

Currencies Focus

Summary

1. The dollar continued to strengthen in a context of rising expectations of the FED terminal rate and global risk aversion. The dollar index (DXY) increased by 4.9% over the last 30 days and by 19% since the beginning of the year.
2. Faced with the decline of their currencies, some central banks have to intervene like the Bank of Japan which defended the yen by selling the dollar or the Bank of England which bought long-term debt maturities.
3. Market expectations are quite high for the Fed and we think that is exaggerated.
4. For the EURUSD, we now aim for 3-month parity due to sustained uncertainty in the short-term. We maintain our outlook to 1.08 as we expect a gradual fall in uncertainties.
5. The Swiss National Bank is more aggressive in its policy of interest rate hikes, and this has led us to review our EURCHF targets.
6. In the UK, the Prime Minister's initial plan has generated new uncertainties. We have seen some stabilization recently. We lower our targets on the EURGBP and we now forecast 0.90 both at 3 and 12 months.
7. The Bank of Japan still did not raise its policy rate. There could be more downside for the currency short-term.
8. The AUD and NZD have been affected by recession fears and the Chinese slowdown. The CNY is also under pressure. We are changing our targets on these 3 currencies.

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OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 10/18/2022	Target 3 months	Target 12 months
Against euro	United States	EUR / USD 0.98	1.00	1.08
	United Kingdom	EUR / GBP 0.87	0.90	0.90
	Switzerland	EUR / CHF 0.98	0.96	0.98
	Japan	EUR / JPY 146.01	145	146
	Sweden	EUR / SEK 10.98	10.40	10.70
	Norway	EUR / NOK 10.34	9.60	9.60
Against dollar	Japan	USD / JPY 148.74	145	135
	Canada	USD / CAD 1.37	1.35	1.30
	Australia	AUD / USD 0.63	0.66	0.70
	New Zealand	NZD / USD 0.56	0.58	0.62
	Brazil	USD / BRL 5.27	5.40	5.00
	Russia	USD / RUB 62.15	100.0	90.0
	India	USD / INR 82.36	82.0	80.0
	China	USD / CNY 7.20	7.10	6.70

Source: Refinitiv - BNP Paribas WM



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USD VIEW >> TARGET 12M VS EUR: 1.08

USD at extreme levels

The EUR lost 0.4% over the last 30 days. It hit a low at around 0.95 before recovering closer to parity in early October.

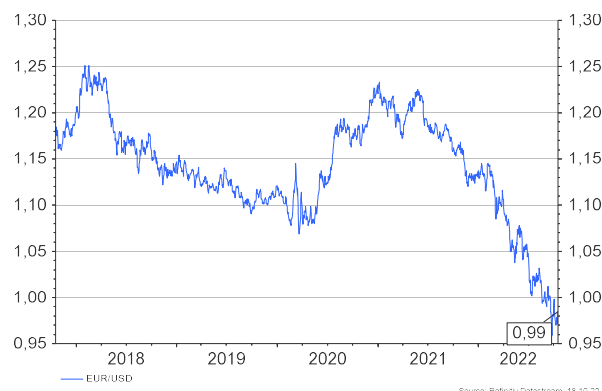
The euro remains weak due to a repricing of Fed rate hikes after higher-than-expected US inflation figures..

Indeed, inflation remained above 8% in August and September, above the consensus. What worries markets is that core inflation (excluding food and energy) accelerated from 6.3 to 6.60%. This was mainly due to inflation in services (rents, health insurance). In the eurozone, inflation hit 10% in September compared to 9.1% in August. This is notably explained by a 40% price increase in energy and 12% in food. We think that the fed rate expectations are somewhat exaggerated. We now expect a terminal rate of 4.5% to be reached by the end of the year. For the ECB, we expect a terminal rate of 2.75% and the ECB will speed up the process.

Economic indicators such as PMIs and consumer confidence are recovering strongly in September in the United States, prompting us to anticipate a stronger dollar than before in the short-term.

The USD is mainly supported by extreme risk aversion. We expect this to gradually come down over the coming months. Fundamentals should be in the lead again and we thus still expect a gradual weakening of the dollar.

We change our target to 3 months at 1.00 (versus 1.03 previously) as uncertainty could last for longer. We maintain our target 12 months at 1.08 (value of one euro). This suggests a weaker dollar.



GBP VIEW >> TARGET 12M VS EUR: 0.90

GBP with high volatility

The pound recovered after initial losses after the new minister partially reversed the initial prime minister's budget plan.

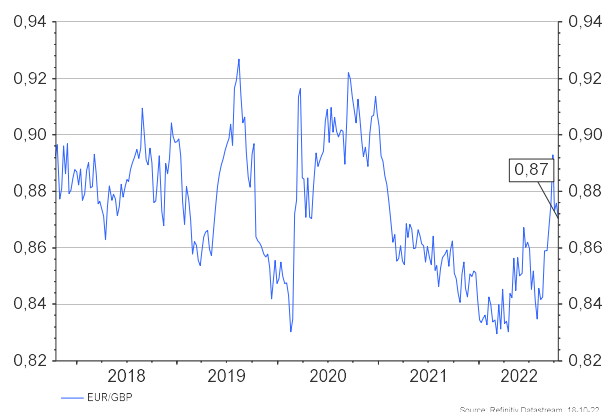
The Bank of England has changed its position. It had planned to start its quantitative tightening this autumn and finally resumed the purchase of bonds to face the soaring rates and provide liquidity. Expectations of rate hikes have declined in recent days. The market is now pricing a terminal rate of 5.5% compared to more than 6% anticipated at the end of September.

The GBP recovered strongly after hitting a low above 0.9 (value of one euro). Prime Minister Liz Truss canceled the planned tax cut for the high income individuals. This enables her policy to regain some credibility and reassured the markets.

At its November meeting, the Bank of England should raise rates by 100bps which would bring the current policy rate to 3.25%.

In September, the PMI Composite reached 48.4, a 20-year low. Companies highlighted the negative impact of high prices and the weaker economic outlook linked to customer spending.

In this context, we change our 3-month and 12-month targets from 0.84 (value of one euro) to 0.90. This suggests that the GBP should be somewhat weaker in the coming months.



CHF VIEW >> TARGET 12M VS EUR: 0.98

Sustained strength

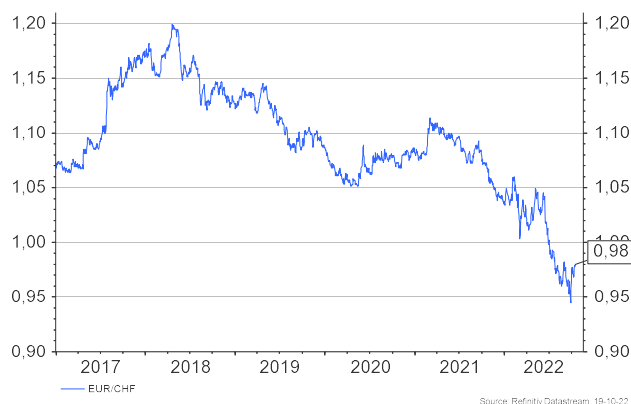
The euro is almost flat against the Swiss franc over the last 30 days. It fell below 0.95 at the end of September before recovering in early October.

At its September meeting, the Swiss National Bank raised its key interest rate by 75 bps to 0.5%. The central bank pointed out that inflationary pressures could in fact increase. Inflation in August reached 3.5% driven by food and energy. GDP growth in the second quarter was 1.1% below expectations due to lower industrial performances.

The central bank is expected to raise its rate further by 50bps in December and by 25bps in March. This would bring its terminal rate to 1.25%.

The Swiss manufacturing business survey index (PMI) rose in September to 57.1 (up from 56.4 in August). Industrial production and order books are high.

We expect a stronger Swiss franc compared to the previous month due to sustained global uncertainties and the good resilience of the Swiss economy. **We change our 3-month target from 0.98 to 0.96 (value of one euro) and the 12-month target from 1 to 0.98.**



JPY VIEW >> TARGET 12M VS USD: 135

Yen under pressure

The yen depreciated again and lost 3.1% on the month and 25% since the beginning of the year.

The Bank of Japan (BOJ) maintained its key interest rate at -0.1% and kept the same rhetoric that it would not change rates until inflation is structurally above 2%. In addition, the Bank of Japan will maintain its pandemic relief loan program until March although it was supposed to stop in September this year. In fact, according to the BOJ, the current macroeconomic environment presents downside risks for Japan and the BOJ thus maintains an accommodative monetary policy.

The BOJ intervened to sell 19.7 billion dollars and buy yen at the end of September in order to defend its currency. This had only a temporary effect and the yen then depreciated again.

The Japanese business survey (Composite PMI) reached 51 in September versus 49.4 in August driven by new orders and employment. Businesses continue to highlight increasing inputs costs.

We downgrade our outlook on the yen due to the accommodative Japanese central bank. **We now target 145 (value of one dollar) on a 3-month horizon compared to 140 previously and 135 on a 12-month horizon compared to 130 previously.** Compared to current levels, we are thus neutral at 3 months and still positive on the yen over the next 12 months.



SEK VIEW >>

TARGET 12M VS EUR: 10.70

Moderate upside

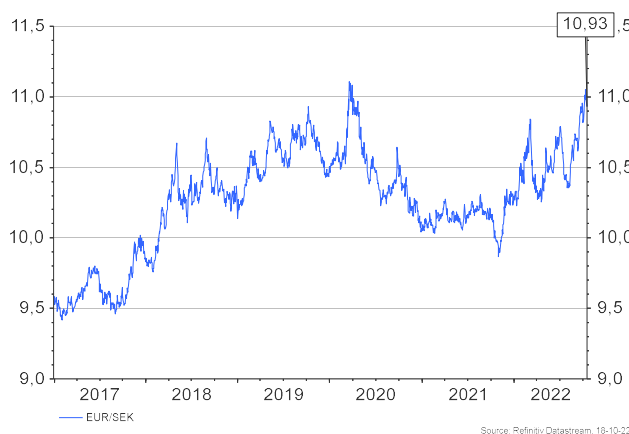
The SEK depreciated by around 2.7% over the last past month despite a 100bps increase by the central bank (Riksbank).

Inflation reached 9% in Sweden which forced the Riksbank to raise its key interest rate by 1% to 1.75%.

The economic situation deteriorated drastically in Sweden in August due to the slowdown in the automotive sector and flat consumption. The manufacturing business survey (PMI) fell for the fourth consecutive month in September and now stands at 49.2. The third quarter is also expected to see a contraction and Sweden will likely enter a technical recession. The Riksbank is expected to raise rates by 50bps in November. This is less than previously due to the economic slowdown.

At the current level, we remain positive on the Swedish krona. The terminal rate is estimated at 3% and should be reached by March. This would be higher than in the euro area. This should be a support factor for the Swedish currency.

We maintain our targets of 10.4 (value of one euro) and 10.7 for the 3- and 12-month horizon. This implies a moderate upside for the SEK over the coming year.



NOK VIEW >>

TARGET 12M VS EUR: 9.60

Look for a rebound

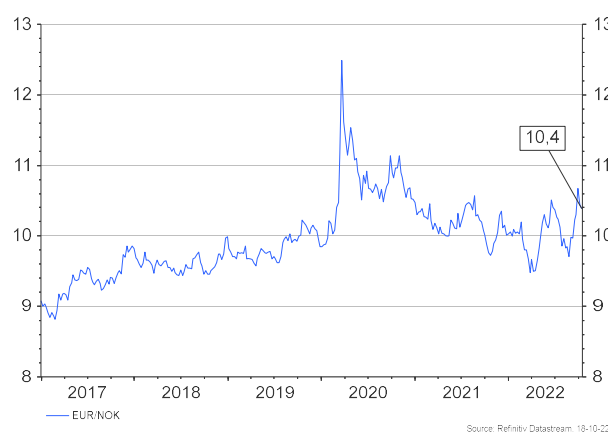
The NOK lost almost 5% over the past month against the euro. This is mainly due to the low liquidity of the currency which leaves it vulnerable in a climate of risk-off.

Norges Bank decided to raise its rates by 50bps, raising its key interest rate to 2.25%. Norges Bank is expected to raise rates by 50bps in November and 25bps in December.

The OPEC+ cut in oil production should be a support factor for the Norwegian currency. Norway recorded a positive current account record in June at \$29.4 billion meanwhile the euro area has currently record deficits. In September, the manufacturing business survey (PMI) reached 50 suggesting a stagnation in the industry.

We remain positive for the NOK. The improvement in the terms of trade in the face of high crude oil prices and the interest rate differential with the euro area should be supporting factors for the Norwegian currency.

We maintain our 3- and 12-month targets at 9.6 (value of one euro) suggesting a potential for NOK appreciation from current levels.



AUD VIEW >>

TARGET 12M VS USD: 0.70

Less upside expected

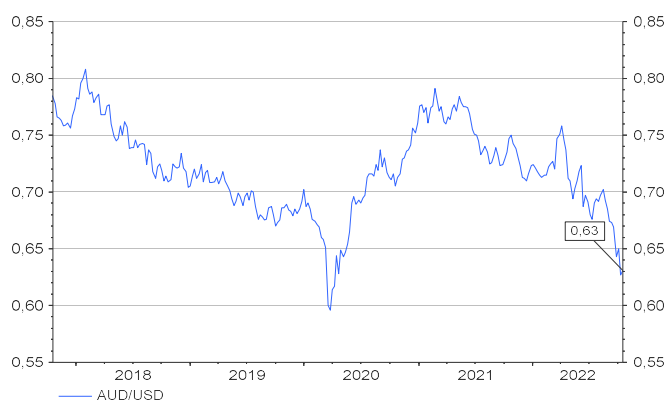
The AUD lost around 4% against the dollar over the past month. It was penalized by global recession fears.

At the meeting on October 4th, the Reserve Bank of Australia (RBA) raised its rates by 25 bps, bringing the cash rate to 2.6%. The market was expecting 50bps and the AUD depreciated initially before recovering. The central bank justifies this decision by the fact that the economy needs rates to rise more gradually. The terminal rate is expected to be reached only in August 2024 and to be slightly above 4%.

Inflation should reach 7.75% in 2022 in Australia. This is mainly due to the global environment and the weaker currency, although strong domestic demand also contributes. The unemployment rate is indeed very low and fell to 3.5%.

The weak growth in China, highlighted by the latest business surveys (PMI), continues to weigh on the AUD. We believe that the Chinese Communist Party meeting will signal a further boost to Chinese growth. The environment remains however highly uncertain.

We are less bullish on the AUD mainly because of the central message and uncertainty around China. We revise our 3-month target from 0.72 to 0.66 (value of one AUD) and our 12-month target from 0.74 to 0.70.



NZD VIEW >>

TARGET 12M VS USD: 0.62

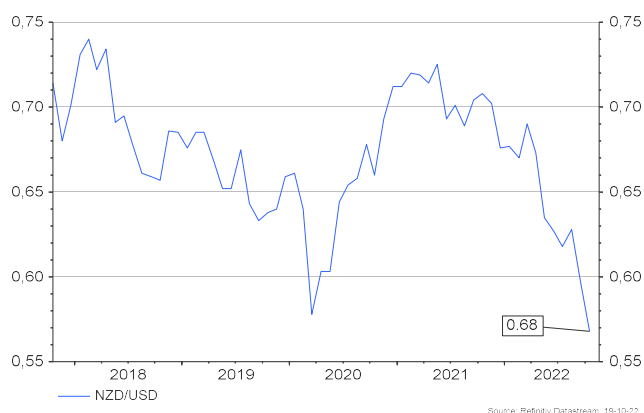
Positive outlook

The NZD fell around 7% against the dollar in a climate of risk aversion and pressures on US rates.

The Reserve Bank of New Zealand raised its rates by 50 bps at its October meeting, bringing the official cash rate to 3.5%. The terminal rate is expected to reach 4.8% by May 2023. The central bank says that inflation is far too high and labor resources are too scarce. Household balance sheets remain strong despite the recent fall in real estate prices.

The New Zealand economy is resilient with full employment and high domestic spending. However, tightening policies will mean less growth for New Zealand and its trading partners in the coming months. China, which accounts for almost 25% of New Zealand's exports, is still facing high uncertainties.

We change our 3 months target from 0.65 to 0.58 (value of one NZD). At 12 months, we now target 0.62 for the NZD compared to 0.64 previously. This implies an appreciation potential for the NZD from current levels.



CAD VIEW >>

TARGET 12M VS USD: 1.30

Less appreciation potential

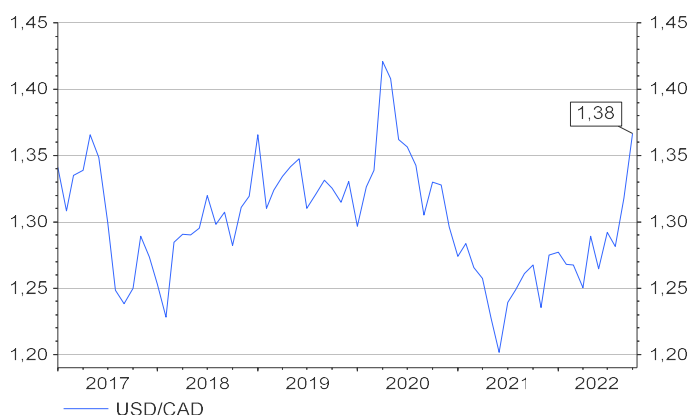
The CAD lost around 4% over the past month due to a high uncertainties and despite high oil prices (WTI).

The Bank of Canada raised rates by 75 bps at its September meeting and the policy rate now stands at 3.25%. In fact, inflation continues to remain too high, reaching 7% in August. In addition, the Bank of Canada's terminal rate is now lower than the Fed while they were similar before. It is expected at 4.2% in the Canada compared to 4.6% in the US (market expectations).

Despite high inflation, the Canadian economy continued to growth with 3.3% in the second quarter and an extremely low unemployment rate. The indicators of domestic demand were still well oriented. Consumption rose by 9.5% and investment by 12%.

We believe that the recovery of oil prices in the context of OPEC production cuts will be a support factor for the CAD. Petroleum products account for about 20% of Canadian exports.

The Fed's more restrictive policy limits the CAD appreciation potential. We now expect less appreciation. We change the 3-month target to 1.35 vs 1.25 (value of one USD) previously and the 12-month target to 1.30 vs 1.25 previously.



CNY VIEW >>

TARGET 12M VS USD: 6.7

Looking for a gradual recovery

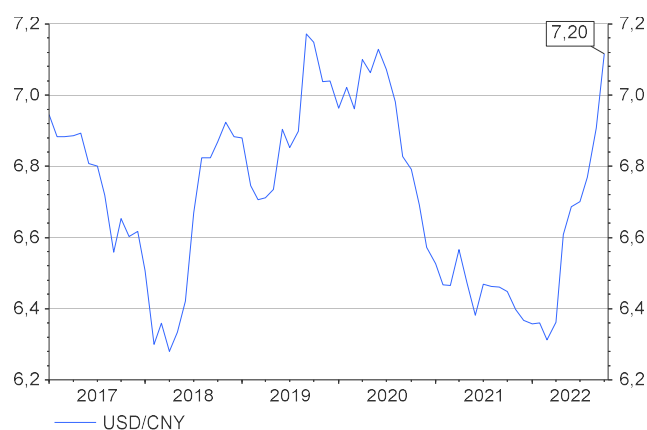
The yuan lost around 3% against the dollar over the past month due to economic weakness and diverging monetary policies.

China is still penalized by its zero Covid policy which limits its exports and therefore its current account. Young people have had more difficulties in entering the labour market. The official youth unemployment rate thus reached 18.7%. Moreover, the Chinese manufacturing business survey (PMI) deteriorated further from 49.5 in August to 48.1 in September. New orders and exports were at their lowest levels in several months.

After lowering rates in August, the People's Bank of China is expected to pause. Rates are more attractive in the US which has led to outflows on Chinese debt and this continues to add downward pressure on the currency.

The party congress in mid-October should be followed by policy announcements. We expect more economic stimulus measure and thus a gradual improvement later this year.

We remain positive at a 12-month horizon. We now target 7.1 (value of one USD) at 3 months compared to 6.8 previously and 6.7 (from 6.6) at 12 months.



	Country	Spot 10/18/2022	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD 0.98	Neutral	1.00	Negative	1.08
	United Kingdom	EUR / GBP 0.87	Negative	0.90	Negative	0.90
	Japan	EUR / JPY 146.01	Neutral	145	Neutral	146
	Switzerland	EUR / CHF 0.98	Neutral	0.96	Neutral	0.98
	Australia	EUR / AUD 1.56	Positive	1.52	Neutral	1.54
	New-Zealand	EUR / NZD 1.74	Neutral	1.72	Neutral	1.74
	Canada	EUR / CAD 1.35	Neutral	1.35	Negative	1.40
	Sweden	EUR / SEK 10.98	Positive	10.40	Positive	10.70
	Norway	EUR / NOK 10.34	Positive	9.60	Positive	9.60
Asia	China	EUR / CNY 7.07	Neutral	7.10	Negative	7.24
	India	EUR / INR 80.85	Neutral	82.00	Negative	86.40
Latam	Brazil	EUR / BRL 5.17	Negative	5.40	Negative	5.40
EMEA	Russia	EUR / RUB 61.01	Negative	100.00	Negative	97.20

	Country	Spot 10/18/2022	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD 0.98	Neutral	1.00	Positive	1.08
	United Kingdom	GBP / USD 1.14	Negative	1.11	Positive	1.20
	Japan	USD / JPY 148.74	Positive	145.00	Positive	135.00
	Switzerland	USD / CHF 1.00	Positive	0.96	Positive	0.91
	Australia	AUD / USD 0.63	Positive	0.66	Positive	0.70
	New-Zealand	NZD / USD 0.56	Positive	0.58	Positive	0.62
	Canada	USD / CAD 1.37	Neutral	1.35	Positive	1.30
Asia	China	USD / CNY 7.20	Neutral	7.10	Positive	6.70
	India	USD / INR 82.36	Neutral	82.00	Positive	80.00
Latam	Brazil	USD / BRL 5.27	Negative	5.40	Positive	5.00
	Mexico	USD / MXN 19.99	Negative	20.50	Positive	19.50
EMEA	Russia	USD / RUB 62.15	Negative	100.00	Negative	90.00
	South Africa	USD / ZAR 18.06	Neutral	18.00	Positive	16.00
	USD Index	DXY 112.04	Neutral	110.32	Negative	102.79

Source: Refinitiv - BNP Paribas WM

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