

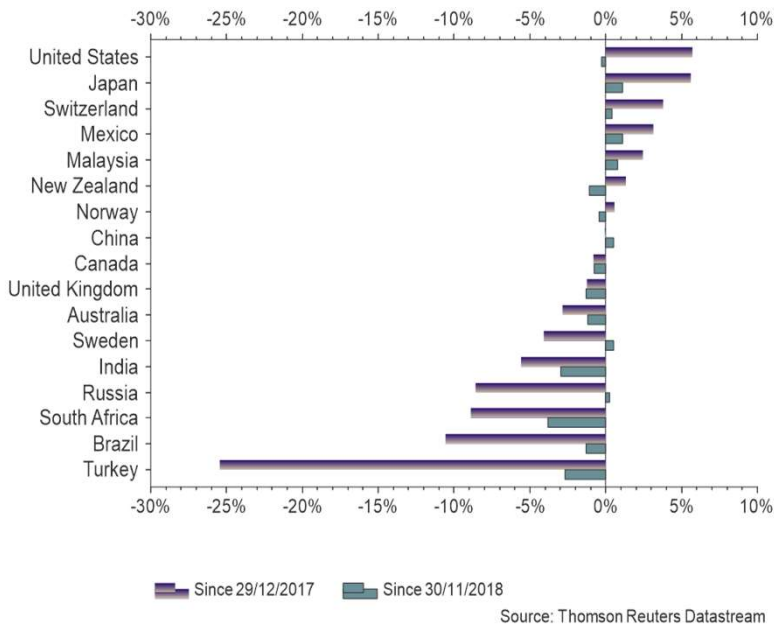
FOCUS FX MONTHLY OUTLOOK

December
2018

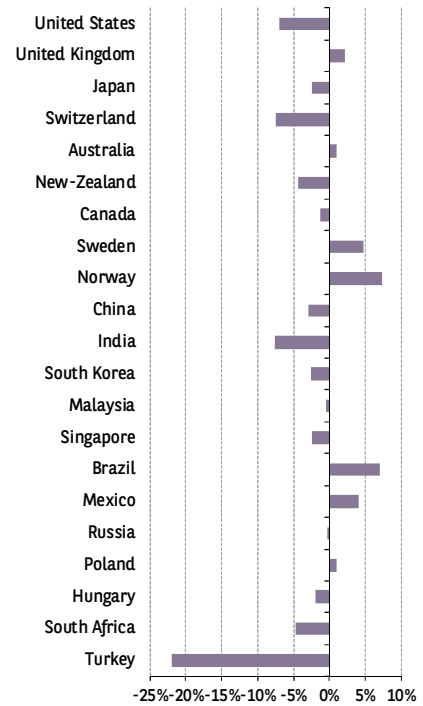
- We see a number of arguments in favor of a weakening of the US dollar against the euro over the coming year. First, the growth differential and the diverging monetary policy path have been in favor of the dollar over recent quarters but this is now well priced and could even reverse. **The sharp rise in the budget deficit and in the government debt also suggest that the US currency should converge gradually to 1.22 (value of 1 euro) which is our 12-month target.** The long-term fair value is 1.28 (purchasing power parity estimated by the OECD). The expected reduction in risks related to Italy, Brexit and trade could take some time and this limits the downside for the dollar. **We expect 1.16 on a 3 month horizon.**
- When the UK cabinet agreed the Brexit Withdrawal Treaty on November 14, this was supposed to bring a significant step forward and thus reaching an EU-UK deal after several months of statu quo. Today the situation is far from clear. Several scenarios can be considered as (1) general elections, (2) an unlikely renegotiation of the treaty involving a delay of the official Brexit date of 29 March by a few months, (3) a second referendum, or (4) a no-deal Brexit which could occur if the Parliament would not ratify the treaty on 14 January. In this environment, **we keep our call for the GBP to trade at 0.90 in 3 months (value of 1 EUR) and at 0.88 in 12 months.**
- Since November, the Japanese Yen (JPY) has been contained around 113 due to the strong DXY, despite the risk-off environment. More recently, the USD/JPY has declined as worries are growing regarding rising signals of a slackening of the global economic growth. The Yen has been supported by an increasing risk aversion in a context of slide in equity prices. In the short-term, the trade tensions are likely to persist and further retaliation rounds cannot be excluded before the situation stabilizes. **As a result, we keep the USDJPY target at 110 in 3 months (value of 1 USD).** In the longer-term, the stabilization of trade tensions is likely to come along the US Federal Reserve ending its rate hike cycle, the broad dollar index weakening and Japanese portfolio rebalancing. **All this is likely to support the yen and we forecast the USD/JPY at 108 in 12 months.**

FOCUS – FX MONTHLY OUTLOOK

**Performances (in %) against EUR
(as of December 17)**



**Forecasts 12 months (in %) against EUR
(as of December 17)**



**Performances (in %) against USD
(as of December 17)**



**12 months forecasts (in %) against USD
(as of December 17)**



Source: Datastream - BNP Paribas Wealth Management

FOCUS – FX MONTHLY OUTLOOK

Forecasts against the Euro

	Country	Spot 12/17/2018	Target three months (vs. EUR)			Target twelve months (vs. EUR)					
			Trend	Low	Mid	High	Trend	Low	Mid	High	
	United States	EUR / USD	1.13	Negative	1.15	1.16	1.17	Negative	1.21	1.22	1.23
	United Kingdom	EUR / GBP	0.90	Neutral	0.89	0.90	0.91	Positive	0.87	0.88	0.89
	Japan	EUR / JPY	128	Neutral	126	128	129	Negative	130	132	133
	Switzerland	EUR / CHF	1.13	Negative	1.15	1.16	1.17	Negative	1.21	1.22	1.23
	Australia	EUR / AUD	1.58	Neutral	1.59	1.61	1.63	Neutral	1.54	1.56	1.59
	New-Zealand	EUR / NZD	1.67	Negative	1.72	1.76	1.80	Negative	1.70	1.74	1.78
	Canada	EUR / CAD	1.52	Neutral	1.49	1.51	1.52	Neutral	1.52	1.54	1.55
	Sweden	EUR / SEK	10.26	Neutral	10.19	10.30	10.41	Positive	9.69	9.80	9.91
	Norway	EUR / NOK	9.77	Positive	9.30	9.40	9.50	Positive	9.00	9.10	9.20
	Asia	China	EUR / CNY	7.82	Negative	7.91	8.00	8.10	Negative	7.96	8.05
India		EUR / INR	81.1	Negative	82.1	84.1	86.1	Negative	85.8	87.8	89.9
South Korea		EUR / KRW	1283	Neutral	1261	1276	1291	Negative	1303	1318	1332
Malaysia		EUR / MYR	4.74	Positive	4.59	4.64	4.69	Neutral	4.71	4.76	4.80
Singapore		EUR / SGD	1.56	Neutral	1.56	1.58	1.59	Negative	1.58	1.60	1.61
Latam	Brazil	EUR / BRL	4.44	Positive	3.97	4.18	4.38	Positive	3.95	4.15	4.35
	Mexico	EUR / MXN	22.85	Positive	21.5	22.0	22.6	Positive	21.4	22.0	22.5
EMEA	Russia	EUR / RUB	75.4	Neutral	74.5	76.6	78.6	Neutral	73.6	75.6	77.7
	Poland	EUR / PLN	4.29	Neutral	4.23	4.25	4.27	Neutral	4.23	4.25	4.27
	Hungary	EUR / HUF	323	Neutral	323	325	327	Negative	328	330	332
	South Africa	EUR / ZAR	16.27	Neutral	15.8	16.5	17.1	Negative	16.5	17.1	17.7
	Turkey	EUR / TRY	6.10	Negative	6.40	7.08	7.75	Negative	7.13	7.81	8.49
	Euro Index		105.62	Neutral	105.80	106.58	107.35	Positive	107.61	108.38	109.16

Source: Datastream – BNP Paribas Wealth Management

Forecasts against the US Dollar

	Country	Spot 12/17/2018	Target three months (vs. USD)			Target twelve months (vs. USD)					
			Trend	Low	Mid	High	Trend	Low	Mid	High	
	Eurozone	EUR / USD	1.13	Positive	1.15	1.16	1.17	Positive	1.21	1.22	1.23
	United Kingdom	GBP / USD	1.26	Positive	1.25	1.29	1.33	Positive	1.37	1.39	1.40
	Japan	USD / JPY	113	Positive	109	110	111	Positive	107	108	109
	Switzerland	USD / CHF	1.00	Neutral	0.99	1.00	1.01	Neutral	0.99	1.00	1.01
	Australia	AUD / USD	0.72	Neutral	0.71	0.72	0.73	Positive	0.77	0.78	0.79
	New-Zealand	NZD / USD	0.68	Negative	0.65	0.66	0.67	Positive	0.69	0.70	0.71
	Canada	USD / CAD	1.34	Positive	1.29	1.30	1.31	Positive	1.25	1.26	1.27
	Asia	China	USD / CNY	6.90	Neutral	6.78	6.90	7.02	Positive	6.48	6.60
India		USD / INR	71.6	Neutral	70.5	72.5	74.5	Neutral	70.0	72.0	74.0
South Korea		USD / KRW	1131	Positive	1092	1100	1108	Positive	1072	1080	1088
Malaysia		USD / MYR	4.18	Positive	3.95	4.00	4.05	Positive	3.85	3.90	3.95
Singapore		USD / SGD	1.37	Neutral	1.35	1.36	1.37	Positive	1.30	1.31	1.32
Latam	Brazil	USD / BRL	3.91	Positive	3.45	3.60	3.75	Positive	3.25	3.40	3.55
	Mexico	USD / MXN	20.15	Positive	18.4	19.0	19.6	Positive	17.4	18.0	18.6
EMEA	Russia	USD / RUB	66.5	Neutral	64.1	66.0	67.9	Positive	60.1	62.0	63.9
	South Africa	USD / ZAR	14.3	Neutral	13.6	14.2	14.8	Positive	13.4	14.0	14.6
	Turkey	USD / TRY	5.38	Negative	5.52	6.10	6.68	Negative	5.82	6.40	6.98
	USD Index		97.24	Negative	94.0	95.0	96.0	Negative	89.6	90.6	91.6

Source: Datastream – BNP Paribas Wealth Management

FOCUS – FX MONTHLY OUTLOOK



USD ANALYSIS >> TARGET 12M VS EUR: 1.22

- In the first half of November the **euro** tumbled following the increasing stand-off between the EU and Italy, disappointing economic data, and persistent Brexit uncertainties. The more dovish comments from US Federal Reserve brought the euro back to the level of early November. Following the dovish Draghi speech surrounding the expected out-QE announce of the ECB, the euro has depreciated again.
- Hence, we think that the fundamental factors, namely the strong US economy and divergent monetary policies that played out in recent quarters, are priced. Even though the EU is close to a deal on Italy's 2019 budget, odds of a hard Brexit and trade tensions prevent the euro to appreciate in the short term. **We target the EUR/USD at 1.16 in 3 months.**
- Further, regarding the faded effect of US fiscal stimulus that should likely occur in the quarters ahead combined to the diminishing monetary policy divergence, **we still think that the EUR/USD should reach 1.22 in 12 months.**

PERFORMANCE*

vs EURO

YTD: **5.92%**
MTD: **-0.12%**



GBP ANALYSIS >> TARGET 12M VS EUR: 0.88

- The **British pound** was for the most part driven by Brexit headlines. In late October-early November, the GBP appreciated as the European Union and Theresa May's government were coming close to reaching an agreement. The wave of ministers resignations following the proposed deal and the strong opposition of MPs to the Irish border backstop resulted in a GBP drop. The PM May win in confidence vote has a bit reassured markets and GBP pushed up.
- **Our base case scenario would imply a relatively smooth and soft Brexit with a stronger GBP in 12 months, around 0.88.** However, there is still a high probability that parliament will reject the deal in January after the British PM delayed the vote initially planned on December 11. We still think that a no deal scenario will be avoided for example via an extension of the Article 50 or new elections but this would represent a slippage for Theresa May and could push the British pound to depreciate. A second referendum is another option.

PERFORMANCE*

vs USD

YTD: **-6.71%**
MTD: **-1.08%**

vs EURO

YTD: **-1.25%**
MTD: **-1.28%**



CHF ANALYSIS >> TARGET 12M VS EUR: 1.22

- Over the last 30 days, the **Swiss Franc** has continuously appreciated, centered around 1,14 in early November and reaching 1,12 in mid-December (value of 1 euro). Permanent political tensions, on the forefront, Italian budget issues and rising unrest around the Brexit, have supported the CHF.
- In the near-term, we think that persistent geopolitical and trade tensions will likely see the CHF remaining strong. **We maintain our call for the EUR/CHF at 1.16 in 3 months.** We don't expect a stronger CHF as the threat of SNB FOREX intervention is still relevant today. Current inflation is far from the Central Bank target. Hence, a scenario in which the SNB hikes rates up in line with the expected tightening monetary policy of the ECB is unlikely. Furthermore, the Swiss Franc remains one of the most overvalued currencies as our fair value estimate is around 1.35. **We assume a weakened CHF over 12 months, with a target of 1.22.**

PERFORMANCE*

vs USD

YTD: **-1.88%**
MTD: **0.59%**

vs EURO

YTD: **3.81%**
MTD: **0.40%**

* Perf. as of December 17

FOCUS – FX MONTHLY OUTLOOK

NOK ANALYSIS >> TARGET 12M VS EUR: 9,10



November witnessed a weakened **Norwegian krona** due to market turmoil, continuously falling oil prices and disappointing economic indicators. The EUR/NOK lost a bit in early December supported by the positive outlook for oil prices and strong economic fundamentals.

- Last month, the Norges Bank reiterated that it expects to raise rate in early 2019. The central bank painted a relatively upbeat economic picture and did not flag new risks. We think that it will gradually raise interest rates, benefiting the NOK via the bond yield differential. Indeed, in October, not only did core inflation rise above consensus, it has also overtaken the Norges Bank's inflation target. We also think that oil prices are due to remain in a high range and should help the NOK to appreciate. Finally, the krone still appears cheap relative to fundamentals. **In brief, the NOK is likely to trade around 9.40 (value of 1 euro) in 3 months as the market is already long NOK. Medium-term, we see the NOK reaching 9.10 on the back of supportive oil prices/revenues and monetary policy tightening.**

PERFORMANCE*

vs USD

YTD: -5.06%

MTD: -0.63%

vs EURO

YTD: 0.38%

MTD: -0.89%

JPY ANALYSIS >> TARGET 12M VS EUR: 132 (USD/JPY 108)



- The **Japanese yen** was relatively stable in November, staying around 113 (value of 1 USD) and broadly following the path taken by the broad USD index.
- While the most prominent JPY drivers over the last few years have been the two-year real yield differential, the differential between the relative Japanese stable yields and the expected marginal rise of the US bond yields is unlikely to have a great impact on the USDJPY. We think that other factors could take the lead on USDJPY, namely flows. Outflows from Japan have largely diminished in 2018 relative to peak outflows during the Abenomics years.
- All in all, despite the recent easing in trade tensions further retaliation rounds cannot be excluded before the situation stabilizes. **Hence, we keep the USDJPY target at 110 in 3 months.** In the longer-term, the stabilization of trade tensions is likely to come along the US Federal Reserve ending its rate hike cycle, the broad dollar index weakening and Japanese portfolio rebalancing. **All this is likely to support the yen and we forecast the USD/JPY at 108 in 12 months.**

PERFORMANCE*

vs USD

YTD: -0.13%

MTD: 0.57%

vs EURO

YTD: 5.60%

MTD: 1.11%

AUD ANALYSIS >> TARGET 12M VS EUR: 1.56 (AUD/USD 0.78)



- The **Australian dollar** rebound occurred in November due to a stronger-than-expected trade surplus. Since then, the AUD/USD has fallen back given the market turmoil.
- Looking forward, even though global economic growth is due to decelerate over the next quarters, the global demand should still be resilient and inflation should remain close to the RBA target. The two key drivers for the Australian dollar are commodity prices and yield differentials. While metal prices could weaken a bit, they should remain supportive for the AUD. On their part, the bond yield differential should be relatively unchanged, not putting further pressure on the AUD despite rising monetary policy divergence. Overall, as China and the US economic momentum could keep the AUD under pressure, **we now target the AUD/USD at 0.72 in 3 months. Longer-term, given that the Fed rate path is well priced and expecting a weaker broad USD index, we forecast the AUD at 0.78 in 12 months.**

PERFORMANCE*

vs USD

YTD: -8.20%

MTD: -1.67%

vs EURO

YTD: -2.86%

MTD: -1.21%

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CAD ANALYSIS >> TARGET 12M VS EUR: 1.54 (USD/CAD 1.26)

- After CAD touching a low of 1.28 (value of 1 dollar) in late September, the **Canadian dollar** has since depreciated and trended towards 1.34 in mid-December. While the economic growth remains above potential, some recent disappointing indicators coupled with lower oil prices did not offer support in November.
- Going forward, the Canadian economy is likely to continue to grow above potential while inflation should remain supportive of the monetary policy tightening. This backs our conviction that the Canadian dollar should remain around its long-term fair value (1.28) as monetary policy are synchronized.
- **We maintain our target at 1.26 in 12 months as the Canadian dollar should benefit from the weaker broad USD valuation and from the relatively high oil prices** (should Canadian supply issues be resolved).

PERFORMANCE*

vs USD

YTD: **-6.16%**

MTD: **-0.81%**

vs EURO

YTD: **-0.41%**

MTD: **-0.38%**

SEK ANALYSIS >> TARGET 12M VS EUR: 9.80

- The **Swedish krona** was broadly stable over the last 30 day. Economic fundamentals remained strong even though the last growth and inflation figures were slightly below the Riksbank's expectations.
- We are still positive on the Swedish krona. As the market already discounts the next Riksbank move, we however do not see the SEK trading materially higher within 3 months. **We target 10.30 (value of 1 EUR). However, over a 12-month horizon, the EUR/SEK has further room to fall (stronger SEK) and we target it at 9.80.** The Riksbank currently expects to raise its policy rate "either in December or February" with other rate hikes following in 2019 in our view. Moreover, economic activity remains robust and past SEK weakness should support inflation. Finally, the krona appears cheap when judged by its economic data and appears to have discounted important trade damage. All these factors should help the Swedish krona to strengthen further.

PERFORMANCE*

vs USD

YTD: **-9.43%**

MTD: **0.55%**

vs EURO

YTD: **-4.08%**

MTD: **0.53%**

NZD ANALYSIS >> TARGET 12M VS EUR: 1.74 (NZD/USD 0.70)

- The **New-Zealand dollar** has gained around 5% following the more hawkish tone of the RBNZ.
- Economic fundamentals should remain strong and inflation forecast has been revised up for 2019. The NZD followed quite accurately the broad USD index path (DXY) and is likely to continue to do so. Once the US dollar starts to weaken on a broad basis, this should also be the case against the NZD. We also flag that there is room for bond yields to shoot higher and support the NZD.
- Trade concerns and higher policy rates in the US should however limit the upside for the NZD much higher. **We keep our target on the NZD/USD at 0.66 in 3 months (value of 1 NZD) and at 0.70 in 12 months.**

PERFORMANCE*

vs USD

YTD: **-4.35%**

MTD: **-0.97%**

vs EURO

YTD: **1.31%**

MTD: **-1.09%**

* Perf. as of December 17

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