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1/3

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

Dollar: Ahead of tonight's FOMC decision, President Donald Trump continued his bellicose rhetoric
Forint: The MNB left the key rate unchanged but cut its Overnight Rate further into negative territory
Loonie: The BoC cautioned about the speed of the rate-hiking path, but it will remain on track

Dollar: Rocket Man and FOMC

In his debut address to the U.N. yesterday, President Donald Trump emphasized that the peril posed by North Korea's weapon program is too great for any country to remain on the sidelines.

Donald Trump speaking at the U.N. General Assembly



Source: cnbc.com

In his 42-minute speech, Trump escalated his standoff with North Korea over its nuclear challenge, threatening to "totally destroy" the country. Trump's bare-knuckled style was in contrast to the comments of some of his Cabinet members who have stated a preference for a diplomatic solution. As alarmed murmurs spread around the hall, Trump had another barb. Using his newly adopted epithet for Kim Jong-un, Trump said: "Rocket Man is on a suicide mission for himself and for his regime". Later today, the Fed will most likely announce that it keeps interest rates unchanged and is expected to provide details on winding down its balance sheet. As this appears to be a foregone

conclusion, it means that market response is likely to be determined by shifts in Fed language during the press conference and new forecasts. As the FOMC presents the new Summary of Economic Projects at 20:00, right before the press conference starts, market participants will look first to the "dot plot" which now includes the rate path until 2020. Beyond the "dot plot", investors will scrutinize the SEP for potential changes in inflation forecasts reflecting recent soft readings, the impact from the hurricane on growth, the Fed's assessment of whether NAIURU has changed, and whether there are any dissents.

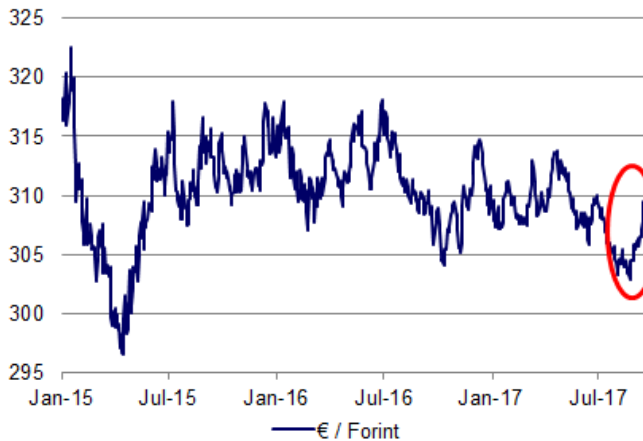
Conclusion: Tonight, the devil will be in the details of both Fed Chair Janet Yellen's comments in the press conference and the new SEP.

Forint: More easing measures

Superficially judged, the Magyar Nemzeti Bank left its monetary policy on hold by keeping the benchmark rate unchanged at 0.9 percent but in fact, it cut the Overnight Rate deeper into negative territory as Governor György Matolcsy and his colleagues employed new unconventional measures, making good on pledges of monetary easing that knocked the Forint from a two-year high (see chart below). The MNB cut the rate offered on its Overnight Deposits – the facility where commercial lenders park most of their cash – by 0.1 percent to minus 0.15 percent. Therefore, the MNB is embarking on another round of unconventional easing after signalling readiness to counter downside risks to their inflation forecast that have been bolstered by the Forint appreciation from May to August. Following the announcement, Deputy Governor Márton Nagy said the MNB will boost the volume of 6 and 12-month FX swaps to convince investors that Bubor rates will stay low for an extended period. Consequently, the

Bank will maintain its dovish rhetoric in the foreseeable future.

The Forint is weakening against the Euro



Source: Bloomberg Finance L.P., Julius Bär

Conclusion: We recommended going short the Forint on 23 August and stick to this view.

QUICK NEWS HEADLINES (time in CEST)

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

- South Africa: CPI is expected to have risen 4.9% in August y/y (10:00).
- U.K.: Retail sales ex auto fuel are expected to have risen 1.4% in August y/y (10:30).
- U.S.: The FOMC will announce its rate decision and the new Summary of Economic Projections at 20:00.

Loonie: Rather December than October, so what?

The Loonie experienced a little set-back after Deputy Governor Timothy Lane said the BoC will pay close attention to how the Canadian economy responds to both higher interest rates and a stronger Loonie. However, the correction was relatively modest and overall, the Loonie remains in its months-long uptrend. Next to Governor Stephen Poloz, Lane reiterated the Bank's previous message that growth is becoming more "broadly based" and "self-sustaining". Regarding the future rate outlook, he said that "each decision is a live decision", adding that "we are watching the numbers as they come along, we are trying to understand how the economy is evolving and therefore what degree of monetary policy stimulus is appropriate". Our interpretation of his comments is that there is clearly an agenda for a rate-hiking path but Lane tried to simply to nudge market expectations away from

an additional rate increase this coming October and more towards a December one. In our view, it does not particularly matter when the next rate hike will occur but rather that the BoC ventured decisively on a rate-hiking path last July. From a technical point of view, C\$/SFr recently exited an almost 10-year long downtrend (see chart below) and we are convinced that this cross will move higher, especially as the SNB will stay on hold for longer than other major central banks will.

C\$/SFr in the past 10 years



Source: Office for National Statistics

Conclusion: We recommend going long C\$/SFr.

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