APRIL 2024

Currencies Focus

Summary

1. Both the US dollar index (DXY) and the Euro index (EXY) remained quite flat in March. 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. We now expect the Fed and the ECB to initiate rate cuts in June 2024. By the end of the year, we expect both the Fed and the ECB to cut 75bps. Looking ahead we expect the Fed to cut rates more in 2025 than the ECB. We maintain our 3-month target at 1.06 and our 12-month target at 1.15.
3. The Swiss National Bank (SNB) made a surprise cut of its policy rate by 25bp to 1.5%. The CHF fell back from its peak. Looking forward the rate differential should gradually weaken the currency. However, we do not see it moving to parity in 2024. Our EURCHF 3-month target has been reached and we increase it from 0.95 to 0.98. We maintain our 12-month target at 0.98.
4. The Mexican central bank started its rate cutting cycle in March decreasing rates 25bp to 11%, as expected. We expect rates to reach 9.5% late 2024. The MXN has been a good carry trade since the pandemic and pushed the USDMXN (value of one USD) lower than anticipated. The attractiveness of the MXN should weaken as rates decrease. We decrease our USDMXN 3-month target from 18 to 17.5 and maintain our 12-month target at 18.5.

Writing completed on April 8th

Contents

OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 08/04/2024		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1,09	1,06	1,15
	United Kingdom	EUR / GBP	0,86	0,86	0,86
	Switzerland	EUR / CHF	0,98	0,98	0,98
	Japan	EUR / JPY	164,75	154	154
	Sweden	EUR / SEK	11,46	11,00	11,00
	Norway	EUR / NOK	11,60	11,30	10,80
Against dollar	Japan	USD / JPY	151,81	145	134
	Canada	USD / CAD	1,36	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	5,04	5,00	5,00
	India	USD / INR	83,32	82,0	82,0
	China	USD / CNY	7,23	7,20	7,20

Source: Refinitiv - BNP Paribas WM

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USD VIEW >> TARGET 12M VS EUR: 1.15

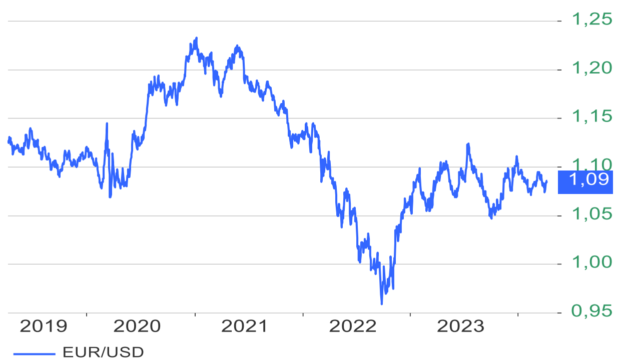
Look for a weaker dollar

The US dollar appreciated 1% against the Euro in March and was trading at around 1.08 as of April 8th.

The Core Consumer Price Index (CPI) Year-on-Year (YoY) came in slightly higher than expected at 3.8%, indicating increased inflationary pressures. Despite this, the Federal Reserve maintained its target rate at 5.25-5.5%, as anticipated. Fed Chair Powell's commentary likely underscored the central bank's commitment to its current monetary policy stance. The PMI Manufacturing activity, exceeded expectations at 52.5 while the Service PMI fell slightly short of expectations at 51.7. Gross Domestic Product (GDP) for Q4 2023 printed higher than expected at 3.4%, indicating stronger-than-anticipated economic growth. Additionally, the core PCE YoY met expectations at 2.5%, suggesting sticky inflation.

In the Eurozone, economic conditions were somewhat less optimistic, with a higher-than-expected unemployment rate at 6.5%. Both the manufacturing and service PMI printed higher than expected at 45.7 and 51.5. Despite more cautious messages from ECB members, there are indications that the Bank is prepared to cut rates in the summer, with June being the most likely meeting. Overall, we expect the Fed and the ECB to initiate rate cuts in June 2024. By the end of the year, we expect both the Fed and the ECB to cut 75bps. In 2025, the Fed is expected to cut another 100bps compared to 75bps for the ECB.

Looking ahead we expect the Fed to cut rates more in 2025 than the ECB. **We maintain our 3-month target at 1.06 and our 12-month target at 1.15 (value of one US dollar). This suggests a gradual depreciation of the USD.**



Source: LSEG Datastream, 09/04/2024

GBP VIEW >> TARGET 12M VS EUR: 0.86

Limited upside

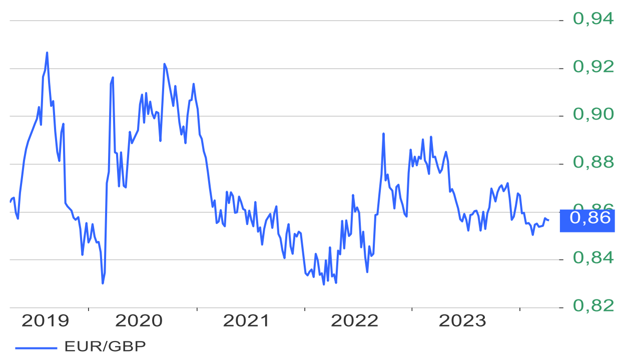
The EURGBP remained flat in March and was trading at around 0.86 as of April 8th.

On March 21st, the Bank of England (BoE) maintained its interest rates at 5.25%, as expected, with Governor Andrew Bailey indicating a cautious approach towards potential rate adjustments. Despite signs of progress in inflation management, the BoE remains vigilant, awaiting more tangible signals before altering its policy guidance.

Core inflation came in lower than expected at 3.4%, signaling cooling inflation dynamics in the UK. This trend was further supported by a decline in GDP YoY in Q4 2023, which contracted by -0.2%, indicating underlying economic challenges. However, in March the Manufacturing PMI exceeded expectations at 50.3, suggesting a more resilient manufacturing sector than anticipated.

Looking ahead, we expect a gradual decline in inflation, supported by cooling food and goods prices. However, the BoE is expected to maintain its policy stance until May, providing clearer signals on the timing of any potential rate adjustments. Overall, the BoE is projected to cut interest rates by 225 basis points over the next two years, a more aggressive stance compared to the ECB's 150 basis point adjustment. That limits the upside for the GBP and we expect a lateral move over the coming months.

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

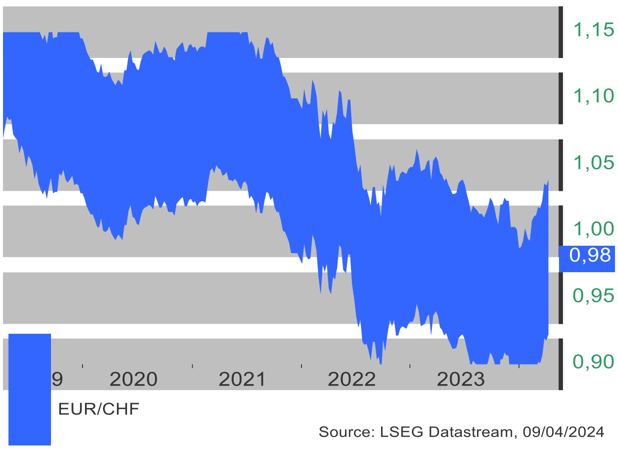
In March, the CHF depreciated 1.6% against the Euro, with the EURCHF trading at around 0.98 as of April 8th. This move follows a sustained depreciation of the CHF since the beginning of the year. On March 21st, the Swiss National Bank (SNB) lowered its policy rate by 25bp to 1.5%, against market expectation. As expected, the policy statement retained the sentence that "The SNB also remains willing to be active in the foreign exchange market as necessary." It also states that "The easing of monetary policy has been made possible because the fight against inflation over the past two and a half years has been effective."

The inflation forecast was lowered to 1.4% in 2024, and to 1.2% and 1.1% in 2025/26.

Additionally, the CPI inflation came in lower than expected at 1%, reflecting subdued inflationary pressures. Despite this, the Manufacturing PMI outperformed expectations, printing at 45.2, suggesting less depressed manufacturing activity than anticipated.

The evolving policy landscape, coupled with Europe's improving economic outlook, suggests a potential for moderate CHF depreciation in the latter half of 2024. However, the likelihood for the EURCHF to reach parity remains low.

Our EURCHF 3-month target has been reached and we increase it from 0.95 to 0.98 (value of one euro). We maintain our 12-month target at 0.98.



Source: LSEG Datastream, 09/04/2024

JPY VIEW >>
TARGET 12M VS USD: 134

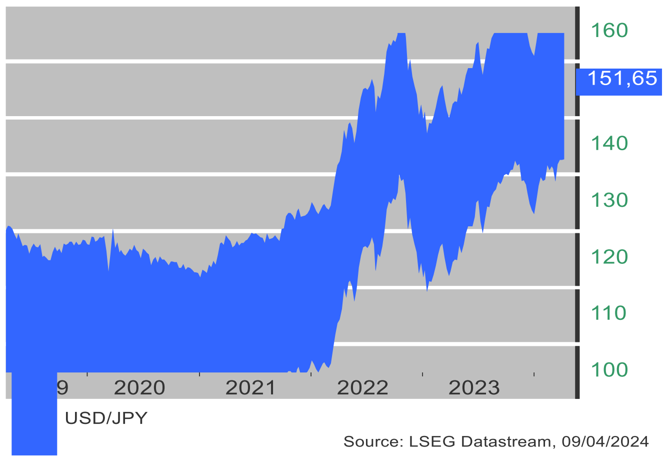
The Yen remains highly undervalued

The JPY depreciated 0.8% against the US dollar in March. As of April 8th, it was trading at around 151.8 (value of one dollar). In March, the BoJ abolished its yield curve control policy for Japanese sovereign bonds, signaling a historic shift in monetary policy. Japan's central bank decision to raise interest rates for the first time since 2007 was helped by major Japanese companies awarding their employees the largest wage increase since 1991, with an average raise of 5.28%. This should support inflation at high levels.

Despite expectations of currency appreciation following a rate hike, the yen weakened following the announcement, suggesting that the current interest rate range remains extremely accommodative and still suitable for carry trades. The Service PMI improved to 54.1 while the Manufacturing PMI remains below the threshold of 50 at 48.2. The unemployment rate saw a slight increase to 2.6%. Moreover, the Tokyo CPI inflation slightly decreased to 2.4%.

While short-term uncertainties persist, the medium to long-term outlook for the yen appears more optimistic, driven by expectations of sustained wage increases and the gradual normalisation of monetary policy.

The outlook for interest rate cuts by key central banks in most industrial countries contribute to a favorable view of the JPY. **We maintain our USDJPY 3-month target at 145 and our 12-month target at 134 (value of one US dollar). This suggests a considerable upside for the Japanese currency.**



Source: LSEG Datastream, 09/04/2024

SEK VIEW >>
TARGET 12M VS EUR: 11

Close to target level

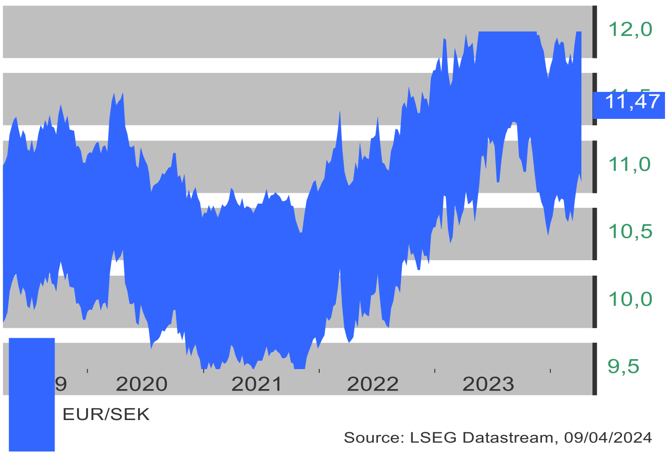
The SEK depreciated 2.5% against the Euro, trading at around 11.5 as of April 8th.

On March 27th, Sweden's central bank (Riksbank) maintained its policy rate at 4%, in line with expectations. Despite expectations of a dovish shift in forward guidance and potential rate cuts, the Riksbank's decision suggests a cautious approach to monetary policy adjustments. Additionally, the unemployment rate remained unchanged at 8.5%. The manufacturing PMI reached the 50 threshold in April for the first time in 19 months, Furthermore, although retail sales are picking up slightly at 0.3%, core inflation came in lower than expected at 3.5%, and the CPI at 4.5%.

The near-term movements in the EURSEK rate will be influenced by the anticipated easing of monetary policy in the Eurozone before Sweden.

Since the beginning of the year, markets have been pricing a higher for longer scenario and less rate cuts by the Riksbank relative to the ECB. This should be a tailwind for the SEK on a one-to-two-year horizon.

We maintain our 3- and 12-month targets at 11 (value of one Euro), indicating a small appreciation of the Swedish krona.



Source: LSEG Datastream, 09/04/2024

NOK VIEW >>
TARGET 12M VS EUR: 10.80

Upside potential

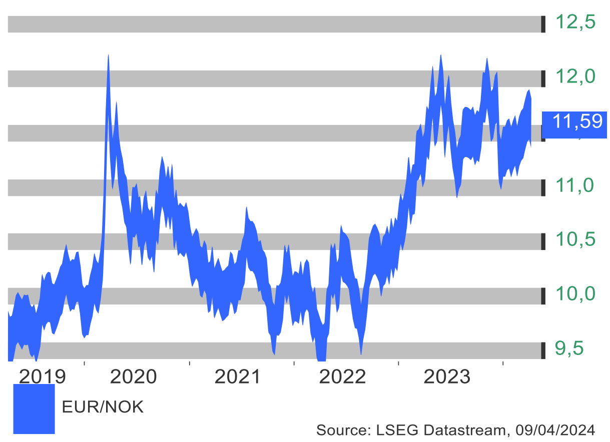
In April, the Norwegian Krone (NOK) experienced a depreciation of 2.4% against the Euro, the EURNOK trading at around 11.6 (value of one euro) as of April 8th.

On March 21st, the Norges Bank maintained its key policy rate at 4.5%, as expected. The central bank's decision suggests a cautious approach to monetary policy adjustments, considering factors such as inflationary pressures, wage dynamics, and economic conditions.

The CPI and Core CPI inflation in Norway came in lower than expected at 4.5% and 4.9%, respectively, signaling a moderation in inflationary pressures compared to previous forecasts.

Regional unemployment in Norway remained stable at 2%, in line with expectations. In April Norway's employers and two industrial trade unions clinched an agreement on wages with the help of the state mediator, averting a wide-ranging strike. They agreed on a wage increase of 5.2%. This could support inflation and avert rate cuts in the short term. Looking ahead, we expect less rate cuts from the Norges bank than the Riksbank and thus also less than the ECB. Hence, implying a stronger NOK and a reversal in the EURNOK trend.

We maintain our 3-month target for **the NOK at 11.3 and our 12-month target at 10.8 (value of one euro). This suggests an appreciation for the NOK in the coming months.**



Source: LSEG Datastream, 09/04/2024

AUD VIEW >>
TARGET 12M VS USD: 0.70

Appreciation potential in 2024

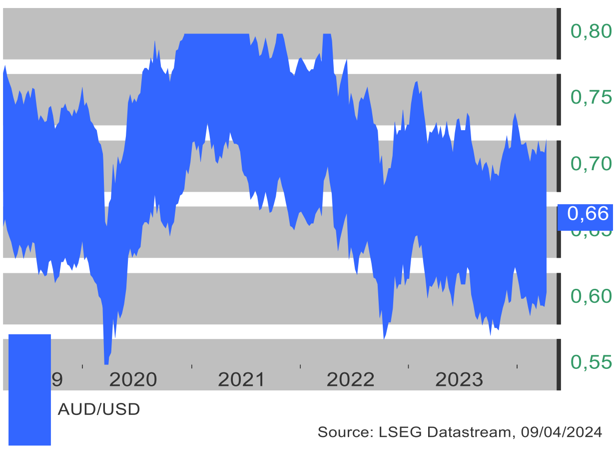
In March, the Australian dollar (AUD) depreciated 0.7% against the US dollar. It was trading at around 0.65 as of April 8th.

On March 19th, the Reserve Bank of Australia (RBA) maintained rates at 4.35%, for the third meeting in a row, as expected. The Govervor of the Central bank commented "We're making progress in our fight against inflation, but it does remain high,". Inflation printed 3.4%, still far from the target range of 2%-3%.

The manufacturing PMI printed 47.3 for the month of March and the service PMI stood at 54.4. The final figure for the real GDP for Q4 2023 printed higher than expected at 1.5% year-on-year. Excluding population growth, economic activity per person contracted 1% from a year earlier, the worst result apart from the Covid pandemic period since the 1990s. The unemployment rate decreased to 3.7%, lower than expected.

Despite these factors, the RBA's policy rate points to a cautious approach towards the economic outlook and inflation trajectory. Looking ahead the yield differential will still favor the AUD as we expect rate cuts in the US.

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

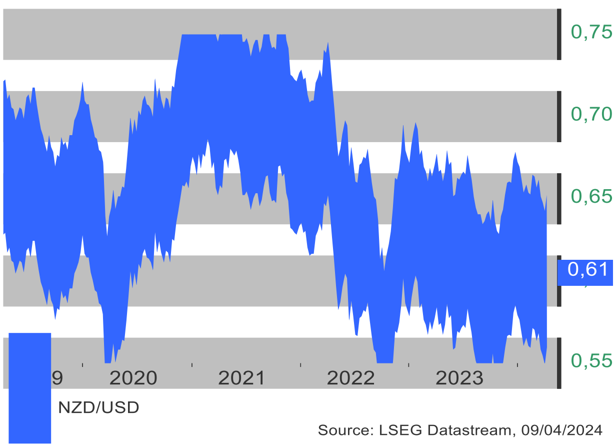
The upside is more limited

In March, the New Zealand dollar (NZD) depreciated 2.5% against the US dollar. As of April 8th, it was trading at around 0.60 (value of one dollar).

New Zealand entered a technical recession (two consecutive quarters of negative growth). Gross domestic product (GDP) fell 0.1 per cent in the last quarter 2023. The economy shrank despite record migration levels and population growth. GDP per capita fell 0.7 per cent in the last three months of the year, and real gross national disposable income fell 1.4 per cent. The manufacturing PMI printed 49.3. The current account remains negative. The headline inflation came in at 4.7% in Q4 2023, down from 5.8% in the previous quarter.

We expect the NZD to appreciate against the USD over the coming year. Mainly due to expectations of more easing by the Fed relative to the RBNZ. The rate effect should be less strong compared to Australia. The appreciation potential is thus also less important.

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

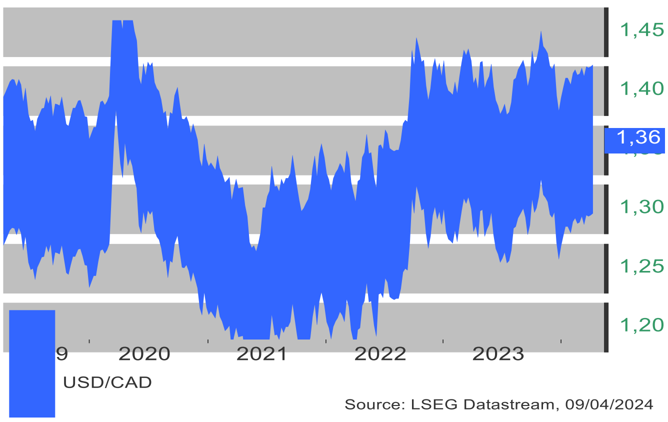
Some appreciation potential

In March, the Canadian dollar (CAD) remained flat against the US dollar. As of April 8th, it was trading at around 1.35 (value of one dollar). The Bank of Canada (BoC) maintained the interest rate at 5% on March 6th, marking the 6th consecutive meeting without a change. Governor Macklem emphasized that the bank is not considering lowering rates at the pace they were raised, providing insight into the central bank's monetary policy stance.

Canada's trade balance was reported higher than expected, showing a positive trade performance that could contribute to economic growth. However, the core CPI inflation decelerated slightly to 2.1%, suggesting some moderation in inflationary pressures. The Manufacturing PMI in Canada stood at 49.8. This could pose challenges to economic growth if the trend persists.

Overall, the stability of the CAD against the USD reflects a balanced economic environment with mixed indicators. The yield differential between Canada and the US should favor the CAD as the BoC should undertake fewer rate cuts compared to the Fed.

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.



Source: LSEG Datastream, 09/04/2024

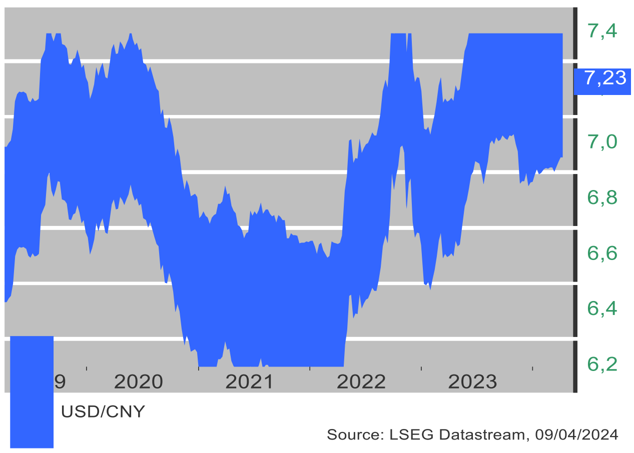
CNY VIEW >>
TARGET 12M VS USD: 7.2

No clear trend

In March, the Chinese Yuan (CNY) depreciated 0.5% against the US dollar. As of April 8th, it was trading at around 7.2. The People's Bank of China (PBoC) maintained the 1-year loan prime rate at 3.45% and the 5-year loan prime rate at 3.95%, in line with market expectations. The Manufacturing PMI in China surpassed expectations, standing at 51.1. Similarly, the Service PMI recorded a robust reading of 52.7. These positive PMI figures suggest resilience and momentum in both sectors of the Chinese economy.

Retail sales in China exceeded expectations, growing at a rate of 5.5% YoY. This robust retail performance suggests a positive outlook for domestic consumption. After a period of deflationary pressures, inflation in China has started to increase, reaching 0.7% year-on-year, which was higher than expected. Overall, the slight depreciation of the CNY against the USD does not reflect the dynamic economic landscape influenced by both domestic and global factors. While positive PMI figures and strong retail sales signal resilience, inflationary pressures and monetary policy decisions remain key drivers of the CNY's performance. Such divergence in monetary policy trajectories between China and the United States might limit the appreciation potential for the CNY in the near term.

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.



Source: LSEG Datastream, 09/04/2024

MXN VIEW >>
TARGET 12M VS USD: 18.50

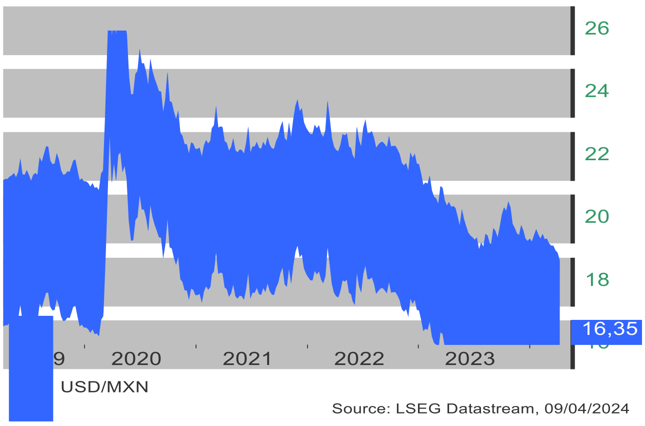
Weakening ahead

In March, the Mexican Peso (MXN) appreciated 2.7% against the US dollar. As of April 8th, it was trading at around 16.5 (value of one US dollar).

On March 21st, the Mexican central bank started its rate cutting cycle decreasing rates 25bp to 11%, as expected. The inflation came in at 4.40%, which was lower than expected, indicating a slightly subdued inflationary environment. Additionally, the Producer Price (PPI) inflation remained steady at 1.4%, suggesting stable pricing in the production sector. The manufacturing PMI in Mexico recorded a strong reading of 52.2, indicating continued expansion and resilience in the manufacturing sector. This positive trend underscores the ongoing stability and growth potential of the Mexican economy, particularly supported by nearshoring trends and robust GDP growth.

Looking ahead, upcoming elections in Mexico and the United States may introduce volatility risks that could impact the MXN's performance. The central bank is expected to maintain a prudent approach to easing rates, with gradual rate cuts of 25 basis points, considering the inflation risks. We expect rates to reach 9.5% late 2024. The attractiveness of the MXN should fall as rates decrease.

We decrease our USDMXN 3-month target from 18 to 17.5 and maintain our 12-month target at 18.5. This suggests a depreciation of the MXN.



Source: LSEG Datastream, 09/04/2024

BRL VIEW >>
TARGET 12M VS USD: 5.0

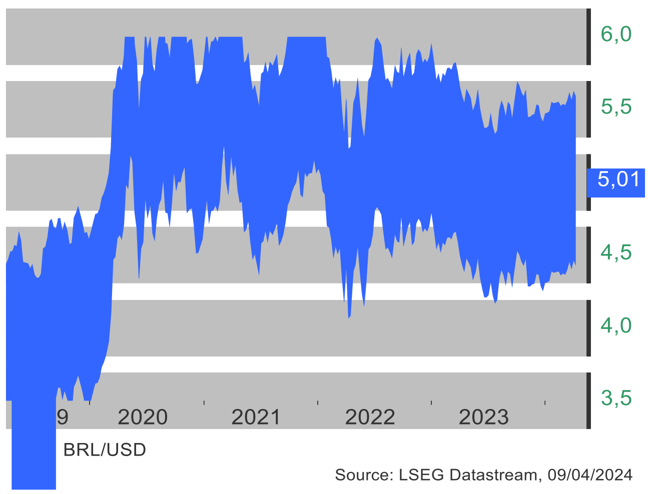
Target reached.

In March, the Brazilian real (BRL) depreciated 1.2% against the US dollar. As of April 8th, it was trading at around 5. This movement reflects ongoing economic adjustments and policy responses. On March 20th, the central bank (BCB) lowered its policy rate by 50 basis points to 10.75%, in line with market expectations. However, there was a notable change in forward guidance, indicating only one more rate cut of the same magnitude, effectively altering the previous guidance.

Despite the BCB's easing measures, the current account was lower than expected, recording a deficit. However, the manufacturing PMI remained robust at 53.6, signaling underlying strength in the sector and supporting broader economic stability. Additionally, the service PMI showed resilience, posting a strong reading of 54.8.

Looking forward, we expect the BCB to maintain a 50bp-per-meeting pace of cuts the coming months until a final 25bp cut in September. We expect it to show some caution due to high and volatile rates, as well as local factors. With Inflation and inflation expectations above target, combined with looser fiscal policy, this could require the BCB to maintain high rates in 2025.

We maintain our 3-month and 12-month exchange rate targets for the USD/BRL at 5.



Source: LSEG Datastream, 09/04/2024

INR VIEW >>
TARGET 12M VS USD: 82

Close to target

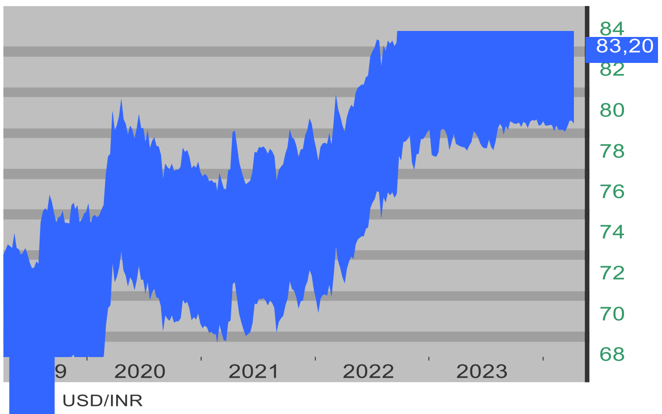
In March, the Indian rupee (INR) depreciated by 0.6% against the US dollar, trading at around 83 as of April 8th.

The Reserve Bank of India (RBI) has kept rates unchanged at 6.50% for eight consecutive meetings, prioritizing the country's economic performance. However, with India entering election season in mid-April, the RBI's focus on maintaining a stable rupee might continue in the short term. We see the RBI adopting a more relaxed stance once election results are clear and the Fed starts cutting rates.

In March, the Consumer Price Index inflation remained slightly higher than anticipated at 5.09%. On the bright side, both the Manufacturing and Service Purchasing Managers' Index (PMI) remained elevated at 59.1 and 61.2, respectively, indicating sustained expansion for the past three years.

Overall, We do not expect increased volatility for the pair prior the June elections. Overall, these developments suggest that the upside potential for the Indian currency is rather low.

We maintain our 3- and 12-month target at 82 (value of one dollar).



Source: LSEG Datastream, 09/04/2024

ZAR VIEW >>
TARGET 12M VS USD: 17.5

Moderate upside this year

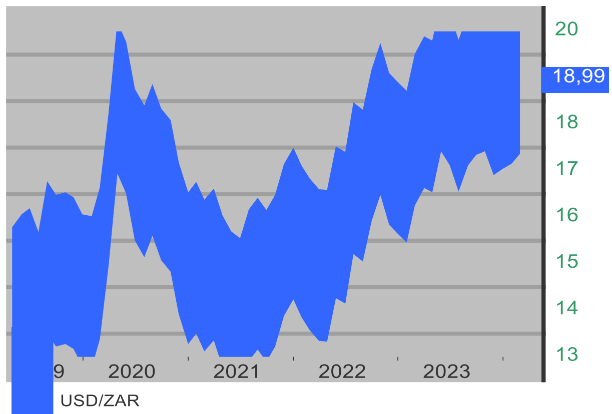
In March, the South African Rand (ZAR) experienced a modest appreciation of 0.5% against the US dollar, trading at around 18.6 as of April 8th.

The central bank stance has evolved. Previously, there were expectations of a rate cut by May, but due to increased election-related noise, the central bank is now expected to delay its rate cut until July 18th. The decision to keep its repo rate at 8.25% and loan prime rate at 11.75% on March 27th unchanged reflects the SARB's prioritization of containing inflation. This remains a concern for the economy. High-interest rates continue to affect credit growth, with reports indicating a slowdown in loan demand growth by companies and households.

The Producer Price Index (PPI) inflation came in at 4.5%, lower than expected, while the Consumer Price inflation surprised on the upside at 5.6%. The GDP for the fourth quarter of 2023 surpassed expectations, growing at 1.2%. Infrastructure challenges, particularly in electricity and transportation, persist and may impact economic stability.

Over the next two years, markets are expecting less rate cuts compared to the US Fed. This should support the ZAR.

We maintain our 3-month target to 18 and keep our 12-month target to 17.5.



Source: LSEG Datastream, févr. 24

	Country		Spot 08/04/2024	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1,09	Positive	1,06	Negative	1,15
	United Kingdom	EUR / GBP	0,86	Neutral	0,86	Neutral	0,86
	Japan	EUR / JPY	164,75	Positive	154	Positive	154
	Switzerland	EUR / CHF	0,98	Neutral	0,98	Neutral	0,98
	Australia	EUR / AUD	1,64	Positive	1,56	Neutral	1,64
	New-Zealand	EUR / NZD	1,80	Neutral	1,77	Neutral	1,83
	Canada	EUR / CAD	1,47	Positive	1,40	Neutral	1,50
	Sweden	EUR / SEK	11,46	Positive	11,00	Positive	11,00
	Norway	EUR / NOK	11,60	Positive	11,30	Positive	10,80
Asia	China	EUR / CNY	7,85	Positive	7,63	Negative	8,28
	India	EUR / INR	90,42	Positive	86,92	Negative	94,30
Latam	Brazil	EUR / BRL	5,47	Positive	5,30	Negative	5,75
	Mexico	EUR / MXN	17,76	Negative	18,55	Negative	21,28

	Country		Spot 08/04/2024	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1,09	Negative	1,06	Positive	1,15
	United Kingdom	GBP / USD	1,26	Negative	1,23	Positive	1,34
	Japan	USD / JPY	151,81	Positive	145,00	Positive	134,00
	Switzerland	USD / CHF	0,90	Negative	0,92	Positive	0,85
	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	1,36	Positive	1,32	Positive	1,30
Asia	China	USD / CNY	7,23	Neutral	7,20	Neutral	7,20
	India	USD / INR	83,32	Neutral	82,00	Neutral	82,00
Latam	Brazil	USD / BRL	5,04	Neutral	5,00	Neutral	5,00
	Mexico	USD / MXN	16,36	Negative	17,50	Negative	18,50
EMEA	South Africa	USD / ZAR	18,64	Positive	18,00	Positive	17,50
	USD Index	DXY	104,14	Neutral	105,00	Negative	97,40

Source: Refinitiv - BNP Paribas WM

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