



# Julius Bär

1/3

19 September 2017

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

**Dollar:** Today, President Donald Trump will address the U.N. General Assembly for the first time  
**Forint:** Despite rising inflation, the Magyar Nemzeti Bank will keep its policy rate unchanged at 0.9%  
**Pound:** The latest Markit household survey and a declining saving rate do not bode well for the £

### Dollar: Trump speaking at the U.N. today

President Donald Trump will speak at the U.N. for the first time, providing most likely his usual *tour d'horizon* including that pressure on North Korea has to be increased further.

### Who is finally taking care of Kim Jong-un?



Source: Gary Varvel

Nikki Haley, the U.S. Ambassador to the U.N. said last Sunday on CNN that Washington had “pretty much exhausted” its options on North Korea at the Security Council. In his characteristic manner, Trump tweeted recently that “the U.N. has such a great potential but right now is just a club for people to get together, talk and have a good time. So sad!” It is therefore possible that Trump will come up with a forceful speech, say once again that there are military options available and repeat his call to Beijing for stronger action against Pyongyang. Most experts still rule

out the possibility of military action but recent developments are still somewhat worrisome. Russia and China began naval exercises yesterday off the Russian port of Vladivostok, not far from the Russia-North Korea border. Those drills were being conducted between Peter the Great Bay and the southern part of the Sea of Okhotsk, to the north of Japan. At the same time, U.S. B-1B bombers and F-35 jets flew from Guam and Japan to join South Korean F-15K fighters in the latest drill, Defense Minister Song Young-moo told at a hearing yesterday. While we still consider this as saber rattling, a potential escalation remains on the market’s radar screen. Trump’s attempts to outsource the North Korea problem to Beijing so far have been a constant failure. Each missile test and verbal provocation from Pyongyang brought demands for Beijing to turn up the pressure but was followed by watered down sanctions until China agreed to approve it. Trump could probably lose his patience and today announce sanctions against major Chinese banks. Targeting the big lenders from China is not a new idea as the U.S. has already black-listed smaller banks such as the Bank of Dandong for financing North Korea. Trump could lift the level and impose restrictions on big players like Bank of China which is also said to have helped North Korea evade sanctions. All big four state-owned banks in China have their presence in the U.S., where their operations now include providing loans, issuing bonds, and financing activities. Earlier this month, Trump tweeted that the U.S. is considering “stopping all trade with any country doing business with North Korea” and Treasury Secretary Steve Mnuchin is reportedly drafting a harsher sanctions package. China is by far North Korea’s largest trading partner, accounting for about 85 percent of its trade. Trump could therefore indeed try to punish China with sanctions.

**Conclusion:** Today’s speech by Trump has the potential to trigger safe-haven buying and bring \$/¥ lower.

**Forint: MNB still on hold today**

Despite HICP inflation at 2.7 percent, all 30 economists surveyed by Bloomberg expect Magyar Nemzeti Bank to leave its policy rate unchanged at 0.9 percent. In reality, the MNB’s monetary policy is even looser than the 0.9 percent suggest as it also uses FX swaps to boost Forint liquidity. Deposit rates are in negative territory until the 3-month maturity. We think a negative real yield of almost 3 percent will continue to weigh on the Forint.

**The Forint is weakening against the Euro**



Source: Bloomberg Finance L.P., Julius Bär

**Conclusion:** On 23 August we recommended going short the Forint. We stick to this view.

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

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

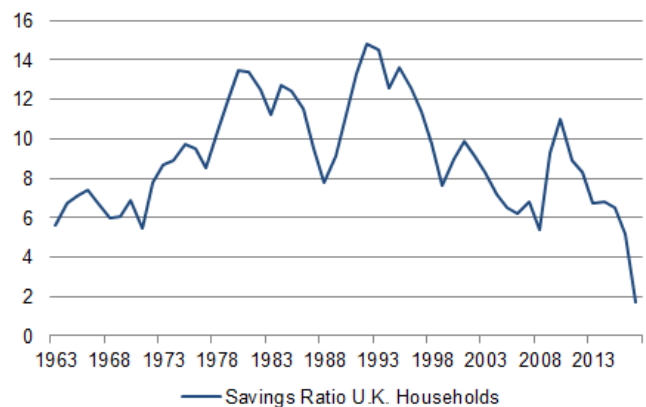
- Germany: The ZEW Survey Current Situation for September is expected at 86.0 (11:00).
- Poland: Retail sales are expected to have risen 7.1% in August y/y (14:00).
- U.S.: The current account deficit for Q2 is expected at \$ 115 billion (14:30).

**Pound: Household Finance Index worsens sharply**

British households are feeling the tightest squeeze on their finances in three years, according to a report issued yesterday by IHS Markit. Similar to the PMI surveys Markit conducts in many countries, it also collects data on how households are feeling. Markit said its monthly “Household Finance Index” fell to 42.8 in September from 43.4 in August. Like PMIs, a score above 50 suggests optimism regarding finances among U.K. households and below 50 indicates pessimism. Looking at the third quarter as a

whole, the Index’s average reading is at its lowest level since 2014. British households have been pinched by rising inflation and weak wage growth, Markit concluded. So far, British households compensated their consumption by saving less, but the savings rate has declined substantially to 1.7 percent this year, the lowest on record. This is not sustainable and British households will likely reduce their consumption in the foreseeable future.

**U.K. savings ratio now lowest on record**



Source: Office for National Statistics

**Conclusion:** The amount of cash available to spend has fallen at the fastest pace since the Brexit vote. This does not bode well for the economy.

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