



# Julius Bär

1/3

5 October 2017

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

**Dollar:** We elaborate on the four top candidates for the Fed Chair, Yellen to stay or Powell, Warsh, Cohn  
**Franc:** Inflation likely increased 0.6 percent in September from a year ago, the real yield more negative  
**Gold:** Indicators and seasonal demand suggest that Gold is poised to move higher in the coming weeks

### Dollar: Who is next?

As we know, President Donald Trump has his own agenda and sets his own priorities. Over eight months into his presidency, Trump lags far behind his predecessors in filling senior positions in his administration. Trump has repeatedly blamed Senate Democrats for holding up his appointments. Fact is, that Trump has put forward far fewer nominees to the Senate than past Presidents had at this point in their terms.

### The four most likely candidates for the Fed Chair



Source: Jay Gershbein / Twitter

According to the Washington Post, out of the 564 positions which require Senate confirmation, 384 have no formal nominee. In his unique style, Trump said in an interview with Fox News that “a lot of those jobs, I don’t want to appoint, because they’re unnecessary to have”. By being silent about the most important job for FX markets – the Fed Chair – one could have concluded that Trump considered this job also as unnecessary, or at least that he does not care. Advisors to Trump seem to push him for a decision as they have compiled a shortlist of potential candidates. Even though this list is not public, it has been

leaked that it encompasses next to Yellen Fed Governor Jerome Powell, former Board member Kevin Warsh, and National Economic Council Director Gary Cohn. Simultaneously, Trump has to make a decision on the Vice Chair as Stanley resigned as of 13 October and needs to appoint two Governors as the seats are empty (the nomination of Randy Quarles is still pending in the Senate). In one of these many U-turns, Trump switched from blaming Yellen during his election campaign for keeping interest rates low to help then-President Barack Obama to consider re-hiring her because she “has done a good job” and expressed “a lot of respect” for her as he stated in various interviews. In one of his regular flip-flops, Trump considers her a “low interest-rate person like myself”. In the same camp belongs Powell, who backs the policies of Yellen. Some argue that his chances are somewhat smaller than Yellen’s as he is not an economist but under Trump, this will probably not be a strong criteria. Warsh, who was already a member of the FOMC from 2006 to 2011, is known as a hawk, which makes an appointment less likely. However, his father in law, Ronald Lauder, is a longtime friend of Trump and Warsh’s wife Jane, a granddaughter and heiress of Estée Lauder is a billionaire which would fit Trump’s preferred profile in his job selection. Probably Cohn has the lowest chance as he criticized Trump for not doing enough to condemn white nationalist groups. As a former investment banker at Goldman Sachs, he would likely lean more to the dovish side. A clear majority of FX colleagues on our trading floor in Altstetten opt for Yellen to stay or Powell to be nominated. Both have been appointed by Obama which might be ideal for Trump. If they perform well, he can take credit for nominating them, if they fail, Trump can blame Obama.

**Conclusion:** Out of the four top candidates, only one would lean more hawkish on monetary policy. We think either Yellen will extend or Powell will take the Chair.

**Franc: Inflation ticking up slightly more**

For the younger among us, there were times when inflation in Switzerland was in double digits (12 percent in 1973). In the meantime, the SNB is already happy if CPI is at least in positive territory. Today at 09:15, the Federal Statistics Office will likely announce that CPI rose 0.6 percent in September from a year earlier. This would match the highs from February/March and would also mean that the real yield is getting slightly more negative.

**Swiss inflation since 1971**



Source: Bloomberg Finance L.P., Julius Bär

**Conclusion:** The increasing negative real yield will prevent the Franc from rising in the foreseeable future.

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

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

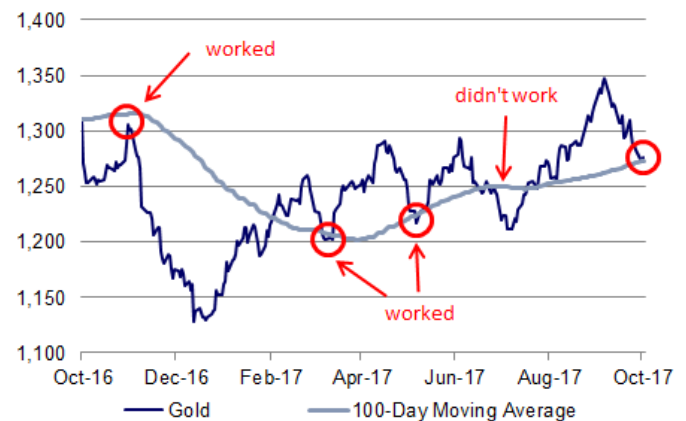
- Australia: The trade surplus for August came at A\$ 989 million vs. A\$ 850 million expected.
- Sweden: Industrial production is expected to have increased by 10.0% in August y/y (09:30).
- U.S.: The trade deficit for August is expected at \$ 42.7 billion (14:30), factory orders are expected to have risen 1.0% in August (16:00).

**Gold: A buy for the next few weeks**

Looking at indicators and seasonal demand, our trading desk feels that Gold seems to be holding at the 1'270 level. In terms of indicators: Gold has made a classic 61.8-percent Fibonacci retracement from the July to September up move and has reached the 100-day moving average which is a popular support/resistance level in the bullion market. We also note that physical demand is picking up in the fourth quarter. Diwali, the Hindu festival of lights starts on 18 October. Indians traditionally buy Gold dur-

ing Diwali as it is supposed to bring financial fortune. Gold is negatively correlated with the Dollar and the Greenback's up move since Gold peaked at the 1'350-level is showing some signs of fatigue. We therefore expect Gold to trade higher in the next couple of weeks. We have implemented this view via a 6-week Seagull by selling a 1'250 put option, buying a 1'280 call option and selling a 1'320 call option. Net cost is around \$ 5.50 based on 1'275 spot.

**The 100-day moving average often works**



Source: Bloomberg Finance L.P., Julius Bär

**Conclusion:** We recommend going long Gold via a Seagull. Ask your local FX Advisor for a tailor-made proposal.

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