

# Currencies Focus

## Summary

1. **Several European countries lifted again lockdown measures in May.** The UK has reopened its indoor venues as no Covid-related deaths were recorded on May 10, the first time in 14 months. Many governments will follow suit in the coming weeks, a very positive sign for the global economy, especially the Eurozone.
2. **The US economy is recovering well and so is inflation.** The authorities are confident that it is transitory, but such high levels led to volatile markets overseas. The EURUSD broke the 1.20 level and should continue to do so as the growth gap with the US narrows. Our 12-month target remains at 1.25. We adjust our 3-month target to 1,25
3. **The Indian variant of the covid-19 is a source of downside risk short-term:** Infection rates have however decreased worldwide and seem to have reached a peak in India. We expect safe haven currencies like the CHF and JPY to weaken over the year.
4. **The CNY has been outperforming expectations again.** We revised our targets and see a flat evolution from here (target 6.40). The AUD & NZD remain well supported by strong terms of trade and a positive global economic backdrop. The CAD is the best performer this year, thanks to strong growth and BoC normalization.

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## OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 03/06/21	Target 3 months	Target 12 months
Against euro	United States	EUR / USD 1.22	1.25	1.25
	United Kingdom	EUR / GBP 0.86	0.85	0.84
	Switzerland	EUR / CHF 1.10	1.11	1.14
	Japan	EUR / JPY 134	133	139
	Sweden	EUR / SEK 10.1	10	10
	Norway	EUR / NOK 10.13	9.8	9.60
Against dollar	Japan	USD / JPY 110	111	111
	Canada	USD / CAD 1.21	1.24	1.22
	Australia	AUD / USD 0.77	0.78	0.80
	New Zealand	NZD / USD 0.72	0.72	0.75
	Brazil	USD / BRL 5.08	5.30	4.80
	Russia	USD / RUB 73.26	74.0	68.0
	India	USD / INR 73	75.0	75.0
	China	USD / CNY 6.39	6.40	6.40

Source: Refinitiv - BNP Paribas



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## USD VIEW >> TARGET 12M VS EUR: 1.25

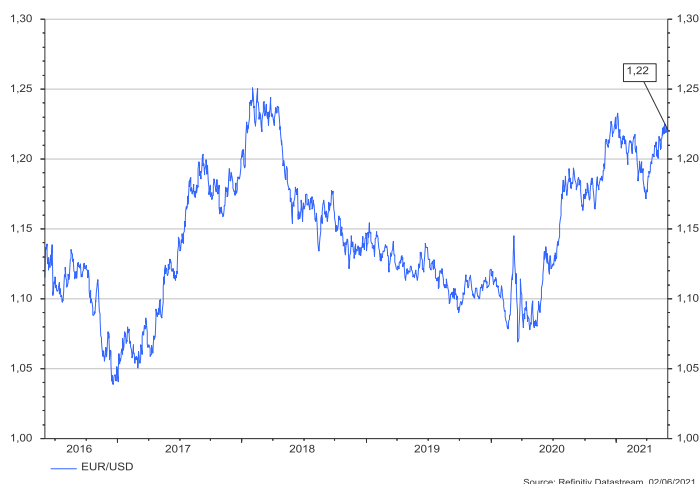
### Renewed broad dollar weakness

The US have had a head start in terms of economic recovery but the trade and current account deficits are widening. The US could see large equity outflows from foreigners as the PMI differential between the US and Europe shifts in favor of the old continent and valuations of US equities are more expensive. This environment has brought renewed dollar weakness.

Despite strong US growth and rising nominal yields, US real yields have continued to decline relative to trading partners. It is no surprise as inflation rose to 4.2% YoY in April, the highest level since 2008. It was expected that inflation would rise, but investors were still surprised by the extent. Although we still don't see tapering and rate hikes in the short-term as various employment measures suggest some slack, a sustainable overshoot of the inflation target could force the Fed to react earlier than forecasted. Their comments remain quite dovish and that the high inflation is due to transitory factors.

Lastly, vaccination campaigns are well advanced in Europe as well. There are talks of vaccination passports to allow cross border travel, which should help the Euro Area countries narrow the GDP growth gap with the US in Q2 and perhaps outgrow the US in Q3. Additional stimulus coming from the Recovery Fund should support the euro as well.

**Therefore, we adjust our EURUSD target to 1.25 (from 1.20) for the next 3 months and keep 1.25 (value of one euro) for the next 12 months, respectively. This suggests further upside for the euro.**



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

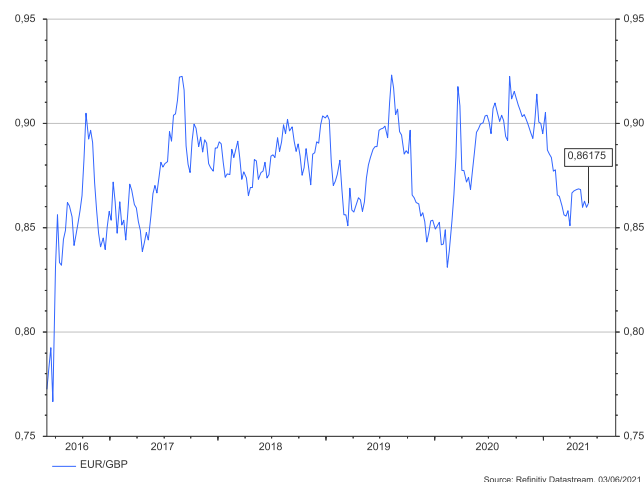
### Positive news priced in: limited upside

Most of the positive factors supporting the GBP are priced in but there are still reasons to believe that the currency could appreciate further. Value stocks tend to do best in a weak dollar environment. Given their high weighting in UK equity indices, this should drive inflows into the UK's stock market. Moreover, the GBP is quite sensitive to the global equity sectors that the pandemic hit the most. Their reopening should support the GBP.

The economic outlook remains good: restrictions were further eased on May 17, now allowing indoor venues. The unemployment rate unexpectedly fell back to 4.8% in the three months through March. CPI prints rose to 1.5% YoY in April, up from 0.7% in March, and the house price index stood at +10.2% YoY, the fastest pace of growth since August 2007.

On the political front, the SNP fell just short of a majority in the Scottish Parliament, which has limited implications for independence. The question for the coming months and years will be what the UK government's approach is, since they're the ones with the power to authorize a legal Scottish referendum.

**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: 1.16

### CHF to weaken over the summer

The Swiss franc is down 1.4% against the euro in 2021, but it actually went up over the last month despite the positive vaccination campaigns and various reopening plans across Europe. It remains highly valued according to the Swiss National Bank's (SNB) Chairman, who recently reiterated the absolute necessity of maintaining negative interest rates (-0.75%, the world's lowest). The inflation is not expected to pose a considerable risk in Switzerland, according to the consensus. As such, the SNB should not change the current monetary policy settings any time soon. The timing of such move will depend on global development, the strength of the economic recovery and developments in interest rates abroad.

The underlying objective is to avoid the Swiss franc to appreciate in order to fight deflation and protect the export-reliant Swiss economy. While we believe there could be a rally in the EURCHF pair over the summer, thanks to pent-up demand and a delayed stimulus from the recovery fund, any major strengthening of the CHF will thus likely be followed by an increase in FX interventions.

**Therefore, we adjust our EURCHF targets (value of one euro) to 1.14 (from 1.11) over a 3-month horizon and to 1.16 over a 12-month horizon (from 1.14). This suggests an appreciation of the euro.**



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

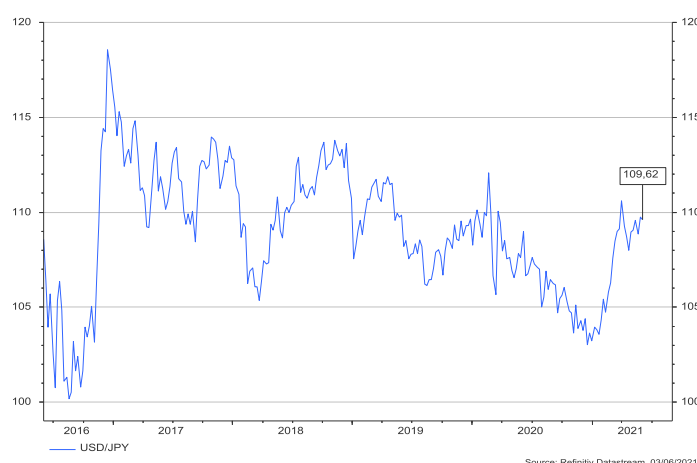
### Still under pressure, but limited downside now

The USDJPY has consolidated around the 109 level since late April. As US bond yields resume their push higher and Japanese yields remain well anchored, the pair should remain supported and rise further over the next twelve months.

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

Nevertheless, the yen is trading at a heavy discount to its PPP exchange rate and real yields are higher in Japan than they are in the other major economies, due to domestic deflationary pressures. We think 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 &gt;&gt;

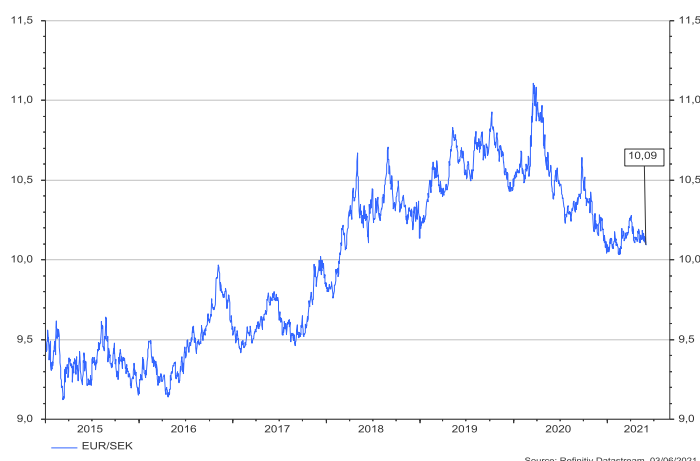
## TARGET 12M VS EUR: 10.00

## Stable SEK, with some room to appreciate

With a gradual recovery in Sweden and encouraging PMI values with the Manufacturing PMI at 66.4 and the Services PMI at 71.7. The Riksbank is rather dovish and the currency shouldn't see much support from it. We see low inflationary pressures but extensive economic measures supported the economy. It will take time for the inflation to stabilize at the Riksbank target. Unemployment figures are expected to remain above pre-Covid19 levels until early 2022. Therefore, on April 27th, the Riksbank maintained its expansionary stance and the repo rate at 0%. This level is expected to remain 'in the years to come' and a further rate cut is unlikely but the Riksbank would react if the inflation outlook worsens.

Lastly, the economy has a small services sector compared to the other major economies limiting the upside linked to the reopening. Nevertheless, the improved global growth should boost export-growth in H2 2021. This is positive for the SEK, in our view.

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 &gt;&gt;

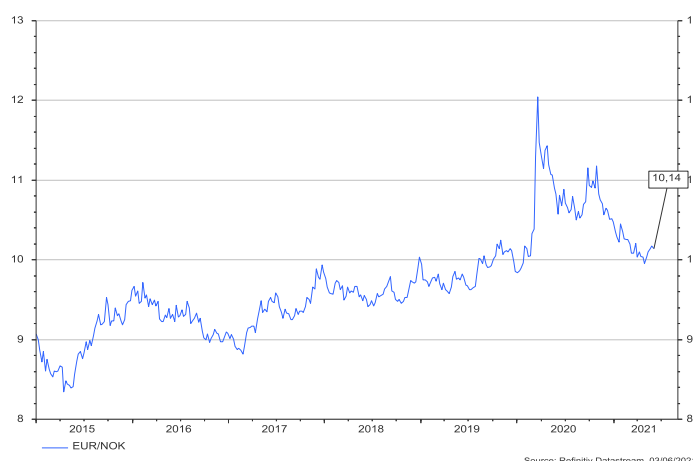
## TARGET 12M VS EUR: 9.60

## Supportive backdrop &amp; first rate hike this year

In May, the NOK didn't perform well. However, the losses are temporary and the key drivers are still positive for the near future. Risky assets including global equity and oil prices are expected to remain supported over the coming months helped by asymmetrically dovish central banks and better macro data. The manufacturing PMI at 58.5 in May shows a stable manufacturing sentiment since the end of Q1. With the vaccination progress in the EU, most of the adult population may be vaccinated at the end of summer. Internal developments including the likely Norges Bank tightening in H2 2021 (September or December is to be determined) and their FX sales may also be supportive for NOK over time.

Therefore, the rise in EURNOK appears overdone relative to moves in oil prices and global equities according to the BNPP STEER. The cross is currently overshooting the recovery in oil prices.

Therefore, 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 &gt;&gt;

## TARGET 12M VS USD: 0.80

## Positive data but policy remains steady

The Australian dollar has benefited from the global reflation theme and the continued risk-on sentiment. We expect the renewed dollar weakness environment to keep supporting the AUD but at a much slower pace given the big gains already made. The country's economic outlook is bright, with the Australian Reserve Bank forecasting GDP growth at 4.75% in 2021, thanks to the great management of the coronavirus crisis. Given the AUD's sensitivity to commodity prices, especially base metals, and to global equities, we expect the AUD to remain well supported. Tensions with China remain a downside risk, given the importance of China for Australia's exports.

On the monetary side, the RBA remains accommodative. On the 1<sup>st</sup> of June meeting, the Board decided to maintain the current policy settings. Progress in reducing unemployment has been faster than expected, with the unemployment rate declining to 5.5 per cent in April. A decline in unemployment rate to around 5 per cent is expected by the end of this year. Despite the strong recovery in the economy and jobs, inflation and wage pressures are subdued.

**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 &gt;&gt;

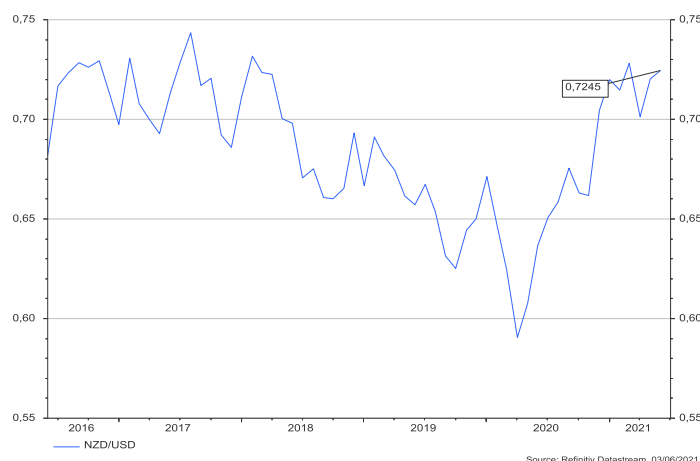
## TARGET 12M VS USD: 0.75

## Rising inflation: not enough to change stance

New Zealand's economy has enjoyed a V-shaped recovery from its pandemic-induced recession thanks to a strong management of the pandemic as well. The authorities mentioned that confidence in the outlook is rising as the rollout of covid-19 vaccines around the world boost the recovery from the pandemic. They remain cautious as potential step backs can't be ruled out, but the most extreme risks are now "off the table".

Nevertheless, the Reserve Bank of New-Zealand's (RBNZ) monetary policy committee held its official cash rate at 0.25% and kept the asset purchase program unchanged at its May 26<sup>th</sup> meeting. The central bank will not remove monetary stimulus until it has confidence that it is sustainably achieving the consumer price inflation and employment objectives. The RBNZ expects inflation to reach 2.6% YoY in Q2. Given their updated forecasts, they could begin hiking rates in the second half of 2022. Indeed, the cash rate could advance to 0.49% by September 2022, 0.67% by December 2022 and just under 1.5% by December 2023.

**Therefore, 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.**





## CAD VIEW &gt;&gt;

## TARGET 12M VS USD: 1.22

## Tapering started, 1st rate hike on the horizon

In late April, the BoC announced that they were reducing their weekly purchases of government bonds from C\$4 billion to C\$3 billion. The reopening, strong fiscal stimulus, the better global macro figures and the strong recovery of the US economy support the CAD. The participation rate should slowly rise between now and late 2022 and the slack in the labor market should close in H1 2022. Figures should be back to the pre-pandemic levels soon and unemployment rate reaching levels below 6% by mid-2022 (the H1-2018 levels). Therefore, the Bank of Canada could raise its key interest rates twice over 2022 with a total hike of 50 basis points. Moreover, we can expect the end of the quantitative easing for September 2021. We can expect an additional reduction of the pace in June with C\$2 billion a week and then C\$1 billion a week in July.

Lastly, given the importance of the US for the Canada's exporters, the BoC will remain sensitive to the strength of the CAD. In our view, this should limit the upside.

Therefore, we adjust our 3-month target to 1.22 (from 1.24) and keep our 12-month target to 1.22 for the USDCAD (value of one dollar). This suggests a lateral move in the pair now and short term.

## CNY VIEW &gt;&gt;

## TARGET 12M VS USD: 6.40

## CNY more resilient than expected

The Chinese currency strengthened against the US dollar over the month of May but we now expect to see some lateral move in the USDCNY pair. China extended exemption of retaliatory tariff on 79 US products until the end of the year. This measure shows that China has no intention to escalate the tensions between the two major nations. Figures showed that despite the political speeches, China/US trade actually increased by 8,8% in 2020. Following the higher commodity prices, the Chinese authorities are trying to contain the speculation on base metals and especially on iron ore. The CNY has remained resilient so far.

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

Therefore, we adjust our 3-month USDCNY target to 6.40 (previously 6.60) and our 12-month target to 6.40 (value of one dollar). This suggests some downside short-term for the CNY but a stable cross over the year.



	Country	Spot 03/06/2021	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)	
	United States	EUR / USD	1.22	Negative	1.25	Negative	1.25
	United Kingdom	EUR / GBP	0.86	Neutral	0.85	Positive	0.84
	Japan	EUR / JPY	134	Negative	139	Negative	139
	Switzerland	EUR / CHF	1.10	Neutral	1.11	Negative	1.14
	Australia	EUR / AUD	1.58	Neutral	1.60	Neutral	1.56
	New-Zealand	EUR / NZD	1.69	Negative	1.74	Neutral	1.67
	Canada	EUR / CAD	1.47	Negative	1.53	Negative	1.53
	Sweden	EUR / SEK	10.10	Neutral	10.00	Neutral	10.00
	Norway	EUR / NOK	10.13	Positive	9.80	Positive	9.60
Asia	China	EUR / CNY	7.79	Negative	8.00	Negative	8.00
	India	EUR / INR	88.94	Neutral	90.0	Neutral	90.00
Latam	Brazil	EUR / BRL	6.19	Negative	6.38	Positive	6.00
	Mexico	EUR / MXN	24.31	Neutral	24.6	Positive	23.75
EMEA	Russia	EUR / RUB	89.23	Neutral	90.0	Positive	85
	South Africa	EUR / ZAR	16.79	Negative	18.1	Negative	18.75

	Country	Spot 03/06/2021	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)	
	Eurozone	EUR / USD	1.22	Positive	1.25	Positive	1.25
	United Kingdom	GBP / USD	1.42	Positive	1.47	Positive	1.49
	Japan	USD / JPY	110	Neutral	111	Neutral	111
	Switzerland	USD / CHF	0.90	Neutral	0.89	Neutral	0.91
	Australia	AUD / USD	0.77	Neutral	0.78	Positive	0.80
	New-Zealand	NZD / USD	0.72	Neutral	0.72	Positive	0.75
	Canada	USD / CAD	1.21	Neutral	1.22	Neutral	1.22
Asia	China	USD / CNY	6.39	Neutral	6.40	Neutral	6.40
	India	USD / INR	73.0	Neutral	72.0	Neutral	72.0
Latam	Brazil	USD / BRL	5.08	Neutral	5.10	Positive	4.80
	Mexico	USD / MXN	19.95	Neutral	19.7	Positive	19.0
EMEA	Russia	USD / RUB	73.26	Neutral	72.0	Positive	68.0
	South Africa	USD / ZAR	13.56	Negative	14.5	Negative	15.0
	USD Index	DXY	90.04	Neutral	88.4	Neutral	88.4

Source: Refinitiv - BNP Paribas

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