



# Julius Bär

1/3

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

**Dollar:** With a relatively light macro calendar until the FOMC meeting, focus remains on debt ceiling  
**Euro:** Still rising Manufacturing PMIs point to optimism and further strength in industrial production  
**Pound:** The Pound has again reached the level at which Mark Carney issued some warnings last year

### Dollar: Thinking the Unthinkable

Following last Friday's labor report, there is not much on the macro-economic agenda until Thursday (CPI) and Friday (retail sales). The NFP rose by 156'000 in August, less than the 180'000 consensus estimate. Also the previous month has been revised down from 209'000 to 189'000. At the same time, the unemployment rate (U-3) rose to 4.4 percent, from 4.3 percent, versus expected unchanged.

### "Relax, we'll just raise the debt ceiling again"



Source: Nat Handelsman

As the calendar for the next several weeks is relatively light, the FOMC meeting of 20 September is the next real flagpole. However, even for that meeting, market expectations for a rate move are relatively low. Only 11 out of 82 economists surveyed by Bloomberg expect a ¼-percent rate hike. Therefore, we think the main focus remains on the debt ceiling issue. Until recently, Treasury Secretary kept telling lawmakers they needed to raise the debt limit

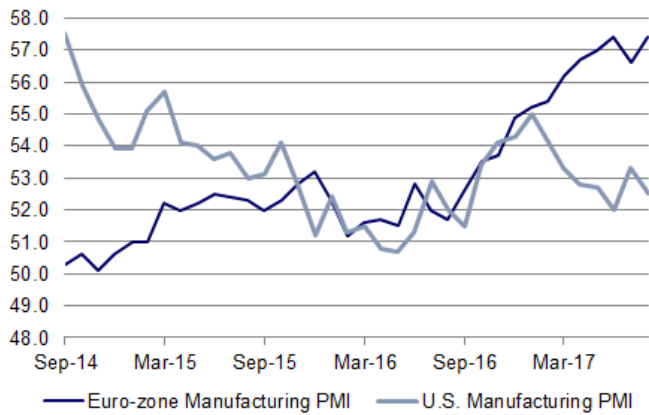
by 29 September, but federal spending for Hurricane Harvey is likely to move this deadline forward. "We obviously have now the hurricane spending, which is an issue", Mnuching said in an interview with CNBC, adding that it will affect the deadline by several days. We (as most probably 99 percent of market participants) think it is impossible that Congress will risk a default, however nothing can be ruled out based on what we have witnessed over the past couple of months.

**Conclusion:** The debt ceiling issue – most likely being resolved 5 to 12 – remains a headwind for the Dollar in the coming days, in our view.

### Euro: Solid Manufacturing PMI

Most macro prints are backward looking and only very few are leading indicators. The most widely watched are the Purchasing Manager Indices. First, they provide information about company's decision making going forward. Second, PMIs are available for all major economies. A PMI reading above 50 represents expansion, below 50 indicates contraction. Comparing the Euro-zone Manufacturing PMI with the U.S. equivalent, the pattern is obviously going in the opposite direction. The Euro-zone PMI rose to 57.4 in August, while the U.S. counterpart declined to 52½ (see chart below). The improvement in the Euro-zone was underpinned by buoyant demand, in particular by foreign orders, which reached a more than six year high. This suggests that firms are not being very adversely affected by Euro appreciation at this stage, consistent with our view that the impact on economic growth will be modest. As usual, Germany continues to lead (59.3), but manufacturing confidence also remains elevated in Italy (56.3) and France (55.8). Altogether, the Euro-zone PMIs point to further strength in industrial production.

**Euro-zone and U.S. Manufacturing PMIs**



Source: Bloomberg Finance L.P., Julius Bär

**Conclusion:** The August PMI is supporting the Euro.

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

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

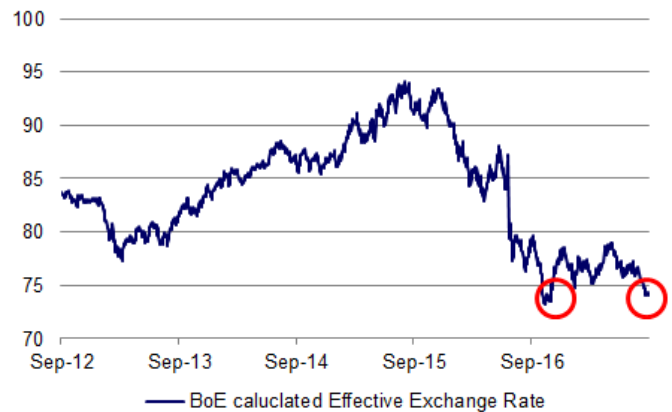
- Japan: The monetary base increased 16.3% in August y/y, higher than the 15.6% expected.
- Euro-zone: Producer prices are expected to have risen 2.1% in July y/y (11:00).
- Switzerland: Sight Deposits at the SNB will be released at 10:00 (last total SD SFr 579.8 billion, domestic 472.0).

**Pound: Too low?**

The Pound’s ongoing decline may be getting serious enough to command BoE Governor Mark Carney’s attention once again. The last time we saw that was at levels in October 2016, at which time Carney pointed out that he and his colleagues were “not indifferent” to the exchange rate. The BoE’s calculated Effective Exchange Rate – which represents the Pound’s value in trade-weighted terms – stood at 73.50 at that time. It is reasonable to assume that market participants are now carefully watching for any reference of an unusually low exchange rate, by any MPC members. Arguably, most BoE officials have indicated in recent months that they are willing to look through the inflationary impact of the Pound’s depreciation. However, with inflation around 2 ½ percent and retail prices rising even 3 ½ percent on a year-to-year basis, and wage growth only at 2 percent, Carney’s statement of not being indifferent might come back to the fore again. We think there is a reasonable likelihood that he will mention inflationary implications at the 14 September meeting. MPC Michael Saunders said several times the BoE should raise interest rates soon, to offset rising inflation. Clearly,

Saunders, together with Ian McCafferty, is one of the two hawks in the MPC. But should the Pound’s depreciation continue, some of the other six MPC members might join them.

**Pound Effective Exchange Rate in the past 5 years**



Source: Bloomberg Finance L.P., Julius Bär

**Conclusion:** We remain still bearish on the Pound but are vigilant for any comments regarding an interest-rate increase. Carney might stop or even reverse the ongoing Pound decline.

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