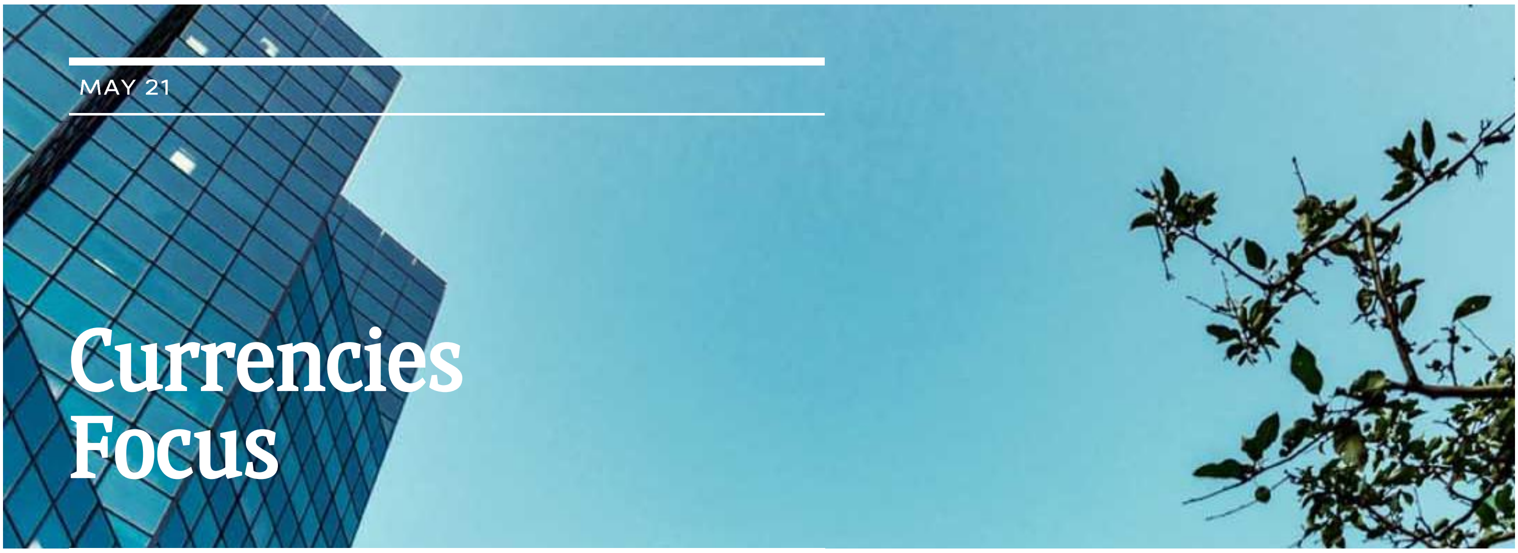

MAY 21

Currencies Focus

Summary

1. **April saw a raft of European countries partially lifting lockdown measures.** The UK and US stand out thanks to their strong vaccination programs. Expect release of pent-up demand starting in Q2 as there is more easing to come in May.

2. **The US economy is doing well: real GDP grew north of 5% in Q1.** The situation is different in Europe, UK and Japan where the respective economies contracted. The EURUSD came back around the 1.20 level and should remain around that level as the growth gap narrows in Q2. Our 12-month target remains at 1.25.

3. **The variants of the covid-19 remain the main source of downside risk short-term**: Some countries are seeing their infection rate explode (e.g. India). Safe haven currencies like the CHF and JPY gained marginal ground last month. Expect them to weaken over the year.

4. **Scandinavian currencies remain on diverging paths:** Norway should start the rate hike cycle this year whereas Sweden should stay quite dovish. Expect the NOK to strengthen much more than the SEK.

5. **The CNY has been resilient but we expect a correction.** Commodity currencies are back on their upward trend. The BoC is changing its stance well ahead of the RBA and RBNZ.

Guy Ertz, PhD

Chief Investment Advisor
BNP Paribas Wealth Management

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OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 10/05/21		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1.22	1.20	1.25
	United Kingdom	EUR / GBP	0.86	0.85	0.84
	Switzerland	EUR / CHF	1.10	1.11	1.14
	Japan	EUR / JPY	132	133	139
	Sweden	EUR / SEK	10.12	10.00	10.00
	Norway	EUR / NOK	9.99	9.80	9.60
Against dollar	Japan	USD / JPY	109	111	111
	Canada	USD / CAD	1.21	1.24	1.22
	Australia	AUD / USD	0.79	0.78	0.80
	New Zealand	NZD / USD	0.73	0.72	0.75
	Brazil	USD / BRL	5.24	5.30	4.80
	Russia	USD / RUB	73.92	74.0	68.0
	India	USD / INR	73.30	75.0	75.0
	China	USD / CNY	6.41	6.60	6.50

Source: Refinitiv - BNP Paribas

USD VIEW>> TARGET 12M VS EUR: 1.25

Weaker dollar environment as others catch up

The dollar sentiment remains bearish: the trade and current account deficits are widening. When other countries narrow the growth gap with the US later this year, the US could see large equity outflows from foreigners. Lastly, the two-year real rate differential should remain low. This environment suggests a weaker dollar.

The 10Y US bond yield rose strongly in Q1 but it has now fell off from the March 31st closing highs of 1.74%. Despite strong US growth, US 2Y real yields have continued to decline relative to trading partners. The market is very hawkish relative to the Fed dots, which seems exaggerated. For the market to be even more hawkish, the Fed would need to start talking up the prospect of tapering asset purchases and suggesting hiking rates before 2023. We still deem this unlikely for now as various employment measures suggest some slack. The Fed is targeting an average inflation of 2% and will probably look through the temporary rise in inflation.

Lastly, vaccination campaigns are picking up in Europe, which will help the Euro Area countries narrow the GDP growth gap with the US in Q2 and perhaps outgrow the US in Q3. This should support the euro.

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

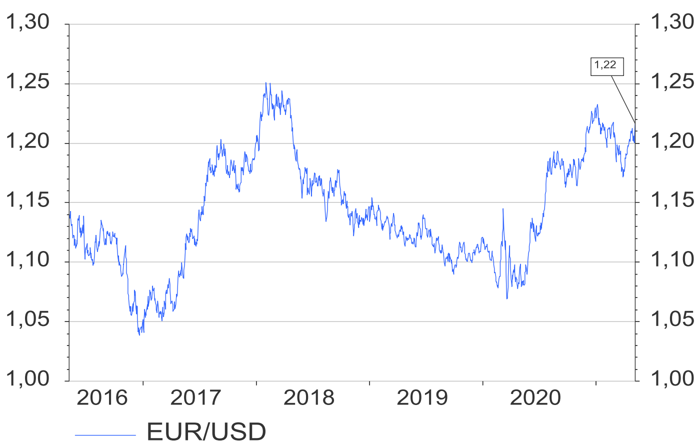
GBP VIEW >> Target 12M VS EUR: 0.84

Equity inflows to support the currency

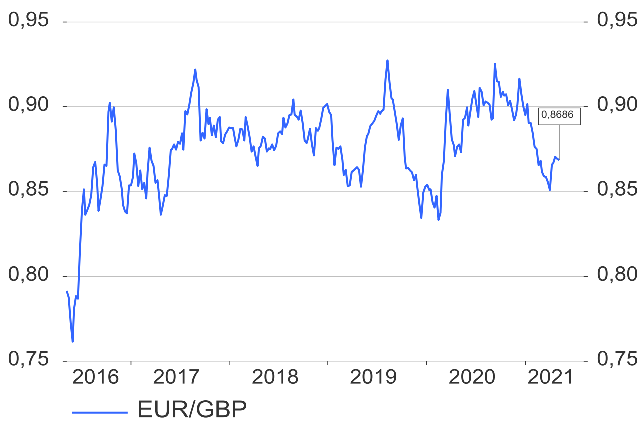
Most of the positive factors supporting the GBP are priced in but there are still reasons to believe that the currency could appreciate further. Value stocks tend to do best in a weak dollar environment. Given their high weighing in UK equity indices, this should drive inflows into the UK's stock market. Moreover, the GBP is quite sensitive to the global equity sectors that the pandemic hit the most. The reopening should support the GBP. Also supportive is the fact that the 2-year real yield differential suggests that the GBP remains undervalued against the euro.

At its latest meeting (May 6th), the Bank of England (BoE) left unchanged its benchmark interest rate at an all-time low of 0.1% and its QE scheme at £895 bn, but it will slow the pace of bond-buying. The BoE upgraded its GDP growth forecast from 5% to 7.25%, meaning it would return to pre-pandemic levels this year. Indeed, the economic outlook is shining, highlighted by soaring PMI numbers and economic confidence. Recent CPI prints have surprised to the downside, but staff shortages could lead to rising wages and inflation figures.

Therefore, we adjust our EURGBP targets (value of one euro) to 0.85 and 0.84 for the next 3 and 12 months (from 0.86). This suggests further upside for the GBP.



Source: Refinitiv Datastream, 07/05/2021



Source: Refinitiv Datastream, 10/05/2021

CHF VIEW>> TARGET 12M VS EUR: 1.14

CHF to weaken as global trade recovers

The Swiss franc has fallen by 1.3% against the euro in 2021, but has rebounded in recent weeks and remains “highly valued” according to the Swiss National Bank’s (SNB) Chairman. He reiterated on April 30th that an ultra-expansive monetary stance is “essential”. Switzerland has the world’s lowest policy interest rate at -0.75% and is not expected to budge any time soon. When we see the SNB changing its stance 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 intervention has decreased somewhat, any major strengthening of the CHF will thus likely be followed by an increase in FX interventions.

We do not expect the SNB to normalize its balance sheet until the CHF depreciates substantially. We believe that the Swiss National Bank stance and the positive global outlook offer ground for the euro to appreciate more against the Swiss currency.

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

Source: Refinitiv Datastream, 10/05/2021

JPY VIEW >> TARGET 12M VS USD: 111

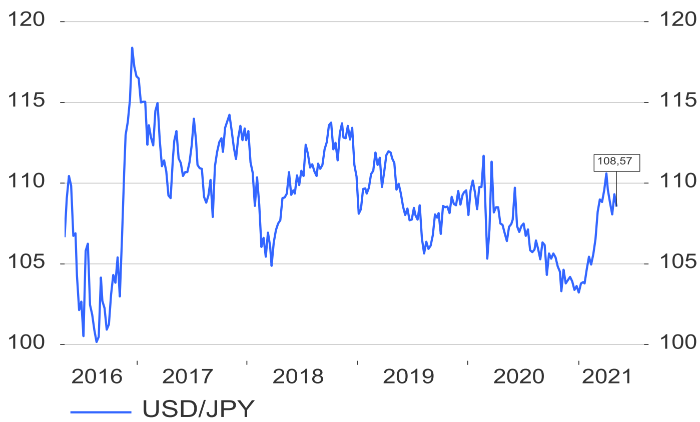
Still under pressure, but limited downside now

In April, we saw a slight correction in the USDJPY as was expected, with the pair dipping below 108. USDJPY has closely tracked the movements in 10-year Treasury yield this year. The temporary correction in the 10-year yield correlated with the correction in the USDJPY, but it is back on its upward trend. As US bond yields resume their push higher and Japanese yields remain well anchored, the pair should remain supported and rise further.

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 likey 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 20% 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.



Source: Refinitiv Datastream, 10/05/2021

SEK VIEW>> TARGET 12M VS EUR: 10.00

Stable SEK, with some room to appreciate

The SEK should not see much support from the central bank (Riksbank), which is rather dovish. Indeed, extensive economic measures have supported the Swedish economy (manufacturing PMI at 69.1 in April) but inflationary pressures remain low. Unemployment is expected to remain higher than pre-covid levels for a longer period. It should take some time before inflation stabilizes aound the Riksbank target.

Therefore, on April 27th, the Riksbank maintained its expansionary stance to support the economy and to get closer to the 2% inflation target. It will continue to purchase securities within its SEK 700 billion envelope and the repo rate was left unchanged at 0%. It is expected to remain at this level ''in the years to come''. A further rate cut is unlikely, but the Riksbank is prepared if the inflation outlook worsens.

Lastly, the economy has a smaller services sector than other G10 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 adjust our EURSEK targets to 10.00 (from 10.20) over the next 3 and 12 months (value of one euro). This suggests a marginal appreciation for the SEK.

Source: Refinitiv Datastream, 10/05/2021

NOK VIEW >> TARGET 12M VS EUR: 9.60

Supportive backdrop & first rate hike this year

The supportive environment for commodity prices, combined with falling infection rates and the implementation of the Government's plan for the reopening of society bode well for the NOK. The manufacturing PMI reached 60.1 in March, a 30-month high. Additional support comes from the fact that much of the adult population is expected to be vaccinated by the end of summer, as in most European countries.

On the monetary side, the Norges Bank's Governor stated, after the May 6th meeting, that the policy rate will ''most likely be raised in the latter half of 2021''. Low rates have contributed to speeding up the return to more normal GDP and employment levels, but also to the underlying inflation running above target. The appreciation of the Krone and more normal interest rate levels should lead to some normalization. That said, the Norges Bank expects clear signs of economic conditions normalising before raising the policy rate. The question becomes whether that is in September or December.

Therefore, we adjust our 3-month EURNOK target (value of one euro) to 9.80 (from 10.10) and our 12-month target to 9.60 (from 9.90). This suggests an appreciation of the NOK.

Source: Refinitiv Datastream, 10/05/2021

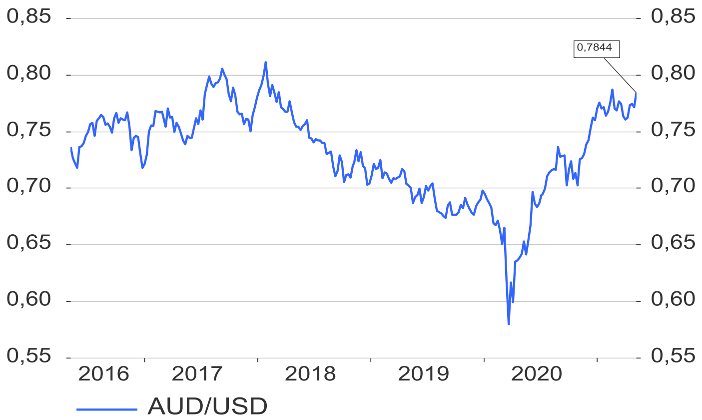
AUD VIEW>> TARGET 12M VS USD: 0.80

Positive data but policy remains steady

The economic recovery has been faster than expected and should continue: the Reserve Bank of Australia (RBA) is now forecasting GDP growth at 4.75% in 2021 and 3.5% in 2022. Australia has handled the pandemic quite well and its economy should benefit from the global economic recovery, which should keep the AUD well supported. Relations with China have been deteriorating of late and remain a downside risk, given the importance of China for Australia's exports.

On the monetary side, the RBA has kept its accommodative monetary policy unchanged (May 4th). Wage growth has been rather weak in Australia. Moreover, the rise in house prices has been marked in all major markets, but it remains smaller than in the US or New Zealand. In this context, it makes sense to keep the cash rate at 0.1% at least until 2024. Indeed, the RBA's goal of sustainably maintaining inflation within the 2-3% target range and the unemployment rate below 6% will take some time to achieve. Lastly, we expect the RBA to monitor the exchange rate and act if the currency strengthens significantly.

Therefore, we adjust our 3-month AUDUSD target to 0.78 (from 0.76). Our 12-month target remains at 0.80 (value of one AUD). This implies a further moderate appreciation potential for the AUD.



Source: Refinitiv Datastream, 07/05/2021

NZD VIEW >> TARGET 12M VS USD: 0.75

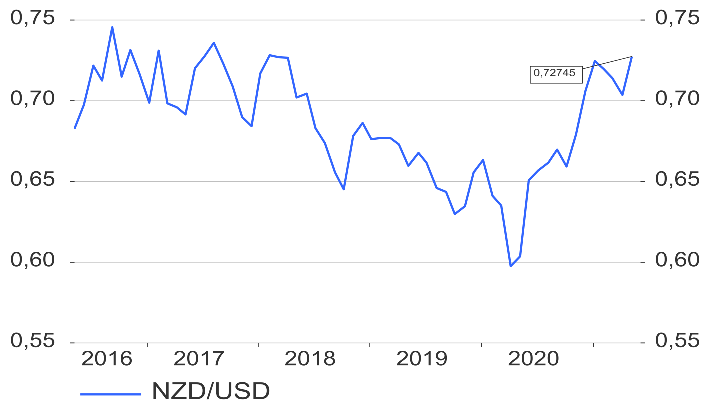
Rising inflation: not enough to change stance

New Zealand's economy has enjoyed a V-shaped recovery from its pandemic-induced recession and house prices continued to climb in April. The jobless rate fell to 4.9% in Q4 2020 and the central bank expects inflation accelerating to 2.5% by June, exceeding the midpoint of its target range.

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 April 14th 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. Given that "uncertainty remains elevated", gaining this confidence is expected to take "considerable time and patience."

With the recent measures taken by the government lowering housing risks and inflationary pressures, rate hike expectations have been reduced. We expect the global economic recovery to remain supportive for the NZD.

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.



Source: Refinitiv Datastream, 10/05/2021

CAD VIEW>> TARGET 12M VS USD: 1.22

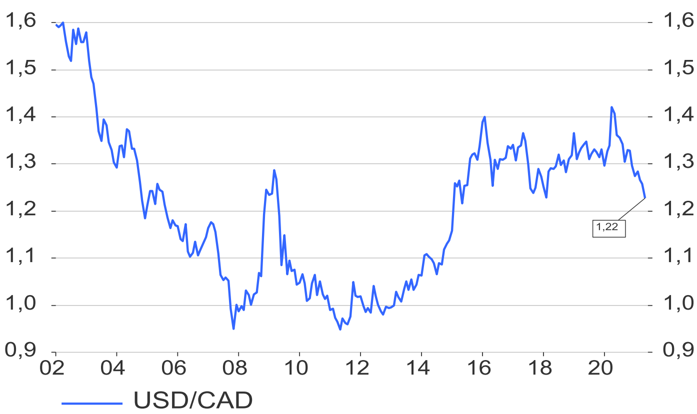
Tapering started, 1st rate hike on the horizon

On the 21st of April, the Bank of Canada (BoC) announced that it will reduce the weekly pace of government bond purchases from C$4 billion to C$3 billion. The BoC is looking through current lockdowns, instead focusing on the long-term positives: substantial US and Canadian fiscal stimulus, better global growth, higher oil prices, pent-up consumer demand and surging housing. Even before this announcement, the BoC's balance sheet was already shrinking.

Considering it has not undershot its inflation target in recent years and with inflation measures already almost back to 2% even before favourable base effects start to kick in, the BoC isn't planning to wait for inflation to overshoot its target before lifting rates. It expects the Canadian economy to return to full employment in H2 2022, which could mean a first rate hike by the end of next year. This is quite supportive for the CAD.

Given the importance of the United States for Canada's exporters, the BoC should however remain sensitive to the strength of the CAD. In our view, this should limit the upside.

Therefore, we adjust our 3-month target to 1.24 (from 1.25) and our 12-month target to 1.22 (from 1.25) for the USDCAD (value of one dollar). This suggests some downside short-term for the CAD but a lateral move in the pair now.



Source: Refinitiv Datastream, 10/05/2021

CNY VIEW >> TARGET 12M VS USD: 6.50

CNY more resilient than expected

The move up in US treasury yields has eroded the yield advantage of Chinese government bonds over the US ones. We expect that faster growth and higher yields in the US will continue to support the dollar. With profits being expatriated from China in Q2 and Q3, we expect foreign currency demand to rise, which should in turn weaken the CNY.

China also has a more neutral monetary stance, which could impact the CNY negatively. Investors' concerns that the Chinese authorities will reverse stimulus measures are overblown though. We expect China to maintain ample policy support, but the Central Bank should continue to focus on stabilizing the macro leverage and the financial risk amid concerns about debt levels and asset bubbles. At its April 20th meeting, the People's bank of China decided to keep the policy rate at the same level for the twelfth month in a row.

Lastly, higher commodity prices could raise import values and thus reduce the trade surplus, which can in turn weaken the currency. Although recent trade balance prints fell to $42.86 billion in April (from $103.25 billion in February), the CNY has remained resilient so far.

Therefore, we keep our 3-month USDCNY target to 6.60 and our 12-month target to 6.50 (value of one dollar). This suggests some downside short-term for the CNY but a lateral move over the year.

Source: Refinitiv Datastream, 10/05/2021

	Country		Spot 10/05/2021	Trend	Target 3 months (vs EUR)	Trend	Target 12 months (vs EUR)
	United States	EUR / USD	1.22	Neutral	1.20	Negative	1.25
	United Kingdom	EUR / GBP	0.86	Neutral	0.85	Positive	0.84
	Japan	EUR / JPY	132	Neutral	133	Negative	139
	Switzerland	EUR / CHF	1.10	Neutral	1.11	Negative	1.14
	Australia	EUR / AUD	1.54	Neutral	1.54	Neutral	1.56
	New-Zealand	EUR / NZD	1.67	Neutral	1.67	Neutral	1.67
	Canada	EUR / CAD	1.47	Neutral	1.49	Negative	1.53
	Sweden	EUR / SEK	10.12	Neutral	10.00	Neutral	10.00
	Norway	EUR / NOK	9.99	Neutral	9.80	Positive	9.60
Asia	China	EUR / CNY	7.80	Neutral	7.92	Negative	8.13
	India	EUR / INR	89.2	Neutral	90.0	Negative	93.75
Latam	Brazil	EUR / BRL	6.37	Neutral	6.36	Positive	6.00
	Mexico	EUR/MXN	24.18	Positive	23.6	Neutral	23.75
EMEA	Russia	EUR / RUB	89.96	Neutral	88.8	Positive	85
	South Africa	EUR/ZAR	17.07	Neutral	17.4	Negative	18.75

	Country		Spot 10/05/2021	Trend	Target 3 months (vs USD)	Trend	Target 12 months (vs USD)
	Eurozone	EUR / USD	1.22	Neutral	1.20	Positive	1.25
	United Kingdom	GBP / USD	1.41	Neutral	1.41	Positive	1.49
	Japan	USD / JPY	109	Neutral	111	Neutral	111
	Switzerland	USD / CHF	0.90	Negative	0.93	Neutral	0.91
	Australia	AUD / USD	0.79	Neutral	0.78	Neutral	0.80
	New-Zealand	NZD / USD	0.73	Neutral	0.72	Positive	0.75
	Canada	USD / CAD	1.21	Negative	1.24	Neutral	1.22
Asia	China	USD / CNY	6.41	Negative	6.60	Neutral	6.50
	India	USD / INR	73.3	Negative	75.0	Negative	75.0
Latam	Brazil	USD / BRL	5.24	Neutral	5.30	Positive	4.80
	Mexico	USD / MXN	19.88	Neutral	19.7	Positive	19.0
EMEA	Russia	USD / RUB	73.92	Neutral	74.0	Positive	68.0
	South Africa	USD / ZAR	14.04	Negative	14.5	Negative	15.0
	USD Index	DXY	90.13	Neutral	91.4	Neutral	88.4

Source: Refinitiv - BNP Paribas

THE INVESTMENT STRATEGY TEAM

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Edmund SHING
Global Chief Investment Officer

ASIA

Prashant BHAYANI
Chief Investment Officer, Asia

Grace TAM
Chief Investment Advisor, Asia

BELGIUM

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Senior Investment Advisor, Equities

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