International Commentary — August 19, 2024

International Economic Outlook: August 2024

Summary

Forecast Changes

- We have not made material forecast changes to our economic or inflation outlooks. This month, we continue to forecast 2024 global GDP growth of 2.9% and global CPI inflation of 3.6%. In the United States, we maintain our view for a "soft landing" although acknowledge that recession risks are rising. Internationally, we believe the European-wide economic recovery is intact, and while China's economy remains in an overall downturn, we have kept our 2024 GDP forecast of 4.8% unchanged.
- Arguably the most notable forecast change we made this month is that we now believe the Federal Reserve will ease monetary policy more aggressively than previously envisaged. While we continue to believe the FOMC will initiate an easing cycle in September, we now forecast a 50 bps cut at the September meeting followed by another 50 bps cut in November. In select cases, faster Fed easing creates space for foreign central banks, such as the Bank of Canada, to also cut rates faster; however, we now believe the Bank of Japan will delay further hikes until 2025 and the Brazilian Central Bank will now pivot back to rate hikes in the near future.
- Our view on the short-term path of the U.S. dollar is little changed, and we continue to believe the dollar can trend higher through the end of this year. Medium to longer term is where our dollar outlook adjustments are most noticeable, as we now believe the dollar can strengthen during the second half of 2025 as opposed to a prior forecast for ongoing greenback depreciation. The longer-term outlook change is centered around Fed easing being front-loaded, while international central banks remain in easing mode through the end of next year.

Key Themes

- The threat of a U.S. economic recession injected volatility into financial markets over the course of early August. Adding to those fears was a Bank of Japan rate hike that resulted in equity market volatility as well as a global unwind of the FX carry trade. U.S. recession fears introduced the idea that the Fed is behind the curve in shifting to more accommodative monetary policy, and while we maintain our view for a U.S. "soft landing", we do believe labor market deterioration will be the driving force of aggressive Fed rate cuts in the coming months.
- Faster Fed easing creates policy space for foreign central banks to also ease quicker, which, in our view, will be the central banks closely integrated into the U.S. economic cycle. Central banks that have kept policy rates steady over the course of this year may also have room to begin easing cycles, and we believe institutions in emerging Asia will start lowering policy rates before the end of this year. However, not all policymakers are as heavily influenced by the Fed, and local economic conditions are still likely to dominate rate decisions most notably in Japan and Brazil.
- With the Fed now likely to respond to economic conditions with aggressive easing, our outlook for the U.S. dollar has changed. In the short term, uncertainty over global economic conditions, financial markets, the U.S. election, and the precise path of Fed monetary policy can keep the dollar supported through year-end before some weakness in early 2025. But under the assumption the Fed cuts rates 50 bps in September and November, and slows the pace of easing in 2025, we believe the dollar can recover ground in the second half of next year.

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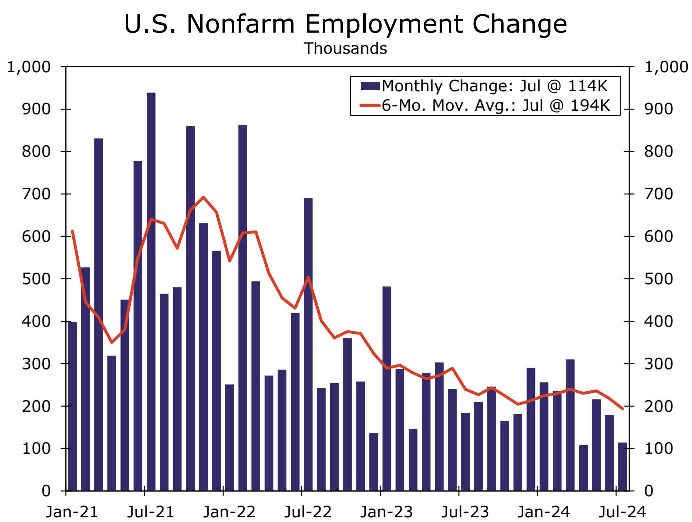
Broadening U.S. Slowdown Brings Faster Fed Easing into View

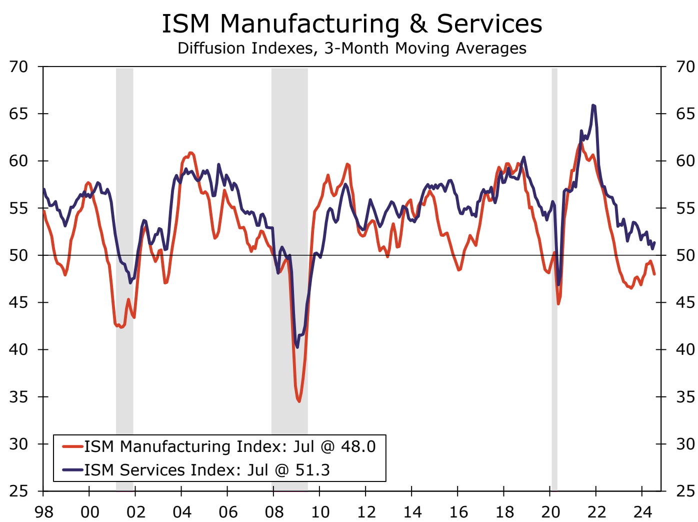
Since our International Monthly report in late July, the past month has seen some significant developments that, in our view, have important implications for the U.S. economy and monetary policy. To be sure, our forecast for U.S economic growth hasn't changed much, and our U.S. economists still see respectable GDP growth of 2.6% for 2024, slowing to 1.9% in 2025. At the same time, however, signs of softer U.S. growth are becoming more apparent and confidence is rising that a more sustained economic deceleration is coming. While our colleagues are still not forecasting a recession, downside risks to our U.S. economic growth profile are also rising. Our U.S. economics colleagues have written on the deterioration in the U.S. labor market for some time—which for most of the past several quarters had been most prominent in indicators other than the monthly payrolls report. But July's nonfarm payrolls report thrust the weakening U.S. labor market trend further into the spotlight. Nonfarm payrolls rose by 114,000 in July, the second-smallest increase since 2021 and notably softer than market expectations (Figure 1), while the unemployment rate rose more than the consensus forecast to 4.3%. The soft payrolls report prompted increased discussion of a potentially looming U.S. recession. Indeed, the jump in the unemployment rate triggered the Sahm Rule threshold, which has historically been associated with a U.S. economy in recession. Our U.S. economics colleagues also noted that in addition to payrolls, a broad range of indicators still point to a broad-based softening in the labor market. Among those indicators are a significant rise in job losers over the past year, a narrower breadth of industries that are reporting the addition of new workers, and survey data that show more consumers saying jobs are "hard to get" and fewer saying jobs "are plentiful."

Figure 1



Source: Datastream and Wells Fargo Economics

Figure 2



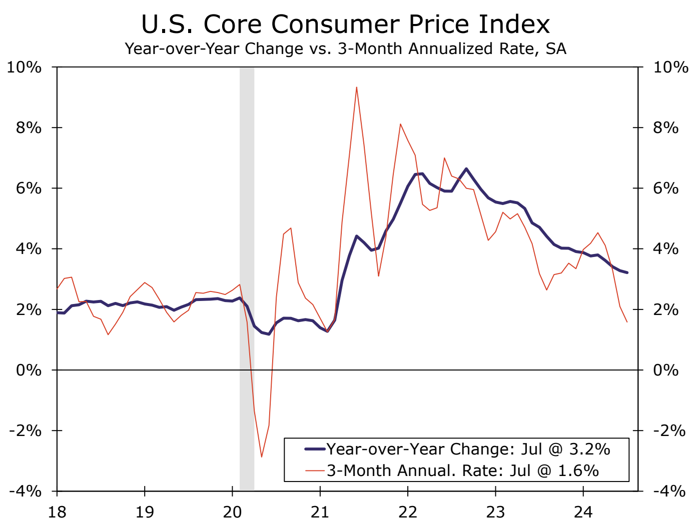
Source: Institute for Supply Management and Wells Fargo Economics

The labor market is not the only area of the economy where signs of weakness are becoming more apparent. The ISM Manufacturing Index has been in contraction territory—below 50—for all but one of the past 21 months and has steadily declined for the past four months to 46.8 in July. The manufacturing sector has struggled for about two years now, and last month's underwhelming read may be a signal that some time could be needed before the sector experiences an improvement. In addition, while the services sector has been more resilient than its manufacturing counterpart, the ISM Services Index has generally been trending lower of late (Figure 2). Finally, another sign that could portend weaker growth in the months and quarters ahead is a softer trend in real disposable income growth. In June, real disposable income rose just 1.0% year-over-year, lagging behind growth in real consumer spending of 2.6%, suggesting employment and income trends could be a headwind for consumer spending in the months and quarters ahead. New concerns around the health of the U.S. economy fueled sharp declines in U.S. and global equity markets in early August. In the days immediately following the nonfarm payrolls report, the S&P 500 fell almost 5%, the Nasdaq dropped ~6% and the Dow Jones Industrial Average index fell ~4%. Volatility also spiked as the VIX Index—which measures uncertainty via market expectations of the volatility of the S&P 500 Index—soared about 20 points to a peak of 38.57. Similarly, A similar measure of volatility that focuses on the U.S.

bond market—the MOVE Index—jumped ~20 points to hit 121.22. Markets have since calmed, with the S&P 500 index now having recovered all of its post-nonfarm payrolls report decline.

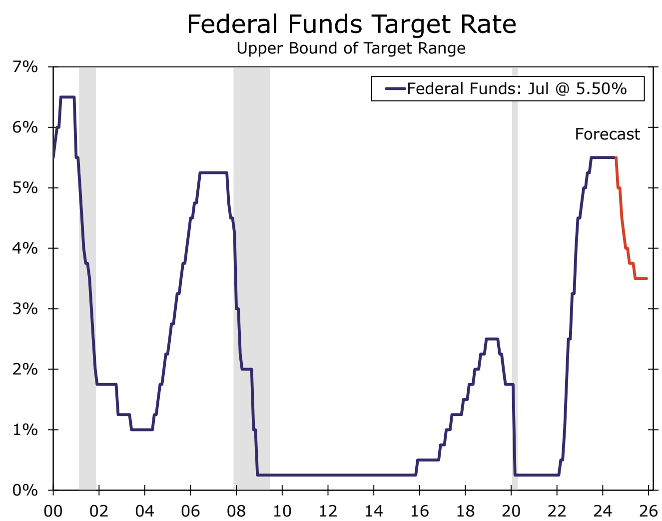
With clearer signs of softness in U.S. economic data and somewhat unsettled financial market conditions, we now see the FOMC delivering a faster pace of rate cuts this year than we previously forecast. In our view, the Fed is now likely to deliver a cumulative 125 bps of easing this year compared to the 50 bps of rate cuts we previously envisaged. We believe Fed policymakers laid the groundwork for rate cuts in the post-meeting statement from their July 31 monetary policy announcement. FOMC members noted a growing attentiveness to risks around both sides of their dual mandate for stable prices and full employment, as opposed to only highlighting inflation risks (Figure 3) as in previous statements. As a result, we now believe the Fed will deliver monetary easing at a more accelerated pace than previously forecast. Our base case now envisages the Fed lowering its policy rate by 50 bps at both the September and November meetings, and by 25 bps in December, for a year-end range of the federal funds rate of 4.00%-4.25% (Figure 4). While we believe the economic environment is consistent with a faster pace of Fed rate cuts, the exact timing and magnitude of those rate moves will still likely be dependent to some extent on how long the recent market stresses persist, or whether financial markets retain a sense of relative market calm. Thus, while we are comfortable with our view of faster Fed easing in the wake of recent developments, the risks are perhaps tilted toward the Fed moving not quite as aggressively as our new forecast anticipates should financial markets remain in the more settled environment seen in the most recent days.

Figure 3



Source: U.S. Department of Labor and Wells Fargo Economics

Figure 4



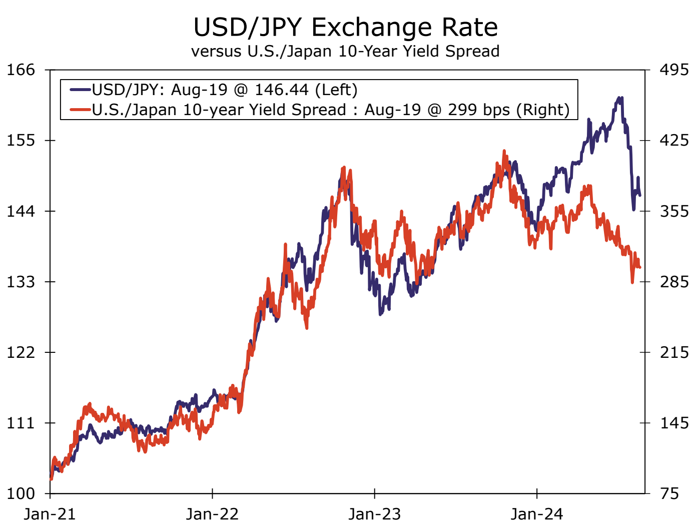
Source: Federal Reserve Board and Wells Fargo Economics

Japanese Rate Hikes Likely Delayed, Probably Not Dropped

The past month has also been remarkable for Japan's economy and financial markets. Over the past few weeks, market participants have navigated another rate hike from the Bank of Japan (BoJ), while also dealing with significant equity and currency market volatility. The action kicked off in late July when the BoJ sprung a surprise on markets, raising its policy rate to around 0.25% from around 0%-0.1% previously. The central bank also announced plans to reduce the pace of its bond purchases at regular intervals, from around ¥5.7 trillion per month currently to just under ¥3 trillion per month by early 2026. In moving to a less accommodative monetary policy stance, the Bank of Japan and Governor Ueda offered several hawkish-leaning comments as forward guidance, saying real interest rates remain significantly negative and financial conditions accommodative, wage increases are strengthening and broadening, and that upside risks to inflation require attention. BoJ policymakers also said that should the economic outlook evolve broadly as expected it would continue to raise the policy interest rate. Also, when asked about the terminal level of the policy interest rate, Governor Ueda said 0.50% was not considered a particular limit. In the immediate aftermath of the BoJ's decision, the market reaction was orderly. The Japanese yen strengthened about 2% against the U.S. dollar as markets priced a slightly higher policy rate for end-2024. Once disappointing U.S. jobs data were released was when the Japanese currency, bond and equity markets experienced their sharpest moves (Figure 5). At one point, the yen strengthened a further 6% against the U.S. dollar from levels immediately following the Bank of Japan's monetary policy decision. In addition to the hawkish Japanese central bank announcement, yen strength appeared to be fueled by safe-haven demand as concerns regarding a potential U.S. economic slowdown and a "behind the curve" Fed rattled financial market sentiment. BoJ monetary tightening and safe-haven demand also resulted in a broad unwind of Japanese currency short positions from crowded carry trades, fueling additional Japanese yen strength. Japanese equity markets were also thrown for a loop from the BoJ and yen strength, with the Nikkei 225 index suffering its largest single-day drop since 1987.

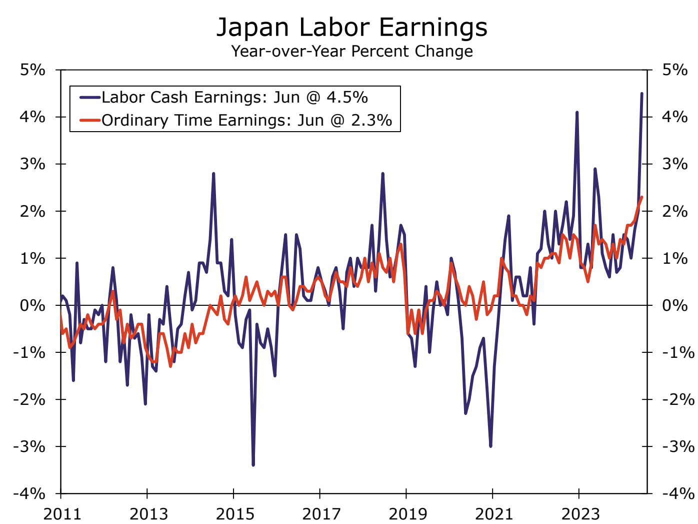
Market participants reacted to local markets volatility, as pricing for BoJ rate hikes over the next year changed meaningfully. Immediately following the July 31 BoJ decision, markets were pricing ~15 bps of additional BoJ rate hikes through end-2024; however, a few days later, markets were priced for no further hikes in 2024. As of now, markets are priced for a relatively modest 8 bps of further BoJ tightening this year. In terms of our own outlook for Bank of Japan monetary policy, we believe that the economic case for further rate hikes remains intact, even if recent market turmoil could see those rate moves proceeding at a more gradual pace as BoJ policymakers wait until market conditions have calmed further. On the economic front, wage growth is clearly accelerating (Figure 6), with June labor cash earnings rising 4.5% year-over-year and ordinary time earnings up 2.3%—the latter being the largest increase since 1994. Headline and core inflation remain elevated above the central bank's 2% inflation target for the time being, and GDP returned to a respectable 3.1% quarter-over-quarter annualized pace during Q2. Still, as BoJ Deputy Governor Uchida highlighted in an early August speech, policymakers will be careful about future policy decisions in light of recent market conditions. He also highlighted that there is no need to adjust the policy rate when it might be risky to do so. Taking into account the whole of recent Japanese economic data as well as local and global market developments, **we expect the BoJ to deliver its next rate hike somewhat later than we previously forecast. We now look for the BoJ to raise its policy rate by 25 bps at its January and April 2025 meetings,** as opposed to our previous forecast for rate hikes in October 2024 and January 2025. The combination of eventual Bank of Japan tightening, along with Fed easing, should—we think—still contribute to a strengthening of the yen versus the U.S. dollar through the first half of 2025.

Figure 5



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

Figure 6



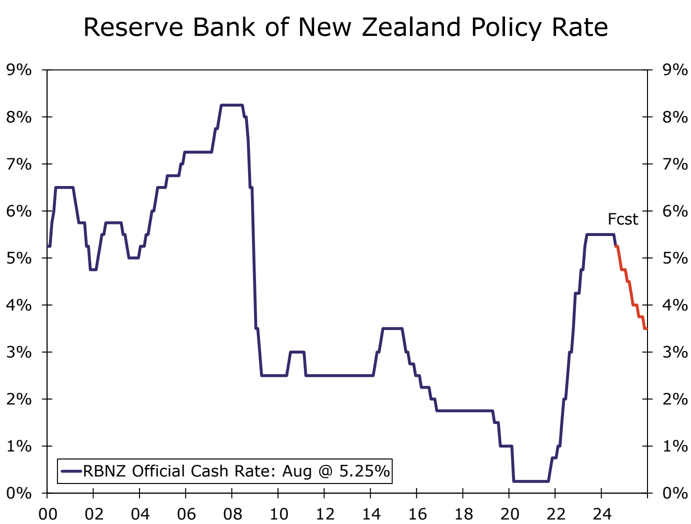
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Echoes of Faster Easing Elsewhere, but Not Everywhere

Our revised Fed outlook is paired with more dovish outlooks for select foreign central banks. In that sense, we have made some changes to our forecasts for several international central banks to include a faster pace of monetary easing than before. In response to the Fed's more aggressive path for monetary easing, we expect the Bank of Canada (BoC) to also turn more dovish. At its July meeting, BoC policymakers delivered a 25 bps rate cut to 4.50% and also offered dovish policy guidance. Combining that dovish guidance with recent local and U.S. economic and policy trends, we now anticipate a slightly faster pace of BoC rate cuts than previously. Contained inflation, a softening labor market and subdued economic growth, as well as the country's economic linkages to the U.S., should all support ongoing rate cuts from Bank of Canada policymakers, who, in any case, seem largely inclined to keep delivering less restrictive monetary policy. Accordingly, we now forecast 25 bps rate cuts at each of the three remaining policy announcements this year, which would see the Bank of Canada's policy rate end 2024 at 3.75%. The Reserve Bank fo New Zealand (RBNZ) is another central bank where a more accelerated pace of monetary easing now appears likely (Figure 7). The down-under central bank made a sharp pivot to monetary easing with a 25 bps policy rate cut in mid-August to 5.25%. Given its evident comfort in easing policy ahead of the release of the next round of inflation data, we now see limited impediments to near-term rate cuts. We now forecast 25 bps rate cuts at each meeting through May 2025. As the policy rate gets closer to a more neutral rate, we see a more gradual pace of easing, with 25 bps cuts seen in August and November 2025. This updated rate outlook would see the RBNZ policy rate finish 2025 at 3.50%, down from a previous forecast of 4.25%.

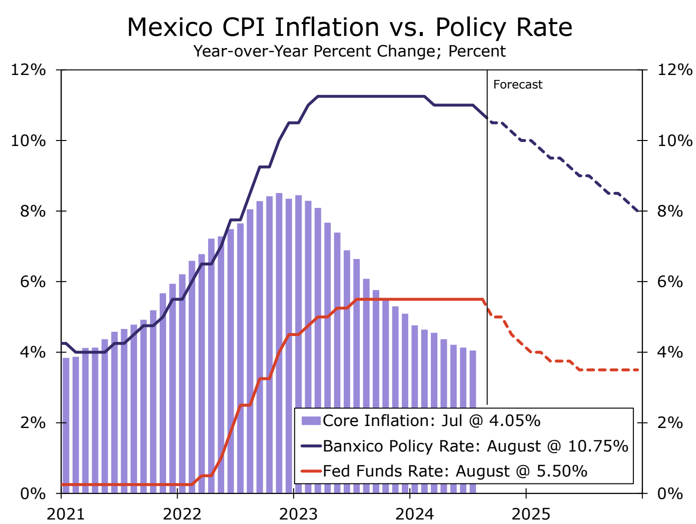
We have also adjusted our policy rate forecasts and views in a more dovish direction for certain emerging markets central banks. Most notably, we have revised our Banxico policy rate forecast lower following a rate cut in August and tentative signals to follow through with additional easing going forward. Strong economic ties between Mexico and the U.S. are a factor contributing to our revised Banxico forecast, although dovish commentary from Banxico officials—in which they highlighted weak economic activity and softening core inflation—is the driving force of our updated view for a consistent pace of rate cuts to be delivered in Mexico (Figure 8). We now forecast Banxico to lower its policy rate by 25 bps at each meeting through the end of this year, eventually cutting to reach a year-end 2024 rate of 10.00%. 25 bps cuts are likely to continue in 2025 and the overnight rate is set to move lower over the course of next year as well. We also believe the Federal Reserve easing aggressively is likely to generate monetary policy space for rate cuts from central banks across emerging Asia. In China, economic activity remains subdued, which should keep People's Bank of China (PBoC) in easing mode. But with rates in the U.S. set to fall quickly and the Chinese renminbi benefiting from the unwind of the FX carry trade, we believe China's central bank may be able to pick up the pace of easing in an effort to support local economic trends. While we maintain our major bank Reserve Requirement Ratio forecast, we would not be surprised to see lending rates fall in the coming months. Leverage issues, elevated household saving rates and philosophical challenges are likely to prevent fiscal stimulus and place the burden of economic support on China's central bank. Now that Chinese currency strength and a pivot to Fed easing is being realized, PBoC policymakers can ease quicker. Similar dynamics exist across Southeast Asia. We would expect the Fed's pivot to rate cuts to create avenues to easier monetary policy from central banks in the Philippines, Thailand and Indonesia in the coming months.

Figure 7



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

Figure 8



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

At the same time, not every central bank has experienced rapidly changing domestic economic conditions or will be affected by the pace fo easing from the Federal Reserve. In other select cases, we have either left our monetary policy outlook unchanged or adjusted our interest rate forecasts in a less dovish/more hawkish direction. In the case of the European Central Bank (ECB), Bank of England (BoE) and Reserve Bank of Australia (RBA), we believe economic conditions remain consistent with a gradual and steady pace of rate cuts, rather than more accelerated monetary easing. For the European Central Bank and Bank of England, given still-elevated wage growth, lingering price concerns and evidence of economic recovery, we see little reason for policymakers at each institution to accelerate the pace of rate cuts. In Australia, the RBA has continued to assert its vigilance on the inflation outlook. Policymakers have maintained their hawkish stance on monetary policy, which in our view, means rates in Australia will likely be unchanged until the first quarter of next year. We have also not made any changes to our forecasts for monetary easing from the central banks of Norway, Switzerland or Sweden.

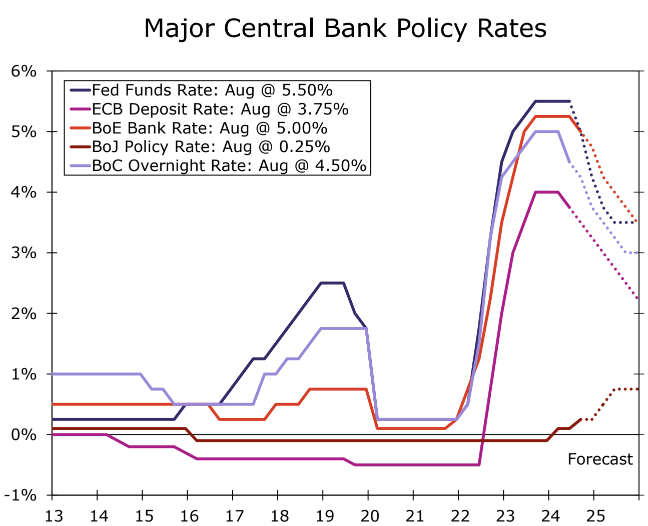
Similar situations exist in the emerging markets. In Latin America, the Brazilian Central Bank (BCB) and the Chilean Central Bank have shifted in less dovish/outright hawkish directions and are more concerned with local challenges rather than the path for Fed policy. As far as the BCB, minutes from the July monetary policy meeting revealed that policymakers are now more concerned with inflation and unanchored inflation expectations, especially against a backdrop of looser fiscal policy under the Lula administration. The decision to hold rates steady in July was unanimous, which central bank policymakers have since reinforced in subsequent public speaking engagements. Recently, President Lula acknowledged that policymakers should respond to economic developments when setting policy rates, and while he still has a preference for easier monetary policy, if the economy needs higher rates BCB members should not hesitate. Lula's recent commentary represents a change from prior communications when he encouraged the monetary policy committee to lower rates, a reduction in political pressure that could allow BCB increased flexibility in conducting monetary policy. And finally, we received more evidence of Brazil's economic resilience. Economic activity jumped recently, which combined with rising inflation and Lula's “permission” to adjust monetary policy as needed, means we now believe the BCB will deliver tighter monetary policy this year. In that sense, we look for the BCB to raise rates 25 bps at both the September and November meetings, taking the Selic rate to 11.00% by the end of 2024. By the middle of 2025, BCB policymakers should start to unwind restrictive monetary policy, and we now forecast rate cuts to materialize in the second half of next year. As for Chile, policymakers recently surprised market participants by keeping rates unchanged, and while they left the door open to further rate cuts, we doubt Chilean monetary policymakers have much more of an appetite for easing. So regardless of how aggressively the Fed is cutting rates, we believe the Chilean Central Bank will only deliver one more 25 bps rate cut in 2024 before leaving policy rates unchanged throughout 2025. As Chile's economy recovers and inflation trends higher, risks are also tilted such that policy rates in Chile may be lifted in 2025. And finally, in India, Reserve Bank of India (RBI) policymakers demonstrated little willingness to shift to rate cuts at its most recent meeting in August. We do believe policymakers will shift to rate cuts in 2024; however, lingering concerns around commodity price inflation and resilient economic trends should now result in an initial RBI rate cut coming in December as opposed to October.

Shorter and Shallower U.S. Dollar Depreciation

The evolving landscape for U.S. and international monetary policy has important implications, in our view, for the medium- to longer-term direction of currency markets. To be sure, our views on the U.S. dollar through the rest of 2024 have not changed all that much, and we still expect modest strength in the greenback through the latter part of this year. The recent “growth scare” in the United States, combined with associated volatility in global markets, has contributed to unsettled financial conditions and increased uncertainty. In addition, the U.S. election in November—especially given a recently-reworked Democratic Party ticket—represents another source of uncertainty for market participants. In a backdrop of U.S. economic, financial and political uncertainty, we expect the U.S. dollar to benefit from safe-haven support through the rest of this year. At the same time, even with an overall economic slowdown, the United States continues to show pockets of strength. In particular, despite a noticeable labor market slowdown, consumer spending continues to demonstrate resilience as evidenced by strong and above-consensus July retail sales. To the extent that financial market conditions stabilize for an extended period, or the U.S. growth deceleration remains on an orderly path, the Fed may ease monetary policy less aggressively than we forecast. Indeed, the upside surprise in retail sales and downtick in initial jobless claims have certainly kept the question and discussion of a 25 bps versus 50 bps rate cut in September alive. While our view is that the overall environment of slowing inflation and deteriorating labor market conditions lends itself to a relatively swift pace of Fed easing—including 50 bps in September and November, and 25 bps in December—the risk of less aggressive Fed moves appears to be growing. Should that risk materialize, and the Fed deliver less easing than both we and market participants expect, another source of support for the U.S. dollar through late 2024 would take shape.

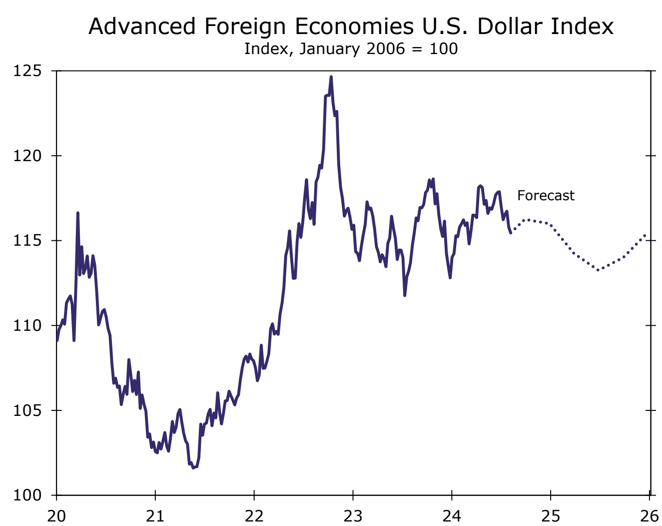
The central bank and monetary policy environment (Figure 9) has more significant implications, we believe, for foreign exchange markets in 2025. During the first half of next year, we still forecast U.S. dollar depreciation; however, we now believe dollar weakness will be reasonably shallow, and also be relatively short-lived (Figure 10). Several factors could weigh on the greenback in the early part of 2025. To start, while we are forecasting a soft landing rather than a U.S. recession next year, we do expect economic growth to moderate. On a full-year basis, we expect GDP growth to soften to 1.9% in 2025 from a forecast of 2.6% in 2024, with the quarterly pace of growth showing softness in the first half of 2025 before recovering later in the year. This early-2025 economic deceleration should take place in the context of economic stability/recovery internationally. Another factor that we view as consistent with an early-2025 period of U.S. dollar depreciation is our forecast for a still active Federal Reserve. We believe Fed rate cuts will continue to be delivered through the middle of next year, and with foreign central banks exercising a degree of caution on policy rates, lower rates in the U.S. should contribute to depreciation pressure eventually building on the greenback. And finally, the potential for a sustained improvement in financial market sentiment can also weigh on the greenback. As the U.S. economy achieves a soft landing and Fed easing continues, we expect risk sentiment to improve. In an environment of improving risk sentiment, we expect safe-haven demand to lessen and for the dollar to broadly weaken. Overall, we believe the combination of slower U.S. growth, Fed easing and more favorable risk sentiment should prove supportive of foreign currencies in the early quarters of 2025.

Figure 9



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

Figure 10



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

During this period of dollar softness in the first half of 2025, we believe certain foreign currencies are poised to outperform, namely the Australian dollar, Japanese yen and Mexican peso. In Australia, the combination of a hawkish-leaning central bank that will likely wait until early next year to initiate a gradual easing cycle, and a steady economic growth environment, should help the Australian dollar outperform during the first half of 2025. In the case of Japan, the diverging monetary policy paths between the Bank of Japan and Federal Reserve should be supportive of the yen in early 2025. Also on our list of outperformers is the Mexican peso. As we wrote in a recent piece, we believe the currency can recover for a variety of reasons. For one, while concerns around the potential for constitutional amendments and wider fiscal deficits have proliferated since Mexico's election, we believe the worst-case scenarios can be avoided, helping local political risk to abate and support the peso. In our view, Mexico has too much to lose by reconfiguring legal and governance frameworks and running wider deficits. Mexico has emerged as a premier “nearshoring” destination, and we suspect policymakers would not want to unnecessarily jeopardize this source of economic growth. Moreover, if Mexico were to implement constitutional amendments as well as pursue wider deficits, this could put the sovereign investment grade credit rating at risk, which could damage both local financial market sentiment as well as Sheinbaum and MORENA's credibility as policymakers, risks they may be unwilling to take. In addition, we believe Banxico will pursue a gradual easing cycle. Policy rates in Mexico relative to the U.S.

should move in favor of Mexico in the near term, meaning the peso would generate more attractive carry relative to the dollar and be another potential source of strength for the currency.

By the second half of next year, however, we think this period of U.S. dollar weakness is likely to have run its course, and we suspect the greenback could be stable to stronger over the second half of 2025. By the latter quarters of next year, Fed easing will have ended, while other central banks (notably the European Central Bank and Bank of England) will still likely be pursuing monetary easing. Those relative monetary policy trends will, we believe, begin to benefit the greenback by late next year, initially stabilizing and eventually resulting in a stronger U.S. dollar against most foreign currencies. During this period of dollar stability/strength, we see several foreign currencies as notable underperformers. The New Zealand dollar should, in our view, soften against the U.S. dollar in the second half of 2025, given a subdued local economy and our view for a steady pace of rate cuts from the Reserve Bank of New Zealand through end-2025. The Canadian dollar can also underperform for a similar set of reasons, with local economic growth fairly tepid and the Bank of Canada likely, in our view, to continue on its monetary easing cycle through Q3-2025. In terms of potential emerging markets currency underperformers, the Colombian peso may face downward pressure due to central bank officials likely still cutting the policy rate through Q3-2025. For the Brazilian real, our near-term optimism flips to a more pessimistic outlook as the Brazilian Central Bank will likely pivot to rate cuts in the second half of next year. Also, fiscal challenges will likely re-emerge as Lula gears up for another run at the presidency in 2026. As we gain more insight into the evolution of U.S. and global monetary policy in the coming months, we will continue to update our U.S. dollar view. If risks of the Federal Reserve delivering less easing than we currently forecast materialize, as mentioned earlier, this could contribute to an even stronger path for the U.S. dollar against foreign currencies over the medium term.

Wells Fargo International Economic Forecast

	GDP				CPI			
	2022	2023	2024	2025	2022	2023	2024	2025
Global (PPP Weights)	3.5%	3.3%	2.9%	2.7%	8.7%	6.7%	3.6%	3.5%
Advanced Economies[1]	2.6%	1.7%	1.8%	1.9%	7.3%	4.6%	2.9%	2.4%
United States	1.9%	2.5%	2.6%	1.9%	8.0%	4.1%	2.9%	2.3%
Eurozone	3.4%	0.5%	0.9%	1.6%	8.4%	5.4%	2.6%	2.4%
United Kingdom	4.3%	0.1%	1.1%	1.5%	9.1%	7.3%	2.6%	2.2%
Japan	1.0%	1.7%	-0.1%	1.3%	2.5%	3.3%	2.5%	2.0%
Canada	3.8%	1.2%	0.8%	1.8%	6.8%	3.9%	2.5%	2.1%
Switzerland	2.7%	0.7%	1.3%	1.5%	2.8%	2.1%	1.4%	1.2%
Australia	3.9%	2.0%	1.2%	2.1%	6.6%	5.6%	3.4%	2.7%
New Zealand	2.4%	0.6%	0.7%	2.3%	7.2%	5.7%	3.3%	2.2%
Sweden	2.7%	0.1%	1.1%	1.7%	8.1%	5.9%	2.9%	1.9%
Norway	3.0%	1.1%	0.7%	1.5%	5.8%	5.5%	3.4%	2.5%
Developing Economies[1]	4.1%	4.4%	3.7%	3.3%	9.8%	8.3%	4.1%	4.2%
China	3.0%	5.2%	4.8%	4.5%	2.0%	0.2%	0.6%	1.6%
India	6.5%	7.7%	7.3%	6.1%	6.7%	5.4%	4.8%	4.5%
Mexico	3.7%	3.2%	1.5%	2.0%	7.9%	5.5%	5.0%	4.5%
Brazil	3.0%	2.9%	2.0%	2.1%	9.3%	4.6%	4.2%	3.7%

Forecast as of: August 19, 2024
[1]Aggregated Using PPP Weights

Source: International Monetary Fund and Wells Fargo Economics

Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

Central Bank Key Policy Rate	2024			2025			
	Current	Q3	Q4	Q1	Q2	Q3	Q4
United States	5.50%	5.00%	4.25%	3.75%	3.50%	3.50%	3.50%
Eurozone[1]	3.75%	3.50%	3.25%	3.00%	2.75%	2.50%	2.25%
United Kingdom	5.00%	5.00%	4.75%	4.25%	4.00%	3.75%	3.50%
Japan	0.25%	0.25%	0.25%	0.50%	0.75%	0.75%	0.75%
Canada	4.50%	4.25%	3.75%	3.50%	3.25%	3.00%	3.00%
Switzerland	1.25%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Australia	4.35%	4.35%	4.35%	4.10%	3.85%	3.60%	3.35%
New Zealand	5.25%	5.25%	4.75%	4.50%	4.00%	3.75%	3.50%
Sweden	3.75%	3.50%	3.00%	2.75%	2.50%	2.25%	2.25%
Norway	4.50%	4.50%	4.25%	4.00%	3.75%	3.50%	3.25%
China[3]	10.00%	9.50%	9.50%	9.00%	9.00%	8.50%	8.50%
India	6.50%	6.50%	6.25%	6.00%	5.75%	5.75%	5.75%
Mexico	10.75%	10.50%	10.00%	9.50%	9.00%	8.50%	8.00%
Brazil	10.50%	10.75%	11.00%	11.00%	11.00%	10.50%	10.00%
Chile	5.75%	5.75%	5.50%	5.50%	5.50%	5.50%	5.50%
Colombia	10.75%	10.25%	9.25%	8.75%	8.25%	8.00%	8.00%

2-Year Note	2024			2025			
	Current	Q3	Q4	Q1	Q2	Q3	Q4
United States	4.07%	3.80%	3.60%	3.50%	3.40%	3.40%	3.40%
Eurozone[2]	2.45%	2.45%	2.40%	2.35%	2.30%	2.25%	2.20%
United Kingdom	3.71%	3.70%	3.75%	3.65%	3.60%	3.55%	3.50%
Japan	0.37%	0.35%	0.45%	0.55%	0.65%	0.70%	0.70%
Canada	3.32%	3.30%	3.20%	3.10%	3.05%	3.00%	3.05%

10-Year Note	2024			2025			
	Current	Q3	Q4	Q1	Q2	Q3	Q4
United States	3.89%	3.80%	3.70%	3.65%	3.60%	3.60%	3.65%
Eurozone[2]	2.26%	2.25%	2.25%	2.20%	2.20%	2.15%	2.20%
United Kingdom	3.94%	3.95%	3.90%	3.80%	3.75%	3.75%	3.80%
Japan	0.89%	0.90%	0.95%	1.05%	1.10%	1.15%	1.15%
Canada	3.09%	3.05%	3.00%	2.95%	3.00%	3.05%	3.10%

Forecast as of: August 19, 2024
[1] ECB Deposit Rate [2] German Government Bond Yield [3] Reserve Requirement Ratio Major Banks

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

Wells Fargo International FX Forecast

Currency Pair*	Current Rate	Q3-2024	Q4-2024	Q1-2025	Q2-2025	Q3-2025	Q4-2025
G10							
EUR/USD	1.1038	1.0900	1.0900	1.1100	1.1200	1.1100	1.0900
USD/JPY	146.40	148.00	148.00	146.00	144.00	144.00	145.00
GBP/USD	1.2950	1.2800	1.2800	1.3000	1.3100	1.3000	1.2900
USD/CHF	0.8657	0.8750	0.8725	0.8525	0.8400	0.8425	0.8575
USD/CAD	1.3672	1.3900	1.3900	1.3800	1.3700	1.3800	1.3900
AUD/USD	0.6698	0.6700	0.6800	0.7000	0.7200	0.7100	0.7000
NZD/USD	0.6074	0.5900	0.5900	0.6100	0.6200	0.6100	0.5900
USD/NOK	10.6151	10.7350	10.6875	10.4500	10.3125	10.3600	10.5050
USD/SEK	10.4007	10.5975	10.6425	10.4950	10.4025	10.4500	10.6425
Asia							
USD/CNY	7.1445	7.2000	7.2000	7.1800	7.1600	7.2000	7.2200
USD/CNH	7.1436	7.2000	7.2000	7.1800	7.1600	7.2000	7.2200
USD/IDR	15550	15700	15800	15750	15700	15800	15900
USD/INR	83.87	84.00	84.25	84.50	84.50	84.75	85.00
USD/KRW	1336.95	1350.00	1360.00	1350.00	1340.00	1350.00	1360.00
USD/PHP	56.66	57.00	57.50	57.00	56.50	57.00	57.50
USD/SGD	1.3108	1.3200	1.3200	1.3100	1.3000	1.3100	1.3200
USD/TWD	32.02	32.25	32.25	32.00	31.75	32.25	32.50
USD/THB	34.52	35.00	35.50	35.00	34.50	35.00	35.50
Latin America							
USD/BRL	5.4490	5.4000	5.4000	5.3000	5.3000	5.5000	5.7000
USD/CLP	938.16	950.00	950.00	940.00	920.00	930.00	930.00
USD/MXN	18.7723	18.7500	18.5000	18.2500	18.0000	18.0000	18.2500
USD/COP	4029.92	4050.00	4100.00	4050.00	4000.00	4050.00	4100.00
USD/ARS	941.56	960.00	1000.00	1075.00	1150.00	1225.00	1300.00
USD/PEN	3.7352	3.7500	3.7500	3.7300	3.7100	3.7300	3.7500
Eastern Europe/Middle East/Africa							
USD/CZK	22.81	23.50	23.50	22.75	22.25	22.50	23.25
USD/HUF	356.59	362.50	362.50	346.75	339.25	346.75	357.75
USD/PLN	3.8663	3.9450	3.9450	3.8275	3.7500	3.8275	3.9450
USD/RUB	90.06	90.00	90.00	92.00	94.00	96.00	98.00
USD/ILS	3.7058	3.7000	3.7000	3.6800	3.6600	3.6600	3.6800
USD/ZAR	17.8247	18.0000	18.5000	18.2500	18.0000	18.2500	18.7500
USD/TRY	33.7436	34.0000	34.2500	34.0000	33.0000	32.0000	31.0000
Euro Crosses							
EUR/JPY	161.59	161.25	161.25	162.00	161.25	159.75	158.00
EUR/GBP	0.8523	0.8525	0.8525	0.8550	0.8550	0.8550	0.8450
EUR/CHF	0.9555	0.9550	0.9500	0.9450	0.9400	0.9350	0.9350
EUR/NOK	11.7164	11.7000	11.6500	11.6000	11.5500	11.5000	11.4500
EUR/SEK	11.4801	11.5500	11.6000	11.6500	11.6500	11.6000	11.6000
EUR/CZK	25.18	25.50	25.50	25.25	25.00	25.00	25.25
EUR/HUF	393.61	395.00	395.00	385.00	380.00	385.00	390.00
EUR/PLN	4.2676	4.3000	4.3000	4.2500	4.2000	4.2500	4.3000

Forecast as of: August 19, 2024

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

Currency	Forecasted % Change to Q3-25*	
Australian Dollar (AUD)	6.0%	most bullish
Turkish Lira (TRY)	5.4%	
Mexican Peso (MXN)	4.3%	
Hungarian Forint (HUF)	2.8%	
Swiss Franc (CHF)	2.8%	
Norweigian Krone (NOK)	2.5%	
Japanese Yen (JPY)	1.7%	
Czech Koruna (CZK)	1.4%	
Israeli Shekel (ILS)	1.3%	
Polish Zloty (PLN)	1.0%	
Chilean Peso (CLP)	0.9%	
Euro (EUR)	0.6%	
New Zealand Dollar (NZD)	0.4%	
British Pound (GBP)	0.4%	
Peruvian Sol (PEN)	0.1%	
Singapore Dollar (SGD)	0.1%	
Swedish Krona (SEK)	-0.5%	
Colombian Peso (COP)	-0.5%	
Philippine Peso (PHP)	-0.6%	
Taiwan Dollar (TWD)	-0.7%	
Chinese Renminbi (CNY)	-0.8%	
Chinese Renminbi (CNH)	-0.8%	
Brazilian Real (BRL)	-0.9%	
Canadian Dollar (CAD)	-0.9%	
South Korean Won (KRW)	-1.0%	
Indian Rupee (INR)	-1.0%	
Trade Weighted Dollar (USD)	-1.2%	
Thai Baht (THB)	-1.4%	
Indonesian Rupiah (IDR)	-1.6%	
South African Rand (ZAR)	-2.3%	
Russian Ruble (RUB)	-6.2%	most bearish
Argentine Peso (ARS)	-23.1%	

Forecast as of:August 19, 2024
*Percentage Change Against USD, Q3-25 Vs. Current Spot Rate

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

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