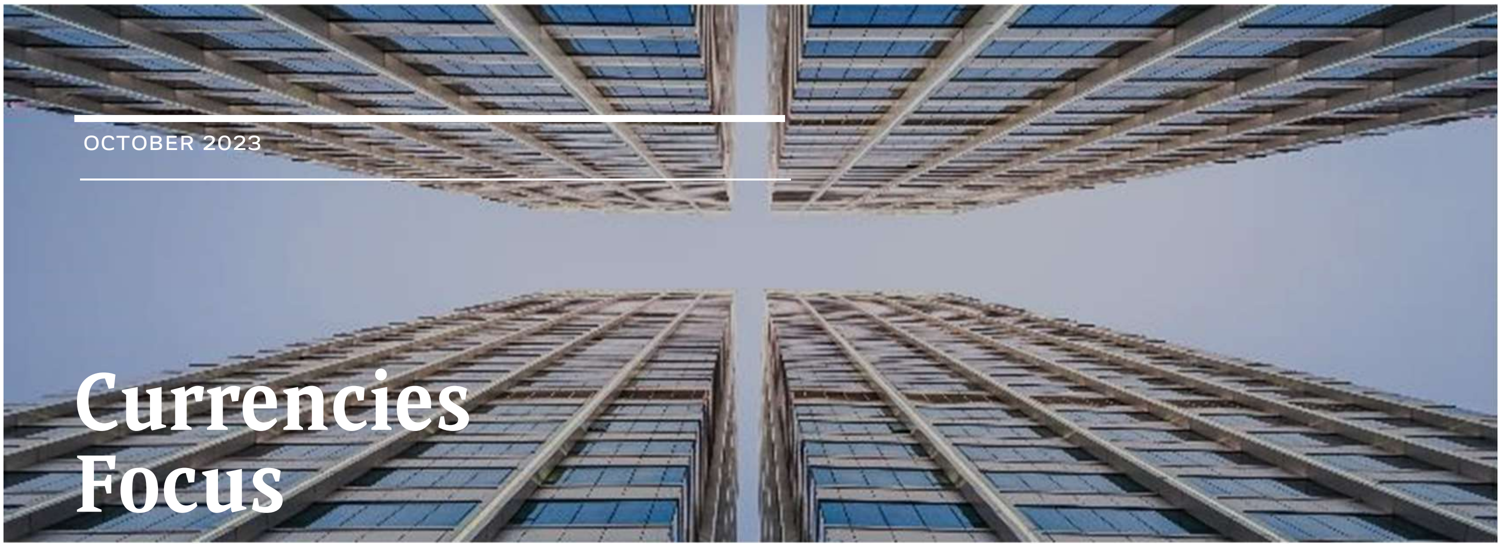


OCTOBER 2023

Currencies Focus

Summary

1. The US dollar index (DXY) increased by around 2.5% over the past month. On September 20th, the Fed left rates unchanged at 5.5% but delivered a "hawkish" message with upwards revisions in the economic projections and suggesting that rates can stay high for longer. The dot plot (overview of forecasts by Fed members) suggests one more rate hike this year and the market is pricing less rate cuts next year. We also believe that the ECB has reached its terminal rate at 4% after their communication following the 25bp hike on September 14th. The yield differential should gradually fall and will thus be less favorable to the US dollar. **We decrease our EUR/USD 3-month target from 1.08 to 1.06 given the recent market movements and the lack of drivers short-term. In the long term we maintain our 12-month target at 1.15.**

2. Major Asian countries are yet to give a clear guidance as to how they will support their economies. More economic stimulus is expected in China which would help build up some economic momentum in the region. In Japan, the BoJ's Governor had some hawkish comments after widening the yield curve control (YCC). We expect the BoJ to end its negative interest rate policy in Q2 2024. In the short-term, the US dollar should remain strong versus Asian currencies given the lack of new drivers. **We maintain our USD/CNY 3-month target at 7.2 and our 12-month target at 6.8. We increase our USD/JPY 3-month target from 140 to 145 and maintain our 12-month target at 134.**

Writing completed October 4th 2023.

Contents

OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country		Spot 04/10/2023	Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1,05	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	156,29	154	154
	Sweden	EUR / SEK	11,66	11,00	11,00
	Norway	EUR / NOK	11,58	11,30	10,80
Against dollar	Japan	USD / JPY	148,96	145	134
	Canada	USD / CAD	1,38	1,32	1,30
	Australia	AUD / USD	0,63	0,68	0,70
	New Zealand	NZD / USD	0,59	0,60	0,63
	Brazil	USD / BRL	5,16	5,00	5,00
	India	USD / INR	83,24	82,0	82,0
	China	USD / CNY	7,30	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

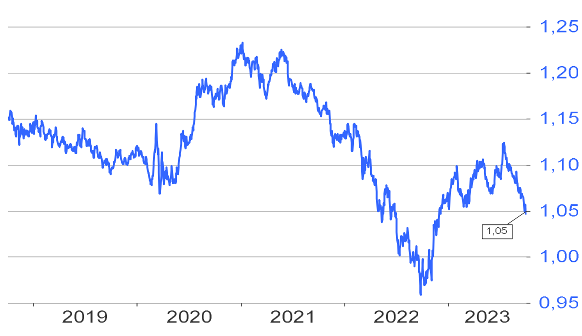
Dollar should remain overvalued short-term

The US dollar appreciated another 2% against the Euro in September and was trading close to 1.05 (value of one euro) as of October 4th. On September 20th, the Fed left rates unchanged at 5.5% but delivered a hawkish message with upwards revisions in the economic projections and hawkish dots. The "dot plot" (forecast of the Fed members) suggests one more rate hike this year and the market is pricing less rate cuts next year. Subsequently the US dollar got a boost from rising yields. As of October 4th, the market is pricing a 22% chance of another 25bp hike on November 1st. External factors such as higher oil prices and uncertainty around the health of the Chinese economy has also favored defensive currencies such as the US dollar. The economic momentum as measured by the surprise index has been more favorable to the US. Production is recovering as pointed by manufacturing PMI printed 49.8.

In the EU, the ECB implemented a dovish 25bp hike on September 14th setting rates at 4%. We believe the ECB has reached its terminal rate. The market is pricing a 21% chance of another 25bp hike on October 26th. The gap between the service and manufacturing PMI is closing in the US and remains wide in the EU at 48,7 and 43.4, respectively.

The yield differential should decrease gradually over 2024. The dollar remains overvalued when using fair value estimates such as the Purchasing Power Parity. A gradual normailization is thus expected over the coming years

We decrease our EUR/USD 3-month target from 1.08 to 1.06 given the recent market movements and the lack of drivers short-term. Over the coming year we maintain our 12-month target at 1.15 (value of one euro



Source: LSEG Datastream, 04/10/2023

GBP VIEW >> TARGET 12M VS EUR: 0.86

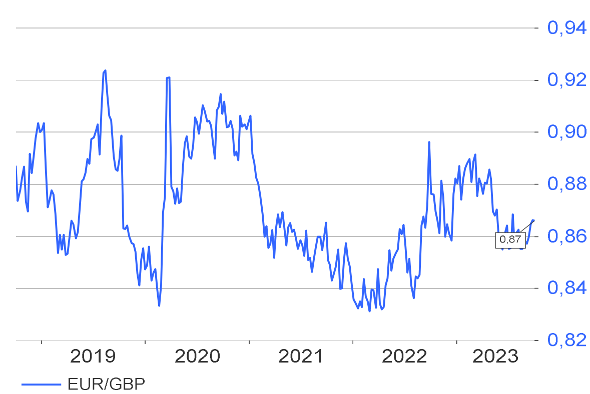
No major driver short-term

The GBP depreciated 1.2% against the euro in September and was trading at 0.86 (value of one euro) on October 4th. This move is primarily due to positive economic figures in the UK. In September inflation showed some easing with the CPI YY printing lower than expected for the month of at 4.7%. A hike in interest rates was expected on September 21st but the BoE maintained rates at 5.25%. More surprising than the overall decision was the lack of consensus among BoE rate setters. As of October 4th, the market is pricing a 34% probability for a 25bp hike on November 2nd.

The UK's data are unusually volatile at the moment, The evolution of the UK's GDP remains low. The Q2 2023 figure printing slightly higher than expected at 0.6%. The manufacturing PMI remains low at 44.3 and the service PMI at 49.3. The real estate sector is still weak with nationwide house price (year-on-year) down -5.3% in September. Signs of stabilization came after the average borrowing rate on a five-year fixed-rate deal fell below 6%. Borrowing rates are still at high levels. The BoE data suggests that interest rates on new mortgages are more than triple their level in early 2022. We believe this sector will remain depressed in Q4 2023.

The market views on the interest rate differential are quite in line with our expectations. 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, 04/10/2023

CHF VIEW >>
TARGET 12M VS EUR: 0.98

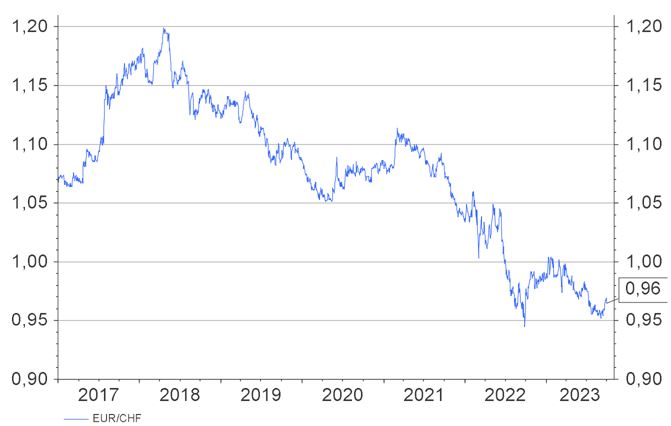
CHF to stay strong

In September, the CHF depreciated 1.3% against the Euro. As of October 4th , the EURCHF was trading at around 0.96 (value of one euro).

On September 21st the SNB policy rate was maintained at 1.75%, lower than expected. Comments suggested that the bank's tightening has already dampened demand and subdued growth and inflation, driving the Swiss GDP to stagnate in Q2 2023. On top of that, inflation forecasts remained below 2.2% for next year. As of October 4th, markets are pricing another 19% probability for a 25bp hike on December 14th. With only quarterly monetary policy meetings we believe the Swiss economy has weakened sufficiently to warrant the current rate of 1.75 to be the terminal rate.

The September CPI rose to a three-month high at 1.7%, It was however lower than expected. The main upward pressures came from alcoholic beverages and tobacco as well as housing and energy. Overall, the Swiss economic outlook remains grim with a KOF indicator still below the 100 threshold this year. The manufacturing PMI in September increased to 44.9, higher than expected but still well below the 50 threshold. Retail sales YY remains low at -1.8%. Investor sentiment remains negative.

The recent weakening of the CHF does not change our assumptions. 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.



JPY VIEW >>
TARGET 12M VS USD: 134

Looking for a stabilization

The Japanese yen (JPY) experienced a further 2.5% depreciation against the US dollar in September and is down 15% this year. As of October 4th, the JPY was trading at around 149 (value of one dollar).

On September 22nd, the central bank voted to leave its key monetary policy settings unchanged and made no changes to its forward guidance despite some prior speculation that it might revise its wording to try to curb downward pressures on the currency. The central Bank Governor said, "there is still distance to go before reaching then end of negative rates". We expect the BoJ to end its negative interest rate policy around Q2 2024. Core CPI inflation continues to run above 3% despite the BoJ previously having envisaged a return to sub-2% levels before the end of this year.

Early October the USDJPY breached the critical 150 mark and subsequently corrected in favor of the JPY. This implies a government intervention to reduce the adverse impact on households but we expect such action to have limited impact as long as the interest rate differentials continue remain high.

The interest rate differential remains a strong driver for the USDJPY. Markets expect less US rate cuts in 2024 and that has been in favor of the US dollar. In the short-term, the US dollar should remain strong relative to the Yen. Next year we expect the dollar to weaken as it becomes that the Fed can cut rates.

We increase our USD/JPY 3-month target from 140 to 145 and maintain our 12-month target at 134.

SEK VIEW >>
TARGET 12M VS EUR: 11

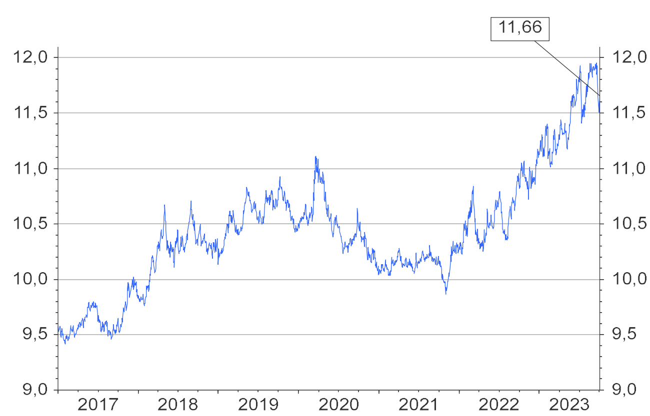
Look for a stabilization after the recent rise

The Swedish Krona (SEK) appreciated 3% against the Euro in September. As of October 4th, it was trading at around 11.65.

On September 21st, the Riksbank raised rates another 25bp to 4%, as expected. Inflation figures have decreased to 7.5%. The figure was lower than expected lower than expected, mainly due to the slowdown in prices for housing and utilities. On top of that housing prices have decreased to 6% suggesting that the main headwinds are weaker. However, we believe the door is open for more rate hikes. As of October 4th, markets are pricing a 48% probability of another 25bp rate hike on November 22nd.

Structural headwinds remain. These are mainly linked to the housing market. There is a significant percentage of mortgages based on floating rates and house prices have started to fall rapidly. Additionally, housing starts in Sweden decreased to 4.71 Thousand units in the second quarter of 2023 from 7.96 in the first quarter of 2023. This has probably weighed on consumer confidence and suggest some weakness ahead. That limits the potential for a sustainable rebound in the currency. The ECB is expected to cut rates by about 1% next year as inflation normalizes. In Sweden that could take more time.

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



NOK VIEW >>
TARGET 12M VS EUR: 10.80

Positive outlook medium-term

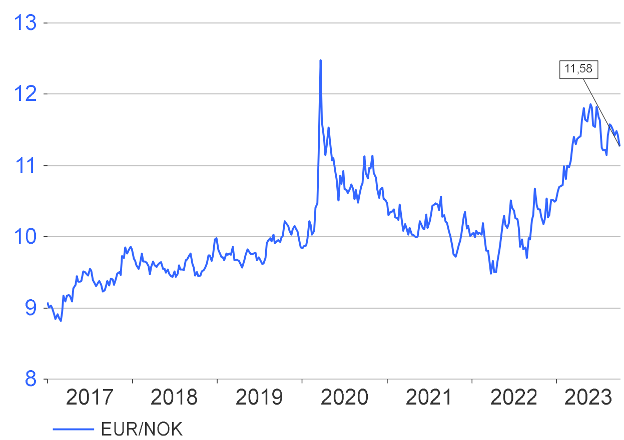
The Norwegian Krone (NOK) appreciated 1.5% against the Euro in September. On October 4th it was trading at around 11.57.

The recent appreciation was backed by Norges bank's rate hike on September 21st from 4 to 4.25% and the communication that followed that decision. Governor Ida Wolden's comment saying "Whether additional tightening will be needed depends on economic developments. There will likely be one additional policy rate hike, most probably in December". Import prices are also a source of inflation. As of October 4th, markets are pricing a 14% probability of a 25bp rate hike on November 2nd.

Inflationary pressures are easing as shown in core inflation which printed 6.3%. This was lower than expected. The manufacturing PMI remains in expansionary territory at 52.5.

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.



Source: LSEG Datastream, 04/10/2023

AUD VIEW >>
TARGET 12M VS USD: 0.70

Looking for a gradual recovery

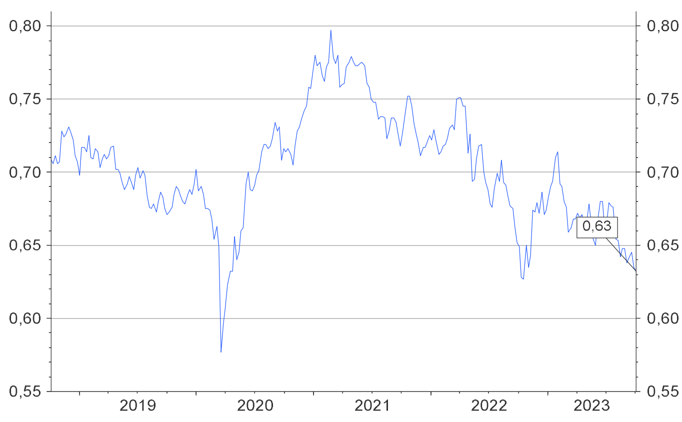
The Australian dollar (AUD) depreciated 0.4% against the USD dollar in September. On October 4th it was trading at around 0.63.

The Reserve Bank of Australia maintained its cash rate at 4.10% on October 3rd for the fourth consecutive time. Even though inflation rate printed 6% for Q2 2023 and was below expectations the board said that inflation remains too high and that some further tightening may be needed to bring back inflation to the target range of 2% to 3% in late 2025. As of October 4th, markets are pricing a 30% chance for a 25bp hike on November 7th.

Economic figures are showing a healthy evolution with unemployment rate printing 3.7%. The job market remains tight which should stabilize consumer demand in the coming months. The main risks are around China. The slow reopening and real estate issues in China have decreased demand for commodities.

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.

We maintain our 3-month target at 0.68 and our 12-month target at 0.7 (value of one dollar)



Source: LSEG Datastream, 04/10/2023

NZD VIEW >>
TARGET 12M VS USD: 0.63

Little upside short-term

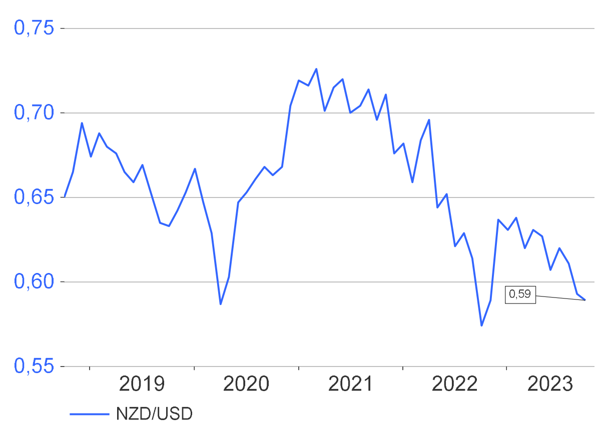
The New Zealand dollar (NZD) appreciated 0.6% against the US dollar in September. As of October 4th, it was trading at around 0.59.

On October 4th, the Reserve Bank of New Zealand (RBNZ) maintained an unchanged cash rate of 5.5% for the 4th consecutive time while inflation slowed to 6% for Q2 2023. The members said that the cash rate “needs to stay at a restrictive level to ensure that annual consumer price inflation returns to the 1% to 3% target range and to support maximum sustainable employment.” As of October 4th, the market was pricing a 46% chance of a 25bp hike on November 29th.

The slow reopening in China is having an impact on the exports of New Zealand as reflected in the lower prices of milk which printed 3.104 USD per ton.

Overall, we expect New Zealand’s economy to weaken further and the RBNZ 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. The interest rate differential should thus move less than in Australia.

We maintain our 3-month target for the NZD/USD at 0.60 and our 12-month target at 0.63.



Source: LSEG Datastream, 05/10/2023

CAD VIEW >>
TARGET 12M VS USD: 1.30

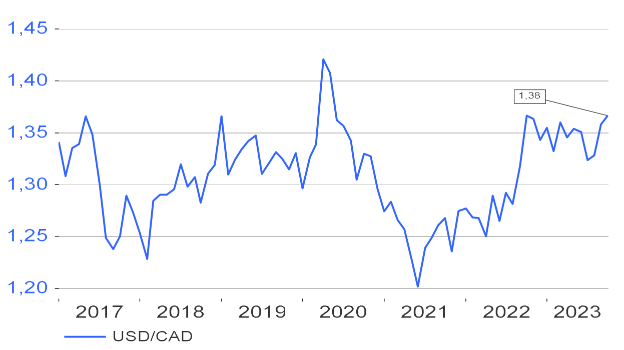
Some upside from current levels

The Canadian dollar (CAD) remained flat in September against the US dollar. As of October 4th it was trading at around 1.37. On September 6th, the BoC maintained rates at 5% despite increasing inflation. In September, the YY CPI inflation printed 4%, higher than expected. Data shows that higher gas prices and rising shelter costs including mortgage payments were largely to blame. This may set the BoC on a higher for longer rate policy. As of October 4th, the markets were pricing a 26% chance for another 25bp rate hike on October 25th.

As a commodity currency, the CAD benefits from both supply and demand-driven energy price shocks. We think the recent move higher in oil prices is a key support for the CAD and can be seen as a way to hedge the risk of further upside in oil prices. Other figures such as unemployment rate printed 5.5% lower than expected. However, the elevated household debt-to-GDP ratio (slightly above 100% in Q1 2023) is still a headwind for the currency.

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

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) depreciated 0.5% against the US dollar in September. On October 4th it was trading at around 7.2.

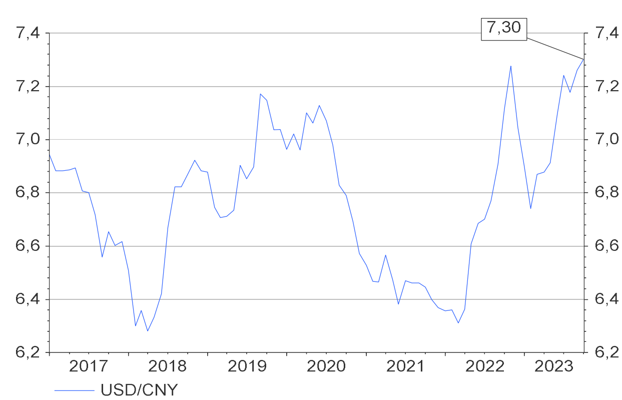
The PBoC is yet to give a clear guidance as to how they will fight CNY's depreciation, however, they will "resolutely prevent currency overshooting risks and keep the Yuan basically stable at reasonable and balanced levels". On September 20th the 1yr and 5yr loan prime rate was maintained at 3.45% and 4.20% respectively.

The Caixin manufacturing PMI printed 50.6, higher than expected but the Service PMI 50.2, lower than previously. The CPI inflation printed 0.1% year-on-year, lower than expected.

The CNY currency is pegged and managed against a basket of currencies suggesting the possibility of a PBOC intervention to maintain stability.

Overall, China's economic recovery remains uninspiring and easy monetary policy continues to present a yield disadvantage for the yuan against the US dollar.

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



MXN VIEW >> TARGET 12M VS USD: 18.50

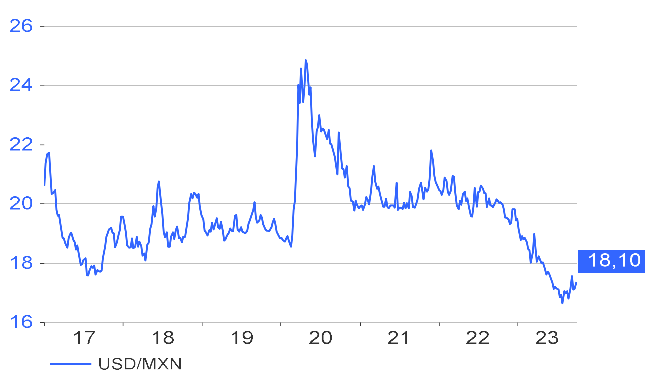
Consolidation after sharp appreciation

The Mexican peso depreciated 1.9% in September. On October 4th it was trading at 18. Since the start of the year the MXN has appreciated 7.8% mainly propelled by Mexico's robust economic momentum in comparison to the US and expectations of further supply chain relocations.

The Mexican central bank has reached its terminal rate in March at 11.25%. On September 28th rates were maintained at 11.25%, as expected but surprised with the tone of hawkishness implicit in its upward revisions to inflation forecasts. Latin American countries are expected to enter a rate cut cycle which must be done cautiously whilst considering some sticky inflation.

The manufacturing PMI for September printed 49.8 while the industrial output printed higher than expected at 4.8%. These figures are probably linked to nearshoring flows and have been driven by continued political tensions between China and the West. On top of that, the balance of growth versus risks for Mexico has turned increasingly favorable, and its geographic proximity to the US is setting Mexico as a natural winner in the nearshoring trend. The MXN is however consolidating after recent rise and should depreciate somewhat as the central bank easing cycle begins. 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, 04/10/2023

BRL VIEW >> TARGET 12M VS USD: 5.0

Likely rebound

The Brazilian real (BRL) depreciated 2% against the US dollar in September. Indeed, Brazil's central bank cutting cycle is well underway. On September 20th Brazil's central bank unanimously cut the policy rate another 50bp, as expected, setting rates at 12.75%.

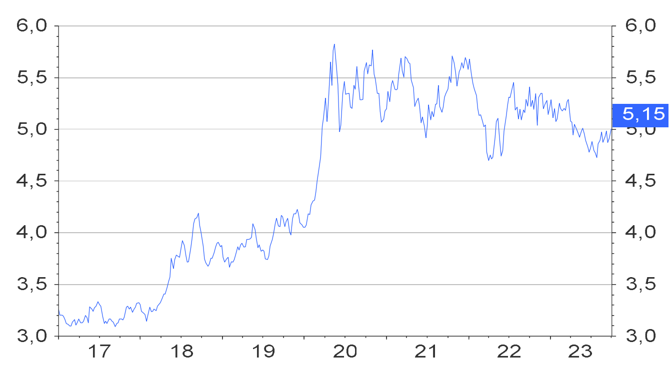
Meanwhile the IPCA inflation printed 4.61% year-on-year, lower than expected. Despite positive inflation downtrend the central bank edged up its 2023 inflation forecast to 5.0% from 4.9%, for 2024 to 3.5% from 3.4% and for 2025 to 3.1% from 3.0%.

In September production figures showed a weakening in activity with the manufacturing PMI printing 49 and services PMI 48.7. The trade balance printed lower than expected at 8.90B USD which maintained its current account at deficit -0.778B USD.

Despite improved relations with Western countries, the Brazilian currency remains vulnerable to short-term political uncertainty

Overall, real yields should remain high and limit the downside for the currency.

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, 04/10/2023

	Country		Spot 04/10/2023	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1,05	Neutral	1,06	Negative	1,15
	United Kingdom	EUR / GBP	0,87	Neutral	0,86	Neutral	0,86
	Japan	EUR / JPY	156,29	Neutral	154	Neutral	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	1,78	Neutral	1,77	Negative	1,83
	Canada	EUR / CAD	1,45	Positive	1,40	Negative	1,50
	Sweden	EUR / SEK	11,66	Positive	11,00	Positive	11,00
	Norway	EUR / NOK	11,58	Positive	11,30	Positive	10,80
Asia	China	EUR / CNY	7,66	Neutral	7,63	Negative	7,82
	India	EUR / INR	87,34	Neutral	86,92	Negative	94,30
Latam	Brazil	EUR / BRL	5,42	Positive	5,30	Negative	5,75
	Mexico	EUR / MXN	19,00	Neutral	19,08	Negative	21,28

	Country		Spot 04/10/2023	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1,05	Neutral	1,06	Positive	1,15
	United Kingdom	GBP / USD	1,21	Neutral	1,23	Positive	1,34
	Japan	USD / JPY	148,96	Positive	145,00	Positive	134,00
	Switzerland	USD / CHF	0,92	Neutral	0,92	Positive	0,85
	Australia	AUD / USD	0,63	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	7,30	Neutral	7,20	Positive	6,80
	India	USD / INR	83,24	Neutral	82,00	Neutral	82,00
Latam	Brazil	USD / BRL	5,16	Positive	5,00	Positive	5,00
	Mexico	USD / MXN	18,10	Neutral	18,00	Negative	18,50
EMEA	South Africa	USD / ZAR	19,40	Positive	18,00	Positive	17,50
	USD Index	DXY	106,80	Neutral	105,00	Negative	97,40

Source: Refinitiv - BNP Paribas WM

THE INVESTMENT STRATEGY TEAM

FRANCE

Edmund SHING
Global Chief Investment Officer

ASIA

Prashant BHAYANI
Chief Investment Officer, Asia

Grace TAM
Chief Investment Advisor, Asia

BELGIUM

Philippe GIJSELS
Chief Investment Advisor

Alain GERARD
Senior Investment Advisor, Equities

Xavier TIMMERMANS
Senior Investment Strategy, PRB

LUXEMBOURG

Guy ERTZ
Chief Investment Advisor

Edouard DESBONNETS
Investment Advisor, Fixed Income

GERMANY

Stephan KEMPER
Chief Investment Strategist

CONNECT WITH US

wealthmanagement.bnpparibas

DISCLAIMER

This marketing document is communicated by the Wealth Management Métier of BNP Paribas, a French Société Anonyme, Head Office 16 boulevard des Italiens, 75009 Paris, France, registered under number 662 042 449 RCS Paris, registered in France as a bank with the French Autorité de Contrôle Prudentiel et de résolution (ACPR) and regulated by the French Autorité des Marchés Financiers (AMF). As marketing material, it has not been prepared in accordance with legal and regulatory requirements aimed at ensuring the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It has not been submitted to the AMF or any other market authority.

This document is confidential and intended solely for the use of BNP Paribas SA, BNP Paribas Wealth Management SA or their affiliates ("BNP Paribas") and the persons to whom this document has been delivered. It may not be distributed, published, reproduced or disclosed by any recipient to any other person, nor may it be quoted or referred to in any document, without the prior consent of BNP Paribas.

This document is provided solely for information and shall not constitute an offer or solicitation in any state or jurisdiction in which such an offer or solicitation is not authorized, or to any person to whom it is unlawful to make such offer, solicitation or sale. It is not, and under no circumstances is it to be construed as, a prospectus.

Although the information provided herein may have been obtained from published or unpublished sources considered to be reliable and while all reasonable care has been taken in the preparation of this document, BNP Paribas does not make any representation or warranty, express or implied, as to its accuracy or completeness and does not accept responsibility for any inaccuracy, error or omission. BNP Paribas gives no warranty, guarantee or representation as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (either legal, regulatory, tax, financial, accounting or otherwise) of any product or transaction. Investors should not place undue reliance on any theoretical historical information regarding such theoretical historical performance. This document may contain or refer to past performance; past performance is no guarantee for future performance.

The information contained in this document has been drafted without prior knowledge of your personal circumstances, including your financial position, risk profile and investment objectives.

Prior to entering into a transaction each investor should fully understand the financial risks, including any market risk associated with the issuer, the merits and the suitability of investing in any product and consult with his or her own legal, tax, financial and accounting advisors before making his or her investment. Investors should be in a position to fully understand the features of the transaction and, in the absence of any provision to the contrary, be financially able to bear a loss of their investment and willing to accept such risk. Investors should always keep in mind that the value of investments and any income from them may go down as well as up and that past performance should not be seen as an indication of future performance. Any investment in a product described herein is subject to the prior reading and understanding of the legal documentation concerning the product, and in particular the one which describes in details the rights and obligations of investors as well as the risks inherent to an investment in the product. Save as otherwise expressly agreed in writing, BNP Paribas is not acting as financial adviser or fiduciary of the investor in any transaction. The information, opinions and projections expressed herein reflect the opinion of their author at the time of writing; they are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by anyone, and are subject to change without notice. Neither BNP Paribas nor any BNP Paribas Group entity accepts any liability whatsoever for any consequences that may arise from the use of information, opinions or projections contained herein.

As distributor of the products described herein, BNP Paribas may receive distribution fees on which you can obtain more information upon specific request. BNP Paribas, their employees or administrators may hold positions in these products or have dealings with their issuers.

By accepting this document, you agree to be bound by the foregoing limitations.

Pictures from Getty Images.