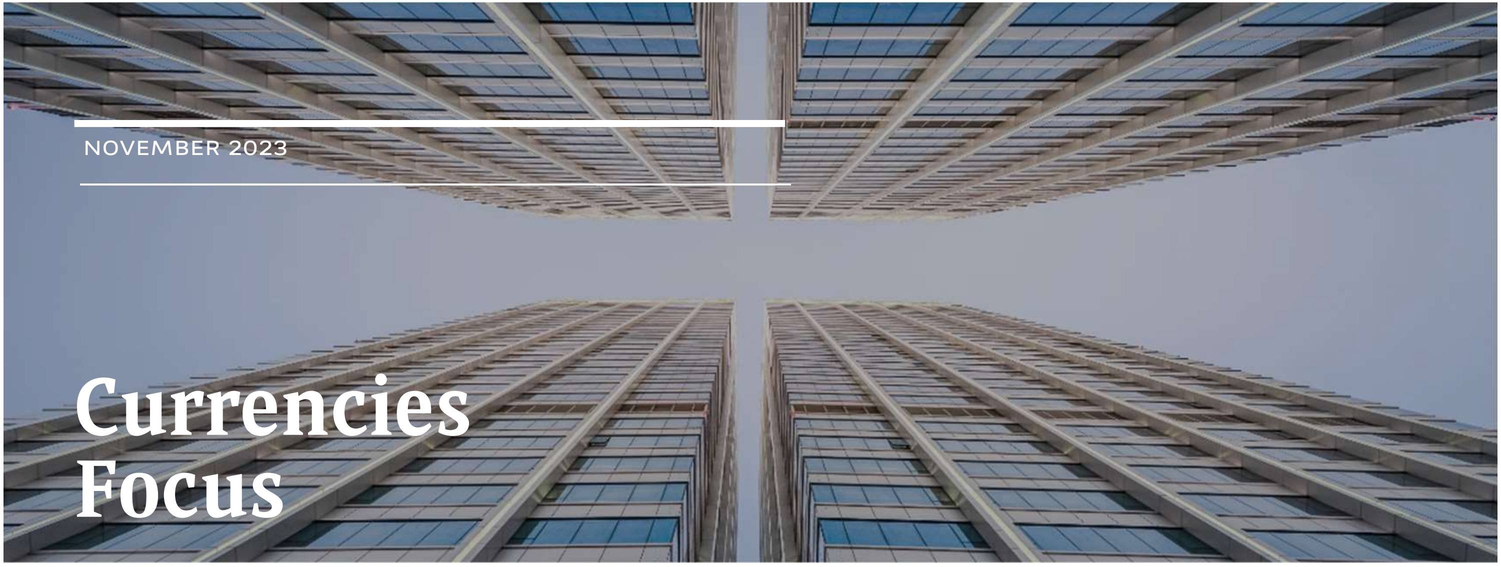


NOVEMBER 2023

Currencies Focus

Summary

1. We made no major change to our targets this month. The US dollar index (DXY) and the Euro index (EXY) both remained flat in October at around 106.8 and 105.8, respectively.
2. Scandinavian currencies remain weak and have reached all time lows. Both the Swedish and Norwegian central bank have yet to reach their terminal rates. Eventually the yield differential will help strengthen the SEK and NOK.
3. We believe the FED has reached its terminal rate at 5.5% and see rate cuts starting in June 2024. Similarly, we believe the ECB's terminal rate has been reached at 4% for the deposit rate and we expect rate cuts starting in September 2024. The US dollar should remain strong going into year end then gradually depreciate in 2024. **We maintain our EURUSD 3-month target at 1.06 and our 12-month target at 1.15.**
4. The Japanese Yen has weakened almost 20% year-to-date against the US dollar. It is the most undervalued currency with regards to its the Purchasing Power Parity (PPP). The gap with this PPP value is widening. Recently, the Bank of Japan's interventions have limited the JPY's downfall. Looking forward we see the end of the Yield Curve Control (YCC) in Q2 2024, with potentially higher rates. The JPY should also benefit from rate cuts by most other central banks in 2024. **We maintain our USDJPY 3-month target at 145 and our 12-month target at 134.**

Writing completed November 7th 2023.

Contents

OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country		Spot 07/11/2023	Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1,07	1,06	1,15
	United Kingdom	EUR / GBP	0,87	0,86	0,86
	Switzerland	EUR / CHF	0,96	0,98	0,98
	Japan	EUR / JPY	160,81	154	154
	Sweden	EUR / SEK	11,68	11,00	11,00
	Norway	EUR / NOK	11,96	11,30	10,80
Against dollar	Japan	USD / JPY	150,50	145	134
	Canada	USD / CAD	1,38	1,32	1,30
	Australia	AUD / USD	0,64	0,68	0,70
	New Zealand	NZD / USD	0,59	0,60	0,63
	Brazil	USD / BRL	4,87	5,00	5,00
	India	USD / INR	83,27	82,0	82,0
	China	USD / CNY	7,29	7,20	6,80

Source: Refinitiv - BNP Paribas WM

Guy Ertz, PhD
Chief Investment Advisor
BNP Paribas Wealth Management

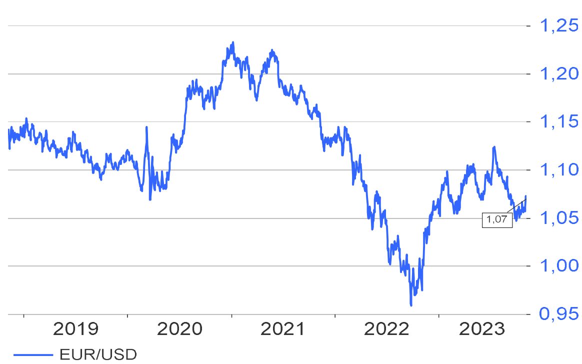
USD VIEW >>
TARGET 12M VS EUR: 1.15

US Dollar should remain overvalued

The US dollar held steady throughout October and was trading close to 1.07 (value of one euro) as of November 7th. On November 2nd, in line with expectations, the Fed maintained its policy rate unchanged at 5.5%. The Fed sounds increasingly confident it has reached its terminal rate. Chairman Jerome Powell stated, "Recent indicators suggest that economic activity has been expanding at a strong pace – well above expectations".

Although the FOMC remains open to further action, our projections of ongoing inflation moderation, a slowdown in growth for the current quarter, and a consequent deceleration in job creation, reinforce our prediction that the Fed will maintain its policy rate between 5.5% until mid-2024. As of November 7th, the market is pricing a 10% chance of another 25bp hike on December 13th. We expect the Fed to cut rates by approx. 200bp by mid-2025. In Europe, the ECB maintained rates at 4% on October 26th, pausing after a sequence of 10 hikes, as largely anticipated. Christine Lagarde characterized the eurozone's economy as "weak" and suggested that it would remain so "for the remainder of this year". Core inflation fell back to 4.2% (estimated for October) but remains higher than the bank's 2% target. Concerns are mounting about the impact of rate rises on European economies, but the worst is probably behind us. Our outlook suggests the ECB will not adjust rates before June 2024. We then expect a 100bp rate cuts as of mid-2025. The interest rate differential is thus expected to fall gradually. This will put negative pressure on the USD.

The US dollar should however remain strong going into year end then gradually depreciate in 2024. **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, 07/11/2023

GBP VIEW >>
TARGET 12M VS EUR: 0.86

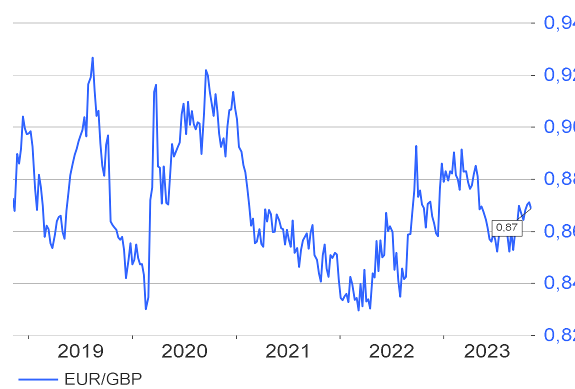
No major driver short-term

The GBP depreciated another 0.5% against the euro in October and was trading around 0.86 (value of one euro) on November 7th. On November 2nd, the Bank of England (BoE) has opted to keep its bank rate at 5.25%, aligning with market predictions. This "higher for longer" interest rate strategy is aimed at curbing inflation which remains sticky. As of November 7th, markets are pricing a 10% probability for another 25bp hike on December 14th.

The ILO unemployment rate in August fell to 4.2%, below expectations and suggesting a resilient job market. However, inflation continues to present challenges, with headline inflation reaching 6.7%, and core inflation at 6.1%, both exceeding forecasts and indicating sustained price pressures. Manufacturing PMI has dipped below projections at 44.8, which coupled with lower house prices signals more cooling in economic activity.

The market views on the interest rate differential are quite in line with our expectations. We expect the BoE to cut rates by 125bp in 2024 starting in May. In the short-term we do not see the macroeconomic environment nor the relative growth outlook to create a new trend in the EUR/GBP (value of one euro).

We maintain our 3-month and 12-month targets at 0.86 (value of one euro). This suggests a stable GBP.



Source: LSEG Datastream, 07/11/2023

CHF VIEW >> TARGET 12M VS EUR: 0.98

CHF to stay strong

In October, the CHF appreciated almost 1% against the euro. As of November 7th, the EURCHF was trading at around 0.96 (value of one euro). The Swiss National Bank (SNB) maintained its policy rate at 1.75%, a level considered to be the terminal rate given current conditions. As of November 7th, markets are pricing a 99% probability for a no change in rates on December 14th.

Notable among economic indicators, the KOF economic barometer beat expectations, registering a robust 95.8. The CPI YY remained steady at 1.7%. However, domestic inflationary pressures are expected to increase. These include a mix of climbing rents, an increase in VAT scheduled in January 2024, and likely increases in electricity and transport costs. Manufacturing activity has decelerated, with the PMI decreasing to 40.6, signaling a contraction.

Recent electoral results have indicated a shift towards a more conservative and less ecologically centered direction, driven by the advances of the Swiss People's Party (SVP).

We keep our 3- and 12-month targets at 0.98 (value of one euro). This suggests a strong Swiss franc over the coming months.

Source: LSEG Datastream, 08/11/2023

JPY VIEW >> TARGET 12M VS USD: 134

Looking for a stabilization

The Japanese yen (JPY) depreciated another 1.2% against the US dollar in October. As of November 7th, the JPY was trading at around 150 (value of one dollar) It is the most undervalued currency with regards to its the Purchasing Power Parity (PPP). The gap with its fair value (PPP) estimate is widening. At the October monetary policy meeting (MPM), the Bank of Japan (BoJ) decided to allow the Yield Curve Control (YCC) to rise above 1% which indicates a gradual move away from their seven-year ultra-loose YCC policy. The depreciation of the yen has been related to the policy the over past years. Mounting inflation has however increased the pressure on the BoJ Governor Kazuo Ueda to phase out the YCC.

Inflationary pressures in Tokyo have intensified, with the consumer price index (CPI) rising to 3.3%. Additionally, Japan's trade balance has exceeded expectations at 72.1 Billion JPY.

For now, the yield differential has increasingly been in favor of the US dollar. Looking forward we see the end of the Yield Curve Control (YCC) in Q2 2024, thus higher rates and a fall in the interest rate differential reinforced by the expected rate cuts by the Fed in 2024.

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

Source: LSEG Datastream, 07/11/2023

SEK VIEW >>
TARGET 12M VS EUR: 11

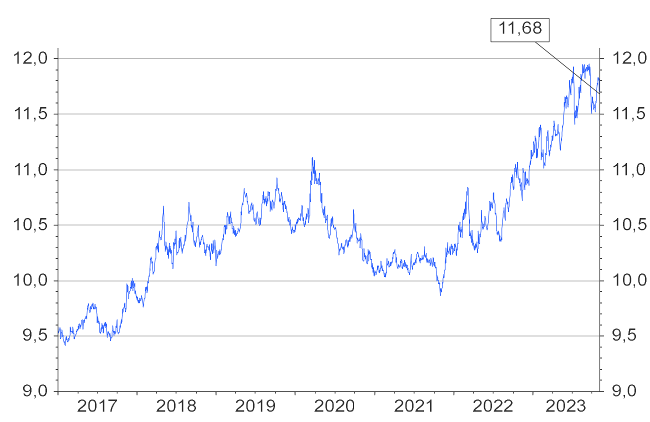
Look for a stabilization after the recent rise

The Swedish Krona (SEK) depreciated 2.4% against the Euro in September. As of November 7th, it was trading at around 11.7 (value of one euro). On September 21st, the central bank of Sweden (Riksbank) raised its key policy rate by 25bp to 4%, as expected. This is the eighth consecutive hike. As of November 7th, markets were pricing a 30% probability for another 25bp hike on November 22nd. Swedish home prices extended their decline in October as high interest rates are putting pressure on homeowners with variable-rate mortgages. It is estimated that home prices have declined almost 14% since hitting a peak in spring of 2022.

Inflation in Sweden printed higher-than-expected with CPI inflation at 6.5% and core inflation at 6.9%. These figures indicate a more pronounced inflationary environment than anticipated. The SEB housing price printed 4 in October, well below its historical average of 32 indicating that more people believe in a decrease in home prices. The manufacturing PMI has shown signs of recovery, rising to 45.7 but it still suggests contraction in the sector.

The outlook for the EURSEK will depend on the interplay between Sweden's inflation trajectory and the Riksbank's monetary policy. We still expect the Riksbank to hike one more time and eventually cut rates after the ECB in Q3 2024.

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



Source: LSEG Datastream, 07/11/2023

NOK VIEW >>
TARGET 12M VS EUR: 10.80

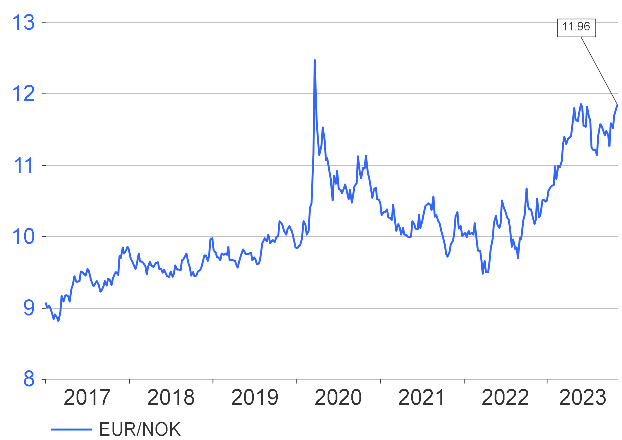
Positive outlook

The Norwegian Krone (NOK) depreciated 4.4% against the Euro in October. On November 7th it was trading at around 11.9 (value of one euro). On November 3rd the Norges Bank decided to keep its policy rate at 4.25%, as expected. This should give time for the economy to absorb the impact of previous rate hikes.

The central bank has signaled the possibility of an additional rate hike before year end. The latter would help strengthen the NOK. Meanwhile the Norwegian economy has somewhat been insulated by elevated oil prices, given its role as a crucial energy supplier for Western Europe, especially in the current geopolitical context. We expect oil prices to rise back in a 85-95$ range.

With core inflation receding more than expected in October at 5.7%, the financial outlook appears to be tilting towards a less aggressive inflationary environment. The NOK remains quite weak in historical comparison. A gradual appreciation can be expected if more rate cuts for 2024 are expected in the eurozone relative to Norway and if oil prices remain high. This is our scenario.

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 of the NOK.



Source: LSEG Datastream, 07/11/2023

AUD VIEW >>
TARGET 12M VS USD: 0.70

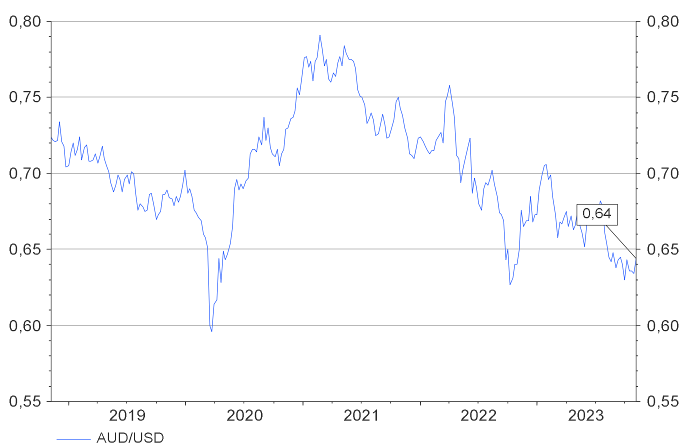
Looking for a gradual recovery

The Australian dollar (AUD) depreciated 1.5% against the US dollar in October. On November 7th it was trading at around 0.64 (value one AUD).

On October 4th, the Reserve Bank of Australia (RBA) maintained its policy rate at 4.10% for the fourth consecutive time. As of November 7th, markets were pricing a 30% chance for a 25bp hike on December 5th. The CPI inflation for Q3 printed 5.4% slightly higher than expected and unemployment rate was lower than expected at 3.6%. Australia's trade balance has come in below expectations at AUD 6.786 million, while building approvals have also fallen significantly, registering a -4.6% change, a figure much lower than anticipated.

China's economic slowdown is impacting Australian growth, as evidenced by a manufacturing PMI at 48.2 and a services PMI at 47.9, both indicative of a contraction (below 50). Overall, the recent rise in commodity prices has supported the Australian terms of trade. On top of that, the expected China stimulus should also favor the AUD. The interest rate differential with the US should thus become less favorable for the USD.

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



NZD VIEW >>
TARGET 12M VS USD: 0.63

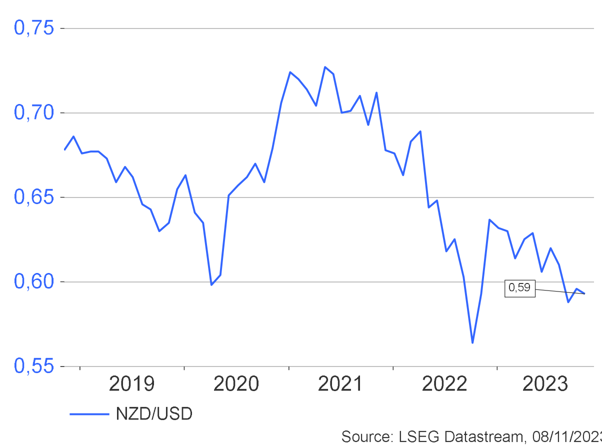
Little upside short-term

The New Zealand dollar (NZD) depreciated 3% against the US dollar in October. As of November 7th, it was trading at around 0.59. On October 4th, the reserve bank of New Zealand (RBNZ) maintained policy rate at 5.5% for the 4th consecutive time. As of November 7th, markets were pricing a 6% probability for another 25bp hike on November 29th.

The Q3 CPI inflation printed lower than expected at 5.6%. Both exports and imports have decreased in October and manufacturing PMI printed 45.3. These are direct effects of China's weak momentum. New Zealand's trade deficit widened, with the balance decreasing to NZD -2.239 million.

Overall, we expect New Zealand's economy to weaken further and the central bank to cut interest rates next year. For next year, the market expects about 90bp rate cuts in New Zealand compared to less than 50bp in Australia and 150bp in the US. Consequently, the interest rate differential with the US is poised to become less favorable for the USD.

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



CAD VIEW >>
TARGET 12M VS USD: 1.30

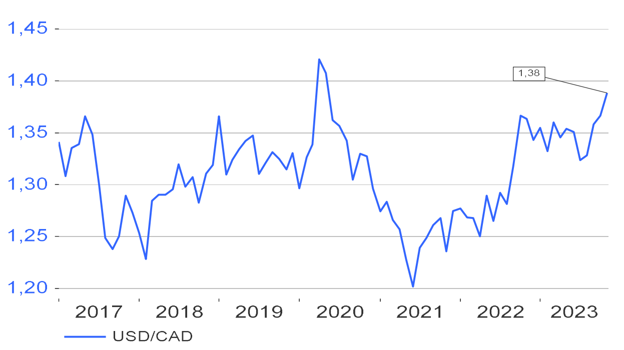
Some upside from current levels

The Canadian dollar (CAD) depreciated 2.2% against the US dollar in October. As of November 7th, it was trading at around 1.37 (value of one USD). The Bank of Canada (BoC) opted to keep its policy rate on hold at 5% during its October 25th meeting, a move that was widely anticipated by the market. Current market sentiment forecasts the beginning of rate cuts in Q2 2024.

CPI year-on-year inflation in Canada was reported at 3.8% in October, below projections. This decrease in inflation was "broad-based" and stemmed from lower prices for a variety of goods and services, including travel, durable goods and some grocery items. This broad easing of price pressures provided the BoC with the latitude to refrain from imposing an additional 25bp hike at its October meeting. Manufacturing PMI in October printed 48.6, higher than previously but still suggesting contraction.

Overall, US yield advantage over Canada has widened supporting the USD recently. We expect this trend to reverse as it becomes clear that the US will start to cut rates in late Q2 2024 and that the Bank of Canada 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

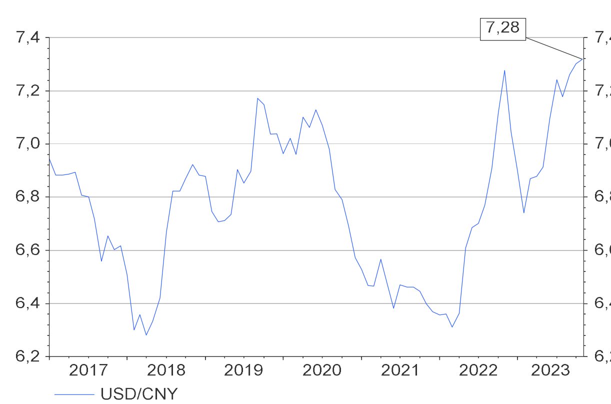
Strengthening of the CNY

The Chinese Yuan (CNY) has remained flat at around 7.3 (value of one dollar). In October, the People's Bank of China (PBoC) has held the loan prime rates steady, with the 1-year rate at 3.45% and the 5-year at 4.2%. These rates are a critical part of the central bank's toolkit to manage economic growth and stability. Additionally, the PBoC uses daily fixing to keep the Chinese Yuan (CNY) stable around a set of reference rate, with a permissible fluctuation margin of 2%.

China's GDP growth for Q3 outpaced forecasts recording a 4.9% increase year-over-year. However, money supply growth (M2 YY) decelerated to 10.3% reflecting tighter liquidity conditions than expected. Inflation remained subdued with the CPI printing 0%, which may signal weaker consumer demand and/or pricing power. The Caixin manufacturing PMI came in at 49.5 and services PMI at 50.4. The industrial output printed a robust 5.5% year-on-year, surpassing expectations and pointing to a rebound in industrial activity.

Given the current economic trajectory and policy stance, it is expected that the PBoC will continue to use its monetary policy to support growth. The interest rate differential with the US should move more in favor of the Chinese currency given the expected Fed rate cuts.

We maintain our 3-month target at 7.2 and our 12-month target at 6.8. That still suggest a gradual recovery of the CNY over the coming year.



MXN VIEW >> TARGET 12M VS USD: 18.50

Trend reversal

The Mexican Peso (MXN) depreciated 3.7% against the US dollar in October. As of November 7th, it was trading at around 17.4 (value of one dollar). The MXN along with other Latin American currencies has depreciated since the end of summer.

Mexico's central bank (Banxico) has held the policy rate steady at 11.25% since March, with a cautious stance towards initiating a rate-cutting cycle. We expect the first rate cut in May 2024 with an initial cut of 25bp, taking the reference rate to 9.25% towards year end.

Core inflation levels are still high at 5.76% and persistence in services prices must be closely monitored. The manufacturing PMI showcased robust expansion with a reading of 52.1, indicating a healthier industrial output year-over-year surprised positively with at 5.2% increase, surpassing expectations and consolidating the nearshoring scenario.

The MXN is correcting and is still down 10% year-to-date. We see the yield differential favoring the US dollar in the coming months.

We maintain our 3-month target at 18 (value of one USD) and our 12-month target at 18.5. These targets suggest a depreciation of the MXN in the coming months.

Source: LSEG Datastream, 07/11/2023

BRL VIEW >> TARGET 12M VS USD: 5.0

Likely rebound

The Brazilian real (BRL) traded near 5 against the US dollar in October (value of one USD). As of November 7th, it was trading at around 4.9. On November 1st Brazil's central bank (BCB) reduced the Selic rate from 12.75% to 12.25% in a unanimous decision, as expected.

Among key highlights, global factors gained importance in determining policy going forward and the central bank revised up inflation projections for 2024 and 2025.

The BCB has shifted to a more cautious easing cycle, it is expected to implement a 50bp cut followed by a final 25bp cut in July 2024, concluding the cycle at a 9.5% Selic rate. This cautious approach takes into account global rate movements and a recalibrated inflation outlook, signaling a slower pace of easing than previously anticipated. In October, the trade balance showed a lower-than-expected surplus at USD 8.959 Billion, indicating a potential slowdown in trade flows. The manufacturing PMI underscored this narrative, registering a contraction at 48.6 while the services PMI printed 51.

Overall, real yields should remain high and limit the downside for the currency despite the expected rate cuts.

We maintain our 3-month target at 5 (value of one USD) and our 12-month target at 5. That suggest a moderate rebound in the coming months.

Source: LSEG Datastream, 07/11/2023

	Country		Spot 07/11/2023	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1,07	Neutral	1,06	Negative	1,15
	United Kingdom	EUR / GBP	0,87	Neutral	0,86	Neutral	0,86
	Japan	EUR / JPY	160,81	Positive	154	Positive	154
	Switzerland	EUR / CHF	0,96	Neutral	0,98	Neutral	0,98
	Australia	EUR / AUD	1,66	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	11,68	Positive	11,00	Positive	11,00
	Norway	EUR / NOK	11,96	Positive	11,30	Positive	10,80
Asia	China	EUR / CNY	7,78	Neutral	7,63	Neutral	7,82
	India	EUR / INR	88,97	Positive	86,92	Negative	94,30
Latam	Brazil	EUR / BRL	5,20	Neutral	5,30	Negative	5,75
	Mexico	EUR / MXN	18,72	Neutral	19,08	Negative	21,28

	Country		Spot 07/11/2023	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1,07	Neutral	1,06	Positive	1,15
	United Kingdom	GBP / USD	1,23	Neutral	1,23	Positive	1,34
	Japan	USD / JPY	150,50	Positive	145,00	Positive	134,00
	Switzerland	USD / CHF	0,90	Negative	0,92	Positive	0,85
	Australia	AUD / USD	0,64	Positive	0,68	Positive	0,70
	New-Zealand	NZD / USD	0,59	Neutral	0,60	Positive	0,63
	Canada	USD / CAD	1,38	Positive	1,32	Positive	1,30
Asia	China	USD / CNY	7,29	Neutral	7,20	Positive	6,80
	India	USD / INR	83,27	Neutral	82,00	Neutral	82,00
Latam	Brazil	USD / BRL	4,87	Negative	5,00	Negative	5,00
	Mexico	USD / MXN	17,52	Negative	18,00	Negative	18,50
EMEA	South Africa	USD / ZAR	18,38	Positive	18,00	Positive	17,50
	USD Index	DXY	105,54	Neutral	105,00	Negative	97,40

Source: Refinitiv - BNP Paribas WM

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