JULY 2024

Currencies Focus

Summary

1. The US dollar index (DXY) appreciated around 1.3% in June while the Euro index (EXY) remained flat. Currency volatility remains low at around 6 compared to its historical average of 8.2.
2. In the US, we still expect one rate cut in 2024 in September. We forecast 4 cuts in 2025 and 2 more cuts in 2026. In Europe, the ECB announced its first rate on June 6th. We still anticipate two more rate cuts this year, and three cuts in 2025. **We maintain our 3-month EURUSD target at 1.06 and keep our 12-month target at 1.12.**
3. Elections in the UK and France did not have a major impact on currencies. The spike in volatility was short lived. This could stabilize the EUR/GBP over the coming months. Short-term the GBP strength could persist due to the recent more hawkish BoE message. **We revise our 3-month target to 0.84 keep our 12-month target at 0.86 (value of one euro).**
4. Despite the BRL being significantly undervalued from a Purchasing Power Parity perspective the Brazilian currency further depreciated in part due to uncertainty regarding Brazil's central bank outlook and current tensions with President Lula who believes rates should be lower. Looking forward, the yield differential should favor the BRL. **We maintain our USD/BRL 3-month and 12-month targets at 5, suggesting an appreciation for the BRL.**

Writing completed on July 10th

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OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 11/07/2024		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1,09	1,06	1,12
	United Kingdom	EUR / GBP	0,84	0,84	0,86
	Switzerland	EUR / CHF	0,97	0,98	0,98
	Japan	EUR / JPY	172,49	159	157
	Sweden	EUR / SEK	11,39	11,00	11,00
	Norway	EUR / NOK	11,64	11,30	10,80
Against dollar	Japan	USD / JPY	158,55	150	140
	Canada	USD / CAD	1,36	1,32	1,30
	Australia	AUD / USD	0,68	0,68	0,70
	New Zealand	NZD / USD	0,61	0,60	0,63
	Brazil	USD / BRL	5,42	5,00	5,00
	India	USD / INR	83,57	82,0	82,0
	China	USD / CNY	7,27	7,40	7,20

Source: Refinitiv - BNP Paribas WM

USD VIEW >>
TARGET 12M VS EUR: 1.12

Dollar could remain strong short-term

The US dollar appreciated 1% against the Euro in June and was trading at around 1.08 on July 10th. On June 12th, the Federal Reserve maintained its fund target rate between 5.25-5.5%, as expected. The US unemployment rate stands at 4.1%, with an ISM Non-Manufacturing PMI index at 48.8 and an ISM Manufacturing PMI of 48.5. Initial jobless claims are at 238K, and the international trade deficit is $75.1 billion. The Core PCE year-over-year is at 2.6%. Overall, the economic surprise index is at -45 as of July 10th.

In the eurozone, the ECB decreased its refinancing and deposit rate by 25 basis points, now settling at 4.25% and 3.75% respectively. The service PMI is at 52.8, and the manufacturing PMI is at 45.8. The unemployment rate remains stable at 6.4%, and the core inflation for May printed at 2.6%. The economic momentum as measured by the economic surprise index is more in favor of the eurozone.

Looking ahead, we expect the Fed to cut rates for the first time in September, while we see the ECB delivering two more cuts in September and December 2024. This could support the USD in the coming months. Our long-term outlook suggests more rate cuts in the US over 2025-26, pointing to a gradual weakening of the USD against the euro. The long-term fair value (Purchasing Power Parity) is estimated at around 1.37.

As such, **we maintain our 3-month target at 1.06 and our 12-month target for the EUR/USD at 1.12 (value of one euro). This suggests short-term dollar strength followed by a gradual depreciation of the dollar over the coming year.**

Source: LSEG Datastream, 10/07/2024

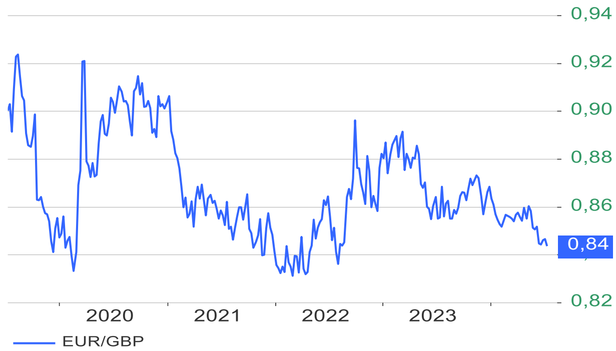
GBP VIEW >>
TARGET 12M VS EUR: 0.86

Recent GBP appreciation

The GBP appreciated 0.4% against the Euro in June and was trading at around 0.84 on July 10th. On June 20th, The Bank of England maintained its policy rate at 5.25%, as expected. The inflation rate printed as expected at 2% for May. The SP Global Manufacturing PMI index printed lower than expected at 50.9. The GDP year-on-year for Q1 2024 was at 0.3%, higher than expected. Retail sales year-on-year were at 1.3%, also higher than expected.

The pound firmed as the Labour Party secured a landslide victory in the UK general election with Mr. K. Starmer promising the British public he would steer the country towards "calmer waters." The UK election outcome of a sizeable Labour majority seems positive for the GBP as it ushers in a period of higher political stability. We will also be watching the scope for UK-EU relations to improve under a Labour government, as well as the possibility for growth-positive reforms and spending policies.

For the Bank of England, we anticipate two rate cuts this year, with the first cut likely in September, leading to a policy rate of 4.75% by the end of 2024. We expect more rate cuts in 2025. Short-term the GBP strength could persist due to the recent more hawkish BoE message. **We revise our 3-month target to 0.84 keep our 12-month target at 0.86 (value of one euro).**



Source: LSEG Datastream, 10/07/2024

CHF VIEW >> TARGET 12M VS EUR: 0.98

No major trend

In June, the CHF appreciated 1.3% against the Euro, with the EURCHF trading at around 0.97 as of July 10th. The Swiss National Bank (SNB) decreased rates on June 20th, cutting interest rates by 25 basis points to set the policy rate at 1.25%. There was a notable chance that the SNB might decide to hold due to the significant drop in inflation. Chairman Jordan attributed the recent franc appreciation to political uncertainty. A stronger franc makes Swiss exports more costly for trading partners and can hinder growth. Jordan also mentioned the Bank's commitment to intervene in the FX market as necessary.

Early signs of economic recovery in Switzerland suggest that interest rates are not overly restrictive. Additionally, Swiss wages showed resilience, maintaining 1.8% for three consecutive quarters and only slightly dropping to 1.7% in Q4 2023. Swiss inflation remains well below the 2% target, steady at 1.4% for the second month, much lower compared to the US and EU. In June, the KOF business survey increased to 102.7. However, the manufacturing PMI printed lower than expected at 43.9. The unemployment rate remained steady at 2.4%.

The CHF strength is expected to continue. Therefore, **we maintain our 3- and 12-month target for the EURCHF at 0.98.**

Source: LSEG Datastream, 10/07/2024

JPY VIEW >> TARGET 12M VS USD: 140

Major upside once central banks get going

In June, the JPY depreciated 2.7% against the US dollar. As of July 11th, it was trading at around 161 (value of one US dollar). On June 14th, the Bank of Japan (BoJ) maintained its rate at 0-0.1%, as expected.

There is a risk that FX weakness could cause a sooner-than-expected move by the BoJ, but this is unlikely to result in a trend change.

We still expect a rate hike in September this year and another in March next year. We now see a terminal rate at 1.5% in September 2026 rather than March 2027. Japan's inflation stands at 2.8% and core inflation at 2.5%. The unemployment rate remained at 2.6%, as expected. The Manufacturing PMI business survey index was at 50.1, while the Service PMI was at 49.4.

The economic momentum remains in favor of Japan and the Yen. **We maintain our USDJPY 3-month target at 150 and our 12-month target at 140, suggesting an appreciation of the Yen.**

Source: LSEG Datastream, 10/07/2024

SEK VIEW >>
TARGET 12M VS EUR: 11

Close to target level

In June, the Swedish currency (SEK) remained flat against the Euro and was trading at around 11.4 on July 10th. The SEK resisted well despite the start of the interest rate cuts by the Riksbank in May. This resilience could be attributed to the measured pace of easing, as evidenced by the decision to keep rates on hold in June at 3.75%. The central bank also indicated the possibility of three rate cuts in the second half of 2024, despite inflation stabilizing around target levels. The Riksbank's dovish stance, especially in contrast to the Norges Bank, suggests an ongoing potential for the SEK to underperform relative to the NOK.

The inflation printed higher than expected at 3.7%. The manufacturing PMI printed at 53.6, reflecting a slight decrease by 0.5 points, in line with developments in the Euro area.

We see more rate cut potential for the ECB compared to the Riksbank, which should improve the yield differential in favor of the SEK. **We maintain our 3- and 12-month targets at 11, indicating a small appreciation of the Swedish krona**.

Source: LSEG Datastream, 10/07/2024

NOK VIEW >>
TARGET 12M VS EUR: 10.80

Appreciation potential

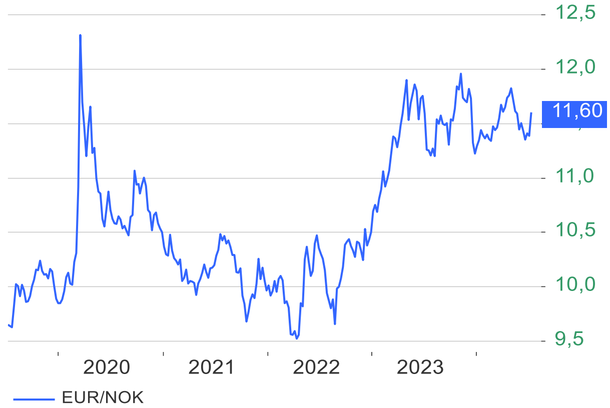
In June, the Norwegian Krone (NOK) depreciated 0.5% against the Euro, trading at around 11.6 on July 10th. The NOK remains supported by a comparatively hawkish central bank. At the June meeting, the Norges Bank delayed the projected start of rate cuts to mid-2025. The June inflation figure printed 2.6% and core inflation at 3.4%, both lower than expected.

The Norwegian manufacturing PMI fell by 4 points to 47.7 in June, marking the lowest level in 13 months. Details of the report were also negative, with the output components dropping by 8.2 points, employment by 4.9 points, and new orders by 4.3 points, while inventories and purchasing prices saw modest increases.

The unemployment rate remains tight at 1.9%, lower than expected.

Looking ahead, the expectation for fewer rate cuts from the Norges Bank compared to the ECB should improve the yield differential in favor of the NOK. Additionally, we expect higher levels in the price of Brent oil, which should support the NOK.

Therefore, **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 appreciation potential for the NOK in the coming months.**



Source: LSEG Datastream, 10/07/2024

AUD VIEW >>
TARGET 12M VS USD: 0.70

Appreciation potential

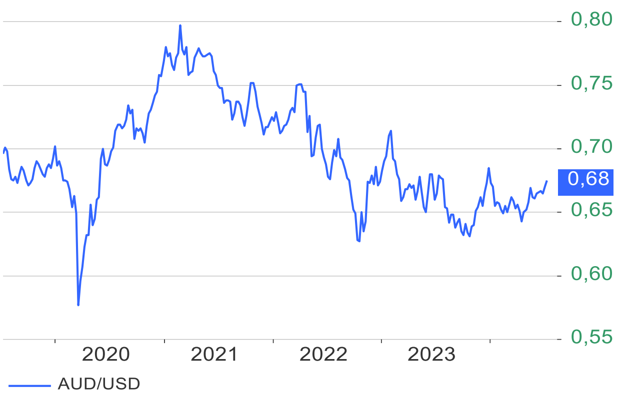
In June, the Australian dollar (AUD) remained flat against the US dollar. As of July 10th, it was trading at around 0.67. On June 18th, the Reserve Bank of Australia (RBA) maintained the cash rate at 4.35%, as expected. The RBA has indicated it won't hesitate to raise its key interest rate if it loses confidence that inflation can fall back within its 2%-3% target by the end of next year. As of July 10th, the market is pricing a 20% probability for another 25 basis point rate hike on August 6th.

Inflation has gradually increased since December 2023 and is now at 4.1%, mainly due to rising automotive fuel and electricity prices.

Other economic indicators are more stable, with the unemployment rate at 4%, and the manufacturing and service PMIs at 47.2 and 51.2, respectively.

While a hike could support the currency, we do not see it as a catalyst for a sustained period of AUD strength due to structural issues such as reduced mining investment and China's diversification away from Australia.

As a result, economic data and market pricing do not suggest rate cuts before mid-2025. **We maintain our 3-month AUDUSD target at 0.68 and our 12-month forecast at 0.7, suggesting some upside potential for the AUD.**



Source: LSEG Datastream, 10/07/2024

NZD VIEW >>
TARGET 12M VS USD: 0.63

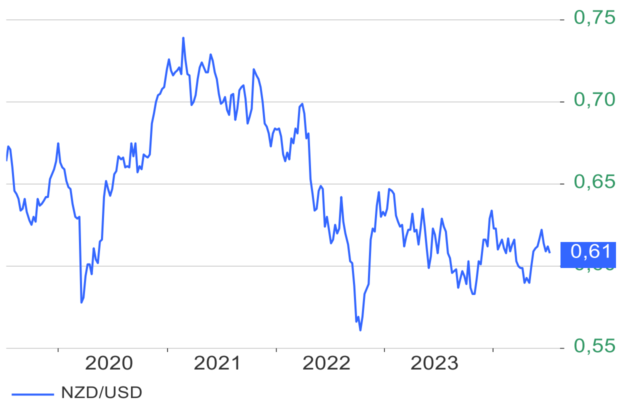
The upside is more limited for the NZD

In June, the New Zealand dollar depreciated 1.4% against the USD dollar. On July 10th, the RBNZ maintained policy rates for the 9th consecutive time at 5.5%.

New Zealand's Q1 CPI inflation year-on-year at 4% remains high and above target due to the persistence of the effects related to the pandemic and strong migration inflows. The RBNZ now expects that it will take even longer to get inflation back to the 2% target. While local economic performance remains sluggish, persistent price pressures and an RBNZ mantra of bringing inflation back to target have supported the NZD.

As some major central banks begin easing cycles, the RBNZ continues its higher for longer policy and markets expect rates to remain on hold well into the second half of 2024. The yield differential should continue to support the NZD.

Given these factors, **we maintain our 3-month NZDUSD target at 0.60 and our 12-month target at 0.63. That suggests a moderate upside from current levels.**



Source: LSEG Datastream, 10/07/2024

CAD VIEW >> TARGET 12M VS USD: 1.30

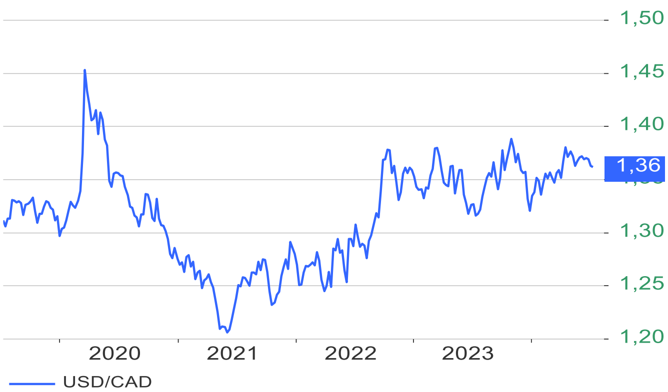
Further moderate appreciation potential

In June, the Canadian dollar (CAD) depreciated by 0.6% against the US dollar, trading at around 1.36 as of July 10th. The yield differential reached an all-time high in favor of the US dollar, reflected in the CAD net speculative position (non-commercial transactions) which reached its lowest point in June. This suggests a high amount of short CAD positions. On June 5th the Bank of Canada (BoC) delivered its first rate cut setting the policy rate at 4.75% and sounded more dovish than many market participants expected. Markets are now pricing a 65% (as of July 10th) chance of another 25bp cut in July and two more moves in total for 2024.

Earlier in June, jobs data showed a slowdown in hiring in May, with unemployment ticking higher at 6.4% and full-time employment dropping. The core inflation printed at 1.8%. The trade balance was lower than expected at -1.93B CAD. The manufacturing PMI remained at 49.3, indicating continued contraction in the sector.

The CAD outlook is heavily tied to the US economy. Should the US central bank be able to start its rate cut cycle, as is our base case, that would be positive for Canada. We expect the yield differential to narrow. In this instance, we'd expect the CAD to rise against the USD.

Given these factors, **we maintain our 3-month target for the CAD at 1.32 and our 12-month forecast at 1.30 (value of one USD), suggesting a moderate appreciation potential for the CAD over the forecast period.**



Source: LSEG Datastream, 10/07/2024

CNY VIEW >> TARGET 12M VS USD: 7.2

Downward pressures in the short-term

In June, the Chinese Yuan (CNY) depreciated by 0.3% against the US dollar. As of July 10th, it was trading at around 7.27. The daily fixing rate seems to have steadily increased since the start of the year suggesting the PBOC can tolerate slight further depreciation. On June 20th, the loan prime rates for both 1-year and 5-year were maintained at 3.45% and 3.95%, respectively.

The Caixin Manufacturing PMI improved slightly to 51.8, while the Service PMI decreased to 51.2. Retail sales year-on-year printed higher than expected at 3.7%.

Factors such as seasonality, wide carry, and US tariff concerns still look set to weigh on the RMB in Q3.

The policy measures introduced since April have not made a noticeable impact on the property market thus far, with continued double-digit drops in new home sales and further falls in house prices. Weak homebuyer confidence and elevated inventories in primary and secondary markets, evident in the latest data, strengthen our view that the property sector will remain the biggest drag on China's economy this year despite policy support.

There could be more downside in the short-term and we revise our 3-month target from 7.2 to 7.4. We keep our 12-month target at 7.2 (value of one US dollar).

Source: LSEG Datastream, 10/07/2024

MXN VIEW >> TARGET 12M VS USD: 17.5

Potential rebound

In June, the Mexican Peso (MXN) saw significant volatility, depreciating 8.3% against the US dollar. As of July 10th, it was trading at around 17.8.The Mexican central bank (Banxico) maintained rates at 11% on June 27th, as expected, but issued a dovish statement that left the door open for a rate cut in August. There was a subtle shift in Banxico's forward guidance, suggesting that the inflation backdrop may allow for further policy rate adjustments. While there appears to be some alignment indicating room to cut, it remains uncertain whether a new cut would be isolated or mark the start of a cycle.

Economic indicators show a mixed picture. The producer price inflation stands at 3.3%. Consumer price inflation printed lower than expected at 4.69%, with the disinflation process expected to continue, probably converging to the central bank target in Q4 2025. Manufacturing PMI stood at 51.1, suggesting continued expansion but at a slower pace

The MXN remains attractive from a carry perspective. However, some risks remain such as 1) Cooling US economic activity data 2) Any negative US political rhetoric threatening the status quo of remittances and trade flows 3) Concerns regarding Mexico's reform agenda may resurface in September.

Given these factors, **we maintain our USDMXN 3-month target at 17 and our 12-month target at 17.5. This slight appreciation potential for the MXN from current levels.**

Source: LSEG Datastream, 10/07/2024

BRL VIEW >> TARGET 12M VS USD: 5.0

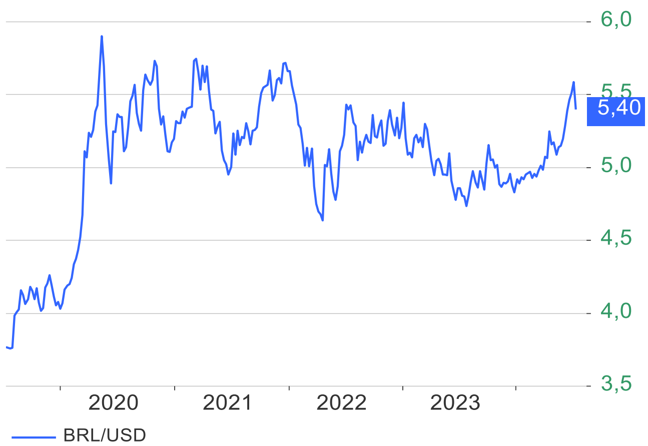
Recent depreciation

In June, the Brazilian real (BRL) depreciated 7.8% against the US dollar . As of July 10th, it was trading at around 5.4 against the US dollar. The Central Bank of Brazil (BCB) maintained its policy interest rate at 10.5% on June 19th, interrupting the easing cycle due to uncertain global and domestic scenarios. The BCB highlighted resilient economic activity, increased inflation projections. The Committee emphasized that monetary policy should remain contractionary for a sufficient period to consolidate both the disinflation process and anchor expectations around targets.

Economic indicators show mixed signals, with the manufacturing PMI printing at 52.5 and the services PMI at 54.8. Twelve-month inflation (IPCA), decreased from 4.50% in February to 4.23% in June.

Despite the BRL being significantly undervalued, this is expected to persist due to the low likelihood of substantial near-term adjustments in public expenditures and uncertainty surrounding the appointment of the new BCB governor, which may remain unknown until Q4. Our forecast maintains a year-end policy rate of 10.5% and we expect a decrease to 9.5% by end-2025, reflecting expectations of a more dovish BCB board in the coming year. The start of the US Fed rate cut cycle should however be supportive for the Brazilian currency.

Considering these factors, **we maintain our USD/BRL 3-month and 12-month targets at 5, suggesting appreciation for the BRL.**



Source: LSEG Datastream, 10/07/2024

	Country		Spot 11/07/2024	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1,09	Positive	1,06	Negative	1,12
	United Kingdom	EUR / GBP	0,84	Neutral	0,84	Negative	0,86
	Japan	EUR / JPY	172,49	Positive	159	Positive	157
	Switzerland	EUR / CHF	0,97	Neutral	0,98	Neutral	0,98
	Australia	EUR / AUD	1,60	Positive	1,56	Neutral	1,60
	New-Zealand	EUR / NZD	1,78	Neutral	1,77	Neutral	1,78
	Canada	EUR / CAD	1,48	Positive	1,40	Neutral	1,46
	Sweden	EUR / SEK	11,39	Positive	11,00	Positive	11,00
	Norway	EUR / NOK	11,64	Positive	11,30	Positive	10,80
Asia	China	EUR / CNY	7,91	Neutral	7,84	Neutral	8,06
	India	EUR / INR	90,91	Positive	86,92	Neutral	91,84
Latam	Brazil	EUR / BRL	5,90	Positive	5,30	Positive	5,60
	Mexico	EUR / MXN	19,39	Positive	18,02	Neutral	19,60

	Country		Spot 11/07/2024	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1,09	Negative	1,06	Positive	1,12
	United Kingdom	GBP / USD	1,29	Negative	1,26	Neutral	1,30
	Japan	USD / JPY	158,55	Positive	150,00	Positive	140,00
	Switzerland	USD / CHF	0,89	Negative	0,92	Positive	0,88
	Australia	AUD / USD	0,68	Neutral	0,68	Positive	0,70
	New-Zealand	NZD / USD	0,61	Neutral	0,60	Positive	0,63
	Canada	USD / CAD	1,36	Positive	1,32	Positive	1,30
Asia	China	USD / CNY	7,27	Neutral	7,40	Neutral	7,20
	India	USD / INR	83,57	Neutral	82,00	Neutral	82,00
Latam	Brazil	USD / BRL	5,42	Positive	5,00	Positive	5,00
	Mexico	USD / MXN	17,82	Positive	17,00	Neutral	17,50
EMEA	South Africa	USD / ZAR	17,99	Neutral	18,00	Positive	17,50
	USD Index	DXY	104,44	Neutral	105,19	Negative	100,01

Source: Refinitiv - BNP Paribas WM

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