

MARCH 22

Currencies Focus



Summary

1. Central banks face a dilemma position: high inflation will persist for longer while growth will be weaker due to the recent increase in uncertainty and fears of losses of purchasing power. The eurozone, which imports about 40% of its gas from Russia, is more vulnerable than other areas. High uncertainty could stay for longer. In this context, **we adjust our 3-month EURUSD target to 1.06 from 1.12.**
2. Commodity currencies (CAD, NOK, AUD, BRL) are expected to perform well over the 3- and 12-month horizons notably due to the supply disruption of oil, gas and wheat from Russia and Ukraine. **We adjust our target to 5 for USDBRL on our 3- and 12-month horizon.**
3. Since the middle of the month, the Swiss franc and the Yen, two safe heavens currencies, have appreciated. The Swiss franc has even temporarily broken the euro parity. **Given the uncertainty the strength of the franc could last for longer. We revise our 3-month target for the Swiss franc to 1.03 from 1.06.**
4. The Bank of Sweden has announced that it will not raise rates until 2024 despite strong inflationary pressures in the short term. **We downgrade our target to 10.7 for our 3-m and 12-m horizon, suggesting a small appreciation of the SEK from current levels.**
5. The CNY could stay strong in the context of high uncertainty and US sanctions against Russia. **We therefore revise our 3-month target to 6.35 from 6.5.**
6. Global uncertainty and downward revisions of US growth that will penalize Mexican exports. **We revise our 3-month target for the USDMXN (value of one dollar) to 20.5 from 19.7.**

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OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Pays	Cours actuel 3/9/2022	Objectif à 3 mois	Objectif à 12 mois
Contre euro	Etats-Unis	EUR / USD 1.10	1.06	1.12
	Royaume-Uni	EUR / GBP 0.84	0.82	0.82
	Suisse	EUR / CHF 1.02	1.03	1.08
	Japon	EUR / JPY 127.92	121	128
	Suède	EUR / SEK 10.71	10.70	10.70
	Norvège	EUR / NOK 9.85	9.75	9.60
Contre dollar	Japon	USD / JPY 115.82	114	114
	Canada	USD / CAD 1.28	1.25	1.25
	Australie	AUD / USD 0.73	0.73	0.73
	Nouvelle-Zélande	NZD / USD 0.68	0.70	0.70
	Brésil	USD / BRL 4.99	5.00	5.00
	Russie	USD / RUB 135.50	100.0	90.0
	Inde	USD / INR 76.57	76.0	78.0
	Chine	USD / CNY 6.32	6.35	6.50

Guy Ertz, PhD

Chief Investment Advisor
BNP Paribas Wealth Management



Source: Refinitiv - BNP Paribas WM



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USD VIEW >> TARGET 12M VS EUR: 1.12

Dollar to stay strong

The euro depreciated strongly in recent weeks due to sharp rise in risk aversion and the flight to quality. The EURUSD broke below 1.09 (value of one euro), a new low since April 2020.

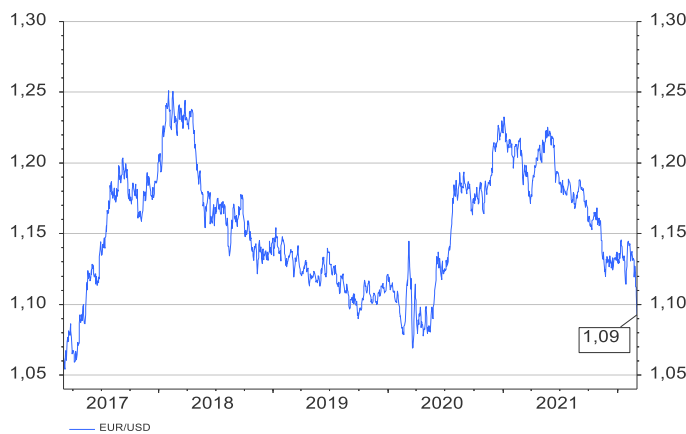
The euro depreciated strongly in recent weeks due to sharp rise in risk aversion and the flight to quality. The EURUSD broke below 1.09 (value of one euro), a new low since April 2020. Strength was also seen for the Swiss Franc while the Yen lagged a bit.

The Eurozone is one of the most vulnerable regions due to its high dependence on Russian energy commodities. There was some repricing of the market expectations when it comes to the expected path for interest rates in the US relative to the eurozone. In other words, the difference between the US and EUR 2-year yields has been rising again. This remains quite supportive for dollar relative to the euro.

At its March meeting, the ECB said that its main priority is to combat high inflation which has significant upside risks in the short and medium term. The ECB indicated its willingness to normalize its policy and therefore the central bank would stop buying bonds during the third quarter. A first rate hike is expected later this year.

The environment of high uncertainty and vulnerability for the eurozone should last in the short-term. **It is thus less likely to see the EURUSD reach our previous 3- month target of 1.12. We thus change our target to 1.06.**

For the 12-month horizon, we keep target of 1.12 as we expect a gradual normalization with the ECB still expected to hike rates a first time in December and a total of 1% interest rate increases until late 2023.



GBP VIEW >> TARGET 12M VS EUR: 0.82

New rate hike expected in March

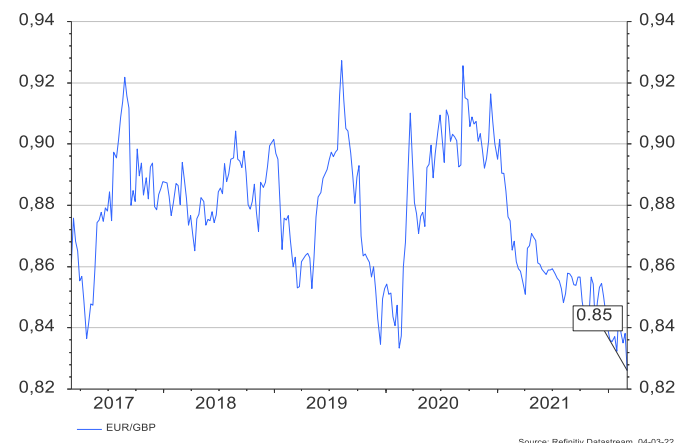
At beginning February, the GBP experienced a lot of volatility after the Bank of England (BoE) and the ECB meetings. Since the beginning of the Russian invasion, the EURGBP has been moving sideways around 0.83 (value of one euro).

The United Kingdom is affected by high energy price inflation due to the relatively large share of imported energy. Inflation was initially expected to peak to 7.25% in April, but the outlook could be revised upwards. The UK economy is less exposed to Russia than the eurozone and this will be a supporting factor for an appreciation of the pound.

The Bank of England raised rates by 25bps at its February meeting. At the next meeting in March, another 25bps rate hike is expected followed by 2 more during the year. The ECB should be more prudent.

The UK business survey (Composite PMI) came in at 59.9 well above January's 54.2 due to fewer Omicron cases, strong orders books and good economic numbers on the employment front.

We remain convinced that the smaller impact of the military conflict on the British economy and the more restrictive monetary policy will be supportive factors for the GBP. **We maintain our 3- and 12-month targets at 0.82, suggesting appreciation potential for the GBP.**



CHF VIEW >> TARGET 12M VS EUR: 1.08

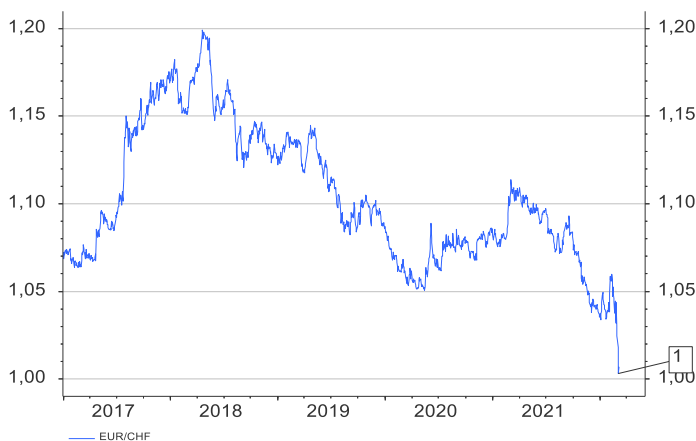
The franc close to record strength

The Swiss franc appreciated sharply since the start of the conflict and broke the parity level (EURCHF). This is close to a 7-year high. The Swiss currency is thus playing its role as a "safe haven" asset.

Switzerland has experienced an economic growth of 3.7% in 2021 after a decline of 2.4% in 2020. The economic performance is still good at the beginning of the year with a business survey (Composite PMI) at 62 (above 50 suggests expansion). This came thanks to the lifting of sanitary restrictions, and strong job market with an unemployment rate at only 2.4%. This will not be enough for the Swiss National Bank to raise rates however. Indeed, the central bank regularly stresses that it considers the Swiss franc to be highly valued. Inflation remains manageable. The Swiss bank is expected to maintain its repo rate at -0.75% at its March 24th meeting. In addition, the market expects about 0.15% increase by the end of the year from the SNB which represents another downside risk if it is not achieved.

In the longer term, we remain cautious on the Swiss franc. The currency is almost 50% off its purchasing power parity value (close to 1.50) and a gradual fall in risk aversion could weigh on the currency.

We change our 3-month target to 1.03 and we keep our 12-month target at 1.08.



JPY VIEW >> TARGET 12M VS USD: 114

Less appreciation expected

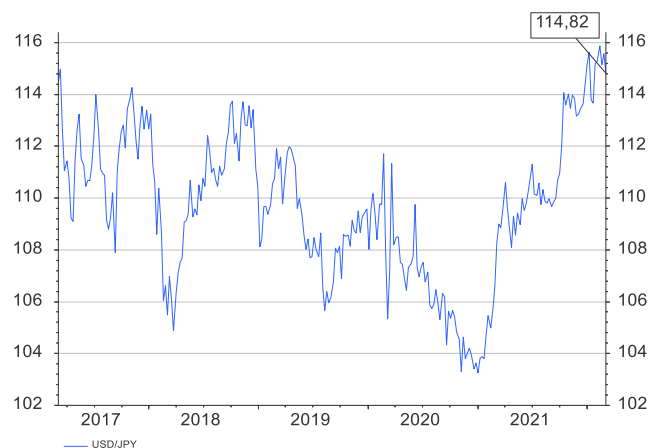
The USDJPY is now hovering around 115. The high level of interest rate differential keeps the demand for Yen weak.

At its January meeting, the Bank of Japan highlighted the economic recovery for 2022 and a higher inflation outlook. Temporarily, the Bank of Japan indicated that inflation could reach 2%. However, it will not change its policy as long as the structural price increase is not above 2%, which suggests a continuation of its ultra-accommodating policy. The Fed is still expected to hike rates several times in the coming months.

The Bank of Japan launched an offer in February to buy an unlimited amount of Japanese 10-year debt at 0.25%. The objective was to indicate that the bank would remain ultra-accommodating and that investors were wrong to believe that Bank of Japan could follow the more restrictive movement of other central banks. The monetary policy differences relative to the US make an appreciation of the Yen difficult.

The Japan business confidence index (Composite PMI) fell in February to 45.8 from 49.9 in January. Production prices were rising for the 15th consecutive month and many companies were not able to pass on the price increase and thus saw their margins fall. Japan is relaxing its mobility restrictions, which were still particularly drastic, and this should help to regain economic momentum.

We keep our 3-month and 12-month USDJPY targets at 114 (value of one dollar). This suggests a small appreciation of the JPY from current levels.



SEK VIEW >>

TARGET 12M VS EUR: 10.00

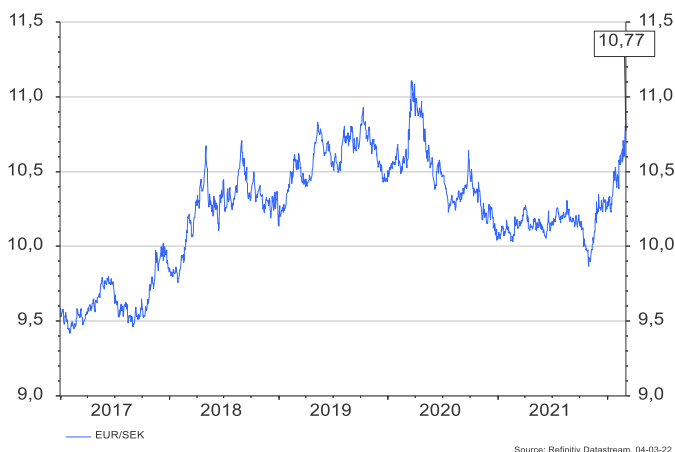
Less appreciation potential - New targets

The SEK depreciated in February by almost 2% against the EUR after a dovish central bank meeting.

Despite rising inflation concerns, the Riksbank considered it to be temporary. It has indicated that it does not plan to move rates until 2024. The Riskbank also said that the balance sheet reduction would not begin this year. The rise in inflation is considered to be mainly due to the rise in fuel and electricity prices. The Riksbank said that rate hikes are therefore not the right response. The central bank will probably reconsider its opinion in upcoming meetings, and this is why we do not expect a substantial depreciation of the Swedish krona.

The Swedish economy has started to recover thanks to weaker mobility restrictions. After 5.2% growth in 2021, it should reach 3.6% in 2022 and 2% in 2023. The accommodating policy is also explained by the unemployment rate, which reached 8.8% in 2021 and is expected to remain above 7.5% in 2022. The Riksbank will probably continue to lag other central banks when it comes to policy normalization.

We now expect less appreciation of the SEK. We target 10.7 for our 3-month and 12-month targets. This suggests a rather stable SEK.



NOK VIEW >>

TARGET 12M VS EUR: 9.6

More strengthening ahead

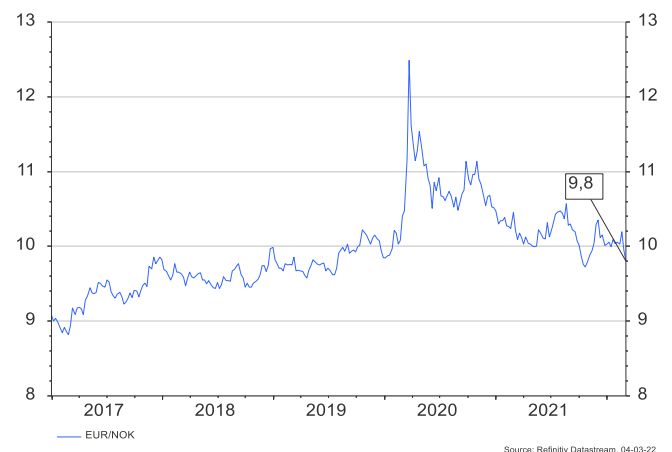
The Norwegian krone appreciated in February by close to 2.7% and is now back below 10 after the significant increase in oil prices.

The Central Bank expects an interest rate of 1.75% by the end of 2024. In the last committee minutes, the Norges Bank indicated that a rate hike was likely in March. Historically, the tightening in Norway generated an appreciation of the krone. We forecast that the rate differential with the ECB will result in a further appreciation of the NOK. Moreover, the currency should remain supported by the high price for oil (Brent) in 2022.

Oil accounts for 60% of Norway's exports and the strong demand and high prices should lead to a strengthening of the Norwegian krone.

Interest rates are expected to rise faster than in most other developed countries. This should support the appreciation potential of the Norwegian krona.

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.



AUD VIEW >>

TARGET 12M VS USD: 0.73

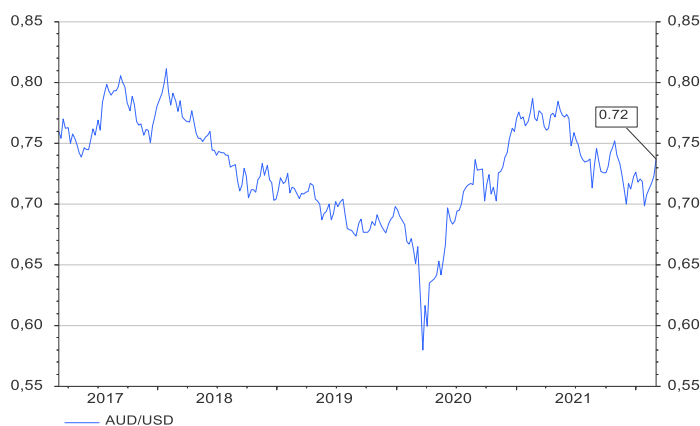
Close to our targets

The Australian dollar appreciated in February, moving closer to our 3- and 12-month target of 0.73. As a net energy exporter, the rise in commodity prices that were amplified by the Russian-Ukraine conflict was favorable to the Australian dollar. Moreover, the economy has limited links with Russia.

At its March meeting, the Reserve Bank of Australia held rates at 0.1% and reiterated its intention to let wages increase before tightening policy. A first rate hike is expected later this year depending on the economic data. The central committee reaffirmed that Ukraine was a major source of uncertainty for the global economy. Q4 GDP figures were up 3% thanks to household demand returning after the Covid confinements.

Unemployment has fallen to a 13-year low of 4.2% and is expected to fall to below 4%. Full employment is another factor that will cause the central bank to be gradually more hawkish.

Therefore, we maintain our 3-month and 12-month AUDUSD targets at 0.73 (value of one AUD). This implies a lateral movement for the AUD over the coming year.



NZD VIEW >>

TARGET 12M VS USD: 0.7

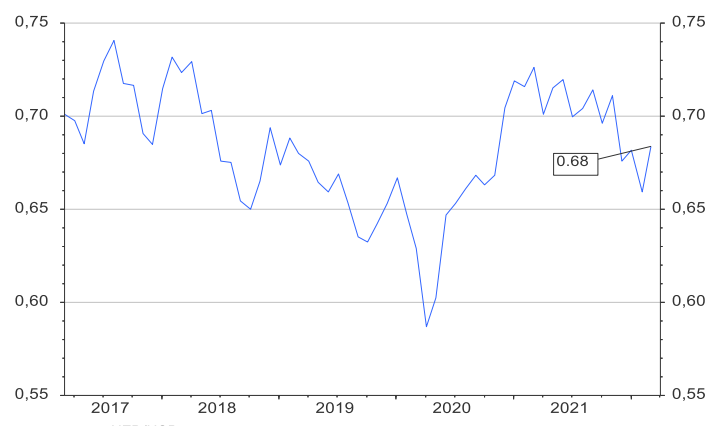
Further upside

The New Zealand dollar rose in February from 0.65 to close to 0.69 after the central bank raised rates by 25bps and especially thanks to the rise in commodities.

At the meeting in late February, the message of the central bank was clear: more tightening is needed. The high level of economic activity and rising commodity prices is generating strong inflationary pressures. The unemployment rate is very low and there are risks on the wage side. Companies report difficulties in recruiting. In addition, property prices have reached unsustainable levels. The central bank thus raised its rate by 25bps, bringing the official cash rate to 1%. More is expected. In addition, the RBNZ has taken the decision to start reducing its balance sheet by NZD\$5 billion per year.

New Zealand is an exporter of agricultural commodities and therefore could benefit from the recent surge in prices due to the disrupted supply chains of Ukrainian wheat.

We keep our 3-month and 12-month NZDUSD targets to 0.70 (value of one NZD). This implies an appreciation potential for the NZD.



CAD VIEW >>

TARGET 12M VS USD: 1.25

More upside for the CAD

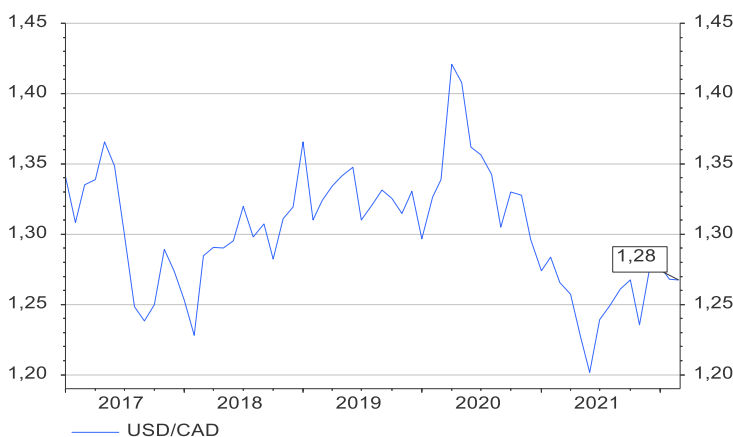
The Canadian dollar has appreciated moderately over recent weeks, particularly following the actions and comments of the Bank of Canada (BoC).

The central bank raised its policy rate by 25bps at its March meeting, bringing the overnight interest rate to 50bps. It has indicated that further increases are expected despite the weaker growth that will result from the Russian-Ukraine conflict. There is upside risk for inflation and the Bank of Canada is likely to raise rates again in April. The BoC should also start the reduction of its balance sheet which is expected to begin later in 2022. Overall, US and Canadian monetary policies should be fairly similar in terms of rate hikes.

As a commodity exporter, Canada benefits from the rise in oil prices (WTI) currently. The Ukrainian crisis could however lead to falling consumer confidence and impact growth. There is also further upside for inflation.

Canada posted an annualized growth of 6.7% in the last quarter driven by the construction, retail and financial sectors. Inflation was at 5.1% in January.

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



CNY VIEW >>

TARGET 12M VS USD: 6.5

Recent strength should be temporary

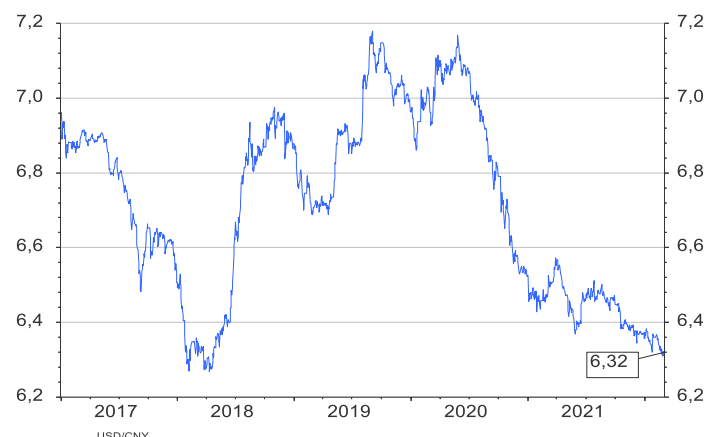
The USDCNY appreciated in February and is approaching 6.3 level (value of one dollar). In the current context, the CNY could benefit from the uncertainty and the Russian sanctions.

At the end of January, the People's Bank of China lowered the 1-year loan prime rate from 3.8% to 3.7% and the 5-year rate from 4.65% to 4.6%.

Last year, according to Chinese party sources, economic growth reached 8.1%. The government announced 5.5% growth expectations for 2022 with 3% inflation. Xi Jinping re-emphasized the stability of economic fundamentals as the main priority. The government also indicated that the macroeconomic environment remains uncertain due to a sharp increase of commodity prices.

The Chinese February manufacturing business survey (PMI) improved slightly from 50.1 to 50.2. Small and medium enterprises are likely to benefit from the more accommodative monetary policy with further small rates cut to come. Logistic managers also reported good external demand conditions.

We change our 3-month target to 6.35, with the CNY expected to remain near that level as long as the extreme uncertainty prevails. At 12 months, we keep our target of 6.5.



BRL VIEW >>

TARGET 12M VS USD:

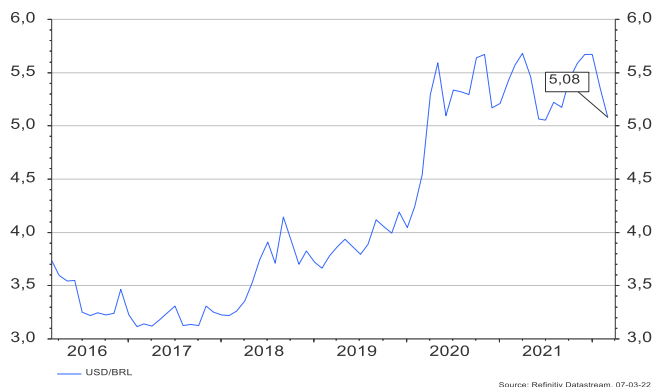
Sustained strength

The USDBRL appreciated in February from 5.3 to around 5 (value of one dollar). The USDBRL has seen a lot of volatility since the invasion of Ukraine.

At its February 2nd meeting, the Brazilian Central Bank raised interest rates by 150 bps to 10.75%. This is the eighth straight increase since March and is the result of high inflation (exceeding 10%). The central bank is expected to raise rates again in March by 100 bps. Brazil is a key commodity and oil exporter. The BRL should thus remain supported in 2022. However, the rise in US rates will gradually lower the yield differential with Brazil. The elections in October are another source of uncertainty for the currency. The Brazilian current account deficit is almost balanced and is not causing downward pressure for the BRL.

From a macroeconomic point of view, growth should remain sluggish at around 0.5% while inflation will probably remain above 8%. The currency should remain around current levels.

We change our 3-month and 12-month targets to 5 from 5.5 and 5.25.



MXN VIEW >>

TARGET 12M VS USD: 19

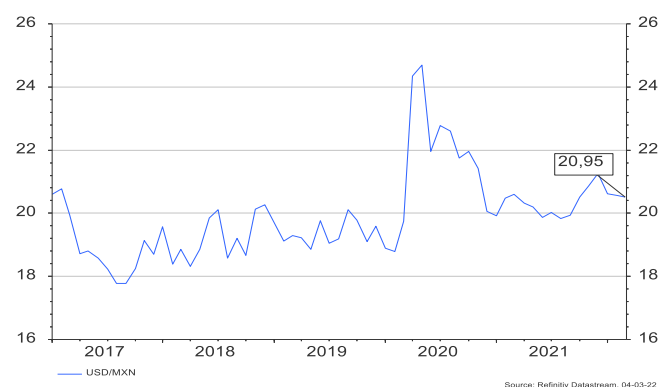
Some upside

The Mexican peso depreciated over the past few weeks in a risk-off movement.

Banxico, Mexico's central bank, has increased its rate by 200bps since June to 6% compared to the 4% low during the pandemic. Inflationary pressures will remain high due to supply chain interruptions and strong wage increases. For 2022, the central bank expects now growth between 1.6% and 3.2% less than before with 4% inflation.

Economic growth also slowed during the last quarter 2021 due to a decline in services activity and the weakness of industrial production. US growth should result in strong imports from Mexico. The willingness to have shorter supply chains argues for more integration between the two countries. The sharp rise in prices of palladium, used in the design of catalytic converters in cars, will probably create some disruption in the automotive sector, which accounts for over 20% of the Mexico's exports. These uncertainties lead us to revise our 3-month target.

We change our 3-month target to 20.5 from 19.7 and we maintain the 12-month target at 19. This implies an appreciation potential for the MXN from current levels.



	Country	Spot 3/9/2022	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)	
	United States	EUR / USD	1.10	Positive	1.06	Neutral	1.12
	United Kingdom	EUR / GBP	0.84	Positive	0.82	Positive	0.82
	Japan	EUR / JPY	127.92	Positive	121	Neutral	128
	Switzerland	EUR / CHF	1.02	Neutral	1.03	Negative	1.08
	Australia	EUR / AUD	1.51	Positive	1.45	Neutral	1.53
	New-Zealand	EUR / NZD	1.61	Positive	1.51	Neutral	1.60
	Canada	EUR / CAD	1.42	Positive	1.33	Neutral	1.40
	Sweden	EUR / SEK	10.71	Neutral	10.70	Neutral	10.70
	Norway	EUR / NOK	9.85	Neutral	9.75	Positive	9.60
Asia	China	EUR / CNY	6.98	Positive	6.73	Negative	7.28
	India	EUR / INR	84.57	Positive	80.56	Negative	87.36
Latam	Brazil	EUR / BRL	5.51	Positive	5.30	Neutral	5.60
EMEA	Russia	EUR / RUB	149.67	Positive	106.00	Positive	100.80

	Country	Spot 3/9/2022		Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1.10	Negative	1.06	Neutral	1.12
	United Kingdom	GBP / USD	1.32	Neutral	1.29	Positive	1.37
	Japan	USD / JPY	115.82	Neutral	114.00	Neutral	114.00
	Switzerland	USD / CHF	0.93	Negative	0.97	Negative	0.96
	Australia	AUD / USD	0.73	Neutral	0.73	Neutral	0.73
	New-Zealand	NZD / USD	0.68	Positive	0.70	Positive	0.70
	Canada	USD / CAD	1.28	Positive	1.25	Positive	1.25
Asia	China	USD / CNY	6.32	Neutral	6.35	Negative	6.50
	India	USD / INR	76.57	Neutral	76.00	Neutral	78.00
Latam	Brazil	USD / BRL	4.99	Neutral	5.00	Neutral	5.00
	Mexico	USD / MXN	20.97	Positive	20.50	Positive	19.00
EMEA	Russia	USD / RUB	135.50	Positive	100.00	Positive	90.00
	South Africa	USD / ZAR	15.03	Neutral	15.00	Neutral	15.00
	USD Index	DXY	97.97	Positive	100.61	Neutral	96.58

Source: Refinitiv - BNP Paribas WM

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Global Chief Investment Officer

ASIA

Prashant BHAYANI

Chief Investment Officer, Asia

Grace TAM

Chief Investment Advisor, Asia

BELGIUM

Philippe GIJSELS

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