

Focus Forex

Summary

- Rising infections rates, stricter lockdowns and a further risk appetite marked December.** The start of vaccination campaigns and new vaccines providers supported positive market sentiment though. Possible strong economic recovery from second quarter on.
- A more contagious virus is a downside risk short-term:** this environment left safe haven currencies broadly unchanged. Our CHF and JPY targets stay unchanged.
- Positive sentiment lead to lower volatility:** EURUSD took advantage, spiking at a 30-month high. We believe in a slight correction to 1.20 short-term. Our 12-month target remains at 1.25
- The long-awaited agreement on the Brexit was found:** the new strain of the virus prohibited the GBP from fully taking advantage of the reduced uncertainty. We adjust our 3-month and 12-month targets to 0.88 and 0.86, respectively.
- Chinese economic indicators confirm the economic recovery:** Commodity currencies took advantage of it again and showed a positive performance in 2020 . We don't think the CAD, AUD and NZD have further room for appreciation. The CNY should also stabilize.

Contents

USD & GBP	2
CHF & JPY	3
AUD & NZD	4
CAD & CNY	5
Forecast tables	6
Disclaimer	7

OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot		Target three months		Target twelve months	
		1/5/2021	Trend	Mid	Trend	Mid	
Against euro	United States	EUR / USD	1.23	Positive	1.20	Neutral	1.25
	United Kingdom	EUR / GBP	0.90	Positive	0.88	Positive	0.86
	Switzerland	EUR / CHF	1.08	Neutral	1.08	Negative	1.11
	Japan	EUR / JPY	126	Neutral	125	Neutral	128
	Norway	EUR / NOK	10.46	Negative	10.70	Positive	10.10
Against dollar	Japan	USD / JPY	103	Neutral	104	Neutral	102
	Canada	USD / CAD	1.27	Negative	1.31	Neutral	1.29
	Australia	AUD / USD	0.77	Negative	0.73	Negative	0.73
	New Zealand	NZD / USD	0.72	Negative	0.69	Neutral	0.71
	Brazil	USD / BRL	5.29	Neutral	5.30	Positive	4.50
	Russia	USD / RUB	74.5	Negative	76.0	Positive	68.0
	India	USD / INR	73.2	Negative	75.0	Negative	75.0
China	USD / CNY	6.46	Negative	6.60	Neutral	6.50	

Source: Refinitiv - BNP Paribas

Guy Ertz, PhD

Chief Investment Advisor
BNP Paribas Wealth Management



BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

USD VIEW >> TARGET 12M VS EUR: 1.25

Positive sentiment leads to lower volatility

The euro kept strengthening against the greenback in December and spiked at 1.23 (value of one euro) in mid-December. Nevertheless, some European governments decided stricter lockdown measures or pushed back the relaxation of those measures to fight rising infection numbers. This should delay the economic recovery awaited in Q1 2021. Furthermore, there was probably too much optimism regarding the effects of the vaccination campaigns. Given the recent moves, we do not see a major upside for the euro short-term and the dollar should rebound a bit. **We revised our target to 1.20 (from our previous forecast 1.18) for the next 3 months.**

The expected strong growth recovery in the Eurozone and the strong support from Chinese activity and global trade should be beneficial for global growth and for the euro later this year. Also, the Fed's shift to targeting an average inflation thus allowing periods of overshoot is likely to push up inflation expectations, even as the Fed continues to cap nominal yields. The resulting decline in real yields and yield differential is supportive for risk sentiment and consistent with a further depreciation of the USD. More US stimulus is expected to come with the Democrats winning the state of Georgia. This should widen the current account deficit which is already high, and this is a further negative driver for the USD. **We continue to see a weaker dollar over the next 12 months as we expect the EURUSD trading at 1.25.**

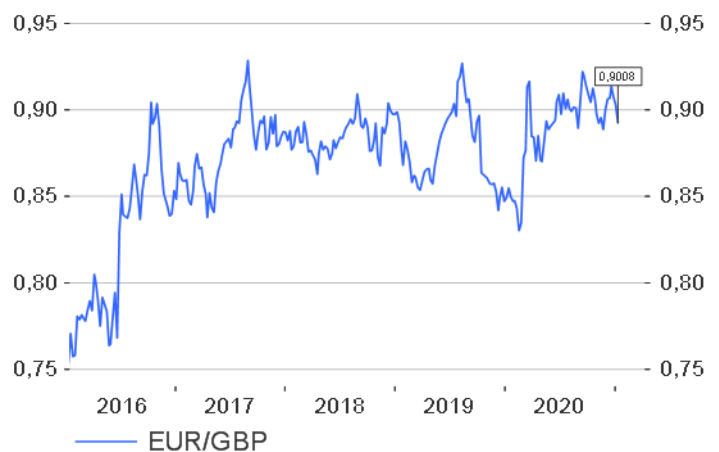


Source: Refinitiv Datastream, 14/01/2021

GBP VIEW >> Target 12M VS EUR: 0.86

Brexit deal and the virus lead the news

The pound sterling has not yet seen a major rebound after the announcement of the Brexit deal. The pound is hovering around GBPO.90 per 1 euro early January. The news of a Brexit deal reduces the uncertainty hanging over the UK economy and supports 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 Bank of England's central assumption was already a Brexit deal. The MPC's reaction function thus still suggests a willingness to act if downside risks materialize, and a strong commitment to look-through upside surprises. We think the threat of Scottish independence is a key theme for the coming months. The new strain of the virus also poses a threat to the UK's economy if the authorities can't get it under control. All in all, the outlook for the pound has improved but the upside is still limited. **We revise our targets and now expect 0.88 (0.90 previously) over a 3-month horizon and 0.86 (0.88 previously) over a 12-month horizon.**



Source: Refinitiv Datastream, 14/01/2021

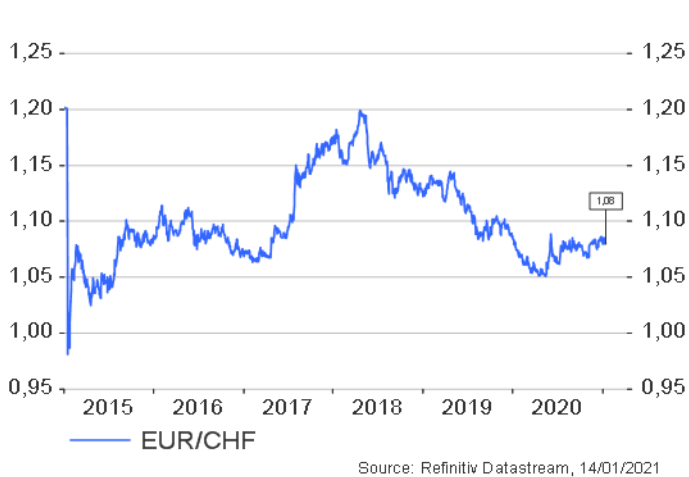
CHF VIEW >> TARGET 12M VS EUR: 1.11

Global economic recovery against the franc

Unemployment increased to 3.5% in December, and is expected to keep rising for some time. Inflationary pressures remained low with CPI inflation at -0.1% m/m in December. The SNB continues to favour foreign exchange market interventions over further rate cuts. However, the current policy rate of -0.75% should not prevent rate cuts if the SNB decides to change its reaction function.

Meanwhile, Switzerland keeps an expansionist monetary policy, supplying the banking system with plenty of liquidity. The base scenario of the SNB is that the covid-related measures should not be eased before the end of Q1 2021. The Swiss currency strengthened beginning of December with EURCHF falling below 1.07 (value of one euro) but ultimately, the EURCHF remained stable over the whole month and 2020 in general.

Low yields, low inflation expectations, the desire of the SNB to cap the appreciation of the CHF together with the expected improvement in the global economic outlook suggest that the franc will weaken over the coming year. **We still expect the EURCHF (value of one euro) to rise to 1.11 over the coming year.**

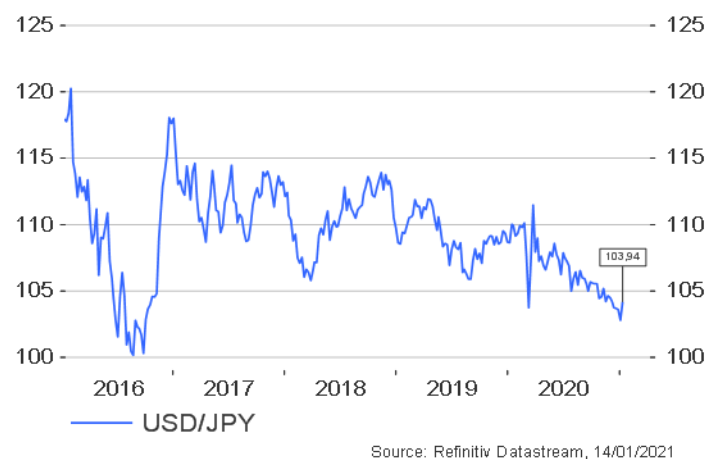


JPY VIEW >> Target 12M VS EUR: 128 (USD/JPY: 102)

Bearish outlook for USD supports the yen

The Japanese yen has been rather stable in December, slightly appreciating against the greenback over the month. The yen has gained close to 5% already against the dollar this year and we think it does not have further appreciation potential short-term. Investors' optimism is boosted by the prospect of the economic recovery supporting the global risk appetite. **We thus think the USDJPY will hover around its current level of 104 (value of one dollar) for the next three months.**

On the monetary front, the central bank left its policy rate unchanged in December. The BoJ recently extended its lending program by 6 months as the new virus spike could slow the recovery path. The government banned foreign entry in Japan until the end of January as a Covid-19 variant case has been recorded in the country. Near term, our global bearish view on the USD will be the main catalyst of the USDJPY downward trend. **We expect the USDJPY to 102 over the next 12 months.**

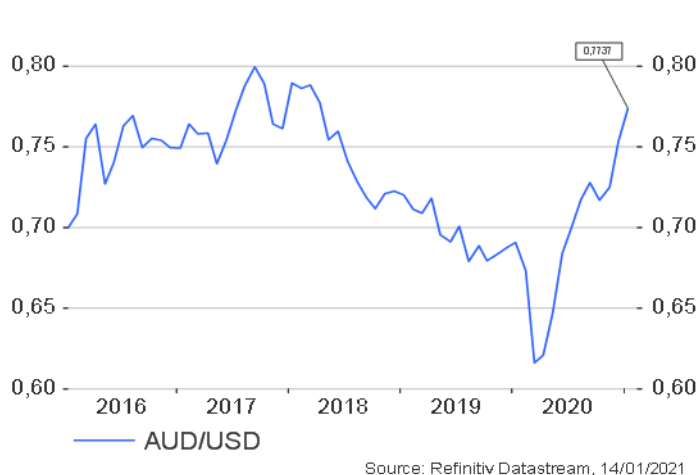


AUD VIEW >> TARGET 12M VS EUR: 1.71 (AUD/USD: 0.73)

Trade tensions with China can hurt the AUD

The last time the AUD was so strong was during spring 2018. It gained another 3.1% against the dollar in December, but the momentum seems to be slowing. It has been supported by the global optimism fueled by the vaccination campaigns. The economic indicators are favorable and the continuing economic recovery in China has helped the AUD even further. The Iron ore price keeps rising. However, trade tensions between China and Australia could slow the recovery in 2021. Therefore, we expect a correction towards its 50d moving average (0.73: value of one dollar) due to excessive optimism. **Our 3-month target is under review.**

Medium-term, the AUD should depreciate somewhat. Given the outlook for both employment and inflation, monetary support will be required for some time and the policy rate is not expected to increase for the coming year. We thus expect the AUDUSD to depreciate. **Our 12-month target of 0.73 (value of one dollar) is however under review.**

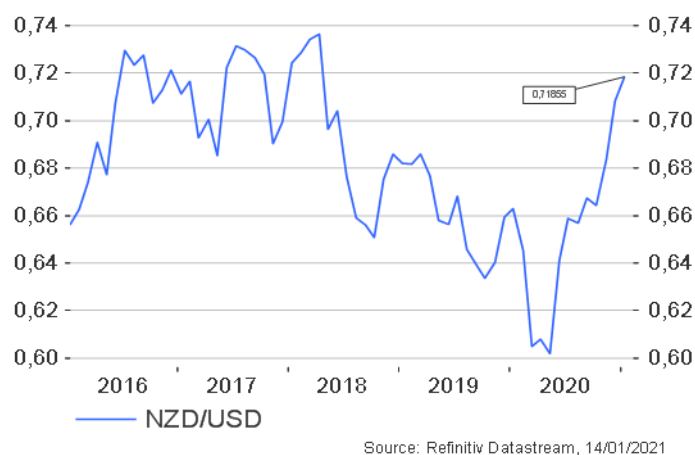


NZD VIEW >> Target 12M VS EUR: 1.76 (NZD/USD: 0.71)

New Zealand keeps solid fundamentals

The NZD recently hit a two-year high. Business and consumer confidence are soaring on the back of optimism fueled by the vaccination campaigns. The economic indicators are favorable but increasing government debt and rising inflation have to be monitored. The impact of closed borders on exports and tourism is also a source of concern.

The central bank of New Zealand's policy rate (OCR) is still unchanged. Given solid fundamentals of the domestic economy and the still-booming housing market, further easing seems unlikely but the RBNZ is prepared to provide additional support if necessary. The global economic rebound should allow the NZD to maintain its strong level over the coming year. **Our 3-month and 12-month targets remain unchanged at 0.69 and 0.71 respectively.**



CAD VIEW >> TARGET 12M VS EUR: 1.61 (USD/CAD: 1.29)

Oil price outlook supports the CAD in 2021

The CAD follows the same trend as the other commodity-related currencies. It hit levels last seen in October 2018, largely reflecting broader USD weakness and the recovery prospects. The CAD underperformed other commodity currencies over the month, but it appreciated 2% against the USD over the year.

In December, Canada lost jobs for the first time since April and further lockdown measures were taken. Given the government stimulus programs, consumers have built up considerable savings, which should boost the economic recovery when the economy reopens later in 2021. Crude oil prices have witnessed a strong rebound since November and we expect they should remain high. The balance sheet of the BoC has now levelled off as the Bank has slowed the pace of purchases while also lengthening the maturity profile of its buying. It is not expected to raise its overnight policy interest rate this year.

We think that the positive outlook for oil prices and expected closer trade relations with the US will limit the downside for the loonie next year. **We keep our USDCAD target at 1.29 over the next 12 months. Our 3-month target of 1.31 is under review.**



CNYVIEW >> Target 12M VS EUR: 8.13 (USD/CNY: 6.5)

Economic indicators show a strong recovery

The Chinese yuan strengthened against the US dollar and was up 6.4% 2020. The positive economic momentum and interest differential relative to the US have been supportive. Economic indicators also hint in favor of a continued strong recovery of Chinese activity. Indeed; exports rose by 21.1% year-on-year in November, much more than expected while industrial production rose by 7%. Retail sales were up 5%, making it this year's fastest annual increase. Credit growth indicators also remain well oriented.

China keeps healthy fundamentals. The long term environment should be supportive for the CNY. The economic recovery is expected to accelerate later this year which should fuel global trade. Moreover, the expected global dollar weakness should support the USDCNY. Given the strong appreciation of the yuan this year and how the momentum seems to be slowing (+0.7% in December), we think the CNY should stabilize.

We think the CNY should fluctuate around its 50d moving average of 6.6 (value of one dollar) over the next 3 months. Over the next 12 months, we keep our target at 6.5.



	Country	Spot 12/30/2020	Target three months (vs. EUR)			Target twelve months (vs. EUR)					
			Trend	Low	Mid	High	Trend	Low	Mid	High	
	United States	EUR / USD	1.23	Positive	1.18	1.20	1.22	Neutral	1.23	1.25	1.26
	United Kingdom	EUR / GBP	0.90	Positive	0.86	0.88	0.90	Positive	0.84	0.86	0.87
	Japan	EUR / JPY	127	Neutral	125	125	125	Neutral	127	128	128
	Switzerland	EUR / CHF	1.08	Neutral	1.06	1.08	1.10	Negative	1.09	1.11	1.12
	Australia	EUR / AUD	1.60	Negative	1.62	1.64	1.66	Negative	1.69	1.71	1.72
	New-Zealand	EUR / NZD	1.70	Negative	1.72	1.74	1.76	Negative	1.74	1.76	1.77
	Canada	EUR / CAD	1.57	Neutral	1.55	1.57	1.59	Negative	1.59	1.61	1.62
	Sweden	EUR / SEK	10.07	Negative	10.48	10.50	10.52	Negative	10.48	10.50	10.51
	Norway	EUR / NOK	10.51	Neutral	10.68	10.70	10.72	Positive	10.08	10.10	10.11
	Asia	China	EUR / CNY	8.01	Neutral	7.90	7.92	7.94	Neutral	8.10	8.13
India		EUR / INR	89.9	Neutral	89.98	90.0	90.02	Negative	94	93.75	93.76
South Korea		EUR / KRW	1338	Neutral	1320	1320	1320.02	Neutral	1312.48	1313	1312.51
Malaysia		EUR / MYR	4.96	Neutral	4.90	4.92	4.94	Negative	5	5.13	5.13
Singapore		EUR / SGD	1.63	Neutral	1.58	1.60	1.62	Negative	1.64	1.66	1.67
Latam	Brazil	EUR / BRL	6.36	Neutral	6.34	6.36	6.38	Positive	6	5.63	5.63
	Mexico	EUR / MXN	24.50	Positive	23.98	24.0	24.02	Positive	22.48	22.50	22.51
EMEA	Russia	EUR / RUB	91.6	Neutral	91.18	91.2	91.22	Positive	85	85	85.01
	Poland	EUR / PLN	4.58	Positive	4.38	4.40	4.42	Positive	4.28	4.30	4.31
	Hungary	EUR / HUF	365	Positive	350	350	350.02	Neutral	360	360	360.01
	South Africa	EUR / ZAR	17.95	Negative	20.38	20.4	20.42	Negative	18.73	18.75	18.76
	Turkey	EUR / TRY	9.04	Negative	10	9.84	9.86	Negative	10	10.00	10.01
	Euro Index		107.50	Neutral	105.83	105.85	105.87	Neutral	107.21	107.23	107.24

	Country	Spot 12/30/2020	Target three months (vs. USD)			Target twelve months (vs. USD)					
			Trend	Low	Mid	High	Trend	Low	Mid	High	
	Eurozone	EUR / USD	1.23	Negative	1.18	1.20	1.22	Neutral	1.23	1.25	1.27
	United Kingdom	GBP / USD	1.36	Neutral	1.31	1.36	1.42	Positive	1.43	1.45	1.48
	Japan	USD / JPY	103	Neutral	103	104	105	Neutral	101	102	103
	Switzerland	USD / CHF	0.88	Neutral	0.89	0.90	0.91	Neutral	0.87	0.89	0.90
	Australia	AUD / USD	0.77	Negative	0.72	0.73	0.74	Negative	0.72	0.73	0.74
	New-Zealand	NZD / USD	0.72	Negative	0.67	0.69	0.71	Neutral	0.69	0.71	0.73
	Canada	USD / CAD	1.28	Negative	1.29	1.31	1.33	Neutral	1.27	1.29	1.31
Asia	China	USD / CNY	6.52	Neutral	6.39	6.60	6.81	Neutral	6.29	6.50	6.71
	India	USD / INR	73.3	Negative	74.3	75.0	75.7	Negative	74.3	75.0	75.7
	South Korea	USD / KRW	1086	Neutral	1064	1100	1136	Positive	1014	1050	1086
	Malaysia	USD / MYR	4.04	Neutral	4.04	4.10	4.16	Neutral	4.04	4.10	4.16
	Singapore	USD / SGD	1.32	Neutral	1.31	1.33	1.35	Neutral	1.31	1.33	1.35
Latam	Brazil	USD / BRL	5.18	Negative	5.13	5.30	5.47	Positive	4.33	4.50	4.67
	Mexico	USD / MXN	19.95	Neutral	19.1	20.0	20.9	Positive	17.1	18.0	18.9
EMEA	Russia	USD / RUB	74.6	Neutral	73.5	76.0	78.5	Positive	65.5	68.0	70.5
	South Africa	USD / ZAR	14.6	Negative	16.3	17.0	17.7	Negative	14.3	15.0	15.7
	Turkey	USD / TRY	7.37	Negative	7.75	8.20	8.65	Negative	7.55	8.00	8.45
	USD Index	DXY	89.73	Neutral	90.0	91.5	93.0	Neutral	86.6	88.2	89.7

Source: Refinitiv - BNP Paribas

THE INVESTMENT STRATEGY TEAM

FRANCEEdmund SHING
Global Chief Investment OfficerASIAPrashant BHAYANI
Chief Investment Officer, Asia
Grace TAM
Chief Investment Advisor, AsiaBELGIUMPhilippe GIJSELS
Chief Investment Advisor
Alain GERARD
Senior Investment Advisor, Equities
Xavier TIMMERMANS
Senior Investment Strategy, PRBLUXEMBOURGGuy ERTZ
Chief Investment Advisor
Edouard DESBONNETS
Investment Advisor, Fixed Income

CONNECT WITH US



[wealthmanagement.bnpparibas](https://www.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.

© BNP Paribas (2021). All rights reserved.

Pictures from Getty Images.