

Currencies Focus



Summary

1. The dollar strengthened against most major currencies with the value of one euro falling below 1.06. The dollar index (DXY) is at its highest level since March 2020. This can be explained by the expectations of more rate hikes by the Fed relative to other central banks.
2. The GBP is under pressure due to its high share of imported energy. The latest economic figures suggest less economic growth and the market is thus anticipating less rate hikes. **Therefore, we change our 3-month target from 0.82 to 0.84.**
3. Japan is in a similar situation compared to the UK regarding imported energy inflation. This is affecting business confidence. Monetary policy should remain accommodative. **These headwinds lead us to revise our 3-month target from 118 to 124 at 3 months and from 118 to 120 for the 12-month horizon.**
4. Chinese exports will probably slow down in the coming months due to the new lockdowns. We have revised down our economic forecast for this year. We also revise our 3-month USDCNY target from 6.35 to 6.6. We keep our 12-month target at 6.5. The slowdown in China will also weigh on Australian and New Zealand exports and global demand. **We change our 3-month target from 0.76 to 0.73 for the AUD and from 0.70 to 0.68 for the NZD.**

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OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 5/4/2022	Target 3 months	Target 12 months
Against euro	United States	EUR / USD 1.05	1.08	1.12
	United Kingdom	EUR / GBP 0.84	0.84	0.82
	Switzerland	EUR / CHF 1.04	1.03	1.08
	Japan	EUR / JPY 137.11	134	134
	Sweden	EUR / SEK 10.40	10.40	10.70
	Norway	EUR / NOK 9.93	9.60	9.60
Against dollar	Japan	USD / JPY 129.98	124	120
	Canada	USD / CAD 1.28	1.25	1.25
	Australia	AUD / USD 0.71	0.73	0.76
	New Zealand	NZD / USD 0.64	0.68	0.70
	Brazil	USD / BRL 5.01	5.00	5.00
	Russia	USD / RUB 65.85	100.0	90.0
	India	USD / INR 76.43	76.0	78.0
	China	USD / CNY 6.59	6.60	6.50

Source: Refinitiv - BNP Paribas WM



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USD VIEW >> TARGET 12M VS EUR: 1.12

USD index at a 5-year high

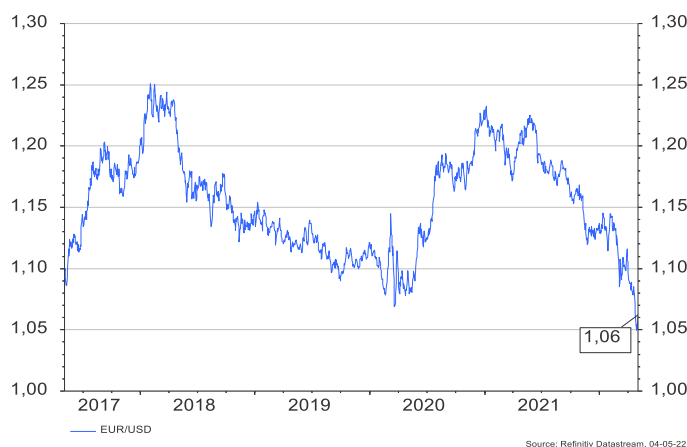
The euro fell nearly 5% in April and is currently trading around 1.05 (value of one euro).

At its meeting in early May, the Fed raised rates by 50bps and said that more 50bps hikes should follow at future meetings. The balance sheet reduction will begin in June via non reinvestment of maturing assets. Jerome Powell recalled that inflation, which reached 8.5% in March on an annual basis, was much too high.

The US economy contracted in the first quarter. The contraction is mainly explained by the widening of the trade deficit with a sharp rise in the cost of imports and a fall in the volume of exports. Domestic demand remains resilient. We remain positive for the coming quarters. Likely downward revisions for economic growth in the eurozone are limiting the upside for the euro in the short-term.

Over a one-year horizon, we remain bullish on the euro from current levels. Indeed, geopolitical uncertainties should fall gradually. In addition, we expect two rate hikes from the ECB by the end of the year while we believe that the Fed will probably do less than the market expects as inflation should peak in the coming months.

We keep our 3-month target at 1.08. For the 12-month horizon, we keep our target of 1.12 (value of one euro).



GBP VIEW >> TARGET 12M VS EUR: 0.82

Adjustment to our 3-month target

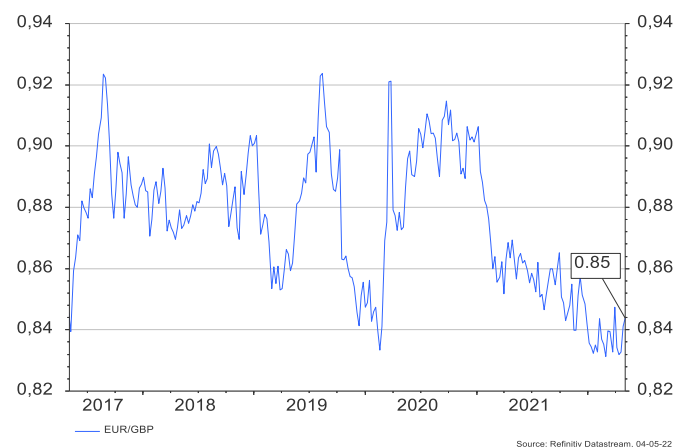
The EURGBP was broadly stable in April around 0.84 (value of one euro). The Bank of England (BoE) raised its policy rate by 25bps at its last meeting, bringing the bank rate to 1%. The BoE is also working on a plan to begin selling government bonds accumulated since the global financial crisis.

The bank expects inflation to peak at 10% around October. Prices will rise faster than incomes for many households and will result in slower economic growth. The British economy is also affected by the lockdowns in China. The bank expects inflation to return to its target rate within two years. The BoE board has not changed its growth forecast for 2022, which is anticipated to be at 3.25%.

The UK is highly dependent on natural gas imports for electricity, which reinforces already high inflationary pressures, especially on goods. Inflation is running at an annual rate of 7%, a 30-year high. The UK business survey (Composite PMI) fell in April from 60.9 to 57.6, reflecting lower new orders and supply chain uncertainties although it is still in expansion territory.

The market now expects interest rates at 2.5% by the middle of next year which is probably too high according to the central bank.

In the short term, the GBP is under pressure from imported inflation and its trade balance deficit. We therefore adjust our target from 0.82 to 0.84. The Bank of England's more restrictive policy should be a supportive factor for the GBP over the next 12 months. We maintain our 12-month target at 0.82 (value of one euro).



CHF VIEW >> TARGET 12M VS EUR: 1.08

CHF still very strong

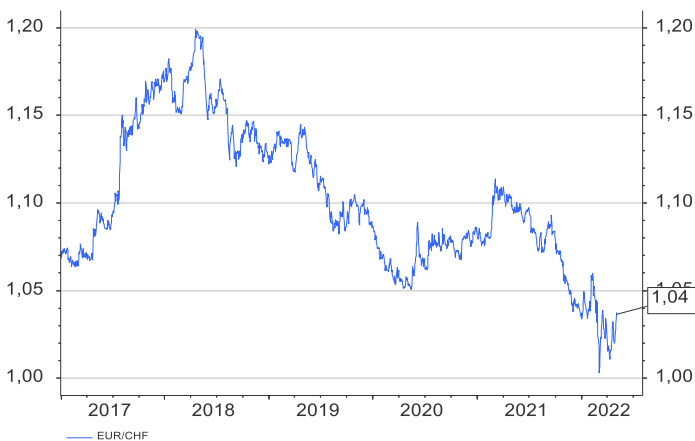
The EURCHF remained stable in April at 1.02 (value of one euro). Geopolitical and growth uncertainties in the eurozone are supporting the Swiss franc.

At its March meeting, the Swiss National Bank (SNB) left its key interest rate unchanged at -0.75%. The market is currently pricing in a 25bps rate increase for the fourth quarter of 2022 and other hikes are anticipated for 2023. However, there are various uncertainties regarding the monetary policy tightening path. Indeed, inflation in Switzerland remains under control at 2.4%. The Swiss National Bank should continue to lag the ECB in terms of rate hikes. We believe that these factors should lead to a decline in the Swiss franc that could move towards 1.08 (value of one euro) over the next year.

Recently, the SNB board confirmed that it would not intervene to weaken the Swiss franc. Indeed, the lower inflation in Switzerland should allow the central bank to remain strong over the 3-month horizon.

The franc is very far from its fair value (purchasing power parity) and a gradual fall in risk aversion could weigh on the currency.

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



JPY VIEW >> TARGET 12M VS USD: 120

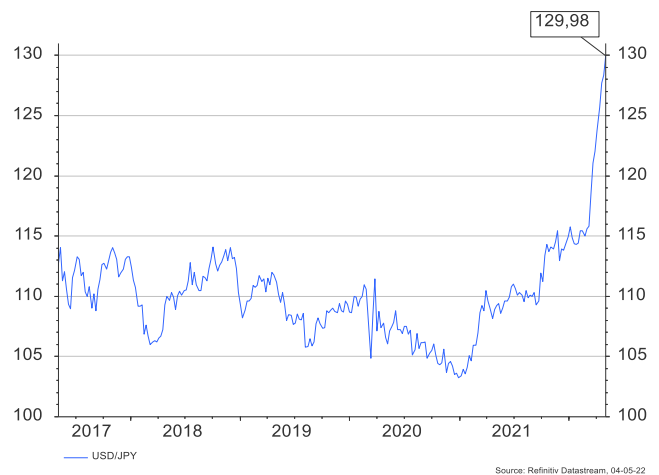
Target revisions for the USDJPY

The JPY continued to decline in April and is down more than 6% over the past 30 days, with a level close to 130 (May 5th). The divergence of monetary policies between the Fed and the Bank of Japan (BoJ) and the fact that Japan is a net importer of energy explain the strong decline of the Yen.

Capital continues to flow out of Japan in the face of more attractive yields in other countries due to monetary tightening policies, especially in the US. Japan's trade balance has been in deficit for more than 8 months and has widened sharply in recent months in the face of energy price inflation as a net importer. The Flash PMI Composite for April held steady at 50.9, up from 50.3 in March, driven by good activity in services. In the manufacturing sector, companies continue to report strong cost pressures.

Since 2016, the Bank of Japan has implemented a yield curve control. At its April meeting, the BoJ reiterated that it would buy back the 10-year maturity at a rate of 0.25% indefinitely. However, the deterioration of trade terms as well as better yields abroad are weakening the Yen significantly. The BoJ may revise the 0.25% target to a higher level to defend the Yen. A weak yen puts strong pressure on the margins of companies as well as on the purchasing power of households notably due to imported energy inflation.

We revise our 3-month target from 118 to 124 and from 118 to 120 for our 12-month target. The JPY appears oversold as indicated by the Relative Strength Indicator (RSI). We expect a moderate appreciation from current levels.



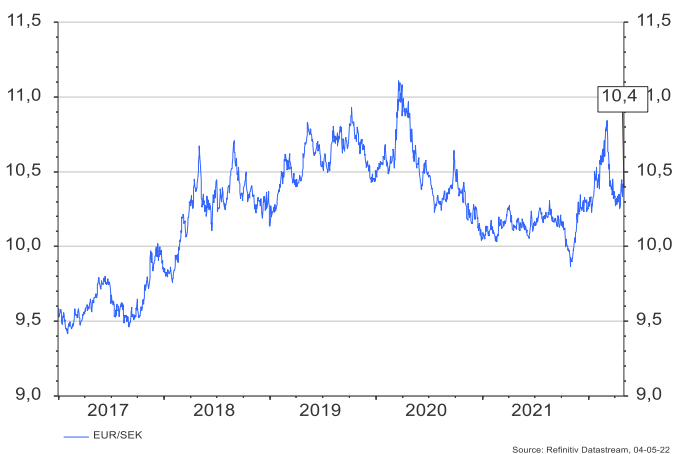
SEK VIEW >> TARGET 12M VS EUR: 10.70

First rate hike by the central bank

The SEK was depreciating very slightly over the last 30 days. At the meeting at the end of April, the central bank (Riksbank) raised its repo rate from 0 to 0.25%. The bank indicated that there would be between 2 and 3 rate hikes still to come this year and that the repo rate will be gradually raised to somewhat below 2% over the next 3 years. The Riksbank also indicated a reduction in the pace of asset purchases in the second half of the year from SEK 74bn to 37bn. The Riksbank expects weaker growth for Sweden due to lower demand from businesses and households against a backdrop of high inflation and global uncertainties.

On a year-over-year basis, inflation reaches 6.1% mainly driven by energy components but the price increase is now spreading to more items hence the need for a gradual monetary tightening. The market is already pricing in 9 rate hikes of 25bps by the end of 2024. Thus, there is little appreciation potential for the SEK at this stage.

We therefore maintain our targets of 10.4 and 10.7 for the 3- and 12-month horizon.



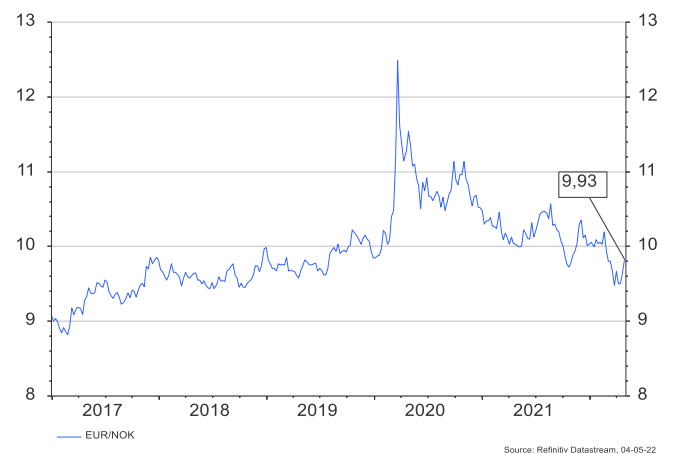
NOK VIEW >> TARGET 12M VS EUR: 9.60

Rates hikes on the agenda

The Norwegian krone depreciated by more than 2% over the last 30 days. The central bank (Norges Bank) left rates unchanged at its meeting in early May and is likely to hike by 25bps in June which would bring the benchmark rate to 1%. Historically, the tightening in Norway generated an appreciation of the krone.

Norway continues to show several signs of overheating in its economy with an unemployment rate below 2%, high-capacity utilization and high gas and oil prices. We forecast that the rate differential with the ECB as well as high oil prices will support the currency going forward. Three rate hikes are planned for 2022 and four more in 2023. Wage inflation in the face of worker shortages and imported inflation require a gradual increase in rates. Inflation has reached 4.5% year-on-year although core inflation remains at a modest 2.1%. The latest inflation figures were lower than expected.

We maintain our 3- and 12-month targets at 9.6 suggesting a potential for NOK appreciation from current levels.



AUD VIEW >>

TARGET 12M VS USD: 0.76

Under pressure

Over a month, the AUD is losing nearly 5% against the USD. This is due to lockdowns in China which is weighing on Australian exports. In addition, the decline in the rate differential between Australia and the United States is weighing on the currency.

The Reserve Bank of Australia (RBA) announced a 25bps rate hike, bringing the cash rate to 35bps. The Board deems it necessary to withdraw some of the exceptional monetary measures. Inflation, which stands at 5.1% on a year-over-year basis, has indeed reached a higher level than expected. The RBA is expected to raise rates by 25bps at each meeting until December, bringing the cash rate to around 210bps by the end of the year.

The outlook for the Australian economy is positive. The country is supported by an unemployment rate below 4%, strong household and business balance sheets. Moreover, national income is currently boosted by commodity prices.

We remain convinced that those factors will offer a long-term support for the AUD. However, we are adjusting our 3-month horizon following the recent lockdowns in China that penalize the Aussie short-term. Indeed, China represents more than 35% of Australian exports.

We change our 3-month AUDUSD target from 0.76 to 0.73 (value of one AUD) and we keep our 12-month target to 0.76. This implies an appreciation potential for the AUD over the coming year.



NZD VIEW >>

TARGET 12M VS USD: 0.70

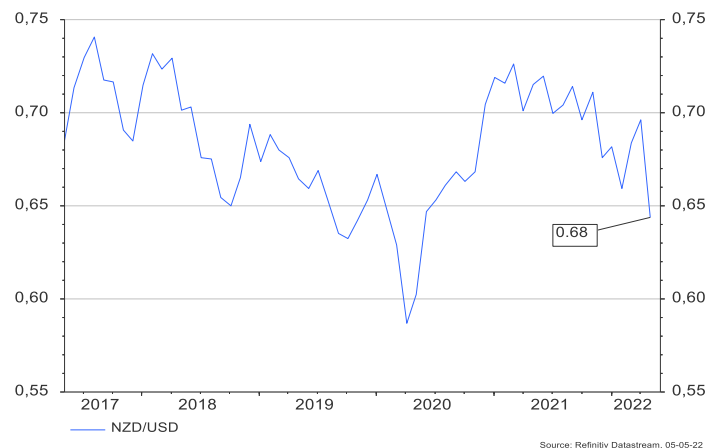
Same pressures as for the AUD

The NZD fell more than 6.5% in April following lockdowns in China and the less hawkish than expected speech of the Reserve Bank of New Zealand.

At its April meeting, the Reserve Bank of New Zealand (RBNZ) raised rates by 50bps to bring the official cash rate to 1.5%. The RBNZ has emphasized its intention to hike now rather than later and did not raise its anticipated terminal rate which was expected by some investors. This has weakened the currency.

The economy has held up very well over the past two years. The economy is showing signs of overheating with inflation expected to peak at 7% in the first half of 2022, a strong demand, a very low unemployment rate (below 3.5%), high utilization rates and strong exports. However, the central bank pointed to the slowdown in global economic growth due to international uncertainties and inflation. Moreover, China represents 25% of New Zealand exports and the current slowdown in that country is creating pressures on the NZD.

In this context, we revise down our 3-month outlook from 0.7 to 0.68 (value of one NZD). We keep our 12-month target at 0.7. This implies an appreciation potential for the NZD.



CAD VIEW >>

TARGET 12M VS USD: 1.25

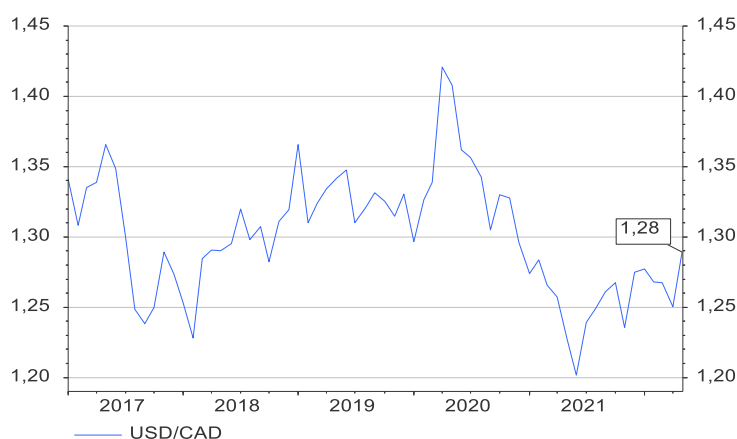
Looking for some improvements

The Canadian dollar depreciated by more than 2.5% in April as risk on currencies retreated last month. The Bank of Canada (BoC) raised its policy rate by 50bps at its April meeting and announced several upcoming rate hikes to combat soaring inflation which reached 5.7% in March. This brings the overnight rate at 1%. The Bank has also begun the quantitative tightening (reduction of the balance sheet). Economic activity in Canada remains strong thanks to high employment levels and strong demand. Inflation is expected to return to its target in the second half of 2023 around 2.5%. Despite global uncertainties, the BoC forecasts strong growth for 2022 at 4.25% and 3.25% in 2023.

The monetary tightening cycle of the Bank of Canada is expected to be quite similar compared to the Fed.

As a commodity exporter, Canada benefits from the high oil prices (WTI) currently. We remain convinced that the improvement of the terms of trade will enable an appreciation of the CAD towards our targets.

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



CNY VIEW >>

TARGET 12M VS USD: 6.5

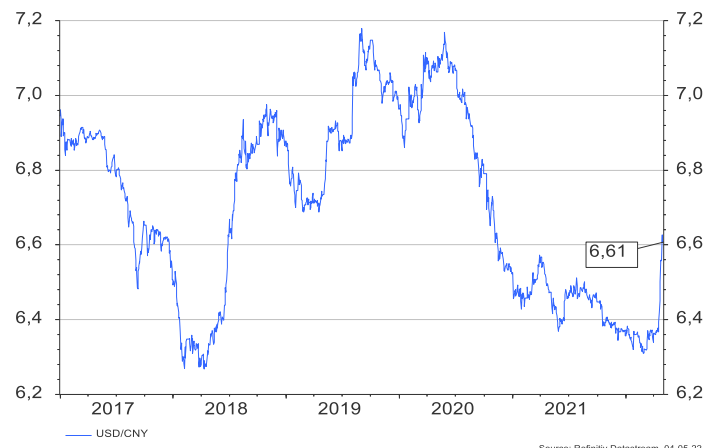
Looking for a gradual recovery

The CNY decreased significantly in April from 6.35 to 6.6 due to new lockdowns in China. The manufacturing PMI dropped from 48.1 in March to 46 in April due to deteriorating business conditions because of Covid-19 and supply chain disruptions. The business surveys in services (PMI) fell to its lowest level since February 2020 at 36 (from 42 in March). This reflects weaker order books as well as low activity levels. In late April, the president announced an infrastructure plan focusing on transportation, energy and water conservation to support growth.

The Chinese 10-year debt now offers lower yields than US debt for similar maturities. The reversal of the interest rate differential is another drag on the currency's appreciation. Moreover, faced with the current slowdown, China could lower the medium-term lending facility rate by 5bps.

Over the next year, the structural current account surplus is however a supportive factor for the CNY and this explains why we do not expect the currency to depreciate from current levels. A gradual economic recovery should also be supportive.

We change our 3-month target from 6.35 to 6.60 to account for the current weakness. For our 12-month horizon, we keep our target of 6.50. This suggests a moderate appreciation of the CNY.



	Country	Spot 5/4/2022	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)	
	United States	EUR / USD	1.05	Negative	1.08	Negative	1.12
	United Kingdom	EUR / GBP	0.84	Neutral	0.84	Positive	0.82
	Japan	EUR / JPY	137.11	Positive	134	Neutral	134
	Switzerland	EUR / CHF	1.04	Neutral	1.03	Negative	1.08
	Australia	EUR / AUD	1.48	Neutral	1.48	Neutral	1.47
	New-Zealand	EUR / NZD	1.64	Positive	1.59	Positive	1.60
	Canada	EUR / CAD	1.35	Neutral	1.35	Negative	1.40
	Sweden	EUR / SEK	10.40	Neutral	10.40	Negative	10.70
	Norway	EUR / NOK	9.93	Positive	9.60	Positive	9.60
Asia	China	EUR / CNY	6.95	Negative	7.13	Negative	7.28
	India	EUR / INR	80.62	Neutral	82.08	Negative	87.36
Latam	Brazil	EUR / BRL	5.29	Negative	5.40	Negative	5.60
EMEA	Russia	EUR / RUB	69.46	Negative	108.00	Negative	100.80

	Country	Spot 5/4/2022	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)	
	Eurozone	EUR / USD	1.05	Positive	1.08	Positive	1.12
	United Kingdom	GBP / USD	1.25	Positive	1.29	Positive	1.37
	Japan	USD / JPY	129.98	Positive	124.00	Positive	120.00
	Switzerland	USD / CHF	0.98	Positive	0.95	Neutral	0.96
	Australia	AUD / USD	0.71	Positive	0.73	Positive	0.76
	New-Zealand	NZD / USD	0.64	Positive	0.68	Positive	0.70
	Canada	USD / CAD	1.28	Positive	1.25	Positive	1.25
Asia	China	USD / CNY	6.59	Neutral	6.60	Neutral	6.50
	India	USD / INR	76.43	Neutral	76.00	Negative	78.00
Latam	Brazil	USD / BRL	5.01	Neutral	5.00	Neutral	5.00
	Mexico	USD / MXN	20.24	Neutral	20.50	Positive	19.00
EMEA	Russia	USD / RUB	65.85	Negative	100.00	Negative	90.00
	South Africa	USD / ZAR	15.86	Positive	15.00	Positive	15.00
	USD Index	DXY	102.59	Negative	100.48	Negative	97.26

Source: Refinitiv - BNP Paribas WM

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