JANUARY 2024

Currencies Focus

Summary

1. The US dollar index (DXY) decreased -2% and the Euro index (EXY) increased 1.5% in December.
2. We believe both the Fed and the ECB have reached their terminal rate at 5.5% and 4% respectively. Looking ahead to 2024, we project a dovish shift in monetary policy. We expect the Fed to initiate a rate-cutting cycle, reducing rates by 150bp this year starting in May. Similarly, we expect the ECB to follow suit with 75bp cuts starting in June. The interest rate differential should favour 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. The EURCHF (value of one euro) was close to all time lows. The Swiss franc maintains its status as a global inflation hedge and safe haven. **We decrease our 3-month target from 0.98 to 0.95 and maintain our 12-month target at 0.98 (value of one euro), indicating a resilient Swiss franc in the coming months.**
4. The PBoC is gradually lowering its daily currency fixing now nearing 7 USDCNY. This adjustment is a strategic step in managing the Yuan's value in international markets. **We maintain our 3-month target at 7.2 and our 12-month target at 6.8, suggesting a gradual recovery of the CNY.**

Writing completed on 08/01/2024

Contents

OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country		Spot 07/01/2024	Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1,10	1,06	1,15
	United Kingdom	EUR / GBP	0,86	0,86	0,86
	Switzerland	EUR / CHF	0,93	0,95	0,98
	Japan	EUR / JPY	158,24	154	154
	Sweden	EUR / SEK	11,20	11,00	11,00
	Norway	EUR / NOK	11,24	11,30	10,80
Against dollar	Japan	USD / JPY	144,14	145	134
	Canada	USD / CAD	1,33	1,32	1,30
	Australia	AUD / USD	0,67	0,68	0,70
	New Zealand	NZD / USD	0,63	0,60	0,63
	Brazil	USD / BRL	4,87	5,00	5,00
	India	USD / INR	83,16	82,0	82,0
	China	USD / CNY	7,16	7,20	6,80

Source: Refinitiv - BNP Paribas WM

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USD VIEW >> TARGET 12M VS EUR: 1.15

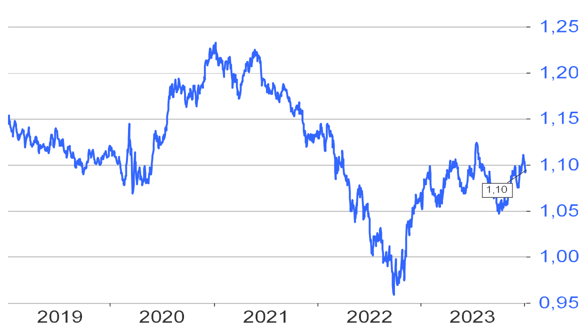
It's all about the Fed

The US dollar has depreciated 1.5% in December versus the Euro, it was trading at around 1.09 as of January 8th. On December 13th, the Fed maintained its policy rate at 5.25-5.5%. Following the Federal reserve's comments at their December meeting the market is pricing rate cuts as early as March in the US.

The manufacturing PMI printed 47.9 and the service PMI 51.4. The initial jobless claims remained low despite the recent bounce. The core PCE inflation stands at 3.2%. The Fed has mentioned 3% as a key threshold for the measure. Overall, the US economy displayed resilience with a 4.9% growth in GDP for Q3 2023 and an unexpected surge in existing home sales in November. The core CPI and headline CPI stands at 4% and 3.1% respectively. We anticipate the Fed to initiate 150bp of rate cuts this year starting in May 2024.

In the eurozone, the manufacturing PMI slightly exceeded forecasts at 44.4. ECB's deposit rate was maintained at 4% on December 14th, with President Lagarde emphasizing vigilance against premature policy easing. The ECB's stance remains data-dependent amid a decline in headline inflation to 2.9%. Core inflation remains elevated at 3.4%. We expect the ECB to uphold its policy rates until June 2024, followed by a projected 75bp rate cut by the year-end. This forecast suggests a narrowing interest rate differential between the USD and Euro less in favor of the dollar.

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, 08/01/2024

GBP VIEW >> TARGET 12M VS EUR: 0.86

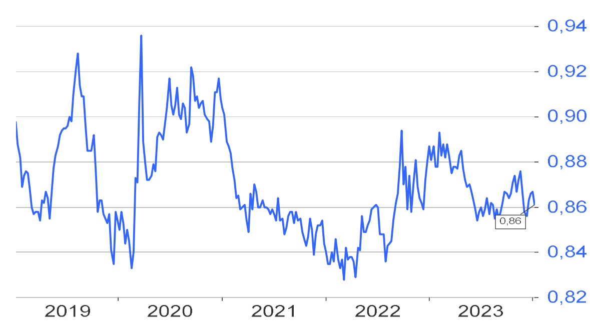
No major driver short-term

The GBP depreciated almost 1.2% against the Euro in December and was trading at around 0.86 (value of one euro) as of January 8th.

The Bank of England (BoE) maintained rates at 5.25% on December 14th as part of their "higher for longer" interest rate strategy aimed at curbing persistent inflation. Metrics show a slight easing, with the CPI inflation at 3.9%, and the core measure at 5.1%, both lower than expected.

The manufacturing PMI fell short of expectations, registering at 46.2. The ILO unemployment rate, remained steady at 4.2%, reflecting a stable employment landscape. However, the GDP growth for Q3 only reached a 0.3% increase year-over-year, falling below expectations and signaling a slowdown in economic growth. Retail sales, on the other hand, offered a more positive picture rising 0.1%, a figure higher than anticipated, indicating some resilience in consumer spending. The overall economic indicators and the path of interest rates do not suggest a significant shift in the short-term for the EUR/GBP exchange rate.

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



Source: LSEG Datastream, 08/01/2024

CHF VIEW >>
TARGET 12M VS EUR: 0.98

CHF to gradually depreciate from record levels

In December, the CHF appreciated 1.85% against the euro. As of January 8th, the EURCHF was trading at around 0.93 (value of one euro).

At the end of 2023, the KOF economic barometer, an early indicator for the Swiss economy, printed a higher-than-expected 97.8, hinting at a potentially more robust economic outlook than previously anticipated. The Swiss National Bank (SNB) held its ground on monetary policy, maintaining rates at 1.75% as of December 14th.

In the industrial sector, the manufacturing PMI for December was published at 43, indicating a continued struggle in manufacturing activities, a concern for the overall health of the Swiss economy. Additionally, there are implications regarding taxation changes such as an increase in VAT on goods and services from 7.7% to 8.1% and minimum taxation on large multinationals raised to 15%.

The above suggests that the Swiss Franc may stay somewhat stronger over the coming months. Indeed, the appetite for safe currencies seems to remain strong.

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

Source: LSEG Datastream, 09/01/2024

JPY VIEW >>
TARGET 12M VS USD: 134

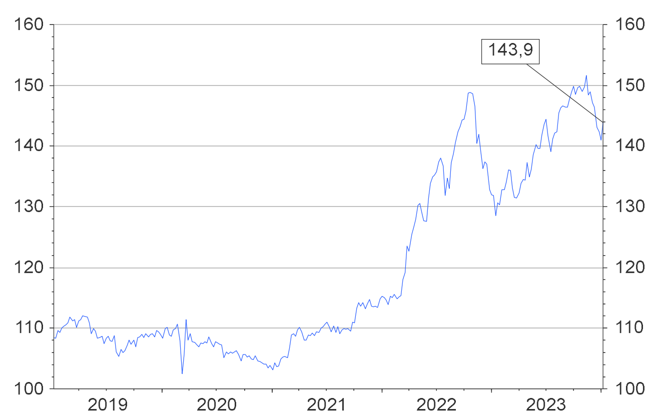
Still undervalued

In December, the Japanese yen showed notable strengthening, appreciating by 3.9% against the US dollar. As of January 8th, the JPY was trading at around 144 (value of one dollar) showing signs of a trend change.

Japan's trade balance maintains a deficit of -780.4 billion JPY. This reflects the ongoing challenges in the balance of trade but doesn't seem to have deterred the yen's rise. The Bank of Japan (BoJ) played a key role in this development, maintaining its interest rates at -0.10% as anticipated. This decision aligns with the BoJ's broader strategy to stimulate the economy while managing inflation and currency value. The unemployment rate in Japan remained steady at 2.5%, in line with expectations, indicating continued stability in the job market. This is a positive sign for domestic economic health. Additionally, the manufacturing PMI printed 47.9 and the service PMI 51.5. The recent earthquake affecting the northwestern part of Japan has had no major impact on markets.

Also key is the expected start of policy normalization by the Bank of Japan that could start this spring. The outlook for the Japanese Yen thus remain positive.

We maintain our USDJPY 3-month target at 145 and our 12-month target at 134 (value of one USD), suggesting a further appreciation potential for the Japanese currency.



Source: LSEG Datastream, 08/01/2024

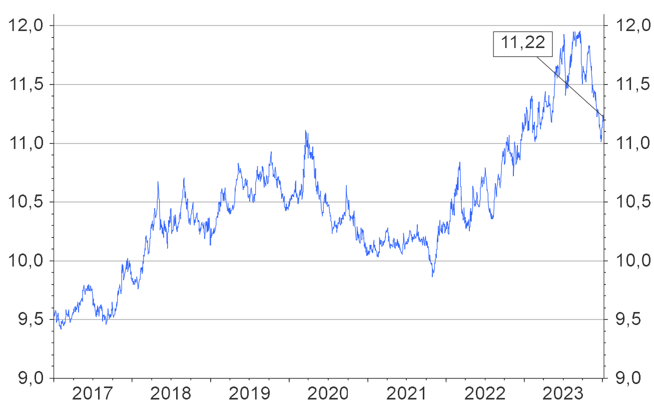
SEK VIEW >> TARGET 12M VS EUR: 11

Look for a stabilization after the recent rise

In December, the Swedish Krona (SEK) exhibited strength, appreciating by 1.4% against the euro. As of January 8th, it was trading at around 1.2 (value of one euro).

This ongoing strength comes amid a decrease in inflation. Notably, the Consumer Price Inflation came in at 5.8%, lower than anticipated. However, the unemployment rate was reported at 7.1%, highlighting ongoing labour market challenges. The manufacturing sector, as indicated by a PMI of 48.8, continues to struggle, remaining below the 50 mark. Furthermore, consumer confidence in Sweden is showing signs of recovery from its October low. This increase in consumer sentiment could have positive implications for domestic spending and economic activity over the coming months.

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



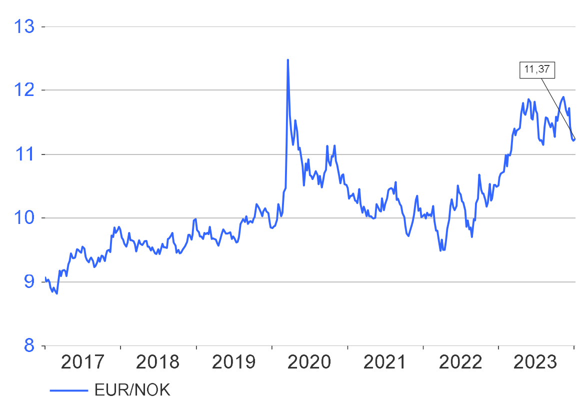
NOK VIEW >> TARGET 12M VS EUR: 10.80

Positive outlook

The Norwegian Krone (NOK) appreciated 3.3% against the euro in December. On January 8th it was trading at around 11.3 (value of one euro) signaling a reversal of the previous depreciation trend.

A key factor in this shift is the recent decision by the Norges Bank to increase the key policy rate unexpectedly by 25bp to 4.5% on December 15th. This move, which caught markets by surprise, signals a strong commitment to bring inflation lower and stabilize the economy. This could potentially enhance the NOK's attractiveness to investors. Inflation indicators in Norway have reported lower-than-expected figures, with core inflation at 5.8% and CPI at 4.8%. These numbers suggest that inflationary pressures might be easing more than anticipated, providing an environment for monetary policy adjustments. Moreover, the manufacturing sector in Norway showed signs of resilience, with the manufacturing PMI for December recording a healthy 51.7, indicating an expected expansion in this sector. This contributes to a more optimistic outlook for the Norwegian economy.

We maintain our 3-month target for the NOK at 11.3 and our 12-month target at 10.8 (value of one euro), suggesting an expectation for the NOK.



Source: LSEG Datastream, 08/01/2024

AUD VIEW >>
TARGET 12M VS USD: 0.70

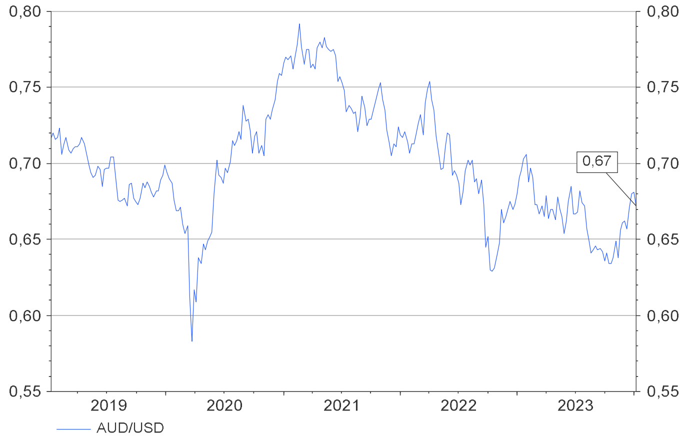
More upside

The Australian dollar (AUD) gained another 2.2% against the US dollar in December. On January 8th it was trading at around 0.67 (value of one AUD) marking a notable reversal from the depreciation observed in October.

On December 5th, the Reserve Bank of Australia (RBA) opted to maintain its policy rate at 4.35%, in line with expectations. Governor Michele Bullock, who's stuck with a hawkish tone, isn't expected to readily pivot to policy easing, unlike counterparts in other developed markets.

In the meantime, we saw a slight uptick in the unemployment rate at 3.9% while the real GDP YoY printed higher than expected at 2.1%. The manufacturing PMI printed 47.6 and the service PMI 47.1. Looking ahead the rate differential should favour the AUD.

We maintain our 3-month target at 0.68 and our 12-month target at 0.7 (value of one dollar). This suggests a further appreciation of the Australian dollar against the US dollar.



Source: LSEG Datastream, 08/01/2024

NZD VIEW >>
TARGET 12M VS USD: 0.63

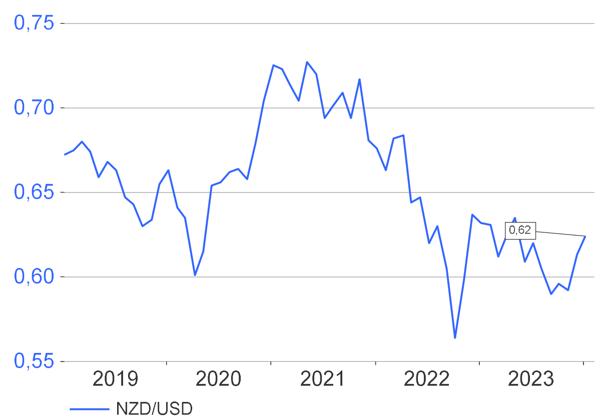
The upside is more limited

The New Zealand dollar (NZD) appreciated 1.8% against the US dollar in December. On January 8th it was trading at around 0.67 (value of one AUD) marking a notable reversal from the depreciation observed in October.

On November 29th, the Reserve Bank of New Zealand (RBNZ) maintained its cash rate at 5.5%. We believe this rate will be kept until mid-2024. The market anticipates only approximately 90bp rate cuts in New Zealand for the upcoming year, making the interest rate differential with the US more favorable for the NZD.

The latest inflation data shows a decrease to 5.6% from its high of 7.3% in May 2022. The manufacturing PMI was at 46.7 for the month of November.

We maintain our 3-month target for the NZD/USD at 0.60 and our 12-month target at 0.63. This suggests a moderate appreciation of the New Zealand dollar against the US dollar.



Source: LSEG Datastream, 09/01/2024

CAD VIEW >>
TARGET 12M VS USD: 1.30

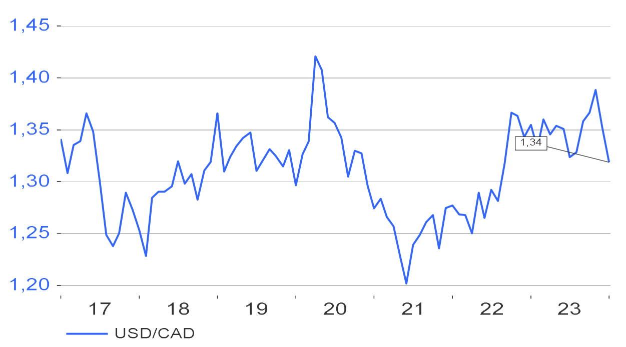
Some upside from current levels

The Canadian dollar (CAD) appreciated 1.8% against the US dollar in December. As of January 8th, it was trading at around 1.33 (value of one dollar).

On December 6th, the Bank of Canada (BoC) maintained rates at 5% for the 4th consecutive time. The BoC reiterated that it "remains prepared to raise the policy rate further if needed". However, members of the governing council increasingly agreed that rates were "sufficiently restrictive" to bring inflation back to the 2% target. In December, the core CPI inflation stood at 2.8% while the headline inflation printed 3.1%. The unemployment rate is 5.8% while the trade balance is positive at 2.97B CAD, higher than expected.

Recently, the yield differential has favored the CAD. We expect this trend to continue as it becomes clear that the US central bank should start cutting rates in late Q2 2024 and that the BoC is projected to undertake fewer rate cuts.

We maintain our 3-month target for the CAD at 1.32, and our 12-month target at 1.30 (value of one USD), indicating a moderate appreciation of the CAD from current levels.



CNY VIEW >>
TARGET 12M VS USD: 6.80

Strengthening of the CNY

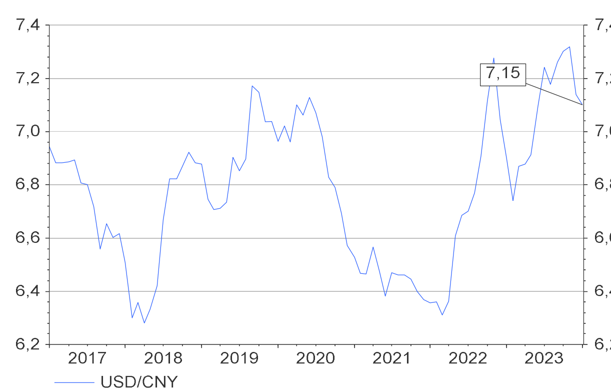
The Chinese Yuan (CNY) remains stable against the USD dollar. As of January 8th, the USDCNY was trading at around 7.1 (value of one dollar).

In a significant move, the PBoC has been gradually lowering the central rate in its daily trading sessions, edging closer to the 7 USDCNY mark. This adjustment is a strategic step in managing the Yuan's value in international markets.

The CPI inflation for November printed a lower-than-expected -0.5%, signaling potential weaknesses in consumer demand. In the manufacturing sector, the Caixin PMI showed robust performance, exceeding expectations at 50.8. This divergence provides a nuanced view of the industrial sector's health. Retail sales for November, growing at 2.9%, fell short of expectations, indicating a slower pace in consumer spending.

On December 20th, the PBoC decided to maintain the 1-year loan prime rate at 3.45% and the 5-year rate at 4.2%, reinforcing its commitment to economic stability. This suggest a cautiously optimistic outlook for the CNY, balancing the current economic indicators with the PBoC's policy direction and the broader global economic environment.

We maintain our 3-month target at 7.2 and our 12-month target at 6.8, suggesting a gradual recovery of the CNY over the next year.



MXN VIEW >>
TARGET 12M VS USD: 18.50

Weakening ahead

In December, the Mexican Peso (MXN) appreciated 1.2% against the US dollar. As of January 8th the USDMXN pair was trading at around 16.8 (value of one US dollar).

Mexico's central bank, has refrained from initiating a rate-cutting cycle despite ongoing high inflation levels at 4.32%,. This cautious approach is evident in the decision to maintain the policy rate at 11.25% as of December 14th. The reasoning behind this decision remains focused on controlling inflation and stabilizing the economy. The manufacturing PMI recorded a robust 52. This indicates a healthy level of industrial output.

In terms of inflation, the core measure printed at 0.26%, coming in lower than expected, while headline inflation stood at 4.3%. Using the latest inflation data, Mexico still has implied real yields of 7%.

Given these economic conditions, we maintain our 3-month target at 18 (value of one USD) and our 12-month target at 18.5, indicating a continued depreciation of the MXN in the near future.

BRL VIEW >>
TARGET 12M VS USD: 5.0

Likely rebound

The Brazilian real (BRL) remained flat against the US dollar in December. As of January 8th, it was trading at around 4.90 (value of one US dollar).

On the monetary policy front, the Central Bank of Brazil (BCB) followed through on its anticipated course, reducing the Selic rate to 11.75%. This decision aligns with the bank's cautious approach to monetary easing amidst global economic fluctuations and domestic inflation concerns. The inflation rate came out at 4.68%, lower than expected. This lower inflation rate might provide more room for the central bank to continue rate cuts, balancing growth and price stability.

The nearshoring phenomenon is benefitting Latin American countries. In December we saw the Foreign Direct Investment (FDI) in Brazil above expectations, recording a notable of 7.8 billion USD. This influx of investment, indicates continued international confidence. The later should help keep a robust real in the coming months.

Considering these factors, the outlook for the Brazilian real remains cautiously optimistic. We maintain our 3-month target at 5 (value of one USD) and our 12-month target at 5.

	Country		Spot 07/01/2024	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1,10	Positive	1,06	Negative	1,15
	United Kingdom	EUR / GBP	0,86	Neutral	0,86	Neutral	0,86
	Japan	EUR / JPY	158,24	Positive	154	Positive	154
	Switzerland	EUR / CHF	0,93	Negative	0,95	Negative	0,98
	Australia	EUR / AUD	1,63	Positive	1,56	Neutral	1,64
	New-Zealand	EUR / NZD	1,75	Neutral	1,77	Negative	1,83
	Canada	EUR / CAD	1,46	Positive	1,40	Negative	1,50
	Sweden	EUR / SEK	11,20	Neutral	11,00	Neutral	11,00
	Norway	EUR / NOK	11,24	Neutral	11,30	Positive	10,80
Asia	China	EUR / CNY	7,86	Positive	7,63	Neutral	7,82
	India	EUR / INR	91,30	Positive	86,92	Negative	94,30
Latam	Brazil	EUR / BRL	5,35	Neutral	5,30	Negative	5,75
	Mexico	EUR / MXN	18,53	Negative	19,08	Negative	21,28

	Country		Spot 07/01/2024	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1,10	Negative	1,06	Positive	1,15
	United Kingdom	GBP / USD	1,28	Negative	1,23	Positive	1,34
	Japan	USD / JPY	144,14	Neutral	145,00	Positive	134,00
	Switzerland	USD / CHF	0,85	Negative	0,90	Neutral	0,85
	Australia	AUD / USD	0,67	Neutral	0,68	Positive	0,70
	New-Zealand	NZD / USD	0,63	Negative	0,60	Neutral	0,63
	Canada	USD / CAD	1,33	Neutral	1,32	Positive	1,30
Asia	China	USD / CNY	7,16	Neutral	7,20	Positive	6,80
	India	USD / INR	83,16	Neutral	82,00	Neutral	82,00
Latam	Brazil	USD / BRL	4,87	Negative	5,00	Negative	5,00
	Mexico	USD / MXN	16,88	Negative	18,00	Negative	18,50
EMEA	South Africa	USD / ZAR	18,62	Positive	18,00	Positive	17,50
	USD Index	DXY	102,41	Positive	104,88	Negative	97,40

Source: Refinitiv - BNP Paribas WM

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