

# Currencies Focus

## Summary

1. The USD made a comeback over recent weeks. The move was supported by renewed risk aversion linked to fears over renewed lockdowns and long-term growth prospects. The sudden fall in long-term relative to short-term rates also supported the dollar.
2. We could see the recent dollar strength persisting somewhat over the summer months as we expect increased volatility in financial markets. We decided to raise our 2-year yield forecast to 0.6% from 0.4% in 12 months. This suggests less downside for the US dollar against the euro over the coming year. Our new EURUSD target is 1.22 for the 12-month horizon.
3. We see selective opportunities for currencies to strengthen against the dollar. This is the case for the AUD and NZD after the recent pullback.
4. We think the outlook for emerging markets currencies remains broadly positive, but the upside may be lower than in past quarters and differentiation is necessary. We think that some emerging currencies have more upside as for example for Russia and Brazil.

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## OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 01/07/2021	Target 3 months	Target 12 months
Against euro	United States	EUR / USD 1,187	1,17	1,22
	United Kingdom	EUR / GBP 0,861	0,85	0,84
	Switzerland	EUR / CHF 1,097	1,11	1,14
	Japan	EUR / JPY 132,4	130	135
	Sweden	EUR / SEK 10,17	10,00	10,00
	Norway	EUR / NOK 10,22	9,80	9,60
Against dollar	Japan	USD / JPY 111,5	111	111
	Canada	USD / CAD 1,239	1,22	1,22
	Australia	AUD / USD 0,748	0,78	0,80
	New Zealand	NZD / USD 0,699	0,72	0,75
	Brazil	USD / BRL 5,013	4,90	4,80
	Russia	USD / RUB 73,27	70,0	68,0
	India	USD / INR 74,56	72,0	72,0
China	USD / CNY 6,464	6,40	6,40	

Source: Refinitiv - BNP Paribas WM



## USD VIEW >> TARGET 12M VS EUR: 1.22

### We revise our 3- and 12-month targets

The Fed changed a bit the tone at the June FOMC meeting. It suggested less patience when it comes to inflation and signaled earlier-than-expected rate hikes according to the median of all policymakers' rate forecasts. This suggests that the Fed may slightly speed up the process of reducing the bond purchases, allowing it to make a first rate hike in the first quarter of 2023. This would be about 6 months earlier than suggested previously. This also suggests that US short-term bond yields could become less anchored by the Fed over the next few quarters and may grind higher with higher volatility. We thus decided to raise our 2-year yield forecast to 0.6% from 0.4% in 12 months. This suggests less downside for the US dollar against the euro over the coming year. We thus reduced our 12-month target to 1.22 (value of one euro).

We still expect some push from the euro late this year as the economic momentum should be more favourable for the eurozone. Indeed, we expect a sharp rebound in activity based on the reopening and pent-up demand. We also expect more sighs of implementations of expenditure programmes all over Europe.

We could see the recent dollar strength persisting somewhat over the summer months as we expect increased volatility in financial markets.

**In summary, we reduce our 3-month EURUSD target to 1.17 (value of one euro) and to 1.22 for the 12-month target.**



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

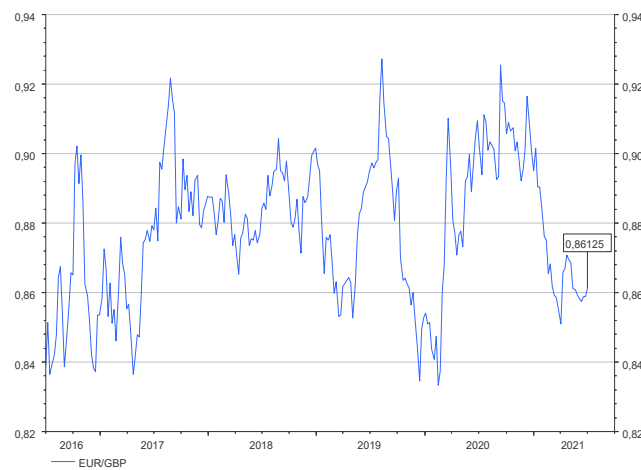
### Moderate upside

We expect a robust rebound of economic activity over the coming months despite the recent delay regarding the full reopening. Economic momentum as measured by the economic surprise index should improve in both regions over the second half of the year. The PMIs fell back a bit in the UK but remain at very high levels. We expect GDP growth to accelerate somewhat faster compared to the eurozone.

Our positive view on the GBP is mainly based on our expectation that the BoE will tighten monetary policy faster than the market is pricing in. The minutes of June's Monetary Policy Committee meeting suggest a tightening of the policy earlier than elsewhere, but still some way off.

We expect the MPC to complete its announced asset purchases by year end, for the first hike to come in August 2022, and the balance sheet to shrink from 2023 onwards. The interest rate differential is the key driver for the coming quarters.

Therefore, we keep our EURGBP targets (value of one euro) to 0.85 and 0.84 for the next 3 and 12 months. This suggests further upside for the GBP.



## CHF VIEW >> TARGET 12M VS EUR: 1.14

### CHF to weaken over the summer

The Swiss franc broke 1.09 temporarily as the uncertainty around the new COVID-19 variant lead to some flight to quality but is broadly unchanged over the month. It remains highly valued according to the Swiss National Bank's (SNB).

Interesting also that the global political uncertainty index fell back quite sharply over recent months. Historically there was some degree of negative correlation with the Swiss currency. This could support the argument of weaker franc.

We keep thinking that cyclical currencies should benefit from the positive economic environment over the second half of the year as fears regarding renewed lockdowns in Europe should fall back.

The central bank should not change the current monetary policy settings any time soon. The timing will depend on global developments, the strength of the economic recovery and developments in interest rates abroad.

The underlying objective of the central bank is to avoid the Swiss franc to appreciate in order to fight deflation and protect the export-reliant Swiss economy.

Our EURCHF targets for the 3- and 12-month are 1.11 and 1.14 (value of one euro) respectively. This suggests an appreciation of the euro.

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

### We reached our targets and expect a lateral move

The USDJPY has consolidated around 109 mid June as more news were published on the new COVID variant. The Japanese currency started to weaken in the second half of June and has now reached our target of 111 (for one dollar).

The currency is likely to remain under pressure in the coming months due to reduced demand for safe-haven currencies amid a global growth recovery and rising risk appetite. On the other hand, the economic momentum is recovering and the business sentiment measured by the Tankan Business survey recorded a strong rise.

The BoJ is very likely to remain dovish longer than the Fed. The Bank has very little room in terms of normalisation beyond its recent strategy review so it should not change its stance for the foreseeable future.

More long-term, the yen is trading at a heavy discount to its PPP exchange rate. We thus think that the downside for the yen should be limited.

Therefore, we keep our 3- and 12-month USDJPY targets to 111. This suggests a slight appreciation of the USD vs JPY from here.

## SEK VIEW >>

### TARGET 12M VS EUR: 10.00

#### Little upside from recent levels

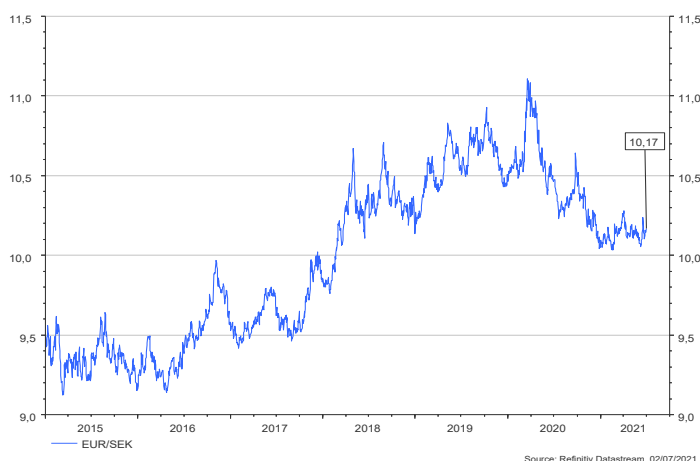
The SEK was relatively stable in a trading range 10-10.25. Most of the appreciation was seen in the second half of last year.

The recovery in business sentiment over the past few months has been very strong including relative to the eurozone. The upside from here is more limited.

The Riksbank remained prudent at the July meeting, seeing big risks of removing support to the economy too early, even though it expects GDP to be fully back at the pre-Covid path by the end of the year or early next year. The Riksbank does not forecast any rate hike in the next three years. Key risks for Sweden are the housing market and household indebtedness.

The political uncertainty is not expected to be a major driver of the SEK.

**Therefore, we keep our EURSEK targets to 10.00 over the next 3 and 12 months (value of one euro). This suggests a marginal appreciation for the SEK.**



## NOK VIEW >>

### TARGET 12M VS EUR: 9.60

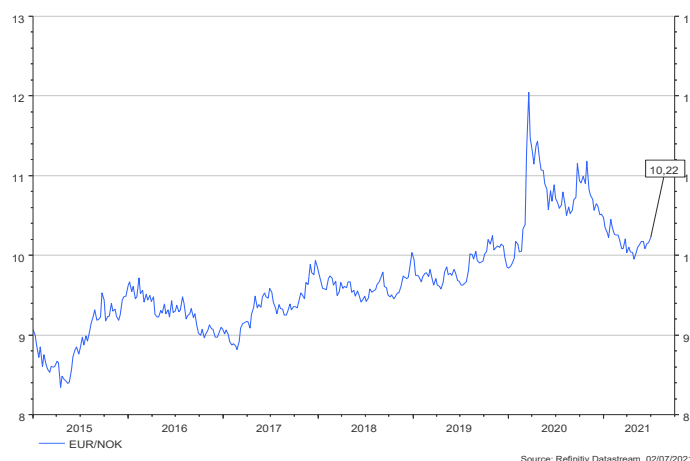
#### Supportive environment

The NOK was trading a bit weaker over late June. The renewed doubts about the pandemic and the new variant are bringing back some temporary risk aversion.

The outlook for the Norwegian currency remains positive, with the central bank likely to be the only G10 central bank to raise rates this year. Norges FX sales are still high relative to history. We expect that pace to slow in the months ahead. High Brent crude prices should support the NOK. Assuming Norges Bank tightens policy in September, we expect the NOK to be well supported over the coming month.

There is however a risk of some profit taking following the initial rate hike. This type of price action would be similar to moves after the first hike of the previous cycle on 20 September 2018.

**We keep our 3-month EURNOK target (value of one euro) to 9.80 and our 12-month target to 9.60. This suggests an appreciation of the NOK.**



## AUD VIEW >>

### TARGET 12M VS USD: 0.80

#### More Upside for the AUD

The Australian dollar has benefited from the global reflation theme and the continued risk-on sentiment. It was hovering around 0.78 until mid-June. The currency fell back a bit over recent weeks as fears regarding the delta variant were increasing.

We keep a positive economic outlook. The management of the coronavirus crisis, the sensitivity to commodity prices, and to global equities should support the AUD. Tensions with China remain a downside risk, given the importance of China for exports.

The central bank may end its 3-year yield curve control soon, the July meeting being a possibility. The probability of a rate hike before 2023 seems however low given the RBA's forecasts.

Historically, Australia has had a persistent current account deficit. However, over the past few years Australia's deficit has flipped into a surplus.

**Therefore, we keep our 3-month AUDUSD target to 0.78. Our 12-month target remains at 0.80 (value of one AUD). This implies a further moderate appreciation potential for the AUD.**



## NZD VIEW >>

### TARGET 12M VS USD: 0.75

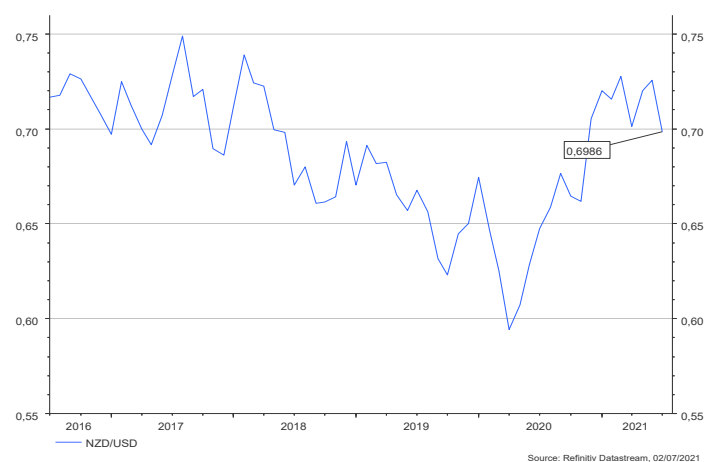
#### Interest rate repricing support the NZD

The NZD followed closely the move of the AUD, keeping some sensitiveness relative to the risk appetite of the market. The currency reached a peak around 0.73 late May but fell back since.

New Zealand's economy has enjoyed a sharp recovery from its pandemic-induced recession thanks to a strong management of the pandemic. The authorities remain cautious as potential step backs can't be ruled out, but the most extreme risks are now "off the table".

NZD rates repriced significantly higher after the June FOMC, and to a larger degree than the rest of the G10. The Reserve Bank of New Zealand's expectation that it will start raising rates from late 2022, at a time when other central banks are still expanding their balance sheets, is likely to put upward pressure on the currency. Additionally, NZD appears cheap versus both the EUR and the USD.

**We keep our 3-month and 12-month NZDUSD targets at 0.72 and 0.75, respectively (value of one NZD). This implies a further appreciation potential for the NZD.**



## CAD VIEW >> 12M VS USD: 1.22

## TARGET

Tapering started, 1st rate hike on the horizon

The Canadian currency followed the general risk-off mode since mid June. The value of one USD fell as low as 1.22 early June but rose again to almost 1.24 at the end of the month.

The economic momentum remains strong including relative to the US. This offers key support to the CAD. The terms of trade improve considerably over the past year and this is probably not fully reflected in the relative value of the CAD.

The Bank of Canada kept its monetary policy unchanged at the June meeting. However, the tone was optimistic and the Bank is seeing an improvement in the medium-term outlook. The economic projections that will be delivered at the July meeting will potentially confirm this view. If so, we believe that the bank may taper further its QE, as it did in April when it trimmed the weekly net purchases of Canadian Government bonds from CAD 4bn to CAD 3bn. The monetary policy outlook should remain supportive for the CAD.

The BoC will remain sensitive to the strength of the CAD over the coming quarters given the importance of the US for Canada’s exporters.

**We keep our 12-month target at 1.22 for the USDCAD (value of one dollar) on the 3- and 12-month horizon. This suggests a lateral move in the pair now and short term.**



## CNY VIEW >> TARGET 12M VS USD: 6.40

CNY more resilient than expected

The Chinese currency strengthened against the US dollar over the month of May. The value of one dollar even fell below 6.40 temporarily.

Economic growth has started to slow as a consequence of some policy measures that were intended to limit some excesses such as credit growth for example. We think that these measures are important to make growth more sustainable.

The fact that there is no overseas travel and a slowing internal momentum combined with a swing in external demand remains positive for China’s current account and also for the CNY. The currency could however be negatively impacted by the more neutral monetary stance of the People’s Bank of China and its efforts to normalise financial leverage, but we believe the concerns are overdone.

We expect USDCNY spot to move within a narrow 6.40 6.60 range in the coming months. The upside for the CNY is likely to be limited by a hawkish Fed and the PBoC hostile to further RMB appreciation.

**Therefore, we keep our 3-month USDCNY target at 6.40 and our 12-month target at 6.40 (value of one dollar). This suggests a flat evolution for the CNY over the coming months.**



	Country	Spot 01/07/2021	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)	
	United States	EUR / USD	1,187	Neutral	1,17	Negative	1,22
	United Kingdom	EUR / GBP	0,861	Neutral	0,85	Positive	0,84
	Japan	EUR / JPY	132,4	Neutral	130	Negative	135
	Switzerland	EUR / CHF	1,097	Neutral	1,11	Negative	1,14
	Australia	EUR / AUD	1,587	Positive	1,50	Positive	1,53
	New-Zealand	EUR / NZD	1,699	Positive	1,63	Positive	1,63
	Canada	EUR / CAD	1,471	Positive	1,43	Neutral	1,49
	Sweden	EUR / SEK	10,17	Neutral	10,00	Neutral	10,00
	Norway	EUR / NOK	10,22	Positive	9,80	Positive	9,60
Asia	China	EUR / CNY	7,672	Positive	7,49	Neutral	7,81
	India	EUR / INR	88,48	Positive	84,24	Neutral	87,84
Latam	Brazil	EUR / BRL	5,950	Positive	5,73	Neutral	5,86
EMEA	Russia	EUR / RUB	86,96	Positive	81,90	Positive	82,96

Source: Refinitiv - BNP Paribas WM

	Country	Spot 01/07/2021	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)	
	Eurozone	EUR / USD	1,187	Neutral	1,17	Positive	1,22
	United Kingdom	GBP / USD	1,378	Neutral	1,38	Positive	1,45
	Japan	USD / JPY	111,5	Neutral	111,00	Neutral	111,00
	Switzerland	USD / CHF	0,924	Negative	0,95	Neutral	0,93
	Australia	AUD / USD	0,748	Positive	0,78	Positive	0,80
	New-Zealand	NZD / USD	0,699	Positive	0,72	Positive	0,75
	Canada	USD / CAD	1,239	Neutral	1,22	Neutral	1,22
Asia	China	USD / CNY	6,464	Neutral	6,40	Neutral	6,40
	India	USD / INR	74,56	Positive	72,00	Positive	72,00
Latam	Brazil	USD / BRL	5,013	Positive	4,90	Positive	4,80
	Mexico	USD / MXN	20,02	Neutral	19,70	Positive	19,00
EMEA	Russia	USD / RUB	73,27	Positive	70,00	Positive	68,00
	South Africa	USD / ZAR	14,44	Neutral	14,50	Negative	15,00

Source: Refinitiv - BNP Paribas WM

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