SEPTEMBER 2024

Currencies Focus

Summary

1. The US dollar index (DXY) depreciated around 1.6% in August while the Euro index (EXY) remained flat. Currency volatility increased late July but stabilized lower. It remains well below peaks experienced previously.
2. In the US, we revised our Fed scenario to 2 (vs 1 before) 25bp rate cuts this year, 4 in 2025 and 2 in 2026. In Europe, we still foresee two more rate cuts this year, and three cuts in 2025. The sharp move towards bigger and faster rate cuts by the Fed have pushed the dollar lower over recent weeks. The move seems somewhat exaggerated short-term. **We change our 3-month target at 1.10 and we maintain our 12-month target at 1.12.**
3. The BoJ surprised the markets by hiking rates at the end of July. We think that the BoJ will hike rates relatively quickly until the nominal rate reaches about 1%, and then slow down the hiking pace thereafter. The Yen rose sharply after the announcement. We **change our USDJPY 3-month target to 145 and keep our 12-month target at 140 suggesting an appreciation of the Yen.**
4. **Other target changes:** (1) we change our 3-month EUR/CHF target to 0.94 and our 12-month target to 0.96, (2) we change our 12-month EUR/NOK target to 11, (3) we change our USD/MXN 3-month target to 19 and our 12-month target to 18 and (4) we change our USD/BRL 3-month target to 5.5 and the 12-month target to 5.3.

Writing completed on September 9th.

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Contents

OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 9/9/2024		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1.11	1.10	1.12
	United Kingdom	EUR / GBP	0.84	0.84	0.86
	Switzerland	EUR / CHF	0.94	0.94	0.96
	Japan	EUR / JPY	160.95	160	157
	Sweden	EUR / SEK	11.34	11.00	11.00
	Norway	EUR / NOK	11.64	11.30	11.00
Against dollar	Japan	USD / JPY	145.39	145	140
	Canada	USD / CAD	1.35	1.32	1.30
	Australia	AUD / USD	0.68	0.68	0.70
	New Zealand	NZD / USD	0.63	0.60	0.63
	Brazil	USD / BRL	5.64	5.50	5.30
	India	USD / INR	83.87	82.0	82.0
	China	USD / CNY	7.11	7.20	7.20

Source: Refinitiv - BNP Paribas WM

USD VIEW >>
TARGET 12M VS EUR: 1.12

Dollar with limited downside

The US dollar depreciated 1.1% against the euro over the past months and was trading at around 1.10 (value of one euro) on September 9th.

The US August jobs report showed a rebound in non-farm payrolls that was weaker than we expected at 142k versus a downwardly revised 89k in July. The unemployment rate decline to 4.2% from 4.3%. More important, permanent layoffs remained little changed in August and over the course of 2024. Average hourly earnings raised by 0.4% versus 0.2%. The Core PCE year-over-year stayed at 2.6%. We still see the risks of a recession to be moderate and expect less rate cuts relative to market expectations. We revised our Fed scenario to 2 (vs 1 before) 25bp rate cuts this year, 4 in 2025 and 2 in 2026. With a disinflation trend in place, the Fed has shifted its focus to the labor market. In the eurozone, unemployment rate decline to 6.4% from 6.5%, and the core inflation printed down 0.1pp to 2.8%. In Europe, we see the ECB delivering two more cuts in September and December 2024. That is quite in line with expectations.

The biggest upside risk for the dollar would likely come from the US presidential election, where a Donald Trump victory and the enactment of broad-based tariffs and tax cuts could push inflation higher. That could force the Fed to hike rates and could support the dollar higher again. That is not our scenario.

All in all, the downside for the dollar seems to be limited in the coming months as uncertainty and volatility should remain high.

We change our 3-month target at 1.10 and we maintain our 12-month target at 1.12 .

Source: LSEG Datastream, 09-09-24

GBP VIEW >>
TARGET 12M VS EUR: 0.86

GBP with downside

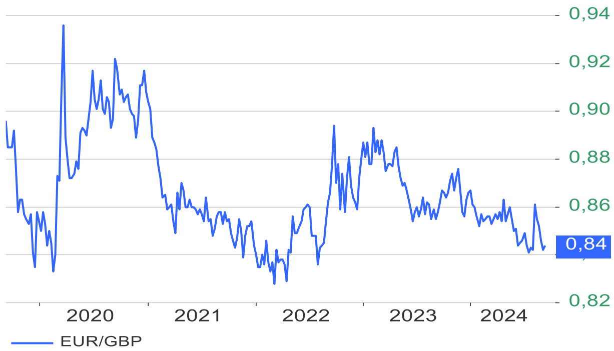
The GBP appreciated 1.3% against the euro over the past months and was trading at around 0.84 (value of one euro) on September 9th.

On August 1st, The Bank of England reduced its policy rate at 5%, as expected. We anticipate further easing in labor markets and a decline in inflation. Therefore, we expect the Bank of England to cut the policy Rate by 25bp per quarter through 2024 and 2025, reaching 3.75% at end-2025.

The inflation rate printed 0.2pp higher to 2.2% (year-on-year), while core inflation at 3.3% continues to decline. Moreover, GDP growth came out at 0.6% quarter-on-quarter, another strong point. On the labor market, the ILO unemployment rate dropped to 4.2%.

The fiscal outlook is seen as the key post-election risk. At its first 'fiscal event' on 30 October, we expect the Labor government to announce further consolidation measures to tackle the spending shortfall it identified soon after taking power. The currency benefitted form the improved political environment, but we think that the move is overdone as key challenges remain.

We keep our 3-month target at 0.84 and at 0.86 for our 12-month target (value of one euro). This suggests some downside over the coming year.



Source: LSEG Datastream, 09-09-24

CHF VIEW >>
TARGET 12M VS EUR: 0.96

Target change with sustained strength

Over the past months, the CHF appreciated 0.9% against the euro, with the EURCHF trading at around 0.94 (value of one euro) as of September 9th.

CHF strength puts pressure on the Swiss National Bank (SNB). It is is expected one 25bp cut in September and one in December, leading a terminal rate of 0.75%. Chairman Jordan highlighted the negative impact of the CHF on exports and growth. He reiterated that the SNB's mandate is price stability by using interest rates cut and potential FX interventions.

Recent data are skewed. Inflation declined from 1.3% to 1.1% undershooting the SNB's Q3 projection of 1.5%. This can put pressure on the SNB to call for more aggressive easing. However, Q2 GDP data came as expected while manufacturing PMI and services printed higher than expected at 49.0 and 52.9 respectively. Additionally, the KOF business survey was also higher. The unemployment rate remained steady at 2.5%.

The CHF strength is expected to continue. This is also suggested by sustained political uncertainty for the coming months. **Therefore, we change our 3-month to 0.94 and our 12-month target to 0.96 for the EURCHF.**

Source: LSEG Datastream, 09-09-24

JPY VIEW >>
TARGET 12M VS USD: 140

Stabilization close to target

Over the past months, the JPY appreciated 2.56% against the US dollar. As of September 9th, it was trading at around 143 (value of one US dollar).

On July 31st, the Bank of Japan (BoJ) surprised the markets by hiking rates by 15bp to reach a 0.25% rate. The BoJ stated that the Japan's economic activity was in line with the bank's outlook and stated to reduce the amount of JGB in "predictable manner". We think that the BoJ will hike rates relatively quickly until the nominal rate reaches about 1%, and then slow down the hiking pace thereafter.

Japan's economy is showing signs of recovery with Q2 GDP growing 3.1% and strong wage increases boosting consumer spending. Inflation remains at 2.8% and core inflation at 2.7%. The unemployment rate increased at 2.7%, as expected. The Manufacturing PMI business survey index was at 49.8, while the Service PMI was at 53.7.

The Yen rose sharply after the announcement of the BoJ. **Therefore, we change our USDJPY 3-month target to 145 and keep our 12-month target at 140 suggesting a stabilization after the recent rise.**

Source: LSEG Datastream, 09/09/2024

SEK VIEW >>
TARGET 12M VS EUR: 11

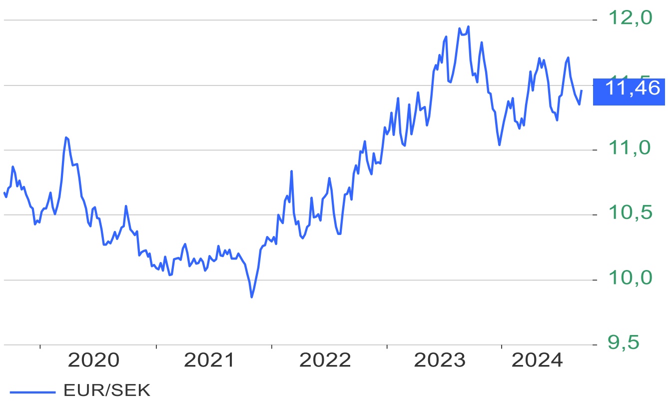
Stabilization around target level

The SEK appreciated by 0.1% against the euro over the past month and was trading at around 11.46 (value of one euro) on September 9th.

The Inflation rate printed at 2.6% for July 2024, unchanged from 2.6% in June. Therefore, on August 20th, the Riksbank decreased its policy rate by 25bp to 3.5%, in line with expectation. The central bank also indicated the possibility of two or three further rate cuts this year to achieve the 2% inflation target.

On economic indicators, the manufacturing PMI rebounded at 52.7, reflecting that the decrease in July was just a seasonal effect. Moreover, seasonally adjusted GDP fell by 0.3% (quarter-on-quarter), due to changes in inventories and GDP rose by 0.5% year-on-year. On another side, the unemployment rate increased by 1.5% to of 7.7%. The central bank stated that developments in the labor market will be a risk for future monetary policy decision.

We maintain our 3- and 12-month targets at 11, indicating a small appreciation of the Swedish krona.



Source: LSEG Datastream, 09/09/2024

NOK VIEW >>
TARGET 12M VS EUR: 11

Target change suggesting less appreciation

The Norwegian Krone (NOK) depreciated 1,4% against the euro, trading at around 11.96 (value of one euro) on September 9th.

The policy rate was kept at 4.5% at the August meeting. This meeting introduced a more nuanced forward guidance, with the policy rate expected to be on hold "for some time ahead" instead of explicitly targeting 2025. This change opens the door to varied interpretation, with some suggesting it still implies a first cut in 2025, while other view it as dovish tweak that could signal rate cuts as early as December.

Economic data has been mixed. The second quarter GDP report was weak, with growth at 0.5% quarter-on-quarter, alongside flat employment and slightly higher productivity. Core inflation in July rose by 0.8% month-on-month, bringing the yearly rate down to 3.3%. Thus, widening the gap to the bank's forecast. The unemployment rate edged up to 2.1% slightly above expectation and retail sales rebounded after a sharp decline to 1.2% (from -5.1%).

Looking ahead, the balance of risk between inflation and currency stability remains focal point. The currency suffered from the recent declined in oil prices and the weaker outlook. We also revised our Brent target lower, and this should weigh on the currency over the coming months.

Therefore, **we maintain our 3-month target for the NOK at 11.3 and we change our 12-month target at 11 (value of one euro), suggesting an appreciation potential for the NOK in the coming months.**

Source: LSEG Datastream, 09/09/2024

AUD VIEW >>
TARGET 12M VS USD: 0.70

Appreciation potential next year

Over the past months, the Australian dollar (AUD) appreciated 1.75% against the US dollar. As of September 9th, it was trading at around 0.67 (value of one AUD) .

On August 6th, the Reserve Bank of Australia (RBA) maintained the policy rate at 4.35%, as expected. The board emphasized vigilance against inflation risks and signaled no near-term rate cuts, stating that the decision was between a hike and a hold. Bullock reinforced this stance, highlighting the RBA's independence from global central banks due to its floating exchange rate.

Inflation stayed higher compared the RBA's target in 2025 at 3.8%. Real GDP growth continued to decrease to 1.1% year-on-year. The unemployment rate increased slowly to 4.2%. Moreover, the current account balance declined and recorded a deficit of $10,725m, bigger than expected.

Looking ahead, despite the RBA's cautious stance towards the economic outlook and the inflation trajectory, the yield differential is expected to favor the AUD, particularly with anticipated rate cuts in the US. The weakness in commodity demand could limit the upside for the AUD in the short-term.

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, 09-09-24

NZD VIEW >>
TARGET 12M VS USD: 0.63

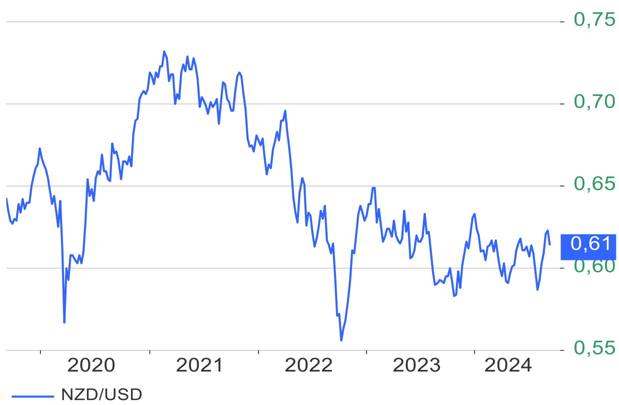
Limited for the NZD

Over the past months, the New Zealand dollar appreciated 1.29% against the USD dollar. As of September 9th, it was trading at around 0.61 (value of one NZD) .

On August 14th, the RBNZ reduced the policy rate by 25bp to 5.25%. The bank argued that the inflation is returning withing the monetary policy target range of 1 to 3%.

New Zealand's first quarter CPI inflation declined from 4.0% to 3.3% in June. Prices for goods and services that are imported and exported have declined over the second quarter. The unemployment rate increased to 4.6%. Moreover, economic growth is expected to decline in late 2024. The weak recovery in Asia is limiting the upside short-term.

The NZD increased since the announcement of the central bank. As the Asian economies start to recover later this year, 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, 09/09/2024

CAD VIEW >>
TARGET 12M VS USD: 1.30

Further appreciation potential

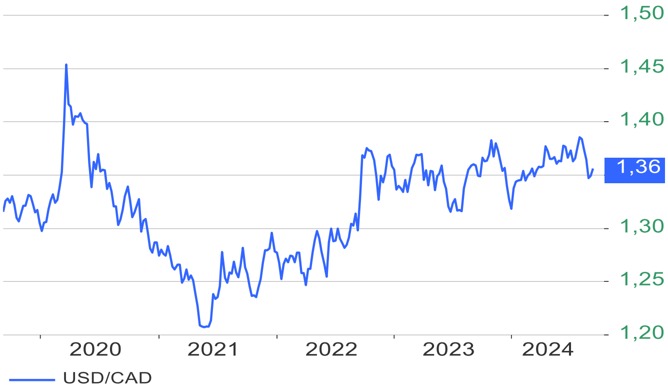
Over the past months, the Canadian dollar (CAD) appreciated by 1.68% against the US dollar, trading at around 1.35 (value of one USD) as of September 9th .

On September 4th, the Bank of Canada (BoC) delivered another 25bp cut, setting the policy rate at 4.25%. This was widely expected. The message was unchanged from July. The central bank will closely monitor risks of excess supply and shelter price inflation.

Growth in in the second quarter came slightly stronger than expected at 2.1%. The unemployment rate rose 0.2% at 6.6%. Regarding the inflation rate, it slowed further to 2.5% in July with shelter prices continuing to put pressure. The current account balance printed an $8.5 billion deficit in the second quarter, higher than expected. This increase was due to a higher trade deficit.

The temporary weakness in oil and commodity prices could limit the upside of the CAD in the short-term.

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 coming year.**



Source: LSEG Datastream, 09-09-24

CNY VIEW >>
TARGET 12M VS USD: 7.2

Close to target

Over the past months, the Chinese Yuan (CNY) appreciated by 0.83% against the US dollar. As of September 9th, it was trading at around 7.11 (value of one USD) .

On August 20th, the loan prime rates for both 1-year and 5-year were maintained at 3.45% and 3.95%, respectively. We expect the central bank to stick to its established policy of measured and gradual easing, considering commercial banks constrained net interest margins and a still-sizable interest rate spread with the US.

The Caixin manufacturing PMI business survey increased to 50.4 in August from 49.8 in July, while the Service PMI survey decreased to 51.6. The New-order PMI dropped to 48.9 from 49.3 prior, the lowest this year. Concerning China's inflation, the core inflation dropped to 0.3% year-on-year in August and the producer price deflation deepened to -1.8% in August. Such a decline can be mostly attributed to the drop in global commodity prices and as well as the domestic supply-demand imbalances.

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. The property sector will remain the biggest drag on China's economy this year despite policy support. This limits the upside for the currency

Therefore, we maintain our 3-month target at 7.2 and our 12-month target at 7.2 (value of one US dollar).

Source: LSEG Datastream, 09-09-24

MXN VIEW >> TARGET 12M VS USD: 18

Target change suggests less upside

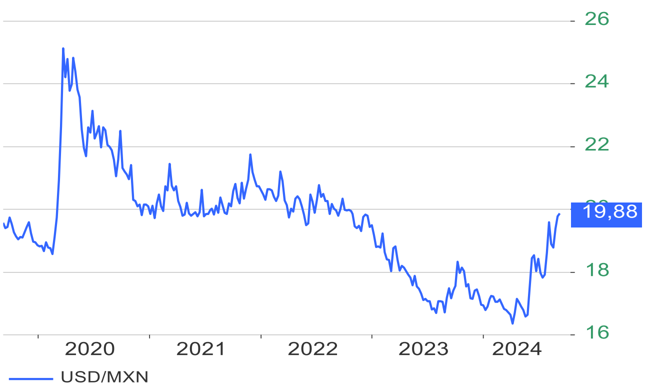
Over the past months, the Mexican Peso (MXN) saw significant volatility, depreciated 5.42% against the US dollar. As of September 9th, it was trading at around 19.88 (value of one USD) .

The Mexican central bank (Banxico) decided to lower the rates to 10.75% on August 8th, as expected. We continue to expect further cuts to reach 9.75% rate late 2024.

The core inflation continues to decline at 4.05%. The disinflation process is expected to continue, probably converging to the central bank inflation target of 3% for late 2025. The manufacturing PMI survey continues to fall into contraction territory (below 50). Moreover, the second quarter GDP has been revised down at 2.1% from 2.2%.

The recent weakness of the MXN is linked to the post-election uncertainty and the Judicial reform proposal. We believe replacing the judicial system could increase risks of weaker foreign investments.

Considering these factors, we change our USDMXN 3-month target to 19 and our 12-month target to 18.



Source: LSEG Datastream, 09/09/2024

BRL VIEW >> TARGET 12M VS USD: 5.3

Target change suggests less appreciation

Over the past months, the Brazilian real (BRL) depreciated 2.05% against the US dollar . As of September 9th, it was trading at around 5.61 (value of one USD) against the US dollar.

Second quarter GDP data confirmed that Brazil's economy ended H1 2024 growing above potential, driven by strong household and government consumption (both rising 1.3% in the quarter). The release of credit and labor market data for July showed that credit – especially to households – is on the rise while employment is still growing fast, with the wage bill rising over 8% year-on-year in real terms. The CPI report showed lower-than-expected underlying services inflation, but the disinflationary trend has halted.

The Central Bank of Brazil (BCB) maintained its policy rate at 10.5% on June 19th.We expect the BCB to initiate a 175bp hiking cycle on September 18th with a 25bp rate rise, followed by two 50bp hikes in November and December and a couple of 25bp moves in the first quarter 2025. The tightening is required given a heated labor market, loose fiscal policy and expectations of firmly above-target inflation as far as 2027.

The recent weakness in commodity prices could delay somewhat the appreciation of the BRL. Considering these factors, **we change our USD/BRL 3-month target to 5.5 and the 12-month target to 5.3 suggesting a more moderate appreciation potential for the BRL.**

Source: LSEG Datastream, 09/09/2024

	Country		Spot 9/9/2024	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1.11	Neutral	1.10	Neutral	1.12
	United Kingdom	EUR / GBP	0.84	Neutral	0.84	Negative	0.86
	Japan	EUR / JPY	160.95	Neutral	160	Positive	157
	Switzerland	EUR / CHF	0.94	Neutral	0.94	Negative	0.96
	Australia	EUR / AUD	1.63	Neutral	1.62	Neutral	1.60
	New-Zealand	EUR / NZD	1.77	Negative	1.83	Neutral	1.78
	Canada	EUR / CAD	1.49	Positive	1.45	Positive	1.46
	Sweden	EUR / SEK	11.34	Positive	11.00	Positive	11.00
	Norway	EUR / NOK	11.64	Positive	11.30	Positive	11.00
Asia	China	EUR / CNY	7.87	Neutral	7.92	Negative	8.06
	India	EUR / INR	92.85	Positive	90.20	Neutral	91.84
Latam	Brazil	EUR / BRL	6.24	Positive	6.05	Positive	5.94
	Mexico	EUR / MXN	21.99	Positive	19.80	Positive	19.60

	Country		Spot 9/9/2024	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1.11	Neutral	1.10	Neutral	1.12
	United Kingdom	GBP / USD	1.32	Neutral	1.31	Neutral	1.30
	Japan	USD / JPY	145.39	Neutral	145.00	Positive	140.00
	Switzerland	USD / CHF	0.85	Neutral	0.85	Neutral	0.86
	Australia	AUD / USD	0.68	Neutral	0.68	Positive	0.70
	New-Zealand	NZD / USD	0.63	Negative	0.60	Neutral	0.63
	Canada	USD / CAD	1.35	Positive	1.32	Positive	1.30
Asia	China	USD / CNY	7.11	Neutral	7.20	Neutral	7.20
	India	USD / INR	83.87	Positive	82.00	Positive	82.00
Latam	Brazil	USD / BRL	5.64	Positive	5.50	Positive	5.30
	Mexico	USD / MXN	19.87	Positive	19.00	Positive	18.00
EMEA	South Africa	USD / ZAR	17.75	Neutral	18.00	Neutral	17.50
	USD Index	DXY	101.34	Neutral	101.60	Neutral	99.93

Source: Refinitiv - BNP Paribas WM

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