



# Julius Bär

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

**Dollar: President Donald Trump's "rewriting of history" on Twitter in the Alabama election says a lot**  
**Yen: Despite a very tight labor market and solid fundamentals, CPI is unable to lift off from low levels**  
**Pound: Brexit Secretary David Davis appeared optimistic after the fourth round of Brexit talks ended**

### **Dollar: Strange? Strange!**

It is not a market moving story but it says a lot about the personality and integrity of President Donald Trump. In the run-up to the Alabama Senator re-election last Tuesday, Trump enthusiastically endorsed Luther Strange. He was appointed to the Senate early this year after Jeff Sessions vacated his seat to become Attorney General.

### **Donald Trump and his favorite bird**



**Source:** Spencer Platt / Getty / The Atlantic

Trump posted three favorable Tweets in the weeks before the primary run-off. In the last Tweet, Trump claimed that Strange "has been shooting up in the Alabama polls since my endorsement". Strange's opponent, Roy Moore, a hard-right former judge and outspoken evangelical Christian, has been supported by Steve Bannon. As Strange's loss to Moore became evident, the President distanced himself in the most Trumpian way possible: He deleted the supportive Tweets. At the same time, he posted a Tweet complimenting Moore on his victory: "Congratulations to

Roy Moore on his Republican Primary win in Alabama", suggesting the winner has always been "his man". This reminds us in some ways to George Orwell's novel *Nineteen Eighty-Four*, in which the Ministry of Truth was involved in news media to rewrite history and to change facts to fit party doctrine. We had many cases since January where Trump provided "alternative facts" which we flexibly could accept as "room of interpretation". But re-writing the support of an election campaign is dishonest and raises some more concerns on Trump.

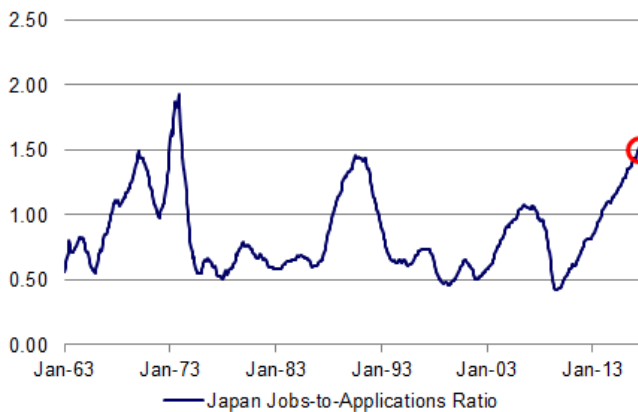
**Conclusion:** In our view, his kind of behavior continues to undermine market confidence in Donald Trump.

### **Yen: The Japanese equation**

This morning we received an unusual accumulation of macro data with the labor report, inflation prints, retail sales and industrial production released within only 20 minutes. Usually, these prints are spread over a couple of days. The unemployment rate remained at 2.8 percent in August, the lowest level since June 1994. The tightness of Japan's labor market is also expressed in the rising job-to-applications ratio which stands at 1.52, the highest since March 1974 (see chart below). The number stipulates that there are more than 1½ jobs open for 1 applicant. In nearly all countries, such a tight labor market would lead to wage increases, not so in Japan. Wages rose a mere 0.9 percent from a year ago. Interestingly, retail trade is flourishing, rising 1.7 percent in August from a year earlier, a pace that has prevailed in the past 12 months. One main reason for this is low inflation which is running below wage growth. National headline CPI rose 0.7 percent in August and the Tokyo equivalent at ½ percent in September, both from a year earlier. Finally, industrial production increased 5.4 percent in August from a year earlier, again a growth rate that we have more or less seen in recent months.

Given that annualized GDP growth has been around 1½ percent in recent quarters, one cannot argue that the Japanese economy is doing badly. Clearly, the issue for investors is the low yield which will prevent the Yen from rising.

**Japan’s tight labor market**



Source: Bloomberg Finance L.P., Julius Bär

**Conclusion:** If inflation does not increase in this kind of economic environment, it probably never will.

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

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

- Turkey: The trade deficit for August is expected at \$ 5.9 billion (09:00).
- Germany: The unemployment rate is expected to have stayed at 5.7% (09:55).
- Norway: The unemployment rate for September is expected at 2½% (10:00).
- Euro-zone: Headline CPI is expected to have increased by 1.6% in September y/y, core CPI by 1.2% in the same period (11:00).
- Canada: GDP is expected to have risen 3.9% in July y/y (14:30).
- U.S.: Personal income is expected to have risen 0.2% in August, personal spending 0.1%; core PCE is expected to have risen 1.4% in August y/y (14:30).

**Pound: Concluding the fourth round of talks**

Is it only diplomacy or reality? As the fourth round of Brexit talks concluded yesterday, both sides have welcomed a “new dynamic” in the negotiations. Brexit Secretary David Davis described the talks as “vital” and the atmosphere was significantly friendlier than at the same point last month when the gulf in the parties’ respective positions

was clear to see during an ill-tempered press conference. Referring to the fact of the deadline being only 18 months away, Davis spoke of a “clear time-limited period of implementation [...] based on current terms” and then dropped a hint when he added: “I believe this should be quick to agree once Michel has a mandate to explore it with us”. However, E.U. Chief Negotiator Michel Barnier said at the press conference it will take “weeks or months” before Brexit talks can move on to trade.

**Cable in the past 12 months**



Source: Bloomberg Finance L.P., Julius Bär

**Conclusion:** We still believe Sterling has risen too far and expect a correction lower in the next few weeks.

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