Julius Bär

9 October 2017

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

Pound: The renewed leadership bid, which could hamper Brexit negotiations, is weighing on the Pound
Dollar: The hurricanes caused temporary disruption to employment, overall unemployment rate lower
Aussie: Verbal interventions from RBA officials and talks about potential rate cuts weigh on the Aussie

Pound: Calm leadership before the storm

Currently, Prime Minister Theresa May is not having an easy time. Her disastrous Party Conference speech is still reverberating in U.K. media and among Tory members. Over the weekend, MPs were canvassed by a mutinous group and by party whips over whether May should remain in her post. MP Grant Shapps, who served as Tory Chairman for nearly three years, already went public last week with his call on May to resign and revealed that 30 MPs and five Cabinet Ministers agree.

Keep calm and carry on with Brexit

Source: ipse magazine

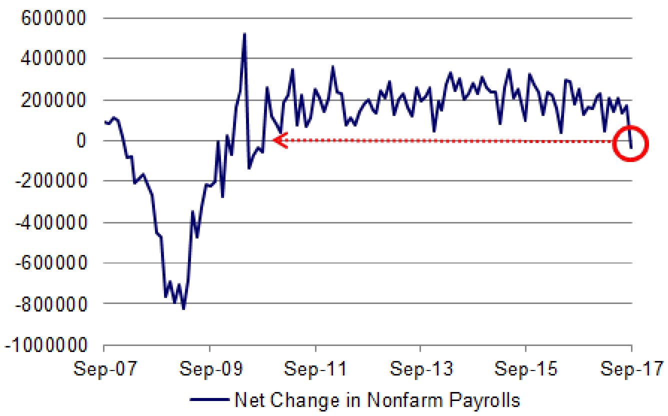
Ahead of the European Council summit on 20 October where the E.U.-27 will review the latest developments in the negotiations, the insurgents claim that the E.U. has lost faith in May. According to leaked reports, May will still not say which financial commitments Britain will honor. "We cannot take the risk of going forward if her government might fall before December. What are her commitments worth to other E.U. leaders if she is a lame duck or gone," said a diplomat according to The Times. Unsurprisingly, May has dismissed the idea she might be ousted by disgruntled Conservative MPs, saying she will be carrying on providing "calm leadership" as Prime Minister. May is unlikely to resign, but if 15 percent of Tory MPs write to the Chairman of the 1922 Committee expressing no confidence, it would trigger a vote on May's role as Prime Minister. May appears to have survived for now but more and more pundits question whether she will survive until Christmas. Foreign Secretary Boris Johnson is in the pole position to succeed May with 23 percent of the party's rank and file backing him. The prospect of a renewed Tory leadership bid will for sure have a de-stabilizing effect on negotiations. As this unrest within the Conservative Party seems set to continue, it is almost certain that the E.U.-27 will simply not do any type of deal with a weak Government. We are convinced that this will push the decision on "sufficient progress" even beyond the December European Council meeting, thus eating further into the precious negotiating time available before the March 2019 deadline.

Conclusion: We do not have a strong view on how long May will survive but simply that this topic is in the media will keep the Pound subdued. We remain short the Pound.

Dollar: NFP down, wage growth up

The September labor report was overall neutral. The market already knew from the ADP Employment Change that the NFP were polluted by hurricane effects. Still, the 33'000 decline in NFP was clearly worse than the 80'000 consensus forecast. More psychologically, this print was heavy as the last time we have seen a contraction of NFP was exactly seven years ago. The survey period – the week that includes the 12th of the month – began as Hurricane Irma was making landfall to Florida and as Texas was still reeling from the effects of Hurricane Harvey. Past evidence, for instance from Hurricane Katrina, shows that employment rebounds markedly over the next few months. The solid part of the report was that the unemployment rate declined to 4.2 percent from 4.4 percent and that wage growth picked up ½ percent, more than the 0.3 percent expected.

NFP in the past 10 years



Source: Bloomberg Finance L.P., Julius Bär

Conclusion: The labor report was more or less neutral.

QUICK NEWS HEADLINES (time in CEST)

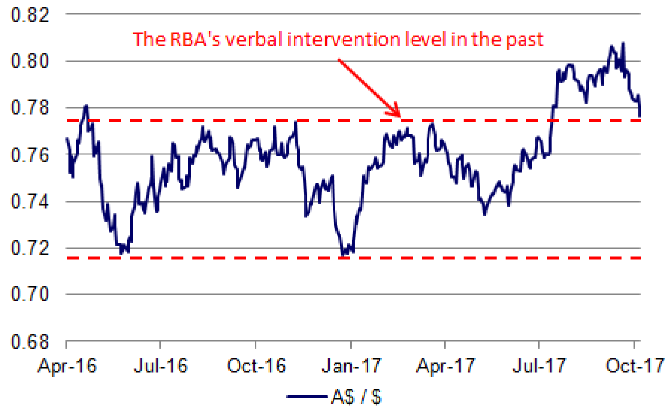
The following two headlines might have an impact on currency markets today:

- Czech Republic: CPI is expected to have risen 2.7% in September y/y (09:00).
- Mexico: CPI is expected to have risen 6 ½ percent in September (15:00).

Aussie: Walk the talk

Since Philip Lowe became Governor of the RBA a bit more than a year ago, he repeatedly intervened verbally against a rising Aussie once it approached the 0.78 level against the Dollar. Then, during this summer, he turned more silent and A$/$ broke through the resistance to reach 0.8125 a month ago. At that point, iron ore had risen to $ 90 per metric ton and long Aussie positioning had reached a multi-year high. Our commodity research had expected a seasonal peak in iron ore consumption and production, and indeed, the price of iron ore has now fallen below $ 70. In the meantime, Lowe reverted to his strategy of verbal interventions, warning at the 3 October MPC meeting that "the higher exchange rate is expected to contribute to continued subdued price pressure in the economy." Following the very weak retail sales print last week, RBA Board Member Ian Harper even went a step further by not only warning against a too high Aussie but talking about a potential rate cut. He said "a response through interest rates could be warranted if consumption across the economy loses momentum entirely." With inflation stable around 2 percent and expectations firmly anchored, we do not think that the RBA is really considering a rate cut, but by just publicly thinking about it in a world of central banks being on the path to rate normalization, this is bearish for the Aussie. A$/$ is heading back to its trading range and we think this trend will continue.

As/$ heading back into the range



Source: Bloomberg Finance L.P., Julius Bär

Conclusion: We stick to our bearish view on the Aussie.

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.