

Currencies Focus

Summary

1. The dollar remains very strong against the major currencies due to the global uncertainties amid rising worries regarding energy prices.
2. The EURUSD has been breaking parity with the euro since late August, hovering at a 20-year low. Both the interest rate differential and long-term fair value estimates (purchasing power parity) suggest that once risk aversion stabilizes the euro should gradually move higher. We keep our 3-month target at 1.03 and we change the 12-month target from 1.12 to 1.08 (value of one euro).
3. The situation is worrying in the UK with a deterioration of the current account due to the deepening energy crisis and inflation pressures. We downgrade our 3- and 12-month targets to 0.86 from 0.84 (value of one euro).
4. The Swiss franc continues to appreciate strongly due to the extreme risk aversion. The Swiss National Bank will raise rates this fall. Falling global uncertainty should support the euro. We now target parity at 3 and 12 months.
5. The CNY is under pressure as the PBOC adopts a more accommodative stance to boost the economy. We are downgrading our CNY 3- and 12-month targets to 6.80 and 6.60 respectively (from 6.60 and 6.50).
6. We are changing our 3-month targets on AUD and NZD but we remain positive on the 12-month horizon.

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OUR TARGETS OVER THE NEXT 3 AND 12 MONTHS

	Country	Spot 9/13/2022	Target 3 months	Target 12 months
Against euro	United States	EUR / USD 1.00	1.03	1.08
	United Kingdom	EUR / GBP 0.87	0.86	0.86
	Switzerland	EUR / CHF 0.96	1.00	1.00
	Japan	EUR / JPY 144.46	144	140
	Sweden	EUR / SEK 10.65	10.40	10.70
	Norway	EUR / NOK 10.07	9.60	9.60
Against dollar	Japan	USD / JPY 144.24	140	130
	Canada	USD / CAD 1.31	1.25	1.25
	Australia	AUD / USD 0.68	0.72	0.74
	New Zealand	NZD / USD 0.60	0.65	0.68
	Brazil	USD / BRL 5.16	5.00	5.00
	Russia	USD / RUB 60.48	100.0	90.0
	India	USD / INR 79.15	78.0	80.0
	China	USD / CNY 6.93	6.80	6.60

Source: Refinitiv - BNP Paribas WM



USD VIEW >> TARGET 12M VS EUR: 1.08

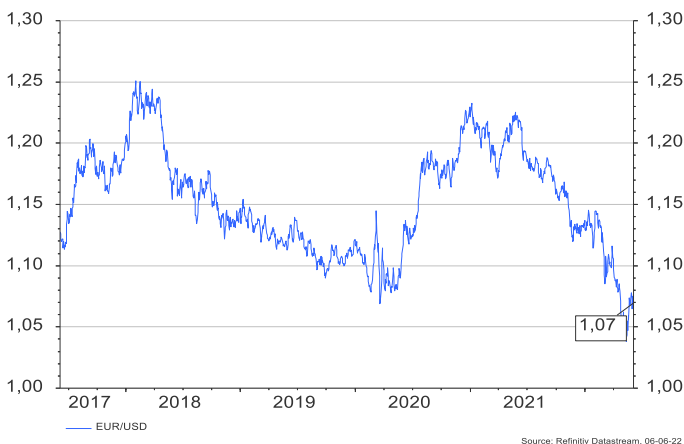
Less upside expected for the EUR

The EUR fell back below parity in late August. The main driver is risk aversion. On the rate front, the market anticipated Fed rate cuts from the beginning of 2023. This changed after Jerome Powell's Hawkish speech at Jackson Hole. He recalled that the Fed would not stop the rate increases even if it were to hit the economy.

The reputation of the USD as a defensive currency has been the dominant factor compared to the evolution of the interest rate differential and purchasing power parity. We expect a gradual improvement in risk appetite as inflation peaks in the coming months. This environment should gradually become more favorable to the euro. The ECB raised rates by 75 bps at its last meeting and it should bring the deposit rate to 1.50% by the end of the year and to 2.25% by the end of 2023. For the Fed, we expect the policy rate to peak at 3.5% by the end of 2022 or early 2023. It is now likely that the Fed will maintain this level for an extended period due to inflation which is struggling to come down. It reached 8.3% in August at an annual rate.

Economic indicators figures remain mixed but economic surprise indices have recovered first in the US and then also in the eurozone.

The value of one euro relative to the USD remains well below its long-term fair value. We maintain our 3-month target at 1.03 and we change the 12-month target from 1.12 to 1.08 (value of one euro). We thus expect a gradual recovery of the euro.



GBP VIEW >> TARGET 12M VS EUR: 0.86

Vulnerable GBP

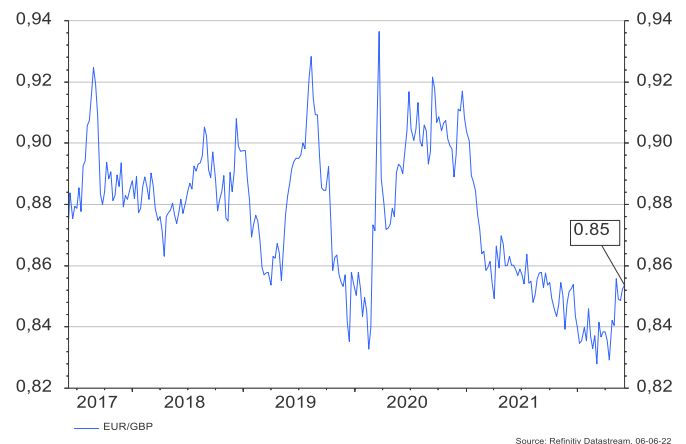
The GBP depreciated by 2.5% against the euro over the last 30 days. The British economy is weakened by the sharp rise in energy prices.

Liz Truss won the race to become the new Prime Minister. She should set an energy price cap for consumers through a plan of more than £100 billion. This plan will put pressure on the UK's budgetary balances with a 10-year Gilt now above 3%.

At its next 3 meetings, the BOE should raise its rates by 125bps and thus increase the current bank rate to 3% from currently 1,75%. However, BOE's action is expected to be at least partially ineffective as the structure of inflation is mainly driven by imported energy. In the face of soaring inflation in the UK, real rates are largely negative, and this is an additional factor in the weakening of the GBP.

The deterioration in the terms of the trade will weigh on the current account deficit, which is already at a record level. The UK PMI Composite thus passed under 50 in July.

In this context, we change our 3-month and 12-month targets from 0.84 (value of one euro) to 0.86. This suggests that the GBP should remain weak in the coming months.



CHF VIEW >> TARGET 12M VS EUR: 1.00

Below parity

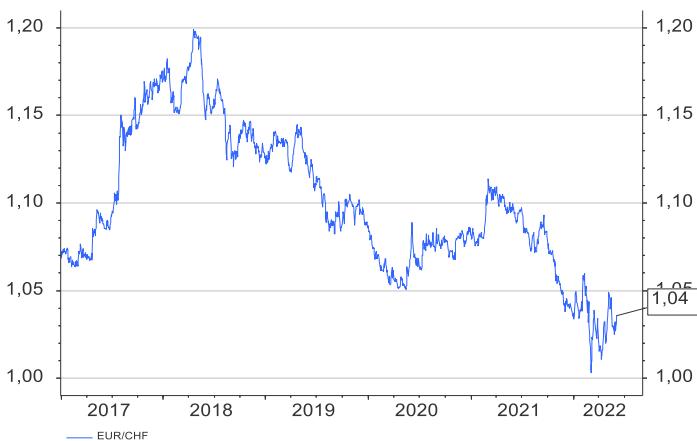
The euro stopped falling against the Swiss franc in August and remains around 0.98 (value of one euro).

Inflation in Switzerland reached 3.5% in August, much lower than in the eurozone, but has been growing steadily for several months. Inflation has recently been driven by housing and health care costs. The high level of the Swiss franc however greatly limits imported inflation.

The Swiss National Bank indicated at its July meeting that it no longer considered the Swiss franc to be overvalued. Moreover, it does not want to wait for inflation to rise too much to raise rates. These factors indicate a strong CHF going forward.

The Swiss economy continues to perform better than in the Eurozone. The manufacturing PMI in August thus reached 56.4 against 58 in July. This figure is mainly driven by the growth in backlogs. Switzerland should continue to record a positive current account as it is structurally the case.

We anticipate a stronger Swiss franc than before. We now target the parity at the 3- and 12-month horizon as opposed to 1.03 previously. There is limited upside for the euro.



JPY VIEW >> TARGET 12M VS USD: 130

Yen still under pressure

The yen lost 5.3% in July. The yen is now at a 24-year low. The Yen, which historically appreciated as risk appetite declined, seem to have lost its safe haven status in 2022.

Japan saw its surplus trade evaporate in 2022 due to rising prices of energy. Japan imports all its fossil fuels.

At its meeting at the end of September, the Bank of Japan should leave the rates unchanged. It has highlighted the worrying level of the currency.

Nominal and real interest rate differentials remain largely in favor of the dollar. The market does not expect central bank rates to rise until late 2023.

The Bank of Japan may have to intervene to defend the Yen as it did when the currency reached extreme levels. In 1997, the BOJ bought the currency when it a-was very weak. It bought the USD in 2012 to weaken the Yen.

The September Business survey (PMI Composite) moved below 50 which suggests contraction. Businesses noted lower demand and a slight decrease in inflationary pressures.

We maintain our 3 months target at 140 and our 12 months target at 130 (value of one dollar). This suggests a stronger Japanese currency compared to current levels.



SEK VIEW >>

TARGET 12M VS EUR: 10.70

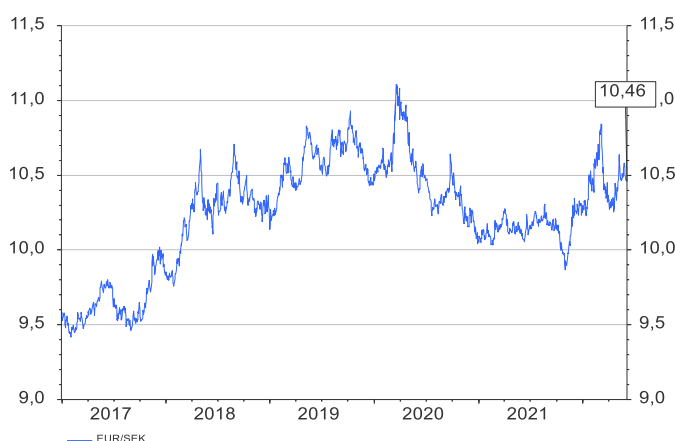
No upside expected

The euro appreciated by more than 3.7% against the Swedish krona in August. The governor of the Riksbank recalled that inflation was far too high and painful for households and businesses. The deposit rate is currently at 0.75% and should be close to 2% at the beginning of 2023, suggesting at least two increases of 50bps over the next meetings. The Riksbank's expectations of interest rate hikes have recently been falling as markets are skeptical about the bank's ability to raise rates.

Elections were held on September 11th to determine the Riksdag (the Parliament). The centre-left party and the right-wing opposition are currently in the lead. The final results are not known at this stage. Over the past few years, political parties have struggled to reach a majority, and this could once again lead to lengthy negotiations after the election.

In August, the business surveys (PMIs) continued to suggest expansion with the manufacturing PMI at 50.6 in August and 59.4 for services. Businesses continue to experience high business volumes and lower delivery times.

We maintain our targets of 10.4 and 10.7 for the 3- and 12-month horizon. This implies no upside for the SEK the coming year.



NOK VIEW >>

TARGET 12M VS EUR: 9.60

Look for a rebound

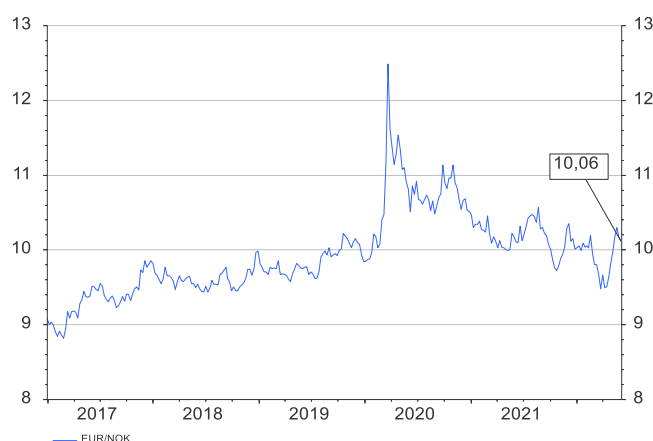
The EURNOK was flat in August.

At its August meeting, Norges Bank hiked by 50bps and thus raised the policy rate to 1.75%. The terminal rate could be close to or above 3%. Norges Bank indicates that this rate will be reached 2 meetings earlier than previously expected.

The NOK should be supported by energy prices. Oil and gas account for 40% of exports. Energy exports are expected to increase by 170% in 2022.

The unemployment rate is only 3.3% while inflation reached 6.8% in July. The manufacturing business surveys (PMI) reached 52.3 in August, although down in July, but still suggesting an expansion.

We maintain our 3- and 12-month targets at 9.6 (value of one euro) suggesting a potential for NOK appreciation from current levels.



AUD VIEW >>

TARGET 12M VS USD: 0.74

We change our 3-month target to 0.72

The Australian currency depreciated by 2.4% in August due to uncertainties regarding global growth.

At its meeting in early September, the Reserve Bank of Australia raised rates by 50bps bringing the spot rate to 2.35%. The market now expects a 50bps increase in October and two 25bps increases at the next two meetings. The terminal rate would thus reach 3.35%. The RBA thus sees a more limited upside for its policy rate. The real intertest rate differential with the USD remains to the advantage for the AUD.

The Australian economy is overheating. The labor market is tight, demand is strong and production capacity is limited in several sectors. Fiscal support measures in China are expected to boost local consumption and allow Australian exports to China to remain strong.

The business survey (PMI Composite) stabilized at 50.2 in August compared to 51.1 in July. Businesses indicate that rising interest rates and inflationary pressures are weighing on demand.

We change our 3-month target from 0.74 to 0.72 (value of one AUD) and we maintain the 12-month target at 0.74. This suggests upside potential for the AUD.



NZD VIEW >>

TARGET 12M VS USD: 0.68

Significant upside for the coming months

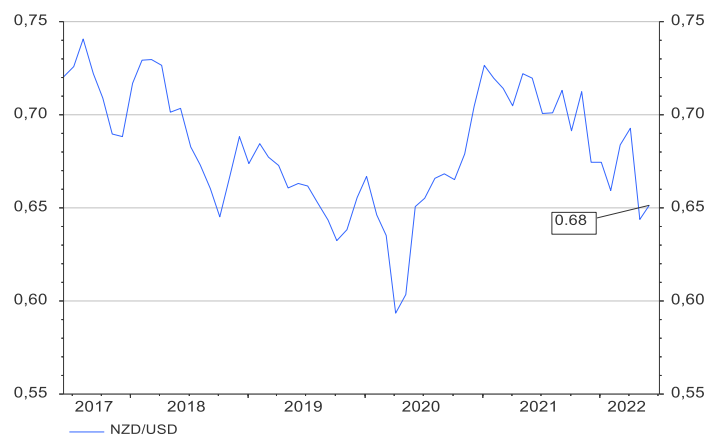
The NZD was down 3.1% in August.

At its July meeting, the Reserve bank of New Zealand increased its rates by 50bps and issued a hawkish message suggesting more rate hikes. The terminal rate should be close to 4%.

The strength of economic data in New Zealand remains robust but shows signs of weakness linked to the tightening of financial conditions.

The current account has deteriorated recently with rising energy prices and falling dairy prices. The current account has deteriorated recently with rising energy prices and falling dairy prices. However, as the G10's largest agricultural exporter and with food prices expected to continue to rise, the NZD should be supported against the dollar. The reopening of China will be another positive factor for New Zealand exports.

We change the 3-month from 0.68 to 0.65 and we keep the 12-month target at 0.68 (value of one NZD). This suggests significant upside potential for the NZD versus the USD from current levels.



CAD VIEW >>

TARGET 12M VS USD: 1.25

Strong appreciation potential

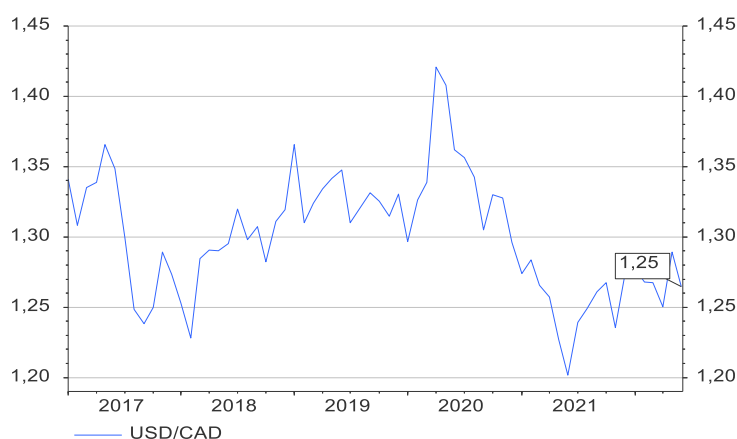
The CAD depreciated by 1.3% in August against the USD due to the Fed's hawkish speech and a drop in oil (WTI) prices.

The Bank of Canada raised rates by 75 bps at its September meeting and is continuing its quantitative tightening. The terminal rate should be reached in early 2023 and should stand around 3.8%.

The Canadian economy continues to overheat explained by excess demand and a tight labor market. Inflation in July fell from 8.1% to 7.6% due to the fall in oil prices. Q2 GDP grew by 3.3%. Consumption rose by 9.5% and investment by 12%. The BOC reports that the economy is expected to moderate in Q3 and Q4 in the face of falling global demand and tight monetary conditions.

We identify two favorable factors for the CAD. The first are the terms of trade. High energy prices are supporting incomes, which we believe will continue to support the labor market and wages. Second, given the continued high inflationary pressures, strong labor market and robust economic data, we believe the central bank will remain one of the G10 central banks with the greatest potential to raise rates.

We maintain our 3- and 12-month targets at 1.25 (value of one dollar). This suggests a considerable appreciation potential compared to current levels.



CNY VIEW >>

TARGET 12M VS USD: 6.5

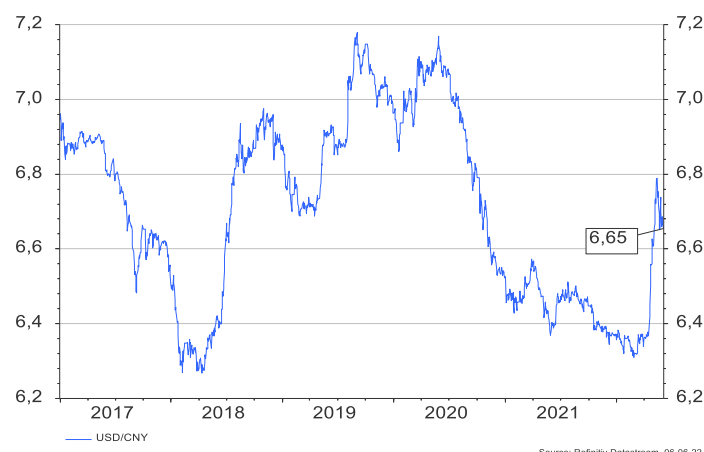
Change in our targets

The yuan has lost around 2% since the beginning of August due to a strong dollar and the Chinese economic slowdown.

The People's Bank of China cut its 5-year rate by 15 bps, bringing it to 4.3% and the 1-year rate down by 5 bps. These rate cuts are aimed at boosting credit demand and limiting the debt problems in construction. This increased the rate differential in favor of the USD. China bonds are experiencing outflows.

China maintains a zero Covid policy in several major cities. There will be a Party Congress in mid-October. This congress meeting should lead to a change in this policy. The latest Covid figures in China suggest possible new lockdowns short term. The outlook for growth should improve after the Communist Party meeting. China's manufacturing business survey (PMI) fell in August to 49.5 from 50.4 in July. This decrease is due to lower sales intention, Covid-related restrictions, lower external demand and therefore exports.

We still expect the currency to recover gradually but we lower our 3-month and 12-month targets for the CNY from respectively 6.6 to 6.8 and from 6.5 to 6.6. (value of one USD).



	Country	Spot 9/13/2022	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)	
	United States	EUR / USD	1.00	Negative	1.03	Negative	1.08
	United Kingdom	EUR / GBP	0.87	Neutral	0.86	Neutral	0.86
	Japan	EUR / JPY	144.46	Neutral	144	Positive	140
	Switzerland	EUR / CHF	0.96	Negative	1.00	Negative	1.00
	Australia	EUR / AUD	1.48	Positive	1.43	Neutral	1.46
	New-Zealand	EUR / NZD	1.66	Positive	1.58	Positive	1.59
	Canada	EUR / CAD	1.31	Neutral	1.29	Negative	1.35
	Sweden	EUR / SEK	10.65	Positive	10.40	Neutral	10.70
	Norway	EUR / NOK	10.07	Positive	9.60	Positive	9.60
Asia	China	EUR / CNY	6.94	Neutral	7.00	Negative	7.13
	India	EUR / INR	79.28	Neutral	80.34	Negative	86.40
Latam	Brazil	EUR / BRL	5.17	Neutral	5.15	Negative	5.40
EMEA	Russia	EUR / RUB	60.57	Negative	103.00	Negative	97.20

	Country	Spot 9/13/2022	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)	
	Eurozone	EUR / USD	1.00	Positive	1.03	Positive	1.08
	United Kingdom	GBP / USD	1.15	Positive	1.20	Positive	1.26
	Japan	USD / JPY	144.24	Positive	140.00	Positive	130.00
	Switzerland	USD / CHF	0.96	Neutral	0.97	Positive	0.93
	Australia	AUD / USD	0.68	Positive	0.72	Positive	0.74
	New-Zealand	NZD / USD	0.60	Positive	0.65	Positive	0.68
	Canada	USD / CAD	1.31	Positive	1.25	Positive	1.25
Asia	China	USD / CNY	6.93	Neutral	6.80	Positive	6.60
	India	USD / INR	79.15	Neutral	78.00	Neutral	80.00
Latam	Brazil	USD / BRL	5.16	Positive	5.00	Positive	5.00
	Mexico	USD / MXN	20.05	Negative	20.50	Positive	19.50
EMEA	Russia	USD / RUB	60.48	Negative	100.00	Negative	90.00
	South Africa	USD / ZAR	17.38	Positive	15.50	Positive	16.00
	USD Index	DXY	109.82	Negative	106.15	Negative	101.42

Source: Refinitiv - BNP Paribas WM

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