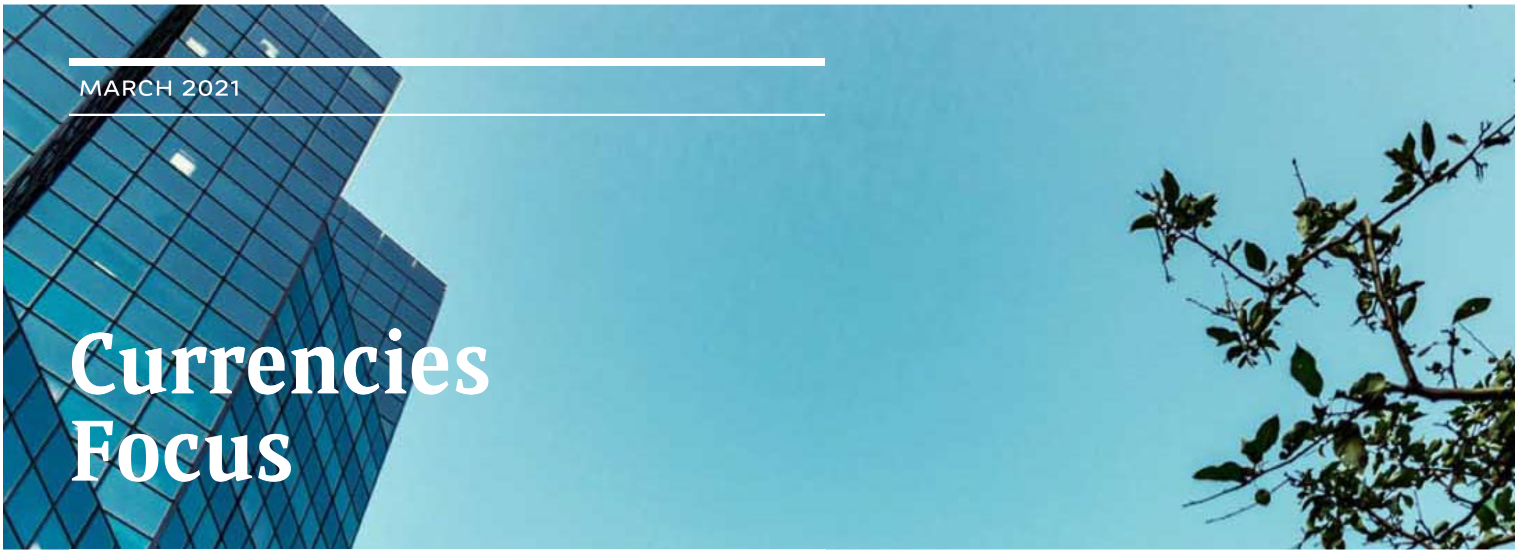
MARCH 2021



Currencies Focus

Summary

1. **Declining infections rates, rising oil prices and small steps taken towards the exit of lockdowns marked February.** The vaccination campaigns have accelerated and new vaccines support positive expectations. Consumption should rebound strongly in Q2 and Q3.

2. **The $1.9tn stimulus package in the US should arrive soon.** The USD benefited from rising expectations that the Fed could start hiking rates earlier than 2023. Rising yields also played a role. The gains should however be contained. We forecasted a consolidation of the EURUSD around 1.20 short-term and we broke through that level. That should be temporary. Our 12-month target remains at 1.25.

3. **The variants of the covid-19 remain the main source of downside risk short-term**: The market was rather risk oriented in February. Safe haven currencies like the CHF and JPY depreciated quite strongly.

4. **Scandinavian currencies take diverging paths:** The SEK should now stabilize around current levels while the NOK has further upside. Indeed, Norway could hike policy rates whereas Sweden should stay quite dovish.

5. **Chinese economic indicators suggest a slightly slower growth.** Commodity currencies are experiencing a setback after a very strong month of February. We still expect those to appreciate over the year.

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Contents

OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 08/03/21		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1.19	1.20	1.25
	United Kingdom	EUR / GBP	0.86	0.88	0.86
	Switzerland	EUR / CHF	1.11	1.08	1.11
	Japan	EUR / JPY	129	125	128
	Sweden	EUR / SEK	10.18	10.2	10.2
	Norway	EUR / NOK	10.19	10.20	9.90
Against dollar	Japan	USD / JPY	108	104	102
	Canada	USD / CAD	1.27	1.27	1.25
	Australia	AUD / USD	0.77	0.76	0.80
	New Zealand	NZD / USD	0.71	0.72	0.75
	Brazil	USD / BRL	5.69	5.30	4.50
	Russia	USD / RUB	74.59	74.0	68.0
	India	USD / INR	73.3	75.0	75.0
	China	USD / CNY	6.52	6.50	6.40

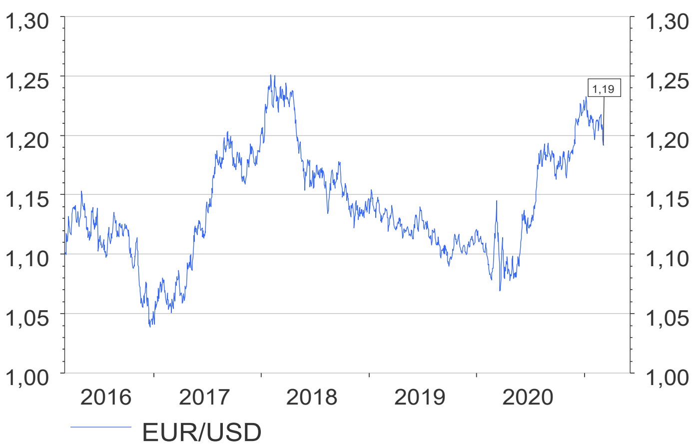
Source: Refinitiv - BNP Paribas

USD VIEW>> TARGET 12M VS EUR: 1.25

Return of broader USD weakness

In February, investors became much more optimistic on the prospects of an economic recovery, as well as a potential return of inflation. The changes in sentiment have come amidst better than expected economic data, the continued rollout of vaccines, as well as the positive news on the $1.9tn stimulus package. Nevertheless, the Fed is expected to keep short-term yields low for a long time and that should be a negative factor for the dollar. Indeed, we continue to expect the Fed to keep its policy rate unchanged through 2023 and to maintain the current pace of asset purchases through 2022, with no warning of tapering before 2022. The euro should get more support as broader dollar weakness returns. First, the market now expects a rate hike in 2022 and more in 2023. We consider that exaggerated. Second, the start of the year was dominated by headlines of European vaccine disappointment. But as supply improves, we expect the vaccine gap to narrow in the coming months, encouraging foreign direct investment and equity inflows. Third, the gap between current and future output expectations is far greater in European PMIs than the US. Finally, the risks are now that the market turns its focus to the negative impact of extreme fiscal stimulus on the US external accounts.

Therefore, we keep our EURUSD target to 1.20 and 1.25 for the next 3 and 12 months respectively. This suggests further upside for the euro.



Source: Refinitiv Datastream, 08/03/2021

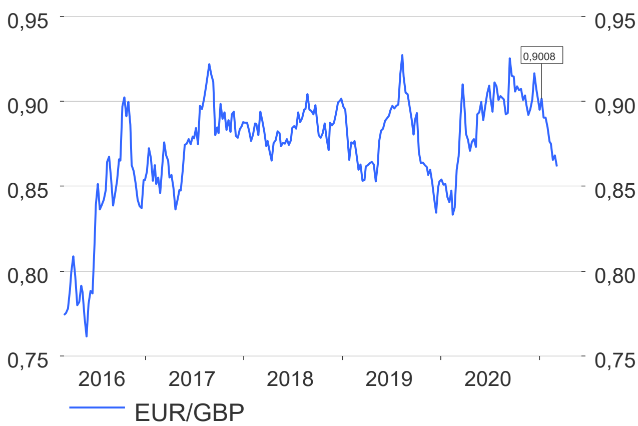
GBP VIEW >> Target 12M VS EUR: 0.86

The sky looks bright

The British pound recorded its 5th consecutive monthly gain against the US Dollar in February (+1.6%), aided by the continued success of the UK's vaccine rollout along with the Bank of England pushing back on the prospect of negative rates in the near term. An emerging timeline for full economic reopening by end-June after all adults having been offered a vaccine is also encouraging. The GBP is further helped by investors rotating back into the equity sectors most affected by the pandemic. Nevertheless, the currency currently looks overbought compared to the euro and there are challenges ahead regarding the new UK-EU trading relationship. The economy relies heavily on its large services sector and inflation is likely to remain positive but still subdued through Q1. PMI numbers are improving and inflation stood at 0.7% in January (yoy).

At the February meeting, the Bank of England struck a somewhat hawkish tone. With the Brexit deal, we think the BoE will not need to loosen its policy. The policy rate is likely to remain unchanged for at least 6 months. Looking at the fiscal measures announced on the 3rd of March, the announcements included an extension of the furlough scheme as well as other various support measures.

Therefore, we keep our EURGBP targets to 0.88 over a 3-month horizon and to 0.86 over a 12-month horizon.



Source: Refinitiv Datastream, 08/03/2021

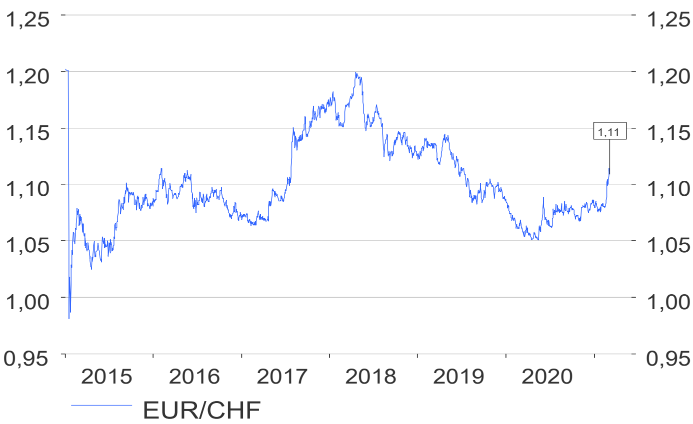
CHF VIEW>> TARGET 12M VS EUR: 1.11

Stabilization after a rough month

The CHF depreciated 1.7% against the EUR in February, due to the positive market sentiment following the improving global economic outlook. The declining Covid-19 infection rate in the US and in the UK, accelerating vaccination campaigns and better-then-expected data all contributed to rising optimism among investors. Last week, services PMI across the major European economies were positive and the employment report in the US was much better than expected. This should boost market sentiment and support the EUR against the CHF. **Our 3-month target remains at 1.08 (value of one euro).**

The Swiss central bank should consider the recent developments, after setting negative rates and using billions in FX interventions to prevent CHF appreciation. We expect any significant appreciation of the CHF to be short lived as long as the SNB's reaction function remains unchanged in 2021. The steepening in the eurozone yield curve, low inflation expectations, together with the expected improvement in the global economic outlook support our view.

Therefore, we expect the EURCHF (value of one euro) to rise to 1.11 over the coming year. This suggests a slightly weaker CHF.



Source: Refinitiv Datastream, 08/03/2021

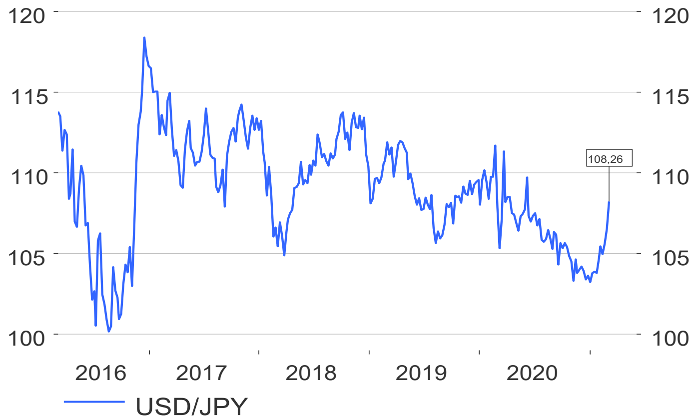
JPY VIEW >> TARGET 12M VS USD: 102

Recent weakness should be temporary

The reflation theme should become a big driver for the USD/JPY in the coming weeks. The higher the expectations regarding rising yields in the US and the more the yen could be under pressure as a safe haven currency. We expect the recent move in yields to be exaggerated, but we must monitor especially the evolution of the real yields. Consumer confidence and business activity indicators in Japan are stagnating, sending mixed signals about domestic demand. The economy should, however, benefit from the rebound in global growth and trade expected later this year. Deflation remains a key concern for the country's medium-term future.

On the monetary side, the Bank of Japan is expected to review its monetary policy tools in March, but we don't expect to see an exit from the current expansionary stance, in a context of low inflation. That said, the central bank cannot ease its policy much further given its current asset purchase program and its limited ability to push front-end cash rates much lower. Ultimately, the JPY remains very cheap when looking at fair value models like the PPP.

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



Source: Refinitiv Datastream, 08/03/2021

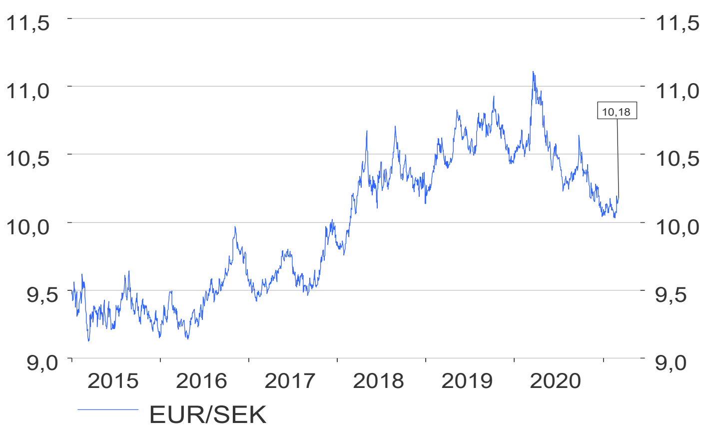
SEK VIEW>> TARGET 12M VS EUR: 10.2

The SEK is stabilizing around target

As expected, the Swedish krone has been on a negative trend this year. Swedish inflation expectations, a key driver of Riksbank policy decisions, have risen over the month, coming from extremely low levels. As a result, the Riksbank revised up its economic forecasts at its February monetary policy meeting.

On the monetary side, higher inflation expectations should reduce the Riksbank's sensitivity to SEK strength. Downside risks to the SEK come from the potential for the Riksbank's stance to turn more dovish if inflation expectations start to moderate or the SEK strengthens back (-1.3% against the EUR so far this year), and the fact that Sweden has a comparatively small service sector which points to a smaller economic benefit from a vaccine induced recovery in comparison to other countries. At its last meeting (10th Feb.), the Riksbank kept monetary policy unchanged and pledged its support to the economy in this difficult period. Over the next 12 months, the expected global recovery should help the economy, which relies on global trade.

Therefore, we keep our EURSEK targets to 10.2 over the next 3 and 12 months. This suggests some downside for the SEK.



Source: Refinitiv Datastream, 08/03/2021

NOK VIEW >> TARGET 12M VS EUR: 9.9

We remain positive for the NOK over the year

The NOK is one of the currencies that suffered the most from the covid-19 crisis. It is now up 2.5% against the EUR in 2021 and +0.9% over the last month alone (March 7th). We expect to see it appreciating back to pre-pandemic levels. The economy holds up and business confidence, measured by the manufacturing PMI, has jumped to a 2-year high, thanks to the vaccination campaigns accelerating worldwide. A potentially strong upward move in value stocks could provide further tailwinds to the krone. This could also come from a further rise in the appetite for risky assets and/or higher oil prices.

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 by early 2022, maybe even sooner as house prices are still at 5-year highs and the domestic economic data is supportive. The market has already priced in a 20bp rate hike in 2021.

Therefore, we keep our EURNOK targets to 10.20 over the next 3 months and to 9.9 over the next 12. This suggests strong upside for the NOK.

Source: Refinitiv Datastream, 08/03/2021

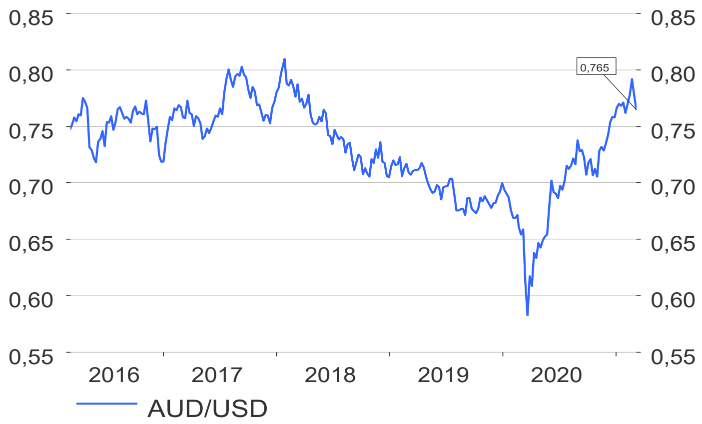
AUD VIEW>> TARGET 12M VS USD: 0.8

RBA pushing back against currency strength

The Australian dollar is down 0.7% against the greenback so far in 2021 (March 7th), after being up more than 1.5% late February. Domestic data, global positive market sentiment thanks to vaccine campaigns and higher commodity prices have supported the currency. In addition, the AUD is a cyclical currency that should benefit from the global economic recovery later this year and the favorable interest rate differential with the US. Tensions with China remain a downside risk, given the importance for Australia's iron ore exports.

On the monetary side, the Central Bank (RBA) has started to push back against currency strength. In its monetary policy decision (March 2nd), the RBA kept its key interest rate and three-year bond yield target unchanged. The RBA added that it stands ready to make further adjustments to its purchases in response to market conditions as it has done recently. We expect interest rates to remain just above zero through at least 2022 as wage growth should be flat and inflation in general should remain low for a long time.

Therefore, we keep our AUDUSD 3-month target to 0.76. Our 12-month target also remains at 0.80. This implies further appreciation potential.



Source: Refinitiv Datastream, 08/03/2021

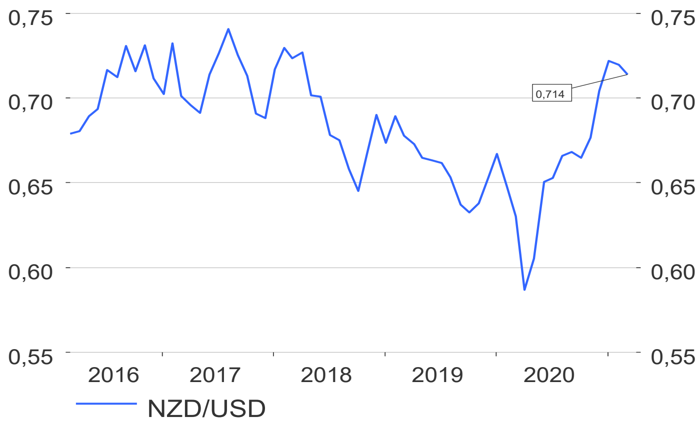
NZD VIEW >> TARGET 12M VS USD: 0.75

New Zealand currency remains robust

The NZD is down 0.8% against the USD this year (March 7th), after a late February setback. New Zealand's economic data has shown resilience 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 as well. We expect the upgraded free trade deal with China to further support the country.

On the monetary side, the New Zealand dollar has benefitted from the central bank's (RBNZ) comments regarding its stance. "Prolonged monetary stimulus" remains necessary and "considerable time and patience" will be required to meet its inflation and employment targets while keeping its current monetary policy settings unchanged. The RBNZ added that it "remains prepared to provide additional monetary stimulus if necessary". Nevertheless, low rates as well as fiscal and monetary stimulus have propelled house prices to historical highs, which makes a rate cut unlikely. The RBNZ could start to rise its policy rate next year.

Therefore, we keep our NZDUSD 3-month and 12-month targets to 0.72 and 0.75, respectively. This implies further appreciation potential.



Source: Refinitiv Datastream, 08/03/2021

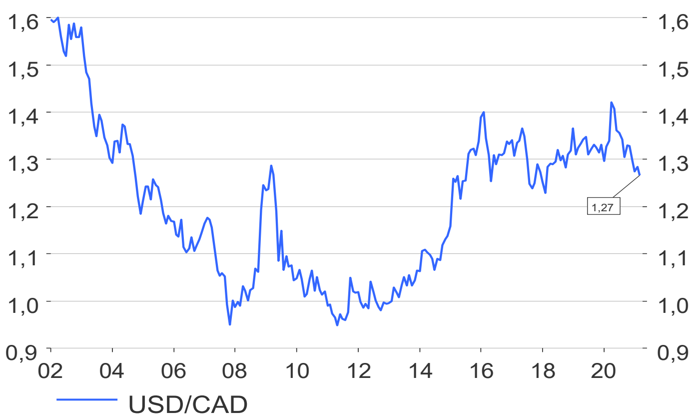
CAD VIEW>> TARGET 12M VS USD: 1.25

Positive outlook for the Canadian dollar

The CAD is one of the rare major currencies that have appreciated against the greenback this year. It has benefitted from rising commodity prices, in particular oil, even if 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, especially in the US, and the risk-on sentiment.

On the monetary side, the rise in government bond yields has been faster in Canada than the US, a good sign of optimism about growth. The pickup in savings has been particularly pronounced in Canada, due to the relatively stricter lockdowns and government aid programs. The release of pent-up demand could lead the Bank of Canada (BoC) to raise interest rates to avoid pressure on prices. With the market expecting the BOC to tighten before the Fed, the March 10 meeting will be worth following. Lastly, we do not expect the CAD to appreciate enough for the BOC to take actions against unwanted currency strength.

Therefore, we keep our 3-month target for the USDCAD at 1.27 (value of one dollar) and our 12-month target at 1.25. This suggests more upside.



Source: Refinitiv Datastream, 08/03/2021

CNY VIEW >> TARGET 12M VS USD: 6.4

Economic rebound cooling slightly

The manufacturing PMI fell short of expectations at 50.6 in February, its lowest level since May 2020. It is the third consecutive month that it falls. The non-manufacturing PMI follows the same trend, coming in at 51.4 in February. It is worth monitoring the situation to see if the economic growth in China is slowing or if it is simply a blip on the radar. Forecasters still expect 8-to-9% GDP growth this year, thanks to large government expenditure programs worldwide and supportive monetary policies. We could see a limited pullback for the CNY in Q2 mainly because of the dividend payouts season, which prompts capital outflows. Lastly, on the US front, Biden's administration should keep a rather similar policy towards China, as he looks to find common ground with US allies and partners.

On the monetary side, while credit normalization has begun, we don't expect imminent interest rate hikes. The tightening will be gradual and liquidity conditions should remain balanced. Moreover, we expect China's trade surplus to diminish, reducing 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, 08/03/2021

	Country		Spot 08/03/2021	Trend	Target 3 months (vs EUR)	Trend	Target 12 months (vs EUR)
	United States	EUR / USD	1.19	Neutral	1.20	Negative	1.25
	United Kingdom	EUR / GBP	0.86	Negative	0.88	Neutral	0.86
	Japan	EUR / JPY	129	Positive	125	Neutral	128
	Switzerland	EUR / CHF	1.11	Positive	1.08	Neutral	1.11
	Australia	EUR / AUD	1.55	Neutral	1.58	Neutral	1.56
	New-Zealand	EUR / NZD	1.67	Neutral	1.67	Neutral	1.67
	Canada	EUR / CAD	1.51	Neutral	1.52	Negative	1.56
	Sweden	EUR / SEK	10.18	Neutral	10.20	Neutral	10.20
	Norway	EUR / NOK	10.19	Neutral	10.20	Positive	9.90
Asia	China	EUR / CNY	7.75	Neutral	7.80	Negative	8.00
	India	EUR / INR	86.95	Negative	90.0	Negative	93.75
Latam	Brazil	EUR / BRL	6.76	Positive	6.36	Positive	5.63
EMEA	Russia	EUR / RUB	88.56	Neutral	88.8	Positive	85

	Country		Spot 08/03/2021	Trend	Target 3 months (vs USD)	Trend	Target 12 months (vs USD)
	Eurozone	EUR / USD	1.19	Neutral	1.20	Positive	1.25
	United Kingdom	GBP / USD	1.38	Neutral	1.36	Positive	1.45
	Japan	USD / JPY	108	Positive	104	Positive	102
	Switzerland	USD / CHF	0.93	Positive	0.90	Positive	0.89
	Australia	AUD / USD	0.77	Neutral	0.76	Positive	0.80
	New-Zealand	NZD / USD	0.71	Neutral	0.72	Positive	0.75
	Canada	USD / CAD	1.27	Neutral	1.27	Neutral	1.25
Asia	China	USD / CNY	6.52	Neutral	6.50	Neutral	6.40
	India	USD / INR	73.3	Negative	75.0	Negative	75.0
Latam	Brazil	USD / BRL	5.69	Positive	5.30	Positive	4.50
	Mexico	USD / MXN	21.6	Positive	20.0	Positive	18.0
EMEA	Russia	USD / RUB	74.59	Neutral	74.0	Positive	68.0
	South Africa	USD / ZAR	15.45	Positive	15.0	Positive	15.0
	USD Index	DXY	92.24	Neutral	91.1	Negative	87.8

Source: Refinitiv - BNP Paribas

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