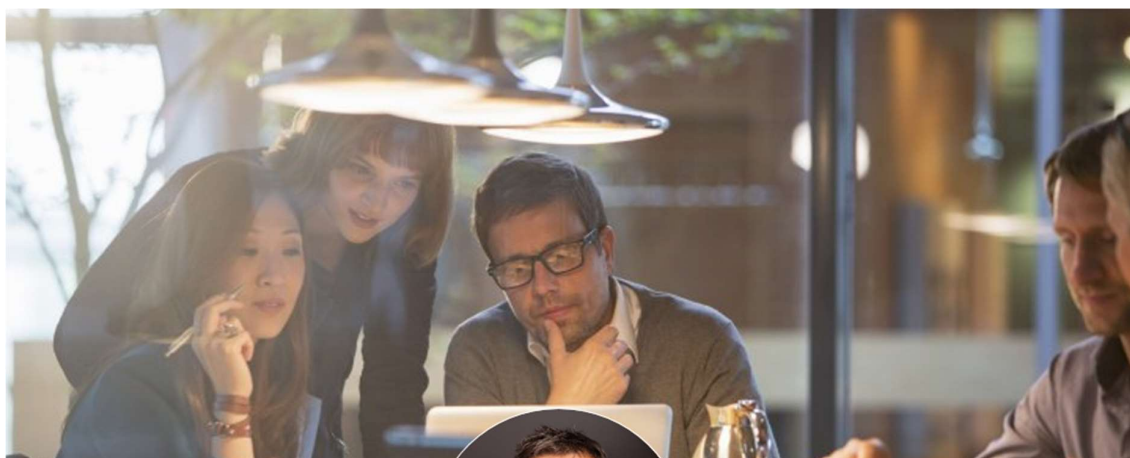


FOCUS FOREX

February 7^h, 2020



Guy ERTZ

Chief Investment Advisor

IN A WORD:

The beginning of the year was marked by a fall in risk appetite, triggered first by heightened geopolitical tensions in the Middle East and then by the swift spread of the coronavirus.

Thanks to its safe-haven status, **the US dollar benefitted from a risk averse behaviour, which severely weakened high-risk currency performances.** The DXY climbed by 2% on a year-to-date basis while all G10 currencies weakened against the greenback. The Swiss franc continued to strengthen against the euro as the global environment and **the US decision to include the CHF in its currency manipulator watch list supported the franc.** The **NOK underwent the biggest drop with losses close to 3%** as the unfavourable external context and disappointing economic data weighed on the krone. On the other hand, **the SEK was more resilient.** **The Aussie and Kiwi currencies were the worst G10 performers against the dollar.** The combination of bushfires in Australia and fears of a negative economic impact of the coronavirus outbreak weakened both currencies. **The CAD followed the same trend as some signs of an economic slowdown increased, and pressed the central bank to be more dovish.**

On the monetary policy side, we revised our Fed policy rate expectations last month. Latest US economic data surprised to the upside, highlighting the resilience of the US economy. **We thus see the Fed keeping interest rates on hold this year.** While Australia's central bank unexpectedly left the key rate unchanged despite current downside pressure on the economy, **Canada's central bank turned dovish as the economy was showing some signs of a deceleration.**

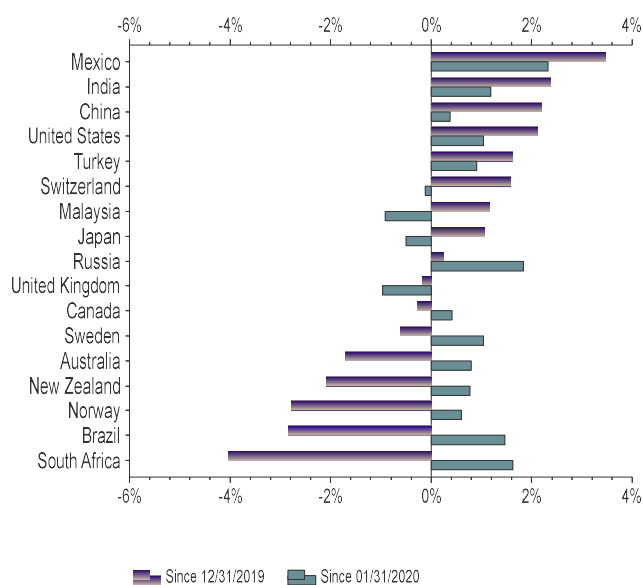


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WEALTH MANAGEMENT

Summary of our forecasts

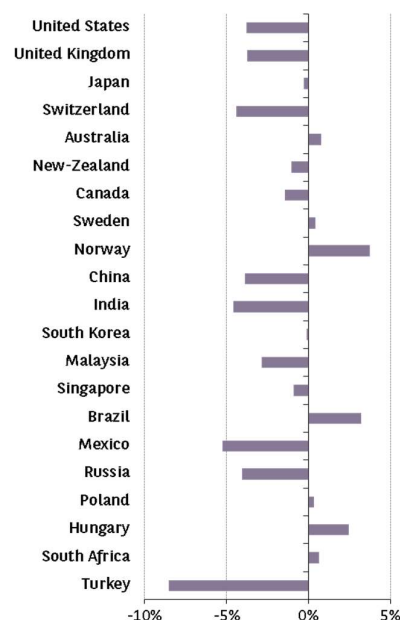
We keep our expectations of a stronger euro this year. **We expect the EUR/USD at around 1.12 in 3 months and 1.14 in 12 months.** The sterling should fluctuate in the near term as a tough negotiation period lays ahead. **We keep our expectations of 0.85 in the short term and 0.88 in 12 months.** The CHF positive trend should reverse over the coming months. **We maintain our targets of 1.10 and 1.12 respectively in 3 and 12 months.** The AUD and the NZD have weakened alongside the risk-off period. However, **we keep our appreciation view since we see a rebound fuelled by the expected Chinese recovery.** While the SEK should remain steady, **we expect the NOK to rebound to 9.80** following the recent strong dip. **More importantly, we have revised our 12-month target for the USD/CAD to 1.30 (from 1.28)** as the Canadian monetary authority has shifted to a data-dependent policy and latest economic indicators suggest a slowdown.

Performances (in %) against EUR
(Performance as of February 7)



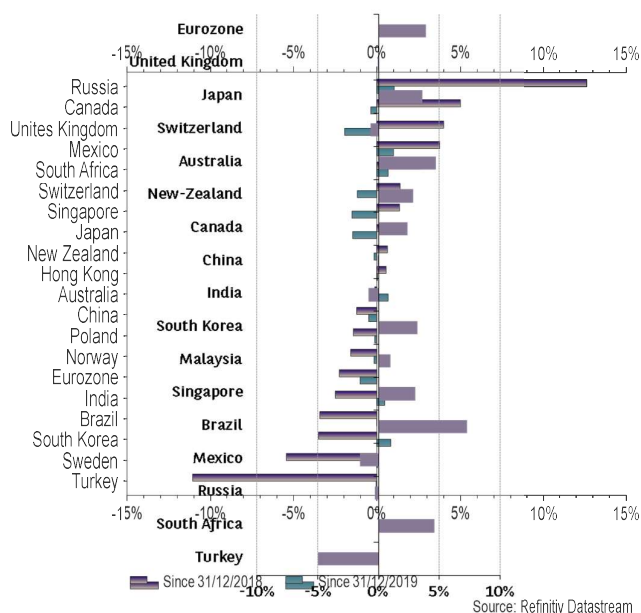
Source: Refinitiv Datastream

12 month forecasts (in %) against EUR
(Performance as of February 7)



Performances (in %) against USD (Performance as of February 7)

12 month forecasts (in %) against USD (Performance as of February 7)



Source: Datastream - BNP Paribas Wealth Management

Forecasts against the Euro

	Country		Spot 2/7/2020	Target three months (vs. EUR)				Target twelve months (vs. EUR)			
				Trend	Low	Mid	High	Trend	Low	Mid	High
	United States	EUR / USD	1.10	Negative	1.11	1.12	1.13	Negative	1.13	1.14	1.17
	United Kingdom	EUR / GBP	0.85	Neutral	0.84	0.85	0.86	Negative	0.87	0.88	0.91
	Japan	EUR / JPY	121	Neutral	119	119	119	Neutral	121	121	121
	Switzerland	EUR / CHF	1.07	Negative	1.09	1.10	1.11	Negative	1.11	1.12	1.15
	Australia	EUR / AUD	1.64	Neutral	1.64	1.65	1.65	Neutral	1.62	1.63	1.65
	New-Zealand	EUR / NZD	1.71	Neutral	1.72	1.72	1.73	Neutral	1.72	1.73	1.75
	Canada	EUR / CAD	1.46	Neutral	1.45	1.46	1.46	Neutral	1.47	1.48	1.51
	Sweden	EUR / SEK	10.54	Neutral	10.49	10.50	10.51	Neutral	10.49	10.50	10.53
	Norway	EUR / NOK	10.17	Positive	9.79	9.80	9.81	Positive	9.79	9.80	9.83
Asia	China	EUR / CNY	7.67	Negative	7.83	7.84	7.85	Negative	7.97	7.98	8.01
	India	EUR / INR	78.3	Negative	80.63	80.6	80.65	Negative	82	82.08	82.11
	South Korea	EUR / KRW	1310	Neutral	1288	1288	1288.01	Neutral	1310.99	1311	1311.03
	Malaysia	EUR / MYR	4.54	Neutral	4.58	4.59	4.60	Negative	5	4.67	4.70
	Singapore	EUR / SGD	1.53	Neutral	1.50	1.51	1.52	Neutral	1.53	1.54	1.56
Latam	Brazil	EUR / BRL	4.71	Positive	4.47	4.48	4.49	Positive	5	4.56	4.59
	Mexico	EUR / MXN	20.53	Negative	21.83	21.8	21.85	Negative	21.65	21.66	21.69
EMEA	Russia	EUR / RUB	70.0	Negative	71.67	71.7	71.69	Negative	73	73	72.99
	Poland	EUR / PLN	4.26	Neutral	4.24	4.25	4.26	Neutral	4.24	4.25	4.28
	Hungary	EUR / HUF	338	Positive	325	325	325.01	Positive	330	330.00	330.03
	South Africa	EUR / ZAR	16.41	Neutral	16.23	16.2	16.25	Neutral	16.29	16.30	16.33
	Turkey	EUR / TRY	6.57	Neutral	7	6.61	6.62	Negative	7	7.18	7.21
	Euro Index		100.97	Neutral	101.72	101.73	101.73	Positive	103.93	103.94	103.97

Source: Datastream - BNP Paribas Wealth Management



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WEALTH MANAGEMENT

Forecasts against the US Dollar

	Country	Spot 2/7/2020	Target three months (vs. USD)				Target twelve months (vs. USD)				
			Trend	Low	Mid	High	Trend	Low	Mid	High	
	Eurozone	EUR / USD	1.10	Positive	1.11	1.12	1.13	Positive	1.13	1.14	1.15
	United Kingdom	GBP / USD	1.29	Neutral	1.25	1.32	1.39	Neutral	1.26	1.30	1.33
	Japan	USD / JPY	110	Positive	105	106	107	Positive	105	106	107
	Switzerland	USD / CHF	0.98	Neutral	0.97	0.98	0.99	Neutral	0.98	0.98	0.99
	Australia	AUD / USD	0.67	Neutral	0.67	0.68	0.69	Positive	0.69	0.70	0.71
	New-Zealand	NZD / USD	0.64	Neutral	0.64	0.65	0.66	Positive	0.65	0.66	0.67
	Canada	USD / CAD	1.33	Positive	1.29	1.30	1.31	Positive	1.29	1.30	1.31
Asia	China	USD / CNY	6.99	Neutral	6.90	7.00	7.10	Neutral	6.90	7.00	7.10
	India	USD / INR	71.4	Neutral	71.0	72.0	73.0	Neutral	71.0	72.0	73.0
	South Korea	USD / KRW	1187	Positive	1133	1150	1167	Positive	1133	1150	1167
	Malaysia	USD / MYR	4.14	Neutral	4.07	4.10	4.13	Neutral	4.07	4.10	4.13
	Singapore	USD / SGD	1.39	Positive	1.34	1.35	1.36	Positive	1.34	1.35	1.36
Latam	Brazil	USD / BRL	4.29	Positive	3.87	4.00	4.13	Positive	3.87	4.00	4.13
	Mexico	USD / MXN	18.71	Negative	19.2	19.5	19.8	Neutral	18.7	19.0	19.3
EMEA	Russia	USD / RUB	63.8	Neutral	62.8	64.0	65.2	Neutral	62.8	64.0	65.2
	South Africa	USD / ZAR	15.0	Positive	14.1	14.5	14.9	Positive	13.9	14.3	14.7
	Turkey	USD / TRY	5.99	Neutral	5.79	5.90	6.01	Negative	6.19	6.30	6.41
	USD Index	DXY	98.55	Negative	95.8	96.4	97.0	Negative	94.9	95.5	96.1

Source: Datastream – BNP Paribas Wealth Management

USD ANALYSIS >> TARGET 12M VS EUR: 1.14

The **euro** fell in January and broke below 1.10. The risk limited to the coronavirus has worried markets. This seems to have supported the USD thanks to its safe haven status while the euro index slumped. The recent strong US economic data also played a role. Over the first semester however, while the US momentum should slightly decelerate, we anticipate that Eurozone economic data will confirm an improvement. **We keep our target at 1.12 in a 3-month horizon.**

Near term, we think the expected slowdown of the US economy will be somewhat smooth as employment and consumption remain strong and the manufacturing sector would have trough. We revised our Fed policy rate forecast last month and do not expect a rate cut this year. However fundamental drivers keep pointing to a depreciation of the USD. The 2-year yield gap kept narrowing in January and the current account deficit stayed wide making the USD more vulnerable to any shift of foreign holders of US assets. The overvaluation of the US dollar relative to the Purchasing Power Parity (PPP) suggests downside risks for the USD. In this context, **we maintain the EURUSD target around 1.14 over the next 12 months.**

PERFORMANCES¹

vs EUR

YTD 2,11

MTD 1,03

¹ Performance YTD as of 12.31.2019
Performance MTD as of 02.07.2020



GBP ANALYSIS >> TARGET 12M VS EUR: 0.88

The **British pound** remained quite steady in January. After the general elections, uncertainty temporarily eased. The European institutions enshrined the Brexit in law after the British Parliament ratifying the treaty. This officially triggered the withdrawal of the UK from European institutions and paved the way to a 11-month negotiation. During this period, the UK is still part of the single market and is subject to European rules. For the time being, the BoE decided to keep interest rates unchanged. **We thus see the EURGBP trading around current levels (0.85) over the next 3 months.**

Near term, some uncertainty will persist as the timeframe to set out the future relationship is tight. Risks of a return to the WTO rules weigh on the GBP. The British government declared that it will refuse any extension of the transition period beyond the 31 December. The PM's firm stand on the future trade deal suggests tough talks and revived worries of a no-deal. **Consequently, we keep our cautious stance for the near term and maintain the EURGBP target at 0.88 over the next 12 months.**

PERFORMANCES¹

vs USD

YTD -2,51

MTD -1,96

vs EUR

YTD -0,19

MTD -0,97

CHF ANALYSIS >> TARGET 12M VS EUR: 1.12

The **Swiss franc** kept strengthening early 2020 and even became temporarily overbought. Even though, the market sentiment was on a risk-on mode early this month, the CHF kept attracting investors and has somewhat disconnected from its safe haven status. However, the growing fears concerning the coronavirus outbreak has supported the franc. Moreover, the US re-included the CHF to its watch list of currency manipulators. This has been also supportive for the franc.

We expect a likely lagged impact of the improving Eurozone economy on the CHF near term. Moreover, the peripheral spreads, a historical driver of the EURCHF, has potential to narrow further thanks to the demand generated by the ECB QE. In a context of very low inflation, the highly valued CHF compared to the Purchasing Power Parity (PPP) is hurting the export-driven economy. The Swiss central bank reiterated pledges on FX interventions. Thus, we think that the move tilts more towards a gradual weakening of the CHF. **We maintain our 3 and 12 months targets respectively at 1.10 and 1.12 (value for 1 euro).**

PERFORMANCES¹

vs USD

YTD -0,67

MTD -1,17

vs EUR

YTD 1,58

MTD -0,12

² Performance YTD as of 12.31.2019
Performance MTD as of 02.07.2020



JPY ANALYSIS >> TARGET 12M VS EUR: 121 (USD/JPY 106)

The **Japanese yen** strengthened a bit in January against a backdrop of rising fears on the coronavirus outbreak. On the domestic side, the activity will remain very subdued and inflation far below the target. Given the small monetary leeway, the government announced an ambitious fiscal plan for the years to come, accounting for about 2% of the GDP. Easing trade tensions should support Japanese exports which have been hurt by an unfavorable environment last year.

However, we cannot rule out risks of re-escalation of trade tensions near term. Furthermore, the US presidential elections could bring some uncertainty. On the other hand, risks of depreciation will weight on the greenback, partly due to a rising current account deficit and a sustained overvaluation. Thus, we still think the outlook tilts towards a moderate appreciation of the yen. **We maintain the USDJPY around 106 over the next 3 and 12 months.**

PERFORMANCES¹

vs USD

YTD -1,24

MTD -1,45

vs EUR

YTD 1,05

MTD -0,51

NOK ANALYSIS >> TARGET 12M VS EUR: 9.80

The **Norwegian krone** dropped in January and came close to historical lows. The risk-averse environment weighed on the NOK. Fears surrounding the coronavirus outbreak have put downward pressures on the krone while the oil prices have strongly declined. On the domestic side, indicators kept pointing to a deceleration of the momentum but this has been likely priced given current extreme low valuations. Moreover, the coronavirus effects should not last and the expected rebound should boost investor's confidence and give some relief to the currency.

The last central bank's meeting hinted that interest rates will remain steady for months ahead. Therefore, domestic assets should remain attractive due to the high level of Norwegian rates compared to G10 ones. We maintain our view of an appreciation of the NOK and **keep our EURNOK target at 9.80 for the next 3 and 12 months.**

PERFORMANCES¹

vs USD

YTD -4,75

MTD -0,19

vs EUR

YTD -2,79

MTD 0,60

³ Performance YTD as of 12.31.2019
Performance MTD as 02.07.2020



SEK ANALYSIS >> TARGET 12M VS EUR: 10.50

The **Swedish krone** fell in January due to risk aversion. The slowdown of the Swedish economy has been likely priced. We expect the economy to grow at 1.2% over the next two years while inflation should remain close to the target. This hints that the central bank should maintain its policy on hold after bringing interest rates to zero. Given the strong fiscal position and the weak indebtedness, the government announced an increase of spending in favor of investments and households. **We keep our target at 10.50 (current levels) over the next 3 months as we expect the SEK to be subject to few fluctuations.**

Near term, external uncertainty will persist as tough negotiations between the UK and the EU could raise fears of a no-deal again. This is a potential downside risks for the SEK. Otherwise, the ECB and the Swedish central bank should both keep their policy rate on hold thus we expect the 2-year yield differential to remain stable. **This supports our view that the EURSEK should remain stable at 10.50 over the next 12 months.**

PERFORMANCES¹

vs USD

YTD -2,72

MTD 0,00

vs EUR

YTD -0,61

MTD 1,04

AUD ANALYSIS >> TARGET 12M VS EUR: 1.63 (AUD/USD 0.70)

The **Australian dollar** retreated in January. Bushfires have continued to damage the east coast while expectations of a substantial economic impact of the Coronavirus outbreak rose. The central bank left interest rates unchanged arguing that the accommodative policy had supported the economy. Rising housing prices, declining unemployment and increasing retail sales at the end of last year supported the central bank decision. The governor highlighted that current fires should have an economic impact, even though temporary. The negative effects of the coronavirus remain yet unquantified but stand at a major downside risk short term. **Thus, we see the AUDUSD trading close to current levels, 0.68 over the next 3 months.**

As the domestic economy should trough over the Q1 2020 alongside the Chinese activity, we expect the recovery to fuel some aussie appreciation. The expected stimulus measures in China should also support the Australian currency. **We keep our expectations of an appreciation of the AUD over the next 12 months at 0.70.**

PERFORMANCES¹

vs USD

YTD -4,15

MTD 0,65

vs EUR

YTD -1,69

MTD 0,81

⁴ Performance YTD as of 12.31.2019
Performance MTD as of 02.07.2020



NZD ANALYSIS >> TARGET 12M VS EUR: 1.73 (NZD/USD 0.66)

The **New Zealand dollar** tumbled by 2.1% in January. The recent weakening of the currency should be related to the global risk-off sentiment of investors worried by the yet unquantified economic effect of the coronavirus outbreak. Tourism related sectors as well as education and primary exports should be directly impacted. The Coronavirus poses the main downside risks but the effect should be only short-lived. On the domestic side, economic indicators held up. The unemployment data and CPI prints improved over the Q4 2019. This is in line with the central bank's decision to keep interest rates on hold. **Hence we still expect a slight appreciation of the kiwi and see the NZDUSD trading around 0.65 over the next 3 months.**

Markets expect the central bank to keep the policy rate on hold this year. The improvement of the 2020 outlook and the expected rebound of the Chinese economy should give some relief to the kiwi. **We keep our 12-month target at 0.66.**

PERFORMANCES¹

vs USD

YTD -4,24

MTD -0,17

vs EUR

YTD -2,08

MTD 0,78

CAD ANALYSIS >> TARGET 12M VS EUR: 1.48 (USD/CAD 1.30)

The **Canadian dollar** trend reversed in January. The recent economic data showed signs of slowdown especially investment, housing and consumer spending. Exports declined late 2019 while household consumption has surprised to the downside. However, the labor market remains tight, employment kept rebounding and hovers above the 5-year average. The CPI is running slightly above the target as the capacity utilization rate hovers at high levels on a 10-year basis. This warrants the latest central bank decision to keep interest rates on hold. Nevertheless, the governor's speech became more dovish. The monetary policy will be clearly data dependent.

With regards to the external context, the USMCA still waits to be ratified by Canada but we expect the agreement to be fully approved over the first semester. The easing US-Sino trade tensions should have a positive effect on the Canadian business environment. Thus, **we still see an appreciation potential over the next 3 months to 1.30. However we think that the CAD will remain steady near term. We revised down our 12-month target to 1.30 (from 1.28).**

PERFORMANCES¹

vs USD

YTD -2,23

MTD -0,37

vs EUR

YTD -0,28

MTD 0,41

⁶ Performance YTD as of 12.31.2019
Performance MTD as of 02.07.2020



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