Focus FX

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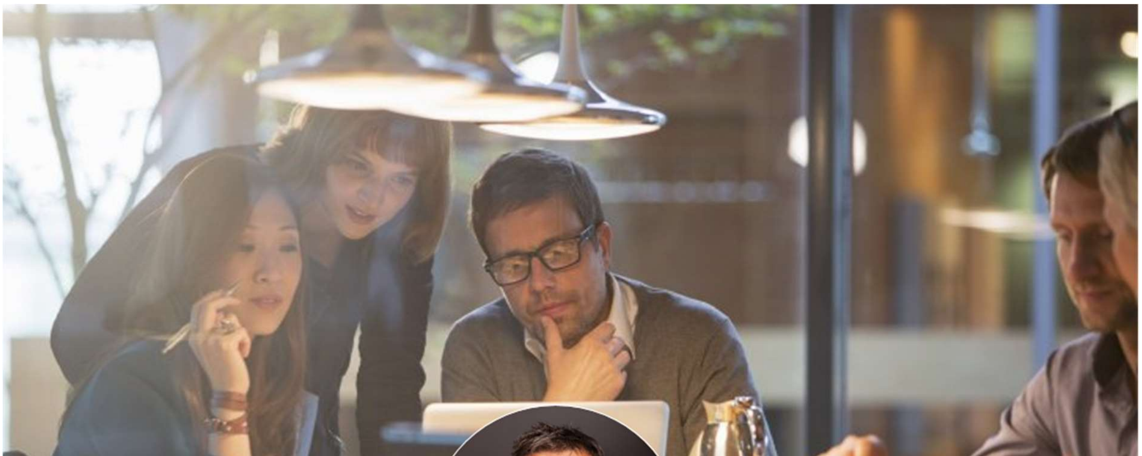

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In a word:

In April, we witnessed a historical rebound on global equity markets, fuelled by investors optimism regarding the decrease of daily number of death cases in most covid-19 epicentres and expectations of a global recovery supported by massive policy measures while economic data continue to be very negative. FX markets regained some colours too even though the unprecedent drop of crude oil prices limited the commodity currency rebound.

The dollar remained strong against the euro. The lack of common European action, the ECB decision to exclude the OMT and the German Constitutional Court ruling have been without any doubt a significant hurdle to the euro appreciation. Nevertheless, we keep convinced that the euro will appreciate in the coming months, supported by fundamental drivers. Safe-haven currencies, namely the CHF and the JPY, remained supported in April and the short-term environment should keep these currencies at current sustained levels. The GBP revealed resilient last month, while the coronavirus keeps hitting the country. However, the UK could enter a phase of easing restriction measures with some lag compared to the rest of Europe. With Brexit negotiations expected to go back in the forefront, the pound should be subject to volatility. Commodity currencies, the AUD, the NZD, the CAD and the NOK, displayed a stronger retracement as they had been sharply weakened during the March sell-off. Although we do not see much more upside potential short-term, these currencies should benefit from the global recovery and an improved outlook for commodities expected over the second part of the year. The SEK appeared highly resilient this year. As some downside risks could weigh on the currency, we do not expect further appreciation.

	Country	Currency	Target three months		Target twelve months	
			Trend	Mid	Trend	Mid
Againt euro	United States	EUR/USD	Negative	1.14	Negative	1.16
	United Kingdom	EUR/GBP	Negative	0.90	Negative	0.88
	Switzerland	EUR/CHF	Negative	1.06	Negative	1.12
	Japan	EUR/JPY	Negative	121	Negative	123
	Norway	EUR/NOK	Positive	11	Positive	10.3
	Sweden	EUR/SEK	Negative	10.7	Negative	10.7
Against dollar	Japan	USD/JPY	Neutral	106	Neutral	106
	United Kingdom	GBP/USD	Positive	1.27	Positive	1.32
	Canada	USD/CAD	Positive	1.38	Positive	1.34
	Australia	AUD/USD	Neutral	0.65	Positive	0.67
	New Zealand	NZD/USD	Neutral	0.61	Positive	0.63
	Brazil	USD/BRL	Positive	5.0	Positive	4.5
	Mexico	USD/MXN	Positive	22	Positive	20
	Russia	USD/RUB	Positive	70	Positive	66
	South Africa	USD/ZAR	Positive	17.5	Positive	16.5
	India	USD/INR	Positive	74	Positive	72
	China	USD/CNY	Positive	7.0	Positive	6.8
	South Korea	USD/KRW	Positive	1200	Positive	1170
	Singapore	USD/SGD	Negative	1.45	Positive	1.40
	Malaysia	USD/MYR	Negative	4.35	Positive	4.30
	United States	DXY	Negative	96.2	Negative	94.6

Source : BNP Paribas

EURUSD

The **euro** weakened slightly last month despite the massive injection of US dollars coordinated by central banks. Indeed, this reflects that markets remain worried about a risk of a second wave of the virus and uncertainty lingers after the ECB meeting and the German Constitutional Court ruling. Probably, the historical move from the Fed and the US government to counteract the crisis helped supporting the US while Europe still struggles to bring a joint and strong financial help to peripheral countries. The unprecedent Fed reaction brought US rates down to historical low levels and narrowed yield differentials with German rates. Short term, we expect the progressive lift of restriction measures to bring some normalization on currency markets. **We keep our positive view on the euro and see the EURUSD at 1.14 over the next 3 months**. Over the second semester, we should see a rebound of the Eurozone and US activities. However, monetary policy should remain accommodative for a while to sustain the economic recovery. Lower US yields relative to the eurozone should imply a sustainable decline in European outflows towards US fixed income assets and benefit the euro. Regarding fundamental drivers, they also support a stronger euro near term. The structural overvaluation of the greenback compared to its fair-value (1.31) hints at a sustainable upward trend of the EURUSD in a longer run. **We maintain our 12-month target at 1.16.**

EURCHF

The euro failed to rebound against the **Swiss franc** this month. This suggests that market preferences are still turned towards safe-haven assets. Moreover, investors remain concerned by the lack of a coordinated and strong action from the European states. All economic data point to a deep recession in the eurozone over the first part of the year. Indebtedness issues for the most affected European countries could become very concerning without common action from the block. Uncertainty will prevail short term. Risk-off sentiment should persist in the coming weeks and **keep the EURCHF close to current levels around 1.06 over the next 3 months.** Peripheral spreads, a historical driver of the EURCHF, are still under pressure even though the ECB's large asset purchase programme announced mid-March has eased tensions on the sovereign debt market. We see further tightening over the months to come as odds of a strong common action from the euro area rose. Moreover, the CHF remains an attractive funding currency. In addition, the structural overvaluation of the franc compared to its fair value suggests a depreciation of the CHF. **These drivers and the expected recovery of the European activity over the second part of the year should drive the EURCHF to 1.12 over the next 12 months.**

USDJPY

The yen remained broadly stable in April. The strong investor's appetite for safe-haven assets benefited the yen. The USD funding stress should ease over the coming weeks with the significant set of measures of the Fed. We expect these factors to support the yen short term. The narrowing of the yield differential following historical Fed actions should be beneficial for the yen near term. Even though the BoJ implemented strong supportive action, it did not announce lower interest rates. We ultimately expect Japanese institutional investor's demand for the JPY to rise. **Driven by these factors, we see the JPY strengthening short term to 106. The lingering period of low yields and the uncertainty should keep the yen steady around 106 over the next 12 months.**

EURGBP

The volatility of the **British pound** fell sharply in April. The cable fluctuated into a lower tight range, between 0.885 and 0.87. Easing pressures on the GBP were observed together with the sharp rebound of global equity markets. However, markets seem to have underestimated the cost of the sanitary crisis in the UK. The country overtook Italy's covid-19 related deaths. With more than 31 000 death cases, the UK holds the highest death toll across Europe. While most affected European countries have triggered an easing of restriction measures, the UK should lag in the exit phase and it could take longer to bring back the economy on its feet. Over the coming weeks, two factors should push the EURGBP higher. First, an agreement on an European joint action should be a trigger for the euro, while the UK government and the BoE would have used most of their ammunitions. Moreover, Brexit headlines will come back to the forefront over the coming weeks as the deadline to request an extension of the transition period is getting closer. Uncertainty regarding the future EU-UK relationship will weigh on the GBP while the country has to handle the economic impact of the coronavirus crisis. **In this context, we see downside risks on the GBP and expect a depreciation of the pound to 0.90 over the next 3 months.** Near term, while we forecast that the global activity should recover and that the risk-off sentiment should fade, Brexit negotiations should drive the pound. Trade talks should have resumed in March but they have stalled alongside the coronavirus crisis. There are 8 months left to the UK and EU negotiators to find an agreement while both parties showed strong divergences. Moreover, while the BoE remained in a "wait and see" approach over its last meeting, it revised down 2020 growth projections at -14%, which underscores an even sharper contraction than the ECB expects for the eurozone in its worst scenario. **The GBP volatility should persist and prevent from a strong appreciation of the cable. We keep our 12-month target at 0.88.**

AUDUSD

The **Australian dollar** kept rallying in April gaining more than 5% against the greenback. The aussie took advantage of the sharp rebound of global stock markets. The improving Chinese data have also supported the AUD. Indeed, the rebound of Chinese demand is a key driver of the AUD as the rebound of Australian exports depends on the Chinese recovery. The daily number of new cases in Australia has slowed sharply down, and the government will likely announce a gradual easing of restriction measures. According to the central bank, the output should fall by 6% this year. The strong coordinated fiscal and monetary response should prevent a sharper decline. In this context, the central bank kept its policy rates on hold. It however, started to reduce its involvement on the bond market as the 0.25% 3-year yield target had been achieved. The central bank reiterated its commitment to support jobs, income and businesses. Regarding the external environment, we saw an increase of China's credit impulse, suggesting that demand is recovering. This is positive for the commodity sector. Chinese iron ore imports rose by 11,4% in April as construction activity resumed. As Australia is the first iron ore exporter to China, this could cushion the economic hit and be a positive driver for the AUD. **In the short term, we see the AUDUSD remaining steady around current levels, 0.65, as it already strongly rebounded following encouraging Chinese data. The currency is currently close to the overbought level (according to technical analysis).** Medium-term, we expect the aussie to appreciate as the recovery of the Chinese economy and the gradual easing of the risk averse market sentiment should be supportive for the AUD. **We maintain our target at 0.67 over the next 12 months.**

NZDUSD

The **New Zealand** dollar followed the global rebound on the FX market. It gained more than 2% against the US dollar and hovers around its 3-month target as for the aussie. As its neighbour, the kiwi economy highly relies on Chinese demand. As the second largest economy resumed its activity earlier than the rest of the world, this has been a positive trigger for the kiwi. The domestic situation regarding the covid-19 has also been supportive. While the Prime Minister imposed an aggressive approach based on a complete lockdown leading to a standstill of the economy, the country is facing one of the lowest number of infected cases. Reported new covid-19 cases are close to zero. Thus, New Zealand has entered a phase of crisis recovery far more advanced than Europe or the US. The government committed to provide a significant financial support and it could raise over the annual budget announcement due mid-May. On the monetary side, the central bank communicated that the policy rate will remain on hold after rates have been lowered to 0.25% in March. However, markets see a risk of negative rates by the end of the year for the first time in the country's history. This could weaken the NZD. Short term, we do not expect that the NZD will appreciate further. Following the recent rebound of the kiwi (+10% since the trough hit mid-March), the currency is close to overbought levels according to technical analysis. **We keep our 3-month target at 0.61 (value per NZD).** Over the medium term, the pace of the recovery of Chinese demand will be key. The path of the rebound in commodity prices especially dairy ones could be challenging. **We keep our view of further upside over the next 12 month and maintain our NZDUSD target at 0.63.**

USDCAD

In April, the **Canadian dollar** has only recovered moderately against the greenback compared to the aussie and the kiwi. The historical plunge of crude oil prices to record lows added to the covid-19 shock limited the CAD rebound in April. The sanitary situation is still concerning in Canada, especially as it shares borders with the US. The government has triggered a cautious easing of containment measures, as Europe does. Alongside its strong reaction in March, where interest rates have been lowered by 150 bps and an asset purchase programme of CAD200 bn was launched, the central bank announced an additional bond purchase programme of CAD30 bn targeting corporate and provincial bonds. We continue to see positive drivers for the CAD over the coming months. Canada's short-term rates should stabilize at a modest premium to US yields, USD liquidity conditions are improving, and crude prices will likely recover to our forecast range of $45-$55 b/d. The historical OPEC+ deal extended to 20 non-OPEC countries including Canada supports our assumptions. Moreover, the new NAFTA will enter into effect on July 1st and thus lifts uncertainty. **In this context, we see only a moderate appreciation short-term to 1.38 (value for 1 US dollar) as the lingering risk-off environment should keep the CAD volatile especially due to weak oil prices. Over the next 12 months, for the reasons mentioned, we think the CAD has more upside potential to 1.34.**

EURSEK

The **Swedish krone** made a sharp rebound at the end of April. Since the SEK hit a low mid-March, the krona recovered by 6.5%, erasing most of year-to-date losses against the euro. Amidst an improved sentiment on global equity markets, the SEK's performance has been fuelled by the central bank's decision to keep interest rates unchanged at 0%. Alongside the sharp economic downturn projected by the government which revised down its 2020 growth forecast to -10%, markets were expecting the Riksbank to lower the benchmark rate under zero to support the domestic activity. Although the governor did not rule out rate cuts over the coming months in case of a worsening situation, holding interest rates to current levels has been a positive driver for the SEK. In parallel, the central bank maintained its security purchase programme of SEK300 bn and extended it to municipality bonds for an additional SEK15 bn. Sweden adopted a controversial approach as it excluded a general lockdown, rather promoting social distancing, carrying out a large test campaign and protecting most vulnerable citizens. The country recorded a much higher death toll than its Nordic neighbours and is part of the top 10 countries with the highest death rate per capita from coronavirus. While most European countries are due to lift gradually restriction measures, the Sweden's strategy might be more painful in terms of human losses. In this context of lingering risks and considering the recent rally of the krone, we do not see further appreciation of the SEK over the coming months. **We see the Swedish currency remaining close to current levels (around 10.70) over the next 3 and 12 months.**

EURNOK

After a dramatical collapse, the **Norwegian krone** has regained some ground in April alongside the sharp rebound of global equity markets. Although the krona has been hurt by the plunge of oil prices over the third week of April, investors' sentiment recovered a bit last month and benefitted the NOK which is approaching its 3-month target. The central bank reduced again the key rate over its last meeting totalling 150 bps of cuts since March and bringing interest rates to zero for the first time in history. In addition, the government had implemented a financial support programme for a bit less than 5% of GDP. Norway will also be hit by the deep economic downturn as well as a surge in unemployment. Its economy will also suffer from the collapse in oil prices. However, the country holds one of the biggest financial reserves, and had strong fundamentals before the crisis. This should lower somewhat the impact. Moreover, Norway can set an example regarding management of the sanitary crisis. The country displays one of the lowest death rates per capita from covid-19. This has led to a progressive exit from the lockdown, one of the first European country to do so. Although we do not see more appreciation on the short term due to the lingering risk-off environment, we see more upside near term notably due to the gradual rebound of oil prices over the second semester once we should see global demand recovering. The regain of appetite for high risk assets should also be positive for the NOK. **We keep our 3 and 12-month targets respectively at 11.0 and 10.30.**

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