

# Currencies Focus

## Summary

1. US Inflation has significantly exceeded expectations in October, reaching 6,2%. The first rate hike should be sooner than previously forecasted and is now expected in June 2022. **In that context, the USD has appreciated against most currencies.**
2. Regarding the EURUSD, the interest rate differential should widen. Indeed, the US Fed will probably decide 3 rates hike in 2022 and 4 more in 2023 while the ECB would only hike once mid 2023. This should act as a powerful support for the dollar over the coming year. We change our 12-month target to 1.12.
3. The concerns over inflation and Covid cases in the Eurozone support the CHF, playing its role of safe haven currency. We now expect less downside for the CHF over the coming months.
4. We do not change our target for Scandinavian currencies. The EURSEK should remain stable. We still expect an appreciation of NOK versus EUR.
5. Regarding the Russian currency, we see less appreciation potential as the strong oil price momentum observed in 2021 started to fade. Potential new lockdowns could decrease the demand for oil.
6. For commodity currencies, we are revising down the potential of appreciation against the dollar based on the new forecast for the interest rates differential.

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## OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 09/12/2021	Target 3 months	Target 12 months
Against euro	United States	EUR / USD 1,13	1,12	1,12
	United Kingdom	EUR / GBP 0,85	0,84	0,84
	Switzerland	EUR / CHF 1,04	1,06	1,08
	Japan	EUR / JPY 128,03	124	124
	Sweden	EUR / SEK 10,26	10,00	10,00
	Norway	EUR / NOK 10,19	9,75	9,60
Against dollar	Japan	USD / JPY 113,45	111	111
	Canada	USD / CAD 1,27	1,25	1,25
	Australia	AUD / USD 0,71	0,73	0,73
	New Zealand	NZD / USD 0,68	0,70	0,70
	Brazil	USD / BRL 5,57	5,50	5,25
	Russia	USD / RUB 73,59	72,0	72,0
	India	USD / INR 75,52	76,0	78,0
	China	USD / CNY 6,34	6,50	6,50

Source: Refinitiv - BNP Paribas WM



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## USD VIEW >> TARGET 12M VS EUR: 1.12

### Outlook change

The value of one euro (EUR/USD) fell from 1.16 to below 1.12. There was a small rebound of the euro recently, but we expect it to be limited in amplitude and time.

The weakening of the euro was due to higher-than-expected inflation data in the US and increased market expectations that the US central bank will hike rates as early as late Spring 2022. Adding to this, the COVID situation has deteriorated rapidly in the Eurozone. Certain countries, like Austria or Germany, have already moved towards mobility restrictions or are seriously talking about it. Hospital admissions have been rising sharply including for emergency care.

The most important outlook change is regarding the path of monetary policy in the US relative to the eurozone. Indeed, we now expect the Fed to reduce more rapidly the bond purchases over the coming months. They should also use a more hawkish language to pave the way for a first interest rate hike in June 2022. This compares to our previous assumption of Q4 2022. In total, we forecast three 25bp rate hikes by the US Federal Reserve in 2022, followed by four more in 2023, with quantitative tightening (balance sheet reduction) starting in March 2023. In contrast, the ECB is expected to maintain a stimulative monetary policy for longer. It should slow its bond purchases during 2022 and end net purchases in the first quarter 2023. We forecast a first ECB rate hike of 10 basis points in June 2023.

**We expect sustained dollar strength. Most the recent news and outlook changes are well priced. We forecast the EURUSD to fluctuate around 1.12 both for the coming 3 and 12 months.**



## GBP VIEW >> TARGET 12M VS EUR: 0.84

### Less aggressive hikes

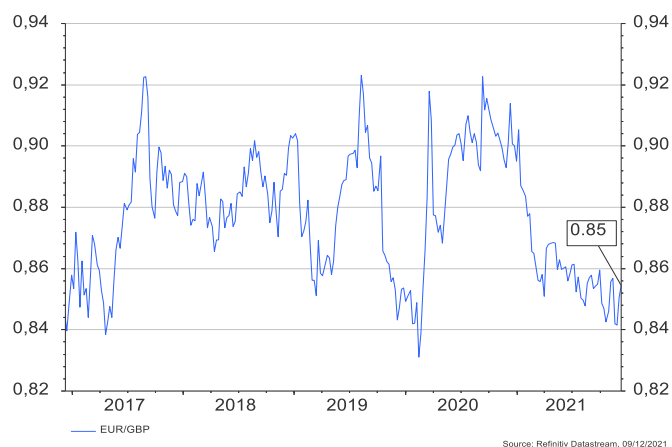
The GBP experienced a lot of volatility in November, as investors were unsure about potential rate decision the BoE was about to take.

Macro-economic factors and rate decisions seem to be the main drivers of the currency as of late. The British pound depreciated sharply after the decision by the BoE not to raise rates in November, but Governor Bailey turned to a more hawkish stance following the most recent meeting. Hence, we expect one interest rate hike at the next meeting followed by another sequence throughout 2022 and 2023, which is slightly less than what seems priced in by markets now. Recent inflation figures surprised strongly to the upside, with the month-on-month figure posting at 1.1% and the year-on-year at 4.2% in November. This further strengthened our view of a December hike. Recent business surveys suggest a strong British economy, with the composite PMI index stabilizing at 57.7.

The UK's balance of payment turned less positive as portfolio inflows slowed, but foreign direct investments (FDIs) partially compensated them.

**We forecast the EURGBP to fall to 0.84 (value of one euro) by end 2021 and stabilize there (stronger GBP).**

Regarding the GBPUSD, our 3- and 12-month targets are now at 1.33. This suggests an almost lateral move from the current levels (December 8th). We believe that expectations of interest rate differentials are now well priced into the market.



## CHF VIEW >> TARGET 12M VS EUR: 1.08

### Outlook change: Less downside for the CHF

The Swiss Franc appreciated in November and fell below 1,05 (value of one euro).

The concerns over inflation and Covid cases in the Eurozone lead to more appetite for safer currencies such as the CHF. Moreover, the Swiss economy continues to have strong momentum and inflation standing at only 1,2% in October, far below other developed markets. The manufacturing PMI business survey remains very encouraging standing above 65 in November.

Traders were surprised that the central bank (SNB) did not intervene to defend the 1.05 threshold. It has done so previously. However, the SNB will probably want to avoid that the currency appreciates too much and should intervene as a too strong currency will penalize Swiss' exporters. The SNB is unlikely to increase rates in coming months and should pursue its FX intervention to limit appreciation of the CHF.

Our previous outlook for a sharp rebound in the euro looks unlikely now, given the increasing COVID cases in the Eurozone. Hence, we adjust our 3-month and 12-month targets.

**We adjust our one-year EURCHF target to 1.08 and our 3-month target to 1.06. We thus still see a potential for euro appreciation but much more limited.**



## JPY VIEW >> TARGET 12M VS USD: 111

### Some appreciation in November

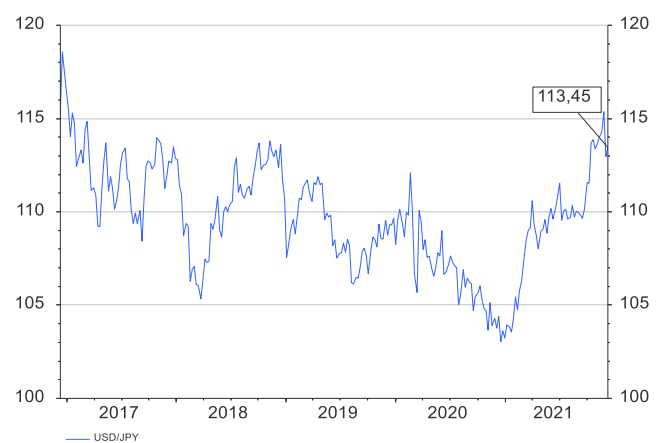
The Japanese Yen appreciated in November and in particular at the end of the month. Investors were looking for safe haven currencies in the face of the uncertainty about the Omicron variant.

Core inflation was only at 0,1% in October on a year over year comparison and the Bank of Japan should remain structurally dovish. The Japanese economy has been weak in over the third quarter, but exports could recover with the expected reduction in disruptions in the automobile sector and fiscal stimulus. In fact, the government has announced a \$691bn plan including \$488bn for immediate spending to support households and firms most impacted by the pandemic. A recent manufacturing PMI business survey reached 54.5 in November suggesting strong expansion.

The persistent uncertainties surrounding Covid and the search for safe haven currencies are factors playing in favor of a slight appreciation of the JPY despite the rising interest rate differential relative to the US.

Japanese portfolio flows have been net positive for much of 2021 whereas foreign direct investments (FDI) showed that outflows remain negative. The net portfolio balance and the current account remains in surplus.

**We keep our 3-month and 12-month USDJPY targets at 111 (value of one dollar). This suggests some appreciation of the JPY from current levels (December 8<sup>th</sup>).**



## SEK VIEW &gt;&gt;

## TARGET 12M VS EUR: 10.00

## Look for a lateral move

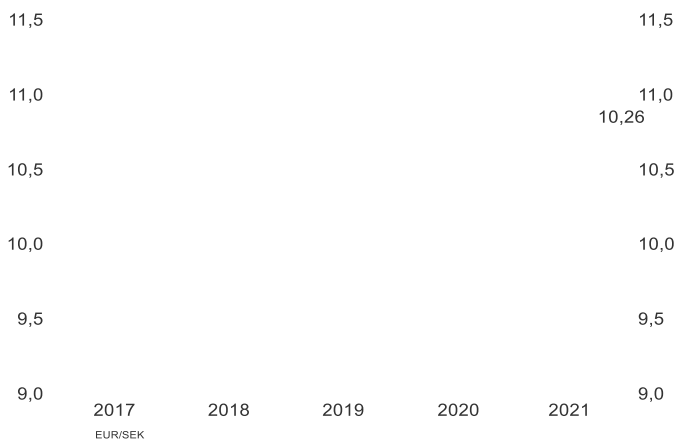
The SEK depreciated more than 3,5% in November against the euro.

The inflation figures from October was 2,7% and house price increased by 3% on a year-on-year basis. The PMI Manufacturing business survey for November and the PMI Services survey for October were respectively at 63,2 and 68,7 remaining at high levels, but slightly declining. Swedish domestic demand remains strong, but delivery times and high energy prices are and will continue to be negative contributors.

On November 24th, the central bank (Riksbank) announced that they will leave the policy unchanged until 2024. Indeed, the unemployment rate is still above 8% and the fiscal policy could be needed to relaunch the economy. Policymakers have also announced that they may modestly reduce the size of the balance sheet starting in 2023. The Riksbank and ECB should remain accommodative and should tighten at about the same time. In that context, we do not expect a rise in the rate differential with the euro and the EURSEK should remain close to 10.

Sweden's current account surplus offsets broadly speaking the portfolio outflows.

**We keep our EURSEK targets at 10.00 over the next 3 and 12 months (value of one euro). This suggests a marginal depreciation for the SEK.**



## NOK VIEW &gt;&gt;

## TARGET 12M VS EUR: 9.6

## Continued strengthening over the long-term

In November, the NOK lost all the ground it made in October. The depreciation is explained by the recent weakening of most fossil fuel prices including the Brent. Oil prices could have reached a peak in Autumn as the OPEC decided to produce more. Inflation came out above expectations in November to reach 5.1% year-on-year.

In the face of inflation, the central bank (Norges Bank) is expected to continue its cycle of rate increases. During its meeting on November 3rd, the Norges Bank decided to keep the policy rate unchanged at 0,25% and but has reiterated its willingness to increase rates gradually. **A second rate hike is expected in December and three others in 2022.**

The November Manufacturing business survey (PMI) rose 5 points to 63,7 in a long series of increases. It reflects the higher economic activity, higher wages and higher inflation. This suggests the need for more rate increases. **We remain convinced that the rate differential with the ECB will result in an appreciation of the Norwegian Krone.**

The country's balance of payment remains very positive, largely thanks to strong Brent prices.

**We maintain our 3-month EURNOK target (value of one euro) at 9.75 and our 12-month target at 9.60. This suggests an appreciation of the NOK.**



## RUB VIEW &gt;&gt;

## TARGET 12M VS USD: 72

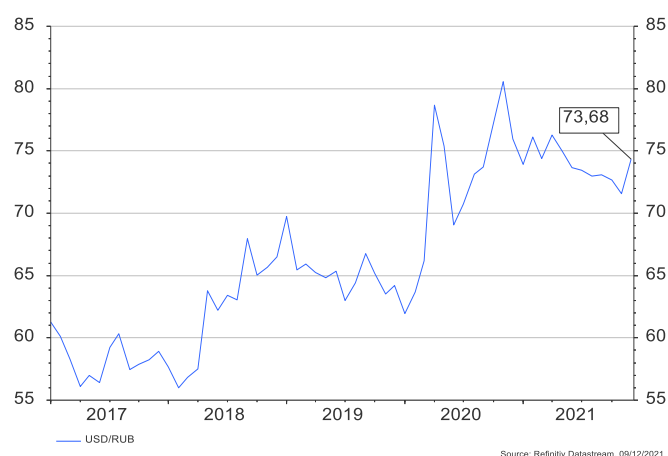
Higher rates could lead to appreciation

The Russian currency depreciated in November in light of the change in expectations for US rates. The hawkish Russian central bank, low indebtedness to GDP and high fossil fuel prices are factors playing in favor of a stronger ruble over the coming months. In October, the CPI inflation was 7,4% on a year-on-year basis and 0,6% in a month-to-month basis. The inflation reflects the strong domestic demand that exceeds production capacity. The central bank's inflation target is around 4% and so policymakers have not hesitated and increased the policy rate by 75bp to 7,5% on the 22th of October. If high inflation persists, the central bank leaves the door open for further rate hikes. Business surveys have been contrasted in October with the PMI Manufacturing index at 51,6 and the PMI Services index at 48,8.

We however anticipate less appreciation of the RUB given the US interest outlook. Potential new lockdowns could also decrease the demand for the oil. Moreover, the build-up of Russian troops close to Ukraine's border will play negatively against the RUB in case of an escalation of tensions.

Compared to long-term fundamentals, the Russian currency looks undervalued.

**We downgrade our target from 68 to 72 for the 3- and 12-month horizon, suggesting less appreciation potential compared to our previous scenario.**



## CNY VIEW &gt;&gt;

## TARGET 12M VS USD: 6.5

CNY stronger than expected

The Chinese currency remains stronger than our target and moved sideways in a 6.38-6.4 range over November.

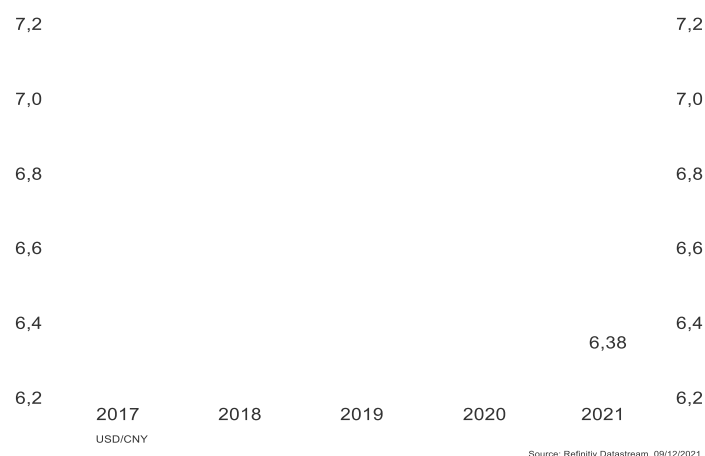
In fact, economic and monetary uncertainties persist but the newsflow is becoming less negative as the government has taken several measures to boost energy production and the mining sector in October. The zero Covid case policy will continue to affect the economy until the Winter Olympic Games are over. In that context, the People's Bank of China will remain torn between easing monetary policy to support growth and tighten to prevent further excesses in construction and real estate.

Inflation figures from October were low and in line with forecasts reaching 1,4% on a year-on-year basis and 0,7% month-to-month. A November business survey (Composite PMI) reached 52,2 and was higher compared to last month.

The RMB continues to be supported by a strong balance of payments and foreign investments.

We remain convinced that the authorities will continue to intervene in order to preserve the relative weakness of the currencies and the advantages it provides as a net exporter.

**We maintain our view on a 3-month and 12-month horizon for USDCNY at 6.50. This suggests a slight weakening for the CNY over the next year.**





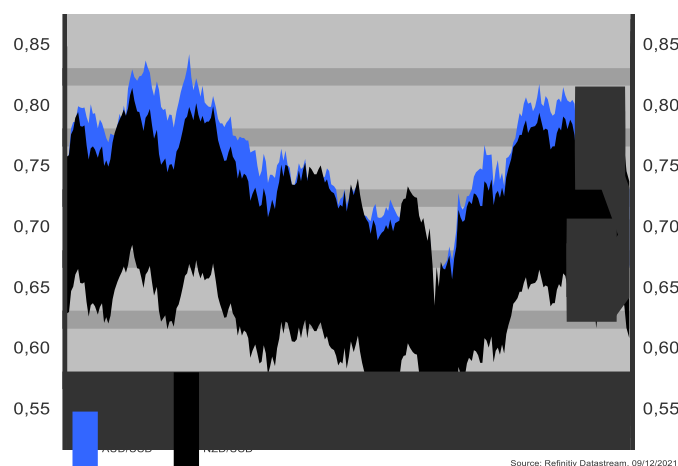
## Commodity Currency VIEW >>

### AUD and NZD expected to move sideways

Both currencies depreciated against the USD in November as the rate differential should widen against the USD. The approach of the two central banks diverge. Australia's Central Bank will remain accommodative while New Zealand has already started tightening.

The NZD depreciated late November, after an announcement of only 25bps rate hike against 50bps expected. New Zealand's central bank continues to be more active to fight inflation and rising property prices. New Zealand recorded a 4.9% inflation rate in Q3 on a year-on-year basis and house prices have jumped more than 30% over the last year. The central bank is expected to raise rates to 2% by the end of 2023 with potential further increases in 2024. The manufacturing business survey (PMI) improved in October at 54,3 versus 51,4. Economic fundamentals remain well oriented.

In Australia, Q3 inflation was at 3% slightly below expectations. The October Composite PMI business survey was at 55,7 higher than previously. The Reserve Bank of Australia will continue to purchase government bonds until at least February 2022 and should remain accommodative with no rates increase expected for 2022. The weaker Chinese growth should limit the upside for both currencies and especially for the AUD. We expect both currencies to move sideways over the coming months as new expectations regarding the rate differentials versus the USD are already priced. We did however adjust the targets.



**For the AUD we adjust our 3-month target to 0.73 (value of one dollar) and maintain the 12-month at 0.73. For the NZD, we also change our 3-month target to 0.7 (value of one NZD) and keep the 12-month target at 0.7.**

### Slight adjustment for CAD

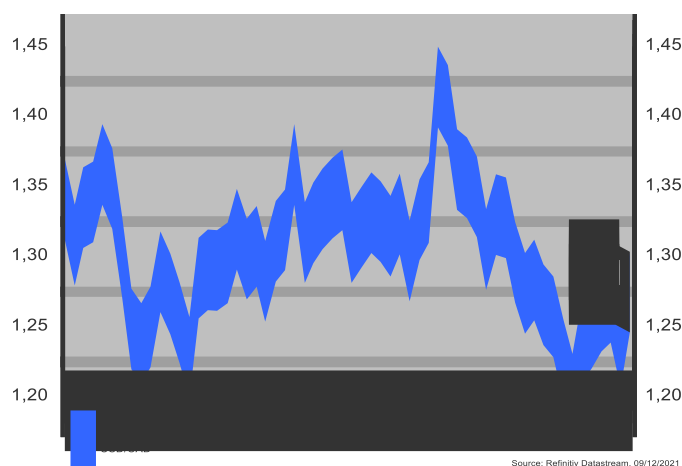
In November, the CAD weakened against the dollar. The USDCAD rose from 1.24 to 1.28 (value of one dollar), breaking through our 3 and 12-month targets.

With the recent fall in oil prices and higher expectations for US rates, we now forecast less appreciation potential for the CAD.

The central bank, which has its next meeting on December 8th, has warned investors of interest rate hikes as soon as April 2022. In fact, the inflation rate stands at 4.7%, the highest since 18 years. The bank views upside inflation risks as a great concern for the stability of the economy.

The central bank outlook paints a rather positive picture for Canadian the currency, but we turned less bullish by adjusting our 12-month target as we have revised our interest rate outlook for the US.

**We maintain our USDCAD (value of one dollar) target for the 3-month horizon at 1.25 and shift our 12-month target to 1.25 (value of one US dollar). This suggests a more moderate upside for the CAD over the next year.**



	Country	Spot 09/12/2021	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD 1,13	Neutral	1,12	Neutral	1,12
	United Kingdom	EUR / GBP 0,85	Neutral	0,84	Neutral	0,84
	Japan	EUR / JPY 128,03	Positive	124	Positive	124
	Switzerland	EUR / CHF 1,04	Neutral	1,06	Negative	1,08
	Australia	EUR / AUD 1,58	Positive	1,53	Positive	1,53
	New-Zealand	EUR / NZD 1,66	Positive	1,60	Positive	1,60
	Canada	EUR / CAD 1,43	Positive	1,40	Positive	1,40
	Sweden	EUR / SEK 10,26	Positive	10,00	Positive	10,00
	Norway	EUR / NOK 10,19	Positive	9,75	Positive	9,60
Asia	China	EUR / CNY 7,16	Neutral	7,28	Neutral	7,28
	India	EUR / INR 85,23	Neutral	85,12	Negative	87,36
Latam	Brazil	EUR / BRL 6,29	Positive	6,16	Positive	5,88
EMEA	Russia	EUR / RUB 83,05	Positive	80,64	Positive	80,64

	Country	Spot 09/12/2021	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD 1,13	Neutral	1,12	Neutral	1,12
	United Kingdom	GBP / USD 1,32	Neutral	1,33	Neutral	1,33
	Japan	USD / JPY 113,45	Positive	111,00	Positive	111,00
	Switzerland	USD / CHF 0,93	Negative	0,95	Negative	0,96
	Australia	AUD / USD 0,71	Positive	0,73	Positive	0,73
	New-Zealand	NZD / USD 0,68	Positive	0,70	Positive	0,70
	Canada	USD / CAD 1,27	Neutral	1,25	Neutral	1,25
Asia	China	USD / CNY 6,34	Negative	6,50	Negative	6,50
	India	USD / INR 75,52	Neutral	76,00	Negative	78,00
Latam	Brazil	USD / BRL 5,57	Neutral	5,50	Positive	5,25
	Mexico	USD / MXN 21,05	Positive	19,70	Positive	19,00
EMEA	Russia	USD / RUB 73,59	Positive	72,00	Positive	72,00
	South Africa	USD / ZAR 15,97	Positive	15,00	Positive	15,00
	USD Index	DXY 96,27	Neutral	96,17	Neutral	96,24

Source: Refinitiv - BNP Paribas WM

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