NOVEMBER 22

Currencies Focus

Summary

1. The EURUSD remains close to parity. The fall in natural gas prices of more than 46% improves the relative terms of trade of the euro area and partially explains the reappreciation of the euro.
2. The sterling is recovering against the euro due to reduced market uncertainties related to the government's fiscal policy. We are now less bearish on the GBP.
3. The Yen continued to fall sharply and lost about 4% against the dollar over the last 30 days. The Bank of Japan doubled its intervention to defend its currency. That was not enough to stop the currency from falling.
4. Scandinavian currencies weakened due to downward revisions for the central bank rates. We lower our targets on these currencies. We remain bullish on the NOK and are moderately bearish on SEK.
5. The evolution of the expected interest rate differential between China and the United States is pushing us to lower our CNY targets.
6. Commonwealth currencies linked to commodities (AUD,NZD,CAD) offer interesting prospects thanks to their current account balance and restrictive monetary policy.

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Contents

OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country		Spot 11/7/2022	Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1.00	1.00	1.08
	United Kingdom	EUR / GBP	0.87	0.88	0.86
	Switzerland	EUR / CHF	0.99	0.96	0.98
	Japan	EUR / JPY	146.46	145	151
	Sweden	EUR / SEK	10.86	11.00	11.00
	Norway	EUR / NOK	10.24	10.20	9.80
Against dollar	Japan	USD / JPY	146.47	145	140
	Canada	USD / CAD	1.35	1.35	1.30
	Australia	AUD / USD	0.65	0.66	0.70
	New Zealand	NZD / USD	0.59	0.58	0.62
	Brazil	USD / BRL	5.12	5.40	5.00
	Russia	USD / RUB	61.25	100.0	90.0
	India	USD / INR	81.93	82.0	80.0
	China	USD / CNY	7.24	7.30	7.00

Source: Refinitiv - BNP Paribas Wealth Management

BNP PARIBAS WEALTH MANAGEMENT

The bank for a changing world

USD VIEW >> TARGET 12M VS EUR: 1.08

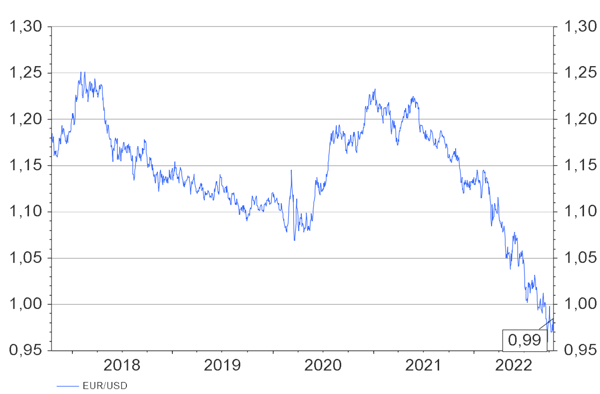
Close to parity short-term

The euro appreciated slightly against the dollar over the past few weeks. The pair is back at parity.

Both central banks raised their interest rates by 75bps at their respective meetings. The ECB raised its key interest rate to 1.5% and announced that further increases were to come. Indeed, inflation reached 9.9% in the eurozone and more hawkish moves are probably necessary in order to normalize inflation. In addition, the ECB recalled that the conditions were not met to start the balance sheet reduction (quantitative tightening). The FED held a rather hawkish speech in early November with the idea that it could slowdown the pace of rate hikes but that the terminal rate should be higher than previously expected. The market now anticipates 5% for the terminal rate.

The terms of trade improved in October for the eurozone thanks to the sharp fall in gas prices. In addition, in our view short-term yields in the United States should decrease more rapidly compared to the eurozone. These two factors should be favorable to the euro. In addition, purchasing power parity estimates suggest that the dollar is overvalued structurally.

In the short term, the sustained uncertainty regarding inflation and rates should support the US dollar close to parity. Over the next 12 months, we maintain our target at 1.08 (value of one euro).



GBP VIEW >> TARGET 12M VS EUR: 0.86

The Outlook has improved

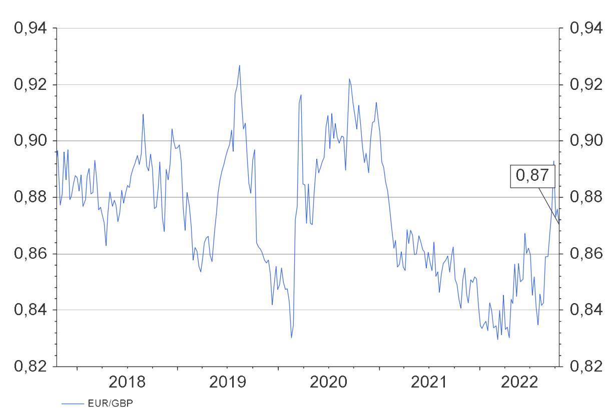
Recently, the GBP appreciated by almost 3% against the euro. This is due to an anticipated more credible fiscal policy and the interventions of the Bank of England.

The new Prime Minister Rishi Sunak will have to restore credibility after Liz Truss' budget policy announcements that had led to market mistrust. The Bank of England (BoE) began its quantitative tightening on November 1st by selling £750 million of short-term debt. It plans reducing its balance sheet by 80 billion by the end of 2023. The BoE excludes the sale of long-term bonds as this could lead to an increase in long-term rates which would weaken pension funds.

The UK rates have stabilized. They had risen sharply after Liz Truss' budget announcements forcing the BoE to buy long-term bonds. Rishi Sunak reassured investors by backing away from lower taxes on the highest tax brackets.

The terminal rate of the Bank of England should be around 4.7% against 2.75% expected in the eurozone. The difference in interest rates should remain to the advantage of the UK.

We thus change our targets from 0.90 to 0.88 to 3 months and 0.86 to 12 months (value of one euro).



CHF VIEW >>
TARGET 12M VS EUR: 0.98

Uncertainty supports the CHF

The euro appreciated by more than 2% over the last 30 days against the Swiss franc.

After raising the key interest rate to 0.5% in September, the Swiss National Bank should hike by 100bps in December and thus reach its terminal rate of 1.5% in the next month. Inflation was slightly negative in September reaching -0.2%. This is due to lower fuel prices, heating oil, hotels and related accommodation. The strength of currency over recent month has helped.

The GDP could rise by 1.5% in 2023, according to the OECD, compared to 0.3% that we expect for the euro area. The manufacturing PMI continued to expand at 54.7, although down from 57.1 in September. This could limit the upside for the euro.

We expect the Swiss franc to remain strong in the coming months as the uncertainty around inflation and rates should remain high. Over the coming year the uncertainty is expected to fall gradually. Long-term fundamentals suggest that the Swiss currency is overvalued.

We maintain our 3-month target at 0.96 (value of one euro) and the 12-month target at 0.98.

JPY VIEW >>
TARGET 12M VS USD: 140

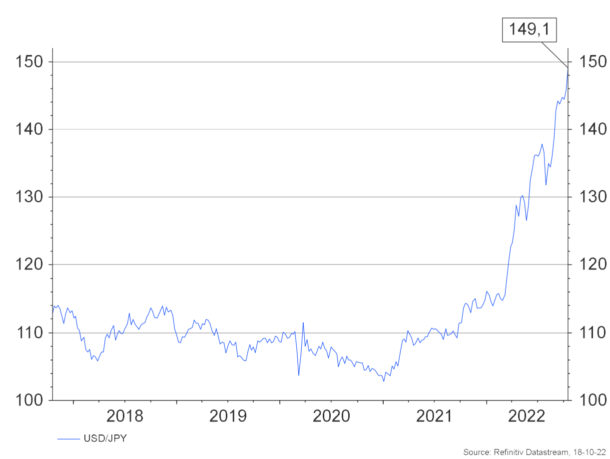
Looking for a stabilization

The yen lost 4.4% over the last 30 days despite interventions from the Bank of Japan (BoJ).

At its September meeting, the Bank of Japan announced to maintain its refinancing rate at -0.1%. The market is expecting a first 10 bps rate hike this spring. This will only marginally improve the interest rate differential with the US and should not be a major support factor for the Yen in the short-term.

The Bank of Japan reportedly intervened by selling for 37 billion dollars, a record amount and twice as much as in September. The PMI Composite rose from 51 in September to 51.7 in October, driven by employment and an improvement in order books. This allowed the currency to stop falling but was not enough to generate a strong rebound. We keep a positive view on the Japanese currency over the coming year. US bond yields are expected to fall over that period, and this should be a trigger for an appreciation of the JPY.

We maintain our target at 145 (value of one dollar) for the 3-month target and are now aiming for 140 over the next 12 months (compared to 135 previously). This suggests a more moderate appreciation potential for the JPY over the next year.



SEK VIEW >> TARGET 12M VS EUR: 11

Somewhat more downside

The SEK depreciated slightly in October.

Inflation climbed to 10.8% in September which forced the Riskbank to increase its key interest rate by 1% to 1.75% at its September meeting.

The market however downgraded the terminal interest rate outlook for the SEK. This is because there is less room to raise rates. In fact, most households are owners and have debts with variable rates. Consumer confidence hit a new all-time low. The Swedish National Institute of Economic Research forecasts further economic weakness.

The Swedish GDP grew by 2.6% annually driven by consumption and investments. For coming year, we expect more purchasing power losses with inflation expected to peak at 11. The manufacturing business survey (PMI) continued to deteriorate and reached 46.8 in October due to fewer new orders and less production. In addition, Sweden suffers from high energy prices and has fewer alternatives than the European Union.

We revise our 3- and 12-month targets to 11 (value of one euro). This suggests a small depreciation of the SEK from current levels.

NOK VIEW >> TARGET 12M VS EUR: 9.80

Look for a rebound

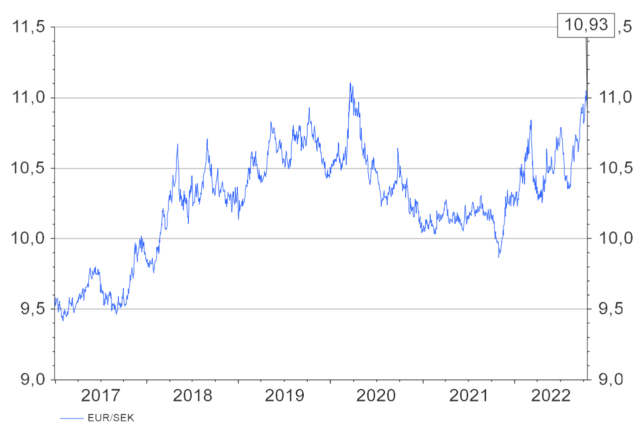
The value of one euro in NOK did not really change that much over the last 30 days.

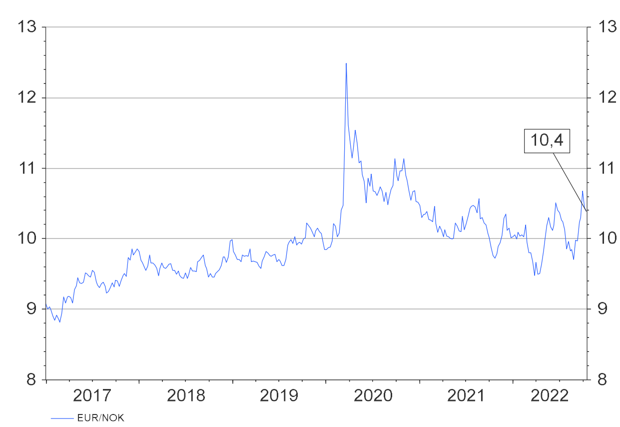
At the beginning of November, the Norges Bank raised its rates by 25bps, and the policy rate reached 2.5%. Two increases of 25bps are expected in November and December. The anticipated terminal rate is a bit over 3% and has decreased compared to previous estimates.

As in Sweden, households are mostly homeowners and indebted at variable rates. This limits the possibility of raising rates without impacting the economy too much.

Although far from its annual highs, crude oil prices remain high. The terms of trade remain favorable for the NOK. The current account recorded a surplus of $69bn in the first half of 2022. The manufacturing business survey (PMI) continues to increase reaching 53.1 in October versus 50.1 in September.

We are positive on the NOK. We target 10.2 (value of one euro) at 3 months and 9.8 at 12 months against 9.6 previously. This suggests appreciation potential from current levels.





AUD VIEW >>
TARGET 12M VS USD: 0.70

Rebound expected

The Australian dollar fell again in October partially due to a weaker than expected rise in the interest rate by the Reserve Bank of Australia (RBA).

Annual inflation reached 7.3% driven by external factors and strong domestic demand. It should peak at 8%. The unemployment rate is only 3.5%, a 50-year low. This favors wage inflation.

The Reserve Bank of Australia (RBA) raised rates by 25 bps to 2.85%. The terminal interest rate which is estimated at 4% should be reached during 2023. The RBA lowered its growth expectations to 2.9% in 2022 and 1.5% for the next two years. The outlook for lower growth is expected to lead to more gradual rate increases and a potential downward revision of the terminal rate.

The national income is currently boosted by record terms of trade. Lower lockdown measures in China could boost Chinese domestic demand and thus Australian exports. This could be a positive factor for AUD appreciation.

We are less bullish on the AUD mainly because of the central bank message and uncertainty around China. We keep our 3-month target at 0.66 (value of one AUD) and our 12-month target at 0.70.

NZD VIEW >>
TARGET 12M VS USD: 0.62

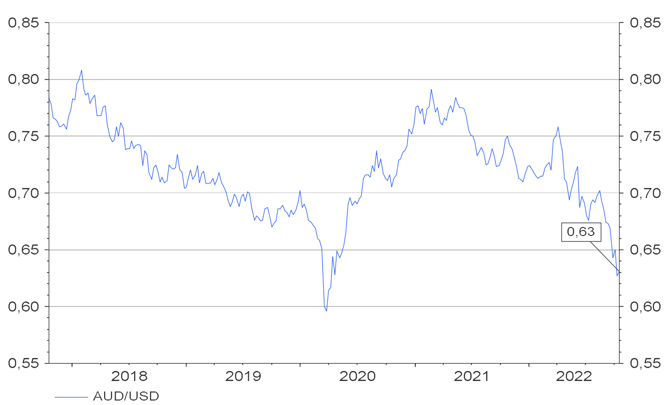
Positive outlook

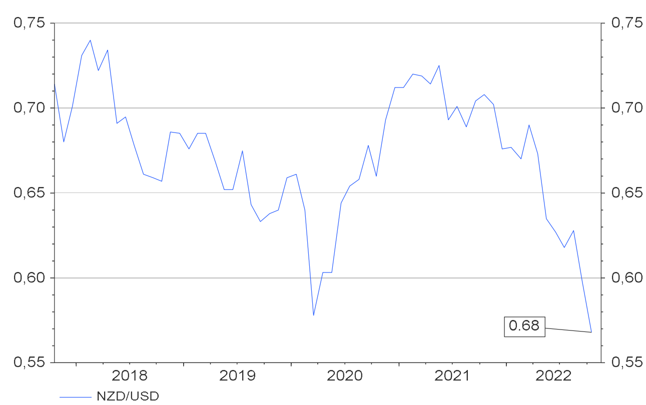
The NZD gained almost 4.4% against the US dollar in October thanks to the anticipation of a higher terminal interest rate from the New Zealand central bank.

The Reserve Bank of New Zealand raised its policy rates by 50 bps at its October meeting, bringing the official cash rate to 3.5%. The terminal rate is expected to reach 5.3% by May 2023. The central bank says that inflation is far too high and labor resources are scarce. Household balance sheets remain strong despite the recent fall in real estate prices.

The manufacturing business survey (PMI) fell from 54.8 to 52 in October, showing a slowdown in growth but confirming the positive performance of the industrial sector.

We keep our 3 months target at 0.58 (value of one NZD) and 0.64 at 12 months. This suggests an appreciation of the NZD over the next year.





CAD VIEW >> TARGET 12M VS USD: 1.30

Upside for the CAD

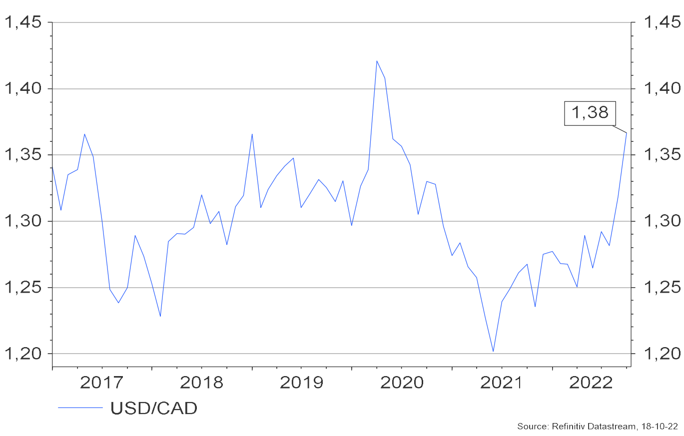
The USD reached a temporary high against the CAD around 1.40 early November. The CAD recovered part of losses but remains weaker compared to the one-year average.

At the end of October, the Bank of Canada raised its policy rate by 50 bps. This was a smaller than expected. The interest rate is now at 3.75%, a 14-year high. Canada is well positioned to benefit from a recovery in risk sentiment. The 2-year yield differential should move gradually more in favor of the CAD.

The GDP is expected to grow by 3.3% in 2022 compared to 3.5% previously. The growth would be driven by strong domestic demand. However, for 2023 the BoC warns that the economic growth could be negative in some quarters.

Oil prices (WTI) remain volatile and rebound slightly in October. We expect oil prices to remain high over the next year and it should help the CAD as oil accounts for about 20% of exports and is a key driver of the terms of trade.

We maintain our 3-months target at 1.35 and 12-months target at 1.30. This suggests an appreciation potential from current levels.



CNY VIEW >> TARGET 12M VS USD: 7.1

Looking for a gradual recovery

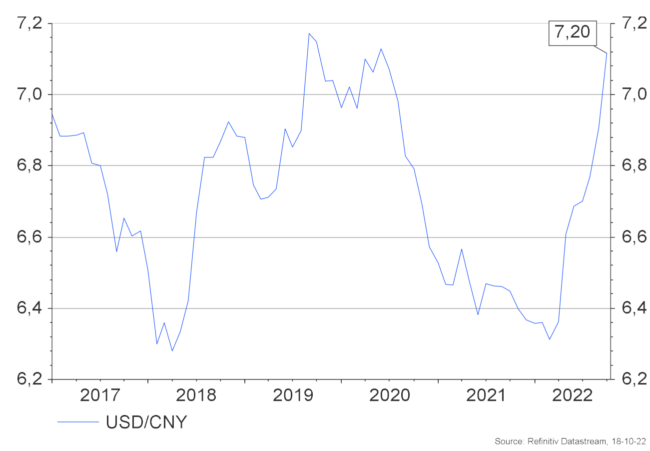
The Chinese currency (CNY) fell this month to its lowest level since 2008.

The government has not been clear on its post-COVID reopening strategy and growth remains relatively weak. This has hurt the currency. Despite a better-than-expected Q3 GDP figure at 3.9%, the government wanted to maintain an accommodative policy mix. The cautious policy of the People's Bank of China is a hurdle for the appreciation of the CNY.

The government is planning to introduce structural reforms to improve labor market productivity. The party also highlighted strengthening the resilience and security of supply chains. This should be favorable for Chinese exports.

In the short-term, we are cautious on the CNY given the expected interest rate differential with the US. For now, the government wants to maintain an accommodative monetary policy to support an expansionary fiscal policy and strengthen access to credit for households and businesses. Over the next year, we are more positive on the Chinese currency as monetary policy should be less accommodative as the economy reopens and the Fed should pause.

We change our targets from 7.1 to 7.3 (value of one dollar) for the 3-month target and from 6.7 to 7.1 for the 12-month target. This suggests less upside for the CNY.



BRL VIEW >> TARGET 12M VS USD: 5

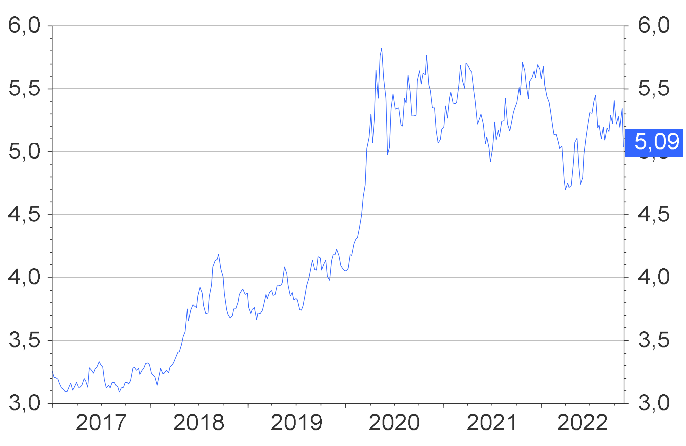
Bullish despite current volatility

The BRL appreciated by 2.6% over the last 30 days. The currency experienced a lot of volatility due to the elections.

The former President Lula was elected President on 30th October. He focused his speech on social spending. In addition, economic relations with Western countries could improve, which would be favorable for the BRL. The market will probably focus on the appointments of the ministers of the economy and finance to learn more about the future economic policies for the country. With a center-right majority in Congress and Bolsonaro's allies governing the big cities, Lula could be limited to apply his policy.

The policy rate (Selic rate) now stands at 13.75%. The restrictive monetary policy significantly reduced inflation from 12% in April to 7.2% in September. Thanks to this disinflation, several rate cuts are expected in 2023.

In the short term the BRL should remain volatile, and we maintain our 3-months target at 5.40. Over one year, we are positive on the BRL with largely positive real interest rates, high commodity prices and potentially better relations with Western countries. We keep our 5.00 target at 12-months.



Source: Refinitiv Datastream, 07-11-22

MXN VIEW >> TARGET 12M VS USD: 19.5

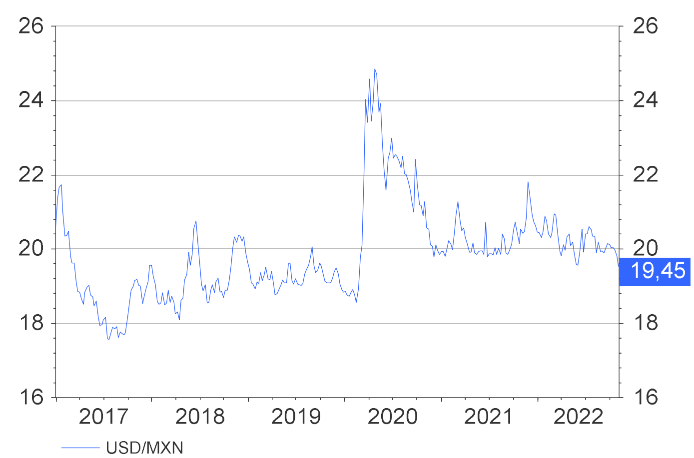
Lateral evolution expected

Inflation reached 8.8% in September and should not reach the central bank 3% target before the third quarter 2024.

The central bank is expected to raise its rate further by 75 bps on November 14 to 10%. It should also comment on the future pace of rates if inflation slows.

GDP grew by 4.2% in Q3 2022 driven by the base effects, tourism and job creation that drove consumption. An economic slowdown is expected in Q4 and in the coming quarters as the US is expected to enter in recession. Tighter global financial conditions could also play a role. The manufacturing business survey (PMI) still suggests a moderate expansion with an index level at 50.3 in October. In the short-term, we are cautious on the MXN as the high energy and raw material prices are increasing the country's current account deficit.

We target 20.5 at 3 months and 19.5 at 12-months. This suggests a lateral evolution of the USDMXN over the coming year.



Source: Refinitiv Datastream, 07-11-22

	Country		Spot 11/7/2022	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1.00	Neutral	1.00	Negative	1.08
	United Kingdom	EUR / GBP	0.87	Neutral	0.88	Neutral	0.86
	Japan	EUR / JPY	146.46	Neutral	145	Negative	151
	Switzerland	EUR / CHF	0.99	Positive	0.96	Neutral	0.98
	Australia	EUR / AUD	1.55	Neutral	1.52	Neutral	1.54
	New-Zealand	EUR / NZD	1.69	Negative	1.72	Negative	1.74
	Canada	EUR / CAD	1.35	Neutral	1.35	Negative	1.40
	Sweden	EUR / SEK	10.86	Neutral	11.00	Neutral	11.00
	Norway	EUR / NOK	10.24	Neutral	10.20	Positive	9.80
Asia	China	EUR / CNY	7.24	Neutral	7.30	Negative	7.56
	India	EUR / INR	81.93	Neutral	82.00	Negative	86.40
Latam	Brazil	EUR / BRL	5.12	Negative	5.40	Negative	5.40
EMEA	Russia	EUR / RUB	61.25	Negative	100.00	Negative	97.20

	Country		Spot 11/7/2022	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1.00	Neutral	1.00	Positive	1.08
	United Kingdom	GBP / USD	1.15	Neutral	1.14	Positive	1.26
	Japan	USD / JPY	146.47	Neutral	145.00	Positive	140.00
	Switzerland	USD / CHF	0.99	Positive	0.96	Positive	0.91
	Australia	AUD / USD	0.65	Neutral	0.66	Positive	0.70
	New-Zealand	NZD / USD	0.59	Negative	0.58	Positive	0.62
	Canada	USD / CAD	1.35	Neutral	1.35	Positive	1.30
Asia	China	USD / CNY	7.24	Neutral	7.30	Positive	7.00
	India	USD / INR	81.93	Neutral	82.00	Positive	80.00
Latam	Brazil	USD / BRL	5.12	Negative	5.40	Positive	5.00
	Mexico	USD / MXN	19.45	Negative	20.50	Neutral	19.50
EMEA	Russia	USD / RUB	61.25	Negative	100.00	Negative	90.00
	South Africa	USD / ZAR	17.70	Neutral	18.00	Positive	16.00
	USD Index	DXY	110.12	Neutral	110.28	Negative	102.86

Source: Refinitiv - BNP Paribas WM

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