WELLS FARGO

International Commentary — March 26, 2024

International Economic Outlook: March 2024

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Summary

Forecast Changes

- We have revised our global GDP forecast slightly higher from a month ago. We now believe the global economy grew an estimated 3.0% in 2023, while in 2024, we forecast global GDP growth to slow only modestly to 2.9%. Stronger growth trends in India, Mexico and Japan, and to a lesser extent the United States, account for the majority of the global growth upgrade.
- We have made some notable revisions to our outlook for global monetary policy, primarily reflecting lingering inflation concerns. We have pushed back our forecast timing for monetary easing from the Federal Reserve and European Central Bank, and now expect both central banks to deliver initial rate cuts in June. After the Bank of Japan (BoJ) delivered a rate hike in March, we expect another BoJ hike in October, and we now expect Brazil's central bank to ease monetary policy at a more gradual pace than previously. On the flip side, contained inflation means we see quicker Swiss National Bank rate cuts than our prior forecast.
- We have not made major changes to our currency forecasts this month, and still forecast a trend of broad and gradual U.S. dollar depreciation beginning later this year. Within the G10, we are slightly more positive on the euro and slightly less positive on the yen compared to last month. Among the emerging currencies, we remain optimistic on the prospects for the Mexican peso and Brazilian real, while we have turned more pessimistic on the outlook for the South African rand.

Key Themes

- Global growth prospects are showing encouraging resilience with U.S. activity holding up in early 2024, the Eurozone and United Kingdom economies moving toward gradual recovery phases, and China's economy showing reasonably solid activity around the turn of the year. While U.S. growth may slow later this year as international growth trends firm, the global economy should hold up quite well overall. Our forecast of global GDP growth of 2.9% for 2024 is only slightly slower than the estimated 3.0% global GDP growth for 2023.
- Most G10 central banks have remained on the sidelines so far in 2024. While the Bank of Japan (rate hike) and Swiss National Bank (rate cut) moved in Q1, most major central banks are not expected to begin lowering policy rates until June or later. Divergences in monetary policy are most present in the emerging markets, where Latin American and EMEA central banks continue to ease monetary policy, while Asian institutions remain mostly on hold. We continue to believe developing central banks will proceed with rate cuts, albeit at a cautious pace.
- U.S. economic resilience and elevated Fed policy rates have supported the greenback in early 2024. Over the longer term, we still expect a trend of U.S. dollar deprecation to emerge as U.S. economic outperformance fades. In addition, we think Fed rate cuts combined with a U.S. soft landing and relatively benign financial market conditions should lead to an overall dollar downtrend against many G10 and emerging market currencies, with that trend persisting into mid-2025.

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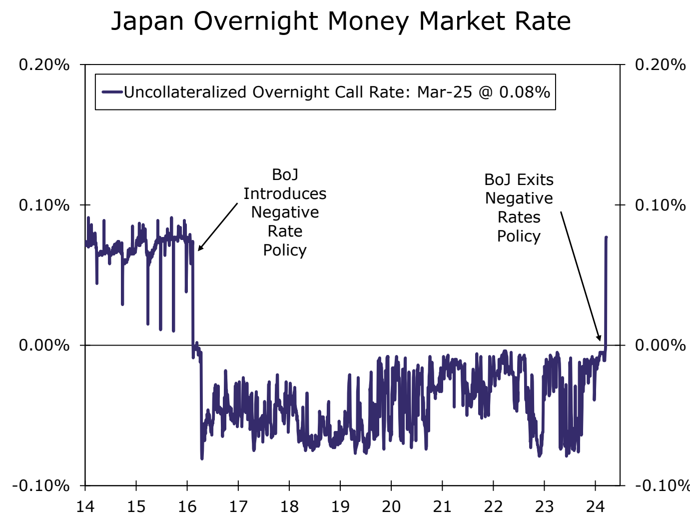
Bank of Japan Delivers Historic Rate Hike

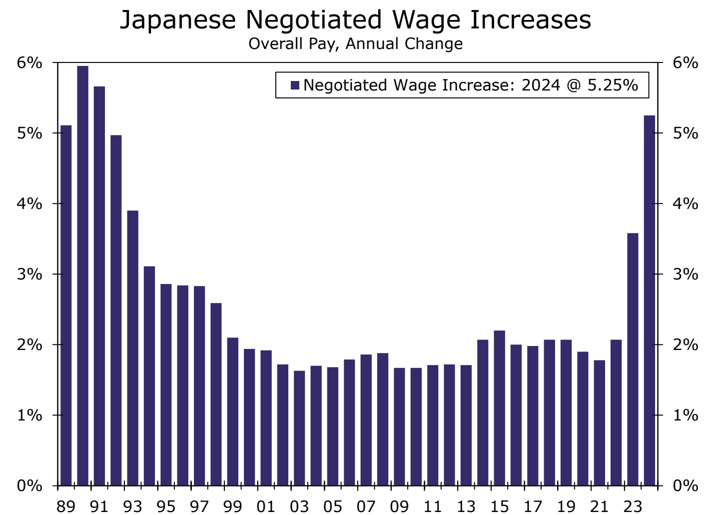
From an international perspective, perhaps the most significant—and certainly the most widely anticipated—event over the past month was the Bank of Japan's (BoJ) monetary policy meeting. In an announcement of historic significance, the BoJ exited negative interest rate territory and delivered its first interest rate increase since 2007 (Figure 1). The Bank of Japan also formally ended its Yield Curve Control policy, in which it had targeted a level of zero percent for 10-year Japanese Government Bond (JGB) yields with a tolerance band. However, the ending of the Yield Curve Control policy arguably had little effect in practice. Late last year, the upper bound for 10-year JGB yields had already evolved from a "hard cap" to a "reference point" in terms of the BoJ's bond buying operations, and yields were trading well below that upper bound. Underlying the BoJ's decision to end its ultra-easy and nonconventional monetary policy stance, the central bank said a virtuous cycle between wages and prices was solidifying, and that the achievement of the 2% price stability target in a sustainable and stable manner was coming into sight. The outcome of Japan's spring wage talks appears to have been a particularly important factor behind the BoJ's decision. The latest tally of wage increases from Rengo —Japan's largest labor union federation—saw Japan's labor unions secure an average wage increase of 5.25% for fiscal year 2024, well above the 3.58% gain secured for fiscal year 2023 and the largest increase since the early 1990s (Figure 2). Modestly firmer labor earnings data and GDP data in recent weeks may have contributed to the BoJ's decision at the margin.

Figure 1



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

Figure 2



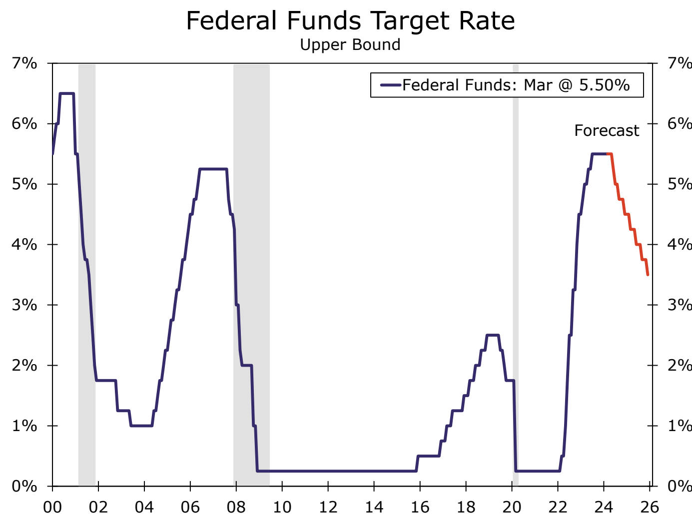
Source: Japanese Trade Union Confederation and Wells Fargo Economics

While there was no indication BoJ policymakers were embarking on a prolonged monetary tightening cycle, we do believe a further rate increase this year is more likely than not. As long as economic figures show continued growth in Japan's GDP, a firming in labor cash earnings as the wage increases take effect, and CPI inflation remaining above 2%, we expect the Bank of Japan to eventually be comfortable hiking interest rates further. Accordingly, we now see an additional rate hike at the central bank's October meeting, where we expect the BoJ to lift the target range for the uncollateralized overnight call rate by 10 bps, to a range of 0.10% to 0.20%. Overall, despite the historical significance of the BoJ's move, the widespread anticipation ahead of the meeting prompted only moderate and underwhelming moves from local financial markets. The yen weakened versus the U.S. dollar despite Japan's rate hike, while 10-year JGB yields declined. With that said, we are still optimistic on the long-term appreciation prospects of the Japanese yen. A second rate hike in October should make the yen more attractive and possibly result in an unwind of FX carry trades funded by selling Japanese yen. In addition, our core view of long-term U.S. dollar depreciation—due to Fed rate cuts and easier global financial conditions—should also contribute to Japanese yen strength over time. While recent BoJ moves fell flat and did not result in major shifts in local financial markets, we believe moves in Japanese financial markets will still materialize in the second half of this year and into 2025.

Major Central Banks Are Laying the Foundation for Rate Cuts

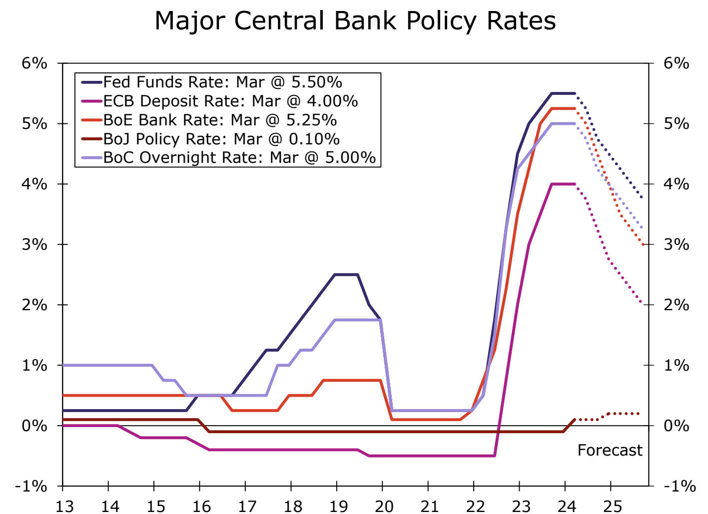
Other G10 central banks have ended rate hikes and, for the most part, G10 central banks have held policy rates steady at restrictive levels in early 2024. In the U.S., economic activity remains resilient, including an average payroll gain of 265,000 per month in the three months through February. Inflation has also surprised to the upside in recent months, with the February core CPI at 3.8% year-over-year and the January core PCE deflator at 2.8% year-over-year. Given this backdrop, we have pushed back our forecast for when an initial Fed rate cut will be delivered. We now expect an initial 25 bps Fed cut in June, although the risks are still tilted toward the Fed starting later or proceeding slower (Figure 3). The Fed's March announcement was broadly consistent with a June start for monetary easing, as the Fed raised its 2024 GDP growth and core PCE forecasts. In their projections, the median Fed policymaker envisages a cumulative 75 bps of rate cuts in 2024, suggesting a start to Fed easing around midyear remains in prospect. Also in the G10, we pushed back our forecast timing for an initial European Central Bank (ECB) rate cut. We now expect an initial 25 bps Deposit Rate cut to 3.75% at the June meeting, compared to our previous forecast for an initial move in April. In the case of the Eurozone, GDP was stagnant during the second half of last year, while inflation has made significant progress toward the central bank's target. Wage pressures have also eased, as Eurozone Q4 compensation per employee slowed to 4.6% year-over-year and Q4 labor costs slowed to 3.4%. That said, the February CPI was a mild upside surprise, and a majority of ECB policymakers have recently highlighted the desire to assess early 2024 wage developments before adjusting the monetary policy stance. Patience was the main message from ECB President Lagarde at the central bank's March monetary policy announcement, and subsequently, she indicated that policymakers will know more about the evolution of the Eurozone growth and inflation outlook in April, but a lot more in June. Against this backdrop, we now view mid-2024 as a more likely start date for the ECB's monetary easing cycle.

Figure 3



Source: Federal Reserve Board and Wells Fargo Economics

Figure 4



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

Among the other G10 central banks that are on the sidelines for now but are laying the groundwork for cuts are the Bank of England, Bank of Canada and Sweden's Riksbank (Figure 4). The Bank of England (BoE) held its policy interest rate steady at 5.25% at its March monetary policy announcement, although its accompanying statement was relatively dovish in tone. Even though BoE Governor Bailey said policymakers are "not yet at the point" to cut rates, the BoE did say the "restrictive stance of monetary policy is weighing on activity in the real economy, leading to a looser labor market, and bearing down on inflationary pressures." The BoE also said policy could remain restrictive even if rates were lowered. We view the announcement as consistent with an initial 25 bps BoE rate cut in June, although an earlier move in May cannot be completely ruled out. The Bank of Canada held its policy interest rate at 5.00% in March, but favorable inflation readings in early 2024 likely mean Canada's central bank is on track to begin lowering interest rates in June. Finally, Sweden's Riksbank was relatively dovish at its most recent policy announcement, saying a rate cut during the first half of this year could not be ruled out. Our base case is for an initial 25 bps rate cut at

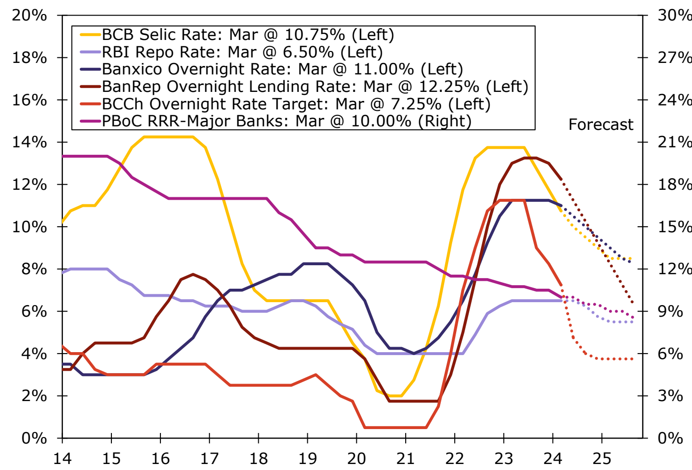
the Riksbank's June meeting, but a particularly dovish announcement in the interim could prompt us to bring forward our expected timing for initial Riksbank easing to the May monetary policy meeting. While many G10 central banks may begin lowering interest rates from around midyear, we think select central banks could be on hold for even longer. Norges Bank held its policy rate at 4.50% in March, while its accompanying statement was balanced in tone. The projected policy rate path in the central bank's updated economic forecast was broadly unchanged and envisages the policy rate remaining at its current level until autumn before moving lower. Risks around that policy rate outlook are balanced, as the Norges Bank did not rule out a further rate hike, or an earlier rate cut. Also in March, the Reserve Bank of Australia held its policy rate at 4.35% and removed any explicit reference to possible further tightening. However, the central bank also said it is not ruling anything in or out, and that it will be some time before inflation is sustainably within the target range, suggesting it will be at least several months before Australia's central bank begins lowering interest rates.

Other than the Bank of Japan, the other key exception to the "on hold" approach from G10 central banks was the Swiss National Bank (SNB), which surprised markets with a 25 bps policy rate cut to 1.50% at its March announcement. In our February Outlook report, we highlighted that risks were heavily skewed toward early easing from SNB policymakers. Those risks materialized in March, while the SNB also sharply lowered its CPI forecast and sees inflation settling a little above 1% over the medium to longer term. The Swiss central bank also said it will adjust monetary policy again if necessary to ensure inflation remains in a range consistent with price stability. SNB forward guidance makes another 25 bps rate cut likely at the June meeting, while we also see the SNB lowering its policy rate to 1.00% in September, which should be the last cut of the SNB easing cycle.

Emerging Market Institutions Proceeding Prudently and Predictably

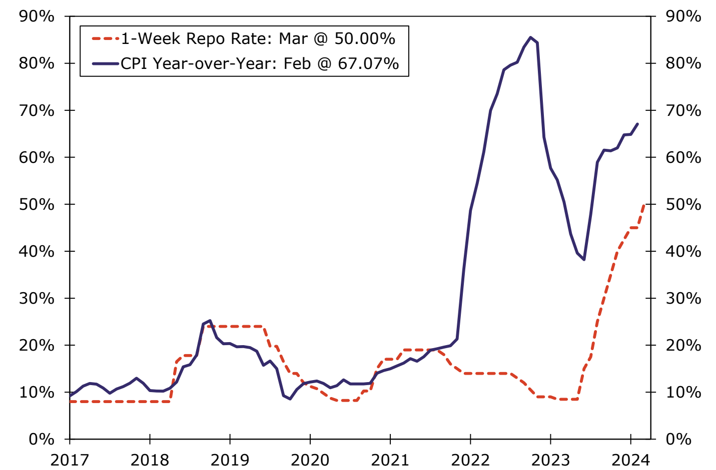
Turning to emerging market central banks, while those institutions have been more active than G10 central banks with only few exceptions, emerging central banks have moved in a prudent and predictable manner (Figure 5). Focusing first on Asia, the People's Bank of China (PBoC) has made only modest reductions to its benchmark lending rates and Reserve Requirement Ratio so far this year. Most other emerging Asian central banks we monitor have refrained from cutting interest rates in line with peer Latin American and Emerging Europe institutions. In fact, Taiwan's central bank unexpectedly raised its policy interest rate 12.5 bps to 2.00% in late March. Fears of renewed inflationary pressures from consumer demand or local currency depreciation seem to be the guiding force of policymaker decisions to keep rates on hold. In certain parts of Asia, such as India, these concerns are justified as CPI inflation has been somewhat volatile and hovering around the upper bound of the Reserve Bank of India's (RBI) target inflation range. In other economies, such as Indonesia, inflation is much more subdued, while Thailand is currently experiencing deflationary forces. Bank Indonesia policymakers have communicated that rates may be held steady until the second half of this year to prevent rupiah depreciation, or stoking inflation, from easing before the Fed, and while Bank of Thailand may lower policy rates in the near future, a pivot to large rate cuts, despite deflation, remains unlikely. As far as emerging Asia institutions we explicitly forecast, a cautious stance from RBI policymakers is likely to persist for the time being. We believe officials will pivot to prudent easing in Q3-2024, and while rates should come down, we expect the RBI to deliver one of the more shallow easing cycles in the emerging markets. Subdued activity and growth prospects should also lead to further People's Bank of China easing.

Figure 5



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

Figure 6



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

Even in Latin America, where institutions have been more active in terms of monetary policy moves, central banks have generally proceeded in a careful and deliberate manner. Among the more cautious central banks have been those of Brazil and Mexico. Brazil's Central Bank (BCB) has been lowering its Selic interest rate in steady 50 bps increments for some time, and along the way, has been providing explicit forward guidance for the magnitude of cuts set to be delivered. While BCB policymakers lowered the Selic rate another 50 bps in March and signaled yet another 50 bps reduction in May, policymakers signaled a potential slowdown in easing later in the year due to fiscal concerns and elevated services inflation. As a result, we now believe BCB policymakers will proceed with an extra layer of caution through the end of this year and, following a 50 bps cut in May, step down to 25 bps rate cuts through the end of 2024. As far as Mexico's central bank, Banxico was later to step off the sidelines, delivering an initial 25 bps policy rate reduction at its March meeting. Banxico policymakers offered limited guidance saying that future decisions "will take into account the progress in the inflation outlook," allowing for flexibility to continue either with 25 bps cuts or to pause the easing cycle should inflation surprise to the upside. In our view, Banxico is likely to follow along the same cautious path and deliver 25 bps rate cuts at each meeting through the end of this year and for easing to continue in 2025. To a degree, Colombia's central bank has also demonstrated caution. Beginning with cautious 25 bps cuts, BanRep policymakers picked up the pace of easing to 50 bps in March. Policymakers were split on the magnitude of easing in March, with certain board members calling for significantly more cuts, with others being committed to cautious easing. In our view, 50 bps cuts are likely to be delivered at each meeting going forward; however, risks are tilted toward an acceleration of easing in the second half of this year. Only in Chile have rate cuts been especially aggressive and somewhat unpredictable given limited forward guidance from Chilean Central Bank (BCCh) policymakers. Chile's central bank has lowered interest rates a cumulative 400 bps during this easing cycle, and recently communicated a dovish message that rates need to fall substantially further. In our view, we interpret this messaging as another 350 bps of cuts to be delivered in the coming quarters with the BCCh policy rate reaching 3.75% in H2-2024.

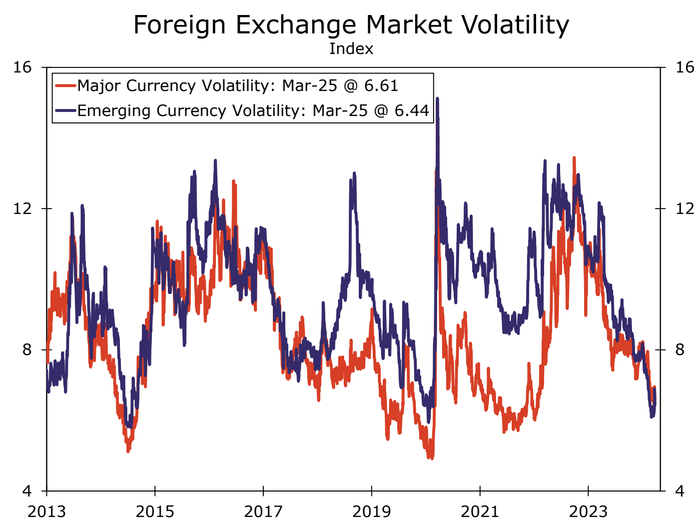
Perhaps the developing region where policy moves have been less predictable is Emerging Europe, the Middle East and Africa (EMEA). Hungary's central bank has lowered its policy interest rate aggressively since late last year and in a volatile manner. Central banks in Poland and the Czech Republic have been easing as well, with less explicit forward guidance relative to institutions in Asia and Latin America. More broadly, South Africa's Reserve Bank has yet to lower its policy interest rates, and while a pivot to cuts may be approaching, currency volatility and uninspiring economic trends leave policymakers in a difficult spot when considering easing monetary policy. Upcoming local elections add another layer of complexity to SARB's monetary policy assessment process. Always surprising and interesting, Turkey's central bank raised interest rates 500 bps to 50.00% this month as the shift back to orthodox monetary policy settings and credibility continues (Figure 6). While the tightening was unexpected, the

further rate hike is a positive development for Turkey and continues to underpin our optimism toward Turkey and the lira. Cautious optimism, but optimism nonetheless.

Nonexistent FX Volatility, but Prepare for Moves in H2-2024

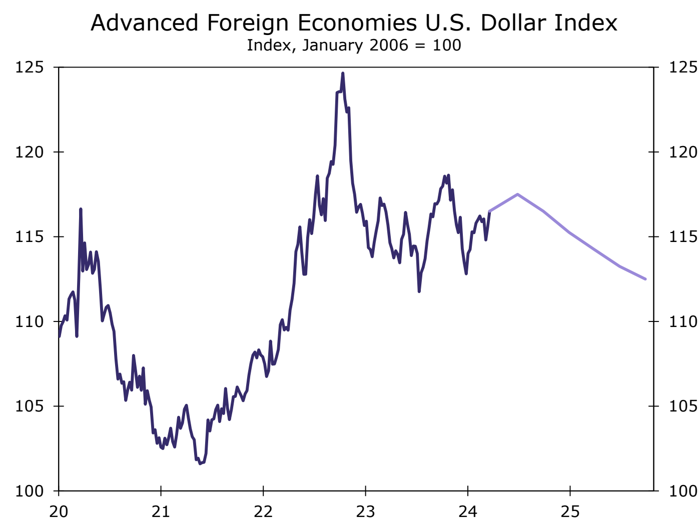
Currency markets have been highlighted by two notable features during the early part of 2024. The first has been some overall U.S. dollar strength, with the greenback gaining against most G10 and emerging currencies. In our view, this reflects the continued resilience and outperformance of the U.S. economy against the other major economies early this year, along with some upside inflation surprises that mean we now see the Fed's policy rate at its current elevated level for longer than previously envisaged. A second notable feature has been the unusual calm in currency markets that has prevailed during the early part of this year. Implied FX volatility for both major and emerging currencies is well below levels experienced either during the onset of the pandemic or during the global monetary tightening phase of the past few years (Figure 7). In fact, recent currency market volatility is heading toward the lows that have materialized over the past decade or so. Limited FX volatility could stem from the fact that, with only few exceptions, major central banks have been on the sidelines in recent months and converging toward midyear for initiating easing cycles. The lack of divergence in major central bank monetary policy has brought about a calm to FX markets over the first few months of this year. While emerging market central banks that have been more active and offered some divergence, the fact that most institutions have generally been proceeding in a prudent and predictable manner, combined with limited G10 FX volatility, has pushed EM FX volatility back toward pre-pandemic and pre-taper tantrum levels.

Figure 7



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

Figure 8



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

While recent FX market themes could continue for the time being, we see increasing potential for a change in the FX market environment later in 2024, both directionally and in terms of overall currency market dynamics. In particular, we see potential for increased FX volatility starting in the second half of 2024. In our view, and as mentioned, many of the G10 central banks that have been on hold over the past several months appear likely to initiate easing cycles from around midyear. In particular, we expect two of the most systemically important central banks—the Federal Reserve and European Central Bank—to deliver initial rate cuts around midyear. We also see several other G10 central banks beginning monetary easing cycles in June, or shortly thereafter. As we get closer to the start of the major central bank easing cycle, we expect an increasingly heightened focus from market participants on the timing, magnitude and forward guidance of central bank policy moves. That is, when exactly will major central banks begin lowering interest rates? At what frequency will major central bank lower rates? And will the same pace and magnitude continue for a certain amount of time? Or of course in the Bank of Japan's case, when might the BoJ next raise interest rates? Answers to these questions could, we think, lead to larger G10 FX moves and increased G10 currency volatility over the second half of this year.

While increased major central bank activity will potentially contribute to increased volatility among G10 currencies, we also see developments among emerging market central banks that could also contribute to increased EM FX volatility. Emerging Asia central banks, which have mostly remained on the sidelines in early 2024, are likely to embark on monetary easing cycles starting in H2-2024 as the Fed begins to deliver rate cuts. In Latin America, central banks appear likely to take varied and somewhat divergent approaches to lowering interest rates. In Chile, the central bank is likely to continue with an ultra-aggressive approach to lowering interest rates. Colombia's central bank could speed the pace of its monetary easing as 2024 progresses, while Brazil's central bank could moderate the pace of its easing. As for the Bank of Mexico, outside of being data dependent, it has offered little guidance on their likely approach to rate cuts. This varied approach from Latin American central banks, in an environment of Fed easing, could lead to varied and diverging movements in regional currencies. In EMEA, Hungary's central bank has led the way so far in moving interest rates lower, but central banks in Poland, the Czech Republic and South Africa could adjust policy more expeditiously as the year progresses. Finally, in addition to central bank activity, geopolitical developments and elections could also push volatility higher. On the geopolitics front, conflicts in Eastern Europe and the Middle East have yet to find a steady state, let alone resolutions. Emerging currencies have more sensitivity to these military conflicts, and with potential for escalation approaching, we could see volatility induced from geopolitics. Also, with U.S. elections on the horizon and Mexico and China in the cross-hairs of former President Trump, volatility could hit the Mexican peso and Chinese renminbi before spreading to other regions and currencies. Also, elections in South Africa, Mexico, Turkey and the inauguration of Taiwan's new administration all come with potential for elevated EM currency volatility.

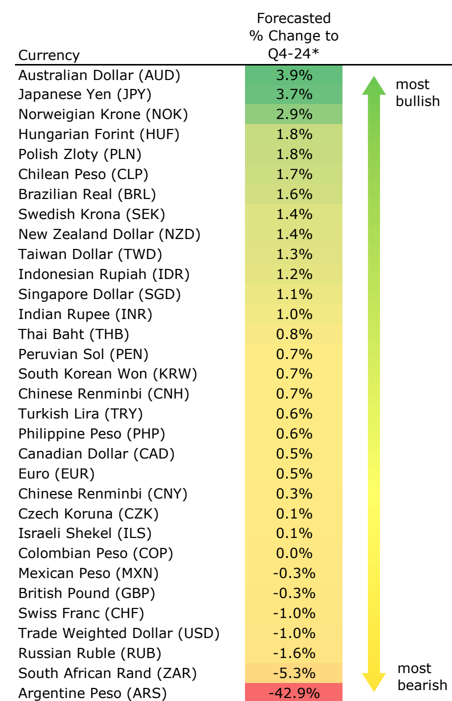
In terms of the directional outlook for currency markets, our view remains that U.S. dollar depreciation will materialize over the longer term (Figure 8). We believe some underpinnings behind recent U.S. dollar strength are likely to wane, and the case for foreign currency strength should build over time. For the U.S. economy, growth is likely to slow from Q2-Q4, reflecting a slowdown in both consumer spending and business investment. Positive and elevated real interest rates are likely to weigh on consumer and investment spending, and be the primary drivers of slower U.S. economic growth. In addition, a continued reduction in households' excess cash and softer borrowing given less accessibility to credit are likely to be contributing factors to a slowing U.S. economy. As U.S. growth softens, economies that are currently experiencing challenging growth dynamics—notably the Eurozone, United Kingdom and Japan—are likely to experience moderate recoveries as 2024 progresses. In Europe, receding inflation is already leading to more favorable growth trends in real household incomes, while in Japan the large pay increases secured during this year's spring wage talks should also lead to more favorable trends in real incomes over time. Sentiment surveys in the Eurozone and United Kingdom are also consistent with an improving growth outlook from early 2024. Over time, we expect relative growth trends to swing more in favor of foreign economies and, as a result, be more supportive of foreign currencies. With respect to monetary policy, we expect the Fed to start lowering interest rates at broadly the same time as other major central banks, such as the European Central Bank, Bank of England and Bank of Canada. That said, we see the Fed easing monetary policy steadily through this year and next, and forecast a cumulative 100 bps of rate cuts in 2024, and a further cumulative 100 bps of rate cuts in 2025. A steady and prolonged period of Fed easing that leads to a reduction in U.S. real interest rates should also contribute downward pressure on the greenback. Finally, our global economic forecast is also consistent with a relatively benign global financial market environment in the coming quarters. We note, for example, that G20 GDP growth firmed to 3.2% year-over-year in Q4-2023, and that U.S. and international equity markets have performed strongly so far this year. Should global financial conditions remain relatively favorable, demand for “safe-haven” currencies such as the U.S. dollar should lessen over time.

Among the G10 currencies that could perform solidly over the longer term, we would highlight the euro, yen, Australian dollar and Norwegian krone. For the euro, improving real income trends and sentiment surveys suggest the ingredients for economic recovery are coming increasingly into place, and should support a more solidly performing euro from later this year. We believe the yen could be particularly sensitive to Fed easing and falling U.S. yields, while Bank of Japan tightening could also offer some support to the Japanese currency at times. Against this backdrop, we remain reasonably constructive on prospects for the yen over the longer term. For Norway and Australia, we do not expect rate cuts to begin until Q3 or later this year, and to proceed at only a gradual pace, which should be supportive of both the Norwegian krone and Australian dollar. Among the emerging currencies, we are relatively constructive on the longer-term prospects for the Brazilian real, Mexican peso and Indian rupee, among others. In Brazil, the central bank looks set to slow the pace of monetary easing from later this year. As long as economic growth and fiscal trends remain on a reasonable track, a

shallower easing cycle should be supportive of the Brazilian real. In Mexico, we expect economic growth to remain reasonably steady, and expect the central bank to cut interest rates at a gradual rather than accelerated pace. If U.S. and Mexico election-related risks do not prove to be excessive, we expect Mexican peso strength over the longer term. Finally, we forecast India's economic growth to remain strong this year, and anticipate the Reserve Bank of India to lower policy interest rates at only a gradual pace. Combined with an election assumption of policy stability, monetary policy, economic and political trends should add up to rupee outperformance over time. Finally, in terms of risks around our base case for medium-term U.S. dollar depreciation, the main risks appear to be political and election related. With the U.S. election approaching in November there is potential for policy settings, particularly related to trade and immigration, to change. If U.S. political trends lead to risk-off sentiment among market participants, our longer-term view on the U.S. dollar may evolve to one of less depreciation, or even outright strength.

High Conviction Views

- **Resilient global growth in 2024.** We see an increasingly resilient outlook for the global economy this year, and forecast global GDP growth of 2.9% for 2024, down only slightly from an estimated 3.0% in 2023. For the U.S. economy, we forecast a soft landing rather than recession and, even as U.S. growth slows, improving real income trends in the Eurozone, United Kingdom and Japan should allow for those economies to gradually recover. India's economy should perform strongly again this year, while even China's economy has shown temporary strength around the turn of this year. Overall our forecast is for relatively steady, and more balanced, global economic growth in 2024.
- **U.S. dollar depreciation in H2-2024.** Our view remains for overall U.S. dollar depreciation later in 2024. U.S. economic outperformance and an "on-hold" Federal Reserve has supported the greenback in early 2024. However, looking forward to later this year, while we do expect the U.S. to avoid recession, we still anticipate slower growth as the year progresses. With inflation trends gradually improving, we also forecast the Fed to begin lowering interest rates from around mid-2024. The U.S. economic slowdown could occur just as some key foreign economies begin to recover, a growth swing that should weigh on the greenback. In addition, a soft U.S. landing, combined with inflation progress and lower U.S. yields, could also support broader financial market sentiment, weighing on the "safe-haven" support for the U.S. dollar. Overall, we expect moderate U.S. dollar depreciation against G10 and emerging currencies later in 2024 and into 2025.
- **Japanese yen to recover from later this year.** The yen has been on the defensive early this year amid a resilient U.S. economy and an "on-hold" Fed, and with a widely anticipated March Bank of Japan rate hike offering little yen support. That said, we still expect U.S. growth to slow, the Fed to ease monetary policy and U.S. bond yields to fall, factors which should all be supportive for Japan's currency. Another Bank of Japan rate hike in October could also gain greater traction within an environment of global monetary easing. Against this backdrop, we still see a yen recovery from later in 2024, and forecast a USD/JPY exchange rate of JPY146.00 by the end of this year.
- **India to remain the fastest growing major emerging economy in 2024.** We are optimistic on the prospects for India's economic growth this year. The uncertainties around global economic growth and lagged effects of monetary policy tightening are not as relevant and present in India, and India is also not directly involved in many geopolitical scenarios currently affecting the global economy. In the absence of such uncertainties and large vulnerabilities, we believe India can achieve the fastest growth rate of the major emerging economies, around 7%.
- **One last Argentine peso devaluation.** President Milei has already delivered the first peso devaluation of his administration, and in our view, one final depreciation will materialize in the coming months. We believe this peso devaluation will occur in Q2-2024, after a quarter of crawling depreciation that will eventually prove untenable due to insufficient FX reserves. We expect the peso to be devalued around 25% and for the currency to approach ARS1300 against the U.S. dollar by mid-2024.



Currency	Forecasted % Change to Q4-24*
Australian Dollar (AUD)	3.9%
Japanese Yen (JPY)	3.7%
Norweigian Krone (NOK)	2.9%
Hungarian Forint (HUF)	1.8%
Polish Zloty (PLN)	1.8%
Chilean Peso (CLP)	1.7%
Brazilian Real (BRL)	1.6%
Swedish Krona (SEK)	1.4%
New Zealand Dollar (NZD)	1.4%
Taiwan Dollar (TWD)	1.3%
Indonesian Rupiah (IDR)	1.2%
Singapore Dollar (SGD)	1.1%
Indian Rupee (INR)	1.0%
Thai Baht (THB)	0.8%
Peruvian Sol (PEN)	0.7%
South Korean Won (KRW)	0.7%
Chinese Renminbi (CNH)	0.7%
Turkish Lira (TRY)	0.6%
Philippine Peso (PHP)	0.6%
Canadian Dollar (CAD)	0.5%
Euro (EUR)	0.5%
Chinese Renminbi (CNY)	0.3%
Czech Koruna (CZK)	0.1%
Israeli Shekel (ILS)	0.1%
Colombian Peso (COP)	0.0%
Mexican Peso (MXN)	-0.3%
British Pound (GBP)	-0.3%
Swiss Franc (CHF)	-1.0%
Trade Weighted Dollar (USD)	-1.0%
Russian Ruble (RUB)	-1.6%
South African Rand (ZAR)	-5.3%
Argentine Peso (ARS)	-42.9%

Forecast as of: March 26, 2024
*Percentage Change Against USD, Q4-24 Vs. Current Spot Rate

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

Wells Fargo International Economic Forecast

	GDP				CPI			
	2022	2023	2024	2025	2022	2023	2024	2025
Global (PPP Weights)	3.5%	3.0%	2.9%	2.7%	8.7%	4.5%	3.7%	3.4%
Advanced Economies[1]	2.6%	1.8%	1.7%	1.9%	7.3%	4.9%	2.9%	2.4%
United States	1.9%	2.5%	2.4%	1.8%	8.0%	4.1%	3.1%	2.4%
Eurozone	3.4%	0.5%	0.6%	1.6%	8.4%	5.4%	2.5%	2.1%
United Kingdom	4.3%	0.1%	0.3%	1.6%	9.1%	7.3%	2.7%	2.2%
Japan	1.0%	1.9%	0.8%	1.2%	2.5%	3.3%	2.2%	1.7%
Canada	3.8%	1.1%	0.9%	1.9%	6.8%	3.9%	1.9%	2.0%
Switzerland	2.7%	0.8%	1.3%	1.6%	2.8%	2.2%	1.4%	1.2%
Australia	3.8%	2.1%	1.4%	2.1%	6.6%	5.6%	3.4%	2.7%
New Zealand	2.7%	0.6%	0.8%	2.3%	7.2%	5.8%	3.3%	2.2%
Sweden	2.8%	0.0%	0.4%	1.7%	8.1%	8.6%	2.9%	1.9%
Norway	3.3%	1.1%	0.8%	1.5%	5.8%	5.5%	3.4%	2.5%
Developing Economies[1]	4.1%	3.9%	3.7%	3.3%	9.8%	4.1%	4.2%	4.2%
China	3.0%	5.2%	4.7%	4.3%	2.0%	0.2%	1.0%	1.6%
India	6.5%	7.7%	7.2%	6.6%	6.7%	5.7%	5.0%	4.5%
Mexico	3.9%	3.2%	2.3%	2.0%	7.9%	5.5%	4.2%	3.8%
Brazil	3.0%	2.9%	1.5%	2.0%	9.3%	4.8%	4.0%	3.6%

Forecast as of: March 26, 2024

[1]Aggregated Using PPP Weights

Source: International Monetary Fund and Wells Fargo Economics

Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

	Central Bank Key Policy Rate						
	2024				2025		
	Current	Q2	Q3	Q4	Q1	Q2	Q3
United States	5.50%	5.25%	4.75%	4.50%	4.25%	4.00%	3.75%
Eurozone[1]	4.00%	3.75%	3.25%	2.75%	2.50%	2.25%	2.00%
United Kingdom	5.25%	5.00%	4.50%	4.00%	3.50%	3.25%	3.00%
Japan	0.10%	0.10%	0.10%	0.20%	0.20%	0.20%	0.20%
Canada	5.00%	4.75%	4.25%	4.00%	3.75%	3.50%	3.25%
Switzerland	1.50%	1.25%	1.00%	1.00%	1.00%	1.00%	1.00%
Australia	4.35%	4.35%	4.10%	3.85%	3.60%	3.35%	3.10%
New Zealand	5.50%	5.50%	5.25%	4.75%	4.50%	4.00%	3.75%
Sweden	4.00%	3.75%	3.50%	3.25%	3.00%	2.75%	2.50%
Norway	4.50%	4.50%	4.00%	3.75%	3.50%	3.25%	3.25%
China[3]	10.00%	10.00%	9.50%	9.50%	9.00%	9.00%	8.50%
India	6.50%	6.50%	6.25%	5.75%	5.50%	5.50%	5.50%
Mexico	11.00%	10.50%	10.00%	9.50%	9.00%	8.50%	8.25%
Brazil	10.75%	10.00%	9.50%	9.00%	8.50%	8.50%	8.50%
Chile	7.25%	4.75%	4.00%	3.75%	3.75%	3.75%	3.75%
Colombia	12.25%	11.25%	10.25%	9.25%	8.25%	7.25%	6.25%

	2-Year Note						
	2024				2025		
	Current	Q2	Q3	Q4	Q1	Q2	Q3
United States	4.61%	4.10%	3.85%	3.70%	3.55%	3.45%	3.35%
Eurozone[2]	2.88%	2.70%	2.50%	2.35%	2.25%	2.20%	2.15%
United Kingdom	4.19%	4.00%	3.80%	3.60%	3.45%	3.35%	3.25%
Japan	0.20%	0.20%	0.20%	0.25%	0.25%	0.30%	0.30%
Canada	4.17%	4.00%	3.80%	3.60%	3.45%	3.35%	3.25%

	10-Year Note						
	2024				2025		
	Current	Q2	Q3	Q4	Q1	Q2	Q3
United States	4.26%	3.90%	3.80%	3.70%	3.65%	3.60%	3.60%
Eurozone[2]	2.36%	2.30%	2.25%	2.20%	2.20%	2.15%	2.15%
United Kingdom	3.98%	3.80%	3.70%	3.60%	3.50%	3.40%	3.35%
Japan	0.74%	0.75%	0.80%	0.85%	0.85%	0.90%	0.90%
Canada	3.52%	3.40%	3.30%	3.25%	3.20%	3.15%	3.15%

Forecast as of: March 26, 2024

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

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

Wells Fargo International FX Forecast

Currency Pair*	Current Rate	Q2-2024	Q3-2024	Q4-2024	Q1-2025	Q2-2025	Q3-2025
G10							
EUR/USD	1.0851	1.0700	1.0800	1.0900	1.1000	1.1100	1.1200
USD/JPY	151.47	150.00	148.00	146.00	145.00	144.00	143.00
GBP/USD	1.2642	1.2500	1.2500	1.2600	1.2700	1.2800	1.2900
USD/CHF	0.9036	0.9200	0.9175	0.9125	0.9050	0.8925	0.8850
USD/CAD	1.3562	1.3700	1.3600	1.3500	1.3400	1.3300	1.3200
AUD/USD	0.6546	0.6500	0.6700	0.6800	0.6900	0.7000	0.7100
NZD/USD	0.6017	0.5900	0.6000	0.6100	0.6200	0.6300	0.6400
USD/NOK	10.7187	10.7475	10.5550	10.4125	10.2725	10.1350	10.0000
USD/SEK	10.5576	10.7000	10.5550	10.4125	10.2725	10.1350	10.0000
Asia							
USD/CNY	7.2187	7.2200	7.2200	7.2000	7.1800	7.1500	7.1200
USD/CNH	7.2477	7.2300	7.2200	7.2000	7.1800	7.1500	7.1200
USD/IDR	15793	15800	15700	15600	15500	15400	15300
USD/INR	83.29	83.25	83.00	82.50	82.00	81.50	81.00
USD/KRW	1339.53	1350.00	1340.00	1330.00	1320.00	1310.00	1310.00
USD/PHP	56.33	56.50	56.25	56.00	56.75	55.50	55.25
USD/SGD	1.3445	1.3500	1.3400	1.3300	1.3200	1.3100	1.3000
USD/TWD	31.91	32.25	31.75	31.50	31.25	31.00	31.00
USD/THB	36.31	36.50	36.25	36.00	35.75	35.50	35.25
Latin America							
USD/BRL	4.9805	5.0000	4.9500	4.9000	4.8500	4.8000	4.7500
USD/CLP	976.55	990.00	980.00	960.00	940.00	920.00	900.00
USD/MXN	16.7072	16.7500	17.0000	16.7500	16.7500	16.5000	16.5000
USD/COP	3901	3925	3925	3900	3850	3800	3750
USD/ARS	856.21	1300.00	1400.00	1500.00	1600.00	1700.00	1800.00
USD/PEN	3.7064	3.7200	3.7000	3.6800	3.6600	3.6400	3.6200
Eastern Europe/Middle East/Africa							
USD/CZK	23.27	24.00	23.50	23.25	22.75	22.25	22.00
USD/HUF	364.33	373.75	365.75	357.75	350.00	342.25	334.75
USD/PLN	3.9714	4.0650	3.9825	3.9000	3.8175	3.7375	3.6600
USD/RUB	92.54	90.00	92.00	94.00	96.00	98.00	100.00
USD/ILS	3.6631	3.7000	3.6800	3.6600	3.6400	3.6200	3.6000
USD/ZAR	18.9396	20.0000	20.5000	20.0000	19.7500	19.5000	19.2500
USD/TRY	32.2012	33.0000	32.5000	32.0000	31.0000	30.0000	29.0000
Euro Crosses							
EUR/JPY	164.36	160.50	159.75	159.25	159.50	159.75	160.25
EUR/GBP	0.8584	0.8550	0.8650	0.8650	0.8650	0.8675	0.8675
EUR/CHF	0.9805	0.9850	0.9900	0.9950	0.9950	0.9900	0.9900
EUR/NOK	11.6338	11.5000	11.4000	11.3500	11.3000	11.2500	11.2000
EUR/SEK	11.4564	11.4500	11.4000	11.3500	11.3000	11.2500	11.2000
EUR/CZK	25.25	25.75	25.50	25.25	25.00	24.75	24.50
EUR/HUF	395.33	400.00	395.00	390.00	385.00	380.00	375.00
EUR/PLN	4.3095	4.3500	4.3000	4.2500	4.2000	4.1500	4.1000

Forecast as of: March 26, 2024

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

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