

# Currencies Focus

## Summary

1. We made no major change to our targets this month. The US dollar index (DXY) decreased 3.3% and the Euro index (EXY) increased 3% in November.
2. We believe both the Fed and the ECB have reached their terminal rate at 5.25-5.5% and 4% respectively. In 2024 we expect the Fed to cut rates by 125bp as of May and the ECB to cut rates by 75bp as of June. The evolution 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. Oceanic currencies have appreciated recently. In November, New Zealand's central bank (RBNZ) maintained rates at 5.5% for the fourth consecutive time and the Australian central bank (RBA) increased its cash rate another 25bp to 4.35%. We expect both central banks to maintain elevated rates throughout 2024 which will improve their yield differential versus the US. **We maintain our AUD/USD 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. We maintain our 3-month target for the NZD/USD at 0.60 and our 12-month target at 0.63. This also suggests a gradual appreciation of the NZD against the US dollar.**
4. The EURCHF (value of one euro) was closed to all time lows. The Swiss franc maintains its status as a global inflation hedge and save heaven. It should remain normalize a bit but should stay strong. **We maintain our 3- and 12-month targets at 0.98.**

Writing completed December 14<sup>th</sup> 2023.

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## OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 12/12/2023	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 0,94	0,98	0,98
	Japan	EUR / JPY 157,03	154	154
	Sweden	EUR / SEK 11,28	11,00	11,00
	Norway	EUR / NOK 11,84	11,30	10,80
Against dollar	Japan	USD / JPY 145,65	145	134
	Canada	USD / CAD 1,36	1,32	1,30
	Australia	AUD / USD 0,66	0,68	0,70
	New Zealand	NZD / USD 0,61	0,60	0,63
	Brazil	USD / BRL 4,96	5,00	5,00
	India	USD / INR 83,39	82,0	82,0
China	USD / CNY 7,18	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 almost 3% in November versus the Euro, it is trading at around 1.08 as of December 14<sup>th</sup>. The Federal reserve's comments at their December meeting suggest a growing probability that they will start cutting rates late spring 2024. Short-term markets seem to be getting too excited and expect a cut as early as March. Indeed, despite the disinflation process, we think that uncertainty remains due to elevated core inflation and the resilience of economic activity and the labor market.

Core CPI printed lower than expected at 4%, while Core PCE stood at 3.5%. Initial jobless claims remain low signaling a tight job market. The manufacturing PMI remained below 50 at 49.4 and the service PMI at 50.8, indicating a narrowing gap between both. We anticipate 125bp of rate cuts from the Fed in 2024, starting in May. In the Eurozone, the unemployment rate stood at 6.5%, as expected. November's manufacturing PMI slightly exceeded expectations at 44.2, while the services PMI printed at 48.2. The economic sentiment was at 93.8, with the economic surprise index still negative at -30, indicating economic figures below market expectations. We project the ECB to maintain policy rates until June 2024, then cut rates 75bp by end of 2024. The interest rate differential between the USD and the euro is anticipated to gradually decrease, putting negative pressure on the USD.

**The US dollar is expected to remain strong at the year-end and 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).**



## GBP VIEW >> TARGET 12M VS EUR: 0.86

### No major driver short-term

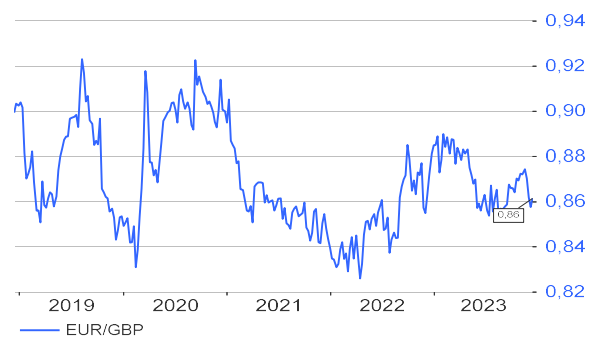
The GBP appreciated 1.3% against the Euro in November and was trading at around 0.86 (value of one euro) as of December 14<sup>th</sup>. The Bank of England (BoE) has adopted a "higher for longer" interest rate strategy aimed at curbing persistent inflation.

In November, the Manufacturing PMI printed 47.2, exceeding expectations, and Services PMI increased to 50.9. CPI and core CPI inflation were lower than expected at 4.6% and 5.7%, respectively, while the unemployment rate stood at 4.6% reflecting tight employment conditions. Nationwide house prices decreased by -2% year-over-year. We expect the BoE to cut rates by 125bp in 2024, starting in May.

In the short term, the macroeconomic environment and relative growth outlook aren't expected to create a new trend in EUR/GBP (value of one euro). In December train workers will be on strike in pursuit of a proper pay rise which is a clear rejection of the offer that was made in April.

Looking ahead, UK elections end of 2025 is edging towards a Labour win. Continued strength of Labour in the opinion polls should have a limited impact on the currency.

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



## CHF VIEW >> TARGET 12M VS EUR: 0.98

### CHF to stay strong

In November, the CHF appreciated 1.3% against the euro. As of December 14<sup>th</sup>, the EURCHF was trading at around 0,95 (value of one euro). Economic indicators in Switzerland portrayed a mixed picture. The business sentiment indicator, slightly increasing to 96.7, surpassed expectations, suggesting some resilience in economic activity. However, the 3<sup>rd</sup> quarter GDP 2023 was lower than anticipated at 0.3%.

The CPI inflation also printed lower than expected at 1.4%, reflecting moderate inflation pressures. Swiss manufacturing experienced a steeper downturn than expected in recent months with a PMI index at 42.1 in November, signaling a contraction. Employment continued to decline, reaching its lowest level since October 2020.

There were interest comments by the Swiss central bank at their meeting December 14<sup>th</sup>. Authorities argued that “after rate increases of 2.5% and significant exchange rate appreciation, monetary conditions are now appropriate”. They are likely to cut rates in a similar way compared to the ECB. We do not see a major driver for the CHF in the coming months.

**We maintain our 3- and 12-month targets at 0.98 (value of one euro), indicating a resilient Swiss franc in the coming months.**



## JPY VIEW >> TARGET 12M VS USD: 134

### Still undervalued

In November, the Japanese yen showed notable strengthening, appreciating by 2.5% against the US dollar. As of December 14<sup>th</sup>, the JPY was trading at around 146 (value of one dollar). This contrasts with the preceding trend of depreciation.

Various economic indicators contributed to this shift. The unemployment rate, lower than expected at 2.5%, demonstrated a robust job market. The manufacturing PMI indicated a challenging economic environment printing 48.3. The Jobs/Applicants ratio exceeded expectations at 1.30. Additionally, the Service Producer Price Index (PPI) at 2.30% suggested an increase in average sale prices for domestic goods and services.

The shift in the yen's performance is noteworthy given the earlier depreciation. The Bank of Japan's decision to allow the Yield Curve Control (YCC) to rise above 1% at the October monetary policy meeting marked a gradual departure from the ultra-loose YCC policy in place for seven years. With mounting inflationary pressures, the BoJ faced increased pressure to phase out YCC. Looking ahead, the potential end of YCC in Q2 2024, coupled with anticipated rate cuts by the Fed in 2024, is expected to influence the yield differential, favoring the Japanese yen.

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



## SEK VIEW >>

### TARGET 12M VS EUR: 11

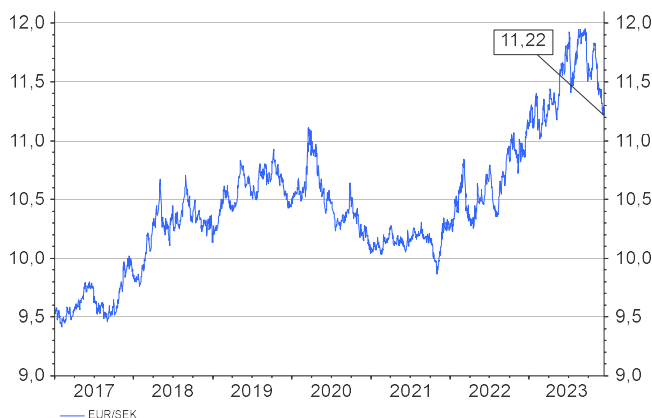
Look for a stabilization after the recent rise

In November, the Swedish Krona (SEK) exhibited strength, appreciating by 4.5% against the euro. As of December 14<sup>th</sup>, it was trading at around 11.2 (value of one euro). This contrasts with the previous trend of depreciation.

The Riksbank's monetary policy announcement in November contributed to this shift. Contrary to market expectations, the Riksbank maintained rates at 4%, and the executive board emphasized the need for contractionary policy to address inflation concerns. There is a readiness to raise the policy rate further if inflation prospects deteriorate, emphasizing a commitment to stability.

Economic indicators, however, reflect challenges. While CPI inflation printed lower than expected at 6.5%, core CPI inflation stood at 6.1%, indicating persistent inflationary pressures. The manufacturing PMI showed signs of a slight recovery but remained below the threshold at 49, signaling no clear recovery 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. The unexpected decision to maintain rates suggests caution and a nuanced approach to balancing inflation and economic stability.

**We maintain our 3- and 12-month targets at 11 (value of one Euro), indicating a marginal appreciation of the Swedish krona despite the challenges posed by inflation and housing market dynamics.**



## NOK VIEW >>

### TARGET 12M VS EUR: 10.80

Positive outlook

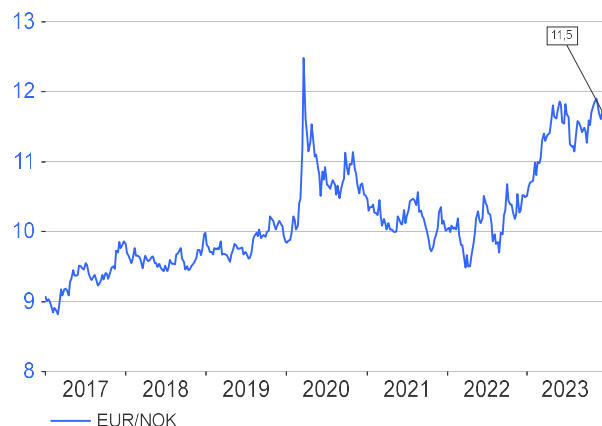
The Norwegian Krone (NOK) appreciated 1.5% against the euro in November. On December 14<sup>th</sup> it was trading at around 11.5 (value of one euro) signaling a reversal of the previous depreciation trend.

The Norges Bank's decision on November 3<sup>rd</sup> to maintain its policy rate at 4.25%, in line with expectations, gives time to the economy to absorb the impact of prior rate hikes. The central bank has hinted at the possibility of an additional rate hike before year-end, a move that could further bolster the NOK. As of December 11<sup>th</sup> markets are pricing a 52% probability for a 25bp hike on December 14<sup>th</sup>.

Norway's economic stability is partially attributed to its role as a crucial energy supplier, especially amid current geopolitical uncertainties. Elevated oil prices, anticipated to remain in the 85-95\$ range, contribute to the country's economic resilience.

A potential scenario for gradual appreciation is envisioned, particularly if the ECB starts rate cuts in 2024 with more cuts compared to Norway.

**We maintain our 3-month target for the NOK at 11.3 and our 12-month target at 10.8 (value of one euro), reflecting expectations for NOK appreciation.**



## AUD VIEW >>

### TARGET 12M VS USD: 0.70

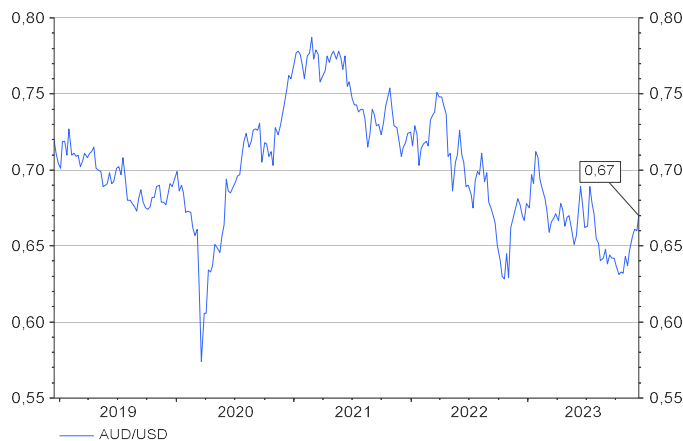
#### More upside

The Australian dollar (AUD) appreciated 3.8% against the US dollar in December. On December 14<sup>th</sup> it was trading at around 0.67 (value of one AUD) marking a notable reversal from the depreciation observed in October.

On December 5<sup>th</sup>, the Reserve Bank of Australia (RBA) opted to maintain its policy rate at 4.35%, in line with expectations. The unemployment rate at 3.7%, remains low compared to historical averages, indicating a robust job market. However, economic indicators, such as manufacturing and services PMI, remained subdued at 47.7 and 46, respectively, signaling contraction.

Australia's economic landscape faces challenges, with China's economic slowdown impacting growth, as reflected in PMI figures below 50. Despite these challenges, additional upside in commodity prices and anticipated stimulus from China should support Australia's terms of trade, favoring 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 more appreciation of the Australian dollar against the US dollar.**



## NZD VIEW >>

### TARGET 12M VS USD: 0.63

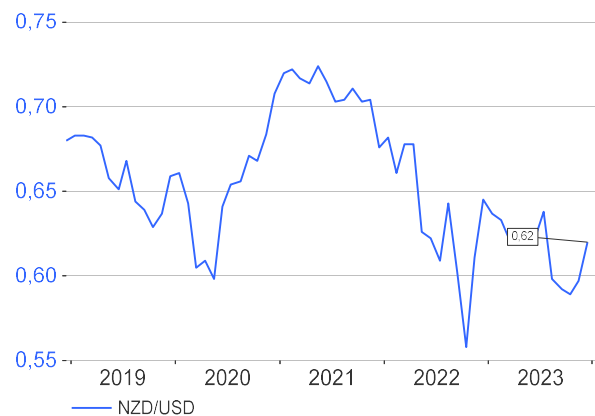
#### The upside is more limited

On November 29<sup>th</sup>, the Reserve Bank of New Zealand (RBNZ) decided to maintain its policy rate at 5.5%, continuing the trend from the previous four meetings. The central bank's decision aligns with its aim to keep demand growth subdued and inflation within the 1% to 3% target range.

Economic indicators for New Zealand present a mixed picture, with Q3 CPI inflation printing lower than expected at 5.6%. Manufacturing PMI declined to 42.5, indicating a gradual contraction since April. New Zealand's trade balance remains negative influenced by China's weakened momentum impacting exports and imports.

Looking ahead, the RBNZ is expected to maintain a restrictive monetary policy to keep demand growth subdued. The market anticipates only approximately 90bp rate cuts in New Zealand for the upcoming year, making the interest rate differential with the US 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 moderate appreciation of the New Zealand dollar against the US dollar.**



## CAD VIEW >>

### TARGET 12M VS USD: 1.30

#### Some upside from current levels

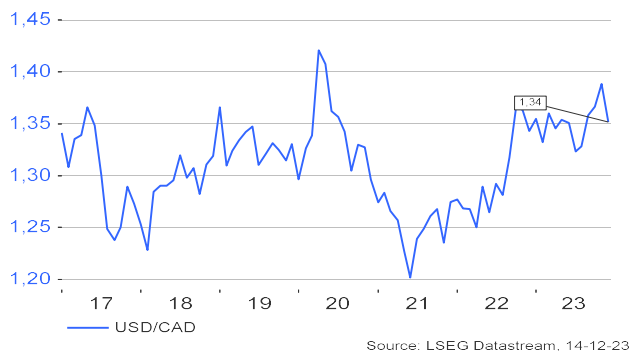
The Canadian dollar (CAD) appreciated 2,45% against the US dollar in November. As of December 14<sup>th</sup> it was trading at around 1.34 (value of one dollar). On December 6<sup>th</sup>, the Bank of Canada (BoC) maintained rates at 5% for the 4<sup>th</sup> consecutive time.

The BoC reiterated that it "remains prepared to raise the policy rate further if needed". The latter remains unlikely as the market is pricing only a 10% probability for a 25bp rate cut on January 24<sup>th</sup> 2024 meeting. In November core CPI inflation printed 2.7%, lower than expected.

The trade balance increased and was higher than expected. The tightness of the labour market continues to be a concern for the BoC, as policymakers pointed to lingering inflationary risks in the meeting statement. We doubt Canadian unemployment is bound for a sharp rise in the near term. The unemployment rate remains elevated at 5.8% and the manufacturing PMI below 50 at 47.7.

Recently, the yield differential has favored the CAD. We expect this trend to continue as it becomes clear that the US will start to cut 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

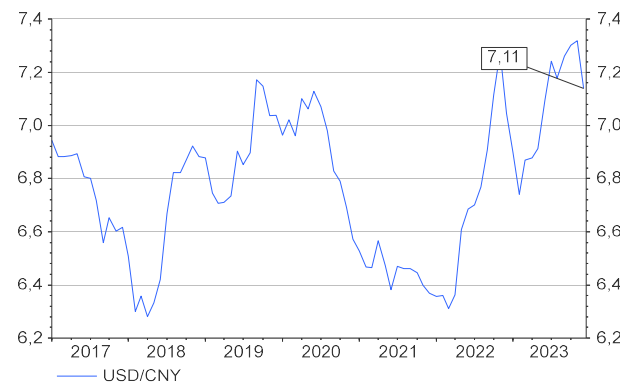
#### Strengthening of the CNY

The Chinese Yuan (CNY) appreciated 3.3% against the US dollar. As of December 14<sup>th</sup>, the USDCNY was trading at around 7.11 (value of one dollar). The People's Bank of China (PBoC) held the loan prime rates steady, maintaining the 1-year rate at 3.45% and the 5-year rate at 4.2%. These rates are crucial tools for managing economic stability. The PBoC's daily fixing mechanisms kept the CNY at a daily reference rate around 7.11 within a 2% fluctuation margin.

China's Q3 GDP growth exceeded expectations, with a 4.9% increase year-over-year, indicating a rebound in economic activity. Inflation remained subdued, with the CPI measure printing at -0.2%, indicating potential weaknesses in consumer demand or pricing power. The Caixin manufacturing PMI exceeded expectations at 50.7, and services PMI printed at 51.5, showcasing positive signs in both sectors.

Given the current economic trajectory and policy stance, it is anticipated that the PBoC will continue using monetary policy to support growth. The expected Fed rate cuts may contribute to an interest rate differential evolution in favor of the CNY.

**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****Trend should be lower**

In November, the Mexican Peso (MXN) appreciated 3.2% against the US dollar. As of December 14<sup>th</sup> the USDMXN pair was trading at around 17.3.

Mexico's central bank, Banxico, has maintained its cautious stance on the policy rate, holding it steady at 11.25% since March. Despite high inflation levels at 4.32%, the central bank has yet to initiate a rate-cutting cycle. The manufacturing PMI indicated robust expansion with a reading of 52.5, suggesting a healthy industrial output. Additionally, GDP growth for Q3 surprised positively, printing at 3.3%, exceeding expectations and consolidating the nearshoring scenario.

While inflation remains a concern, printing 4,32% in December, central bank unanimously decided to maintain interest rates to achieve a sustained convergence of headline inflation to the 3% target.

The MXN's correction is part of the ongoing correction in Latin American currencies. The strong appreciation seen last year is probably somewhat exaggerated leaving the MXN somewhat overvalued.

**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**

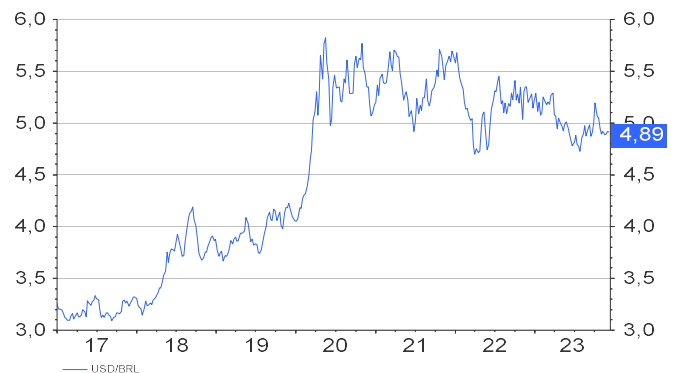
The Brazilian real (BRL) appreciated 1.5% in November. As of December 14<sup>th</sup> it was trading at around 4.90 (value of one US dollar). As expected, the Central Bank of Brazil (BCB) reduced the Selic rate from 12.75% to 12.25% in a unanimous decision. Notably, global factors have gained prominence in shaping future monetary policy, leading to a more cautious easing cycle.

The central bank revised inflation projections for 2024 and 2025 indicates a more prudent approach. The expectation is for a 50bp cut followed by a final 25bp cut in July 2024, concluding the cycle with a 9.5% Selic rate. This reflects a careful consideration of global rate dynamics and a recalibrated inflation outlook, suggesting a slower pace of easing than previously anticipated.

Economic indicators present a mixed picture, with the trade balance showing a lower-than-expected surplus and manufacturing and services PMI printing at 49.4 and 51.2, respectively. However, GDP growth for Q3 exceeded expectations, printing at 2%, and the inflation rate was at 4.82%.

Despite the cautious easing cycle, real yields are expected to remain high, which should mitigate significant downside pressure on the currency.

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



	Country	Spot 12/12/2023	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	157,03	Positive	154	Neutral	154
	Switzerland	EUR / CHF	0,94	Negative	0,98	Negative	0,98
	Australia	EUR / AUD	1,64	Positive	1,56	Neutral	1,64
	New-Zealand	EUR / NZD	1,76	Neutral	1,77	Negative	1,83
	Canada	EUR / CAD	1,47	Positive	1,40	Neutral	1,50
	Sweden	EUR / SEK	11,28	Positive	11,00	Positive	11,00
	Norway	EUR / NOK	11,84	Positive	11,30	Positive	10,80
Asia	China	EUR / CNY	7,74	Neutral	7,63	Neutral	7,82
	India	EUR / INR	89,91	Positive	86,92	Negative	94,30
Latam	Brazil	EUR / BRL	5,34	Neutral	5,30	Negative	5,75
	Mexico	EUR / MXN	18,67	Negative	19,08	Negative	21,28

	Country	Spot 12/12/2023	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	Neutral	1,23	Positive	1,34
	Japan	USD / JPY	145,65	Neutral	145,00	Positive	134,00
	Switzerland	USD / CHF	0,88	Negative	0,92	Positive	0,85
	Australia	AUD / USD	0,66	Positive	0,68	Positive	0,70
	New-Zealand	NZD / USD	0,61	Negative	0,60	Positive	0,63
	Canada	USD / CAD	1,36	Positive	1,32	Positive	1,30
Asia	China	USD / CNY	7,18	Neutral	7,20	Positive	6,80
	India	USD / INR	83,39	Neutral	82,00	Neutral	82,00
Latam	Brazil	USD / BRL	4,96	Neutral	5,00	Neutral	5,00
	Mexico	USD / MXN	17,32	Negative	18,00	Negative	18,50
EMEA	South Africa	USD / ZAR	19,06	Positive	18,00	Positive	17,50
	USD Index	DXY	103,87	Neutral	105,00	Negative	97,40

Source: Refinitiv - BNP Paribas WM

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