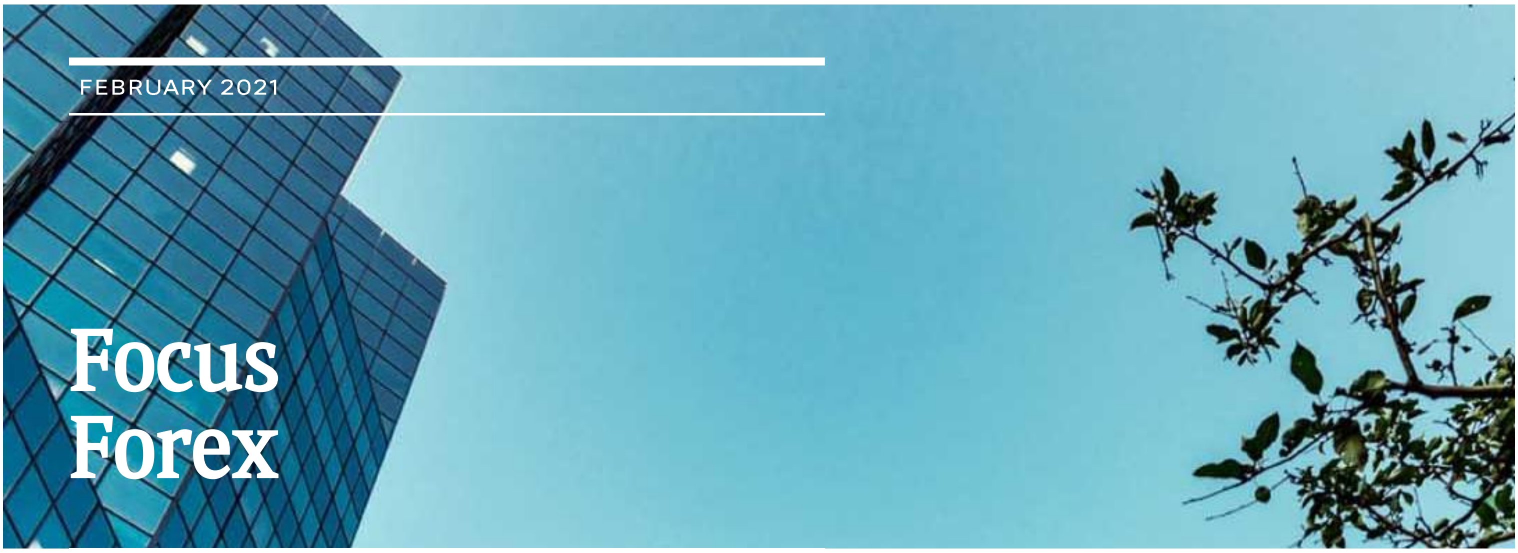


FEBRUARY 2021

Focus Forex

Summary

1. **Stabilizing infections rates, stricter lockdown measures and volatile market sentiment marked January.** The vaccination campaigns are picking up steam and potential new vaccines support positive expectations. Possible strong economic recovery from the second quarter on.
2. **Renewed uncertainty led to high volatility:** The USD rebounded, but the gains should be short-lived. We forecasted a consolidation of the EURUSD around 1.20 short-term. Our 12-month target remains at 1.25
3. **The UK, Brazilian and South African variants are a source of downside risk short-term**: The ability of vaccine providers to adapt will be key. Safe haven currencies like the CHF and JPY were broadly unaffected.
4. **Scandinavian currencies should evolve in opposite directions:** The SEK should depreciate moderately before stabilizing while the NOK has more upside. We revised our 12-month EURSEK and EURNOK targets to 10.2 and 9.9, respectively.
5. **Chinese economic indicators suggest a global economic recovery:** Commodity currencies have been volatile during the month but still have some room for appreciation this year. We adjust our 12-month targets for the USDCNY, USDCAD, AUDUSD and NZDUSD to 6.4, 1.25, 0.8 and 0.75, respectively.

Contents

OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country		Spot 10/02/21	Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1.21	1.20	1.25
	United Kingdom	EUR / GBP	0.88	0.88	0.86
	Switzerland	EUR / CHF	1.08	1.08	1.11
	Japan	EUR / JPY	126	125	128
	Sweden	EUR/SEK	10.06	10.2	10.2
	Norway	EUR / NOK	10.21	10.20	9.90
Against dollar	Japan	USD / JPY	104	104	102
	Canada	USD / CAD	1.27	1.27	1.25
	Australia	AUD / USD	0.77	0.76	0.80
	New Zealand	NZD / USD	0.72	0.72	0.75
	Brazil	USD / BRL	5.38	5.30	4.50
	Russia	USD / RUB	73.8	76.0	68.0
	India	USD / INR	72.8	75.0	75.0
	China	USD / CNY	6.45	6.50	6.40

Source: Refinitiv - BNP Paribas

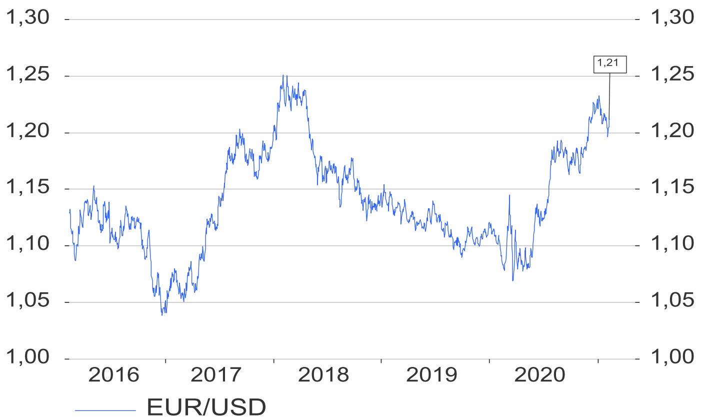
Guy Ertz, PhD
Chief Investment Advisor
BNP Paribas Wealth Management

USD VIEW>> TARGET 12M VS EUR: 1.25

Bearish outlook in spite of January Bounce

The worsening of the sanitary situation in Europe forced governments to take tougher measures and the dollar took advantage of it in early January. Nevertheless, we expect those gains to be short lived. Market sentiment has been more volatile this month and should remain vulnerable to the speed of the vaccination campaigns. We expect those to speed up exponentially. It should allow the European economy to emerge from its current lockdowns, encouraging foreign direct investments and equity inflows. **We maintain our view of a stabilization of the EURUSD around 1.20 (value for 1 euro) short-term.**

We continue to see a weaker dollar over the next 12 months as we think that both the nominal and real yield differential will remain very low as the Fed policy rate guidance caps front-end yields and the asset purchases program puts downward pressure on the longer-end yields. On the other hand, the ECB has a very limited scope for rate cuts, which means it cannot push short-term yields meaningfully lower. Tweaking the QE programs is also unlikely to provide a tangible impact on the EUR. This will support risk-on sentiment, which is consistent with a further depreciation of the USD. The upcoming fiscal stimulus will push inflation expectations higher, which will keep real yields low. The expected widening of the current account deficit and the overvalued USD compared to the Purchasing Power Parity also point to further dollar weakness. **Our 12-month EURUSD target remains 1.25.**



Source: Refinitiv Datastream, 10/02/2021

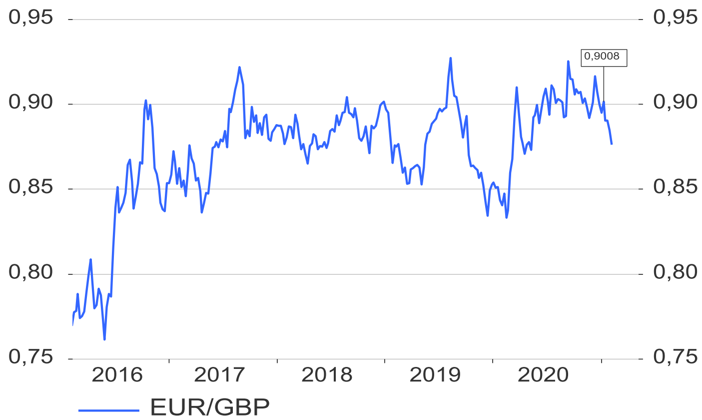
GBP VIEW >> Target 12M VS EUR: 0.86

Some improvements after the Brexit deal

The news of a Brexit deal has reduced the uncertainty surrounding the UK economy, and supported our forecasts for a sustained recovery over 2021 and 2022. There are however many challenges on the horizon regarding the impact of the change in the UK's trading relationship with the EU. The UK looks set to recover less than its peers given its large services sector (70-80% of GDP) and the more restrictive and longer lockdown. We expect a 11.1% contraction of the GDP in 2020 followed by a 4% growth this year and 8.6% in 2022. Inflation in the UK is likely to remain positive but still subdued through Q1. We expect inflation to accelerate to 1.5% and 2.1% in 2021 and 2022, respectively.

At the February meeting, the Bank of England struck a somewhat hawkish tone. Indeed, the next policy move is more likely to be a tightening than an easing. With the Brexit deal, we think the BoE will not need to loosen its policy. The policy rate is however likely to remain unchanged for the foreseeable future.

We keep our EURGBP targets to 0.88 over a 3-month horizon and to 0.86 over a 12- month horizon. This suggests marginal upside.



Source: Refinitiv Datastream, 10/02/2021

CHF VIEW>> TARGET 12M VS EUR: 1.11

Economic recovery not in favor of the franc

The CHF didn't depreciate substantially in spite of the positive market sentiment following vaccine rollouts and the Democratic senate win in Georgia. Additionally, indicators suggest that investors are overweight the CHF. We expect the positive sentiment towards the currency to fade over the coming months. **Our 3-month target remains at 1.08 (value of one euro).**

The swiss central bank's stance supports our bearish CHF view. The monetary authority still considers the currency as highly valued. We expect any significant declines in EURCHF to be short lived as long as the SNB's reaction function remains unchanged in 2021. Given Switzerland's expansionist monetary policy, we think that the franc will weaken over the coming year. Low yields, low inflation expectations, reduced risk premia, the desire of the SNB to cap the appreciation of the CHF together with the expected improvement in the global economic outlook support our view.

We expect the EURCHF (value of one euro) to rise to 1.11 over the coming year.

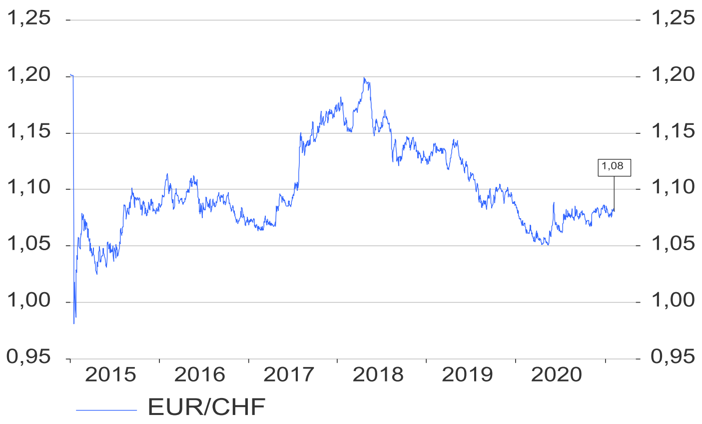
JPY VIEW >> TARGET 12M VS USD: 102

A slow recovery ahead

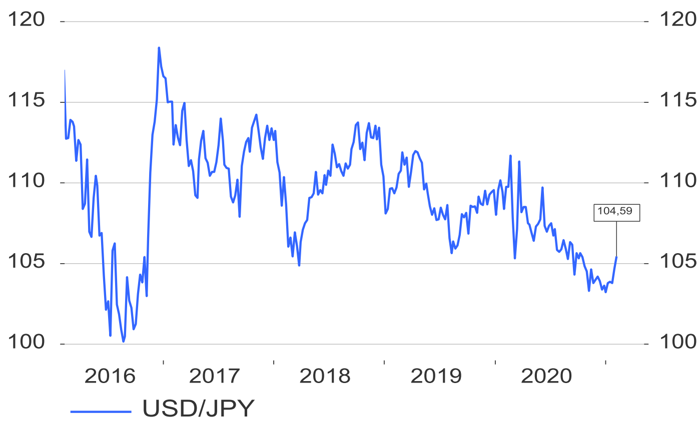
In spite of less stringent health measures than elsewhere, the fall in Japanese GDP in 2020 will be historic. The expected rebound could be limited. Indeed, consumer confidence and business activity indicators are stagnating, sending mixed signals about domestic demand. Its economy should, however, benefit from the rebound in global growth and trade expected in 2021. We expect a 5.3% contraction in 2020 followed by a limited rebound of 1.1% in 2021 and a strong rebound in 2022 with 3%. Deflation remains a key concern for the country's future. We expect 0%, -0.4% and -0.3% in 2020, 2021 and 2022, respectively.

On the monetary side, policies should remain expansionary, in a context of low inflation. The Bank of Japan kept its monetary easing policy unchanged. The policy rate remains at -0.1% and the 10-year government bond yield target at 0%. In December, it extended its emergency lending program by six months until September 2021, as Japan faced a record spike in new Covid-19 cases. We expect the BoJ to be cautious to avoid unwelcome appreciation pressure on the yen around year-end.

We expect the USDJPY to hover around 104 (value of one dollar) over the next 3 months and 102 over the next 12. This suggets marginal appreciation for the yen.



Source: Refinitiv Datastream, 10/02/2021



Source: Refinitiv Datastream, 10/02/2021

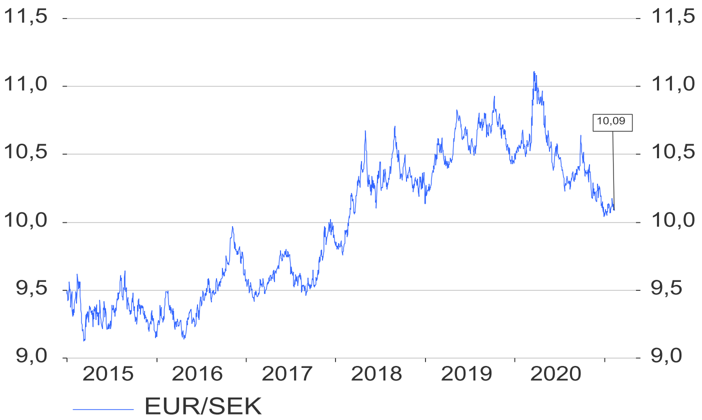
SEK VIEW>> TARGET 12M VS EUR: 10.2

Moderate depreciation short-term

The SEK appreciated by 4.6% against the euro in 2020 but it has started to decline in 2021. Economic forecasts predict a 3.1% GDP contraction in Q1 2021, followed by a 6.7% increase (yoy) in Q2. The unemployment rate could jump as high as 9% in Q1 and progressively decrease starting from Q2.

Furthermore, inflation expectations are close to 6-year lows, which could prompt the Riksbank to turn more dovish. The risk seems skewed to the downside as markets are not yet pricing a rate cut in Sweden, which would mean stepping into negative territory as the policy rate currently stands at 0%. At its last meeting (10th Feb.), the Riksbank kept monetary policy unchanged and pledged its support to the economy in this difficult period. It emphasized that reduced confidence in the inflation outlook could prompt a repo rate cut.

Over the coming 12 months, the expected global recovery should help the economy, which relies on global trade. **Therefore, we revise our EURSEK target to 10.2 over the next 3 and 12 months (from 10.5 previously). This suggests some downside for the SEK.**



Source: Refinitiv Datastream, 10/02/2021

NOK VIEW >> TARGET 12M VS EUR: 9.9

Bullish outlook for the NOK over the year

The NOK is one of the currencies that suffered the most from the covid-19 crisis. It has been recovering well since December and we believe it will keep doing so in 2021, appreciating back to pre-pandemic levels. The economy held up well to new sanitary measures and business confidence has been stable thanks to the vaccines rollouts. A potentially strong upward move in value stocks could provide further tailwinds to the krone.

On the monetary side, the Norges bank kept its policy rate at zero at its last meeting (20th Jan.) but is expected to increase it in early 2022, maybe even sooner as house prices rise and credit growth recovers. Core inflation stands at 3%.

We revised the EURNOK to 10.20 over the next 3 months (from 10.70 previously) and to 9.9 over the next 12 months. This suggests strong upside for the NOK.

Source: Refinitiv Datastream, 10/02/2021

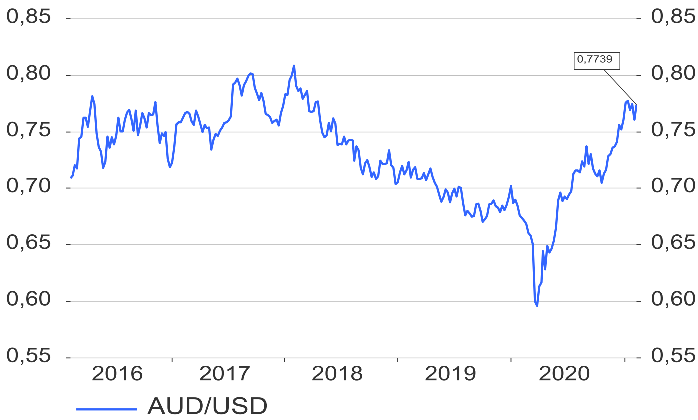
AUD VIEW>> TARGET 12M VS USD: 0.8

Trade tensions with China could hurt the AUD

The AUD had a great performance against the dollar in 2020. Domestic data is supportive and China's recovery further boosted commodity prices. Iron ore exports are however at risk given the recent tensions with China. Moreover, China is likely to increase its domestic production of iron ore as well as its use of alternative sources, such as scrap steel. This should reduce imports and could hurt both iron ore price and the AUD. Nevertheless, the AUD is a cyclical currency that will take advantage of the global economic recovery later this year and the interest rate differential with the US.

On the monetary side, the Central Bank (RBA) could be sensitive to currency strength in the coming months. The RBA still has scope to ease policy further, via QE expansion or negative interest rates. At its last meeting (2nd Feb.), it extended its bond buying program by $100 billion (doubling the initial amount). We expect the RBA to leave interest rate just above zero through at least 2022 as wage growth should be flat and inflation in general should remain low for a long time.

We update our AUDUSD 3-month target to 0.76 (from 0.73). Our 12-month target is now 0.8 (from 0.73). This implies further appreciation potential.



Source: Refinitiv Datastream, 09/02/2021

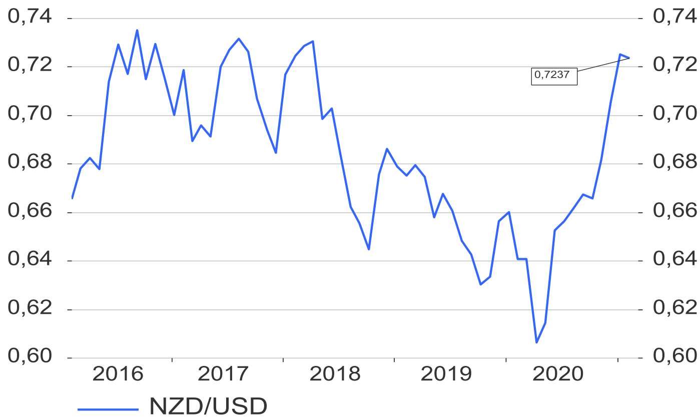
NZD VIEW >> TARGET 12M VS USD: 0.75

New Zealand keeps solid fundamentals

The NZD was also a strong performer against the USD in 2020. Similar to Australia, data in New Zealand has improved considerably in recent months and the currency benefitted from rising commodity prices. It should also take advantage of the global economic recovery later this year and the interest rate differential with the US. The recent free trade deal between New-Zealand and China should further support the country.

On the monetary side, the central bank (RBNZ) pushed back against currency strength in 2020 and could do so again this year. Nevertheless, markets are not expecting a rate cut this year. While the RBNZ has the policy tools necessary to respond to a stronger currency, the solid domestic economic backdrop means that the NZD has room for appreciation before policy actions are required. Moreover, low rates as well as fiscal and monetary stimulus have propelled house prices to historical highs, which makes a rate cut unlikely. The policy rate is expected to stay at 0.25% in New-Zealand until at least 2022.

We update our NZDUSD 3-month and 12-month targets to 0.72 and 0.75 (from 0.69 and 0.71), respectively. This implies further appreciation potential as well.



Source: Refinitiv Datastream, 10/02/2021

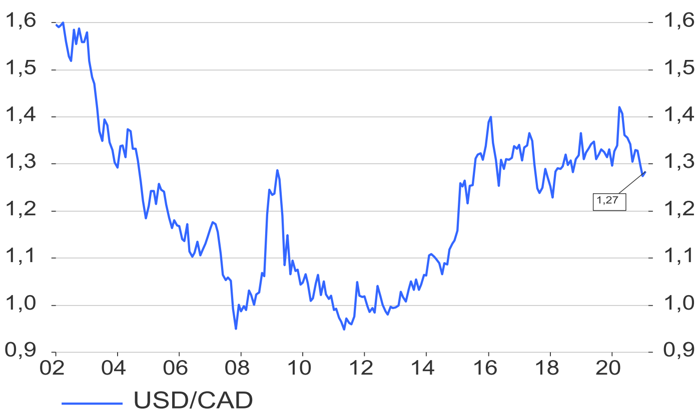
CAD VIEW>> TARGET 12M VS USD: 1.25

Global recovery supports the CAD

The CAD has benefitted from rising oil prices and recent comments from the central Bank of Canada (BOC). We expect closer trade relations with the USA but President Biden's policies could hurt Canada's ability to move oil to market. The main drivers of the CAD appreciation remain the low interest rate differential with the US, the global recovery and the risk-on sentiment of investors.

On the monetary side, the market expects the BOC to tighten before the Fed, despite the authorities reiterating at its last meeting that no interest rate hike is expected before 2023. The policy interest rate stayed at 0.25%. Moreover, given the importance of the trade links with the US, a strong currency could lead to a more accommodative policy stance or to delay the exit. This is likely going to reduce investors' perception of risk-reward for remaining long CAD. Nevertheless, we do not expect the CAD to appreciate enough for the BOC to take actions.

Therefore, we review our 3-month target for the USDCAD from 1.31 to 1.27 (value of one dollar) and our 12-month target from 1.29 to 1.25. This suggests more upside.



Source: Refinitiv Datastream, 10/02/2021

CNY VIEW >> TARGET 12M VS USD: 6.4

Limited appreciation for the CNY in 2021.

The CNY carried its strong performance of 2020 into January. The 6.5% GDP growth in Q4 2020 was a positive surprise. In December, industrial production also beat expectations, at 7.3% (yoy), the best performance since May 2019. The large government expenditure programs worldwide and supportive monetary policies support a favorable outlook for 2021. The downside risk is linked to covid-19: schools closed in Bejing and the province of Hebei moved into lockdown. We could see a limited appreciation of the currency in Q1, followed by a pullback in Q2 mainly because of the dividend payouts season, which prompts capital outflows.

Meanwhile, monetary authorities should limit further CNY appreciation. While credit normalisation has begun, we don't expect imminent interest rate hikes. Moreover, with the resumption of production in overseas countries, China's export growth should decline whereas import growth should rise. The resulting narrower trade surplus is likely to diminish the appreciation pressure on the CNY.

Therefore, we see USDCNY fluctuating around current levels (6.5) in the short-term and to 6.4 over the next 12-months (6.5 previously). This suggests marginal upside.

Source: Refinitiv Datastream, 10/02/2021

	Country		Spot 10/02/2021	Trend	Target 3 months (vs EUR)	Trend	Target 12 months (vs EUR)
	United States	EUR / USD	1,21	Neutral	1.20	Negative	1.25
	United Kingdom	EUR / GBP	0,88	Neutral	0.88	Positive	0.86
	Japan	EUR / JPY	126	Neutral	125	Neutral	128
	Switzerland	EUR / CHF	1,08	Neutral	1.08	Negative	1.11
	Australia	EUR / AUD	1,57	Negative	1.58	Negative	1.56
	New-Zealand	EUR / NZD	1,68	Negative	1.67	Negative	1.67
	Canada	EUR / CAD	1,54	Negative	1.52	Negative	1.56
	Sweden	EUR / SEK	10,06	Negative	10.20	Negative	10.20
	Norway	EUR / NOK	10,21	Negative	10.20	Neutral	9.90
Asia	China	EUR / CNY	7,80	Neutral	7.80	Negative	8.00
	India	EUR / INR	88,3	Neutral	90.0	Negative	93.75
Latam	Brazil	EUR / BRL	6,53	Positive	6.36	Positive	5.63
EMEA	Russia	EUR / RUB	89,5	Neutral	91.2	Positive	85

Source: Refinitiv - BNP Paribas

	Country		Spot 10/02/2021	Trend	Target 3 months (vs USD)	Trend	Target 12 months (vs USD)
	Eurozone	EUR / USD	1,21	Neutral	1.20	Positive	1.25
	United Kingdom	GBP / USD	1,38	Neutral	1.36	Positive	1.45
	Japan	USD / JPY	104	Neutral	104	Neutral	102
	Switzerland	USD / CHF	0,89	Neutral	0.90	Neutral	0.89
	Australia	AUD / USD	0,77	Negative	0.76	Negative	0.8
	New-Zealand	NZD / USD	0,72	Negative	0.72	Neutral	0.75
	Canada	USD / CAD	1,27	Negative	1.27	Neutral	1.25
Asia	China	USD / CNY	6,45	Negative	6.50	Neutral	6.40
	India	USD / INR	72,8	Negative	75.0	Negative	75.0
Latam	Brazil	USD / BRL	5,38	Neutral	5.30	Positive	4.50
	Mexico	USD / MXN	20,02	Neutral	20.0	Positive	18.0
EMEA	Russia	USD / RUB	73,8	Negative	76.0	Positive	68.0
	South Africa	USD / ZAR	14,7	Negative	17.0	Negative	15.0
	USD Index	DXY	90,27	Neutral	91.1	Negative	87.8

Source: Refinitiv - BNP Paribas

THE INVESTMENT STRATEGY TEAM

FRANCE

Edmund SHING
Global Chief Investment Officer

ASIA

Prashant BHAYANI
Chief Investment Officer, Asia

Grace TAM
Chief Investment Advisor, Asia

BELGIUM

Philippe GIJSELS
Chief Investment Advisor

Alain GERARD
Senior Investment Advisor, Equities

Xavier TIMMERMANS
Senior Investment Strategy, PRB

LUXEMBOURG

Guy ERTZ
Chief Investment Advisor

Edouard DESBONNETS
Investment Advisor, Fixed Income

CONNECT WITH US

wealthmanagement.bnpparibas

DISCLAIMER

This marketing document is communicated by the Wealth Management Métier of BNP Paribas, a French Société Anonyme, Head Office 16 boulevard des Italiens, 75009 Paris, France, registered under number 662 042 449 RCS Paris, registered in France as a bank with the French Autorité de Contrôle Prudentiel et de résolution (ACPR) and regulated by the French Autorité des Marchés Financiers (AMF). As marketing material, it has not been prepared in accordance with legal and regulatory requirements aimed at ensuring the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It has not been submitted to the AMF or any other market authority.

This document is confidential and intended solely for the use of BNP Paribas SA, BNP Paribas Wealth Management SA or their affiliates ("BNP Paribas") and the persons to whom this document has been delivered. It may not be distributed, published, reproduced or disclosed by any recipient to any other person, nor may it be quoted or referred to in any document, without the prior consent of BNP Paribas.

This document is provided solely for information and shall not constitute an offer or solicitation in any state or jurisdiction in which such an offer or solicitation is not authorized, or to any person to whom it is unlawful to make such offer, solicitation or sale. It is not, and under no circumstances is it to be construed as, a prospectus.

Although the information provided herein may have been obtained from published or unpublished sources considered to be reliable and while all reasonable care has been taken in the preparation of this document, BNP Paribas does not make any representation or warranty, express or implied, as to its accuracy or completeness and does not accept responsibility for any inaccuracy, error or omission. BNP Paribas gives no warranty, guarantee or representation as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (either legal, regulatory, tax, financial, accounting or otherwise) of any product or transaction. Investors should not place undue reliance on any theoretical historical information regarding such theoretical historical performance. This document may contain or refer to past performance; past performance is no guarantee for future performance.

The information contained in this document has been drafted without prior knowledge of your personal circumstances, including your financial position, risk profile and investment objectives.

Prior to entering into a transaction each investor should fully understand the financial risks, including any market risk associated with the issuer, the merits and the suitability of investing in any product and consult with his or her own legal, tax, financial and accounting advisors before making his or her investment. Investors should be in a position to fully understand the features of the transaction and, in the absence of any provision to the contrary, be financially able to bear a loss of their investment and willing to accept such risk. Investors should always keep in mind that the value of investments and any income from them may go down as well as up and that past performance should not be seen as an indication of future performance. Any investment in a product described herein is subject to the prior reading and understanding of the legal documentation concerning the product, and in particular the one which describes in details the rights and obligations of investors as well as the risks inherent to an investment in the product. Save as otherwise expressly agreed in writing, BNP Paribas is not acting as financial adviser or fiduciary of the investor in any transaction. The information, opinions and projections expressed herein reflect the opinion of their author at the time of writing; they are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by anyone, and are subject to change without notice. Neither BNP Paribas nor any BNP Paribas Group entity accepts any liability whatsoever for any consequences that may arise from the use of information, opinions or projections contained herein.

As distributor of the products described herein, BNP Paribas may receive distribution fees on which you can obtain more information upon specific request. BNP Paribas, their employees or administrators may hold positions in these products or have dealings with their issuers.

By accepting this document, you agree to be bound by the foregoing limitations.