

Currencies Focus

Summary

1. The US dollar index (DXY) appreciated around 2% since early September while the Euro index (EXY) remained broadly flat. Currency volatility increased late July but stabilized lower. It remains well below peaks experienced previously.
2. In the US, The Federal Reserve started its rate-cutting cycle with a surprise 50bp cut. We now expect 25bp cuts at the November and December meetings, followed by quarterly 25bp cuts in 2025. In Eurozone, the ECB cut by 25bps leading to a deposit rate of 3.5%. We expect the ECB to cut rates by 25bp at both October and December meetings this year as inflation gets close to 2% and the economic momentum slows. Quarterly 25bp cuts should be the pace for 2025. **We maintain our 3-month target at 1.10 and our 12-month target at 1.12 (value of one EUR)**
3. China's policy stimulus package was welcomed by markets. The central bank cut 1Y MLF rate by 30bp to 2.0%. The current policy rate in China should be lowered by 20bp. The reserve requirement ratio (RRR) for large- and medium-sized banks should be lowered by 50bp. **We changed our 3- and 12-month target to 7.1 (value of one USD).**
4. Mexican central bank cut rates by 25bp on September 26th. In a context of the US activity slowdown, the approaching US election, the likelihood of further reforms being approved, and the central bank reaction function being more dovish than in the past, **we changed our USD/MXN 3-month target to 19 and our 12-month target to 18.5 (value of one USD).**

Writing completed on October 15th.

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OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 15/10/2024	Target 3 months	Target 12 months
Against euro	United States	EUR / USD 1.09	1.10	1.12
	United Kingdom	EUR / GBP 0.84	0.86	0.86
	Switzerland	EUR / CHF 0.94	0.94	0.96
	Japan	EUR / JPY 163.57	160	157
	Sweden	EUR / SEK 11.37	11.00	11.00
	Norway	EUR / NOK 11.76	11.30	11.00
	Japan	USD / JPY 149.86	145	140
Against dollar	Canada	USD / CAD 1.38	1.32	1.30
	Australia	AUD / USD 0.67	0.68	0.70
	New Zealand	NZD / USD 0.61	0.63	0.63
	Brazil	USD / BRL 5.60	5.50	5.30
	India	USD / INR 84.06	82.0	82.0
	China	USD / CNY 7.08	7.10	7.10

Source: Refinitiv - BNP Paribas WM



USD VIEW >> TARGET 12M VS EUR: 1.12

Dollar rebound should be temporary

The US dollar appreciated 1.57% against the euro over the past months and was trading at around 1.09 (value of one euro) on October 15th.

The Federal Reserve started its rate-cutting cycle with a surprise 50bp cut. We now expect 25bp cuts at the November and December meetings, followed by quarterly 25bp cuts in 2025, thus leading to a policy rate of 3.5% by December 2025. In Eurozone, the ECB cut by 25bps leading to a deposit rate of 3.5%. We expect the ECB to cut rates by 25bp at both October and December meetings as the economic momentum deteriorates. Quarterly 25bp cuts should be the pace for 2025 until the rate reaches 2.25%.

In the United States, Retail sales and industrial production both delivered upside surprises. The Core PCE inflation rose only 0.1% in August, slightly below expectations. Meanwhile, personal income and spending both surprised on the downside in August, further signaling easing inflationary pressures. The September employment report delivered a significant upside surprise, with non-farm payrolls rising by 254k and the unemployment falling to 4.1%, reinforcing the idea of a soft landing. The September Core CPI deliver a second straight 0.3% m/m with a relative strength in non-housing services and goods inflation. In the Eurozone, PMI business surveys came out weaker suggesting that the eurozone's growth remains highly imbalanced across both geographies and sectors. Eurozone headline inflation looks more favorable.

The biggest upside risk for the dollar would likely come from a scenario of further geopolitical escalation. Also, further escalation may be viewed as increasing Trump's election chances. **We maintain our 3-month target at 1.10 and our 12-month target at 1.12 .**



GBP VIEW >> TARGET 12M VS EUR: 0.86

GBP should weaken somewhat

The GBP appreciated about 1% against the euro over the past month and was trading at around 0.83 (value of one euro) as of October 15th.

On September 19th, the Bank of England (BoE) maintained its policy rate at 5%, as largely expected. It emphasized that it would undertake a gradual approach to easing monetary policy. The BoE releases the responses to September's Decision Maker Panel survey. The CPI inflation expectations one year and three-year ahead declined by 0.1 to 2.6%. 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.

UK labor market data showed further signs of labor market cooling. The unemployment rate ticked down further from 4.1% to 4.0% but was accompanied by declines in vacancies and monthly payrolls. The business surveys (PMIs) printed at 51.5 in September, down from the high print of August at 52.5. However, the PMI survey continues a solid expansion. Inflation data showed that UK inflation persists above target at 2.2%. Although the acceleration in core inflation at 3.6%, up from 3.3% can largely be attributed to base effects and volatile components. Moreover, UK GDP showed a return to growth, growing by 0.2% month-over-month in August

The Pound is stronger than our target suggest, and we look for a normalisation. **We change our 3- month target to 0.86 and maintain our 12-month target at 0.86 (value of one €).**



CHF VIEW >> TARGET 12M VS EUR: 0.96

Sustained strength

Over the past months, the CHF depreciated slightly against the euro, with the EURCHF trading at around 0.94 (value of one euro) as of October 15th.

The Swiss National Bank (SNB) delivered a dovish 25bp rate cut, setting the policy rate at 1 %. The bank explicitly signaled scope for further rate cuts ahead, while significantly lowering its conditional inflation forecasts. We continue to expect another 25bp cut from the SNB in December for a terminal rate of 0.75%

Swiss inflation declined to 0.8% (yearly comparison) in September, down from 1.1% in August. This release puts Swiss inflation firmly in the bottom-half of the SNB's 0.0-2.0% target range. Additionally, the unemployment rate increased slightly at 2.6%. The manufacturing business survey (PMI) has rebounded, while Services PMI remains low. The KOF business survey increased by 0.5 to 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. **Therefore, we maintain our 3-month target at 0.94 and our 12-month target at 0.96 for the EUR/CHF.**



Source: LSEG Datastream, 14/10/2024

JPY VIEW >> TARGET 12M VS USD: 140

More normalization ahead

Over the past months, the JPY depreciated around 6% against the US dollar. As of October 15th, it was trading at around 149 (value of one US dollar).

On 20 September, the Bank of Japan (BoJ) maintained its policy rate at 0.25%. Prime Minister Ishiba said on 2 October that in his opinion further rate hikes are not warranted in the current environment. The Yen lost some value thereafter. We expect the next hike rates at the December meeting. In 2025, we see further 25bp hikes in March and June to take the policy rate to 1%

Japan's inflation for august stood at 3% year-over-year and core inflation at 2.8%. The unemployment rate decreased at 2.5%. Japan's manufacturing PMI fell to 49.6 in September down from 49.8 in August. The non-manufacturing PMI index edged up to 53.9 from 53.7. The Tankan survey suggested corporate sentiment increased through the third quarter, while September retail sales rose 0.8% compared to the previous month.

The yen remains quite sensitive to the rate hike outlook. **Given our rate outlook, we maintain our USD/JPY 3-month target at 145 and our 12-month target at 140 suggesting a stabilization after the recent weakening of the currency.**



Source: LSEG Datastream, 14/10/2024

SEK VIEW >> TARGET 12M VS EUR: 11

Stabilization around our target

The SEK depreciated by 0.5% against the euro over the past month and was trading at around 11.37 (value of one euro) on October 15th.

On August 20th, the central bank (Riksbank) has decided to decrease its policy rate by 25bp to 3.25%, in line with expectation. The recent downward revisions in the core CPI (CPIF) forecasts, by 20bp to 1.7% for 2024 and 30bp to 1.6% for 2025, support the case for further rate cuts. The message delivered by the bank was dovish suggesting a rate cutting cycle in November and December with a risk of a 50bp cut instead of 25bp at one of these meetings.

For August, headline inflation fell 0.1pp to 1.1% year-on-year and Core inflation down 0.2pp to 2.0% in line with the 2% inflation target. The services and manufacturing PMI fell 3.3pts and 1.3pts, 51.3 and 49.1 respectively, leaving the composite index at 49.7. Swedish GDP decreased slightly in the second quarter and the labor market is weaker at 7.9%.

This risk of a bigger rate cuts with an ongoing downside momentum in inflation could support SEK rate differentials at low levels for the time being. **We maintain our 3- and 12-month targets at 11 indicating a small appreciation of the Swedish currency.**



Source: LSEG Datastream, 14/10/2024

NOK VIEW >> TARGET 12M VS EUR: 11

Moderate upside

The Norwegian Krone (NOK) appreciated slightly against the euro, trading at around 11.76 (value of one euro) on September 9th.

The central bank (Norges Bank) left its policy rate unchanged at 4.5% at the September meeting. Though the central bank updated its projections to indicate the possibility of slightly more rate cuts next year, its rate cutting path appears much moderate than those of other central banks.

Economic data has been mixed recently. The unemployment rate increased to 2.1%. Housing prices were stronger than expected at 4.1%. Moreover, the September manufacturing PMI index fell back to 51.8 with retail sales growth falling back close to zero. However, core inflation in September fell to 0.8% month-on-month, bringing the yearly rate down to 3.1%, which is below Norges Bank's forecast.

We think the central bank will remain mindful of embracing rate cuts too soon given the upside risks to inflation at this stage. **We maintain our 3-month target for the NOK at 11.3 and our 12-month target at 11 (value of one euro), suggesting a moderate appreciation potential for the NOK in the coming months.**



Source: LSEG Datastream, 14/10/2024

AUD VIEW >>

TARGET 12M VS USD: 0.70

Appreciation potential intact

Over the past months, the Australian dollar (AUD) appreciated only marginally against the US dollar. As of October 15th, it was trading at around 0.67 (value of one AUD) .

On September 24th, the Reserve Bank of Australia (RBA) maintained the policy rate at 4.35%, as expected. We think the RBA will need greater confidence that inflation is returning to target. Indeed, the bar for starting the cutting cycle is higher now due to the ongoing economic resilience. Markets are pricing just 16bp of rate cuts for the year as a result.

The AUD should be supported by the aggressive stimulus measures announced in China. These were being well received by markets. However, inflation decreased to 2.7% from 3.6%. The August unemployment rate stayed at 4.2%, with another solid employment gain. Meanwhile, retail sales printed stronger than expected at 0.7% month-over-month.

Looking ahead, the central bank remains more hawkish than peers and the stickiness in inflation suggests to us that more policy easing is unlikely in 2024. The yield differential is expected to favor the AUD, particularly given anticipated rate cuts in the US. **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.**

NZD VIEW >>

TARGET 12M VS USD: 0.63

Limited upside for the NZD

Over the past month, the New Zealand dollar depreciated around 1% against the USD dollar. As of October 15th, it was trading at around 0.61 (value of one NZD).

On October 9th, the central bank (RBNZ) increased the size of their rate cuts to 50bp in October from 25bp previously leading to a policy rate at 4.75%. The statement was notably dovish, and markets are pricing one more 50bp cut this year.

The economy contracted -0.2% quarter-on-quarter. There were also revisions which took the annual rate higher at -0.5% year-on-year. Concerning the business surveys, the manufacturing PMI continued to increase but the level remains below (at 46.9) suggesting a contraction.

The NZDUSD has been correlated with the AUDUSD this month as both benefited from the China stimulus announcements. **We change our NZD/USD 3-month target to 0.63 and maintain our 12-month target at 0.63 (value of one NZD).**



Source: LSEG Datastream, 14/10/2024



Source: LSEG Datastream, 14/10/2024

CAD VIEW >> TARGET 12M VS USD: 1.30

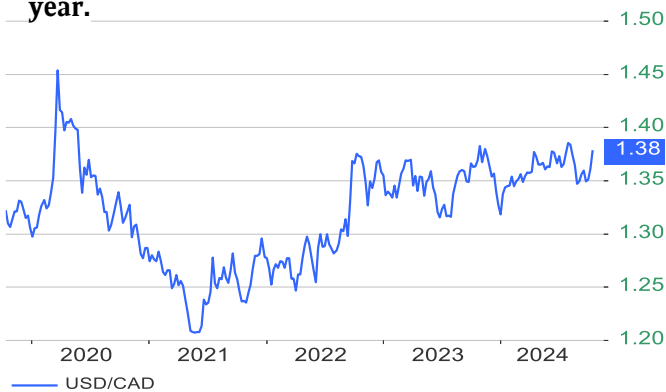
Further appreciation potential

Over the past month, the Canadian dollar (CAD) depreciated by around 1.5% against the US dollar, trading at around 1.38 (value of one USD) as of October 15th.

The central bank of Canada (BoC) has a current policy rate at 4.25%. The BoC cut its policy rate by 25bp at each of the last three meetings and has now flagged a possible 50bp move if the data justifies it. The central bank noted the risk of inflation falling below target. With a weakness in the labor market, financial markets are pricing a 50/50 chance of a 25bp or 50bp cut in October. We expect a policy rate at 3.75% at the end of 2024 and 3% end 2025.

Headline inflation came in at 2% year-over-year in August. Employment data were stronger than expected. However, the participation rate fell to 64.9% from 65.1% and the unemployment rate declined to 6.5% from 6.6%. Moreover, Canadian exports fell 1%, while imports rose 0.3%. Canadian growth thus far has been tepid in an environment despite the resilience of the US economy. If the US economy slows more quickly than expected, this could suggest downside risks across the border. The larger risk is a Trump victory. This is because Trump has threatened to impose global tariffs, which could leave the CAD particularly vulnerable due to Canada's large share of trade with the US and the implications for risk sentiment.

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, 14/10/2024

CNY VIEW >> TARGET 12M VS USD: 7.1

Close to target

Over the past months, the Chinese Yuan (CNY) appreciated marginally against the US dollar. As of October 15th, it was trading at around 7.09 (value of one USD).

The central bank (PBoC) announced several policy rate cuts last month. As it has stressed the need to "conduct forceful policy rate cuts", we think that the Politburo's pro-growth stance is likely to push the central bank towards larger-scale policy easing next year.

China's economy generally stayed on the recent course as suggested by high-frequency indicators. The housing market is continuing to decline and trade momentum is showing signs of easing. The third quarter economic growth is likely to come in below 5% on a year-over-year basis. The Caixin manufacturing PMI business survey decreased to 49.3 from 49.8 and the Service PMI survey decreased to 50.3. The inflation dropped to 0.4% year-on-year from 0.6% previously. Retail sales grew at 2.1% year-over-year in August.

As a summary, the authorities have become increasingly concerned by the economic situation and are determined to stabilize the economy. This will help reduce the downside risks facing the economy but are unlikely to reverse the long-term drag related to the property market and deflation any time soon. **We change our 3- and 12-month target to 7.1 (value of one USD).**



Source: LSEG Datastream, 14/10/2024

MXN VIEW >>

TARGET 12M VS USD: 18.5

Target change suggests less upside

Over the past months, the Mexican Peso (MXN) depreciated marginally against the US dollar. As of October 15th, it was trading at around 19.35 (value of one USD).

The Mexican central bank (Banxico) cut its policy rate by 25bp to 10.55% at the September’s meeting. The Banxico currently projects an average inflation rate of 3.0% by end-2025. We maintain our expectation that the Banxico 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 for a year-end policy rate of 8.0%. The core inflation continued to decline at 3.91%. The disinflation process is expected to continue, probably converging to the central bank inflation target of 3% for late 2025. The manufacturing and services PMI surveys continue to stay in contraction territory (below 50). Moreover, the industrial production was also disappointing. Globally the Mexican economy remains quite resilient with favorable terms of trade continuing to support the currency.

The short-term risk for the currency is the US election. Indeed, the MXN is highly sensitive to the pressure from the US election, and the ongoing reform agenda in Mexico. The currency will be sensitive to decisions related to immigration, border security and war against illegal drugs trade.

Considering these factors, we change our USDMXN 3-month target to 19 and our 12-month target to 18.5.



Source: LSEG Datastream, 14/10/2024

BRL VIEW >>

TARGET 12M VS USD: 5.3

Target change suggests less appreciation

Over the past months, the Brazilian real (BRL) depreciated slightly against the US dollar. As of October 15th, it was trading at around 5.60 (value of one USD) against the US dollar.

On September 18th, the Central Bank of Brazil (BCB) raised its policy rate by 25bp to 10.75%. The post-meeting communique suggested that the pace and degree of hiking embedded in the Focus survey (Selic rate reaching 11.50% in January 2025) is insufficient to bring inflation back to the target in the relevant time horizon, given the increase in Q1 2026 inflation from 3.4% to 3.5%. We expect 50bp hikes at the November and December meetings.

On the economic activity side, industrial production increase by 0.1% and we saw a decline of -0.8% month-over-month in retail sales. The manufacturing PMI business survey rebounded back to 53.2 and the services PMI stayed in the expansionary territory at 55.8.

The current fiscal risk could continue to represent a headwind for the currency. However, as the market has already priced in the fiscal deterioration and as the economy continues to grow at a healthy pace, we expect the risk to have a limited impact on the currency over the coming months.

Considering these factors, we maintain our USD/BRL 3-month target to 5.5 and the 12-month target to 5.3 suggesting a moderate appreciation potential for the BRL.



Source: LSEG Datastream, 14/10/2024

	Country	Spot 15/10/2024	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD 1.09	Neutral	1.10	Negative	1.12
	United Kingdom	EUR / GBP 0.84	Negative	0.86	Negative	0.86
	Japan	EUR / JPY 163.57	Positive	160	Positive	157
	Switzerland	EUR / CHF 0.94	Neutral	0.94	Neutral	0.96
	Australia	EUR / AUD 1.62	Neutral	1.62	Neutral	1.60
	New-Zealand	EUR / NZD 1.79	Positive	1.75	Neutral	1.78
	Canada	EUR / CAD 1.51	Positive	1.45	Positive	1.46
	Sweden	EUR / SEK 11.37	Positive	11.00	Positive	11.00
	Norway	EUR / NOK 11.76	Positive	11.30	Positive	11.00
Asia	China	EUR / CNY 7.73	Neutral	7.81	Negative	7.95
	India	EUR / INR 91.75	Neutral	90.20	Neutral	91.84
Latam	Brazil	EUR / BRL 6.11	Neutral	6.05	Positive	5.94
	Mexico	EUR / MXN 21.13	Neutral	20.90	Neutral	20.72

	Country	Spot 15/10/2024	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD 1.09	Neutral	1.10	Positive	1.12
	United Kingdom	GBP / USD 1.31	Negative	1.28	Neutral	1.30
	Japan	USD / JPY 149.86	Positive	145.00	Positive	140.00
	Switzerland	USD / CHF 0.86	Neutral	0.85	Neutral	0.86
	Australia	AUD / USD 0.67	Neutral	0.68	Positive	0.70
	New-Zealand	NZD / USD 0.61	Positive	0.63	Positive	0.63
	Canada	USD / CAD 1.38	Positive	1.32	Positive	1.30
Asia	China	USD / CNY 7.08	Neutral	7.10	Neutral	7.10
	India	USD / INR 84.06	Positive	82.00	Positive	82.00
Latam	Brazil	USD / BRL 5.60	Neutral	5.50	Positive	5.30
	Mexico	USD / MXN 19.35	Neutral	19.00	Positive	18.50
EMEA	South Africa	USD / ZAR 17.56	Negative	18.00	Neutral	17.50
	USD Index	DXY 103.30	Neutral	101.89	Negative	99.93

Source: Refinitiv - BNP Paribas WM

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