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

Pound: Recent polls of economists and a report of the British Chamber of Commerce are rather gloomy
Yen: Safe-haven buying has abated this morning as North Korea refrain from another missile launch
Dollar: Developments in the past couple of days made it less likely that the Fed will hike rates this year

Pound: It doesn't look good – yet

Next to regular polls of economists, there are three main forecasters for the British economy: The BoE with its staff projections, the National Institute for Economic and Social Research and the British Chamber of Commerce. The BCC is representing 92'000 businesses with members ranging from start-ups to multinational companies.

Slowing GDP not picking up due to Brexit

Source: Ben Jennings

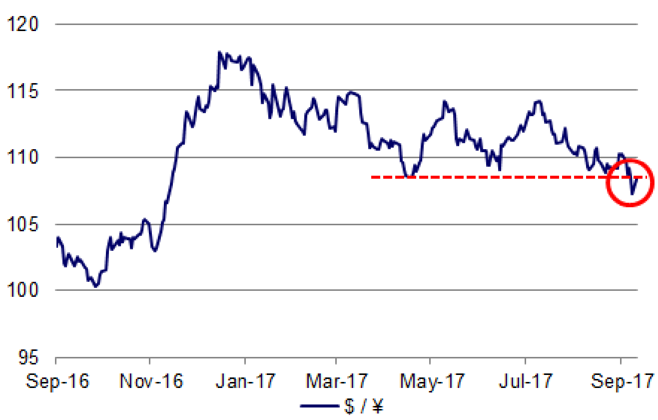
According to a report issued last Friday by the BCC, Britain's economy is "treading water" ahead of Brexit in March 2019. Director General Adam Marshall expects economic growth next year to be the weakest since the 2008–2009 recession, with GDP rising by just 1.2 percent. "There is no sign on the horizon of a return to healthier levels of growth", he added. Similarly, the latest Reuters poll of economists indicated that Britain's economy will slow to 1.3 percent in 2018. "Our forecast suggests that the hoped-for rebalancing of the U.K. economy towards investment and export is unlikely to materialize in the medium term", the BCC report concluded. Several market participants continue to point out that the fall of the Pound will help to offset that headwinds of the arduous Brexit negotiations, but Marshall said "a cheaper currency does not automatically mean an export boom, no matter how some politicians and commentators want it to happen". At the same time, the declining Pound has a negative impact on domestic consumption. British households are seeing their spending power squeezed by a rise in inflation as imported goods are getting more expensive. CPI eased a bit in the past two months but still stands at 2.6 percent while wage growth has not yet picked up. However, this might change – albeit not in the next few months. The latest report from the Recruitment and Employment Confederation showed that companies are struggling to fill their vacancies and are turning increasingly to recruitment agencies. "There is a significant shortage of people to fill blue collar jobs such as drivers, electricians, and construction works, and this is exacerbated by a fall in net migration from the E.U.", said Kevin Green, the REC CEO. Net migration fell to its lowest level in three years, with more than half the drop caused by E.U. citizens leaving and fewer arriving since the Brexit vote. BoE officials have predicted wage growth will pick up in 2018. If this eventually happens, it will most likely be noticed by the BoE which is watching signs for pay growth as it considers when to start raising interest rates. Right now, Sonia futures show that the rates markets attribute a fifty-fifty probability for a rate hike earliest by mid-2018. The MPC meeting coming Thursday might provide further clues whether the BoE ventures on a slightly more hawkish tone.

Conclusion: We remain bearish on the Pound for the time being. The turnaround will come but unlikely in the next few weeks.

Yen: False break?

Yen safe haven buying related to North Korean tensions was one of the main topics ahead of last weekend. $/¥ broke below the months-long support level at 108.10 last Friday but reversed back above that level this morning as North Korea refrained from another missile launch. The U.S. wants the U.N. Security Council to impose an oil embargo on North Korea. They replied this morning: “In case the U.S. eventually does rig up the illegal and unlawful resolution on harsher sanction, the DPRK shall make absolutely sure that the U.S. pays due price.”

$/¥ broke briefly below the support level at 108.10



Source: Bloomberg Finance L.P., Julius Bär

Conclusion: Tensions around the Korean peninsula are unlikely to go away in the foreseeable future which will lead to occasional Yen buying.

QUICK NEWS HEADLINES (time in CEST)

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

- Norway: Headline CPI is expected to have risen 1.7% in August y/y (08:00).
- Czech Republic: CPI is expected to have increased 2.6% in August y/y (09:00).

Dollar: On the Fed’s job in the foreseeable future

A number of developments last week – from Vice Chair Stanley Fischer’s resignation to the stopgap deal to keep the government funded for only three months – make it less likely that the Fed will hike interest rates anytime soon. The deal made between President Donald Trump and the Democrats to fund the government until 8 December means that the Fed December meeting could take place against the backdrop of a Federal shutdown. Also the hurricanes Harvey and Irma could potentially affect the economic data for the next couple of months. In addition, Fischer’s absence from the 13 December FOMC meetings makes a rate hike less likely. Although he was a centrist on the FOMC and known as a close ally and supporter of Fed Chair Janet Yellen, his comments often suggested he was slightly more hawkish than Yellen and Vice Chair Bill Dudley.

The Bloomberg Dollar Index is still declining

Source: Bloomberg Finance L.P., Julius Bär

Conclusion: We do not see any catalyst on the horizon to reverse the Dollar’s downtrend in the foreseeable future.

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