Julius Bär

4 October 2017

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

Pound: Foreign Minister Boris Johnson said he was behind "every syllable" of May's Brexit plan
Lira: Core inflation accelerated again to 11 percent, deviating even further from the TCMB's target
Krona: Comments from Governor Stefan Ingves suggest the Riksbank will remain accommodative

Pound: Manchester United

The Tory's annual conference in Manchester concludes today. The highlight of the 4-day conference, which always takes place at the beginning of October, is usually the closing speech from the Prime Minister. However, this year the high point was rather yesterday's address by Foreign Minister Boris Johnson, who has defied May in the past two weeks.

Johnson vs. May – pictures from the past?

Source: The Spectator

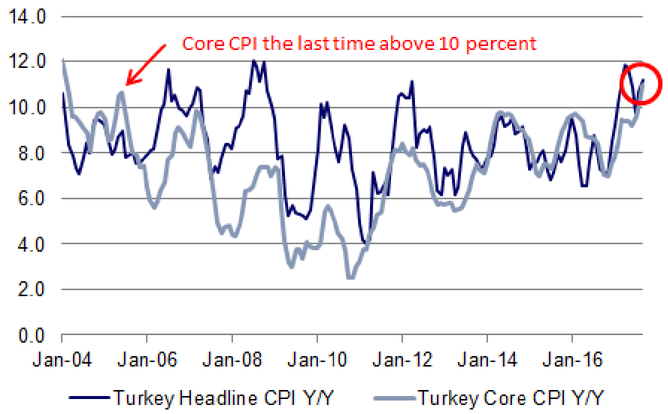
Before the conference opened, Johnson – who led the Leave campaign in last year's E.U. Referendum – provoked the ire of Cabinet colleagues by repeatedly attempting to portray himself as the real champion of a genuine "bold Brexit". But then – in a strange U-turn – Johnson yesterday said he was behind "every syllable" of May's Brexit plan. He claimed that "contrary to some of the stuff that I notice has been knocking around in the media, you have a Cabinet that is totally united behind every comma, every full stop of the Prime Minister". This is somewhat reminiscent of Donald Trump and his "alternative facts" as Johnson was obviously trying to undermine May's authority. Indeed, his insubordination in recent weeks had thrown into question May's ability to unite her party behind a common Brexit stance. Last Monday, some lawmakers made references to his bad behavior. For instance John Howell, who represents Johnson's old constituency, said the Minister should "keep his bloody mouth shut". It remains to be seen if Johnson will indeed go back in line or whether his comments yesterday were only tactical in nature. In the closing address later this afternoon, May will likely paint a bright future for Britain and plead with her party to end its infighting.

Conclusion: It was a good try by Johnson to reconcile with May but he is who he is. The Cabinet will likely remain divided on key Brexit issues.

Lira: Core inflation accelerates again

CPI rose to 11.2 percent year-on-year in September, slightly above expectations (11.1 percent), where the biggest contribution came from transport, housing, hotels and restaurants. On a more negative note, core inflation accelerated again, surging to 11.0 percent from 10.2 percent in August. This was the second double-digit print and it is unlikely that this trend will reverse in the near term as currency effects will not abate until later in the year. Therefore, the inflation trajectory is unfavourable and inflation expectations remain unanchored – visibly above the TCMB's long-term forecasts. Indeed, September's MPC Statement revealed the TCMB's concern about the underlying core inflation trend. With inflation deviating further from the TCMB's 5-percent target, we do not see any value in Lira exposure.

Headline and core CPI since 2004



Source: Bloomberg Finance L.P., Julius Bär

Conclusion: We still recommend staying away from Lira exposure.

QUICK NEWS HEADLINES (time in CEST)

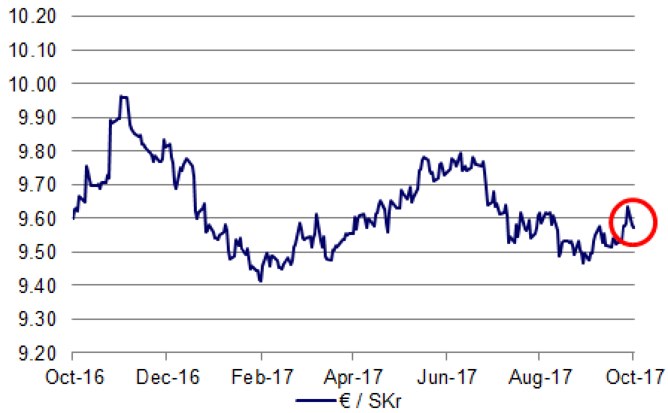
The following four headlines might have an impact on currency markets today:

- Japan: The Services PMI declined to 51.0 in September from 51.6 in August.
- Russia: The Services PMI for September is expected at 54.2 (08:00).
- U.K.: The Services PMI for September is expected at 53.2 (10:30).
- Euro-zone: Retail sales are expected to have risen 2.6% in August y/y (11:00).

Krona: Should we give up?

Regular readers recall that we always have a firm view on currencies, be it negative or positive. Given Sweden's strong economic performance (GDP growth stands at 3 percent) and optimal inflation (CPIF around 2 percent since the beginning of this year) we have been bullish on the Krona for quite some time. This is especially the case since the Riksbank removed its easing bias in July (see our 5 July edition) and it had become market consensus that uber-dove Stefan Ingves will terminate his second 6-year term at the end of this year (see our 17 July edition). However, as the Riksbank announced last Friday that the 64-year old Governor will continue for another five years, we have to question our assessment. We note that following the announcement, expectations for a hawkish shift have been pushed back further. Indeed, Ingves said yesterday that it is "too early to make policy less expansionary" citing that the "debt level issue is an urgent issue for Sweden". Well, Sweden's household debt as a percentage of disposable income stands around 180 percent, according to OECD data, similar to Switzerland's, but government debt to GDP is only 40 percent, considerably smaller than in most developed countries. Ingves will likely continue the Riksbank's ultra-loose monetary policy and we are thinking about abolishing our bullish view on the Krona.

€/Krona in the past 12 months



Source: Bloomberg Finance L.P., Julius Bär

Conclusion: Currently, we are undecided and will keep you posted. Fundamentals are in favor of the Krona, Ingves' 5-year term speaks against it.

Would you like to trade right now? Use our Market Link App

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

IMPORTANT LEGAL INFORMATION

This publication constitutes marketing material and is not the result of independent financial research. Therefore the legal requirements regarding the independence of financial research do not apply. The information and opinions expressed in this publication were produced by Bank Julius Baer & Co. Ltd., Zurich, as of the date of writing and are subject to change without notice. This publication is intended for information purposes only and does not constitute an offer or an invitation by, or on behalf of, Julius Baer to make any investments. Opinions and comments of the authors reflect their current views, but not necessarily of other Julius Baer entities or any other third party. Services and/or products mentioned in this publication may not be suitable for all recipients and may not be available in all countries. Clients of Julius Baer are kindly requested to get in touch with the local Julius Baer entity in order to be informed about the services and/or products available in such country.

This publication has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Before entering into any transaction, investors should consider the suitability of the transaction to individual circumstances and objectives. Nothing in this publication constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate for individual circumstances, or otherwise constitutes a personal recommendation for any specific investor. Julius Baer recommends that investors independently assess, with a professional advisor, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences. Past performance is not a reliable indicator of future results. Performance forecasts are not a reliable indicator of future performance. The investor may not get back the amount invested.

Although the information and data herein are obtained from sources believed to be reliable, no representation is made that the information is accurate or complete. Bank Julius Baer & Co. Ltd., Zurich, its subsidiaries and affiliated companies do not accept liability for any loss arising from the use of this publication.

This publication may only be distributed in countries where its distribution is legally permitted. This information is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) such publications are prohibited. **Dubai International Financial Centre:** this information has been distributed by Julius Baer (Middle East) Ltd. It may not be relied upon by or distributed to retail clients. Please note that Julius Baer (Middle East) Ltd. offers financial products or services only to professional clients who have sufficient financial experience and understanding of financial markets, products or transactions and any associated risks. The products or services mentioned will be available only to professional clients in line with the definition of the Dubai Financial Services Authority (DFSA) Conduct of Business Module. Julius Baer (Middle East) Ltd. is duly licensed and regulated by the DFSA. **Germany:** Bank Julius Bär Europe AG, authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), disseminates this publication to its clients. This publication has been produced by Bank Julius Baer & Co. Ltd., Zurich, which is supervised by the Swiss Financial Market Supervisory Authority FINMA. Neither the legal requirements regarding the independence of investment research nor the prohibition of trading previous to the announcement of financial analyses do apply. **Hong Kong:** this publication has been distributed in Hong Kong by and on behalf of, and is attributable to, Bank Julius Baer & Co. Ltd., Hong Kong branch, which holds a full banking license issued by the Hong Kong Monetary Authority under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong SAR). The Bank is also a registered institution under the Securities and Futures Ordinance (SFO) (Chapter 571 of the Laws of Hong Kong SAR) to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities with Central Entity number AUR302. This publication must not be issued, circulated or distributed in Hong Kong other than to 'professional investors' as defined in the SFO. The contents of this publication have not been reviewed by any regulatory authority. If you have any queries concerning this publication, please contact your Hong Kong relationship manager. Bank Julius Baer & Co. Ltd. is incorporated in Switzerland. **Monaco:** Bank Julius Baer (Monaco) S.A.M., an institution approved by the Minister of State for Monaco and the Bank of France, is sending to its clients this publication issued by Bank Julius Baer & Co. Ltd., Zurich, an institution in Switzerland under the supervision of the Swiss Financial Market Supervisory Authority FINMA. **Singapore:** this publication has been distributed by the Singapore branch of Bank Julius Baer & Co. Ltd., Zurich, and is available for accredited investors only. As the Singapore branch of Bank Julius Baer & Co. Ltd., Zurich, has a "unit" exemption under section 100(2) of the Financial Advisers Act, it is exempted from many of the requirements of the Financial Advisers Act, amongst others, the requirement to disclose any interest in, or any interest in the acquisition or disposal of, any securities or financial instruments that may be referred to in this publication. Further details of these exemptions are available on request. Please contact a representative of the Singapore branch of Bank Julius Baer & Co. Ltd., Zurich, with respect to any inquiries concerning this publication. **Switzerland:** in Switzerland this publication has been distributed by Bank Julius Baer & Co. Ltd., Zurich, authorised and regulated by the Swiss Financial Market Supervisory Authority FINMA. **United Arab Emirates:** this information has been distributed by a representative office of Bank Julius Baer & Co. Ltd., Zurich, authorised and regulated by the Central Bank of the United Arab Emirates.

United States: NEITHER THIS REPORT NOR ANY COPY THEREOF MAY BE SENT, TAKEN INTO OR DISTRIBUTED IN THE UNITED STATES OR TO ANY US PERSON.