International Commentary — April 25, 2023

International Economic Outlook: April 2023

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Summary

Forecast Changes

- We have once again revised our global GDP forecast higher, and in our view, the global economy is moving further away from entering recession. With China's economy outperforming in Q1 and Eurozone growth prospects improving, we now forecast the global economy to grow 2.4% in 2023, up from 2.2% last month. The majority of global growth is set to come from Asia, specifically China and India, and we also no longer believe the Eurozone will enter recession this year.
- Central banks, on balance, have yet to make a meaningful pivot toward monetary easing. In fact, we revised our terminal rate forecasts higher for select central banks, such as the Bank of England, Reserve Bank of New Zealand and Norges Bank. In addition, we continue to believe risks are tilted toward central banks raising rates more than we expect, and the "higher for longer" theme is still very much a possibility.
- In our view, the U.S. dollar is experiencing multiple cross-currents that can result in a stable greenback through the end of Q2-2023. Longer term, we believe the Fed will lower interest rates more aggressively than peer central banks, which can place broad depreciation pressure on the dollar over the second half of 2023 and into 2024. We also believe emerging market currencies can continue to experience widespread currency strength going forward, with the best opportunities existing within high yielding currencies in Latin America and Emerging Europe.

Key Themes

- The global economy continues to display resilience and improving growth prospects. Relative to historical trends, the global economy is likely to experience subdued growth in 2023; however, prospects for growth have improved sharply over the first few months of this year. With China's economy now likely to grow 6% this year and India likely to experience robust growth, the global economy is transitioning back to a place where Asia is once again accounting for the majority of global growth.
- Core inflation remains elevated in many parts of the world, leaving us to believe risks to our central bank terminal rate forecasts are still tilted to the upside. While we continue to believe select institutions can initiate easing cycles by the end of this year, we acknowledge that "higher for longer"—especially from the Fed—is still a relevant risk. For now, we continue to believe the Fed will lead central banks in cutting interest rates, outpacing peer central banks across the G10.
- Our view on the dollar has not changed much, and we continue to believe the greenback is on track for an extended period of depreciation into 2024. Following a brief period of stability in the short term, we believe interest rate differentials will be the primary source of dollar weakness over the longer term. While we are optimistic on G10 currency prospects, we believe emerging market currency strength will be widespread going forward. Select currencies in regions such as Latin America and Emerging Europe can outperform on elevated real interest rates and prudent central banks, combined with certain idiosyncratic developments.

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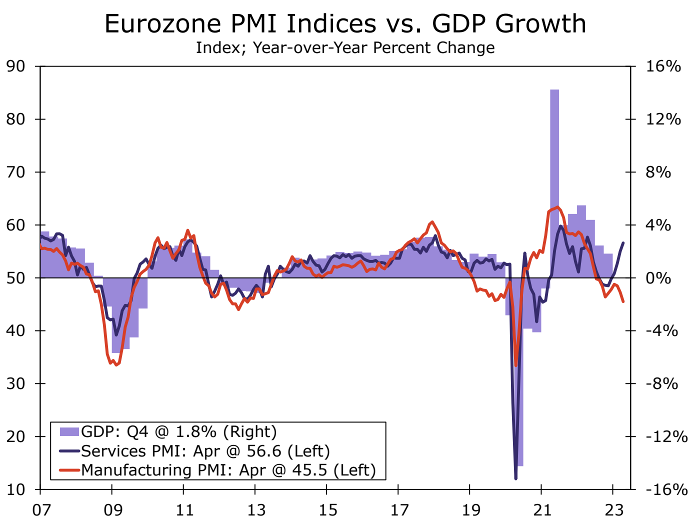
Moving Further from Recession

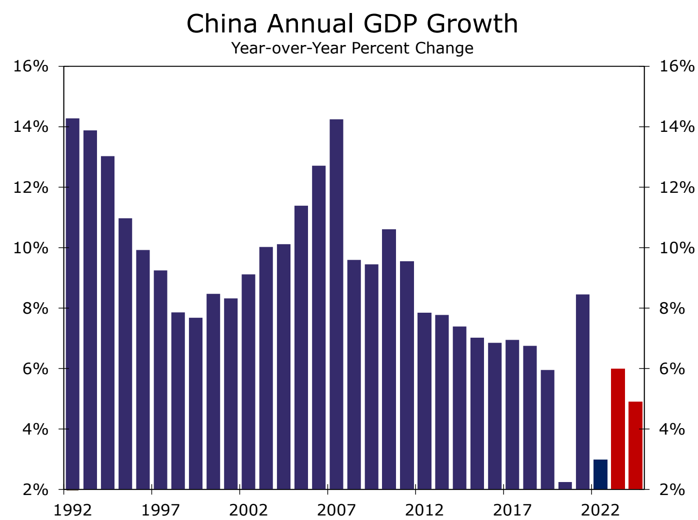
Improving global growth prospects have been a common theme embedded in our monthly *International Economic Outlook* reports over the course of this year. The first three monthly updates we published in 2023 all highlighted a global economy that is on a sturdier foundation and contained upward revisions we made to our global GDP forecast. This month, the streak continues as we once again revised our global growth forecast higher. We now forecast the global economy to grow 2.4% this year, up from last month's forecast of 2.2% and sharply higher than the 1.7% we forecast in our 2023 Global Economic Outlook published at the end of last year. Last month's upward revision was notable in the sense that we formally lifted our call for the global economy to fall into recession. This month's update is also significant, as the likelihood of global recession has declined and the global economy is moving further away from experiencing global recessionary conditions. Over the course of this year, we have cited resilient consumer spending as the primary contributing factor to our improved global growth forecast. In the United States, households continue to deploy excess savings, engaging in less saving and more borrowing to sustain spending patterns. In the Eurozone, lower energy prices have taken pressure off household finances and have allowed for disposable incomes to be spent on more discretionary items. And in China, the lifting of Zero-COVID policies has prompted consumers to release pent-up demand. Exiting Zero-COVID has been followed by a burst of economic activity, specifically in the services sector, although manufacturing has also experienced a strong recovery. These same trends remain in place this month, and broadly speaking, underpin our improved outlook for the global economy.

Figure 1



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

Figure 2



Source: IMF and Wells Fargo Economics

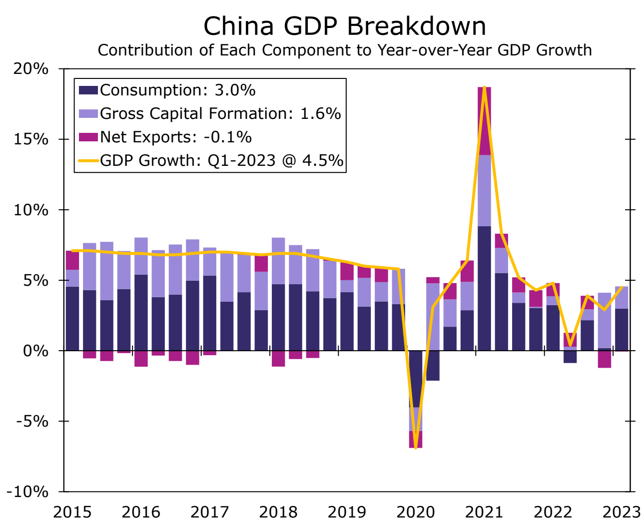
As far as revisions among individual countries or regions, we have turned more optimistic on the outlook for the Eurozone. As mentioned, household finances have been on a more favorable trajectory, facilitating activity across the bloc. The fall in energy and natural gas prices has alleviated many of the worst case scenario concerns for the Eurozone following Russia's invasion of Ukraine, and recent economic trends reflect a positive forward-looking direction for the economy. April Purchasing Manager Indices (PMIs) suggest the Eurozone economy is in expansion, particularly the services sector. While manufacturing output may be more sluggish and subdued, we take comfort in the fact that sentiment toward services industries is in expansion territory and the services PMI is still climbing higher above the key 50 level in Q2 (Figure 1). Positive economic trends over the last few months lead us to believe the Eurozone can now avoid recession, despite past and prospective monetary tightening from European Central Bank policymakers. We now forecast the Eurozone economy to grow 0.6% this year, which is contributing to our more upbeat outlook for the global economy. We also revised our China growth forecast higher this month as Q1-2023 GDP data beat our estimates, a signal we interpret as China's economic recovery from post-pandemic policies is still intact. Incorporating actual Q1 data into our forecast profile, we now forecast China's economy to grow 6.0%, well above the Chinese government's annual 5% growth target. In fact, aside from pandemic effects in 2021, 2023 could be the first year since 2018 that China's economy experienced annual growth of at least

6% (Figure 2). Given the sheer size and influence of China's economy, this upward revision is most impactful over our global GDP forecast.

Majority of Global Growth Is Again Coming from the East

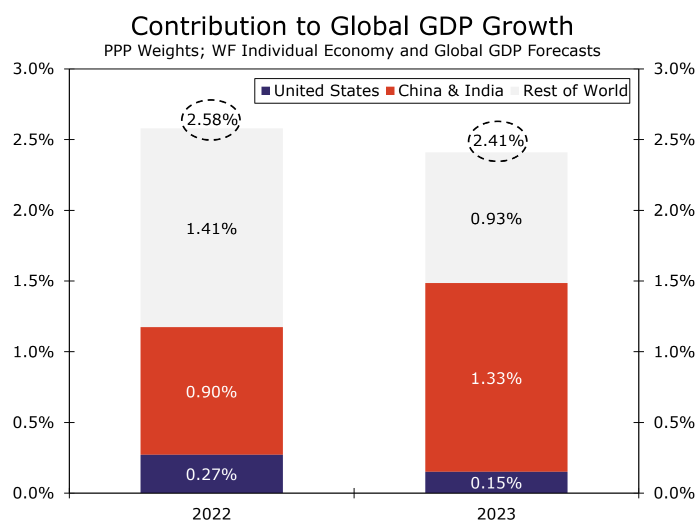
Speaking of China's economy, the rebound from pandemic control policies has been rather impressive over the first few months of this year. With Zero-COVID measures completely abandoned, nationwide mobility has spiked and robust economic activity has followed. Mobility indicators such as planned travel and mass transit usage rose quickly around the turn of the year, and to date, remain above pre-pandemic levels. Sentiment indicators such as the Purchasing Manager Indices (PMIs) suggest the economic recovery is still intact, and while the official manufacturing PMI softened in March, the non-manufacturing PMI rose to 58.2, a high last experienced in early 2011. Positive services sector sentiment has been corroborated by recently released March retail sales data. March data are the first clear insight into China retail sales this year, which typically follows Lunar New Year activities. With that said, data showed households are still able and willing to spend. Retail sales rose 10.6% year-over-year against a consensus estimate of 7.5%, indicating strong consumption across the country. In fact, consumption was the primary driver of China's economy during the first quarter of 2023. China's economy grew 4.5% year-over-year in Q1, with household consumption contributing three percentage points to that expansion, the largest contribution since early 2022 (Figure 3). Over the last few years, consumption patterns have been heavily disrupted by COVID and authorities' lockdown response to rising infections. In our view, consumption returning to more normal rates is a positive indicator that China's expansion is on a solid foundation, momentum that can carry forward over the next few quarters. Chinese authorities have been pushing for consumption to represent a larger component of overall economic growth for some time. While consumption already represents ~50% of China's economy, moving away from infrastructure spending and exports, and toward domestic consumption will take time and be a long-term process. However, in the short term, improving consumption can set China on a path toward achieving a 6% growth rate in 2023.

Figure 3



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

Figure 4



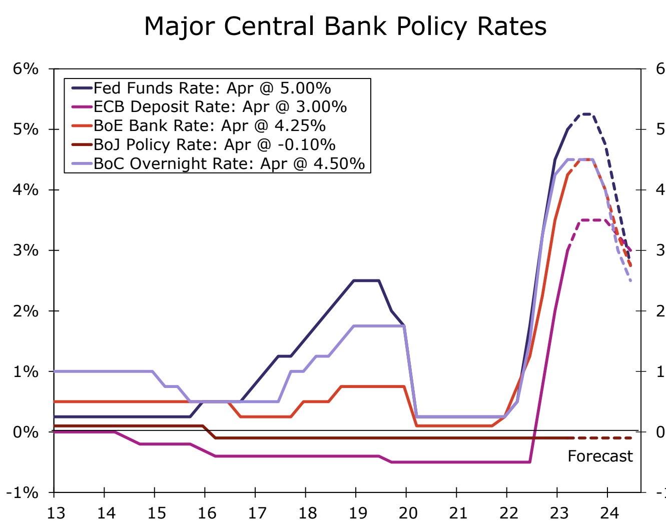
Source: Bloomberg Finance L.P., IMF and Wells Fargo Economics

China is set to be primary key engine of global growth this year—not necessarily an unusual occurrence—but the growth theme for this year is broader than that. In 2023, the majority of global growth is set to come from Asia, with little meaningful contributions from the United States and the rest of the Western Hemisphere. Breaking that statement down further, 1.33 percentage points of our 2.4% global growth forecast for this year is set to come from China and India (Figure 4). This is a notable rise in contribution relative to last year, where China and India together accounted for less than one percentage point of 2022's 2.6% global GDP growth rate. In fairness, the Chinese economy was operating under Zero-COVID protocol and India's economy was still struggling to gather momentum following multiple COVID variant shocks, global monetary tightening, and higher commodity prices as a result of the Russia-Ukraine conflict. This year, those shocks have largely faded and each economy can finally operate untethered and achieve more normal growth rates. On the other hand, with the U.S. economy headed for recession in the coming months, the U.S. is unlikely to achieve similar historical contributions to global growth this year. According to our forecasts, the U.S. economy will only contribute 0.15 percentage points to global growth, about half of the American economy's contribution to global growth in 2022. Overall, with over 55% of global growth set to come from China and India, the global economy is transitioning back to a place where Asia is once again accounting for the majority of global growth.

Peak Policy Rates Are Near, but Risks Tilted Toward More Tightening

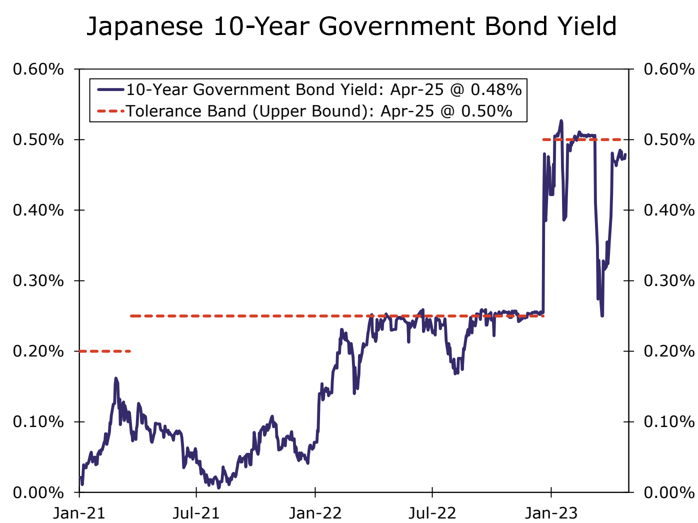
We have long forecasted that global tightening cycles would come to an end in the first half of 2023 and some central banks would shift toward easing by the end of this year as economic activity slowed and inflation eased. This outlook for monetary policy is still broadly our base case; however, we have made slight upward revisions to policy rate forecasts for a few central banks. In our view, the Bank of England has more room to tighten, and we added another 25 bps rate hike to our forecast for a terminal BoE rate of 4.50%. In addition, we lifted our policy rate forecasts for select central banks such as the Reserve Bank of New Zealand (5.50%) and Norges Bank (3.50%). Notably—and worth mentioning—we have left our Federal Reserve (terminal rate of 5.25%) and European Central Bank (3.50%) forecasts unchanged from a month ago, and continue to believe Fed and ECB policymakers will end tightening cycles in the first half of this year (Figure 5). While our base case remains for most central banks to end their rate hike cycles by Q2, we nonetheless acknowledge risks remain tilted toward more central bank rate hikes than we currently forecast.

Figure 5



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

Figure 6



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

In our March International Outlook, we wrote that even with inflationary pressures persistent, concerns surrounding the stability of the global financial sector might encourage central banks to end tightening cycles sooner than previously forecast. In some cases, we felt there was a possibility banking sector challenges could also prompt policymakers to begin easing monetary policy earlier than previously anticipated. However, in our view, strains on the global banking sector have lessened in recent weeks and the challenges seem to be contained to just a few institutions in the United States and Europe with little contagion. Meanwhile, inflation is persistent, particularly core inflation. Even with substantial declines in headline inflation, core CPI remains elevated in many countries. Core CPI Inflation among the OECD countries ticked up to 7.3% in February, still close to the 7.8% peak in October 2022. With elevated inflation dynamics still at play and banking sector stresses contained overall to this point, central banks may opt to tighten monetary policy further.

We can point to certain central banks that are candidates for raising rates higher than we currently forecast, most notably the Fed. The FOMC raised the fed funds rate 25 bps in March, and recent policymaker comments have diverged in terms of how much more tightening should be delivered. While Atlanta Fed President Bostic has indicated his preference for one more 25 bps rate hike and then a pause at 5.00%-5.25% in order to curb inflation, St. Louis Fed President Bullard, who has historically leaned hawkish, said he prefers getting policy rates in the range of 5.50%- 5.75%. Ultimately, our base case view is for one final 25 bps rate hike to a target range of 5.00%-5.25% in May, although the risks to the fed funds terminal rate remain skewed to the upside. Policymakers at the European Central Bank (ECB) have also leaned hawkish with recent comments. ECB President Lagarde said that there is still a little way to go on interest rates before inflation can start to meaningfully converge toward target ranges. Furthermore, Governing Council member Hernandez de Cos also said the ECB will have to continue raising interest rates if the current macroeconomic outlook remains intact following the recent bout of financial-sector stress. Elsewhere, the Reserve Bank of Australia (RBA) held rates steady at 3.60% in April, and we now believe the central bank is on hold. However, while we expect the RBA to hold rates steady again in May, a stronger-than-expected Q1 CPI report or tightness in the labor market could potentially increase the chances of RBA resuming its monetary tightening later in the year.

As far as further monetary tightening, we have made an explicit forecast change and believe the Bank of Japan (BoJ) is set to adjust monetary policy settings in the coming quarters. This is notable, as the Bank of Japan has gone against the grain for most of the global tightening cycle and maintained an accommodative monetary policy stance while peer central banks aggressively hiked interest rates. We now believe the BoJ will take advantage of a tactical opportunity to tweak its policy settings in Q4-2023, and expect BoJ policymakers to lift the target for the 10-year Japanese government bond yield to 0.25% from 0%. In addition to lifting the target yield to 0.25%, we believe the BoJ will widen the tolerance band around that yield target to +/- 75 bps from +/- 50 bps (Figure 6). In terms of timing for the BoJ to adjust its monetary policy stance, we lean toward the October meeting. While economic developments may not necessarily warrant monetary tightening at this time, we view this policy adjustment as primarily geared toward normalizing Japan's government bond market. Should this adjustment proceed smoothly, we would view it as a probable precursor to the BoJ fully ending yield curve control, perhaps sometime in 2024. Overall, such a policy move should see longer-term Japanese yields spike higher and add to our constructive longer-term outlook for the yen.

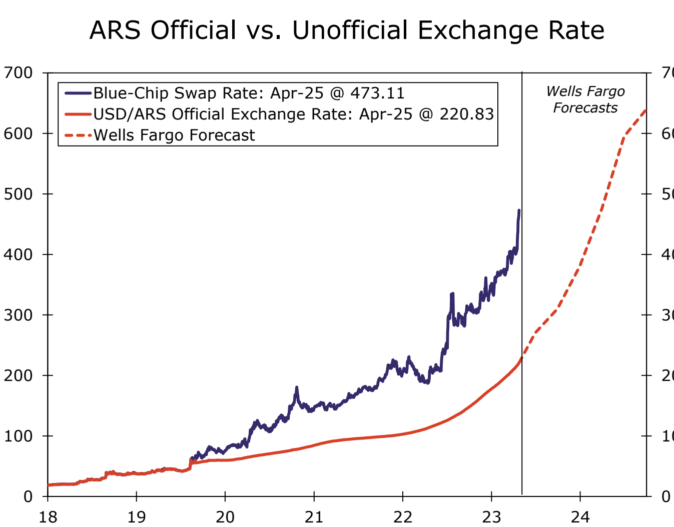
U.S. Dollar Still Heading Toward a Depreciation Path

Our outlook for the U.S. dollar has not changed. In our view, the dollar is still likely to experience multiple cross-currents through the remainder of Q2-2023 that can result in a stable greenback against most foreign currencies. These cross-currents include a Federal Reserve that is likely to raise policy rates another 25 bps in May. With banking stresses contained and the U.S. labor market still resilient, we believe the FOMC will continue to tighten monetary policy in an effort to facilitate inflation converging toward the Fed's 2% target. As mentioned, we believe risks are tilted toward additional Fed tightening post-May, which financial markets are not fully priced for, and as markets price the possibility of further Fed rate hikes, the U.S. dollar could benefit over the coming months. In addition, the Wells Fargo equity strategy team is now calling for a correction in U.S. equities in the near future. This drawdown in equity prices could also result in a stronger dollar by market participants seeking the safe-haven qualities of the greenback. On the other hand, while the Fed may still raise interest rates in the coming months, FOMC policymakers are no longer the most hawkish central bankers in the world. The European Central Bank continues to cite elevated core inflation as justification for tighter monetary policy, and while we forecast two more 25 bps hikes by the end of Q2, risks are tilted toward the ECB moving at a 50 bps clip for at least one of those meetings. With the ECB set to tighten monetary policy more aggressively than the Fed, interest rate differentials can move against the dollar and weigh on the greenback more broadly. These tug-of-war type dynamics, in our view, can result in the dollar moving sideways relative to many G10 and emerging market currencies over the next few months.

The direction for the dollar appears clearer to us over the medium to longer term. We believe the second half of 2023 and first half of 2024 will be defined by dynamics that place broad-based depreciation pressure on the U.S. dollar. To that point, economic trends are set to become more favorable internationally relative to those in the United States over the coming quarters. With our forecast for U.S. recession to begin in Q3 and for the worst of the economic slowdown to be behind the other G10 economies—especially the Eurozone—growth differentials are likely to be supportive of foreign currencies rather than the greenback. We believe these positive growth differentials internationally can attract investment capital toward foreign currency denominated assets and result in a medium-term strengthening trend for G10 currencies. These economic trends play a role in our other rationale for long-term dollar depreciation. With the U.S. economy, in our view, on pace to enter recession in the near future, we believe the Federal Reserve will start cutting interest rates by the end of this year. This easing of monetary policy should continue well into 2024 with the Fed moving at a rather aggressive pace in lowering policy rates. In fact, we believe the Fed will be easing monetary policy at a faster pace relative to peer international central banks, which also places interest rate differentials in favor of foreign currencies over the long term. The combination of growth differentials and interest rate differentials should place prolonged depreciation pressure on the greenback through mid-2024. With the dollar set to broadly depreciate and the ECB to adopt monetary easing later and cut rates more gradually than the Fed, the euro can rise to $1.14 by the end of this year and sustain gains into 2024. Also, with the Bank of Japan looking to tighten monetary policy while the Fed is easing, the yen should, in our view, be a notable outperformer going forward.

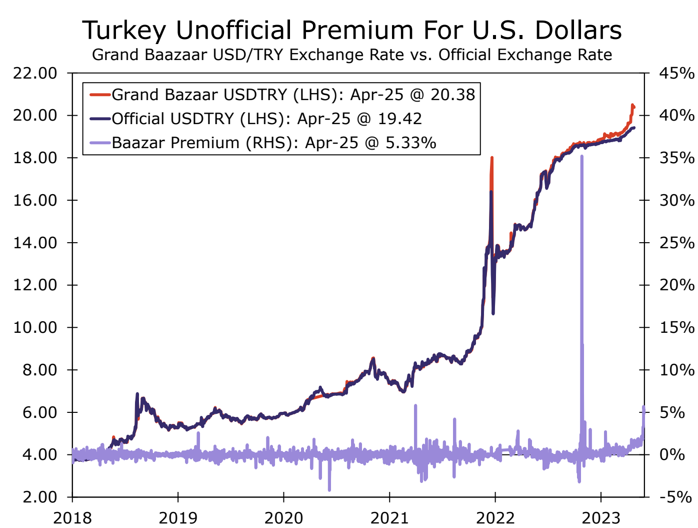
However, we maintain our high conviction view that the best opportunities for currency strength can still be found within the emerging markets, In particular, we believe high beta, high yielding currencies in Latin America and Emerging Europe can trend stronger against the dollar and continue their year-to-date outperformance. With overall FX volatility on a downward trajectory, broad-based dollar weakness combined with elevated real interest rates across most of the emerging markets complex can be a formula for select currencies to perform especially well. In that sense, we favor currencies such as the Brazilian real and Mexican peso where external forces can support each currency, but we also believe idiosyncratic developments can lead to each of these currencies outperforming. As far as Brazil, in addition to the Brazilian Central Bank (BCB) maintaining one of the highest real interest rates in the world, we believe financial markets may be priced for too much BCB easing in the coming quarters. As markets adjust to a more gradual pace of easing, the Brazilian real can benefit. We also believe the Lula administration will look to exercise fiscal discipline, an assumption we have held for some time, but the latest fiscal plan from the administration seems broadly in line with our expectation. In Mexico, elevated real rates, diminished political risk associated with the AMLO administration, a resilient economy and signs of nearshoring/reshoring should all support further peso strength for the time being. We are also optimistic on the longer-term potential of the Chilean peso; however, we have scaled back our short-term forecast to reflect less currency strength. In our view, markets are still priced for too much easing from the Chilean Central Bank, while we also believe political risk has tentatively eased as technocratic policymakers and advisors are set to be more involved in the second attempt at rewriting the nation's constitution. However, with central bank policymakers unwinding previous FX intervention positions, the peso could now struggle to gather traction through the end of Q2-2023.

Figure 7



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

Figure 8



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

Not all idiosyncratic developments are set to be supportive of emerging market currencies. Argentina's economy has deteriorated, with inflation climbing past 100% year-over-year. Obscure sovereign debt management operations, such as debt buybacks, complicate the central bank's FX reserve position further, while government decrees forcing public sector entities to sell and convert dollar-debt into pesos could qualify as technical default. Either way, we believe the peso will consistently reach new lows against the dollar as a managed depreciation persists before being outright devalued in Q4-2023 after elections take place. As the wedge between the official peso exchange rate and unofficial exchange rate widens further (Figure 7), we maintain our high conviction view that a peso devaluation will need to occur in the quarters ahead. Turkish elections are approaching on May 14, and the outcome could have significant implications for the path of the lira. In the event President Erdogan retains office, which is still our base case assumption albeit with relatively low conviction, an unorthodox monetary policy framework is likely to stay in place and the lira could experience another significant depreciation. Unofficial lira markets suggest a gap is widening relative to the official lira exchange rate as a result of persistent central bank FX intervention to stabilize the lira ahead of voting (Figure 8). Should an Erdogan win materialize, the official exchange rate could converge toward the unofficial rate as FX intervention subsides and policy continuity remains, indicating the magnitude of potential lira depreciation that could follow. On the other hand, if a scenario unfolds where regime change materializes, we believe the lira could experience an outsized appreciation on expectations that an orthodox framework for monetary policy could be implemented. Time will tell, but we expect the lira to move sharply based on the outcome of the election, and once we have clarity on the direction of policy, our lira forecasts will adjust accordingly. In Israel, local political risk has been elevated since the Netanyahu-led coalition took office, and while Netanyahu has paused judicial reforms as a result of widespread protests, risks to the governance of the country and historically sound institutions have risen considerably. Israel also finds itself in the midst of renewed geopolitical confrontation across the Middle East, weighing on sentiment toward the country and Israeli shekel. As tensions rose earlier this year, we assumed political risk would ease quickly and the shekel would experience a sharp recovery following the judicial reform induced selloff; however, the combination of geopolitical conflict and lingering domestic political risk has led us to become less optimistic on the shekel. In that sense, we have revised our forecast to show less shekel strength.

High Conviction Views

- **An extended period of U.S. dollar depreciation is approaching.** The greenback could be relatively stable in the near term, as some additional Fed tightening combined with the potential for mildly unsettled markets could provide temporary support for the greenback. However, we expect the U.S. currency to come under pressure as aggressive Fed easing starts in Q4-2023. We forecast the trade-weighted dollar to soften 3% over the balance of 2023, and by a further 5% in 2024.
- **An increasing resilient outlook for global growth in 2023.** Global growth for 2023 has continued to improve, and we have upgraded our global GDP growth forecast to 2.4% for this year. Most notably, China has started this year with momentum as the economy reopens, and we have lifted our full-year GDP forecast to 6.0%. The U.S. and Canada have also started 2023 on a solid note, even if activity could wane as the year progresses, and the outlook for Eurozone and U.K. growth continues to improve amid receding energy prices.
- **Japanese yen strength over time.** While the yen underperformed during the global monetary tightening phase, in our view, the currency has scope to outperform later this year. We now believe the BoJ will take advantage of a tactical opportunity to further tweak its policy settings in Q4-2023 to further normalize the government bond market. Such a policy move adds to our constructive medium-term outlook for the yen. Yen outperformance over time should also be supported by the end of central bank tightening and a transition toward easing, as well as a U.S. recession in the second half of 2023.
- **Euro strength versus the U.S. dollar over the medium term.** The outlook for the Eurozone economy is turning more constructive amid softer energy prices. With confidence surveys, especially for the service sector, having shown overall improvement early this year, we now expect the Eurozone economy to avoid recession. Moreover, with underlying inflation pressures still persistent, we expect further rate policy rate hikes to 3.50%, with the risk of further tightening beyond that. We also see only gradual eventual easing from the European Central Bank, starting in 2024. Our Eurozone outlook contrasts with the U.S., where we expect a recession starting in the second half of this year, and aggressive fed easing from later this year. As a result, we forecast solid euro gains against the U.S. currency over the medium term.
- **Widespread emerging market currency strength in 2023.** With the global economy showing more resilience and the Fed slowing its pace of tightening, we believe many EM currencies can outperform relative to G10 peer currencies this year. Attractive real yields should result in market participants accumulating exposure to developing currencies, while our assumption for contained banking sector stresses should lead to improved risk appetite.
- **Explicit Argentine peso devaluation in Q4-2023.** Argentine authorities have allowed for greater peso depreciation; however, in order to continue receiving IMF disbursements, the central bank will need to allow the peso to float more freely. In our view, a managed depreciation is likely up until the election; however, once presidential elections end in October, we believe an outsized and intentional peso devaluation will materialize and the Argentine peso will be the worst performing emerging market currency in 2023.

Currency	Forecasted % Change to Q4-23*	
Hungarian Forint (HUF)	6.5%	most bullish
Brazilian Real (BRL)	5.8%	
New Zealand Dollar (NZD)	5.7%	
Polish Zloty (PLN)	5.6%	
Czech Koruna (CZK)	5.4%	
South African Rand (ZAR)	4.8%	
Swedish Krona (SEK)	4.6%	
Japanese Yen (JPY)	4.6%	
Norweigian Krone (NOK)	4.5%	
Australian Dollar (AUD)	4.0%	
Euro (EUR)	3.6%	
Chilean Peso (CLP)	3.3%	
Mexican Peso (MXN)	3.1%	
Swiss Franc (CHF)	2.6%	
Singapore Dollar (SGD)	2.1%	
Chinese Renminbi (CNH)	2.1%	
Colombian Peso (COP)	2.0%	
Chinese Renminbi (CNY)	1.9%	
South Korean Won (KRW)	1.7%	
Canadian Dollar (CAD)	1.6%	
Taiwan Dollar (TWD)	1.6%	
British Pound (GBP)	1.5%	
Peruvian Sol (PEN)	1.5%	
Indian Rupee (INR)	1.4%	
Indonesian Rupiah (IDR)	1.3%	
Israeli Shekel (ILS)	1.3%	
Thai Baht (THB)	1.3%	
Philippine Peso (PHP)	0.1%	
Trade Weighted Dollar (USD)	-2.9%	
Russian Ruble (RUB)	-5.1%	
Turkish Lira (TRY)	-15.5%	
Argentine Peso (ARS)	-41.9%	most bearish

Forecast as of: April 25, 2023
*Percentage Change Against USD, Q4-23 Vs. Current Spot Rate

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

Wells Fargo International Economic Forecast

	GDP				CPI			
	2021	2022	2023	2024	2021	2022	2023	2024
Global (PPP Weights)	6.3%	2.6%	2.4%	2.6%	4.7%	7.1%	4.9%	3.7%
Advanced Economies[1]	5.4%	2.8%	1.1%	1.2%	3.1%	7.9%	4.6%	2.4%
United States	5.9%	2.1%	1.2%	0.2%	4.7%	8.0%	3.9%	2.5%
Eurozone	5.4%	3.5%	0.6%	1.6%	2.6%	8.4%	5.5%	2.4%
United Kingdom	7.6%	4.1%	0.0%	1.3%	2.6%	9.1%	6.8%	2.4%
Japan	2.1%	1.0%	0.9%	1.5%	-0.2%	2.5%	1.8%	1.2%
Canada	5.0%	3.4%	1.0%	1.5%	3.4%	6.8%	3.6%	2.2%
Switzerland	4.2%	2.1%	0.3%	1.7%	0.6%	2.8%	2.4%	2.0%
Australia	5.2%	3.7%	1.5%	2.4%	2.8%	6.6%	5.4%	2.9%
New Zealand	6.1%	2.4%	1.5%	1.5%	3.9%	7.2%	5.5%	3.0%
Sweden	5.4%	2.7%	-0.4%	1.7%	2.7%	8.3%	7.5%	2.5%
Norway	3.9%	3.8%	1.1%	0.8%	3.5%	5.8%	4.6%	2.6%
Developing Economies[1]	6.9%	2.4%	3.4%	3.6%	5.9%	6.5%	5.2%	4.7%
China	8.5%	3.0%	6.0%	4.9%	0.9%	2.0%	2.2%	2.2%
India	9.1%	6.7%	5.7%	6.7%	5.5%	6.7%	4.8%	5.0%
Mexico	4.7%	3.1%	1.1%	2.2%	5.7%	7.9%	5.6%	3.6%
Brazil	5.0%	3.0%	0.5%	2.2%	8.3%	9.0%	5.0%	4.0%

Forecast as of: April 25, 2023

[1]Aggregated Using PPP Weights

Source: International Monetary Fund and Wells Fargo Economics

Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

	Central Bank Key Policy Rate						
	2023				2024		
	Current	Q2	Q3	Q4	Q1	Q2	Q3
United States	5.00%	5.25%	5.25%	4.75%	3.75%	2.75%	2.50%
Eurozone[1]	3.00%	3.50%	3.50%	3.50%	3.25%	3.00%	2.50%
United Kingdom	4.25%	4.50%	4.50%	4.00%	3.25%	2.75%	2.25%
Japan	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%
Canada	4.50%	4.50%	4.50%	4.00%	3.00%	2.50%	2.25%
Switzerland	1.50%	1.75%	1.75%	1.75%	1.50%	1.25%	1.00%
Australia	3.60%	3.60%	3.60%	3.60%	3.60%	3.35%	3.10%
New Zealand	5.25%	5.50%	5.50%	5.50%	5.50%	5.25%	4.75%
Sweden	3.00%	3.25%	3.25%	3.25%	3.25%	3.00%	2.75%
Norway	3.00%	3.50%	3.50%	3.50%	3.25%	3.00%	2.75%
China[3]	10.75%	10.75%	10.75%	10.75%	10.50%	10.50%	10.50%
India	6.50%	6.50%	6.50%	6.25%	6.00%	5.50%	5.00%
Mexico	11.25%	11.50%	11.50%	11.00%	10.00%	9.00%	8.50%
Brazil	13.75%	13.75%	13.25%	12.75%	12.25%	11.75%	11.25%

	2-Year Note						
	2023				2024		
	Current	Q2	Q3	Q4	Q1	Q2	Q3
United States	4.05%	4.05%	3.50%	2.90%	2.65%	2.55%	2.55%
Eurozone[2]	2.91%	2.90%	2.75%	2.65%	2.55%	2.35%	2.25%
United Kingdom	3.77%	3.75%	3.60%	3.20%	2.80%	2.60%	2.40%
Japan	-0.04%	0.00%	0.00%	0.05%	0.05%	0.10%	0.10%
Canada	3.67%	3.65%	3.30%	2.90%	2.70%	2.55%	2.45%

	10-Year Note						
	2023				2024		
	Current	Q2	Q3	Q4	Q1	Q2	Q3
United States	3.44%	3.50%	3.15%	2.90%	2.85%	2.80%	2.80%
Eurozone[2]	2.47%	2.50%	2.45%	2.40%	2.35%	2.25%	2.20%
United Kingdom	3.74%	3.70%	3.55%	3.25%	2.85%	2.70%	2.55%
Japan	0.48%	0.45%	0.50%	0.75%	0.70%	0.65%	0.65%
Canada	2.86%	2.95%	2.90%	2.80%	2.70%	2.65%	2.65%

Forecast as of: April 25, 2023

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

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

Wells Fargo International FX Forecast

Currency Pair*	Current Rate	Q2-2023	Q3-2023	Q4-2023	Q1-2024	Q2-2024	Q3-2024
G10							
EUR/USD	1.1001	1.1000	1.1200	1.1400	1.1600	1.1800	1.2000
USD/JPY	133.84	134.00	132.00	128.00	126.00	124.00	123.00
GBP/USD	1.2410	1.2400	1.2500	1.2600	1.2700	1.2800	1.2900
USD/CHF	0.8900	0.8900	0.8800	0.8675	0.8575	0.8475	0.8375
USD/CAD	1.3616	1.3600	1.3500	1.3400	1.3300	1.3200	1.3100
AUD/USD	0.6636	0.6600	0.6700	0.6900	0.7100	0.7300	0.7400
NZD/USD	0.6152	0.6200	0.6300	0.6500	0.6700	0.6900	0.7000
USD/NOK	10.6290	10.6375	10.4025	10.1750	9.9575	9.7450	9.5425
USD/SEK	10.2785	10.2725	10.0450	9.8250	9.6125	9.4075	9.2075
Asia							
USD/CNY	6.9277	6.8800	6.8400	6.8000	6.7600	6.7200	6.6800
USD/CNH	6.9430	6.8800	6.8400	6.8000	6.7600	6.7200	6.6800
USD/IDR	14939	15000	14900	14750	14600	14450	14300
USD/INR	81.92	82.00	81.50	80.75	80.00	79.25	78.50
USD/KRW	1332.45	1330.00	1320.00	1310.00	1300.00	1290.00	1280.00
USD/PHP	55.54	56.00	55.75	55.50	55.25	55.00	54.75
USD/SGD	1.3377	1.3400	1.3300	1.3100	1.2900	1.2700	1.2500
USD/TWD	30.73	30.75	30.50	30.25	30.00	30.00	29.75
USD/THB	34.43	34.50	34.25	34.00	33.75	33.50	33.25
Latin America							
USD/BRL	5.0788	5.0000	4.9000	4.8000	4.7000	4.6000	4.5000
USD/CLP	816.30	815.00	800.00	790.00	780.00	770.00	760.00
USD/MXN	18.0349	18.0000	17.7500	17.5000	17.5000	17.2500	17.2500
USD/COP	4490	4500	4450	4400	4350	4300	4275
USD/ARS	220.83	270.00	310.00	380.00	475.00	595.00	640.00
USD/PEN	3.7538	3.7500	3.7300	3.7000	3.6700	3.6400	3.6400
Eastern Europe/Middle East/Africa							
USD/CZK	21.34	21.25	20.75	20.25	19.50	19.00	18.50
USD/HUF	341.10	341.00	330.25	320.25	310.25	300.75	291.75
USD/PLN	4.1697	4.1825	4.0625	3.9475	3.8350	3.7300	3.6250
USD/RUB	81.60	82.00	84.00	86.00	88.00	90.00	92.00
USD/ILS	3.6358	3.6500	3.6200	3.5900	3.5600	3.5300	3.5000
USD/ZAR	18.3358	18.2500	18.0000	17.5000	17.0000	16.5000	16.5000
USD/TRY	19.4267	22.0000	22.5000	23.0000	23.5000	24.0000	24.5000
Euro Crosses							
EUR/JPY	147.24	147.50	147.75	146.00	146.25	146.25	147.50
EUR/GBP	0.8865	0.8871	0.8960	0.9048	0.9134	0.9219	0.9302
EUR/CHF	0.9791	0.9800	0.9850	0.9900	0.9950	1.0000	1.0050
EUR/NOK	11.6931	11.7000	11.6500	11.6000	11.5500	11.5000	11.4500
EUR/SEK	11.3075	11.3000	11.2500	11.2000	11.1500	11.1000	11.0500
EUR/CZK	23.48	23.50	23.25	23.00	22.75	22.50	22.25
EUR/HUF	375.27	375.00	370.00	365.00	360.00	355.00	350.00
EUR/PLN	4.5872	4.6000	4.5500	4.5000	4.4500	4.4000	4.3500

Forecast as of: April 25, 2023

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

Subscription Information

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Required Disclosures