

Currencies Focus

Summary

1. The USD is strengthening on the back of surprisingly high inflation releases in November. We however maintain our scenario based on fundamentals but monitor the situation closely.
2. High energy prices, inflation concerns, and interest rate differentials have been the main drivers on FX markets in October. We adjusted our emerging markets target rates and generally see less upside.
3. Based on inflation concerns, political uncertainty and a weak central bank we shifted to a less bullish outlook on the BRL, while still seeing long-term strengthening based on interest rate differentials and lower uncertainty.
4. We expect a stronger than previously anticipated Russian currency based on high energy prices over the coming months.
5. In India, a worsening current account and a dovish stance from the central bank point towards a weaker rupee, in an environment of higher energy prices and inflation rates.
6. We adjusted our outlook and see a slightly weaker Chinese currency driven by slowing growth, and a rate differential that is shifting in favor of the USD.
7. Finally, we adapt our NOK target, after our previous target has been reached, and maintain our bullish scenario.

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Contents

USD & GBP	2
CHF & JPY	3
SEK & NOK	4
AUD & NZD	5
CAD & CNY	6
EM Currencies	7
Forecast tables	8
Disclaimer	9

OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 14/11/2021	Target 3 months	Target 12 months
Against euro	United States	EUR / USD 1,159	1,16	1,18
	United Kingdom	EUR / GBP 0,855	0,85	0,84
	Switzerland	EUR / CHF 1,058	1,10	1,12
	Japan	EUR / JPY 131,2	129	131
	Sweden	EUR / SEK 9,93	10,00	10,00
	Norway	EUR / NOK 9,86	9,75	9,60
Against dollar	Japan	USD / JPY 113,2	111	111
	Canada	USD / CAD 1,244	1,25	1,24
	Australia	AUD / USD 0,742	0,73	0,76
	New Zealand	NZD / USD 0,717	0,70	0,73
	Brazil	USD / BRL 5,547	5,50	5,25
	Russia	USD / RUB 71,23	68,0	68,0
	India	USD / INR 74,02	76,0	78,0
	China	USD / CNY 6,398	6,50	6,50

Source: Refinitiv - BNP Paribas WM



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USD VIEW >> TARGET 12M VS EUR: 1.18

A lot of volatility

In October, the EURUSD was mostly trading in a 1,16-1,15 range. In recent weeks, the USD strengthened sharply with value of one euro falling below 1.15.

This movement goes against our expectations of a stronger euro over the coming months.

The recent strengthening of the USD, to 1.14, follows the November 10th inflation data that surprised to the upside, with 6.2% inflation (year-over-year), and lead investors to conclude that the Fed will hike earlier than previously expected and as early as July 2022. While an earlier hike is possible, we do not believe it is very likely, as inflation should be transitory and the Fed is cautious not to overreact. Furthermore, a non negligible part of the current year on year releases can be attributed to a strong base effect that should fade from February on.

We also believe that the economic momentum should be in favor of EUR denominated financial assets over the coming months. This should drive demand for the currency up, leading to a gradual weakening of the USD. The upside is however limited as we move closer to the first rate hike that we expect in the last quarter 2022.

Hence, we keep our outlook , but we continue to monitor the situation very closely. We maintain our 3-month and 12-month targets at 1.16 and 1.18 respectively. This suggests appreciation for the EUR.

GBP VIEW >> TARGET 12M VS EUR: 0.84

Temporary correction offers more upside

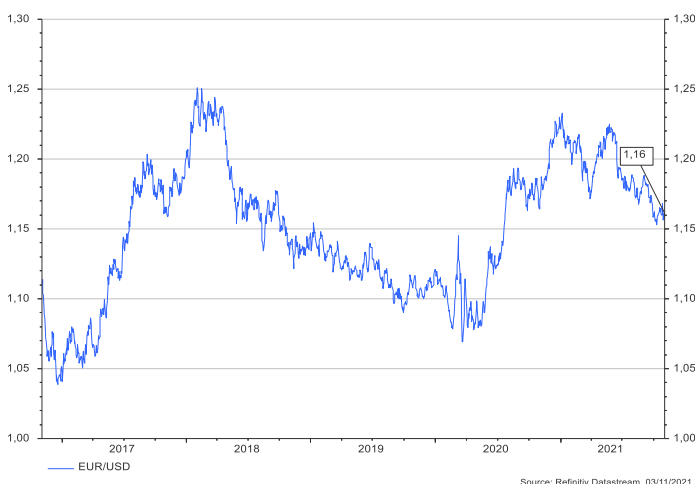
In October, the EURGBP oscillated between 0.84 and 0.85 (value of one euro), in line with expectations set in our previous analysis.

Rising inflation pressures and growth concerns have put pressure on real yields. This was supported by above trend growth and signs of wage pressure. This environment explains the relative stability of the GBP in recent weeks. This remains our base scenario with potential destabilizing risks being a deterioration of the current energy crisis. The Bank of England surprised markets by leaving the policy unchanged, prompting rates markets to price a slower pace. We continue to expect the first move to come in February.

The Sterling fell after the announcement of the central bank. The macro environment and the expected hike in February let us to believe that the Pound has more upside (lower EURGBP).

There was a reduction in portfolio inflows in the second quarter, but domestic data remains positive despite inflation worries.

In light of the above, we forecast EURGBP to fall to 0.84 (value of one euro) by end late 2022 and stabilize there (stronger GBP).



CHF VIEW >> TARGET 12M VS EUR: 1.12

CHF strength overdone

The Swiss franc has strengthened significantly in October and the beginning of November, especially following the ECB's last meeting and the renewed concerns regarding inflation and COVID.

We believe there are two main forces that will lead to a weaker CHF relative to the EUR. While the ECB remains dovish, especially relative to other central banks, core rates in the EU will rise, especially with the end of PEPP. We expect the SNB to continue to intervene on FX markets in order to prevent investors turning too bearish on the currency. We do not believe it is in the interest of the SNB to raise rates and that FX intervention will remain their main tool.

The CHF remains very rich against other developed currencies according to our analysis, which again would point towards a weakening of the CHF.

The Swiss balance of payment improved during the second half of 2021.

We maintain our one-year EURCHF target at 1.12 and our 3-month target at 1.10. We see potential for euro appreciation but still limited by recent ECB comments.

JPY VIEW >> TARGET 12M VS EUR: 111

Bad news are well priced

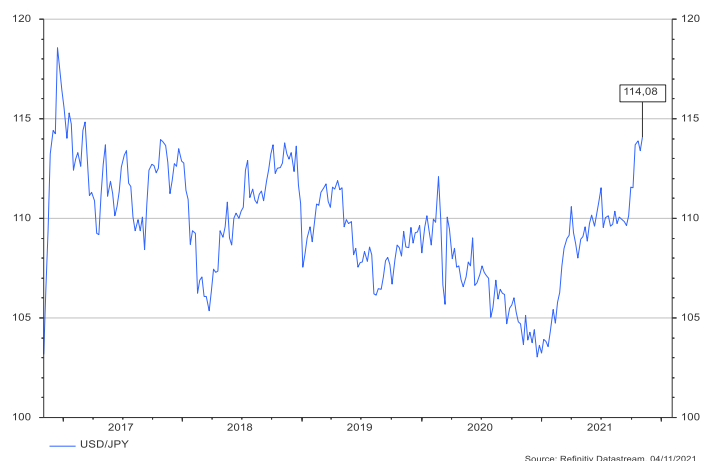
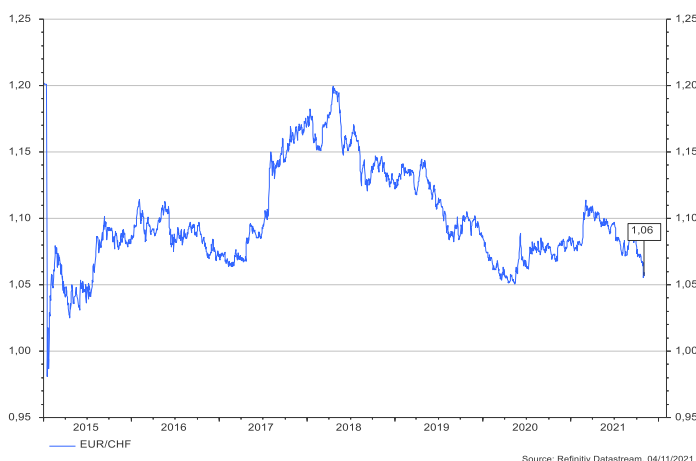
The Japanese Yen weakened in the first half of October before stabilizing around the 114 mark. Japanese yields are expected to remain very low especially compared to other developed markets. The Bank of Japan is highly unlikely to raise rates as there is little inflation risk.

Japan's fragile health system, built around small private clinics, was hit hard by a wave of Delta variant and the effect was amplified supply-chain disruptions in south-east Asia. This weakened state of the economy is another reason why we do not believe the BoJ will raise rates and will remain dovish for the foreseeable future.

The JPY should remain weak relative to its fair value due to cyclical divergences between the US and Japan. This is reflected in the monetary policy divergences between the two economies.

The Japanese balance of payment keeps a large surplus, and we think that most negative news are now priced.

Therefore, we keep our 3- and 12-month USDJPY targets to 111. This suggests some strengthening of the JPY from here.



SEK VIEW >>

TARGET 12M VS EUR: 10.00

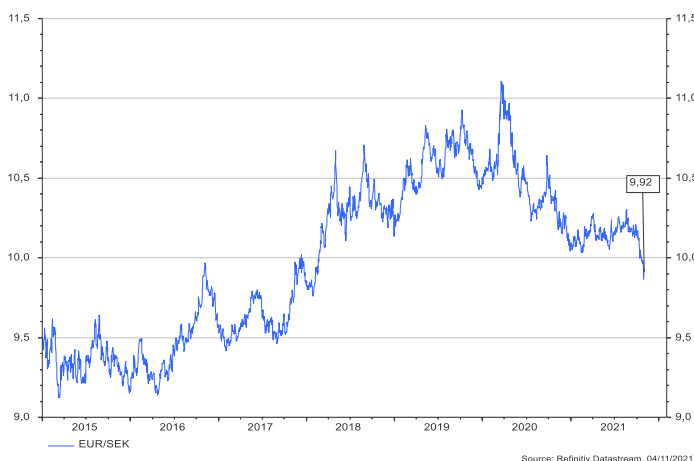
Look for a lateral move

In October, the SEK broke our target level of 10 turning our view slightly bearish. The beginning of November reversed the trend and we moved back on target. The EURSEK is currently at 9,99, close to our forecast.

Macroeconomic indicators could push the central bank to turn hawkish. Sweden's GDP has reached pre-pandemic levels. Inflation has been above target for the third time in 2021. Finally, local house prices are firmly on the rise. While it seems clear that rate markets have fully priced this environment, FX markets have been timid, with a moderate strengthening of the SEK in October. But recent household surveys have been less encouraging, with consumer confidence falling to 103.3 from 106.6 (driven by a general worsening of all questions). This could signal a slowing housing market. We do not change our outlook for the currency but remain vigilant for future developments.

Sweden's current account surplus has been broadly offset by portfolio outflows.

We keep our EURSEK targets at 10.00 over the next 3 and 12 months (value of one euro). This suggests a lateral move for the SEK.



NOK VIEW >>

TARGET 12M VS EUR: 9.60

More strengthening expected

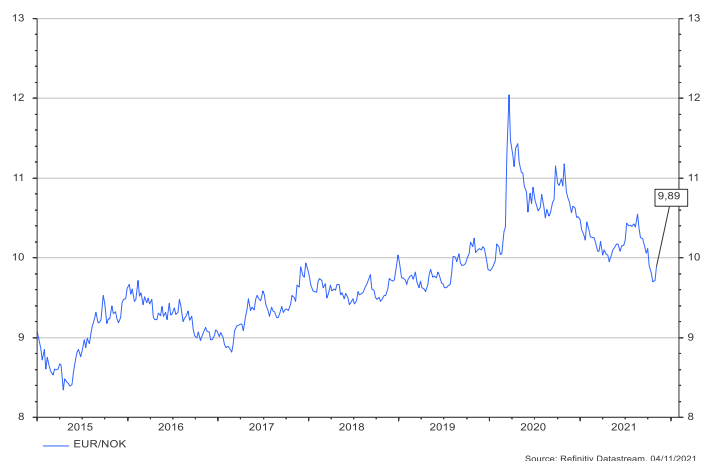
The currency profited from high oil prices over recent months and appreciated to 9.7 (value of one euro) before moving back to 9.8 at the end of the month.

While short term moves are justified by changes in oil prices, the long-term driver should remain interest rate differentials between the ECB and the Norges, which leads us to see a further strengthening of the NOK on a one-year horizon. For the short term, we adjust our 3-month target given the recent moves.

The central bank has a mandate that is larger than most central banks as it is responsible for boarder financial stability including the housing market and macroprudential regulation. And as the housing market has become more sensible to rate changes, it could affect future rate hike more than expected. A hike in December is expected as well as 3 more in 2022 with the possibility of a fourth.

Unsurprisingly Norway's balance of payments remains largely positive on the back of high oil prices.

We lowered our 3-month EURNOK target in line with our long-term view (value of one euro) to 9.75 and maintained our 12-month target to 9.60. This suggests a further appreciation of the NOK.



AUD VIEW >>

TARGET 12M VS USD: 0.76

AUD with medium-term upside

The Aussie broke our 3-month target at the beginning of October, strengthening over the period before reaching highs around the 28th. The currency weakened significantly after the last meeting of the RBA and is weakening since the beginning of November.

The reserve Bank of Australia announced the end of YCC (Yield Curve Control) and announced that a rate hike could come sooner than previously communicated but implicitly questioned the number of hikes currently priced in by markets. This perceived rather dovish stance is probably the source for the sudden weakening of the currency. No hikes are expected before 2024 and bond purchases have already been tapered.

The currency is also at risk if a further weakening of the Chinese economy occurs as it is the main trading partner. Another risk is the interest rate differential with the Fed which is expected to start rising rates sooner than later. These issues were responsible for most of the losses the currency experienced in September and could continue to affect it.

Therefore, we maintain our 3-month and 12-month AUDUSD targets to 0.73. and 0.76 respectively (value of one AUD). This implies an appreciation potential for the AUD over the long-term.

NZD VIEW >>

TARGET 12M VS USD: 0.73

Moderate appreciation potential

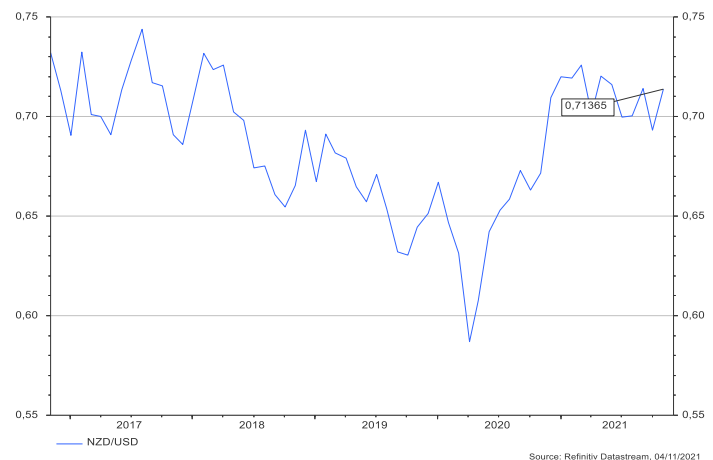
After strengthening for much of October towards our 1 year target, the currency has been weakening back towards our 3-month objective of 0,7 in recent weeks.

The central bank has started its hiking cycle and the NZD should perform well over the coming year, as a strong interest rate differential will give it a non-negligible advantage compared to other G10 currencies. At the last meeting, the central bank lifted rates by 25bps, seeing sufficient strength in the economy.

The country still manages local COVID outbreaks and put macroprudential measures in place to better manage the local housing market. The economy looks healthy with the participation rate reaching 71.2% and unemployment falling to 3.4%. High quarter on quarter inflation further comforted the RBNZ in its decision.

The NZD looks rather cheap according to our estimate. The country's balance of payment has slightly deteriorated without being alarming.

We keep our 3-month and 12-month NZDUSD targets to 0.70 and 0.73, respectively (value of one NZD). This implies a moderate appreciation potential for the NZD.



CAD VIEW >> TARGET 12M VS USD: 1.24

Little room for upside

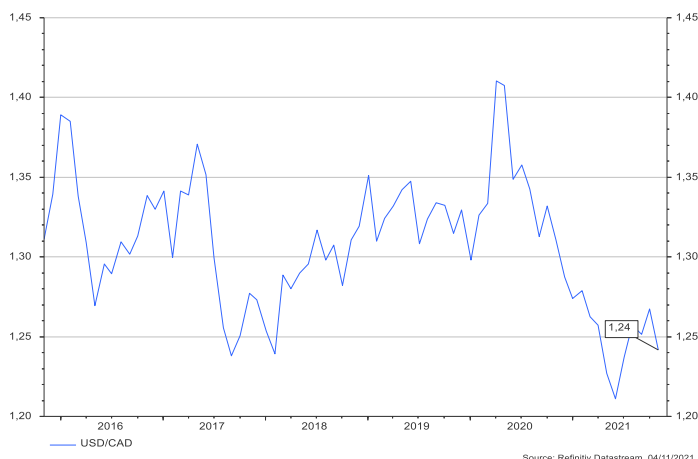
In October, the Canadian dollar moved from 1.26 to a 1.23 - 1.24 range around the 15th and has stayed there for the remainder of the month. This was mainly driven by high oil prices and interest rate expectations. Since the beginning of November, the CAD is weakening following a slight pullback of oil prices.

The central bank has announced the end of its QE program on November 1st. Rate hikes are now expected in April 2022, making Canada one of the faster moving countries in the face of high inflation numbers.

Relative to its fair value the CAD is trading rich, with our estimate signaling 1.29 as a long-term target, however the country's high vaccination rate and hawkish central bank justifies a rich valuation.

Current very high oil prices are responsible for the recent strengthening in the currency, this poses some downside risk. In addition, environmental policies in the US and Canada could have a long-term impact on oil related CAD demand.

Based on this analysis, we maintain our USDCAD (value of one dollar) target on the 3- and 12-month horizon to 1.25 and 1.24 respectively. This suggests a horizontal move for the CAD.



CNY VIEW >> TARGET 12M VS USD: 6.50

Weakening of the CNY expected

China related news has been mainly negative over September and October, yet the currency remained strong and even appreciated against the dollar.

It seems that foreign investments have generated sufficient demand to sustain current levels despite a negative news flow. Payment defaults related to real estate developers generated some concerns last month. They do however not seem to spread to the larger economy at this stage. Recent power outages and COVID lockdowns weighed on growth and could have an adverse effect on the country's trade balance. Local governments have limited or suspended certain productions in the face of energy shortages. Very high fossil fuel prices have an added effect. We however do not expect the balance of payments to deteriorate substantially, as international travel is slow to resume, and we expect capital flows to remain robust. The rising interest rate differential is a further reason to believe that the currency could weaken.

We changed our view, and we are a bit more bearish with 3-month and 12-month USDCNY targets now at 6.50 instead of 6.40. This suggests some weakness for the CNY over the next year.



Emerging Markets VIEW >>

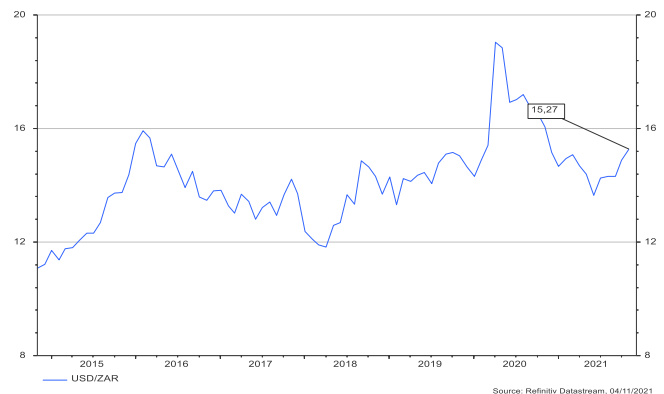
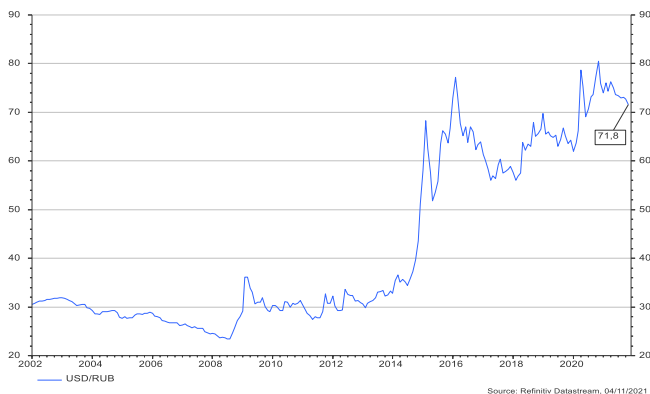
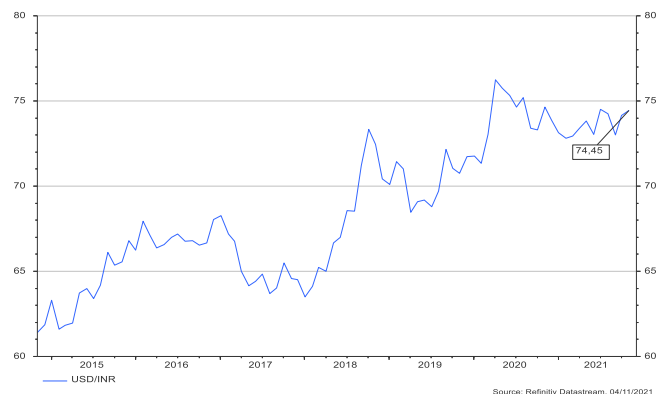
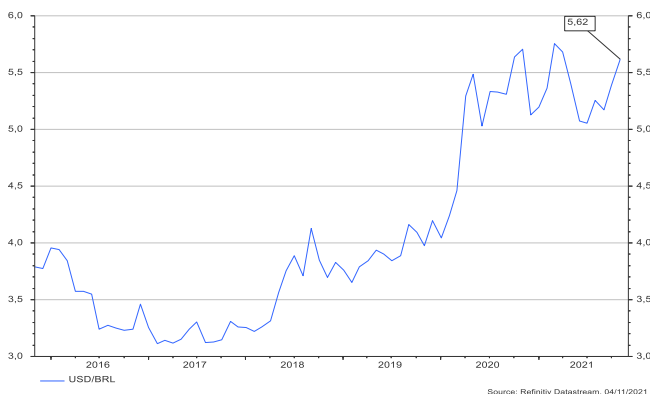
Less Upside for EM currencies

Brazil's currency, as a commodity exporter, has not profited from recent high prices, and has weakened against the USD. This can be explained by high inflation figures which could prove hard to manage for the central bank which has a history of run-away inflation in the 90'. Adding to this, high political uncertainty and upcoming elections have also put negative pressures on the currency. **We decided to adjust our 3M and 12M price targets to 5.5 and 5.25 (value of one euro) respectively (up from 4.9 and 4.8). We remain bullish but see less upside long term as the interest differential with the US should favor the real.**

The Russian currency looks undervalued and positioning in the RUB does not look crowded. As a result, we expect the currency to appreciate from here. Another positive evolution is linked to very high natural gas prices that should only normalize after the winter. Geopolitical risks have shifted fallen. We do however believe that markets will continue to price in some geopolitical premium and that the rising interest rate differential with the US will limit the upside. **As a result, we shift our USDRUB outlook from 70 to 68 at a 3-month horizon and maintain our 68 target at a 12 month horizon. This suggests a stronger RUB.**

The Indian rupee has been supported by a narrowing trade deficit, but in our view a gradual lifting of restrictions and higher energy prices are likely to weigh on the current account again. While central bank strong reserve position should counterbalance some of this weakness, seasonal patterns could exacerbate a softer external balance as the economy reopens. In addition, strong inflation and an affirmed dovish stance by the central bank should further weaken the currency. **We adjust our 3- and 12-month targets to 76 and 78 respectively. This suggests a moderate depreciation of the rupee.**

South Africa witnessed riots in the KwaZulu-Natal and Gauteng regions. Although the protest did not last for long, we still expect some damage to the economy. On the fiscal front, the National Treasury's revenues remain robust. Hence, we do not expect the new support package to derail the strong fiscal performance so far this year. We expect hikes by the South African Reserve Bank, one hike this year followed by four hikes in 2022. The strong depreciation late October is mostly due to a combination of disappointing macro posting and a risk off movement. **We keep our targets at 14.5 for the 3 months horizon and 15 over one year.**



	Country	Spot 14/11/2021	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)	
	United States	EUR / USD	1,159	Neutral	1,16	Neutral	1,18
	United Kingdom	EUR / GBP	0,855	Neutral	0,85	Neutral	0,84
	Japan	EUR / JPY	131,2	Neutral	129	Neutral	131
	Switzerland	EUR / CHF	1,058	Negative	1,10	Negative	1,12
	Australia	EUR / AUD	1,562	Neutral	1,59	Neutral	1,55
	New-Zealand	EUR / NZD	1,617	Negative	1,66	Neutral	1,62
	Canada	EUR / CAD	1,442	Neutral	1,45	Neutral	1,46
	Sweden	EUR / SEK	9,93	Neutral	10,00	Neutral	10,00
	Norway	EUR / NOK	9,86	Neutral	9,75	Positive	9,60
Asia	China	EUR / CNY	7,414	Neutral	7,54	Negative	7,67
	India	EUR / INR	85,79	Negative	88,16	Negative	92,04
Latam	Brazil	EUR / BRL	6,428	Neutral	6,38	Positive	6,20
EMEA	Russia	EUR / RUB	82,55	Positive	78,88	Positive	80,24

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	Eurozone	EUR / USD	1,159	Neutral	1,16	Neutral	1,18
	United Kingdom	GBP / USD	1,356	Neutral	1,36	Positive	1,40
	Japan	USD / JPY	113,2	Neutral	111,00	Neutral	111,00
	Switzerland	USD / CHF	0,913	Negative	0,95	Negative	0,95
	Australia	AUD / USD	0,742	Neutral	0,73	Positive	0,76
	New-Zealand	NZD / USD	0,717	Negative	0,70	Neutral	0,73
	Canada	USD / CAD	1,244	Neutral	1,25	Neutral	1,24
Asia	China	USD / CNY	6,398	Neutral	6,50	Neutral	6,50
	India	USD / INR	74,02	Negative	76,00	Negative	78,00
Latam	Brazil	USD / BRL	5,547	Neutral	5,50	Positive	5,25
	Mexico	USD / MXN	20,34	Positive	19,70	Positive	19,00
EMEA	Russia	USD / RUB	71,23	Positive	68,00	Positive	68,00
	South Africa	USD / ZAR	14,95	Neutral	15,00	Neutral	15,00
	USD Index	DXY	94,05	Neutral	93,86	Neutral	92,49

Source: Refinitiv - BNP Paribas WM

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