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

Pound: In her keynote speech Prime Minister Theresa May offered absolutely nothing new
Euro: Angela Merkel's Christian Democrats won election, albeit less glamorous than forecast
Kiwi: Neither National nor Labour secured enough seats to form a majority government

Pound: The Italian Job

In the 1969 British heist movie "The Italian Job", Charlie Croker (played by Michael Caine) and his team stole millions worth of gold bullion in Turin. In a reverse approach, Prime Minister Theresa May tried to steal back billions of the Brexit bill in Florence last Friday by offering – nothing!

History, challenges, and the future



Source: Matt Dunham / AP

Ahead of the speech „in this great city of Florence“ – as she mellifluously said – an amount of € 20 billion has circulated. This amount would still have been far away from the € 60 to 100 billion requested by the E.U. but at least it were something tangible. By announcing a landmark Brexit speech, expectation have been high in terms of removing roadblock between the U.K. and E.U. and offering some real compromise on the Brexit bill and the future role of the European Court of Justice. Instead, it was a high flying propaganda speech which summarized Britain's wish list. „We come together in a spirit of ambition and innovation, we have it within ourselves to do great things,“ she started

off her speech. And then, she digressed into a combination of vision and repetition. „We want to be your strongest friend and partner,“ she tried to flatter the E.U., adding that Brexit „does not mean we are turning our back on Europe.“ Most of the part was just a repetition of what we heard already many times. Six sentences alone began with the introductory part „as I said in my speech at Lancaster House earlier this year...“. At least one proposition was half-new as May set out a plan to retain full access to the single market for two years after Brexit to try to reassure business. This idea was floated already months ago by Chancellor of the Exchequer Philip Hammond. However, as throughout her whole speech, there was a lack of details and concrete propositions. She spent so much of her 30-minute speech describing the similarities between Britain and the E.U. that we asked ourselves in the end why the U.K. wants to leave the E.U. after all. Her speech was very weak, disappointing, empty, and clearly leaves so many questions unanswered. We think most people will be scratching their heads and wondering what on earth the fuss has been about with this speech. Moody's seems to have shared our thoughts as it cut U.K.'s credit rating by one notch to Aa2 just hours after her speech: „Moody's is no longer confident that the U.K. government will be able to secure a replacement free trade agreement with the E.U. which substantially mitigates the negative economic impact of Brexit.“

Conclusion: Theresa May has still no plan.

Euro: Welcome to Jamaica

Angela Merkel won a fourth term as German Chancellor, albeit less glamorous than expected. Damaged by the migrant crisis, the Christian Democrats won only 33 percent of the vote, down more than 8 percent from the last election. The principal loser was Martin Schulz's SPD,

which recorded its worst result in the post-war history (below 21 percent) while the main winner was the Alternative for Deutschland, gaining almost 13 percent from zero. As the SPD announced instantly after the result was published it will go into opposition, the only possible government for Merkel is a “Jamaica” coalition, together with the FDP and the Greens.

€/ \$ in the past 12 months



Source: Bloomberg Finance L.P., Julius Bär

Conclusion: The outcome – albeit surprising in its size – is unlikely to weigh on the Euro.

QUICK NEWS HEADLINES (time in CEST)

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

- Germany: The ifo Business Climate Index for this month is expected at 115.9, Expectations at 107.7, and Current Assessment at 124.6 (10:00).
- New Zealand: The trade deficit for August is expected at NZ\$ 825 million (23:45).

Kiwi: Hung Parliament

Neither of the two major parties – National led by the incumbent Prime Minister Bill English or Jacinda Ardern’s Labour – secured enough seats to form a majority government on Saturday. National got 58 seats in Parliament, while Labour secured only a rather disappointing 45 seats. Therefore, English and Ardern are scrambling to form coalitions with the minor parties in order to reach 61 seats and the ability to govern in the 120-seat Parliament. Winston Peters, the unpredictable leader of the populist New Zealand First party has now become the kingmaker after gaining 9 seats. Peters said in a pub in Russell where he held his election party: „I will not make a decision tonight

or tomorrow until I have talked to all of New Zealand First.“ Visually, the cantankerous politician who prefers fishing over politics does not really fit to the charismatic Jacinda Ardern, but ideologically they fit very well. Both strive to cut immigration and try to pull more New Zealanders out of poverty. Together with the Green – who are set to take 7 seats match Labour ideologically – 61 seat and a slim majority could be reached.

Buy and sell zones of NZ\$ / \$



Source: Bloomberg Finance L.P., Julius Bär

Conclusion: The outcome of the election will continue to weigh on the Kiwi in the foreseeable future as the coalition talks will take a couple of weeks.

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