



# Julius Bär

1/3

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## CURRENCIES & MORE OUR INSIGHT INTO THE WORLD'S LARGEST MARKET

**Pound: Economic weakness and political uncertainty will produce volatility in the pound**  
**Franc: The renewed risk-on sentiment around Korea and the U.S. could help €/Franc higher**  
**Krona: Albeit a higher CPI is expected we would consider fading the higher Krona move**

### **Pound: Whirlwind ahead?**

On Wednesday we get the UK 3month unemployment rate at 10:30 CET. The number should be widely anticipated after recent weak numbers, weak economic performance, low real yields and increasing political risks. While the U.K. was able to hold on to its growth momentum last year after the Brexit vote, the decision seems to slowly take its toll on them. Increased spending funded by unsecured lending is unsustainable, especially coupled with negative real wage growth. Brexit uncertainty is also weighing on business investment and now U.K. Chancellor of the Exchequer Philip Hammond and Trade Secretary Liam Fox issued a joint declaration that there will be no transition period to Brexit. Meanwhile, sterling weakness did not boost export growth as was widely expected.

### **Byebye European Union**



Source: The Spectator

The factors are steadily adding up, indicating a potential bout of volatility ahead in the sterling. Last Friday we slipped to the weakest level against the €, prompting markets to reinstate bets on BoE interest rate hike. Politics around Brexit could produce potentially large swings in the currency. On top of that, there are some renewed cracks within the Conservative Party, giving Theresa May not only the seemingly impossible task of Brexit but she will also have to face the question of taking a more moderate approach closer to Chancellor Hammonds vision. If this happens, this will have a positive effect on the pound.

**Conclusion:** There is room for a continued correction in €/£ and we would favour playing €/£ from the long side by buying on dips.

### **Franc: Risk-on sentiment has a good outlook**

With both the CIA Director and the National Security Advisor in the U.S. downplaying any chance of war on the Korean Peninsula we saw a clear risk-on sentiment. Not only did \$/Won drop rapidly during early trading hours on Monday but €/Franc also rallied up above 1.1400 again. The moves, albeit purely event driven, give an indication that if tensions should ease further, €/Franc is likely to push towards 1.1600 again. On Chinese state TV President Xi stated that China and the U.S. have a joint interest in maintaining peace and stability on the Korean peninsula. They both agreed that North Korea needs to stop its provocative and escalatory behavior and reiterated their mutual commitment to denuclearization of the Korean Peninsula. South Korean President Moon agreed that North Korean nukes must be resolved peacefully and is confident that the U.S. will act calmly. These are rather positive developments and thus the risk that one of the two loose-cannons in the U.S. or Korea will pull the trigger

is slowly starting to diminish. The SNB wouldn't be unhappy about a higher €/Franc either. Yesterday, total sight deposits rose +0.3b CHF to 578.9b CHF. Interestingly enough, the SMI should benefit from a weaker Franc. The SMI equities index has the most international revenue of all European indices with about 80% of sales outside of Switzerland. Hence a weaker franc could likely boost the SMI.

**€/Franc on the move**



Source: Bloomberg Finance L.P., Julius Bär

**Conclusion:** We expect €/Franc to move towards 1.1600 with easing tensions and more risk-on sentiment.

**QUICK NEWS HEADLINES (time in CET)**

The following two headlines might have an impact on currency markets today:

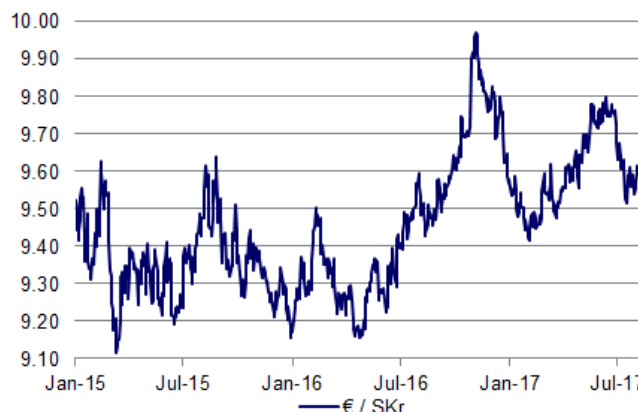
- Sweden: CPI Y/Y (09:30)
- UK: CPI Y/Y (10:30)
- US Retail sales Advance M/M (14:30)
- US Retail sales Ex Auto (14:30)

**Sweden: CPI looking to come in higher**

The Swedish krona traded in a tight range yesterday ahead of the scheduled CPI data today at 09:30 CET. With the market expecting 1.9% YoY versus 1.7% prior, this shows a slight increase. Many market makers are expecting an even higher CPI, indicating that €/Krona could push to recent lows below 9.52. This level has been holding well recently, thus if we do break through there we are likely to see further downside to around 9.35. However, the krona is already 2% stronger than the Riksbank anticipated in July. A quick turnaround in €/Krona should hence not be

dismissed and it would be advisable to fade the krona gains after the positive inflation surprise.

**€/Krona development**



Source: Bloomberg Finance L.P., Julius Bär

**Conclusion:** Fade the krona gains after a positive inflation surprise after the buy the rumor sell the fact theory.

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