iBanFirst

FX Markets:

What to expect in 2024?

Your guide to better understand currency volatility in 2024 and improve your budgetary forecasts

Foreword

Let us begin by turning the clock backwards. Just two years ago, the 2020s were forecast to be the decade of a return to growth, fueled by the rapid march of digitalization accelerated by the chaotic days of Covid, and the allure of perpetually low capital costs. But things didn't quite unfold as expected. Growth is slowing dangerously with one major exception, the United States. The stubbornly high cost of capital is set to curb investment and dent company margins. And the much talked about attempts at dedollarisation have failed to date.

While we can't claim to predict the future, our objective is to provide you with our macroeconomic outlook for the coming year and how it might impact currency markets, helping you shape your currency risk management strategy for 2024.

Pierre-Antoine Dusoulier, CEO and founder of iBanFirst

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Trends to watch

The sharp slowdown in the Chinese economy

Fifteen years ago, China committed a mortal sin. **To avoid a recession, the government rolled out massive demand stimulus measures. But this came at a cost: it destabilised the banking sector by creating a credit glut**. A large portion of the liquidity injected at that time fuelled speculative bubbles in the real estate sector. In 2011, 70% of local government revenues came from real estate. Today, 60% of Chinese household wealth is tied up in this sector (versus 30% in the US and a little less in France). Covid obviously did nothing to help. **Today, China is dealing with the consequences of its past mistakes**.

The return of stagflation in Europe

This is the worst possible scenario. **Stagflation (weak real growth coupled with higher inflation than in the past) is staging a comeback in Europe**. In continental Europe, the absence of a wage-price spiral raises hopes that this is simply a transitional phase. In the UK, the situation is more concerning. **Once again, the UK is the sick man of Europe**.

The drop in real estate prices

Since 2000, real estate prices have soared in developed economies: +76% in Japan, +153% in Italy, +265% in the US, +272% in France and +323% in the UK. **Interest-rate hikes to stamp out inflation are in the process of paralysing this key pillar of economic activity, with the risk of a steep drop in prices in some markets**.

A new energy crisis

The energy crisis is resurging, though not as severely as in 2021-22. This is due to a mix of structural factors, such as traditional supply shortages in the second half of the year, insufficient infrastructure investment, and pressure on producers to stop oil production, as well as temporary factors like coordinated cuts by oil-producing countries, higher capital costs, and economic slowdown. **While this is not sufficient to create significant inflationary pressures, it's definitely not good news**.

Some surprises in emerging countries

It's no surprise that when major developed countries aren't doing too well, investors turn their attention to emerging countries. However, it's important to note that not all emerging economies are on the same footing. **Those that have been most successful in curbing inflation, thereby creating room to reduce interest rates, and have an undervalued currency are best placed to confront the upcoming headwinds** (Brazil and Chile in particular).

Regions in focus

The world in 2024: China's shadow looms large

The Chinese household savings rate – approximately 45 % of Chinese GDP – is the world economy's biggest problem. As long as it remains high, any prospect of a lasting economic recovery is illusory.

In theory, a high savings rate can be compatible with rapid growth if a country exports massively. This was true of China before 2008 during its golden age. Unfortunately, there is little chance that the export volumes attained back then can be matched today. In an ideal world, the combined demand of the US and Europe would represent close to 10 % of Chinese GDP – the equivalent of 2,000 billion dollars. This is impossible, even with the best will in the world.

High investments can also be compatible with strong growth if there are huge opportunities for urbanisation, infrastructure improvements and technological catch-up: think China between 2009 and 2019, in particular its boom in the real estate sector. But all this ground to a halt with the Covid pandemic. **As things currently stand, high savings are mainly synonymous with weak consumption and risk aversion. It is hard to see what could reverse this trend in the short term.**

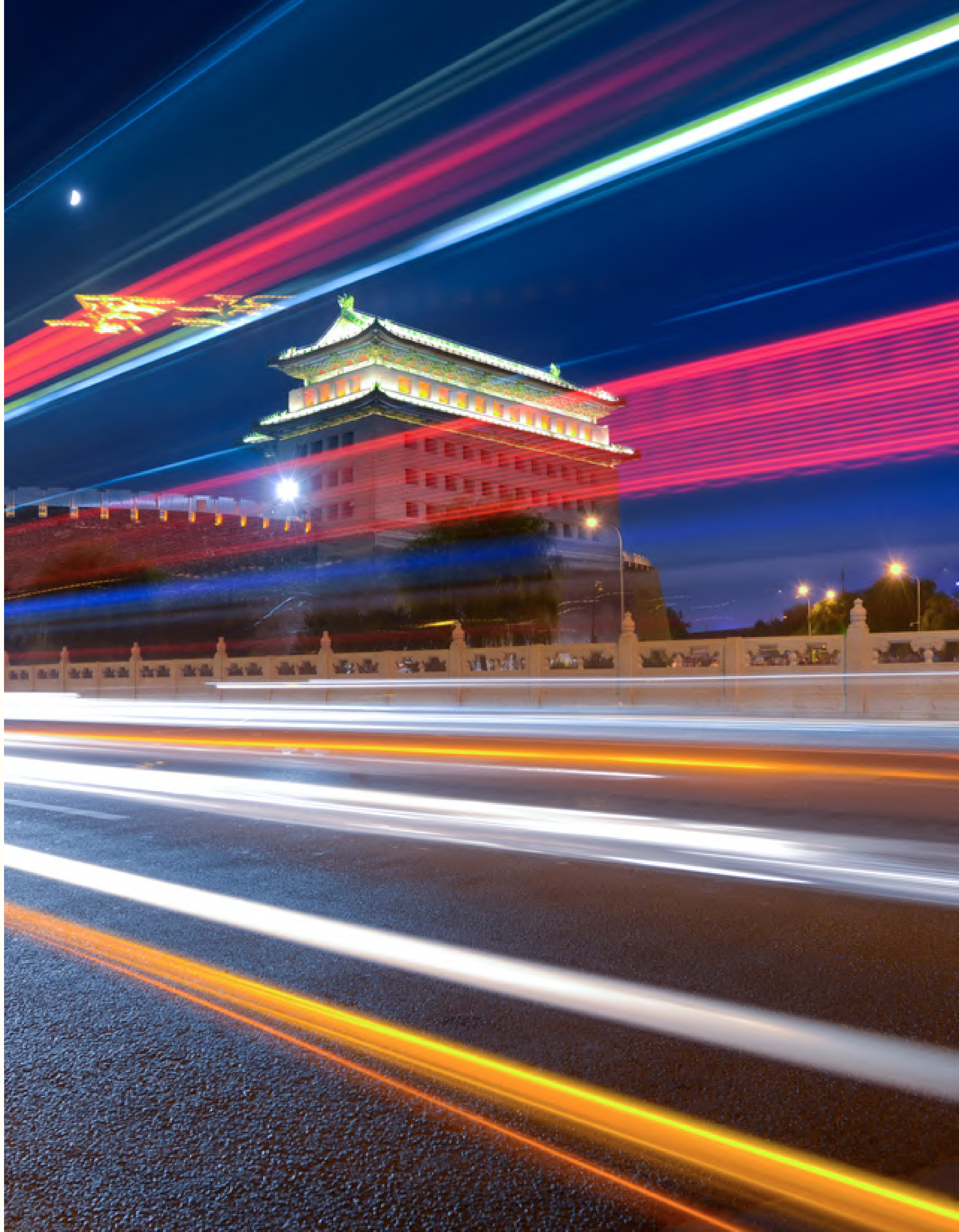
For the world economy, this clearly means that a gradual slowdown can be expected in 2024.

Principal risk

A sharper than expected economic slowdown

Probability

Medium



Eurozone: headwinds ahead

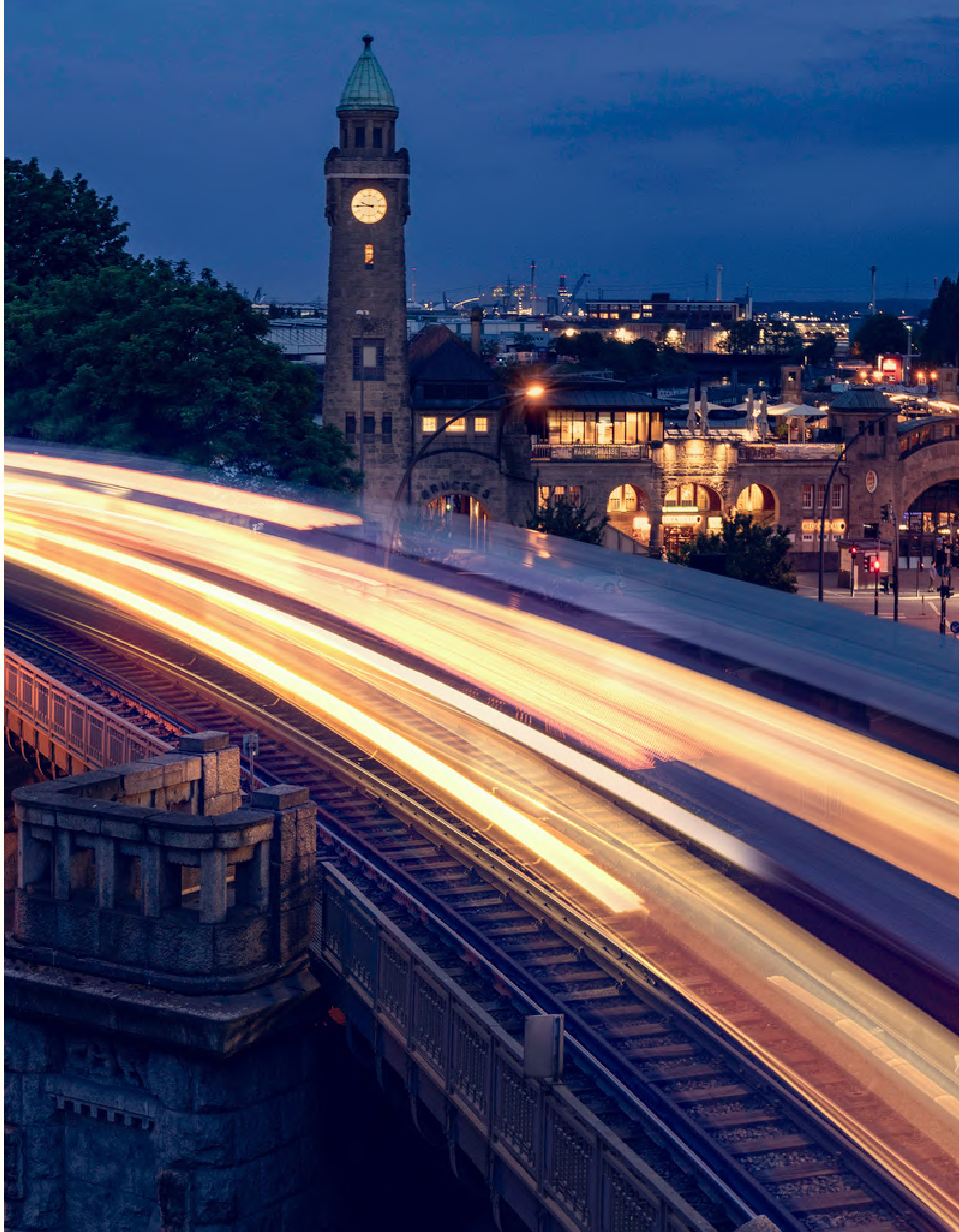
While the US economy appears solid, all signals in the eurozone look rather grim.

Six key factors explain Europe's difficulties:

- a delayed post-Covid economic recovery;
- the lasting energy crisis;
- the economic importance of the export sector, which is suffering from the global slowdown;
- China's economic weakness;
- an overly restrictive monetary policy against a backdrop of high debt;
- the end of the German economic model based on access to low-cost Russian energy and the competitiveness of the automotive sector, which is being challenged by China's emergence.

Barring a fiscal stimulus – unlikely at this juncture – it is hard to see how Europe's economy could perform strongly in 2024.

Principal risk	Probability
Recession	**High**



United States: shining bright in a dimming world

Fortunately, there are grounds for optimism. **The US economy is doing well, even if it is likely to slow down in 2024. There is no recession in sight**.

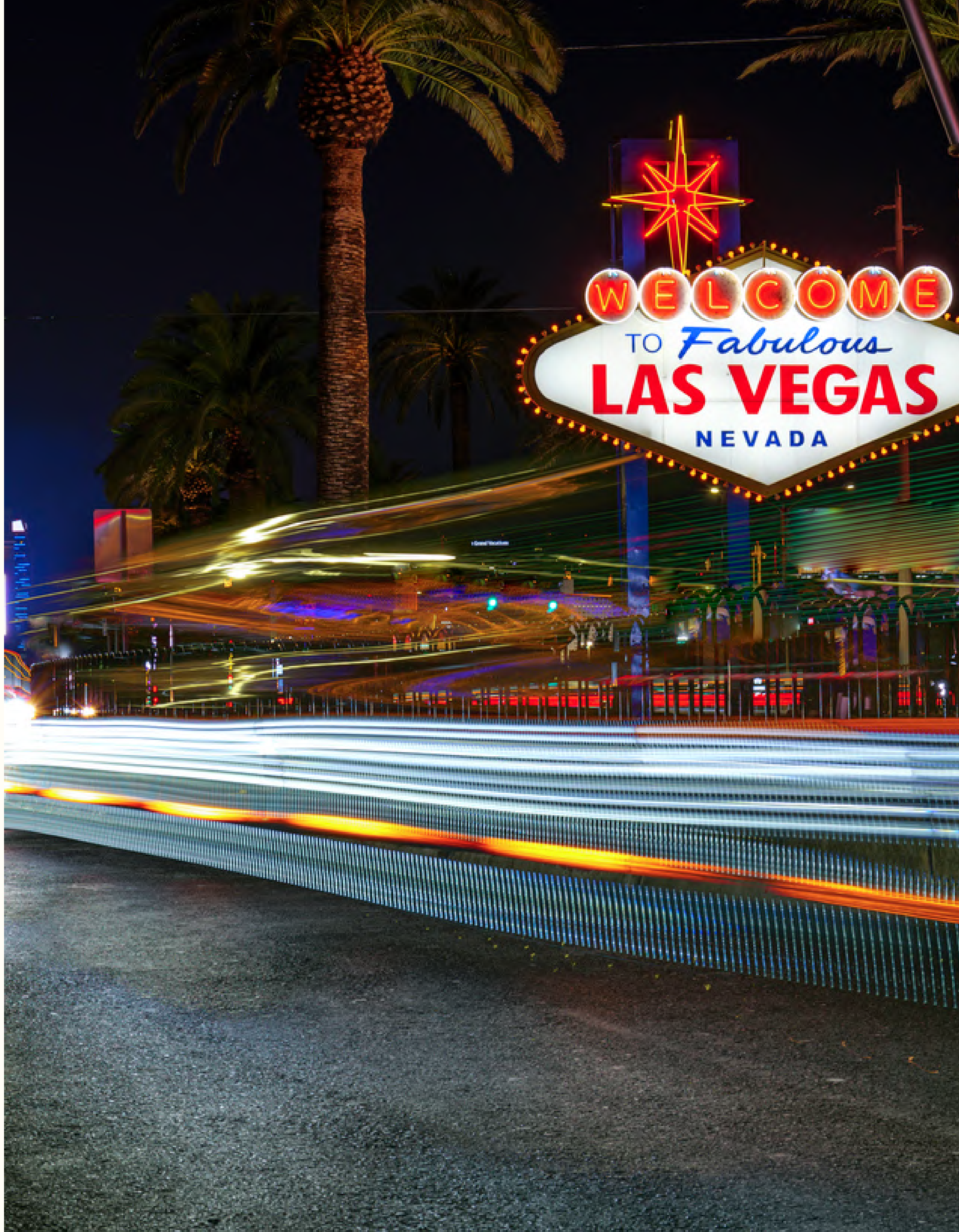
This is explained both by **resilient domestic consumption despite inflation and the strength of the housing market** which has benefitted from a regime change. In contrast to the past, where borrowing rates were typically variable, they are currently predominantly fixed and at significantly lower levels. This limits the risk of disruption in the wake of interest rate hikes by the US Federal Reserve (Fed).

Added to this are epiphenomena, such as what some are calling the "Taylor Swift effect." According to a report published by the Philadelphia Federal Reserve on July 12, 2023, Taylor Swift's unprecedented US tour, which generated a staggering one billion dollars in record sales, has had a ripple effect on the tourism and hotel sector. This is poised to bolster US economic growth this year. The economic mechanism at play is straightforward: her concerts spurred an increase in aggregate demand, subsequently stimulating aggregate production (especially in the cultural goods sector), and resulting in a short-term uptick in the employment rate. This serves as a prime example of a virtuous cycle in action.

Principal risk	Probability
Closely contested Presidential election	**High**

> A recession in the United States within the next twelve months isn't a reasonable expectation anymore."

William Gerlach
Regional Director France and UK at iBanFirst



China: the Chinese patient

Not-so-positive headlines are stacking up: China is slowing down, China is cutting its interest rates, China will no longer publish its youth unemployment rate, and so forth. These are not just temporary hiccups. **The Chinese growth model is in the midst of a genuine crisis. The past three years of growth were the most disappointing for the Chinese economy in 20 years**. Everything suggests that 2023 will be another weak year and that 2024 will barely be any better. **Some are even predicting a recession – at least by Chinese standards**.

This situation is far from a surprise. It is the culmination of more than ten years of economic slowdown and excesses. A massive liquidity injection by the central government is the only way to get a grip on the problem. This could pave the way to a wholesale restructuring of the real estate sector and a clean-up of local banks and give a boost to aggregate demand.
But this is not without risks. It could also continue to fuel speculative bubbles or create others. In the end, there is no obvious solution. This is precisely why China has refrained from making any major announcements to date.

We would nonetheless venture to say that the export sector will remain the cornerstone of the Chinese economy in the short term. But if exports are to drive growth, the rest of the world – especially the US – needs to be prepared to buy Chinese goods. Europe has increased its dependence on China over the past three years. There is no guarantee that this will be the case in the future, especially in the current geopolitical environment.

Principal risk	Probability
Growth has peaked	**High**

For the first time, no asset manager questioned in Bank of America's monthly survey forecasts stronger Chinese growth over the next 12 months."

Alexandre Laporte
Head of Hedging
at iBanFirst

United Kingdom: did you say stagflation?

The UK has managed the challenges of Brexit surprisingly well. Ultimately, the most significant disruptions have stemmed from the impact of Covid and its aftermath.

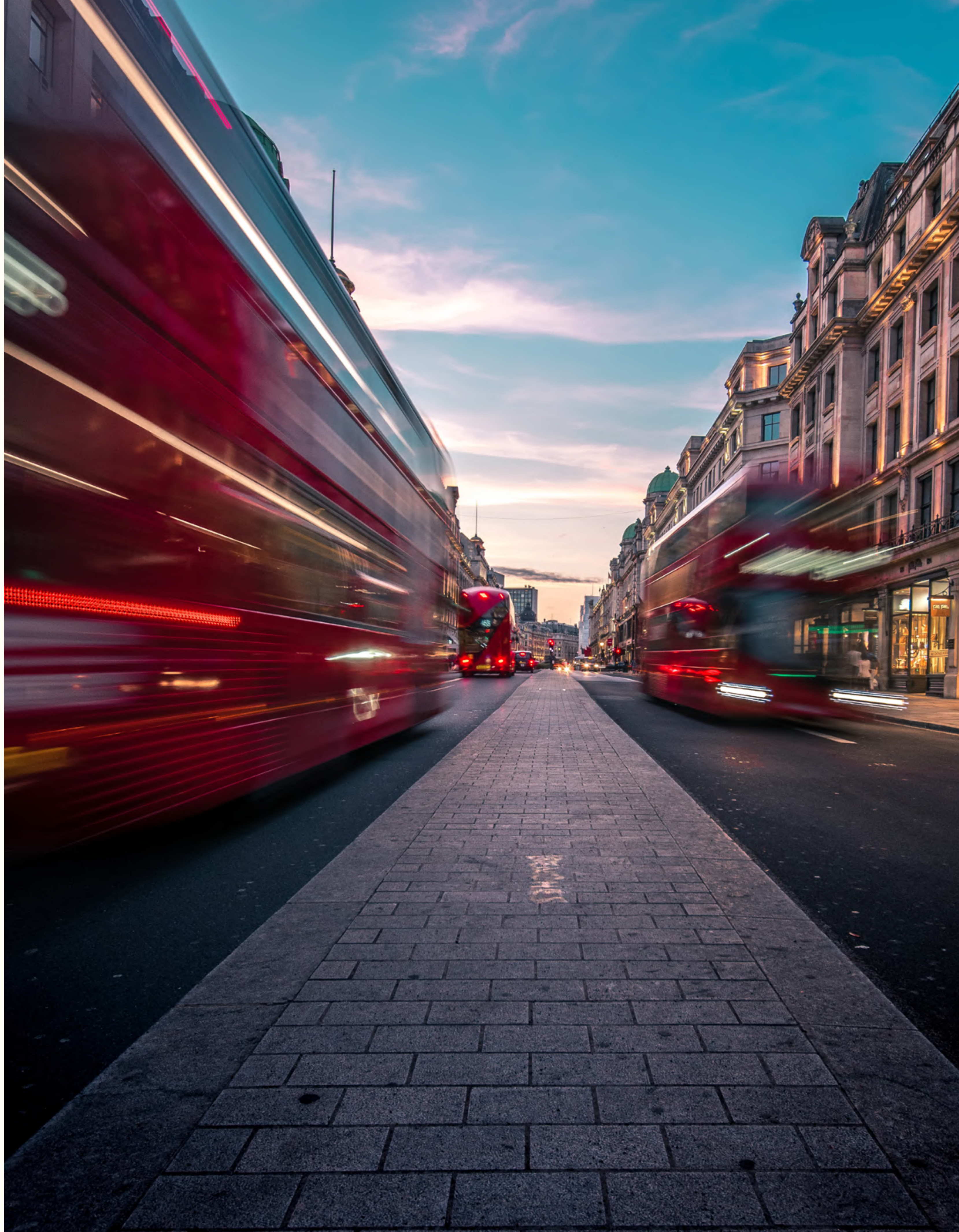
The job market in the UK is displaying some unusual dynamics, marked by a blend of robust wage growth (currently standing at 7.8% year-on-year according to the latest data) and a rising rate of unemployment.

This sets the stage for a scenario known as stagflation, a term originally coined by a British Chancellor of the Exchequer, Iain Macleod, in the 1960s to describe his country's economic state. **If this scenario unfolds, the UK may find itself grappling with a monetary policy that's less effective** – as increasing interest rates during a period of stagflation is no silver bullet – and a fiscal policy partially hamstrung by mounting borrowing costs. It's almost unbelievable, but the UK is now borrowing at a higher cost in the financial markets compared to Greece (yes, you read that correctly!).

In our view, if there's one European country that may need to embark on the path of austerity, it's the UK.

Principal risk
Long stagflation

Probability
High



Japan: this year's standout surprise

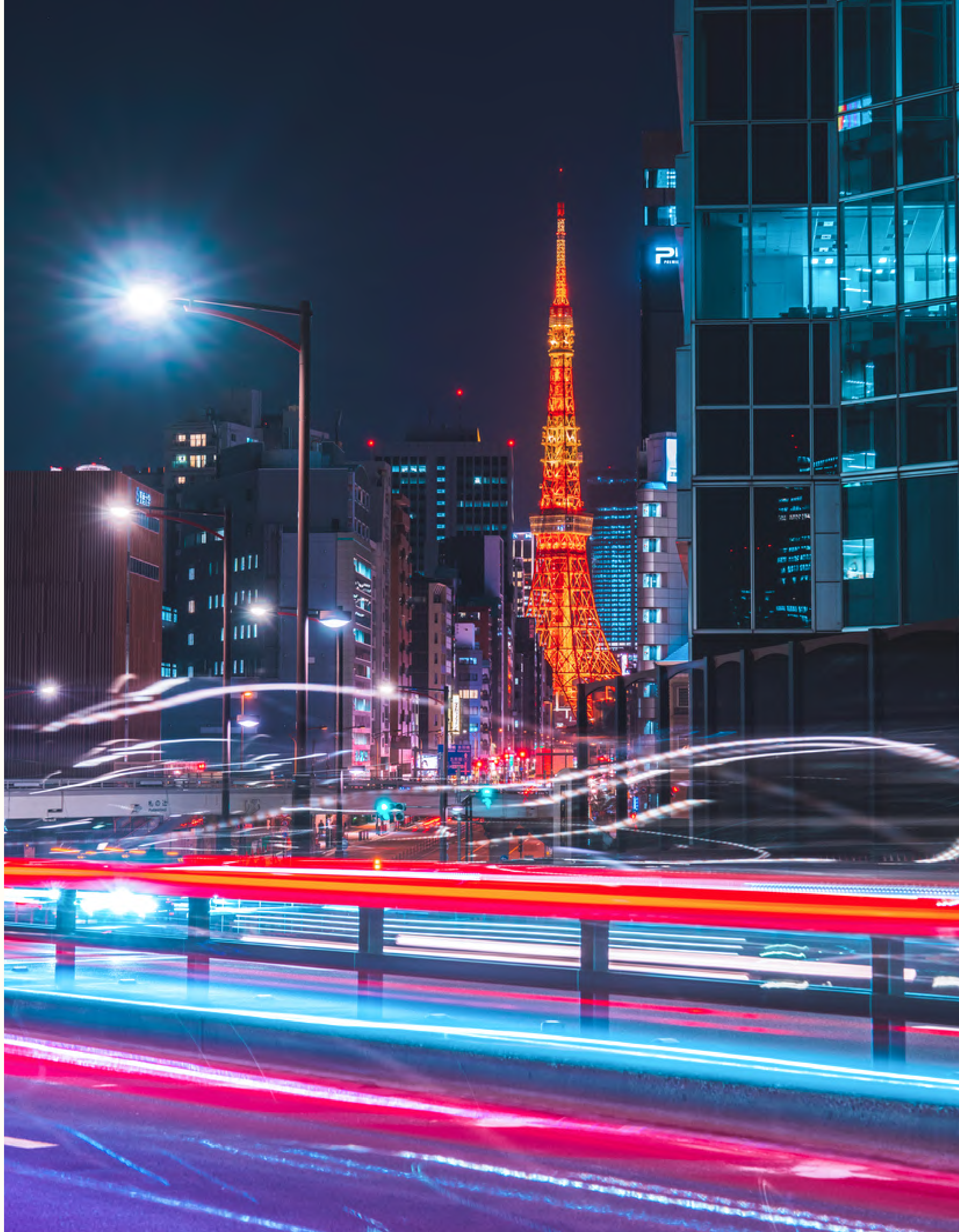
Japan has been this year's good surprise, both for its economic performance and attractiveness. It is the only large, developed economy whose growth outlook remains solid while the rest of the world is slowing. Japanese businesses are also in good health, with little debt, strong cash flows, attractive market valuations and competitiveness boosted by the weakness of the local currency, the yen, even though this may not last.

The combination of heightened appetite among foreign investors and an economic dynamism at odds with Europe's doldrums should drive strong earnings per share growth at Japanese companies, forecast at 7.2 % this year. This is huge.

The Japanese economic miracle is the standout event of 2023 and should continue next year.

Principal risk
Rampant inflation

Probability
Low



Canada: the perpetual real estate struggle

Canada has historically benefited from the knock-on effects of its North American neighbour's economic dynamism. But this is not systematic. **The Canadian economy is starting to suffer directly from the consequences of higher interest rates**. The real estate market is once again the obvious source of fragility this year. It is estimated that the Canadian economy is **20 %** more dependent on this economic sector than the US was in 2006 at the height of the housing market bubble (prices are up **428 %** since 2000!).

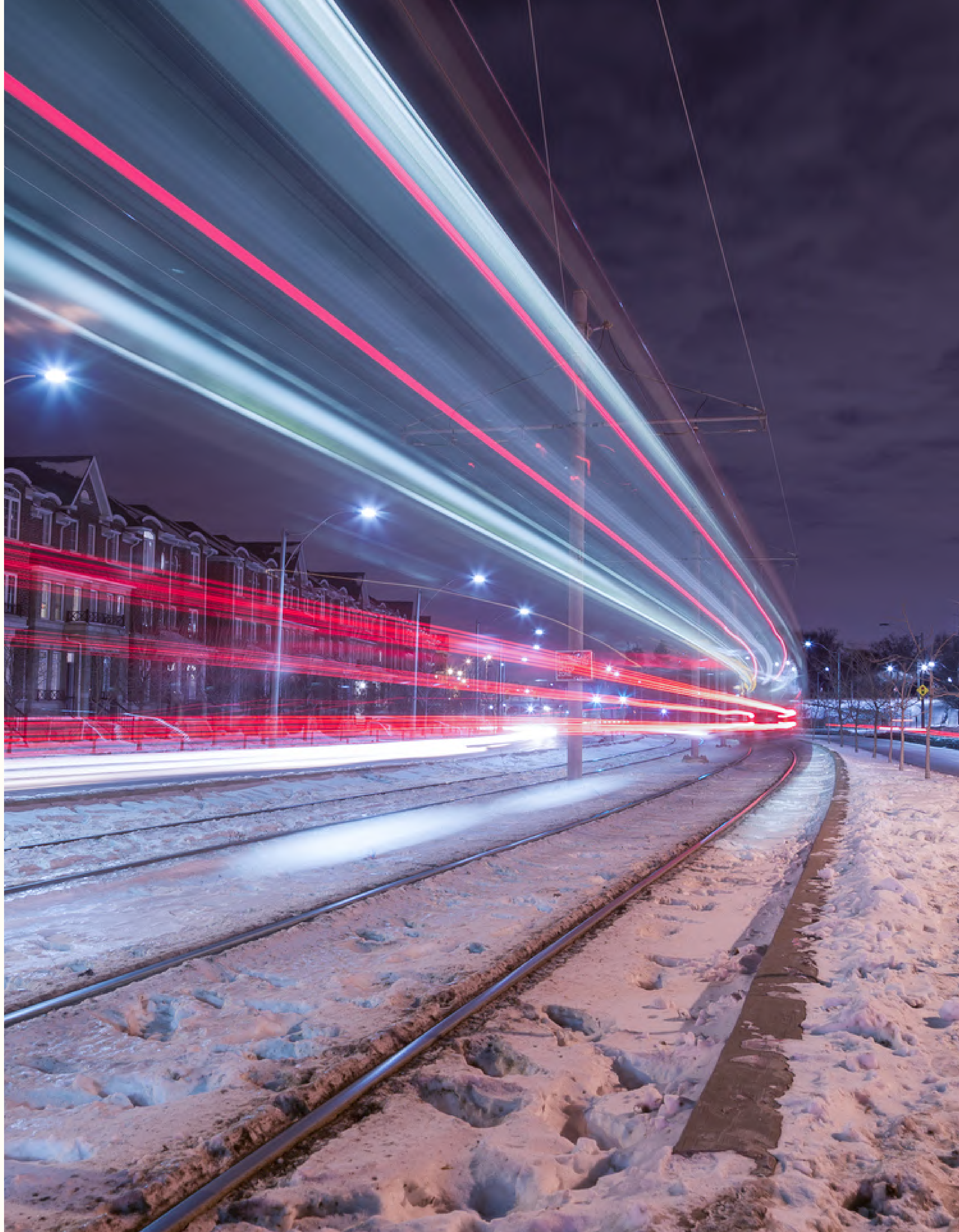
The good news is that while prices have decreased since last year, they have not fallen off the cliff. Besides the ongoing economic slowdown, Canada also has to manage the consequences of its growing active population. The country's per capita GDP has fallen for four quarters running and there is a strong chance that this trend will continue in the short term.

Principal risk

Collapse of the real estate market

Probability

Low



Australia: the Illusionist

Based solely on key data, Australia's economy appears to be in a fairly comfortable position. But this is misleading. The economy is in a recession with falling per capita GDP.

Unlike in Canada, this is not mainly due to growth in the active population but rather to the consequences of domestic economic trends **(real estate prices are up 436% since 2000 – a record among developed economies)** and the economic difficulties of China, a country the Australian economy is highly dependent on. **Despite ditching its zero-Covid policy, China has not resumed its investments in Australia**.

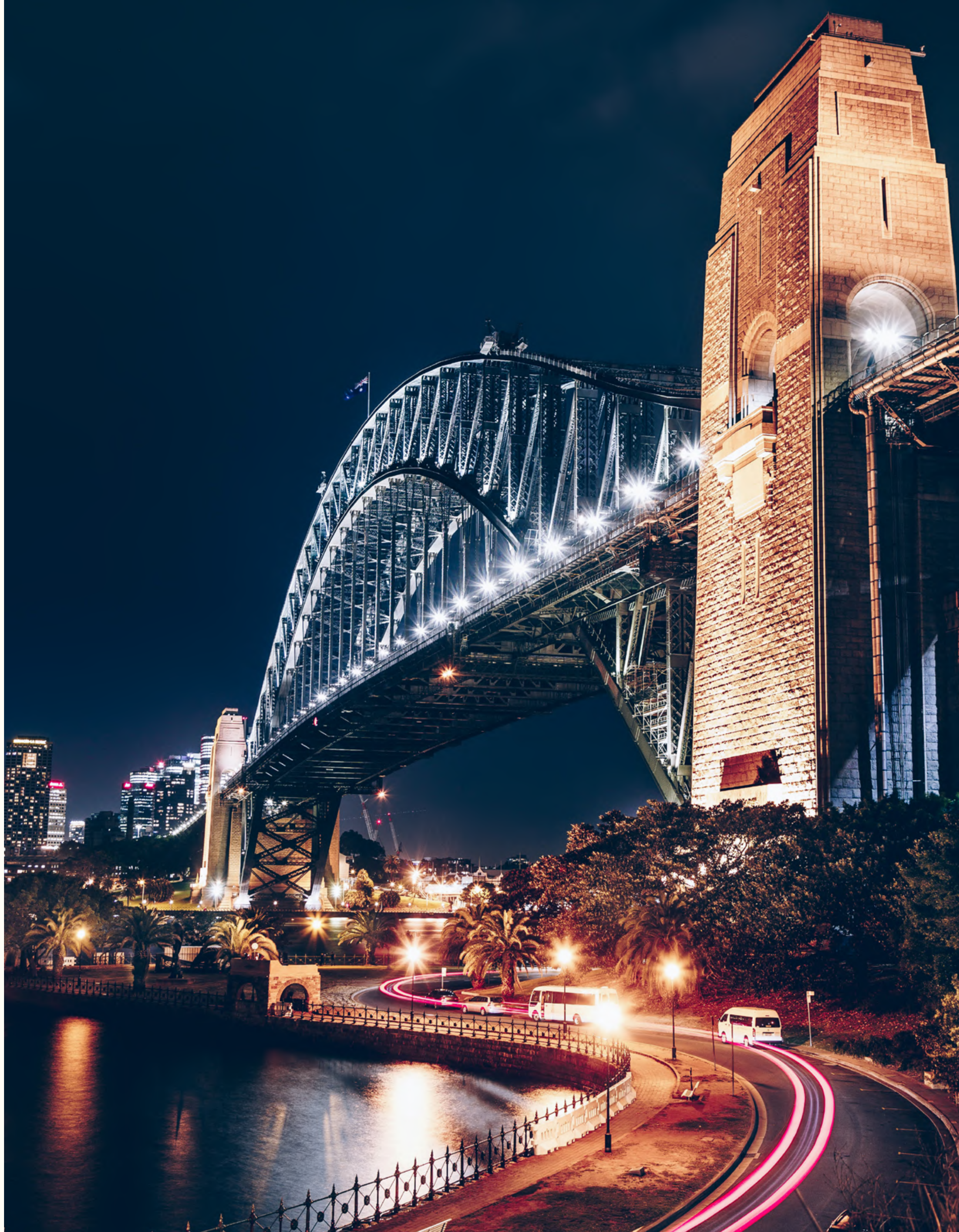
The country is at a crossroads: economic activity currently remains above its long-term average, but confidence is far below it, particularly among households that took out mortgages at floating rates and are the first victims of the interest-rate hikes intended to stamp out inflation. Consumer spending is set to be depressed in the months ahead.

Principal risk

Collapse of the real estate market

Probability

Low



Hungary: lagging behind…

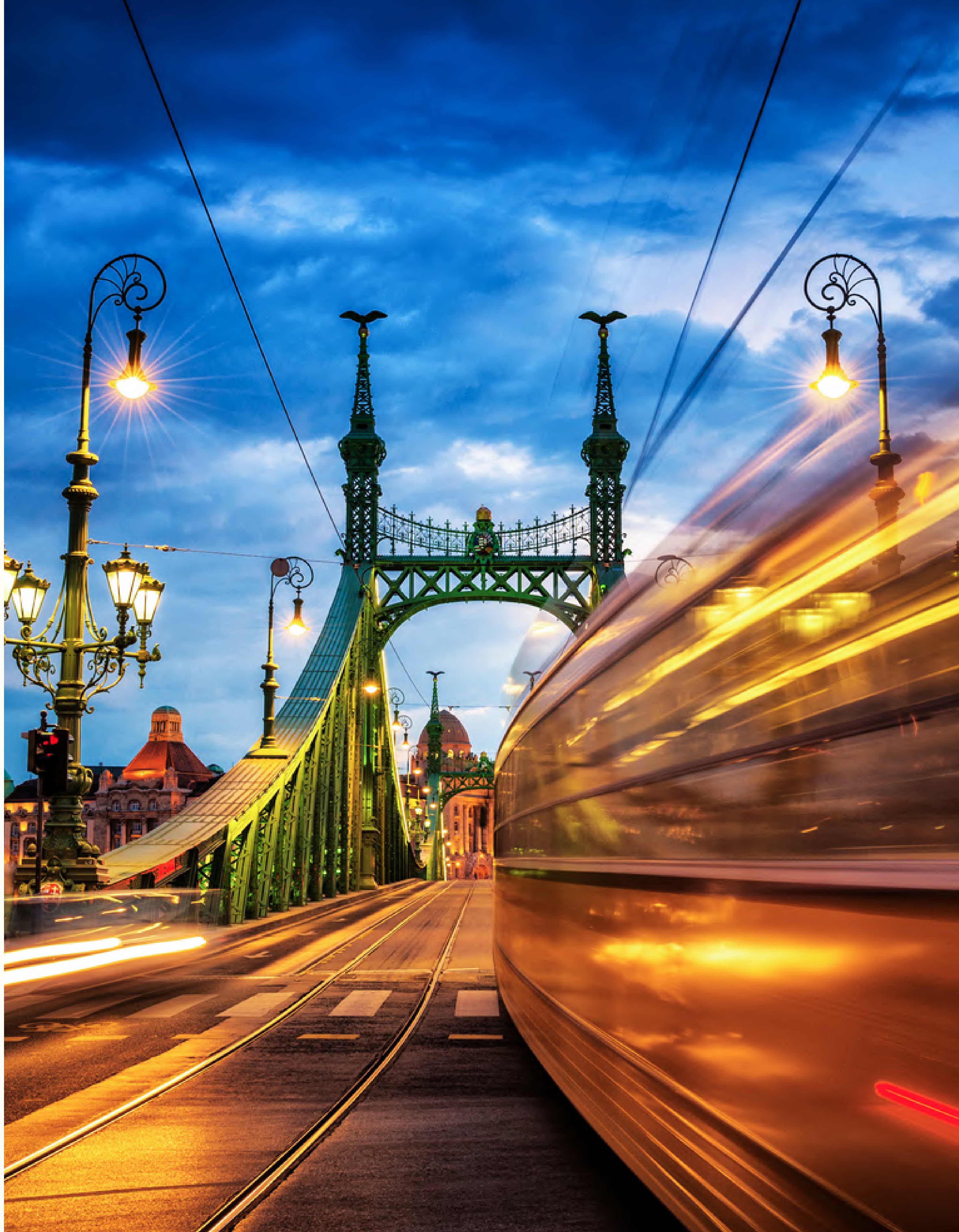
The economic landscape is even weaker than a few months ago. **A recession in 2023 is now inevitable, with GDP set to contract by -0.4% according to our estimates**.

The plunge in domestic demand is visible in all segments of the economy, particularly retail sales and manufacturing. This is due to the persistence of high inflation, even though the disinflation process is well underway. **We expect annualised core inflation to be around 10% at the end of the year**. As long as real wage growth is negative, which has been the case for the past ten months running, there is every reason to believe that consumer spending will be incapable of staging a recovery.

That said, we have **two good pieces of news** to share with you: the end of price controls on some products, a measure that was economically inept, is set to accelerate the disinflation process, and political risk (linked to tensions with the European Union over the rule of law) is no longer an issue at present.

Principal risk
A persistent recession

Probability
Low



Key dates to monitor

Autumn/winter 2023
The resurgence of the energy crisis is **THE** big topic this autumn, especially if the geopolitical situation in the Middle East deteriorates further (with possible rising tensions with Iran). For the moment, the scale of the crisis is nothing like last year's. However, some friction points are emerging, particularly on natural gas and oil, as demand remains robust and supply insufficient.

Start of 2024
Confirmation of the technical recession in the eurozone.

13 January 2024
Presidential election in Taiwan.
If the pro-independence candidate is elected, this could further complicate relations between China and the island and, by extension, between China and the US.

15 January 2024
Start of Republican primaries in Iowa to select a candidate for the US presidential election.

First quarter of 2024
Analysts expect the rate-cutting cycle to begin in the major developed economies.

6-9 June 2024
European elections.
A low-intensity event for the foreign exchange market.

15-18 July 2024
Republican Convention in Wisconsin during which the Republican candidate for the presidential election will be officially designated.

5 November 2024
US presidential election. The election is likely to be closely contested, like the 2020 election. High risk of disruption in the financial markets.

Our convictions for 2024

> “The best lesson that can be drawn from 2023 is to always be wary of the consensus.”

Pierre-Antoine Dusoulier
CEO and founder of iBanFirst

1

Foreign exchange market volatility, which unexpectedly decreased during the first half of the year due to synchronized monetary policies, **is poised for a comeback**. As some central banks, especially in emerging economies, consider easing their monetary policies while others, like the Fed, maintain a pause, and a few, such as the Bank of Japan, contemplate tightening, we can anticipate a revival of volatility. **This resurgence will likely coincide with the renewed popularity of carry trade strategies**.

2

Contrary to the market consensus, we doubt that the US dollar will depreciate significantly in 2024. While many analysts predict a rate cut by the Fed during the first quarter of the year, we believe that the monetary policy pause will last longer than what is currently expected, keeping real interest rates at attractive levels in the US. Furthermore, the worsening global economic conditions are likely to bolster the strength of the dollar.

3

We prefer the Swiss franc. This currency should continue to provide a reliable hedge against any economic downturn. Conversely, **we think sterling could have a bumpy ride**, despite its great resilience since 2016 (the date of the referendum to leave the European Union). The UK economy is more at risk of stagnation than any other developed economy despite 15 rate increases by the Bank of England (BoE) since 2021, which has brought rates to their highest level since 2008.

4

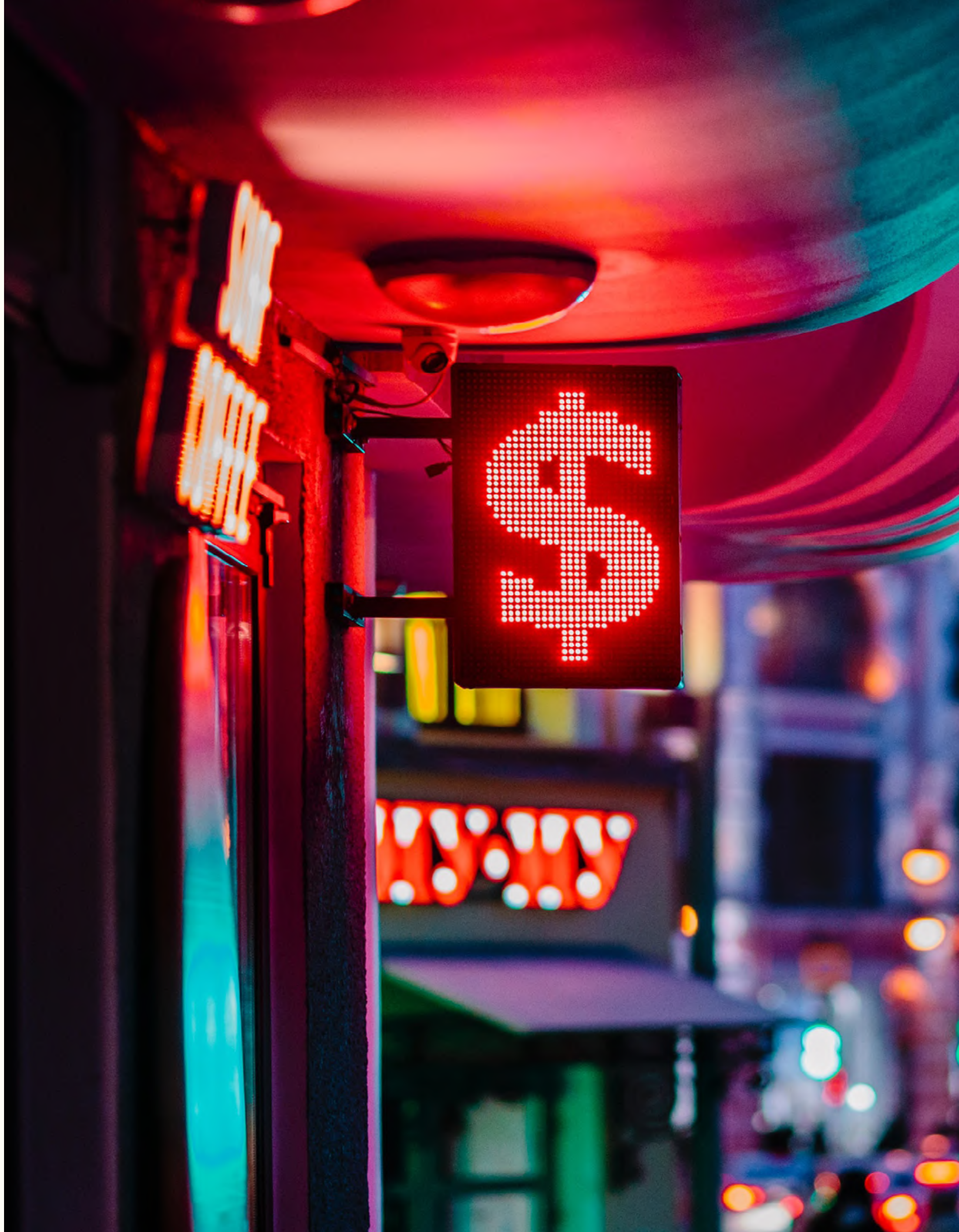
2023 witnessed the revival of emerging currencies at least in the first half of the year, particularly Latin American currencies and some high-yield Asian currencies. **This should be less the case in 2024** given that the rate-cutting process is well underway in several emerging countries. A selective approach will be required to take positions in abnormally undervalued currencies that can count on good economic fundamentals, such as the Brazilian real.

Forecasts by currency pairs

EUR/USD

The ECB gets it wrong again

Trichet and Lagarde: the same fight? At the height of the global financial crisis, Jean-Claude Trichet, president of the ECB, raised interest rates in the belief that pressure from rising energy prices would unleash inflation. This was a mistake. At a time when the eurozone is on the verge of recession, Christine Lagarde, the bank's current president, announced a further rate hike – probably the last of the cycle – sending the euro lower. This is a signal that the currency market thinks the ECB has gone too far in the monetary tightening process and that this last rate increase is unnecessary. **Based on economic fundamentals alone, the euro is still too expensive against the dollar. In our view, the single currency's fair value is closer to around 1.05-1.03**. Others are more pessimistic than us and put the fair value at below parity. This does not mean that the euro will fall to these levels. **But it clearly has significant downside potential in the short term.**



EUR/GBP

Leave well alone!

What makes this pair intriguing is its remarkable stability over the past four years, even amidst economic fluctuations. Consequently, the likelihood of a recession in continental Europe or stagflation in the UK causing significant volatility in this pair in the near future appears low. **We expect the EUR/GBP to range between 0.86 and 0.88 throughout most of 2024**. It is undoubtedly the most stable major currency pair over the long term.

EUR/JPY

Get ready for some action

This currency pair has the potential to bring about some unexpected developments in the near term. The Reuters consensus expects Japanese monetary policy to remain unchanged at least until July 2024. In theory, this should lead to a prolonged depreciation of the yen. But we beg to differ. We think the Bank of Japan could raise its policy rate by the end of 2023. This would be a marginal increase, probably 10 basis points. But it would be sufficient to lift the policy rate into positive territory – a fundamental change for Japan! **Should our non-consensual scenario come to fruition, it's likely that investors will once again take long positions in the JPY, causing the EUR/JPY pair to decline**.

EUR/CHF

And now for our favourite currency

The Swiss franc remains investors' preferred currency to weather a global economic downturn. **We expect the EUR/CHF to reach a low point of 0.93, possibly before the start of 2024.** Recent tensions in the Middle East, following the Hamas terrorist attacks, may contribute to increased investor interest in the Swiss franc, especially if there are fears of an escalation with Iran**. Given the geopolitical context and economic trends, there is every reason to believe that the franc will remain highly resilient in the future.**

EUR/CAD

Oil makes a comeback

Monetary policy is unlikely to be a differentiating factor over the next 12 months. Canada and the eurozone are in pause mode in the short term. In both cases, a rate cut is possible in the first quarter of 2024. As a result, **the primary driver for the pair may be the rising cost of energy**, particularly with oil prices potentially approaching a balance point at $100 per barrel. Unsurprisingly, this should boost the Canadian dollar. **Our target for the EUR/CAD in 12 months stands at 1.36, compared with a spot price of 1.44**.

EUR/AUD

An exchange rate problem

In theory, everything points to a continued **appreciation of the EUR/AUD over the next 12 months** – in particular the AUD's weakness amid China's slowdown. But it is not impossible that the Reserve Bank of Australia (RBA) could make an unprecedented intervention to prop up the AUD's exchange rate. In a recent report, RBA voiced concern about the relative weakness of the AUD, as this has the consequence of raising imported inflation, which has made a bigger contribution than wage growth to inflationary pressures since 2021. Such a move is not on the agenda in the short term. **But if the AUD continues to fall, the Australian central bank may become more active on the market**.

EUR/CNH

Devaluing CNH? Not happening

No, China will not devalue the CNH. It did so in 2015 and this was a failure, triggering a massive capital flight that was very hard to stem. It led to a tightening of financial conditions that also limited the economy's recovery potential. **At the risk of repeating ourselves, a devaluation is not an option for China. In fact, the exact opposite is happening**. The CNH's rapid depreciation is frowned upon by the Beijing government, which has taken measures to strengthen the yuan (such as by raising Chinese interbank rates to as high a level as in the US, creating a disincentive to take speculative short positions on the CNH). What does this mean for the EUR/CNH? **We expect the pair to continue falling over the next 12 months as Beijing does everything to prop up the CNH**.

EUR/HUF

Arbitrage in favour of the euro

The HUF has attracted foreign investors seeking yield in the framework of carry trade strategies. This was one of our favourite trades for the start of 2023. **But now that the economic backdrop is weakening more, we think investors will tend to favour the euro,** as this is a lesser evil in a period of global economic uncertainty. **Hungary's monetary policy will probably have little influence on the EUR/HUF in the short term**.

We think the principal policy rate is at an optimal level to guarantee that inflation will return to its target level in the medium term. In terms of counter-cyclical measures, expect further cuts to the required reserves rate, which will increase the volume of liquidity.

EUR/RON

Little scope for an appreciation

A policy rate cut appears out of the question to us this year. If the local economy continues to follow the same trajectory, as we expected, a rate cut is possible at the start of next year. Unlike Poland, which announced a surprise monetary loosening in September, we doubt that Romania wants to take the market by surprise. **We estimate that Romania could cut its rates by a total of 150 basis points in 2024**. In parallel, the central bank will probably also seek to reduce surplus liquidity in the interbank market. **Although we believe the EUR/RON is on a clear upward trend, this should limit upside potential in the short term.**

Exchange rate forecasts

	Spot price	3-month forecast	6-month forecast	12-month fore-cast
EUR/USD	1,06	1,05	1,10	1,13
EUR/GBP	0,86	0,87	0,88	0,87
EUR/JPY	157	154	151	145
EUR/CHF	0,95	0,93	0,93	0,98
EUR/CAD	1,44	1,40	1,38	1,36
EUR/AUD	1,65	1,70	1,75	1,80
EUR/CNH	7,72	7,30	7,10	7,10
EUR/HUF	383	390	400	415
EUR/RON	4,97	4,99	5,00	5,02

Foreign exchange risk in the face of market volatility

Far from being a problem reserved for large multinationals, foreign exchange risk can affect all sorts of companies, that carry out cross-border flows. A fluctuation – even a small one – in exchange rates can thus affect your sales margin or your competitiveness in your foreign markets.

The implementation of a foreign exchange risk management strategy should be considered if:

You invoice your exports or costs related to your international activity in foreign currency (subsidiaries, salaries, etc.).	Avoid passing the cost of adverse foreign exchange movements to your clients or facing problems with the consolidation of your financial statements.
You pay for imported goods and services in foreign currencies.	Maintain your sales margins and keep them immune from currency volatility.
You make upstream purchasing commitments with your foreign suppliers.	Secure your price budget to stop renegotiating your contracts with foreign suppliers in case of price fluctuations.

3 reasons to choose iBanFirst to effectively manage your fx risk exposure

We are at your disposal to help you build the foreign exchange risk management strategy that will help you secure your sales margin.

1
A team of specialists

Our foreign exchange experts offer you the benefit of their know-how to enable you to make an informed decision.

2
A personalised strategy

Our range of currency risk management instruments is fully customisable to suit your needs and business structure.

3
A dedicated account manager

Your account manager is at your disposal to answer your questions and assist you in the follow-up of the chosen solutions.

Any questions?

Talk to an expert

iBanFirst

The new standard for cross-border transactions

About us

Founded in 2016, iBanFirst has quickly established itself as the leading alternative for businesses that trade and carry out international payments. iBanFirst offers a next-generation cross-border payment experience that combines a powerful platform and the support of FX experts. With iBanFirst, executives and finance teams can get direct access to currency markets, receive, send and track payments and develop tailored hedging strategies.

With more than 350 employees in 10 European countries, processing a volume of transactions worth more than €1.4 billion each month, and listed by the Financial Times as one of Europe's fastest growing companies, iBanFirst became in less than 10 years a trusted partner for SMEs across borders.

iBanFirst has the financial backing of the French public investment bank (bpiFrance), European venture capital leaders (Elaia, Xavier Niel), and the American investment fund Marlin Equity Partners (more than 8 billion dollars of capital under management).

Regulated by the National Bank of Belgium as a payment institution, iBanFirst is authorised to operate throughout the European Union. Member of the SWIFT network and SEPA certified, iBanFirst holds AISP and PISP accreditations under PSD2.

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