MARCH 2024

Currencies Focus

Summary

1. The US dollar index (DXY) increased 1% and the Euro index (EXY) remained flat in February. FX volatility is weakening somewhat, especially in EM currencies. The market is positioning for wider swings as elections in the US approach (November 2024).
2. We expect the Fed and the ECB to initiate rate cuts in June 2024. By the end of the year, we expect the Fed to cut 100bps and the ECB to cut 75bps both this and next year. This forecast suggests a narrowing interest rate differential between the USD and Euro, potentially exerting downward pressure on the USD. **We maintain our EURUSD 3-month target at 1.06 and our 12-month target at 1.15.**
3. Bank of Japan (BoJ) board member Hajime Takata said the central bank's price target is finally coming into sight. On top of that the slightly higher than expected core CPI print at 2% y/y supports the case for the BoJ to end its negative interest rate policy. We will closely monitor the spring wage negotiation - Rengo's preliminary outcome will be out on March 15. **That should be supportive for the Yen and we maintain our USDJPY 3-month target at 145 and our 12-month target at 134 (value of one US dollar).**
4. In China, the loan prime rate 5Y – the peg for most mortgages - was decreased from 4.20% to 3.95% which came as a surprise in hope to boost the real estate market. **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.**

Writing completed on March 8th

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OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 07/03/2024		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1,09	1,06	1,15
	United Kingdom	EUR / GBP	0,85	0,86	0,86
	Switzerland	EUR / CHF	0,96	0,95	0,98
	Japan	EUR / JPY	161,91	154	154
	Sweden	EUR / SEK	11,19	11,00	11,00
	Norway	EUR / NOK	11,40	11,30	10,80
Against dollar	Japan	USD / JPY	148,14	145	134
	Canada	USD / CAD	1,35	1,32	1,30
	Australia	AUD / USD	0,66	0,68	0,70
	New Zealand	NZD / USD	0,62	0,60	0,63
	Brazil	USD / BRL	4,93	5,00	5,00
	India	USD / INR	82,79	82,0	82,0
	China	USD / CNY	7,20	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 0.6% in February versus the euro and was trading at around 1.09 as of March 8th. In February, the US economic figures were broadly positive despite the core PPI signaling increased production costs, and the core CPI's rising to 3.1%, both higher than expected. The Core PCE year-on-year met expectations at 2.8%. The PMI business surveys both suggest expansion with the manufacturing PMI at 52.2 and the service PMI at 52.3. The unemployment rate increased to 3.9%, alleviating wage pressures. Overall, the US economic surprise index remains positive at +25 but fell back recently.

In the Eurozone, the unemployment rate held steady at 6.4%. The positive momentum is further evidenced by the manufacturing and service PMI readings, surpassing expectations at 46.5 and 50, respectively. Despite the headline inflation aligning with forecasts at 2.8%, the core inflation was slightly higher than expected at 3.1% year-over-year. On March 7th, the ECB maintained deposit rate at 4%, as expected. Markets are now expecting first rate cuts in June as we do. The key risks to the prevailing bearish outlook on the dollar include geopolitical uncertainties and potential upside surprise on inflation.

Looking ahead, we expect the Fed and the ECB to initiate rate cuts in June 2024. We expect the Fed to cut 100bps and the ECB to cut 75bps both this and next year. This scenario, coupled with the purchasing power parity estimates, suggests that dollar is overvalued and suggest a depreciation of the US dollar versus the Euro. **We maintain our EURUSD 3-month target at 1.06 and our 12-month target at 1.15 (value of one euro).**

Source: LSEG Datastream, 07/03/2024

GBP VIEW >> TARGET 12M VS EUR: 0.86

Limited downside

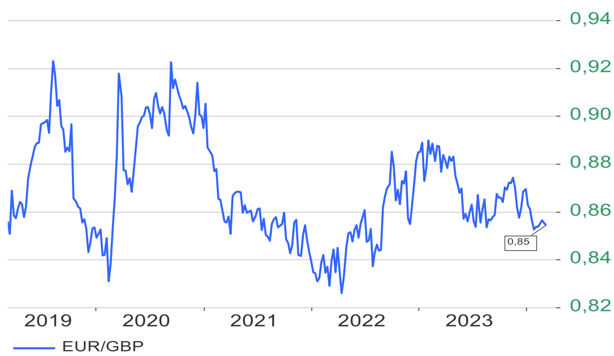
The GBP depreciated about 0.5% against the Euro in February and was trading at around 0.85 as of March 8th. On February 1st, the Bank of England's (BoE) maintained rates at 5.25% and pivoted towards flexibility regarding rate adjustments.

The UK's inflation dynamic is cooling, with core CPI at 4% in January, lower than anticipated. This easing aligns with a modest reduction in unemployment rates to 3.8%, suggesting a persisting tight labour market. However, the UK's GDP contraction by 0.2% in Q4 indicates underlying economic challenges. These are reflected in the manufacturing sector's PMI at 47.5 while the service sector appears more buoyant with a PMI of 54.3 (a value above 50 suggests expansion and vice versa).

So far, the Labour Party is leading the polls for the January 2025 elections. The latter will not change the fiscal policy outlook. Hence, we should not see large fluctuations in the GBP.

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.

Considering these factors, we foresee a potential weakening of the GBP. Nonetheless, **we maintain our EURGBP 3-month and 12-month targets at 0.86 (value of one euro).**



Source: LSEG Datastream, 07/03/2024

CHF VIEW >>
TARGET 12M VS EUR: 0.98

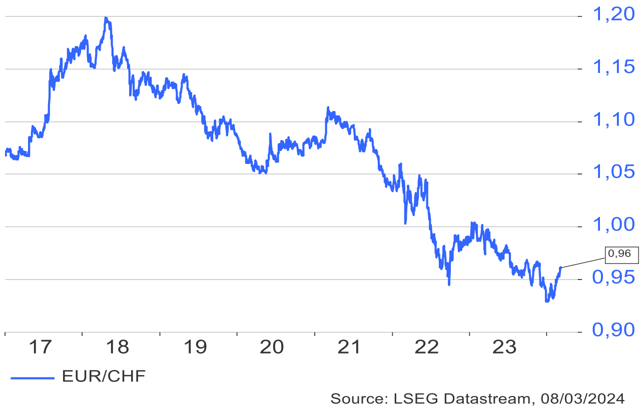
Limited downside

In February, the Swiss Franc (CHF) depreciated 2.7% against the Euro, with the EURCHF trading at around 0.96 as of March 8th. Despite the Swiss National Bank's (SNB) stable policy rate at 1.75%, unexpected inflation dynamics and policy shifts have influenced the CHF's trajectory. Notably, the CPI rose to 1.2% year-on-year. Looking ahead we expect inflation to pick up moderately on the back of a combination of higher energy and goods inflation.

The KOF economic barometer slightly decreased to 101.6, but still signaling a positive outlook on the Swiss economy. The Swiss Manufacturing PMI's however continued to suggest contraction. The unemployment rate, now at 2.2% suggests some loosening in the labour market. Additionally, the upcoming departure of SNB Chairman Thomas Jordan introduces an element of uncertainty regarding future monetary policy direction. Recent policy changes, tax reforms, and geopolitical tensions have contributed to the CHF's performance. The SNB's decision to step back from FX sales, while maintaining readiness to intervene in the forex market, underscores a strategic recalibration.

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

We maintain our 3-month target from at 0.95 and our 12-month target at 0.98 (value of one euro).



JPY VIEW >>
TARGET 12M VS USD: 134

Major upside

In February, the Japanese yen depreciated 2.5% against the US dollar. As of March 8th, the JPY was trading at around 147 (value of one dollar). The Bank of Japan's (BoJ) maintained its negative interest rate stance, coupled with close monitoring of financial market movements by BoJ Governor Kuroda and Finance Minister Suzuki, highlights a cautious approach to monetary policy.

Despite the JPY's recent flat performance against the dollar, core CPI in Japan printed 2%, higher than expected. Additionally, the manufacturing sector suggests further contraction with the PMI dropping to 47.2, while the service PMI increased to 52.9. The trade balance remained deeply negative at -1760.3 billion JPY, underscoring economic challenges.

The upcoming review Rengo (spring wage negotiations) on March 15th are eagerly awaited for potential shifts in monetary policy, especially with speculation about an exit from negative interest rate policy and changes to the Yield Curve Control strategy. These developments could significantly impact the yen's value against other major currencies. Despite the short-term uncertainties, the medium to long-term outlook for the yen appears more optimistic. Expectations of policy adjustments and interest cuts from key central banks contribute to a favorable view of the JPY's future trajectory.

We maintain our USDJPY 3-month target at 145 and our 12-month target at 134 (value of one US dollar).

SEK VIEW >>
TARGET 12M VS EUR: 11

Look for a stabilization

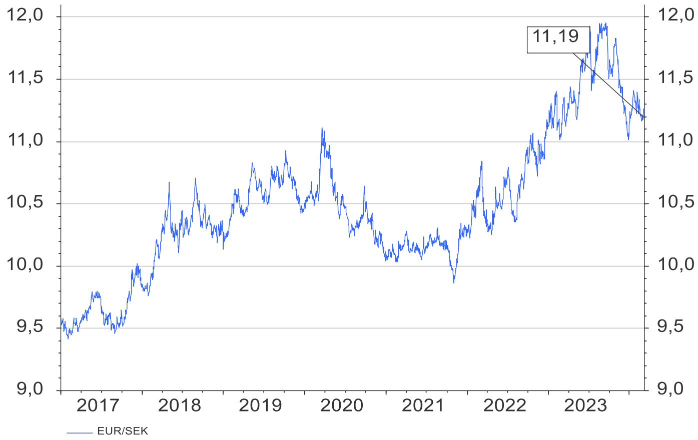
In February, the Swedish Krona (SEK) appreciated 0.4% against the Euro, trading at around 11.15 as of March 8th. This development came despite the central bank's decision to hold the policy rate steady at 4.0% in its latest meeting. The dovish shift in forward guidance suggests the potential for earlier rate cuts, possibly mid-2024.

Consumer confidence in Sweden has gradually increased to 82.7. Inflation in January was reported at 5.4%, higher than expected, diverging from the Riksbank's more conservative inflation forecast. Meanwhile, the unemployment rate has risen to 8.5%, which could help alleviate pressure on inflation.

The manufacturing sector's PMI improved to 49 in February, yet it remains below the growth-indicative threshold of 50 for the 19th consecutive month. This sustained period of contraction underscores the challenges faced by the Swedish manufacturing industry.

Overall, the Riksbank's monetary policy stance and the global economic evolution will be pivotal for the SEK's trajectory. While near-term movements in the EURSEK rate may be influenced by the anticipated easing of monetary policy in the Eurozone before Sweden.

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



NOK VIEW >>
TARGET 12M VS EUR: 10.80

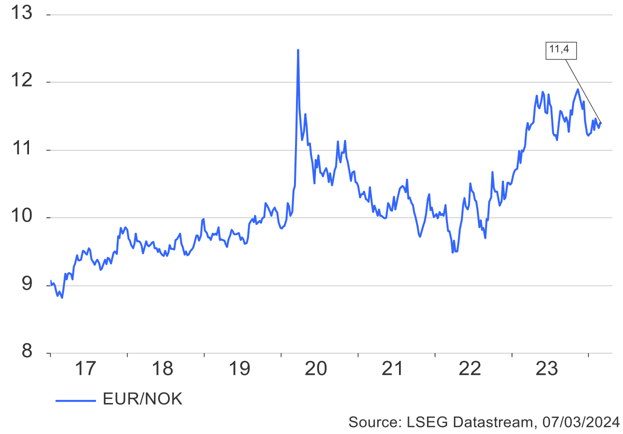
Positive outlook

In February, the Norwegian Krone (NOK) depreciated 0.5% against the Euro, trading at around 11.35 as of March 8th. Core CPI inflation in Norway came in at 5.3%, exceeding expectations and indicating persistent inflationary pressures. However, the country's GDP growth in Q4 showed a solid performance at 1.5%. The housing market also showed stability, with a 1.4% year-on-year increase in housing prices.

The manufacturing PMI in Norway improved to 51.9. The details within the PMI report, such as rises in new orders, employment, and output, alongside decreases in purchasing prices and inventory levels, suggest an overall positive momentum. The easing of suppliers' delivery times is particularly encouraging, reflecting likely alleviations in supply chain issues rather than a reduction in demand.

Regional unemployment in Norway showed a slight increase to 2.1%. Upcoming wage talks (every year in March) are crucial for Norges Bank given fears of a wage spiral. Additionally, workers' rights (e.g. parental leave and working hours) are negotiated. This suggests domestic inflation will prove somewhat sticky. Given these economic conditions and the market expectation that the ECB may cut rates more aggressively than Norges Bank, this will provide underlying support for the NOK.

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 a moderate appreciation for the NOK.



AUD VIEW >>
TARGET 12M VS USD: 0.70

Appreciation potential in 2024

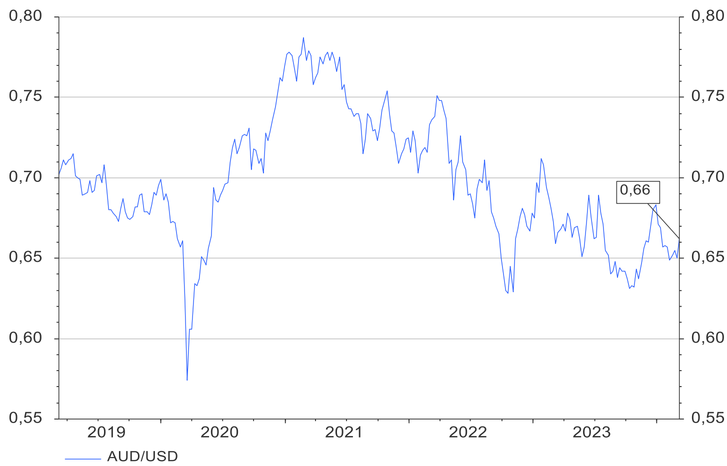
In February, the Australian dollar (AUD) depreciated 0.6% against the US dollar, adjusting to around 0.66 as of March 8th. This came despite the Reserve Bank of Australia (RBA) holding the cash rate steady at 4.35%.

The inflation rate in Australia softened to 3.6%, which could be interpreted as a sign that inflationary pressures are moderating. However, the unemployment rate ticked up slightly to 4.1%.

The decision by OPEC+ to extend supply cuts until mid-2024 could have broader implications for global commodity prices, potentially benefiting the AUD given Australia's status as a commodity-exporting nation.

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 more 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 more upside for the AUD.



Source: LSEG Datastream, 07/03/2024

NZD VIEW >>
TARGET 12M VS USD: 0.63

The upside is more limited

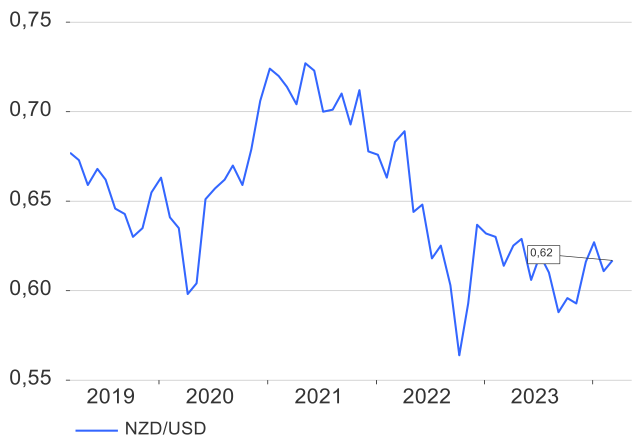
The New Zealand dollar (NZD) depreciated 0.6% against the US dollar in February. As of March 8th, it was trading at around 0.62 (value of one NZD).

The Reserve Bank of New Zealand (RBNZ) reaffirmed its monetary stance by maintaining the official cash rate at 5.5% for the sixth consecutive time, signaling a continued cautious approach toward the economic and inflationary outlook.

Despite a challenging economic landscape, as evidenced by the annual trade deficit narrowing slightly to -12.50B NZD, there are emerging signs of industrial resilience. The Manufacturing PMI increased to 47.3, suggesting some sectors may be starting to stabilise or recover.

The NZD's future trajectory will likely hinge not just on domestic factors but also on broader global currency dynamics, particularly movements in the USD. 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.



Source: LSEG Datastream, 08/03/2024

CAD VIEW >>
TARGET 12M VS USD: 1.30

Some appreciation potential

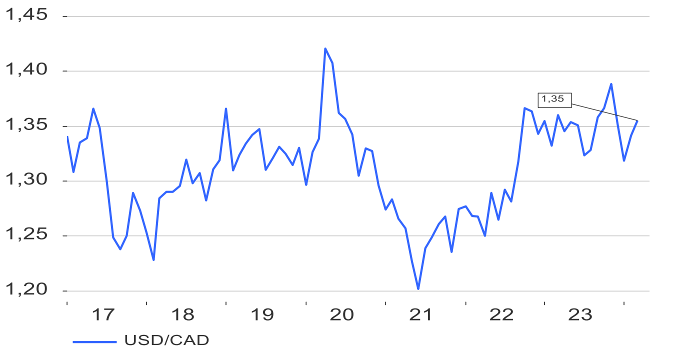
In February, the Canadian dollar (CAD) depreciated 1.4% against the US dollar. As of March 8th , it was trading at around 1.34.

The Bank of Canada (BoC) maintained its interest rate at 5% on March 6th, marking the 6th consecutive time without a change. Macklem said “"very safe to say we are not going to be lowering rates at the pace we raised them.". The part "Core measures not showing sustained declines" was dropped from the statement.

Canada's core CPI has slightly decelerated to 2.4%, and the unemployment rate has dropped to 5.7%, signaling a robust labor market. The full impact of previous rate hikes continues to extend to the economy, particularly through the mortgage market, where increasing numbers of borrowers face rate resets. This situation is likely to exert additional pressure on household finances, potentially curbing consumer spending and easing inflationary pressures further.

The yield differential between Canada and the US should favor the CAD as the BoC should undertake fewer rate cuts compared to the Fed. This perspective underpins the relative strength of the CAD. The recent OPEC+ supply cuts (about 2m barrel per day until June) should support oil prices and be a tailwind for the CAD.

We maintain our 3-month target for the CAD at 1.32 and our 12-month forecast at 1.30 (value of one USD).



Source: LSEG Datastream, 07/03/2024

CNY VIEW >>
TARGET 12M VS USD: 7.2

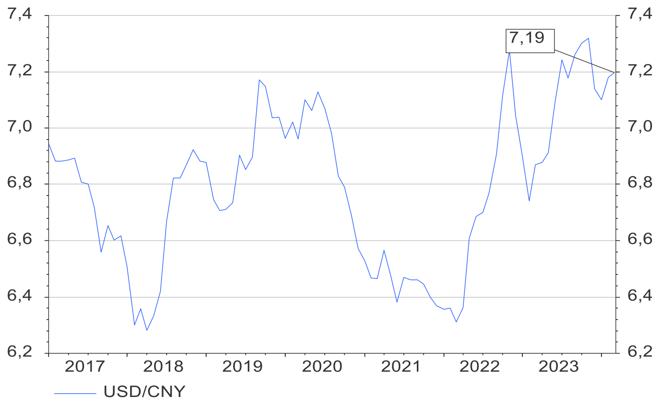
Flat evolution

In February, the Chinese Yuan (CNY) depreciated 1.4% against the US dollar, reflecting ongoing economic challenges and policy interventions by the People's Bank of China (PBoC). As of March 8th, it was trading at around 7.2. In February, both the Caixin manufacturing and service PMI indicated a marginal improvement to 50.9 and 52.5, suggesting resilience in the manufacturing sector, the broader economic context remains complex, with the PPI for January showing a decrease of 2.5%, highlighting deflationary pressures.

In a significant move, the PBoC reduced the 5-year loan prime rate from 4.20% to 3.95%, exceeding market expectations. This cut is aimed at revitalizing the real estate sector, a critical component of the Chinese economy facing considerable stress.

These monetary easing efforts, while supportive of domestic growth, could potentially weaken the CNY, especially compared to the anticipated major rate cuts by the Federal Reserve. Such divergence in monetary policy trajectories between China and the United States might limit any appreciation momentum 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, 07/03/2024

MXN VIEW >>
TARGET 12M VS USD: 18.50

Weakening ahead

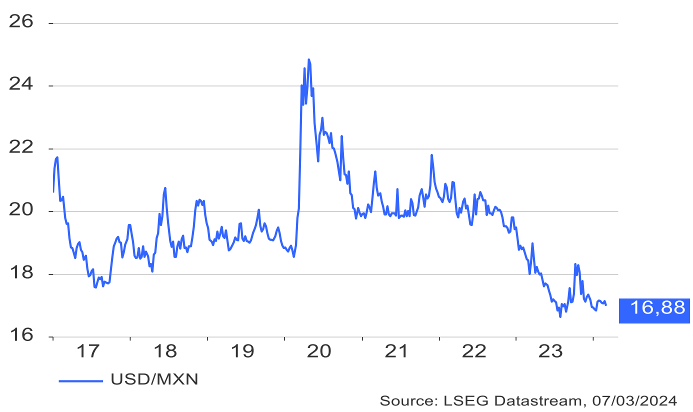
In February, the Mexican Peso (MXN) appreciated 0.4% against the US dollar. As of March 8th, the USDMXN was trading at around 16.9 (value of one US dollar).

The manufacturing sector in Mexico displayed a robust performance with the PMI increasing to 52.3, suggesting expansion and resilience in the sector. This positive trend in the manufacturing sector, alongside a stronger than expected GDP growth of 2.5% for Q4 2023, underlines the potential for economic stability and growth, supported by nearshoring trends.

Banxico's shift in communication indicates a more open stance toward potential rate adjustments in the upcoming meetings. Inflation printed lower than expected at 4.4% and the PPI increased to 1.4%.

Upcoming electoral events in Mexico and the United States pose potential volatility risks, which could impact the currency's performance.

We maintain our 3-month target at 18 (value of one USD) and our 12-month target at 18.5. This suggests some downside for the MXN this year.



BRL VIEW >>
TARGET 12M VS USD: 5.0

Target reached.

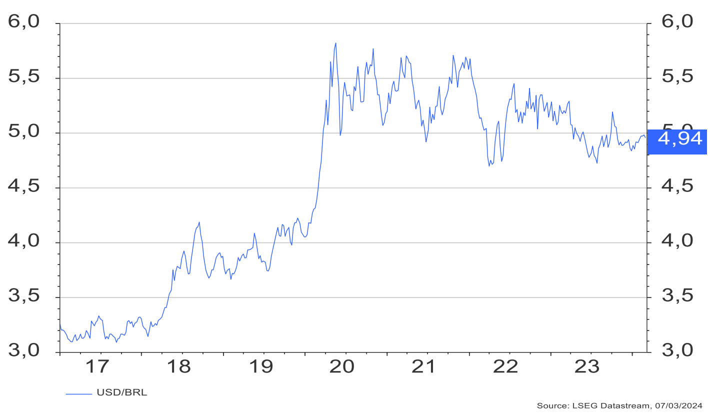
In February, the Brazilian real (BRL) depreciated 0.7% against the US dollar, trading around 4.9 as of March 8th.

This movement reflects continued economic adjustments and policy responses, particularly from the Central Bank of Brazil (BCB). The BCB's decision to reduce the policy rate by an additional 50 basis points, with indications of maintaining this rate cut pace in the next two meetings barring any significant economic shifts, aligns with efforts to stimulate economic growth. These policy shifts will help offset the disappointing Q4 GDP growth 2.1%, which was lower than expected.

Despite the BCB's easing measures, inflation nudged upwards to 4.51% and was higher than expected. The robust manufacturing PMI at 54.1 points to underlying sectoral strength, which could support broader economic stability.

Additionally, the labor market shows resilience, with a lower-than-anticipated unemployment rate of 7.6% and solid employment growth across various sectors, contributing positively to economic sentiments.

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



Region	Country	Pair	Spot 07/03/2024	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	0,85	Neutral	0,86	Neutral	0,86
	Japan	EUR / JPY	161,91	Positive	154	Positive	154
	Switzerland	EUR / CHF	0,96	Neutral	0,95	Neutral	0,98
	Australia	EUR / AUD	1,65	Positive	1,56	Neutral	1,64
	New-Zealand	EUR / NZD	1,77	Neutral	1,77	Negative	1,83
	Canada	EUR / CAD	1,47	Positive	1,40	Neutral	1,50
	Sweden	EUR / SEK	11,19	Neutral	11,00	Neutral	11,00
	Norway	EUR / NOK	11,40	Neutral	11,30	Positive	10,80
Asia	China	EUR / CNY	7,87	Positive	7,63	Negative	8,28
	India	EUR / INR	90,48	Positive	86,92	Negative	94,30
Latam	Brazil	EUR / BRL	5,39	Neutral	5,30	Negative	5,75
	Mexico	EUR / MXN	18,45	Negative	19,08	Negative	21,28

Region	Country	Pair	Spot 07/03/2024	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	1,28	Negative	1,23	Positive	1,34
	Japan	USD / JPY	148,14	Positive	145,00	Positive	134,00
	Switzerland	USD / CHF	0,88	Neutral	0,90	Positive	0,85
	Australia	AUD / USD	0,66	Positive	0,68	Positive	0,70
	New-Zealand	NZD / USD	0,62	Negative	0,60	Positive	0,63
	Canada	USD / CAD	1,35	Positive	1,32	Positive	1,30
Asia	China	USD / CNY	7,20	Neutral	7,20	Neutral	7,20
	India	USD / INR	82,79	Neutral	82,00	Neutral	82,00
Latam	Brazil	USD / BRL	4,93	Neutral	5,00	Neutral	5,00
	Mexico	USD / MXN	16,88	Negative	18,00	Negative	18,50
EMEA	South Africa	USD / ZAR	18,70	Positive	18,00	Positive	17,50
	USD Index	DXY	102,82	Positive	104,88	Negative	97,40

Source: Refinitiv - BNP Paribas WM

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