

GLOBAL FX OUTLOOK

September 2023



Key insights

Global growth sputters, but central banks still talk tough

The key focus for financial markets remains the tension between a clear slowdown in global growth and central banks that continue to warn they will raise rates further to contain inflation.

It was the US's turn to wobble in August, with a drop in manufacturing and services PMIs, along with a reversal lower in employment indicators, sparking fears of a broader slowdown. Regardless, Federal Reserve chair Jerome Powell said rates would likely be higher for longer, saying the fight against inflation still has a "long way to go".

On the other hand, the news stayed gloomy in Europe and Asia. Germany looks set for a third-consecutive quarter of negative economic growth, but inflation continues to surprise to the upside. China's property markets saw further signs of distress and smaller than expected rate cuts from the People's Bank of China are unlikely to provide much support.

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.

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.

US



The USD index swung from 15-month lows in July to three-month highs in August. The USD index's six-week winning streak was the longest since 2014.

EU



The euro was weaker for most of August but a strong rebound near the end of the month kept the EUR/USD's nine-month uptrend in place.

UK



The British pound logged only its third monthly loss of 2023 whilst the Bank of England raised interest rates for the 14th time in a row – taking its official rate to 5.25%.

Australia



The Australian dollar plunged to nine-month lows as worries about China's economic recovery and property market downturn mounted during the month.

Global economic outlook



Key market themes to watch

Inflation (pull) vs. macro (push)

August was all about global investors pushing up bond yields at the long end to try and price in the possibility of a “higher for longer” scenario in the developed world.

This stands in stark contrast to the first six months of the year, during which rates on two-year government bond yields had risen vastly more than their 10-year counterpart.

However, the weak global macro environment has limited the upside on the global move up in yields.

Long end of the curve has outperformed in H2 so far

Performance of G10 unweighted gov bond yields since July

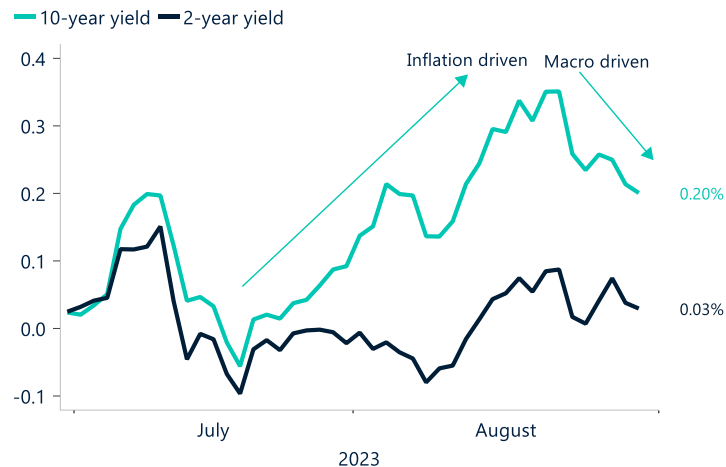


Chart sources: Convera, Macrobond – August 31, 2023

Weak global macro environment

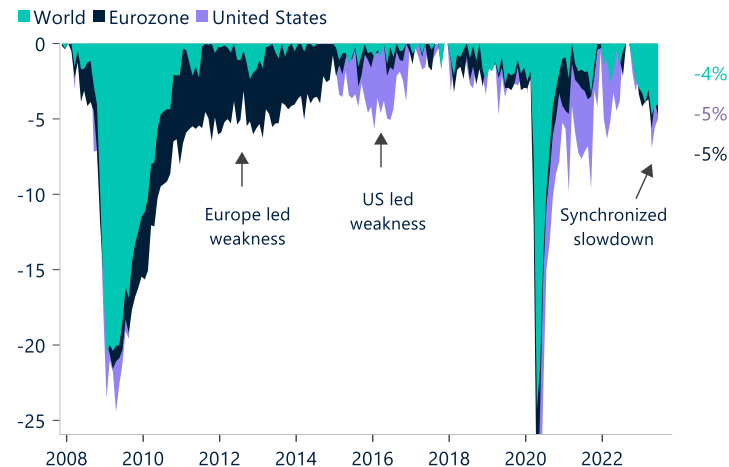
Global investors are caught in a tug of war between strong economic data and rising yields in the US and a weakening economy and lower interest rates in China.

Europe has been in the middle of both worlds but has recently been leaning towards the east as the impact of the Chinese slowdown is starting to be felt more broadly.

The loss of momentum is most visible in trade and pro cyclical indicators, with exports down around 5% across regions.

Global growth and trade are trending down

Export volume index - Drawdown from recent peak



Higher rates still not fully felt

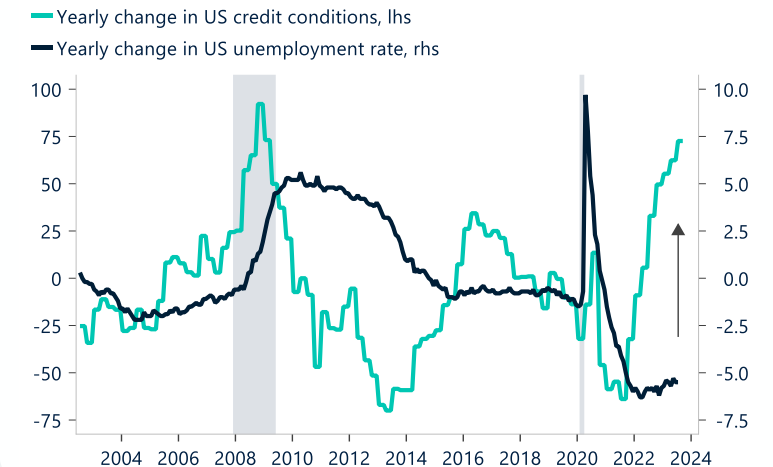
With short-term interest rates and mortgage rates in G10 countries hitting a 14-year high in 2023, companies and households will have to adjust to a new rate environment.

While we don't expect credit conditions to tighten much more, the lagged negative effect on households and real economies are yet to be experienced.

Looking ahead to 2024, financial conditions could tighten more when longer-term loans, both sovereign credit and mortgages, come due for refinancing.

Takes time for credit conditions to impact economies

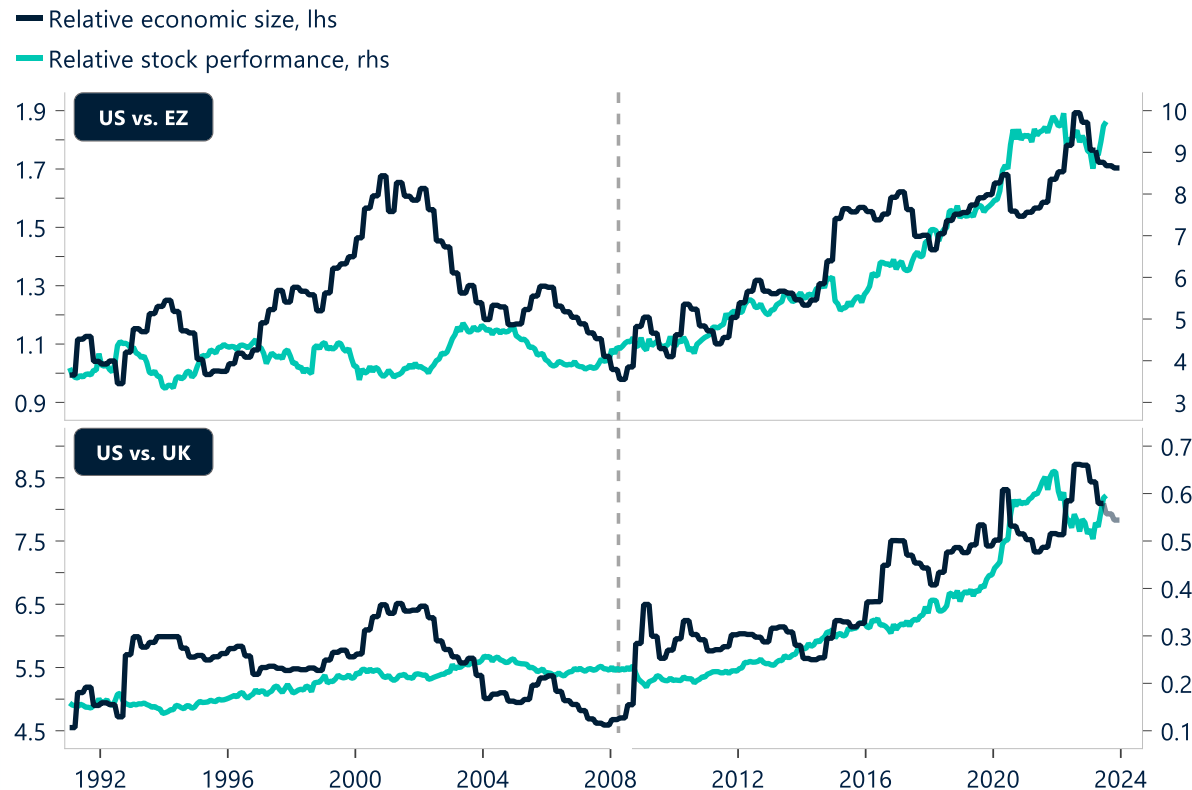
Senior Loan Officer Opinion Survey (Net % of banks tightening)



Theme in focus: Growth needs to pick up, fast

US equity and growth outperformance since '08

Relative growth and equity differentials (US vs. EZ / UK)



Source: Convera, Macrobond – August 31, 2023

Europe is currently struggling with globally high interest rates and the Chinese slowdown due to its pro cyclical and trade dependent nature.

Looking beyond the short-term cyclicity, turning structurally bullish on Europe vs. the US will have to be accompanied by underlying growth in the former picking up significantly over the next year.

Those betting on the euro and pound appreciating further will need to see an uptick in the Chinese business cycle. All four periods of EUR and GBP strength and all multi-year highs from 2010 to 2021 have occurred while the Chinese manufacturing sector has been expanding, which is currently not the case.

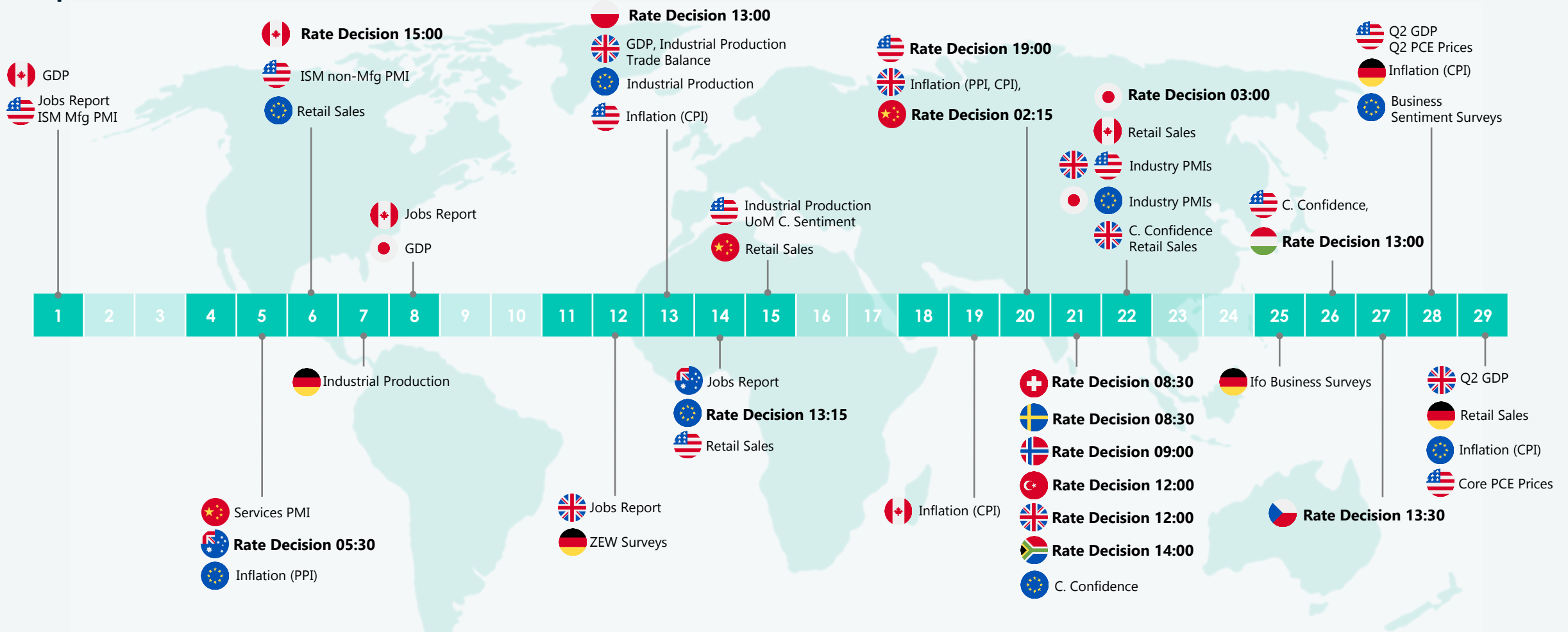
We do expect global economic momentum to remain subdued in 2024 and this weak growth environment might limit both the euro and pound's potential to the upside.

Still, improving sentiment in Europe and a potential economic uptick in the second half of the year could support a marginal appreciation of EUR/USD, given that the economic weakness has been more front-loaded compared to the US.

The future appears more uncertain for the pound though given rising risk of stagflation in the UK as inflation takes is taking longer to cool down whilst economic activity stalls.

Key market events to watch

September 2023

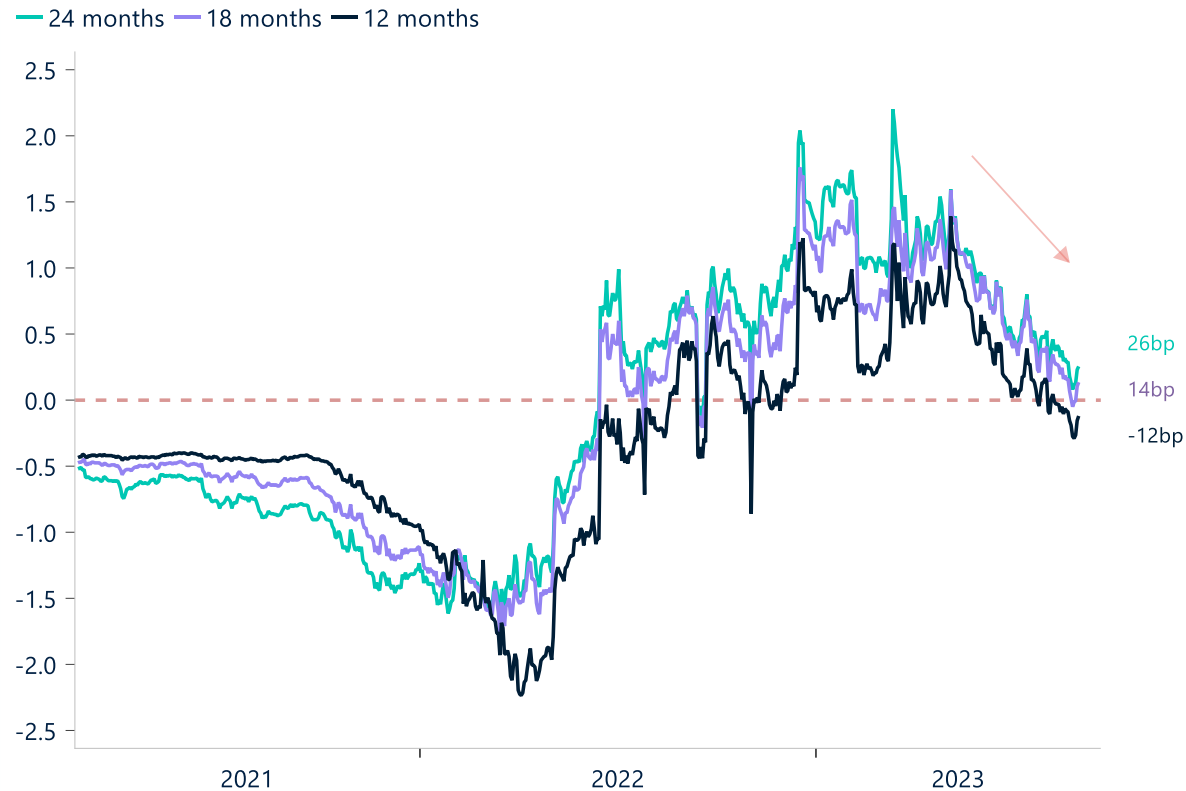


Source: Convera, Refinitiv – August 30, 2023

Event in focus: Last chance for the ECB to hike?

Bets on a hawkish divergence favoring the ECB are falling

Market implied policy rate development (ECB vs. Fed)



Source: Convera, Macrobond – August 31, 2023

The growth outlook will matter for setting monetary policy. For most of 2023, markets have been working under the assumption that the Federal Reserve would start cutting interest rates sooner than the European Central Bank. This is not as clear anymore with the implied 12- and 18-month rate expectations having completely converged now.

It will now be all about the incoming macro data. Markets are currently pricing in a 50/50 chance of European policy makers tightening rates at the next meeting, while this option is not considered for the Fed.

However, with inflation remaining well above target, markets have not given up on expecting another hike from the UC central bank in November or December. This volatile tit-for-tat pricing has made EUR/USD bounce in and out the \$1.09 level 8 out of the 23 trading days in August.

With economic momentum faltering in Europe, the window to deliver further tightening is closing fast and September might be the last chance for the ECB.



UK currency outlook

GBP volatility analysis



GBP/JPY has swung 20% in 2023

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



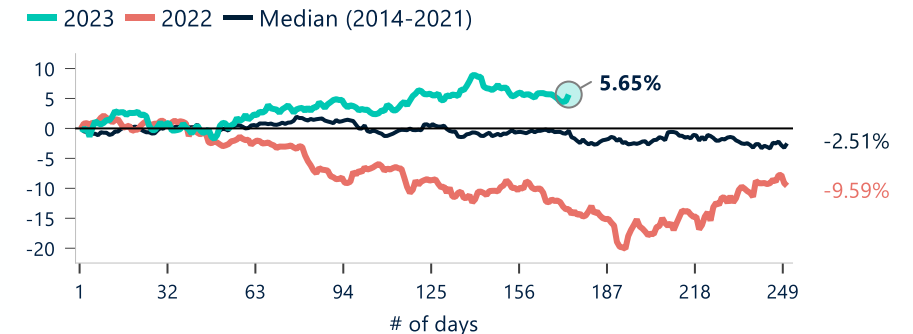
	Spot	High		Low		Trading range		Position within the range	
		30D	YTD	30D	YTD	30D	YTD	30D	YTD
GBP/ZAR	23.58	24.48	22.84	24.72	20.22	7.2%	22.3%	45%	75%
GBP/NOK	13.45	13.58	12.87	14.00	11.77	5.5%	18.9%	82%	75%
GBP/AUD	1.964	1.996	1.908	1.996	1.722	4.6%	15.9%	64%	88%
GBP/NZD	2.132	2.156	2.063	2.156	1.883	4.5%	14.5%	74%	91%
GBP/JPY	186	186.7	180.4	186.7	155.3	3.5%	20.2%	89%	98%
GBP/CNY	9.266	9.328	9.051	9.413	8.114	3.1%	16.0%	78%	89%
GBP/CAD	1.721	1.731	1.687	1.733	1.607	2.6%	7.8%	77%	90%
GBP/USD	1.271	1.284	1.254	1.314	1.180	2.4%	11.4%	57%	68%
GBP/EUR	1.163	1.177	1.152	1.177	1.113	2.2%	5.8%	44%	78%
GBP/CHF	1.116	1.124	1.105	1.150	1.098	1.7%	4.7%	58%	35%

Table sources: Refinitiv, Convera – August 31, 2023

- **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/EUR** volatility remains highly subdued along with GBP/CHF, but the pound is holding steady within the top 25% of its year-to-date range versus the common currency.
- **GBP/USD** backpedalled from one-year highs above \$1.31 in July to briefly test the \$1.25 area in August. US exceptionalism and surging US Treasury yields supported the dollar. However, the pound is still holding onto most of its significant gains made in to 2023.

GBP/USD has made a strong start to 2023

YTD performance of GBP/USD since 2014, in % terms



Source: Convera, Macrobond – August 31, 2023

GBP value indicator



GBP/USD still over 4% above one-year average

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

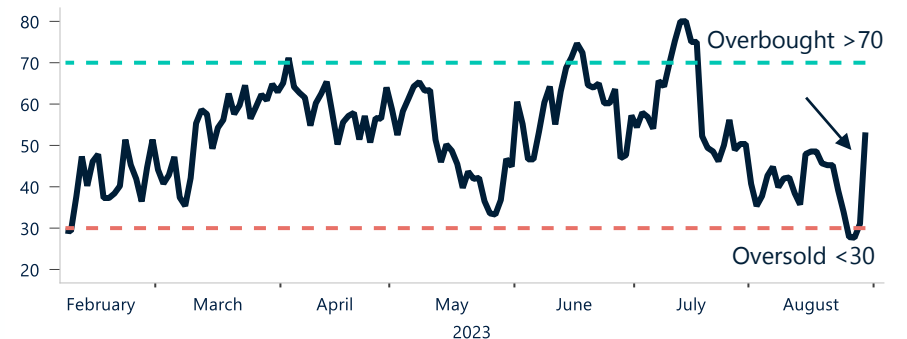
● Appreciation ● Depreciation

Spot (As of 31.08.2023)		Spot vs			
		YTD average	1-year average	2-year average	5-year average
GBP/JPY	186	9.1% Avg.: 170.5	10.3% Avg.: 168.6	14.0% Avg.: 163.1	23.8% Avg.: 150.2
GBP/NZD	2.132	6.3% Avg.: 2.005	7.5% Avg.: 1.982	8.5% Avg.: 1.964	8.9% Avg.: 1.956
GBP/CNY	9.266	6.1% Avg.: 8.730	8.1% Avg.: 8.572	8.9% Avg.: 8.511	6.1% Avg.: 8.730
GBP/AUD	1.964	6.0% Avg.: 1.853	7.8% Avg.: 1.822	8.1% Avg.: 1.817	7.4% Avg.: 1.828
GBP/CAD	1.721	2.8% Avg.: 1.673	5.0% Avg.: 1.638	4.5% Avg.: 1.646	2.1% Avg.: 1.685
GBP/USD	1.271	2.1% Avg.: 1.244	4.4% Avg.: 1.217	0.9% Avg.: 1.259	-1.2% Avg.: 1.286
GBP/EUR	1.163	1.4% Avg.: 1.146	1.4% Avg.: 1.147	-0.2% Avg.: 1.164	1.3% Avg.: 1.148
GBP/CHF	1.116	-0.7% Avg.: 1.123	-0.7% Avg.: 1.123	-4.8% Avg.: 1.172	-8.3% Avg.: 1.216

- 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/JPY** remains at the top of the table as the pair now sits over 9% above its 2023 average thanks to a depreciating yen as investors search for yield in a low volatility climate.
- **GBP/USD** remains over 4% above its one-year average as the pound continues to recover more than 20% from all-time lows recorded in 2022. A pullback in August saw it dip into oversold territory, but the pound has since bounced back modestly.

GBP/USD bounces from "oversold" territory

GBP/USD Relative Strength Index

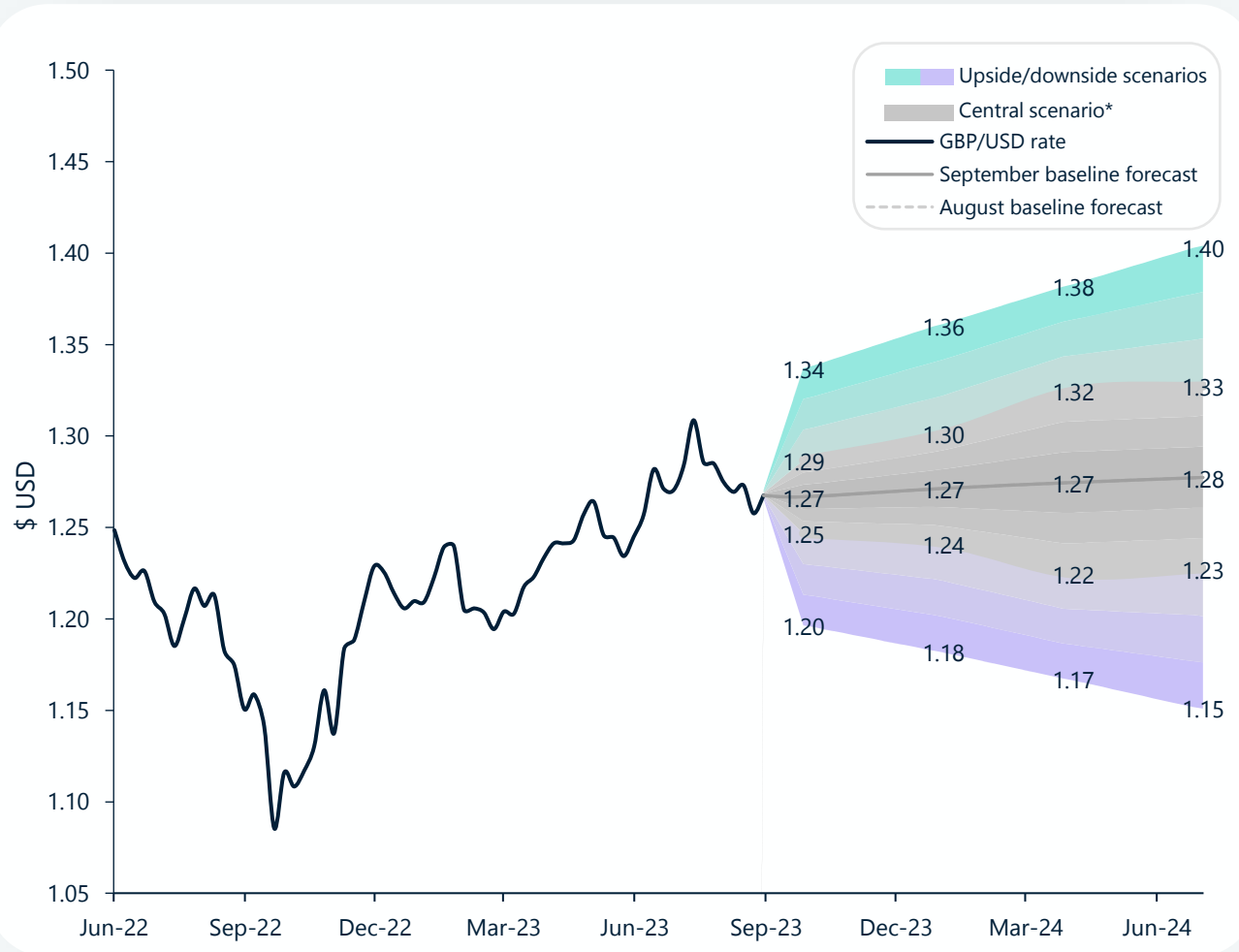


Source: Convera, Macrobond – August 31, 2023

Note: YTD average refers to the following time periods: 02.01.2023 - 31.08.2023; 1Y: 31.08.2022 - 31.08.2023; 2Y: 31.08.2021 - 31.08.2023; 5Y: 31.08.2018 - 31.08.2023.

Table sources: Refinitiv, Convera – August 31, 2023

GBP/USD future scenarios



Upside scenario: UK avoids recession

- UK evades recession and stagflation, and the BoE keeps interest rates elevated, whilst the US economy underperforms and the Fed cuts rates.
- Geopolitical risks recede and China's growth outlook improves, fueling increased demand for riskier assets and hurting the safe haven USD.

Central scenario: interest rate differential

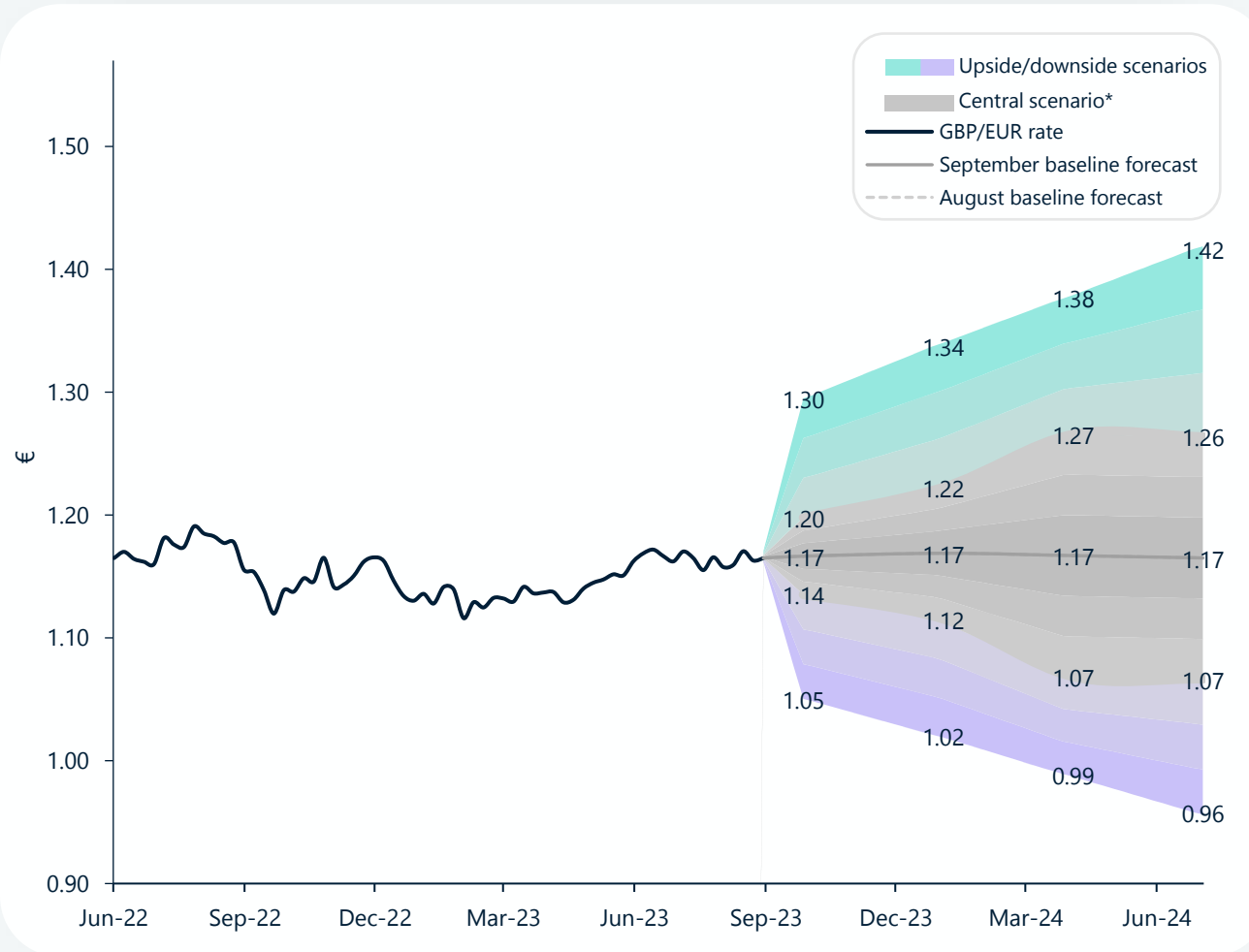
- A stronger UK economy and sticky inflation puts pressure on BoE to keep rates high, widening the UK-US rate differential and supporting the pound.
- However, higher rates also increase recession risks, which keeps investors at bay from betting too heavily on the pound appreciating.

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 – August 31, 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

- BoE matches market pricing of interest rates and keeps them higher for longer, whilst the ECB stops hiking and points to rate cuts sooner.
- Meanwhile, the Eurozone suffers a deeper recession, whilst the UK economy continues to surprise stronger than expected.

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.
- However, risk of hawkish ECB talk, coupled with stronger economic data could lift ECB rate expectations, 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 recovers quicker and boosts EUR.

Chart sources: Oxford Economics, Refinitiv, Convera – August 31, 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/JPY remains near highest level in 15 years

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



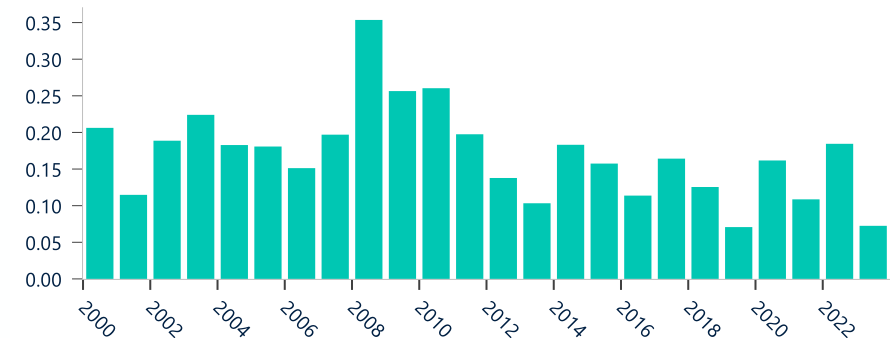
	Spot	High		Low		Trading range		Position within the range	
		30D	YTD	30D	YTD	30D	YTD	30D	YTD
EUR/ZAR	20.39	21.07	19.59	21.33	17.80	7.6%	19.8%	54%	73%
EUR/NOK	11.56	11.63	11.11	12.05	10.44	4.7%	15.4%	87%	70%
EUR/NZD	1.833	1.846	1.768	1.846	1.666	4.4%	10.8%	83%	93%
EUR/AUD	1.686	1.706	1.635	1.706	1.525	4.3%	11.9%	72%	89%
EUR/USD	1.092	1.106	1.076	1.127	1.048	2.8%	7.5%	53%	56%
EUR/JPY	159.7	159.7	155.5	159.7	137.3	2.7%	16.3%	100%	100%
EUR/CAD	1.478	1.482	1.449	1.511	1.423	2.3%	6.2%	88%	63%
EUR/GBP	0.858	0.866	0.849	0.897	0.849	2.0%	5.7%	53%	19%
EUR/CNY	7.958	7.975	7.823	8.115	7.188	1.9%	12.9%	89%	83%
EUR/CHF	0.959	0.964	0.951	1.009	0.951	1.4%	6.1%	62%	14%

Table sources: Refinitiv, Convera – August 31, 2023

- **EUR/JPY** had a less volatile August but remains close to its 15-year peak after fluctuating in a 16% range so far this year. The Bank of Japan's commitment to ultra-low rates makes the yen unattractive.
- **EUR/ZAR** remains one of the most volatile pairs of the year, but overall, despite the euro being procyclical in nature too, it outperformed other commodity- and risk-sensitive currencies last month.
- **EUR/USD** has been surprisingly less volatile in 2023, caught in a 7% trading range, where it currently resides in the middle. A stronger euro recovery largely depends on a US economic downturn.

Euro's volatility falls to lowest level since inception

Absolute annual FX volatility, EUR/USD range



Source: Convera, Macrobond – August 31, 2023

EUR value indicator



EUR/CHF is almost 10% below five-year average

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

● Appreciation ● Depreciation

	Spot	Spot vs			
	(As of 31.08.2023)	YTD average	1-year average	2-year average	5-year average
EUR/JPY	159.7	7.5% Avg.: 148.5	8.7% Avg.: 146.8	13.9% Avg.: 140.1	22.1% Avg.: 130.7
EUR/CNY	7.958	4.6% Avg.: 7.604	6.7% Avg.: 7.458	9.0% Avg.: 7.303	4.7% Avg.: 7.602
EUR/AUD	1.686	4.4% Avg.: 1.615	6.2% Avg.: 1.587	8.1% Avg.: 1.560	5.8% Avg.: 1.593
EUR/ZAR	20.39	2.9% Avg.: 19.81	6.5% Avg.: 19.14	12.6% Avg.: 18.11	15.4% Avg.: 17.66
EUR/NOK	11.56	2.1% Avg.: 11.32	5.2% Avg.: 10.98	10.1% Avg.: 10.49	12.0% Avg.: 10.32
EUR/USD	1.092	0.6% Avg.: 1.085	2.9% Avg.: 1.060	1.0% Avg.: 1.080	-2.6% Avg.: 1.120
EUR/GBP	0.858	-1.6% Avg.: 0.871	-1.5% Avg.: 0.871	0.0% Avg.: 0.858	-1.5% Avg.: 0.871
EUR/CHF	0.959	-2.1% Avg.: 0.979	-2.1% Avg.: 0.979	-4.7% Avg.: 1.006	-9.5% Avg.: 1.059

- **EUR/JPY** has surged to the top of the table, now over 7% higher year-to-date and well above 20%, compared to its five-year average based on widening yield differentials.
- **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 negatively positioned versus its year-to-date average as disappointing German data weighs on the wider European outlook.
- **EUR/USD** remains in positive territory for 2023 and is almost 3% above its one-year average, but to see greater upside potential for the euro, the US economic landscape will have to deteriorate much more.
- **EUR/CHF** remains in the doldrums, lower relative to all 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.
Table sources: Refinitiv, Convera – August 31, 2023

EUR/USD future scenarios

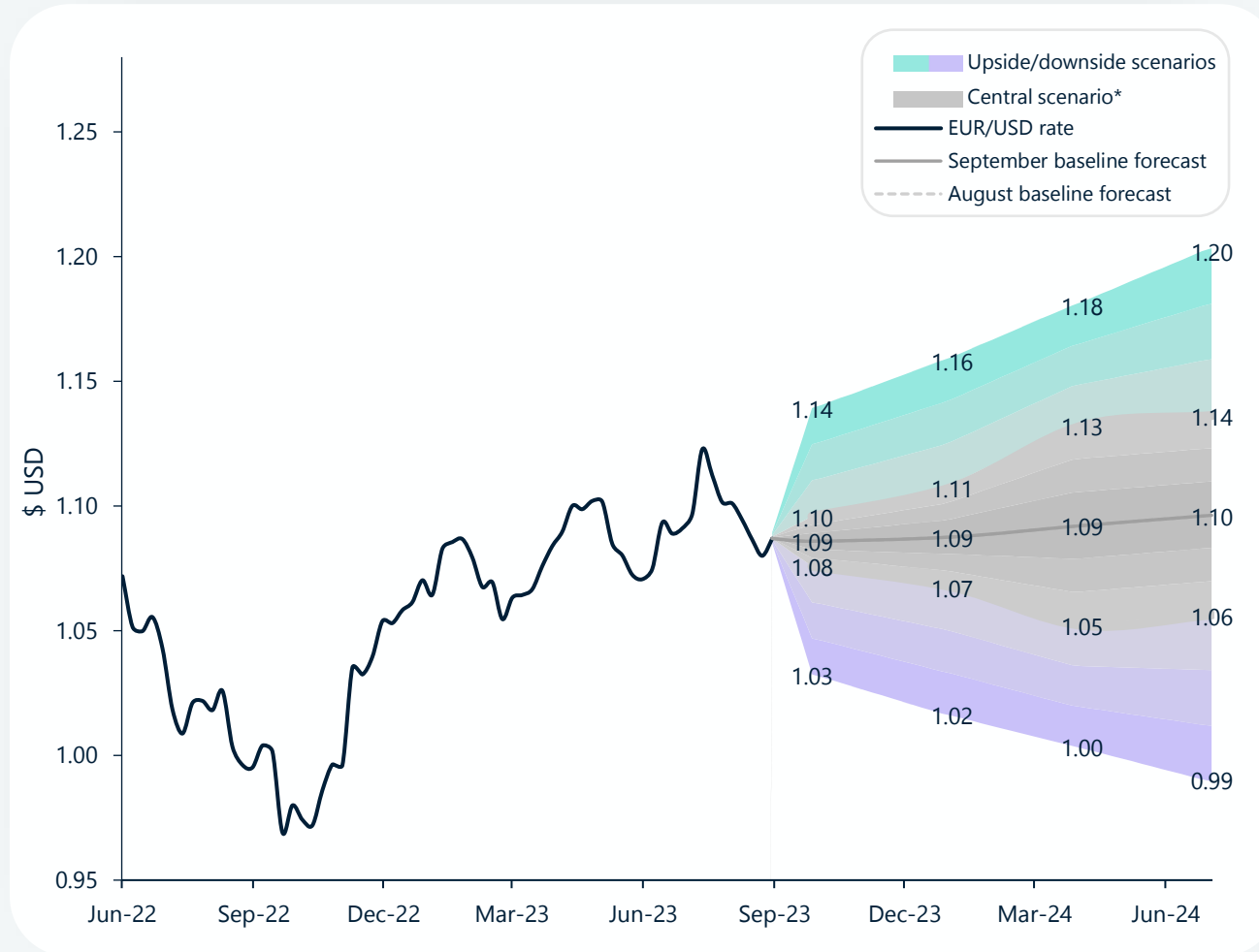


Chart sources: Oxford Economics, Refinitiv, Convera – August 31, 2023. For more information about the Convera-Oxford Economics economic modelling, framework and methodology used to derive the FX forecast scenarios please contact AskMarketInsights@convera.com
 *+/-1 standard deviation from baseline (68% chance rate falls within this range)

Upside scenario: Global recovery

- Global economic growth outlook improves, and inflation eases, boosting risk sentiment and supporting the euro over the dollar.
- Fed forced to cut rates as US economy weakens, inflation falls, narrowing US-EZ yield spreads, reducing the dollar's interest rate advantage.

Central scenario: interest rate differentials

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

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.



APAC currency outlook

APAC volatility analysis



High volatility drives Aussie, kiwi to lows

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



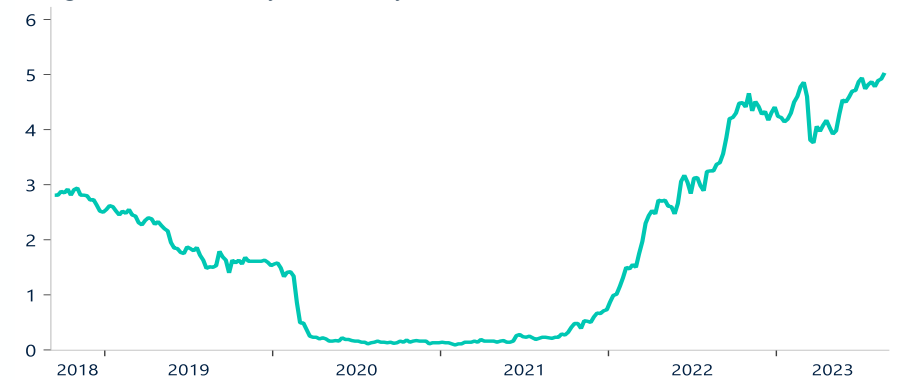
	Spot	High		Low		Trading range		Position within the range	
		30D	YTD	30D	YTD	30D	YTD	30D	YTD
NZD/USD	0.595	0.622	0.588	0.653	0.588	5.8%	11.1%	21%	11%
AUD/USD	0.647	0.672	0.636	0.715	0.636	5.7%	12.4%	31%	14%
AUD/GBP	0.508	0.523	0.500	0.580	0.500	4.6%	16.0%	35%	10%
NZD/EUR	0.544	0.565	0.541	0.600	0.541	4.4%	10.9%	13%	5%
AUD/EUR	0.592	0.611	0.585	0.655	0.585	4.4%	12.0%	27%	10%
AUD/CNY	4.714	4.807	4.643	4.934	4.536	3.5%	8.8%	43%	45%
AUD/JPY	94.66	95.79	92.74	97.67	86.03	3.3%	13.5%	63%	74%
USD/SGD	1.349	1.362	1.328	1.362	1.302	2.6%	4.6%	62%	78%
USD/CNY	7.282	7.317	7.153	7.317	6.690	2.3%	9.4%	79%	94%
NZD/AUD	0.919	0.932	0.917	0.946	0.901	1.6%	5.0%	13%	40%

Table sources: Refinitiv, Convera – August 31, 2023

- The **AUD/USD** and NZD/USD both saw an increase in volatility as US bond yields neared the highest levels since the global financial crisis.
- The European currencies were also volatile as markets continued to speculate whether the ECB and BoE will keep hiking rates. The **AUD/GBP** has already traded in a 16% range so far this year.
- The **USD/CNY** remains quieter with the pair stuck near 16-year highs.
- The **NZD/AUD** continued trade in a tight band with both the RBA and RBNZ expected to keep rates on hold for the foreseeable future.

Aussie, kiwi volatile as US yields hit highs

US government two-year bond yield



Source: Convera, Macrobond – August 31, 2023

APAC value indicator



Aussie falls on hot European inflation

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

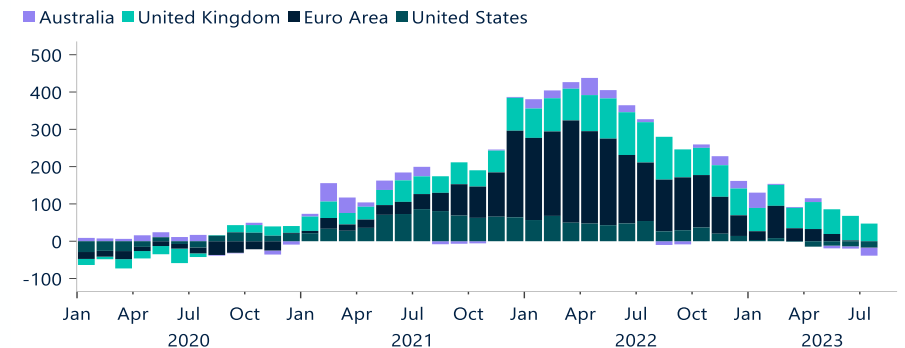
● Appreciation ● Depreciation

	Spot (As of 31.08.2023)	Spot vs			
		YTD average	1-year average	2-year average	5-year average
AUD/JPY	94.66	3.0% Avg.: 91.93	2.4% Avg.: 92.46	5.4% Avg.: 89.83	15.1% Avg.: 85.22
AUD/NZD	1.086	0.4% Avg.: 1.081	-0.1% Avg.: 1.087	0.5% Avg.: 1.080	1.5% Avg.: 1.069
AUD/CNY	4.714	0.3% Avg.: 4.701	0.5% Avg.: 4.692	0.8% Avg.: 4.678	-1.2% Avg.: 4.771
AUD/SGD	0.873	-2.9% Avg.: 0.898	-3.6% Avg.: 0.905	-7.4% Avg.: 0.942	-8.9% Avg.: 0.958
AUD/CAD	0.875	-3.1% Avg.: 0.903	-2.7% Avg.: 0.899	-3.4% Avg.: 0.905	-5.1% Avg.: 0.921
AUD/USD	0.647	-3.7% Avg.: 0.671	-3.1% Avg.: 0.667	-6.6% Avg.: 0.692	-8.1% Avg.: 0.703
AUD/EUR	0.592	-4.4% Avg.: 0.619	-6.0% Avg.: 0.630	-7.7% Avg.: 0.641	-5.8% Avg.: 0.628
AUD/GBP	0.508	-5.9% Avg.: 0.539	-7.5% Avg.: 0.549	-7.8% Avg.: 0.550	-7.1% Avg.: 0.547

- The **AUD/JPY** remains elevated as the Bank of Japan maintains its loose monetary policy,
- More interestingly, the **AUD/NZD** neared highs as the Reserve Bank of New Zealand looks to be on hold.
- The **AUD/USD** has slipped further over the last month as the USD index hit three-month highs during August.
- The Aussie remains pressured by European currencies. High inflation across Europe has seen markets look to further rate hikes from the ECB and BoE. The **AUD/EUR** and **AUD/GBP** remain near lows.

UK, EU drive inflation surprises over last 12 months

Citi inflation surprise index (deviation from consensus)



Source: Convera, Macrobond

Note: YTD average refers to the following time periods: 02.01.2023 - 31.08.2023; 1Y: 31.08.2022 - 31.08.2023; 2Y: 31.08.2021 - 31.08.2023; 5Y: 31.08.2018 - 31.08.2023.

Table sources: Refinitiv, Convera – August 31, 2023

AUD/USD future scenarios

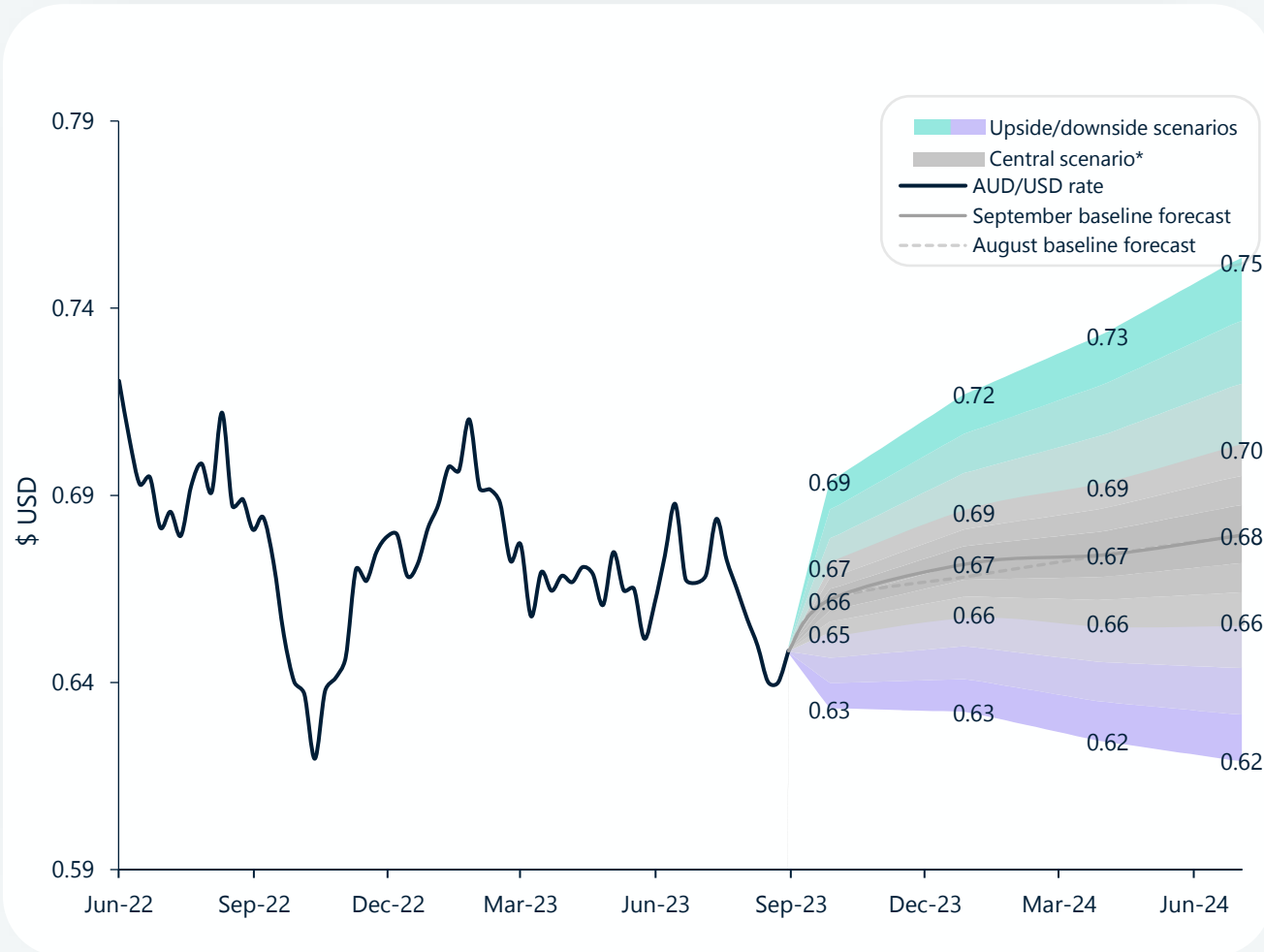


Chart sources: Oxford Economics, Refinitiv, Convera – August 31, 2023. For more information about the Convera-Oxford Economics economic modelling, framework and methodology used to derive the FX forecast scenarios please contact AskMarketInsights@convera.com
 *+/-1 standard deviation from baseline (68% chance rate falls within this range)

Upside scenario: China stimulus boosts sentiment

- Growing hopes for further stimulus from the Chinese government could push the AUD higher.
- A weaker US dollar could help the AUD/USD especially if the US Federal Reserve signals an end to its rate-hiking cycle.

Central scenario: Global growth stays sluggish

- The AUD/USD might remain trapped in its recent range if global growth remains sluggish.
- With the RBA likely near the end of the tightening cycle, US rates are likely to remain above Australian rates, weighing on the AUD/USD.

Downside scenario: Further Fed rate hikes

- While markets are hopeful the Fed has mostly contained inflation, “core” inflation remains high, and might require further rate hikes.
- Any sell-off in global sharemarkets might hit the risk sensitive AUD.

NZD/USD future scenarios

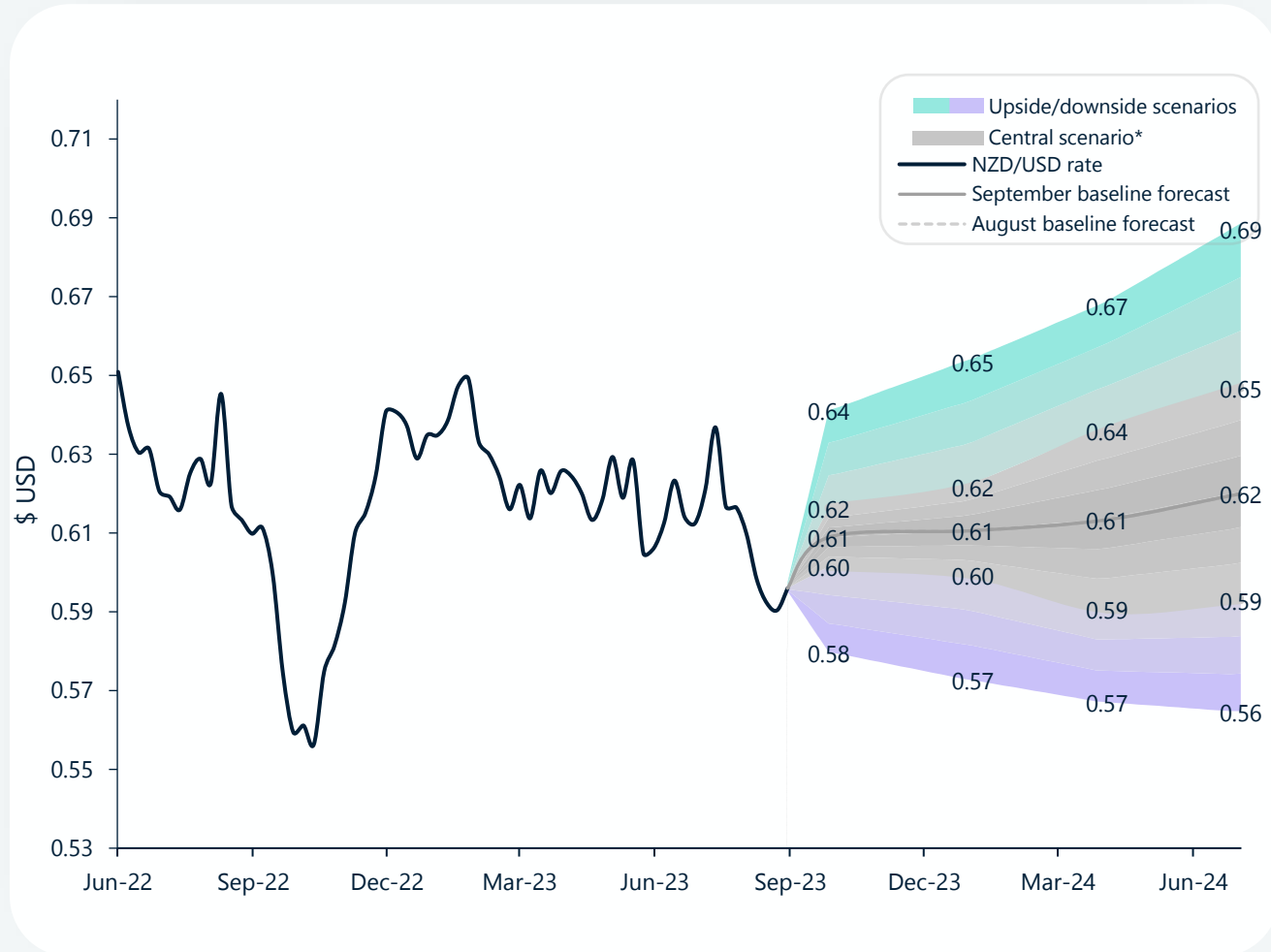


Chart sources: Oxford Economics, Refinitiv, Convera – August 31, 2023. For more information about the Convera-Oxford Economics economic modelling, framework and methodology used to derive the FX forecast scenarios please contact AskMarketInsights@convera.com
 *+/-1 standard deviation from baseline (68% chance rate falls within this range)

Upside scenario: RBNZ hikes further

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

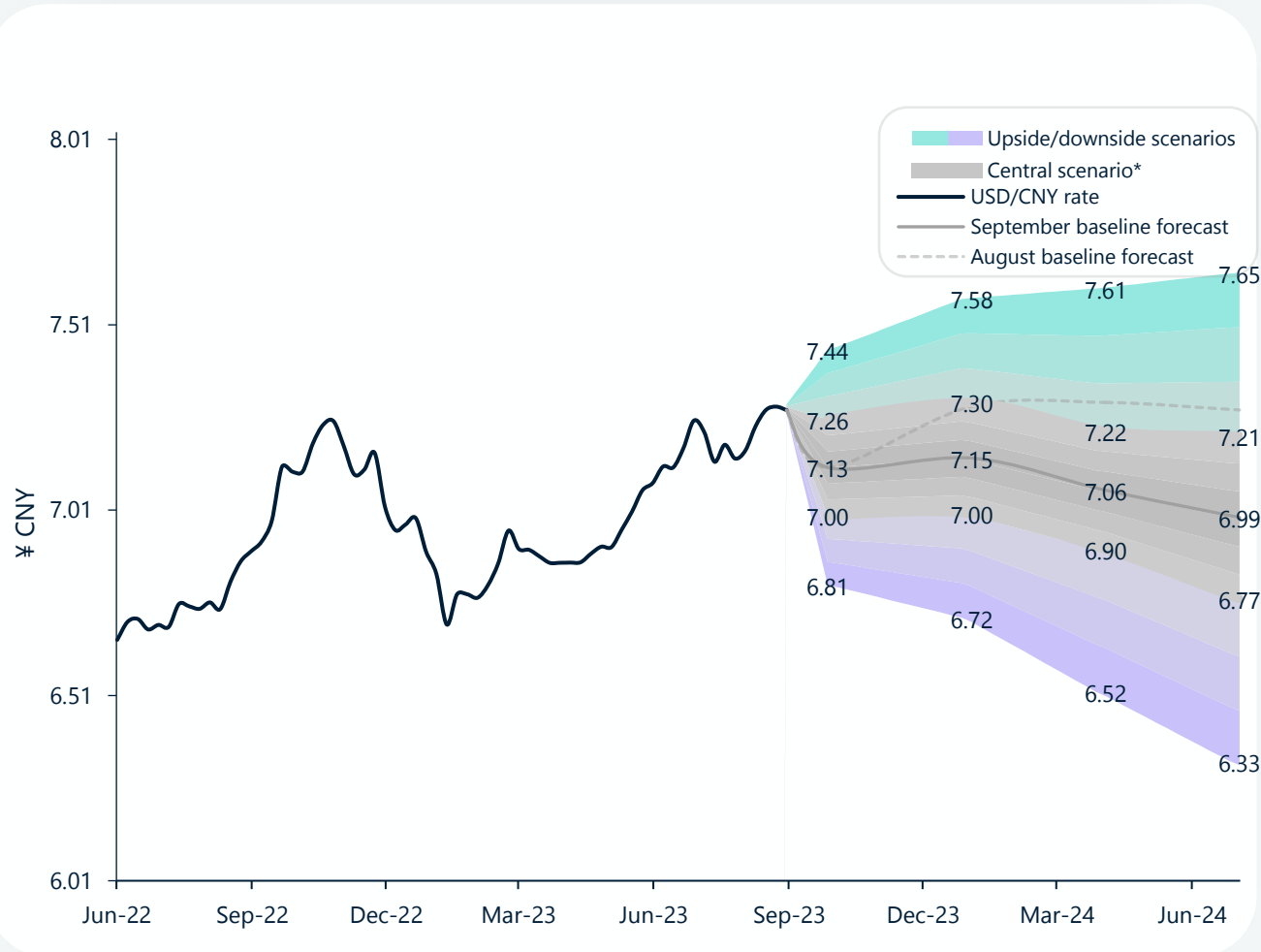
Central scenario: Kiwi pressured by global growth worries

- Global interest rates remain high, slowing global growth, and weighing on NZD.
- A slowdown in growth means commodities remain under pressure with dairy prices key for NZD.

Downside scenario: Market sell-off could hit NZD

- The NZD is closely tied to risk sentiment – a sell-off in global share markets could pressure the NZD.
- Chinese growth concerns could weigh on the NZD.

USD/CNY future scenarios



Upside scenario: PBOC allows devaluation

- The People’s Bank of China has recently pushed back against the rising USD/CNY; however, market forces might overwhelm the central bank.
- A devaluation could support the Chinese economy.

Central scenario: China recovery improves

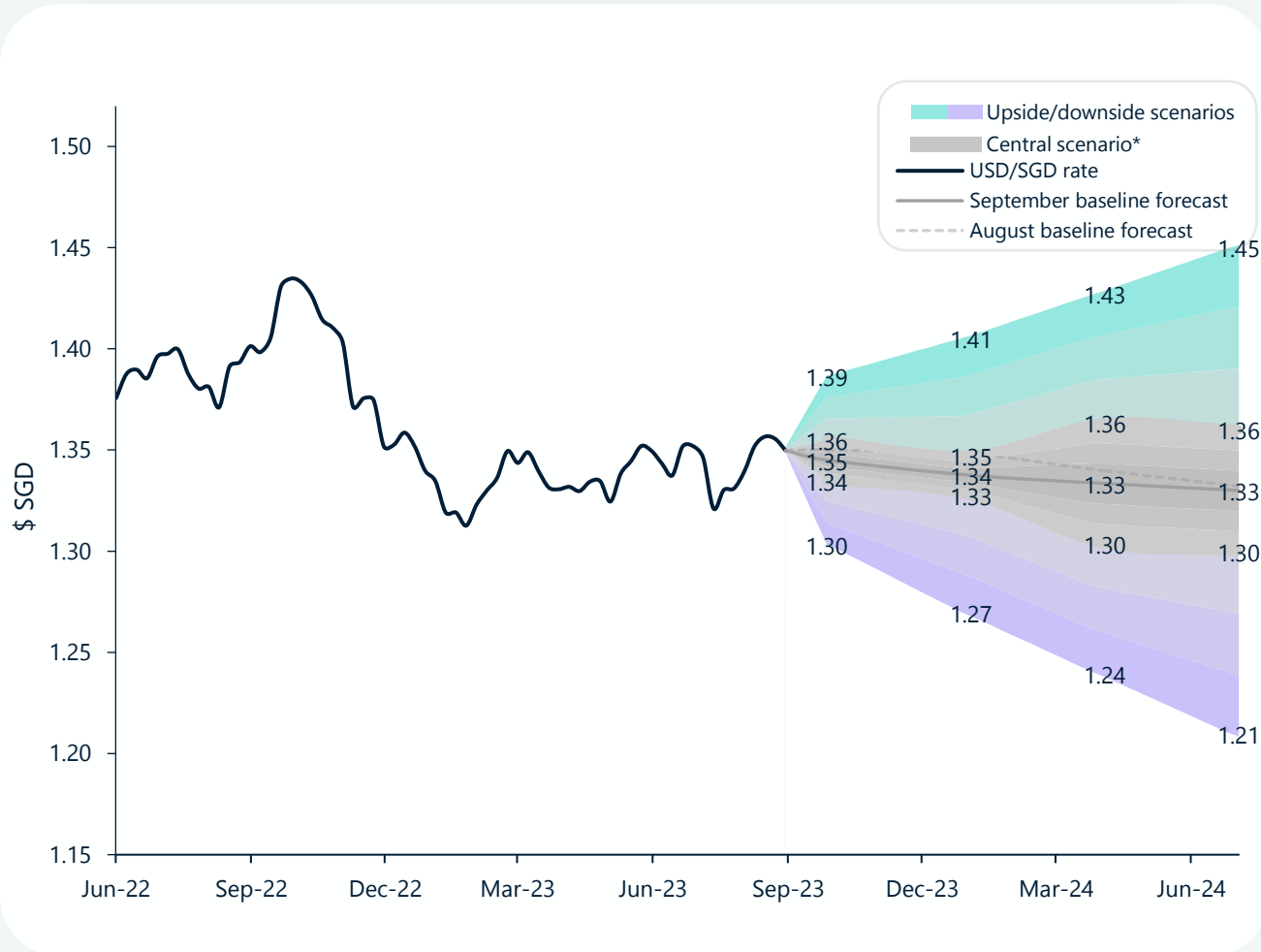
- The People’s Bank of China could cut rates further to boost growth causing the CNY to stay weak.
- The Fed pauses its interest rate hiking cycle improving global sentiment.

Downside scenario: Fed pauses into second half

- A stronger than expected pace of Chinese growth could see the CNY recover some of its recent losses.
- The USD could fall if the Federal Reserve pauses rate hikes.

Chart sources: Oxford Economics, Refinitiv, Convera – August 31, 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, now beyond one-year highs, are liable to a sell-off, helping the safe-haven FX like the US dollar gain.
- The greenback could gain if we see further US rate hikes.

Central scenario: Global growth continues to disappoint

- Global trade remains disappointing as Chinese growth remains sluggish. This can weigh on Asian FX.
- The USD stays relatively strong as the Fed maintains higher rates.

Downside scenario: Fed forced to cut

- USD might weaken if the Fed is forced to cut official interest rates as the US economy slows.
- An improving global growth outlook could help trade – and the SGD.

Chart sources: Oxford Economics, Refinitiv, Convera – August 31, 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



USD/CAD rebounds to neutral ground for 2023

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



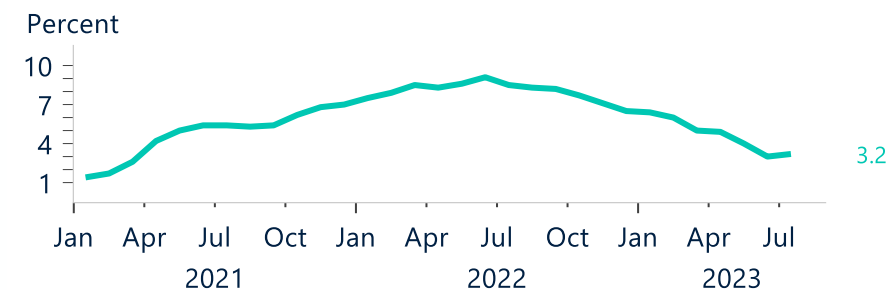
	Spot	High		Low		Trading range		Position within the range			
		30D	YTD	30D	YTD	30D	YTD	30D	YTD		
NZD/USD	0.596	0.616	0.588	0.653	0.588	4.8%	11.1%		29%		12%
USD/MXN	17.02	17.43	16.68	19.52	16.62	4.5%	17.4%		45%		14%
AUD/USD	0.648	0.662	0.636	0.715	0.636	4.1%	12.4%		46%		15%
USD/JPY	145.5	147.3	141.5	147.3	127.2	4.1%	15.8%		69%		91%
USD/CAD	1.350	1.363	1.326	1.386	1.309	2.8%	5.9%		65%		53%
EUR/USD	1.083	1.106	1.076	1.127	1.048	2.8%	7.5%		23%		44%
USD/CNY	7.244	7.317	7.153	7.317	6.690	2.3%	9.4%		55%		88%
GBP/USD	1.267	1.281	1.254	1.314	1.180	2.2%	11.4%		48%		65%
USD/CHF	0.883	0.887	0.868	0.944	0.855	2.2%	10.4%		79%		31%
EUR/CAD	1.465	1.482	1.454	1.511	1.423	1.9%	6.2%		39%		48%

Table sources: Refinitiv, Convera – 31 August 2023

- **EUR/USD** slipped to 10-week lows below 1.08 as weaker European data added to global growth concerns and buoyed the safer bet greenback.
- **GBP/USD** fell to 10-week lows below 1.26 as signs of a slowing UK economy led to a dovish repricing of peak Bank of England lending rates.
- **USD/CAD** ascended to 12-week highs above 1.36 as worries about a China-led slowdown in global growth pressured commodity-linked currencies.

US consumer inflation cooled to two-year lows in June

US headline CPI YY



Source: Convera, Macrobond

NAM FX value indicator



Japan's hesitancy to hike weighs on yen

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

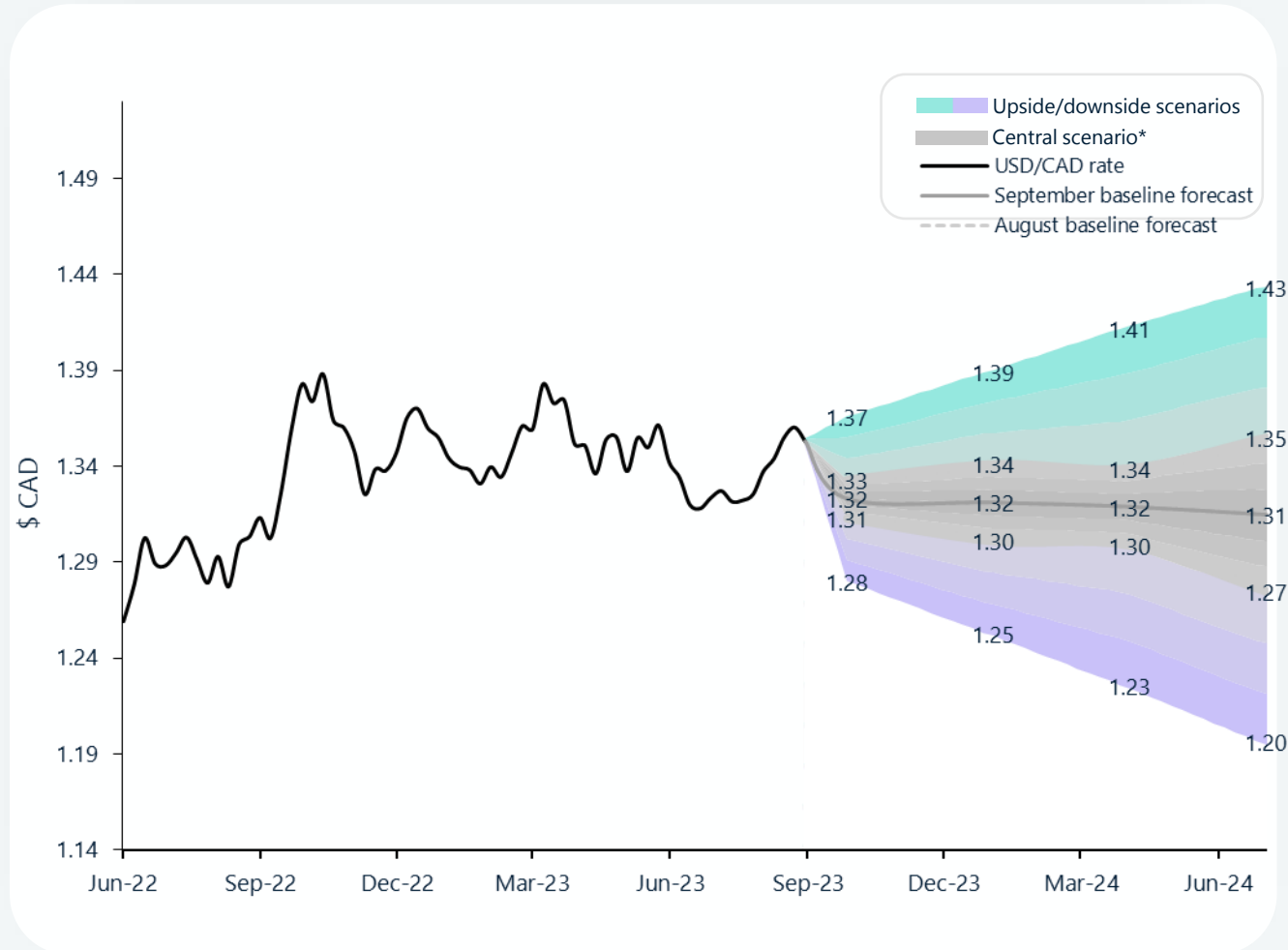
● Appreciation ● Depreciation

	Spot (As of 01.09.2023)	Spot vs			
		YTD average	1-year average	2-year average	5-year average
USD/JPY	145.5	6.2% Avg.: 130.3	5.0% Avg.: 130.3	11.8% Avg.: 130.1	24.2% Avg.: 117.1
GBP/USD	1.267	1.8% Avg.: 1.244	4.0% Avg.: 1.217	0.6% Avg.: 1.259	-1.5% Avg.: 1.286
EUR/CAD	1.465	0.4% Avg.: 1.458	2.5% Avg.: 1.428	3.6% Avg.: 1.413	-0.2% Avg.: 1.468
USD/CAD	1.350	0.4% Avg.: 1.344	0.3% Avg.: 1.346	3.1% Avg.: 1.309	2.9% Avg.: 1.311
EUR/USD	1.083	-0.2% Avg.: 1.085	2.1% Avg.: 1.061	0.2% Avg.: 1.080	-3.4% Avg.: 1.120
AUD/USD	0.648	-3.5% Avg.: 0.671	-3.0% Avg.: 0.667	-6.5% Avg.: 0.692	-7.9% Avg.: 0.703
NZD/USD	0.596	-3.9% Avg.: 0.620	-2.9% Avg.: 0.613	-7.0% Avg.: 0.640	-9.4% Avg.: 0.657
USD/MXN	17.02	-4.7% Avg.: 17.85	-8.0% Avg.: 18.48	-12.4% Avg.: 19.42	-14.5% Avg.: 19.90

- **EUR/USD** posted its first monthly decline since May in August, falling as low as 1.0764, as weaker domestic data suggested less scope for the ECB to raise interest rates to fight elevated inflation.
- **GBP/USD** logged its first monthly slide in three months in August when it fell as low as 1.2550, with weaker UK data suggesting domestic borrowing costs may peak at lower levels below 6%.
- **USD/CAD** momentarily climbed out of its year-to-date hole as worries about moderating global growth weighed on commodity-linked currencies.
- **USD/MXN** appreciated in August when it rose about 2.5% above July's December 2015 low of 16.62. Mexican inflation moderated for a sixth straight month in July, suggesting area rates had peaked at 11.25%.
- **USD/JPY** climbed to November 2022 highs above 147 as central bank policy divergence continued to pressure the yen. The dollar was further boosted by America's resilient economy that injected uncertainty into whether the Fed was done hiking rates to tame inflation.

Note: YTD average refers to the following time periods: 02.01.2023 - 31.08.2023; 1Y: 31.08.2022 - 31.08.2023; 2Y: 31.08.2021 - 31.08.2023; 5Y: 31.08.2018 - 31.08.2023.

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 5% to boost growth.
- Fed extends rate-hiking cycle into the fourth quarter 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 resumed rate hikes in June, though it's too soon to gauge whether borrowing costs have peaked.

Downside scenario: Canada resumes raising interest rates

- Canada's economy proves more resilient than anticipated, leading Ottawa to extend interest rate hikes.
- The Bank of Canada signals increased resolve to bring inflation back to 2% after consumer prices accelerated to 3.3% in July from 2.8% in June.

Chart sources: Oxford Economics, Refinitiv, Convera – 31 August 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
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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 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 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1
GBP/USD	High	1.337	1.360	1.381	1.403	1.421	1.435	1.446	1.453	1.456	1.459	1.461
	Baseline + σ	1.286	1.301	1.324	1.327	1.34	1.362	1.365	1.368	1.37	1.373	1.366
	Baseline	1.266	1.271	1.274	1.277	1.280	1.282	1.285	1.288	1.290	1.293	1.296
	Baseline - σ	1.246	1.241	1.224	1.227	1.22	1.202	1.205	1.208	1.21	1.213	1.226
	Low	1.196	1.182	1.167	1.151	1.139	1.130	1.124	1.123	1.125	1.127	1.130
GBP/EUR	High	1.295	1.337	1.376	1.416	1.450	1.475	1.492	1.499	1.497	1.493	1.490
	Baseline + σ	1.197	1.222	1.265	1.263	1.271	1.315	1.326	1.324	1.322	1.320	1.295
	Baseline	1.166	1.169	1.167	1.165	1.163	1.161	1.159	1.157	1.155	1.153	1.151
	Baseline - σ	1.134	1.115	1.068	1.066	1.054	1.006	0.991	0.989	0.987	0.985	1.006
	Low	1.050	1.020	0.988	0.957	0.932	0.913	0.901	0.893	0.892	0.891	0.890
GBP/JPY	High	205.6	211.9	215.8	216.1	215.1	213.1	210.7	207.8	204.3	201.1	198.2
	Baseline + σ	190.6	194.0	197.0	193.1	194.6	195.1	192.0	189.5	186.4	183.2	178.8
	Baseline	183.2	184.1	182.8	178.2	173.2	168.4	164.2	160.5	157.2	154.3	151.8
	Baseline - σ	175.7	174.1	168.5	163.2	151.7	141.6	136.3	131.4	127.9	125.3	124.7
	Low	162.0	158.3	152.5	143.9	135.9	129.0	123.5	119.2	116.2	113.7	111.4
GBP/CHF	High	1.255	1.303	1.350	1.387	1.412	1.430	1.441	1.445	1.443	1.439	1.435
	Baseline + σ	1.152	1.188	1.246	1.248	1.240	1.255	1.251	1.247	1.243	1.240	1.226
	Baseline	1.122	1.136	1.148	1.150	1.147	1.143	1.140	1.136	1.132	1.129	1.125
	Baseline - σ	1.091	1.083	1.049	1.051	1.053	1.030	1.028	1.024	1.020	1.017	1.023
	Low	0.997	0.981	0.963	0.936	0.909	0.888	0.873	0.864	0.860	0.857	0.853

Chart sources: Oxford Economics, Refinitiv, Convera – August 31, 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



	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2023 Q3
EUR/USD	1.139	1.158	1.180	1.202	1.221	1.236	1.248	1.256	1.261	1.265	1.269	1.139
	1.095	1.107	1.132	1.136	1.14	1.164	1.178	1.182	1.187	1.191	1.185	1.095
	1.085	1.087	1.092	1.096	1.100	1.104	1.108	1.112	1.117	1.121	1.125	1.085
	1.075	1.067	1.052	1.056	1.06	1.044	1.038	1.042	1.047	1.051	1.065	1.075
	1.032	1.016	1.003	0.990	0.979	0.972	0.969	0.969	0.972	0.976	0.980	1.032
EUR/GBP	0.952	0.979	1.011	1.044	1.072	1.094	1.109	1.118	1.121	1.122	1.123	0.952
	0.878	0.891	0.922	0.924	0.932	0.964	0.973	0.974	0.976	0.977	0.963	0.878
	0.857	0.855	0.856	0.858	0.859	0.861	0.862	0.863	0.865	0.866	0.868	0.857
	0.835	0.818	0.789	0.791	0.785	0.757	0.750	0.751	0.753	0.754	0.772	0.835
	0.772	0.747	0.726	0.705	0.689	0.677	0.670	0.666	0.667	0.669	0.671	0.772
EUR/CHF	1.069	1.110	1.153	1.188	1.213	1.232	1.244	1.250	1.249	1.248	1.246	1.069
	0.981	1.012	1.065	1.068	1.056	1.072	1.080	1.078	1.077	1.074	1.064	0.981
	0.962	0.972	0.984	0.987	0.986	0.984	0.983	0.981	0.980	0.978	0.977	0.962
	0.942	0.931	0.902	0.905	0.915	0.895	0.885	0.883	0.882	0.881	0.889	0.942
	0.861	0.843	0.828	0.805	0.782	0.764	0.752	0.745	0.743	0.742	0.740	0.861
EUR/CNY	8.478	8.782	8.982	9.195	9.372	9.493	9.559	9.554	9.461	9.372	9.316	8.478
	7.949	8.084	8.176	8.191	8.229	8.318	8.321	8.238	8.136	8.051	7.930	7.949
	7.736	7.775	7.713	7.662	7.611	7.559	7.506	7.439	7.344	7.264	7.214	7.736
	7.522	7.465	7.249	7.132	6.992	6.799	6.690	6.639	6.551	6.476	6.497	7.522
	7.028	6.830	6.541	6.269	6.033	5.844	5.700	5.588	5.494	5.424	5.380	7.028

Chart sources: Oxford Economics, Refinitiv, Convera – August 31, 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
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Future scenarios



	Scenarios	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1
AUD/USD	High	0.693	0.717	0.732	0.752	0.771	0.790	0.810	0.830	0.847	0.863	0.879
	Baseline + σ	0.670	0.685	0.692	0.702	0.712	0.719	0.740	0.753	0.767	0.784	0.791
	Baseline	0.662	0.672	0.674	0.679	0.684	0.691	0.701	0.713	0.725	0.736	0.747
	Baseline - σ	0.653	0.658	0.655	0.655	0.655	0.662	0.661	0.672	0.682	0.687	0.702
	Low	0.633	0.632	0.624	0.619	0.615	0.615	0.618	0.625	0.633	0.642	0.650
AUD/EUR	High	0.672	0.705	0.730	0.759	0.787	0.812	0.836	0.857	0.871	0.884	0.896
	Baseline + σ	0.621	0.632	0.630	0.641	0.652	0.645	0.662	0.670	0.678	0.693	0.697
	Baseline	0.609	0.617	0.617	0.619	0.622	0.626	0.632	0.641	0.649	0.657	0.664
	Baseline - σ	0.596	0.601	0.603	0.596	0.591	0.606	0.601	0.611	0.619	0.620	0.630
	Low	0.555	0.545	0.528	0.515	0.504	0.497	0.495	0.497	0.502	0.507	0.512
AUD/NZD	High	1.196	1.251	1.291	1.332	1.362	1.385	1.405	1.419	1.427	1.434	1.439
	Baseline + σ	1.114	1.142	1.170	1.181	1.187	1.185	1.204	1.202	1.202	1.213	1.205
	Baseline	1.087	1.100	1.099	1.095	1.086	1.076	1.070	1.066	1.064	1.064	1.063
	Baseline - σ	1.059	1.057	1.027	1.008	0.984	0.966	0.935	0.929	0.925	0.914	0.920
	Low	0.987	0.967	0.935	0.901	0.866	0.836	0.814	0.800	0.793	0.789	0.785
AUD/CNY	High	5.164	5.436	5.574	5.754	5.920	6.069	6.209	6.317	6.359	6.397	6.450
	Baseline + σ	4.866	5.003	5.001	5.063	5.144	5.146	5.232	5.252	5.258	5.309	5.302
	Baseline	4.717	4.804	4.762	4.748	4.736	4.734	4.751	4.769	4.767	4.773	4.794
	Baseline - σ	4.567	4.604	4.522	4.432	4.327	4.321	4.269	4.285	4.275	4.236	4.285
	Low	4.310	4.247	4.070	3.920	3.791	3.696	3.638	3.604	3.577	3.566	3.569

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

Future scenarios



	Scenarios	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1
USD/CAD	High	1.366	1.389	1.411	1.432	1.447	1.454	1.455	1.444	1.426	1.407	1.390
	Baseline + σ	1.333	1.341	1.338	1.354	1.347	1.337	1.336	1.309	1.289	1.28	1.263
	Baseline	1.323	1.321	1.318	1.314	1.307	1.297	1.286	1.269	1.249	1.230	1.213
	Baseline - σ	1.313	1.301	1.298	1.274	1.267	1.257	1.236	1.229	1.209	1.18	1.163
	Low	1.279	1.253	1.225	1.196	1.167	1.141	1.118	1.094	1.072	1.053	1.036
USD/MXN	High	19.39	19.85	20.76	21.77	22.53	23.09	23.50	23.81	24.00	24.14	24.26
	Baseline + σ	17.52	18.09	18.9	19.63	20.22	20.54	20.77	20.96	21.31	21.76	21.86
	Baseline	17.07	17.21	17.79	18.47	18.99	19.37	19.66	19.90	20.09	20.22	20.34
	Baseline - σ	16.62	16.33	16.68	17.31	17.76	18.2	18.55	18.84	18.87	18.68	18.82
	Low	15.80	15.76	16.15	16.64	17.02	17.30	17.51	17.71	17.90	18.03	18.15
USD/JPY	High	153.8	155.8	156.2	154.0	151.3	148.5	145.7	143.0	140.3	137.8	135.6
	Baseline + σ	148.1	149.1	148.7	145.4	145.2	143.2	140.6	138.5	136.0	133.4	130.9
	Baseline	144.6	144.8	143.4	139.5	135.3	131.3	127.7	124.6	121.8	119.3	117.1
	Baseline - σ	141.0	140.4	138.0	133.5	125.3	119.3	114.8	110.6	107.5	105.1	103.2
	Low	135.4	133.8	130.7	125.0	119.3	114.1	109.8	106.1	103.3	100.8	98.61
USD/CNY	High	7.442	7.581	7.608	7.648	7.674	7.677	7.657	7.602	7.500	7.404	7.336
	Baseline + σ	7.255	7.3	7.223	7.21	7.216	7.143	7.06	6.964	6.854	6.759	6.69
	Baseline	7.125	7.15	7.063	6.990	6.916	6.843	6.770	6.684	6.574	6.479	6.410
	Baseline - σ	6.995	7	6.903	6.77	6.616	6.543	6.48	6.404	6.294	6.199	6.13
	Low	6.807	6.718	6.518	6.331	6.159	6.009	5.882	5.767	5.648	5.553	5.485

Chart sources: Oxford Economics, Refinitiv, Convera – August 31, 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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