

FOCUS FOREX - August

July 27th, 2020



Guy ERTZ
Chief Investment Advisor

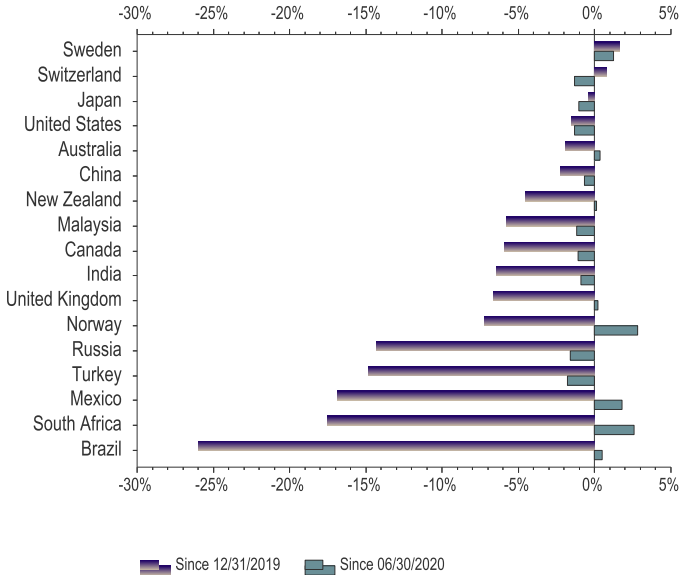
In a word:

The last few weeks have been choppy on the currency markets. While the market optimism surged early June, risk sentiment turned around mid-month as the COVID-19 newsflow was becoming more and more concerning in the US and Latin America. Despite this and the increasing tensions between the US and China, high-risk currencies continued to outperform the US dollar this month while the broad dollar index kept losing ground. But downside risks linger. We keep a cautious stance short-term as we expect a return of volatility. Near-term, we think that the global economic recovery could drive high-risk currencies higher.

The past weeks have been supportive for the euro, despite the mixed newsflow. First, economic healing started after the exit of the lockdown. Macro releases confirmed the resumption in activity and the better sentiment. Hopes of a European agreement on the Recovery Fund also supported the euro. Meanwhile, the dollar index (DXY) fell by 1% mid-July. Unexpectedly, safe haven currencies have been quite resilient. This reflects market concerns regarding rising covid hotspots in some parts of the world. Demand for the CHF and the JPY should be sustained short-term. The weakening of the USD also benefitted commodity currencies. The NZD and the AUD took advantage of the rising risk appetite and better-than-expected Chinese data. The NOK and the SEK also enjoyed the more positive environment. So far, investors seem to keep long positions on the SEK but the domestic situation could become a negative driver. The CAD resumed gains after flattening in June. Concerning covid outbreak in the US and the slow oil price recovery probably limited CAD gains.

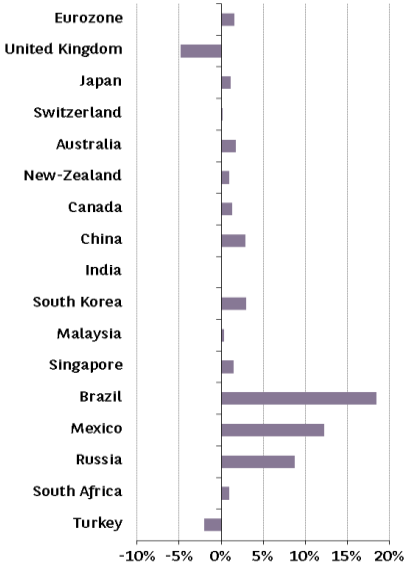
We kept unchanged our targets on the main currency pairs this month. The recent strong appreciation of the euro to 1.17 may be overstated in our view, as the environment remains much more risky than markets price in. The return of volatility short-term should weigh on the euro and we could retest the 1.14 (it is our new 3-month target). Near-term, we anticipate a stabilization around 1.16 as the economic recovery should support risk appetite. We however made some changes on commodity currencies. After a continuous rally, the AUD and NZD are back or close to their early 2020 levels. Although we do not see further appreciation potential short-term, we think that positive factors will drive them respectively to 0.71 and 0.66 over the next 12 months. Regarding the NOK and the CAD, even though the recovery has been more modest, both currencies gained some ground and we revised up their 3-month targets close to current levels.

Performances (in %) against EUR
(Performance as of July 16)

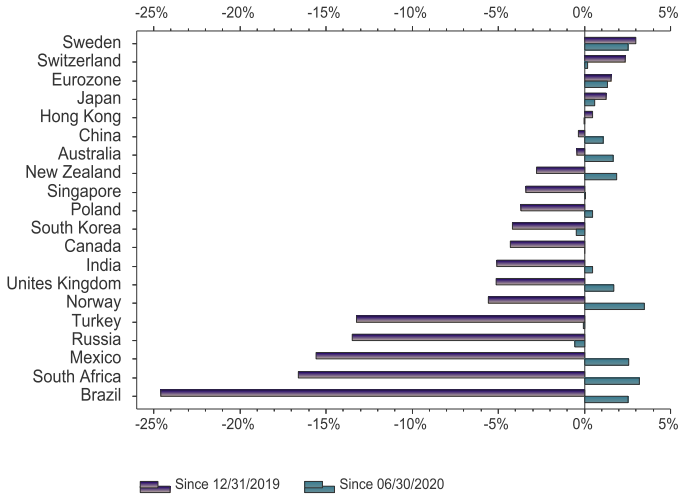


Source: Refinitiv Datastream

12 month forecasts (in %) against EUR
(Performance as of July 16)

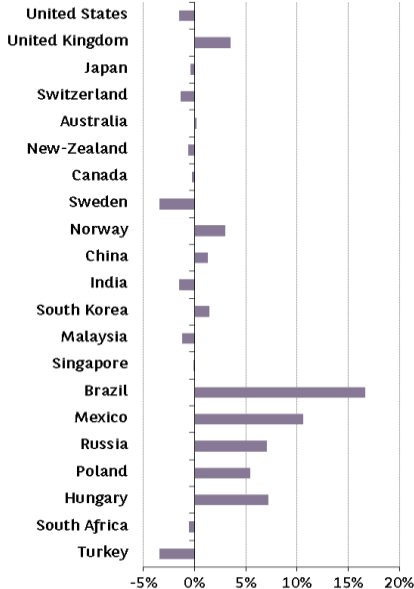


Performances (in %) against USD
(Performance as of July 16)



Source: Refinitiv Datastream

12 month forecasts (in %) against USD
(Performance as of July 16)



Forecasts against the Euro

	Country	Spot 7/27/2020	Target three months (vs. EUR)				Target twelve months (vs. EUR)				
			Trend	Low	Mid	High	Trend	Low	Mid	High	
	United States	EUR / USD	1.18	Positive	1.12	1.14	1.16	Neutral	1.14	1.16	1.18
	United Kingdom	EUR / GBP	0.91	Neutral	0.88	0.90	0.92	Positive	0.86	0.88	0.90
	Japan	EUR / JPY	124	Positive	121	121	121	Neutral	123	123	123
	Switzerland	EUR / CHF	1.08	Positive	1.04	1.06	1.08	Neutral	1.07	1.09	1.11
	Australia	EUR / AUD	1.65	Neutral	1.66	1.68	1.69	Neutral	1.62	1.63	1.66
	New-Zealand	EUR / NZD	1.76	Neutral	1.77	1.78	1.80	Neutral	1.74	1.76	1.78
	Canada	EUR / CAD	1.57	Neutral	1.54	1.55	1.57	Neutral	1.54	1.55	1.58
	Sweden	EUR / SEK	10.26	Negative	10.68	10.70	10.72	Negative	10.68	10.70	10.72
	Norway	EUR / NOK	10.68	Neutral	10.78	10.80	10.82	Positive	10.28	10.30	10.32
Asia	China	EUR / CNY	8.23	Positive	7.96	7.98	8.00	Positive	7.87	7.89	7.91
	India	EUR / INR	87.8	Positive	85.48	85.5	85.52	Neutral	87	87.00	87.02
	South Korea	EUR / KRW	1406	Positive	1368	1368	1368.02	Positive	1357.18	1357	1357.22
	Malaysia	EUR / MYR	5.00	Positive	4.86	4.88	4.89	Neutral	5	4.93	4.95
	Singapore	EUR / SGD	1.62	Positive	1.57	1.58	1.60	Neutral	1.57	1.59	1.61
Latam	Brazil	EUR / BRL	6.10	Positive	5.68	5.70	5.72	Positive	5	5.22	5.24
	Mexico	EUR / MXN	25.93	Positive	25.06	25.1	25.10	Positive	23.18	23.20	23.22
EMEA	Russia	EUR / RUB	84.4	Positive	79.78	79.8	79.82	Positive	77	77	76.58
	Poland	EUR / PLN	4.40	Positive	4.23	4.25	4.27	Positive	4.23	4.25	4.27
	Hungary	EUR / HUF	345	Positive	325	325	325.02	Positive	330	330.00	330.02
	South Africa	EUR / ZAR	19.32	Negative	19.93	20.0	19.97	Neutral	19.12	19.14	19.16
	Turkey	EUR / TRY	8.05	Positive	8	7.75	7.77	Neutral	8	8.12	8.14

Source: Datastream – BNP Paribas Wealth Management

Forecasts against the US Dollar

	Country	Spot 7/27/2020	Target three months (vs. USD)				Target twelve months (vs. USD)				
			Trend	Low	Mid	High	Trend	Low	Mid	High	
	Eurozone	EUR / USD	1.18	Negative	1.12	1.14	1.16	Neutral	1.14	1.16	1.18
	United Kingdom	GBP / USD	1.29	Neutral	1.18	1.27	1.35	Positive	1.28	1.32	1.36
	Japan	USD / JPY	105	Neutral	104	106	108	Neutral	104	106	108
	Switzerland	USD / CHF	0.92	Neutral	0.92	0.93	0.94	Negative	0.93	0.94	0.95
	Australia	AUD / USD	0.71	Negative	0.65	0.68	0.71	Neutral	0.68	0.71	0.74
	New-Zealand	NZD / USD	0.67	Negative	0.61	0.64	0.67	Neutral	0.63	0.66	0.69
	Canada	USD / CAD	1.34	Neutral	1.31	1.36	1.41	Neutral	1.29	1.34	1.39
Asia	China	USD / CNY	7.00	Neutral	6.92	7.00	7.08	Positive	6.72	6.80	6.88
	India	USD / INR	74.7	Neutral	72.9	75.0	77.1	Neutral	72.9	75.0	77.1
	South Korea	USD / KRW	1196	Neutral	1172	1200	1228	Positive	1142	1170	1198
	Malaysia	USD / MYR	4.25	Neutral	4.17	4.28	4.39	Neutral	4.14	4.25	4.36
	Singapore	USD / SGD	1.38	Neutral	1.36	1.39	1.42	Neutral	1.34	1.37	1.40
Latam	Brazil	USD / BRL	5.19	Positive	4.39	5.00	5.61	Positive	3.89	4.50	5.11
	Mexico	USD / MXN	22.06	Neutral	19.5	22.0	24.5	Positive	17.5	20.0	22.5
EMEA	Russia	USD / RUB	71.8	Positive	63.8	70.0	76.2	Positive	59.8	66.0	72.2
	South Africa	USD / ZAR	16.4	Negative	15.7	17.5	19.3	Neutral	14.7	16.5	18.3
	Turkey	USD / TRY	6.85	Neutral	6.37	6.80	7.23	Negative	6.57	7.00	7.43
	USD Index	DXY	93.63	Positive	94.6	96.1	97.5	Neutral	93.0	94.5	96.0

Source: Datastream – BNP Paribas Wealth Management

USD ANALYSIS >> TARGET 12M VS EUR: 1.16

The euro kept rallying over the past weeks against the greenback supported by the positive market sentiment as well as the breakthrough on the European joint fiscal action. We even broke 1.17 which is above our 12-month target. Better-than-expected macro data and the EU deal on the financing of the recovery fund drove the euro sharply up. In addition, the ECB reiterated its full support boosting market confidence on a swift economic recovery. On the dollar side, the extended Fed swap lines eased investors' concerns and started to bear fruits. The recent correction following rising concerns on a spike of infections cases in the US, underscored the market sensitivity to virus headlines. The recent appreciation of the euro seems however exaggerated as downside risks persist notably on the trade side with a possible escalation of US-China tensions and the US tariff threat against the EU. The technical indicators also suggest an overbought situation for the euro. We still look for a temporary consolidation but change our short-term target for the EURUSD with 1.14 instead of 1.12 (value of 1 EUR) given the amplitude of the recent move. Medium-term, we think that the US dollar will not strengthen durably. Indeed, the yield differential has been shrinking since 2019, the massive Fed rate cuts strongly narrowed the interest rate gap which now hovers close to zero. Moreover, US assets lost relative attractiveness and the portfolio rebalancing are unlikely to reverse. The structural overvaluation of the greenback compared to its fair-value (1.31) hints at a sustainable upward trend of the EURUSD over the coming years. **We maintain our 12 month target for the EURUSD at 1.16 (value of 1 EUR).**

PERFORMANCES¹

vs EUR

YTD -1,51

MTD -1,33

GBP ANALYSIS >> TARGET 12M VS EUR: 0.88

The British pound continued to weaken in recent weeks. The resumption of the fourth round of Brexit negotiations in June has clearly driven the GBP weakness. The UK and EU negotiators faced persistent divergences. Scrapping the July deadline, an agreement in October has to be found to ensure the ratification process before the end of the transition period. This suggests that there may be a renewed focus on Brexit developments by autumn. We think that the pound will remain under pressure. We maintain our belief of a slight recovery GBP towards 0.90 over the next 3 months. We however see a deal as the most likely outcome (45%), but no-deal prospects remain high (35%), and the possibility of an extension looks less likely (20%). Risks remain skewed to the downside short-term and further central bank action is not excluded. Recently, the BoE increased government bond purchases by GBP100 bn. Meanwhile, the government announced another set of new stimulus measures of GBP30 bn early July. Economic growth is expected to resume over the second part of the year and should accelerate in 2021. Although we expect an upside of the GBP later this year, this should be limited by uncertainty around a Brexit agreement. **We keep our 12-month target at 0.88 (value of 1 EUR).**

PERFORMANCES¹

vs USD

YTD -5,10

MTD 1,70

vs EUR

YTD -6,60

MTD 0,20

¹ Performance YTD as of 16/7/2020.

CHF ANALYSIS >> TARGET 12M VS EUR: 1.09

The EURCHF trend has been choppy in July. The cross came back around 1.06 early July before weakening. We however think that the uncertain environment will keep the pair close to 1.06 over the next 3 months. Nevertheless, further downward pressure on the EURCHF in case of a wave of negative newsflow would be capped by the central bank intervention on the FX market. On the political side, European members found a deal on the financing of the Recovery Fund. We also anticipate a resolution of the conflict between the ECB and the German Constitutional Court. This supports our positive stance on peripheral spreads near-term which should prevent a strengthening of the CHF. Moreover, the SNB's tearing enables the SNB to cut policy rates while mitigating the negative impact on financial institutions. As such, in spite of policy rates in Switzerland already being at -75 bps, the chances for additional rate cuts remain, which presents another downside risk to the CHF. Near-term drivers remain positive for the euro. The improvement of the risk sentiment expected over the second part of the year should lower the attractiveness of safe haven assets and benefit the euro. **We maintain our positive view on the euro over the next 12 months and keep our target at 1.09 (value for 1 euro).**

PERFORMANCES¹

vs USD

YTD 2,38

MTD 0,18

vs EUR

YTD 0,78

MTD -1,33

JPY ANALYSIS >> TARGET 12M VS EUR: 123 (USD/JPY 106)

The **Japanese yen** strengthened first over the part of July while global equity markets kept rising. Concerns on rising covid-19 cases in the US and major EM countries as well as renewed tensions between the US and China supported investors' appetite for the safe haven currency. The yen has been resilient and still hovers close to our targets. Short-term, we think that current high valuations exposes equity markets to temporary corrections. Higher volatility should prove positive for the yen. Near term, one of the main drivers of the yen remains the lower cost for a Japanese investor to hedge the USD currency. Indeed, the persistence of very tight rate spreads between the US and Japan means Japanese investors are unlikely to maintain or add to their USD exposure. Although we expect rising appetite for high-risk assets alongside the economic recovery, we see the USDJPY remaining steady. Our assumption of a weakening USD over the next 12 months will weigh on the USDJPY (yen stronger). **In this context, we see a slight upside of the yen to 106 (value of 1 USD) over the next 3 and 12 months.**

PERFORMANCES¹

vs USD

YTD 1,26

MTD 0,62

vs EUR

YTD -0,38

MTD -1,05

¹ Performance YTD as of 16/7/2020.

NOK ANALYSIS >> TARGET 12M VS EUR: 10.30

Overall, the **Norwegian krone** has strongly recovered over the past months along with the rising market appetite for risk and hopes of a rapid global recovery. Besides, the rebound in oil prices fueled the NOK increase. The massive intervention of the government and the central bank was also supportive. Although we expect a higher volatility short-term, we do not forecast a significant market correction undermining significantly the commodity currency trend. **We thus adjusted our short-term targets for the Norwegian krone to 10.80 (value of 1 EUR) over the next 3 months.**

Near-term, while external downside risks will linger, the domestic situation is encouraging. The country recorded one of the lowest covid death tolls in Western Europe. After the Norges bank cut rates to support liquidity, the governor hinted that the policy rate should remain stable over the foreseeable future. The central bank announced an increase in the pace of bond purchases to NOK2.5bn per day in July. **We see a moderate upside for the krone and keep the 12-month target at 10.30.**

PERFORMANCES¹

	vs USD
YTD	-5,58
MTD	3,48
	vs EUR
YTD	-7,24
MTD	2,80

SEK ANALYSIS >> TARGET 12M VS EUR: 10.70

After a choppy market in June-July, the **Swedish krone** resumed its upward trend against the euro. The latest decision of the central bank did not weaken the krone. The governor extended the QE until June 2021 and increased it by SEK200 bn to SEK500 bn. The governor did not rule out rate cuts if necessary, which would bring back interest rates in negative territory. But markets do not price further easing so far. This would have contributed to support the SEK. Nevertheless, we think that the threat of a central bank action on rates may reduce investors' appetite for the SEK. Moreover, the increase of the QE will likely continue to be skewed towards purchasing covered bonds. We think the portfolio rebalancing flows in H2 may leave the SEK vulnerable. We see current SEK levels as too high given the downside risks. Sanitary concerns did not fade as the country displays a number of infection cases far above the European average. **We see the EURSEK depreciating to 10.70 (value of 1 EUR) over the next 3 months and remaining steady at 12 months.**

PERFORMANCES¹

	vs USD
YTD	3,00
MTD	2,52
	vs EUR
YTD	1,67
MTD	1,24

¹ Performance YTD as of 16/7/2020

AUD ANALYSIS >> TARGET 12M VS EUR: 1.63 (AUD/USD 0.71)

The Aussie rally accelerated in the first part of June. It has benefitted from the market optimism and hopes of a rapid economic recovery driven by China. As the main trading partner, the Chinese economic reopening has been a key catalyst of the AUD rally and will continue to do so. The positive outlook that we have for base metals is also key. On the macro front, the newsflow is encouraging. Australia is one of the rare economies where the IMF sees less deterioration of its 2020 GDP compared to April forecasts. Activity resumed before most of the G10 countries and economic prints suggest that the trough is behind us. Meanwhile government deployed a strong fiscal stimulus while the central bank lowered their key rates to 0.25% and launched a QE. It ruled out further rate cuts and hinted that domestic projections could prove too pessimistic. However, following the strong upside of the AUD, we do not see further appreciation short-term. A second wave (new lockdown in Melbourne) is a downside risk. **We now forecast the AUDUSD to fall back to 0.68 (value of 1 AUD) over the next 3 months.** Near term, we see the above-mentioned positive factors giving further upside to the AUD. **We also revised up our 12-month AUDUSD target to 0.71 (value of 1 USD).**

PERFORMANCES¹

vs USD

YTD -0,42

MTD 1,67

vs EUR

YTD -1,93

MTD 0,36

NZD ANALYSIS >> TARGET 12M VS EUR: 1.76 (NZD/USD 0.66)

The New Zealand dollar trend broadly followed the AUD recovery. The kiwi gained about 4.5% since June. The strong rebound of equity markets and the positive economic newsflow from China led the surge. The domestic situation has also been a catalyst. The earlier than expected easing of lockdown restrictions provided a boost to retail spending and general activity in the country. The central bank expects the downturn to be less important than in their earlier projection. However, the RBNZ highlighted that the balance of risks remains tilted to the downside. Markets expect the RBNZ to cut rates to zero over the next year. Indeed, unlike the Australian central bank, the RBNZ did not rule out further easing and could bring interest rates to zero. Short term, we think that the NZD has little upside potential. **We see the NZDUSD moving back to 0.65 over the next 3 months.** Near-term, we see a scope for appreciation in line with an expected rise in risk appetite. However, the potential should be more limited than for the aussie. Portfolio rebalancing flows in response to the RBNZ's QE should limit the upside. **We revised up our 12-month target to 0.67 (value of 1 USD).**

PERFORMANCES¹

vs USD

YTD -2,78

MTD 1,89

vs EUR

YTD -4,53

MTD 0,11

¹ Performance YTD as of 16/7/2020.

CAD ANALYSIS >> TARGET 12M VS EUR: 1.55 (USD/CAD 1.34)

The **Canadian dollar**, kept rising over recent weeks. The Bank of Canada sent a robust response to the covid crisis, expanding bond purchases to corporate and provincial bonds. It has continued to purchase government securities at a slightly higher pace than minimum pace that was initially announced. Despite this, Canadian rates have maintained a small premium to US rates. Economic data suggest that economic activity began to expand again in May after sharp contractions in March and April. However, major risks persist. Although the pace of covid infections is lower than its neighbor, the country still records a rising caseload. Moreover, high unemployment remains a downside risks and could lead the central bank to ease policy further. In this context, we think that the CAD has a limited scope for appreciation short term. **We see the USDCAD moving to 1.36 over the next 3 months. Near term, we see the CAD appreciating back 1.34 (value for 1 dollar) over the next 12 months.** Our positive assumption on oil prices and expectations of a global recovery over the coming months should drive the CAD higher.

PERFORMANCES¹

vs USD

YTD -4,30

MTD 0,03

vs EUR

YTD -5,90

MTD -1,11



THE INVESTMENT STRATEGY TEAM

France

Florent BRONES
Chief Investment Officer

Asia

Prashant BHAYANI
Chief Investment Officer, Asia
Grace TAM
Chief Investment Advisor, Asia

Belgium

Philippe GIJSELS
Chief Investment Advisor

Xavier TIMMERMANS
Senior Investment Strategy, PRB

Alain GERARD
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