



## US dollar

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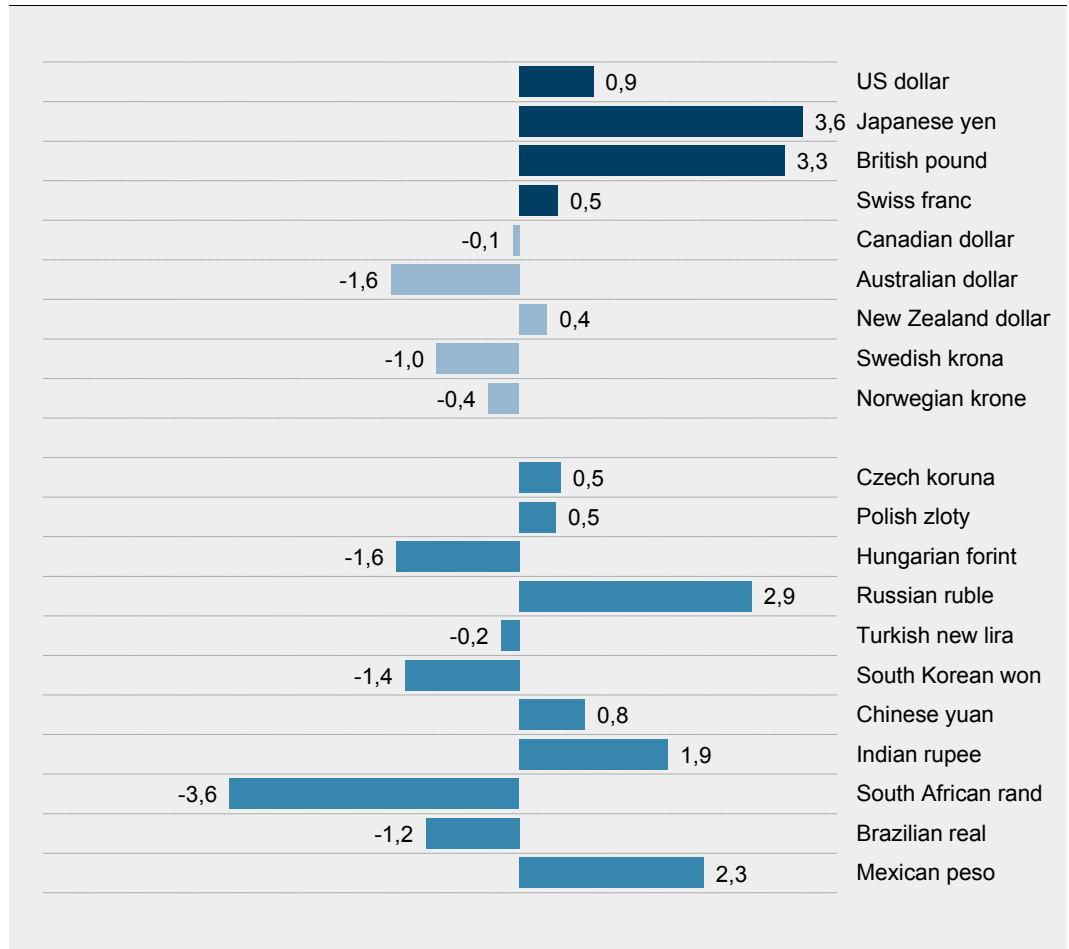
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- The Japanese yen and the British pound appreciated against the US dollar and even more against the euro in recent weeks. In the emerging markets, the Mexican peso and the Russian ruble won, while the South African Rand lost.
- The euro-dollar exchange rate was trading water most recently. Waning US optimism and political worries in Europe balanced each other out. The hopes on President Trump are likely to be further dampened. The US central bank remains at its cautious hiking course. The greenback is still comparatively expensive. With less headwind from Europe the euro-dollar exchange rate is likely to increase noticeably.
- Helaba Currency Forecasts

### Performance on a month-over-month basis

% vs. euro compared to the previous month (from 03/21 to 04/19/17)



■ Core currencies ■ Rest of G10 ■ Currencies of emerging markets

Sources: Bloomberg, Helaba Research

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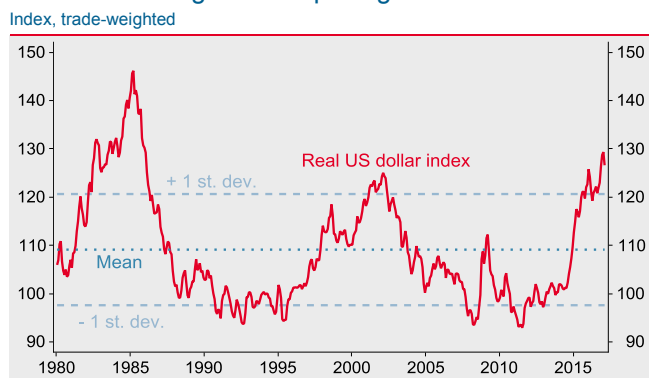
## USD: Bull market is flagging

The US dollar tended to tread water in recent weeks. The US currency was able to appreciate marginally against the euro, though it lost noticeably against the Japanese yen and the British pound. The Trump euphoria has waned markedly, but has not flipped into the opposite. The US president actually tried to weaken the dollar verbally (“our currency is getting too strong”). The reaction of the exchange rate was restrained, however. Trump’s statement about the overvalued US dollar cannot be refuted. The Greenback has rarely been more expensive – whether the trade-adjusted index or vis-à-vis the euro. The high US trade deficit (minus petroleum) underscores this fact.

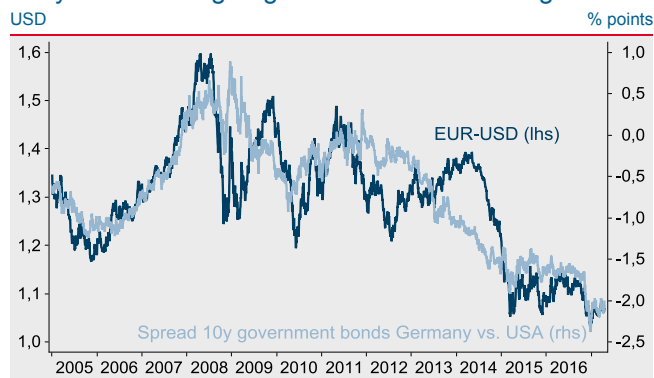
US optimism waning

The US economy is booming – though only when one looks at the sentiment indicators. The good mood among businesses and consumers is barely reflected in the “hard” data. It is likely that GDP grew only marginally in the first quarter. Industrial production of retail trade increased only modestly. While the unemployment rate dropped to a multi-year low, employment growth slowed most recently. We are still waiting for the “phenomenal” tax cuts or the higher infrastructure spending. Overall, the US economy should grow in 2017 at a solid 2 %, though by no means at the optimistic rates suggested by the sentiment indicators, President Trump, or the financial markets. Inflation in the US probably passed its peak in February at 2.7 % over the previous year. The oil price effect will tend to dampen the price increase; as it is, the core rate (minus energy and food) is already at only 2.0 %. The Federal Reserve is thus under no constraint to accelerate its interest rate hikes. The central bank is likely to proceed at a slow pace and raise the key rate only one more time in 2017. As a result, the US yield advantage against the euro actually declined most recently.

### US dollar too high – Trump is right



### US yield advantage against the euro shrinking



Elections a temporary burden on the euro-dollar exchange rate

In contrast to the Japanese currency, the euro was hardly able to profit from the declining US yields. The upcoming presidential election in France is worrying investors. A victory by the EU-hostile candidate Le Pen would entail grave consequences for the monetary union. Although it is rather unlikely that she will win, some market actors are hedging their bets preventively, something that has weighed on the euro most recently. In the case of a presumed victory by the Europe-friendly candidate Macron, these hedges would be unwound again, and this should give the euro-dollar exchange rate a noticeable boost. The economic situation in the euro zone is quite robust. Although inflation suffered a setback also here, at 1.5 % it is well above the earlier crisis level. While the ECB dampened for now the hopes of an early change of course in its very expansionary policy, it is nevertheless likely to embark on a different course in the coming year, at the latest. With that, the time of diverging monetary policies is approaching its end. The US dollar has anticipated too much, the mood in the US will sober up even more, and the fears about Europe will ease. As a result, the euro-dollar exchange rate will rise in the coming months from 1.07 into the range of 1.10 to 1.15.

## Helaba Currency Forecasts

	Performance			Forecast horizon at end ...			
	year to date	1 month	current*	Q2/2017	Q3/2017	Q4/2017	Q1/2018
<b>vs. Euro</b>	(vs. Euro, %)						
US dollar	-1,8	0,9	1,07	1,10	1,15	1,10	1,10
Japanese yen	5,5	3,6	117	121	121	115	120
British pound	1,8	3,3	0,84	0,90	0,90	0,85	0,85
Swiss franc	0,3	0,5	1,07	1,08	1,10	1,10	1,10
Canadian dollar	-2,2	-0,1	1,44	1,44	1,52	1,49	1,49
Australian dollar	2,2	-1,6	1,43	1,43	1,47	1,45	1,47
Swedish krona	-0,4	-1,0	9,61	9,30	9,10	9,00	9,00
Norwegian krone	-1,1	-0,4	9,19	8,90	8,80	8,70	8,70
Chinese yuan	-0,5	0,8	7,38	7,59	7,99	7,70	7,70
<b>vs. US-Dollar</b>	(vs. USD, %)						
Japanese yen	7,4	2,6	109	110	105	105	109
Swiss franc	2,1	-0,5	1,00	0,98	0,96	1,00	1,00
Canadian dollar	-0,3	-1,0	1,35	1,31	1,32	1,35	1,35
Swedish krona	1,5	-1,9	8,97	8,45	7,91	8,18	8,18
Norwegian krone	0,7	-1,3	8,58	8,09	7,65	7,91	7,91
Chinese yuan	0,8	0,0	6,89	6,90	6,95	7,00	7,00
<b>US-Dollar vs. ...</b>	(vs. USD, %)						
British pound	3,5	2,4	1,28	1,22	1,28	1,29	1,29
Australian dollar	4,0	-2,5	0,75	0,77	0,78	0,76	0,75

\*19.04.2017

Sources: Bloomberg, Helaba Research ■