



# Julius Bär

1/3

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

**Dollar: Yesterday, President Donald Trump again promised a tax reform – will the Congress follow up?**  
**Koruna: The CNB left its Repo Rate unchanged at ¼ percent but with only a 4–3 vote, a hike is looming**  
**Kiwi: With Grant Spencer appointed only as an Acting Governor, the RBNZ remained on hold and vague**

### Dollar: Another tax reform announcement

Speaking in Indianapolis, President Donald Trump again announced a “phenomenal” tax plan. He promised far-reaching tax cuts for companies and individuals. The corporate tax rate should be lowered to 20 percent, down from 35 percent, and there should be only three personal income tax brackets (12, 25, and 35 percent), down from seven. The aim is to cut taxes by around \$ 2.2 trillion over 10 years.

by creating economic growth. On Tuesday, Trump told a group of Democrats and Republicans the tax framework could lead the economy to grow more than 6 percent a year, more than double what even his advisers are forecasting. At least yesterday’s tax plan was a slight improvement to the one presented in April, which consisted of only 12 bullet points and 250 words. However, tax proposals from past White House teams, led both by Republicans and Democrats, have included hundreds of pages of detail and line-items, specifying which precise tax breaks should be eliminated and how much it would cost to add a new benefit. The main question now is whether Trump’s second tax plan has a decent probability of passing Congress. The recent move by the President to reach across the aisle on the temporary spending and debt ceiling agreement has fostered some expectation for a broader pivot from the administration towards the center. In our view, investors may be overestimating the likelihood that the Republican/Democrat divide can be bridged on taxes because the latter are deeply opposed to Congressional leadership’s overall vision on taxes and are unlikely to soften given optics that cuts disproportionately benefiting the rich and corporations. Meanwhile, the Republicans have too many different ideas for how to get tax reform done and each of the existing plans or broad ideas contain elements that are popular with one set but unpopular with another set. For instance, House Republicans love the idea of a 100 percent capital expense deduction – which could add \$ 2.2 trillion to the federal debt – while Senate Republicans do not agree with that. And then there are the lobbyists. The Obamacare repeal bill was strongly opposed by a wide array of interest groups (doctors, health insurers, patient advisory groups etc.). Lobbying groups are already planning to mobilize against aspects of a Trump tax-reform plan that threaten their interests.

**Conclusion: It will remain complicated.**



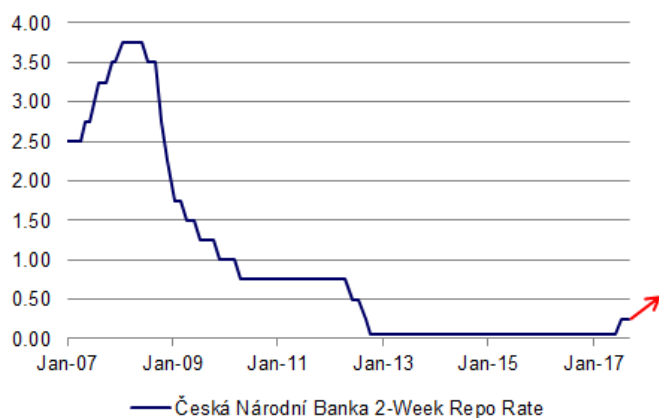
Source: Plante / Tulsa World

This plan is heavily leaning in promising Americans that tax changes will lead to a wave of economic growth that will spur new jobs and better wages. Unsurprisingly, the announcement was big on generalities as the President is not known for offering policy specifics in his speeches. What was missing: how it is going to be paid for, as it has to be budget-neutral. Back in April, when Trump announced his first “phenomenal tax plan”, Treasury Secretary Steve Mnuchin said tax cuts would pay for themselves

**Koruna: On hold, but a tight vote**

The Česká Národní Banka left its Repo Rate unchanged at 1/4 percent, as widely expected (see yesterday’s preview). However, the vote in favour of holding the benchmark rate was only 4 – 3, which at least confirms our view that the CNB should raise rates given strong growth and inflationary pressures. Speaking to reporters in Prague, Governor Jiří Rusnok said that the Czech labor market is showing further tightening (the unemployment rate stands at 4.0 percent) and that the latest data indicate robust economic growth in Q3. A rate hike is only a matter of time.

**The CNB’s Repo Rate in the past 10 years**



Source: Bloomberg Finance L.P., Julius Bär

Conclusion: We remain long the Koruna vs. Euro.

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

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

- South Korea: CPI rose 2.1% in September y/y, a touch less than the 2.2% expected.
- Germany: CPI is expected to have risen 1.8% in September y/y (14:00).
- U.S.: Wholesale inventories are expected to have increased by 0.4% in August (14:30).
- Mexico: Banxico is expected to leave its Overnight Rate unchanged at 7.0% (20:00).

**Kiwi: Extending the holding period**

With the coalition talks pending until probably around 12 October, the market’s focus turned to the RBNZ meeting last night. It was the first gathering of MPC members with Acting Governor Grant Spencer after Graeme Wheeler’s departure. His tenure in leading the Bank will end already in March next year, covering the post-election period while the Government makes a permanent decision. Therefore,

it did not come as a surprise that the RBNZ left its Cash Rate unchanged at 1 3/4 percent and stuck to its previous Statement, reiterating that “monetary policy will remain accommodative for a considerable period”. On inflation, the RBNZ maintained its forecast trajectory and expects CPI to drop below the bottom end of the target band in early 2018, on account of base effects, but sees inflation rising beyond that time.

**NZ\$/€ is approaching the middle of the range**



Source: Bloomberg Finance L.P., Julius Bär

Conclusion: With the NZ\$/€ in the “sell zone”, we recommended staying short the Kiwi in July and still stick to this view for the time being.

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**CONTACTS**

**FX Market Advisory Zurich**  
+41 (0) 58 888 8484

**FX Market Advisory Geneva**  
+41 (0) 58 885 3551

**FX Market PB Solutions Zurich**  
+41 (0) 58 888 8484

**FX Market Advisory Hong Kong**  
+852 2979 2688

**FX Market Advisory Singapore**  
+65 682 71 790

**Author: Jürg Mettler**  
+41 (0) 58 888 8454

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