FEBRUARY 2024

Currencies Focus

Summary

1. The US dollar index (DXY) increased about 2% and the Euro index decreased around 2% in January. The US dollar currency volatility index decreased in January to 7.34.
2. We believe both the Fed and the ECB have reached their terminal rate at 5.5% and 4% respectively. Looking ahead we project a dovish shift in monetary policy. We expect the Fed to initiate a rate cut cycle, reducing rates by 100bp this year starting in June. Similarly, we expect the ECB to cut 75bp starting in June. The interest rate differential should favor the euro in the coming months. **We maintain our EURUSD 3-month target at 1.06 and our 12-month target at 1.15.**
3. Currencies of Australia and New Zealand are correcting following a strong appreciation towards the end of 2023. **We maintain our 3-month AUDUSD target at 0.68 and our 12-month forecast at 0.7. We maintain our 3-month NZDUSD target at 0.60 and our 12-month target at 0.63.**
4. In China we expect more easing policies ahead. These policy shifts should limit the upside for the CNY. **We maintain our USDCNY 3-month target at 7.2 and change our 12-month target from 6.8 to 7.2 (value of one US dollar). This suggests a flat evolution over the coming months.**

Writing completed on 16th February

Contents

OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country		Spot 16/02/2024	Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1,08	1,06	1,15
	United Kingdom	EUR / GBP	0,86	0,86	0,86
	Switzerland	EUR / CHF	0,95	0,95	0,98
	Japan	EUR / JPY	161,83	154	154
	Sweden	EUR / SEK	11,26	11,00	11,00
	Norway	EUR / NOK	11,32	11,30	10,80
Against dollar	Japan	USD / JPY	150,24	145	134
	Canada	USD / CAD	1,35	1,32	1,30
	Australia	AUD / USD	0,65	0,68	0,70
	New Zealand	NZD / USD	0,61	0,60	0,63
	Brazil	USD / BRL	4,97	5,00	5,00
	India	USD / INR	83,02	82,0	82,0
	China	USD / CNY	7,19	7,20	7,20

Source: Refinitiv - BNP Paribas WM

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USD VIEW >> TARGET 12M VS EUR: 1.15

It's all about the Fed

The US dollar appreciated 2.1% in January versus the Euro, it was trading at around 1.08 as of February 12th. On January 31st, the Fed maintained its target rate at 5.25-5.5%, as expected. In the US, the job market is the key indicator for economic resilience. Indeed, our assumption of labor hoarding remains valid and supports household expectations of stable income in the future. Indeed, the unemployment rate dipped to a lower-than-expected 3.7% while initial jobless claims remain well below the pre-Covid long-term average. The economic surprise index in the US remains supportive. A further fall in inflation is still our base case scenario as goods price inflation continues to fall while pressures on rents and services are starting to coming down. The core PCE index fell to 2.9%, below expectations and the Fed's 3% target threshold.

In the Eurozone there are signs suggesting that the worst of the economic slowdown is behind us. The Eurozone's economic surprise index has turned positive after eight months in negative territory, indicating a shift in economic sentiment. The unemployment rate remained stable at a low level of 6.4%. Core inflation in the Eurozone is also well oriented and we expect a further fall. Overall, we anticipate the Fed to start cutting interest rates in June 2024 and cut a total of 200bp by the end of 2025. More could follow. We expect the ECB to start also in June with a total of 150bp over the same horizon. This forecast suggests a narrowing interest rate differential between the USD and Euro. This should exert downward pressure on the USD which remains expensive based on purchasing power parity estimates (1.33 based on the OECD).

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, 16/02/2024

GBP VIEW >> TARGET 12M VS EUR: 0.86

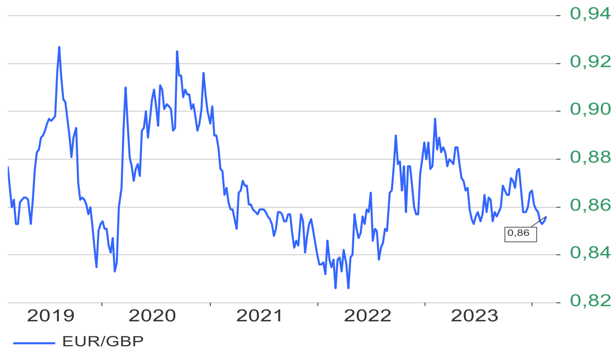
Limited downside

The GBP appreciated about 1.7% against the Euro in January and was trading at around 0.85 as of February 12th. The Bank of England (BoE) held the interest rate steady at 5.25% on February 1st, marking a subtle shift in monetary policy communication. The BoE removed the previous commitment to further tightening if persistent inflationary pressures were observed, instead noting that the duration for maintaining the Bank Rate at its current level would be under continuous review.

Inflation in the UK remains high with CPI inflation reported at 4% and core CPI at 5.1%, both figures exceeding forecasts. The manufacturing sector continues to struggle, indicated by a PMI of 47. The service sector exhibited some improvement, with a PMI of 53.8.

Wage growth and labor market dynamics present ongoing challenges for achieving the BoE's 2% inflation target. Recent jobs reports however indicate a gradual easing in labor market pressures. This should continue over the coming months. For the BoE, we expect about 225 basis points cuts over the next two years compared to 150bp for the ECB. We expect some weakening of the GBP over the coming months.

We maintain our EURGBP 3-month and 12-month targets at 0.86 (value of one euro).



Source: LSEG Datastream, 16/02/2024

CHF VIEW >> TARGET 12M VS EUR: 0.98

CHF to gradually depreciate from record levels

In January, the CHF remained flat close to record levels but lost some ground early February. As of February 12th, the EURCHF was trading at around 0.94. The Swiss national bank's (SNB) policy rate has been at 1.75% since December 14th.

Inflation fell more than expected to 1.3% year-on-year against an anticipated 1.7%. This is well below the latest central bank forecast. Core inflation was at 1.5% also below expectations. A key source of the recent weakeness was related to services and .

The KOF economic barometer reported a higher-than-expected reading of 101.5 in January, suggesting a positive economic outlook. Meanwhile, the unemployment rate has seen a slight uptick from its April low of 1.9% to 2.2%, aligning with forecasts.

Looking ahead, both the ECB and SNB are expected to initiate easing measures in the second half of the year. The recent downside surprise on Swiss inflation increases the chances of an earlier cut by the SNB. Given the SNB's limited meeting frequency and lower terminal rate, its rate cuts may not match the ECB's pace. This approach, coupled with Europe's improving economic conditions, could precipitate the franc's depreciation in the second half of 2024, though a breach of parity with the euro appears unlikely at this stage.

We maintain our 3-month target from at 0.95 and our 12-month target at 0.98 (value of one euro), indicating a moderate depreciation of the CHF from current levels.

Source: LSEG Datastream, 19/02/2024

JPY VIEW >> TARGET 12M VS USD: 134

Still highly undervalued

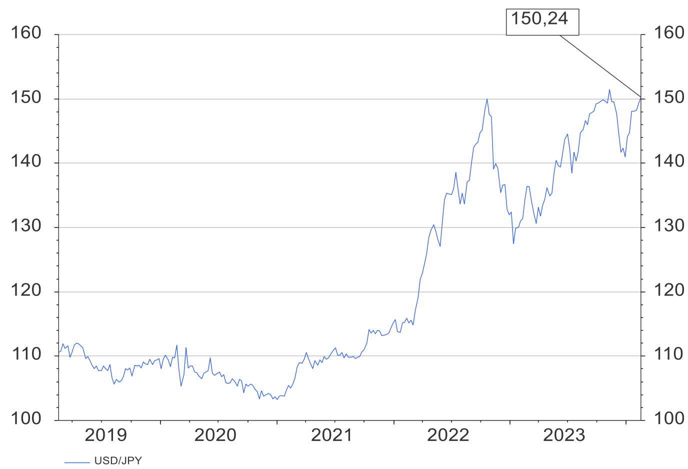
In January, the Japanese yen depreciated 4.1% against the US dollar. As of February 12th, the JPY was trading at around 149 (value of one dollar). The Bank of Japan (BoJ) held its interest rates at -0.10% on January 23rd, in line with market expectations.

Inflation momentum in Japan is slowing at 1.6%, potentially leading the BoJ to revise its inflation projections downward after a year of consecutive upward adjustments. The central bank's future actions are highly anticipated, especially regarding the outcomes of the spring wage negotiations, which are expected to feature significant wage increase demands from trade unions.

An exit from the negative interest rate policy (NIRP) is forecasted for April, alongside a complete dismantling of the Yield Curve Control (YCC). This anticipated policy shift is expected to narrow the rate differentials between the JPY and G10 currencies, favoring the yen over the year. However, in the short term, the yen may remain range-bound.

The unemployment rate also fell to a lower-than-expected 2.4%, while the manufacturing PMI was recorded at 48 and service PMI at 53.1.

The outlook for the yen remains positive despite recent depreciation. We **maintain our USDJPY 3-month target at 145 and our 12-month target at 134 (value of one US dollar).**



Source: LSEG Datastream, 16/02/2024

SEK VIEW >>
TARGET 12M VS EUR: 11

Look for a stabilization

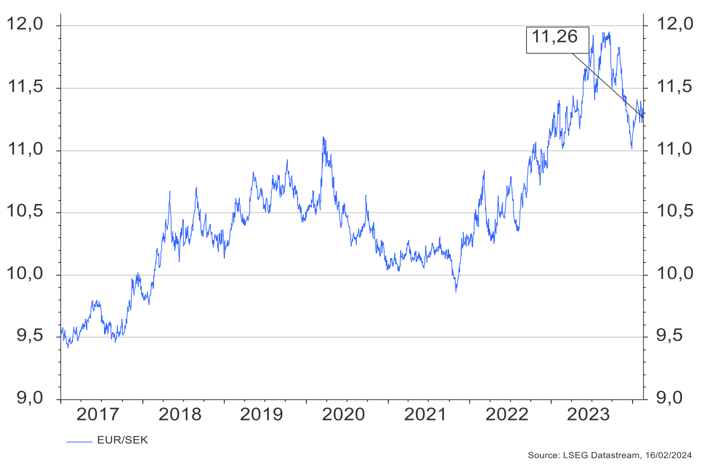
In January, the Swedish Krona (SEK) depreciated 1.1% against the Euro. As of February 12th, it was trading at around 11.2 (value of one euro). On February 1st, the Riksbank opted to keep interest rates stable at 4% amidst ongoing economic challenges and inflationary pressures.

Sweden's economy continues to slow, with evident weakening in the labor market. December saw year-on-year inflation reaching 4.4%, surpassing expectations. Meanwhile, the SEB housing price index rose to 19 in January, and unemployment edged up to 7.7%, indicating mounting economic pressures.

Sweden's economy is facing a slowdown, with resource utilization falling below normal levels. Sectors sensitive to rising funding costs, notably residential construction and durable goods sales, are facing significant difficulties. Weak global demand is impacting parts of the manufacturing industry as reflected in the PMI index at 47.1.

The Riksbank anticipates a normalization of inflation and plans to reduce policy rates in 2024. Improved global demand and subsequent economic growth from mid-2024 are expected. The Swedish economy is set for a gradual recovery, adjusting to the new interest rate environment.

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

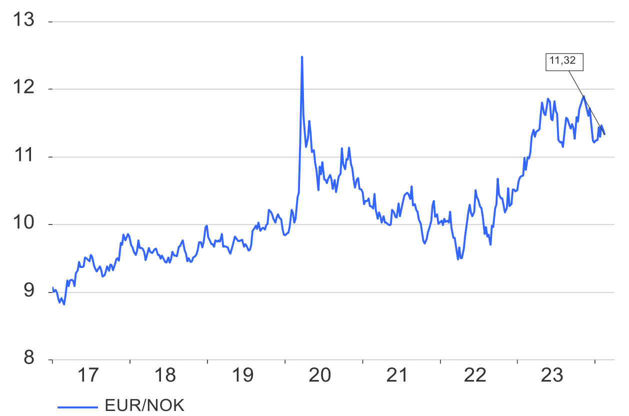
The Norwegian Krone (NOK) depreciated 1.15% against the euro in January. On February 12th it was trading at around 11.3 (value of one euro). On January 25th, the Norges Bank keep interest rates steady at 4.5%, aligning with market expectations.

The CPI inflation printed at 4.8% year-on-year while core inflation stood at 5.5%, lower than expected, suggesting a possible easing in inflationary pressures. The manufacturing PMI dropped to 50.7, still indicating marginal expansion.

The NOK is sensitive to the potential impact of rising energy prices. While such increases might not directly stimulate higher activity in Norway's petroleum investments and oil supplier industries due to already high activity levels, they could influence the economy through wage growth in the supplier industry and offshore companies. This, in turn, might lead to broader wage growth across sectors in a tight labor market. In the short term, higher oil prices may support the NOK.

Markets are expecting more rate cuts by the ECB compared to the Bank of Norway. That should support the NOK going forward.

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.



Source: LSEG Datastream, 16/02/2024

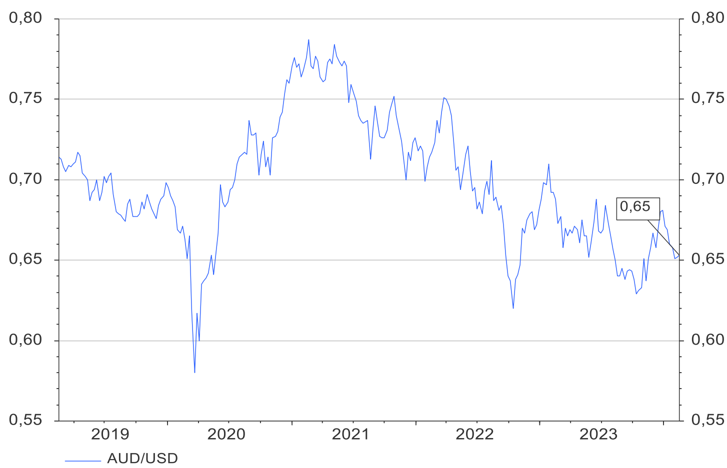
AUD VIEW >> TARGET 12M VS USD: 0.70

Appreciation potential in 2024

The Australian dollar (AUD) depreciated 3.6% against the US dollar in January. On February 12th it was trading at around 0.65 (value of one AUD) marking a correction from its recent appreciation. On February 6th, the Reserve Bank of Australia (RBA) decided to hold the policy rate at 4.35% for the third consecutive time, in a move that continues to reflect its cautious approach regarding monetary policy.

The CPI inflation for Q4 2023 came in at 4.1%, below expectations, indicating a potential easing of inflationary pressures. The unemployment rate remained steady at 3.9%, while the Service PMI increased to 49.1. The manufacturing PMI is back in expansionary territory at 50.1, further signaling resilience within the Australian economy. The RBA's decision to maintain the policy rate, coupled with its ongoing concern over persistent services inflation, underscores a careful balancing act. Although the Australian dollar saw a slight increase following the RBA's announcement, broader concerns, particularly regarding China, seem to cap significant upward movements. However, market expectations currently do not anticipate additional hikes, suggesting that positive economic data could lead to adjustments in expectations for future rate cuts. 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.



NZD VIEW >> TARGET 12M VS USD: 0.63

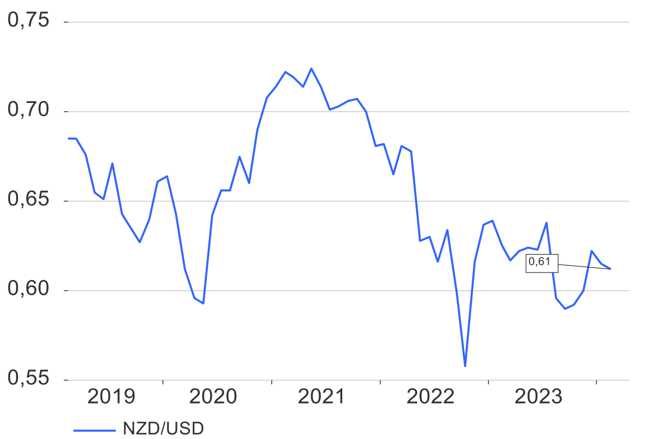
The upside is more limited

The New Zealand dollar (NZD) depreciated 3.2% against the US dollar in January. As of February 12th, it was trading at around 0.61 (value of one NZD). Oceanic currencies are correcting following a strong appreciation towards the end of 2023.

The Reserve Bank of New Zealand's (RBNZ) cash rate remains at 5.5%, with no immediate indication of a decrease. New Zealand's trade deficit widened to -13.57B NZD, reflecting ongoing economic challenges. The fourth quarter 2023 year-over-year inflation moderated to 4.7%, indicating a cooling of price pressures. However, the New Zealand economy has shown signs of contraction in three of the last four quarters, with the RBNZ cautious about the pace and sustainability of inflation reduction, despite rapid population growth and a boost in tourism.

The labor market is softening, with unemployment rising from a low of 3.2% in the last quarter 2022 to 3.9%. Despite these domestic challenges, we expect the NZD to appreciate against the USD over the coming year. This outlook is predicated more on an anticipated weakening of the USD, driven by 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, 19/02/2024

CAD VIEW >>
TARGET 12M VS USD: 1.30

Some appreciation potential

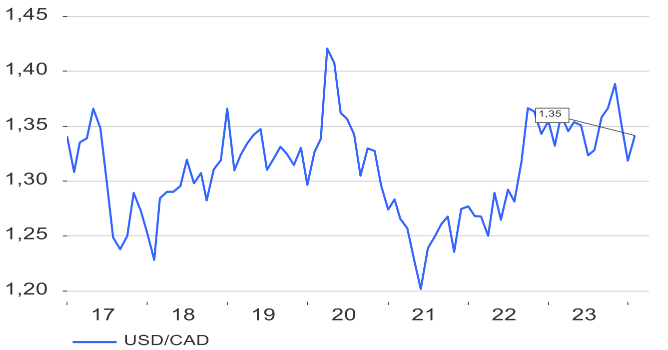
The Canadian dollar (CAD) depreciated 1.45% against the US dollar in January. As of February 12th, it was trading at around 0.74 (value of one dollar). On January 24th, the Bank of Canada (BoC) decided to keep the interest rates steady at 5%, a level that has been maintained since July 2023.

The CPI inflation stood at 3.4% year-on-year, with core inflation slightly lower at 2.6%, reflecting ongoing but moderating inflationary pressures. The unemployment rate remained stable at 5.8%, indicating resilience in the labor market despite economic headwinds.

The CAD has emerged as one of the G10's surprise outperformers this year, second only to sterling, by less dovish expectations for the BoC. This outlook is supported by data indicating a more persistent core inflation and stronger economic growth than initially anticipated, factors that have notably contributed to the CAD's relative strength against other major currencies.

The yield differential between Canada and the US has recently favored the CAD since 2022 as the BoC is projected to enact fewer rate cuts.

Given these developments, 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 upside for the CAD.



Source: LSEG Datastream, 16/02/2024

CNY VIEW >>
TARGET 12M VS USD: 6.80

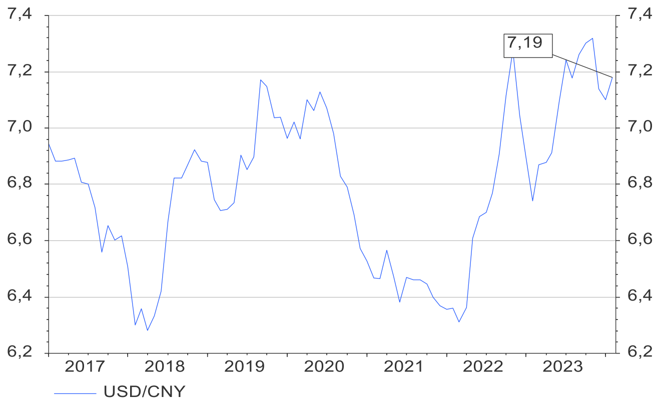
Weakening of the CNY

The Chinese Yuan (CNY) remained flat in January against the US dollar. It has been hoovering close to 1.19 early February.

Economic indicators continue to show resilience in the manufacturing sector, with the PMI at 50.8, surpassing expectations, while the service sector PMI climbed to 52.7. Inflation remains negative at -0.8% year-on-year, lower than expected. The PBoC has signaled ongoing stimulus measures to support economic growth, especially amid the ongoing housing sector challenges. With a target to maintain growth around the 5% mark, expectations are set for continued government intervention through stimulus efforts. As of February 5th, the PBoC cut banks' reserve requirement ratio (RRR) by 50bp (vs 25bp expected) to 10%.

Efforts by the PBoC to deter further depreciation of the yuan have aimed to prevent a retracement in the USDCNY to the previous year’s peak of 7.3. These policy shifts offer less support for the CNY especially given the expected major rate cuts by the Fed. We see no reason anymore to expect an appreciation of the CNY.

We maintain our USDCNY 3-month target at 7.2 but change our 12-month target from 6.8 to 7.2 (value of one US dollar). This suggests a flat evolution over the coming months.



Source: LSEG Datastream, 16/02/2024

MXN VIEW >> TARGET 12M VS USD: 18.50

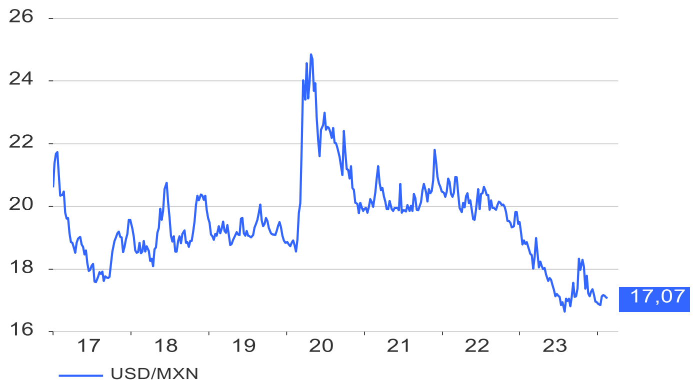
Weakening ahead

In January, the Mexican Peso (MXN) depreciated 1.5% against the US dollar. As of February 12th, the USDMXN was trading at around 17 (value of one US dollar).

On February 8th Mexico's central bank (Banxico) maintained rates at 11.25% for the eight consecutive time, as expected. The communication shifted from signaling that rates will stay high "for some time" to "in the next monetary policy meetings, (the board) will assess the possibility of adjusting the reference rate". Looking ahead we believe Banxico will remain prudent easing at a pace of 25bp per meeting reaching a policy rate to 9.25% by 2024 and a terminal rate of 6.25% in 2025. That is a much bigger reduction in the policy rate compared to the US central bank.

Later this year the US presidential election is likely to introduce headwinds for Mexico and its own presidential election in June is likely to lead to a temporary increase in MXN volatility. Indeed, polls suggest the likelihood of a tighter than expected race between the two main candidates. Historically, market pricing of USDMXN volatility tends to pick up in May and peak around mid June when the election result will be known. In the meantime, the nearshoring trend should support Mexico's economic growth. This is also reflected in the manufacturing PMI at 50.2 However, Mexico's headline inflation has slightly picked up to 4.88% year-on-year. This needs to be monitored.

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.



Source: LSEG Datastream, 16/02/2024

BRL VIEW >> TARGET 12M VS USD: 5.0

Target reached.

The Brazilian real (BRL) depreciated 1.3% against the US dollar in January. As of February 12th, it was trading at around 4.95 (value of one US dollar). On January 31st, the Central Bank of Brazil (BCB) implemented a further reduction in the Selic rate, cutting it from 11.75% to 11.25%, marking the fifth reduction in this cycle. With the Committee of Monetary Policy (Copom) at the BCB incorporating newly appointed members, the decision to cut the Selic rate by 50bp was anticipated. The committee's communication reiterated a commitment to the current pace of rate cuts, suggesting a comfortable stance with the easing policy for the foreseeable future. Expectations are set for the Selic rate to conclude the year at 9.00%.

Inflation in Brazil slightly decreased, with the year-on-year figure coming in at 4.62%. This reduction in inflation aligns with the BCB's ongoing monetary easing efforts amidst a cautiously optimistic economic outlook.

The current account balance reported a deficit of -5.8 billion USD, while positive momentum in the service sector was highlighted by a PMI of 53.1. The manufacturing sector also showed robust performance with a PMI of 52.8, indicating expansionary activity.

We maintain our 3-month target at 5 (value of one USD) and our 12-month target at 5. This suggests a flat evolution this year.

Source: LSEG Datastream, 16/02/2024

INR VIEW >> TARGET 12M VS USD: 82

Target reached

The Indian rupee (INR) has experienced low volatility since the end of 2022. As of February 12th, the USDINR was trading around 83 (value of one dollar). We expect India's GDP growth to be close to 7% in 2024 and inflation at 5.7%. January's inflation figure decreased to 5.10% while core inflation continued its downward trend to 3.6%. On February 8th, the RBI maintained rates at 6.5% for the sixth consecutive time. The RBI Governor Shaktikanta Das reaffirmed his commitment to bring down inflation to 4% in a timely manner. We believe the RBI will start its rate-cutting cycle in the third quarter with a total of 50bp of cuts in 2024.

In January, the manufacturing PMI in India printed lower than expected at 56.5 and the Service PMI printed higher than expected at 61.8 both in expansionary territory since July 2021. Services trade continued to provide a buffer to the economy, recording a USD14.6bn surplus in December, up from USD14.4bn in November.

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, 16/02/2024

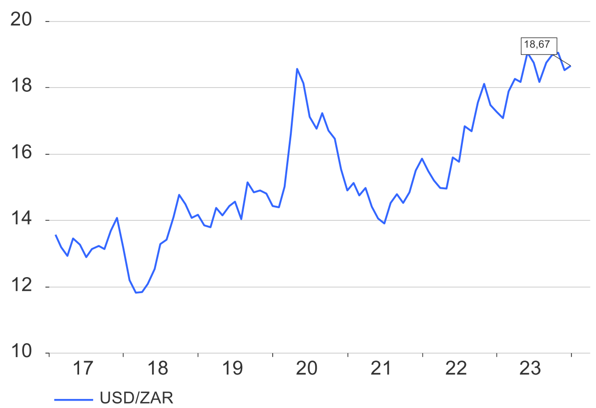
ZAR VIEW >> TARGET 12M VS USD: 17.5

Moderate upside this year

The South African rand (ZAR) depreciated 2% in January. As of February 12th, it was trading around 19 (value of one dollar). On January 25th, the central bank (SARB) unanimously decided to keep its key repo rate at 8.25% for the fourth consecutive time. The December CPI inflation year-on-year printed 5.1%, lower than expected. Like the Fed, the SARB wants to be more confident that it will achieve the 4.5% mid-point of its inflation target range before starting to cut rates. We expect the SARB to make its first rate cut in May. GDP for the third quarter 2023 printed -0.7% year-over-year, lower than expected. Looking ahead, the SARB maintained its growth projections at 1.2% for 2024 and 1.3% for 2025. The manufacturing PMI printed much lower than expected from 50.9 in December 2023 to 43.6 in January 2024 due to a sharp decline in new sales orders. Looking ahead, political risk around upcoming elections in May/June will dominate the agenda. Deeper infrastructure issues in the economy persist, such as electricity and Transportation. The above could be source of higher volatility in the coming months.

Over the next two years, markets 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. It suggests some appreciation potential from current levels.



Source: LSEG Datastream, déc. 23

	Country		Spot 16/02/2024	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1,08	Neutral	1,06	Negative	1,15
	United Kingdom	EUR / GBP	0,86	Neutral	0,86	Neutral	0,86
	Japan	EUR / JPY	161,83	Positive	154	Positive	154
	Switzerland	EUR / CHF	0,95	Neutral	0,95	Negative	0,98
	Australia	EUR / AUD	1,65	Positive	1,56	Neutral	1,64
	New-Zealand	EUR / NZD	1,76	Neutral	1,77	Negative	1,83
	Canada	EUR / CAD	1,45	Positive	1,40	Negative	1,50
	Sweden	EUR / SEK	11,26	Positive	11,00	Positive	11,00
	Norway	EUR / NOK	11,32	Neutral	11,30	Positive	10,80
Asia	China	EUR / CNY	7,75	Neutral	7,63	Negative	8,28
	India	EUR / INR	89,42	Positive	86,92	Negative	94,30
Latam	Brazil	EUR / BRL	5,35	Neutral	5,30	Negative	5,75
	Mexico	EUR / MXN	18,38	Negative	19,08	Negative	21,28

	Country		Spot 16/02/2024	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1,08	Neutral	1,06	Positive	1,15
	United Kingdom	GBP / USD	1,26	Negative	1,23	Positive	1,34
	Japan	USD / JPY	150,24	Positive	145,00	Positive	134,00
	Switzerland	USD / CHF	0,88	Neutral	0,90	Positive	0,85
	Australia	AUD / USD	0,65	Positive	0,68	Positive	0,70
	New-Zealand	NZD / USD	0,61	Neutral	0,60	Positive	0,63
	Canada	USD / CAD	1,35	Positive	1,32	Positive	1,30
Asia	China	USD / CNY	7,19	Neutral	7,20	Neutral	7,20
	India	USD / INR	83,02	Neutral	82,00	Neutral	82,00
Latam	Brazil	USD / BRL	4,97	Neutral	5,00	Neutral	5,00
	Mexico	USD / MXN	17,07	Negative	18,00	Negative	18,50
EMEA	South Africa	USD / ZAR	18,87	Positive	18,00	Positive	17,50
	USD Index	DXY	104,28	Neutral	104,88	Negative	97,40

Source: Refinitiv - BNP Paribas WM

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