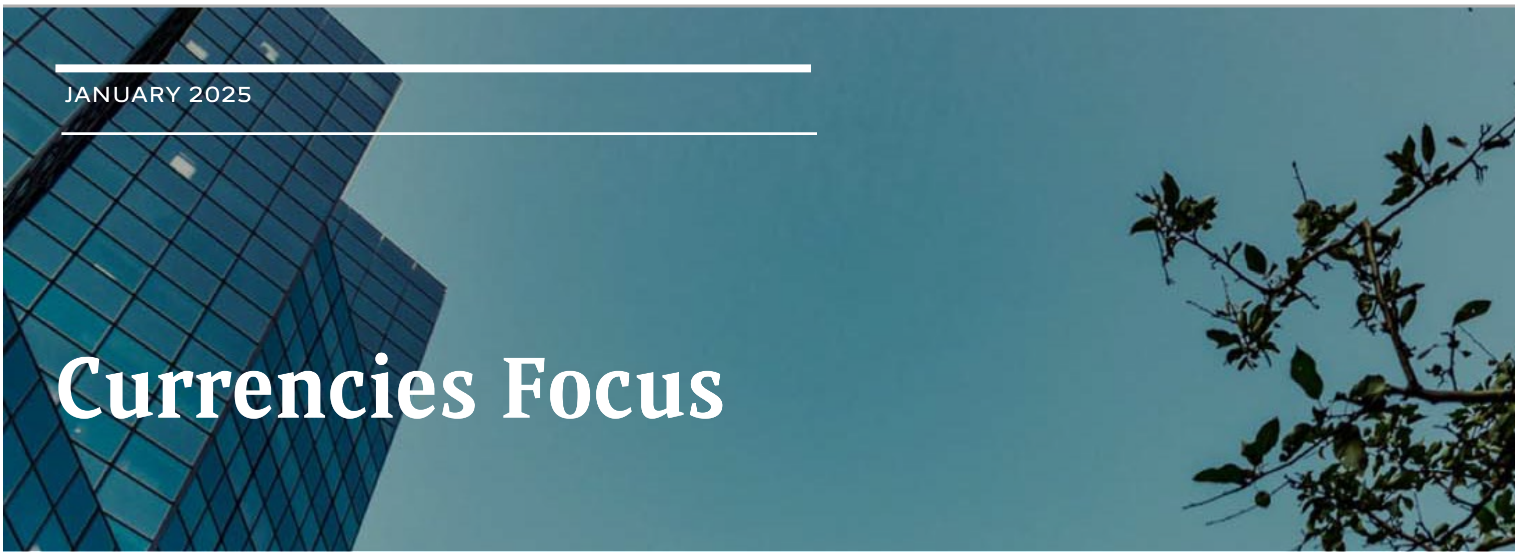


JANUARY 2025

Currencies Focus

Summary

1. The US dollar index (DXY) increased slightly since the beginning of 2025. We expect USD strength especially against currencies with central banks willing to tolerate currency weakness to stimulate growth (EUR, SEK) and currencies most impacted by tariffs (MXN, CAD, CNY).
2. The Fed and ECB both delivered a 25bp cut as expected in December, taking their policy rate to 4.5% and 3% respectively. We expect the Fed to deliver fewer rate cuts with a terminal rate at 4% end 2025. In the eurozone, we look for a terminal rate of 2% in September 2025. **We expect further strengthening of the dollar and possibly a retest of the parity. Therefore, we change our 3-month target to 1 and maintain our 12-month target at 1.02 (value of one €).**
3. In China, the US tariff policy is the key risk for the economy and the currency. Moreover, the Chinese central bank let the CNY trade higher. Our view that US tariffs could lead to more FX adjustments. **We change our 3- and 12-month target to 7.40 (value of one USD).**
4. In Canada, the central bank cut the policy rate by 50bp to 3.25% on 11 December. US Tariff uncertainty may keep the uncertainty elevated in the near term. This could leave the CAD particularly vulnerable due to Canada's large share of trade with the US. However, the change in government may offer some support for the CAD but the effect can be delayed. **Given these factors, we change our 3-month target for the CAD to 1.45 and our 12-month forecast to 1.40 (value of one USD).**

Writing completed on 15 January.

Contents

OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 15/01/2025		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1.03	1.00	1.02
	United Kingdom	EUR / GBP	0.84	0.83	0.83
	Switzerland	EUR / CHF	0.94	0.94	0.94
	Japan	EUR / JPY	161.09	150	153
	Sweden	EUR / SEK	11.47	11.60	11.70
	Norway	EUR / NOK	11.67	11.60	11.30
Against dollar	Japan	USD / JPY	156.32	150	150
	Canada	USD / CAD	1.43	1.45	1.40
	Australia	AUD / USD	0.62	0.66	0.64
	New Zealand	NZD / USD	0.56	0.60	0.60
	Brazil	USD / BRL	6.04	5.80	5.80
	India	USD / INR	86.37	84.0	84.0
	China	USD / CNY	7.33	7.40	7.40

Source: Refinitiv - BNP Paribas WM

Guy Ertz, PhD

Chief Investment Advisor - Deputy Global CIO
BNP Paribas Wealth Management

USD VIEW >> TARGET 12M VS EUR: 1.02

Possible test of the parity

The US dollar remained strong, trading in a narrow range of 1.02-1.03.

The Fed and ECB both delivered a 25bp cut as expected in December, taking their policy rate to 4.5% and 3%, respectively. We expect the Fed to deliver fewer rate cuts with a terminal rate at 4% end 2025. In the eurozone, we look for a terminal rate of 2% (September 2025).

In the United States, the data suggest sustained favorable conditions in the job market. Regarding activity, the ISM manufacturing survey rose to 49.3 vs. 48.4 the prior month. Retail sales for November printed higher at 0.7%. Moreover, the GDP came out at a robust 3.1% growth for Q3. On the inflation side, December core CPI comes in soft. Core CPI rose a rounded 0.2% m/m, stepping down somewhat after four straight monthly 0.3% prints. In the Eurozone, consumer confidence remains on an upward trend. The Manufacturing and service PMI suggest less upside on growth.

We see room for further broad-based USD appreciation in 2025. We expect most of this USD appreciation to come because of a wider interest rate spread in favor of the USD. Additionally, US equities and bond markets should continue to see stronger inflows compared to the eurozone. We think that the biggest risk moving forward is US inflation due to tariffs and immigration policies that may put upward pressure on wages.

Regarding all theses factors and in particular our rate cut outlook for the Fed versus the ECB, we expect a sustained strength of the dollar with a possible test of the parity level over the coming months.

Therefore, we change our 3-month target to 1 but maintain our 12-month target at 1.02 (value of one €).

Source: LSEG Datastream, 15/01/2025

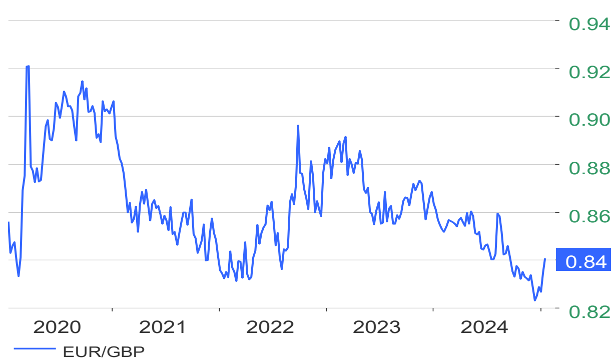
GBP VIEW >> TARGET 12M VS EUR: 0.83

GBP to remain strong

The GBP depreciated over the past few weeks and with the EURGBP (value of one euro) trading in a range of 0.83-0.84 (value of one euro).

The Bank of England (BoE) held the policy rate at 4.75% on 19 December. The Bank has emphasized its forward-looking approach and willingness to look through data volatility in the short-term and instead focus on the medium-term outlook. We maintain our view that the Bank of England will proceed with a quarterly pace of rate cuts throughout 2025, not least due to the uncertain backdrop related to fiscal and trade policy. The terminal rate is projected to reach 3.75% by the end of 2025.

The manufacturing PMI survey showed small signs of weakness in December while Service PMI remained in expansionary territory. Retail sales have increased by 0.2% in November. Headline inflation continues to stay above the 2% target at 2.5% and Core inflation declined at 3.2% for December. A combination of growing stagflation risks and concerns about UK fiscal responsibility have led to a meaningful repricing in UK yields. Higher interest rates not only tighten financial conditions but also threaten the government's ability to meet its own fiscal targets, by increasing debt servicing costs, and may spur further consolidation measures. We assume that the government will tackle these issues. We expect the UK and the GBP to be relatively less affected by US tariffs. This is largely because services (which do not fall under the remit of tariffs) represent such a considerable share of UK exports and because we think it may be easier for the UK to secure exemptions relative to other countries. The interest rate differential should thus continue to be a source of support for the GBP. **Our 3- and 12-month target remains at 0.83 (value of one €).**



Source: LSEG Datastream, 15/01/2025

CHF VIEW >>
TARGET 12M VS EUR: 0.94

Sustained CHF strength

The CHF remained strong trading at around 0.94 (value of one euro).

The Swiss National Bank delivered an unexpectedly large 50bp cut at its meeting on December 12th, bringing the policy rate to 0.5%. This decision was underpinned by ongoing CHF strength and downward revisions to the inflation outlook. The SNB stressed that the policy rate is its primary policy tool, and we could expect more rate cuts. A return to negative interest rates is unlikely but not excluded. We have lowered our expectations for the SNB's terminal rate to 0.25% from 0.75% previously. This level of terminal rate sits below the lower bound of our 0.5-1.5% estimated neutral range for the SNB. We now expect another 25bp cut in March and see the balance of risk to our terminal rate forecast as biased to the downside.

The marginal tick down in inflation to 0.6% y/y in December highlights the persistence of disinflationary pressures in Switzerland. The Q4 data was in line with the SNB's updated projections, but we saw a sharp deceleration in core inflation to 0.7% y/y from 0.9% y/y. The business survey (PMI) continues to stay in contractionary territory and the KOF business index decreased to 99.4 from 102.9.

The evolving policy landscape, alongside improving economic outlook relative to the eurozone with a wide current account surplus suggests no depreciation potential for the CHF. **Therefore, we maintain our EUR/CHF 3- and 12-month target at 0.94 (value of one €).**

Source: LSEG Datastream, 15/01/2025

JPY VIEW >>
TARGET 12M VS USD: 150

Moderate upside

The JPY continued to depreciate against the US dollar. It was trading at around 156 (value of one USD) as of 1 January.

The BoJ kept the policy rate unchanged at 0.25% in December. With above-target inflation, we expect the Bank of Japan to keep hiking rates, albeit gradually due to an uncertain growth outlook. Our forecast sees the BoJ raising the policy rate by 25bp in January 2025, followed by two more hikes that year and another two in 2026 with a terminal rate of 1.50%. It might hike faster if the downward pressure on the yen increases.

Japanese inflation continued to accelerate to 2.9% year-over-year from 2.3% and core inflation was at 2.7% (up from 2.3%). Wage growth rose more than expected but not enough to catch up with inflation rise. The small increase of 0.1%m/m of the BoJ's real consumption activity index showed no major improvement in private consumption for Q4. The unemployment rate remained unchanged at 2.5%. Regarding business surveys, the manufacturing and Service PMI are now in the expansionary territory.

The JPY should be less impacted by trade policies than other currencies. The upside for the Yen seems however limited given the higher US terminal rate. **Our USD/JPY 3- and 12-month target is 150 (value of one USD). This suggests a moderate upside for the JPY.**

Source: LSEG Datastream, 15/01/2025

SEK VIEW >>
TARGET 12M VS EUR: 11.70

Outlook Change - More downside

The SEK remains relatively stable against the euro over the past month and was trading at around 11.5 (value of one euro) on 15 January.

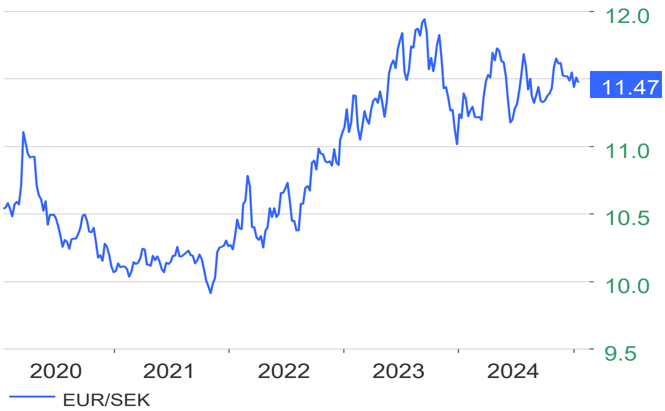
The central bank (Riksbank) delivered a 25bp cut to 2.5% in December. The market is pricing another cut in January. There is a possibility for other cut over the coming months.

Sweden's inflation came lower, with headline and core CPI down to 1.5% and 2% receptively. Regarding the labor market, the unemployment rate decreased to 7.4% from 7.8% in November. The manufacturing index and the services PMI index remain in expansionary territory.

A better outlook for private and government consumption, a pickup in productivity and a recovery in total hours worked should reflect an improvement in the Swedish economy.

However, Sweden is vulnerable to the implementation of US tariffs as the country is highly exposed to global trade. In that case, we think the Riksbank will be more willing to cut rates, similar to other European central banks which could weigh on the SEK.

Our EUR/SEK 3-month target is 11.60 and our 12-month target is 11.70 (value of one EUR). This suggests a moderate downside for the SEK.



Source: LSEG Datastream, 15/01/2025

NOK VIEW >>
TARGET 12M VS EUR: 11.30

Moderate upside

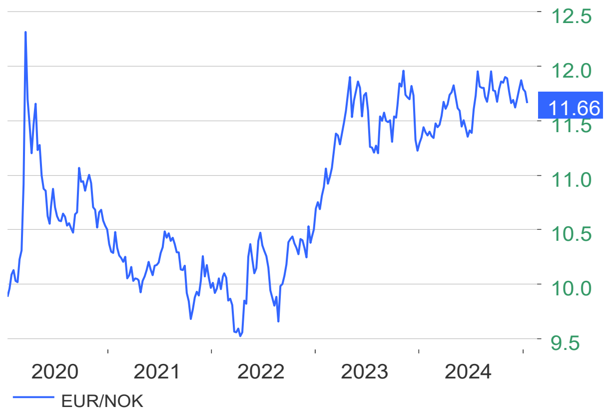
The Norwegian Krone (NOK) remained broadly flat against the euro since last month. It was trading at around 11.67 (value of one euro) on 15 January.

The central bank has a policy rate of 4.5 %. The policy rate is likely to be maintained at the current level until the end of 2024. The bank suggested a gradual reduction in the policy rate starting in March 2025.

Core inflation stood at 2.7% year-on-year, down from 3%. The unemployment rate stays at 2%. Moreover, the December manufacturing business survey (PMI index) remains steady at 50 while retail sales growth was 0.3% .

Compared to Sweden, US protectionism should impact Norway less as US exports to the US are only around 5%. The NOK remains highly sensitive to oil prices as oil accounts more than 60% of Norway's exports. In addition, high inflation limits the potential for rate cuts

We keep our 3-month EURNOK target at 11.60 and our 12-month target at 11.30 (value of one euro), suggesting a moderate appreciation potential for the NOK over the coming months.



Source: LSEG Datastream, 15/01/2025

AUD VIEW >> TARGET 12M VS USD: 0.64

Small upside

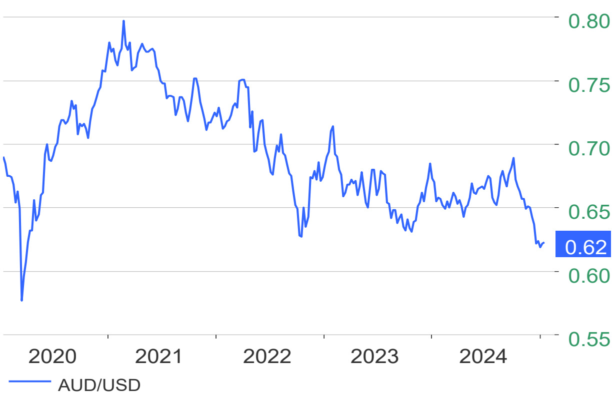
The Australian dollar (AUD) appreciated against the USD over the past month, and it was trading at around 0.62 (value of one AUD) 15 January.

The Reserve Bank of Australia (RBA) kept its policy unchanged at 4.35% on 10 December as expected but the guidance was dovish. The market is pricing a rate cut for February. The RBA sees the risk as shifting and is more confidence on inflation going back to the target.

Inflation increased to 2.5% year-on-year. The unemployment rate increased to 4% in December from 3.9% in November. The manufacturing and service business surveys (PMI) printed at 47.8 and 50.8, respectively. Meanwhile, retail sales grew by 0.8% month-over-month. However, Australia's current account continued to worsen, as exports remained weak.

The AUD might remain driven mostly by broad USD rally, while staying sensitive to CNH and global risk. The extent of US tariffs could indirectly weigh on AUD if China's growth was to deteriorate and export demand was to decline.

All in all, we keep our 3-month AUDUSD target at 0.66 and our 12-month target at 0.64. This suggests a moderate upside potential for the AUD.



Source: LSEG Datastream, 15/01/2025

NZD VIEW >> TARGET 12M VS USD: 0.60

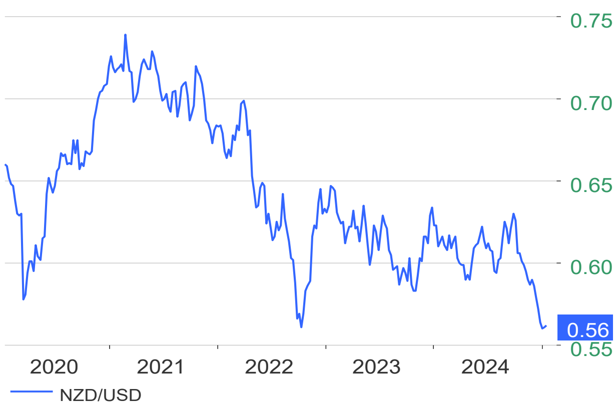
Similar path as for the AUD

The New Zealand dollar also appreciated against the USD dollar. It was trading at around 0.56 15 January (value of one NZD).

On 27 November, the central bank (RBNZ) delivered another 50bp cut leading the policy rate to 4.25%. The central bank justified this second consecutive big cut by a slowing inflation and a weaker economy. The market is pricing another 50bp cut at the next meeting in February 2025.

Inflation stood at 2.2% down from 3.3% year-on year. The unemployment rate came higher at 4.8% from 4.6%. Concerning the business surveys, the manufacturing PMI remains below 50 still suggesting a contraction.

As for the Australian currency, the NZD is sensitive to the outlook in China and thus the currency should be reactive to a higher-than-expected US tariff policy. Moreover, the dovish stance of the central bank and the weaker domestic fundamentals in New Zealand should be weighing on the NZD. **Therefore, our NZD/USD 3-month target and our 12-month target is 0.60 (value of one NZD). This suggests a moderate upside potential for the AUD.**



Source: LSEG Datastream, 15/01/2025

CAD VIEW >>
TARGET 12M VS USD: 1.40

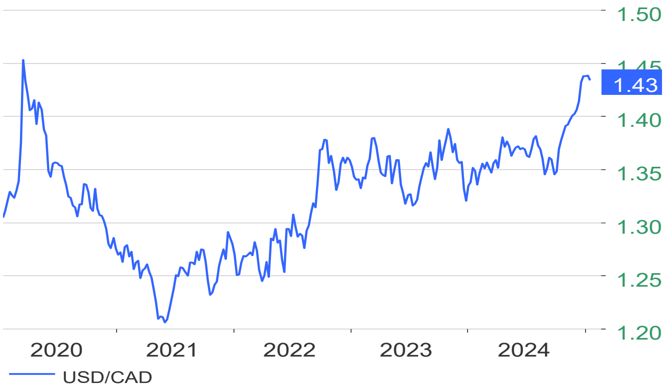
Target change – More upside

The Canadian dollar (CAD) remains weak and continues to trade around 1.44 (value of one USD).

The Bank of Canada cut the policy rate by 50bp to 3.25% on 11 December. The policy rate is at the top end of the range of their estimate for the neutral rate. The bank has signaled to be ready to slow the monetary easing by returning to smaller cuts in 2025. Market expectations are for the cycle to end at 2.75%, the midpoint of the range for the neutral rate (2.25%-3.25%). Headline inflation decreased to 0% on the month with the 12-month inflation at 1.9% (down from 2%). Regarding the labor market, the unemployment rate was lower at 6.7%. For business surveys, the manufacturing PMI stayed in expansion territory at 52. The details of Canada's trade balance data showed an increased in exports by 2.2% while imports rose by 1.8%.

US Tariff uncertainty may keep the uncertainty elevated in the near term. This could leave the CAD particularly vulnerable due to Canada's large share of trade with the US. Canada is also part of the USMCA agreement, which is not due for review until July 2026. The economic situation in 2025 is expected to improve. Indeed, a supportive fiscal stimulus and the upcoming election in 2025 could support the CAD. However, the change in government may offer some support for the CAD but the effect can be delayed, which leaves tariff risk as the major concern for the moment.

Given these factors, We change our 3-month target for the CAD to 1.45 and our 12-month forecast to 1.40 (value of one USD).



Source: LSEG Datastream, 15/01/2025

CNY VIEW >>
TARGET 12M VS USD: 7.40

Target change - More weakness

The Chinese Yuan (CNY) depreciated by around 0.7% over the past month against the US dollar. As of 15 January, the USDCNY (value of one USD) was trading at just above 7.30.

The central bank (PBoC) left unchanged the 1Y & 5Y LPR at 3.1%, 3.6% respectively on 20 November, as excepted. It maintained a very pro-growth tone. We think the PBoC will likely cut the 7D reverse repo policy rate by 10bp and the RRR by 25-50bp in Q1 2025. In 2025 full year, we expect the short end policy rate will be lowered towards 1% from current 1.5%.

China's exports and imports increased by 10.7% y/y and 1.0% y/y in Dec, respectively, both higher than market expectations. this suggests strong trade momentum into the end of 2024. This brought 2024 full year export growth to 5.9% y/y, compared to -4.6% y/y in 2023. Headline CPI inflation dropped to 0.1% y/y in December from 0.2% y/y. The Caixin manufacturing and service PMI business survey stayed in the expansion territory.

The US tariff policy is the key risk for the economy and the currency. The risk of higher-than-expected tariffs and our upward revision in the US terminal rate suggest more downside for the Chinese currency. The move is consistent with our view that the burden of US tariffs on China exports could lead to FX adjustments in 2025. **We change our 3-month target 12-month target to 7.40 (value of one USD).**

Source: LSEG Datastream, 15/01/2025

MXN VIEW >>
TARGET 12M VS USD: 22

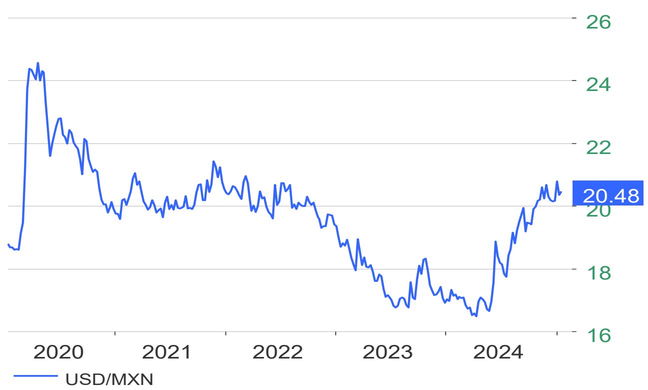
More weakness ahead

The Mexican Peso (MXN) appreciated slightly against the US dollar over the past month. As of 15 January, it was trading at around 20.5 (value of one USD).

The Mexican central bank (Banxico) extended its rate-cutting cycle, lowering the policy rate to 10% with a 25bp move on 19 December. Banxico's meeting minutes suggest increased alignment within the board regarding larger rate cuts in February. While conviction levels vary, a majority appears to support the idea of a 50bp cut. We have revised our February decision forecast to a 50bp cut (from 25bp). However, we maintain our year-end policy rate estimate of 8.75%, as we believe the expected Fed pause will weigh on Banxico's reaction function as the easing cycle progresses.

Core inflation increased slightly to 3.65% from 3.58%. The manufacturing PMI surveys remains in contraction territory (below 50). Industrial output increased by 0.1% and we saw a decrease of -0.3% month-over-month in retail sales. Mexico's Ministry of Finance also suggested a 3.9% of GDP fiscal deficit for 2025.

Uncertainty over US tariffs implies a lack of visibility regarding the Mexican economy in 2025 in three key respects: remittances, which might be hit by stricter migration policies; industrial cycles, with Mexico's role in US–China trade tensions and the regionalization of supply chains in question. **Considering these factors, our USDMXN 3-month target is 21 and our 12-month target is 22 (value of one USD). That suggests more weakness for the Mexican currency.**



Source: LSEG Datastream, 15/01/2025

BRL VIEW >>
TARGET 12M VS USD: 5.8

Potential for rebound

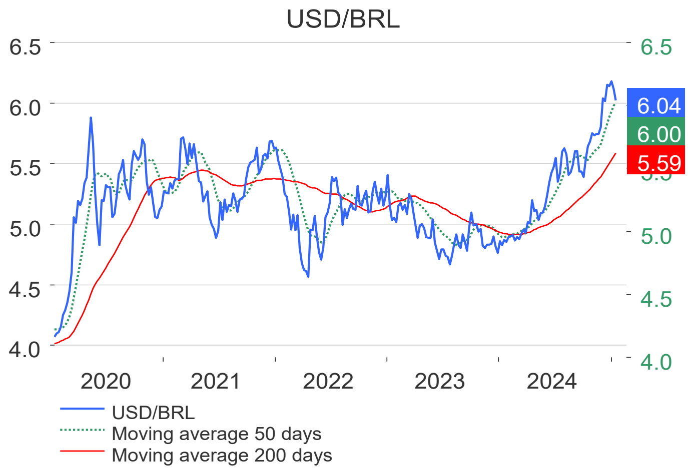
The Brazilian real (BRL) rebounded a bit against the US dollar after the sharp fall in recent months. As of 15 January, the USD/BRL was trading at around 6.04 (value of one USD) against the US dollar.

Brazil's central bank raised its policy rate by 100bp, more than expected, bringing the Selic rate to 12.25% on 11 December. The statement acknowledges the deterioration in the overall backdrop, with unanchored inflation expectations and major currency depreciation. We expect the BCB to hike interest rates by 100bp in both January and March, with the hiking cycle probably ending in May 2025 at 15%.

Inflation continued to increase and is at 4.88% year-on-year and 0.52% over the month. Industrial production decreased by -0.6% and we saw a decrease of -0.4% month-over-month in retail sales. The manufacturing PMI business survey and the services PMI stayed in expansionary territory at 50.4 and 51.6, respectively.

Following the negative market reaction to the Brazilian government's recent fiscal consolidation package, we see the BRL continuing to face downward pressure and underperform peers. Regarding the potential impact of US tariffs, we note that the BRL is highly sensitive to global risk sentiment and has a strong trade relationship with China. However, the expected interest rate hikes should support the currency. Moreover, the 2026 budget guidelines will bring more clarity of the current framework.

Considering these factors, our USD/BRL 3- and 12-month target is 5.80 (value of one USD).



Source: LSEG Datastream, 15/01/2025

	Country		Spot 15/01/2025	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1.03	Positive	1.00	Neutral	1.02
	United Kingdom	EUR / GBP	0.84	Neutral	0.83	Neutral	0.83
	Japan	EUR / JPY	161.09	Positive	150	Positive	153
	Switzerland	EUR / CHF	0.94	Neutral	0.94	Neutral	0.94
	Australia	EUR / AUD	1.65	Positive	1.52	Positive	1.59
	New-Zealand	EUR / NZD	1.83	Positive	1.67	Positive	1.70
	Canada	EUR / CAD	1.48	Neutral	1.45	Positive	1.43
	Sweden	EUR / SEK	11.47	Neutral	11.60	Neutral	11.70
	Norway	EUR / NOK	11.67	Neutral	11.60	Positive	11.30
Asia	China	EUR / CNY	7.56	Positive	7.40	Neutral	7.55
	India	EUR / INR	89.01	Positive	84.00	Positive	85.68
Latam	Brazil	EUR / BRL	6.23	Positive	5.80	Positive	5.92
	Mexico	EUR / MXN	21.11	Neutral	21.00	Negative	22.44

	Country		Spot 15/01/2025	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1.03	Negative	1.00	Neutral	1.02
	United Kingdom	GBP / USD	1.23	Neutral	1.20	Neutral	1.23
	Japan	USD / JPY	156.32	Positive	150.00	Positive	150.00
	Switzerland	USD / CHF	0.91	Negative	0.94	Neutral	0.92
	Australia	AUD / USD	0.62	Positive	0.66	Positive	0.64
	New-Zealand	NZD / USD	0.56	Positive	0.60	Positive	0.60
	Canada	USD / CAD	1.43	Neutral	1.45	Positive	1.40
Asia	China	USD / CNY	7.33	Neutral	7.40	Neutral	7.40
	India	USD / INR	86.37	Positive	84.00	Positive	84.00
Latam	Brazil	USD / BRL	6.04	Positive	5.80	Positive	5.80
	Mexico	USD / MXN	20.48	Negative	21.00	Negative	22.00
EMEA	South Africa	USD / ZAR	18.79	Positive	18.00	Positive	17.50
	USD Index	DXY	109.27	Neutral	110.91	Neutral	108.91

Source: Refinitiv - BNP Paribas WM

THE INVESTMENT STRATEGY TEAM

FRANCE

Edmund SHING
Global Chief Investment Officer

Isabelle ENOS
Senior Investment Advisor

Charles GIROT
Senior Investment Advisor

ITALY

Luca IANDIMARINO
Chief Investment Advisor

BELGIUM

Philippe GIJSELS
Chief Investment Advisor

Alain GERARD
Senior Investment Advisor, Equities

Patrick Casselman
Senior Investment Strategist, PRB

GERMANY

Stephan KEMPER
Chief Investment Strategist

LUXEMBOURG

Guy ERTZ
Deputy Chief Investment Officer

Edouard DESBONNETS
Senior Investment Advisor, Fixed Income

ASIA

Prashant BHAYANI
Chief Investment Officer, Asia

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