International Commentary — July 26, 2021

International Economic Outlook: July 2021

Economist(s)

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Summary

Forecast Changes

- With the rise of renewed COVID concerns related to the Delta variant, we have made some changes to our foreign exchange forecasts. We believe the U.S. dollar's strength can extend further and anticipate gains versus most G10 and emerging currencies through Q3. However, should this wave of COVID cases recede by late 2021, we expect the greenback to revert to a softer trend in Q4, and indeed through much of 2022.
- We have made notable changes to some of our central bank forecasts. On the dovish side, we expect the European Central Bank (ECB) to ease monetary policy further at its December meeting, by increasing the purchase envelope for its Pandemic Emergency Purchase Program. In New Zealand, given strong data and hawkish central bank comments, we now expect multiple rate hikes this year. We also see faster rate hikes than previously observed in Brazil and Mexico.
- In addition to the altered near-term path for the greenback, we have lowered our medium-term euro forecast, given the ECB's commitment to maintaining accommodative monetary policy. We have become less positive on the Australian dollar as growth prospects have dimmed to some extent. In emerging markets, we have a more constructive view on the Peruvian sol, given reduced political risk tied to the election of Pedro Castillo, but continue to forecast a weaker South African rand.

Key Themes

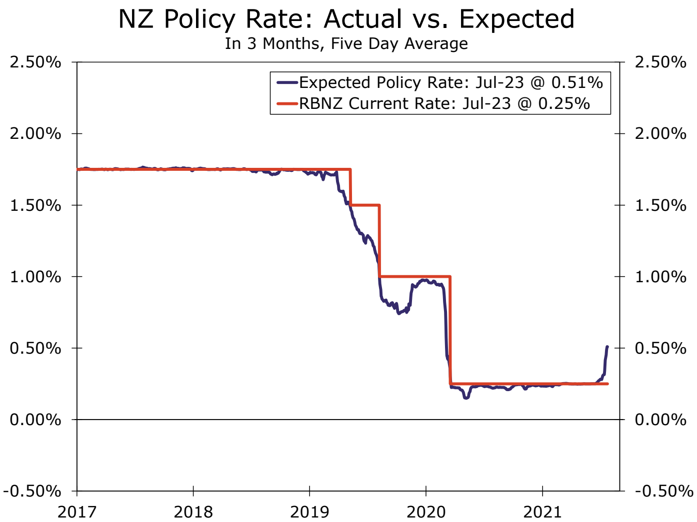
- A significant pickup in COVID cases has altered the near-term outlook for financial markets. Given a more uncertain outlook, we believe the U.S. dollar's strength versus most G10 and emerging currencies can extend at least through Q3. Should the latest wave of COVID cases prove transitory, we expect the greenback to revert to a softer path for Q4, in part as several foreign central banks move to less accommodative monetary policy.
- We are not making significant changes to our global growth outlook at this time, and our global GDP growth forecast is unchanged at 6.3%. We do not expect governments to reimpose widespread restrictions, nor do we see consumers voluntarily restricting their own activities to a significant degree in response to the latest COVID developments.
- Should the latest COVID outbreak persist for an extended period, perhaps until the end of this year, there would be a higher likelihood of governments reimposing restrictions and central banks delaying their tightening plans. Global GDP growth could be lower by perhaps 0.25%-0.50%, and the U.S. dollar could see more sustained strength in this scenario. While we would emphasize this is not our base case, we will of course be monitoring COVID developments closely.

Global Central Banks Becoming More Active

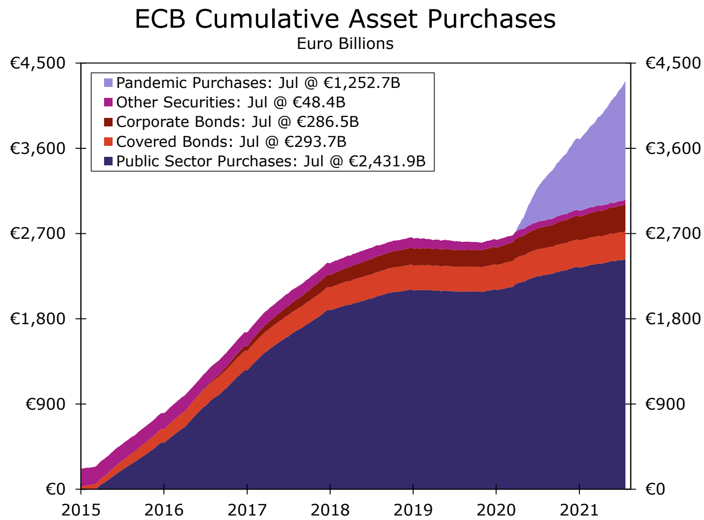
One theme that has become increasing prominent this year, and that has continued over the past month, has been increased activity from several foreign central banks. To date, actual shifts in the stance of monetary policy have been relatively limited; however, central banks have become particularly active in terms of providing adjusted policy guidance and, in some cases, signals that policy action may not be far away. This is a significant development for foreign exchange markets in that more frequent central bank rhetoric has the potential to increase currency market volatility. Moreover, if central banks follow through on their guidance and deliver less (or in some cases more) accommodative monetary policy, such action could form the basis for direction trends in foreign exchange markets over the medium term.

With respect to this monetary policy theme, perhaps the standout event over the past month was the hawkish announcement from the Reserve Bank of New Zealand (RBNZ). The RBNZ announced what was in effect an immediate end to its bond purchase program. With the RBNZ having previously indicated that it was contemplating an eventual interest rate increase, and given strong confidence surveys and an upside inflation surprise, we along with market participants now expect the RBNZ to raise rate by 25 bps at its August meeting. In addition, we expect another 25-bp rate increase in Q4-2021. This hawkish approach from the RBNZ has helped make the NZ dollar one of the better performing G10 currencies over the past month, even as financial markets have been somewhat unsettled at times and most G10 currencies have softened versus the greenback.

In a similar vein, but perhaps slightly more balanced, the Bank of Canada took another step toward less accommodative monetary policy, reducing the pace of its bond purchases to C$2 billion per week, from C$3 billion per week previously. Canada's central bank did say the economy still requires extraordinary monetary policy support though, but if the economic rebound that appears to have resumed in recent months continues, we anticipate a further slowing in bond purchases later this year. In contrast to New Zealand and Canada, the Reserve Bank of Australia took only a tentative step toward tapering at its July announcement. The RBA maintained the target for the Cash Rate and three-year government bond yields at 0.10%. With respect to quantitative easing, the RBA said that when the current bond purchase program ends in September it would continue with its bond purchases at the modestly reduced pace of A$4 billion per week until at least mid-November, at which point it would conduct a further review. Given tame inflation and the fact that recent COVID outbreaks could weigh on Australia's economy during the second half of this year, we expect the RBA to extend bond purchases further beyond November, again at a modestly reduced pace.



Source: Bloomberg LP and Wells Fargo Securities



Source: Bloomberg LP and Wells Fargo Securities

Finally, at the more dovish end of the spectrum, Sweden's central bank held its policy interest rate at 0.00% and indicated it was comfortable to hold policy rates at zero over its entire forecast horizon. The European Central Bank held monetary policy steady and indicated a commitment to maintain accommodative monetary policy in an effort to return inflation toward its 2% target. As we discuss below, we believe the European Central Bank will ultimately ease monetary policy further, specifically in the form of increased asset purchases.

European Central Bank Takes It Easy

Although the Reserve Bank of New Zealand's announcement was perhaps the standout monetary policy event in recent weeks, the event that may have the most lasting and significant implication for the longer-term economic and currency market outlook could be the European Central Bank's (ECB) July announcement.

The ECB did not make any changes to its monetary policy stance at its July meeting, holding its benchmark interest rates steady and also making no change to its bond purchase programs, which include the Asset Purchase Program (APP) and the Pandemic Emergency Purchase Program (PEPP). However, in the wake of the ECB Policy Strategy review, which saw the central bank adopt a symmetric 2% inflation target, the ECB offered perceptibly more dovish guidance at its July meeting. Specifically, the ECB said

> "In support of its symmetric two per cent inflation target and in line with its monetary policy strategy, the Governing Council expects the key ECB interest rates to remain at their present or lower levels **until it sees inflation reaching two per cent well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realized progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilizing at two per cent over the medium term. This may also imply a transitory period in which inflation is moderately above target.**" (emphasis added)

The ECB also repeated that for Q3 PEPP purchases would continue to be conducted at a significantly higher pace than during the early months of this year. While the ECB's announcement did not offer any specific hints regarding near-term policy shifts, we believe the central bank's increased commitment to maintaining accommodative monetary policy in pursuit of its inflation target will lead to further policy action at its upcoming meetings. With some uncertainty stemming from the recent uptick in COVID cases across the Eurozone and core CPI inflation (and the ECB's medium-term inflation forecasts) still well below the 2% inflation target, **we believe the European Central Bank will refrain from tapering its bond purchases at its September announcement, and instead signal that for Q4 PEPP purchases would continue to be conducted at a significantly higher pace than during the early months of this year.** In addition, to the extent that recent COVID developments weigh on confidence and activity, and should underlying inflation trends fail to move meaningfully higher, we expect the ECB to announce a further increase in bond purchases. **Our base case for the European Central Bank's December monetary policy announcement is for the central bank to announce a further €500 billion increase in PEPP purchases, taking the size of that program to €2.350 trillion, with purchases under the PEPP program to continue until at least September 2022**.

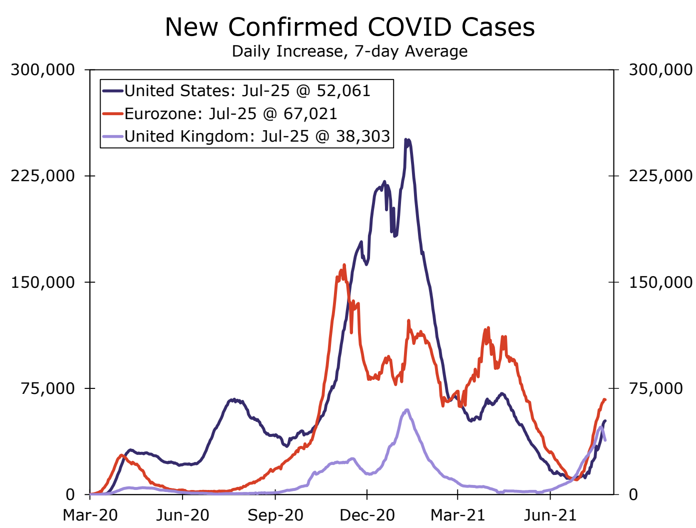
Overall, the monetary policy signals of the past month could be important drivers of foreign currencies over the medium term. They are among the factors that underpin our constructive view of the New Zealand and Canadian dollars (and the Norwegian krone, where the central bank is also expected raise interest rates soon). It is also a reason why we expected more measured gains in the Australian dollar, and see the euro as still perhaps perceptible to some further downside. However, although these policy signals could drive medium-term currency trends (and foreign currency gains), they appear be having little influence on near-term currency moves which, for the most part, have seen most G10 and emerging currencies softer versus the greenback in recent week. Instead, those U.S. dollar gains and foreign currency declines appear to be stemming from another key market theme—the renewed spread of COVID cases which is contributing to some market uncertainty, and providing safe-haven support for the U.S. dollar.

How Transitory Will the Latest Wave of COVID Cases Be?

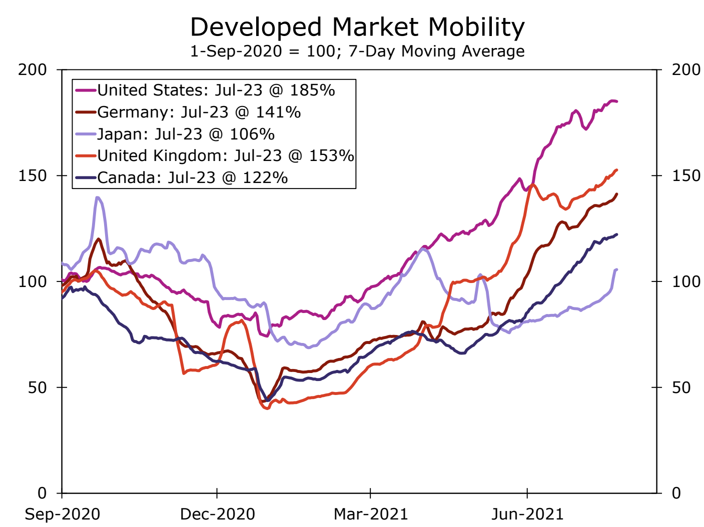
Over the past several weeks, there has been a significant uptick in COVID cases as the more transmissible Delta variant of the virus has become prevalent in many countries. Indeed, a defining characteristic of the latest wave of COVID cases is that it is widespread across many countries. Even countries or regions that have seen significant progress in vaccinating their populations (for example, the United States, the United Kingdom and the Eurozone) have seen a noticeable rise in new cases. Some other countries like Australia that had not been as badly affected by COVID are now seeing widespread outbreaks. Among the developing economies, there has been a significant uptick among emerging Asian countries, while the case count remains quite elevated across many emerging economies.

Of course when it comes to COVID, one often has to search hard for "good news." That said, if there is an economic silver lining during the latest wave, it is that for the major developed economies the increase in cases has not yet been matched by an increase in fatalities. That is one reason why we believe it is still too early to assess whether this latest wave of COVID cases will have lasting and sizable economic effects. Indeed, the potential economic impact is complex and nuanced, and somewhat difficult to determine. In the absence of new restrictions, we suspect the public may make only moderate changes to their behaviors, and think that "voluntary" restrictions on activity stemming directly from increased COVID cases could be relatively limited. Overall, the economic impact of the latest wave of COVID cases will depend on how persistent the current outbreak ends up being, and whether governments reimpose any significant restrictions in response. For some of the key global economies and regions, such as the United States, China, the Eurozone and the United Kingdom, in our view there is little appetite for authorities to reimpose widespread restrictions and, in aggregate, the global economic impact should be modest.

Of course, the impact will probably vary on a country-by-country and region-by-region basis. In Japan, for example, vaccination rates are lower and the state of emergency and associated restrictions could be kept in place longer. For Australia and New Zealand, it is easy to envisage a scenario where the respective government keep their borders closed to most foreign visitors for an even longer period of time, which could eventually weigh on economic growth and the respective currencies. And for many emerging economies, where vaccination rates are also lower than many developed economies, the economic and currency effects could be more marked.



Source: Bloomberg LP and Wells Fargo Securities



Source: Apple and Wells Fargo Securities

While it is too early, in our view, to know if this latest wave of COVID cases will have significant economic effects, we feel somewhat more confident in suggesting that it will have perceptible market implications. Even if there are no lasting economic effects, there will almost certainly be an interim period of uncertainty during which market participants try to ascertain the potential negative consequences of the latest wave of COVID cases. We have already observed this to some extent. Global equity markets have come under pressure at times in recent weeks, while the U.S. 10-year Treasury yield fell as low as 1.13% at one point. Over the past month, the U.S. dollar has also enjoyed widespread gains against most G10 and emerging currencies. We expect this period of uncertainty, and unsettled trading, to continue for a while longer. As a result, now suspect the U.S. dollar's recent strength can extend further, with an additional gain of 1% or more possible through the end of Q3. If COVID concerns do subsequently recede, we expect the greenback to revert to a softer trend, with the Q3 U.S. dollar gain largely reversed in Q4. At this time, we are not making substantive adjustments to our economic forecasts, and still see global GDP growth of 6.3% in 2021, as well as forecast 4.0% global GDP growth for 2022. Only if the latest COVID wave were to last for a sustained period—with cases elevated perhaps through until the end of this year—prompting governments to impose renewed restrictions and central banks to delay their tightening plans—would we expect a more meaningful economic impact. In this scenario, global GDP growth could be reduced by perhaps 0.25% in 2021 (reflecting a six-month hit to economic activity during the second half), and by 0.50% in 2022. As international central banks delay their tightening plans, and also given the likelihood of safe-haven support against an unsettled market backdrop, the U.S. dollar could also see an extended period of trend strength in this scenario. As we mentioned earlier, this is not our base case scenario—like previous waves during the COVID crisis, we anticipate this one will also be transitory—but we will nonetheless be monitoring developments closely.

Global Economic Forecasts

Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

	GDP				CPI			
	2019	2020	2021	2022	2019	2020	2021	2022
Global (PPP Weights)	2.8%	-3.3%	6.3%	4.0%	3.5%	3.2%	3.9%	3.7%
Advanced Economies[1]	1.6%	-4.7%	5.8%	5.0%	1.4%	0.7%	3.0%	2.4%
United States	2.2%	-3.5%	6.9%	5.7%	1.8%	1.2%	4.3%	3.2%
Eurozone	1.3%	-6.6%	4.6%	4.3%	1.2%	0.3%	2.0%	1.6%
United Kingdom	1.4%	-9.9%	7.1%	5.5%	1.8%	0.9%	2.0%	2.0%
Japan	0.3%	-4.8%	2.3%	2.8%	0.5%	0.0%	0.1%	0.7%
Canada	1.9%	-5.4%	6.2%	4.1%	1.9%	0.7%	2.9%	2.5%
Switzerland	1.1%	-3.0%	3.3%	3.0%	0.4%	-0.7%	0.5%	0.6%
Australia	1.9%	-2.4%	5.1%	3.0%	1.6%	0.9%	2.1%	2.0%
New Zealand	2.4%	-3.0%	6.0%	3.2%	1.6%	1.7%	2.6%	2.1%
Sweden	1.4%	-2.8%	4.3%	3.4%	1.6%	0.7%	1.7%	1.5%
Norway	0.9%	-0.8%	3.6%	3.9%	2.2%	1.3%	2.9%	2.1%
Developing Economies[1]	3.6%	-2.2%	6.6%	3.2%	5.1%	5.1%	4.5%	4.7%
China	5.8%	2.3%	8.5%	5.3%	2.9%	2.4%	1.4%	2.3%
India	4.0%	-8.0%	9.9%	3.4%	4.8%	6.2%	4.9%	4.6%
Mexico	-0.1%	-8.2%	5.3%	2.7%	3.6%	3.4%	5.3%	4.2%
Brazil	1.4%	-4.1%	5.1%	2.2%	3.7%	3.2%	6.0%	4.0%

Forecast as of: July 26, 2021

[1]Aggregated Using PPP Weights

Source: International Monetary Fund and Wells Fargo Securities

Interest Rate Forecasts

Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

Central Bank Key Policy Rate	2021		2022			
	Q3	Q4	Q1	Q2	Q3	Q4
United States	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
Eurozone[1]	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%
United Kingdom	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Japan	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%
Canada	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%

2-Year Note	2021		2022			
	Q3	Q4	Q1	Q2	Q3	Q4
United States	0.25%	0.30%	0.40%	0.50%	0.65%	0.80%
Eurozone[2]	-0.70%	-0.70%	-0.70%	-0.65%	-0.65%	-0.60%
United Kingdom	0.10%	0.15%	0.20%	0.30%	0.40%	0.55%
Japan	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%	-0.05%
Canada	0.45%	0.60%	0.75%	0.90%	1.00%	1.10%

10-Year Note	2021		2022			
	Q3	Q4	Q1	Q2	Q3	Q4
United States	1.50%	1.75%	1.90%	2.00%	2.10%	2.15%
Eurozone[2]	-0.30%	-0.20%	-0.15%	-0.10%	0.00%	0.10%
United Kingdom	0.80%	0.95%	1.05%	1.15%	1.20%	1.25%
Japan	0.10%	0.10%	0.15%	0.15%	0.15%	0.20%
Canada	1.45%	1.70%	1.90%	2.00%	2.10%	2.20%

Forecast as of: July 26, 2021

[1] ECB Deposit Rate [2] German Government Bond Yield

Source: Bloomberg LP and Wells Fargo Securities

Currency Forecasts

Currency Pair*	Current rate	Q3-2021	Q4-2021	Q1-2022	Q2-2022	Q3-2022	Q4-2022
G10							
EUR/USD	1.1809	1.1700	1.1700	1.1800	1.1900	1.2000	1.2100
USD/JPY	110.30	111.00	112.00	113.00	114.00	115.00	116.00
GBP/USD	1.3823	1.3700	1.3800	1.3900	1.4100	1.4300	1.4500
USD/CHF	0.9160	0.9225	0.9275	0.9225	0.9200	0.9175	0.9125
USD/CAD	1.2544	1.2600	1.2400	1.2200	1.2100	1.2000	1.1900
AUD/USD	0.7385	0.7300	0.7300	0.7400	0.7500	0.7600	0.7700
NZD/USD	0.7003	0.7000	0.7200	0.7300	0.7400	0.7500	0.7600
USD/NOK	8.8312	8.9750	8.8025	8.6450	8.4875	8.3750	8.2650
USD/SEK	8.6292	8.7600	8.6750	8.5600	8.4450	8.3325	8.2650
Asia							
USD/CNY	6.4829	6.4800	6.4600	6.4400	6.4200	6.4000	6.3800
USD/CNH	6.4838	6.4800	6.4600	6.4400	6.4200	6.4000	6.3800
USD/IDR	14483	14600	14500	14400	14300	14200	14100
USD/INR	74.42	74.75	75.00	75.25	75.50	75.75	76.00
USD/KRW	1155.10	1170.00	1160.00	1150.00	1140.00	1130.00	1120.00
USD/PHP	50.34	51.00	50.00	49.75	49.50	49.25	49.00
USD/SGD	1.3582	1.3700	1.3600	1.3500	1.3400	1.3300	1.3200
USD/TWD	28.06	28.25	28.00	28.00	27.75	27.75	27.50
USD/THB	32.91	33.50	33.00	32.50	32.00	31.50	31.00
Latin America							
USD/BRL	5.1720	5.3000	5.2000	5.3000	5.4000	5.5000	5.6000
USD/CLP	765.54	770.00	780.00	790.00	800.00	810.00	820.00
USD/MXN	20.0023	20.2500	20.0000	19.7500	19.5000	19.2500	19.0000
USD/COP	3891	4000	3900	3800	3700	3600	3500
USD/ARS	96.5317	98.0000	100.0000	102.0000	104.0000	106.0000	108.0000
USD/PEN	3.9110	3.9200	3.9200	3.9000	3.8800	3.8600	3.8400
Eastern Europe/Middle East/Africa							
USD/CZK	21.74	22.00	21.75	21.50	21.00	20.50	20.25
USD/HUF	306.20	312.00	307.75	300.75	294.00	287.50	281.00
USD/PLN	3.8899	3.9325	3.8900	3.8125	3.7400	3.6675	3.5950
USD/RUB	73.71	74.00	72.00	70.00	68.00	66.00	64.00
USD/ILS	3.2564	3.2700	3.2600	3.2500	3.2400	3.2300	3.2200
USD/ZAR	14.7928	15.0000	15.2500	15.5000	15.7500	16.0000	16.2500
USD/TRY	8.5568	9.0000	9.0000	9.5000	9.5000	10.0000	10.0000
Euro Crosses							
EUR/JPY	130.26	129.75	131.00	133.25	135.75	138.00	140.25
EUR/GBP	0.8543	0.8550	0.8475	0.8500	0.8450	0.8400	0.8350
EUR/CHF	1.0817	1.0800	1.0850	1.0900	1.0950	1.1000	1.1050
EUR/NOK	10.4292	10.5000	10.3000	10.2000	10.1000	10.0500	10.0000
EUR/SEK	10.1907	10.2500	10.1500	10.1000	10.0500	10.0000	10.0000
EUR/CZK	25.68	25.75	25.50	25.25	25.00	24.75	24.50
EUR/HUF	361.60	365.00	360.00	355.00	350.00	345.00	340.00
EUR/PLN	4.5937	4.6000	4.5500	4.5000	4.4500	4.4000	4.3500

Forecast as of: July 26, 2021

Source: Bloomberg LP and Wells Fargo Securities

United States/USD

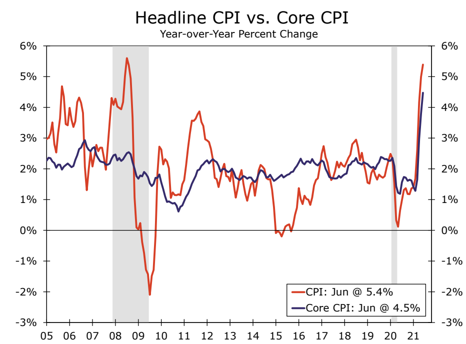
Outlook

We expect some further strength in the U.S. dollar for the time being, but eventually see the greenback softening over the medium term. COVID concerns related to the Delta variant have re-emerged globally, which create some downside risk to growth and could also weigh on financial market sentiment. During this period, the U.S. dollar could benefit further from safe-haven support. Eventually, however, as COVID concerns ease, the greenback will likely return to a softer trend. Currencies for Norway, Canada and New Zealand should benefit from higher commodity prices and less accommodative monetary policy, while emerging currencies could also recover. For the euro and yen, where monetary policy remains easy, medium-term gains versus the greenback will likely be modest.

Fundamental Focus: Economics, Policy & FX

Inflation Still Running Really Hot

- A combination of surging demand, higher commodity prices and supply chain disruptions means that, even if transitory, U.S. inflation is still running red-hot. In the latest figures for June, the CPI rose 0.9% month over month and 5.4% year over year. Moreover, it is not just headline price pressures. The core CPI—which excludes food and energy—quickened to 4.5% year over year.
- Price pressures are also evident at the producer price level, and reflected in the input prices components of the ISM surveys.
- Still, despite the spike in prices and with some questions still as to how transitory the increase in inflation will be, the Federal Reserve has yet to fully warm to the idea of tapering the pace of its bond purchases, which are currently around $120 billion per month.
- The minutes of the Fed's June monetary policy meeting indicated the standard of "substantial further progress" toward its goals had not yet been met, although policymakers also signaled they thought the conditions to begin slowing bond purchases might occur earlier than previously anticipated.
- At this stage, we expect the Fed to formally announce a slowing in bond purchases in December, with that tapering set to begin from the start of 2022. That said, it is still possible the Fed could send a "soft signal" of a taper before its December meeting.



Source: U.S. Department of Labor and Wells Fargo Securities

U.S. Economic Growth Could Cool Slightly

- Although U.S. economic growth was particularly robust through the second quarter, there are potential hints of a moderate slowdown in Q3.
- The June jobs report was upbeat, as nonfarm payrolls rose by 850,000, although the unemployment rate did tick up to 5.9%. June also saw retail sales rise by 0.6% month over month, and industrial output rise 0.4%.
- The June ISM survey hint at a moderate slowing in growth ahead. The ISM services index fell to 60.1 (from 64.0 in May), while the ISM manufacturing index eased to 60.6 (from 61.2 in May).
- A renewed spread in COVID cases related to the Delta variant, and unsettled financial markets, are other factors that could modestly restrain growth heading into the second half of 2021. As a result, there might be some downside risks to our full-year 2021 GDP growth forecast of 6.9%.

Economic & FX Risks

Upside FX Scenario

- Our base case anticipates U.S. dollar strength persisting for the time being, but eventually giving way to U.S. dollar softness over the medium term. However, there is a risk that U.S. dollar strength could be longer-lasting over time.
- Concerns about the renewed spread of the virus have re-emerged. Should the increase in COVID cases, in the U.S. and internationally, become more widespread and persist for an extended period, the greenback would likely remain supported. That would particularly be the case if COVID concerns led to more meaningful and ongoing weakness in equity markets.
- Several international central banks are close to, or in the early stages of, beginning to pare back the degree of monetary policy accommodation. If the outlook were to remain especially unsettled and

prompt global central banks to adjust their plans, that would likely also weigh on foreign currencies and support the U.S. dollar.

Central Bank Outlook

Fed Funds Rate Forecast			
Current: 0.125%	**3M**	**6M**	**12M**
Wells Fargo	0-0.25%	0-0.25%	0-0.25%
Market Implied	0.11%	0.11%	0.16%

Source: Bloomberg LP and Wells Fargo Securities

- We expect the Fed to maintain its current target range for the fed funds rate between 0% and 0.25% through at least the end of 2022. We also look for the Federal Reserve to continue its quantitative easing program, in which it purchases $80 billion worth of Treasury securities and $40 billion worth of mortgage-backed securities every month, through the end of this year, before reducing the pace of its bond purchases from early next year.

Eurozone/EUR

Outlook

We see downward pressure on the euro for the time being, and see only a modest recovery in the euro over the medium term. Eurozone growth picked up markedly in Q2 as the economy reopened, momentum that also appears to have carried into Q3. However, a renewed increase in COVID cases has created some uncertainty surrounding the outlook, while the European Central Bank has also adopted a more dovish monetary policy guidance, which we believe will eventually lead further easing. Against this backdrop, we expect a further decline in the euro for now, and see the euro recouping that decline over our forecast horizon.

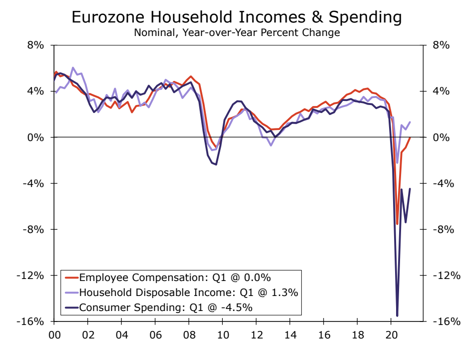
Fundamental Focus: Economics, Policy & FX

Eurozone Enjoys Strong Upswing, but COVID Concerns Linger

- Eurozone economic figures have generally been firm over the past month, pointing to a strong rise in GDP during the second quarter.
- May retail sales jumped 4.6% month over month, more than reversing the decline in April sales. In terms of economic significance, the rise in retail sales also more than offset the 1.0% month-over-month decline reported for May industrial output.
- Moreover, Eurozone consumer finances remain in reasonably good shape. Q1 household disposable income rose 1.4% quarter over quarter, which, given a drop in consumer spending during the quarter, saw the Q1 household saving rate rise to 21.5%.
- Confidence surveys are also consistent with strong growth during Q2. June economic confidence rose further to 117.9. Even the more timely PMI surveys for July remained sturdy. The July services PMI rose to 60.4, the highest level in 15 years, while the manufacturing PMI eased to 62.6.
- Given these favorable factors, the consensus forecast is for Eurozone Q2 GDP to grow by 1.6% quarter over quarter (not annualized). However, there may be some uncertainty surrounding Q3 growth as the pace of new COVID cases has picked up markedly in the Eurozone in recent weeks. For now, we view that as a downside risk, rather than making substantial adjustments to our outlook. The extent of the impact on growth will depend on how long the outbreak lasts and whether Eurozone government imposes any meaningful restrictions in response.
- Finally, strong growth has not (yet) meant higher inflation. While survey data do indicate rising input costs, consumer prices have so far stayed relatively contained. In fact, the June CPI actually eased to 1.9% year over year, while the core CPI eased to 0.9%.

European Central Bank Adopts New Inflation Target, Offers New Policy Guidance

- The European Central Bank (ECB) announced the outcome of its policy strategy review in early July. In what was the most notable change, the ECB adopted a symmetric 2% inflation target, compared to the previous target of "close to, but below, 2%." The change implies that inflation could temporarily run above target.
- This new policy strategy was reflected in the ECB's July monetary policy announcement, which was dovish overall in tone. The central bank held its benchmark interest rates steady and made no changes to its asset purchase program.
- However, with respect to its policy guidance, the ECB said benchmark interest rates would "remain at their present or lower levels until it sees inflation reaching two percent well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realized progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilizing at two percent over the medium term. This may also imply a transitory period in which inflation is moderately above target." This more dovish language means that even if CPI inflation were forecast to reach 2% by the end of the central bank's forecast horizon, it would not necessarily trigger a policy response.
- The ECB said asset purchases for the Pandemic Emergency Purchase Program during the current quarter would continue to be conducted at a significant higher pace than during the first months of this year.
- With core CPI inflation still running well below the 2% inflation target, we believe the ECB will eventually take further action to lift inflation toward that target, specifically by further increasing the size of its asset purchase programs.



Source: Datastream and Wells Fargo Securities

Economic & FX Risks

Downside FX Scenario

- We forecast only mild gains in the euro over time, and see the risks as tilted toward even smaller gains, or possibly even outright declines, versus the U.S. dollar.
- The ECB's new policy target and more dovish guidance could lead to even more accommodative monetary policy than we currently forecast, which should weigh on the euro.
- That would especially be the case if the recent outbreak in COVID cases persists or becomes more widespread. In this scenario, slow growth and monetary easing could lead to outright declines in the EUR/USD exchange rate.
- Finally, given the easy monetary policy stance of the ECB, the euro could potentially come more into favor as a funding currency. Thus even in an environment where the COVID backdrop and global economic outlook improves, the euro could underperform.
- In these less favorable scenario, the EUR/USD exchange rate could struggle to gain much beyond current levels over the medium term.

Central Bank Outlook

ECB Deposit Rate Forecast			
Current: -0.50%	**3M**	**6M**	**12M**
Wells Fargo	-0.50%	-0.50%	-0.50%
Market Implied	-0.50%	-0.51%	-0.52%

Source: Bloomberg LP and Wells Fargo Securities

- Given the new policy strategy and guidance, we expect further monetary policy action from the ECB. At its September announcement, we expect the ECB to refrain from tapering its bond purchases, and instead expect the central bank to continue with purchases in Q4 at a pace that is significantly higher than the early months of 2021. At its December announcement, we anticipate the ECB will announce a further increase in its Pandemic Emergency Purchase Program (PEPP). To the extent COVID concerns create downside risks, or if core inflation trends fail to move meaningfully higher, we expect the ECB to announce a €500B increase in the PEPP purchase envelope to €2.350T, with purchases to continue through until September 2022.
- We expect interest rates to remain unchanged for an extended period. We forecast the ECB's Deposit Rate will remain at -0.50% through at least all of 2021 and 2022, and indeed for an extended period beyond that.

Japan/JPY

Outlook

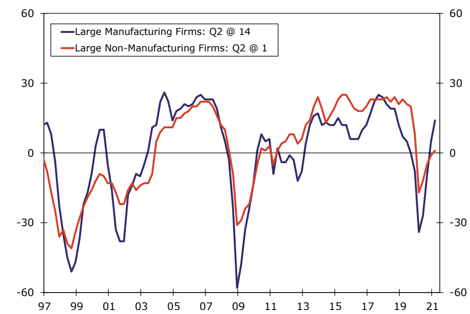
We expect the yen to be relatively resilient in the near term, but anticipate renewed losses over time. Economic activity remains underwhelming as the spread of COVID continues and the Tokyo area remains under a state of emergency. While the outlook remains unsettled in Japan, and globally, the Japanese currency could benefit from safe-haven support. However, as the economic and COVID outlook improves, and while the Bank of Japan maintains its very accommodative monetary policy, the yen should lag in an environment of rising global bond yields and rising global equities. Against this backdrop, we look for the yen to soften versus the U.S. dollar over the medium term.

Fundamental Focus: Economics, Policy & FX

Japan Economic Struggles Continue

- Japan's economic activity was very soft during the second quarter and is unlikely to fare much better in Q3, especially with the government reimposing a state of emergency for the Tokyo area.
- Recent activity data have been particularly downbeat. May retail sales dipped 0.4% month over month, after a large April decline, while the May tertiary industry index—which captures broader services activity—fell 2.7%. May industrial output was also very weak, falling 6.5%.
- We expect barely positive growth in Japan and see GDP rising just 0.1% quarter over quarter.
- In addition, the more forward-looking confidence surveys are sending only modestly more encouraging signals. The closely followed Tankan survey improved less than expected in Q2, as the larger manufacturers' diffusion index rose to +14, and the large non-manufacturers' diffusion index rose to +1.
- The brightest spot in an otherwise cautious economic picture was the June economy watchers survey, which gained to 47.6.
- Also holding back the outlook, for the near term at least, was the re-imposition of a state of emergency for the Tokyo area in early July, which is scheduled to run until Aug. 22. With spectators banned from many Olympic events, alcohol restrictions for bars and restaurants, and authorities calling for the public to stay home, we expect only a slow rebound from Japan's economy during the second half of this year.

Tankan Survey: Headline Diffusion Indices



Source: Datastream and Wells Fargo Securities

Bank of Japan Tinkers with Its Policy Toolbox

- The Bank of Japan (BoJ) again kept its key policy parameters unchanged at its July meeting. The BoJ kept its Policy Balance Rate at -0.10% and maintained the target for the 10-year Japanese government bond yield near 0%.
- However, the central bank did provide further details of its funding measure for climate change, which could be significant over time.
- The BoJ will provide interest-free funds for climate-linked loans. While the duration of the funding is one year in principle, it can be rolled over and the funding program can continue until 2030 in principle.
- Importantly, loans that banks make under the climate-funding program would see more of their reserves exempted from the central bank's negative policy interest rate, essentially diluting the BoJ's negative interest rate policy.
- Finally, the BoJ also said it would purchase foreign-currency green bonds issued by governments and institutions.
- The BoJ lowered its GDP growth forecast for fiscal 2021 to 3.8% and increased its GDP growth forecast for fiscal 2022 to 2.7%.

Economic & FX Risks

Upside FX Scenario

- We expect the yen to weaken versus the greenback over the medium term. However, there is a risk scenario in which the yen could remain steady, or perhaps even stronger, against the U.S. dollar over time.
- If the latest wave of COVID cases persists longer than expected or global equity markets correct more meaningfully, that could weigh on global bond yields. In this environment, then yen could be steady to stronger versus the greenback.

- A more sustained equity market correction could also offer safe-haven support to the yen, although we acknowledge the traditional inverse yen/equities relationship has been absent for much of the past year.
- In this scenario, the USD/JPY exchange rate might not move much above a JPY110.00-112.00 range.

Central Bank Outlook

BoJ Policy Rate Forecast			
Current: -0.10%	**3M**	**6M**	**12M**
Wells Fargo	-0.10%	-0.10%	-0.10%
Market Implied	-0.04%	-0.05%	-0.07%

Source: Bloomberg LP and Wells Fargo Securities

- Our outlook is for the Bank of Japan to hold its policy rate steady at -0.10% through all of 2021 and 2022, and to make no major changes to its quantitative easing program. While our base case is for an eventual move toward less accommodative monetary policy, the underwhelming performance of Japan's economy suggests the more significant near-term risk scenario remains a further reduction in the Bank of Japan's already negative policy interest rate.

United Kingdom/GBP

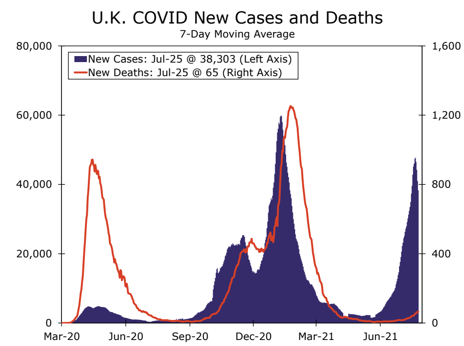
Outlook

We view the pound as mildly vulnerable for the time being, but expect a moderate recovery in the U.K. currency over time. The U.K. economy enjoyed a strong spring; although if the renewed outbreak of COVID cases affects consumer confidence, that could crimp activity to some extent during late summer and into the fall. That mix could create some near-term uncertainties for the pound. Over time however, we expect a solid recovery and the Bank of England to move to a less accommodative monetary policy stance, which should support moderate gains in the pound over the medium term.

Fundamental Focus: Economics, Policy & FX

Some Cloudiness Surrounds the U.K. Expansion

- After an exceptionally strong spring, the outlook for the U.K. economy has become more clouded over the summer months.
- The economy has already lost some momentum in recent months. For example, sequential GDP growth slowed to 0.8% month over month in May, as services activity and industrial output both reported more subdued growth.
- June retail sales rose 0.5% month over month, but that did not fully recoup the larger May decline.
- In recent weeks, there has been a renewed and sharp rise in new COVID cases. Although we do not necessarily expect the government will re-impose widespread restrictions, the renewed spread could nonetheless weigh on consumer confidence and have some impact on activity.
- Indeed, the July PMI surveys hint at some softening in the outlook, as the manufacturing PMI fell to 60.4 and the services PMI fell to 57.8.
- Meanwhile, the U.K. economy is also facing some price pressures, albeit not on the same scale as the United States. The June CPI quickened to 2.5% year over year, while the core CPI quickened to 2.3%.
- Given the mildly uncomfortably activity and inflation mix, we have made some revisions to our U.K. GDP forecast and expect growth of 7.1% for 2021.



Source: Bloomberg LP and Wells Fargo Securities

Varying Opinions from Central Bank Policymakers

- The rhetoric from Bank of England policymakers has been somewhat mixed in recent weeks. Perhaps most importantly, Governor Bailey said it is important not to overreact to temporarily strong growth and to ensure the recovery is not undermined by premature monetary tightening.
- That said, other central bank policymakers (including Ramsden and Saunders) offered comments suggesting some removal of monetary stimulus may be appropriate before too long.
- In what is admittedly a close call, and in part dependent on whether the recent COVID outbreak intensifies further, we expect the Bank of England to announce a further slowing of its bond purchases at its August meeting, especially if it plans to end its quantitative easing by late this year as it has previously signaled.

Economic & FX Risks

Downside FX Scenario

- We expect moderate appreciation in the pound over time; however, the risks of a slower and smaller appreciation are growing.
- Recent activity data have pointed to a growth slowdown, a trend that could intensify further if the renewed spread of COVID cases weighs more heavily on consumer confidence.
- Given mixed comments from Bank of England policymakers, an uncertain outlook could encourage the central bank to continue with its quantitative easing program for longer than expected. Market participants could also push back the expected timing of any initial rate hike.
- A downshift in economic growth and a more patient central bank would be a less favorable mix for the pound. In this scenario, the GBP/USD exchange rate might not gain much past $1.4000.

Central Bank Outlook

BoE Bank Rate Forecast			
Current: 0.10%	**3M**	**6M**	**12M**
Wells Fargo	0.10%	0.10%	0.10%
Market Implied	0.11%	0.12%	0.24%

Source: Bloomberg LP and Wells Fargo Securities

- We expect a further moderate tapering of asset purchases to be announced at the August policy meeting, and for the asset purchase program to end broadly as scheduled around the end of 2021. We believe an initial interest rate increase is still some ways off, likely not until sometime during the first half of 2023.

Switzerland/CHF

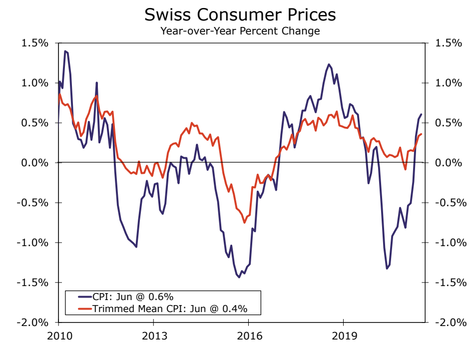
Outlook

We expect a moderately softer Swiss franc versus the euro and relative stability the U.S. dollar over the medium term. After a burst of activity in recent months, Swiss growth appears to be slowing to a steady but still respectable pace of growth, while separately inflation trends remain very muted. The growth and inflation mix means the Swiss National Bank should persist with its very accommodative monetary policy for an extended period. That should weigh on the franc over the medium term, although some near-term resilience is possible while COVID developments remain uncertain and if global market sentiment is somewhat unsettled.

Fundamental Focus: Economics, Policy & FX

Steady Swiss Economy, Steady Swiss Central Bank

- Swiss economic data were relatively benign during the second quarter, with those relatively steady trends likely to keep the Swiss National Bank (SNB) comfortably on the sidelines for the time being.
- After rising strongly during early 2021, confidence survey eased a bit in June. The KOF leading indicator fell to 133.4, while the manufacturing PMI also fell to 66.7.
- Activity data have also been somewhat soft in tone. For example, real retail sales fell 1.8% month over month in May, following a 2.9% decline in April.
- June external trade data hinted at slower economic momentum, as real exports fell 3.0% month over month, while real imports fell 2.7%.
- CPI inflation has picked up, but only very slightly. The June CPI rose 0.6% year over year, while the trimmed mean CPI rose 0.4%.
- Given this benign growth and inflation mix, Swiss National Bank monetary policy appears to be comfortably on hold for the time being. In recent comments, SNB President Jordan said the central bank was committed to its unconventional monetary policy, which includes negative interest rates and currency market interventions. Central bank policymaker Zurbruegg indicated that expansive monetary policy was still needed.
- On the FX front, the SNB's currency interventions were just 296M francs during the first quarter. Currency interventions may have picked up more recently, as June FX reserves rose by 38.6B francs to 941B francs.



Source: Datastream and Wells Fargo Securities

Economic & FX Risks

Upside FX Scenario

- Our outlook is for gradual weakness in the franc versus the euro over the medium term and relative stability versus the U.S. dollar; however, there are upside risks to this scenario.
- On the domestic front, growth and inflation trends are unremarkable and should keep central bank monetary policy on hold for an extended period.
- Internationally, however, there has been some concern about the renewed spread of COVID cases. Should those concerns persist, it could weigh on global equity markets and global bond yield, both factors that should be supportive of the Swiss franc.
- Recent comments from the European Central Bank have generally been dovish in tone, which could also help the franc versus the euro.
- In this scenario, the franc could revisit a level seen in late 2020, with the EUR/CHF exchange rate potentially falling to CHF1.0650 or below.

Central Bank Outlook

SNB Policy Rate Forecast			
Current: -0.75%	**3M**	**6M**	**12M**
Wells Fargo	-0.75%	-0.75%	-0.75%
Market Implied	-0.80%	-0.75%	-0.73%

Source: Bloomberg LP and Wells Fargo Securities

- We expect the Swiss National Bank's policy interest rate to remain steady at -0.75% for all of 2021 and 2022. Current market pricing also points to steady interest rates over the next 12 months.

Canada/CAD

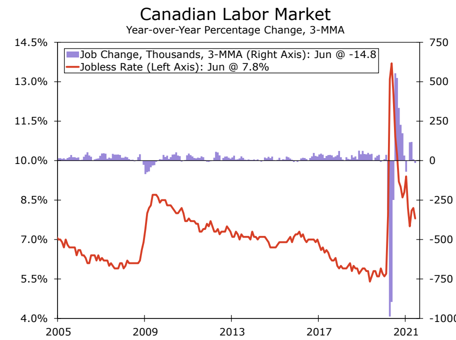
Outlook

We expect the Canadian dollar to recover its recent losses and remain constructive on the Canadian currency's prospects over the medium term. After a soft spring amid a renewed spread of COVID cases, economic activity now appears to be transitioning toward a stronger summer. We believe that will keep the Bank of Canada on track to taper its bond purchases further later this year, and to begin raising policy interest rates next year, supportive factors for the Canadian currency. Still elevated commodity, in particular oil, prices should also support the Canadian dollar, which we suspect will enjoy solid gains versus the greenback over time.

Fundamental Focus: Economics, Policy & FX

Early Signs of a Canadian Turnaround

- Canada's economy was affected by an increased spread of COVID cases and associated restrictions during Q2. However, as the spread of COVID cases has receded, activity has started to pick up, pointing to a stronger outlook in Q3.
- On the soft side, May retail sales fell 2.1% month over month, after a 5.6% fall in April. However, Statistics Canada's flash estimate is that sales rose 4.4% in June.
- More broadly, April GDP fell 0.3% month over month, while Statistics Canada said it estimates May GDP also fell 0.3%.
- However, more current indicators, along with confidence surveys, suggest Canada returned to a growth path in June. Employment rose by 230,700 in June, although admittedly all of that increase was due to part-time jobs. The unemployment rate fell to 7.8%.
- The June IVEY manufacturing PMI rose to 71.9, while in the Bank of Canada's Q2 Business Outlook Survey saw the future sales balance ease to a still strong +47.



Source: Datastream and Wells Fargo Securities

Bank of Canada Adjusts Monetary Policy Again

- The Bank of Canada (BoC) made a further moderate adjustment to monetary policy at its July meeting.
- The central bank again maintained its policy interest rate at 0.25%. However, the Bank of Canada slowed the pace of its bond purchases further, to a target pace of C$2 billion per week (from C$3 billion previously).
- The changes in the BoC's economic growth outlook were mixed and somewhat offsetting. The bank expects GDP growth of around 6% in 2021 (a slight downward revision), but now sees around 4.5% growth in 2022 (a slight upward revision).
- Overall, the Bank of Canada's statement was reasonably balanced, saying that the recovery continues to require extraordinary monetary policy support. That said, given the outlook for ongoing and stronger growth in Q3, we expect the Bank of Canada to slow bond purchases further at its October monetary policy announcement.

Upside FX Scenario

- We are positive on the Canadian dollar's prospects over the medium term and, following a recent pullback, see some potential for the Canadian currency to rebound more strongly than our base-case forecast.
- Canadian economic growth slowed in Q2, given the renewed spread of COVID cases, while globally concerns surrounding the Delta variant have risen. However, with Canada's economy now rebounding and should global COVID concerns ease, we expect the Bank of Canada to continue on a steady path to less accommodative monetary policy.
- Oil prices remain elevated, an important currency fundamental, and Canadian government bond yields are above their U.S. equivalents. Both factors should be supportive of the Canadian dollar.
- Should unsettled market conditions pass relatively quickly, we would expect faster Canadian dollar appreciation and, in this more favorable scenario, the USD/CAD exchange rate could move close to CAD1.1500 over the medium term.

Central Bank Outlook

BoC Overnight Rate Forecast			
Current: 0.25%	**3M**	**6M**	**12M**
Wells Fargo	0.25%	0.25%	0.50%
Market Implied	0.27%	0.29%	0.54%

Source: Bloomberg LP and Wells Fargo Securities

- The Bank of Canada slowed bond purchases further (to a weekly pace of C$2 billion) at its July monetary policy announcement. Given the outlook for stronger growth in the second half of this year, we expect a further slowing in the weekly pace of bond purchases to just C$1 billion per week to be announced at the October monetary policy meeting. Our view remains that the Bank of Canada will deliver an initial rate hike in Q3-2022.

Australia/AUD

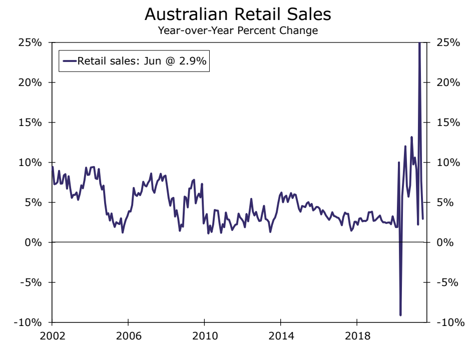
Outlook

We have become somewhat less constructive on the Australian dollar and expect only slight gains in the currency over the medium term. The renewed spread of COVID cases across many states will likely limit service growth in particular, and weigh on economic growth during the second half of 2021. As a result, we expect the Reserve Bank fo Australia to continue to make only tentative steps toward tapering bond purchases, while interest rate increases are not on the agenda until well beyond our forecast horizon. Somewhat mixed Chinese trends could also weigh on the Australian dollar at times. For now, the Australian dollar could be vulnerable to further downside, while over time we see only modestly positive trends for the Australian dollar versus the greenback.

Fundamental Focus: Economics, Policy & FX

COVID Prompts Renewed Growth Caution

- The Australian economy enjoyed solid growth during the second quarter. However, with the outbreak of renewed COVID cases across several Australia states in recent weeks, uncertainty has increased and the outlook for Q3 GDP growth in particular is less encouraging.
- June employment growth was solid with a rise of 29,100, led by full-time jobs, while the unemployment rate fell to 4.9%. Still, June retail sales offered hints the economy was already starting to lose some momentum as sales fell a larger-than-forecast 1.8% month over month.
- Several Australian states been affected by renewed outbreaks of COVID in recent weeks, in particular the more transmissible Delta variant. At times, more than half of the country's population has been under lockdown, which will clearly affect economic activity in Q3.
- The less optimistic outlook is reflected in confidence surveys. June business conditions fell to +24, while the forward-looking business confidence measure fell to +11. Meanwhile, the July manufacturing PMI eased to 56.8 and the services PMI fell sharply to 44.2.
- Given recent economic data and COVID developments, we have lowered our full-year 2021 GDP growth forecast slightly, to 5.1%.



Source: Datastream and Wells Fargo Securities

Reserve Bank of Australia Tiptoes into Tapering

- In a widely anticipated announcement, the Reserve Bank of Australia (RBA) signaled modest steps toward less policy accommodation at its July monetary policy meeting.
- The RBA held its Cash Rate at 0.10% and said it would not increase the Cash Rate until actual inflation is sustainably withing its 2%-3% target range. In a slight change in language, the RBA said that in its central scenario this condition would not be met before 2024.
- The RBA kept the target for three-year government bond yields at 0.10% and retained the April 2024 bond and the target for bond purchases under this program.
- With respect to quantitative easing, the central bank extended, and tapered, its bond purchase program. Following the completion of the current program in September, the RBA said it would purchase bonds at a moderately slower pace of at least A$4 billion per week until at least mid-November, at which time it would conduct a further review.
- Should the current COVID outbreak persist for an extended period, we think it is quite likely the RBA will extend bond purchases further in November.

Economic & FX Risks

Downside FX Scenario

- We expect the Australian dollar to gain against the U.S. dollar over time, although recent developments hint at a less rapid appreciation than previously anticipated.
- We expect much slower growth in Q3 as COVID-related restrictions weigh on activity, and see downside risks to our Q4 GDP growth forecast as well. We expect only a very gradual move away from accommodative monetary policy, which should restrain the Australian dollar.

- Globally, steady rather than strong Chinese economic trends also have the potential to weigh on the Australian currency. Any global COVID developments that lead to unsettled financial markets would also restrain the Australian dollar.
- In this less favorable scenario, the AUD/USD exchange rate may not gain much beyond a $0.7400-$0.7600 range over the medium term.

Central Bank Outlook

RBA Cash Rate Forecast			
Current: 0.10%	**3M**	**6M**	**12M**
Wells Fargo	0.10%	0.10%	0.10%
Market Implied	0.11%	0.09%	0.20%

Source: Bloomberg LP and Wells Fargo Securities

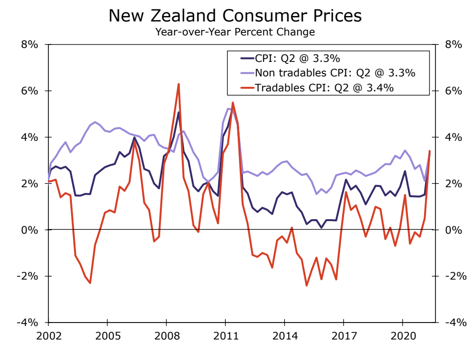
- We expect the RBA to hold its Cash Rate steady at 0.10% over our entire forecast horizon—that is, the rest of 2021 and all of 2022. Indeed, we anticipate the central bank will also hold its Cash Rate steady well beyond the end of 2022.
- Given the likelihood of slower economic growth during Q3, and depending on how long the recent rise in COVID cases persists, we expect the RBA to further extend and taper its bond purchases in November. In November, we expect the central bank to slow the weekly pace of its purchases to A $3 billion until at least February 2022, at which time it would conduct a further review.

New Zealand/NZD

Outlook

Despite recent weakness, our view remains for solid gains in the New Zealand dollar in the medium term. Upbeat confidence surveys suggest New Zealand's economic momentum will continue, even as the country's borders remain closed to most foreign tourists. With inflation pressures also picking up, the Reserve Bank of New Zealand has turned more hawkish, meaning we expect multiple rate hikes in 2021, and also 2022. Growth and interest rate trends should see the New Zealand dollar gain over time, especially if global COVID concerns recede and global market sentiment improves.

Fundamental Focus: Economics, Policy & FX



Growth Stays Strong, Inflation Intensifies

- Economic trends have remained sturdy in recent months as economic activity appears to have remained strong during the second quarter, and with signs now that inflation is picking up.
- The consumer remained in pretty good shape during Q2. June retail card spending rose 0.9% month over month, the fourth monthly increase in a row. June credit card spending fell 1.0%, although that came after an 8.5% surge in May.
- Survey data suggest growth should continue at a solid pace. The June manufacturing PMI rose to 60.7 and the services PMI rose to 58.6.
- Most significantly, quarterly business confidence rose to a net +10% in Q2 from a net -8% in Q1. A net 26% of firms reported an improvement in their own trading activity.
- The improvement in the economy has occurred even as New Zealand's borders remain closed to a majority of foreign tourists, and as there have been disruptions to the Australia/New Zealand travel bubble. As a result, we have every expectation that solid economic momentum will continue into the second half of this year.
- Finally, higher prices are now also accompanying stronger growth. The Q2 CPI quickened more than forecast to 3.3% year over year. Moreover, the quickening of inflation was quite broad-based, as the tradables CPI rose 3.4% and the non-tradables CPI rose 3.3%.

Another Hawkish Shift from the Reserve Bank of New Zealand

- Given the strong trends in both activity growth and CPI inflation, the Reserve Bank of New Zealand (RBNZ) signaled another hawkish shift at its July monetary policy announcement.
- The RBNZ halted purchases under its Large Scale Asset Purchase program earlier than scheduled, bringing those purchases to a close in July. Separately, the central bank held its Official Cash Rate at 0.25% and maintained its funding for lending program.
- Given the hawkish statement from the RBNZ along with recent data, we now forecast a 25-bp policy rate increase in August and anticipate multiple rate hikes from the RBNZ over the next 12 months.

Economic & FX Risks

Downside FX Scenario

- We expect the NZ dollar to appreciate against the U.S. dollar over time, though with the balance of risks perhaps tilted to slightly slower appreciation than our base scenario.
- Should global COVID concerns persist, given recent outbreaks in several countries, the NZ government could keep the country's borders closed for an extended period into 2022. While growth has been strong so far, though could restrain activity at the margin going forward, or at least prevent a further acceleration in the economy.
- While the Reserve Bank of New Zealand is likely to be one of the most active central banks in the coming quarters, markets have already priced in 75 bps of rate hikes over the next 12 months. Accordingly, there could still be some softness in the NZ dollar at times if the central bank does not tighten policy as quickly as expected.
- Dairy prices have also receded since early 2020, which could be a temporary restraint on the NZ dollar.
- In this mildly less favorable scenario, the NZ dollar could be capped below a $0.7200-$0.7300 range over the medium term.

Central Bank Outlook

RBNZ Official Cash Rate Forecast			
Current: 0.25%	**3M**	**6M**	**12M**
Wells Fargo	0.50%	0.75%	1.00%
Market Implied	0.53%	0.74%	1.03%

Source: Bloomberg LP and Wells Fargo Securities

- In what was a hawkish July monetary policy announcement, the RBNZ said it would end its bond purchase program this month, earlier than previously scheduled.
- Given the hawkish outlook, we now forecast an initial 25-bp rate increase in August and a further 25-bp rate increase in Q4-2021. Overall, we forecast a cumulative 75 bps of RBNZ rate increases during the next 12 months.

Sweden/SEK

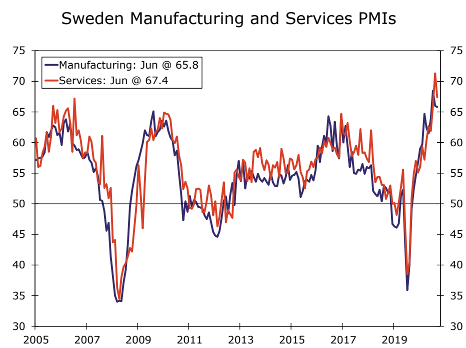
Outlook

We expect moderate gains in the Swedish krona over time. The economy appears to be firming only gradually, while inflation pressures remained reasonably contained for now. Given this benign growth and inflation mix, Sweden's central bank appears comfortable with its accommodative monetary policy stance and is unlikely to begin raising interest rates for an extended period. While we forecast moderate gains in the krona versus the euro and U.S. dollar over time, we do not envisage it being an outperformer in terms of G10 currency gains.

Fundamental Focus: Economics, Policy & FX

Mixed Economic Signals and a Steady Central Bank

- The latest run of economic figures has been mixed, giving Sweden's central bank little reason to move away from its accommodative monetary policy stance at this point. Given this relatively benign growth and policy mix, we see only gradual gains in the Swedish krona over time.
- On the stronger side, Sweden's May GDP indicator rose 0.4% month over month, albeit after a larger 1.1% fall in April. In a similar vein, May household consumption rose 2.6%, but after a larger April fall.
- On the softer side, May private sector production dipped 0.2% month over month. Confidence surveys softened in June, with the manufacturing PMI easing to 65.8 and the service PMI falling to 67.4, although June economic confidence did rise slightly to 119.8.
- Prices were benign in June as CPIF inflation slowed to 1.6% year over year, and CPIF inflation, excluding energy, slowed to 0.9%.
- Separately, recent political jitters have eased to some extent. Prime Minister Lofven, who had lost a parliamentary confidence vote, has since subsequently won a parliamentary vote to form a new coalition government. The dynamics of governing could still be challenging, however, as Lofven was able to form a new government not because of an outright majority of parliamentary support, but rather because there was not an outright majority of opposition against him.



Central Bank Outlook

Riksbank Interest Rate Forecast			
Current: 0.00%	**3M**	**6M**	**12M**
Wells Fargo	0.00%	0.00%	0.00%
Market Implied	-0.02%	-0.01%	0.06%

Source: Bloomberg LP and Wells Fargo Securities

- The Riksbank held monetary policy broadly steady at its early July meeting and signaled that any change in interest rates was still some ways away.
- Sweden's central bank kept its repo rate at 0.00% and projected that it would remain there until the third quarter of 2024. With respect to quantitative easing, the Riksbank indicated that gross bond purchases would slow further to 68.5B krona in Q4. The central bank expects its 700B krona purchase envelope to be fully utilized by the end of 2021 and expects the size of its bond holdings to be maintained at least during 2022. In effect, the central bank is gradually tapering its gross bond purchases but is unlikely to raise interest rates for an extended period.
- Separately, the Riksbank has become somewhat more constructive on the economic outlook. It raised its GDP growth forecast for 2021 to 4.2% and also raised its GDP growth forecast for 2022 to 3.7%.

Norway/NOK

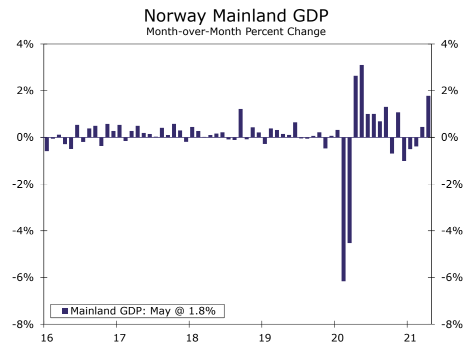
Outlook

We maintain a favorable view on the prospects for the Norwegian krone. Economic growth has transitioned to a more robust upswing in recent months, meaning we believe the Norges Bank is on course to raise policy interest rates in both Q3 and Q4 of 2021. Oil prices also remain elevated, a supportive factor for Norway's economy and currency. Local fundamentals point to a stronger krone, especially versus the euro but also against the greenback, while an improvement in global sentiment would reinforce prospects for Norwegian krone strength.

Fundamental Focus: Economics, Policy & FX

Norway's Economy Shows a Spring Surge

- An economic upswing—which has been anticipated by Norway's central bank—appears to be under way, keeping the Norges Bank on pace hike to begin a rate hike cycle in September.
- Mainland GDP rose 1.8% month over month in May, twice as much as the consensus forecast and the largest monthly increase since June of last year.
- May retail sales were also sturdy, jumping 5.8% month over month, although manufacturing output dipped by 0.1%. However, the June manufacturing PMI rose to 60.8, suggesting any softness in the industrial sector should be temporary.
- Solid economic conditions are also leading to stronger house prices, as Q2 house prices rose 2.7% quarter over quarter and by 12.5% year over year.
- Oil prices remain elevated, which should continue to be supportive of Norway's economy and currency.
- On the price front the June CPI rose 2.9% year over year, while the underlying CPI eased slightly to 1.4% year over year. Still, given the strength of economic activity, we see no reason for the Norges Bank to delay its previously signaled September rate hike.



Source: Bloomberg LP and Wells Fargo Securities

Central Bank Outlook

Norges Bank Deposit Rate Forecast			
Current: 0.00%	**3M**	**6M**	**12M**
Wells Fargo	0.25%	0.50%	0.75%
Market Implied	0.29%	0.47%	0.70%

Source: Bloomberg LP and Wells Fargo Securities

- The Norges Bank remains on track to be one of the earliest G10 central banks to raise interest rates during the current cycle. We expect an initial policy rate increase to occur in Q3-2021, and also forecast two, 25-bp rate increases next year, in Q1-2022 and Q3-2022. Market participants are currently pricing in almost three, 25-bp rate hikes over the next 12 months.

Mexico/MXN

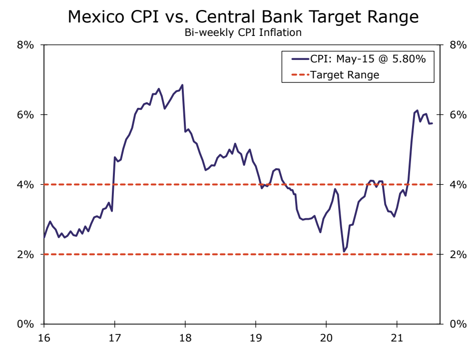
Outlook

In the short term, we see potential for some peso weakness as the U.S. dollar exhibits resiliency. However, over the medium to longer term, we remain optimistic on the prospects for the currency as the U.S. dollar broadly softens and the Central Bank of Mexico tightens monetary policy more aggressively than we previously expected. In addition, reduced political risk should support the peso as President AMLO's reform agenda is unlikely to be implemented.

Fundamental Focus: Economics, Policy & FX

Short-term Peso Drop

- The renewed strength of the U.S. dollar has placed depreciation pressure on the Mexican peso recently. With the spread of the Delta variant causing concern over the pace of global growth, we expect market participants to seek out the safe-haven U.S. dollar and for the peso to come under modest pressure through the end of Q3.
- In addition, COVID cases are rising again in Mexico, predominantly in major tourist destinations, which could result in sentiment turning less positive toward the peso. As of now, we doubt new restrictions will go into effect; however, a renewed spike in COVID cases could result in less tourism revenues and reduced mobility across the country. Our GDP forecast is unchanged, and we expect the Mexican economy to grow over 5% this year, but should the spread of the Delta variant intensify, downward revisions may be made.



Source: Bloomberg LP and Wells Fargo Securities

Banxico to Turn More Proactive

- At its previous meeting, the Central Bank of Mexico surprised markets and raised policy rates 25 bps to 4.25%. While we were surprised at the decision to lift interest rates, we did expect Banxico to take a more hawkish stance on monetary policy. To that point, with inflation still well above the upper bound of the central bank's target range, we forecast additional tightening before the end of this year.
- Policymakers in Mexico have given mixed messages over the path of monetary policy, but ultimately, we believe sticky inflation will prevail in prompting higher interest rates. In our view, Banxico will now raise rates two more times, taking the policy rate to 4.75% by the end of this year. Markets and economists also seem to be split on Mexican monetary policy, which could result in sharp peso swings in either direction based on monetary policy decisions.
- Our view for more aggressive tightening should support the peso over the medium term. Rate hikes in Q3 and Q4, combined with medium-term dollar weakness, should help the peso break below the MXN20.00 level.

Political Risk Diminishing

- Within Latin America, political risk has risen significantly; however, Mexico's shift toward more conservative politics following local elections could result in Mexico becoming a political risk safe-haven in the region. As political developments outside of Mexico deteriorate, capital flows could return to Mexico and help the peso strengthen over the longer term.

Economic & FX Risks

Downside FX Scenario

- Risks around our peso forecasts are tilted to the downside as the spread of the Delta variant could disrupt the global economic recovery and create negative sentiment toward emerging market currencies.
- In addition, the Fed could take a less dovish stance on monetary policy in the near future, which could result in pressure building on the peso and other emerging market currencies. A type of "taper tantrum" scenario would likely result in large capital outflows from emerging market currencies, with the Mexican peso particularly vulnerable to Fed shifts in monetary policy.
- In a "taper tantrum" scenario, USD/MXN could test all-time highs of MXN25.78. The peso sold off in the immediate aftermath of the Fed's more hawkish dot plot; however, a more explicit shift to tighter monetary policy in the U.S. could have a larger impact on the currency.

Upside FX Scenario

- An upside scenario is also centered on the spread of the Delta variant and Fed monetary policy. We forecast peso strength; however, the peso could reach our targets quicker if the Delta variant does not disrupt the global economy and the Fed maintains a dovish stance on monetary policy.
- No new restrictions imposed and no changes to consumer behavior, along with Fed commitment to easy monetary policy, should result in the peso rallying.
- This combination could result in USD/MXN moving toward MXN19.25 before the end of this year.

Central Bank Outlook

Banxico Overnight Rate Forecast			
Current: 4.25%	**3M**	**6M**	**12M**
Wells Fargo	4.50%	4.75%	5.50%
Market Implied	4.90%	5.35%	6.05%

Source: Bloomberg LP and Wells Fargo Securities

- We continue to believe interest rates in Mexico will be raised 25 bps in September as inflation remains above the central bank's target. We now also believe the central bank will hike rates another 25 bps in December, taking the policy rate to 4.75% by the end of this year. Further out, we expect the tightening cycle to continue and rates to rise to 5.50% over the next 12 months; however, financial markets are priced for more aggressive tightening than our forecast.

China/CNY & CNH

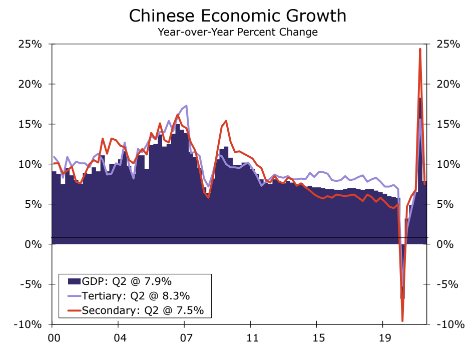
Outlook

In the short term, we expect the renminbi to hold steady as the combination of renewed dollar strength should be offset by a resilient, and relatively sturdy, Chinese economy. While we expect China's economy to soften over the second half of the year, and have revised our GDP forecast slightly lower, we are not overly concerned about the health of the economy. Over time, we expect China's strong fundamentals to drive long-term currency strength and for the eventual liberalization of China's economy to result in new capital flows toward renminbi denominated assets.

Fundamental Focus: Economics, Policy & FX

China's Economy Slowing, but Not Slumping

- Q2-2021 GDP data were recently released, with numbers coming in slightly below our estimates, but in line with consensus forecasts. In Q2, the Chinese economy grew 7.9% year over year, a noticeable slowdown compared to Q1 GDP growth of over 18%. Q1 GDP growth figures largely reflected base effects due to the pandemic; however, the deceleration in the Chinese economy is apparent. To that point, including the softer GDP print, we revised our 2021 annual GDP forecast lower and now expect China's economy to grow 8.5% this year.
- Despite the slowdown, we are not overly concerned with the health of China's economy. A surprise reduction in the Reserve Requirement Ratio led markets to believe Chinese authorities expected a sharper slowdown in the economy; however, June activity indicators were strong, especially retail sales, which leads us to believe the economy will be resilient going forward.



Source: Bloomberg LP and Wells Fargo Securities

Renminbi Stability Before Longer-Term Strength

- The renminbi has trimmed gains in the past few months, and while we expect the U.S. dollar to broadly strengthen, we believe the renminbi can be insulated from dollar strength as the relative strength of China's economy can keep the currency stable through Q3.
- In the short term, we expect the renminbi to hover around current levels; however, over the longer term, we forecast renminbi strength. China's financial markets continue to open up, and local financial instruments continue to be included in world indices. Continued liberalization should result in capital flows toward renminbi-denominated assets and help the currency strengthen.

Renminbi Prospects Still Attractive

- While liquidity providing operations may continue, it is likely the PBoC guides money market rates higher, which can also support the Chinese currency. The PBoC has been adamant in regard to protecting against over-speculation and asset bubbles. Tighter monetary policy conditions should attract capital flows toward RMB-denominated assets and also support the longer-term prospects of the currency.
- Although the economy is slowing, we doubt the PBoC will resort to an outright stance of easier monetary policy. The credit impulse is likely to slow going forward, which is another indication of less accommodative policy, and should also support the renminbi over time.

Economic & FX Risks

Downside FX Scenario

- Risks around our renminbi forecasts are tilted toward a weaker renminbi than we forecast. It is possible the PBoC seeks to intervene more aggressively than we expect and looks to artificially weaken the currency.
- While not our base case scenario, it is possible that a U.S.-led coordinated approach against China could result in geopolitical tensions rising. Tensions have risen lately, but not to a point where China's financial markets are affected. However, in a scenario where China digs in against not just the United States, the European Union, the United Kingdom and Canada, the currency could experience a selloff. We do not believe this scenario will materialize at this point, but risks are certainly rising.

- In the event this combination materializes, the PBoC could allow the renminbi to depreciate significantly and capital flows could exit China. This combination could result in significant renminbi weakness, in which USD/CNY and USD/CNH could test CNY/CNH7.00.

Upside FX Scenario

- Our upside scenario is centered around the Fed maintaining a dovish stance on monetary policy for longer than we expect. In this scenario, market sentiment is likely to remain positive and should attract capital flows into emerging market countries and currencies. In addition, if Delta variant cases slow across emerging Asia, the renminbi could experience a relief rally.
- Also, should the Biden-led White House take action to de-escalate tensions with China, the currency could rally. These actions could include the removal of Trump-era tariffs as well as lifting recent sanctions and allowing Chinese companies to list on American exchanges and to operate in the U.S.
- In this scenario, USD/CNY and USD/CNH could reach CNY/CNH6.20, a level not seen since 2018.

Brazil/BRL

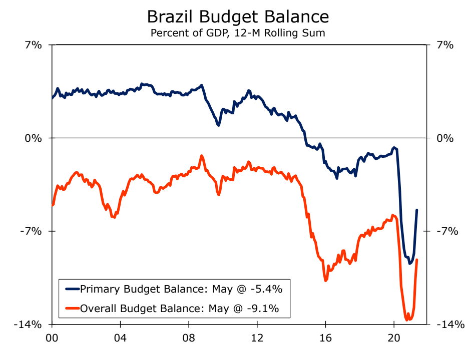
Outlook

The Brazilian real remains one of the more volatile emerging market currencies, and our forecast profile reflects this volatility. Through the end of Q3 we believe the Brazilian currency can weaken further; however, in Q4, we expect the currency to experience a modest rebound and recover losses. That said, our longer-term outlook is more pessimistic as we believe the currency could come under pressure in the lead up to the presidential election in late 2022.

Fundamental Focus: Economics, Policy & FX

Brazil's Central Bank to Remain Hawkish

- At the BCB's meeting in August, we expect another 75 bps of tightening, taking the Selic rate to 5.00%, an increase of 300 bps so far this year. However, the balance of risk is likely tilted toward a more aggressive hike as July inflation rose more than expected to 8.59% year over year.
- External factors continue to play a major role in higher inflation. Commodity price increases and weather disruptions in particular; however, fiscal stimulus and currency weakness have also contributed to higher prices. Tighter monetary policy can do little to offset external inflation pressures but can help balance the effects of strong consumer demand and currency weakness.
- Higher policy rates should improve the carry appeal of the Brazilian currency; however, with renewed short-term strength in the U.S. dollar through Q3, the real could come under modest pressure. As financial markets become more optimistic on global growth in Q4, we believe BCB rate hikes and improved sentiment toward emerging market currencies can help the currency rebound toward the end of this year.



Source: Bloomberg LP and Wells Fargo Securities

Brazil Political Risk a Currency Concern

- Longer term, we believe elevated political risk will weigh on the Brazilian currency and forecast a weaker real throughout the course of 2022. Investigations into Bolsonaro's handling of COVID is likely to dampen sentiment toward the currency next year, while an increased likelihood of Lula winning the presidency would also concern financial markets.
- In order to rally support for the election, it is likely Bolsonaro looks to increase social spending and delay unpopular reform agenda items. Should Bolsonaro approve another round of cash handouts and fiscal stimulus, financial markets are likely to question Brazil's fiscal position as well as debt sustainability.
- Financial markets are very sensitive to headlines surrounding Brazil's fiscal balance, and should Brazil's budget fall further into deficit, we believe the Brazilian currency could come under pressure. The combination of stalled reforms and "Lula risk" should result in a weaker currency throughout 2022 and elevated volatility for most of the year.

Economic & FX Risks

Downside FX Scenario

- Risks around our Brazilian real forecast are to the downside. For now, fiscal and monetary policy dynamics are encouraging; however, COVID remains an issue and could require additional fiscal support to households. While we forecast a somewhat stable currency through the end of this year, a policy mistake, either fiscal or monetary, could result in a weaker currency.
- Longer term, we forecast a weaker currency, although risks around our forecast are also tilted toward greater weakness. Support for a Lula presidency is building, while Bolsonaro's approval rating is declining. Should Bolsonaro look toward another cash handout program to gather support and reform items stall, expect a large selloff in the currency to unfold, possibly larger than we forecast.
- Should Lula win the presidency, the real could also experience a relatively large selloff as well.
- Under this scenario, the USD/BRL exchange rate would likely reach new highs, possibly as high as BRL7.00.

Upside FX Scenario

- A scenario for a stronger Brazilian real includes solid commitment to the constitutional spending cap and to the longer-term reform agenda. Despite falling approval ratings, Bolsonaro would need to push back against any additional fiscal stimulus for the currency to rally.
- Spending restraints and COVID containment could lead to capital flows returning to Brazil and to a faster economic rebound. The BCB could tighten monetary policy perhaps even faster than markets expect and create positive real interest rate dynamics again in Brazil.
- Bolsonaro retaining office could also result in a longer-term relief rally for the currency, especially if markets do not question the spending cap or Brazil's fiscal and debt positions.
- In this scenario, USD/BRL could move back to BRL4.50 and sustain gains below BRL5.00.

Central Bank Outlook

BCB Selic Rate Forecast			
Current: 4.25%	**3M**	**6M**	**12M**
Wells Fargo	6.50%	7.50%	8.25%
Market Implied	6.80%	7.88%	8.40%

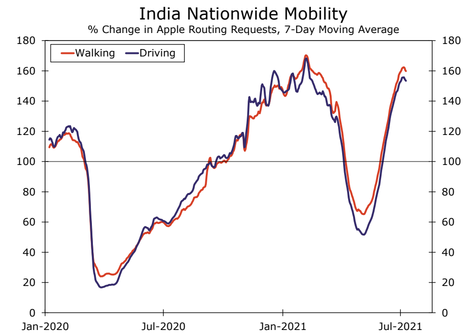
Source: Bloomberg LP and Wells Fargo Securities

- We have lifted our targets for the Selic rate and now forecast the Selic rate to reach 7.50% by the end of this year. As of now, we agree with markets on the direction of policy rates; however, we forecast less tightening than markets expect.

Asia

India/INR

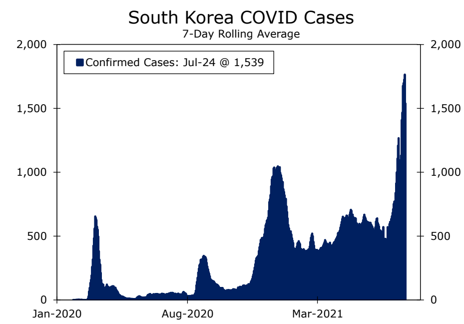
Outlook: High-frequency activity indicators suggest India's economy is back on the road to recovery, barring another wave of COVID infections; however, we maintain our bearish view on the rupee over the course of our forecast horizon. Following a surge in COVID cases, case numbers have retreated significantly. But, despite falling case numbers, we believe the shock to the Indian economy will be material and will be reflected in Q2-2021 GDP data. To that point, over the past few months we have revised our Q2-2021 GDP forecast lower multiple times and also forecast a slower pace of annual growth relative to earlier in the year. As a result, we doubt the Reserve Bank of India (RBI) looks to tighten monetary policy anytime soon, even as inflation remains elevated and other emerging market central banks lift policy rates. An accommodative stance on monetary policy should keep the rupee on the defensive going forward. In addition, we believe RBI policymakers will be in favor of a weaker rupee in an effort to aid the local economic recovery. A weaker currency can enhance the competitiveness of Indian exports, especially as the Modi administration pushes for India to become a larger exporter. Despite our view for a weaker currency, we believe the pace of depreciation will be gradual. The RBI will likely look to limit volatility in the rupee and contain any potential outsized moves in the currency by utilizing its large stockpile of FX reserves.



Source: Bloomberg LP and Wells Fargo Securities

South Korea/KRW

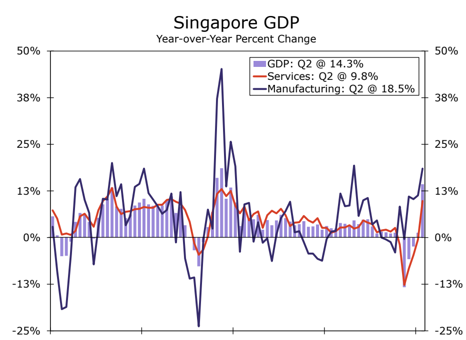
Outlook: South Korea is experiencing its worst wave of COVID cases during the pandemic as the Delta variant makes its way across emerging Asia. Just recently, Korean authorities implemented new restrictions in an effort to contain the spread of the virus, which will likely weigh on economic activity as well as the currency in the short term. Reports suggest restrictions in Seoul are the tightest they have been in months and will most likely have an impact on Q3 GDP and monthly activity figures. To that point, data from Apple as well as Google show a sharp slowdown in mobility and public transportation. Lower mobility will likely correlate to softer economic growth and a broadly slower recovery. However, in an effort to offset the economic slowdown, the South Korean government has moved forward with new fiscal stimulus targeted toward lower income households to support consumer spending. The new budget will be the sixth since the start of the pandemic and is evidence of the kind of fiscal support the government is ready to deploy to combat a slowdown in the economy. A domestic deceleration could delay the Bank of Korea's plans to tighten monetary policy in the near future, which should also contribute to a softer won in the near term. Over the longer term, we remain confident emerging Asia will come out of the crisis on solid footing and regional currencies will recover, especially as the dollar broadly weakens. In our view, the won should not be excluded, especially as the country is tightly integrated into the global economy.



Source: Bloomberg LP and Wells Fargo Securities

Singapore/SGD

Outlook: Since the end of May, the Singapore dollar has come under pressure and is now close to three percent weaker year to date in 2021. In the short-term, we expect the currency to continue to depreciate, albeit at a gradual pace. Singapore has not been spared from the regional currency selloff as the country is also experiencing another wave of COVID infections due to the delta variant. While new restrictions have not yet gone into place, markets have put pressure on the currency as consumer spending patterns and overall behavior is expected to be disrupted. As of now, the spread of Delta will likely only impact Q3 activity and GDP data and could partially reverse a relatively strong recovery to this point. In Q2, Singapore's economy grew 14.3% year over year, largely due to base effects, but also due to a strong domestic rebound as the travel and tourism sector reopened to visitors. Through the end of Q3, we expect the Singapore dollar to remain under pressure; however, over the longer term, we are more optimistic on the currency. We continue to believe the global economic recovery is intact, which should benefit the Singapore dollar as the country is a major exporter to countries around the world. As the global economy continues to recover and demand improves, the Singapore economy should continue to rebound and provide support to the currency throughout 2022.

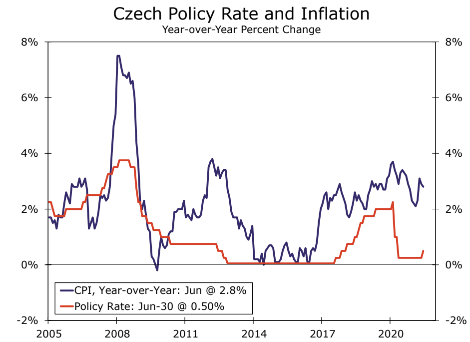


Source: Bloomberg LP and Wells Fargo Securities

Emerging Europe, Middle East & Africa

Czech Republic/CZK

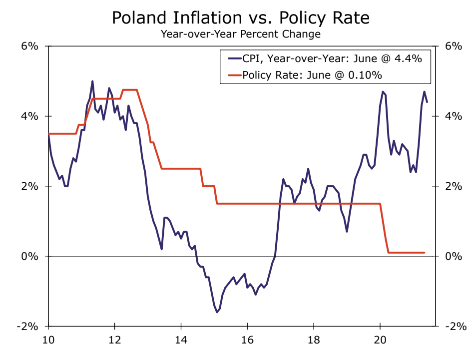
Outlook: Over the past few months, the Czech koruna has come under moderate pressure as the U.S. dollar has rallied and sentiment toward most emerging market currencies has soured. In the short term, we expect downward pressure on the koruna to persist as the dollar strength we have seen the past few months continues. Despite the currency weakness, the outlook for the Czech economy has improved as COVID cases recede and local restrictions have been all but lifted. At its previous monetary policy meeting, the Czech National Bank (CNB) highlighted how the economy is improving quicker than expected. Even further, CNB policymakers suggested raising rates more than 25 bps, given the strength of the economy and the outlook for inflation, although held off in an effort not to surprise financial markets. The next CNB meeting will take place in early August, with policymakers still discussing more aggressive monetary tightening. In our view, rates are likely to rise at least another 25 bps in August, which should keep koruna weakness contained though the end of Q3. Over the longer term, as the CNB normalizes policy at a quicker pace and the U.S. dollar broadly depreciates, the koruna should strengthen relative to the U.S. dollar. In addition, a dovish shift in stance from the ECB and the euro becoming a funding currency should allow the koruna to strengthen against the euro over time.



Source: Bloomberg LP and Wells Fargo Securities

Poland/PLN

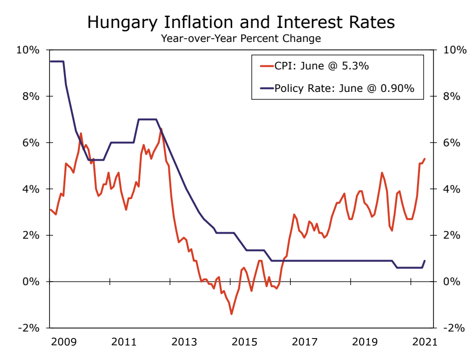
Outlook: Our short-term outlook for the zloty has changed as we now expect a weaker zloty through Q3 and more modest strength further out. Given our view for a stronger U.S. dollar in the short term, the zloty could come under pressure against both the greenback as well as the euro. The economic outlook has improved as COVID cases have slowed and new confirmed cases are almost nonexistent. However, a swift reopening process has created inflationary pressure as the CPI rose 4.4% year over year in June; however, CPI did soften from a recent high in May. In our view, inflation is likely to trend higher in the second half of the year as the reopening process gathers momentum and the effects of fiscal stimulus filter down to the real economy. Disbursements from the EU Recovery Fund should hit around the end of the summer, while local tax cuts should also fuel consumer spending and push inflation higher. As far as the outlook for policy, we doubt the National Bank of Poland begins a tightening cycle this year unless inflation jumps above the central bank's forecasts. To that point, Governor Glapinski stated the recent rise in inflation is a result of external developments and tighter monetary policy would do little to offset these dynamics. Also, Glapinski stated asset purchases would need to end before hikes could begin. In our view, asset purchases are likely to be completed in early 2022, further delaying rate hikes. Glapinski's comments are more dovish than we expected, and as a result, the zloty could come under pressure as other regional central banks look to tighten policy.



Source: Bloomberg LP and Wells Fargo Securities

Hungary/HUF

Outlook: Similar to other emerging market currencies, the Hungarian forint has come under pressure in recent months. Renewed strength in the U.S. dollar has placed depreciation pressure on the forint, while shifts in sentiment has resulted in a weaker currency against the euro as well. In the short term, we expect forint weakness to continue as the U.S. dollar remains resilient amid concerns regarding the pace of global growth as the Delta variant continues to spread and sentiment toward emerging market currencies is less positive than previously. We forecast only a modestly weaker currency through Q3-2021 as the Central Bank of Hungary (MNB) is likely to continue tightening monetary policy. To that point, the MNB lifted interest rates by 30 bps to 0.90% in June and, in our view, is likely to lift rates by 25 bps at its next meeting. Inflation in Hungary continues to rise above MNB forecasts, which should keep the central bank relatively hawkish. In June, the CPI unexpectedly rose to 5.3% year over year against consensus forecasts calling for inflation to soften below 5%. Hungary's reopening process has pushed prices up more than expected and is likely to keep the CPI elevated for the time being. Over the longer term, we expect the forint to recover and strengthen against the euro and the U.S. dollar. With the Fed and European Central Bank relatively dovish and global growth still supported, we expect capital flows to head toward the emerging markets and for the forint to benefit.

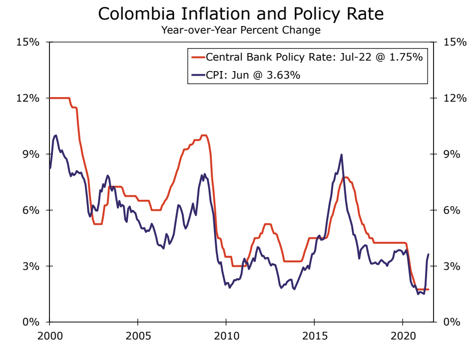


Source: Bloomberg LP and Wells Fargo Securities

Latin America

Colombia/COP

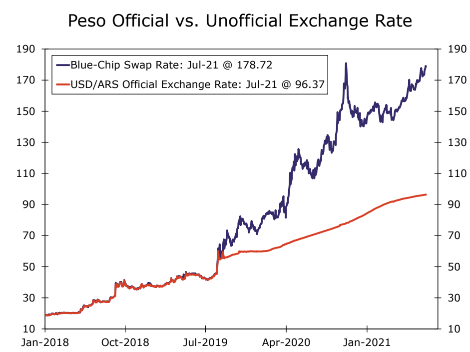
Outlook: The short-term outlook for the Colombian peso remains challenging as the dual dynamics of a stronger U.S. dollar and a dovish Colombian central bank should weigh on the currency through the end of the year. Our revised view for short-term U.S. dollar strength should place modest downward pressure on the Colombian peso, while a persistently patient Central Bank of Colombia should also contribute to a weaker currency. With inflation still relatively subdued in Colombia, policymakers have been hesitant to tighten monetary policy, while peer central banks across the emerging markets have already started their respective tightening cycles. Diverging paths for monetary policy should result in limited capital flows toward the Colombian currency as markets seek higher yielding currencies. Over the medium to longer term, we expect the currency to recover; however, risks around this view are tilted toward a weaker peso than we currently forecast. Local political demonstrations have eased for the time being, although there may be concerns if a populist candidate may emerge ahead of presidential elections next year. As of now, no candidate has an overwhelming amount of support, while the list of potential candidates is still slim. As far as candidates, Senator Gustavo Petro, a well-known anti-establishment and left-wing politician, will likely run for office and has a decent following, and we will be tracking how his support evolves going forward. Should evidence suggest Petro is the front-runner for the presidency, we would likely make adjustments to out longer-term peso forecasts, given a likely populist shift in local politics could unsettle Colombian financial markets.



Source: Bloomberg LP and Wells Fargo Securities

Argentina/ARS

Outlook: The outlook for the Argentine peso is little changed, and we continue to forecast a gradual depreciation of the currency over our forecast horizon. Capital controls, taxes on dollar purchases and other policies to prevent peso sales remain in place, keeping the unofficial market for U.S. dollars in place and resulting in a significantly overvalued peso. For the time being, we believe authorities will keep these policies in place in an effort to limit peso volatility; however, legislative elections in November could act as a risk event for the currency. Recently, Argentine authorities have taken steps to stabilize the economy to gather support ahead of elections. These efforts include allowing less peso depreciation, price controls and increased subsidies to protect household earnings. In addition, the federal government restructured debt owed to the Paris Club and has re-engaged with the IMF in an effort to restructure US$45B in debt and adopt a new economic program. The key risk to the peso, however, is post-election, where authorities could let the currency depreciate faster, possibly even a more explicit devaluation, although an outright abandonment of the current crawling peg arrangement seems unlikely. A large devaluation is not our base case scenario, and economy minister Guzman has already addressed the possibility of devaluation post-election as being very low. In addition, after elections, we expect more progress with the IMF on a debt restructure as well as details of a new program. Embedded in the terms of the Paris Club restructure is a March 2022 deadline for some type of IMF deal to be made, although President Fernandez and his cabinet are still very cautious when it comes to the IMF. As of now, Argentina owes US $8B in debt before March 2022, so another default is still a possibility; however, another sovereign default would likely not have a major impact on the peso.



Source: Bloomberg LP and Wells Fargo Securities

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