

Currencies Focus

Summary

- Uncertainty remains high:** Optimism that a Middle East peace deal could be reached has been dashed. The war in the Middle East continues to dominate the macro picture. Under our base case, we expect a drag on activity and a step-up in inflation compared with our pre-war projections. Still, we think the global economy will avoid recession. Weaker 2026 GDP growth and higher inflation will result from this supply disruption, particularly in Europe and Asia. Energy exporters are likely to do better, as we expect energy prices to remain elevated. This implies that the AUD and NOK would do well within the G10.
- Central banks:** This month, the ECB, the Fed, and the BoE held their policy rates steady at their April meetings. **The Fed will stay on hold until 2026.** The next policy move will be driven by the economic outlook. A rate hike could be possible later this year if the unemployment rate falls and the Strait of Hormuz remains closed. **We think the ECB and BoE will stay on hold this year.** They will remain data dependent, especially monitoring second-round effects.
- EUR/USD:** The dollar is likely to stay weak even as the US outperforms. While the US remains an energy exporter, the dollar's rally is modest, reflecting a gradual shift of capital away from the USD toward other currencies; the euro should gain as we see more de-escalation. US tail risks – large fiscal deficits, possible higher defence spending and a pre-election stimulus in a high-rate environment appear underpriced by the market. **Accordingly, our 3-month EUR/USD target is 1.14 and our 12-month target is 1.20 (value of one euro).**
- This month we revise some of our targets: AUD/USD to 0.71, USD/BRL to 5.00, USD/INR to 95.00, USD/MXN to 17.00 and EUR/NOK to 10.75 (12-month targets).**

Writing completed on 13th May 2026

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OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 12/05/2026	Target 3 months	Target 12 months
Against euro	United States	EUR / USD 1.17	1.14	1.20
	United Kingdom	EUR / GBP 0.87	0.87	0.87
	Switzerland	EUR / CHF 0.92	0.92	0.92
	Japan	EUR / JPY 185	180	186
	Sweden	EUR / SEK 10.92	10.80	10.60
	Norway	EUR / NOK 10.78	10.80	10.75
Against dollar	Japan	USD / JPY 158	158	155
	Canada	USD / CAD 1.37	1.38	1.35
	Australia	AUD / USD 0.72	0.73	0.71
	New Zealand	NZD / USD 0.59	0.60	0.60
	Brazil	USD / BRL 4.90	5.30	5.00
	India	USD / INR 95.64	95.00	95.00
	China	USD / CNY 6.79	6.80	6.80

Source: Refinitiv - BNP Paribas WM



USD VIEW >> TARGET 12M VS EUR: 1.20

Moderate downside for the USD this year

The dollar has been supported by a fly to quality. Once we witness a de-escalation, we remain bearish on the dollar. The strong April job report should convince the Fed keeping policy rates unchanged this year. Yet a growing tail risk remains. Policymakers could raise rates if unemployment falls further and the Strait of Hormuz stays closed.

The ECB has also left its policy rate on hold. So far, we see no second-round effects or signs of inflation expectations becoming unanchored, and we expect the ECB's policy rate to stay steady through the year. If there are no signs of de-escalation by the end of May, we would probably review our views for the ECB.

Although the US is an energy exporter and its growth is partly insulated from regional tensions, the dollar's rally has been modest relative to past crises, underscoring the new flow dynamics. The Middle East conflict has become a catalyst for a gradual, persistent shift in global capital flows away from the USD towards other currencies, with the euro well-positioned to gain despite the eurozone's energy-price shock.

Adding to the downside, the United States faces sizeable tail risks: large fiscal deficits, the possibility of heightened defence spending, and a potential stimulus package ahead of the midterm elections in a high-rate environment. We believe that these risks are underestimated.

Therefore, our 3-month EUR/USD target is 1.14 and our 12-month target is 1.20 (value of one EUR). In this environment, a more acute or prolonged oil shock remains the most evident risk to the EUR/USD pair.



GBP VIEW >> TARGET 12M VS EUR: 0.87

No major trend

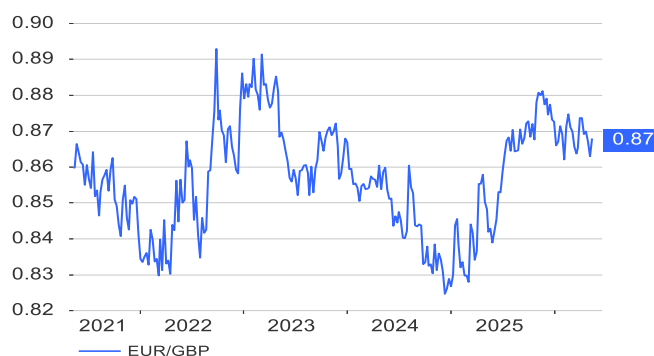
Since the start of the Iranian conflict, the GBP has remained quite resilient. It fluctuated around 0.87 (value of one euro). This behavior stems from a pronounced hawkish repricing of the GBP yield curve, coupled with the unexpected resilience of UK equity markets which support the currency.

UK inflation rebounded to 3.3% year-on-year (y/y) in March. Core inflation fell to 3.1% but producer prices remain high, driven by rising energy and transport costs. PMIs are improving, with the services index at 52 and the manufacturing index at 53.6. Production and new orders are bolstered by stockpiling purchases, while the technology sectors are driving services growth.

The Bank of England's cautious communication after holding its policy rate at 3.75% in April reflects an attempt to maintain full optionality given the uncertain backdrop. As for the ECB, we expect a data-dependent, "wait-and-see" stance for the BoE. We anticipate that the central bank will keep rates unchanged for the remainder of the year given the weak UK growth outlook and the relatively high starting point of the Bank of England's policy rate.

UK political uncertainty is set to persist for the foreseeable future, and any change in leadership will take time, meaning that clear fiscal policy guidance is unlikely before the autumn. Whether the outcome is a resignation, a leadership challenge or merely a shift in agenda, we think a fiscally responsible shift to the left is more likely than an end to fiscal prudence.

We maintain our 3-and 12-month EUR/GBP targets at 0.87 (the value of one euro).



CHF VIEW >> TARGET 12M VS EUR: 0.92

CHF remains a safe heaven currency

The CHF has remained flat against the euro, with the EUR/CHF (the value of one euro) trading close to 0.92 on May 12th.

Swiss inflation accelerated to 0.6 % y/y in April, while core inflation fell to 0.3 % y/y. The Manufacturing PMI rose to 54.5 in April from 53.3, driven mainly by longer supplier delivery times that signal ongoing supply-chain disruptions. At the same time, the KOF business index climbed from 95 to 98.

At its March meeting, the Swiss National Bank held rates at 0%, reinforcing our view that the SNB will keep rates at zero for the rest of the year. With the SNB's policy rate at the zero lower bound and inflation expected to remain within its target range, we don't expect policy to change in 2026. We continue to see increased scope for FX intervention (possibly only verbal) to tackle any rapid and excessive CHF appreciation

We think the currency is well positioned to benefit from safe-haven inflows as global growth slows in response to the current energy price shock. The relative resilience of the Swiss economy reflects a diverse energy mix, lower energy intensity of output, and household electricity prices that are set annually to limit volatility. Meanwhile, we continue to see the CHF supported by a positive current account surplus.

The SNB continues to stress a willingness to intervene in FX markets. While scope for FX intervention by the SNB remains, the data does not indicate sizeable or sustained intervention recently.

Accordingly, our 3-and 12-month targets for EUR/CHF remain at 0.92 (per one EUR).



JPY VIEW >> TARGET 12M VS USD: 155

Gradual recovery

The JPY has appreciated against the USD, trading around 157 (value of one USD) on May 12th.

The Bank of Japan (BoJ) left its policy rate unchanged at 0.75 % in April. Board members also revised their growth and inflation outlooks, emphasizing heightened concern over upside inflation risks.

Meanwhile, following the April meeting, the yen has depreciated further, prompting the government to intervene in the foreign exchange market. An FX intervention merely buys time, and an operation that sells foreign currency to stop the yen depreciating cannot be sustained indefinitely. A rate hike by the BoJ is a policy that could counter yen depreciation pressure, we believe.

The latest FX intervention strongly suggests that the Sanae Takaichi administration also does not want the yen to weaken much further. We expect the administration to be inclined to endorse BoJ rate hikes if the yen remains under pressure. As such, we interpret the latest intervention in the FX market as raising the likelihood of a June rate hike. Looking ahead, we expect the central bank to lift rates roughly every four to five months, beginning in June, and to reach a terminal rate of about 2 % by the end of next year.

We anticipate further rate hikes in Japan while the Fed is likely to remain on hold this year, which should narrow the yield differential and support the Yen. Nonetheless, concerns regarding inflation expectations and higher government debt ratios are expected to cap the Yen's upside.

Accordingly, our 3-month USD/JPY target is 158 and our 12-month target is 155 (value of one USD). This suggests a small upside for the Yen.



SEK VIEW >>

TARGET 12M VS EUR: 10.6

Small upside

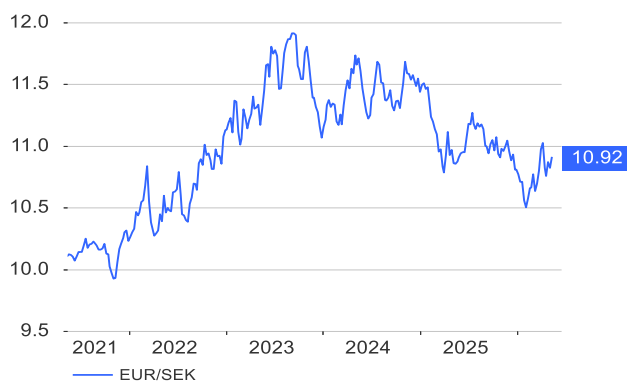
The SEK has depreciated against the euro, with EUR/SEK (the value of one euro) trading around 10.92 on May 12th.

The April flash CPI report showed core inflation edging down to 0.8% y/y and core inflation came in at 0%. The main driver of the decline is the VAT cut on food. Business surveys suggest that activity has remained firm with the manufacturing PMI at 57. Retail sales grew by 6.2% y/y and industrial production increased by 3% y/y in March.

At May's meeting, the Riksbank kept its policy rate unchanged at 1.75% in line with its guidance around a patient, wait-and-see approach when assessing the implications of higher energy prices on Swedish inflation. We think the bar for tightening is lower, as inflation is below target and the Riksbank has stated that hikes would significantly hurt economic activity.

While Sweden is an energy importer and the SEK may lag the NOK at the margin, we still see the former benefiting in an environment of EURUSD strength. What's more, the Swedish growth outlook for 2026 remains constructive with spillovers from German fiscal spending a source of support.

All in all, long-term fundamentals remain supportive for the Swedish currency. **Our 3-month EUR/SEK target is 10.80 and our 12-month target is 10.60 (value of one EUR). This suggests a small upside for the SEK.**



NOK VIEW >>

TARGET 12M VS EUR: 10.75

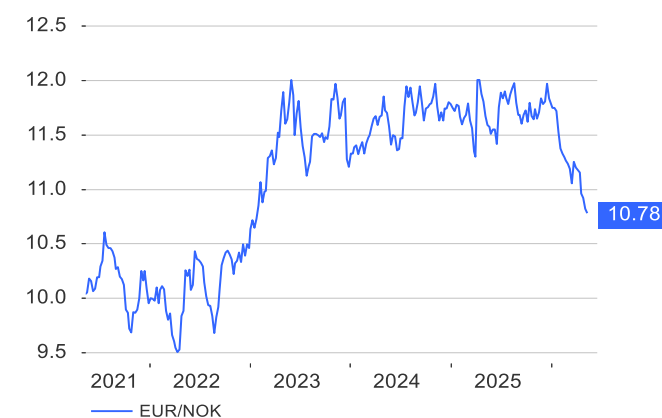
Target change

The Norwegian krone (NOK) has appreciated against the euro with EUR/NOK (the value of one euro) trading around 10.78 on May 12th.

Norges Bank raised its policy rate by 0.25 percentage points to 4.25% in May. In March, headline inflation in Norway increased from 2.7% to 3.6% year-on-year, edging just above the central bank's forecast of 3.5%. Even before the war, the bank had been warning about inflationary pressures. Consistent with its March outlook, Norges Bank reaffirmed that the policy rate is expected to reach between 4.25% and 4.5% by the end of the year, suggesting that its overall view has not changed. We anticipate a second rate increase in September, although an earlier adjustment cannot be excluded.

We maintain our bullish view. Norway is a net energy exporter, a backdrop that may particularly benefit the NOK. In addition, Norway's monetary policy trajectory has diverged from Sweden's, providing extra support. The rate rise reinforces the high-yielding status of the NOK, which will continue to remain a source of support.

We change our 3-month EUR/NOK target to 10.80 and our 12-month target to 10.75 (value of one EUR). This suggests a small appreciation over the coming months.



CAD VIEW >>

TARGET 12M VS USD: 1.35

Uncertainty remains high

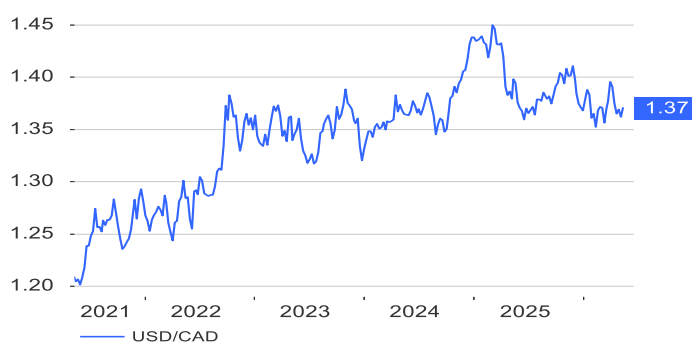
The Canadian dollar (CAD) has traded around 1.37 against the USD on May 12th.

April's labor-market figures again highlight ongoing weakness. Employment slipped by another 17k jobs, driving the unemployment rate back up to 6.9%.

The Bank of Canada (BoC) held rates steady at 2.25% at its April's meeting. The BoC began to signal a more symmetrical policy bias before many of its peers. This suggests the next policy move could be a hike (perhaps because higher energy prices cause an inflationary shock) or a cut (if in fact trade uncertainty does weigh materially on domestic growth). We observe that while rate-hike pricing was front-loaded for some central banks this was not the case for the BoC. Markets are pricing in about 50bps of rate hikes for the year at the time of writing, primarily in the second half of this year after the USMCA review.

Since the conflict began, the Canadian dollar has remained resilient, largely because strong energy-related support has flowed through the terms-of-trade channel. Fundamentally, we maintain a sense of caution given the uncertainty on the US trade front. The official review of the United States-Mexico-Canada Agreement (USMCA) falls due on July 1st, but we anticipate that political posturing and negotiations in the run-up will weigh on domestic sentiment. As such, the CAD is likely to remain vulnerable ahead of the deadline.

Given these factors, we maintain our 3-month USD/CAD target at 1.38 and our 12-month target at 1.35 (value of one USD). This suggest a small upside for the CAD.



CNY VIEW >>

TARGET 12M VS USD: 6.80

Limited Upside

The Chinese yuan (CNY) has appreciated against the dollar and traded around 6.79 on May 12th.

China's headline CPI rose by 1.2% y/y in April, driven by the impact of higher energy prices. Headline PPI also picked up to 2.8% y/y from 0.5%. China's exports rose by 14.1% y/y in April, outperforming expectations. This suggests that export momentum remained robust in April. China's manufacturing PMI edged down to 50.3 in April. However, the data show that both the production side and the demand side remain resilient regardless of the Middle East conflict.

The People's Bank of China (PBoC) left the 1Y and 5Y Loan Prime Rate (LPR) at 3.0% and 3.5% respectively in April. We no longer expect the PBoC to cut the policy rate this year. China's Politburo meeting at end-April signaled a degree of confidence about the growth outlook that likely rules out any near-term monetary easing. We do, however, see a risk of a rate cut in H2 2026 if growth drops below 4.5% due to greater repercussions from the energy shock.

The PBoC's recent USD/CNY lower fixings, in our view, clearly reflect a stance to keep FX stable and curb expectations of excessive CNY appreciation. We believe negative US-China rate differentials and the underlying macro conditions will also limit the currency appreciation.

Therefore, our 3- and 12-month USD/CNY targets are 6.80 (value of one USD).



AUD VIEW >>

TARGET 12M VS USD: 0.71

Target Change

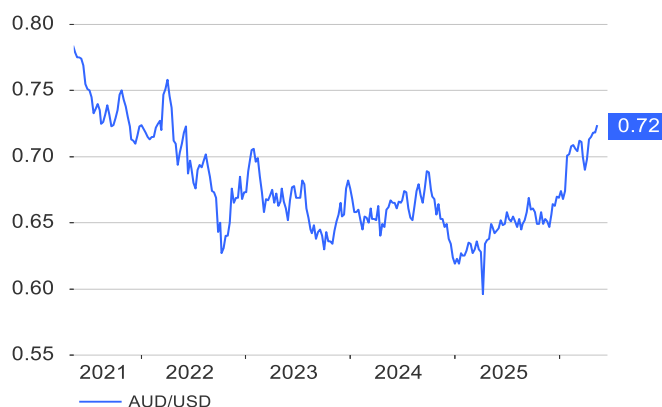
The Australian dollar (AUD) has appreciated against the USD, trading around 0.72 on May 12th.

The Reserve bank of Australia (RBA) has raised its key interest rate for a third consecutive meeting to 4.35% from 4.1% in May. The RBA also cut its 2026 GDP forecast to 1.3% and sees inflation at 4%. Governor Bullock signaled room to take a more wait-and-see approach after reaching a level in the policy rate that is "now a bit restrictive". Markets seem to reflect this, while also having some premium for further tightening with about 39bp of hikes this year priced at the time of writing.

The AUD benefits from a positive interest rate differential. In addition, the Australian economy continues to demonstrate resilience, underpinned by solid fiscal fundamentals. The equity market performance and robust demand for commodities further reinforce the currency outlook. Australia is a net exporter of energy, primarily natural gas. We think gas prices can see more upward pressure than oil in a sustained energy shock, given the lack of circuit breakers. This would support the AUD via improved terms of trade.

While inflation remains a concern, the baseline for monetary policy is probably less hawkish than market expectations imply. At this point, expectations of further tightening may be overstated. Moreover, the carry advantage could fade or even reverse in the second half of 2026 if the probability of a further rate hike decreases. This is expected to weigh on the AUD.

Therefore, we change our 3-month AUD/USD target to 0.73 and our 12-month target is 0.71 (value of one AUD). This suggests a small upside in short term.



NZD VIEW >>

TARGET 12M VS USD: 0.60

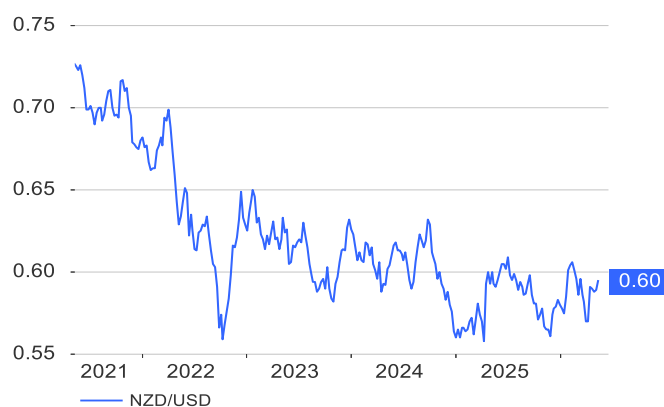
Close to target

The New Zealand dollar (NZD) is trading around 0.60 on May 12th.

The Reserve Bank of New Zealand (RBNZ) kept the official cash rate unchanged at 2.25 % in April. The RBNZ looks likely to remain on hold at its next meeting, although markets are pricing in three hikes for the rest of the year at the time of writing, after domestic inflation data surprised to the upside. We consider this pricing to be somewhat exaggerated at present.

New Zealand runs an energy-trade-balance deficit and is likely to be more vulnerable to any further sustained price jumps. To the extent that this materializes, we believe a widening of New Zealand's current-account deficit (especially in contrast to Australia) could maintain pressure on the NZD. Our view has been cautiously optimistic, as it appears that the worst is probably behind us with regard to economic slowdown, but New Zealand's large current-account deficit leaves the NZD vulnerable. The RBNZ's gradualist policy tightening, alongside improving business surveys and activity data, is expected to support the NZD.

Our NZD/USD 3- and 12-month targets are 0.60 (value of one NZD).



ZAR VIEW >>

TARGET 12M VS USD: 16.00

Limited upside

The South African Rand (ZAR) has depreciated against the US dollar over the past month, trading around 16.54 on May 12th.

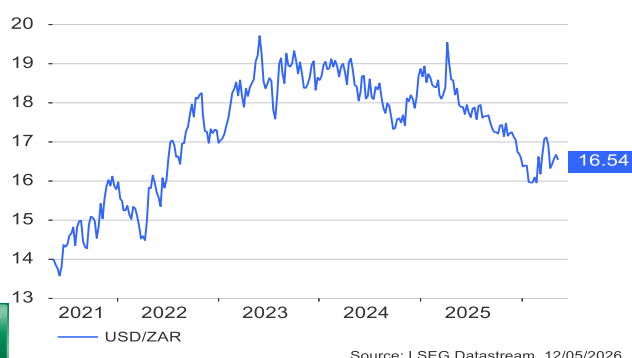
In March, the South African Reserve Bank (SARB) struck a cautious tone by holding rates steady at 6.75 %, as widely expected. We think the SARB is in the process of swiftly readjusting its communication strategy and will quickly shift to a bias toward proactively tightening policy rates in the coming months. This argument is based on our view that the SARB will act swiftly to preserve its hard-won credibility gains under its new 3 % inflation target, leaving nothing to chance. We expect the SARB to deliver two 25 bp rate hikes in May and July.

Headline CPI for March came approximately in line with expectations at 3.1 % y/y. Core CPI surprised to the upside, however, still within the consensus range. Regarding the business survey, the manufacturing PMI remains in expansionary territory at 47.

When the Middle-East conflict began, the ZAR benefitted from an improving flow picture, as the national trade balance had started to recover with improved terms of trade. The current energy-price shock undermines this channel to some extent, though, as the ZAR's key vulnerability is South Africa's reliance on imported energy products (around 2.4 % of GDP).

The continued diversification away from the USD by global investors should benefit the ZAR, as South Africa's net international investment position is one of the largest in CEEMEA. Moreover, emerging-market investors remain attracted to the rand because of its high real yields.

We remain positive about South Africa's domestic outlook. Consequently, our 3-month target is 16.50 and our 12-month target is 16 (value of one USD).



INR VIEW >>

TARGET 12M VS USD: 95.00

Target change

The Indian rupee (INR) has depreciated against the US dollar over the past month, trading around 95 on May 12th.

The Reserve Bank of India (RBI) held its policy repo rate at 5.25 % in April, highlighting upside risks to inflation from prolonged US-Iran tensions and a potentially weak monsoon. Amid high-supply-driven inflation and slowing growth, the RBI is likely to postpone any rate-hike cycle.

In April, CPI inflation rose to 3.48 % y/y, from 3.40 % the previous month. Manufacturing and services PMIs remained strong at 54 and 58, respectively. Industrial output in March proved surprisingly robust, posting a 4.1 % y/y gain.

The Middle-East conflict has particularly impacted India, which is one of the largest energy importers in the region, relies heavily on the Middle East, and holds only modest oil reserves. While fuel caps may limit the direct pass-through of higher oil prices to consumers, indirect inflationary pressures could still emerge, and India's fiscal position may deteriorate. This backdrop may also limit portfolio inflows - India is a current-account-deficit economy and depends on foreign inflows, so any shortfall could keep the currency under weakening pressure.

Consequently, we see no trigger for a major rebound over the coming months. We revise our 3- and 12-month USD/INR targets to 95 (value of one USD).



MXN VIEW >>

TARGET 12M VS USD: 17.00

Target change

The Mexican peso (MXN) has appreciated against the US dollar over the past month, trading around 17.35 on May 12th.

The Bank of Mexico (Banxico) delivered a final 25 bp cut of its two-year easing cycle at its May meeting, as we anticipated, bringing its policy rate to 6.5%. In accordance with our view and the board's communication, we expect Banxico to remain on hold at least until year-end. The bank raised its inflation forecasts for Q2 and Q3 2026 but maintained its convergence target for Q2 2027.

April's inflation was 4.45% y/y, down from March's level of 4.59% y/y. The lower-than-expected inflation was due to a decline in the non-core component. The manufacturing PMI survey remained in contraction territory at 47, and industrial production stayed weak.

We expect the peso to remain relatively resilient in the near term, supported by market demand for high yields and attractive fundamentals. However, several risk factors could put pressure on the currency in the coming months, such as weaker remittance flows, greater sensitivity to the U.S. economy, and lingering USMCA uncertainties.

Considering these factors, we change our 3-month USD/MXN target to 17.50 and our 12-month target is 17.00 (value of one USD). This suggests a small appreciation over the coming months.



BRL VIEW >>

TARGET 12M VS USD: 5.00

Target change

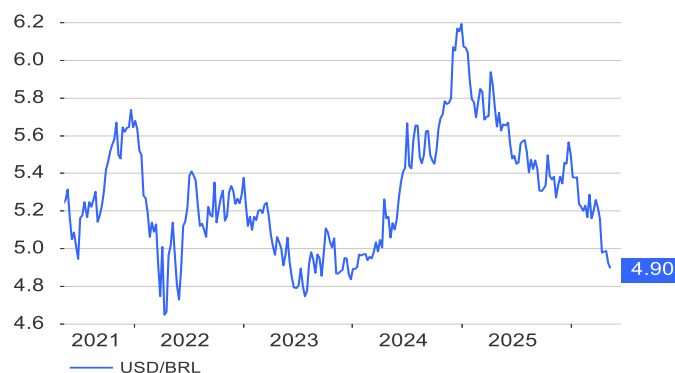
The Brazilian real (BRL) has appreciated against the US dollar over the past month, with USD/BRL trading around 4.90 on May 12th.

The Central Bank of Brazil (BCB) decided to cut by 25 bps at April's meeting, as we expected, bringing rates to 14.50%. The statement accompanying the decision had hawkish touches, referencing mark-to-market activity and inflation dynamics, but in a way that still allows for the "calibration" of monetary policy to continue, despite the deterioration in the convergence path. We expect a Selic rate of 13.5% by year-end, with a series of 25 bp cuts until November.

We expect the BRL to remain an out-performer in EM over the next months, as it will continue to benefit from the positive terms-of-trade shock from high oil prices and its attractive carry. On the monetary-policy front, the BCB is becoming more cautious in tone, as the upside risks to inflation suggest a potential pause in its easing cycle. This restrained stance preserves the BRL's carry advantage.

Looking into the election cycle in H2, the risk-reward profile for the BRL has become less favourable, and politics could become a key obstacle for the currency as election day approaches on 4 October 2026. The biggest issues for markets are risks to fiscal sustainability and worsening debt dynamics, given higher government spending and higher policy rates.

Considering these factors, we change our 3-month USD/BRL target to 5.30 and our 12-month target to 5.00 (value of one USD), suggesting a moderate downside for the BRL.



	Country	Spot 12/05/2026	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD 1.17	Positive	1.14	Negative	1.20
	United Kingdom	EUR / GBP 0.87	Neutral	0.87	Neutral	0.87
	Japan	EUR / JPY 185.00	Positive	180	Neutral	186
	Switzerland	EUR / CHF 0.92	Neutral	0.92	Neutral	0.92
	Australia	EUR / AUD 1.62	Positive	1.56	Negative	1.69
	New-Zealand	EUR / NZD 1.97	Positive	1.90	Neutral	2.00
	Canada	EUR / CAD 1.61	Positive	1.57	Neutral	1.62
	Sweden	EUR / SEK 10.92	Neutral	10.80	Positive	10.60
	Norway	EUR / NOK 10.78	Neutral	10.80	Neutral	10.75
Asia	China	EUR / CNY 7.97	Positive	7.75	Negative	8.16
	India	EUR / INR 112.24	Positive	108.30	Neutral	114.00
Latam	Brazil	EUR / BRL 5.76	Negative	6.04	Negative	6.00
	Mexico	EUR / MXN 20.26	Neutral	19.95	Neutral	20.40

	Country	Spot 12/05/2026	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD 1.17	Negative	1.14	Positive	1.20
	United Kingdom	GBP / USD 1.35	Negative	1.31	Positive	1.38
	Japan	USD / JPY 157.64	Neutral	158.00	Neutral	155.00
	Switzerland	USD / CHF 0.78	Negative	0.81	Neutral	0.77
	Australia	AUD / USD 0.72	Neutral	0.73	Neutral	0.71
	New-Zealand	NZD / USD 0.59	Neutral	0.60	Neutral	0.60
	Canada	USD / CAD 1.37	Neutral	1.38	Neutral	1.35
Asia	China	USD / CNY 6.79	Neutral	6.80	Neutral	6.80
	India	USD / INR 95.64	Neutral	95.00	Neutral	95.00
Latam	Brazil	USD / BRL 4.90	Negative	5.30	Neutral	5.00
	Mexico	USD / MXN 17.26	Neutral	17.50	Neutral	17.00
EMEA	South Africa	USD / ZAR 16.54	Neutral	16.50	Positive	16.00
	USD Index	DXY 98.30	Positive	100.66	Negative	96.23

Source: Refinitiv - BNP Paribas WM

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