International Commentary — March 23, 2023

International Economic Outlook: March 2023

Summary

Forecast Changes

- The outlook for global activity continues to improve. We now forecast global GDP growth of 2.2% for this year (up from 2.0% a month ago), implying that we no longer forecast the global economy to slip into recession in 2023. Among the countries and regions we have revised our 2023 GDP growth outlook higher over the past month are the U.S. (to 1.0%), China (to 5.5%), and the Eurozone (to 0.3%).
- We have made modest changes to our outlook for near-term central bank tightening. We lifted our forecast policy rate peak for the U.K., Switzerland and Norway higher to 4.50%, 1.75% and 3.50% respectively. In contrast, among the central banks we forecast a lower policy rate peak for are Australia (3.60%), New Zealand (5.25%) and Sweden (3.25%). Overall, we see global tightening ending in H1-2023, and also forecast earlier and faster monetary easing from select central banks starting in late 2023.
- We forecast a modestly softer U.S. dollar than previously, and forecast the trade-weighted dollar against the advanced foreign economies to depreciate by 3% by the end of 2023 and a further 5% in 2024. As for the individual foreign currencies, we forecast a stronger euro, yen and pound than previously, while we expect the Brazilian real and Chilean peso to rebound from recent weakness over time.

Key Themes

- The global economy continues to show signs of resilience, with the U.S. economy still showing momentum, Eurozone activity holding up, and Chinese growth picking up amid the country's reopening. While there remain concerns surrounding the outlook, including broadening banking and financial sector strains along with persistent inflation, we still expect global GDP to gain a steady 2.2% this year.
- The combination of persistent inflationary pressures and growing financial strains pose something of a dilemma for central banks. Given these somewhat conflicting influences on the policy outlook, we still believe the peak in global policy rates is near and that most, if not all, central banks will end their rate hike cycles by mid-2023.
- With central bank rate hikes expected to be completed during the first half of this year, we also believe an extended period of U.S. dollar depreciation is fast approaching. Further Fed tightening and possible safe-haven support should provide some help for the greenback for the time being, but that will likely be offset by central bank actions that are making U.S. dollars more readily available. Longer term, eventual U.S. recession and Fed easing should see the U.S. dollar soften against G10 and emerging currencies later this year.

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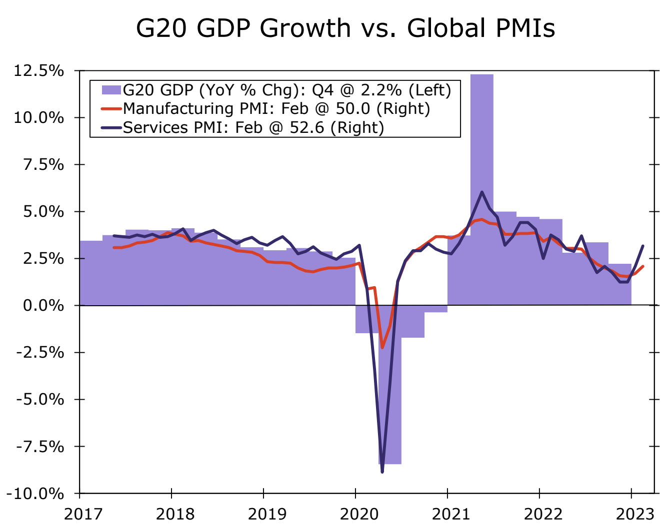
Global Economy Proving Resilient, for Now

In our February *International Economic Outlook*, we highlighted improving growth prospects for 2023, and over the past month, those broadening and ongoing signs of resilience have remained an important theme. In the United States, activity has remained solid in the early part of this year, with payrolls rising by a cumulative 815,000 in the first two months of 2023 and the ISM services index remaining comfortably in growth territory. While we still expect Federal Reserve tightening to eventually tip the U.S. into recession, the economy's momentum at the start of 2023 means we have lifted our U.S. GDP growth forecast for this calendar year to 1.0%. We have also highlighted the reopening of China's economy, with the lifting of Zero-COVID restrictions leading to a bounce in activity. The jump in China's PMI indices in February was confirmed by activity data for the January-February period, with retail sales and industrial output rising by 3.5% year-over-year and 2.4% year-over-year, respectively. A surprise cut in the Reserve Requirement Ratio by the People's Bank of China should also support consumer and service sector activity going forward. We remain comfortable with our China 2023 GDP growth forecast of 5.5%.

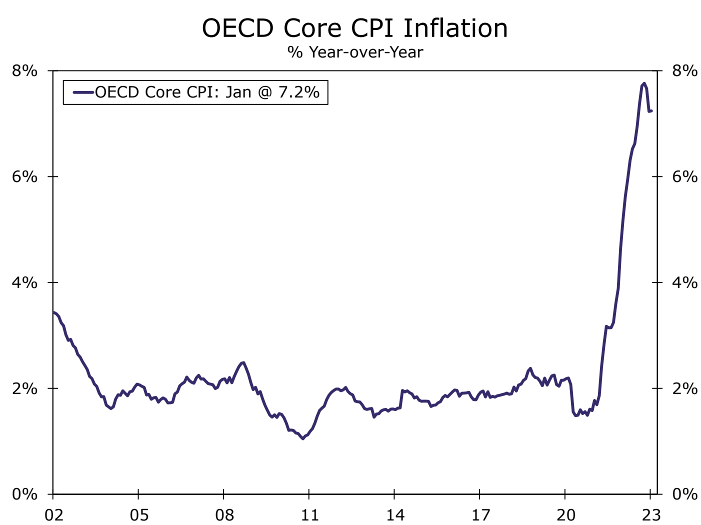
China and the United States are not the only countries that have shown signs of economic resilience in recent weeks. The Eurozone economy avoided contraction in Q4 of last year, and given the rise in Eurozone PMIs in recent months, it's possible the region could avoid contraction in Q1 of this year as well. We have upgraded our Eurozone GDP forecast for 2023 slightly to 0.3%. Even the United Kingdom has shown some positive growth trends early this year, as January GDP rose 0.3% month-over-month, helped by a 0.5% increase in service sector activity. The fiscal stimulus announced by the U.K. government in the Spring Budget Statement could also be supportive of growth during the quarters ahead. From a global perspective, economic activity is being supported by receding energy prices, which are acting as less of a drag on consumer purchasing power and overall economic growth. For the G20 economies as a whole, Q4 GDP rose 0.3% quarter-over-quarter, while the global PMIs have pointed to some improvement in early 2023. Most notably, the global services PMI rose to 52.6 in February, while the manufacturing PMI rose to 50.0 (Figure 1). Overall, given the momentum of the global economy and lessening headwinds from high energy prices, we have once again revised our global GDP growth forecast for 2023 higher to 2.2%. Importantly, this upward revision means we now anticipate that global recession will be avoided this year.

Figure 1



Source: Datastream and Wells Fargo Economics

Figure 2

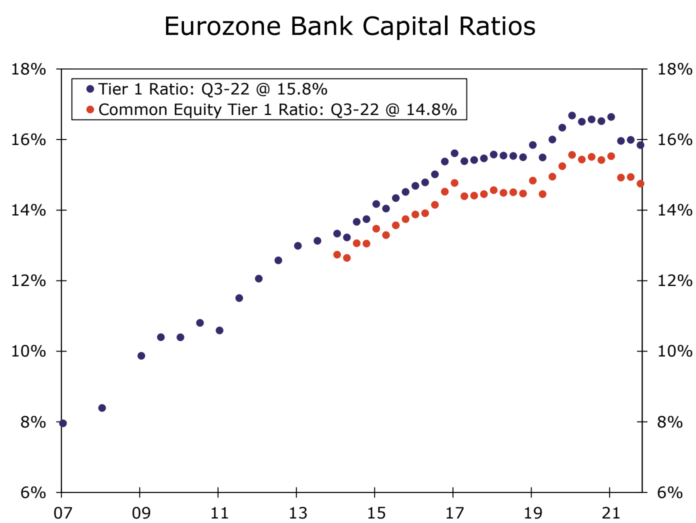


Source: Datastream and Wells Fargo Economics

That said, we unfortunately cannot communicate all good news on the global economic front. While growth is proving to be quite resilient, underlying inflation pressures are proving to be quite persistent. Thus, even as headline inflation recedes, core inflation trends remain elevated. For example, inflation excluding food and energy for OECD countries, was steady at 7.2% year-over-year in January, and still close to the 7.8% peak seen in October last year (Figure 2). To be sure, some countries are starting to see a more noticeable slowing in underlying inflation pressures, such as Canada. However, recent figures show core inflation trends are still very elevated in many countries and regions. In the Eurozone, the February core CPI rose 5.6%, the fastest pace on record, the U.K. February core CPI unexpectedly quickened to 6.2%, and the deceleration in core inflation in the United States has also slowed. Sweden, Mexico and some other Latin America countries are also areas where core inflation trends remain very elevated. To the extent that central banks need to tighten monetary further to address these core inflation trends, those underlying inflation pressures could weigh to some extent on the longer-term growth outlook.

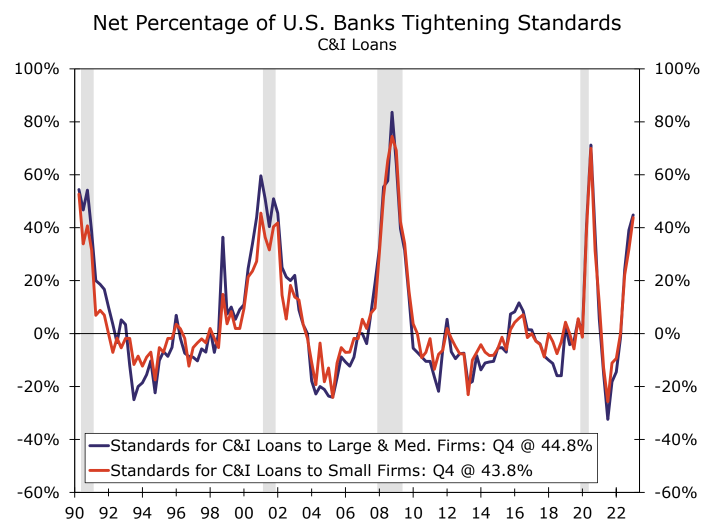
Also problematic for the growth outlook are signs of emerging financial market and banking sector strains. In the U.S., the failure of multiple regional banks along with pressures elsewhere prompted authorities to indicate that all deposits at FDIC-insured institutions would be safe. Authorities also introduced a new lending program, the Bank Term Funding Program (BTFP), to allow banks, savings associations, credit unions and other eligible depository institutions to secure loans of up to one year. In Europe, Credit Suisse—a major Swiss Bank—received liquidity support from the Swiss National Bank, before it was ultimately taken over by rival bank UBS, with the latter being granted 100 billion francs in liquidity assistance from the Swiss central bank, and 9 billion francs in guarantees from the Swiss government for potential losses. These latest episodes come after the strains seen in U.K. pension funds last autumn, which contributed to outsized volatility in U.K. government bond markets. To be sure, U.S. and European banks in aggregate appear to be better capitalized now than at the time of the global financial crisis (Figure 3). And we also expect that authorities will continue to take the necessary steps in the coming weeks and months to avoid another global financial crisis à la 2008. That said, there could still be lasting economic consequences. To the extent that financial strains weigh on market sentiment and, more importantly, lead to tighter lending standards (Figure 4) and slower credit growth, current banking sector stress, even if contained, poses a certain degree of downside risk to our medium-term outlook for global growth.

Figure 3



Source: European Central Bank and Wells Fargo Economics

Figure 4



Source: Federal Reserve Board and Wells Fargo Economics

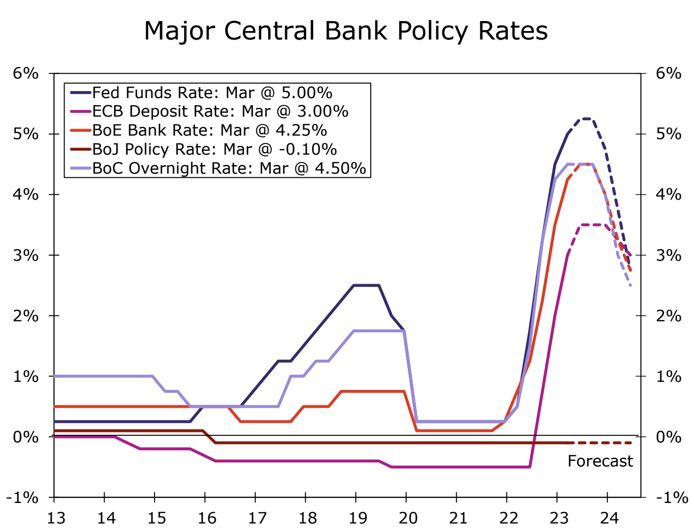
The Policy Rate Peak Is Getting Nearer

The combination of persistent inflationary pressures and growing financial strains pose something of a dilemma for global central banks. While in isolation, ongoing inflation pressures might argue for even more rate hikes than previously anticipated, in contrast, policymaker concerns surrounding financial strains and the overall stability of the banking and financial sector might encourage some central banks to curtail monetary tightening. It is possible a few central banks could end rate hikes sooner than previously forecast and, in some cases, monetary easing might also begin earlier than previously anticipated. The fact the Fed and other major central banks have boosted U.S. dollar swap arrangements in recent days is a clear indication that financial developments could increasingly influence policy deliberations. Overall, taking into account differing implications of persisting inflation pressures and emerging financial strains, we still believe that the peak in global policy rates is near and that most, if not all, central banks will end their rate hike cycles by mid-2023 (Figure 5).

To that point, the Federal Reserve increased its fed funds rate 25 bps in March. A common denominator across the official FOMC statement and Chair Powell's press conference was that recent banking sector challenges are likely to result in tighter credit conditions. Tighter credit conditions “can substitute for a rate hike,” and also weigh on economic activity, albeit to an uncertain extent. With the Fed also noting robust job growth, elevated inflation and providing forward guidance that some further additional policy firming may be appropriate, we expect a final 25 bps rate hike to a target range of 5.00%-5.25% in May. Beyond that, with the U.S. expected to fall into recession later this year, we forecast Fed easing to begin earlier than previously forecast. We now expect the Fed to cut rates by 50 bps in Q4-2023 and an additional 225 bps in total in 2024. Meanwhile, across the Atlantic, the European Central Bank (ECB) delivered a 50 bps hike at its March monetary policy meeting. In a nod to financial market strains, the ECB highlighted elevated uncertainty, emphasized a data-dependent approach to policy rate decisions and refrained from signaling any future rate moves in its statement. That said, should market strains ease and volatility recede in the period ahead, persistent inflation pressures should, in our view, be enough to elicit further European Central Bank tightening. We still expect the ECB's Deposit Rate to peak at 3.50% by June this year. These are not the only G10 central banks we believe are likely to raise rates further in the months ahead. The Bank of England raised its policy rate 25 bps to 4.25% at its March meeting, and given hints of persisting inflation, we expect a final 25 bps rate hike, to 4.50%, in May. That said, given a still subdued economy, the Bank of England could also begin easing monetary policy before the end of this year. The Swiss National Bank raised its policy rate 50 bps in March despite recent financial market turmoil, and we forecast a final 25 bp;s rate increase in June, to 1.75%. Norway's central bank raised interest rates in March and signaled more to come, while Sweden's Riksbank should also raise interest rates further, with core inflation still very elevated and despite a soft economy. The Reserve Bank of New Zealand should also raise interest rates further, though our forecast for peak policy rate of 5.25% is lower than previously projected.

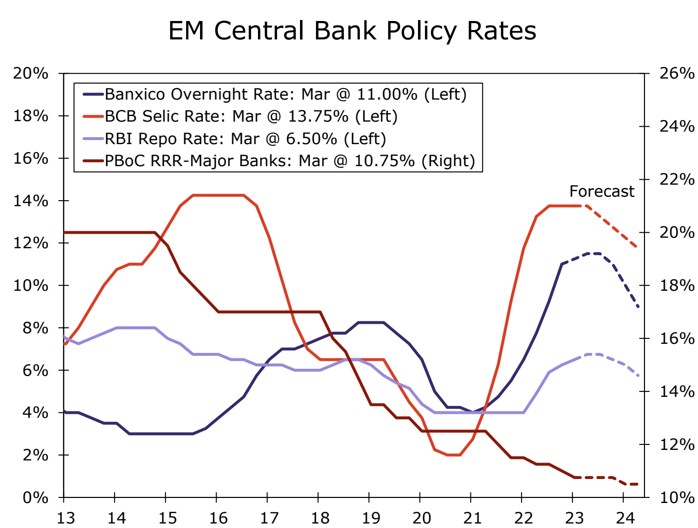
There are, however, several central banks where we believe rate hikes have likely already finished. The Bank of Canada has been on hold since early this year with underlying inflation pressures starting to recede, and notwithstanding signs of life in the Canadian labor market. We also expect Bank of Canada will be among the first of the major central banks to begin easing monetary policy, likely in Q4 of this year. We also believe the Reserve Bank of Australia has reached the end of its rate hike cycle. In the emerging markets, Central Bank of Mexico appears likely to raise rates further, partly in response to anticipated Fed rate hikes, but also due to elevated core inflation. We forecast a final 25 bps rate interest rate increase from the Reserve Bank of India in April, with the Brazilian Central Bank likely to deliver rate cuts in the second half of this year. Notably, we expect many emerging market central banks to begin easing policy by late 2023, with rate cuts expected in Brazil, Mexico and India before the end of this year. We also expect a further reduction in China's Reserve Requirement Ratio over the medium term (Figure 6).

Figure 5



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

Figure 6



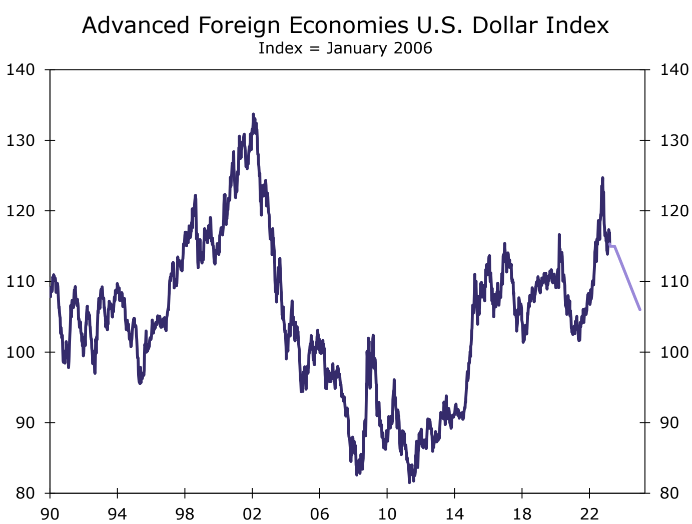
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Dollar Depreciation Coming Closer

With global central bank rate hikes expected to be completed during the first half of this year, we also believe an extended period of U.S. dollar depreciation is close at hand (Figure 7). For the immediate period ahead, however, we think the greenback can experience a brief period of stability. We now forecast only 25 bps of further Fed tightening in the current cycle, meaning the Fed is no longer clearly outpacing the pace of rate hikes from other central banks. For example, we forecast the European Central Bank and the Reserve Bank of New Zealand to deliver a larger 50 bps of cumulative rate increases, while the Fed move would match additional tightening from the Bank of England, Swiss National Bank and Sweden's Riksbank. The fact that our 25 bps Fed rate hike forecast for May exceeds the tightening priced by markets could offer some help to the U.S. dollar in the near term. Still, with the Fed no longer clearly outpacing other central banks, we also no longer forecast a significant further bout of U.S. dollar strength.

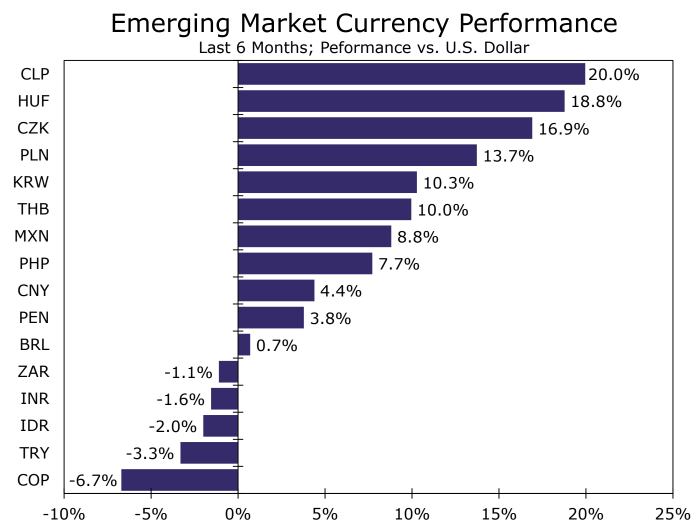
In terms of other near-term U.S. dollar influences, despite the best efforts of authorities, to the extent financial markets remain unsettled in the near term, the U.S. dollar could at times garner safe-haven support. However, that positive influence is likely to be offset by central bank actions that are making U.S. dollars more readily available. In the early stages of the U.S. regional banking crisis, banks borrowed some $165 billion from two of the Fed's backstop facilities. In the week ended March 15, borrowing from the discount window was $152.85 billion, a record high, while borrowing from the new Bank Term Funding Program was $11.9 billion. Meanwhile, the Fed and five other central banks (Bank of Canada, Bank of England, Bank of Japan, European Central Bank and Swiss National Bank) announced enhancement to their existing foreign exchange swap arrangements. The central banks involved in these FX swap arrangements increased the frequency of seven-day maturity operations from weekly to daily, and said that would continue through at least the end of April. Again, these contrasting dynamics would be consistent with a broadly stable U.S. dollar through until mid-2023.

Figure 7



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

Figure 8



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

Our outlook for medium- and longer-term weakness in the U.S. dollar remains intact. We continue to believe that U.S. economic trends are set to worsen in the second half of this year and see the economy falling into recession by Q3. In contrast, key economies such as the Eurozone and United Kingdom are likely experiencing their weakest growth around the turn of this year (that is late 2022 and early 2023), as until very recently high energy prices and still relatively high inflation weigh on consumer purchasing power. By later this year as those energy price effects wane, those European economies should experience subdued but steady growth, a notable contrast to the contraction we project for the United States. These growth differentials, in our view, should attract capital to foreign currencies and place broad depreciation pressure on the U.S. dollar. In addition, with banking sector strains potentially adding to downside pressure to the U.S. economy over time, we now expect the Federal Reserve to begin lowering interest rates earlier and more aggressively than previously forecast. We anticipate 50 bps of rate cuts in Q4-2023, and a further cumulative 225 bps of rate cuts in 2024.

The combination of U.S. recession and Fed easing should result in modest U.S. dollar depreciation later this year, and more pronounced U.S. dollar depreciation in 2024 as interest rate dynamics become a key driver of dollar weakness next year, when policy rate differentials are set to work against the greenback and swing in favor of foreign currencies.

In our view, emerging market currencies are still likely to outperform this year, despite rising risks to the global economic outlook. We believe elevated real interest rates can attract capital inflows to emerging markets as an asset class, and in turn, provide support to developing currencies. So far, this outcome has broadly materialized as emerging currencies have been remarkably resilient. Over the last six months, EM FX has broadly strengthened against the U.S. dollar and outperformed relative to G10 peer currencies (Figure 8). While the latest banking stresses in the United States and Europe have resulted in emerging market currencies giving back some gains, the depreciations experienced over the course of the latest episode have been modest. But with banking sector risks percolating and uncertainty running high, the potential for outsized and sustained EM FX weakness is growing. Over the course of the 2008 Global Financial Crisis, emerging market currencies came under the most pressure as risk appetite soured and capital flowed toward safe-haven assets. Should another financial crisis unfold, emerging market currencies would likely come under extreme pressure; however, our FX vulnerability framework suggests EM FX may be more protected this time as fundamentals have, on balance, improved over the last 15 years. Currencies such as the Indonesian rupiah, Philippine peso and Korean won would likely not experience the same degree of stress as foreign exchange reserve balances and local political risk dynamics have improved. With that said, our underlying assumption is that current banking stresses are contained and systemic financial system issues are avoided. Under this assumption, appetite for risk-sensitive currencies, especially in the EM space, should improve, while the value in developing currencies can be unlocked. We believe currencies associated with sound underlying fundamentals and stable local politics can outperform. In that sense, we believe the Mexican peso can outperform over the long term and favor select currencies in emerging Asia. We also believe the Chilean peso and Brazilian real can outperform on an assumption for political stability and attractive interest rate dynamics, while the Israeli shekel still appears oversold at current levels.

In addition to believing developing market currencies can outperform, G10 currencies can also perform well over time. We expect ECB rate hikes will outpace those of the Fed in the near term and, with the Eurozone economy proving quite resilient, we expect eventual ECB easing to be later and more gradual than that of the Fed. After the period of brief greenback stability in early 2023, we think the prospects for the euro will brighten, and expect the EUR/USD exchange rate to reach $1.13 by the end of this year. In addition, we believe the Japanese yen can experience a strong rebound as bond yields, especially in the United States, eventually come down, and less negative yield spreads support the Japanese currency. During the global tightening phase in which Japan maintained its easy monetary policy stance, the yen came under significant downside pressure. On the flip side, as the global monetary policy cycle turns to easing, we expect the yen to be a key beneficiary and target a USD/JPY exchange rate of JPY127.00 by the end of this year. The Australian and New Zealand dollars should also gain moderately over the medium term, with both central banks likely to lower interest rates only gradually over time, in contrast to the aggressive easing we expect from the Fed. While we expect most G10 currencies to strengthen against the dollar over time, we anticipate the Canadian dollar could be a laggard among its developed currency peers. The Bank of Canada has already signaled an end to its rate hike cycle, and with the economy losing some momentum and inflation slowing, the BoC could also begin cutting interest rates before the end of this year. With energy prices in 2023 also well below their 2022 levels, that is likely to limit any Canadian dollar gains against the U.S. currency.

High Conviction Views

- **An extended period of U.S. dollar depreciation is fast approaching.** The greenback could be relatively stable in the near term. There is some potential for safe-haven support for the U.S. dollar, but further Fed tightening should be modest, and global central bank actions to make dollars more readily available will likely provide an offset to potential dollar strength. Thus, we expect the U.S. currency to come under renewed pressure before long, with the U.S. economy expected to fall into recession later this year. Aggressive Fed easing starting in Q4-2023 should add to downside pressures for the greenback. We forecast the trade-weighted dollar to soften 3% over the balance of 2023, and by a further 5% in 2024.
- **Increasing confidence for global economic resilience in 2023.** Global growth for 2023 has continued to improve, and we have upgraded our global GDP growth forecast to 2.2% for this year. The U.S. has started the year with a degree of momentum, even if activity could wane as the year progresses. Chinese activity is bouncing back as the economy reopens, while the Eurozone is likely to benefit as energy prices have receded and headline inflation has slowed. While banking and financial sector strains have clouded the outlook to some extent, we ultimately believe authorities will do whatever is needed and will be successful in containing those difficulties. Against that backdrop, our upwardly revised forecast means we now expect the global economy to avoid recession this year.
- **Japanese yen strength over time.** While the yen underperformed during the global monetary tightening phase, in our view the currency will likely outperform as tightening cycles eventually come to an end and central banks turn to easing. Yen outperformance over time should also be supported by U.S. recession in H2-2023 as well as recent actions by the Fed, which have made U.S. dollar liquidity more readily available. And while the likelihood of a hawkish Bank of Japan (BoJ) monetary policy shift has perhaps diminished a little, if the global financial sector proves surprisingly resilient, the risk of a further policy adjustment from the BoJ could still reinforce the outlook for yen gains over the medium term as well.
- **Canadian dollar underperformance.** We expect only modest gains in the Canadian dollar against the U.S. currency over time. The Bank of Canada has already ended its tightening cycle, as evidence of softer economic activity and slowing underlying inflation trends brought rate hikes to an end. With growth set to remain subdued and inflation likely to slow further, Canada could also be among the first of the major central bank to begin easing monetary policy, by Q4-2023. That should act as a headwind for the Canadian dollar, while energy prices that are well below their 2022 peaks should also be a restraining factor for the currency. Against this backdrop, we expect the Canadian dollar to underperform relative to most of its G10 peers over the medium term.
- **Emerging market currencies to outperform G10 in 2023.** With the global economy showing more resilience and the Fed slowing its pace of tightening, we believe EM currencies can outperform relative to G10 peer currencies this year. Attractive real yields should result in market participants accumulating exposure to developing currencies, while our assumption for contained banking sector stresses should lead to improved risk appetite
- **Explicit Argentine peso devaluation in Q4-2023.** Argentine authorities allowed for greater peso depreciation in 2022; however, in order to continue receiving IMF disbursements, the central bank will need to allow for an even greater pace of currency depreciation. Once presidential elections are completed in October, we believe an outsized and intentional peso devaluation will materialize, and the Argentine peso will be the worst performing emerging market currency in 2023.

Currency	Forecasted % Change to Q4-23*	
Israeli Shekel (ILS)	8.2%	most bullish
Hungarian Forint (HUF)	7.8%	
Czech Koruna (CZK)	7.2%	
Brazilian Real (BRL)	6.4%	
Polish Zloty (PLN)	5.8%	
Swedish Krona (SEK)	5.7%	
New Zealand Dollar (NZD)	5.2%	
Norwegian Krone (NOK)	5.2%	
Chilean Peso (CLP)	4.7%	
Australian Dollar (AUD)	4.3%	
Euro (EUR)	3.8%	
South African Rand (ZAR)	3.7%	
Japanese Yen (JPY)	3.3%	
Mexican Peso (MXN)	3.1%	
Colombian Peso (COP)	2.6%	
Indonesian Rupiah (IDR)	2.3%	
South Korean Won (KRW)	2.3%	
Taiwan Dollar (TWD)	2.1%	
Swiss Franc (CHF)	2.0%	
Singapore Dollar (SGD)	2.0%	
Peruvian Sol (PEN)	1.8%	
Thai Baht (THB)	1.7%	
British Pound (GBP)	1.6%	
Indian Rupee (INR)	1.6%	
Philippine Peso (PHP)	1.5%	
Canadian Dollar (CAD)	1.1%	
Chinese Renminbi (CNY)	0.9%	
Chinese Renminbi (CNH)	0.8%	
Turkish Lira (TRY)	-2.3%	
Trade Weighted Dollar (USD)	-3.1%	
Russian Ruble (RUB)	-9.5%	most bearish
Argentine Peso (ARS)	-39.5%	

Forecast as of: March 23, 2023
*Percentage Change Against USD, Q4-23 Vs. Current Spot Rate

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

Wells Fargo International Economic Forecast

	GDP				CPI			
	2021	2022	2023	2024	2021	2022	2023	2024
Global (PPP Weights)	6.2%	2.6%	2.2%	2.6%	4.7%	7.1%	5.0%	3.7%
Advanced Economies[1]	5.4%	2.8%	0.9%	1.2%	3.1%	7.9%	4.8%	2.4%
United States	5.9%	2.1%	1.0%	0.3%	4.7%	8.0%	4.0%	2.5%
Eurozone	5.5%	3.5%	0.3%	1.6%	2.6%	8.4%	5.7%	2.4%
United Kingdom	7.6%	4.0%	-0.6%	1.5%	2.6%	9.1%	7.0%	2.4%
Japan	2.1%	1.0%	0.9%	1.5%	-0.2%	2.5%	2.3%	1.2%
Canada	5.0%	3.4%	0.5%	1.5%	3.4%	6.8%	3.4%	2.1%
Switzerland	4.2%	2.1%	0.3%	1.7%	0.6%	2.8%	2.1%	1.2%
Australia	5.2%	3.7%	1.5%	2.4%	2.8%	6.6%	4.3%	2.9%
New Zealand	5.6%	2.4%	1.5%	1.5%	3.9%	7.2%	4.2%	2.5%
Sweden	5.1%	2.7%	-0.4%	1.7%	2.7%	8.3%	6.8%	2.2%
Norway	3.9%	3.8%	1.1%	0.8%	3.5%	5.8%	4.1%	2.5%
Developing Economies[1]	6.7%	2.4%	3.1%	3.7%	5.9%	6.5%	5.2%	4.7%
China	8.4%	3.0%	5.5%	5.0%	0.9%	2.0%	2.2%	2.2%
India	8.7%	6.7%	5.7%	6.7%	5.5%	6.7%	4.8%	5.0%
Mexico	4.7%	3.1%	1.1%	2.2%	5.7%	7.9%	5.6%	3.6%
Brazil	5.0%	3.0%	0.5%	2.2%	8.3%	9.0%	5.0%	4.0%

Forecast as of: March 23, 2023

[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						
		2023				2024	
	Current	Q1	Q2	Q3	Q4	Q1	Q2
United States	5.00%	5.00%	5.25%	5.25%	4.75%	3.75%	2.75%
Eurozone[1]	3.00%	3.00%	3.50%	3.50%	3.50%	3.25%	3.00%
United Kingdom	4.25%	4.25%	4.50%	4.50%	4.00%	3.25%	2.75%
Japan	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%
Canada	4.50%	4.50%	4.50%	4.50%	4.00%	3.00%	2.50%
Switzerland	1.50%	1.50%	1.75%	1.75%	1.75%	1.50%	1.25%
Australia	3.60%	3.60%	3.60%	3.60%	3.60%	3.60%	3.35%
New Zealand	4.75%	4.75%	5.25%	5.25%	5.25%	5.25%	5.00%
Sweden	3.00%	3.00%	3.25%	3.25%	3.25%	3.25%	3.00%
Norway	3.00%	3.00%	3.50%	3.50%	3.50%	3.25%	3.00%
China[3]	11.00%	10.75%	10.75%	10.75%	10.75%	10.50%	10.50%
India	6.50%	6.50%	6.75%	6.75%	6.50%	6.25%	5.75%
Mexico	11.00%	11.25%	11.50%	11.50%	11.00%	10.00%	9.00%
Brazil	13.75%	13.75%	13.75%	13.25%	12.75%	12.25%	11.75%

	2-Year Note						
		2023				2024	
	Current	Q1	Q2	Q3	Q4	Q1	Q2
United States	3.87%	4.15%	4.20%	3.50%	2.90%	2.65%	2.55%
Eurozone[2]	2.52%	2.65%	2.90%	2.80%	2.65%	2.50%	2.40%
United Kingdom	3.29%	3.40%	3.50%	3.30%	3.00%	2.60%	2.50%
Japan	-0.06%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Canada	3.50%	3.65%	3.70%	3.30%	2.90%	2.70%	2.60%

	10-Year Note						
		2023				2024	
	Current	Q1	Q2	Q3	Q4	Q1	Q2
United States	3.45%	3.60%	3.50%	3.15%	2.90%	2.85%	2.80%
Eurozone[2]	2.20%	2.35%	2.50%	2.45%	2.40%	2.35%	2.30%
United Kingdom	3.36%	3.45%	3.40%	3.25%	3.00%	2.65%	2.60%
Japan	0.32%	0.40%	0.40%	0.30%	0.25%	0.20%	0.20%
Canada	2.76%	2.90%	2.85%	2.80%	2.75%	2.70%	2.70%

Forecast as of: March 23, 2023

[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	Q1-2023	Q2-2023	Q3-2023	Q4-2023	Q1-2024	Q2-2024
G10							
EUR/USD	1.0885	1.0900	1.0900	1.1100	1.1300	1.1500	1.1700
USD/JPY	131.20	131.00	131.00	130.00	127.00	125.00	123.00
GBP/USD	1.2302	1.2300	1.2300	1.2400	1.2500	1.2600	1.2700
USD/CHF	0.9156	0.9175	0.9225	0.9100	0.8975	0.8875	0.8750
USD/CAD	1.3649	1.3700	1.3700	1.3600	1.3500	1.3400	1.3300
AUD/USD	0.6712	0.6700	0.6700	0.6800	0.7000	0.7200	0.7400
NZD/USD	0.6275	0.6300	0.6300	0.6400	0.6600	0.6800	0.7000
USD/NOK	10.3291	10.3200	10.2750	10.0450	9.8225	9.6075	9.4025
USD/SEK	10.2862	10.2750	10.1825	9.9550	9.7350	9.5225	9.3150
Asia							
USD/CNY	6.8267	6.8200	6.8200	6.8000	6.7680	6.7200	6.6800
USD/CNH	6.8206	6.8200	6.8200	6.8000	6.7680	6.7200	6.6800
USD/IDR	15345	15300	15300	15200	15000	14800	14600
USD/INR	82.26	82.25	82.25	81.75	81.00	80.25	79.50
USD/KRW	1278.15	1275.00	1275.00	1265.00	1250.00	1230.00	1210.00
USD/PHP	54.31	54.25	54.25	54.00	53.50	53.00	52.25
USD/SGD	1.3254	1.3300	1.3300	1.3200	1.3000	1.2800	1.2600
USD/TWD	30.36	30.25	30.25	30.00	29.75	29.50	29.50
USD/THB	34.07	34.00	34.00	33.75	33.50	33.25	33.00
Latin America							
USD/BRL	5.2644	5.2000	5.1500	5.0500	4.9500	4.8500	4.7500
USD/CLP	806.20	800.00	790.00	780.00	770.00	760.00	750.00
USD/MXN	18.5514	18.5000	18.5000	18.2500	18.0000	17.7500	17.7500
USD/COP	4769	4800	4800	4750	4650	4550	4450
USD/ARS	205.79	210.00	260.00	290.00	340.00	400.00	450.00
USD/PEN	3.7655	3.7500	3.7500	3.7300	3.7000	3.6700	3.6400
Eastern Europe/Middle East/Africa							
USD/CZK	21.71	21.75	21.50	21.00	20.25	19.75	19.25
USD/HUF	353.15	353.25	348.50	337.75	327.50	317.50	307.75
USD/PLN	4.3045	4.3125	4.3125	4.1900	4.0700	3.9575	3.8500
USD/RUB	76.04	77.00	80.00	82.00	84.00	86.00	88.00
USD/ILS	3.6238	3.6000	3.4500	3.4000	3.3500	3.3000	3.2500
USD/ZAR	18.1404	18.2500	18.2500	18.0000	17.5000	17.0000	16.5000
USD/TRY	19.0436	19.0000	19.0000	19.2500	19.5000	19.7500	20.0000
Euro Crosses							
EUR/JPY	142.81	142.75	142.75	144.25	143.50	143.75	144.00
EUR/GBP	0.8848	0.8862	0.8862	0.8952	0.9040	0.9127	0.9213
EUR/CHF	0.9966	1.0000	1.0050	1.0100	1.0150	1.0200	1.0250
EUR/NOK	11.2435	11.2500	11.2000	11.1500	11.1000	11.0500	11.0000
EUR/SEK	11.1968	11.2000	11.1000	11.0500	11.0000	10.9500	10.9000
EUR/CZK	23.64	23.75	23.50	23.25	23.00	22.75	22.50
EUR/HUF	384.38	385.00	380.00	375.00	370.00	365.00	360.00
EUR/PLN	4.6855	4.7000	4.7000	4.6500	4.6000	4.5500	4.5000

Forecast as of: March 23, 2023

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

Subscription Information

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Required Disclosures