

Currencies Focus

Summary

1. The USD has been strong over the summer months, as the Fed message has been interpreted as more hawkish relative to the ECB and as new sources of uncertainty came through. We still expect the euro to benefit from an improved economic momentum, however less so than in our previous months. We now expect an earlier rate hike by the FED (late 2022). In contrast we do not expect a hike by the ECB over the coming 2 years.
2. The interest rate differential is a key driver for the dollar, and this suggests that there is a more limited upside for the euro to rebound against the dollar. Our new 12-month target is 1.18. There thus still moderate upside for the euro. We also revise a bit our 3-month target to 1.16 as suggested by the technical analysis and given fact that the economic momentum could accelerate only later this year.
3. In Japan, we still expect a sideways move as low inflation and stability of monetary policy should limit the volatility.
4. As expected, the commodity driven currencies such as the CAD, AUD and NZD moved in line with adjustments in oil prices and according to our model.

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OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 13/10/2021	Target 3 months	Target 12 months
Against euro	United States	EUR / USD 1,157	1,16	1,18
	United Kingdom	EUR / GBP 0,850	0,85	0,84
	Switzerland	EUR / CHF 1,073	1,10	1,12
	Japan	EUR / JPY 129,7	129	131
	Sweden	EUR / SEK 10,11	10,00	10,00
	Norway	EUR / NOK 9,88	9,80	9,60
Against dollar	Japan	USD / JPY 112,0	111	111
	Canada	USD / CAD 1,246	1,25	1,24
	Australia	AUD / USD 0,732	0,73	0,76
	New Zealand	NZD / USD 0,694	0,70	0,73
	Brazil	USD / BRL 5,514	4,90	4,80
	Russia	USD / RUB 71,72	70,0	68,0
	India	USD / INR 74,99	72,0	72,0
	China	USD / CNY 6,449	6,40	6,40

Source: Refinitiv - BNP Paribas WM



USD VIEW >> TARGET 12M VS EUR: 1.18

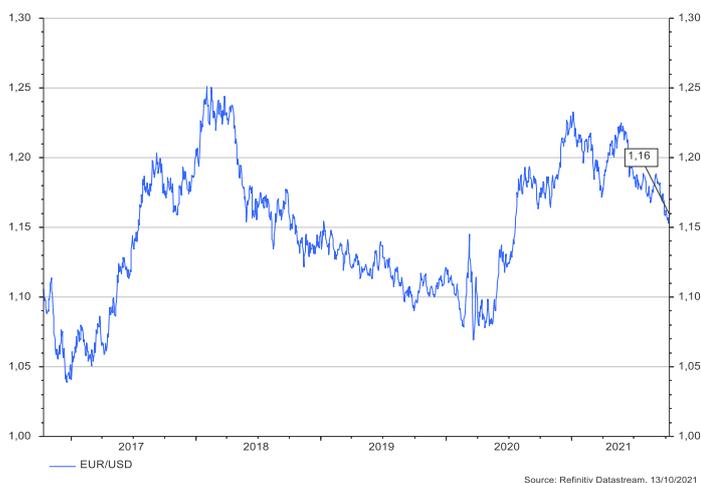
We adjust our EURUSD targets

The USD has been strong over recent months as the Fed message has been interpreted as more hawkish relative to the ECB and as new sources of uncertainty came through. Indeed, rising Covid cases generated fears of further lockdowns especially in regions where the vaccination rates is low. Further, new regulations and the related Evergrande crisis in China lead to downward revisions for Chinese growth by many market participants. This clearly helped the dollar despite the uncertainties around the US debt ceiling. The EURUSD (value of one euro) fell gradually and even broke temporarily 1.16.

We still expect the euro to benefit from an improved economic momentum (EU relative to the US) and from increasing risk appetite in financial markets as more reopening is expected and as growth should accelerate worldwide via fiscal stimulus and multiplier effects.

We do however see less upside for the euro as we revised our outlook for the first Fed rate hike gradually from the third quarter 2023 to the last quarter 2022 (we did that in two steps since June). The interest rate differential is a key driver for the dollar, and this suggest that there is a more limited upside for the euro to rebound against the dollar. Indeed, we expect no rate hike by the ECB over the coming 2 years.

We also revise a bit our 3-month target to 1.16 as suggested by the technical analysis and given fact that the economic momentum could accelerate only later this year. Our new 12-month target is 1.18. There thus still moderate upside for the euro.



GBP VIEW >> TARGET 12M VS EUR: 0.84

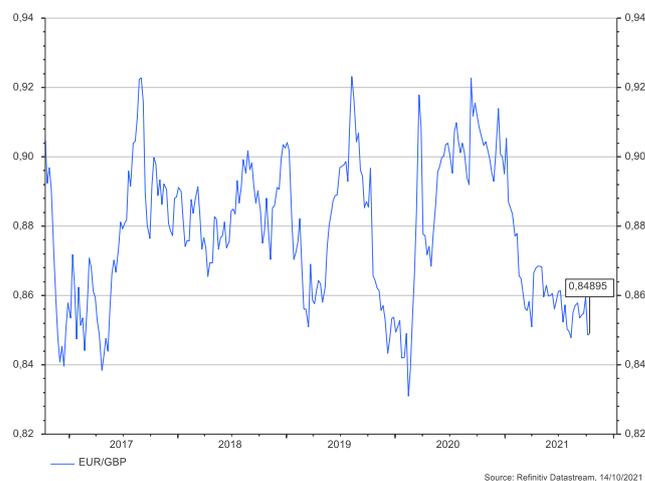
Further strengthening of our 12-month target

The GBP remained strong in September, oscillating between 0.85 and 0.86, in line with our expectations.

The British economy faces some consequences of Brexit at the same time as energy prices affect economic activity. This leads to inflationary pressures that span across the whole country. The BOE reaffirmed its hawkish stance, even with an underperforming labor market, driven by growing inflation concerns mentioned above. It could be rising to 4% by the end of the year. Adding to the Covid related inflationary pressures. We now see a first rate hike in February 2022, followed by multiple further hikes bringing the rate to 1% in the first half of 2024.

These developments continue to support our bullish GBP view. Furthermore the steeper expected path for the Central Bank Rate implies that the 0.5% threshold for ending APF re-investments will now be hit in 2022.

We still forecast the EURGBP to fall to 0.84 (value of one euro) by end 2021 and stabilize there which implies a stronger GBP.



CHF VIEW >> TARGET 12M VS EUR: 1.12

Gradual weakening expected

After weakening during the first part of September and reaching 1.09 the Swiss franc strengthened back and broke below 1.08 recently.

We still expect the franc to weaken over the coming months as European momentum continues to accelerate on the back of further reopening of economies, and with risk appetite expected to come back.

We do not expect monetary policy action from the SNB for the next two years, making the CHF a good funding currency. FX intervention is likely to remain the primary monetary policy tool for the SNB.

Macroeconomic figures came in positively with August year on year CPI inflation coming in at 0.9% and second quarter GDP climbing to 1.8%. But these encouraging figures should not influence the policy of the SNB, in our opinion.

We maintain our one-year EURCHF target at 1.12 and our 3-month target at 1.10. We thus see euro appreciation.

JPY VIEW >> TARGET 12M VS EUR: 111

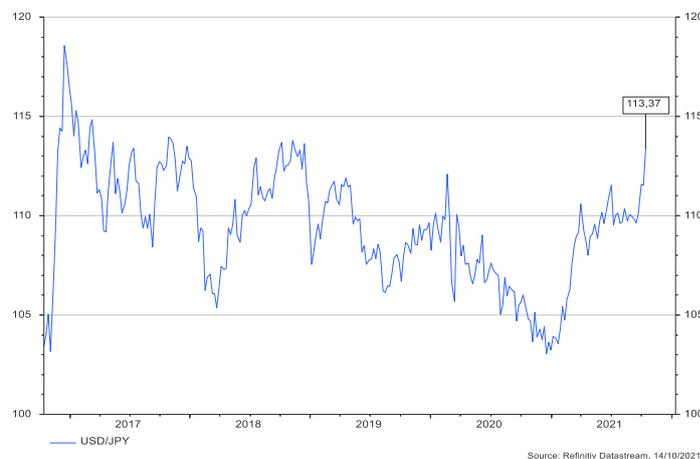
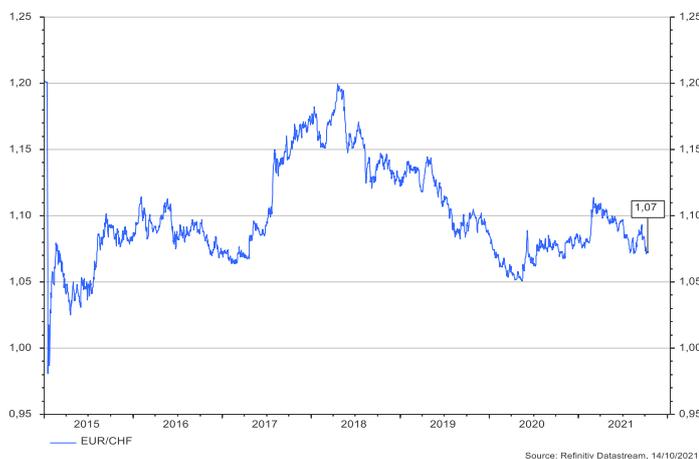
Global backdrop justifies weaker yen

The Japanese currency has been trading around our target 111 since late September after having oscillated in a tight range from 109 to 110 in the weeks before. We keep our forecast for the USDJPY to move sideways around 111 both on a 3- and 12-months horizon.

The spread of the Delta variant seems to be hitting Japan harder in recent months than other advanced economies. This is due to a combination of a fragile healthcare system and supply chain disruptions in south-east Asia. Furthermore, we see little hope that inflation will even reach 1% any time soon. The growth and inflation backdrop suggests the BoJ is likely to extend its Covid-19 special operations by another six months. More importantly for the currency, we foresee no change in the **BoJ's** policy rate or 10y yield target.

Japanese portfolio flows have been net positive for much of 2021 and while FDI outflows remain persistently negative, the net portfolio balance and current account surplus have resulted in a significant broad basic balance of payments surplus of JPY29trn over the past 12 months.

Therefore, we keep our 3- and 12-month USDJPY targets to 111. This suggests a lateral evolution of the USDJPY from here.



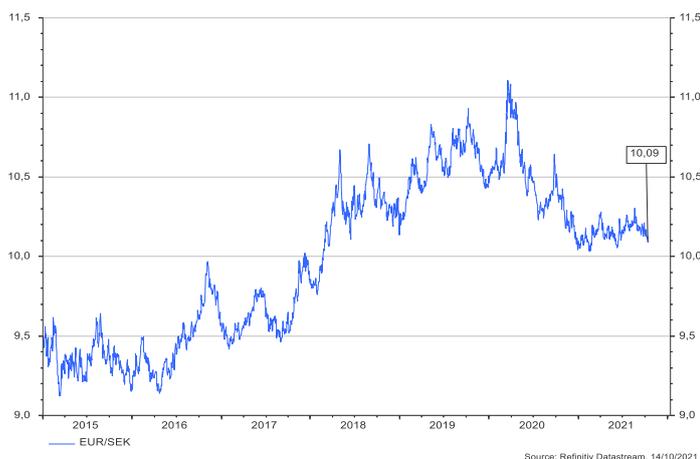
SEK VIEW >> TARGET 12M VS EUR: 10.00

Further lateral move is expected

The SEK stabilized in September with little volatility compared to previous months. The 200 day moving average appears to be a good support. It has been tested several times in September.

During the last meeting the central bank decided not to make changes to the asset purchasing program or to its key rate. The Riksbank is likely to keep rates on hold next year, but markets might price a faster balance sheet normalization next year compared to central bank expectations. This could prompt markets to price an earlier-than-expected lift-off, benefitting the SEK. It seems that currency investors currently hold small “shorts” in the currency, which suggests scope for “longs” to be added gradually in the coming months. **Sweden's** Broad Basic Balance of Payments improved slightly in Q2 2021 to -0.4%.

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

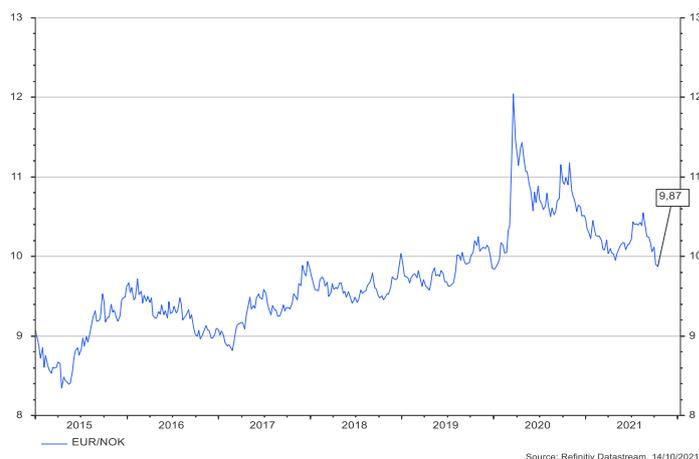
Supportive environment

In September the NOK continued its strengthening trend, and even broke below 10.06.

The Norges Bank was the first of developed markets central banks to raise rates, and they did so by 25bps. The move was mainly motivated by rising housing prices and accelerating credit growth. The Norwegian central bank is expected to continue raising rates at a quarterly pace. Over the medium term, we think the rate divergence between Norway and the rest of G10 central banks will lead to further NOK outperformance versus low-yielding currencies, including the EUR.

Norway's balance of payments has turned significantly positive. Portfolio inflows have accelerated and the current account surplus has widened, reversing the narrowing of the current account surplus seen since early 2019. The currency will also benefit from high commodity prices, especially oil (Brent).

We keep our 3-month EURNOK target (value of one euro) at 9.80 and our 12-month target at 9.60. This suggests an appreciation of the NOK.



AUD VIEW >>

TARGET 12M VS USD: 0.76

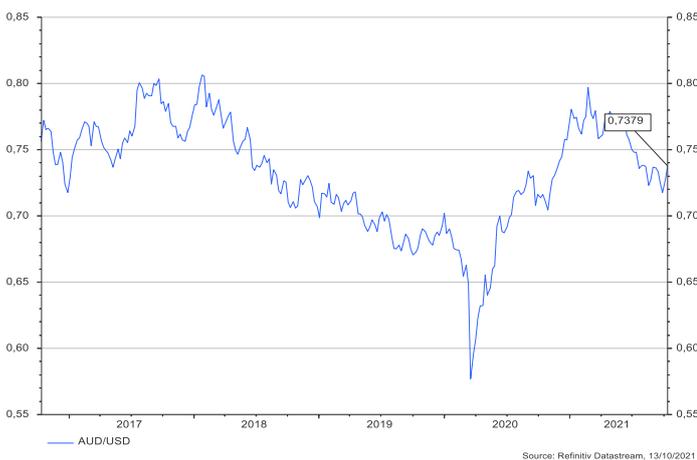
We expect AUD strength going forward

In September the AUD strengthened and is currently hovering around 0.73. This can be explained by (i) the PBoC stepping up its monetary and liquidity support; (ii) increasing local vaccine availability and deployment; (iii) cheap valuations and (iv) "short" FX investor positions being squeezed. The efforts from the government to move away from a zero-Covid strategy to one of vaccine coverage should protect the economy from further hard lockdowns.

The central bank has started tapering its asset purchases as planned, reducing the pace to AUD4bn/week. However, it has extended the period over which this pace will be maintained to mid-February. With the continued emphasis on wage growth and dovish forward guidance, the hurdle for rate hikes in the near-term is however high, in our view. We think hikes are likely but only in 2023, following moves in New Zealand and the US.

Australia's broad basic balance of payments improved slightly to -0.36% of GDP in Q2 2021.

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



NZD VIEW >>

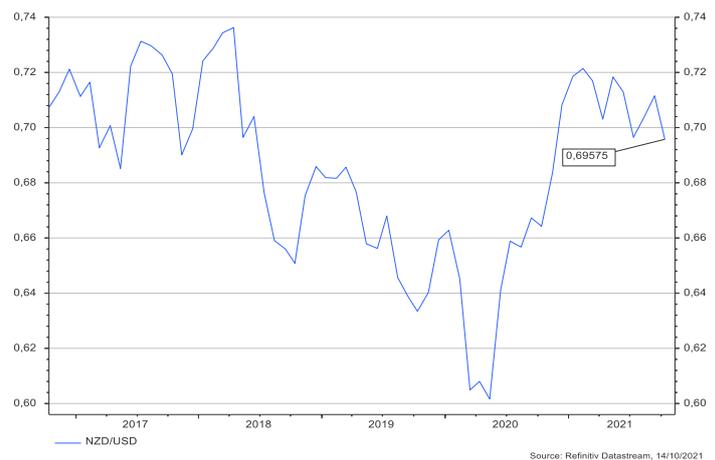
TARGET 12M VS USD: 0.73

NZD long-term upside

The NZD followed the AUD trend in September strengthening due to the same factors. Economic indicators continued to be strong, surprising markets on the upside. Unemployment fell to 4%, Q2 CPI inflation printed at 3.3% and house prices were up 27% yoy. However the RBNZ was not willing to raise rates due to a fresh outbreak of COVID which also surprised markets. Various MPC members have signaled the outbreak will not further impede policy making. As expected the RBNZ announced a 25bps rate hike at the October 6th meeting. Markets are already pricing in 54bp of tightening by the end of this year, and a cumulative 161bp of hikes over three years, the most across all G10 markets. In addition, historical changes in mortgage regulation have tended to precede policy rate action, and as of November the RBNZ has adjusted their mortgage regulation.

The currency still looks cheap relative the USD, and the balance of payments improved sharply in Q1 2021, as portfolio flows turned positive after three consecutive quarters of large net outflows.

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



CAD VIEW >> TARGET 12M VS USD: 1.24

Some upside left

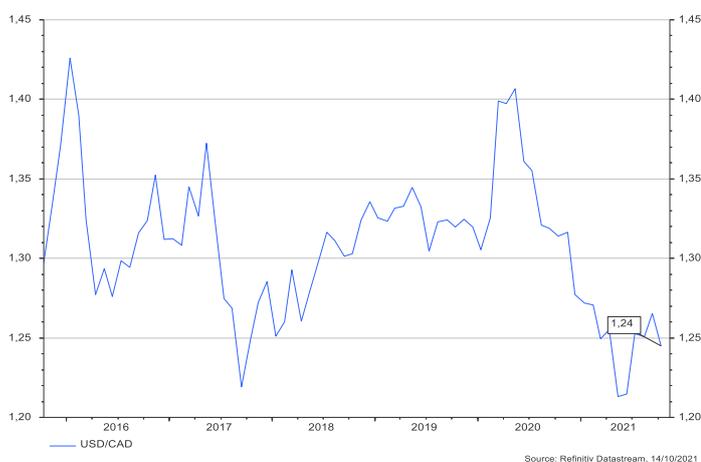
Similarly to August the CAD experienced a fair amount of volatility in September, peaking at 1.28 (value of one USD), the currency strengthened back and broke below 1.26 early October.

Canada's vaccine program has been very efficient, leaving the economy less at risk to Covid resurgence and better able to benefit from strong activity in the US. Looking ahead, we remain positive on the CAD.

Environmental policies in the US and Canada remain a risk to the outlook for production and transportation of Canadian crude oil. The central bank has slowed the pace of government bond purchases to CAD2bn per week, allowing its overall balance sheet to balance out.

The central bank has also brought forward its projection for the economy to absorb excess capacity, consistent with rate hikes beginning in H2 2022. Further tapering is expected, although an unexpected contraction in Q2 GDP has caused some doubt about timing. **Canada's** federal election however is not expected to significantly alter the outlook for fiscal stimulus.

In light of the elements presented above we maintain our USDCAD (value of one dollar) target on the 3- and 12-month horizon at 1,25 and 1.24 respectively. This suggests a moderate upside for the CAD.



CNY VIEW >> TARGET 12M VS USD: 6.40

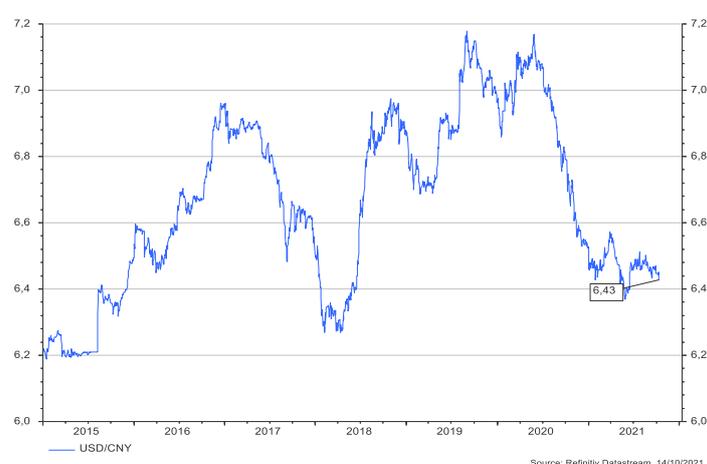
CNY quite stable despite uncertainties

In September, the Renminbi stayed fairly stable, oscillating between 6.42 and 6.46 despite rising uncertainties around growth and the risks around Evergrande. During the third quarter of 2021 the 200day moving average seems to have been a resistance tested 3 times.

Apart from temporary sources of uncertainty, the currency seems well supported by a strong trade performance and strong current account, even in light of a temporary slowdown in economic activity. Stability and common prosperity has emerged as a priority for the Chinese government, aiming at a 5 to 6% annual growth rate.

August data for Chinese exports and imports came in well ahead of expectations, exports rose 25.6% y/y vs consensus at 17.2% y/y and imports grew by 33.1% vs consensus at 27.0%. It looks as if the resurgence in Covid cases had no major impact on foreign trade last month.

We maintain our 3-month USDCNY target at 6.40 and our 12-month target at 6.50 (value of one dollar). This suggests sideways move for the CNY over the next year.



	Country	Spot 13/09/2021	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)	
	United States	EUR / USD	1,181	Neutral	1,17	Negative	1,22
	United Kingdom	EUR / GBP	0,854	Neutral	0,85	Neutral	0,84
	Japan	EUR / JPY	129,8	Neutral	130	Negative	135
	Switzerland	EUR / CHF	1,088	Neutral	1,10	Negative	1,12
	Australia	EUR / AUD	1,602	Neutral	1,60	Neutral	1,61
	New-Zealand	EUR / NZD	1,660	Neutral	1,67	Neutral	1,67
	Canada	EUR / CAD	1,495	Positive	1,46	Neutral	1,51
	Sweden	EUR / SEK	10,17	Neutral	10,00	Neutral	10,00
	Norway	EUR / NOK	10,19	Positive	9,80	Positive	9,60
Asia	China	EUR / CNY	7,623	Neutral	7,49	Negative	7,81
	India	EUR / INR	87,02	Positive	84,24	Neutral	87,84
Latam	Brazil	EUR / BRL	6,152	Positive	5,73	Positive	5,86
EMEA	Russia	EUR / RUB	85,88	Positive	81,90	Positive	82,96

Source: Refinitiv - BNP Paribas WM

	Country	Spot 13/09/2021	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)	
	Eurozone	EUR / USD	1,181	Neutral	1,17	Positive	1,22
	United Kingdom	GBP / USD	1,385	Neutral	1,38	Positive	1,45
	Japan	USD / JPY	109,9	Neutral	111,00	Neutral	111,00
	Switzerland	USD / CHF	0,921	Negative	0,94	Neutral	0,92
	Australia	AUD / USD	0,737	Neutral	0,73	Positive	0,76
	New-Zealand	NZD / USD	0,712	Neutral	0,70	Positive	0,73
	Canada	USD / CAD	1,266	Neutral	1,25	Positive	1,24
Asia	China	USD / CNY	6,455	Neutral	6,40	Neutral	6,40
	India	USD / INR	73,68	Positive	72,00	Positive	72,00
Latam	Brazil	USD / BRL	5,209	Positive	4,90	Positive	4,80
	Mexico	USD / MXN	19,85	Neutral	19,70	Positive	19,00
EMEA	Russia	USD / RUB	72,72	Positive	70,00	Positive	68,00
	South Africa	USD / ZAR	14,13	Negative	14,50	Negative	15,00
	USD Index	DXY	92,68	Neutral	93,24	Negative	90,13

Source: Refinitiv - BNP Paribas WM

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