FEBRUARY 2025

Currencies Focus

Summary

1. The US dollar index (DXY) has risen slightly since last month. We expect continued USD strength especially against currencies where central banks are willing to tolerate currency weakness and often have more potential for rate cuts to stimulate growth (EUR, SEK) and currencies most affected by tariffs (MXN, CAD, CNY).
2. The Fed kept rates on hold at 4.5%, while the ECB delivered a 25bp cut to 2.75% as expected in January. We expect two 25bp rate cuts in the US this year, bringing the terminal rate to 4%. In the euro zone, we expect three 25bp rate cuts and a final rate of 2%. We expect the dollar to strengthen further and possibly to retest parity. **Therefore, we keep our 3-month target at 1 and our 12-month target at 1.02 (value of one EUR).**
3. In China, the US tariff policy is the main risk for the economy and the currency. In addition, the Chinese central bank has allowed the CNY to trade higher. We believe that US tariffs could lead to further FX adjustments. **Our 3- and 12-month target is 7.40 (value of one USD).**
4. In Canada, the central bank cut the key interest rate by 25 basis points to 3% on January 29. Uncertainty over US tariffs could keep uncertainty high in the near term. However, fiscal stimulus and the upcoming 2025 election could support the CAD. **Given these factors, our 3-month target is 1.45 and our 12-month forecast is 1.40 (value of one USD).**
5. India is experiencing a cyclical slowdown. Currency fundamentals and flows are weakening, putting pressure on the USD/INR. India's more closed economy could help attract portfolio inflows. **Therefore, we change 3- and 12-month USD/INR target at 88 (value of one USD).**
6. *Writing completed on 11th February.*

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Contents

OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country		Spot 11/02/2025	Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1.03	1.00	1.02
	United Kingdom	EUR / GBP	0.83	0.83	0.83
	Switzerland	EUR / CHF	0.94	0.94	0.94
	Japan	EUR / JPY	157.72	150	153
	Sweden	EUR / SEK	11.24	11.60	11.70
	Norway	EUR / NOK	11.60	11.60	11.30
Against dollar	Japan	USD / JPY	152.52	150	150
	Canada	USD / CAD	1.43	1.45	1.40
	Australia	AUD / USD	0.63	0.66	0.64
	New Zealand	NZD / USD	0.57	0.60	0.60
	Brazil	USD / BRL	5.76	5.80	5.80
	Mexico	USD/MXN	20.58	21.00	22.00
	India	USD / INR	86.83	88.0	88.0
	China	USD / CNY	7.31	7.40	7.40
	South Africa	USD/ZAR	18.46	18.00	17.50

Source: Refinitiv - BNP Paribas WM

BNP PARIBAS WEALTH MANAGEMENT

The bank for a changing world

USD VIEW >>
TARGET 12M VS EUR: 1.02

Testing parity ?

The USD has shown volatility caused by the recent US tariff announcement and was trading at around 1.03 (value of one EUR).

The Fed kept rates on hold at 4.5% while the ECB delivered a 25bps cut to 2.75% as expected in January. Fed Chair Powell reiterated the message that the FOMC is in no rush to cut rates. The ECB still sees the disinflationary process on track and reiterated that monetary policy in the eurozone remains restrictive. We expect two 25bp rate cuts in the US this year, bringing the Fed Funds rate to 4%. In the euro zone, we expect three 25bp rate cuts and a final rate of 2%.

In the US, the manufacturing PMI came in higher at 51.2, while the services PMI was weaker at 52.8. On the inflation side, the PCE rose to 2.6% y/y due to a rebound in energy prices. On the labor market, the latest initial jobless claims rose but remain low historically. The unemployment rate edged lower to 4%. In the Eurozone, the manufacturing PMI improved to 46.6 and the services PMI remains in expansionary territory at 51.3. On inflation, the flash headline rose to 2.5% while the flash core remained unchanged at 2.7%. On the labor market, the unemployment rate remained at 6.3%. All in all, the eurozone is mor eat risk due to the tariffs.

We see USD appreciation mainly through the interest rate spread widening channel rather than the terms of trade channel. In our view, the biggest risk is US inflation due to tariffs and immigration policy. We expect the dollar to remain strong as the potential for rate cuts remains higher for the ECB. We see a possible test of parity in the coming months as the tariff pressure rises, which could create volatility. **Therefore, our 3-month target is 1.00 and our 12-month target is 1.02 (value of one EUR).**

Source: LSEG Datastream, 11/02/2025

GBP VIEW >>
TARGET 12M VS EUR: 0.83

GBP to remain strong

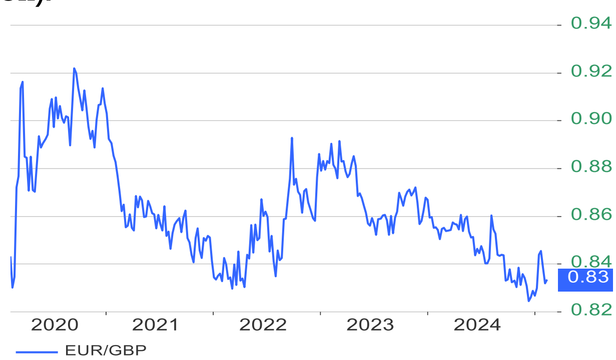
The GBP has appreciated with the EURGBP (value of one EUR) trading at around 0.83.

The Bank of England (BoE) delivered a 25bp cut to 4.5% on February 06th. The Bank kept the language around a "gradual" approach to rate cuts. The BoE now sees inflation reaching 3.7% q/q in Q3 2025 versus 2.8%. GDP is expected to grow 0.75% this year, down from a previous estimate of 1.5%. We continue to expect three more cuts in 2025, in line with its "gradual and cautious approach" to easing, for a rate of 3.75% at the end of 2025.

The manufacturing PMI survey showed a slight improvement, while the services PMI remained in expansionary territory. Retail sales fell by 0.3% in December. Headline inflation remains above the 2% target at 2.5% and core inflation fell to 3.2% in December.

A combination of rising stagflation risks and concerns about the UK's fiscal responsibility have led to a significant repricing of UK yields. Higher interest rates not only tighten financial conditions but also threaten the government's ability to meet its own fiscal targets by increasing debt servicing costs and may spur further consolidation measures. We expect the government to address these issues.

We expect the UK and the GBP to be relatively less affected by US tariffs. This is largely due to the fact that services (which are not subject to tariffs) account for such a large share of UK exports, and we believe that the UK may have an easier time securing exemptions. The interest rate differential should continue to be a source of support for the GBP. **Our 3- and 12-month target remains at 0.83 (value of one EUR).**



Source: LSEG Datastream, 11/02/2025

CHF VIEW >>
TARGET 12M VS EUR: 0.94

Sustained CHF strength

EUR/CHF is trading around 0.94 (value of one EUR).

The Swiss National Bank cut rates by 50bp at its December 12 meeting, bringing the key rate to 0.5%. The SNB emphasized that the policy rate is its primary policy tool, and we can expect further rate cuts. A return to negative rates is unlikely but not excluded. We expect the SNB's terminal rate to be 0.75%. This level is in the lower part of the range of our estimated neutral range of 0.5-1.5% for the SNB. We now expect another 25bp cut in March.

The marginal decline in inflation to 0.6% y/y in December highlights the persistence of disinflationary pressures in Switzerland. Q4 data were in line with the SNB's updated projections, but we saw a sharp deceleration in core inflation to 0.7% y/y from 0.9% y/y. The business survey (PMI) remains in contractionary territory. The KOF business index rose to 101 from 99.5.

The currency is expensive, and the interest rate differential is not supportive for the CHF. The SNB is unlikely to tolerate a strong CHF, especially as imported inflation remains negative. The uncertain political landscape, along with an improving economic outlook relative to the eurozone and a large current account surplus, suggest however little depreciation potential for the CHF. While Switzerland has not yet been a direct target of US tariff threats, its trade surplus with the US and the strength of its pharmaceutical exports put it at risk. That needs to be monitored.

Therefore, our EUR/CHF 3- and 12-month target is unchanged at 0.94 (value of one EUR).

Source: LSEG Datastream, 11/02/2025

JPY VIEW >>
TARGET 12M VS USD: 150

Moderate upside

The JPY has strengthened a bit against the US Dollar. It traded around 152 (value of one USD) on February 11th.

The BoJ raised its key policy rate by 25bp to 0.5% in January as expected. The central bank revised its inflation forecasts higher to 2.4% from 1.9% and largely struck a more hawkish tone than some market participants may have expected. With inflation above target, we expect the Bank of Japan to continue raising rates, albeit at a gradual pace due to the uncertain growth outlook. Our forecast calls for two more hikes in June and December and two more in 2026 to bring the BoJ's policy rate to 1.50%.

Japanese inflation accelerated further to 3.6% y/y from 2.9% y/y and core inflation was 3% (from 2.7%). The small increase of 0.1%m/m in the BoJ's real consumption activity index showed no major improvement in private consumption in Q4. The unemployment rate fell slightly to 2.4%. In terms of business surveys, the manufacturing PMI remains weak, and the services PMI is in expansionary territory.

The JPY should be less affected by the US trade policy than other currencies. Furthermore, the US rate outlook is the key for USD/JPY. The upside for the yen seems limited given the reduced potential for rate cuts since the election. **Our USD/JPY 3- and 12-month target remains at 150 (value of one USD). This suggests no major upside for the JPY.**

Source: LSEG Datastream, 11/02/2025

SEK VIEW >> TARGET 12M VS EUR: 11.70

More downside

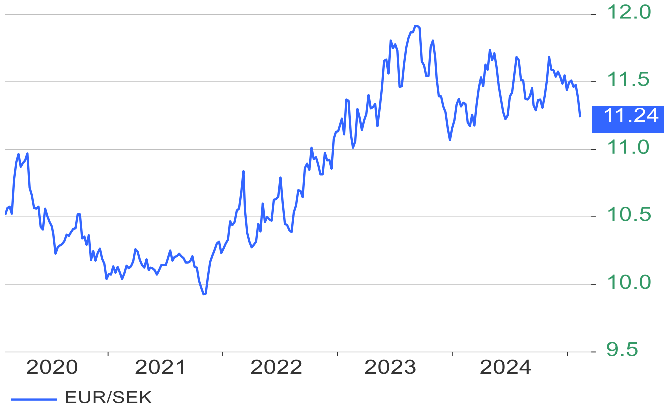
The SEK has appreciated strongly against the Euro in recent weeks and was trading at around 11.24 (value of one EUR) on February 11th. Indeed, the SEK has been supported by an improved economic outlook for Sweden.

The central bank (Riksbank) cut interest rates by 25 basis points to 2.25% in January. The board has assessed that the forecast made in December holds, which means that no more rate cuts are expected this year. However, the Riksbank states that it is ready to act if the outlook for inflation and economic activity changes.

Flash headline inflation came in at 2.2% from 1.5% and core inflation at 2.7% from 2%. The services and manufacturing sectors are in expansionary territory at 50 and 52 respectively. Retail sales rose to 2.9% from -0.2% and industrial production also picked up to 2.4% from -0.8%. That is a better economic momentum relative to the eurozone.

A better outlook for private and government consumption, a pickup in productivity and a recovery in total hours worked should reflect an improvement in the Swedish economy. However, Sweden is vulnerable to the implementation of US tariffs as the country is highly exposed to global trade. That should weigh on the SEK.

We maintain our 3-month target at 11.60 and our 12-month target at 11.70 (value of one EUR). This suggests a downside for the SEK.



Source: LSEG Datastream, 11/02/2025

NOK VIEW >> TARGET 12M VS EUR: 11.30

More strength

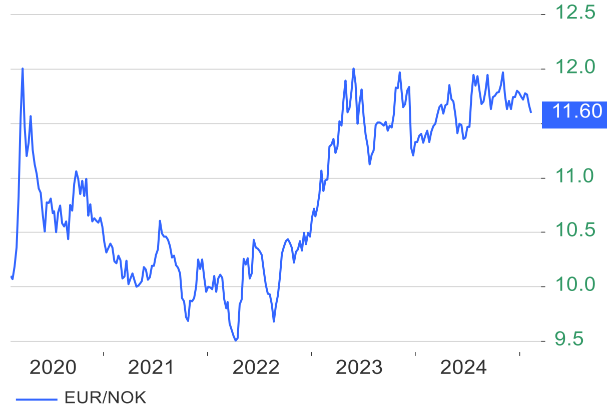
The Norwegian Krone (NOK) has appreciated against the Euro since last month. On February 11th, it traded at around 11.6 (value of one EUR).

Norges Bank kept its key interest rate at 4.5% at the January meeting. The statement indicated that a rate cut is likely in March this year. This is not a major shift as the bank previously indicated a cut in Q1 2025.

Core inflation rose from 2.7% to 2.8% year-on-year. The unemployment rate remains at 2%. In addition, the manufacturing PMI index remained steady at 51 in January.

Compared to Sweden, US protectionism should have less of an impact on Norway. The NOK remains more sensitive to oil prices, as oil accounts for more than 60% of Norwegian exports. In addition, we believe that Norges Bank is likely to remain hawkish. The interest rate differential, supported by inflation still above target, is likely to support the currency.

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



Source: LSEG Datastream, 11/02/2025

AUD VIEW >>
TARGET 12M VS USD: 0.64

No major upside

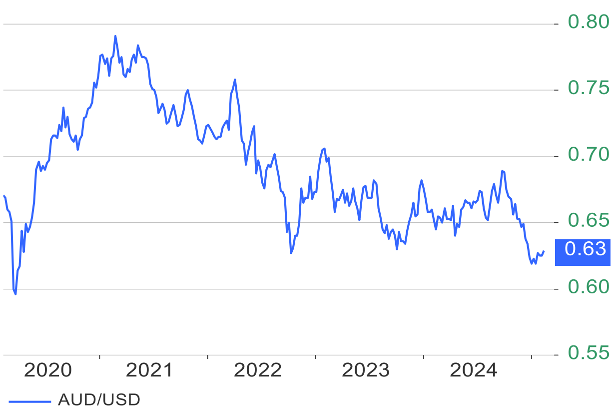
The Australian dollar (AUD) has remained steady against the USD over the past month and was trading around 0.63 (value of one AUD) on February 11th.

The Reserve Bank of Australia (RBA) left its December policy rate unchanged at 4.35% as expected, but the guidance was dovish. Rates markets have almost fully priced in a 25bp cut by the RBA at the February meeting and more than two 25bp cuts in total by May.

Australia's Q4 trimmed-mean CPI inflation stood at 3.2% y/y, weaker than the market's estimate of 3.3%. The unemployment rate rose to 4% in December from 3.9% in November. The manufacturing and services PMIs returned to expansionary territory at 50 and 51, respectively. Meanwhile, retail sales fell 0.1% on the month. However, Australia's current account deteriorated further as exports remained weak.

Uncertainty over US-China trade relations has weighed on the AUD. We do not expect the US to impose direct tariffs on Australia. Moreover, the impact of tariffs via China on Australia could be limited.

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



Source: LSEG Datastream, 11/02/2025

NZD VIEW >>
TARGET 12M VS USD: 0.60

Similar path as for the AUD

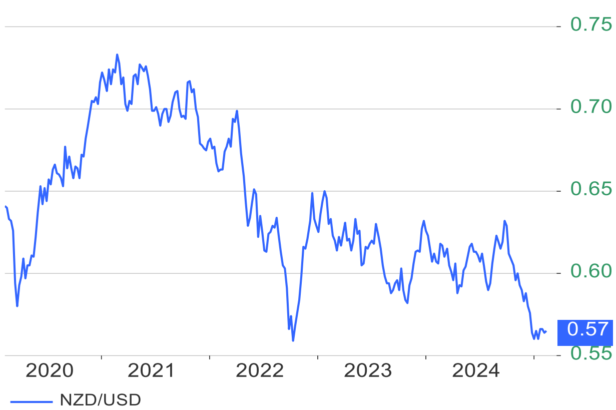
The New Zealand Dollar also remained steady against the USD. On February 11th, it traded at around 0.57 (value of one NZD).

On November 27th, the Reserve Bank of New Zealand (RBNZ) cut interest rates by another 50 basis points to 4.25%. The central bank cited slowing inflation and a weaker economy for this second consecutive large cut. The market is pricing in another 50bp cut at the next meeting in February 2025.

Inflation was 2.2% y/y. The unemployment rate rose to 5.1% from 4.8%. In terms of economic surveys, the manufacturing PMI remains at 45, still pointing to contraction.

As for the Australian currency, the NZD is sensitive to the outlook in China, so the currency could react to a higher-than-expected US tariff policy. In addition, the dovish stance of the central bank and weaker domestic fundamentals in New Zealand should weigh on the NZD relative to the dollar. New Zealand's growth is the weakest in the G10 complex. Therefore, the biggest risk for the markets is that domestic data starts to improve after the recent RBNZ cuts.

Our NZD/USD 3-month target and our 12-month target is 0.60 (value of one NZD). This suggests a moderate upside potential for the NZD.



Source: LSEG Datastream, 11/02/2025

CAD VIEW >>
TARGET 12M VS USD: 1.40

Things could get worse before they get better

The Canadian Dollar (CAD) remains weak and continues to trade around 1.43 (value of one USD).

The Bank of Canada lowered its key interest rate by 25 basis points to 3% on January 29th. The BoC updated its GDP and inflation forecasts. GDP growth was revised down for in 2025. Inflation is now expected to be 2.3% in 2025 and 2.1% in 2026. In addition, the bank noted that the trade war is not a central scenario but represents a major uncertainty.

Headline inflation fell to -0.4% m/m, with 12-month inflation at 1.8%, close to the 2% target. On the labor front, the unemployment rate fell to 6.6%. On the economic front, the manufacturing PMI remained in expansionary territory at 51. The details of Canada's trade balance data showed a 4.9% increase in exports and a 2.3% increase in imports.

Uncertainty surrounding U.S. tariffs may keep the CAD under pressure in the near term, as seen with the recent tariff announcement. Following discussions between Trudeau and Trump, a 30-day grace period on the tariffs was agreed upon. While this provides temporary relief, it does not remove the risk of further tariffs, keeping pressure on the currency. However, a likely deal, more fiscal stimulus and the upcoming 2025 election could provide support for the CAD. A potential change in government could also have a positive impact as it would improve visibility.

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

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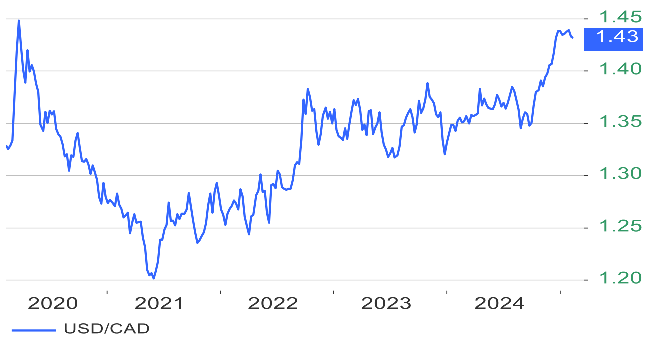


Source: LSEG Datastream, 11/02/2025

CNY VIEW >>
TARGET 12M VS USD: 7.40

More weakness

The Chinese yuan (CNY) depreciated against the US dollar over the past month. As of February 11th, the USDCNY (value of one USD) was trading at just over 7.31.

The central bank (PBoC) left the 1Y & 5Y LPR unchanged at 3.1% and 3.6% respectively in January. However, we expect a 40bp cut in the policy rate (7d reverse repo rate) and a 100bp cut in the RRR this year. We expect the next policy rate cut to come in Q1. Indeed, the PBoC may avoid easing to defend the exchange rate before Trump's tariff policy becomes clearer.

China's exports and imports grew 10.7% y/y and 1.0% y/y respectively in December, both above market expectations, suggesting strong trade momentum through the end of 2024. This brings full-year export growth in 2024 to 5.4% y/y, compared with -4.6% y/y in 2023. Headline CPI inflation rose to 0.5% y/y in January from 0.1% y/y. The Caixin manufacturing and services PMI surveys remained in expansion territory.

The US tariff policy is the main risk for the economy and the currency. The risk of higher-than-expected tariffs and the reduced potential for the Fed to cut rates suggest more downside for the Chinese currency. We think the PBoC will likely continue to cap USDCNY until new US tariffs are imposed. In our view, the burden of US tariffs on Chinese exports could lead to FX adjustments in 2025. **Our 3-month target and 12-month target is 7.40 (value of one USD).**

Source: LSEG Datastream, 11/02/2025

MXN VIEW >> TARGET 12M VS USD: 22

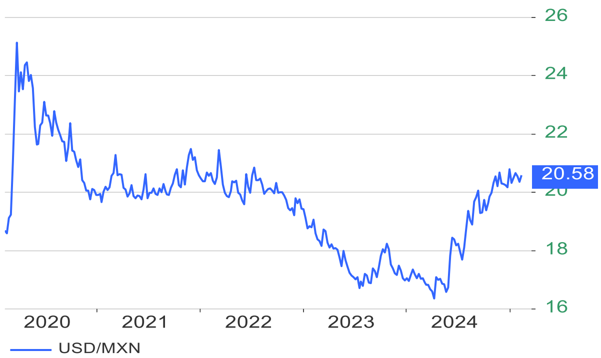
More downside

The Mexican peso (MXN) appreciated slightly against the US dollar last month. As of February 11th, it was trading at around 20.58 (value of one USD).

Mexico's central bank (Banxico) extended its rate-cutting cycle, lowering the benchmark rate to 10% with a 25bp move in December. Minutes from Banxico's meeting suggest a growing consensus within the board for a larger cut in February. While conviction levels vary, a majority seems to support the idea of a 50bp cut. We have revised our forecast for the February decision to a 50bp cut (from 25bp). However, we maintain our year-end estimate for the policy rate at 8.75%.

Core inflation rose slightly to 3.66%. The manufacturing PMI surveys remain in contractionary territory (below 50). We saw a decline of -0.1% m/m in retail sales. Mexico's Finance Ministry also proposed a budget deficit of 3.9% of GDP for 2025. GDP contracted by 0.6% q/q (0.6% y/y) in Q4. The slowdown reflects weaker job creation, contraction in manufacturing and non-manufacturing activity, stagnant investment and slower private consumption.

The MXN will remain highly sensitive to any news related to tariffs. After discussions between both countries, a 30-day grace period on tariffs was agreed upon. In 2025, we expect a further economic slowdown, driven by institutional challenges and rising US-Mexico tensions under the Trump administration. Potential risks include lower remittances and new tariffs on exports, although the USMCA and supply chain integration could mitigate the impact. **Considering these factors, our USDMXN 3-month target is 21 and our 12-month target is 22 (value of one USD). That suggests more weakness for the Mexican currency.**



Source: LSEG Datastream, 11/02/2025

BRL VIEW >> TARGET 12M VS USD: 5.8

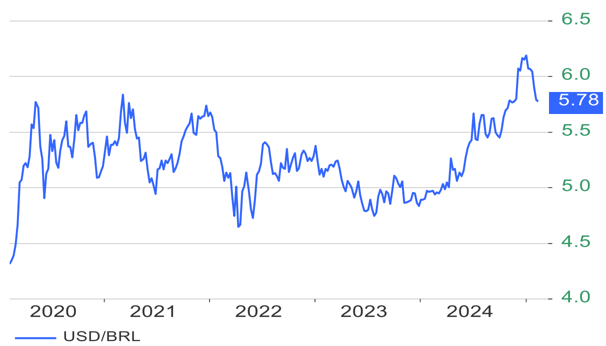
Look for some stabilization

The Brazilian real (BRL) rebounded against the US dollar after falling sharply in recent months. As of February 11th, USD/BRL was trading at around 5.8 against the US dollar (value of one USD).

Brazil's central bank (BCB) raised its benchmark interest rate by 100bp as expected, bringing the Selic rate to 13.25% in January. The statement acknowledged the deterioration in the overall environment with unanchored inflation expectations. We also expect the BCB to reiterate its guidance for another 100bp hike in March, while leaving more optionality for later dates.

Inflation decreased in January at 4.56% y/y and 0.16% m/m. Industrial production fell by -0.3% and we saw a -0.4% m/m decline in retail sales. The manufacturing PMI remained in expansionary territory at 50.7, while the services PMI fell to 47.6.

We expect the BRL to continue to underperform given the ongoing fiscal uncertainty. We believe the situation would change if the Brazilian government were to present a meaningful fiscal consolidation plan, which seems distant and unlikely in the absence of further market pressures. Moreover, the currency may be less vulnerable to US tariffs but could be negatively impacted by new tariffs on China and the subsequent depreciation of the yuan, given the strong trade ties between Brazil and China (28% of Brazilian exports go to China). **Considering these factors, our USD/BRL 3- and 12-month target is 5.80 (value of one USD).**



Source: LSEG Datastream, 11/02/2025

ZAR VIEW >>
TARGET 12M VS USD: 17.5

Moderate upside

The South African Rand (ZAR) depreciated against the US Dollar last month. As of February 11th, it was trading at around 18.46 (value of one USD).

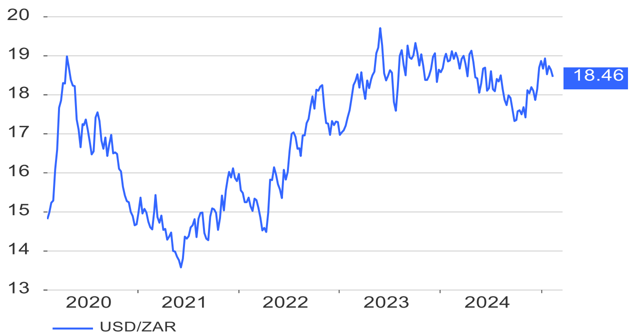
The South African Reserve Bank (SARB) cut interest rates by 25 basis points to 7.50% in January. The bank stated that risks to the inflation outlook have increased. We maintain our call for policy rates to reach 7.00% by May.

Headline inflation continues to rise from 2.9% to 3% and core inflation was 3.6%. On the labor market, unemployment fell to 32.1% from 33.5% in Q3. On the economic front, the manufacturing PMI fell slightly to 47.9. Meanwhile, retail sales increased by 7.7% y/y. Exports and imports declined by 1.6% y/y and 5.1% y/y respectively in December.

The significant depreciation of the rand since mid-December has largely been driven by technical factors. Gradual signs of a recovery are already visible: broad money and private sector credit growth have accelerated in real terms, retail sales started to rise in October and electricity consumption is increasing.

We remain constructive on South Africa's domestic story and see scope for further upgrades to South African growth. The economy has very limited exposure to the US tariffs, but greater exposure to China, where further fiscal stimulus may be forthcoming. A pick-up in growth is key for the ZAR to outperform other cyclical currencies, as it will drive domestic and international investment appetite for South Africa and trigger the flows needed for the ZAR.

Our 3-month target is 18 and our 12-month target is 17.5 (value of one USD).



Source: LSEG Datastream, 11/02/2025

INR VIEW >>
TARGET 12M VS USD: 88

Look for some stabilization

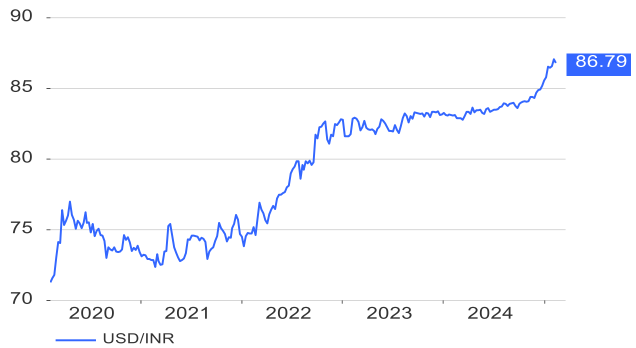
The Indian rupee continued to rise sharply as expectations of US rate cuts were repriced, portfolio outflows continued, and oil prices rose. On February 11th, it traded at around 86.7 (value of one USD).

The Reserve Bank of India (RBI) cut its key interest rate by 25 basis points to 6.25%, a move widely anticipated by financial markets. The RBI's rate cut announcement lacked any clear forward guidance, which somewhat disappointed markets. We expect two more rate cuts this cycle, one in April and one in the second half of the year. This would bring the policy rate down to 5.75%.

India is experiencing a cyclical slowdown in its economy. CPI inflation decreased to 4.31% y/y in January from 5.22% y/y. Looking ahead, the disinflationary momentum is likely to continue as high frequency data point to further moderation in prices of key perishable food items. On the activity side, the manufacturing and services PMIs are in expansionary territory at 57 and 56, respectively.

The interest rate cuts will help lower the cost of capital which should increase both consumption and investment. This in turn should help sustain growth. INR bonds offer relatively high yields. The currency also offers some relative immunity from US tariff risks, as the Indian economy is less exposed to global trade. That should help the currency stabilizing around recent levels. We see no trigger for a major rebound over the coming months.

We change 3- and 12-month USD/INR target to 88 (value of one USD).



Source: LSEG Datastream, 11/02/2025

	Country	Spot 11/02/2025		Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1.03	Positive	1.00	Neutral	1.02
	United Kingdom	EUR / GBP	0.83	Neutral	0.83	Neutral	0.83
	Japan	EUR / JPY	157.72	Positive	150	Positive	153
	Switzerland	EUR / CHF	0.94	Neutral	0.94	Neutral	0.94
	Australia	EUR / AUD	1.64	Positive	1.52	Positive	1.59
	New-Zealand	EUR / NZD	1.83	Positive	1.67	Positive	1.70
	Canada	EUR / CAD	1.48	Positive	1.45	Positive	1.43
	Sweden	EUR / SEK	11.24	Negative	11.60	Negative	11.70
	Norway	EUR / NOK	11.60	Neutral	11.60	Positive	11.30
Asia	China	EUR / CNY	7.56	Positive	7.40	Neutral	7.55
	India	EUR / INR	89.79	Neutral	88.00	Neutral	89.76
Latam	Brazil	EUR / BRL	5.96	Positive	5.80	Neutral	5.92
	Mexico	EUR / MXN	21.28	Neutral	21.00	Negative	22.44

	Country	Spot 11/02/2025		Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1.03	Positive	1.00	Neutral	1.02
	United Kingdom	GBP / USD	1.24	Positive	1.20	Neutral	1.23
	Japan	USD / JPY	152.52	Neutral	150.00	Neutral	150.00
	Switzerland	USD / CHF	0.91	Negative	0.94	Neutral	0.92
	Australia	AUD / USD	0.63	Negative	0.66	Neutral	0.64
	New-Zealand	NZD / USD	0.57	Negative	0.60	Negative	0.60
	Canada	USD / CAD	1.43	Neutral	1.45	Positive	1.40
Asia	China	USD / CNY	7.31	Neutral	7.40	Neutral	7.40
	India	USD / INR	86.83	Neutral	88.00	Neutral	88.00
Latam	Brazil	USD / BRL	5.76	Neutral	5.80	Neutral	5.80
	Mexico	USD / MXN	20.58	Negative	21.00	Negative	22.00
EMEA	South Africa	USD / ZAR	18.46	Positive	18.00	Positive	17.50
	USD Index	DXY	114.95	Positive	110.91	Positive	108.91

Source: Refinitiv - BNP Paribas WM

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