WELLS FARGO

International Commentary — May 25, 2023

International Economic Outlook: May 2023

Economist(s)

Nick Bennenbroek
International Economist | Wells Fargo Economics
Nicholas.Bennenbroek@wellsfargo.com | 212-214-5636

Brendan McKenna
International Economist | Wells Fargo Economics
Brendan.McKenna@wellsfargo.com | 212-214-5637

Jessica Guo
Economic Analyst | Wells Fargo Economics
Chuyue.Guo@wellsfargo.com | 212-214-1063

Summary

Forecast Changes

- We have revised our global GDP forecast marginally higher as good news in terms of activity continues to flow in; however, our global growth forecast is likely close to plateauing. Our forecast for 2023 global GDP growth of 2.5% is up only modestly from our forecast of 2.4% from a month ago. Upward growth revisions to the United States, United Kingdom and Mexico are the key drivers of our upward revision.
- Given resilient activity and only a gradual slowing of inflation, we now forecast select central banks will maintain restrictive monetary policy for longer. We now forecast the Bank of England will raise its policy rate to a peak of 5.00% and will not begin lowering interest rates until Q2 of next year. We also anticipate that rate cuts from the Federal Reserve, Bank of Canada and Bank of Mexico will begin in Q1-2024, compared to our previous forecast for rate cuts to start in Q4-2023.
- Given our expectation for a more resilient U.S. economy in early 2023 and later Fed tightening, we forecast a slower pace of U.S. dollar depreciation than previously. We expect U.S. dollar depreciation to be modest during Q4-2023 as market attention turns toward Fed rate cuts, but anticipate dollar weakness will pick up pace during 2024. We forecast the trade-weighted U.S. dollar will decline 0.75% over the rest of 2023 and fall a further 5.5% through 2024.

Key Themes

- The global economy continues to display resilience and modest improvement. An improving trend for confidence surveys, especially for the service sector, continues to suggest more encouraging prospects for 2023. That said, improving news on economic activity might be nearing an end, and global GDP growth prospects still remain subdued, as we forecast 2.5% growth for both 2023 and 2024.
- Global inflation pressures remain persistent, a trend which is likely to see key central banks maintain relatively restrictive monetary policy for some time. Headline inflation has receded, although core inflation is slowing more gradually, while wage growth also remains elevated. These dynamics will likely encourage central banks to keep policy interest rates higher for longer. For the G10 central banks, we do not see rate cuts beginning until 2024, while institutions in the emerging markets are likely to ease first but more gradually than markets are priced for.
- Given U.S. economic resilience in early 2023 and our forecast for later Fed easing, we expect the U.S. dollar to experience a slower pace of depreciation over the medium term. We believe the greenback will be broadly stable through 2023 before declining as U.S. growth and monetary policy trends weigh on the currency. We expect the yen to be a key beneficiary from U.S. dollar weakness and expect moderate gains in the euro, while among the emerging markets, we continue to forecast long-term strength for most currencies. We have, however, turned less constructive on the South African rand as the economy is likely to come under more severe pressure and as policymakers express concern for the currency going forward.

Table of Contents

I. Global Growth Outlook Steadies, Global Inflation Still Elevated

II. Policy Rates Are Still Near a Peak, But Leaning Toward "Higher for Longer"

III. U.S. Dollar: Little Stronger for a Little Longer

IV. U.S. Debt Ceiling: Downside Risk for Economy, Upside Risk for Dollar?

V. High Conviction Views

VI. Economic Forecast

VII. Interest Rate Forecast

VIII. FX Forecast

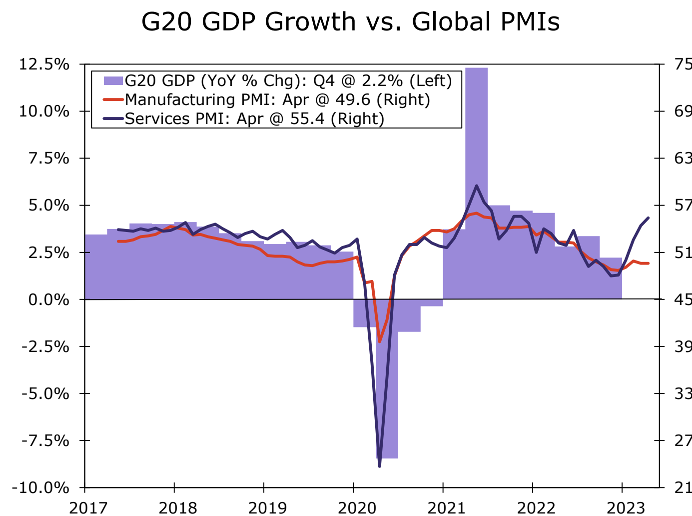
Global Growth Outlook Steadies, Global Inflation Still Elevated

A consistent theme so far in 2023 has been an improving outlook for global GDP growth (Figure 1). Our May *International Economic Outlook* does not deviate from this theme, although the firming in growth prospects is marginal this month. Our forecast for 2023 global GDP growth of 2.5% is up only modestly from our forecast of 2.4% from a month ago. While the good news in terms of improving economic activity continues to flow in, growth prospects for this year may be starting to plateau. With global growth forecasts nearing a high point (one that is admittedly not that high), the focus before long might shift to a potential deceleration in growth, a further slowing of inflation and an eventual shift to policy interest rate cuts.

In terms of recent developments for individual economies, we have lifted our U.S. 2023 GDP growth forecast slightly to 1.3% from 1.2% a month ago. The United States demonstrated resilience at the start of this year, as reflected in average payroll growth of 285,000 per month for January through April, and continued modest expansion in the service sector during the initial months of this year. Given pronounced tightening in monetary policy from the Federal Reserve, subdued gains in real incomes and regional banking sector strains, we still expect a downturn in the U.S. economy. However, given this resilience, we now expect recession to occur later, and also be shallower, than previously, contributing to our slightly more constructive U.S. economic outlook. A more resilient U.S. economy can benefit other economies around the world, in particular Mexico, which is well-placed to gain from any U.S. economic resilience. Mexico's economy registered a sturdy 1.1% quarter-over-quarter GDP gain in the first quarter, with increases in secondary activity (mostly manufacturing) and tertiary activity (mostly services). With re-shoring of activities toward Mexico offering a potential boost to growth, and to the extent the U.S. continues to show resilience, we now forecast Mexico GDP growth of 1.9% for 2023, up from 1.1% a month ago.

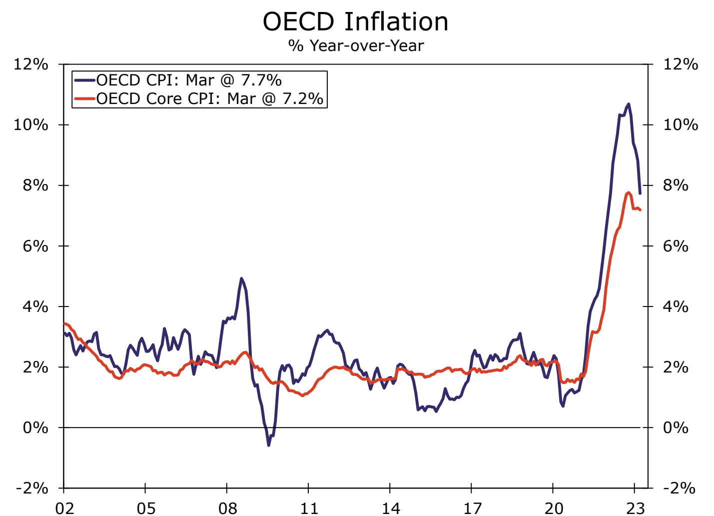
Elsewhere, a combination of receding energy prices and fiscal stimulus have improved the outlook for the U.K. economy. While some positive elements from more supportive fiscal policy could be felt more fully over time, we nonetheless expect a short-term impact. Recently, the government indicated more energy support for households in the near term, and more supportive medium-term fiscal plans could make households and businesses somewhat less cautious in the interim. Even though our outlook for U.K growth remains far from stellar, and we view economic growth as essentially flat over the first half of this year, the latest energy price and fiscal developments have prompted us to lift our 2023 U.K. GDP growth forecast to 0.2%, compared to 0% a month ago. On the flip side, there are signs of waning economic momentum in China's rebound. Although April saw large gains in retail sales and industrial output, those readings were flattered by very weak readings in April last year, making the year-over-year comparisons underwhelming. In fact, Chinese activity surprised to the downside in April, suggesting the risk around our full-year 2023 China GDP growth forecast of 6.0% is tilted to the downside.

Figure 1



Source: Datastream and Wells Fargo Economics

Figure 2



Source: Datastream and Wells Fargo Economics

While the improving trend on the growth front is perhaps nearing an end, global inflation trends remain elevated and the slowing of inflation remains frustratingly slow. In recent weeks, several major economies have seen upside CPI surprises, either in the headline or core reading. In the Eurozone, the April CPI ticked up to 7.0% year-over-year and services inflation firmed slightly, even as core inflation eased just a touch. Canada's April headline CPI ticked up to 4.4%, and although core inflation measures slowed on a year-over-year basis, they have shown a reasonable degree of momentum over the past three months. In the U.K., both core inflation and services inflation rose to new highs in April. In Norway, the headline and underlying CPI both surprised to the upside in April, Japan's headline and core CPI both quickened in April, and Australia's Q1 CPI inflation slowed less than forecast to 7.0% year-over-year as domestically oriented non-tradables inflation firmed.

It is not just underling inflation pressures that have remained persistent, but in many instances, wage inflation also remains elevated as labor markets continue to show only limited slack. Among the more notable data points, the U.S. Q1 employment cost index firmed to 1.2% quarter-over-quarter and eased only slightly to 4.8% year-over-year, while for the Eurozone, compensation for employees quickened to 5.0% year-over-year. In terms of timely data for other economies, in Canada the hourly wage rate for permanent workers held steady at 5.2% year-over-year in April, while in the U.K. average weekly earnings excluding bonuses actually ticked higher to 6.7% year-over-over for Q1. Overall, there is only limited evidence of a slowing in wage growth so far, which could potentially translate into a continued gradual deceleration of service sector and core inflation across the global economy. Indeed, taking a broader perspective and looking at the OECD countries as a whole, headline CPI inflation had slowed noticeably to 7.7% year-over-year by March, but the slowing in core inflation had been much more modest, to 7.2% (Figure 2).

Policy Rates Are Near a Peak, But Leaning Toward "Higher for Longer"

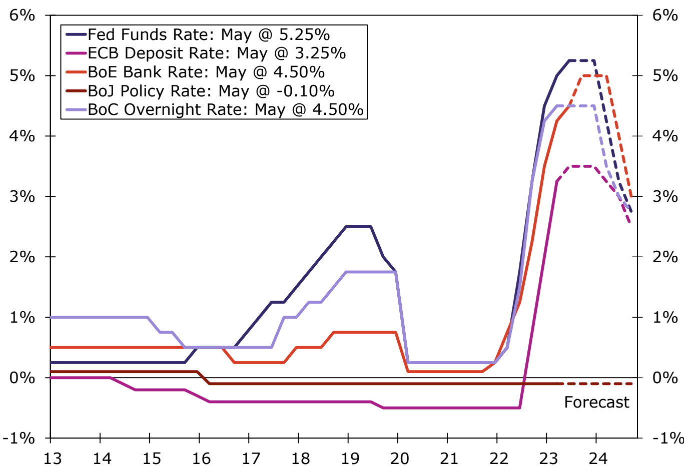
This combination of persistent price pressures, along with some resilience in economic activity, has prompted some important changes to our outlook for monetary policy around the world. Most notably, given we now forecast a later and more mild recession for the United States, we also expect the Federal Reserve to begin cutting interest rates later than we previously anticipated. At this time, we believe the fed funds rate has reached its peak for the current cycle at a targeted range of 5.00%-5.25%. However, whereas we previously forecast Fed rate cuts to begin late this year, we now see Fed rate cuts beginning in the first quarter of 2024. We do expect Fed rate cuts to be substantial, totaling some 250 bps of easing next year, but for now, those rate cuts remain some way off.

It is not just the United States where policy interest rates could remain higher for longer (Figure 3). Much like the United States, Canada has also shown some resilience in activity in early 2023. With the Fed now expected to begin monetary easing later, and the slowing in Canadian inflation proceeding steadily but gradually, we also expect Bank of Canada rate cuts to be delayed until the first quarter of next year, from our previous forecast for rate cuts to begin in Q4-2023. To be sure, there remains a risk the Bank of Canada could raise its policy rate further beyond 4.50% if activity remains resilient and inflation were to stay elevated. However, we believe the more relevant discussion and debate will be on how quickly Canada's central bank turns to rate cuts, hence our revised outlook for Canadian rate cuts to begin in 2024. One particular noteworthy shift to our outlook for monetary policy is for the Bank of England (BoE). The BoE raised its policy rate to 4.50% in early May, and although it projected inflation to slow below its 2% inflation target, it said that risks around the inflation outlook were skewed significantly to the upside. Since then, U.K. inflation has continued to surprise to the upside, including a further rise in core inflation. Wage growth remains elevated, and activity data and confidence surveys point to some resilience in the U.K. economy. Taken together, the recent flow of economic figures point to evidence of more persistent price pressures. As a result, we now expect the Bank of England to raise its policy rate in both June and August, which would see the policy rate peak at 5.00% for the current cycle. We also expect ongoing price pressures to discourage the BoE from easing monetary policy prematurely, and now forecast the Bank of England to begin lowering interest rates in Q2-2024.

Institutions across the emerging markets continue to suggest interest rates will be left at restrictive levels for an extended period of time as well (Figure 4). Policymakers in Chile and Brazil continue to cite elevated core CPI and rising inflation expectations as justification to push back on market participants' expectations for policy rate cuts. Furthermore, in Brazil, while fiscal plans from the Lula administration have been encouraging, the reinstatement of fuel taxes should push inflation back on an upward trajectory and reduce space for the central bank to cut interest rates. These dynamics continue to result in inflation expectations trending higher above and further from the Brazilian Central Bank's

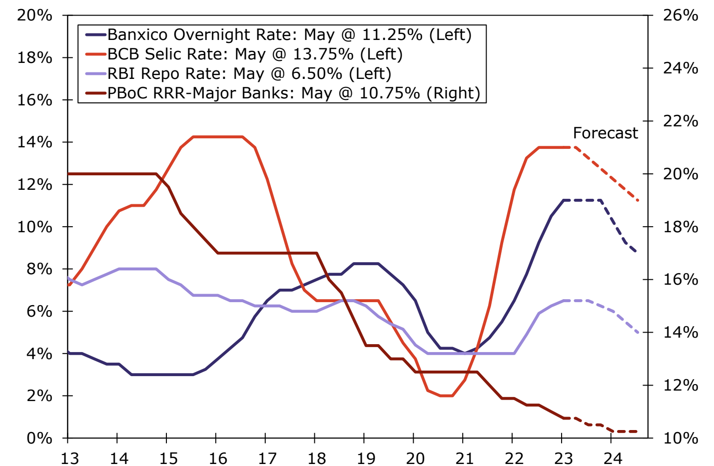
(BCB) target range. For now, we continue to believe BCB policymakers will initiate an easing cycle in Q3-2023; however, risks are now tilted toward the BCB cutting interest rates later than we expect. We have, however, made an explicit adjustment to our Bank of Mexico forecast, and we now believe Banxico will delay monetary easing until Q1-2024 rather than Q4-2023. Banxico opted to end its tightening cycle in May; however, we interpreted the official statement as hawkish in tone. Inflation is now on a downward trajectory in Mexico, but we believe policymakers will be hesitant to ease monetary policy and risk renewed inflationary pressures. In our view, Banxico's communication that rates will be kept elevated "for an extended period" likely means rate cuts will not be delivered this year. Banxico policymakers are also highly attentive to Fed monetary policy, and given our view for the Fed to begin easing in Q1-2024, policymakers should feel comfortable keeping rates restrictive until the Fed is ready to act.

Figure 3



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

Figure 4



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

U.S. Dollar: Little Stronger for a Little Longer

With the evolving outlook for global policy interest rates, we have also made moderate adjustments to our outlook for the U.S. dollar over the medium term. In particular, with U.S. recession now forecast to begin later and the Fed to hold its policy rate steady for the rest of 2023, we expect the trade-weighted dollar to be a little stronger for a little longer. To be sure, we are not anticipating significant further strength in the greenback. At this stage, we believe Fed rate hikes are done, whereas some other central banks—including the European Central Bank, Bank of England, Riksbank, Norges Bank and Reserve Bank of Australia—all appear likely to raise interest rates somewhat further. In a similar vein, we also expect the Bank of Japan to further adjust its monetary policy stance in a hawkish direction in October this year. Considering an "on hold" Fed relative to modest tightening from select central banks, we believe this environment is most consistent with a relatively stable U.S. dollar through the end of Q3-2023.

Further out, we expect a slower depreciation in the greenback than previously. While delayed Fed easing could reduce the extent of downward pressure on the greenback, the delay we forecast in Fed cuts is in some instances being matched by delayed monetary policy easing internationally. For some other key central banks, such as the European Central Bank, we have not expected rate cuts to begin until 2024 in any case. Thus, in considering the overall direction of the U.S. dollar over the medium term, would still consider depreciation to be the most likely path. That said, it is only once the U.S. economy moves clearly into recessionary territory by late 2023, and market participants begin to anticipate Fed rate cuts in early 2024, that we expect the greenback to come under notable depreciation pressure. We expect U.S. dollar depreciation to be modest during Q4-2023, but pick up pace over the course of next year. This is reflected in our medium-term forecasts for the trade-weighted U.S. dollar against the advanced foreign economies, which envisages a decline of 0.75% over the rest of 2023, and a further 5.5% fall through 2024.

With respect to key currencies, we see potential for moderate gains in the euro over the medium term. We see continued—albeit modest—Eurozone growth over time, and a much slower pace of rate cuts from the European Central Bank relative to the Fed in 2024. Against this backdrop, we forecast the euro to gain to $1.08 by the end of 2023 and strengthen to $1.14 by late 2024. For the yen, we see potential for much stronger appreciation. The Japanese currency was a significant underperformer during the global tightening phase, and so we believe the currency can become a significant outperformer during the global easing phase. In addition, a likely hawkish monetary policy shift from the Bank of Japan late this year would reinforce the potential for yen gains. We target a USD/JPY exchange rate of JPY136.00 by end 2023, and JPY129.00 by late 2024. On the flip side, we see only moderate gains in the Canadian dollar over time, as we expect substantial monetary easing from the Bank of Canada next year, even if easing is not quite as aggressive as the Federal Reserve.

In our view, emerging market currencies are still likely to outperform over the medium to longer term; however, we have turned slightly less constructive. The global environment has changed slightly, but we continue to believe the external backdrop, along with certain country-specific factors, can result in broad-based strength for most currencies within the emerging markets. As far as the economic environment, while global growth may be subdued this year, growth prospects have improved notably over the past several months, with the majority of this year's growth coming from the emerging markets. China and India should contribute most to global growth, although countries across emerging Asia and select economies in Latin America have been especially resilient. With growth on pace to be led by the developing world, sentiment toward emerging market currencies should stay supported over the longer term. In addition, now that the Fed is on hold, market participants are likely to be in "search for yield" mode from here. Central banks across the emerging markets acted early and aggressively in tightening monetary policy, and most are likely to act prudently and keep monetary policy tight. In that sense, real interest rates are likely to remain elevated across Latin America and parts of emerging Europe, which we believe can attract capital and result in widespread currency outperformance in these regions. We are also turning more optimistic on local politics, especially in Latin America. In Brazil, the Lula administration, in our view, is making an effort to exercise fiscal responsibility, and while Lula and his team persistently criticize the central bank for not cutting interest rates, market participants are more sensitive to spending developments. The combination of fiscal discipline and monetary prudence can result in Brazilian real strength over our forecast horizon. We also believe local politics across the region are shifting in a more business-friendly direction. In Chile, the constitutional rewrite committee is now officially made up of a majority of members with pro-business ideologies, Colombia's congress remains steadfast in pushing back on an unorthodox left-leaning policy agenda from President Petro, and with economic malaise still persistent in Argentina, the upcoming presidential election could result in a shift back to a market-friendly administration.

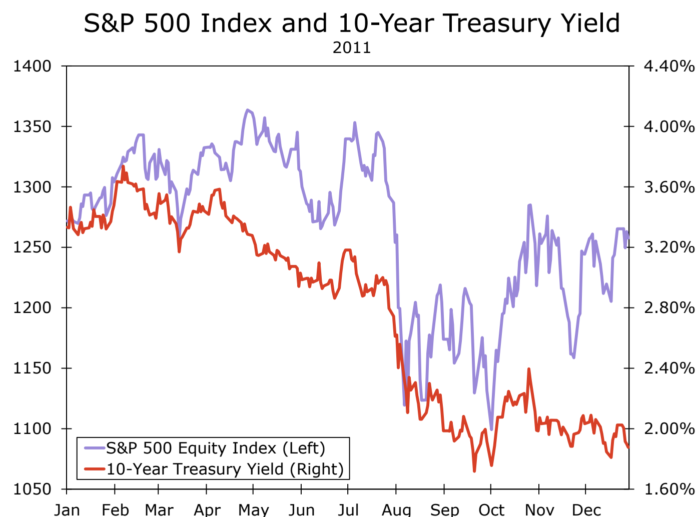
Shifting to a pro-business administration may not support Argentina's currency. In fact, should a market-friendly president get elected this year, capital controls could be lifted soon after and the peso could plunge significantly. While we still expect an explicit peso devaluation by the end of this year, political turnover would likely represent the scenario that could result in the most currency depreciation, but could help the economy exit recession over the years to come. Not all political trends in the emerging markets are on an improving trajectory. In Turkey, President Erdogan's re-election seems all but cemented ahead of the runoff election. Our base case scenario for Turkish elections included an Erdogan victory in the runoff, which now that Erdogan has been officially endorsed by a key eliminated candidate, we place the likelihood of another term for the current administration around 85%-90%. In terms of what Erdogan's re-election means, policy continuity is the most likely outcome. But with policy continuity comes a bleak outlook for the Turkish financial markets and economy. In our view, President Erdogan is likely to continue implementing unorthodox monetary policy ideologies, particularly his view that lower interest rates lead to lower inflation. With deeply negative real interest rates likely to persist along with a lack of central bank independence, we expect the lira to experience another large depreciation in the near future. To that point, we continue to believe the USD/TRY exchange rate can hit TRY23.00 by the end of Q2-2023, and for the lira to continue facing depreciation pressures for an extended period of time.

U.S. Debt Ceiling: Downside Risk for Economy, Upside Risk for Dollar?

As we go to print, talks to lift the U.S. government debt ceiling remain unresolved. In an update published earlier this week, our U.S. economists estimate that as of May 17 the Treasury had just $160 billion of additional borrowing capacity before the Treasury's cash on hand ($68 billion) and its remaining ability to utilize extraordinary measures ($92 billion) would both be exhausted. As a

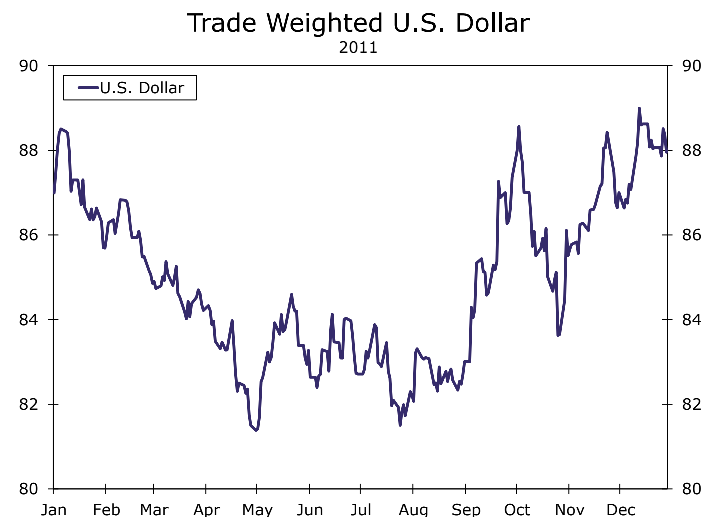
result, it remains very likely that by the first half of June the U.S. Treasury will be unable to meet all of its debt obligations on time in the absence of a debt ceiling increase. Against this backdrop, our U.S. economists see three possibilities. First, Republicans in Congress could strike a sweeping deal with President Biden and Democrats in Congress to increase or suspend the debt ceiling for 1-2 years. For a deal to be reached and turned into law before early June, a breakthrough in the negotiations would need to occur imminently. Second, policymakers agree to a short-term debt ceiling increase that buys more time for negotiations. In this scenario, a debt ceiling suspension for a very short period of time, perhaps one or two months, is envisaged. The third possibility is that the standoff continues, and we venture into the early June danger zone with the Treasury perilously close to exhausting its borrowing capacity. While all of these scenarios are possible, our U.S. economists view a short-term debt ceiling increase as the most likely outcome.

Figure 5



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

Figure 6



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

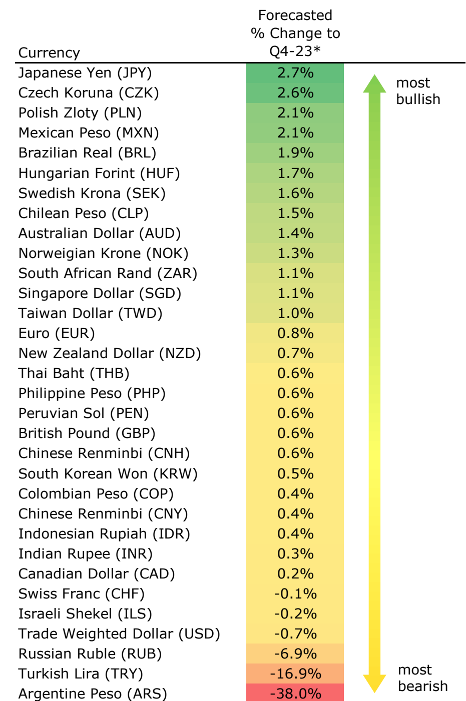
Accordingly and compared to our base case, for the time being the unresolved debt ceiling situation could pose a downside risk to our U.S. economic growth forecast and, perhaps counterintuitively, an upside risk to our U.S. dollar forecast. Our U.S. economists note that the fiscal austerity following the 2011 debt ceiling showdown imparted a significant drag on growth in the years that followed due to reduced federal government spending. The 2011 debt ceiling showdown also offers the clearest example of a sustained impact on market sentiment. During the 2011 episode in which Treasury was estimated to exhaust its borrowing capacity by early August, after contentious negotiations Congress resolved the crisis by passing the Budget Control Act, which became law on August 2, 2011. However, the nature and outcome of those negotiations were worrisome enough that on August 5, Standard & Poor's downgraded its long-term sovereign credit rating for the United States for first time, from AAA to AA+. That rating downgrade appeared to have a marked effect on financial markets, prompting significant buying of what were perceived as safe-haven assets and selling of riskier assets. Accordingly, in the wake of the credit rating downgrade, U.S. equities sold off significantly (Figure 5). Perhaps counterintuitively, even with a credit rating downgrade, U.S. government bonds became more valuable and the U.S. dollar strengthened (Figure 6). Specifically, between August 5, 2011, and the end of that year, the S&P 500 equity index fell as much as 8.4% (by October 3), the 10-year Treasury yield fell as much as 84 bps (by September 22), and the trade-weighted U.S. dollar against the advanced foreign economies gained as much as 6.8% (by December 14).

The “tail risk” of a significantly stronger U.S. dollar transpiring in 2023 might well depend on whether lawmakers are still struggling in several weeks' time to reach an agreement on raising the debt ceiling and, importantly, whether the U.S. government credit rating is downgraded or the outlook around the credit rating is lowered by one of the ratings agencies. On the latter, Fitch has already placed its AAA rating for the United States on negative watch. If these scenarios become reality, safe-haven currencies such as the U.S. dollar, as well as the yen and Swiss franc, could benefit, while emerging market currencies and other risk-sensitive currencies could come under significant downward pressure. While such a rating adjustment is clearly not a part of our base case, we remain mindful of the risk,

given the potential for a significant impact on currency markets, financial markets more broadly, and economic trends around the world.

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 eventually come under pressure as aggressive Fed easing starts from early 2024. We forecast the trade-weighted dollar to soften 1.5% over the balance of 2023, and by a further 5% in 2024.
- **Japanese yen strength later this year.** Against a backdrop of aggressive global monetary tightening, the yen has underperformed so far in 2023. However, our expectation for the Bank of Japan to adjust its policy settings in Q4-2023 to further normalize the government bond market leads us to believe the Japanese currency has scope to outperform later this year. Yen strength should also be supported by the end of global central bank tightening cycles and a transition toward global easing, as well as a U.S. recession in the second half of 2023.
- **Canadian dollar underperformance.** We expect only modest gains in the Canadian dollar against the U.S. currency over time. While growth was resilient in early 2023, an overall slowing inflation trend means we believe the Bank of Canada has already ended its tightening cycle. Should growth and inflation slow further as we expect, Canada could also be among the first of the major central banks to begin easing monetary policy, by Q1-2024. That should act as a headwind for the Canadian dollar, while energy prices that are well below their peaks should also be a restraining factor for the currency. Against this backdrop, we expect the Canadian dollar to underperform relative to most of its G10 peers over the medium term.
- **Widespread emerging market currency strength in 2023.** With the global economy showing resilience and the Fed ending its tightening cycle, we believe many EM currencies can outperform relative to G10 peers this year. Attractive real yields should result in market participants accumulating exposure to developing currencies, while our assumption for contained banking sector stresses and for the U.S. to avoid sovereign debt default should lead to improved risk appetite.
- **Large Turkish lira depreciation by the end of Q2-2023.** An unorthodox policy agenda is likely to remain in place as we believe President Erdogan will retain office following runoff elections. With elections out of the way and FX reserves depleted, FX intervention efforts could be lifted and the lira could experience a sudden and sharp selloff that takes the currency to all-time lows against the U.S. dollar.
- **Explicit Argentine peso devaluation in Q4-2023.** Despite sharp interest rate hikes, we believe the Argentine peso is on track for devaluation as FX reserves remain depleted and the IMF program could be at risk. 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*
Japanese Yen (JPY)	2.7%
Czech Koruna (CZK)	2.6%
Polish Zloty (PLN)	2.1%
Mexican Peso (MXN)	2.1%
Brazilian Real (BRL)	1.9%
Hungarian Forint (HUF)	1.7%
Swedish Krona (SEK)	1.6%
Chilean Peso (CLP)	1.5%
Australian Dollar (AUD)	1.4%
Norweigian Krone (NOK)	1.3%
South African Rand (ZAR)	1.1%
Singapore Dollar (SGD)	1.1%
Taiwan Dollar (TWD)	1.0%
Euro (EUR)	0.8%
New Zealand Dollar (NZD)	0.7%
Thai Baht (THB)	0.6%
Philippine Peso (PHP)	0.6%
Peruvian Sol (PEN)	0.6%
British Pound (GBP)	0.6%
Chinese Renminbi (CNH)	0.6%
South Korean Won (KRW)	0.5%
Colombian Peso (COP)	0.4%
Chinese Renminbi (CNY)	0.4%
Indonesian Rupiah (IDR)	0.4%
Indian Rupee (INR)	0.3%
Canadian Dollar (CAD)	0.2%
Swiss Franc (CHF)	-0.1%
Israeli Shekel (ILS)	-0.2%
Trade Weighted Dollar (USD)	-0.7%
Russian Ruble (RUB)	-6.9%
Turkish Lira (TRY)	-16.9%
Argentine Peso (ARS)	-38.0%

most bullish

most bearish

Forecast as of: May 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%	3.4%	2.5%	2.5%	4.7%	8.7%	5.0%	3.8%
Advanced Economies[1]	5.4%	2.7%	1.2%	1.3%	3.1%	7.3%	4.8%	2.5%
United States	5.9%	2.1%	1.3%	0.3%	4.7%	8.0%	3.9%	2.5%
Eurozone	5.4%	3.5%	0.6%	1.6%	2.6%	8.4%	5.6%	2.4%
United Kingdom	7.6%	4.1%	0.2%	1.2%	2.6%	9.1%	7.6%	2.6%
Japan	2.1%	1.0%	0.9%	1.5%	-0.2%	2.5%	2.3%	1.3%
Canada	5.0%	3.4%	1.0%	1.5%	3.4%	6.8%	3.8%	2.3%
Switzerland	4.2%	2.1%	0.3%	1.7%	0.6%	2.8%	2.4%	2.0%
Australia	5.2%	3.7%	1.5%	1.8%	2.8%	6.6%	5.6%	3.2%
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%	1.0%	0.8%	3.5%	5.8%	4.6%	2.6%
Developing Economies[1]	6.9%	4.0%	3.5%	3.5%	5.9%	9.8%	5.1%	4.7%
China	8.5%	3.0%	6.0%	4.9%	0.9%	2.0%	1.9%	2.2%
India	9.1%	6.7%	5.7%	6.7%	5.5%	6.7%	5.3%	5.0%
Mexico	4.7%	3.1%	1.9%	1.5%	5.7%	7.9%	5.3%	3.8%
Brazil	5.0%	3.0%	0.6%	1.9%	8.3%	9.0%	5.5%	4.0%

Forecast as of: May 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	5.25%	5.25%	5.25%	5.25%	4.25%	3.25%	2.75%
Eurozone[1]	3.25%	3.50%	3.50%	3.50%	3.25%	3.00%	2.50%
United Kingdom	4.50%	4.50%	5.00%	5.00%	5.00%	4.00%	3.00%
Japan	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%
Canada	4.50%	4.50%	4.50%	4.50%	3.50%	3.00%	2.75%
Switzerland	1.50%	1.75%	1.75%	1.75%	1.50%	1.25%	1.00%
Australia	3.85%	4.10%	4.35%	4.35%	4.35%	4.10%	3.85%
New Zealand	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.25%
Sweden	3.50%	3.75%	3.75%	3.75%	3.75%	3.50%	3.25%
Norway	3.25%	3.50%	3.50%	3.50%	3.25%	3.00%	2.75%
China[3]	10.75%	10.75%	10.50%	10.50%	10.25%	10.25%	10.25%
India	6.50%	6.50%	6.50%	6.25%	6.00%	5.50%	5.00%
Mexico	11.25%	11.25%	11.25%	11.25%	10.25%	9.25%	8.75%
Brazil	13.75%	13.75%	13.25%	12.25%	11.25%	10.25%	9.25%

2-Year Note	2023				2024		
	Current	Q2	Q3	Q4	Q1	Q2	Q3
United States	4.43%	4.05%	3.70%	3.15%	2.90%	2.80%	2.75%
Eurozone[2]	2.84%	2.85%	2.80%	2.70%	2.60%	2.40%	2.30%
United Kingdom	4.43%	4.40%	4.40%	4.05%	3.55%	3.20%	2.95%
Japan	-0.06%	0.00%	0.00%	0.05%	0.05%	0.10%	0.10%
Canada	4.20%	4.10%	3.75%	3.30%	3.05%	2.85%	2.75%

10-Year Note	2023				2024		
	Current	Q2	Q3	Q4	Q1	Q2	Q3
United States	3.75%	3.50%	3.25%	3.00%	2.95%	2.90%	2.85%
Eurozone[2]	2.44%	2.45%	2.40%	2.35%	2.30%	2.25%	2.20%
United Kingdom	4.29%	4.25%	4.05%	3.75%	3.35%	3.20%	3.05%
Japan	0.43%	0.45%	0.50%	0.75%	0.70%	0.65%	0.65%
Canada	3.27%	3.20%	3.10%	3.00%	2.90%	2.85%	2.80%

Forecast as of: May 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	1.0715	1.0700	1.0700	1.0800	1.1000	1.1200	1.1400
USD/JPY	139.68	140.00	140.00	136.00	133.00	131.00	129.00
GBP/USD	1.2331	1.2300	1.2300	1.2400	1.2600	1.2700	1.2800
USD/CHF	0.9064	0.9075	0.9100	0.9075	0.8950	0.8850	0.8725
USD/CAD	1.3631	1.3700	1.3700	1.3600	1.3500	1.3400	1.3300
AUD/USD	0.6507	0.6500	0.6500	0.6600	0.6800	0.7000	0.7100
NZD/USD	0.6055	0.6000	0.6000	0.6100	0.6300	0.6500	0.6600
USD/NOK	11.0227	11.0275	11.0275	10.8800	10.6375	10.4025	10.1750
USD/SEK	10.8176	10.7950	10.7950	10.6475	10.4100	10.1775	9.9550
Asia							
USD/CNY	7.0772	7.0500	7.1000	7.0500	6.9500	6.8500	6.7500
USD/CNH	7.0890	7.0500	7.1000	7.0500	6.9500	6.8500	6.7500
USD/IDR	14953	15000	15000	14900	14700	14500	14300
USD/INR	82.74	83.00	83.00	82.50	81.75	81.00	80.25
USD/KRW	1326.16	1330.00	1330.00	1320.00	1300.00	1280.00	1260.00
USD/PHP	56.07	56.00	56.00	55.75	55.25	54.75	54.25
USD/SGD	1.3542	1.3500	1.3500	1.3400	1.3300	1.3200	1.3100
USD/TWD	30.81	30.75	30.75	30.50	30.25	30.00	29.75
USD/THB	34.72	34.75	34.75	34.50	34.25	34.00	33.50
Latin America							
USD/BRL	4.9930	4.9500	4.9500	4.9000	4.8000	4.7000	4.6000
USD/CLP	811.74	810.00	810.00	800.00	790.00	780.00	770.00
USD/MXN	17.8634	17.7500	17.7500	17.5000	17.5000	17.2500	17.2500
USD/COP	4469	4500	4500	4450	4350	4250	4150
USD/ARS	235.74	270.00	310.00	380.00	475.00	595.00	640.00
USD/PEN	3.6908	3.7000	3.7000	3.6700	3.6200	3.5700	3.5200
Eastern Europe/Middle East/Africa							
USD/CZK	22.05	22.00	22.00	21.50	21.00	20.25	19.75
USD/HUF	348.38	350.50	350.50	342.50	331.75	321.50	311.50
USD/PLN	4.2070	4.2050	4.2050	4.1200	4.0000	3.8850	3.7725
USD/RUB	80.11	82.00	84.00	86.00	88.00	90.00	92.00
USD/ILS	3.7224	3.7300	3.7500	3.7300	3.7000	3.6500	3.6000
USD/ZAR	19.7175	19.7500	19.7500	19.5000	19.2500	18.7500	18.2500
USD/TRY	19.9328	23.0000	23.5000	24.0000	24.5000	25.0000	25.5000
Euro Crosses							
EUR/JPY	149.67	149.75	149.75	147.00	146.25	146.75	147.00
EUR/GBP	0.8689	0.8700	0.8700	0.8700	0.8725	0.8825	0.8900
EUR/CHF	0.9712	0.9700	0.9750	0.9800	0.9850	0.9900	0.9950
EUR/NOK	11.8107	11.8000	11.8000	11.7500	11.7000	11.6500	11.6000
EUR/SEK	11.5913	11.5500	11.5500	11.5000	11.4500	11.4000	11.3500
EUR/CZK	23.63	23.50	23.50	23.25	23.00	22.75	22.50
EUR/HUF	373.28	375.00	375.00	370.00	365.00	360.00	355.00
EUR/PLN	4.5077	4.5000	4.5000	4.4500	4.4000	4.3500	4.3000

Forecast as of: May 25, 2023

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

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Seery	Economist	332-204-0693	Shannon.Seery@wellsfargo.com
Nicole Cervi	Economic Analyst	704-410-3059	Nicole.Cervi@wellsfargo.com
Jessica Guo	Economic Analyst	212-214-1063	Jessica.Guo@wellsfargo.com
Karl Vesely	Economic Analyst	704-410-2911	Karl.Vesely@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation offer or solicitation with respect to the purchase or sale of any security or other financial product nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report. The views and opinions expressed in this report are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2023 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE