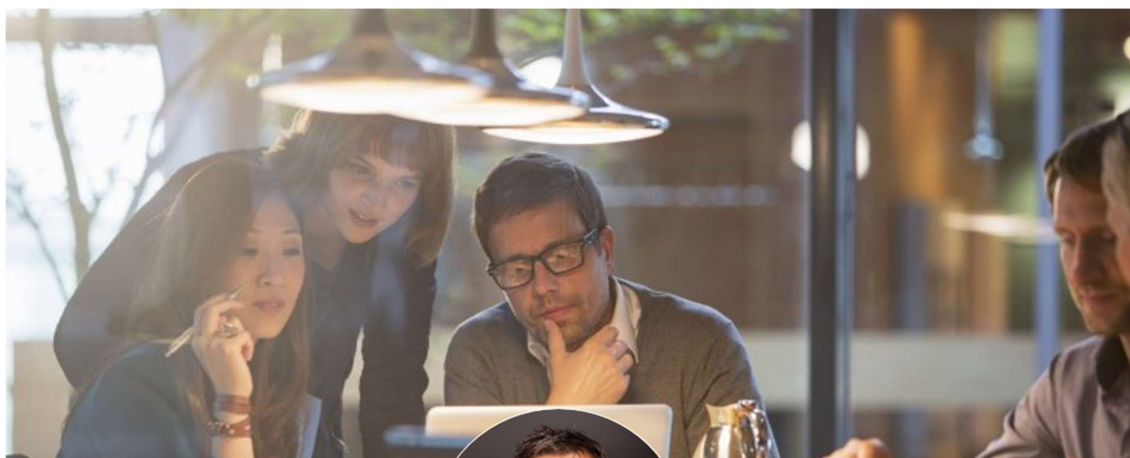


## FOCUS FOREX

January 15<sup>th</sup>, 2020



Guy ERTZ

Chief Investment Advisor

### IN A WORD:

**Markets ended 2019 at record highs. December has been marked by two major breakthroughs, the phase 1 trade agreement and the large victory of the British conservative party. The spike of risk appetite has been particularly favorable for high-risk currencies.**

All monitored currencies strengthened against the greenback in December. Commodity currencies benefited from the wave of risk-on. The New Zealand dollar on the front line rocketed by more than 5%. Emerging currencies rallied too, the Chinese renminbi broke back below 7 as trade tensions eased. The Turkish Lira suffered due to renewed tensions with the US. The Norwegian krone has remarkably recovered at year-end, fuelled by the improved risk sentiment and still robust fundamentals. Safe haven currencies, the Japanese yen and the Swiss franc, were broadly stable.

The political and trade landscape seems clearer. The Chinese authorities are expected to sign the phase 1 trade deal mid-January in Washington. Although widely awaited, we expect its impact to be significant for the improvement of global sentiment and the release of pent-up demand. The victory of Conservative to the British elections marked the end of 42 months of Brexit turmoil. The parliament is expected to pass the Brexit bill by the end of January. However, a new phase of difficult negotiations about the post-Brexit UK-EU relationship will begin.

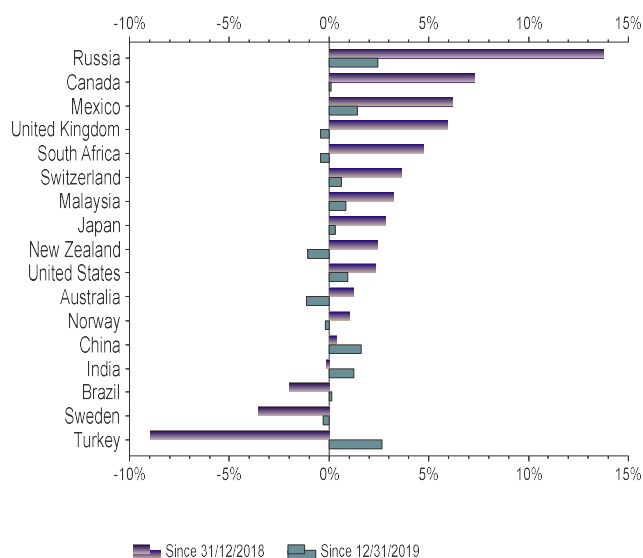
On the monetary side, the Swedish central bank delivered a rate hike, ending five years of negative rates. Otherwise, most of G10 central banks should remain on hold this year. We revised our Fed scenario and no longer envisage two rate cuts in 2020. The resilience of economic data do not warrant a rate cut in the coming months. While markets have priced out

a rate cut in New Zealand, the Australian monetary authority is expected to lower rates this year.

## Summary of our forecasts

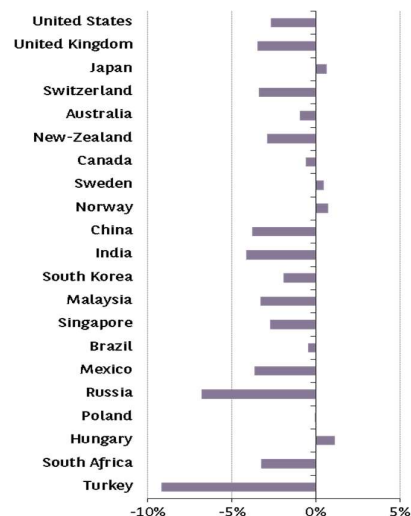
We continue to see the euro stronger next year. We expect the **EURUSD** around **1.12** over the next 3 months and **1.14** in 12 months. We changed our 3-month **EURGBP** target to **0.85** (current levels) as we think that the sterling will be subject to less fluctuations short term. We however maintain our 12-month target at **0.88** due to rising uncertainty later this year. We see the **AUD** and the **NZD** appreciation potential capped short term after the strong recovery in December. Near term, we still see both currencies strengthening. We forecast that the **CAD** will remain steady short term following last year rally, before slightly appreciating near term. **Scandinavian currencies** benefitted from the general rally and reached their 12-month target. As we do not see further appreciation potential, we moved our stance from neutral to negative and reducing the positions.

Performances (in %) against EUR  
(MTD: as of January 10 – YTD: Performance 2019)



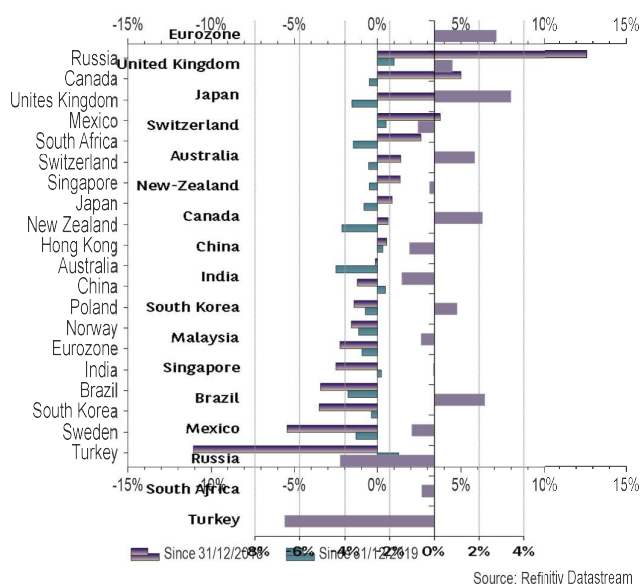
Source: Refinitiv Datastream

12 month forecasts (in %) against EUR  
(as of January 10)



**Performances (in %) against USD  
(MTD: as of January 10 – YTD: Performance 2019 )**

**12 month forecasts (in %) against USD  
(as of January 10)**



Source: Datastream - BNP Paribas Wealth Management

**Forecasts against the Euro**

	Country		Spot 1/10/2020	Target three months (vs. EUR)				Target twelve months (vs. EUR)			
				Trend	Low	Mid	High	Trend	Low	Mid	High
	United States	EUR / USD	1.11	Neutral	1.11	1.12	1.13	Negative	1.13	1.14	1.17
	United Kingdom	EUR / GBP	0.85	Neutral	0.84	0.85	0.86	Negative	0.87	0.88	0.91
	Japan	EUR / JPY	122	Positive	119	119	119	Neutral	121	121	121
	Switzerland	EUR / CHF	1.08	Neutral	1.09	1.10	1.11	Negative	1.11	1.12	1.15
	Australia	EUR / AUD	1.61	Negative	1.64	1.65	1.65	Neutral	1.62	1.63	1.65
	New Zealand	EUR / NZD	1.68	Negative	1.72	1.72	1.73	Negative	1.72	1.73	1.75
	Canada	EUR / CAD	1.45	Neutral	1.45	1.46	1.46	Neutral	1.45	1.46	1.48
	Sweden	EUR / SEK	10.55	Neutral	10.49	10.50	10.51	Neutral	10.49	10.50	10.53
	Norway	EUR / NOK	9.87	Neutral	9.79	9.80	9.81	Neutral	9.79	9.80	9.83
Asia	China	EUR / CNY	7.68	Negative	7.83	7.84	7.85	Negative	7.97	7.98	8.01
	India	EUR / INR	78.7	Negative	80.63	80.6	80.65	Negative	82	82.08	82.11
	South Korea	EUR / KRW	1286	Neutral	1288	1288	1288.01	Neutral	1310.99	1311	1311.03
	Malaysia	EUR / MYR	4.52	Neutral	4.58	4.59	4.60	Negative	5	4.67	4.70
	Singapore	EUR / SGD	1.50	Neutral	1.50	1.51	1.52	Negative	1.53	1.54	1.56
Latam	Brazil	EUR / BRL	4.54	Neutral	4.47	4.48	4.49	Neutral	5	4.56	4.59
	Mexico	EUR / MXN	20.87	Negative	21.83	21.8	21.85	Negative	21.65	21.66	21.69
EMEA	Russia	EUR / RUB	68.0	Negative	71.67	71.7	71.69	Negative	73	73	72.99
	Poland	EUR / PLN	4.25	Neutral	4.24	4.25	4.26	Neutral	4.24	4.25	4.28
	Hungary	EUR / HUF	334	Positive	325	325	325.01	Neutral	330	330.00	330.03
	South Africa	EUR / ZAR	15.77	Negative	16.23	16.2	16.25	Negative	16.29	16.30	16.33
	Turkey	EUR / TRY	6.52	Neutral	7	6.61	6.62	Negative	7	7.18	7.21
	Euro Index		101.71	Neutral	101.72	101.73	101.73	Positive	103.93	103.94	103.97

Source: Datastream - BNP Paribas Wealth Management

## Forecasts against the US Dollar

	Country	Spot 1/10/2020	Target three months (vs. USD)				Target twelve months (vs. USD)				
			Trend	Low	Mid	High	Trend	Low	Mid	High	
	Eurozone	EUR / USD	1.11	Neutral	1.11	1.12	1.13	Positive	1.13	1.14	1.15
	United Kingdom	GBP / USD	1.31	Neutral	1.25	1.32	1.39	Neutral	1.26	1.30	1.33
	Japan	USD / JPY	110	Positive	105	106	107	Positive	105	106	107
	Switzerland	USD / CHF	0.98	Neutral	0.97	0.98	0.99	Neutral	0.98	0.98	0.99
	Australia	AUD / USD	0.69	Neutral	0.67	0.68	0.69	Neutral	0.69	0.70	0.71
	New-Zealand	NZD / USD	0.66	Neutral	0.64	0.65	0.66	Neutral	0.65	0.66	0.67
	Canada	USD / CAD	1.31	Neutral	1.29	1.30	1.31	Positive	1.27	1.28	1.29
Asia	China	USD / CNY	6.92	Neutral	6.90	7.00	7.10	Neutral	6.90	7.00	7.10
	India	USD / INR	71.0	Neutral	71.0	72.0	73.0	Neutral	71.0	72.0	73.0
	South Korea	USD / KRW	1162	Neutral	1133	1150	1167	Neutral	1133	1150	1167
	Malaysia	USD / MYR	4.08	Neutral	4.07	4.10	4.13	Neutral	4.07	4.10	4.13
	Singapore	USD / SGD	1.35	Neutral	1.34	1.35	1.36	Neutral	1.34	1.35	1.36
Latam	Brazil	USD / BRL	4.09	Positive	3.87	4.00	4.13	Positive	3.87	4.00	4.13
	Mexico	USD / MXN	18.81	Negative	19.2	19.5	19.8	Neutral	18.7	19.0	19.3
EMEA	Russia	USD / RUB	61.3	Negative	62.8	64.0	65.2	Negative	62.8	64.0	65.2
	South Africa	USD / ZAR	14.2	Neutral	14.1	14.5	14.9	Neutral	13.9	14.3	14.7
	Turkey	USD / TRY	5.88	Neutral	5.79	5.90	6.01	Negative	6.19	6.30	6.41
	USD Index	DX	97.54	Neutral	95.8	96.4	97.0	Negative	94.8	95.4	96.0

Source: Datastream – BNP Paribas Wealth Management

### USD ANALYSIS >> TARGET 12M VS EUR: 1.14

The **euro** kept rallying on the positive year-end newsflow. The announcement of a trade deal between the US and China has fuelled risk sentiment. Meanwhile, the main political risk faded in Europe. The expected stabilization of the Eurozone economy and an improvement of investor's confidence should support the euro short term. **We keep our target at 1.12 in a 3-month horizon.**

Medium term, we maintain that the main drivers still suggest a depreciation of the dollar. The main long term risk is the rising current account deficit. On the monetary side, the 2-year yield spread narrowed a lot in recent months and this has not been reflected in the value of the euro. On the other side, the overvaluation of the US dollar relative to PPP makes it more vulnerable to a retreat from current high levels. **In this context, we maintain the EURUSD target around 1.14 over the next 12 months.**

### PERFORMANCES<sup>1</sup>

vs EUR

YTD 2,25

MTD 0,96

<sup>1</sup> Performance YTD as of 12.31.2019  
Performance MTD as of 01.09.2020

#### GBP ANALYSIS >> TARGET 12M VS EUR: 0.88

The **British pound** lost its previous gains in the days following general elections. The victory of the conservative party was broadly priced for weeks. However, Johnson's pledge to rule out a possible extension of the transition materialized. Consequently, the fear of a possible cliff-edge over the coming months and a potential return to WTO rules in case of no-deal rose. We think that the sterling is pricing the "good news" at this stage. Thus, we do not see a major move short term. **We thus revised our EURGBP target from 0.88 to 0.85 (current levels) over the next 3 months.**

The hardline position of the Prime Minister will make negotiations tough with the EU given the limited time available. In that sense, the GBP should be subject to some volatility later this year. **Consequently, we keep our cautious stance for the near term and maintain the EURGBP target at 0.88 over the next 12 months.**

#### PERFORMANCES<sup>1</sup>

vs USD

YTD 4,25

MTD -1,18

vs EUR

YTD 5,92

MTD -0,18

#### CHF ANALYSIS >> TARGET 12M VS EUR: 1.12

The **Swiss franc** rallied in December ending the year with a positive performance against the euro, +3.7%. The EURCHF seemed to be little affected by the improvement of investor confidence following the two major breakthroughs of the year-end, namely the phase 1 trade agreement and the large victory of the conservative party to the British elections. The relationship between the CHF and European risk indicators appears less reliable.

However, several factors foster a weaker CHF. The negative interest rates and a possible central bank intervention on the FX market will limit the upward pressure on the franc. Furthermore, the expected stabilization of the global economic momentum in Eurozone where the dynamic seemed to have bottomed out, should drive the CHF lower. Although uncertainty will linger in the coming year, the recent improved market sentiment should somewhat benefit to the euro short term. **We thus keep our EURCHF target unchanged at 1.10 over the next 3 months. We expect further appreciation of the euro thereafter and keep our 12-month target at 1.12.**

#### PERFORMANCES<sup>1</sup>

vs USD

YTD 1,40

MTD -0,61

vs EUR

YTD 3,67

MTD 0,74

<sup>1</sup> Performance YTD as of 12.31.2019  
Performance MTD as of 01.09.2020



#### NOK ANALYSIS >> TARGET 12M VS EUR: 9.80

The **Norwegian krone** rallied over the last two months and retraced 2019 losses against the euro. The positive newsflow on trade and Brexit was supportive for the NOK. Fundamentals remain solid, however, the economic dynamic showed signs of slight deceleration as growth and employment undershot central banks expectations over the Q3. The monetary authority is expected to hold rates unchanged for the foreseeable future given the resilient domestic economic outlook. Domestic assets should remain attractive due to the high level of Norwegian rates compared to G10 ones. Easing trade tensions and the robust domestic outlook for the coming year should maintain the EURNOK around current levels. **We lowered our 3-month target from 10.20 to 9.80.**

Medium term, the tightening cycle of the NOK ended while the ECB is expected to keep its policy rate on hold. The yield differential should thus remain quite steady. The balance of risks suggests that the krone should hover close to current levels. **We thus see the EURNOK around 9.80 over the next 12 months. We moved our stance from neutral to negative and recommend reducing the positions.**

#### PERFORMANCES<sup>1</sup>

vs USD

YTD -1,57

MTD -0,99

vs EUR

YTD 1,04

MTD -0,05

#### JPY ANALYSIS >> TARGET 12M VS EUR: 121 (USD/JPY 106)

The **Japanese yen** remained on average quite muted in December while the positive newsflow pushed risky currencies higher. Easing trade tensions and signs of stabilization of the global economic outlook should support Japanese exports which were hurt by an unfavorable environment last year. We expect domestic demand to resist well and somewhat shrug off the effect of the VAT hike.

Medium term, risks of a depreciation will weight on the greenback, partly due to a rising current account deficit. Moreover, the US elections expected at the end of the year could bring some market unrest that would be favorable to safe haven currencies. Thus, we still think the outlook is tilted in favor of a slight appreciation of the yen. **We maintain the USDJPY around 106 over the next 3 and 12 months.**

#### PERFORMANCES<sup>1</sup>

vs USD

YTD 1,01

MTD -0,47

vs EUR

YTD 2,81

MTD 0,99

<sup>1</sup> Performance YTD as of 12.31.2019  
Performance MTD as of 01.09.2020



#### AUD ANALYSIS >> TARGET 12M VS EUR: 1.63 (AUD/USD 0.70)

The **Australian dollar** climbed in December. In this context where trade and political tensions eased, the Aussie recorded its best monthly performance of the year (4% against the US dollar over December). As the AUD broke our 3-month target, we think that it has limited appreciation potential short term. Moreover, the wildfire which is still out of control could have a damaging impact on the consumer confidence and the tourism sector. This could drive markets to price further monetary easing. **We maintain our 3-month target at 0.68 (value for 1 AUD).**

Unless escalation of trade and/or geopolitical tensions, the Aussie has still an appreciation potential near term since the economy should bottom out in Q1 2020. Moreover, we forecast that Chinese momentum will gradually recover over the second part of the year, supporting the AUD. **We keep our expectations of a slight strengthening of the AUD over the next 12 months (0.70).**

#### PERFORMANCES<sup>1</sup>

vs USD

YTD -0,15

MTD -2,48

vs EUR

YTD 1,23

MTD -1,45

#### CAD ANALYSIS >> TARGET 12M VS EUR: 1.46 (USD/CAD 1.28)

The central bank Governor moved to less dovish comments and triggered the **Canadian dollar** recovery in December. The loonie gained 2.2% against the greenback. Some signs of slowdown have emerged (weaker manufacturing sector survey), but the central bank has much more ammunition to support the domestic economy. Indeed, the central bank kept its the policy rate steady while major G10 monetary authorities leant towards easing and the Canadian key rate level ranks at the top among its peers. Consequently, we think that risks are somewhat balanced short term. **We keep our 3-month target unchanged at 1.30.**

The trade environment has improved. Further, the expected final ratification of the USMCA (new NAFTA) would bring some relief in a gloomy global trade context. The phase 1 agreement has also eased market fears and this would benefit the commodity-dependent currency unless escalation of tensions comes back. We thus still believe in a slight appreciation potential of the CAD. **We hold our 3-month target at 1.30 (value of 1 dollar).**

#### PERFORMANCES<sup>1</sup>

vs USD

YTD 5,01

MTD -0,39

vs EUR

YTD 7,26

MTD 0,41

<sup>1</sup> Performance YTD as of 12.31.2019  
Performance MTD as of 01.09.2020

#### SEK ANALYSIS >> TARGET 12M VS EUR: 10.50

The **Swedish krone** rally abated in December and the SEK broke our 12-month target. The slowdown of the Scandinavian economy has been confirmed, both PMI readings continue to reflect a contraction while GDP should grow at the slowest pace since the Eurozone crisis. However, the central bank brought back key rates to zero trying to avoid unfavorable effects of lingering negative rates. This announcement had been fully priced by markets and participated to fuel the SEK rise in November. As tensions should continue to ease with the Brexit vote and the signature of the phase 1 deal, we think that the SEK will be subject to less fluctuations and see the EURSEK remaining steady around current levels. **We thus revised our 3-month target from 10.60 to 10.50 (value of 1 euro).**

The ECB and the Swedish central bank should both keep their policy rate on hold thus we expect the 2-year yield differential to remain stable. **We thus maintain our 12-month target around current levels at 10.50. As with the NOK, we moved our stance from neutral to negative and recommend reducing the positions.**

#### PERFORMANCES<sup>1</sup>

vs USD

YTD -5,24

MTD -1,03

vs EUR

YTD -3,55

MTD -0,02

#### NZD ANALYSIS >> TARGET 12M VS EUR: 1.73 (NZD/USD 0.66)

The **New Zealand dollar** gained 7.5% against the dollar over the last 3 months, one of the strongest performance of the last quarter and retraced all 2019 losses. Markets expect the central bank to keep the policy rate on hold this year after shifting to a more positive message over the last meeting. Due to the amplitude of the recent rally, we do not expect a further appreciation of the NZD short term. We forecast that the Chinese economy will bottom out over the first semester of 2020 and this should cap the NZD close to current levels. In this context, **we maintain our 3-month target at 0.65 (value for 1 NZD).**

Economic indicators bode well. The New Zealand economy should benefit from the fiscal and monetary stimulus. The last manufacturing sector survey highlighted a positive outlook. As the Chinese economy should recover somewhat over the second part of the year, this should be supportive for the NZD despite persistent external headwinds. **We keep our 12-month target at 0.66.**

#### PERFORMANCES<sup>1</sup>

vs USD

YTD 0,61

MTD -1,66

vs EUR

YTD 2,46

MTD -0,73

<sup>1</sup> Performance YTD as of 12.31.2019  
Performance MTD as of 01.09.2020





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