In collaboration with FX CARE

SystematicEdge
Systematic Multi-Asset Strategies

FX Commentary

April 2021

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Investment Manager in Hong Kong: PRIVIUM FUND MANAGEMENT

USD: the bear is back!

After a steady depreciation of the US dollar against major currencies, which started in end-March 2020, the greenback regained strength in Q1 2021, supported by higher Treasury yields (+80bps on the 10-year T-note) and the US' strong economic recovery amid a rapid vaccination rollout. The rebound proved short-lived, however, as US yields stabilized (10-year yield around 1.5%) and the US dollar resumed its bearish trend. Although risk-off events could temporarily support the safe-haven US dollar, we believe the fundamental reasons behind its long-term bearish trend are still there. The US massive stimulus plan will worsen its structural budget deficit while the economic recovery will aggravate its commercial deficit. In addition, the Fed intends to maintain its dovish stance for the years to come as Fed officials signalled that interest rates would most likely remain unchanged until 2024. The ongoing de-dollarization trend will also be a catalyst as an increasing number of countries and companies around the world choose to transact in alternative currencies, such as the euro and the renminbi.

- Procyclical currencies like **EUR** and **GBP** should clearly benefit from the global post-pandemic recovery. The timing of the recovery will largely depend on the pace and success of vaccination campaigns.

- Although we maintain our bullish view on the **GBP**, the UK's ability to cope with its post-Brexit challenges will determine the pound's real appreciation potential.

- We believe a strong global recovery would pressure the Swiss central bank into lifting its policy rate – currently the lowest in the world – which would cause the **CHF** to appreciate.

- Given China's rapid economic recovery, growing capital inflows from foreign investors, and renminbi internationalization, we maintain our bullish view on the **CNY**.

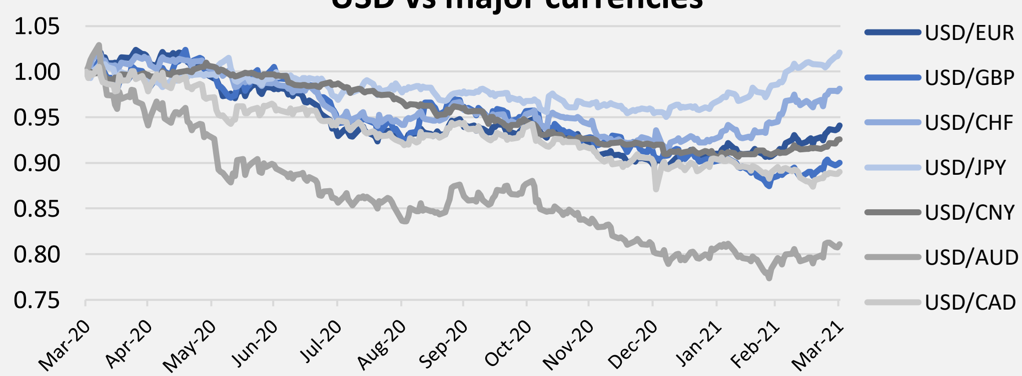
- We expect commodity-linked currencies like **AUD** and **CAD** to be major beneficiaries of the global post-pandemic recovery as growing demand drives up commodity prices.

Macroeconomic data (US)

GDP annual growth* (2021F)	6.6%
Effective Fed funds rate	0.07%
Govt bond 10Y	1.54%
Inflation rate (Mar, YoY)	2.6%
Govt budget (2019, % of GDP)	-4.6%
Balance of trade (Feb)	-US$71.1bn

* UBS forecast as of 20 April 2021

USD vs major currencies



Source: Trading Economics, Yahoo Finance

EUR/USD (31 March 2021)	1.1724
Quarter to date	-4.7%
Year to date	-4.7%
Last 12 months	+6.3%
Purchasing Power Parity	1.29

EUR
Long-term trend ↗

Lagging recovery

The euro gained 16% against the US dollar between the trough of March 2020 (1.06) and the peak of early-January (1.23), before losing ground in Q1 as the greenback benefited from rising US Treasury yields (+80bps on the 10-year T-note in Q1) and the US' strong economic recovery amid a rapid vaccine rollout. The euro has also suffered from the EU's delayed vaccination plans in early 2021 and a new wave of Covid-19 infections, which triggered new lockdown measures across continental Europe.

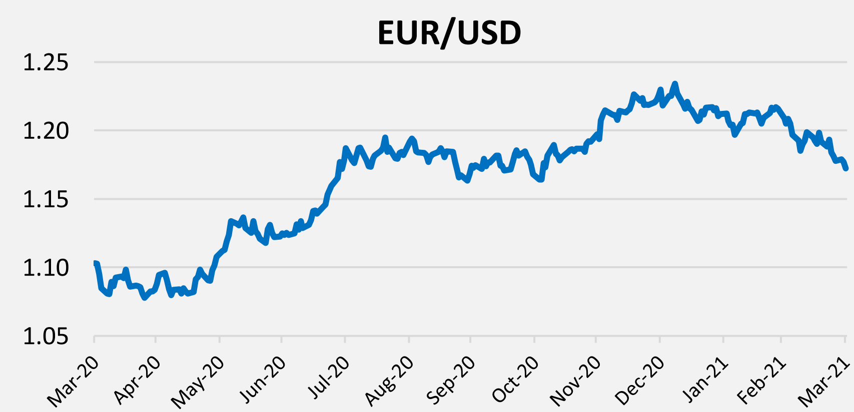
Outlook: Biden's massive stimulus plan has contributed to the rise of the long end of the US yield curve and the overall strengthening of the US dollar in Q1. However, we believe a prolonged appreciation of the USD is unlikely so long as the Fed maintains its dovish stance, which should be the case for the years to come as Fed officials signalled that interest rates would most likely remain unchanged until 2024 despite upgraded US growth forecasts for 2021 (6.5% vs 4.2% announced in December). Although risk-off events could temporarily support the US dollar – as a safe-haven currency – we believe the greenback remains in a long-term bearish trend given the US' structural budget and commercial deficits and the world's de-dollarization trend. Moreover, we expect the euro – as a procyclical, exporter currency – to strongly benefit from the global post-pandemic recovery. As such, we expect EURUSD to break again 1.20 and approach its purchasing power parity level of 1.29 by the end of the year.

Risks: Further delays in the deployment of vaccines across the EU or the spread of vaccine-resistant variants would push back the economic recovery in Europe and weaken the euro.

Macroeconomic data

GDP annual growth* (2021F)	4.3%
ECB deposit facility rate	-0.50%
Govt bond 10Y (Germany)	-0.26%
Inflation rate (Mar, YoY)	1.3%
Govt budget (2019, % of GDP)	-0.6%
Balance of trade (Feb)	€17.7bn

* UBS forecast as of 20 April 2021



Source: Trading Economics, Yahoo Finance

GBP/USD (31 March 2021)	**1.3747**
Quarter to date	+0.9%
Year to date	+0.9%
Last 12 months	+11.1%
Purchasing Power Parity	1.55

GBP
Long-term trend ↗

Alone and kicking

The GBPUSD pair climbed to a 34-month high in February (1.41) following a 23% rally from the trough of March 2020 (1.15). EURGBP ended March at 0.85, a level last seen in February 2020, as the euro appreciated against the pound until end-2020, when it began losing ground. The appreciation of the pound in Q1 was underpinned by the UK's efficient vaccination rollout – with about half of the population having at least received their first dose – and expectations of a faster recovery than in continental Europe.

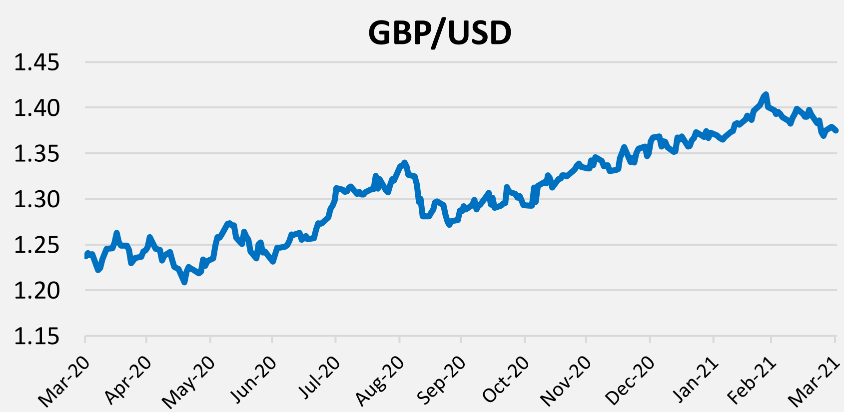
Outlook: The UK's gradual lockdown exit announcements and strong vaccination campaign currently make the British pound one of the most resilient currencies among G10 countries. Although the pound's short-term momentum is positive, longer-term uncertainties remain with respect to the Bank of England's (BoE) next rate move, the ability for the UK and the EU to re-establish sustainable and fruitful trade relations, and the UK's overall economic outlook. Brexit trade barriers have negatively affected many sectors, with UK exports to the EU down 42% in January, a situation aggravated by the pandemic. Nonetheless, we believe the pound will benefit from the global economic recovery, given its procyclical nature. In addition, the GBPUSD purchasing power parity of 1.55 represents 13% upside potential to the 31 March level of 1.37. Although we maintain our bullish view on GBPUSD, the UK's ability to cope with its post-Brexit challenges will determine the pound's real appreciation potential.

Risks: A delayed global recovery, new vaccination challenges, and stronger trade frictions with the EU would all have a negative impact on the pound.

Macroeconomic data

GDP annual growth* (2021F)	5.3%
Base interest rate	0.1%
Govt bond 10Y (UK)	0.75%
Inflation rate (Feb, YoY)	0.4%
Govt budget (FY20-21, % of GDP)	-16.9%
Balance of trade (Feb)	-£7.1bn

* UBS forecast as of 20 April 2021



Source: Trading Economics, Yahoo Finance

USD/CHF (31 March 2021)	0.9417
Quarter to date	+6.8%
Year to date	+6.8%
Last 12 months	-1.9%
Purchasing Power Parity	0.92

CHF
Long-term trend ↗

Lacklustre performance

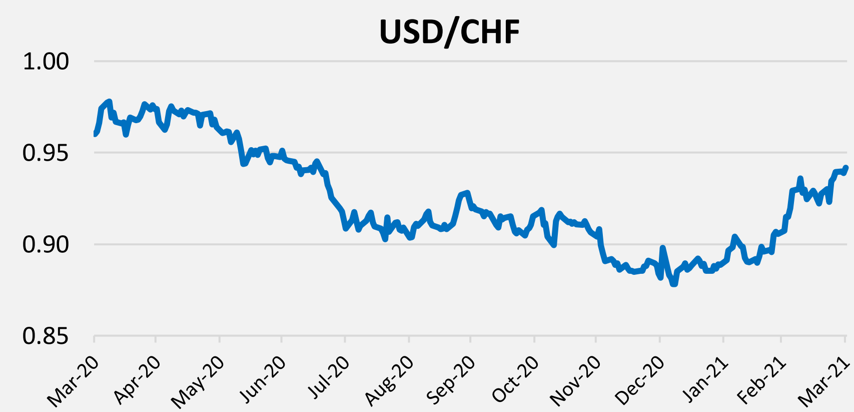
The Swiss franc weakened against both the euro (-2.7%) and the US dollar (-6.4%) in Q1 with EURCHF breaking the 1.10 resistance level and USDCHF approaching 0.95. The rebound of the USDCHF was clearly driven by the US' stronger economic recovery and faster vaccine rollout compared to Europe as well as the rise in US Treasury yields (+80bps on the 10-year T-note in Q1). Meanwhile, the Swiss National Bank (SNB) continued to intervene in the forex market by increasing its foreign exchange reserves by CHF39bn.

Outlook: The fact that the Swiss franc depreciated against both the euro and the US dollar in Q1 despite serious vaccine deployment challenges and new restrictions across Europe amid a new wave of Covid-19 infections temporarily questioned the safe-haven nature of the Swiss currency. Despite less stringent measures than its closest neighbours – Germany, Austria, France, and Italy – the pandemic continues to weigh heavily on the Swiss economy, in particular service sectors like tourism. By contrast, the manufacturing sector is showing signs of recovery with the Manufacturing PMI increasing from 58.0 in December to 66.3 in March (+8.3pts). Inflation expectations are still under control and the SNB is not expected to change its monetary policy stance in the short term. However, given the SNB's policy rate of -0.75% – the lowest in the world – we believe a strong global recovery would pressure the Swiss central bank into tightening its rate policy, which would cause the CHF to appreciate, most likely in line with the EUR, hence our bearish view on USDCHF.

Risks: A scenario where growth would be strong in the US but remain weak in Europe would support the USD against the CHF.

Macroeconomic data	
GDP annual growth* (2021F)	3.3%
Base interest rate	-0.75%
Govt bond 10Y (Switzerland)	-0.29%
Inflation rate (Mar, YoY)	-0.2%
Govt budget (2019, % of GDP)	1.5%
Balance of trade (Feb)	CHF3.3bn

* UBS forecast as of 20 April 2021



Source: Trading Economics, Yahoo Finance

USD/JPY (31 March 2021)	110.31
Quarter to date	+7.0%
Year to date	+7.0%
Last 12 months	+2.1%
Purchasing Power Parity	76.0

JPY
Long-term trend →

Ebb and flow

The USDJPY pair is largely influenced by the direction of US Treasury yields and interest rates as well as market sentiment. The USDJPY downtrend witnessed in the second half of 2020 came to a stop in early January, when it reached a four-year low of 102.7. The US dollar then sharply rebounded to 110.3 in end-March, representing a 7.4% gain against the Japanese yen, as the greenback benefited from rising US Treasury yields (+80bps on the 10-year T-note in Q1) and the US' strong economic recovery.

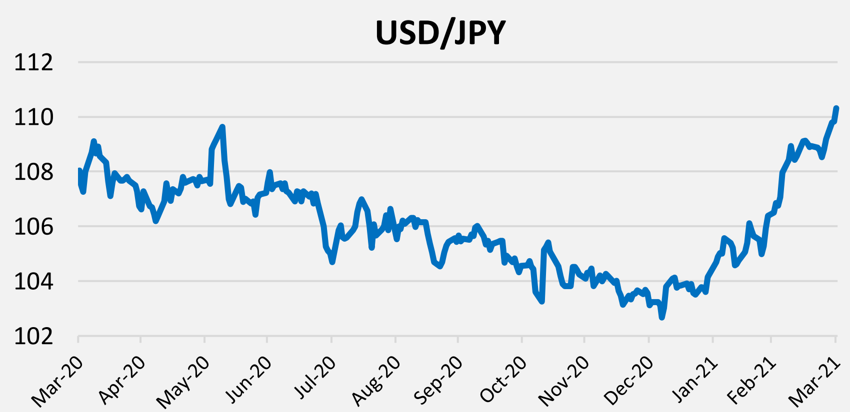
Outlook: The US dollar appreciated against most major currencies in Q1 on the back of a rapid vaccination rollout and strong business sentiment in the US as well as rising US Treasury yields. As the economic recovery becomes more global, we expect procyclical currencies such as EUR, GBP, AUD, and CAD to outperform safe-haven currencies like USD and JPY. We still see some upside pressure on USDJPY in the short term if US yields keep rising. However, we believe the Fed will continue to resort to yield curve control to prevent any sudden rise in government bond yields and keep a lid on the US government's borrowing costs. As such, we think the upside potential for USDJPY remains limited. In addition, the path to post-Covid normalization is unlikely to be a smooth one and any risk-off event – whether it be on the pandemic or economic front – would pull USDJPY down. Overall, fundamentals do not point to a clear long-term trend and we expect USDJPY to fluctuate within the 105-115 range in 2021.

Risks: Any unexpected change in the yield curve control policy of either the Bank of Japan (BoJ) or the US Federal Reserve could push the USDJPY pair out of the 105-115 range.

Macroeconomic data

GDP annual growth* (2021F)	3.4%
Base interest rate	-0.1%
Govt bond 10Y (Japan)	0.07%
Inflation rate (Feb, YoY)	-0.4%
Govt budget (2020, % of GDP)	-10.3%
Balance of trade (Mar)	¥663.7bn

* UBS forecast as of 20 April 2021



Source: Trading Economics, Yahoo Finance

CNY

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USD/CNY (31 March 2021)	**6.5710**
Quarter to date	+0.7%
Year to date	+0.7%
Last 12 months	-7.4%
Purchasing Power Parity	-

CNY
Long-term trend ↗

Strong as an Ox

After a steady appreciation of the Chinese yuan against the US dollar between end-May 2020 and February 2021, underpinned by China's resilient economic growth in 2020 (+2.3%), strong balance of payments, and attractive interest rates (1-year loan prime rate at 3.85% since April 2020), USDCNY rebounded as the greenback regained strength, supported by higher Treasury yields (+100bps YoY on the 10-year T-note) and the US' strong economic recovery amid a rapid vaccination rollout.

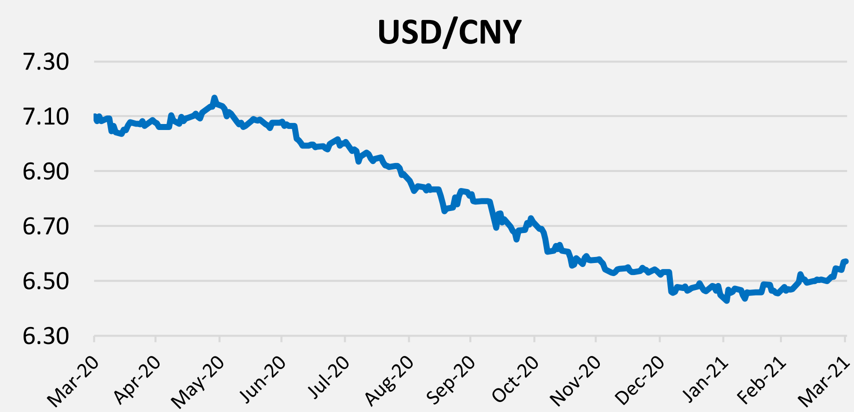
Outlook: We believe the US' strong economic recovery – supported by Biden's massive stimulus plan – will in effect aggravate its trade balance as imports of goods and materials from trading partners like China increase. This, combined with the US' structural budget deficit, will contribute to the secular bearish trend of the US dollar. Meanwhile, fundamentals remain solid for the Chinese currency. China was the only major economy to post positive growth in 2020 as local authorities successfully contained the spread of the pandemic, thus limiting the impact of lockdown measures. China has also witnessed growing inflows from investors buying Chinese stocks, bonds, and hard assets, while becoming the number one country in the world for foreign direct investments in 2020. Another strong catalyst is the internationalization of the renminbi. Although the Chinese currency currently only accounts for c.2% of cross-border payments and global reserves, China has increased efforts to promote the yuan as a major trade currency, especially with countries along the "Belt and Road".

Risks: Increased uncertainty in the markets or a significant rise in US Treasury yields would support the US dollar.

Macroeconomic data

GDP annual growth* (2021F)	9.0%
Base interest rate	3.85%
Govt bond 10Y (China)	3.19%
Inflation rate (Mar, YoY)	0.4%
Govt budget (2020, % of GDP)	-3.7%
Balance of trade (Mar)	US$13.8bn

* UBS forecast as of 20 April 2021



Source: Trading Economics, Yahoo Finance

AUD/USD (31 March 2021)	0.7609
Quarter to date	-1.0%
Year to date	-1.0%
Last 12 months	+23.3%
Purchasing Power Parity	0.66

AUD
Long-term trend ↗

Hot commodity

The Aussie dollar strongly appreciated against the US dollar over the last 12 months with AUDUSD up 23% since end-March 2020. The risk-sensitive currency has benefited from the improving global growth outlook amid Covid-19 vaccine rollouts and from rising commodity prices, in particular copper whose prices have reached ten-year highs. Australia has experienced relatively strong job numbers and rebounding investment, which also contributed to the appreciation of the Aussie dollar against the greenback.

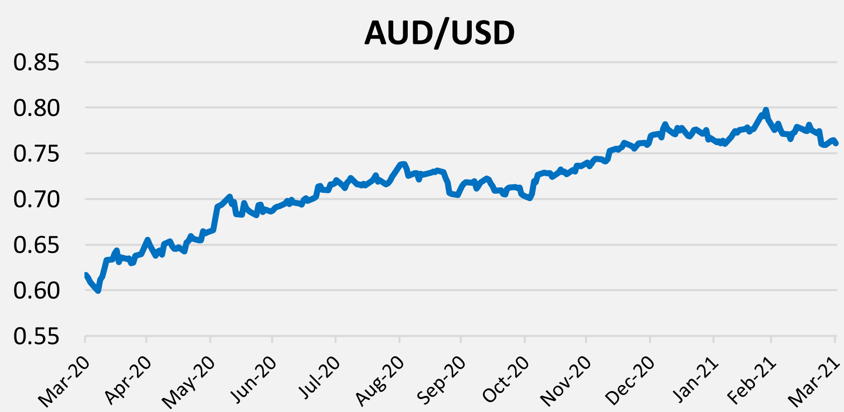
Outlook: After touching its resistance level of 0.80 in end-February, the highest level since early 2018, AUDUSD is currently trading at 0.76. We expect the Australian dollar to continue to appreciate in 2021 as demand for commodities rises against the backdrop of a global economic recovery, and thus believe the 0.80 resistance level is highly likely to be broken within the year. Moreover, Reserve Bank of Australia (RBA) governor Philip Lowe announced in March that interest rates would stay low until wages grow significantly and the unemployment rate approaches 4% (vs 5.6% at present), while the central bank doubled the size of its QE program to A$100bn, which we believe will have a positive impact on the country's economic recovery and thus support its currency.

Risks: A further appreciation of the AUDUSD could be challenged by the occurrence of a risk-off event, such as the emergence of vaccine-resistant Covid variants, which would increase flows to safe-haven currencies like the US dollar. On a geopolitical level, a deterioration of Australia-China relations would also exert downside pressure on the AUDUSD pair.

Macroeconomic data

GDP annual growth* (2021F)	5.0%
Base interest rate	0.1%
Govt bond 10Y (Australia)	1.7%
Inflation rate (Q4, YoY)	0.9%
Govt budget (2020, % of GDP)	-4.3%
Balance of trade (Feb)	A$7.5bn

* UBS forecast as of 20 April 2021



Source: Trading Economics, Yahoo Finance

CAD

USD/CAD (31 March 2021)	1.2621
Quarter to date	-1.0%
Year to date	-1.0%
Last 12 months	-11.0%
Purchasing Power Parity	1.23

CAD
Long-term trend

A well-oiled economy

The Canadian dollar strengthened 11% against the US dollar over the last 12 months. The loonie has clearly benefited from rising oil prices as WTI and Brent rebounded from the trough of April 2020 to above US$65/bbl in March 2021, although recent lockdown measures in Europe have dampened the outlook for energy demand in the short term with crude oil prices now around US$60/bbl. The CAD has also benefited from the country's economic recovery with unemployment down from 9.4% in January to 8.2% in February and 7.5% in March.

Outlook: After months of continued decline, the weakening of USDCAD has slowed as it approached the 1.25 support level. Given the slow start to Canada's vaccination campaign and the recent rise in Covid-19 cases, which may lead to new restrictions, we believe USDCAD is likely to stay around 1.25 in the coming months. However, as vaccination accelerates and economies around the world reopen, thus driving up demand for commodities, especially oil, we expect the 1.25 support level to be broken and USDCAD to draw near 1.20 by the end of the year. Furthermore, Bank of Canada (BoC) announced plans to slow its QE program and suspend its main short-term financing facility as early as May, which will increase the attractiveness of the Canadian dollar.

Risks: New lockdown measures around the world due to the resurgence of Covid-19 cases would have a negative impact on global energy demand and thus curb the appreciation of the Canadian dollar. As such, the pace of vaccination in the world's major economies will be a key metric to watch in the coming months.

Macroeconomic data

GDP annual growth* (2021F)	7.7%
Base interest rate	0.25%
Govt bond 10Y (Canada)	1.5%
Inflation rate (Feb, YoY)	1.1%
Govt budget (2020, % of GDP)	-15.9%
Balance of trade (Feb)	C$1.0bn

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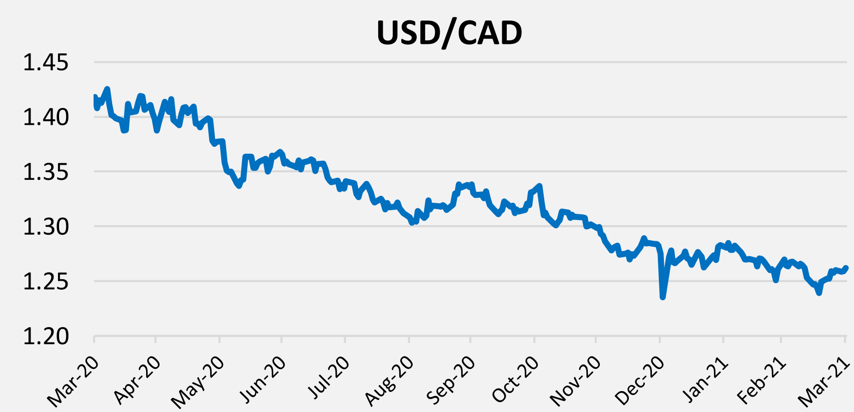
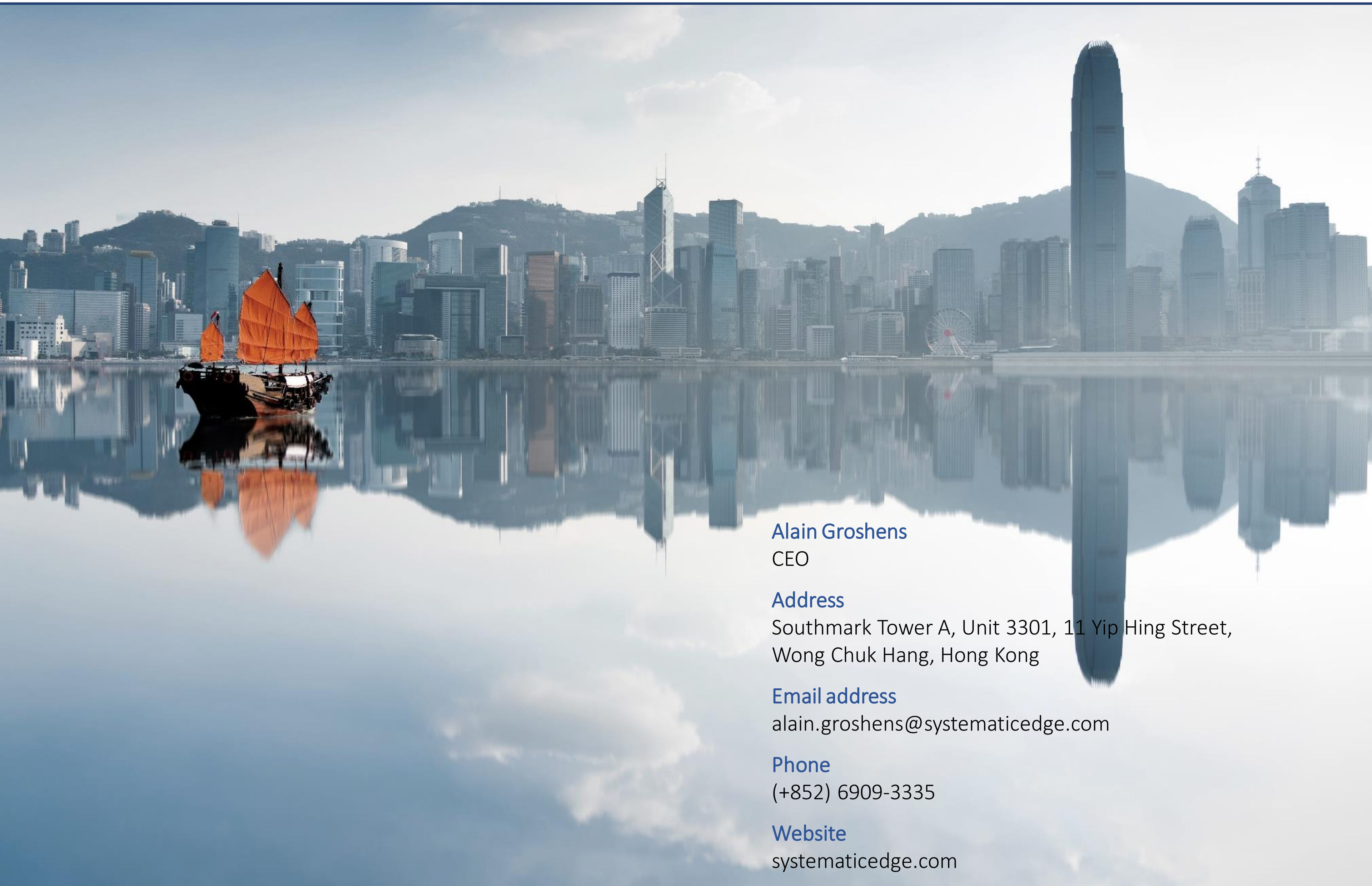


Source: Trading Economics, Yahoo Finance

Contact Information



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