FX Markets:

What to expect in 2023?

Your guide to better navigating currency volatility in 2023

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INTRODUCTION

Whether the issue concerns import flows of manufactured goods or international expansion, any business transacting in foreign currencies is exposed to a currency risk that can negatively impact its profits.

To protect themselves, international businesses must anticipate any market movements to develop forecast scenarios and put in place an appropriate hedging strategy.

This guide provides an overview of the global macroeconomic outlook and its potential impact on major currency pairs to allow you to anticipate the risks of fluctuations that your business could face in 2023.

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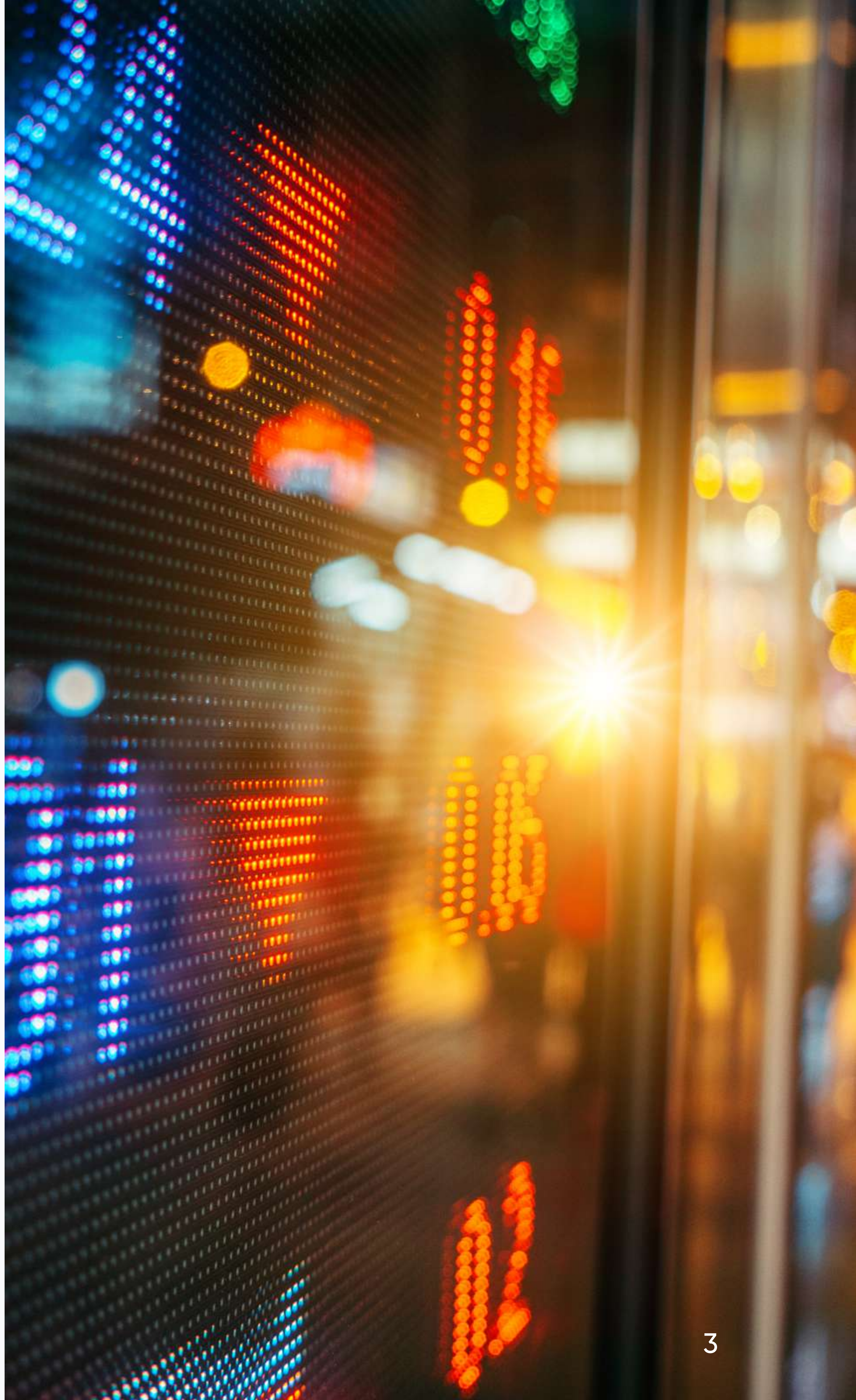
Macroeconomic Outlook

2023 will be the year of the global economy crash test

This is an unprecedented situation. Rarely has a recession been forecast so far in advance. Several economies are on the verge of collapse: the eurozone, the UK, and countries where the housing bubble has inflated significantly in recent years (such as Canada and Australia).

However, we believe that the United States will elude a crash. A soft landing is still possible at this stage, but there is no consensus on this.

An immediate consequence of the return of economic turmoil is the return of volatility to the forex market. This is expected to continue and cause an additional headache for businesses already facing a scenario of lasting inflation that was unimaginable a year ago.



Macroeconomic dashboard:

World

Bad news in the short term (global economic slowdown) can be good news in the medium term (the future decrease in inflation).

Commodity and ocean freight prices have been falling since the beginning of summer. The Baltic Dry Index, a measure of dry bulk shipping rates (ores, grain, etc.), has fallen by 83% from its crisis high. This is linked to the global economic slowdown and the resulting drop in demand. In the medium term, weaker demand is the most effective lever to return to low inflation (close to 2%). This will not be easy.

Any further localised lockdowns in China may disrupt supply chains at any time and lead to temporary price increases.

Main risk	Likelihood
Global recession	**Low**

Eurozone

The eurozone's entry into recession due to the energy crisis is almost a foregone conclusion. Only the European Central Bank (ECB) refuses to admit it. Its latest forecast anticipates sluggish growth of 0.9% in 2023.

At the same time, inflation continues to spread throughout the economy. Peak inflation (probably 10% to 12%) is expected to be reached in early 2023.

The energy crisis is a structural problem for the eurozone that will limit growth potential in the coming years. We estimate that the drain on the European economy caused by the crisis is 7% of EU GDP and could reach 15% of GDP early next year.

It will take years to resolve this once and for all (construction of new energy infrastructure, reallocation of investments to fossil fuels after years of chronic under-investment, and improvement of energy efficiency).

In the medium term, central governments are continuing to support businesses and households (€400 billion has been allocated by all EU countries to offset the energy bill since September 2021). **However, we will certainly have to get used to living in a world of long-lasting high inflation and say goodbye to structurally low energy prices.**

Main risk
Energy rationing this winter

Likelihood
High

US

Since the beginning of the year, analysts have been predicting a recession that has been slow to materialise. The US economy is more robust than expected, although the labour market is expected to slow down in the coming months. **Peak inflation was reached in June 2022. This is good news.**

Inflation is expected to decelerate gradually in the coming quarters. However, we will certainly have to wait until 2024 before we see a return to more bearable inflation levels over time (close to 2%).

The real estate sector is the weak point of the US economy. It contributes around 5% of GDP growth. There is no sign that prices will collapse. It is more likely that we will see a gentle deflation of the housing bubble in 2022 and 2023.

Main risk	Likelihood
Recession	**Low**

China

The zero-COVID policy is a serious impediment to economic expansion. Added to this is the restructuring of the real estate market since September 2021. Investors expect an overall loss of $130 billion from defaults on Chinese developers.

To put this in perspective, this is equivalent to the debt owed to China by all African countries. However, a sudden collapse is unlikely.

In terms of inflation, China is the only major world economy to experience limited price increases (core inflation, i.e. excluding energy, near 1%).

Main risk	Likelihood
Real-estate market crash	**Low**

UK

What Brexit did not do on its own, Brexit coupled with COVID and high inflation has managed to do: the British economy is collapsing. **Inflation is out of control.** It could peak at between 13% and 18% in 2023. **The energy crisis is taking its toll.** The country lacks sufficient gas storage capacity.

Although the government has announced a limit on energy bills of £2,500 per year for two years, many households and businesses will be unable to pay.

Business failures are inevitable. **Not surprisingly, the recession will be long and deep.** The Bank of England (BoE) expects it to start in the fourth quarter of this year and last for at least five quarters.

This should cause GDP to fall by around 2.1%, which is as much as in the recession of the early 1990s.

But things only get worse. Very often, there is a strong rebound in the economy after a recession, but that will not be the case here. The economic slump will continue. **The BoE expects GDP to be 1.75% lower in 2025 than it is today.** There is nothing positive.

Main risk
Long, intense recession

Likelihood
High

Japan

Japan is emerging from deflation (or negative inflation) as energy prices rise. The Bank of Japan (BoJ) estimates that inflation could reach 2% to 3% by the end of 2022.

Unlike other central banks, the BoJ is maintaining an ultra-accommodative monetary policy to support the economy, which tends to depreciate the Japanese yen against other currencies.

We do not expect a change in monetary policy in the short term. The BoJ considers that inflation is mainly imported (via energy) and that a rate hike will have only a marginal effect in curbing it. That is true.

Main risk
Bank of Japan intervention on the yen

Likelihood
Low

Canada

The economy is showing signs of slowing down (rising unemployment rate and job losses in August). Inflation continues to rise (near 8%). Initially, it mainly concerned energy. Now it is spreading to services. This is a sign of long-lasting inflation.

The real estate sector is the main area of concern. Canada is 20% more economically dependent on this sector than the US in 2006 at the housing bubble's peak. This shows how critical the situation is. Since February 2022, real estate prices have fallen by 18%. **They could fall by at least 10% in 2023, increasing the risk of a recession.**

Main risk
Real-estate market crash

Likelihood
High

Australia

The economy and the labour market are strong. However, the housing bubble is showing signs of rapid deflation.

The rise in borrowing rates, following the Reserve Bank of Australia (RBA) key rate hike, is the main factor pushing prices down. Between the peak in 2006 and the low point in 2012, real estate prices in the US fell by 27%. **The drop could be just as big but faster in Australia, reaching 20% by 2023.**

If this scenario plays out, it could trigger the country's first recession in 30 years (if we disregard the COVID-related recession).

Main risk
Real-estate market crash

Likelihood
High

Hungary

The economy is showing solid performance (especially the industrial sector). **However, an economic slowdown is inevitable because of the significant intertwining of the Hungarian and German economies and the ongoing rise in energy prices.**

This increases the risk of a technical recession. **Peak inflation could be reached this year at over 20%** (almost one third of the goods and services included in the measurement of inflation are up by more than 20% year on year).

The disinflation process will take time. We expect inflation to average 15% next year and not fall below 5% until late 2024.

The conflict between Hungary and the EU over the rule of law is a major point of uncertainty in the short term. A compromise should be reached, though.

Main risk
Technical recession

Likelihood
Medium

FX Market Outlook

Key dates to look out for

October–November 2022:
Risk of energy rationing in Europe
During this period, energy consumption will begin to jump in France and most European countries. There is a risk that the energy supply system will be negatively affected. Possible rationing.

16 October 2022:
Beginning of the 20th National Congress of the Chinese Communist Party
President Xi Jinping's new five-year term.

8 November 2022:
US midterm elections
The games are far from over. The latest polls show that voting intentions for the Democrats and for the Republicans are neck and neck.

1st quarter 2023:
Several developed economies will enter a recession (including Eurozone and UK)

February 2023:
Possible end of the European Central Bank's monetary tightening cycle

April 2023:
IMF and World Bank Spring Meetings
They will provide an update of economic projections and an opportunity for better coordination between central banks, if necessary.

Forecasts for major currency pairs

EUR/USD

Based on the real effective exchange rate, the level of the dollar is too high against the euro by 29%. The last time this happened was in 2002. The dollar subsequently depreciated slowly until April 2008 (at the time of the global financial crisis). This is unlikely to happen again.

Two factors favour a prolonged decline for the euro: the key rate differential between the US and the eurozone and capital outflows from the eurozone reflecting foreign investors' concerns about the energy crisis in Europe.

EUR/GBP

The Commodity Futures Trading Commission's weekly COT (Commitments of Traders) report shows that the forex market is predominantly bearish on the pound sterling, which has withstood Brexit well.

However, it is entering a period of significant turbulence. The UK's entry into a long recession combined with soaring inflation could lead to a depreciation of the British currency in the coming months.

EUR/JPY

Since May 2022, the forex market has been buzzing with rumours of intervention by the BoJ to support the yen's exchange rate. This finally happened in September.

However, it is still too early to know whether it will be successful. When there is no coordination between the major central banks, intervention is not is rarely effective in the long run. In 1998, the Japanese and US authorities coordinated to buy yen to raise its rate. This was a failure. It was not until the 1998 financial crisis that the yen gained long-term strength.

EUR/CHF

The last time the Swiss National Bank (SNB) intervened in the forex market to weaken the Swiss franc against the euro was in July 2022.

Since then, the SNB has adapted to a strong currency. This reduces imported inflation, which has become the number 1 economic problem for the Swiss Confederation. Given these conditions, the EUR/CHF decline is expected to continue in the short to medium term.

FX MARKET OUTLOOK

EUR/CAD

The value of the Canadian dollar depends on global commodity prices, which remain high, contributing to a fundamental decline in the EUR/CAD.

If the Canadian real estate sector collapses in 2023, though, we could see a reversal in the trend in the pair.

EUR/AUD

The RBA plans to slow down the pace of rate hikes.

However, this does not change our view of EUR/AUD. The underlying trend is bearish. The euro could start to rise again in 2023 if the housing bubble in Australia abruptly deflates.

EUR/CNH

Since summer, rumours of a devaluation of the Chinese currency have been circulating.

In 2015, China devalued its currency three times in the middle of August to support the economy. This led to massive capital flight, which took several years to contain. We doubt that China will want to make this mistake again. Data published by the People's Bank of China indicates that it has been intervening in the money market for several weeks to support the exchange rate of the Chinese currency.

In our view, China's priority is to preserve the stability of its currency in the run-up to the Congress of the Chinese Communist Party scheduled to begin on 16 October.

EUR/HUF

The upside potential is intact until at least the end of the year.

Forex market participants are making a simple trade-off: the euro is safer to hold than the HUF (even though the eurozone is almost certain to enter a recession).

We believe that as long as the conflict between Hungary and the European Union over the rule of law remains unresolved (with the significant release of EU funds for Hungary), the underlying trend for the HUF remains bearish.

Currency	Spot price	3-month forecast	6-month forecast	12-month forecast
EUR/USD	0.98	0.90	1.05	1.08
EUR/GBP	0.87	0.95	0.90	0.85
EUR/JPY	142	140	130	128
EUR/CHF	0.97	0.90	0.85	1.05
EUR/CAD	1.34	1.28	1.31	1.36
EUR/AUD	1.52	1.44	1.54	1.60
EUR/CNH	6.97	6.80-7.10	7.20	7.40
EUR/HUF	422	440	400	385

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 hedge your foreign exchange risk

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

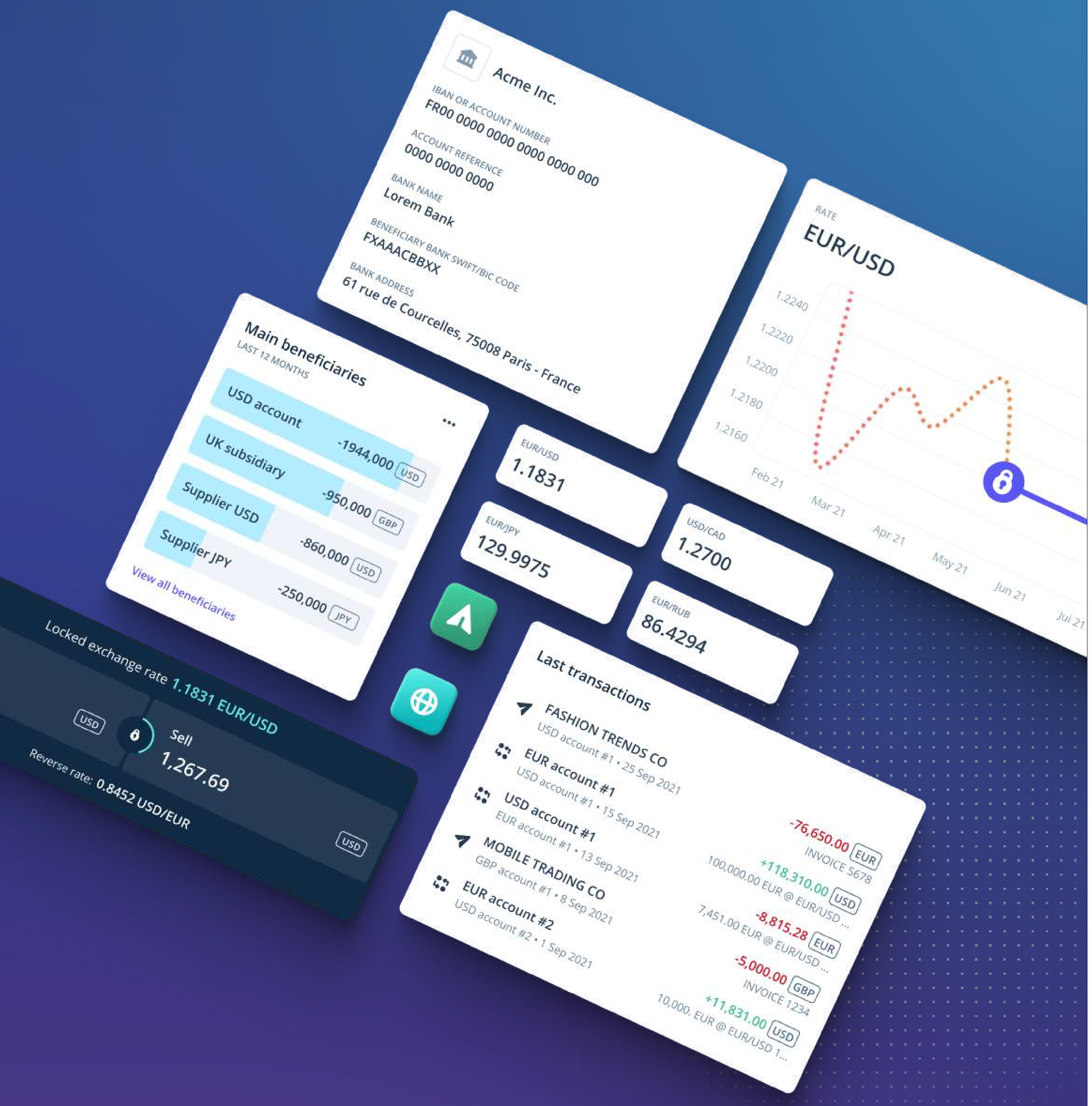
Our range of hedging instruments is fully customisable to suit your needs and business structure.

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



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iBanFirst

About us

iBanFirst is a global financial services provider delivering solutions across banking borders. As an alternative to the traditional bank offer, iBanFirst helps international SMEs to thrive while simplifying their daily operations. To do so, iBanFirst has developed a cutting-edge core banking platform enabling fast, secure and cost-effective multicurrency transactions. Thanks to iBanFirst, financial teams can make and receive payments in over 30 currencies and hedge foreign exchange risks.

Founded in Paris in 2013, iBanFirst is a French company headquartered in Belgium. It is regulated as a payment institution, passported throughout the European Union, and serves thousands of customers all over Europe. Member of the SWIFT network and SEPA certified, iBanFirst holds AISP and PISP accreditations under PSD2. The company has raised €46m from Xavier Niel and leading European venture capital funds, such as Elaia and Bpifrance Large Venture, among others. In May 2021, iBanFirst completed a growth equity funding round with Los Angeles-based private equity firm Marlin Equity Partners.