



# Julius Bär

1/3

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

**Dollar:** The market's focus this afternoon will clearly be on Janet Yellen's speech in Jackson Hole  
**Krone:** The Norwegian economy continues to grow strongly, partly due to government spending  
**Euro:** Yesterday, the ECB published an interesting piece on the slowdown in productivity growth

### Dollar: Warming up for Jackson Hole

In a few hours, Fed Chair Janet Yellen will take the stage in Jackson Hole, at the Economic Symposium organized by the Kansas City Fed. The markets' expectations are mixed but we think the focus will be on everything related to inflation (see our preview in our 22 August edition).

### Will the Fed adjust its aim?



Source: B. Rich / Hedgeye

After five disappointing CPI readings, investors abandoned their stance of fully pricing in a December interest-rate hike. The probability of an increase currently stands only at 34 percent, based on Fed Funds futures (on Bloomberg: WIRP). Part of the recent Dollar weakness can be explained by the market pricing in a risk-premium relative to Fed rhetoric, given the persistent weakness in inflation. However, the scope for further adjustment in rate expectations is probably limited as Yellen is unlikely to make a U-turn this afternoon (she is expected to speak at 16:00 CEST). At the same time, Yellen is also unlikely to

break new ground on hawkishness. The conclusion is that a message from Yellen is likely to emphasize that policy prospects remain on track, and that there is willingness to look through recent data weakness.

**Conclusion:** Our focus is on any statement related to inflation.

### Krone: Strong Q2 GDP

The economy of Western Europe's biggest oil and gas producer grew faster than expected in the second quarter, providing a potential boost to Prime Minister Erna Solberg ahead of next month's election. GDP rose 1.1 percent in Q2 quarter-on-quarter, almost double the 0.6 percent expected by economists. The center-right government of Solberg has poured a record amount of money into Norway's economy, tapping the Nkr 7.6 trillion sovereign wealth fund to pay for the stimulus.

### €/Nkr in the past 12 months



The measures have helped drag the oil-reliant nation out of a slump caused by the 2014 – 2016 collapse in crude oil prices. At the time the oil prices collapsed to \$ 30 a barrel in Q1 2016, Norway’s GDP increased at a snail pace of only 0.3 percent year-on-year. Now, the annualized rate stands at 1.7 percent. So, growth momentum is accelerating and the recovery is becoming more broadly based. At the same time, Norwegian households see 2 – 3 year inflation at 3.2 percent, according to a Norges Bank survey, that was released yesterday. This is boosting expectations that the Norges Bank will increase interest rates from the current overly low level of ½ percent.

**Conclusion:** We still like the Krone and remain long for our trading book.

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

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

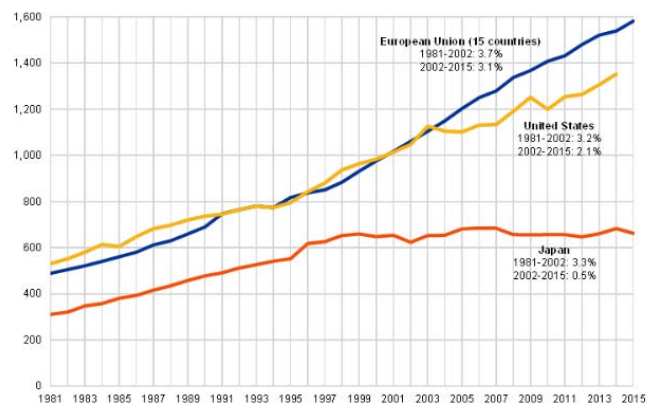
- Japan: National CPI rose 0.4% in July y/y vs. matching expectations, Tokyo CPI rose ½% in August, higher than the 0.3% expected.
- Germany: The ifo Business Climate index for August is expected at 115.5, Expectations at 106.8, Current Assessment at 125.0 (10:00).
- U.S.: Durable goods orders are expected to have declined 6.0% (14:30).
- Mexico: The unemployment rate for July is expected at 3½% (15:00).

**Euro: A read for the weekend**

Yesterday, the ECB published selected takeaways from the Sintra Forum in June (full text attached). At the Forum, policy makers, academics and economists debated on innovation, investment and productivity. There are interesting thoughts on the global productivity slowdown and the different shapes it took in various economies. The sources, professor Charles Jones of Stanford says, are innovation and misallocation of production factors. Jones connects innovation to research efforts pushing new ideas and makes the link to the number of researchers employed. The graph below shows that research employment growth has slowed down in Japan and to a lesser extent also in the U.S. since the year 2000, while it has continued to rise in the E.U. Jones’ analysis shows that government R&D has become much less important in U.S. intellectual property investment over the last decades (compared to examples like the Apollo program of the 1960s and 1970s). U.S. productivity growth has slowed from a pace of about 3 percent per year to below 1 percent now. This

leads another economist (Simon Johnson from the MIT) to identify the government as a “primary culprit” for the U.S. losing its world technological leadership and the growth and employment that went along with it. Johnson calls for increased public spending on scientific research, based on expertise and specialization, co-funded by the U.S. government. But where does the money come from?

**Developments of research efforts (in 1’000s)**



Source: ECB

**Conclusion:** Arguably a very long term topic, but the E.U. seems to be more on track with regards to innovation than the U.S.

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