CURRENCY convo

GLOBAL FX OUTLOOK

October 2023

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.

Key insights

FX turns nervous as we enter "Red October"

The optimism around hopes for a soft landing took a hit in September with a warning that US interest rates were likely to stay "higher for longer" as the Federal Reserve forecast official rates would stay above 5.00% to the end of 2024.

In Europe, FX markets had the opposite problem. The Bank of England and Swiss National Bank surprised markets by keeping rates on hold, while the European Central Bank looks close to the end of its rate-hiking cycle. The euro, British pound and Swiss franc all tumbled in September.

September and October often see a pick-up in volatility as market participants return from holidays in the Northern Hemisphere. So far, after a lull in volatility in the middle of the year, FX moves have increased in September. Will October follow suit?

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's strong run saw it complete ten consecutive weekly gains – the longest weekly winning streak since the end of quantitative easing boosted the greenback in 2014.

EU

The euro fell after the ECB hiked rates last month as markets believe that was the end of the ECB's tightening cycle. According to market pricing, the next move is a cut in July next year.

UK

The British pound fell after the Bank of England decided that 14-straight interest rate hikes was enough – for now. The GBP/USD fell to six-month lows and suffered its worst monthly drop of the year.

Australia

The Australian dollar was down sharply in September despite stronger commodity markets. Ongoing worries about China, and relatively low local interest rates, saw the AUD/USD hit ten-month lows.

Global economic outlook

Key market themes to watch

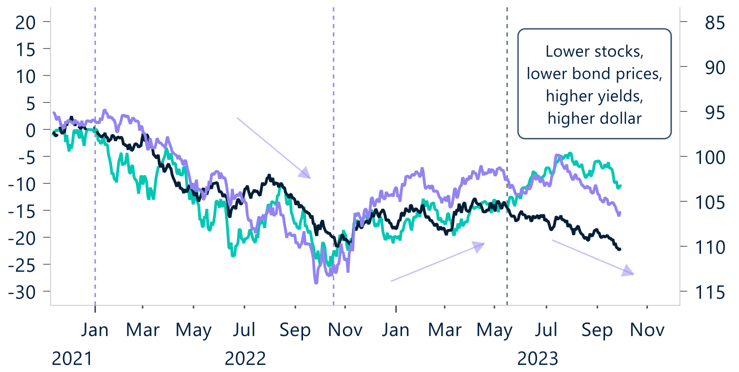
Fears of a US 10-year yield at 5%?

Although the looming fear of a temporary shutdown has been eased, faced with hawkish Fed members communicating a higher for longer rates regime and heavy auction sales of US treasuries, investors continued their relentless selling of US government bonds.

With fears of oil prices pushing beyond a $100 per barrel and inflation not returning to the Fed's 2% target, yields have continuously been pushed higher in recent weeks. Higher financing costs have weighed on risk assets like equities.

Bonds correct in signalling lower stocks & higher USD

US equity drawdown and performance of bonds and the dollar



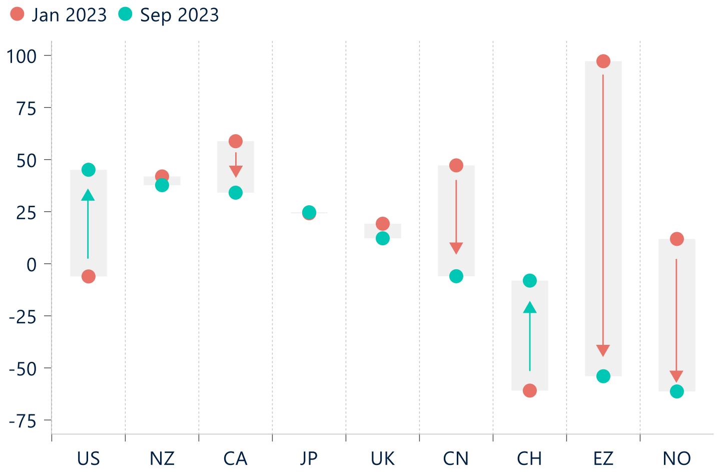
Regional differences matter

The outperformance of the US economy and the downward revisions and data disappointments in Europe and the UK have shaped market dynamics as of late. However, we do think that the bottoming of sentiment in Europe and China could support a mild shift back into procyclical currencies given economic weakness has been more front-loaded in other countries compared to the US.

For this to happen, however, some major political risks would have to be eliminated in Q4 2023.

Europe records biggest fall in economic data

Citi Economic Surprise Index - January vs. September 2023



Investors placing hope on China

Has China bottomed out? This question will keep investors awake heading into the last quarter of the year. Expectations for a rebound have risen following the Golden Week holiday and some encouraging data out of China. The manufacturing sector returned into positive territory in August and industrial profits seem to have bottomed.

However, the medium-term outlook is clouded by uncertainties as consumer confidence and the property market remain distressed.

Chinese reopening index highest since 2021

Chinese reopening indicators (Z-score since 2020)

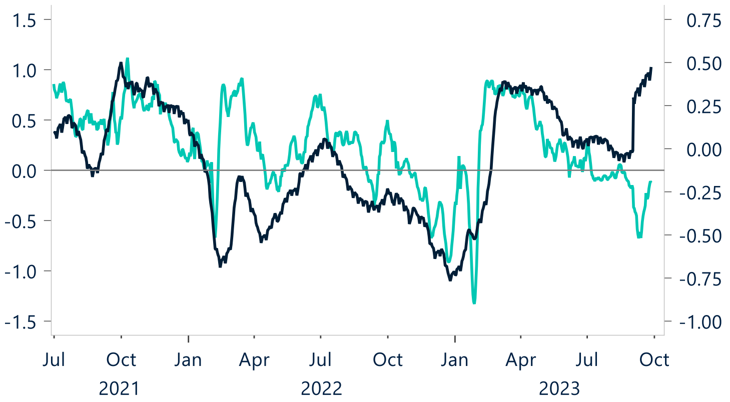
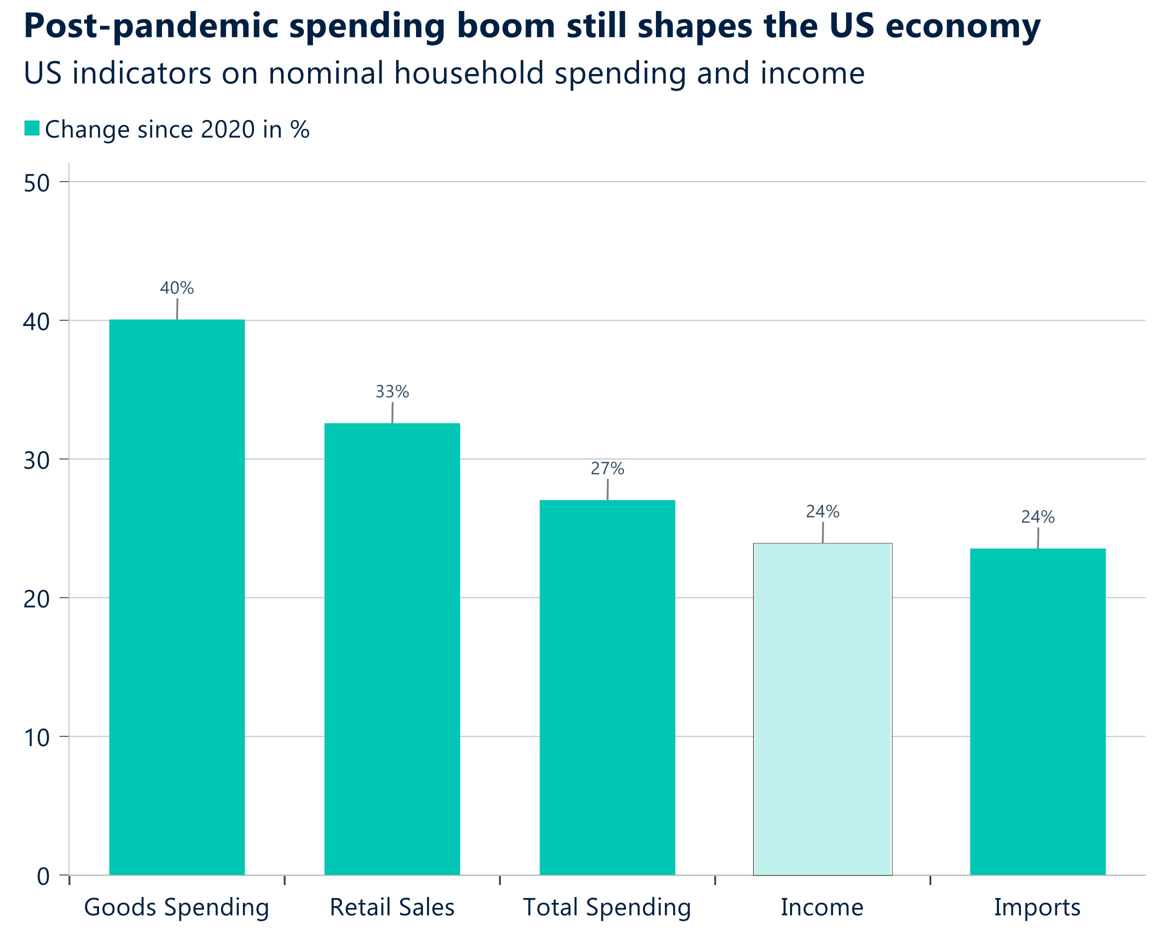


Chart sources: Convera, Macrobond – October 2, 2023

Theme in focus: A weaker US economy ahead



Source: Convera, Macrobond – October 2, 2023

Forecasting a recession in the world's largest economy has been a failed cause over the past few months given the resilience of the labour market and the ongoing effect of the pandemic related government stimulus packages.

More than one and a half years ago when the Federal Reserve (Fed) started one of the most aggressive tightening cycles in the institution's history, it was not clear how many interest rate increases would be needed to cool down an overheating US economy. Eleven rate hikes worth more than 500 basis points later and the largest economy in the world is still running at an estimated annualized growth rate of around 4.9%. And while the slowdown of inflation and the cyclical parts of the economy – manufacturing and housing – have eased the pressure on the Fed to continue tightening policy, markets are currently only expecting rate cuts worth 75 basis points for the entirety of 2024. The soft-landing narrative has quickly become the base case of many investors.

The next few weeks and upcoming data releases might put this assumption to the test. We do think that the main negative drag of higher rates on the US economy is still to be felt and that the weakening of leading indicators should spill over into hard data points very soon. The post-pandemic spending boom caused by higher savings rates and fiscal stimulus measures has most likely increased the lead time between soft (leading) and hard (lagging) economic data. However, we do think that the spill-over has been postponed and not fully avoided.

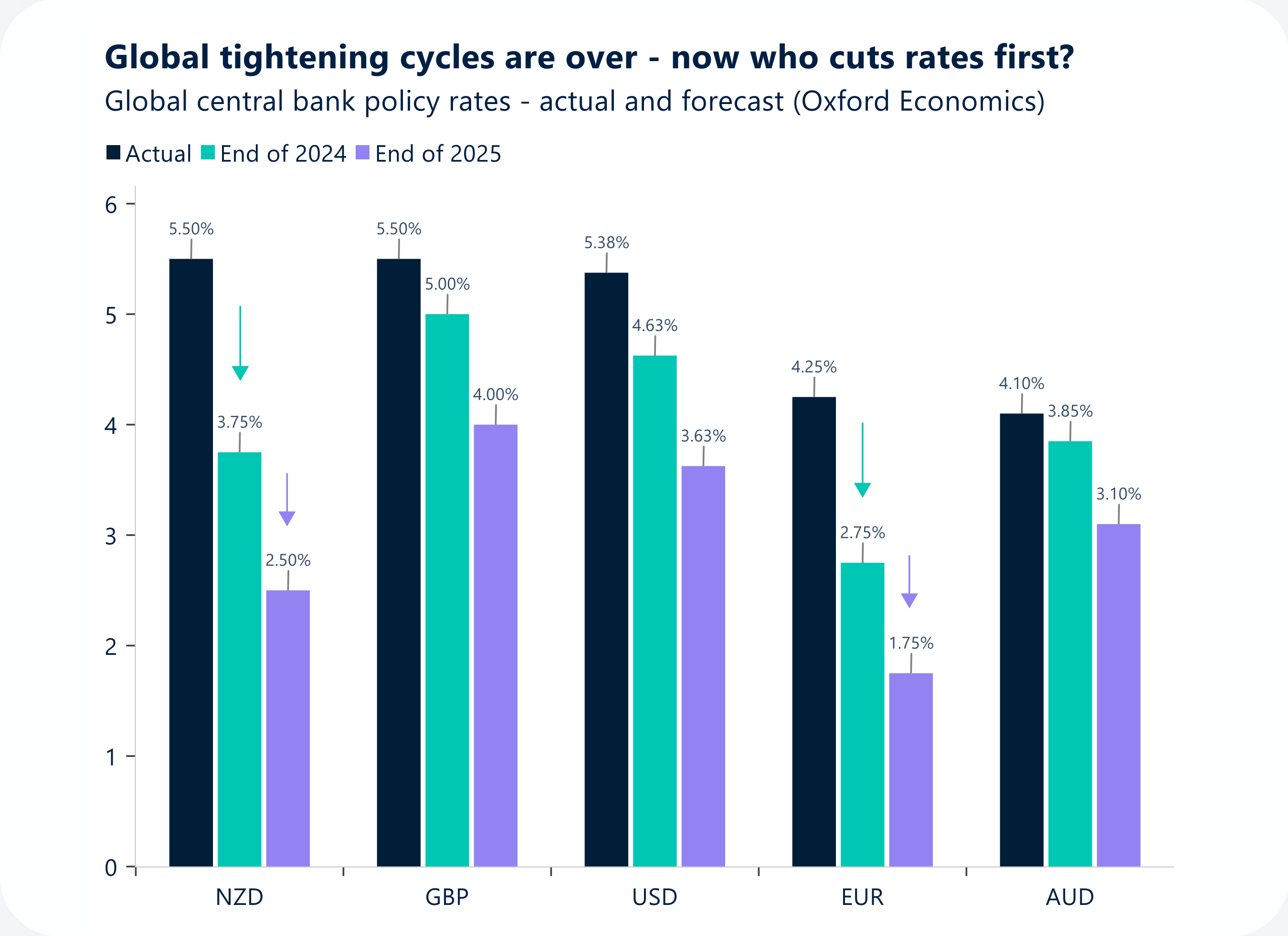
Key market events to watch

October 2023

2	ISM Mfg PMI
3	**Rate Decision 04:30**; JOLTS Job Openings
4	**Rate Decision 13:00**; ISM non-Mfg PMI; Retail Sales, PPI; **Rate Decision 02:00**
6	**Rate Decision 05:30**; Jobs Report; Jobs Report
9	Industrial Production
12	GDP, Industrial Production Trade Balance; Inflation (CPI)
13	UoM C. Sentiment; Industrial Production; Inflation (CPI, PPI)
16	Q3 Inflation (CPI)
17	Jobs Report; ZEW Surveys; Retail Sales; Inflation (CPI); Industrial Production
18	Inflation (PPI, CPI), Retail Sales Q3 GDP
19	Jobs Report
20	Retail Sales; Retail Sales; **Rate Decision 02:15**
23	C. Confidence
24	**Rate Decision 13:00**; Industry PMIs; Industry PMIs
25	Q3 Inflation (CPI); Ifo Business Surveys; **Rate Decision 15:00**
26	Q3 GDP, PCE Prices; **Rate Decision 13:15**; **Rate Decision 12:00**
27	Core PCE Prices
30	Inflation (CPI); Business Sentiment Surveys
31	**Rate Decision 03:00**; C. Confidence,; GDP; Q3 GDP Inflation (CPI); Q3 GDP Retail Sales

Source: Convera, Refinitiv – September 28, 2023

Event in focus: Data to decide who becomes a dove



Source: Convera, Oxford Economics, Macrobond – October 2, 2023

The plethora of global interest rate decisions last month has revealed that the forward guidance of a central bank can be as, or even more important than the actual decision itself.

European central banks have collectively decided that monetary policy is tight enough for the moment. The ECB communicated a likely pause to its tightening cycle, while the British and Swiss central banks did not hike at all at their meetings in September. The difference in the forward guidance between the European banks and the Federal Reserve is stark and is explained by the vastly different positions of their respective economies. This mantra can explain why both the US Dollar Index has recorded the 11th consecutive weekly appreciation and why the US 10-year government bond yield reached a 15-year high in the same week that the Fed stopped raising interest rates. Investors have recognized that the Fed is still the most hawkish central bank out there and have therefore continued to sell the euro, franc, and pound against the dollar.

The upcoming data will decide how likely the central banks are to ease monetary policy going into 2024. Falling inflation and weaker economic data would be detrimental for any currency at this point, as it would accelerate the shift towards a more accommodative policy stance. We currently see the ECB as the primary suspect to pivot next year as the transmission between tight policy and the real economy has been quicker, given the pro cyclical nature of Europe. However, the front loading of economic weakness in Europe this year means that other economies are likely to disappoint expectations next year, giving markets a reason to price in more rate cuts for the respective central banks.

UK currency outlook

GBP volatility analysis

GBP/CAD swings 5% as oil prices surge

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	22.90	24.26	22.86	24.72	20.22	6.1%	22.3%	3%	60%
GBP/CAD	1.642	1.724	1.641	1.733	1.607	5.1%	7.8%	1%	28%
GBP/NZD	2.047	2.141	2.039	2.156	1.883	5.0%	14.5%	8%	60%
GBP/USD	1.220	1.274	1.215	1.314	1.180	4.9%	11.4%	8%	30%
GBP/CNY	8.928	9.278	8.889	9.413	8.114	4.4%	16.0%	10%	63%
GBP/AUD	1.902	1.974	1.895	1.996	1.722	4.2%	15.9%	9%	66%
GBP/NOK	13.26	13.58	13.10	14.00	11.77	3.7%	18.9%	33%	67%
GBP/JPY	181.7	186.0	180.8	186.7	155.3	2.9%	20.2%	17%	84%
GBP/EUR	1.152	1.173	1.147	1.177	1.113	2.3%	5.8%	19%	61%
GBP/CHF	1.113	1.120	1.106	1.150	1.098	1.3%	4.7%	50%	29%

Table sources: Refinitiv, Convera – September 26, 2023

- **GBP/USD** suffered its worst month in a year in September, as US Treasury yields supported the dollar and the dovish BoE hurt the pound.
- **GBP/JPY** slipped back from seven-year highs due to the pound's shrinking rate advantage, but it remains in the top 20% of its YTD range as investors look to sell the yen in favour of higher yielding currencies.
- **GBP/EUR** volatility remained subdued but overall sterling snapped an eight-month winning streak, falling over 1% to test the key €1.15 threshold.
- **GBP/CAD** recorded a run of 12 consecutive days of decline, falling over 3% as the CAD benefited from its positive correlation with rising US yields and oil prices.
- **GBP/CHF** volatility remains tepid, but the pound performed the best against the franc relative to other G10 currencies as CHF came under selling pressure after the SNB unexpectedly paused its hiking cycle for the first time since March 2022.

GBP value indicator

GBP/USD slips below long-term moving averages

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

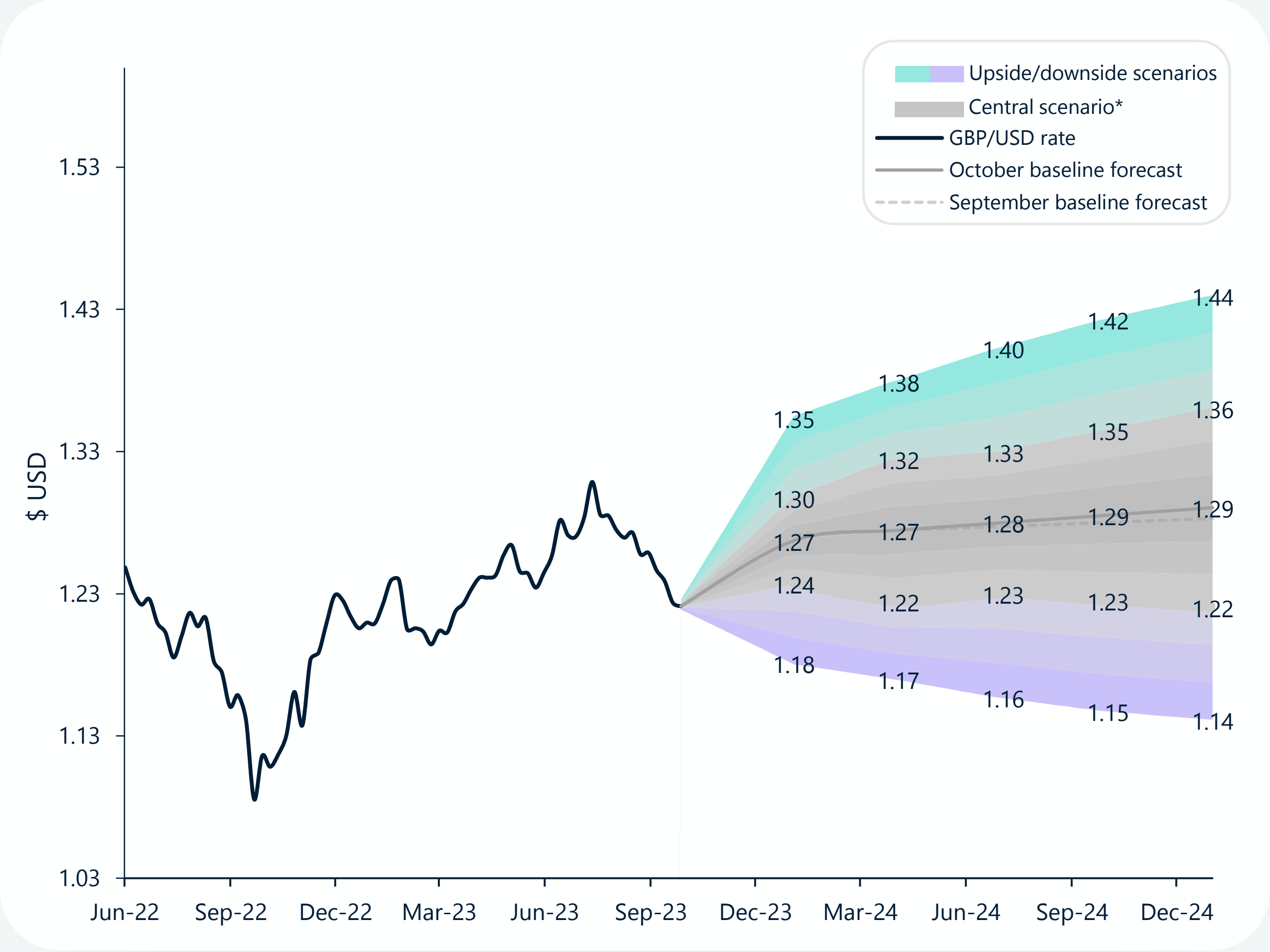
Appreciation Depreciation

	Spot (As of 26.09.2023)	Spot vs YTD average	1-year average	2-year average	5-year average
GBP/JPY	181.7	5.8% Avg.: 171.7	6.9% Avg.: 169.9	10.6% Avg.: 164.2	20.5% Avg.: 150.7
GBP/AUD	1.902	2.2% Avg.: 1.861	3.4% Avg.: 1.838	4.5% Avg.: 1.819	3.9% Avg.: 1.830
GBP/CNY	8.928	1.9% Avg.: 8.764	3.2% Avg.: 8.648	4.8% Avg.: 8.518	2.2% Avg.: 8.732
GBP/NZD	2.047	1.6% Avg.: 2.015	2.6% Avg.: 1.995	3.9% Avg.: 1.969	4.5% Avg.: 1.958
GBP/EUR	1.152	0.3% Avg.: 1.148	0.3% Avg.: 1.148	-1.1% Avg.: 1.164	0.3% Avg.: 1.148
GBP/CHF	1.113	-0.9% Avg.: 1.122	-0.9% Avg.: 1.123	-4.6% Avg.: 1.167	-8.4% Avg.: 1.214
GBP/CAD	1.642	-1.9% Avg.: 1.674	-0.5% Avg.: 1.650	-0.2% Avg.: 1.644	-2.6% Avg.: 1.685
GBP/USD	1.220	-2.0% Avg.: 1.244	-0.3% Avg.: 1.224	-2.8% Avg.: 1.254	-5.1% Avg.: 1.285

- The pound remains stronger than 80% of global peers in 2023, but its average performance has dropped from over 10% to about 7% following the dovish BoE shift last month.
- **GBP/USD** has subsequently dropped back below its key long-term moving averages (-5% below its five-year average) amid the weaker GBP and stronger USD story of late.
- **GBP/CAD** also finds itself almost 3% below its five-year average and nearly 2% below its YTD average as the CAD finds support from the stronger USD narrative.
- **GBP/JPY** remains at the top of the table with the currency pair now 5.8% above its 2023 average, but this has dropped back from 9% seen at the end of August. Still, zooming further out, GBP/JPY is still 20% above its five-year average rate.
- **GBP/AUD** has also gone from being 6% above its YTD average to just 2.2% above it now. However, fears concerning Chinese property stocks and China's overall economic recovery means the currency pair remains well above all long-term averages.

Note: YTD average refers to the following time periods: 02.01.2023 - 26.09.2023; 1Y: 26.09.2022 - 26.09.2023; 2Y: 24.09.2021 - 26.09.2023; 5Y: 27.09.2018 - 26.09.2023.
Table sources: Refinitiv, Convera – September 26, 2023

GBP/USD future scenarios



Upside scenario: UK avoids recession

- UK evades recession and stagflation, and the BoE keeps interest rates elevated, whilst 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 – September 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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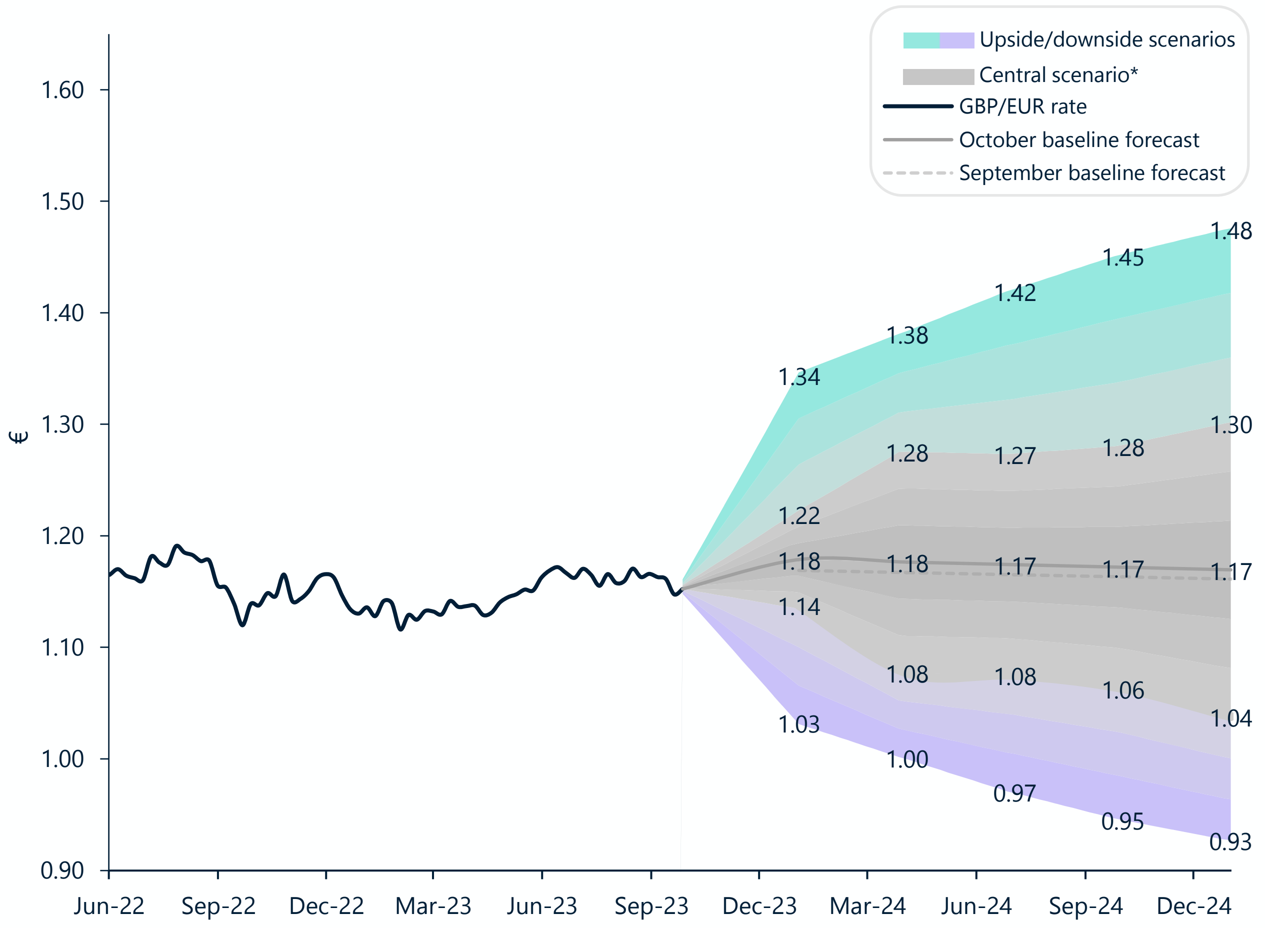
GBP/EUR future scenarios



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 across the world 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 – September 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/USD fell to a 9-month low in September

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	19.88	20.74	19.84	21.33	17.80	4.5%	19.8%	4%	59%
EUR/CAD	1.425	1.482	1.423	1.511	1.423	4.1%	6.2%	3%	2%
EUR/NZD	1.776	1.837	1.772	1.846	1.666	3.7%	10.8%	6%	61%
EUR/USD	1.059	1.094	1.056	1.127	1.048	3.6%	7.5%	8%	14%
EUR/CNY	7.744	7.968	7.710	8.115	7.188	3.3%	12.9%	13%	60%
EUR/AUD	1.649	1.689	1.645	1.706	1.525	2.7%	11.9%	9%	69%
EUR/GBP	0.867	0.870	0.852	0.897	0.849	2.1%	5.7%	83%	38%
EUR/NOK	11.44	11.63	11.39	12.05	10.44	2.1%	15.4%	21%	62%
EUR/JPY	157.7	159.7	156.5	159.7	137.3	2.0%	16.3%	37%	91%
EUR/CHF	0.965	0.968	0.951	1.009	0.951	1.8%	6.1%	82%	24%

Table sources: Refinitiv, Convera – September 26, 2023

- **EUR/USD** has suffered its longest weekly losing streak on record, declining 3% last month as markets believe the ECB's tightening cycle has come to an end, whilst the Fed could hike once more before year-end.
- **EUR/GBP** snapped an eight-month losing streak, rising over 1% to test a key resistance level of 0.87 as the pound came out worse off due to the dovish BoE shift and sharp repricing of interest rate expectations.
- **EUR/JPY** had a less volatile September 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 currency pairs of the year, swinging almost 20% YTD and 4.5% last month alone. Although the euro suffered overall last month, concerns about South Africa's fiscal outlook along with a power shortfall continue to weigh on the rand.

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EUR value indicator

EUR/JPY remains 20% above 5-year average

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

Appreciation Depreciation

	Spot (As of 26.09.2023)	Spot vs YTD average	Spot vs 1-year average	Spot vs 2-year average	Spot vs 5-year average
EUR/JPY	157.7	5.5% Avg.: 149.4	6.6% Avg.: 147.9	11.7% Avg.: 141.1	20.3% Avg.: 131.1
EUR/AUD	1.649	1.8% Avg.: 1.619	3.0% Avg.: 1.600	5.6% Avg.: 1.562	3.5% Avg.: 1.593
EUR/CNY	7.744	1.6% Avg.: 7.624	3.0% Avg.: 7.518	5.9% Avg.: 7.311	1.9% Avg.: 7.600
EUR/NZD	1.776	1.2% Avg.: 1.754	2.2% Avg.: 1.737	5.0% Avg.: 1.691	4.1% Avg.: 1.705
EUR/GBP	0.867	-0.4% Avg.: 0.870	-0.4% Avg.: 0.870	1.0% Avg.: 0.858	-0.4% Avg.: 0.870
EUR/CHF	0.965	-1.3% Avg.: 0.977	-1.4% Avg.: 0.978	-3.7% Avg.: 1.001	-8.8% Avg.: 1.057
EUR/CAD	1.425	-2.3% Avg.: 1.457	-0.9% Avg.: 1.437	0.9% Avg.: 1.412	-2.9% Avg.: 1.467
EUR/USD	1.059	-2.3% Avg.: 1.083	-0.6% Avg.: 1.065	-1.7% Avg.: 1.077	-5.4% Avg.: 1.119

- **EUR/USD** flipped from positive to negative territory on the year and now sits at the bottom of the pack as the currency pair is over 2% below its YTD average. This is largely due to the dollar's resilience in the face of surging US yields and robust economic data, but also because of weak European data and rising oil prices hurting the common currency.
- **EUR/JPY** remains at the top of the table despite its YTD position falling from 7% above the 2023 average to 5.5%, due to narrowing DE-JP yield spreads. Still, zooming further out, the currency pair is 20% above its five-year average as the BoJ retains its ultra-dovish stance.
- **EUR/CNY** and **EUR/AUD** are still trading above their long-term 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/CHF** remains in the doldrums, lower relative to all its key long-term moving averages despite the lackluster performance of the franc last month following the SNB's dovish surprise.

Note: YTD average refers to the following time periods: 02.01.2023 - 26.09.2023; 1Y: 26.09.2022 - 26.09.2023; 2Y: 24.09.2021 - 26.09.2023; 5Y: 27.09.2018 - 26.09.2023.
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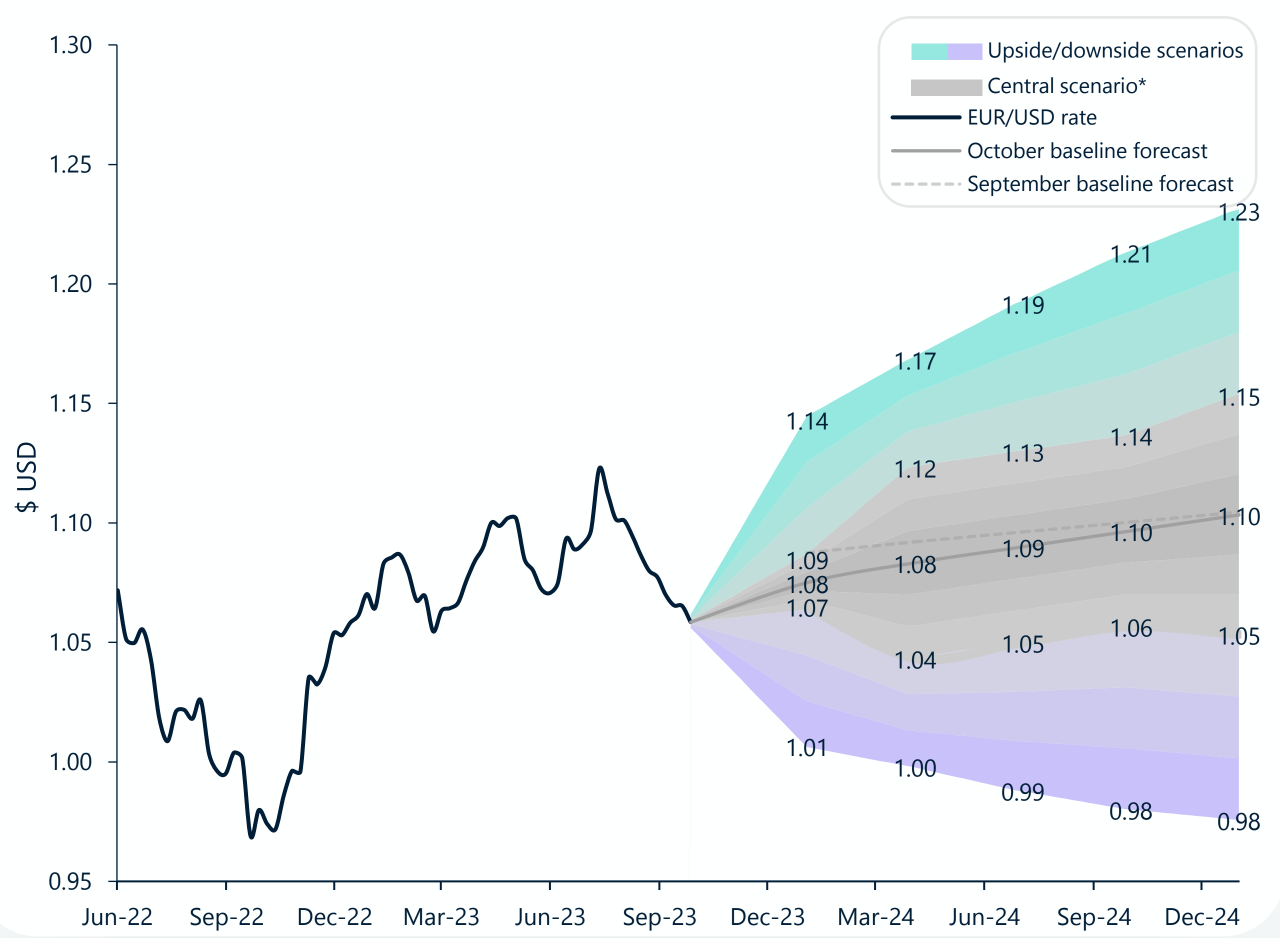
EUR/USD future scenarios



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.

Chart sources: Oxford Economics, Refinitiv, Convera – September 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

Europe’s reversal drives big moves this month

Chart: APAC 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
AUD/GBP	0.526	0.527	0.506	0.580	0.500	4.2%	16.0%	95%	33%
NZD/EUR	0.563	0.564	0.543	0.600	0.541	3.9%	10.9%	95%	37%
AUD/JPY	95.64	96.07	93.45	97.67	86.03	2.8%	13.5%	84%	83%
AUD/EUR	0.606	0.607	0.591	0.655	0.585	2.7%	12.0%	94%	30%
NZD/USD	0.596	0.601	0.585	0.653	0.585	2.7%	11.6%	69%	16%
AUD/USD	0.642	0.652	0.635	0.715	0.635	2.7%	12.6%	41%	9%
AUD/CNY	4.694	4.748	4.641	4.934	4.536	2.3%	8.8%	50%	40%
NZD/AUD	0.927	0.930	0.912	0.946	0.901	2.0%	5.0%	83%	58%
USD/SGD	1.366	1.369	1.346	1.369	1.302	1.7%	5.1%	87%	96%
USD/CNY	7.306	7.349	7.244	7.349	6.690	1.4%	9.9%	59%	93%

Table sources: Refinitiv, Convera – September 26, 2023

- The volatility in European markets translated into APAC with the highest volatility levels seen in the British pound and euro.
- The **AUD/GBP** saw large moves after the Bank of England’s decision to hold steady on rates but remains broadly near the lower end of the year’s trading range.
- The **NZD/EUR** and **AUD/EUR** also saw a pick-up in volatility in September, ending the month near the 30-day highs.
- The **AUD/USD** and **NZD/USD** continued the year’s themes of seeing relatively low levels of volatility.
- The **NZD/AUD** remains in a narrow trading range. The RBA and RBNZ are both expected to keep rates on hold for the foreseeable future.
- The **USD/SGD** and **USD/CNY** had relatively quiet months with both markets near recent highs.

APAC value indicator

USD strength sends AUD/USD to the bottom of the table

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

Appreciation Depreciation

	Spot (As of 26.09.2023)	Spot vs YTD average	1-year average	2-year average	5-year average
AUD/JPY	95.64	3.7% Avg.: 92.19	3.5% Avg.: 92.37	5.9% Avg.: 90.32	16.0% Avg.: 82.42
AUD/CNY	4.694	-0.1% Avg.: 4.700	0.1% Avg.: 4.691	0.4% Avg.: 4.676	-1.5% Avg.: 4.767
AUD/NZD	1.077	-0.5% Avg.: 1.082	-0.7% Avg.: 1.084	-0.5% Avg.: 1.082	0.7% Avg.: 1.069
AUD/EUR	0.606	-1.8% Avg.: 0.617	-3.0% Avg.: 0.624	-5.4% Avg.: 0.640	-3.5% Avg.: 0.627
AUD/SGD	0.877	-2.2% Avg.: 0.896	-2.6% Avg.: 0.900	-6.6% Avg.: 0.938	-8.4% Avg.: 0.957
AUD/GBP	0.526	-2.2% Avg.: 0.537	-3.4% Avg.: 0.544	-4.4% Avg.: 0.550	-3.8% Avg.: 0.546
AUD/CAD	0.864	-4.0% Avg.: 0.900	-3.8% Avg.: 0.897	-4.4% Avg.: 0.903	-6.2% Avg.: 0.920
AUD/USD	0.642	-4.1% Avg.: 0.669	-3.6% Avg.: 0.665	-6.9% Avg.: 0.689	-8.6% Avg.: 0.702

- The **AUD/JPY** climbed back to seven-year highs after the Bank of Japan defied expectations to signal a lift in interest rates and instead said its currently loose policy would be in place the foreseeable future.
- The ongoing weakness in the Chinese yuan – near 16-year lows versus the US dollar – has seen the AUD/CNY hold up well in an environment of AUD weakness.
- The **AUD/NZD** settled right in the middle of its long-term trading range between 1.0200 and 1.1200 with both central banks seen as largely on hold.
- The **AUD/GBP** rebounded during the month after the Bank of England surprised markets and kept interest rates on hold. However, the pair remains well below long-term averages.
- The **AUD/USD** fell to the bottom of the value table in September as the US Federal Reserve talked tough and signalled US interest rates were likely to remain high for a sustained period. The USD index hit ten-month highs and the AUD/USD fell to ten-month lows.

Note: YTD average refers to the following time periods: 02.01.2023 - 26.09.2023; 1Y: 26.09.2022 - 26.09.2023; 2Y: 24.09.2021 - 26.09.2023; 5Y: 27.09.2018 - 26.09.2023.
Table sources: Refinitiv, Convera – September 26, 2023

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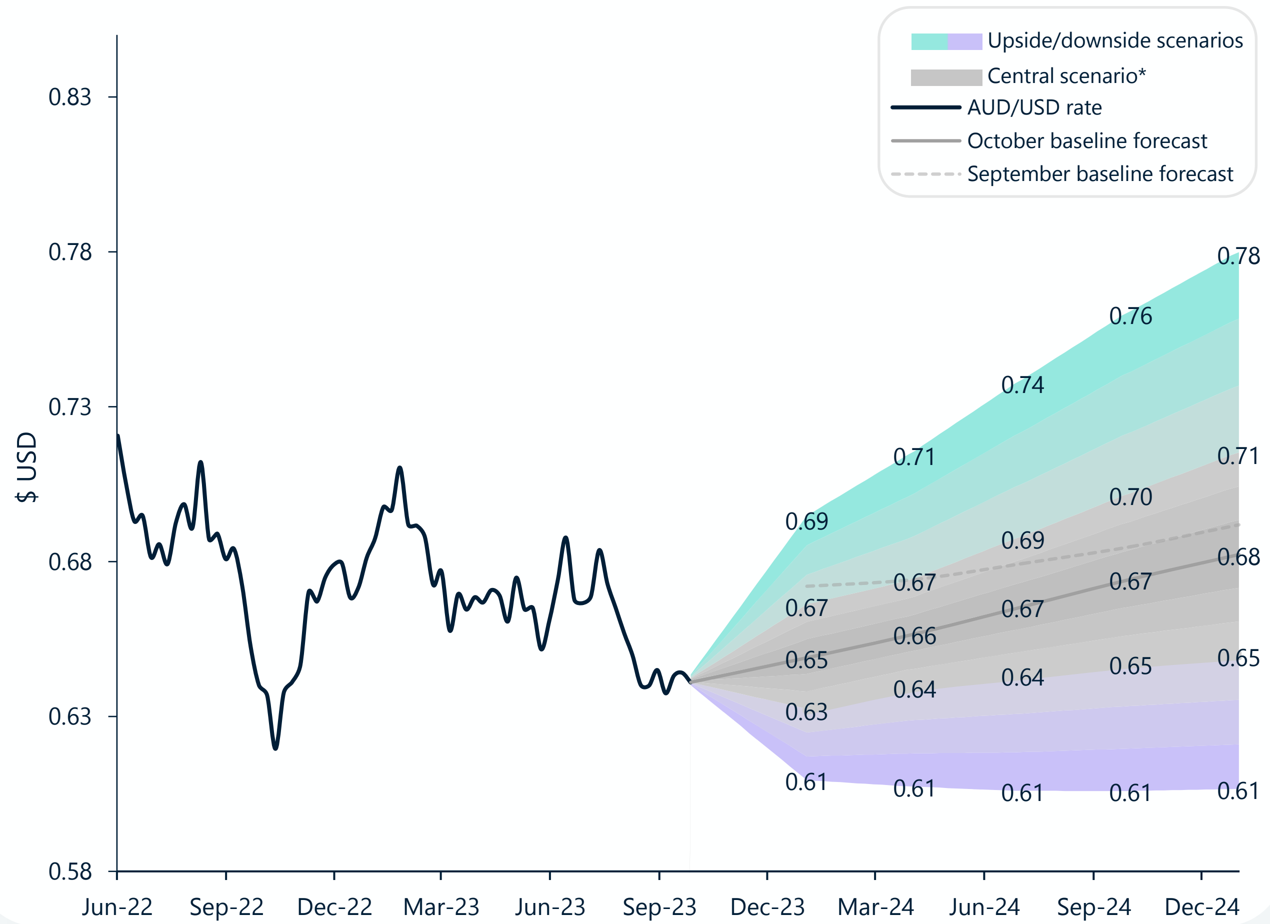
AUD/USD future scenarios



Upside scenario: China economic activity improves

- After a small improvement in Chinese data in September, further support from the Chinese government could push the AUD higher.
- Any reversal in the US dollar's recent strength could help the AUD/USD especially if the US Federal Reserve signals an end to its rate-hiking cycle.

Central scenario: Global growth remains sluggish

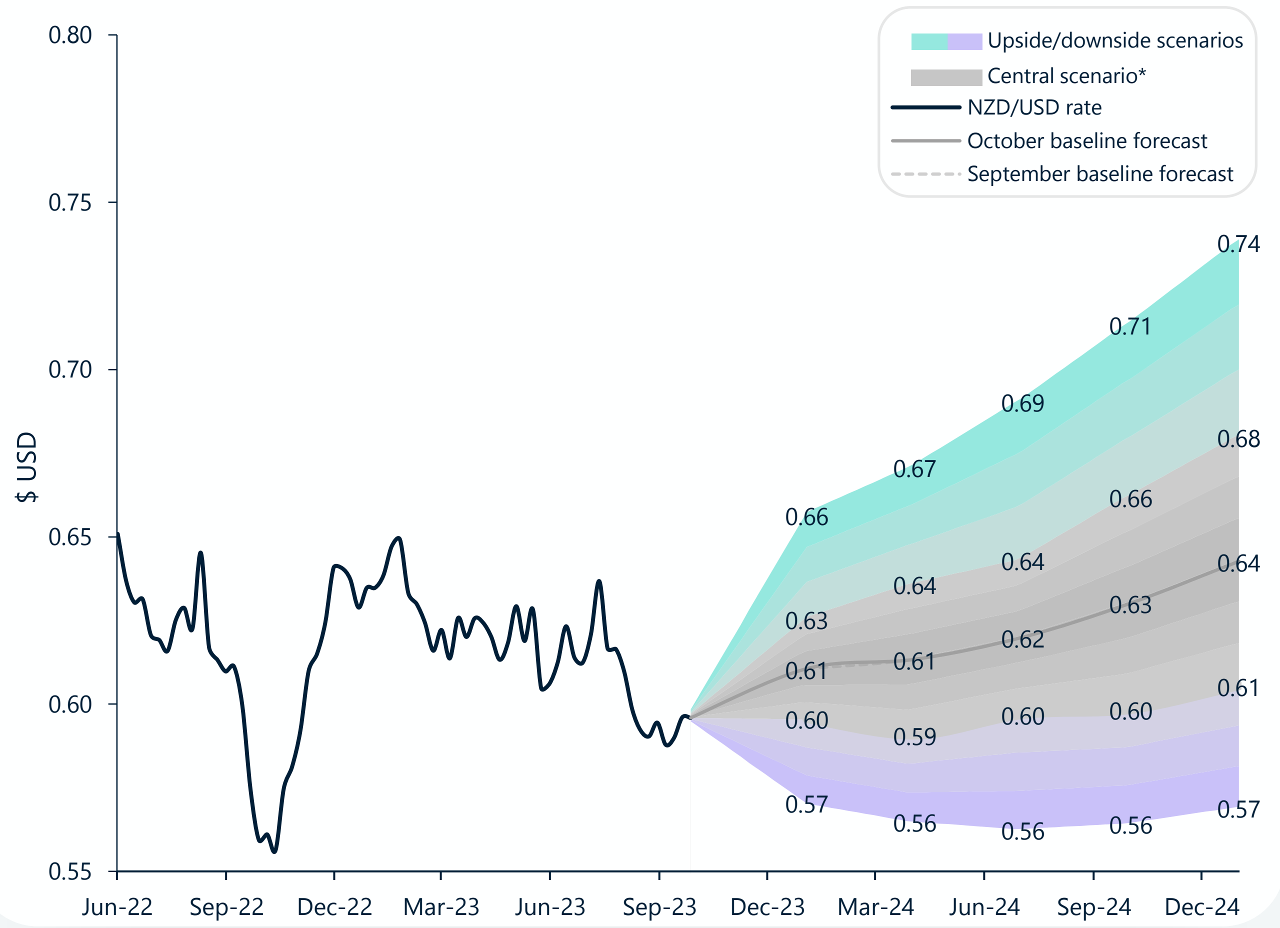
- The AUD/USD might see a slow grind higher if global growth remains steady despite multiple rate hikes from major central banks.
- With the RBA likely near the end of the tightening cycle, US rates are likely to remain above Australian rates, capping growth in the AUD/USD.

Downside scenario: Fed hikes continue

- The Federal Reserve's recent tough rhetoric might keep the USD supported. Any rate hikes from the US central bank could see the USD gain further.
- Any sell-off in global sharemarkets might hit the risk sensitive AUD.

Chart sources: Oxford Economics, Refinitiv, Convera – September 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)

NZD/USD future scenarios



Upside scenario: RBNZ hikes further

- The RBNZ might lift rates further if the central bank remains concerned over inflation.
- NZD can also benefit from an improving global growth scenario especially if China shakes-off its recent weakness.

Central scenario: Global slowdown weighs on kiwi

- 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. China's slowdown is also a concern.

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.
- NZ market pricing is looking for a reduction in the NZ cash rate to 3.80% in 2024 – such a move could hit the NZD.

Chart sources: Oxford Economics, Refinitiv, Convera – September 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
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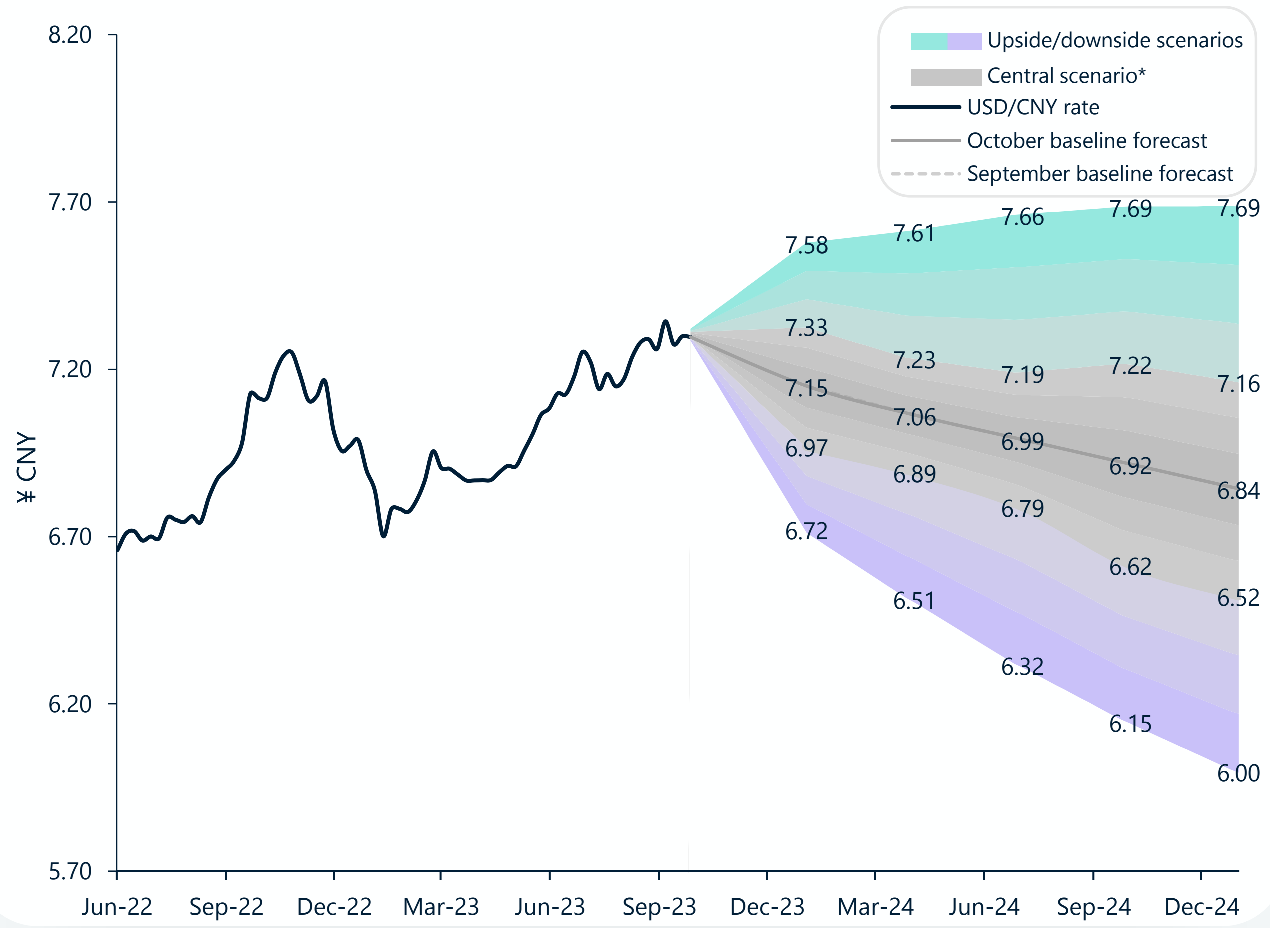
USD/CNY future scenarios



Upside scenario: PBOC allows devaluation

- The People's Bank of China has recently pushed back against the rising USD/CNY; however, devaluation could help the Chinese economy.
- As the PBOC eases monetary policy and cuts interest rates to support the Chinese economy, growing rate divergence could drive USD/CNY higher

Central scenario: China recovery improves

- The Chinese government's recent supportive action to the local economy could see the CNY strengthen.
- Once the Fed confirmed a pause in its rate hiking cycle, the US dollar might ease.

Downside scenario: Fed cuts to support US

- 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 is forced to cut official interest rates to support the US economy.

Chart sources: Oxford Economics, Refinitiv, Convera – September 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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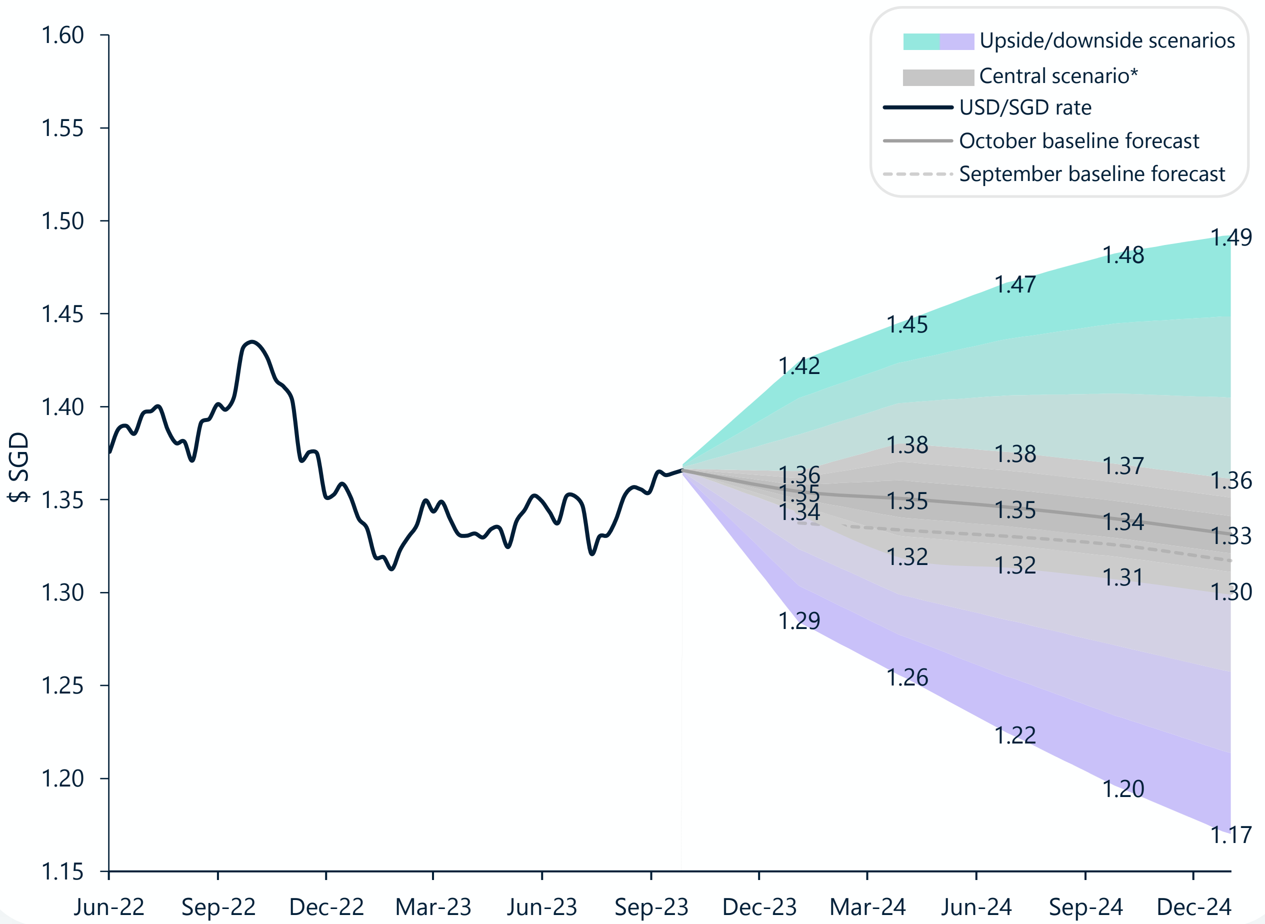
USD/SGD future scenarios



Upside scenario: Global sell-off hits risk

- US equities could see further losses in October, causing safe-haven FX like the US dollar to gain.
- The USD/SGD might gain further if we see further US rate hikes from the US Federal Reserve.

Central scenario: Global growth remains underwhelming

- Global trade is likely disappointing as Chinese growth remains sluggish, keeping the USD/SGD near recent highs.
- The USD stays relatively strong as the Fed maintains higher rates.

Downside scenario: Fed eases tough talk

- 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 – September 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)

NAM currency outlook

NAM volatility analysis

USD/JPY approaching line in the sand for Japan?

Chart: NAM 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	17.39	17.70	16.68	19.52	16.62	6.1%	17.4%	70%	27%
GBP/USD	1.220	1.274	1.215	1.314	1.180	4.9%	11.4%	8%	30%
USD/CHF	0.911	0.915	0.874	0.944	0.855	4.7%	10.4%	90%	63%
EUR/CAD	1.425	1.482	1.423	1.511	1.423	4.1%	6.2%	3%	2%
EUR/USD	1.059	1.094	1.056	1.127	1.048	3.6%	7.5%	8%	14%
USD/JPY	148.9	149.1	144.4	149.1	127.2	3.3%	17.2%	96%	99%
NZD/USD	0.596	0.601	0.585	0.653	0.585	2.7%	11.6%	69%	16%
AUD/USD	0.642	0.652	0.635	0.715	0.635	2.7%	12.6%	41%	9%
USD/CAD	1.345	1.369	1.337	1.386	1.309	2.4%	5.9%	25%	47%
USD/CNY	7.306	7.349	7.244	7.349	6.690	1.4%	9.9%	59%	93%

Table sources: Refinitiv, Convera – September 26, 2023

- **EUR/USD** has suffered its longest weekly losing streak on record and declined 3% last month as markets believe the ECB's tightening cycle has come to an end, whilst the Fed could hike once more before year-end thanks to the outperformance of the US economy.
- **USD/JPY** has remained tightly correlated to the 10-year yield spread in recent years, and with the higher for longer narrative gaining traction, the US 10-year Treasury yield has breached 4.5%. This is boosting the dollar and keeping the lower-yielding yen under negative pressure. With the key ¥150 handle approaching, bets of Japanese FX intervention are growing.
- **USD/CAD** volatility remains largely subdued given the CAD has also benefited from rising yields. The Canadian 10-year government bond yield touch a near 16-year high last month. Rising oil prices have also favored CAD, hence USD/CAD ended the month in the bottom 25% of its MTD range.

NAM value indicator

USD/MXN gains ground, but still 12% below 5-year average

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

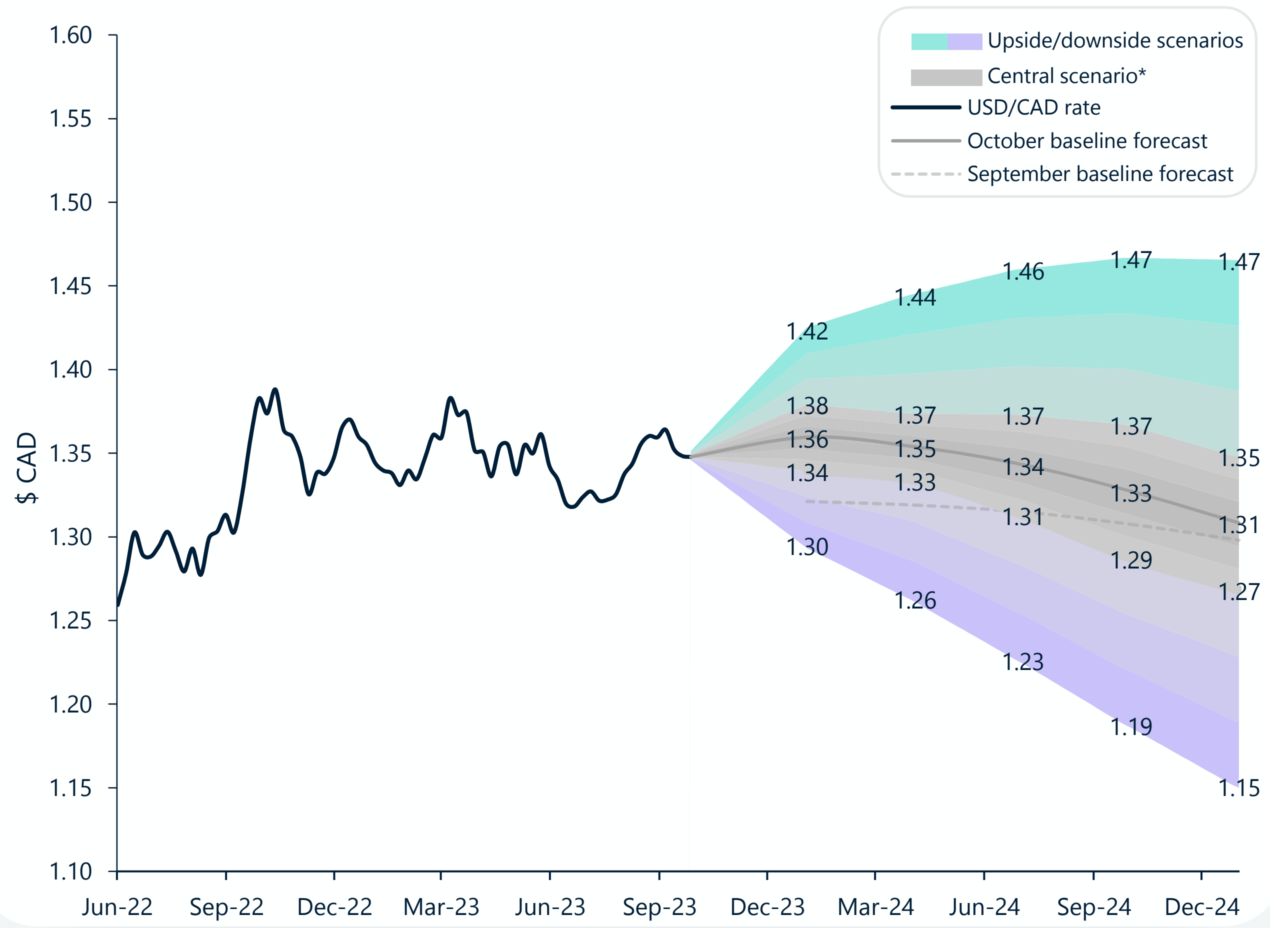
Appreciation Depreciation

	Spot (As of 26.09.2023)	Spot vs YTD average	1-year average	2-year average	5-year average
USD/JPY	148.9	8.0% Avg.: 137.8	7.2% Avg.: 138.8	13.3% Avg.: 131.3	26.6% Avg.: 117.6
USD/CAD	1.345	0.0% Avg.: 1.345	-0.3% Avg.: 1.348	2.5% Avg.: 1.312	2.5% Avg.: 1.312
GBP/USD	1.220	-2.0% Avg.: 1.244	-0.3% Avg.: 1.224	-2.8% Avg.: 1.254	-5.1% Avg.: 1.285
EUR/CAD	1.425	-2.3% Avg.: 1.457	-0.9% Avg.: 1.437	0.9% Avg.: 1.412	-2.9% Avg.: 1.467
EUR/USD	1.059	-2.3% Avg.: 1.083	-0.6% Avg.: 1.065	-1.7% Avg.: 1.077	-5.4% Avg.: 1.119
USD/MXN	17.39	-2.3% Avg.: 17.80	-5.0% Avg.: 18.31	-10.1% Avg.: 19.33	-12.6% Avg.: 19.88
NZD/USD	0.596	-3.5% Avg.: 0.617	-2.8% Avg.: 0.613	-6.5% Avg.: 0.637	-9.2% Avg.: 0.656
AUD/USD	0.642	-4.1% Avg.: 0.669	-3.6% Avg.: 0.665	-6.9% Avg.: 0.689	-8.6% Avg.: 0.702

- **USD/MXN** rose for a second month in a row after seven successive monthly declines. The 4% rally since early August means the pair is now just 2.3% below its YTD average as opposed to 4.7% below last month.
- **USD/JPY** climbed to November 2022 highs towards ¥150 as central bank policy divergence continued to pressure the yen. The dollar was further boosted by America's resilient economy, keeping pressure on the Fed to hike rates again this year. The currency pair now sits a whopping 26% above its five-year average.
- **EUR/USD** posted its second monthly decline in a row as weaker European data suggested less scope for the ECB to raise interest rates to fight inflation. The currency pair is now over 5% below its five-year average rate of $1.1190.
- **USD/CAD** has climbed out of its year-to-date hole as surging US yields have helped the US dollar across the board. The currency pair is bang on its YTD average but is now 2.5% above both its two- and five-year averages.

Note: YTD average refers to the following time periods: 02.01.2023 - 26.09.2023; 1Y: 26.09.2022 - 26.09.2023; 2Y: 24.09.2021 - 26.09.2023; 5Y: 27.09.2018 - 26.09.2023.
Table sources: Refinitiv, Convera – September 26, 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.

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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 risk management tools^.

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 organizations 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 recognized 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 currencyconvo@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	1.327	1.353	1.379	1.402	1.422	1.439	1.450	1.457	1.460	1.462	1.464
	Baseline + σ	1.279	1.297	1.324	1.329	1.345	1.36	1.374	1.376	1.378	1.381	1.373
	Baseline	1.259	1.267	1.274	1.279	1.285	1.290	1.294	1.296	1.298	1.301	1.303
	Baseline - σ	1.239	1.237	1.224	1.229	1.225	1.22	1.214	1.216	1.218	1.221	1.233
	Low	1.191	1.181	1.170	1.157	1.147	1.141	1.137	1.135	1.137	1.139	1.141
GBP/EUR	High	1.292	1.344	1.381	1.419	1.451	1.475	1.490	1.496	1.494	1.490	1.486
	Baseline + σ	1.198	1.218	1.275	1.273	1.279	1.300	1.321	1.333	1.330	1.328	1.302
	Baseline	1.167	1.178	1.176	1.174	1.171	1.169	1.167	1.165	1.162	1.160	1.158
	Baseline - σ	1.135	1.137	1.076	1.074	1.062	1.037	1.012	0.996	0.993	0.991	1.013
	Low	1.054	1.033	1.001	0.970	0.945	0.927	0.914	0.907	0.904	0.903	0.902
GBP/JPY	High	204.1	213.5	218.7	221.3	222.5	222.8	222.2	220.3	217.7	215.1	212.5
	Baseline + σ	188.4	196.7	199.8	197.0	200.5	202.3	203.0	201.5	199.6	197.1	192.9
	Baseline	181.6	185.3	185.0	182.3	179.5	176.8	174.3	171.5	169.0	166.7	164.4
	Baseline - σ	174.7	173.8	170.1	167.5	158.4	151.2	145.5	141.4	138.3	136.2	135.8
	Low	160.3	159.1	154.2	147.2	141.2	136.2	132.1	128.8	126.4	124.4	122.4
GBP/CHF	High	1.253	1.303	1.344	1.383	1.412	1.430	1.441	1.445	1.442	1.437	1.433
	Baseline + σ	1.151	1.189	1.241	1.245	1.254	1.245	1.250	1.246	1.242	1.237	1.224
	Baseline	1.121	1.137	1.144	1.147	1.147	1.143	1.139	1.135	1.131	1.127	1.123
	Baseline - σ	1.090	1.084	1.046	1.048	1.039	1.040	1.027	1.023	1.019	1.016	1.021
	Low	0.997	0.982	0.959	0.933	0.910	0.888	0.873	0.863	0.858	0.855	0.852

Chart sources: Oxford Economics, Refinitiv, Convera – September 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 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1
	High	1.129	1.143	1.168	1.191	1.213	1.230	1.243	1.252	1.256	1.261	1.265
	Baseline + σ	1.088	1.085	1.123	1.13	1.136	1.153	1.168	1.182	1.187	1.191	1.185
EUR/USD	Baseline	1.078	1.075	1.083	1.09	1.096	1.103	1.108	1.112	1.117	1.121	1.125
	Baseline - σ	1.068	1.065	1.043	1.05	1.056	1.053	1.048	1.042	1.047	1.051	1.065
	Low	1.026	1.006	0.998	0.988	0.980	0.975	0.973	0.973	0.977	0.981	0.985
	High	0.948	0.968	0.998	1.030	1.057	1.078	1.093	1.102	1.104	1.106	1.107
	Baseline + σ	0.877	0.876	0.914	0.916	0.925	0.941	0.958	0.968	0.970	0.971	0.957
EUR/GBP	Baseline	0.856	0.848	0.849	0.851	0.853	0.854	0.856	0.858	0.860	0.861	0.863
	Baseline - σ	0.834	0.819	0.783	0.785	0.780	0.766	0.753	0.747	0.749	0.750	0.768
	Low	0.773	0.743	0.723	0.704	0.688	0.677	0.671	0.668	0.669	0.671	0.672
	High	1.066	1.101	1.139	1.175	1.204	1.223	1.235	1.241	1.241	1.239	1.238
	Baseline + σ	0.979	0.994	1.052	1.058	1.060	1.055	1.063	1.070	1.069	1.067	1.057
EUR/CHF	Baseline	0.960	0.964	0.972	0.977	0.979	0.977	0.976	0.974	0.973	0.971	0.970
	Baseline - σ	0.940	0.933	0.891	0.895	0.897	0.898	0.888	0.877	0.876	0.874	0.882
	Low	0.859	0.837	0.818	0.797	0.777	0.759	0.747	0.740	0.738	0.736	0.735
	High	8.394	8.662	8.895	9.132	9.323	9.461	9.535	9.529	9.435	9.346	9.291
	Baseline + σ	7.851	7.952	8.124	8.124	8.202	8.261	8.274	8.261	8.148	8.074	7.942
EUR/CNY	Baseline	7.682	7.686	7.651	7.619	7.585	7.550	7.506	7.439	7.344	7.264	7.214
	Baseline - σ	7.512	7.419	7.177	7.113	6.967	6.838	6.737	6.616	6.539	6.453	6.485
	Low	7.003	6.767	6.502	6.242	6.025	5.854	5.719	5.607	5.513	5.443	5.399

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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	0.692	0.693	0.714	0.737	0.759	0.779	0.795	0.810	0.822	0.834	0.846
	Baseline + σ	0.669	0.664	0.673	0.687	0.701	0.714	0.727	0.735	0.744	0.754	0.770
	Baseline	0.657	0.648	0.656	0.665	0.674	0.682	0.689	0.697	0.705	0.714	0.723
	Baseline - σ	0.644	0.631	0.638	0.642	0.646	0.649	0.650	0.658	0.665	0.673	0.675
	Low	0.626	0.609	0.607	0.606	0.605	0.606	0.608	0.612	0.618	0.624	0.631
AUD/EUR	High	0.674	0.689	0.715	0.746	0.775	0.798	0.817	0.832	0.841	0.849	0.858
	Baseline + σ	0.631	0.634	0.620	0.632	0.645	0.651	0.658	0.656	0.661	0.666	0.685
	Baseline	0.610	0.603	0.606	0.610	0.614	0.618	0.622	0.626	0.631	0.637	0.642
	Baseline - σ	0.588	0.571	0.591	0.587	0.582	0.584	0.585	0.595	0.600	0.607	0.598
	Low	0.554	0.533	0.519	0.508	0.499	0.492	0.489	0.489	0.491	0.495	0.498
AUD/NZD	High	1.199	1.215	1.264	1.311	1.346	1.369	1.382	1.388	1.387	1.388	1.388
	Baseline + σ	1.121	1.116	1.138	1.149	1.168	1.176	1.181	1.181	1.169	1.166	1.171
	Baseline	1.080	1.062	1.070	1.073	1.069	1.061	1.051	1.042	1.036	1.032	1.028
	Baseline - σ	1.038	1.007	1.001	0.996	0.969	0.945	0.920	0.902	0.902	0.897	0.884
	Low	0.972	0.928	0.905	0.877	0.849	0.821	0.799	0.781	0.771	0.765	0.759
AUD/CNY	High	5.143	5.256	5.439	5.651	5.841	5.991	6.102	6.169	6.176	6.183	6.212
	Baseline + σ	4.839	4.879	4.873	4.943	5.062	5.119	5.152	5.145	5.119	5.119	5.159
	Baseline	4.687	4.639	4.637	4.651	4.663	4.668	4.669	4.664	4.641	4.628	4.635
	Baseline - σ	4.534	4.398	4.400	4.358	4.263	4.216	4.185	4.182	4.162	4.136	4.110
	Low	4.274	4.098	3.956	3.828	3.724	3.639	3.574	3.527	3.487	3.464	3.458

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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
USD/CAD	High	1.381	1.423	1.444	1.459	1.466	1.465	1.458	1.445	1.428	1.409	1.392
	Baseline + σ	1.363	1.379	1.373	1.373	1.367	1.348	1.338	1.318	1.289	1.28	1.263
	Baseline	1.343	1.359	1.353	1.343	1.327	1.308	1.288	1.268	1.249	1.230	1.213
	Baseline - σ	1.323	1.339	1.333	1.313	1.287	1.268	1.238	1.218	1.209	1.18	1.163
	Low	1.304	1.295	1.263	1.226	1.187	1.151	1.119	1.091	1.070	1.052	1.035
USD/MXN	High	19.28	19.74	20.54	21.48	22.20	22.76	23.19	23.50	23.69	23.83	23.94
	Baseline + σ	17.43	17.93	18.77	19.47	19.94	20.3	20.5	20.69	20.95	21.4	21.56
	Baseline	17.12	17.22	17.66	18.24	18.67	19.02	19.30	19.53	19.72	19.85	19.97
	Baseline - σ	16.81	16.51	16.55	17.01	17.4	17.74	18.1	18.37	18.49	18.3	18.38
	Low	15.95	15.84	16.07	16.44	16.71	16.93	17.12	17.31	17.49	17.63	17.75
USD/JPY	High	153.8	157.8	158.6	157.7	156.4	154.8	153.1	151.2	149.1	147.1	145.1
	Baseline + σ	147.3	151.6	150.9	148.2	149.1	148.7	147.6	146.4	144.7	142.7	140.4
	Baseline	144.2	146.2	145.2	142.5	139.7	137.0	134.6	132.3	130.1	128.1	126.1
	Baseline - σ	141.0	140.7	139.4	136.8	130.2	125.2	121.5	118.1	115.4	113.4	111.7
	Low	134.6	134.7	131.8	127.2	123.0	119.3	116.2	113.4	111.1	109.2	107.2
USD/CNY	High	7.429	7.576	7.612	7.662	7.686	7.687	7.666	7.610	7.507	7.412	7.343
	Baseline + σ	7.215	7.33	7.233	7.19	7.216	7.163	7.08	6.984	6.864	6.779	6.7
	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	7.035	6.97	6.893	6.79	6.616	6.523	6.46	6.384	6.284	6.179	6.12
	Low	6.820	6.723	6.513	6.318	6.147	5.999	5.873	5.759	5.641	5.546	5.477

Chart sources: Oxford Economics, Refinitiv, Convera – September 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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