



Julius Bär

1/3

31 August 2017

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

Euro: Several FX market participants expect the €/ \$ rally to lose momentum due to ECB concerns
Dollar: ADP Employment Change suggests a solid labor report on Friday, however, inflation is the issue
Pound: The third round of Brexit talks in Brussels concludes today with a press briefing around noon

Euro: What others are saying

Currently, the market has two key assumptions on the path of €/ \$ over the next seven days, until the Governing Council has its meeting on 7 September. On one side, that profit taking and/or verbal intervention by the ECB will reverse the rally that is in place since March. On the other side, that large buying programs from hedge funds will continue to drive €/ \$ higher.

What's going on inside the ECB building?



Source: Reuters

Those arguing for limited upside or even a reversal of €/ \$ are asking the rhetorical question about ECB Mario Draghi's Euro-pain threshold. Crédit Agricole said, "the sharp Euro appreciation in recent months may have pushed the currency very close to, if not above, that threshold," concluding that "the combination of persistent currency appreciation and oil-price deflation could pose significant downside risks to the Euro-zone inflation out-

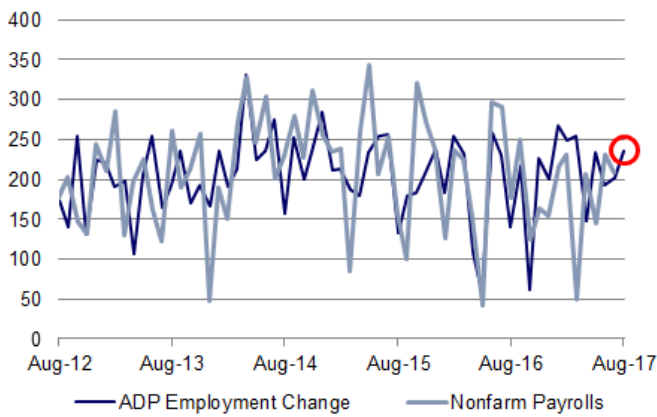
look in the next 6 to 12 months". On the first statement, we think there is no pre-defined threshold for the ECB. Most valuation models of major banks have the fair value of €/ \$ around the 1.25-level. Regarding the second argument: the share of imports into the Euro-zone from the U.S. accounts for 12 percent of the total, roughly the same as from the U.K. Therefore, they should be equally concerned about the weakening Pound. Also, UniCredit expects the ECB to make some reference to the exchange rate that could halt, or at least lessen, the pace of the Euro's appreciation but said "a meaningful reversal remains unlikely." Similarly, UBS points out that "the market might continue to test the ECB's patience" but rather expects speculators to "try to follow up on the current rally heading into the September meeting". Their rationale is that "Draghi needs support and coordination from all members of the GC before he can say some remarkable comments to halt the Euro's rally". A similar line is advocated by Danske Bank, saying that "the pace of the Euro appreciation should pose a rising problem for the ECB and we would not be surprised to hear Draghi mention this at the September meeting". ING reckons that due to the increase of €/ \$, the "ECB's preference will be for a cautious tapering, with a very gradual withdrawal of some monetary stimulus that ideally does not cause any tightening of financial conditions". Finally, Société Générale wrote that despite €/ \$ broke to new highs after Draghi's speech in Jackson Hole "we still believe the Euro appreciation will be slower from here on". All in all FX markets are expecting, a slowdown of upside momentum of the ongoing €/ \$ appreciation based on expected comments from Draghi at the upcoming MPC meeting on 7 September.

Conclusion: Currently, FX market participants are losing some courage for further upside in €/ \$. However, for a turnaround, the pattern of continuously higher lows has to be reversed.

Dollar: Solid labor report expected on Friday

As an indicator for Friday’s NFP, the ADP Employment Change rose to 237’000 in August from 201’000 in July. With that, it almost matched the average of the past 12 months, namely 240’000. NFP will likely come in somewhat higher than the 180’000, the consensus expectation of 83 economists surveyed by Bloomberg, and confirm again a solid U.S. labor market. However, the more relevant issue is declining price pressure, with core CPI declining in the past six months from 2.3 percent to 1.7 percent as of July. Core PCE, even the Fed’s favorite inflation gauge is on a downward slope for 8 consecutive months.

ADP and NFP in the past 5 years



Source: Bloomberg Finance L.P., Julius Bär

Conclusion: The U.S. labor market remains solid.

QUICK NEWS HEADLINES (time in CEST)

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

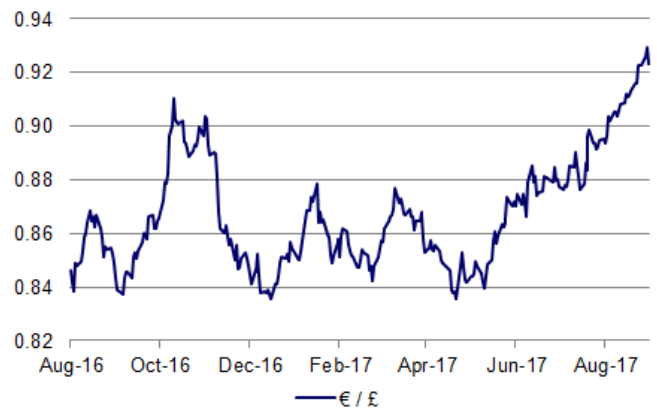
- Japan: Industrial production rose 4.7% in July y/y, less than the 5.2% expected.
- Germany: The unemployment rate for August is expected at 5.7% (09:55).
- South Africa: The trade surplus for July is expected at Rand 7.1 billion (14:00).

Pound: Third round of talks finished today

Today, the third round of Brexit negotiations will be concluded, followed by a press briefing around lunchtime. As some frustration of the talks was aired in public, we think a breakthrough or even some progress until October is looking increasingly unlikely. There are only two more rounds planned before an E.U. summit that will decide if “sufficient progress” has been made on the divorce settlement for talks to move on to trade. The discussions are sched-

uled in 4-day long blocks each month, yet most of the British officials did not arrive in Brussels until mid-morning on Tuesday, due to the the Summer Bank Holiday on Monday. We think it is not really an option for the U.K. team to let the timeline slip because there are a lot of companies waiting to act on contingency plans. The ongoing uncertainty will delay investments, and consequently weigh on the Pound.

€/£ still near the highs



Source: Bloomberg Finance L.P., Julius Bär

Conclusion: We still recommend staying short the Pound.

Would you like to trade right now? Use our Market Link App



CONTACTS

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

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

FX Market Advisory Singapore
+65 682 71 790

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

FX Market Advisory Hong Kong
+852 2979 2688

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

IMPORTANT LEGAL INFORMATION

This publication constitutes marketing material and is not the result of independent financial research. Therefore the legal requirements regarding the independence of financial research do not apply. The information and opinions expressed in this publication were produced by Bank Julius Baer & Co. Ltd., Zurich, as of the date of writing and are subject to change without notice. This publication is intended for information purposes only and does not constitute an offer or an invitation by, or on behalf of, Julius Baer to make any investments. Opinions and comments of the authors reflect their current views, but not necessarily of other Julius Baer entities or any other third party. Services and/or products mentioned in this publication may not be suitable for all recipients and may not be available in all countries. Clients of Julius Baer are kindly requested to get in touch with the local Julius Baer entity in order to be informed about the services and/or products available in such country.

This publication has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Before entering into any transaction, investors should consider the suitability of the transaction to individual circumstances and objectives. Nothing in this publication constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate for individual circumstances, or otherwise constitutes a personal recommendation for any specific investor. Julius Baer recommends that investors independently assess, with a professional advisor, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences. Past performance is not a reliable indicator of future results. Performance forecasts are not a reliable indicator of future performance. The investor may not get back the amount invested.

Although the information and data herein are obtained from sources believed to be reliable, no representation is made that the information is accurate or complete. Bank Julius Baer & Co. Ltd., Zurich, its subsidiaries and affiliated companies do not accept liability for any loss arising from the use of this publication.

This publication may only be distributed in countries where its distribution is legally permitted. This information is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) such publications are prohibited. **Dubai International Financial Centre:** this information has been distributed by Julius Baer (Middle East) Ltd. It may not be relied upon by or distributed to retail clients. Please note that Julius Baer (Middle East) Ltd. offers financial products or services only to professional clients who have sufficient financial experience and understanding of financial markets, products or transactions and any associated risks. The products or services mentioned will be available only to professional clients in line with the definition of the Dubai Financial Services Authority (DFSA) Conduct of Business Module. Julius Baer (Middle East) Ltd. is duly licensed and regulated by the DFSA. **Germany:** Bank Julius Bär Europe AG, authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), disseminates this publication to its clients. This publication has been produced by Bank Julius Baer & Co. Ltd., Zurich, which is supervised by the Swiss Financial Market Supervisory Authority FINMA. Neither the legal requirements regarding the independence of investment research nor the prohibition of trading previous to the announcement of financial analyses do apply. **Hong Kong:** this publication has been distributed in Hong Kong by and on behalf of, and is attributable to, Bank Julius Baer & Co. Ltd., Hong Kong branch, which holds a full banking license issued by the Hong Kong Monetary Authority under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong SAR). The Bank is also a registered institution under the Securities and Futures Ordinance (SFO) (Chapter 571 of the Laws of Hong Kong SAR) to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities with Central Entity number AUR302. This publication must not be issued, circulated or distributed in Hong Kong other than to 'professional investors' as defined in the SFO. The contents of this publication have not been reviewed by any regulatory authority. If you have any queries concerning this publication, please contact your Hong Kong relationship manager. Bank Julius Baer & Co. Ltd. is incorporated in Switzerland. **Monaco:** Bank Julius Baer (Monaco) S.A.M., an institution approved by the Minister of State for Monaco and the Bank of France, is sending to its clients this publication issued by Bank Julius Baer & Co. Ltd., Zurich, an institution in Switzerland under the supervision of the Swiss Financial Market Supervisory Authority FINMA. **Singapore:** this publication has been distributed by the Singapore branch of Bank Julius Baer & Co. Ltd., Zurich, and is available for accredited investors only. As the Singapore branch of Bank Julius Baer & Co. Ltd., Zurich, has a "unit" exemption under section 100(2) of the Financial Advisers Act, it is exempted from many of the requirements of the Financial Advisers Act, amongst others, the requirement to disclose any interest in, or any interest in the acquisition or disposal of, any securities or financial instruments that may be referred to in this publication. Further details of these exemptions are available on request. Please contact a representative of the Singapore branch of Bank Julius Baer & Co. Ltd., Zurich, with respect to any inquiries concerning this publication. **Switzerland:** in Switzerland this publication has been distributed by Bank Julius Baer & Co. Ltd., Zurich, authorised and regulated by the Swiss Financial Market Supervisory Authority FINMA. **United Arab Emirates:** this information has been distributed by a representative office of Bank Julius Baer & Co. Ltd., Zurich, authorised and regulated by the Central Bank of the United Arab Emirates.

United States: NEITHER THIS REPORT NOR ANY COPY THEREOF MAY BE SENT, TAKEN INTO OR DISTRIBUTED IN THE UNITED STATES OR TO ANY US PERSON.