WELLS FARGO

International Commentary — June 28, 2022

International Economic Outlook: 2022 Mid-Year Outlook

Summary

Forecast Changes

- We have become more pessimistic on the outlook for the global economy in 2023, and we now forecast global GDP growth of just 1.7% next year. The sharp downward revision comes from our view that the U.S. economy will fall into recession next year and contagion effects will result in the multiple recessions across the G10 and emerging markets. We now forecast the U.K. economy to enter recession, while we also believe reduced U.S. demand can tip Mexico into recession come 2023.
- Given our view for a U.S. recession in mid-2023, we now believe the Federal Reserve could eventually look to unwind monetary tightening. We forecast the Fed's terminal rate to now reach 4.50% in early 2023; however, we believe the FOMC will look to lower its Fed funds rate by a cumulative 50 bps by the end of next year in an effort to cushion the economic downturn. We also look for the Bank of England to begin lowering policy rates next year, while many emerging market central banks should also ease monetary policy by the end of 2023.
- Our short to medium term view on the U.S. dollar is unchanged, and we continue to forecast a stronger greenback against most foreign currencies through early 2023. With the U.S. economy now likely to fall into recession and the Fed to start cutting policy rates, we now believe the dollar will peak in mid-2023 and start to gradually weaken in the second half of next year.

Key Themes

- Aggressive monetary policy tightening and reduced consumer purchasing power are weighing on economic activity, and raising the probability of recession in many major economies. Going forward, the prospects for global growth have dwindled as central bank rate hikes and elevated inflation disrupt economies around the world. With U.S. recession now more likely than not, we believe European countries and emerging market nations with strong trade linkages to the U.S. are also at risk of falling into recession.
- As hawkish as most central banks have been this year, we now believe some central banks could look to unwind tighter monetary policy in the second half of 2023. Recession in the U.S. and U.K. should result in the Fed and Bank of England lowering policy rates, while many emerging market policymakers will likely follow the path of the Fed. It is possible the latter part of 2023 could mark the beginning of "The Great Unwind".
- Dollar strength should persist through early 2023; however, peak dollar strength may be approaching earlier than we initially expected. As the Fed eases monetary policy in late 2023, we believe the dollar's rise should slow by the middle of next year and the greenback should eventually start to weaken against most foreign currencies. We continue to believe Latin American currencies will be the outlier. Political risks and mature tightening cycles should keep Latin American currencies from strengthening during our forecast horizon.

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Reflecting on 2022

Daydream with us for a few minutes. Picture the last two and a half years playing out differently. No COVID. No lockdowns. No health crisis. No need for a globally coordinated public-private sector policy response. Without COVID, it seems like many of the economic and political issues permeating across the globe today would have been avoided. Without the spread of the virus and subsequent economic hardships, the roots of the current inflation crisis likely would have never grown. Populist-style political leaders would also likely have less of a platform to stand on and may not have emerged as electable candidates. Now imagine President Putin does not feel emboldened to reunite the Soviet Union amid growing political dissension in the West caused by COVID aftershocks. Russia does not invade Ukraine. Oil, natural gas and food prices do not skyrocket due to supply disruptions in Russia and Ukraine, and the underlying inflation problem does not intensify. We avoid one of the worst geopolitical crises in recent history, and countries around the world do not look to isolate Russia through one of the most severe sanctions campaigns ever unleashed. In this Goldilocks scenario, relatively speaking, most is well in the global economy. The global growth outlook may not be particularly robust, but at least in the United States, without COVID and the reverberations of the pandemic, we may still be talking about how the U.S. economy is experiencing the longest expansion on record. Sounds wonderful, right?

Now, snap back to reality. A Goldilocks scenario, however one wants to paint that picture, does not exist at the moment. We are currently in an economic reality where the conversation is centered around declining global growth prospects, persistently high inflation, and the fact that multiple economies are showing signs of falling into recession rather than still recovering from the pandemic. We can rewind the tape and debate how we got here, or we could offer guidance on where the global economy is headed. We opt to provide a forward-looking outlook for the global economy. However, in a world defined by elevated inflation and tighter monetary policy, combined with a meltdown in global financial markets over the last six months, visibility into the economic future is especially cloudy. Amid this uncertainty, we believe the global economy will grow just 2.7% this year, a below-trend pace of global GDP growth. Our global GDP forecast has been revised lower multiple times over the last six months as the effects of high inflation have weighed on purchasing power and consumer spending. Inflation took control of our global growth forecast in the first half of the year, and we believe inflation will be the theme that dominates global financial markets in the second half of 2022.

While the evolution of inflation is likely to be the most influential theme over the next six months, we believe offshoot themes could continue to develop as a result of uncontained price growth. These secondary themes are also likely to have a major influence over financial markets, both at a global and local level. As mentioned, elevated inflation should keep central banks active going forward. We believe central banks around the world will tighten policy aggressively in an effort to prevent price growth from becoming entrenched in their respective economies. In that sense, we now believe a more hawkish Fed will slow the U.S. economy sharply in the coming months and eventually push the U.S. economy into recession in 2023. A U.S recession will have implications for the rest of the world. As the U.S. recession takes shape, we expect spillover effects to reach most of the G10 and hit emerging market economies. High inflation has also led to social unrest, particularly in low-income developing countries as well as multiple emerging market nations. Demonstrations against politicians and policymakers have touched off in Southeast Asia, parts of the Middle East and Africa, as well as across Latin and Central America. These protests have centered around the need to reduce living costs and restore purchasing power, and while steps have been taken to alleviate price growth, further demonstrations could materialize. As social unrest builds, populations around the world could feel the need to elect political candidates with new and possibly unorthodox ideologies. In the months and years ahead, we would not be surprised if additional populist-style leaders, similar to what we have seen in Latin America, gain traction and are eventually elected to lead economic transformations.

Thank you to all of our readers for staying engaged with us over the course of a rocky start to 2022. Our *2022 Mid-Year Outlook* is rather pessimistic, and we realize financial market volatility mixed with elevated inflation and rising recession risks are concerning. We understand the nervousness associated with these dynamics, and going forward, we will provide timely updates on our views, especially should developments evolve in a more positive direction.

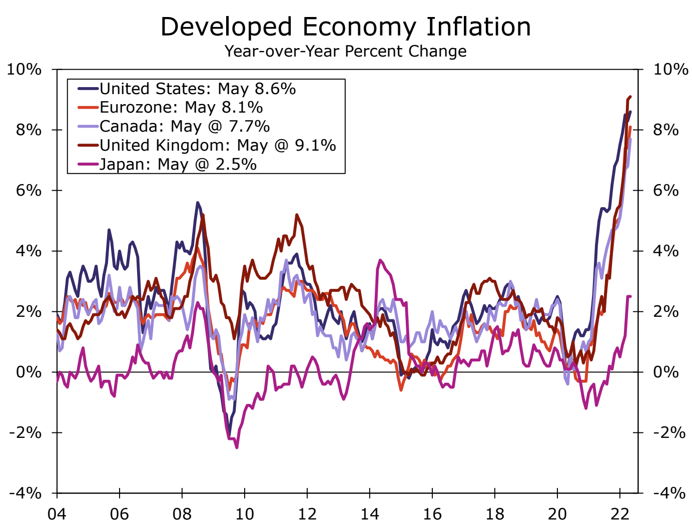
As always, stay safe and stay healthy.

Brendan, Nick and Jessica

U.S. Recession Is Now Likely, and Contagion Is Unavoidable

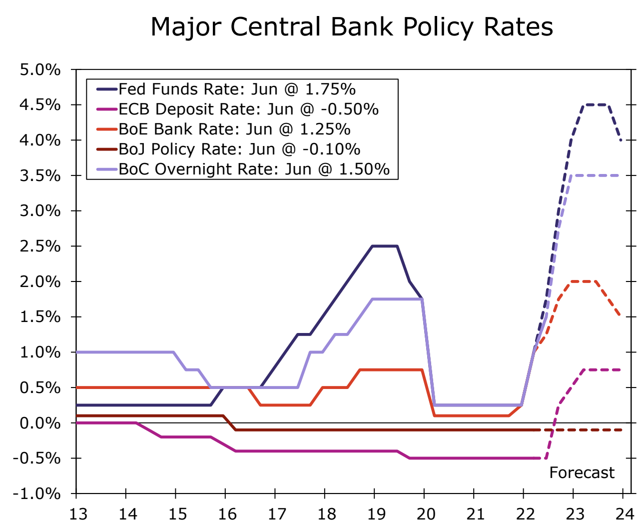
Without question, inflation has trended uncomfortably high in many countries around the world. As much as policymakers suggested it, price growth turned out not to be transitory. Even with policymakers changing tack on inflation and initiating tightening cycles, inflation has continued to move higher over the course of this year (Figure 1). We could argue the United States is facing one of the more severe inflation problems. In May, the U.S. headline CPI rose 8.6% year-over-year, an above-consensus print for the month and also a new 40-year high. Headline inflation is driven by rising commodity prices; however, core U.S. inflation data suggest price pressures are broad-based across multiple sectors and industries. Similar dynamics are unfolding in Europe as well, particularly in the United Kingdom and European Union, where commodity prices are the primary influence fueling inflation. U.K. inflation recently topped 9% year-over-year, with Bank of England policymakers, suggesting inflation is likely to rise over 11% in the near future. Eurozone inflation also hit a new high of 8.1% year-over-year in May. Supply-demand imbalances have contributed to higher European inflation; however, the Russia-Ukraine conflict has exacerbated the local inflation crisis in both countries. The EU and U.K. are extremely reliant on Russian energy, and given the supply disruptions associated with the conflict, European energy prices have spiked and further boosted price pressures across the continent. In our view, EU and U.K. inflation are likely to trend even higher in the coming months, possibly peaking late this year, in a best case scenario. With that said, Europe is at the mercy of how the Russia-Ukraine conflict evolves and how commodity prices respond. Should Europe continue to voluntarily restrict Russian energy imports or if Russia cuts off additional European countries from receiving energy exports, we would expect prices to spike even higher and for the EU/U.K. inflation problem to persist into 2023.

Figure 1



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Figure 2



Source: Bloomberg Finance L.P. and Wells Fargo Economics

The worldwide inflation problem is creating an interesting dichotomy within the global economy, and as a result, we have made significant changes to our forecast profile for many central banks and economies. First off, we believe most central banks need to remain active and continue to respond to inflationary pressures with rate hikes. In some cases, we think policymakers will need to turn even more hawkish than the path they have already set for themselves. To that point, following a 75 bps rate hike in June, we now believe the Fed will follow up with another 75 bps hike in July. We also think the Fed will look to lift policy rates by 50 bps at each additional meeting through the end of 2022, and see an additional 50 bps of tightening in early 2023 (Figure 2). As far as the Fed's terminal rate, we now believe the Fed funds rate will reach 4.50% by the end of Q1-2023, a higher end rate than we previously forecast. An above-consensus May inflation print should also lead to a quicker pace of Bank of Canada tightening as well. At the July meeting, we now forecast Bank of Canada policymakers to raise interest rates 75 bps and see a terminal rate of 3.50%. With respect to our European Central Bank or Bank of England monetary policy outlook, we continue to expect tighter policy from each central bank in the second half of this year. The only G10 central bank that we expect to be an outlier to the tighter monetary policy trend is the Bank of Japan. BoJ policymakers remain committed to supporting the Japanese economy and keeping monetary policy as accommodative as possible. In that sense, we expect the BoJ to continue purchasing Japanese Government Bonds in large quantities and protect 10-year sovereign bonds from rising above 0.25%.

While, in our view, most countries certainly require higher interest rates to contain inflation, we believe tighter monetary policy is raising the probability that some economies could fall into recession over the next 12-18 months. And this is the tradeoff many central banks are forced to make right now. Contain inflation and risk mild recession in the near term, or support economic growth now, let inflation run and risk harsher consequences over the long term. Such is true in the United States and the dilemma the Federal Reserve is forced to contend with. In our view, the FOMC is committed to containing inflation now, and the latest hawkish shift will be enough to send the U.S. economy into recession by the middle of 2023. We believe May inflation data were a game changer for the U.S. economy. Prior to May CPI, we thought the Fed would be able to orchestrate a soft landing and keep the U.S. economy from tipping into recession. However, given the Fed has committed to a more aggressive posture on monetary policy, we now believe recession in the United States is less avoidable and agree with Jerome Powell's testimony that achieving a soft landing "is going to be very challenging." U.S. economic and sentiment indicators have already started to soften against a backdrop of tighter Fed monetary policy. Just this month, the University of Michigan Consumer Sentiment Index hit an all-time low, while June PMI data fell more than expected. Going forward, as the U.S. economic slowdown takes shape, we expect additional leading indicators to worsen. We believe U.S. labor market data will not be as robust going forward, and over time, the unemployment rate is likely to tick higher toward 6% in 2023.

With that said, we expect the U.S. recession to be mild and short-lived. We believe the 2023 recession will closely resemble the recession of the early 1990s and 2001 rather than the recessions in 2008 and 2020. With back-to-back sequential GDP contractions likely to occur in Q2 and Q3 of next year, we forecast the U.S. economy to experience little to no growth in 2023. A recession in the United States is likely to have ripple effects around the world. As far as global growth, zero growth in the United States will have negative repercussions for global GDP growth in 2023. Zero growth out of the U.S. economy, by itself, will keep the prospects for global growth quite dim next year; however, contagion is likely to spread to many of the major economies and push global growth even lower in 2023 relative to 2022. Recession in the United States is likely to exacerbate the economic deceleration in the United Kingdom and European Union, as well as reach the rest of the G10. In our view, we believe a U.S. recession is enough to also push the U.K. economy into recession in 2023, and while the EU may avoid recession, we believe it will be on the brink of experiencing economic contraction next year. Emerging market economies may be at risk as well. Mexico has strong trade linkages to the United States, and we believe slower U.S. demand will push the Mexican economy into mild recession next year. Similar dynamics should take place in Brazil. Local factors such as ultra-aggressive Brazilian Central Bank tightening and elevated political risk should contribute to Brazil's recession, and could lead Brazil's economy to contract on an annual basis in 2023. China and India should feel the effects of the U.S. recession, although we expect the impact to be less severe in Asia. We believe China and India will avoid recession, but we forecast slower growth in each country than we did last month. Overall, we believe multiple recessions and additional economic decelerations will result in the global economy growing just 1.7% in 2023.

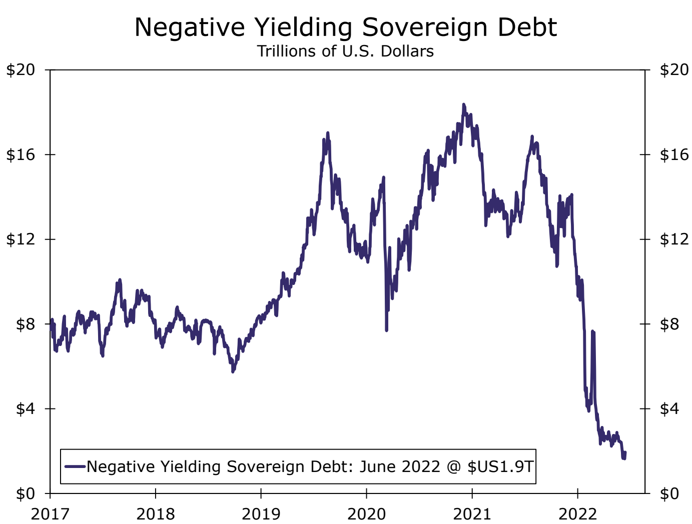
2023: The Great Unwind

We mentioned earlier that we now expect multiple recessions to materialize in 2023 and for global growth prospects to be uninspiring next year. This longer-term outlook is certainly a change from our prior forecast and is without question more pessimistic. We believe next year will be a difficult time for the global economy, and the slowdown will begin to take form starting in the second half of 2022. Given our longer-term outlook on global and country-specific growth has changed, our longer-term outlook for monetary policy has changed with it. Last month, under the assumption of a soft landing, we thought the Fed would pause its rate hike cycle in mid-2023 and hold interest rates steady for some time thereafter. Now that we view a U.S. recession as likely next year, we believe the Federal Reserve will begin to unwind the tighter monetary policy it is currently implementing and begin lowering policy rates by the middle of 2023. Against this new backdrop, we believe the Federal Reserve will lower the Fed funds rate a cumulative 50 bps by the end of 2023 and take policy rates down to 4.00%. That may sound counterintuitive, given we spent so much time talking the need for tighter Fed monetary policy in the second half of this year. However, as the U.S. recession sets in and becomes more apparent, we believe Fed policymakers will feel a need to offset the economic impact of the recession and ease financing conditions.

Internationally, we believe central banks will at a minimum pause tightening cycles by mid-2023; however, in some instances, we believe policymakers could also look to unwind rate hikes of this year. In the case of G10 central banks, we now look for many institutions to pause their rate hike cycles by early 2023. We believe this will be true for the European Central Bank and Bank of Canada, as well as institutions such as the Reserve Bank of Australia and Reserve Bank of New Zealand. There are, however, outliers to this trend as well. Given the Japanese economy does not fall into recession in our forecast, we believe the Bank of Japan will hold policy settings steady. The Bank of England may not have that same luxury. With our revised outlook for a U.K. recession in 2023, we believe BoE policymakers will likely cut interest rates alongside the Fed during the latter part of next year. We believe the effects of the recession, similar to the United States, will need to be offset by easier monetary policy. For now, we forecast BoE policy rate cuts, but would not rule out the possibility BoE policymakers restart asset purchases. And in the emerging markets, slower global and local growth, as well as the Fed leading the charge on easier monetary policy, should see multiple institutions to cut policy rates as well. Brazil may be the first emerging central bank to act and ease policy, while we believe the Central Bank of Mexico will follow in lock-step with the Fed and lower its Overnight Rate by a cumulative 50 bps in late 2023.

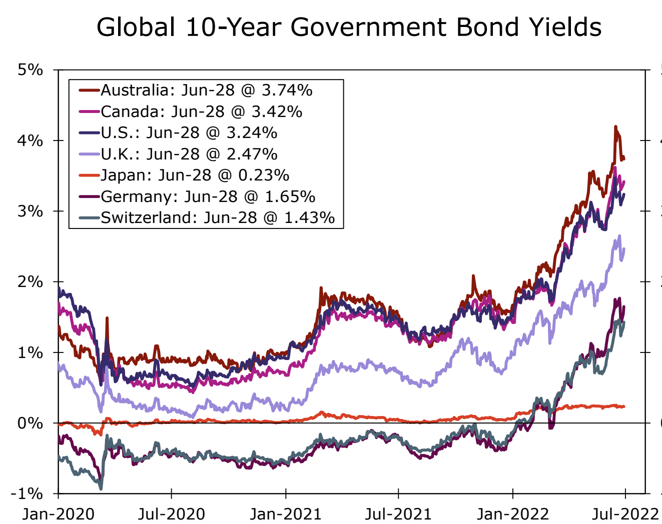
The rise in inflation and subsequent central bank monetary tightening has resulted in a sharp rise in sovereign bond yields over the course of this year. Across the G10, yields in the United States, Canada, developed Europe and the Asia-Pacific region have jumped back to well above pre-pandemic levels. In some cases, such as in Australia and parts of developed Europe, yields are up over 200 bps, while in the U.S. 10-year yields have risen over 160 bps year-to-date. Perhaps even more interesting has been the rise in yields in countries such as Switzerland, Japan and Germany. Prior to the pandemic, 10-year yields in these countries were negative. However, over the course of the current reflation period, these yields have climbed out of negative territory for the first time in years. In fact, as yields in Switzerland, Japan and Germany rose the total amount of negative yielding sovereign debt globally plummeted. At the beginning of this year, negative yielding debt had a market value of close to $14T. As of the end of June, only $1.9T of government debt had a negative yield (Figure 3). With that said, as central banks consider the potential of recession conditions and the possible need to ease monetary policy, sovereign bond yields could be close to plateauing. Just recently, as recession talk has intensified, sovereign yields across the G10 have dipped lower (Figure 4). While we are not explicitly calling for the peak in global yields this year, we acknowledge there is a risk that yields may be topping out, and could start heading lower in the coming quarters and continue that trend over the longer term.

Figure 3



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Figure 4



Source: Bloomberg Finance L.P. and Wells Fargo Economics

King Dollar Keeps the Throne...for Now

Our economic forecasts have changed rather significantly; however, we have not made major adjustments to our short to medium term view on the U.S. dollar. With the Fed turning more hawkish and now likely to lift interest rates at a quicker pace alongside shrinking its balance sheet, we continue to believe the U.S. dollar has upside through the end of this year and into the early parts of 2023. Our view on the dollar stems from the idea that the Fed is likely to lift rates and normalize monetary policy at a quicker pace relative to other major central banks. In addition, we believe financial markets are still underappreciating the Fed's hawkishness and markets are not fully priced for the amount of tightening the Fed will deliver. The combination of quicker tightening as well as markets underpricing the Fed should keep the dollar grinding higher against most other G10 currencies. To that point, we believe the Fed will act more aggressively than the European Central Bank as well as the Bank of England, which should keep the dollar on sound footing against the euro and the pound for at least the next few quarters. In addition, with the Bank of Japan unlikely to adjust monetary policy settings for the foreseeable future or intervene meaningfully to halt depreciation, we believe the yen can continue to reach new lows against the greenback. We do, however, believe the Canadian dollar could be more resilient to broad U.S. dollar strength. As mentioned, BoC policymakers have turned more hawkish, and we look for Canadian policymakers to broadly match Fed rate hikes in the short term. For now, we believe the Canadian dollar could be reasonably stable, especially with oil prices still elevated, through the end of this year.

We believe medium-term dollar strength will be most pronounced against emerging market currencies. Our view on emerging market currencies is quite simple. Decelerating global growth, a hawkish Fed and mature local tightening cycles should place widespread depreciation pressure on most developing currencies. In addition, idiosyncratic developments, such as elevated political risk, should apply more forceful downward pressure on specific currencies and underpin our rationale for why certain currencies can underperform. Given we expect most developing currencies to weaken going forward, we can focus on the currencies we expect to sell off the most. In that sense, we view Latin American currencies as particularly vulnerable against the global backdrop we laid out above, while regional and country-specific concerns add to our worries and should contribute to additional depreciation. As the global economy shows more evidence of softening, we expect commodity prices to move lower. Latin America is particularly sensitive to commodity prices, and while high energy and food prices supported Latam earlier this year, we expect that trend to reverse in the second half of the year. We also believe many Latin American central banks—especially in Chile, Brazil and Peru—are nearing the end of their respective tightening cycles. Financial markets are already priced for rate cuts in Chile, while we believe Brazilian policymakers will end their tightening cycle in August and Peru will not be far behind. This divergence in monetary policy paths should weigh on currencies such as the Chilean peso, Brazilian real and Peruvian sol.

We also believe political risk can be a source of depreciation on Latam currencies. The election of populist policymakers adds to an uncertain policymaking backdrop in Chile and Peru, while the constitutional rewrite in Chile continues to concern us. Opinion polls suggest the Chilean population will reject the latest draft of Chile's new constitution, and we expect volatility to pick up on the back of an uncertain legal and policymaking framework. These political risks, in our view, have been a key contributor to the Chilean peso, recently touching all-time lows against the dollar. In Colombia, the recent election of Gustavo Petro raises political risks hovering over the Colombian peso. Just since Petro was elected, he has been able to secure alliances with influential political parties, which could make his unorthodox policy agenda easier to implement. Colombian peso volatility has spiked on elevated political risks, and given alliance progress and uncertainty around key cabinet member selections, we believe the currency has room to weaken going forward. We also have some concerns about the potential return of Lula in Brazil, as well as policy decisions from President Bolsonaro in the lead-up to the election. Should Bolsonaro look to introduce new social spending programs and disregard the spending cap, debt and fiscal worries can be a driving force of Brazilian real depreciation. Lula's return to office could be a source of longer-term depreciation on the currency as we believe he could also look to add to Brazil's debt burden and do away with constitutional spending limitations. We do, however, expect the Mexican peso to be reasonably resilient, and the regional outperformer for the Latin currencies. Banxico has taken a more hawkish stance on monetary policy, lifting interest rates by 75 bps in June, while we expect another 75 bps hike in August. Political risk is also not as much of a risk in Mexico since President AMLO lost his supermajority last year, which we believe will act as a pillar of stability for the peso and make Mexico a regional safe haven destination in Latin America.

Over the longer term, the case for broad dollar strength may not be as compelling. As mentioned, aside from the Bank of England, we expect the Fed to be the only G10 central bank to be easing monetary policy. Should the Fed indeed begin lowering policy rates around mid-2023 and major central banks, for the most part, keep policy settings on hold, the U.S. dollar could start to trend weaker on interest rate differentials swinging in favor of foreign currencies. In addition, recession could create negative sentiment toward the United States as an investment destination, and temporarily reduce the appeal of the U.S. dollar. These dynamics could lead to a scenario where G10 currencies outperform against the greenback. For now, we baked this scenario into our longer-term outlook for the U.S. dollar and forecast a modest weakening of the greenback toward the latter end of our forecast horizon. By no means do we expect G10 currencies to experience a sharp rally, but a modest uptrend in currencies like the euro and Canadian dollar might be possible over the longer term. At the same time, we maintain our view that emerging market currencies, broadly speaking, will not be able to gather appreciation momentum over the longer term. With global growth slowing, China on a secular downtrend, and local central banks cutting rates mixed with elevated political risks, we doubt developing currencies will find solid footing. We still believe Latin American currencies can underperform over the longer term, while currencies such as the Turkish lira are also likely to experience significant downside over the course of the next 12-18 months.

High Conviction Views

- We have a **more pessimistic outlook on the global economy relative to consensus** forecasts and believe global GDP will grow at a below-trend pace, particularly in 2023. Our latest forecasts see the global economy expanding just 1.7% in 2023 as aggressive central bank tightening, reduced consumer purchasing power, and recessions in some key major economies sees growth slow sharply.
- Given our view for more Fed tightening than financial markets are priced for as well as a slower pace of global growth, we believe the U.S. dollar can strengthen through until mid-2023. However, as the U.S. economy falls into recession next year and the Federal Reserve becomes one of the first major central banks to cut rates, **we believe mid-2023 will be a cyclical peak for the greenback, and we expect the U.S. dollar to begin softening in the second half of 2023.**
- **In the G10, we are most optimistic on the prospects for the Canadian dollar**. We believe the Bank of Canada will maintain a relatively hawkish stance on monetary policy, while elevated energy prices and relatively sound consumer finances are also favorable factors. In addition, we expect the Bank of Canada to hold policy rates steady even as the Fed eventually begins to ease monetary policy. We look for modest CAD strength against the dollar by mid-2023, the most optimistic view on any G10 currency.
- **We expect the Japanese yen to be an underperformer within the G10 space.** The Bank of Japan is not likely to tighten its accommodative monetary policy stance, including raising its cap on Japanese government bond yields, within our forecast horizon. As the Fed lifts policy rates and shrinks its balance sheet, these diverging paths for monetary policy should continue to place depreciation pressure on the Japanese currency.
- **Prospects for the British pound have weakened** as we expect a less hawkish Bank of England relative to financial market pricing. While inflation is elevated in the U.K., economic activity is decelerating amid high energy prices and declining purchasing power. As the BoE underdelivers, the British pound should weaken sharply over the remainder of 2022 as well as into next year.
- Despite being one of the top performing currencies this year, **we believe the Brazilian real can give up gains and weaken through the end of 2023**. We expect political risk to rise ahead of this year's presidential election as Bolsonaro is likely to extend and enhance social spending programs in an effort to rally electoral support. More fiscal spending and a higher debt burden should hurt sentiment toward Brazil, while Brazilian Central Bank policy rate cuts over the course of 2023 should contribute to a weaker currency.
- Capital controls and other currency-supportive measures should prevent the Russian ruble from experiencing another large depreciation, and **we expect a stable to modestly weaker ruble going forward**. While some currency control measures have been lifted and the Central Bank of Russia has cut policy rates aggressively, we expect the ruble to remain at pre-invasion levels. Should controls and similar policies be completely lifted, our ruble forecasts would show a quicker and more sizable depreciation; however, this is not our base case scenario for the time being.
- **The Argentine peso and Turkish lira continue to be the currencies we are most pessimistic of.** Argentina received an IMF program; however, details of the plan suggest capital controls need to be gradually lifted over time, which could result in a sharp peso selloff. A lack of an independent central bank and unorthodox policymaking should continue to weigh on the Turkish lira. We forecast another large depreciation, although we are watching election-related developments for the possibility of regime change in Turkey. Regime change could usher in a wave of orthodox policymakers committed to containing inflation and stabilizing the lira.

Currency	Forecasted Next 6M % Change*	
Trade Weighted Dollar (USD)	2.3%	most bullish
Chilean Peso (CLP)	0.9%	
Canadian Dollar (CAD)	-0.2%	
Chinese Renminbi (CNY)	-0.2%	
Chinese Renminbi (CNH)	-0.2%	
Singapore Dollar (SGD)	-0.9%	
Israeli Shekel (ILS)	-1.0%	
Taiwan Dollar (TWD)	-1.1%	
Mexican Peso (MXN)	-1.4%	
South African Rand (ZAR)	-1.4%	
Peruvian Sol (PEN)	-1.6%	
Swedish Krona (SEK)	-1.6%	
Norweigian Krone (NOK)	-1.8%	
Japanese Yen (JPY)	-2.0%	
South Korean Won (KRW)	-2.1%	
Indian Rupee (INR)	-2.2%	
British Pound (GBP)	-2.5%	
Indonesian Rupiah (IDR)	-2.5%	
Swiss Franc (CHF)	-2.9%	
Euro (EUR)	-3.0%	
Philippine Peso (PHP)	-3.2%	
Colombian Peso (COP)	-3.4%	
Brazilian Real (BRL)	-3.5%	
Thai Baht (THB)	-3.8%	
New Zealand Dollar (NZD)	-4.1%	
Polish Zloty (PLN)	-4.5%	
Australian Dollar (AUD)	-4.7%	
Hungarian Forint (HUF)	-4.9%	
Russian Ruble (RUB)	-5.7%	
Czech Koruna (CZK)	-6.3%	
Argentine Peso (ARS)	-12.1%	most bearish
Turkish Lira (TRY)	-14.2%	

Forecast as of: June 28, 2022
*Percentage Change Against USD, Q4-22 Vs. Current Spot Rate

Source: Bloomberg Finance L.P. and Wells Fargo Economics

Wells Fargo International Economic Forecast

	GDP				CPI			
	2020	2021	2022	2023	2020	2021	2022	2023
Global (PPP Weights)	-3.1%	6.1%	2.7%	1.7%	3.2%	4.7%	7.2%	4.5%
Advanced Economies[1]	-4.5%	5.2%	2.8%	0.9%	0.7%	3.1%	7.6%	3.4%
United States	-3.4%	5.7%	2.5%	0.0%	1.2%	4.7%	8.6%	4.0%
Eurozone	-6.4%	5.3%	2.7%	0.9%	0.3%	2.6%	6.9%	2.9%
United Kingdom	-9.3%	7.4%	3.8%	-0.1%	0.9%	2.6%	8.3%	3.6%
Japan	-4.5%	1.6%	1.8%	1.9%	0.0%	-0.3%	2.0%	1.0%
Canada	-5.2%	4.6%	3.9%	1.5%	0.7%	3.4%	6.6%	3.2%
Switzerland	-2.5%	3.7%	2.7%	1.6%	-0.7%	0.6%	2.0%	1.0%
Australia	-2.2%	4.7%	4.1%	1.8%	0.9%	2.8%	4.9%	3.1%
New Zealand	-2.1%	5.6%	2.9%	2.0%	1.7%	3.9%	5.9%	2.7%
Sweden	-2.9%	4.8%	2.2%	1.8%	0.7%	2.7%	5.0%	2.4%
Norway	-0.7%	3.9%	3.4%	2.0%	1.3%	3.5%	3.8%	2.3%
Developing Economies[1]	-2.0%	6.8%	2.6%	2.4%	5.2%	5.9%	6.8%	5.3%
China	2.2%	8.1%	4.2%	4.2%	2.4%	0.9%	2.1%	2.3%
India	-6.6%	8.9%	7.8%	5.1%	6.2%	5.5%	6.1%	4.9%
Mexico	-8.2%	4.8%	2.1%	1.4%	3.4%	5.7%	6.9%	4.2%
Brazil	-3.9%	4.6%	1.6%	0.4%	3.2%	8.3%	9.1%	3.7%

Forecast as of: June 28, 2022

[1]Aggregated Using PPP Weights

Source: International Monetary Fund and Wells Fargo Economics

Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

	Central Bank Key Policy Rate						
	2022			2023			
	Current	Q3	Q4	Q1	Q2	Q3	Q4
United States	1.75%	3.00%	4.00%	4.50%	4.50%	4.50%	4.00%
Eurozone[1]	-0.50%	0.25%	0.50%	0.75%	0.75%	0.75%	0.75%
United Kingdom	1.25%	1.75%	2.00%	2.00%	2.00%	1.75%	1.50%
Japan	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%
Canada	1.50%	2.75%	3.50%	3.50%	3.50%	3.50%	3.50%
Switzerland	-0.25%	0.00%	0.25%	0.50%	0.50%	0.50%	0.50%
Australia	0.85%	1.85%	2.35%	2.60%	2.60%	2.60%	2.60%
New Zealand	2.00%	3.00%	3.50%	3.50%	3.50%	3.50%	3.50%
Sweden	0.25%	0.75%	1.00%	1.25%	1.25%	1.25%	1.25%
Norway	1.25%	1.75%	2.00%	2.25%	2.25%	2.25%	2.25%
China[3]	11.25%	11.25%	11.25%	10.75%	10.75%	10.75%	10.25%
India	4.90%	5.90%	6.40%	6.90%	7.15%	7.15%	7.15%
Mexico	7.75%	9.00%	9.75%	10.00%	10.00%	10.00%	9.50%
Brazil	13.25%	13.75%	13.75%	13.25%	12.75%	12.25%	11.75%

	2-Year Note						
	2022			2023			
	Current	Q3	Q4	Q1	Q2	Q3	Q4
United States	3.08%	3.85%	4.00%	4.10%	3.90%	3.60%	3.00%
Eurozone[2]	0.87%	0.95%	1.05%	1.10%	1.10%	1.10%	1.05%
United Kingdom	1.98%	2.05%	2.05%	1.90%	1.70%	1.50%	1.30%
Japan	-0.07%	-0.05%	-0.05%	-0.05%	-0.05%	-0.05%	-0.05%
Canada	3.14%	3.40%	3.55%	3.60%	3.55%	3.45%	3.20%

	10-Year Note						
	2022			2023			
	Current	Q3	Q4	Q1	Q2	Q3	Q4
United States	3.16%	3.70%	3.80%	3.75%	3.60%	3.40%	3.00%
Eurozone[2]	1.54%	1.55%	1.60%	1.60%	1.65%	1.65%	1.60%
United Kingdom	2.37%	2.40%	2.40%	2.20%	2.00%	1.80%	1.60%
Japan	0.24%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
Canada	3.34%	3.40%	3.45%	3.45%	3.40%	3.30%	3.20%

Forecast as of: June 28, 2022

[1] ECB Deposit Rate [2] German Government Bond Yield [3] Reserve Requirement Ratio Major Banks

Source: Bloomberg Finance L.P. and Wells Fargo Economics

Wells Fargo International FX Forecast

Currency Pair*	Current Rate	Q3-2022	Q4-2022	Q1-2023	Q2-2023	Q3-2023	Q4-2023
G10							
EUR/USD	1.0518	1.0400	1.0200	1.0000	0.9900	1.0100	1.0300
USD/JPY	136.25	138.00	139.00	140.00	141.00	138.00	135.00
GBP/USD	1.2201	1.2100	1.1900	1.1800	1.1700	1.1800	1.1900
USD/CHF	0.9576	0.9675	0.9850	1.0000	1.0150	1.0000	0.9850
USD/CAD	1.2879	1.2900	1.2900	1.2800	1.2700	1.2500	1.2300
AUD/USD	0.6922	0.6800	0.6600	0.6500	0.6400	0.6600	0.6800
NZD/USD	0.6254	0.6200	0.6000	0.5900	0.5800	0.6000	0.6200
USD/NOK	9.8201	9.9050	10.0000	10.1500	10.2025	10.0500	9.9025
USD/SEK	10.1295	10.2400	10.2950	10.4000	10.4550	10.1975	9.9525
Asia							
USD/CNY	6.7072	6.7000	6.7200	6.7400	6.7400	6.7200	6.7000
USD/CNH	6.7061	6.7000	6.7200	6.7400	6.7400	6.7200	6.7000
USD/IDR	14831	15000	15200	15400	15500	15400	15300
USD/INR	78.79	80.00	80.50	81.00	80.50	80.00	79.50
USD/KRW	1283.67	1300.00	1310.00	1320.00	1330.00	1320.00	1310.00
USD/PHP	54.76	56.00	56.50	57.00	57.50	57.00	56.50
USD/SGD	1.3871	1.3900	1.4000	1.4100	1.4100	1.4000	1.3900
USD/TWD	29.68	29.75	30.00	30.00	29.75	29.75	29.50
USD/THB	35.16	36.00	36.50	37.00	37.50	37.00	36.50
Latin America							
USD/BRL	5.2187	5.3000	5.4000	5.5000	5.6000	5.7000	5.8000
USD/CLP	908.61	890.00	900.00	910.00	920.00	930.00	940.00
USD/MXN	19.9796	20.0000	20.2500	20.2500	20.0000	19.7500	19.5000
USD/COP	4110	4200	4250	4300	4350	4400	4450
USD/ARS	124.88	135.00	140.00	145.00	150.00	155.00	160.00
USD/PEN	3.7813	3.8200	3.8400	3.8600	3.8800	3.8600	3.8400
Eastern Europe/Middle East/Africa							
USD/CZK	23.52	24.25	25.00	25.75	26.25	25.50	24.75
USD/HUF	378.42	384.50	397.00	410.00	414.25	401.00	388.25
USD/PLN	4.4582	4.5200	4.6575	4.8000	4.9000	4.7525	4.6125
USD/RUB	52.03	54.00	55.00	56.00	57.00	58.00	59.00
USD/ILS	3.4345	3.4500	3.4700	3.4900	3.4700	3.4500	3.4300
USD/ZAR	16.0279	16.2500	16.2500	16.5000	16.5000	16.2500	16.0000
USD/TRY	16.6436	18.0000	19.0000	20.0000	21.0000	22.0000	23.0000
Euro Crosses							
EUR/JPY	143.30	143.50	141.75	140.00	139.50	139.50	139.00
EUR/GBP	0.8620	0.8600	0.8575	0.8475	0.8450	0.8550	0.8650
EUR/CHF	1.0072	1.0050	1.0050	1.0000	1.0050	1.0100	1.0150
EUR/NOK	10.3281	10.3000	10.2000	10.1500	10.1000	10.1500	10.2000
EUR/SEK	10.6537	10.6500	10.5000	10.4000	10.3500	10.3000	10.2500
EUR/CZK	24.73	25.25	25.50	25.75	26.00	25.75	25.50
EUR/HUF	397.98	400.00	405.00	410.00	410.00	405.00	400.00
EUR/PLN	4.6888	4.7000	4.7500	4.8000	4.8500	4.8000	4.7500

Forecast as of: June 28, 2022

Source: Bloomberg Finance L.P. and Wells Fargo Economics

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