



# Julius Bär

1/3

15 September 2017

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

**Pound: The BoE voted 7–2 to keep the Bank Rate unchanged but did everything to talk up the Pound**  
**Franc: Contrary to the BoE, the SNB did everything yesterday to prevent the Franc from rising again**  
**Dollar: Rising shelter and energy prices reversed some of the losses in summer in the headline CPI rate**

### **Pound: The BoE talks to the Pound**

As in the two previous meetings, two MPC members Ian McCafferty and Michael Saunders maintained their push for a  $\frac{1}{4}$  percent increase, which would reverse the rate cut put in place in August 2016 after the Brexit vote. The vote to keep the Bank Rate on hold was, therefore, 7–2.

### **Mark Carney explaining the decision**



Source: Reuters

The MPC was back at its full complement of nine members, having been down to just seven in June. The new member David Ramsden participated for the first time, siding with the majority. The key message was that a majority of its nine policy makers judged that, “some withdrawal of monetary stimulus was likely to be appropriate over the coming months in order to return inflation sustainably to target”, if the economy develops as they anticipate, according to the Minutes. The BoE’s Asset Purchase Program has been increased by £ 100 billion to £ 435 billion last year. The Minutes reiterated that, “if the economy were to follow a path broadly consistent with the August central bank projection, then monetary policy could need

to be tightened by a somewhat greater extent over the forecast period”. FX markets appear to have taken heed of this warning, with the implied probability of a rate hike over the next six months rising considerably, (from 40 to 65 percent by February 2018, according to Sonia futures). Following yesterday’s policy announcement, there is no denying the support of the MPC for withdrawing some of the accommodation in place, by reducing the APP and hiking interest-rates in the months ahead. Nevertheless, the Minutes refer to, “relatively limited news”. The Committee’s positive and negative arguments are the same as they were in August. There is a reference to the accumulating evidence of slower supply growth – this may be related to news that net migration has slowed sharply since the Referendum – leaving the economy potentially more exposed to inflation. As an interpretation: The message yesterday was more about the MPC reaction function. It seems the BoE intends to take back the  $\frac{1}{4}$ -percent emergency rate cut implemented after the Brexit vote, but this is unlikely a start of a tightening cycle. At the beginning of this month, the Pound once again reached the level at which Governor Mark Carney issued warnings last year (see our 4 September edition). With this relatively hawkish MPC outcome, the BoE seems to try propping up the Pound in order to stabilize inflation (from rising import prices).

**Conclusion:** We do not think that yesterday’s policy decision is the start of a tightening cycle.

### **Franc: No change on currency concerns**

The SNB left its interest rate on Sight Deposits unchanged at  $-\frac{3}{4}$  percent and maintained the corridor for 3-month Libor between  $-1\frac{1}{4}$  percent and  $-\frac{1}{4}$  percent. Once again, the SNB reiterated its ability and readiness to intervene in FX markets, given the still overvalued Franc (it has not

been active since June). The acknowledgement that the recent Franc weakness, “is helping to reduce the significant overvaluation of the currency”, should not be interpreted as a change in monetary policy. Therefore, we expect the SNB policy to remain expansionary for quite some time, and lagging behind the ECB. The market’s perception is obvious with €/SFr rising, following the unsurprising announcement (see chart below).

**€/SFr leaving the triangle on the upside**



Source: Bloomberg Finance L.P., Julius Bär

**Conclusion:** We remain long €/SFr for our trading book.

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

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

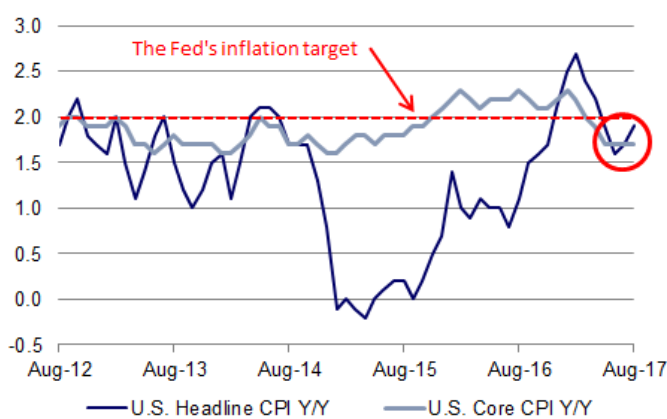
- Turkey: The current account deficit for July is expected at \$ 5.45 billion (09:00).
- U.S.: Retail sales are expected to have increased 0.1% in August m/m (14:30) industrial production is expected to have risen 0.1% in August m/m (15:15), the University of Michigan Sentiment Index for September is expected at 95.0 (16:00).

**Dollar: August CPI buoyed by shelter and energy**

Headline CPI rose to 1.9 percent from 1.7 percent in July, 0.1 percent higher than expected while core CPI remained at 1.7 percent. The upswing in the headline rate came from energy prices, as they increased strongly (2.8 percent month-on-month) and from shelter CPI, which rose ½ percent from July, the largest increase since October 2005. Lodging away from home was up 4.4 percent in August, reversing some of the strong declines in July (-4.2 percent). This was the largest monthly rise in the two-decade history of the series. However, this is also a very volatile component, and the latest jump comes after two

sharp declines in recent months, so we are inclined to view the August move as a payback after a weak summer performance. With the headline inflation rate rebounding only modestly to 1.9 percent and the core inflation rate unchanged at a muted 1.7 percent, the Fed is still missing its price stability target. With the Bloomberg Dollar Index basically unchanged after the print, FX markets seem unimpressed.

**Headline and core CPI stabilized after the decline**



Source: Bloomberg Finance L.P., Julius Bär

**Conclusion:** The August CPI print was not really much of a help. We think the Dollar will stay at current levels.

**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.