



US dollar

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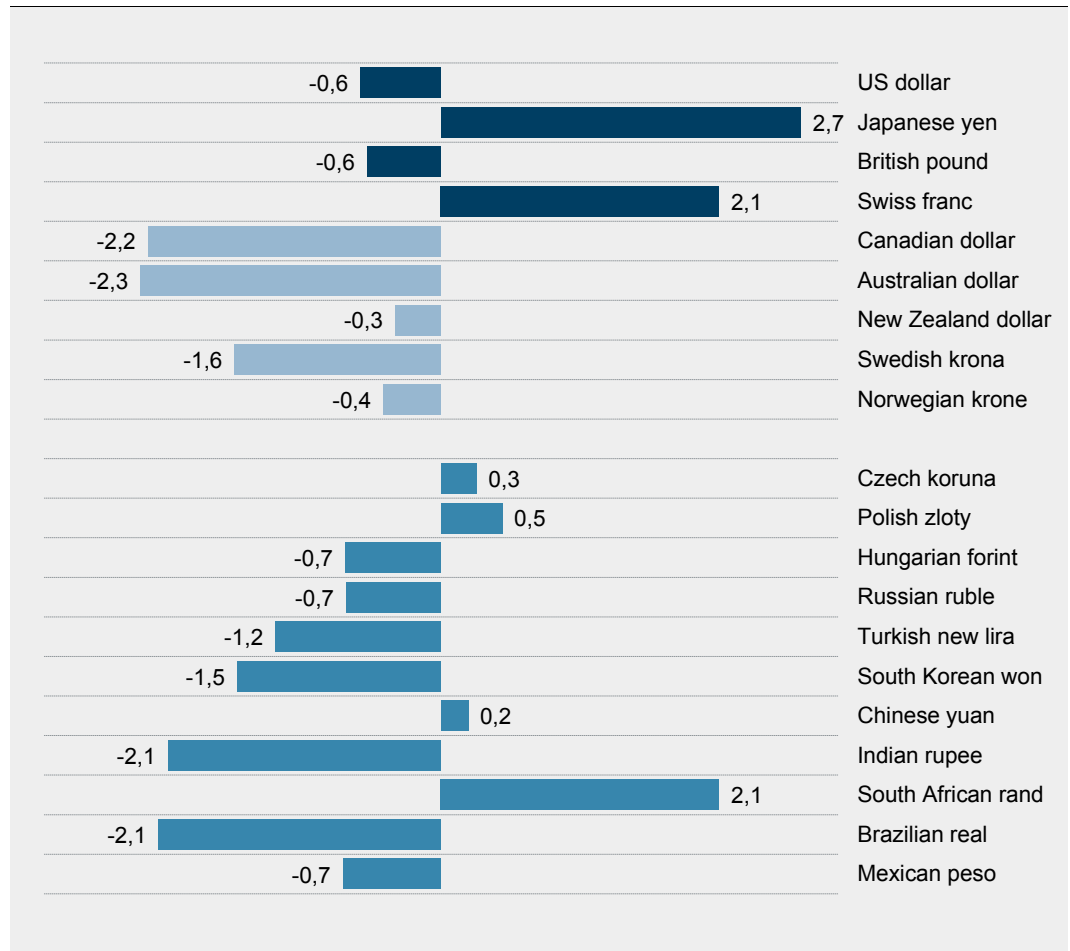
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- The US dollar was able to limit its losses most recently. Japanese yen and Swiss franc increased significantly. With the exception of the stronger South African rand, commodity and emerging market currencies were under pressure.
- The weakness of the US dollar continued in 2018 yet. Among other things the growing US budget deficit weighed on the currency. In the long term, certain concerns do not seem unjustified. However, especially in the shorter perspective, monetary policy is clearly in favour of the US dollar. In addition to the yield advantages, growth differences and tax incentives are clearly in favour of the US currency. Therefore, the euro-dollar exchange rate should noticeably correct again.
- Helaba Currency Forecasts

Performance on a month-over-month basis

% vs. euro compared to the previous month (from 01/22 to 02/20/18)



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

Sources: Bloomberg, Helaba Research

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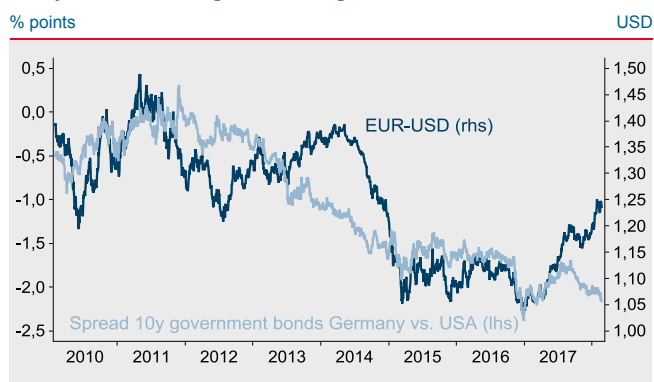
USD: Heading for a recovery

The US dollar continued to be under pressure. The euro-dollar exchange rate jumped temporarily to a three-year high of more than 1.25, though most recently it corrected again somewhat. Beyond that, the Japanese yen and Swiss franc were even able to advance robustly against the euro. Given the strong volatilities in the financial markets, safe investment havens were in demand.

Economy up,
currency down?

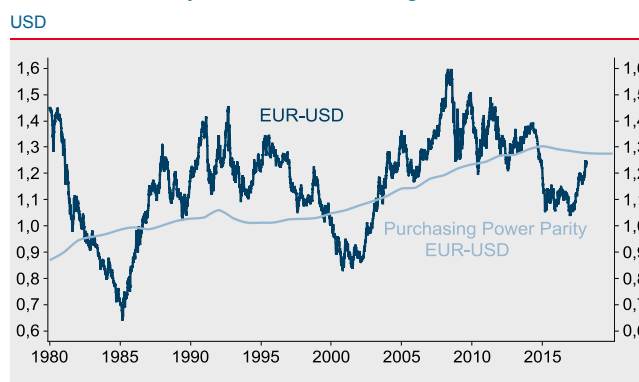
The US currency is suffering from its own government. Apart from some efforts to talk the US dollar down, the growing budget deficit and mountains of debt thanks to the tax cuts are rattling investors. Even the notorious US trade deficit is drawing attention. There are speculations as to whether China's central bank – the largest foreign creditor – is reducing its holdings of US bonds. However, there is no evidence of that. Meanwhile, economically all is sunshine in the US at this time. Growth was solid in the final quarter of 2017. The prospects for the immediate future are even more positive. The sentiment among businesses and consumers is very optimistic. The labour market remains robust. Most recently, wage growth actually accelerated. Inflation is slowly rising. As a result, the Federal Reserve, under its new chair Powell, is not likely to deviate from its course of interest rate hikes, or, if it does, it is likely to accelerate it. We expect three rate hikes in 2018.

US yield advantage of no significance?



Sources: Macrobond, Helaba Research

US dollar hardly still overvalued against the euro



Sources: Macrobond, Helaba Research

US dollar becoming
more attractive

The ECB, meanwhile, continues to take a wait-and-see stance, even though the economy in the euro zone is proving very robust. It will presumably merely reduce its purchase program this year. The US yield advantage over the euro is expanding again and is making the Greenback more attractive. Not to mention the tax incentives and the foreseeable higher economic growth. However, over the last few months the trend in the euro-dollar exchange rate was diametrically opposite to the interest rate differences, whether nominal or inflation-adjusted. The same is true for the development of the balance sheet totals of the central banks. Does monetary policy no longer matter?

Interest rate policy is surely not the only thing that matters in the currency market. For over a year, the sustaining argument for the euro was its undervaluation against the US dollar – measured in terms of purchasing power parity. However, by now the exchange rate has drawn close to the “fair” value. The arguments about US debt and the negative statements about the dollar from the government lose force if the central bank continues to expand the interest rate advantage of its own currency. As it is, thanks to smaller oil imports, the US current account deficit is not especially large in historical terms. It is at most from long-term perspectives that these last factors could prove a direction-setting negative for the US dollar. Speculative investors are currently positioned very one-sidedly against the US dollar. However, we know from experience that these bets are sooner or later unwound again, which should then give the US currency a substantial boost against the euro. Moreover, in technical terms, the euro-dollar exchange rate is clearly overbought. The market exaggeration in favour of the euro should turn in the coming months; the euro-dollar exchange rate should drop at times well below 1.20.

Helaba Currency Forecasts

	Performance			Forecast horizon at end ...			
	year to date	1 month	current*	Q1/2018	Q2/2018	Q3/2018	Q4/2018
vs. Euro (vs. Euro, %)							
US dollar	-2,7	-0,6	1,23	1,20	1,15	1,15	1,20
Japanese yen	2,2	2,7	132	132	125	125	128
British pound	0,7	-0,6	0,88	0,85	0,90	0,90	0,85
Swiss franc	1,3	2,1	1,16	1,12	1,15	1,17	1,15
Canadian dollar	-3,3	-2,2	1,56	1,54	1,50	1,47	1,51
Australian dollar	-1,8	-2,3	1,57	1,54	1,49	1,47	1,50
Swedish krona	-1,5	-1,6	9,99	9,50	9,40	9,20	9,00
Norwegian krone	1,8	-0,4	9,67	9,10	9,00	8,90	8,80
Chinese yuan	-0,3	0,2	7,83	7,68	7,48	7,48	7,68
vs. US-Dollar (vs. USD, %)							
Japanese yen	5,0	3,3	107	110	109	109	107
Swiss franc	4,1	2,7	0,94	0,93	1,00	1,02	0,96
Canadian dollar	-0,6	-1,6	1,26	1,28	1,30	1,28	1,26
Swedish krona	1,1	-1,0	8,10	7,92	8,17	8,00	7,50
Norwegian krone	4,6	0,2	7,84	7,58	7,83	7,74	7,33
Chinese yuan	2,6	1,0	6,34	6,40	6,50	6,50	6,40
US-Dollar vs. ... (vs. USD, %)							
British pound	3,6	0,1	1,40	1,41	1,28	1,28	1,41
Australian dollar	0,9	-1,7	0,79	0,78	0,77	0,78	0,80

*20.02.2018

Sources: Bloomberg, Helaba Research ■