NOVEMBER 2024

Currencies Focus

Summary

1. The US dollar index (DXY) appreciated by almost 3% since early November. The strengthening of the USD was broad-based and was mainly linked to the change in expectation for the terminal rate of the Fed given increased risks that inflation will rise again next year.
2. With the victory of Donald Trump, trade uncertainty and tariffs should weigh on the eurozone given its open economy and sensitivity to global trade conditions. We expect growth and interest rate divergence also widen further.
3. On November 7th, the Fed cut its policy rate by 25bp at 4.75% as expected. Due the outcome of the US election, we now expect a 25bp rate cut at the December meeting, followed by 3 cuts in 2025 until the policy rates reaches 3.75% in early 2026. This is a higher terminal rate compared to our previous scenario. As for the ECB, we now expect a 25bp cut in December with a faster rate-cutting cycle leading to a terminal rate to 2% in 3Q 2025 (2,25% in our previous scenario). **We thus change Our 3-month target at 1.06 and our 12-month target at 1.02 (value of one €).**
4. **Given the fact that the US central bank is expected to cut rates less, we make changes for other currencies relative to the USD. We see more USD strength against the following currencies: AUD, NZD, JPY, CNY, INR, BRL and MXN. Against the EUR, we change the target of the GBP and SEK.**

Writing completed on November 13th.

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Chief Investment Advisor - Deputy Global CIO
BNP Paribas Wealth Management

Contents

OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot		Target three months		Target twelve months	
		13/11/2024		Trend	Mid	Trend	Mid
Against euro	United States	EUR / USD	1,06	Neutral	1,06	Positive	1,02
Against euro	United Kingdom	EUR / GBP	0,83	Neutral	0,83	Neutral	0,83
Against euro	Switzerland	EUR / CHF	0,94	Neutral	0,94	Negative	0,96
Against euro	Japan	EUR / JPY	164,16	Positive	159	Positive	153
Against euro	Sweden	EUR / SEK	11,61	Neutral	11,4	Positive	11,2
Against euro	Norway	EUR / NOK	11,77	Neutral	11,60	Positive	11,30
Against dollar	Japan	USD / JPY	155,03	Positive	150	Positive	150
Against dollar	Canada	USD / CAD	1,40	Neutral	1,38	Neutral	1,40
Against dollar	Australia	AUD / USD	0,65	Neutral	0,66	Neutral	0,64
Against dollar	New Zealand	NZD / USD	0,59	Neutral	0,60	Neutral	0,60
Against dollar	Brazil	USD / BRL	5,80	Positive	5,60	Neutral	5,80
Against dollar	Russia	USD / RUB	98,50	Positive	70,0	Positive	70,0
Against dollar	India	USD / INR	84,39	Neutral	84,0	Neutral	84,0
Against dollar	China	USD / CNY	7,22	Neutral	7,20	Neutral	7,30

Source: Refinitiv - BNP Paribas WM

BNP PARIBAS WEALTH MANAGEMENT

The bank for a changing world

USD VIEW >> TARGET 12M VS EUR: 1.02

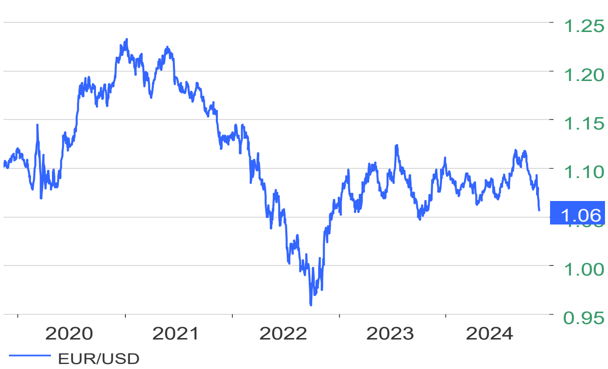
Major outlook change

The US dollar appreciated after the US election and broke below 1.06 around mid-November.

The Fed cut its policy rate by 25bp at 4.75% at the November meeting as expected. Powell characterized December as a live meeting and made clear that a “skip" is possible depending on the data. Due the outcome of the US election, we now expect a 25bp rate cuts in December meeting, followed by 3 cuts in 2025 until the policy rates reaches 3.75% in early 2026. That means 50bp less cuts compared to our previous outlook. As for the ECB, we now expect a 25bp cut in December with a faster rate-cutting cycle leading to a terminal rate to 2% in 3Q 2025. That means a 25bp additional cut compared to our previous scenario.

With regard to the longer-term rates, we have raised our US bond yield targets given the risk of inflation (Donald Trump's policy focuses on less immigration and more tariffs) and the risk of increased budget spending that would suggest an increase in the supply of treasury bills. The US 10-year yield should be at 4.25% in 12 months (vs. 4% previously). We have not changed our 12-month target for the German Bund yield (2.25%).

The election of Donald Trump and the fact that the Republican Party has a majority in Congress improves the outlook for US equity markets for the coming months despite high valuations. We see three key factors that have the potential to increase the profitability of US companies: (1) the extension of the very favorable tax regime for companies or even additional decreases, (2) deregulation, and (3) the potential for decline for oil and gas prices. The increase in the yield and equity return differential expected for the coming months provides an important support for the dollar. **Therefore, we change our 3-month target at 1.06 and our 12-month target to 1.02 (value of one €).**



Source: LSEG Datastream, 13/11/2024

GBP VIEW >> TARGET 12M VS EUR: 0.83

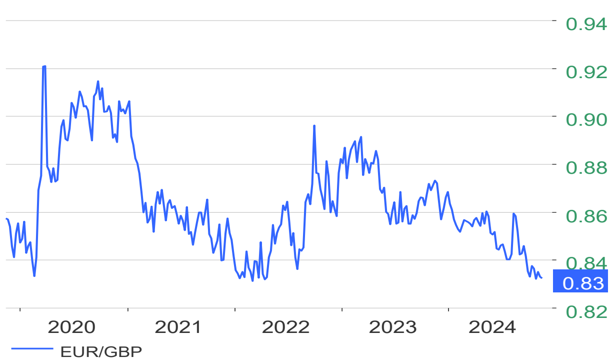
GBP to remain strong

The GBP appreciated over the past few weeks and with the EURGBP (value of one euro) falling close to 0.83 against the euro.

On November 6th, the Bank of England (BoE) stuck to its message of patience and gradualism and delivered its second 25bp rate cut of the cycle, taking the policy rate from 5.00% to 4.75%. Based on the Autumn Budget 2025, the bank expects now higher growth and inflation in 2025 than in their previous projection. Alongside this, the Monetary Policy Committee now only expects inflation to return to target in mid-2027. We continue to expect a quarterly pace of cuts, for an end-2025 rate of 3.75%.

While it remained in expansionary territory, the October PMI data signaled a softening in activity. The data included a decline in the composite employment index below 50, for the first time since December 2023. However, the ILO unemployment rate fell again to 4%. Regarding inflation for September, it fell below target. Headline inflation surprised consensus to the downside, falling to 1.7% y/y from 2.2% and Core inflation also decreased from 3.6% to 3.2%.

The outcome remains consistent with the Bank of England continuing to adopt a more gradual approach to rate cuts compared to the ECB. Rate differentials should thus continue to be a source of support for the GBP. **We therefore see the potential for the GBP to remain strong against the euro. We change our 3- and 12-month target to 0.83 (value of one €).**



Source: LSEG Datastream, 13/11/2024

CHF VIEW >>
TARGET 12M VS EUR: 0.96

Gradual normalization

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

The central bank has a policy rate at 1%. SNB chairman reiterated that the current focus of the SNB is normalising monetary policy. He emphasized that "over the next quarters, further rate cuts can become necessary" and stated once again that negative interest rates are a tool that is available to the SNB. We expect another rate cut in December and see risks for further cuts in the future. We think FX intervention is more likely to be used as the SNB approaches its 'effective lower bound'.

Swiss CPI inflation surprised to the downside at 0.6% year-on-year, the lowest level since June 2021. Core inflation was unchanged at 1.0%. This release puts Swiss inflation firmly in the bottom-half of the SNB's 0.0-2.0% target range. The composite business survey (PMI) rose to 51.4 with an improvement in services and an unchanged Manufacturing PMI index. However, The KOF business index declined to 99.5 from 105.5.

If inflation continues to surprise to the downside, we see increased scope for additional rate cuts. A larger incremental move, or even potentially FX interventions are possible. Strength in the CHF could however materialize if geopolitical uncertainty increases or downside risks to eurozone growth intensifies. This is not our outlook. **Therefore, we maintain our EUR/CHF 3-month target at 0.94 and 12-month target at 0.96 (value of one €).**

Source: LSEG Datastream, 13/11/2024

JPY VIEW >>
TARGET 12M VS USD: 150

Target change

The JPY depreciated against the US dollar after the US elections. It was trading at around 155 (value of one US dollar) as of November 13th.

On the 31st of October, the Bank of Japan (BoJ) kept interest rates unchanged at 0.25%. The bank's assessment on growth and inflation in its quarterly outlook report was also largely unchanged from the July report, as expected. We see the next hike in rates at the December meeting with 25bp. We also expect the BoJ to continue to raise its policy rate to 0.75% in April, 1.00% in October, 1.25% in April 2026, and 1.50% in October 2026.

Japan's inflation for September stood at 2.4% down from 2.8% year-over-year and core inflation at 2.5% from 3%. The unemployment rate continued to decrease to 2.4%. Regarding business surveys, the manufacturing PMI fell to 49.2 in October from 49.7 and the non-manufacturing PMI shows a much sharper decline to 49.7 from 53.1.

Following the Trump victory, there is downside risk to Japan's real GDP growth due to a potential change in tariff. However, JPY would be less impacted by trade policy than other currencies. Moreover, the JPY will be more sensitive to a higher US terminal rate because it could widen the US–Japan rate differentials compared to previous expectations. **Given our new rate outlook, we change our USD/JPY 3-month target to 150 and our 12-month target to 150.**

Source: LSEG Datastream, 13/11/2024

SEK VIEW >>
TARGET 12M VS EUR: 11.20

Outlook Change with less upside

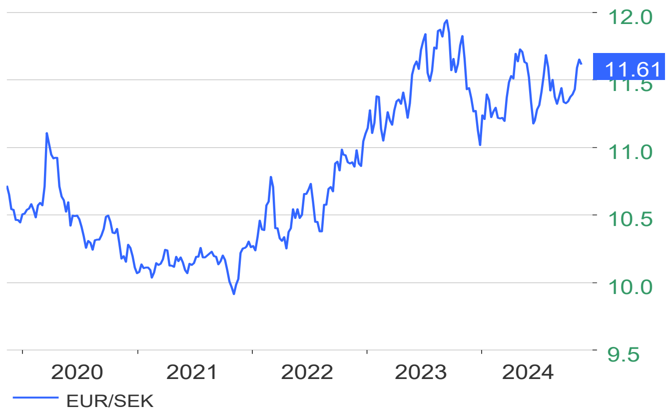
The SEK depreciated more against the euro over the past month and was trading at around 11.60 (value of one euro) on November 13th.

On November 7th, the Riksbank delivered a 50bp cut leading the policy rate to 2.75%. The central bank also indicated the possibility of a further rate cuts in December and during the first half of 2025 if the inflation and economic situation remains unchanged.

For October, headline inflation picked up by 0.4pp to 1.5% year-on-year and Core inflation up by 0.1pp to 2.1%, slightly above the 2% inflation target. The manufacturing PMI rebounded 1.5pts to 53.1 and the services PMI increased by 3.8 pts to 52.9. Regarding the labor market, the unemployment rate increased to 8.2% from 7.9%.

As a small exporting economy linked to global supply chains and manufacturing cycle, Sweden is vulnerable to the implementation of global tariffs by the US President. On top of that, with inflation decreasing, the Riksbank could cut rates more compared to other major central banks.

All in all, the risk of additional large rate cuts amid the ongoing fall in inflation and growth risks stemming from trade uncertainty could anchor SEK rate differentials at lower levels for the coming months. **We change our EUR/SEK 3-month target to 11.40 and our 12-month target to 11.20 (value of one EUR).**



Source: LSEG Datastream, 13/11/2024

NOK VIEW >>
TARGET 12M VS EUR: 11.30

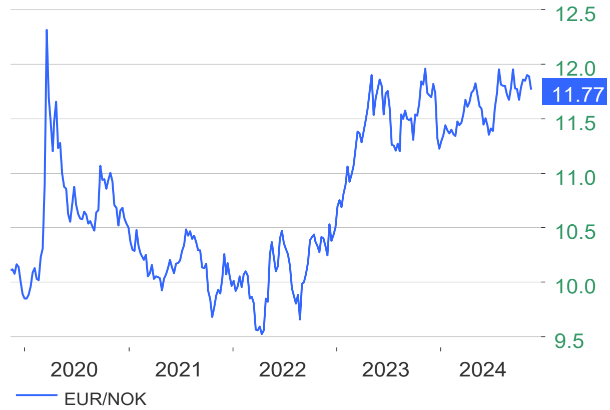
Moderate upside

The Norwegian Krone (NOK) appreciated slightly against the euro, after reaching peak weakness around 12. It was trading at around 11.70 (value of one euro) on November 13th.

The central bank (Norges Bank) kept the policy rate unchanged at 4.5 percent at its meeting on November 6th. The policy rate is likely to be maintained at the current level until the end of 2024. The bank indicated a gradual reduction in the policy rate starting in the first quarter of 2025.

Economic data has been mixed recently. The unemployment rate decreased to 1.9%. House prices were stronger. Moreover, the September manufacturing business survey (PMI index) increased by 0.6pts to 52.4 while retail sales growth decreased somewhat. Core inflation in October stood at 0.4% month-on-month, bringing the yearly rate to 2.7%.

We think the central bank will remain cautious. It could be cutting interest rate too soon given the weakness of the currency and the upside risks to inflation this presents. The NOK remains highly sensitive to oil prices as oil accounts more than 60% of Norway's exports. An interest rate differential in favor of the NOK with inflation still far above target should be more supportive for the currency. **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 in the coming months.**



Source: LSEG Datastream, 13/11/2024

AUD VIEW >>
TARGET 12M VS USD: 0.64

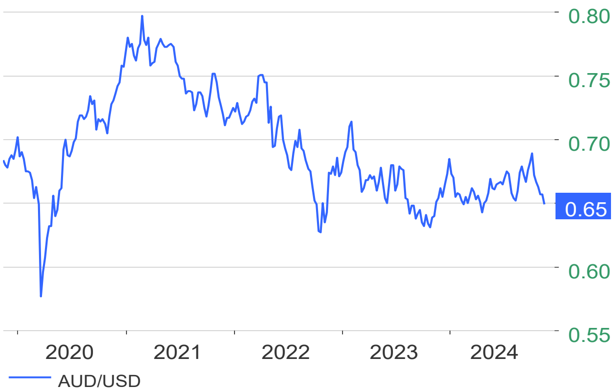
Target change leaving no major upside

The Australian dollar (AUD) depreciated against the USD after the US election, and it was trading at around 0.65 (value of one AUD) November 13th.

The Reserve Bank of Australia (RBA) kept its policy unchanged at 4.35% on November 6th. The meassage remains data-dependent, but the forecast for growth was slightly revised down due to weaker consumption fundamentals. We think that the central bank is more alert now to downside risks, especially in the labor market. Given the stickiness regarding inflation, the bar remains high for the central bank to consider easing the policy rate.

Inflation decreased to 2.2% from 2.7% year-on-year. The August unemployment rate stayed at 4.1%, with another solid employment gain. The manufacturing and service business surveys (PMI) printed at 51 and 47.3, respectively. Meanwhile, retail sales came at 0.2% month-over-month. However, Australia's current account continued to worsen in Q2, as exports remained weak.

AUD is sensitive to the outlook for China, and the currency will probably react if Trump higher tariffs than expected. We are getting somewhat more cautious after election outcome, and **we change our 3-month AUDUSD target to 0.66 and our 12-month forecast to 0.64. This suggests no major upside potential for the AUD anymore.**



Source: LSEG Datastream, 13/11/2024

NZD VIEW >>
TARGET 12M VS USD: 0.60

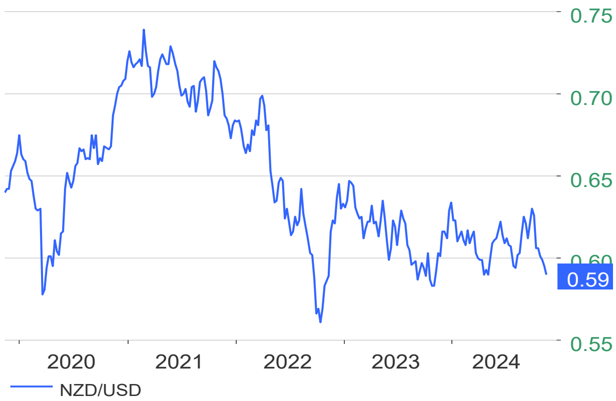
Target change with no major upside

The New Zealand dollar also depreciated against the USD dollar. It was trading at around 0.59 November 13th (value of one NZD).

On October 9th, the central bank (RBNZ) increased decided a bigger rate cut with 50bp compared to 25bp previously. The policy rate is now at 4.75%. Restrictive monetary policy has already heavily weighed on growth. The statement was however still dovish, and markets are pricing in one more 50bp cut this year.

Inflation decreased to 2.2% from 3.3% year-on year. The third the unemployment rate increased to 4.8% from 4.6% with a decrease in job growth. Concerning the business surveys, the manufacturing PMI continued to increase but the level remains below 50 (at 46.9) still suggesting a contraction.

As for the Australian currency, the NZD is sensitive to the outlook in China and thus the currencies will be reactive by any higher-than-expected US tariff policy. Moreover, the dovish stance of the Reserve Bank of New Zealand's and the weaker domestic fundamentals in New Zealand are weighing on the NZD. **Therefore, we change our NZD/USD 3-month target to 0.60 and our 12-month target to 0.60 (value of one NZD). No major upside from current levels.**



Source: LSEG Datastream, 13/11/2024

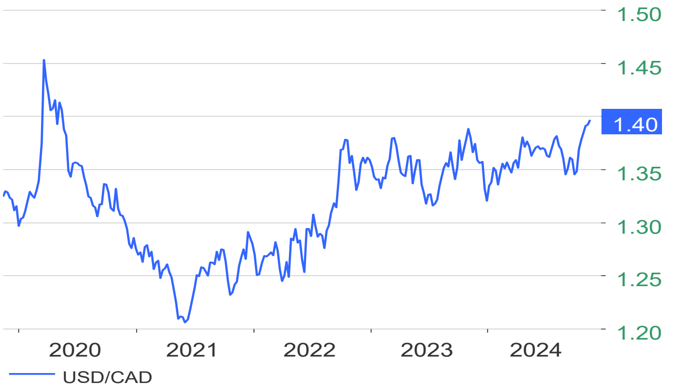
CAD VIEW >> TARGET 12M VS USD: 1.40

Target change – Weak outlook

The Canadian dollar (CAD) depreciated more against the US dollar, trading at around 1.40 (value of one USD) as of November 13th.

The Bank of Canada cut by 50bp to 3.75% on the 15th of October, increasing the size of the cut after three consecutive 25bp cuts. This was driven by inflation returning to target and a change of emphasis away from price pressures towards the growth outlook. The bar for an additional 50bp cut this year is low and dependent on incoming data. Markets are suggesting that the December meeting has a 50/50 chance to lead to a 25bp or 50bp cut. Headline inflation came in at 1.6% year-over-year in September. On the labor market, the unemployment rate stayed at 6.5%. Regarding business survey, the manufacturing PMI stayed in expansion territory at 51.1. The details of Canada's trade balance data suggest a worsening of exports to the rest of the world ex US, while imports are also falling. So, while the trade deficit is narrowing, this suggests weaker demand for Canadian products from abroad, combined with worsening domestic demand.

The largest risk for Canada and the currency is Trump's threat to impose very high import tariffs. 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 and has attracted little rhetoric from the president-elect thus far. We remain attentive to any possible sentiment shifts. **Given these factors, we change our 3-month target for the CAD to 1.40 and our 12-month forecast to 1.40 (value of one USD).**



Source: LSEG Datastream, 13/11/2024

CNY VIEW >> TARGET 12M VS USD: 7.30

Target change – More weakness

The Chinese Yuan (CNY) reversed trend after the US election and lost some value. As of November 13th, the USDCNY (value of one USD) was trading at just above 7.20.

The authorities delivered a major fiscal package, even if it was somewhat below expectations. The central bank (PBoC) is likely to cut RRR by another 25-50bp before the year-end and maintain an accommodative liquidity level. We expect the PBoC to cut the reverse repo policy rate by 50bp next year. China's economy has shown a visible rebound in October amid support from the latest policy package.

China's economic growth is likely to moderately pick up in Q4 and is on track to meet this year's "about 5%" growth target. The Caixin manufacturing PMI business survey increased to 50.3 from 49.3 and the Service PMI survey stays in the expansion territory at 52. The inflation rate dropped to 0.3% year-on-year from 0.4% previously. Retail sales grew at 3.2% year-over-year.

Trump's potential tariff policy is the key risk for the economy and the currency. In a scenario of a 60% tariff, we could see a further rise of the value of one USD in CNY (USDRMB). The risk of higher-than-expected tariffs and our upward revision in the US terminal rate suggest more downside for the Chinese currency. **Therefore, we change our 3-month target to 7.20 and our 12-month target to 7.30 (value of one USD).**

Source: LSEG Datastream, 13/11/2024

MXN VIEW >> TARGET 12M VS USD: 22

Target change suggest more downside

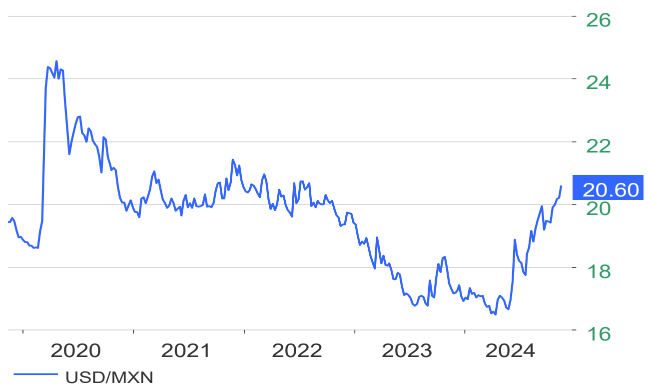
The Mexican Peso (MXN) depreciated further against the US dollar. As of November 13th, it was trading at around 20.40 (value of one USD).

The Mexican central bank (Banxico) cut its policy rate by 25bp to 10.5% at its September meeting. It currently projects an average inflation rate of 3% by end-2025. We maintain our expectation that the central bank will cut its policy rate by 25bp at each of the year's two remaining meetings. For 2025, we anticipate a steady easing cycle with a total of 200bp cuts with a year-end policy rate at 8%

Core inflation continued to decline to 3.8% with service inflation dipping below the 5% threshold for the first time since 2022. Non-food goods inflation has shown resilience despite recent exchange rate pressures. The manufacturing and services PMI surveys continue to stay in contraction territory (below 50).

Following Donald Trump's victory, we expect further MXN weakness on the back of the potential for very tariffs and possible changes to the USMCA treaty. Note that the US market represents 83% of Mexican exports (27% of GDP). The currency will be sensitive to decisions related to immigration, border security and war against illegal drugs.

Considering these factors, we change our USDMXN 3-month target to 21 and our 12-month target to 22. That suggest more weakness for the Mexican currency.



Source: LSEG Datastream, 13/11/2024

BRL VIEW >> TARGET 12M VS USD: 5.8

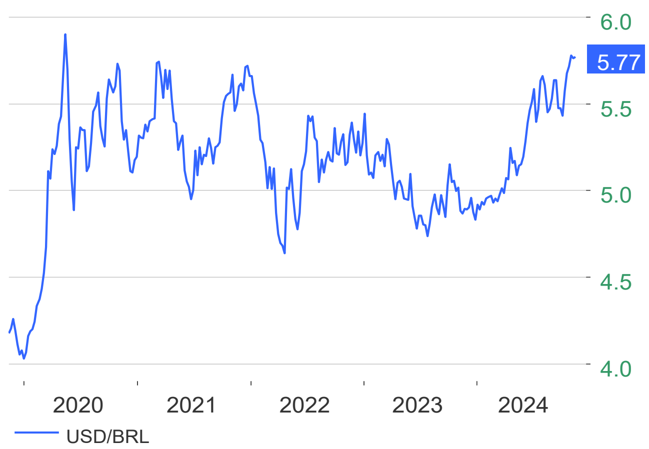
Target change

The Brazilian real (BRL) depreciated more against the US dollar after the elections. As of November 13th, the USDBRL was trading at around 5.80 (value of one USD) against the US dollar.

In line with market expectations, the Central Bank of Brazil (BCB) raised its policy rate by 50bp to 11.25% at the November meeting. The post-meeting communique introduced some hawkish comments suggesting that an acceleration of the move. We see the 50bp pace continuing over the next three policy meetings, bringing the Selic rate to 12.75% by March 2025.

Core services inflation stood at 0.59% month-on-month, resulting in a year-on-year increase of 5.12% compared to 4.64% in September. On the economic activity side, industrial production increased by 1.1% and we saw an increase of 0.5% month-over-month in retail sales. The manufacturing PMI business survey and the services PMI stayed in expansionary territory at 52.9 and 56.2, respectively. The current fiscal risk could continue to represent a headwind for the currency. However, the BCB's ongoing tightening cycle should continue to act as an anchor. The BRL could be supported by the rising intertest rate differential relative to the US. Regarding the potential impact of US tariffs, we note that the BRL is highly sensitive to global risk sentiment and Brazil has a strong trade relationship with China.

Considering these factors, we change our USD/BRL 3-month target to 5.60 and the 12-month target to 5.8. That suggest little upside for the currency.



Source: LSEG Datastream, 13/11/2024

	Country		Spot 13/11/2024	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1,06	Neutral	1,06	Positive	1,02
	United Kingdom	EUR / GBP	0,83	Neutral	0,83	Neutral	0,83
	Japan	EUR / JPY	164,16	Positive	159	Positive	153
	Switzerland	EUR / CHF	0,94	Neutral	0,94	Negative	0,96
	Australia	EUR / AUD	1,63	Neutral	1,61	Positive	1,59
	New-Zealand	EUR / NZD	1,79	Neutral	1,77	Positive	1,70
	Canada	EUR / CAD	1,48	Neutral	1,46	Positive	1,43
	Sweden	EUR / SEK	11,61	Neutral	11,40	Positive	11,20
	Norway	EUR / NOK	11,77	Neutral	11,60	Positive	11,30
Asia	China	EUR / CNY	7,65	Neutral	7,63	Positive	7,45
	India	EUR / INR	89,36	Neutral	89,04	Positive	85,68
Latam	Brazil	EUR / BRL	6,14	Positive	5,94	Positive	5,92
	Mexico	EUR / MXN	21,81	Negative	22,26	Negative	22,44

	Country		Spot 13/11/2024	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1,06	Neutral	1,06	Negative	1,02
	United Kingdom	GBP / USD	1,27	Neutral	1,28	Negative	1,23
	Japan	USD / JPY	155,03	Positive	150,00	Positive	150,00
	Switzerland	USD / CHF	0,88	Neutral	0,89	Negative	0,94
	Australia	AUD / USD	0,65	Neutral	0,66	Neutral	0,64
	New-Zealand	NZD / USD	0,59	Neutral	0,60	Neutral	0,60
	Canada	USD / CAD	1,40	Neutral	1,38	Neutral	1,40
Asia	China	USD / CNY	7,22	Neutral	7,20	Neutral	7,30
	India	USD / INR	84,39	Neutral	84,00	Neutral	84,00
Latam	Brazil	USD / BRL	5,80	Positive	5,60	Neutral	5,80
	Mexico	USD / MXN	20,60	Neutral	21,00	Negative	22,00
EMEA	South Africa	USD / ZAR	18,16	Neutral	18,00	Positive	17,50
	USD Index	DXY	106,48	Neutral	105,47	Positive	108,80

Source: Refinitiv - BNP Paribas WM

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