Julius Bär

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

Dollar: The picture looks rather bearish with the Greenback making new lows against many currencies
Pound: First comments regarding the third round of Brexit negotiations sound rather uninspiring
Yen: From a rates perspective, the ongoing Yen strength does not make sense, it is the safe haven

Dollar: Heading to new lows

Yesterday around 09:00 CEST, most financial media had the headline running "€/$ climbs above 1.20 for the first time in more than two years." In fact, the move was more a broad Dollar weakness as the Greenback weakened against all of its peers and not really a Euro rally.

Down the drain

Source: Jens Bonnke / Neue Zürcher Zeitung

The Dollar has broken key levels in the Bloomberg Dollar index (see yesterday's edition) and has also weakened beyond $ 1'300 against Gold which proved to be a strong level prior this year. Furthermore, the 10-year Treasury yield dropped below 2.10 for the first time since the election of President Donald Trump. The market's concern is clearly the looming debt ceiling negotiations in Congress. The U.S. Treasury was down to its last $ 50 billion at the end of last week and is slowly exhausting its accounting tricks designed to circumvent the debt ceiling. Some argue that the Treasury will receive a temporary boost to revenues in September when quarterly corporate and individual tax payments flood into the coffers. However, that money would not last long into October. The most optimistic estimates suggest the Treasury will finally run out of money sometime in the first two weeks of October. The added complication is that, separately, the Federal Government's funding authority will expire when the new fiscal year begins at the start of October. Unless Congress passes a so-called "continuing spending resolution," a partial shutdown would start on 1 October. That shutdown would affect non-essential services and many Federal employees would be furloughed. The current Houston flooding adds another dimension to the problem, because emergency funds will put more pressure on the budget.

Conclusion: We do not see a Dollar turnaround for now.

Pound: Get serious, Mr. Davis

The Pound remains vulnerable as the third round of negotiations have started Monday. Yesterday, European Commission President Jean-Claude Junker told an audience of E.U. diplomats that he was disappointed by the British government's approach to negotiations. "I have read with all necessary attention all the position papers drawn up by the U.K. government but none of them really give satisfaction, so there is an enormous amount of questions that need to be resolved," he said. U.K. Brexit Secretary David Davis returned to London on Monday after only one hour of talks with his E.U. counterpart, Michel Barnier. He is due back in Brussels today. We think a positive outcome or at least some compromise of today's meeting is very unlikely. Barnier dismissed a raft of recent British policy documents as he told David that the U.K. has been answering the wrong questions.

The Pound is still declining against the Euro

Source: Bloomberg Finance L.P., Julius Bär

Conclusion: We do not see a turnaround of the declining Pound as long as there is no material progress in the Brexit negotiations.

QUICK NEWS HEADLINES (time in CEST)

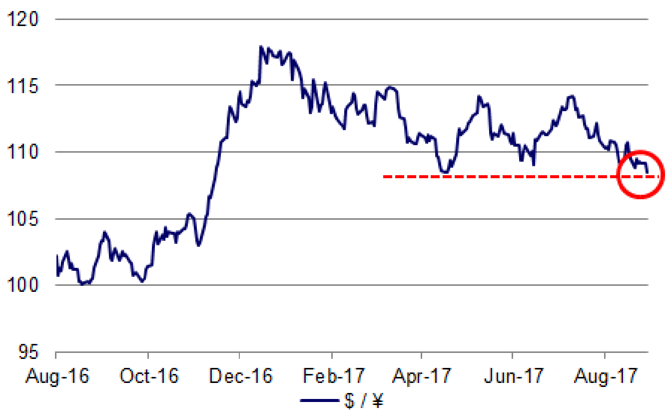
The following four headlines might have an impact on currency markets today:

- Norway: Retail sales are expected to have increased 0.3% in July m/m (08:00).
- U.K.: Mortgage approvals in July are expected at 65'500 (10:30).
- Germany: CPI is expected to have risen 1.8% in August y/y (14:00).
- U.S.: The second reading of Q2 GDP is expected at 2.7% y/y (14:30).

Yen: Remaining bid on North Korea's missiles launch

From a rates perspective, the ongoing Yen strength clearly does not make sense. BoJ Governor Haruhiko Kuroda continues to pledge to forge on with very accommodative monetary policy as inflation remains distant. In a recent interview with Bloomberg, he said the BoJ's yield-curve control program has been working quite well and that he does not see a need to adjust it at present. "I think for some time we have to continue this extremely accommodative monetary policy," he said. The 10-year JGB yield dropped to zero for the first time since mid-April after hovering around 0.1 percent in July. Nevertheless, the Yen continues to appreciate in recent weeks mainly due to the tensions around the Korean peninsula. Short-term, concerns on the ongoing firing of missiles from North Korea seem to have a stronger impact than what was telegraphed from the BoJ in terms of monetary policy. The Yen remains the safe-haven currency and a move below the previous low of 108.15 would open substantial down side (see chart below). The Yen has been used as a cheap funding currency and a break would trigger massive stop-loss buying. Yesterday, U.S. President Donald Trump agreed in a phone call with his Japanese counterpart Shinzo Abe to increase pressure on Pyongyang. How will the they respond?

$/¥ trades near key support levels



Source: Bloomberg Finance L.P., Julius Bär

Conclusion: A move in $/¥ below 108.00 would open considerable downside.

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CONTACTS

FX Market Advisory Zurich
+41 (0) 58 888 8484

FX Market Advisory Geneva
+41 (0) 58 885 3551

FX Market PB Solutions Zurich
+41 (0) 58 888 8484

FX Market Advisory Hong Kong
+852 2979 2688

FX Market Advisory Singapore
+65 682 71 790

Author: Jürg Mettler
+41 (0) 58 888 8454

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