GLOBAL FX OUTLOOK
June 2023

Key insights

Debt worries disguise growth concerns

The US debt ceiling negotiations dominated market activity in May but even if an eventual deal is reached, there might be ongoing volatility in markets. In 2011, during President Obama's administration, the biggest moves occurred after the debt ceiling deal was raised, with markets concerned about the impact of government cutbacks on economic growth, while a downgrade of the US's credit rating from Standard & Poor's also hit sentiment.

Away from the political fray, the rapid slowdown in global manufacturing activity continues to drive concerns. In May, according to the S&P manufacturing purchasing manager indexes, activity in the US slipped back into contraction while Germany hit a cyclical low. Commodity prices fell with the Australian dollar and Chinese yuan the hardest hit whilst the low-yielding Japanese yen continued to suffer in the face of monetary policy divergences.

This monthly guide provides forward guidance on the global trends and events driving FX volatility, to help SMEs and corporates uncover the potential opportunities or risks involved with cross-border trade.

We hope that with better access to insights, more informed international trade and payment strategies may lead to better financial outcomes for our customers.

US

The USD index fell to 12-month lows in mid-April before rebounding in May on hopes for a resolution to the US government's debt ceiling crisis and receding Fed rate-cut bets.

EU

The euro's favoured status in financial markets so far in 2023 turned sharply in May with markets disappointed by the ECB's 25-basis point hike as well as deteriorating macro data.

UK

GBP/USD fell more than 2% from its 12-month highs despite the BoE's 12th successive rate hike last month. UK core inflation remains stubborn, prompting bets on BoE rates exceeding 5% this year.

Australia

The Australian dollar was pressured by a global manufacturing slowdown that's seen commodity prices tumble. China's disappointing recovery has added to the Aussie's woes.

Please note: the information contained within this report does not constitute financial advice or a financial recommendation, is general in nature and has been prepared without considering your objectives, financial situation or needs.

Global economic outlook

Key market themes to watch

Worries about the European outlook

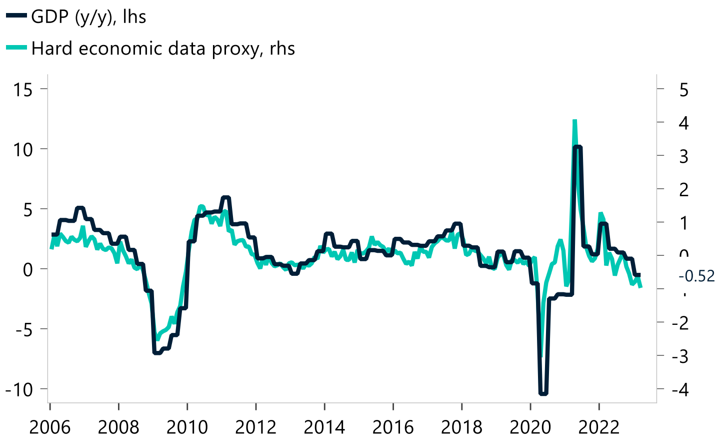
Europe's largest economy and the world's third-biggest exporter has been hit by a **global demand slump.**

German inflation-adjusted retail sales fell 8.6% during the last 12 months, recording the steepest decline since 1952. First quarter GDP confirmed that **Germany fell into recession**, following two consecutive quarters of negative economic output.

Leading indicators have softened as well, dampening expectations of a quick summer recovery.

Winter recession followed by summer skepticism?

German GDP and our hard economic data proxy



Source: Convera, Macrobond

China not driving growth as imagined

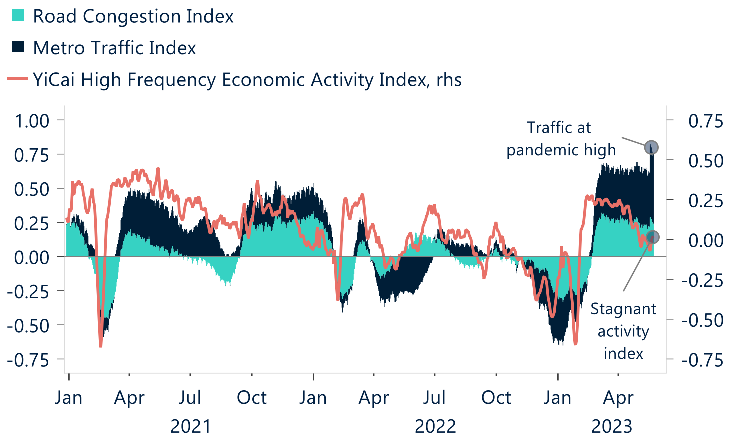
While the **loosening up of restrictions** saw metro and road traffic reach post-pandemic highs, the Chinese reopening has not held up to expectations so far.

The latest data showed **worse than expected numbers** for new loans, imports, retail sales and industrial production and the manufacturing PMI.

Market sentiment remains weak and **new fiscal spending** or even a rate cut won't be enough for China to save the world economy from sluggish growth.

Chinese reopening has disappointed so far

Chinese reopening indicators (Z-score since 2020)



Source: Convera, Macrobond

Scope for US rate cuts diminishes

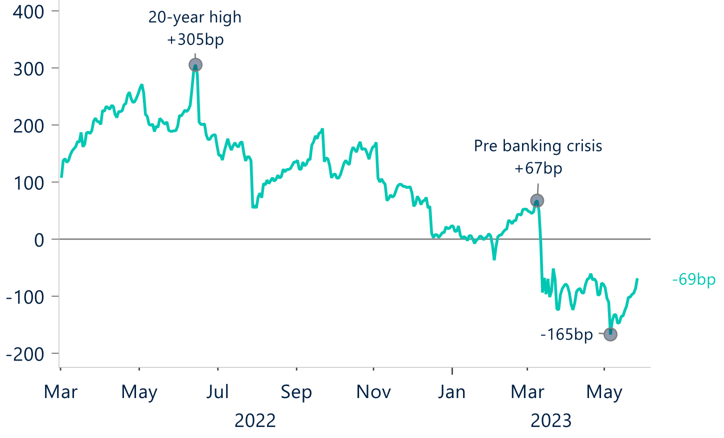
Most **credit availability** indicators for the US (NFIB, SLOOS) have improved recently, easing fears of a full-blow credit crunch.

US macro **data has started surprising** to the upside as well, which stands in stark contrast with what has been going on in Europe and China.

These two factors have raised questions about the extent to which the Fed might cut rates. Markets have reduced their **bets on rate cuts** from 160 to about 85 basis points.

Expectations of Fed easing have been cut in half

Fed: Priced hikes/cuts for the next 12 months



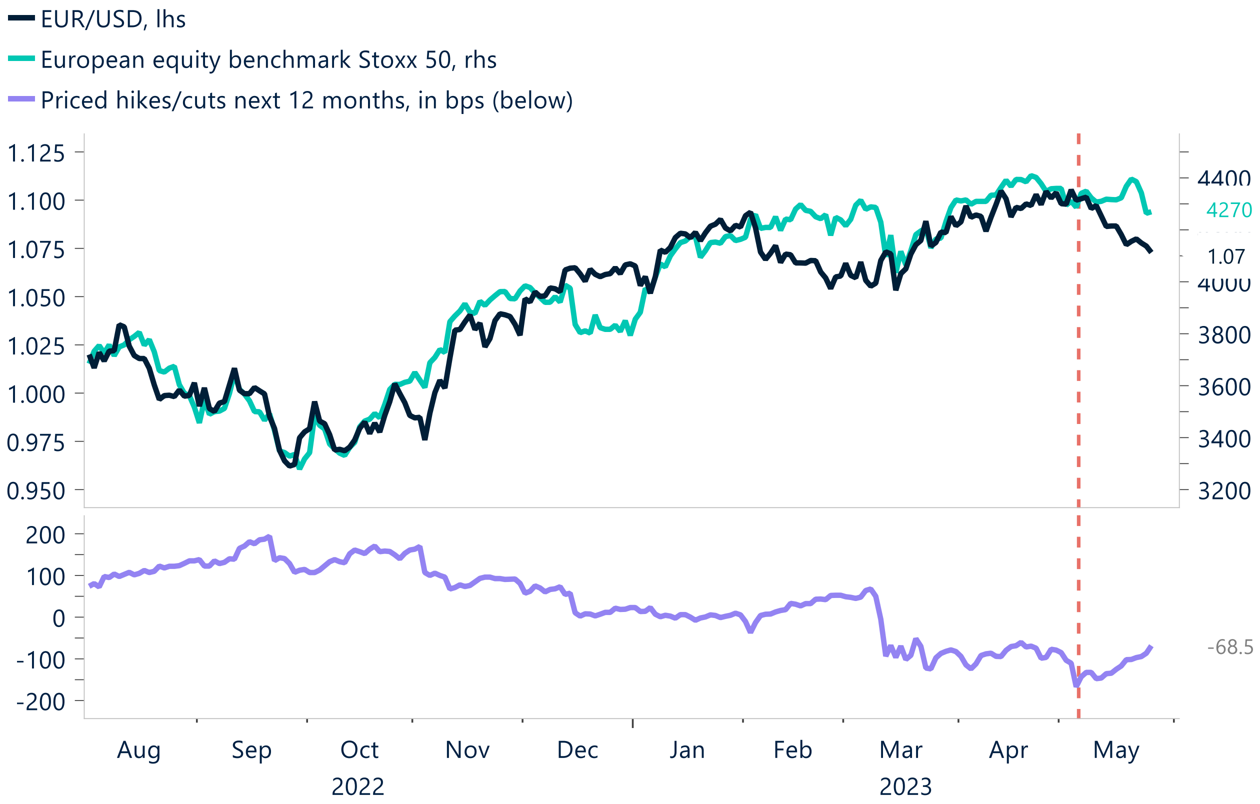
Source: Convera, Macrobond

Chart sources: Convera, Macrobond – May 26, 2023

Theme in focus: How much the Fed matters

European outperformance stunned by higher for longer narrative

EUR/USD, Stoxx 50 and their correlation with Fed pricing



Source: Convera, Macrobond – May 25, 2023

It is difficult to overstate the extent to which Fed interest rate pricing is currently driving price action.

The average 6-month correlation between Fed pricing and EUR/USD and Stoxx 50 has fallen to -79%, the lowest level in 30 years. The correlation is negative, given that these assets rise when Fed pricing (more rate cuts being priced in) shifts downwards.

Given the stretched positioning going into May, we had raised concerns about the possibility that markets could have gotten ahead of themselves in terms of pricing in rate cuts worth 165 basis points over the next 12 months.

A string of better-than-expected US data had been able to overshadow the continued fall in headline inflation and has led investors to significantly reduce their bets on future rate cuts by the Fed.

This in turn has weakened European risk assets like the euro and equity benchmarks as predicted by the tight correlation between those assets and Fed pricing.

In the short-term, the US dollar could continue to display an asymmetric reaction function, moving more on data surprises to the upside than data disappointments, given how much rate cuts are already priced in.

Key market events to watch

June 2023

1
- Retail Sales
- Inflation (CPI)
- ISM Mfg PMI

2
- Jobs Report

5
- Inflation (PPI)
- Services PMI
- ISM non-Mfg PMI
- Factory Orders

6
- **Rate Decision 05:30**
- Retail Sales
- **Rate decision 13:00**
- BRC Retail Sales

7
- **Rate Decision 15:00**
- Q1 GDP
- Industrial Production

8
- **Rate Decision 05:30**
- Revised Q1 GDP
- Fed Financial Accounts

9
- Inflation (CPI)
- Jobs Report

13
- Inflation (CPI)
- ZEW Surveys
- Jobs Report

14
- GDP, Industrial Production, Trade Balance
- Industrial Production
- Inflation (PPI)
- **Rate Decision 19:00**

15
- Retail Sales, Industrial Production
- **Rate Decision 13:15**
- Retail Sales
- Jobs Report

16
- UoM C. Sentiment
- **Rate Decision 03:00**

20
- **Rate Decision 02:15**
- **Rate Decision 13:00**

21
- Retail Sales
- **Rate Decision 13:30**
- Inflation (PPI, CPI), PSNB

22
- **Rate Decision 12:00**
- **Rate decision 11:00**
- **Rate Decision 09:00**
- **Rate Decision 08:30**

23
- Industry PMIs
- Industry PMIs
- C. Confidence, Retail Sales
- C. Confidence

26
- Ifo Business Climate

27
- Inflation (CPI)
- C. Confidence,

29
- Q1 GDP, Q1 PCE Prices
- Inflation (CPI)
- Sentiment Surveys
- **Rate Decision 08:30**

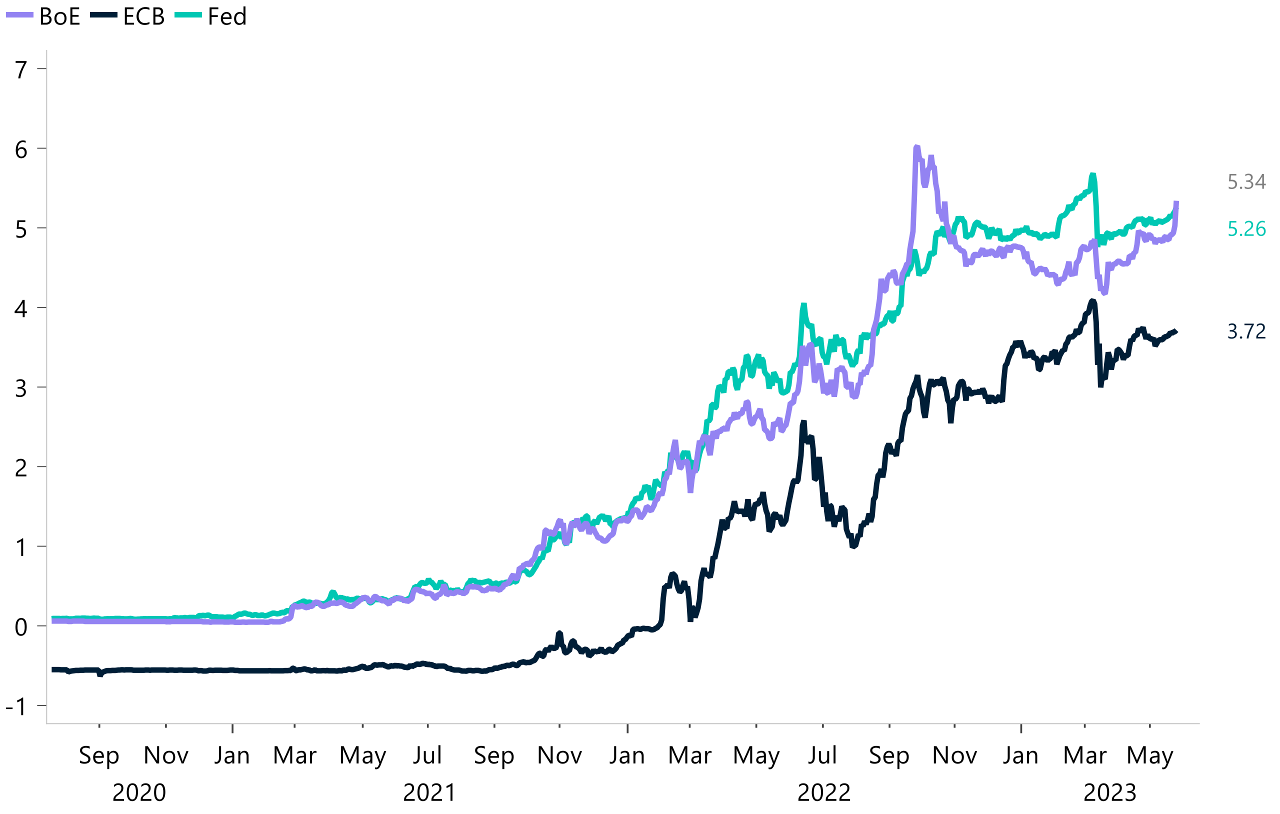
30
- Core PCE Prices
- Inflation (CPI)
- Q1 GDP
- Mfg PMI

Source: Convera, Refinitiv – May 25, 2023

Event in focus: The Fed's guessing game

Fed expected to pause as BoE and ECB continue hiking rates

Expected peak of policy rates for central banks (market pricing)



Source: Convera, Macrobond – May 25, 2023

The Federal Reserve's decision to continue or end the current tightening cycle hinges on economic data, as Governor Waller said in prepared remarks at an event in California in May.

The next three weeks will therefore be crucial for determining the future path of interest rates, especially against the backdrop of a divided committee.

The minutes from the last FOMC meeting gave us an insight into the Fed's decision to hike rates for the 10th consecutive time. While several members said that continued tightening would not be necessary, another camp emphasized that the slow disinflationary process would warrant further rate hikes.

The current macro environment could justify a compromise of pausing the hiking cycle while maintaining a hawkish bias under the condition that inflation turns out stickier than expected. Markets are currently expecting the Fed to (1) pause in June, (2) hike in July and (3) cut rates in September.

The regional banking crisis and US debt ceiling will be important factors for the Fed to consider in addition to the inflation outlook. While inflation continues to display sticky characteristics (core, services), the banking turmoil will most likely be the catalyst for the Fed to pivot its policy stance if the situation worsens. The collapse of Silicon Valley Bank in March added rate cutting bets worth 165 basis points to Fed pricing over the next 24 months.

UK currency outlook

GBP volatility analysis

GBP/EUR continues to oscillate in narrow 3.7% range in 2023

Chart: GBP 30-day, year-to-date trading range

Increasing volatility

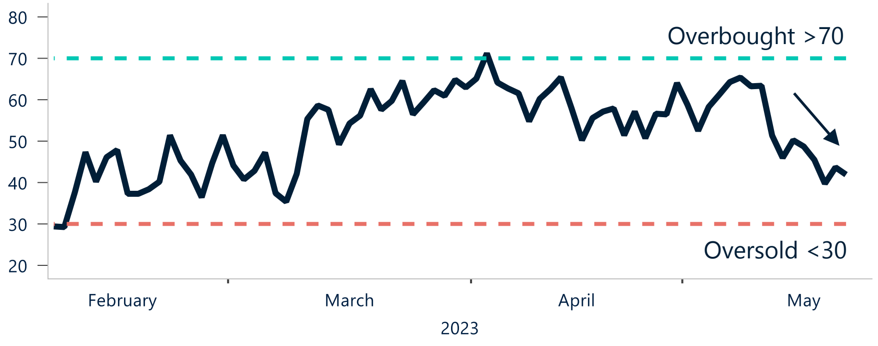
	Spot	High 30D	Low 30D	High YTD	Low YTD	Trading range 30D	Trading range YTD	Position within the range 30D	Position within the range YTD
GBP/ZAR	23.89	24.45	22.38	24.45	20.22	9.2%	20.9%	73%	87%
GBP/JPY	172.3	172.6	165.4	172.6	155.3	4.4%	11.1%	96%	98%
GBP/NOK	13.48	13.59	13.11	13.59	11.77	3.7%	15.5%	77%	94%
GBP/NZD	1.978	2.038	1.974	2.038	1.883	3.2%	8.2%	6%	61%
GBP/AUD	1.870	1.903	1.843	1.903	1.722	3.3%	10.5%	45%	82%
GBP/CNY	8.753	8.768	8.518	8.768	8.114	2.9%	8.1%	94%	98%
GBP/CAD	1.679	1.714	1.671	1.714	1.607	2.6%	6.7%	19%	67%
GBP/USD	1.243	1.267	1.236	1.267	1.180	2.5%	7.4%	23%	72%
GBP/EUR	1.150	1.154	1.126	1.154	1.113	2.5%	3.7%	86%	90%
GBP/CHF	1.117	1.127	1.102	1.143	1.098	2.3%	4.1%	60%	42%

Table sources: Refinitiv, Convera – May 25, 2023

- **GBP/USD** touched a one-year high just shy of $1.27 before sharply recoiling back under $1.24 as global risk appetite waned amid debt ceiling woes, whilst the dollar strengthened thanks to wavering Fed rate-cut bets.
- **GBP/JPY** is scaling highs last witnessed before the Brexit vote in 2016 as investors look to sell the yen in favour of higher yielding currencies to seek returns in such a low-volatility FX environment.
- **GBP/ZAR** swung 9% in May and rose to seven-year highs as reports that South Africa had provided arms to Russia spooked investors already concerned about the economic impact of crippling power cuts across the nation.

Pace of recent GBP/USD downtrend is increasing

GBP/USD Relative Strength Index



Source: Convera, Macrobond – May 25, 2023

GBP value indicator

GBP/JPY is over 16% above its two-year average

Chart: GBP performance versus year-to-date, 1, 2, and 5-year averages

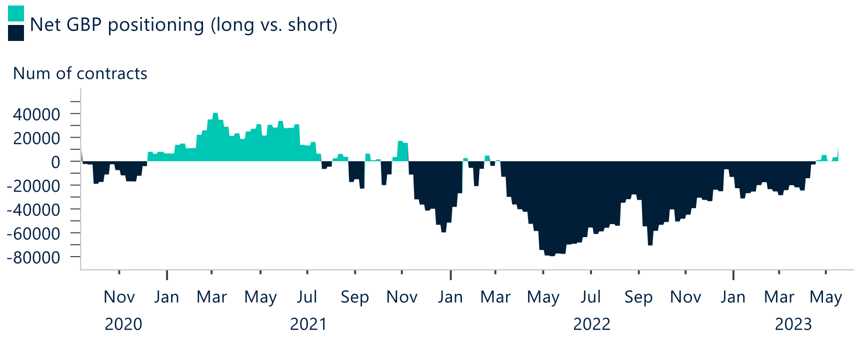
Appreciation Depreciation

	Spot (As of 23.05.2023)	Spot vs YTD average	1 year average	2 year average	5 year average
GBP/ZAR	23.89	8.2% Avg.: 22.08	14.1% Avg.: 20.93	16.1% Avg.: 20.58	19.8% Avg.: 19.94
GBP/JPY	172.3	5.5% Avg.: 163.3	5.1% Avg.: 163.8	8.1% Avg.: 159.3	16.2% Avg.: 148.2
GBP/CNY	8.753	3.9% Avg.: 8.423	5.5% Avg.: 8.297	3.1% Avg.: 8.488	0.5% Avg.: 8.707
GBP/AUD	1.870	3.4% Avg.: 1.809	5.3% Avg.: 1.775	3.4% Avg.: 1.809	2.7% Avg.: 1.820
GBP/USD	1.243	1.3% Avg.: 1.226	3.4% Avg.: 1.202	-2.6% Avg.: 1.276	-3.6% Avg.: 1.288
GBP/CAD	1.679	1.3% Avg.: 1.657	4.7% Avg.: 1.602	1.7% Avg.: 1.650	-0.5% Avg.: 1.686
GBP/EUR	1.150	1.3% Avg.: 1.135	-0.1% Avg.: 1.150	-1.3% Avg.: 1.165	0.3% Avg.: 1.146
GBP/CHF	1.117	-0.5% Avg.: 1.122	-1.7% Avg.: 1.136	-6.3% Avg.: 1.192	-8.9% Avg.: 1.226

- The pound is up against 80% of global peers in 2023, with standout performances against commodity-linked currencies like **ZAR** and **AUD,** amid sluggish global manufacturing activity, and against lower yielding currencies like **JPY** and **CNY** amid monetary policy divergences.
- **GBP/CNY** has climbed the table as the pair now sits nearly 4% above its 2023 average thanks to a depreciating yuan in the wake of the weaker Chinese economic recovery, looser policy speculation and fresh tensions in Sino-US relations.
- **GBP/USD** remains over 3% above its one-year average as the pound extends over 20% from its all-time low recorded in 2022, helped by more traders betting on sterling rising in the future.

Speculative bets on the pound have flipped to positive

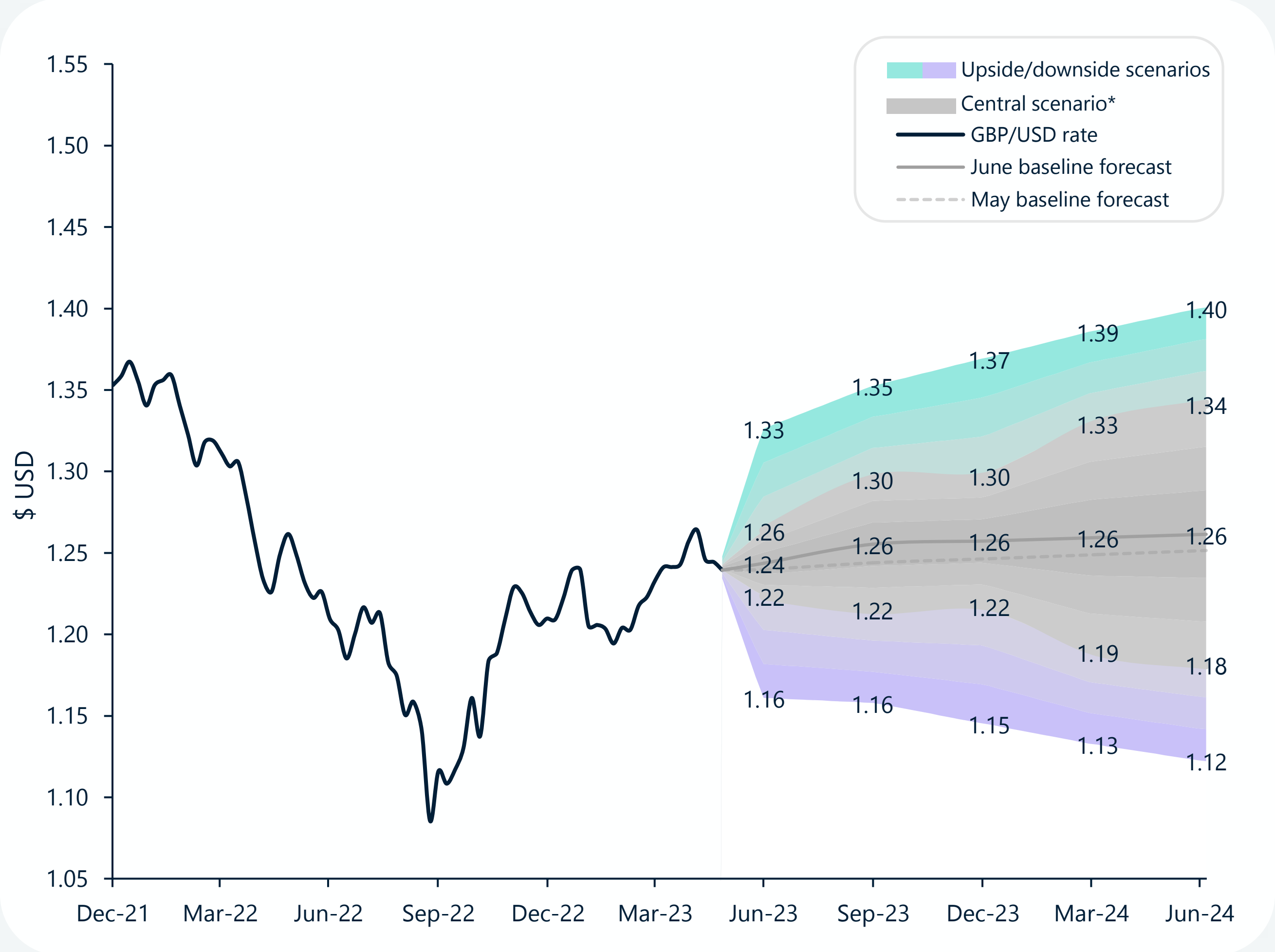
CFTC non-commercial positioning of GBP (against US)



Source: Convera, Macrobond – May 25, 2023

Note: YTD average refers to the following time periods: 02.01.2023 - 23.05.2023; 1Y: 23.05.2022 - 23.05.2023; 2Y: 21.05.2021 - 23.05.2023; 5Y: 24.05.2018 - 23.05.2023.
Table sources: Refinitiv, Convera – May 23, 2023

GBP/USD future scenarios



Upside scenario: UK avoids recession

- UK evades recession, and the BoE keeps interest rates elevated, whilst US economy underperforms with credit tightening, and the Fed cuts rates.
- Geopolitical risks recede and China's reopening supports global growth outlook, sparking demand for riskier assets and hurting the safe haven USD.

Central scenario: interest rate differential

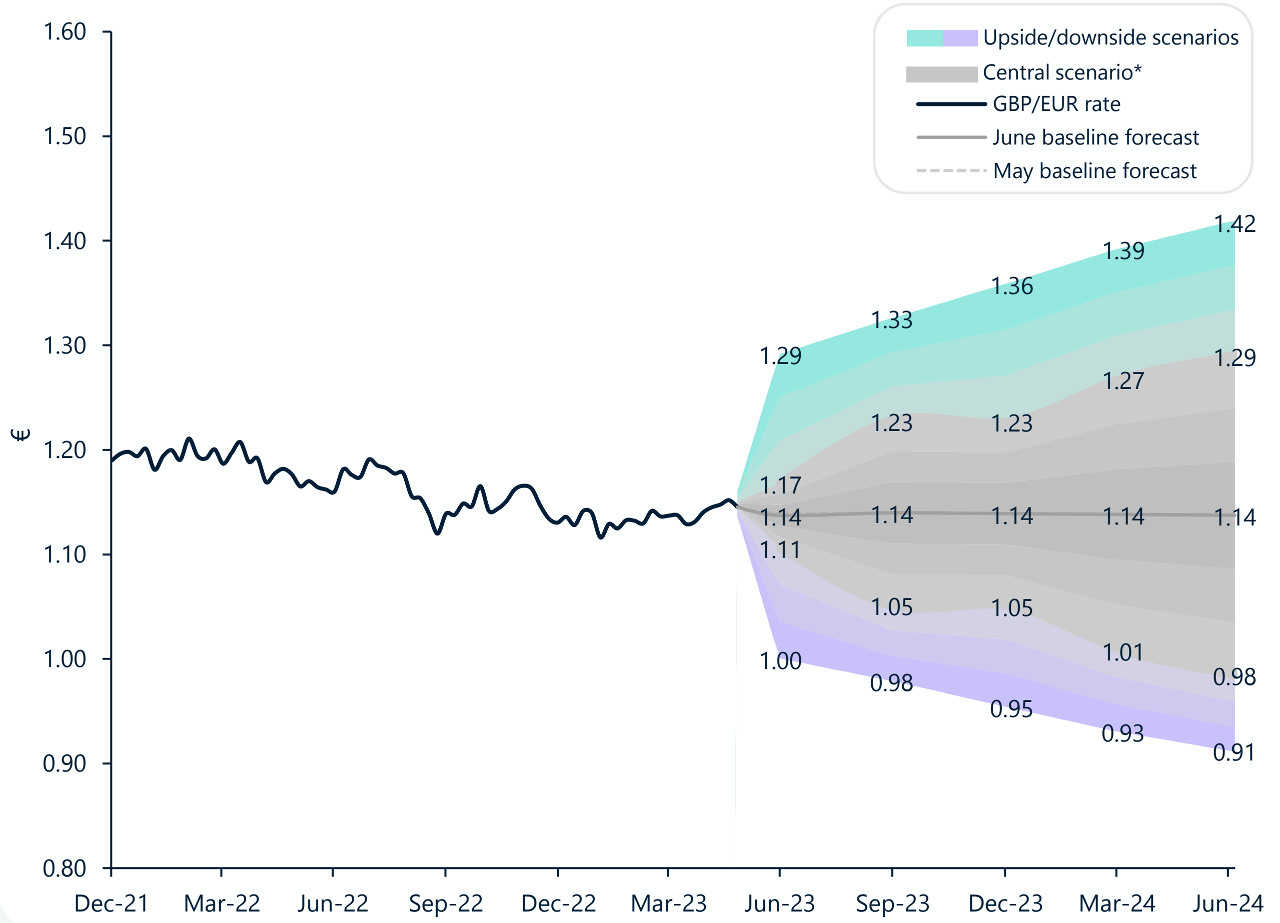
- A stronger UK economy and sticky inflation puts pressure on BoE to keep rates high, narrowing the US-UK rate differential and supporting the pound.
- However, spill-over effects from the US banking crisis trigger turmoil in Europe and the UK, which limits sterling's upside potential.

Downside scenario: UK suffers deep recession

- Tighter credit conditions weigh on global economic growth, the housing market tumbles, and the safe haven dollar outperforms the "riskier" pound.
- BoE forced to cut interest rates as UK falls into recession, hurting the pound, whilst geopolitical risks inflate safe haven US dollar demand.

Chart sources: Oxford Economics, Refinitiv, Convera – May 25, 2023. For more information about the Convera-Oxford Economics economic modelling, framework and methodology used to derive the FX forecast scenarios please contact AskMarketInsights@convera.com
*+/-1 standard deviation from baseline (68% chance rate falls within this range)

GBP/EUR future scenarios



Upside scenario: UK avoids recession

- UK evades recession, and the BoE keeps interest rates higher for longer, whilst Eurozone economy underperforms, and the ECB disappoints.
- Meanwhile, the Eurozone enters recession as European banking jitters escalate, leading to tighter credit conditions weighing on economic growth.

Central scenario: interest rate differential

- A stronger UK economy and sticky inflation put pressure on BoE to keep rates high, widening the UK-EU rate differential and supporting the pound.
- But hawkish ECB talk, coupled with strong economic data lift ECB rate expectations higher, boosting demand for the euro.

Downside scenario: Global banking crisis

- Tighter credit conditions globally weigh on global economic growth, the housing market tumbles, and the "riskier" pound is sold across the board.
- BoE fails to keep up with market rate expectations and is forced to cut rates, hurting the pound, whilst EZ economy outperforms and boosts EUR.

Chart sources: Oxford Economics, Refinitiv, Convera – May 25, 2023. For more information about the Convera-Oxford Economics economic modelling, framework and methodology used to derive the FX forecast scenarios please contact AskMarketInsights@convera.com
*+/-1 standard deviation from baseline (68% chance rate falls within this range)

EU currency outlook

EUR volatility analysis

EUR/ZAR has swung ~20% in 2023

Chart: EUR 30-day, year-to-date trading range

Increasing volatility

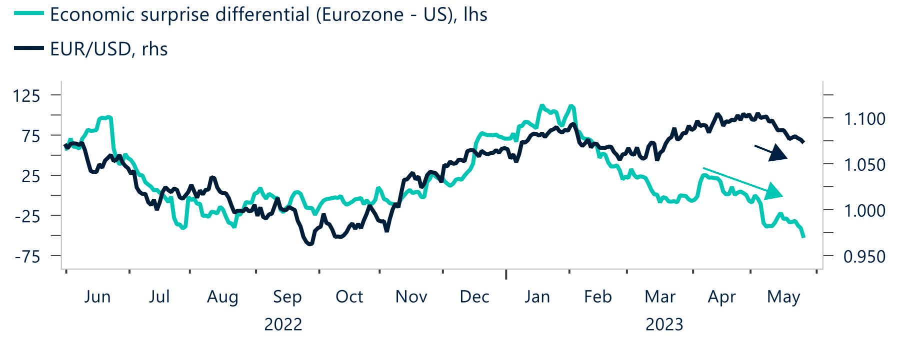
	Spot	High 30D	Low 30D	High YTD	Low YTD	Trading range 30D	Trading range YTD	Position within the range 30D	Position within the range YTD
EUR/ZAR	20.77	21.33	19.75	21.33	17.80	8.0%	19.8%	65%	84%
EUR/CAD	1.46	1.511	1.451	1.511	1.423	4.1%	6.2%	15%	42%
EUR/AUD	1.625	1.678	1.613	1.678	1.525	4.0%	10.0%	18%	65%
EUR/NOK	11.78	11.92	11.46	11.92	10.44	4.0%	14.2%	70%	91%
EUR/JPY	149.8	151.6	146.1	151.6	137.3	3.8%	10.4%	67%	87%
EUR/USD	1.081	1.109	1.075	1.109	1.048	3.2%	5.8%	18%	54%
EUR/GBP	0.869	0.887	0.866	0.897	0.866	2.4%	3.6%	14%	10%
EUR/CHF	0.970	0.988	0.967	1.009	0.967	2.2%	4.3%	14%	7%
EUR/CNY	7.608	7.679	7.535	7.679	7.188	1.9%	6.8%	51%	86%
EUR/INR	89.49	90.61	88.93	90.61	86.15	1.9%	5.2%	33%	75%

Table sources: Refinitiv, Convera – May 23, 2023

- **EUR/ZAR** jumped nearly 8% in May as the rand's 2023 slumped deepened following public comments from the US ambassador alleging that arms had been transferred to Russia.
- **EUR/GBP** volatility remains more subdued as both UK and Eurozone monetary policy outlooks remain more hawkish than the Fed. However, UK economic data has significantly outperformed that of Europe, sending the currency pair to five-month lows.
- **EUR/USD** has swung nearly 6% this year and has fallen to the bottom 20% of its 30-day range as Eurozone data surprises to the downside and higher-for-longer US rate expectations buoy the dollar.

Euro starting to respond to string of poor data

EUR/USD vs. economic data surprises for the Eurozone and US



Source: Convera, Macrobond – May 25, 2023

convera

EUR value indicator

EUR/USD is 3.4% above its 1-year average

Chart: EUR performance versus year-to-date, 1, 2, and 5-year averages

Appreciation Depreciation

	Spot (As of 23.05.2023)	Spot vs YTD average	Spot vs 1 year average	Spot vs 2 year average	Spot vs 5 year average
EUR/ZAR	20.77	6.8% Avg.: 19.44	14.2% Avg.: 18.18	17.6% Avg.: 17.66	19.3% Avg.: 17.40
EUR/NOK	11.78	5.3% Avg.: 11.19	11.1% Avg.: 10.60	14.1% Avg.: 10.32	15.4% Avg.: 10.21
EUR/JPY	149.8	4.1% Avg.: 143.9	5.2% Avg.: 142.4	9.5% Avg.: 136.8	15.9% Avg.: 129.2
EUR/CNY	7.608	2.5% Avg.: 7.424	5.5% Avg.: 7.208	4.5% Avg.: 7.280	0.2% Avg.: 7.596
EUR/AUD	1.625	2.0% Avg.: 1.593	5.3% Avg.: 1.543	4.7% Avg.: 1.552	2.3% Avg.: 1.588
EUR/USD	1.081	0.0% Avg.: 1.080	3.4% Avg.: 1.044	-1.2% Avg.: 1.094	-3.9% Avg.: 1.124
EUR/GBP	0.869	-1.3% Avg.: 0.880	0.0% Avg.: 0.868	1.3% Avg.: 0.858	-0.4% Avg.: 0.872
EUR/CHF	0.970	-1.9% Avg.: 0.988	-1.8% Avg.: 0.987	-5.1% Avg.: 1.022	-9.4% Avg.: 1.070

- **EUR/ZAR** has surged to the top of the table, now almost 7% higher year-to-date and well above 10%, its longer-term averages, as the rand is pressured by domestic economic and political turmoil.
- **EUR/CNY** and **EUR/AUD** are trading well above their year-to-date averages as the lackluster recovery in China provokes global growth fears.
- **EUR/GBP** is now negatively positioned versus the pound year-to-date as disappointing German data increases recession fears across Europe.
- **EUR/USD** has turned positive for the year and is over 2% higher compared to its two-year average. Monetary policy differentials seem to point more clearly to a higher EUR/USD absent contagion risk of the banking sector turmoil.
- **EUR/CHF** remains in the doldrums, lower relative to all of its key long-term moving averages as the Swiss economy proves resilient and the franc retains safe haven appeal.

Note: YTD average refers to the following time periods: 02.01.2023 - 23.05.2023; 1Y: 23.05.2022 - 23.05.2023; 2Y: 21.05.2021 - 23.05.2023; 5Y: 24.05.2018 - 23.05.2023.
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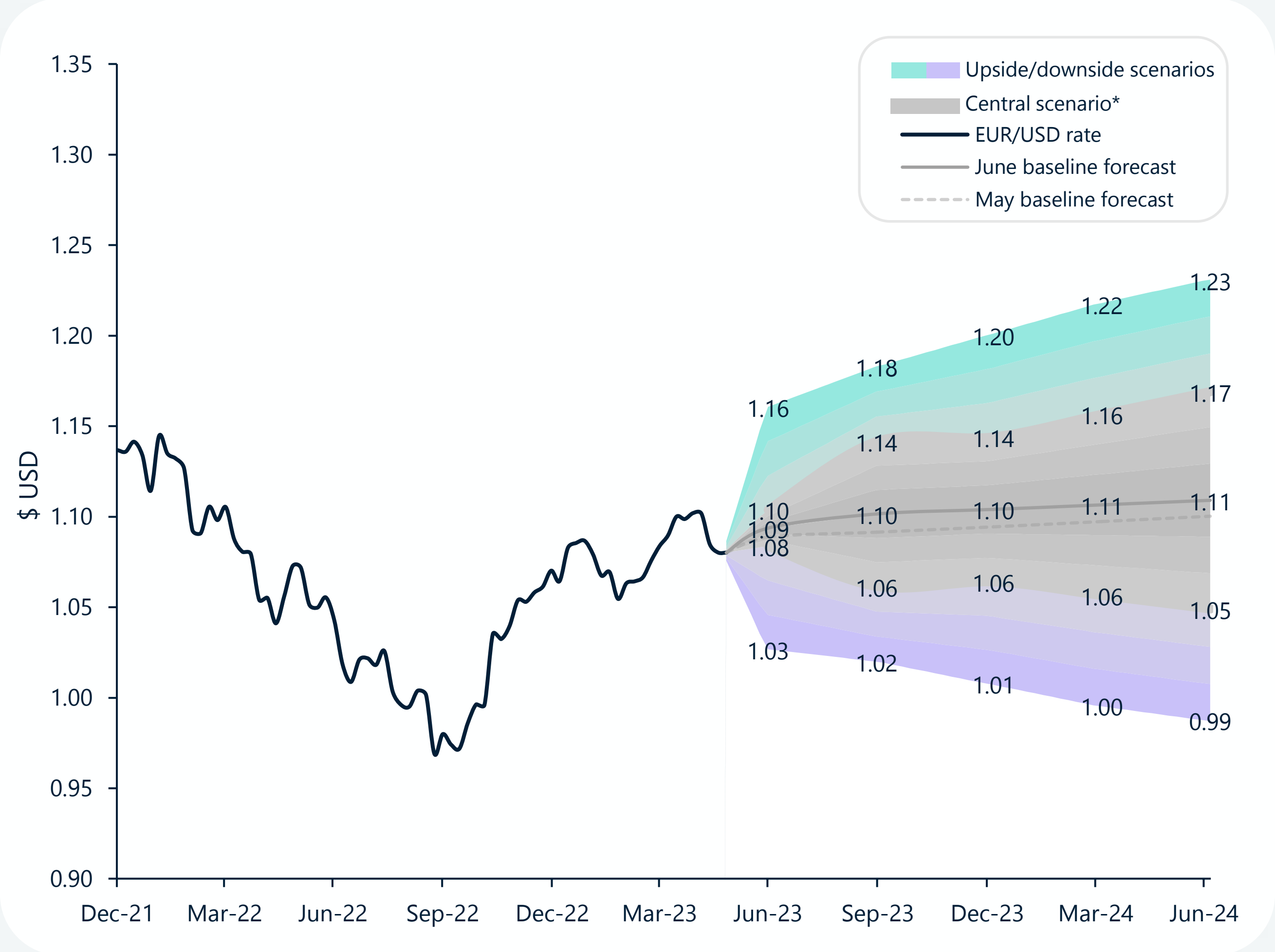
EUR/USD future scenarios



Upside scenario: Global recovery

- Global risk appetite rebounds as China's reopening and easing inflation boosts the economic outlook.
- Fed forced to cut rates as US economy weakens amid tighter credit conditions, narrowing US-EZ yield spreads, reducing the dollar's interest rate advantage.

Central scenario: higher interest rates

- ECB continues raising interest rates through 2023 to ensure inflation is contained, whilst Fed turns dovish amid banking jitters.
- Eurozone suffers a shallow recession amidst tighter financial conditions and decreased consumer spending, but US economy also underperforms.

Downside scenario: EZ suffers deep recession

- Energy crisis resurfaces this winter amid colder weather and reduced supply, sending EZ into a deep recession.
- Banking contagion spreads to European lenders, increasing the chances of an ECB pause and possible rate cuts, weakening euro's yield advantage.

Chart sources: Oxford Economics, Refinitiv, Convera – May 25, 2023. For more information about the Convera-Oxford Economics economic modelling, framework and methodology used to derive the FX forecast scenarios please contact AskMarketInsights@convera.com
*+/-1 standard deviation from baseline (68% chance rate falls within this range)

APAC currency outlook

APAC volatility analysis

NZD leads volatility as RBNZ signals pause

Chart: APAC 30-day, year-to-date trading ranges

Increasing volatility

	Spot	High 30D	Low 30D	High YTD	Low YTD	Trading range 30D	Trading range YTD	Position within the range 30D	Position within the range YTD
NZD/EUR	0.579	0.582	0.552	0.600	0.552	5.4%	8.7%	90%	56%
AUD/JPY	91.6	92.41	87.83	93.04	86.03	5.2%	8.1%	82%	79%
NZD/USD	0.624	0.638	0.610	0.653	0.608	4.6%	7.4%	50%	36%
AUD/EUR	0.613	0.619	0.595	0.655	0.595	4.0%	10.1%	75%	30%
AUD/USD	0.660	0.681	0.657	0.715	0.656	3.7%	9.0%	13%	7%
AUD/CNY	4.663	4.714	4.545	4.844	4.536	3.7%	6.8%	70%	41%
NZD/AUD	0.944	0.946	0.914	0.946	0.901	3.5%	5.0%	94%	96%
AUD/GBP	0.532	0.538	0.524	0.580	0.524	2.7%	10.7%	57%	14%
USD/CNY	7.066	7.067	6.888	7.067	6.690	2.6%	5.6%	99%	100%
USD/SGD	1.347	1.349	1.322	1.357	1.302	2.0%	4.2%	93%	82%

Table sources: Refinitiv, Convera – May 24, 2023

- The New Zealand dollar led volatility measures in May as the Reserve Bank of New Zealand signalled a potential pause in rate hikes. The **NZD/EUR** traded in a 5.4% range.
- The **AUD/JPY** remained volatile as worries about the impact of the US's debt ceiling crisis caused risk-sensitive pairs like the Aussie-yen to see large moves.
- The **AUD/USD** remains trapped in its recent trading range even after the Reserve Bank of Australia surprised markets with an unexpected rate hike at the start of May.
- The **NZD/AUD** continues to see low volatility with a historically small year-to-date range of only 5.0%.
- **USD/SGD** and **USD/CNY** saw an increase in volatility – both moved in a range more than twice as large as the previous 30-day period – but remained relatively capped versus other markets.

APAC FX value indicator

Chinese yuan hit by manufacturing slowdown

Chart: APAC FX performance versus year-to-date, 1, 2, and 5-year averages

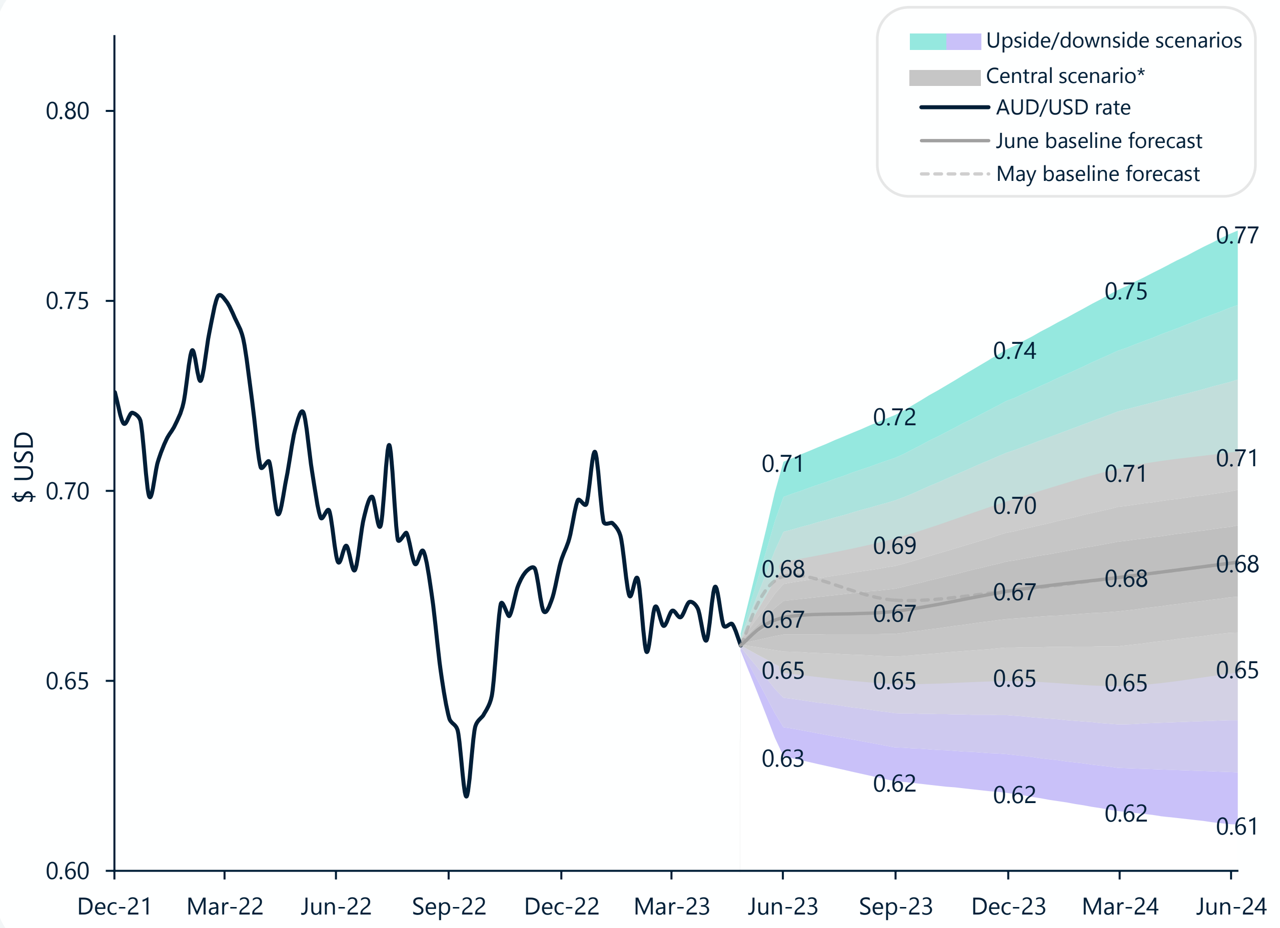
Appreciation · Depreciation

	Spot (As of 24.05.2023)	Spot vs YTD average	Spot vs 1 year average	Spot vs 2 year average	Spot vs 5 year average
USD/CNY	7.066	2.8% Avg.: 6.873	2.3% Avg.: 6.905	6.0% Avg.: 6.665	4.5% Avg.: 6.762
AUD/JPY	91.6	1.4% Avg.: 90.29	-0.7% Avg.: 92.29	3.8% Avg.: 88.20	12.3% Avg.: 81.56
USD/SGD	1.347	1.1% Avg.: 1.332	-1.5% Avg.: 1.367	-1.0% Avg.: 1.360	-1.2% Avg.: 1.363
AUD/CNY	4.663	0.1% Avg.: 4.656	-0.2% Avg.: 4.671	-0.5% Avg.: 4.687	-2.4% Avg.: 4.780
NZD/USD	0.624	-0.5% Avg.: 0.627	0.8% Avg.: 0.618	-4.6% Avg.: 0.653	-5.7% Avg.: 0.661
AUD/NZD	1.057	-2.1% Avg.: 1.079	-3.3% Avg.: 1.093	-1.9% Avg.: 1.077	-1.2% Avg.: 1.069
AUD/EUR	0.613	-2.3% Avg.: 0.627	-5.4% Avg.: 0.648	-4.9% Avg.: 0.644	-2.7% Avg.: 0.629
AUD/USD	0.660	-2.7% Avg.: 0.677	-2.5% Avg.: 0.676	-6.3% Avg.: 0.704	-6.8% Avg.: 0.707

- The **USD/CNY** marched back to five-month highs in May as worries about a sputtering recovery in China caused the Chinese yuan to weaken.
- The **AUD/JPY** has outperformed versus historical averages as low volatility and stronger equity markets boosted appetites for risk-sensitive markets like Aussie-yen.
- **NZD/USD** remains broadly neutral in the short-term with the pair trapped in a clear trading range for most of this year. Over the longer term, weaker commodity prices have seen the NZD/USD pressured.
- The **AUD/NZD** remains pressured on a historical basis as the Reserve Bank of New Zealand's aggressive rate hiking cycles push interest rates differential to the widest in over a decade.
- **AUD/USD** has fallen to the low end of historical trading ranges as China's sluggish growth, compounded by a slowdown in global manufacturing activity, weighed on the Aussie. Copper fell to the lowest level in six months and dragged the AUD/USD lower.

Note: YTD average refers to the following time periods: 02.01.2023 - 24.05.2023; 1Y: 24.05.2022 - 24.05.2023; 2Y: 24.05.2021 - 24.05.2023; 5Y: 25.05.2018 - 24.05.2023.
Table sources: Refinitiv, Convera – May 24, 2023

AUD/USD future scenarios



Upside scenario: Chinese recovery needed to boost Aussie

- A clear improvement in Chinese growth might be needed for this scenario. An improvement in Chinese growth might also help commodity prices.
- A weaker US dollar could help the AUD/USD especially if the US Federal Reserve cuts interest rates in the second half of 2023.

Central scenario: Global growth stays sluggish

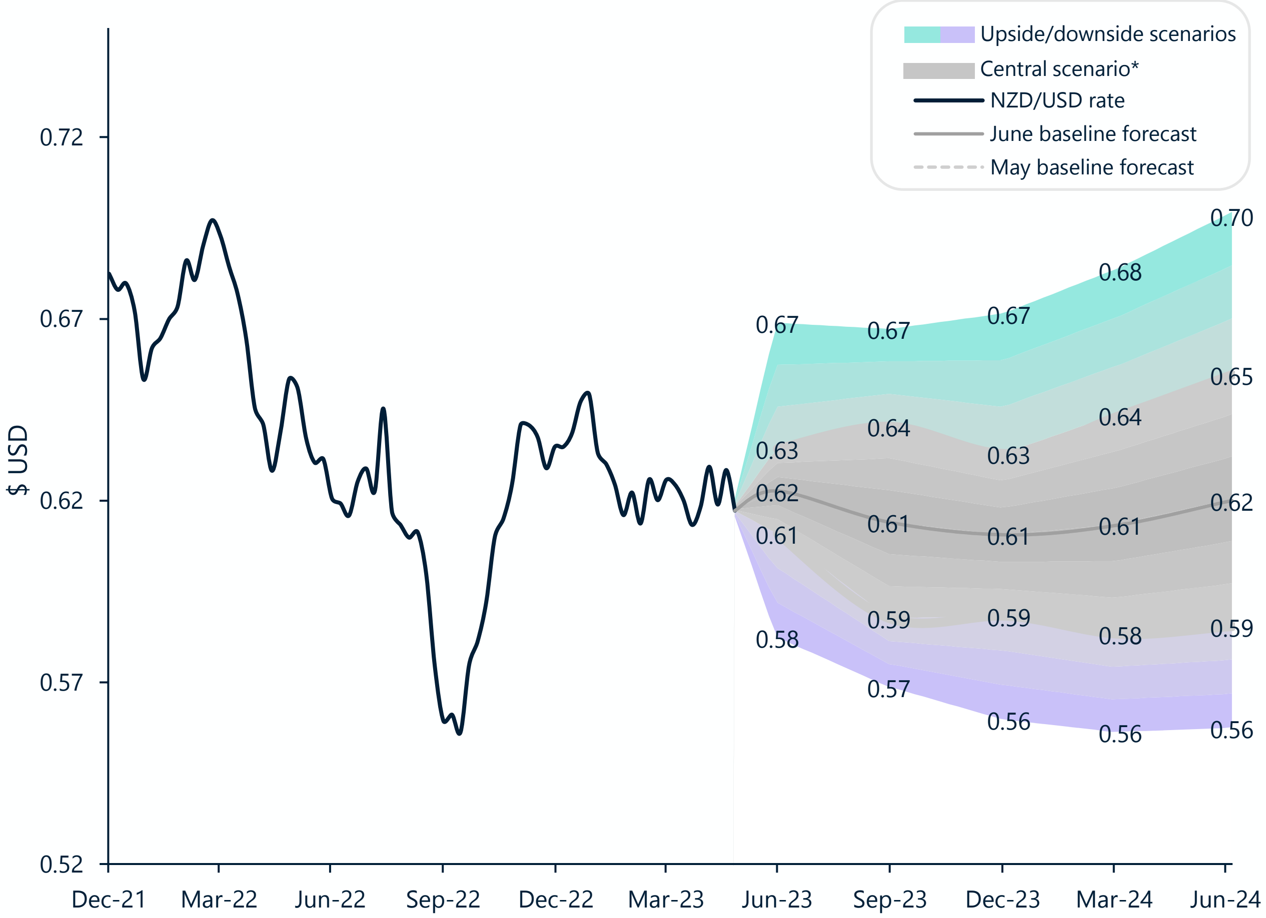
- The AUD/USD might remain trapped in its recent range if global growth remains sluggish.
- Central banks pause recent policy tightening but global rates remain elevated

Downside scenario: Fed stays focused on inflation

- Inflation remains persistent as central banks, led by the Federal Reserve, continue to raise rates beyond June.
- Any sell-off in global sharemarkets could weigh on the risk sensitive AUD.

Chart sources: Oxford Economics, Refinitiv, Convera – 24 May, 2023. For more information about the Convera-Oxford Economics economic modelling, framework and methodology used to derive the FX forecast scenarios please contact AskMarketInsights@convera.com
*+/-1 standard deviation from baseline (68% chance rate falls within this range)

NZD/USD future scenarios



Upside scenario: NZ rates pushed higher

- NZ interest rates, currently the highest in the developed world, stay elevated as RBNZ remains concerned over inflation.
- NZD can also benefit from an improving global growth scenario especially if China shakes-off its recent weakness.

Central scenario: Kiwi pressured by muted growth

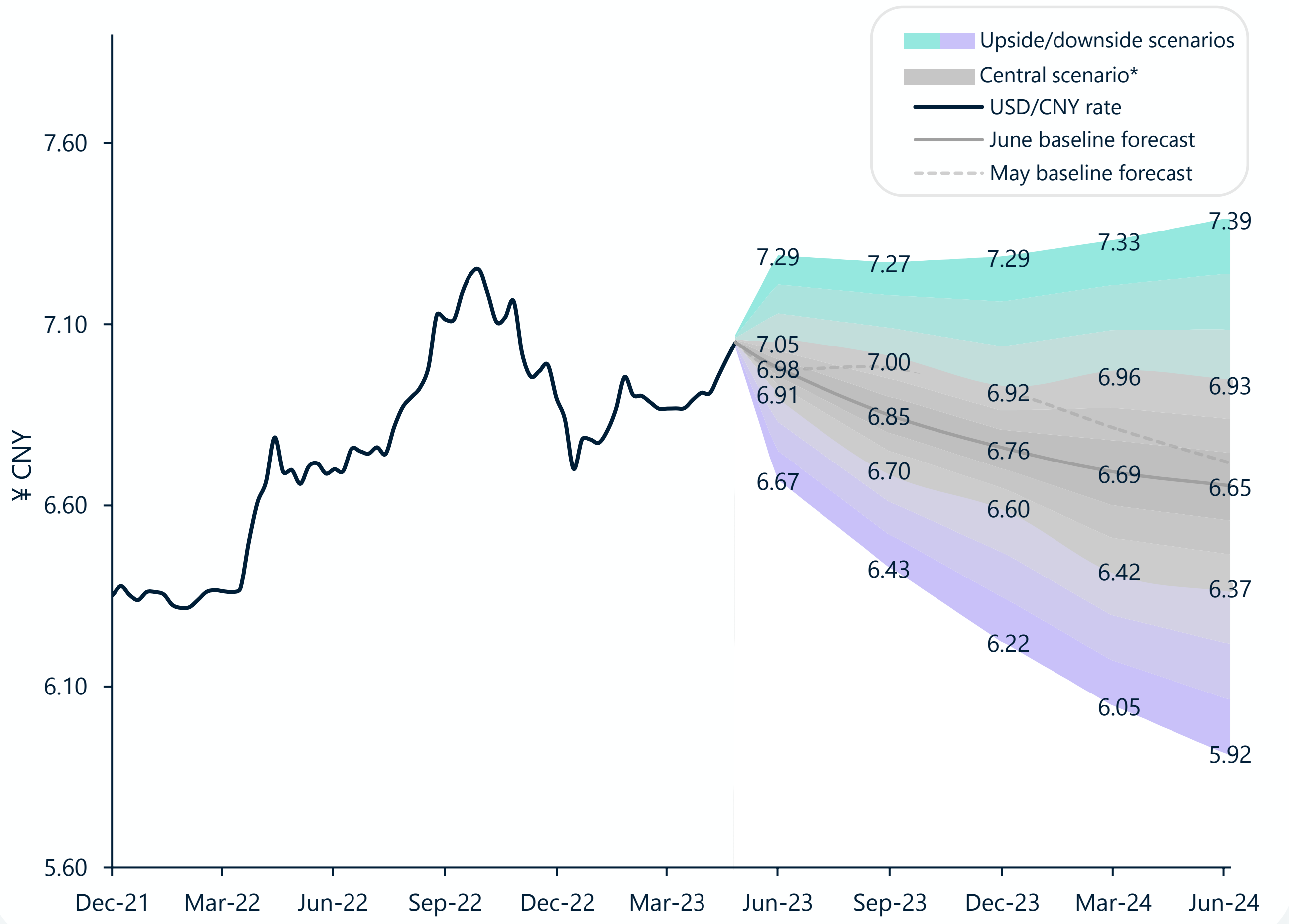
- Global interest rates remain high, slowing global growth, and weighing on NZD.
- Commodities remain under pressure with dairy prices key for NZD.

Downside scenario: Vulnerable to market sell-off

- The NZD is closely tired to risk sentiment – a sell-off in global sharemarkets could pressure the NZD.
- Slowing global growth, especially in China, can pressure the NZD.

Chart sources: Oxford Economics, Refinitiv, Convera – 24 May, 2023. For more information about the Convera-Oxford Economics economic modelling, framework and methodology used to derive the FX forecast scenarios please contact AskMarketInsights@convera.com
*+/-1 standard deviation from baseline (68% chance rate falls within this range)

USD/CNY future scenarios



Upside scenario: China cuts rates

- Chinese economic growth has recently disappointed. PBOC rate cuts, to stimulate the economy, could see further CNY losses.
- A stronger USD – if the Fed is forced to continue to hike rates – could also drive the USD/CNY higher.

Central scenario: China recovery gains speed

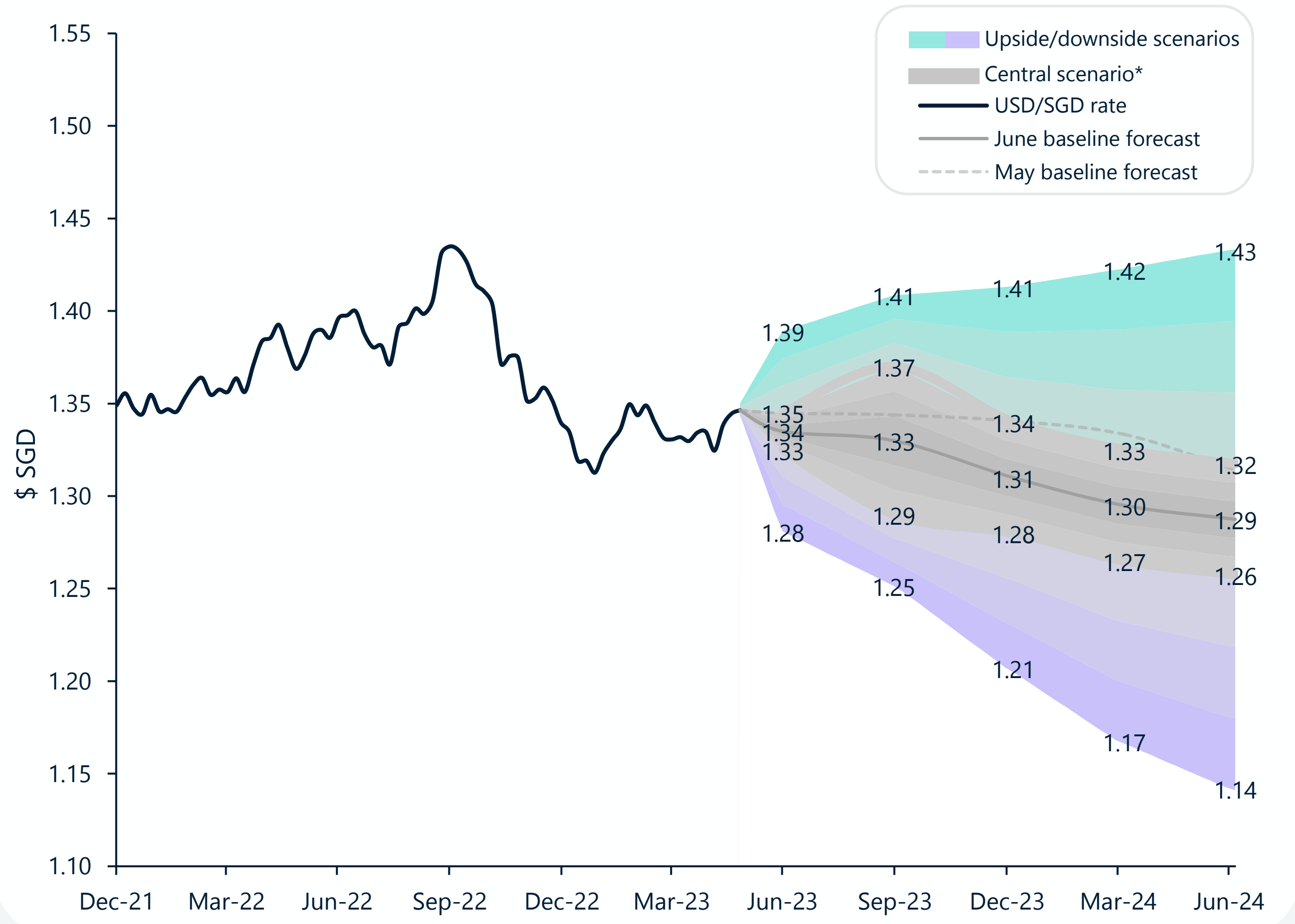
- Chinese growth is expected to improve into the second-half of 2023 as global manufacturing recovers.
- The Fed pauses its interest rate hiking cycle boosting global sentiment.

Downside scenario: Fed cuts into second half

- A stronger than expected pace of Chinese growth could see the USD/CNY back to levels last seen in early 2022.
- The USD falls as the Federal Reserve is forced to cut rates.

Chart sources: Oxford Economics, Refinitiv, Convera – 24 May, 2023. For more information about the Convera-Oxford Economics economic modelling, framework and methodology used to derive the FX forecast scenarios please contact AskMarketInsights@convera.com
*+/-1 standard deviation from baseline (68% chance rate falls within this range)

USD/SGD future scenarios



Upside scenario: Global sell-off hits risk

- US equities are near one-year highs, but a reversal could see safe haven FX like the US dollar gain.
- Further US rate hikes push the USD higher.

Central scenario: Global growth picks up

- An improvement in global growth is boosted by a recovery in Chinese activity.
- The USD might ease if the Fed pauses rate hikes.

Downside scenario: Fed cuts hit USD/SGD

- USD might weaken if the Fed is forced to cut official interest rates as the US economy slows.
- Fed cuts cause global growth might remain resilient, boosting trade, and helping the SGD.

Chart sources: Oxford Economics, Refinitiv, Convera – 24 May, 2023. For more information about the Convera-Oxford Economics economic modelling, framework and methodology used to derive the FX forecast scenarios please contact AskMarketInsights@convera.com
*+/-1 standard deviation from baseline (68% chance rate falls within this range)

NAM currency outlook

NAM volatility analysis

Peso slips from 7-year high as Mexico signals rate pause

Chart: USD 30-day, year-to-date trading range

Increasing volatility

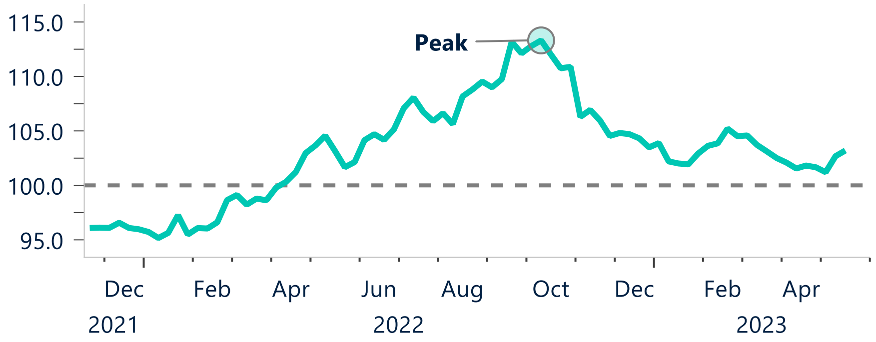
	Spot	High 30D	Low 30D	High YTD	Low YTD	Trading range 30D	Trading range YTD	Position within the range 30D	Position within the range YTD
USD/MXN	17.95	18.2	17.40	19.52	17.40	4.6%	12.2%	69%	26%
NZD/USD	0.624	0.638	0.610	0.653	0.608	4.6%	7.4%	50%	36%
USD/JPY	138.5	138.9	133	138.9	127.2	4.4%	9.2%	93%	97%
EUR/CAD	1.455	1.511	1.451	1.511	1.423	4.1%	6.2%	7%	36%
AUD/USD	0.660	0.681	0.655	0.715	0.655	4.0%	9.2%	19%	8%
EUR/USD	1.077	1.109	1.074	1.109	1.048	3.3%	5.8%	9%	48%
USD/CHF	0.901	0.906	0.881	0.944	0.881	2.8%	7.2%	80%	32%
USD/CAD	1.350	1.366	1.331	1.386	1.326	2.6%	4.5%	54%	40%
USD/CNY	7.066	7.067	6.888	7.067	6.690	2.6%	5.6%	99%	100%
GBP/USD	1.241	1.267	1.236	1.267	1.180	2.5%	7.4%	16%	70%

Table sources: Refinitiv, Convera – 24 May 2023

- **EUR/USD** retreated from 1-year highs in April and hit its lowest level since March as global data painted a more resilient picture of growth on the left side of the Atlantic.
- **GBP/USD** surrendered some gains after it powered to 1-year highs in early May. Persistently resilient US data suggested the door remained open for a dollar-positive rate hike by the Fed.
- **USD/CAD** kept to a confined range given the similar policy trajectory for central banks along both sides of the border. The next move could be higher still for both Canada and the US amid elevated inflation.

USD hold firm above 100

US Dollar Index



Source: Convera, Macrobond – May 26, 2023

NAM FX value indicator

Euro struggles as area growth starts to moderate

Chart: NAM performance versus year-to-date, 1, 2, and 5-year averages

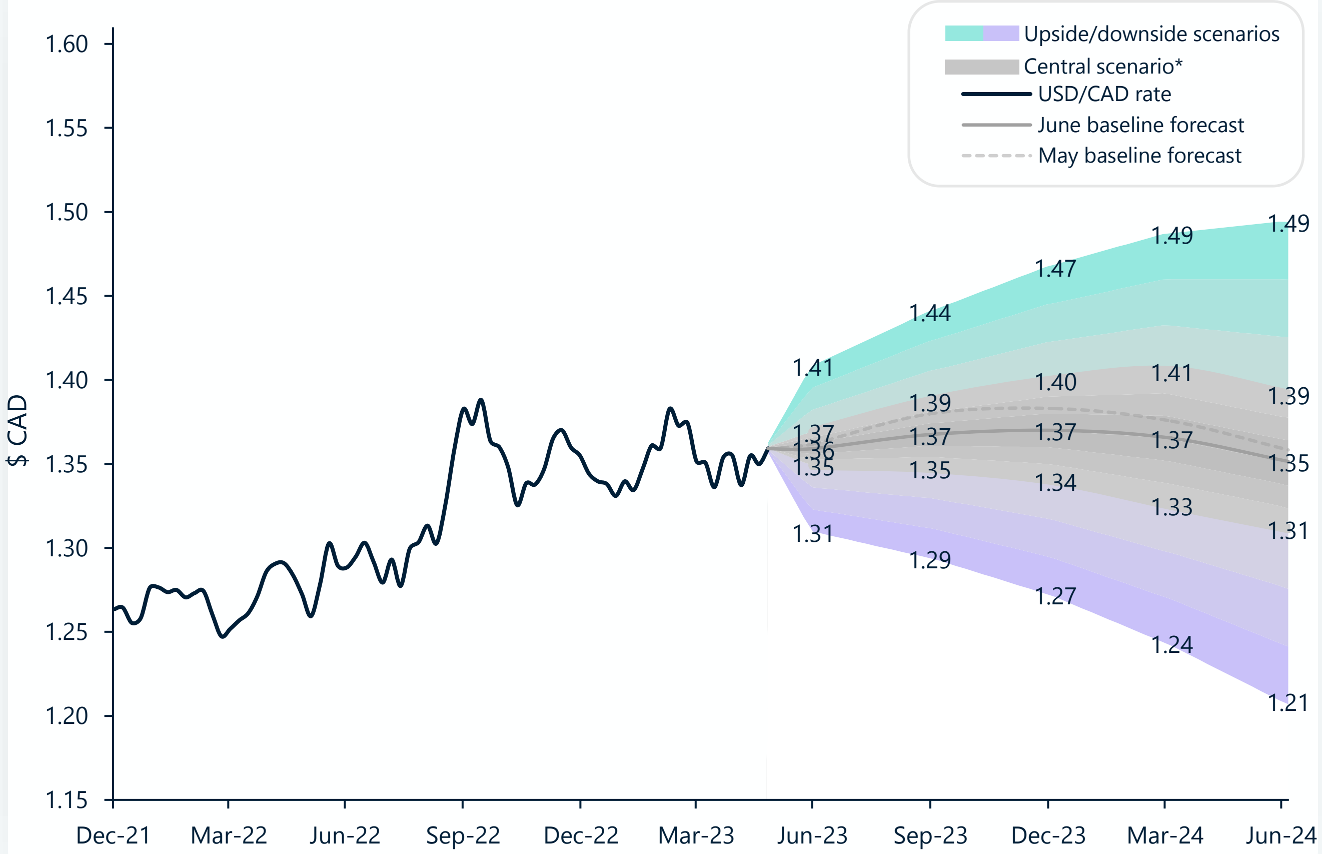
Appreciation Depreciation

	Spot (As of 24.05.2023)	Spot vs YTD average	1 year average	2 year average	5 year average
USD/JPY	138.5	4.0% Avg.: 133.2	1.5% Avg.: 136.4	10.2% Avg.: 125.7	20.0% Avg.: 115.4
GBP/USD	1.241	1.1% Avg.: 1.227	3.2% Avg.: 1.202	-2.7% Avg.: 1.275	-3.7% Avg.: 1.288
USD/CAD	1.350	-0.1% Avg.: 1.350	1.3% Avg.: 1.333	4.2% Avg.: 1.296	3.0% Avg.: 1.310
EUR/CAD	1.455	-0.3% Avg.: 1.459	4.4% Avg.: 1.393	2.7% Avg.: 1.416	-1.2% Avg.: 1.472
EUR/USD	1.077	-0.3% Avg.: 1.080	3.1% Avg.: 1.045	-1.6% Avg.: 1.094	-4.2% Avg.: 1.124
NZD/USD	0.624	-0.5% Avg.: 0.627	0.8% Avg.: 0.618	-4.6% Avg.: 0.653	-5.7% Avg.: 0.661
USD/MXN	17.95	-2.4% Avg.: 18.38	-7.2% Avg.: 19.33	-9.5% Avg.: 19.82	-10.4% Avg.: 20.03
AUD/USD	0.660	-2.7% Avg.: 0.677	-2.5% Avg.: 0.676	-6.3% Avg.: 0.704	-6.8% Avg.: 0.707

Note: YTD average refers to the following time periods: 02.01.2023 - 24.05.2023; 1Y: 24.05.2022 - 24.05.2023; 2Y: 24.05.2021 - 24.05.2023; 5Y: 25.05.2018 - 24.05.2023.

- **EUR/USD** followed up 1-year highs in April by slumping to March lows. The euro's decline was compounded by markets' elevated longs or bets on its continued climb. The more the euro slips, the more bulls are compelled to head for the exits.
- **GBP/USD** scored new highs in May, its strongest level in a year. But the pound's rally lost steam after the Bank of England pegged further rate increases on inflation which it sees moderating over coming months.
- **USD/CAD** continued to ebb and flow along with market expectations for US-Canada central bank policy. Elevated inflation on both sides of the border kept the door ajar to further rate hikes.
- **USD/MXN** fell to 7-year lows, pressured by Mexico's robust interest rate advantage. But relief could be in the offing for the pair after Mexico left rates unchanged at a record 11.25% in May, where it expects to keep them for an extended period.
- **USD/JPY** interest rate differentials kept this pair biased higher. The pair ascended to 2023 highs as rising Treasury yields attracted capital from Japan which continues to pursue low rates to support the world's No. 3 economy.

USD/CAD future scenarios



Upside scenario: Canada's economy weakens

- A weaker Canadian economy could spur expectations for the Bank of Canada to cut interest rates from 4.50% to boost growth.
- Fed extends rate-hiking cycle into the second half of 2023 amid a strong labour market and inflation descending too slowly.

Central scenario: Similar cross-border monetary policy

- USD/CAD maintains a relatively tight range amid generally similar interest rate trajectories for the US and Canadian central banks.
- Canada paused rate hikes in March, though it's too soon to gauge whether the next move in rates would be up or down.

Downside scenario: Canada resumes raising interest rates

- Canada's economy proves more resilient than anticipated, leading Ottawa to restart interest rate hikes.
- The Bank of Canada signals increased resolve to bring inflation back to 2% after consumer prices unexpectedly ticked higher to 4.4% in April.

Chart sources: Oxford Economics, Refinitiv, Convera – 24 May 2023. For more information about the Convera-Oxford Economics economic modelling, framework and methodology used to derive the FX forecast scenarios please contact AskMarketInsights@convera.com
*+/-1 standard deviation from baseline (68% chance rate falls within this range)

International strategy

Considerations for global businesses

Currency volatility

What if we continue to see material 5-10% shifts in your key exchange rates, or your target rate stays at levels significantly above or below your budgeted level?

Risk management

Talk to us about our full range of currency hedging products like FX options^, and forward contracts.

We help organisations track and mitigate FX risks, help protect profits, and optimise international cash flow.

Geopolitics

What if your industry, or specific country of interest remains exposed to supply chain risks, whilst pressures to diversify and speed up delivery remains high?

Diversification

Talk to us about our trade solutions and how we help organisations accelerate payment speed or diversify into alternative markets.

We support 140 currencies and operate across 200 countries and territories.

Sanctions

What if factors like sanctions escalate, and your payment and regulatory complexities increase? Is managing reputational risks and customer experience related to global payments important to you?

Efficiency and security

Talk to us about our automated global payment solutions, compliance controls and fraud prevention measures.

We invest annually in managing compliance and regulations globally.

Climate change

Do customers expect to see your carbon footprint? Sustainability is a key strategic priority for many amid government pledges to cut carbon emissions in half by 2030 and hit net zero by 2050.

ESG

Talk to us about our partnership with Gold Standard and related hedging products.

We offer the opportunity to earn and report globally recognised carbon offset credits and certification.*

^Options products are not available in Hong Kong.
*Certain hedging products are not available in all countries. For more information on availability, contact AskMarketInsights@Convera.com

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Appendix

Future scenarios

	Scenarios	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4
GBP/USD	High	1.326	1.352	1.369	1.385	1.400	1.411	1.420	1.427	1.430	1.433	1.435
	Baseline + σ	1.263	1.295	1.297	1.329	1.341	1.353	1.355	1.348	1.351	1.353	1.346
	Baseline	1.243	1.255	1.257	1.259	1.261	1.263	1.265	1.268	1.271	1.273	1.276
	Baseline - σ	1.223	1.215	1.217	1.189	1.181	1.173	1.175	1.188	1.191	1.193	1.206
	Low	1.161	1.158	1.145	1.132	1.122	1.115	1.111	1.110	1.111	1.114	1.116
GBP/EUR	High	1.291	1.326	1.358	1.391	1.417	1.437	1.450	1.457	1.457	1.455	1.454
	Baseline + σ	1.167	1.227	1.226	1.267	1.289	1.311	1.310	1.300	1.299	1.298	1.274
	Baseline	1.137	1.139	1.138	1.138	1.137	1.136	1.135	1.135	1.134	1.133	1.132
	Baseline - σ	1.106	1.050	1.049	1.008	0.984	0.960	0.959	0.969	0.968	0.967	0.989
	Low	1.000	0.978	0.954	0.930	0.912	0.898	0.889	0.883	0.882	0.882	0.882
GBP/JPY	High	193.8	200.2	203.3	205.2	206.0	205.9	205.1	203.5	201.2	198.6	196.0
	Baseline + σ	173.8	183.4	182.2	189.6	191.5	191.9	190.6	187.3	184.7	181.8	177.7
	Baseline	168.0	170.4	169.8	168.1	165.9	163.6	161.3	159.0	156.7	154.4	152.1
	Baseline - σ	162.1	157.3	157.3	146.5	140.2	135.2	131.9	130.6	128.6	126.9	126.4
	Low	144.0	143.0	139.3	134.6	130.1	126.1	122.7	120.0	117.7	115.7	113.7
GBP/CHF	High	2.104	2.169	2.206	2.250	2.286	2.311	2.320	2.309	2.283	2.255	2.228
	Baseline + σ	1.932	1.989	1.989	2.041	2.048	2.069	2.067	2.015	2.001	1.974	1.934
	Baseline	1.865	1.878	1.865	1.858	1.851	1.843	1.829	1.807	1.781	1.756	1.732
	Baseline - σ	1.797	1.766	1.740	1.674	1.653	1.616	1.590	1.598	1.560	1.537	1.529
	Low	1.640	1.608	1.553	1.504	1.462	1.427	1.397	1.367	1.341	1.319	1.298

Chart sources: Oxford Economics, Refinitiv, Convera – May 25, 2023. For more information about the Convera-Oxford Economics economic modelling, framework and methodology used to derive the FX forecast scenarios please contact AskMarketInsights@convera.com
*+/-1 standard deviation from baseline (68% chance rate falls within this range)

Future scenarios

	Scenarios	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4
EUR/USD	High	1.160	1.183	1.200	1.217	1.230	1.241	1.249	1.255	1.259	1.262	1.265
	Baseline + σ	1.103	1.141	1.144	1.156	1.169	1.181	1.184	1.187	1.19	1.193	1.186
	Baseline	1.093	1.101	1.104	1.106	1.109	1.111	1.114	1.117	1.120	1.123	1.126
	Baseline - σ	1.083	1.061	1.064	1.056	1.049	1.041	1.044	1.047	1.05	1.053	1.066
	Low	1.026	1.019	1.007	0.995	0.987	0.981	0.979	0.979	0.981	0.984	0.987
EUR/GBP	High	0.999	1.021	1.047	1.074	1.096	1.112	1.124	1.131	1.133	1.133	1.133
	Baseline + σ	0.901	0.937	0.938	0.968	0.985	1.001	1.001	0.994	0.995	0.995	0.979
	Baseline	0.879	0.877	0.878	0.878	0.879	0.879	0.880	0.880	0.881	0.882	0.882
	Baseline - σ	0.856	0.816	0.817	0.787	0.772	0.756	0.758	0.765	0.766	0.768	0.784
	Low	0.774	0.754	0.736	0.718	0.705	0.695	0.689	0.686	0.686	0.686	0.687
EUR/CHF	High	1.107	1.141	1.170	1.199	1.219	1.235	1.245	1.250	1.249	1.248	1.246
	Baseline + σ	1.016	1.060	1.059	1.068	1.075	1.083	1.081	1.080	1.078	1.076	1.065
	Baseline	0.985	0.990	0.989	0.989	0.987	0.986	0.984	0.983	0.981	0.980	0.978
	Baseline - σ	0.953	0.919	0.918	0.909	0.898	0.888	0.886	0.885	0.883	0.883	0.890
	Low	0.870	0.849	0.824	0.798	0.780	0.765	0.754	0.748	0.746	0.744	0.743
EUR/CNY	High	8.461	8.601	8.745	8.925	9.094	9.206	9.231	9.203	9.168	9.151	9.151
	Baseline + σ	7.781	7.990	7.910	8.048	8.105	8.125	8.037	7.941	7.918	7.901	7.847
	Baseline	7.634	7.545	7.457	7.402	7.379	7.344	7.273	7.194	7.150	7.135	7.135
	Baseline - σ	7.486	7.099	7.003	6.755	6.652	6.562	6.508	6.446	6.381	6.368	6.422
	Low	6.848	6.557	6.272	6.021	5.843	5.693	5.547	5.432	5.382	5.368	5.368

Chart sources: Oxford Economics, Refinitiv, Convera – May 25, 2023. For more information about the Convera-Oxford Economics economic modelling, framework and methodology used to derive the FX forecast scenarios please contact AskMarketInsights@convera.com
*+/-1 standard deviation from baseline (68% chance rate falls within this range)

Future scenarios

	Scenarios	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4
AUD/USD	High	0.707	0.719	0.737	0.753	0.767	0.781	0.795	0.811	0.828	0.844	0.860
	Baseline + σ	0.679	0.685	0.695	0.704	0.708	0.717	0.729	0.735	0.753	0.767	0.779
	Baseline	0.666	0.668	0.673	0.677	0.681	0.685	0.691	0.701	0.713	0.725	0.736
	Baseline - σ	0.652	0.650	0.650	0.649	0.653	0.652	0.652	0.666	0.672	0.682	0.692
	Low	0.630	0.623	0.620	0.615	0.612	0.610	0.612	0.617	0.626	0.635	0.644
AUD/EUR	High	0.689	0.705	0.731	0.756	0.777	0.795	0.812	0.829	0.844	0.857	0.870
	Baseline + σ	0.630	0.619	0.632	0.637	0.633	0.638	0.650	0.649	0.665	0.674	0.688
	Baseline	0.609	0.606	0.610	0.612	0.614	0.616	0.620	0.628	0.636	0.645	0.654
	Baseline - σ	0.587	0.592	0.587	0.586	0.594	0.593	0.589	0.606	0.606	0.615	0.619
	Low	0.542	0.527	0.517	0.505	0.497	0.491	0.489	0.492	0.497	0.503	0.509
AUD/NZD	High	1.215	1.265	1.317	1.353	1.377	1.389	1.395	1.403	1.407	1.411	1.418
	Baseline + σ	1.111	1.165	1.181	1.205	1.206	1.211	1.208	1.196	1.202	1.202	1.196
	Baseline	1.070	1.088	1.103	1.104	1.098	1.087	1.076	1.070	1.066	1.064	1.064
	Baseline - σ	1.028	1.010	1.024	1.002	0.989	0.962	0.943	0.943	0.929	0.925	0.931
	Low	0.942	0.934	0.924	0.900	0.876	0.851	0.830	0.816	0.808	0.802	0.799
AUD/CNY	High	5.159	5.234	5.373	5.521	5.675	5.793	5.874	5.950	6.030	6.119	6.219
	Baseline + σ	4.793	4.803	4.816	4.906	4.916	4.939	4.953	4.924	5.016	5.079	5.159
	Baseline	4.653	4.578	4.552	4.532	4.533	4.528	4.514	4.518	4.553	4.605	4.666
	Baseline - σ	4.512	4.352	4.287	4.157	4.149	4.116	4.074	4.111	4.089	4.130	4.172
	Low	4.202	4.009	3.861	3.723	3.622	3.540	3.468	3.428	3.435	3.465	3.503

Chart sources: Oxford Economics, Refinitiv, Convera – May 25, 2023. For more information about the Convera-Oxford Economics economic modelling, framework and methodology used to derive the FX forecast scenarios please contact AskMarketInsights@convera.com

*+/-1 standard deviation from baseline (68% chance rate falls within this range)

Future scenarios

	Scenarios	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4
	High	1.408	1.441	1.467	1.487	1.494	1.491	1.482	1.466	1.446	1.426	1.408
	Baseline + σ	1.369	1.387	1.4	1.405	1.391	1.382	1.362	1.33	1.319	1.299	1.28
USD/CAD	Baseline	1.359	1.367	1.37	1.365	1.351	1.332	1.312	1.290	1.269	1.249	1.230
	Baseline - σ	1.349	1.347	1.34	1.325	1.311	1.282	1.262	1.25	1.219	1.199	1.18
	Low	1.309	1.293	1.272	1.243	1.208	1.173	1.142	1.114	1.091	1.071	1.053
	High	20.05	20.89	21.84	22.75	23.48	24.05	24.46	24.73	24.87	24.97	25.07
	Baseline + σ	18.57	19.33	19.92	20.41	20.81	21.05	21.24	21.51	22.01	22.22	22.29
USD/MXN	Baseline	18.16	18.56	19.07	19.54	19.93	20.24	20.47	20.64	20.76	20.86	20.96
	Baseline - σ	17.75	17.79	18.22	18.67	19.05	19.43	19.7	19.77	19.51	19.5	19.63
	Low	17.16	17.31	17.55	17.76	17.96	18.12	18.24	18.35	18.47	18.57	18.67
	High	146.1	148.0	148.5	148.0	147.1	145.8	144.3	142.6	140.6	138.5	136.5
	Baseline + σ	137.6	141.6	140.4	142.5	142.7	141.8	140.6	138.8	136.7	134.3	131.9
USD/JPY	Baseline	135.1	135.7	135.0	133.4	131.5	129.5	127.4	125.3	123.3	121.2	119.1
	Baseline - σ	132.5	129.8	129.5	124.2	120.2	117.1	114.2	111.7	109.8	108.0	106.2
	Low	124.0	123.5	121.6	118.8	115.9	113.1	110.5	108.1	105.9	103.9	101.8
	High	7.290	7.270	7.286	7.332	7.391	7.418	7.387	7.328	7.279	7.248	7.231
	Baseline + σ	7.05	7	6.915	6.959	6.933	6.878	6.786	6.688	6.651	6.621	6.614
USD/CNY	Baseline	6.98	6.85	6.755	6.689	6.653	6.608	6.526	6.438	6.381	6.351	6.334
	Baseline - σ	6.91	6.7	6.595	6.419	6.373	6.338	6.266	6.188	6.111	6.081	6.054
	Low	6.669	6.429	6.223	6.047	5.916	5.797	5.664	5.547	5.484	5.453	5.436

Chart sources: Oxford Economics, Refinitiv, Convera – May 25, 2023. For more information about the Convera-Oxford Economics economic modelling, framework and methodology used to derive the FX forecast scenarios please contact AskMarketInsights@convera.com
*+/-1 standard deviation from baseline (68% chance rate falls within this range)

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