment in a product described herein is subject to the prior reading and understanding of the legal documentation concerning the product, and in particular the one which describes in details the rights and obligations of investors as well as the risks inherent to an investment in the product. Save as otherwise expressly agreed in writing, BNP Paribas is not acting as financial adviser or fiduciary of the investor in any transaction. The information, opinions and projections expressed herein reflect the opinion of their author at the time of writing; they are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by anyone, and are subject to change without notice. Neither BNP Paribas nor any BNP Paribas Group entity accepts any liability whatsoever for any consequences that may arise from the use of information, opinions or projections contained herein.

As distributor of the products described herein, BNP Paribas may receive distribution fees on which you can obtain more information upon specific request. BNP Paribas, their employees or administrators may hold positions in these products or have dealings with their issuers.

By accepting this document, you agree to be bound by the foregoing limitations.

© BNP Paribas (2024). All rights reserved.

Pictures from Getty Images.

