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

Euro: Comments from Mario Draghi and Jens Weidmann so far do not indicate a correction of the Euro
Kiwi: Recent data forced the New Zealand Treasury to lower its economic growth forecast for 2018
Pound: The U.K.'s fourth position paper concedes E.U. law will have a role in Britain long after Brexit

Euro: Draghi, Weidmann, and PMIs

Before heading to Jackson Hole, ECB President Mario Draghi was holding a keynote speech at the opening ceremony of the Meeting on Economic Sciences in Lindau at the Lake of Constance. Draghi – unhumble as he is – praised the ECB's QE program as a success. Otherwise, his remarks to Nobel laureates were a *tour d'horizon* of famous economists from David Ricaro, Paul Samuelson, and Adam Smith to John Maynard Keynes.

Mario Draghi everywhere

Source: Arnd Wiegmann / Reuters

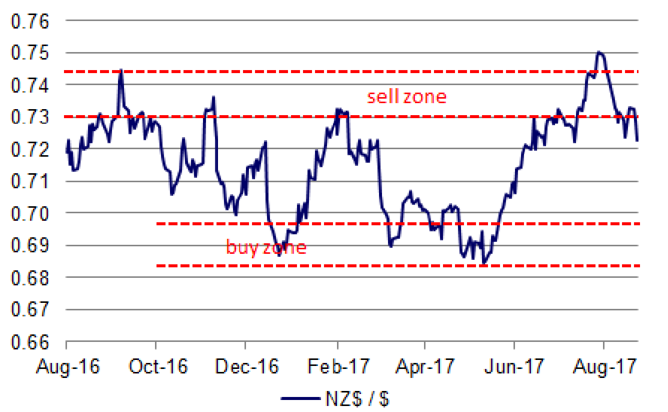
At the same time, Bundesbank President Jens Weidmann said in an interview with the Börsen-Zeitung that he sees no necessity to extend QE in 2018 as inflation "is on path to the ECB's goal." Weidmann also made clear that he has sympathy for a predefined exit strategy: "A precise plan for an exit would be advantageous in terms of the communication with markets," he said, adding that the ECB purchases are "reaching their limits." Forward-looking indicators confirm a robust Euro-zone economy as the Manufacturing PMI rose to 57.4 this month from 56.6 in July. The available country break-down is limited but it shows that the PMIs increased in the two largest economies in the Euro-zone, in France from 54.9 to 55.8, and in Germany from 58.1 to 59.4. Incoming macro data are likely to strengthen the ECB's inclination to reduce its asset purchases from the start of 2018. But with the Euro still under upward pressure, it will have to be very cautious in its policy communication, including Draghi's speech at Jackson Hole tomorrow evening.

Conclusion: Macro data out of the Euro-zone will likely remain convincing but we believe that €/$ is at the upper end currently, with Draghi probably verbally intervening against the Euro's ascent.

Kiwi: Some revisions

Similar to the Aussie, NZ$/$ is in a broader range and we recommended buying or selling whenever the exchange rate is near the bottom or the top. As outlined in our editions between 8 and 11 August, the reason for the recent turnaround was that the RBNZ Governor Graeme Wheeler flagged the strong Kiwi as a major headache and mentioned possible FX interventions. Yesterday came another factor in favor of a lower Kiwi as the New Zealand Treasury cut its 2018 GDP forecast to 3½ percent from 3.7 percent. The announcement was part of the Pre-election Economic and Fiscal Update, which is required to be released 30 days before the election due on 23 September. The PREFU is an "opening of the Government books" ahead of the General Election, incorporating the fiscal and economic implications of government decisions. The Treasury revised down growth for the coming year due to recent data pointing to less momentum than previously thought, while capacity constraints are now considered to be a greater barrier to growth ahead, just as the higher exchange rate is likely to contribute to a slower pick-up in growth and inflation than previously forecast.

NZ$/$ in the past 12 months



Source: Bloomberg Finance L.P., Julius Bär

Conclusion: We still recommend staying short NZ$/$.

QUICK NEWS HEADLINES (time in CET)

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

- New Zealand: The trade balance for July came at NZ$ 85 million vs. –NZ$ 200 million expected.
- Norway: GDP is expected to have risen 0.6% in Q2 q/q (08:00).
- Sweden: The unemployment rate for July is expected at 5.9% (09:30).
- U.K. GDP is expected to have risen 0.3% in Q2 q/q and at an annualized rate of 1.7% (10:30).

Pound: First concession from May?

As outlined in yesterday's edition, Prime Minister Theresa May issued another positioning paper on Brexit negotiations, particularly on the role of the European Court of Justice. In some way, the U.K. government softened its stance on that, insisting only on ending the "direct jurisdiction" of the ECJ after Brexit while accepting E.U. judges could play a role in settling disputes. So far, May pledged to make Britain a "fully sovereign and independent country" free of the jurisdiction of the E.U.'s highest court. Is this diluting the "red line" aimed at unsticking divorce talks with the E.U. whose leaders maintain their judges in resolving cross-border differences over citizens' rights, trade and other issues? We think it goes in that direction and May seems to have realized her relative weak position in the negotiations and/or she intends to put her in a more favorable position in the upcoming talks over the future relationship. Another interpretation is that May recognized (finally) that total judicial sovereignty is impossible. While one might interpret this concession as a medium-term positive, the Pound continues to decline and a further low against the Euro (see chart below).

€/£ in the past 12 months

Source: Bloomberg Finance L.P., Julius Bär

Conclusion: We still recommend staying short the Pound, acknowledging that it appears to be oversold.

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