

FOCUS FOREX

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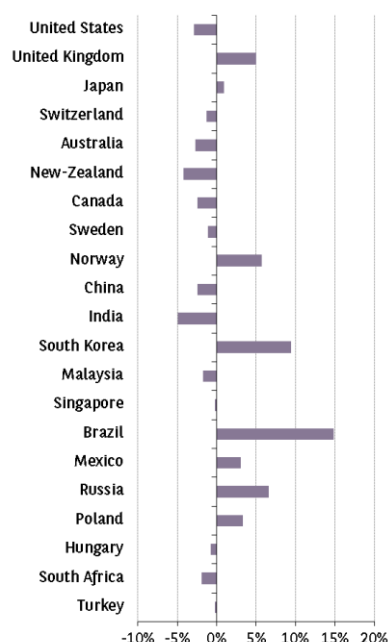
In a word:

The past weeks have been marked by the continued decline of the broad dollar index (DXY) which strongly fell by 4.2% in July. Besides, the EURUSD jumped at a 2-year high and peaked close to 1.20 on September 1st. Overall, last summer witnessed the resumption of market appetite for riskier assets at the expense of safe haven ones.

The last 2 months saw an impressive rebound of the EURUSD, particularly in August where the pair broke above 1.19 several times. The sharp increase of infection cases in Europe did not undermine Investors' appetite for the euro which strongly rallied after the agreement on the Recovery Fund. Simultaneously, the GBP remained quite resilient against the euro before recently falling suggesting the vulnerability of the cable to Brexit news. Commodity currencies largely benefitted from the weakening of the US dollar. Moreover, positive Chinese data illustrating the industrial activity recovery supported the positive momentum on commodities which is supportive for those currencies. The risk-on mode weighed on safe haven currencies but less than we would have expected. The CHF was slightly down against the euro. The USD underperformance enabled the yen to remain broadly flat over the last 2 months. Regarding Scandinavian currencies, they both rallied even though the NOK gained more ground spurred by the supportive market environment. On the monetary front, except Fed comments on its long-term inflation target, last summer has been somewhat quiet. Bond purchases as part of QE programme have been expanded by some central banks.

We still see more appreciation potential for the euro medium-term (1.22) supported by the weak interest rate differential and the structural overvaluation of the dollar. We expect more volatility short-term, and this should lead to a temporary rebound of dollar over the next 3 months. We have a target at 1.16 on a 3-months horizon. At this stage Brexit negotiations remain deadlocked, but we keep our base case scenario of a deal by the end of the year and maintain our EURGBP targets. We see a stronger yen over the next 12 months due to our assumption of a weakening US dollar. Regarding the AUD, the NZD and the CAD, we made some adjustments as we expect currencies to remain flat near-term after the strong rally over last summer. We revised up our targets for Scandinavian currencies. We keep our bullish scenario for the NOK (10.10) over the next 12 months, but still see a depreciation of the SEK near-term even though more limited than before (10.50).

**12 month forecasts (in %) against EUR
(as of September 14)**



**12 month forecasts (in %) against USD
(as of September 14)**



Forecasts against the Euro

	Country		Spot 9/10/2020	Target three months (vs. EUR)				Target twelve months (vs. EUR)			
				Trend	Low	Mid	High	Trend	Low	Mid	High
	United States	EUR / USD	1.19	Positive	1.12	1.16	1.20	Negative	1.18	1.22	1.23
	United Kingdom	EUR / GBP	0.92	Positive	0.86	0.90	0.94	Positive	0.84	0.88	0.89
	Japan	EUR / JPY	126	Positive	123	123	123	Neutral	124	124	124
	Switzerland	EUR / CHF	1.08	Neutral	1.02	1.06	1.10	Neutral	1.05	1.09	1.10
	Australia	EUR / AUD	1.63	Positive	1.55	1.59	1.63	Negative	1.63	1.67	1.69
	New-Zealand	EUR / NZD	1.78	Neutral	1.72	1.76	1.80	Negative	1.81	1.85	1.86
	Canada	EUR / CAD	1.56	Positive	1.48	1.52	1.56	Negative	1.56	1.60	1.61
	Sweden	EUR / SEK	10.39	Neutral	10.26	10.30	10.34	Neutral	10.46	10.50	10.51
	Norway	EUR / NOK	10.69	Positive	10.36	10.40	10.44	Positive	10.06	10.10	10.11
Asia	China	EUR / CNY	8.12	Neutral	7.97	8.00	8.04	Negative	8.26	8.30	8.31
	India	EUR / INR	87.2	Neutral	86.96	87.0	87.04	Negative	91	91.50	91.51
	South Korea	EUR / KRW	1409	Positive	1334	1334	1334.04	Positive	1280.96	1281	1281.01
	Malaysia	EUR / MYR	4.94	Positive	4.78	4.81	4.85	Neutral	5	5.00	5.02
	Singapore	EUR / SGD	1.62	Positive	1.55	1.59	1.63	Neutral	1.58	1.62	1.64
Latam	Brazil	EUR / BRL	6.30	Positive	6.11	6.15	6.19	Positive	5	5.49	5.50
	Mexico	EUR / MXN	25.32	Negative	26.06	26.1	26.14	Positive	24.36	24.40	24.41
EMEA	Russia	EUR / RUB	89.1	Positive	83.48	83.5	83.56	Positive	83	83	82.97
	Poland	EUR / PLN	4.46	Positive	4.26	4.30	4.34	Positive	4.26	4.30	4.31
	Hungary	EUR / HUF	357	Positive	350	350	350.04	Neutral	360	360	360.01
	South Africa	EUR / ZAR	20.05	Neutral	20.26	20.3	20.34	Neutral	20.09	20.13	20.14
	Turkey	EUR / TRY	8.86	Positive	8	8.47	8.51	Neutral	9	8.91	8.92

Source: Datastream - BNP Paribas Wealth Management

Forecasts against the US Dollar

	Country		Spot 9/10/2020	Target three months (vs. USD)				Target twelve months (vs. USD)			
				Trend	Low	Mid	High	Trend	Low	Mid	High
	Eurozone	EUR / USD	1.19	Negative	1.14	1.16	1.18	Positive	1.20	1.22	1.24
	United Kingdom	GBP / USD	1.29	Neutral	1.21	1.29	1.36	Positive	1.35	1.39	1.42
	Japan	USD / JPY	106	Neutral	105	106	107	Positive	101	102	103
	Switzerland	USD / CHF	0.91	Neutral	0.89	0.91	0.94	Neutral	0.87	0.89	0.92
	Australia	AUD / USD	0.73	Neutral	0.69	0.73	0.77	Neutral	0.69	0.73	0.77
	New-Zealand	NZD / USD	0.67	Neutral	0.63	0.66	0.69	Neutral	0.63	0.66	0.69
	Canada	USD / CAD	1.32	Neutral	1.27	1.31	1.35	Neutral	1.27	1.31	1.35
Asia	China	USD / CNY	6.83	Neutral	6.82	6.90	6.98	Neutral	6.72	6.80	6.88
	India	USD / INR	73.4	Negative	74.2	75.0	75.8	Negative	74.2	75.0	75.8
	South Korea	USD / KRW	1186	Positive	1130	1150	1170	Positive	1030	1050	1070
	Malaysia	USD / MYR	4.16	Neutral	4.08	4.15	4.22	Neutral	4.03	4.10	4.17
	Singapore	USD / SGD	1.37	Neutral	1.35	1.37	1.39	Positive	1.31	1.33	1.35
Latam	Brazil	USD / BRL	5.30	Neutral	5.07	5.30	5.53	Positive	4.27	4.50	4.73
	Mexico	USD / MXN	21.32	Negative	21.5	22.5	23.5	Positive	19.0	20.0	21.0
EMEA	Russia	USD / RUB	75.0	Positive	69.2	72.0	74.8	Positive	65.2	68.0	70.8
	South Africa	USD / ZAR	16.9	Negative	16.8	17.5	18.2	Positive	15.8	16.5	17.2
	Turkey	USD / TRY	7.45	Positive	7.07	7.30	7.53	Positive	7.07	7.30	7.53

Source: Datastream - BNP Paribas Wealth Management



USD ANALYSIS >> TARGET 12M VS EUR: 1.22

In July, the EURUSD (value of one euro) moved above 1.19 mid-August, a 2-year high. First of all, the historic agreement on a common fiscal action among eurozone members, the so-called Recovery Fund of EUR 750bn, has been a strong catalyst for the euro. On the dollar side, central banks action on USD swap lines led to a weakening greenback. The Fed announcement on the long term inflation target weighed further on the USD end of August. However, we do expect a brief correction short-term as downside risks linger. Sino-US relations remain under high tension in the run up to the US elections and the surge of infection cases in Europe leading to located lockdowns could slow the economic recovery. Moreover, an agreement on a 5th fiscal plan still being negotiated in the US could also ease downside pressure on the dollar. **We see the EURUSD retreated to 1.16 over the next 3 months.** However, the weakness of the dollar is likely to persist on the long-term. The expected economic rebound in the second half of the year and in 2021 should support the euro. Imbalances are expected to intensify in the US. Moreover, massive US rate cuts has narrowed the bond yield differential to near zero making US assets less attractive. **We forecast that the EURUSD will trade close to the half-life (half of the difference between the Purchasing Power Parity and the low at 1.08 seen in April), around 1.22 over the next 12 months.**

PERFORMANCES¹

vs EUR

YTD	-4,83
MTD	1,32

GBP ANALYSIS >> TARGET 12M VS EUR: 0.88

The **British pound** was subject to the Brexit newsflow. Last June, negotiations resumed, however, both sides remained deadlocked and failed to find a compromise. Two specific topics remain a major hurdle. The first one concerns fisheries talks on how calculate fishing rights post-Brexit. The second one is related to the harmonization of standards once the UK will exit the EU. Recently, tensions escalated as the Prime Minister Johnson has questioned the Northern Ireland Protocol, part of the Withdrawal Agreement. As the period of transition will end in December, it is crucial that the EU and the UK negotiators find an agreement before October 15. As Boris Johnson clearly considers the no-deal as a likely outcome if the EU does not give in, uncertainty could spike over the coming weeks. While the country has been the most affected one in Europe by the sanitary crisis, an exit from the EU without an agreement and a return to WTO trade rules could undermine the UK economy for longer. Our base case scenario remains an agreement. In a situation of unprecedented economic crisis and rising labor party polling, we see increasing pressure on Johnson to sign a deal. **We maintain our target at 0.90 over the next 3 months.** Near-term, we see some upside for the pound alongside the global recovery of an agreement. **We keep our 12-month target at 0.88.**

¹

Performance MTD as of 08.31.2020

PERFORMANCES¹

vs USD

YTD	-1,67
MTD	-2,49

vs EUR

YTD	-6,41
MTD	-1,34



CHF ANALYSIS >> TARGET 12M VS EUR: 1.09

The EURCHF (value of one euro) hovered in a tight range between 1.07 and 1.08 over the last 2 months. The agreement on the so-called Recovery Fund among EU members pushed up the EURCHF around 1.08 mid-July. Since then, the covid-19 resurged in Europe and a second wave remains a downside risk for the euro. A policy of major lockdowns would curb the economic recovery expected over the coming months. This is not our scenario. Potential SNB FX interventions may prevent a sustained break of the EURCHF below the 1.05 level. **Our short-term scenario remains cautious and we forecast a slight correction towards 1.06 over the next 3 months.** On a longer run, periphery spreads, the main driver of the pair which have already strongly narrowed, still have room to fall more. This should support the euro against the franc. Moreover, the improvement of the risk sentiment expected over coming months should lower the attractiveness of safe haven currencies 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 5,47

MTD -1,54

vs EUR

YTD 0,51

MTD -0,42

JPY ANALYSIS >> TARGET 12M VS EUR: 124 (USD/JPY 102)

The Japanese yen did not take profit from the broader USD weakening of the past two months. The JPY remained broadly flat against the declining greenback mainly due to large JPY portfolio outflows and increasing appetite for high risk assets. The Prime Minister Abe stepped down due to health issues. Although the immediate impact on the yen has been positive, we do not anticipate any major change in monetary policy, given the huge expansion of public debt and the difficulty escaping from Japan's low growth and low inflation environment. **We keep our short-term target close to the 50-day moving average around 106 (value for 1 dollar).**

However, the JPY remains structurally cheap. Thus in a context of protracted US dollar weakness, the JPY has scope for appreciation. Moreover the portfolio rebalancing of Japanese investors following the collapse of US rates should weigh further on the USD. **We revised our 12-month target to 102 (from 106) reflecting our bearish view on the US dollar.**

PERFORMANCES¹

vs USD

YTD 2,44

MTD -0,12

vs EUR

YTD -2,36

MTD 1,51

¹Performance YTD as of 12.31.2019
Performance MTD as of 08.31.2020

NOK ANALYSIS >> TARGET 12M VS EUR: 10.10

The Norwegian krone rallied over the last two months despite the strengthening of the euro and was among the best performers against the common currency. The NOK gained more than 9% in two months. Nevertheless, the krone still displays a significant underperformance against the euro. With regards to fundamental drivers, we thus think that the NOK will appreciate further. The Norwegian central bank is one of the rare which is not involved in a bond purchase programme. Unlike the SEK, the NOK could thus benefit from a supportive monetary policy. So far, we forecast that the central bank will hike rates in 2022. Inflation and rising house prices, a faster retail sales recovery could imply a change in the policy rate forecasts sooner than expected. We think that the Norwegian krone has scope for a larger appreciation as the currency still did not rally in line with fundamentals. Oil prices should remain supportive. Moreover, central bank FX sales should continue through 2020 in order to fund the public deficit, which is supportive for the krone. **We thus revised to the upside our targets, and see a gradual appreciation, expecting a EURNOK around 10.40 short-term and around 10.10 (from 10.30) over the next 12 months.**

PERFORMANCES¹

vs USD

YTD -3,85

MTD -4,49

vs EUR

YTD -7,73

MTD -2,03

SEK ANALYSIS >> TARGET 12M VS EUR: 10.50

The Swedish krone also strongly increased last summer and is one of the only currencies (except the CHF) to record a positive year-to-date performance so far against the euro. The currency has been boosted by an improving sentiment on the manufacturing cycle supported by surprising July manufacturing PMIs in Europe. Monetary decisions proved positive for the SEK so far but this might change. We expect an acceleration of the QE which could weigh on the SEK due to the currency vulnerability to portfolio rebalancing. Even though we believe negative rates are unlikely, the leeway is smaller as the Riksbank cited the SEK strength as potential reason for lower rates. Given this downside risk and the strong past performance of the SEK, we do not see an appreciation potential anymore and even see the SEK lower. **We however revised our expectations and see a more limited correction near-term. We see the EURSEK trade around current level (10.30) short-term before slightly depreciating to 10.50 (revised from 10.70) over the next 12 months.**

vs USD

YTD 7,07

MTD -1,12

vs EUR

YTD 1,53

MTD -0,33

¹ Performance YTD as of 12.31.2019
Performance MTD as of 08.31.2020

AUD ANALYSIS >> TARGET 12M VS EUR: 1.67 (AUD/USD 0.73)

The Australian dollar took profit of the weakening dollar and improving appetite for high-risk assets. The aussie outperformed its peers and reached a 2-year high, consolidating its positive year-to-date performance against the greenback. Several catalysts supported the move. First the declining USD spurred the pair AUDUSD. Moreover, the recovery of Chinese industrial activity increased demand for iron ore, the main Australian exported commodity. The positive momentum for industrial commodities was a significant support for the AUD. On the monetary front, the RBA expanded its balance sheet through its QE programme but should keep interest rates in positive territory. As markets do not expect further monetary easing, monetary policy should not weigh on the aussie.

Following the sharp rally, we do not expect a further rise of the AUD given the expected environment of the coming weeks. US elections could lead to a regain in volatility. We thus see this currency remaining broadly flat. **We upgraded our 3 and 12-month targets close to current levels (0.73).**

PERFORMANCES¹

vs USD

YTD 2,90

MTD -2,19

vs EUR

YTD -1,31

MTD -0,10

NZD ANALYSIS >> TARGET 12M VS EUR: 1.85 (NZD/USD 0.66)

The New Zealand dollar also benefitted from this positive momentum but to a lesser extent compared to the aussie. The Fed announcement over the Jackson Hole conference regarding a shift towards an average inflation target weighed on the US dollar while providing a further impulse to the kiwi that was temporarily close to 0.68. However the NZD recovery could be limited by monetary expectations. Over the last monetary meeting, the governor Orr accelerated the bond purchase programme and did not exclude that the key rate could dip below zero within a year. Markets now forecast an interest rate cut of 50bps by the end of the year. This would prove negative for the NZD through the bond yield differential with US rates which has already narrowed. Furthermore, portfolio rebalancing flows in response to the QE could prove more bearish for the NZD. Nevertheless, as the aussie, the kiwi is benefitting from the Chinese rebound. Even though the NZD still records a slight underperformance against the USD this year, we see further appreciation potential limited by the monetary downside risk. **We expect the NZDUSD to remain flat around 0.66 over the next 3 and 12 months.**

PERFORMANCES¹

vs USD

YTD -1,59

MTD -1,78

vs EUR

YTD -6,33

MTD -0,38

¹Performance YTD as of 12.31.2019
Performance MTD as of 08.31.2020

CAD ANALYSIS >> TARGET 12M VS EUR: 1.60 (USD/CAD 1.31)

The Canadian dollar followed the general trend and kept gaining some ground against the USD. The CAD advanced mainly thanks to the US dollar sell-off. However, the continued positive trend of WTI prices helped terms of trade to improve. Over the last monetary meeting, the governor of the central bank of Canada highlighted better economic releases than the bank had forecasted. However, he also underscored the critical need of an unprecedented monetary support to ensure economic growth. We keep thinking that further monetary easing is unlikely and front-end rates continue to maintain a small premium to US rates. However, bond purchases will linger and will remain the first policy tool of the Bank. The CAD remains thus vulnerable because the central bank is buying above the target and purchases are large relative to the size of fiscal stimulus.

After the strong rise, we do not see further appreciation potential. We think that the economic recovery is well priced now. Our positive outlook for oil prices should be supportive, however downside risks persist. **We see the USDCAD trading around current levels, 1.31 over the year ahead.**

PERFORMANCES¹

vs USD

YTD -1,86

MTD -1,42

vs EUR

YTD -6,45

MTD 0,15

¹ Performance YTD as of 12.31.2019
Performance MTD as of 08.31.2020





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