# FX Weekly

(08:22 CET) **05 February 2021**

# USD: a correlation breakdown or a new paradigm?



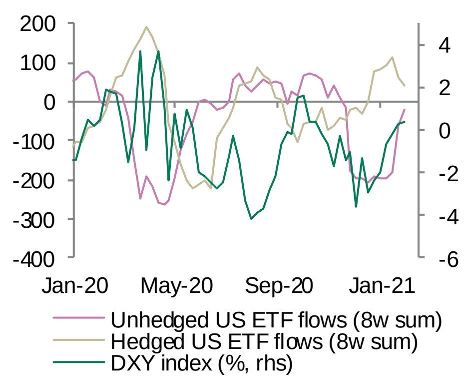
- **The transition of the USD in recent days from the ultimate safe haven to the bellwether currency of the post-Covid recovery has been abrupt and brutal. Many investors who have been selling the USD and buying risk in recent months as part of the so-called 'reflation trade' are still baffled by the sudden breakdown in the correlation between the USD and risk aversion. While we doubt that we are on the verge of a fresh multi-year USD uptrend, there are some reasons to expect that the USD and risk appetite could continue to recover in tandem for the time being.**

- **The US economy is emerging from its pandemic-induced slowdown and, thanks to aggressive fiscal stimulus and supportive financial conditions, could outperform many developed economies in the near term. This should continue to attract portfolio inflows into US stocks. Different from before, however, we think that investors will switch to unhedged purchases, given the falling risk of sharp USD-selloff. The opposite can be true for purchases of Eurozone assets, with investors hedging against EUR weakness and thus severing the currency's link to risk appetite.**

- **The USD can be further supported by the steady improvement of the US inflation outlook. Potential positive surprises from the US CPI data next week could give UST yields and the USD a boost, especially if the incoming Fed speakers strike a less cautious tone on the economy. The combination of higher UST yields and a stronger USD should also trigger a tightening of US financial conditions that could hurt risk sentiment over time. This further highlights the fact that there is a limit to which the USD- and the risk-rally can continue in tandem. That said, we think that the combination of higher UST yields and robust risk sentiment will persist for now and have recently bought USD vs the JPY and the CHF.**

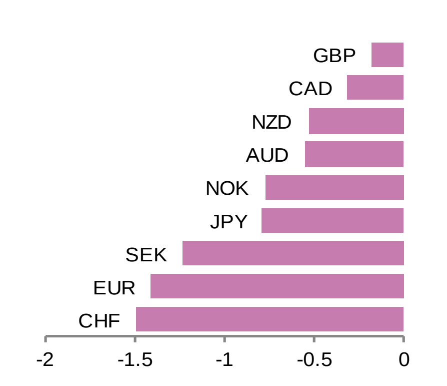
- **The 'G10 vaccine champion' GBP could remain the only major currency that is able to hold its ground vs the USD even if the UK data triggers some volatility next week. Elsewhere, Riksbank Governor Stefan Ingves is unlikely to consider a less cautious stance when monetary policy will be announced next week. This means he is likely to reassure that all options will be kept open including cutting rates into negative territory to support the economy as needed. Although the bar for doing so seems exceptionally high, we expect such rhetoric to prevent the SEK from facing more sustained short-term upside. In our portfolio, we are short AUD/USD, long EUR/CHF, NOK/SEK, XAU/USD, USD/JPY and USD/CHF.**

## USD index and US stock ETF flows




*Source: Crédit Agricole CIB, Bloomberg*

## Five-day performance (vs USD)




*Source: Crédit Agricole CIB, Bloomberg*

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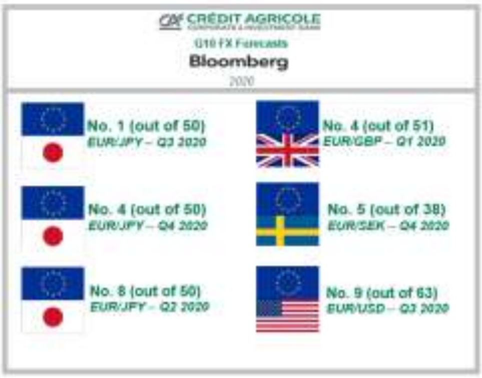


## Latest Publications

***4 February*** *– FX Trade Idea: Inflating USD expectations; Buy USD/JPY and USD/CHF*

***4 February*** *– FX Focus: Inflating USD expectations*

## Open trade recommendations

| | | Entry | Target | Stop |
|---|---|---|---|---|
| EUR/CHF | Long | 1.0732 | 1.1500 | 1.0230 |
| NOK/SEK | Long | 0.9510 | 1.0280 | 0.8980 |
| XAU/USD | Long | 1828 | 2140 | 1628 |
| AUD/USD | Short | 0.7736 | 0.7400 | 0.7920 |
| USD/JPY | Long | 105.19 | 108.00 | 104.00 |
| USD/CHF | Long | 0.9004 | 0.9200 | 0.8900 |

*Source: Bloomberg, Crédit Agricole CIB*

## G10 FX Forecasts

| | Today | Mar-21 | Jun-21 | Sep-21 |
|---|---|---|---|---|
| EUR/USD | 1.20 | 1.19 | 1.20 | 1.21 |
| USD/JPY | 106 | 104 | 104 | 105 |
| GBP/USD | 1.37 | 1.33 | 1.34 | 1.35 |

*Source: Bloomberg, Crédit Agricole CIB*

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# FX and gold outlook

We remain constructive on the EUR in the long term as it is one of the main pro-cyclical currencies that is likely to benefit from further recovery in global growth and trade in the coming months and quarters. Indeed, demand from Eurozone corporates and global central banks could continue to prop up the EUR. We also hope that the EU Recovery Fund would be deployed without significant delay, and this should help minimise the break-up tail risks in the Eurozone and pave the way for the creation of a vast pool of AAA-rated assets that could attract flows from European investors returning home as well as foreign investors looking to diversify away from the USD in the coming months. We further note that any pivot at the ECB towards a more dovish stance in the coming months could be offset by the dovish Fed outlook. EUR/USD also looks undervalued relative to our long-term fair value gauges, which point to c.1.2400, as the level at which the pair should be trading.

The USD is the ultimate counter-cyclical currency and could remain under pressure as global growth and global trade recover, and as corporates and central banks sell the USD to buy their home currencies and liquid proxies, respectively. The Democratic Party's control over US Congress and the presidency could also result in higher taxes and overregulation and reduce the appeal of USD assets. These, combined with lingering concerns about the US twin deficits and the USD's overvaluation, could encourage further diversification out of the USD in the long term. In the near term, however, a more aggressive fiscal stimulus and better control over the pandemic could give UST yields and risk sentiment a boost and thus help the USD regain ground vs low-yielding, safe-haven currencies.

The CHF has been under pressure in the aftermath of the US election and more positive news on the Covid-19 vaccine front. Looking ahead, the SNB's more aggressive policy stance, regardless of any external criticism, coupled with better growth expectations for Europe as a whole should help the currency depreciate gradually. By year-end, we expect EUR/CHF to trade closer to 1.09.

Japan's effective handling of the Covid-19 pandemic and greater reliance on fiscal rather than monetary stimulus are near-term supports for the JPY. But as vaccines are distributed and the global economy recovers, gaps will open up again between Japan's poor long-term growth performance and the economic rebounds of other G10 countries, which will weigh on the JPY. The cut-down version of the Olympics due to Covid-19 will provide the Japanese economy with only a modest boost in 2021.

A no-trade-deal Brexit was averted, which has given the GBP a boost. Uncertainty about the all-important trade in services will persist after the bare-bones Brexit trade deal was struck in December, however, and this could put an end to the GBP's recent rally. Moreover, the risk of a double-dip UK recession has intensified following the third national lockdown and could force the BoE to ease again before long while the rates markets will continue to speculate about negative policy rates. A renewed push to hold a second independence referendum in Scotland could fuel political and economic uncertainty as well. We have a neutral outlook on the GBP for 2021 and expect the currency to regain more ground only in 2022.

The CAD is supported by recovering oil prices but should remain the relative underperformer among commodity currencies because of the Canadian economy's lacklustre recovery from the Covid-19 recession. The currency could continue to be disadvantaged by changing US policies on environmental protection and green energy after the November elections, even as the BoC continues to rule out negative rates.

Australia's response to Covid-19 has been exceptional among G10 countries, and this is helping the Australian economy bounce back from the pandemic. China's fast recovery from the virus and the US's poor handling of Covid-19 have added to the AUD's outperformance. Australia-China diplomatic tensions are only having a modest negative impact on Australia's exports, as China does not have alternative low-cost suppliers of iron ore and LNG. The RBA's QE will only be able to provide a restraint on AUD upside.

NZ's strong performance in containing Covid-19, its aggressive fiscal stimulus and exposure to the relatively stronger economic recoveries in Asia and Australia will continue to see the NZD outperform. Soaring house prices also constrain the RBNZ's ability to ease policy further. NZ's heavy reliance on tourism and education exports and the closure of international borders will be the only check on the stronger NZD.

We expect the NOK to stay a buy on dips with improving risk sentiment on the back of falling political uncertainty globally and progress on the Covid-19 vaccine front helping the currency recover. In the long run, we see scope for rising rate expectations to the benefit of the currency.

With the Riksbank unlikely to consider lowering rates anytime soon and – as we expect – fundamentals to rebound further in the coming quarters, our long-term view on the SEK remains constructive.

We expect the interest rate environment to stay favourable to hard assets such as gold, which remains a buy on dips in our view.

# G10 FX Portfolio

See below our model portfolio. A percentage representation of the positions' performance is applied for both FX spot and options trade ideas. A cap on individual position loss of 2% of notional is used. Other aspects of the performance calculation including position size, total overall position loss and cumulative portfolio performance are adjusted accordingly. Please see Our FX portfolio: performance of the past, adjustment for the future for further details. Please note that our G10 FX portfolio combines discretionary and systematically motivated trades, with the same risk management applied. For details on our systematic approach please see our FAST FX and Month-end Rebalancing Model fact sheets.

| Discretionary Portfolio | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Open Spot Trades** | | | | | | | |
| **Date** | **Time** | **Entry** | **Recommendation** | **Target** | **Stop** | **Last** | **P&L** |
| 04/02/2021 | 07:30 GMT | 105.19 & 0.9004 | Long USD/JPY & USD/CHF (basket) | 108 & 0.92 | 104 & 0.89 | - | **0.59%** |
| 27/01/2021 | 08:30 GMT | 0.7736 | Short AUD/USD | 0.7400 | 0.7920 | 0.7602 | **1.45%** |
| 24/11/2020 | 07:11 GMT | 1,828 | Long XAU/USD | 2,140 | 1,628 | 1,796.88 | **-0.32%** |
| 23/09/2020 | 07:40 BST | 0.9510 | Long NOK/SEK | 1.0280 | 0.8980 | 0.9813 | **1.21%** |
| 21/01/2020 | 08:30 GMT | 1.0732 | Long EUR/CHF | 1.1500 | 1.0230 | 1.0815 | **0.42%** |
| **Open Options Trades** | | | | | | | |
| **Date** | **Time** | **Option cost **** | **Recommendation** | **Strike** | **Spot ref** | **Expiry** | **P&L*** |
| **Closed Spot Trades** | | | | | | | |
| **Open date** | **Time** | **Entry** | **Recommendation** | **Close date** | **Close time** | **Exit level** | **P&L** |
| 09/12/2020 | 07:00 GMT | 1.1880 | Long GBP/CHF | 04/01/2021 | 15:30 GMT | 1.1980 | **0.53%** |
| **Closed Options Trades** | | | | | | | |
| **Date** | **Time** | **Option cost **** | **Recommendation** | **Strike** | **Spot ref** | **Expiry** | **P&L*** |
| **FAST FX (tactical) Portfolio** | | | | | | | |
| **Open Spot Trades** | | | | | | | |
| **Date** | **Time** | **Entry** | **Recommendation** | **Target** | **Stop Loss** | **Last** | **P&L** |
| **Closed Spot Trades** | | | | | | | |
| **Open date** | **Time** | **Entry** | **Recommendation** | **Close date** | **Close time** | **Exit level** | **P&L** |
| 25/01/2021 | 09:00 GMT | 0.7731 | Sell AUD/USD | 29/01/2021 | 22:00 GMT | 0.7644 | **0.97%** |
| **G10 FX PIX 2.0 (tactical) Portfolio** | | | | | | | |
| **Open Spot Trades** | | | | | | | |
| **Date** | **Time** | **Entry** | **Recommendation** | **Target** | **Stop Loss** | **Last** | **P&L** |
| **Closed Spot Trades** | | | | | | | |
| **Open date** | **Time** | **Entry** | **Recommendation** | **Close date** | **Close time** | **Exit level** | **P&L** |
| 25/01/2021 | 09:00 GMT | 0.7731 | Sell AUD/USD | 29/01/2021 | 22:00 GMT | 0.7645 | **1.49%** |
| 25/01/2021 | 09:00 GMT | 1.3699 | Sell GBP/USD | 29/01/2021 | 22:00 GMT | 1.3713 | **-0.03%** |
| 18/01/2021 | 09:00 GMT | 0.7671 | Sell AUD/USD | 22/01/2021 | 22:00 GMT | 0.7714 | **-0.76%** |
| 18/01/2021 | 09:00 GMT | 1.3529 | Sell GBP/USD | 21/01/2021 | 09:00 GMT | 1.3731 | **-2.00%** |
| 05/01/2021 | 09:00 GMT | 1.3562 | Sell GBP/USD | 08/01/2021 | 22:00 GMT | 1.3564 | **-0.01%** |
| **Month-end Rebalancing Model (tactical) Portfolio** | | | | | | | |
| **Open Spot Trades** | | | | | | | |
| **Date** | **Time** | **Entry** | **Recommendation** | **Target** | **Stop Loss** | **Last** | **P&L** |
| **Closed Spot Trades** | | | | | | | |
| **Open date** | **Time** | **Entry** | **Recommendation** | **Close date** | **Close time** | **Exit level** | **P&L** |
| **Portfolio Performance** | | | | | | | |
| **Return on open trades** | | | | | | | **3.34%** |
| **Return on closed trades (YTD)** | | | | | | | **0.19%** |
| **Hit ratio (YTD)** | | | | | | | **42.86%** |
| **Total return (YTD)** | | | | | | | **3.53%** |

**Returns calculated as %VaR with 2% risk allocation per trade*
***Cost is a percentage of the notional value traded*

*Source all tables: Crédit Agricole CIB*

## FX Portfolio in 2020

| Closed Spot Trades | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Open date** | **Time** | **Entry** | **Recommendation** | **Close date** | **Close time** | **Exit level** | **P&L** |
| 07/10/2020 | 11:55 BST | 1.1800 | Long GBP/CHF | 11/11/2020 | 09:32 GMT | 1.2200 | **4.09%** |
| 08/07/2020 | 14:30 BST | 1.1290 | Long EUR/USD | 31/07/2020 | 06:40 BST | 1.1850 | **3.92%** |
| 28/04/2020 | 06:44 BST | 1,695.00 | Long XAU/USD | 23/07/2020 | 09:15 BST | 1,880 | **2.83%** |
| 08/06/2020 | 15:25 BST | 1.2700 | Short GBP/USD | 08/07/2020 | 15:40 BST | 1.2586 | **0.61%** |
| 29/05/2020 | 07:10 BST | 1.6666 | Long EUR/AUD | 02/06/2020 | 22:00 BST | 1.6200 | **-2.00%** |
| 28/04/2020 | 09:48 BST | 69.4500 | Short AUD/JPY | 27/05/2020 | 10:00 BST | 71.5500 | **-2.00%** |
| 20/03/2020 | 10:13 GMT | 0.8440 | Long AUD/CAD | 22/03/2020 | 22:15 GMT | 0.8285 | **-1.80%** |
| 17/12/2019 | 07:50 GMT | 75.1700 | Short AUD/JPY | 28/02/2020 | 15:51 GMT | 70.0000 | **4.69%** |
| 16/10/2019 | 07:58 BST | 0.7550 | Long CAD/CHF | 28/02/2020 | 09:08 GMT | 0.7160 | **-1.64%** |
| 03/10/2019 | 07:54 BST | 1,496 | Long XAU/USD | 25/02/2020 | 06:15 GMT | 1,648 | **2.43%** |
| 14/01/2020 | 07:35 GMT | 12.2700 | Short GBP/SEK | 19/02/2020 | 09:38 GMT | 12.7600 | **-2.00%** |
| **Closed Options Trades** | | | | | | | |
| **Date** | **Time** | **Option cost **** | **Recommendation** | **Strike** | **Spot ref** | **Expiry** | **P&L*** |
| 18/09/2020 | 10:30 BST | 40.00% | Buy USD/JPY 2M one-touch with 108 barrier | 108.00 | 104.57 | 27/11/2020 | **-2.00%** |
| 18/09/2020 | 10:30 BST | 43.40% | Buy AUD/CAD 2M one-touch with 0.94 barrier | 0.9400 | 0.9628 | 27/11/2020 | **2.24%** |
| 10/03/2020 | 10:13 GMT | 20.44% | Buy EUR/GBP 3M digital put | 0.8400 | 0.8694 | 10/06/2020 | **-1.63%** |
| 24/02/2020 | 08:15 GMT | 0.32% | Buy USD/JPY 3M put spread with 106 eki | 107/109 | 111.5500 | 22/05/2020 | **2.09%** |
| 16/12/2019 | 13:15 GMT | 0.34% | Buy EUR/USD 6M 1x1.85 call ratio | 1.14/1.17 | 1.1146 | 16/06/2020 | **-1.94%** |
| **Closed FAST FX Spot Trades** | | | | | | | |
| **Open date** | **Time** | **Entry** | **Recommendation** | **Close date** | **Close time** | **Exit level** | **P&L** |
| 16/11/2020 | 09:00 GMT | 1.3096 | Buy USD/CAD | 20/11/2020 | 22:00 GMT | 1.3095 | **0.01%** |
| 09/11/2020 | 09:00 GMT | 103.55 | Buy USD/JPY | 13/11/2020 | 22:00 GMT | 105.00 | **1.39%** |
| 02/11/2020 | 09:00 GMT | 104.92 | Buy USD/JPY | 06/11/2020 | 22:00 GMT | 103.49 | **-1.99%** |
| 12/10/2020 | 09:00 BST | 10.7841 | Sell EUR/NOK | 16/10/2020 | 22:00 BST | 10.9929 | **-1.40%** |
| 05/10/2020 | 09:00 BST | 10.9035 | Sell EUR/NOK | 09/10/2020 | 22:00 BST | 10.8045 | **0.68%** |
| 05/10/2020 | 09:00 BST | 105.58 | Buy USD/JPY | 09/10/2020 | 22:00 BST | 105.62 | **0.06%** |
| 28/09/2020 | 09:00 BST | 10.6011 | Sell EUR/SEK | 02/10/2020 | 22:00 BST | 10.4708 | **1.41%** |
| 28/09/2020 | 09:00 BST | 11.1234 | Sell EUR/NOK | 02/10/2020 | 22:00 BST | 10.9132 | **1.40%** |
| 21/09/2020 | 09:00 BST | 104.18 | Buy USD/JPY | 25/09/2020 | 22:00 BST | 105.58 | **2.10%** |
| 14/09/2020 | 09:00 BST | 1.3160 | Buy USD/CAD | 18/09/2020 | 22:00 BST | 1.3157 | **0.53%** |
| 07/09/2020 | 09:00 BST | 1.3107 | Buy USD/CAD | 11/09/2020 | 22:00 BST | 1.3179 | **0.80%** |
| 24/08/2020 | 09:00 BST | 1.3157 | Buy USD/CAD | 28/08/2020 | 22:00 BST | 1.3099 | **-0.44%** |
| 17/08/2020 | 09:00 BST | 1.1852 | Sell EUR/USD | 21/08/2020 | 22:00 BST | 1.1797 | **0.56%** |
| … | … | … | … | … | … | … | **…** |
| **Closed G10 FX PIX 2.0 Spot Trades** | | | | | | | |
| **Open date** | **Time** | **Entry** | **Recommendation** | **Close date** | **Close time** | **Exit level** | **P&L** |
| 07/12/2020 | 09:00 GMT | 0.7397 | Buy AUD/USD | 11/12/2020 | 22:00 GMT | 0.7534 | **2.46%** |
| 17/11/2020 | 09:00 GMT | 1.1874 | Buy EUR/USD | 20/11/2020 | 22:00 GMT | 1.1857 | **-0.20%** |
| 17/11/2020 | 09:00 GMT | 0.7324 | Buy AUD/USD | 20/11/2020 | 22:00 GMT | 0.7304 | **-0.37%** |
| 09/11/2020 | 09:00 GMT | 1.1871 | Buy EUR/USD | 13/11/2020 | 22:00 GMT | 1.1834 | **-0.43%** |
| 09/11/2020 | 09:00 GMT | 0.7277 | Buy AUD/USD | 13/11/2020 | 22:00 GMT | 0.7270 | **-0.13%** |
| **Closed Month-end Rebalancing Model Spot Trades** | | | | | | | |
| **Open date** | **Time** | **Entry** | **Recommendation** | **Close date** | **Close time** | **Exit level** | **P&L** |
| 27/11/2020 | 08:00 GMT | 1.1927 | Long EUR/USD | 30/11/2020 | 17:00 GMT | 1.1946 | **0.16%** |
| 29/10/2020 | 08:00 GMT | - | Long USD vs basket | 30/10/2020 | 17:00 GMT | - | **0.57%** |
| 29/09/2020 | 08:00 BST | 1.1680 | Short EUR/USD | 30/09/2020 | 17:00 BST | 1.1724 | **-0.38%** |
| 28/08/2020 | 08:00 BST | - | Short USD vs basket | 31/08/2020 | 17:00 BST | - | **0.80%** |
| 30/07/2020 | 08:00 BST | - | Short USD vs basket | 31/07/2020 | 17:00 BST | - | **0.26%** |
| 29/06/2020 | 08:00 BST | - | Long USD vs basket | 30/06/2020 | 17:00 BST | - | **0.21%** |
| 28/05/2020 | 08:00 BST | 1.1021 | Long EUR/USD | 29/05/2020 | 17:00 BST | 1.1108 | **0.79%** |
| 29/04/2020 | 08:00 BST | 1.0850 | Long EUR/USD | 30/04/2020 | 17:00 BST | 1.0934 | **0.77%** |
| 30/03/2020 | 08:00 BST | 1.1067 | Short EUR/USD | 31/03/2020 | 17:00 BST | 1.1021 | **0.42%** |
| 27/02/2020 | 08:00 GMT | - | Long USD vs basket | 28/02/2020 | 17:00 GMT | - | **0.11%** |
| **Portfolio performance** | | | | | | | |
| **Return on closed trades (2020)** | | | | | | | **28.10%** |
| **Hit ratio (2020)** | | | | | | | **62.65%** |

**Returns calculated as %VaR with 2% risk allocation per trade*
***Cost is a percentage of the notional value traded*

*Source all tables: Crédit Agricole CIB*

## FX Portfolio in 2020

| Closed FAST FX Spot Trades | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Open date** | **Time** | **Entry** | **Recommendation** | **Close date** | **Close time** | **Exit level** | **P&L** |
| … | … | … | … | … | … | … | **…** |
| 10/08/2020 | 09:00 BST | 1.1765 | Sell EUR/USD | 14/08/2020 | 22:00 BST | 1.1842 | **-0.77%** |
| 03/08/2020 | 09:00 BST | 1.1764 | Sell EUR/USD | 07/08/2020 | 22:00 BST | 1.1787 | **-0.20%** |
| 27/07/2020 | 09:00 BST | 0.9119 | Sell EUR/GBP | 31/07/2020 | 22:00 BST | 0.9002 | **1.38%** |
| 20/07/2020 | 09:00 BST | 0.9112 | Sell EUR/GBP | 24/07/2020 | 22:00 BST | 0.9110 | **0.03%** |
| 20/07/2020 | 09:00 BST | 1.1456 | Sell EUR/USD | 24/07/2020 | 22:00 BST | 1.1650 | **-1.75%** |
| 13/07/2020 | 09:00 BST | 0.8967 | Sell EUR/GBP | 17/07/2020 | 22:00 BST | 0.9120 | **-1.83%** |
| 13/07/2020 | 09:00 BST | 1.1320 | Sell EUR/USD | 17/07/2020 | 22:00 BST | 1.1428 | **-0.98%** |
| 06/07/2020 | 09:00 BST | 0.9047 | Sell EUR/GBP | 10/07/2020 | 22:00 BST | 0.8953 | **1.15%** |
| 29/06/2020 | 09:00 BST | 0.9098 | Sell EUR/GBP | 03/07/2020 | 22:00 BST | 0.9013 | **0.95%** |
| 29/06/2020 | 09:00 BST | 10.4871 | Buy EUR/SEK | 03/07/2020 | 22:00 BST | 10.4767 | **-0.12%** |
| 22/06/2020 | 09:00 BST | 0.9026 | Sell EUR/GBP | 26/06/2020 | 22:00 BST | 0.9095 | **-0.59%** |
| 22/06/2020 | 09:00 BST | 106.98 | Buy USD/JPY | 26/06/2020 | 22:00 BST | 107.22 | **0.21%** |
| 15/06/2020 | 09:00 BST | 1.1246 | Sell EUR/USD | 19/06/2020 | 22:00 BST | 1.1178 | **0.30%** |
| 15/06/2020 | 09:00 BST | 107.34 | Buy USD/JPY | 19/06/2020 | 22:00 BST | 106.87 | **-0.30%** |
| 08/06/2020 | 09:00 BST | 1.1301 | Sell EUR/USD | 12/06/2020 | 22:00 BST | 1.1256 | **0.20%** |
| 01/06/2020 | 09:00 BST | 1.1148 | Sell EUR/USD | 05/06/2020 | 22:00 BST | 1.1292 | **-0.65%** |
| 01/06/2020 | 09:00 BST | 1.3678 | Sell USD/CAD | 01/06/2020 | 16:52 BST | 1.3607 | **0.27%** |
| 18/05/2020 | 09:00 BST | 1.4070 | Sell USD/CAD | 22/05/2020 | 22:00 BST | 1.3996 | **0.28%** |
| 18/05/2020 | 09:00 BST | 107.1750 | Buy USD/JPY | 22/05/2020 | 22:00 BST | 107.6400 | **0.24%** |
| 11/05/2020 | 09:00 BST | 10.5995 | Buy EUR/SEK | 15/05/2020 | 22:00 BST | 10.6703 | **0.50%** |
| 11/05/2020 | 09:00 BST | 107.1950 | Buy USD/JPY | 15/05/2020 | 22:00 BST | 107.0600 | **-0.07%** |
| 11/05/2020 | 09:00 BST | 1.0834 | Buy EUR/USD | 15/05/2020 | 22:00 BST | 1.0820 | **-0.07%** |
| 04/05/2020 | 09:00 BST | 1.0935 | Sell EUR/USD | 08/05/2020 | 22:00 BST | 1.0839 | **0.44%** |
| 27/04/2020 | 09:00 BST | 11.4940 | Buy EUR/NOK | 01/05/2020 | 22:00 BST | 11.3629 | **-0.57%** |
| 20/04/2020 | 09:00 BST | 107.7050 | Buy USD/JPY | 24/04/2020 | 22:00 BST | 107.5100 | **-0.09%** |
| 30/03/2020 | 09:00 BST | 0.8972 | Sell EUR/GBP | 03/04/2020 | 22:00 BST | 0.8794 | **1.00%** |
| 30/03/2020 | 09:00 BST | 108.0250 | Buy USD/JPY | 03/04/2020 | 22:00 BST | 108.5500 | **0.26%** |
| 30/03/2020 | 09:00 BST | 1.1079 | Sell EUR/USD | 02/04/2020 | 14:30 BST | 1.0861 | **1.00%** |
| 23/03/2020 | 09:00 GMT | 0.9208 | Sell EUR/GBP | 26/03/2020 | 01:00 GMT | 0.9016 | **1.22%** |
| 23/03/2020 | 09:00 GMT | 0.5766 | Buy AUD/USD | 27/03/2020 | 13:00 GMT | 0.6138 | **3.22%** |
| 23/03/2020 | 09:00 GMT | 1.0707 | Buy EUR/USD | 26/03/2020 | 01:00 GMT | 1.0890 | **1.11%** |
| 23/03/2020 | 09:00 GMT | 12.5639 | Sell EUR/NOK | 23/03/2020 | 12:45 GMT | 12.0818 | **1.92%** |
| 16/03/2020 | 09:00 GMT | 0.9079 | Sell EUR/GBP | 20/03/2020 | 22:00 GMT | 0.9345 | **-2.00%** |
| 16/03/2020 | 09:00 GMT | 0.6176 | Buy AUD/USD | 20/03/2020 | 22:00 GMT | 0.5955 | **-2.00%** |
| 09/03/2020 | 09:00 GMT | 1.1408 | Sell EUR/USD | 12/03/2020 | 14:10 GMT | 1.1139 | **2.26%** |
| 02/03/2020 | 09:00 GMT | 108.0500 | Sell USD/JPY | 06/03/2020 | 09:40 GMT | 105.4800 | **1.78%** |
| 24/02/2020 | 09:00 GMT | 111.3750 | Sell USD/JPY | 28/02/2020 | 22:00 GMT | 109.4300 | **1.87%** |
| 10/02/2020 | 09:00 GMT | 0.6696 | Buy AUD/USD | 14/02/2020 | 22:00 GMT | 0.6714 | **0.30%** |

*Source all tables: Crédit Agricole CIB*

# Inflating USD expectations

*This is a reproduction of Inflating USD expectations published 04 February 2021*

- **A build-up of positive US inflation surprises coupled with growing hopes of a turnaround in the US economic fortunes have helped the USD regain ground of late. We expect the US CPI inflation to accelerate further on the back of commodity price base effects that should peak only in Q220. Our historic analysis suggests that significantly positive US inflation surprises could boost the USD and even weigh on risk sentiment with a lag of around six months. The FX impact of the shifting macro backdrop will depend on the reaction of long-term UST yields with the USD likely to benefit from growing US yields and a steepening UST yield curve.**

- **In the near term, we focus on two potential outcomes and assess their impact using an FX sensitivity analysis to UST yields and risk sentiment. Under the first outcome, a combination of resilient risk sentiment and rising UST yields should boost the USD vs the JPY, the CHF and even the EUR, which is weighed by concerns about a double-dip recession in the Eurozone. Under the second outcome, tighter US financial conditions should fuel a spike risk aversion and help the safe-haven USD gain broadly, with the AUD, GBP and CAD bearing the brunt of the adjustment.**

- **Currently, most of G10 FX, with the exceptions of the NOK and GBP, are insensitive to the steepness of the UST curve relative to a few months back. We think this suggests complacency on the part of investors. A spike in US inflation would shake the markets out of their complacency and make the steepness of the UST curve matter again for G10 FX.**

- **The above being said, we expect the positive impact on the USD to be temporary in part because of the spike in US inflation should fade in H221. We further expect a broadening global recovery to re-fuel cyclical and diversification outflows from the USD in H221. In addition, a potential deterioration in risk sentiment on the back of tighter US financial conditions could ultimately thrust the Fed back into action, flattening the UST yield curve and thus keeping UST real yields very negative. This will be consistent with our bearish long-term USD view.**

- **Elsewhere, higher inflation should help keep real interest rates capped and so much speaks against sustained downside in hard assets such as gold, where we stick to a constructive long-term stance. However, depending on the higher yields' impact on risk sentiment, it cannot be excluded that the yellow metal is facing reduced safe-haven appeal.**



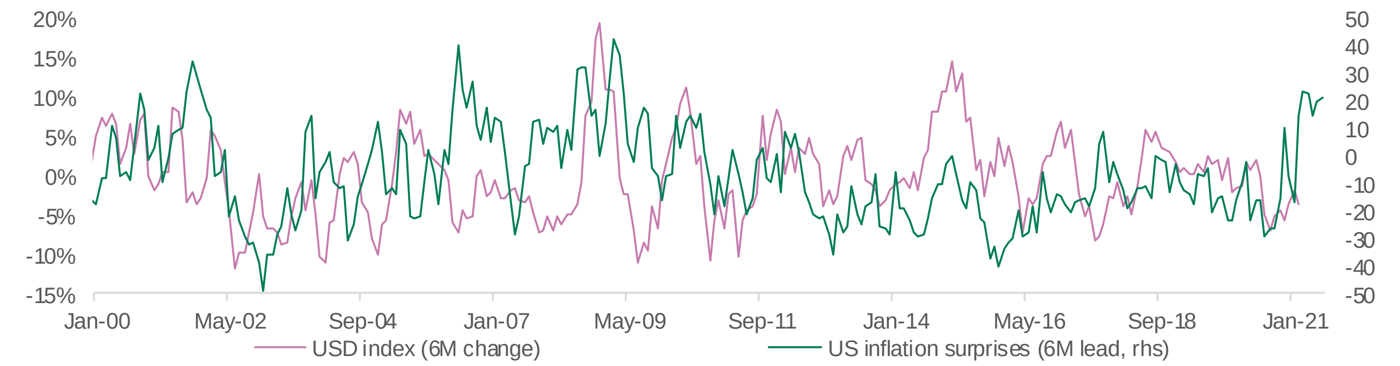
## From positive US inflation surprises to inflation 'tantrum'?

### The Fed's tolerance of inflation overshoot to be tested

Credit Agricole CIB inflation strategist expects the US headline CPI inflation to leap to 3% and the US core CPI to move close to 2.5% in Q221. While the spike would be driven by temporary factors and thus could be ignored by the Fed, it could nevertheless trigger an 'inflation tantrum' amid growing inflation expectations and growth optimism supported by aggressive fiscal stimulus and better control over the pandemic. This could subsequently result in higher UST yields, a steeper UST yield curve, a stronger USD and even weaker risk sentiment.

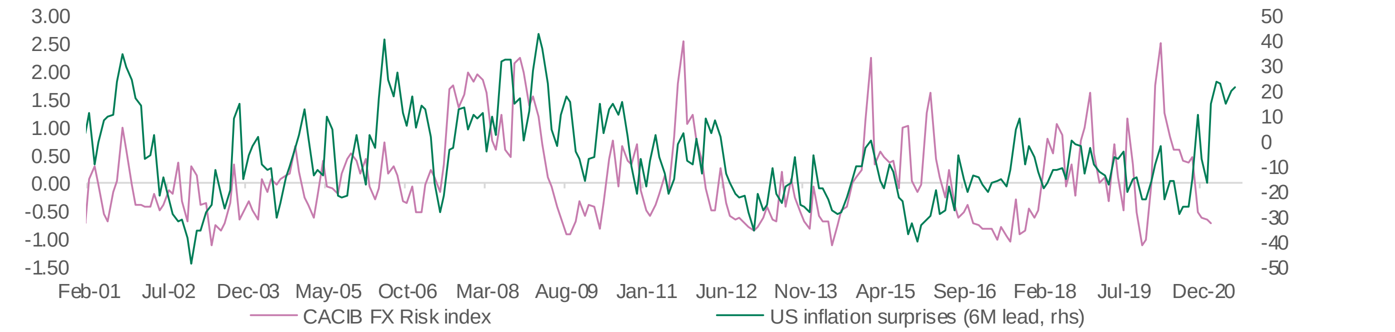
The re-accelerating US CPI has taken the markets by surprise in recent months and could continue to do so in the coming months on the back of powerful annual base effects in commodity prices that should peak only in Q220. Our historic analysis of the impact of previous episodes of significantly positive US inflation surprises on the USD index and risk sentiment would suggest that there has been a lead-lag relationship with inflation of around six months (Figure 1 and Figure 2 respectively).

**Fig 1. US inflation surprises and the USD index – a 6M lead-lag relationship**




*Source: Crédit Agricole CIB, Bloomberg*

**Fig 2. US inflation surprises and market risk sentiment – a 6M lead-lag relationship**

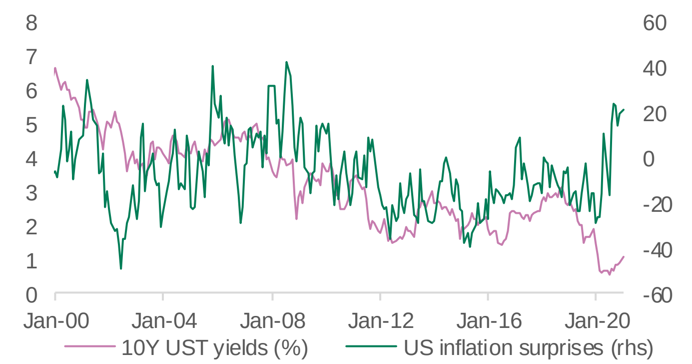



*Source: Crédit Agricole CIB, Bloomberg*

## The FX impact will depend on the reaction of the US fixed income market

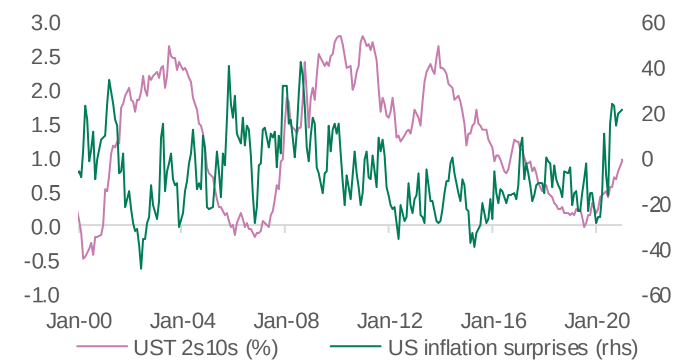
The impact from the current very positive US inflation surprises on the USD and market risk sentiment would crucially depend on the reaction in long-term UST yields (Figure 3) and the slope of the UST yield curve (approximated in Figure 4 by UST 2s10s). The combination of accelerating inflation and stabilising growth in the US could give rise to market taper speculations that could push UST yields higher and trigger a bear steepening of the UST yield curve. This could be the case, especially given that US real yields have hit extreme lows (Figure 5). Key for the fixed income market reaction would be the Fed's response to any renewed tightening in the US financial conditions.

**Fig 3. US inflation surprises and 10Y UST yields**




*Source: Crédit Agricole CIB, Bloomberg*

**Fig 4. US inflation surprises and slope of the UST curve**

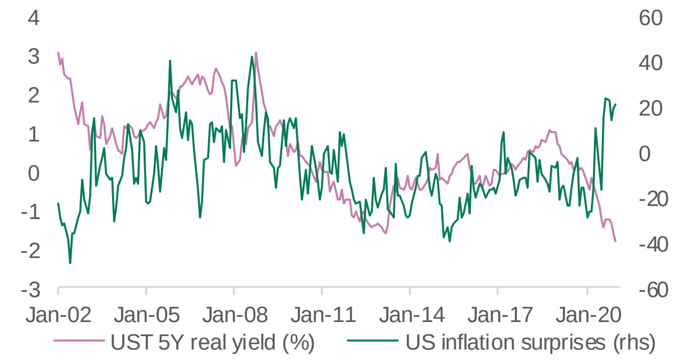



*Source: Crédit Agricole CIB, Bloomberg*

We expect that, while the FOMC would try to push against any taper speculation, it could be less likely to act pre-emptively given the still very low historic levels of nominal and especially real yields. Furthermore, we note that 10Y UST yields are not that high relative to the S&P500 dividend yield. In turn, this seems to point to a still low risk of a correction in the stock markets (Figure 6). In all, we doubt that the Fed would act forcefully to contain any rally in UST yields and re-flatten the UST yield curve before we see more tangible evidence that the USD is rebounding and market risk sentiment is deteriorating, thus adding to the unwarranted tightening in the US financial conditions.

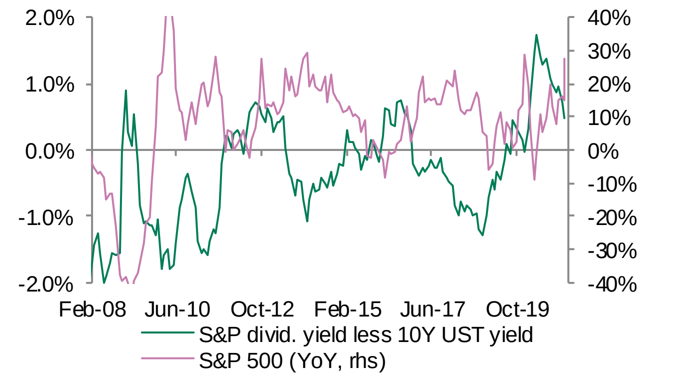
Tightening US financial conditions could weigh on risk sentiment, fuel market risk aversion and boost the safe-haven USD even further. We believe that this would ultimately spur the Fed to increase the average maturity of its asset portfolio, flatten the UST yield curve and send UST real yields deeper into negative territory. In turn, this would be consistent with our bearish long-term outlook for the USD.

**Fig 5. US inflation surprises and UST real yields**




*Source: Crédit Agricole CIB, Bloomberg*

**Fig 6. Stock market performance vs spread between S&P 500 dividend yield and 10Y UST yield**



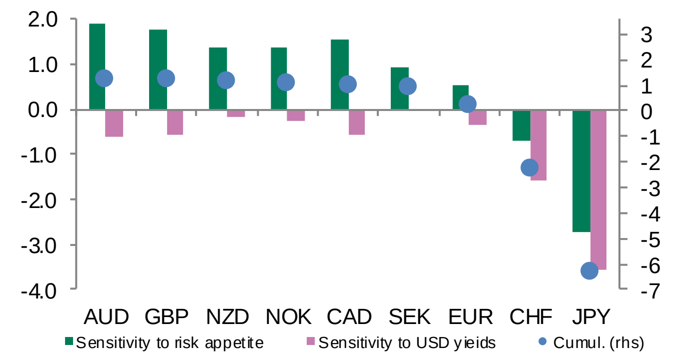

*Source: Crédit Agricole CIB, Bloomberg*

## USD: a tactical turning point

### USD: tactically constructive in the near term

In the interim, we believe that the level of UST yields and the resilience of risk sentiment would remain the key determinants of the FX price action. We further believe that the markets could flip from being risk-on to risk-off depending on the overall level of tightness of the US financial conditions. We therefore, ran two sensitivity analyses using a similar approach [discussed in "USD: turning less bearish in the near term".] Under the first scenario, we expect risk sentiment to remain resilient in the face of growing UST yields. Under the second scenario, we consider a situation where growing UST yields start eroding risk sentiment and fuel a spike in risk aversion.

**Fig 7. G10 FX sensitivity to risk appetite and UST yields**




*Source: Crédit Agricole CIB, Bloomberg*

**Fig 8. G10 FX sensitivity to risk aversion and UST yields**


*Source: Crédit Agricole CIB, Bloomberg*

The results from our FX sensitivity analysis under the first scenario of higher UST yields and resilient risk sentiment are presented in Figure 7. As shown, the AUD, GBP and NZD emerge as the biggest beneficiaries whereas the JPY and CHF emerge as the biggest losers. One important caveat here is that the resilience of risk sentiment remains the decisive driver whereas, with the exception of the CHF and especially the JPY, the importance of UST yields seems secondary. This is further highlighted by results from our FX sensitivity under our second scenario of higher UST yields and deteriorating risk sentiment (Figure 8). As shown, the AUD, GBP and CAD emerge as the biggest losers, whereas the JPY and CHF emerge as the least negatively impacted. In all, the USD emerges as the biggest beneficiary if the second scenario unfolds.

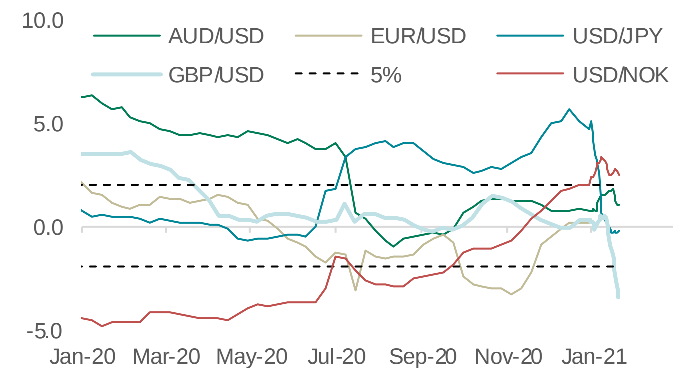
## Asleep at the wheel

Higher long-end UST yields are not the only factor driving USD-crosses, but also the relative slope of the government bond curves. The relative slopes of these curves are not only taken as market indicators of the relative future paths of monetary policy, but also inflation expectations and a sudden rise in US inflation would be accompanied by a bear steepening the UST yield curve. Such a steepening would also impact hedging costs and carry from holding local government bonds, which would also impact USD dynamics.

At the moment, however, most currencies are insensitive to the slopes of their government bond curves relative to that of USTs or their box spreads. Indeed, 2021 has seen the importance of 2s10s box spreads plummet for many G10 USD-crosses as equity markets and commodity prices have become stronger drivers of currencies (Figure 9). Box spreads only appear important for the USD/NOK and GBP/USD exchange rates and where the t-statistics are statistically significant and for GBP/USD, the 2s10s box spread has a counterintuitive inverse relationship with the exchange rate (Figure 10).

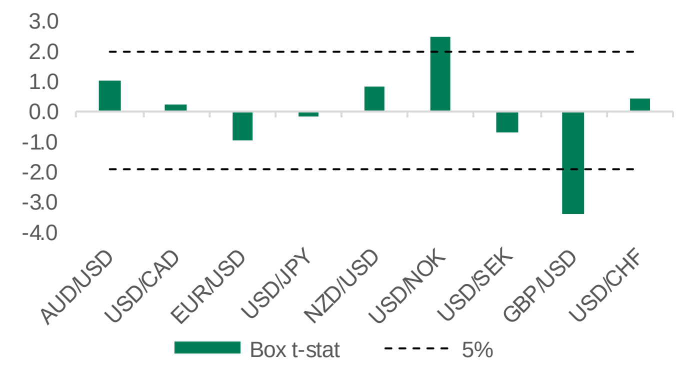
Such an environment suggests two things to us: (1) G10 FX markets are potentially being complacent about a spike in US inflation and a steepening in the UST curve; and (2) there could be a brutal adjustment in the event such things come to pass. Indeed, in 2020, the 2s10s box spread was an especially important driver of USD/JPY and this exchange rate could become quickly re-attached to the spreads' movements.

**Fig 9. t-statistics for 2s10s box spreads with UST yields**




*Source: Crédit Agricole CIB*

**Fig 10. Current t-statistics for 2s10s box spreads with UST yields**




*Source: Crédit Agricole CIB*

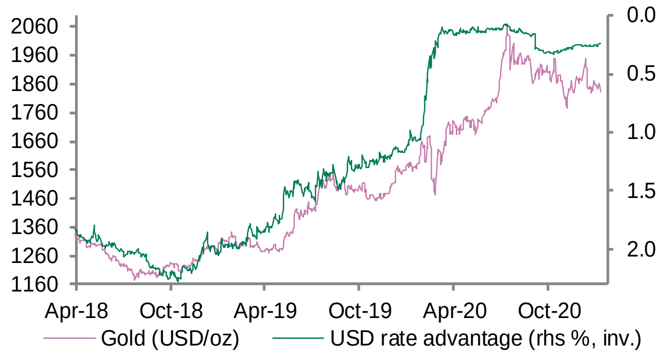
### USD: still bearish in the long term

The above being said, we expect the positive impact on the USD to be temporary in part because of the spike in US inflation should fade in H221. We further expect a broadening global recovery to re-fuel cyclical and diversification outflows from the USD in H221. In addition, a potential deterioration in risk sentiment on the back of tighter US financial conditions could ultimately thrust the Fed back into action, flattening the UST yield curve and thus keeping UST real yields very negative. This will be consistent with our bearish long-term USD view. For more on that, please see our analysis in: USD: turning less bearish in the near term.

## What about hard assets such as gold?

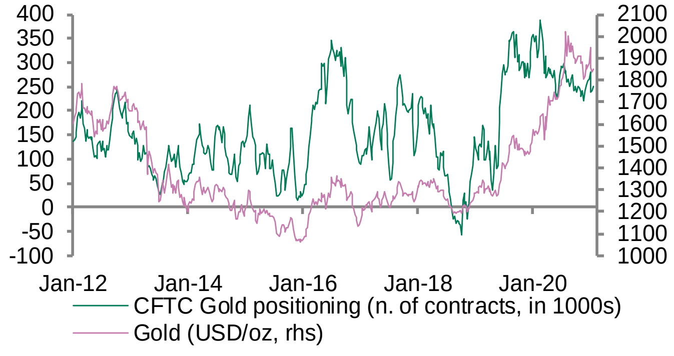
As outlined above, we expect the real interest rate environment to remain negative and so much is likely to continue putting a floor below hard assets such as gold. On top of that, higher US yields failed to be reflected in a strongly rising rate advantage in G10 as can be seen in Figure 11. While this does not mean that the yellow metal faces no downside risks should market rates continue to rise to the benefit of the USD, we also explained, that our long-term take on the currency remains bearish. From that angle, we stay of the view that any downside in gold from the current levels will prove temporary rather than a change in trend and therefore we remain in favour of buying dips. This is also due to speculative long positioning being broadly in line with its longer-term average, conditions which speak against material position squaring-related downside.

**Fig 11. USD rate advantage has been capped**




*Source: Crédit Agricole CIB, Bloomberg*

**Fig 12. Gold long positioning is not excessive**




*Source: Crédit Agricole CIB, Bloomberg*

Having said that, depending on the rising yields' impact on risk sentiment, it cannot be excluded that gold is facing reduced safe-haven attractiveness. This makes sense when considering that an environment characterised by rising yields and weaker risk sentiment could help make the USD itself the safe haven of choice. Needless to say, however, is that based on our base case, risk sentiment is expected to remain rather stable with negative real interest rate environment being one of the drivers. While this is reflected in our more cautious long-term view on the USD, it is similarly reflected in our constructive long-term take on gold.

# SEK: neutral, but just for now

*This is a reproduction of* SEK: neutral, but just for now *published 04 February 2021*

- **After having appreciated for most of the past few months, the SEK's performance has been turning more unstable of late. This makes sense, as (1) there is limited potential for further falling rate cut expectations and (2) there does not seem to be more room for position squaring-related upside, at least based on our data.**

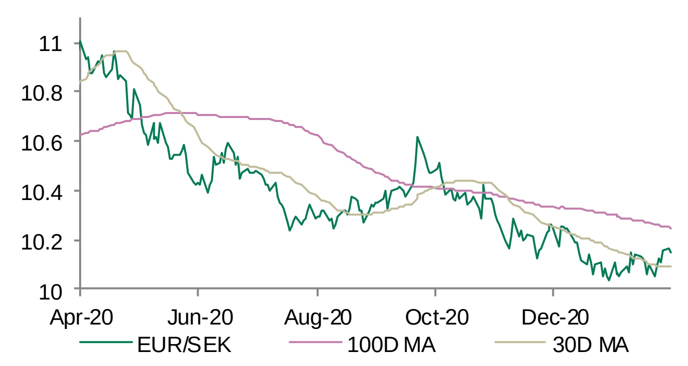
- **If anything, fresh buying interest may be needed to trigger more sustained currency upside and this may ultimately depend on rising central bank rate expectations and/or an improving trade-related capital flow situation to the benefit of the currency.**

- **Even though growth outlook has been improving, more is needed to lift price growth sustainably. Hence, there is low risk that Riksbank members will start to prepare markets for higher rates anytime soon. Conversely, with central bank members primarily focusing on downside risks, they will continue doing their utmost to prevent rate expectations from rising. Even though the next move in rates should be up, we do not foresee a change in rhetoric anytime soon.**

- **This means that further currency upside may depend on the capital flow situation more than anything else. Although this is in line with our base case, such prospects will depend on improving fundamentals for Europe as a whole as also reflected in easing lockdown restrictions. As we expect this to be a theme only for later this year, our near-term outlook on the SEK is neutral. This is reflected in a projection of 10.2000 for March and a year-end outlook closer to 9.8000.**

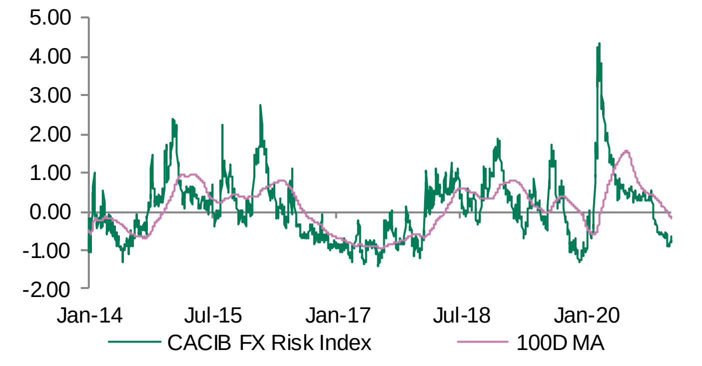
- **Last but not least, we still expect the SEK to underperform peers such as the NOK, simply due to wider policy differentials and as higher NOK rate advantage should keep the currency more sensitive to firm risk appetite in an environment characterised by global healing.**

Fig 1. EUR/SEK trended lower in recent months…




Source: Crédit Agricole CIB, Bloomberg

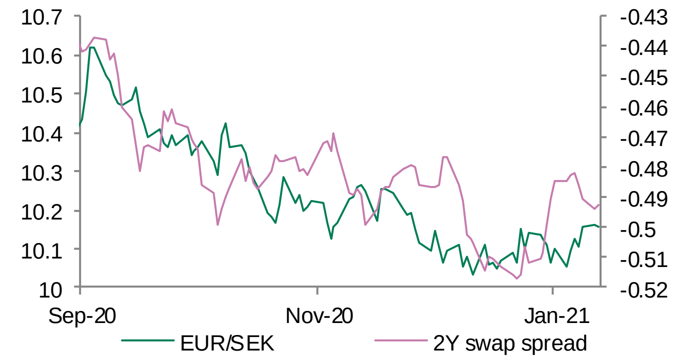
Fig 2. …with falling risk aversion…




Source: Crédit Agricole CIB, Bloomberg

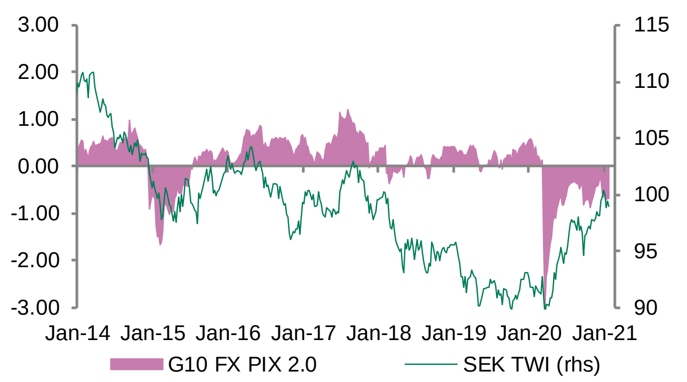
The SEK has been appreciating for most of the past few months with crosses such as EUR/SEK trading close to multi-year lows and not far from our 10.2000 March projections. While most currency upside during the last few quarters has been driven by reduced rate cut expectations, rebounding risk appetite and material position squaring, short-term upside is likely to prove limited from here. This makes sense when considering that positioning is closer to balanced territory and as there is little scope for Riksbank members to make a case for further rising central bank rate expectations. This does not, however, mean that the currency should be sold. On the contrary, we retain a positive long-term view but believe it will depend on external factors such as improving trade-related capital flow to trigger further upside. At the same time, we do not rule out that better levels could be reached in the next few weeks for re-entering EUR/SEK shorts.

**Fig 3. …and tighter policy differentials among the drivers**




*Source: Crédit Agricole CIB, Bloomberg*

**Fig 4. There is limited room for further position squaring-related upside**

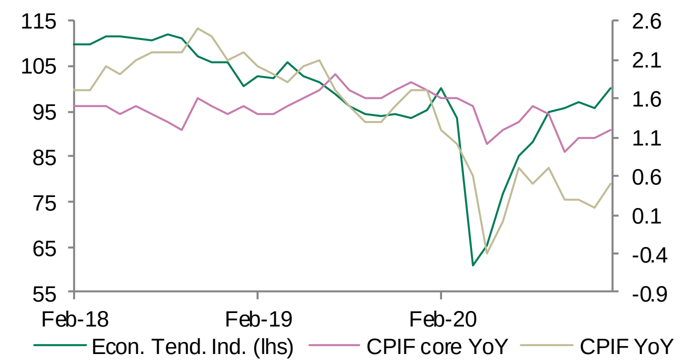



*Source: Crédit Agricole CIB, Bloomberg*

## Riksbank outlook unlikely to change

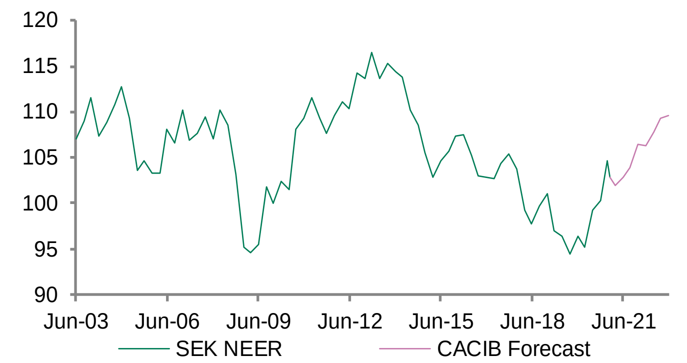
Most Riksbank members have been explicit during the past few weeks and months that all options including lowering rates back below zero will be kept open. At the same time, however, it has become clear that there is bigger focus on liquidity measures in order to support the economy as needed. On top of that, core inflation as well as long-term inflation expectations have been stabilising. This is important as fairly well-anchored expectations as implied by Prospera surveys speak against the stronger currency being much of a drag to prices so far. Even though actual price growth remains muted, fundamentals as they stand should not favour easing monetary policy via another rate cut. While such a conclusion has been in line with consensus, it comes as no surprise that markets have been pricing out rate cut expectations over the past few months and quarters. Even though Riksbank members' threat to cut rates again is not taken as credible, unchanged rhetoric should still prove sufficient for preventing markets from pricing in higher rates in the foreseeable future.

**Fig 5. Better fundamentals to the benefit of higher rate expectations may be needed for sustained upside…**




*Source: Crédit Agricole CIB, Bloomberg*

**Fig 6. …prospects which are in line with our long-term oriented base case**




*Source: Crédit Agricole CIB, Bloomberg*

In an environment characterised by stable rate outlook, further currency upside may ultimately depend on improving trade-related capital flow situation. While manufacturing sector-related business activity has been improving, more sustained improvement seems unlikely unless lockdown restrictions are widely eased in Europe. As we expect conditions to start improving more meaningfully starting later this year, we stick to a positive long-term outlook in SEK as reflected in running a year-end EUR/SEK 9.8000 target. This does not mean, however, that we expect the currency to outperform its Scandie peers such as the NOK. On the contrary, bigger rate advantage and therefore higher sensitivity to risk sentiment and actual preparedness to tighten monetary policy during the forecast horizon should still keep the NOK/SEK cross a buy on dips. Accordingly, we retain our long trade recommendation from 0.9510 on the pair while expecting a move back above parity in coming few months.

## Summary

Both limited room for further rising central bank rate expectations and positioning being closer to balanced territory speak for a more neutral take on the SEK, at least over the next couple of months. In the grand scheme of things, we retain a positive stance against the likes of the EUR, which will, however, depend on improving trade-related capital flow situation to the benefit of the currency more than anything else. Against its Scandie peers such as the NOK, we continue to favour underperformance. After all, the Norges Bank has been showing greater readiness to tighten monetary policy over the forecast horizon with wider policy differentials likely to continue putting a floor below the NOK/SEK cross.

# FX Focus recent publications

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| 04/02/2021 | FX Focus | SEK: neutral, but just for now |
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| 27/01/2021 | FX Focus | AUD: getting a bit ahead of itself |
| 21/01/2021 | FX Focus | Risk sentiment, positioning and the CHF |
| 20/01/2021 | Key FX Views & Forecasts Update | 2021 FX outlook: "Buy the cyclical recovery, sell the USD" - a post-"blue wave" update |
| 20/01/2021 | Economics Focus | The 'blue wave': impact on our macro and market outlook |
| 15/01/2021 | FX Focus | USD: turning less bearish in the near term |
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| 01/12/2020 | Key FX Views & Forecasts Update | 2021 FX outlook: buy the cyclical recovery, sell the USD |
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| 28/10/2020 | FX Focus | USD and the US election: it's the economy, stupid |
| 22/10/2020 | FX Focus | AUD: gone walkabout |
| 21/10/2020 | Key FX Views & Forecasts Update | FX outlook: "The dollar is our currency, but it's your problem…" |
| 15/10/2020 | FX Focus | FX positioning update: Introducing G10 FX PIX 2.0 |
| 08/10/2020 | FX Focus | Gold unlikely to lose its shine |
| 06/10/2020 | FX Focus | GBP: the light at the end of the tunnel |
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| 15/07/2020 | FX Focus | EUR/USD: may the flow be with you |
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| 07/07/2020 | Key FX Views & Forecasts Update | FX outlook: Covid and US elections vs European solidarity |
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| 11/06/2020 | FX Focus | AUD: as good as it gets? |
| 11/06/2020 | FX Focus | EUR: growing upside risks to our long-term outlook |
| 02/06/2020 | FX Focus | USD: the US summer of discontent and the election |
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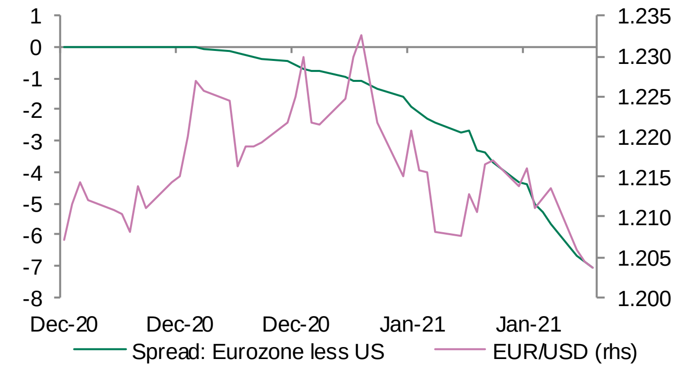
| 24/02/2020 | FX Focus | Month-end rebalancing model upgrade |

# Week ahead: key themes & trades

**EUR: A (not so sudden) fall from grace.** The EUR's fall from grace has been in the making since worries about the returning Covid pandemic and the subsequent lockdowns fuelled fears about a double-dip recession in the Eurozone at the start of the year. These concerns were further compounded by the relatively slow vaccine rollout. It did not help the EUR that the ECB has stepped up its verbal intervention by threatening to cut rates further if the FX appreciation continued and thus threatened the Eurozone's inflation outlook. Last but not least, the unfolding political drama in Rome has highlighted the risks that linger under the umbrella of fiscal solidarity provided by the EU recovery fund. All of that has led to some important changes in recent Eurozone ETF flows. The first is that the recent inflows started going into reverse. The correction has been led by the unhedged ETF flows that until recently have underpinned the strong positive correlation between the EUR and risk appetite. We believe that any potential recovery in investors' demand for Eurozone assets will be accompanied by short-EUR hedges to protect against future depreciation of the single currency. Given the negative rates in the Eurozone, these hedges will further boost the return on any long-EUR exposure for foreign investors while severing the currency's link to risk appetite. Moreover, the significant rate disadvantage of the EUR could make it once again a funding currency of choice. Next week, we have a relatively empty data calendar and several ECB speakers. The latter will likely toe the party line and jawbone the EUR, which could leave the single currency vulnerable.

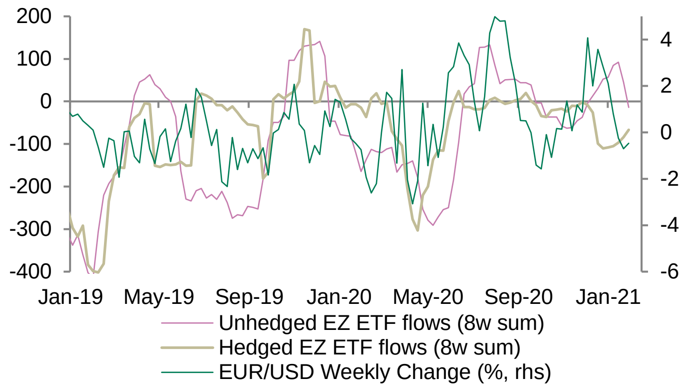
*The EUR could re-emerge as a funding currency of choice in the near term*

**EUR/USD and the spread between the vaccination rates in the Eurozone and the US**




*Source: Crédit Agricole CIB, Bloomberg*

**EUR/USD and Eurozone ETF flows**

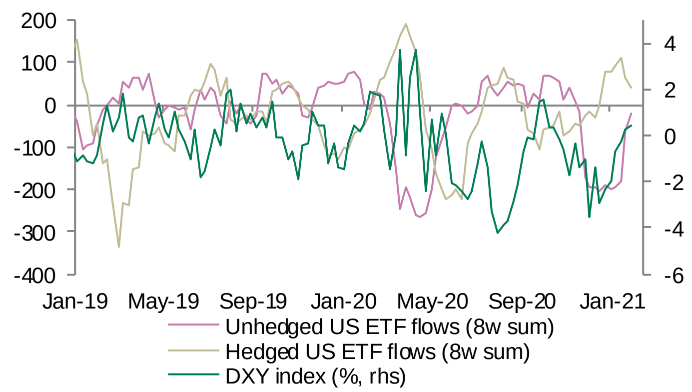



*Source: Crédit Agricole CIB, Bloomberg*

**USD: From the ultimate safe-haven to the recovery bellwether.** The transition of the USD in recent days from the ultimate safe haven to the bellwether currency of the post-Covid recovery has been abrupt and brutal. Many investors who have been selling the USD and buying risk in recent months as part of the so-called 'reflation trade' are still puzzled by the sudden breakdown in the correlation between the USD and risk. While we doubt that we are on the verge of a fresh multi-month USD uptrend, there are some reasons to expect that the USD and risk appetite could continue to recover in tandem for the time being. The US economy is emerging from its pandemic-induced slowdown and, thanks to aggressive fiscal stimulus and easy financial conditions, could outperform most developed economies at the start of the year. This should continue to attract portfolio inflows into US stocks. Different from before, however, we think that investors will switch to unhedged purchases, given the falling risk of USD-selloff. The USD can be further supported by the steady improvement of the US inflation outlook. Potential positive surprises from the US CPI data next week could give UST yields and the USD a boost, especially if the incoming Fed speakers strike a less cautious tone on the economy. The combination of higher UST yields and a stronger USD should also trigger a tightening of US financial conditions that could hurt risk sentiment over time. This further highlights the fact that there is a limit to which the USD- and the risk-rally can continue in tandem. That said, we think that the combination of

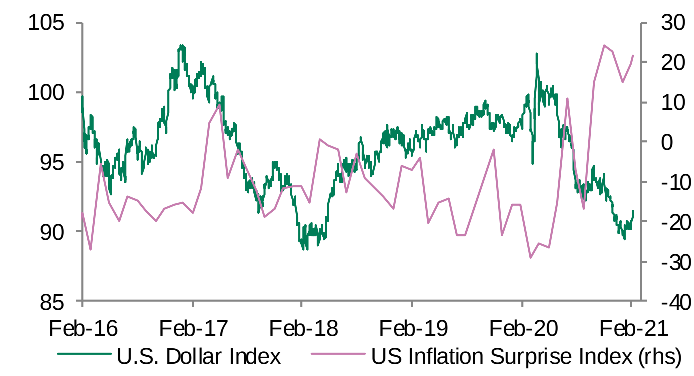
*The USD could remain supported on the back of recovering UST yield and positive inflation surprises out of the US* higher UST yields and robust risk sentiment will persist for now and have recently bought the USD vs the JPY and the CHF.

**USD index and US ETF flows – hedged and unhedged**




*Source: Crédit Agricole CIB, Bloomberg*

**USD index and US inflation surprise index**



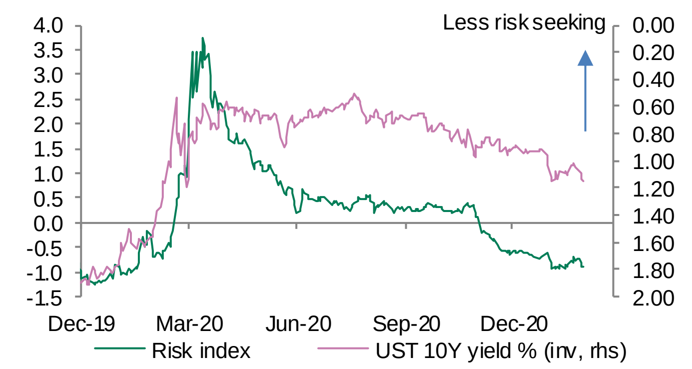

*Source: Crédit Agricole CIB, Bloomberg*

**JPY: Doubly weighed down.** The JPY faces the dual weights of strong risk sentiment and higher UST yields. Indeed, as long as risk sentiment can withstand higher UST yields, the JPY will continue to weaken against the USD as well as cyclical G10 currencies. For this reason, the US non-farm payroll and CPI data will be important for the JPY. Strong payrolls data would see the JPY weaken universally, whereas strong US inflation data would see the JPY weaken against the USD, but depending on how well risk sentiment holds up it could strengthen against cyclical currencies.

*The JPY faces the dual weights of strong risk sentiment and higher UST yields. As long as risk sentiment can withstand higher UST yields, the JPY will continue to weaken against the USD as well as cyclical G10 currencies.*

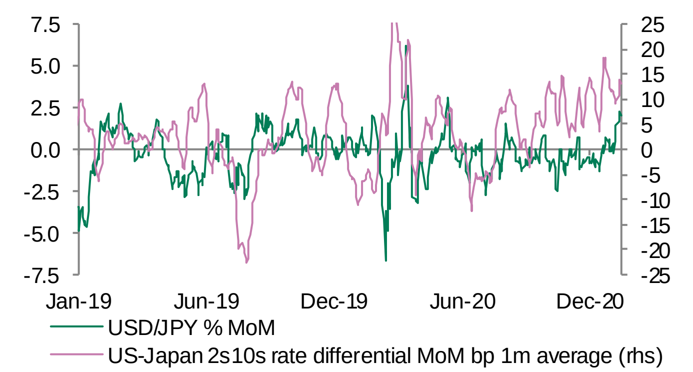
This week, PM Yoshihide Suga decided to extend the state of emergency by one month till 7 March for ten prefectures including Tokyo and Osaka. We had assumed that it would be extended by a month in making our GDP forecasts. We currently expect Japan's Q1 real GDP to fall by 1.8% QoQ (-7.1% saar) and feel comfortable leaving this intact. Our annual real GDP forecasts are -5.7% for FY20 (ending in Q1 21) and +3.1% for FY21, which compare well with the BoJ's (-5.6% for FY20 and +3.9% for FY21), suggesting that the bank had also implicitly expected that the state of emergency could be extended as we had. Therefore, this extension will not come with any pressure for the BoJ to take action. Our focus on the BoJ continues to be on the results of the "assessment" of monetary easing made public at the March MPM. We expect an increase in flexibility of equity-linked ETF purchases and, albeit less likely, an increase in the allowed deviation of the 10Y JGB yield from the target (currently 20bp to either side).

**Despite higher UST yields, risk sentiment is holding up**




*Source: Crédit Agricole CIB, Bloomberg*

**USD/JPY is playing some catch up with the steepening in the UST curve**

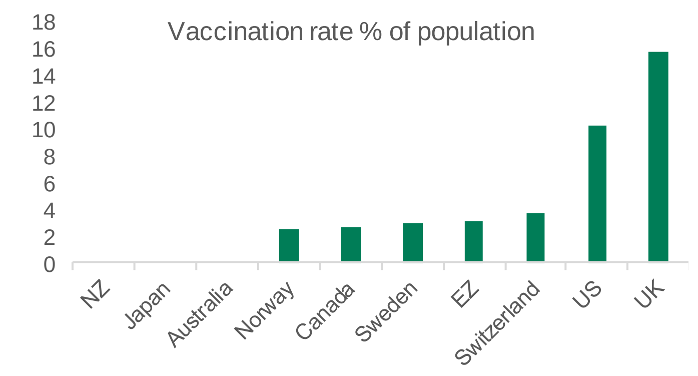



*Source: Crédit Agricole CIB, Bloomberg*

**GBP: The vaccine champion of G10.** The GBP remains the vaccine champion in the G10 FX space and this will remain an important support for the currency. More recently, the rates markets have been pricing out future BoE rate

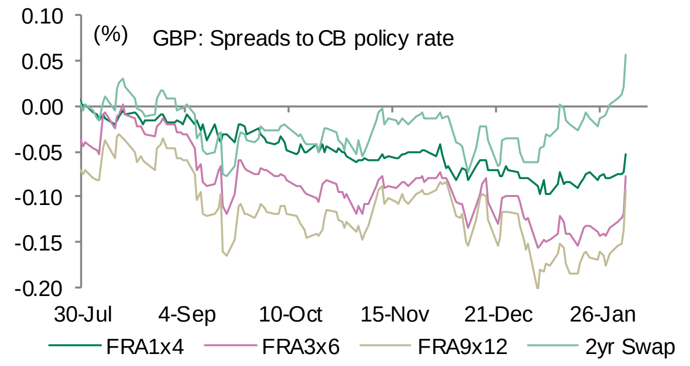
*The GBP could remain the only major currency that is able to hold its ground vs the USD in the near term* cuts after the MPC kept it policy unchanged in February while upgrading its inflation and growth projections. That said, there are a number of reasons to remain cautious on the GBP over the long term. Indeed, the apparent advantage that the swifter vaccine rollout has given the GBP especially over the beleaguered EUR is likely to be temporary with other countries also likely to catch up with the UK in Q2. In addition, the UK still has the most onerous lockdown measures in place in the whole of the G10 and this will continue to weigh on the outlook in Q1, likely plunging the economy into a double-dip recession. We further believe that persistent uncertainty after the Brexit deal and the risk of a second independence referendum in Scotland will further add to the uncertainty in Q2. Next week's GDP, industrial and manufacturing output data would be a testament to the severity of the lockdowns on the UK economy. That said, the GBP could remain the only major currency that is able to hold its ground vs the USD even if the UK data triggers some volatility in the near-term.

**The UK had the fastest vaccine rollout in G10**




*Source: Crédit Agricole CIB, Bloomberg*

**Markets priced out future BoE rate cuts after the February policy meeting**

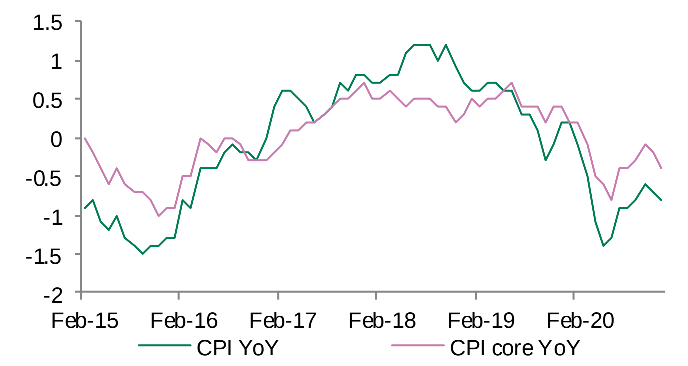



*Source: Crédit Agricole CIB, Bloomberg*

*Next week's inflation data is unlikely to lower deflation fears*

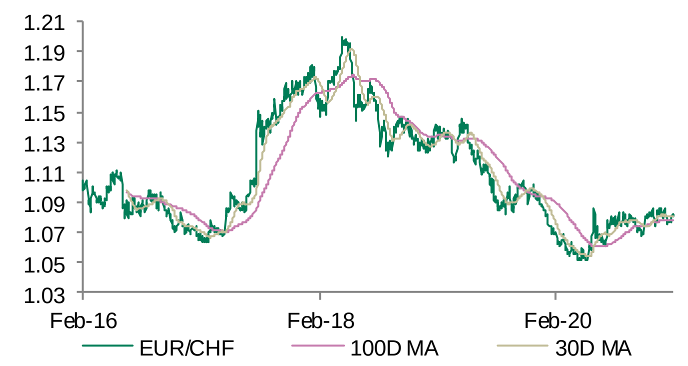
**CHF: All eyes on inflation.** The CHF has been capped for most of the week, mostly on the back of still firm risk sentiment. Even if sentiment were to deteriorate again, we believe the currency is likely to remain subject to downside risks. This is not only due to still elevated speculative long positioning suggesting there is only limited room for rising buying interest to the benefit of the CHF but also as there is little scope for the SNB to consider a less aggressive monetary policy stance anytime soon. In that respect, all eyes will be on January CPI, to be released next week. At -0.6% (prev. -0.8%), price growth is expected to remain in negative territory. Hence, incoming data is unlikely to lower deflation fears. We stay of the view that the CHF is in the slow process of changing a multi-year appreciation trend.

**Price growth stays firm in negative territory**




*Source: Crédit Agricole CIB, Bloomberg*

**We expect EUR/CHF to slowly grind higher**



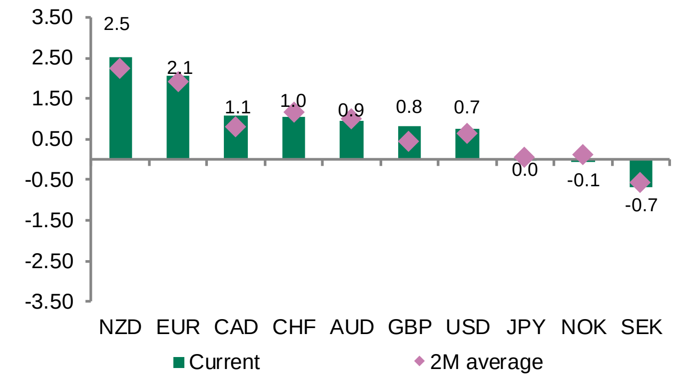

*Source: Crédit Agricole CIB, Bloomberg*

*As of now, we stick to a more cautious stance on the currency, especially compared to its commodity bloc peers*

**CAD: Caution still warranted.** Ahead next week, it will be quiet in terms of market moving data releases. However, a speech by BoC Deputy Governor

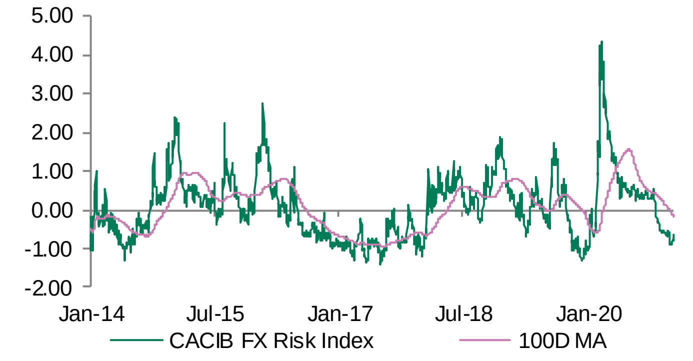
Timothy Lange may attract some attention with most recent newsflow suggesting that central bankers are discussing whether to tolerate inflation overshoots down the road. However, it may be too early to get any new insights on the topic with an announcement on any mandate renewal not expected before year-end. So much should still speak in favour of stable rate expectations and this still leaves the currency primarily driven by external factors such as global risk sentiment in general and commodity prices in particular. At the same time, elevated speculative long positioning suggests the CAD is unlikely to keep strong sensitivity to risk-on sentiment with downside risks remaining intact. As of now, we stick to a more cautious stance on the currency, especially compared to its commodity bloc peers.

**Increased long positioning may lower the CAD's…**




*Source: Crédit Agricole CIB, Bloomberg*

**…sensitivity to lower risk aversion**

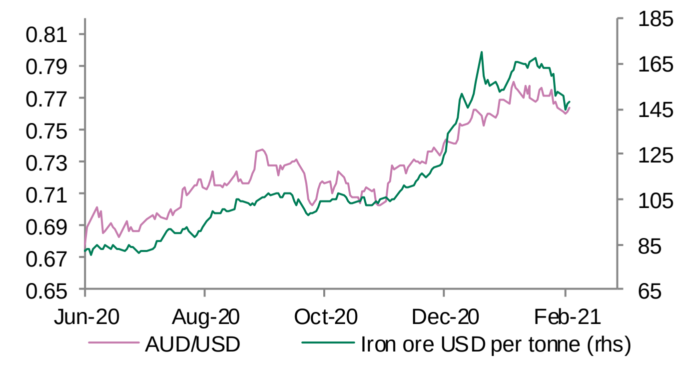



*Source: Crédit Agricole CIB, Bloomberg*

**AUD & NZD: Caught between rates and equities.** The Antipodeans remain trapped in the cross-currents of firm risk sentiment, but higher UST yields and a stronger USD. With this in mind, investors will be watching the US non-farm payrolls and CPI data in the coming week. Strong payrolls data would likely buoy sentiment and limit Antipodean downside vs the USD on the back of higher UST yields. A spike in inflation, however, could weaken the Antipodean currencies if risk sentiment cannot withstand higher UST yields. The AUD has yielded more ground than the NZD given the RBA's extension of its QE as well as weaker iron ore prices. We remain short AUD/USD as a trade recommendation and expect further declines in iron ore prices over the Lunar New Year period as well as a fragile February in terms of investor sentiment to weigh on the exchange rate. The NZD has been supported by strong economic data and the market continuing to price out further rate cuts and even QE by the RBNZ. We expect the RBNZ, like the RBA, to push back against any tapering of its QE.

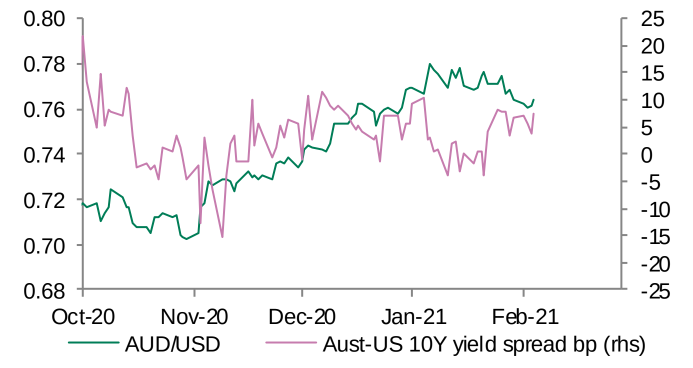
*Strong payrolls data would likely buoy sentiment and limit Antipodean downside vs the USD on the back of higher UST yields. A spike in inflation, however, could weaken the Antipodean currencies if risk sentiment cannot withstand higher UST yields.*

**Iron ore continues to weaken and weigh on the AUD**




*Source: Crédit Agricole CIB, Bloomberg*

**Australian 10Y yields do not have much yield premium over USTs**

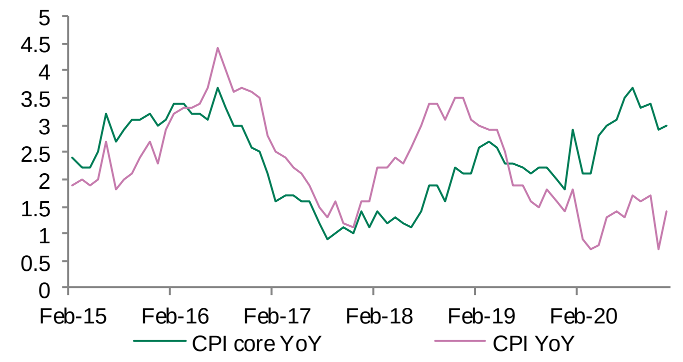



*Source: Crédit Agricole CIB, Bloomberg*

**NOK & SEK: No change from Riksbank.** Ahead next week all eyes will be on the Riksbank's monetary policy announcement and Norwegian inflation data for January. With the main focus being on core and as price growth

*We see low hawkish surprise potential as when it comes to next week's Riksbank monetary policy announcement* is likely to remain well above target, incoming data should continue to support the Norges Bank's more hawkish stance. This stands in contrast to Sweden, where we believe that central bank Governor Stefan Ingves is unlikely to consider a less cautious stance when monetary policy will be announced. This means he is likely to reassure that all options will be kept open including cutting rates back into negative territory to support the economy as needed. Although the bar for doing so should be treated as being exceptionally high, we expect such rhetoric to prevent the currency from facing more sustained short-term upside risks. Hence, all of the above stays in favour of our more positive view on the NOK/SEK cross, which should continue to benefit from a combination of wider expected policy differentials and firm risk sentiment.

**Core inflation remains well above target**




*Source: Crédit Agricole CIB, Bloomberg*

**We expect NOK/SEK to trend higher**


*Source: Crédit Agricole CIB, Bloomberg*

# CACIB FX Volatility Monitor

*Updated 01 February 2021*

*For more information please refer to the FX Volatility Monitor –Introducing our FX Volatility Monitor*

- **Our inflation strategist expects US headline CPI inflation to leap to 3% in Q221. While the spike would be driven by temporary factors and thus could be ignored by the Fed, it could nevertheless trigger an 'inflation tantrum' in Q221 amidst growing inflation expectations and growth optimism supported by aggressive fiscal stimulus and better control over the pandemic. This could subsequently result in higher UST yields, a steeper UST yield curve, a stronger USD and higher FX vol.**

- **The re-accelerating US CPI has taken the markets by surprise in recent months and could continue to do so in the coming months on the back of powerful annual base effects in commodity prices that should peak only in Q220. Our historic analysis of the impact of previous episodes of significantly positive US inflation surprises on the USD index and FX vols suggests that there has been a lead-lag relationship with inflation of around six months.**

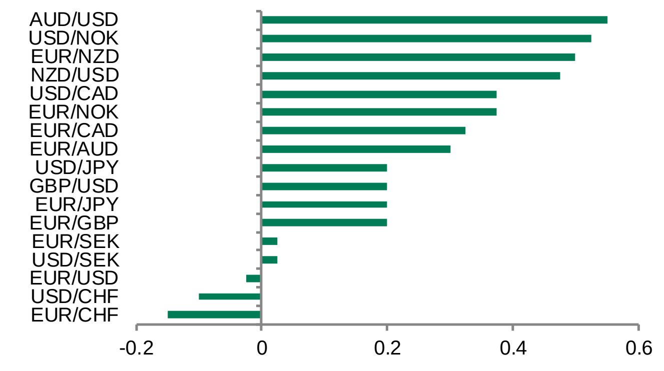
- **The above would imply that the current very positive US inflation surprises could point at upside risks to both the USD and FX vols in Q220. We think that the positive impact would further depend on the reaction in long-term UST yields and the slope of the UST yield curve (measured here with UST 2s10s). The combination of accelerating inflation and stabilising growth in the US could give rise to market taper speculations that could push UST yields higher and trigger a bear steepening of the UST yield curve.**

- **In turn, this could weigh on risk sentiment, boost the USD and fuel FX volatility. Our FX sensitivity analysis further highlights that the likes of the AUD, the GBP and the CAD could be the most vulnerable, while the JPY and the CHF could be the least vulnerable to any spike in risk aversion on the back of tightening US financial conditions. Their vols could rebound further, consistent with a seasonal pattern of short-dated USD-vol spikes in March and May.**

- **Our relative value analysis suggests that CHF, GBP, NOK, SEK and EUR/USD vols look cheap compared to realised vols and own history across 3M, 6M and 1Y tenors. We further note that the vol curves for the commodity currencies – the NOK, CAD, AUD and NZD – are still inverted and their respective 1M1M and 2M1M forward vols appear cheap. This seems to be the case for 3M3M, 6M3M and 9M3M NOK forward vols as well. Short-dated NOK vols could be interesting longs in the event of a potential 'inflation tantrum' in Q221.**

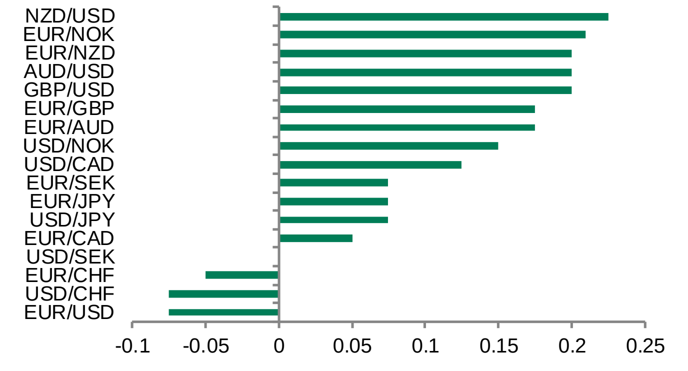
- **Our analysis of FX gamma indicates that in contrast to the rest of G10 FX, USD/NOK and USD/SEK FX gamma is looking relatively cheap. Indeed, both the USD/NOK and USD/SEK 1W straddles (in pips) are trading at a significant discount relative to their recent average daily FX spot range. In our view, USD/SEK gamma could be an interesting buy ahead of next week's Riksbank meeting. Furthermore, AUD/USD and GBP/USD gamma could also remain supported ahead of this week's RBA and BoE policy meetings.**

## Weekly Performance (change) – 1M implied volatility



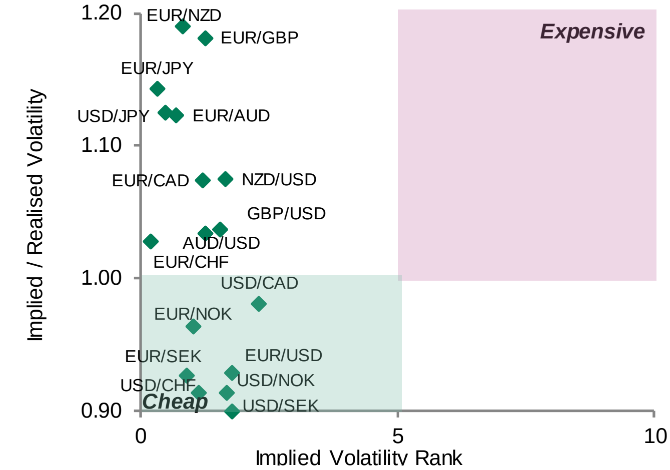

Source: Bloomberg, Crédit Agricole CIB

## Weekly Performance (change) – 1Y implied volatility



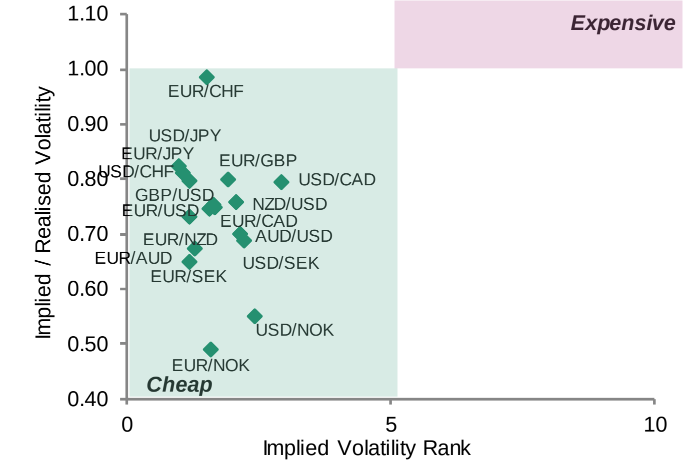

Source: Bloomberg, Crédit Agricole CIB

## Relative Value – 1M implied volatility



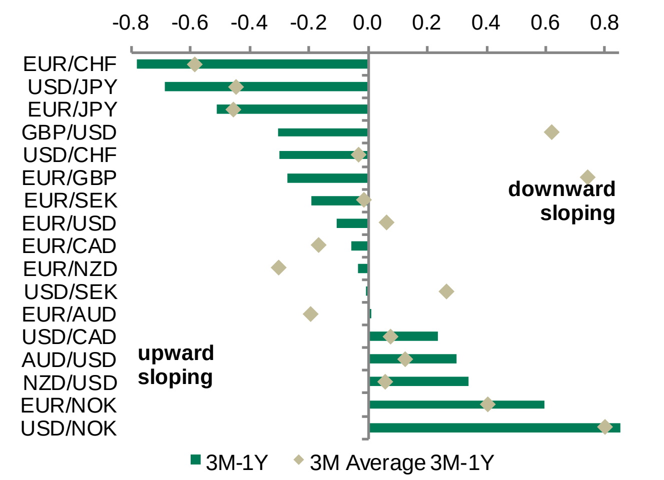

Source: Bloomberg, Crédit Agricole CIB

## Relative Value – 1Y implied volatility



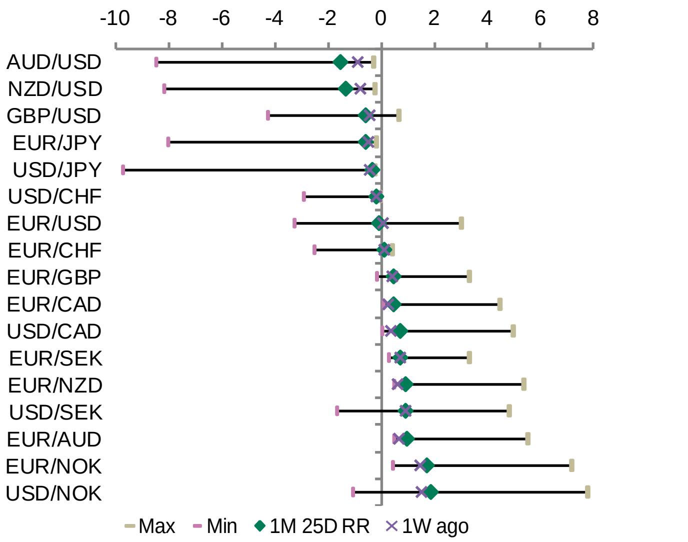

Source: Bloomberg, Crédit Agricole CIB

## Volatility Slope 3M – 1Y




Source: Bloomberg, Crédit Agricole CIB

## 1M Risk Reversals




Source: Bloomberg, Crédit Agricole CIB

# FX Positioning Update

*This is our weekly update published 01 February 2021*

- **According to our FX positioning gauge, the AUD was sold for most of the last week with downside being primarily driven by increased selling interest from speculative oriented investors such as hedge funds. With last week's price action leading to less elevated speculative long positioning which lowers position squaring-downside risks from here, our positioning based model turns neutral on the currency. This comes after being short last week and positing a 1.12% profit. However, depending on external factors such as risk sentiment, downside risks remain intact. Hence, we keep a cautious stance which remains reflected in our fundamentally driven short AUD/USD trade recommendation.**

- **Elsewhere, the GBP was sold last week, in particular by real money investors and corporate clients. However, this was not reflected in price action with the currency having stabilised. Hence, last week's short GBP/USD trade was closed broadly flat with our positioning based indication having turned neutral from here.**

- **Turning to the EUR, real money investors continued to buy with long positioning remaining close to multi-month extremes. However, with the current degree of net long positioning being broadly in line with its longer-term average, position squaring-related downside risk seems low. If anything, much will depend on the USD angle when focusing on majors such as EUR/USD.**

- **With USD long positioning being far from overbought territory, and as it cannot be excluded that risk sentiment will turn more unstable in the weeks to come, there is scope for rising buying interest to the benefit of the currency. Alternatively, further rising market rates could help the USD regain ground against low yielders such as the CHF and JPY.**

- **At present, the G10 FX PIX 2.0 signals that positioning is close to the medium-term average for all currencies in the G10 space. Subsequently, we have not entered any new trades this week.**

*For more information please refer to the FX Focus – Introducing G10 FX PIX: our new G10 FX Positioning Index*

**Fig 1. New G10 FX PIX 2.0 trades this week**

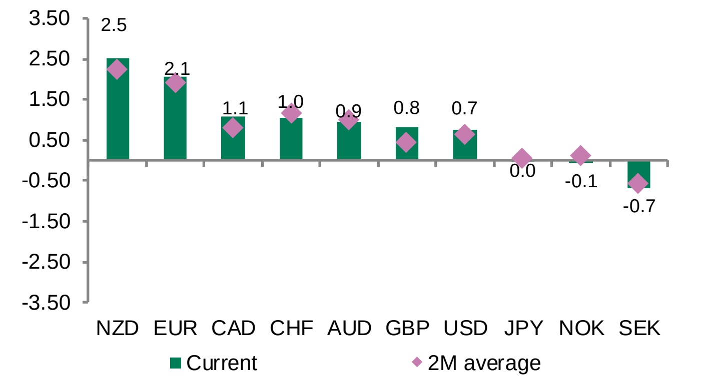
**No new trades this week**

*Source: Crédit Agricole CIB*

**Fig 2. G10 FX positioning at a glance**

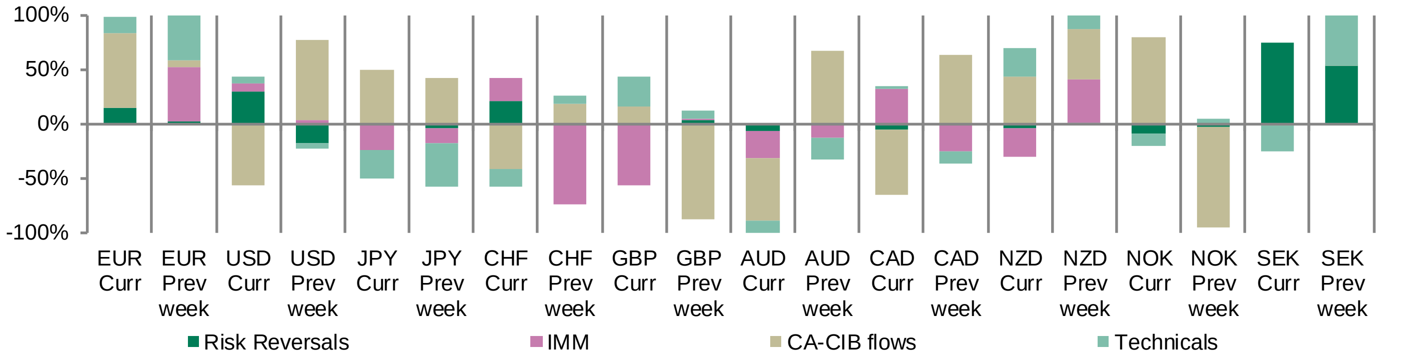

*Source: Crédit Agricole CIB*

**Fig 3. G10 FX positioning – current vs 2M average**



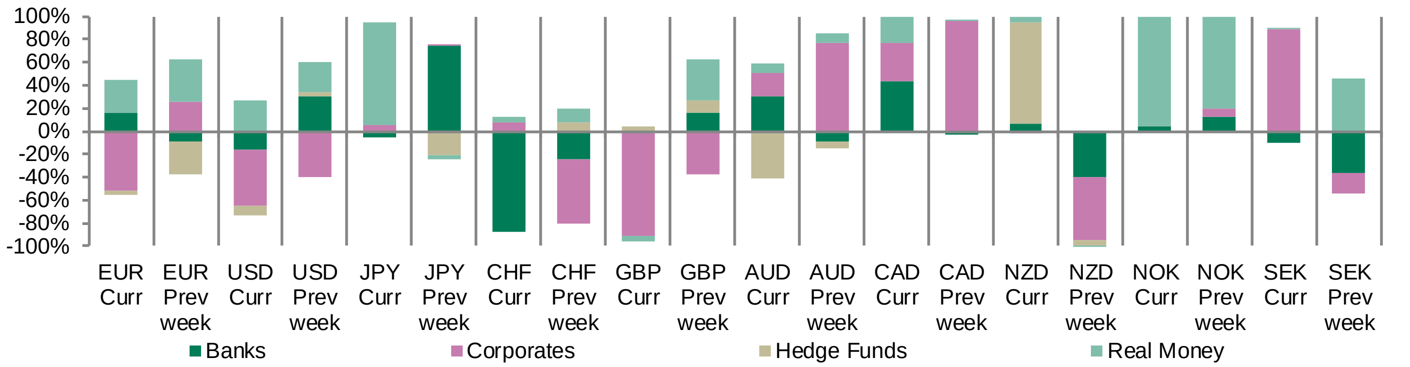

*Source: Crédit Agricole CIB*

Fig 4. Current vs previous week weighted contributions of positioning sub-indices



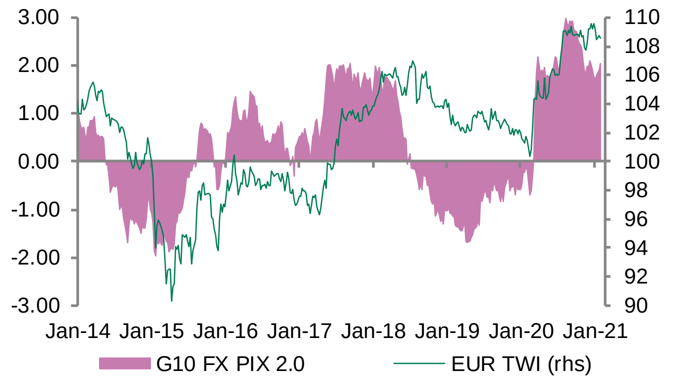

Note: A negative (positive) z-score could mean that the change in the underlying positioning data is below (above) its long-term average

Fig 5. Current vs previous week FX flows



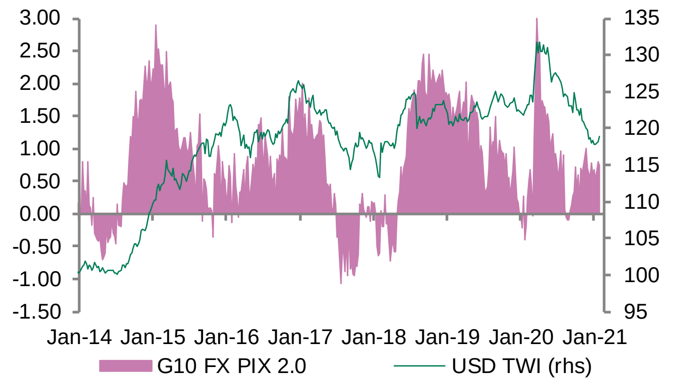

*Source: Crédit Agricole CIB*

Fig 6. G10 FX PIX 2.0 for EUR



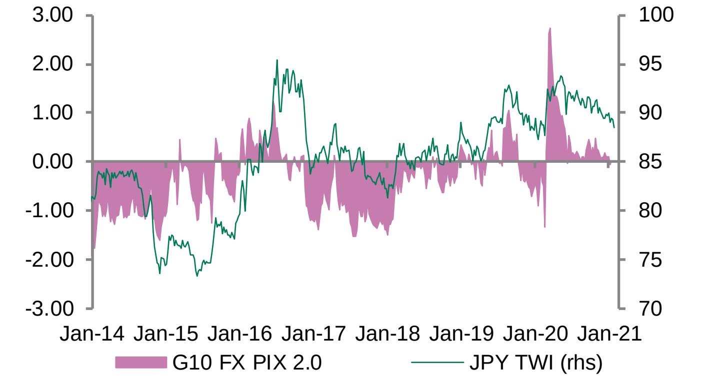

*Source: Crédit Agricole CIB, Bloomberg*

Fig 7. G10 FX PIX 2.0 for USD



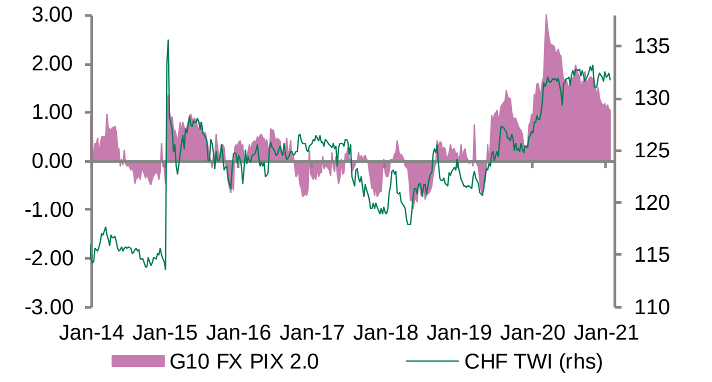

*Source: Crédit Agricole CIB, Bloomberg*

**Fig 8. G10 FX PIX 2.0 for JPY**



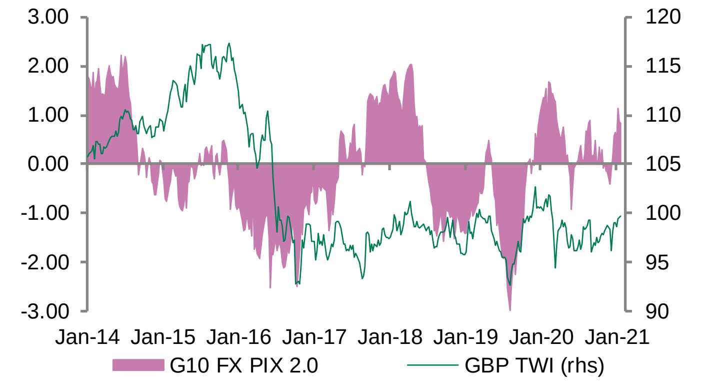

*Source: Crédit Agricole CIB, Bloomberg*

**Fig 9. G10 FX PIX 2.0 for CHF**



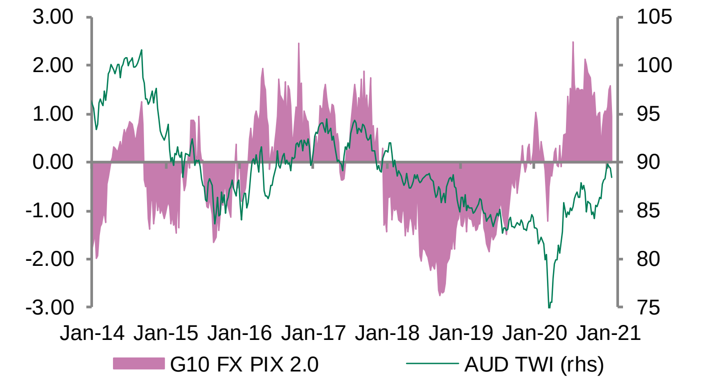

*Source: Crédit Agricole CIB, Bloomberg*

**Fig 10. G10 FX PIX 2.0 for GBP**



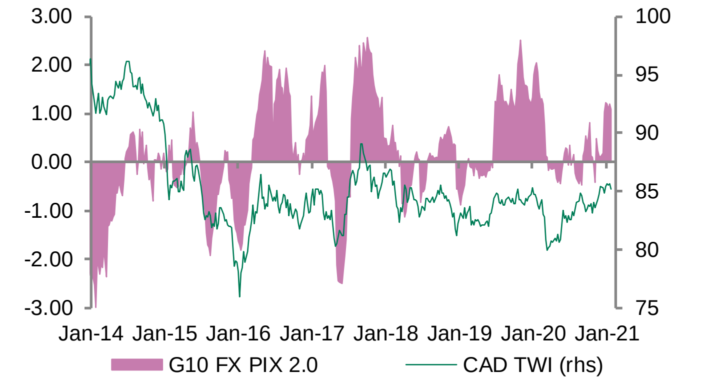

*Source: Crédit Agricole CIB, Bloomberg*

**Fig 11. G10 FX PIX 2.0 for AUD**



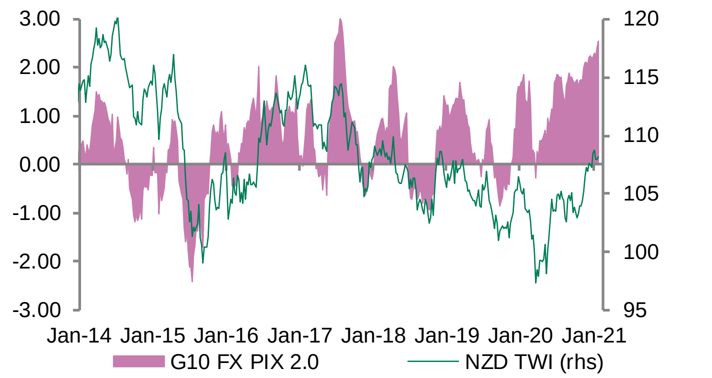

*Source: Crédit Agricole CIB, Bloomberg*

**Fig 12. G10 FX PIX 2.0 for CAD**



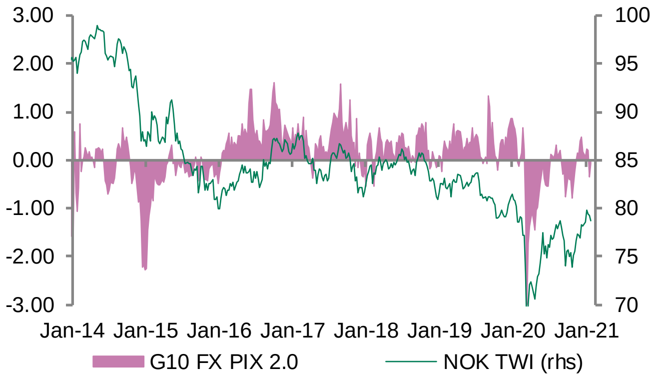

*Source: Crédit Agricole CIB, Bloomberg*

**Fig 13. G10 FX PIX 2.0 for NZD**



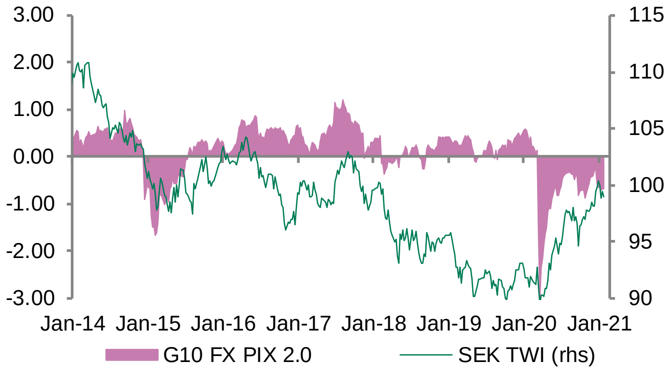

*Source: Crédit Agricole CIB, Bloomberg*

**Fig 14. G10 FX PIX 2.0 for NOK**




*Source: Crédit Agricole CIB, Bloomberg*

**Fig 15. G10 FX PIX 2.0 for SEK**




*Source: Crédit Agricole CIB, Bloomberg*

# FAST FX Fair Value Model Update

*This is our weekly update published 01 February 2021*

- The FAST FX model made 1.13% being short AUD/USD last week and is up 12.29% over the past year with a hit rate of 65%. This week, the AUD/USD primary model has become unstable once again and so the FAST FX model has switched to using its secondary model to estimate the exchange rate's short-term fair value (currently 0.7864).
- Based on this fair value, AUD/USD is undervalued and just short of the two standard deviation move below fair value required to trigger a buy recommendation when a secondary model is being used to estimate fair value.
- The rest of the G10 crosses covered by the FAST FX model continue to trade close to their estimated fair values. The EUR/GBP primary model remains unstable and the secondary model estimates the exchange rate's estimated fair value to be 0.8813.
- The rally in USD/JPY last week has taken the exchange rate into modestly overvalued territory. The exchange rate's estimated short-term fair value has been pushed up from 103.73 to 103.94 on the back of the steepening in the UST curve.

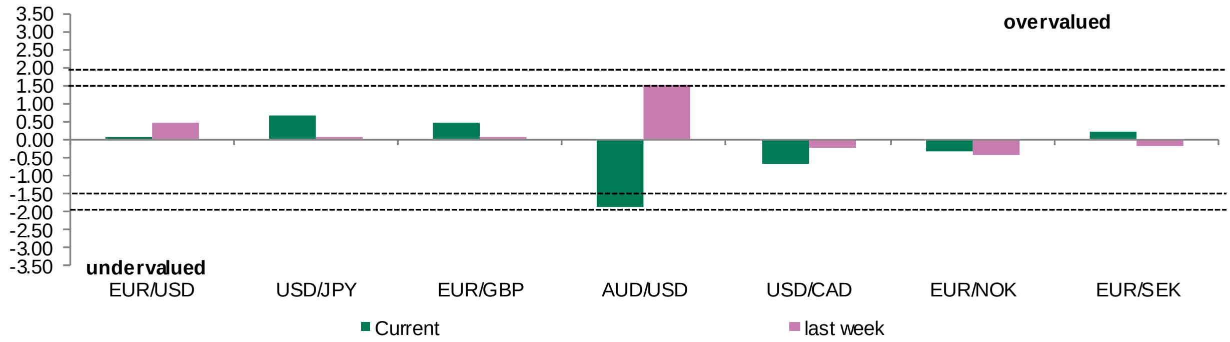
*For more information please refer to the FX Focus – Introducing our FAST FX fair value model*

**New trades this week**

**No new trades this week**

*Source: Crédit Agricole CIB*

**FX under/overvaluation – Z-scores**




*Dotted lines mark 1.5 and 2 standard deviations in the Z-score*

*Source: Crédit Agricole CIB*

**FAST FX fair value summary**

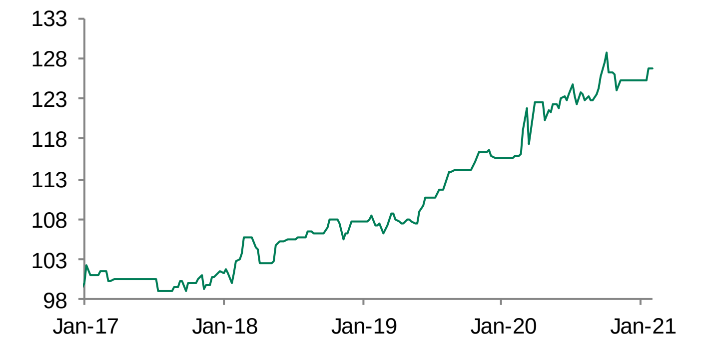
| | FX spot (Friday NY close) | Fair value estimate | Under /over valuation | Z-score | Stability filter |
|---|---|---|---|---|---|
| **EUR/USD** | 1.2136 | 1.2127 | 0.07% | 0.05 | stable |
| **USD/JPY** | 104.68 | 103.94 | 0.71% | 0.66 | stable |
| **EUR/GBP** | 0.8856 | 0.8813 | 0.49% | 0.45 | unstable |
| **AUD/USD** | 0.7644 | 0.7864 | -2.80% | -1.90 | unstable |
| **USD/CAD** | 1.2777 | 1.2857 | -0.62% | -0.69 | stable |
| **EUR/NOK** | 10.3855 | 10.4386 | -0.51% | -0.33 | stable |
| **EUR/SEK** | 10.1542 | 10.1404 | 0.14% | 0.20 | unstable |

*For a stable regime – the primary model is used whereby trades are triggered when the z-score is greater than 1.5 or less than -1.5; while for an unstable regime – the secondary model is used and the trigger level is +/-2 for the z-score.*

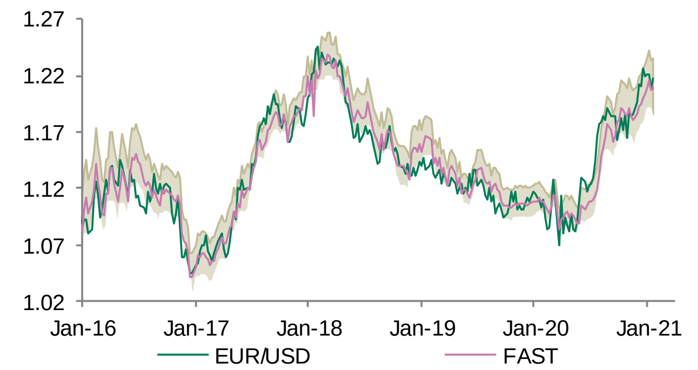
*Source: Bloomberg, Crédit Agricole CIB*

## Short-term fair value charts

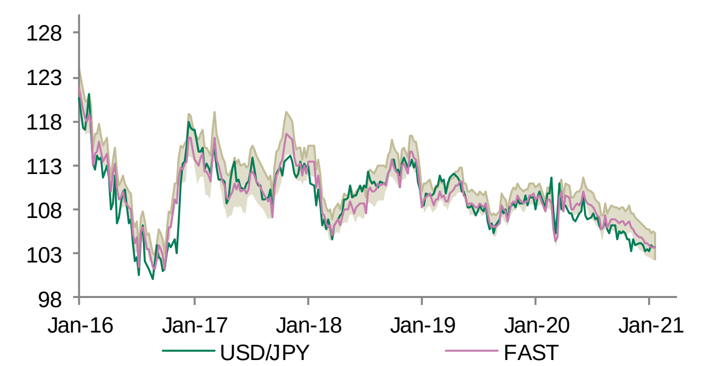
**FAST FX Model performance since 2017**



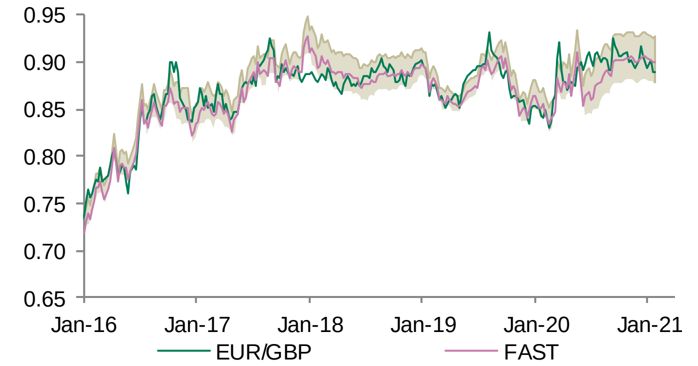

**EUR/USD**



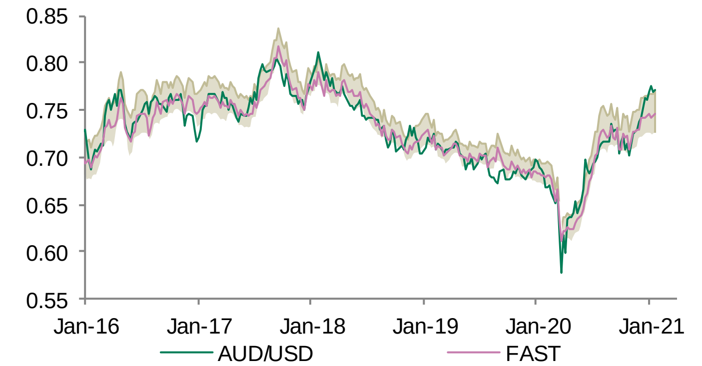

**USD/JPY**



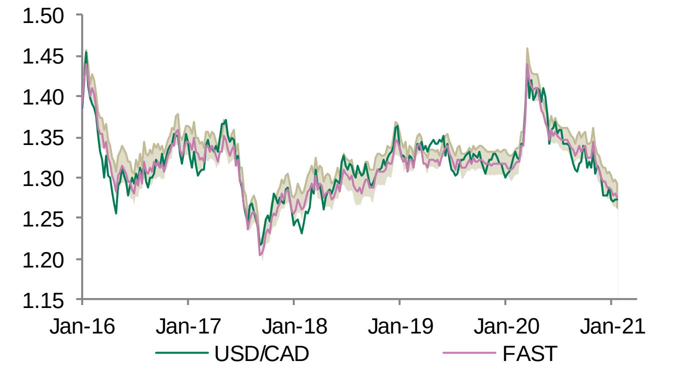

**EUR/GBP**



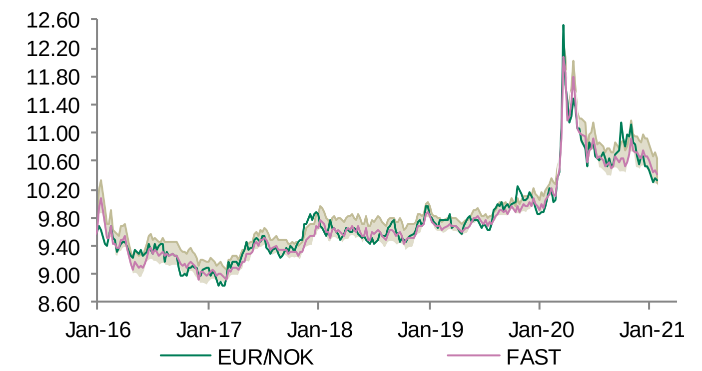

**AUD/USD**



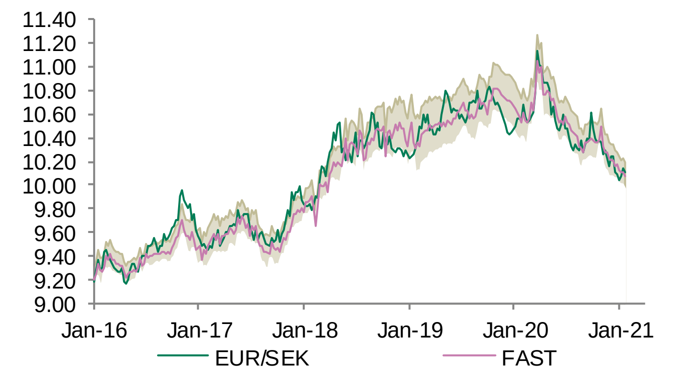

**USD/CAD**




**EUR/NOK**




**EUR/SEK**




*Note: Shaded area represents 1.5 standard deviation bands*

*Source all charts: Crédit Agricole CIB, Bloomberg*

# FX Fair Value Model Update

*This is our latest update published 24 November 2020*

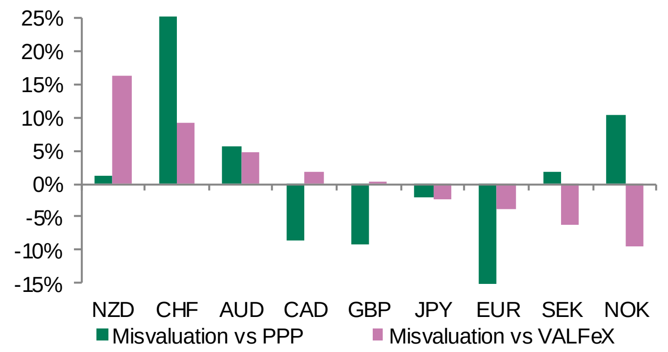
*For more information please refer to the FX Focus – [Introducing CACIB's FX fair value model: G10 VALFeX]*

- **The consolidation of the G10 VALFeX fair values for commodity currencies that we saw in Q220 accelerated in Q320. With the exception of the NOK, the model estimates returned to their pre-Covid-19 levels on the back of improving commodity terms of trade, external imbalances and real rates and yields relative to the USD. In particular, the fair value for AUD/USD and NZD/USD bounced to 0.70 and 0.591 in Q320 from 0.68 and 0.575 in Q220, respectively. Despite the recovery in the long-term fair value, however, both the AUD and the NZD are still looking overvalued at present, with the latter still the most expensive G10 currency. Elsewhere, the fair value estimates for USD/CAD and USD/NOK dipped to 1.33 and 8.15 in Q320 from 1.35 and 8.60 in Q220, respectively. Subsequently, the NOK is now the cheapest G10 currency while the CAD is looking somewhat overvalued.**

- **The other major development in Q320 was the fact that, after having been on a downtrend since Q316, the long-term fair value for GBP/USD has more recently showed its first signs of consolidation. Indeed, the G10 FX VALFeX fair value for GBP/USD rebounded modestly to 1.3350 in Q320 from 1.3290 in Q220, on the back of higher UK real rates and yields as well as the relative improvement of the UK's external position and terms of trade. Subsequently, GBP/USD looks fairly priced at present. Elsewhere, the fair value for USD/SEK dipped to 8.05 in Q320 from 8.22 in Q220. As a result, the SEK thus remains the second cheapest G10 currency.**

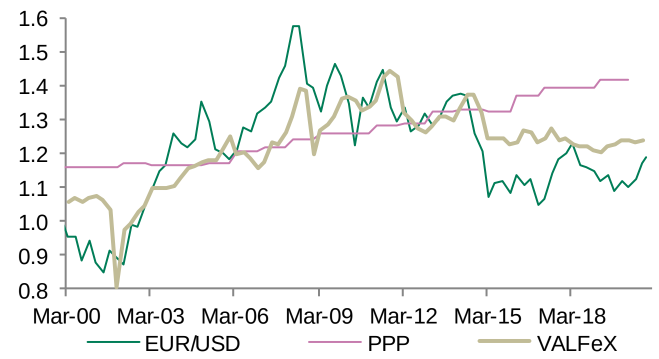
- **The EUR, CHF and JPY saw their fair values vs the USD largely stagnate, caught between the tailwinds of a growing real rate and yield advantage and improving relative external imbalances on the one hand, and the headwinds of worsening relative productivity and commodity terms of trade on the other. The VALFeX fair value for EUR/USD, USD/JPY and USD/CHF were 1.2390, 99.00 and 0.9940 in Q320 vs 1.2380, 98.50 and 1.00 respectively in Q220. These developments, together with the latest FX spot moves mean that the CHF is looking even more overvalued at present (vs both the G10 VALFeX and PPP long-term fair value) while the EUR and the JPY have corrected some of their past undervaluation already.**

**Commodity currencies and the CHF look expensive, while the EUR, JPY and Scandies look cheap**



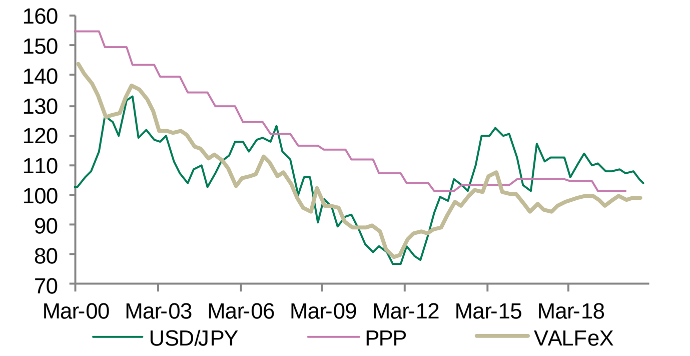

*Source: Crédit Agricole CIB, Bloomberg, OECD*

**The EUR looks undervalued relative to VALFeX and PPP**



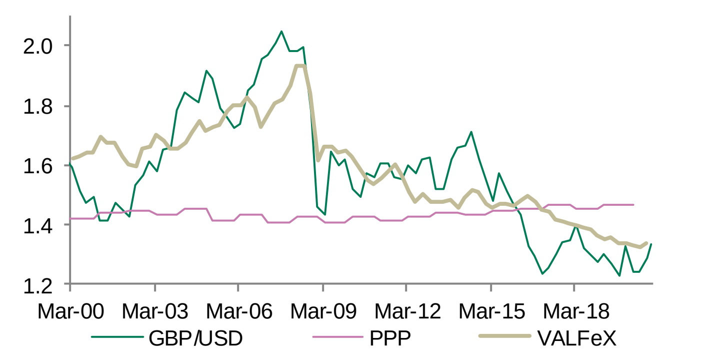

*Source: Crédit Agricole CIB, Bloomberg, OECD*

### The JPY looks undervalued relative to VALFeX and PPP



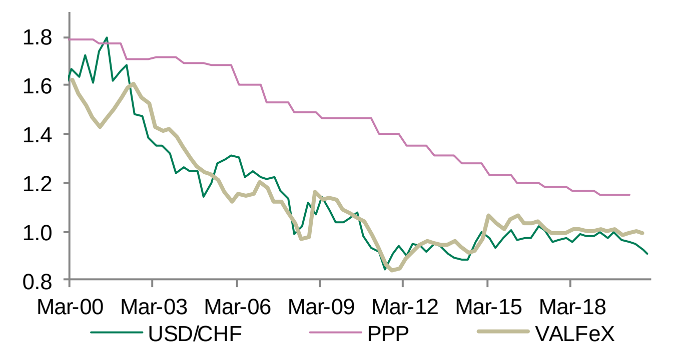

*Source: Crédit Agricole CIB, Bloomberg, OECD*

### The GBP looks undervalued relative to PPP, not VALFeX



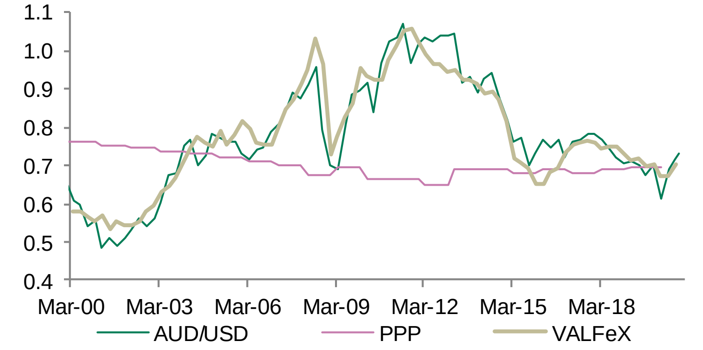

*Source: Crédit Agricole CIB, Bloomberg, OECD*

### The CHF looks overvalued relative to PPP and VALFeX



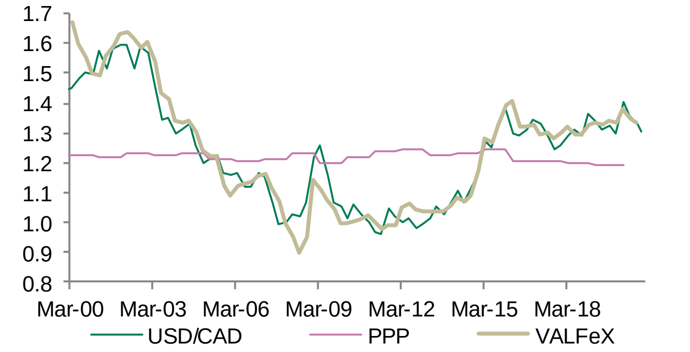

*Source: Crédit Agricole CIB, Bloomberg*

### The AUD looks overvalued relative to VALFeX and PPP



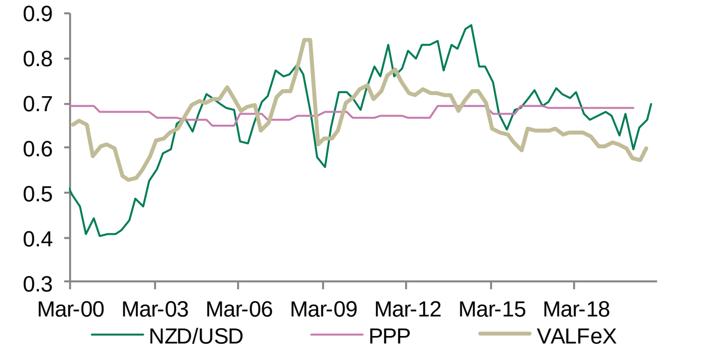

*Source: Crédit Agricole CIB, Bloomberg*

### The CAD looks overvalued relative to VALFeX but undervalued relative to PPP



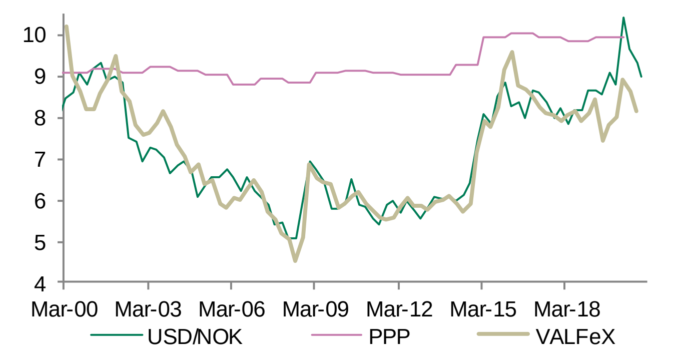

*Source: Crédit Agricole CIB, Bloomberg, OECD*

### The NZD looks overvalued relative to VALFeX but undervalued relative to PPP



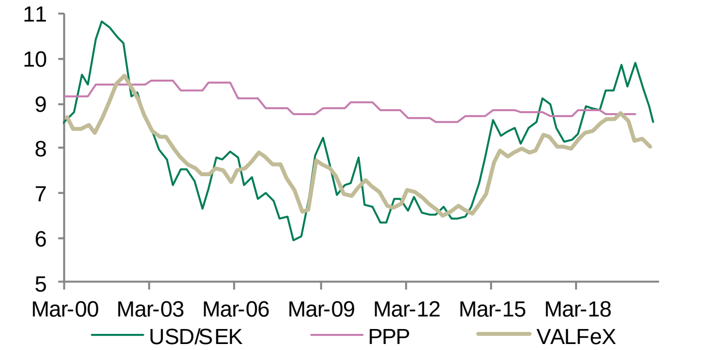

*Source: Crédit Agricole CIB, Bloomberg, OECD*

### The NOK looks overvalued relative to PPP, not VALFeX




*Source: Crédit Agricole CIB, Bloomberg, OECD*

### The SEK looks overvalued relative to PPP but undervalued relative to VALFeX




*Source: Crédit Agricole CIB, Bloomberg, OECD*

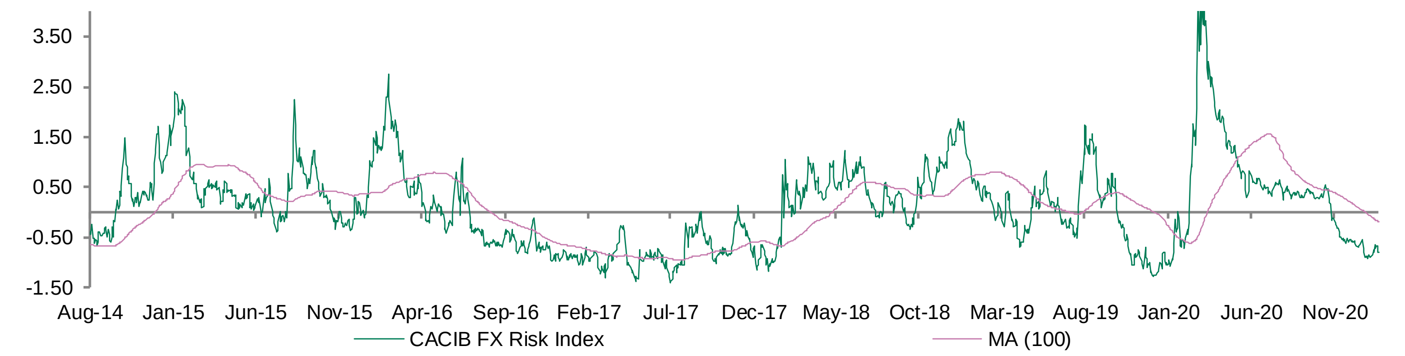
# FX Risk Index

*This is our weekly update published 03 February 2021*

- **At -0.79 (vs -0.79 last week), our Risk Index remains broadly unchanged in risk seeking territory. However, subcomponents such as higher cross market volatility and widening credit spreads are pointing towards some caution. Although our big picture view on risk stays favourable, near-term correction risk seems to be on the rise.**
- **In G10 FX, commodity currencies such as the AUD and NZD as well as Scandies should remain highly sensitive to risk. We remain of the view that crosses such as EUR/SEK should not be chased lower from here as better levels may be reached in the coming few weeks for considering new shorts.**
- **Elsewhere, we remain in favour of buying dips in gold. While more supported US yields coupled with firm risk appetite has been dampening the yellow metal of late, we do not expect this to prove sustainable.**

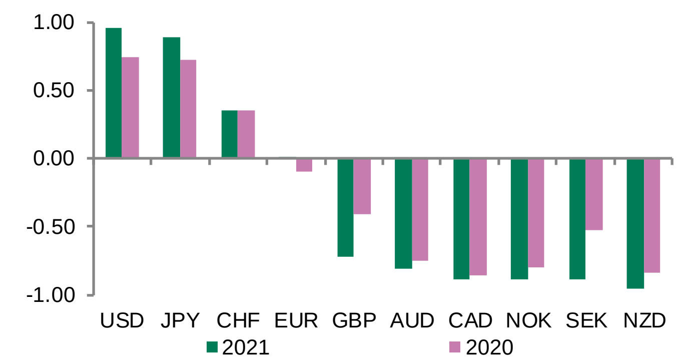
*For more information please refer to the FX Focus –Introducing the new CACIB FX risk index*

**CACIB FX Risk Index**



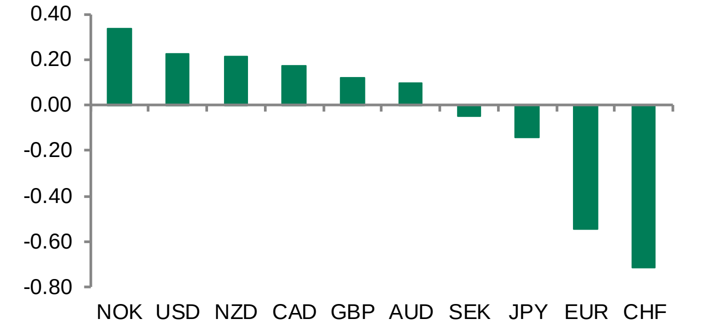

*Source: Crédit Agricole CIB*

**Currency sensitivity**



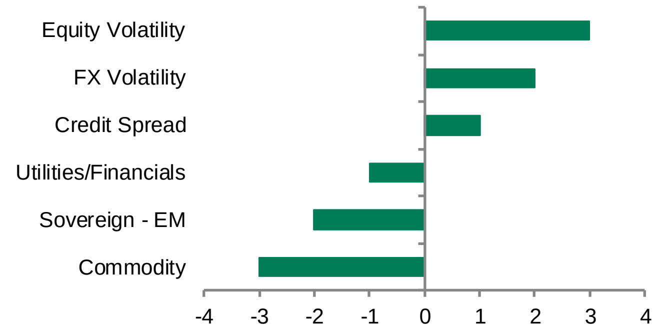

*Source: Bloomberg, Crédit Agricole CIB*

**Yield advantage**



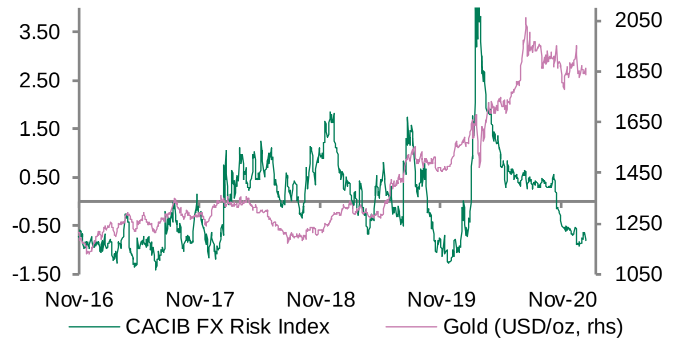

*Source: Bloomberg, Crédit Agricole CIB*

**Contribution of components**




*Source: Bloomberg, Crédit Agricole CIB*

**Gold & Risk Index**




*Source: Bloomberg, Crédit Agricole CIB*

# Capital Flows Monitor

*Updated 24 November 2020*

## Capital flow monitor overview

| | USD | EUR | JPY | GBP | AUD | NZD | CAD | SEK | NOK | CHF |
|---|---|---|---|---|---|---|---|---|---|---|
| Broad Basic Balance % GDP | -1.0% | 3.2% | -0.8% | 4.7% | 1.7% | -0.3% | 1.6% | 5.1% | -2.5% | -5.0% |
| Current Account % GDP | -2.6% | 2.0% | 3.1% | -3.2% | 1.8% | -1.9% | -2.1% | 5.1% | 3.9% | 8.9% |
| Net Foreign Direct Investment % GDP | 0.3% | 1.8% | -2.5% | 2.7% | 1.4% | 0.7% | -0.7% | -0.1% | 0.3% | -12.0% |
| Net Portfolio Investment % GDP | 1.2% | -0.7% | -1.4% | 5.2% | -1.5% | 0.9% | 4.4% | 0.1% | -6.7% | -1.9% |
| **Ranking** | 10 | 2 | 5 | 6 | 4 | 9 | 8 | 1 | 7 | 3 |
| Data as at: | Jun-20 | Sep-20 | Sep-20 | Jun-20 | Jun-20 | Jun-20 | Jun-20 | Jun-20 | Jun-20 | Jun-20 |

***Ranking: 1 = highest/most positive for currency; 10 = lowest/most negative for currency***

*Note: All are annual data (NSA) as a % of GDP. Positive flows = net inflows*

*Source: Crédit Agricole CIB, Bloomberg, ONS, Statistics New Zealand, Statistics Canada, ECB, Australian Bureau of Statistics, Ministry of Finance Japan, Statistics Norway, Statistics Sweden, SNB, BEA US*

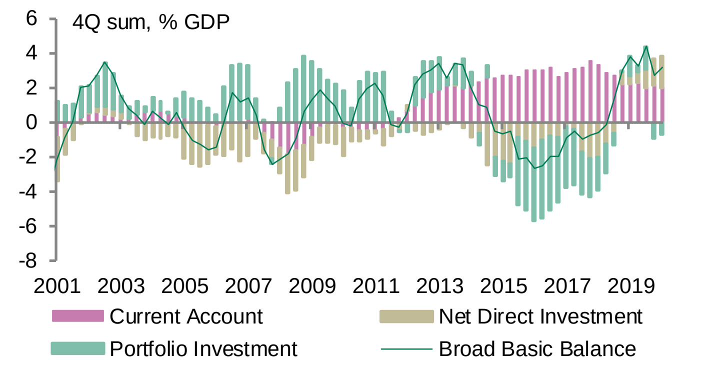
## Portfolio investment flows (3M rolling sum)

| | USD | EUR | JPY | GBP | AUD | NZD | CAD | SEK | NOK | CHF |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Portfolio Investment | 124.4 | 73.4 | 5.7 | -40.6 | -10.7 | -16.1 | 6.8 | -21.0 | 9.4 | -1.6 |
| Z score | 0.2 | 1.5 | 1.1 | -1.3 | -0.3 | -2.6 | 0.3 | -0.3 | 0.7 | 0.2 |
| Foreign demand for Domestic Equities: | 81.2 | 51.0 | -2.7 | 9.9 | 2.4 | 1.1 | 6.6 | 15.3 | -7.1 | 5.7 |
| Z score | 1.7 | -0.1 | -0.8 | 0.6 | -0.2 | 0.7 | 0.8 | 1.4 | -1.5 | 1.5 |
| Foreign demand for Domestic Bonds: | -19.2 | 73.3 | 6.4 | 30.8 | -26.9 | -6.4 | 4.8 | 14.3 | 1.9 | 0.4 |
| Z score | -0.7 | 1.0 | 0.8 | 0.4 | -1.3 | -2.1 | -0.5 | 0.1 | -0.3 | 0.4 |
| Domestic demand for Foreign Equities: | -32.0 | -52.6 | 6.4 | -29.3 | 21.6 | -6.0 | 11.9 | -90.0 | -88.4 | 0.2 |
| Z score | -1.3 | -1.0 | 3.6 | -1.1 | 2.1 | -1.8 | 0.7 | -1.8 | -0.8 | 0.1 |
| Domestic demand for Foreign Bonds: | -30.3 | 1.7 | -4.5 | -52.0 | -7.7 | -4.8 | 6.6 | 39.4 | 103.0 | -7.9 |
| Z score | 1.1 | 1.6 | -0.2 | -1.4 | 0.0 | -2.5 | 0.4 | 1.1 | 1.5 | -1.7 |
| Data as at: | Sep-20 | Sep-20 | Sep-20 | Jun-20 | Jun-20 | Jun-20 | Sep-20 | Jun-20 | Jun-20 | Jun-20 |

*Note: in local currency bn, with the exception of JPY flows in trn. Positive flows = net inflows. Z-scores on five-year history*

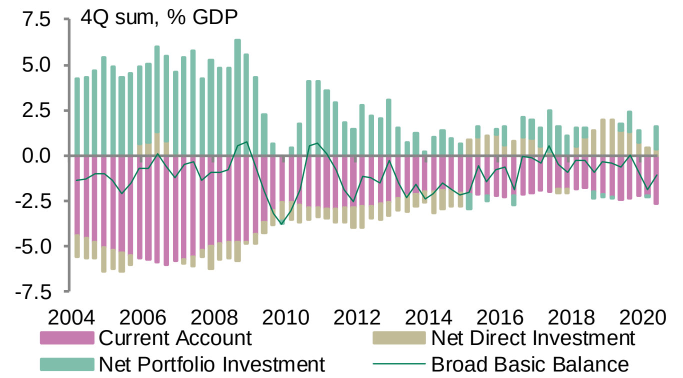
*Source: Crédit Agricole CIB, Bloomberg, ONS, Statistics New Zealand, Statistics Canada, ECB, Australian Bureau of Statistics, Ministry of Finance Japan, Statistics Norway, Statistics Sweden, SNB, US TIC*

## EUR broad basic balance



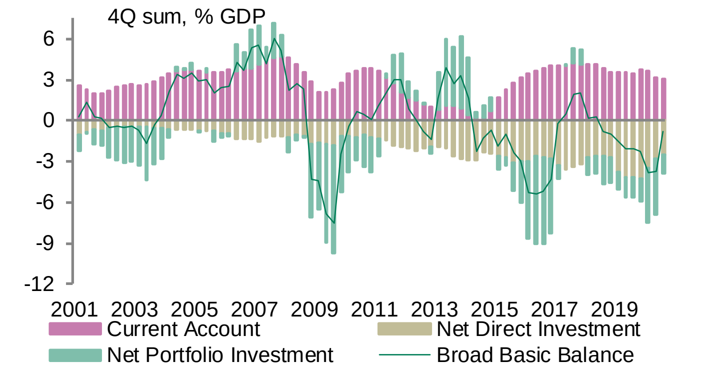

*Source: Crédit Agricole CIB, Bloomberg, ECB*

## USD broad basic balance

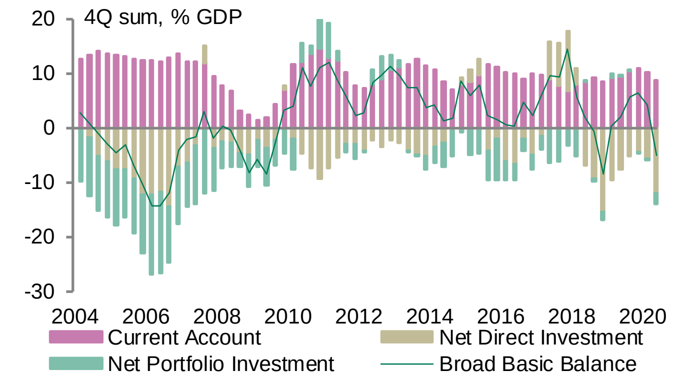



*Source: Crédit Agricole CIB, Bloomberg, BEA US*

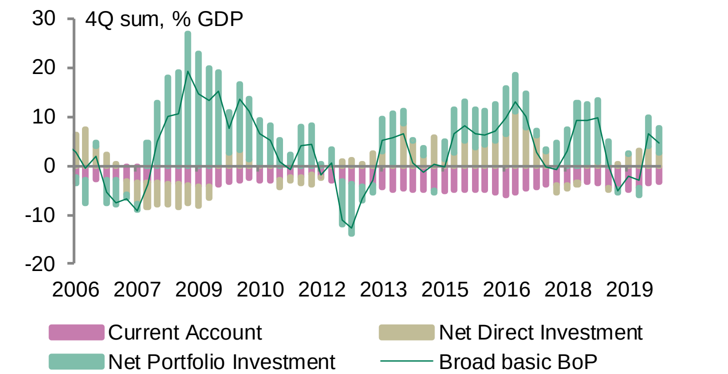
## JPY broad basic balance



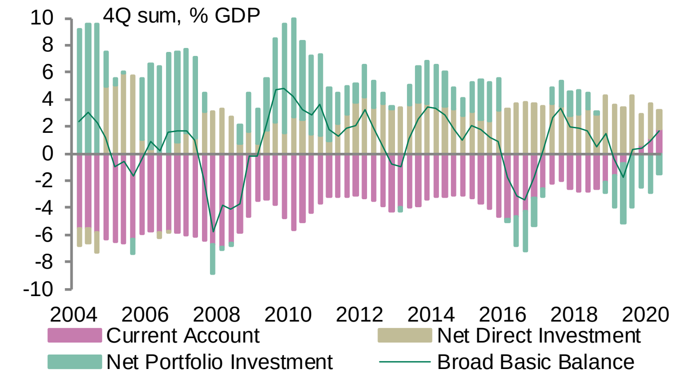

## CHF broad basic balance



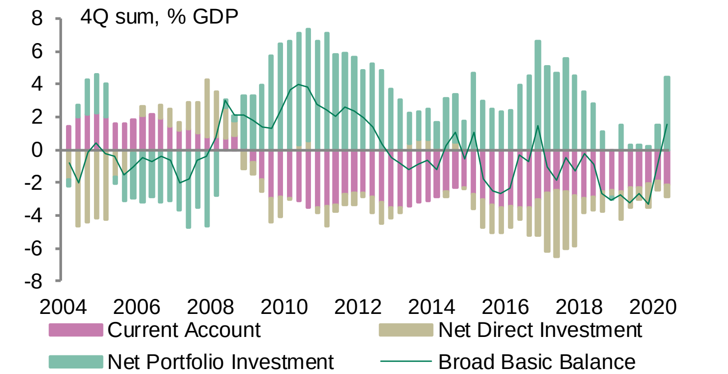

## GBP broad basic balance



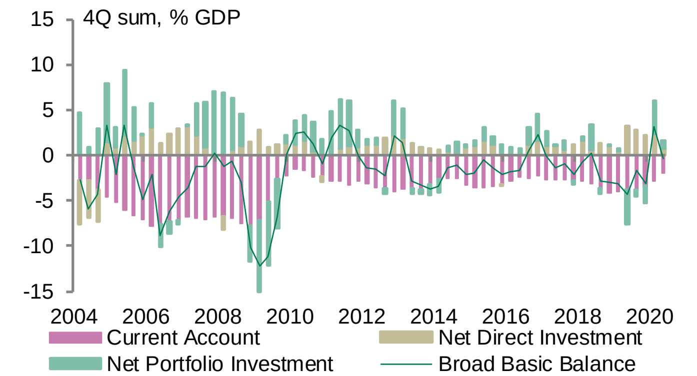

## AUD broad basic balance



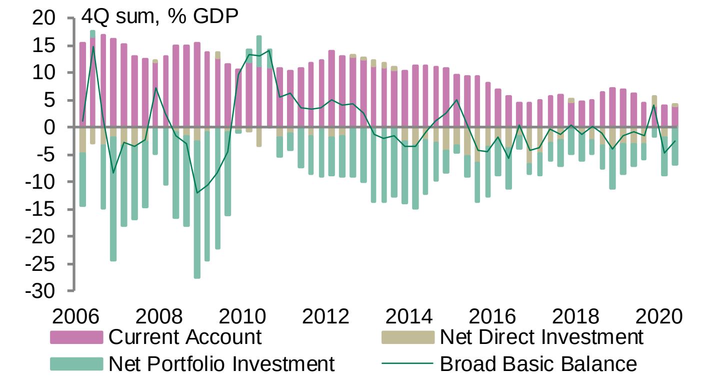

## CAD broad basic balance



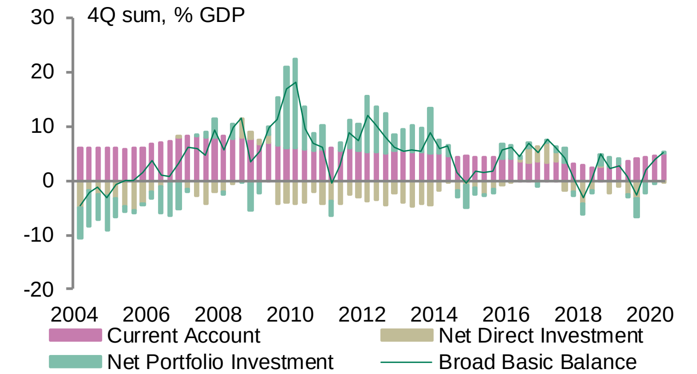

## NZD broad basic balance




## NOK broad basic balance




## SEK broad basic balance




*Source: Crédit Agricole CIB, Bloomberg, ONS, Statistics New Zealand, Statistics Canada, Australian Bureau of Statistics, SNB, Statistics Sweden, Statistics Norway, Japan Ministry of Finance*

# Key releases in the week ahead

| GMT | | Indicator/Event | For | Cons. | Prev. | Comment |
|---|---|---|---|---|---|---|
| **Monday 08 February** | | | | | | |
| 00:00 | FR | Bank of Fr. Bus. Sentiment | Jan | | 97.42 | |
| 06:45 | SZ | Unemployment | Jan | | 3.40% | |
| 07:00 | GE | Industrial Prod. YoY | Dec | | -2.60% | |
| 07:00 | DE | Trade Balance | Dec | | 5.60 B | |
| 09:30 | EZ | Investor Confidence | Feb | | 1.28 | |
| 21:00 | NZ | ANZ Truckometer | Jan | | 0.40% | |
| 23:30 | JN | Earnings | Dec | | -1.80% | |
| 23:50 | JN | Money Stock M2 YoY | Jan | | 9.20% | |
| **Tuesday 09 February** | | | | | | |
| 00:30 | AU | Business Confidence | Jan | | 4.50 | |
| 06:00 | JN | Machine Tool Orders YoY | Jan | | 9.90% | |
| 07:00 | GE | Trade Balance | Dec | | 16.70 B | |
| 09:00 | IT | Industrial Production MoM | Dec | | -1.40% | |
| 11:00 | US | NFIB | Jan | | 95.90 | |
| 23:30 | AU | Westpac Consumer Confidence | Feb | | 106.99 | |
| 23:50 | JN | PPI YoY | Jan | | -2.00% | |
| **Wednesday 10 February** | | | | | | |
| 00:00 | NO | Consumer Confidence | Q1 | | -11.50 | |
| 01:30 | CH | CPI YoY | Jan | -0.05% | 0.20% | |
| 01:30 | CH | PPI YoY | Jan | 0.25% | -0.40% | |
| 07:00 | GE | CPI YoY | Jan | | 1.60% | |
| 07:00 | NO | CPI YoY | Jan | | 1.40% | |
| 07:00 | NO | PPI YoY | Jan | | -5.70% | |
| 07:00 | DE | CPI YoY | Jan | | 0.50% | |
| 07:00 | UK | Construction Output | Dec | | -1.40% | |
| 07:00 | UK | Industrial Production YoY | Dec | | -4.70% | |
| 07:00 | UK | Manufacturing Prod. YoY | Dec | | -3.80% | |
| 07:00 | UK | Trade Balance | Dec | | -4995 M | |
| 07:00 | UK | **GDP YoY** | Q4 | | -8.60% | |
| 07:45 | FR | Industrial Production YoY | Dec | | -4.60% | |
| 07:45 | FR | Manufacturing Prod. YoY | Dec | | -4.30% | |
| 08:30 | SW | **Riksbank** | Feb | | | |
| 13:30 | US | **CPI YoY** | Jan | 1.50% | 1.40% | |
| 15:00 | US | Wholesale Inventories | Dec | | 0.10% | |
| 19:00 | US | Budget Statement | Jan | | -144 B | |
| **Thursday 11 February** | | | | | | |
| 13:30 | US | **Init. Jobl. Claims** | Feb | | | |
| 21:30 | NZ | BNZ Manufacturing PMI | Jan | | 48.70 | |
| 21:45 | NZ | Food Prices MoM | Jan | | 0.10% | |
| **Friday 12 February** | | | | | | |
| 07:00 | NO | GDP q/q | Q4 | | 4.60% | |
| 07:30 | SZ | CPI YoY | Jan | | -0.80% | |
| 08:00 | SP | CPI YoY | Jan | | 0.60% | |
| 10:00 | EZ | Industrial Production MoM | Dec | | 2.50% | |
| 13:30 | CA | Wholesale Trade | Dec | | 0.70% | |
| 15:00 | US | U. of Mich. Sentiment | Feb | 80.00 | 79.00 | |

*Source: Bloomberg, Crédit Agricole CIB*

# Exchange rate forecasts

| | | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 |
|---|---|---|---|---|---|---|---|---|---|
| **USD Exchange rate** | | | | | | | | | |
| Industrialised countries | | | | | | | | | |
| Euro | EUR/USD | 1.19 | 1.20 | 1.21 | 1.22 | 1.22 | 1.23 | 1.24 | 1.25 |
| Japan | USD/JPY | 104.0 | 104.0 | 105.0 | 106.0 | 106.0 | 108.0 | 108.0 | 108.0 |
| United Kingdom | GBP/USD | 1.33 | 1.34 | 1.35 | 1.36 | 1.38 | 1.39 | 1.40 | 1.41 |
| Switzerland | USD/CHF | 0.92 | 0.92 | 0.92 | 0.92 | 0.92 | 0.92 | 0.92 | 0.92 |
| Canada | USD/CAD | 1.30 | 1.30 | 1.29 | 1.29 | 1.28 | 1.28 | 1.28 | 1.28 |
| Australia | AUD/USD | 0.74 | 0.76 | 0.76 | 0.78 | 0.78 | 0.78 | 0.78 | 0.78 |
| New Zealand | NZD/USD | 0.70 | 0.72 | 0.72 | 0.74 | 0.75 | 0.75 | 0.75 | 0.75 |
| **Euro Cross rates** | | | | | | | | | |
| Industrialised countries | | | | | | | | | |
| Japan | EUR/JPY | 124 | 125 | 127 | 129 | 129 | 133 | 134 | 135 |
| United Kingdom | EUR/GBP | 0.89 | 0.89 | 0.89 | 0.89 | 0.88 | 0.88 | 0.88 | 0.88 |
| Switzerland | EUR/CHF | 1.10 | 1.10 | 1.11 | 1.12 | 1.12 | 1.13 | 1.14 | 1.15 |
| Sweden | EUR/SEK | 10.20 | 10.10 | 10.00 | 9.80 | 9.80 | 9.70 | 9.60 | 9.60 |
| Norway | EUR/NOK | 10.30 | 10.00 | 9.80 | 9.60 | 9.60 | 9.50 | 9.40 | 9.40 |
| Asia | | | | | | | | | |
| China | USD/CNY | 6.40 | 6.35 | 6.30 | 6.35 | 6.38 | 6.40 | 6.43 | 6.45 |
| Hong Kong | USD/HKD | 7.75 | 7.75 | 7.75 | 7.75 | 7.76 | 7.76 | 7.76 | 7.76 |
| India | USD/INR | 74.00 | 74.25 | 74.50 | 75.00 | 75.50 | 76.00 | 76.50 | 77.00 |
| Indonesia | USD/IDR | 14000 | 13800 | 13600 | 13500 | 13800 | 14000 | 14200 | 14200 |
| Malaysia | USD/MYR | 4.02 | 3.97 | 4.00 | 4.02 | 4.03 | 4.05 | 4.10 | 4.10 |
| Philippines | USD/PHP | 47.8 | 47.6 | 47.4 | 47.2 | 47.0 | 46.7 | 46.4 | 46.0 |
| Singapore | USD/SGD | 1.32 | 1.32 | 1.31 | 1.31 | 1.31 | 1.31 | 1.31 | 1.30 |
| South Korea | USD/KRW | 1090 | 1080 | 1070 | 1060 | 1060 | 1060 | 1070 | 1080 |
| Taiwan | USD/TWD | 28.1 | 28.1 | 28.0 | 28.0 | 27.9 | 27.9 | 27.8 | 27.8 |
| Thailand | USD/THB | 29.7 | 29.4 | 29.1 | 28.8 | 28.6 | 28.4 | 28.2 | 28.0 |
| Vietnam | USD/VND | 23050 | 23000 | 22950 | 22900 | 22850 | 22800 | 22750 | 22700 |
| Latin America | | | | | | | | | |
| Brazil | USD/BRL | 5.50 | 5.25 | 5.00 | 5.25 | 5.25 | 5.50 | 5.75 | 5.75 |
| Mexico | USD/MXN | 20.00 | 19.50 | 18.25 | 18.50 | 18.50 | 18.75 | 18.75 | 19.00 |
| Chile | USD/CLP | 760 | 730 | 700 | 700 | 700 | 700 | 700 | 700 |
| Colombia | USD/COP | 3550 | 3500 | 3500 | 3500 | 3500 | 3500 | 3500 | 3500 |
| Africa | | | | | | | | | |
| South Africa | USD/ZAR | 14.50 | 15.00 | 15.50 | 16.50 | 17.00 | 17.00 | 17.00 | 17.00 |
| Emerging Europe | | | | | | | | | |
| Poland | USD/PLN | 3.78 | 3.72 | 3.65 | 3.58 | 3.55 | 3.50 | 3.46 | 3.42 |
| Russia | USD/RUB | 72.00 | 72.00 | 73.00 | 75.00 | 75.00 | 76.00 | 77.00 | 78.00 |
| Turkey | USD/TRY | 7.70 | 7.50 | 7.50 | 7.80 | 7.80 | 8.00 | 8.10 | 8.20 |
| Central Europe | | | | | | | | | |
| Czech Rep. | EUR/CZK | 26.40 | 26.20 | 26.10 | 26.00 | 25.80 | 25.70 | 25.60 | 25.50 |
| Hungary | EUR/HUF | 354 | 351 | 348 | 345 | 340 | 335 | 330 | 325 |
| Poland | EUR/PLN | 4.50 | 4.46 | 4.42 | 4.37 | 4.33 | 4.31 | 4.29 | 4.27 |
| Romania | EUR/RON | 4.87 | 4.85 | 4.85 | 4.84 | 4.80 | 4.77 | 4.75 | 4.72 |

*Source: Crédit Agricole CIB*

# Economic forecasts

| | Real GDP (YoY. %) | | | CPI (YoY. %) | | | Current Account (% GDP) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 20 | 21 | 22 | 20 | 21 | 22 | 20 | 21 | 22 |
| **USA** | **-3.6** | **4.0** | **3.0** | **1.2** | **1.9** | **1.9** | **-2.6** | **-2.6** | **-2.7** |
| **JAPAN** | **-5.2** | **1.0** | **2.4** | **-0.1** | **0.3** | **0.7** | **2.9** | **3.1** | **3.7** |
| **EUROZONE** | **-7.4** | **3.8** | **3.9** | **0.3** | **0.8** | **1.0** | **2.6** | **3.3** | **3.0** |
| Belgium | -7.5 | 4.5 | 3.7 | 0.4 | 1.3 | 1.6 | -0.4 | -0.8 | -0.7 |
| France | -9.2 | 5.9 | 3.6 | 0.5 | 0.5 | 0.8 | -2.0 | -1.0 | -1.0 |
| Germany | -5.7 | 2.5 | 3.4 | 0.4 | 1.5 | 1.4 | 6.1 | 6.7 | 6.6 |
| Italy | -9.2 | 4.0 | 3.9 | -0.2 | 0.1 | 0.5 | 2.6 | 3.7 | 3.7 |
| Netherlands | -4.1 | 3.1 | 3.3 | 1.1 | 1.2 | 1.4 | 9.2 | 10.3 | 10.2 |
| Spain | -12.0 | 3.0 | 5.9 | -0.3 | 0.2 | 0.7 | 2.0 | 1.9 | 1.8 |
| **Other developed countries** | | | | | | | | | |
| Australia | -4.2 | 3.0 | 2.8 | 0.7 | 1.3 | 1.5 | 1.8 | -0.1 | -1.4 |
| Canada | -5.6 | 4.5 | 3.4 | 0.7 | 1.7 | 2.0 | -2.1 | -2.3 | -2.0 |
| New Zealand | -6.1 | 4.4 | 2.6 | 1.7 | 0.6 | 1.2 | -2.0 | -2.4 | -3.1 |
| Norway | -2.0 | 3.1 | 5.2 | 1.4 | 2.1 | 2.3 | 2.6 | 2.5 | 2.4 |
| Sweden | -3.3 | 2.5 | 4.0 | 0.5 | 0.8 | 1.2 | 4.8 | 4.6 | 4.4 |
| Switzerland | -5.3 | 3.6 | 2.1 | -0.8 | 0.0 | 0.3 | 8.5 | 9.0 | 9.6 |
| United Kingdom | -11.1 | 4.5 | 7.5 | 0.8 | 1.3 | 2.3 | -1.2 | -1.4 | -1.2 |
| **Asia** | **-1.1** | **7.4** | **5.4** | **2.9** | **2.3** | **2.4** | **2.4** | **1.6** | **1.0** |
| China | 2.3 | 8.5 | 5.1 | 2.5 | 1.3 | 1.9 | 2.2 | 1.2 | 0.7 |
| Hong Kong | -5.8 | 3.6 | 2.7 | 0.1 | 1.5 | 2.1 | 5.1 | 4.5 | 4.2 |
| India | -7.7 | 7.9 | 7.4 | 6.7 | 5.7 | 4.2 | 1.7 | -0.5 | -1.7 |
| Indonesia | -2.0 | 6.5 | 5.0 | 1.5 | 2.5 | 3.0 | -2.0 | -1.0 | -1.5 |
| Korea | -0.9 | 3.4 | 2.7 | 0.6 | 1.0 | 1.4 | 4.0 | 3.8 | 3.7 |
| Malaysia | -4.5 | 5.5 | 4.0 | -0.5 | 2.0 | 2.5 | 1.0 | 3.0 | 2.5 |
| Philippines | -8.3 | 7.8 | 6.4 | 2.3 | 2.7 | 3.0 | 0.0 | -0.5 | -1.0 |
| Singapore | -6.0 | 4.5 | 3.5 | -0.4 | 0.4 | 0.6 | 16.5 | 16.8 | 17.0 |
| Taiwan | 2.5 | 3.3 | 2.4 | -0.2 | 0.9 | 1.0 | 11.4 | 10.5 | 10.0 |
| Thailand | -5.8 | 4.0 | 6.0 | -0.9 | 0.8 | 0.8 | 5.0 | 6.0 | 7.0 |
| Vietnam | 3.1 | 7.5 | 6.0 | 2.9 | 3.5 | 4.5 | 5.0 | 5.5 | 6.0 |
| **Latin America** | **-7.2** | **3.7** | **2.4** | **8.3** | **8.5** | **7.8** | **0.1** | **-0.2** | **-0.5** |
| Argentina | -11.9 | 4.0 | 2.2 | 41.0 | 45.0 | 40.0 | 1.2 | 1.0 | 0.0 |
| Brazil | -4.9 | 3.3 | 2.4 | 3.5 | 3.2 | 3.0 | -0.1 | 0.1 | -0.6 |
| Chile | -5.3 | 5.0 | 3.0 | 2.9 | 3.0 | 3.0 | 0.0 | -1.9 | -1.5 |
| Colombia | -7.0 | 4.5 | 3.5 | 2.6 | 3.0 | 3.0 | -3.3 | -3.6 | -3.3 |
| Mexico | -9.0 | 3.8 | 2.1 | 3.9 | 3.2 | 3.2 | 0.9 | 0.2 | 0.3 |
| **Emerging Europe** | **-3.4** | **2.8** | **3.4** | **5.0** | **4.5** | **4.6** | **0.8** | **0.5** | **0.2** |
| Czech Republic | -6.5 | 3.6 | 4.5 | 3.2 | 2.3 | 2.0 | 1.7 | 1.0 | 0.5 |
| Hungary | -5.7 | 4.1 | 4.6 | 3.4 | 3.3 | 3.0 | -0.9 | -0.9 | -1.0 |
| Poland | -3.1 | 3.6 | 4.9 | 3.4 | 2.6 | 2.2 | 2.9 | 2.7 | 2.3 |
| Romania | -5.3 | 4.2 | 4.5 | 2.6 | 2.7 | 2.5 | -5.0 | -4.7 | -4.5 |
| Russia | -4.0 | 2.5 | 2.5 | 3.3 | 3.5 | 3.9 | 2.0 | 2.0 | 2.0 |
| Turkey | 0.0 | 2.0 | 4.0 | 11.9 | 9.0 | 9.0 | -3.0 | -2.5 | -3.5 |
| Ukraine | -5.5 | 4.0 | 3.7 | 5.0 | 6.5 | 5.0 | 3.5 | -2.4 | -2.9 |
| **Africa & Middle East** | **-5.6** | **3.0** | **3.3** | **8.2** | **7.8** | **6.2** | **-3.9** | **-2.7** | **-0.8** |
| Algeria | -8.0 | 2.9 | 2.0 | 2.4 | 3.8 | 5.0 | -13.0 | -11.0 | -7.0 |
| Egypt | 1.2 | 2.5 | 5.0 | 5.8 | 7.8 | 7.1 | -4.5 | -4.0 | -3.8 |
| Iran | -9.0 | 3.1 | 3.7 | 30.0 | 25.0 | 16.8 | -2.0 | -1.0 | 0.0 |
| Kuwait | -4.0 | 3.1 | 3.5 | 1.9 | 2.0 | 2.2 | -4.0 | -0.5 | 5.1 |
| Morocco | -7.0 | 3.9 | 3.2 | 0.5 | 1.1 | 1.5 | -7.0 | -4.2 | -4.1 |
| Qatar | -3.0 | 2.1 | 3.1 | -2.4 | 0.9 | 1.7 | -4.0 | -0.5 | 0;5 |
| Saudi Arabia | -6.0 | 3.2 | 3.1 | 3.4 | 2.6 | 2.1 | -4.0 | -2.5 | 1.2 |
| South Africa | -7.0 | 4.0 | 2.0 | 3.3 | 3.5 | 4.0 | -0.8 | -1.5 | -2.0 |
| Tunisia | -8.0 | 3.5 | 4.1 | 5.5 | 5.0 | 5.1 | -8.9 | -8.1 | -8.0 |
| United Arab Emirates | -5.5 | 2.2 | 3.2 | -1.1 | 1.0 | 2.1 | -0.3 | 1.1 | 3.5 |
| **Total** | **-4.0** | **4.8** | **4.0** | **2.9** | **2.9** | **2.9** | **0.7** | **0.5** | **0.4** |
| **Industrialised countries** | **-5.5** | **3.6** | **3.5** | **0.7** | **1.3** | **1.5** | **0.1** | **0.3** | **0.2** |
| **Emerging countries** | **-2.8** | **5.7** | **4.4** | **4.6** | **4.1** | **3.9** | **1.1** | **0.7** | **0.5** |

*Notes:*
*(1) CPI – for UK: HICP; for Brazil: IPCA*
*(2) India – fiscal year ending in March*

*Source: Crédit Agricole CIB*

# Interest rate forecasts – developed countries

| | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 |
|---|---|---|---|---|---|---|---|---|
| **EUR** | | | | | | | | |
| Refi rate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Depo rate | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 |
| Eonia | -0.47 | -0.48 | -0.48 | -0.49 | -0.49 | -0.50 | -0.50 | -0.50 |
| 3M Euribor | -0.52 | -0.53 | -0.53 | -0.54 | -0.54 | -0.55 | -0.55 | -0.55 |
| **Germany** | | | | | | | | |
| 2Y | -0.70 | -0.70 | -0.65 | -0.65 | -0.65 | -0.65 | -0.65 | -0.65 |
| 5Y | -0.69 | -0.69 | -0.62 | -0.62 | -0.60 | -0.60 | -0.58 | -0.58 |
| 10Y | -0.50 | -0.50 | -0.40 | -0.40 | -0.35 | -0.35 | -0.30 | -0.30 |
| 30Y | -0.10 | -0.15 | -0.05 | 0.00 | 0.05 | 0.10 | 0.15 | 0.20 |
| **France** | | | | | | | | |
| 2Y | -0.65 | -0.65 | -0.60 | -0.60 | -0.55 | -0.60 | -0.60 | -0.60 |
| 5Y | -0.65 | -0.65 | -0.57 | -0.57 | -0.44 | -0.52 | -0.50 | -0.48 |
| 10Y | -0.30 | -0.30 | -0.20 | -0.20 | 0.00 | -0.10 | -0.05 | 0.00 |
| 30Y | 0.30 | 0.30 | 0.40 | 0.45 | 0.65 | 0.60 | 0.70 | 0.75 |
| **Italy** | | | | | | | | |
| 2Y | -0.40 | -0.40 | -0.40 | -0.40 | -0.45 | -0.45 | -0.45 | -0.45 |
| 5Y | 0.08 | 0.05 | 0.05 | 0.05 | 0.12 | 0.06 | 0.09 | 0.14 |
| 10Y | 0.65 | 0.60 | 0.60 | 0.60 | 0.75 | 0.65 | 0.70 | 0.80 |
| 30Y | 1.45 | 1.40 | 1.40 | 1.45 | 1.60 | 1.55 | 1.65 | 1.75 |
| **Spain** | | | | | | | | |
| 2Y | -0.55 | -0.55 | -0.55 | -0.55 | -0.55 | -0.55 | -0.55 | -0.55 |
| 5Y | -0.40 | -0.42 | -0.40 | -0.40 | -0.36 | -0.39 | -0.37 | -0.34 |
| 10Y | 0.10 | 0.05 | 0.10 | 0.10 | 0.25 | 0.15 | 0.20 | 0.30 |
| 30Y | 0.85 | 0.80 | 0.85 | 0.90 | 1.05 | 1.00 | 1.10 | 1.20 |
| **Ireland** | | | | | | | | |
| 10Y | -0.25 | -0.25 | -0.20 | -0.20 | -0.10 | -0.10 | -0.05 | 0.00 |
| **Portugal** | | | | | | | | |
| 10Y | 0.05 | 0.00 | 0.05 | 0.05 | 0.20 | 0.10 | 0.20 | 0.30 |
| **Greece** | | | | | | | | |
| 10Y | 0.75 | 0.75 | 0.80 | 0.80 | 0.85 | 0.85 | 1.00 | 1.05 |
| **Sweden** | | | | | | | | |
| Repo | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Norway** | | | | | | | | |
| Deposit | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.25 |
| **EUR swaps** | | | | | | | | |
| 2Y | -0.45 | -0.45 | -0.45 | -0.45 | -0.45 | -0.45 | -0.45 | -0.45 |
| 5Y | -0.39 | -0.39 | -0.37 | -0.42 | -0.30 | -0.35 | -0.33 | -0.28 |
| 10Y | -0.20 | -0.20 | -0.15 | -0.20 | -0.05 | -0.10 | -0.05 | 0.00 |
| 30Y | 0.05 | 0.00 | 0.10 | 0.10 | 0.25 | 0.25 | 0.30 | 0.40 |
| **GBP** | | | | | | | | |
| Bank Rate | 0.10 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Sonia | 0.06 | 0.06 | 0.06 | 0.06 | 0.00 | 0.00 | 0.00 | 0.00 |
| 3M £ Libor | 0.03 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 |

*Note: 3M rates are interbank, 2Y and 10Y rates are government bond yields*

*Source: Crédit Agricole CIB*

# Interest rate forecasts – developed countries (cont.)

| | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 |
|---|---|---|---|---|---|---|---|---|
| **USD** | | | | | | | | |
| FF target | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| FF effective | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| 3M $ Libor | 0.23 | 0.23 | 0.23 | 0.23 | 0.23 | 0.23 | 0.23 | 0.23 |
| **USTs** | | | | | | | | |
| 2Y | 0.15 | 0.17 | 0.20 | 0.25 | 0.35 | 0.45 | 0.55 | 0.65 |
| 5Y | 0.55 | 0.60 | 0.70 | 0.80 | 0.90 | 1.00 | 1.05 | 1.10 |
| 10Y | 1.20 | 1.25 | 1.40 | 1.50 | 1.60 | 1.65 | 1.70 | 1.75 |
| 30Y | 1.95 | 2.05 | 2.15 | 2.20 | 2.25 | 2.25 | 2.30 | 2.30 |
| **USD swaps** | | | | | | | | |
| 2Y | 0.22 | 0.24 | 0.27 | 0.32 | 0.42 | 0.52 | 0.62 | 0.72 |
| 5Y | 0.63 | 0.68 | 0.78 | 0.88 | 0.98 | 1.08 | 1.13 | 1.18 |
| 10Y | 1.21 | 1.26 | 1.41 | 1.51 | 1.61 | 1.66 | 1.71 | 1.76 |
| 30Y | 1.71 | 1.81 | 1.91 | 1.96 | 2.01 | 2.01 | 2.06 | 2.06 |
| **JPY** | | | | | | | | |
| Call rate | -0.04 | -0.04 | -0.04 | -0.04 | -0.04 | -0.04 | -0.04 | -0.04 |
| 3M ¥ Libor | -0.10 | -0.10 | -0.10 | -0.10 | 0.00 | 0.00 | 0.00 | 0.00 |
| **JGBs** | | | | | | | | |
| 2Y | -0.12 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| 5Y | -0.11 | -0.08 | -0.07 | -0.07 | -0.07 | -0.07 | -0.07 | -0.07 |
| 10Y | 0.04 | 0.05 | 0.05 | 0.05 | 0.07 | 0.07 | 0.08 | 0.08 |
| 30Y | 0.64 | 0.64 | 0.68 | 0.68 | 0.70 | 0.70 | 0.75 | 0.75 |
| **JPY swaps** | | | | | | | | |
| 2Y | -0.03 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 |
| 5Y | -0.05 | -0.02 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 |
| 10Y | 0.05 | 0.06 | 0.06 | 0.06 | 0.08 | 0.08 | 0.09 | 0.09 |
| 30Y | 0.41 | 0.43 | 0.49 | 0.51 | 0.54 | 0.56 | 0.63 | 0.65 |
| **Canada** | | | | | | | | |
| Overnight | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |

*Note: 3M rates are interbank, 2Y and 10Y rates are government bond yields*

*Source: Crédit Agricole CIB*

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https://www.ca-cib.com/sites/default/files/2017-02/2016-05-04-cacib-fx-disclosure-april-2016_0.pdf

### Additional recommendation obligations – available from analyst(s) upon request:

- A list of all the recommendation changes on any financial instrument or issuer disseminated within the last 12 months.
- Where Crédit Agricole CIB is a market-maker or liquidity provider in the financial instruments of the issuer.

### Valuation and methodology

Based on their expertise, each analyst defines the information that is relevant to produce their recommendations. This information may change over time. All recommendations focus on FX instruments, either G10 FX spot or G10 FX derivative markets. Crédit Agricole CIB is currently disclosing investment recommendations either at the issuer level, at the financial instrument level or at the country level. Credit Agricole CIB investment recommendations are based on a risk and reward analysis:

- Risk analysis may be conducted at the financial instruments level. Among the information normally used to define the risks, are (1) publications produced by other research teams within Crédit Agricole CIB (Economics, FX, Credit Research, Emerging Markets), (2) country analysis, (3) regulatory filings; (4) regular discussions with relevant stakeholders such as experts or regulatory bodies or (5) any other publicly available sources.
- Reward analysis is usually based on valuation models. Valuation may be based on proprietary models or external models provided by sources considered as reliable (eg, Bloomberg). Among other factors, valuation models may be based on relative value models, quantitative models, cross-asset models.
- Investment recommendations may also be based on other technical aspects, including positioning flows and observing the market and underlying movements in particular instruments or issuers. This analysis will take into account key criteria such as market liquidity of the financial instrument at the time of production of the recommendation.

Any change in recommendation is disclosed via specific documents indicating both the new and the previous recommendation and the rationale backing the change.

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